



## Closing the gap and hiking prices

In recent years, economic measures have not departed from a pattern that could be classified as either predictable or incredible, isolated measures that do not really make the necessary adjustments of substance, following the leanings of the political course adopted by this government. And, based on this premise, the exchange control regime has not been the exception to the rule in this era of *Chavismo/Madurismo*: Cadivi, Cencoex, SICAD I, SICAD II, SIMADI, DIPRO, DICOM; the more the names change, the more things stay the same with offers of making the market more open coming to nothing and controls remaining in place. It is for that reason that, rather than being called instruments, these mechanisms have earned the right to be dubbed one of the main ingredients of the multiple imbalances that are affecting the Venezuelan economy.

Throughout these years, the only thing that has been done is to impose controls, which, in turn, allowed the government to say that we had the highest minimum wage in Latin America, anchored as it is to an official exchange rate while the dynamic of prices told another story: restrictions that, undoubtedly, have encouraged corruption given the huge distortions, inflation that spirals unceasingly, and, because the necessary corrective measures to economic policies have not been taken, an overvaluation of the official exchange rate that has become more and more acute with the passing of the years.

A key feature of these controls has been the exchange rates imposed by the Central Bank of Venezuela rather than exchange rates dictated freely by supply and demand. Since the parallel dollar has been acting as an escape valve for the economy, this has meant that it has not been possible to stop it from spiraling, and the gap between the official exchange rate and the exchange rate in the black foreign currency market has steadily widened.

### The behavior of the official and unofficial exchange rates

This year, the behavior of the exchange rates has been different. There has been the implementation of a new foreign exchange mechanism, the Complementary Foreign

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Currency System (DICOM), previously SIMADI. DICOM continues to operate using the SIMADI platform, but unlike the previous system, its exchange rate has been depreciating since it started to operate officially on March 9, 2016. The DICOM rate started off at VEF 206.8/USD and, at the time of writing, it was at VEF 651.1/USD, giving a depreciation of 68.2% in six months. This is a behavior that was not observed in previous years with the other exchange rates, not even with SIMADI.

On the other hand, the unofficial exchange rate has remained relatively stable since the beginning of this year, at an average of VEF 1,046.1/USD, which means that, even in real terms, it has appreciated this year to date. So it can be seen how the initial gap, which was where the relationship VEF 978.1 provided that the differential between the exchange rate on the parallel market and the Dicom rate in March was approximately 573.0%, has been reduced and in September the differential is 155.0% compared to a mechanism Dicom quoted in the dollar, closing with a gap today VEF 358.5.

According to the foregoing, the devaluation of the DICOM exchange rate has coincided with the appreciation of the black dollar, as a result of which the exchange rate spread has been reduced by 36.0% in the past six months, raising the possibility once again of a golden opportunity for unifying the exchange rates, since this is the smallest spread ever between the parallel and DICOM rates. However, those hopes were pinned on former Vice President for the Economy Miguel Pérez Abad, who intended to unify the exchange rates, hopes that were dashed when he was removed from office.

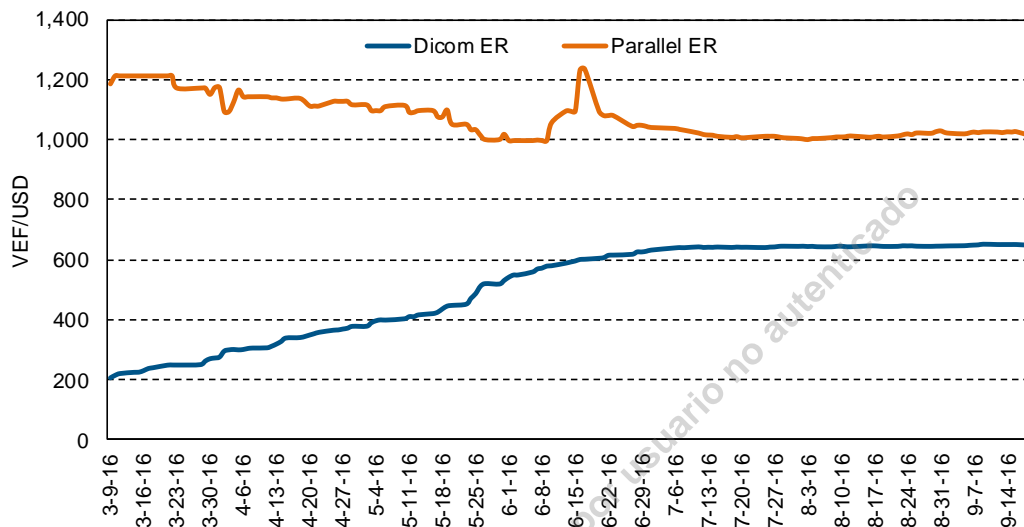
On top of that there is the fact that, due to seasonal factors (i.e. Christmastime), a public sector that needs to close out its budget, and a possible expansion in public spending driven by the electoral calendar, there may be increased pressure on the parallel rate and that the spread will widen once again, given the current stability of the DICOM rate, a trend that is unlikely to change in view of the government's refusal to allow it to go above VEF 700.0/USD.

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### Simadi/Dicom vs. Parallel Exchange Rate



Sources: BCV y Ecoanalítica

### Meanwhile the government has taken off its mask

So far this year, the government has implemented the exchange rate adjustment at an extremely high cost, steadily devaluing the SIMADI/DICOM rate and bringing it up to a level close to the parallel rate (without making it legal), which has resulted in an adjustment in relative prices or an unofficial “relaxation” of price formation. In other words, the Executive has turned a blind eye and allowed price formation to flow more freely, thus generating higher inflation.

This is also due to the fact that for the first time observed how through DICOM has been awarded to the private sector around 48.6% of foreign exchange on average in the year while in 2015 it was only 8.6.

### Daily Currency Disbursement of the Private Sector

#### Annual Average

(USD MM)

Mechanism	2014	2015	2016	y/y (%)
Cencoex/Dipro	80.7	41.4	8.9	-78.5%
Sicad II/Simadi/Dicom	30.4	4.2	8.7	107.1%
<b>Total</b>	<b>135.9</b>	<b>48.8</b>	<b>18.0</b>	<b>-63.1%</b>

Source: Ecoanalítica

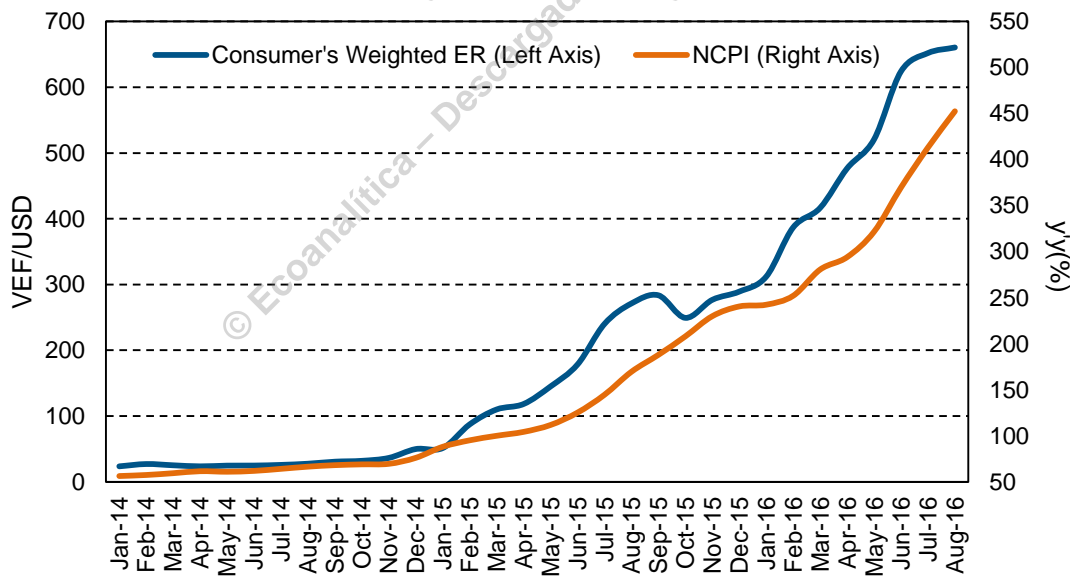
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As a consequence, the weighted consumer exchange rate (the indicator that measures the average price Venezuelans are paying for each dollar consumed), which at **Ecoanalítica** we estimate at VEF 660.5/USD as at August of 2016, posted a devaluation of 58.9% compared to the same period in 2015, when it was VEF 271.2/USD. Consequently, it is to be expected that this depreciation will have had a significant impact on the inflation indicators. Technically, this is observed via the correlation coefficient between the two variables, which at the close of August was 0.9 points.

A dollar stretches less and less on average in Venezuela, given the excessively high inflation that just keeps on spiraling, while the DICOM rate has been gaining ground and the parallel dollar has remained relatively stable.

**Consumer's Weighted Exchange Rate Vs NCPI**



Sources: BCV and Ecoanalítica

**And without seeing any benefits**

The Executive has been assuming the political cost of adjusting relative prices. However, because this adjustment has been implemented in a disorderly and uncoordinated fashion, we have not seen the benefits that a measure of this type should usually bring. As long as there is no a coherent change in Venezuela's

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economic model, isolated measures will not manage to solve the underlying problems as they will not inspire confidence in the economic agents. It is important to bear in mind that expectations have considerable weight and that the Central Bank needs to implement policies to control inflation that are accompanied by policies of fiscal discipline geared to achieving a stable exchange rate, quite the opposite to what the Executive has been doing thus far.

At **Ecoanalítica** we belong to the school of thought that maintains that unifying the exchange rates is necessary in order to be able to address factors that are generating inflationary pressures and, thus, get prices to stabilize. However, this will only be achieved if they manage to recover people's confidence in the Venezuelan economy, something that was lost years ago.

**Maria Fernanda Candiales**  
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## WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week September	Weekly var. (pp)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VEF/USD)	651.1	0.4	0.4
	2nd Week September	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.2	-1.1	1.2
	3rd Week September	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	1.7	0.6	-9.4
	3rd Week September	Weekly var. (%)	Annual var. (%)
International Reserves (Bn USD)	11.91	-1.0	-27.9
	1st Week July	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	58.1	-10.3	95.4
	2nd Week September	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	6,142	1.0	104.9
Price of International Oil Baskets (USD/bl)			
	3rd Week September	Weekly var. (%)	Annual var. (%)
WTI	44.9	-1.0	-0.2
Brent	47.2	-1.6	-2.2
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week September	Weekly var. (%)	Annual var. (%)
Weekly Average	38.5	-0.5	-5.6
Annual Average	33.2	0.4	-30.8

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

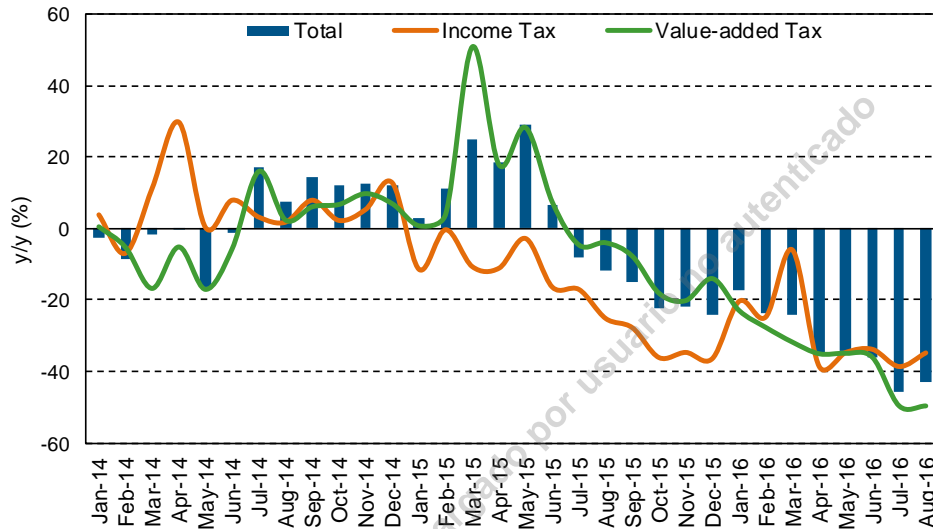
<sup>1</sup> Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: “NOT EVERYTHING IS WHAT IT SEEMS”

Evolution of Non-oil Real Internal Revenue Service (SENIAT)



Sources: SENIAT and Ecoanalítica

The Venezuelan taxation system has shown that it is highly reliant on oil activity. This is apparent when one verifies that oil revenues last year represented a significant portion of total fiscal revenues. However, given the current unusual situation, where there has been a considerable drop in both oil production and prices, account needs to be taken of how important real nonoil revenues are for Venezuela.

After having compiled a compendium of the latest fiscal receipt figures issued by the National Integrated Customs and Tax Administration Service (Seniat), it was possible to glean the following: cumulative tax receipts as at August this year posted an increase in nominal terms of 215.3%, but a contraction of 42.9% in real terms; income tax and value added tax (VAT) contracted in real terms by 34.7% and 49.9%, respectively; and taxes on liquors, cigarettes, and betting and gaming also posted contractions of 11.6%, 38.6%, and 49.0%, respectively.

When we say “real terms,” we are referring to a value that has been adjusted for inflation. So, while there have been increases in the amounts of taxes collected in nominal terms, those increases have evaporated as a result of inflation. That means that, even though fiscal receipts post considerable increases, adjusting them to take account of the galloping inflation we are suffering from reveals how little real nonoil revenues are contributing to the nation.

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**ECONOMIC TIPS**

**Worker's Food Basket reaches VEF 262,664.** According to the last report by the CENDA, the Worker's Food Basket (CAT for its Spanish acronym) reached VEF 262,664 on August 2016. This represents an increase of 15.2% compared to the previous month and of 658% compared to August 2015. During the first eight months, the accumulated variation of the CAT was of VEF 203,748.

**Family income only covers 5.7% of the basket.** According to the report by CENDA, the minimum wage of VEF 15,051, effective in August, 2016 had a hypothetical purchasing power of 5.7% and a deficit only to food acquisition of 94.3% (VEF 247,692). Which means that, a family requires 17 times the minimum wage just to cover their basic expenses on food.

**Some light thrown on the swap.** After several days without issuing any kind of official communication, PDVSA published the announcement regarding the swap applicable to holders of bonds maturing in April 2017 (PDVSA17O 5.25%) and November 2017 (PDVSA17N 8.5%). Despite rumors that were doing the rounds days earlier, PDVSA16 (5.125%) was not selected to be part of the swap of bonds maturing shortly.

**Turn out the lights.** Following the recent news regarding how the swap proposed by PDVSA has been evolving, the nature of the swap and its implications, Standard & Poor's (S&P) decided to downgrade PDVSA's credit rating from CCC- to CC-.

**A rose by any other name...** As S&P sees it, the swap is happening prompted by anxiety, driven by the stress generated by major operational difficulties, a tight payment schedule, and on a far from opportunistic note. Given this situation, the potential swap would result in a dynamic equivalent to a default, which, in the view of S&P, is likely to happen with the next maturities.

**What is being offered?** According to the terms announced by PDVSA, it is offering the voluntary swap of bonds maturing in April 2017 (PDVSA17O 5.25%) and in November 2017 (PDVSA17N 8.5%) for a senior bond with maturity in 2020, a six-monthly coupon of 8.5%, and an amortization profile spread out over the next four years (2017, 2018, 2019, and 2020).

**The ratio issue.** The exchange ratio (dollar received via the new instrument to be issued for each dollar handed over represented in bonds to be swapped) is 1 for 1 for investors who decide to take part before September 29, whereas investors who decide

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to opt for the swap between that date and September 14 will obtain a less favorable return of 0.95 for 1. However, PDVSA reserves the right to change the proposed ratio as long as the offer remains on the table.

**Citgo appears on the scene.** One of the main elements of the swap proposal being made by PDVSA that needs to be considered is that 50.1% of the shares in Citgo Holding, the parent company of Citgo Petroleum, are being put up as collateral for the new bond to be issued as a result of the swap. Opinions vary as to the real value of Citgo; whereas different analyses put it between USD 4.0 billion and USD 6.0 billion, PDVSA gives it a value of nearly USD 8.3 billion.

**And what about those who don't accept the swap?** The swap is entirely voluntary. In other words, bondholders who decide not to accept the option proposed by PDVSA will be reimbursed based on the instruments they decide to maintain (PDVSA17O and PDVSA17N). Eulogio Del Pino, the president of PDVSA, gave assurances that, in the event that the proposed swap is not a success, the company would pay the outstanding debt with the different bondholders in full.

**Perception is everything.** The success of the swap and the subsequent freeing up of cash will depend basically on the number of bondholders who decide to accept the swap proposed by PDVSA. At **Ecoanalítica** we are of the opinion that there are two scenarios and the likelihood of each of them occurring will depend mainly on the bondholders' perception of the proposed collateral, expected yields, and risk profile of the new bonds.

**How much are we talking about?** In a scenario where there is a high level of participation in the proposed swap, the freeing up of cash will be greater with a potentially positive impact on imports. Taking this optimistic view, we could be talking of the freeing up of nearly USD 4.0 billion in cash between 2016 and 2017. In a less favorable low-participation scenario, the amount of cash freed up over the same period could be as little as USD 1.5 billion.

**Who knows?** Minister for Foreign Trade and Foreign Investment Jesús Faría said that he did not know why the Central Bank of Venezuela had not published inflation figures since 2015.

**Yes, it's possible!** Minister Faría also said that Venezuela has not reached a really grave point in the economic crisis, explaining that there are dozens of businessmen who have already made a commitment to investing in different sectors. "*There's an*

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*extraordinary opportunity for investing in and contributing to the country. Economic actors feel that,” he claimed.*

**Bit by bit.** Referring to the same subject, he gave assurances that the foreign exchange and price control policies are continuing to take shape.

**This way, exporters!** The minister also explained that the necessary preparations are being made to establish a new foreign exchange agreement aimed, mainly, at exporters with a view to encouraging the development of the tradable sector. *“We’re going to create conditions of confidence and transparency for companies that have foreign currency outside the country and don’t want to bring it in so that they can do so,” he claimed.*

## OIL TIPS

**Cutting costs.** The president of PDVSA, Eulogio Del Pino, clarified that PDVSA’s are between USD 8.0/bl. and USD 9.0/bl., after stating that a cost reduction strategy had been implemented that had made it possible to cut costs by 30.0% so far this year.

**A necessary reduction.** He also stated that global oil production should be reduced by approximately 9 million barrels a day (9.0 mb/d) from the present 94.0 mb/d, so that prices could go up to approximately US\$70.0/bl., a level that Del Pino considers to be balanced.

**Bread today, hunger tomorrow.** He also warned that, if this adjustment is not made in the short term, the stability of the market would be at risk in the long term, as, in his opinion, prices at their present level are not sufficient in order to make the investments that are needed to replace declining production in the oil fields.

**A bilateral agreement.** Venezuela and India signed an oil cooperation agreement during the Summit of the Non-Aligned Movement.

**Optimism from Maduro.** President Nicolás Maduro announced that the Organization of Petroleum Exporting Countries (OPEC) was close to reaching an agreement on stabilizing the world oil market following a meeting held with his counterparts from Ecuador and Iran.

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**And warnings from Correa.** As for President Rafael Correa of Ecuador, he warned that OPEC has become weak and is running a real risk of disappearing, given the present struggle being waged between Saudi Arabia and Iran and the differences over the strategy to be adopted with regard to the oil market.

**At a six-week low.** Oil prices have fallen to a six-week low given expectations of a possible increase in oil stocks in the United States and doubts regarding the ability of oil producing countries to actually reduce oversupply in the global market.

**Broad consensus.** The secretary general of OPEC, Mohammad Barkindo, said that he was confident that agreements could be reached at the next informal OPEC meeting to be held in Algeria.

**A subsequent meeting necessary.** He also commented that this would be an informal meeting and that important decisions would not be taken. If this informal meeting was successful, OPEC would call an extraordinary meeting with a view to taking concrete decisions.

**A possible one-year agreement.** The secretary general of OPEC clarified that, if an agreement were reached, it could be for up to one year, a much longer period than previously estimated by analysts.

**Auctioning off assets to deal with the crisis.** The president of the Nigerian Senate, Bukola Saraki, announced that Nigeria should consider selling off part of its shareholdings in oil businesses to finance the country's fiscal needs, given the difficulties it is encountering in obtaining a loan on the international markets.

**A strategic acquisition.** India announced that it might purchase some 6.0 mb of oil from Iran to build up its strategic crude reserves after similar talks with the United Arab Emirates failed due to disagreements over commercial issues.

**The missing part of the agreement.** This operation could help Iran to raise its exports to the levels they were at prior to international sanctions, one of the main conditions Iran is imposing before OPEC can reach an agreement on freezing production.

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**BUSINESS SECTOR TIPS**

**Setting the bar.** Minister for Fisheries and Agriculture Ángel Belisario announced that they had exported more than 800 tons of shrimp from Lake Maracaibo to the United States, Italy, France, Spain, and Vietnam. The estimated value of these exports is USD 2.4 million.

**Future targets to be met.** According to Minister Belisario, this first export effort was carried out by the Venezuelan Government in an alliance with private businesses that are members of the Western Region Shrimp Producers Association (Asoproco). The minister also said that they hoped to produce 25,000 tons of shrimp during the last months of the year, 90.0% of which would be for export and 10.0% for domestic consumption.

**Industrial production, present and correct.** The state-owned steel company Siderúrgica del Orinoco Alfredo Maneiro (SIDOR) produced 14,000 tons of rebar and 25,000 tons of wire rod between May and September 2016, according to a press release published by the Venezuelan News Agency (AVN). A large part of this production was allocated to the Great Venezuela Housing Mission.

**The fare increase is on.** The president of the Single Taxi and Bus Union, José Luis Montoya, announced that the fare for urban routes would be increased to VEF 60.0, even though this raise has not been approved by the competent authorities. The drivers have been demanding a raise since August and are going to implement it with or without approval.

**The other side of the coin.** Minister of Public Works and Transportation Ricardo Molina denied that a raise in the bus fare to VEF 60.0 had been agreed, warning that anyone who did this unilaterally would be breaking the law.

**On the wagon, thanks to the crisis.** Carlos Salazar, the president of the Caracas Metropolitan Area Liquor Vendors Chamber (Cavelicor), said that liquor sales had dropped by 60.0% so far this year. He commented that the price of liquor had gone down due to the low demand and that, for that reason, an amendment to the Liquor Act was necessary.

**A drop in production.** Carlos Albornoz, the president of the National Cattlemen's Federation of Venezuela (Fedenaga), warned of a drop in beef production due to the

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shortage of inputs, explaining that the biggest impact will be felt at the end of the year, when there could be an increase in the demand for beef.

**A huge increase.** According to a study and follow-up survey conducted by the Center of Documentation and Analysis for Workers (CENDA), the cost of school textbooks and supplies for the school year 2016-2017 went up by 108.7% compared to school year 2015-2016.

**They're more expensive for the older children.** The list of supplies, textbooks, and uniform costs VEF 100,661 for a preschool child, VEF 111,577 for a primary school student, and VEF 155,173 for a secondary school student.

**School supplies are unaffordable.** The biggest increases in price have been in school supplies, as most of the items have gone up by between 100.0% and 800.0%. There have also been big increases in textbooks, which have gone up by between 100.0% and 445.0%. Last of all, the prices of uniforms have increased by between 20.0% and 200.0%.

**And even more expenses.** It is not only the increase in the cost of school supplies, textbooks, and uniforms that parents have to meet, but also the high cost of providing their child with a school lunchbox. Today it costs VEF 17,840 a month to put up a nutritionally balanced lunchbox, compared to VEF 6,917 a month in September 2015, for an increase of 157.9%.

**Possible benefits.** The president of the Higher Tourism Council (Conseturismo), José Yapur, highlighted the benefits that the Summit of the Non-Aligned Movement brought tourism on Margarita Island. He said that average hotel occupation in August was no more than 35.0%, which meant that the summit represented an opportunity for the sector to recover.

**Meetings were a waste of time.** The meetings of the National Productive Economy Council, which involved the government and agricultural producers and started nine months ago, failed to produce any positive results for the different sectors, according to Aquiles Hopkins, the vice president of the Confederation of Agricultural and Livestock Producers Associations (Fedeaagro).

**Not a single sector escaped unscathed.** Hopkins explained that the percentage of production varies depending on the crop, but claimed that they had all been affected. In the case of cereals, 400,000 hectares were planted, only 60.0% of the area that was expected. The situation of the dairy farmers is not very different. Edecio Pinea, the

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president of the Dairy Farmers Association, said that the production of milk had increased with the advent of the rains, but that it is still only covering between 30.0% and 40.0% of demand.

**All crops are affected.** Data from Fedegro indicate that rice production is also going to fall short of demand. Only 110,000 hectares out of a potential 250,000 hectares have been planted with rice. The cattle rearing sector has not showed any progress this year either. *“Venezuela used to be the 10<sup>th</sup> producer of beef in the world. We used to produce all the beef the domestic market needed and now we produce 30.0% of that amount,”* explained Carlos Albornoz, the president of Fedenaga.

**New alliances.** At a meeting held on Aruba, the Aruba-Venezuela Bi-national Trade, Export and Investment Chamber was formally created. The purpose of the chamber is to forge closer relations that will promote the economies of the two countries and it will also promote relations between state-owned and private companies with a view to creating commercial agreements for new products.

**Upping its loans portfolio.** Banco Agrícola de Venezuela (BAV) has increased its loans portfolio by 1148.0% this year to date, ranking it eighth among the country's main banks, according to the Superintendency of Banking Sector Institutions (Sudeban).

**Committed to the sector.** In addition, according to Minister for Agriculture and Lands Wilmar Castro Soteldo, BAV has allocated VEF 273.61 billion to the north-summer planting cycle, VEF 27.0 billion of which will be used to purchase popular harvests and VEF 169.0 billion to buy cereals.

## WORLD ECONOMY TIPS

**The interest rate dilemma continues.** The authorities at the US Federal Reserve (FED) have once again revised downward their projections regarding how much interest rates should be raised. This is the fourth time in 15 months that they have been forced to admit that their projections for the “neutral rate” were overly optimistic. Even so, the FED insists that low interest rates and its huge bond balance sheet are sufficient to keep supporting growth.

**Expectations.** Rumors and signs of when the FED will implement the second raise in interest rates have caused nervousness to take hold of different variable income

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indexes in the United States. Indexes such as Dow Jones and S&P 500 have even been moving in the neighborhood of their critical levels throughout the week.

**Way below stipulated levels.** The US Consumer Price Index (CPI) went up by 0.2% in August from the previous month and by 1.1% year-on-year. Inflation continues way below the levels stipulated by the FED, whose annual target is 2.0%.

**Construction slides.** The startup of new house construction in the United States fell by 5.8% in August due to the fact that building activity declined considerably. However, an upturn in single family home permits suggests that demand continues intact. Permits for future constructions were down 0.4% compared to July, whereas permits for single family homes were up 3.7%.

**A bigger boost than expected.** Housing prices in China went up more in August. While this recovery in real estate prices and sales gave a bigger boost than expected to the Chinese economy, the upturn in housing values in the largest cities has increased fears of the market overheating.

**Stepping things up.** China's largest banks are stepping up their sales of securities backed by bad loans. In the space of one week they will sell a total of USD 600 million in these securities. This is almost double the sales made in a pilot program that started in May as part of the government's efforts to control bad debts that were threatening to harm the economy.

**A unanimous decision.** With the unanimous vote of its nine members with the right to vote, the Bank of England maintained its interest rates at 0.25%, but indicated that a cut this year might be possible, even though the initial impact of Brexit on the British economy has been less serious than expected. They also voted in favor of maintaining the target of the debt purchasing program and continuing with its new corporate bond buying scheme.

**Improvements on the horizon.** The Spanish Confederation of Business Organizations (CEOE) and the Savings Fund Foundation (FUNCAS) raised their growth forecast for the Spanish economy this year, both putting it at 3.1%, although they maintained their expectations of a slowdown next year and warned of the impact of the political stalemate on the public accounts.

**Not everything's positive.** The debt of the Spanish Public Administrations taken as a whole continues to be above 100% of gross domestic product (GDP) for the second half-year in a row. According to figures published by Banco de España, the public debt

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in the second quarter was 100.5% of GDP, one tenth of a percentage point lower than in the previous quarter. On the other hand, the Ministry of the Economy reiterated its commitment to Brussels of achieving the target of 99.1%.

**Starting low.** In July the Brazilian economy started the third quarter of 2016 (3Q2016) down slightly (0.1%) from June, according to the Banco Central do Brasil's IBC-Br Economic Activity Index. According to the report, the drop in economic activity was 5.2% year-on-year. In 1Q2016, the Economic Activity Index posted a contraction of 1.5% and in 2Q2016 it was 0.6% of GDP.

**It's fair and necessary.** In a bid to find bigger investments and guarantee the execution of projects, Bolivia's President Evo Morales is to meet with representatives of the Inter-American Development Bank (IDB), the World Bank, and the Andean Development Corporation (CAF) during the annual period of sessions of the United Nations. He also explained that the Ministries of the Economy and Planning would also join the efforts to find funding.

## POLITICAL TIPS

**And so we have a date.** The National Electoral Council (CNE) approved the collection process for the 20.0% of the voters, endorsing the presidential recall referendum against Nicolás Maduro. The process will take place between 26th, 27th and 28th October this year.

**We are the sum of our states.** Under the suggested process by the electoral commission, the governing body of the CNE is demanding the opposition to collect no fewer 20.0% of registered voters in each state. Which means that despite having a number equal to or greater than 20.0% of voters nationwide, failing to meet the target in at least one state would end the recall referendum process proposed by the opposition coalition.

**Less than 20% for the 20%.** Around the logistical elements of the process, the CNE approved the use of only 1,355 polling stations distributed throughout the national territory, nourished by only 5,392 biometric authentication machines. In both cases, less than 15.0% of the total available from both areas to carry out any electoral consultation.

**So...Will there be a recall in 2016?** The governing body of the CNE stated, through a press release, that they will take all the 90 days foreseen in the electoral regulation

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to organize the referendum mandate. In this sense, the recall could not take place before March 2017.

**Reactions.** The executive secretary of the Democratic Unity Alliance (MUD), Jesús Torrealba, said the opposition is finalizing the details of its forthcoming action against the conditions imposed by the CNE. "There comes a massive, constitutional, peaceful and forceful protest in defense of the rights of the population and the Constitution," he stated.

**Until December 1.** The founding members of the Common Market of the South (MERCOSUR), Argentina, Brazil, Uruguay, and Paraguay, have set December 1 as the deadline for Venezuela's last chance to comply with all the requirements that would allow it to be considered a full member of the bloc.

**So now who will be able to defend us?** Despite the fact that the Venezuelan Foreign Ministry has stated repeatedly that it would assume the rotary presidency of MERCOSUR, which functions alphabetically, the representatives of Argentina, Brazil, and Paraguay said that MERCOSUR has no defined leader nation at the moment.

**It has to comply.** Paraguay's Minister of Foreign Affairs Eladio Loizaga explained that, among the commitments Venezuela has failed to comply with, are the promotion and protection of human rights and MERCOSUR's Agreement of Residence, which guarantees the free movement of the inhabitants of member countries. Both of these commitments have to be passed into law.

**One point of view.** On this same issue, President Nicolás Maduro stated that Venezuela will continue to be part of MERCOSUR despite the triple alliance formed by Argentina, Brazil, and Paraguay that is seeking, in his opinion, to expel Venezuela from the bloc. "We know how to be patient," he said.

**Careful, Timoteo.** Surprisingly, and causing no little controversy, Deputy Timoteo Zambrano, who is also the Democratic Unity Alliance's coordinator of international affairs, described as unacceptable the position adopted by the governments of Argentina, Brazil, Uruguay, and Paraguay to suspend Venezuela on December 1 if it does not adapt Venezuelan law as required in order to be part of the bloc.

**A different point of view.** The Democratic Unity Alliance thanked the founding nations of MERCOSUR for their solidarity with the struggle being waged by the Venezuelan people for democracy and freedom. As the opposition coalition sees it, MERCOSUR's requirements demand that a dialog be established between the Executive and the

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National Assembly to formalize a number of treaties, which must be approved by the Legislative Branch if they are to be valid.

**Putting its house in order.** Following Zambrano's statements, the polemic they caused, and recent developments in the international scene, the Democratic Unity Alliance announced the immediate reorganization of the group in charge of coordinating its international relations in the interests of improving the coalition's position abroad and promoting discussion of the case of Venezuela at different pertinent international forums.

## LEGISLATIVE TIPS

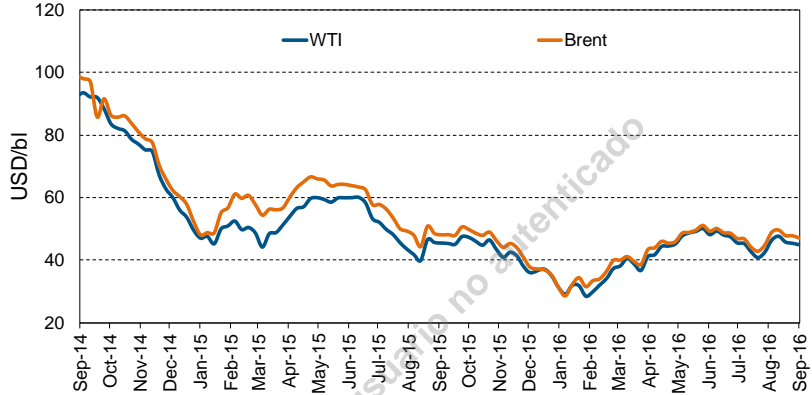
**The decree's been extended.** Via *Gaceta Oficial Extraordinaria* No. 6256, President Nicolás Maduro announced a 60-day extension of the Decree establishing the Nationwide State of Economic Exception and Emergency.

**Full discretionary powers for the government.** According to the decree, the Executive Branch will be able to establish exceptional and temporary regulations; executive mechanisms to guarantee the implementation of public policies; establish mechanisms for controlling and monitoring domestic and international procurement, the obtaining and supply of raw materials, and attributions in the production of essential items; and decree special regulations for allocating budgetary resources during the financial year 2017.

**Reopening of sessions.** The ordinary sessions of the National Assembly were resumed on Tuesday, September 20, thus starting the second period of sessions in 2016. The agenda included the second debate of the Amendment Bill to the Organic Police Service and National Police Force Act and the Partial Amendment Bill to the Telecommunications Act.

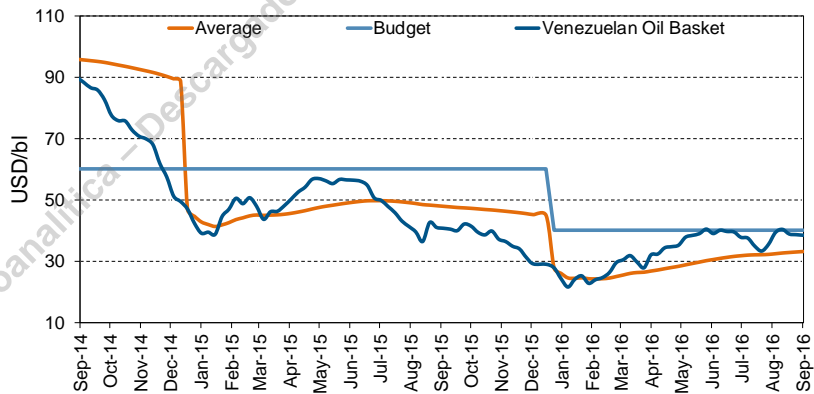
## ECONOMIC INDICATORS

Oil Prices  
(WTI and Brent)



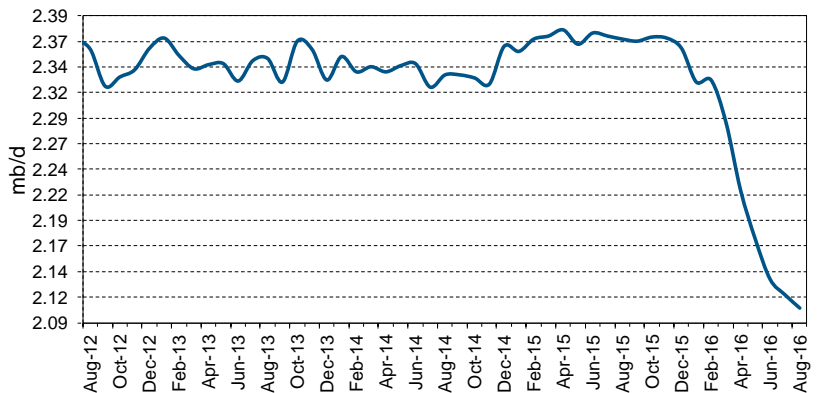
Sources: Menpet and Ecoanalítica

Oil Price  
(Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production



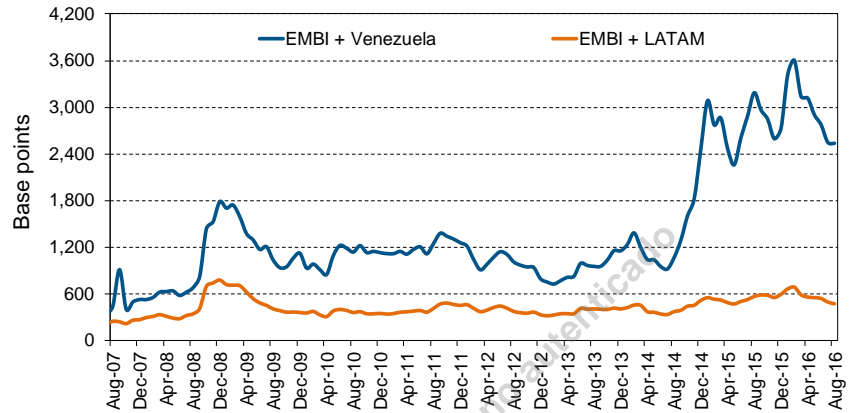
Sources: OPEP and Ecoanalítica

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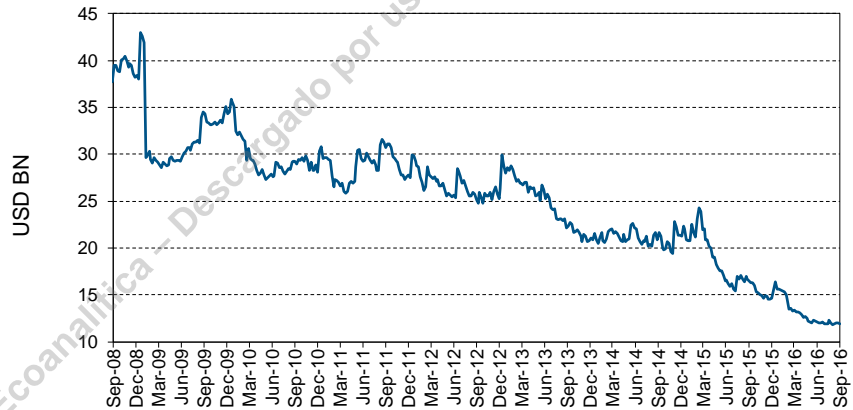
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**EMBI**



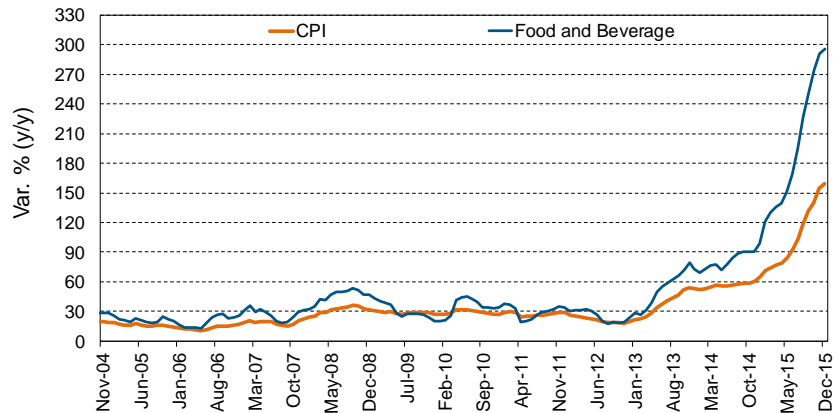
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



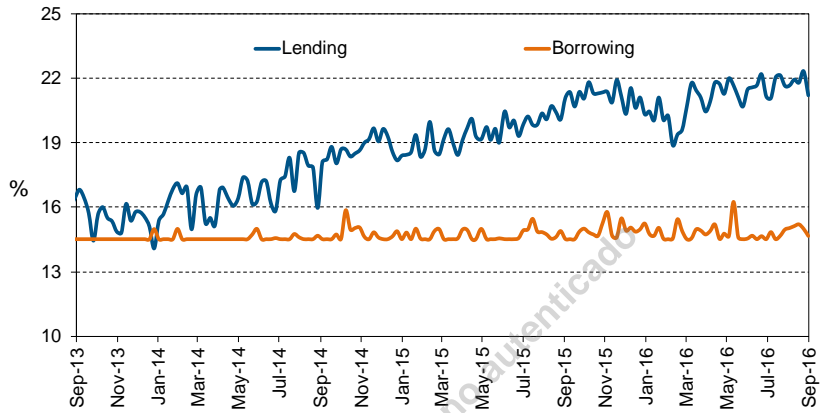
Sources: BCV and Ecoanalítica

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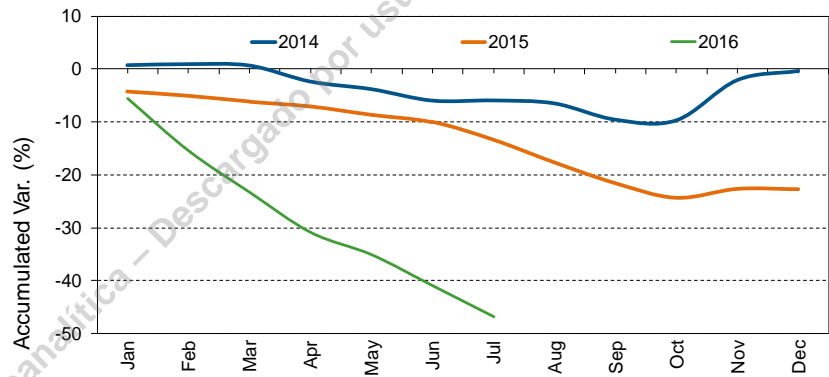
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Interest Rate  
(Six major banks)



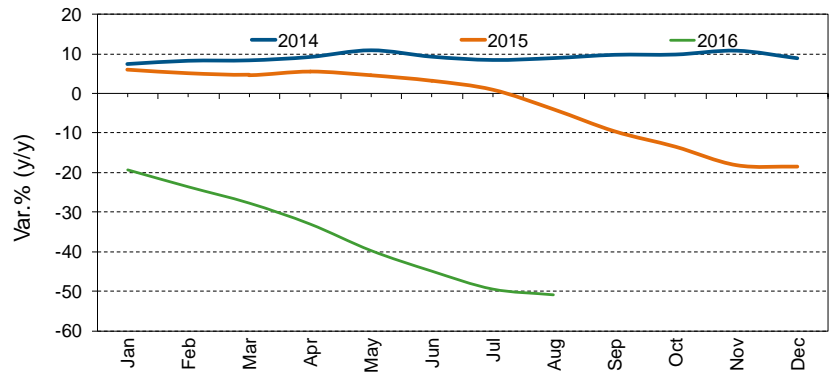
Sources: BCV and Ecoanalítica

M2 Expansion  
(Real)



Sources: BCV and Ecoanalítica

Loan Portfolio  
(Real)



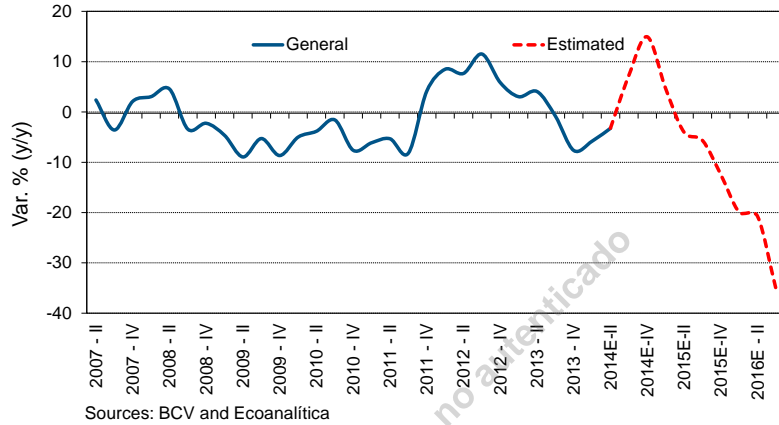
Sources: SUDEBAN and Ecoanalítica

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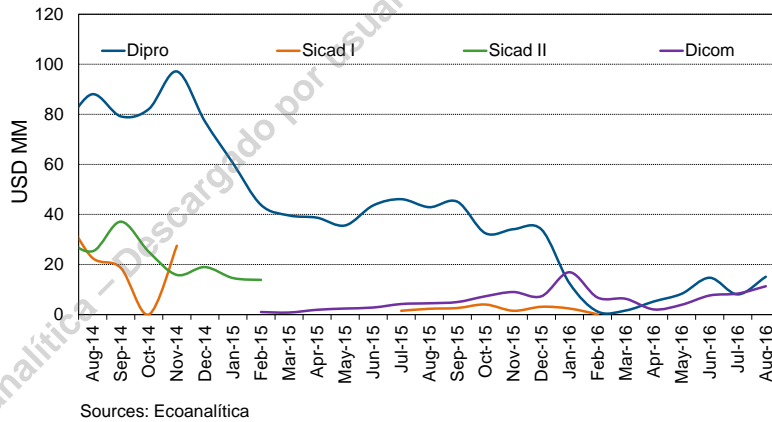
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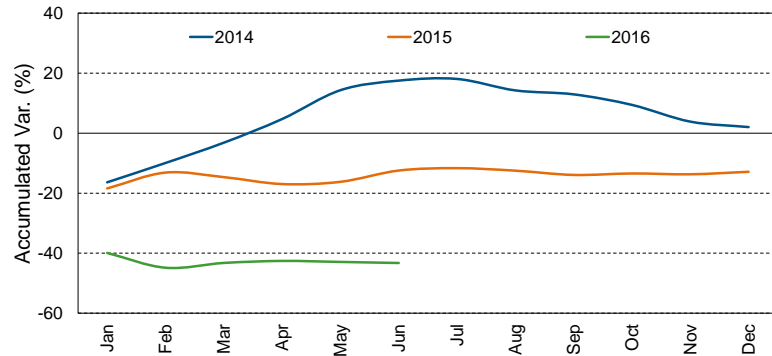
Real Wage Index



Disbursements to the Private Sector (Daily Average)



Primary Spending NTO (Real - Central Government)

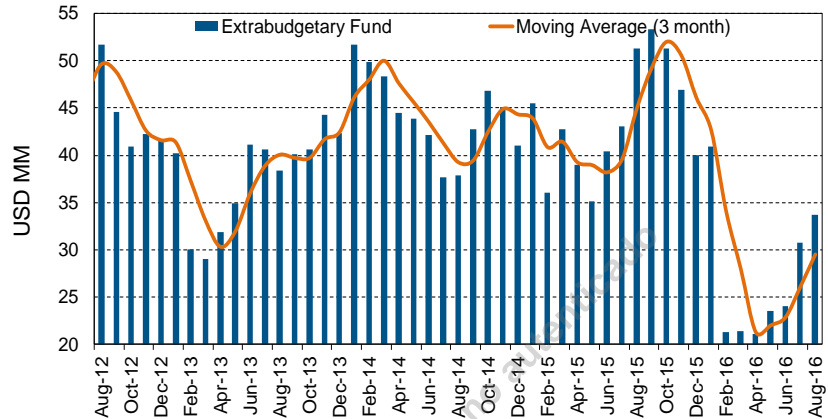


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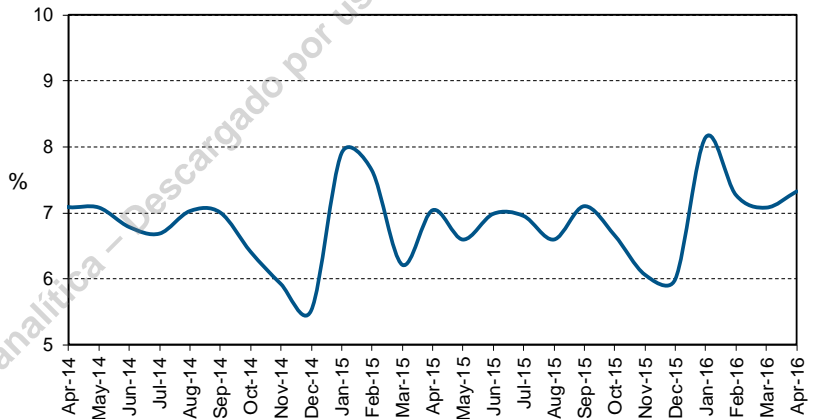
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**State Extrabudgetary Resources**



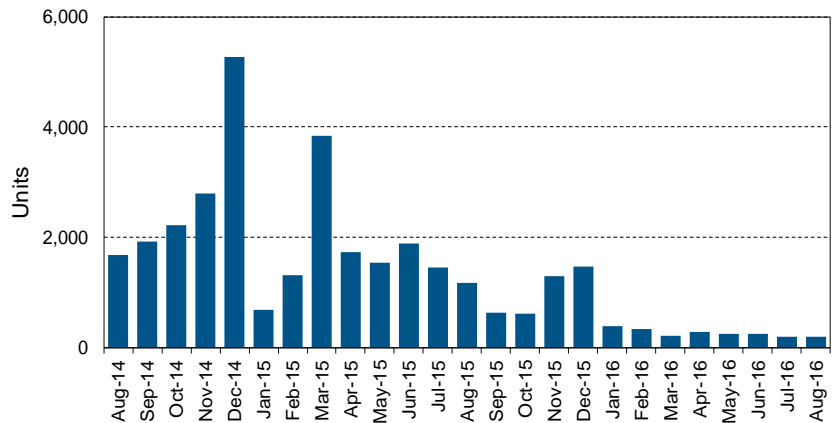
Sources: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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