

## No place for the weak: the first year of weekly inflation Ecoanalítica®.

Since January last year, **Ecoanalítica** has made an effort to provide our clients with a weekly measurement of local inflation in an attempt to offer them a more useful tool for decision-making in an inflationary environment. The calculation of the monthly Nationwide Consumer Price Index (NCPI) using the Central Bank of Venezuela's methodology already offered by our company has sought to compensate for the lack of official statistics that are of key importance for business. Now, as we will see in this report, the quantification of prices on a more frequent basis is not only an indicator that will allow our clients to hastily quantify the impacts of macroeconomic imbalances behind local inflation, it is also, by definition, a measurement that contains more valuable information in terms of price levels and also in terms of their variability.

This means that those who have these data available will be in a position to make their operations viable as they will be able to quantify quickly how far the distortions in our economy affect their business and, consequently, to act more rapidly.

### What happened to weekly prices in 2018?

Inflation in Venezuela in 2018 came to 2,106,601%, the biggest increase in prices in a single calendar year in the country's history. What did this increase mean in weekly terms? The data reveal that prices grew at a weekly average of 21.9%, were the biggest increase was observed in the third week of August after the petro was established as the unit of account/indexation, the monetary redenomination, the increase in the minimum wage and changes in taxation.

As noted in the monthly dynamic, this increase did not occur symmetrically in all the items making up the Venezuelan consumer's typical basket of goods and services. Overall, the items posting increases above the average were Restaurants and Hotels (29.0%), Food and Nonalcoholic Beverages (27.8%), and Transport sector (23.7%). The items posting the smallest increases were Communications (7.1%) and Education Services (7.3%). This heterogeneous behavior of prices is also apparent when we look at the monthly and weekly inflation for the different items.

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## 2018's Inflation by sector

Sector	Accumulated Inflation	Monthly Average	Weekly Average
Food and non alcoholic beverage	15,091,832	175.2	27.8
Alcohol and Tobacco	1,372,419	127.9	22.0
Clothing	82,020	79.3	15.0
Housing Rent	12,923	51.0	9.9
Housing Services (except telephone)	6,082,260	159.4	25.5
Household Equipments	711,315	115.8	20.6
Health	953,527	119.0	21.1
Transport	1,953,556	146.7	23.7
Comunications	5,320	40.8	7.1
Recreation and culture	1,672,518	128.4	21.6
Education Services	4,842	42.3	7.3
Hotels and Restaurants	23,855,578	188.0	29.0
Other goods and services	1,338,824	126.3	21.5
<b>Inflation BCV Methodology</b>	<b>2,106,601</b>	<b>133.2</b>	<b>21.9</b>

Fuentes: BCV y Ecoanalítica

The foregoing indicates that, apart from the increase in the level of prices, the differences between the items imply that relative prices –the value of one good measured in terms of the cost of another good- underwent a major shift in 2018.

These differences seem to confirm that the adjustments in relative prices were more aggressive when taken from a weekly perspective than when looked at on a monthly basis. So, it is worth examining not only how much prices went up but also the speed at which those increases occurred, an element that can be more easily observed with data collected on a more frequent basis.

### A story of “second momentums”

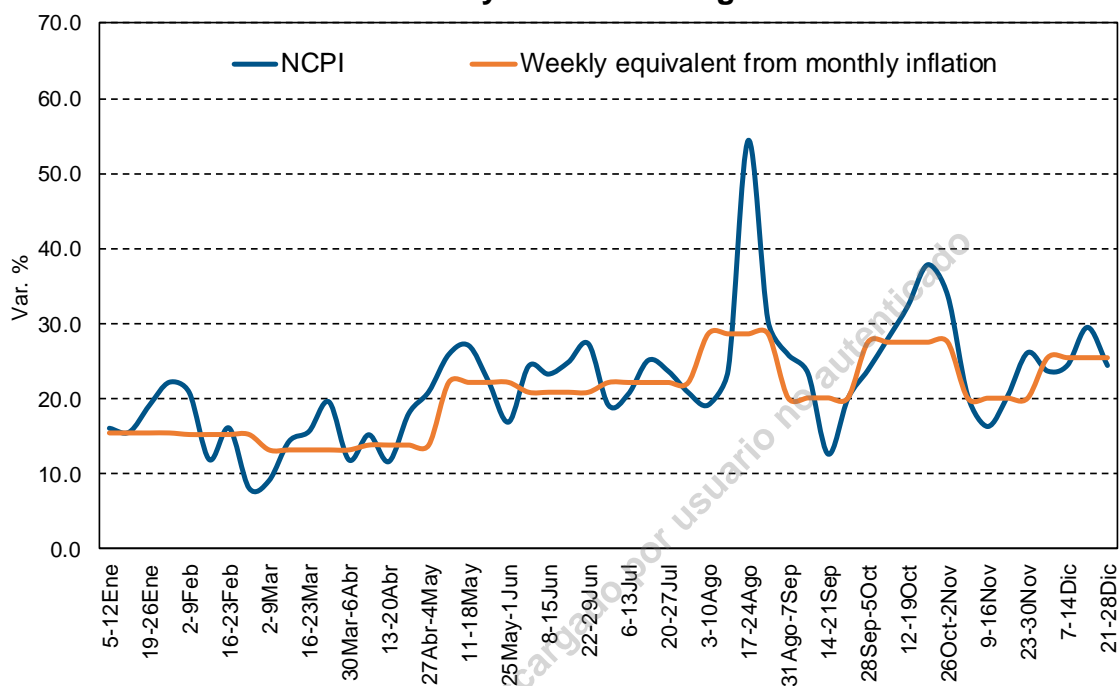
In hyperinflation, the speeds at which prices go up are not stable and the averages may not tell us much about the path taken by the ups and downs in price increases throughout the year. Taking overall weekly inflation, we can see how it went from 19.1% in the fourth week of the year to then go up to 27.1% in mid-May, peak at 54.4% in August. After these results, weekly prices came down again to around 16.3% in the second week of November, with a considerable number of ups and downs between each of these points.

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### Weekly inflation during 2018



Source: Ecoanalítica

A similar situation occurred with the different items that make up the basket used to calculate the Consumer Price Index. Their inflations changed quite a bit throughout the year and not necessarily all in the same direction.

Relative prices do not only change when there are different inflations in the different items; if these inflations are not stable, the underlying dynamic in that process of adjustment will not be stable either. This can be verified if we analyze the volatility of the weekly inflation of the different items throughout 2018<sup>1</sup>.

Our first calculation for the week between February 2<sup>nd</sup> and 9<sup>th</sup> of 2018 (when we had five weeks from which to calculate the dispersion) gave standard deviations of between 2.8 and 12.9 percentage points. The items tended to move within this range for about five and a half months. It is from the week of August 17-24 -which coincides with the economic announcements made that month- that the volatility of inflation by item went up. The range was a standard deviation of 1.2 to 31.6 percentage points, limits set by Health and

<sup>1</sup> To measure the volatility of inflation for each item, the standard deviation for the data of each component is calculated in order to evaluate their departure from their average. The bigger the standard deviation, the more volatile the inflation of the item in question is. In order to see the evolution of that volatility, we calculated the standard deviation over a ten-week period and we added each additional week to that period.

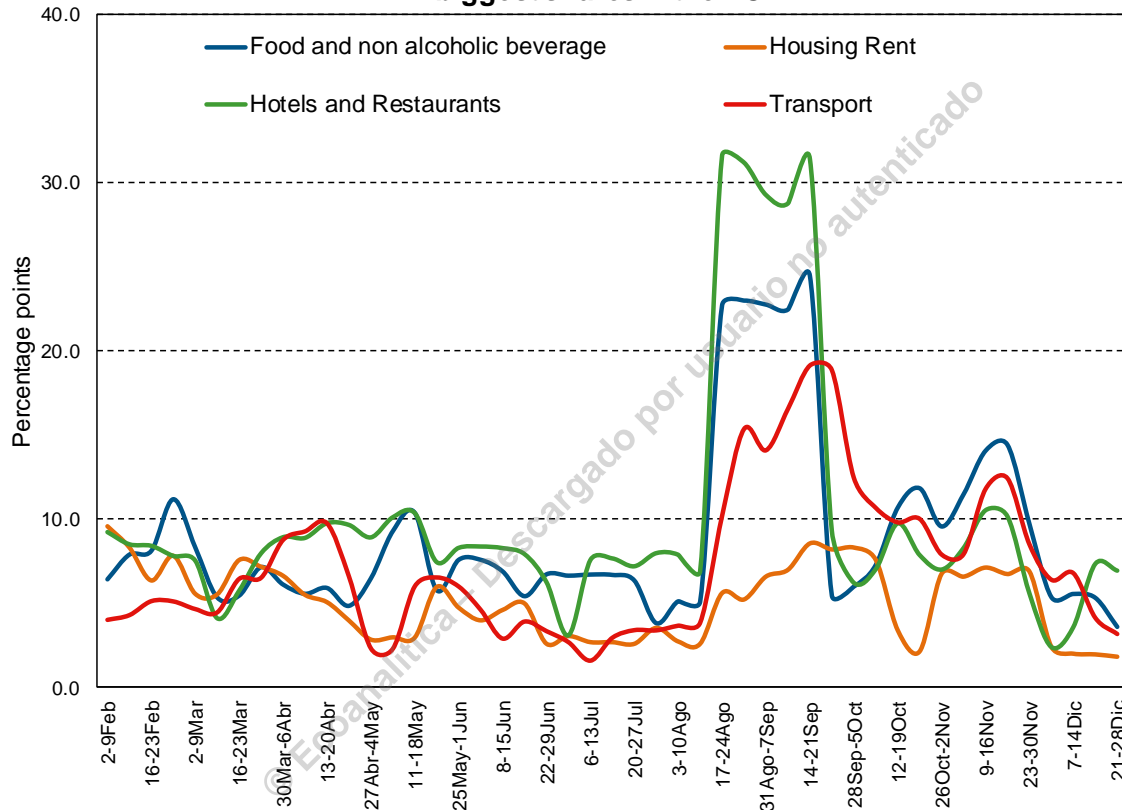
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Restaurants and Hotels, respectively. After that, the volatilities of the majority of the items fluctuated between 4.5 and 20.0 percentage points up until the end of November.

**Standard deviation for the weekly inflation of the four sectors with biggest shares in the NCPI**



Source: Ecoanalítica

This considerable jump in the range of volatility from the changes in the regulations governing the economy implemented in August shows us how counterproductive economic policy measures and announcements can be when, instead of giving rise to expectations of stabilization, they have the opposite effect. Moreover, the existence of such a high level of volatility in the rates at which prices go up gives us an additional idea of the frictions within the adjustments in relative prices. Price controls and disruptions in the supply of items are penalized.

The variability captured by the standard deviation changes in no small measure the extent to which more values are included in the calculation for a given period of time. One way of illustrating that difference is to compare the standard deviation calculated based on the

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52 weeks of the year to the standard deviation based on weekly inflation obtained from the monthly figure<sup>2</sup>.

### Weekly inflation volatility by sector

Rubro	Standard deviation 52 weeks	Standard deviation of monthly proxy
Food and non alcoholic beverage	11.0	5.6
Alcohol and Tobacco	9.2	6.7
Clothing	9.1	5.8
Housing Rent	5.9	2.9
Housing Services (except telephone)	10.1	7.6
Household Equipments	10.1	6.7
Health	9.9	5.5
Transport	14.6	11.2
Communications	4.1	3.4
Recreation and culture	7.7	4.9
Education Services	9.1	5.8
Hotels and Restaurants	13.0	6.6
Other goods and services	8.6	6.2
<b>Inflation BCV Methodology</b>	<b>7.7</b>	<b>5.2</b>

Sources: Ecoanalítica

There is a very marked difference. The standard deviation for the various items using all 52 weeks of 2018 is 1.5 times, on average, the dispersion calculated using a proxy constructed based on monthly inflation. This indicates that, since we have more points of information provided by weekly inflation, we have a much more concrete idea of how variable price increases were throughout the year.

We can draw some inferences regarding the consistency of the price adjustment processes for several items from this volatility. Items with a very low variability, such as Communications (4.1 percentage points) seem to point to prices with very rigid setting structures (controls) that do not offer many alternatives for filtering through to parallel markets or adjustments throughout the year that, while not necessarily benign, are more consistent with their cost structure. Items with a high level of volatility on the other hand, such as Food and Nonalcoholic Beverages (11.0 percentage points) and Transport (14.6

<sup>2</sup> You take the monthly inflation figure and estimate what inflation for 4.5 weeks should be to arrive at that level.

percentage points), could result in an erosion of controls, the existence of alternatives in more opaque markets, and a more erratic sequence of adjustments.

### A short empirical exercise

In a more refined context, weekly inflation allows us to delve a bit more into its potential determining factors, particularly those associated with the exchange rate monetary dynamic. In a hyperinflationary environment, weekly analysis can be richer and, therefore, more useful when it comes to decision-making. Bearing this in mind, it is possible to perform a statistical exercise by using such data that will provide us better evidence regarding the factors behind hyperinflation.

Since a more historic weekly data sample is not available, it is not possible to perform a more structural analysis, as is habitual in studies regarding hyperinflation and the monetary factors working behind the scenes. In fact, the asymmetries and other distortions imposed by hyperinflation prevent us from doing this type of analysis taking a simple approach. What is possible –and it is what we will do next- is to try to identify, with the soundness that weekly data can provide us, the recent short-term relations between money, prices and exchange rate. Since the weekly data available is limited (for 2018 only), we have based our analysis on a similar data-generating process, which means that the results shown lack of asymmetries.

First of all, a brief econometric analysis was done in which an equation for prices ( $p$ ) was estimated, against changes on nominal exchange rate ( $e$ ) and fluctuations on money supply ( $m$ )<sup>3</sup>. Based on weekly data, the results seem to indicate that prices went up by approximately 0.35% with every 1% increase in the exchange rate ( $e$ ), keeping money flows unchanged. However, prices dynamic appeared to be more exposed to monetary liquidity, where prices tended to overreact to isolated money changes (label “t” refers to weeks, standard deviations are reported in parenthesis, where models with  $R^2$  close to 1 are preferred).

$$p_t = -4.77 + 1.56 m_t + 0.35 e_t \quad N = 51$$

$$(0.14) \quad (0.08) \quad R^2 = 0.99$$

<sup>3</sup> In particular, we estimated an equation by ordinary least square method for prices, based on exchange rate and money supply levels, in logarithmic transformations. With a view to comparing prices' potential dependency (endogeneity) on the exchange rate, estimators for instrumental variables were used, where the exchange rate was instrumented by using its own first lag. Although they are not shown, the changes in prices were controlled by the variations in the Venezuelan Oil Basket: a linear trend and a variable that captures the one-off overreaction of prices and exchange rates to the establishment of the Petro as a unit of account during the redenomination of the bolivar.

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This number seems to go down if we go to weekly data equivalent to observed monthly inflation,  $p(eq)$ . Moreover, a contradictory result respect to money changes tend to arise, since prices would slow down during increased-money weeks. Once again, the wealth of information in weekly data provides greater precision when measuring these impacts.

$$p(eq)_t = -2.76 - 2.99 m_t + 0.28 e_t \quad N = 51$$

$$(0.14) \quad (0.08) \quad R^2 = 0.72$$

A curious result was obtained when the gap between the unofficial exchange rate and the DICOM rate (*brecha*) was included. In particular, this difference seems to have a positive impact on prices, albeit less than the direct impact generated by the unofficial exchange rate. This relationship is apparently not considered by the government, since it seems to focus recently on reducing such gap (and not to bring down the unofficial exchange rate more directly).

$$p_t = -5,02 + 1.65 m_t + 0.01 brecha_t \quad N = 51$$

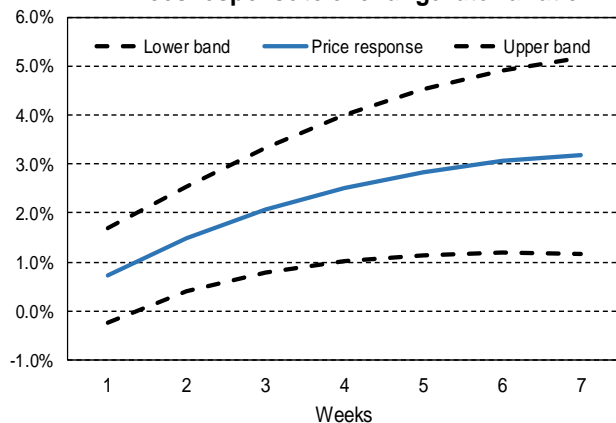
$$(0.14) \quad (0.002) \quad R^2 = 0.99$$

Even though the foregoing its valid, account needs to be taken of the fact that, even on a weekly basis, prices respond largely to a dynamic process and that the variations in the exchange rate and the changes in the money market also respond to changes in prices. Bearing this in mind, the problem was evaluated by adopting a multiequational approach that avails itself of data memory for estimating price changes in response to unexpected variations in money and the exchange rate<sup>4</sup>. The results support previous evidence regarding the exposure of prices, to a large extent, to the exchange rate, particularly in the case of the changes that occurred (on average) in the two weeks prior to posting of inflation.

<sup>4</sup> In this case, a non-structural autoregressive vector approach for prices, money supply, and exchange rate was used, with oil prices as an exogenous variable. Each variable is influenced by its own lagged values (and the lagged values of the rest). It is assumed that changes in money supply do not respond quickly to prices or the exchange rate; on the other hand, it is assumed that prices can respond to monetary and foreign exchange changes in the same week.

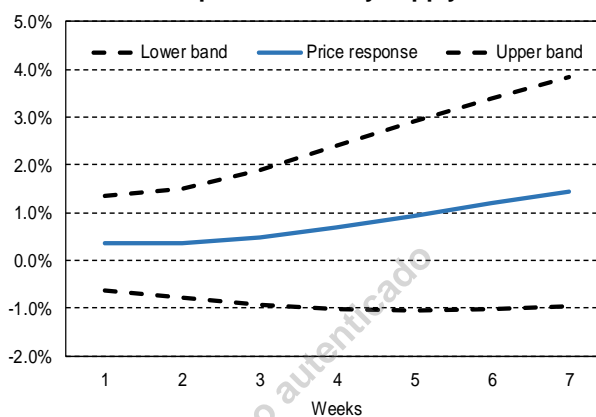
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Prices response to exchange rate variation



Source: Ecoanalítica

Price response to money supply



Source: Ecoanalítica

Assuming the limitations of the approach used, the estimates calculated using weekly data seem to validate a positive impact of the exchange rate on inflation after two weeks in which said rate increases, where money changes tended to play a lesser role. In terms of what happened throughout the last year, the foregoing suggests, for example, that the changes in prices observed during the last local currency substitution, and possibly associated exclusively with the increase in the unofficial exchange rate, did not occur until one or two weeks after official announcements. In that sense, if agents continue to respond to events such as this by adjusting their prices with similar lags, it is to be expected that the recent changes in the gap between the official and parallel exchange rates will only be felt in prices in the weeks following these narrower gaps.

### What doesn't kill me makes me stronger

Certainly, the weekly data seem to provide us with a more refined view of our present hyperinflation problem. The differences between items are not the only ones. There is also price variability typical of a distortion of this kind, whose analysis could lay the foundations for an indexation mechanism that seeks the survival of the business and to ensure that we minimize losses in our real incomes. Moreover, examining the impacts of regulatory or exchange rate events on prices seems to be more precise at this level, since use is made of more information on the process underlying local inflation. The strongest will undoubtedly be those who deal with inflation by acting swiftly, which means that weekly inflation emerges as a useful ally.

**Giorgio Cunto**  
**Luis Arturo Bárcenas**

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week January	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VES/USD)	1,001.74	5.5	5.2
	1st Week January	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	24.5	1.8	3.0
	2nd Week January	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	14.9	13.5	14.9
	2nd Week January	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.5	-4.9	-11.4
	1st Week January	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	962,970,032	10.8	72,160.3
Price of International Oil Baskets (USD/bl)			
	2nd Week January	Weekly chg. (%)	Annual chg. (%)
WTI	50.2	8.5	-19.9
Brent	59.3	9.0	-13.6
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week January	Weekly chg. (%)	Annual chg. (%)
Weekly Average	53.1	10.8	-12.1
Annual Average	50.5	5.4	-15.4

Sources: BCV, MENPET, ONT and Ecoanalítica

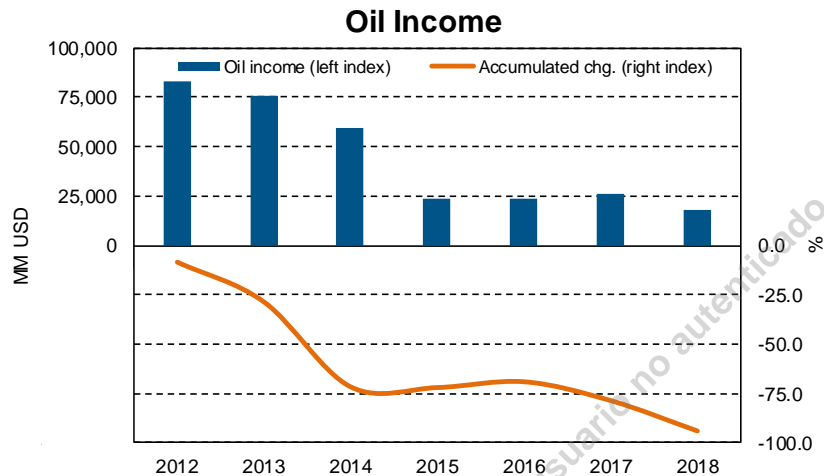
\* Annual variation of accumulated expenditure.

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

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## GRAPH OF THE WEEK: “AMONG OTHER LIARS”



Sources: Minpet and Ecoanalítica

On January 14, Nicolás Maduro appeared on national television to give a brief roundup of developments in the Venezuelan economy during last year. In his speech he admitted that oil revenues had shrunk by 994% between 2013 and 2018, claiming that, despite this, the country’s revenues and social investment had not dropped. What makes this statement so strange is the magnitude of the drop mentioned, since it is not possible for revenues (or any variable of more than zero) to post a reduction of more than 100%. So, at **Ecoanalítica** we have done an estimate of oil revenues to verify the validity of said rate of decline.

To perform this calculation, we used cash-generating barrels (those that are left after deducting the main bilateral obligations payable with oil exports) at the average price of the Venezuelan Oil Basket each year. The results show that in 2013, with some 2.2 million barrels a day (mb/d), Venezuela obtained oil revenues of around USD 75.8 billion. In 2018, based on currency-generating production, those revenues were USD 17.8 billion. This suggests that, even taking a lower oil production into account (only production that generates external flows), the revenues from oil sales have “only” dropped 76.5%, much less than announced in absolute terms.

The fact that revenues have not dropped as much as Maduro claims does not cancel out the magnitude of the decline in oil activity. A drop of this magnitude in only five years is a consequence of the continuing nosedive in oil production, PDVSA’s decadence and inefficiency, and the state-owned oil company’s and the Republic’s growing obligations, particularly those with China and Russia. These reductions will continue in 2019. With forecast figures for debt-free barrels this year and a price for the Venezuelan Oil Basket in the region of USD 62.5/bl., oil revenues will fall by 71.4% in 2019 alone.

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## ECONOMIC TIPS

**New Year, new Petro.** Nicolás Maduro announced the new value of the Petro, increasing it fourfold to VES 36,000. In line with the idea that the minimum wage is equivalent to half a Petro, the minimum wage is to be VES 18,000 effective January 15. Maduro gave assurances that the Venezuelan State would provide the private sector with support, but without going into details.

**Hamstringing the parallel dollar.** As part of the Recovery, Growth and Economic Prosperity Program, an increase in the marginal legal reserve from 50% to 60%, effective January 14, was also announced. The purpose of this measure, according to Maduro, is to get the banks to stop “*pushing up the criminal dollar.*”

**“Petro-lizing” the economy.** The 23 state-owned basic industry companies will now have to sell 15% of their production on international markets in Petros, the purpose being, according to Maduro, to consolidate this “*cryptocurrency*” internationally.

**Paying by size.** Maduro asked the Constituent National Assembly to create a new tax on “*large capitals,*” but without going into details.

**Updating what’s fair.** Last of all, Maduro said that a commission would be set up to review agreed prices and establish new ones. This is to happen in the next few days.

**A “hyper” year.** According to the National Assembly’s Finance Committee, inflation in December was 141.7%, which gives inflation for 2018 of 1,698,488%, according to the National Assembly. This means that last year prices went up at a rate of 3% a day, doubling approximately every 23.4 days.

**Raking in the money.** Decree No. 3719 published in *Gaceta Oficial* No. 6420 states that taxes must be paid on transactions performed in foreign currency or cryptocurrencies.

**No loophole for anyone.** The Superintendency of Banking Sector Institutions (Sudeban) is expected to issue the regulations for the adaptations that the institutions in the banking sector must make in order to implement the decree. Failure to abide by the decree could lead to sanctions and only operations in securities quoted on the Caracas Stock Exchange and exports of goods and services by the public sector will be exempt.

**Firing freeze continues.** Decree No. 3708, which extends the firing freeze for a further two years, was published in *Gaceta Oficial Extraordinaria* No. 6419. This firing freeze,

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which protects employees in both the public and private sectors, has already been in place for 10 years.

**A year of contraction.** The Economic Commission for Latin America and the Caribbean (ECLAC) published that Venezuela posted a drop in gross domestic product (GDP) of 15% in 2018 for a cumulative drop of 44.3% since 2015.

**A “good” year.** ECLAC highlighted that Venezuela’s exports had increased by 9%, whereas imports had gone down by 36%, which made it possible for there to be a “*small surplus on the current account*” in 2018.

**Raise it to 60%.** The board of directors of the Central Bank of Venezuela raised the marginal legal reserve to 60%. This means an increase in the proportion of funds each bank must transfer to the Central Bank’s reserves, so restricting their ability to grant loans.

**Venezuela, a power. Attempt No. ...** Nicolás Maduro promised that the economic agenda would be given over to implementing an adjustment plan in the first half of 2019 that would halt the inflationary process so that there would be “*economic growth*” in the second half of the year.

**The 2019 budget.** The second vice president of the Constituent National Assembly, Gladys Requena, said that the National Budget for 2019 would be VES 1.49 trillion, 74.7% of which would be allocated to social investment.

**What they left unpaid in 2018.** Deputy José Guerra said that Venezuela owes a total of USD 7.0 billion in outstanding matured bonds issued by both the Republic and PDVSA.

## OIL TIPS

**Primary sources go up.** Primary sources reported an oil production of 1,511 kb/d for December. This represents a 47 kb/d increase compared to November (when they reported a 1,464 kb/d production).

**Secondary sources go down.** Nevertheless, secondary sources reported to the Organization of Petroleum Exporting Countries (OPEC) a 1,148 kb/d production for December. This represents a drop of 33 kb/d compared to November, where there was estimated a production of 1,181 kb/d.

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**Exports in 2018.** Exports to the United States were down 15% in 2018, according to Refinitiv Eikon. Even though exports to the United States increased in December, the average for the year was the lowest in three decades (a drop of 500 kb/d).

**The rigs.** In December, the number of rigs operating increased by two compared to November to 27, according to Baker Hughes. However, in December 2017, Venezuela had 50 rigs operating. That gives a drop of 46% over the past 12 months.

**An unexpected contract...** PDVSA signed a contract with Erepla, an energy firm owned by a Republican in Florida. The idea is to seek support for raising the production of crude in Venezuela following its sharp decline over the past year. It is planned to invest USD 500 million in operating three Venezuelan oil fields.

**...but with lots of drawbacks.** However, this contract faces several hurdles. The first is it will have to get a license from the US Government due to sanctions that prevent US companies from providing Venezuela's state-owned companies with financing. According to the contract, Venezuela will have supervisory powers but no control over operations and, in the event of re-sale, PDVSA will have 50.1% and Erepla 49.9%.

**More contracts.** Reuters reports that the French company Maurel & Prom is to invest USD 400 million in Petroregional del Lago. According to Minister for Oil Manuel Quevedo, this is in line with the goal of raising production by 700 kb/d.

**Isla is back on line.** Isla Refinery on Curaçao, which has a capacity of 335 kb/d, resumed operations after having been closed down for eight months. Isla was shut down after a fire last year and the dispute with ConocoPhillips.

**Under military rule.** Since Manuel Quevedo became the president of PDVSA, the company has experienced some drastic changes. Foreign employees and crews are inspected by armed soldiers and fear that they will be arrested on charges of sabotage or corruption if they make a mistake, according to Reuters. Given these measures and in the absence of a recovery plan, it is not expected that there will be positive changes in Venezuela's production.

## BUSINESS SECTOR TIPS

**Firing freeze for two more years.** A two-year extension to the firing freeze was published in *Gaceta Oficial Extraordinaria* No. 6419. This measure will continue to prevent dismissal or downgrading without cause previously approved by the labor inspectorate.

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**The firing freeze, a useless measure?** Criticizing this extension to the firing freeze, Carlos Larrazábal, the president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), explained that this measure is used by employees to extort their employers because, in order for an employer to end the employment relationship with a worker, he is forced to make much bigger severance payments than required by law to get the employee to leave voluntarily. Apart from that, Larrazábal claims that the measure has not achieved its objective as around 300,000 jobs were lost between 2017 and 2018.

**Economic plan against commerce.** María Carolina Uzcátegui, the president of the National Commerce and Services Council (Consecomercio), criticized the economic measures taken by the Central Government and commented that “40% of companies have closed their doors, some temporarily, others for good, and others because they have sold off everything” since the measures started to be taken in this sector.

**Taxes in Petros.** According to the vice president of Fedecámaras in Zulia, it is possible that 75% of the commercial establishments in Maracaibo will close their doors as a result of the amendment to the ordinance governing licenses and taxes on economic, commercial, industrial and service activities, which is to apply in that municipality. The measure raises the tax from 6 tax units calculated at VES 15/tax unit to 15 Petros calculated at the exchange rate resulting from the DICOM auctions.

**Preface to bankruptcy.** This will result in commercial establishments having to pay a tax that, according to the price of the Petro at the close of the first week of the year, will be VES 634,113.

**We're sinking, captain.** The president of Nueva Esparta Construction Chamber, Juan Carlos Melián, explained that, due to the lack of maintenance by the Central Government, Conferry's fleet had lost five ferries.

**If there are no vessels, there are no inputs.** This provides a direct explanation of how, according to Melián, the shortcomings in the shipping sector will be a problem for the development of the region, since it will not be possible to carry out any infrastructure projects on the island, due to the lack of transport for bringing in the inputs necessary for construction.

**But how do we get there?** José Ignacio Casal, the president of Venezuela's Tourism Chamber, said that the problem of connectivity, by both sea and air, will seriously affect tourism in the upcoming vacation seasons, as people will not be able to travel because of the problems being experienced by the tourism sector.

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**Another year with a special regime in Guayana.** Nicolás Maduro extended the special regime for the operational management of the national iron, steel and aluminum industries until December 31 this year, granting Vice President for the Economy Tareck El Aissami broad powers for administering the basic industry companies in Guayana for another year.

**New mining agreements.** Minister for Ecological Mining Development Víctor Cano announced that a total of 700 production agreements focusing on gold and diamond mining were reached in 2018.

**We're going to fill the coffers.** Minister Cano said that these agreements would focus on putting mining on a formal footing, adopting low environmental impact technologies, and sending 100% of the minerals obtained to the coffers of the Central Bank.

**Despite everything, there'll be whisky in 2019.** The French company Pernord Richards said that it had drawn up a strategy for dealing with the challenges in 2019 and for continuing to cater to the needs of the Venezuelan market.

## WORLD ECONOMY TIPS

**Shutdown.** The United States Government has been in a partial shutdown for 28 days, which means that nine state departments are working under minimum expenditure regimes because President Donald Trump refuses to approve the budget proposals submitted by Congress until they include a USD 5 billion provision for financing a wall on the Mexican border.

**Who are affected?** Agriculture, Commerce, Justice, National Security, and the Treasury are some of the departments that are affected. This has meant that some 800,000 government employees are being forced to work without pay or go home. It should be mentioned that six departments of state, Defense being one, are not operating under these minimum expenditure regimes as their budgets have already been approved.

**A race against time.** If this shutdown continues, the consequences for the US economy will increase. The private sector will not have access to the government systems it needs to carry out certain activities in the financial sector and will not be able to have access to the loans normally offered by the public sector. What is more, a large number of workers in the public sector will not get paid until the shutdown ends.

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**No Brexit.** This Tuesday the British Parliament voted on the agreement on the United Kingdom's withdrawal from the European Union resulting in a vote against the agreement (432 versus 202). The agreement was vetoed by both those who oppose leaving the Union and those who are in favor.

**The consequences of uncertainty.** The governor of the Bank of England revealed that growth in the last quarter of 2018 was 0.2% and that he expects the next quarter to behave the same. He also commented on the uncertainty caused by Brexit, emphasizing that it had been having weight on the financial markets.

**Laying down their weapons.** The United States and China started meetings to put an end to the trade war. A team headed up by the US trade representative is to meet with his Chinese counterparts in Beijing for two days of negotiations on the concerns of both countries regarding the consequences of the trade war for economic growth and market confidence.

**Small reconciliations.** Cecilia Malmström, the European Union's trade commissioner, and Robert Lighthizer, the United States' trade representative, held meetings in Washington to negotiate tariffs and other trade barriers on industrial goods, including a 10% tariff on imported vehicles.

**Not as good a year as we expected.** According to Germany's minister for the economy, it is likely that the German economy will continue to grow in 2019, even after the official figures indicated that it had posted its lowest level of growth in five years.

**Mining in Peru.** On Thursday, Peru's central bank left its interest rate unchanged at 2.75% after the economy showed signs of picking up in the fourth quarter of 2018, even though growth remains below its potential. Adrián Armas, the manager of economic studies at the Central Bank of the Republic of Peru, forecasts economic growth of 4.1% in the first quarter, mainly as a result of the recovery of the mining sector.

**Inflation, but not Venezuela's.** Retail prices in Argentina grew by 47.6% in 2018, according to the National Statistics and Census Institute. This is the biggest increase since 1991. Inflation was more than 50% in items such as transport, goods and services, communications, and food and beverages.

**Protecting the peso.** This Monday, Argentina's Central Bank bought the equivalent of USD 50 million at a rate of ARP 37.131/USD in the international market. This is in line with its objective of maintaining the value of the peso within the band of ARP 37.451/USD to ARP 48.466/USD.

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## POLITICAL TIPS

**Second term, NMM.** Nicolas Maduro Moros attended his swearing-in held at the headquarters of the Supreme Tribunal of Justice. This served as the starting point of his second term as president after having been voted in in an election classified as being irregular and illegitimate by actors at home and abroad.

**Were they that many?** During the ceremony, Maduro claimed that he had the recognition and support of 94 countries. However heads of state from only four of those countries were present. Notable absentees were the presidents of China, Russia, and Turkey, identified by the Venezuelan Government as its main allies.

**A task for everyone.** The day after Nicolás Maduro's swearing-in, the president of the National Assembly, Juan Guaidó, called an open session of parliament in Caracas at which he gave a speech saying that the only way he could perform as acting president would be if he had the support of the armed forces, the international community and civilian society.

**An open presidency?** After the ceremony, a press release from the National Assembly stated that Guaidó had "*assumed the competencies of the Presidency of the Republic*" so that, in his capacity as acting president he could work to "*call free and transparent elections that will facilitate a peaceful and democratic transition in the country.*"

**Slowly but surely.** The opposition benches in the National Assembly passed an agreement that declares the usurpation of the Presidency of the Republic by Nicolás Maduro and that, consequently, all acts approved by the Executive Branch should be considered null. The National Assembly also announced that it was preparing a legal framework to "*start a gradual and temporary transfer of the competencies of the Executive Branch to the Legislative Branch.*"

**An incentive for supporting democracy.** In addition, the National Assembly passed an Amnesty Law for civilians and military personnel who "*collaborate with the restoration of the democratic order in Venezuela.*" Guaidó said that they would distribute the document in all the country's military units and barracks.

**The world's reaction to Maduro (I).** The United States Government's national security advisor reiterated the United States' position regarding Nicolás Maduro's second term in office. It will not recognize Maduro's swearing-in and, consequently, it only supports the National Assembly, which it described as "*the only legitimate branch of government duly elected by the Venezuelan people.*"

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**The world's reaction to Maduro (II).** Colombia's Ministry of Foreign Affairs reiterated its commitment to giving its support to all the efforts made -on the political and diplomatic fronts- that contribute to "*the restoration of democracy.*" However, it stressed that it was committed to solutions that abide by international law and rejected those that lead to controversies and the use of force.

**The world's reaction to Maduro (III).** In a press release from its Ministry of Foreign Affairs, the Chilean Government expressed its "*unrestricted support*" of the National Assembly, while calling Nicolás Maduro an illegitimate president.

**The world's reaction to Maduro (IV).** With 19 votes in favor, six against, eight abstentions, and one absence, the Organization of American States (OAS) passed a resolution declaring Nicolás Maduro's second term in office as president to be illegitimate.

**From one president to another.** At the same time, Chile's President Sebastián Piñera contacted Guaidó to confirm his "*absolute support,*" saying that the Chilean Government insists on elections being called with the Executive Branch having been transferred temporarily to the National Assembly.

**Express presidential treatment.** Two days after the open session of parliament in Caracas, members of the Bolivarian Intelligence Service (SEBIN) intercepted Juan Guaidó when he was on his way to an event in Vargas state. However, the president of the National Assembly was released by the same members of the SEBIN in a matter of hours.

**There is not total obedience; it's official.** After Guaidó's release, Minister of Communication and Information Jorge Rodríguez reported that the action taken by members of the SEBIN was "*an irregular procedure.*" He explained that these members of the SEBIN had acted "*individually*" and that they had been dismissed and disciplinary action had been taken against them. In the minister's view, this was a speculative move to "*disrupt the peace of the country.*"

**Calling for guarantees.** The countries of the Group of Lima (with the exception of Mexico) issued a communiqué in which they expressed their repudiation of the "*arbitrary detention*" of Juan Guaidó by members of the SEBIN.

**The United States and the world are watchful.** The United States' Secretary of State Mike Pompeo repudiated Guaidó's detention and also accused the director of the SEBIN, Manuel Figuera, of ordering and organizing the arrest.

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**Is he responsible or a scapegoat?** Meanwhile, the Venezuelan Government said that Ildemaro Rodríguez, the intelligence corps' commissary, was responsible for Guaidó's detention. It also said that Rodríguez was being investigated for "*ties of conspiracy with the rightwing*" and called on the population to "*fight these actions that aim to put on a show to disrupt peace.*"

**A coup against the New State?** Finally, after being released and appearing at the open session of parliament in Vargas, Juan Guaidó said that the detention was a "*coup d'état*" against the "*legitimate president of the National Assembly and all Venezuela.*" He stated furthermore that the National Assembly would fulfill its "*constitutional competencies*" and that "*we must move ahead with proposals and protests.*"

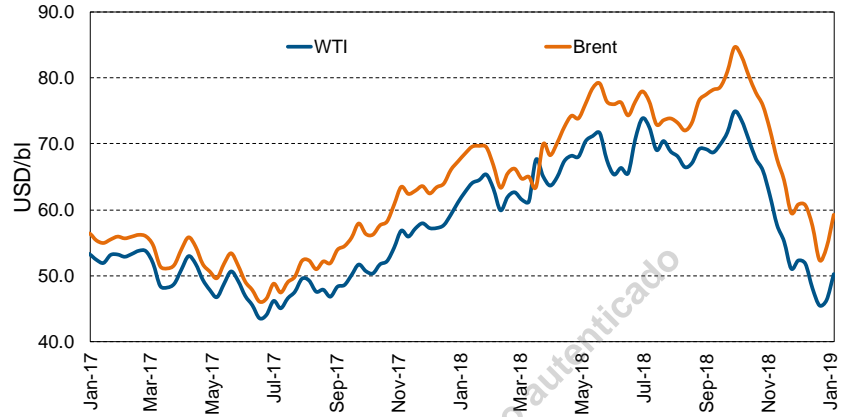
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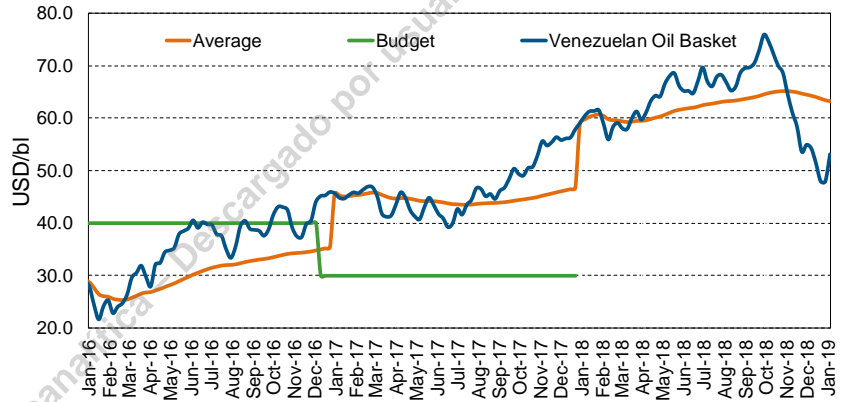
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



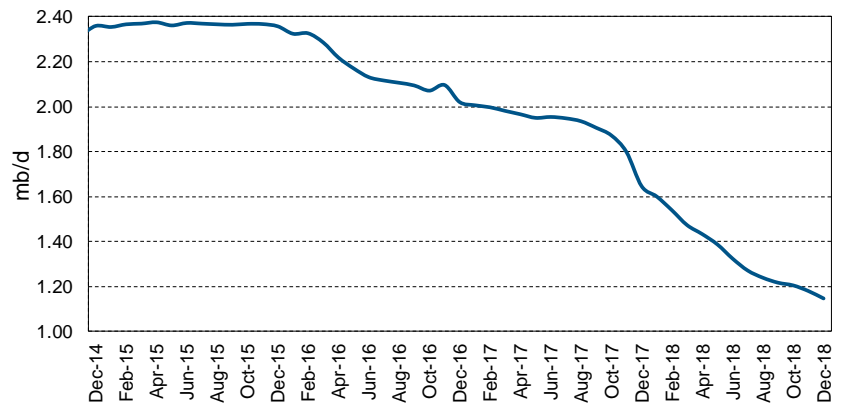
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

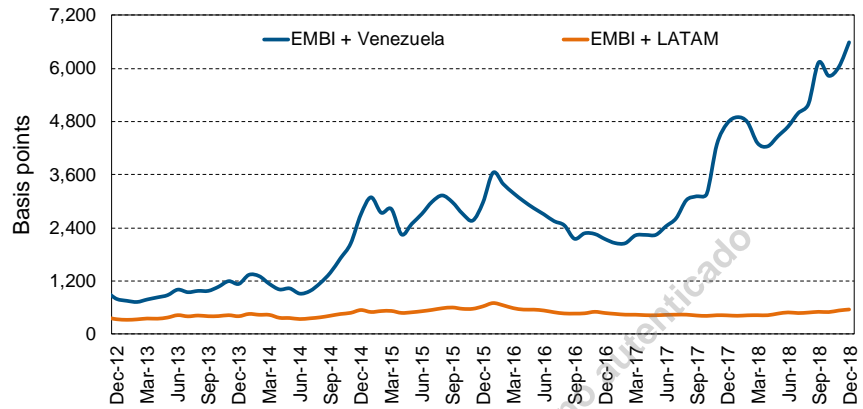


Sources: OPEC and Ecoanalítica

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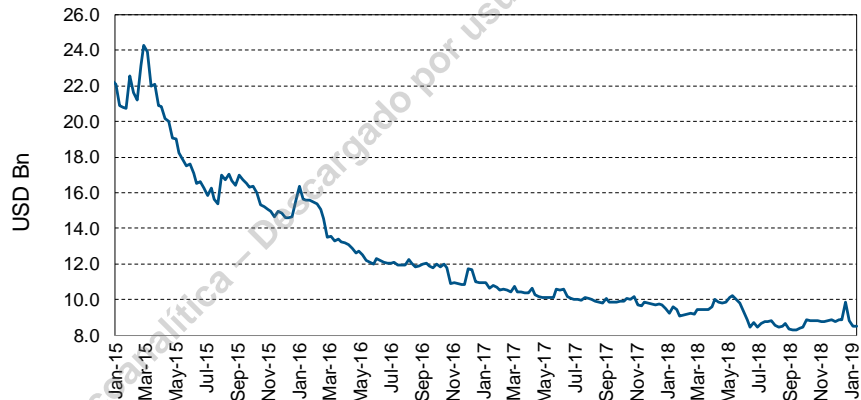
**ECONOMIC INDICATORS**

**EMBI**



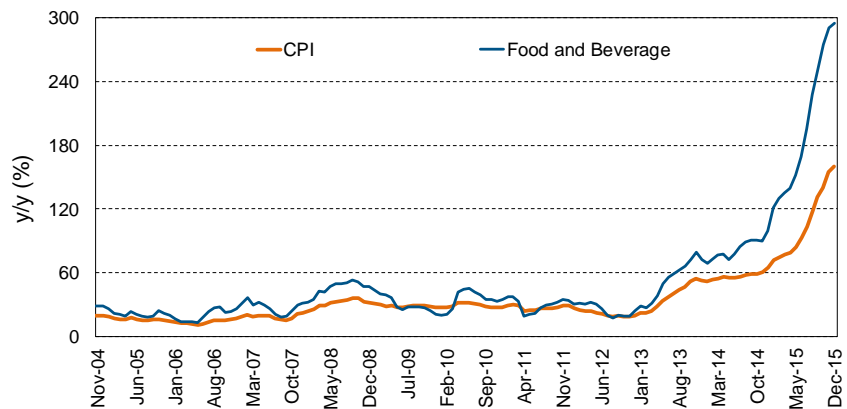
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**

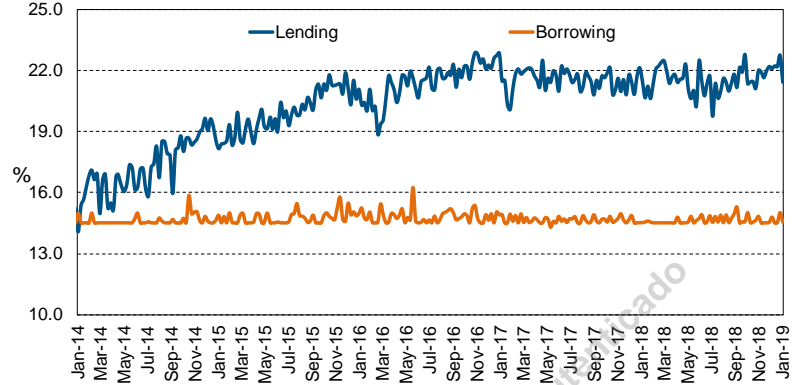


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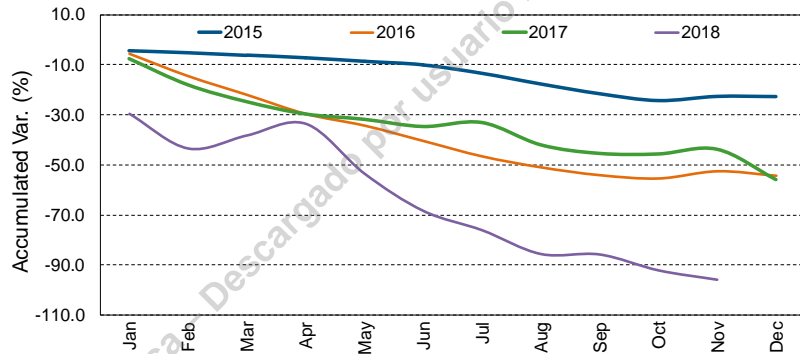
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



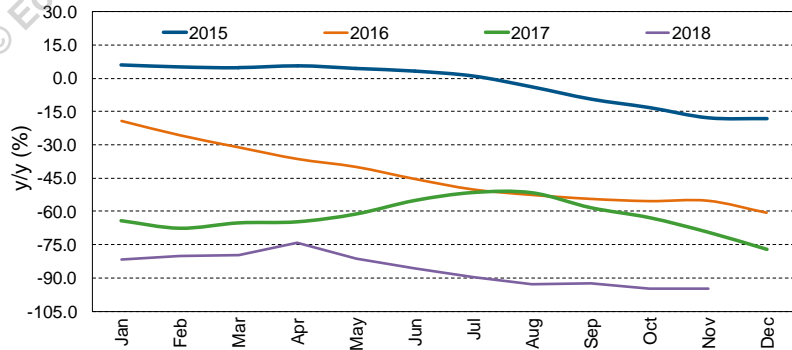
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

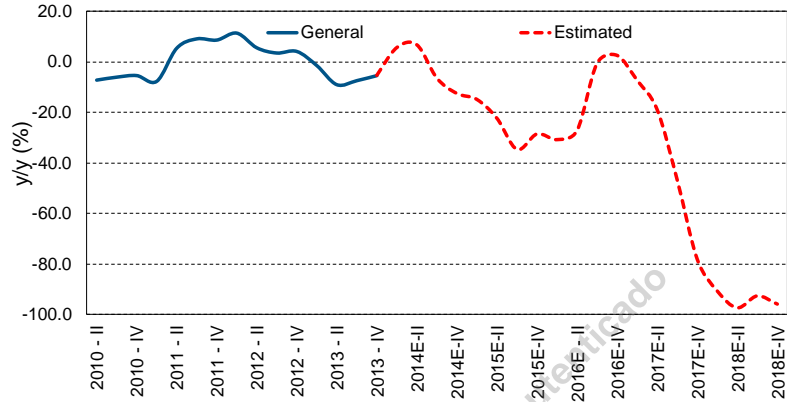
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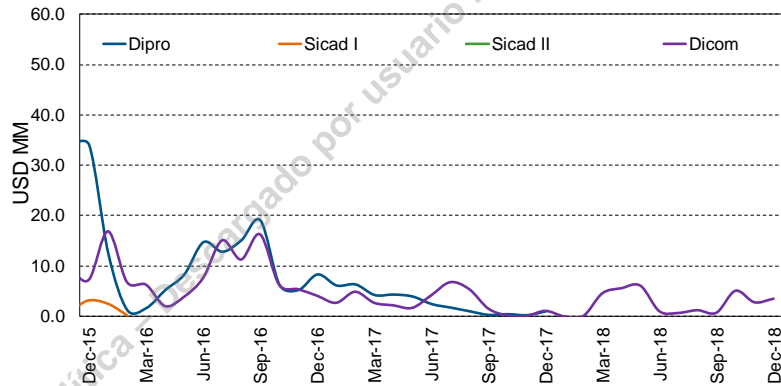
## ECONOMIC INDICATORS

Real Wage Index



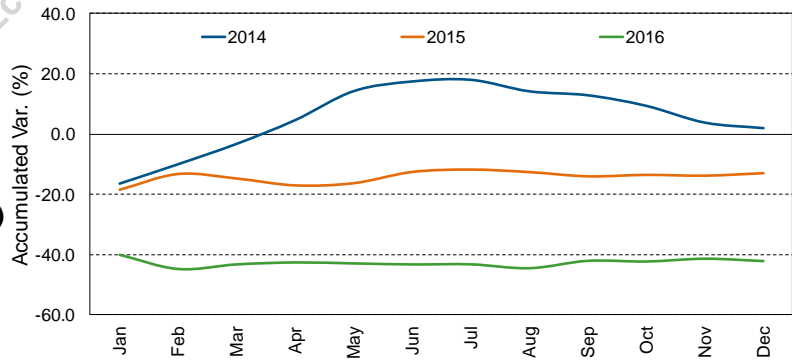
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

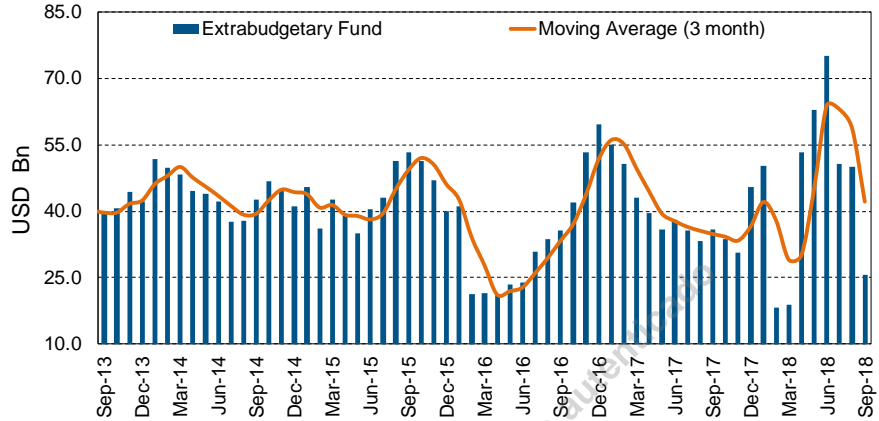
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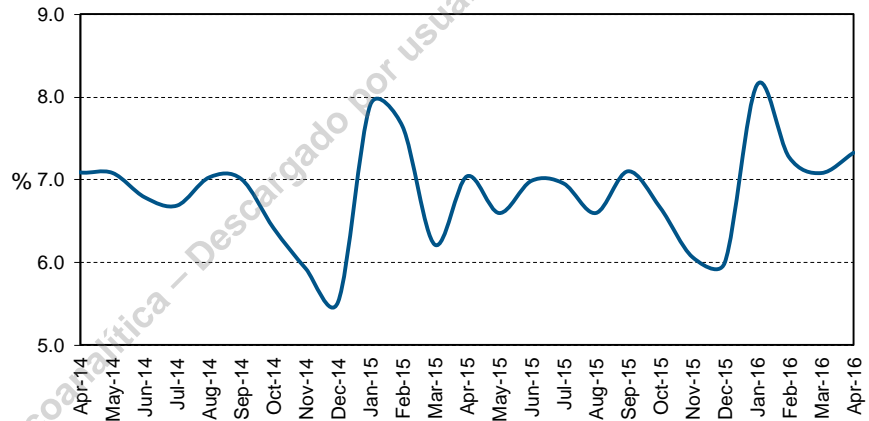
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



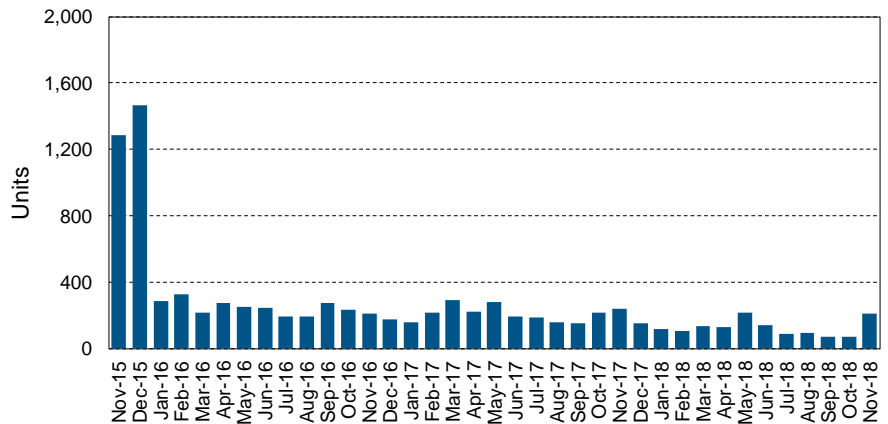
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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