

PDVSA: the alarms goes on

With the delay to which we are already accustomed, a week ago PDVSA published its operations and financial report and the balance sheet of its consolidated debt for 2015. What the information in these reports reveals is a fair reflection of how the country's main company has been performing. In this report we will focus on analyzing the operating results and the financial results.

A lot of reserves, scant production

PDVSA's operating results for 2015 show that production averaged 2.86 million barrels a day (2.86 mb/d), 2.75 mb/d of which were crude and 117,000 barrels a day (117 kb/d) natural gas liquids (NGL), giving a reduction of 36 kb/d compared to 2014, when production came to 2.90 mb/d.

A breakdown of production by oil field area shows that, as has been the trend in recent years, the only area to increase its production was the Eastern Region (which includes the Orinoco Oil Belt), whereas production in the Maracaibo-Falcón and Barinas-Apure oil field areas continued to fall. However, it seems that the Orinoco Oil Belt is no longer producing enough to halt the overall decline and, after increasing by 100 kb/d in 2013, production in this area seems to have stagnated.

Audited production crude oil and NGLs (kb/d)

National Production	2011	2012	2013	2014	2015
Executive Management of East Production	1,106	1,061	964	866	801
Executive Management of Offshore Production	-	-	-	38	35
Executive Management of Eastern Production	810	799	777	750	707
Executive Management of New Developments	-	-	-	17	55
Executive Management of Orinoco Belt	1,213	1,174	1,274	1,228	1,265
Total National Production	3,129	3,034	3,015	2,899	2,863

Sources: Pdvsa and Ecoanalítica

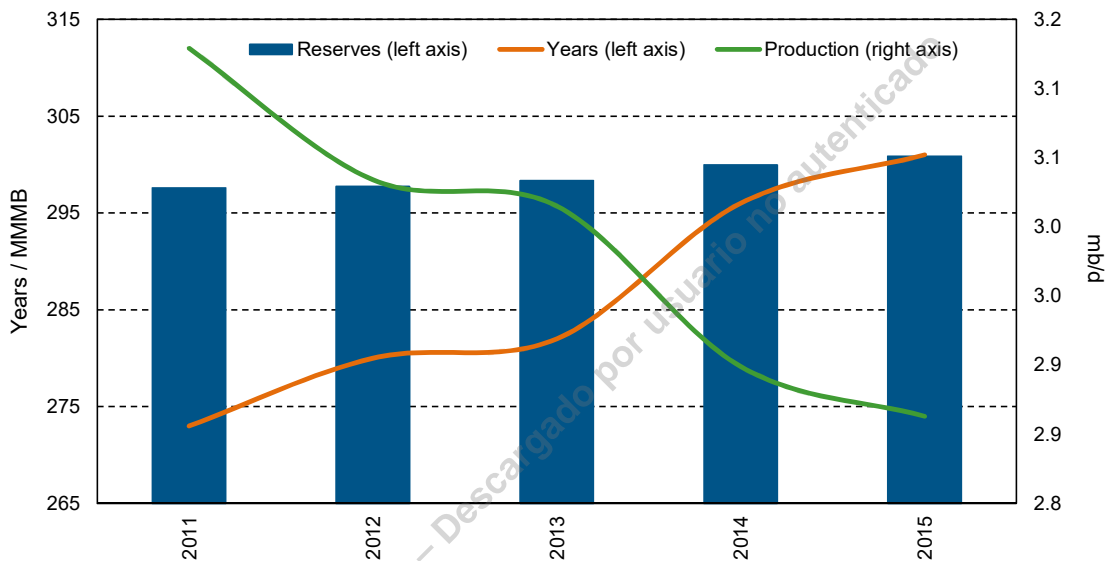
On the other hand, the report extols the efforts PDVSA has made in recent years to certify reserves and highlights the incorporation of 55.60 million barrels of crude (mb) in 2015, which brought proven reserves to 300.88 billion barrels, which means in

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

layman’s terms that, at current production levels, there is enough oil for 301 years. Although the prospect of having petroleum for the next three hundred years sounds great in principle, it is not as good as it seems.

Proven Oil Reserves vs. Production



Sources: PDVSA and Ecoanalítica
Note: The left axis includes both years as billions of barrels.

PDVSA’s efforts to incorporate and certify reserves is not something that should be disregarded, since it significantly reduces the operating risk of any new projects and makes the oil business very attractive for any company wishing to operate in Venezuela because the likelihood of not finding oil is practically nonexistent. However, at the present rate of production, petroleum could cease to be a tradable product before we get it out of the ground.

That said, it would seem that Venezuela is, once again, walking a different path to the rest of the world, and while countries such as Saudi Arabia are betting on increasing exploitation of their reserves in a scenario where the outlook is for oil prices of around USD 60.0/bl. in the long term, PDVSA has been unable to increase or even maintain its output. The former Saudi oil minister got it right when he said: *“The Stone Age came to an end, not because we had a lack of stones, and the oil age will come to an end not because we have a lack of oil.”*

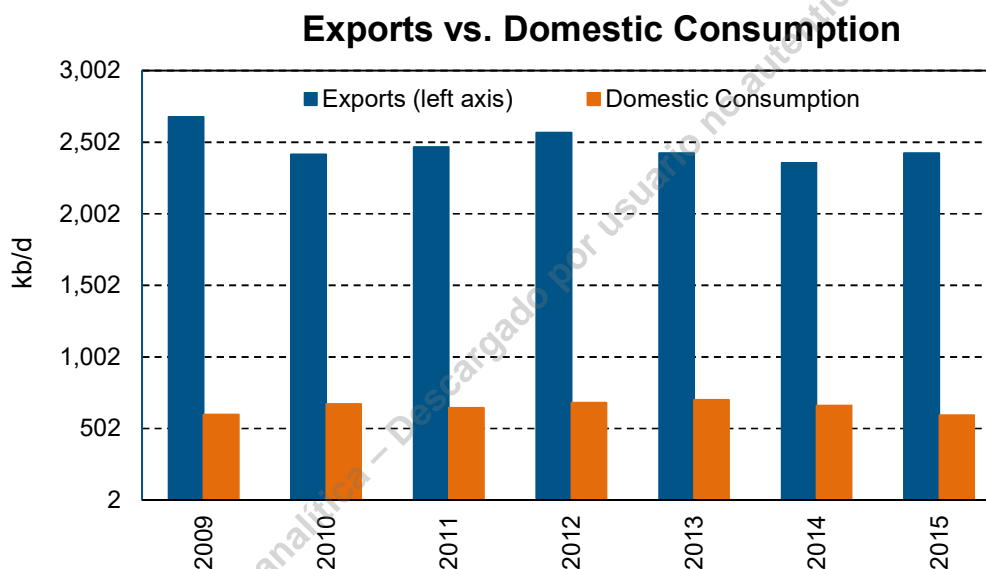
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Vestiges of common sense

As for sales in 2015, exports of crude and products came to 2.43 mb/d, 1.95 mb/d of which were crude and 475 kb/d products, which gives an increase of 68 kb/d compared to exports in 2014. This is good news could be explained mainly by an almost identical reduction in domestic consumption, which last year averaged 594 kb/d, 69 kb/d less than in 2014.



Sources: PDVSA and Ecoanalítica

A breakdown of exports by country reveals that the main destinations of exports in 2015 were the United States and China, with averages (oil + products) of 801 kb/d and 400¹ kb/d, respectively. Continuing the trend of recent years, as sales to our neighbor in the North contracted (35 kb/d), so exports to the Asian Giant increased (up 77 kb/d).

On the other hand, although total exports came to 2.43 mb/d, not all of them generated cash for PDVSA because a percentage of those sales were subject to financing agreements, such as Petrocaribe or the Caracas Energy Cooperation Agreement (ACEC). For that reason, at **Ecoanalítica** we calculate the volume of exports that actually generate cash. On that basis, we find that cash-generating exports averaged 1.76 mb/d in 2015, which gives an increase of 68 kb/d compared to 2014.

¹ This numbers do not take into account the payments towards Chinese's Debt. The total export to China, including Debt payments, in 2015 were 627 kb/d, 150 kb/d higher than 2014.

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Oil Production and Exports (kb/d)

	2012	2013	2014	2015
Production (oil)	2,804	2,756	2,749	2,692
Intern Consumption (liquids)	681	703	663	594
Exports (oil)	2,060	1,935	1,897	1,950
Refined Product Exports	507	490	460	476
Agreements (oil):	0	0	0	0
China	269	293	244	316
Cuba	98	99	90	98
Petrocaribe	94	85	72	65
Cash Flow Generators barrels	1,793	1,694	1,697	1,765

Sources: PDVSA and Ecoanalítica

It is worth commenting that, despite the deteriorated state of the industry, the decision by those in charge to reduce shipments to countries under those special agreements indicates some vestige of rationality. However, this decision has not been applied across the board, as, despite the drop in oil prices, sales to Cuba went up from 89.4 kb/d in 2014 to 97.8 kb/d in 2015.

Restricted cash flow

A brief analysis of PDVSA's financial report shows the impact that the 49.6% drop in oil prices in 2015 has had. Total revenues contracted by USD 49.73 billion, going from USD 121.90 billion to USD 72.17 billion. Consequently, outflows shrank by 38.6% year-on-year, going from USD 100.26 billion to USD 61.51 billion, whereas net profits came to USD 10.67 billion compared to USD 21.64 billion in 2014, for a contraction of 50.7%.

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Profit Loss Statement of PDVSA (USD MM)			
	2014	2015	Variation
Sales of crude oil, products and other	101,552	55,339	-45.5%
Financial income	20,343	16,830	-17.3%
Total Income	121,896	72,169	-40.8%
Purchases of crude oil and derived products	37,266	22,965	-38.4%
Operating expenses	27,400	16,828	-38.6%
Depreciation and amortization	8,038	8,995	11.9%
Royalties, extraction tax and other taxes	13,466	6,294	-53.3%
Other expenses	14,087	6,429	-54.4%
Total Expenditure	100,257	61,511	-38.6%
Profit before income tax and tributes for social development	21,639	10,658	-50.7%
Tributes for social development	5,321	9,189	72.7%
Profit before income tax	16,318	1,469	-91.0%

Sources: PDVSA and Ecoanalítica

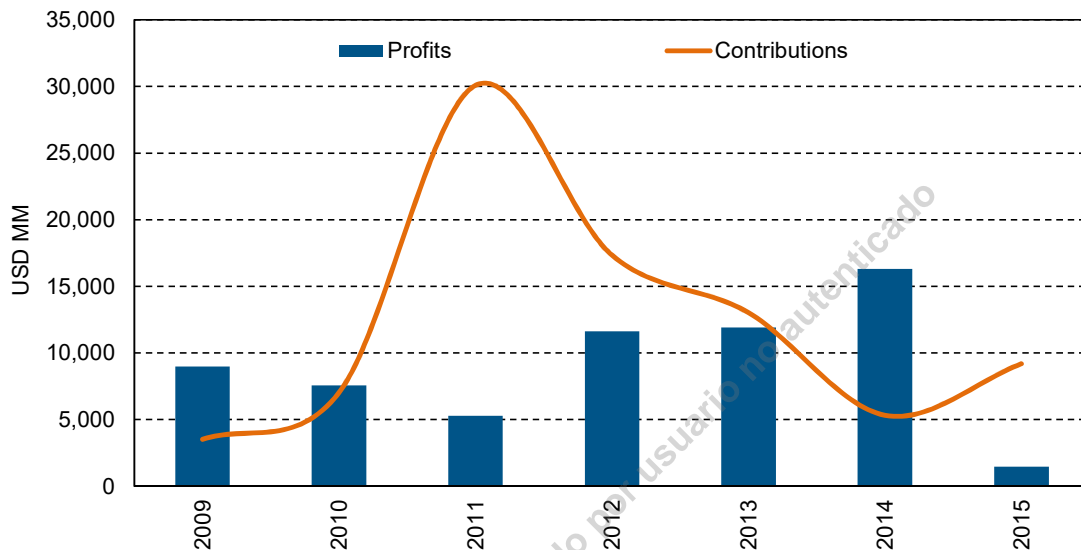
As for earnings before interest, taxes, depreciation and amortization (EBITDA) at the close of 2015 they totaled USD 22.04 billion, which gives a drop of 34.7% compared to EBITDA in 2014 of USD 33.74 billion. EBITDA were equivalent to 30.5% of total earnings for the year.

Based on the above, we can say that PDVSA experienced a major reduction in its operating cash flow. This was due mainly to lower net earnings than can be accounted for simply by the drop in oil prices, a situation that was exacerbated by the increase in contributions and tributes for social development, which last year came to USD 9.19 billion.

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Profits vs. Contributions to social development



Sources: PDVSA and Ecoanalítica

Net worth risk down

PDVSA's financial debt shrank in 2015, going from USD 45.74 billion to USD 43.72 billion as a result of the bond maturities that fell due last year. For that same reason, the company's net worth risk rating fell to 48.1% in 2015. However, it should not be forgotten that in 2009, with a low price scenario the same as now, PDVSA's net worth risk rating was 29.4%, 18.7 percentage points lower than its present rating.

Borrowing Capacity

	2010	2011	2012	2013	2014	2015
Total Debt (USD MM)	24,950	34,892	40,026	43,384	45,736	43,716
Patrimony (USD MM)	75,314	69,629	72,486	84,486	89,757	90,879
Debt/Patrimony (%)	33.1	50.1	55.2	51.4	51.0	48.1

Sources: PDVSA and Ecoanalítica

Another point worth mentioning is the debt with suppliers, which, instead of contracting, increased by USD 1.80 billion in 2015 to close the year at USD 19.05 billion. This year we have felt the consequences of this "no pay" policy that has been applied to the industry's service providers with the withdrawal of Schlumberger and Halliburton and the 206 kb/d drop in production.

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Poor PDVSA

In short, the figures tell of an industry that for years has been sidetracked from its core business and that, today, is facing the worst possible scenario: a drop in oil prices and declining production. The goose of the golden eggs no longer seems to be what it was, but the Executive has not realized that and continues to demand that the industry give more than it is capable of giving, strangling it in the process. It is time for a change in the energy paradigm in our country, a change that is becoming more urgent by the day.

Pilar Navarro

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week July	Weekly var. (pp)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	641.5	0.0	0.0
	2nd Week July	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.1	-0.1	0.9
	3rd Week July	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	7.0	-3.3	3.1
	3rd Week July	Weekly var. (%)	Annual var. (%)
International Reserves (Bn USD)	11.94	-0.2	-22.5
	1st Week July	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	58.1	-10.3	95.4
	2nd Week July	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	5,369	1.5	95.7
Price of International Oil Baskets (USD/bl)			
	3rd Week July	Weekly var. (%)	Annual var. (%)
WTI	45.3	-0.5	-24.1
Brent	46.9	-0.2	-13.0
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week July	Weekly var. (%)	Annual var. (%)
Weekly Average	37.6	-0.7	-33.4
Annual Average	32.1	0.6	-35.0

Sources: BCV, MENPET, ONT and Ecoanalítica

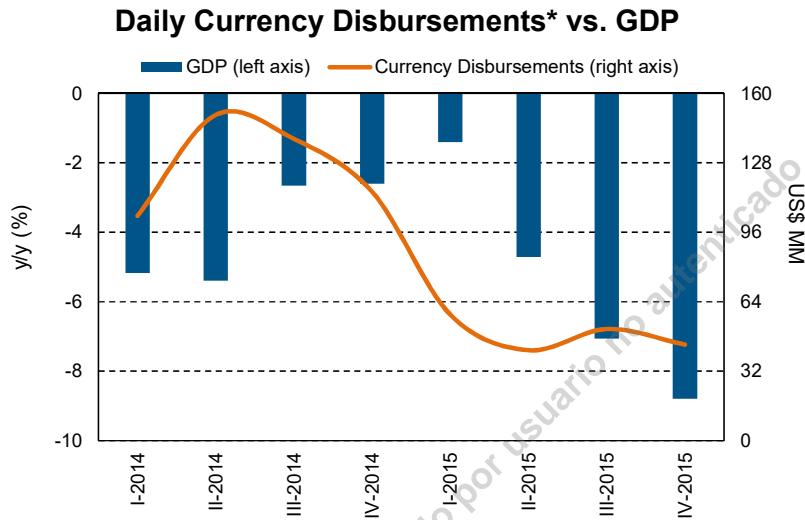
* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: “MONEY TALKS”



Sources: BCV and Ecoanalítica
* Accounts only for private sector disbursements

The dynamic of imports has played a key role in how the country’s economy has performed in recent times. The real appreciation that Venezuela has experienced stems from the fact that the basket of local prices has got considerably more expensive and this, in turn, has greatly increased the size of the basket of products that the Venezuelan economy has to import in order to be able to function. This, combined with a series of other factors, has eroded the local production framework.

This means that imports have been taking on an increasingly important role in the country’s operations dynamic. However, given the foreign exchange regime that is currently in place in Venezuela, they irremediably depend on the country’s production sector having access to foreign currency and on the total amount of foreign currency disbursed to that sector.

Continuing with this line of thought, in an economy that is highly reliant on imports, maintaining an adequate flow of foreign currency for importing is a priority if one wants to achieve economic growth. However, the evidence shows that average daily disbursements of foreign currency, towards the private sector, in May 2016 fell by 67.9% year-on-year. In other words, companies that do not have access to international credit and that depend on sight imports do not have the means to acquire raw materials in order to activate their production apparatus.

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ECONOMIC TIPS

The basic basket reaches VEF 255,436.9. According to the report of Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of Basic Food, Goods and Services Basket (Canasta Básica de Alimentos, Bienes y Servicios - CBT) in June 2016 was VEF 255,436.9, an increase of 26.0% compared to the prior month, and 624,0% compared to June, 2015. So far this year the basket has a cumulative variation of 180,9% (VEF 164,302.5).

The behavior of the CBF in June was marked by an increase of all its items: items of personal hygiene (40.4%), food (20.9%), health (43.6%), clothing and footwear (15.9%), housing (8.8%), education (76.8%), among others.

Family income only covers 14.8% of the basket. According to Cenda's report, the hypothetical family income of a five members family where two members earn minimum wage (VEF 15,051.6) has a purchasing power of 11.8%, ie there is a deficit of 88.2% (VEF 225,295.3) for the purchase of food, basic goods and services. Therefore, a family requires fourteen minimum wages to cover their basic needs.

The inflation in the basic food basket was highly influenced by the price increase in three important industry sectors. Meat and by-products increased VEF 5,945.6; Cereals and derived products (Corn flour, pasta, rice, and bread) hiked VEF 5,669.3; and eggs, cheese, and milk increased VEF 8,350.5.

Devalue and conquer. Following the huge depreciation of the DICOM exchange rate, this mechanism has received a major boost as it now has new offerors who are looking for higher yields, among them the state-owned oil company and contractors that provide the State with goods and services.

More and more foreign currency According to the figures currently available to us at **Ecoanalítica**, disbursements of foreign currency via SIMADI have increased considerably, going from a daily average of nearly USD 4.0 million in May to nearly USD 8.0 million traded daily via this mechanism in June this year.

Victory! Referring to this situation, Minister of Foreign Trade and Foreign Investment Jesús Faria said that it is already a fact that the private sector is placing foreign currency in the Complementary Foreign Currency System (DICOM). He stressed that the State needs to have as much foreign currency as possible available to it in order to import certain fundamental inputs and stated that the government would guarantee

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the sectors that agree to offer their foreign currency via this mechanism the total amount of what they export to replace their investment.

“Saint FLAR.” With a view to *“contributing to the economic stability of the region by granting loans to the central banks of its member countries at times when they require them,”* on July 22 the Latin American Reserve Fund (FLAR) approved a credit in the sum of USD 482.5 million for the Central Bank of Venezuela for a period of three years. The specific terms of the loan are to be set forth in an agreement that is to be signed shortly.

Scraping the barrel. Following a recent analysis conducted by Bloomberg and posted on its portal, the firm makes reference to a significant drop in the gold reserves held by the Republic, specifically highlighting that Venezuela’s gold hoard has shrunk by 36.0% since February last year.

It’s about time. According to Alberto Afiuni, an executive member of Ernst & Young (EY), 95.0% of transnational companies that have operations in Venezuela have migrated to the DICOM rate for the purpose of converting their financial statements. The study that revealed this information consists of an analysis of 58 companies belonging mainly to the manufacturing, food and beverages, pharmaceutical, hydrocarbons, services, technology, telecommunications, commerce, financial, and commercial aviation sectors.

A slight adjustment. The Central Bank of Venezuela published an adjustment to the current interest rates in *Gaceta Oficial*. Among the sectors affected by the measure that are worthy of mention are credit cards and the tourism sector. The maximum lending rate applicable to credit cards has been set at 29.0% a year and the preferential maximum lending rate for the tourism sector has been established at 11.9%.

Don’t get too excited. Despite the parallel exchange rate’s prolonged period of stability, a number of experts in the area stress that this scenario is not sustainable in the long term. Our director, Asdrúbal Oliveros, points out that the parallel dollar could start to go up again if the government maintains its control over the floating market. He was also skeptical with regard to the sustainability of the restriction on liquidity that the government has been implementing in recent months, which, to some extent, has put a brake on the demand for dollars.

There’s no adjustment without credibility. The Venezuelan economist Omar Zambrano, former chief economist at the Inter-American Development Bank (IDB) for a number of countries in the region, stated that a political change is a fundamental

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requirement for implementing a successful adjustment program. *“The issue of credibility is not just a pretty word; it’s the fundamental anchor for an adjustment’s success.”* Zambrano was skeptical with regard to the credibility that *Chavismo* might have as a political group, which makes him doubt the possibility of a *“successful Chavista adjustment.”*

OIL TIPS

Down for the third week running. Last week, the price of Venezuelan crude fell by USD 0.25 from the previous week, when it closed at USD 37.9/bl., making this the third week in a row that it has dropped. In its report, the Ministry of Oil and Mining said that *“Renewed concern with regard to oversupply as well as expectations of lower global economic growth and its effects on demand in the short term continued to put pressure on oil prices.”*

A slightly better month. The price of the Venezuelan oil basket so far this month has maintained an average price of USD 38.5/bl., compared to an average for the year to date of USD 31.9/bl., one of the lowest averages in the past two years. Over that period this indicator has fluctuated, but with a downward trend, even falling as low as USD 24.3/bl.

A stark warning of what the future holds. In his talk “Oil and Venezuela’s Future,” José Luis Cordeiro explained that *“the allegedly biggest reserves in the world will remain underground without being used.”* In Cordeiro’s opinion, oil will not be used for longer than two decades, either as fuel or as a raw material.

Latent environmental damage. The pollution of Lake Maracaibo continues to increase and it does not look as though this situation is going to change. Zulia Association of Engineers (CIDEZ) reported that 39,750 liters of oil a day on average are being dumped into the lake, equivalent to 248 barrels of crude. These figures are based on the flight patterns of PDVSA and the Ministry of Ecosocialism and Waters. Marcelo Monnot, CIDEZ’ president, said that they are fighting to get a Lake Maracaibo Cleanup Bill passed into law so that measures can be taken within a legal framework.

PDVSA says goodbye. Ecuador’s minister and coordinator of strategic sectors, Rafael Poveda, announced PDVSA’s departure from the Sacha Field in the Ecuadorian Amazon region, which it has been operating in partnership with Petroamazona. Two weeks ago, Poveda stated that PDVSA would reduce its

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shareholding to less than 20%. *"It won't leave completely, or at least we have not been notified that it will, nor do we wish it to leave the project,"* he said.

Colombian production down. Colombia's average oil production was 888,000 barrels a day (888 kb/d) in June, which gives a reduction of 1.8% compared to the previous month, according to the Ministry of Mines and Energy. *"The sector has felt the impact of the low oil prices and this is reflected in the production figures,"* said Minister of Mines Germán Arce Zapata, and he called on the authorities to continue supporting the industry and to create the necessary incentives that would permit investment in new projects and their execution.

Down a tad. According to the Organization of Petroleum Exporting Countries (OPEC) the price of the OPEC reference basket closed on Monday at USD 41.4/bl., down USD 0.36 from Friday, July 22, when it was USD 41.7/bl. The reports from OPEC claim that the drop in oil prices is due to the increase in international crude inventories as well as to strategies of raising production being implemented by some countries.

BUSINESS SECTOR TIPS

The little bag of food isn't doing it. The Local Supply and Production Committees (CLAPs) implemented by President Nicolás Maduro have failed, according to the nutritionist Susana Raffalli. This expert explained that the CLAPs were a failure from the start. *"They should have food available to distribute, but they have very little."* The shortages of priority goods persist as well as the discretionary manner in which the bags of food are distributed, the disorganization, and the corruption, all of which have increased the level of social discontent.

And what about the food? It is a secret to no one that the Sovereign and Secure Supply Mission has been harshly criticized by a variety of nongovernmental organizations and also by the population. The latest attack came from the Democratic Unity Alliance, which made public a video stating that more than 80.0% of food products are in short supply in Venezuela.

For the public sector everything, for the private sector nothing. After the government occupied the facilities of Kimberly Clark, it approved an investment of VEF 700 million and USD 22 million from the National Development Fund (Fonden). This investment is to be used to put three of the plant's lines into operation to eventually produce 25 million sanitary towels. Before it left, the company was experiencing

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difficulties and had differences with the government over the prices of its products and access to foreign currency for purchasing raw materials.

A patriotic name. President Nicolás Maduro announced that the government had decided to change the name of Kimberly Clark following its “recovery” by the State. Now it is to be called Cacique Maracay Production Plant and will have sufficient raw materials guaranteed in order to produce up until December 31, with efforts being focused on the production of sanitary towels, toilet paper, and diapers.

Basic industries must generate wealth. Minister for Basic, Socialist and Strategic Industries Juan Arias said that the basic industries and companies must increase their production to become factories capable of generating revenues that will allow them to cover their internal expenditures, pay for investments, and expand their operations. This could help both the State and the country by contributing fresh revenues generated by an increase in productivity.

Jobs for all and sundry. Juan Pablo Olalquiaga, the president of Coindustria, said that 4 million direct and indirect jobs could be created within a period of 15 years by implementing a productivity plan that would include the creation of 30,000 industrial companies, 26,000 of which would be totally new companies and 4,000 revamps of existing ones. For that to be possible, the government needs to guarantee conditions in order to attract investment, such as flexibility with regard to price controls and returning companies taken over by the state to the private sector, among other things.

Confidentiality at risk. In a circular issued by the Superintendency of Banking Sector Institutions (Sudeban), banks were ordered to send the balances on their clients’ accounts, by type of account, at the close of business each day starting on August 1. Although Sudeban has said that the data requested will be encrypted and that only the Bank Deposit Guarantee Fund (Fogade) will have access to this information, there is no guarantee that this will be so, which means that the banks could be put in a vulnerable position with regard to bank secrecy.

A sanitary crisis. The president of the National Cattlemen’s Federation of Venezuela (Fedenaga), Carlos Albornoz, warned of a possible sanitary crisis due to the fact that Agropatria’s inventories for the livestock sector are being rapidly depleted, as a result of which there is a shortage of medicines for animals and cattle are not being vaccinated against a series of bacteria. According to Albornoz, “*There are no veterinary medicines and implementation of animal vaccination protocols has fallen to an all-time low. I propose creating a sanitary emergency zone.*”

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More expensive but no better. According to the journalist José Silva, the increased charges for CANTV's ABA Internet service is no guarantee of an improvement in the quality of the service. As for Hugo Londoño, another journalist who is also a specialist in the area, he said that, due to the cost, there could be a migration of users to other more economic plans, thus decongesting the network and optimizing the service. However, the speed of the Internet does not improve because there are fewer users. "*You're not going to have better Internet because there are fewer people (using it),*" said the journalist Fran Monroy.

Looking on the bright side. Minister for Electric Power Luis Motta Domínguez announced that the water level in Guri Reservoir was 252.06 meters above sea level (MASL) on July 18, which, according to the minister, means that things are looking up as it had gone up by more than half a meter in three days. He also said that the target is to reach 255 MASL before the end of the month and eventually to "*raise the level to 271 MASL.*"

WORLD ECONOMY TIPS

Bets are on no increase. The feeling is that the US Federal Reserve (FED) is to wait until the fourth quarter of the year, after the presidential elections are held, to raise its interest rates, according to a poll conducted by Reuters. Just over half of the 100 economists consulted last week forecast that the FED will raise the interest rates on federal funds in the fourth quarter to between 0.5% and 0.75% from their present level of between 0.25% and 0.5%.

The ECB leaves everything the same. The European Central Bank (ECB) decided to maintain its interest rates at the present levels, as anticipated. The bank stated that it expects the main interest rates to continue at these levels for some considerable time to come. It also commented that the EUR 80.0 billion a month securities purchasing program is to be extended until March 2017 or longer until the bank sees a sustainable upward adjustment in inflation.

The IMF calls for order. In a note sent to the G20 ministers of finance and central bank governors, who are in Chengdu, China, the International Monetary Fund (IMF) exhorted them to agree on a broader approach that would stimulate consumer demand, restrict private sector debt, and implement structural reforms to fight the risks that have arisen in the wake of Brexit.

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

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The specter of protectionism is lurking. The specter of protectionism, incited by the “United States first” rhetoric of presidential candidate Donald Trump, who has also talked about abandoning trade agreements, was one of the issues discussed by G20 ministers of finance and central bank governors at their meeting last week. On the matter of Brexit, the members of G20 also stated that they were “*well-positioned to proactively address its possible economic and financial consequences.*”

Inclusive growth. Following a two-day meeting, the G20 finance ministers committed to implementing policies that would promote “inclusion.” Shaken by the surge of national and anti-trade movements following Brexit and Donald Trump’s campaign, they are stepping up their commitment to more “inclusive” growth. “*The benefits of growth need to be shared more broadly within and among countries to promote inclusiveness,*” said the group in a communiqué.

The British economy is fading. The British economy seems to be contracting at the fastest pace since the financial crisis as a result of last month’s vote in favor of Brexit, according to the business activity index, which posted its biggest drop in the 20 years it has been in existence. The PMI for the services sector fell to 47.4 in July from 52.3 in June, the biggest drop since records started to be kept in 1996 and the worse score since March 2009.

Japan is to revive monetary stimulus. The governor of the Bank of Japan, Haruhiko Kuroda, said that he would ease policy further, if necessary, in order to achieve the bank’s inflation target of 2.0%. Kuroda maintained an optimistic view on the outlook for prices, in spite of rising market expectations of more monetary stimulus by the Bank of Japan. The majority of economists polled by Reuters anticipate a combination of measures to be announced next week in an attempt to kick-start inflation.

Confidence takes a hit, but the economy remains steady. Business confidence in Germany fell in July, according to a poll that suggests that executives in Europe’s largest economy are less optimistic since the United Kingdom voted in favor of leaving the European Union. The Ifo Institute for Economic Research, headquartered in Munich, said that its business climate indicator, based on a monthly poll of some 7,000 companies, fell to 108.3 in July from 108.7 in June.

IMF improves its outlook for Latin America. In the update to its global economic outlook report, the IMF improved its outlook for the region in 2016 and 2017, reducing the contraction in Latin America forecast for this year to 0.4% and raising expected growth in 2017 to 1.6%. The improvements in the outlook for the region are due mainly

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to a recovery in Brazil's economy. The revised figures put Brazil's growth in 2016 at -3.3% and at 0.5% in 2017.

Prices continue to rise in Brazil. Inflation increased in Brazil in July, bringing it to 8.9% for the past 12 months, according to the Brazilian Geography and Statistics Institute (IBGE). As in previous years, the government has set the goal of closing 2016 with inflation of 4.5% with a margin of error of two percentage points, which would give a target of 6.5% maximum. However, that target has already been surpassed and last year inflation closed at 10.7%.

POLITICAL TIPS

Calm and good sense. The president of the National Electoral Council (CNE), Tibisay Lucena, said that it was not possible for any decisions to be announced today with regard to the holding of a possible recall referendum since not all of the requirements had been met. She also criticized the fact that the universe of actors involved in this political process is launching "*false matrices of opinion*" with a view to generating certain reactions and subsequently deriving benefits from them.

Moderation in all things. Continuing in the same vein, Tibisay Lucena said that the CNE could not rush the recall referendum but that it could not delay it either. She reminded everyone that the CNE is currently in the first phase of collecting the signatures of 1% of registered voters and verifying them and that, therefore, the report allowing it to proceed to the second and last stage of the process, which consists of collecting the signatures of 20% of the electorate in order to activate the recall referendum, would not be presented until July 26.

The first it is. Luis Emilio Rondón, President of the Political Participation and Funding Commission of the CNE and one of its main leaders, in response to the claims made by several representatives of the opposition alliance, stated that it will not be until Monday that the Electoral Power make the statement regarding the validation process of the 1,0% of signatures demanding the activation of the Recall Referendum to Nicolás Maduro.

It's all going to happen inside UNASUR. President Nicolás Maduro said that, with the accompaniment of Union of South American Nations (UNASUR) and other regional and international leaders, a path is being opened up to channel a possible dialog with the Venezuelan opposition. President Maduro thanked the work that the commission

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appointed by UNASUR has been doing in Venezuela with a view to establishing a dynamic of dialog, which definitely *should be consolidated*.

Don't push your luck. In her capacity as representative of the commission appointed by President Nicolás Maduro to dialog with the opposition coalition, People's Power Minister for Foreign Affairs Delcy Rodríguez said that she would be totally opposed to the recall referendum being proposed by the Democratic Unity Alliance as something they would be unprepared to waive in order to sit down at the negotiating table. She said that the government would present overwhelming evidence of the "*mega fraud*" committed by the opposition in the process of requesting the recall referendum.

Without any prior conditions, but with an objective. The president of the National Assembly, Henry Ramos Allup, said that the present situation could get worse if there was no dialog. With that in mind, the deputy stated that the opposition coalition was not imposing prior conditions of any kind for entering into a dialog with the government, but that, on the contrary, it had announced the different conditions it would bring to the table should such a meeting be held.

With their feet on the ground. The president of the National Assembly announced the three main conditions that the opposition would lay down for entering into a potential dialog with the Executive, namely, holding the recall referendum, solving the humanitarian crisis the country is currently facing, and releasing the political prisoners. On the other hand, he considers that a degree of understanding between the parties being reached is unlikely. "*The government is capable of incurring in any kind of loss, and there could be an undesirable outcome for all,*" he claimed.

All for one and one for all. The leader of *Voluntad Popular (VP)*, Leopoldo López, closed ranks on the matter of the recall referendum. The former mayor of Chacao Municipality stated that holding the recall referendum this year, releasing political prisoners, and opening up a humanitarian channel are prerequisites for a *true dialog*.

Don't get all dressed up, you're not going. Deputy to the National Assembly for the Great Patriotic Pole (GPP) Diosdado Cabello said that the opposition leader Leopoldo López would remain in prison in 2017 despite the appeal against his sentence filed recently. "*I can guarantee that Leopoldo López and the murderers of the street protests will remain in prison because they have to pay for the crimes of the Venezuelans (sic).*"

Stop inventing pretexts. Continuing in the same vein, Cabello guaranteed that on January 15 next year Nicolás Maduro would address the nation and give his annual message in his capacity as President of the Republic. He said that there was enough

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time to collect the signatures of 20% of the electorate necessary to formally start off the process. He was skeptical with regard to the real possibility of dialog with the Venezuelan opposition. *“They’ll go to dialog only if there’s a recall referendum in Venezuela. Well, it seems to me that there’s not going to be any dialog here because there’s not going to be a recall referendum in Venezuela,”* he said.

For Chávez. The secretary general of the Organization of American States (OEA), Luis Almagro, urged President Nicolás Maduro to not block the path of the recall referendum in the interests of not delegitimizing the legacy left by the late President Hugo Chávez. Almagro recalled that the late president always respected the decisions of the people, which made it vitally important for the democratic stability of the country that a recall referendum be held. *“Chávez’ legacy deserves that President Maduro hold a recall referendum, deserves that he expose himself to the vote of the people,”* he said.

One failure after another. Luis Almagro also harshly criticized the dialog being promoted by the UNASUR commission that is currently in Caracas. *“Since this commission was appointed –in March if I remember correctly, and we are already at the end of July-, it has not managed to generate those spaces of certainty, of certitude as regards dialog.”* For that reason he proposed increasing the number of people involved to include other presidents in the region and other international bodies.

LEGISLATIVE TIPS

Amending laws. The National Assembly (AN) passed an amendment to the Organic Law on Oversight and the Fiscal Control System, which seeks to regulate the political disqualification of individuals and establish the grounds for sanctioning government officials. The amendment bill has 18 articles and was passed by the opposition majority despite being rejected by the government benches.

Zero corruption. The chairman of the National Assembly’s Oversight Committee, Freddy Guevara, claimed that the amendment bill would *“give the Comptroller’s Office tools and obligations so that it can effectively fight corruption.”* He also explained that the amendment contemplates sanctions being applied to the comptroller in the event that he fails to carry out his duties. He claimed, furthermore, that the law, as it stands at present, violates the Constitution as it allows the indiscriminate use of political disqualification.

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They'll have to give an explanation. The AN summoned telephone companies once again to explain the increase in charges. The chairman of the National Assembly's Permanent Administration and Services Commission, Stalin Gonzáles, said that *"There was clearly a disproportionate increase in charges and this is happening in the middle of an economic crisis when Venezuelans can't make ends meet."* It is expected that Movistar and Digitel as well as the state-owned Movilnet and CANTV will appear before the National Assembly to explain the increases.

Promoting the agri-food sector. A resolution issued by the People's Power Ministry for the Social Process of Work was published in *Gaceta Oficial* No. 40,950, dated July 22, 2016. The resolution establishes a strategic temporary employment regime, which is to be compulsory in all of the country's states, the purpose of which is to help to kick-start production in the agri-food sector by means of the temporary hiring of workers in those states.

New roles. President Nicolás Maduro named former PSUV Deputy José Ávila as the new Vice Minister for Lands attached to the Ministry of Productive Agriculture and Lands. According to *Gaceta Oficial* No. 40,950, Ávila will also head up the National Lands Institute (INTI). Conveying his thanks to the government for his appointment, *"You have my loyalty and full support,"* said Ávila.

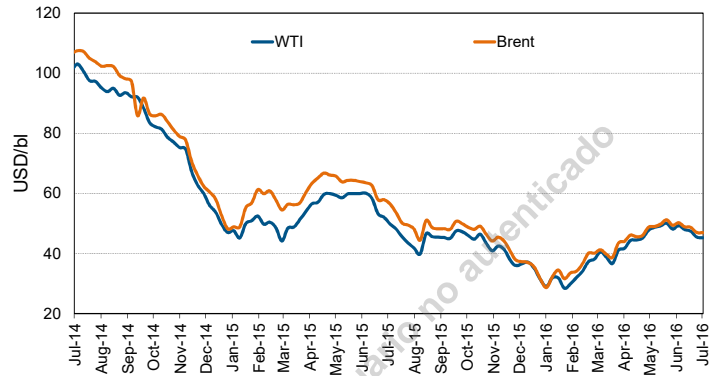
Obligation. Through this public announcement, private and mixed companies will be forced to give their workers to support the government's agricultural plan. The resolution of a temporary nature, does not detail the mechanisms for the transfer of employees or periods during which they may be reallocated. However, those who are elected should have suitable physical conditions and expertise in the productive areas.

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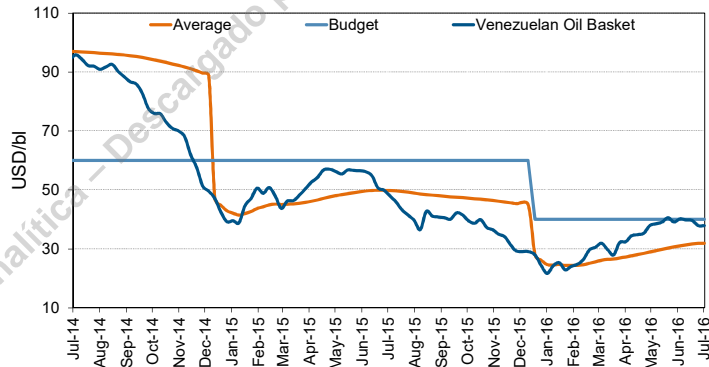
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



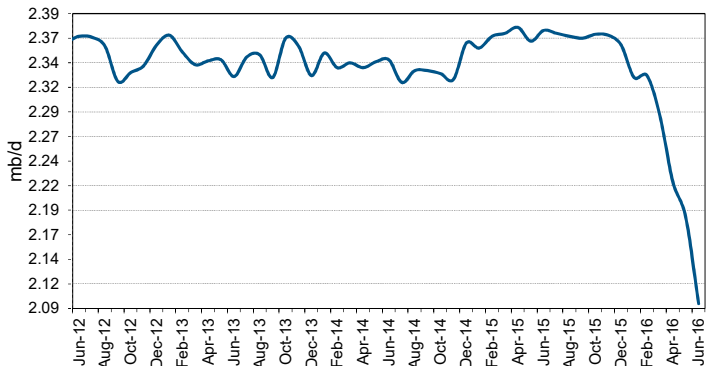
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production



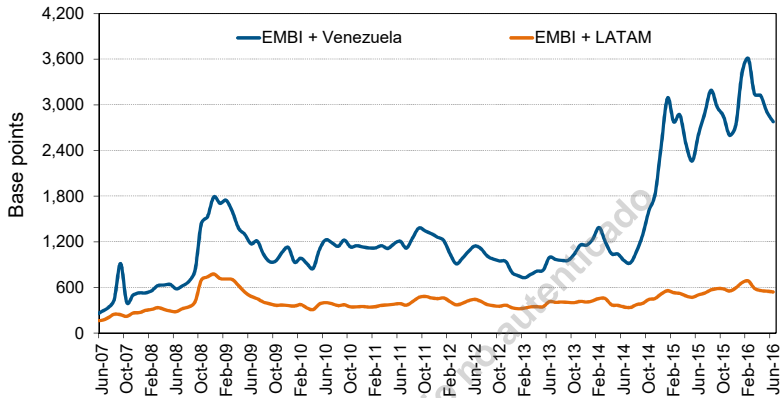
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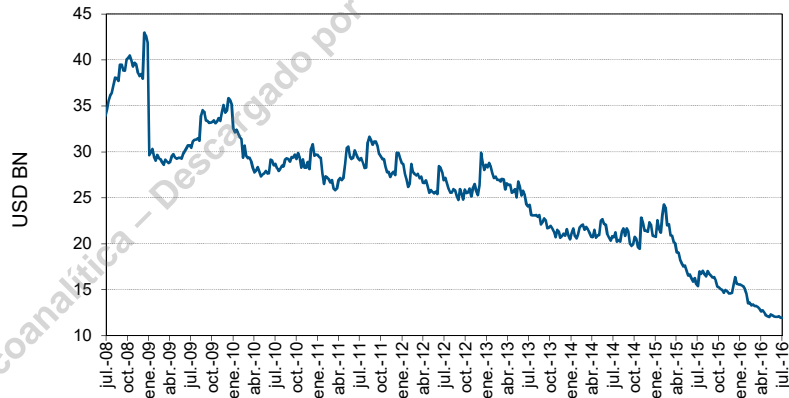
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EMBI



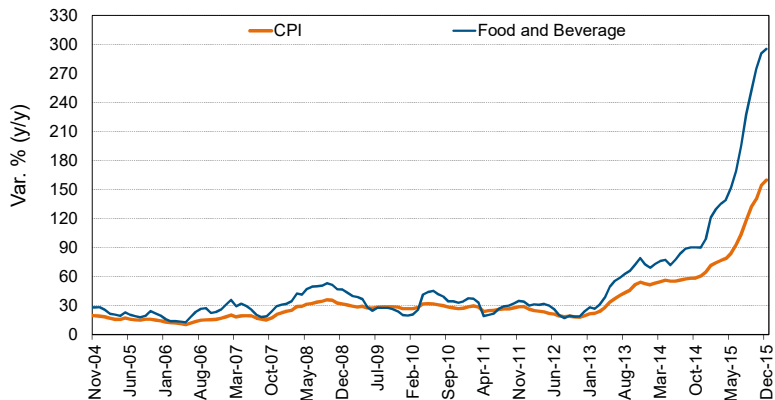
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



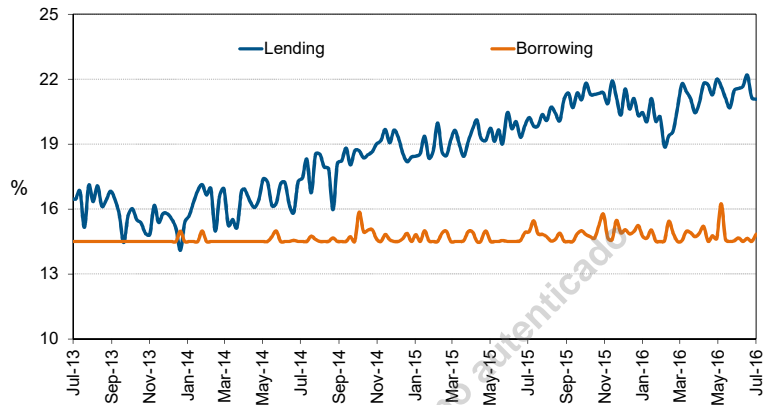
Sources: BCV and Ecoanalítica

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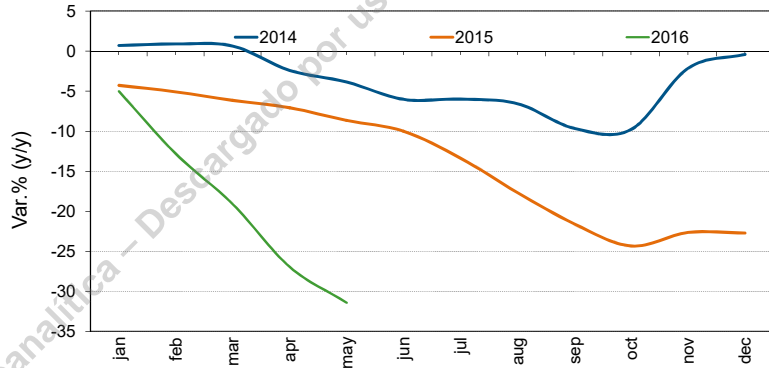
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**Interest Rate
(Six major banks)**



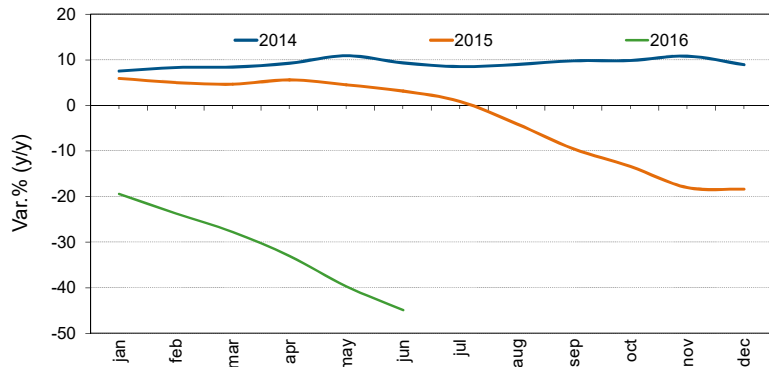
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



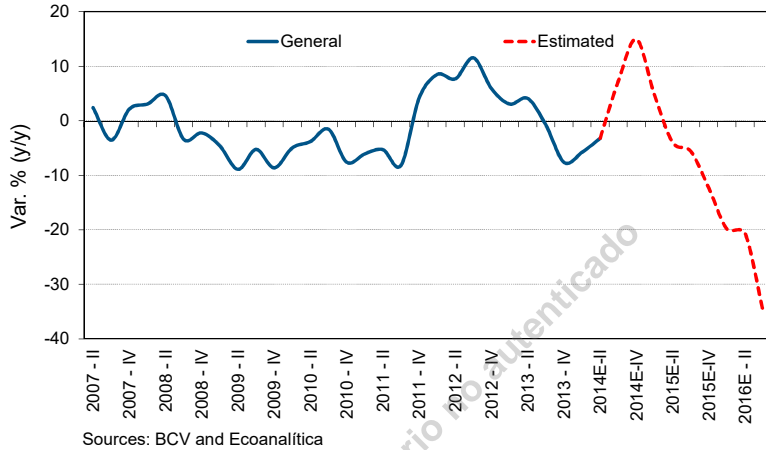
Sources: SUDEBAN and Ecoanalítica

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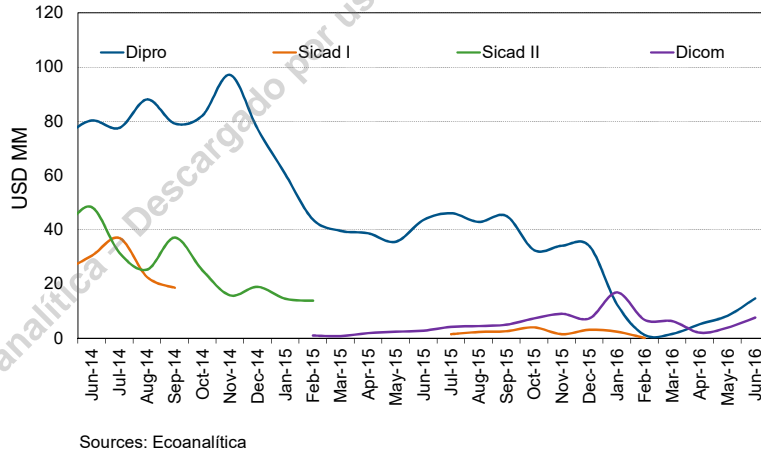
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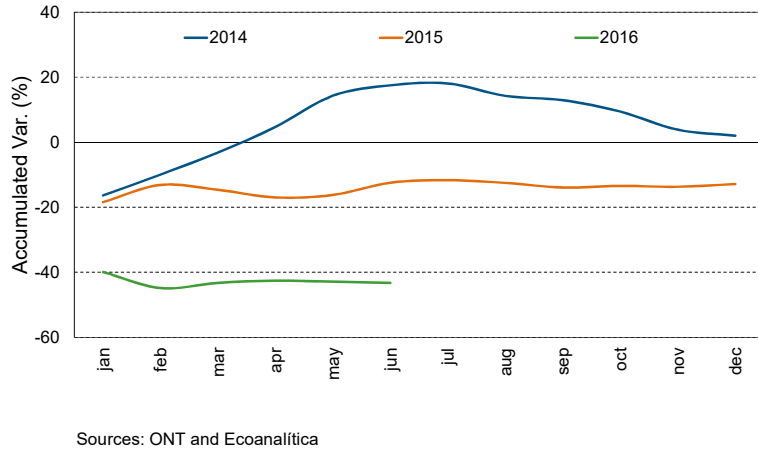
Real Wage Index



Disbursements to the Private Sector (Daily Average)



Primary Spending NTO (Real - Central Government)

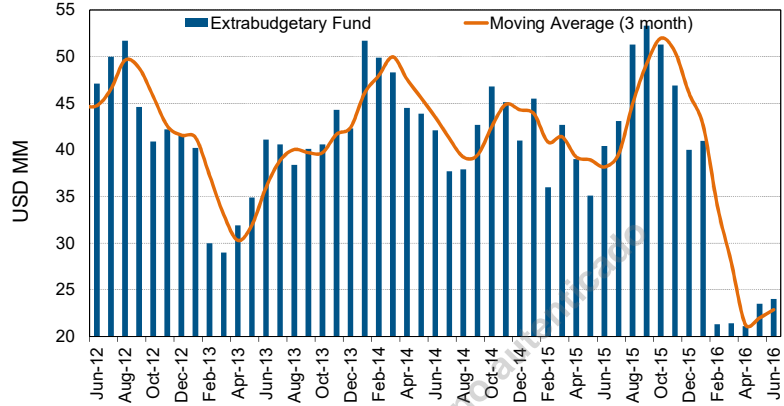


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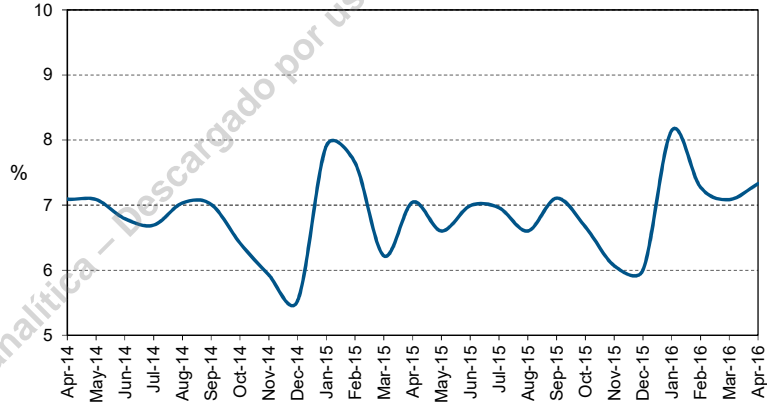
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State Extrabudgetary Resources



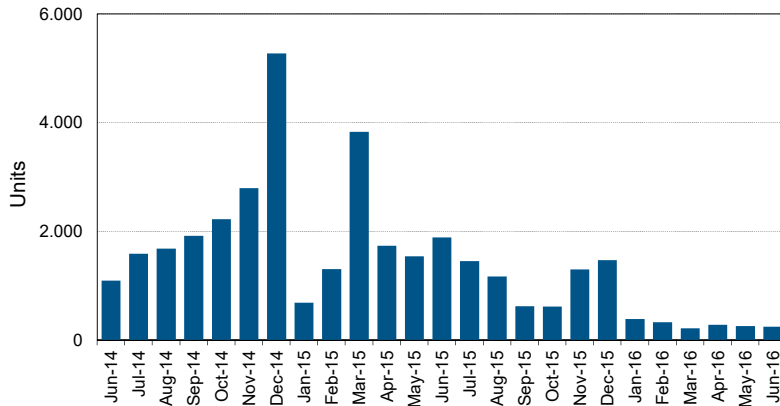
Sources: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECOANALÍTICA'S TEAM

Alejandro Grisanti / Director
alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director
asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director
pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director
cristinar@ecoanalitica.net

Carlos Miguel Álvarez / Senior Economist
carlosoa@ecoanalitica.net / @alv_car

Lesner Castillo / Economist
lesnerc@ecoanalitica.net / @lesnerck

Pilar Navarro / Economist
pilarn@ecoanalitica.net / @isabelpnavarro

Nayaurí Rivera / Economist
nayaurir@ecoanalitica.net

RESEARCH ASSISTANTS

Gorka Lalaguna
Victoria Colmenares
Juan Comella

CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119
Colombia: (+57-1-508 6554)
Ventas@ecoanalitica.net
www.ecoanalitica.com
@ecoanalitica