



Weekly Report

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Is SICAD II here to stay?

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After waiting for nearly six months and after the implementation of ineffective and, therefore, far from credible measures, the swap market, a mechanism everyone was calling for, has finally happened. The new market niche started to function with a high, fluctuating rate close to the parallel market rate, which indicates that the government is seeking to correct demand and encourage supply from private actors and, at the same time to take some of the burden of PDVSA's and the Central Bank's (BCV) shoulders; the former forced to sell dollars at an artificially low rate and the latter to finance the bolivars that the oil company does not receive as a result

In principle, there are no major obstacles to either private individuals or companies gaining access to the new Complementary System of Foreign Currency Administration SICAD II, which means that it is highly likely that the laws of supply and demand will decide who obtains foreign currency and who does not, making discretionary measures that generated big



opportunities for arbitrage, given the restrictions on access and lower exchange rates, a thing of the past.

Playing with expectations, disguising the devaluation

The government has skillfully avoided the main obstacle that prevented the implementation of a measure of this type: its high political cost. After years of criticizing exchange rate adjustments, the Executive has managed to get people to view SICAD II not as a devaluation of the official exchange rate by previously separating the items that would continue to receive foreign currency at the VEB 6.3/US\$ exchange rate through the National Foreign Trade Center (Cencoex), and by using the existence of the parallel exchange rate, about which it was forbidden to speak until just recently, to boast about one of the new adjustment's big achievements: a considerable drop in the black exchange rate.

After only four days following the opening of SICAD II, and three following its announcement, thanks to a change in expectations, this system has managed to achieve an appreciation of the parallel market exchange rate of 23.5%, which went from VEB 88.2/US\$ on February 27 to VEB 67.5/US\$ on March 27. At **Ecoanalítica** we are of the view that, if the government wants to maintain the credibility it has won by announcing the implementation of SICAD II and maintain expectations of appreciation, it has to ensure a steady supply of dollars, besides implementing complementary measures that will help to moderate demand, aspects that we will touch on in this report.

The oil sector's got the muscle!

In Venezuela, the supply of foreign currency is determined by the performance of the oil sector, given that this sector generates 96.0% of foreign currency from exports. This means that, in order to know whether the government has sufficient foreign currency to offer in the new foreign exchange market, without this increasing the risk of defaulting on its foreign commitments, we need to take a look at the oil industry's cash flow.

At **Ecoanalítica** we estimate that oil exports will come to US\$84.35 billion this year, US\$62.53 billion of which will be reflected in PDVSA's cash flow (once the weight of energy agreements and oil imports have been deducted). Of the total sum of dollars received by PDVSA this year, US\$24.73 billion will be used to cover expenditures in foreign currency for servicing the debt and for investment plans.

We expect PDVSA to have a total of US\$43.59 billion to offer in the foreign exchange market in 2014, and while this is 12.8% less than in 2012, the



stock of extraordinary funds that the State has available (US\$12.60 billion at the close of December 2013) offsets that difference, bringing the total it is able to offer on the foreign exchange market to US\$55.40 billion, only 4.9% less than in 2012, the year with the largest ever volume of exports.

Funds Available for the Currency Market (US\$ billion)

	2012	2013	2014F
Exports Revenues	93.6	88.4	84.4
Oil Imports	-11.8	-6.5	-6.2
Agreements	-19.3	-18.6	-15.6
Chinese Fund	-11.3	-10.9	-8.3
Petrocaribe	-8.0	-7.7	-7.3
Net Revenues	62.4	63.3	62.5
Expenses	-17.5	-18.1	-24.7
Investment	-15.1	-13.7	-17.7
Debt Service	-2.4	-4.4	-7.0
Net Cash Flow for the period (PDVSA)	45.0	45.2	37.8
Availabilities Beginning of Year PDVSA	3.0	0.6	3.3
Availabilities Beginning of Year Chinese Fund	2.0	3.0	2.5
Available Funds Beginning of Year (PDVSA)	5.0	3.6	5.8
Available Funds:			
Availabilities Fonden	4.2	4.2	5.6
Chinese Fund	4.1	6.9	6.2
Total Available Funds	8.3	11.1	11.8
Available for the Currency Market	58.3	59.9	55.4

Sources: BCV, Pdvsa, MF and Ecoanalítica

In addition to the foreign currency supplied by PDVSA and the extra-budgetary funds, there is a small amount that can be provided by the private exporting sector, which is bound by law to sell 40.0% of its foreign currency revenues at SICAD II exchange rate, equivalent to US\$1.52 billion, according to our projections. At **Ecoanalítica** we expect exporters and other private actors to be prepared to sell foreign currency via the new mechanism and we are of the view that they will put off entering the market waiting for the dollar to strengthen or, at least, until the price in the market shows a clear trend.

PDVSA the big beneficiary

Since PDVSA is the big seller in the foreign exchange market and given that it is now able to sell at a higher exchange rate than VEB 6.3/US\$, it is to be expected that it will be precisely PDVSA that will obtain the quasi-fiscal impact of the new devaluation because it will receive, on average, more bolívares for every dollar sold. At **Ecoanalítica** we estimate that PDVSA will send 73.4% of its foreign currency to the Central Bank (some



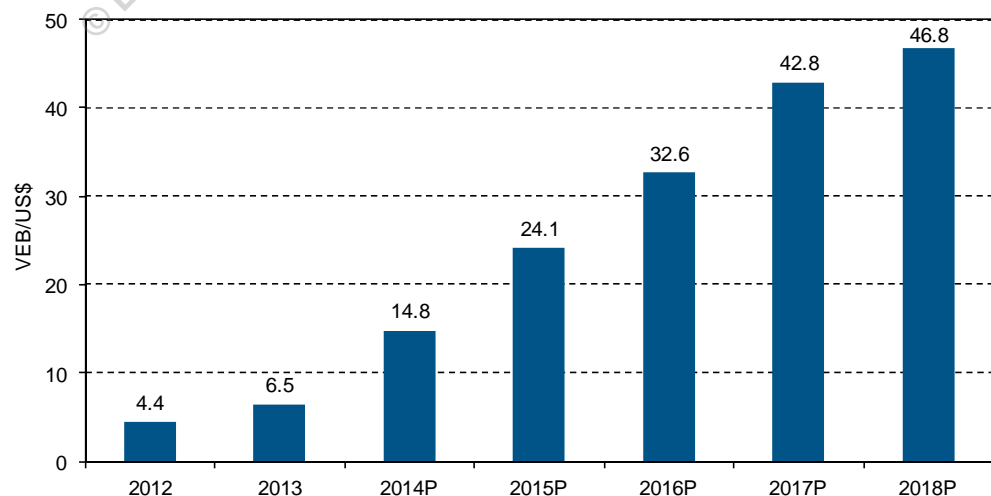
US\$32.0 billion) this year, which will be sold at a rate of VEB 6.3/US\$, whereas the remaining 26.6% (some US\$11.6 billion) will be offered via SICAD I and SICAD II.

PDVSA's Supply for the Exchange Market (US\$ billion)			
	2012	2013	2014
Transfers to the BCV	44.8	46.7	32.0
Debt service BCV	3.8	7.1	6.6
Cencoex/Cadivi	30.5	29.5	13.1
Public Imports	10.5	10.1	12.3
Complementary Mechanisms	5.2	2.1	11.6
Sitme	5.2	0.4	0.0
Sicad I	0.0	1.7	2.6
Sicad II	0.0	0.0	9.0
Available for the Exchange Market	50.0	48.8	43.6

Sources: BCV and Ecoanalítica

The foreign currency offered via the new complementary mechanisms SICAD I and II, which we forecast will maintain an average dollar price of VEB 15.0/US\$ and VEB 45.0/US\$, respectively, will push up the average exchange rate obtained by PDVSA (the rate at which the oil company will sell its dollars) from VEB 6.5/US\$ in 2013 to VEB 14.8/US\$ in 2014, which implies a reduction of 56.4% in the costs PDVSA will have to pay in local currency.

Exchange Rate for Oil Exports



Sources: BCV, Pdvsa y Ecoanalítica



But there are needs too...

At *Ecoanalítica* we expect that SICAD II will finance 14.4% of total imports and increase the weighted exchange rate for imports (from VEB 8.1/US\$ to VEB 14.9/US\$), which will have an even greater impact (138.4%) on the exchange rate for private sector imports (from VEB 9.9/US\$ to VEB 23.5/US\$). Given the implications of the devaluation, we expect private sector imports to contract by 16.2% whereas public sector imports (which will continue to be at the VEB 6.3/US\$ exchange rate) will grow by 4.5%. This will lead to a 10.2% reduction in total imports, which we expect to come to US\$54.50 billion (CIF).

The oil portion of public sector imports should be subtracted from total imports (US\$6.46 billion, which will be disbursed by PDVSA) and added to the US\$6.58 billion for servicing the Central Government's debt this year, US\$9.50 billion for imported services, and US\$14.50 billion for outflows of private capital, which will take the (not oil) economy's foreign currency requirements to US\$78.90 billion.

It should be noted that factors such as high liquidity in the economy and credit facilities offered by banks, as well as negative interest rates, could well exacerbate the demand for dollars for coverage, particularly in a situation of high inflation such as the present one.

Venezuela's Foreign Exchange Requirements (US\$ billion)

	2012	2013	2014F
Non-Oil Imports	53.6	54.2	48.3
Services Imports	16.0	11.4	9.5
Debt Service (Central Government)	3.8	7.1	6.6
Capital Outflows	8.8	13.2	14.5
Total	82.1	85.9	78.9

Sources: BCV and Ecoanalítica

One variable that could complicate the equation is the non-financial debt that the public sector has with the private sector, estimated at US\$56.22 billion at the close of 2013, which includes the US\$17.27 billion that CADIVI owes the private sector (foreign currency for goods and services imports and dividends that has not been disbursed), US\$10.53 billion for dividends not approved by CADIVI, US\$14.22 billion for expropriations, and US\$14.2 billion owed to oil companies (foreign suppliers and joint venture partners). While the debt is considerable, the opening of SICAD II



offers the possibility of it being easily settled since, when it is calculated at an average exchange rate of VEB 45.0/US\$, it comes to only US\$7.87 billion.

So, is it sustainable?

While the thirst for foreign currency is still huge, it can be expected that, if intervention in SICAD II is kept to a minimum, the devaluation in this mechanism –along with a devaluation in the Cencoex rate- will lead to a correction in the demand for foreign currency for goods and services imports in 2015 as well, slightly increasing the positive balance on the current account and dispelling doubts as to whether there will be sufficient dollars next year.

Another important aspect for correcting demand in the foreign exchange market and curbing upward pressures on the floating exchange rates (SICAD II and the M2/International Reserves ratio) will be controlling liquidity. At *Ecoanalítica* we estimate that PDVSA could offer US\$11.6 billion via SICAD II and I at a weighted exchange rate of around VEB 38.3/US\$ and receive VEB 444.28 billion, which would allow it to cover 115.7% of its liquidity requirements this year.

PDVSA's participation in SICAD II would allow it to considerably reduce its monetary financing requirements. As a result, we estimate that the monetary base should grow by only 5.0% this year (in 2013 it expanded by 65.8%) and, therefore, we have corrected our estimate for expansion in liquidity from 82.6% to 46.4%, which, while it is positive from the point of view of reducing monetary-driven inflationary pressures, is not sufficient to contain pressures on the exchange rate.

At *Ecoanalítica* we do not discard the implementation of additional measures by the monetary authorities, some possibilities being an increase in the legal reserve from 20.5% to 23.0% -which would have a one-off effect of reducing liquidity by 6.0%-; putting up the borrowing rate from 15.0% to 17.5%; and, while less likely, an increase of 3.0 percentage points (pp) in the ceiling on charges for credit operations.

Given the limitations that the Central Bank will have this year for building up reserves, controlling liquidity will be essential for keeping the M2/International Reserves ratio stable, which we expect to become a major marker for the SICAD II ceiling and this, in turn, could reduce the need for the Central Bank to intervene in the new market, resulting in a significant foreign currency saving.



Economic Tips

Unemployment rate at 7.2%. According to numbers released by the National Statistics Institute (INE) unemployment rate decreased 0.4 percentage points (pp) in February, compared to the same period in 2013, when unemployment rate closed at 7.6%. This means that in the second month of the year, 1,014,576 people didn't have a job.

Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 1.1 pp compared to February 2013, to settle at 35.2%. Within this, men inactivity decreased 1.2 pp, and stood at 20.9%. By the other hand, women inactivity decreased 1.0 pp compared to the same period in 2013, and stood at 49.3%.

Informality rate at 39.0%. According to INE's figures, at end-February, 5,074,262 people were employed at the informal sector (39.0% of working population), decreasing 1.9 pp compared to the same period in 2013. For its part, formal sector employed 61.0% of working population; increasing 1.9 pp compared to same period last year.

SICAD II makes its debut. SICAD II has already started to operate, which, according to Vice President for the Economy Rafael Ramírez, will mean *"a significant supply of dollars for performing transactions."* Ramírez took advantage of the startup of this new system for handing over foreign currency to also give assurances that it is *"a blind system. No one intervenes. It's going to meet demand with supply and we will progressively have a much more balanced, rational system, and we'll be giving signals to our economy in the sense that there is absolutely no need nor is it desirable to resort to the parallel market."*

SICAD II opens with VEB 51.86/US\$. The Central Bank reported that the average exchange rate on SICAD II's first day of operations was VEB 51.86/US\$. This new system, which will allocate foreign currency on a daily basis, will publish the exchange rates for each auction after bidding has closed. It is worth remembering that what Minister Rafael Ramírez has dubbed the *"prioritized sectors"* will not take part in SICAD II, since they will be able to obtain foreign currency at the VEB 6.3/US\$ exchange rate. According to information gathered by **Ecoanalítica** on the first day of SICAD II operations, the amount traded was US\$4.3 million and it is hoped that, in time, the amount on offer will increase to a maximum of US\$30 million a day.



Commissions of up to 0.25% for SICAD II: In a circular, the Central Bank announced that financial institutions will be able to charge their customers and/or users for foreign currency buy and sell operations in SICAD II *“only up to 0.25% of the amount of each operation in bolivars as a commission, charge and/or surcharge.”* The Central Bank also issued a reminder that *“commissions, charges and/or surcharges generated for debiting and/or crediting the respective correspondent or custody accounts shall be paid in accordance with international standards.”*

Drips and drabs: Vice President for the Economy Rafael Ramírez offered companies in priority sectors for the Venezuelan economy, such as the pharmaceutical and personal care sectors, payment of 30.0% of what they are owed within a period of two to four weeks. This payment would be at the VEB 6.3/US\$ exchange rate. This proposal would be a first step towards what representatives of the private sector have described as something *“vital for resuming imports.”*

The danger has not passed. Our director, Dr. Pedro Palma, claimed that the imminent implementation of SICAD II does not remove the latent risk of a huge inflationary wave in 2014, as the likelihood of such a phenomenon occurring are still considerable, although he stressed that it is too early to say. Dr. Palma also commented that SICAD II is a step towards putting the foreign exchange situation on a realistic footing, although he warned, *“There is a crisis, and it’s very profound. It’s existed for years and started when the great boom ended,”* which is why, *“after dismantling this foreign exchange absurdity, we must move towards a free scheme.”*

Defining the future: The government has 56 resolutions in its hands that it plans to implement shortly to define the future of the country’s economy. These resolutions are the result of discussions by six working groups for different sectors of the economy in which the government and representatives of the private sector in areas such as food and agriculture, industry and commerce, health, construction and infrastructure, security, and science and technology took part.

US\$218 million granted via SICAD I: At the last SICAD I auction, Cencorex awarded US\$218 million, with domestic airlines receiving a total of US\$84.5 million, shipping companies a total of US\$33.8 million, and companies in the chemicals sector a total of US\$100.6 million. The exchange rate at which this foreign currency will be disbursed is VEB 10.8/US\$.

Interest rates. The lending rate for the second week of March was at 16.9%, up by 0.3 percentage points (pp) compared to the previous week. Meanwhile, the time deposits rate and the passive rate stood at 14.5% and 14.9% respectively, which were stable in comparison to the previous week.



International reserves. International reserves decreased by 2.5%, going from US\$21.74 billion during the second week of March to US\$21.20 billion during the third week of March. Compared to the same period last year, international reserves have decreased by 21.7%.

Central government expenditure. On Friday March 21th according to figures from the NTO primary spending was VEB 8.46 billion, which means an increase of 8.8%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 141.21 billion 42.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 0.9% in the second week of March from the week prior, to settle at VEB 1.30 trillion. The M2 has increased 75.0% in relation with the same period last year.

Oil Tips

PDVSA fails to honor its commitment. According to the Brazilian daily *O Estado de Sao Paulo*, Petrobras has given up on collecting a millionaire debt owed it by the Venezuelan oil company PDVSA in connection with the joint project to build the Abreu e Lima Refinery. The then presidents of Brazil, Luiz Ignacio Lula da Silva, and Venezuela, Hugo Chávez, agreed to build the refinery in 2005 at an initial estimated cost of US\$2.5 billion, 60.0% of which was to be financed by Brazil and the remainder by Venezuela. However, Petrobras has been trying to collect the money PDVSA owes it since the contract was signed, without success, and as at October last year, the amount invested in the refinery already came to US\$18 billion.

The cracks are still visible. The oil sector service provider Weatherford International Ltd informed that it was cutting back its operations in Venezuela owing to the “*serious liquidity situation*.” The company’s executive president, Bernard Duroc-Danner, explained that the present situation in Venezuela is causing it to pare back the services they are offering in the country. He also added that they expect their operations in Russia to grow this year.

There isn’t an irregular situation. The state-owned oil company PDVSA gave assurances that fuel inventory levels are “normal” in Zulia state, where long queues have been reported at service stations. PDVSA Occidente’s executive director,



Kamal El Chiriti, stated in a press release that “*there’s no need for there to be queues at the service stations in Maracaibo.*” Furthermore, Ricardo Coronado, an internal director of PDVSA, stressed that the vessel Clariti arrived in Maracaibo with approximately 300,000 barrels of gasoline (92,000 barrels of 91 octane, 98,000 barrels of 95 octane, and 97,000 barrels of diesel) as part of the regular fuel deliveries.

Repairs started on flexicoker unit: Last week repair work was started on the flexicoker unit at Amuay Refinery to solve critical problems in some of its internal stages. The flexicoker, which processes 64,000 barrels a day (b/d) of derivatives, has been down since January owing to problems with its air compressor. Iván Freites, the executive secretary of the Unitary Federation of Venezuelan Oil Workers (FUTPV), said that the unit will be undergoing repairs of focal points, such as the reactor, gasifier, heater, compressor, and the fractionation plant, for a period of approximately 60 days.

Alaska has still not recovered. It was on March 24 25 years ago that an Exxon Mobil tanker hit a reef and more than 11 million gallons of crude were spilled into the cold clear waters of Alaska. Despite the time that has passed, the consequences of the spill are still being felt. Thousands of gallons of petroleum continue to pollute the beaches and the petroleum continues to be toxic and to harm the ecosystem near the shore. According to the specialist Rick Steiner, less than 7.0% of the crude has been recovered despite the US\$2 billion spent by ExxonMobil to clean up the affected area.

Historic investments: The director general of the Mexican oil company Pemex, Emilio Lozoya, said that, thanks to the historic investments that they are to make this year, they expect to achieve production of 4 mb/d in 2025. Pemex closed 2013 with average production of 2.52 mb/d, which is way below the highest average it has achieved in recent years (3.4 mb/d in 2004). The investments the Mexican oil company plans to make come to a total of US\$27 billion, 85.0% of which will be for exploration and production.

International oil baskets. At closing time on March 21th in the New York Stock Exchange, the price of the WTI was US\$99.3/bl, decreasing by 1.4% when compared to the reported the previous week. The Brent decreased by 1.2% when compared to the previous week, to reach US\$106.7/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$95.7/bl on Friday March 14th, decreasing by 6.3% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.6/bl.



Business Sector Tips

All powerful: There is no doubt that the Venezuelan Government has taken on the role of main importer, as shown by the VEB 44.3 billion approved by the National Assembly (AN), VEB 18.72 billion of which was allocated to expanding the policy of imports for essential sectors. In addition, VEB 42.91 billion and US\$105 million were approved by President Nicolás Maduro to underpin *Misión Mercal* and *Mercal Obrero*, plus US\$4.31 billion, which, according to Food Minister Félix Osorio, is to be used to import more food from countries belonging to PetroCaribe and MERCOSUR.

New price increases in by the back door: More regulated products have joined the list of those whose retail prices have increased without the authorization of by the Central Government. Apparently this situation has come about as a result of agreements reached with the competent authorities, since these increases, which, in theory, should be classified as surcharges, have not given rise to inspections by the pertinent agencies. It should be noted that even nationalized companies such as Fama de América are taking these “unofficial” measures.

More incentives needed: The number of items considered strategic for the purpose of granting loans has been increased. In addition, the percentage of medium- and long-term loans will be doubled and the loan quotas will be redirected to different production-related areas. Commenting on these measures, the vice president of the Confederation of Agricultural and Livestock Producers Associations (Fedeaagro), Aquiles Hopkins, said that “*the loans portfolio alone is not going to have an impact on the sector if other measures are not taken to solve the difficulties that have restricted the entry of machinery into the country. We need 4,800 tractors a year.*”

“Total lack”: The executive director of the Venezuelan Clinics and Hospitals Association, Cristino García, announced that private clinics in Venezuela have reported the “*total lack*” of 109 inputs. García added that, to date, the debt that CADIVI has with the private clinics comes to US\$300 million, revealing how serious the situation is, bearing in mind that 86.0% of the inputs used in the sector are imported. He was optimistic regarding the situation, saying that they would not succeed in closing the doors of the emergency rooms in the private sector.

Easter Week without merchandise: The president of Fedecámaras Nueva Esparta, Jesús Irausquín, warned that Nueva Esparta is not in a position to supply enough products to cover the Easter Week demand. Irausquín claimed that the shortage of



goods on the shelves will cut the free port's attractions by half, which, according to him, account for more than 50% of the reasons why people choose this as their vacation destination.

The big stumbling block: The vice president of Fedecámaras, Francisco Martínez, claimed that absenteeism from work is around 30.0% and that it is the biggest problem companies have to contend with. He explained that *"if we had Labor Offices that would allow dismissals to be assessed objectively and permit that relief valve to show that there are employees who are not doing their jobs or being productive, it wouldn't affect us so much."*

Vegetable deliveries on hold: Around 20,000 vegetable and fruit growers in Táchira, Trujillo, and Mérida states have downed tools, which means that they will not be dispatching their produce to the rest of the country. This decision, taken initially in Táchira in response to attacks by criminals on horticultural farmers, has also been adopted by two more Andean states that are suffering from the same problem, a situation that has been compounded by the serious shortages of inputs for horticulture.

Yes there are, but there aren't. Domestic assemblers are steadily reducing their production and the government is stepping up its plans to import vehicles. This is clear from the webpage of the state-owned Suministros Venezolanos Industriales (Suvinca), where there is a list of vehicles that the company has available for private individuals who arrange to have one imported via this company. Suvinca is currently offering 59 models, including the makes Mercedes Benz, Audi, KIA, Mazda, Volkswagen, Peugeot, Renault, and Citroën.

Aluminum sector strike lifted: The strike was lifted following a meeting of CVG President Carlos Osorio, Industries Ex-Minister Wilmer Barrientos, and President Nicolás Maduro to discuss the requests by aluminum sector employees. Now that they have gone back to work, meetings will be held with the workers to explain the details of the new agreement reached with the government.

Stoppage at SIDOR continues. Despite the fact that Siderúrgica del Orinoco's (SIDOR) board of directors agreed to make a retroactive payment of six months of daily bonuses to the steel mill's shift workers, the leaders of the labor union Alianza Sindical and other labor groups decided to continue on strike.

More problems for Chacón: The Minister for Electric Power, Jesse Chacón, reported that there was an outage on the 230 kV Acarigua II-Barinas IV line, located between Barinas and Portuguesa states. According to the Venezuelan News Agency (AVN), the outage was caused by the *"burning of vegetation in areas in the vicinity of*



said transmission line,” which affected the supply of electricity in Portuguesa, Barinas, Trujillo, Mérida, and Táchira

World Economy Tips

The economy heats up. A drop in the price of new housing in the United States (US) in February to a five-month low was compensated by an increase in the consumer confidence index, which hit its highest level in the past six years. This points to a recovery in the economy, which had been slowing down after an extremely cold winter.

Manufacturing continues strong. According to the financial firm Markit, the preliminary Purchasing Managers Index for the US manufacturing sector showed a slowing down compared to February, going from 57.1 in February to 55.5 in March. The index indicates growth in manufacturing when it is above 50, which means that this slowing down reflects a drop in demand from abroad. Growth and hiring rates remained high, however.

The Fed casts of the mooring ropes. The US Federal Reserve's 'Federal Open Market Committee decided to eliminate the unemployment rate as a determining factor for setting interest rates. This means that it is no longer holding to its promise to continue to set interest rates until the unemployment rate drops below 6.5%. It was also agreed to continue tapering off the monthly purchases of Treasury bonds.

The risks are low. According to a study conducted by the San Francisco Fed, increases in the interest rates have only a 5.0% probability of causing greater losses for the Federal Reserve, despite the huge disbursements for acquiring Treasury bonds. This study is in response to growing concern that the Fed may face political pressure if its decapitalization or increases in interest rates reduce the millions of dollars that enter the Treasury every year.

Praise be to the Chinese. The director of the International Monetary Fund (IMF), Christine Lagarde, stressed China's role as a stabilizing factor in the world economy, acknowledging that it has achieved a third of total world growth in the past five years. She did point out, however, that they must introduce political reforms “to improve that role.” The reforms China needs to implement are the development of the services



sector, the deregulation of the banking sector, and the gradually opening up of the capital account to “strengthen the potential role of the yuan as a global currency.”

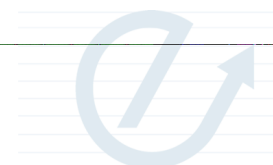
China falls back slightly. The Purchasing Managers Index (PMI) for China calculated by HSBC posted a contraction in March, coming in at 48.1, below the 48.5 posted in February. The PMI reflects the behavior of small companies mainly and indicates a slowing down in manufacturing activity when it falls below 50. China’s policy seeks to base its growth on increases in consumption and not so much on the growth of the manufacturing sector.

Russia is out of the G8. The United States, Japan, Canada, the United Kingdom, Germany, France, and Italy decided to expel Russia from the G8 as a reprisal for the position it has adopted with regard to the conflict in Ukraine. Russian Foreign Minister Sergei Lavrov gave scant importance to Russia’s exclusion from the group saying that “*the G8 is an informal group and, by definition, one cannot be expelled.*” He stated, moreover, that Russia will continue to take part in international forums such as the G20, “*where global issues that affect the entire world are discussed.*”

Slowly returning to private hands: UK Financial Investors Ltd, a part of the UK Treasury that administers the British Government’s stake in Lloyds Banking Group, announced the sale of 7.5% of the bank’s shares for £4.20 billion. As a result of this sale the UK Government’s stake in the bank went from 33.0% to 25.0%.

BID’s Forecasts. Luis Alberto Moreno, the president of the Inter-American Development Bank (IDB) highlighted the speed at which Latin America will change between now and 2025. According to the IDB’s calculations, the region will have growth of 3.7% over the next 13 years and Argentina, Chile, Mexico, and Uruguay will reach per capita Gross Development Product (GDP) of US\$23,000 a year. He also stressed that, in order to wipe out poverty in the region, growth needs to be 7.5% a year through to 2025, due to the high levels of inequality in the region.

PetroCaribe does not want to leave out the Mother Country. The president of PetroCaribe, Bernardo Álvarez Herrera, said that the countries of PetroCaribe are “*very interested in technology transfer*” with small and medium-size Spanish companies, basically those that are prepared to undertake projects for developing new fuels and new clean energy technologies.





Political Tips

A redder-than-red OAS: On March 6 and 21, voting was held at the Organization of American States (OAS) on whether the session on the Venezuelan crisis would be public or behind closed doors. The decision was that the meetings would be private, revealing the influence of agreements such as PetroCaribe in the American Continent, even though countries such as Colombia, Guatemala, Honduras, and Mexico voted in favor of an open session.

That mayor goes to jail. The mayor of San Diego (Valencia), Enzo Scarano, was given a prison sentence of 10 months 15 days by the Supreme Tribunal of Justice (TSJ) and suspended as mayor. The court's decision was based on Scarano's refusal to obey the order to combat the *guarimbas* (barricades put up by demonstrators) in his municipality. The jury claimed that a whole series of guarantees established in the Constitution were violated during the hearing of the mayor's case, as was the right to a fair trial, which was described by those who were present as an "express" trial.

San Diego without a mayor: The National Electoral Council (CNE) announced that a schedule for the next municipal elections is being discussed as are the legal timeframes for candidates to register in Carabobo state following the prison sentence given to the mayor of San Diego, Enzo Scarano, and his removal from office by the Supreme Tribunal of Justice on March 20. The governor of Carabobo, Pablo Domínguez, will be the acting mayor until elections are held.

1 year in jail. The TSJ ruled the mayor of San Cristobal, Daniel Ceballos, and a year in prison for "insulting" the injunctive relief dictated by Judgment N° 135. The ruling forced Ceballos to immediately remove the obstacles that had been placed on some roads of the town, where several points where protests against the government have greater intensity were.

No more immunity: The president of the NA, Diosdado Cabello, announced that Deputy María Corina Machado had been removed from her seat in the National Assembly and that she was banned from entering the chamber because, according to Cabello "*she cut her own throat when she accepted a post while she was a deputy. The Constitution says that deputies may not accept public posts.*" Cabello also announced that, since she had lost her parliamentary immunity, the former deputy could be arrested at any time without prior notice for treason and conspiracy.



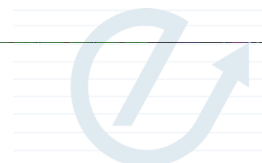
Visa shortage: On Sunday, March 23, the US Embassy in Venezuela announced the temporary suspension of appointments for applying for tourist visas. The embassy clarified that this was not a political measure; that it was due to the fact that they were unable to continue with this type of operations owing to the lack of staff following the expulsion of three diplomats by the Venezuelan Government. *“We are sorry that, as a result of the expulsion of consular officers and delays in the issuing of visas, the embassy does not have sufficient staff to continue scheduling appointments,”* they said in a note issued by the US Embassy.

Don't switch of my camera. After the arrest of the reporter Mildred Manrique, journalists protested outside the Bolivarian National Guard's (GNB) General Command Headquarters until they were received by the general in charge, Justo Noruega. At the meeting, the journalists put forward their demands, among them the release of all journalists who had been arrested at the different demonstrations, that their right to cover and inform about the protests be guaranteed, and that they be given assurances that they would not be attacked by the GNB or the Bolivarian National Police (PNB). As for General Noruega, he announced the creation of a body that is to liaise between the National Guard and the journalists.

El Hatillo without a head: The mayor of El Hatillo (Miranda), David Smolansky, went to the Supreme Tribunal of Justice to request the withdrawal of the lawsuit filed against him that demands he be removed from office and could result in a prison sentence for events that occurred in the recent demonstrations (*guarimbas* and barricades). During the hearing, Smolansky claimed that there are no grounds whatsoever for this lawsuit and that he is not going to allow a coup d'état against the municipalities. *“We're not going to allow a municipal coup d'état. The neighbors will defend their vote cast on December 8,”* he said.

Legislatives Tips

New minister. According to a presidential decree published in the Official Gazette Nº. 40,381, the superintendent of Seniat, José David Cabello was appointed to the post of minister of the industrial portfolio after the dismissal of Wilmer Barrientos, who had taken over since January this year.





ECONOMIC OVERVIEW

