

2015 Borrowing Law: Just as underestimated as the National Budget

Along with the 2015 National Budget law proposal, the Ministry of Finance and Public Banking (Mefbp) presented the 2015 Special Borrowing Law proposal to the National Assembly. The Borrowing Law not only fixes a limit to the amount of revenue the Administration may borrow during a fiscal year, but it also establishes the government's strategic financial guidelines with respect to how it will obtain resources and how the debt will be managed.

One of the main points established in the 2015 Borrowing Law, is the Administration's resolve to fulfill the commitments and obligations acquired by the Republic that are currently still pending. In other words, during the coming year, according to the Law, the Administration will meet all its obligations, domestic as well as foreign. At **Ecoanalítica**, we feel that even though Nicolás Maduro's Administration is very determined to make payment on all the obligations facing the Republic this coming year, the government's capacity to make payment, when you keep in mind all the obligations pending acquired outside of the Central Government's fiscal structure (PDVSA, China Fund, public sector non-finance companies) and how oil prices are going down, may not be up to the task.

The purpose of this law

Acquiring debt, or borrowing, if you will, is a mechanism used by government to finance all those activities that can be paid for by incoming fiscal revenue. The 2015 Borrowing Law establishes that all resources generated by this law will be used to promote the social wellbeing that the Administration strives to create in order to achieve advancement and improve social indicators. At **Ecoanalítica**, we believe that this discourse sounds a bit repetitive. In the end, the Administration will not look to increase investments in key sectors in order to improve social wellbeing in the medium and long term, rather, it will look to restructure and maintain certain populist measures, especially during 2015, it being an election year.

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According to the Law proposal, the Administration will use the resources obtained by borrowing to invest in specific actions aimed at the prudent management and sustainability of the public debt. These specific action are: i) increase the availability of resources for public investment, ii) meet in a timely manner the Republic's commitments and obligations for 2015, iii) support economic activity, and iv) advance social investment programs based on different projects presented.

How much are we talking about?

In accordance to Article N°1 of the 2015 Borrowing Law proposal, "the maximum limit for borrowing in bolivars that the Republic may acquire" during 2015 will be VEB 109.09 billion (US\$17.14 billion, calculated at the current official exchange rate of VEB 6.3/US\$). Of this amount, VEB 58.11 million will be earmarked for projects carried out by public sector entities, and VEB 50.98 billion will be used to service the domestic as well as foreign debt.

Regarding this point, it's important to keep in mind that for the coming year (2015), to consider an official exchange rate of VEB 6.3/US\$ may not be very realistic. At **Ecoanalítica**, we estimate that for 2015, the official exchange rate, could be at around VEB 6.3/US\$; or VEB 15/US\$; or VEB 20/US\$, depending on the scenario (a more in-depth look at the possible exchange rate for 2015 will be the subject of a future Weekly Report). If you take this variable into consideration, then the maximum limit for borrowing in 2015 will fall somewhere between US\$17.14 billion and US\$5.45 billion.

Furthermore, the Borrowing Law proposal opens the door for the Administration to borrow up to VEB 43.61 billion in order to carry out operations to refinance or to restructure the debt, and to increase to VEB 19.65 billion (from VEB 13.10 billion) the maximum amount of Treasury Bills allowed to be in circulation by the Ministry of Finance and Public Banking by the close of the year. Thereby increasing the amount of gross debt able to be acquired by the Republic to VEB 172.35 billion (US\$27.36 billion at the current official exchange rate) in 2015. This all takes for granted that there will be a 7.4% drop in the debt that could be acquired in 2014 (not taking into account amounts authorized for supplemental appropriations), and represents 29.3% of the fiscal spending budget estimated for 2015 and 23.2% of Gross Domestic Product (GDP) estimated by the Ministry of Finance and Public Banking for the coming year.

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Gross Indebtedness 2015 (VEB Million)

Projects	58,108
Debt service	50,978
Refinance	43,611
Treasury bond	19,650
Total	172,347

Sources: LEEA2015 and Ecoanalítica

With respect to net borrowing, taking into account Central Government debt service payments that will be made estimated by the Ministry of Finance and Public Banking at VEB 7.94 billion and the VEB 43.61 billion earmarked in the 2015 Borrowing Law proposal for restructuring the debt, the total for the coming fiscal year will be VEB 57.53 billion.

Why do we borrow?

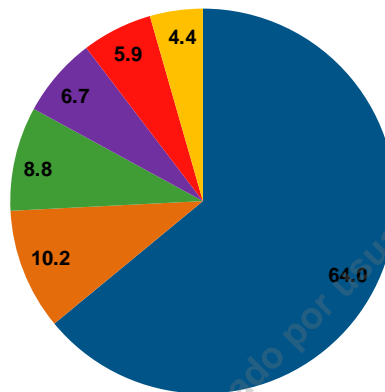
The resources obtained through the 2015 Borrowing Law proposal will be distributed in the following manner:

Public Sector Projects: VEB 58.11 billion. Most of these resources (64.0%) will be earmarked for projects that have something to do with the Ministry of Finance and Public banking; Transportation and Roads (10.2%); Electric Power (8.8%); Hydrology and Environmental Health (6.7%); Planning (5.9%); Sea and Air Transportation (3.6%); Government Management (0.4%); and Agriculture (0.4%).

Despite the fact that the 2015 Borrowing Law proposal makes it clear that the resources generated by borrowing will be earmarked for, among other things, backing economic activity and further developing social investment programs, in other words, increasing society's wellbeing, there is not a single project mentioned to improve the infrastructure of the health or education sectors; both key drivers to promoting economic and social development in the country.

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Project Contracts



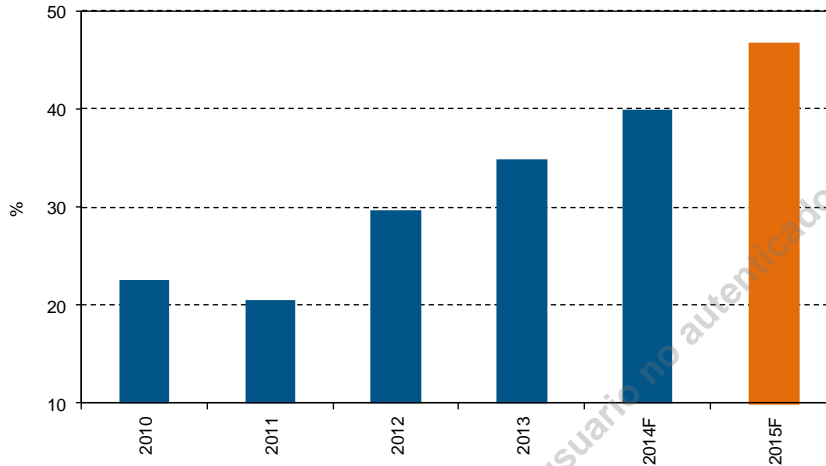
Sources: LEEA2015 and Ecoanalítica

Public Debt Service (Domestic and Foreign): VEB 50.98 billion. This amount covers 33.9% of the total payment due of the principal and interest owed for the Central Government debt in 2015, which in the 2015 Borrowing proposal is calculated at VEB 149.94 billion. The 66.1% (VEB 98.96 billion) not covered by this amount will be financed with ordinary fiscal revenue.

It's important to point out that even though the nominal level of maximum borrowing was not increased in 2015 with respect to 2014, the amount of revenue earmarked to service public domestic and foreign debt did increase. In 2014, the amount earmarked to service the debt was VEB 45.07 billion, equal to 24.2% of total debt, while in 2015, the amount earmarked to service the debt is at VEB 50.98 billion, equal to 46.7% of total debt; in other words, a difference of 22.5 percentage points (pp).

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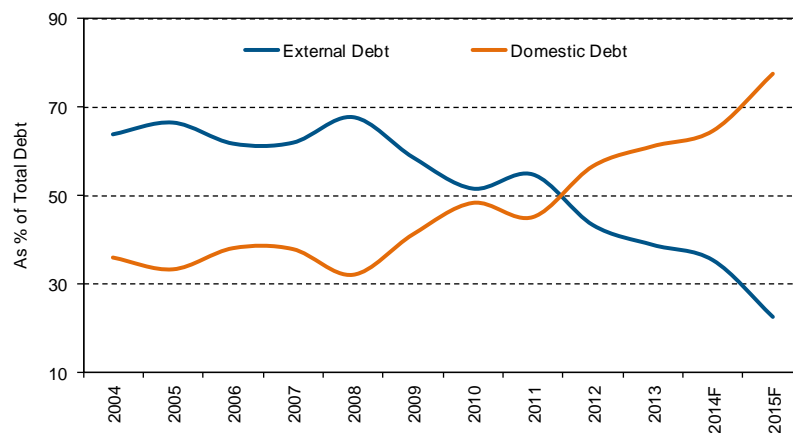
Debt service as a percentage of total debt



Fuentes: Debt Law y Ecoanalítica

Refinancing and Restructuring the public debt: Taking into consideration that the amount of resources earmarked for this refinancing and/or restructuring of the public debt is VEB 43.61 billion, there is a good chance that a significant portion of this amount will be used to buyback foreign debt, given the current state of finances; the high inflation which makes it easier and cheaper to borrow domestically; the likelihood that the currency will be devalued, which in turn makes it easier to manage domestic debt; and the high level of country risk that comes with having too much foreign debt, which makes it ever more expensive to acquire more foreign debt, if need be.

Composition of Central Government debt



Sources: MEFBP and Ecoanalítica

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Treasury Bills: According to the 2015 Borrowing Law proposal, the maximum amount allowed to circulate by the close of 2015 is set to increase to VEB 19.65 billion. Treasury Bills are instruments used for short term financing (for generally less than a year) and which allows the Administration to deal with specific cash flow problems.

It worth pointing out that for the last three years, the amount of fiscal spending budgeted and the amount of borrowing earmarked to be used to finance managing the government has fallen short. It doesn't look like 2015 will be the exception. At **Ecoanalítica**, we expect that as the Central Bank of Venezuela (BCV) continues with the monetary financing of public sector companies, the Government will not face the need to approve a supplemental borrowing law. Financing oneself with BCV financing has inflationary costs, while having to issue a supplementary borrowing law will lead to more debt interest payments.

A tight year with a very tight budget.

The need to make economic adjustments becomes more and more urgent as time goes by. Maintaining a status quo just makes all the economic imbalances get worse. For the coming year, we hope that the Administration will at least implement a series of measures to correct part of the economic distortions facing the country, and that it will accept the fact that estimated borrowing fell short, and leave it at that. By the close of 2015, we estimate that inflation will hit around 110%, so in real terms, the maximum amount of borrowing will be at VEB 8.90 billion. Furthermore, in 2015, significant adjustments will be made to the foreign exchange rate. The maximum amount of foreign currency available for distribution will be significantly cutback, going from \$17.14 billion (at VEB6.3/US\$) to US\$7.27 billion (at VEB15/US\$).

In 2015, the Venezuelan economy will have to weather another election year during a very difficult economic year with oil prices dropping significantly, gaps continuing to widen in the domestic market, the foreign exchange rate fixed at an artificially low rate, and the Administration lacking in credibility. Keep in mind that despite the fact that 2015 debt service payments will be covered by the 2015 Borrowing Law and that the 2015 National Budget is still short in financing by between US\$10.77 billion and US\$ 19.21 billion, this coming year is an election year and the Administration will be pressured to increase public spending. Public spending continues to be the Administration's weapon of choice when it comes time to make the people happy, influence votes, and win an election; in this case, win a few more seats in Parliament.

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Net Flow 2015				
US\$ MM ¹	2014	2015A	2015B	2015C
Net Flow (unadjusted)	7,156	-11,557	-15,385	-19,213
Net Flow (adjusted)	7,156	-9,783	-10,218	-10,766

Sources: BCV, MEFBP, PDVSA and Ecoanalítica

¹Scenario A: oil price US\$85.0/bl; scenario B US\$80.0/bl; scenario C US\$75.0/bl.

It's not so cheap to borrow anymore.

In order for the Government to borrow, there has to be a significant incentive to make investors want to buy government bonds. This incentive is usually defined by how much and how secure the bond's yield will be. Given the inconsistencies and lack of sustainability of the economic policies implemented by the Venezuelan government during the past years; how ineffective the measures implemented have been to "correct" existing economic imbalances; the lack of credibility of the Administration's Economic Cabinet members; the significant drop in crude oil prices; and the increased risk of Venezuela defaulting in making payments for its obligations and debts due to the significant drop in foreign currency it has available (international reserves); consequently, foreign debt has become steadily more and more expensive, at ever increasing interest rates.

And, with respect to domestic borrowing, this has required a significant increase in liquidity (with serious consequences in terms of inflationary pressures) and interest rates being set artificially low (to the detriment of Venezuelan's savings) in order for economic agents to have enough resources available and "incentive" to invest in domestic debt (Republic bonds).

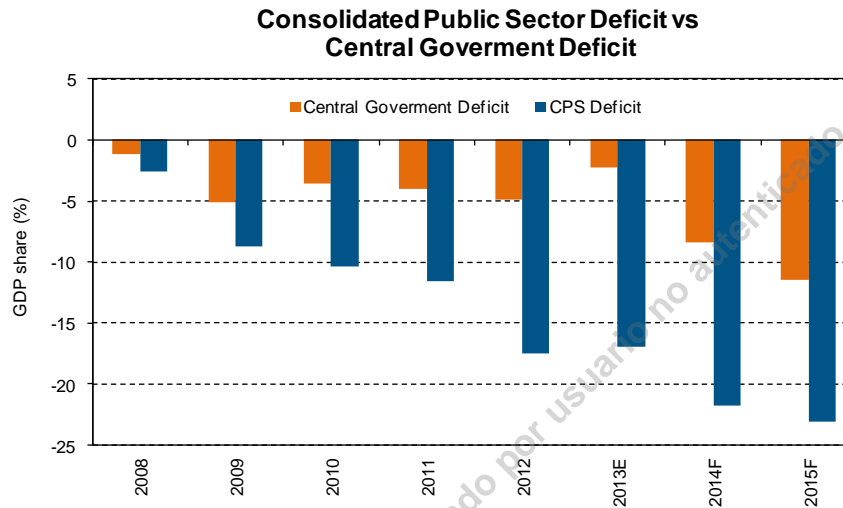
In the end, borrowing looks like a very expensive option for the Administration (financially and socially expensive). Therefore, other options must be considered, such as: reviewing and correcting subsidies, readjusting the foreign exchange rate, and the BCV should unify the many different Funds that exist (FONDEN, China Fund, etc...).

In the end...

During these past years, the Administration has gotten into the habit of spending more than what was budgeted. Spending, per se, is not inherently bad, but spending as done by the Administration is not very efficient, as can be seen by the high volume of income transfers instead of capability transfers. That's why at **Ecoanalítica**, we believe that before talking about the optimum level of borrowing, the Administration should

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rationalize its spending and increase investment in health and education as much as possible.



Sources: MEFBP and Ecoanalítica

When you compare the deficit of the Central Government to the deficit of the Restricted Public Sector the numbers speak for themselves. In the end, government borrowing has always been more than what was budgeted in the Borrowing Law proposal, and just like the deficit of the restricted public sector, the borrowing of the government is always outside of the budget of the central government.

Lesner Castillo
Asdrúbal Oliveros

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ECONOMIC TIPS

Minimum wage increase for Christmas. The minimum wage is to go up by 15.0% on December 1st, taking the monthly basic wage to VEB 4,889.11, according to an announcement by President Nicolás Maduro. This increase will be the third minimum wage increase decreed by the Executive this year, which, added to the adjustment in the food bonus, gives a cumulative increase of 68.2%. This wage increase will also apply to the salary and wages scale for government service employees

There's nothing to buy. Our director, Dr. Pedro Palma, stated that the Venezuelan economy will contract by 4.0% in 2015 and warned that the drop in oil prices will result in a reduction in the foreign currency received by the State and will continue to cause problems for the domestic productive apparatus next year. He also claimed that the increase in government spending and the issuing of inorganic money have been harmful for the economy, which has not seen an increase in the supply of goods.

From two digits to three. According to our director, Dr. Pedro Palma, the excess demand caused by an increase in government spending that has not been accompanied by increases in production is what has led to inflation that will close at around 75.0% in 2014. He also estimated that inflation will be in the region of 110.0% in 2015.

VEB 6.3/US\$ is on the verge of extinction. In the opinion of our director, the economist Asdrúbal Oliveros, the sudden drop in oil prices will bring about a reduction in foreign currency revenues next year, which could cause the foreign currency deficit the economy is facing to double. Lower foreign currency revenues will make the government consider implementing a heftier adjustment in the exchange rate than it had planned initially. Oliveros expects that, in the next few months, the government will continue moving sectors that are currently importing at the VEB 6.3/US\$ rate over to the SICAD I rate and, to a lesser extent, to the SICAD II rate.

The debt comes first. Our director, Asdrúbal Oliveros, stated that, despite the reduction in foreign currency revenues that is expected next year, he does not believe that the government will refrain from paying the servicing of the foreign debt due to the fact that, in his opinion, "*falling into default is extremely costly.*" Oliveros foresees "*that bond holders will be given priority*

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over private companies operating in Venezuela, with whom (the government) has a debt of US\$21.0 billion for foreign currency approved but not disbursed, among other things.”

Only the leftovers for the private sector. The chief economist for Latin America at Barclays Capital, Alejandro Grisanti, insists that there should be no need for the government to choose between paying the domestic private sector and paying bond holders and that there has to be capacity to pay both. He does admit, however, that the way the government is behaving leads one to think that it will only allocate the leftovers from the total flow of foreign currency to the private sector.

There won't even be financing. Alejandro Grisanti, Barclays Capital's chief economist for Latin America, claimed that the resources that the government saved during the cycle of increasing oil prices were spent in the first three years, which means that it will be necessary for it to make an even bigger adjustment in its foreign currency spending in 2015. As Grisanti sees it, the situation gets even more complicated if consideration is given to the fact that it will be difficult for Venezuela to cover its financing requirements via the international markets, which are closed to it to all intents and purposes because of the high rates of interest the Republic would have to pay.

It's time to examine the agreements. Our director, Asdrúbal Oliveros, claimed that, among the adjustments that will be coming next year to cushion the drop in oil prices and attempt to stabilize the economy, besides a devaluation of between 39.0% and 50.6%, will be a revision of the agreements with Cuba, China, and PetroCaribe, as well as the domestic gasoline subsidy.

Nearly VEB 200.0 billion in “additional” revenues. According to the Ministry for Finance, additional revenues will come to VEB 191.5 billion by the close of 2014, VEB 171.0 billion of which are expected to come from oil revenues, due to the underestimating of crude prices in this year's budget, and VEB 20.40 billion from non-oil revenues, as a result of tax collections being higher than expected. The Ministry also expects that the amount obtained from income tax, royalties, and dividends will come to VEB 159.5 billion this year.

More “anti-bachaqueo” measures. Price Superintendent Andrés Eloy Méndez warned that, starting in November, all products sold in the economy

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should have the “fair retail price” (PJVP) stamped on them. According to Méndez, this measure will make it possible to reduce the resale of regulated products at inflated prices. The Price Superintendent’s Office is to start a series of inspections to check that the measure “*against smuggling, ‘bachaqueo’ (resale of subsidized products at inflated prices), hoarding, profiteering, and all forms of economic mafias*” is being complied with.

Setting up a business is not child’s play. According to *Doing Business 2015* published by the World Bank, Venezuela continued to rank as the country in Latin America where there are most obstacles for businessmen due to higher costs of setting up a company. According to this report, whereas it takes 13 days to set up a company in Chile, Colombia, Mexico, and Peru, in Venezuela it takes 144 days.

Interest rates. The lending rate for the fourth week of October was at 18.4%, decreasing 0.3 percentage points (pp) compared to the previous week. The time deposit rate was at 15.0%, down by 0.9 percentage points (pp) compared to the previous week, while the passive rate was at 14.1%, without variations compared to the last week.

International reserves. International reserves went down by 0.8%, going from US\$20.65 billion during the fourth week of October to US\$20.48 billion during the fifth week of October. Compared to the same period last year, international reserves have decreased by 5.4%.

Central government expenditure. On October 31th according to figures from the NTO primary spending was VEB 13.68 billion, which means an increase of 15.4%; when compared to the same period last year. So far this year, the primary expenditure accumulates VEB 686.2 billion, 72.8% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 1.2% in the fourth week of October from the week prior, to settle at VEB 1.6 trillion. The M2 has increased 60.3% in relation with the same period last year.

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Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
10/21/2014	17.5	15.5	96.8	2.0	3.2
10/22/2014	23.0	21.8	97.7	1.2	2.3
10/23/2014	16.5	16.2	96.9	0.3	3.1
10/24/2014	18.3	17.7	95.2	0.6	4.8
10/27/2014	19.0	17.0	95.8	2.0	4.2

Source: Ecoanalítica

OIL TIPS

OPEC needs to counterattack. Venezuela is to propose an action plan to stop the drop in oil prices to the Organization of Oil Exporting Countries (OPEC). According to President Nicolás Maduro, this drop is due to the technique of fracking used by the United States, which, in his opinion, is a strategy for eliminating the oil countries' economies. Venezuela will be the first OPEC country to call a meeting to discuss this issue in 2014.

Algerian tanker arrives in Venezuela. The tanker with 2 million barrels of light Saharan Blend crude on board, purchased by PDVSA, is currently partially unloading off the Venezuelan coast. PDVSA announced that the purchase of light crude from abroad on an occasional basis is due to the need to use it as a diluent for the heavy oil from the Hugo Chávez Orinoco Oil Belt. Another tanker, this time from Russia, is expected to arrive this month.

We've always imported oil. *"This crude practically doesn't come into the country; it doesn't go to refineries, but goes specifically to Jose Terminal, is blended, and leaves the country again. It's not an import because we need petroleum, but because we use it as a diluent,"* explained the oil economics analyst and professor, Carlos Ramón Mendoza Potellá. As for the cost of these imports, PDVSA claims that they cost US\$30/bbl. less than what it pays for naphtha, which is a refined product.

PDVSA could sell Hovensa Refinery. The governor of the US Virgin Islands, John Jongh Jr., stated that Petróleos de Venezuela and Hess Corp had reached a tentative agreement to sell Hovensa Refinery to Atlantic Basin Refining. This refinery, with capacity for processing 350,000 barrels a day (b/d) and located in the southern part of Saint Croix, has been inactive since

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2012. The agreement, which is apparently for a term of 22 years, renewable for two additional terms of 10 years each, still has to be approved by the Legislature.

ISIS also obtains money from oil. ISIS receives US\$1 million a day from the sale of oil, according to the Undersecretary for Terrorism and Financial Intelligence at the US Department of the Treasury, David Cohen. *“ISIS is making an absurd amount of money from the sale of the oil it extracts from fields in Syria and Iraq (...). Since mid-June, it has obtained approximately one million dollars a day,”* said Cohen.

Saudi oil minister is to pay a visit. This week, Saudi Arabia's oil minister, Ali al-Naimi, is to pay a visit to Venezuela to attend the Social PreCOP Meeting on Climate Change that is to be held between Tuesday, November 4, and Friday, November 7, on Margarita Island. The Saudi minister's visit comes three weeks after the members of OPEC met in Vienna to discuss the cartel's production policy in view of the decline in oil prices that has been occurring in recent months.

An increase in oil production. According to the Minister for Electric Power, Jesse Chacón, PDVSA is to increase the supply of diesel by 2.8 million barrels a day (mb/d) in order to guarantee thermoelectric generation. According to figures supplied by the Ministry for Electric Power, the consumption of diesel by the country's thermoelectric power stations will come to 36 million barrels in 2014. On the matter of progress made in converting from diesel to gas, it is estimated that the gas pipeline that is to feed the India Urquíá Power Station (Miranda) will be completed on November 15, which will make it possible to increase the number of gas-driven machines from one to four.

No need to panic. *“OPEC's oil production is unlikely to change much in 2015 and there is no need to panic at the crude price drop,”* said Abdullah al-Badri, the secretary general of OPEC, confirming suspicions that OPEC is not planning to reduce crude production yet. Al-Badri did not make any predictions with regard to the outcome of the OPEC meeting to be held on November 27, saying that the decision would be up to the OPEC's ministers. He called for everyone to stay calm in the face of the drop in prices.

ExxonMobil is performing well. The United States' largest oil company obtained a profit of US\$ 25.95 billion in the first three quarters of the year, for

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an increase of 7.0% compared to the same period in 2013. ExxonMobil explained in a communiqué that, in 2014, it has distributed approximately US\$17.6 billion to its shareholders via its share repurchase program and dividend payments. These results surpassed investors' expectations and the shares, which are included in the Dow Jones Index, went up by 1.1% on the New York Stock Exchange (NYSE).

International oil baskets. At closing time on October 31st in the New York Stock Exchange, the price of the WTI was US\$81.4/bl, down by 0.9% when compared to the reported the previous week. The Brent increased by 0.5% when compared to the previous week, to reach US\$86.3/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$75.8/bl on Friday October 31st decreasing by 0.1% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$93.7/bl.

BUSINESS SECTOR TIPS

They're running out of corn. According to industry representatives, the stocks of corn at the old price (VEB 2.20/kg) have started to run out at some plants that process pre-cooked cornmeal. The Venezuelan Association of Cornmeal Industrialists (VENMAIZ) is waiting for the Venezuelan Government to put up the price of pre-cooked cornmeal, as they will start to produce using corn purchased at the new price shortly, which will mean a 218% increase in the cost of this input. *"The companies are currently producing cornmeal at the maximum capacity permitted by existing stocks at the old price,"* said Gabriela Serrano, the director of VENMAIZ.

Increase in the departure tax. The new departure tax at Simón Bolívar de Maiquetía Airport went up on November 1 to four tax units (equivalent to VEB 508), following the entry into force of an amendment to Vargas state's Stamp Duty Act. In an official communiqué, it was announced that the departure tax is to be paid together with the air fare or passage money only, which means that it will not be collected at the ticket offices in the airport or shipping terminal.

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Airlines sanctioned. Following an inspection carried out on October 30 and 31, four domestic airlines were sanctioned by the National Civil Aeronautics Institute (INAC). Conviasa, Aeropostal, Aerotuy, and Aserca were fined for infringing a series of aeronautic regulations: failing to notify changes in itinerary; permitting the fraudulent sale of seats; and leaving passengers stranded owing to a lack of aircraft. It is possible that other airlines will be sanctioned for the same reasons as the INAC continues with its inspections.

False air ticket warning. The Venezuelan Association of Travel and Tourism Agencies (AVAVIT) has warned the general public of certain irregularities in the sale of international air tickets that are affecting users. The association urged the general public to purchase their air tickets and tourism services through the network of distributors authorized by the People's Power Ministry for Tourism (Mintur).

Merchants without foreign currency. The president of the National Commerce and Services Council (Consecomercio), Mauricio Tancredi, stated that less than 15.0% of merchants in Venezuela have access to foreign currency. Tancredi also claimed that there is concern in the sector over the actions that the government may take in view of the announcement of its "Happy Christmas" plan. Some merchants have still not recovered from the "interventions" by the government a year ago and for that reason they are demanding that the authorities ensure that inspections are carried out in a context of justice and legality.

Inspections of stores have started. The National Prices Superintendency has started to carry out inspections of stores and street vendors in several parts of the country as part of the 2014 Happy Christmas Plan. More than 1,200 people's inspectors and 35 Sundde inspectors have turned out in Aragua, whereas 21 Sundde inspectors and 1,238 people's inspectors have been appointed in Trujillo, and more than 1,260 inspectors have been designated to carry out inspection duties in Anzoátegui.

Without car repair shops. José Manuel González, the president of the National Car Repair Shops Chamber, reported that 144 workshops had closed their doors so far this year and that others had notified that it will be impossible for them to start up again in January 2015. This situation is due to the shortage of spare parts for motor vehicles. Moreover, according to González, some suppliers have announced that they will suspend the

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dispatching of products to car repair shops starting in November, which means that things could get worse.

They've opened a new motor vehicle assembly plant. President Nicolás Maduro officially opened Tiuna motor vehicle assembler, a joint venture located in Fuerte Tiuna in Caracas. The plan is for the assembler to produce 35 "Tiuna" make motor vehicles a day. *"We don't need foreign companies (to come and) sell their cars at super expensive prices,"* added Maduro, who also highlighted that the purpose of the measure is for the production of motor vehicles to be 100.0% domestic.

Christmas is here. As part of its 2014 Happy Christmas Plan, the Venezuelan Government is to carry out an operative at the country's ports to check that the merchandise being imported for the Christmas season is sent promptly to distributors, following the arrival of some 830 containers of products. The government confirmed the start of an operative to speed up formalities for clearing and dispatching merchandise at the ports that will operate around the clock until December 22 so as to ensure that no Christmas items are lacking.

Fingerprint identification machines make for a Happy Christmas. The Food Mission distribution network's biometric supply system is to be implemented at the fairs that are to be held as part of the 2014 Happy Christmas Plan, according to Vice President for the Economy Rodolfo Marco Torres. The purpose of this measure is to ensure that the Happy Christmas Plan food products reach every Venezuelan family and to prevent "exaggerated" purchases, explained the vice president for the economy, who pointed out that 80.0% of the goods that are to be on sale at the fairs are produced in Venezuela.

Poor, but with a fully equipped home. The Minister for Commerce, Isabel Delgado, announced that the products of the "My Fully Equipped Home" program will also be available at some stores in the private sector that sell household appliances for the middle-class market. Delgado also said that they are looking into the possibility of handing over these products to families in a situation of extreme poverty as determined by a study that is carried out at each Mission Base.

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WORLD ECONOMY TIPS

The best places for doing business. The ranking of the best places for doing business in the world published by the World Bank was headed by Singapore, where two and a half days are sufficient to obtain a business permit and it takes only 82 hours to complete all the necessary tax formalities. Besides Singapore, the best places for doing business are New Zealand, Hong Kong, Denmark, Korea, Norway, the United States, the United Kingdom, Finland, and Australia.

The crisis didn't turn out too badly for some. A study conducted by the nonprofit organization Oxfam showed that the number of millionaires increased to 1,645 in 2014, nearly twice as many since the financial crisis broke. According to Oxfam, an opposite effect to this increase in the super wealthy, is that the gap between rich and poor has widened rapidly in all parts of the world, a finding that is reflected in the fact that the wealth of the 85 richest people in the world is equal to the sum of the wealth of the entire poorest half of the planet.

Trade and defense to the rescue. The US Department of Commerce published the United States' economic growth figures for 3Q2014, which show growth in GDP of 3.5%, year-on-year, a higher rate than expected. In 3Q2014, growth in the US economy was driven mainly by a lower than expected trade deficit and by an increase in defense spending. Despite a slowing down from the steady rhythm of 4.6% (y-o-y) in 2Q2014, this is the fourth quarter out of a total of five in which the economy has grown at a rate of 3.5% or more.

Goodbye to quantitative easing. The US Federal Reserve (FED) announced the end of its monetary stimulus policy known as quantitative easing, as it considers that the US economy is going through a phase of solid recovery. This program consisted of buying government bonds in the hands of private banks in order to inject money into the economy and had a total cost of US\$3.5 trillion.

On the borderline. Everything points to the fact that China's manufacturing sector has been losing momentum in line with the downward pressures on the Chinese economy; and figures from the National Bureau of Statistics of China confirm this. According to China's statistics office, the Purchasing

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Managers' Index went from 51.1 points to 50.8 points in October and, while it is still above the threshold of 50.0 that separates expansion from contraction, it is very close to falling into negative territory.

Japan springs a surprise. The Bank of Japan has decided to expand its mass stimulus spending in response to poor growth in the economy and inflation, which has not picked up as much as expected following the increase in the sales tax at the start of the year. *"We decided to expand quantitative and qualitative easing in order to ensure the early achievement of our price target (...) we are at a critical time in the effort to free ourselves of the deflationary mentality,"* said Bank of Japan's governor, Haruhiko Kuroda.

The fragile Eurozone. According to the European Commission, the Eurozone will need another year in order to achieve a slight level of economic recovery, and it revised its forecast downwards and to bring down the high level of unemployment that is affecting the zone. The weak recovery of the Eurozone since the financial crisis is causing widespread concern, as the bloc is delaying the broader global recovery that is being led by the United States. Inflation will be 0.5% this year, 0.8% in 2015, and 1.5% in 2016, below the European Central Bank's target of 2%.

Slow growth. The Markit Purchasing Managers' Index (PMI) for Europe's manufacturing sector posted 50.6 in October, higher than the 50.3 points obtained in September but below expectations of 50.7. According to this index, manufacturing activity in the European Union expanded less than expected in the tenth month of the year due, first and foremost, to the fact that the new ex works discounts did not manage to attract fresh orders.

Higher growth in 2015. The Economic Commission for Latin America and the Caribbean (ECLAC) has revised its growth forecasts for the region in 2014 downwards, but maintains that the Latin American economy will experience a small upturn next year. ECLAC's estimates show that, in 2015, economic growth in Latin America will be more than 2.5% thanks to a boost from South America, whereas in 2014 it will be 2.2%.

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POLITICAL TIPS

Primaries for the PSUV. According to Diosdado Cabello, the first vice president of the United Socialist Party of Venezuela (PSUV), PSUV candidates to the National Assembly “will most probably be elected by means of primary elections, where necessary, in order to select the best men and women to go to the National Assembly.” In addition, elections are to be held to choose the PSUV’s authorities, including 985 delegates, 3,998 chiefs of the circles for promoting the people’s struggle, 13,562 chiefs of the Bolívar-Chávez Battle Units (UBCH), and 136,820 patrol chiefs.

The imbalances will have an impact. According to the director of Datanálisis, Luis Vicente León, the economic measures that are taken (or not taken) next year will carry considerable weight in the results of the 2015 parliamentary elections. *“If they do what they have to do to solve the crisis the president’s popularity will drop and if they don’t do what they have to do, the economy’s going to collapse.”* He also commented that the relationship that existed before between public spending and the president’s popularity had been lost.

If there’s a war, they’re losing it. The director of Datanálisis, Luis Vicente León, said that the latest opinion polls show that the drop in Nicolás Maduro’s popularity is due to a loss of credibility and to the fact that the population no longer has confidence in his ability to solve the economic problems. *“One part of the population no longer believes that the economic crisis is the fault of the economic war; another group has discovered that the problem is, in fact, the model; and a small group continues to believe the story of the war, but is beginning to question the authorities in general who are fighting it, because that means that they are losing the war.”*

No comment. The president of the National Assembly, Diosdado Cabello, said that *“a revolution is not waged with ‘escualidos’ (a term used to refer to the opposition).”* According to Cabello, *“we can no longer have ‘escualidos,’ embittered individuals, managing the revolution’s companies.”* He admitted that *“they have the right to work, but not to be bosses.”* *“We don’t fire people; we leave them there in their jobs. But you don’t have an ‘escualido’ as a personnel manager. If you have one, what’s going to happen there? He’s going to fire the Chavistas.”*

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Jorge Rodríguez is confident. The mayor of Libertador Municipality and national PSUV leader, Jorge Rodríguez, seemed to be very calm when he claimed that the government party would “*wipe the floor*” with the rightwing sectors at the upcoming parliamentary elections. Rodríguez also said that the party does not have the internal problems that a lot of people are talking about as it has a great “*vocation for unity*,” thanks to which it has become “*the biggest party ever in Venezuela’s political history*.”

Constitutional Chamber closes the chapter on April 14. The Constitutional Chamber of the Supreme Tribunal of Justice has closed the chapter of the presidential elections held on April 14, 2013, where the opposition accused the government of having manipulated the results, and ordered that the case, consisting of the ten lawsuits filed against the process, be filed. The decision was taken by the chamber in charge of interpreting the Constitution and was handed down in its ruling No. 1,428 in October this year, in which it stated that it was satisfied with the information sent previously by the Supreme Tribunal of Justice’s Electoral Chamber.

Offenses should be punished. An opinion poll conducted by *Universidad Católica Andrés Bello’s* Center for Political Studies entitled “Citizen perceptions of the electoral system” showed that eight out of every ten voters agree that electoral irregularities should be punished, whereas 75.0% stated that they had witnessed at least one of the three irregularities reported during Venezuelan elections: state authorities forcing a person to vote for a given political party (50.0% said they had seen this happen); propaganda in state institutions (reported by 62.0%); use of government vehicles to transport voters (68.0%).

They believe in the vote, but not in the referee. According to the findings of the opinion poll “Citizen perceptions of the electoral system” conducted by *Universidad Católica Andrés Bello’s* Center for Political Studies, 49.8% of the population do not believe that the government will respect the election results and only 49.0% believe that the vote is secret. However, according to the poll, 69.0% have confidence in the vote as a way of bringing about political changes in the country. As for confidence in the National Electoral Council, the poll shows that 56.5% of the population mistrusts the referee to some extent.

An insufficient budget. Deputy to the National Assembly for the party *Un Nuevo Tiempo (UNT)* Alfonso Marquina criticized the fact that, as at October

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21, execution of the 2014 budget came to VEB 958.0 billion, that is to say VEB 220.0 billion more than estimated in the 2015 Budget Bill. He also criticized the fact that the government is continuing with unproductive spending “*instead of investing (resources) in (solving) people’s problems.*”

And that is the end of the story. The Minister for Communes and Social Movements, Elías Jaua, clarified the incident in which a person employed by him to work at his home was arrested for trying to take a gun into Brazil. According to Jaua, the employee, who enjoys his “total trust,” was carrying a briefcase containing documents belonging to the minister in which a weapon, which has the necessary legal permits for the minister’s personal use, had been left by mistake.

We need to talk to the people and to the government. The former executive secretary of the Democratic Unity Alliance, Ramón Guillermo Aveledo, stated that the opposition political parties should not get sidetracked with talking and arguing amongst themselves, but that they should “*talk to the country; talk about the issues that are of interest to us all, of the economic and social problems that our grass roots are experiencing, the same as the process’s grass roots.*” Aveledo also said that, in his opinion, it is necessary to create the conditions for resuming talks between the opposition and the Central Government.

LEGISLATIVE TIPS

Exports at a standstill. According to a measure published in Extraordinary Edition N° 6,143 of the *Gaceta Oficial*, dated September 5, 2014, there is now a ban on exporting 21 basic items. “These restrictions affect a sizeable portion of the country’s exportable items, among them 20 of the 50 most exported products in 2013, according to ALADI’s figures. The sectors that are most adversely affected are aluminum, steel and their derivatives,” states a document issued by the Venezuelan Exporters Association (AVEX). AVEX pointed out that the government has been acknowledging the need to boost nonoil exports since May 2013.

Increase in departure tax. Starting on November 1, the amount payable in departure tax at Simón Bolívar de Maiquetía Airport will be four tax units, following the entry into effect of an amendment to Vargas state’s Stamp Duty

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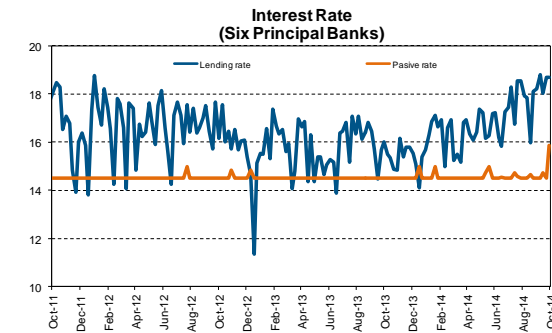
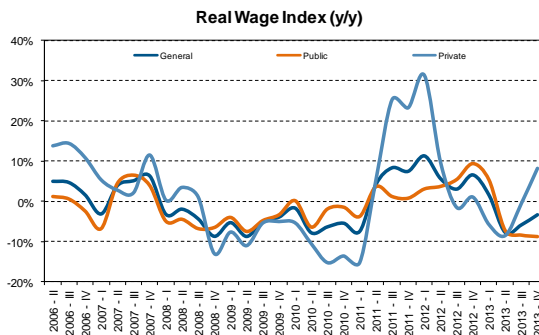
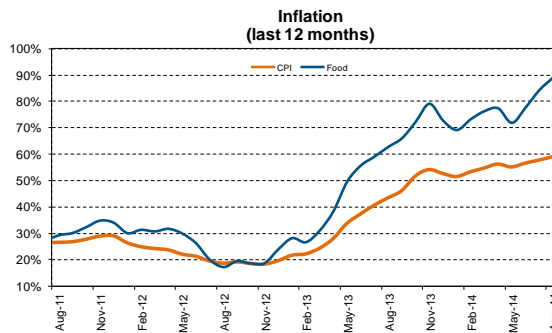
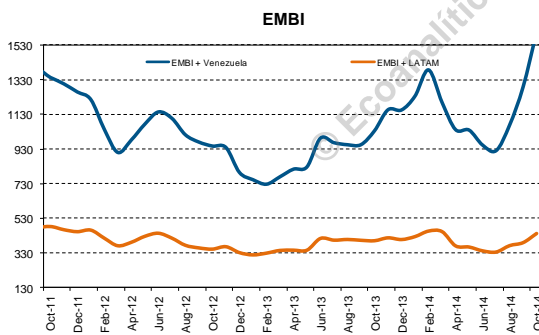
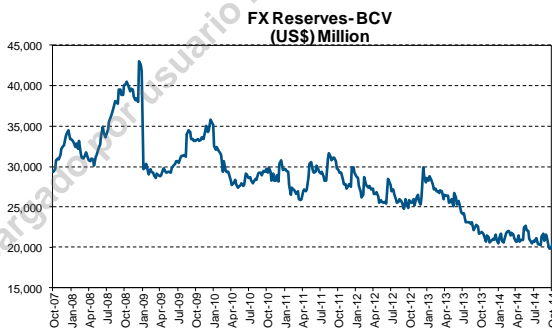
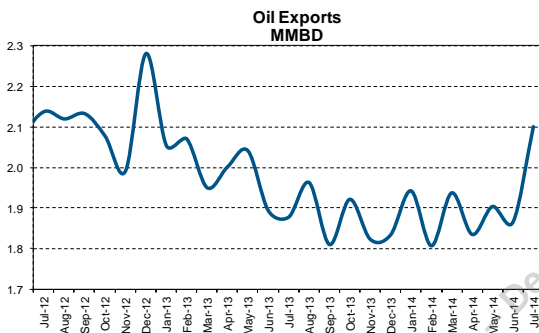
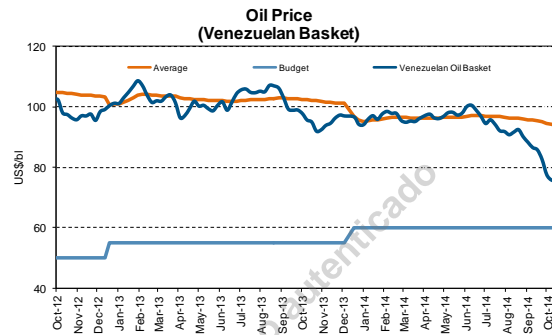
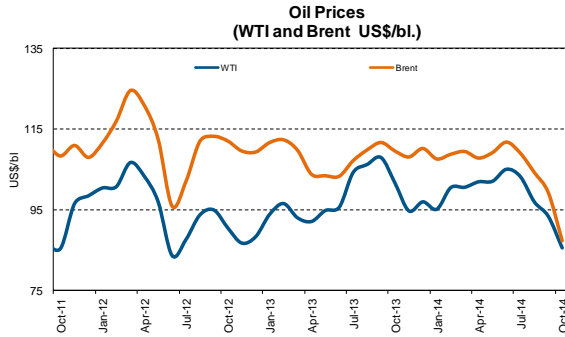
Act. The official communiqué announcing the increase also establishes that the departure tax is to be paid together with the air fare or passage money only, which means that it will not be collected at the ticket offices in the airport or shipping terminal. The tax unit is currently at VEB 127, which brings the departure tax of 4 tax units to VEB 508.

Now it falls to the CNE. According to an official communiqué published by the National Electoral Council (CNE), this agency will now be the only one in charge of processing and issuing Residence Certificates via its webpage. The purpose of this measure is to facilitate and make it easier for citizens to obtain this document, which until now had been issued by the Civil Registry offices and units in each municipality.

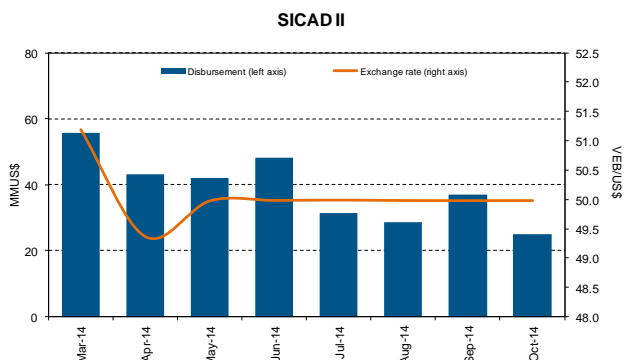
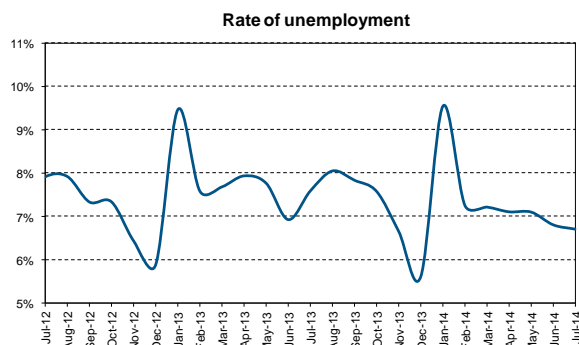
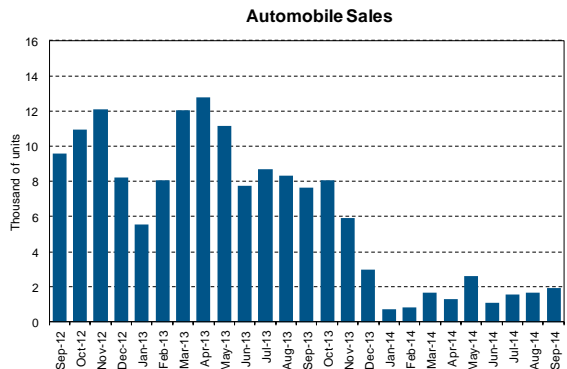
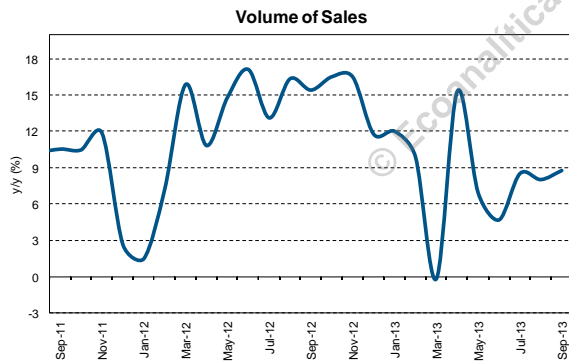
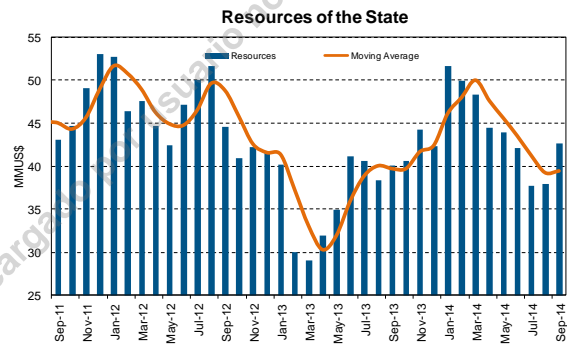
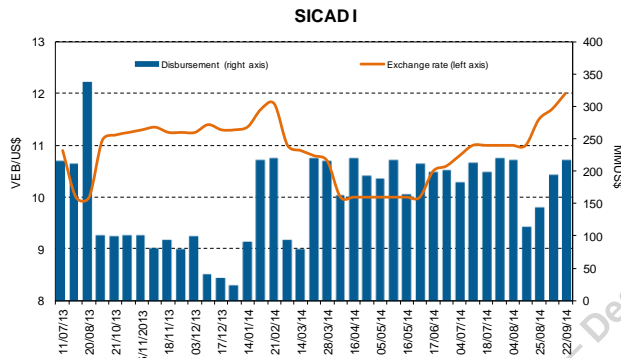
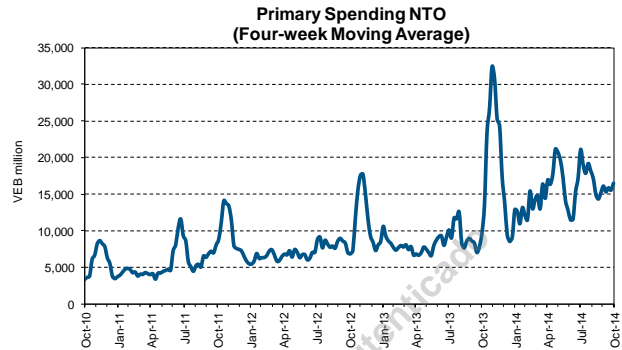
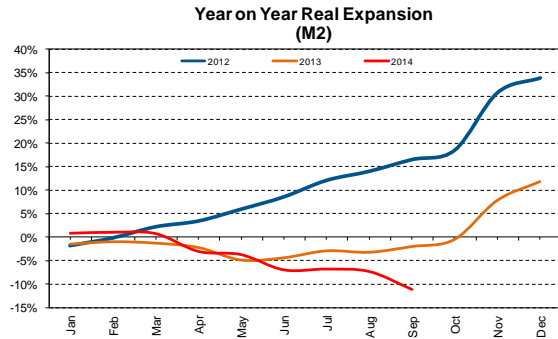
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ECONOMIC OVERVIEW



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