

Subsidies in Venezuela: another problem or part of the solution?

Last week, Minister of Economy, Rodolfo Marco Torres, assured that the Administration has a number of contingency plans ready to implement in 2015 in order to guarantee all its social obligations in response to the fall in international oil prices. The State's programs will not be affected.

Given the erosion of public finances clearly reflected by the year to year increase of the fiscal deficit, and the significant cutback in the flow of incoming oil revenue due to falling oil prices; and on top of this, the demand for increased public spending faced by the Administration given that National Assembly seats will be at stake during the Parliament elections held in 2015, and the higher than usual debt service payments that will have to be paid during said year; it is no wonder that the Administration's capacity to meet its obligations and to continue with the structure of its subsidies has come into question. Consequently, one wonders if an adjustment to subsidies might not play an important role in the "contingency plans" the Administration assures it has ready to implement if need be, depending on by how much oil prices drop.

Searching for alternative solutions

Besides implementing a devaluation of the currency, which in past years has been the Administration's preferred mechanism to "balance the budget" in difficult times (when fiscal revenue is tight), at **Ecoanalítica**, we believe that in 2015, part of the economic policy strategy implemented by the Administration will be a significant adjustment made with respect to the amount of foreign currency that will be made available and assigned to the private sector. This measure does not address the root of the problem (foreign exchange and fiscal imbalances) and it will have a significant effect on inflation and shortages.

Another possible solution that has been suggested by the Administration's economic advisors is to cut back of public spending. However, though there may be a break in the

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relationship between public spending and the Administration's approval ratings, we find it very improbable that during an election year, the Administration will choose to significantly alter (cutback) the amount of public spending.

Is there anywhere else adjustments can be made?

Another way, at least part of the imbalances that exist may be solved, and resources may be saved to be used in other areas during the very severe times ahead in 2015, is to reevaluate and cutback on government subsidies, which during the past years have steadily increased, reaching very significant amounts. At the same time, mechanisms must be introduced to soften the impact of the adjustments made to these subsidies by the lower income groups.

At **Ecoanalítica**, we estimated that at the close of 2013, government subsidies had reached 24.1% of GDP (around US\$75.4 billion), of which 12.0% of subsidies was in energy consumption (gasoline, oil-byproducts, gas, and electric power), 7.3% was in the sale of foreign currency at an overvalued exchange rate (a lot cheaper for importers), and 4.8% was in social spending (health, education, and housing) coming from Petróleos de Venezuela (PDVSA).

Grants Structure (GDP share %)			
Grants	2013	2014	Description
Domestic consumption of gasoline and derivatives	7.1%	6.3%	Sales of gasoline and derivatives below market price
Domestic consumption of natural gas	2.8%	2.1%	Sales of natural gas below market price
Domestic consumption of electric energy	2.1%	2.4%	Electricity rates below cost
Public Imports	4.5%	3.9%	Assignments of currency at a lower exchange type to Real Exchange Rate
Private Imports	2.8%	2.0%	Assignments of currency at a lower exchange type to Real Exchange Rate
Social Missions	4.8%	3.7%	Sales of homes priced below market price and / or special conditions
Total	24.1%	20.4%	

Sources: BCV and Ecoanalítica

We expect that by the close of 2014, government subsidies will be at around 20.4% of GDP, led by the gasoline subsidy that represents 6.3% of GDP, the subsidy for imports at 5.9% and subsidies related to the social missions at 3.7%.

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Energy subsidies: what's cheap ends up hurting the most

In most countries around the world, with the exception of a few oil producing countries, the cost of energy (electric power, fuel for transportation, and fuel for heating) takes a considerable bite out of household income. In Venezuela, the government has frozen the price of gasoline and oil by-products, gas, and electric power as part of its State policies that guarantee that all households have access to cheap energy, especially the lower income groups; and to keep transportation costs for goods and services down.

By freezing prices, the Venezuelan government is paying an extraordinary high price in the cost of opportunity with respect to the revenue it could be taking in with the sale of gas, gasoline and other oil-byproducts on the open market. Plus, it has had to pay substantial amounts to cover losses in operation costs for the National Electric Corporation (COPORLEC), the state-run company in charge of generating and distributing electric power.

At **Ecoanalítica**, we estimate that between 2011 and 2013 PDVSA did not earn revenue for around US\$12.2 billion a year because of the subsidy the government was giving for gasoline, and around US\$10.1 billion in sales for the subsidies given in oil-byproducts (some of which was used by the national electric power sector), and US\$7.5 billion for the sale of natural gas at subsidy prices in the domestic market. In the meantime, CORPOELEC had to be bailed out by the government with US\$5.6 billion a year, plus another US\$1.4 billion a year it received from PDVSA to cover investments made in the electric power sector.

Grants for Energy (US\$ billion)			
	2011	2012	2013
Domestic consumption of gasoline	11.9	12.6	12.0
Domestic consumption of derivatives	11.3	8.9	10.3
Domestic consumption of gas	8.6	5.1	8.8
Grants for Electric Energy	0.0	0.0	0.0
Executive Contributions to CORPOELEC	5.7	5.8	5.2
Contributions PDVSA	1.6	1.4	1.1
Mission Revolucion Energetica	2.2	0.1	0.2
Total	41.3	33.9	37.6

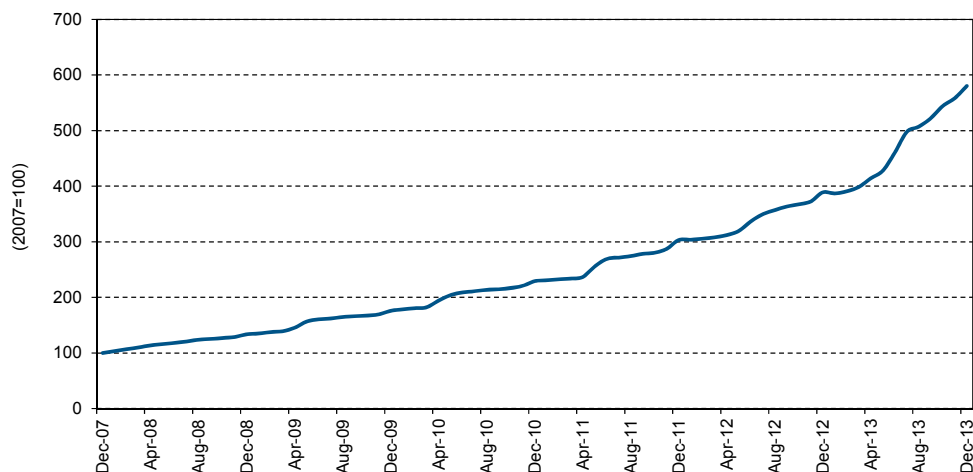
Sources: Pdvsa, Corpoelec and Ecoanalitica

Despite the high cost of the government's subsidy policies (almost US\$35.57 billion a year), it has not helped to lower transportation costs at the consumer level which increased from 480.2% between 2007 and 2013. Furthermore, considering how little impact the price paid for electric power has on the household budget with the price

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being frozen for years (less than 2.7% of the consumption basket), a cut on said subsidy would not put the household in a position to have to do without electricity, even those in the lower income brackets.

Price Index of Transportation Services



Sources: BCV and Ecoanalítica

An anchor for prices

Another subsidy that is not doing what it was designed to do is the exchange control mechanism. The policy of having a fixed exchange rate, which principal aim is to stop prices from increasing (be an anchor for prices) by keeping the price of imported goods and materials down, has become counterproductive.

At **Ecoanalítica**, we estimate that the State has sacrificed revenue for around 4.8% of GDP between the years of 2003 and 2014 in order to be able to maintain its foreign exchange control mechanism in place, assigning foreign currency at an “official” exchange rate that is overvalued, while at the same time having to deal with a yearly inflation rate of 26.4% (21.9 percentage points above the Latin American average at the time), and allowing outgoing capital of US\$13.79 billion a year (in part financed by the official exchange rate).

The current exchange policy is one of the main sources of economic imbalance that is affecting the economy. The fact that the exchange control is still in place, despite having failed to achieve all its objectives and its high cost is proof that it is still being used as a political weapon to manage and control the private sector. For the Administration to

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consider dismantling the exchange control would mean that it is was contemplating a shift in political strategy rather than responding to economic circumstances.

The missions: are they so necessary?

Last, but not less important, the Administration has delegated the lion's share of social spending aimed at satisfying the basic needs of the population in terms of health, housing, and education to PDVSA. This load has an approximate cost of US\$14.0 billion a year for the last three years, and it has gone from representing 1.9% of GDP in 2003 to 4.8% of GDP in 2013.

Expenditure on Social Programs (US\$ Billion)			
	2011	2012	2013
Health	3.8	5.6	3.9
Education	0.3	0.4	0.2
Dwelling	4.0	8.2	9.2
Others	2.4	2.2	1.9
Total	10.5	16.3	15.1

Sources: Pdvsa and Ecoanalítica

Despite the fact that at **Ecoanalítica**, we consider that the mission's have had a significant impact on reducing poverty, from 42.0% in 1999 to 27.3% in 2013, in other words, down 14.7 pp in 14 years, most missions could operate with a lot lower budget and a finance schema in bolivars (taking advantage of domestic liquidity).

Among the missions that could operate with a fewer resources are those associated with health services (Misión Barrio Adentro), and education (Misión Ribas, Robinson and Sucre), which in order to become operational require a substantial initial investment in infrastructure (health centers, university campuses, among other things) but given that this mission has been active for so long it should only require budget for operational costs and maintenance.

Then there are the missions that require a significant amount of investment in infrastructure, for example: the housing mission Gran Misión Vivienda Venezuela (GMVV), which is currently being financed with US-dollars. It could just as well be financed with issuances of bolivars and take advantage of the Venezuelan banking system's current surplus in liquidity. This would help save US-dollars without putting the mission in danger and continuing operations. The dollars saved could be used to

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finance imports, service the debt, of save and build up international reserves which are currently below optimum levels set by the Central Bank of Venezuela (BCV).

Nobody has to lose

At **Ecoanalítica**, we believe that most of government subsidies, which are seriously being mismanaged, can be cutback without considerably affecting the quality of life of Venezuelans; and at the same time help to reduce the fiscal deficit and the deficit of foreign currency facing the economy.

Although cutting back on subsidies would imply a cutback on public spending and could consequently hurt the Administration's approval ratings (that is already bruised) leading into the Parliament elections of 2015; and considering the break we've seen during the last few months in the relationship between public spending-approval ratings, the negative impact may not be so severe as expected.

At **Ecoanalítica**, we expect that the Administration will devalue the official exchange rate to VEB 15.0/US\$ and unify the rates between the Cencorex and Sicad I, and at the same time increase the price of gasoline per liter to VEB 1.0/lit. This would allow the government to collect extra revenue for around 11.4% and 0.7% of GDP. We also consider that the Administration should take advantage of the serious state of affairs regarding public finances, and use this as an argument to eliminate or cut back on spending that has proved ineffective and that weighs heavily on the National Budget.

Gabriel Villamizar

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ECONOMIC TIPS

Unemployment rate at 7.0%. According to numbers released by the National Statistics Institute (INE), unemployment rate fell 0.8 percentage points (pp) in September, compared to the same period in 2013, when unemployment rate closed at 7.8%. This means that in the ninth month of the year, 1.004.273 people didn't have a job.

Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 0.3 pp compared to September 2013, to settle at 34.5%. Within this, men inactivity decreased 1.2 pp, and stood at 20.8%. By the other hand, women inactivity, increased 0.6 pp compared to the same period in 2013, and stood at 48.0%.

Informality rate at 40.5%. According to INE's figures, at end-September, 5.384.599 people were employed at the informal sector (40.5% of working population), increasing 1.2 pp compared to the same period in 2013. For its part, formal sector employed 59.5% of working population; decreasing 1.2 pp compared to same period last year, but increased 0.3 pp from the previous month.

Latin Focus Consensus. The results of The November survey 2014 shows that the consensus of the analysts is a contraction of GDP this year of 3.0%, along with an inflation of 66.5%. Also the results provide that at the end of 2014 the central Government deficit is expected to be close to 4.5% of GDP. Finally, they consider an unemployment rate of 8.1% for this year.

The basic basket reaches VEB 25,386. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in September 2014 was VEB 25,386, an increase of 3.4% with respect to the prior month, and 84.6% with respect to September, 2013.

The behavior of the CBF in September was marked by an increase in all of its seven items, among them: health (12.2%), food (6.6%), education (3.1%) and basic utilities (2.0%),

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Cendas: Food basket at VEB 15,010.7. Food also increased; the food basket costs VEB 15,011, an increase of 6.6% with respect to August, and of 96.9% with respect to September 2013, when it was VEB 7,635; according to this entity, 3.5 minimum wages are required to be able to buy food.

In September, seven of the twelve items in the food basket increased its prices: milk, cheese and eggs (18.4%), sauce and mayonnaise (10.0%), fish and shellfish (6.4%), fruits and vegetables (5.7%), cereals and its products (5.1%), meat and its products (4.2%) and sugar and salt (0.1%).

Is devaluation definitely off the cards? The Vice President for the Economy and Minister of Economy, Finance and Public Sector Banks, Rodolfo Marco Torres, stated that “*no devaluation is being proposed for 2015.*” The minister gave assurances that Venezuela has a healthy and very strong public and private financial system that has managed to reach the population. Torres also spoke of the critical situation of the parallel dollar, claiming that this is a matter of manipulation, given that there is no real basis for saying to anyone that this currency exists as such.

Telling things the way they are. Deputy Elías Matta described as “*cynical*” the simple fact of saying that the exchange rate of VEB 6.3/US\$ will be maintained for 2015, as claimed by government officials. “*Unfortunately, I remember that President Nicolás Maduro went to the National Assembly in November 2013 and said that the dollar would be at VEB 6.30/US\$ for the entire year. We’re coming to the end of 2104 and we have had two devaluations: one in SICAD I when the exchange rate went to VEB 12.0/US\$, and the other in SICAD II, where the rate went from VEB 6.3/US\$ to VEB 50.0/US\$.*”

Starting off with a 53.0% deficit. *Transparencia Venezuela* explained that the budget for 2015, calculated at around VEB 741.70 billion, already has a deficit of 53.0% compared to total actual spending in 2014. According to this group, thanks to the approval of supplementary appropriations, the current budget has been increased to more than VEB 940.0 billion, which is practically VEB 200.0 billion more than the amount forecast for 2015.

Another negative record. The approval of 13 additional supplementary allocations by the National Assembly at the start of the week allowed the Nicolás Maduro administration to chalk up a record figure for public spending so far this year, bearing in mind that there is still a month and a half to go

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before yearend. The approval of extraordinary resources this year came to VEB 551.82 billion and, if to this we add the national budget for 2014 (VEB 552.63 billion), we find that the total comes to VEB 1.07 trillion.

A more “charitable” Central Bank. The official statistics from the Central Bank show that financing granted to state-owned companies increased by 90.3% in the past 12 months, going from VEB 299.0 billion to VEB 569.0 billion. However, if we take the figures for Central Bank loans granted to PDVSA alone, we find that they grew by 107.0%, which does not tally with statements issued by the state-owned oil company a few months ago, according to which it would reduce its borrowing from the Central Bank.

Shortsighted. President Nicolás Maduro gave assurances that the 15.0% increase in the minimum wage, which is to go into effect on December 1, would give a cumulative increase for the year that would be way above inflation in 2014. At the same time, Vice President for Planning and Knowledge Ricardo Menéndez explained that this increase would have a positive impact on poverty measured in terms of income, which, according to Menéndez, will fall by between 2 to 3 percentage points.

Inflation figures delayed yet again. The Central Bank failed to meet the official deadline for issuing the monthly inflation figures once again, this time for October, which means that there are now two months for which no figures showing how prices are evolving in Venezuela have been published. The Central Bank’s regulations establish that it should publish the Nationwide Consumer Price Index (NCPI) within the first ten days of the month. In addition, there are delays in the publication of the GDP figures for 2014 and the basic products shortages index for February through to October.

Interest rates. The lending rate for the fifth week of October was at 18.5%, increasing 0.1 percentage points (pp) compared to the previous week. The time deposit rate was at 15.0%, without changes 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 4.1%, going from US\$20.48 billion during the fifth week of October to US\$19.64 billion during the first week of November. Compared to the same period last year, international reserves have decreased by 9.2%.

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Central government expenditure. On November 7th according to figures from the NTO primary spending was VEB 36.7 billion, which means an increase of 48.2%; when compared to the same period last year. So far this year, the primary expenditure accumulates VEB 724.9 billion, 92.9% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 2.2% in the fifth week of October from the week prior, to settle at VEB 1.6 trillion. The M2 has increased 58.5% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
11/5/2014	17.1	16.9	94.8	0.2	5.2
11/6/2014	18.2	18.1	98.2	0.1	1.8
11/7/2014	15.3	15.2	96.7	0.1	3.3
11/10/2014	16.1	15.6	89.5	0.5	10.5
11/11/2014	17.1	16.7	96.6	0.4	3.4

Source: Ecoanalítica

OIL TIPS

Seeking to get back into the “100s.” The President of Ecuador Rafael Correa said that his government and the Government of Venezuela are considering proposing a cut in oil production to “protect prices,” due to their current drop on international markets. Correa said that he had spoken of the matter with the Venezuelan President, Nicolás Maduro, with a view to forming an opinion on the current situation of oil prices for the next meeting of the Organization of Petroleum Exporting Countries (OPEC).

OPEC aims for an increase in 2015. The secretary general of OPEC, Abdallah Salem El-Bradi, said that he was confident that oil prices will pick up next year and average US\$110/bbl. by the end of the decade. El-Bradi said that the present situation is part of a cycle, but that the present price situation will change by the second half of 2015 due to the fact that production costs have increased since 2010, which makes likely that prices will be high again in the long term.

Calculating at US\$60.0/bl. = a sign of responsibility? Minister for Oil and Mining Asdrúbal Chávez emphasized that estimating the oil price at

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US\$60.0/bl. as the basis for calculating the 2015 budget shows that the government is being responsible when it comes to committing resources for its operating and investment expenditures. He made these statements in reference to the present drop in oil prices, which are currently in the region of US\$70.0/bl.

More for China. Venezuela is to continue increasing its shipments to China and India to the detriment of dispatches to the United States, according to Oil Minister Asdrúbal Chávez. *“We’re going to continue increasing supplies to Asia, India and China,”* he said. Venezuela sends approximately 196.0 kb/d to China, a large portion of which is in payment of a rotating loan.

Potential buyers visit Citgo. It is still not clear whether PDVSA is going to go ahead with the sale of its refining and marketing units in the United States. However, Lazard Ltd, the investment bank hired by Citgo to handle the sale, is still promoting the refineries. Citgo’s assets consist of three refineries with a combined capacity of more than 700,000 b/d. The three units are located in Lemont, Illinois, Lake Charles, Louisiana, and Corpus Christie, Texas.

Second tanker is on its way. The second tanker with Algerian light crude ordered by PDVSA, the state-owned oil company, which set sail from the port of Bejaia, is expected to arrive on November 17. The tanker is expected to deliver up to 2 million barrels at Jose Terminal. Venezuela started to import crude to be used as a diluent for pumping extra-heavy crude due to the decline in its own production of medium and light crude and the fact that naphtha is no longer affordable.

Thunderstorm at Cardón Refinery. PDVSA, Venezuela’s state-owned oil company, announced that Cardón Refinery, which produces 310,000 barrels a day (b/d), was affected by a power out during a thunderstorm, which caused explosions in some units but did not have an impact on central processes. *“Operations personnel took immediate control of the facilities and proceeded to shut down the affected units as a preventive measure in order to restore the powers supply and the rest of the industrial services as a prior step to startup,”* said PDVSA.

Hugo Chávez launches. PDVSA has incorporated launches named after former President Hugo Chávez into its Occidente 13 fleet. The launches, which are to collaborate with hydrocarbon extraction activities in the western region, are Damen 1204s with a length of 12.6 meters and a beam of 2.9

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meters. This takes the number of units delivered as part of the project to purchase 100 new launches to assist with production in Lake Maracaibo.

International oil baskets. At closing time on November 7th in the New York Stock Exchange, the price of the WTI was US\$78.6/bl, down by 3.3% when compared to the reported the previous week. The Brent increased by 2.8% when compared to the previous week, to reach US\$83.9/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$72.8/bl on Friday November 7th decreasing by 3.9% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$93.2/bl.

BUSINESS SECTOR TIPS

Restrictions on the interbank rate. Financial institutions will have until December 31 this year to reduce their interbank loans to 10.0% of the equity tops, according to a Sudeban's resolution stipulated in *Gaceta Oficial* N° 40.526. Up until November 7, the interbank rate was 13.6%, down 1.1% from the date on which the resolution was published. The banking system is posting growing liquidity as the demands of their loans portfolios are greater than deposits by the general public.

The “Dakazo” returns. The president of Fedecámaras, Jorge Roig, pointed out that the inspections on stores being carried out by the government as part of its “Happy Christmas Plan” are simply a continuation of the “Dakazo,” the mass inspections conducted last year just before Christmas. Roig said that the key problem is, in fact, hoarding because there are not sufficient products. “*Here there’s profiteering because there isn’t sufficient domestic production,*” he explained.

Fedeagro asks for subsidies. Cereal producers have asked the Executive for subsidies to the tune of some VEB 4.20 billion to offset the gap between the recently increased prices of raw materials and the regulated prices of their crops. Since the cost structures were submitted in July this year, farmers have faced substantial increases in harvesting and freight costs, which have gone up by 70.6% in the case of corn and 84.0% in the case of rice.

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Christmas is here. Vice President for Food Security and Sovereignty Yván Gil announced that more than 50.0% of the products imported by the Central Government for the Christmas season are already at Venezuela's ports. Gil stressed the fact that companies from the private sector engaged in the production and distribution of goods and food are taking part in the open air Christmas fairs that have been taking place in more than 10 states and in the Capital District since November 1, with 535 fair days having been held to date.

Estelar suspended. The National Civil Aeronautics Institute (INAC) suspended the operations of the airline Estelar, which offers charter flights to Porlamar, Maracaibo and Curacao. "*We announce that the Airline Estelar has had its operations suspended temporarily,*" notified INAC in its Twitter account. As for the airline, it published a communiqué explaining how it is going to make the necessary reimbursements.

Sanctions lifted. INAC lifted the administrative sanctions applied to Aeropostal, Avianca, and Conviasa, three of the ten airlines that were sanctioned with a temporary ban on selling air tickets at Maiquetía Airport, said the agency's spokespersons last Monday. INAC explained that it also applied the same sanction to Aeroméxico, Aerolíneas Argentinas, Avianca, Taca, Tame, Santa Bárbara Airlines (SBA), and Laser Airlines for not publicly posting the airfares.

Only US\$738 million. It is evident that, this year, the automotive sector has been extremely hard hit by the government's scant allocation of foreign currency. The sector has been restricted to resorting to SICAD I only for foreign currency in order to import vehicle assembly materials, and it has only obtained a total of US\$738 million at the auctions held so far this year, way below the amounts it received in 2011 and 2012, when CADIVI allocated it US\$2.20 billion and US\$2.5 billion, respectively.

Concessionaires under inspection. The Fair Prices Superintendency ordered a 180-day occupation of the Toyota concessionaire, Motofalca, in Maracaibo, Zulia state. The company was fined 10,000 tax units, equivalent to VEB 1.2 million, for alleged usury in the sale of vehicles. According to the Fair Prices Superintendency, steps will be taken to return the money paid in excess to the people affected, who could be as many as 100.

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Builders without cement. The president of the Venezuelan Construction Chamber, Jaime Gómez, requested the government to resume the sale of cement directly to builders. “We’re waiting for a meeting with the president of the Socialist Cement Corporation to demand that cement be sold directly to the builder,” said Gómez. In the past 20 years, housing has been built at a rate of 60,000 units a year on average, but this year it is estimated that the figure will not reach 20,000 units.

WORLD ECONOMY TIPS

We have an option here. The Financial Stability Board (FSB), made up of regulators from countries belonging to the G20, has proposed, as part of the bank reform presented as a result of the 2007-2009 financial crisis, a bond or capital fund formed by the main banks, which would be equivalent to between 16.0% and 20.0% of risk-weighted assets. The chairman of the FSB and governor of the Bank of England, Mark Carney, said that the fund could be finalized next year. This would mean that the banks would not have to resort to government bailouts.

Employment keeps on growing. In October, the United States generated 214,000 jobs, making this the tenth month in a row to post growth in the number of jobs. With this increase, the unemployment rate is now at 5.8%. The good performance of the job market in recent months was one of the reasons why the Federal Reserve (FED) decided to put an end to its monetary stimulus program. Even so, the current unemployment figures are above those posted before the crisis.

Doing better than predicted. The productivity of nonfarm companies in the United States posted higher growth than forecast in 3Q2014, which put a brake on wage inflation. The US Bureau of Labor Statistics reported that productivity grew at a rate of 2.0% a year, after posting upwardly revised growth of 2.9% in 2Q2014, whereas estimates prior to the publication of the figures for 3Q2014 put growth in the region of 1.5% for that period.

The indices shoot up. The positive results in the US economy raised the Dow Jones Industrials Average and the S&P 500 to historic highs. The drop in applications for unemployment benefits in the United States and the announcements of the increase in productivity in the third quarter of the year

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were perceived as positive by the markets, generating increases in the Dow Jones and the S&P of 0.4%.

Trade imbalance. Despite the fact that Chinese exports have increased in recent months, the weakening of domestic demand has resulted in a slowing down of annual growth on the trade balance. Given these signs and indicators that point to the possibility that growth will weaken in the next two or three months, there are expectations that the central bank may introduce new stimulus policies.

It's not that bad. President Xi Jinping has said that China's economy is stable and that the risks it faces are "not so scary." He pointed out that, even if China were to have growth of 7.0%, it would still rank among the economies with the highest rates of growth in the world. The Chinese President said that foreign direct investment was expected to reach \$1.2 trillion in the next ten years.

Don't count your chickens. Benoît Coeure, a member of the European Central Bank (ECB) executive board, commented that there is a risk that the Eurozone will lose its present momentum. According to Coeure, the European Commission's downward revision of growth forecasts for the zone calls for action to be taken on the monetary policy front and also for fiscal and structural measures. Following its November monetary policy meeting, the ECB tasked its staff prepare further measures, should it become clear that the ECB's current tools were not enough.

Not everything is lost. Germany's production rose by 1.4% in September compared to the same month of last year, which implies a slowing down compared to growth of 3.1% posted in August. As for industrial production, it fell by 0.4% in 3Q2014 from the previous quarter. Referring to this contraction, the economy ministry highlighted that the complicated international panorama was continuing to have an impact. However, exports and imports rose by 5.4% and 5.5%, respectively, bringing some relief to concerns over the slowing down of Germany's economy.

Amount the UK is to pay cut by half. The United Kingdom's Chancellor of the Exchequer, George Osborne, announced that he had reached an agreement with his European counterparts, according to which the additional contributions established in the European Union's 2015 budget are to be reduced. This means that the amount the UK is to pay will go from US\$2.6

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billion to US\$1.3 billion. The minister said that this agreement was much more than anyone expected them to get.

No changes. The Bank of England has decided to maintain its benchmark interest rate at 0.5% before new forecasts are published that will shape expectations on when the bank will finally start to raise interest rates. At the same time the bank gave assurances that it would maintain the current stock of assets purchased as part of its attempts to guide the economy out of the 2008 global financial crisis.

POLITICAL TIPS

Amnesty International wants Leopoldo released. Amnesty International has urged the Venezuelan Government to comply with the recommendation by the United Nations Working Group on Arbitrary Detentions and release Leopoldo López. In a communiqué, the organization stated that López appeared before the court on February 19, which concluded that there was no evidence for accusing him of the serious crimes that are listed in the arrest warrant, which include terrorism, homicide, and causing serious injury.

Scarano on trial. Enzo Scarano continues on trial for having used violence against a woman. However there is still the possibility that he may be transferred to a military court to be tried for having attacked a female member of the armed forces, for which he could receive a prison sentence of between 14 and 20 years. Testimony was given by three witnesses for the prosecution (Carlos Velazco, Jaime Liset, and former PSUV Councilor José Rafael Gil) and one for the defense (Cuentas Claras Councilor Gustavo Carmona). The public trial is to reconvene on November 17.

Branches of government that inspire confidence. The selection of the members of the Electoral Nominations Committee is an important step in renewing voters' confidence and the confidence of Venezuelan society, so said *Acción Democrática* Deputy and member of the National Commission for Dialog Edgar Zambrano. He commented on the importance of the vote and put his trust in the political will of the parties to successfully appoint officers who will represent the autonomy of the Electoral Branch.

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More nominations to judges. The National Assembly Judicial Nominations Committee received the credentials of nine candidates to justices of the Supreme Tribunal of Justice, which brings to total number of candidates to 33, 16 of whom are women and 17 men. Once the selection process has been completed, it is estimated that the final list of the new justices will be announce on December 20, according to the committee's chairman, Elvis Amoroso.

PSUV wants dialog. In the opinion of the vice chairman of the National Assembly's Foreign Affairs, Sovereignty and Integration Committee, Saúl Ortega, dialog with the opposition is fundamental and he is optimistic regarding the possibility of dialog between the government and the opposition being resumed. *"Dialog is always necessary, regardless of the issue; even more so in the case of political issues, when they are issues that have to do with matters of state or projects that are to be implemented on the national level,"* explained Ortega.

A "social pact" for Venezuela. In the opinion of UNASUR Secretary General Eduardo Samper, Venezuela needs *"a great social pact"* to *"adjust"* its economy and overcome the political conflicts that still exist. Samper also stressed that UNASUR *"is keeping its doors open"* to help create the conditions in Venezuela for *"dialog at the highest level"* between the government and the opposition.

It's necessary to do away with the red tape. The director general of the Autonomous Service of Registries and Notary's Offices, Dante Rivas, called on registrars and notaries to do away with the red tape. *"I call on all registrars and notaries to improve customer services. Get rid of the obstacles that make people turn to gestores (middle men),"* said Rivas, referring to the growing custom of resorting to *gestores*, who speed up the lengthy bureaucratic processes that have to be gone through in dealings with the government services.

An irresponsible budget. National Assembly Deputy Alfonso Marquina claimed that, as it stands, the national budget approved for 2015 is *"the most irresponsible"* that has been submitted in the past 15 years given that, according to Marquina, it has a deficit if more than VEB 200.0 billion. He added that the government has two ways to finance itself and deal with the drop in oil prices: *"One, another devaluation; and two, issuing inorganic"*

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money, with the highest inflation in the world,” and went on to refer to the government’s lack of capacity for maintaining stable economic policies.

Inspections or profiteering. Criticism by the opposition with regard to the inspections of stores as part of the Happy Christmas Plan has met with denials from Vice President Jorge Arreaza, who claimed that the *“position adopted by business leaders against the inspections and fair prices demonstrate that they support profiteers and smugglers.”*

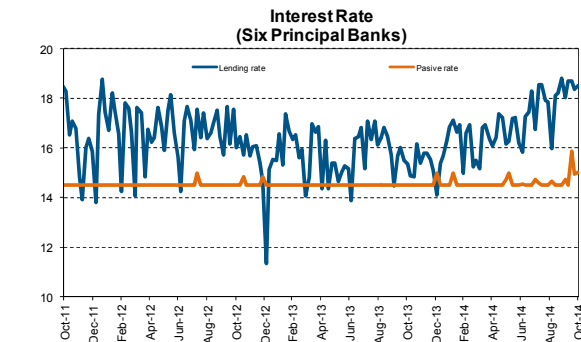
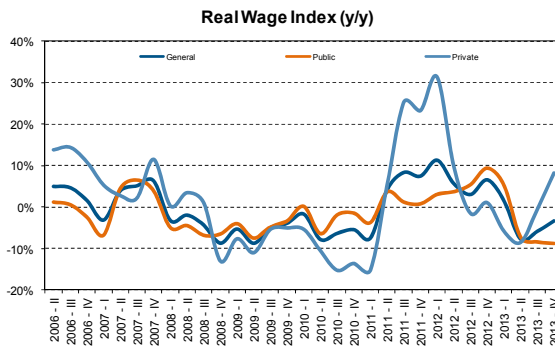
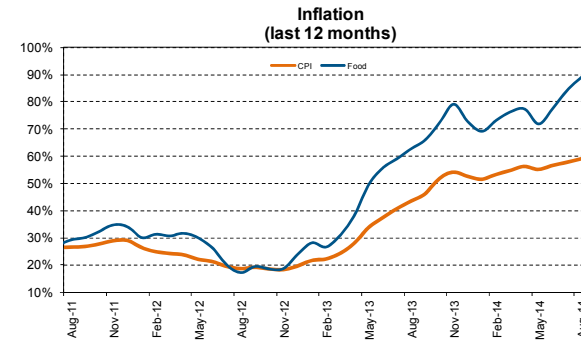
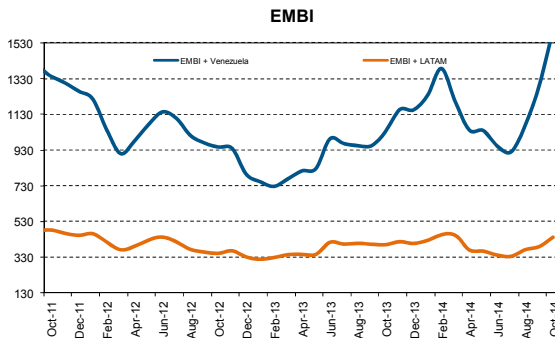
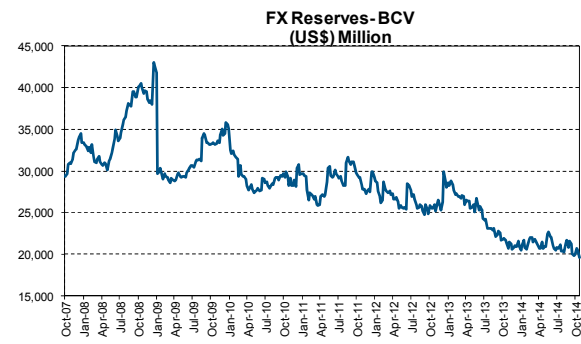
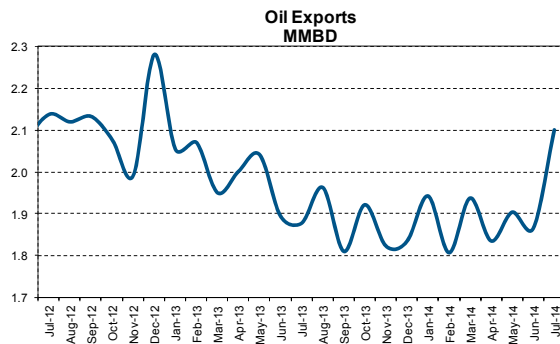
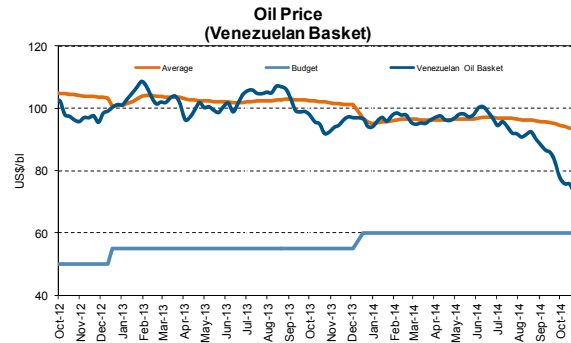
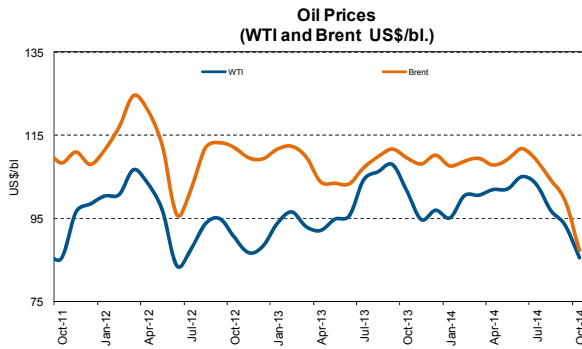
The “fight” continues. Minister for Foreign Affairs Rafael Ramírez confirmed Venezuela’s commitment to the fight against “predatory” capitalism during the Pre-Conference of the Parties on Climate Change. *“Capitalism is a predatory system that is doing away with the forests, with the rivers, with the seas, with the natural resources and is poisoning the air we breathe. That is why our country is taking part in this process of discussion on climate change,”* added the foreign minister.

LEGISLATIVE TIPS

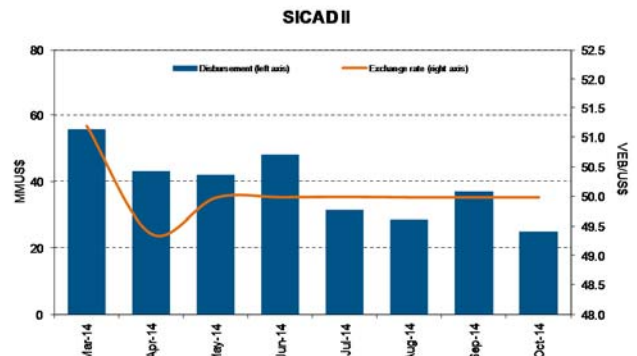
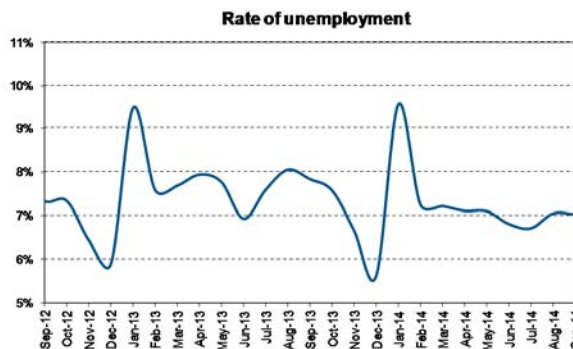
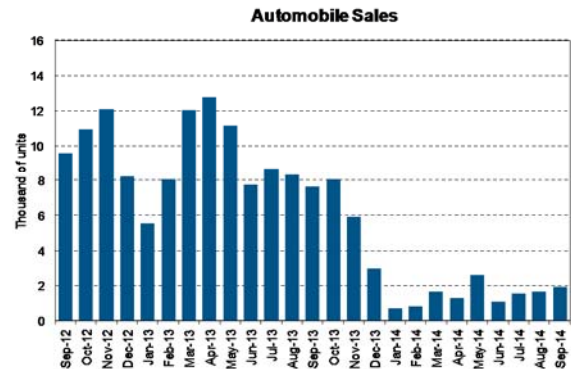
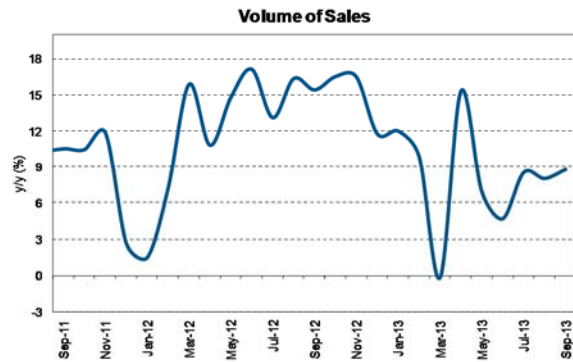
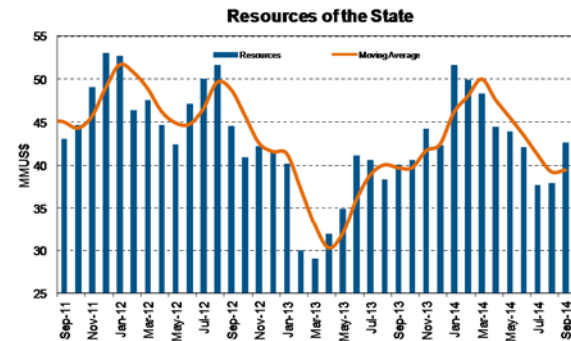
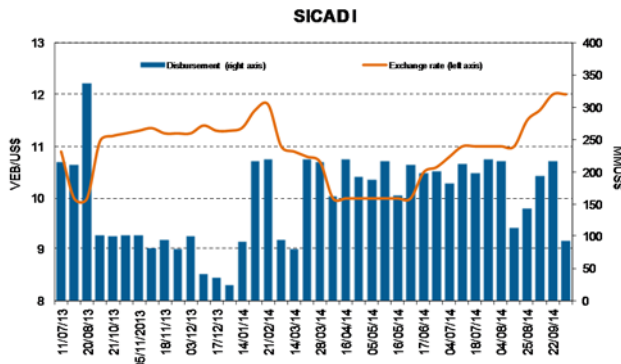
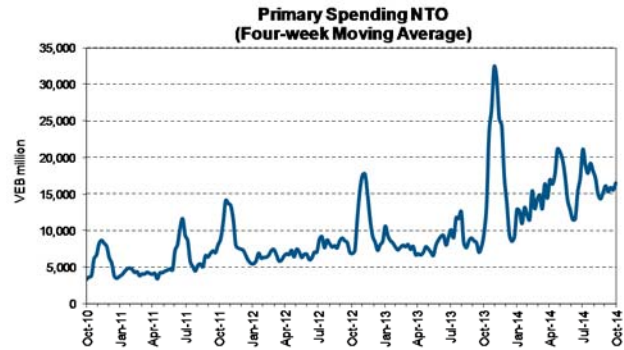
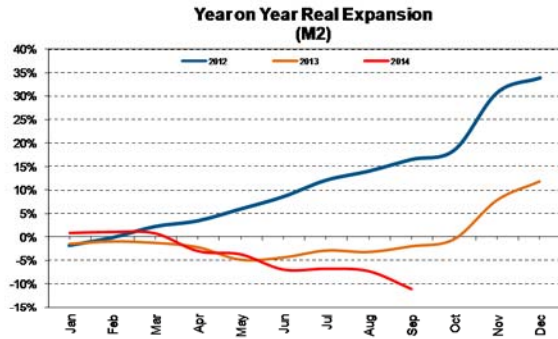
Cavecom-e is against. Next Friday, the National Assembly’s Administration and Services Committee is to submit the Electronic Commerce Bill to public consultation in the country’s main cities. However, in the opinion of Richard Ujueta, the president of Cavecom-e, this is a bill that does not strengthen e-commerce or make it more democratic, added to which it contains some aspects that hamper it.

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ECONOMIC OVERVIEW



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