

## The 2016 Budget: Driving blind

As is customary at this time of year, we are giving over this report to analyzing the 2016 Budget Bill. The bill foresees expenditures for fiscal year 2016 of VEF 1.59 trillion, which is a nominal increase of 97,9% compared to the amount budgeted for 2015, but is 7.9% below this year's expenditures if we take the supplementary appropriations up until September into account.

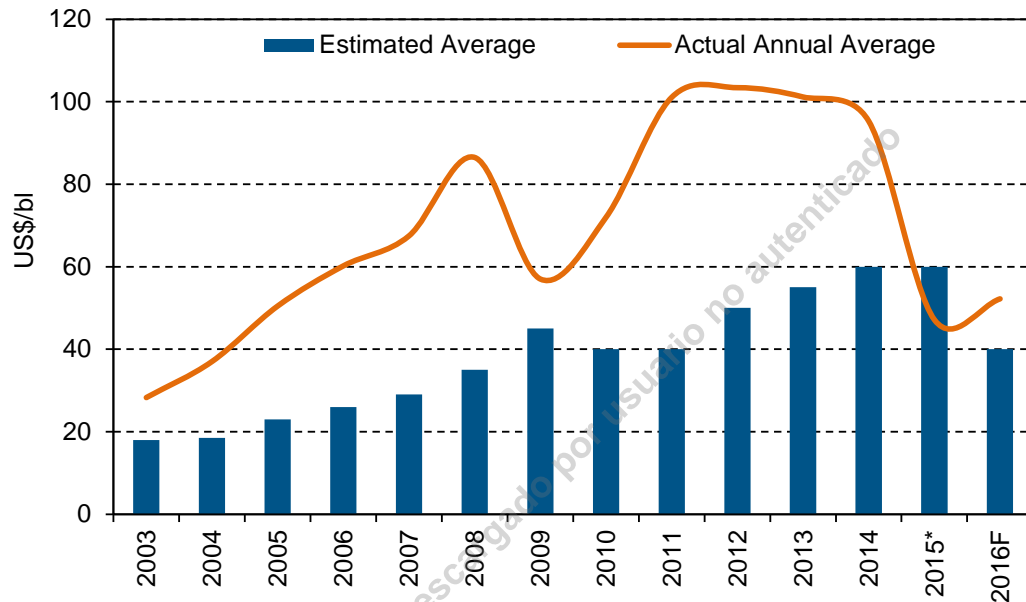
In the past few years, debating the budget in Venezuela has become a ritual in which the government projects macroeconomic premises that bear no relationship to the country's situation, unachievable targets become the rule and not the exception, and expenditures are underestimated, despite the fact that actual spending end up higher than planned thanks to supplementary appropriations. In 2014, actual spending came to 105.5% more than that year's budget, and this year the supplementary appropriations exceed the amount planned by VEF 198.52 billion, which is why spending always ends up being more than what is budgeted.

### The price of oil: the differentiating factor

Taking advantage of the boom in oil prices, in the past four years, the government has underestimated the oil barrel price in the national budget. The budget was submitted with calculations based on an oil barrel price of between US\$40.0 (US\$40.0/bl) and US\$60.0/bl, whereas the annual average over that period was US\$98.6. In the budget submitted for 2016, things have changed. With an average oil barrel price of US\$47.4/bl for 2015 to date, they have calculated an oil price for 2016 of US\$40.0/bl.

Year 11. Number 42. Week V  
 October 2015

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



Sources: MEFBP and Ecoanalítica  
 \* until 10/23/2015.

However, the budget surplus resulting from the high oil prices did not bring with it effective mechanisms for providing coverage in years of low prices, such as 2015. On the contrary, supplementary appropriations in the sum of VEF 633.81 billion have been approved so far this year. What was the reason for incurring in this practice? The answer seems to be more political than economic. Underestimating the price of the local oil basket was nothing more than an artifice that permitted the Executive to minimize revenues and expenditures and allowed the government to exercise greater discretion when performing spending.

### The worst scenario is where everything stays the same

The 2016 Budget Bill keeps the exchange rate at VEF 6.3/US\$ and, as previously, no adjustment in the exchange rate has been announced. However, the exchange rate has been adjusted two times since 2010. Keeping the official exchange rate unchanged is particularly foolish given the foreign exchange spread between the official Cencorex rate and the parallel market rate, currently 12,419.5% (at the moment of writing this lines). At **Ecoanalítica** we anticipate that, after the

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

parliamentary elections, the political outlook for 2016 will be clearer, where we might expect a devaluation with the official rate going from VEF 6.3/US\$ to VEF 25.0/US\$.

However, if the official exchange rate is in fact maintained at VEF 6.3/US\$, we can expect an inflationary spiral driven by the much diminished disbursement of foreign currency to the private sector, added to stricter price controls, which will be reflected in a drop in imports of 11.2%.

Moreover, the Marginal Foreign Currency System (SIMADI), which was created specifically to drain off the demand for foreign currency at an exchange rate 3,069.8% higher than the official rate (VEF 199.7/US\$ at the time of writing), has turned out to be an inefficient mechanism, with daily disbursements of only US\$2.8 million (between January and September).

### Far from reflecting the true situation

According to the 2016 Budget Bill, the government estimates inflation of 60.0% for next year, a difficult (not to say impossible) target to meet considering the outlook, both political and economic, for 2016. By way of contrast, at **Ecoanalítica** we estimate inflation of 409,6% by the close of 2016, considering all the political and economic scenarios, and as a consequence of the accentuation of price controls, which, according to statements by Vice President Jorge Arreaza, will be extended to all products sold in the country by the end of 2015. Plus, the continue exchange control, imports decrease given a fall, with low recovery in 2016, of oil prices, and a heavy political climax, all contribute to negative expectative on the Venezuelan economy.

This underestimation of inflation for 2016 only shows that, once again, the Central Government does not see, or does not want to see, the true situation the country is in. It seems that, in the short term, things on the foreign exchange front are not going to change. And the controls, which have generated a major distortion in the regulated goods market, increasing shortages and encouraging the resale of essential products (at up to ten times the original price), thus increasing uncertainty and negative expectations in the economy, do not look as though they are going to disappear either.

If that turns out to be the case, 2016 will not be a year when inflationary pressures will subside; on the contrary inflation will continue to spiral. Besides, underestimating inflation in this fashion generates false expectations with regard to possible fiscal

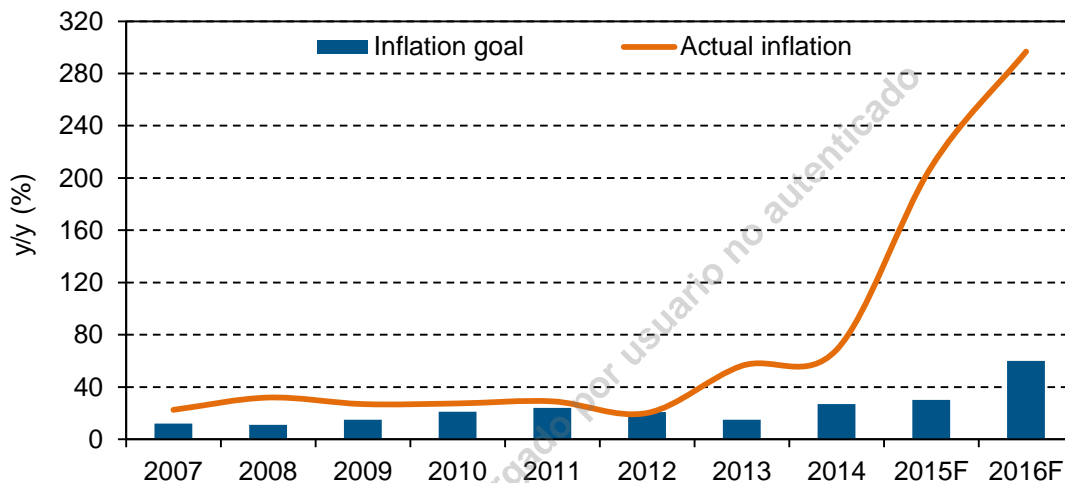
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
 October 2015

revenues, as they will be counting on higher fiscal revenues than those that are actually going to be received.

### Inflation Goal vs. Actual Inflation



Sources: MEFBP and Ecoanalítica

As for growth in gross domestic product (GDP), in the 2016 Budget Bill, this is calculated at between 4.0% and 6.0%. However, on the premise that the economic environment will deteriorate in 2016, we do not believe that this growth will happen. On the contrary, at **Ecoanalítica** we project a contraction in the economy of 6.4%, which means a halt in investment and negative balances on the State's accounts. In this context, all production sectors will be affected negatively, which means that domestic production could fall to an all-time low and shortfalls in supply, shortages and inflation would become more acute, with the possibility of generating disorder and social fracture.

### Tell me your priorities and I'll tell you who you are

Upon analyzing the budget items that weigh most in spending in the 2016 Budget Bill, we find that, in the social sector, social security is in the lead with 15.3% of the total (3.0% of GDP), next comes education with 13.8% of the total spending budget, and health comes in third place with 7.0% (1.4% of GDP). Social development and participation are fourth with spending of 3.4%, equivalent to 0.7% of GDP. In short, budgeted social spending comes to VEF 642.89 billion, accounting for 41.6% of the budget and representing 8.0% of GDP.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
 October 2015

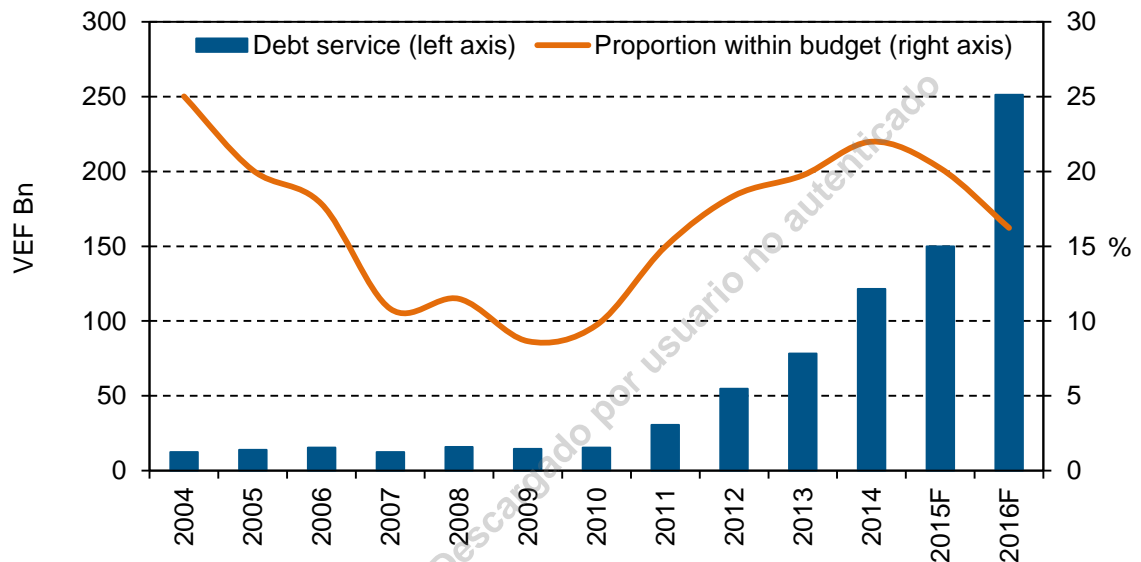
A detailed look at the education figures reveals how funding has fallen in percentage terms of budgeted spending: in 2008 18.8% and to 13.7% in 2016. On the other hand, there are sectors such as defense, which has 6.4% of the total budget.

Sector	VEF Million	% of Total Budget	% the GDP
Constitutional allocations	284,825	18.4	3.5
Debt service	251,257	16.2	3.1
Social security	237,423	15.3	2.9
Education	212,872	13.7	2.6
Others	176,109	11.4	2.2
Health	109,032	7.0	1.3
Security and Defense	99,137	6.4	1.2
Social development	52,865	3.4	0.7
Industry and Commerce	32,686	2.1	0.4
Transport and Communications	24,617	1.6	0.3
Energy, Mining and Petroleum	19,177	1.2	0.2
Agriculture	16,160	1.0	0.2
Housing, Urban Development and Services	13,520	0.9	0.2
Culture and Communications	13,080	0.8	0.2
Science and Technology	4,067	0.3	0.1
Tourism and Recreation	1,747	0.1	0.0

Sources: MEFBP and Ecoanalítica

The single item that absorbs most resources in the 2016 Budget Bill is the *situación constitucional* (constitutional allocation of funds to the regions), accounting for 18.4% of spending and equivalent to 3.5% of GDP. In second place, by only a narrow margin, is debt servicing, accounting for 16.2% of the budget and equivalent to 3.1% of GDP. Spending earmarked for debt servicing is estimated at VEF 251.26 billion, in other words a nominal expansion of 67.6% compared to the 2015 budget. By adding borrowing intended for refinancing and rescheduling the debt (VEF 70.76 billion) to the amount for debt servicing, debt-related spending comes to VEF 322.02 billion.

### Debt service



Source: Budget Laws and Ecoanalítica

### Repeating the wrong formula

The 2016 budget contemplates current revenues of VEF 1.42 trillion, 122.0% than the amount budgeted for 2015, which, in turn, represents 92.0% of the budget's allocations.

As for fiscal revenues, at **Ecoanalítica** we forecast that they will be in the order of 25.9% of GDP for 2016. Nonoil revenues, according to the government, will be 14.9% of GDP, whereas at **Ecoanalítica** we estimate that they will be around 14.4% of GDP. In the case of oil revenues, we estimate that they will be equivalent to 11.5% of GDP, whereas the 2016 Budget Bill puts them at 2.6%.

These figures for budgeted revenues and expenditures for 2016 reflects the effect of the drop in oil prices, which besides affecting the national budget right now, we forecast will also have an impact in terms of the high level of supplementary appropriations that are granted, a practice that has become customary in recent years.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

## A budget with no historic data

A fundamental element in drawing up the national budget is the macroeconomic projections that are used for that purpose. For that reason it is worrying that those premises do not reflect the country's true economic situation, resulting in a budget that has been drawn up on the wrong bases right from the start.

Added to that, the delay in publishing data is one of the phenomena that have marked 2015 and have made it one of the years with the worst economic performance in Venezuela's modern history.

There is a delay of nine months in the case of the inflation figures, GDP figures have not been published since 3Q2014, the same as the balance of payments and the country's trade accounts. The most recent official data available on the Real Wages Index (RWI) is for 4Q2013, unemployment figures have not been published since January, and the breakdown of the country's debt (domestic-foreign) is only available up until 2014.

These and many other key indicators of the country's macroeconomic and financial performance are no longer being published as regularly as necessary in order to avoid speculation and uncertainty in the economy. Proof of this is that the parallel dollar, while it reflects the shortage of foreign currency, also reflects, to a large extent, the negative expectations of individuals with regard to the economy and their concern over its deterioration.

Driving at full speed along a road in the dark is the same as taking decisions in an economy without information. You may reach your destination without mishap or you may not even make it more than 100 meters.

## Each decision taken has to be the right one

In order to take efficient, optimal decisions it is necessary to have the maximum amount of reliable information available in the market. At **Ecoanalítica** we have been working hard to be able to provide our clients with as much available official information as possible and, in its absence, with our estimates based on the perception of the present administration's economic and social performance.

Given this scenario of scant information and high levels of uncertainty, we recommend that our clients bear in mind the following before taking any operations and/or investment decision:

**It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.**

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

**Investment yield time:** In scenarios where there is high inflation and depreciation of the local currency it is necessary to calculate the time it will take the operation to generate the necessary revenues to get back the initial investment (this point is essential for those clients whose operations cycle is only in bolivars). Long yield times can lead to losses (negative earnings due to the effect of inflation).

**Working capital, your best ally:** When the scenario is not well defined, anything can happen. Maintaining a good level of working capital will allow you to cope with the different difficulties that the market presents you with.

**Borrowing:** While inflation reduces the total cost of borrowing, it is important not to borrow beyond your payment capacity. Checking liquidity and solvency indicators should become a daily task.

**Capital intensive or labor intensive:** Before starting any project, bear in mind that labor is subject to the current Labor Law (we have describe its inefficiency on numerous occasions) and capital (raw materials/machinery) depends largely on the allocation of foreign currency.

**Have the necessary human capital available:** The present brain drain has reduced the innovation capacity and technical structure of the Venezuelan labor market.

**Take good care of relations with suppliers, clients, and, in particular, with your workers:** In such a hostile economy, it is necessary to keep your allies happy. Looking for talent or new distributors can become a huge headache.

**Working on the basis of conservative scenarios:** When there is a lack of information, it is better to work on the basis of scenarios that do not create false expectations, in particular in parent companies. Good news is better than an unpleasant surprise.

Being a businessman in Venezuela has become one of the most difficult professions. This year and next will be the toughest tests for the country's business sector. However, after the storm comes the calm; and only those who have been able to cope with or survive this structural recession will be able to take advantage of the famous "economic rebound" that occurs after several periods of economic crisis.

Year 11. Number 42. Week V  
October 2015

**Cristina Parilli  
Lesner Castillo**

© Ecoanalítica – Descargado por usuario no autenticado

Year 11. Number 42. Week V  
 October 2015

## WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week October	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.8	0.7	2.7
	3rd Week October	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	8.3	-3.3	-5.8
	3rd Week October	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	15.28	-0.4	-26.0
	3rd Week October	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	80.6	165.4	71.0
	2nd Week October	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	3,186	1.4	100.1
Price of International Oil Baskets (US\$/b)			
	3rd Week October	Weekly var. (%)	Annual var. (%)
WTI	46.0	-2.7	-42.4
Brent	48.7	-2.4	-43.2
Price of the Venezuelan oil basket (US\$/b)			
	3rd Week October	Weekly var. (%)	Annual var. (%)
Weekly Average	39.5	-4.9	-48.0
Annual Average	47.2	-0.4	-50.1

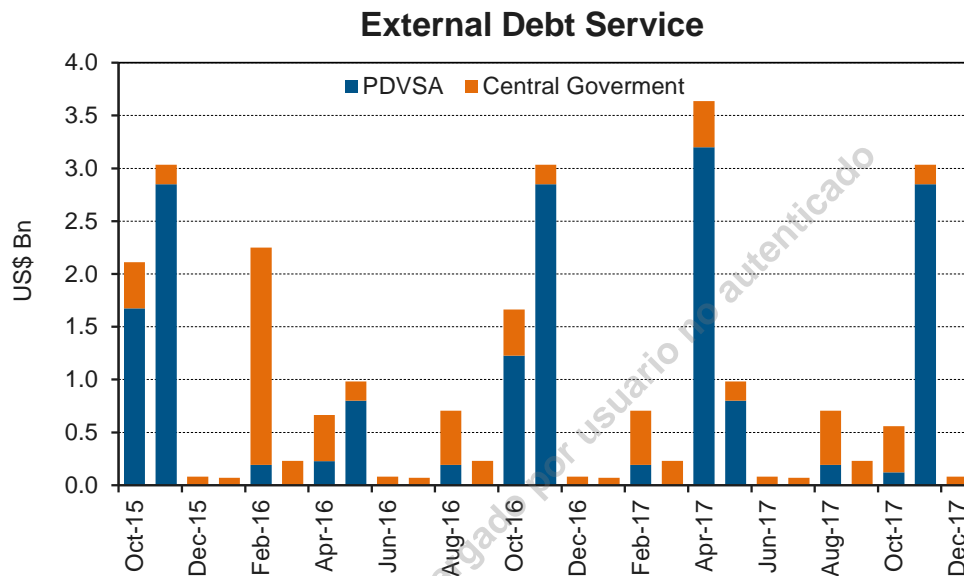
Source: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

CHART OF THE WEEK: “OVERCOMING THE OBSTACLE”



Source: Ecoanalítica

Nowadays the nation’s level of indebtedness generally has an important place in the daily events in our economy. Economists, politicians and other public personalities are constantly engaged in the eternal debate: Will Venezuela pay or not? The external debt and its payment maintain a leading role in the matrix of decisions of the different policymakers on the regional level. However, the impact varies from one country to the next depending on how open they are and how exposed.

Today more than ever, the resources required/set aside to pay the debt play a less marginal role, given that we are in a period marked by a cycle of low oil prices and a high level of political uncertainty in which the availability of foreign currency is increasingly less and, therefore, more important. The high reliance on imports, the presence of a cycle of major electoral events, and a compromised cash flow are the conditions in which we are facing the most onerous part of the external debt payment.

The government has shown, with the payment of US\$5,000 million spread across the last fifteen days, its willingness to fulfill its external debt commitments, however, the questions rise around its payment capability considering the increasing liquidity problems while facing one of the hardest part of the external debt service schedule.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
 October 2015

## ECONOMIC TIPS

### Partial foreign currency debt with the private sector.

#### Non-Financial Debt in Foreign Currency-Private Sector (Bn US\$)

	4Q2014	1Q2015	2Q2015	3Q2015	YoY (%)
CADIVI -Non-settled imports	8,42	9,31	10,42	9,77	44,5%
CADIVI -Dividends approved and unpaid	4,21	4,18	4,07	4,02	-2,4%
CADIVI -Rent and Services*	5,97	7,15	7,82	6,31	18,2%
Mixed Companies - PDVSA partners	4,85	5,42	6,10	6,20	26,7%
<b>Total</b>	<b>23,44</b>	<b>26,05</b>	<b>28,41</b>	<b>26,29</b>	<b>24,5%</b>

Source: Ecoanalítica

\* Includes debt with airlines.

**It's already at 133.3%.** According to estimates by Bank of America (BofA), in September inflation in Venezuela was 133.3% year-on-year, which gives a monthly rate of inflation of 7.7%, very similar to the average monthly rate of inflation in the first nine months of the year of 8.1%. According to BofA, monthly inflation has stabilized at around 8.0% due to the increase in price controls that are counteracting the factors of monetary expansion.

**Worker's Food Basket reaches VEF 38,873.** According to the last report by the Cenda, the Worker's Food Basket (CAT for its Spanish acronym) reached VEF 38,873 on September 2015. This represents an increase of 12.2% compared to the previous month and of 296.3% compared to September 2014. During the first nine months the accumulated variation of the CAT was 215.8% (VEF 26,567).

**The behavior of the CAT** was determined by the increase in ten out of the eleven products that make up CAT: beans (61.5%), sugar (41.5%), tubers (31.5%), cereal and derivatives (24.2%), fishes (11.0%) and foodstuff (mayonnaise, ketchup and vinegar - 10.8%).

**Family income only covers 19.1% of the basket.** According to the report by Cenda, the minimum wage of VEF 7,422, effective in September, 2015 had a hypothetical purchasing power of 19.1% and a deficit only to food acquisition of 80.9% (VEF 31,458). That means that, a family today requires more than five the minimum wage just to cover their basic expenses on food.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

**The Fair Prices Act steps up controls.** Vice President Jorge Arreaza said that the amendment that is being considered to the Fair Prices Act, besides increasing the severity of sanctions, stipulates stricter control over how the “fair price” is calculated and a ban on including the parallel dollar rate in operating costs. Furthermore, he did not discard the possibility that the public sector would be the only sector in charge of distributing goods.

**Far from positive signs.** Fedecámaras pointed out that the announcements made by President Nicolás Maduro are worrying as they show that the government is reluctant to take measures that address the root of the problems and that its discourse reflects a consolidation of the present model, which has been the cause of the current economic crisis. The business association also pointed to the need for substantial changes that would restore confidence and support production.

**They don't have the capacity.** On the matter of the distribution of goods, Consecomercio said that if the authorities want the goods imported by the government to reach every home, it will be necessary to include the private sector in that dynamic as the public sector does not have an efficient distribution network. Nevertheless, President Nicolás Maduro has announced on several occasions that the government would eventually take full charge of the distribution of goods.

**Even the states are to get a slice of the cake.** The national budget stipulates that the regions are to receive VEF 284.83 billion as their constitutionally-mandated appropriation (*situación constitucional*). VEF 227.86 billion of that amount is to be transferred to the state governments and VEF 59.97 billion to the municipal governments. Vice President for the Economy Rodolfo Marco Torres said that these allocations will permit the regions to finance their investment programs and projects.

**Funds for social spending.** According to the Ministry for the Social Process of Work, the government allocated US\$717.90 billion to social investment over the period 1999-2014. The ministry's indicators show that, during that period, social security received US\$186.81 billion (26% of the total), education US\$208.19 billion (29.0%), and health US\$136.4 billion.

## OIL TIPS

**Crude down.** Crude continued its downward trend this week. Analysts attributed today's drop to fresh signs of oversupply in the market and calculations indicate that

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

the present pace of investment will slow down in 2016 for the second year running. The high level of stocks in the United States and the prospects that Iran will start to pump again continued to push down the price of oil.

**PDVSA is considering alternatives.** At a meeting of a working group held in the Francisco de Miranda Salon at PDVSA Intevep, PDVSA's technological area evaluated the revising of heavy crude dilution and transportation schemes in the oil industry. According to a press release from the oil company, the dilution of extra heavy crudes is a strategic issue given the volume targets established and the share of heavy and extra heavy crudes, which are the largest source of the country's reserves.

**PDVSA under investigation.** According to a report in The Wall Street Journal, the US authorities have started a series of wide ranging investigations in an attempt to determine whether PDVSA and its bank accounts abroad were used for illegal purposes, including foreign currency operations in the black market and the laundering of money from drug trafficking. The US authorities have not publicly accused PDVSA and it is possible that no charges will be brought.

**The US is to sell reserves.** The United States plans to sell 58 million barrels of crude from its strategic reserves between 2018 and 2025 on the terms of a budget agreement reached on Monday with the White House and legislators of both parties, reported Bloomberg. The proposed sale represents more than 8.0% of the US\$695 million in reserves stored in four silos near the Gulf of Mexico coast, said the report.

**Del Pino: We must achieve a fair price for oil.** On Monday, October 26, Minister of Oil and Mining Eulogio Del Pino stressed that oil producing countries have the responsibility to achieve a fair and balanced price for crude that will make it possible to continue with the levels of investment. "*Producing countries have a responsibility towards mankind so that the price is sustained over time,*" commented the minister in an interview.

**Algeria backs Venezuela.** Algeria's foreign minister, Ramtane Lamamra, ratified its support of Venezuela in the call for a summit of heads of state of the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries to increase the prices of crude. Lamamra stated that his government agrees with Venezuela on the need for oil countries to meet in November to define the real cost based on sustaining investments in the future.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

**Desalter ready.** The general manager of Paraguaná Refining Center (CRP), Jesús Sánchez, reported that the desalting plant, in which US\$250 million has been invested, is already producing 600 liters of water a second. Sánchez explained that *“The 800 liters that the refinery used to consume are now available for Falcón. We’re freeing up the water that CRP’s facilities used to absorb,”* given the water crisis that is affecting Falcón.

## BUSINESS SECTOR TIPS

**Controls everywhere.** Minister for Food Carlos Osorio stated that the amendment to the Fair Prices Act, which apparently explains the new system for establishing the maximum retail price, had already been published. *“From a stopcock, a pair of socks, shoes, a pair of pants, a t-shirt, boots, a kilo of flour or rice, all the products that a human being requires must be marked with the maximum retail price,”* explained Osorio.

**Trying to win over voters.** Governor of Anzoátegui Aristóbulo Istúriz announced that the regional information sessions on the new maximum retail price and fair price system are to start this week. *“President Nicolás Maduro has announced a new price policy. In that policy there are a series of guidelines. The first stage is the information stage, which must reach all levels,”* ratified Istúriz.

**Every cause has its effect.** The president of National Commerce and Services Council (Consecomercio), Cipriana Ramos, warned that the amendment to the Fair Prices Act will mean that there will be fewer products on the shelves. *“We’re going to have less merchandise on the streets because no one is going to import with the free rate dollar if they can’t adjust the sales price accordingly,”* claimed the president of Consecomercio.

**Commerce at a standstill.** The executive director of the Caracas Chamber of Commerce, Víctor Maldonado, said that they have had to stop the purchase of merchandise abroad. *“Practically the entire commercial sector switched its operations over to the parallel dollar, but now, with this measure, who is going to import something at a price you can’t use to calculate costs?”* commented Maldonado.

**Less affordable by the day.** The food basket went up to VEF 61,897.9 in September. The Documentation and Social Analysis Center of the Venezuelan

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

Teachers' Federation (CENDAS-FVM) reported that the basket posted an increase of 22.3%, or VEF 11,272.9, compared to August.

**None so blind as those who do not want to see.** Government party Deputy Jesús Faría claimed that the basic basket is at the level of the minimum wage; in other words, that a basket that costs nearly VEF 80,000 can be bought with a minimum wage. *“There are those who say that the basic basket costs VEF 80,000, and that’s not the case. The basic basket is at the level of the minimum wage,”* stated the deputy.

**A problem of health.** The Pharmaceutical Federation of Venezuela (Fefarven), Freddy Ceballos, reiterated that the National Foreign Trade Center (Cencorex) is responsible for the shortfall in the supply of medicines in Venezuela. *“The problem has to do with the acquisition of foreign currency, because the Executive is not granting the sector foreign currency. Cencorex is largely responsible for what is happening,”* said Ceballos.

**On the election campaign trail.** Minister for Electric Power Luis Motta Domínguez announced that the distribution of 30 million energy saving light bulbs is to start on November 1. Motta said that a batch of efficient air conditioners would also be distributed. Furthermore, the minister recognized that *“there are concurrent failures owing to wear and tear or maintenance of the cables”* in some states.

**Alliances abroad but never at home.** Foreign Minister Delcy Rodríguez announced the agreements reached with the Republic of Trinidad & Tobago following the visit by the island’s foreign minister to Venezuela. Rodríguez stated, *“We’re working on different areas of cooperation.”* It has been agreed to set up and jointly exploit a gas deposit. *“This is the first time an agreement of this nature has been signed,”* explained Rodríguez.

## WORLD ECONOMY TIPS

**On to the next round.** The presidential elections in Argentina were held and the results mean that there will be a second round. Daniel Scioli, the government party’s candidate, obtained 36.8% of the votes, whereas Mauricio Macri, candidate for the opposition, obtained 34.3%. Sergio Massa came in third place with 21.3% of the votes.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

**Balloting in action.** Since none of the candidates obtained more than 45.0% of the total votes, or at least more than 40.0% with a ten percent lead over the other candidates, the outcome of the presidential elections is going to be determined in another round. Barclays points out that, if Macri wins, a positive change in the government's platform is to be expected, whereas if Scioli wins, the same model that appeals to nationalism and anti-neoliberalism is expected to continue.

**Lower unemployment, higher wages.** According to the US Bureau of Labor Statistics, unemployment in the United State in September was 5.1%, down 0.8 of a percentage point compared to September 2014. It also reported that between 2005 and 2014 the weekly wage for workers in private industry went up by US\$207, from US\$779 to US\$986.

**We never said that.** Chinese Prime Minister Li Keqiang said that China never established that the Chinese economy should grow by 7.0% this year. He made those comments after an official at the People's Bank of China stated that China could maintain annual growth of between 6.0% and 7.0% in 2015. Between July and September, the Chinese economy grew by 6.9% compared to the same period last year.

**In negative terrain.** The European Union's statistics office reported that, given the drop in energy prices, inflation in the euro zone in September was in negative terrain. Inflation in September was -0.1%; in other words prices fell. These inflation figures are putting pressure on the European Central Bank (ECB) to increase its purchase of assets, even toxic assets.

**Waiting until December.** The ECB stated that it would keep interest rates and the money printing program unchanged. According to the bank's president, Mario Draghi, the ECB is to review what other measures could be taken to address the low inflation that is affecting the euro zone in December. He also said that the drop in commodity prices and unemployment in emerging markets are being considered in the analysis.

**In order to make the target.** Furthermore, Draghi said that the bank could carry out its bond buying program of up to EUR 60.0 billion a month and that this program could be extended beyond 2016. According to Draghi, the purpose of this initiative is to boost growth in the euro zone and bring inflation up to the target set by the bank, which is close to but below 2.0% a year.

Year 11. Number 42. Week V  
October 2015

**No taboos and not afraid.** Peter Praet, a member of the ECB's executive committee, commented that, in view of the risk that inflation in the euro zone might not achieve its target in 2017, the ECB would have no taboos when it came to looking of other ways to raise inflation. *"We are in a situation where the timeframe for achieving the inflation objective risks once again to be moved back,"* said ECB's chief economist.

**How credit's behaving.** According to the ECB's figures, the growth of loans to nonfinancial entities fell by 0.1% in September, year-on-year, 0.3 of a percentage point less than in the previous month (0.4%). As for loans to households, annual growth stood at 1.1% in September, 0.1 of a percentage point higher than in August.

**When the Chinese crisis comes knocking.** German business confidence experienced a slight drop in October, which suggests that Europe's largest economy is proving resilient in the face of the contraction in China and the emissions scandal involving the automobile manufacturer Volkswagen. The business climate index compiled by the Ifo Institute for Economic Research based on a monthly survey of some 7,000 companies, slipped to 108.2 in October from 108.5 in September.

**Bit by bit.** In response to the decision by the credit rating agency Finch to downgrade Brazil's credit rating, the Brazilian Government has stressed that it has been adopting measures in order to stabilize the public debt and recover revenue and employment in the next few years. Since the corruption scandals broke, Brazil has been finding it difficult to recover its credibility and also to implement an economic plan that would allow it to bring down inflation and increase economic growth.

## POLITICAL TIPS

**A decisive announcement.** Public Prosecutor No. 41 Franklin Nieves confessed to having being pressured into sentencing Leopoldo López. The former officer of the court, who was removed from office by Prosecutor General Luisa Ortega Díaz, reiterated that the opposition leader is innocent. *"Leopoldo López is innocent. This was a totally political trial and should be annulled (...). All of Leopoldo López' human rights were violated because he was never allowed to bring forward any witnesses or pieces of evidence,"* confirmed Nieves.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

**Demanding freedom.** The Venezuela United Campaign Team (CVU) reiterated that Leopoldo López should be released, a demand seconded by Public Prosecutor Franklin Nieves. Jesús Torrealba, the head of the CVU, said: *“This is a trial with procedural irregularities, and if the law functions as it should, López should be released and all charges against him lifted. Besides, the public prosecutor admits that he was subjected to pressure, which demonstrates that there was agreement to commit a crime.”*

**A return punch.** Ombudsman Tarek William Saab commented on the case of former public prosecutor Franklin Nieves, playing down the validity of his recent statements. *“The former public prosecutor would have been credible if he had told what he said in the video during the process, before leaving the country. That way it would have been included in the case file. But since that did not happen, he is annulling his own juridical status,”* said Saab.

**Refusing to step down.** Prosecutor General Luisa Ortega Díaz has denied that she is to resign over Public Prosecutor Franklin Nieves’ confession that they forged evidence in order to put Leopoldo López and a group of students on trial, as proposed by former Justice Román Duque Corredor. *“I’m a responsible person. Opinion hacks draw hasty conclusions,”* said the prosecutor general.

**A distorted agreement.** President Nicolás Maduro Moros signed the agreement to recognize the results of the parliamentary elections. In his speech, Maduro stressed that his signature *“is not a matter of protocol, is not a signature given as part of a campaign, it is a commitment to respect and enforce the will of the people at the elections on Sunday December 6. Who wins won and who loses lost.”*

**Getting ready to attack.** Maduro warned that the opposition was not engaged in an election campaign but in *“getting ready for a coup”* after the parliamentary elections. *“The Bolivarian revolution has been declared to be in a state of emergency with an anti-coup plan to guarantee the electoral victory on December 6. This revolution will never be betrayed or surrendered. Let the “pelucones” (bigwigs) know that,”* said Maduro.

**At the bottom of the ranking.** The executive director of Foro Penal Venezolano (FPV), Alfredo Romero, claimed that, today, Venezuela has the largest number of political prisoners, even more than Cuba. *“Venezuela is the world leader in persecution and manipulation of justice. While Cuba is cutting back on persecution and reducing the number of political prisoners, the Venezuelan Government wants to be seen as the biggest violator of human rights in the world,”* said Romero.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015

**With their hands tied.** The president of the political party COPEI, Roberto Enríquez, clarified before the Supreme Tribunal of Justice that COPEI is not suing the Democratic Unity Alliance. He stated that the lawsuit brought by the so-called “ad hoc board” is an act of “vulgar political piracy, turning up with a list of candidates that were never elected in COPEI.”

### LEGISLATIVE TIPS

**Public sector salary scale is ready.** The Executive published a decree in *Gaceta Oficial* No. 43,733, dated Monday, October 26, approving the new salary scale for government service officials and workers. The new scale, which goes into effect on November 1, establishes that high school graduates who work in the government services shall earn a wage of between VEF 9,648 and VEF 20,2619.

**It impact in the TSU also.** In the case of personnel with a technical school degree (TSU) the scale is goes from VEF 10,668 to VEF 22,020, whereas professionals with a university degree will earn between VEF 11,349 and VEF 23,743. An unqualified worker will have a minimum wage of VEF 9,648.18 and a maximum wage of VEF 15,140, whereas a qualified worker will receive a monthly wage of between VEF 10,244 and VEF 16,031. Supervisors will earn between VEF 10,833 and VEF 16,468.

**Executive approves Socialist Cestaticket Law.** Under the Special Powers Act, President Maduro approved the new Socialist *Cestaticket* (Food Voucher) Law to make the modification to the food allowance official. The new law was created via Presidential Decree No. 2066, published in *Gaceta Oficial* No. 40,773 dated October 23, 2015. The law establishes the payment of a minimum of 1.5 tax units to a maximum of 45 tax units and also stipulates that this benefit is to be calculated on the basis of a 30-day month and that it is to go into effect on October 26, 2015.

**Border closure now for Amazonas.** A resolution of the Ministry for Homeland Affairs, Justice and Peace, published in *Gaceta Oficial* No. 40,774, orders the National Bolivarian Armed Force’s Operational Strategic Command to take the necessary measures to restrict the movement of persons and vehicles in Atures Municipality, Amazonas state, referred to as Border Security Zone No. 8.

**Now there are 24.** With Municipality Atures there are now 24 border jurisdictions where this measure has been implemented. The measure was implemented first of

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.  
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

all on August 19 in five border municipalities of Táchira state. According to Decree 2071, Atures Municipality has been experiencing phenomena such as paramilitary activity, drug trafficking, and smuggling. The measure is to be enforced for a period of 60 days from the date of publication of the decree in *Gaceta Oficial* (from October 23 to December 21), and could be extended for a further 60 days.

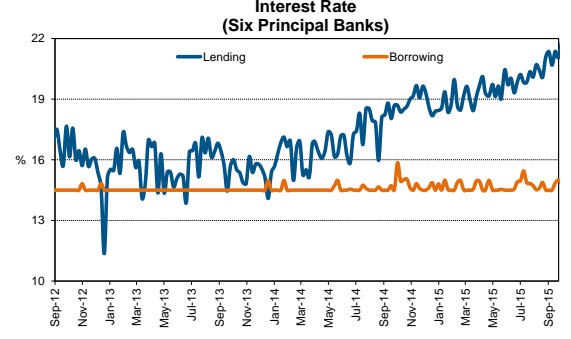
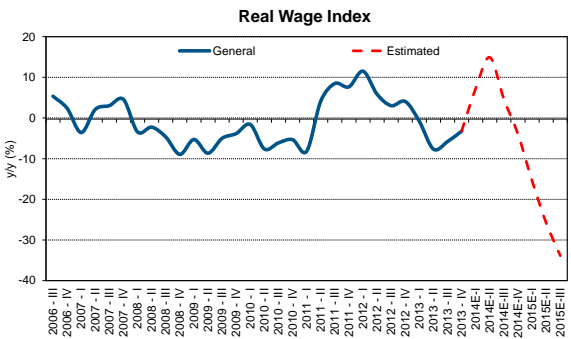
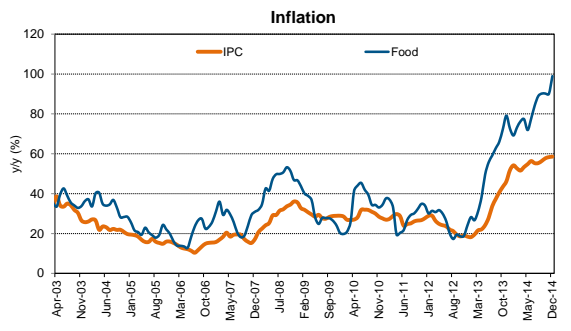
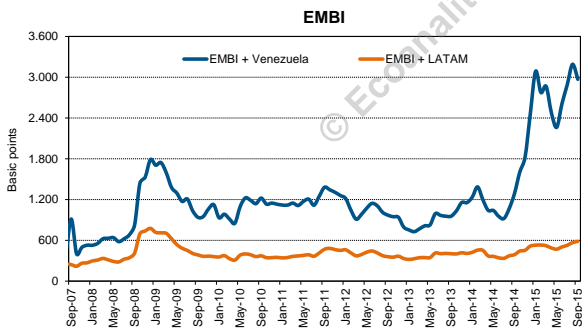
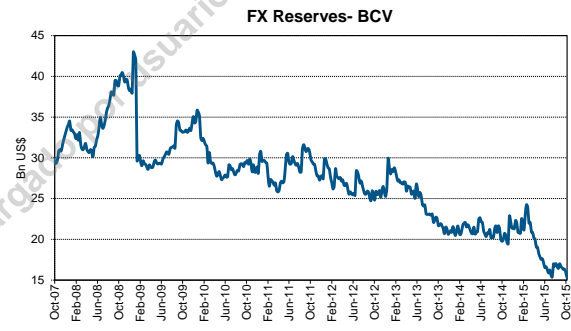
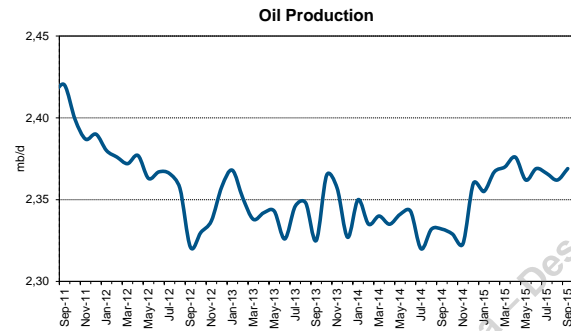
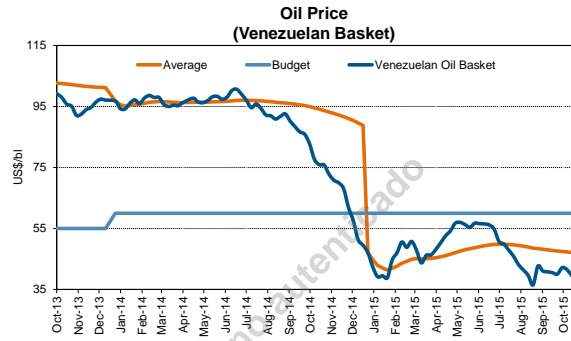
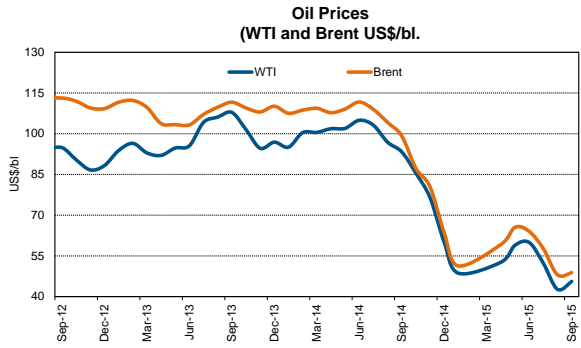
**Supreme Tribunal forbids evictions.** Forced evictions as a result of charges brought against tenants are forbidden, according to a ruling by the Constitutional Chamber of the Supreme Tribunal of Justice in an opinion issued by Justice Gladys María Gutiérrez Alvarado and published in *Gaceta Oficial* No. 40,733, dated October 26. According to the ruling, the carrying out of any forced eviction is suspended until the tenant has been relocated. Likewise, the carrying out of evictions in all cases initiated at the request of the National Housing Rentals Superintendency (SUNAVI) has also been suspended.

**National Assembly approved the budget.** The president of the National Assembly, Diosdado Cabello, called a session for Tuesday, October 27, for the purpose of debating the National Budget Bill, according to the Secretary of the National Assembly, Fidel Ernesto Vásquez. Besides other issues of interest, the National Assembly approved the Budget Bill for Economic-Financial Year 2016 and the Special Annual Indebtedness Bill for 2016 was held.

**New Ministry for Trade made official.** The creation of the Ministry for Industry and Trade has been made official after the order was given to suspend the Ministry of Industries and the Ministry of Trade via Presidential Decrees 2073 and 2074. As announced a few days ago, this new ministry is to be headed up by the present superintendent of SENIAT, José David Cabello Rondón.

**Price marking regulations are now official.** The regulations for determining, affixing, and marking prices that are to be applied countrywide went into effect on Tuesday, October 27. The ordinance was published in *Gaceta Oficial* No. 40,774. The regulations are applicable to all private individuals and companies. The ceiling on profits for the importers of goods and services is 20.0% and for domestic producers 30.0%.

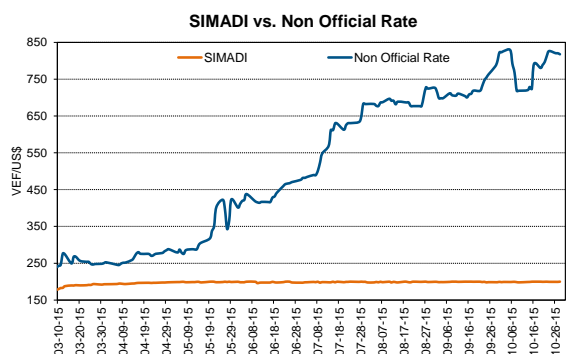
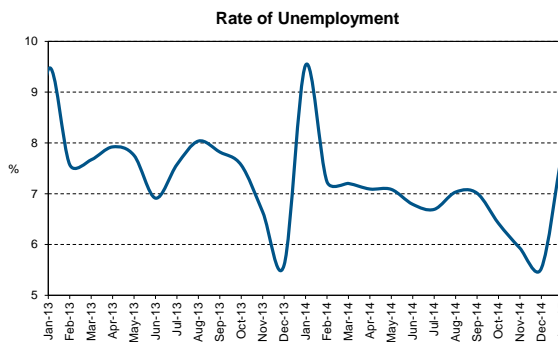
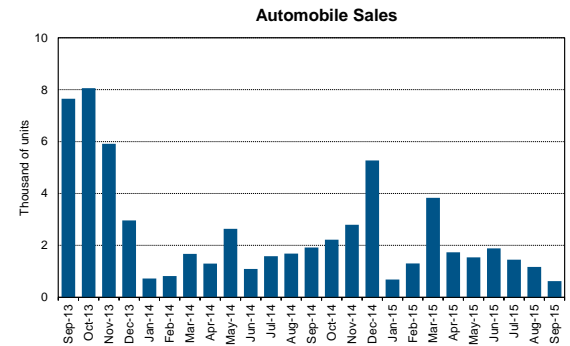
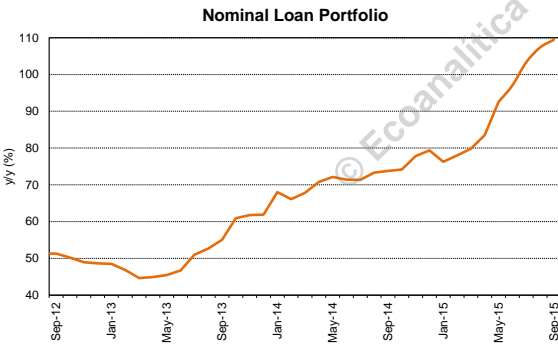
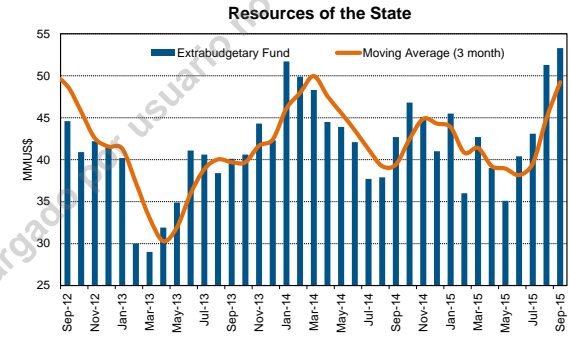
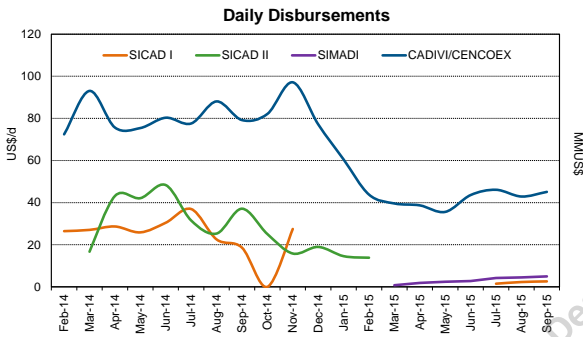
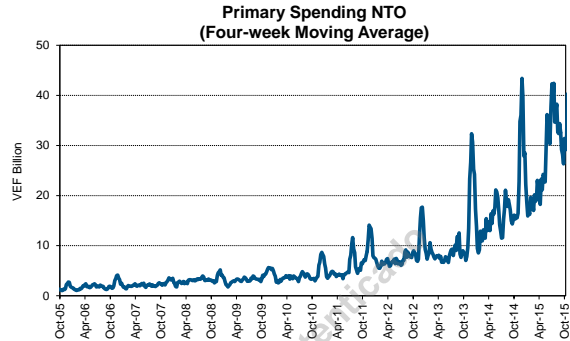
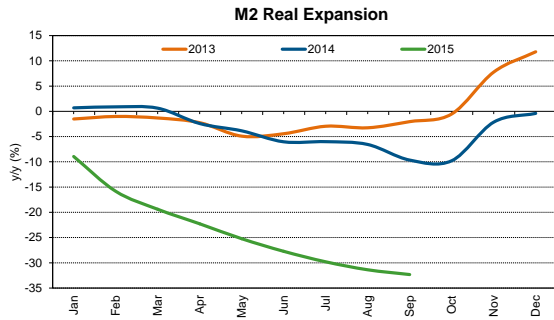
**ECONOMIC OVERVIEW**



It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 11. Number 42. Week V  
October 2015



It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandin, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.  
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

## ECOANALÍTICA'S TEAM

**Asdrúbal Oliveros** / Director

asdrubalo@ecoanalitica.net / @aroliveros

**Pedro Palma** / Director

pedrop@ecoanalitica.net / @palmapedroa

**Cristina Rodríguez** / Director

cristinar@ecoanalitica.net

**Carlos Miguel Álvarez** / Senior Economist

carlosa@ecoanalitica.net / @alv\_car

**Gabriel Villamizar** / Economist

gabrielv@ecoanalitica.net / @gabvillamizar

**Lesner Castillo** / Economist

lesnerc@ecoanalitica.net / @lesnerck

**Cristina Parilli** / Economist

cristinap@ecoanalitica.net / @cristinaparilli

## RESEARCH ASSISTANTS

Pilar Navarro

Gorka Lalaguna

Victoria Colmenares

## CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Colombia: (+57-1-508 6554)

Ventas@ecoanalitica.net

[www.ecoanalitica.com](http://www.ecoanalitica.com)

@ecoanalitica