

The bills, yet another distortion in the market

Currency redenomination went into effect on January 1, 2008, as a public policy measure for simplifying the comprehension, use and handling of money by expressing it in terms of a new smaller equivalent scale. The main justification offered by the Central Bank of Venezuela was the loss of purchasing power of the coins and bills, which passed from a 5.1% average growth in 2006, to 1.5% in 2007.

In 2015, Venezuela is experiencing the worst economic crisis in the past 25 years. An economy full of distortions as a consequence of the lack of political action to deal with the oil price shocks, together with high subsidies and continuing with anchoring the exchange rate, has brought as a consequence that purchasing power will fall by 32.8% this year, according to **Ecoanalítica's** estimates. Following the argument adopted by the Central Bank in 2007, we consider that the issuing of higher denomination bills is a necessity.

2015 with worse figures than in 2007

In 2007, with the Venezuelan Oil Basket at US\$66.3 per barrel (bl.) and oil production from Petróleos de Venezuela (PDVSA) at 3.01 million barrels a day (mb/d), Gross Domestic Product (GDP) grew by 8.8% largely thanks to growth in nonoil GDP of 9.7%, whereas oil GDP experienced a contraction of 3.4%. Inflation that year was 22.5% and money supply reached VEF 176.801 million. As for the official exchange rate, it was VEF 2.15/US\$, generating an exchange rate spread between it and the parallel dollar of 113.6, which gave an average for the year of VEF 4.6/US\$. According to the Central Bank, those conditions, among others, made a monetary conversion necessary. However, if we compare those indicators with estimates for 2015, we are definitely facing a more devastating economic situation.

At **Ecoanalítica** we estimate that the Venezuelan Oil Basket will close 2015 at US\$50.0/bl. and that oil production will be at 2.87 mb/d, plus a contraction in GDP of 8.6, since, even though oil GDP is expected to grow by 1.0%, non-oil GDP will contract by 10.2%. On the side of prices, inflation for the year is expected to reach

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the 200% mark and as for money supply, it is anticipated that it will come to VEF 3.76 trillion. The official exchange rate will not change from VEF 6.3/US\$, which implies a foreign exchange spread of 10,644.1% between that rate and the parallel dollar, which is at VEF 676.9/US\$ at the time of writing. The figures speak for themselves and it does not require any depth of economic knowledge to understand the gravity of the situation facing the Venezuelan economy. For that reason, and following the line of reasoning adopted by the Central Bank in 2007, bills of a new higher denomination are urgently needed.

Venezuelan Economy Indicators

	2009	2015F
GDP Growth (%)	8.8	-8.6
Oil GDP	-3.4	1.0
Non-Oil GDP	9.7	-10.2
Fiscal Deficit (%GDP) ¹	-2.8	-20.2
Official Exchange Rate (VEF/US\$)	2.2	6.30
Unofficial Exchange Rate (VEF/US\$)	5.7	676,8*
Liquidity (MM VEF)	176,953	3,738,483
Year-on-Year Inflation	22.5	189.2
Liquid International Reserves (billion US\$)	23.6	2.7
Foreign Debt Service (MM US\$) ²	4,510	10,421

Source: Barclays, MEDFBP, BCV and Ecoanalítica

¹ Public Sector Restricted Deficit, includes Central Government, PDVSA and non-financial public enterprises.

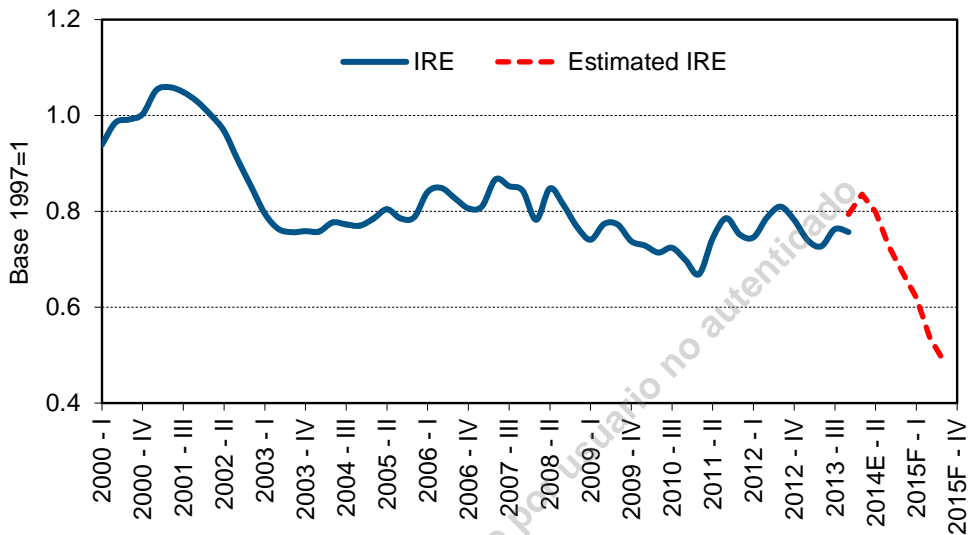
² Excludes chinese debt.

* Figures of August 19th, 2015.

Recomposing the monetary cone

If the loss of purchasing power was the main reason for the Currency redenomination in 2008, then in 2015 we are faced with the worst drop in purchasing power in the past 25 years, even worse than those experienced in 1990 as a consequence of implementing the “*Plan Viraje*” (About-face Plan) and dismantling the Differential Foreign Exchange Regime (RECADI) by lifting exchange controls; in 1996 with the plan “*Agenda Venezuela*” and the dismantling of the Technical Foreign Exchange Administration Office (OTAC); and in 2003 with the oil strike, when purchasing power dropped by 17.3%, 15.5 percentage points more than the drop estimated for this year. In other words, Venezuelans have daily less purchasing power, even for acquiring essential products.

Real Wage Index (IRE)



Sources: BCV and Ecoanalítica

Now, bearing in mind that the biggest concern with regard to the composition of the monetary cone is the purchasing power of the bills and coins that conform it, at **Ecoanalítica** we have devised a new composition that seeks to reflect the same purchasing power as the monetary cone of the close of 2008.

Coins 2008 vs. 2015		Bills 2008 vs. 2015	
2008	2015*	2008	2015*
0.01	0.2	-	-
0.05	1.1	2.00	43
0.1	2.1	5.0	106
0.125	2.7	10.000	213
0.3	5.3	20.0	425
0.5	10.6	50.0	1,063
1.0	21.3	100.0	2,126

Source: BCV and Ecoanalítica
* Indexed by Inflation.

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* Indexed by Inflation.

This recomposing of the monetary cone in Venezuela implies that, at the close of 2015, it should be made up of 13 monetary units of VEF 1, VEF 2, VEF 2,5 VEF 5, VEF 10 y VEF 20, and bills of VEF 43, VEF 106, VEF 213, VEF 425, VEF 1.063 y VEF 2.126.

What this analysis establishes is that the increase in prices is largely to blame for the cash problems seen on the street. The government should have issued new bills if it had maintained the same line of action as in 2008 with regard to the distortions observed in the economy that year, however it has not done so because that would imply acknowledging the high levels of inflation and the latent risk of hyperinflation.

What does theory tell us?

In order to understand the current high demand for cash in Venezuela, it is necessary to analyze the theoretical fundamentals. Let us look, then, at the equation that defines the production of monetary units in the economy:

$$Q_t = \Delta C_t + D_t + I_t^* - I_{t-1}$$

Where Q_t represents the quantity of monetary units, ΔC_t the variation in the volume of means of payment in circulation, D_t the volume of deteriorated monetary units that need to be replaced, I_t^* the desired inventory of monetary units, and I_{t-1} the initial inventory from the preceding period

On the side of variation in volume, we see how, from 2008 to June of 2015, it has gone up by 333.3, which gives us to understand that the quantity of monetary units should have increased by a similar proportion over the past seven years, something that did not happen. Likewise, it is understandable that the more bills that are printed, due to the Central Bank's financing of PDVSA, the greater is the quantity of monetary units that need to be replaced, which has a positive impact on the production of monetary units. Similarly, with regard to the desired inventory, we find that the economy needs a greater quantity than is actually being supplied, thus generating a positive impact on total quantities. So, if all the variables directly affecting the quantities have increased in recent years, it is logical that the demand for cash in Venezuela is so high and that this means of payment is also suffering from the widespread problems of shortages that the domestic economy is already experiencing.

Besides all that, there is also the fact that both the change in the volume in circulation and the deterioration of a denomination depend not only on macroeconomic factors such as the growth of the economy, the inflationary regime or the change in the opportunity cost of holdings in cash, but also on innumerable microeconomic factors that determine people's transactional behavior and the uses to which they put cash. Two fundamental factors come into the equation

when considering these variables: “*bachaqueo*” (scalping or resale of subsidized products at inflated prices) and smuggling. The first, as a component of the informal sector of the economy, demands cash as a means of payment for shoppers when they go to buy products at five to seven times the regulated price. The second has reached the extreme where people are prepared to pay between VEF 120 and VEF 140 for a VEF 100 bill, which results in a greater demand for cash.

So, it is to be expected that the greater the volatility of the fundamentals, the more highly variable the function will be. In other words, if all the variables that directly or indirectly affect the demand for cash are growing at a fast pace, the quantity of cash that the economy needs is much greater and, therefore, the amount the Central Bank is supplying falls short.

Optimal structure of the Venezuelan monetary cone

The D metric is a tool that is widely used to breakdown total circulation of means of payment by denomination and to determine when a new denomination should be put into circulation. This methodology is an empiric regularity according to which the average denominational structure for a sample of countries is associated to the value of an economy’s average daily transactions. In Venezuela, that transaction is equivalent to VEF 526. Therefore, following one of the theories of monetary cone composition, this should be made up as follows:

Coins 2008 vs. 2015		Bills 2008 vs. 2015	
2008	2015	2008	2015
0.01	-	-	-
0.05	0.5	2	50
0.1	1.0	5	100
0.125	2.5	10.000	200
0.25	5.0	20	500
0.5	10.0	50	1,000
1.0	25.0	100.0	2,500

Source: BCV and Ecoanalítica

These findings imply that, if the Central Bank were to meet its objectives as the monetary authority, we should be seeing bills of VEF 50, VEF 100, VEF 200, VEF 500, VEF 1.000 y VEF 2.500 and coins of VEF 2.5, VEF 5, VEF 10 and VEF 25. In addition, the current bill of VEF 2 (lowest denomination) would be replaced by one of VEF 50 and the bill of VEF 10 for one of VEF 100 (currently the higher

denomination). However, once again, fear of the implications in terms of perception has been a key factor for not carrying out its responsibilities.

Higher denomination bills urgently needed

Analyzing the cash problem from the practical and methodological standpoints adopted by the Central Bank back in 2007, including the economic environment and people's purchasing power, as well as the theoretical fundamentals as regards the composition of the monetary cone, we find that all the points require monetary units of a higher monetary value and that, despite this, we do not see this on the streets. However, it is important apply a replacement of bills and not an expansion of the money supply. Once again, at **Ecoanalítica** we maintain that the problem is that economic decisions are taken in line with a policy where the political prevails and leaves out economic thought.

It is also important to point out that the solution is not in printing bills, but in making major adjustments on the economic front, from lifting controls to publishing official data. Today more than ever the risk of not doing anything is increasing, to the point that cash shortages may become a payment crisis and financial crisis and, with it, the cost of the adjustment that need to be taken to solve the many distortions present in the Venezuelan economy increases rapidly.

Carlos Miguel Álvarez

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WEEKLY INDICATORS

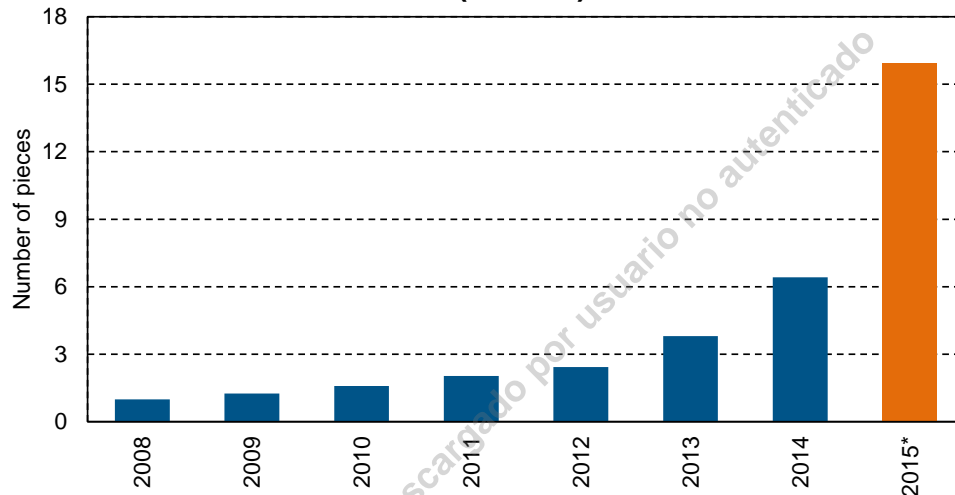
Weekly Economic Indicators			
	1st Week August	Weekly var. (pp)	Annual var. (pp)
Lending interest rate (%)	20.4	0.5	1.8
	2nd Week August	Weekly var. (pp)	Annual var. (pp)
Overnight interest rate (%)	4.9	0.1	-8.6
	2nd Week August	Weekly var. (%)	Annual var. (%)
International reserves (Bn US\$)	17.04	1.9	-16.5
	2nd Week August	Weekly var. (%)	Accum. var. (%)
Central Government spending (VEF Bn)	34.4	26.6	64.1
	1st Week August	Weekly var. (%)	Annual var. (%)
Monetary liquidity (VEF Bn)	2,811	0.1	86.3
Price of International Oil Baskets (US\$/bl)			
	2nd Week August	Weekly var. (%)	Annual var. (%)
WTI	43.5	-4.6	-55.3
Brent	49.4	-1.5	-52.4
Price of the Venezuelan oil basket (US\$/bl)			
	2nd Week August	Weekly var. (%)	Annual var. (%)
Weekly average	41.4	-4.1	-55.0
Annual average	49.2	-0.5	-49.0

Source: BCV, MENPET, ONT and Ecoanalítica

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GRAPH OF THE WEEK: BILLS ARE EXPANDING AS THEIR PURCHASING POWER HAS DIMINISHED

**Number of Pieces Needed to Mantain Purchasing Power
 (2008=1)**



Source: BCV and Ecoanalítica
 *Figures at July 2015

Currently, 16 bills are needed in order to acquire whatever the same bill could purchase in 2008, accordingly to BCV inflation figures. This number is even bigger when we consider our underlying inflation index.

The increment on the price levels has had a direct implication on the increase of the bills demand, particularly the highest denomination bills. Against any logic, so far, in 2015, the bill that has experienced a more notably increase in their number of pieces it is the VEF 2 bill, with 73.4% on the first semester.

In addition to this, the restrictions to withdraw cash from the banks are not stopping, making the shortage of bills join the shortage of food and other goods. The necessity of bills it's not only a matter of comfort but to simplify transactions, reduce operative costs and give answer to a continuous increase in the demand of bills pushed by the reduction on their purchase power.

However, it is important to understand that the solution is not only the print of new denomination bills, but to develop the pertinent adjusts on the field of prices and the exchange rate policy.

ECONOMIC TIPS

A default is not to be ruled out. In its latest report on Venezuela, *What to expect in a default scenario*, the investment bank Barclays states that, while the problem facing Venezuela/ PDVSA is more one of liquidity than solvency. The government's lack of action, the likelihood that oil prices will not recover, and not being able to count on external financing make the possibilities of a default in 2016 higher.

2015 is safe but 2016 is not. The banks also point out that, given that the funds for paying the debt until the end of the year have been "assured," the likelihood of a default before the first quarter of 2016 (1Q2016) is low. Moreover, they say that, if the price of oil (Brent) remains at US\$50 US\$/bl. or lower, Venezuela/PDVSA could fall into default and would need to reschedule its debt.

Making sure of the funds. Jamaica's Finance and Planning Ministry confirmed that the Venezuelan Government had applied a 53.8% discount to Jamaica's debt with PDVSA for crude sales under the Petrocaribe energy agreement. The financial operation was conducted on the condition that payment be made in advance. The initial debt was US\$3.25 billion and, with the discount, Venezuela received US\$1.75 billion.

Not even Uruguay is letting the opportunity slip. Uruguay's Senate unanimously approved a bill to settle a debt of US\$267 million that the Uruguayan company Administración Nacional de Combustibles, Alcohol y Portland (Ancap) has with PDVSA. The debt with the Venezuelan state-owned oil company came to US\$424 million initially and was reduced to US\$267 million as a result of the agreement signed this July by Tabaré Vázquez on behalf of the Government of Uruguay and by Nicolás Maduro for Venezuela.

Centralizing funds. BCV issued the rules that are to apply to public sector entities for them to transfer foreign currency they have deposited in accounts abroad to special accounts with the Central Bank. The purpose of this measure is to centralize foreign currency funds in the Central Bank's vaults. The Central Bank also said that, should a public sector entity require the foreign currency to honor commitments abroad, the service would be provided by the Central Bank.

Encouraging "productive" activities. Last week, President Nicolas Maduro approved VEF 1.26 billion for socio-production projects submitted by the

communal councils. The projects that were approved include the functioning of 11 animal feed plants, for which VEF 160 million was allocated. He also authorized the creation of a seed bank as a source of seeds to supply the domestic grain market.

From neighborhood associations to export agents. Maduro also pointed out that, *“thanks to the revolution,”* the communes are economic agents and that, therefore, they have to be treated as export agents. To that end, the President approved the creation of a General Staff for the supervision, coordination, and control of the new communal economy system. The organizations registered with the RIF (tax registry), which legally endorses the communes as juridical persons, are included in this new system.

A dollarized state. The governor of Zulia state, Francisco Arias Cárdenas, suggested selling products and services in Zulia state for Colombian pesos or other foreign currencies, such as the dollar, to avoid the illegal exchange of foreign currency at the border. *“We’ve proposed selling border products at international prices, or below international prices, in Colombian pesos or in foreign currency,”* he commented.

Even the students are involved. He also added that this measure would mainly target the products and services offered by clinics and hotels, as a way of preventing foreign exchange crimes. He proposed, furthermore, that foreign students be offered education services at the official rate, as *“they pay our universities with bolivars bought on the black market.”*

Never attacking the root of the problem. At **Ecoanalítica** we are of the opinion that the government has consistently sought to attack the consequences and not the causes of the present economic problems. A policy for reducing shortages and shortfalls in supply and for fighting *bachaqueo* (scalping) should focus on eliminating price controls and reducing the impact that the higher prices could have on consumers. That could be done through programs that subsidize consumers’ purchases directly.

Seeking to equalize. The National Assembly’s Delegate Committee authorized a supplementary appropriation of VEF 2.78 billion to adjust the salaries of 129,236 teachers in the provinces, who will now have salaries equal to those earned by teachers attached to the People’s Power Ministry for Education. It also authorized VEF 926 million for the People’s Power Ministry so that the Communes could

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continue with projects aimed at promoting the participation of popular power and self-management.

OIL TIPS

EIA lower its expectations. Amid high uncertainty in the global oil market, U.S. Energy Information Administration (EIA) has lowered crude oil price forecasts, expecting West Texas Intermediate crude oil prices to average \$49 per barrel (b) in 2015 and \$54/b in 2016, \$6/b and \$8/b lower than forecast in last month's STEO, respectively. Concerns over the pace of economic growth in emerging markets, continuing (albeit slowing) supply growth, increases in global liquids inventories, and the possibility of increasing volumes of Iranian crude oil on the market contributed to the changed forecast.

Venezuela calls for help. Minister for Foreign Affairs Delcy Rodríguez and Minister for Oil and Mining Asdrúbal Chávez formed a team with a view to moving ahead with and fine tuning the Venezuelan proposal that is to be on the agenda for the special Organization of the Petroleum Exporting Countries (OPEC) meeting. Although details of the proposal are not known, President Maduro revealed that Venezuela is making the pertinent contacts to call an extraordinary meeting with the governments of the countries belonging to OPEC and Russia for the purpose of defending the international oil market.

And it is still falling. The Venezuelan oil barrel price continued on its downward trend to close last week at US\$41.4/bl., giving a loss of US\$1.8/bl. compared to US\$43.2/bl. the previous week in addition, this Thursday the president announced that it has already reached US\$38.0/bl. According to the Ministry for Oil and Mining, this behavior is explained by the continuing oversupply in the market as well as by concerns over the performance of China's economy. At **Ecoanalítica** we expect the price of crude to average nearly US\$50.0/bl. this year, 38.0% lower than the average price in 2014.

At a six-year low. This week oil fell to a six-year low in a context of data showing that Japan's economy, the world's third largest consumer of crude, contracted in the second quarter. The outlook of surplus global supply was exacerbated by another weekly increase in the number of active wells in the United States (US) and the news that Oman produced a record 1 million barrels of crude a day (1.0 mb/d) in July.

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Supply drops, but not much. According to the International Energy Agency (IEA), world oil supply fell by nearly 0.6 mb/d in July, due mainly to lower production outside OPEC. As for OPEC crude production, it remained close to its three-year high.

IEA revises its forecasts. In view of the fact that prices are low, a cutback in investment spending is expected, as well as growth in supply outside OPEC, going from an increase of 2.4 mb/d in 2014 to an increase of 1.1 mb/d this year. Moreover, global supply is expected to contract by 200,000 barrels a day (kb/d) in 2016.

Looking for diluents. Venezuela is importing between 2.5 million and 3.0 million barrels of naphtha a month to use as a diluent for its extra heavy crudes, according to an internal PDVSA report. Most of this naphtha comes from Vitol, located on the United States coast of the Gulf of Mexico. Although Vitol has become a stable source of naphtha, PDVSA also received offers from foreign producers to supply it with some 70 kb/d of extra light crude in contracts of between one and five years. It is expected that this crude will replace naphtha as a diluent.

The Chinese are considering the Oil Belt. With the president of PDVSA, Eulogio Del Pino as their guide, the president of the Asian consortium Sany Group, Liang Wengen, in the company of a delegation of Asian investors, did a tour of Petrocarabobo's Basic Production Construction Unit and flew over Petromonagas Operations Center where the industrial potential that is currently being promoted by the Socialist Guayana Plan was explained to them. Wengen expressed his interest in investing in "*this land full of hope and great fruits.*"

High hopes. Miguel Pérez Abad, the president of the Federation of Chambers and Associations of Artisans and Micro, Small and Medium Industries (Fedeindustria), said that, thanks to the agreement signed by PDVSA and Fedeindustria, the country would make a saving of US\$2.5 billion. He explained that this saving would be achieved through the participation of domestic production in contributing the inputs required by the oil industry and replacing imports. Pérez Abad estimates that the fruits of this agreement will start to be seen halfway through 2016.

Fracking one, environmentalists zero. One of the main arguments against fracking¹ is the potential contamination of aquifers, rivers and other sources of

¹ Fracking, or hydraulic fracturing, is forcing fractures in a rock layer, by fluid that is put under pressure. It can happen naturally, but it is now used to force oil and natural gas from shale.

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water for the consumption of humans and other living beings. Based on this argument, the US Congress requested the Environmental Protection Agency (EPA) to conduct an investigation, which was started in 2010. The findings of the study, revealed a few weeks ago, are that fracking has not had a negative systemic or extended impact on drinking water and could be considered encouraging for the oil and gas industry.

PDVSA pays up. PDVSA notified the holders of PDVSA 2022 bonds that, in accordance with the pre-established conditions in the papers issued in February 2011, payment of interest for the half-year ending August 2015 was made on Monday, August 17, 2015. Holders of PDVSA 2022 bonds were requested to go to their custodian bank or the institution where they purchased the bonds to obtain information on the status and method of payment.

BUSINESS SECTOR TIPS

Export incentive? President Nicolás Maduro ordered the creation of a single export window at La Guaira Port and at Maiquetía Airport. According to Maduro, this customs window will make it possible to speed up the sale of products made in Venezuela on the international markets. The products dispatched via this mechanism must comply with certain requirements, which will be established by the Ministry for the Economy and Finance, including the destination of each product item.

Baby steps. The president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), Francisco Martínez, and the president of the Venezuelan Food Industry Chamber (CAVIDEA), Juvenal Arveláez, met with the governor of Táchira state, José Vielma Mora, during ExpoTáchira 2015. Vielma Mora said that *“we can’t work without the willing support of the private sector”*; whereas Martínez stated that *“it is possible to have a private sector with the vision where conditions can be created and we can continue working.”*

Everything’s under control, for now. Empresas Polar’s beer and malt soda plant located in San Joaquín (Carabobo state) called on its workers to resume cleaning and maintenance work on the production line while they wait for the raw materials to arrive. According to Pablo Castro, the president of the National Beverage

Industry Federation (Fentribeb), “*the inputs that are to arrive in the country will cover market demand for approximately four weeks.*”

The wheat has arrived. A shipment of 30,000 tons of wheat from the US is currently in port at Puerto Cabello, according to Tomás Ramos López, the president of the Venezuelan Federation of Industrial Bakeries and Similar Businesses (Fevipan). He admitted to the adverse situation that the country’s bakeries are facing and gave assurances that Fevipan is making a joint effort with the Executive to get wheat deliveries back to normal.

That is still not enough. The Confederation of Farmers Associations (Fedeagro) has plans to plant an additional 12,250 hectares with new varieties of bean seeds brought from Brazil this year. Planting will be between August and November this year and the idea is to double production in 2016. According to Fedeagro, domestic consumption of beans comes to 120,000 tons a year, which means that, at the moment, local production covers less than 10.0%. With the planned increase, local production would only be sufficient to supply one third of annual consumption.

With an eye on the elections. Puerto Cabello Chamber of Commerce (CCPC) confirmed the arrival of the Liberian flag vessel San Andrés with a total of 16,000 tons of food on board (chicken, beef, milk, and margarine). The CCPC considers that there could shortly be more arrivals of grain ships as a result of the food purchases the government is making.

And as always, more controls. The representative of the National Superintendence for the Defense of Socioeconomic Rights (Sundde), César Ferrer, announced that Sundde is to conduct operatives together with the Ministry of Health and the Bolivarian National Armed Force to fight the resale of medicines and hygiene products. Ferrer stressed that only the prices set by Sundde would be allowed during the inspections.

Without attacking the true problem. The Vice Minister for Hospitals, Francisco Hernández, said that the Ministry of Health would intervene hospitals’ emergency supply departments and warehouses for the purpose of getting the distribution of medicines back to normal. “*We’ve noticed that there is a distribution problem. We want to intervene the warehouses because the inputs that are being used in hospitals do not tally with the number of patients,*” explained Hernández.

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They are calling for controls to be lifted. The president of the Portuguesa State Rural Producers' Association (Asoportuguesa), Juan Fernando Palacios, claimed that deregulating the prices of corn and rice would give a boost to the domestic production of these crops in the short term. Palacios pointed out that an immediate impact of the measure would be a 50.0% reduction in imports and that, what is more, self-supply would be achieved in a couple of years.

Even school supplies are being affected. Luis Scarccioffo, the president of Venezuelan Chamber of Educational and Office Materials Industries (CAVEO), confirmed that the sector has not been invited to take part in the foreign currency auctions. With more than 90.0% of production lines temporarily shut down and a drop in imports of finished products of nearly 100.0%, the deficit in school supplies when the school year is about to start is 85.0%, said Scarccioffo.

At least someone is winning the battle. The granite sector, a leader in Venezuelan nontraditional exports, has set a target for 2016 of using 90.0% domestic inputs in its production. Arnoldo García, the president of the Granite Producers Associations (Anagraen), highlighted the fact that the sector works with 85.0% domestic components, with the remaining 15.0% being imported. However, García emphasized that by 2016, part of the imported components would be produced in the country.

SMEs as a lead actor. Fedeindustria identified 150 small and medium size industries (SMEs) that are to receive technical and financial assistance and ongoing advice in order to become suppliers to PDVSA through the National Association of Small and Medium Oil Industries (Petropymi). He also pointed out that, at the same time, the business associations and PDVSA are working on designing a logistics system that will facilitate the placement of industrial products in the Orinoco Oil Belt.

WORLD ECONOMY TIPS

The economical do not ensure the political. Even when the Greek bailout generates greater economic stability it does not mean it will generate political stability. After Alexis Tsipras, Prime Minister of Greece, met with senior members of his party and ministers to discuss the future of his government, he decided to resign the presidency and announced early elections on September 20th.

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Green light for Greece. The European Stability Mechanism (ESM), approved the financial program of the third bailout of Greece and authorized the first part of the payment, which corresponds to EUR 26.0 billion. This payment is divided into a tranche of EUR 10.00 billion, which will be transferred to a special account of the ESM in Luxembourg for recapitalization and liquidation of banks, and another payment of EUR 13.00 billion which has already been deposited in the Hellenic accounts.

Meet the conditions. Greece paid EUR 3.20 billion to the European Central Bank (ECB) for a bond of the Republic using the money from its first disbursement of the economic rescue, said an emissary of the Greek government. Greece received the first tranche of funds for the new bailout loan last week, after the ESM approve a bailout of up to EUR 86.00 billion.

Positive indicators. Some indicators that reflect how well an economy is doing are the indicators having to do with construction. In the US, the housing construction index grew by 0.2% in July compared to the previous month, at a seasonally adjusted annual pace of 1.21 million units, the highest level since 2007. This increase is due to the fact that more single-family homes are being built, which is an indication that the economy is improving.

Free float? According to the International Monetary Fund (IMF), the recent changes in the way China is managing its currency could bring the country “*quite close to a float*” in its exchange rate. In theory, the new system could allow the currency value to move as much as 10.0% a week and be close to a rate that the markets might set on their own, explained, Markus Rodlauer, the IMF’s mission chief for China.

Not even in the best of markets... However, Rodlauer pointed out that it is likely that the authorities will intervene in the markets, at least in the short term. “*This lays the basis for greater flexibility (...). We don’t expect a free-floating system tomorrow.*” He also said that, even with the drop in value of the yuan, he thinks that the yuan is still not devalued.

A route map. On the other hand, the IMF suggested that, if China wants to continue with its sustained growth in the long term, it should allow its economy to continue to slow down next year while it carries on implementing more market reforms in its financial and credit systems. In the opinion of the Fund, China is still vulnerable to an external financial impact, continues posting a big current account surplus, and could pose a risk for global growth.

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What the devaluation of the yuan suggests. According to Goldman Sachs, China's devaluation of the yuan suggests that world economic conditions have given a turn for the worse, as more downward pressure is created on the prices of raw materials. *"The devaluation of the yuan has been important for commodity markets and we believe it signals that global macro conditions have changed,"* said the firm.

Are they after productivity? China's decision to weaken the CNY could head off the need for more similar "adjustments, which means that the yuan would move in both directions while the economy stabilizes, said Ma Jun, the People's Bank of China's chief economist. On the other hand, the bank described this measure as a free-market reform, even when several international agencies have described it as a long-term depreciation of the currency to boost exports.

Lower growth than expected. Eurostat, the European Union's statistics office, reported that the economy in the euro zone grew less than expected in the second half of the year. According to Eurostat, the GDP of the monetary union grew by 0.3% in 2Q2015 compared to 1Q2015 and posted GDP growth year-on-year of 1.2%. According to previous projections, expectations were for quarterly growth to be 0.4% and growth year-on-year to reach 1.3%.

Prices remain stable. According to Eurostat, inflation in the euro zone remained stable in July, year-on-year, going up by only 0.2% during that 12-month period, a rate similar to June's. Eurostat also reported that restaurants and cafés, tobacco, and rentals had the highest impact on the increase. ECB wants to raise inflation in the euro zone to close to 2.0% by the end of the year.

POLITICAL TIPS

Oil King. The President of Venezuela, Nicolas Maduro, appointed Eulogio del Pino as Minister of Petroleum and Mining. Del Pino will replace the former minister Asdrúbal Chávez. He will also remain in office as president of PDVSA, becoming the most influential person in Venezuela's oil sector.

Looking grim. According to the "Omnibus" poll for July conducted by Datanálisis, President Nicolás Maduro's popularity (approval of his performance) was 24.3%, one of the lowest levels this year. This reflects the widespread negative perception

people have of the country, with shortages and the high cost of living being mentioned as the main factors.

Further and further apart. Besides the negative perception that people have of the situation, Datanálisis highlights how the political parties and the people have drifted apart, with the performances of the United Socialist Party of Venezuela (PSUV) and the Democratic Unity Alliance obtaining approval of only 23.3% and 33.3%, respectively. This gives extremely high levels of rejection with regard to this year's parliamentary elections, even though there is a higher voting intention for the opposition side.

Maduro on shaky ground. According to Datanálisis' Omnibus poll, 68.3% of those interviewed were of the opinion that Nicolás Maduro should leave office in 2015 and be removed as president in 2016 by means of a recall referendum. On the other hand, 24.5% of those interviewed thought that Maduro should stay in office until 2019 and get elected for a further six-year term, and 6.9% did not express an opinion.

What no one wants. President Nicolás Maduro issued a call to get ready for a more radical revolution. *"I say it today, August 15, as an oath (...), but we must get ready, all of us, men and women. I know that our people are up to the tasks that are in store. I know that what our people are waiting for is an order. I know,"* declared Maduro in a speech on radicalizing the *Chavista* model.

Fairly confident. During the presentation of "The United Venezuela" campaign team, Freddy Guevara, the national coordinator of the political party *Voluntad Popular* promised that the Democratic Unity Alliance would win the parliamentary elections on December 6, giving *"the PSUV the thrashing of its life."* *"Our commitment is to Venezuela. On December 6, we'll see the directors (of the CNE) with sour faces because of the PSUV's defeat,"* said Guevara.

Smells like a threat. Elías Jaua, the Great Patriotic Pole's candidate who is to run at the parliamentary elections for Miranda, believes that the opposition's triumphalism with regard to the elections demonstrates the "destabilizing" nature of the proposals being put forward by the opposition parties. *"Those announcements are the path to destabilizing the country and to a confrontation of unpredictable consequences,"* warned Jaua, who is also Minister for the Communes.

Yes or yes! Henry Ramos Allup, the secretary general of the political party *Acción Democrática* (AD), stated that the Venezuelan opposition must win the December

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6 parliamentary elections because the country “*will not continue putting up with this disaster.*” The Democratic Unity Alliance’s candidate for electoral circuit 3 in Caracas reiterated that, when they win the National Assembly, they would pass an Amnesty Law to release the political prisoners.

Gender quotas met. Jesús “Chúo” Torrealba, the secretary general of the Democratic Unity Alliance, announced that the opposition alliance had met the gender parity quotas required by the National Electoral Council (CNE), and explained that 71.0% of its candidates are women. Dinorah Figuera, currently deputy for Aragua state and one of the opposition’s candidates, said that they would fight in the new National Assembly for a law that would guarantee freedom of expression and gender equality.

Back to the fray. On Monday, August 17, the trial of the political leader of *Voluntad Popular*, Leopoldo López, recommenced, according to statements by his wife, Lilian Tintori. “*Today, Monday, Leopoldo goes to court once again. It has been 389 days of trial in which, day after day, he proves his innocence,*” explained Tintori. López is being tried on charges of public instigation and conspiracy to commit a crime in connection with the protests that occurred in February 2014.

Reducing the risk of fraud. The secretary general of the Democratic Unity Alliance, Jesús Torrealba, said that they would strengthen the family campaign commandos to guarantee the presence of witnesses at the polling booths. “*The most important level of the campaign commando is at the polling stations. Their first function is the reactivation of the family commandos,*” explained Torrealba. The secretary general argued that it is necessary to seek empathies rather than build sympathies in the campaign for the parliamentary elections.

LEGISLATIVE TIPS

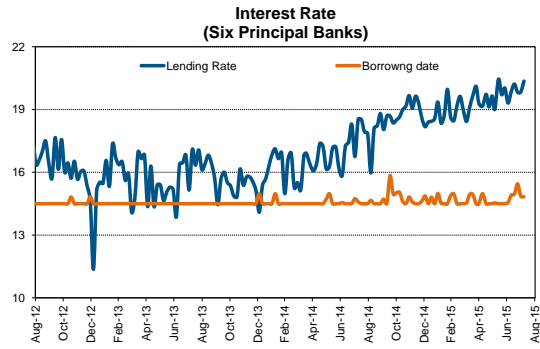
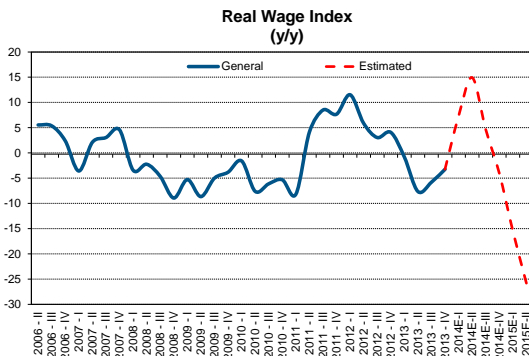
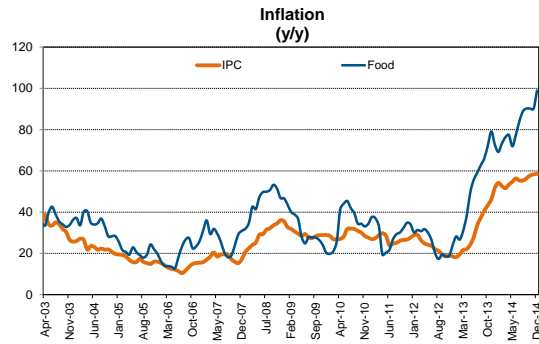
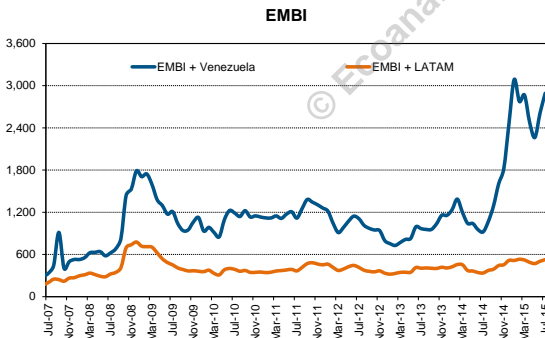
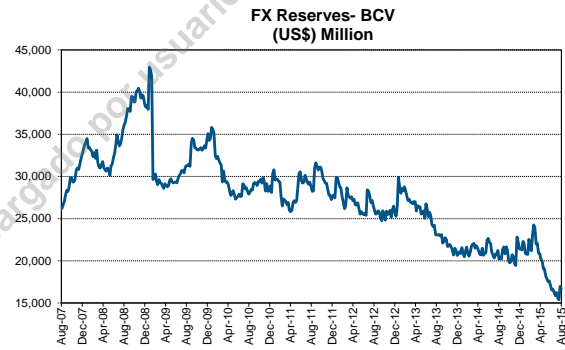
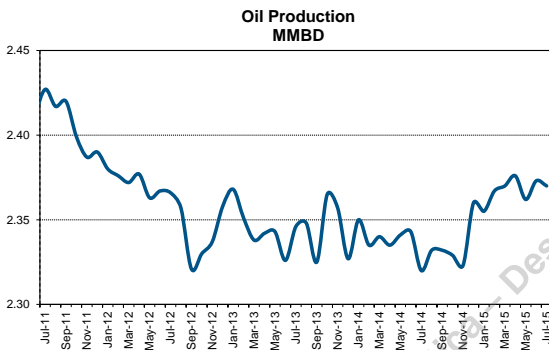
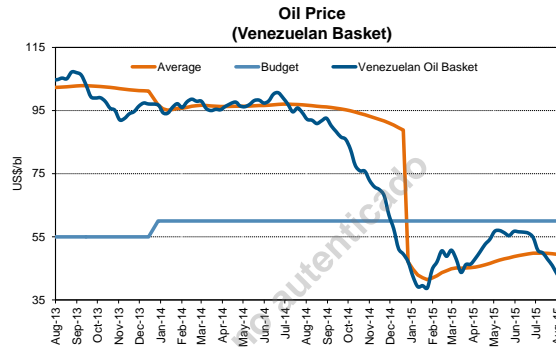
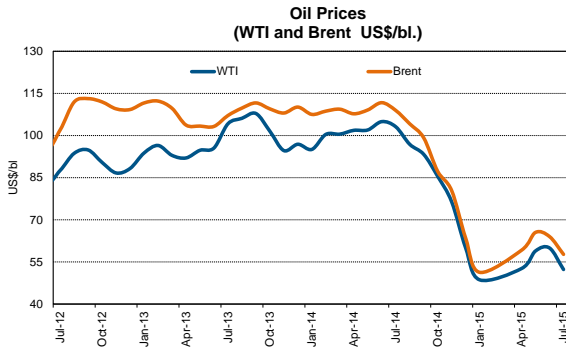
Central Banks sets new rates. The Central Bank announced in *Gaceta Oficial* the interest rates applicable to liabilities derived from the work relationship: the lending rate will be 19.8% and the average of the lending and passive rates will be 17.4%. As for the interest rates applicable to credit card operations, the maximum annual rate remains unchanged at 29.0% and the minimum at 17.0%. The preferential lending rate for the tourism sector applicable for the month of August will be 9.7%.

Less red tape, more efficiency. Elimination of the administrative processing of academic certificates and certified grades issued by the Ministry of Education was validated in *Gaceta Oficial* No. 40,723. The signing, endorsement and certification of these documents will fall to the directors of the public and private educational establishments together with the member of the teaching staff in charge of the course of study or one who is authorized to do so, as well as the supervisory officer designated by the Ministry of Education.

New electric power chiefs. The appointment of new vice ministers for electric power was published in *Gaceta Oficial* No. 40,722: Igor Gaviria León is now Vice Minister for Electric Power, a post that was occupied by Franco Javier Silva Ávila since last year; Freddy Brito Maestre has been appointed Vice Minister for Development of the Sector and the Electric Power Industry; Manuel Contreras Hernández is the new Vice Minister for New Sources and Rational Use at the Electric Power Ministry; and Antonio Leggio assumes the post of Vice Minister for Finance, Investment and Joint Ventures.

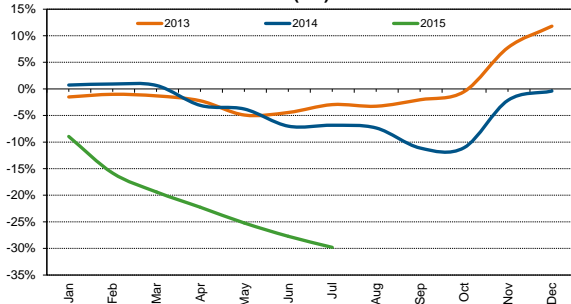
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ECONOMIC OVERVIEW

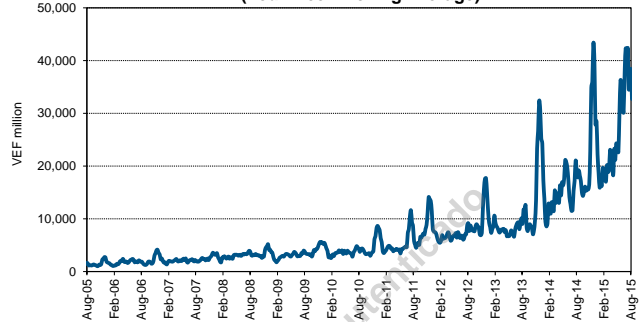


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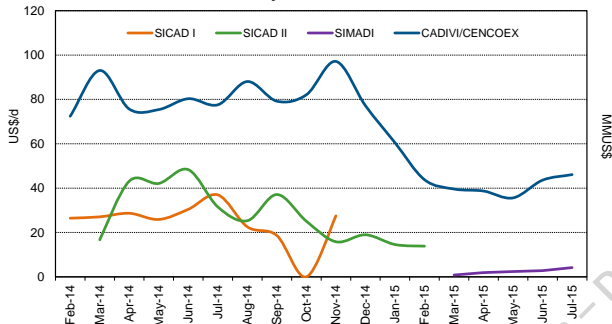
Year on Year Real Expansion (M2)



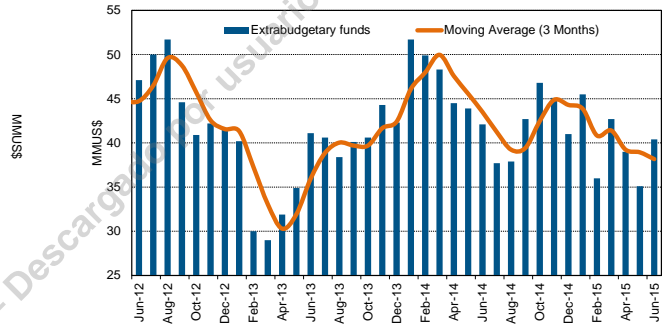
Primary Spending NTO (Four-week Moving Average)



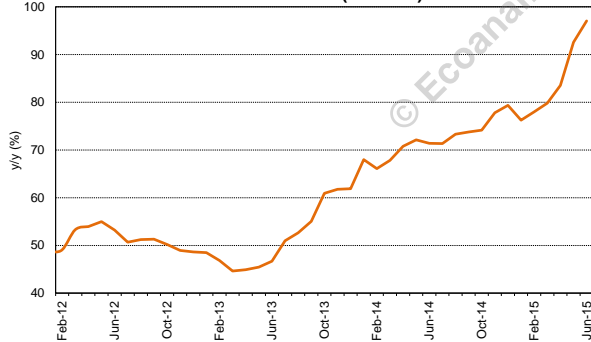
Daily Disbursements



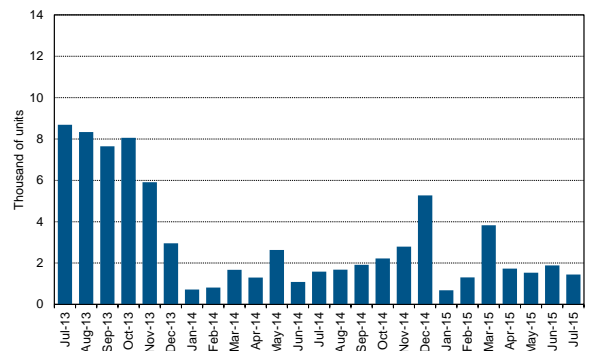
Resources of the State



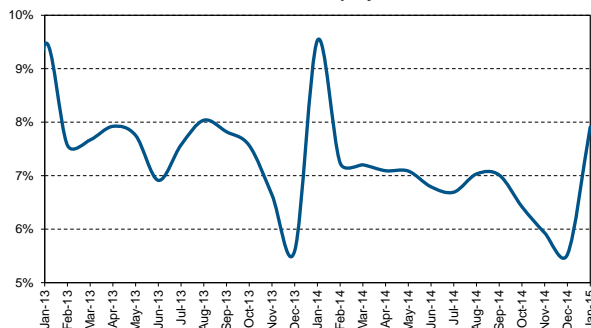
Loan Portfolio (Nominal)



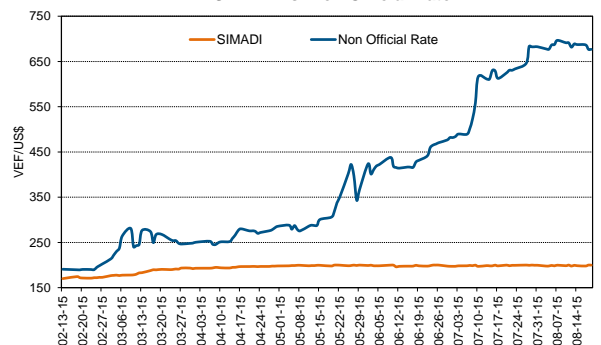
Automobile Sales



Rate of unemployment



SIMADI vs. Non Official Rate



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