



Weekly Report

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2014 Budget Bill: between unachievable goals and reality

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As is customary at this time of year, we will devote this report to analyzing the Budget Bill for 2014. Presented to the National Assembly last week by Finance Minister Nelson Merentes, this bill provides for expenditures of VEB 552.6 billion for fiscal year 2014, an increase in nominal terms of 42.8% compared to expenditures budgeted for 2013, but 1.6% below actual spending this year if account is taken of the supplementary appropriations approved thus far.

In recent years, debating the budget in Venezuela has been little more than a formality, with the government forecasting macroeconomic premises that bear no relation to the situation in the country and where unachievable goals become the rule not the exception. It has also been a pattern in recent years to underestimate expenditures while the government ends up spending more than planned via supplementary appropriations. In 2012, 49.4% more than the budget for that year was performed, whereas this year additional spending via supplementary

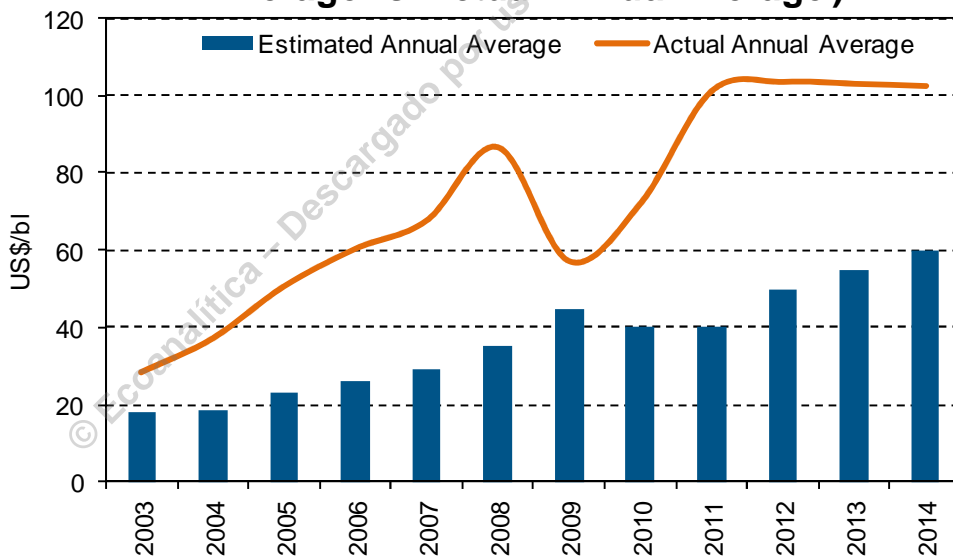


appropriations comes to VEB 165.38 billion; so total spending always ends up being more than expected.

Oil barrel underestimated yet again

Adopting a “conservative” scenario, in the past 12 years the government has consistently underestimated the oil barrel price. In the 2014 Budget Bill, the oil barrel price for the Venezuelan basket is estimated at US\$60, when at the moment the average annual price of the Venezuelan basket is US\$102.4/bl; in other words they have forecast a drop of 41.4% in the price of the basket even though major international energy agencies estimate a price in the region of US\$100/bl next year. At **Ecoanalítica** we forecast that it will stay at around US\$102.3/bl.

Venezuelan Oil Basket (Estimated Annual Average vs. Actual Annual Average)



Sources: Budget Law and Ecoanalítica

Why resort to this practice? The answer would seem to be more political than for reasons of coverage. Underestimating the price of the local oil basket is nothing more than a subterfuge that makes it possible to underestimate revenues and expenditures and allow the Executive greater discretion. Thanks to this scheme, the Executive has received extraordinary funds amounting to US\$90.78 billion over the past two years.

Devaluations are never announced

Similarly, the 2014 Budget Bill maintains the VEB 6.3/US\$ exchange rate. Although adjustments of this kind are never announced, the exchange rate has been adjusted three times since 2010. Even though the present Vice



President for the Area of the Economy, Rafael Ramírez, has said that there is not going to be a devaluation, ex minister Jorge Giordani said the same thing last year and four months later the bolivar was devalued. We at **Ecoanalítica** forecast that there will be a devaluation of the official exchange rate after the December 8 elections or early next year, and that the new rate will be set at VEB 9.3/US\$.

Moreover, apart from the devaluation in February, there have been other adjustments to the exchange rate via the SICAD auctions, at which the exchange rate fluctuates between VEB 10.0/US\$ and VEB 11.0/US\$. So, adjustments of this type can be expected via mechanisms other than CADIVI next year.

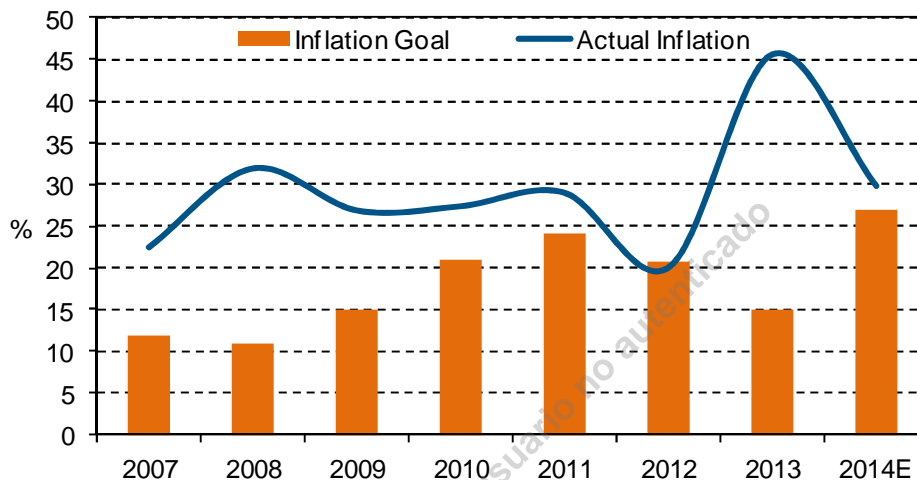
Distorted inflation

In the National Assembly, Minister Merentes stated that this year commenced in an environment with *“three disrupting factors: inflation, shortages, and the foreign exchange system”* and that inflation will be twice the average for last year. He also admitted that inflation is outside the range of previous years and announced that, therefore, they had calculated that the Nationwide Consumer Price Index (NCPI) would be between 26.0% and 28.0% at the close of 2014. However, Central Government is mistaken in its assessment of the present state of affairs in Venezuela. It does not look as though the foreign exchange situation is going to change in the short term, which means that the foreign exchange differential, currently at 629.3%, will continue. That being the case, 2014 will not be a year when inflationary pressures will lessen, on the contrary, they will continue to increase and next year we forecast inflation of between 40.0% and 50.0%; and even if measures such as the opening of a parallel market are taken, we at **Ecoanalítica** forecast that inflation will be higher than the goal, at around 30.0%.





Inflation Goal vs. Actual Inflation



Sources: Budget Law and Ecoanalítica

As for the growth of Gross Domestic Product (GDP), this had been estimated in the 4.0%-6.0% range. Based on the premise that the foreign exchange situation will not change much in 2014, we do not believe that this rate of growth will occur. Economic performance never lives up to expectations and only on very few occasions does it approach estimates, as happened in 2012.

Servicing the debt: the largest slice

An analysis of the items that have greatest weight in spending in the 2014 Budget Bill reveals that education is in the lead accounting for 17.5% of the total (3.8% of GDP). Next comes security and defense with 10.1% of the total spending budget (2.2% of GDP), followed by spending on employment and social security with 9.9% (2.1% of GDP). As for health, it occupies fourth place with spending of 8.0%, equivalent to 1.7% of GDP. Total budgeted social spending comes to VEB 208.36 billion, accounts for 37.7% of the budget and is equivalent to 8.6% of GDP.

A detailed look at the figures for education reveals that funding for this item has dropped as a percentage of budgeted spending: in 2008, the amount allocated was 18.8%, in 2013 it came to only 11.7%, and in 2014 it represents 11.6%. On the other hand, there are sectors whose allocation has increased, one example being defense, which went up by 26.0% between 2012 and 2014 and by 316.9% in the past seven years.





Sector	VEB Million	% of total Budget	% of the GDP
Debt service	121,507	22.0%	5.0%
Constitutional allocations	60,184	10.9%	2.5%
Education	46,157	11.6%	2.5%
Security and Defense	40,169	10.1%	2.2%
Social security	39,308	9.9%	2.1%
Health	31,645	8.0%	1.7%
Social development	19,506	4.9%	1.1%
Culture and Communications	3,260	0.8%	0.2%
Housing, Urban Development and Services	5,921	1.5%	0.3%
Science and Technology	2,012	0.5%	0.1%
Transport and Communications	13,383	2.4%	0.6%
Agriculture	4,996	0.9%	0.2%
Industry and Commerce	7,178	1.3%	0.3%
Energy, Mining and Petroleum	9,596	1.7%	0.4%
Tourism and Recreation	314	0.1%	0.0%

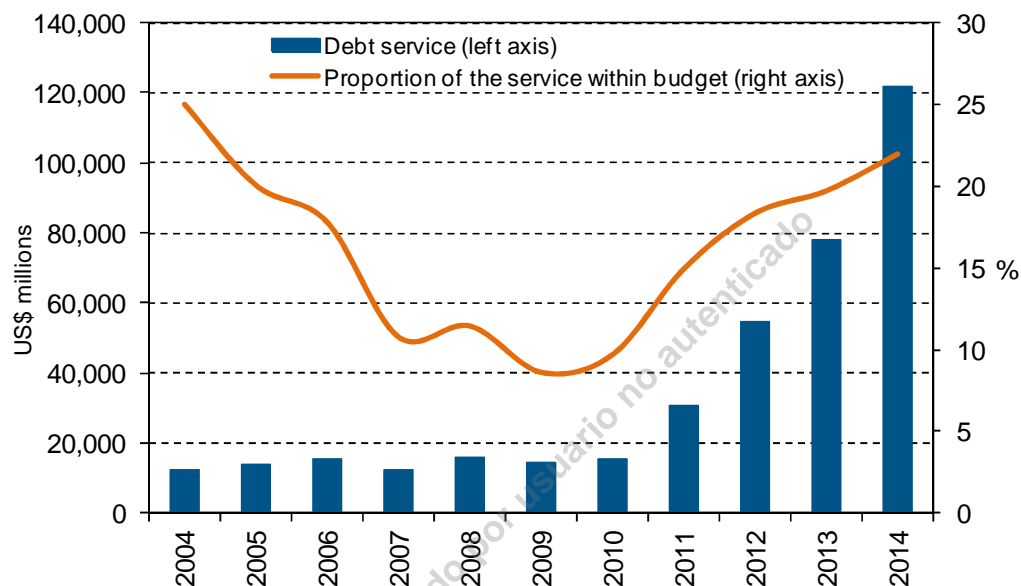
Sources: MPF and Ecoanalítica

The item that takes up most resources in the 2014 Budget Bill is servicing of the public debt, accounting for 22.0% of spending and representing 5.0% of GDP. Spending intended for servicing the debt is estimated at VEB 121.51 billion, in other words a nominal increase of 22.0% compared to the 2013 Budget. If debt servicing is added to borrowing for refinancing and rescheduling the debt (VEB 45,608 million), debt-related spending goes up to VEB 166.57 billion.





Debt service



Sources: Budget Laws and Ecoanalítica

Revenues and expenditures stay the same

The 2014 budget contemplates current revenues of VEB 439.87 billion, 46.2% more in nominal terms than the 2013 budget, which gives an increase of only 12.6% when adjusted for inflation; this, in turn, is equivalent to 18.3% of GDP.

As for fiscal revenues, at **Ecoanalítica** we forecast that they will be in the order of 24.0% of GDP in 2014, given that our estimates are based on a higher oil barrel price. According to the government, non-oil revenues will be 13.5% of GDP, whereas **Ecoanalítica** puts them at around 17.6% of GDP. In the case of oil revenues, we estimate them at 6.3%, whereas the 2014 Budget Bill puts them at 4.8% of GDP. We also have spending set at VEB 552.63 billion.

These revenue and spending figures budgeted for 2014 give a deficit of 4.7% in GDP terms. As for borrowing, we note that it will continue to be domestic and that it will account for 61.1% of the debt issued by the Executive.





Comparison of the 2014 budget assumptions Vs. Ecoanalítica				
	MPF		Ecoanalítica	
GDP Current Prices (VEB Million)	2,409,732.0		2,542,704.4	
Oil price Venezuelan Basket (US\$/bl)	60.0		102.3	
GDP Growth(%)	4.0		2.5	
Inflation (%)	26-28		29.8	
Official Exchange Rate - end of the year (VEB/US\$)	6.3		9.3	
Official Exchange Rate - average (VEB/US\$)	6.3		9.3	
Concept	MPF VEB (Million)	%GDP	Ecoanalítica VEB (Million)	%GDP
Total Income	439,870	18.3%	609,201	24.0%
Non Oil Income	325,275	13.5%	448,517	17.6%
Income tax	81,521	3.4%	58,921	2.3%
Duty	22,634	0.9%	46,327	1.8%
VAT	193,066	8.0%	151,767	6.0%
Others	28,054	1.2%	191,502	7.5%
Oil Income	114,596	4.8%	160,684	6.3%
Income tax	37,910	1.6%	7,860	0.3%
Duty	70,685	2.9%	145,769	5.7%
VAT	6,000	0.2%	7,053	0.3%
Total expenses	552,633	22.9%	657,211	25.8%
Current expenses	433,667	18.0%	558,470	22.0%
Capital expenses and others	109,975	4.6%	98,741	3.9%
Debt Amortization	7,334	0.3%	14,868	0.6%
Internal Debt	7,334	0.3%	14,868	0.6%
External Debt	-	0.0%	-	0.0%
Interests	114,173	4.7%	78,184	3.1%
Internal Debt	66,953	2.8%	44,311	1.7%
External Debt	47,220	2.0%	33,873	1.3%
Fiscal Balance	-112,763	-4.7%	-48,010	-1.9%
Primary Balance	1,410	0.1%	30,174	1.2%
Fiscal Balance excluding oil income	-227,358	-9.4%	-231,441	-9.1%
Financial Needs	112,763	4.7%	48,010	1.9%
Total Debt	121,507	5.0%	116,392	4.6%
External Debt	74,287	3.1%	92,013	3.6%
Internal Debt	47,220	2.0%	24,379	1.0%

Sources: MPF and Ecoanalítica

**Same old,
same old**

Once again we are facing a year where there are no signs of change in the economic model, even though it is worn out and the economy needs economic policies that really attack the profound distortions. Unfortunately, the premises of the budget do not reflect the best appreciation of the country's performance on the part of the authorities; as a result those premises lose their analytical value.

In short, a retrospective evaluation shows us that the government underestimates variables such as actual revenues, since revenues in excess of actual revenues are considered extraordinary revenues, are subject to lesser controls, and are handled at discretion. Goals such as



those set for growth and inflation are unrealistic, and not even the best policies of the new Ministry for Supreme Happiness will make up for the poor economic performance we will face next year. The government's lack of action makes it more difficult and costly to implement corrective measures in the economy, which increasingly takes its toll.

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Economic Tips

Unemployment rate at 7.8%. According to numbers released by the National Statistics Institute (INE), unemployment rate increased 0.5 percentage points (pp) in September, compared to the same period in 2012, when unemployment rate closed at 7.3%. This means that in the ninth month of the year, 1,099,787 people didn't have a job.

Inactivity rate remain stable. According to inactivity rate figures published by INE, shows that increased only 0.1 pp compared to September 2012, to settle at 34.8%. Within this, men inactivity increased 0.4 pp, and stood at 22.0%. By the other hand, women inactivity decreased 0.3 pp compared to the same period in 2012, and stood at 47.4%.

Informality rate at 39.3%. According to INE's figures, at end-September, 5,092,609 people were employed at the informal sector (39.3% of working population), decreasing 1.7 pp compared to the same period in 2012. For its part, formal sector employed 60.7% of working population, increasing 1.7 pp compared to same period last year.

Central Bank starts a plan to reduce the expansion of liquidity. Under constant pressure because of the unceasing expansion of money mass in the economy, the Central Bank has begun to take steps. From next Monday, banks will have to freeze 19.0% of deposits by way of legal reserves, instead of 17.0% as previously. In addition, the Central Bank's board of directors is considering increasing the number of bonds it will sell to the banks with a view to withdrawing another part of the bolivars that are in the economy.

Eliminating the foreign currency quota for travelers discarded: According to the coordinator of the National Assembly's Finance Subcommittee, Ramón Lobo Moreno, the CADIVI foreign currency quota for travelers is to continue. He dismissed rumors that the government is proposing to eliminate the quota allowed travelers for acquiring foreign currency via the Foreign Currency Administration Commission (CADIVI). He also said that the proposal to amend the Foreign Exchange Crimes Act should be dealt with under the Special Powers Act requested of the National Assembly by the President of the Republic, Nicolás Maduro.

Ramírez: CADIVI is a source of the parallel market's. The Vice President for the Economic Area, Rafael Ramírez, stated that controls on the allocation of foreign



currency are being applied to state-owned and private companies. *“We’re auditing the cost structure of projects because there are things that have been paid in dollars that cannot be justified; and that’s how we’re going to dry up one of the parallel market’s sources, which is CADIVI itself.”* By gathering up those dollars and adjusting to the real needs, there will be no one who will speculate with that foreign currency, according to Ramírez.

SICAD takes care of Christmas. At this week’s auction, SICAD allocated US\$95.04 billion to a total of 865 companies and US\$4.4 million to 2,098 private individuals. The Central Bank specified that, in the case of the companies, 102 were in the food and commerce sectors that make or sell products for the Christmas basket. The private individuals obtained dollars to cover expenses associated with studies abroad, health, and other especially urgent cases.

Venezuela is one of the least reliable countries. The three major risk rating firms in the global economy, Fitch, Moody’s, and Standard & Poor’s, rank Venezuela poorly among the economies of Latin America. When evaluating the risk to investors represented by the purchase of Venezuelan bonds, Fitch gives a rating of B+, whereas Moody’s rating is B2 and Standard & Poor’s gives a B. According to the different scores used, these ratings indicate that the investment poses a risk because timely payment of interest and capital is not sufficiently protected against adverse changes in the business, economic or financial climate.

Venezuela among the worst for doing business: The report issued by the World Bank “Doing Business 2013: Smarter Regulations for Small and Medium-size Enterprises” values as positive the “convergence” towards a gradual elimination of bureaucratic requirements that have proliferated in the world in recent years. It states that Venezuela is among the countries with the most unfavorable regulations for doing business. Whereas in New Zealand it takes half a day to open a business, in Venezuela, ranked 181 out of the 189 countries studied, it takes 144 days.

Payment of the debt is four times spending on health. The Finance Ministry is to allocate VEB 121.5 billion to servicing the debt next year, according to the 2014 Budget Bill presented by Minister Nelson Merentes. That is four times the VEB 30 billion allocated to the Ministry for Health. Of those VEB 121.5 billion, VEB 45.06 billion is for fresh debt, which is VEB 12 billion more than debt acquired last year to pay liabilities. In other words, the government is to pay 37.0% of the debt by borrowing more.

Inflation goal met only four times in 12 years: In the past 12 years, the government has been able to meet its inflation goal on only four occasions: in 2003, 2004, 2005, and last year. In the remaining eight years, inflation has overshot



estimates and in 2002 and 2008, for example, the increase in prices tripled the inflation goal set for those years. In September 2013, the consumer price index had already reached 38.7%, despite the fact that initial estimates put inflation at between 14.0% and 16.0% by year-end.

Interest rates. The lending rate for the fourth week of October was at 15,5%, up by 0.5 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 0.8%, going from US\$21.75 billion during the third week of October to US\$21.93 billion during the fourth week of October. Compared to the same period last year, international reserves have decreased by 14.0%.

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 3.3% in the third week of October compared to the previous week, settling at VEB 1,002 billion. The M2 has increased 71.3% in relation with the same period last year.

Oil Tips

The debt grows. The loans that PDVSA has agreed with other oil companies and a possible bond issue before the end of the year will have an impact on the industry's financial debt. At *Ecoanalítica* we forecast that PDVSA's debt could close the year in US\$43.6 billion compared to US\$40 billion in 2012. This year, the president of PDVSA, Rafael Ramírez, seeking financing to increase the production capacity of the joint ventures, has agreed a series of loans with countries such as China and oil companies such as Chevron and Schlumberger.





Gas to continue to come from Colombia: The agreement signed by the Colombian and Venezuelan Governments for supplying Caracas with gas expires in June next year. However, Colombia's Energy and Mines Minister, Amylkar Acosta, did not discard the possibility of an extension. Under this agreement, Colombia sends Venezuela some 150 to 200 million cubic feet of gas a day via the "Antonio Ricaurte" gas pipeline. This pipeline measures 224.4 kilometers, 88.5 kilometers of which are in the area of La Guajira in Colombia.

Petrobras leaves the door open. Despite an announcement by Petrobras on October 25 that it would complete construction of the Abreu e Lima Refinery on its own owing to the failure of negotiations with PDVSA, it left the doors open for a future agreement that would allow PDVSA to have a share in the refinery. The original plan was that Petrobras would put up 60.0% of the capital for the refinery and PDVSA the remaining 40%. However, because of differences over the guarantees PDVSA submitted to the National Bank for Economic and Social Development of Brazil, which the Brazilian bank did not consider adequate, and Petrobras started construction on its own.

Battle plan for oil employment contract: Referring to the start of discussions regarding the oil sector's collective employment contract 2013-2015, the secretary general of the Unitary Oil Workers Federation (FUTPV), José Bodas, exhorted workers to maintain a battle plan to defend their rights. The oil workers hope to achieve an 80% increase in the daily wage, which would raise it from VEB 119 to VEB 214. However, the FUTPV's secretary general considered that this VEB 95 increase is not enough if account is taken of lost purchasing power as a result of high inflation.

PDVSA pays interest. In a communiqué, PDVSA informed the holders of Petrobonos with maturities in 2014, 2015, and 2016 that, in accordance with the terms established in the papers issued on October 28, 2009, on Monday, October 28, 2013, payment was made of interest corresponding to the half year ending October 2013. Holders of PDVSA bonds should contact their custodian bank or institution where they acquired the bonds for information on the status and method of payment.

Drop in prices halted? Despite the fact that last week the international baskets were affected by plentiful supply and lower demand as a consequence of maintenance work on refineries around the world, so much so that the Venezuelan basket lost US\$2.1/bl to close the week at US\$95.8/bl, this week production problems in Libya have driven prices up again and Brent gained US\$2.7/bl compared to close of business on Friday.





International oil baskets. At closing time on October 25th in the New York Stock Exchange, the price of the WTI was US\$98.5/bl, down by 3.2% when compared to the reported the previous week. The Brent decreased by 1.4% when compared to the previous week, to reach US\$108.9/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$95.8/bl on Friday October 25th, a 2.2% decrease compared to the US\$97.9/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.4/bl.

Business Sector Tips

Drop in nontraditional exports: Venezuela's nontraditional exports amounted to US\$1.14 billion in the first half of 2013, equivalent to a reduction of 20.3% compared to the same period in 2012, when they came to US\$1.44 billion, according to the National Statistics Institute. Factors that influenced the drop in sales abroad were the exchange rate and the lack of raw materials. Among the biggest drops posted, was the reduction in base metal exports, with sales of US\$328 million, down 41.6% from the same period in 2012.

Government receives fleet of Chery vehicles. The first fleet of 2,300 Chinese vehicles of the Chery brand (investment: US\$140 million) is already in Venezuela. In Puerto Cabello, Minister for Trade Alejandro Fleming said that the first delivery of 500 automobiles will be made on November 15. Thereafter, deliveries will be made every 15 days. The prices of these vehicles have gone up by between 12.6% and 34.2% compared to last year. The government plans to bring in a total of 12,000 Chinese vehicles under the agreements it has with the People's Republic of China.

They've got their eye on the packaging companies. Through the good offices of the Higher Organ of the Economy, mechanisms are to be set up to inspect the sugar packaging companies, because "*that's where we lose control,*" explained the Vice Minister for Food, Rafael Coronado Patiño, who said that what is remarkable is the appearance of more than 127 packaging companies in the past four years. He maintained that the sugar mills have told the Food Ministry authorities that they do not have sufficient installed capacity to package the sugar they produce, which means that they have to resort to those packaging companies.



The State imports rice and corn with harvests in full swing. The increase in the demand for food has brought to light the weakness of the domestic productive apparatus when it comes to catering to consumption. At the moment ships loaded with corn and rice from Uruguay are on their way to Venezuela. These purchases are arriving at a time when the corn and rice harvests in Venezuela are in full swing and will continue for another six weeks. This is causing problems in the agricultural sector in terms of logistics for moving and transporting the harvest.

Food reserve for covering shortages has run out. Given the sharp increase in shortages, the government has admitted that the strategic food reserve, which normally has a three-month security reserve, has been used to cover the shortage of products in recent months. The Minister for Food, Félix Osorio, said that, in November, they will have an additional 400,000 tons of food that have been imported to replenish the strategic reserve and cover consumption to the end of the year.

Bolivia and Venezuela found a food company. The “grand national” company for the joint production of food planned by the Venezuelan and Bolivian Governments is to be founded at the end of the year, according to the Vice Chancellor, Veronica Guerrero. Guerrero commented that membership of the company’s board of directors will have been decided by year-end and added that it will meet shortly “*to sign the constitution and bylaws and to define the technical project.*” She mentioned that good progress is also being made on setting up the Bolivian-Venezuelan “grand national” textile company, whose technical teams are to meet in November to start moving ahead with the founding of the company.

Pay what you owe. The buildup of delays by Venezuelan companies in paying for imports from Brazil led the Dilma Rousseff administration to send a mission to Caracas. According to a document reported on by a Brazilian newspaper, delays in payments are as much as four months in some cases and mainly affect the food sector, which increased its sales to Venezuela under the Brazilian Government’s plan to help Venezuela cope with the shortages of basic goods.

“We don’t have the capacity or the inputs to produce more.” The president of Fedeagro, Antonio Pestana, said that priority should be given to importing inputs in order to raise production and that purchases of food products should be complementary. He also called for improvements in the allocation of foreign currency. Pestana pointed out that the primary sector aimed at recovering production this year and that, while the weather conditions were good, the necessary support for achieving that recovery was not forthcoming. Producers are frustrated at the uncertainty in the farming sector.





Consecomercio has also spoken up. Consecomercio expressed its concern at the persistent food shortages in the country and the divorce among the economic agents called on to solve the situation. In a communiqué, the chamber lamented that production strategies, financial resources, manpower, and technical and managerial know-how are not being deployed so as not to have to continue to rely increasingly on whatever is available on international markets.

Call for freeing milk prices: One of the items experiencing most shortfalls in supply is milk, a situation confirmed by official figures. In view of this, the executive president of the Venezuelan Chamber of Dairy Industries (Cavilac), Roger Figueroa, pointed out that, by freeing the prices of milk at the farm gate or on the producer level, as well as the prices of dairy products, it would be possible to solve the problem of shortages. Figueroa explained that, at the same time, imported dairy products should continue to be regulated and be strictly monitored.

World Economy Tips

United States builds up inventories. US wholesale inventories rose by more than expected in August. This buildup is the largest since January this year and was driven by the increase in stocks of automobiles and professional equipment. However, it is expected that inventories will come down during 3Q2013, following the drop in consumption in the previous quarter.

Private companies are the solution. China is seeking to increase the participation of SMEs by relaxing the requirements for registering new companies. According to the State Council, China is seeking to increase private investment and also to create job opportunities through fostering fair competition by supporting small innovative businessmen. One of the main measures adopted is the elimination of the minimum amount of capital required to set up a company.

Japan gets cracking. The measures taken by the prime minister of Japan, Shinzo Abe, seem to be having an effect among investors. A 25% depreciation of the yen and a drop in unemployment, as a consequence of the monetary relaxation policy and the increase in public spending, have sent out positive signals to businessmen and consumers. Moreover, the return of inflation has boosted investment via the Japanese stock exchange.



October, a difficult month: The US consumer confidence index fell in October to its annual low as a consequence of the federal government shutdown through to mid-October and also because of the increase in the debt, which was very near its ceiling and on the brink of pushing the country into default.

Great Britain still doing well: The British economy grew by 0.8% in 3Q2013 compared to the 2Q2013, posting its highest growth in the past three years. So, Great Britain went from being one of the economies lagging most behind (among developed countries) to being one of the economies with the highest rates of growth, 3.0% year-on-year. However, the fact that salary increases continue to be below inflation does not guarantee that the recovery will be sustainable.

Is the end near? According to the Banco de España, Spain is already coming out of the recession. The bank's economic bulletin reports that, during 2Q2013, Gross Domestic Product (GDP) grew by 0.1%. Both the Spanish Government and the European Union consider that this growth in the economy is a consequence of the labor flexibilization policies and the reduction in fiscal spending. Moreover, foreign capital is showing greater interest in the banking-real estate sector.

Haven't achieved the objective yet. European Commission President José Manuel Durao Barroso and European Council President Hernan Van Rompuy have said that the region is still in crisis and that the levels of unemployment are unacceptable. They also stressed the importance of granting loans to small and medium-size enterprises (SMEs) and of promoting investment in areas that generate jobs. Meanwhile, the secretary general of the European Trade Union Confederation, Bernadette Ségol, warned that creating temporary badly paid jobs does not constitute support for employment.

Achieving financial soundness: Alejandro Werner, Director of the Western Hemisphere Department at the International Monetary Fund, said that many Latin American economies will stabilize in the next decade thanks to the decline in their levels of debt. He also pointed out that some Latin American countries have already achieved full employment, which means that next year there will be an increase in investment and productivity.

It's necessary to be productive. The vice president for Latin America and the Caribbean at the World Bank called on the countries of the region to seek to increase their levels of productivity in order to continue to be competitive. He pointed out that investment in infrastructure and human development would promote productivity in the region.





Colombia is already big. Angel Gurría, the secretary general of the Organisation for Economic Co-operation and Development (OECD) invited Colombia to join this international organization that has 34 of the world's most developed countries as its members. In the opinion of President Juan Manuel Santos, joining the OECD is proof that Colombia can now compare itself to and compete with the most economically developed countries. This coffee-producing country is currently in the process of complying with the formalities that will make its membership of the OECD official.

King of the open economy: After 30 years of opening up its economy, today Chile is the country with the largest number of free trade agreements (FTAs) in the world. Álvaro Jana, the director of international economic relations at Chile's Foreign Affairs Ministry, said that it was thanks to this greater opening up to international markets that exports increased ninefold between 1990 and 2012. Today, Chile has trade agreements with 60 countries that account for 85.7% of world GDP.

Political Tips

Chavismo is satisfied with the country's economic situation. The negative economic indicators have not altered *Chavismo's* perception of the country's future. Even though the Central Bank reported annualized inflation of 49.0% and an 11.6% decline in purchasing power over the past 12 months, the crossing of variables in the last opinion poll conducted by IVAD (Instituto Venezolano de Análisis de Datos) shows that most of those who describe themselves as *Chavistas* are satisfied with the economy.

Perception of the economic situation: According to IVAD there is also a difference in how the economic situation in general is seen by *Chavismo* and how it is viewed by the rest of the population. In the opinion of 1.4% of those who say they are *Chavistas*, the economic situation is very good, 17.9% consider it good, 35.5% consider it fair to good, only 15.0% believe the economic outlook is bad and 5.0% that it is very bad; whereas as the perception of those who side with the opposition is completely different, where only 5.6% have a positive view of the economy and the vast majority who are against the Bolivarian revolution consider that the economic outlook is black.

A vice ministry for the most sublime and best loved: The President of Venezuela, Nicolás Maduro, announced the creation of the Vice Ministry for the Supreme



Happiness of the People, whose task it will be to coordinate the government's 30 plus "missions" or social programs. This office will be responsible for dealing with the demands, complaints, and needs of the population and the missions and *"for taking care of the old folks and the children, for taking care of the most sublime and best loved of the revolutionary people."* The new office is to be headed up by former Deputy Rafael Ríos, whom Maduro wished *"every success,"* and whom he urged to raise *"the missions to the heavens,"* in honor and thanks to Chávez.

Government creates obstacles to impose censorship on media. The governor of Miranda, Henrique Capriles Radonski, referred to the situation being experienced by some newspapers owing to the lack of dollars for importing paper and claimed that the government is creating obstacles to *"prevent Venezuelans from learning about what is really happening in the country."* Capriles said that the government's newspapers *"don't have any problems with the supply of paper but they are putting all kinds of obstacles in the path of the newspapers that report the truth, in particular with the situation that exists with foreign currency and the importing of paper."*

The trilogy of evil: *"Wicked and swine"* was how the President of the Republic, Nicolás Maduro, described the *"trilogy of evil,"* referring to María Corina Machado, Henrique Capriles, and Leopoldo López. *"I declare them to be enemies of the fatherland and call on the people to recognize them [as such]."* *"I call the Venezuelan people to the battle against these bandits who want to destroy the fatherland. They haven't been able to, nor will they ever be able to because we are here, firm,"* declared Maduro, who has repeatedly accused this *"trilogy of evil"* of being responsible for the economic and psychological war.

"There's a Way," was Chávez' too. President of the Republic Nicolás Maduro warned that the opposition is using international advisers to *"disguise its discourse"* to imitate Hugo Chávez' in order to *"connect with the people."* The President said that *"two years ago, in particular, a plan was started to steal the codes and symbols, to take them for themselves."* He added that the phrase used by Henrique Capriles Radonski during the campaigns for the October 8 elections in 2012 and the April 14 elections in 2013, *"There's a Way,"* also belonged to Hugo Chávez. He described the opposition's messages as a deceitful offer.

Social investment to get 62.0%: The national budget for 2014 presented to the National Assembly by Finance Minister Nelson Merentes is to allocate 62.0% of revenues to social investment, stressed the Vice President of the Republic, Jorge Arreaza, on Wednesday. He said that some media had not reported that fact, which was of extreme importance for the people. Arreaza also pointed out that, in the last years of the Fourth Republic, social spending –as it was called by the governments at that time- never came to more than 36.0% of the budget.



“Unrealistic and irresponsible”: Once again a representative of the Executive presented a Budget Bill that has nothing to do with the country’s true situation. The Democratic Unity Alliance described the premises expounded by Finance Minister Nelson Merentes as *“unrealistic and irresponsible.”* In a communiqué, the Democratic Unity Alliance said that the budget should be a fundamental reference for the country’s economic policy, but that that does not happen in Venezuela.

“False works” in Miranda: The president of the “Francisco de Miranda” River Tuy Basin Comprehensive Development Corporation (Corpomiranda), Elías Jaua Milano, reported four alleged works budgeted by the Miranda State Government that have not been carried out to date. *“We’re prepared to approve the governor plans for projects that are good for the community, but what we cannot do is to allow people to ignore the law and the Bolivarian Constitution, besides drawing up false documents in which projects are supposedly approved,”* said Jaua.

Corpomiranda will have VEB 2.3 billion for 2014. According to the Executive, the Miranda State Government does not attend to the needs of its people, it has neglected them, and only uses the office to conspire and destabilize the country. In view of this and to *“protect the people of Miranda,”* the government has created Corpomiranda, an agency that will handle resources equivalent to 40.0% of the constitutionally mandated appropriation to which the Henrique Capriles Radonski administration is entitled.

Spending on security down in 2014: This denouncement was made by *Primero Justicia’s* national coordinator, Deputy Julio Borges, who explained that *“the total budget for 2014 is VEB 553 billion, whereas the projection of how much will finally be spent in 2013 is VEB 677 billion, a reduction of 18.0%.”* Borges warned that *“even without taking inflation into account, some items have dropped dramatically. The amount for Internal Security and Law and Order is down 17.0%, making it clear, once again, that the security of Venezuelans is not a priority for the government.”*

Legislative Tips

Happiness in Gaceta Oficial: The creation of the *“office of vice minister for the Supreme Social Happiness of the People”* was made official in *Gaceta Oficial* No. 40,280. The vice ministry was created last week by President Nicolás Maduro, who explained that what this seeks to do is to coordinate and revive the “missions” or



social programs catering to the poorest sectors of the population in the areas of education, health, housing, and food. The person in charge of the project, former Deputy Rafael Ríos, is to head up the new vice ministry on Maduro's orders.

National Assembly starts to review 2014 budget. The National Assembly is to start reviewing the 2014 Budget Bill and the Annual Indebtedness Bill. Deputy Julio César Reyes stated that Finance Minister Nelson Merentes and representatives of PDVSA, the National Treasury, Seniat, and the National Budget Office will attend the meeting to explain the revenues and the sources of financing for spending. Reyes, who is also a member of the Finance Committee, said that meetings will also be held with the area vice ministers towards the end of this week and next.

Concepts of internal and external enemy eliminated from Cesppa. The concepts of internal and external enemy that, among other things, would allow the government to take action against any Venezuelan considered to be a threat to the security of the nation were eliminated from the decree creating the Strategic Center for the Security and Protection of the Fatherland (Cesppa). In a reprint of the decree (owing to mistakes in the original), *Gaceta Oficial* No. 40,279 of October 24, 2013, specifies that Cesppa will request, organize, integrate, and evaluate strategic information associated with the security of the nation from all State security and intelligence agencies, as required by the President of the Republic.

Catching, distribution, and sale of lobsters regulated: The Ministry of Agriculture and Lands published in *Gaceta Oficial* No. 49,279 the resolution whereby it regulates the exploitation, trading, distribution, sale, and transportation of lobsters in Venezuela. The resolution will only apply to individuals and companies that engage in activities associated with fishing. Moreover, it declares the fishing of the spiny, long, and green lobsters to be reserved to artisanal fishermen. Anyone who engages in fishing for these three types of lobster will need a special permit from the Ministry of Agriculture and Lands.





ECONOMIC OVERVIEW

