

What might the equilibrium exchange rate be in Venezuela?

One of the topics being debated in Venezuela today, not only among economists but also among businessmen and by the man in the street, one that is vitally relevant, is what the equilibrium exchange rate should be in an economy that has two official exchange rates and one parallel or black market rate.

Answering this question is not that easy because, when we analyze the different exchange rate indicators that can be calculated in the Venezuelan economy, we find that they are all different, some more so, some less. In this report, we will offer an analysis of the indicators and evaluate how far the economy is from an exchange rate that, in principle, would allow a lessening of the pressures that are contributing to the deterioration we are observing in the country.

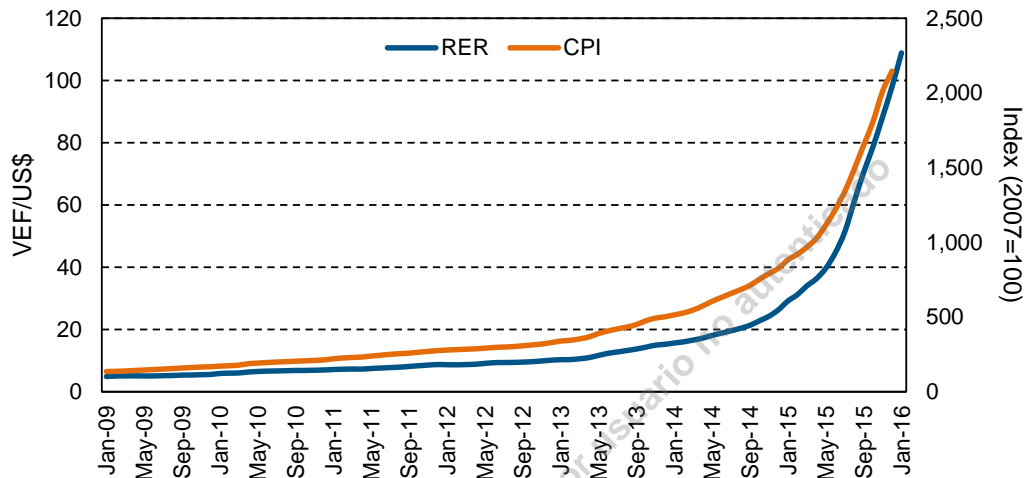
The Real Exchange Rate in Venezuela

At **Ecoanalítica** we calculate the real exchange rate (RER) using the purchasing power parity (PPP) methodology, which is calculated by weighting the bilateral real exchange rate of each trading partner with the share of trade with that partner in the country's total trade. Besides that, we adjust the nominal exchange rate by applying the internal-to-external inflation ratio base on Venezuela's consumer price index (CPI) and the CPIs of her main trading partners¹.

Based on these calculations, it is to be expected that the pace at which the RER has depreciated has speeded up since 2014, when inflation has grown exponentially given the collapse of the economic model implemented by *Chavismo*. During the days when the price of oil remained at nearly US\$100 per barrel (bl.), the government was able to keep inflation and, therefore, the depreciation of the RER relatively in check.

¹ In the case of Venezuela, the Nationwide Consumer Price Index (NCPI) is used

Real Exchange Rate vs. Inflation



Sources: BCV, Central Banks and Ecoanalítica

Now, when it is facing a sharp drop in the price of oil and is maintaining the economic model without making any structural changes, it is difficult to think that it will be capable of controlling the speed at which the RER is depreciating and, therefore, stabilize it. It is essential that the Central Bank of Venezuela be allowed its autonomy so that it can implement policies for controlling inflation that, together with a policy of fiscal discipline, would make it possible to achieve a stable RER.

Real Exchange Rate (VEF/US\$)

	2013	2014	2015	2016F	Depreciation 2016/2015 (%)
Real Exchange Rate (average)	12.5	19.8	55.2	228.4	75.8
Real Exchange Rate (end of period)	15.2	26.3	98.0	416.9	76.5

Source: BCV, Central Banks and Ecoanalítica

As a consequence, and taking into account our inflation estimates for 2016 (319.3%), at **Ecoanalítica** we estimate that the RER will close the year at VEF 416.9/US\$, which represents an average annual loss of VEF 228.4/US\$. Upon comparing our estimates with data for 2014 and 2015, we find that the pace of depreciation, far from stabilizing, continues to pick up.

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What do other indicators tell us?

In order to understand the magnitude of the exchange rate distortion and how complex the exercise of estimating an equilibrium exchange rate is, it is necessary to take a look at the values of other exchange rate indicators and compare them with the RER.

In the next table we can see how each of the indicators has been depreciating at a great lick and how this trend shows no sign of having reached its point of inflexion. There are some indicators that have appreciated in real terms, however. In other words, when inflation for the period is taken into account, buying a dollar ends up being more expensive compared to the previous period.

Exchange Rates (VEF/US\$)						
	2014	2015	2016F	Devaluation 2015/2016	Real Depreciation/ Appreciation	y/y (%)
Public Sector ER¹	24.7	37.4	263.7	85.8	-36.7	605.1
Imports ER ¹	17.3	93.1	335.5	72.3	-19.5	260.4
Consumers ER ²	29.4	289.2	416.5	30.6	-0.1	44.0
Real exchange rate³	26.3	98.0	416.9	76.5	0.0	325.3
M2/IR ³	91.1	254.9	338.2	24.6	-18.9	32.7
Fiscal ER ¹	22.7	146.3	753.0	80.6	80.6	414.7

Source: BCV and Ecoanalítica

¹ Annual average ² In 2016 the figure corresponds to March ³ At the end of the year

One of the indicators to which special attention needs to be paid is the public sector exchange rate since it is the lowest; in other words, the public sector has the most overvalued exchange rate compared to the RER and, therefore, is buying each dollar at a higher price. If we look at this from the point of view of imports, it means that the government found that it cost more to import in 2015 than in 2014. Paradoxically, it was the public sector that had the biggest weight in imports last year.

Quite the opposite has happened with the weighted consumer exchange rate (WCER), which has depreciated in real terms. If we take it that this indicator measures the price of the dollar the average Venezuelan is paying for each dollar consumed, we are saying that the WCER is a proxy for the drop in Venezuelans' purchasing power. On the other hand, it is also an indicator that reflects what the exchange rate should be in the event of a unification of the exchange rates.

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Here it is important to stress that the exchange rate resulting from a unification of the exchange rates in the short term would not be the equilibrium exchange rate. In other words, thinking that the equilibrium rate could be below these indicators is the same as adopting a very short-term view that does not take into account the overall equilibrium that the Venezuelan economy requires. In order for a unification of the exchange rates to be successful over the long term, all these indicators should converge in an exchange rate that we could consider the equilibrium rate.

Moreover, seeing how the fiscal exchange rate, the rate that allows the government to cover the fiscal deficit, which we estimate closed 2015 at 20.2 points of gross domestic product (GDP) in the case of the restricted public sector, and for 2016 could reach 17,6%, is a long way from the average exchange rate for the public sector. Moreover, this fact remains as we compare it with our estimations of the economy's weighted exchange rate (VEF 355.5/US\$)

It is important to understand that a bigger devaluation is not necessarily going to generate the devaluation revenues to cover the deficit. The number of distortions in the Venezuelan economy is so great that, in order to be able to correct them, devaluation has to be accompanied by a change in the model.

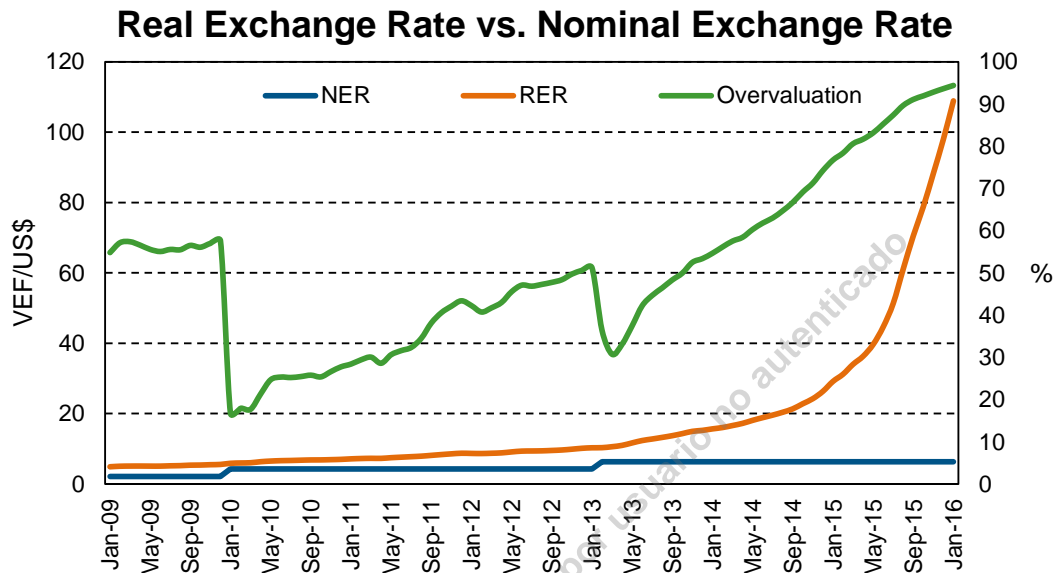
Do DIPRO and DICOM make sense?

DIPRO and DICOM are the official exchange rates that currently apply following the changes in the foreign exchange regime announced by President Maduro more than a month ago now. At the time of writing, even though the Central Bank posts the daily rates, it should be noted that the DICOM system has not started to operate because its platform is not ready. In other words, DICOM is operating using the extinct SIMADI system, but at an extremely high rate of depreciation, even higher than the rate **Ecoanalítica** anticipated. Despite this, we maintain our estimate that it will stabilize at around VEF 600.0/US\$.

Since exchange controls were implemented by the late President Hugo Chávez, the spread between the nominal exchange rate (NER) and the RER has been widening steadily and only shrank noticeably when a devaluation was announced. This implies that, over time, it is the RER that has been taken into account when making adjustments to the exchange rate regime.

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Source: BCV, Central Banks and Ecoanalítica

Moreover, the foreign exchange policy implemented by President Maduro has been somewhat different. The announcement of the new mechanisms leaves us with a DIPRO rate at VEF 10.0/US\$, which is a long way off the RER, and a DICOM rate, which, at the time of writing, is at VEF 319.3/US\$. The difference is that, for the first time, according to our preliminary foreign currency disbursement figures, it seems that a politically correct devaluation is being implemented, with DICOM becoming the mechanism used to disburse the lion's share of foreign currency, 79.7% at the close of March 2016, and an annual average of 62.9.

Daily Currency Disbursement				
Annual Average				
(US\$ MM)				
Mechanism	2014	2015	2016	y/y (a/a)
Cencoex	80.7	41.4	5.1	-87.7%
Sicad I	24.8	1.3	0.8	-35.9%
Sicad II/Simadi	30.4	4.2	10.0	138.1%
Total	135.9	48.8	15.9	-67.3%

Source: Ecoanalítica

But what does that mean? The implications are that the foreign currency that is being injected into the economy is, for the most part, being disbursed at an

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exchange rate that is above the RER, which can be viewed as a major change on the foreign exchange front by *Chavismo*. On the other hand, it could be that this is merely a coincidence, that the Executive is not taking the RER into account, and that this is the result of the huge cut in foreign currency revenues and therefore, the external deficit.

The equilibrium exchange rate, a huge challenge

The literature tells us that the equilibrium real exchange rate (ERER) is the rate that permits achievement of the economy's internal and external equilibriums simultaneously to obtain "fundamentals" that are sustainable². The most relevant fundamentals when it comes to explaining the past performance of the ERER in Latin America are each country's relative productivity vis-à-vis its main trading partners, the terms of trade, its international investment position, and the current transfers-GDP ratio. Although the fundamentals that have a long-term relationship with the exchange rate are specific to each country³, Venezuela is one of the countries where there is the highest level of opacity as regards official figures and, consequently, obtaining those fundamentals is an obstacle race. At **Ecoanalítica** we are making great attempts to estimate it.

So, what can we expect on the exchange rate front?

If we consider that the Executive is opting for a politically correct devaluation and that it will allow the DICOM rate to float to the levels mentioned earlier, then there is the possibility that this policy will have an impact on the exchange rate in the short, medium and long terms.

In the short term, the scenario would seem to be clearer. However, it is essential to pay attention to how disbursement of foreign currency behaves in the coming months and how fast the DICOM rate will depreciate. If the government decides to do what is right, there is the possibility that the parallel exchange rate will appreciate and, in this scenario, our clients should consider coverage policies that can be implemented if this happens. This will allow them to maintain a position in both foreign currency and in bolivars without compromising their efficiency. However, this turns out to be a very unlikely scenario.

² Montiel, P. (1999). "Determinants of the Long-Run Equilibrium Real Exchange Rate: An Analytical Model" in Montiel and Hinkle (eds.), "Exchange Rate Misalignment: Concepts and Measurement for Developing Countries". World Bank. Washington DC.

³ Bello, O, Heresy and Pineda (2010). "El tipo de cambio real de equilibrio: un estudio para 17 países de América Latina". ECLAC. Santiago de Chile.

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As for the medium term, at **Ecoanalítica** we estimate that the DICOM exchange rate will continue to depreciate in 2017 to around VEF 800/US\$ - VEF 900/US\$, at which point, if a credible adjustment program is implemented along with the tools that the Venezuelan economy demands, it will converge towards the RER, which will continue to depreciate but more slowly than at present thanks to the implementation of a set of policies aiming to an inflation below 20.0%.

In the long term, on the other hand, anything could happen. However, our base scenario implies a gradual unification of the exchange rates that will bear fruit in 2018, when the nominal exchange rate will float freely very close to the RER.

Carlos Miguel Álvarez

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WEEKLY INDICATORS

Weekly Economic Indicators			
	5th Week March	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.1	-0.3	3.0
	1st Week April	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	8.5	6.7	7.3
	1st Week April	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	13.10	-0.9	-35.1
	1st Week April	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	40.5	11.9	70.9
	5th Week March	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	4,442	-0.6	102.7
Price of International Oil Baskets (US\$/bl)			
	1st Week April	Weekly var. (%)	Annual var. (%)
WTI	36.7	-5.4	-24.4
Brent	38.7	-2.6	-31.9
Price of the Venezuelan oil basket (US\$/bl)			
	1st Week April	Weekly var. (%)	Annual var. (%)
Weekly Average	27.9	-6.2	-42.1
Annual Average	26.5	0.4	-41.7

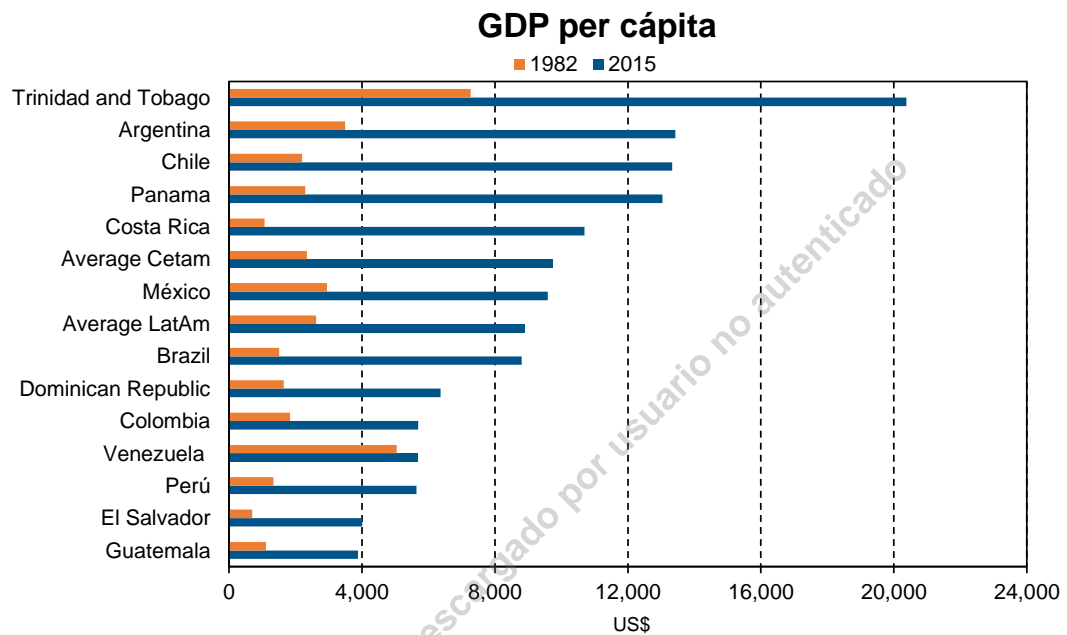
Source: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

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CHART OF THE WEEK: “33 YEARS OF INVOLUTION”



Source: Focus Economics and Ecoanalítica

While Venezuela is going through the worst economic contraction in the region (5.7% at the close of 2015), it continues to finance the sale of oil to countries that belong to Petrocaribe, whose performances, by way of contrast, are posting growth. According to official figures, last year, the Dominican Republic posted growth in its GDP of 7.0%, Panama 6.0%, Guatemala 3.9%, Costa Rica 2.9%, and El Salvador 2.3%, whereas Venezuela posted a negative figure.

Upon comparing these data with 1982, one year before Black Friday, we find that we were the second wealthiest country in the region, but that in 2015 we were the fourth poorest, which implies that we have lost more than 33 years in terms of growth. Venezuela’s GDP per capita went from US\$5,042 in 1982 to US\$5,663 in 2015. So we find that, 33 years ago, only Trinidad & Tobago was ahead of Venezuela in terms of GDP per capita, but that in 2015 Venezuela was ahead of only Peru, El Salvador, and Guatemala and was behind the Dominican Republic, Costa Rica, Panama, Colombia, Brazil, Mexico, and Chile.

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ECONOMIC TIPS

The recession will continue this year. According to figures from the International Monetary Fund (IMF), even though the economy in Latin America will contract by 0.5% in 2016, making this the second year of recession for the region, it will grow again in 2017 by 1.5%. In the view of the IMF, Venezuela will continue in a “deep recession” this year, contracting by 8.0% this year following a contraction of 5.7% in 2015. The recession will be less in 2017, however, shrinking to 4.5%.

Hyperinflation on the horizon. In the opinion of the IMF, Venezuela is experiencing a high level of political uncertainty at a time when fresh setbacks in the price of oil have magnified the imbalances and macroeconomic pressures, including inflation that it estimates will average 481.5% in 2016 and 1,642.8% in 2017. The IMF also forecasts that the deficit on the current account will close at 6.6% of GDP in 2016 and at 2.5% in 2017.

More pessimistic. In the opinion of Alejandro Grisanti, former chief for Latin America at the investment bank Barclays Capital, forecasts for Venezuela indicate that this year it will post a drop in consumption of 14.9% and inflation of 319.3% and that unemployment will reach 6.8%. He forecasts that investment in Venezuela will drop by 11.0% in 2016 and that the Dominican Republic will attract the highest level of investment in the region with an increase of 9.8%, followed by Panama with 6.4% and Guatemala 4.2%.

Unmanageable debt. In the view of Alejandro Grisanti, former chief for Latin America at the investment bank Barclays Capital, the country’s foreign currency debt comes to US\$161.1 billion, which gives a consolidated debt of 130.0% of GDP. This amount includes PDVSA’s debt, the Central Government’s debt, and the amount owed for nationalizations and what is owed the private sector.

Social investment came to 71.4% in 2015. Minister of Vice President of Planning Ricardo Menéndez announced that social spending in Venezuela came to 71.4% in 2015. In a balance sheet drawn up jointly with the National Statistics Institute (INE), Menéndez pointed out that, “*since the Fourth Republic, when social investment was only 37.0%,”* the figure had increased to 71.4% in 2015, which represents around US\$914.0 billion, resources that were taken from the Chinese Fund and Fonden.

OIL TIPS

From billions to millions. President Nicolás Maduro announced that US\$100 million in oil revenues entered the country in March, which, according to him, was only 3.0% of the revenue from oil recorded two years ago (US\$3.5 billion). In Maduro's opinion, the drop in oil prices represents a contraction of 97.0% in revenues from the sale of oil.

It's going to paying off the debt. At **Ecoanalítica** we estimate that PDVSA received approximately US\$1.69 billion from the sale of oil in March, and we believe that part of the difference (US\$1.59 billion) is being put aside to pay off external liabilities that PDVSA has with its international creditors.

It's our responsibility. An "historic responsibility" of both OPEC and non-OPEC countries was how Minister for Oil and Mining Eulogio Del Pino described mapping out the mechanisms that will allow the current prices of crude to stabilize at the upcoming meeting that the Organization of Petroleum Exporting Countries (OPEC) is to hold in Qatar on April 17. Del Pino considered that the meeting in Qatar should achieve equilibrium in oil prices.

No to profiteering. Del Pino stated that oil countries have to fight against profiteering, as it is the producers, not the "profiteers," who should put the price on the barrel of oil. *"In our role as producers, we must not allow market profiteers, futures traders to be the ones who put the price on our product. It's our right to seek a fair price for our raw material,"* he said.

Don't expect any surprises. Goldman Sachs said that the meeting of oil producing countries that is to take place on April 17 in Doha would not result in any surprise announcements or pave the way for a more optimistic outlook for the oil market. According to the bank, the freezing of global crude production at recent levels would not restore equilibrium in the oil market any faster, given that Russia's and the OPEC's pumping levels have remained steady at their annual average of 40.5 million barrels a day (mb/d) in 2016.

Stable prices are what is needed. Certain investment banks stated that restoring equilibrium in the oil market would require constantly low prices and forecast that prices in the second half of 2016 (2H2016) would be around US\$35.0/bl a barrel (bl.). It also explained that the recent increase in prices was momentary and that it

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was due to the shutting down of fields for maintenance and to expectations that exporters may freeze production levels.

Something is better than nothing. The British investment company UK Oil and Gas Investments (UKOG) announced the discovery of a 100,000 mb/d field near Gatwick Airport in the south of England, only a small amount of which can be pumped. The characteristics of this region are similar to those in the Bakken fields in the United States or the Bazhenov fields in Western Siberia, where only between 3.0% and 15.0% of the oil can be recovered.

Optimistic. Even so, the director of UKOG, Stephen Sanderson, stated that this was a “*very significant discovery here, probably the largest (onshore in the United Kingdom) in the last 30 years.*” According to UKOG, daily production could be “significant,” although evaluation drilling and tests still need to be carried out to determine whether the oil will be marketable.

Six months maximum. The evaluation phase usually takes four to six months, according to UK Onshore Oil & Gas. Nearly 2,000 onshore wells have been drilled in the United Kingdom since the 1850s, 250 of which are still operating and producing between 20,000 and 25,000 barrels of oil a day (kb/d).

The strike continues. Regional labor unions in the Campos basin in Brazil and at Reduc Refinery on the outskirts of Rio de Janeiro voted in favor of ignoring the calls of the country’s largest workers’ union to put an end to the 14-day oil strike. On Friday, the leaders of Brazil’s main oil workers’ union proposed putting an end to the most serious strike in 20 years at the state-owned oil company Petrobras S.A.

Realizing assets. When oil workers started the strike on November 1, their main demand had to do with investment cuts and the sale of Petrobras’ assets. Both these measures are designed to control the company’s huge debt of US\$130.0 billion. In the latest negotiations, the workers managed to obtain a 9.5% wage increase and to get Petrobras to agree to set up an employee and management committee to look into ways for restoring investment.

BUSINESS SECTOR TIPS

We’re already at the minimum level. Corporación Eléctrica Nacional (Corpoelec) announced that the water level in Guri Reservoir was 243.94 meters above sea level

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(MASL) last week, only 3.9 meters above the collapse level and lower than the two historical minimum levels registered up until now. Miguel Ángel Romero, Corpoelec's general manager, said that, *"if we reach a critical level (...), we will have to adopt an operating scheme that will be announced in due course by our authorities."*

Incorporating electric power. In a press release, Corpoelec announced that, with a view to guaranteeing the electricity service in the country, work on putting Units 8 and 12 in Machine Rooms I and II at Guri Hydroelectric Power Station had been stepped up and that, thanks to this engineering work, 1,000 megawatts had been incorporated into the National Grid (SEN).

It costs nothing to dream. The government is maintaining its target for nonoil exports this year at US\$7.0 billion, the same record figure achieved in 2006, according to Minister for Foreign Trade and Foreign Investment Jesús Farías. However, this year the price of oil, Venezuela's main source of foreign currency, is way below what it was in 2006, which means there is scant capacity for generating the funds needed to import capital goods that would shore up domestic production.

Break into the piggy bank! Vice Minister for the Productive Economy Miguel Pérez Abad called on private business to invest in the country's production sector. *"The collaboration of the private sector is needed to strengthen the productive area in economic matters (...). It's time to break into the piggy bank,"* he said, and he called on businessmen who have accounts in dollars abroad to bring the foreign currency into the country and invest it here.

Real adjustments. Given the new increases in the prices of essential goods, the president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), Francisco Martínez, stated that the government has to understand that prices should have a real value based on costs. *"All the sectors in the country that have some kind of price regulation are producing at a loss for the most part,"* he said.

Hoping for consensus. The president of Consecomercio, Cirpiana Ramos, recommended that the prices of regulated products be put at realistic levels. Ramos said that *"it's not possible to impose a price if it isn't in line and consulted with those who actually produce."* *"I hope that the increase will be reached by consensus with those who produce and not be based on their (the government's) analysis alone,"* she added.

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Only 30.0% have fair prices. Vice President Aristóbulo Istúriz had a meeting with businessmen in Zulia state, where Andrés De Candido, the president of the Zulian Association of Supermarkets and Similar Businesses, explained that only 30.0% of basic products are being received at the “fair price.” He added that supermarkets in Zulia are not being fully supplied and that there are shortfalls of between 50.0% and 60.0% in the supply of basic basket products.

Shortages have reached 83.0%. At the meeting that the president of the Venezuelan Confederation of Industrialists (Conindustria), Juan Pablo Olalquiaga, had with the National Assembly’s Special Subcommittee in charge of discussing the Domestic Production Bill and representatives of groups of businessmen and producers, he claimed that people are not able to find 83.0% of the basic basket products.

There’s a lot to be done. Juan Pablo Olalquiaga, the president of Conindustria, said that Venezuela has some 40,000 industrial companies to cater to 30 million people. According to international standards, it would have to create around 26,000 companies in order to supply a population of that size. He also commented that there were some “dramatic figures” with regard to the country’s industrial sector. For example, the time it takes to set up a business in Chile is six days whereas in Venezuela it takes 144 days.

Conatel calls for a “proactive” attitude. The National Telecommunications Commission (Conatel) exhorted telephony companies operating in the country to maintain “a proactive attitude,” after they announced that they would restrict or suspend their services due to the debts in foreign currency. Via its webpage, Conatel explained that the decision by the telephony companies to suspend or restrict some services could be an undesirable situation stemming from the country’s economic crisis.

10 years of involution. The production of vehicles in Venezuela has dropped this year compared to previous years. In the first quarter of 2006, 50,000 vehicles were assembled in Venezuela and only 752 were assembled in the first quarter of 2016. In other words, there has been a reduction of 98.5%.

Avianca wants its money. The Colombian airline Avianca has announced that it will use every means available to it to get paid what it is owed for air ticket sales, calculated at US\$236 million, which it has not been able to get out of Venezuela. Avianca Holding’s vice president of finance, Gerardo Grajales, said that they currently have more than VEF 1.9 billion deposited in banks in Venezuela that they

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cannot get out of the country. He is confident that the time will come when Venezuela “*will be stabilized and be able to honor its commitments.*”

WORLD ECONOMY TIPS

We will be seeing hikes in the future. The United States (US) economy is set on a firm course and the Federal Reserve (FED) is moving towards more interest rate hikes, said FED Chair Janet Yellen. Speaking before a panel of former FED chairmen, Yellen said that, seven years after the financial crisis, the labor market was “close” to full strength and that **inflation** would not be held down much longer by the strong dollar and low oil prices.

Lower than forecast. Consumer prices in China posted slower growth than expected in March, whereas production prices continued to deflate. Inflation rose by 2.3% in March, below the average forecast of 2.5%, but unchanged from February. The recent run of price increases was driven largely by the sharp increases in food prices following an unexpectedly harsh winter.

Reading between the lines. The European Central Bank’s (ECB) monetary policy should be in line with economic conditions and respect the framework of its mandate, in particular with regard to prohibiting the monetary financing of governments, said the bank’s executive, Yves Mersch. These statements could be interpreted as an attempt to dispel the perception that the ECB is distributing money among the citizens of the euro zone, an extreme form of monetary easing.

Moving towards an agreement. Although Greece and its international creditors have made some headway, the negotiations on the reforms for the Greek bailout are still in progress, according to the European Commission. The executive arm of the European Union, also said that the creditors of the euro zone governments that are part of the monetary bloc’s rescue fund supported the requirement that Greek achieve a surplus of 3.5% of GDP by 2018.

Smokescreens don’t happen only in Venezuela. British Prime Minister David Cameron is to announce new legislation that will make companies liable if their employees help to evade taxes, in an attempt to repair the damage caused by a week in which his personal finances were questioned. Cameron published his tax returns to try to calm down criticism of his handling of the Panama Papers affair.

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More time please. Spain's caretaker Government is to request the European Union for another year to reduce Spain's public deficit to below 3.0% after it fell seriously behind target in 2015, in exchange for a bigger economic adjustment. At the International Monetary Fund (IMF) summit, Spain will try to convince the European authorities to postpone the demanding adjustment that, bearing in mind the 2015 figure, would require a cut of more than EUR 23.0 billion this year.

Better not. The secretary general of the Organisation for Economic Co-operation and Development (OECD) advised Japan not to resort to intervening in the foreign exchange markets to weaken the yen while investors are opting for the yen as a refuge currency. The yen has been appreciating against the dollar for 17 months, the longest run ever, a situation that is a source of concern for the Japanese Government owing to the impact this is having on Japan's external sector.

Peru decides. Keiko Fujimori won the presidential elections in Peru. However, she did not win by a majority and will have to go to a second round. Alberto Fujimori's eldest daughter is on the point of winning an election that could make her the first woman to govern Peru. Fujimori's party, *Fuerza Popular*, has almost doubled its seats in Congress, having obtained 65 compared to 28 seats won by *Perú por el Kambio*, presidential candidate Pedro Pablo Kuczynski's party.

POLITICAL TIPS

The TSJ said "No." The Supreme Tribunal of Justice (TSJ) unanimously declared the Law of Amnesty and National Reconciliation passed last week by the AN to be unconstitutional. In its lengthy ruling, it states that the Special Commission for Reconciliation established in Article 28 of the law is also unconstitutional because *"it does not include a process where all parties might be involved."*

It's a criminal law. President Nicolás Maduro stated that the Amnesty Law would not fly as it was a law of criminal amnesia and impunity. The President explained that it was *"a law that pardons crimes. In the law, they (the opposition) confess to being the master minds and perpetrators of all the attempts at destabilizing the country that Venezuela experienced between 1999 and 2015. They aim to annul articles of the Venezuelan Penal Code (...). If we want peace, that law doesn't fly."*

Pardoned by Chávez. Maduro recalled that the majority of political actors who took part in those *"acts of violence against the population"* had already been pardoned

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by Hugo Chávez following the 2002 coup d'état and the 2002-2003 oil strike. *“Most of them were amnestied by Hugo Chávez who, five years after the coup d'état, seeking peace, signed an Amnesty Law under the Special Powers Act for people who were not crimes against humanity.” (sic)*

Incorrectly presented. The Democratic Unity Alliance handed in 2,040 signatures of voters requesting a recall referendum against President Nicolás Maduro to the National Electoral Council (CNE). This is the fourth time the Unity Alliance has requested the CNE to activate constitutional mechanisms. However, last week the CNE's president, Tibisay Lucena, said that the way the petition had been presented was incorrect.

They did not comply with the requirements. Tibisay Lucena explained that the referendum is established in Article 72 of the Constitution of the Bolivarian Republic of Venezuela but that the requests submitted by the Democratic Unity Alliance were *“weak, did not comply with the minimum requirements dictated by the Constitution (...).”* *“They submitted an inadequate request, despite having been told of the requirements,”* pointed out the president of the CNE. Furthermore, she recalled that 13 referendums have been held in Venezuela.

The second debate. In ordinary session, the National Assembly is to submit the Recall Referendum Bill to its second debate. The bill, which has 89 articles and was approved following its first debate, aims to restrict Nicolás Maduro's term in office as President of the Republic and to correct “the legislative omission” on the matter. Furthermore, according to its explanatory statement, if the bill is enacted it will substitute the CNE's powers to issue regulations in this regard.

“Fighting” corruption. So far this year, the Public Prosecutor's Office has opened 1,491 investigations into acts of corruption, according to Prosecutor General Luisa Ortega Díaz. This Monday, the prosecutor general explained that 453 accusations had been made and 423 charges of corruption filed. *“That is the work that the Public Prosecutor's Office has done on corruption so far this year,”* highlighted Ortega.

We need to be united. *Bloque de la Patria* chief Héctor Rodríguez said that it was *“not possible to build and get a true revolution off the ground if there isn't union among fellow countrymen.”* *“Sometimes we spend more time looking at the person we have next to us than the enemy we have before us. It is our obligation to unite everyone we have to unite against the true enemy,”* commented Rodríguez.

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You need reconciliation. In a speech to the half-yearly plenary session of the Inter-American Press Association, the secretary general of the Organization of American States (OAS), Luis Almagro, said that it was imperative that the Nicolás Maduro administration facilitate the implementation of an amnesty that would return political prisoners to their families so that this might permit the doors to be opened to a process of achieving broad consensus among all Venezuelans.

That's a lie. Ernesto Samper, the president of the Union of South American Nations (UNASUR), claimed that the state the Venezuelan economy is in is not as serious as the media abroad make out. *"Very often lies are told about Venezuela's economic situation,"* he said. He stressed that Venezuela is the only country that has honored its external debt commitments.

Summon him to the National Assembly. The lawyers Enrique Aristeguieta Gramcko and Jesús Petit Da Costa and the journalist Nitu Pérez Osuna handed in a letter to the National Assembly's Board of Officers requesting that Nicolás Maduro be summoned to clarify his country of origin. It also requests that Maduro's nationality be clarified and that it be ascertained whether he has another nationality besides Venezuelan nationality as soon as possible.

LEGISLATIVE TIPS

Put a stop to the blockade. Julio Borges, the chief of the MUD parliamentary faction, urged President Nicolás Maduro to sign the laws passed by the National Assembly. *"We call on Maduro to sign, once and for all, a law that was passed more than 10 days ago: the Law of Food Vouchers for Retirees and Pensioners,"* said Borges.

Putting the ball in the CNE's court. First Vice President of the National Assembly Enrique Márquez announced that the amendment seeking to bring about a change of government by constitutional means would be passed in May. *"Early in May we will be submitting the proposed amendment. From that point on, the CNE will have a period of 30 days to make a pronouncement and call elections in June at the latest,"* said Márquez.

Explaining the situation to the rest of the world. The chairpersons of the National Assembly's Foreign Policy Committee, Luis Florido, and Homeland Affairs Committee, Delsa Solórzano, and the National Assembly's legal counsel, Jesús

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María Casal, were received by United Nations High Commissioner for Human Rights Zeid Ra'ad Al Hussein. They explained the scope of the Amnesty Law to the High Commissioner and requested support for getting the Venezuelan Government to enforce it.

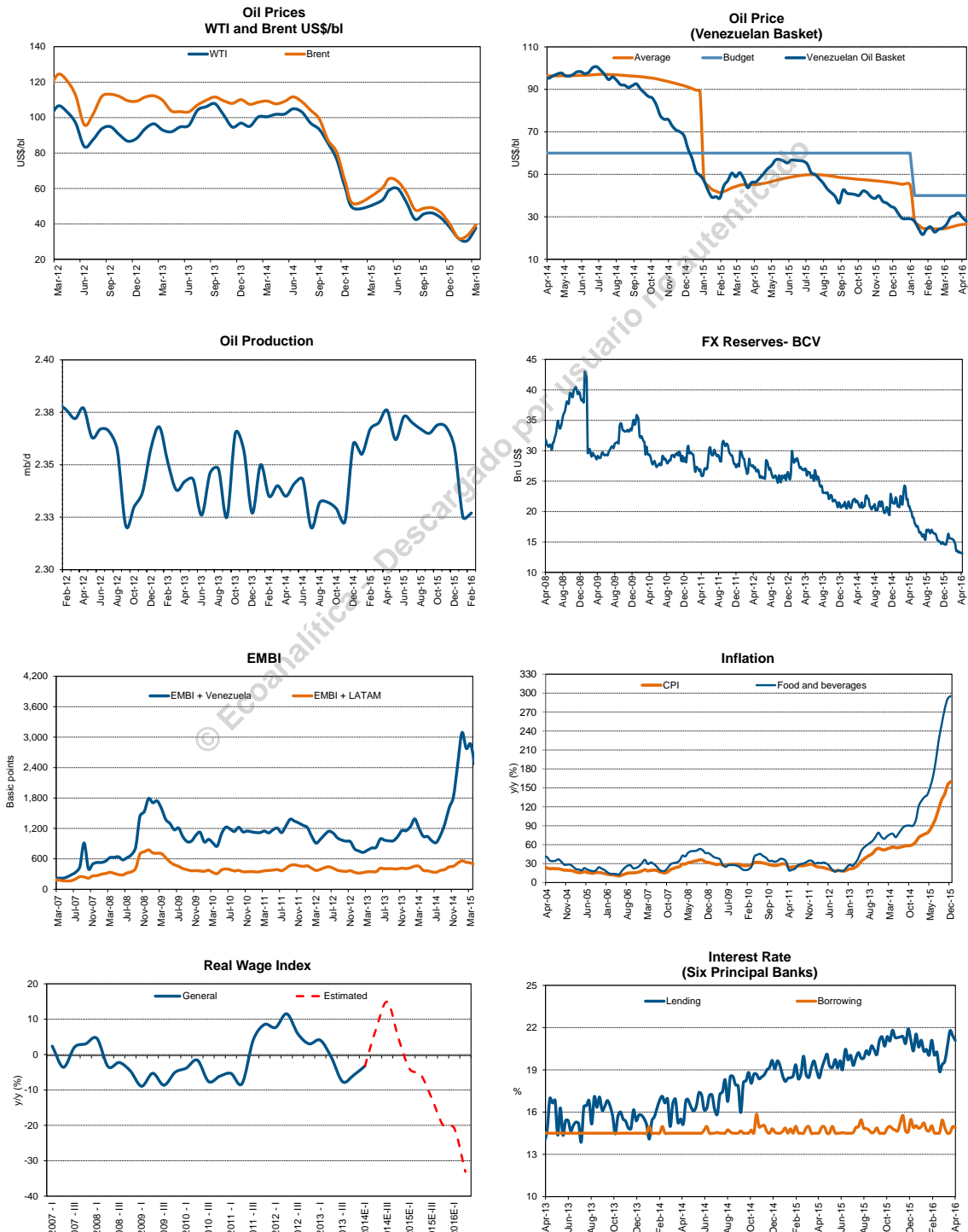
And more regulations. The Central Bank's Foreign Exchange Agreement N°. 36 has been published in *Gaceta Oficial*. The agreement establishes the regulations that will apply to foreign currency operations performed by tourism service providers operating in the receptive tourism sector. The regulations cover payments for lodging, transport, and the services of travel and tourism agencies operating in Venezuelan territory, as well as payments made at duty free shops.

Now the weekend starts on Friday. As part of the Energy Savings Plan, President Nicolás Maduro gave the order to declare Fridays nonworking days. The order was published in *Gaceta Oficial* N°. 40,880 dated April 6. The purpose of the decree is to economize on the use of electricity by turning off machines that use electricity in government offices.

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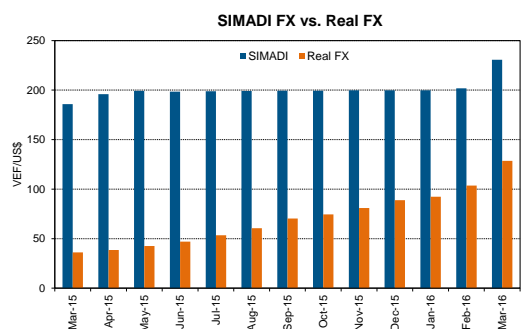
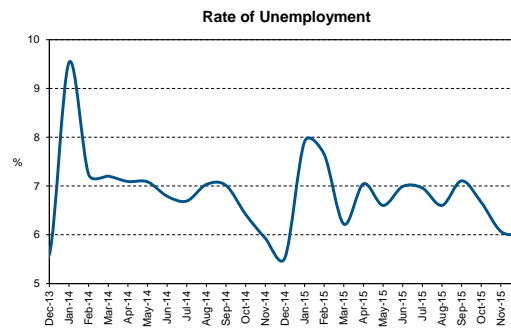
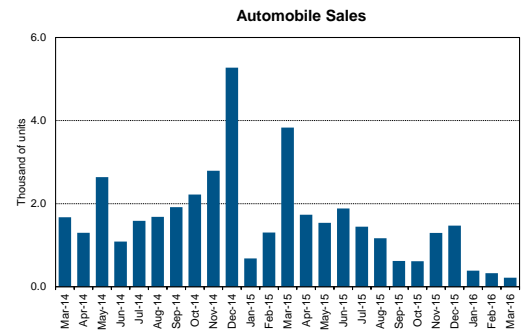
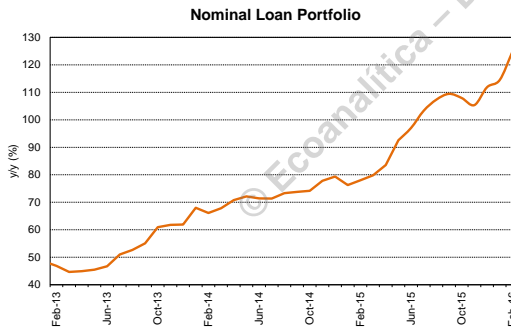
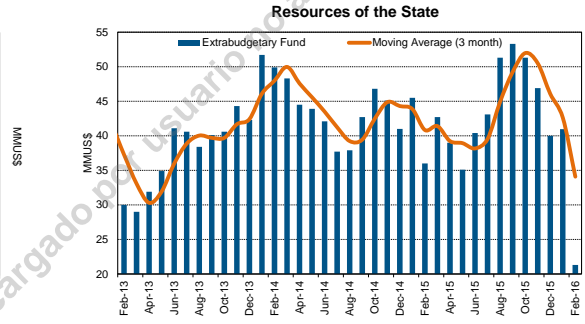
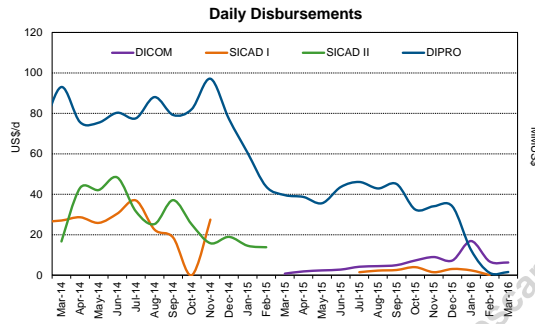
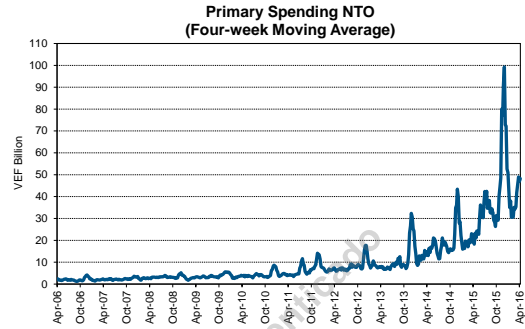
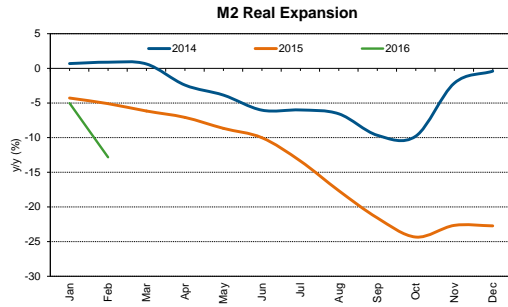
ECONOMIC OVERVIEW



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