

The adjustments that are needed

More than once, the government has hinted at the possibility of implementing a new foreign exchange policy this year that will permit a convergence of the exchange rates currently coexisting in the economy. In principle, this “foreign exchange unification” measure would completely eliminate the opportunities for arbitrage between the different exchange rates (generally between the official and the black market rates) and would reduce the speculative demand of foreign currency, so helping the government to better administer the funds it has in foreign currency.

Although this could be seen as the solution to all the economic problems currently affecting Venezuela, implementing a foreign exchange policy that is more efficient in terms of allocating and more flexible in granting access to foreign currency will not work on its own and, consequently, needs to be part of a package of measures aimed at reducing the imbalances currently present in the economy and also on the fiscal and monetary fronts.

Among the many imbalances that exist, the one that needs to be solved most urgently is the imbalance in the monetary market. We have already stressed on previous occasions the importance of controlling liquidity in order to reduce inflationary and foreign exchange pressures and to prepare the ground for gradually lifting exchange controls, given that such a measure reduces the possibilities of massive capital flight occurring.

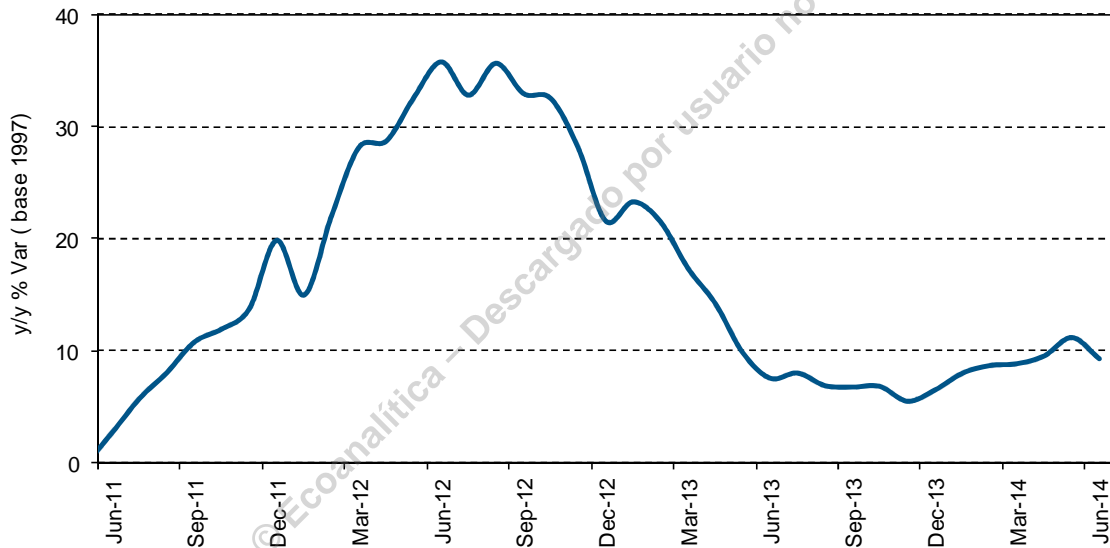
Measures that are not even half measures

The most notable of the few pro-liquidity-controlling measures taken by the government in the first half of the year was the start of the “*Directo BCV*” auctions in early April. There have been 17 of these auctions to date and they have managed to mop up a total of VEB 9.4 billion, which is equivalent to only 1.8% of the monetary base, 0.6% of liquidity, and 5.3% of the bolivars that have been needed to conduct transactions in Alternative Foreign Currency System (SICAD II) since it started, which gives an idea of how insignificant these issues have been.

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Another of the measures taken by the Central Bank has been to increase the legal reserve (percentage of total deposits that a bank must maintain as statutory reserves at the Central Bank), which in April went up to 21.5% on existing deposits at that date and to 31.0% on the increase in the amount of deposits made by the general public. This measure implies that, for every VEB 100 the banks receive, VEB 31 have to be deposited with the Central Bank as a reserve, which has reduced the proportion of funds that can be returned to the public in the form of loans. While this has slowed down growth in the loans portfolio, but it has not helped to keep down liquidity.

Loan Portfolio Growth



Sources: Sudeban and Ecoanalítica

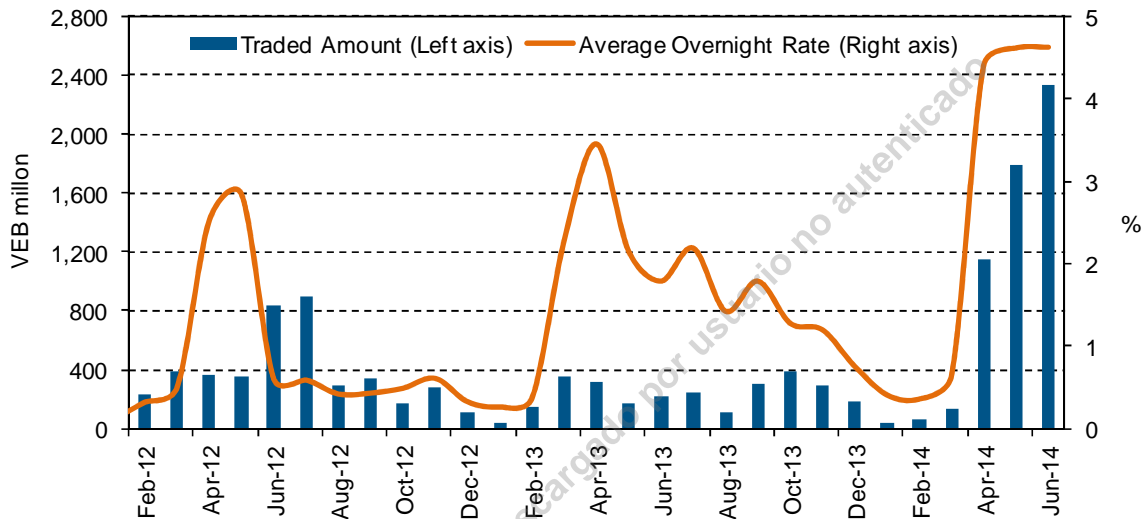
And SICAD II?

As for the startup of SICAD II, which was shaping up as an escape valve that would make it possible to reduce the amount of money in circulation, despite the fact that US\$3.5 billion have been allocated via this mechanism so far this year, which is equivalent to VEB 177.2 billion at a weighted exchange rate of VEB 49.9/US\$, that amount has not produced a reduction in liquidity, as the agents offering foreign currency have used the funds obtained to finance their expenditures in bolivars.

More than a solution to the problems of liquidity, the new complementary system has led to a concentration of deposits in the state-owned segment of the banking system (which is the one that has received the greater volume of foreign currency allocations),

causing problems to part of the medium-size private bank segment, which has led to an increase in the amounts traded and the interbank interest rates in recent months.

The Evolution of the Overnight Market

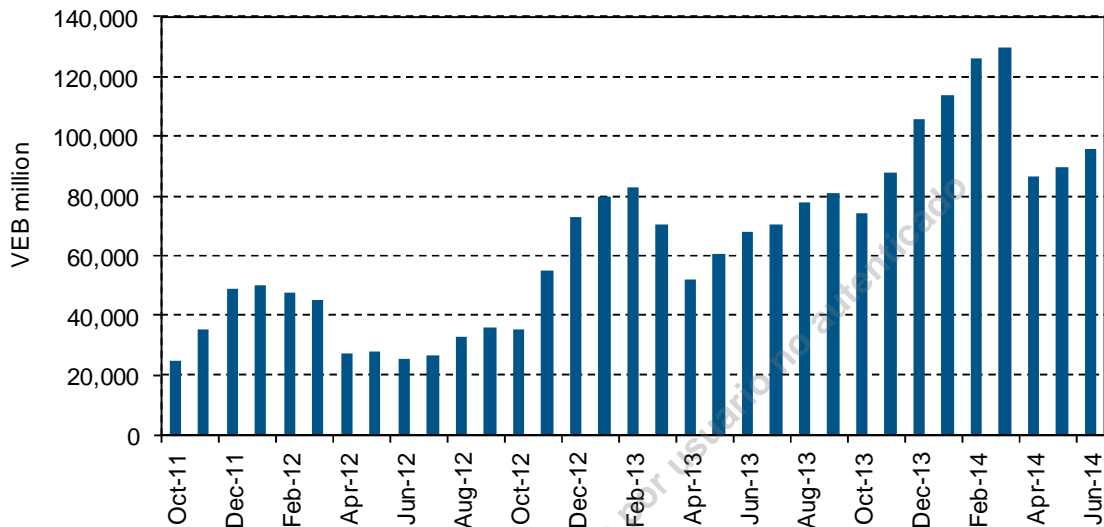


Sources: BCV and Ecoanalítica

Meanwhile, surplus liquidity in the banking system as a whole has continued to grow, after posting a contraction in the first month following the implementation of SICAD II, and it looks as though it will shortly return to the levels it had reached prior to the launching of this complementary system.

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Excess Bank Reserves



Sources: BCV, Sudeban and Ecoanalítica

No signs of the adjustment

The lack of effective measures has resulted in monetary liquidity (coins and deposits in the hands of the public) posting an increase of 71.7% (9.4% in real terms) at the close of June compared to a year ago, which has been one of the main causes of the 108.5% depreciation in the implicit exchange rate (M2/International Reserves), which went from VEB 32.7/US\$ in June 2013 to VEB 68.2/US\$ in June 2014, and contributed to generating greater inflationary pressures at a time when the shortages of goods averaged 29.0% (figures of the first quarter).

Why is liquidity growing?

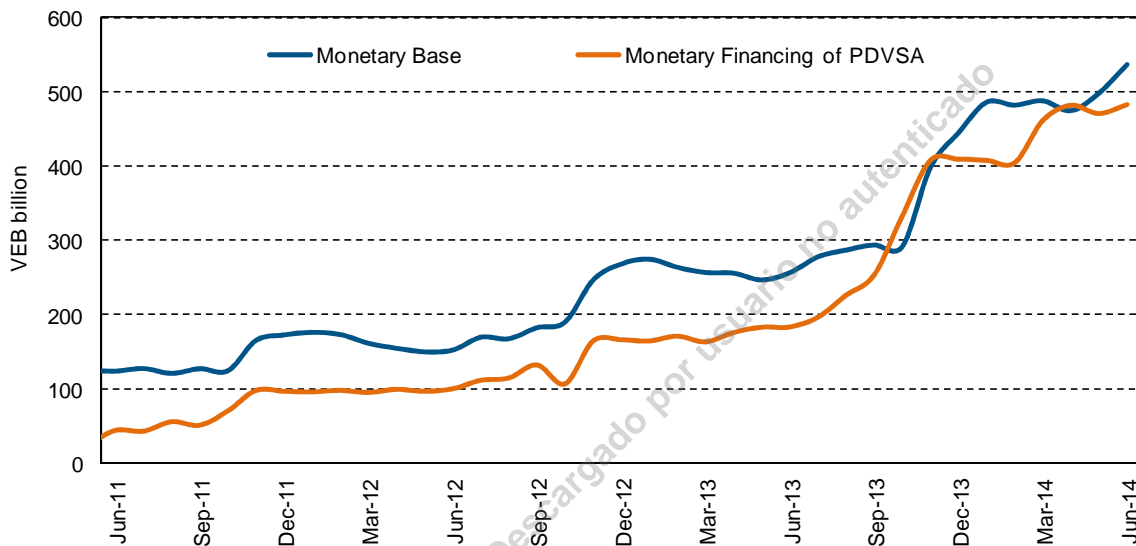
The growth of the amount of money in circulation is due not only to the lack of measures to control it, but the constant printing of money by the Venezuela's Central Bank (BCV). At the close of June, the monetary base (monetary liabilities or money issued by the Central Bank) posted an increase, year-on-year, of 109.1%, the biggest since 1997.

The increase in the monetary base has been driven in the past two years by the BCV steadily increasing its financing of PDVSA, which, in turn, has been performing a large part of the spending associated with the social missions promoted by the government. Between January 2010 and June 2014, the amount of financing the Central Bank

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granted PDVSA multiplied by 94, from VEB 5.1 billion (US\$1.2 billion) to VEB 481.6 billion (US\$76.4 billion).

Pdvsa's Financing and Monetary Base



Sources: BCV and Ecoanalítica

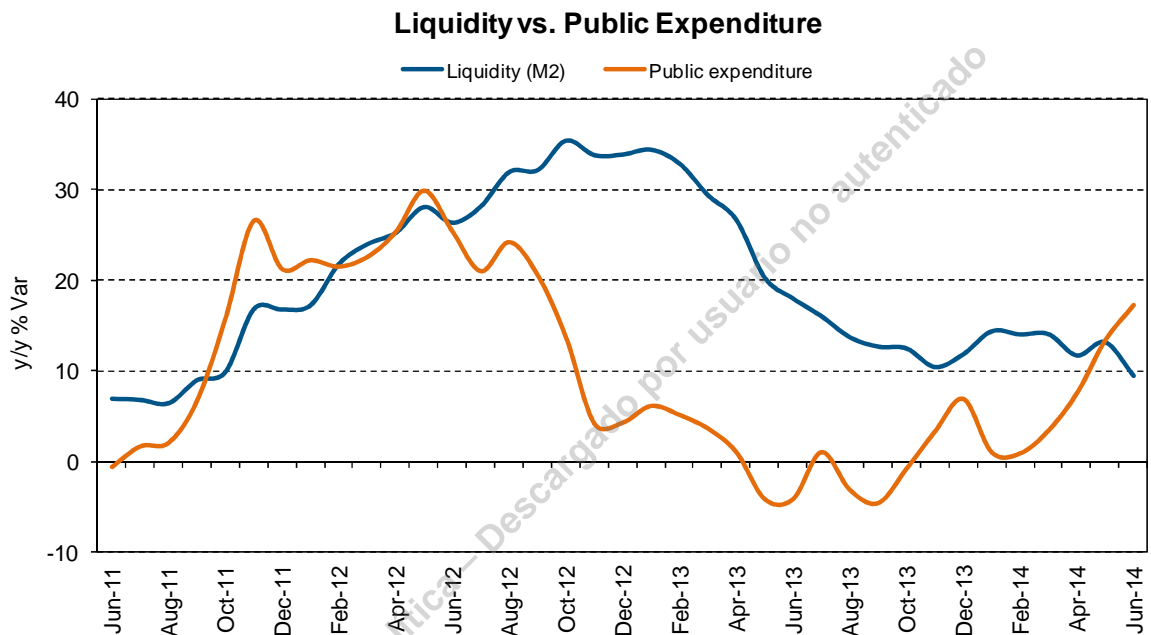
The restrictions on PDVSA participating directly in SICAD II have prevented the oil company from being able to obtain the amount of bolivars it needs to carry on its daily operations, investment activities and, at the same time, deal with the burden of the social missions. This has meant that it has not been able to take advantage of a system that, under different circumstances, would have allowed it to obtain a mass of bolivars that would even help it to reduce its debt with the Central Bank, so helping the Central Bank, in turn, to reduce the rate at which it is printing new banknotes.

A party isn't a party when you're strapped for cash

The growth in public spending is another factor that is not helping to keep liquidity under control. In the past two years, two elections -the presidential elections in 2012 and the regional elections in 2013- led the government to strongly expand spending in the second half of the year, which also had an expansive effect on liquidity. While this year is not an election year, it has been marked by political instability, however, and this has prompted the Executive to try to contain the decline in its popularity via current spending, something that is contraindicated if controlling liquidity is the goal.

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According to data from the National Treasury Office (ONT), spending performed by the Central Government in the first six months of the year came to VEB 528.52 billion, 84.8% more than the amount disbursed over the same period last year and an expansion of 17.2% in real terms.



Sources: BCV, ONT and Ecoanalítica

And the solution that has everyone waiting

The increase in public spending and the fiscal imbalance –which is expressed in an ever bigger deficit- not only contribute to maintaining levels of liquidity high, but they discourage the adjustment on the monetary level that could be achieved by setting higher interest rates.

An increase in the interest rates, a measure that is usually taken to control inflation and liquidity by contracting credit, would considerably worsen the debt position of the Venezuelan State (which has 63.6% of its debt in local currency) and would limit its capacity to borrow in bolivars, which means that a measure of that type is not convenient from the public finance point of view. Once again, a monetary adjustment would require a fiscal adjustment to be implemented either beforehand or at the same time.

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The effects of an incomplete adjustment

At **Ecoanalítica** we consider that the lack of significant measures for controlling liquidity and adjustments in quasi-fiscal spending to control base aggregates will result in the amount of money in circulation continuing to exercise considerably inflationary and foreign exchange pressures, in particular given the scenarios of relative shortages of both goods and foreign currency, which currently persist. High inflation (79.3%), an implicit exchange rate that will close at nearly VEB 93.3/US\$, and even lower interest rates in real terms will be the result of continuing in a highly liquid scenario.

Forecasts for the Monetary Market

	2013E	2014F	2015-2017
M2 (VEB million)	1,220	2,056	7,069
Var% (a/a)	70.7	68.5	51.5
Var% (a/a) (real)	11.8	10.8	0.1
Average Lending Rate (%)	15.6	16.0	17.8
Average Savings Rate (%)	14.5	13.2	15.1

Source: Ecoanalítica

Gabriel Villamizar

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ECONOMIC TIPS

You underestimated. The National Assembly authorized a national budget of VEB 552.6 billion for 2014, which would seem to be an underestimate, as it has fallen short of the needs of the different ministries and agencies. For that reason, VEB 227.3 billion has been approved in supplementary allocations so far this year, according to the National Assembly's records. Taking into account these supplementary allocations, total allocations for 2014 have gone up by 41.0% and have already reached the VEB 780.0 billion mark, which is more than total spending posted for the entire year in 2013 (VEB 670.0 billion).

Lend me just a bit more. The Simón Bolívar Fund, which finances spending resulting from government-sponsored construction of housing, has issued a new batch of bonds to a value of VEB 56.1 billion that will be made available to the public in September, so increasing the fund's debt with financial institutions and some private investors to VEB 120.4 billion. Almost simultaneously, last month, the Superintendency of Banks (Sudeban) issued a resolution stating that the bonds issued by the fund are considered zero-risk investments since they have the backing of the Republic.

Concentration, not liquidity, is the issue. Owing to the high concentration of liquidity in the state-owned banks, the Central Bank has activated "injection operations" aimed at the private banks. Last week, the Central Bank received bonds in guarantee from private banks and, in exchange, lent them approximately VEB 2.6 billion. The banks that obtained this financing undertook to buy the bonds back from the Central Bank in seven days' time.

Why the lack of liquidity in the private banks? This lack of liquidity is due to the fact that the state-owned banks attract a larger share of the bolivars circulating in the economy because they handle the Complementary Foreign Currency Administration System (SICAD I) operations and receive deposits from the State. Besides that, some months earlier, the monetary authorities decided to increase the legal reserve to 21.5%; in other words, the portion of the deposits that have to remain frozen with the Central Bank in the form of a reserve is now greater.

Injections aren't the only mechanism. Apart from resorting to injection operations by the Central Bank, banks that require bolivars on a daily basis in

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order to balance their accounts in the short term have been going to banks that have surpluses on their accounts. In the first few days of July, the banks lent approximately VEB 85.72 billion to one another, up 104.0% from the amount traded in June. This situation is also reflected in the sharp increase in interbank operations in recent months.

He cancelled again. Vice-president for the Economy and Minister for Oil and Mining Rafael Ramírez cancelled the meeting he had scheduled with international banks and investment funds in the United States for the second time. According to unofficial sources, the meeting has been rescheduled for September. At these meetings, which were going to serve as bridges between foreign investors and Venezuela, Ramírez hoped to explain the possible foreign exchange and fiscal measures the government is planning to take.

Regulations for foreign exchange houses. According to a new resolution published in *Gaceta Oficial* No. 40,461 dated July 26, before engaging in the buying and selling of foreign currency, foreign exchange houses will have to register the nature of the transactions with the technological platform administered by the BCV. The resolution also notifies of the requirement to comply with the refunds and fines provided for in the Foreign Exchange Regime and Foreign Exchange Crimes Act.

Requirements that generate inefficiency. The Central Bank has changed the requirements for buying dollars via SICAD II. Now, in the case of private individuals, the minimum purchase will be US\$1,000 and, apart from the requirements established previously, they will have to submit documentary proof of residence in Venezuela, documentary proof of income, and a copy of their last income tax return. As for companies, they will have to submit copies of their last two income tax returns in addition to the documentary requirements established earlier. At **Ecoanalítica** we consider that these new requirements could delay the process of obtaining foreign currency, which could result in an increase in the price of the unofficial dollar.

The third most expensive. According to The Economist's Big Mac Index, the price of a Big Mac in Venezuela is the third most expensive in the world at US\$6.8, calculated at the SICAD I rate (VEB 11.0/US\$), which is equivalent to an overvaluation of the bolivar of 42.2%, beaten only by Norway (US\$7.7) and Switzerland (US\$6.8). At the other end of the scale are Ukraine with a price of US\$1.6, India with US\$1.7, and South Africa with US\$2.3.

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Interest rates. The lending rate for the third week of July was at 17.4%, up by 0.1 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, staying invariable compared to the previous week, while the passive rate was at 14.1%, without variations compared to the previous week.

International reserves. International reserves increased by 1.7%, going from US\$20.4 billion during the second week of July to US\$20.7 billion during the third week of July. Compared to the same period last year, international reserves have decreased by 13.8%.

Central government expenditure. On July 25th according to figures from the NTO primary spending was VEB 16.2 billion, which means an increase of 61.3%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 414.1 billion 71.9% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 0.9% in the third week of July from the week prior, to settle at VEB 1.5 trillion. The M2 has increased 72.5% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
07/18/14	26.7	24.9	93.3	1.8	6.7
07/21/14	25.0	22.1	88.4	2.9	11.6
07/22/14	27.1	26.4	97.4	0.7	2.6
07/23/14	24.3	23.1	95.1	1.2	4.9
07/25/14	19.9	18.8	94.5	1.1	5.5

Sources: Ecoanalítica

OIL TIPS

Tough promises. PDVSA's results published in its financial reports show that the company has its hands tied when it comes to production. Nevertheless, it has a "sow oil plan" that proposes raising production from 3 million barrels a day (mb/d) to 6 mb/d within five years, something that has not been achieved anywhere else in the world. Achieving those results is not feasible, according to the oil expert Diego González, who recalled that, in its finest hour, PDVSA managed to increase production by a maximum of

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127,000 barrels a day (b/d) per year, whereas the plans establish leaps of 500,000 b/d per year in 2015 and 2016.

Skimming from here and there. PDVSA has promised to increase its supply of crude to China to 1 mb/d in 2016. Experts consider that, at the moment, PDVSA does not have the capacity to improve its performance, which means that PDVSA will achieve the increase in shipments to China by juggling its exports, in other words by reducing its shipments to other countries, in particular to the US. In 2005, shipments to China accounted for 14% of total production, which, according to the audited balance sheets, came to 3.27 mb/d. In 2013, the agreement with China accounted for nearly 17.0% of production for an increase of 889.7% in eight years.

Citgo's profits down. The lower volumes of crude marketed and the behavior of oil prices affected the net profits of Citgo, PDVSA's affiliate in the US, which fell by 63.1%, going from US\$461 million in 1Q2013 to US\$170 million in 1Q2014. According to the company's annual report, net sales went from US\$11.1 billion in 1Q2013 to US\$9.9 billion in 1Q2014, posting a drop of US\$1.2 billion. This result, says the report, was due to a 7.0% reduction in the volume of sales and a drop of 5.0% in the average price of crude.

PDVSA studies sale of Citgo. PDVSA is studying offers by investors interested in buying Citgo. This sale is being considered because the industry is evaluating reducing its exposure to risk as a result of lawsuits abroad, increasing its cash flow for projects, and increasing shipments of crude and derivatives to China. The government has received three separate offers that are in the range of US\$10.0 billion and US\$15.0 billion. Citgo's assets include three refineries with capacity for processing 750,000 b/d, 48 facilities for storing derivatives, three oil pipelines, and part ownership of another six pipelines in the United States.

Weatherford is thinking of expanding. Weatherford, a multinational oilfield services company with headquarters in Switzerland, is getting ready to expand its presence in Venezuela and to that end is thinking of increasing its investments in infrastructure, machinery and training of personnel, besides providing local communities with support. The company forestalled information disseminated by Reuters, according to which Rosneft, the world's largest oil company based on production quoted on the stock exchange, had agreed to buy Weatherford International's drilling and well servicing assets in Russia and Venezuela.

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Supply problems continue in Mérida. Last week there were long queues of vehicles at some service stations waiting to fill up with gasoline, and other service stations were closed because they did not have any gasoline. Eladio Vergara, a member of the Bolivarian Transport Union, attributed the situation to an alleged problem in Bajo Grande filling station, located in Maracaibo, which stopped pumping to the filling station at Kilometer 15 in El Vigía in Mérida state. Since the tanker trucks cannot fill up there, they have to go to Zulia in order to be able to deliver fuel to Mérida, which means more travel time and delays in the dispatches.

Chalmette Refinery up for sale. Apparently Minister for Oil and Mining Rafael Ramírez has confirmed that PDVSA is putting its 50% shareholding in Chalmette Refinery up for sale, according to a report issued by Argus Media, a firm specializing in business information. The other 50% is owned by ExxonMobil, the world's largest oil transnational corporation. Argus Media claims that "PDVSA confirmed that it had hired Deutsche Bank to find a buyer for its shares in Chalmette Refinery."

Rosneft is to pay PDVSA US\$440 million. PDVSA and the Russian company Rosneft signed five agreements for services and projects in the Orinoco Oil Belt and for development of a gas block. The agreements signed by Minister for Oil and Mining Rafael Ramírez and Rosneft's president, Igor Serchin, include payment of the first installment of the bond for participating in Petrovictoria in the sum of US\$440 million. This payment is to be made in September. Ramírez explained that the agreements will speed up business between the two companies and guarantee an increase in production.

International oil baskets. At closing time on July 25th in the New York Stock Exchange, the price of the WTI was US\$103.1/bl, up by 1.8% when compared to the reported the previous week. The Brent increased by 0.5% when compared to the previous week, to reach US\$107.5/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$95.8/bl on Friday July 25th, increasing by 1.3% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.9/bl.

BUSINESS SECTOR TIPS

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SIDOR workers reply to Maduro. Last Monday, July 28, during a mass march by SIDOR workers, SIDOR's former labor director, José Jiménez, recalled that, in 2008 when Rodolfo Sanz was in charge, it was estimated that the company would need US\$900 million to stabilize its production of liquid steel, US\$314 million of which were approved four years later but that, so far, have not been disbursed in full. In the opinion of the workers, the fact that this investment is coming in drips and drabs is at the root of the company's collapse, which President Maduro attributed this Sunday to a group of bogus labor unionists (*sindicaleros*).

The consequences of constantly putting things off. After the European Community refused Conviasa permission to fly to Europe a year ago, the airline managed to get the European Union to allow it to resume flights with chartered aircraft in view of the fact that the Airbus 340 with which it normally covered the Caracas-Madrid-Caracas route was undergoing maintenance in France. Venezuela's Santa Bárbara Airlines, the US airline Vision, the Portuguese airline Orbes, and Air Italy have been giving their assistance to Conviasa all this time. The operation cost US\$800,000, but allowed the airline to maintain the route. However, problems with getting aircraft with which to cover the route in high season have resulted in the recent crisis that has left several passengers stranded in Madrid and Maiquetía.

Airlines are required to indemnify passengers by law. Venezuela's Civil Aeronautics Law stipulates that, when they suspend their flights without justification, airlines are under the obligation to pay each passenger up to 4,150 special drawing units (SDRs) (approximately VEB 70,000 at the SICAD I rate) by way of compensation and that the only justifiable causes for suspending flights are weather conditions, lack of spare parts or problems with the aircraft. Since the cancelations the airlines are making are for economic reasons, they are under the obligation to indemnify the passengers. The SDR is a unit of payment set by the International Monetary Fund (IMF) at US\$1.60.

Ways of repatriating funds proposed to seven airlines. The government continued meetings with representatives of seven international airlines operating in Venezuela -Air France, United Airlines, Caribbean Airlines, Avianca, Lacs-Taca, Iberia, and Varig Gol- with a view to reaching agreements on the repatriation of their funds. Claudio Farías, the chairman of the National Assembly's Administration and Services Committee, also met

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with representatives of the Center for Aeronautics Studies to discuss the price of air tickets and they hope to submit a balance sheet in the next few days so that the National Civil Aeronautics Institute can set a price ceiling.

Borrowing to buy food. Under pressure because of shortages and constantly increasing prices, Venezuelans are resorting more to credit cards to pay for food and medicines. Statistics from Sudeban show that in 1Q2014 payments made in supermarkets and food stores using credit cards came to VEB 14.2 million, 90.0% more than during the same period in 2013, whereas in clinics and pharmacies they went up by 59.0% to VEB 5.4 million.

Businessmen are worried about the “fiscal revolution.” Businessmen suspect that additional tax burdens are on the way and they are concerned. *“In order to do justice, it’s necessary to tap into the economic strength that the Republic has. And the details will be announced in the next few days,”* said Nicolás Maduro on July 15 referring to the fiscal reform. Eduardo Garmendia, the president of Conindustria, said that companies cannot shoulder more taxes. *“The tax burden on businesses is very low in Venezuela compared to other countries, but, if you add all the para-fiscal charges, it’s much heavier than anywhere else,”* he said.

A year from now. Doing the rounds of the pharmacies in search of medicines will continue to be part of their normal routine for Venezuelans. While the disbursement of foreign currency for paying 30.0% of the pharmaceutical sector’s debt on average could alleviate the shortfalls in supply, it will not solve the problem warn industry sources. They say that, if disbursements continue at the same rate, the imports of companies whose dispatches have been suspended will be resumed, but not in sufficient quantities. As a result, they do not expect the market to get back to normal this year.

The drought will make it necessary to import. In 1H2014 agriculture was marked by the effects of the intense drought, which is not letting up. Farmers have had to adapt to available supplies of water from wells and reservoirs and rethink their planting estimates, which means that local production will not be higher than last year. Concerned because they will not meet established goals, producers suggested that the Presidential Agri-food Commission evaluate the imports that will be needed to cover the shortfall in domestic production.

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Electricity will be more expensive this summer. Minister for Electric Power Jesse Chacón has announced that the new scheme of electricity charges will go into effect in August. In a communiqué, the minister said that *“the Green Band Plan will be implemented starting in August with a view to encourage users of the electricity service to make rational and efficient use of electricity.”* He explained that 83.0% of users, approximately 4.5 million people, fall within this band, and for them, the State will continue subsidizing 80.0% of the service, whereas the subsidy will be reduced for the remaining 17.0%.

Hoteliers expect an increase in occupancy. Domestic hoteliers forecast a 10.0% increase in occupancy this vacation season compared to last year. Leudo González, the president of the National Hotel Federation of Venezuela (Fenahoven), said that the level of reservations gives grounds for optimism and that it is possible that this sector will absorb part of the flow of travellers who were unable to leave the country owing to the shortage of air tickets.

They criticize the purchase of Chinese cars. The Unitary Federation of Automotive, Auto-parts and Related Workers (Futacc) criticized the government for having approved the purchase of another 11,500 Chinese vehicles while the domestic vehicle assembly industry is practically at a standstill, since this is a blow to the recovery of the sector and to the stability of thousands of jobs. *“We can only reject this new purchase, which demonstrates the State’s lack of commitment to implementing a policy that would help to improve the productivity of the sector and of the economy in general,”* said Futaac’s president, Christian Pereira.

Furniture production fell in 2014. The production of household furniture has been affected by problems with the supply of inputs due to the difficulties in obtaining the foreign currency needed to import raw materials. *“Furniture manufacturers have posted a drop of nearly 60.0% in the production of furniture in 1H2014,”* explained businessmen in the sector. Companies selling “vital” implements for the production of household furniture, such as fabrics and foam rubber, have stopped distributing due to the delays in the disbursement of foreign currency. They also pointed out that one of the main causes of the problem is that SICAD II has not been responding on a regular basis to the applications submitted by manufacturing companies.

Production of motorbikes down 58.0% compared to 2013. The motorbike assemblers’ luck has changed. After years of buoyancy, today they are suffering a sharp contraction owing to the lack of foreign currency, the same

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as the vehicle assembly plants. In 1H2014 only 88,456 motorbikes were assembled, down 58.0% from the same period in 2013, according to figures supplied by the Association of Motorbike Industrialists, Manufacturers and Assemblers (Aifem).

WORLD ECONOMY TIPS

Obama gives the OK. United States President Barack Obama said that the Federal Reserve was correctly focused on unemployment, given the relatively moderate rate of domestic inflation and took the opportunity to support FED Chief Janet Yellen's policies. He explained that the cost of unemployment, particularly long-term unemployment and unemployment for young people who are just starting their careers is something that has devastating effects on the economy for future generations.

Forecasts revised down. The IMF said that it expects the US economy to grow more slowly than forecast in its estimates of a month ago following a weak performance in 1Q2014. The IMF stated that, for that reason, the world's biggest economy will grow by only 1.7% this year, 0.3 of a percentage point lower than estimated a month ago.

Gradually putting on the brakes. The disappearance of the effect of more costly imports caused by the weakening of the yen seems to have resulted in a slowing down of underlying consumer inflation in Japan in June. The underlying consumer price index went from an increase of 3.4% year-on-year in May to an increase of 3.3% in June. This does not seem to have surprised the Bank of Japan, which has said that inflation will continue to cool down to nearly 1.0% in the coming months.

Preliminary agreement against Russia. The ambassadors of the European Union reached a preliminary agreement to apply severe economic sanctions on Russia for its intervention in the Ukraine crisis. It seems that the Malaysian airline shot down over Ukrainian territory was the last straw, prompting the EU group to take a strong stand against Russia. It seems that some of the sanctions will be to close the European Union's capital markets to state-controlled Russian banks, an embargo on the sale of weapons to Moscow, and restrictions on the supply of energy and technology.

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Solid situation in the private sector. Markit's Purchasing Managers Index (PMI), compiled from surveys of thousands of companies throughout the European region and a good early indicator of global growth, indicates that the European Union's private sector expanded in July, posting its biggest increase in three months. The index went from 52.8 in May to 54.0 in July (any figure higher than 50 indicates expansion). However, everything indicates that the accelerated growth in new business was once again marked by the fact that companies made price cuts.

Ireland waits for news. High level sources within the European Union have said that the European group's finance ministers are to hold discussions in September regarding whether or not to allow Ireland to make early payment of the IMF's more expensive loans before repaying the Eurozone bailout fund. Those debts, which come to a total of EUR 67.5 billion (IMF plus the European Financial Stability Fund and the European Stability Mechanism), were acquired by Ireland in 2010.

A return to the good old days. Official figures reveal that the British economy has, once again, managed to stay on a path of growth similar to the one it was treading before the financial crisis broke six years ago. British GDP expanded by 0.8% in 2Q2014, in line with the solid growth achieved in 1Q2014 and positive expectations regarding future growth. According to the IMF, the British economy has been performing very well, which could mean that it will be the wealthy nation with the highest growth in 2014.

Expected growth of 2.5% for Ireland. The Central Bank of Ireland revised its growth forecasts for 2014 upwards from 2.0% to 2.5% based on an expected increase in exports, which would reinforce the idea of the arrival of a firm recovery in Ireland. The Irish economy expanded by 2.7% in 1Q2014, after being stuck in neutral for the previous two years. *"Continuing to build on the achievements of recent years will be crucial in order to reduce vulnerabilities and ensure a sustainable return to steady growth,"* said the Central Bank in a report.

Improved outlook. The Bank of Spain verified an improvement in the growth of the economy in 2Q2014, which prompted it to announce an upward revision of its growth projections for 2014 and 2015, stressing the improvement in financial conditions and indicators, including employment. The Central Bank's data reveal that GDP grew by 0.5% in 2Q2014, up 0.1 of a percentage point from 1Q2014, whereas growth projections for 2014 and

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2015 were 1.3% and 2.0%, respectively, an improvement of 0.1 and 0.3 of a percentage point on previous projections.

POLITICAL TIPS

President of Venezuela and president of the PSUV. The first vice-president of the United Socialist Party of Venezuela (PSUV) and president of the NA, Diosdado Cabello, announced that the President of the Republic, Nicolás Maduro, had been appointed president of the PSUV by the sovereign decision of the delegates and by the “*acclamation*” of all. Cabello took the opportunity to insist on the need to set aside “*internal tendencies*” and to issue a call for “*unity to consolidate the PSUV*” as a solid force for building socialism.

Consolidating socialism. President Nicolás Maduro gave assurances that militants in the government ranks are not ruling out the advent of a Constituent Assembly with a view to strengthening the country’s socialist bases. He added that “*rightwing factors*” have thought of using the Constituent Assembly against the revolution, but claimed that this would never happen. “*The Constituent Assembly is (an instrument) of popular power that progressively builds a new reality that builds the vital elements of the Constitution, the National Simón Bolívar Project, to consolidate socialism,*” explained the Venezuelan President.

General Carvajal causes a scandal. The Venezuelan general, Hugo Carvajal, was released after being arrested early last week by the Aruban authorities when he landed on the island and is now in Venezuela. The release occurred after Venezuela’s foreign minister, Elías Jaua, announced that the retired military officer and former director of the Military Intelligence Division (DIM) would be set free on the orders of the Kingdom of Holland. Carvajal, who was arrested on charges of being involved in drug trafficking and supporting the Colombian guerrillas, was released because he allegedly had diplomatic immunity granted by the Venezuelan Government.

Ismael García points the finger at Luisa Ortega Díaz. National Assembly Deputy Ismael García accused Prosecutor General Luisa Ortega Díaz of adopting a “*complacent and blind attitude*” that allowed General Hugo Carvajal to act with impunity in setting up a criminal trap that resulted in the

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recent problems with Aruba. *"I'm calling on her for the umpteenth time to take action and open an investigation, because justice in Venezuela is looking aberrant in the eyes of the world,"* added García, referring to the Prosecutor General.

"Shady Chinese deal." Miranda Governor Henrique Capriles claimed that the debt the Venezuelan Government has taken out with China since 2004 *"is equivalent to twice our international reserves, more than US\$56.0 billion."* The governor explained that, if it is true that 90.0% of the debt with China has already been paid, it makes no sense that Venezuela does not have liquidity in foreign currency, which led him to say that the Chinese Fund has become a *"shady Chinese deal"* that uses claims of solving problems that have not been solved until now as a smokescreen.

Unity Alliance takes the case to the UN. The executive secretary of the Democratic Unity Alliance (MUD), Ramón Guillermo Aveledo, sent a letter to United Nations Secretary General Ban Kin Moon denouncing the mistreatment to which the political leaders Leopoldo López, Daniel Ceballos, Enzo Scarano, and Salvatore Lucchese have been subjected in Ramo Verde prison and also the fact that they were robbed. *"This situation has the appearance of a cruel maneuver to distract public attention from the scandal caused by the arrest of General Hugo Carvajal in Aruba and to gloss over its impact at the PSUV Congress. Corruption is the cancer of the revolution,"* added Aveledo.

The goodbye of Aveledo. The MUD executive secretary, Ramon Guillermo Aveledo, resigned that position, stating that it will remain within the opposition political alliance. *"I'm not leaving the Unit, I'm only changing my battle station. From the Executive Secretary that I have exercised these past five years and today I leave, I resign with my head held high the status of Unit's militant"* Aveledo said. To which he added, pointing to him and the other members, currently in the MUD do not anyone behind, therefore the spirit of participation should be directed to *"multiply and not divide."*

One step further forward. The National Assembly has taken another step along the road to renewing the members of the National Electoral Council. The preliminary commission has announced that it will submit a list of 20 representatives of civil society to the National Assembly in plenary session for the selection of the ten members who are to sit on the electoral

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postulations committee. It should be noted that this shortlist was compiled from an initial list of 130 candidates.

Unity. The governor of Lara, Henri Falcón, insisted that every effort should be made to maintain unity, despite the internal differences that have arisen in the Democratic Unity Alliance this year. *“We’re building politics from the street level and, speaking from the Unity Alliance, we’ve made that proposal in positive terms, not to divide but to make people aware, to add (forces) and generate a broad base that will allow us to build a new majority in the country when it comes to future elections. We believe in unity and that is our purpose in being here,”* added Falcón.

It’s already law. The Democratic Unity Alliance has warned that the Law on the Protection of Constitutional Rights and Guarantees, already sanctioned by the National Assembly, seeks to validate the punishment meted out to opposition mayors Enzo Scarano and Daniel Ceballos by the Constitutional Chamber of the Supreme Tribunal of Justice. This complaint refers basically to Article 65 of the law, which establishes that *“Anyone who fails to comply with the mandate of protection of constitutional rights shall be sanctioned with arrest of one to 20 months. In the case where the person holds public office, the arrest shall also give rise to administrative sanctions (...) the rules of criminal proceedings, including alternative formulas for serving the sentence, shall not apply to the arrest established herein.”*

LEGISLATIVE TIPS

Foreign exchange houses are waiting on the Central Bank. Foreign exchange houses, which are governed by the Banking Sector Institutions Act, are waiting for the Central Bank to publish the Official Notice authorizing them to sell foreign currency, foreign banknotes or traveller’s checks to private individuals by means of transfers, as established in Resolution No. 14-07-01 issued by the Ministry for the Economy, Finance and State-owned Banks and published in *Gaceta Oficial* No. 40,461, dated July 25, 2014. This resolution went into effect on the same day as its publication in the *Gaceta Oficial*, except for the provisions contained in Articles 4 and 5, which refer to the sale of foreign currency.

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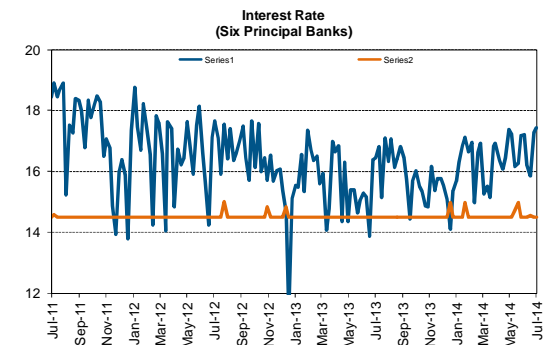
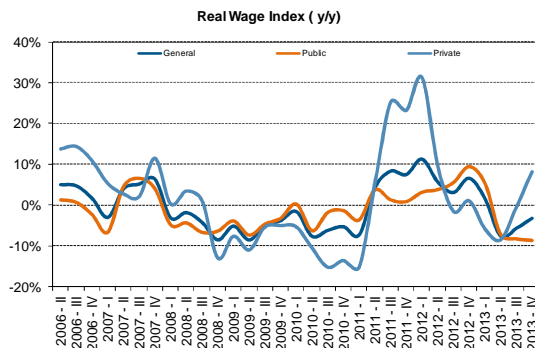
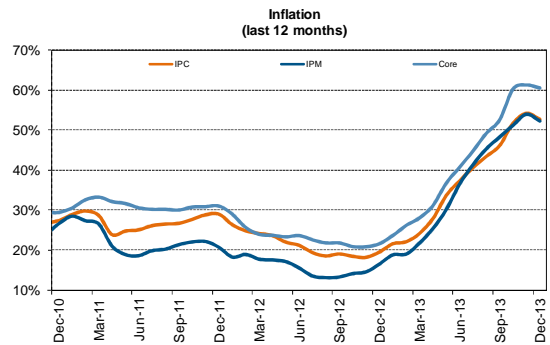
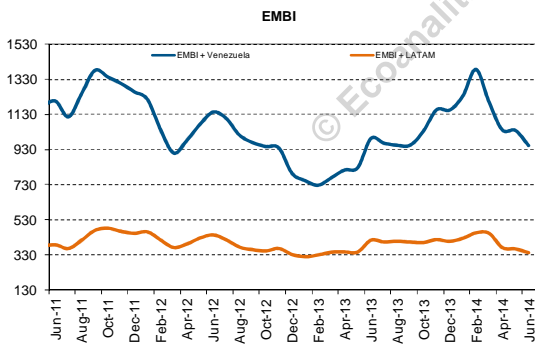
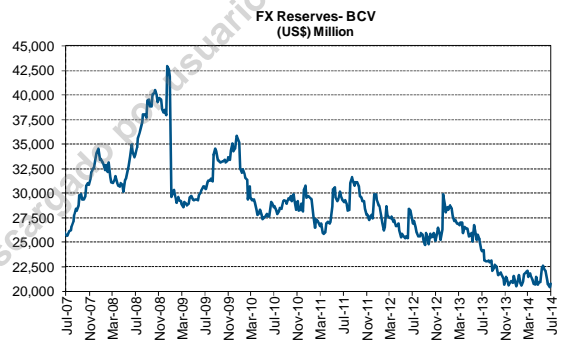
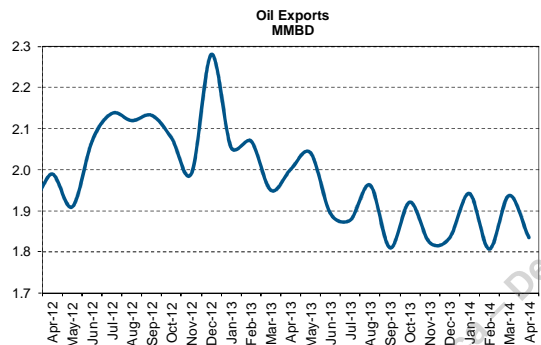
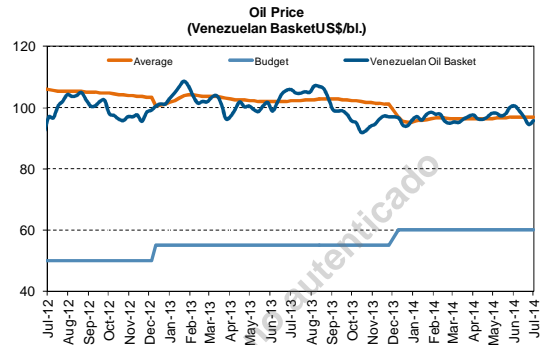
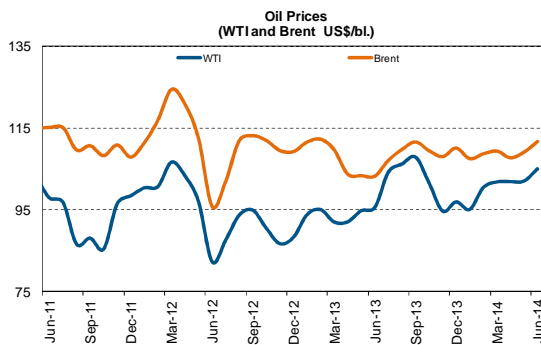
A “balanced” CNE? The NA has taken another step along the path to renewing the members of the CNE. The preliminary commission, made up of deputies from *Chavista* and opposition benches, has agreed to submit a list of 20 representatives of civil society to the National Assembly in plenary session for it to select the ten members who are to sit on the electoral postulations committee. Before drawing up this shortlist of 20 names, the parliamentarians evaluated a total of 130 candidates. One member of the commission stated that the shortlist was “balanced.”

A sanction becomes law. The Unity Alliance benches have denounced that what the *Chavista* majority seeks to achieve with the Law on the Protection of Constitutional Rights and Guarantees, sanctioned by the National Assembly in plenary session on July 22, is to “validate” the punishment meted out to opposition mayors Enzo Scarano and Daniel Ceballos by the Constitutional Chamber of the Supreme Tribunal of Justice. Article 65 of the law establishes the following: “*Anyone who fails to comply with the mandate of protection of constitutional rights shall be sanctioned with arrest of one to 20 months. In the case where the person holds public office, the arrest shall also give rise to administrative sanctions (...).*”

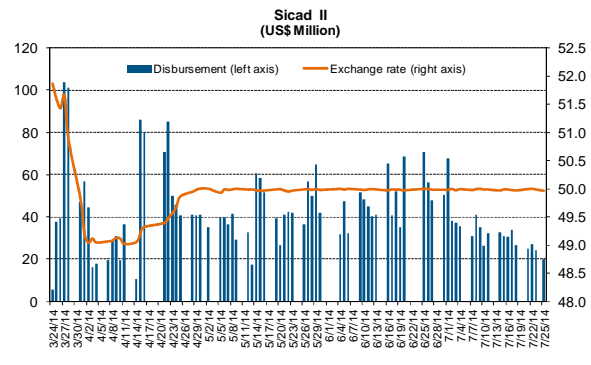
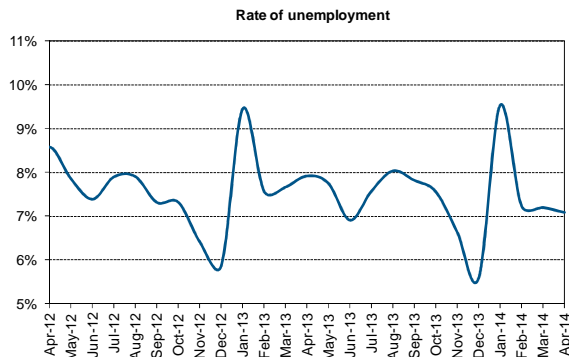
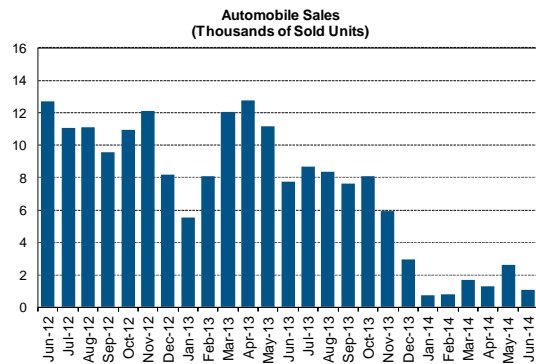
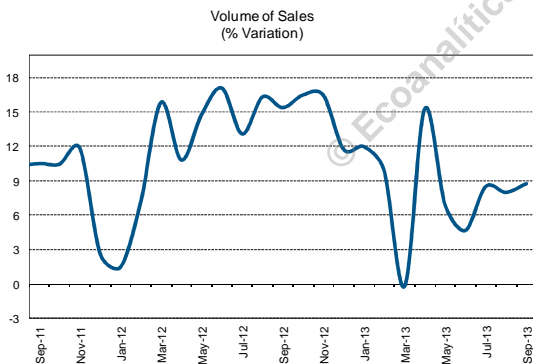
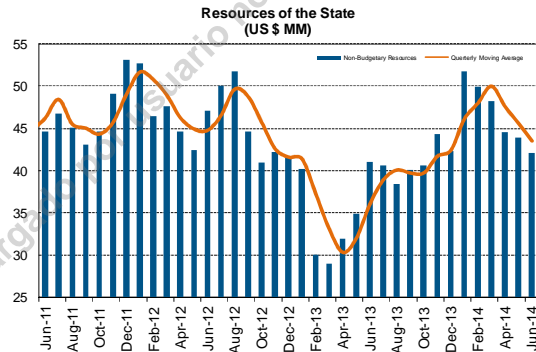
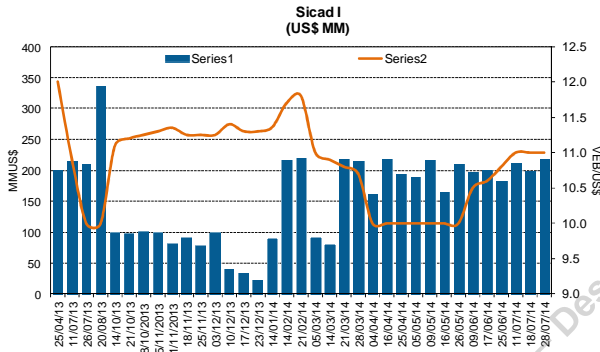
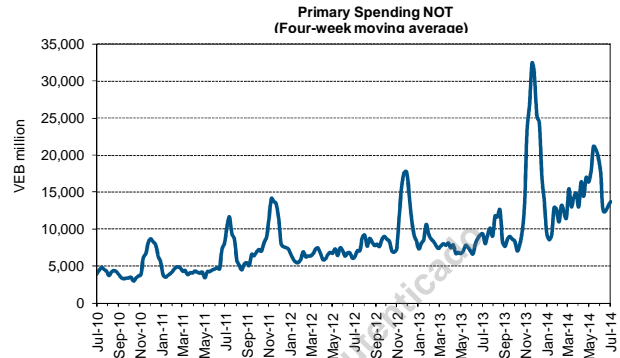
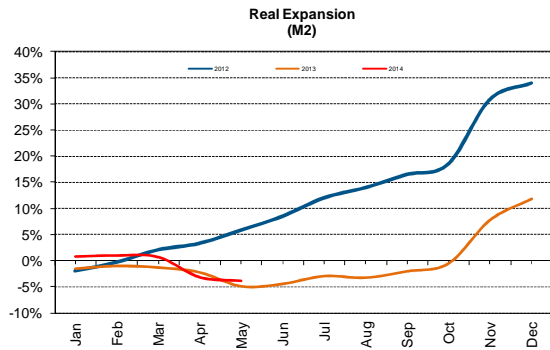
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ECONOMIC OVERVIEW



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