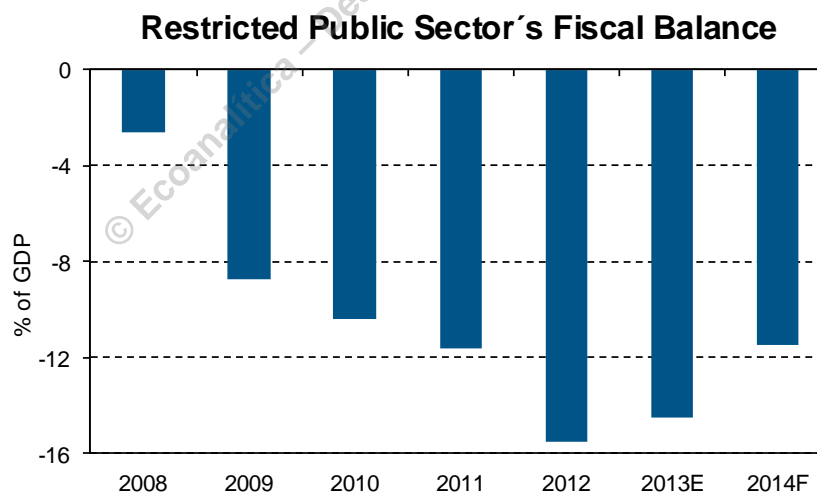


Fiscal Reform: a side dish or the main course?

“We’re working on what, in tax jargon, they call a fiscal reform... an egalitarian, just tax reform that is necessary for Venezuela, and we are at the right time to do it.” With those words President Nicolás Maduro brought an issue that had faded in importance in the last months of 2013 back onto the public agenda: fiscal reform. A public sector in deficit, bonds issued by the Republic and Petróleos de Venezuela (PDVSA) about to mature, and an increase in fiscal spending, which in no way reflects the direction the government’s popularity is taking, could speed up the taking of decisions with regard to this restructuring of Venezuela’s tax system. But will it be enough?



Sources: MPF and Ecoanalítica

What is it that they’re planning?

The President and other government officials have tried to stress that what the fiscal reform the government is proposing aims to do is to levy more taxes on those who earn most in order to distribute resources more “fairly.” Banks, insurance companies and

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telecommunications companies are the main candidates for shouldering the new taxes, given the high average growth that they have experienced in the last years. In the case of the banks, the bank debit tax or financial transactions tax seems to be off the agenda, since the authorities are looking to create taxes that cannot be transferred to the consumer and will have to be assumed by the companies.

In addition to this measure, there could be an increase in the tax on alcoholic beverages, which, at present, is between 0.00015 and 0.1 of a tax unit per liter (between VEB 0.02/liter and VEB 12.7/liter). These measures are part of a line of action proposed by Vice President Jorge Arreaza, Minister for Communes Elías Jaua, and the president of the National Center for Foreign Trade (Cencoex), Alejandro Fleming.

As for the traditional taxes, at **Ecoanalítica** we expect an increase in the Value Added Tax (VAT) of 2.0 percentage points (pp), from 12.0% to 14.0% and an increase in the tax unit that will help to raise income tax collections at the start of next year.

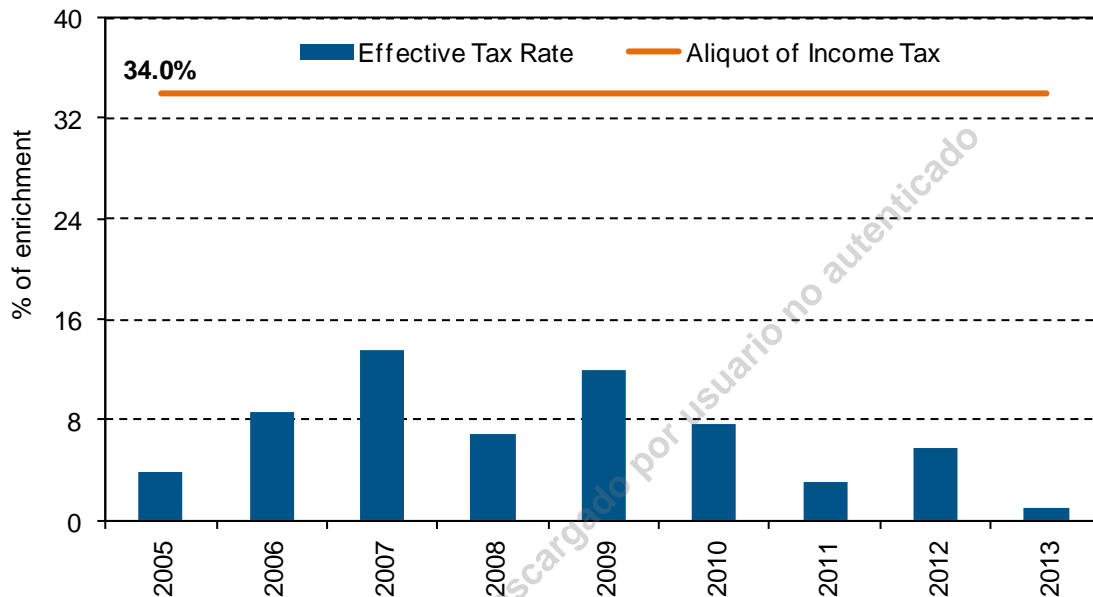
Following in Korea's footsteps

The levying of new taxes on banks and telecommunications companies is not a new idea. In fact there are examples of these tax schemes in nearby countries such as Ecuador. In 2012, Ecuador's National Assembly (AN) passed the Law on Redistribution of Revenues for Social Spending, which includes several increases in tax rates such as a 3.0% tax on the banks' revenues and the elimination of some tax breaks that raised the tax payable by the banks on their earnings from 13.0% to 23.0%.

In Venezuela, the Income Tax Law allows taxes payable to be deducted from interest on loans and invested in the production of revenues. The law also establishes that enrichments from national public debt bonds and any other type of security issued by the Republic are tax free. These bonds and securities account for as much as 20.6% of the banking sector's total assets. To have an idea about the lost that such deductions represents for the venezuelan tax authorities, the accumulated interest spending and state securities on July where VEB397,832 millions, which means an important tax shield. Because of these deductions, in 2013 the banking system paid an effective tax rate of 0.9%. A new tax that carries the effective tax rate of the banking system to 12.0% would bring incomes that will barely reach 0.2% of Gross Development Product (GDP).

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Effective Tax Rate Vs. Alíquot of Incom Tax



Sources: Seniat, Sudeban and Ecoanalítica

And the other increases, what impact would they have?

The Telecommunications Act establishes that those who provide open signal radio or television broadcasting services shall pay taxes equivalent to 1.0% of their gross revenues, whereas those who provide telecommunications services shall pay the National Treasury a tax of 2.3% on their gross revenues. According to the National Telecommunications Commission (Conatel), the effective tax rate paid by telecommunications operators is 3.5%, which, if taken to 8.0% with a new tax, could increase revenues in a shorter GDP proportion that the new taxes on the bank would.

As for income tax and VAT, which currently account for 31.2% and 54.8% of total tax collections, today they contribute 3.5% and 8.5% of GDP. The increases on VAT and income taxes aforementioned would provide an increase in tax collections which would bring total collections from 14.5% to 16.0% of GDP.

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Fair prices but unfair taxes?

Things are not that simple, however. The regulatory structure that the Venezuelan Government has maintained reduces the tax base and, therefore, the tax collections that can be generated by implementing a tax reform. This is particularly true in the case of the Fair Costs and Prices Act, which imposes a 30.0% profit margin on companies and restricts the revenues that the State can obtain from income tax. Likewise, price regulation reduces the taxable base in the case of VAT, reducing possible tax collections and reducing the effectiveness of any increase in the VAT rates.

People who operate in the secondary goods market, where products in short supply are traded at a higher price than set by the agencies that regulate selling prices (largely as a consequence of the regulations), not only charge exorbitant prices for those products, to the detriment of the population, but they do not pay taxes on the products they resell either. At **Ecoanalítica** we consider that, under the present regulatory conditions, a tax reform will not produce all the benefits it could bring if all the imbalances were to be eliminated.

Two taboos: devaluation and eliminating subsidies

If we add the revenues that the government could obtain if the measures that are being considered are taken (taxes on the banking sector and telecommunications and increases in VAT and income tax), the impact of the reform would be around 2.5 and 3.5 points of GDP. However, this solution is not precisely the one that would be most beneficial for the Venezuelan Government in terms of higher revenues.

In the first place, devaluing the bolivar is a measure that is not only necessary in order to foster the revival of domestic production, which has all but disappeared, and help with the supply of foreign currency, but it would also provide an additional source of revenues for a PDVSA that has built up a financial debt of US\$43.38 billion. Putting up the Cencoex exchange rate to VEB 15.0/US\$, as we expect it to happen next year, would mean revenues of US\$43.22 billion, which is equivalent to 94.5% of the non-restricted public sector deficit. Besides, devaluing the bolivar would not only have a fiscal impact, it would also reduce the monetary aid that the Central Bank (BCV) provides PDSVA, so relieving inflationary pressures.

On the other hand, the subsidies mean expenditures for the Venezuelan Government of around US\$49.46 billion. In 2013, the controversial gasoline and derivatives subsidy was equivalent to 6.2% of GDP, besides being a regressive subsidy. In addition to this subsidy there are others that are less “media sensitive” but represent huge costs for the

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government. The electricity subsidy, for example, is equivalent to 3.0% of GDP. However, Minister for Electric Power Jesse Chacón has repeatedly announced that this subsidy will be reduced for those who consume most electricity.

Eliminating the subsidies and devaluing the bolivar would mean savings of around 29.4% of GDP for the government, 740.0% more than the amount that would be collected by means of a fiscal reform and sufficient to set the public sector deficit to rights.

Incomes After Devaluation and Elimination of the Subsidies

Total Subsidies	15.7%
Domestic Consumption of Gasoline and Derivatives	6.2%
Intern Consumption of Natural Gas	5.0%
Intern Consumption of Electric Energy	3.0%
Housing Subsidies to the Housing Mission	1.5%
Incomes for Devaluation	13.7%
Total	29.4%

Sources: BCV, MF, PDVSA, SENIAT and Ecoanalítica

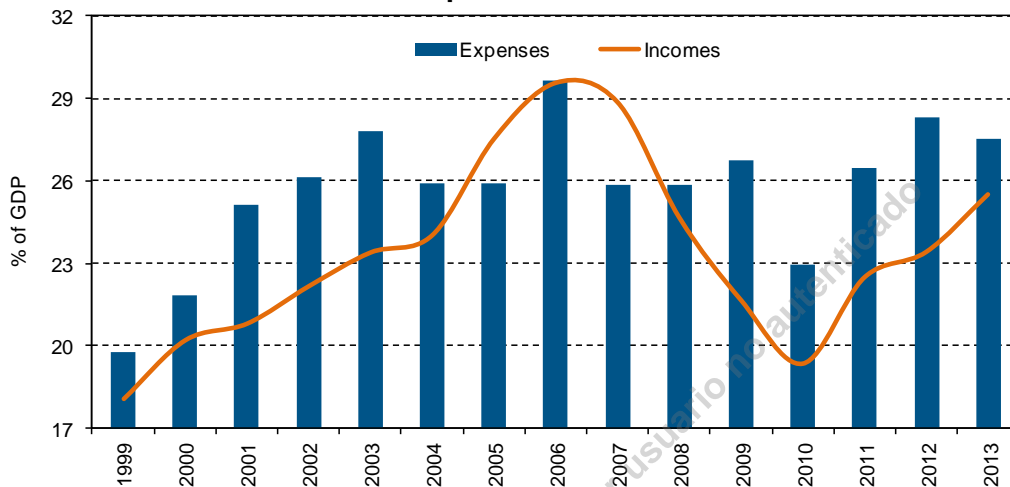
At **Ecoanalítica** we consider that the fiscal reform should not be understood as the main solution to the fiscal difficulties the country is currently facing, but a complement to the two measures mentioned earlier that would also help to bring down inflation by reducing liquidity in the economy.

There two sides to the problem

While the fiscal deficit could be reduced by the changes in the tax structure being proposed by the government, the fact of the matter is that there are two sides to Venezuela's fiscal problem: the drop in revenues and the increase in public spending. According to the National Integrated Service of Customs and Tax Administration (SENIAT), tax revenues have been falling as a percentage of GDP, but, proportionally, government spending has increased even more. Regardless of the measures that are taken (devaluing the bolivar, reducing subsidies or a tax reform), a government that increases its expenditures in order to, at the same time, increase current spending will not solve the country's fiscal problems.

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Incomes and Expenses of the Central Government



Sources: MEFBP and Ecoanalítica

Jessica Grisanti
Daniel Cárdenas

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ECONOMIC TIPS

Grouping the funds. President, Nicolas Maduro announced the creation of the Strategic Reserve Fund, an account at the BCV in that will gather resources from Fonden, the Chinese Fund and other funds. The unification of these funds will benefit the perception of international markets on the capabilities of payments of Venezuela. President Maduro announced that in the coming days, the new Vice President for Economics and Finances, Rodolfo Marco Torres, will provide more details on the measure.

The radical wing wins the battle. Minister of Finance and Public Bank, Rodolfo Marco Torres, assumed the role that Rafael Ramirez used to play of Vice President for the Economic Area. Ramirez now happens to occupy the position of the Chancellor and Vice President for Political Sovereignty. With these changes and the departure of Ramirez from PDVSA and the Ministry of Petroleum and Mining, former oil company president is set apart from the economic sphere, leaving his economic plan (pragmatic) out of the picture.

Tax collections are up. According to the latest data supplied by the SENIAT, taxes collected between January and August came to VEB 268.5 billion, close to the collections target established for this period (VEB 320.00 billion). In August this year, tax revenues came to VEB 42.9 billion, broken down as follows: VEB 9.0 billion from income tax and VEB 19.8 billion from VAT.

They're devaluing in our faces. The SICAD I exchange rate has been gradually climbing in recent months. At the start of the year it was VEB 11.4/US\$ and now, according to the last auction, it is at VEB 11.7/US\$ (up 0.3%). If this exchange rate is compared to the average SICAD I rate (VEB 11.9/US\$), there has been an increase of 0.8 of a percentage point.

Another deficit year. According to data from the Ministry for the Economy, Finance and Public Banking Sector, the Central Government's financial deficit (difference between revenues and expenditures, including debt servicing) came to 1.9% of GDP in 2013, making this the sixth year running in the red. According to the ministry, total government revenues expanded by 56.5% to VEB 601.9 billion, whereas expenditures grew by 39.5% to VEB 647.2 billion.

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A misguided policy. The chairman of the National Assembly's Finance Committee, Ricardo Sanguino, admitted that the government's policy for administering foreign currency led to "*a fraud committed against the country by businessmen*" who used the foreign currency for illegal ends. Sanguino gave assurances that the authorities will take action to sanction all the private companies as well as the officials in the public sector who "*permit, promote, support those actions that are contrary to a Venezuelan's nature.*"

There'll be a parallel exchange rate for a while. According to the bank HSBC, the Venezuelan Government will not be unifying the exchange rates this year, rather it will implement a system with a dual exchange rate, with a VEB 15.0/US\$ rate for allocations via Cencorex and a VEB 60.0/US\$ rate for operations conducted via SICAD II. According to HSBC, the demand for foreign currency unmet by the official market will continue to be catered to by the black market.

Maneuvering with an eye on the elections. According to the latest report by HSBC, the government will probably design an economic policy that will be a combination of price adjustments for regulated goods, devaluation, and subsidy cuts on the one hand and that it will step up controls on the other. The purpose of that policy, according to HSBC, would be to reduce the economic distortions that exist at present but without eliminating them entirely due to the high political cost involved.

Nearly 40.0% has been disbursed via SICAD I. According to data supplied by Cencorex, 38.6% of foreign currency allocated for importing goods during the first six months of the year was channeled to the private sector via SICAD I. According to Cencorex, a total of US\$3.7 billion was traded via SICAD I at an average exchange rate of VEB 10.9/US\$, whereas it authorized US\$9.57 billion at the VEB 6.3/US\$ rate.

Everything's going up except wages. The latest report by the Venezuelan Federation of Teachers' Center of Documentation and Social Analysis (Cendas-FVM) established that the cost of the family basic basket came to VEB 21,572 in July for an increase of VEB 1,011 compared to June (4.9%). Based on the current minimum wage (VEB 4251.39), it takes five minimum wages to cover the cost of the basket.

Interest rates. The lending rate for the third week of August was at 17.9%, down by 0.6 pp compared to the previous week. The time deposit rate was at

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14.5%, without changes compared to the previous week, while the passive rate was at 14.1%, without variations compared to the previous week.

International reserves. International reserves up by 5.4%, going from US\$20.25 billion during the third week of August to US\$21.34 billion during the third week of August. Compared to the same period last year, international reserves have decreased by 7.0%.

Central government expenditure. On August 29th according to figures from the NTO primary spending was VEB 17.59 billion, which means an increase of 68.0%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 553.21 billion 84.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 1.5% in the fourth week of August from the week prior, to settle at VEB 1.5 trillion. The M2 has increased 70.0% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
8/20/2014	18.0	16.0	0.9	2.0	11.1
8/21/2014	15.4	14.5	0.9	0.9	5.8
8/22/2014	15.1	14.0	0.9	1.1	7.3
8/25/2014	15.6	14.0	0.9	1.6	10.3
8/26/2014	15.8	14.1	0.9	1.7	10.8

Source: Ecoanalítica

OIL TIPS

Ramírez simply washed his hands. Ex-Minister for Oil and Mining Rafael Ramírez did not turn up at the forum entitled “The price of gasoline: the need for and effects of an adjustment” organized on August 28 by the daily newspaper *Últimas Noticias*. In the view of some analysts, such as Eleazar Díaz Rangel, the newspaper’s editor, this would seem to indicate that the Executive is no longer not interested in the debate on putting up the price of gasoline, as there is no way to explain how, despite the fact that the government had called for a consultation and the importance of this event and the issue to be discussed, there was no chance of hearing the government’s point of view.

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“There’s a strategic value that outweighs economic considerations.” So said oil analyst José Toro Hardy referring to the sale of Citgo, and he warned that, if the sale goes through, it would deprive the country of the strategic advantage of *“having a foot in the United States (US) market, the possibility of having some refineries that are made to measure for processing Venezuela’s heavy crude.”* Toro explained that China does not have the capacity for processing Venezuela’s heavy crudes, which means that they would have to be blended with light crudes *“and, therefore, our reserves of light crudes will run out.”*

Venezuela is considering importing oil from Algeria. Venezuela is considering importing crude for the first time in its history and could use the light crude from its fellow OPEC member, Algeria, to dilute the extra-heavy crude from the Orinoco Oil Belt, according to an in-house report. According to a document produced by PDVSA’s Commercial Department, PDVSA is evaluating the option of importing Saharan Blend from Algeria under a supply contract, which could be cheaper than continuing to buy heavy naphtha at open market prices, a practice that has seriously affected PDVSA’s cash flow.

We’ll have to pay up. A study by Scotiabank explains that settlement of cases before the ICSID involving Venezuela usually take between three and four years and that, therefore, rulings on the claims filed at the end of 2007 and 2009 by ExxonMobil, ConocoPhillips, and Gold Reserve should be handed down shortly. The study by Scotiabank calculates that, taken together, these outstanding lawsuits expose Venezuela to payments amounting to US\$24 billion. Another factor that needs to be taken into account is that the creditors could attempt to apply embargos on oil shipments or on payments made by other countries for the crude sent to them by PDVSA.

They put the price at VEB 4. *Centro Internacional Miranda* economist and researcher Víctor Álvarez puts the price of gasoline at VEB 4 per liter, which covers the cost of refining a barrel of 95 octane gasoline (VEB 2.75) plus transport and marketing costs and the 30.0% profit margin allowed under the Fair Prices Act.

Public transport would not be affected. The economist Víctor Álvarez said that, if the price of gasoline is put up to VEB 4 a liter this would not have a major impact on public transport’s cost structure. He added that, based on

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the present price of gasoline (VEB 0.097) and gasoil (VEB 0.048), the weight of both fuels in the cost structure does not come to 1.0% and he estimated that the impact would be 0.3% in the case of gasoline and 0.2% in the case of gasoil.

International oil baskets. At closing time on August 29th in the New York Stock Exchange, the price of the WTI was US\$93.8/bl, down by 1.3% when compared to the reported the previous week. The Brent increased by 0.2% when compared to the previous week, to reach US\$102.5/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$91.7/bl on Friday August 29th, increasing by 1.0% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.2/bl.

BUSINESS SECTOR TIPS

Production of new cars decreased 79.4%. According to data released by Cavenez, the production of new cars decreased 79.4% with regard to the same period in 2013, to 1,471 units. Therefore, cumulative production from January through August 2014 was 8,508 units, a loss of 83.3% with respect to the 50,967 assembled in the same period in 2013.

Making the adjustments inchmeal. The National Superintendency for the Defense of Socioeconomic Rights (Sundde) has issued an administrative order establishing the maximum prices for diapers and shampoo throughout the country. The list gives the prices of different presentations of hair shampoo; for example, the maximum retail price for a 400 milliliter bottle of shampoo, the most common presentation, is VEB 33.0 and the prices of baby diapers range from VEB 116.0 to VEB 183.8, depending on the size and the number of diapers per packet.

Fedecámaras does not support the biometric system. The president of Fedecámaras, Jorge Roig, said that the new biometric system would not solve the problems of shortages in Venezuela. In his opinion, what controls of this type do is "to make the mechanisms of those who act outside the law more sophisticated." Roig blamed problems such as the shortages in supply

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and the lack of domestic production on the macroeconomic imbalances and reiterated that businessmen did not agree with the new measure of control.

Construction in recession. The real estate market is practically at a standstill. This year just over 50,000 housing units have been built under the Great Venezuela Housing Mission (GMVV), according to official figures, and the number built by the private sector will not even come to 15,000 units. The reasons for this contraction include the scant supply, distortions in the prices, and the regulations. The lack of basic inputs is another of the obstacles that private builders face when it comes to carrying out their projects and one of the reasons why the sector has contracted for 17 quarters running.

Tire imports down. According to information from the National Statistics Institute (INE), between January and June this year, just over 19,000 tons of new tires, retreads, and treads for new tires entered the country, a drop of 26.1% compared to the first quarter of 2013. It is worth noting that tire manufacturers in Venezuela focus on producing tires for cargo and passenger vehicles, whereas tires with special measurements for commonly used cars and other motor vehicles are mostly imported from Brazil, Japan, the US, and China.

It won't come out of our pockets, said Luis Rodríguez, the executive president of the National Supermarkets and Self-service Establishments Association (ANSA), explaining that the supermarkets and pharmacies that are members of ANSA will not assume the cost of the fingerprint detection machines directly. The association proposed that the cost be covered with contributions made to the National Science, Technology and Innovation Fund (Fonacit) and pointed out that the supermarkets *"are operating with a profit margin of less than 5.0% on 60.0% of the products they offer,"* and for that reason they are not in a position to make new investments.

Looking for someone to pin the blame on. The president of the Venezuelan Exporters Association, Ramón Goyo, expressed his concern over the decree that bans the export of 21 food products, among others. *"Last year, exports came to US\$2.1 billion, the lowest figure in 20 years. That is equivalent to only 3.0% of total exports. It can hardly be said that we are the cause of the shortages. Ten years ago we were exporting US\$6.95 billion and those exports accounted for 17.0% of the total and there were no shortages."*

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Pharmaceutical emergency. The Pharmaceutical Federation of Venezuela has called on the government to establish an “emergency policy” for the sector owing to the shortage of indispensable medicines in the country, which, they claim, is due to the disbursement of inadequate amounts of foreign currency for their purchase. *“This situation, where patients are going to die because of the negligence and the lack of skill of a government that doesn’t know what it’s doing, cannot continue,”* affirmed Ceballos.

Dairy industry is operating at 60.0%. The pasteurized milk industry, represented by the Associations of Milk Processors (Asoprole), has ratified that there are factors that are still affecting the sector’s efficiency and that are preventing it from keeping production going on a sustained and continuous basis. At the moment, the companies are operating at 60.0% of their installed capacity, on average. Among the main causes of this situation is the price of milk, in all presentations.

Auto parts sector is satisfied. Domestic auto parts companies expressed their satisfaction at the progress made following meetings with the government, as a result of which they trust that the target of assembling some 120,000 cars in 2015 will be met. The petitions that have been met include the publication of Foreign Exchange Agreement No 29, which establishes the bases for allocating foreign currency, and payment of the debt with the sector, and also the fact that this week the sector has been invited to take part in the SICAD I auction.

Graphic arts sector reports a drop of 65.0%. The Association of Graphic Arts Industrialists (AIAG) has called for “transparency” in the government’s policy of allocating foreign currency. The AIAG explains that there are delays of more than 200 days by Cencoex in releasing the dollars and also that companies have not been able to obtain dollars via the complementary mechanisms. Production has fallen by 65.0% owing to the shortage of inputs and materials being experienced by companies and the sector is on the threshold of a “technical collapse,” warned the AIAG.

Alimentos Polar wants to continue to grow. Thanks to an investment of VEB 212 million for expanding the production of pre-cooked cornmeal, Alimentos Polar will guarantee availability of 41 million packets more of pre-cooked cornmeal for the domestic market. Empresas Polar supplies 49.0% of the domestic market and other companies and the State supply the

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remaining 51.0%. The company's president, Lorenzo Mendoza, has guaranteed supplies of pre-cooked cornmeal until raw materials run out.

Increase in subscription TV charges. The 4.5 million users of subscription TV in Venezuela will have to pay 9.0% more, on average, for this service, following the entry into force of the second tranche of the increase in charges approved by the National Telecommunications Commission. The first part of the increase, by a similar percentage, went into effect in July. Patricia Valladares, the president of the Telecommunications Services Chamber, said that the adjustment was necessary because the charges had not been increased since last year.

WORLD ECONOMY TIPS

Revised upward. According to a revision by the US Department of Commerce, the GDP of the world's largest economy expanded at a rate of 4.2% a year, and not 4.0% as calculated previously. As for domestic demand, it was up by 3.1%, 0.3 of a percentage point more than estimated initially, the biggest increase since the second quarter of 2010, which suggests a lasting recovery following the contraction observed in the first quarter caused by a colder and longer winter than expected.

Close to the zero barrier. According to the European Union's statistics office, Eurostat, consumer inflation in the 18 countries of the Eurozone was 0.3% (yoy) in August, the smallest increase since October 2009. The slowing down of inflation in August was led by a 2.0% slump (yoy) in energy prices and a 0.3% drop in food, alcohol and tobacco prices. The European Central Bank (ECB) has set an inflation target of just below 2.0% and considers anything below 1.0% to be a "danger zone."

A firm hand with Russia. At the last meeting held by the European Union it was decided to take measures against Russia. This new package is to consist of economic sanctions and restrictions on the use of weapons and technology. European Union representatives also stated that the bloc's priorities are to solve the present conflict in Ukraine.

Fewer unemployed, but unemployment is not coming down. According to figures published by Eurostat, unemployment in the 18 countries of the

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Eurozone was 11.5% in July, unchanged from July 2013. Eurostat estimates that nearly 18.4 million people were unemployed in the Eurozone in July, some 725,000 fewer than in July 2013. The countries with the lowest unemployment rates in the region in July were Germany and Austria (both with 4.9%) and the highest rates were posted by Greece (27.2% in May) and Spain (24.5%).

Fleeting growth. According to projections by the British Chambers of Commerce, the UK economy will post growth of 3.2% this year, the highest since 2007. However, the group also said that it is unlikely that this high rate of growth will be sustainable and, for that reason, it forecasts that growth will slow down to 2.8% in 2015. Growth in 2014 will depend on how domestic consumption evolves at a time when exports have been affected by a slowing down in the economy in the rest of Europe.

Spain is number one. Spain's INE has confirmed that the Spanish economy is at the head of the European economies in terms of growth this year. According to data released by the INE, the Spanish economy grew by 1.2% (yoy) in 2Q2014, the highest rate of growth observed since 2Q2008. According to the Minister for the Economy and Competitiveness, Luis de Guindos, the Spanish Government could revise its growth figures to 1.5% (yoy) in the coming weeks and correct its growth projection for 2015 to 2.0%.

Brazil in recession. According to official figures issued by the Brazilian Institute of Geography and Statistics (IBGE), the seventh largest economy in the world is in a recession following a contraction of 0.6% in 2Q2014 compared to the previous quarter. Despite having been the host of the World Cup, Brazil has not obtained the benefits in terms of growth for having been the organizer of this event due, according to Brazil's Minister for the Economy, Guido Mantega, to the excessive number of national holidays decreed to avoid traffic jams and urban chaos owing to the lack of infrastructure promised for the opening.

It's necessary to negotiate with everyone. The Argentine Government has discarded renegotiating with the investment funds with which it has debts whose payment has been suspended for more than a decade, a situation that led Argentina to a new default last month. Argentina's Minister for the Economy, Axel Kicillof, informed that they should negotiate with all the holdout creditors at once and not just some of them, if they want to defend a bill that would allow Argentina to change the domicile of restructured debt

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bonds with foreign jurisdictions whose payment is currently blocked by a US court.

A step away from poverty. According to the 2014 Human Development Report presented by the United Nations Development Programme (UNDP), some 200 million Latin Americans, 38.0% of the region's population, are at risk of falling into poverty in the event of a crisis. According to the UNDP, the proportion of Latin Americans at risk of having their well-being seriously affected if they face a crisis of any kind as a result of macroeconomic problems, natural disasters or other factors is too high.

POLITICAL TIPS

Changes. President Nicolas Maduro announced changes to the Executive Cabinet and the creation of six new vice-five revolutions: 1) The economic revolution that seeks to develop an autonomous and diversified economy 2) The revolution of knowledge, culture and technology, 3) the socialist revolution missions to ensure the social rights of the population, 4) State political revolution to transform the structures "bourgeois state" to build a "people's democratic state" and 5) the territorial revolution for socialism strengthen the community model.

Ramirez is out. Rafael Ramirez, who served for ten years president of PDVSA, and for twelve years as Minister of Petroleum and Mining, was removed from both, and has been named Venezuelan Chancellor. The positions that Ramírez occupied were taken by Eulogio del Pino and Asdrúbal Chavez respectively. Although these changes take Ramirez apart of the economic decisions field, they show that the Government understands the importance of technical criteria within driving oil sector, putting the two men from the industry in these charges.

¿Shake or Recycle? Elias Jaua, former Chancellor took in charge of the Ministry of Communes and the Vice-presidency for the Development of Territorial Socialism. The Ministry of Commerce was taken over by Isabel Delgado, ex ambassador for the Mercosur and LAIA. Dante Rivas, former Minister of Trade was appointed Sole Authority on Procedures and Permitting. Francisco Armada will be replaced by Nancy Perez in the Ministry of Health and Ivan José Bello will be the new Minister of Food.

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The idea is to control smuggling. The president of the National Assembly, Diosdado Cabello, said that installation of the biometric system for controlling purchases (fingerprint identification machines) will be compulsory for all stores in the states on Venezuela's borders and in the state-owned nationwide supermarket chain. Cabello defended the use of the biometric system as an option for controlling smuggling and claimed that this is the way the government has found for guaranteeing that Venezuelans will have access to food.

Signatures against the fingerprint identification machines. The national president of COPEI, Roberto Enríquez, announced that the party is to file an action for the enforcement of rights with the Supreme Tribunal of Justice (TSJ) against the fingerprint identification system that the government is planning to introduce to fight smuggling and that it is to gather people's signatures in support of the action. Enríquez called on people not to resign themselves to the government's intentions to implement what he considers to be "a mechanism for controlling the lives of every Venezuelan."

Sharing out shortages. According to Governor of Miranda Henrique Capriles Radonski, what is really behind the implementation of the fingerprint identification machines is the fact that the government "hasn't any dollars left and now doesn't have the means to provide our people with food; that's why they're trying to share out the shortages." Capriles claimed that the mechanism the Venezuelan Government plans to implement will only result in longer queues and more problems and corruption without solving the underlying problem: the "shortages of different items as a result of having destroyed domestic industry and the controls that have been implemented," he said in his Sunday blog.

It's our neighbor's problem. Governor of Táchira José Vielma Mora said that the smuggling issue is something that should be attacked by the country that receives the merchandise, in this case Colombia, but that, in spite of this, the Venezuelan Government is working on solving the problem. "Even though the border towns are in agreement with the Venezuelan Government providing protection, they also realize that, despite the fact that we've made a tremendous effort to prevent smuggling, it is the Colombian authorities that should follow through on this," added the governor.

Things are looking dicey. One of Datanálisis' latest opinion polls shows that 80.0% of the population considers that the country's situation is not good and

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that President Nicolás Maduro's popularity has fallen to 35.0%. *"There is direct a correlation between people's perception of the economic crisis and the decline in Maduro's popularity, not just because of what he has done, but also because of what he has not done, i.e. solving the shortages and inflation. And also because of what he has said he is going to do and has not done. People's perception is that the government is at a loss,"* added the pollster's president, Luis Vicente León.

"I don't believe in polls." President Nicolás Maduro warned advisors and pollsters that he would not allow his arm to be twisted by their opinions. *"There are marketing experts who're telling me, 'There are things that cannot be, Maduro, stop that discourse, OK. Adopt another attitude to win over the center.' (...) You're either up in the polls or you're down. I don't believe in polls; I believe in a plan, and I'm committed to that plan. I don't obey advisors or marketing (...) I obey a people and that wisdom that this people builds through parties, movements, and social forces,"* he added.

Diosdado spreads the blame. Diosdado Cabello claimed that there are political and economic groups involved in the smuggling that is going on in the country, which is why, according to him, it is a mistake to attribute this crime only to military officers. *"There's intelligence work being done. We're investigating. We're fighting against mafias. But there are honorable people in the National Guard, in the Army, and in the military components,"* added the president of the National Assembly.

Support from Chile. Apparently 80 Chilean parliamentarians sent a document to the United Nations' Human Rights Committee in which they denounce alleged violations of human rights perpetrated against the national leader of the political party *Voluntad Popular*, Leopoldo López, who is currently being held at Ramo Verde prison. The letter explains that López has not been allowed to present proof and witnesses in his defense at his trial.

LEGISLATIVE TIPS

The Vice-presidency assumes control. The Executive has made the changes in import procedures official. According to Presidential Decree No. 1,191, published in *Gaceta Oficial* No 40,482, Cencoex is now attached to the Vice-presidency of the Republic. Since its creation in November 2013,

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Cencoex had been attached to the Vice-presidency for the Economy, and now it will come under the Vice-presidency of the Republic. This is the first time that the agency in charge of administering foreign currency comes under an office that is not the Ministry for Finance or the Vice-presidency for the Economy.

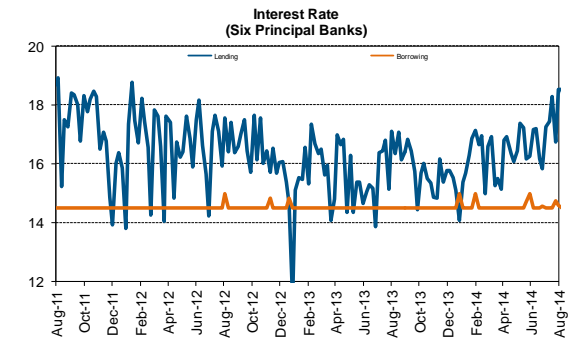
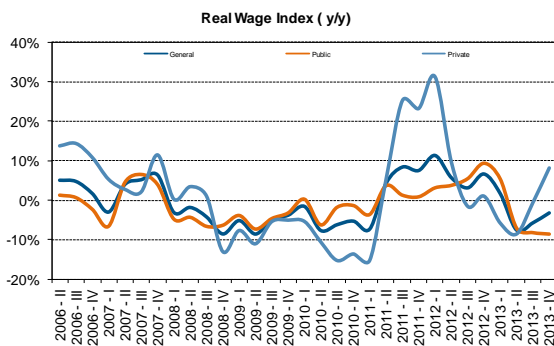
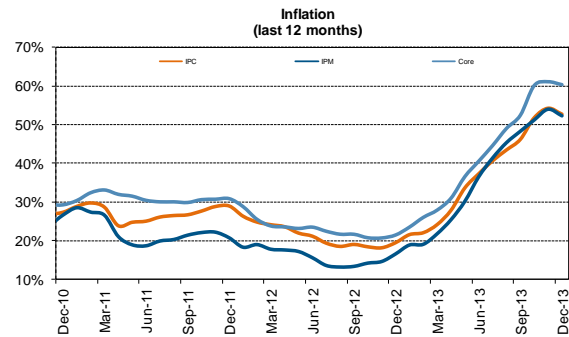
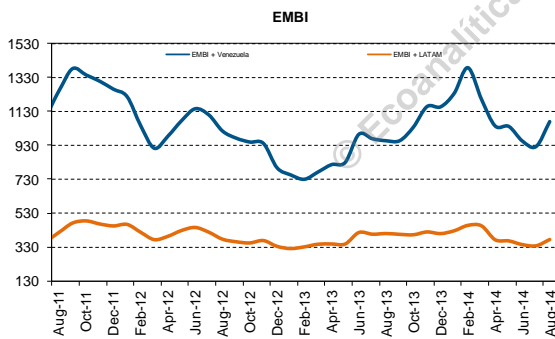
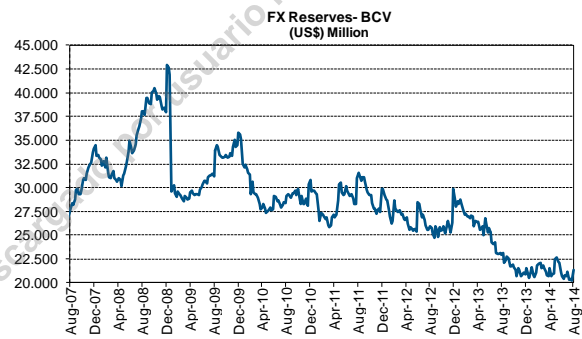
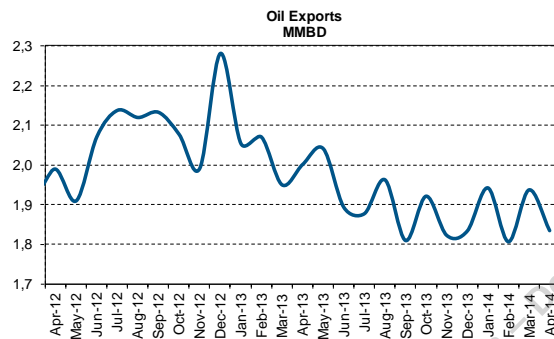
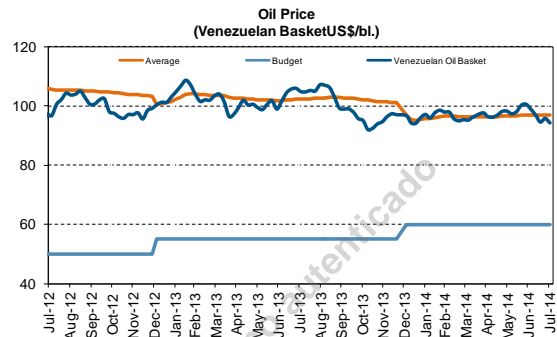
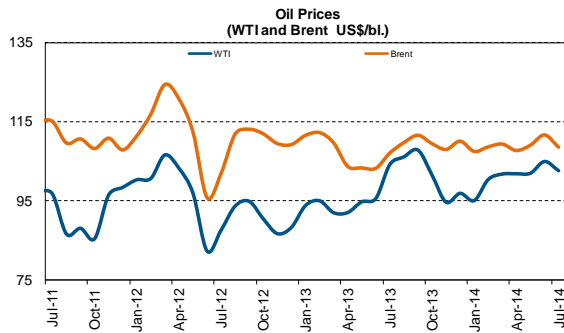
Deputies are evaluating the situation in the health sector. Deputies to the National Assembly are to submit a report to the President of the Republic on the situation in the pharmaceutical sector. PSUV Deputies Oswaldo Vera and Henry Ventura met with directors of the main health sector associations. According to one of the businessmen, who preferred to remain anonymous, they told the businessmen at the meeting that they would draw up a report and send it to the President.

A new director appointed at Sundde. Sundde has appointed Carlos Vicente García Gómez as the director general of the agency's Systems and Information Technology Office. This appointment, published in *Gaceta Oficial* No 40,483, has been made at a time when the government is announcing the installation of fingerprint identification machines in stores and supermarket chains around the country to regulate the consumption of products making up the basic basket that are susceptible to being smuggled out of the country.

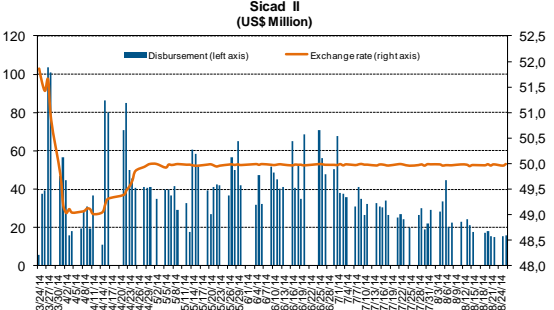
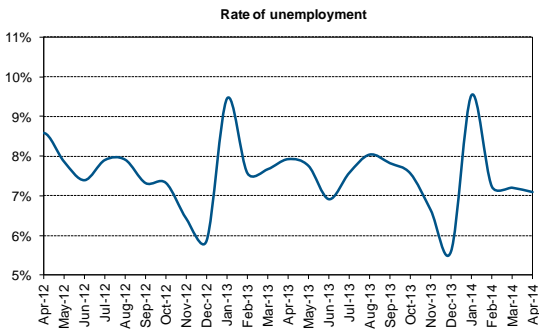
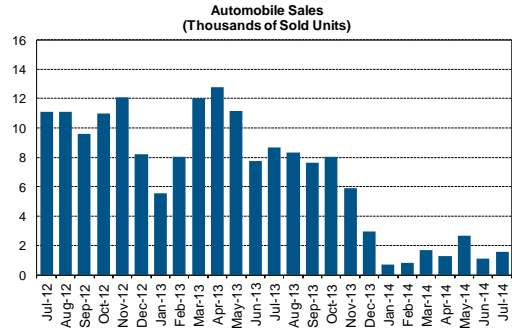
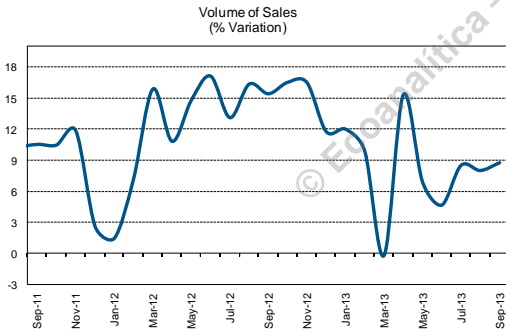
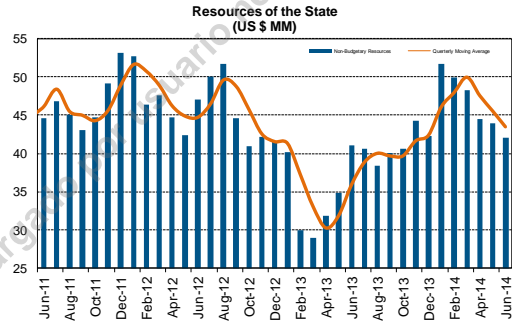
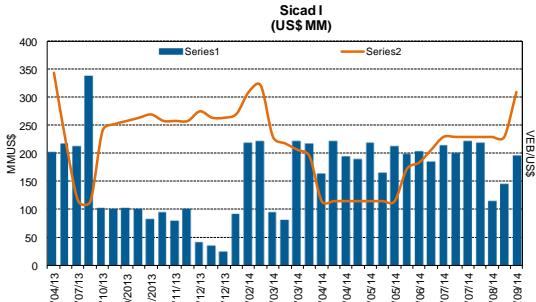
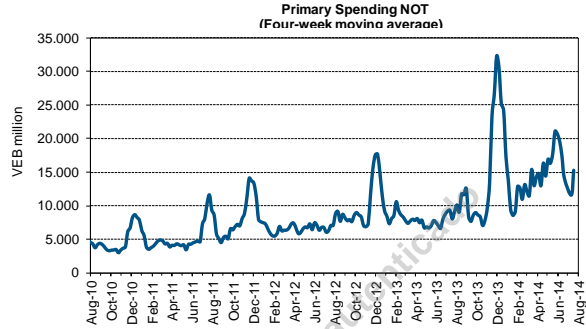
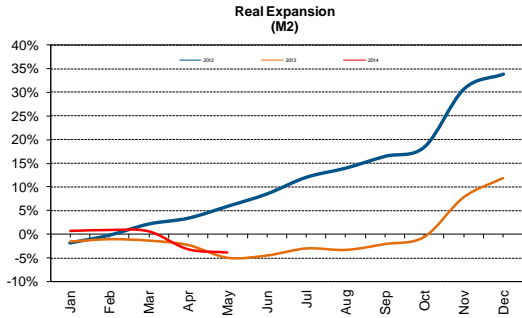
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ECONOMIC OVERVIEW



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