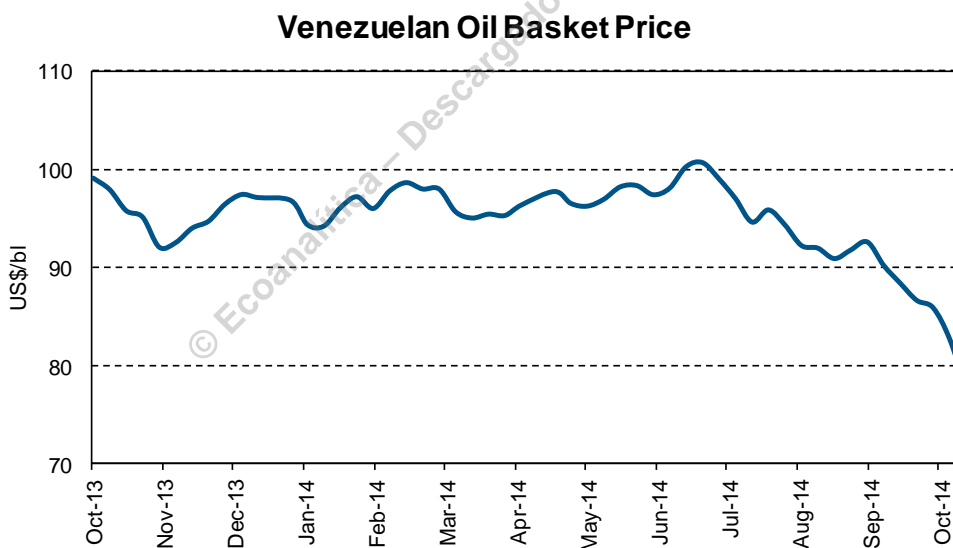


## When the price of oil drops, the economy trembles

On October 17, the price of the Venezuelan Oil Basket closed at around US\$77,6/bl, the lowest it has been since December 2010, awakening fears among investors, holders of public foreign debt, and local businessmen and consumers that depend on the availability of the supply of foreign currency offered by the government.



Sources: Menpet and Ecoanalítica

A prolonged drop in crude oil prices, that currently is occurring due to an oil market inundated with the supply of crude oil from OPEC and non-OPEC countries, will not only reduce the capacity for the Government to make payment on its foreign debt and to pay PDVSA debt (the oil company has payments due this coming year for US\$12.02 billion), but it will also seriously affect the current foreign exchange schema (that still has mechanisms operating to assign foreign currency at the “cheap dollar” rate) and it will put the majority that chavismo party holds in Parliament at risk by limiting the amount of

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funds it will have at its disposal for campaigning leading up to the Parliament elections. And with current popularity level figures at 30.2%, this could be crucial.

### A small drop for the market, a significant blow to the Republic

The weight of oil revenues for the government, in terms of exports, incoming fiscal revenue, and aggregate value, make it so that every dollar the price of crude oil drops on the international market, which in turn affect the price of the Venezuelan Oil Basket, has a significant negative effect on the Nation.

A drop of US\$1.00 in the average price of export crude oil, considering sales volumes near to 2.07 mb/d (excluding oil by-products), equals a drop of US\$755.5 billion in the values of oil exports in a year. If you only take into account crude oil exports that generate cash flow revenue for PDVSA, which is currently at 1.6 mb/d, a drop in the price of the Venezuelan Oil Basket of US\$1.00 will lead to a loss in cash flow revenue of US\$581.3 billion.

With respect to the amount of incoming fiscal revenue that oil exports generate for the government, at **Ecoanalítica**, we estimate that for every US\$1.00 that the average price of crude oil drops, and the taxes and royalties paid by the oil industry, the loss of revenue is at around US\$250.3 billion.

It's also important to remember that higher oil prices doesn't only mean more incoming revenue for the government, but also that the Administration has a greater amount of freedom when it comes to deciding how to use these resources. Keep in mind that mechanisms such as the National Development Fund (Fonden), through which the Administration has allocated US\$14.1 billion a year to finance projects; or every time the Administration authorizes supplemental appropriates, which on average have increased the National Budget beyond its approved amount by 70.2% during the past three years, are significantly affected when oil prices begin to approach the level at which they were estimated in the National Budget (US\$60.0/bl). In other words, it is not in the government and the nation's best interest for crude oil prices to drop.

### There's foreign currency, just not enough

In order to evaluate what effect the drop of US\$1.00 in the price of the Venezuelan Oil Basket will have on the government's capacity to make payment of its foreign debt and how much foreign currency will be available to cover the needs of the country, at **Ecoanalítica**, we have carried out an exercise that estimates the flow of foreign currency in the economy. Said flow of foreign currency takes into account the export

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revenue of crude oil sales that generate cash flow, non-oil goods, outgoing foreign currency due to imports (goods and services), debt service (for Central Government, PDVSA, and the China Fund), and outgoing capital.

<b>Hard currency cash flow (US\$ Bn)</b>				
<b>Concept</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014 F</b>
<b>Liquid foreign assets stock</b>				
Public sector	26,905	31,255	20,259	6,932
<b>Income</b>				
Oil Exports (mb/d)	2.31	2.40	2.27	2.18
Energy agreements (mb/d)	0.24	0.16	0.11	0.11
Effective oil exports (mb/d)	2.07	2.24	2.16	2.07
Venezuelan oil basket price (US\$/bl)	100.4	103.5	101.2	95.6
<b>Oil income</b>	<b>75,820</b>	<b>83,324</b>	<b>79,567</b>	<b>72,225</b>
Oil imports	6,015	11,795	9,232	8,771
<b>"Net" oil income</b>	<b>69,805</b>	<b>71,529</b>	<b>70,334</b>	<b>63,454</b>
<b>Non-oil-related income</b>	<b>4,679</b>	<b>3,771</b>	<b>2,110</b>	<b>1,933</b>
<b>Total income</b>	<b>74,484</b>	<b>75,300</b>	<b>72,445</b>	<b>65,387</b>
<b>Expenditure</b>				
<b>Non-oil-related public imports</b>	<b>12,971</b>	<b>14,266</b>	<b>20,044</b>	<b>10,534</b>
<b>Private imports via Cadivi</b>	<b>24,832</b>	<b>30,518</b>	<b>25,547</b>	<b>11,812</b>
<b>Non-priority private imports</b>	<b>7,590</b>	<b>8,781</b>	<b>5,466</b>	<b>11,783</b>
Services	9,404	9,938	9,777	8,072
Rent and current transfers	3,843	5,513	5,794	2,715
<b>Public external debt</b>	<b>13,482</b>	<b>13,802</b>	<b>16,589</b>	<b>17,264</b>
Central Government	6,425	7,471	7,821	6,581
Pdvsa	3,604	2,396	4,379	7,031
Chinese Fund	3,453	3,935	4,389	3,652
<b>Capitals outflow and others</b>	<b>19,154</b>	<b>11,968</b>	<b>16,392</b>	<b>16,071</b>
<b>Total expenditure</b>	<b>91,276</b>	<b>94,786</b>	<b>99,609</b>	<b>78,251</b>
<b>Result</b>	<b>-16,792</b>	<b>-19,486</b>	<b>-27,164</b>	<b>-12,864</b>
<b>Financing</b>				
Chinese Fund	4,000	4,000	5,000	4,000
Bonds, loans and others (Republic + Pdvsa)	17,142	4,490	8,837	16,020
<b>Total Financing</b>	<b>21,142</b>	<b>8,490</b>	<b>13,837</b>	<b>20,020</b>
<b>Net Flow</b>	<b>4,350</b>	<b>-10,996</b>	<b>-13,327</b>	<b>7,156</b>

Sources: BCV, Ministerio de Finanzas, Pdvsa and Ecoanalítica

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At **Ecoanalítica**, we estimate that for 2014, incoming foreign currency revenue for the country will reach US\$65.39 billion (US\$63.45 billion from oil exports and US\$1.93 billion from non-oil exports), while outgoing foreign currency will be at US\$84.80 billion (US\$40.68 billion in non-oil imports, US\$10.79 billion in service imports and rent payment, and US\$17.26 billion in public foreign debt service).

According to these estimates, the economy will close 2014 with a foreign currency deficit of around US\$19.42 billion, which we expect will be covered by the US\$4.0 billion from the new installment of the China Fund, US\$11.02 from new agreements signed between PDVSA and the mixed companies, and US\$5.0 billion from a loan granted by the Public Bank to PDVSA at the beginning of this year. This would make an accumulation of funds of US\$7.2 billion during the year.

### What does 2015 look like with low oil prices?

The outlook for 2015 is not promising. At **Ecoanalítica**, we expect oil prices to continue to drop to around US\$70.0/bl by the end of this year, and then they will slowly begin to correct themselves as the excess in supply begins to diminish. Consequently, we expect the average price of the Venezuelan Oil Basket for the coming year to average around US\$80.0/bl.

With an average price for the Venezuelan Oil Basket of US\$80.0/bl, the foreign currency revenue flow for the economy will only be at US\$54.90 billion in 2015, down by 16.0% compared to what's been estimated for 2014. This figure will improve slightly due to a 19.0% cut in crude oil shipments to Cuba and Petrocaribe. In this scenario, the Administration would be forced to make adjustments" with respect to the foreign currency needs of the economy, especially those having to do with the import of non-oil goods. We estimate that these will be cut by 20.0%.

Taking into account these adjustments, at **Ecoanalítica**, we estimate that the flow of outgoing foreign currency will be at around US\$72.12 billion, cutting back just 7.8%, due to the inelasticity of obligations such as foreign debt service (US\$15.75 billion), oil imports (US\$8.33 billion), and outgoing capital (US\$16.81 billion), which represent 56.7% of foreign currency needs in the economy for the coming year.

With incoming foreign currency revenue dropping more than what was saved by the adjustments made in foreign currency needs of the economy, this will generate a foreign currency deficit of US\$17.22 billion for 2015. We don't see how the government will be able to cover this amount with the liquid funds it has available. We don't rule out that faced with this situation, the Administration may consider to issue more debt and also

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begin to liquidate some of its less liquid assets (bonds and gold reserve), which to date reach a value of US\$23.4 billion according to Central Bank balance.

<b>Hard currency cash flow (US\$ Bn)</b>			
<b>Concept</b>	<b>2015A</b>	<b>2015B</b>	<b>2015C</b>
<b>Liquid foreign assets stock</b>			
Public sector	14,088	14,088	14,088
<b>Income</b>			
Oil Exports (mb/d)	2.20	2.20	2.20
Energy agreements (mb/d)	0.10	0.08	0.08
Effective oil exports (mb/d)	2.10	2.10	2.10
Venezuelan oil basket price (US\$/bl)	85.0	80.0	75.0
<b>Oil income</b>	<b>65,074</b>	<b>61,246</b>	<b>57,418</b>
Oil imports	8,332	8,332	8,332
<b>"Net" oil income</b>	<b>56,741</b>	<b>52,914</b>	<b>49,086</b>
<b>Non-oil-related income</b>	<b>1,990</b>	<b>1,990</b>	<b>1,990</b>
<b>Total income</b>	<b>58,731</b>	<b>54,903</b>	<b>51,075</b>
<b>Expenditure</b>			
<b>Non-oil-related public imports</b>	<b>11,704</b>	<b>11,119</b>	<b>10,533</b>
<b>Private imports via Cadivi</b>	<b>11,479</b>	<b>10,905</b>	<b>10,033</b>
<b>Non-priority private imports</b>	<b>8,453</b>	<b>7,185</b>	<b>6,762</b>
Services	8,296	7,632	6,640
Rent and current transfers	3,020	2,718	2,310
<b>Public external debt</b>	<b>15,753</b>	<b>15,753</b>	<b>15,753</b>
Central Government	6,063	6,063	6,063
Pdvsa	5,953	5,953	5,953
Chinese Fund	3,737	3,737	3,737
<b>Capitals outflow and others</b>	<b>16,810</b>	<b>16,810</b>	<b>16,810</b>
<b>Total expenditure</b>	<b>75,514</b>	<b>72,121</b>	<b>68,841</b>
<b>Result</b>	<b>-16,783</b>	<b>-17,218</b>	<b>-17,766</b>
<b>Financing</b>			
Chinese Fund	4,000	4,000	4,000
Bonds, loans and others (Republic + Pdvsa)	3,000	3,000	3,000
(Republic + Pdvsa)			
<b>Total Financing</b>	<b>7,000</b>	<b>7,000</b>	<b>7,000</b>
<b>Net Flow</b>	<b>-9,783</b>	<b>-10,218</b>	<b>-10,766</b>

Sources: BCV, Ministerio de Finanzas, Pdvsa and Ecoanalítica

If the price of crude oil falls below US\$80.0/bl, (around US\$75.0/bl) the adjustment made to the amount of non-oil imports will have to be more severe, possibly reaching US\$35.66 billion, a little higher than where it was at in 2006. On the other hand, if oil

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prices hover around US\$85.0/bl the adjustment made to imports would be less severe, though the problem with cash flow would still a problem. It began to be a problem when the price of oil began to be around US\$95.0/bl.

### Is there a solution?

At **Ecoanalítica**, we have always stated that the fiscal and foreign sustainability of the economy can be achieved if a series of reforms were to be implemented, which would in turn imply a significant change in the current economic model, the main ones being:

- **Implementing an official exchange closer to the balanced rate:** this would allow for imports to be adjusted and create an incentive to export, as well as allow for increased incoming fiscal revenue, and lower the demand for foreign currency caused by speculation.
- **Revise oil agreements:** eliminating those that have a negative effect on PDVSA's cash flow and that have a negative effect on the amount of incoming revenue for the nation. Currently, in a year, the loss in foreign currency revenue is estimated at US\$7.5 billion.
- **Eliminate gasoline subsidy:** the gasoline subsidy represents a loss in export revenue of US\$12.31 billion a year, the equivalent of more than 100.0% of the foreign debt service for the coming year.
- **Cut back on public spending:** this would help to cut the deficit, control the M2, and ease pressures on inflation.

Despite the fact that the problems that have the economy in its grip are all well known, as are the solution that should be implemented, at **Ecoanalítica**, we believe that the Administration will once again avoid making any adjustments that may help the economy due to the high political cost they entail, and especially now, leading into next year's Parliament elections. What we will probably see are incomplete adjustments, such as: changes to the exchange rate, but not as severe as needed, moving imports to alternative mechanisms, a cut back in liquidity and in the liquidation of foreign currency. The golden opportunity, a year without elections, is almost over, and no major adjustments to the economy were made. Now all that's left is to wait for 2015, a year that is sure to be full of turbulence.

**Gabriel Villamizar**

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## ECONOMIC TIPS

**A conservative price of US\$60/bbl.** In official statements, President Nicolás Maduro has established that next year's budget will be calculated based on an average oil barrel price of US\$60. He also said that this estimate was made in the interests of preventing an "*economic war on oil*" and that, even with a drop in oil prices, Venezuela had the capacity to finance, with bolivars, the country's domestic projects.

**The unannounced recession.** Even though the government has not given official figures on the performance of the Venezuelan economy, several international firms have published projections that indicate a contraction in Venezuela's economic activity. One such is Moody's, which forecasts that Venezuela will contract by 2.1% in 2014 in the midst of a scenario of falling oil prices. Even so, according to Moody's, Venezuela will experience slight growth of 1.2% in 2015, due mainly to an increase in spending, given that parliamentary elections are to be held next year.

**They've modified it.** In the call for the last SICAD I auction (No. 26) the terms have been modified to include new sectors that are eligible to take part (household appliances, medical supplies, and electrical supplies) and also 181 customs tariff item numbers. The conditions have also been modified so that, for this auction, Certified Functioning Licenses (or LFCs after their initials in Spanish) without the need for them to expressly mention "for use in Cencoex" will be accepted, thus making it possible for these companies to take part.

**Changes in the allocation of foreign currency on the horizon.** Seeking to improve the allocation and administration of foreign currency, Cencoex and the Central Government have established a series of requirements that will have to be met in order to acquire foreign currency via this mechanism next year. Cencoex has said that, in order to be eligible under the plan, companies will have to register the goods they produce as well as their foreign currency plan for 2015. Based on all the information gathered, Cencoex intends to draw up a general foreign currency allocation plan.

**No more than 130%.** One of the requirements for joining the new plan for the allocation and administration of foreign currency is that, if the foreign currency budget for 2015 is 130% more or equal to a company's historical

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level of imports or if a customs tariff item number is different from the one entered on its records, the company will be required to register an investment project, in other words, explain the reasons why it wishes to purchase more foreign currency “than normal.” According to Cencoex, these requirements will prevent shell companies from continuing to obtain dollars.

**How can I know what I'll spend the dollars on if I haven't paid?** One of the biggest obstacles to foreign currency planning for 2015 is the backlog of delayed payments to suppliers on account of imports for which foreign currency was allocated but not disbursed. Following the announcement of the foreign currency allocation and administration plan, several business association leaders expressed their concern over this new procedure, because it makes little sense to think about getting imports back to normal and drawing up a foreign currency budget for 2015 if the back debts are not paid. At **Ecoanalítica** we estimate that the commercial debt came to US\$21.11 billion in 3Q2014.

**Economic measures, more necessary than ever.** According to JP Morgan, the drop in oil prices is putting pressure on the Venezuelan Government to take much needed, but unpopular, economic measures. In the opinion of JP Morgan, if the government does not make the adjustments, any annual price below US\$90/bbl. represents a problem for the government. At **Ecoanalítica** we estimate that, for every dollar that the average annual price of the Venezuelan oil basket drops, Venezuela's exports will be cut back by US\$793 million and the amount of foreign currency available to the State by US\$564 million.

**There is a danger of nonpayment.** In one of its latest reports, the investment bank Morgan Stanley states that, even though Venezuela's willingness to pay is still strong, its capacity for servicing the debt is being restricted. According to Morgan Stanley, there would seem to be a significant deficit of dollars, despite the contraction in imports and a buildup of private sector debt.

**Venezuela will definitely pay.** In one of its more recent reports on Venezuela, Bank of America explained why it was unlikely that Venezuela would fall into default. In the opinion of Bank of America, Venezuela's external accounts show that, following a considerable reduction in imports in the past two years, the public sector is not currently acquiring net external

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liabilities, a factor that is of key importance for the sustainability of the foreign debt, according to the bank.

**Suspicious increases.** The Central Bank has published its general balance sheet for the month of August, which reveals somewhat unusual behavior on the miscellaneous foreign currency assets account. A comparison of the figure posted in August and the figure for May reveals that there was an increase of 208.2% on the miscellaneous foreign currency assets account. At **Ecoanalítica** we are of the opinion that this increase occurred as a result of a transfer or centralization of funds (Fonden, Chinese Fund, Bandes, etc.) by the government.

**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 up by 0.8%, going from US\$19.79 billion during the second week of October to US\$19.95 billion during the third week of October. Compared to the same period last year, international reserves have decreased by 9.5%.

**Central government expenditure.** On October 17th according to figures from the NTO primary spending was VEB 21.19 billion, which means an increase of 90.2%; when compared to the same period last year. So far this year, the primary expenditure accumulates VEB 654.78 billion, 90.3% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 0.4% in the second week of October from the week prior, to settle at VEB 1.6 trillion. The M2 has increased 62.3% in relation with the same period last year.

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Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
10/7/2014	24.8	24.0	96.8	0.8	3.2
10/8/2014	26.3	25.7	97.7	0.6	2.3
10/9/2014	26.0	25.2	96.9	0.8	3.1
10/10/2014	31.4	29.9	95.2	1.5	4.8
10/13/2014	28.7	27.5	95.8	1.2	4.2

Source: Ecoanalítica

## OIL TIPS

**Slipping lower and lower.** The Ministry for Oil and Mining reported that the price of the Venezuelan oil basket closed at US\$77.7/bbl. this week, which means that there was a drop of US\$5.1/bbl. compared to the price posted in the week ending on October 10. The explanation given by the Oil Ministry was that there is “*ample supply and a slowing down in world oil demand.*”

**The first time ever.** The first oil ever imported by Venezuela will arrive in the country on October 26 from Algeria. The shipment is for 2 million barrels of Saharan Blend crude from Algeria’s state-owned oil company Sonatrach, and it is to be used at Jose Complex for processing the extra-heavy crude that PDVSA obtains from the Orinoco Oil Belt. PDVSA has a deficit of light crude with which to blend the extra-heavy crude from the Orinoco Oil Belt as a consequence of the drop in production and exports.

**And now here comes the second.** PDVSA has purchased 2 million barrels of Russian crude for the production of lubricants at Isla Refinery on Curacao, which is under its management. According to sources that are familiar with the agreement, no supply contract has been signed, which means that PDVSA will be able to purchase other types of crude in the future. Following the purchase from Algeria’s state-owned oil company, this is the second time in its history that Venezuela has imported crude. This purchase is one of the steps being taken by the government to guarantee the supply of lubricants in Venezuela.

**Drop in prices puts on the pressure.** The drop in oil prices is putting pressure on Chevron’s and Statoil’s oil projects in Venezuela. Following the biggest daily drop in prices in more than three years, these companies are

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questioning the profitability of many projects in Venezuela and also in the rest of the world. According to Luisa Cipollitti, the president of Statoil in Venezuela, *“Today, there are 163 mega oil projects in the world, more than half of which need a crude price of US\$120/bbl. These projects will not be viable if the price goes down.”*

**Call for an emergency meeting.** Last week Venezuela requested that OPEC hold an extraordinary meeting to take measures in view of the drop in oil prices. This is the first time that a member of OPEC has called for an extraordinary meeting since the oil barrel price started to slide. However, this call has not met with support. The president of the state-owned PDVSA, Eulogio Del Pino, said that the drop in prices on the oil market is generating a price war that is in no one’s interests.

**Labor unrest about to blow.** The October 1 Oil Movement has denounced that PDVSA is violating 75.0% of the 2013-2015 collective employment contract, thereby infringing workers’ rights. One of its leaders, Eudis Girot, stressed that *“at PDVSA there’s a pressure cooker that will blow at any moment because there is discontent among the workers,”* as all the areas of the oil industry are suffering from a lack of maintenance and shortages of supplies the workers need to be able to do their jobs.

**Playing chicken?** Even with the conflicts in the Middle East, the increase in supply from the United States has pushed down prices. Saudi Arabia needs prices of more than US\$90/bbl. in order to pay its bills, according to the IMF, whereas the United States obtains acceptable profits at US\$70/bbl. Although Saudi Arabia has the capacity to reverse the drop in prices, it has refused to do so in order to test the equilibrium point of US shale oil prices, which is putting the members of OPEC that are maintaining themselves thanks to the high prices at risk.

**Goodbye to renewable energies.** As a consequence of the drop in oil barrel prices, investment in renewable energy companies has started to suffer. The prices of shares in solar energy companies have dropped by nearly 30.0% in the space of one month. The sales of electric automobiles are also tending to drop. It is expected that the incentive for developing and marketing these types of energy will decline as long as oil prices continue to fall.

**International oil baskets.** At closing time on October 17th in the New York Stock Exchange, the price of the WTI was US\$83.6bl, down by 5.5% when

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compared to the reported the previous week. The Brent decreased by 5.7% when compared to the previous week, to reach US\$86.5/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$77.7/bl on Friday October 17th decreasing by 6.1% 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

**Loan portfolio grew 9.0%.** According to last figures released by the Bank Superintendent's Office (Sudeban) in August, gross credit portfolio of commercial and universal banks grew 73,3% in nominal terms and in real terms (excluding inflation), it meant a year-to-year increase of 9,0%, down 2,6 percentage points (pp) from real increase experienced in August 2013 (6,4%).

**Economic destinations credit portfolio.** In relation to the structure of the banks' loan portfolio in terms of economic destination, all sectors showed year-to-year a variation in real terms, led by tourism (+14,7%), commercial credits (+14,0%), placements earmarked for the manufacturing sector (+18,6%), agricultural credits (+5,2%), consumption credits (+17,0%) and finally mortgages (-21,0%).

**Commercial credits' share increases.** Concerning share in loan portfolio, commercial loans grew 1,9 pp, from 40.8% in August 2013 to 42.7% in the same month 2014, followed by the 3.1 pp increases in micro credits, reaching 16.0% of total portfolio. Mortgages, in turn, recorded a marked drop, from 10.3% in August 2013 to 7.5% in August 2014. Similarly, the share of consumption credits and credit cards creased and decreased to 18.0% and 15.4%, respectively.

**Fruit as well.** The National Fruit Growers Federation explained in a communiqué that, due to the slight improvement at the end of 2Q2014 "as a result of a relaxation of the controls," the industry had decided to increase the price of oranges for the first time in three years, by 50.0%. They claim that "we producers are prepared to sell them (the industries) all the oranges they need provided the prices are adjusted to the economic situation we have to

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deal with, which indicates a price of between VEB 7 and VEB 9 per kilo.” Even so, they admit that they are facing difficulties in order to continue producing.

**Low production in 2015.** Meetings between the Executive and directors of the vehicle assemblers are continuing. Rodolfo Marco Torres, the minister for the economy and finance, chaired another meeting and said that they were “*coordinating actions for 2015.*” The industry has welcomed the fact that Marco Torres and Saúl Ameliach, appointed by President Nicolás Maduro, as the State’s High Commissioner for the automotive sector, are focusing on finding solutions to the crisis, but regret that the prospects for 2015 are still not looking good.

**Drop in air ticket sales.** After sustained growth in the sales of international air tickets from Venezuela over the past seven years, there was a break in this indicator’s upward curve in 2014. According to figures provided by the International Air Transport Association (IATA), 1,158,017 international air tickets were sold between January and July 2007; 1,495,308 in 2008; 1,804,361 in 2009; 1,689,345 in 2010; 2,076,453 in 2011; 2,562,132 in 2012; 3,133,144 in 2013, and only 1,070,384 in 2014, which means that there has been a contraction of 65.8% this year.

**Travel agencies in crisis.** Travel agencies have reported a substantial reduction in their revenues, since they obtain 80.0% of those revenues from air ticket sales. According to IATA, international air ticket sales in Venezuela went from an average of US\$268.3 million a month in 2013 to US\$178.5 million in 2014, for a contraction of 33.5%.

**Bit by bit.** Lufthansa has announced that it is to add one more to its weekly flights to Venezuela starting on October 26 and American Airlines is to add two more starting in November. However, this does not fully compensate for the loss in flight frequencies posted in August when they decided to reduce their flights to Venezuela on account of the government’s delay in disbursing the foreign currency they were owed, commented a sector source.

**The government is to meet with domestic airlines.** Minister for Aquatic and Air Transport Giuseppe Yofreda met with several domestic airlines. The ministry reported that he held a “dialog with representatives of domestic airlines in the interests of improving and strengthening the air service.” Present at the meeting were representatives and directors of Conviasa,

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Aeropostal, Avior, Estelar, Perla, Rutaca, Transcarga, Aserca, La Venezolana, and other airlines, stated the ministry.

**Price hike for sugar and powdered milk.** The National Superintendency for the Defense of Socioeconomic Rights (Sundde) has published the increases in the prices of powdered milk and sugar. The retail price of a 900 g bag of powdered milk is now VEB 64.5 (previously VEB 32.0) and the prices of brown and unwashed sugar and raw-sugar-flavored sugar have all gone up by 50.0%.

**Cavilac welcomes the increase in the price of milk.** Roger Figueroa, the president of the Venezuelan Dairy Industries Chamber (Cavilac), welcomed the fact that the government had allowed an increase in the price of milk, but warned that it was still not sufficient bearing in mind their cost structures. *“We were expecting an increase to around VEB 100,”* explained Figueroa. Even so, he said that the price of VEB 70 per kilo of powdered milk was “reasonable” and was a move in the right direction.

**They are asking for licenses to import milk.** The dairy industry represented by Cavilac has requested that the government grant it licenses to import powdered milk in order to be able to supply the domestic market. Roger Figueroa, the president of Cavilac, said that this would be the second phase of the plan that would make it possible to put powdered milk back on the shelves. *“This would have a dual effect: on the one hand, it would be a relief for the government in terms of the logistics of importing and, on the other, it would make it possible to cover consumer demand,”* he commented.

**The goods still haven't arrived.** At the port in Puerto Cabello, they expect the arrivals of shipments of goods for the Christmas season to increase in the next few weeks. Even though the Executive has given assurances that merchandise for the Christmas season is coming into the country normally, there is concern at the country's main port. *“So far, there aren't those volumes of cargo. That's why there's no congestion at the port,”* said one source. *“We aren't handling the same volume of cargo as in previous years,”* stated a customs agent. He said that there are isolated shipments of Christmas goods coming in, but that hopes were pinned on more merchandise arriving in October and November.

**Hotter weather, less electricity.** The high temperatures recorded in the past few days have been pushing up demand for electricity across the country.

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According to the president of the Electricity Industry Workers Federation (Fetraelec), Ángel Navas, rationing is being implemented depending on the availability of the hydro-thermal generating units. The labor union leader stressed that Corpoelec “*has allowed the level of maintenance of the thermoelectric power stations to fall off, which is resulting in low generation capacity compared to the installed capacity of the power stations.*”

**At half capacity.** Carabobo has one of the country’s largest industrial parks. However, problems with obtaining raw materials and inputs have compromised the productivity of manufacturing industries. There have been plant shutdowns, plants working at half capacity in order to stretch out inventories, recesses, compulsory vacations, and factories that have been abandoned by their owners because they consider that the business is not profitable under the present conditions in the Venezuelan economy. According to businessmen, this year industry has operated at 60.0% of its installed capacity on average.

**Mortgages are not enough.** The president of the Metropolitan Real Estate Chamber, Rosa Varela, said that the mortgages that are available are insufficient. An apartment measuring 92 square meters in El Paraíso costs VEB 12 million and in La Candelaria VEB 7.5 million, but mortgages are between VEB 500,000 and VEB 2.4 million. The alternative providing the highest coverage is offered under the Special Home Mortgagor Protection Act, which goes up to VEB 2.4 million, depending on the monthly family income, which should be 15 minimum wages, in other words VEB 63,000 a month. Varela said that the authorities need to ask themselves how many families have an income that exceeds that amount in order to be able to opt for this mortgage and, at the same time, cover their basic needs.

## WORLD ECONOMY TIPS

**The FED is still undecided.** The president of the Federal Reserve Bank of Boston, Eric Rosengren, admitted that interest rates could continue to remain low until 2016, making him the third president to request that an increase in interest rates be postponed, following the lead of Charles Evans and James Bullard, the presidents of the Federal Reserve Banks of Chicago and San Luis, respectively. Initially it was expected that the asset purchasing program

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would end in October and that around six months later interest rates would start to rise.

**Sales and prices are up.** Existing home sales in the United States came to 5.17 million units between September 2013 and September 2014 for an increase of 2.4%, their highest in the past twelve months. The average price for an existing home was US\$109,700, an increase of 5.6% compared to last year. The inventory of unsold housing grew by 6.0% compared to last year for a total of 2.3 million homes.

**Inequality is also a priority.** The chairwoman of the FED said that she was alarmed by the growth in inequality in the United States. She also questioned the structure of growth distribution in recent years, saying, *“I consider it important that we ask ourselves whether this trend is compatible with the values that are historically deep-rooted in our nation, among them the high value that Americans have traditionally placed on the equality of opportunities.”*

**A “modest” rate of growth.** The US Federal Reserve (FED) announced that the growth of the US economy was “modest to moderate.” According to the FED, the majority of Districts posted growth in consumption.

**The IMF shows its figures.** The managing director of the International Monetary Fund, Christine Lagarde, said that the slump in the financial markets was due to a correction in the markets and an exaggerated reaction. The IMF explained that the low economic activity posted in 1H2014 had forced them to revise their projection for growth in world GDP for 2014 downward from 3.7% to 3.3% and also for 2015, when it will be 3.8%.

**Imports are sky high.** In September, China’s exports grew by 15.3% compared to September last year to US\$213.7 billion, making this the biggest increase in exports in the last 19 months. The total volume of foreign trade was also up in September at US\$396.4 billion, 11.3% higher than for the same period last year.

**And prices are in the doldrums.** In September, prices in China posted their lowest growth in the past five years at 1.6% year-on-year. This reveals a slowing down in price increases, which came to 2.1% year-on-year for the first nine months of the year, below the 3.5% posted during the first three

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quarters of 2013. This slowing down in prices gives the Chinese government some leeway for implementing policies for stimulating economic growth.

**They're not as strong as they thought.** The Deutsche Bundesbank, Germany's central bank, has warned that the country is at risk of coming dangerously near to a recession. It announced that, between April and June this year, Gross Domestic Product contracted by 0.2% and that another contraction in 3Q2014 could push the German economy into a recession. In its monthly bulletin, the Bundesbank added that, bearing in mind the slow orders and the pessimistic attitude among companies, the outlook for the last quarter of the year is equally modest.

**Gradually recovering.** The governor of the Bank of Japan, Haruhiko Kuroda, stated that the economy continues to recover, although he did admit that there are still some weaknesses with regard to production. "Japan's economy has continued to recover moderately as a trend, although some weakness, particularly on the production side, has been observed" because of the impact of a national sales tax increase in April this year, he said.

**Developing countries are taking over the market.** According to the World Trade Organization (WTO), developing countries have gone from accounting for 33.0% in 2000 to 48.0% in 2012. It also states that, in 2012, developing countries represented 40.0% of world production, whereas in 2000 they accounted for only 23.0%. As for the Director General of the WTO, Roberto Azevêdo, he commented that 25.0% of trade is between countries of South America.

**Trade in the region is not growing.** The Economic Commission for Latin America and the Caribbean (ECLAC) announced that foreign trade in Latin America and the Caribbean has been stagnating for the past three years as a consequence of a very slight increase in exports and a very slight drop in imports. According to ECLAC's estimates, regional exports will grow by only 0.9% this year, whereas imports will drop by 0.6% in 2014.

## POLITICAL TIPS

**The model is not viewed favorably.** According to Datanálisis, 81.6% of the population has a negative view of the country's current situation. With regard

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to President Nicolás Maduro's performance, the results obtained by the pollster reveal that 67.5% has a negative view, whereas only 30.1% views it positively. Lastly, as regards the economic model, Datanálisis states that 80.1% of the population holds a negative view of the economic model, among them 45.3% of those who consider themselves to be government supporters.

**Leopoldo is “the least bad.”** On the matter of the performance of the main political leaders in Venezuela, Datanálisis' National Omnibus Poll states that 45.6% of those interviewed evaluates Leopoldo López' performance positively. As for Henrique Capriles Radonski, he obtained a positive evaluation for his performance from 42.1% of those interviewed; and President Nicolás Maduro's performance is viewed positively by 30.2% of the population.

**But that is not all.** According to Datanálisis' National Omnibus Poll, 23.1% of the population considers itself opposition and 33.9% pro government, whereas 37.8% does not feel it belongs to either side.

**Being on the Security Council doesn't save you from criticism.** United Nations High Commissioner for Human Rights Zeid Ra'ad Al Hussein exhorted the Venezuelan authorities to release Leopoldo López and Daniel Ceballos “and all those arrested for exercising their legitimate right to express themselves and protest peacefully.” He also reproached the attacks on and intimidation of those who work in defense of human rights in Venezuela.

**Jaua's home truths.** Minister for Communes and Social Movements Elías Jaua stated, “*We cannot consider taking turns in power with the bourgeoisie.*” He also recognized that former President Hugo Chávez' efforts at winning over the people were so successful that, even with the current economic problems, they continue to view the socialist model as “unalterable.”

**We're still comfortable at forty.** President Nicolás Maduro said that, even with oil prices at US\$40/bbl., the Republic would have the financial capacity to guarantee the budget “in full.” He also stressed that there was not going to be “*a catastrophe or a collapse. We have the financial capacity in bolivars for all the projects our people need.*”

**There were never any serious differences.** The president of the National Assembly, Diosdado Cabello, claimed that the choice of Nicolás Maduro as a candidate to the presidency of the Republic was “*a fair decision.*” As for the

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rumors of a power struggle with President Maduro, Diosdado Cabello said that the fact of the matter is that they are both “*in the same boat.*” Last of all, on the matter of the parliamentary elections to be held next year, Cabello said that he was sure they would get ahead.

**We still haven’t had talks with our neighbor.** Minister for Foreign Affairs Rafael Ramírez requested that the meeting he had planned to have with his Colombian counterpart, María Ángela Holguín, be suspended owing to “problems of agenda,” thus postponing the discussion of issues such as accusations against Colombian citizens for the death of Deputy Robert Serra, the alleged mistreatment of Colombians at the hands of the National Guard at the border, and the restrictions on passage between the two countries.

**CAVIM and its irregularities.** Vice Admiral José Vicente Padilla De Biasi has been removed as president of Compañía Anónima Venezolana de Industrias Militares (CAVIM) as a result of the findings of investigations carried out by the Military Intelligence Division (DIM) and the Bolivarian National Intelligence Service (SEBIN).

**Going high tech.** Minister for Homeland Affairs, Justice and Peace Miguel Rodríguez Torres announced that the Venezuelan Government’s citizen safety plan will have radars that are sensitive to gunshot and drones equipped with video cameras. The minister stated that, by 2015, the 50,000 cameras that are intended to strengthen citizen protection will be installed. He also said that they were going to purchase “special equipment that will make it possible to block cell phone calls in the prisons.”

**Pizarro has definite ideas on the subject.** National Assembly Deputy Miguel Pizarro announced that a “*process of political rearrangement*” is taking place in the Democratic Unity Alliance that calls for adapting to a situation in which “*there is discontent in 80.0% (of the population), and that is something that has to be capitalized on.*” Last of all, he stated that the route should be “*a constitutional, electoral and peaceful alternative with a social slant and where there is belief in waging the struggle by institutional means.*”

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## LEGISLATIVE TIPS

**A new CNE shortly.** Now that the ten people who are to sit on the Electoral Nominations Committee have been appointed, it is estimated that the selection of the candidates to the board of directors of the National Electoral Council (CNE) may take two and a half months, which, according to Súmate, is the amount of time established in the Electoral Branch Act. The committee is expected to be sworn in tomorrow and on Wednesday it will meet for the first time in order to proceed to hear the presentations of the candidates.

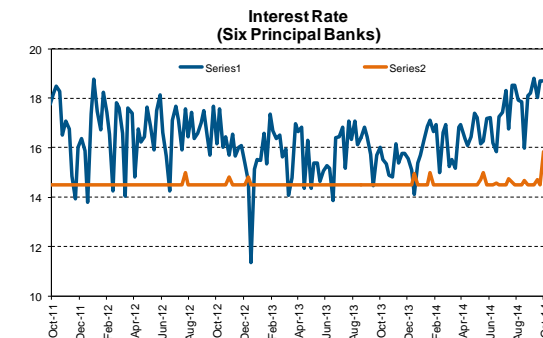
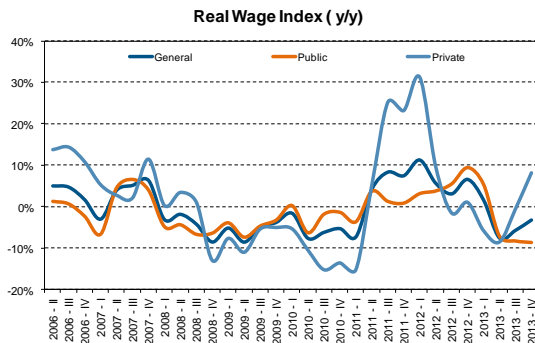
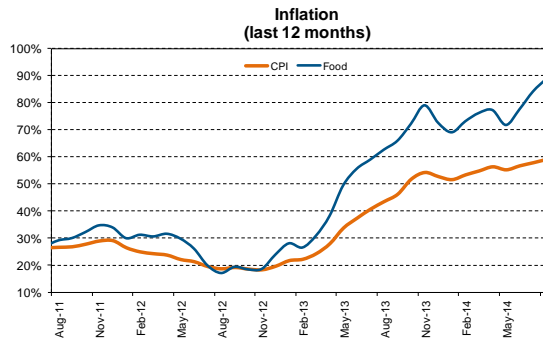
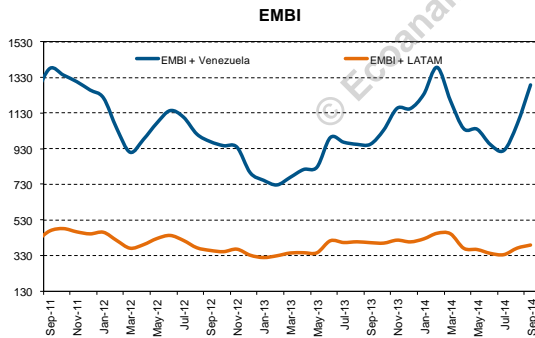
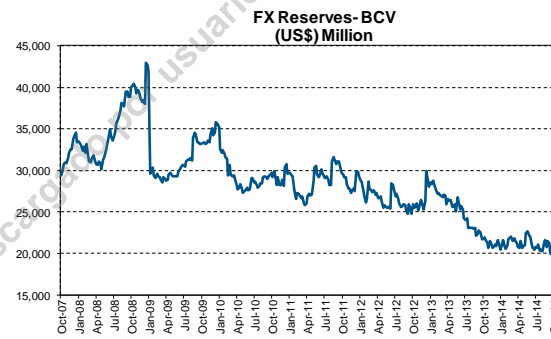
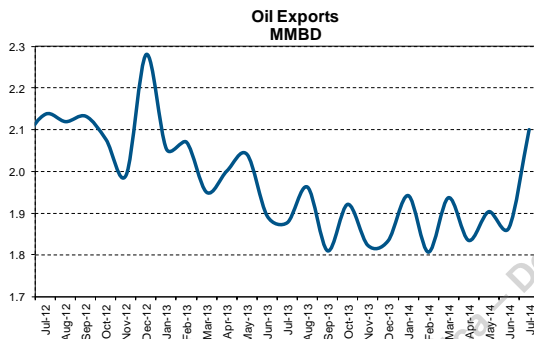
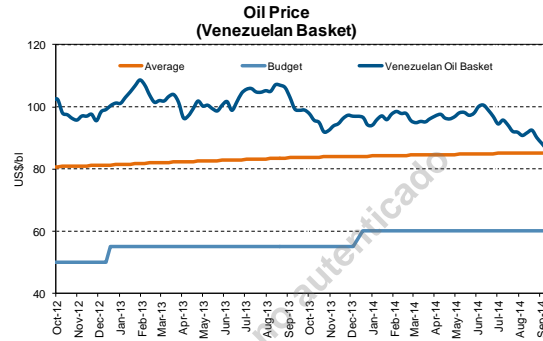
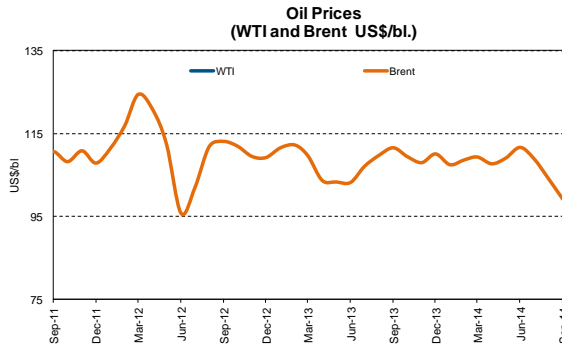
**Who'll be in control of the committee?** The PSUV benches are to propose Blanca Eekhout as the coordinator of the Electoral Nominations Committee. Even though the proposal has not been debated by the opposition benches, there should be no problem in getting it approved given that six members of the 21-man committee are PSUV deputies and six of the civil society representatives have ties with *Chavismo*.

**A change at Cencorex.** A decree has been published in *Gaceta Oficial* that attaches the National Foreign Trade Center (Cencorex) to the Ministry for the Economy, Finance and Public Sector Banks. Moreover, according to the decree, "*The attachment change provided for herein shall be included in a future amendment to the decree on the Organization and Functioning of the Public Administration.*"

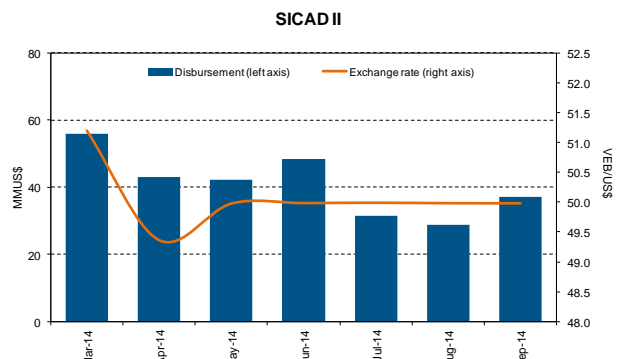
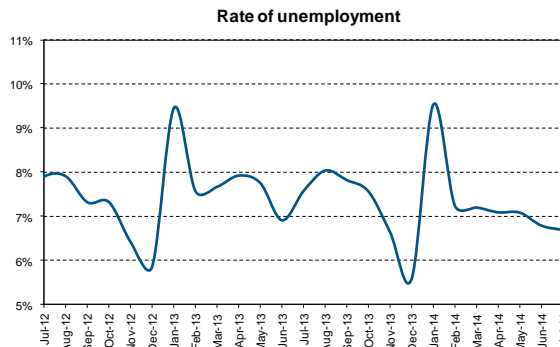
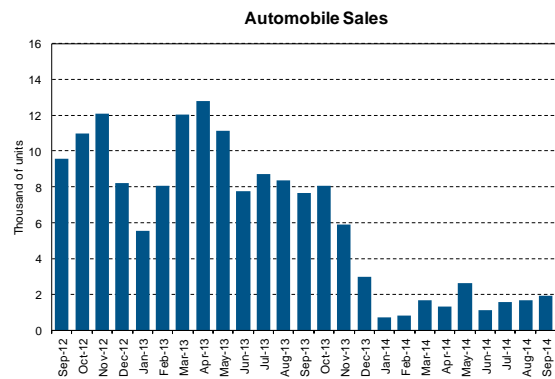
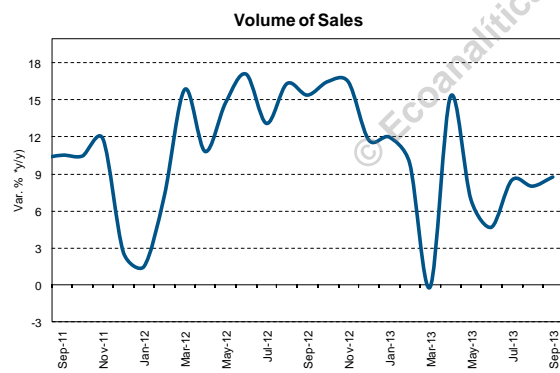
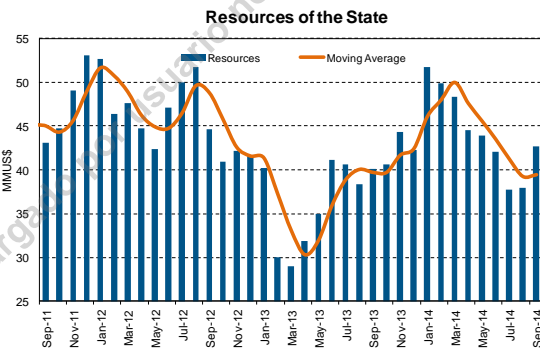
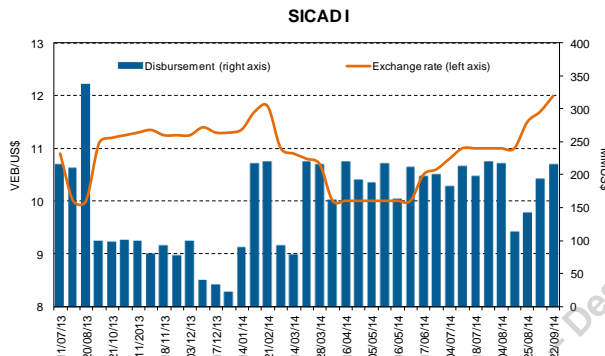
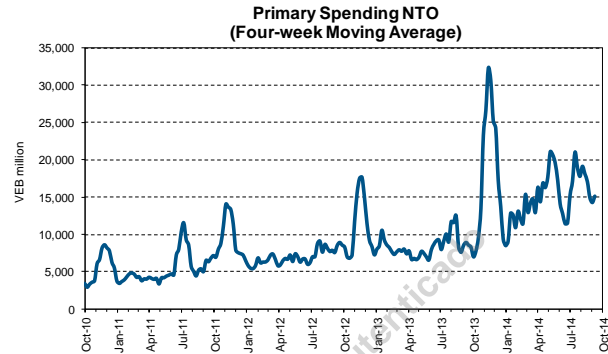
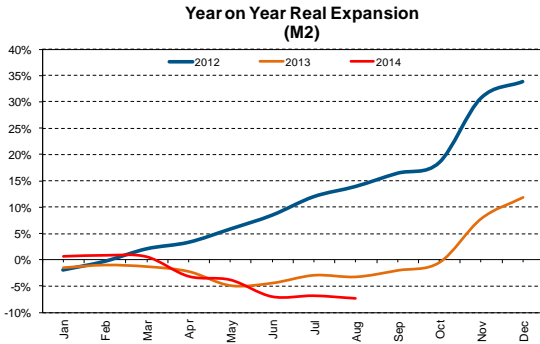
**The 2015 budget.** The Executive has submitted the 2015 budget and indebtedness bills to the National Assembly. Minister for Finance, the Economy and Public Sector Banks Rodolfo Marco Torres attended the session to formally present the bills. The new budget calculate a crude is to at US\$60.0/bl, also a 3.0% grow and an inflation between 25.0%-30.0% for 2015.

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**ECONOMIC OVERVIEW**



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