

## The recession affects the financial sector

The financial institutions and insurance companies sector and the communications sector are the only ones that have maintained positive growth rates in 2015, a year that has been full of distortions and has required adjustments. However, there are already signs of this growth slowing down and we estimate that they will close 2015 with growth of 9.2% and 4.7, respectively, a contraction of 15.3% and 0.7% compared to 2014.

Now then, it is extremely important to understand the dynamic of these sectors and the key indicators that permit a sound analysis. In this report we wish to offer an overview of the situation in the Venezuelan banking sector so far this year and projections to the end of 2015.

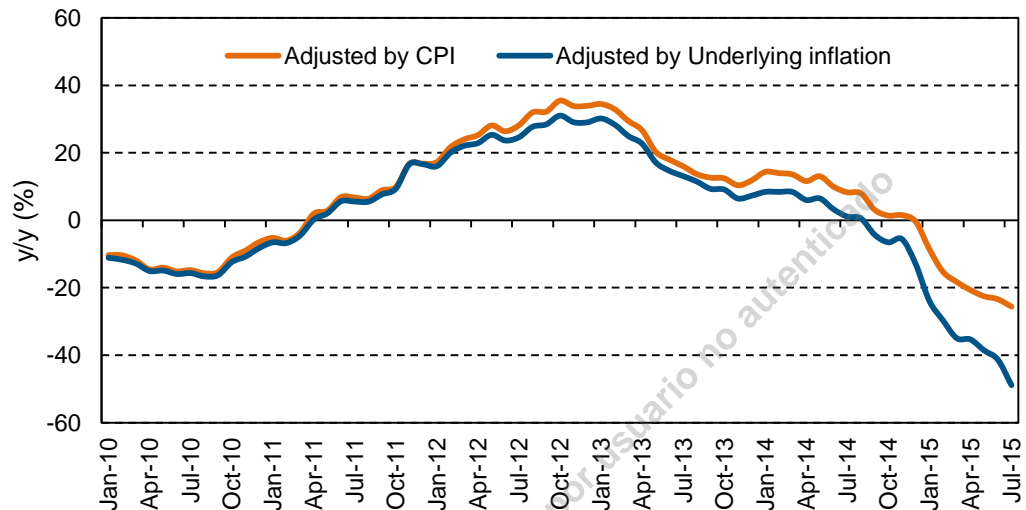
### The myth of the expansion in monetary liquidity

There are many analysts who talk about a tremendous expansion of monetary liquidity in Venezuela, which is not true. In nominal terms, the variation year-on-year at the close of July 2015 was 86.7%, whereas the increase for the year to date came to 40.3%. Similarly, if we analyze the monetary base, we find increases of 91.8% year-on-year and 43.3% for the year to date. However, if we compare those increases with the variations in prices, the fact is that the increase in inflation is 57.7 percentage points higher year-on-year and 54.2 percentage points for the year to date on average. Taking that situation into account, the story we have to tell is a somewhat different one.

Given the opacity of official inflation figures since December 2014, expectations in this regard are highly negative, thus generating a more pronounced upward trend. Therefore, we have analyzed the variation in monetary liquidity in real terms, adjusting it for inflation using the Nationwide Consumer Price Index (NCPI) and the underlying inflation index compiled by **Ecoanalítica**.

Year 11. Number 33. Week IV  
 August 2015

### Real Liquidity Growth



Source: BCV and Ecoanalítica

In real terms the “expansion” becomes a contraction of 25.6% year-on-year and of 29.8% for the year to date if we take into account the NCPI, an indicator we consider has distortions in its methodology. If we correct those distortions and use the underlying inflation, we find that the contraction is even greater, 48.9% year-on-year and 46.9% for the year to date. On that basis, we maintain that monetary liquidity ceased to grow in August 2014 due to the acceleration in the variation of prices. In other words, inflation is growing at a much faster pace than the government has been injecting liquidity by means of monetary expansion instruments.

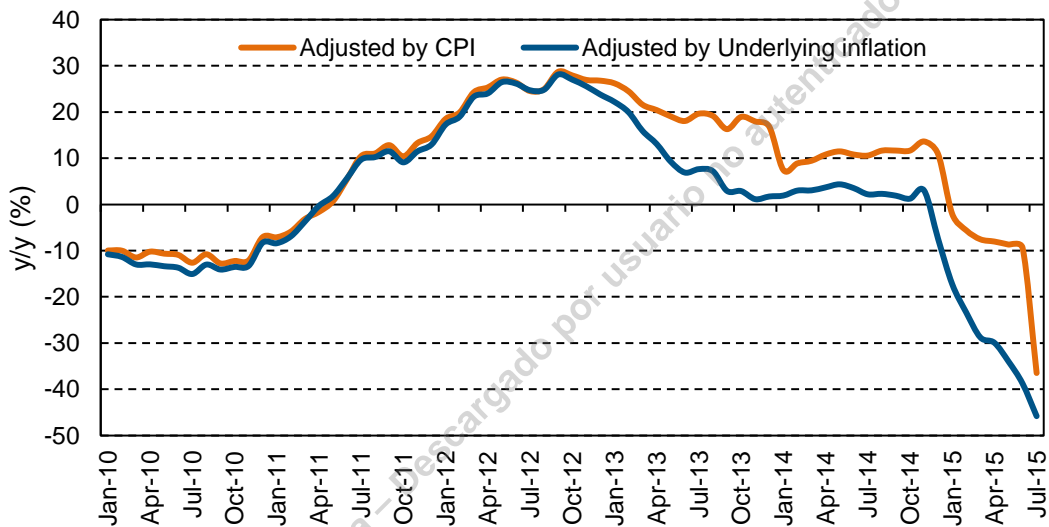
### A second myth: growth of the loans portfolio

The banks’ loans portfolio has been growing in nominal terms for the past 54 months. This circumstance has been largely responsible for generating considerable growth of the financial sector in recent years, so much so that, even in 2015 in the midst of the worst economic crisis Venezuela has experienced in 25 years, we still expect to see positive figures, although less than two digits.

Now then, once again we have to include inflation in the analysis in order to see whether, in real terms, this growth trend has been maintained, has slowed down, or has been reversed. Adjusting for inflation using the NCPI, we observe a contraction in the loans portfolio of 24.2% so far this year; similarly, the contraction

year-on-year comes to 20.5%. These drops are even more pronounced if we adjust for inflation using the underlying inflation index: 42.7% and 45.8%, respectively. This explains the slowdown in growth in the financial institutions and insurance companies sector.

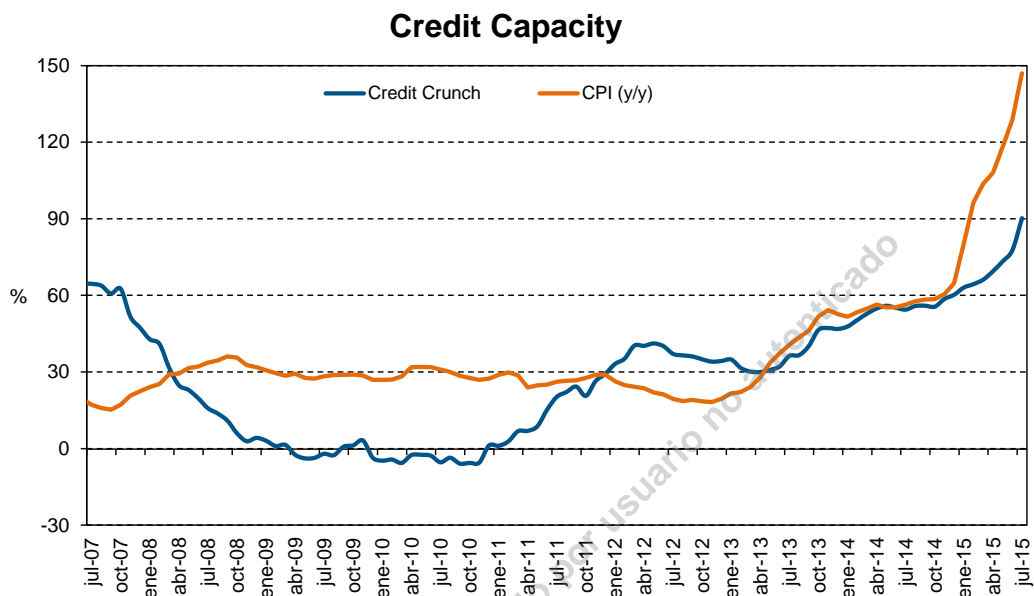
### Real Loan Portfolio Growth



Source: BCV and Ecoanalítica

Despite this situation in the sector, it is necessary to analyze the credit crunch indicator to see how the banks' credit capacity is behaving. This indicator takes into account the lending rate (the interest rate at which the company obtains funds from others) in order to adjust the nominal growth of the loans portfolio and thus determine whether the banks' capacity to generate loans is growing or contracting. The more this indicator grows, the more loans the banks are generating in the economy; if, on the other hand, the indicator drops, this is taken to be a sign that credit is contracting.

Year 11. Number 33. Week IV  
 August 2015



Source: SUDEBAN, BCV and Ecoanalítica

In Venezuela's case, we find that, in effect, after a period of decline in its credit capacity, since 2011 the sector has managed to increase it again. Moreover, the pace at which it has increased is slower than the rate at which prices in the economy have varied, which means that, as inflation continues to spiral, loans will buy increasingly less and, therefore, maintaining relations with several banks is necessary in the present situation.

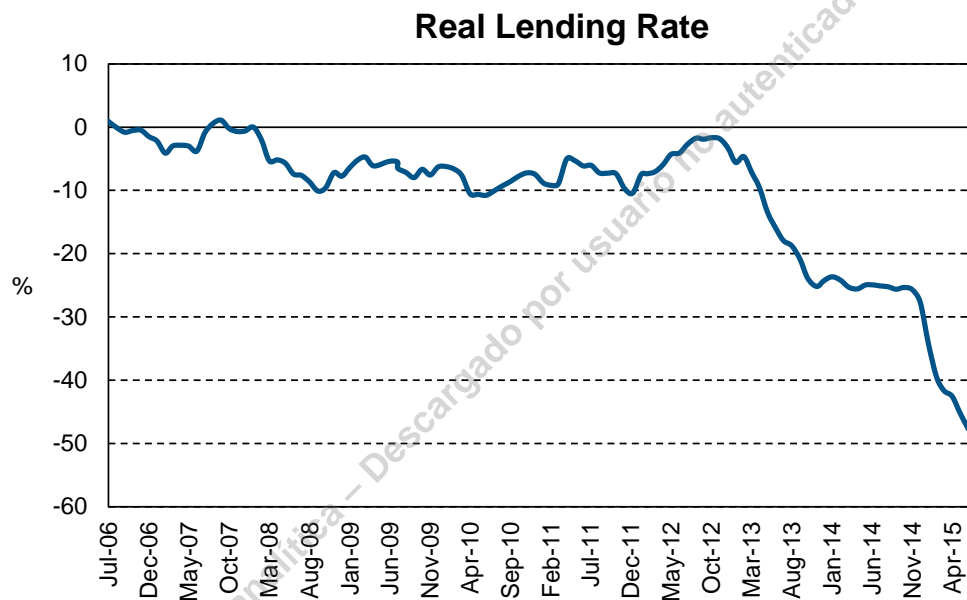
While this analysis is correct, why does the credit crunch indicator not reflect the true situation of part of the sector in terms of its capacity to generate credit? Once again, the huge distortions present in the economy are the cause and, in this case, we refer to interest rates.

### Interest rates haven't dodged the bullet either

With an economy full of distortions, one would have expected controls on interest rates to have been lifted in order to put prices on a realistic footing and normalize the economy. However, the Venezuelan economy cannot be considered the best example when it comes to implementing economic policies; on the contrary, it is an economy that has been managed with such a strong political bias that it has completely abandoned the basics of economic theory.

Year 11. Number 33. Week IV  
 August 2015

While it is true that interest rates have been raised by a slight 0.7% so far this year, it is also true that this increase is not in line with reality or the needs of the market. In real terms, the lending rate has been negative for the past 91 months, which implies that any agent that has decided to borrow during that time has taken advantage of the distortion and has ended up paying very small amounts compared to the capital acquired.



Source: BCV and Ecoanalítica

This trend will not be reversed overnight and thinking that interest rates will be above inflation in the short term is overly optimistic. Consequently, at **Ecoanalítica** we continue to be of the view that borrowing is an excellent opportunity and, while it is true that, at today's prices, the loan repayments may seem large, at tomorrow's prices those amounts will be fully absorbed.

The important thing is to understand how far this distorted reality is sustainable. While it is true that we do not expect a major hike in interest rates, the latent risk appears on the side of capital and what the implications of being in a position of disbursing a loan in line with the market's needs are for the sector. In other words, the quantity of bolivars needed by the applicant may be much greater than the quantity the bank has available for disbursement, thus generating a risk for agents of not being able to cover their requirements.

## The risk for the banks

This risk can be defined as the volatility of expected results. Given the country uncertainty rating and the different distortions occurring in the economy, the risk production sectors run is higher by the day and, because of the restrictions on the outflow of capital, the drop in the allocations of foreign currency, the increase in the price of fixed assets, and other factors, diversifying risk has become an uphill task.

Because of the nature of its operations (financial intermediation, risk transfer, and so on), the banking system is one of the sectors that are most exposed to speculative attacks. However, if we omit the period from the end of 2014 to date, it has been one of the areas of the economy that have most benefited from the government's economic policies.

To give a clearer picture of how the banking system is handling risk and how it has been affected by the present situation, at **Ecoanalítica** we decided to study indicators that reflect the decisions taken by the banking sector in relation to that situation. The information used is the latest data published by SUDEBAN at the time of writing (July 2015).

**Liquidity:** One of the banking sector's most important indicators, it reveals the financial entity's capacity to meet its short- and long-term liabilities. The higher/lower the indicator, the more/less likely a company is to be able to honor its liabilities.

- **Availability of funds/deposits from the general public:** In July 2015, this indicator was 28.9%, up 2.2 percentage points (pp) from July 2014 (26.8%) and 1.7 pp higher than in December 2014 (27.2%).
- **Net loans portfolio/deposits from the general public:** In July 2015, this indicator was 57.9%, up 5.3 pp from July 2014 (52.5%) and 3.7 pp higher than in December 2014 (54.2%).
- **Short term assets/long term liabilities:** In July 2015, this indicator was 28.4%, up 1.5 pp from July 2014 (26.9%) and 1.0 pp higher than in December 2014 (27.4%).

Year 11. Number 33. Week IV  
 August 2015

**Asset quality:** This reveals whether the banks are maintaining a balanced makeup of their assets and if they are being “efficient” in allocating resources. The higher/lower the value, the higher/lower the quality of the assets they maintain in operations.

- **Gross non-performing portfolio/gross loans portfolio:** In July 2015, this indicator was 0.43%, without any pp variations from July 2014, when it was 0.13%.
- **Unproductive assets/total assets:** In July 2015, this indicator was 30.7%, up 2.57 pp from July 2014, when it was 28.1%.

### Financial Indicators

	Jul-14	Dec-14	Jul-15
<b>Capitalization</b>			
Liquid Assets / Deposits from the Public	26.8%	27.2%	28.9%
Net Loan Portfolio / Deposits from the Public	52.5%	54.2%	57.9%
Current Assets / Current Liabilities	26.9%	27.4%	28.4%
<b>Asset quality</b>			
Immobilized Portfolio / Gross Loan Portfolio	0.56%	0.46%	0.43%
Non-Productive Assets / Total Assets	28.1%	28.8%	30.7%

Source: Sudeban and Ecoanalítica

### The indicators don't tell the whole story

Besides these indicators, the banks are also exposed to external, political and social risks. A black swan (an unexpected event that has an impact, which can be either positive or negative) can suddenly restrict banks' liquidity. For example, a terrorist attack or a civil war can generate such a high level of nervousness that bank users might demand that their deposits be returned.

On the political and social fronts, society's loss of belief in the institutions and governance, demonstrations, *guarimbas* (barricading of streets), and other problems may give rise to situations such as *corralitos* (restrictions on bank operations) and an unexpected demand for cash, among other things. Mention also needs to be made of the fact that, no matter how ironclad the banking system is, the contagion effect in the present situation of uncertainty is another factor that the banks have to bear in mind.

Year 11. Number 33. Week IV  
August 2015

Last of all it should not be forgotten that, in recent years, the government has, indirectly, declared war on the private banks and has directly sought to reduce their participation in the banking system. As well, as we stated in previous weekly reports, currently, one of the main advisors of President Maduro, the economist Tony Boza who has constantly proposed the banking system nationalization.

Many of the episodes of banking and financial crises in emerging economies have been preceded by rapid expansions in bank loans (credit boom) to the private sector. The origins of those credit booms are many. In some cases they have occurred as a consequence of a loosening of restrictions on the financial sector in the absence of appropriate banking regulations, others as a consequence of inflows of external capital; and yet others happen after shocks that are favorable in terms of trade or as a result of macroeconomic stabilization programs that boost the confidence of investors and consumers and, therefore, increase their demand for new loans.

Given the present situation and the outlook for the economy, we are of the opinion that the banks are beginning to feel the economic recession and that they should, therefore, adopt a position that will not compromise their operations in the short and medium terms. We also consider that, while it is impossible to predict whether a social uprising will occur, this is a scenario that should not be overlooked, even when parliamentary elections are just around the corner.

**Carlos Miguel Álvarez  
Lesner Castillo**

Year 11. Number 33. Week IV  
 August 2015

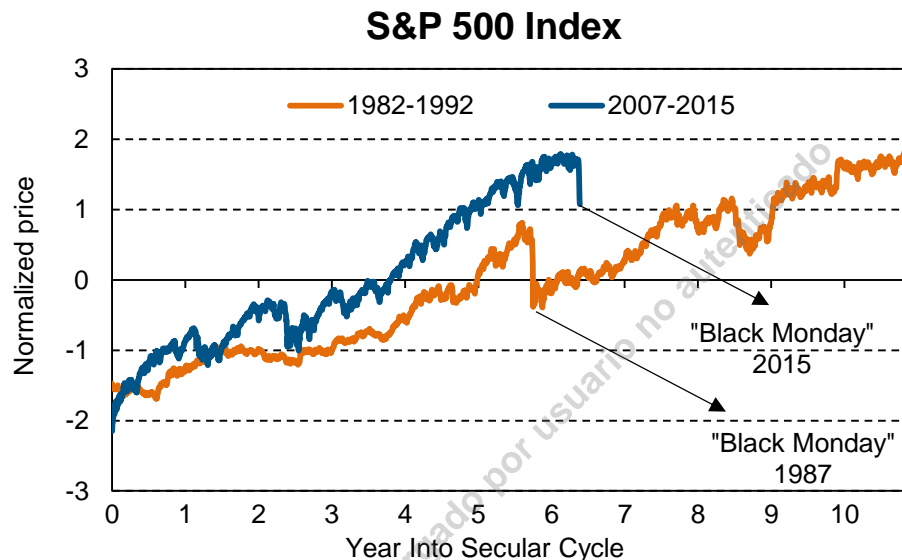
## WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week August	Weekly var. (pp)	Annual var. (pp)
Lending interest rate (%)	20.1	-0.3	1.6
	3rd Week August	Weekly var. (pp)	Annual var. (pp)
Overnight interest rate (%)	1.7	-3.2	-11.6
	3rd Week August	Weekly var. (%)	Annual var. (%)
International reserves (Bn US\$)	16.68	-2.1	-17.5
	3rd Week August	Weekly var. (%)	Annual var. (%)
Central Government spending (VEF Bn)	42.7	24.2	64.6
	2nd Week August	Weekly var. (%)	Annual var. (%)
Monetary liquidity (VEF Bn)	2,860	1.8	89.6
Price of International Oil Baskets (US\$/bl)			
	3rd Week August	Weekly var. (%)	Annual var. (%)
WTI	41.8	-3.9	-56.1
Brent	48.1	-2.7	-53.0
Price of the Venezuelan oil basket (US\$/bl)			
	3rd Week August	Weekly var. (%)	Annual var. (%)
Weekly average	39.6	-4.3	-56.4
Annual average	48.9	-0.6	-49.3

Source: BCV, MENPET, ONT and Ecoanalítica

Year 11. Number 33. Week IV  
 August 2015

## GRAPH OF THE WEEK: WE WILL SEE THE SAME HISTORY IN THE STOCK MARKET?



Source: S&P 500 and Ecoanalítica

Eugene F. Fama and Robert J. Shiller received the Nobel Prize in Economics in 2013. Fama shows that stocks prices are very difficult to predict in the short term, new information is quickly incorporated in prices, increasing volatility and, therefore, it is very difficult to set the right price of financial products and find ways to benefit from this volatility, at least in the short term. Shiller developed prices beyond the short term and concludes that such prices in the long run are easier to predict because they exclude short-term volatility and as a result, it is easier to beat the market and make profits.

The curious thing about this award is that it was given to two economists with very different visions of financial markets; Fama defends the theory of efficient markets while Shiller contradicts it. However, what explains the prize is that there is much research in finance to be done and episodes like the one seen on Monday August 24, called Black Monday, reinforce it. Indeed, on October 19, 1987, the same thing happened and in the long run the market recovered. Will we see the same history this time? We do not know, there are those who affirm and those who deny it, but what is certain is that the market corrects distortions sooner or later.

## ECONOMIC TIPS

**Looking for ways.** Public accountants have proposed an alternative method of calculation that consists of estimating inflation based on an index determined by experts in the matter given that the Central Bank has failed to publish the Consumer Price Index (CPI) so far this year. The president of the Society of Public Accountants of Venezuela, Diego Mendoza, explained that in order for this methodology to be valid, experts are to conduct a study with exactly the same characteristics as the one undertaken by the Central Bank, which includes selecting the same population, cities, products, and technique.

**It's not that simple.** Even though public accountants urgently need this indicator in order to prepare and present financial statements, at **Ecoanalítica** we think that the only agency that has the capacity for carrying out this methodology is the Central Bank itself.

**The latest invention.** Venezuela is promoting activities with China geared to stimulating the development of production initiatives inside the country with a view to giving the Special Economic Zones a boost. These new zones seek to stimulate the development of production activities in Venezuela and attract domestic and foreign investment within the framework of a comprehensive strategic alliance between Venezuela and China. This program is to be coordinated by the Vice Chairman of the Council of Ministers for Planning and Knowledge and People's Power Minister for Planning Ricardo Menéndez.

**Not everything that shines...** According to the report prepared by the World Gold Council (WGC), as at February this year 69.3% of Venezuela's international reserves consisted of gold (consolidated figures), putting Venezuela in third place among the countries in the world with the highest proportion of their international monetary reserves in gold after the United States (US) (72.6%) and Greece (69.9%). In absolute terms, Venezuela occupies third place with 367,600 tons of gold.

## OIL TIPS

**It's still not bottomed out.** The Venezuelan oil basket continued to fall, closing last week at US\$39.6/bl., a drop of US\$1.8/bl. compared to the previous week

when it was US\$41.4/bl. The Ministry of Oil and Mining explained that “*during this week the prices of crudes continued to drop, affected mainly by doubts with regard to the performance of the economies of China and Japan as well as global oversupply.*”

**OPEC remains unmoved.** Although some members of the Organization of the Petroleum Exporting Countries (OPEC) in the Persian Gulf are worried about the most recent drop in oil prices, they see scant possibilities of OPEC changing its policy of defending market share. Despite everything, the cartel’s delegates pointed out that China is still buying and stockpiling crude and they expect strong growth in global demand to push prices back up to US\$60.0/bl. next year.

**India wants oil too.** The Indian company Oil and National Gas Corp. (ONGC), which has 40.0% of the San Cristóbal Field in the Orinoco Oil Belt and in which it invested around US\$190 million in 2008, is currently holding talks in order to take US\$535 million worth of crude as its share of the oil field’s sales in lieu of cash. The agreement to pay the Indian producer its part of the revenues in kind should be reached in March, according to Narendra Kumar Verma, the company’s managing director.

**PDVSA is hard put.** PDVSA is facing problems of liquidity and has not been able to pay its foreign partners in some of its projects as the company’s revenues fell along with the prices of crude and the funds were siphoned off to maintain social programs and fuel subsidies. According to Helima Croft and Christopher Louney of the investment bank RBC Capital, Venezuela is among the members of OPEC facing the highest risk of instability and production problems in the current price environment. Things seem to be set for a crisis in the short term, said the analysts.

**PDVSA has the worst accident record.** It is now three years since the explosion at Amuay Refinery and denouncements regarding the lack of maintenance at PDVSA continue. Javier Larrañaga, the coordinator of the Energy Orientation Center, pointed out that, prior to 2003, PDVSA had a level of accidents similar to other Latin American oil companies, such as ECOPETROL, but that this situation has got worse over time. Larrañaga added that, when the accident occurred at Amuay, PDVSA’s accident rate was six times higher than the other oil companies and that now it is four times higher than international standards.

**It’s not the same as it was.** Three years have elapsed since the explosion at Amuay Refinery and it has not been the same since then. Paraguaná Refining Center –which consists of Amuay and Cardón refineries- processed between

Year 11. Number 33. Week IV  
August 2015

550,000 and 600,000 barrels a day (kb/d) of hydrocarbons before the fire and now it processes 270 kb/d. Moreover, the flexicoker, the plant that processes extra heavy crude, has had more than 30 sudden (unscheduled) stoppages as a result of the tragedy and has not come back on line despite the efforts made by PDVSA between September 2014 and May this year.

**Spring will come for Iran.** Last Monday British Foreign Secretary Philip Hammond said that the sanctions on Iran could start to be lifted in spring next year. Hammond stated that he was confident that Iran and the US would be able to ratify the nuclear agreement they signed last month in October. This could be more bad news for Venezuela because it is expected that the lifting of sanctions will push down oil prices.

**New technologies.** Last Sunday, August 23, President Maduro talked about projects and progress made on the technological front with oil workers at the Experimental Production Center (CEPRO) located in Tía Juana, Zulia state. CEPRO started activities in 1995. Subsequently, in 2011, PDVSA Intevep officially opened four laboratories that were to offer other services in the area of operations. This PDVSA affiliate has developed 36 technologies for different areas of the oil business, 26 of which are intended for the area of production.

**Workers want to join Chevron.** This week started with a protest by more than 50 workers of the contractor companies that provide Chevron with services. The protest was to denounce that, in their case, outsourcing has not been eliminated, something that, according to the law, should have been accomplished by May 7 this year. The leader of *Movimiento Clasista La Jornada*, Gregorio Rodríguez, claimed that many of the oil company's workers have been "providing services for 11 years using the company's tools and equipment and they are entitled to be put on the permanent payroll."

**How many barrels by year-end?** Crude prices are falling and the government is being forced to send more barrels to China to pay off the debt it has acquired via the Joint Fund. In 2008, 0.8% of oil production was sent to China and today those shipments come to 13.6% of the total number of barrels produced a day. In view of the drop in oil prices, this year an amendment to the agreement was made in which the ceiling on the number of barrels Venezuela must send was eliminated. This year we will see how many barrels these shipments will come to.

**Smuggling is down.** Executive Vice President Jorge Arreaza reported that, since the closing of the Táchira border with Colombia, the illegal sale of gasoline in

Cúcuta, Colombia, has dropped by one million liters. Moreover, he rejected criticisms blaming the Nicolás Maduro administration for the shortage of gasoline in that part of Colombia, explaining that Venezuela does not export gasoline to Colombia nor does it have agreements with ECOPETROL.

## BUSINESS SECTOR TIPS

**The solution has to do with the exchange rate.** Daniel Aguilar, the president of FEDECÁMARAS Táchira, urged the creation of a foreign exchange differential for the border zone so that inter-border trade “*does not affect commerce.*” While Aguilar gave assurances that he would abide by the government’s decision to decree a state of exception in the area, he called for additional measures to be taken to promote and provide incentives for industry, productivity, investment, and stable jobs.

**A measure that benefits no one.** The president of FEDECÁMARAS-Táchira, Daniel Aguilar, claimed that the closing of the Colombian-Venezuelan border ordered by President Nicolás Maduro is generating losses for the entire industrial sector operating in San Antonio del Táchira and Ureña, located in Táchira state. “*We will abide by this decision, but in the future this type of decision should be consulted with the mayors, city councilors, and business chambers and federations so that it is the right one,*” added Aguilar.

**Millionaire losses.** According to estimates by the governor of the Colombian department of North Santander, Edgar Díaz, the closing of the border between Colombia and Venezuela is generating losses of US\$400,000 and is affecting some 100,000 people a day. Díaz explained that this figure corresponds to the shipment of some 4,000 tons (T) of coal a day that Colombia exports to Europe via the port of Maracaibo.

**An industry without fuel.** According to the secretary general of the Unitary Federation of Automotive, Auto Parts and Associated Workers (FUTAAC), Christian Pereira, the domestic automotive industry has sufficient capacity to assemble 155,000 units a year. Despite this, only 12,418 units were assembled in the first seven months of the year, less than 10.0% of installed capacity, due, first and foremost, to the shortage of foreign currency for importing vehicle parts.

Year 11. Number 33. Week IV  
August 2015

**Yet another plan for another crop.** President Nicolás Maduro announced the startup of the “Black Beans Plan,” a state-run program that seeks to guarantee self-supply by planting 50,000 hectares of black beans. *“Very soon we’ll be giving details of this plan, which will employ new methods for obtaining seeds (...) We have to try to produce this and other crops and, later on, we will most certainly export to other latitudes,”* added Maduro.

**The wheat’s here.** The director of Venezuelan Federation of Industrial Baking and Related (FEVIPAN) Tomás Socias, said that, after a month of talks with the Government, the first shipment of 30,000 tons of wheat is about to arrive to cover the needs of the domestic market and that approval will be given for importing an additional 30,000 tons this month and another 20,000 tons next month. According to Socias, 100,000 tons are needed to cover the sector’s requirements and restore the supply of bread in the second half of the year.

**Four steps for increasing production.** The president of The National Farmers Federation (FEDENAGA), Carlos Albornoz, warned that agricultural and livestock production in the country could drop to its lowest level in the past seven years if measures are not taken to revive the sector. Albornoz proposed a plan that includes respecting the regulations and the law, revising prices, a better mobilization waybill system, and the provision of inputs and spare parts. This plan would permit the sector to increase dairy production by 15.0% and meat production by 10.0% in just six months.

**A successful term at the ministry?** According to outgoing Minister for Electric Power Jesse Chacón, between June 2014 and June 2015, they managed to reduce interruptions in the electricity service in Venezuela by 30%, from 25,000 cuts in service to 17,000. Chacón rendered an accounting of his time at the head of the ministry, during which, according to him, generation capacity was increased by 2,935 megawatts (MW) and 862 km of transmission lines were installed.

**My first million.** The Executive hopes to meet the target of one million housing units built under the Great Venezuela Housing Mission in 2015, which means building some 270,000 housing units in what remains of this year. A Follow-up and Control Commission made up of members of the Ministry for Housing has been charged with this task as Ricardo Molina has left his post as Housing Minister in order to run on the United Socialist Party of Venezuela (PSUV) ticket for Aragua state at the parliamentary elections.

Year 11. Number 33. Week IV  
August 2015

**Using the Chinese checkbook.** Last week a fresh shipment of equipment was received from China in order to continue upgrading informal and shanty neighborhoods under *Misión Barrio Nuevo Barrio Tricolor*. According to government spokespersons, US\$2.0 billion is to be allocated from the Chinese Fund for importing cranes, electrical scaffolding, high-tech trucks for use in the construction industry, and other items needed for carrying out this program.

**A very good sign.** According to the Chamber of Telecommunications Services Companies (CASETTEL), investment in the first quarter of the year posted a growth of 87.0%, which, given the Chamber's estimates for inflation of more than 100.0%, means a contraction in real terms. CASETTEL said that the increase in demand for telecommunications services requires investment to exceed the inflation index.

## WORLD ECONOMY TIPS

**Is the end of low interest rates near?** According to members of the US Federal Reserve's Open Market Committee, while the conditions for raising interest rates are approaching, there are concerns over weak inflation, according to the published minutes of the Committee's last session. Almost all the Committee's members consider that "they would need to see more evidence that economic growth was sufficiently strong and labor market conditions had firmed enough" in order to feel confident that inflation would achieve the Committee's objective over the medium term before raising the rates.

**Black Monday.** World stocks plunged Monday as a global selloff accelerated on fears about the health of China economy. China's benchmark Shanghai Composite index declined 8.5%, wiping out all gains made this year. In Japan, the Nikkei closed down 4.6%. The Dow ended the day down 588 points (about 6.6%), the worst one-day loss since August 2011. The markets instability may delay the FED's decision about an upward adjustment in interest rates.

**Not everything is rose colored.** Growth of the United States' manufacturing sector slowed down in August to its lowest rate in two years. The Purchasing Managers' Index for the manufacturing sector calculated by MARKIT came to 52.9 in August, some 0.9 percentage points lower than in July, and the lowest since October 2013.

**Goodbye to the boom?** In August, China's manufacturing sector posted its biggest contraction in nearly six and a half years due to weak domestic demand and exports, a situation that has increased fears that China's growth is slowing down considerably. The Purchasing Managers' Index (PMI) for China's manufacturing sector prepared by CAIXIN/MARKIT fell to 47.1 points in August compared to 47.8 in July.

**It's not a crisis, it's an adjustment.** The slowdown in China's economy and the sharp drop in its variable income market does not herald a crisis but is a "necessary" adjustment of the world's second largest economy, said Carlo Cottarelli, an International Monetary Fund (IMF) executive director. *"Monetary policies have been very expansive in recent years and an adjustment is necessary,"* added Carlo Cottarelli, who recalled that the IMF expects growth of 6.8% in 2015.

**To save the stock exchanges.** China authorized pension funds managed by local governments to invest up to 30.0% of their net assets in the variable income markets for the first time ever, which could inject hundreds of billions of Yuan into the local stock exchanges. These funds currently administer assets of more than CHY 2.0 trillion, which means that up to US\$600.0 billion could go to the stock exchanges.

**Another emergency measure.** The People's Bank of China cut its reference interest rates and relaxed reserve requirements for the second time in two months in an attempt to shore up the economy and contain the collapse of its financial market. The reference lending rate was cut by 25 base points to 4.6%, the rate on deposits was also cut by 25 base points, and the reserves coefficient was reduced by 50 base points to 18.0%.

**An ironclad economy.** The governor of the Reserve Bank of India, Raghuram Rajan, gave assurances that Asia's third largest economy *"is better placed compared to other countries with low current account deficit, and fiscal deficit discipline, moderate inflation, low short-term foreign currency liabilities, very sizeable base of forex reserves."* These statements were given following sharp drops on the Asian stock markets that pushed the rupee to its lowest exchange rate since the end of 2013.

**In the black.** In July, the United Kingdom's public finances posted their first surplus in three years thanks to the fact that economic growth raised tax receipts that month to levels not seen since July 1997. The United Kingdom's Office for

National Statistics reported a budget surplus of GBP 1.29 billion in July, a figure that suggests that the government might revise its deficit estimate for this year to GBP 69.5 billion, equivalent to 3.7% of GDP.

**No samba until 2017.** Brazil's President Dilma Rousseff admitted that the crisis in which the country's economy finds itself will continue in 2016 and she attributed this to global turbulences, saying that it was not known how those turbulences would evolve. Rousseff said that Brazil's economy, which is on the brink of a recession and that will close the year with a contraction of nearly 1.5% according to official figures, will need to be handled very carefully in 2016.

## POLITICAL TIPS

**Only if there's peace.** President Nicolás Maduro was firm in saying that the closure of the border in Táchira state would continue *"as long as peace is not restored and the attacks from Colombia on Venezuela's economy do not cease."* He assumed full responsibility for the measure and for decreeing a state of exception for the next 60 days. The measure was implemented following an attack by persons unknown that left three members of the military and one civilian injured.

**Closing the entire border is an option.** President of the National Assembly, Diosdado Cabello, said that *"if necessary to declare state of emergency in all the borders of Venezuela, the deputies will raise both hands."* *"We formally propose that the border closure and state of emergency measures to be applied in more territories to set them free for the welfare of our people,"* Cabello stated.

**"There isn't a curfew."** Governor for Táchira José Vielma has given assurances that there will be no curfew in the border states, clarifying rumors that have been circulating among the population that is currently subject to the state of exception. *"There isn't a curfew or the suspension of guarantees. What there is here is work. That's why we're going to meet with the mayors, because what we're going to have here is work,"* claimed Vielma.

**A dubious measure.** The Democratic Unity Alliance said that the government's declaring a state of exception in Táchira state *"is a kite-flying exercise to try to suspend the elections."* The Unity Alliance described the decision as a distraction and said that the border between San Antonio (Táchira state) and Cúcuta

(Northern Santander, Colombia) is the most active in the region, which is why *“this is a measure not for preventing an emergency situation but to provoke one artificially.”*

**“The December 6 elections are on.”** The president of the National Assembly and vice president of the PSUV, Diosdado Cabello, rejected the MUD communiqué in which it denounced that the decreeing of the state of exception in Táchira state *“is a kite-flying exercise to try to suspend the elections.”* *“Don’t invent things. The elections are going ahead on December 6. Now you’ve got the date, but you don’t have the votes,”* said Cabello.

**Closing the border is not the solution.** Colombia’s President Juan Manuel Santos maintained that, given the security problems on the border with Venezuela, collaboration between the governments should be sought instead of closing the border as ordered by President Nicolás Maduro. *“If it’s for reasons of security, the response should not be to close the border, it should be rather to collaborate more effectively with the Colombian authorities,”* commented Santos.

**For not abiding by the rules.** The National Electoral Council (CNE) deemed 283 postulations to the December parliamentary elections not presented because the political parties registering them did not comply with Article 3 of the regulations governing postulations, which stipulates that there should be gender parity in a party’s candidates. Neither the postulations of the MUD nor those of the United PSUV and its allies in the Great Patriotic Pole were affected by the measure.

**Changing candidates’ polling stations.** The PSUV requested the CNE to grant it a special measure that would allow it to change the polling stations for 58 of its candidates to the December 6 parliamentary elections after the deadline for making such changes had passed. The Democratic Unity Alliance made a similar request for 20 of its candidates. In the case of opposition and *Chavismo* dissidents, *Movimiento al Socialismo* (MAS) also requested this special measure for 24 of its candidates.

**A government in the red.** According to the latest opinion poll conducted by the *Instituto Venezolano de Análisis de Datos* (IVAD), as at the first week of August, the popularity of President Nicolás Maduro (approval of his performance) was 22.3%. This figure reflects the widespread negative perception people have of the country’s overall situation, which, according to 87.8% of those interviewed by IVAD, is a negative one.

Year 11. Number 33. Week IV  
August 2015

**The main problems are economic.** According to the findings of IVAD's latest opinion poll, Venezuelans consider that the three main problems facing the country today are the shortfalls in supply and shortages, the lack of security, and the high cost of living. On the situation of shortfalls in supply and shortages, 47.8% of those interviewed considers that the government is responsible, whereas 14.3% blames President Nicolás Maduro personally.

**The opposition starts off with the advantage.** According to IVAD's data, only 19.3% of Venezuelans would vote for the government's candidates and 57.9% would vote for the opposition's candidates, whereas 22.8% do not know who they will vote for. As for people's perception with regard to who will win the December elections, 23.5% believes that *Chavismo* will win and 56.2% that the opposition will be the winner.

## LEGISLATIVE TIPS

**State of exception.** On Tuesday, August 25, at an extraordinary session, the National Assembly approved the presidential decree that declares a constitutional state of exception in Pedro María Ureña, Junín, Capacho Viejo, Capacho Nuevo, and Rafael Urdaneta municipalities in Táchira state. *"If it is necessary to declare a*

**Táchira is a war zone.** On Monday, August 24, Tareck El Aissami, in his capacity as a member of the Presidential Command Post, read Decree No. 1,950 whereby President Nicolás Maduro suspended constitutional guarantees in several municipalities of Táchira state. El Aissami explained that authorized agencies will be able to perform inspections and raids without a court order, conduct searches of luggage and vehicles, and restrict the movement of persons and goods. One of the reasons given for the measure was *"the criminal and violent circumstances associated with phenomena such as paramilitarism, drug trafficking, and the organized smuggling of goods out of the country on different scales."*

**Now it's official.** The appointment of Manuel Quevedo and Eulogio Del Pino as the new ministers for Housing and Habitat and Oil and Mining, respectively, was made official in *Gaceta Oficial* No. 40,727. Besides taking over as Minister for Housing and Habitat from Ricardo Molina, Quevedo has also been put in charge of the *Gran Misión Barrio Nuevo, Barrio Tricolor* (shanty district upgrading program). As for Eulogio Del Pino, he will continue as president of PDVSA and at the same time be in charge of the Ministry of Oil and Mining.

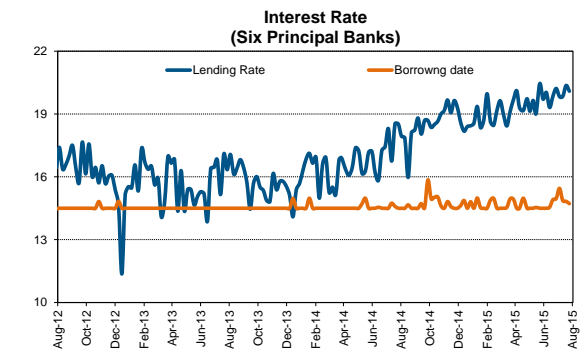
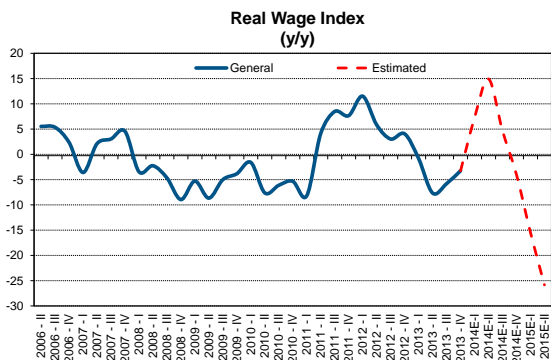
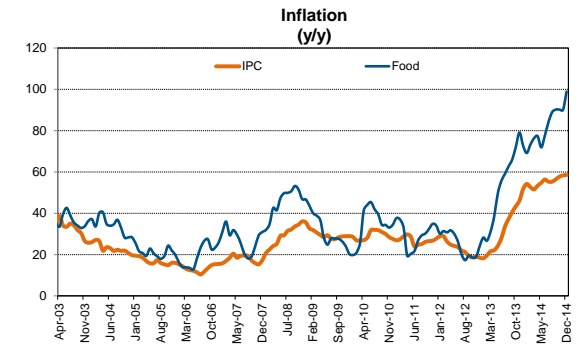
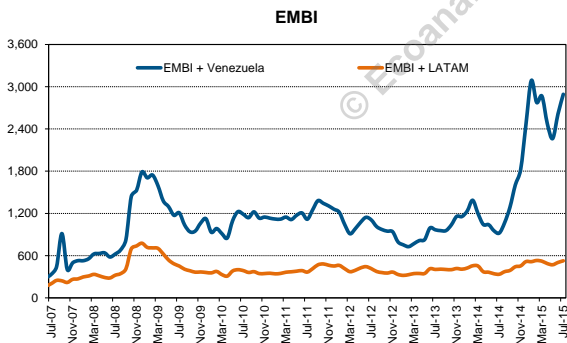
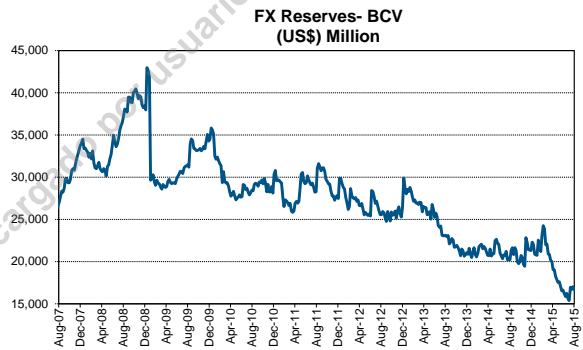
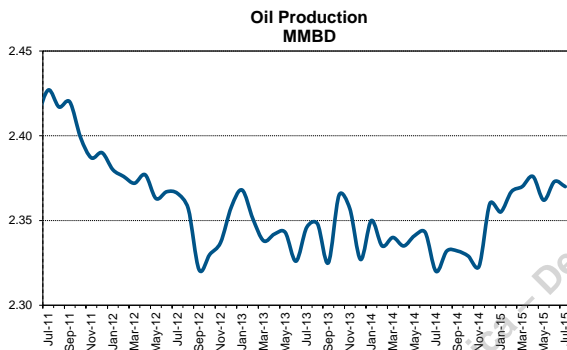
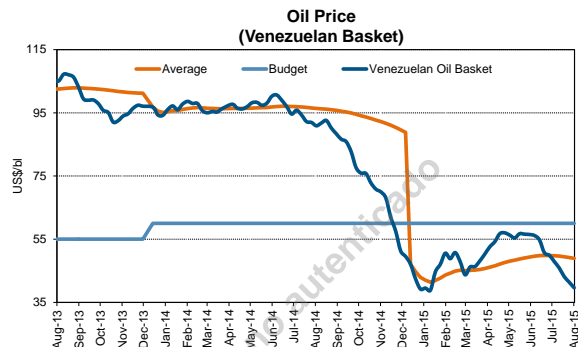
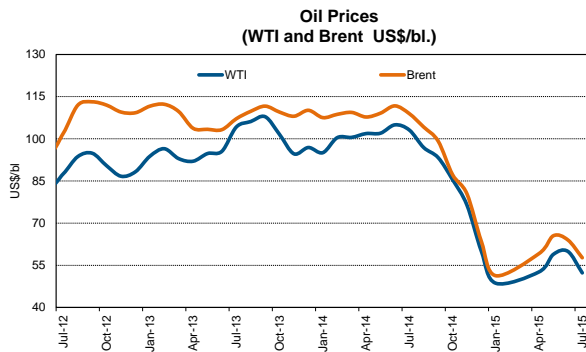
Year 11. Number 33. Week IV  
August 2015

**A new company.** The Presidency of the Republic issued a decree in *Gaceta Oficial* No. 40,730, dated August 24, that authorizes the creation of the state-owned garbage collection company *Servicio Urbano de Procesamiento, Recaudación, Recolección y Aseo Miranda, S.A.* (SUPRAMIRANDA). SUPRAMIRANDA is to be in charge of public policy in the areas of environmental sanitation, collection and final disposal of solid wastes, and collection of taxes in Miranda state.

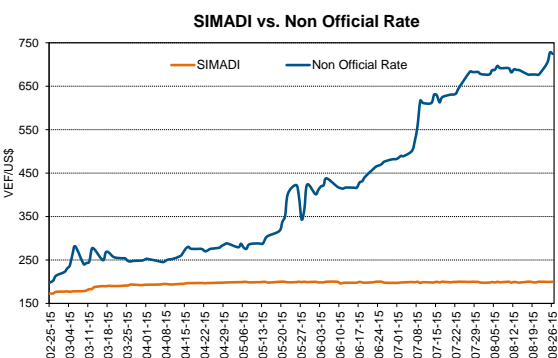
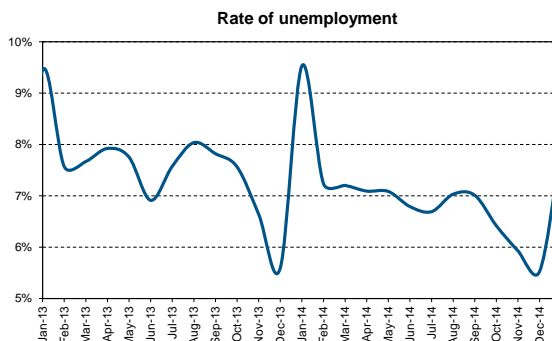
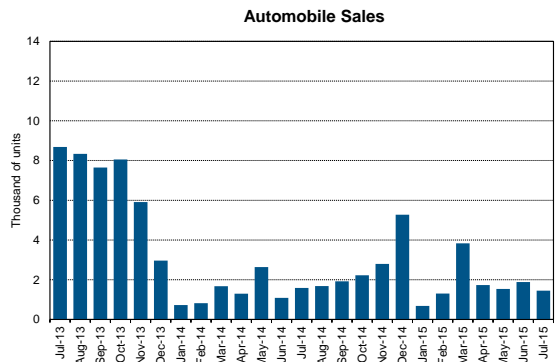
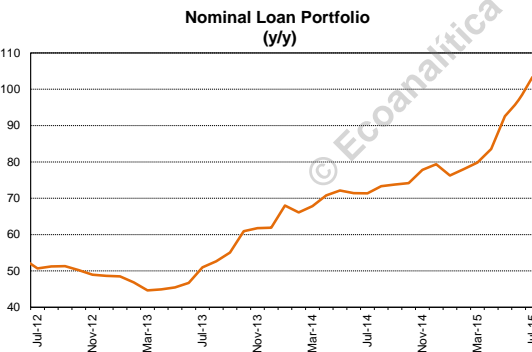
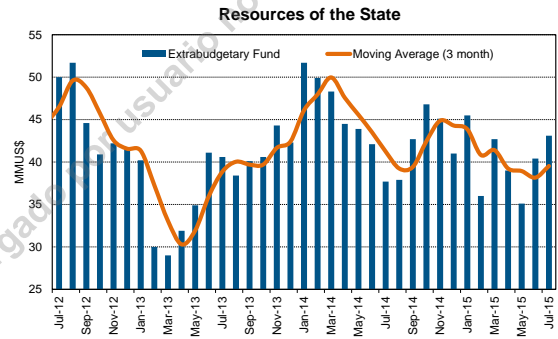
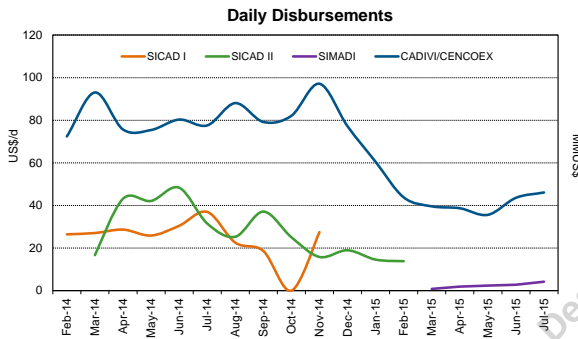
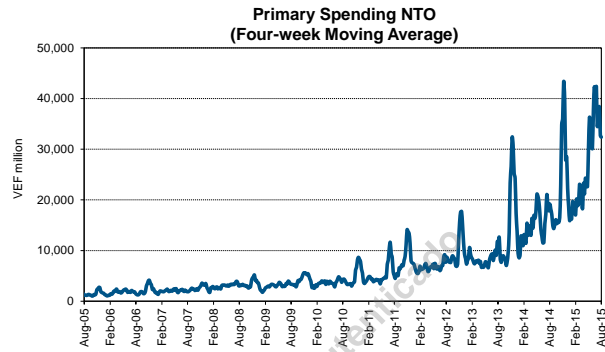
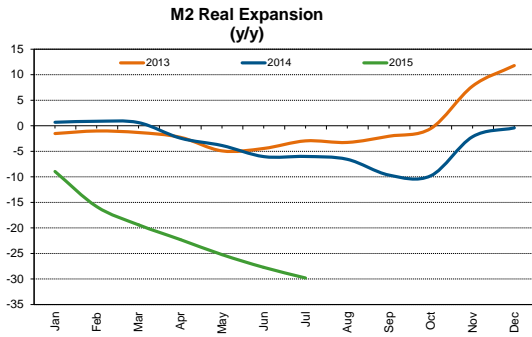
**Creation of a Commission for Economic Independence.** With the clear purpose of coping with the drop in oil prices and achieving the substitution of imports, President Nicolás Maduro appointed the High Presidential Commission for Scientific, Technological and Economic Independence. Minister for the Economy and Finance Rodolfo Marco Torres has been designated as the commission's general coordinator. The commission is to develop a national invention and technological creation plan to achieve new sources of development and generation of foreign currency.

© Ecoanalítica – Descargado por [www.ecoanalitica.com](#)

**ECONOMIC OVERVIEW**



Year 11. Number 33. Week IV  
August 2015



## ECOANALÍTICA'S TEAM

**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

carlosa@ecoanalitica.net / @alv\_car

**Gabriel Villamizar** / Economist

gabrielv@ecoanalitica.net / @gabvillamizar

**Lesner Castillo** / Economist

lesnerc@ecoanalitica.net / @lesnerck

**Cristina Parilli** / Economist

cristinap@ecoanalitica.net / @cristinaparilli

## RESEARCH ASSISTANTS

Pilar Navarro

Daniel Cárdenas

Gorka Lalaguna

## CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Colombia: (+57-1-508 6554)

Ventas@ecoanalitica.net

[www.ecoanalitica.com](http://www.ecoanalitica.com)

@ecoanalitica