



# Weekly Report

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## *Sicad's relaunching*

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February started with a series of economic policies, the most relevant of which is February 8<sup>th</sup> devaluation. The then Minister of Planning and Finance, Jorge Giordani, the president of the Central Bank of Venezuela (BCV), Nelson Merentes, announced the decision to devalue official exchange rate from VEB 4.3/US\$ to VEB 6.3/US\$. Along with devaluation, the elimination of Sitme alternative system was announced; this decision was not surprising, because in early 2013, the volume of foreign currency allotted through Sitme had substantially dropped.

On March 25, after a whole month, the replacement of the late Sitme was announced: the "new system" called "*Sistema complementario de administración de divisas*" (Sicad) was introduced a few weeks before April's presidential election. This mechanism consists of an auction system that in its first version presented quite cumbersome rules of play. A single auction of US\$200 million was carried out with an average exchange rate of VEB 14/US\$; an own goal.

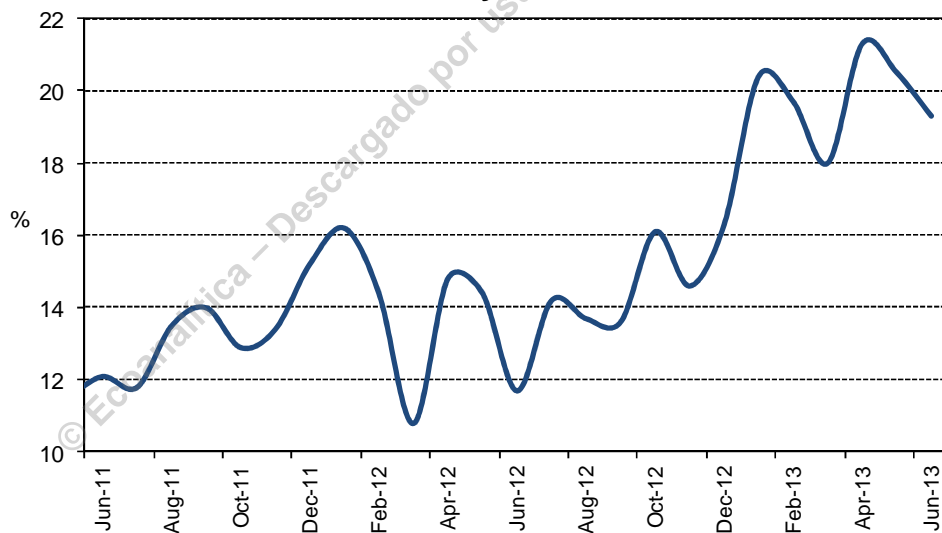


**Putting things in context...**

We started 2013 with a negative foreign currency cash flow and a reduced stock of liquid foreign assets, to which a 7.4% drop in the price of the Venezuelan oil basket added. This led to a 13.4% contraction in oil exports and 69.3% in the current account surplus, which caused PDVSA transfers to BCV to drop 4.1% in 1Q2013.

In view of this, the administration closed the foreign currency flow, delays at Cadivi reached up to 200 days and in February the currency was devalued 31.7% and Sitme was eliminated, a measure that is evidently improvised, because a system that financed 20.0% of private sector imports was erased without the new mechanism being ready. This had a significant impact on the surge of the scarcity index.

**Scarcity Indicator**



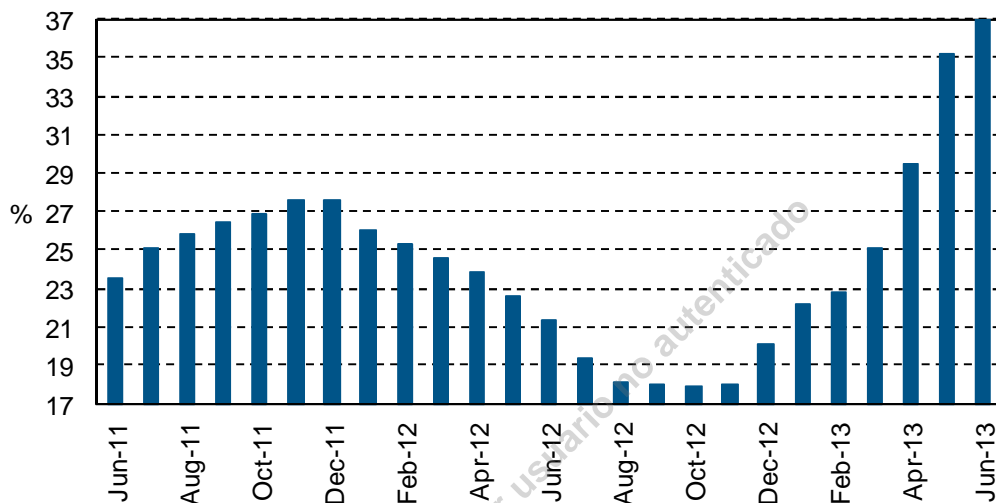
Sources: BCV and Ecoanalítica

Likewise, half of the year has passed and the economic cabinet has already reached its inflation target for the year just in six months. The last figures released by the BCV reflect that inflation in May was 4.7%, which would lead to a cumulative inflation of 25.0%, higher than the 16.0% ceiling set by the BCV.





### NCPI (y/y)



Sources: BCV and Ecoanalítica

The first six months of the year have elapsed amidst a lack of foreign currency which hasn't been seen since 2009, thus aggravating scarcity, shortages and inflation, as already described. Sicad reactivation certainly represents an oxygenation of the economy and the possibility of an improvement in the outlook for late 2013.

#### Another Exchange Agreement

The BCV published exchange agreement No. 22 last week, according to which individuals may participate in Sicad auctions. Likewise, the new provision allows individuals, as well as private sector businesses, to offer dollars in cash or instruments denominated in foreign currency at Sicad auctions.

Meanwhile, foreign currency supply from the funds of the Republic will be that agreed upon by the administration and the BCV. This offer is expected to consist mainly of positions held by the National Development Fund (Fonden), among other public entities. Likewise, the purchase and sale, in local currency, and of papers denominated in foreign currency issued by the Republic, its decentralized entities or any other entity are scheduled.

Concerning the operations mentioned above, the BCV will inform which are the papers denominated in foreign currency that may be subject to purchase and sale operations in bolivars through Sicad. According to the new provision, the minimum and/or maximum amount per purchase



position, channeled through Sicad, will be determined on each invitation, thus opening the possibility for the economic sectors of setting multiple exchange rates higher than the official exchange rate of VEB 6.30/US\$, established in exchange agreement No. 14.

In addition to the terms and conditions for the auctions, a fund was created, which will be fed with the differential in bolivars between the rate of the position awarded and the official exchange rate. President Nicolás Maduro will decide how this differential will be distributed. At **Ecoanalítica**, we estimate that Sicad will auction US\$3.800 million, at an average exchange rate of VEB 14.0/US\$; therefore, the new fund could manage about VEB29,260 million that would be discretionally managed by the government.

## Sicad's Re-launching

The government has announced that a new and more flexible version of Sicad will be launched. The economic cabinet has pointed out that the new auctions will be held on a sector basis and that in addition to addressing companies, they will also include individuals. Likewise, the BCV informed that at least two auctions will be held per month, with the first of them being in the first half of July.

Rules governing the next auctions of Sicad were published again this week in the Official Gazette (Nº 40199), with certain changes that are explained below. The new provision establishes that only legal persons or individuals residing or domiciled in the national territory may place offers for the acquisition of foreign currency or papers through Sicad. Likewise, those interested in participating must be registered with the new Rusicad, which will be administered by the BCV and is scheduled to be operating this week.

A further change to the rules is that ceilings for legal persons were eliminated. We believe this is a positive decision, but don't rule out that in a future or when the auction schedule for the coming months is established, a ceiling in auctions for individuals could be set.

The resolution published on July 8<sup>th</sup> explains that individuals may acquire foreign currency and papers through Sicad based on the following assumptions:

- Expenses required for travels abroad.





- Expenses required for studies abroad, health care, scientific research, sports, culture and other cases of special urgency; finally, the payment of goods required to render professional services.

If this is the case, that is, that ceilings have been eliminated, this would make a big difference with respect to Sitme. Another important element is that, in the case of individuals, it won't be required that they have spent the yearly foreign currency allotment by Cadivi. Therefore, an individual could obtain Cadivi and also participate in auctions. Likewise, according to Minister Merentes, individuals may use both accounts held abroad and accounts denominated in dollars held in local banks.

For this first auction the total amount for natural persons will be of US\$30 million, and the requirements to participate are published in the Sicad rules on the BCV webpage. The maximum and minimum amounts for this first auction are below, note that authorized institutions will accept purchase orders until Tuesday, July 16.

	Assumptions	
	Consumption expenditures for foreign travel	Other cases
<b>Minimum Amount</b>	US\$ 500	US\$ 500
<b>Maximum Amount</b>	US\$ 2,500	US\$ 5,000

Sources: BCV and Ecoanalítica

Additionally, for the case of the applicants for traveling expenses, participants summoned are those who have purchased tickets with a departure date from the date of the notice until September 15<sup>th</sup>, both dates inclusive.

### And what about importers...?

The new exchange agreement provides for that, in view of the market dynamics, and considering the objects of the State, as well as the needs of the economy, especial auctions might be held to address only requests presented by individuals or specific productive or economic sectors, as well as requests for high sums. In this context, given the scarcity of mass consumption goods in the country, we at **Ecoanalítica**, believe that the administration will center on the planning of auctions oriented toward sectors like food, medicines, personal care, chemicals and the automotive industry. In this sense, we can also expect that individuals actively



participate in the nearest auctions, since vacation season, i.e. high demand, is near.

A relevant point for importers is that to obtain foreign currency through Sicad to pay imports of goods and services, importers shouldn't have any ALDs (foreign currency allotment authorizations) issued by Cadivi outstanding, or shouldn't have obtained foreign currency through ALD payment during the 60 days prior to the date of the special auction being held. Therefore, we believe that this could represent an obstacle for those firms that usually acquire foreign exchange through Cadivi, because the article refers to legal persons instead of items, and as such they aren't eligible for this mechanism.

As mentioned above, the first auction has already been convened, and in the case of juristic persons, those called are the ones domiciled in the state of Nueva Esparta, Falcón as well as the firms of the automotive sector (auto) or the health sector (medical equipment and spare parts) domiciled in any part of the country's territory. It is not surprising that the auction is aimed towards these sectors, since in past statements the Minister Merentes informed that, for the health and automotive sectors, a greater effort is required to reduce delays in the foreign currency liquidations. The description of this auction for juristic persons is presented in the table below.

#### Companies sale description

Total amount of the sale	US\$170 millions
Minimum amount by purchase order	US\$8,000
Maximum amount by purchase order	0.6% of the sale amount
Múltiple by purchase order	US\$1,000

Sources: BCV y Ecoanalítica

#### And what should we expect for Sicad in the future?

Even though, the main changes in Sicad have already been released, as well as the new rules that will govern its functioning, there are still doubts about the system. First, although the new Gazette doesn't set peak amounts for individuals, this could change when the procedure for the next auctions is finally announced. Furthermore, in our opinion, the requirement that if legal persons have recently received ALDs from Cadivi they are excluded them form Sicad is a big restriction to importers; however, given the multiple changes introduced to the rules, it wouldn't surprise that this is also changed in the future.



In addition, it is not yet clear whether these upcoming auctions will be determined by a modified Vickrey-type auction, the way Sicad was created in its first version.

On the positive side, we find that the new auctions exclude the letters of credit that banks had to prepare as a collateral for the payment by importers, as well as the restriction of registration with Rusad, replacing this latter with the registration with Rusicad, which appears to be more flexible, similar to the extinct Rusitme.

Likewise, we find that the inclusion in auctions of individuals who were left without a legal mechanism alternative to Cadivi, when Sitme was eliminated in early year is a positive sign. Concerning this issue, it's also worth highlighting that those individuals registered with Rusitme are automatically registered with Rusicad, whereas those persons fined or that haven't had any activity in 2012 fiscal year will be excluded. In the case of legal persons, they have to update their registration and provide additional information.

We expect that within a few weeks, the administration will announce the auction schedule, fine tune the system (Rusicad) and clarify the requirements to participate in auctions. Likewise, we believe that by planning in advance the next auctions, both individuals and companies have time to be prepared and meet all requirements to participate in any of the auctions. Certainly, in spite of the long wait, the new mechanism hints at the fact that the pragmatic side of the administration has won a greater quota of political power and that this more flexible mechanism will help alleviate the existing exchange pressures. It's worth highlighting that if Sicad is managed more efficiently than the first auction, businesses and government would be in a win-win situation where, on the one side, there is an administration granting dollars at a higher exchange rate than the official one, and businesses that obtain foreign currency at an exchange rate lower than the unofficial one, on the other.

This new relieve valve could help solve shortage problems and give once and for all the last call to the pragmatics in the administration, which represents a first step toward the implementation, in the medium term, of a more flexible exchange regime. We at **Ecoanalítica** believe that Merentes' plan points to a legalization of the parallel market and a more rational exchange regime with a change in the economic model that will help overcome the structural problems of the Venezuelan economy; however, everything will depend on the final course the coming auctions may take:



is this new mechanism nothing else but a new version of Sitme, which we already know is unsustainable, or is more like an unofficial market?

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## Economic Tips

**Inflation in June was 4.7%.** According to BCV, the National Price Consumer Index (INPC) registered a deceleration in June and showed a 4.7% variation. The year on year inflation registered 39.6%

**Meanwhile, core inflation** registered an increase of 4.6% in June compared to last month. The year on year inflation registered 40.1%

**Transport had the highest inflation in June.** Among the 13 categories studied by the BCV, in June, transport showed a higher inflation than the national average, with a variation of 6.4%, followed by food and non-alcoholic beverages with 5.8%, restaurants and hotels with 5.0%, and dressing and shoes with 4.6%.

**CPI reached 4.3% in June.** According to figures published by the BCV, consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for June was 4.3%, or a year on year inflation of 37.3% since June 2012.

**Middle lower class the most affected in June.** The lower income population which belongs to class I, registered an inflation of 4.3% in June. Meanwhile, classes III and IV registered a monthly price variation of 4.0 and 4.4% respectively. Finally, middle lower class, which belongs to class II suffered a price variation of 4.6% during June.

**Inflation in non-controlled products increased 4.2%.** In June, the inflation of controlled and non-controlled products was 4.2% and 5.1% respectively. At the same time, non-regulated goods had an inflation of 45.3% and controlled goods of 31.4% since June 2012.

**Geographical results.** Of the 11 cities surveyed in June, the greatest variations were observed in Valencia with an inflation of 5.8%, followed by Barquisimeto with 5.5%. The areas with the least variation in June were Barcelona-Puerto La Cruz with 4.1%, Caracas with 4.3% and Maracaibo and Mérida with 4.4%.

**Scarcity drops.** In April, the scarcity index decreased from 20.5% to 19.3%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 19 were not available.



**Cadivi or nothing.** In the first half of the year, companies receiving dollars from sources other than Cadivi have experienced significant problems with their access to the foreign currency they use to buy their inputs, spare parts or essential finished products. During this period, supply of official foreign currency, other than Cadivi's, was US\$639 million, down 88% from the US\$5.19 billion allotted through mechanisms alternative to Cadivi (above all Sitme) in 2012.

**And international reserves: something to cry over.** According to BCV figures, international reserves closed July at US\$25.75 billion, down US\$4.15 billion for the first six months of the year as compared to the US\$29.0 billion in December 2012. On June 26, reserves were at their minimum for the year-to-date with US\$24.9 billion, equivalent to 5,3 months of imports.

**More for the government.** With the restart of auctions through Sicad, the administration will have additional revenues to address the imbalance in its accounts. Barclays Capital estimates that through Sicad, about US\$4.8 billion could be sold this year, at an average exchange rate of VEB 15/US\$; therefore, they expect that supplementary foreign currency supply could produce about VEB 43.0 billion in extraordinary contributions, about 2.0% of GDP.

**Fonden rewarded in 2012.** According to the numbers of the last statement published by Fonden, this Fund received in 2012 revenues in foreign currency for US\$ 126.4 million, from loans granted, deposits with banks, goods in trust funds and papers. Interests accrued in 2012 are more than 100.0% higher than those accrued in 2011.

**A rally is expected.** Nelson Merentes, Minister of Finance, expects that the Venezuelan economy to speed up in the third quarter of the year, thanks to the increase in productive capacity and to the collaboration with the private sector. He also recalled that the BCV will hold meetings with businessmen to reduce scarcity levels, bolster the development of the local productive sector and decrease imports.

**No room for borrowing.** According to figures released by the Ministry of Finance, at the end of the first semester of the year (1S2013), VEB 75.9 billion in debts were placed in the domestic market, or 100.0% of the amount scheduled according to the Borrowing Law for 2013. The placement pace has been faster than the last year, which was an election year when VEB 64.0 billion in debts were placed on the domestic market over eight months.

**Sicad to the rescue.** The coming back of Sicad with an exchange rate estimated at about VEB 14 per US dollar will address the need of the Venezuelan government to cover part of the fiscal deficit. However, this devaluation via Sicad won't be enough;



therefore, the possibility that the administration requests a supplementary borrowing law to the National Assembly is envisaged.

**Unplanned.** The number of public workers and pensioned, which were additionally benefited with the wage increase that entered into force in May, exceeded the amount budgeted for these items in the national budget. This budget estimated that disbursement for this purpose would be close to VEB100.0 billion, but in the first six months of the year, the administration has been forced to request VEB25.4 billion in supplementary appropriations to face this kind of commitments.

**Some are missing.** Eduardo Samán, president of Indepabis, explained that shortage problems are very important and only exist with regard to those products that are deviated to be sold in non-controlled markets at higher prices. This, in spite of the fact that scarcity index recently reached its most critical levels since January 2008. Furthermore, Samán disregarded hypotheses that price controls are to be blamed for shortages.

**Will shelves be replenished?** Elías Eljuri, president of the National Statistics Institute (INE), announced that the INE expects the scarcity index to close 2013 between 12% and 14%, down 8-6 percentage points (pp) for the rest of the year. Eljuri added that the increase in food production, the monitoring of the food distribution process and the increase in credits would be responsible for the drop of the index at the end of the year.

**Interest rates.** The lending rate for the fourth week of June was at 15.2%, down by 0.1% 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 decreased by 1.7%, going from US\$25.751 billion during the fourth week of June to US\$25.324 billion during the first week of July. Compared to the same period last year, international reserves have decreased by 10.4%.

**Central government expenditure.** On Friday July 5<sup>th</sup> according to figures from the National Treasury Office (ONT) primary spending was VEB 6.19 billion, which means a decrease of 28.2 % when compared to the previous week when it was VEB 8.62 billion; when compared to the same period last year we observe an increase of 140.2%. So far this year the cumulative expenditure in real terms (measured in 2007 prices) IS VEB 67.70 billion, with a variation (y/y) of -13.5%.





**Monetary liquidity.** Monetary liquidity (M2) increased 1.6% in the fourth week of July compared to the previous week, settling at VEB 842.54 billion. The M2 has increased 61.3% in relation with the same period last year.

## Oil Tips

**US oil going down.** According to the weekly data publicized by the Department of Energy (DoE), the US reserves on oil went down by 9.9 million barrels (mb), to 373.9 mb last week, a lot more than the 2.9 million that the experts of Dow Jones Newswires anticipated. Reserves of distillates went up 3.0 mb to 123.8 mb when the anticipated amount was of only 600,000 barrels, and the reserves on gas went down 2.6 mb to 221.0 mb when the expected amount was of 200,000 barrels.

**Petroleum demand goes up in 2014.** The Organization of the Petroleum Exporting Countries (OPEP) announced on Wednesday that they expect the world demand of oil in 2014 to be of 90.68 millions of barrels daily (mb/d) next to the 89.64 mb/d of 2013. They base this on the expected better world economy of 2014, which will grow by 3.5% next to this year's 3.0%. OPEP says growth will be most noticed in the US, China and India, and that Europe will probably come out of the recession.

**It's cold outside.** The International Energy Agency (AIE) announced this Thursday a change in their monthly report on oil demand, they incremented the estimated demand for this month by 145,000 barrels to 9.8 mb/d due to the unexpected low temperatures that many countries of the OCDE are reporting. The AIE also reported an augmentation of 1.2 mb/d for next year, which would put us at a new record of 9.2 mb/d for 2014. These numbers show that the growth rate for next year will be considerably higher than this year's.

**Oil income drops.** According to figures of the US Department of Commerce, Venezuela's revenues for oil sold to the US dropped 30% in January-May 2013, accumulating US\$11.72 billion for the fifth month of the year, vs. the US\$16.81 billion in the same period in 2012. The main reason for this drop is fluctuations in crude oil prices and the decline in Venezuelan exports to its main trade partner.

**China: PDVSA's kryptonite.** Venezuela belongs to the group of the 11 emerging countries that may be most affected if China's economy maintains its slow-down



trend. One of the first consequences of this deceleration would be a decrease in oil consumption, which would negatively impact oil prices.

**Refining activity down 10.0% in Paraguaná Refining Complex.** Processing capacity of Paraguaná Refining Complex (CRP) is 10.0% lower, down 71 thousand barrels daily (kb/d) in absolute numbers in both Amuay and Cardón refineries. Accordingly, from a peak processing capacity of 955 kb/d, the center was processing 636 kb/d on Friday, July 5<sup>th</sup>, that is, close to 66.6% of its operation level, as per the daily operational report of the CRP.

**Power outage stops PDVSA refinery in Curacao.** Past Sunday, July 7<sup>th</sup>, a power outage put PDVSA-operated Isla refinery out of service. The outage, which was starting to be resolved, affected the entire Caribbean island, including the plant that provides industrial services like water, power and steam for the refinery.

**Isla refinery restarted operations.** PDVSA-operated Isla refinery in Curacao entered into operation again past Wednesday, July 10<sup>th</sup>, after a power outage last weekend. 335,000 kb/d Isla refinery has frequent power supply problems, which have negatively affected production levels over recent years.

**Preferential treatment for Nicaragua?** Venezuela will continue to charge 2.0% interest to Nicaragua, for the oil bill derived from the Petrocaribe agreements. The Venezuelan ambassador to Managua, Javier Arrúe, explained that Nicaragua has guarantee a 2.0% rate for the oil bill, due to the bilateral exchange of products between both countries.

**Only if it's convenient.** Guatemala is willing to become fully member of Petrocaribe, provided Venezuela keeps its offer to charge interests under 2.0% for the oil bill. According to Guatemala's Vice-President, Roxana Baldetti, the 2.0%-4.0% interest rate that Venezuela wants to charge Guatemala no longer represents a benefit for the Central American country.

**A new refinery in Venezuela?...No, in Ecuador.** China's state-owned oil company CNPC and Venezuela's PDVSA will be partners along with Petroecuador in the construction project of Refinería del Pacífico, a petrochemical complex being constructed in Ecuador's coasts. Ecuadorian Vice-President, Jorge Glas, recalled that the refinery, to be built in the coastal province of Manabí, will be the "*biggest in the country's history, with investments higher than US\$12.0 billion.*"

**An OPEC for gas.** In his speech at the 2<sup>nd</sup> Forum of Heads of State of Gas Exporting Countries held in Moscow, President Maduro underscored the need to stabilize natural gas prices parallel with prices of oil and by-products. At the Forum, the



development perspectives of the global gas market, a fuel that has seen its quota in the global energy mix substantially increased, were dealt with.

**International oil baskets.** At closing time on July 5<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$99.3/bl, a 4.2% increase compared to the US\$95.4/bl reported the previous week. The Brent increased by 2.5% to reach US\$104.1/bl, compared to the previous week's US\$101.6/bl.

**Local oil basket price.** The Venezuelan oil basket price closed last week at US\$101.6/bl on Friday July 5<sup>th</sup>, a 2.7% increase compared to the US\$99.0/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$101.8/bl.

## Business Sector Tips

**Cuba: fifth supplier of medicines this year.** According to recent reports by the INE, Venezuela reduced its medicine exports by 51.3% in the first half of the year, with respect to the same period in 2012. Furthermore, it's worth highlighting that Cuba continues to be one of the main medicine suppliers of Venezuela, which bought from Cuba US\$53 million in 1S2013, or 7.3% of total imports.

**Delinquent insurance firms.** Insurance firms owe VEB 1.4 billion to private clinics in Venezuela, whereas the public sector owes VEB 1.52 billion, for a total debt of VEB 2.96 billion. This has negatively affected the private component of the health sector, because general operation and human resources cost have increased by 85.0%, and costs of inputs and medical equipment have risen by 119.0%, whereas the rate increase proposed by the administration is of just 20.0%.

**Approved new rates.** Minister of Health Isabel Iturria confirmed that after a series of meetings with different representatives of the Association of Private Clinics and Hospitals, the new rates for the services they provide were approved by both sectors together. She added that cost legislation is not optional but mandatory.

**Farmers ensured.** The Minister of Agriculture and Lands, Yván Gil, and Representative Braulio Álvarez have referred to a new Agricultural Insurance that will be launched over the coming weeks to strengthen the agricultural revolution and



support rural producers. This project is part of the second phase of Mission AgroVenezuela. However, none of them provided any detail on the project.

**Four new machines for Corpoelec.** Corpoelec is to put into operation two new equipment at La Vueltoosa power generation plant, plus another two at Don Luis Zambrano plant (a total of 800 megawatts), to stabilize the Andean southwest system. Carlos Sánchez, national commissioner for power generation of Corpoelec, explained that the maximum demand in the country amounts to 18,600 megawatts, with a generation availability of more than 20,000 megawatts. The new equipment will be put into operation for the first time at the Don Luis Zambrano plant on July 13, with the aim of producing another 170 megawatts by July 19<sup>th</sup>.

**Corpoelec puts its things in order to pay debts.** Corpoelec has recently been meeting with about 100 supply and service companies to agree a payment schedule so as to reduce Corpoelec's accounts payable. The purpose of the meetings is reopening the good and service offices as well as determining a payment agreement. At the end of 2012, Corpoelec's accounts payable amounted to VEB 64.9 billion.

**New power service rates.** The Minister of Electric Power, Jesse Chacón, informed that the new rate regime for power service will be announced in August. The new regime will enter in force in January 2014. Chacón said that this new regime will provide for a higher rate for homes consuming more than a newly set limit. However, Chacón insisted that Venezuela has the lowest power rates in the world.

**Why is toilet paper scarce?** Indepabis president Eduardo Samán said that the firm Kimberly Clark is to blame for toilet paper shortages in Venezuela, because this firm was involved in a coup plot devised by the extreme right. Kimberly Clark argued that problems with the supply of foreign currency resulted in a decrease in paper production. Samán claimed that the production problem has been solved and proposed that toilet paper demand is controlled.

**Once again the same old story?** With the closing of 1S2013, INE's figures confirm the slowing down of foreign currency allocation in the first half of the year. According to these numbers, cereal imports dropped 66.2% in 1S2013; those of milk and dairy products shrank 48.9%, and "*beef and edible head, feet and offal*" dropped 41.5%. This has brought about an increase in shortages, which closed May at 20.5%, and higher inflation, which reached 28.7% in food products between December 2012 and May 2013.

**Less traffic; bad news.** The automotive industry registered in 1S2013 its lowest number of assembled units over the last ten years. From January-June, only 36,919 vehicles were assembled, down 39.4 from 2012. This is due to a limited foreign



currency allocation and delays in the delivery of official dollars, which has made some companies have even considered working just three days per week and leaving the other two to train workers in the inventory control of assembly materials.

**Now we all may eat.** The Minister of Commerce, Alejandro Fleming, met with the National Association of Supermarkets (ANSA) at which they agreed to join efforts to improve food distribution in Venezuela. They talked about establishing distribution facilities in areas of Delta Amacuro and Amazonas States, for instance, focusing on tackling structural problems to avoid shortages.

**No foreign currency.** Consecomercio warned that supply for the second half of the year is at risk if foreign currency allocations don't speed up. Consecomercio's president Mauricio Tancredi said that allocations helped pay debts but additional foreign currency hasn't been enough for new imports.

**4 auctions per month.** Consecomercio's Mauricio Tancredi believes that there should be 4 auctions per month through Sicad to normalize the markets and assure foreign currency supply, because the change made by Sicad is perceived as positive by many businessmen. Provisions included in the new agreement, like the elimination of letters of credits, were welcomed.

**Milk is leaving.** In 1S2013 milk pasteurizing and processing forms lowered their product deliveries by 30.0% due to the forced Labor Organic Law that forces companies to give two free days per week to each worker, to the long-due price adjustments and the lack of packing supplies. Edecio Pineda, president of the Milk Producers' Association, pointed out that thanks to this situation, raw milk is being smuggled to Colombia, leaving our companies without raw material.

**Stopped chemical industry.** Delays in foreign currency allocations for the chemical industries amount 180 days now, which has prevented them from importing new raw materials and inputs and has paralyzed production lines at the industry. Representatives of the sector state that the few companies that have received foreign currency are mainly those producing price-controlled products and that the others have received almost nil. Before the technical meetings promoted by the administration in May, Cadivi's debt to the sector had reached US\$500 million.

**Sky-rocketing home prices.** In 2013, prices of homes on the secondary market has registered increases of more than 100.0%, for a month-to-month variation rate of 16.6%, which is not in agreement with a reasonable market, Juan Celis, director of Convalor Group stated. In the country, there is a gap between supply prices and the cost of an apartment. *"The market price is one and the supply price is other; the gap*



is increasingly wider. Before, differential was about 20.0-30.0%; now it is 100.0%," Celis claimed.

**The new: Mercosur Mission.** President Nicolás Maduro launched the Mercosur Mission, intended to support Venezuelan producers for them to have the conditions required to export to Brazil, Argentina, Uruguay and Paraguay. The mission provides for granting financing to entrepreneurs through the Alba-Mercosur fund and has planned the participation of the Economic Cabinet, entrepreneurs, social property companies and private investors.

## World Economy Tips

**Treaty envisaged.** The US and the European Union (EU) started to discuss a possible free trade treaty. This treaty would be the world's largest, because it would cover about 50.0% of global production, 30.0% of international trade and 20.0% of direct foreign investment. These negotiations could extend at least until 2015.

**Good signs that aren't so good.** Unemployment rate in the US remained stable in June at 7.6%, thanks to the good performance of the private sector that generated 194,000 new jobs (up 2.3% from June 2012), higher than expected. If good signs continue, in a short term (before year-end) FED could probably lift or reduce monetary stimuli that have attempted to render the first global economy more dynamic.

**China's economy gets complicated.** Chinese manufacturing sector slowed down in June mainly due to the drop in foreign demand, since US and European clients reduced their purchases. The purchase manager index (PMI) dropped to 50.1 in June from 50.8 in May and remain hardly over the 50 point level that marks the boundary between growth and contraction.

**But reforms continue.** China's Council of State announced on Friday a credit cutback, to force a consolidation in industries affected by the excess of capacity, which shall mean sacrificing a liquidity increase that would promote economic growth, with a higher focus on an economic restructuring. The cabined assured that credit restrictions will affect mainly non-competitive firms and that differentiated policies will be applied in accordance with each company's circumstances.



**Reactors on.** Japan would start over the coming days some of the nuclear reactors that were shut down after the accident in Fukushima nuclear plant. The necessity to import oil and gas to fire the energy plants has translated into losses for utility companies and has pressed the Nuclear Regulatory Authority to authorize reactivation of some nuclear centrals. The 14.0% drop in the real value of yen with respect to the US dollar has also rendered fuel imports more expensive.

**Low rates for a long time.** In view of the FED's decision to reduce once again economic stimulus measures, the European Central Bank (ECB) announced it would maintain its interest rates at levels equal to or lower than the current ones (which are record lows) in the medium or long term. With this announcement, the President of the ECB, Mario Draghi, breaks the Bank's tradition to not to previously commit to certain policies.

**England will guide.** The Committee on Monetary Policy of the Bank of England (BoE) could begin to develop a guide of sorts for interest rates starting next month. The measure would be aimed at containing expectations about the evolution of interest rates, because investors were including in their prices rate increases. Interest rate increases are now expected for the second half of 2015.

**The ECB cannot alone.** According to the Chief Economist of Bundesbank, Jens Weidmann, the ECB cannot solve the euro zone crisis. Even though monetary policy has had positive results mitigating the effects of the crisis, structural reforms and tax union among euro zone countries are required, as well as decreasing the link existing between banks and government, through the holding of sovereign bonds, to contribute to the strengthening of euro and be able to overcome the crisis, Weidmann pointed out.

**Failed rescue.** After the rescue received from the EU and the International Monetary Fund (IMF), Portuguese population has the feeling that it has failed, Carlos Costa, Portugal's representative to the Council of Governors of the ECB, said. Costa explained that beyond waiting for the "proper" foreign conditions, the country has to create the internal conditions that allow it to come out from the crisis, notably including political consensus.

**Further assistance for Greece.** The creditors' troika composed by the European Commission, the ECB and the IMF agreed the disbursement of additional assistance to Greece for EUR6.8 billion, divided into several tranches distributed among the coming months and subject to some prior actions determined along with Athens. One of the reforms is placing 12,500 public employees into a "mobility scheme" that implies that they would be transferred or fired within a year.



**Brazil's on the rack.** According to Standard & Poor's, social protests in Brazil could promote government spending in public services in a time when fiscal yields have been deteriorated. Although the rating agency assured that they don't see a change soon in sovereign rating, the same can be lowered if an increased involvement of the administration in the economy provokes a rise in borrowing.

## Political Tips

**Venezuela to preside over Mercosur.** Venezuela will assume as temporal president of Mercosur, which government's spokespersons expect to be translated into the *"aperture of a new horizon that will allow an expansion of nationalized production"* in the country. During the Mercosur summit in Montevideo, in which Venezuela will assume its post, Paraguay will be invited to reenter the block, something that is expected to be rejected, because Paraguay has conditioned its reentry to the fact that Venezuela doesn't assume as president of the integration mechanism.

**Asylum in Venezuela.** President Nicolás Maduro offered humanitarian asylum to the former analyst of the US National Security Agency, Edward Snowden, who is required by Washington for having revealed details on US espionage programs. *"As head of state and government of the Bolivarian Republic of Venezuela, I have decided to offer humanitarian asylum to the young US citizen Edward Snowden, for him to be able to come and live in the homeland of Bolívar and Chávez, far from the US imperial prosecution,"* Maduro claimed.

**Feeling the homeland.** During the solemn session of the National Assembly to commemorate the 202<sup>nd</sup> anniversary of the Independence of Venezuela, the Minister of Foreign Affairs, Elías Jaua, assured that *"publicists behind the self-proclaimed opposition leader"* have tried to trivialize the phrase *"we have a homeland. They aren't going to find the homeland in supermarkets or in their homes' bathroom; you will have and feel your homeland in the bottom of your soul and in the consciousness of the people,"* Jaua stated.

**Independent of whom?** Miranda's Governor Henrique Capriles said that there is nothing to celebrate the 202<sup>nd</sup> anniversary of the Independence considering that the government is *"importing 700 thousand tons of essential products."* Venezuelans eat *"rice from the Empire"* and Cubans *"interfere with the armed forces, registries, notaries, and the health and education systems."* Capriles also took the opportunity



to report that promotions in the High Military Command announced by Nicolás Maduro were consulted in Cuba.

**Evident opportunism.** The Carter Center questioned the way how public funds were used during the campaign for April 14's election. *"Although the Venezuelan forbids the use of public funds for political campaigns, the national organizations of observers and other non-governmental organizations in Venezuela have abundantly documented the use of public funds for political purposes,"* the Center claimed.

**Bandes continues in the spotlight.** President Nicolás Maduro informed that after an anticorruption rally, five officials who embezzled US\$84 million from the Chinese-Venezuelan Fund and the Bank for Economic and Social Development of Venezuela (Bandes), has been arrested. *"Here, nobody is untouchable, regardless of whether they follow the revolution or the bourgeois right (...) We are going to face corruption with all our strengths; it's corruption or our homeland,"* Maduro claimed.

**Lazy or incompetent?** President Nicolás Maduro described the three opposition governors, Henrique Capriles Radonski (Miranda), Henry Falcón (Lara) and Liborio Guarulla (Amazonas), as lazy and incompetent for the deplorable conditions in their states and called the Venezuelan people to go out to the street and democratically fight to demand accountability from the three officials. *"The three right-wing governors are lazy, incompetent. They have disregarded their states and the people. Where are the young people's struggles to demand them to fulfill their duties, to render accounts?"* Maduro asked.

**Safe? homeland.** The Patria Segura (Safe Homeland) Plan, led by the administration to reduce high crime levels has been questioned by opposition leaders due to the deaths of Venezuelans that have occurred in recent days. Miranda's Governor Henrique Capriles Radonski, said that the plan was *"pure show off (...) over the past 15 days there have been incidents at INOF, Yare I, and Yare II prisons, and now at Vista Hermosa (...) this government doesn't guarantee even the life of prisoners!!"* Capriles assured.

**A further wake-up call.** President of the National Assembly, Diosdado Cabello, asked militants of the government's PSUV party to serve the organization, which for him is equivalent to serve the people. *"The PSUV cannot serve some groups; on the contrary, we all should serve the party, which basically means serving the people,"* Cabello said.

**The blame is the opposition.** President Nicolás Maduro charged the opposition for being sabotaging the Venezuelan economy and added that he will vanquish the perversity of the economic sabotage. *"The opposition wants to take us to economic,*



*social and political chaos to take control of the country. They are crazy; chaos may lead to an undesired scenario instead,”* Maduro said. The President also took the opportunity to point out that the key target of this sabotage by the opposition has been shortages, which, in his opinion, have been provoked by the opposition.

## Legislative Tips

**Foreign currency for students.** As per Resolution 116 of Cadivi, published in the Official Gazette No. 40,200, the granting of foreign currency to study abroad will only be approved for individuals having a permanent domicile in Venezuela. In the prior resolution, foreign currency was assigned to people legally domiciled in Venezuela. The new rule would leave out Venezuelans living abroad as illegal or legal immigrants, who may not have access to dollars for students.

**Dollar transfers from Venezuela will be possible.** The BCV published in the Official Gazette No. 40,200 the general rules of Sicad, which allow individuals to make transferences in foreign currency from accounts in Venezuelan banks to bank accounts abroad. The idea is to extend the system for it to cover individuals and it not to be limited to travels, health, study or special situations.

**The AN to mediate in the university conflict.** President of the Commission on Social Development of the National Assembly (AN), Representative Oswaldo Vera, undertook to act as mediator in the university conflict. At the meeting with teachers' and students' representatives, Vera said that he will organize a meeting with the Ministry of University Education, Pedro Calzadilla, the President and university workers. University teachers are in strike demanding respect for the Homologation Rules, which are the provisions that govern labor relations with the universities.

**AN postpones discussion of the bill on car sales.** At the first discussion of the Law governing the purchase and sale of new and used, local and imported motor vehicles, the first 15 articles were analyzed; one of the most polemic articles was number 15, titled “*Guarantee of supply of spare parts and auto parts,*” which provides for fines of 20,000 tax units for all assemblers, importers and dealers that don't guarantee timely supply of spare parts.

**Ceiling for used car prices.** AN Representative Claudio Farías informed that a new law regulating used car prices was passed. Once the law is enacted, vehicles must



be sold at their initial price at which they were sold by dealers. *“If I buy a car in 2013; once it leaves the dealer’s premises, it should cost 10% less. Nobody can pay for a used car, even though it’s new, more than its original price,”* Farías pointed out.

**Military promotions are official.** The list of military promotions was published in the Official Gazette No. 40,202, notably including the promotion to Chief Admiral of the Minister of Defense, Carmen Teresa Meléndez Rivas. Other resolutions of the Ministry of Defense include appointments of Major General Alexis López Ramírez as General Commander of the Bolivarian Army and Brigadier General Manuel Gregorio Bernal as Commander of the Guard of Honor, and the promotion to Chief General of Major General Vladimir Padrino López.

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**The AN is considering reforming the Condominium Law.** The Committee on Administration and Services of the AN began the consultation process to reform the Condominium Law. The members of the Committee said that the law is expected to be reformed before December of this year and said that the reform would centered on standardizing condominium receipts and establishing that condominiums have annual budgets. Furthermore, the law is expected to be adjusted to *“Gran Misión Vivienda”*.





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## ECONOMIC OVERVIEW

