

One exchange rate for everyone: how much does a dollar cost in Venezuela?

The multiplicity of exchange rates currently coexisting in the economy is one of the main economic policy errors that should be corrected in the short term by those who are at the country's helm. The existence of four exchange rates¹ (Cencorex, SICAD I, SICAD II, and the parallel rate) dilutes the few benefits that might be obtained from maintaining a fixed exchange rate, due to the fact that, given the scant fluidity in the allocation and disbursement of foreign currency, businessmen are opting for estimating their replacement costs at the parallel exchange rate, a market that, even though it does not represent more than 8.0% of the volume of foreign currency traded for imports, is the most liquid.

Another problem that occurs as a result of having different exchange rates is the appearance of opportunities for arbitrage² by creating incentives for purchasing foreign currency via legal channels and selling it via channels that are not so legal, so generating a demand for dollars that is not due to the need to import goods or to provide coverage against inflation, but seeks immediate economic benefits.

The problem with unifying the exchange rates, setting aside the social and political costs and the economic benefits for the moment, is that this has always been the selection of an exchange rate that is "convenient" for the aggregate of agents operating in the Venezuelan economy. In this report, we aim to reach a consensus regarding what that exchange rate would be.

A competitive exchange rate

A first approximation to an estimation of a convenient exchange rate is usually the real exchange rate (RER), an indispensable indicator when evaluating the

¹ Generally speaking, setting the exchange rate is used as a measure to "anchor" the prices of imported goods or keep them stable.

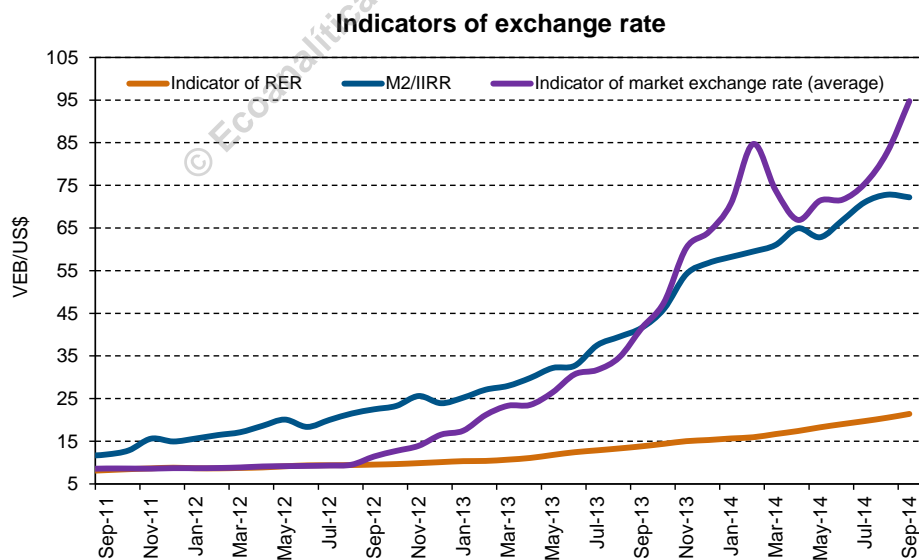
² Arbitrage occurs when an asset is acquired in one market and sold in another to obtain a profit owing to the difference in prices between the two.

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competitiveness of domestic industry, both with regard to its external competitors and as an indicator of how the non-tradable sector (services) is performing.

The RER is a measurement that allows us to verify how the prices in the economy are behaving compared to external prices, which gives us some idea of how competitive our exports are. An appreciated RER (below its equilibrium value) means that each bolivar can buy more goods and services abroad than inside our economy, which causes a loss of competitiveness for our exports and acts as an incentive to imports. When the RER is depreciated (above its equilibrium value), on the other hand, goods produced in the local economy are cheaper than goods abroad and, therefore, our exports become more competitive.

At **Ecoanalítica** we estimate that the Venezuelan economy's equilibrium RER is currently in the region of VEB 21.4/US\$, which implies that the Cencorex exchange rate (VEB 6.3/US\$) and the exchange rate resulting from the SICAD auctions (VEB 12.0/US\$ this week) are overvalued –in other words they are making domestic industry less competitive-, whereas the SICAD II exchange rate (VEB 50.0/US\$) and the parallel exchange rate (which last week passed the VEB 100.0/US\$ mark) are undervalued, so making exports more competitive and imports much more expensive.



Sources: BCV and Ecoanalítica

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Taking into account the medium-term inflation and exchange rate targets of our five main trading partners and inflation of 96.1% in domestic consumer prices, we estimate that the RER will average VEB 36.5/US\$ in 2015, for a variation of 85.3%.

Without affecting production costs

Another criterion that can be used is to consider the exchange rate that companies that import goods and inputs in order to operate have to deal with, so as to set a single exchange rate that, on average, does not affect production costs. At **Ecoanalítica** we estimate that, this year, 68.5% of imports will be covered via Cencorex and public sector imports (at the VEB 6.3/US\$ exchange rate), 9.4% and 14.1% at the SICAD I and SICAD II rates (estimated at VEB 11.1/US\$ and VEB 50/US\$), and the remaining 8.0% will be paid for at an exchange rate of VEB 79.0/US\$ (parallel market). Based on these premises, the weighted exchange rate for the economy would be VEB 18.7/US\$ this year. If public sector imports are not taken into account, then the weighted exchange rate would be VEB 27.2/US\$.

Weighted exchange rate	2012		2013E		2014F		2015F	
Public	4.3	39.9%	6.3	48.6%	6.3	45.0%	15.0	48.0%
SITME	5.3	7.9%	5.3	0.7%				
SICAD	-		11.1	2.8%	11.1	9.4%		
SICAD II					50.0	14.1%	50.0	15.0%
CADIVI (CENCOEX)	4.3	46.7%	6.3	42.4%	79.0	23.5%	15.0	25.0%
Not official	10.6	5.5%	35.7	5.5%	6.3	8.0%	110.0	12.0%
Weighted exchange rate (M)	4.7		8.0		18.7		31.7	
Variation	2.1%		70.3%		132.9%		68.8%	
Devaluation	2.1%		41.3%		57.1%		40.8%	

Sources: BCV, CADIVI and Ecoanalítica

We are of the opinion that the Executive is going to establish a dual exchange rate scheme in 2015, eliminating the VEB 6.3/US\$ rate and staying only with the SICAD I and SICAD II rates. The SICAD I rate could slide to VEB 15.0/US\$ and be used as the reference rate for disbursing foreign currency via Cencorex, public sector imports, and the SICAD I auctions; and the SICAD II rate could remain stable at around VEB 50.0/US\$.

Based on these premises, the economy's weighted exchange rate in 2015 would be VEB 31.7/US\$, which would give a variation of 68.8% and a devaluation of 40.8%. In the case of the private sector, the weighted exchange rate would be VEB 47.0/US\$, giving an adjustment of 73.1% (with a devaluation of 42.2%).

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And without adversely affecting consumers

Besides taking the area of production into account, consideration also needs to be given to demand. At **Ecoanalítica** we have undertaken the task of calculating a weighted exchange rate that reflects the cost in dollars of the goods consumed by the average Venezuelan. To do that, we have taken into account how companies that produce goods and services included in the 13 groups making up the Nationwide Consumer Price Index (NCPI)³ finance their operations, in other words, how many dollars they obtain through the National Foreign Trade Center (Cencoex), the Complementary Foreign Currency Administration System (SICAD) I, the SICAD II, and the parallel market in order to determine the weighted exchange rate by group of products.

The second step is to consider the estimated exchange rates and the weight of each group of products in the NCPI basket so as to be able to calculate the exchange rate that the Venezuelan consumer has to deal with.

At **Ecoanalítica** we estimate that, in 2014, the Venezuelan consumer will face an exchange rate of nearly VEB 26.7/US\$ as a result mainly of an exchange rate of VEB 14.7/US\$ for food and nonalcoholic beverages, an exchange rate of VEB 33.7/US\$ for clothing and footwear, and an exchange rate of VEB 10.2/US\$ for transport services. As for next year, we expect the exchange rate for Venezuelan consumers to be around VEB 39.3/US\$ due to the expected changes in official allocations of foreign currency with groups of goods considered to have priority status (food and medicines to name just two) being transferred from the VEB 6.3/US\$ exchange rate to an exchange rate between VEB 15.0/US\$ and VEB 50.0/US\$ depending on the way they distribute between Cencoex or Sicad II.

³ The NCPI is made up of the following groups of products and services: food and nonalcoholic beverages, alcoholic beverages and tobacco, clothing and footwear, housing rental, housing services, household equipment and maintenance, health, transport, communications, education services, restaurants and hotels, and miscellaneous goods and services.

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Weighted Exchange Rate of the Venezuelan Consumer

	2013	2014	2015	y/y (%)
Food and nonalcoholic beverages	12.2	14.7	24.0	90.3
Alcohol and snuff	35.7	80.0	105.0	75.0
Clothing and footwear	32.8	33.7	38.0	28.8
Rent	9.2	13.7	24.0	105.7
Housing services (except telephone)	7.8	10.2	19.5	111.5
Household equipment	29.8	44.7	60.0	73.6
Health	10.7	17.4	28.5	98.5
Transportation	7.8	10.2	19.5	111.5
Communications	19.5	29.9	42.0	76.3
Recreation and culture	26.9	57.9	78.0	77.7
Education services	9.2	13.7	24.0	105.7
Restaurants and hotels	35.7	76.6	100.5	74.6
Micellaneous goods and services	8.1	15.3	39.0	155.1
Total	17.0	26.7	39.3	81.4

Sources: BCV and Ecoanalítica

Guaranteeing equilibrium in other markets

Last of all, setting a new exchange rate should consider the effects that the foreign exchange policy will have on the State's revenues and expenditures and on monetary front.

At **Ecoanalítica** we have performed the exercise of estimating the exchange rate that would have to be set in order for PDVSA to no longer need the monetary financing it currently receives from the Central Bank. If account is taken of the fact that, for every bolivar in devaluation, the government generates additional resources in the region of 1.1% of GDP and that PDVSA's financing requirements come to 10.9 percentage points of GDP, the equilibrium exchange rate in order to be able to eliminate monetary financing would currently be VEB 19.5/US\$, and around VEB 32.0/US\$ next year. This rate would be even higher if you want the state oil firm to amortize any portion of VEB 408.3 billion owed to the issuer for the end of 2013.

An important first step

At the end of the day, taking into account factors such as the industry's competitiveness, the implicit import costs facing companies and consumers, and the

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State's financing needs, at **Ecoanalítica** we consider that the government should unify the exchange rate at between VEB 26.7/US\$ and VEB 32.0/US\$, thus eliminating arbitrage opportunities, reducing the need for monetary financing and, therefore, for injecting liquidity into the economy with its attendant inflationary pressures, and without affecting consumers and suppliers in the economy as a whole.

In Ecoanalítica we are of the opinion that the Government should also legalize the parallel currency market this as a pre-exchange unification and removal of exchange controls that measure being implemented since 2003.

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ECONOMIC TIPS

The reserves fall. According to information published by the Central Bank, the international reserves closed at US\$20.02 billion at the start of October, for a drop of US\$1.79 billion compared to the previous week, when they closed at US\$21.8 billion. All this could be due to the foreign currency liabilities the government had to meet on account of the debt acquired via the Venezuela 2014 bond.

A worrying situation. Barclays Capital has said that the use of international reserves to pay the Venezuela 2014 bond is something that should give cause for some concern, mainly because, in the past, the treasury was in the habit of gradually accumulating resources outside the international reserves in order to pay bonds. Evidently, that does not seem to be happening now, which clearly reveals the government's lack of liquidity in foreign currency.

Change of plans. It is evident that there has been a change in the government's indebtedness policy in 2014 as revealed by the fact that, after several years of using up the entire borrowing allowance, so far in 2014, it has used only 34.6% of the total borrowing allowance provided for in the budget for the current fiscal year. In line with the changes in the cabinet, the Ministry for the Economy, Finance and Public Sector Banks put a hold on the placement of national public debt bonds, as a result of which the National Public Credit Office has only issued treasury bills.

The IMF gives its opinion. In its World Economic Outlook report, the International Monetary Fund (IMF) gave its estimates regarding the future of the Venezuelan economy, indicating that it is expected to experience a 3.0% contraction in its GDP in 2014. The IMF specified that the severe policy distortions continue to contract production, resulting in a strong drop in activity and in inflation that exceeds 60.0% and that those same imbalances have generated shortages and collapse of growth, as a result of which Venezuela will continue to obtain red figures in 2015 with a contraction of 1.0%.

A small extension. The first phase of the Single Register of Persons Engaging in Socioeconomic Activities (RUPDAE), which was aimed at gathering information on the individuals and companies to whom the Fair Prices Act applies, has already been completed. However, an announcement

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by National Fair Prices Superintendent Andrés Eloy Méndez indicated that there would be an extension of 30 business days. The information that has to be filed with this new register includes the Fiscal Information Registry number (RIF), the email registered with the National Integrated Customs and Tax Administration Service (Seniat), details of the company's shares, incorporation papers, status of the company, industrial classification, fiscal address, type of company, establishments, legal representative and list of suppliers.

Don't forget. Superintendent Andrés Eloy Méndez reminded people that registering with RUPDAE is compulsory for anyone engaged in economic activities, both individuals and companies. *"This will allow us to have a complete register of individuals and companies engaged in economic activities, and it's compulsory. Anyone who is not registered will be fined. During a second phase, the cost structures will be entered. This will allow us to have a single guide system in order to be able to exercise better supervision,"* added Méndez.

A "small" fine. Superintendent Andrés Eloy Méndez said that everyone who does not register with RUPDAE will be fined for contempt. The fines are between 1,000 and 20,000 tax units.

Nearly a trillion. The coordinator of the National Assembly's Public Finance Subcommittee, Ramón Lobo, said that, to date, 214 supplementary appropriations had been approved for a total of VEB 402.56 billion. But, if we take the national budget approved for 2014 of VEB 552.63 billion and add the sum total of supplementary appropriations, we find that the national budget for this year comes to nearly VEB 1 trillion.

152 punished. Cencoex has published another list, this time of the 17 companies that failed to turn up last week in response to the summons to have their use of foreign currency disbursed by the authorities checked. This brings the number of companies sanctioned by Cencoex for having committed offenses to 152 out of a total of 764 that have been summoned for checking by the agency. The sanctions applied to these companies are their withdrawal from the Foreign Currency Administration System Users Register (RUSAD), which prevents them from applying for dollars via Cencoex, and a ban on them taking part in the SICAD I auctions.

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US\$9 million in remittances. According to information supplied by different foreign exchange houses, it is estimated that Venezuelans resident abroad could send up to US\$9 million to Venezuela if the exchange rate were more attractive, a situation that could have positive repercussions for the country's economy. However, this is not possible at the moment due to the current foreign exchange situation.

Interest rates. The lending rate for the fourth week of September was at 18.8%, up by 0.6 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate was at 14.1%, without variations compared to the last week.

International reserves. International reserves went up by 3.4%, going from US\$20.83 billion during the second week of September to US\$21.54 billion during the third week of September. Compared to the same period last year, international reserves have decreased by 3.5%.

Central government expenditure. On October 3rd according to figures from the NTO primary spending was VEB 9.88 billion, which means a decrease of 64.8%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 622.20 billion 72.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 0.9% in the fourth week of September from the week prior, to settle at VEB 1.6 trillion. The M2 has increased 64.1% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
9-30-2014	36.1	35.4	98.1	0.7	1.9
10-1-2014	35.0	33.8	96.6	1.2	3.4
10-2-2014	40.3	36.9	91.6	3.4	8.4
10-3-2014	41.8	39.9	95.5	1.9	4.5

Source: Ecoanalítica

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OIL TIPS

And it continues to fall. The average price of the Venezuelan oil barrel fell for the fourth week in a row to US\$85.8/bbl., its lowest price since February 2011 and down US\$0.8/bbl. from the US\$86.7/bbl. posted last week. Affected mainly by the slowing down of the world economy and abundant supplies of crude in the market, the price of Venezuelan crude has fallen way below its customary levels of US\$90/bbl. and is even further from its 2013 average of US\$101.2/bbl.

OPEC isn't worried. The Organization of Oil Exporting Countries (OPEC) does not have plans to hold an emergency meeting to discuss the recent drop in crude prices, according to Iran's Minister Bijan Zanganey. According to the news agency Mehr, the minister said, "*For the moment, there is no plan for an OPEC emergency meeting.*" The OPEC oil ministers are to meet on November 27 in Vienna to assess the possibility of adjusting the cartel's production target of 30 million barrels a day (mb/d) early in 2015.

Shipments to Citgo down. According to Reuters Trade Flows, shipments of diluted crude oil (DCO) from Venezuela to Citgo's refineries in the United States fell by 57.0% in September to 2.13 mb/d. In September, Lake Charles Refinery in Louisiana and Corpus Christi Refinery in Texas only received four shipments of between 500,000 barrels and 600,000 barrels of Venezuelan DCO each, compared to the seven shipments received in August.

A trend. The drop in DCO shipments to the United States (US) could speed up the decline in oil exports to the US. According the US Department of Energy, in the first half of 2014, Venezuelan exports of crude and products to the United States fell by 3.6% compared to the same period in 2013 to 773,000 barrels a day (b/d).

Fighting against smuggling. On Sunday, October 5, 322 *pipas* (one *pipa* = 200 liters) and 13,640 liters of gasoline were seized in La Guajira under the plan to combat smuggling that is being implemented by the government. The chief of the Bolivarian National Armed Force's Strategic Operations Command (Ceofanb), Vladimir Padrino López, explained that the seizure was made in Los Filúos Sector, located in the town of Paraguaipoa, Guajira Municipality.

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And in Zulia as well. The automated system for supplying local public transport with fuel has been installed at five gasoline stations in Zulia state. This system is for the exclusive use of public transport. As with the system already in operation in parts of Táchira, this one requires the activation of a chip installed in the vehicles that controls fuel consumption. To date, the chip has been installed in more than 163,000 vehicles in Zulia's 21 municipalities. *"We're going to continue automating service stations, because we know how important it is to curb smuggling,"* explained the secretary of Zulia State Government, Billy Gasca.

Brazil's production is up. Brazil's oil and natural gas production increased by 16.1% in August, year-on-year, as the state-owned Petrobras and its partners have started pumping at delayed deepwater platforms. In August, production came to 2.90 mb/d of oil and natural gas, a record compared to the 2.50 mb/d posted in August 2013, according to Brazil's National Oil Agency.

International oil baskets. At closing time on October 3rd in the New York Stock Exchange, the price of the WTI was US\$92.0/bl, down by 0.2% when compared to the reported the previous week. The Brent decreased by 2.2% when compared to the previous week, to reach US\$95.1/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$85.9/bl on Friday October 3rd, decreasing by 0.9% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$95.3/bl.

BUSINESS SECTOR TIPS

New car sales decreased 74.9%. Data released by the Venezuelan Automotive Chamber (Cavenez), sales of new cars down 74.9% in September with respect to the same period in 2013. From January through September, 12,557 correspond to local manufacture and 154 were imported, down 76.8% and up 99.4%, respectively.

Production of new cars decreased 75.0%. According to data released by Cavenez in September the production of new cars decreased 75.0% with regard to the same period in 2013, to 876 units. Therefore, cumulative

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production from January through July 2014 was 7,037 units, a loss of 84.0% with respect to the 43.833 assembled in the same period in 2013.

There's still a chance until November. The Fair Prices Act, which went into force in January this year, applies to all individuals and companies that engage in economic activities in Venezuela. Among the obligations established in the law is registration with the Single Register of Persons Engaging in Socioeconomic Activities (RUPDAE). The original deadline for registering was Friday, October 3, but the National Superintendency for the Defense of Socioeconomic Rights (Sundde) has granted an extension of 30 business days, which takes the deadline for registering to November 14.

Holcim claims payment. The Swiss cement company Holcim said in a communiqué that it had not received the indemnity that Venezuela should have paid it in compensation for the nationalization of one of its factories. *Corporación Socialista del Cemento S.A.*, the company that now administers the factory, did not transfer the final indemnity of US\$97.5 million that should have been paid on September 10, at the latest. In August 2008, the government said that it had agreed to pay US\$267 million for the purchase of 89.0% of the local affiliate of the French company Lafarge and US\$552 million for acquiring 85.0% of Holcim's affiliate. However, given that payment was not made, Holcim filed a complaint with ICSID.

Sugarcane growers hope for new prices. Sugarcane producers are getting ready for the harvest that is to start in a month's time. However, they are hoping that the Executive will announce new prices applicable to this harvest that are in line with the production costs that the sector has submitted to the Ministry for Agriculture and Land. José Ricardo Álvarez, the president of the Federation of Sugarcane Growers Association (Fesoca), said that producers hope to get VEB 17/kg of processed sugar, compared to the VEB 9.5/kg they are getting at present.

No cans for canning. The decline in production at Siderúrgica del Orinoco (SIDOR) has resulted in smaller dispatches of the tin articles industries need for canning, a situation that has raised the possibility of the partial closing down of some plants, warned labor unionists. *"The can tops for beer, malt drinks, juices, and sodas, besides the tops for glass bottles are made out of tin and SIDOR hasn't been sending the quantities the plants have been requesting for some time now,"* said Jhonny Magdaleno, the executive secretary of Carabobo State Workers' Federation.

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Cereal purchases up. According to figures from the National Statistics Institute (INE), between January and June 2014, 2 million tons of cereals were imported, compared to 1.7 million tons during the same period in 2013, which means an increase of 14.7% driven by corn purchases. Corn imports posted an increase of 38.9%, going from 750,221 tons in 2013 to 1.04 million tons this year, whereas other cereals such as wheat and rice fell by 44.7% and 38.9%, respectively, over the same period.

Agro-industry calls for an increase. The corn agro-industry has called on the Executive to review prices again, both the prices of raw materials and the prices of the finished product, in view of the fact that the current prices do not cover production costs. The Executive recently set the price for a kilo of corn at VEB 7, when Fedegro had asked for VEB 9.2/kg, which would have allowed them to cover production costs and improve producers' incomes so as to guarantee the recovery of the sector.

In November. The pre-cooked cornmeal processing industry calculates that the new price of pre-cooked cornmeal "*should be set in early November,*" according to the director of Alimentos Polar Comercial, Pablo Baraybar. The industry has calculated that the new price of pre-cooked cornmeal should be VEB 24.5/kg. Moreover, Baraybar said that the current inventory of white corn would run out in about 40 days' time.

The dairy industry as well. The powdered milk processing industry is waiting for a price increase and the approval of import permits for private sector importers. Roger Figueroa, the president of the Venezuelan Dairy Industries Chamber (Cavilac), warned that some companies had received authorization to import powdered milk with the promise of the price being adjusted accordingly. "*The first thousand tons arrived and they put them on the market at a loss,*" he said. The ton of powdered milk on the international market is US\$5,000 and the retail price is VEB 32.0 for a 900 g bag.

Solve the problem once and for all, orders Maduro. President Maduro ordered Vice President for the Economy Rodolfo Marco Torres to solve the crisis of the international airlines once and for all. He said that there was an "*absurd imposition of prices very much, but very much higher than those in similar markets in neighboring countries.*" Maduro gave the order to "*finalize that situation immediately, company by company right now; solve one by one. And you tell them, if you're going to work in Venezuela, these are the rules of the game.*"

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Waiting for the call. The international airlines operating in Venezuela are waiting to be called by the government to settle the differences they have with the aeronautical and foreign exchange authorities regarding authorization for repatriating the funds they have accumulated in dollars from the sale of air tickets and recognition of the corresponding exchange rates. Despite the President's statements, it was learned unofficially that the representatives of the foreign airlines had not been called to meet with the Venezuelan authorities.

Executive paid airlines US\$125 million. On September 26, the government paid the international airlines operating in Venezuela US\$125 million. Even though the Venezuelan State still owes the industry US\$3.5 billion, sector representatives consider this payment to be a positive sign. The source explained that the few payments the government has made so far this year were for less than the payment made last week. Besides which, among the payments that were made that day, there were several corresponding to applications made in 2013 and they were disbursed at the VEB 6.30/US\$ exchange rate.

A drive to complete housing units. Minister for Housing Ricardo Molina revealed the figures for the Great Venezuela Housing Mission 2014. He said that, this year, they have completed just over 623,000 units and have 222,000 under construction. He also explained that they are starting a "Completion Plan," which is to run in October, November, and December. He gave assurances that the State agencies would make every effort to make good the slogan "Christmas in My Home," the only purpose being to have the largest number of families enjoying the Christmas festivities in a home built by and given to them by the Great Venezuela Housing Mission.

WORLD ECONOMY TIPS

Strict contracts. The IMF has urged reexamining the way bond issues are structured with a view to preventing future sovereign debt restructurings from ending up in legal disputes such as the one Argentina is currently facing with a number of unhappy creditors. It also made some recommendations on how to achieve this, which focused on improving collective action clauses included in the majority of sovereign bond contracts, modifying the *pari passu* clauses

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on the equal treatment of creditors, and the IMF's role in promoting the use of those clauses.

A good record. The US Bureau of Labor Statistics reported that US businessmen increased their hiring rates in September, as a result of which unemployment fell to a six-year low. This could consolidate expectations for an increase in interest rates by the Federal Reserve halfway through next year. Nonfarm payrolls of the world's leading economy revealed that 248,000 jobs were created last month, which brought the unemployment rate down to 5.9%.

Growth forecasts trimmed. The World Bank has cut its growth forecasts for developing countries in East Asia and China for the period 2014-2016 and warned of the risks of capital flight to Indonesia in the light of a slowing down of the Chinese economy in the midst of policy measures aimed at achieving a more sustainable financial situation. Growth expectations for East Asia and the Pacific are 6.9% in 2014 and 2015, below the 7.1% forecast previously.

A poor record. The National Bureau of Statistics of China reported that China's services sector grew at its lowest rate in eight months in September due to the fact that new orders were down for the first time since the 2009 world financial crisis. The purchase managers' index (PMI) for the nonmanufacturing sector fell from 54.4 in August to 54.0 in September. This is not such bad news, since it is still above the threshold of 50.0 points that separates growth from contraction.

Sentiment falls. A survey by Germany's Sentix research group revealed that its index that tracks morale among investors in the Eurozone fell from -9.8 in September to -13.7 in October, dropping for the third month running and hitting its lowest level since May 2013. This result brings up the possible risk of the European bloc falling into a recession. *"While expectations were only just below the zero-mark in September, they are now clearly in negative territory and that means a technical recession in the Eurozone - two consecutive quarters of contraction - is ever more likely,"* Sentix said in a communiqué.

ECB receives criticism. Leading figures in Germany's economic circles harshly criticized the European Central Bank (ECB) plans to buy rebundled packets of debt and bonds with a junk credit rating from Greece and Cyprus as long as those countries are under a formal international financial program.

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In the opinion of the head of Germany's Central Bank, Jens Weidmann, this poses a great risk of the ECB buying "low-quality loan securitizations" at inflated prices as part of its program to buy so-called asset-backed securities.

Drop in industrial orders. According to information from Germany's Ministry for the Economy, in August industrial orders posted their biggest drop since the worst days of the 2009 world financial crisis due to the current weakness of the European Union's economy and the uncertainty generated by crises abroad. It seems that contracts fell by 5.7% in the month, a long way from market forecasts, which were in the region of a drop of 2.5%.

Budget rejected. The European Commission has said that it will probably reject France's draft budget for 2015 at the end of the month and will ask for a new one that complies better with the obligations to reduce the public deficit. This will be the first time that the European Commission has used its power to request changes in a draft national budget under the new prerogatives that the countries belonging to the European Union granted it last year.

Greece aims high. A draft budget for 2015 from the Greek Government shows that Greece will report a budgetary primary surplus of 2.0% of GDP this year, which surpasses the target of 1.5% established in the EU and IMF bailout program. At the same time, the Greek Government said that its economy will climb out of the recession in which it has been plunged for six years, given that they estimate that they will obtain growth of 0.6% this year, which is in line with previous estimates.

The deficit repeats itself. The Central Bank of Peru reported that this raw materials exporting country had posted a trade deficit of US\$311 million in August, making this the sixth month running with its trade balance in the red. In the first eight months of the year, Peru accumulated a trade deficit of US\$2.66 billion, 292.2% higher than the deficit obtained in the same period last year, when it came to US\$677 million.

POLITICAL TIPS

Still waiting. The National Assembly's decision is still not forthcoming and meanwhile the waiting continues. The list of ten people from civil society who

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are to sit on the Electoral Nominations Committee –the body in charge of electing the National Electoral Council’s three new directors- was submitted to the National Assembly in plenary session for the second time, but has still not been approved. The opposition benches have still not given their agreement to the list of names, which was put forward by the PSUV.

If needs be, let the TSJ decide. The president of the National Assembly, Diosdado Cabello, explained that, even though, according to the Constitution, the election of the directors of the National Electoral Council (CNE) falls to the National Assembly, the task of selecting the members of civil society who are to sit on the Electoral Nominations Committee could be put in the hands of the Supreme Tribunal of Justice (TSJ) if the National Assembly does not reach an agreement soon.

More threats, less investment. Governor for Miranda Henrique Capriles Radonski publicly rejected President Nicolás Maduro’s recent threats to businessmen, saying that, with that kind of treatment, no one would invest in the country. *“According to Nicolás, company that’s abandoned, company that’ll be taken over. So, what do we do with the state-owned companies that are unproductive? Are Venezuelans going to take them over? Who’s going to invest after a statement like that? Nobody. What that does is generate shortages and inflation. The model is never going to work if the discourse is one of launching threats,”* added Capriles.

Getting together on the smuggling issue. At the end of October, Foreign Minister Rafael Ramírez is to meet with his Colombian counterpart, María Ángela Hoguín, in Caracas, to discuss the smuggling issue. The Colombian foreign minister will be accompanied by Cecilia Álvarez, Colombia’s minister for trade, industry and tourism, who explained that the purpose of the meeting *“is to discuss some difficulties experienced by Colombians who have made purchases in Venezuela and have subsequently been accused of smuggling.”*

Calling on the opposition to rectify. According to President Nicolás Maduro, neo-fascism has become established in the opposition. *“The reactions to the murder of Robert Serra say so,”* he explained. These words were spoken by the President when he claimed to have proof of actions committed by the opposition that link them to the death of the former deputy. *“I call on the political opposition to (carry out) an in-depth rectification of their positions with regard to paramilitarism, a valiant rectification. I call on them to*

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own up, in time, so that a terrorist war against the people is not started from the rightwing,” added Maduro.

Committing to “progressism.” Governor Henrique Capriles said it was necessary to commit to “*progressism*” as a model that generates confidence “*and that doesn’t see the private sector as the enemy,*” as an alternative to the model that exists today, and, to achieve that, he called for the unity of all Venezuelans. “*It’s not a matter of capitalism or of socialism; it’s a matter of creating our own model. This model we have now, it has to be changed,*” added Capriles.

They say they are, but are they actually doing it? Governor for Aragua Tareck El Aissami claimed that the government is currently supporting Venezuelan private companies and that *II-Expo Aragua Potencia* is proof of that, given that it has the “*objective conditions for transforming the state into an economic, financial, commercial, business, agro-industrial, fisheries, and tourist power.*”

One satellite or 800 schools? Governor Henrique Capriles stated that, in Venezuela, nearly one million young people between the ages of 14 and 17 do not have a place to study and criticized the fact that, given this situation, the government had decided to build a third satellite. The governor also claimed that, with the money the government will have to pay for the satellite, it would be possible to build 800 schools, which, according to Capriles, are very necessary, bearing in mind that, of the last 100 schools that were promised, only one has been shown.

They’ve already got a replacement. Following the death of former Deputy Robert Serra, Juan Bautista Contreras has been chosen as his alternate and has already gone through the process of having his credentials certified and of being sworn in by Diosdado Cabello. Contreras was elected as Serra’s alternate at the parliamentary elections held at the end of 2010.

LEGISLATIVE TIPS

Control of cyberspace. The National Assembly’s Administration and Services Committee unanimously approved the decision to draft a preliminary bill for regulating e-commerce in Venezuela, its purpose being to protect

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users from possible Internet embezzlement and fraud. The committee's chairman, Claudio Farías, explained that the committee had received numerous complaints involving frauds committed against users. *"Now the economic war is mutating into other illegal forms and, since smuggling goods out of the country is more difficult and given the alleged shortages, they are offering all kinds of products and services on the Internet that are more expensive than in the stores."*

Businessmen don't want to be left out. Since there is the intention to draft a bill on the Regulation of E-commerce in Foreign Currency, representatives of the Venezuelan E-commerce Chamber (Cavecom-e) have sent a letter to the National Assembly expressing their intention to participate in the drafting of the bill. The president of the chamber, Richard Ujueta Contreras, said that they were concerned about the impact that regulation could have on e-commerce, as he considered that a whole area of trade should not be regulated on account of a fraud committed in some application.

Shelter for the evicted. The Minister for Eco-socialism, Habitat and Housing, Ricardo Molina, has delegated to the National Superintendent for Housing Rental (Sunavi), José Rafael Jiménez, the task of providing temporary shelter for tenants who have been issued with a firm sentence ordering them to vacate the house or apartment where they are living. The resolution announcing this decision was published in *Gaceta Oficial* No. 40,508, and among its recitals is one that states that the ministry has the authority to designate shelters for the purposes of guaranteeing fair leasing relations.

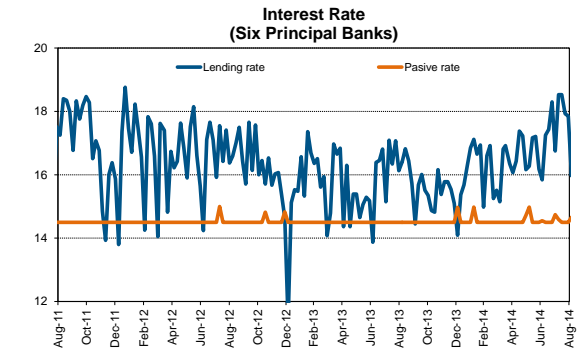
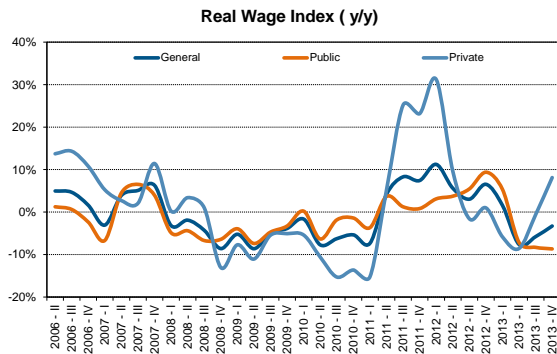
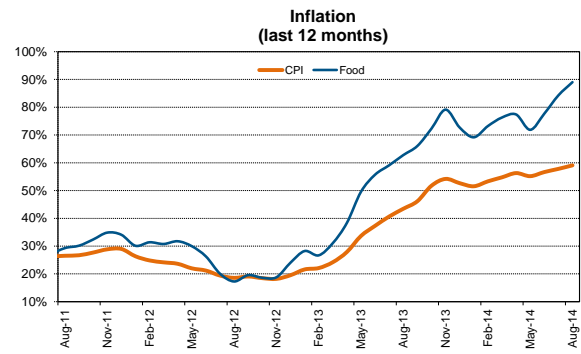
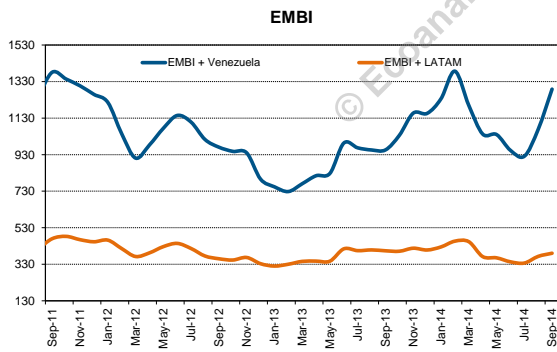
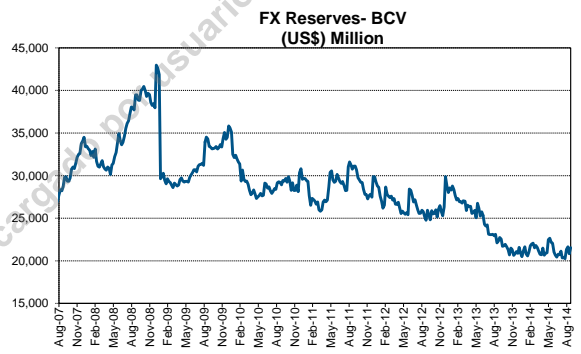
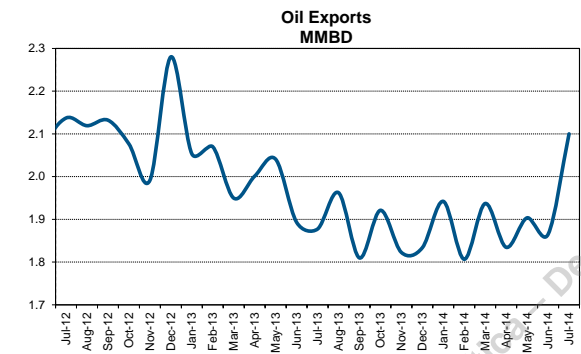
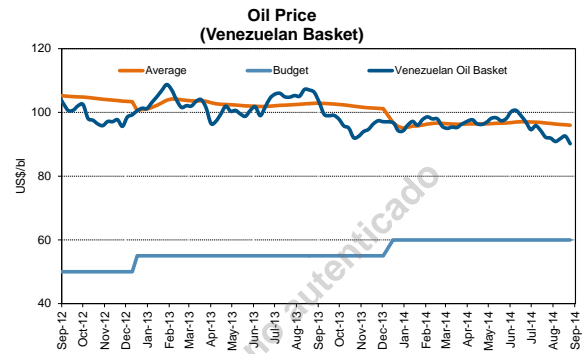
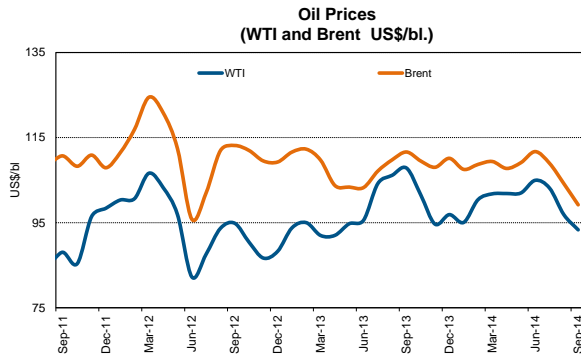
National Assembly failed to reach an agreement. *"He who laughs last, laughs longest,"* warned the president of the National Assembly, Diosdado Cabello, after the opposition benches withheld their votes for approving the candidates proposed by the PSUV to sit on the Electoral Nominations Committee, the body that will be in charge of appointing the National Electoral Council's three new directors. In view of the National Assembly's failure to reach an agreement, Cabello said that, given the omission by the legislature, the government benches had no problem with leaving the appointment of the electoral authorities in the hands of the Supreme Tribunal of Justice as happened in 2003.

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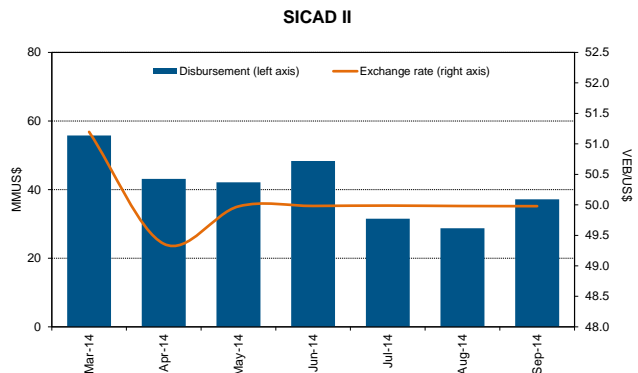
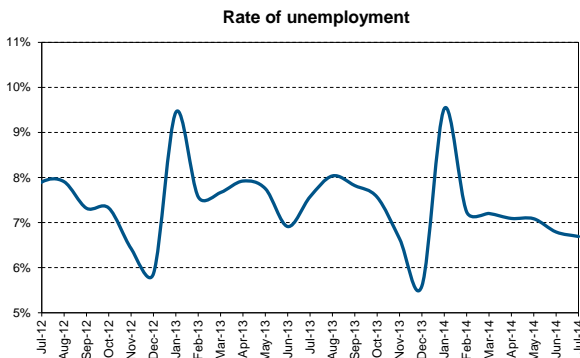
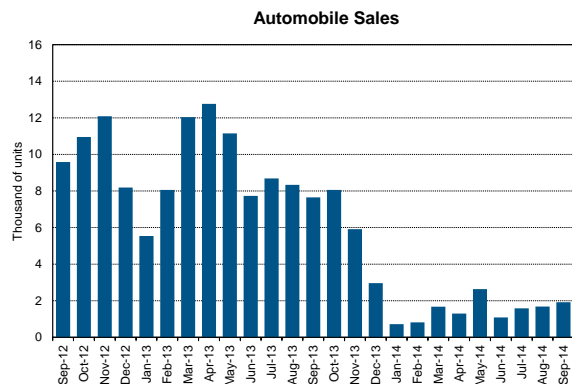
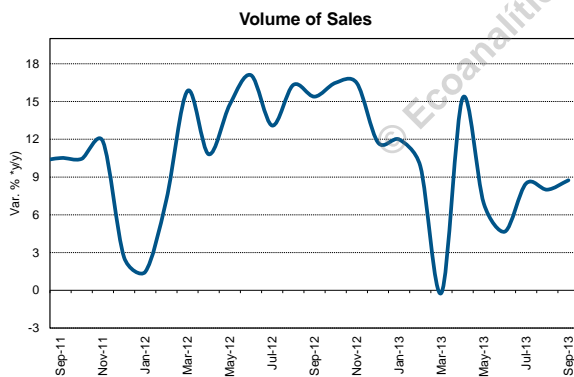
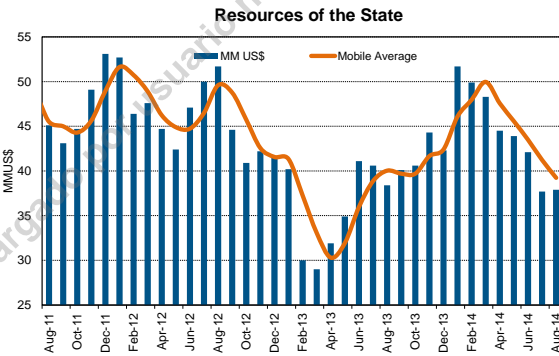
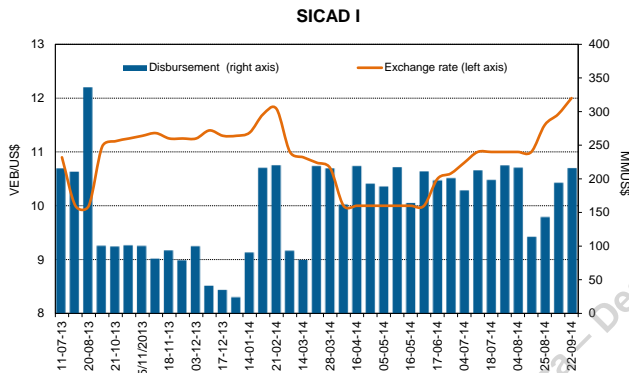
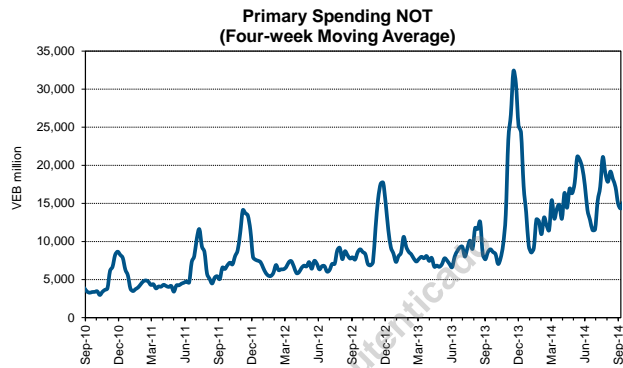
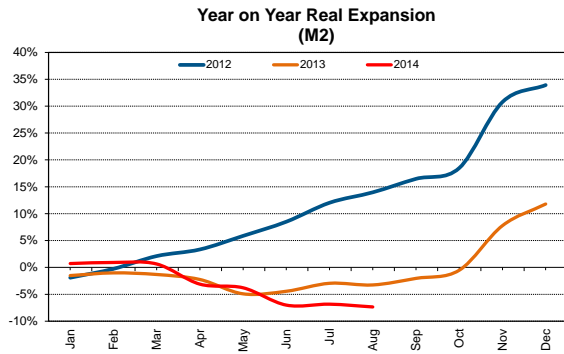
“We’re not going to give them a single director or a single Supreme Tribunal justice” So said the president of the National Assembly, Diosdado Cabello, after the opposition benches withheld their votes for the approval of the candidates to the Electoral Nominations Committee. Unlike the nominations to this committee, the representatives who are to sit on the Judicial Nominations Committee in charge of selecting the justices to the Supreme Tribunal of Justice are approved by a simple majority of the National Assembly, which meant that the PSUV was able to obtain the necessary approval for the six members of this committee, plus their alternates.

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ECONOMIC OVERVIEW



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