

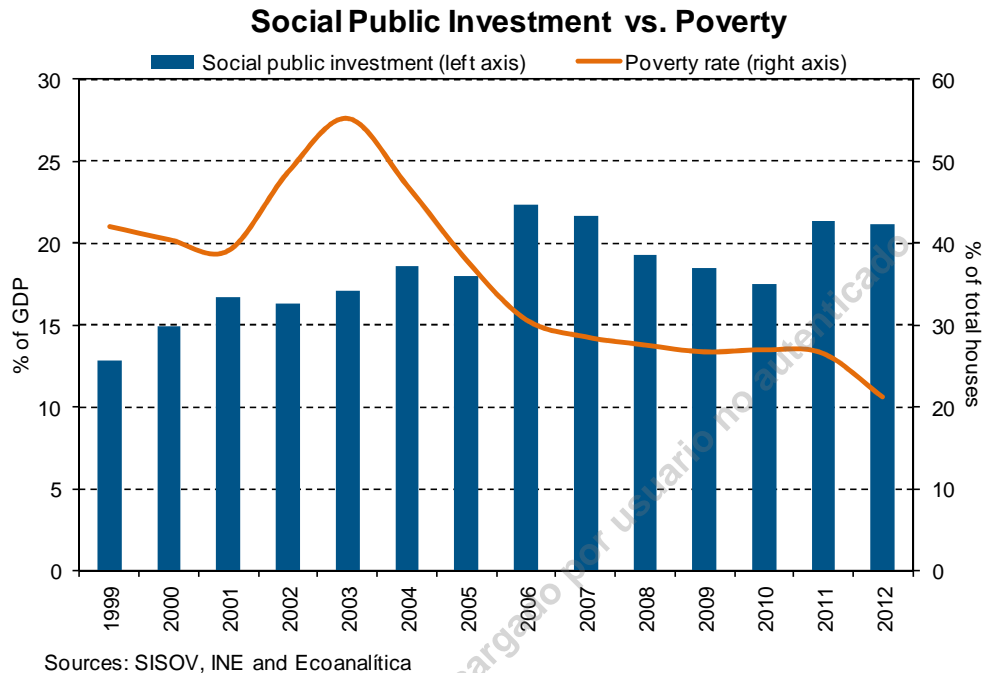
## Spending and Popularity: Is it a path to follow?

During the past decade, Venezuela's economy has been characterized by a continuing increase in public spending; and this over time has become the signature, the very fabric of what is now called chavismo. Backed by a steady increase in crude oil prices, the Administration has directed its spending to the more needy sectors of the population and their consumption, thereby maintaining their popularity levels high among the people and stimulate the increase in aggregate demand and the stimulate GDP growth. But now, looking at the most recent economic figures and the economy's performance, one has to wonder: Is this a sustainable course of action and path to follow?

### A look at the chavista model

Looking back on government economic figures released by the Administration during the past years, the first thing that stands out is how spending has been focused on the more needy sectors of the economy. Using the Missions as a means of distributing spending, the Administration's social spending went from representing 11.1% of the total Gross National Product (GNP) during the 90s to representing 18.7% during the period 2000-2012 (figures only available for this period). This has been fundamental in the Administration reducing poverty, which at the close of 1999 was at 42.0% compared to the close of 2013 when this figure closed at 27.3%, down 14.7 percentage points (pp) over a 14 year period.

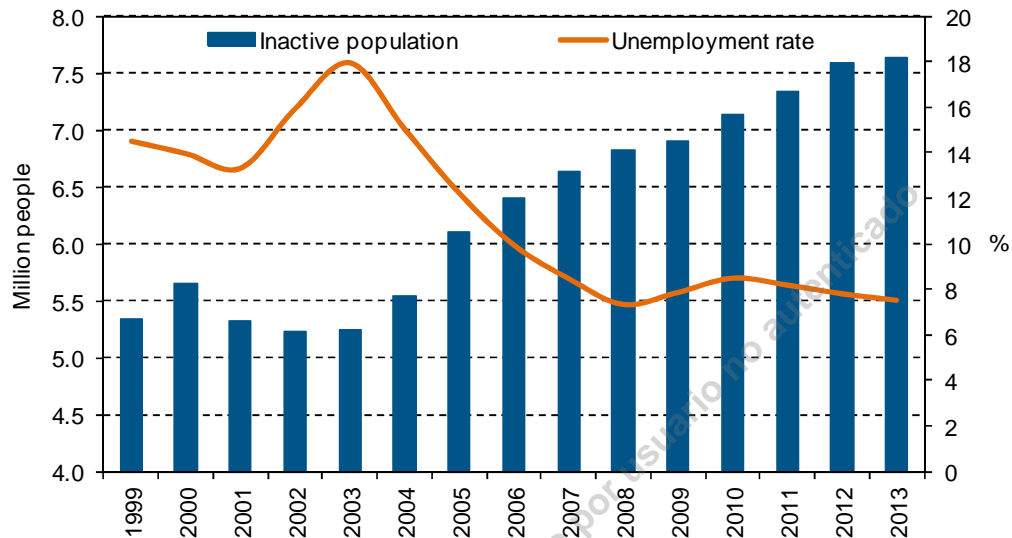
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The Administration's increase in social investment through the Missions not only had an impact on poverty but also on unemployment figures. The inactive population, specifically those classified as in an "Other Situation" that grouped retired people, people receiving a pension, and people associated with the Missions together, went from 304,406 people at the close of 1999 to 1,709,511 people in July 2014. Thus, the Administration managed to lower unemployment figures by increasing the number of people classified as inactive, due to their involvement with the Missions or in some way receiving the benefits of a government sponsored social program. Those classified as inactive are not official considered as being unemployed.

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### Inactive population vs. Unemployment Rate



Sources: INE and Ecoanalítica

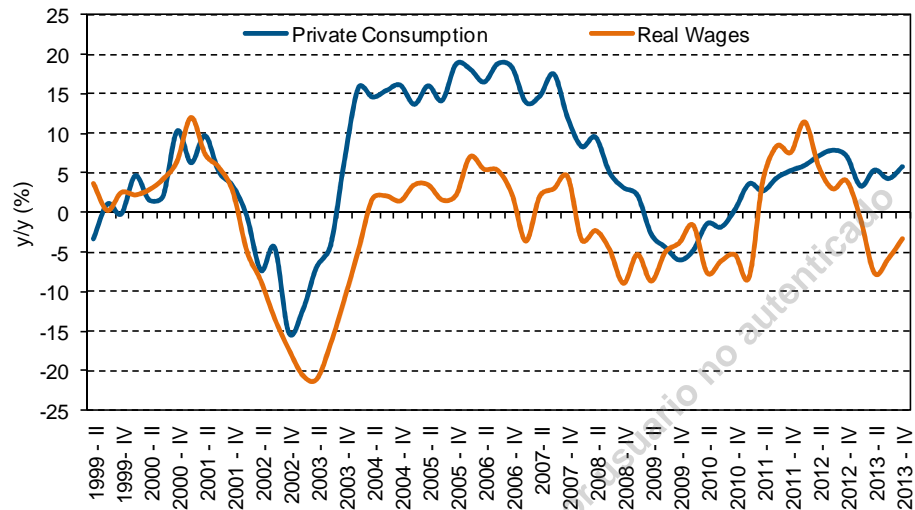
Increased public spending also had a significant effect on employment due to the increase in the size of government. As the government increased in size, the number of people employed by the Administration went from representing 15.3% of the total number of people employed in 1999 to representing 21.5% of the total number of people employed in 2013. This has led to a significant increase public spending that has to be earmarked to cover public sector employee salaries.

For many years, the trend has been that private sector salaries are higher than public sector salaries. But backed by increasing crude oil prices in 2004, public sector wages and salaries began to increase significantly. This became the primary engine behind increasing the purchasing power of public sector workers. Meanwhile, private sector wages and salaries have remained stagnant.

So, due to the increase in number of people receiving help from the government through one of the many subsidies offered by one of the many Missions, and the increase in number of people being hired by the government, the Administration has been able to positively impact family consumption, public consumption, and aggregate demand; which in turn has all led to an increase in GNP.

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### Private Consumption vs. Real Wages

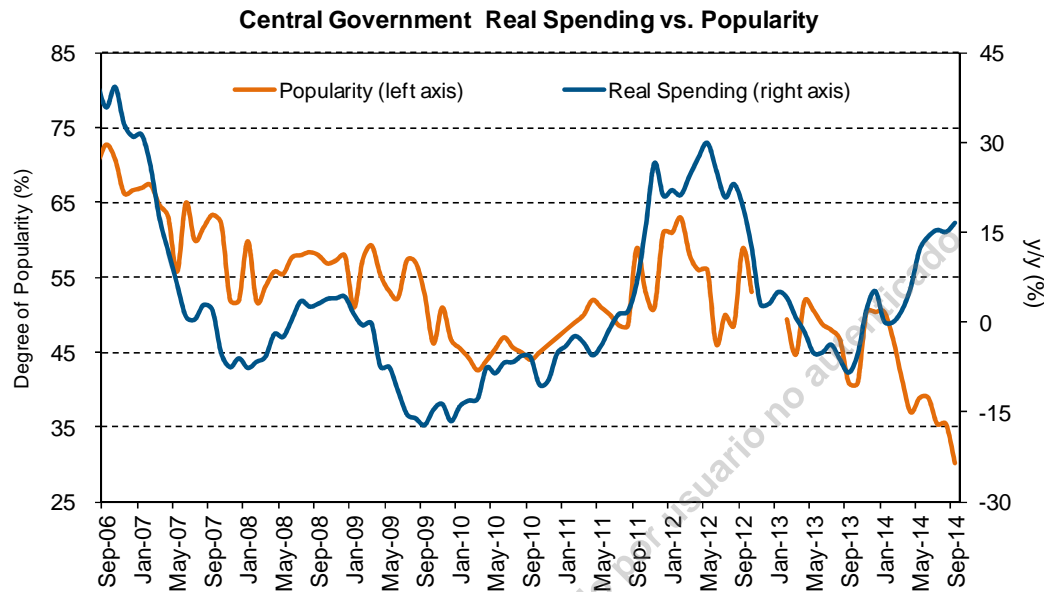


Sources: BCV and Ecoanalítica

### Money buys popularity

By focusing spending on the poorer sectors of the economy, increasing their consumption and wellbeing, this has generated a solid base of followers for the Administration, ensuring their popularity. This formula, increasing public spending aimed at programs to help the poorer sectors, is the strategy that the Administration has followed during election periods; and up until now, it has guaranteed their remaining in power. This, even during elections held in periods of economic crisis, and during periods when increasing public spending was logically inadvisable for the nation, as it happened in 2012 when the country's oil revenues dropped significantly.

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Sources: Oficina Nacional del Tesoro, BCV, Datanálisis and Ecoanalítica

## No such thing as a free lunch

Chavismo has put all its faith in increased public spending in order to guarantee victory come election time. But, is this a sustainable strategy over time, and especially now, when the country's economic situation is not the most favorable?

The Administration's increase in public spending has always been backed by a steady increase in international crude oil prices; which in turn generate social development contributions from PDVSA; and Central Bank of Venezuela (BCV) transfers of surplus reserves to FONDEN. However, during the last two years, international crude oil prices have not continued their steady increase, rather, they have remained steady or dropped, leading to the Venezuelan oil basket price dropping US\$8.2/bl since 2012. This of course has led to a drop in oil revenues of US\$7,923 billion, and consequently, international reserves dropping by 28.7%, due to the drop in transfers from PDVSA and the BCV into FONDEN.

And, despite the fact that oil revenues have been dropping, the Administration continues to spend, and consequently, the government deficit has steadily increased. The latest figures released by the Ministry of Economy and Finance and Public Bank (Mefbp) are proof of this. According to the Mefbp, in 2013, the Central Government deficit was at VEB 44.46 billion, representing 2.3% of GDP. The deficit of the Restricted Public Sector

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reached 16.9% of GDP in 2013 and at **Ecoanalítica**, we estimate that in 2014 this figure will reach 21.8% of GDP.

<b>Restricted Public Sector Annual Financial Results (% GDP)</b>		
	<b>2013</b>	<b>2014F</b>
<b>Total Revenues</b>	<b>30.2%</b>	<b>26.1%</b>
Current Revenues	30.2%	26.1%
Capital Revenues	0.0%	0.0%
<b>Total Expenditure and Net Lending</b>	<b>47.1%</b>	<b>47.9%</b>
<b>Total Expenditure</b>	<b>47.1%</b>	<b>47.9%</b>
Current Expenditure	36.0%	35.7%
Capital Expenditure	11.1%	7.2%
Acquisition of Fixed Capital Assets	6.3%	5.0%
Current Surplus or Deficit	-5.7%	-9.6%
<b>Financial Surplus or Deficit</b>	<b>-16.9%</b>	<b>-21.8%</b>
<b>Amortization</b>	<b>4.0%</b>	<b>4.3%</b>
<b>Funding Needs</b>	<b>20.9%</b>	<b>26.1%</b>
Internal	16.4%	21.6%
External	1.1%	2.2%
Others	3.4%	2.3%

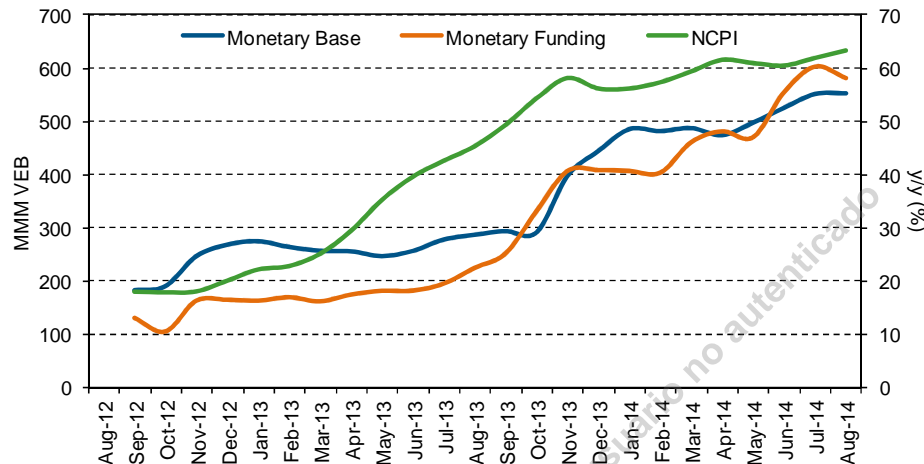
Sources: MEFBP and Ecoanalítica

## Spending losing its effectiveness

In order to finance this deficit the Administration has been forced to increase borrowing, and this is where PDVSA's internal debt with the BCV becomes critical. While PDVSA sells its dollars to the BCV at the overvalued price of VEB 6.30/US\$, the amount of bolivars the oil company receives is not enough to cover its operational costs. Consequently, since 2010, PDVSA has been forced to borrow more and more from the BCV, which in turn has led to liquidity increasing by 70.7% in 2013, and 70.2% from January to August, which has led to inflation sky-rocketing during this past 12 months.

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### Monetary Base and Monetary Funding vs. NCPI



Sources: BCV and Ecoanalítica

With inflation increasing significantly and people's purchasing power dropping dramatically, families have had to use more bolivars to buy the same amount of goods and services. This has forced the Administration to increase spending in order to maintain the effect of their strategy of using government spending to maintain the poor sectors happy and remain popular.

Ironically, those most affected by the loss of purchasing power are the poorer sectors of the economy, those with the lowest salaries (in 2013, inflation in strata I population, which groups the poorest families, closed at 59.0%; while strata IV families, with higher salaries, inflation closed at 49.5%, a difference of 9.5 pp), those who in theory the Administration focuses their spending on. So, one wonders if increased government spending will continue to work its magic on the population and guarantee the government's popularity leading into the elections in 2015; or will government spending and inflation cancel each other out and the Administration's popularity continue to slide as it has been.

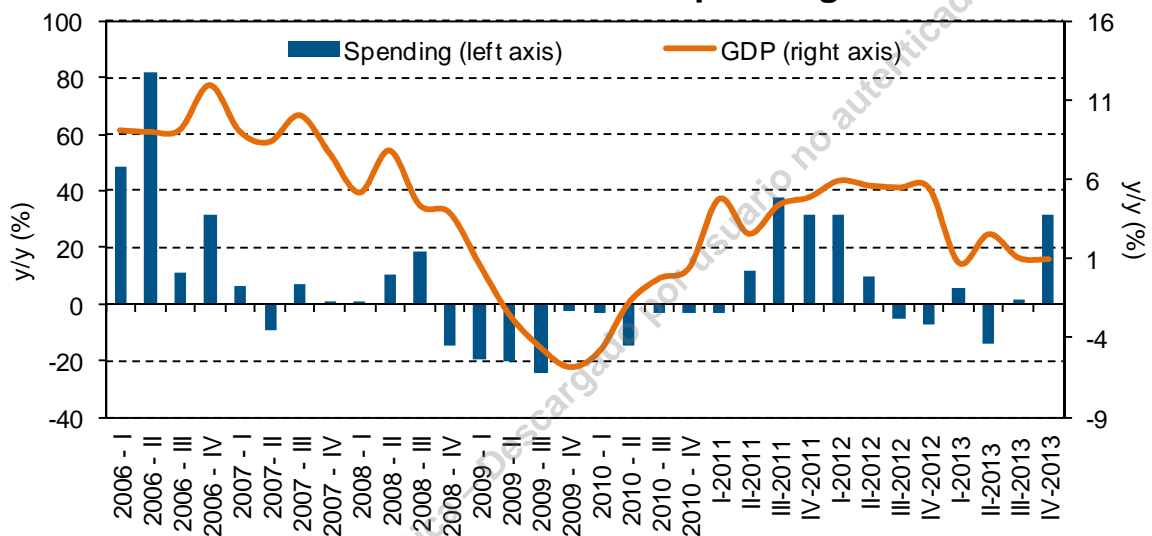
### Trapped with no way out

We are in an environment where fiscal policy "dominates" monetary policy (fiscal dominance), meaning that the second one is determined by the pace of spending, therefore the monetary authority has lost its ability to control prices. Under this regime, especially with a growing fiscal deficit, price levels will end up being affected by fiscal decisions.

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In the end, increased government spending has become a vicious circle, with the Administration pressuring liquidity and inflation, which leads to a loss of purchasing power and said spending losing its effectiveness when it comes time to generate consumption and economic growth, not to mention well being among the people.

### Central Government Real Spending vs. GDP



Sources: ONT, BCV and Ecoanalítica

However, having observed that in a non-election year, the Administration has continued to increase government spending, at **Ecoanalítica**, we don't see the Administration cutting back on government spending, especially with 2015 being an election year. This means that the negative consequences of this strategy will continue to persist, all the while making it even more difficult to correct when the inevitable time comes to do so.

It is important to point out that in the field of economics, it is recognized that public spending can generate economic growth in the long run, as long as it is aimed at investment, research, and productive activities. However, this Administration has made a habit of using public spending as a mechanism to maintain popularity and its status quo, and turning a blind eye to productive investments; this policy being very short sighted and not sustainable over time.

**Pilar Navarro**  
**Asdrúbal Oliveros**

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## ECONOMIC TIPS

**Venezuela paid.** The government announced that it made payment for US\$1.56 billion for the Global Bond 2014 (US\$ 1.49 billion for the principal and US\$64 million for interest), and it's waiting to make payment for US\$4.0 billion for bonds due this coming October 28. *"With this step, as always planned, we have silenced the campaign of the media and international finance institutes that tried to damage the image of the Republic,"* stated the press release that announced the payment.

**Extraordinary auction.** The President of the Republic, Nicolás Maduro, has authorized an extraordinary auction through the Complementary System for Foreign Currency Administration (Sicad I) for US\$550 million aimed at businessmen and producers from the following sectors: home appliances, chemical and petro-chemical, electronics, medical supplies, non-metallic minerals, packaging, containers, pulp, paper and carton, graphic arts, electrical, automotive, and spare parts. The President stated that this auctioned was to jump-start the manufacturing plants in these sectors.

**More paperwork.** BCV reported that as of Thursday, October 16 apply the new requirements for the participation of legal persons in Sicad II. Now they require copies of statements of the Withholding of Income Tax for the last 2 financial years and copies of statements of value added tax (VAT) for the last 2 years.

**Preparing for 2015.** For the purpose of "optimizing the country's economic planning mechanisms and reinforce the exchange system," the Cencoex has begun to draft the 2015 National General Plan for Foreign Currency. Part of the first stage is that importers register in a new data system their requirements for foreign currency for 2015. These must not exceed 130.0% of the previous year's imports. If so, these must be justified and an investment plan must be presented.

**That is how analysts see it.** According to the latest LatinFocus survey released few days ago analysts expect the economy to contract 2.6% this year, and inflation to close nearly 66.9%. For 2015 the panel of the LatinFocus survey expects an economic growth of 0.2% and an inflation of 67.7%, also forecasts an exchange rate of Sicad II of VEB 56,8/US\$.

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**Regulated even on the Internet.** The National Assembly (AN) is looking at creating a new Electronic Commerce Law. The new law would regulate companies that do business on the Internet and is aimed at eliminating Internet fraud, and evading taxes for e-commerce.

**Fraser: Venezuela is the country with the least amount of economic freedom.** According to the latest edition of the 2014 Yearly Report on World Economic Freedom published by the Fraser Institute of Canada, Venezuela ranked last out of 152 countries evaluated in 2013 with respect to economic freedom. Venezuela scored 3.9 points out of 10 on the index made by the Fraser Institute. The index takes into account: size of the government, guarantees of the right to property, access to a strong currency, free trade, regulating the labor market, and regulating business activities, among other things.

**Supplemental appropriations for VEB 1.31 billion.** The National Assembly (NA) Finance Commission approved six supplemental appropriations for a total of VEB 2.15 billion, of these, VEB 326 million will be transferred to the state of Aragua Governor's Office to improve hospital infrastructure; VEB 739 million to the Ministry of Agriculture and Land, to cover subsidies for the dairy industry; VEB 199 million to repair a section of the Antonio José de Sucre highway in Anzoátegui state; VEB 194 million for the government of the Capital District to cover labor debts; and VEB 51 million to cover operational expenses of the ombudsman's office.

**Interest rates.** The lending rate for the fourth week of September was at 18.0%, down by 0.8 percentage points (pp) compared to the previous week. The time deposit rate was at 14.7%, up by 0.2 pp 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 down by 1.1%, going from US\$20.02 billion during the first week of October to US\$19.79 billion during the second week of October. Compared to the same period last year, international reserves have decreased by 8.7%.

**Central government expenditure.** On October 10th according to figures from the NTO primary spending was VEB 11.39 billion, which means an increase of 133.7%; when compared to the same period last year. So far this

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year, the primary expenditure accumulates VEB 633.86 billion, 72.9% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 0.5% in the fourth week of September from the week prior, to settle at VEB 1.6 trillion. The M2 has increased 63.3% 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

## OIL TIPS

**Their lowest since April 2013.** Yesterday, oil prices in New York fell to their lowest level since April 2013 owing to a much bigger increase than expected in crude reserves in the United States announced by the US Department of Energy. The WTI barrel for delivery in November fell by US\$1.54 to US\$87.31. Brent also posted a drop of US\$0.73 compared to the close of business last Tuesday. This downward movement is explained by a much bigger increase than expected in US oil reserves last week.

**We want a meeting!** *"It's a price that isn't desirable for anyone, and there is a considerable amount of overproduction,"* claimed Ramírez, the former minister for oil, which is why he is going to call for an extraordinary meeting of OPEC in view of the steady decline in the price of oil. *"We believe that OPEC has to coordinate some kind of action to stop the drop in the price of oil, more so when we are convinced that it is not due to situations in the market but to price manipulation,"* added the Venezuelan government official.

**We're not going to cut quotas.** It is unlikely that OPEC will reduce oil production in an effort to shore up prices since such a decision would not necessarily be effective, commented Kuwait's Oil Minister Ali al-Omar. The minister explained that a reduction in pumping would not necessarily push up prices and said that the overproduction of crude was due mainly to increased activity in Russia and an increase in shale oil from the United States. The

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OPEC ministers have a meeting scheduled for November 27 in Vienna to consider whether to adjust their pumping target of 30 million barrels a day (bpd) in early 2015.

**Yet another payment.** Last Thursday, the ICSID ruled that Venezuela will have to pay the US oil company ExxonMobil US\$1.6 billion in compensation for nationalizing its assets in Venezuela. The indemnity covers the expropriation of Exxon's assets in the Cerro Negro and La Ceiba fields plus an additional amount for cuts in production and exports calculated by the ICSID. At **Ecoanalítica** we consider that Venezuela got off lightly since it will pay much less than it was expecting to have to pay.

**Liabilities and more liabilities.** On Tuesday, October 14, PDVSA paid the holders of PDVSA bonds with maturities in 2017, 2027, and 2037 the interest corresponding to the six months ending this month, in accordance with the terms established previously in these papers issued in 2007. Each combination of bonds has a nominal value of US\$1,000 and is made up of 40.0% 2017 Bonds, 40.0% 2027 Bonds, and 20.0% 2037 Bonds, which may be traded separately once they have been redeemed.

**More expensive at the border.** The price of gasoline in service stations belonging to the Special Border Fuel Supply Service (SAFEC) went up to VEB 40, an increase of VEB 5 per liter. The announcement was made by the governor of Táchira state, José Vielma Mora, who explained that the new price went into effect on October 9 at the five service stations attached to SAFEC located in Bolívar and Pedro María Ureña municipalities.

**Demand growth forecasts revised downward.** The International Energy Agency (IEA) forecasts much weaker growth in oil demand in 2015 than previously estimated. As a result, it has revised its estimate for the growth in oil demand in 2014 downward by 200,000 barrels a day (b/d) to 0.7 million barrels a day (mb/d) due to slower economic growth and evidence of lower consumption. The IEA expects demand to go up by 1.1 mb/d to 93.5 mb/d in 2015, for an increase of 1.2% but down 300,000 b/d from its previous forecast.

**What does OPEC say?** In its monthly report, OPEC has revised its world oil demand projections for 2014 downward by 0.2 mb/d to 92.4 mb/d. It has also forecast growth in annual demand for 2014 of 0.7 mb/d and a timid increase to 1.1 mb/d in 2015 based on expectations that the macroeconomic situation

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will improve. On the other hand, world supply grew by nearly 910,000 b/d in September to 93.8 mb/d owing to increased OPEC and non-OPEC production. Compared to the previous year, total supply came to 2.8 mb/d more and it is expected that non-OPEC production will push up supply by 1.3 mb/d on average in 2015. OPEC production was also up last month by 415,000 b/d to 30.66 mb/d.

**International oil baskets.** At closing time on October 10th in the New York Stock Exchange, the price of the WTI was US\$88.4/bl, down by 3.9% when compared to the reported the previous week. The Brent decreased by 3.5% when compared to the previous week, to reach US\$91.7/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$82.7/bl on Friday October 10th decreasing by 3.7% 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

**Another year without making the target.** This year's target for the state-run Great Venezuela Housing Mission is to hand over 400,000 housing units. According to figures from the Ministry for Housing and Habitat, 81,296 homes have been allocated so far this year. In order to reach this year's target, the government will have to build and hand over 318,704 housing units in 75 days, which means that, to date, it has only completed 20.4% of the units promised. In 1Q2014, the government handed over 8,127 homes, in other words 15,570 units fewer than were allocated during the same period in 2013.

**Scary figures.** The president of the Real Estate Chamber of Venezuela, Aquiles Martini, said that the poor results of the Great Venezuela Housing Mission were reflected in its failure to meet last year's target: only 201,075 housing units of the 380,000 promised were handed over. One of the problems that have prevented progress being made under this housing program is the lack of developed land, in other words land that has all the basic services plus health services, schools, jobs, access roads, and transportation. "They have already taken over the parking lots and put up

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residential complexes in the residential areas that were available,” said Aquiles Martini.

**Fingerprint identification machines are definitely going ahead.** Price Superintendent Andrés Eloy Méndez announced that they are to start installing fingerprint identification machines at supermarkets in Caracas and one of the first establishments that will have this biometric system up and running is Makro in La Yaguara. *“We’re going to install the fingerprint identification machines come hell or high water,”* he said during a ceremony for swearing in 2,080 people’s inspectors in Miranda state. Méndez also explained that the purpose of the program is to avoid products being siphoned off from the formal channels of distribution and being diverted to the informal economy, where they are sold at three times the official price.

**There’s no tuna.** The spokesperson of the industrial fisheries sector, Roger Palacios, stated that 50.0% of the fish canning plants in Sucre state have halted production and that the other 50.0% is operating at a third of capacity. There are companies that have completely stopped production owing to lack of inputs such as tuna, ingredients, containers, packaging, cardboard, and plastic materials. One of those companies is La Gaviota, which stopped production four weeks ago; and Proeba and Avecaisa halted production this week, said Palacios. With regard to the supply of tuna, he said that companies in the sector have inventories for two weeks and there is no certainty as to when fresh imports will arrive in Venezuela.

**The inputs are guaranteed.** Vice President Jorge Arreaza announced that they expected the Guacara Clorox plant, now under the control of the workers and the Venezuelan Government, to start full production at the end of October. The vice president made these statements during a visit he paid to the plant in the company of Eulogio Del Pino where he started up the machinery and finished production runs that had been operating normally up until Friday, September 19. He also commented that the inputs needed to produce liquid bleach and Nevex, as well as the containers for packaging the products, are guaranteed by PDVSA-Pequiven, state-run industries that produce the necessary polyethylene, caustic soda, and chlorine gas.

**Gloomy outlook.** The president of Consecomericio, Mauricio Tancredi, said that the outlook for the commerce sector this year is “not at all promising,” so much so that it will not post growth in 2014. He attributed this situation to the problems that merchants have encountered in obtaining foreign currency and

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also to the restrictions implicit in the Fair Prices Act and the Labor Law. On the matter of inventories for the Christmas season, the president of Consecomercio explained that some measures had been taken so that Christmas products would be available, however, he did not think there would be the same variety as in previous years. He stressed that it was necessary for the disbursement of foreign currency be made promptly in order for exports to arrive in time.

**Manufacturing at risk.** Fedecámaras (chamber of commerce) described the current economic situation in Venezuela as serious, adding that there has been a 4% drop in GDP and that, in some sectors, this drop has been even greater: 9% in manufacturing and 10% in construction. Meanwhile, everyone is waiting for the Executive to take fundamental decisions so that the domestic productive apparatus can be revived. The president of Fedecámaras, Jorge Roig, explained that 15% of production has been halted in the food industry owing to the lack of raw materials and that the construction sector is experiencing shortages of cement, rebar, and sand, but that these materials are available through informal channels with a markup of more than 50%.

**It's time for Guri to be modernized.** Minister for Electric Power and President of Corpoelec Jesse Chacón announced the signing of a contract for the overall modernization of the 6 units belonging to Guri's Machine Room 1. The contract that is to be signed will be financed by two multilateral agencies, the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF). The purpose of modernizing the units is to extend their useful life by 25 years and also to increase their installed capacity by some 885 megawatts (Mw), which will be added to the National Grid (SEN).

**More flights.** In its last report, the Venezuelan Airlines Association (ALAV) states that American Airlines and Copa Airlines have increased their flight frequencies and the number of seats available for passengers traveling to and from Venezuela. ALAV also highlights on its website that American Airlines is to add two flights to Venezuela starting in November this year, which means that it will operate a total of 12 flights a week instead of 10 as at present. As for Copa Airlines, it is using Boeing 737-800s on its Panama-Caracas route instead of 737-700s, which provides approximately 36 additional seats.

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## WORLD ECONOMY TIPS

**Nobel prize for research into monopolistic behaviors.** Jean Tirole, an economist from the University of Toulouse (France) and a research specialist in microeconomics, received the Nobel Prize in economic sciences this year for his work on the regulation of large companies, which seeks to protect consumers from monopolistic behaviors. Many industries are dominated by a small number of large companies and failure to regulate those markets generally leads to socially undesirable outcomes (prices that are above those dictated by costs or unproductive companies that block the entry of new and more competitive companies).

**China's growth won't stop just because of one engine.** In the opinion of the chief economist at the People's Bank of China, Ma Jun, the likelihood of a marked slowing down in the Chinese economy is very slight, despite concerns with regard to the country's real estate sector, which is slowing down at the moment and currently accounts for 20.0% of investment in China. Ma admitted that the slowing down of the real estate sector is applying downward pressure on the economy, but recalled that this is not the only driver of growth in China and that there are sectors such as the services sector that are growing very rapidly.

**Keeping up a steady pace.** The governor of the People's Bank of China, Zhou Xiaochuan, gave assurances that China's job market is performing better than expected and that the Chinese economy will probably grow by around 7.5% this year. Zhou said that the Chinese authorities would maintain consistency and stability of macroeconomic policies, endeavor to maintain growth at a reasonable rate, promote employment, and guide inflation expectations.

**And contrary to expectations,** Chinese exports rose by 15.3% (y-o-y) in September and imports were up by 7.0% (y-o-y) compared to the same period in 2013, which resulted in the posting of a trade surplus of US\$31.0 billion, below the surplus posted in August of US\$49.8 billion. The unexpected growth in imports has calmed concerns over the decline in domestic demand in the world's second largest economy.

**Downcast.** Industrial production in the 18 countries of the Eurozone fell by 1.9% (y-o-y) in August due mainly to the decline in the production of

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investment goods, according to data supplied by the European Union's statistics office (Eurostat). Eurostat also revised its figures for the growth in industrial production in July downward to 1.6% from the 2.2% estimated a month ago.

**Waning confidence.** According to the Economic Sentiment Index prepared by the German firm ZEW, analysts and investors in the Eurozone's largest economy expect the situation of the German economy to get worse in the medium term. The index prepared by ZEW, which is based on the opinion of 223 analysts and investors, fell below zero (-3.6) for the first time since November 2012. Geopolitical tensions and a weak economic performance by most of the Eurozone are the main sources of uncertainty that have resulted in lower expectations of growth for Germany.

**Today's problem: low inflation.** Inflation in the United Kingdom fell to 1.2% (y-o-y) in September, below expectations for the first time since September 2009, according to information published by the Bank of England. The overall slowing down of prices in the ninth month of the year was due to lower consumer food prices (as a result of a price war among supermarkets) and lower energy prices.

**Outlook gloomy for France.** Standard & Poor's downgraded its credit rating for France from stable to negative, reflecting the adjustment in its growth forecasts for that country in a context of risks for implementing the policy of budget cuts. Earlier in the month, France defied its European partners when it submitted a budget for 2015 that indicates that its level of indebtedness would fall below the threshold set by the European Union two years later than promised.

**Three years of stagnating trade.** In its report Outlook for the Insertion of Latin America and the Caribbean in International Markets (*Panorama de la Inserción Internacional de América Latina y el Caribe*), ECLAC calculates that the region's exports will grow by 0.8% in 2014, which means low growth for the third year running, given that, after posting growth of 21.7% in 2011, trade expanded by only 1.6% in 2012 and by 0.2% in 2013. The report states that the main explanation for the slowing down in regional trade has to do with the problems in the economies of the United States and the European Union, the region's main trading partners.

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**Latin America is not investing enough.** According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), the countries of the region should invest 6.2% of their gross domestic product (GDP) a year, equivalent to some US\$320.0 billion, in order to meet their demands in terms of infrastructure over the period 2012-2020. According to ECLAC, investment in infrastructure averaging 2.7% of GDP in the last decade indicates that the region is not investing enough.

## POLITICAL TIPS

**The country's in crisis.** According to the latest opinion poll on "Government Performance and Political Situation" conducted by the *Instituto Venezolano de Análisis de Datos* (IVAD), 84.1% of Venezuelans consider that the country is currently going through an economic crisis and 75.1% believe that the path the country is taking is the "wrong" one. IVAD's poll reveals that the main problems being experienced by the Venezuelan population are shortages and lack of products (73.5%), lack of security (71.6%), and high cost of living (35.8%).

**It's clear who's to blame.** According to the latest IVAD opinion poll, 81.3% of the population says that the country is facing a political crisis and 57.8% think that President Nicolás Maduro should resign and that presidential elections should be called. The results of the poll also show that 34.6% of the population views the present administration's performance favorably and that 65.0% views it unfavorably.

**Release Leopoldo!** The Working Group on Arbitrary Detentions of the United Nations Office of the High Commissioner for Human Rights demanded that the Venezuelan authorities release the political leader Leopoldo López immediately since it considers that his arrest was "arbitrary." This UN working group called on Venezuela not only to release López but also to make full redress, which includes an indemnity and an apology.

**And Ceballos as well.** Just as it issued a pronouncement on the case of Leopoldo López, the United Nations also called for the immediate release of the political leader and former mayor of San Cristóbal (Táchira state), Daniel Ceballos. It said, furthermore, that he should obtain full redress for the damage caused by his arrest. According to the United Nations, "Ceballos was

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*arbitrarily arrested because the Bolivarian Republic of Venezuela failed to observe international rules regarding an impartial trial acknowledge in Articles 9 and 14 of the International Covenant on Civil and Political Rights.”*

**Don't meddle in other people's affairs.** “Just as we told the (US) Department of State not to interfere in our affairs, we say the same to any working group of any institution,” were the words used by Venezuela's Minister for Foreign Affairs Rafael Ramírez in response to the communiqué issued by the UN's Working Group on Arbitrary Detentions in which it demanded the release of Leopoldo López. “We're not going to allow anyone to interfere in our domestic affairs,” added Ramírez, who claimed that López' trial is proceeding in accordance with the country's laws and constitution.

**It's a mistake not to talk.** Henri Falcón, the governor of Lara state, described the opposition's decision to abandon dialog with the government as “a mistake” and insisted on the need to resume the dialog in order to avoid violent situations. “Today, dialog is more relevant than ever; not accepting it would be an act of folly,” claimed Falcón, who stressed that it cannot be viewed “either as a favor or a handout or as an act of surrender.” In his opinion, resuming the dialog is vital for finding solutions to the problems of productivity the country is experiencing and that are hitting the poorest sectors of the population particularly hard.

**Economic problems made in socialism.** National Assembly Deputy for *Primero Justicia*, Julio Borges, claimed that the inflation and shortages Venezuelans are experiencing is the result of the increased involvement by the State in the production of a variety of items, particularly food products. Borges pointed out that the government controls the manufacturing of agrichemicals and the marketing of fertilizers and agricultural machinery and reserves to itself the importing of basic food items such as corn, powdered milk, and coffee, besides having a huge capacity for processing those items at its disposal, and even so, it continues to blame others for the shortages.

**For the bourgeoisie, not even the time of day.** Minister for the Communes and Social Movements and Vice President for Territorial Development Elías Jaua insisted that “the government cannot consider taking turns in power with the bourgeoisie.” “We can never ever think that the revolutionary, democratic, popular project will abandon the power with which it is building a new State,” claimed Jaua during a speech that marked the start of the working groups at

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the Hugo Chávez High Studies Institute, whose purpose is to preserve the legacy of the former president.

## LEGISLATIVE TIPS

**MUD close, but not quite.** The opposition bloc in the National Assembly welcomed that the decision on the election of members of the Nominating Committee for the National Electoral Council was made in the legislature and not the Supreme Court as was discussed earlier. Committee approval was by consensus among the PSUV and MUD. 13 members of the list are from PSUV and 8 from the opposition.

**Dependent CNE.** Heryck Rangel, Yenniz Arrieta, William García, Zulay Delgado, Edith Silva, Carlos Díaz, Carlos Agostine, Francisco Bello, José Cadenas and Franklin Keppler are the candidates in the Election Nomination Committee. According to Súmate, 7 of the 10 members of the civil society are enrolled in the PSUV, which violates Article 294 of the Constitution which states the non-partisan affiliation of the electoral bodies.

**A new tax is being considered.** The chairman of the National Assembly's Administration and Services Committee, Claudio Farías, proposed the need for the preliminary bill on the Regulation of E-commerce to include a tax on this type of trade. *"Sixty-five percent of e-commerce is made up of formally incorporated companies and the remaining 35% is made up of private individuals or persons in the informal economy, but Seniat (National Integrated Customs and Tax Administration Service) receives no tax contributions from this economic activity,"* explained Farías.

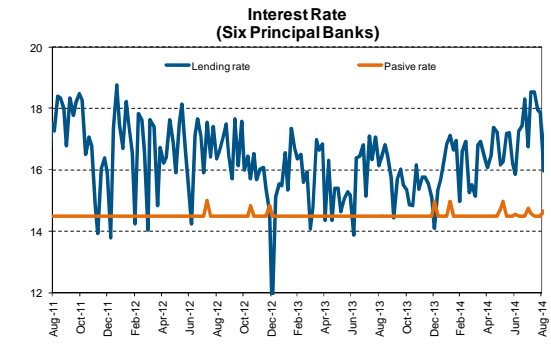
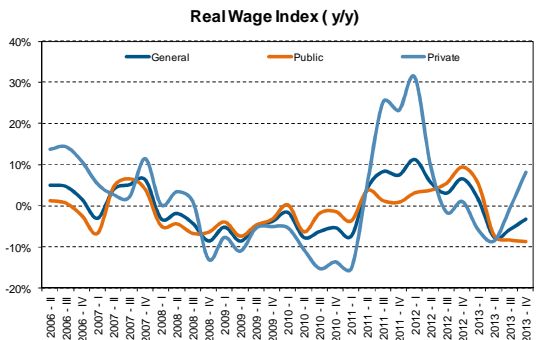
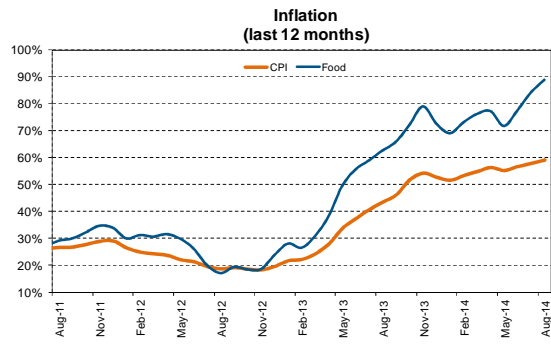
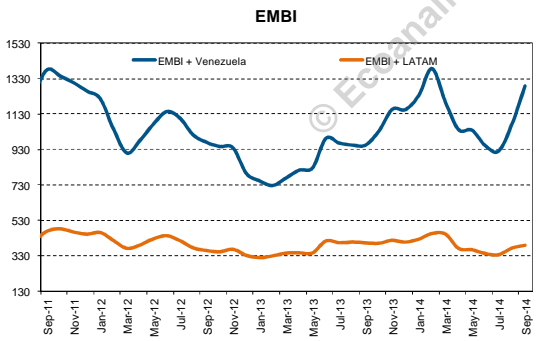
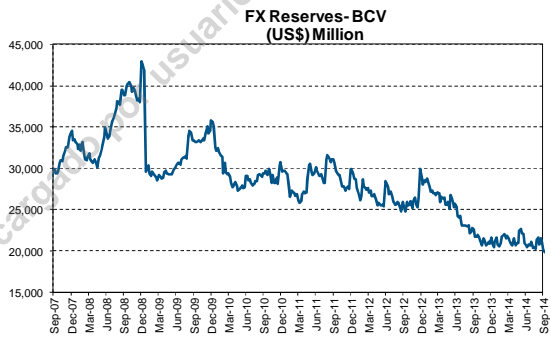
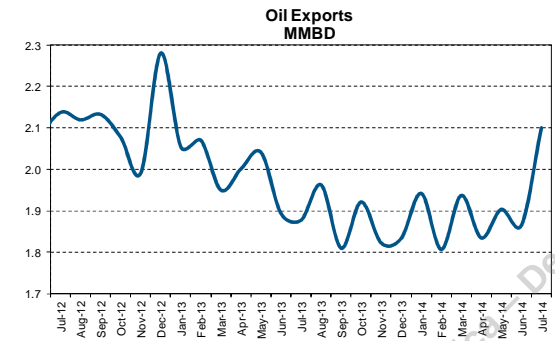
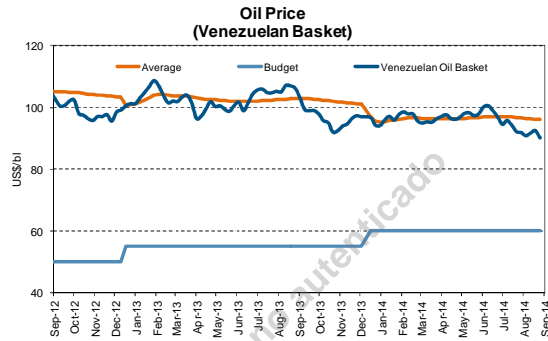
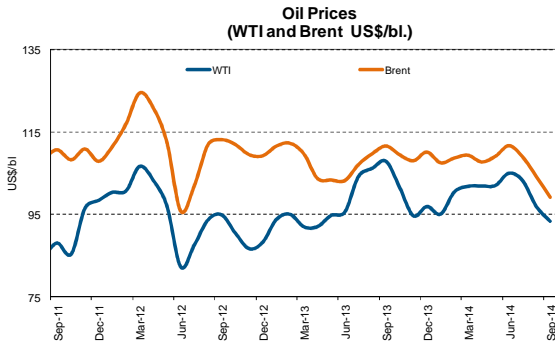
**A new law.** The purpose of the Productive Youth Employment Act is to give jobs to 350,000 unemployed young people (based on figures from the National Statistics Institute), said Vice Minister for Young People Víctor Clark. The vice minister said that the law does not deal only with young people who are looking for a job for the first time, who account for 83,000 of the unemployed young people mentioned earlier, but also the remaining 277,000 who are in between jobs. According to Clark, "The challenge is to combine the expectations, aspirations and vocations we should give young people with the productive needs of the country."

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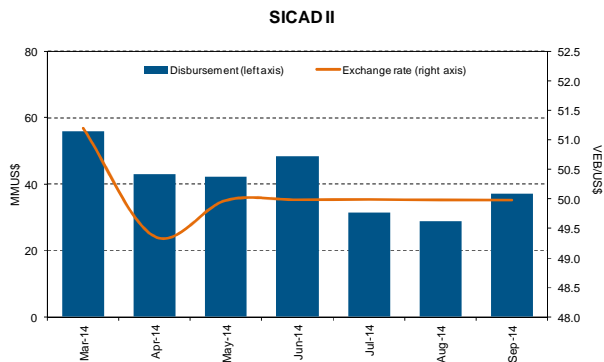
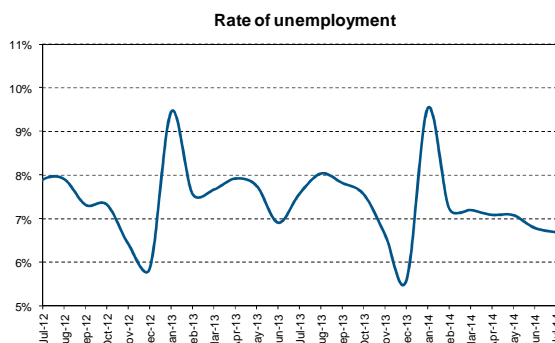
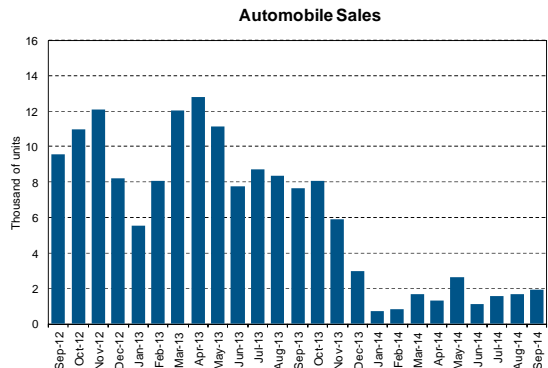
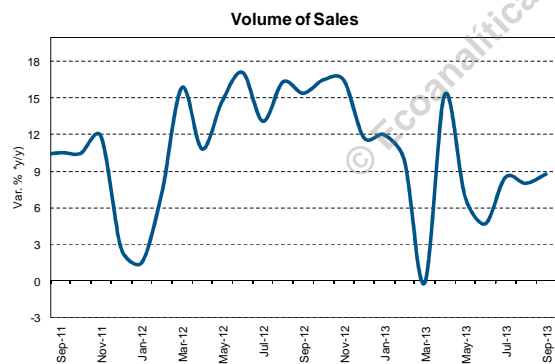
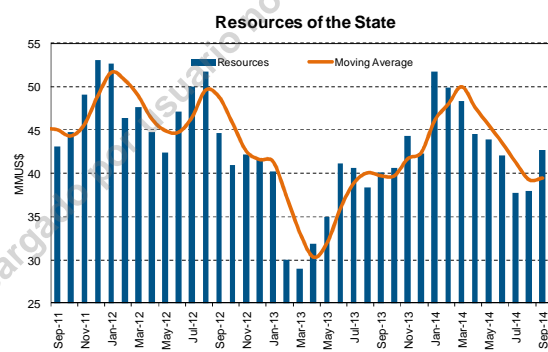
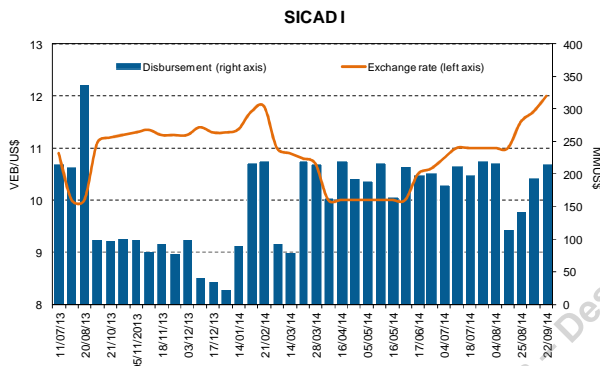
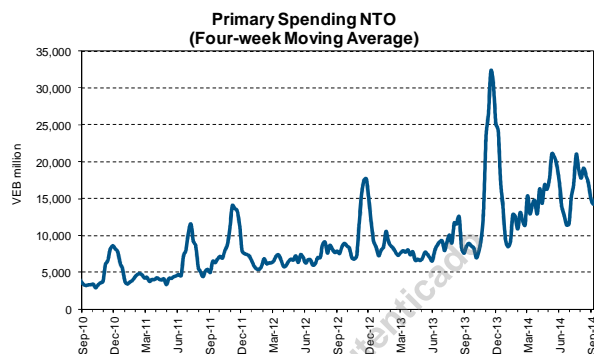
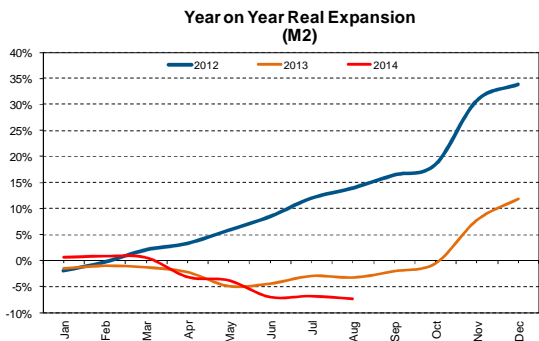
**It doesn't solve the problem.** Froilán Barrios, the coordinator of the Autonomous Front for the Defense of Jobs, Salaries, and Labor Unions, questions the National Statistic Institute's figures, since the youth unemployment rate in Venezuela is 20% and 150,000 young people join the job market every year. Barrios maintains that the purpose behind the law is a political one in that it tries to minimize the fact that Venezuelans between the ages of 15 and 30 cannot find work and if they do have a job it is not a steady one and the wages they earn are being eroded by inflation. That is the reason for the exodus of young professionals, which is a problem this law "is not going to solve."

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**ECONOMIC OVERVIEW**



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