

In 2015, the foreign currency market dried up

2015 will be remembered as the year when the common denominator in Venezuela's economic indicators was the lack of official information. Despite this situation, at **Ecoanalítica** we made a tremendous effort to offer our clients quality information to make the task of taking decisions easier.

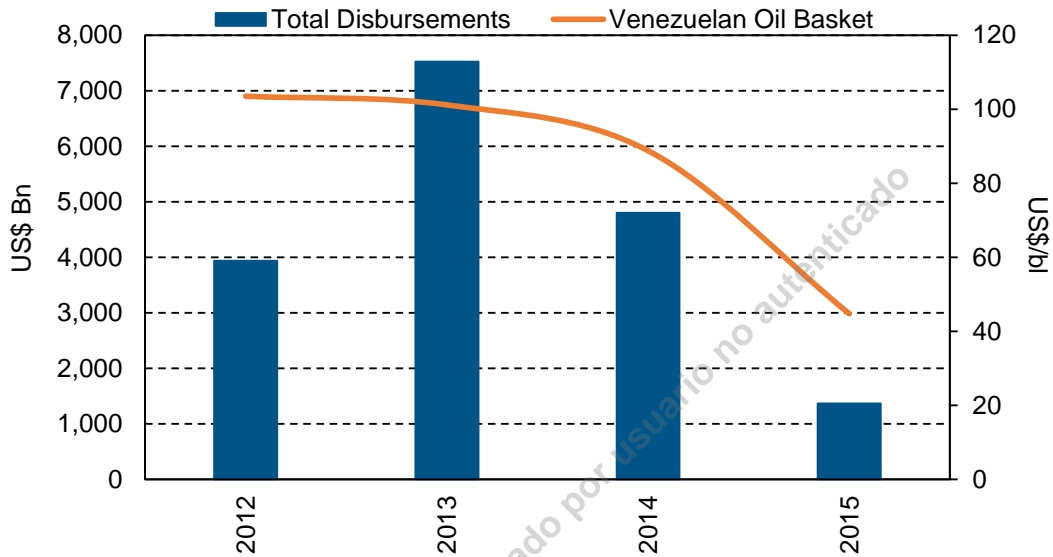
One of the most salient indicators developed by our research team is the foreign currency disbursements indicator. Throughout the year, we calculated the daily average for each of the mechanisms and their behavior from one month to the next. Our estimates reflected a drop of 61.4% between 2014 and 2015. In this report we want to go into that information in greater detail and show more precisely what happened in the foreign currency market last year using unofficial statistical information to which we have had access.

Approvals take a nosedive

Since the implementation of exchange controls, it has always been important to analyze the behavior of foreign currency acquisition authorizations (AADs) in order to have an estimate of future foreign currency disbursements to the private sector and, therefore, an idea of how the economy will perform. With high oil prices and, consequently, high revenues for the country, practically all sectors benefited from an overvalued exchange rate. It was a very different story, however, when oil prices fell.

In 2012, CADIVI –no longer in existence- authorized US\$3.9 billion in AAD operations and the following years the indicator showed an increase of 91.0%, when these operations came to US\$7.5 billion. Since then, the drop in approvals has been huge: 36.2% in 2014 and 71.5% up until August 2015. If we compare these figures with the drops in the price at which the Venezuelan oil basket was trading, it becomes apparent that it was the high prices that made it possible to maintain a model based on such highly subsidized imports.

Total Disbursements vs. Venezuelan Oil Basket



Source: CENCOEX, MENPET and Ecoanalítica

When we take a closer look at the Venezuelan economy by sector, we find a serious situation. The health sector went from accounting for 23.7% of total AADs in 2013 to more than half that in 2015, with an estimated 50.6%. The same happened to sectors such as food and chemicals, which accounted in 2013 for 4.1% and 6.1% of AADs, in contrast with last year 16.6% and 15.9%, of the overall 2015 AADs (US\$ 1.3 billion).

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Sector	2012	2013	2014	2015	Total US\$ MM
Health	975,326	1,783,819	1,758,030	692,415	5,209,591
Automotive	489,383	1,596,499	185,687	45,292	2,316,861
Food	222,148	306,510	872,045	227,813	1,628,516
Chemistry	239,992	459,982	646,991	217,595	1,564,560
Machinery and equipment	410,126	497,565	89,872	3,513	1,001,076
Trade	399,090	180,751	112,459	10,683	702,984
Rubber and Plastic	210,249	146,077	176,425	34,553	567,305
Electr. domestic appliances	327,515	27,003	620	0	355,138
Metallurgy	118,465	70,971	26,985	246	216,667
Telecommunications	90,116	108,649	14,896	128	213,788
Informatics-related	107,563	33,950	12,698	0	154,212
Textile	43,380	68,106	22,837	607	134,930
Electric-related	70,107	23,737	17,408	596	111,849
Paper - Cardboard - Wood	19,224	13,406	54,316	15,415	102,361
Electronics	68,286	13,073	4,810	0	86,169
Services	29,070	27,019	25,304	0	81,393
Veterinary	23,322	11,936	30,540	7,518	73,315
Construction	18,106	46,884	8,252	54	73,296
Graphics	17,496	16,962	14,198	394	49,049
Communication - Press	4,708	25,738	4,855	0	35,301
Non-metallic Minerals	12,135	6,480	15,055	89	33,759
Books and School Supplies	859	5,386	5,132	53	11,430
Science and Technology	2,381	372	6,620	315	9,688
Tobacco and non-Alcoholic Beverages	2,663	3,218	2,742	0	8,623
International Airlines	35,929	2,046,513	690,051	110,801	2,883,294
Total	3,937,639	7,520,606	4,798,830	1,368,081	17,625,156

Source: CENCOEX and Ecoanalítica

On the other hand, non-priority sectors were the ones to suffer most. Sectors such as household appliances, electronic equipment, services, communications-the press, tobacco, and alcoholic beverages were the most discriminated against in 2015, when they did not receive a single dollar in the first eight months of the year. This scenario explains why the average exchange rate for these sectors was the one to have depreciated most last year and also, therefore, why the increase in prices was so marked.

2015 was a critical year for disbursements

A total of US\$4.2 billion was disbursed last year, a drop of nearly 65.0% compared to 2014. When we analyze the foreign currency disbursement authorizations (ALDs) by sector, we find that health, food, and chemicals were practically the only ones to receive foreign currency via Cencoex, obtaining US\$3.9 billion, 93.9% of the total. As for the remaining sectors, together they obtained only US\$258.1 million in the entire year.

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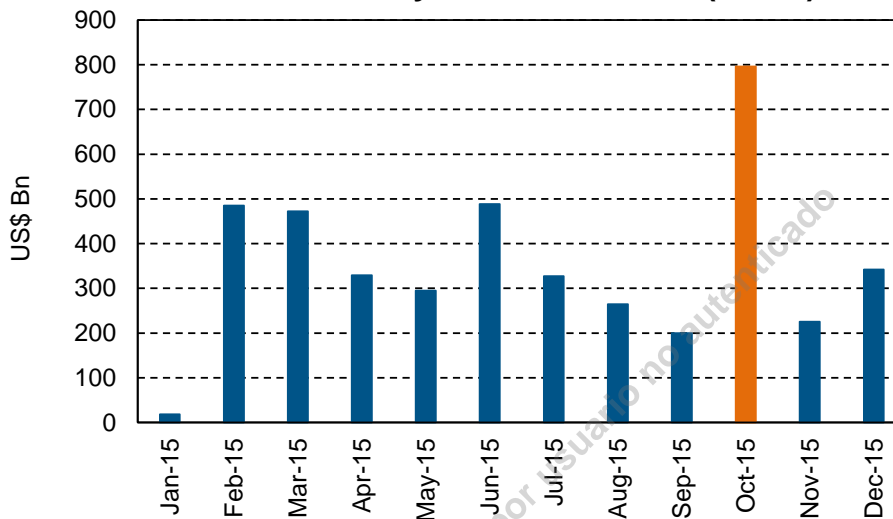
Amount disbursed (US\$ MM)		
Sector	2015	y/y
Food	1.251	29,5%
Health	2.209	52,0%
Automotive	2	0,1%
Trade	56	1,3%
Machinery and equipment	19	0,5%
Chemistry	525	12,4%
Telecommunications	2	0,1%
Metallurgy	3	0,1%
Rubber and Plastic	44	1,0%
Electr. domestic appliances	24	0,6%
Services	9	0,2%
Electric-related	1	0,0%
Electronics	0	0,0%
Non-metallic Minerals	7	0,2%
Textile	1	0,0%
Paper - Cardboard - Wood	39	0,9%
Graphics	6	0,1%
Books and School Supplies	6	0,1%
Science and Technology	4	0,1%
Communication - Press	17	0,4%
Veterinary	16	0,4%
Total	4.243	100,0%

Source: CENCOEX and Ecoanalítica

Going into greater detail, the monthly average of ALDs came to US\$353.6 million. Only four months out of the 12 were above the average and only in October did the amount disbursed exceed US\$500 million. This peak was due to the fact that the government tried to make savings in ALDs during the first months of the year in order to then increase the flow in the run-up to the parliamentary elections. This tactic was not successful, however, and the government met with a resounding defeat.

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Monthly Disbursements (ALDs)



Source: Cencorex y Ecoanalítica

Similarly, it is alarming to see how in November and December the ALDs were below the average for the year. In other words, the first quarter of 2016 will be one of greater shortages and longer queues of shoppers for however long it takes for the private sector to get the finished products on the shelves after receiving the foreign currency. Moreover, if disbursements in January this year are similar to those in 2015 –when only US\$18.2 million were disbursed– living conditions will be very much affected, something people will not notice in January 2016 but between March and April.

These indicators simply confirm the shortage of foreign currency the market experienced last year; a shortage that was reflected on supermarket shelves and in the long lines people continue to stand in in order to buy products.

Contrasting with Ecoanalítica's indicators

According to **Ecoanalítica's** estimates, in 2015 approximately US\$10,060 million were settled through Cencorex, an important discrepancy from the unofficial figures. That gap lies in the fact that our estimates make no distinction between ordinary imports and other concepts (special cases, students, pensions and retirees, credit cards, among others) that are taken into account by Cencorex. Additionally, our estimates include past approvals that were not settled in the same year as they were ordered, that is to say, Government's non-financial commercial debt with the private

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sector. At **Ecoanalítica** we estimate that by the end of 2015 the Government's debt with the private sector was of US\$30,959 million, a year-to-year increase of 32.1%.

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

	2014	3Q2015	2015	y/y (%)	q/q (%)
CADIVI -Non-settled imports	8.42	9.77	10.99	44.5%	12.5%
CADIVI -Dividends approved and unpaid	4.21	4.02	4.02	-2.4%	-0.1%
CADIVI -Rent and Services*	5.97	6.31	8.62	18.2%	36.5%
Mixed Companies - PDVSA partners	4.85	6.20	7.34	26.7%	18.5%
Total	23.44	26.29	30.96	24.5%	17.8%

Source: Ecoanalítica

* Includes debt with airlines.

When comparing foreign exchange disbursements with registered imports until the third quarter of 2015 (3Q2015) in the balance of payments, we find a difference that is explained by two main reasons. In first place, the registry in the accounts of goods and services are accounted against incoming merchandise from all harbors and not by the accounts of the Ministry of Finance. In second place, this discrepancy shows there's an important part of imports that was made with an exchange rate different from Cencoex.

Under this contrast, at **Ecoanalítica** we consider that the indicator of foreign exchange disbursements can be used by our clients as a way of monitoring foreign currency flow to the private sector through official mechanisms, thus, as an input for strategic planning.

The model's vulnerabilities exposed

As a result of the exchange controls, incentives for an importing economy were exceptional. Over these past few years, we have seen a controlling government allocating foreign currency on its terms and in accordance with its needs; in other words, the exchange controls not only allowed it to limit the use of foreign currency, but it also gave the State the powers to decide what the priorities of the private sector would be based on the benefits generated in the sphere of the political.

Chavismo's model has been marked by an increase in the size of the State, which was only sustainable as long as oil prices were high. This circumstance allowed them to cover up the fiscal distortions that had been carried over from previous years and became steadily worse with an unprecedented foreign exchange spread.

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However, with the onset of a cycle of low oil prices, the distortions have become magnified and the results disastrous.

The unofficial figures expose the failure of *Chavismo's* economic model and ideological attachment has not permitted it to take the corrective measures that would make it possible to change direction in order to boost the economy that they themselves have built. We have reached a point where any individual measures will not have the desired effect and where the more time that passes, the longer it will take us to get out of this situation.

Carlos Miguel Álvarez

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week January	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.1	1.1	0.7
	1st Week February	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	1.1	0.3	0.9
	1st Week February	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	15.37	-0.6	-28.5
	4th Week January	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	32.3	-29.2	60.7
	4th Week January	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	4,171	2.8	103.9
Price of International Oil Baskets (US\$/b)			
	1st Week February	Weekly var. (%)	Annual var. (%)
WTI	31.8	-0.3	-36.1
Brent	34.5	6.8	-37.6
Price of the Venezuelan oil basket (US\$/b)			
	1st Week February	Weekly var. (%)	Annual var. (%)
Weekly Average	25.3	4.6	-43.4
Annual Average	24.7	0.6	-41.2

Source: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

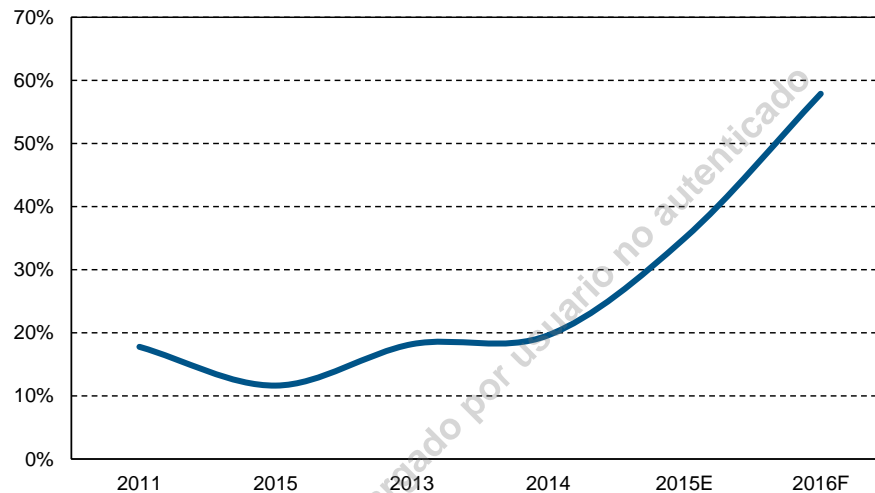
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CHART OF THE WEEK: “EXTERNAL DEBT: A HEAVY WEIGHT FOR VENEZUELA”

Debt Service as % of Oil Exports



Source: BCV and Ecoanalítica

The outlook for 2016 is far from favorable. At **Ecoanalítica** we forecast that oil prices will continue to fall and reach levels close to US\$30.0/bl. by year-end, and that this trend will then be corrected slightly as oversupply shrinks as a result of the closing down of less profitable fields.

If we only take into account that imports for this year are estimated at US\$28.9 billion and that US\$10.6 billion has to be paid out in servicing the debt, we can see that oil revenues will fall short in 2016. For that reason, proposing structural changes in PDVSA is a matter of urgency, and to do that, a reform of the economic policies that have been implemented for more than a decade is necessary.

It is also important to point out that at **Ecoanalítica** we estimate the total debt service payment (including China) to be US\$14.0 billion. This represents 57.9% of our oil exports, in other words, if the total estimated debt for this year is paid, only 42.1% of export revenues would be left for current expenditure.

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ECONOMIC TIPS

The days of bonanza are a thing of the past. The Economist published a report in which it states that the drop in oil prices has exposed the government's bad management of funds. It claims that the bonanza that permitted indiscriminate subsidies, price and exchange controls, social programs, expropriations, and corruption is a thing of the past.

Scraping the barrel. According to Reuters, the Central Bank of Venezuela is negotiating monetary gold swap operations with the German investment bank Deutsche Bank in a bid to raise the country's liquidity and at the same time in order to be able to honor external commitments, which at **Ecoanalítica** we estimate amounts to US\$10.06 billion this year. The country's gold represents 64.0% of the international reserves on average.

OIL TIPS

More of the same. Minister for Oil and Mining Eulogio Del Pino commented that seven countries, including Russia and Iran, support holding an emergency meeting of oil producing countries. Venezuela has been pressuring for a meeting of the member countries of the Organization of Petroleum Exporting Countries (OPEC) and non-members in order to shore up oil prices.

Joining forces with Qatar to seek solutions. Del Pino also explained that he had held a productive meeting with Qatar's Minister of Energy Mohammed Bin Saleh Al-Sada at which visions and short- and long-term expectations were exchanged; however, both ministers refused to give more details of their discussions.

Cash flow problems. Petróleos de Venezuela S.A. (PDVSA) called on its affiliate Citgo Petroleum to undertake the purchase of refined products that Venezuela imports on a regular basis. Cash flow problems have caused conflicts over payment between PDVSA and its suppliers, which are refusing to unload shipments before they receive payment.

Light at the end of the tunnel. The president and chief executive officer of the Federal Reserve Bank of Dallas (Dallas FED), Robert Kaplan, said that he does

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not forecast equilibrium between oil supply and demand before early 2017 and estimates that crude prices will be higher in a couple of years.

It still has not bottomed out. The price of oil closed down in the international market. The barrel of West Texas Intermediate (WTI) closed at US\$31.7/bl. and Brent at US\$34.5/bl. Moreover, US crude reserves are at their highest in decades and possible negotiations between Russia and OPEC to bring down production have maintained prices only intermittently.

A small breathing space. The price of the Venezuelan oil basket was US\$25.3/bl. Expectations with regard to talks among major producers with a view to bringing down global supply and the weakening of the dollar against other currencies buoyed up that increase.

BUSINESS SECTOR TIPS

Without power now. The Venezuelan Chamber of Malls and Merchandisers (Cavececo), announced the new electric service rules and regulations that came into effect on February 10th in which power outages are established Monday through Friday from 1:00pm to 3:00pm and from 5:00pm to 7:00pm. Meanwhile, the minister of Electricity, Luis Motta Domínguez, reassured that these measures will be operative just for three months.

There are other ways. The executive director of Cavececo, Claudia Itriago, informed that the Chamber submitted a proposal to adapt the electricity consumption restriction in a way that could reduce consumption in up to five hours of a continuous schedule, but have not gotten an answer. Itriago reported that, when not being electrically self-sufficient, all sectors in malls, such as Saime and Seniat offices, supermarkets and banks would be limited.

It is all El Niño's fault. The minister of Electricity, Luis Motta Domínguez, established that the Guri Dam stands 8 meters below its ideal level because of a strong drought that has been affecting the country and this compels us to save energy. He also stated that as we are not able to control the weather, we should adapt our energy consumption habits to the situation.

Efficiency needed. The Venezuelan Association of Exporters (Avex) requested the creation of a virtual box office for document processing services. Ramón Goyo,

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president of Avex, explained that this way, costs for businesses will decrease and requirement delivery would be much faster. It would also reduce significantly operational costs for exports and imports.

Looking for financing. The president of the Venezuelan National Federation of Cattle Breeders (Fedenaga), Carlos Albornoz, established that the President must cross the necessary roads looking for financing from multilateral institutions that allow leveraging of the country's production and give a jump-start to the productive economy Venezuela needs. He also believes this sector's problems need immediate actions to solve the alimentary issues.

Half a loaf is better than no bread... Juan Crespo, the president of the National Federation of Flour Workers (Fetraharina), has warned that there is only enough flour until the end of February and that the sector is operating at 60.0%. He also insisted that the government should speed up the procedures for importing wheat because this stagnation in the sector is affecting the wage benefits of 80,000 employees.

...But the same can't be said about medicines. The president of Pharmaceutical Federation of Venezuela (Fefarven), Freddy Ceballos, reported that the shortage of medicines is at 80.0%. Moreover, the president of the Venezuelan Association of Friends of Transplant Patients (AATV) recalled the negative impact that intermittent treatment has on patients with chronic pathologies.

Necessity is an irresistible force. Given the serious shortages of medicines, Venezuelans are asking local pharmacies to import them. The persons who are interested in this mechanism should submit a current medical report, prescriptions, and the patient's personal data and indicate the amount to be paid in foreign currency. Shipment from the United States is free of charge under an agreement between the pharmacies and the government.

The crisis is everywhere. Minister for Electric Power Luis Motta said that large energy consumers are going to have to install power plants to generate their own energy as the water levels in the reservoirs that supply the hydroelectric power stations are very low due to the phenomenon of El Niño. Commencing February 10, shopping malls will be required to generate their own electricity four hours a day Monday through Friday.

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Recreation costs more by the day. The president of the Venezuelan Association of Tourism Wholesalers and Representatives said that the hotel occupancy rate in seaside destinations is 65.0% and that a package of three nights in a hotel on Margarita Island, including three meals and nonalcoholic beverages, costs approximately 10.7 minimum wages.

You insult me; I treat you with respect. Lorenzo Mendoza, the president of Empresas Polar, said that he would respond to President Nicolás Maduro's insults in a respectful manner, despite the fact that the President had accused him of being a thief. With regard to Maduro's demand that he hand over Polar's companies, Mendoza said that things are the other way round, that his company produces 100% of the raw materials available and added: *"The plants that are not producing are those that are in the hands of the State. Make them available to the private sector."*

WORLD ECONOMY TIPS

The electoral panorama is changing. After Hillary Clinton and Ted Cruz won the primary elections in the state of Iowa, Donald Trump won primaries of the Republican Party in New Hampshire, meanwhile Bernie Sanders prevailed over Hillary Clinton in the democratic votes. Trump ended up first with 34.0% of republican votes while Sanders won with over 60.0% of the democratic side.

No cuts...for now. The monetary policy committee of the Federal Reserve System (FED) doesn't expect to cut interest rates anytime soon, as stated by the president of the FED, Janet Yellen, who hopes the agents holding back inflation are transitory. She also specified she is not hoping the Federal Open Market Committee (FOMC) will soon be in a situation where cuts in the interest rates are needed.

It's still on the right path. With the increase in wages and an unemployment rate at an eight-year low, it looks as though the recovery of the labor market in the United States is on firm ground. Nonfarm payrolls went up by 151,000 last month and the unemployment rate was 4.9%, its lowest level since February 2008, according to the US Bureau of Labor Statistics.

Brexit becomes a possibility. The campaign in favor of the United Kingdom withdrawing from the European Union has gained a nine-point lead over the campaign in favor of staying, according to an opinion poll conducted after Prime

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Minister David Cameron presented his proposal for keeping the UK in the bloc. The poll, published by The Times, explains that this is the biggest lead since the design of the referendum was agreed.

Conflicting opinions. According to the chief executive officer of the euro zone's bailout fund, Klaus Regling, any decision by Great Britain to abandon the European Union would harm the pound but would not have an impact on the euro. The European Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici, stated that the European Union had not included the possible effects of a "no" victory in the United Kingdom in its latest economic forecasts because it was not a scenario they had in mind.

Invisible hands? Defending the position of maintaining the fight against low inflation despite forces that are slowing down the increases in prices, the president of the European Central Bank (ECB), Mario Draghi, stated: "*There are forces in the global economy today that are conspiring to hold inflation down. That will not always be so. Those forces might cause inflation to return more slowly to our objective.*"

It's a chain effect. Growth in the euro zone and in the European Union will be slightly less this year than previously forecast, according to the European Commission, which warned that the slowing down of the economy in China and in other emerging markets could further drag down the economy. Expectations are for the economy of the 19 members of the euro zone to grow by 1.7% this year, a tenth more than in 2015.

The slowdown's arrived. Growth in trade between developing economies moved at a snail's pace last year, making this the most recent setback for the emerging markets. International Trade Statistics 2015, a report published by the World Trade Organization (WTO), shows that the exports of emerging economies to other emerging economies grew by 0.7% in 2014, the most moderate rate since the global financial crisis.

POLITICAL TIPS

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No one's going to get me out. President Nicolás Maduro maintained that “*nothing and no one*” will remove him from power, in response to the petitions for his resignation made by the opposition in the last few days. According to President Maduro, the president of the National Assembly, Henry Ramos Allup “*believes he's going to get the presidency of the Republic; he dreams he's come to govern Venezuela.*”

Where are Amazonas' deputies? Luis Emilio Rondón, a director of the National Electoral Council (CNE), stated that it was unjustifiable that, nearly a month after the National Assembly had been inducted, Amazonas did not have any representatives and that it was still waiting for a decision from the Electoral Chamber of the Supreme Tribunal of Justice. In Rondón's opinion, the Supreme Tribunal should restore the representation of the people of Amazonas state as soon as possible.

They should resign. The chairman of the Finance Committee, Alfonso Marquina, who has questioned the government's irresponsible management of the country's international reserves, maintained that the amendment that President Nicolás Maduro made to the Central Bank of Venezuela Act is unconstitutional because it suppresses the bank's autonomy. Opposition deputies stated that “*if the directors of the Central Bank had any shame, they should resign.*” The National Assembly is expected to amend the present Central Bank of Venezuela Act.

Division is the main problem. Oliver Blanco, the National Assembly's director of Strategic Communications and Institutional Relations, considers that political division is the main cause of all the problems Venezuela is experiencing. “*We reached this crisis thanks to a government that is totally unwilling to be accountable, speak, dialog, consider points of view that are different to theirs,*” explained Blanco.

LEGISLATIVE TIPS

Promoting profound changes. The president of the National Assembly, Henry Ramos Allup, expressed his support for the idea of an amendment to the Constitution that would reduce the presidential term and eliminate indefinite reelection. “*It's necessary to find the simplest, most efficient and safest and the least costly mechanism for putting an end to the present administration,*” said Ramos.

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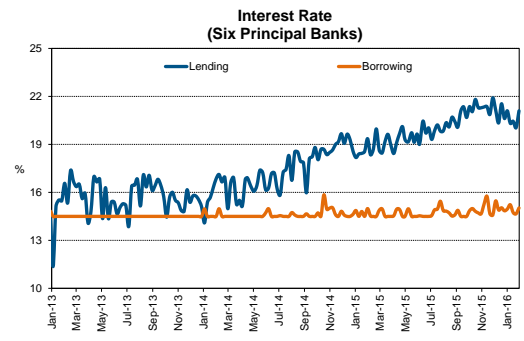
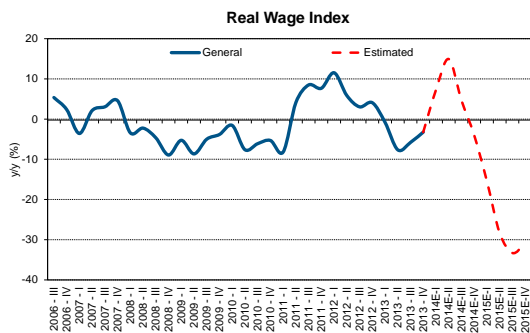
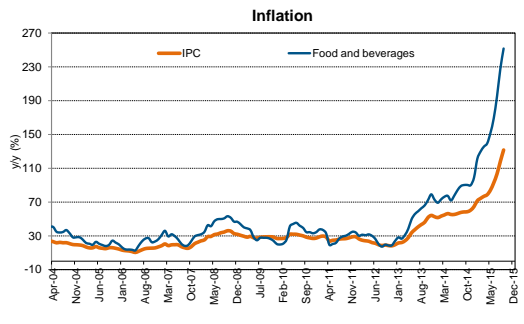
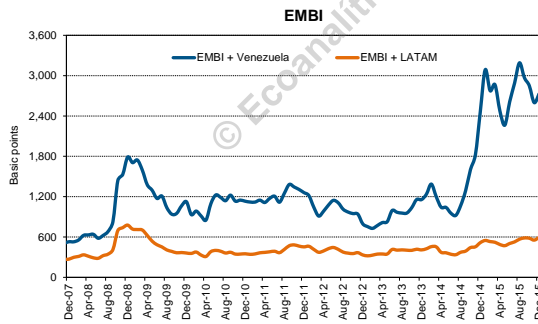
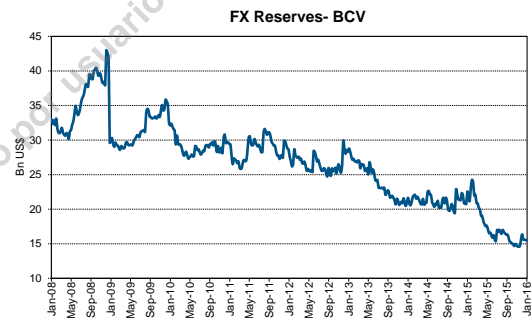
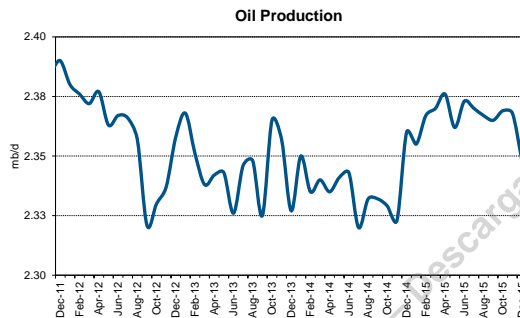
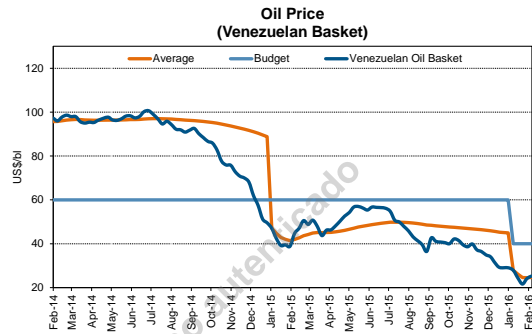
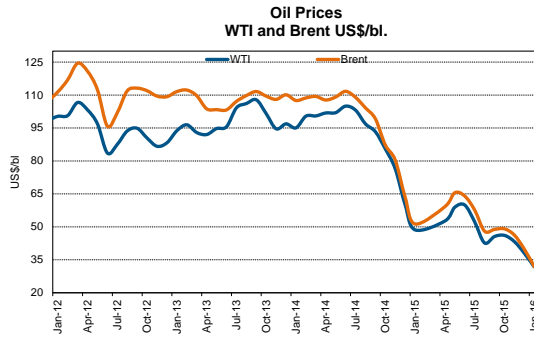
APPROVED! Following its first debate in the National Assembly, the Amnesty Bill was passed and subsequently sent to the Permanent Homeland Policy Commission for its discussion in all sectors. Deputy Delsa Solórzano defended the bill: *“Today, we Venezuelans of good faith yearn for justice, peace, reconciliation, and amnesty for our political prisoners and those who are persecuted and who have gone into exile for political reasons.”*

Measure rejected. The National Assembly’s Finance Committee rejected Seniat’s request to set the new tax unit at VEF 177.0. Deputy Aflonso Marquina, the chairman of this parliamentary committee, proposed returning the petition to the tax agency due to the fact that it was *“not in line with what is established in the rules for calculating the tax unit based on how inflation closed the preceding year.”*

Submitting new proposals. Deputy Julio Borges announced that the National Assembly is to debate the National Production Bill, which seeks to create incentives and conditions for investing in the Venezuelan economy. *“What the government should want is to have a lot of companies producing food so that the country doesn’t have to put up with standing in line,”* stressed Borges.

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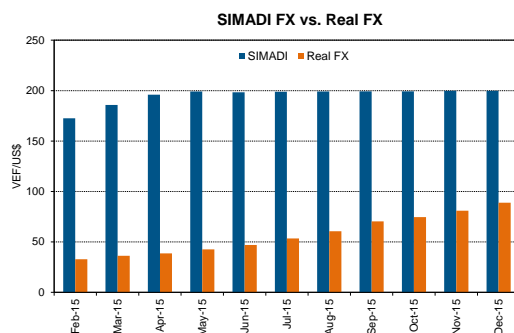
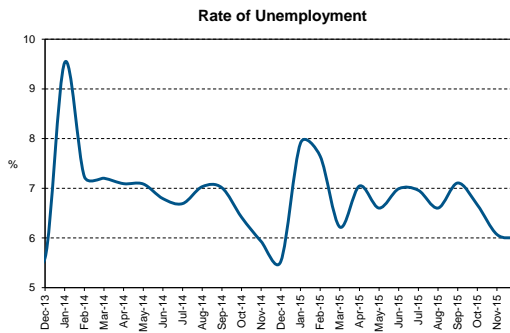
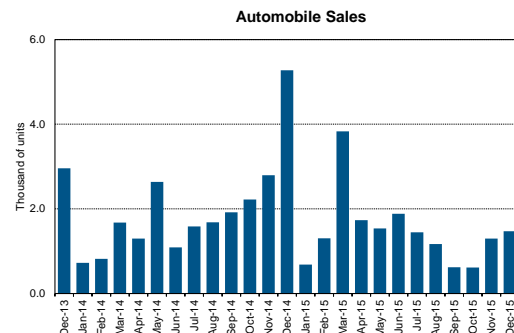
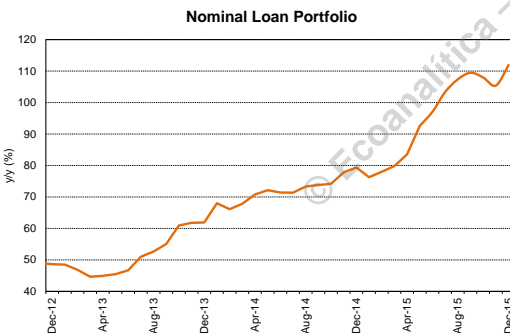
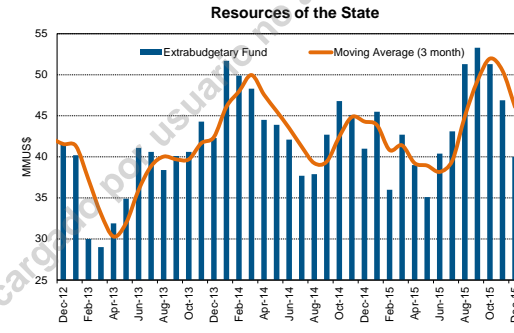
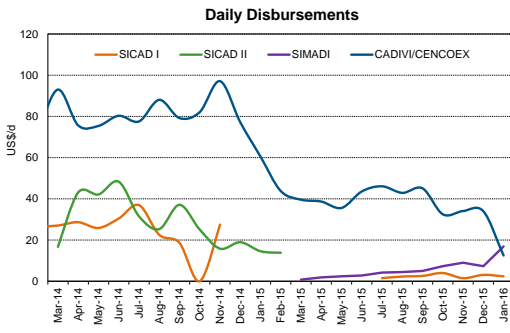
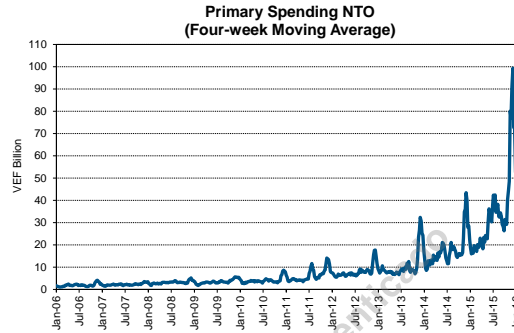
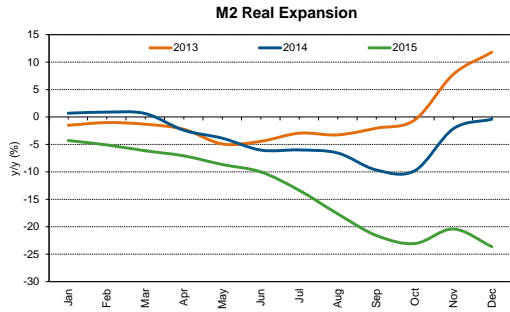
ECONOMIC OVERVIEW



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