

2015 Fiscal Budget Law: Wonderland

On October 22, 2014, the Minister of the People's Power for Economy, Finance, and Public Bank, Rodolfo Marco Torres, released the 2015 Fiscal Budget Law proposal. This new proposal puts fiscal spending for 2015 at VEB 741.71 billion, up by 34.2% compared to the 2014 Budget Law proposal (which was at VEB 552.63 billion), but down by 0.8% compared to the amount of fiscal spending actually used so far in 2014, including all the supplemental appropriations authorized up until October 28, 2014. So, as has been the norm for quite some time, the Administration spends more than what is planned in the National Budget and it also estimates the sale price of crude oil for the year considerably below realistic expected market prices. This year's estimated sale price for crude oil for 2015 will be a critical variable in terms of calculating the amount of foreign currency available for the year.

A National Budget proposal is designed to reflect the Administrations best estimates of all expected incoming revenue coming into government coffers related to economic activity during the coming year, in this case 2015; and to announce the economic policies that it will implement. However, any macroeconomic outlook for the coming year one could gain from the information reported in the Venezuelan National Budget proposal is almost non-existent since the estimates reported in the Budget are totally divorced from the economic reality of the country. The Venezuelan National Budget proposal has become a seasonal ritual, an exercise the Administration must perform and the Parliament must receive and approve; reflecting a Budget that will never be enforced, and goals that are impossible to attain.

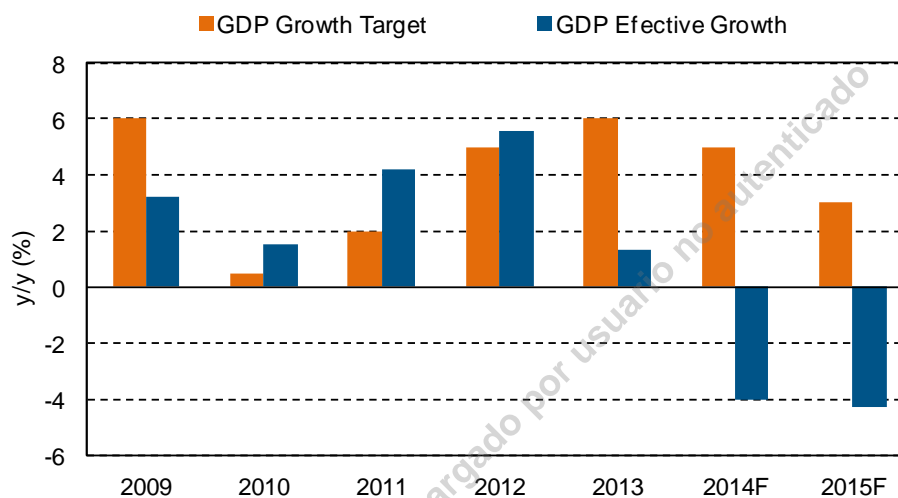
Growth? Wishful thinking

Despite the fact that the Gross domestic product (GDP) figures for the first three quarters of 2014 have yet to be released, there are indicators that one can observe that point to the economy shrinking. Our predictions for this year (2014) point to the economy shrinking by 4.0% and that the recession will continue in 2015, shrinking by between 4.0%-4.5%. The International Monetary Fund (IMF) figures, though on the conservative side in our opinion, also show the Venezuelan economy in 2015 shrinking

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by 1.0%. But the Administration reports in the Venezuelan National Budget proposal for 2015 that the economy will grow by 3.0%.

Growth Target vs Actual Growth



Sources: MEFBP and Ecoanalítica

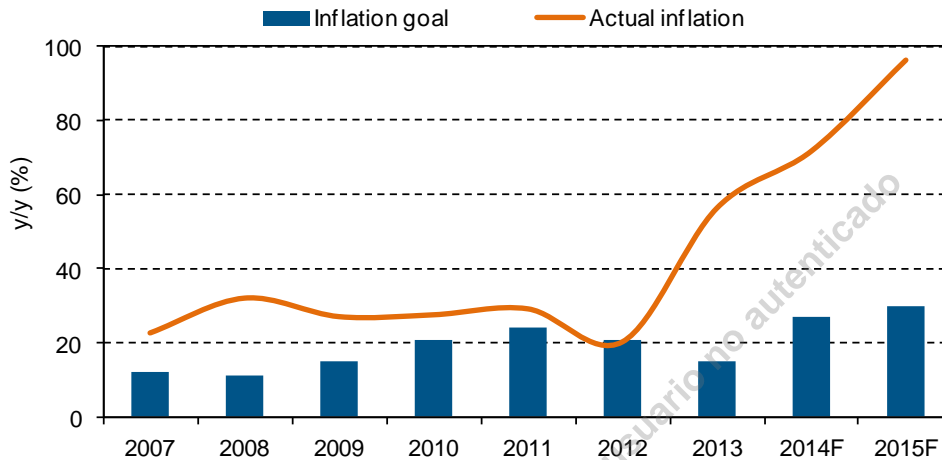
What will increase is inflation

Inflation is the thorn in the side of all Venezuelans, and unfortunately, in 2015, it will continue to be so. The Central Bank of Venezuela's (BCV) financing of non-finance sector state-run companies, especially PDVSA, has not been cutback by much this year, in fact, it's increased. This creates a scenario where there is a significant quantity of bolivars in circulation and only a limited number of goods in supply. This pushes prices to increase, or in other words, inflation. Impossible to hide anymore, the Administration has admitted in the 2015 Budget proposal that inflation will increase, but its estimate for how much inflation the coming year will suffer falls unrealistically short.

The 2014 National Budget estimated that inflation for the year would be at 28.0%, however, the accumulated inflation rate calculated up to August 2014 was at 38.9%, surpassing the 2014 Budget's inflation goal by 10.9 percentage points (pp). Following pretty much the same path, the Administration, in the 2015 National Budget Law proposal has calculated inflation to be at between 25.0% and 30.0% for the year.

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Inflation Goal vs. Actual Inflation



Sources: MEFBP and Ecoanalítica

During the last 8 years, only one year did the actual inflation rate for the year get close to the estimated inflation rate; no chance of this happening in 2015. At **Ecoanalítica**, we estimate that inflation will at least be at 100.0% for the coming year, and quite possibly, Venezuelans will suffer the biggest drop in purchasing power since the oil strike.

The 2015 National Budget proposal continues to set the official exchange rate at VEB 6.3/US\$, as it has done in the past; and nowhere does it indicate that there is a possibility that the exchange rate will be adjusted. Then again, since 2010, the exchange rate has in fact been adjusted three times. And as of this year (2014) we have an exchange mechanism working with three different official exchange rates; which has made it all that more complicated for the private sector to access foreign currency. Though the Cencorex rate has not been devaluated, other adjustments have been made to the exchange rate of the auctions offered by Sicad I and Sicad II, and some sectors have migrated from the Cencorex rate to the Sicad I rate, as is the case with the automotive sector (going from a lower exchange rate to a higher exchange rate). So, even though “an official devaluation” hasn’t been announced a slow motion, under the table, de facto devaluation is taking place.

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Weighted exchange rate	2010		2011		2012		2013E		2014F		2015F	
Public	2.60	35.6%	4.3	36.9%	4.3	39.9%	6.3	48.6%	6.3	45.0%	15.0	48.0%
SITME	5.30	6.6%	5.3	9.3%	5.3	7.9%	5.3	0.7%				
SICAD			-		-		11.1	2.8%	11.1	9.4%		
SICAD II									50.0	14.1%	50.0	15.0%
CADIVI (CENCOEX)	4.30	31.8%	4.3	48.3%	4.3	46.7%	6.3	42.4%	6.3	23.5%	15.0	25.0%
Not official	N/D	3.2%	8.7	5.5%	10.6	5.5%	35.7	5.5%	79.0	8.0%	110.0	12.0%
Weighted exchange rate (M)	3.36		4.63		4.73		8.05		18.75		35.25	
Variation	17.4%		33.0%		2.1%		70.3%		132.9%		88.0%	
Devaluation	14.8%		24.8%		2.1%		41.3%		57.1%		46.8%	

Sources: BCV, CADIVI and Ecoanalítica

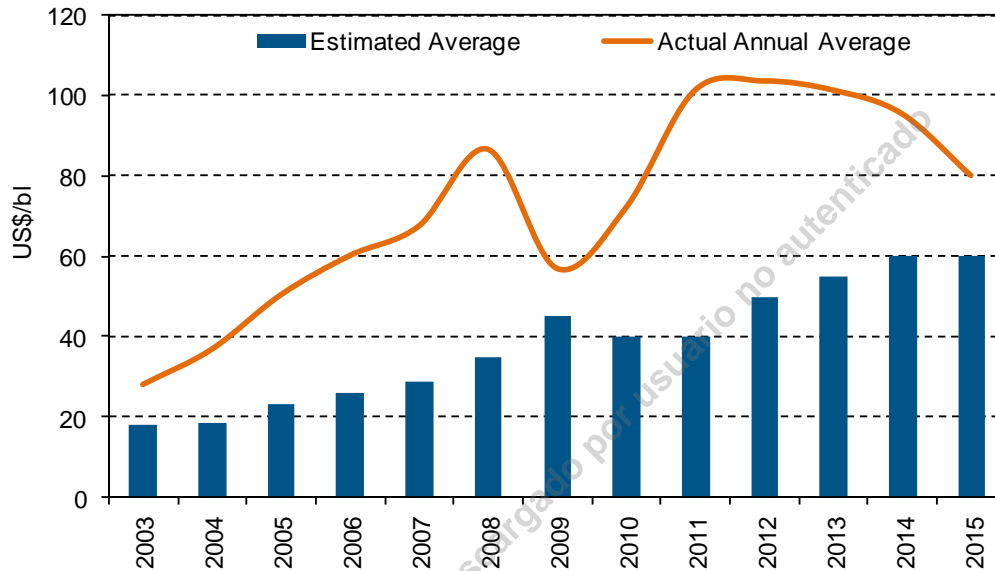
No change in the price of crude oil

Under the guise of “being conservative,” the National Budget proposal has for quite some time now under-estimated the sale price of crude oil set in the Budget. The 2015 Budget proposal is no exception, and the average price of crude oil for the year has estimated for the year at US\$60. Why would the Administration do this? The answer is more political than due to economic reasons. By under-estimating the average sale price of crude oil for the Venezuelan oil basket for the year, the Administration artificially cuts incoming fiscal revenue and fiscal spending, which in the end will allow it to use the “real” amount of incoming revenue with greater discretion and less oversight; so much so that during the last two years, incoming extraordinary revenue (off-budget revenue) has reached US\$63.19 billion.

It's worth pointing out that for the coming year (2015) the difference between the estimated price of crude oil for the year set in the Budget and the real average price of crude oil in the market may not be quite so different as has been the case in the past. Crude oil prices have been dropping significantly lately and some analysts predict that they will continue to drop. The Venezuelan oil basket closed last week at US\$75.9/bl. If crude oil prices continue to drop, for the first time in many years, the amount of off-budget revenue may drop and come close to reflecting the amount originally set in the Budget.

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



Sources: MEFBP and Ecoanalítica

What weighs the Budget down the most?

When analyzing the line items that weigh the 2015 National Budget proposal the most in terms of spending we see that education comes in first representing 12.8% of the total expenditure (2.8% of the GDP), followed Social security with 12.2% of the total spending budget (2.7% of GDP) and then comes health with 7.3% (1.6% of GDP). Security and Defense comes in fourth with spending at 5.3% that represents 1.2% of GDP. All in all, budgeted social spending is at VEB 279.54 billion, which represents 37.7% of the Budget and represents 8.2% of GDP.

The group of items which uses the most of the 2015 Budget is that which is responsible for servicing the public debt, representing 20.2% of spending and 4.4% of GDP. Spending earmarked for debt service is estimated to be at VEB 149.93 billion, in other words, a nominal increase of 23.4% compared to the 2014 Budget. If you add on the part of the debt service that is assigned to refinancing and restructuring the debt (VEB 43.6 million), spending associated to debt service increases to VEB 193.54 billion

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Sector	VEB Million	% of total Expenditure	% the GDP
Debt service	149,936	20.2%	4.4%
Constitutional allocations	128,306	17.3%	3.8%
Education	95,189	12.8%	2.8%
Security and Defense	39,312	5.3%	1.2%
Social security	90,775	12.2%	2.7%
Health	54,462	7.3%	1.6%
Social development	24,207	3.3%	0.7%
Culture and Communications	6,318	0.9%	0.2%
Housing, Urban Development and Services	5,710	0.8%	0.2%
Science and Technology	2,881	0.4%	0.1%
Transport and Communications	17,556	2.4%	0.5%
Agriculture	8,565	1.2%	0.3%
Industry and Commerce	15,569	2.1%	0.5%
Energy, Mining and Petroleum	11,715	1.6%	0.3%
Tourism and Recreation	633	0.1%	0.0%

Sources: MEFBP and Ecoanalítica

2015: far from being as optimistic as described in the Budget proposal

The Administration underestimates variables such as the amount of real revenue because all the revenue that exceeds this amount is classified as off-budget revenue which is subject to less oversight and can be used at the Administration's discretion. The big problem for this coming year, say if the average price of crude oil levels off at US\$80, in an optimistic scenario, is that the difference between the "real" average price of oil and the average price set in the Budget is not as much as it has been in the past. Taking into account the amount of projected spending, the amount of revenue will only be a bit more than what is presented here. But what is very worrying is the lackadaisical manner in which the National Budget was presented, with unrealistic variables such as inflation and expected economic growth, and no sense whatsoever of the harsh economic reality facing the country.

One barrel of oil less than the average expected for this year will put serious pressure to devalue the currency much more severely than planned; it would also put more pressure on lowering the gasoline subsidy in order to control domestic consumption that in 2013 reached 825 mb/d, as well as reviewing existing energy agreements. In the end, these are all important adjustments that need to be made, but that require political will

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and muscle to carry them out. It is time to move forward, unfortunately, the Economic Cabinet will not allow us to move forward.

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ECONOMIC TIPS

No need to panic. Vice President for the Economy and Minister for the Economy and Finance Rodolfo Marco Torres has given assurances that “*the Bolivarian revolution has a financial structure that allows us to attack and take action given the drop in crude prices.*” He stated that Fonden and the Chinese Fund will make it possible to apply leverage to the economy in periods of low oil prices.

Never say never. The Minister for the Economy and Finance, Rodolfo Marco Torres, admitted that the foreign exchange and fiscal issues and the issue of eliminating the gasoline subsidies “*have not been closed,*” but that they are still working on them. He stated that it is President Nicolás Maduro who will decide whether or not to take action on the matter in terms of an adjustment measure.

Old debts at the old rate. Rodolfo Marco Torres claimed that the disbursements of foreign currency in 2014 are up to date and that the authorities have been meeting with the different productive sectors to review outstanding disbursements from 2012 and 2013. With regard to the latter, he said that they are disbursing payments at VEB 6.3/US\$ and that some companies are requesting that the disbursements be made at the SICAD I rate (VEB 12/US\$).

People are not cooperating. Referring to the problems of shortages, the Minister for the Economy and Finance, Rodolfo Marco Torres, said that we all “*have to cooperate and take the exact amount, what we really need.*” “*There are people who need five pills and take ten.*” He commented that the true problem is due to profiteering, hoarding, and smuggling out of the country. He pointed out that the measures taken with regard to the informal economy, the installation of fingerprint-identification machines, and the meetings with the private sector all seek to improve the supply of goods.

Wiping out inflation in two easy steps. Given that, according to the budget, the plan is for inflation to go to between 25.0% and 30.0% in 2015, Rodolfo Marco Torres announced that the measures that need to be taken in order to achieve the inflation target are “*promote domestic production and give a renewed boost to the Price Superintendency.*”

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A band that will be difficult to achieve. The vice chairman of the National Assembly's Finance Committee, Jesús Faría, considers that estimating inflation of between 25.0% and 30.0% for 2015 is an "ambitious" goal. He stated that, in order to achieve that, they should create better controls, increase production, reduce the smuggling of goods out of the country, and improve coordination among the authorities that are in charge of the fiscal, monetary, and foreign exchange policies.

Investment falls back. According to ECLAC, foreign direct investment fell back by 54.0% to US\$1.76 billion, a much bigger reduction than the one posted by Latin America of 23.0%. However, direct investment abroad by Venezuela increased by 29.0% between 1H2013 and 1H2014.

The debt just keeps on growing. Figures provided by the Ministry for Finance show that the Central Government debt went from US\$105.7 billion at the close of 1H2013 to US\$127.8 billion at the close of 1H2014. This increase in the value of the total debt is explained by the sharp increase in domestic debt, which went from US\$60.3 billion in 2013 to US\$83.5 billion in 2014.

Inflation and shortages are toying with the consumer. According to Luis Vicente León, the president of Datanálisis, Venezuelans' purchasing power has shrunk by 12.0% in 2014 as a consequence of spiraling inflation. He also points out that inflation and shortages have brought about changes in Venezuelan's consumption habits. "If you have to protect yourself from inflation, you increase your purchases in order to build up stocks at home, your cash flow contracts and it is there that the demand for durable goods drops because there are no surplus funds available."

SICAD II more restricted than ever. In the past few months, the Central Bank has made three changes to the regulations governing SICAD II with a view to introducing more requirements for gaining access to this mechanism. According to the Vice President for the Economy, Rodolfo Marco Torres, the rules that have been approved are not to prevent access to the mechanism but to ensure that there is no profiteering.

Interest rates. The lending rate for the third week of October was at 18.6%, without variations compared to the previous week. The time deposit rate was at 15.8%, up by 1.3 percentage points (pp) compared to the previous week,

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while the passive rate was at 14.1%, without variations compared to the last week.

International reserves. International reserves went up by 3.5%, going from US\$19.95 billion during the third week of October to US\$20.65 billion during the fourth week of October. Compared to the same period last year, international reserves have decreased by 6.0%.

Central government expenditure. On October 24th according to figures from the NTO primary spending was VEB 19.69 billion, which means an increase of 77.8%; when compared to the same period last year. So far this year, the primary expenditure accumulates VEB 674.1 billion, 102.7% 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.

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

Now there's a spill at Amuay. PDVSA confirmed on Monday, October 27, that there had been a light crude spill that affected the bay of Amuay in Falcón state. PDVSA attributed this irregular situation to "*the torrential rains that have fallen in the Paraguaná Peninsula,*" which have apparently generated "*changes in the direction of the wind*" and, consequently, the leak of this crude.

Seven weeks of falling prices. It is now seven weeks since the price of the Venezuelan oil basket has been posting a drop. Last week it closed at

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US\$75.9/bbl., for a loss of US\$16.7/bbl. since September, when it was US\$92.6/bbl. According to the Ministry for Oil, “*crude prices took a downward turn affected mainly by the perception in the market of abundant supply, a bigger increase than expected in commercial crude inventories in the United States, and the strengthening of the dollar.*”

The underestimation is no longer that great. Official figures show that the average oil barrel price this year is US\$94.2/bbl., US\$3.9/bbl. lower than last year, when it averaged US\$98.1/bbl. According to **Ecoanalítica**'s estimates, the government needs an oil basket price of more than US\$130/bbl. in order to balance its fiscal accounts and cope with the budget deficit, which closed at 16.9% last year. On the other hand, the reference price used in the national budget for 2015 is US\$60/bbl., which, if the downward trend in prices continues, would not be as grossly overestimated as in previous years.

More for operating expenses. The Ministry for Oil and Mining is to be allocated 263.0% more in funding than it received this year, according to the 2015 Budget Bill. Of that amount, 75.7% is to be used for operating expenses and only 24.3% will be spent on projects for developing oil fields. Most of the 30 plans contained in the bill are for optimizing or strengthening plans or activities that already exist and there are none that imply further developing the country's oil and mining industries.

The second shipment is on its way! PDVSA has reserved the tanker VLCC Boston to bring a second shipment of crude to Venezuela, this time 2 million barrels from Algeria. The shipment left the port of Arzew, according to a dispatch report revealed by Reuters. The first shipment of light crude arrived in Venezuela on October 25 at Jose Terminal in Anzoátegui. Reuters reported that PDVSA had purchased another two shipments of crude from Russia to be sent to Isla Refinery on Curacao.

For how long? PDVSA has said that the imports will be on an “occasional” basis. In this case, for example, they are being received on the eve of a shutdown in November of the Petrocedeno crude upgrader, which has capacity for processing 270,000 b/d of extra heavy crude. However, the decline in production of light crude and the delay in building upgraders indicate that these purchases will not be just a stopgap measure. Even though PDVSA has stated that the upgraders would be built by 2016, sector sources say that they will go into operation in 2019.

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With the focus on refining. PDVSA's refining director, Jesús Luongo, announced that PDVSA is to invest US\$20.0 billion to increase the refining capacity of its domestic circuit –which currently has capacity for processing 1.3 million barrels a day (mb/d)- by 20.4%. Luongo explained that the oil company has plans to increase domestic processing capacity by some 265,000 barrels a day, despite the fact that production has stagnated.

Paraguaná as well. Luongo, who is also the general manager of Paraguaná Refining Center (CRP), explained that they are to increase production at this complex by 100,000 b/d. *“That's going to allow us to process between 800,000 and 820,000 b/d,”* he said, referring to the plant that today produces some 700,000 b/d. Without mentioning dates, Luongo said that they are also going to expand the refining capacity at Puerto La Cruz Refinery by some 20,000-25,000 b/d; at the moment it processes 187,000 b/d. Venezuela has the largest reserves of crude in the world but its limited processing capacity has been an obstacle to OPEC raising its production quota in recent years.

They've had second thoughts. Minister for Finance Rodolfo Marco Torres explained that Venezuela had discarded the idea of selling Citgo Petroleum. President Nicolás Maduro said recently that he would strengthen Citgo, despite the fact that a member of his government and industry sources had mentioned plans to sell the company. *“The sale of Citgo has been discarded and the president has already said so,”* confirmed Torres, saying *“Venezuela is staying with Citgo and will continue to make investments in the refineries.”*

Highly unlikely. It is unlikely that OPEC will lower its oil production ceiling when it meets in November, said Mohsen Qamsari, the director for international affairs at the National Iranian Oil Company. Qamsari stressed that the emergency OPEC meeting requested by Venezuela was not necessary. Moreover, Saudi Arabia, OPEC's largest producer, has said that it is comfortable with the current crude prices and Kuwait has commented that a cut in oil supply from OPEC is unlikely.

Venezuela has requested a revision. After the International Center for Settlement of International Investment Disputes (ICSID) announced that the Republic would have to pay ExxonMobil US\$1.6 billion, less the US\$907 million that PDVSA paid following the ruling in the arbitration case heard by the International Chamber of Commerce (ICC), ICSID posted on its webpage a request from Venezuela for a revision of the ruling and notified that, due to that request, the order enforcing payment of the award would be suspended.

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International oil baskets. At closing time on October 24th in the New York Stock Exchange, the price of the WTI was US\$82.11/bl, down by 1.8% when compared to the reported the previous week. The Brent decreased by 0.7% when compared to the previous week, to reach US\$85.8/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$75.9/bl on Friday October 24th decreasing by 2.2% 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

Government is to implement a system for cement sales. The government has announced that it is to implement a system for the sale and distribution of cement to prevent hoarding and profiteering. According to assurances given by President Nicolás Maduro, the system “*will guarantee the distribution of cement directly from the factory to the hardware stores...*” In mid-August the government had already started to regulate cement sales when the cement factories notified construction companies that they could only purchase cement from plants located near the construction works that they were executing.

They're even queuing up at sea. There are 28 vessels anchored off the port in Puerto Cabello waiting for a berth at the dock to start unloading, according to Puerto Cabello Chamber of Commerce (CCPC). Eighteen of those vessels that are waiting for a berth have bulk cargos of yellow and white corn, sugar, rice, wheat, and soybeans. A large proportion of these food imports are being brought in by the State. There is concern among customs officials over the number of vessels that are at anchor waiting to enter port, as unloading can take several days and this could affect the arrival of cargo that may be en route for the Christmas season.

Broken promises. On September 26, Cencoex announced that it would disburse US\$125 million for the international airlines operating in Venezuela. Nearly a month has gone by and only Lufthansa has received US\$19 million corresponding to its operations in February 2014; no further disbursements have been made to the other airlines. The huge debt that the government has with the airlines, which is in the region of US\$3.5 billion, is the main reason

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why the airlines have drastically reduced the number of seats and flight frequencies for the Venezuelan market this year.

Contrary to all expectations... a new airline. With the claim that it is part of the solution to the present situation in the Venezuelan aeronautics market, a new airline, Navion Airlines, has been founded and it is about to start operations in Venezuela. Navion is to offer flights to Cancún (Mexico), Quito (Ecuador), Havana (Cuba), Fort Lauderdale (USA), and Madrid (Spain) from Simón Bolívar de Maiquetía International Airport.

Procedure for importing cars has been simplified. The Ministries for Finance, Commerce, and Industry have published the regulations that are to apply to the importing of vehicles not intended for resale by private individuals or companies paid for with their own foreign currency, regardless of whether the funds are in domestic banks or banks abroad. The measures published in the resolution include the temporary dispensation from having an import license, provided that the purchase of the vehicle abroad complies with established requirements. The person who imports the vehicle will only have to pay customs duties. The resolution specifies that private individuals may purchase a vehicle once every three years and makes it a prerequisite that they submit a sworn statement regarding the origin of the funds.

But not everything is spelt out clearly. Anyone who decides to buy certain categories of new or used vehicles, such as pickup trucks, will have to pay 42.0%, on average, of the value of the vehicle (in foreign currency) in customs duties. This percentage can go up to 52.0% in the case of vehicles valued at more than US\$20,000, because then a luxury tax is applied. The resolution, published in *Gaceta Oficial* No. 42,522 dated October 20, 2014, makes no mention of the exchange rate that the competent agency is to apply for payment of these taxes.

They're waiting for an increase in cheese and meat prices. Industrialists are expecting an increase in the prices of hard white cheese (for grating) and the varieties of yellow cheese, according to the National Association of Cheese Industrialists (Aniquesos), and the meat sector is also expecting an increase that the Executive is to make shortly, according to an announcement by Confagan. Trina Michelangeli, the executive president of Aniquesos, said that they are working with the Executive to set the new prices.

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There are still distortions in rice prices. There are problems with getting paddy rice production out on the shelves as the retail price for the finished product has not been revised. Aquiles Hopkins, the vice president of Fedeagro, explained that the kilo of paddy rice has been set at VEB 8.6 per kilo, whereas the retail price of white rice is regulated at VEB 7.8 per kilo. *“The raw material is more expensive and for that reason the companies are not receiving the rice. Those that are taking it are not paying the producer; they’re taking it on consignment. Once again the producer is the victim of the distortions in the chain.”*

Fedecámaras rejects RUPDAE. The Single Registry for Persons Engaged in Economic Activities (RUPDAE) established by the National Superintendency for the Defense of Socio-economic Rights (Sundde) will make *“productive activity more complicated,”* warned Fedecámaras. It also rejected the *“obligatory and coercive nature”* of RUPDAE. *“...they are forcing private individuals and companies to register. Anyone who fails to do so can be sanctioned with fines of between VEB 127,000 and VEB 2.54 billion,”* said Fedecámaras in a communiqué.

And yet another subsidy. The Executive has formally authorized the subsidy for companies that produce ground coffee in order to avoid putting up the price consumers have to pay for this product. This means that the prices that were set in 2012 will remain unchanged for the rest of the year and the amount of the subsidy will be revised in the event that there is an increase in the regulated price. Only coffee processing companies that are duly authorized and registered will be entitled to receive the subsidy.

WORLD ECONOMY TIPS

Slower months ahead. In October, the United States’ services sector grew at its slowest rate in the last six months according to the Purchasing Managers’ Index, which posted 57.3 compared to 58.0 the previous month (where a score above 50 implies expansion in economic activity). According to Markit’s chief economist, Chris Williamson, the slowing down in purchase orders and the decline in optimism are signs that there will be a drop in growth and employment in the coming months.

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IMF applauds the ECB. The IMF welcomed the “*transparency*” of the solvency test that the Central European Bank (ECB) carried out on banks in the Eurozone and considered it important that this test be conducted annually as it guarantees that confidence in banks will increase.

The housing sector is holding back the economy. The prices of new housing in China fell in 69 out of the 70 largest cities. This is the fifth month running that there has been a drop in housing prices. The housing sector accounts for 15.0% of the Chinese economy, which had its slowest quarterly growth since September 2009.

Not everyone passed the test. Twenty-five of Europe’s 130 largest banks that were examined by the ECB and the European Banking Authority have accumulated a deficit of US\$25.0 billion. Twelve of them have adopted sufficient measures to cover their deficit, whereas 13 will have to take steps in the next nine months to obtain the necessary capital.

The United Kingdom is not prepared to pay. Prime Minister David Cameron said that Great Britain would not pay the European Union the US\$2.7 billion ordered by the European Commission as its additional contribution to the community budget. Even though the European Union’s regulations provide for these adjustments, the British prime minister said that he was frankly angry, bearing in mind that both Germany and France are to receive a reimbursement due to the lower performance of their economies.

They’re not doing that well either. The United Kingdom’s Office for National Statistics announced that the volume of sales fell back by 0.3% in September, the worst result since January. This indicates that the recovery of the economy could be slowing down. In addition to this lower performance in sales, there is the slow increase in wages and salaries, the drop in housing prices, and a lack of confidence in the economy that are casting doubts on the recovery of the British economy.

Germany doesn’t seem to be improving. According to the Business Climate Index, confidence in Germany fell in October compared to the previous month, going from 104.7 to 103.2. This result has fueled existing concerns over the possibility of Germany recovering in the second half of the year.

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Public finances are improving. France's finance minister, Michal Sapin, reported that they plan to reduce the budget deficit by EUR 3.6 billion next year in order to keep within the guidelines established by the European Union. The payment of lower financing costs than expected and growth in budget revenues will apparently help to achieve this objective.

The IDB and the EIB are working for the SMEs. The IDB and the European Investment Bank (EIB) announced an agreement under which they are to allocate US\$1.0 billion in loans for small and medium enterprises in Europe and Latin America and the Caribbean. According to the president of the IDB, Luis Alberto Moreno, this agreement "will facilitate the expansion of SMEs in Latin America, the Caribbean, and Europe."

Investors are not happy. President Dilma Rousseff managed to get reelected in Brazil in a second round of voting after beating opposition candidate Aécio Neves with nearly 51.06% of the votes. Following the publication of the official results, the Brazil Stock Exchange plummeted, with Brazil's benchmark stock market indicator, Bovespa, falling back by 4.7% and shares in Petrobras dropping by 14.0%. The asset management firm Schrodgers said that Brazil disappointed investors when it returned the present president to office.

POLITICAL TIPS

A new minister. President Nicolás Maduro has appointed Carmen Meléndez as the new Minister for Homeland Affairs, Justice and Peace in the place of Miguel Rodríguez Torres and Operational Strategic Commander Vladimir Padrino López as the new Defense Minister in the place of Meléndez. According to Maduro, these changes will make it possible to guarantee peace in the country and maintain and perfect the Safe Fatherland Plan.

We'll have to wait until December. Rosa León, a member of the National Assembly's Electoral Nominations Committee, said that the names of the new directors of the National Electoral Council (CNE) will possibly be announced in December. "*The names of the country's electoral authorities will be announced in December. We are determined to do it; this is a petition.*" León also said that there is the possibility that the present directors of the CNE will be nominated again.

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Dialog is the solution. According to the latest “*Monitor País*” opinion poll conducted by Hinterlaces, 89.0% of Venezuelans considers that calling on the different factions to dialog is one way of solving the present political situation in the country. Those interviewed for the poll were also asked whether the government should meet with the business sector, an idea that had the support of 93.0% of those interviewed and was rejected by only 3.0%.

The people approve of the private sector. The latest opinion poll conducted by Hinterlaces also reveals that 58.0% of those interviewed considered that it would be correct to privatize state-owned companies that are generating losses, whereas 37.0% did not believe that this was the right solution. When those interviews were asked whether creating a socialist production model with the participation of private business would be a good alternative to the present economic model, 73.0% said that they thought it would be and 24.0% rejected the idea.

Don't be foolish. Venezuela's diplomatic mission to the Organization of the United Nations in Geneva sent a letter to the Office of the United Nations High Commissioner for Human Rights (OHCHR) in which it describes the petition to release the political leader Leopoldo López and former Mayor Daniel Ceballos as foolish. According to the representatives of the Venezuelan Government, the OHCHR is not aware of the limits of its sphere of action and has allowed itself to be manipulated by the international media with regard to this case.

A budget that makes no sense. “Improvised” was how Governor of Miranda Henrique Capriles described the Budget Bill for fiscal year 2015 that has been submitted to the National Assembly. Capriles criticized the fact that the budget was drawn up based on an exchange rate of VEB 6.30/US\$ when the “majority of foreign currency allocations” are at the VEB 120.0/US\$ and VEB 50.0/US\$ exchange rates via SICAD I and SICAD II. The governor also said it was irresponsible of the government to estimate inflation of between 23.0% and 28.0% for 2015 when this year, according to Capriles, it is 70.0% (y-o-y). “*They insist on massaging the figures as though our people were immune to the situations they are facing on the street, in the marketplace or in the pharmacy,*” he said.

Venezuela should take a leaf out of Norway's book. National Assembly deputies belonging to the party *Acción Democrática* have proposed to the

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Executive that it decree a VEB 5,000 allowance to reduce the number of school dropouts and “revive” the economy. According to Deputy Eliécer Zirit (*Acción Democrática*), absenteeism in the first week of classes was 95.0%, in the second week 75.0%, and in the last week 60.0%. According to *Acción Democrática*’s calculations, VEB 30.78 billion would be needed to cover this allowance, which could be obtained from surplus oil revenues or value added tax collections.

Think green! Pastora Medina, the vice president of the Ecological Movement of Venezuela, expressed her concern over the merging of the Ministry for the Environment and the Ministry for Housing and Habitat. According to Medina, the merging of the ministries is a step backwards as far as the environment and salubrity are concerned. *“We’re extremely worried about the elimination of the Ministry for the Environment; they’ve practically eliminated it. When they merged it they deprived it of hierarchy and force; besides which, this is a step backwards given the environmental problems that Venezuela is experiencing.”*

We’re worried. The secretary general of *Un Nuevo Tiempo* (UNT), Luis Emilio Rondón, said that there was concern in the party over the deterioration of the country’s institutions that is apparent in top government circles. *“We believe, and so we warn the country, that a chaotic, unpredictable and uncontrollable situation could be created as a result of the mistakes that the government has made in handling the public safety issue,”* he explained. Rondón also pointed out that UNT had already demanded the removal of the now former Minister of Homeland Affairs, Justice and Peace, Miguel Rodríguez Torres, because of his incompetence.

LEGISLATIVE TIPS

New appointments. On October 24, the appointments of Carmen Meléndez as Minister for Homeland Affairs, Justice and Peace and Padrino López as Minister of Defense were made official. Nicolás Maduro explained that the decision was taken with a view to continuing the work of both military officers in the construction of a new Bolivarian National Armed Force.

Not even barter is to be allowed. With the publication of a resolution in *Gaceta Oficial*, there is now a ban on selling or otherwise exchanging, via

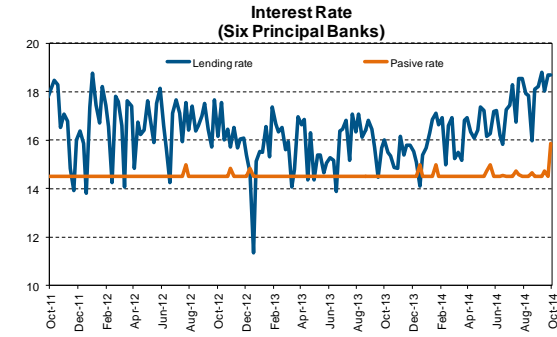
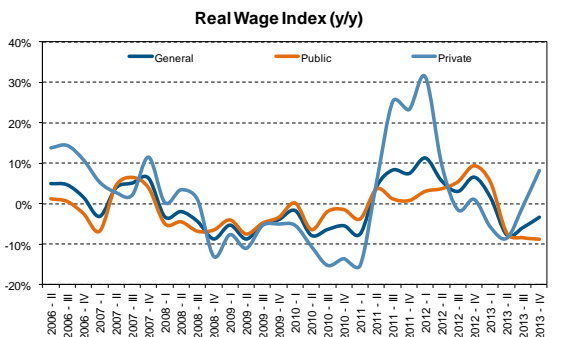
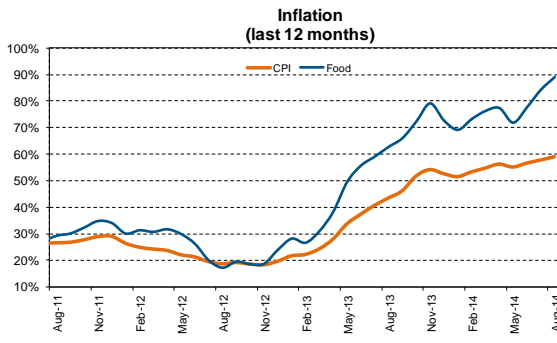
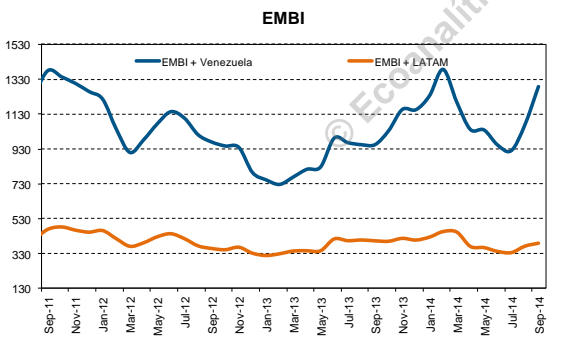
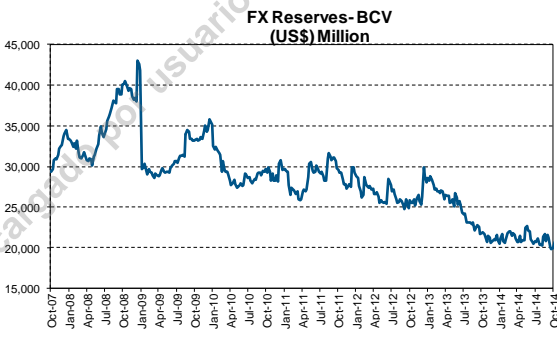
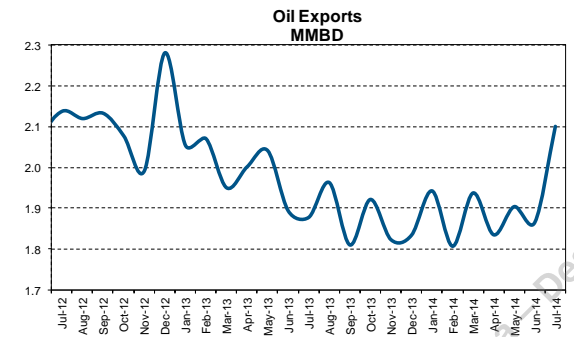
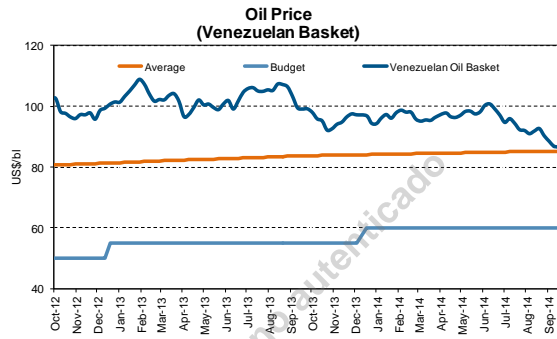
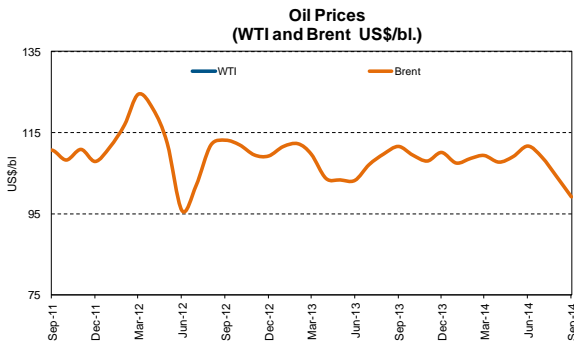
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informal trade, street trading, or occasional trading, the items and products of the basket, inputs, medicines and other goods imported or produced in the country for consumption. Those who infringe the measure will be liable to the sanctions provided for in the Fair Prices Act. Referring to the situation, Maduro said: *“It cannot be that a small group takes the food that is produced in Venezuela and sells it at twice the price. That kind of stealing has to stop.”*

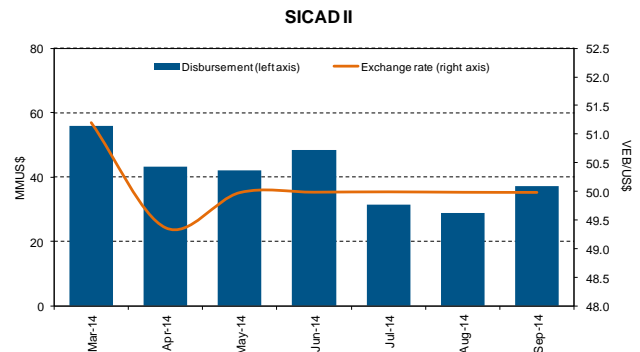
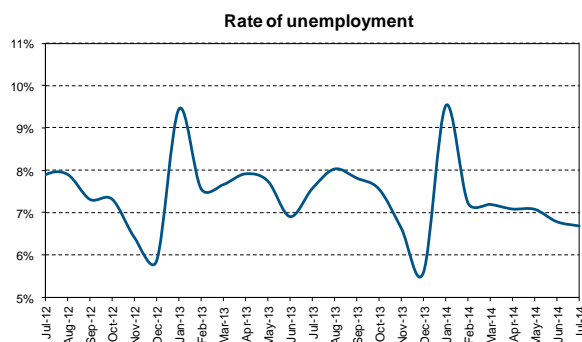
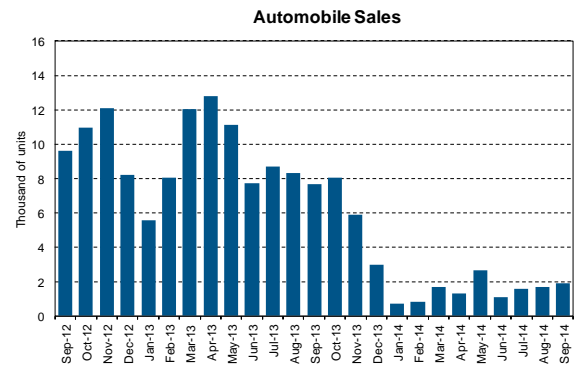
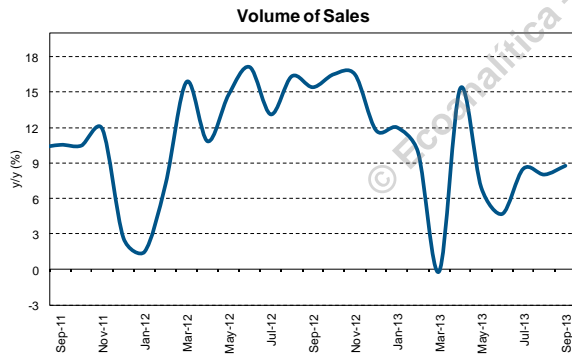
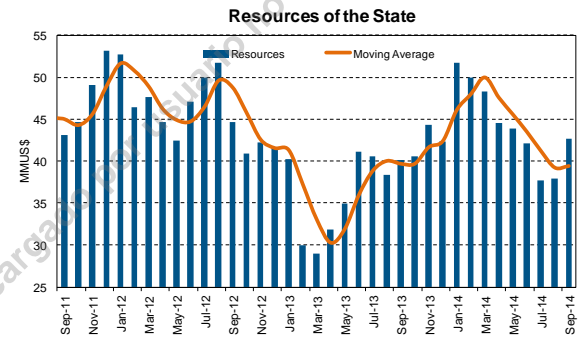
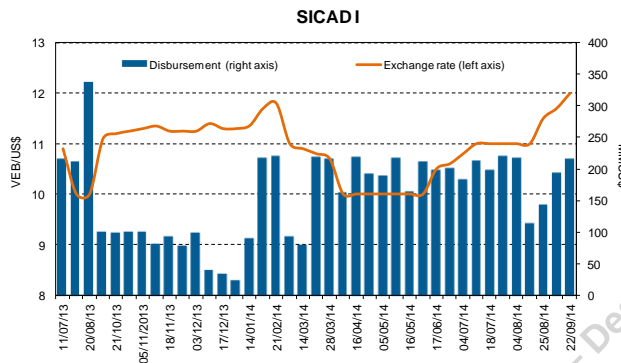
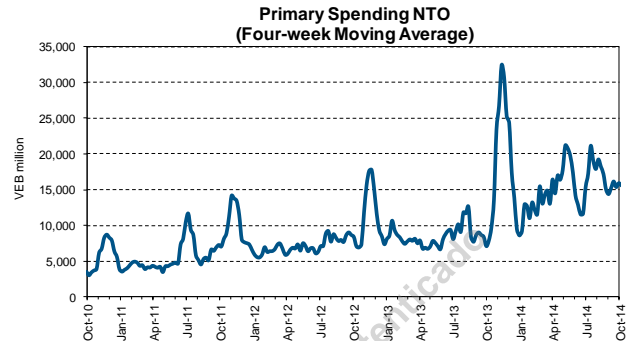
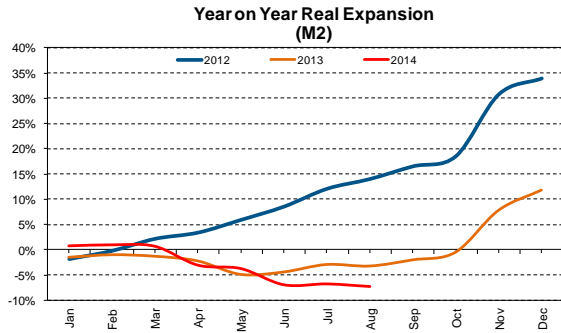
Part of the budget is for land. The budget bill submitted to the National Assembly on Tuesday establishes that, next year, there are plans for the National Lands Institute (INTI) to intervene 250,000 hectares of land suitable for agriculture in all parts of the country. To achieve this end, the agency will be allocated VEB 47.1 million. Also on its agenda is the evaluation of a further 15,000 hectares to determine whether they are suitable for agriculture, for which it will be allocated VEB 20 million, and the drawing up of an inventory of land that is suitable for agriculture, with an allocation of VEB 45.4 million.

What still has to be done to have a new CNE. On Monday, October 27, the Electoral Nominations Committee debated the method of evaluation to be used to draw up a shortlist of candidates from which to select the three who are to replace the CNE directors whose terms have expired. Once the evaluation of the people who have been nominated by civil society has been completed, the Electoral Nominations Committee is supposed to submit a shortlist of 27 candidates to the National Assembly. It will then be up to the deputies to select –with 110 votes in favor- the directors who will chair the National Electoral Board, the Civil and Electoral Registry Commission, and the Political Participation and Funding Commission.

ECONOMIC OVERVIEW



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