



Weekly Report

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By:
Asdrúbal Oliveros
Jessica Grisanti

An unsustainable model

Ecoanalítica's Team*
*Gabriel Villamizar, M^a Andrea Manuzzato,
Daniel Cárdenas and Benjamín Matos.

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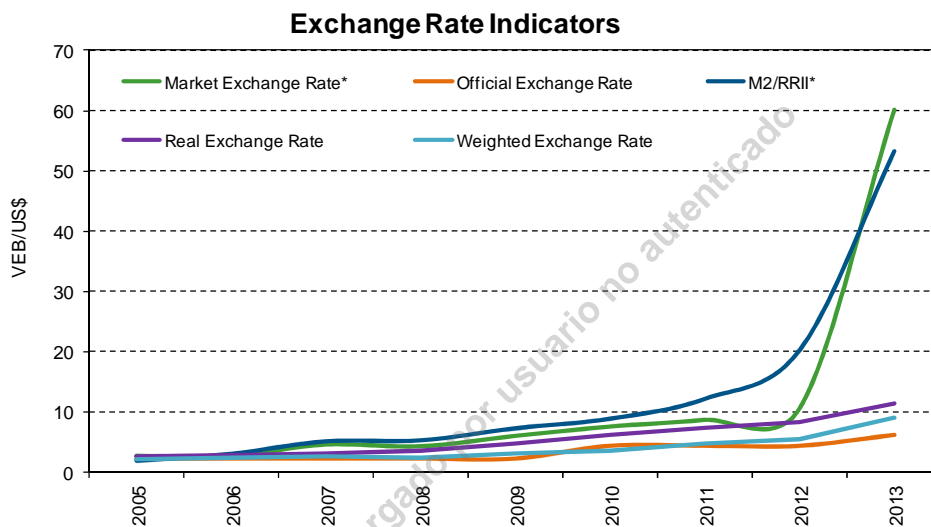
The foreign exchange policy is, perhaps, the most obvious indicator that the present economic model has failed. The key element in the distortion of relative prices today in Venezuela is the setting of the exchange rate. Proof of what we are saying is that the official exchange rate has depreciated by 264.6% so far this year. After more than ten years of exchange controls, a total revamp of Venezuela's foreign exchange policy is urgently needed.

The problem is a structural one

The first point that needs to be mentioned has to do with the exchange rate. In February this year, the Venezuelan Government devalued the bolivar by 46.5% and the exchange rate went from VEB 4.30/US\$ to VEB 6.30/US\$. SITME, whose rate was VEB 5.30/US\$, was also eliminated. A new mechanism of auctions for allotting foreign currency – SICAD- was implemented, and the average exchange rate at these auctions to date, which have only been sporadic, is VEB 11.4/US\$. Imports by the public sector plus those realized by the private sector with dollars obtained via CADIVI and SICAD account for 90.4% of Venezuela's



total imports. As a consequence, the weighted exchange rate for imports at the close of 2013 will be VEB 9.0/US\$, an increase of 67.7% compared to 2012.



Sources: BCV and Ecoanalítica
*Updated with the latest figures available

However, the real or competitive exchange rate at the close of 2013 will be nearly VEB 13.1/US\$, bringing the overvaluation of the bolivar to 45.2% despite a major devaluation this year. For that reason, the pressure of demand has been maintained and the supply of foreign currency looks to be insufficient. Taking the VEB 6.30/US\$ exchange rate alone, the overvaluation would come to 107.9%. It is impossible to meet the growing demand for foreign currency with this margin.

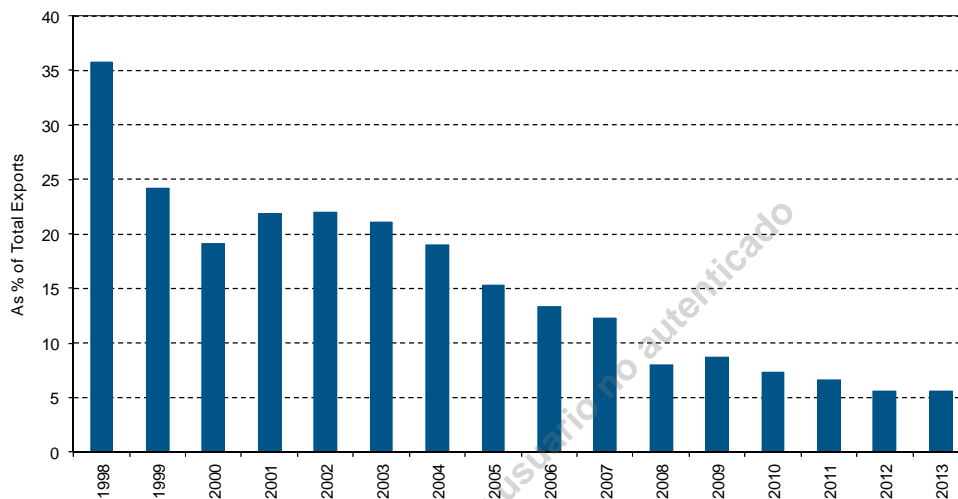
Importing is everything...

While this problem is not a new one, it has become more acute in recent years and has brought about the deterioration of Venezuela's industry, marked by a loss of manufacturing's share of the Gross Domestic Product (GDP). Moreover, today, our non-oil exports are at an all-time low, and the difference is particularly marked if we compare them to the levels they enjoyed in 1998.





The Evolution of Non-oil Exports



Sources: BCV and Ecoanalítica

It is crucial, then, that in 2014 the Executive address the issue of establishing a realistic exchange rate. This is a fundamental step that has to be taken as part of the measures that the Venezuelan economy requires today, otherwise the foreign currency shortages will continue.

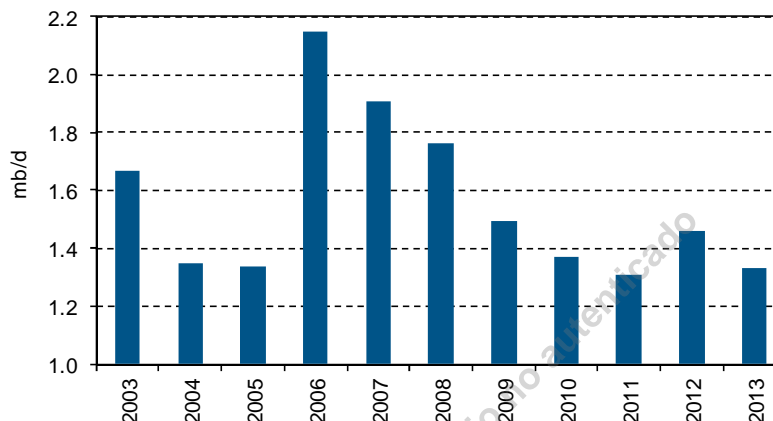
There aren't enough dollars for so many folk

The second factor has to do with PDVSA's situation and the number of barrels that generate foreign currency or cash. Here, our calculations give that oil exports that generate foreign currency will come to 1.3 million b/d at the close of 2013, a drop of 800 kb/d compared to 2006. And with an oil barrel price of around US\$100, that means a loss of revenue this year of US\$29.2 billion.





Cash Generators Barrels



Sources: Pdvsa and Ecoanalítica

The government further consolidates its model

According to our calculations, imports are going to grow by 1.5% year-on-year this year. However, that figure hides the fact that when we look at imports by sector, public sector imports grow by 20.0%, whereas private imports dropped by 15.0%. Despite the Venezuelan State's cash flow deficit, the Executive continues to consolidate its model. At **Ecoanalítica** we calculate that public sector imports will account for around 60.0% of total imports by 2015.

We forecast that non-priority private sector imports will continue their downward trend in 2014. Even though the State's foreign currency deficit is smaller, as long as the government refrains from taking more aggressive steps to correct the exchange rate and adopting measures of a more structural nature, this problem will not disappear. So far, the situation has been contained thanks, mainly, to the fact that the State has been reducing its position in liquid foreign currency assets and, to a lesser extent, resorting to foreign borrowing, mainly from China.

In 2014, we expect foreign borrowing to pick up. On the one hand, we forecast that the debt with China will reach US\$6 billion and that the debt in bond issues will be for a similar amount. There is also the possibility that PDVSA will borrow sizeable amounts for the Orinoco Oil Belt projects in 2014.





Hard currency cash flow (US\$ million)				
Concept	2011	2012	2013E	2014F
<u>Liquid foreign assets stock</u>				
Public sector	26,905	28,306	12,521	7,720
Total income	74,328	71,859	73,724	73,026
<u>Expenditure</u>				
Non-oil-related public imports	12,971	14,266	15,300	19,125
Private imports via Cadivi	23,731	23,670	19,568	18,200
Non-priority private imports	8,989	15,629	9,320	4,650
Services	11,095	12,143	8,500	7,960
Rent and current transfers	3,843	5,513	4,962	4,200
Public external debt	13,509	12,455	18,425	19,320
Capitals outflow and others	19,154	11,968	10,450	9,300
Total expenditure	103,766	95,644	86,524	82,755
Result	-29,439	-23,785	-12,800	-9,729
Financing				
Chinese Fund	14,500	4,000	5,000	6,000
Bonds, loans and others (Republic + Pdvsa)	16,340	4,000	3,000	6,000
Total Financing	30,840	8,000	8,000	12,000
Net Flow	1,401	-15,785	-4,800	2,271

Sources: BCV, Ministry of Finance, Pdvsa and Ecoanalítica

A mishmash

Another problem facing the revamping of Venezuela's foreign exchange policy is, in our opinion, the different criteria currently prevailing in the economic cabinet on how to deal with this problem. Quite apart from the diatribe between radicals and pragmatists, there are at least three theses on what needs to be done here (see attached table), and none of them are clear on the fact that this is a problem of substance not form. Put another way, the foreign exchange problem is not going to be solved only by devaluing or increasing controls over the private sector, as the authorities have been commenting in recent weeks in connection with the approval of laws under the Special Powers Act.





A Cabinet That Doesn't Agree



Rafael Ramírez

- Multiple exchange rate system:
 - VEB 6,30/US\$: Priority goods
 - VEB (10-12)/US\$: Sicad weekly
 - ??: New scheme (substitute of the stock exchange rate)
- Sovereign Bond Issue and enactment of payments
- Phasing out of products (final goods) in Cadivi
- Boosting Manufacturing (value added)
- Increased penalties on foreign exchange (Enabling Act)



Nelson Merentes

- Participation of Banks and Brokerage
- PDVSA and Fonden would be the main suppliers
- The price would be defined in terms of the exchange of bonds
- Limitations in daily and monthly amounts
- Is being studied limitations of firms by size, according to the classification of the INE



Jorge Jordani

- Not intervention in the parallel exchange market
- Adjust Cadivi rate to VEB9,5/US\$
- Strengthen Currencies budget
- Zero external debt issuance
- Sicad for eventual cases

Source: Ecoanalitica

We maintain our forecast of an adjustment in the official exchange rate from VEB 6.30/US\$ to VEB 11.0/US\$. The date for implementing this adjustment could be between December 15 this year and February 15, 2014. Moreover, it is likely that they will keep SICAD (particularly if the opening of a new swap market does not happen), but the rate will fluctuate between VEB 14/US\$ and VEB 16/US\$. It should be noted that the Venezuelan Central Bank's (BCV) criterion is that this mechanism should have a rate that is near the real rate of exchange for Venezuela.

The authorities have been insisting that they are working on a new foreign exchange scheme. However, in our opinion, it will be a far cry from allowing a new parallel market to open. We believe it will be designed to facilitate the operations of PDVSA's joint venture partners, although few details have been revealed so far.

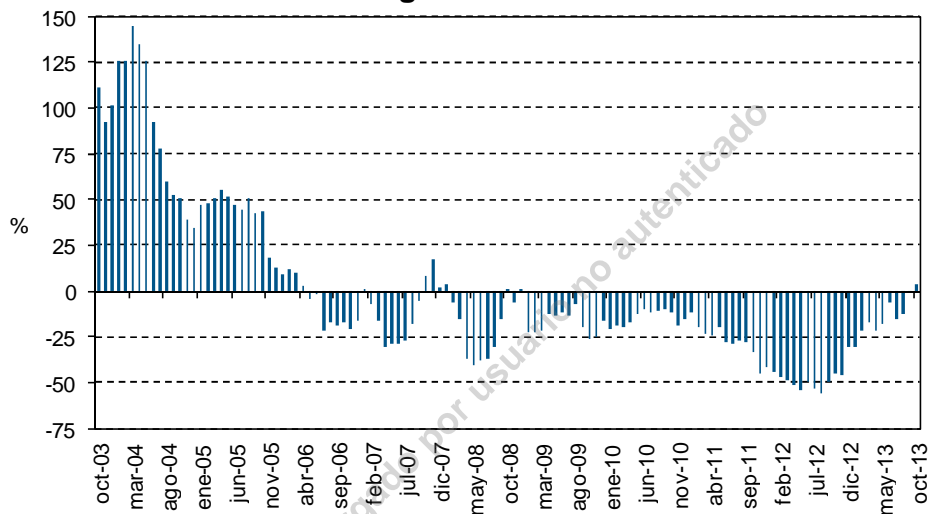
How high will the "unmentionable" go?

As for the projection for the parallel exchange rate, it should be noted that it is extremely difficult to predict how it will behave. However, there is a high correlation between the unofficial exchange rate and the ratio of money supply (M2) to international reserves (implicit rate). For as long as these exchange controls have been in force, this implicit rate has functioned as a floor (when the present controls started) or a ceiling (mainly from 2006 onwards). In the present circumstances, we consider that the implicit rate is once again functioning as a floor for the unofficial



exchange rate. This means that this indicator can shed some light on how the unofficial rate will evolve, particularly for coverage operations.

Exchange Market Indicator



Sources: BCV and Ecoanalítica

Note: Parallel Exchange Rate/(M2/RR1)

Bear the following in mind

At **Ecoanalítica** we have three recommendations in the area of foreign exchange given the present circumstances:

- This is not the time to speculate. If you have a surplus flow in bolivars, choose a day in a given period (month, quarter, half year, whichever you decide), and buy your dollars on that day in each period.
- Do not pass up the chance for preferential dollars. There are opportunities for investing in capital goods, because the government is seeking to boost the manufacturing sector.
- 2014 is the year for investing in your business: VEB 60 buys more in Venezuela than a dollar abroad, in our opinion; and this applies even more so if you plan to stay for the long haul.





Economic Tips

GDP grew 1.1% in the 3Q2013. The BCV said that the economy grew by 1.1% in the 3Q2013 over the same period of 2012. When evaluating the performance of sectors we obtain that the oil sector grew by 0.7% and non-oil 1.7% in 2T2013.

GDP for non-oil sectors. The sectors that grew the most in the 3Q2013 were: financial institutions and insurance (19.5%), communications (6.8%), community services and non-lucrative private (4.1%), services electricity and water (3.6%), trade and repair services (3.1%), government services (2.7%), and rental (2.3%) while manufacturing (-0.3%), construction (-3.2%), transport and storage (-4.7%) and mining (-20.7%) decreased compared to the same period of 2012.

BOP results for the 3Q2013. According to figures released by the BCV, the balance of payments recorded a deficit of US\$ 1,389 million on the 3Q2013. For this same period, the balance of payments shows a surplus of US\$ 4,121 million in the current account, a deficit of US\$ 4,616 million in the capital and financial account and a negative balance of US\$ 894 million in the errors and omissions account.

Unemployment rate at 7.6%. According to numbers released by the National Statistics Institute (INE), unemployment rate increased 0.3 percentage points (pp) in October, compared to the same period in 2012, when unemployment rate closed at 7.3%. This means that in the eighth month of the year 1,062,709 people didn't have a job.

Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 1.3 pp compared to October 2012, to settle at 34.9%. Within this, men inactivity decreased 1.4 pp, and stood at 21.7%. By the other hand, women inactivity, decreased 1,2pp compared to the same period in 2012, and stood at 48.0%.

Informality rate at 39.9%. According to INE's figures, at end-October, 5,185,080 people were employed at the informal sector (39.9% of working population), decreasing 0.6 pp compared to the same period in 2012. For its part, formal sector employed 60.1% of working population; increasing 0.6 pp compared to same period last year.

Worker's Food Basket reaches VEB 5,672. According to the last report by the Cendas, the Worker's Food Basket (CAT for its Spanish acronym) reached VEB



5,672 on October 2013. This represents an increase of 4.0% compared to the previous month and of 47.3% compared to October 2012. The accumulated variation of the CAT is 39.3% (VEB 1,598).

The behavior of the CAT was determined by the increase in nine of the eleven products that conforms it: sugar and similar (17.4%), oilseed (17.2%) cereal and derivatives (12.9%), foodstuff (11.4%), fats and oils (4.2%), milk, cheese and eggs (3.0%), fruits and vegetables (2.6%), beef and derivatives (2.5%), fishes (2.1%).

Family income only covers 47.6% of the basket. According to the report by Cendas, the minimum wage of VEB 2,702 (current during October) has a hypothetical purchasing power of 47.6% and a deficit only to food acquisition of 57.4% (VEB 2,969). That means that, a family today requires more than twice the minimum wage just to cover their basic expenses on food.

Oilers calls for a devaluation. According to non official sources, PDVSA's foreign partners have warned that the foreign exchange regime needs to be changed as investing in Venezuela at the VEB 6.30/dollar exchange rate is extremely expensive. Companies such as ENI (Italy) and Repsol (Spain) proposed that there be predictability in the exchange rate, whereas Chevron (USA) spoke of the need to reduce the high costs. PDVSA's response to all this has been to say that there will be a devaluation of the bolivar-dollar exchange rate, but he did not say when this would happen.

Public sector produces 97.0% of the foreign currency. The president of CADIVI, José Khan, explained that the public sector is responsible for generating 97.0% of foreign currency in the country, mainly from exports of oil and its derivatives, plus the basic industries. And he added, *"That's why we, at the institutions of the State, are committed to administering that enormous amount of wealth with the utmost responsibility, always making sure that that foreign currency is invested in fundamental areas such as food, education, sports, and manufacturing production that will make it possible to meet the needs of our people."*

More changes for the exchange system. President Nicolás Maduro, in the second decree issued under the Special Powers Act, created two agencies intended to regulate imports and foreign currency, which were given the names of National Foreign Trade Corporation and National Foreign Trade Center. *"The purpose of this second law is to put all the Republic's foreign trade activities in order with two new institutions; that is everything, everything we import, everything we export,"* added Maduro.





Maduro isn't going to leave a single dollar unaccounted for. President Nicolás Maduro said that the audits of companies that received CADIVI dollars are to start soon. He claimed that he has a list of the companies that were awarded the last US\$51 billion handed over by CADIVI, adding *“company by company, and I'm going to publish it, because we're going to start to audit right to the last dollar handed over, and then we're going to do an audit of SITME.”*

SICAD has awarded US\$1.31 billion. Information published by the Central Bank shows that the country's productive sector has received US\$1.31 billion via the nine auctions held by SICAD this year. The companies that have been awarded foreign currency belong to the following sectors: food, Christmas products, footwear, textiles, computer equipment and software, chemicals, rubber, plastic, agriculture and livestock, health, nuclear medicine, automotive industry, electricity, electronics, and exporters.

SICAD auctioned US\$93.6 million. The Complementary Foreign Currency Administration System (SICAD) awarded US\$93.6 million of the US\$100 million offered at the ninth auction. Of that amount only US\$1 million were awarded to private individuals, whereas companies received US\$92.6 million. Among the companies to obtain foreign currency were companies in the electricity and automotive sectors, furniture and office equipment manufacturers, importers of raw materials and inputs for publishing and printing books, and six companies in the export sector.

Will the price cuts have a significant impact on inflation? President Nicolás Maduro considers that slashing the prices of household appliances should have a decisive impact on inflation. *“In November, according to the analyses we've been doing, inflation should be -5%, at least, because if they'd inflated a product and were selling it at VEB.1,000 and now it costs VEB.500 or VEB 400, something's happened. Will the technicians at the Central Bank and the National Statistics Institute realize that, quite apart from technocratic considerations?”* commented Maduro.

Operating reserves drop by 82.7%: Reports from the Central Bank show that at the close of 2009, the operating reserves came to US\$15.92 billion, which, when compared with current levels (US\$2.75 billion), indicates a drop of 82.7%, a situation that can only give cause for concern.

Central Bank presents its operating budget for 2014. The BCV presented its operating budget for 2014, which amounts to VEB 11.4 million, to the National Assembly (AN). The budget is to be used to strengthen the bank's operational capacities and also to improve the working conditions and social security of its employees and workers. It was the BCV's first vice president, José Khan, who



presented the budget to the Permanent Finance and Social Development Committee of the AN.

Domestic debt used to pay pensions. Figures from the Finance Ministry show that 32.0% of domestic borrowing between January and October this year (VEB 41.26 billion) was allocated to finance the payment of pensions of government service workers that the Executive had to make during that period.

Interest rates. The lending rate for the third week of November was at 14.8%, down by 0.1 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves increased by 3.8%, going from US\$20.69 billion during the third week of November to US\$21.49 billion during the fourth week of November. Compared to the same period last year, international reserves have decreased by 17.6%.

Central government expenditure. On Friday August 16th according to figures from the ONT primary spending was VEB 18.59 billion, which means an increase of 253.1% when compared to the previous week when it was VEB 5.27 billion; when compared to the same period last year we observe an increase of 251.8%. So far this year the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 71.17 billion, with a variation (y/y) of -14.1%.

Monetary liquidity. Monetary liquidity (M2) increased 3.8% in the third week of November compared to the previous week, settling at VEB 1.1 trillion. The M2 has increased 73.5% in relation with the same period last year.

Oil Tips

Venezuela flunked energy. According to the World Energy Council's Energy Sustainability Index, Venezuela occupies 77th place in the world and ranks above only Trinidad & Tobago, the Dominican Republic, and Nicaragua in the American Continent. In specific areas, Venezuela ranks 44th in the world in energy security (reliability of infrastructure and capacity for meeting demand), 55th in affordability and accessibility of energy supply, and 82nd in environmental sustainability.



Expectations of better results: According to Oil and Energy Minister and PDVSA President Rafael Ramirez, PDVSA's oil revenues for the first nine months of the year came to US\$86.87 billion. He also stated that the company will close 2013 with investments to the tune of US\$25 billion. That means it would have to receive nearly US\$38 billion in 4Q2013 if it is to reach US\$124.46 billion in 2013.

They'll have to get cracking. PDVSA Intevep's president, Josefina Salazar, presented one of the technologies devised for upgrading heavy and extra heavy crudes in the Orinoco Oil Belt. She also announced that they expect that the increase in world oil demand will require PDVSA to raise its levels of domestic production by 6.0 mb/d, 66.0% of which should come from the Orinoco Oil Belt.

The Italians are doing their bit. Rafael Ramírez said that, as of now, crude production in Venezuela is in the region of 2.82 mb/d and that it is expected to reach 6.0 mb/d by 2019. He also stated that 4.0 mb/d is expected to come from the Orinoco Oil Belt, a figure that is very much higher than what is produced in other countries. He also said that the Italian oil company Ente Nazionale Idrocarburi (ENI) is to be one of the main partners in developing the Orinoco Oil Belt, as it will reach 250 kb/d in Junín Field alone by 2017.

And Russia is too. The Russian oil company Rosneft is to invest US\$65 billion in the Orinoco Oil Belt over the next ten years. The president of the state-owned Russian company, Igor Sechin, said that it was the most important investment project that Rosneft has for the future. Furthermore, PDVSA's president, Rafael Ramírez, commented that they expect to set up a joint venture with Russia that will be responsible for providing oil services in the areas of engineering and construction for developing offshore projects.

And if a solution is reached, where does that leave us? The agreement reached between Iran and the US, France, Germany, Great Britain, China, and Russia in which Iran undertakes to stop its nuclear program for six months could facilitate its sales of crude, which could increase global supply in the short term and bring down the prices of crude. However, if a more comprehensive treaty is agreed that eliminates the sanctions on Iran's oil production, as much as 1.0 mb could enter the market, which would be sufficient to meet forecast demand until 2014 and cause prices to plummet.

Growth in imports: According to the EIA, Venezuelan imports of oil derivatives from the United States grew by 15.6%, going from 83 kb/d to 96 kb/d, as a consequence of the increase in demand in the domestic market and operational problems. The report indicates that the imports were broken down as follows: MTBE (a component



of gasoline), 25 kb/d; diesel, 25 kb/d; liquefied petroleum, 19 kb/d; coke, 10 kb/d; and last of all up to 8 kb/d of finished gasoline.

Citgo deflated: PDVSA's affiliate in the US, Citgo, received 189.5 kb/d on average between January and August this year, which is a drop of 26.4% compared to the 257.5 kb/d traded in 2012, according to the Energy Information Administration (EIA). Moreover, as at August, it had not received the nearly 750.0 kb/d in intermediate products that it received last year.

Petro Junín and Petrocedeño link up. PDVSA officially opened the oil production pipeline between the joint ventures Petro Junín and Petrocedeño. This pipeline is 24 km long and has the capacity to transport 35 kb/d under normal conditions or 70 kb/d of hot fluid. Rafael Ramírez also announced that another oil pipeline is being built that will take in the entire Orinoco Oil Belt.

PDVSA takes over Barinas. 3.655 km² of Barinas were handed over to PDVSA for exploiting crude. Exploration work seeks to increase production in Barinas state and also to guarantee the supply of gas to Barranca thermoelectric power station.

Everything under control: PDVSA announced that, following the incident in the industrial waste drainage system in the tank farm at Puerto La Cruz Refinery, the refinery is now operating normally and that it is currently maintaining processing levels at 180 kb/d. In any event, an investigation committee has been set up to determine the cause of the accident.

Ain't that great... The Cuban-Venezuelan refinery Cuvenpetrol S.A. achieved its annual processing goal of a total of 19.7 mb of crude processed. Humberto Padrón, Cuvenpetrol's director general, emphasized that industrial performance was better than planned, with a reduction in residual products and an increase in production levels. The refinery, located in Cienfuegos on the island of Cuba, has refined 121.3 mb since it reopened in 2007.

International oil baskets. At closing time on November 22th in the New York Stock Exchange, the price of the WTI was US\$93.8/bl, down by 0.3% when compared to the reported the previous week. The Brent increased by 1.7% when compared to the previous week, to reach US\$108.4/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$94.0/bl on Friday November 22th, a 1.6% increase compared to the US\$92.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$101.6/bl.



Business Sector Tips

Nothing to worry about. Labor Minister María Cristina Iglesias insisted that “there’s no reason for there to be layoffs or for companies to close down” and said that the government guarantees the rights of workers at establishments that had been inspected, citing the firing freeze decree as an example. She also said that inventories are not going to run out because the government is apparently to guarantee imports to replenish stocks.

Foreign currency, the lost treasure: The president of the National Trade and Services Council (Consecomercio), Mauricio Tancredi, said that out of the 470,000 companies filed with the INE, only 10,000 are registered with RUSAD and that only 30% of the latter have received foreign currency at the official rate. In other words, less than 1.0% of the companies filed with the National Statistics Institute have had access to dollars through CADIVI or SICAD.

Things take a long time to get here. Mauricio Tancredi said that the commerce sector is against profiteering, but he considers that the inspections should be conducted in agreement with the owners of the establishments. He also announced that Consecomercio considers that it will be difficult to replenish stocks in the short term, bearing in mind the time it takes to replace them apart from anything else. Finally he stated that, in order to revise profit margins, each individual stage should be studied and that arbitrary percentages should not be set for all products.

Those aren’t “discounts.” The Minister for Trade, Alejandro Fleming, warned that establishments that post signs in their windows announcing that the products are at a discount without having properly adjusted their cost structures are committing the crime of false advertising, which means that the cut in prices that is being implemented “is a process of putting prices on an honest basis; it’s not a matter of special offers or temporary measures.”

Venezuelans continue “swiping” their cards. Figures from the Superintendence of Banks (Sudeban) indicate that, as at the close of October, Venezuelans had accumulated a credit card debt of VEB 78.42 billion, which is the net amount lent by the banks to their credit card holders and does not include interest. This figure shows an increase of 72.8% compared to the same period last year, when credit card debt came to VEB 45.39 billion.



Will Don Ramón now be able to pay his rent? The chief of the Higher Organ for the People's Defense of the Economy (OSDPE), Hebert García Plaza, met with members of the board of the Venezuelan Shopping Mall Chamber (Cavececo) to revise the leasing terms for shopping mall premises. García Plaza himself announced that the leases of the commercial premises belonging to Constructora Sambil will be cut by 30%. He said that they had detected cases of usury and profiteering of as much as 600% in rents being asked for by this construction company.

The cheapest in Latin America: Freddy Cohen, the president of Cavececo, said that the lease rentals in shopping malls are the cheapest in Latin America and that the increases charged tenants are below the CPI. He also admitted that reducing the rents will affect operations in the sector, but that they will make a big effort to comply, as it is only fair to the merchants since they have had to cut the prices of their products without taking cost structures into account.

The aftermath: Claudia Itriago, the president of the Cavececo, announced that not be felt until after the December 8 elections that the Christmas schedule will be applied. She also said that this decision was taken by each shopping mall independently and that the chamber played no part.

Nothing good in store. The president of the Real Estate Chamber of Venezuela, Aquiles Martini, warned that the drop in leasings would give rise to mafias and backwardness in the economy. He also pointed out that the premises in shopping malls account for only 10.0% or 12.0% of all commercial premises in the country.

No more half measures: The new president of the National Confederation of Farmers and Cattlemen (Fedenaga), Rubén Darío Barboza, stated that Fedenaga would seek to transform the agricultural and livestock industry and to adapt to the different systems of obtaining costs so that they can demonstrate to the government that it is necessary to design policies with the medium and long terms in mind and not half measures. He also said that the threats of intervening farms that are producing should cease. Last of all, added that domestic production of beef and milk has fallen to 50% of capacity and that imports of powdered milk have increased.

It wasn't me. Balsamino Belandria, the president of the Bolivarian Cattlemen's Federation of Venezuela (Fegaven), stated that commercial relations between Fegaven and the National Buffalo Federation (Fonabu) ceased in 2012, when the Livestock Breeding Bank (*Banco de Ventres*) program expired, and claimed that Fegaven has not received foreign currency via CADIVI. These explanations were given in response to statements by Agriculture and Lands Minister Yván Gil to the effect that he would investigate any organization that had ties with Fonabu, which had committed irregularities in the use of foreign currency allocated via CADIVI.



Pasteurizing companies demand “fair prices.” In a press release, the juice pasteurizing industry has requested that the prices of juices be revised, as they have remained unchanged since Sundecop set them in 2012. They have pointed out that the costs of producing domestic juices have increased by around 74.0% and that, in the case of imported juices, costs have gone up by 65%. Apparently the fruit farmers are the only part of the production chain that is not regulated.

Efficient consumption. Franco Silva, Vice Minister for New Sources of Electric Power, commented that consumption is the main cause of the problems in the electricity sector, not the lack of investment. He also said that, this year, the demand for electricity “has been less than forecast due to the measures taken,” and that he expects it to grow by 6.9% next year.

World Economy Tips

China calls on the EU to open up. China’s President Xi Jinping called on the leaders of the European Union to avoid protectionism and to create a healthier environment for Chinese business. *“Both sides should expand cooperation in trade and investment and promote investment agreement negotiations, oppose all forms of protectionism, and promote the development of an open world economy,”* said Xi during the first European Union-China summit.

No risk of deflation for the EU. Member of the Executive Board of the European Central Bank Benoit Coeure explained that the slowing down in price growth in Europe will probably continue for now, but insisted that it would not progress to deflation as the economy is recovering and inflation expectations remain at around 2.0%. He also said that the European economy is stabilizing and that the banking sector is strengthening.

The EU is thinking of making credit cheaper. The European Union is considering making credit for member countries cheaper as an incentive to implement structural reforms in the medium term. Prior establishment of the objectives of those reforms is to be a prerequisite for disbursing the loans and meeting those objectives will be more than sufficient to trigger the disbursement of subsequent tranches under the plan agreed with the other countries in the euro zone. This proposal is to be discussed at the next summit meeting of the European Union, scheduled for mid-December.



Bank of Japan continues to be optimistic. The Bank of Japan (BOJ) has maintained its ultra-flexible monetary policy and has said once again that the economy is experiencing a moderate recovery, hinting at the signs of an upturn in exports considered of key importance for maintaining the general momentum generated by the boost given by Prime Minister Shinzo Abe. The BOJ has maintained the monetary policy that went into effect in April, whose objective is to achieve inflation of 2.0% in about two years by doubling the monetary base via the purchase of a large volume of assets.

Exports on the right path: In October, Japanese exports rose by 18.6% (y/y), making this the highest level of growth in three years, thanks to an increase in automobile shipments. This figure is higher than average market forecasts, which predicted growth of 16.5% (y/y).

Germany is still growing. Seasonally adjusted data from Germany's Statistics Office show that there was a strong increase in domestic demand, led by increases in investment and construction spending, which drove the country's growth in 3Q2013 despite the weight of foreign trade in the German economy. Germany's GDP for 3Q2013 growth 1.1% (a/a) compared to 2Q2013.

Spain maintains stable its public deficit. The public deficit for Spain's Central Government, regional governments, and Social Security System as a whole, but excluding town councils, remained unchanged in September at 4.8% of GDP, according to Secretary of State for Budget and Expenditure Marta Fernández Curras, who added that this figure also excluded aid to the banking sector and, so far, does not take the balance of payments of the local authorities into account, which have a surplus that could be higher than for September last year, when it came to 0.45% of GDP.

Italy seeks to cut its debt. Italian Prime Minister Enrico Letta explained that Italy is to sell stakes in state-owned companies, among them the oil and gas company ENI, in order to obtain EUR 12 billion next year, which will enable Italy to reduce its public debt. The assets to be sold include stakes in STMicroelectronics NV, Fincantieri Cantieri Navali Italiani SpA (shipbuilders), and Enav (air traffic controller), as well as 3.0% of Italy's stake in ENI, although it will still have a shareholding in the energy company of more than 30.0%.

Greece's situation isn't urgent. The International Monetary Fund (IMF) does not consider emergency financing necessary for Greece, given that this debt-ridden nation still has time to obtain the funds from its own coffers in the coming months, according to IMF spokesperson Gerry Rice. The European Union and the IMF have spent more than two months conducting their latest inspection of the Greek economy,



but so far it has not been agreed to release the next tranche of bailout funds for Greece.

Rousseff is working to prevent a debacle in 2014. 2014 looks like a complicated year for the Brazilian Government, with an economy that is steadily slowing down. For that reason, Brazil's president is making an effort to restore her administration's tarnished reputation in the eyes of businessmen, keep government spending under control, and make sure that Brazilians will not face hard times next year. The big motive behind all this is the presidential elections to be held next year, where Rousseff knows she will not have any advantage unless things improve.

Political Tips

December 8 can put a stop to the chaos. During a mass meeting of the opposition in Plaza Venezuela, Governor Henrique Capriles Radonski called on Venezuelans to continue expressing their opinions and said, "*We should all raise our voices and call for a change in Venezuela.*" Capriles took the opportunity to denounce the pressure being brought to bear on the media by the government and also of the censorship, while insisting on the position of the Democratic Unity Alliance of wanting to turn the upcoming local elections into a plebiscite.

No one's going to steal the votes. Democratic Unity Alliance Secretary General Ramón Guillermo Avelo gave assurances that the country will wake up the day after the upcoming elections on December 8 to find that most of it is being governed by mayors of the Unity Alliance. Avelo took the opportunity to call on the people to vote, assuring them that "*no one's going to steal the votes that are cast,*" because it is when the people do not participate that irregularities occur.

CNE will not give nationwide count of December 8 results. Democratic Unity Alliance technician Vicente Bello explained that the National Electoral Council will not give the sum total of votes obtained by each party either on December 8 or December 9, as it will only announce the counts for the mayoralties it deems pertinent, which is why the Democratic Unity Alliance has formally requested that the vote counts be totaled nationwide, however, they have not obtained a response from the CNE's board of directors.



The government is debasing the democratic quality of the campaign. National Electoral Council (CNE) Director Vicente Díaz issued a communiqué in which he criticized a number of actions by the government, considering that they “*debase the democratic quality of the election campaign for the municipal elections.*” Díaz also called on “*the government and the remaining branches of the State to correct and improve [their behavior] in order to ensure that the elections are an opportunity for the people to give their verdict under conditions of freedom and equilibrium inherent in the exercise of democracy.*”

Capriles’ tour coordinator arrested. Henrique Capriles’ tour coordinator, Alejandro Silva, was released last week after being held for 15 hours by members of the Military Intelligence Division. “*They dragged him out at gunpoint and beat him up. They took him without following any procedure and without a warrant, at a time when cowards go into action, most probably to plant evidence on him. Why are they going after him if it’s me they want?,*” said Capriles after the incident.

Capriles isn’t afraid. Miranda Governor Henrique Capriles claimed that the government is going after members of his political campaign team when who they are really aiming for is him. “*If I’m the problem here, come and get me. Here I am. I’ve told you time and again, I’m not afraid of you (Maduro). You want to put me in prison? Go ahead,*” said Capriles during the latest day of protests.

From prosecutor general to executioner: National Assembly Deputy Julio Borges repudiated the fact that the representative of the Public Prosecutor’s Office, Prosecutor General Luisa Ortega, who turned up at the offices of the Military Intelligence Division, told Alejandro Silva that he hadn’t been taken there under arrest, but that he was invited to go. “*Prosecutor General Luisa Ortega has become an executioner, the bad policeman. Incidents of this kind are typical of military dictatorships. We have to put a stop to this. Democracy and fear cannot live together,*” added Borges.

Maduro is to seek to make Plan of the Fatherland law. President Nicolás Maduro announced that he will meet with the president of the National Assembly, Diosdado Cabello, to request parliament to make the program of government presented by Hugo Chávez at the October 2012 elections, better known as Plan of the Fatherland, law of the Republic. “*The Plan of the Fatherland that has been approved twice running by our people, that was written by the very hand of our commander (...) Very soon, the National Assembly, by mandate of the Constitution, will turn it into law of the Republic,*” added Maduro.

Rodríguez is to blame. *Voluntad Popular’s* national coordinator, Leopoldo López, claimed that the mayor of Libertador Municipality, Jorge Rodríguez, is to blame for



the deplorable state of many parts of the capital. *“Jorge Rodríguez is manipulating via television talking about a supposedly beautiful Caracas that doesn’t exist. You only have to do a tour of the city to confirm the true situation its inhabitants have to live with: garbage on the streets, traffic in a state of collapse, crime out of control, and, most important of all, the lack of will to solve these problems,”* added Lopez.

Vielma Mora claims that the opposition held the march without permission. Táchira State Governor José Gregorio Vielma Mora denounced that the opposition held the march without permission and he pointed out that *“the regional media didn’t report that members of the opposition had stones and rebar to attack the Bolivarian National Police Force.”* *“The opposition did not have authorization to march and, even so, they decided to change the route (...) to generate chaos and a crisis,”* claimed Vielma Mora.

Legislative Tips

Maduro passed two laws to protect economic rights. President Nicolás Maduro signed the first two decrees under the Special Powers Act, which, he claims, will allow him to curb usury, combat the “economic war,” and “protect the economic rights” of the Venezuelan people. The first was the Decree with the Rank, Value and Force of Law for Controlling Costs, Prices, and Profits and Protecting the Venezuelan Family, which will be submitted to the Constitutional Chamber of the Supreme Tribunal of Justice. Next, Maduro signed the Decree with Rank, Value, and Force of Law for the Creation of the National Foreign Trade Center and the Foreign Trade Corporation.

Maduro is to legislate on housing prices under the Special Powers Act. President Nicolás Maduro is to address the issue of housing prices in a package of laws to be enacted under the Special Powers Act, according to Vice President for the Area of the Economy Rafael Ramírez. Ramírez, who is also the president of the Higher Organ for Housing, also commented that legislation that will most certainly be passed is legislation to regulate the prices of housing. He did not specify whether this regulation would be included in the law on costs, prices, and profits or whether there would be a special law specifically on this matter.

Special Powers Act slipped in a sneaky one. The text of the Special Powers Act that was finally approved and published in the *Gaceta Oficial* included an internal



law-and-order element that, in the opinion of nongovernment organizations, gives considerable cause for concern. Paragraph (d) of Article 1 establishes the power to issue regulations that would sanction actions posing a threat to the “security and defense of the nation, the institutions of the State, the branches of government, and the provision of public services.” The general coordinator of Provea, Marino Alvarado, warned from the start about the last-minute inclusion of this “sneaky provision,” as it was not part of the bill that was passed following its first debate.

Special Powers to be used to create an economic zone in the Orinoco Oil Belt:

Minister for Oil and Mining Rafael Ramírez announced yesterday that the package of laws to be enacted under the Special Powers Act is to include a decree to create a Special Economic Zone that will encompass the Orinoco Oil Belt. The measure aims to transform the Orinoco Oil Belt into an industrial zone that will be capable of meeting the needs and demands of oil activities that are to be carried out in the area.

Gran Misión Barrio Nuevo, Barrio Tricolor. Presidential Decree No. 603 published in *Gaceta Oficial* N° 40,299 creates a new social program for improving slum housing “*Gran Misión Barrio Nuevo, Barrio Tricolor*”. Likewise, Presidential Decree No. 604 authorizes the creation of a State foundation to be called *Fundación Gran Misión Barrio Nuevo, Barrio Tricolor*. In October, President Nicolás Maduro explained that the government’s goal is to cater to at least one million families in one year through this mission.

General González Ortiz is the new president of CAVIM. Brigadier General (Army) Oscar Humberto González Ortiz has been appointed president of Compañía Anónima Venezolana de Industrias Militares (CAVIM), attached to the General Companies and Services Directorate of the Office of the Vice Minister of Services. The appointment was published in *Gaceta Oficial* No. 40,299. Brigadier General González Ortiz replaces Julio César Morales Prieto, who was the incumbent since September 2011.





ECONOMIC OVERVIEW

