

## Sicad II overview: Between mistakes and few achievements

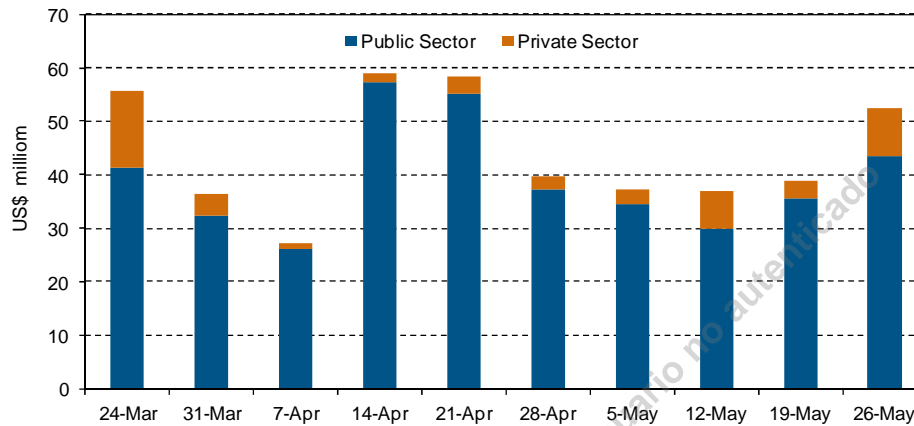
The first semester of the year (1H2014) was marked by the government and the opposition sitting down at the negotiating table but without the agreements coming to anything, continuing difficulties for local production, and a sharp drop in people's purchasing power; in other words, a fairly negative half year in terms of most economic variables. The economic cabinet tried to sell the idea that SICAD II would be the solution to all our problems, but this has not proved to be the case. Since last year, there has been talk of a new system, an opening up of the foreign exchange regime that would breathe some life into the economy, which had been through a year of chronic foreign currency shortages. During the 52 days that SICAD II has been operating, it has not been able to solve many of the problems the private sector is suffering from, among them the delays in disbursing foreign currency and satisfying the demand for foreign currency for imports and for paying off the debt. In this report we will give an overview of SICAD II and how it has performed.

### How much foreign currency is being offered?

Since March 24 this year, the day on which the first transaction was performed in this new system, the volume traded in this market has varied and been far from consistent. In fact, the first week posted the lowest amount offered up until then and also the highest, US\$103.7 million.

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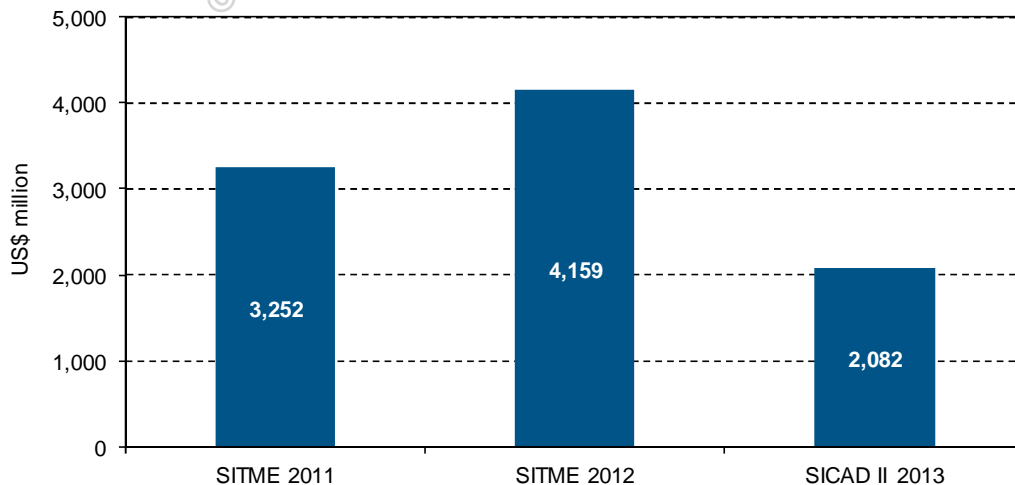
**Supply Through Sicad II  
(weekly average)**



Source: Ecoanalítica

Up until May (last figure available), the average amount offered via SICAD II has been US\$44.3 million, with 88.6% being offered by the public sector and the remaining 11.4% by the private sector. The total offered via SICAD II comes to US\$2,080 million, more than the amount offered last year by systems other than CADIVI (now Cencoex). Now then, if we compare this with SITME (now extinct), we see that the volume traded via SICAD II is still less than the volume traded via SITME in 2012 and 2011, which came to US\$4.15 billion and US\$3.25 billion, respectively.

**Supply Through Complementary Mechanisms  
(January - May)**



Sources: BCV and Ecoanalítica

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It is worth noting that, while the offer of foreign currency has been greater than expected, disbursements have not. Even though Foreign Exchange Agreement No. 27 stipulates that disbursement of foreign currency should be within 72 hours, there have been cases where it has taken a month on average to get the foreign currency deposited in the dollar accounts in domestic banks. There are reports, however, that the time it takes for disbursement has shortened in recent weeks and that in some cases it has taken three days. Now, apart from the delays, both companies and private individuals have encountered restrictions when they have bid several times in a week. Information we have gathered indicates that the ceiling for private individuals is in the region of US\$3,000, whereas for companies it is US\$200,000, although there are exceptions. What is certain is that, even if a private individual or a company wishes to trade daily in this market, not all their bids will be accepted, and while it is more transparent than SICAD I, it is still somewhat discretionary.

### Establishing a realistic exchange rate

As for the exchange rate, it has averaged at VEB 49.9/US\$, down 3.8% from the exchange rate resulting from the first day of trading. On average, this rate has managed to reduce the gap between the official exchange rate and the parallel rate somewhat. It is, moreover, an exchange rate that definitely favors the oil industry. In fact, this mechanism has been designed to give a boost to the oil sector, which was being strangled by the VEB 6.30/US\$ rate. Now the state-owned oil company, PDVSA, will be able to obtain more bolivars for the dollars it receives for oil exports and give its compromised cash flow a respite.

As we have mentioned in other reports, this system also implies a devaluation of the bolivar, in which case we use a weighted exchange rate for the entire economy. According to **Ecoanalítica's** calculations, the weighted exchange rate for the economy is VEB 14.9/US\$, in other words a variation of 82.7% compared to the weighted exchange rate for 2013.

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Weighted exchange rate (X+M)	2011		2012		2013E		2014P	
Public	4.3	36.9%	4.3	39.9%	6.3	48.6%	6.3	52.0%
Sitme	5.3	9.3%	5.3	7.9%	5.3	0.7%		
Sicad					11.1	2.8%	15.0	4.8%
Sicad II							45.0	14.4%
Preferential Cadivi								
Cadivi	4.3	48.3%	4.3	46.7%	6.3	42.1%	6.3	24.0%
Not official	8.7	5.5%	10.6	5.5%	35.7	5.8%	60.0	4.8%
Exchange rate exports	4.3		4.3		6.3		6.3	
Weighted exchange rate (X+M)	4.4		4.5		7.0		9.6	
<b>Weighted exchange rate (M)</b>	<b>4.6</b>		<b>4.7</b>		<b>8.1</b>		<b>14.9</b>	
<b>Variation</b>	<b>33.0%</b>		<b>2.1%</b>		<b>72.1%</b>		<b>82.7%</b>	

Sources BCV, Cadivi and Ecoanalítica

Now then, the devaluation could be even greater if sectors that usually received dollars at the CADIVI rate now go to the SICAD I and SICAD II auctions. An alternative scenario where 19.0% of imports go to SICAD I and 14.4% go to SICAD II would give a weighted exchange rate of VEB 15.3/US\$, a variation of 87.9% more than the aforementioned base scenario.

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Sources BCV, Cadivi and Ecoanalítica

While the devaluation has dealt a harsh blow to the entire economy, it is the private sector that has been hardest hit, as its access to foreign currency at the VEB 6.3/US\$ rate is more restricted. In fact, the weighted exchange rate in our base scenario for the private sector is VEB 23.5/US\$, a variation of 138.4% compared to last year. Furthermore, an issue that this timid step towards decontrolling the exchange rate has not been able to solve is the debt, which has been ignored in these first months of the year, so bringing the country's entire supply chain practically to a halt.

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## How much does the debt come to?

Extra-budgetary resources came to US\$12.6 billion in December 2013 and to US\$13.6 billion in April this year, clearly indicating an increase in the country's stock of foreign currency. In other words, in recent months, the government has been stockpiling foreign currency that has not been awarded to the private sector and, in the meantime, the debt continues to grow. The public sector's partial nonfinancial debt in foreign currency comes to US\$25.8 billion, whereas it closed 2013 at US\$23.6 billion.

The main sectors of the economy have expressed their concern over the increase in the debt, about which no agreement has been reached so far. At the close of March, the amount the government owed food producing companies came to US\$2.7 billion, according to data provided by the Venezuelan Food Industry Chamber (Cavidea). The failure to pay suppliers has interrupted the normal supply of raw materials, with the result that inventories have been used up and some large companies have had to shut down some of their production lines.

In the case of the automotive industry, the amount owed the seven assemblers belonging to the Automotive Chamber of Venezuela (Cavenez) comes to US\$2.8 billion. At least four assemblers stopped production lines after they ran out of materials. According to Cavenez, vehicle production fell by 92.1% in May compared to the same month last year. In the health sector, calculations by the pharmaceutical associations put the debt at between US\$3.0 billion and US\$4.0 billion and, even though the Executive has started to disburse the funds, there is still a long way to go.

The airlines are another sector affected by the debt issue, possibly one of the hardest hit. The Airlines Association of Venezuela (ALAV) calculates the debt at US\$4.0 billion. This has caused some airlines to temporarily suspend their operations and a reduction in the supply of air tickets. In conclusion, the shortage of foreign currency is widespread and not a single sector has escaped its effects, since, even though a company receives foreign currency for importing the inputs it needs to manufacture a product, it finds that foreign currency has not been granted for packaging, bottles, labels, lids and other items needed to put the product on the market. Given this situation and the delays in disbursing the foreign currency awarded via SICAD II, Venezuela is experiencing a crisis of structural shortages for which we see no solution, at least in the short term; nor do we see any significant improvement in the shortages index, which the Central Bank of Venezuela (BCV) has not published since February and, unofficially, is in the region of 30.0%.

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## Last minute changes

Since the start of SICAD II, a number of foreign exchange agreements have been published that clarify who may participate in this market and what requirements must be met. It is common knowledge that this system was designed with a view to boosting the oil industry and to getting the airlines to charge their services based on this exchange rate. In the case of the airlines, this will start on July 1, according to statements by Hebert García Plaza, the Minister for Aquatic and Air Transport, and we are waiting for the airfares to be published. The problem of the air tickets and airfares will not be solved, however, if the debt is not paid.

Another change in SICAD II that has been a matter of public debate in the past month is the transfer of the quotas for travelers and students from SICAD I to SICAD II, although the Vice President for the Economy, Rafael Ramírez, stated at a press conference that the SICAD I rate would be maintained for the time being. At **Ecoanalítica** we consider that this measure of moving these groups over to the other exchange rate has not been taken owing to Maduro's declining popularity and the current social tensions resulting from protests throughout the country. While it has not been totally discarded, it does not seem to be a priority for now.

## More measures are needed

While the unofficial exchange rate has come down and remained stable at VEB 70.0/US\$ since SICAD II started, its impact on the economy has not diminished as many sectors continue to use it as a price marker. This is precisely the point that SICAD II should attack and has not been able to because the amounts of foreign currency awarded to companies have been small and disbursements slow. And while SICAD II is proving to be a more transparent mechanism, the crux of the matter is that all the official mechanisms should be transparent, otherwise the distortions will persist and there will be no respite for the private sector. Likewise, price control needs to be revised, if the situation do not changes, dollars obtained through SICAD II are not going to be channel for imports.

Also you need to modify the last exchange agreement that allows PDVSA and its member companies sell dollars from oil exports Sicad II, since what is currently allowed is to transact foreign exchange earned by financing or investments. We also hope that future public companies other than PDVSA, become tender within this mechanism.

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We note with concern that disbursements via Cencoex have still not been speeded up and that the auctions are becoming sporadic and the amounts offered insufficient. The foreign exchange policy needs to be put on a realistic footing, with a long-term plan that will make it possible to rebuild the country's productive apparatus. Measures are needed on both the monetary and fiscal fronts, as we have pointed out so often in previous reports, otherwise the outlook for 2015 will be as black as this year.

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## ECONOMIC TIPS

**Worker's Food Basket reaches VEB 5,672.57.** According to the last report by the Cenda, the Worker's Food Basket (CAT for its Spanish acronym) reached VEB 7,245.13 on March 2014. This represents an increase of 6.3% compared to the previous month and of 69.1% compared to March 2013. During the first three months the accumulated variation of the CAT was 12.9% (VEB 829.0).

**The behavior of the CAT** was determined by the increase in seven out of the eleven products that make up CAT: milk, cheese and eggs (12.1%), fishes (10.8%), fruits and vegetables (10.6%), tubers (5.1%), non alcoholic beverages (3.1%), foodstuff (1.4%), cereal and derivatives (0.6%).

**Family income only covers 47.6% of the basket.** According to the report by Cenda, the minimum wage of VEB 3,270.3, effective in March, 2013 had a hypothetical purchasing power of 45.1% and a deficit only to food acquisition of 54.9% (VEB 3,974.8). That means that, a family today requires more than twice the minimum wage just to cover their basic expenses on food.

**More jobs, but in the informal sector:** According to the National Statistics Institute (INE), 444,313 new jobs were generated in 2013, 65.0% of which were in the informal sector (289,661) and 35.0% in the formal sector. As at the close of April, there were 5.3 million workers in the informal sector, which is equivalent to 40.7% of people with a job, whereas the formal sector employed 13 million people (59.3%).

**A new inquisitor:** President Nicolás Maduro appointed Dante Rivas as the new Fair Prices Superintendent in the place of Andreina Tarazón, who is now to head up the Great Housing for the Fatherland Mission. Tarazón said that they must continue to fight against profiteering and insisted that Rivas, with his youth, would play a great role at the head of the National Superintendency for the Defense of Socioeconomic Rights (Sundde).

**A policy carved in stone:** The chairman of the National Assembly's Social Development Committee, Oswaldo Veta, commented that, even though there has been no formal proposal to extend the firing freeze, which covers employees who earn less than three minimum wages, "*the policy that has been defined is to maintain the existing freeze at the current levels.*" Vera

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discarded the suggestion that the firing freeze was the cause of companies' productivity problems, as representatives of the private sector have claimed.

**Poor consumer:** According to a study conducted by Datanálisis, 43.4% of Venezuelan consumers belong to stratum E (the poorest) and 36.3% to stratum D (the group with the second lowest incomes). Datanálisis estimates that the average family income in stratum E is only VEB 6,380, nearly 10 times less than the VEB 64,050 in strata A and B, whereas the average income for sectors C and D is VEB 25,930 and VEB 10,860, respectively.

**In a free fall:** According to Alejandro Grisanti, the economist for Latin America at Barclays Capital, *"Venezuela is in the middle of an economic collapse and manufacturing and construction, the two activities that produce mass employment (...) could post a drop of two digits this year."* According to Grisanti, the processes of the productive chain have been broken and one example of this is that *"if the companies have dollars for packaging, they don't have them for spares,"* a situation that could be very costly to reverse.

**And they're simply not opening the parachute.** In the opinion of Alejandro Grisanti, an economist at Barclays Capital, besides the deficit in foreign currency allocations, the failure to take decisions is one of the biggest problems affecting the Venezuelan economy. *"With Chávez, the excesses were trimmed during periods when there was no pressure because of elections. We don't find that with Maduro. Obviously, this is not an election year, it's a year in which measures should be taken to fix the imbalances and they're not doing it,"* added Grisanti.

**Much more than is thought:** On several occasions, government spokespersons have said that, between 2011 and 2013, the amounts of dollars disbursed did not coincide with the volumes of products imported, confirming that nearly US\$20.0 billion went to shell companies. At **Ecoanalítica** we estimate that over a longer period, between 2003 and 2012, over-invoicing of non-oil imports came to US\$69.5 billion, US\$22.70 billion of which were as a result of over-estimations by the public sector and US\$46.80 billion by the private sector.

**Are they going to start paying?** The Vice President for the Economy, Rafael Ramírez, said that they are to disburse US\$2.10 billion of the foreign currency not handed over by CADIVI between 2012 and 2013, provided the amounts are certified by state agencies. Some US\$1.18 billion of that total is

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to go to small and medium companies in the food, health, chemicals, and industry sectors, among others, and the remaining US\$930 million is to be distributed among airlines, large food companies and telecommunications companies.

**Tax collections down:** The National Integrated Customs and Tax Administration Service (Seniat) posted tax collections of VEB 26.54 billion in May, equivalent to 111.2% of the target set for the month, according to the agency's superintendent, José David Cabello. Although collections increased by 34.4% in real terms in May, if account is taken of inflation, there was a contraction of 15.7% in real terms.

**Interest rates.** The lending rate for the fifth week of May was at 1.2%, down by 1.0 percentage points (pp) compared to the previous week. The time deposit rate was at 14.7%, up by 0.2 pp compared to previous week, while the passive rate has not experienced any significant variation, placing well at 14.1%.

**International reserves.** International reserves increased by 7.3%, going from US\$21.0 billion during the fourth week of May to US\$22.5 billion during the fifth week of May. Compared to the same period last year, international reserves have decreased by 10.2%.

**Central government expenditure.** On May 30<sup>th</sup> according to figures from the NTO primary spending was VEB 13.8 billion, which means an increase of 139.4%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 315.4 billion 83.4% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 0.7% in the fourth week of May from the week prior, to settle at VEB 1.4 trillion. The M2 has increased 75.8% in relation with the same period last year.

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Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
5/26/2014	36.6	30.9	84.4	5.7	15.6
5/27/2014	56.6	40.6	71.7	16.0	28.3
5/28/2014	50.0	43.8	87.6	6.2	12.4
5/29/2014	65.0	48.1	74.0	16.9	26.0
5/30/2014	41.8	41.3	98.8	0.5	1.2

Sources: Ecoanalítica

## OIL TIPS

**Ramírez: We're not going to exploit shale oil.** Following the news that PDVSA was thinking of exploiting non-conventional hydrocarbons, Oil and Mining Minister Rafael Ramírez gave assurances that PDVSA's objective is to continue exploiting conventional crude. *"We don't have a policy of exploiting shale oil or lutite gas,"* he said, although he did admit that tests in Lake Maracaibo have shown that exploiting this type of hydrocarbon is feasible. What they are really looking to do is to go to great depths to exploit natural gas.

**We'll believe it when we see it.** The Minister for Energy and Oil, Rafael Ramírez, announced that PDVSA is to publicly present its 2014 Economic Balance Sheet, which, as is already customary -according to him-, transparently shows the investments made by PDVSA. He made this statement during a press conference held following a tour of the Bicentennial Petro-industrial Base located in El Tigre, Anzoátegui state, to explain the scope of the agreement with China that will make it possible to boost production in the "Hugo Chávez Frías" Orinoco Oil Belt.

**The Orinoco Oil Belt is to be a special investment zone.** Minister Ramírez also said that among the projects being undertaken by the recently founded National Industrial-Oil Conglomerate (CNIP) –an initiative that aims to include the local productive sector in the development of the country's oil sector- is that of making the Orinoco Oil Belt a special investment zone with a view to attracting Venezuelan industrialists.

**A costly subsidy:** The energy subsidy -which includes gasoline, gas, and electricity- costs the State US\$24.0 billion a year, according to calculations by

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the engineer Javier Larrañaga. This expert explained that the fuel subsidy alone comes to US\$13.0 billion a year, which would be equivalent to between 1.7% and 7.2% of GDP depending on the exchange rate taken. By way of reference, Larrañaga commented that the amount of the energy subsidy is equivalent to non-collectable oil exports.

**At VEB 1.6 a liter:** According to Javier Larrañaga, an internal PDVSA report dated June 2013 states that crude shipped under international agreements such as the Chinese Fund and Petrocaribe came to US\$24.0 billion. It costs US\$26 to produce a barrel of petroleum, in other words nearly US\$0.016 a liter. In order to cover this cost, if one takes the exchange rate generated by the SICAD, the price should be VEB 1.6 per liter.

**Demanding payment:** Workers on PDVSA's minor payroll went to the Labor Inspectorate in Barcelona to file a complaint because the company is not complying with the collective employment contract, the Labor Law, presidential decrees, and the agreements reached during talks. José Bodas, the secretary general of the FUTPV, explained what they are owed, including the 22.0% wage increase that should have been implemented in the first quarter according to the bylaws and that has not be paid to date.

**El Palito back in operation:** In a communiqué, PDVSA announced the completion of the maintenance that was being carried out on the system of cyclones in the Fluid Catalytic Cracking Unit at El Palito Refinery and, as a consequence, the commencement of the pre-startup process. Williams Arévalo, the refinery's general manager, stated that *"at the moment, the operations routine is being carried out in accordance with established oil industry safety procedures."*

**El Salvador wants to join.** On Monday, June 2nd, the President of El Salvador, Salvador Sánchez Cerén, submitted El Salvador's application to join Petrocaribe to the Eighth Petrocaribe Ministerial Council. He explained that it was not a matter of chance that El Salvador was applying to join but part of a well-articulated strategy aimed at having a secure energy supply. Commenting on the application, the president of Petrocaribe, Bernardo Álvarez, said that El Salvador's role in the complementary development of the region was fundamental.

**Venezuela is to fight for Sweeny.** On Friday, May 30th, the Venezuelan Government announced that it would appeal the arbitral award that allows the

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US company Phillips 66 to acquire 50.0% of its share in Merey Sweeny, a unit at Sweeny Refinery in Texas. “Yes, of course we’re going to defend (our position) legally,” said Minister Ramírez. The unit has capacity for processing 70,000 barrels a day (b/d) and Sweeny Refinery has a total capacity of 247,000 b/d.

**An eye for an eye:** Minister for Oil and Mining Rafael Ramírez questioned Colombia’s decision to suspend the supply of gas to Venezuela and the fact that it has maintained the restriction even though the expected atmospheric conditions never came about. “*Colombia suspended its dispatches of gas and here (in Venezuela) nothing’s happened, that’s what I said, most respectfully, to the Colombians. If they continue with this, we’re not going to send them gas when it’s our turn,*” insisted the minister.

**PDVSA cut imports.** According to the latest report by the Energy Information Administration (EIA), Venezuela’s imports of crude and finished products from the United States, despite having increased slightly in March, have remained steady at an average of 42,000 b/d, down 40,000 b/d from the same period in 2013, when 82,000 b/d were imported. This is due to the startup of the refining sector following the tragic explosion at Amuay Refinery in August 2012.

**YPF discovers gas in Mendoza.** Argentina’s state-owned oil company YPF announced the discovery of tight gas deposits in Mendoza with a potential 25 million barrels of recoverable oil equivalent, which would increase the hydrocarbons reserves in that province by 10.0%. At the moment, the block is being operated totally by YPF and current production is mainly gas, followed by oil.

**International oil baskets.** At closing time on May 30th in the New York Stock Exchange, the price of the WTI was US\$103.8/bl, increasing by 0.8% when compared to the reported the previous week. The Brent increased by 0.2% when compared to the previous week, to reach US\$110.1/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$98.3/bl on Friday May 30<sup>th</sup>, increasing by 0.1% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.6/bl.

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## BUSINESS SECTOR TIPS

**Bring down prices... just to put them up later?** The Minister for Aquatic and Air Transport, Hebert García Plaza, requested a group of international airlines to adjust their airfares in dollars within ten days, maximum. He explained that the present prices “*are being distorted*” by other factors, “*by the untimely conversion of the billing*” of air tickets. He recommended “*updating*” the airfares and making them “*competitive*” before setting them at the SICAD II exchange rate, taking into account Venezuela’s geographic location, fuel costs, and the need to improve tourism from abroad.

**The problem is still not solved.** After the government signed agreements with eight international airlines last week according to which the parties recognized the debts and undertook to honor them in a “*payment schedule up until 2016,*” the executive president of the Airlines Association of Venezuela (ALAV), Humberto Figuera, said that “*the problem is still not solved,*” as only eight of the 25 international airlines operating in the country attended the meeting at the Ministry for Aquatic and Air Transport and reached agreements.

**One at a time:** The aviation authorities plan to meet individually with the international airlines operating in Venezuela next week to define the dollar airfares, according to sector sources. Deputy Claudio Farías said that the airlines have set “*gross and exaggerated*” prices and that the users “*are not to blame*”. As for the president of ALAV, Humberto Figuera, he said that the agreements reached contain “*no clause that says that the State is committed to honoring it*” (the debt).

**First of all, they have to pay.** Although the president of Conseturismo, Ricardo Cussano, said that progress could be made in getting both the supply of and demand for international air tickets back to normal in the coming weeks, the airlines seem to be waiting for payment to be made before resuming the supply of air tickets. Avianca said that the government had only paid some US\$12 million, 4.0% of a US\$300 million debt for tickets sold for bolivars. The International Air Transport Association claims that 11 companies operating in Venezuela have reduced the frequency of their flights by between 15.0% and 78.0% in the past year.

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**La Venezuela committed to purchases of nearly US\$12 million.** The concessionaire had been selling Chinese cars for more than a year when, on May 17, the bubble burst and the government accused it of defrauding 5,965 customers. Jhon Quiroz, the company's president, denied the accusation and said that the company had 20 containers with vehicles in La Guaira Port. Documents leaked by the company indicate that the deal in China involved a larger volume of vehicles than would have fitted in 20 containers. In at least three pro-forma invoices with each of the Asian makes, Concesionario La Venezolana closed deals amounting to a total of US\$11.72 billion.

**Production at rock bottom:** The scant supply of inputs and spares and the large number of labor disputes at Siderúrgica del Orinoco (SIDOR) have prevented the company from increasing production this year. In the first four months of 2014 the state-owned steel company produced 379,000 tons of liquid steel, the same amount it poured in a month in 2007 under the management of the Argentine consortium Ternium, according to Pedro Acuña, the representative of the company's Class B shareholders.

**A total loss:** Pedro Acuña, the representative of SIDOR's Class B shareholders, estimated that this year the steel company will not produce more than at the close of 2013, a total of 1.5 tons of liquid steel. *"With all of a year's fixed costs we are producing what we used to produce in one month,"* he explained. Acuña believes that there will be losses of more than US\$1.0 billion. *"The investments that have been approved are not earmarked for solving the bottlenecks in production."*

**Mineral water now costs more:** Via its website, the Sunde authorized an increase in the maximum retail prices of around 56.0% for the different presentations of mineral water. The resolution raises the price of a bottle of 330 milliliters from VEB 3.69 to VEB 5.80, a hike of 57.2%. In the case of the 5 liter bottle, it has gone up from VEB 17.9 to VEB 28.0 for an increase of 56.7%.

**They're starting to pay.** This Monday, June 2, the government started to pay 939 small and medium companies the outstanding US\$1.12 billion in disbursements authorized by CADIVI, today extinct. The SMEs that will benefit are in the commerce, chemicals, health, industrial, agricultural, lands, and food sectors. Ramírez also announced that the government is fine tuning a schedule to pay more than US\$900 million to the "big" companies. Ramírez stressed that this decision was taken to get the productive process moving

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again and jumpstart the economy, since these are key sectors that have been specially chosen.

**Consumption and temperature are to determine hike in electricity charges.** The Minister for Electrical Energy, Jesse Chacón, announced that this month the new scheme of electricity charges will be presented to the country and that it will be based on the rational and efficient use of energy. *"In June, we'll be presenting the new scheme of charges to the Territorial Vice Presidency and to President Maduro with a view to implementing it in the second half of the year,"* he said. He stressed that they analyzed average demand and temperatures by region when designing the scheme.

**The debt with construction companies is far from small.** The liabilities the government has with private construction companies continue to grow. Government agencies owe contractors that are carrying out infrastructure works US\$10.0 billion, according to calculations by the Venezuelan Construction Chamber (CVC). The president of the CVC, Jaime Gómez, said that these liabilities, which have been building up for the past three years, are with 100 companies and that these companies have already run out of funding.

**Autoparts sector receives 5% of total debt.** The president of the Chamber of Venezuelan Automotive Products Manufacturers, Omar Bautista, said that, this year, they have received foreign currency disbursements for 5.0% of the debt, in other words US\$11 million, when what they are owed is US\$231 million. Bautista said that they are waiting for the announcement of two measures that have been progressing very slowly. The first is the immediate disbursement of 30.0% of the debt CADIVI has with the companies and the second is reaching an agreement with regard to the remaining 70.0%, the idea being to convince international suppliers to start dispatching raw materials to Venezuela as normal.

**15.0% of food production shut down.** The government is delaying taking decisions and the economic problems are getting worse. Pablo Baraybar, the president of the Venezuelan Food Industry Chamber (Cavidea), said that the shortage of raw materials, the fact that prices of certain items have fallen behind – the prices of pasta, for example, have remained frozen for 34 months-, and labor disputes are the three obstacles that are condemning business activity and restricting production. *"Today, 15.0% of production has already been shut down,"* he said.

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**Wheat is arriving from the north.** More than 100,000 tons of wheat will be arriving from Canada and the United States in about six weeks, which will solve the problem of the flour shortage at bakeries and for manufacturing pasta, announced former Development Minister Tomás Socías. *“This is a good measure in the scheme of solutions between the government and the private sector. The Executive decided to hand over dollars at VEB 6.30/US\$, which has improved the situation considerably, and it seems that there isn’t a solution for the other sectors; that’s the fact of the matter because we aren’t seeing the products in the market,”* he added.

## WORLD ECONOMY TIPS

**US economy cools down.** According to data from the US Department of Commerce, the US economy contracted by 1.0% in the first quarter of the year (1Q2014) in part due to an unusually long winter, the coldest in 20 years. The contraction has not given rise to fears of recession because, even though it was twice what analysts anticipated, the Department of Commerce claimed that there have been signs of a recovery in the past two months, according to manufacturing industry and unemployment figures.

**The party’s over.** According to a report by the US Chamber of Commerce, European companies with a presence in China missed out on EUR 21.3 billion in revenues in 2013 due to restricted market access and regulatory barriers. The report, which compiled the responses from 552 companies, states that nearly half (46.0%) believe that the “golden age for multinational companies in China is over,” due to the lower revenues and government aid for domestic enterprises.

**Services post buoyant growth.** China’s National Bureau of Statistics announced that the country’s services sector registered its biggest growth in the past six months. The official nonmanufacturing purchasing managers index (services PMI) went up from 54.8 in April to 55.5 in May, reflecting a recovery in the industrial sector and boding well for a spell of positive economic figures for China.

**Jumping the gun:** According to official figures, inflation in Japan for the past 12 months was 3.2%, the highest in 20 years. Although the government has wanted to attribute this achievement to the current economic policies that

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seek to pull the country out of economic stagnation, analysts agree that the increase in prices could be due to the entry into force of the 3.0% sales tax.

**And with household spending down:** Household spending in Japan fell by 4.6% in April, the biggest drop since the Fukushima nuclear disaster three years ago, as a result of an increase in the nationwide sales tax. The bigger than expected drop in consumption in April and a slowing down of industrial output could increase the possibilities of new monetary policy measures.

**IMF concerned over inequality.** The managing director of the International Monetary Fund (IMF), Christine Lagarde, stated that extreme economic disparity in many countries of the world is holding back the development of potential in a large number of people. Lagarde added that economists have focused on the growth of the economy for too long, rather than on its fair distribution within society, and warned that economic inequality can impair democracy and slow down growth.

**A catastrophe:** Italy's Minister for the Economy, Peir Paolo Padoan, stated that a deflation scenario would be a disaster for the Eurozone and, in particular, for the countries of the region with high levels of public debt. Inflation in the Eurozone was 0.7% (yoy) in April, way below the European Central Bank's target of 2.0%, and it is expected to continue at similar levels in May. In Italy, preliminary figures for May show that consumer prices went up by only 0.4% year-on-year.

**Argentina is going to pay.** The Government of Argentina reached an agreement with the Paris Club (an informal club of official creditors and debtor countries) with regard to paying its outstanding debt, which could facilitate the country's return to international debt markets. The two parties agreed that Argentina will pay some US\$1.15 billion in May this year and another US\$9.70 billion over a five-year period to the 19 countries to which it has owed money since the moratorium on its debt payments declared 12 years ago.

**A minor setback for investment in 2014:** According to a report by the Economic Commission for Latin America and the Caribbean (ECLAC), the region received US\$184.92 billion in foreign direct investment (FDI) in 2013, 5.0% more than in 2012, and maintained its 13.0% share of total global FDI. ECLAC expects FDI inflows to fall slightly in 2014 due to slower economic growth and the drop in mineral prices; even so, it forecasts that transnational

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companies will continue to show considerable interest owing to long-term growth in consumption in the region and the possibility of exploiting natural resources.

## POLITICAL TIPS

**Accomplices in assassination plot:** President Nicolás Maduro claimed that the editorial line of the independent media reveal possible complicities with those implicated in an alleged conspiracy against him and he warned that the consequence for anyone who is found to have taken part in planning such a crime against him will be imprisonment.

**She'd be satisfied with his resignation.** *Chavismo's* high political command has once again accused opposition leader María Corina Machado of being involved in an alleged plan for perpetrating a coup d'état and the assassination of Nicolás Maduro. Machado's response to this accusation was that she wished the President no ill, only his resignation from his current post in government so that Venezuela might move forward in a process of encounter and hope, to which, she said, she would dedicate her life.

**Does she at least admit it?** Prosecutor General Luisa Ortega Díaz stated that Libertador municipality Jorge Rodríguez's having made public the alleged emails between some members of the opposition who (according to the mayor) could be behind a plot to assassinate the President –emails that had been intercepted by the state security forces- was in nonobservance of the Criminal Procedures Code. However, she added that this was necessary owing to the apparently great risk involved, about which the President had to be informed.

**The curtain goes up at the *Teatro Nacional*.** The executive secretary of the Democratic Unity Alliance, Ramón Guillermo Avelo, considers that the government's high political command got it right when it chose the *Teatro Nacional* to make public its denouncement of the coup d'état and assassination attempt since (as Avelo explains it), this was a theater where *zarzuelas* used to be performed, adding that, in any case, the government's accusations ended up being more a farce than a *zarzuela*.

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**Pessimism on the wages front:** Figures from Datanálisis show that Venezuelans have a negative view of the economic situation, which has repercussions on their behavior as consumers and on their expectations with regard to the coming months. The pollster revealed that 34.0% of consumers consider that this year their income will be less than last year and 38.0% forecast that it will be the same. Taken together, this gives 72.0% of Venezuelans who do not have positive expectations with regard to their income this year.

**A “tool,” just in case:** The US Government said once again that it does not consider it necessary to impose sanctions on the Venezuelan Government after a motion was passed in House of Representatives in favor of applying sanctions on certain Venezuelan government officials. Assistant secretary of state for Western Hemisphere Affairs, Roberta Jacobson, commented that the possible sanctions should be considered “*a tool, not an end*” and warned that, even though the dialog between the government and the opposition being promoted by UNASUR and the Vatican has stalled, it should be a vehicle that is exhausted before other types of intervention are considered.

**Unifying the missions:** President Nicolás Maduro has created the Higher Organ for the Great Housing for the Fatherland Mission that, from now on, will be responsible for the following “missions” or social programs: *Hijos de Venezuela*, *Niño Simón*, and *Niños de la Patria*, in addition to “*all the plans for the protection of children and mothers.*” The Housing for the Fatherland Mission is to be headed up by the Minister for Women’s Affairs, Andreína Tarazón; the Head of Government of the Capital District, Jacqueline Faría; and the Minister for the Transformation of Caracas, Ernesto Villegas.

**To protest or not protest?** According to the latest poll conducted by Venebarómetro, 47.9% of Venezuelans believe they can demonstrate freely without being repressed by the state security forces, whereas 48.0% of the population considers that the right to protest is not respected. As for freedom of speech, Venebarómetro’s poll found that 50.0% of Venezuelans believed that the State respects that right, whereas 47.0% did not.

**When demonstrations become a crime:** Prosecutor General Luisa Ortega Díaz maintained that the protests that took place in February were not peaceful. “*In Venezuela, there was no peaceful protest. In Venezuela, incidents occurred that constitute crimes,*” said the Prosecutor General, who reported that, as at May, 174 people had been arrested, only 18 of whom

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were students, “a very small number of students for those who say that students are deprived of liberty.”

**Closer ties with mother Russia:** Foreign Minister Elías Jaua signed nine bi-national cooperation agreements between Venezuela and the Russian Federation that will serve to “consolidate the strategic alliance” and strengthen cooperation in areas such as health and industry. One of the agreements provides for “increasing joint actions by Russia’s Federal Drug and Trafficking Control Service and our National Anti-drugs Office and Ministry for Homeland Affairs, Justice and Peace.”

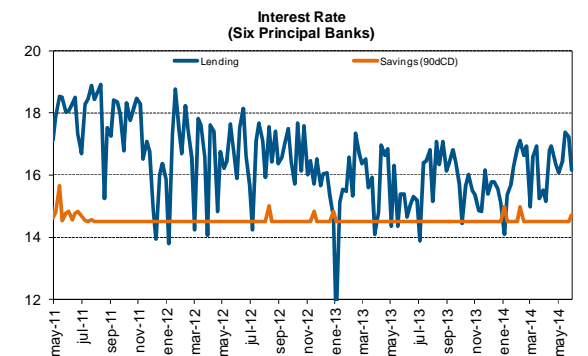
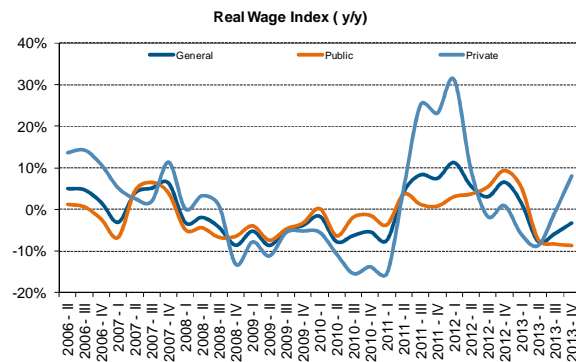
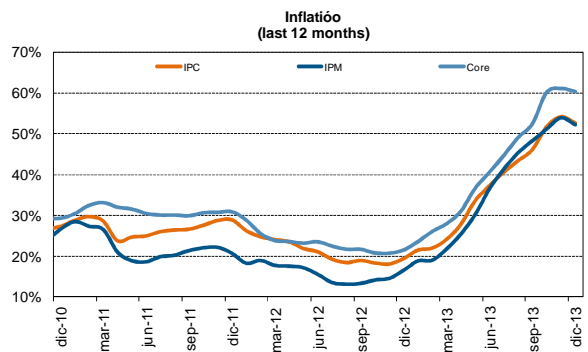
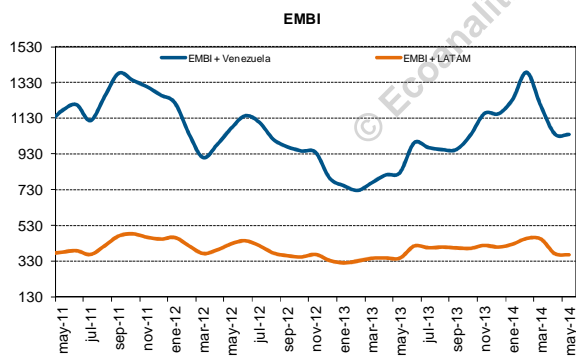
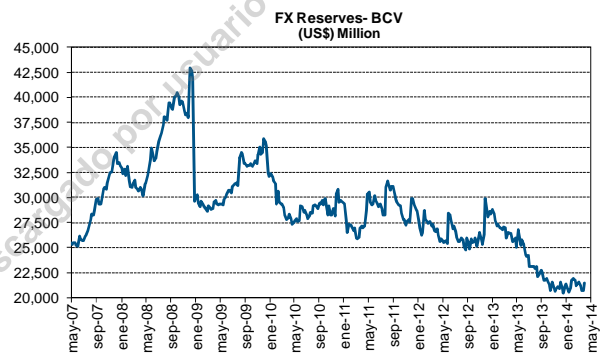
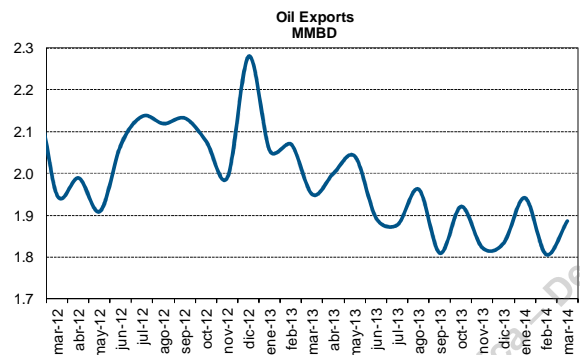
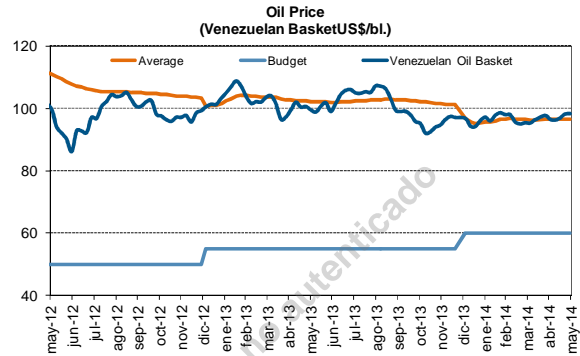
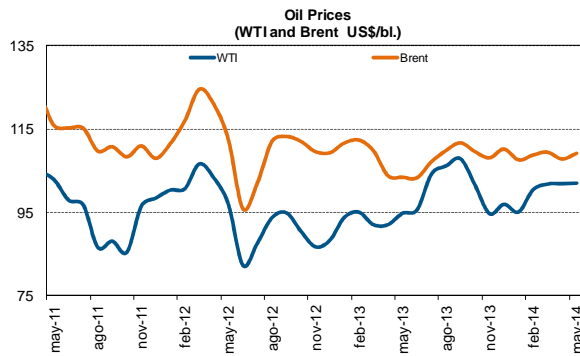
## LEGISLATIVES TIPS

**Venezuela’s new ambassador to Cuba:** On Tuesday, June 3, the National Assembly, in plenary session, approved the appointment of Alí Rodríguez Araque, former minister and former secretary general of UNASUR, as Venezuela’s ambassador to the Republic of Cuba. Rodríguez Araque held the posts of minister for energy and oil, minister of finance, and minister for electrical energy in the Chávez administration. The appointment was approved without a debate by the deputies, as no one signed up for a debate.

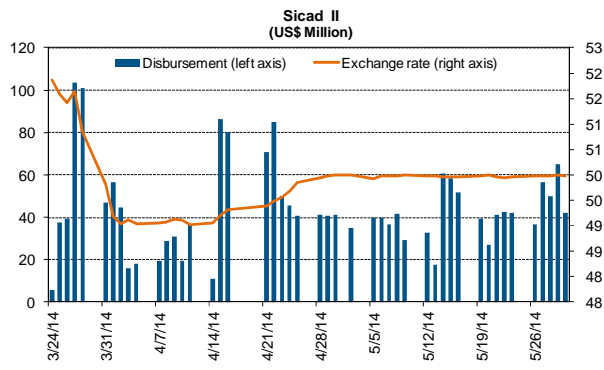
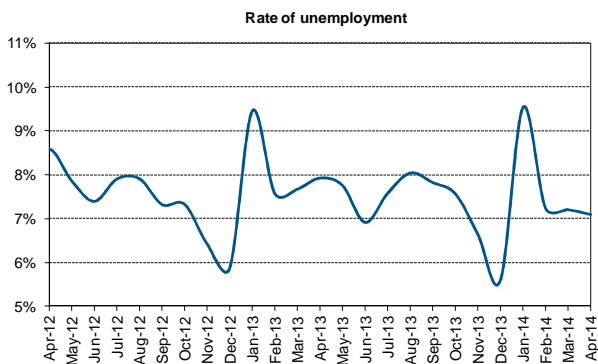
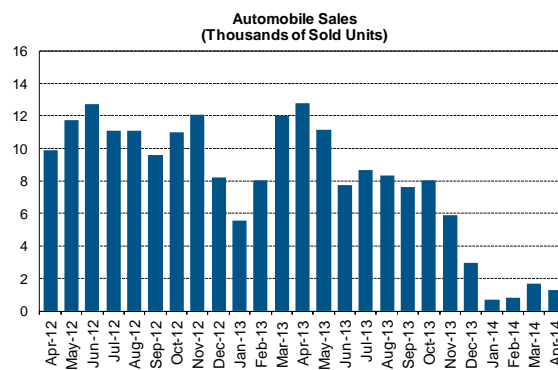
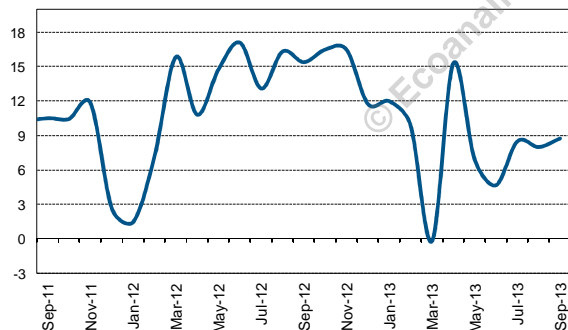
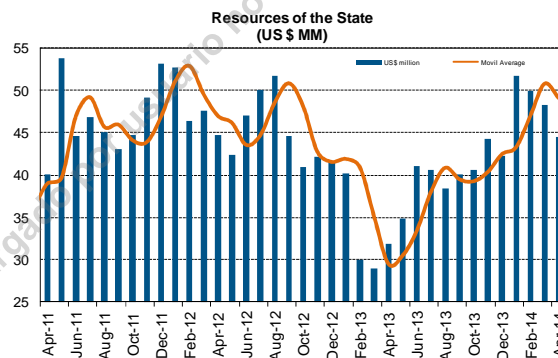
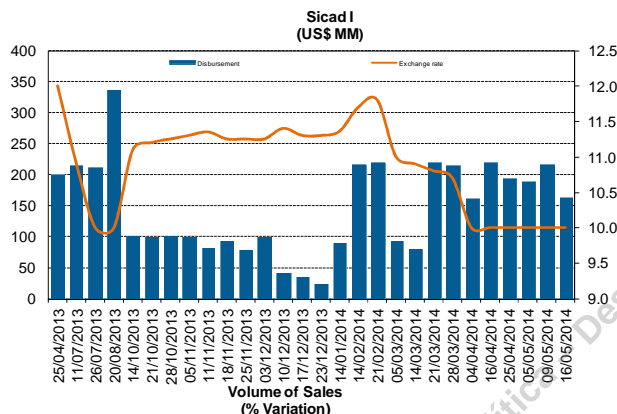
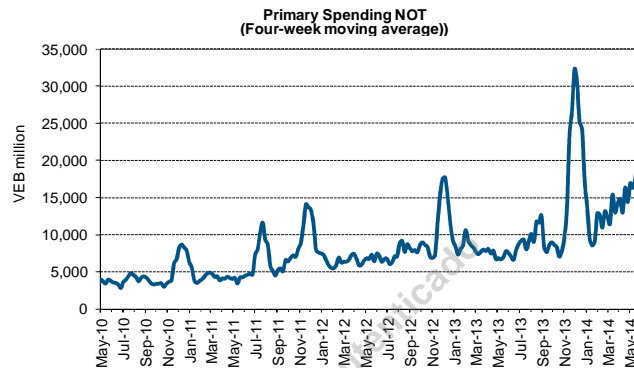
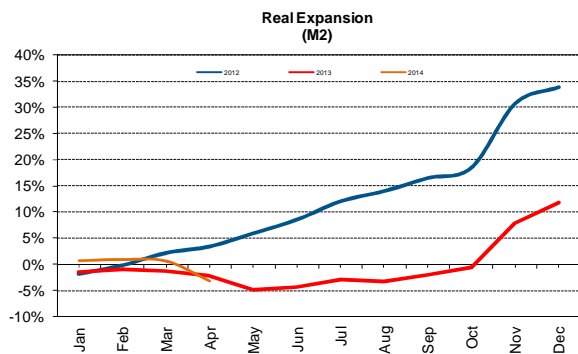
**UCV rector is to appear before the National Assembly.** The rector of *Universidad Central de Venezuela* (UCV), Cecilia García Arocha, and the university’s former security director are to appear before the National Assembly’s Permanent Homeland Policy Committee as part of its investigation into the violent incidents that occurred on April 3 at that university, according to Deputy Modesto Ruiz from the PSUV benches. UCV students who are sympathetic to the government already appeared before the committee on June 1 to report what happened during violent incidents that left a student from the School of History seriously injured.

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**ECONOMIC OVERVIEW**



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