



Weekly Report

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What to expect of the exchange rate policy?

Ecoanalítica's Team*

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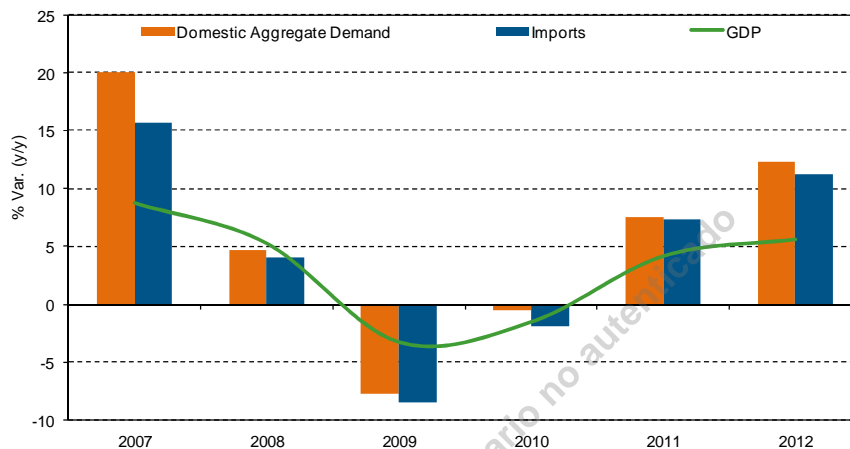
The management of the exchange rate policy during the first half of the year has been less than desirable, to say the least. A set of measures were implemented without having a clear target: elimination of Sitme, devaluation of the official Cadivi rate, the Sicad auction... the first five months of the year have gone amid an unprecedented scarcity of foreign not seen since 2009, which has made shortages, lack of supplies, and inflation much worse.

How did we get here?

In the last years, imbalances have worsened in Venezuela: a sharp increase in domestic aggregate demand (DAD) due mainly to a clearly expansive fiscal policy that has been the sign of the present administration, to the detriment of a more moderate expansion of local supplies (GDP), compounded by the operational situation of public enterprises, and the exchange rate over-valuation, which have deteriorated the performance of local industries. This imbalance has been compensated mainly through the import of products and services, thanks to high oil revenues derived from high oil prices.



Domestic Aggregate Demand vs. Imports vs. GDP



Sources: BCV and Ecoanalítica

Analyzing the foreign currency cash flow of the republic in the last 2 years, we see that foreign currency expenditures have been much higher than income. In 2011, this was compensated by an aggressive foreign indebtedness program, which didn't happen in 2012. As can be seen in the table, in 2012 the net deficit was US\$ 15.8 billion, which meant a drop in the republic's foreign liquid assets (international reserves and parallel funds).





Hard currency cash flow (US\$ million)

Concept	2011	2012	2013 P
Liquid foreign assets stock			
Public sector	26,905	28,306	12,521
Income			
Oil Exports (mb/d)	2.3	2.4	2.5
Energy agreements (mb/d)	0.24	0.24	0.24
Effective oil exports (mb/d)	2.07	2.15	2.22
Venezuelan oil basket price (US\$/bl)	100	103.4	104
Oil income	75,821	79,883	84,179
Oil imports	6,015	11,795	10,026
"Net" oil income	69,806	68,088	74,154
Non-oil-related income	4,522	3,771	3,620
Total income	74,328	71,859	77,774
Expenditure			
Non-oil-related public imports	12,971	14,266	10,965
Private imports via Cadivi	23,731	23,670	23,615
Non-priority private imports	8,989	15,629	7,872
Services	11,095	12,143	8,500
Rent and current transfers	3,843	5,513	4,962
Public external debt	13,509	12,455	18,425
Central Government	5,548	4,538	6,343
Pdvs	4,287	3,251	6,081
Chinese Fund	3,675	4,667	6,000
Capitals outflow and others	19,154	11,968	12,267
Total expenditure	103,766	95,644	86,605
Result	-29,439	-23,785	-8,832
Financing			
Chinese Fund	14,500	4,000	4,000
Bonds, loans and others (Republic + Pdvs)	16,340	4,000	8,000
Total Financing	30,840	8,000	12,000
Net Flow	1,401	-15,785	3,168

Sources: BCV, Ministerio de Finanzas, Pdvs and Ecoanalítica

At the end of 2012, it was clear that in 2013 the official exchange rate had to be devaluated and that there would be a reduction of imports, in short, an exchange rate adjustment. And although this happened, it left much to be desired

Political crisis and improvisation

January 2013 arrived, and what has happened in Venezuela since then is unprecedented in recent history. An ailing and absent president, who ultimately died; new elections, a hard fought result, and a governance crisis. Thus, in the first four months of the year, the priority of the government's public agenda was on politics. We went from a government where Chávez decided everything to an orphaned government. In

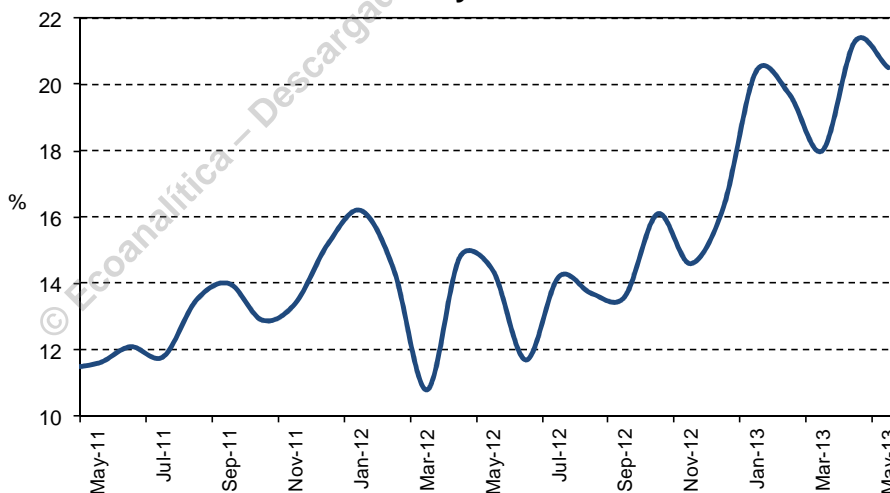


February, as expected, the new Cadivi rate was announced (it went from 4.3 to 6.3) as well as the elimination of Sitme, to be replaced by a “new system”. An improvised measure, since Sitme was eliminated (it financed 20.0% of private imports) without having the new system ready. This affected significantly the increase in the shortage index.

The “new system” called Sicad, a cumbersome auction system, was announced in the weeks prior to the elections. There was a single auction of US\$ 200 million, at an average exchange rate of VEB 14/US\$; an auto-goal. So far, there have been no more auctions.

Forgetting Sicad, with the shortage index at its limit, the government focused its strategy on energizing Cadivi, speeding up the delivery of foreign currency, a process that so far has been slow, given the limitations of the Administration to increase the supplies of foreign currency.

Scarcity Indicator



Sources: BCV and Ecoanalítica

The cherry on top...

In this context, the price in the alternative foreign currency market continues to rise. Since October, supplies from the State (the main supplier of this market) almost disappeared, with erratic placements, not periodical as in the past. Thus, since February, the only supplier of dollars is Cadivi, which exacerbates the problems. One data is eloquent: in the first quarter of 2012 (1Q2012), the foreign currency supply (Cadivi, Sitme and alternative) was US\$ 170 million per day. In the 1Q2013 it was US\$ 125 million, and the end of May, **Ecoanalítica** estimates that supplies are around US\$ 100 million/day.



And Merentes...

Amid this quagmire, Maduro appointed Nelson Merentes, who was President of Venezuelan Central Bank (BCV), as Minister of Finance, removing him from Planning (again), and taking it away from Giordani. We consider this change positive. It is clear that Merentes's foreign exchange management is completely different to that of Jorge Giordani. However, so far not much has been done, and his maneuvering space is limited, first because he has limited resources, and second because not all the economic cabinet is in line with his ideas.

How does the second semester look like?

For the remainder of the year, the government's strategy will focus on reducing scarcity and shortages, trying to prevent more inflation rises. To this end, Cadivi will focus on assigning foreign currency to priority sectors, mainly food, medicine, personal care items, chemicals, and the automotive sector. We consider that this year Cadivi will liquidate US\$19.6 billion, 58.3% of total private imports.

We expect that in the next weeks, the government will announce the "new Sicad", more flexible than its failed first version. The registration requirement in Rusad will probably be eliminated, and the credit letter mechanism will be more flexible. We estimate that Sicad will finance 6.8% of total private imports, that is, US\$3.8 billion. These imports won't be linked to the "priority basic basket core", so we forecast that the average exchange rate of these auctions will be around VEB 14.0/US\$.

We also believe that there will be two foreign debt issues, one by Pdvsa for US\$ 3.0 billion, and another for a similar amount by the Republic. In the latter case, since the government has basically used up the quota established by the present indebtedness law, they will be forced to approve a complementary indebtedness law in the next weeks.

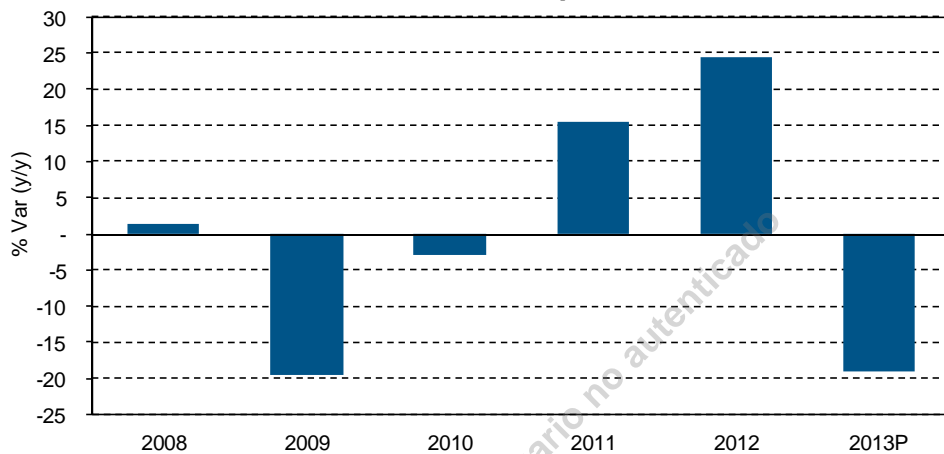
These issues would be under the bolívar-dollar scheme, and the main recipient would be the private sector, and individuals to a lesser proportion.

Thus, **Ecoanalítica** expects imports to fall 19.0% this year, and in current terms, the import of products (CIF) will go from US\$65.4 billion in 2012 to US\$ 56.0 billion in 2013, a drop of 14.4%. By institutional sector, private imports will fall 14.5%, and public imports will fall 14.1%, y/y.





Volume of Imports



Sources: BCV and Ecoanalítica

And beyond?

At **Ecoanalítica** we are convinced that this is only the first stage. There is no structural change and the main enemy of exchange rate stability is the outrageous difference between the rates. This undermines any strategy. Thus, the target of Merentes's plan is to re-establish a legal parallel foreign currency market next year, with clear rules: regular supplies from public entities (mainly Pdvsá), and the participation of private entities that will allow the Administration, for the first time since the implementation of exchange rate controls, a formal income.

But risks must be weighed. First, the government has no credibility, so the effort to implement this plan and be successful is great. Second, there are radical factors heading the government (with Minister Giordani) that don't agree with this scheme, so their strategies must be taken into consideration. Third, for the plan to be successful, changes are necessary in fiscal and debt policies, in monetary policies (administration of liquidity), and in oil policies (foreign currency administration).

What is clear is that government cannot keep postponing the problems: it doesn't have the political capital it had in the past, and doesn't have the resources. If it wants to remain viable in the future, it must have a more rational economic policy, particularly in the exchange rate area. Otherwise it will be political suicide.





Economic Tips

No second devaluation. Nicolás Maduro, President of the Republic, denied the recent rumors about a possible devaluation of the bolívar, and said that the future will bring the strengthening of the currency and of the economy. *Ecoanalítica* considers that although a new devaluation would significantly correct the over-valuation of the currency, its high political cost prevents the implementation of this measure for the second time in the year.

But the swap could return. According to the last report of *Barclays Capital*, the Government's economic cabinet is analyzing the possibility of re-establishing the dollar swap market, as a way to relax the exchange rate market. Barclays says that this would allow the government to offer dollars at a lower price than in the parallel market, improve its balance, and allow the flow of foreign currency to solve the supply issues that are affecting production.

Sicad at a winner's pace. According to sources in the import sector, the BCV started liquidating foreign currency, which will back the credit letters that employees requested in the only auction of Sicad. While the liquidation of foreign currency becomes a reality, entrepreneurs will have to use their credit lines with foreign suppliers, and will have a reduced dispatch of products.

Optimization of Cadivi could come before that of Sicad. According to Ministry of Finance sources, efforts to increase the assignment of foreign currency for the entrepreneurial sector will first require measures to strengthen Cadivi, so the authorities will work on searching for solutions to improve the operations of the mechanism. According to the President de Cadivi, Eudomar Tovar, changes in the different rules of the organization are required, among them those regarding imports, credit cards, remittances, students, etc.

Production isn't lacking, it is an excess of consumption. Regarding the recent economic figures, Nicolás Maduro, President of the Republic, said that "*an overheating of consumption*" altered the inflation index, reaching 6.1% in May (inter-monthly variation). Given this situation, the head of state called upon the population to calm down and "*regularize consumption*". "*There is an over-heating of consumption, which has affected inflation (...) we will correct this with more production (...) and we are also bringing some products*", said Maduro.



Consumption will fall. According to Alejandro Grisanti, economist and Director of Barclays Latin America, high inflation together with lower production will lead this year to *“a reduction of purchasing power”*. Grisanti said that consumers will have a lower capacity to purchase basic foods, and the poorest will be the most affected, because *“prices have been increasing more in the area where the poor spend the most: food”*.

The party is over. Bank of America- Merrill Lynch forecasted a 3.6% fall for the Venezuelan economy in 2013, due to the severe contraction of public spending, the low availability of foreign currency for imports in the private sector, and the devaluation of the bolívar. According to a report of the institution, the increase in public sector imports led to the large macro-economic adjustment of the government. Imports increased 21.0% (a/a) in 1Q2013.

Eeny meeny. During a meeting of drug sector entrepreneurs and part of the government's economic cabinet, Minister of Finance Nelson Merentes mentioned the need to randomly supervise public entities, to counteract the inefficiency of some of them. *“They must be randomly supervised (public entities) so we make sure that things are done, because all these troubles (in the production chain) lead to inefficiency”*, said Merentes.

When problems accumulate. According to Elías Eljuri, President of the National Institute of Statistics (Instituto Nacional de Estadísticas - INE), the high inflation of the first months of the year is due to factors like the devaluation of February, delays in the delivery of foreign currency, lack of raw materials, speculation, hoarding, and nervous purchases. *“Right now there is no Band-Aid solution ...we have a problem (...) we just gave the inflation figures, which reached 6.1% in May, very high; inflation in food was approximately 10.0% and food represents almost 37.0%”*, said Eljuri.

No need for an alarm. Elías Eljuri, President of INE, insisted that the increase of inflation in the first half of the year is circumstantial, and estimates that inflation will slow down starting in July, when the shipment of imported foods will arrive, although he acknowledged that imports *“are not the true solution”* to the inflation crisis. Finally, Eljuri said that the present situation is not more difficult than the one in 2003, year of the oil strike and the contraction of GDP.

Interest rates. The lending rate for the fifth week of May was at 15.4%, staying stable compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.



International reserves. International reserves increased by 6.7%, going from US\$25.070 billion during the fifth week of May to US\$26.758 billion during the first week of June. Compared to the same period last year, international reserves have increased by 5.1%.

Central government expenditure. On Friday June 7th according to figures from the National Treasury Office (ONT) primary spending was VEB 4.26 billion, which means a decreased of 26.3% when compared to the previous week when it was VEB 5.78 billion; when compared to the same period last year we observe a decrease of 21.5%. So far this year the cumulative expenditure in real terms (measured in 2007 prices) IS VEB 57.13 billion, with a variation (y/y) of 0.3%.

Monetary liquidity. Monetary liquidity (M2) increased 1.7% in the fifth week of May compared to the previous week, settling at VEB 807.02 billion. The M2 has increased 61.8% in relation with the same period last year.

Oil Tips

China casts a shadow on demand. Oil prices are affected by data from China, one of the main consumers in the world, which are casting a shade over demand forecasts, and darken the optimism derived from US figures. Official data revealed that China's exports in May and domestic activity had difficulties, while domestic demand of oil increased 1.0% on a y/y basis to 9.48 mb/d, its lowest level in nine months.

OPEC expects an increase. In its monthly report OPEC estimated that global oil demand will grow faster in the remainder of the year, mainly due to seasonal aspects, and the expectations of an economic recovery. The organization forecasted that global crude oil demand will increase 900,000 barrels per day (kb/d) in the second half of 2013, over the 700 kb/d of the first semester, to reach an average demand of 89.65 million barrels per day (mb/d) in 2013.

Another Chinese aid. Rafael Ramírez, Minister of Oil and Mines, met in Beijing with Li Rougu, President of the China Export and Import Bank, to evaluate the implementation of a new credit line for US\$4.0 billion, to acquire the equipment required to increase crude oil production in Venezuela. At the meeting, the financial



entity reaffirmed its commitment to finance the construction of a wharf for Pequiven in Morón, Carabobo.

Debt out of control. This new credit would be the fourth financial instrument given to Pdvsa or its mixed companies in the last month, with the US\$4.0 billion with CNPC for Petrosinovensa, the US\$2.0 billion with Chevron for Petroboscán, the US\$1.5 billion in a credit line with Schlumberger, and the US\$500 million one with the China development bank.

And the honeymoon continues. Ramírez said that at the meeting with the vice-minister of the National Commission for Development and Reform, Zhang Xiaoqiang, they talked about projects executed by both nations in energy, to generate the conditions that guarantee compliance with the planned increase of oil production in Venezuela, including the participation of Chinese industries in the manufacturing of goods for the Orinoco Oil Belt, the supply of equipment, machineries, and products for the development of the planned infrastructure.

Pdvsa owes BCV VEB 175.0 billion. Pdvsa's debt in local currency with the BCV increased 5.8% at the end of the first quarter. From the VEB 165.4 billion that Pdvsa owed BCV in 31 December 2012, it went to VEB 175.1 billion by April 30 of this year, according to the entity. However, for financial information purposes of pa Pdvsa – which is mainly in dollars- there has not been an increase, but rather a decrease of 27.7% due to the devaluation of the bolívar agreed by the Administration and BCV in February.

An example to follow. The Brazilian Petrobras broke another record by producing in May 2.51 billion cubic meters of gasoline, 8.1% more than in April. The largest company in Brazil also informed that in May it processed an average of 2.11 mb/d in its refineries, also a record volume, and 0.6% more than in April. According to a communiqué of the company, these results were due to the initiatives adopted by Petrobras to increase the national production of fuel to reduce imports.

Border in crisis. Since Thursday, May 30, the three gas stations of the Special Border Fuel Supply Service (Servicio de Abastecimiento Fronterizo Especial de Combustible - Safec) in Táchira, and the gas stations at the North Santander Department in Colombia, stopped receiving fuel from Pdvsa, and so far there has been no formal notification of the measure, which affected the supply of fuel in all the region, and congested the remainder of the conventional gas stations.

Possible causes. The suspension of dispatches coincided with the impasse between the governments of Venezuela and Colombia due to the visit of Henrique Capriles to President Juan Manuel Santos. However, sources say that a possible



cause is the difficulty to supply the western and Andean region of the country, given the problems in some refineries, because during the first week in June there were problems in the supply of gasoline in the north of Falcón, which traditionally uses the production of the Paraguaná Refining Center.

Cantv and Pdvsa with bills to pay pending. The Venezuelan Association of Clinics and Hospitals say that state owed companies Cantv and Pdvsa owe VEB 600 billion to 207 health care institutions. Cristino García, President of the association, said that the debt is between 90 days to more than one year, and affects clinics throughout the country. Two years ago, companies and official institutions agreed on the so-called institutional alliance, however, García said that such agreements were signed with only 10 clinics. *"Cantv and Pdvsa have tried to say that there is a national agreement, when there is one with only 10 clinics"*, he said.

International oil baskets. At closing time on June 7th in the New York Stock Exchange, the price of the WTI was US\$93.5/bl, a 0.6% decrease compared to the US\$94.0/bl reported the previous week. The Brent decreased by 0.3% to reach US\$102.5/bl, compared to the previous week's US\$102.8/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$98.8/bl on Friday June 7th, a 0.7% decrease compared to the US\$99.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.0/bl.

Business Sector Tips

Gruma appeals to ICSID. The Mexican corn flour producer Gruma sued Venezuela before the World Bank's arbitration tribunal for the expropriation of its operations in the oil producing country, after three years of failed negotiations to create a joint venture. In April, Gruma informed that it continued operating its fifteen plants in association with Venezuelan authorities, while they worked on the terms of the nationalization, but on June 6 it filed its suit before ICSID.

New car sales down by 5.0%. According to figures from the Venezuelan Automotive Chamber (Cavenez), May's new car sales down 5.0% compared to the same period of 2012. 49,548 units have been commercialized from January to May, 5,337 less vehicles (-9.7%) than the same period of 2012. Out of the total sales, 30,273 vehicles



were manufactured inside the country, while 19,275 were imported. This groups registered a decrease of 34% and an increase of 114,4% respectively.

Car production went down by 34.4%. Cavenez' figures also show that Venezuelan car production was of 8,152 units in May. This represents a decrease of 23.3% compared to the same period of 2012. The accumulated production from January to May reached 31,153 units, 34.4% lower than the same period of 2012, when 47,471 vehicles were produced.

Venezuela will import vehicles from Ecuador. Alejandro Fleming, Minister of Trade, informed that the first steps to start the marketing of 12,700 vehicles to be imported from Ecuador were taken. Fleming said that *"the marketing can be done through Suvinca (Suministros Venezolanos Industriales)"*. Fleming explained that the agreement establishes priorities in the type of cars that will be brought to Venezuela: *"the first priority are public transportation vehicles, then cargo vehicles, then commercial and sedan cars"*.

Automotive sector wants to be a priority. Representatives of the automotive sector expect to be considered a priority industry and to be included in the technical work groups with the Government to solve the different issues they are facing. Spokespersons of the sector say that they have *"stressed Sitme because most auto-parts importers don't have access to either Cadivi or Rusad; (...) and the substitute entity was created (Sicad) which doesn't include 50.0 or 55.0% of our affiliates which don't have Cadivi"*.

Meters to be installed. Jesse Chacón, Minister of Electric Power, said that the six million intelligent meters that the State expects to install, will allow the projection of electric power demand and generation in the country. He said that this amount of spearhead technology equipment is equal to the estimated number of clients that the national energy system has, and is an ideal mechanism to forecast demand in peak hours.

Energy savings campaign started. Minister Chacón informed that on Saturday June 8, the information campaign to involve the society in the efficient and rational use of energy started. He invited the media and the society as a whole to participate in this campaign, clarifying that it is not only of the National Government, but of the Venezuelan State. Chacón has said that the problem in Venezuela is not due to generation issues but to high demand, which is statistically higher than in China, one of the more industrialized in the world.

Consecomercio: "Sicad was born with lead on its wings". Mauricio Tancredi, President of Consecomercio, said that Sicad *"was born with lead on its wings"*,



because there was only one auction, and two months later there have been no more". He said that what Venezuela needs is "a mechanism that is easy, transparent, and simple" for small and medium entrepreneurs to access foreign currency and import in small amounts, and thus relax the exchange rate market.

Conindustria: "It is a moment for changes". Carlos Larrazábal, President of the Venezuelan Confederation of Industrialists (Conindustria), said that the manufacturing sector fell 3.6% in 1Q2013. Larrazábal said that the country's economic model has collapsed. The State must promote private investment to promote work in the country. It is the moment to make changes and move the economy in a new direction, said Larrazábal.

The concerns persist. The pharmaceutical sector still doesn't see a solution for the problems presented to the Administration and supplies are endangered. It is not only delays in the liquidation of foreign currency, but also that the authorities are not approving the Non-Production Certificates (Certificados de No Producción - CNP) required for new import. The Government promised to create a policy to assign the CNP that avoids "discretionality", but that mechanism has not yet been defined.

Maduro will review the control of purchases. Jairo Ramírez, Secretary of Security and Public Order of Zulia, said that Governor Francisco Arias Cárdenas, will meet with President Nicolás Maduro, to review the plan that the governor proposed to put an end to food smuggling, and a system to regulate the sale of products with controlled prices will be implemented in 65 supermarkets of the San Francisco and Maracaibo municipalities.

Ferrominera for Sidor. The protests of Ferrominera Orinoco workers that led to more than one week of strikes left Sidor with no raw materials, stopping the production of pellets in the state owned company. The conflict of Ferrominera could, in a matter of days, also stop the briquettes operation for the second time this year.

National Steel Complex expands. According Ricardo Menéndez, Minister of Industry, the company increased production 49.0% and its dispatches 62.0% since last year, to cover the needs of the Gran Misión Vivienda Venezuela.

Between 10.0 and 20.0% of power reserves by August. Jesse Chacón, Minister of Electric Power, said that in August they will announce an electric power reserve of 10.0 to 20.0% at the end of 3Q2013, but that won't be sufficient to change consumption levels of Venezuelans.

It is the tourism sector's turn to pay. The National Tourism Institute (Inatur) is trying, through a surveillance plan, to confront the arrears of the tourism sector in



paying the Special Contributions of the Tourism Sector. Inatur will also try to make the bank sector eliminate the preferential rates of tourism entities given the delays in tax payments.

World Economy Tips

Global economy's growth gains momentum. According to the total global production index, prepared by JPMorgan along with organizations of supply and research management, global economic activity recovered its momentum in May, upon registering an increase in the production of service and manufacturing firms. The index grew from 51.9 in April to 53.1 in May, for its 46th month in a row over 50, which maintains the difference between economic growth and contraction.

The new China. China will seek to accelerate its economic reform, expand its imports, accelerate its transition toward an economy based on consumption and take a position contrary to protectionist forms, as stated by representatives of China's government. *"We have speeded up the change to a development model and will vigorously improve and optimize the economic structure,"* Vice-Prime Minister Zhang Gaoli said. China is expected to import US\$10 trillion and to invest US\$500.0 billion abroad, throughout the next five years.

Japan for enthusiasts and workers. Japan's Prime Minister, Shinzo Abe, decided to pledge to increase national income by 3.0% per year and set up especial economic areas to attract foreign companies in the last phase of a series of measures intended bolster Japanese growth. *"The aim of our growth strategy is based on creating jobs for enthusiastic people and increase wages for hard-working people (...). In a nutshell, help families to be benefited. That's my point,* Japan's Prime Minister said.

Who's to blame in this Greek tragedy? The European Commission (EC) and the International Monetary Fund (IMF) expressed opposite opinions about the development of Greece's first financial bailout. The IMF says that the delay in Greek debt restructuring implied an additional burden for European taxpayers' pockets and a benefit for private investors. On its part, the EC assured that Greece's bailout took place under very difficult circumstances.



The ECB adjusts its forecasts. The European Central Bank adjusted its growth prospects for the euro zone in 2012; the ECB now forecasts a contraction of 0.6% of GDP vs. -0.1% and -0.9% before, and expects growth reach 1.1% in 2014 (according to the previous forecast, growth would range between 0% and 2.2%). Concerning inflation, the ECB expects it to reach 1.4% in 2013 and 1.3% in 2014.

The ECB continues waiting. The ECB decided to maintain its main interest rate unchanged at a minimum low of 0.5% and refrained from taking measures in order to wait and see if the economy recovers in the second half of the year. The ECB president, Mario Darghi, pointed out that economic data showed an improvement; therefore the monetary union would be heading toward a “*very gradual recovery*” beginning in end-2013.

Doubtful goal. France’s unemployment rate was 10.8% at the end of 1Q2013, reaching its peak over the past 14 years, according to data released by the National Institute of Statistics and Economic Studies (NISES). The figures questioned that President François Hollande may be able to meet the goal of reversing the unemployment growing trend for the end of the year and they are a reflection of recession in which the French economy is submerged.

Germany will grow less. The Bundesbank adjusted downward its growth prospects for Germany for 2013-2014, due to a slower increase in exports than in imports, even though the ECB expects a strong economic growth in the second quarter of the year. The Bundesbank now estimates that the German economy will grow 0.3% this year vs. a previous forecast of 0.4%.

Brazil loses credibility. Standard & Poor’s rating agency adjusted the panorama for Brazil’s note from stable to negative, maintaining Brazil’s sovereign debt current rating. “*A continuous and slow economic growth, weaker fiscal and external fundamentals and certain loss of credibility of the economic policy given that ambiguous political signals could reduce Brazil’s capacity to administer an external shock,*” the rating agency pointed out.

Political Tips

Capriles wants to be the boss. Miranda Governor, Henrique Capriles, said that he already requested the Democratic Unity Panel (MUD) to allow him to be the head of



campaign of mayors that “*represent advance*” for the municipal election scheduled for next December 8th. The opposition leader assured that strategies to consolidate victory and gain voters even inside *chavismo* are required, and suggested the use of a unitary single ballot for all MUD’S candidates.

Maduro is already in campaign. President Nicolás Maduro said that he’s in permanent campaign for next mayoral election to be held on December 8th and called “*patriots in Venezuela to look for a great victory.*” Maduro’s call was extended to “*my comrades that were part of the opposition*” to whom he offered to forget past differences.

Chavismo will seek to resume “lines” toward victory. In a meeting with grassroots political cadres of *chavismo*, PSUV first vice-president, Diosdado Cabello, made a call to resume the five strategic lines for political action created by the late Hugo Chávez, which were essential for 2012 political victories. These strategic lines include the creation of a Great Patriotic Pole and maintaining the Government party’s machinery in favor of the people.

The economy is heading toward a cliff. Miranda Governor, Henrique Capriles, assured that the country’s serious economic situation “*is not the responsibility of the people or a group*” but of policies implemented by the administration. As an example, Capriles said that since Maduro came to office, inflation is “*one of the most disastrous*” the country has experienced and there are more than “*six millions of Venezuelans that don’t have a job or are active in the informal economy.*”

The will of the people was expressed on 04/14. Tibisay Lucena, president of the National Election Council (CNE) said that data resulting from the 2nd phase of the citizen audit (which ended on June 8th) ratify that the results of April 14th presidential election “*are the faithful reflection of the will of the citizens.*” Forty-two groups from the civil society and a total of 250 people took part in the audit. Lucena highlighted that the review determined that 99.98% of the ballots matched the tally sheets.

The voters’ roll is shielded. Sandra Oblitas, CNE vice-president, reiterated that the Venezuelan Permanent Voters’ Roll (REP) “*is shielded,*” and dismissed reports that “*death people*” had voted in the past election processes. “*It’s false that 100.0% of voters voted in some polling centers,*” Oblitas claimed, adding that this is enough to explain the contradictions in allegations by press media about irregularities in the election processes.

However, 180,125 death people are included. Opposition election experts shall submit to the CNE the personal data corresponding to 180,125 death people that appear in the election roll still enabled to vote. Death people in the roll that haven’t



been purged yet were estimated based on the death data with the INE and reports collected by the Simón Bolívar Command during recent weeks.

The new State Council. President Nicolás Maduro announced that the State Council is already set up. The Council is an advisory body, provided for in the Constitution, which shall consist of representatives from the different branches of power and representatives from state governors. The body shall be entrusted with the analysis of several topics, including relations with Colombia and the alleged “*conspiracy by the international right*” against Venezuela, Maduro highlighted.

In the absence of Chávez, Fidel. AN president, Diosdado Cabello, meet in Havana with Fidel and Raúl Castro, to talk about issues related to bilateral cooperation and global food situation, stressing the good condition of the bilateral relations. Cuba's President, Raúl Castro, ratified the “*invariable support of Cuba to the Bolivarian Revolution,*” and highlighted the contribution that said process has made to the Latin American and Caribbean integration.

Human Rights are respected in Venezuela. Attorney General Luisa Ortega Díaz claimed that the Venezuelan State has swiftly acted with respect to the cases of Human Rights violation; therefore, he dismissed as “false” reports stating that 500 people have been tortured in Venezuela. Those that have denounced the Venezuelan State at international entities “*are discrediting their homeland; they didn't say anything when Human Rights were violated in the past,*” Ortega pointed out.

Legislatives Tips

LOTTT's deadline ends. The deadline for retailers and firms to adopt the new workweek without being fined will be reached this week. The period of grace granted by the Ministry of Labor for businesses to take the actions necessary to adjust to the measure, before entering a second supervision stage in which fines between 30 and 60 tax units will be effectively imposed, expires on June 15th. Inspections conducted so far have shown that 83.0% of businesses have cutback the workweek, as reported by official sources.

The bright side of the disarmament law. Pablo Fernández, secretary of the extinct Presidential Commission for Weapon Control stated that the purpose of Law on Disarmament which contains 126 articles is to “*put an end to gunsmith as a trade*”



activity. The only entity authorized to develop this kind of activity is the Venezuelan Company for Military Industries.” Furthermore, “the law limits the sale of ammunitions to individuals (...); provides for strong penalties against public servants that breach any of the articles of the Law (...); creates an automated weapon registry that contains the ballistics test,” among others.

The AN will chose secretary. PSUV representative, Víctor Clark, was elected secretary of the AN to replace Iván Zerpa who was appointed by President Nicolás Maduro Venezuelan Ambassador to China. The proposal was made by PSUV’s Gladys Requena and was supported by the group of the Democratic Alternative. Fidel Vásquez, also from the PSUV, was named assistant secretary.

The AN doesn’t want to see the reality of universities in Venezuela. Representative Jesús Barrios proposed the discussion of the “university reality” in the plenary session. Barrios rejected the “*budgetary fence*” imposed by the national government through the adoption of “*deficit budgets based on political criteria established in the University Sector Planning Office (OPSU)*.” The proposal was rejected because it wasn’t supported by the pro-government group, which constitutes the majority in the AN.

Law against torture was passed. At the regular session on Tuesday, June 4th, the Special Law to Prevent and Penalize Torture and other Cruel, Inhuman and Degrading Behaviors was passed by the AN. The final reading of the law was made by the AN secretary, Víctor Clark, with the respective changes approved in the second discussion which took place in the plenary session of Tuesday, May 28th. The law has 32 articles, two interim provisions, two final provisions and a derogatory provision.

The AN approved the Law on Disarmament. Also at its plenary session of Tuesday, June 4th, the AN approved the Law on Disarmament and Weapon and Ammunition Control in the second discussion. The law was passed on Tuesday, June 11th at the regular session, after the final reading of the law. This legal instrument, along with plans developed by the administration concerning personal security, is intended to safeguard the lives of Venezuelans and reduce crime indices.

New Indepabis president. The Official Gazette No. 40,185 dated June 11th published the appointment of Eduardo Samán as president of the Institute for the Defense of People in the Access to Goods and Services (Indepabis). Law enforcement authorities captured Indepabis’ national head for inspection, Tryno Martínez, past weekend for allegedly being member of a band that blackmailed retailers.



ECONOMIC OVERVIEW

