



Weekly Report

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*Exchange controls in Venezuela:
between the politically rational and the
economically irrational*

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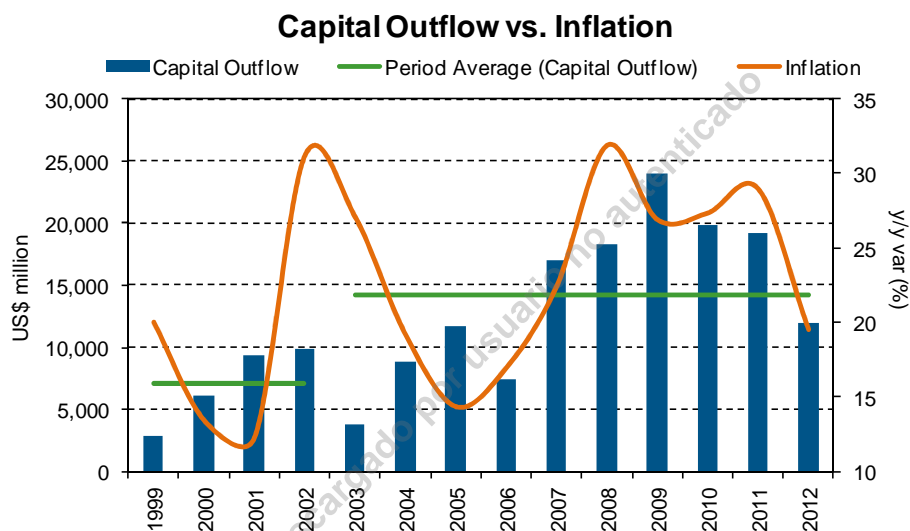
After 10 years of exchange controls that have not fulfilled their mission and six months of uncertainty after which the new administration has hinted that it wants to make important changes in the area of foreign exchange but has not gone from words to action, it is worth recalling everything we have lost as a result of these controls and recognizing the consequences of the adjustments if we are to explain the impatience of economists and the relaxed attitude of politicians when speaking of such a delicate matter as the transition to a new foreign exchange scheme, whatever form it might take.

Controls with no control

For some considerable time now exchange controls, the application of a fixed exchange rate scheme and the foreign exchange policy in general have lost their north. The objective on which the first exchange controls were based in 2003, putting a halt to capital flight, has not been met. The flight of private capital has averaged US\$14.20 billion a year since the controls were implemented, more than two times the amount during the five years before they were introduced. The same could be said of the



attempt to anchor inflation via a fixed exchange rate scheme. Inflation as measured by the Consumer Price Index for the Caracas Metropolitan Area (CPI-CMA) averaged 23.6% between 2005 and 2012, whereas average inflation in Latin America over the same period was 6.1%.



Sources: BCV and Ecoanalítica

The most paradoxical aspect of the foreign exchange policy is its main achievement. Between 2003 and 2012, it subsidized outflows of capital to the tune of US\$1.78 billion a year. That means that 15.4% of the US\$115.23 billion increase in deposits held by national agents abroad (between December 2002 and December 2012) can be classified as a kind of direct transfer by the State to the private sector as a result of granting dollars at an exchange rate below the equilibrium exchange rate¹.

There is little doubt that, given the economic failure of the foreign exchange policy, its political success as a tool for controlling the private productive apparatus has been the main reason for the resistance to any change in that policy by radical groups inside the government and, most recently, by groups with a vested interest that are benefitting from the opportunities for arbitrage that it offers.

A decade of lost opportunities

The 10 years of exchange controls and fixed exchange rates have not only led to paradoxical results –when compared to the objectives of those measures-, but their side effects have resulted in the country wasting

¹ At *Ecoanalítica* we have estimated the average annual exchange rate for capital outflows, which has been compared to the real exchange rate (equilibrium exchange rate) to obtain the subsidy for each dollar that fled the country.

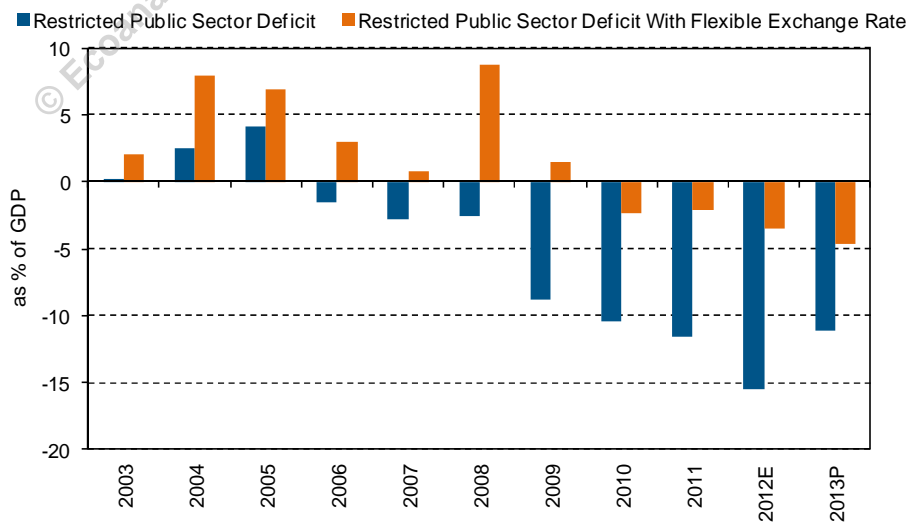


opportunities that would have improved the situation of both the public and private sectors of the economy.

The implementation of a fixed and overvalued exchange rate, as has been mentioned previously, has meant a considerable loss of competitiveness for domestic producers, even within our own domestic market, as imported final goods tend to cost less than those produced domestically, which makes it more attractive to invest in commerce and discourages investment in capacity for domestic industry.

Subsidizing imports, since it depends on setting an overvalued exchange rate (below the equilibrium exchange rate), implies an opportunity cost for the State, the generator of 96.2% of the economy's foreign currency via the oil business and the administrator of the legal monopoly of allocating foreign currency. At *Ecoanalítica* we estimate that, between 2003 and 2012, the government could have collected nearly an additional US\$19.60 billion a year if it had granted dollars at the real exchange rate of the day (some 6.9 points of GDP a year), permitting a significant reduction in the Restricted Public Sector (RPS) fiscal deficit and the needs for monetary financing of that deficit, with its positive effects on observed rates of inflation.

The RPS Deficit Under Different Exchange Schemes



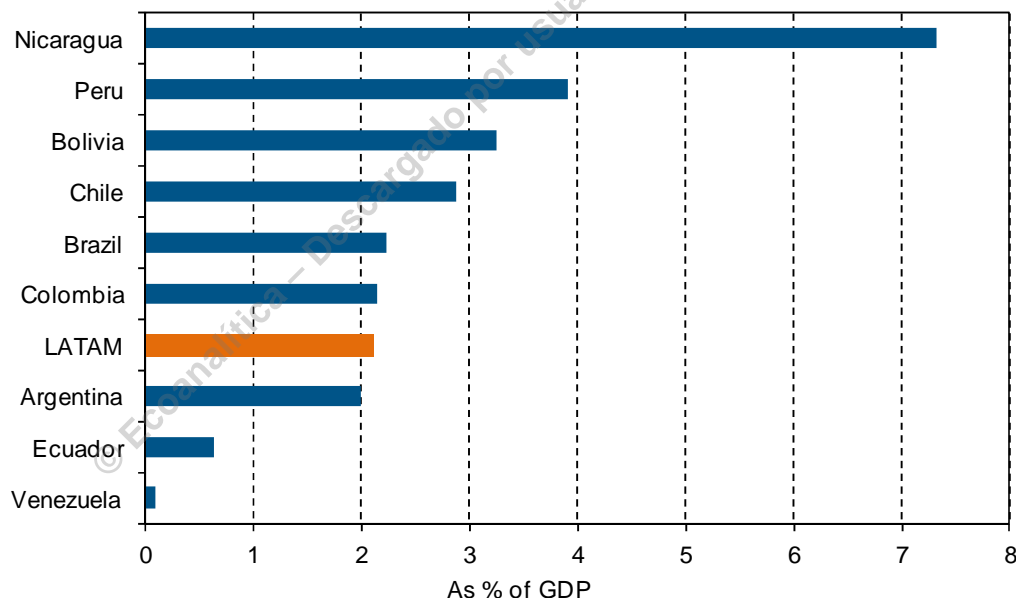
Sources: Finance Ministry and Ecoanalítica

Implementing exchange controls has meant that the country has not been able to participate in the considerable flow of “cheap” dollars that Latin America has received in recent years. The financial crisis in the United



States and the debt crisis in Europe have not only pushed capital flows to countries with a relatively better risk/yield ratio, but they have led to the implementation of expansive monetary policies that have brought down the costs of financing in dollars, with the result that Latin America has benefited from a flow of foreign direct investment (FDI) amounting to US\$102.57 billion a year between 2008 and 2012 (2.1% of the region's GDP), whereas Venezuela posted FDI amounting to US\$297 million a year over the same period, only 0.1% of GDP, and most of that flow has been a product of the controls themselves, which prevent the remittance of profits, leaving the companies with no option but to reinvest that capital.

**Foreign Direct Investment 2005-2012
(annual average)**



Sources: IMF, WB and Ecoanalítica

A decision that is more political than economic

So, the question we need to ask ourselves is why maintain a measure that has lost its north and that has only resulted in distortions for the economy? Why put off taking the decision to lift that measure for so long?

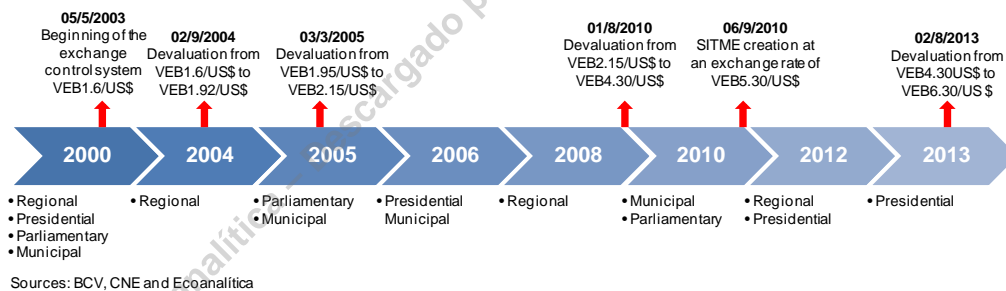
In order to answer those questions, suffice it to recall that, in general, economic policy decisions in recent years have been governed by criteria that are more political than economic, considering the effects that those decisions might have on the popularity of the person who takes them and how those decisions might be used as a weapon by his or her political enemies. The foreign exchange policy has been no exception to this rule.



Devaluations and the elimination of the foreign exchange subsidy (while necessary) continue to be unpopular and politically incorrect measures; bad publicity sold to the population by the government itself, which has made it difficult to implement the necessary adjustments during these past ten years and subordinated the taking of decisions to the political moment.

In a scenario where popularity conditions decision-making, the high frequency with which elections are held in the country -15 in the past 14 years, 18 if *referendums* are included- has been a good enough reason for shelving plans for structurally reforming the foreign exchange policy. Instead devaluations have been implemented every so often and alternative mechanisms have been created, mechanisms that have a limited range of action and that tend to be unsustainable over time since they do not solve the root problems.

The elections of the last decade



In this past year, the situation has been marked by the lack of a clear leader in the government –after the death of Hugo Chávez-, internal struggles among groups of different ideological tendencies within the government’s ranks, the much reduced political capital with which the “new” Nicolás Maduro administration started off –with Maduro winning the elections by a scant margin of 1.5%-, and the proximity of elections that have been described as a plebiscite by the opposition and on whose results the present administration’s remaining in power –in the medium term- could depend.

Don't leave till tomorrow what you can do today

Although the political situation is a delicate one –regardless of which side of the street one is on- and the country’s economic situation has got considerable worse in recent months, there are still several points in favor, if the government gathers enough political willingness, would allow the exchange controls and the present foreign exchange policy to be successfully dismantled.



In the first place, the country presently counts on high oil prices, which, with an increase in production or a renegotiation of contracts such as Petrocaribe, would increase the flow of foreign currency from the oil business. Secondly, the Venezuelan State still has a position in foreign currency assets in the order of US\$14.20 billion (extraordinary funds and liquid reserves) and US\$8.80 billion in debt certificates (issued by other countries), which should be enough for it to cope with any foreign exchange contingency. Last of all, but not least, Venezuela still enjoys fair access to international financial markets, albeit at high rates of interest owing to the high country risk.

All these factors should be enough to permit an increase in the official supply of foreign currency and to maintain the price of the dollar at acceptable levels in a scenario in which controls are lifted. At **Ecoanalítica** we have pointed out on several occasions that, while the historically low levels posted on some of the State's accounts –such as the extra-budgetary funds and the international reserves- give cause for concern, what is most alarming is that there are no signs of any serious intention on the part of the government to take advantage of the opportunities it still has available and eliminate the distortions that have brought about this deterioration of the external accounts and that could lead to a possible balance of payments crisis.

The cost of freeing the exchange rate

Those who are in favor of freeing the exchange market need to bear in mind that, while there are some advantages, they might not be sufficient if the adjustment is not implemented gradually, as the economic costs are high too and the impacts on the lives of Venezuelans, particularly the poorest sectors, would be considerable. In the past lifting the different exchange control mechanisms that there have been in Venezuela in the past led to periods of adjustment, both in the real market and in the foreign exchange and monetary markets, considerably affecting consumers and companies:

- The first consequence, exchange rate overshooting, consists of the depreciation of the currency at rates above the equilibrium rates. This usually happens as a result of there being excess liquidity in bolivars at the same time as high rates of inflation. This situation prompts agents to seek coverage in foreign currency once controls on the foreign exchange market are lifted, causing the price of foreign currency to shoot up for a relatively short period of time.
- Depreciation of the currency, which is necessary in order to eliminate overvaluation, implies an increase in the cost in local currency of



imports, both inputs and final goods. This means that lifting controls and freeing the exchange rate can have considerable inflationary impacts.

- The search for coverage in a strong currency could lead savers to exchange all their bolivars for dollars, reducing the liquidity of the banking system, pushing up lending rates, and adversely affecting borrowers in bolivars, which could provoke a liquidity crisis and increase the banking system's default rate.

The effects of a foreign exchange adjustment tend to be a consequence of the build-up of imbalances in the three markets, stemming from distortions imposed by the controls, and are not an intrinsic aspect of freeing the foreign exchange market.

**More gradual
adjustments
and fewer
stopgap
measures**

Foreign exchange controls and fixed exchange rates end up self-destructing once the imbalances they cause tend to become unsustainable, forcing a freeing of the market overnight if measures are not taken in time.

At **Ecoanalítica** we consider that, if use is made of the advantages that the country still enjoys at the moment, it would be possible to gradually dismantle the present foreign exchange policy, thereby avoiding a situation where it would be necessary to take shock measures and mitigating the negative consequences of freeing the foreign exchange market. This gradual dismantling would have to be accompanied, necessarily, by adjustment measures on the monetary and fiscal fronts that would help to bring down inflation and mop up excess liquidity, and by steps to eliminate the obstacles that affect businesses so that they can increase their production and counteract the inflationary effects of freeing the foreign exchange market. This process does not have to occur in its entirety in the short term. The important thing is to take the first step as soon as possible, because with every day that passes, time for avoiding a crisis that is slowly approaching is running out.





Economic Tips

Tax collection for September. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 24.26 billion were collected in taxes for the month of September. Of this amount, VEB 5.83 billion (24.0%) came from Income Tax, and VEB 12.63 billion (52.1%) from the VAT. The agency raised VEB 191.60 billion during the first nine months of 2013, of which VEB 51.38 billion came from Income Tax (26.8%), and VEB 91.54 billion from Value Added Tax (VAT) (47.8% of the total).

Concepts (VEB Million)	Sep-12	Sep-13	Var. (%)	Real Var.	Jan-Ago 2012	Jan-Ago 2013	Nominal Var.	Real Var.
Total Income	16,679	24,260	45.5%	-2.6%	136,412	191,608	40.5%	4.1%
Income Tax	4,147	5,830	40.6%	-5.9%	36,388	51,385	41.2%	4.7%
VAT (Internal)	7,882	12,636	60.3%	7.3%	61,715	91,549	48.3%	9.9%
Customs revenue*	3,489	4,203	20.5%	-19.4%	29,307	36,826	25.7%	-6.9%
Other Internal Revenue	885	1,419	60.4%	7.4%	7,397	9,989	35.0%	0.1%
Spirits	217	378	74.4%	16.7%	1,657	2,410	45.5%	7.8%
Cigarettes	632	1,419	124.5%	50.3%	5,429	9,814	80.8%	34.0%
Inheritance	28	73	157.5%	72.4%	237	357	50.6%	11.6%
Random games or bets	7	11	48.2%	-0.8%	74	96	29.9%	-3.7%
Others	277	171	-38.1%	-58.6%	1,605	1,859	15.8%	-14.2%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

In real terms. Total revenue in September of this year compared with the same period last year grew by 4.1%. The VAT increased 9.9% in real terms, while customs revenues decreased 6.9% in real terms. Meanwhile, income tax revenues increased 4.7% in real terms over the same period of 2012.

Food basket increased by 4.9% in August. According to figures released by the National Statistics Institute (INE), the food basket value was VEB 2,915.3 in August, up 4.9% from July and up 58.8% from August 2012, thus meaning that the reference food basket increased VEB 1,080 in one year.

Wheat bread registered the highest cost. VEB 30.4 was used to buy these products, up 32.7% points from August 2012. The second most expensive group was pineapple, for which VEB 6.0 was used and registered a variation of 26.9%.

Minimum wage only covers 92.7%. The above signifies that minimum wage isn't enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 2,702.7) could only buy 92.7% of the basket estimated by INE.





Sicad assigned US\$100.7 million. According to the Venezuelan Central Bank (BCV), a total of US\$100.7 million were sold through the fifth auction of the Complementary Foreign Currency Administration System (SICAD), and companies were assigned US\$94.9 million. According to non official sources the currency was assigned to companies and individuals, at a price of VEB11.2/US\$ and VEB11.5/US\$, respectively.

The 2014's budget is of VEB 550.63 billion. The Minister for Finance, Nelson Merentes, presented to the National Assembly the 2013 Budget Law Proposal. Merentes said the total budget amount was calculated based in a projected inflation between 26% and 28%, an oil price estimated in US\$60/bl, a growth forecast of 4% and a exchange rate of VEB 6.3/US\$. The total amount of the budget will be of VEB 550.63 billion, 38.9% higher than the 2013 budget.

Inflation between 26% and 28%. During the 2014 PLP exposition, Minister Nelson Merentes took the opportunity to talk about the current inflation problem in the country, while indicating that the inflation target for next year around between 26% and 28%. Merentes was concerned that Venezuela is going to reach 30 years with double digit inflation, and even three. Additionally, the Minister explained that both inflation and shortages are disrupting the economy, but the Government is taking measures to solve this situation.

Highest country risk in the world: Venezuela woke up on October 16 with the highest country risk rating in the world and, if the Republic needs to issue bonds abroad to obtain financing, it will have to pay a high rate of interest. Investors' risk perception means that, if Venezuela were to issues bonds, it would have to pay interest at 10.12 points above the rate paid by the United States, the country that obtains financing at the lowest cost. Venezuela is followed by Argentina, which would have to pay an additional 8.85 percentage points, and Belarus, with 8.25 points. Way behind are countries such as Colombia and Chile that pay only 1.6 and 1.5 points more.

More controls by CADIVI: The Foreign Currency Administration Commission (CADIVI) is to tighten controls prior to authorizing the so-called quotas. Rafael Marfisi, CADIVI's Comprehensive Protection Manager, explained that they are going to be stricter as they have detected the use of false air tickets for obtaining the foreign currency granted for travel abroad. As for post-authorization controls, he said that they are to concentrate on migratory movements. Marfisi, who took part in another traveler inspection effort yesterday, explained that this is a pilot test for doing a follow-up on everything associated with the use of foreign currency and credit cards abroad.



SICAD has not brought down the price on the parallel market. The reopening of SICAD has not resulted in the price of the unofficial dollar coming down despite the announcement that US\$100 million will be offered every week. The market has reacted with skepticism, as its interpretation is that the new system will not make available sufficient foreign currency to meet demand, said the economist Asdrúbal Rivas. There are no incentives for the price of foreign currency to fluctuate in this system as it would in a real auction.

Demand for foreign currency exceeds supply eightfold. The demand for foreign currency auctioned via the SICAD was eight times the US\$100 million offered to companies. According to information from the financial sector applications amounting to US\$800 million were received. In fact, one bank reported applications for more than US\$200 million from companies and for just over US\$1.0 million from private individuals.

Increasing the supply of SICAD dollars not discarded: The first foreign currency auction in the new phase of SICAD closed on Wednesday, October 16. Rafael Ramírez, the Vice President for the Economy, said that, if it was found that the foreign currency needs persisted in the sectors that took part in this auction, the supply of dollars for those sectors could be increased. He added that the plan was to make a total allocation of US\$900 million to SICAD *“and if more is needed then we will allocate more.”* This would be done at the same time as an internal revision of CADIVI and while progress is being made on establishing an optimized foreign exchange system.

Radicalization of the foreign exchange sector: Our director Asdrúbal Oliveros noted that revenues in 2014 will not be substantially different from 2013, as a result of which the restrictions are going to be maintained. *“Cash flow is compromised. Last year revenues came to US\$72 billion, but outflows were in the order of US\$96 billion,”* he explained. They managed to cover the deficit by borrowing, which was not possible to the same extent this year. *“There has not been a change in the model. The State, instead of cutting back on imports, stepped them up. The statist model for handling the economy has been consolidated,”* he maintained.

Amendments will bridge the foreign exchange gap. There are distortions, such as the gap between the parallel dollar and the official dollar and the demand for imports, that have a negative impact on the economy, said the president of the Central Bank, Eudomar Tovar. He stated that the main measure for combatting the black market will be the amendments to the Foreign Exchange Crimes Act and the Capital Market Act, both to be passed under the Special Powers Act requested by President Nicolás Maduro. Tovar calculated that these laws, together with other legislation in monetary



and fiscal matters, will manage to bridge the gap and achieve an exchange rate that will be more favorable for the interests of the country.

Another foreign exchange mechanism: The economic cabinet, chaired by the Vice President for the Economy Rafael Ramírez, has drawn up a foreign exchange policy program that excludes travelers, students, remittances, and special cases from the right to acquire dollars via the Foreign Currency Administration Commission (CADIVI). According to the proposal, private individuals will acquire dollars via another auction mechanism in addition to SICAD, yet to be defined, that will start to operate in 2014. CADIVI will continue to serve the other 24 economic sectors at the VEB 6.3/US\$ exchange rate, whereas private individuals will have to buy dollars at a much higher rate, which would be in the region of VEB 14/US\$.

Reserves are below acceptable levels. Since early this month, there has been a steady drop in the international reserves. According to official figures, at the close of business on Thursday, October 17, the reserves came to US\$21.39 billion, less than the US\$29 billion forecast for this year as the optimum level for these deposits. This means that the government needs to feed some US\$7.62 billion into the Central Bank's accounts in the eleven weeks to year-end. At the moment, the international reserves are at their lowest level in nine years, according to data published by the Central Bank.

Bad distribution of dollars generates losses of US\$25 billion. The mismanagement of foreign currency via exchange controls has resulted in the government losing US\$25 billion as at the close of 2013, a figure that is close to the BCV total international reserves, according to calculations by the economist Alejandro Grisanti, based on official figures. This loss is due to the flight of capital as a result, *"mainly, of the bad distribution of foreign currency by the Executive and the overdemand of dollars by sectors engaged in profiteering and state-owned companies that depend on the government."*

Interest rates. The lending rate for the second week of October was at 15.7%, up by 1.2 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 has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased by 3.8%, going from US\$22.54 billion during the first week of October to US\$21.69 billion during the second week of October. Compared to the same period last year, international reserves have decreased by 12.9%.





Central government expenditure. On Friday August 16th according to figures from the ONT primary spending was VEB 18.59 billion, which means an increase of 253.1% when compared to the previous week when it was VEB 5.27 billion; when compared to the same period last year we observe an increase of 251.8%. So far this year the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 71.17 billion, with a variation (y/y) of -14.1%.

Monetary liquidity. Monetary liquidity (M2) increased 1.5% in the second week of October compared to the previous week, settling at VEB 970.01 billion. The M2 has increased 66.2% in relation with the same period last year.

Oil Tips

Double or nothing. Rafael Ramirez announced during the II South American Congress of Oil and Gas, that PDVSA's goal, in accordance with the established with OPEC, is to increase production to 6.25 millions of barrels per day (mb/d) in 2019, more than double of current production, while gas production must increase from 7 (million cubic feet) mcf to 10.5 mcf during the same period. According to the minister expects that the majority of the increase in oil production will come from the Orinoco Oil Belt (OOB), which by 2019 is expected to produce 4.0 mb/d, more than three times what is produced today.

The subsidy is to stay. The president of PDVSA, Rafael Ramírez, has said that the priority for Venezuela's oil company is to ensure the distribution of fuel to the domestic market, whereas PDVSA's financial losses were secondary. However, Ramírez approved an increase in the sales margin for service stations on gasoline and diesel sales to VEB 0.28/liter. He also admitted that the previous sales margin had led to deterioration in the gas stations, which did not have the capacity to continue to operate efficiently.

Still no signs of a takeoff: According to reports by the OPEC, Venezuela's oil production between January and September averaged 2.76 mbd, which is 1.84% below the 2.81 mbd produced during the same period last year, despite the implementation of the "Sowing the Oil Plan." This drop is due to the fact that, even though it was possible to halt the drop posted since 2012 in traditional areas in the Eastern and Western Regions, production in the OOB has not taken off.



You decide. Rafael Ramírez has announced that the government is seeking to create a system whereby the joint ventures in the OOB will have greater autonomy in order to speed up the early production phase, finance the construction of infrastructure with the crude sold previously, and speed up the meeting of goals. These statements were given during a meeting between the president of Pdvsa and the president of Repsol, Antonio Brufau, at which they reviewed joint projects and where the salient item on the agenda was financing of US\$1.2 billion for the joint venture Petroquirequire.

The money's already on its way. Rafael Ramírez has announced that Pdvsa is already receiving the loans agreed by Chevron and the China National Petroleum Corporation via the joint ventures. According to unofficial sources, the first disbursement of the money intended for Petroboscán is ready. In connection with this, the Minister for Oil and Mining announced that operations are already under way to increase production.

Were there no problems after all? Although the government stated that fuel supplies were quite normal, the fact is that, after several reports in the media of problems with gasoline supplies, PDVSA launched an offer to buy a shipment of 300,000 barrels of blend for 95 octane gasoline. This is the second offer that PDVSA has launched on the open market in the past two months; the first offer was to purchase a shipment of 300,000 barrels of naphtha.

Oilmen will have Christmas gift. The president of the Venezuelan Oil Chamber (CPV), Alfredo Hernandez Raffalli, announced that the Minister Rafael Ramirez said that at the end of this year the debt that PDVSA holds with domestic firms (between six and seven months on average) will be regularized. Alfredo Hernández Raffalli himself also explained that for the companies it is vital that payments are predictable, so they can plan their cash flows.

International oil baskets. At closing time on October 18th in the New York Stock Exchange, the price of the WTI was US\$101.7/bl, down by 1.2% when compared to the reported the previous week. The Brent increased by 0.4% to reach US\$110.5/bl, compared to the previous week's US\$110.0/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$97.9/bl on Friday October 18th, a 1.2% decrease compared to the US\$99.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.6/bl.





Business Sector Tips

Shutdown inevitable: The Toyota plant in Cumaná will have to stop production between October 28 and November 11 owing to lack of inputs, according to an industry source. The source indicated that delays in releasing foreign currency by Cadivi resulted in international suppliers suspending the shipment of some parts, which put a brake on the assembly of vehicles. However, the same source stated that, thanks to negotiations with the parent company, the suppliers have already resumed the shipments of parts and that the parts are already on their way to Venezuela. In these two weeks, the company will cease to produce approximately 450 vehicles.

Merchandise has arrived. At the end of the week, a total of 16 vessels were tied up at Puerto Cabello waiting to be unloaded, half of them with food products such as yellow corn, soy flour, wheat, and malt. In addition, there are vessels loaded with fertilizers, potassium, paper, machinery and miscellaneous containers. The National Customs Superintendent, César Augusto Febres, stated that the agencies involved in customs operations are working to speed up the process of clearing the shipments through customs.

Puerto Cabello looks suspicious. The president of the Institute for the Defense of People's Access to Goods and Service (Indepabis) commented that it is suspicious that all the ships are putting in at Puerto Cabello, hinting at the possibility that they too are taking part in the "economic war." Moreover, the National Customs and Tax Superintendent, José David Cabello, stated that the "port mafias" are operating a "go slow" to prevent the basic products from entering the country.

The other side of the coin: Sources connected with the ports lay responsibility for the congestion at the ports, particularly at Puerto Cabello, at the government's door, stating that the imports by the Corporación de Abastecimiento y Servicios Agrícolas (CASA) are responsible for the congestion at Puerto Cabello. Those vessels are loaded with food items in bulk and, according to the consulted source, unloading bulk cargos is problematic owing to restrictions imposed by equipment and infrastructure.

We're running late. According to liquor vendors, the merchandise that is to be imported following the last SICAD auction will arrive at the end of December, at the earliest, when the Christmas season is already over. Moreover, the imports to be brought in by the footwear industry with dollars obtained from the auction will arrive in



the country in the last week of November, at best, which is still a long way off. This will have an impact on the production of footwear as these companies traditionally close down for vacation the first week in December.

Cadivi is putting a brake on the automotive sector. The delays in releasing foreign currency by Cadivi are forcing the automotive industry to work at minimal levels. According to their own calculations, the debt local plants have run up with their parent companies comes to between US\$1.7 billion and US\$1.8 billion. Toyota is not the only one facing the possibility of a forced shutdown, as other assemblers are also considering shutting down production, moving up or extending collective vacations or continuing to eke out inventories.

There's no dough... According to the National Federation of Flour Industry Workers (Fetraharina), domestic flour production fell by 25.0% owing to labor disputes and the lack of raw materials. The president of Fetraharina, Juan Crespo, explained that the consequences will be felt in shortages at the end of the month. He also called on the government to deal with the problem of the labor disputes and the lack of raw materials to prevent the crisis from getting worse.

Why produce, if we can import? The Minister for Food, Félix Osorio, announced that imports from Colombia, Argentina, and Uruguay that will go to make up the first month of food reserves have already started to arrive. The Vice President for the Economy, Rafael Ramírez, stated that more than 450,000 tons are to be imported from Colombia, equivalent to US\$600 million, which will be paid for with PDVSA bonds. He also said that a rotating fund of US\$700 million has been set up with Fonden to respond to food requirements.

Margarine will be arriving... in 2014. Mercosur-Alba commission's representative at Industrias Diana, Antonio Rodríguez, stated that Bs.800 million have been invested to revamp and modernize two crude fat refineries in Zulia and Cojedes, which are to go on line in August 2014. He also commented that a plant for producing margarine is in the testing phase and is expected to start operating during the first quarter of 2014.

Nicaraguan black beans: Given the drop in domestic production, the government is resorting to importing wholesale. That is why Nicaragua is to export its entire black bean production, estimated at 1.2 million quintals (sacks of 45.5.kilos each), to Venezuela, according to the president of the National Union of Farmers and Cattlemen, Álvaro Fiallos. The first shipment of black beans will be sent once the present agricultural cycle (which runs from May this year to April 2014) is over.



Lower quality, a lower price: Coffee growers are to suggest to the government that a higher price be set for higher quality coffee, the idea being to encourage production of coffee, which has been one of the least profitable items in recent years, commented Vicente Pérez, the vice president of Fedeagro. Pérez explained that, in Venezuela, 70% of the production is of poor quality coffee and that there is a huge gap between the fixed prices and production costs.

SIDOR has achieved only 45% of its steel production goal. After a 20-day labor stoppage, SIDOR has not managed to revive its sluggish production and it has posted cumulative production in the first nine months of the year of 1,360,000 tons of liquid steel, which is only 45% of this year's production goal. That production goal was recalculated in the second quarter of the year at 3 million tons, despite the fact that the installed capacity of this steel mill –the largest in Venezuela- is 5 million tons.

“Those US\$100 million are not enough.” That was what the president of Fedecámaras, Jorge Roig, affirmed when talking about state control of foreign currency that has been in place for a decade and SICAD. Roig claimed that *“the worst part about this system of auctions is the uncertainty, because businessmen don't know whether they will be allocated [dollars] or not and, therefore, they are unable to plan.”* The government created SICAD to try to reduce the distortions generated in the economy as a result of the impact of the parallel market, but this and any similar mechanism are *“stopgap measures,”* claimed Fedecámaras' president, who is an advocate of the free buying and selling of foreign currency.

World Economy Tips

The King and Queen of the Netherlands are to visit Venezuela. His Majesty King Willem-Alexander and Her Majesty Queen Maxima are to pay an official visit to Venezuela in November 23. The Ambassador of the Kingdom of the Netherlands in Venezuela, Onno Kervers, said that the visit by the King and Queen seeks to strengthen the Netherlands' good relations with its neighbors, particularly with Venezuela, with which it has had historical and cordial relations of friendship. The main purpose of their official visit is to hold a meeting with President Nicolás Maduro.

A helping hand: The advisor for international affairs to the Brazilian Presidency, Marco Aurelio García, has given assurances that the countries of South America will help Venezuela to overcome the serious problem of shortages it is currently



experiencing. *“The countries of the region are prepared to provide material assistance to solve the problems of shortages and other problems of management,”* said García in an interview for the daily *Folha de Sao Paulo*.

Republicans maneuver against Obamacare once again. The President of the United States, Barack Obama, faces another battle against the Republicans, who are using technical glitches in starting up the health insurance exchanges as an argument for renewing their attacks on the health reform. Although the White House has downplayed the problems and has attributed them to the huge volume of traffic on the web, the Republicans are turning them into a strategy to claim that the reform is not working.

Defending Obamacare tooth and nail. President Barack Obama admitted yesterday that the Healthcar.gov portal -where US citizens who want to take out health insurance under the Affordable Care Act have to register- is experiencing problems. The President reminded people that, with Obamacare, there are new benefits and protections for Americans. Obama estimated that one in every six Americans will find coverage for less than US\$100 a month and recalled that, before, an insurance policy cost US\$1,600 a month and that with this new exchange they will save hundreds of dollars every month.

Partial shutdown cost the United States US\$24 billion. The partial shutdown of the government that kept Americans, the markets, and investors on tenterhooks for 16 days cost the United States US\$24 billion. The risk rating agency Standard & Poor's reported that the shutdown reduced annual growth of the country's GDP by 0.6%, maintaining that the closer they get to the debt ceiling, the greater the economic impact is expected to be.

Ten conditions for Merkel: The leaders of the German Social Democratic Party (SPD) gave the party green light on Sunday to start talks to form a coalition with Chancellor Angela Merkel. The party submitted a list of 10 demands, which it called “nonnegotiable,” among them a minimum wage of EUR8.5 an hour, equal pay for men and women, greater investment in infrastructure and education, and a common strategy for boosting growth and employment throughout the Eurozone.

Bolivia's debts with Venezuela come to US\$156.9 million. The Central Bank of Bolivia reported that the country's foreign debt with Venezuela came to US\$156.9 million for the period between January and September. Bolivia owes Venezuela US\$6.4 million for gasoil imports, a debt incurred by the state-owned *Yacimientos Petrolíferos Fiscales Bolivianos*. According to the news agency EFE, China tops the list of Bolivia's creditors.



Greeks had their income reduced by 10.0% in 2Q2013. Since the start of the economic crisis in 2008, a period in which the Greek economy has contracted by 5.0%, Greeks have seen their incomes shrink by up to 40.0% as a result of cuts in income, pensions and social benefits and the increase in fiscal pressures. According to data published by the Greek statistics office (ELSTAT), in absolute terms, income in the second quarter went from €33.2 billion to €30.1 billion, a reduction of €3.1 billion. The drop in income was due mainly to wage cuts (13.9%) and reductions in social benefits (12.4%).

Athens rejects further cuts saying the country has reached its limit. The Greek government rejected outright a further saving of €2 billion next year proposed by the troika of creditors. *“There will be no new measures. We have achieved a primary surplus after much effort and huge sacrifices by society,”* said the Minister for Administrative Reform, Kiriakos Mitsotakis. *“If the creditors want to prevent Greece from going under they have to understand that we have reached our limit,”* said Bakoyianni.

Unification of Cuban pesos: On Tuesday, October 22, the Raúl Castro administration announced the start of the process to unify the Cuban peso and the Cuban convertible peso in circulation in Cuba for the past 19 years, which does not contemplate “shock therapies,” according to an official press release that did not go into further details. *“The Council of Ministers (the Executive) has agreed to implement the timetable for executing measures that will lead to monetary and foreign exchange unification,”* said the press release published in the government daily *Granma*. It further highlighted that, “in a first stage,” the process of monetary unification will start with the business sector and that a second stage will also include private individuals.

Political Tips

It’s not the time to throw in the towel. From Mucuchíes, where he held a meeting up in the mountains with five of the six Democratic Unity Alliance candidates to mayor in that part of Mérida state, the head of the Simón Bolívar campaign team, Henrique Capriles, affirmed that everyone in *“the country who doesn’t want Maduro’s model to express their opinion on December 8.”* He reminded people that the Democratic Unity Alliance obtained a victory in that region on April 14 and now he asked them to bring in 70% of the votes. *“This election is going to decide what’s*



going to happen in 2014,” he insisted during a broadcast of his program “Venezuela Somos Todos.”

Cabello to be accused of abuse of authority: National Assembly (NA) Deputy Dinorah Figuera (*Primero Justicia - PJ*) said that she will go to the Prosecutor General's Office to accuse the president of the NA, Diosdado Cabello (PSUV), of abuse of power and of stigmatizing *Primero Justicia* and the party's national coordinator, the Deputy Julio Borges, as well as Deputy Nora Bracho (*Un Nuevo Tiempo*), who had their right to take the floor suspended for 30 days. “Diosdado Cabello commits abuses of power, and that is quite apart from the abuses by the state-owned television station, VTV, which has aired micros attacking *Primero Justicia*.”

Capriles is to meet with Pope Francisco. The governor of Miranda state, Henrique Capriles Radonski, has announced that next week he is to be received by Pope Francisco in The Vatican and that the meeting will be private. He said that he would take advantage of the meeting to act as spokesmen before His Holiness for the millions of Venezuelans who are victims of the country's main problems, among them shortages and the lack of security. During a broadcast of his program *Venezuela Somos Todos*, the governor of Miranda claimed that what the government aims to do by creating the Strategic Center for the Security and Protection of the Fatherland is to try to hide what is really happening in the country from the Venezuelan people.

Maduro orders the intervention of Hidrolara. The President of the Republic, Nicolás Maduro, ordered the Minister for the Environment, Miguel Rodríguez, to intervene Hidrológica de Lara (Hidrolara), a company administered by Lara State Government, because of irregularities in the supply of water to the Universidad Nacional Experimental de la Seguridad (UNES) in Barquisimeto. “Immediately, comrade Miguel Rodríguez, you go tomorrow to Barquisimeto and intervene what you have to intervene. Summon Hidrolara and solve that university's problem with the water (...) and you call me from there and tell me what has to be done,” said Maduro.

Oct 15, the day of total collapse: The President of the Republic, Nicolás Maduro, revealed that the opposition had allegedly devised a plan to destabilize the country, a plan that he had announced previously. Maduro underscored the fact that the Government had done everything necessary to ensure that Venezuelans do not lack food on the table. “If we had stayed with our arms crossed, right now we would be experiencing a famine.” He insisted that the opposition calculated everything so that their “destabilizing” plan would cause that collapse.

Here no one enjoys impunity. “The only thing that cures the bitterness of discovering corruption in people who are supposedly working for the revolution is



justice getting to the bottom of things. Here no one enjoys impunity,” insisted President Nicolás Maduro referring to the case of the Mayor of Valencia, Edgardo Parra. In commenting on this case, the President said that, from the ranks of the government, they accepted this blow against the Mayor of Valencia, who was elected to office on the Psuv ballot. He stressed that there had already been several investigations into Parra and that incriminating evidence had reached him, which was why he had insisted on the investigation.

Maduro threatens Falcón with being summoned by the Public Prosecutor’s Office. President Nicolás Maduro gave the governor of Lara state, Henri Falcón, an ultimatum and warned him that, if he did not retract a statement in which he supposedly called for a renewal of the country’s institutions under a new administration, Maduro would ask the Public Prosecutor’s Office to act, because, the President insisted, he will have “zero tolerance with conspiracies.” Maduro wondered what new administration Falcón was referring to when the elections to be held on December 8 are municipal not presidential elections.

Deputy 99 does exist. The president of the National Assembly, Diosdado Cabello, stated that the 99th deputy needed to pass the Special Powers Bill “*does exist, is made of flesh and blood, is a human being,*” and he repeated that there could be more than 100 parliamentarians who will support President Nicolás Maduro’s proposal. Cabello said that certain instruments are needed to fight corruption, hence the need for the Special Powers Act. He rejected accusations of alleged corruption during his term as governor of Miranda. “*If they had proof against me, that would be the jewel in the crown; why don’t they present it,*” he asked. “*They’re not going to find any act of corruption because I’m not corrupt,*” said Cabello.

Legislatives Tips

No putting up the charges. The president of Indepabis, Eduardo Samán, went before the National Assembly’s People’s Power Media Committee and reported that Movistar is among the first 10 companies about which Indepabis has received most complaints involving increases, improper charging, misleading advertising, and suspension of services. As a result, Indepabis decided to suspend any increase in charges by the telephone company. Eduardo Samán also informed that he is to open investigations as a result of complaints received against the cable television companies.



Waiting for Diosdado. The Legislature has appointed a “special pro-special powers committee,” made up of the National Assembly’s board of officers and the chairpersons of its committees, but without the participation of the opposition. The chairpersons of the permanent committees are waiting on the National Assembly’s board of officers in order to start meetings to determine whether the special powers bill complies with the requirements of the Constitution, and subsequently submit it to its first debate in plenary session.

There you have it. The deputies have received the special powers bill, but no details of which laws are to be amended. The bill would give the Executive special powers for one year for the purpose regulating the economy, “promoting the transformation of the economic system,” and defending price stability. It is expected that the fight against corruption will be via the passing of an anti-money laundering law and a law on the illegal financing of political parties, among other things. The bill mentions that “organic” or master laws will be promulgated and that, in the event of objections, they will be referred to the Constitutional Chamber of the Supreme Tribunal of Justice to determine their constitutionality.

There’s no rush. Ricardo Sanguino, the chairman of the National Assembly’s Permanent Finance Committee, proposed that the presentation of the multi-year framework for the period 2017-2019 corresponding to the 2014 national budget bill be postponed “because international economic events have an impact on local economic activity and the government’s management of the budget.”

Regulation ready. The National Assembly has sanctioned the law that finally regulates the purchase and sale of new and used vehicles. However, since President Nicolás Maduro has still not signed it, it has not yet gone into force. According to the law, the prices of new cars will be set by the State via Sundecop, whereas the prices of used cars up to 10 years of age will be determined by applying a formula.

Plans to amend the Law on Actions for the Protection of Rights to adapt it to the Constitution. National Assembly Deputy Juan Carlos Alemán announced that there are plans to amend the Law on Actions for the Protection of Constitutional Rights and Guarantees to adapt it to the 1999 Constitution, since this law was passed back in 1988. Alemán said that the amendment bill is expected to be submitted in plenary session this week for the first debate. If the amendment bill is passed, it will be submitted to national consultation in order to proceed with the second debate and the bill’s final approval.





ECONOMIC OVERVIEW

