

How's the Venezuelan economy doing?

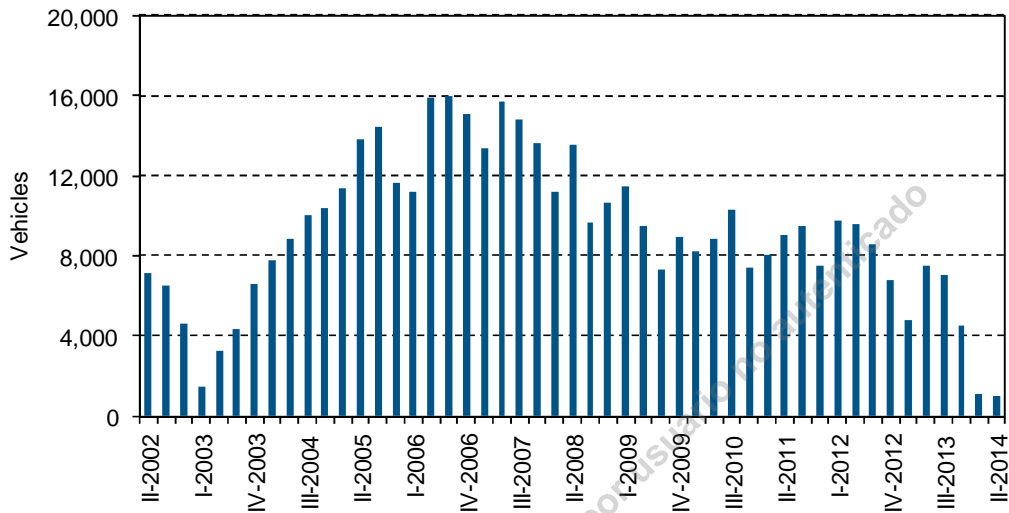
Since there has already been a 84 day delay in the publication of the economic indicators for the first quarter of the year (1Q2014) by the Central Bank of Venezuela, at **Ecoanalítica** we have decided to offer an overview of the preliminary economic indicators to determine how the Venezuelan economy did in the first half of the year and how it will perform during the remainder of 2014., given that such a measure reduces the possibilities of massive capital flight occurring.

Poor results set new records

If 2013 was a tough year for the domestic automotive industry, 2014 sets a new low. In the 1Q2014, average production was 1,066 vehicles and in 2Q2014 it came to 987, which means drops of 77.7% and 86.9% compared to average production in 2013 (4,772 vehicles in 1Q2013 and 7,534 in 2Q2013). Based on this, we can say that the automotive sector is, without a doubt, one of the sectors that have been hit hardest by the shortage of foreign currency. To sum up, production went from 36,919 vehicles assembled between January and June 2013 to 6,161 vehicles during the same period this year, which gives a drop of 83.3%.

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Vehicle production



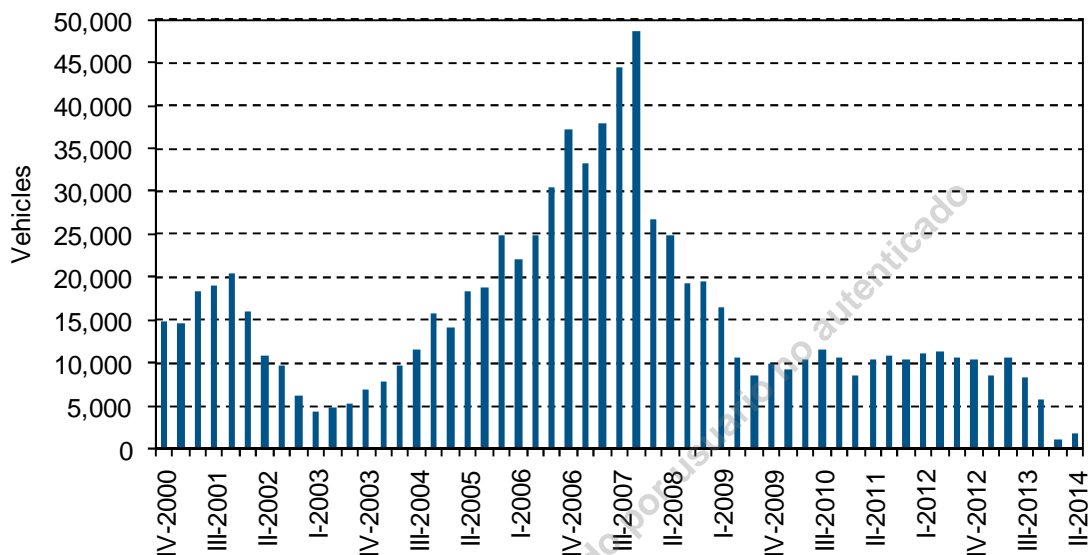
Sources: Cavenez and Ecoanalítica

The situation is even more critical when we look at the vehicle sales figures. Last year, the decline in domestic production was offset by supplies from abroad. However, that has not happened in 2014, as the sale of imported automobiles went from 21,075 vehicles in the first half of 2013 (1H2013) to only 165 during the same period in 2014, which gives a drop of 99.7%. As for the sales of domestically manufactured vehicles, they came to 8,173 units in 1H2014 for a drop of 77.4%.

As a result, total vehicle sales came to 3,213 in 1Q2014 and 5,023 units in 2Q2014, resulting in drops of 87.5% and 84.1% compared to the same periods in 2013. This behavior of the automotive sector has an impact on both manufacturing Gross Domestic Product (GDP) and on the performance of domestic demand as measured by consumption, besides influencing the performance of associated sectors, both industrial sectors and sectors in the areas of commerce and services.

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Vehicle sales



Sources: Cavenez and Ecoanalítica

What is truly staggering is that these results are worse than those achieved when the economy was going through times of considerable political upheavals; in 1989, for example, with the Caracas uprising (*Caracazo*), and in 2002 with the oil strike.

Cadivi vs. Cencorex: the crux of the matter

It is common knowledge that the main reason for the automotive sector's poor performance, and indeed for the poor performance of practically all the manufacturing sectors, is the cutback in the allocation of foreign currency. There are reports in the press practically every day of representatives of the different local industrial chambers calling on the government to pay what it owes them in foreign currency so that they can pay their suppliers and resume domestic production. As at 1Q2014, that debt came to US\$9.82 billion.

If we take a look at the figures for 2012, the last year in which CADIVI published disbursement figures by sector, in the first three months of that year CADIVI disbursed 64.7% more foreign currency than Cencorex disbursed between January and April 2014 in the case of the food sector and 7.5% more in the case of the health sector. It is worth recalling that the food sector alone accounts for nearly 30.0% of the manufacturing sector and that the manufacturing sector, in turn, represents 17.6% of non-oil GDP.

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Disbursement Through of Cadivi and Cencorex

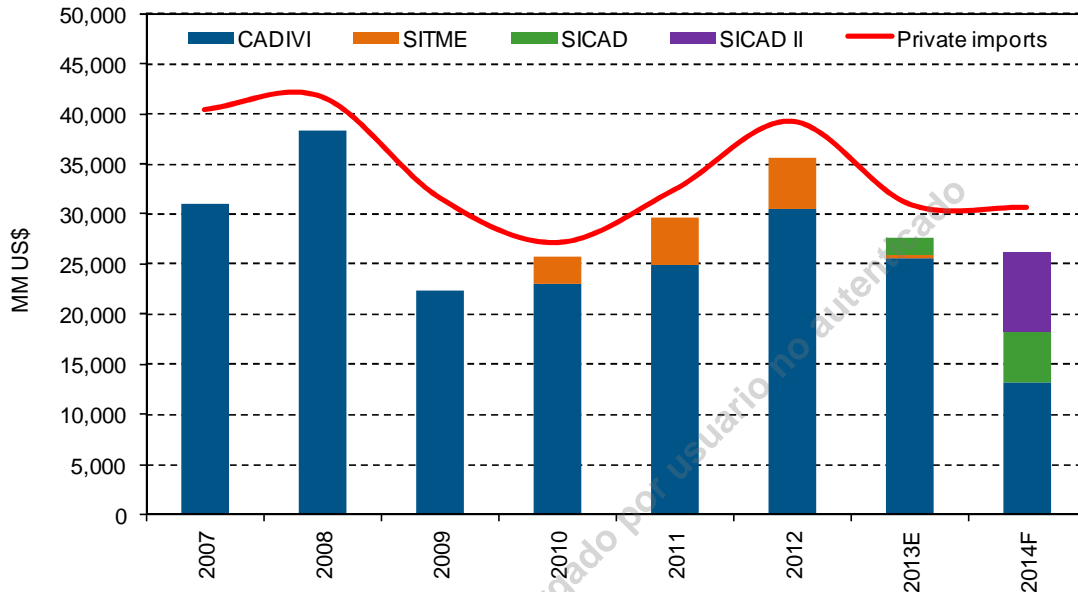
Sector	1Q2012	Jan-Apr 2014	Var %
Food	1,492	906	-39.3
Health	813	756	-6.9
Automotive	458	25	-94.6
Machinery and equipment	209	93	-55.4
Chemical	425	144	-66.1
Telecommunications	55	5	-90.8
Metallurgical	63	44	-31.1
Rubber and plastic	118	92	-22.7
Services	102	47	-54.0
Electrical	102	9	-91.6
Nonmetallic mineral	18	18	0.9
Construction	22	6	-73.6
Paper - Carton - Wooden	73	33	-54.1
Communications - Newspapers	15	11	-30.6
Veterinarian	16	15	-10.7

Sources: Cadivi, Cencorex and Ecoanalítica

At **Ecoanalítica** we do not consider that this trend of cutting back the allocations of foreign currency for the private sector will change given that, on the one hand, we have an increase in the weight of the State as an importer and, on the other, as long as the government keeps putting off implementing the adjustments to the foreign exchange system, the supply of foreign currency will continue to be limited. This situation will continue to have a negative impact on production, imports, and domestic consumption. At **Ecoanalítica** we forecast that, at the close of 2014, disbursements of foreign currency via Cencorex, SICAD I and SICAD II will come to US\$26.18 billion and that private imports will come to US\$30.67 billion.

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Currency disbursements vs. Private imports



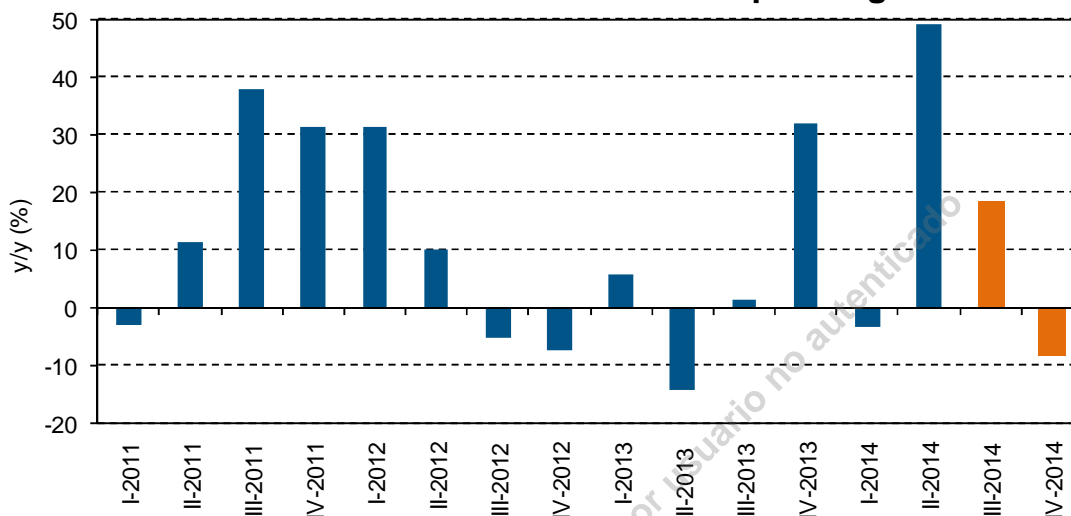
Sources: BCV and Ecoanalítica

Spending jumpstarts the economy

After 2013 came to a close, the government cut back its expenditures drastically, which, added to spiraling inflation this year, meant that primary Central Government spending fell by 3.4% in real terms in 1Q2014 compared to 1Q2013. However, in March the government expanded spending once again, with the result that spending in 2Q2014 posted growth year-on-year of 49.1%. At **Ecoanalítica** we expect this behavior to continue in 2H2014, despite spiraling inflation, not only because of seasonal factors, but also because of the announced re-launching of the missions, which will certainly expand the government's expenditures.

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Central Government Real Spending



Sources: ONT and Ecoanalítica

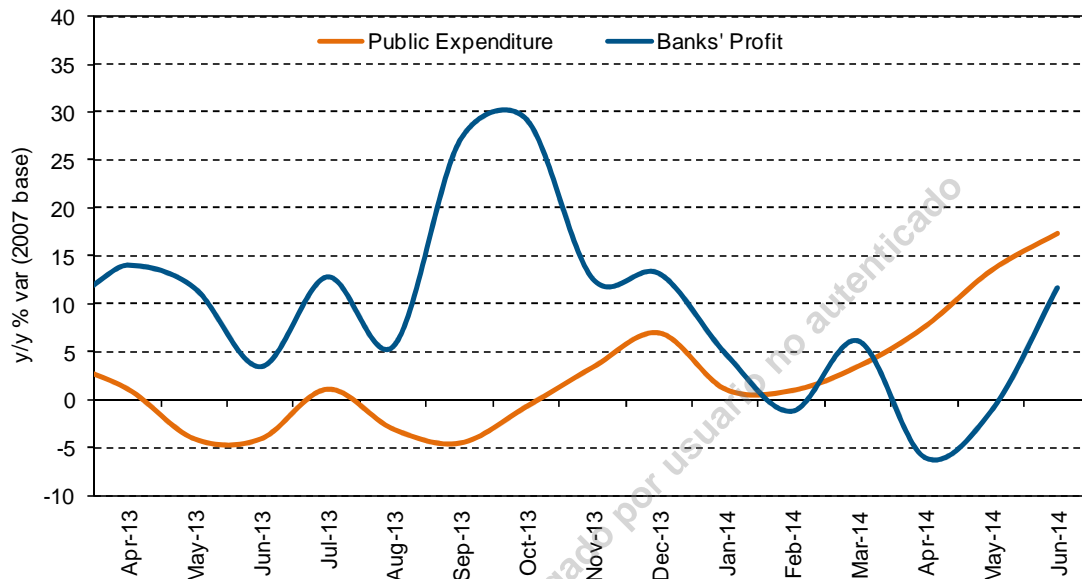
Will the financial sector save the country?

Last year, the sector that “saved the nation” and avoided a contraction in GDP was the financial institutions and insurance sector, which posted growth of 21.6%. This year, it would seem that not even the financial sector will be able to prevent economic performance falling into negative terrain. An analysis of the behavior of the banking sector’s gross profits, the key indicator for the behavior of financial GDP, reveals how it has suffered a constant real contraction since March last year and that, after posting average growth of 45.6%, year-on-year, in 1Q2013, it fell sharply in the remaining three quarters of the year, posting growth of 13.8%, which gave annual average growth of 21.7%.

Things got worse in 2014, as gross profits posted average growth of only 3.3% in 1Q2014 and of 1.3% in 2Q2014. However, an element that is strongly associated with growth in the banking sector’s profits and, hence, with financial GDP, is public spending, which has started to expand in recent months. Consequently, at **Ecoanalítica** we expect that this upturn in public spending will have a positive impact on financial activity.

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Profit of Banks vs. Public Expenditure



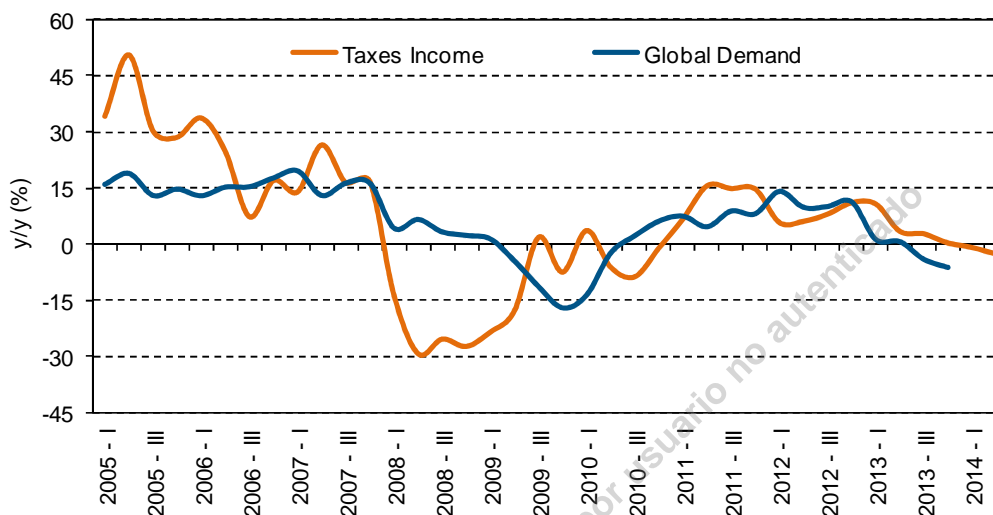
Sources: Sudeban and Ecoanalítica

Another sign: tax collections

Another variable that is associated with how the economy is performing is tax collections, since there is a correlation of 58.3% between these collections and the behavior of global aggregate demand. According to figures published by the National Integrated Tax Administration Service (Seniat), it collected VEB 183.36 billion in the first six months of the year, down 1.8% in real terms from the same period in 2013. An analysis of the behavior of tax collections by quarter reveals that they fell by 1.6% in 1Q2014 and by 2.7% in 2Q2014 compared to the same periods in 2013, which gives us a clear indication of what the aggregate demand results for 1H2014 might be.

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Global Demand Vs. Taxes Income



Sources: Seniat, BCV and Ecoanalítica

Nevertheless, it is important not to lose sight of the individual performance of the elements making up total tax collections. Even though total tax collections fell in overall terms, not all taxes posted contractions in collections. On the one hand, we have income tax, which posted an increase of 13.9%, and value added tax (VAT), which grew by only 2.1% in 1H2014, and on the other, we have revenue from customs duties and charges, which fell by 38.5% in real terms, reflecting the drop in imports.

Concepts (VEB Million)	1H 2013	1H 2014	Nominal Var.	Real Var.
Total Income	120,674	183,358	51.9%	-1.8%
Income Tax	34,900	61,522	76.3%	13.9%
VAT (Internal)	55,600	87,828	58.0%	2.1%
Customs revenue*	23,127	22,032	-4.7%	-38.5%
Other Internal Revenue	5,902	11,076	87.7%	21.2%
Spirits	1,185	1,991	68.1%	8.6%
Cigarettes	5,727	11,076	93.4%	24.9%
Inheritance	202	393	94.6%	25.7%
Random games or bets	67	70	6.0%	-31.5%
Others	1,144	899	-21.5%	-49.3%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

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No surprises

Based on our review of the data, we do not expect any surprises in the economic results for the first two quarters of 2014, as a result of which at **Ecoanalítica** we estimate that the variation in GDP in 1S2014 will be between 3.0% and 3.5%.

As for the remainder of the year, despite the evident signs that the economic model needs an urgent change, the government does not seem to be able to get its act together when it comes to taking the right decisions in a timely manner. That is why, at **Ecoanalítica**, we estimate that, this year, non-oil GDP will contract by 3.1%, whereas we expect oil GDP to grow by 1.2%, which would give a contraction in overall GDP of 2.5%. By the same token, we forecast average economic growth of 1.1% over the next five years since we anticipate that some changes in policy could be implemented starting in 2015, such as a relaxation of price controls and a revision of subsidies, such as the gasoline subsidy.

Pilar Navarro
Asdrúbal Oliveros

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ECONOMIC TIPS

A gentle drop. According to the Economic Survey of Latin America and the Caribbean 2014 prepared by ECLAC, it is estimated that the Venezuelan economy will contract by 0.5% this year. According to ECLAC, one indication of the possible start of a recession from the first quarter of 2014 could be the real drop of VAT collections during that period of 7.2% year-on-year, given that growth in 2013 was held up by consumption. However, ECLAC estimates that the contraction could be less than 0.5% or that there could even be very slight growth (of less than 1.0%) if economic activity in sectors that depend on imported inputs and are not considered priority sectors increases following the latest measures to make the exchange controls more flexible.

An exchange rate for the border. Following a meeting that focused on the smuggling issue, President Juan Manuel Santos of Colombia and President Nicolás Maduro of Venezuela announced the creation of an exchange rate that is to apply to trade between the two countries, and which will be set by Venezuela. According to the explanation given, the exchange rate is to be set in the coming months and will be used by importers and exporters in both countries for making their payments and also for remittances between Colombia and Venezuela. Maduro explained that this exchange rate will allow both countries to obtain the surpluses generated by trade conducted in a third convertible currency.

There is enough foreign currency. Vice-president for the Economy Rafael Ramírez gave assurances that the country *“has all the foreign currency needed to meet its international commitments, undertake its development plans, and maintain the fundamental elements set forth in the Plan of the Nation,”* which means that, in his opinion, *“there is no problem with foreign currency in this country”* at this time. He also stressed that the country’s financing strategies will focus on the Joint China-Venezuela Fund and the National Development Fund (Fonden).

The non-oil sector is in difficulties. Vice-president for the Economy Rafael Ramírez admitted that the country’s non-oil sector is facing difficulties. Given this situation, Ramírez proposed as a solution a scenario in which new economic measures would be taken with the support of the government, which would help to put an end to the unequal development that, according to

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the minister, has been happening in the non-oil area of the economy. In line with this, the minister recalled that *“the private sector still plays an important role in economic activity.”*

They don't make up their minds. After having taken the decision to approach international investment funds, the government officials in charge of the economy postponed meetings scheduled with representatives of those funds due to the extension of the MERCOSUR Summit. According to our director, Asdrúbal Oliveros, the government is apparently fine tuning foreign exchange and fiscal measures in order to present them at these meetings. However, the nature of the measures is not yet known as the different leaders within the government have not managed to reach an agreement on the matter.

It'll come too late. According to the latest report by Barclays Capital, the Nicolás Maduro administration will end up implementing a tardy and incomplete economic adjustment this year. According to Barclays, the efforts by the “pragmatic” wing for the prompt implementation of new measures have been insufficient given the importance that President Nicolás Maduro has given to bolstering his popularity, which is a clear indication that this group within the government is not as strong as some thought.

A remedy that's worse than the disease. In its latest report, Barclays points out that, even though the government has taken some measures that have generated additional fiscal revenues, it has also considerably increased fiscal spending. In Barclays' opinion, the increased fiscal stimulus will generate higher inflation and put greater pressure on the exchange rate instead of attenuating the drop in GDP. In a scenario of high prices, a slowing down of the economy, and acute shortages, Barclays considers that there is a risk that the government will try to meet domestic demand by increasing imports, which would be a step backwards in terms of reducing external imbalances.

Everything will end up at the parallel rate. At **Ecoanalítica** we forecast an economic recession for 1Q2014, accompanied by spiraling prices. This scenario will force the government to implement a unification of the foreign exchange rates at around VEB 25.0/US\$. In the opinion of our director, Asdrúbal Oliveros, *“in this scenario, the parallel exchange rate will escalate to around VEB 90/US\$ because there will not be sufficient foreign currency to meet demand at the unified rate; and, at the moment, people are buying*

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dollars via SICAD II that will later feed the parallel market, which means that eliminating SICAD II would have an impact on the parallel exchange rate.”

Interest rates. The lending rate for the fourth week of July was at 18.3%, up by 0.9 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 0.3% in the fourth week of July from the week prior, to settle at VEB 1.48 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	(%)
7/28/2014	26.5	24.9	94.0	1.6	6.0
7/29/2014	30.1	26.2	87.0	3.9	13.0
7/30/2014	18.9	18.0	95.2	0.9	4.8
7/31/2014	22.0	19.2	87.3	2.8	12.7
8/1/2014	29.1	23.5	80.8	5.6	19.2
8/4/2014	28.4	21.3	75.0	7.1	25.0
	3,703.0	3357.0	0.9	346.0	0.1

Source: Ecoanalítica

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OIL TIPS

The oil sector's centenary. On Thursday, May 31, Venezuela celebrated a century of oil industrialization, which started with commercial production at Zumaque I, a well located at Cerro La Estrella, Mene Grande. Zumaque I started with production of 250 barrels a day (b/d) and became the first major well in Venezuela. This commercial production resulted in Venezuela setting a new economic course in the global context and in it becoming, a few years later, one of the world's main oil exporters.

Calling all sectors to a debate. At the closing ceremony of the III PSUV Congress, President Nicolás Maduro called for a debate in which *“all sectors of Venezuelan society”* would take part to *“establish, in a fair and timely fashion, a new price system for fuels in the domestic market.”* Maduro also proposed how the funds resulting from the new fuel prices should be allocated, saying, *“All the money from the income generated by the new domestic fuel price system would go to a central social fund for investments in the country and in its needs.”* He explained that 20.0% would go to the Great Venezuela Housing Mission, 20.0% to university grants, 20.0% to the Great Love for the Elderly Mission, 20.0% to the Safety for the Nation Plan, and the other 20.0% to road works and public services.

The cheapest. Venezuela and Saudi Arabia head the ranking of the ten countries with the cheapest gasoline in the world, followed by Kuwait, Egypt, Iran, the United Arab Emirates, Nigeria, Malaysia, the United States (U.S), and Russia. It is worth noting that all those countries are oil producers. However, at the other end of the scale, Norway is the country with the most expensive gasoline in the world, so debunking the local myth that the cheapest fuel is sold in producer countries.

Another option. In the light of a possible increase in fuel prices, natural gas could take a leading role and, in time, change the energy matrix, at least with regard to the fuel used by automobiles. Now this is not a new plan; it goes back to the mid-1990s, when it was called GNV (Natural Vehicle Gas plan), and it was later re-launched in 2006 by the late President Hugo Chávez under the name of “AutoGas,” although it has had little impact to date. Attempts to get drivers to choose natural gas as an alternative have failed. Neither giving it away nor supplying and installing the conversion kit free of charge have seduced potential consumers, who are convinced that vehicles

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lose power with natural gas and that the gas tanks take up space in their trunks.

Efficient consumption. Helping to raise the general public's awareness of the need to make efficient use of gasoline as one of the main factors for reducing the excessive consumption of fuel in Venezuela was one of the issues addressed by Sergio Tovar, the executive director of PDVSA, at a conference last week. Venezuela is the country with the highest monthly consumption of gasoline in the world, in terms of volume, and that, moreover, sells it at the lowest price. Tovar considers that it is necessary to promote raising ethical awareness and also the rational use of gasoline in its different presentations in order to give the reserves of the nation their rightful place.

Apparently there was no price padding. Astillero Río Santiago of Argentina denied that PDVSA had paid over the odds for two vessels ordered from this shipyard under bilateral agreements signed during the terms of the late presidents Néstor Kirchner and Hugo Chávez. The Argentine newspaper *Clarín* reported that PDVSA had paid between US\$112 million and US\$120 million for the vessels, which would mean overpricing of as much as 60.0%. However, in a press release, Astillero Río Santiago's president, Héctor Scavuzzo, categorically denied the claims made by the newspaper.

On the home straight. In the past two weeks, Mexican legislators have been holding intense debates in extraordinary sessions to approve the package of bills submitted by President Enrique Peña Nieto that will regulate the constitutional reform approved in December last year. This week, the Mexican Congress will be in session to finalize the details and the last laws relating to the energy reform that will open up the sector to the domestic and foreign private sector. Among the new laws that will regulated the new energy industry is the Hydrocarbons Law that authorizes and regulates the entry of private domestic and foreign capital by means of service, profit- or production-sharing and licensing contracts.

International oil baskets. At closing time on August 1st in the New York Stock Exchange, the price of the WTI was US\$100.6/bl, down by 2.4% when compared to the reported the previous week. The Brent decreased by 0.2% when compared to the previous week, to reach US\$107.2/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$94.3/bl on Friday August 1st, decreasing by 1.6% when compared to the

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reported the previous week. The annual average price of the Venezuelan oil basket is US\$97.0/bl.

BUSINESS SECTOR TIPS

The jewel that lost its luster. A report by the British Broadcasting Corporation (BBC) exposes the incompetence and true state of affairs at the state-owned steel company, SIDOR. The report shows that the “Industrial Jewel of the Caribbean” is going through the worst period in its history. Since it was nationalized in 2008 by former President Chávez, the “Jewel’s” production has dropped, even though its payroll has mushroomed. Today, SIDOR has 15,000 employees, whose wages have been subsidized for the past four years; 70 production lines; and 2,800 hectares. According to the report, the problems have to do with poor administration by the State and the intervention of possible mafias.

State-owned banks continue to gobble up market share. As at the end of June, state-owned banks held 32.0% of total deposits and accounted for 27.8% of total loans granted. This concentration of flows is due to the fact that the State has preferred state-owned banks as financial intermediaries, with VEB 79 out of every VEB 100 placed by government agencies and state-owned companies in the banking system being deposited in state-owned banks. At **Ecoanalítica** we are of the opinion that this type of concentration could have a high impact on liquidity in the rest of the banking system, so generating an increase in interbank loans and possibly damaging the image of private banks.

Those who have the least are given the most. One of the advantages of having the State as the owner and main shareholder of banks and financial institutions is that the government can expand access to credit. However, according to official figures, it is the private banks that focus most on financing activities. According to the Credit Intermediation Index compiled by the Superintendency of Banking Sector Institutions (Sudeban), at the close of the 1H2014, private banks allocated VEB 53.9 for every VEB 100 in deposits, on average, whereas the state-owned banks allocated VEB 43.9.

Hey, that’s not right! After announcements by the government in connection with the possibility of including the communes in the allocation of

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foreign currency, a number of business associations have raised their doubts and concerns regarding the measure since, in the associations' view, once the communes receive foreign currency they become companies and, if they are not subject to the same conditions as private companies for taking part in the mechanisms for allocating foreign currency, this could result in situations of unfair competition.

It would be unfair. The president of the National Commerce and Services Council (Consecomercio), Mauricio Tancredi, pointed out that, unlike the communes, private companies have to pay taxes, comply with the Law on Labor for Male and Female Workers (LOTTT) and the Fair Prices Act, and can be required to comply with as many as 15 different formalities during the process of applying for and obtaining foreign currency. Given this situation, Consecomercio's president said it was necessary to draw up specific rules and procedures for the communes, otherwise they would have a clear advantage over companies in the private sector.

Who do you think you're kidding? Minister for Tourism Andrés Izarra said recently that the possible unification of the exchange rates could help to put Venezuela's tourism market on a more realistic basis, as, at present, the industry is operating based on an exchange rate of around VEB 10/US\$. Izarra explained, moreover, that the present problems with the selling of air tickets for destinations abroad are due to the fact that the "*raspacupos*" (travelers who took advantage of their foreign currency allowance) made advanced ticket purchases throughout 2013, which resulted in a contraction of available seats on international flights.

A new mechanism. The Ministry for Agriculture and Lands (MAT) is working on a new methodology for marketing and setting the prices for both animal products and fruit and vegetables. Under this new system, the State, through the Vice-presidency for the Economy, will offer to buy part of the domestic harvest directly in order to be able to supply its agro-industries with raw materials. Moreover, Minister Yván Gil said that the ministry has the revision of rice and corn prices on its agenda.

The party's over. Minister for Agriculture and Lands Yván Gil announced that, starting next year, Agropatria (a mission whose purpose is to increase agricultural production) is to assume responsibility for marketing all agro-chemicals in Venezuela. According to the minister, this will serve as a preventive measure to keep the market supplied. Gil explained that the

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decision was taken because the companies that used to import and market agro-chemicals did not keep the market supplied despite the fact that the government disbursed US\$75 million to the sector for the debts it had run up with its suppliers in 2012 and 2013.

Starting up production again. After having been closed down for nearly two months as a result of the lack of inputs and raw materials –specifically jar covers-, the Gerber-Nestlé plant has started up its production of baby food again. The company has already stopped production twice this year because the jar covers had not reached the plant. Rafael García, the labor union’s secretary general, said that the workers do not want production to be stopped again, even though their pay and benefits were not docked during the shutdowns.

WORLD ECONOMY TIPS

Growing strong. According to information from the US Department of Commerce, the US economy grew at a rate of 4.0% (year-on-year) in 2Q2014, mainly as a result of increased consumer spending (2.5%) and the growth in exports (9.5%), whereas Federal Government spending contracted (0.8%) over the same period. Despite this marked upturn (the economy contracted by 2.1% in the first three months of the year due to the harsh winter), it is likely that it will grow by nearly 1.6% this year.

No let-up in unemployment. According to the US Bureau of Labor Statistics, a total of 209,000 jobs were created in July in the world’s largest economy. However, this did not prevent the unemployment rate from growing by 0.1 of a percentage point to 6.2% due to growth in the economically active population. The areas posting largest increases in new jobs were professional and business services and the manufacturing sector.

The plan hasn’t changed. The US Federal Reserve (FED) has cut back its monthly purchases of assets to US\$25.0 billion from US\$35.0 billion and has said that it will probably keep interest rates near zero percent for some considerable time after ending the bond purchase programs, ratifying that an “expansive” monetary policy is needed. The FED has maintained its reference interest rate near zero since December 2008 and has multiplied its

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assets fourfold (to US\$4.4 billion) by means of a series of bond purchasing programs.

Lower your sights. The International Monetary Fund (IMF) has recommended that China set a GDP growth target of between 6.5% and 7.0% for 2015, which is much lower than the goal set by the Chinese authorities (7.5%). The IMF maintains that a less ambitious goal “*would be consistent with the goal of transitioning to a safer and more sustainable growth path.*” It also commented that China should not strongly stimulate its economy “*unless GDP growth is in danger of falling ‘significantly’ below target level.*”

When prices drop, there’s cause for concern. Inflation in the Eurozone fell in July to its lowest level since the worst of the financial crisis nearly five years ago, according to data published by the European Union’s statistics office (Eurostat). Consumer prices in the 18 countries of the Eurozone posted an increase of 0.4% (yoy) in July, the weakest increase since October 2009. Inflation in the Eurozone has remained stuck in what the ECB has called the danger zone (below 1.0% year-on-year) since October last year and it is not expected to approach the ECB’s target of 2.0% until 2016.

More punishment for Russia. The US Government and representatives of the European Union have announced measures that seek, in the words of US President Barack Obama, to “*make a weak Russian economy even weaker.*” The European countries have announced a weapons embargo, suspending the sale of military technology, and cuts in financing for Russian state-owned banks, whereas the US Government has forbidden its citizens and residents from doing business with Bank of Moscow, the Russian Agricultural Bank, and VTB, the second largest in Russia.

An upgrade for some. The credit rating agency Moody’s raised its rating of Greece’s sovereign debt from “Caa3” to “Caa1,” stating that Greece’s fiscal situation has improved significantly. “*The first factor behind the upgrade of Greece’s rating is Moody’s strengthened expectation that the general government debt to GDP ratio will start declining in 2015,*” said the agency. Moody’s, Fitch, and Standard & Poor’s have all kept their ratings for Greece’s sovereign debt in the junk range given its high level in terms of GDP (175.0%).

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And a downgrade for others. The credit rating agency Standard & Poor's (S&P) declared Argentina to be in "selective default" following the expiry of the deadline for Argentina to pay US\$539 million to a group of bond holders who had accepted the bond restructuring it offered a few years ago. The Republic of Argentina was unable to pay its creditors after a US court ruled that it could not pay its restructured bonds until it also pays some US\$1.5 billion to a group of non-restructured bond holders who sued Argentina for the full value of their bonds.

Lower growth for Latin America. According to the Economic Survey of Latin America and the Caribbean 2014 prepared by ECLAC, the region's economy will grow by 2.2% this year (0.5% less than forecast three months ago) due to the weakness in external demand, less dynamic domestic demand, insufficient investment, and limited room for implementing policies that would spur an upturn in the economy. ECLAC expects Panama (6.7%), Bolivia (5.5%), Colombia, Dominican Republic, Ecuador, and Nicaragua (5.0%) to be the countries with the highest growth in the region..

POLITICAL TIPS

It's not the price, it's the freebies, according to Capriles. Governor of Miranda Henrique Capriles has called on the government to "*stop giving gasoline away*" to countries with which the Executive has energy agreements before starting a debate on a possible increase in fuel prices at home. "*A debate on the price of gasoline should start by, first of all, stopping giving oil away to other countries; that amounts to some US\$7.0 billion a year,*" claimed Capriles, adding that what the government has in mind is to make all Venezuelans pay for the "*gifts*" the government makes via the different organisms promoted by the late Hugo Chávez.

It should not be the people who make the sacrifice. Opposition Deputy Alfonso Marquina maintained that the Executive should start to make sacrifices before implementing measures that would affect the man in the street. "*Imposing more sacrifices on Venezuelans will not solve the economic problem. The first one who has to make sacrifices is the government. Why put up (the price) of gasoline before revising the international agreements?*" said Marquina, commenting that Venezuela practically gives away more than

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280,000 b/d to Petrocaribe and Cuba payable over 25 years plus two years' grace and at interest of 1.0%.

Because of and for the Unity Alliance. Ramón Guillermo Aveledo resigned as executive secretary of the Democratic Unity Alliance to avoid the possibility of his name and the controversy being used against the Unity Alliance. Aveledo said that he will now focus mainly on formulating public policies, supporting regional, local and parliamentary efforts, disseminating the Unity Alliance's achievements, and promoting dialog among Venezuelans, since, according to him, the models based on "*impositions has collapsed and dialog is what we need today and we will need even more tomorrow.*"

Medina leaves the Unity Alliance too. Following Aveledo's resignation, the Democratic Unity Alliance's deputy secretary, Ramón José Medina, tendered his resignation, although he said that he would be working on other fronts to preserve the achievements of three years of efforts in this political organization, making special mention of the introduction of primary elections for selecting candidates to elected public office, efforts to ensure a sound electoral roll, the adoption of a single ballot for opposition candidates, and the establishment of internal rules and standards that made it possible to reach agreements and consensuses within the opposition.

No moves yet to find Aveledo's replacement. The secretary general of the political party *Acción Democrática* (AD), Henry Ramos Allup, explained that he had no information regarding a meeting of the Democratic Unity Alliance to appoint Ramón Guillermo Aveledo's replacement.

Ledezma "can't nor should he." The mayor for the Caracas Metropolitan Area, Antonio Ledezma, said that he had no plans to assume the reins of the Democratic Unity Alliance, referring to a possible meeting of this political organization to appoint a new executive secretary. "*The person has to want and be able to take on that responsibility, because it's not simply a job, it's an assignment (...)* As a responsible person, I cannot nor should I," added the mayor referring to this issue. Ledezma said that Aveledo's decision took him completely by surprise and considered that it should have been discussed previously.

Things are far from good. According to the latest opinion poll conducted by Consultores 21 at the end of June, 67.8% of those consulted consider that

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the present situation in the country is negative, 69.0% believe that their daily lives are worse than a year ago, and 53.0% fear that the situation will get worse in the next six months. According to the pollster, 55.3% of Venezuelans consider that the economic problems are the most important ones, 22.4% that the political problems are the crucial ones, and 20.7% give priority to the social problems.

The majority think the government is responsible. According to Consultores 21, 62.7% of those interviewed say that the Maduro administration is to blame for the country's problems. As for the economic measures announced by the government, 56.5% consider that they will make the situation worse. The opinion poll conducted by Consultores 21 also reveals that 55.9% of those interviewed think that President Nicolás Maduro *"is not making efforts to improve the economic situation or the situation of their families."*

Those who abuse human rights are not welcome. US Department of State spokesperson Marie Harf said that Secretary John Kerry had decided *"to impose restrictions on travel to the U.S by a number of Venezuelan government officials who have been responsible for or complicit in human rights abuses."* Harf stated that *"With this step we underscore our commitment to holding accountable individuals who commit human rights abuses."* According to the US Government, the measure specifically target *"individuals responsible for human rights violations and not at the Venezuelan nation or its people."*

An "immature" measure. Foreign Affairs Minister Elías Jaua called on the US Department of State to "calm down," following the announcement that visas issued to Venezuelan government officials implicated in the violation of human rights and the repression of demonstrations had been revoked. In Jaua's opinion, the measure *"is yet another reprisal by the US Government against the role Venezuela is playing in forming a new world"* and *"demonstrates considerable immaturity and a knee-jerk reaction (reaccionalidad) as regards the relations of respect that should exist."*

Faría "parcels out" the blame. The chairman of the National Assembly's Finance Committee, Jesús Faría, explained that Venezuela is paying the consequences of having allocated dollars to economic sectors, dollars that the government handed over *"in good faith."* *"The economic sectors (...) used that foreign currency to profiteer with, to obtain huge profits, and that caused*

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damage to the country's economy, so now we are suffering the consequences," said the deputy.

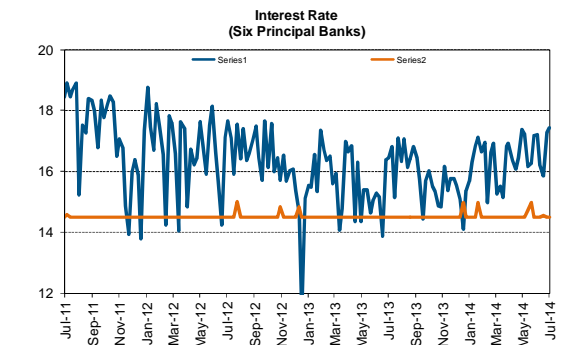
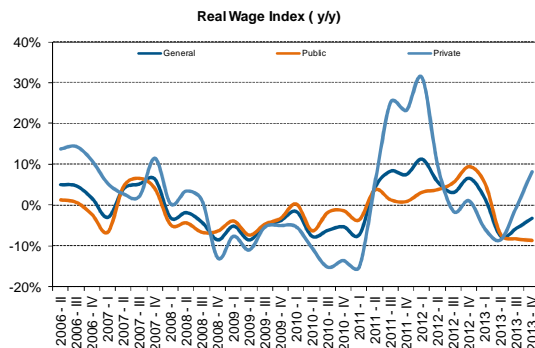
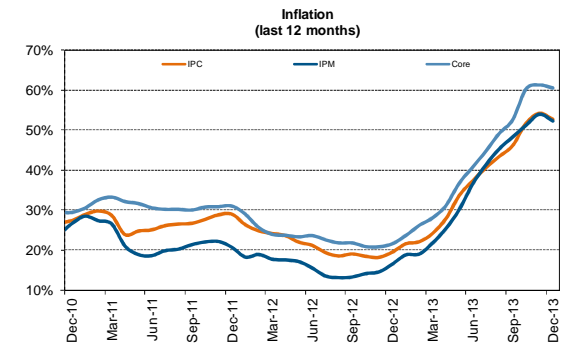
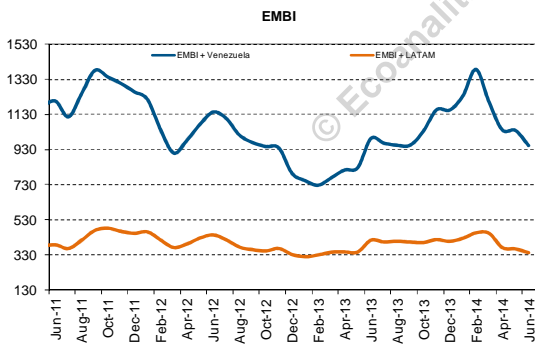
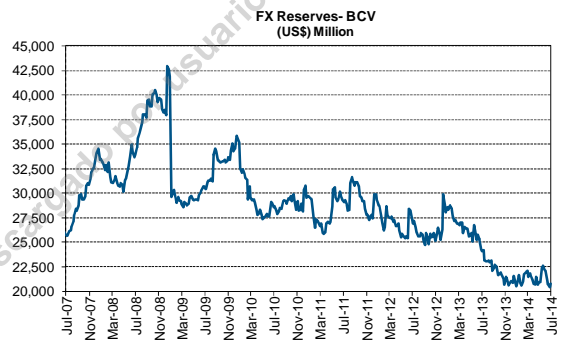
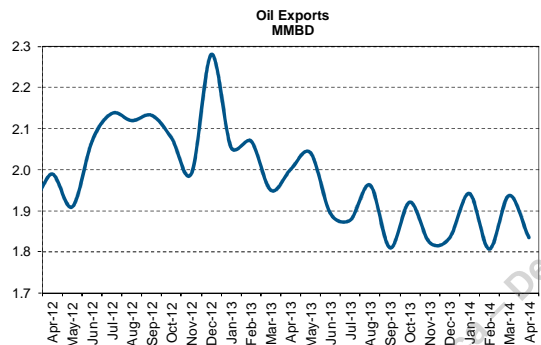
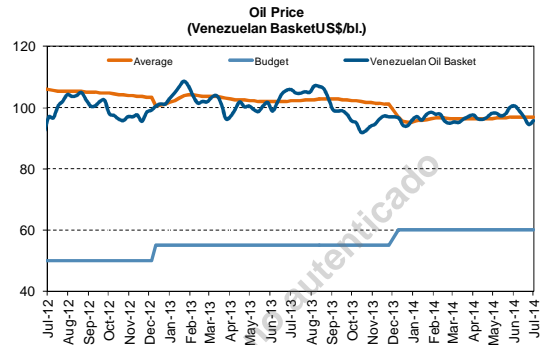
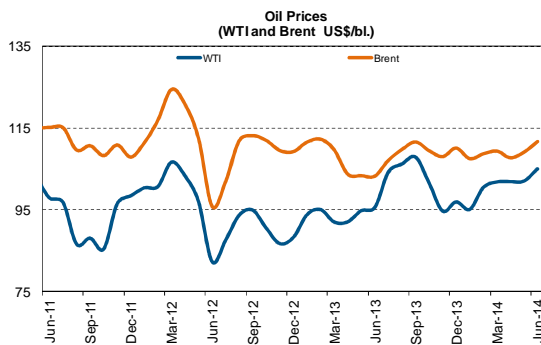
LEGISLATIVE TIPS

A new superintendent. Luis García has been appointed as the new Superintendent for Economic Rights at Sundde, according to an administrative directive signed by the agency's chief, Dante Rivas. Prior to his appointment, the new superintendent was the National Superintendency for Socioeconomic Rights' coordinator in Aragua state. García's appointment appears in Sundde Directive 026-14 published in *Gaceta Oficial* No. 40,466.

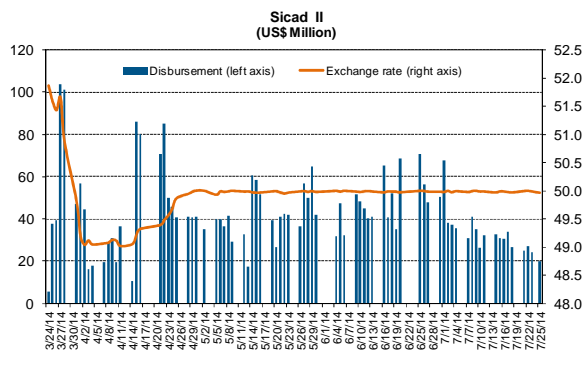
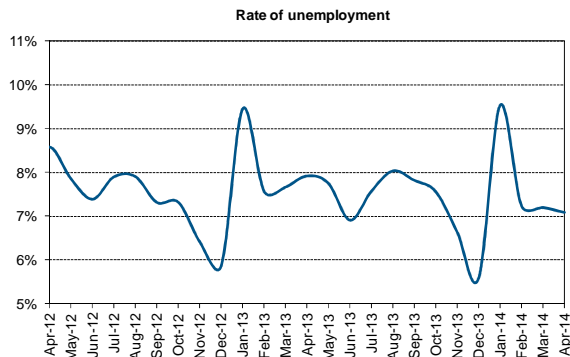
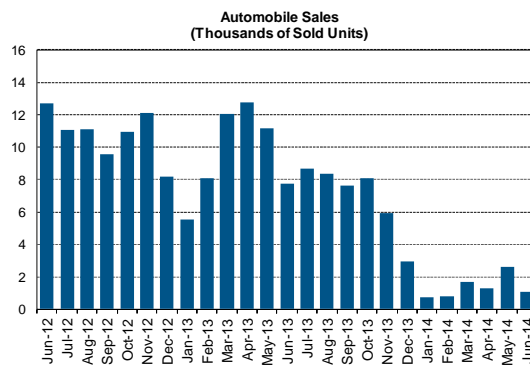
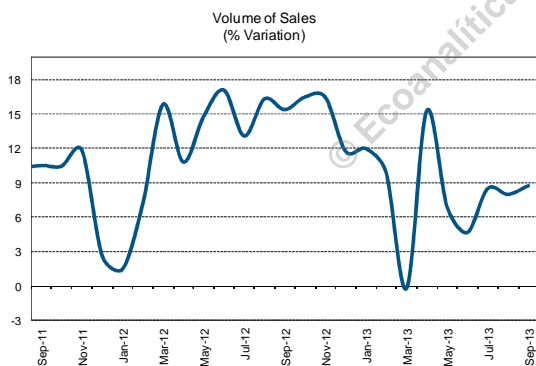
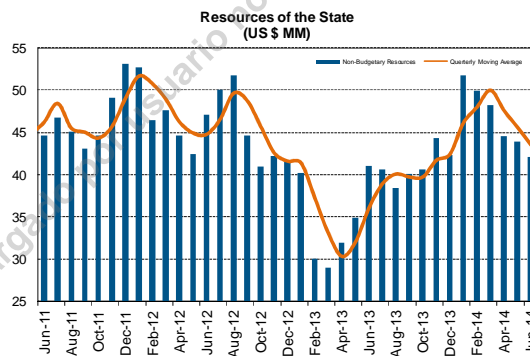
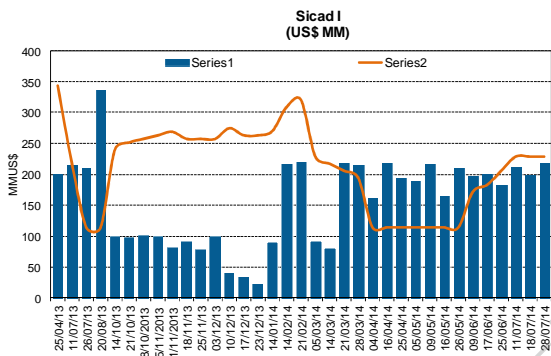
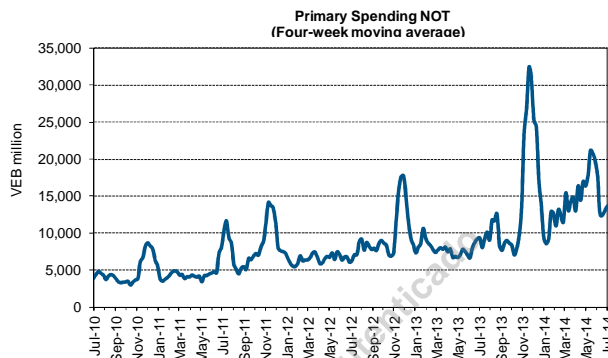
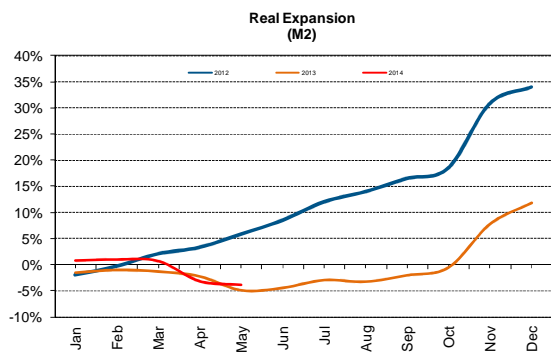
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ECONOMIC OVERVIEW



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