

Exchange rate policy for 2015: Without unification, but with devaluation

After weeks of illusions, in which we Venezuelans waited patiently for the announcement of major measures that could put an end, in the medium term, to the macroeconomic imbalances that the nation is currently facing, on September 2nd, the government gave us a shaking, as it were, and brought us back to reality when it showed its lack of willingness to implement anything more than half measures.

The only possible reading of the government's decision to opt for a policy of incomplete adjustments is a political one: the elections to be held next year are more important than a definitive solution to the economic problems. That is why, in order to maintain the electoral machinery united, groups of power within *Chavismo* are being allowed to preserve their status quo by putting off adjustments that could affect them but that, at the same time, will have a negative impact on the popularity of the administration of the day.

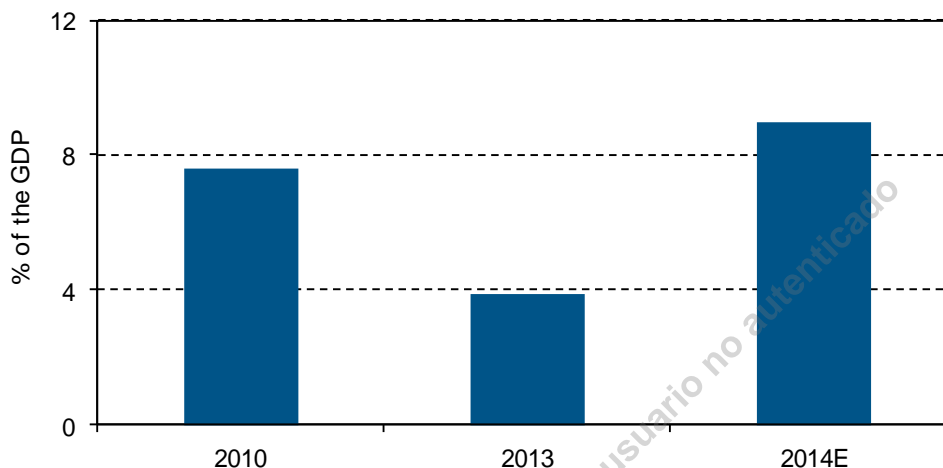
At **Ecoanalítica** we expect government decisions in the coming months to be geared to getting ready for the election campaign, particularly with regard to anything that has to do with obtaining more fiscal resources in order to cope with the customary expansion in spending in the run-up to elections.

Devaluation: our daily bread

There are a number of options available to the government for obtaining additional fiscal revenues, among them: i) fiscal reforms; ii) monetary fiscal financing; iii) reducing subsidies; and iv) devaluing the bolivar, the latter being one of the most frequently used measures and the easiest for the government to capitalize on since, given that it controls 95.0% of the dollars received from oil exports, it finds that its revenues in bolivars increase while at the same time its expenditures in dollars are cheaper.

Year 10. Number 36. Week III
September 2014

Additional Income for Devaluation



Sources: BCV and Ecoanalítica

At **Ecoanalítica** we estimate that, on average, the government has received 5.3 points of gross domestic product (GDP) for each devaluation during the period in which exchange controls have been implemented; this also takes into account the scenarios in which, even though the official rate remained unchanged, alternative mechanisms were implemented that allowed the State to sell foreign currency at a higher exchange rate.

The revenues obtained as a result of devaluation have been equivalent in recent years to two times the gasoline subsidy or, what is the same thing, three times the servicing of the debt, which gives an idea of the weight of this measure on fiscal revenues compared to other options that have been suggested lately, such as eliminating the gasoline subsidy and the idea of defaulting on payments with external creditors.

And the headache we suffer from every year

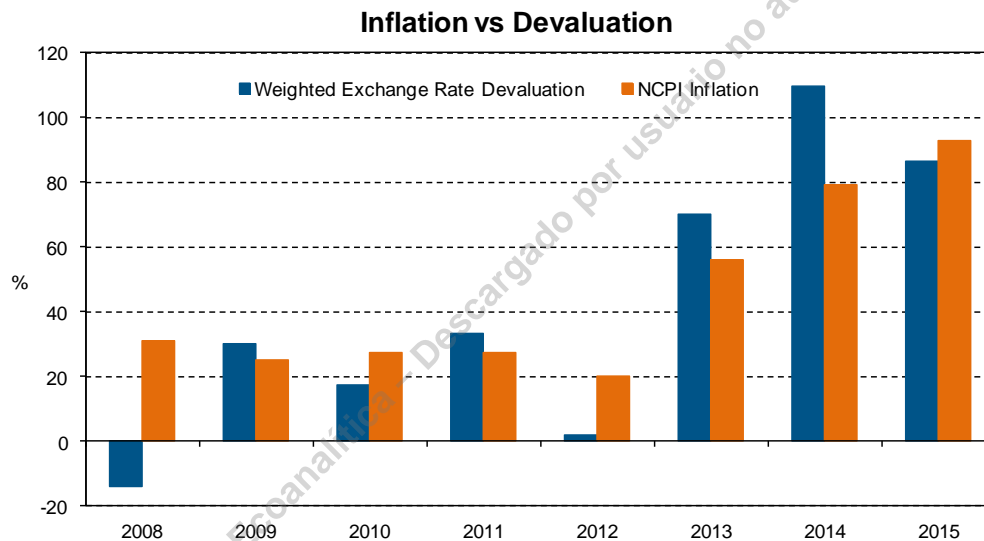
One of the main negative aspects of devaluation, besides the political cost involved given that it is an unpopular measure, is the pressure that it tends to put on prices in the economy, which, in economic literature, is known as the “pass-through” effect of the exchange rate.

In today’s globalized world, a fair share of the domestic supply of a country’s economy depends on the importing of goods, and a large part of the domestic production of goods and services uses at least one imported input, which is why an increase in the nominal exchange rate puts pressure on the prices of final goods, unless the country produces everything it consumes, in other words, unless it has a closed economy.

Year 10. Number 36. Week III
September 2014

The mechanism behind the pass-through effect is very simple. Devaluing the currency makes imported inputs and final goods more expensive and, therefore, both manufacturers and merchants are forced to charge higher prices for the goods they supply to the market.

In Venezuela, nearly 33.2% of the domestic demand for final goods is covered by imports, which explains, in part, why the rate of depreciation of the nominal exchange rate and inflation measured by the national consumer price index (NCPI) have shown a correlation of nearly 80.0% over the past ten years.



Sources: BCV and Ecoanalítica

The adjustment will always be incomplete

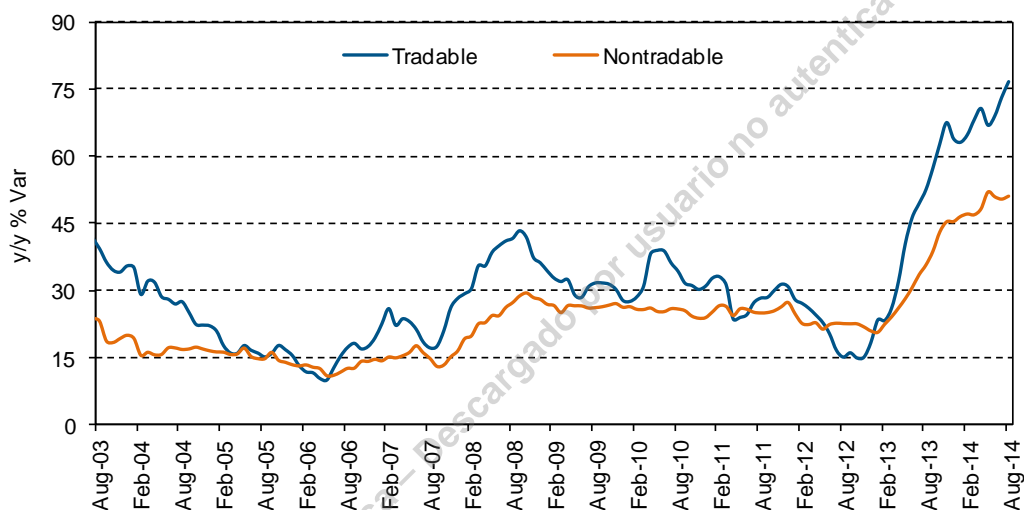
Generally speaking, the pass-through effect of devaluing the local currency on inflation tends to be incomplete; in other words, it is highly unlikely that a 1.0% depreciation of the exchange rate will imply inflation of 1.0% or more that same year. This happens even in the case of imported goods and is explained by the existence of transport and distribution costs, which are paid for in local currency.

In the case where it is inputs that are being imported, the effect of the devaluation on the prices that the final consumer ends up paying will even be less, depending on the combination of inputs and services that are necessary so that the domestic producer can place the good on the market.

Year 10. Number 36. Week III
September 2014

Bearing the foregoing in mind, it can be inferred, then, that if the goods consumed nationwide are classified as tradable and non-tradable, it is to be expected that the fluctuations in the exchange rate will have a greater impact on the former, given that they have a larger component of imported goods and come from industrial sectors that have closer ties with the rest of the world.

Inflation of Tradable and Nontradable Goods



Sources: BCV and Ecoanalítica

This asymmetry in the pass-through effect between tradable and non-tradable goods ends up having a significant redistribution effect due to the fact that the weight of the consumption of tradable goods is greater in the consumption basket of the lower-income segments of the population than in that of the higher-income segments, which means that a devaluation ends up having a much greater impact, in terms of inflation, on the poorest members of society.

Devaluing in the good times isn't the same as devaluing in the bad

Besides pointing out the existence of a pass-through effect between devaluation and inflation, mention needs to be made of the fact that the magnitude of that effect will depend on the state of the economy, which is why policymakers should bear in mind the situation in the macroeconomic environment when taking a decision that can end up having a considerable impact on prices, regardless of the urgent need to obtain resources.

Year 10. Number 36. Week III
September 2014

Generally speaking, in scenarios of high and persistent inflation or scenarios where inflation is volatile, the expectation is that the pass-through effect of the devaluation on inflation will be greater due to the fact that, when these scenarios occur, economic agents tend to express the prices of the goods offered in foreign currency, a situation that is made even worse when the market exchange rate is very much higher than the official rate or even than the real equilibrium exchange rate.

Another important aspect that needs to be considered is the creation of expectations with regard to how sustainable the new exchange rate adopted following the devaluation is. If the expectation is that the devaluation is a partial measure and that, therefore, further subsequent adjustments to the exchange rate need to be made, then it is to be expected that economic agents that have imported goods and inputs in their cost structure will tend to adjust their prices above the variation rate resulting from the last devaluation.

Another measure that depends on circumstances

At **Ecoanalítica** we expect that, given the government's need of resources and the effects that implementing "adjustment" measures, such as reducing the gasoline subsidy, could have on its already dwindling popularity, the Maduro administration will opt for devaluing the bolivar by means of a dual system in which SICAD I and Cencoex operate at the same exchange rate of VEB 15.0/US\$, while SICAD II maintains a rate in the region of VEB 50,0/US\$, which would allow it to obtain nearly 7.0 points of GDP in fiscal revenues next year.

One important aspect that needs to be considered is the date that is finally set for the parliamentary elections that are to be held next year, which will have an influence on the date on which the decision to devalue is taken. Given that the pass-through effect on inflation tends to be felt six months after the devaluation, it is to be expected that the adjustment to the exchange rate, made with a dropper, to be completed by the end of the first quarter of 2015 (1Q2015), so it would not be strange that we had an early elections in 1S2015, just before than the effects of the measure affect the prices in the economy.

The size of the devaluation may be modified depending not only on the Executive's need for cash -affected ultimately by oil prices that have been falling by 6.7% on average in 2014-, but also on how effective spending is in generating a higher level of popularity. Moreover, consideration should also be given to the adjustments that will have to be allowed in the prices of regulated goods so that the companies producing those "essential" goods do not find their operations affected.

Year 10. Number 36. Week III
September 2014

In short, the government will, once again, take an economic measure that seeks above all to guarantee its political stability in a macroeconomic scenario where the negative effects of that measure are even worse and where the success obtained from expanding spending is not guaranteed. While this is not the best time for another devaluation, that is what the political situation demands.

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Year 10. Number 36. Week III
September 2014

ECONOMIC TIPS

That is how analysts see it. According to the latest LatinFocus survey released few days ago analysts expect the economy to contract 2.5% this year, and inflation to close nearly 68.1%. For 2015 the panel of the LatinFocus survey expects an economic growth of 0.7% and an inflation of 60.0%, also forecasts an exchange rate devaluation from VEB 6.3/US\$ to VEB 9.9/US\$.

“Bond sponges” to mop up liquidity. Given the spiraling inflation in the first eight months of the year that is attacking the Venezuelan economy and is the highest since 1997, the Central Bank is currently trying to cool things down by increasing its bond issues, which will allow it to mop up part of the bolivars circulating in the economy. In August, the Central Bank sold bonds in the sum of VEB 35.9 billion to the financial system and, seeking to step up this absorption of money, it resorted to extraordinary operations by placing bonds in the sum of VEB 20 million at 60 days and paying 7.0% interest.

Spending more. Seems to be that the budget set by the Government for this year was short because of the high requirements of government bodies and state enterprises, which has led to the National Assembly (NA) to approve a high volume of additional funds to meet salaries, pensions and operating expenses. In accordance with the information of Parliament, in almost nine months on this year the deputies have authorized to the Executive VEB 313.2 billion in extraordinary operations, amount 150.6% greater than the spending authorized in the same period last year.

Poor grades. The American agency of financial rating Standard & Poor's (S&P) lowered by one notch the rating of the sovereign debt of Venezuela to CCC+, because of the "economic downturn" in the country, and at the same time warned of a possible "risk of default payment in the next two years". The economic recession, high inflation and rising liquidity pressures continue to erode the government's ability to pay its foreign obligations over the next two years," S&P said in its report.

Will they manage to do it? President Nicolás Maduro invited Venezuelan companies to boost the production of goods and services in Venezuela so that they can increase their business and even produce enough to be able to

Year 10. Number 36. Week III
September 2014

export. In tune with these statements, the President handed over VEB 1.93 billion in socio-productive loans to the representatives of 740 companies.

More changes; and the problems persist. At a meeting with businessmen, President Nicolás Maduro stressed that it was necessary “*to start building the formula of a new stage that will break with the oil rentier model and boost the diversification of the economy.*” This is an idea that has already been promoted by the government on previous occasions, but, so far, it has not been able to implement it, as is more than evident from the current production crisis.

Interest rates. The lending rate for the first week of September was at 16.0%, down by 1.9 percentage points (pp) compared to the previous week. The time deposit rate was at 14.7%, increasing 0.2 pp compared to the previous week, while the passive rate was at 14.1%, without variations compared to the previous week.

International reserves. International reserves went down by 3.8%, going from US\$21.64 billion during the first week of September to US\$20.83 billion during the second week of August. Compared to the same period last year, international reserves have decreased by 5.8%.

Central government expenditure. On September 12th according to figures from the NTO primary spending was VEB 14.57 billion, which means an increase of 41.6%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 573.97 billion 82.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) decreased 0.83% in the first week of September from the week prior, to settle at VEB 1.5 trillion. The M2 has increased 69.1% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
9/2/2014	39.0	37.5	96.2	1.5	3.8
9/3/2014	41.6	35.1	84.4	6.5	15.6
9/4/2014	35.0	33.0	94.3	2.0	5.7
9/5/2014	32.7	29.8	91.1	2.9	8.9
9/8/2014	38.5	35.4	91.9	3.1	8.1

Source: Ecoanalítica

Year 10. Number 36. Week III
September 2014

OIL TIPS

Prices down in August. The prices of the oil baskets fell sharply in August as a result of abundant supply and fresh signs of a slowing down in economic growth and the demand for oil. The biggest drop was posted in the price of WTI, which was down 6.1% from the previous month, falling below the US\$100/bl mark to US\$96.9/bl. Brent traded at US\$104.2/bl (-4.4%) and the Venezuelan basket at US\$92.2/bl (-4.5%).

... and demand as well. A slowing down in oil demand in 2Q2014 and prospects of weaker growth for Europe and China led the International Energy Agency (IEA) to cut its global oil demand estimates by 0.9 million barrels a day (mb/d) for 2014 and by 1.2 mb/d for 2015 to 93.8 mb/d in 2015.

OPEC is cutting back. According to EIA figures, global oil supply was down 400,000 barrels a day (b/d) from the previous month to 92.9 mb/d as a result of lower production by OPEC countries. OPEC supply fell by 130,000 b/d in August, since the recovery of Libya's production was not sufficient to offset lower production by Saudi Arabia and Iraq. OPEC cut its production target for 4Q2014 by 200,000 b/d and by 300,000 b/d for 2015 to 30.6 mb/d and 29.6 mb/d, respectively.

No controls on smuggling. There is no control on the illegal sale of gasoline on the road that leads to the border with Colombia. On the Caribbean Highway between Paila Negra and Paraguachón, gasoline is bought and sold in the full light of day for everyone to see. According to PDVSA's estimated, between 50,000 and 100,000 barrels a day are smuggled out of the country. The former president of PDVSA, Rafael Ramírez, has admitted that today the country is losing US\$12.59 billion a year on account of the fuel subsidy, a situation that has prompted the authorities to propose a debate on increasing the price of gasoline.

They expect to increase the generation of gas. PDVSA expects to add more than 320 million cubic feet of gas a day to the domestic market before the end of 2014 with the startup of the Jusepín 200 and Musipán compressor plants located in Monagas. Vice Minister for Gas and Director of Processing at PDVSA Gas José Gregorio Prieto explained that the Executive is investing US\$760 million in the construction of Jusepín 200 Compressor Complex, which will recover 200 million cubic feet of gas a day.

Year 10. Number 36. Week III
September 2014

Government audit will not interfere. Following President Maduro's announcement of the decision to audit PDVSA's General Domestic Market Department, the president of the Bolivarian Socialist Workers Union (CBST), Wills Rangel, confirmed that the fuel distribution service would not be affected, *"as the problem is not with the workers directly, but with the management and administrative areas."* Rangel explained that, once the inspections have been completed, they will have details of the types of mafias in the sector and that the inspections could be extended to other areas of the company.

Looking for the highest bidder. PDVSA is to receive preliminary bids for the sale of its affiliate Citgo Petroleum in the United States (US) up until the end of September, according to a report by Reuters. The assets, consisting mainly of three refineries, could achieve a price of between US\$8.0 billion and US\$10.0 billion. Bidders may bid on the assets individually, according to sources consulted. Lazard Ltd, the investment bank that is handling the sale of the affiliate on behalf of PDVSA, has sent bidding materials to potential buyers.

The problem's in the distribution. After inspecting the PDV Finished Lube Packaging Plant, Vice President Jorge Arreaza explained that the plant was producing at maximum capacity, which indicates that the supply problems were in the distribution phase. Arreaza said that PDVSA is to work with the country's governors and mayors to take the measures that have to be taken to get the distribution of lubricants back to normal once and for all.

International oil baskets. At closing time on September 12th in the New York Stock Exchange, the price of the WTI was US\$92.6/bl, down by 2.4% when compared to the reported the previous week. The Brent decreased by 2.9% when compared to the previous week, to reach US\$99.3/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$90.2/bl on Friday September 12th, decreasing by 2.6% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.0/bl.

Year 10. Number 36. Week III
September 2014

BUSINESS SECTOR TIPS

Now it's the turn of toothpaste and fabric softeners. The National Superintendency for the Defense of Socioeconomic Rights (Sundde) has approved price increases for toothpaste, fabric softeners, hair conditioners, and floor wax. The biggest increase is in floor wax. The 3.79 liter bottle has gone up by 110.3% and the increases for other presentations are between 2.8% and 75.7%. In the case of toothpaste, the increases are between 23.3% and 91.4%. As for hair conditioner, there were reductions of nearly 7.0% on six presentations, but the 1 liter bottle has gone up by 87.3%.

Necessary but insufficient. The president of the Venezuelan Chemical and Petrochemical Industry Association (Asoquim), Juan Pablo Olalquiaga, stated that the price increases for disinfectants, washing-up detergent, and liquid bleach approved by Sundde were “*very necessary, but in most cases do not even cover production costs.*” This was the consensus reached by the seven main manufacturers of household cleaning products operating in Venezuela. The association's members consider that the price increases for the articles they produce came very late and are not sufficient to recover costs.

Pharmaceutical sector is still waiting. Now that Sundde has authorized price increases for personal care and household cleaning products, the pharmaceutical sector hopes that it will also revise the products whose prices have been frozen since 2003. Sector sources claim that there is a high level of backed-up inflation, citing the case of personal care products where increases of more than 100.0% have been authorized on prices that were frozen for nearly three years and not 11 years as in the case of medicines.

Sending the kids to school is becoming increasingly expensive. The Center of Documentation and Analysis for Workers (CENDA) conducted a survey to determine the increase in the cost of school supplies, textbooks, and uniforms and concluded that, this year, parents will have to spend 175.2% more than last year in order to send their children to kindergarten, 141.5% more to send them to primary school, and 120.2% more to send them to secondary school. The biggest increases were in uniforms, with items that went up by between 100.0% and 360.0%.

CENCOEX granted US\$25 million to the state-owned Telecom. Buying a cellphone is an uphill task. The government has centralized the importing of

Year 10. Number 36. Week III
September 2014

cellphones via the state-owned Telecom, but the system has not been working. However, according to Cencorex, between January and September 5th this year, Telecom received disbursements in the sum of US\$25 million, much more than Movistar, which obtained US\$9 million, whereas Digital received only US\$1.3 million.

Automotive industry is unable to export. The suggestion made last week by President Maduro that domestic automotive assemblers allocate part of their production to export was brought up short by a grim and overwhelming reality: between January and August 2014, the seven privately-owned assemblers only produced 8,508 units, down 83.3% from the 50,987 units produced during the same period in 2013. This means that the industry is operating at 3.4% of its installed capacity (250,000 vehicles a year).

1,500 fingerprint identification machines in a month's time. Minister for Food Iván Bello said that the pilot plan for activating the Secure Supply System would be ready in one month's time and would include 1,500 Secure Supply Fingerprint Identification Machines (CAS after their initials in Spanish) at sales points in the public sector network in Greater Caracas and the border areas. He explained that the system will cross information on purchases, but that this would not mean imposing restrictions of any kind. He pointed out that, in the case of the public sector network, the purpose is to ensure that the products, which are subsidized by up to 80.0%, are properly distributed to everyone.

Fedeagro is asking for the prices of crops to be set. Farmers have expressed their concern because they do not know what price they will be paid for the cereal crops from this winter season. The rice harvest started on August 1st and the corn harvest on September 1st, *"without having a clear idea of how much we will be paid for the fruits of our efforts. That way we're not encouraging anyone to continue committing to producing food in Venezuela,"* said the president of Fedeagro, Antonio Pestana.

They're to provide financing for farming sectors. Vice President of Food Security and Sovereignty and President of Banco Agrícola de Venezuela (BAV) Yván Gil announced that BAV has a "really solid" financing scheme for the agricultural sector and that VEB 58.0 billion was granted in loans in the 1S2014. *"We're going to create financing programs for the small, medium and large sectors with capacity for producing the items the country needs,"*

Year 10. Number 36. Week III
September 2014

he explained. He also commented that an additional VEB 2.4 billion had been approved for the *AgroVenezuela* Mission.

Price hikes for construction as well. Last week, the state-owned steel mills notified materials distributors that the prices of steel products such as wire rod and laminates had gone up by 96.0% and that builders had already been notified of the increase. Construction sector sources said that this increase in the price of materials will have an impact on project costs, which have already shot up.

“This is good news; we hope things will get back to normal,” said Antonio Orlando, the president of the Venezuelan Association of Medical, Dental, Laboratory and Associated Equipment Distributors (Avedem), when announcing that the government had recently authorized disbursements of foreign currency that have made it possible to reduce the amounts Avedem member companies owe suppliers abroad by some US\$50 million, bringing the debt down to US\$285 million.

Some still have faith. At an event to celebrate Movistar’s tenth anniversary of operations in Venezuela, the company’s president, Pedro Cortez, said; *“This year we plan to complete an investment of VEB 9.0 billion, and that amount could be higher if the 4G spectrum bid is successful.”* He also commented that this figure would rank Movistar as the country’s biggest non-oil private investor.

Back to using the washboard. Operations at Alimentos Polar’s detergent powder plant were put on hold 15 days ago due to the lack of raw materials. The 400 employees who work there have urged the government to speed up getting a shipment of sodium sulfate that has been in port in Puerto Cabello since August 22 through customs. They warned that, when they receive the shipment, they will be able to resume production for 25 days more, but no longer. They said that, under normal conditions, they produce 400 tons of detergent a day, but that for the past five months they have had problems with supplies of raw materials, which has forced them to work at 40.0% of capacity.

It’s impossible to get production back. At the close of 2014, SIDOR will have produced 1 million tons of liquid steel, if that, which is equivalent to 23.0% of its production capacity. The steel mill delegate, Carlos Ramírez, calculates that, given the restrictions on operations and the prolonged labor

Year 10. Number 36. Week III
September 2014

disputes over the discussion of the collective employment contract, it will be impossible to get production back to last year's levels of 1.5 million tons. Data from the operations system indicate that SIDOR produced 491,000 tons in the first half of the year, slightly more than was poured in just one month in 2007 when the company was under private management.

WORLD ECONOMY TIPS

The OECD revises its projections downwards. The Organisation for Economic Co-operation and Development (OECD) has revised its growth projections for the main developed economies downwards and taken the opportunity to urge the European Central Bank (EBC) to promote more aggressive stimulus measures to stave off the risk of deflation in the European Union's stagnated economy. The most notable downward revisions in the OECD's projections were those for the United States and the European Union, which went from 2.6% to 2.1% and from 1.2% to 0.8%, respectively.

Worryingly slow growth. In August China's industrial production posted its slowest growth in almost six years, while the brake was also applied on other key sectors of the economy, a situation that has fostered fears of a significant weakening of the Chinese economy. China's industrial production ended up growing 6.9% year-on-year, its lowest rate since June 2008, when the Chinese economy was affected by the global financial crisis.

Less than expected. Figures published by the National Bureau of Statistics of China show that consumer inflation cooled down less than expected in August, which could be another sign of the Asian power's loss of dynamism. The CPI rose by 2.0% compared to August last year, 0.2 of a percentage point below market expectations and 0.3 of a percentage point below last month's figure.

Surplus in the EU. The European Union's statistics office (Eurostat) reported that the European Union obtained a larger trade surplus in July than in July last year due to higher growth in exports, which makes for a positive start to 3Q2014. Eurostat explained that the region's non-seasonally adjusted external trade surplus came to EUR 21.2 billion in July this year, compared to EUR 18.0 billion in July 2013.

Year 10. Number 36. Week III
September 2014

It will grow, but barely. The vice president of the ECB, Vitor Constancio, explained that they expect the economy of the European Union to grow at a modest rate once again in 3Q2014, whereas the forecast is for growth of less than 1.0% by year-end. *"We anticipate that after the hiccough of the second quarter there will be positive growth in the third quarter but that growth in whole year will be below one percent, which is very small,"* added Constancio.

Second attack. The European Union has already applied a fresh round of sanctions against Russia for its role in the Ukraine conflict. The main measures in this latest round of sanctions are the freezing of assets and travel bans for Igor Lebedev, travel bans for Igor Lebedev, deputy speaker of the Russia's lower house of parliament, the Duma, Vladimir Zhirinovskiy, a nationalist politician, and other leaders of the pro-Russian separatist group in the east of Ukraine.

The market's at risk. The International Monetary Fund (IMF) claimed that, if Scotland decides in favor of independence from the United Kingdom, this could bring about a negative reaction in the market in the short term owing to the uncertainty that there would be with regard to the country's economic future. *"The main immediate effect is likely to be uncertainty over the transition to potentially new and different monetary, financial and fiscal frameworks in Scotland,"* explained IMF spokesperson Bill Murray.

France has admitted it. France's finance minister, Michel Sapin, announced that it will take France until 2017 to reduce its public sector deficit to 3.0% of GDP, which means that it will not keep the promises made to its partners in the European Union of reaching that target in 2015. Sapin also stressed that the Eurozone's second largest economy was not asking for a change to be made to the European Union's rules on budgetary limits; however, he did wish that account be taken of the country's continuing weakness.

Reminiscent of 2009. Spain's National Statistics Institute reported that Spain's CPI fell in August to 0.5% year-on-year, which is 0.2 of a percentage point below July. This drop is the biggest since October 2009 and was caused mainly by lower prices for fuel and food.

All's calm in Greece. Greek Prime Minister Antonis Samaras announced that Greece is meeting its fiscal targets and will not need a third financial bailout from its international creditors. *"We are exiting the bailout for good,"*

Year 10. Number 36. Week III
September 2014

and our goal is to never need to go into such a (bailout) program again, asking for loans to make it through the year,” explained Samaras.

POLITICAL TIPS

Let's get ready for the parliamentary elections! *Primer* Justicia's secretary general, Tomás Guanipa, said that the 2015 parliamentary elections will be “*of vital importance for Venezuela's development.*” He also said that “*this is the first time in 15 years that we can have an institution that is at the service of the people.*” Last of all, he stressed the importance of winning the parliamentary elections, since this would make it possible to elect independent authorities in the Public Prosecutor's Office, the National Electoral Council (NEC), and the Ombudsperson's Office.

On an evolutionary path. Vice President for Political Affairs and Minister for Foreign Affairs Rafael Ramírez announced that it was “*an honor*” to have been given the responsibility of representing Venezuela before the rest of the world. He also admitted that he sees this “*as a natural path because the oil industry has always been linked*” to foreign policy.

The allies are being left out. Former Metropolitan Mayor and founder of the political party *Redes* Juan Barreto said that *Redes* and the PSUV have had “*a checkered political-electoral relationship and we hope that that relationship takes a qualitative leap and that common spaces of consultation and collective leadership are built.*” He commented, moreover, that, even though President Nicolás Maduro promised to meet with his allies “*once a month or every two months,*” he has not kept his word.

Growing closer or drawing apart? As a result of some parties belonging to the Great Patriotic Pole complaining about the lack of internal debate and criticizing the measures taken by the President, the PSUV has appointed a group of top party members to liaise with the ally organizations. While welcoming the decision, the founder of *Redes*, Juan Barreto, hoped that “*the Patriotic Pole does not disappear as a permanent meeting forum now that each of the parties will have a bilateral relationship with leaders of the PSUV.*”

Year 10. Number 36. Week III
September 2014

Red mafia. National Assembly Deputy Carlos Andrés Michelangeli claimed that the decision to audit PDVSA's Fuel Market Division "*shows the control the red mafia has over the industry.*" The deputy also denounced irregularities at José Antonio Anzoátegui Cryogenic Complex involving the piling up of coke and sulfur. He claimed that "*not only is the company forfeiting some US\$1.44 billion in revenues from the sale of coke, but they (the mafia) got themselves a business worth billions hiring transport companies that pile up the oil residues in the company's yards.*"

Something new. President Nicolás Maduro announced the creation of the National School Food Corporation that seeks to set up a school food program that includes the production of food in school yards and on the roofs of school buildings. The President also announced the formal incorporation of the "helper moms," who are to be in charge of preparing the food and will receive the minimum wage and benefits.

Squabbling over Caracas. Metropolitan Mayor Antonio Ledezma responded to the decision to replace the People's Power Ministry for the Transformation of Greater Caracas with the Presidential Commission for the Revolutionary Transformation of Greater Caracas with a request that the spheres of competence that had been taken from the Mayoralty for Greater Caracas and transferred to Libertador Mayoralty, the Ministry for Homeland Affairs, Justice and Peace, the Government of the Capital District, and the Ministry for the Transformation of Greater Caracas be returned to the Mayoralty for Greater Caracas. Mayor Ledezma stated that his office has been left with only 0.5% of its spheres of competence and resources.

They'd better get ready for a rough ride. The secretary general of *Acción Democrática* (AD), Henry Ramos Allup, stressed, "*We've got to break away from the polarizing discourse,*" saying on behalf of his party, "*We don't want war; we want to understand one another in order to have a country where there's room for all of us.*" The *Acción Democrática* leader gave assurances that "the tribulations of the opposition will cease" in the next few days and he challenged the Nicolás Maduro administration saying, "They'd better get ready because we're going to get them out."

Public Prosecutor's Office looks to the future. Prosecutor General Luisa Ortega Díaz has suggested that the fingerprint identification system be installed at all police stations throughout the country to make it easier to identify anyone who is arrested and to prevent detainees from giving false

Year 10. Number 36. Week III
September 2014

names. She also said that the Public Prosecutor's Office would not process accusations made anonymously.

LEGISLATIVE TIPS

The recess is over. As provided for in the Constitution, September 15th saw the start of the second period of sessions, which ends on December 15th. In the three months that are still left until the end of the legislative year, apart from the bills that are still pending, the NA has the task of appointing 11 justices to the Supreme Tribunal of Justice (STJ) and three directors to the National Electoral Council to replace incumbents whose terms have elapsed. After an 18-month delay, the National Assembly started the process for renewing these authorities during the first period of sessions.

All at sea. The National Assembly started 2014 under somewhat strange circumstances, since no agenda specifying the bills that were to be approved during the year was published nor were priorities set. The first eight months of sessions passed by with no parliamentary agenda and the same will happen in the remaining three months. The first vice president of the National Assembly, Darío Vivas, announced on the day of the plenary session that the work schedule for the second period of sessions had still not been defined.

National Assembly plans to debate People's Communication Bill. Even though no legislative agenda has been established for the National Assembly's second period of sessions, there are some hints as to the bills that are to be debated during the remaining sessions of the year. Deputy Earle Herrera, a member of the People's Power and Media Committee, announced that this committee plans to send the People's Communication Bill for its second debate.

Government audit announced in Gaceta. The decision to conduct a government audit of the General Domestic Market Department of PDVSA's Commerce and Supply Division because of serious signs that mafias are operating in the state-owned oil company was published in *Gaceta Oficial* No. 40,495. This measure has to do with the handling and dispatching of gasoline, diesel, fuel oil, and all the lubricants that PDVSA processes. A

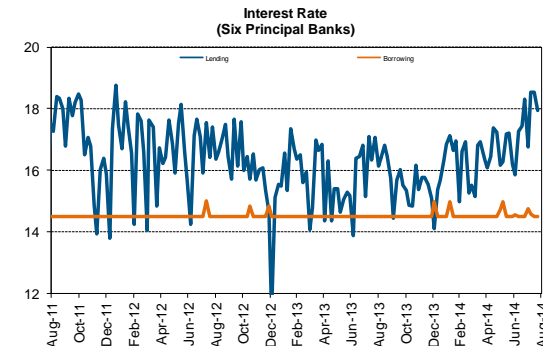
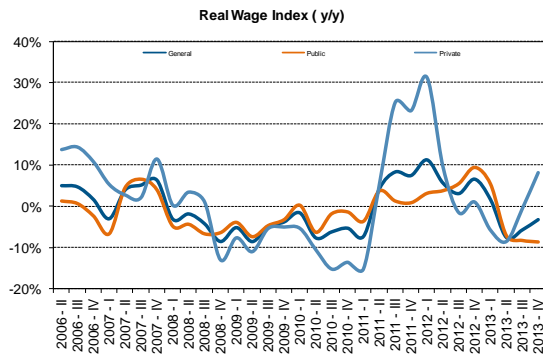
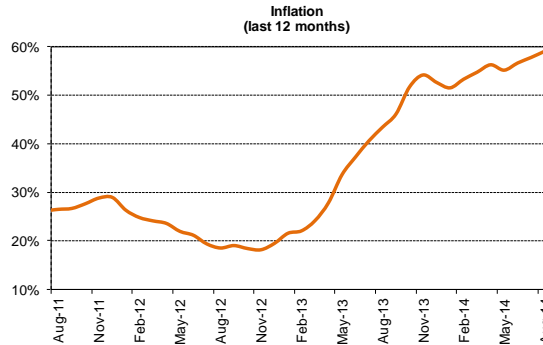
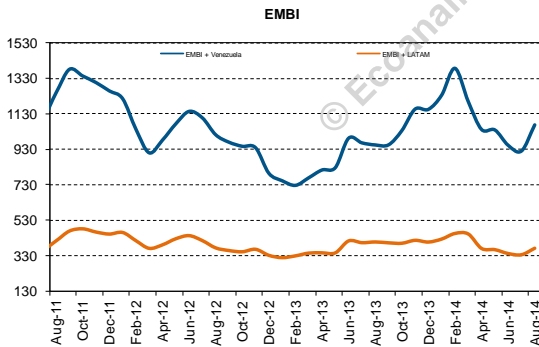
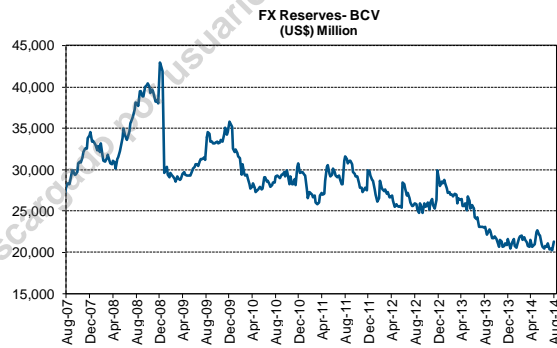
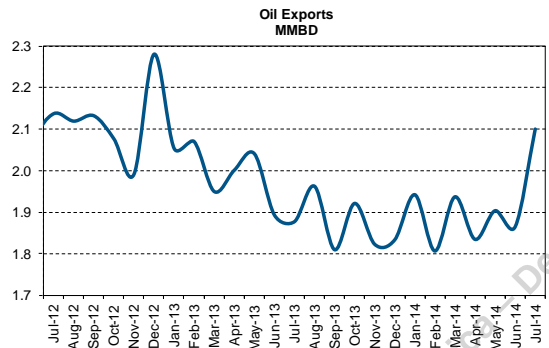
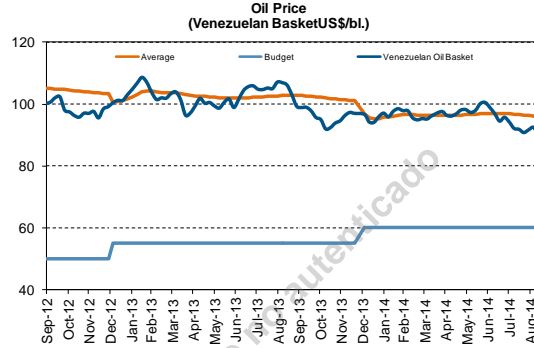
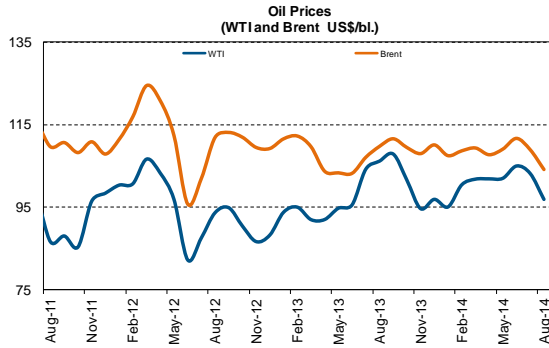
Year 10. Number 36. Week III
September 2014

three-month extension of the closure of the Colombian-Venezuelan border to prevent the smuggling of gasoline was also published in the *Gaceta Oficial*.

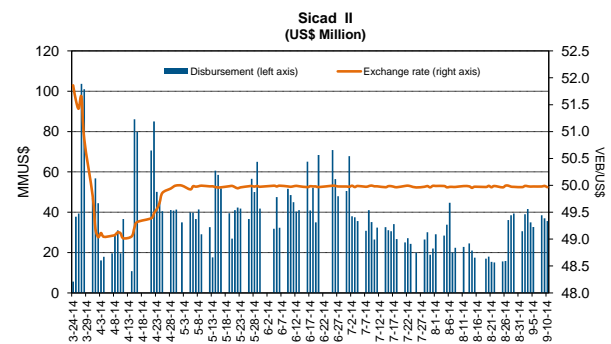
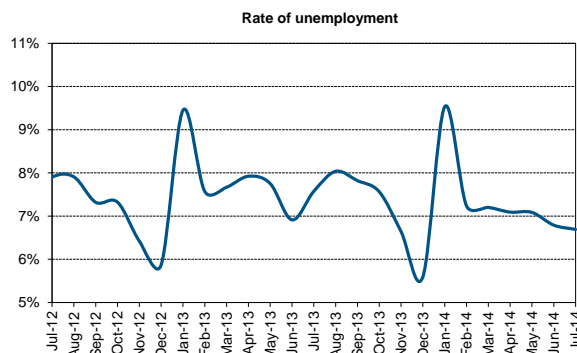
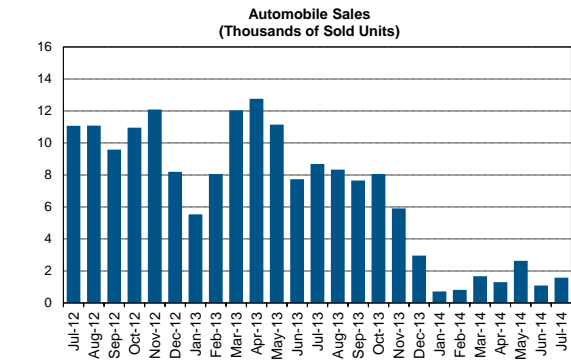
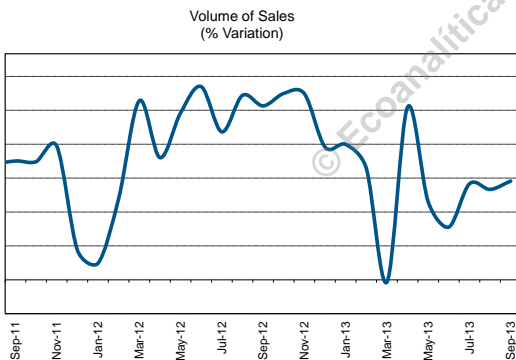
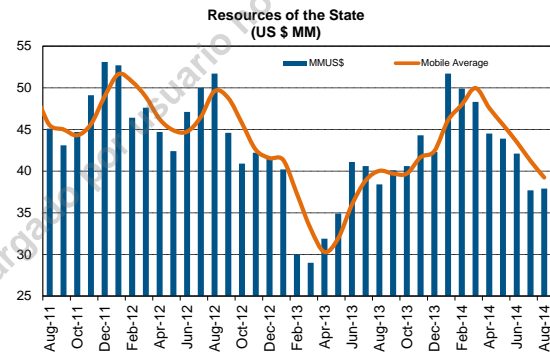
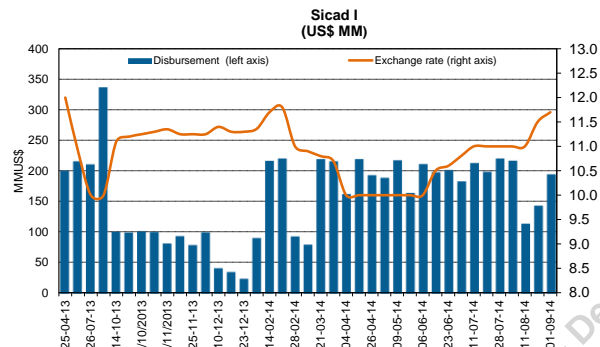
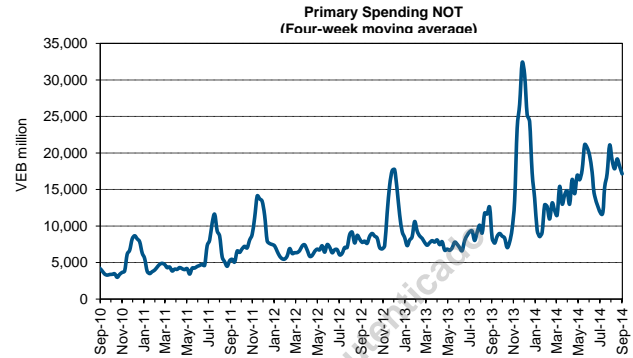
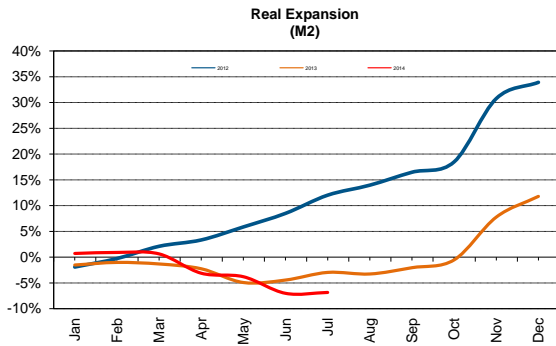
State-owned advertising agency. The Venezuelan Government announced the creation of an advertising agency in *Gaceta Oficial* No. 40,497. The name of new enterprise, which will be attached to the Ministry of Communication and Information, is “Agencia de Publicidad AVP, S.A.” This new government agency is to take charge of the production, dissemination, and marketing of the advertising campaigns of State agencies and state-owned companies. The decree does not say who will be in charge of the agency.

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ECONOMIC OVERVIEW



Year 10. Number 36. Week III
September 2014



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