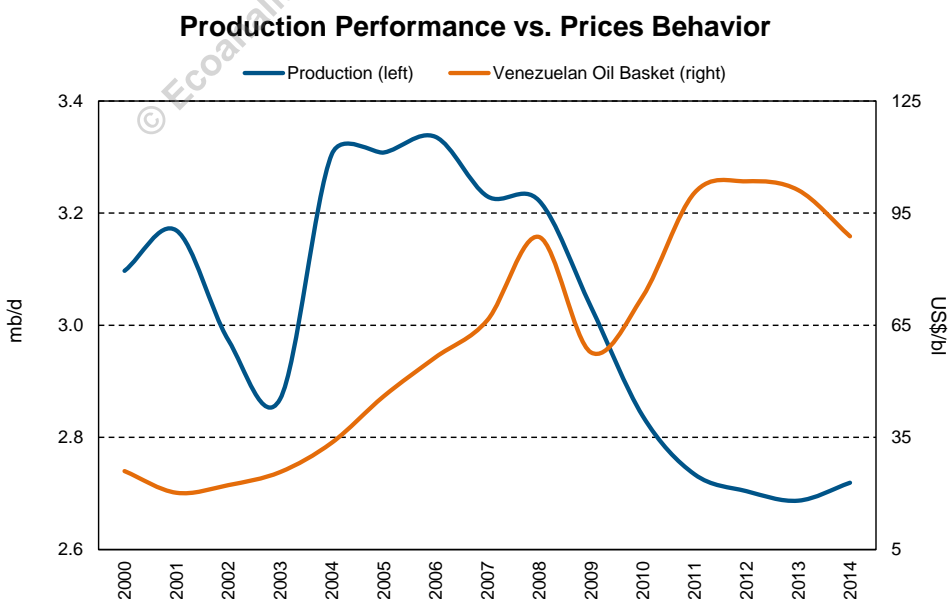


## Venezuela's Oil Market: fifteen years of lost opportunities

Nowadays Venezuela is more reliant than ever on the oil rent. 97.0% of the foreign currency that enters the country is from oil exports. It is worth noting that, in the past 15 years, we have enjoyed the biggest oil price boom in our country's history, which makes the fact that the Venezuelan Government has been incapable of generating an efficient production arm in the country's basic industries particularly ironic.

Today the story has changed. With an average price of US\$48.1/bl. for 2015, 49.9% lower than in 2014, the oil fantasy is no longer so appealing. Added to that, the production of crude has also fallen over the past decade, with 9.8% barrels fewer being produced by the end of 2014 compared to 2001, prior to the oil strike. In what seems to be a contradiction, Petróleos de Venezuela S.A.'s (PDVSA) payroll has.



Source: OPEC, MENPET and Ecoanalítica

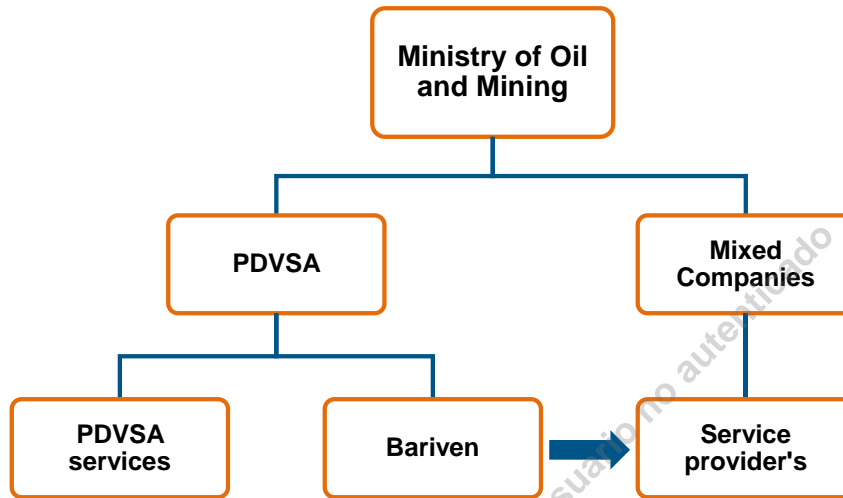
Given this situation, Venezuela is the oil producing country that has been hardest hit by the drop in international oil prices. In the past decade, the rentier model has become more entrenched and, as a result, imports increased by 165.4%, nontraditional exports shrank by 64.1%, and public spending, driven by a paternalistic State, produced a society that got used to living thanks to the illusion provided by subsidies and with the idea of being a “rich” country merely on the basis of its oil rent.

But all stories come to an end. Although the economic crisis has been building up over the past few years, it was the drop in oil prices that finally triggered it. The government has opted for making an adjustment via the balance of payments, which includes realizing assets (Dominican Republic and Jamaican debt, gold swap), borrowing (China and Citgo), and opting for not paying the foreign currency debt with the private sector (US\$28.4 billion). The upshot of this is that private sector imports will contract by 31.7% in 2015, which will result in shortfalls in supply and shortages of basic products, directly impacting Venezuelans’ purchasing power and standard of living. Meanwhile the government has worked hard at letting time slip by without implementing the adjustments that are needed.

### **An issue of autonomy**

After analyzing the situation, one cannot but ask oneself, could it be that there are no institutions capable of controlling what goes on in the oil industry? A fundamental condition for development is having strong institutions that are capable of issuing independent decisions in favor of efficiency and against the vices of power that being dependent on government decisions can entail. Well, that is not the case of Venezuela’s oil institutions.

According to the Master Hydrocarbons Act, “*the formulation, regulation, and monitoring of policies and the planning, performance, and inspection of activities involving hydrocarbons*” fall to the Ministry of Oil and Energy, which is at the top of the Venezuelan oil hierarchy, followed by PDVSA and the joint ventures on the same level, and last of all by PDVSA Servicios and Bariven.



According to Chapter 9 of the Master Hydrocarbons Act, activities involving the exploration, extraction, gathering, transportation and storage of hydrocarbons are reserved exclusively to the State and the joint ventures. However the State must have a 50.0% share in those joint ventures and their boards of directors must be appointed by PDVSA.

At the moment there are 43 joint ventures, which are under the obligation to sell their entire production to PDVSA, except for Petrocedeño, Petromonagas, Petropiar, and Petroanzoátegui, which have total control over the sale of the oil they obtain, as they have a commercially operating upgrader and, therefore, are able to trade what they produce on the international market.

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#### Joint Ventures in the Orinoco Petroleum Belt

| Company             | Partners                                      |
|---------------------|---|
| Petrocedeño         | Total - Statoil                               |
| Petromonagas        | Rosneft                                       |
| Petropiar           | Chevron - Mitsubishi -<br>Inpex - Suelopetrol |
| Petroanzoátegui     | CVP (PDVSA)                                   |
| Petromiranda        | Consortio Ruso                                |
| Petrocarabobo       | Repsol - ONGC - Indoil                        |
| Petroindependencia  | Chevron - Mitsubishi -<br>Inpex - Suelopetrol |
| Petromacareo        | Petrovietnam                                  |
| Petrojunín          | ENI   |
| Petrovictoria       | Rosneft                                       |
| Petrourica          | CNPC  |
| Petrolera Sinovensa | CNPC  |

Source: PDVSA and Ecoanalítica

Today, PDVSA has a growing debt with the joint ventures for payment of their production, which has led them to post sizeable losses. This situation has forced them to cut back operations and seriously consider stopping them altogether. Meanwhile PDVSA is posting negative balances on its operations. A forecast of PDVSA's cash flow deficit for 2015 could be between US\$12.0 billion and US\$20.0 billion depending on the price of oil and the exchange rate used to estimate it.

The trend is for production not to increase and an ever larger slice of crude sales is being earmarked for honoring liabilities with China, although shipments under the Petrocaribe agreement have been reduced. The implication is that PDVSA will probably have to cut investment in real terms at a time when it is most needed, thanks to mistaken policies and vitiated institutions.

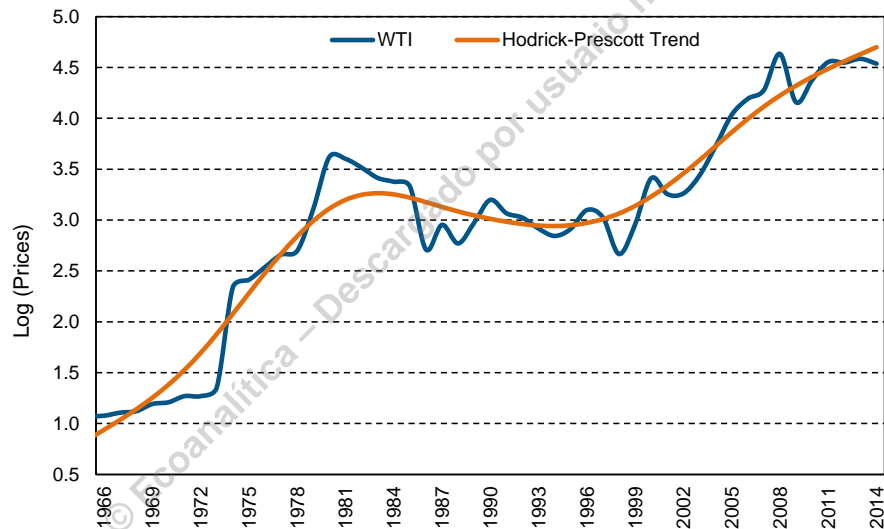
The outlook gets blacker when we take a look outside our borders and see how, despite the adverse scenario, neighboring economies are much better covered and less exposed to the risk posed by the oil market as such, making it apparent that the price of inaction on the oil front is even higher. Once again, Venezuela is at the back of the pack when it comes to performance in the area of energy.

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### It's not the fact that you fell, it's how you pick yourself up

The adverse price scenario has forced different economies to make adjustments in terms of reserves, public spending and even subsidies on certain hydrocarbons in the interests of being more efficient in terms of resource allocation. How big an adjustment varies from one country to the next, however, depending on the action taken on the basis of the price boom<sup>1</sup> enjoyed by the oil sector in recent years, thanks to a huge increase in the demand for energy driven by the constant growth of a number of emerging markets.

#### West Texas Intermediate (WTI) Historical Behavior



Source: MENPET, EIA and Ecoanalítica

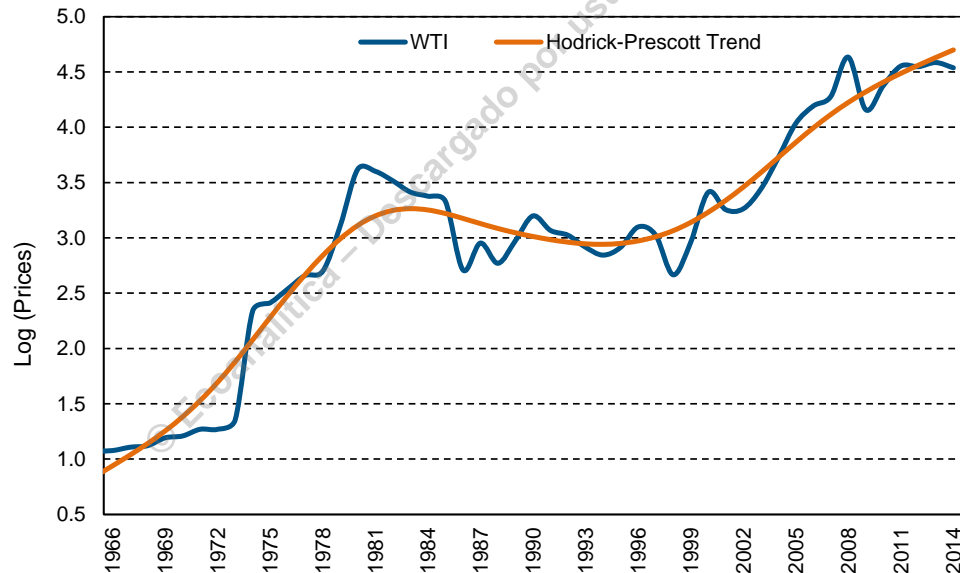
Latin America maintains its leading role in the international markets, as it is one of the world's main suppliers of raw materials, which means that the widespread drop in commodity prices has forced it to do some soul searching in terms of its regional energy policy. However, these new circumstances facing the region marked by unstable and highly volatile prices is being received differently by the countries in the region, some of which are in a better position than others as they were capable of understanding the cycle of high prices and adapting to it, while others, such as Venezuela, got left behind.

<sup>1</sup> For the upcoming charts, we worked the series using logarithms in order to reduce de volatility and applying the Hodrick-Prescott filter, in order to diminish the short term market fluctuations to develop de series long term trend

### What sets us apart?

Economic theory tells us that, when there is an upswing in prices, commodity producing countries (including oil) that are sufficiently small to be price takers<sup>2</sup> and that do not have significant investment barriers and are operating in a competitive market scheme, should react positively to that market signal. As a result, we find that there is an increase in the level of investment in the sector and also in total production. However, in practice we observe different behaviors, even within the region, where a group of countries led by Brazil (i.e. Colombia and Peru), responded positively to market movements, whereas countries such as Mexico, Venezuela, Ecuador and even Argentina got left behind.

### West Texas Intermediate (WTI) Historical Behavior



Source: MENPET, EIA and Ecoanalítica

Balza and Espinasa (2014)<sup>3</sup> justify this heterogeneous behavior on the part of the institutional structures maintained by the different countries, which are defined by Douglas North (1994)<sup>4</sup> as a set of formal constraints (laws, rules and constitutions)

<sup>2</sup> Economic theory defines a “price taker” as someone whose actions in the market are not sufficiently relevant to change that market’s course to a specific direction.

<sup>3</sup> Balza y Espinasa (2014) *Oil Sector Performance and Institutions: The case of Latin America*.

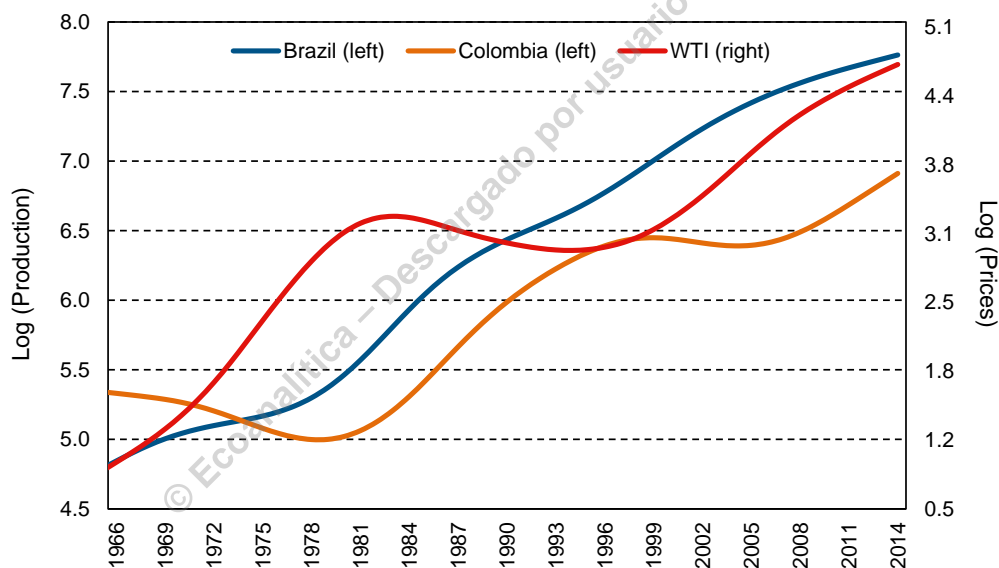
<sup>4</sup> North, Douglass C. (1994), ‘*Economic Performance Through Time*’

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and informal constraints (social conventions, codes of conduct, and so on) devised by human beings to regulate human interaction.

Taking the figures, we can break down the region into two sets of countries whose behavior was diametrically opposed during the oil boom. In first place we have Brazil and Colombia, whose behavior in terms of investment and production has been all but perfect, going from aggregate production of 299,000 barrels a day (kb/d) in 1965 to nearly 3.4 million barrels a day (mb/d) in 2014, taking full advantage of the boom experienced by commodities, in particular oil, over that period.

### Colombia and Brazil Production Performance



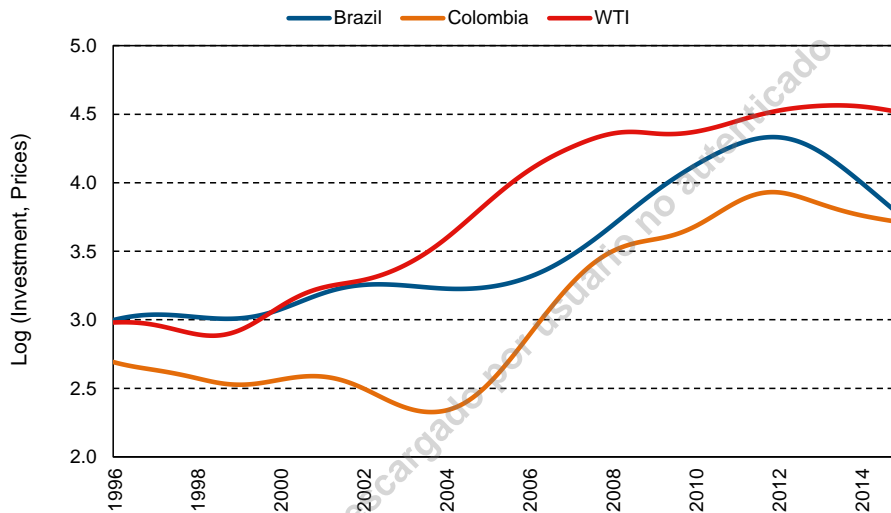
Source: EIA, MENPET and Ecoanalítica

Brazil experienced an increase in its total crude output in the order of 84.5% between the year 2000 and 2014, whereas Colombia posted an increase of nearly 46.1%; in addition there was a significant increase in investment, whose fundamental proxy measurement is the number of drill rigs in operation<sup>5</sup> within a country's borders. This is an area where both countries posted a remarkable performance, going from 26 drill rigs in operation at the start of 2003 to 50 active drill rigs at the start of 2014 in the case of Brazil, whereas Colombia posted an

<sup>5</sup> For the purposes of this report, drill rigs in operation are only those used in the oil sector. Account is not taken here of the performance of the gas sector.

increase of 333.3%, going from having only 9 drill rigs in operation to 39 active drill rigs over the same period.

**Investment performance in Colombia and Brazil**

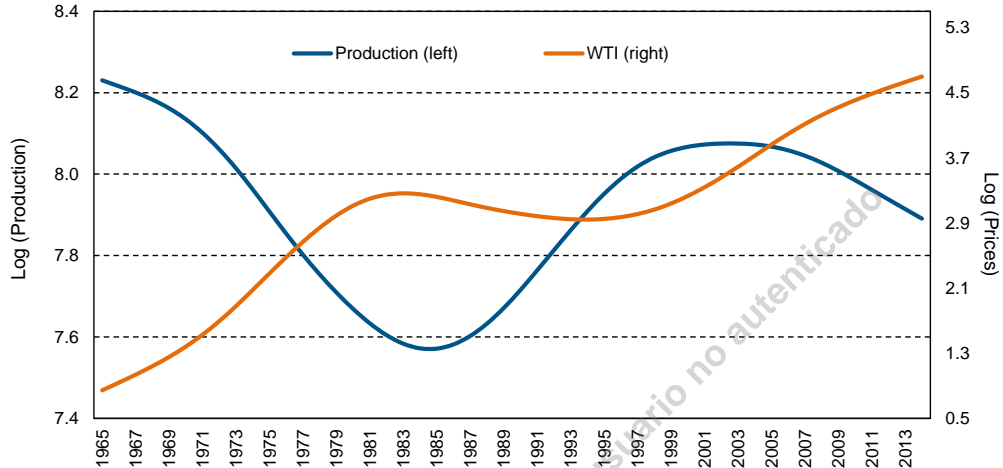


Source: Baker Hughes and Ecoanalítica

In terms of performance we have a second group, represented by Venezuela and Argentina, which posted a remarkably poor performance during the boom years as they did not implement the necessary adjustments that would have allowed them to make the most of a time of high prices, which, it seems, will not come again, at least in the near term.

Argentina, despite being mainly a gas producer, maintained its level of production relatively constant during the first few years, marked by high crude prices, only to experience a drop later of nearly 208.5 kb/d (24.8%), going from 837.6 kb/d to 629.07 kb/d between 2006 and 2014; whereas in the case of Venezuela, we find a drop of 635.0 kb/d (20.4%) between the year 2000, when it produced 3.1 mb/d, and 2014, when production came to only 2.46 mb/d.

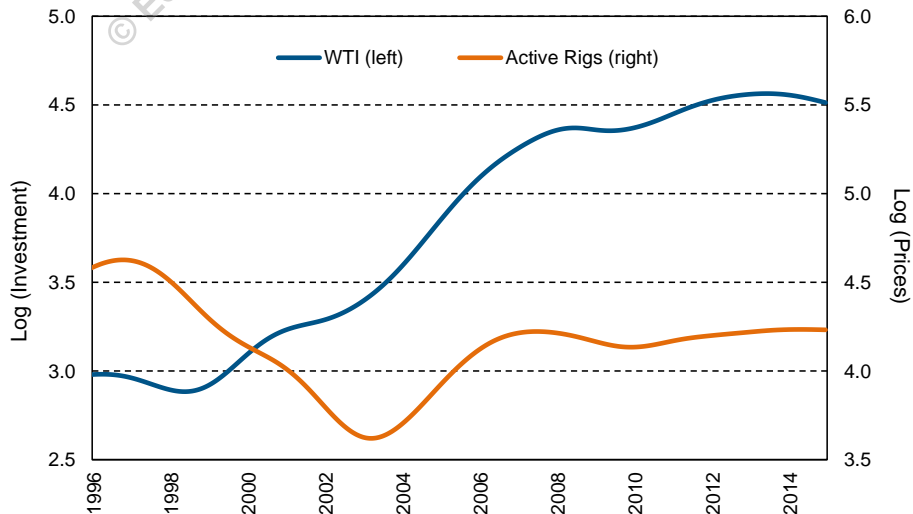
**Venezuela's Production Performance**



Source: EIA, OPEC, MENPET and Ecoanalítica

Regarding to investment, Venezuela presented less significant variations in the number of drill rigs in operation of roughly between 50 and 70 active drill rigs in recent years. On the other hand, the Argentinean economy has posted a significant increase in the number of drill rigs in operation, going from 56 units at the start of 2003 to 98 in August this year, the biggest jump being between 2014 and 2015.

**Venezuela's Investment Performance**



Source: Baker Hughes and Ecoanalítica

### So, what is hampering us?

There are a number of factors and one has to do with the foreign exchange regime. The joint ventures are tied to a preferential exchange rate of VEF 6.3/US\$, which is detrimental to agents that bill mainly in dollars but are faced with three-digit inflation, a situation that increases their costs considerably. Added to that, PDVSA's failure to honor established agreements has a negative impact on the joint ventures operating in the country, as this affects their operations and, therefore, their production stock and their investment.

Centralization of services and macroeconomic instability, as well as the distortions in the market, are factors that have positioned themselves as the cause of the oil sector's inability to adjust to the situation in the world oil market, with the result that Venezuela has fallen behind even within the region.

### Fifteen years sowing inefficiency

Today, Venezuela's oil industry is subject to a set of arbitrary decisions based on an economic policy that gives considerable weight to the social in the interests of implementing a political model that has only generated obstacles for the sector that, at best, spawn inefficiency and, at worst, corruption.

The problem is that the role of the State has been confused with the role of the businessman; a role that the government, in fact, interprets in the worst possible manner. It is vital that matters political stop hampering economic decisions in our country, particularly in the sector that provides the largest inflow of foreign currency.

The winds of change are blowing in Latin America as key moments on the political front draw near. The complications President Dilma Rousseff is facing in Brazil, the final test of *Kirchnerism* in Argentina, and the difficulties in Ecuador, to name just three, could mean a shift in the region's energy policy guidelines and, therefore, in the performance of its economies.

The fundamental difference between Venezuela and the countries that managed to overcome the drop in oil prices is that illogical belief that the State can control everything. It cannot. And Venezuelans are living daily the consequences of having tried to do just that for 15 years.

**Cristina Parilli**  
**Gorka Lalaguna**

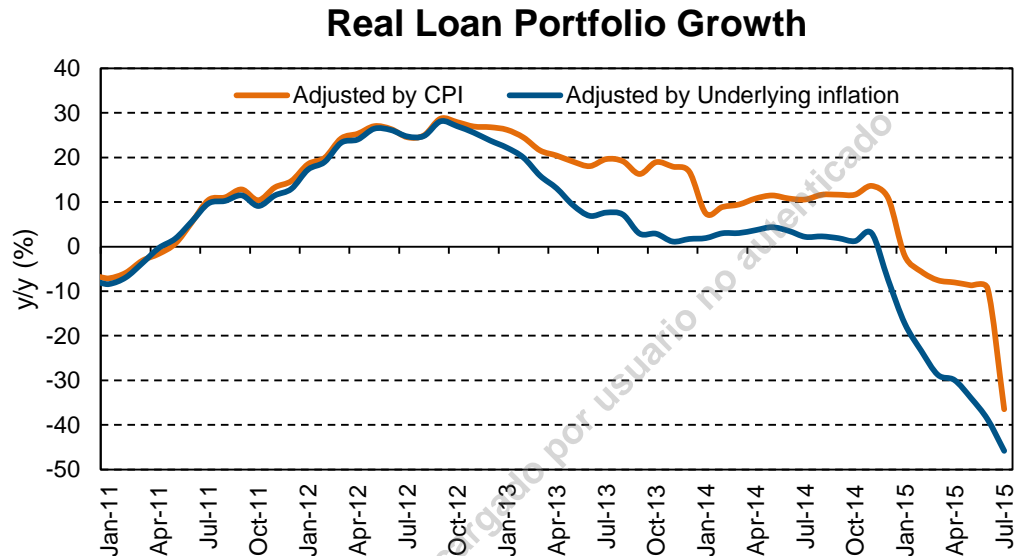
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## WEEKLY INDICATORS

| <b>Weekly Economic Indicators</b>                   |                           |                             |                             |
|---|---------------------------|-----------------------------|-----------------------------|
|   | <b>1st Week September</b> | <b>Weekly var.<br/>(pp)</b> | <b>Annual var.<br/>(pp)</b> |
| <b>Lending interest rate (%)</b>                    | 20.1                      | -0.3                        | 4.1                         |
|   | <b>2nd Week September</b> | <b>Weekly var.<br/>(pp)</b> | <b>Annual var.<br/>(pp)</b> |
| <b>Overnight interest rate (%)</b>                  | 10.9                      | 7.0                         | 2.1                         |
|   | <b>2nd Week September</b> | <b>Weekly var.<br/>(%)</b>  | <b>Annual var.<br/>(%)</b>  |
| <b>International reserves (Bn US\$)</b>             | 16.71                     | -1.8                        | -19.8                       |
|   | <b>2nd Week September</b> | <b>Weekly var.<br/>(%)</b>  | <b>Annual var.<br/>(%)</b>  |
| <b>Central Government spending (VEF Bn)</b>         | 22.0                      | 14.3                        | 66.5                        |
|   | <b>1st Week September</b> | <b>Weekly var.<br/>(%)</b>  | <b>Annual var.<br/>(%)</b>  |
| <b>Monetary liquidity (VEF Bn)</b>                  | 2,971                     | 0.5                         | 93.1                        |
| <b>Price of International Oil Baskets (US\$/bl)</b> |                           |                             |                             |
|   | <b>2nd Week September</b> | <b>Weekly var.<br/>(%)</b>  | <b>Annual var.<br/>(%)</b>  |
| <b>WTI</b>  | 45.6                      | -2.0                        | -50.8                       |
| <b>Brent</b>  | 48.7                      | -4.6                        | -53.1                       |
| <b>Price of the Venezuelan oil basket (US\$/bl)</b> |                           |                             |                             |
|   | <b>2nd Week September</b> | <b>Weekly var.<br/>(%)</b>  | <b>Annual var.<br/>(%)</b>  |
| <b>Weekly average</b>                               | 41.1                      | -3.7                        | -54.5                       |
| <b>Annual average</b>                               | 48.2                      | -0.4                        | -49.8                       |

Source: BCV, MENPET, ONT and Ecoanalítica

WEEKLY CHART: THE RECESSION STRIKES THE BANKING SYSTEM



Source: BCV and Ecoanalítica

On the recent years, the financial and insurance sector had showed a remarkable performance within the wide specter of activities that operate in the Venezuelan economy, despite the increasing numbers of distortions that complicates every day actions of the Venezuelan economic agents. Nevertheless, every party has an end and the fiscal system it is not immune to the economic recession.

One of the key indicators that allow us to evaluate the health status of the banking system is the credit portfolio, which has experienced a constant increase in nominal terms, fact that generated an important growth in the sector in recent years, even in 2015 during the worst economic crisis of the country on the past 25 years. However, when we include the inflation on the analysis the history changes, when we adjust the credit portfolio by the CPI we see a contraction of 24.2% in 2015 and a year-to-year fall of 20.5% between July 2014 and July 2015.

This is just the tip of the iceberg and its direct implication is that we are reaching a point where the bank it is not in capacity of execute the credit loans that the Venezuelan economy needs to operate.

**ECONOMIC TIPS**

**Last as usual.** According to Economic Freedom in the World – Annual Report 2015 published by the Fraser Institute of Canada, Venezuela ranked 157<sup>th</sup> out of the 157 countries included in the study; in other words it came last. This year the economic index averaged 6.8 points (out of a possible 10), whereas Venezuela obtained only 3.2 points. The study also points out that Venezuela's score has been steadily sliding since 1980.

**Yes but no.** The Central Bank of Venezuela called an auction for a VEF 15.0 billion mop-up operation to withdraw liquidity from the financial system. However, the auction did not result in any awards. The auction was intended for universal, commercial, micro-finance, and development banks filed with the Central Bank's general register for securities operations.

**Already eight months into the year and still nothing.** According to Venezuelan law, the Central Bank must publish national statistics with a degree of regularity. In the case of inflation, the figures should be published monthly within the first ten days of the month and, in the case of gross domestic product figures, 45 days following the close of the quarter. In September, it has been eight months since the Central Bank has published any inflation figures and 10 months since it has published the figures for GDP and other variables.

**And it's not only the Central Bank.** The Central Bank is not the only entity that has put off publishing figures. The National Statistics Institute (INE) has not published data for the Normative Food Basket (CAN) for more than a year or any employment figures in 2015. The Ministry for Finance has also fallen behind; it has not published the fiscal balance sheets for either Central Government or the restricted public sector.

**Uncertainty and not knowing.** At **Ecoanalítica** we are of the opinion that the delay in publishing official figures generates uncertainty in the local economy, speculation, and negative expectations. Similarly, when economic agents do not have official information, they may take inefficient decisions, which leads to disorganization in the country's commercial and productive activities.

## OIL TIPS

**It dropped again.** The Venezuelan oil basket closed last week at US\$41/bl., according to the Ministry for Oil and Mining, giving a drop of US\$1.6/bl. compared to the previous week. According to the Ministry, crude prices closed down due mainly to concerns over a slowing down of the Chinese economy and surplus global supply.

**OPEC is hopeful.** In its monthly report, OPEC forecast increased demand for its oil next year and maintained the position that its strategy of letting prices fall will limit supplies from the United States and other rival producers. OPEC expects demand for its crude to average 30.31 million barrels a day (mb/d) next year, up 190,000 barrels a day (kb/d) from the previous month, despite lower growth in overall demand due to weaker outlooks for Latin America and China.

**Less non-OPEC supply.** OPEC forecasts that supply from countries that do not belong to the cartel will increase by 160 kb/d next year, down 110 kb/d from its estimate last month and marking a considerable slowing down in growth for 2015 of 880 kb/d. The 100 kb/d reduction in the forecast for growth in production in the United States to 14.0 mb/d influenced this downward revision.

**Iran forecasts low prices.** In its budget bill for next year, Iran forecasts that average oil prices will be between US\$42.0/bl. and US\$50.0/bl. Iran, which is a member of OPEC and depends on crude sales to balance its budget, has asked other producers to restrict their exports to uphold prices; on the other hand it expects to increase production in 2016 when the sanctions on Teheran's nuclear program are supposed to be lifted.

**Pretty please.** President Maduro announced that one of the proposals he hopes to discuss with Colombia is the installation in Cúcuta of bases for supplying Venezuelan fuel at below international prices. *"If they'll just give us permission, we'll sell good gasoline, the best in the world, right in the heart of Cúcuta. We'll place it there for them at a special, very special price."* The price of gasoline at border service stations is between VEF 50 and VEF 80 a liter, compared to the VEF 0.097 it costs in the rest of the country.

**Ecopetrol says no.** After President Maduro claimed that Colombia had put everything in its laws to legalize fuel smuggling, Colombia's state-owned oil company, Ecopetrol, refuted allegations that there was a scheme in Colombia to

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legalize smuggling. Ecopetrol denied that it was taking part in illegal activities such as fuel smuggling and stressed that it had “a strong system of control for verifying the origin of the products it acquires and the suitability of suppliers.”

**US\$10.93 billion disappears into thin air.** President Maduro maintained that, according to PDVSA’s figures, Venezuela loses US\$10.93 billion a year due to the flight of more than 29.9 million liters of gasoline a day to Colombia. On the same issue, the president of PDVSA, Eulogio Del Pino said that, thanks to the drop in the consumption of gasoline on the Táchira and Zulia borders of 7 million liters a day, the country is making a saving of US\$2.52 billion.

**The figures don’t tally.** While it is true that the reduction in smuggling could result in benefits for PDVSA, at **Ecoanalítica** we do not consider that they are that great. What is more, the company would obtain a bigger benefit by raising the domestic prices of gasoline, as the fuel subsidy came to US\$10.542 in 2014.

**Venezuela proposes, OPEC disposes.** There has been a shift in the global geopolitical game board towards a discussion on whether, at this point in time, the recovery of oil prices is vital for survival. During President Maduro’s high-level tour of Asia, the possibility of establishing a single strategy for getting crude prices to go up to between US\$70/bl. and US\$80/bl. was proposed. However, it will be necessary to wait until the OPEC meeting in October to know what measures the cartel will take.

**Producers unite.** At the ceremony to commemorate the 55th anniversary of the founding of OPEC, President Maduro called an extraordinary meeting of the cartel at which the presidents of all crude producing countries, both OPEC members and non-members, will attend. Maduro said that the time had come for new alliances involving OPEC and non-OPEC countries to be formed.

**They’re continuing with the bands.** President Maduro also said that, given the need to have a mechanism for controlling production, Venezuela was in favor of a floating band system in which increases in production would be scheduled and discipline within the cartel would be maintained. However, this proposal has not found much support among other oil producing countries such as Russia and Saudi Arabia, which are of the opinion that the price will be adjusted by market mechanisms.

**Shale oil under pressure.** The strategy of saturating the market being implemented by Saudi Arabia and its OPEC partners is affecting prices and will have an impact

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on US production in 2016. The Energy Information Administration (EIA) calculates that production from non-OPEC countries will post its biggest drop in 24 years in 2016 and that 80.0% of that reduction will be from US shale oil producers. The EIA, which had previously forecast an upturn in shale oil output in the United States in 2016, now believes that prices will fall below costs for all the main actors of fracking.

**Refined products for blending.** PDVSA bought three more crude shipments from Angola and Nigeria for delivery at Bullenbay Terminal on the Caribbean island of Curacao, according to tanker monitoring information from Thomson Reuters. PDVSA started to buy African crudes in June to use them as diluents for its extra heavy oil. Since then, the state-owned oil company has received nearly 5 million barrels at Bullenbay, where it operates a warehousing and oil blending terminal.

**PDVSA is to appeal.** Last week, a federal court in New York upheld the ruling of an arbitration court that granted the US oil company ConocoPhillips PDVSA's 50% holding in a unit at the Sweeny Refinery in Texas. The unit was originally owned by Merey Sweeny LP, a joint venture between PDVSA and Phillips. When Venezuela failed to supply the crude as agreed, ConocoPhillips announced that it was exercising its right to buy out its unsatisfactory partner. In a communiqué, PDVSA has announced that it will appeal the decision.

## BUSINESS SECTOR TIPS

**On the wrong path.** The president of the Venezuelan Exporters Association (AVEX), Ramón Goyo, maintains that, without a diversified economy that is technologically adapted to modern times and is geared to the long term, it is unlikely that the country's nontraditional exports will recover. Goyo stated, moreover, that it would not be possible to reduce the country's high reliance on oil if the present economic policies continued.

**To cushion the shortages.** A total of 25 containers with powdered milk and 40,000 tons of cement arrived at Puerto Cabello on different ships to be distributed to the Food Mission and the Great Venezuela Housing Mission. The milk will be handed over to *Corporación de Abastecimiento y Servicios Agrícolas* (CASA) and the cement is to be consigned to *Industria Venezolana de Cemento*.

**Christmas season tourism at risk.** The president of Nueva Esparta Fedecámaras, Andrés Rodríguez, said that there are problems with the supply of regulated

products and the transportation of products to the island of Margarita. *“Imports coming in by ship are down; now only two ships a week are arriving, which means that there will be a drastic reduction in the imports needed for the Christmas season,”* claimed Rodríguez.

**Back to classes with shortages.** The Venezuelan Chamber of Educational and Office Materials Industries (CAVEO) hopes that the Foreign Trade Center (Cencoex) will call an auction for the sector in the next few weeks. Luis Scarciolfo, the president of CAVEO, warned that they are facing the breaking point. *“The inventory we have is between 10.0% and 15.0%, which means a crisis the like of which we have not seen in seven years.”*

**Increasing insurance.** In an official communiqué, the Chamber of Insurance Companies of Venezuela (CAV) announced alternative measures that they could apply to their insureds, the main ones being increasing deductibles with a view to reducing the cost of the policies, co-participation of the insurance company and the insured with regard to assuming responsibility for risks in order to reduce the impact on the price of the policy, and frequent revision of the value of the insured asset.

**Shortfalls in the subsidy.** Users of *Productora y Distribuidora Venezolana de Alimentos* (Pdval) report a reduction in special operations' sales owing to the lack of food products. However, that reduction has been evident since 2014. Only 470 of the 2,057 points of sale that Pdval has were active in 2014, according to the Ministry for Food's Report and Accounts. Moreover, anyone wishing to buy at a state-run establishment must present their identity card, taxpayer's number (RIF), and a letter of residence, among other requirements.

## WORLD ECONOMY TIPS

**Interest Rates Unchanged.** After two days of meeting, the Federal Reserve (FED) of the US Decided not to change interest rates, holding the gap between 0.0% and 0.25%. According to the FED, this decision is based on the uncertain of the outlook for global growth, the recent turmoil in financial markets and that the economic indicators did not behave in a “right way”.

**Waiting for the FED.** In early September consumer confidence in the United States fell to its lowest level since September last year. The index fell to 85.7 points, 6.2 points lower than in August (91.9 points). This drop in confidence is due to the fact

that consumers perceive the uncertainty that is being caused by the Federal Reserve's monetary policy decisions.

**Public spending as an engine of growth.** According to China's Finance Ministry, China's fiscal spending grew by 25.9% in August compared to the same month last year. This expansion is the biggest since April, when spending went up by 33.0% year-on-year. The increase in spending is due to the Chinese Government's efforts to stimulate economic growth.

**There'll be spending for a while yet.** In the first eight months of the year, fiscal spending in China rose by 14.8% compared to the same period last year. Similarly, over that same period, there were increases in spending on education (15.8%), health services (19.5%), energy conversion and clean technology (22.7%), and social security and employment (21.7%).

**Improving tax receipts.** Tax receipts in China went up by 6.2% in August compared to August last year and by 7.4% if the first eight months of the year are compared to the same period in 2014. These additional tax receipts are expected to be used to finance the expansion in public spending that there has been so far this year.

**Not all the figures are bad.** According to the National Bureau of Statistics of China, industrial production in China grew by 6.1% in August compared to the same month in 2014. The Bureau also reports that retail sales grew by 10.8% year-on-year. This result has been obtained in a scenario where China's growth is slowing down, the stock markets are unstable, and growth expectations are in negative terrain.

**Opening the doors to the international market.** The People's Bank of China is to allow the central banks of other countries to conduct forward, option and spot operations in its interbank foreign-exchange market. Moreover, China sold a net CNY 723.8 billion (US\$113.69 billion) in foreign currency in August, the largest amount ever recorded.

**China as the main factor.** In its monthly report, the European Central Bank (ECB) states that a weaker aggregate demand in China is causing an extraordinary drop in the prices of metals and raw materials and that, if there is an increase in those prices, it will only occur gradually. The report also explains that this is one of the factors that have caused a slowing down in the growth of the emerging economies.

**Positive indicators.** Eurostat, the European Union's statistics office, reports that industrial production in the 19 countries that share the euro went up by 0.6% month-

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on-month in August. According to Eurostat, this increase is due to an increase in the output of energy, equipment, and durable consumer goods. It also revised its data for June upward to monthly growth of 0.3%.

**When the emerging economies teeter.** The Bank of Japan (BOJ) has kept its monetary policy unchanged, although it warns that Japan's exports and production are feeling the impact of the slowing down of demand in emerging markets. For that reason the BOJ has reiterated its promise to increase the monetary base at a rate of YEN 80.0 billion (US\$664.0 billion) a year through purchases of sovereign bonds and risk assets.

**Those who behave badly...** The risk rating agency Standard & Poor's downgraded the rating of Brazil's sovereign debt from investment grade to speculative grade (BB+ to BBB-), due mainly to the poor performance of Brazil's economy in recent months and negative expectations. Brazil obtained the investment rating for the first time in 2008 and S&P's downgrade is a huge setback for the country.

**Necessary adjustments.** In view of the downgrade by S&P, the Government of Brazil has announced cuts in spending and increases in taxes amounting to a total of BRL 65.0 billion (US\$16.82 billion). The biggest item in the plan is the restoration of the financial operations tax known as the Provisional Contribution on Financial Movements (CPMF), which could bring in BRL 32.0 billion (US\$8.28 billion) in tax receipts next year.

**Those are not the only measures.** The Government of Brazil is expected to continue implementing austerity measures in the coming weeks, in particular measures aimed at reducing the fiscal deficit. However, the Brazilian Congress is opposed to these measures. In the opinion of the Legislature, sacrificing public spending in the hope of improving credit rating, even when the bonds are classified as junk bonds by the international market, is not viable.

## POLITICAL TIPS

**Playing with the truth.** The Venezuelan Government has accused the Colombian Government of inventing a report regarding the incursion of Venezuelan military aircraft in Colombian airspace to scuttle a possible meeting between the presidents of these two countries for the purpose of solving the present border crisis. *"We see with concern the systematic tendency of the Colombian Government to invent*

*incidents that do not exist for the purpose of affecting relations,”* stated Foreign Minister Delcy Rodríguez.

**A hot potato.** The Colombian Government stated that the violation of its airspace by Venezuelan military aircraft was verified by its air defense system after Venezuelan Foreign Minister Delcy Rodríguez claimed that the incident was a “fabrication.” Colombian President Juan Manuel Santos ordered Colombia’s Foreign Ministry and Ministry of Defense to submit a “*formal protest to Venezuela.*”

**Among Parces.** President of the Republic, Nicolas Maduro, confirmed that the meeting with his Colombian counterpart, Juan Manuel Santos, will be on Monday 21<sup>th</sup> September. The President admitted that “*the meeting will not be easy, it will be a complex assembly*”. This will be the third meeting between these two countries since 2013.

**Don’t play into their hands.** The governor of Miranda state, Henrique Capriles, called on the Venezuelan people not to play into the hands of the government, as, in his opinion, all it seeks to do is to distract people’s attention from the real problems the country is experiencing. “*We see some members of the government who are bent on waging an artificial war with our Colombian brothers. Let no one get distracted by the government’s dirty campaigns. We can’t play into their hands,*” said Capriles.

**Plan B’s ready.** The coordinator of Leopoldo López’ defense team, Juan Carlos Gutiérrez, has given assurances that, even though the ruling sentencing López to nearly 14 years in prison has not been published, the defense has already made considerable progress on the appeal it is going to file. Gutiérrez announced that “*we are going to appeal as soon as possible,* and for that reason he requested a copy of the trial document, which has more than 1,300 pages, from Susana Barreiros, the judge who heard the case, in order to prepare the appeal against what he branded as an “anti-trial.”

**NGOs express their dissatisfaction.** Some 20 Venezuelan nongovernmental organizations joined forces and issued a document in which they expressed their disagreement with the sentence given to Leopoldo López. “*The sentencing of López is an example of the gradual closing down of spaces for exercising democratic freedoms,*” they state in the document. They also denounced the violations of due process committed by non-independent judges and public prosecutors.

**Reading between the lines.** Prompted by the recent sentencing of the leader of *Voluntad Popular*, Leopoldo López, and the students Christian Holdack, Ángel González, and Demián Martín, the Venezuelan Penal Forum (FPV) claimed that the Venezuelan judicial system is being used as a weapon of political intolerance. The director of FPV, Gonzalo Himiob, stated that “*for some considerable time, the laws have been used to persecute people who think differently.*”

**And the marches are back.** The Venezuela United Commando, made up of the political parties belonging to the Democratic Unity Alliance, expressed their support for the countrywide demonstrations called by Leopoldo López after his sentence of nearly 14 years in prison was made known. According to the secretary general of the Unity Alliance, Jesús Torrealba, López’ proposal would be “*the startup of the Unity’s social campaign*” in the run-up to the December 6 parliamentary elections.

**Evading accusations.** The NGO *Transparencia Venezuela* claims that the National Electoral Council (CNE) has not wanted to receive the complaints having to do with electoral abuses that it has sent on different occasions to the CNE’s Citizen Service Office. Despite the fact that *Transparencia Venezuela* has submitted complaints with regard to the use of election propaganda in government offices and the use of public resources for the purposes of election propaganda, it has received no response.

**Seeing is believing.** The mayor of Libertador Municipality and former president of the CNE, Jorge Rodríguez, rejected rumors of an alleged suspension of the parliamentary elections. “*Come rain or shine there will be elections. We are eagerly awaiting the elections to get the opposition to pay for the offenses against the nation,*” insisted Rodríguez.

**On the black list.** The United States Government has pointed the finger once again at Venezuela and Bolivia, along with Myanmar, as the countries that, in the past 12 months, have not honored their commitments to fight the production and trafficking of drugs under international antinarcotic agreements. The President of the United States, Barack Obama, sent a notification to Congress regarding nations that produce or allow the transit of illegal drugs, among them Venezuela.

## LEGISLATIVE TIPS

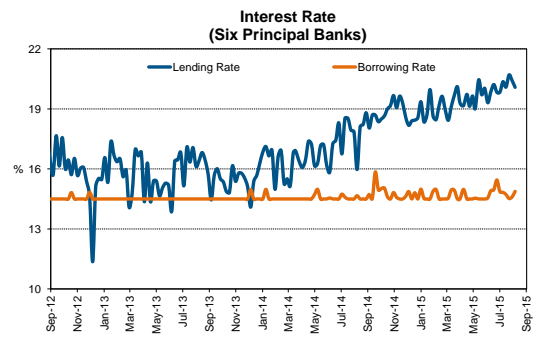
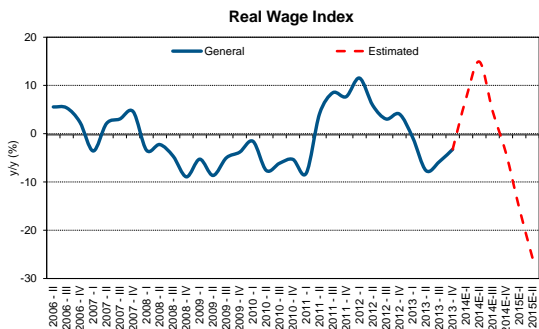
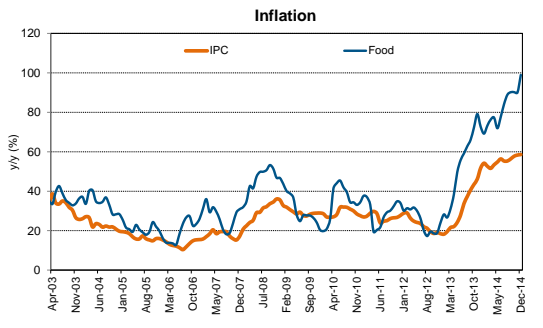
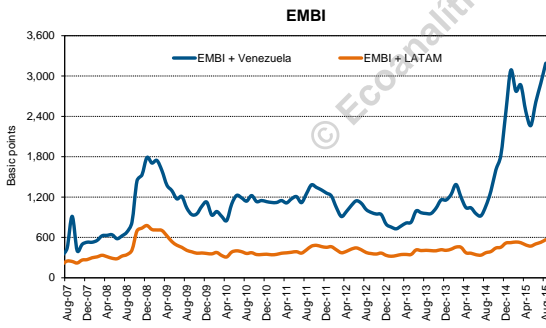
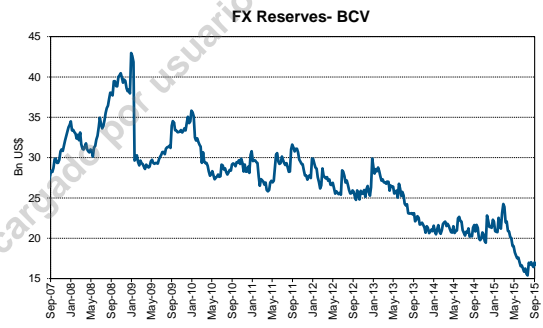
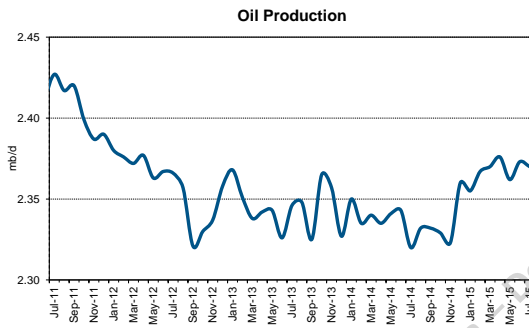
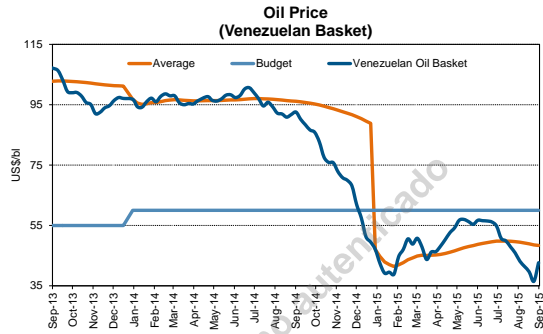
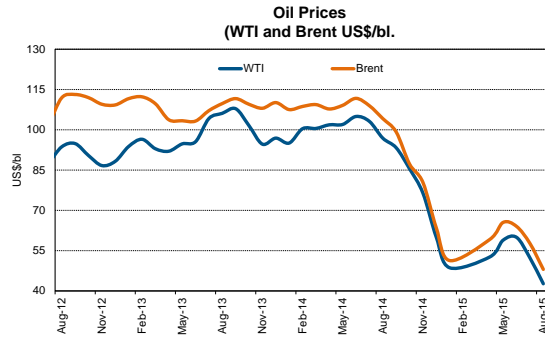
**National Assembly commences its last session.** The deputies of the National Assembly returned to the benches to resume their parliamentary activities until December 15, this being the second session and the last of the period 2010-2015. During the first session of the year, the National Assembly sanctioned two laws (the Special Powers Act for President Maduro and the Firemen's Act), even fewer than the five passed in 2014 and the 12 laws passed in 2013.

**Now the border has a minister.** Gerardo José Izquierdo Torres was appointed as Minister of State for the New Border of Peace by Decree No. 2,011 published in *Gaceta Oficial* No. 40,744. The new minister, who has acted as Commander General of the General Command of the Bolivarian Army, will also be in charge of the Executive Secretariat of the Commission for Border Affairs.

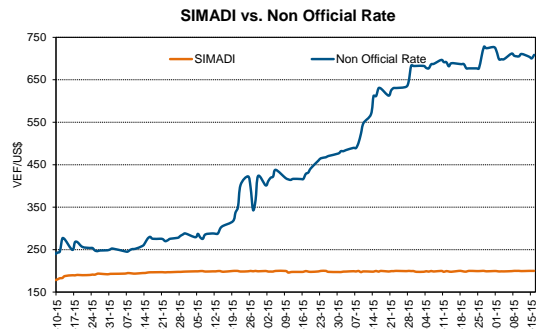
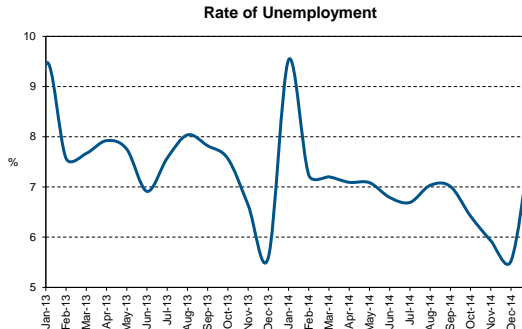
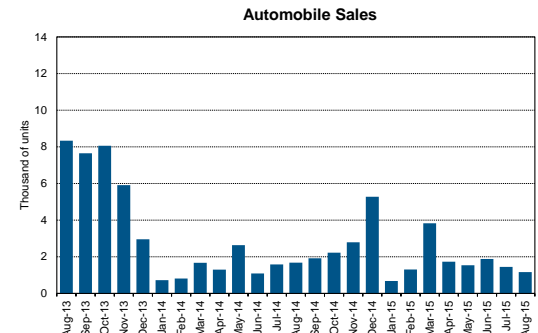
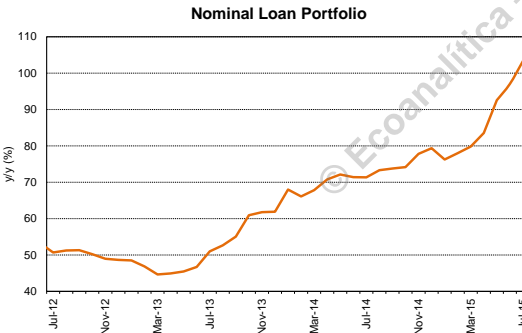
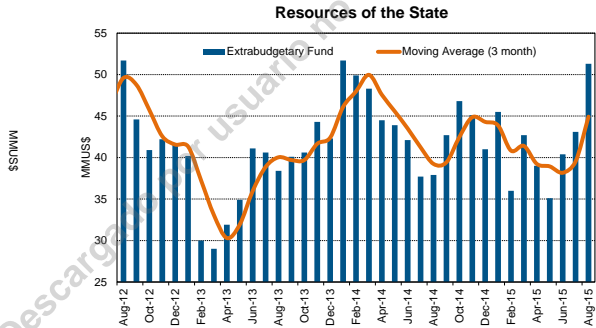
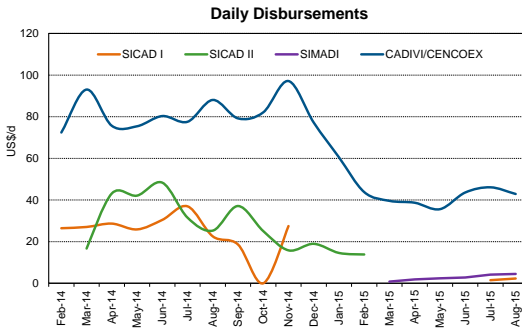
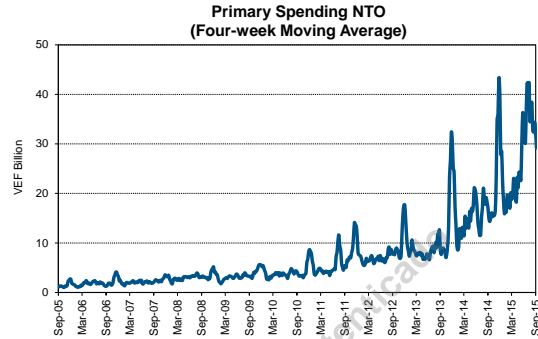
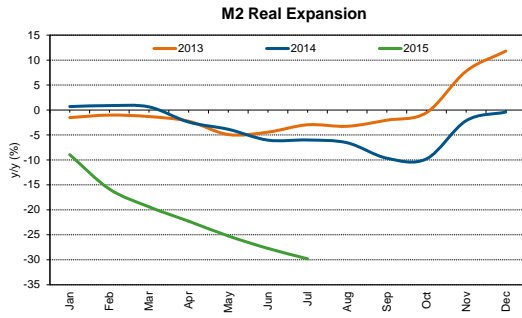
**A new superintendent.** Pedro Aníbal Pinto Chávez was appointed as Vice Minister for Finance and the Public Sector Budget at the Ministry of the Economy and Finance by Presidential Decree No. 1,990, published in *Gaceta Oficial* No. 40,741, dated September 8, 2015. He was subsequently appointed as the new National Securities Superintendent by Decree No. 1,991.

**Importing crime.** At a special meeting of the National Assembly's Delegated Committee held at Zulia State Legislature, approval was given for extending the decree that called a state of emergency to Mara, Guajira, and Almirante Padilla municipalities. The president of the National Assembly, Diosdado Cabello, who headed the delegation, said that "*it is a feeling of the population (of Táchira), as it is also a feeling of Zulia state that was calling on the Executive to take action with regard to smuggling, to paramilitarism, to 'bachaqueo' (scalping).*"

**ECONOMIC OVERVIEW**



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## ECOANALÍTICA'S TEAM

**Asdrúbal Oliveros** / Director

asdrubalo@ecoanalitica.net / @aroliveros

**Pedro Palma** / Director

pedrop@ecoanalitica.net / @palmapedroa

**Cristina Rodríguez** / Director

cristinar@ecoanalitica.net

**Carlos Miguel Álvarez** / Senior Economist

carlosa@ecoanalitica.net / @alv\_car

**Gabriel Villamizar** / Economist

gabrielv@ecoanalitica.net / @gabvillamizar

**Lesner Castillo** / Economist

lesnerc@ecoanalitica.net / @lesnerck

**Cristina Parilli** / Economist

cristinap@ecoanalitica.net / @cristinaparilli

## RESEARCH ASSISTANTS

Pilar Navarro

Daniel Cárdenas

Gorka Lalaguna

## CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Colombia: (+57-1-508 6554)

Ventas@ecoanalitica.net

[www.ecoanalitica.com](http://www.ecoanalitica.com)

@ecoanalitica