

Inflation, devaluation and other taboos: What Ecoanalítica's figures has to say

The Central Bank's failure to publish inflation figures so far this year has prompted a large number of businessmen and merchants to look for alternative indicators that would allow them to keep track of how prices and costs in the domestic market are evolving and that can be used to determine pricing and wages policies, estimate coverage requirements, and negotiate with suppliers.

The absence of a price indicator has meant that many have opted for indexing or setting their prices based on the evolution of the parallel market exchange rate, which is not representative of the market (low transaction volume), has been extremely volatile, and has posted a devaluation of 71.9% so far this year. This report offers a couple of indicators that aim to serve as a guide for estimating the variation in prices and the exchange rate the Venezuelan consumer has to contend with.

An alternative means of measurement

As regards prices, at **Ecoanalítica** we have designed a core inflation index that not only attempts to make up for the prolonged absence of the official indicator but also tries to reduce the distortions that the structure of controls and subsidies and the emergence of black markets are creating in inflation estimates.

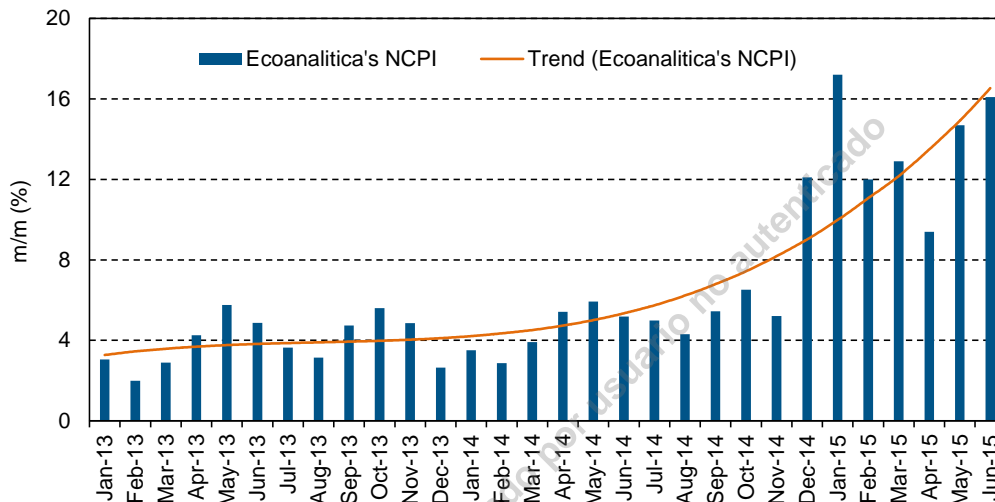
It should be remembered that official measures did not take the impact of the parallel market exchange rate on prices into account; overestimated the weight of state food distribution programs (Mercal and Pdval) in the "controlled" goods category; and ignored the problems associated with shortages, shortfalls in supply, and the emergence of black and informal markets (with prices that are higher than the official prices).

According to our model, which does reflect these distortions, we estimate that underlying inflation was 115.9% between January and June, which gives an average variation in prices of 9.7% over the past six months. If things continue along the

Year 11. Number 27. Week III
 July 2015

same path, we forecast that underlying inflation¹ will reach 291.5% (y/y) at the close of December.

Underlying Inflation



Source: Ecoanalítica

Indexed to the parallel exchange rate?

On the matter of using a “marker” exchange rate when indexing costs, at **Ecoanalítica** we have undertaken the task of calculating a weighted exchange rate that reflects the cost in dollars of the goods consumed by the average Venezuelan.

Account has been taken of the way in which companies that produce goods and services in each of the 13 groups of goods/services making up the National Core Price Index (NCPI) finance themselves (food and nonalcoholic beverages, alcoholic beverages and tobacco, clothing and footwear, housing rental, housing services, household equipment and maintenance, health, transport, communications, education services, restaurants and hotels, and miscellaneous goods and services) in order to determine the weighted exchange rate by group of goods/services.

In producing its calculations, **Ecoanalítica** gathered information on the way a total of 134 companies² obtained foreign currency, data that was used to estimate the

¹ For more information about this indicator, please contact fernandoa@ecoanalitica.net.

² The sample consists of 17 companies engaged in producing and importing food and nonalcoholic beverages; 6 companies engaged in producing and importing alcoholic beverages and tobacco; 9 manufacturers and importers of clothing and footwear; 3 real estate agencies; 10 providers of utilities; 9 manufacturers of household products; 14 health service providers and manufacturers and importers of medicines; 13 companies in the transport sector; 8 companies in the communications sector; 6 companies associated with the area of leisure and culture; 11 companies in the education sector; 16 establishments

exchange rates for each of the 13 groups of goods and services making up the NCPI. Last of all account was taken of the estimated exchange rates and the weight of each group of goods/services in the NCPI basket so as to be able to calculate the exchange rate the Venezuelan consumer has to deal with.

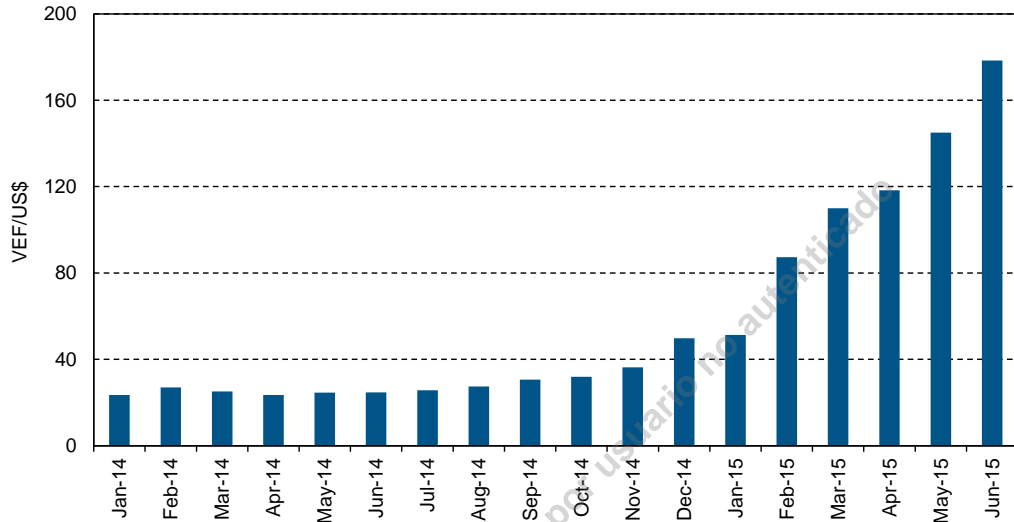
6.30 still has considerable weight

According to the information obtained by **Ecoanalítica**, at the close of June, the exchange rate that the consumer actually faced was VEF 178.4/US\$. By group of goods/services, those with the highest exchange rate at the moment are alcoholic beverages and tobacco with a rate of VEF 427.3/US\$, household equipment with VEF 386.9/US\$, and clothing and footwear with a rate of VEF 367.1/US\$. As for the groups of goods/services with a more affordable exchange rate, today they are several goods and services, health, and food and non-alcoholic beverages, with exchange rates of VEF 50.5/US\$, VEF 67.0/US\$, and VEF 84.3/US\$, respectively.

Far from what many think, the exchange rate the Venezuelan consumer faces is 71.0% below the parallel market rate (VEF 616.0/US\$ at the time of going to press), which shows that a large proportion of imported items (and the inputs used in production) are still being brought in at the VEF 6.30/US\$ exchange rate, a government policy that has channeled the supply of foreign currency to sectors considered “priority or basic.” In fact at **Ecoanalítica** we estimate that 78.0% of imports will be brought in at that rate in 2015.

in the restaurants and hotels sector; and 12 companies engaged in producing miscellaneous goods and services. This latter group includes manufacturers of personal care articles and financial services (banks and insurance companies).

Weighted ER of the Venezuelan Consumer

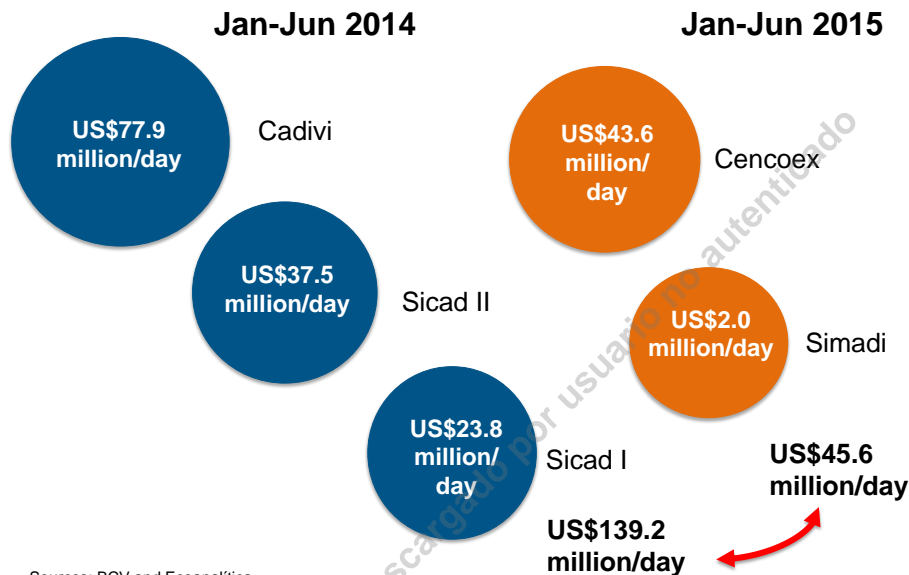


Sources: BCV, Cencoex and Ecoanalítica.

But the devaluation is palpable

However, there has been a slowing down in the disbursement of foreign currency via official mechanisms as a result of the current contraction in foreign currency revenues, which has caused the consumer exchange rate to depreciate by 72.1% so far this year. At **Ecoanalítica** we estimate that the government has granted the private sector US\$45.6 million a day for imports during the first six months of the year, a contraction of 67.2% compared to the average of US\$139.2 million/day posted in the first half of 2014.

Foreign currency is in minimum levels



The disbursement of less foreign currency via official mechanisms has meant that more products are being indexed to the parallel market exchange rate, particularly in the clothing and footwear group, which went from registering 10% of its costs at the parallel market rate in January to 60% at the close of June, a situation that has been repeated in the household equipment group (from 50.0% in January to 79.0% in June) and in housing rentals (from 10.0% in January to 38.0% in June).

Another year of erroneous policies

As we have said before, the policy of pegging the exchange rate has become less effective as a larger number of goods and services adjust their prices to the highest exchange rates. Although it is the consumer that is hardest hit, this devaluation does not benefit the government's finances either. In **Ecoanalítica's** opinion, the logic behind this foreign exchange regime is not economic but political and, therefore, applicable in an election year.

We expect the Executive to continue juggling the multiple exchange rate scheme for what remains of the year in order to try to contain prices and avoid an escalation of shortages.

Year 11. Number 27. Week III
July 2015

As for the allocation of foreign currency, an improvement can be expected during the remaining months of the year: through the *Centro Nacional de Comercio Exterior* (CENCOEX) for importing priority goods, via the *Sistema Complementario de Administración de Divisas* (SICAD) for key sectors (school supplies and goods for the Christmas season), and via an increase in disbursements through the *Sistema Marginal de Administración de Divisas* (SIMADI), measures that will permit an improvement in the situation of shortages and shortfalls in supply in the run-up to the parliamentary elections.

And 2016 will be no different

As for 2016, the Executive will dither between praying for an increase in oil prices and tightening its belt, with three possible foreign exchange scenarios:

1. **The politically correct devaluation:** A multiple exchange rate scheme that allows the Executive to reduce disbursements via CENCOEX and SICAD to a minimum and start to disburse foreign currency via SIMADI. This seeks to achieve two things: on the one hand, reduce pressure on the parallel market and, on the other, obtain a greater fiscal benefit.
2. **A Dual System:** The Executive would eliminate the VEF 6.30/US\$ rate and the CENCOEX rate would become the SICAD rate, while maintaining SIMADI. Priority sectors –food, medicines, and personal care articles- would be kept at the CENCOEX rate. The rest would go to SIMADI. We estimate that the new CENCOEX rate will be at VEF 25.0/US\$ on average and that the SIMADI rate will average VEF 250.0/US\$. This is the most likely scenario for next year in **Ecoanalítica's** opinion.
3. **Converging the Exchange Rates:** Even though it has been discarded, economic groups close to *Chavismo* have insisted that this scheme would be the most convenient. A proposal submitted to the Ministry of Finance, and to which **Ecoanalítica** had access, proposed an official exchange rate aligned with the real equilibrium exchange rate for Venezuela (we estimate that the exchange rate that is compatible with the real exchange rate model will be VEF 73.5/US\$ at the close of 2015). Here, the extremely positive effect that this would have on the fiscal accounts and how this would reduce expectations with regard to inflation in the medium term are worthy of particular note.

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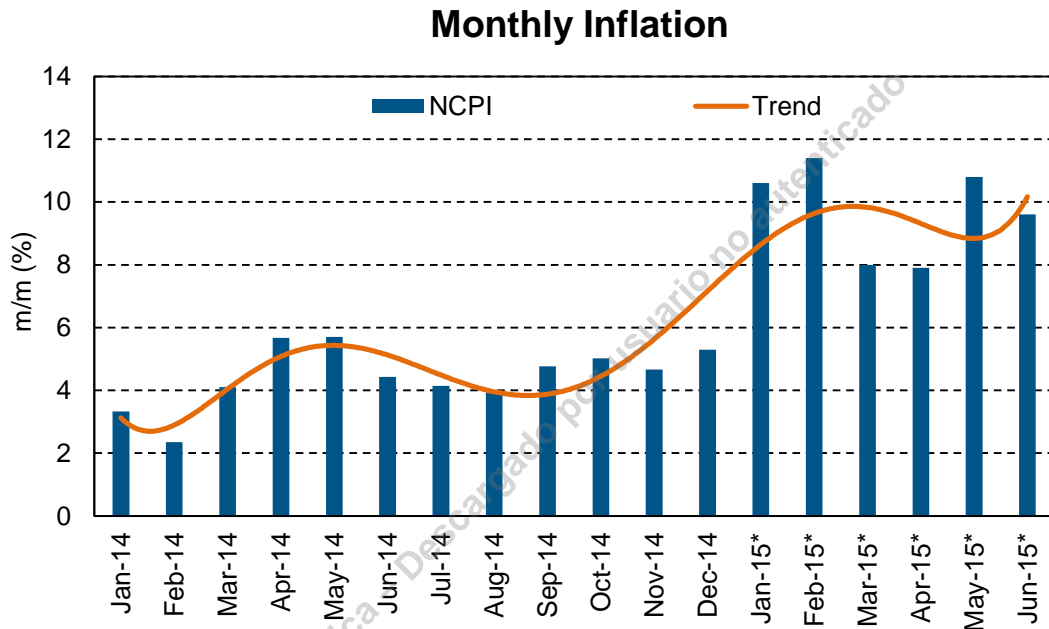
Year 11. Number 27. Week III
 July 2015

WEEKLY INDICATORS

Weekly Economic Indicators			
	II Week July	Weekly var. (pp)	Annual var. (pp)
Lending interest rate (%)	19.9	0.5	2.6
	2nd Week July	Weekly var. (pp)	Annual var. (pp)
Overnight interest rate (%)	5.5	4.8	-8.2
	2nd Week July	Weekly var. (%)	Annual var. (%)
International reserves (Bn US\$)	16.25	2.4	-20.1
	2nd Week July	Weekly var. (%)	Accum. var. (%)
Central Government spending (VEF Bn)	20.6	-21.4	60.1
	1st Week July	Weekly var. (%)	Annual var. (%)
Monetary liquidity (VEF Bn)	2,663	1.7	82.9
Price of International Oil Baskets (US\$/bl)			
	2nd Week July	Weekly var. (%)	Annual var. (%)
WTI	53.2	-8.6	-48.4
Brent	57.9	-7.5	-47.1
Price of the Venezuelan oil basket (US\$/bl)			
	2nd Week July	Weekly var. (%)	Annual var. (%)
Weekly average	50.7	-7.4	-47.7
Annual average	49.8	0.1	-48.7

Sources: BCV, Menpet, ONT and Ecoanalítica

GRAPH OF THE WEEK: "HYPERINFLATION ON THE HORIZON..."



Sources: BCV and Ecoanalítica
*Estimated

ECONOMIC TIPS

Worker's Food Basket reaches VEF 17,833 According to the last report by the Cenda, the Worker's Food Basket (CAT for its Spanish acronym) reached VEF 17,833 on May 2015. This represents an increase of 8.1% compared to the previous month and of 116.9% compared to May 2014. During de first five months, the accumulated variation of the CAT was 44.9% (VEF 5,527).

The behavior of the CAT in May was determined by the increase in the eleven products that make up CAT: milk, cheese and eggs (6.1%), beans (55.0%), sugar and similar (28.4%), meat and its preparations (9.6%), fishes (8.3%), vegetables (9.1%), non-alcoholic beverages (6.8%), foodstuff (14.7%), cereal and derivatives (4.5%), fats and oils (3.4%) and fruit vegetables (0.9%).

Latin Focus Consensus. The results of the March 2015 Latin Focus survey shows that the consensus of the analysts expects a contraction of GDP this year of 6.1%, along with an inflation of 140.1% for this year. Also the results provide that at the end of 2015 the central Government deficit is expected to be close to 6.2% of GDP. Regarding the oil price is projected that the average price of the Venezuelan basket oil will be around US\$53.0/bbl. Finally, the analysts consider an unemployment rate of 9.2% for this year.

Incomplete information. According to Vice President for Planning and Knowledge Ricardo Menéndez, unemployment in May fell to 6.6%, down 8.0 percentage points from the 14.6% posted in May 1999 and down 0.5 of a percentage point from May 2014, when it was 7.1%. However, the vice president did not give all the information; still pending are the figures for employment by gender and region and the rates of formal and informal employment.

The drop in the price of gold didn't help. The price of gold on the international market is showing signs of stagnating with a downward trend. The price of gold was US\$1,162 per ounce (US\$/oz.) last week, down US\$138/oz. from January (US\$1,300/oz.). The drop in gold prices directly affects our international reserves; gold represents 58.0% of the reserves on average.

Gold, perfect coverage. However, gold is expected to pick up again in the next few weeks given the existence of factors that encourage investors to seek gold as a hedge against the instability of international markets, namely the Greek crisis, the slowing down of growth in emerging countries, and the stock exchange crisis in

China. An upturn in the average prices of gold would have a positive impact on our gold position in the international reserves.

It's not a matter of liquidity; it's a question of prices. Francisco Rodríguez, chief economist for the Andean region at Bank of America (BofA), said that Venezuela does not have an external liquidity problem that would require it to seek assistance from the International Monetary Fund (IMF). According to Rodríguez, the problem that Venezuela has is one of an imbalance in relative domestic prices. He also reiterated that the drop in the country's oil revenues has been accompanied by a partial adjustment in imports and the sale of some assets.

It's not necessary to go to the IMF. According to Rodríguez, Venezuela does not need to go to the IMF and that it should go to the new agencies that are being created in the region, such as the Union of South American Nations (UNASUR), which, according to the BofA's economist, should have the same capacity and technical quality as the IMF. Moreover, he described the call to dialog issued to businessmen by President Maduro as positive, although he did point out that the dialog should include more than the production sectors.

Wait a moment, there is a liquidity problem. The director of the Center for International Development and professor of economic development at Harvard University, Ricardo Hausmann, said that Venezuela is facing a problem of external liquidity, as the international reserves have dropped dramatically despite the contraction in imports and the fact that the country has not paid importers, travelers, students abroad, the government's and PDVSA's suppliers, and the foreign companies that have won awards from ICSID, among others.

The IMF is the way to go. Hausmann also commented that Venezuela needs to go to the IMF instead of new agencies such as UNASUR; in that way the international community would offer the country its financial backing and it would be possible to obtain financing. He also said that the President's call to dialog should be made to all sectors of society, including opposition deputies, labor unions, and the rest of society and not only to the production sector.

Funds for local and regional governments. Last Monday, President Nicolás Maduro approved a total of VEF 15.64 billion for state governments and mayoralties. The resources will come from the Simón Bolívar Socialist Efficiency Fund, where surplus amounts received by the Integrated National Customs and Taxation Administration Service (Seniat) are deposited. VEF 1.32 billion of that amount will

Year 11. Number 27. Week III
July 2015

go to Zulia state, VEF 751 million to the Capital District Government, and VEF 672 million to Aragua state government.

The supplementary appropriations continue. The National Assembly's Permanent Social Development Committee approved four supplementary appropriations for a total of VEF 387.3 million. Two will go to the Ministry of Communication and Information (VEF 279.7 million), one to *Fundación Misión Nevado*³ (VEF 68.6 million), and the other to the Vice Presidency of the Republic (VEF 39 million).

OIL TIPS

Oil prices fall. On Tuesday, July 14, the price of oil plummeted after the lifting of the economic sanctions imposed on Iran by the United Nations, which has resulted in Iran's production coming to less than 3 million barrels a day (mb/d) since 2012 and its exports being cut by half to some 1.3 mb/d compared to 2.5 mb/d in 2011. It is estimated that Iran's production will increase by 1 mb/d in the next six months in a context of already abundant supply, which will have an impact on prices.

Maduro foresees prosperity. Following the US\$4.0 drop in the price of oil, which closed at US\$50.7/bl. last week, President Nicolás Maduro gave assurances that Venezuela would continue to progress. In his speech, Maduro said, "*We are learning to stand on our own feet (...) enough of depending on the oil revenue dollar, parasitism; enough. It's over, cost what it may.*"

Consumption slows down. The Organization of Petroleum Exporting Countries (OPEC) published its monthly report in which it gives the reasons for the slowing down in oil consumption. It states that uncertainty in Greece, expectations that the United States will raise its interest rates, and the slowing down of the Chinese economy are factors that have curbed consumption. The report explains that, this year, oil prices have fallen due to oversupply in a context of extremely weak demand, which has exerted downward pressure.

And what is in store. According to the latest report from the International Energy Agency (IEA), global crude demand seems to have peaked in the first quarter of the

³ Misión Nevado is a social program financed by the government, the purpose of which is to rescue and protect stray animals and promote the recognition of animal rights.

Year 11. Number 27. Week III
July 2015

year with growth of 1.8 mb/d and will continue to slow down in what remains of 2015. The IEA estimates that the growth in demand will slow down to 1.2 mb/d in 2016.

Unstoppable global supply. Global oil supply increased to 550,000 barrels a day (500.0 kb/d) in June, thanks to an increase from both OPEC-member countries and countries outside OPEC. The IEA expects the growth in non-OPEC supply to stop in 2016, as low oil prices and cuts in investment spending start to have an effect.

OPEC isn't backing down. The supply of OPEC crude increased by 340 kb/d in June to a three-year high of 31.7 mb/d, according to the IEA, as a consequence of record supply levels from Iraq, Saudi Arabia, and the United Arab Emirates. OPEC production is 1.5 mb/d higher than last year. Moreover, according to the IEA, global supply posted impressive growth of 3.1 mb/d in 2014 to 96.6 mb/d, 60.0% of which was from OPEC countries.

Oil of discord. Oil is the economic factor that has rekindled the territorial dispute between Venezuela and Guyana, which had been on standby since the 1980s. According to Fernando Travieso, an advisor to the National Assembly's Permanent Energy and Petroleum Committee, ExxonMobil revived the problem in order to have access to the crude in the area and is lobbying to rekindle the dispute. Besides the recent oil discovery, the region has other resources, such as gold, manganese, diamonds, bauxite, mica, uranium, and natural gas, in addition to its enormous biodiversity.

More for the Empire? According to the Venezuelan-American Chamber of Commerce and Industry, Venezuela's sales of crude to the United States accounted for 91.6% of total exports to the US in May. Oil sales were down 54.5%, going from US\$2.49 billion in May 2014 to US\$1.13 billion in May this year.

Blends are the order of the day. According to information from Reuters, PDVSA purchased two shipments of Nigerian crude (1 million barrels each) from Royal Dutch Shell in the past month to be used as a diluent for extra-heavy crude. PDVSA, which also imports naphtha as a diluent, revealed recently that it plans to blend Venezuela's heavy crude with light crude from its allies in OPEC in an attempt to compete with US production and the supply of crude from Canada.

They're charging a "special" rate. Following rumors of high prices in Táchira's gas stations, the governor of Táchira, José Gregorio Vielma Mora, said that the price would continue to be VEF 0.070/liter. Vielma said that there are 113 gas stations in Táchira, only ten of which belong to the Special Frontier Fuel Supply Service

Year 11. Number 27. Week III
July 2015

(SAFEC). The governor explained that those ten gas stations charge a special rate for the liter of gasoline of between VEF 50/lt and VEF 80/lt. The rest of the gas stations continue to charge the regulated prices.

BUSINESS SECTOR TIPS

Denying the undeniable. Ricardo Montilla, the president of the National Association of Securities Operators (ANOV), condemned the publication of the unofficial exchange rate in the electronic media. This information is posted daily on a large number of websites. *“We call on people to inform themselves of the exchange rate only via official media. Any other information lacks the basics of transparent, technical calculations, generating alarm,”* said Montilla.

Inflation is having an impact. Roberto León Parilli, the president of Anauco, said that the biggest complaint among Venezuelans today is the increase in the prices of goods and services. *“There are things people could afford and that they have had to give up. That means a decline in their standard of living,”* pointed out León Parilli referring to the impact that inflation is having. At **Ecoanalítica** we estimate inflation of 189.2% by year-end.

More controls. Referring to the 14 conglomerates of state-owned companies that are to be run by Corporación Venezolana de Alimentos (CVAL) and Corporación de Abastecimiento y Servicios Agrícolas (CASA), the president of the National Cattlemen’s Federation (Fedenaga), Carlos Albornoz, claimed that these conglomerates mean more controls. *“As long as economic freedoms are limited and restrictions on and threats against production sectors continue, confidence will not be generated and productivity will not improve,”* he insisted.

Companies taken over by the State are inefficient. Aquiles Hopkings, the vice president of Fedeagro, claims that it is necessary to increase private domestic production in order to combat the shortage of food and also that companies taken over by the State and that today are inefficient need to be privatized. *“Agropatria, Café Madrid, Lácteos Los Andes, and the cattle ranches taken over by the State are examples of the government’s inefficiency in running businesses,”* said Hopkings.

No benefits for the cheese industry. According to Trina Michelangeli, the president of the National Cheese Industrialists Association (Aniquesos), the industry is currently in a critical situation in terms of imported raw materials. Aniquesos

Year 11. Number 27. Week III
July 2015

demands that the government recognized the debt the cheese industry has with its international suppliers, which, according to Michelangeli, comes to US\$5.5 million, and as a result of which the industry is operating at 35.0% of its installed capacity.

Rice production plummets. According to Fedea, the rice crop has been cut by 50.0% so far this year. Because of the lack of agricultural chemicals, fertilizers, machinery, spare parts, and seeds for planting rice, the surface put down to this crop this year has been reduced. According to Fedea's figures, in 2014, domestic rice consumption was 1.2 million tons and 1.1 million tons were produced, thus covering 96.1% of demand, contrary to expectations for this year.

More hurdles, more shortages. The Venezuelan Food Industry Chamber (Cavidea) has said that the numerous problems that the Integrated Agro-food Control System (SICA) has been experiencing since March are preventing the industry from transporting and dispatching both raw materials and finished products normally. Cavidea explained that companies are trying to get distribution back to normal after the temporary interruption in the issuing of mobilization waybills.

Making something out of nothing. According to the Venezuelan Automotive Chamber (Cavenez), the assembly of motor vehicles in Venezuela increased by 39.2% in June 2015 to 1,881 units compared to 1,351 units in May. According to Cavenez' figures, General Motors assembled the most vehicles, with 576 units, followed by MMC Automotriz with 395 units, and Toyota with 361 units.

And they are coming back. After a year of a reduced number of flights to Venezuela, American Airlines (AA) announced that it will once again be operating five flights a week on the New York-Caracas route starting on December 17, 2015. *"The flights will operate five times a week with Boeing 757s. These flights are already available for reservations,"* said AA in an official communiqué. Like AA, other airlines such as Delta Airlines and Lufthansa have also reduced the frequency of their flights and restricted ticket sales.

WORLD ECONOMY TIPS

Greece said yes to the rescue. Greece approved the priority measures to ensure the third bailout by the European Central Bank (ECB). The Greek parliament approved the economic reforms with a total of 229 votes in the parliament of 300. This approval means that the ECB will raise its emergency funding for greek banks

(EUR 90.0 billion per week) and the amount of disbursement bridges loans (EUR 700.0 million). However, ECB officials say it is difficult to provide support to a country that never showed unconditional support to the adjustment plan.

Among the measures adopted. In the package that Greece agreed to implement are: ratification of the declaration of the Eurozone, changes in Value Added Tax (VAT) increase in corporate taxes, the luxury tax increases 3.0 pp, going from 10.0% to 13.0%, the tax farmers increased 12.0 percentage points, going from 13.0% to 26.0%, early retirement ended in 2022, the retirement age increases to 67 years and the greek statistics agency, ELSTAT, will be fully independent of the executive power.

No more sanctions for Iran. After 13 years of disputes, Iran and the P5+1 (United States, Russia, China, United Kingdom, France, and Germany) reached an agreement under which Iran's atomic program will be restricted and the economic sanctions that have been strangling Iran's economy will be lifted. The agreement also stipulates unannounced and unlimited inspections in connection with Iran's nuclear and armament programs.

On parole. The lifting of economic sanctions on Iran will have positive repercussions for the country. Iran will now be able to engage in international trade, obtain foreign financing, and increase its oil production, among other things. However, a number of restrictions will still apply, such as the embargo on traditional weapons, which will be maintained for a further five years.

After years of locking horns. US President Barack Obama said that the agreement reached on Iran's nuclear program makes it possible to move ahead in a new direction with Iran after decades of hostility provided Iran continues along a path of tolerance and abandons rigid ideologies. However, he gave a reminder that the United States will maintain its sanctions in connection with Iran's support of terrorism, its ballistic missiles program, and its violations of human rights.

Congress still has to give its OK. Even though the President of the United States is in favor of the agreement with Iran, it still needs the approval of Congress, which has 60 days in which to approve or reject the agreement. If the agreement is given the green light, Iran is expected to sign lucrative agreements with large US energy corporations that have already expressed their interest. The United States and Iran broke off diplomatic relations in 1980.

Year 11. Number 27. Week III
July 2015

Asian bubble has a limited impact. After stock prices crashed on the Shanghai stock exchange, there was a slight tremor in the international markets, and this was due to the fact that even though the Shanghai stock market is the third largest in the world, the majority of bond holders (98.5%) are the Chinese Government and Chinese households and companies, with foreigners making up the remaining 1.5%. Consequently, no major international impact is expected.

Making the market more attractive. China has made the rules more flexible for certain foreign long-term investors in the interbank market by removing the ceilings on the quantity of investments, a measure that could strengthen China's nascent financial market. However, some investors warn that it could be some time before the measure goes into effect and investment opportunities increase.

Cuts in interest rates continue. In an attempt to reduce financing costs and support an economy that is slowing down, the People's Bank of China cut its reference interest rate by a further 0.25 of a percentage point to 4.85%. The last time the bank reduced its interest rates was in May, when it cut the reference rate by 0.25 of a percentage point to 5.1%. This is the fourth time the People's Bank of China has reduced its rates since November last year.

Negative trend continues. Eurostat, the European Union's statistics office, reports that industrial production in the 19 countries that share the euro contracted by 0.4 of a percentage point compared to the previous month (2.0%) to 1.6%. This is the third month running with a stable or negative monthly result for this indicator. The biggest drop in the month was in the production of energy and the production of nondurable consumer goods also fell.

POLITICAL TIPS

Witch-hunt. The Comptroller General of the Republic has politically disabled the opposite leader, Maria Corina Machado, for the exercise of any public office position for a period of a year. She could have been in the same situation in March of 2014 when she accepted the position of "Substitute Ambassador" of Panama before the Organization of American States (OAE).

Short and to the point. Former presidential candidate Henrique Capriles presented a proposal for an emergency economic plan "*to take us to December.*" The proposal, which was drawn up with the advice of the economist José Guerra,

includes a 50% wage increase for all workers, a US\$250 million fund for buying school supplies for 9 million students, returning 293 expropriated companies to their owners, putting a stop to the “gifts” of petroleum, and collecting the amounts owed by Petrocaribe.

Anarchy for a day. At least 14 people died and 134 people were arrested during the Liberation of the People Operation (OLP). The OLP was a military and police operation against crime carried out mainly in the vicinity of the Cota 905 Freeway in Caracas. Minister for Homeland Affairs Gustavo González revealed that they have also started the OLP in other parts of Venezuela, in particular in Aragua state, where three more alleged delinquents died.

A Colombian conspiracy? President Nicolás Maduro gave additional information on the OLP and called on all those who want to voluntarily hand in their weapons in a legal process of “*justice without impunity.*” He also said that he had evidence of participation by Colombian paramilitaries in the confrontation on the Cota 905 Freeway, claiming that 40 of the 134 people arrested are Colombians.

An exclusive observer guest list. National Electoral Council (CNE) director Luis Emilio Rondón gave assurances that the CNE had sent an invitation to UNASUR to act as an observer at the parliamentary elections, although no other organization has been sent an invitation. Rondón reiterated that it falls to the Comptroller General’s Office, not to the CNE, to decide whether or not former San Cristóbal Daniel Ceballos can stand for election.

Still sitting on the fence. Freddy Guevara, the coordinator of *Voluntad Popular* (VP), said that they are still studying which would be the right strategy for the parliamentary elections. He said that, at first glance, the single ballot card seems to be the most appropriate but that VP considers that other aspects need to be taken into consideration, such as the risk of the parties being made illegal. He also confirmed that they are also considering the use of mixed ballot cards, as they would make it possible to measure voter support for the different parties.

Sanctions made official. The US Government has published confirmation of the sanctions against Venezuelan government officials for violation of human rights in the Official Journal. The notification mentions both the sanctions handed down on March 8 and those imposed on December 18 against some of Chavismo’s high-ranking government officials. The charges against them include “*acts of violence or grave abuses of human rights against antigovernment demonstrators in Venezuela.*”

Year 11. Number 27. Week III
July 2015

Lawsuit on the court docket. Subpoenas have been issued against the president of the National Assembly, Diosdado Cabello, Aragua Governor Tareck El Aissami, and other top-ranking government party officials by the District Court for the Southern District of Florida. They are charged with alleged extortion against directors and journalists of Doral News and Doral News TV. The Venezuelan government officials have been summoned to appear in Miami on August 10. If they fail to appear, lawyers will be sent to Venezuela to take their statements.

Meeting with the “enemy.” Nicolás Maduro admitted that he had met twice with US Department of State Counselor Thomas Shannon at Miraflores Palace. Maduro said that the purpose of the meetings was to make it clear that Venezuela is not a threat to US security as US President Barack Obama had claimed. He also revealed that other issues discussed were the embassies, international law, and a possible joint effort with Petrocaribe.

Guyana calls for a new process. The Government of Guyana has said that it is not interested in continuing the good offices process that falls to the United Nations because Venezuela has used it to maintain the territorial dispute over the Essequibo region. The Guyanese Government’s reaction came days after Venezuela officially requested UN Secretary General Ban Ki-moon to designate a new mediator to settle the territorial dispute with neighboring Guyana.

LEGISLATIVE TIPS

Primero Justicia at the National Assembly. Deputies for the party *Primero Justicia* Alfonso Marquina and José Ramón Sánchez put a series of measures and actions to defend the Essequibo territory before the National Assembly, including the creation of a permanent parliamentary subcommittee to deal with the matter. Marquina also proposed that the National Assembly pass a national territory defense law so that “*any company that enters into a contract with Guyana to operate in the Essequibo cannot enter into contracts with the Venezuelan State.*”

Border issues. The chairman of the National Assembly’s Defense Committee, Williams Fariñas, publicly announced that he is prepared to study the bill for the defense and development of the Orinoco Facade. The bill consists of 12 articles that demarcate the Atlantic Façade of the Venezuelan states Sucre and Delta Amacuro and the region west of the Essequibo. It should be noted that opposition deputies have been pushing for this issue to be evaluated and settled since 2011.

Year 11. Number 27. Week III
July 2015

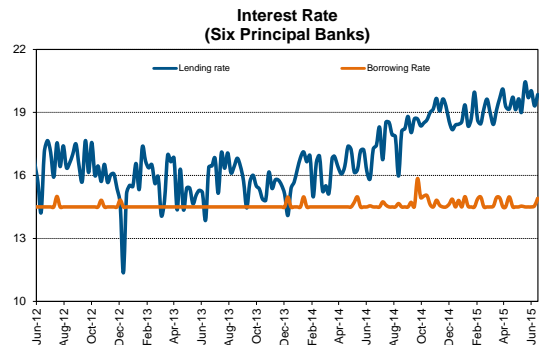
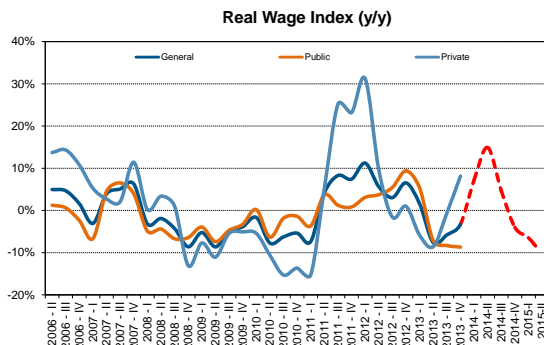
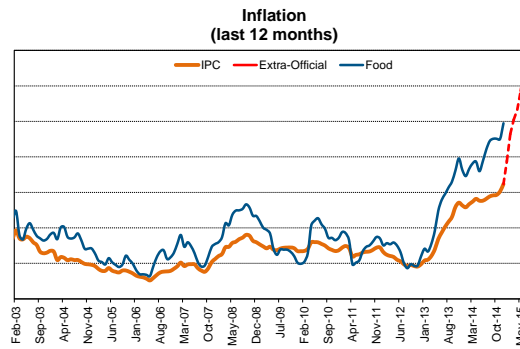
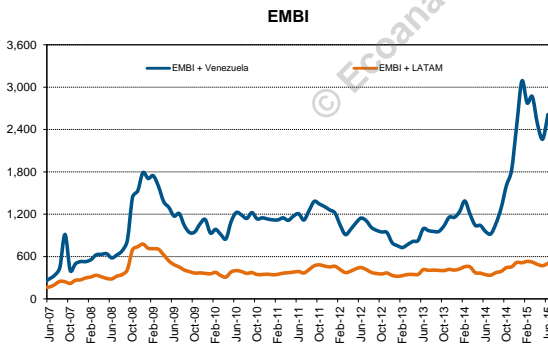
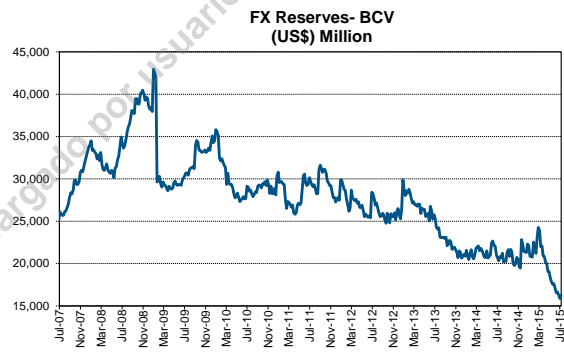
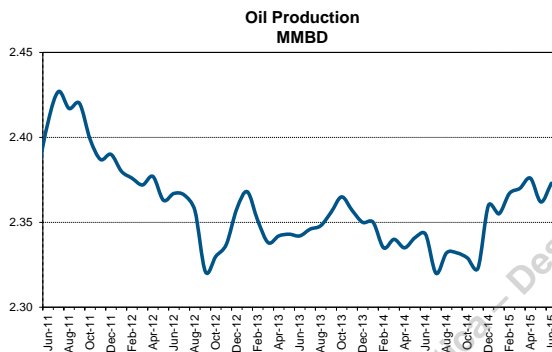
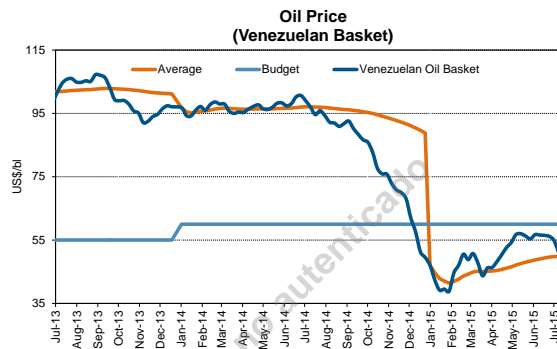
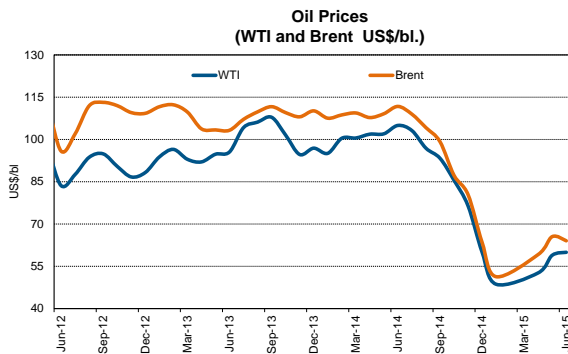
Commission set to go. The Venezuelan State's Presidential Commission for guaranteeing the Territorial Sovereignty of Boundaries, chaired by Executive Vice President Jorge Arreaza, was inducted on Wednesday, July 15, and, after having undergone some revisions, the Law for Territorial Sovereignty and Peace was published last Tuesday in *Gaceta Oficial*.

Central Bank sets interest rates. In an official communiqué published in *Gaceta Oficial* No. 40,700, dated July 10, 2015, the Central Bank of Venezuela announced the interest rates applicable to payroll liabilities, credit card operations, and credit operations for the tourism sector

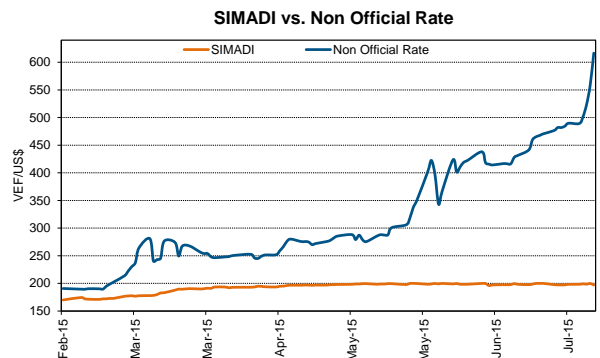
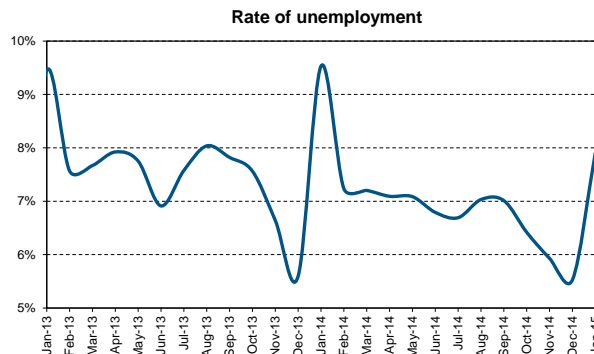
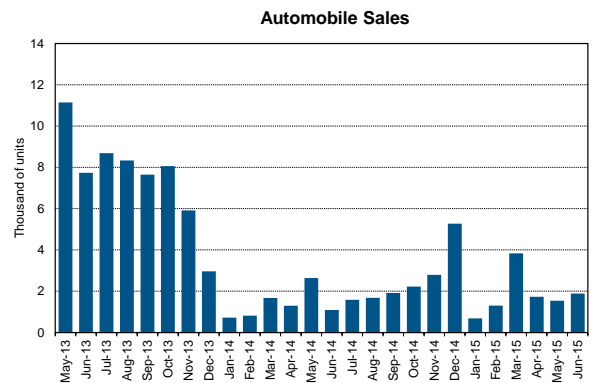
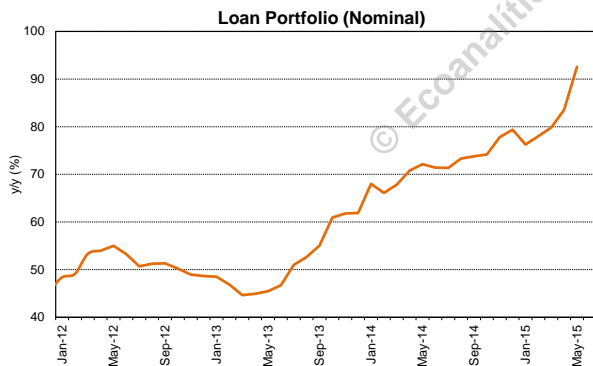
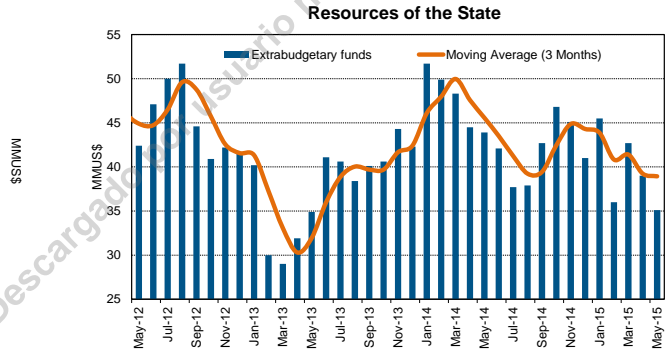
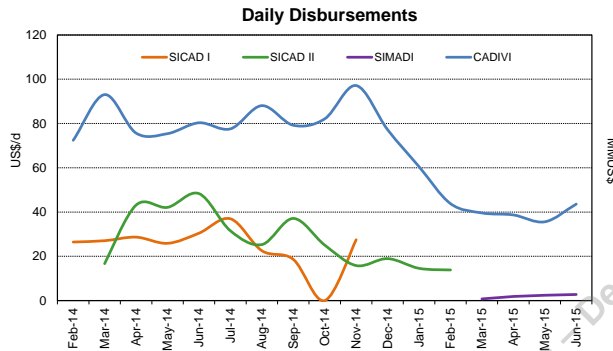
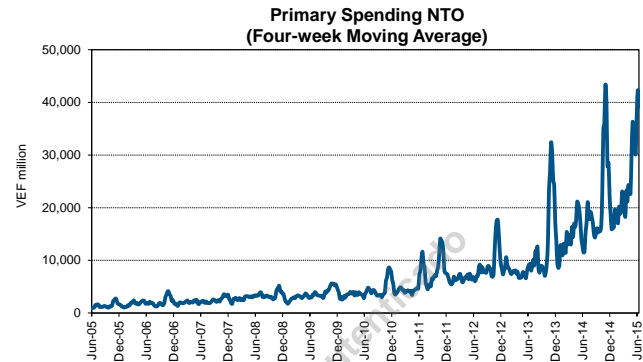
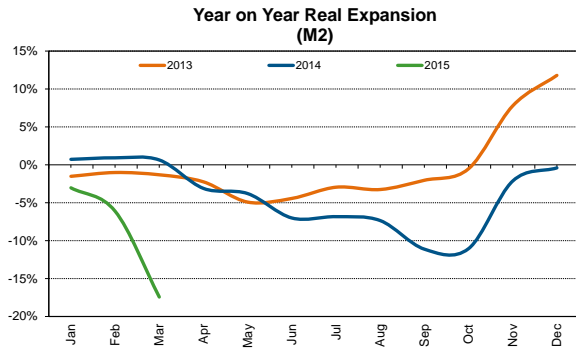
The lending rate for June 2015 applicable to payroll liabilities in accordance with the Law for Labor, Male and Female Workers is 19.7%; the maximum and minimum annual lending rates for credit card operations are 29.0% and 17.0%, respectively; and the maximum preferential interest rate applicable to credit operations for the tourism sector is 10.1%.

Demanding their rights. On Sunday, July 12, the lesbian, gay, bisexual, transsexual and intersexual community staged a march that included going to the National Assembly to hand in a list of demands based on proposals drawn up during the first National Sexual Diversity Congress. Two of their demands are having the National Assembly include members of the lesbian, gay, bisexual, transsexual and intersexual community in the National Assembly's committees to be formed in January 2016 and having May 7 declared as National Day of Nondiscrimination Based on Sexual Orientation.

ECONOMIC OVERVIEW



Year 11. Number 27. Week III
July 2015



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