



## In the midst of opacity, some light is shed in a roundabout way

On December 21, 2017, the US Security and Exchange Commission (SEC) published the annual report on the Venezuelan economy, which the government is under the obligation to submit to the SEC as the issuer of debt traded in the US financial market.

Under other circumstances, this is a report that would be no more than a mere bureaucratic formality; however, in the present situation, it takes on special significance, since it is the only means used by the government to publish basic economic indicators for 2016.

The Central Bank of Venezuela is just one more institution that has become an appendix to the Executive Branch of Government. In line with this, the publication of official figures by the Central Bank does not inform on key points of the economy in a timely manner.

For that reason, in Venezuela inflation figures have not been published since December 2015, balance of payment and gross domestic product figures since 3Q2015, and fiscal balance figures since 2015. Up until now, at **Ecoanalítica** we have used a variety of quantitative models to estimate these indicators, given the absence of official data.

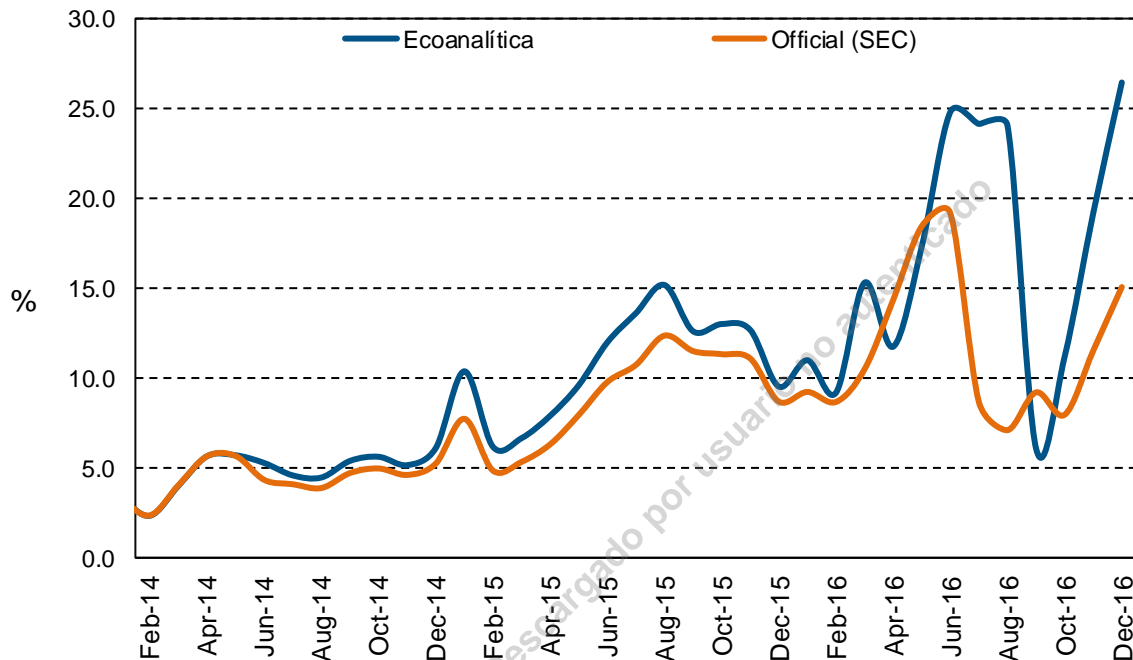
### A much lower inflation

According to the report published by the SEC, inflation in Venezuela was 274.4% in 2016. This would be an increase of 180.9% compared to 2015, but way lower than the 525.1% estimated by **Ecoanalítica** for that year.

It should be noted here that it is presumed that, in June 2014, the Central Bank modified the weightings of the original 2007 methodology used to calculate the Nationwide Consumer Price Index (NCPI), resulting in a lower rate of inflation than would have been obtained by using the old methodology. The NCPI estimated by **Ecoanalítica** uses the 2007 scheme, and it has differed from the official data published by the Central Bank as far back as 2014.

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### Monthly Inflation forecasted by Ecoanalítica vs. Official Inflation



Sources: SEC, BCV and Ecoanalítica

It can be seen that the difference between the Ecoanalítica calculation and the official data remained close until the first half of 2016, but as of June the series began to diverge.

The data reveal a structural fracture that suggests that in 2016 there was yet another change in the way inflation was calculated.

#### Contraction of the external sector

On the matter of the external sector, there is not much to say. In general, the published results coincide with the forecasts, albeit with some discrepancies.

Among the published data, worthy of note is a deficit on the current account of USD 3.87 billion, way below the deficit of USD 6.68 billion estimated previously. This difference is due mainly to a more optimistic bottom line on the trade balance than calculated by **Ecoanalítica**, as regards both imports and exports.

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### External Sector Balance (USD MM)

	SEC Data	Ecoanalítica's Estimates
<b>Balance of Payments</b>	-6,808	-7,211
<b>Current Account</b>	-3,870	-6,684
Trade balance	11,033	8,496
Exports	27,403	26,473
Imports	-16,370	-17,977
Services	-8,159	-8,090
Investment Income	-6,918	-7,179
Current Transfers	174.0	89.0
<b>Financial Account</b>	-144.0	1,906
Net Errors and Omissions	-2,794	-2,433

Sources: SEC and Ecoanalítica

This better result for the balance on the current account contrasts with the slight deficit of USD 14 million on the financial account, compared to the surplus of USD 1.91 billion estimated by **Ecoanalítica**. It is difficult to determine the origin of the difference between the two figures, since the manner in which the financial account data was presented in the SEC report differs substantially from the way in which these balances are conventionally presented.

It is possible that, among other factors, the presented data accounted in a different way the barrels of oil that are sent as payment for the loans of the Chinese fund. These shipments can be counted as exports in the current account or as debt payments in the capital account.

However, It should be noted that, despite the change in format, the published data reveals in detail the strong contraction experienced by the financial account in 2016, although the way in which the data are published differs from the scheme the Central Bank uses traditionally to present details of the account in its reports.

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### Financial Account of the Balance of Payments (USD MM)

	2015	2016	y/y (%)
<b>Inflows</b>	<b>58,504</b>	<b>24,267</b>	<b>-58.5</b>
Direct Investment	7,802	3,956	-49.3
Public Debt	11,587	6,238	-46.2
Private Debt	0	0	0
Other	36,234	11,865	-67.3
<b>Outflows</b>	<b>-44,252</b>	<b>-24,411</b>	<b>-44.8</b>
Direct Investment	-7,432	-3,929	-47.1
Public Debt	-10,753	-9,346	-13.1
Private Debt	-25	-43	72.0
Other	-26,042	-11,093	-57.4
<b>Net Balance</b>	<b>14,252</b>	<b>-144</b>	<b>-101.0</b>

Sources: SEC (BCV) and Ecoanalítica

According to the published data, inflows of foreign currency through this account fell by 58.5% compared to 2015; inflows from foreign direct investment shrank by 49.3%; and inflows from public borrowing fell by 46.2%. Lastly, inflows under “Other” fell by 67.3%.

As for capital outflows, they also fell by 44.8%; or more precisely, foreign direct investment outflows fell by 47.1% and outflows under “Other” fell by 68.8%. By way of contrast, disbursements for payment of public debt contracted by only 13.1%.

This illustrates how investments abroad and payments of different types of external liabilities were reduced in 2016 to give priority to the payment of public debt bonds.

Broadly speaking, in 2016, the Venezuelan Government was left increasingly short of external financial resources, after having dipped into them in 2015 in an attempt to compensate for the drop in oil prices in 2014.

In any event, both the published data and the estimated figures show a considerable balance of payment deficit in 2016, financed mainly by a reduction in the international reserves. Back then, an imminent default was already in the making, which would come to pass in 2017.

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## The numbers don't add up

The fiscal accounts published in the report are undoubtedly some of the accounts that have most discrepancies. The structure of revenues reveals conflicting information as regards sources and the total. In 1997 bolivars, inflows fell by 7.3% in 2016 and by 3.9% in 2015, both below the 20.7% and 10.7% drops in real spending. Among the accounting items making up total real central government spending, the only one that did not contract in real terms in 2016 was the one for wages.

As for the Consolidated Public Sector, which includes decentralized entities, Petróleos de Venezuela S.A. (Pdvsa), Corporación Venezolana de Guyana (CVG), and all other state-owned companies, the trends are similar. Real inflows fell by 32.4% in 2016, dragged even further down by the drop in PDVSA's revenues.

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<b>Consolidated Public Sector</b>				
	<b>(y/y %)</b>			
	2013	2014	2015	2016
<b>Total Revenues</b>	14.2	19.6	-35.0	-32.4
Tax Revenues	17.2	16.8	31.5	-10.6
Non-tax Revenues	17.5	21.3	-71.6	-86.8
Central Government	96.4	20.7	-62.6	-87.8
PDVSA Operating Surplus	-33.6	23.9	-59.3	-96.3
Interest, Profits, Dividends and Commissions	424.0	-72.2	-32.7	-73.0
Non-financial Public Enterprises Operating Surplus	-	-	-	-
Capital Revenues	-	-	-	-
Others	-2.5	47.6	-93.2	-49.1
<b>Total Expenditures</b>	6.0	0.4	-20.8	-9.1
Current Expenditures	12.9	-2.2	-18.2	-3.3
Salaries, etc	6.8	-0.5	-11.6	8.1
Purchases of Goods and Services	14.8	-26.1	-11.5	-50.7
Interest Payments	11.4	-13.8	-44.9	-48.6
Transfers to Private Sector	-1.9	11.2	0.2	-17.9
Central Government Transfers to Unconsolidated Entities	-1.3	11.9	-9.9	-17.3
Other	63.9	-15.4	-42.1	80.7
Central Government	-	-	-	-
Capital Expenditures	-13.9	10.4	-29.4	-31.1
Capital Formation	-22.3	25.6	-48.3	-10.5
Other ( Including Transfers to Unconsolidated Entities)	-3.0	-5.3	-3.4	-46.3

Sources: SEC (Ministry of Economy and Finance) and Ecoanalítica

It needs to be mentioned here that, in the case of revenues in foreign currency (from oil activity), the conversion to bolivars is performed at an appreciated official exchange rate (DIPRO), which underestimates the value of those revenues in local currency. Even though PDVSA's dividends and royalties have shrunk, their conversion to bolivars at VEF 10/USD reduces them still further.

As for payment of interest on expenditures, it has posted a drop measured in real bolivars since 2013, however, payment of interest increased in 2016. This control of the foreign exchange scheme, besides distorting the fiscal accounts, results in a significant loss of revenue in bolivars that could be obtained as a result of a potential devaluation.

The Consolidated Public Sector makes transfers of capital to state-owned companies to offset operating losses and their lack of profitability. Although these disbursements should

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be shown as financing (outflows), they are put under revenues since they are inflows of capital for these companies.

Nevertheless, despite all these accounting strategies, the Consolidated Public Sector's deficit has been growing according to the data published by the SEC. In 2016 it was equivalent to 17% of GDP, from 10.3% the previous year.

At this point, we need to take a slight detour. The ratio of the amount of the deficit to real GDP as shown in the report comes to 23.7% (for 2016). The difference between these two numbers has to do with the procedure used to deflate the figures. While, according to the report, the CPI base year 1997 was used, the official CPI figures were not published, leaving a vacuum.

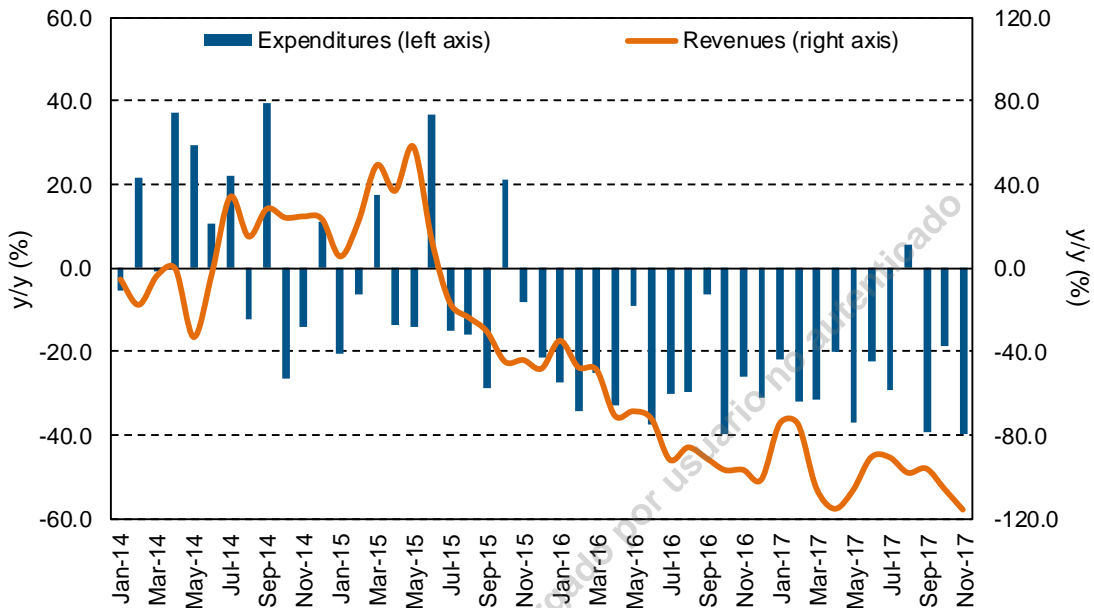
Put another way, even though, according to the Central Bank, GDP fell by 16.5% in 2016 and the Consolidated Public Sector's deficit grew that same year (40.2%), the proportion of the deficit to total GDP increased, but to a lesser extent than shown by the numbers, suggesting that there is noise in the measurement of the variables in real terms.

Getting back to the trend of the deficit as published by the SEC, at **Ecoanalítica** we disagree with this interpretation. Bearing in mind that the reduction in primary spending (explained by the indexation of wages lagging behind inflation) has been offset by a more dramatic reduction in real tax revenues as a consequence of the reduction in economic activity and an increase in prices<sup>1</sup>, our position tends to be that the deficit has been gradually stabilizing.

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<sup>1</sup> The delay in indexing the Tax Unit reduces tax receipts in real terms as prices increase. Moreover, the time lag between the levying of taxes and their actual receipt implies a loss in value of those tax revenues due to inflation.

### Real Revenues (SENIAT) vs. Expenditures



Sources: SENIAT, ONT, Official Gazette, BCV and Ecoanalítica

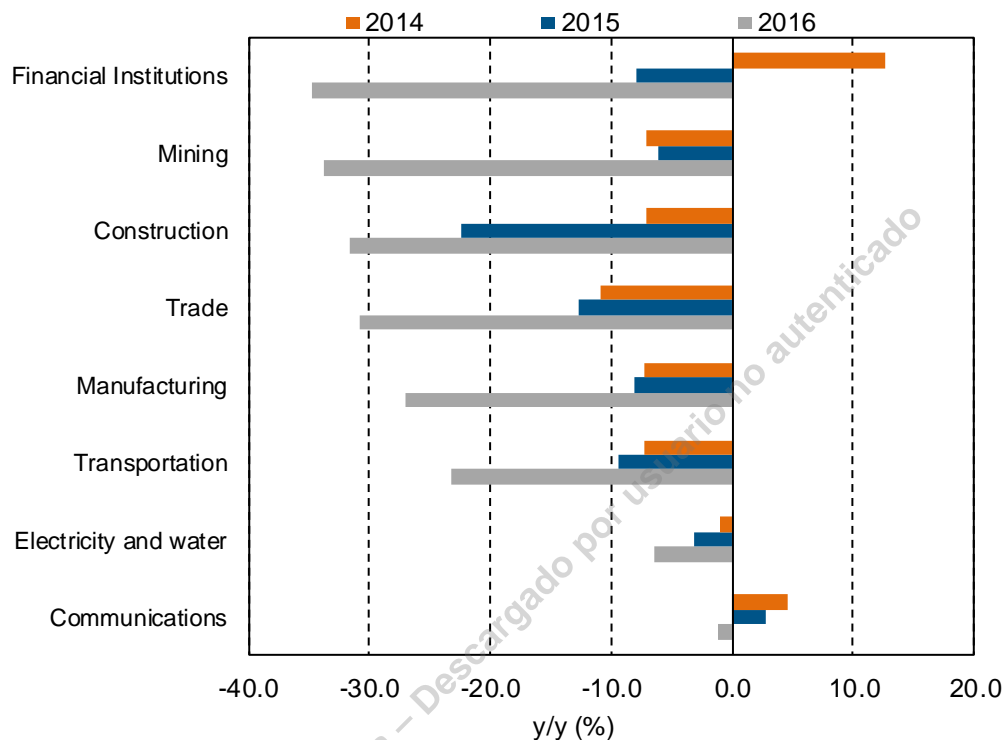
#### It is worse than we thought

This overestimation, either of real GDP or the other variables, contaminates interpretations. Taking the data provided in the report, GDP posted a drop of 16.5%, 1.8 percentage points higher than our estimate. The report confirms a contraction of 24.7% between 2104 and 2016.

Mining is one of the sectors that have shrunk the most. In 2016 it was only 45.6% of what it was in 2012. Construction is another of the sectors that have been hardest hit. It has been contracting since 2013, going from contributing approximately 7.7% of GDP that year to only 5% three years later. These official figures coincide with our estimates. At **Ecoanalítica** we estimated a cumulative drop in the construction sector of around 59.2% (2013-2016).

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### Growth by Economic Activity



Sources: SEC (BCV) and Ecoanalítica

The biggest contractions in 2016 were posted by financial institutions in the lead with 34.7%, followed by commerce (30.8%), transport (23.2%), and manufacturing (27.1%). All these sectors posted reductions in activity in 2016, according to the report published by the SEC.

#### The possibilities are few

In line with the data published by the SEC, global aggregate demand also posted a significant reduction. Since 2013, it posted a cumulative drop of 60.3%, driven by steady reductions in investment (gross capital formation) and private consumption. The steep drop in investment implies the threat of a loss of domestic capital, a consequence of the inability to replenish assets due to depreciation. The lack of investment puts a brake on production capacity, the productivity of labor, and technological advances.

Private consumption fell at an average of 13.3% between 2014 and 2016, reaching its biggest drop in 2016 (-19.7%), 6.3 percentage points above our estimate.

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The widespread deterioration in the productive sectors and the government's insistence on its need to assume the role of producer (at which it has failed) has resulted in a rapid loss of well-being for the population. Even though the minimum wage was raised six times in 2016 alone, at **Ecoanalítica** we estimate a loss of purchasing power of close to 55.1%.

### The crisis is here to stay

Relevant data such as gross domestic product, private consumption and inflation reveal deeper drops than estimated, giving rise to the possibility that the indicators for 2017 and this year will be worse than we thought. While 2016 was the year with the biggest drop, according to both official and estimated figures, 2017 was not far behind, which means that the drop could be even bigger.

As for inflation, the possible change in the way the Central Bank calculates this indicator -restructuring the basket of goods and services, including more stable items and taking a larger proportion of regulated goods and services for measurement purposes- would explain the widening of the gap between official inflation and the Central Bank methodology from 2014 onwards. However, reality makes itself felt day after day; hyperinflation is a chronic ill that the government refuses to admit.

Now that it is clear that the government's cash flow does not give it much margin, that tax revenues will continue to fall, that the inflation tax has ceased to be attractive and monetary financing is a pernicious strategy for any system, what is not clear is what kind of financing the government will resort to in order to maintain its populist strategy.

What we can say is that the discretionary use of economic policy will continue this year. The economic irresponsibility to which the production system has been subjected has reached alarming proportions. Today, despite those crude indicators, the government shows no intention of implementing a stabilization plan. This means that the coming months will be much more difficult than what we have experienced thus far.

**Ana Isabel Heredia**  
**Armando Gagliardi**

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week September	Weekly var. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VEF/USD)	3345.0	2.9	2.8
	1st Week January	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.5	-0.7	0.0
	2nd Week January	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	0.0	0.0	0.0
	2nd Week January	Weekly var. (%)	Annual var. (%)
International Reserves (USD Bn)	9.6	3.9	-10.0
	1st Week January	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	133,264	4.6	1,169.3
Price of International Oil Baskets (USD/bl)			
	2nd Week January	Weekly var. (%)	Annual var. (%)
WTI	62.7	2.6	19.6
Brent	68.5	1.8	23.8
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week January	Weekly var. (%)	Annual var. (%)
Weekly Average	60.4	2.3	34.8
Annual Average	59.7	1.1	32.1

Sources: BCV, MENPET and Ecoanalítica

\* Annual variation of accumulated expenditure.

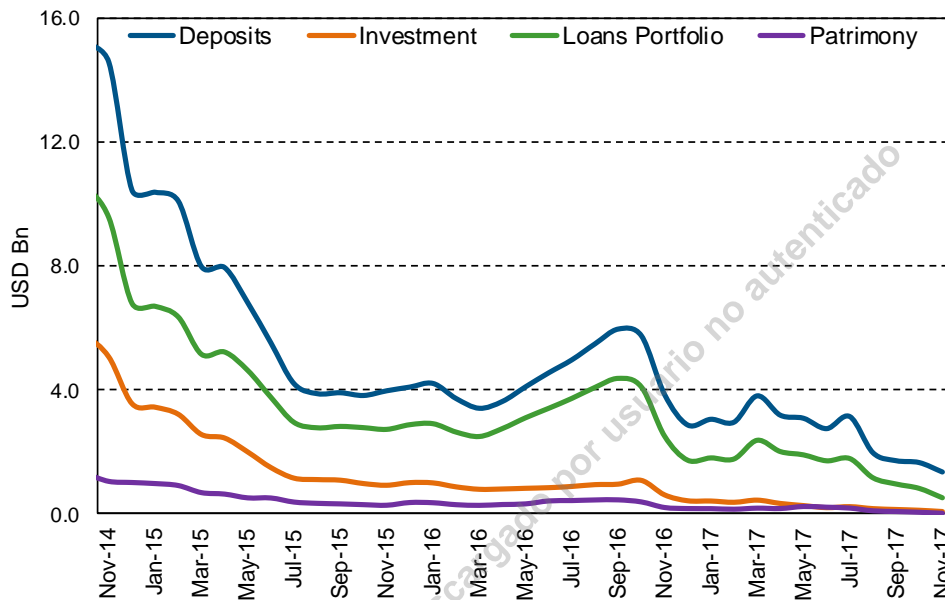
<sup>1</sup> Depreciation (+)/Appreciation (-)

Price of the Venezuelan oil basket published in yuans since 09/08/2017

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CHART OF THE WEEK: “ASYMPTOTIC LINE TO ZERO”

Financial System



Sources: Sudeban and Ecoanalítica

Venezuela’s financial sector has been one of the hardest hit by the crisis. According to figures published by the US Securities and Exchange Commission (SEC), supplied by the Central Bank of Venezuela, the financial institutions sector fell by 34.7% in 2016. And their situation got worse in 2017. The things that made the banks attractive have disappeared. The control of interest rates makes them negative, discouraging deposits. Moreover, the drop in the demand for monetary balances in the midst of a hyperinflationary spiral reduces the commissions the banks can charge for the use of money. And that is quite apart from the legislation that is detrimental to financial performance.

In this chaotic situation, banks are not sufficiently profitable to be able to cope with the rapid changes required in a hyperinflationary environment. The total value of their net worth in dollars (at the unofficial exchange rate) was USD 36.1 million in November; the value of total deposits came to USD 1.4 billion; and the value of the loans portfolio closed at USD 523 million in that same month. The size of total deposits has shrunk by 96.9% in the past five years, whereas total net worth is only 0.9% of what it was in November 2017. The weakness of the financial system makes it clear that it would not be possible for a potential stabilization plan to count on it for support. Today the country’s financial institutions lack strength and the constant threats by the government are pushing them into an increasingly fragile position.

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**ECONOMIC TIPS**

**Profiting from the Diaspora.** President Nicolás Maduro commented that the new adaptation of the DICOM system would allow Venezuelans who are outside the country to take part. He added that this would be done with the idea of attracting the remittances that Venezuelans send home from abroad. He gave the order for there to be good coordination between the Central Bank of Venezuela and the Ministry of Finance to guarantee the proper functioning of the auctions.

**The remittances in terms of numbers.** A report by the World Bank states that between January and October 2017, USD 596 billion were mobilized, USD 289 million of which went to Venezuela.

**The perpetual emergency.** Decree No. 3239 issued by the Presidency of the Republic, which declares, once again, the State of Exception and Economic Emergency was published in *Gaceta Oficial Extraordinaria* N° 6356. The justification given for renewing the state of exception was “*the extraordinary circumstances in the social, political and economic spheres*” in the country.

**Bolivars in circulation.** According to figures published by the Central Bank of Venezuela, the quantity of banknotes and coins in circulation went up by 26.9%. Special mention was made of the appearance of the VEF 100,000 banknote and the increase in the number of VEF 5,000, VEF 10,000, and VEF 20,000 banknotes (34%, 11.7%, and 45.7%, respectively).

**About the Petro.** Vice President of Planning Ricardo Menéndez commented that the purpose behind the creation of the Petro was to overcome the “*technological and financial cordons imposed on the country.*” He also said that the government had already ordered the issuing of 100 million units of this cryptocurrency backed by Field No. 1 of the Ayacucho Block in the Orinoco Oil Belt.

**Extending it beyond Venezuela.** Nicolás Maduro proposed that the Peoples’ Trade Treaty of the Bolivarian Alternative for the Peoples of our America (ALBA-TCP) and Petrocaribe use the Petro as “*an economic integration measure.*”

**The reserves are up slightly.** According to figures published by the Central Bank, on January 12, the international reserves came to USD 9.61 billion, for an increase of 3.9% (USD 362 million) compared to the previous week. However this figure is down 1.2% (USD 119 million) from December 2017.

**OIL TIPS**

**Getting ready for the leap.** A few days ago, People's Power Minister for Oil and President of PDVSA Manuel Quevedo gave assurances that the oil industry's main objective in 2017 was to raise its production from 1.9 million barrels a day (mb/d) to 2.5 mb/d. *"We've already taken the first steps. 1.5 mb/d is already a thing of the past and we are close to 1.9 mb/d; and I give thanks to the workers for these achievements,"* he said.

**Taking a free falling.** According to the secondary sources of the Organization of the Petroleum Exporting Countries (OPEC), in December Venezuela's oil production was 1.7 million barrels per day (1.7 mbd) which represents a decrease of 82.2 thousand barrels per day (82.2 kbd) regarding the previous month.

**A boy made of wood.** Despite Quevedo's declarations, according to OPEC's data, direct communication between the organization and Pdvsa show that Venezuela's oil production was 1.6 mbd in December and that it decreased 216 kbd regarding the previous month. The drop in oil production represents a decrease of 28.6% between December and the same month in 2016.

**Destroying the biggest sector.** Venezuela's oil production has shown a five-year average inter-annual drop of 145 kbd if we take 2012 as the starting point, an aggregated drop of 724 kbd in that five-year period and around 1.27 mbd if we compare the higher production level under Nicolás Maduro's presidential turn and the level reached in December.

**Between the illiquidity and insolvency.** The drop in production has several implications in Pdvsa and Venezuela's cash flow. Base on OPEC's publication, Pdvsa has forfeited revenues (just by decreasing the production) of USD 370.3 million in one month. Because of this collapse in production (649 kbd inter-annual variation in December), Venezuela has forfeited revenues of USD 11,1 billion in one year.

**The new PDVSA.** As Quevedo explained it, the potential increase in oil production is part of an *"extraordinary plan for the profound transformation of PDVSA,"* whose key lines of action are raising oil production by 1.0 mb/d in the medium term, strengthening the domestic refining system, the petrochemical industry, the domestic market, incentives for exports, and, last of all, the fight against corruption.

**Looking to the eastern region.** On the matter of the makeup of the basket of exportable barrels, Quevedo stated that PDVSA had posted an increase in placements in the Asian

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market to the point that this market now accounts for nearly 49% of the state-owned oil company's total exports.

**The collapse continues.** Exports of Venezuelan crude to the United States at the close of December came to 393,000 barrels a day (393 kb/d), the lowest level for the entire year of 2017, giving an average of 593 kb/d, the lowest since 1991.

**We fell short.** According to Goldman Sachs, the effective oil price in 2018 could be way higher than their initial estimates due to the steady increase in the demand for crude and a high level of compliance with the cuts proposed by the different member countries of the Organization of Petroleum Exporting countries (OPEC). The investment bank estimates that Brent and West Texas Intermediate (WTI) will average close to USD 62.0 a barrel (/bl.) and USD 57.5/bl., respectively, in 2018.

**Let's keep going.** A few days ago, Iraqi Oil Minister Jabar al-Luaibi confirmed his country's willingness to fully comply with the agreement proposed by OPEC despite the fact that its production capacity is close to 5.0 mb/d.

**This isn't at an end.** Al-Luaibi also stressed that the agreement should continue despite the significant increase in prices in recent weeks. *"The market now is not a hundred percent stable (...). We are watching the market and the market is okay in terms of supply and demand balance. There's still a gap, inventories are still high,"* he said.

**Qatar agrees.** Qatari Minister of Energy and Industry Mohammed bin Saleh al-Sada stated that it was still premature to discuss an exit strategy from the global oil supply-cutting pact proposed some months ago by OPEC, and that the agreement should continue despite the current dynamic of prices. He explained that an agreement on the basis of then market conditions should be initiated only when the global level of oil reserves returned to the average of the last five years.

**The threat is still latent.** Fatih Birol, the executive director of the International Energy Agency (IEA), stated that, if the oil barrel price goes to around USD 65 to USD 70, there is the risk that North American shale oil producers will have a key impact on the supply of crude in the medium term.

## BUSINESS SECTOR TIPS

**Limitless fiscal spending...** Only 11 days into 2018 and already President Maduro was approving VEF 1.56 trillion to cover "budgetary shortfalls in state governments and

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mayoralties.” He then approved an amount that was 2.57 times greater for the new Regional CLAP Fund to be used to finance the CLAPs (Local Supply and Production Committees) on the state and municipal government levels.

**...separates income from work.** As part of a Marxist national project, President Maduro announced a series of monthly cash bonuses to be transferred via the Carnet of the Fatherland: a family bonus of between VEF 320,000 and VEF 1,680,000, depending on the number of family members (between 2 and 10); a VEF 700,000 bonus for pregnant women; and a VEF 1,000,000 bonus on the birth of the child.

**Socialist bakers adjust their prices.** The socialist bakeries put up their prices this week by as much as 100% in some cases. Even so, their managers claim that they are still selling at a loss, as they frequently have to buy supplies from informal vendors but sell their baked goods at regulated prices.

**Rudimentary measures in critical times.** Some priority food items such as the **canilla** (baguette-style bread) are being sold directly to the CLAPs, and at artificially low prices. When things get critical, which is becoming increasingly frequent, the socialist bakeries barter with other socialist bakeries to get the supplies they need.

**The looting continues.** Waves of looting continue throughout the country and are becoming more severe. Last weekend alone, 22 stores in Calabozo, Guárico state, were looted, ten of which do not sell food. In some cases, the looters entered by force and even used Molotov cocktails.

**Hunger leads to cattle rustling.** The theft of cattle from farms has increased in 2018 due to the lack of supplies and widespread malnutrition. It is becoming increasingly common for cattle owners to pay informal security guards to patrol the boundaries of their farms and shoot at anyone who tries to steal their cattle. The Carabobo Chapter of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras) repudiated the incidents of theft and demanded that the government correct the public policies that have induced this vandalism.

**The electricity crisis gets worse.** The start of the year has been marked by numerous protests due to the lack of electricity. According to a report from the Ricardo Zuloaga Group, the causes of the blackouts are not just lack of maintenance at the power stations but also lack of maintenance of the distribution system, which has caused explosions of transformers and inefficiencies in the circuits. Corpoelec has neither the capacity nor the inventory nor the budget to cope with unforeseen incidents.

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Year 13. Number 02 Week III  
January 2018

**Wishing them a happy day?** Monday, January 15, was teacher's day. However, given the decadence of Venezuela's education system, a large number of teachers have resigned to go in search of better options. Between October 2017 and January this year alone, some 3,500 teachers from the Fe y Alegría schools have resigned, that is 35% of the teachers who started the school year.

**Quality education, a luxury item.** In the second half of the school year, the monthly fees at private schools went up by between 80% and 300%. Alejandra Brito, a mother whose income is only the minimum wage, said, *"I had to take my daughter out of her private school in Caracas because the monthly fee went up by 100%... and now I leave her at home."*

**What's happening at Banesco?** Diosdado Cabello claimed that the Venezuelan Government is to buy Banesco for USD 3.5 million, although he did not specify which exchange rate would be used to establish the bank's value. However, Juan C. Escotet stated that his bank was not for sale.

## WORLD ECONOMY TIPS

**An eight-month high.** The euro zone's trade surplus went up in November to EUR 26.3 billion, outstripping the EUR 18.9 billion posted in October. This is the indicator's best result since March last year and was due to the 7.7% growth in the bloc's exports, which was bigger than the 7.3% increase in imports.

**An upward trend.** Industrial production in the euro zone was up last November by 3.2% compared to November 2016. This result exceeded expectations and occurred at a time when the euro zone was posting its best growth rates in a decade.

**The end is near.** According to statements by Ardo Hansson, the governor of the Bank of Estonia, the European Central Bank (EBC) could suddenly terminate its asset purchasing program by the end of this summer. The program currently covers some EUR 30.0 billion.

**German strength.** Germany's economy grew by 2.2% in 2017, its highest rate of growth in six years, although it was below analysts' expectations. The main engines driving this growth were private consumption and exports, thanks to the good moment the world economy is currently experiencing.

**Coming down from the top.** Inflation in the United Kingdom fell to 3% in December, year-on-year, below the 3.1% posted in November, the highest rate in more than six

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years. This is the first slowdown in inflation since June. Inflation in the United Kingdom has been on an upward trend since the referendum on Brexit was held in June 2016.

**Better than expected.** According to China's Prime Minister Li Keqiang, the Chinese economy is expected to have grown by 6.9% in 2017. This result would exceed the target of 6.5% set by the government and indicates an upturn in growth from the 6.7% posted in 2016, the Chinese economy's lowest rate of growth in 26 years.

**A volatile indicator.** Chinese imports posted much lower growth than expected in December, with a rate of 4.5% compared to a year ago, whereas exports grew by 10.9% over the same period. Analysts expected growth of 13% in imports after the growth of 17.7% posted in November.

**Timid growth.** According to the monthly indicator prepared by the Banco Central do Brasil, in November economic activity in Brazil posted seasonally adjusted growth of 0.49% compared to October and of 0.73% compared to November 2016. That makes it three months in a row that this indicator has registered growth.

**Reforms not good enough.** The credit rating agency Standard and Poor's revised Brazil's sovereign debt downward to BB- from BB and maintains its negative outlook due to the delays in implementing measures to balance the country's public accounts. This means that Brazil's sovereign debt is three steps below investment grade.

**Manufacturing drops.** In November industrial activity in Mexico fell by 1.5% year-on-year and by 0.1% compared to October. The sector that was hardest hit was construction, which fell by 1.2% compared to October. On the other hand, manufacturing was up by 0.6% and mining by 0.1%.

**Revenues slide.** Tax receipts in Peru fell by 1.3% in real terms in 2017, the third reduction in a row for this indicator. According to official figures, tax receipts came to USD 28.01 billion, equivalent to 12.9% of GDP.

## POLITICAL TIPS

**All or nothing.** After fresh negotiations between the Venezuelan government and the opposition were held last week, last Monday the Democratic Unity Alliance published a press release in which it gave a progress report. Among the issues mentioned was the fact that, while there were points on which agreements had been reached, there were others where the differences were "*substantial*."

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**Recognizing the true state of affairs.** In the press release, the Democratic Unity Alliance addresses the needs of the population and also responds to its critics. *“To those who say that hunger does not wait for negotiations, we say they’re right,”* commenting that the economic crisis the country is experiencing is due to *“the liquidation of the economy”* and that it is the government’s responsibility to deal with this situation. Then, speaking to those who oppose its measures, the coalition says to *“those of you who think they have better paths for solving the country’s problems, don’t hold back on our account.”*

**Cordiality first and foremost.** Last of all, in its press release, the opposition coalition thanked its team of advisors and technical support team, as well as the countries, foreign ministers, and facilitators who had been guarantors and collaborators in the negotiations between the parties.

**None as blind as he who does not want to see.** However, last Thursday, January 11, the Democratic Unity Alliance’s team of advisors, drawn from a variety of sectors, published a press release in which they stress the importance of opening up a humanitarian channel in order to deal with the food and medicines shortage that is affecting the country. They warn that *“there are practical measures through international cooperation that the government knows can be taken immediately to provide relief to the humanitarian emergency,”* and that the dialog serves to insist on the urgency of the situation.

**So near and yet so far.** As for the opposition platform *Soy Venezuela* (I am Venezuela) led by the political leader María Corina Machado and former Caracas Metropolitan Mayor Antonio Ledezma, during the negotiations they requested the foreign ministers of Mexico and Chile, who were present at as observers, *“to close the chapter on the talks,”* in which they have no confidence.

**Extermination.** Last Monday, January 15, an operative was mounted to capture former inspector of the Criminal and Penal Scientific Investigation Corps (CICPC) Oscar Pérez, after a warrant for his arrest was issued in June last year for stealing a police helicopter and flying over the Supreme Tribunal of Justice. In a press release issued by the Ministry of Homeland Affairs, Justice and Peace, the authorities confirmed the death of two members of the Special Action Forces (FAES) and reported that members of the alleged *“terrorist cell were gunned down.”*

**A seemingly never-ending evil.** Following the polemical confrontation revealed by Pérez via the social networks, several opposition leaders expressed their repudiation of the evident violation of human rights perpetrated against the former inspector by the state security forces. As for former Public Prosecutor Luis Ortega Díaz, she claimed that the operative turned into an extrajudicial execution.

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**From his parallel world.** On the other side of the fence, Constituent National Assembly member Diosdado Cabello offered another version of how the operative and the assassination of Óscar Pérez went down. According to Cabello, Pérez was apparently a “terrorist” who was capable of attacking those who were on the scene, resulting in two members of the FAES being injured, which was why the security forces opened fire on Pérez.

**Violations and illegalities.** Last Monday, January 15, in one of his customary lengthy speeches, President Nicolás Maduro presented the report and accounts of his office for the year 2017 before the Constituent National Assembly.

**Putting legitimacy aside.** In response, former president of the National Assembly Julio Borges criticized this rendering of accounts before the Constituent National Assembly. “According to Article 237 of the Constitution, the report and accounts should be presented before the National Assembly. What Nicolás Maduro is doing today, besides being unconstitutional, is putting on a show full of lies,” said Deputy Borges.

**Calling for primaries.** Former Governor of Miranda Henrique Capriles is insisting on setting a date for holding primary elections and choosing a unitary opposition candidate to run at the presidential elections scheduled for this year. Capriles said that “no matter how difficult the situation may be, we have to make an extra effort. I think we can achieve unity for political and social change.”

**The cow’s to blame.** In his unceasing struggle to add external enemies to his discourse, President Nicolás Maduro claimed that Colombia “is experiencing a terrible humanitarian crisis,” and described Colombia as a “failed and outlaw” state.

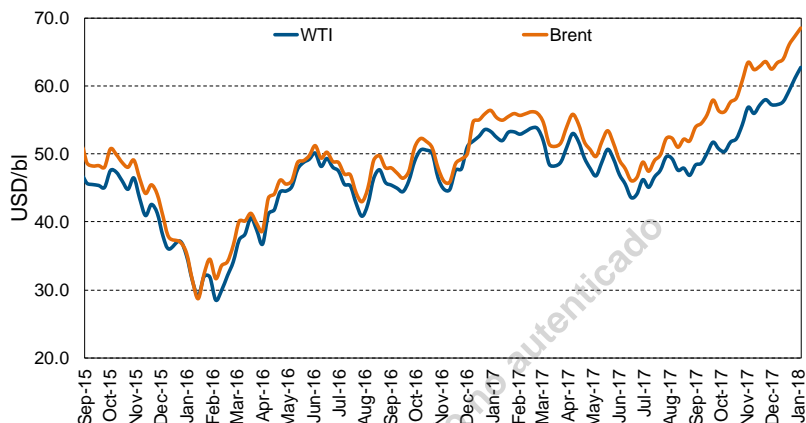
**Full of lies and exaggerations.** In his speech, President Maduro claimed that, unlike in Colombia, “we keep formal employment [in Venezuela] above 60%.” However, according to the latest figures published by the National Statistics Institute (INE), in January 2016, 46.4% of the active population was working in the informal sector. Given the worsening of the economic crisis that the country is experiencing, it is difficult to understand such a huge turnaround.

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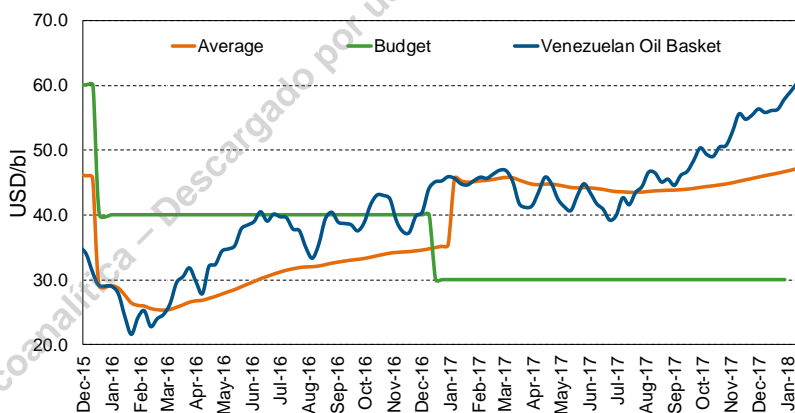
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



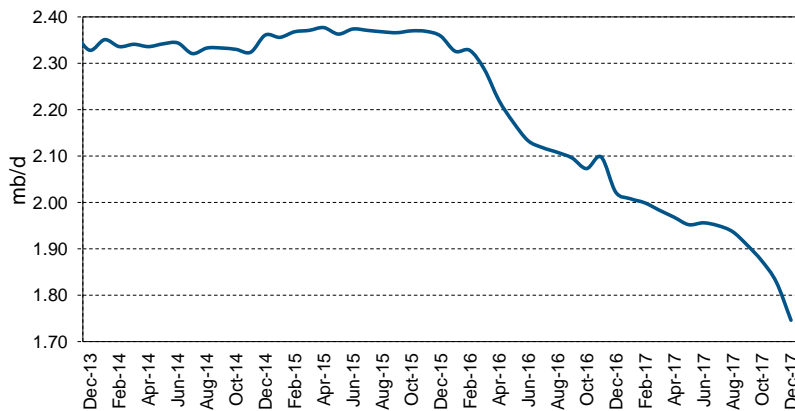
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

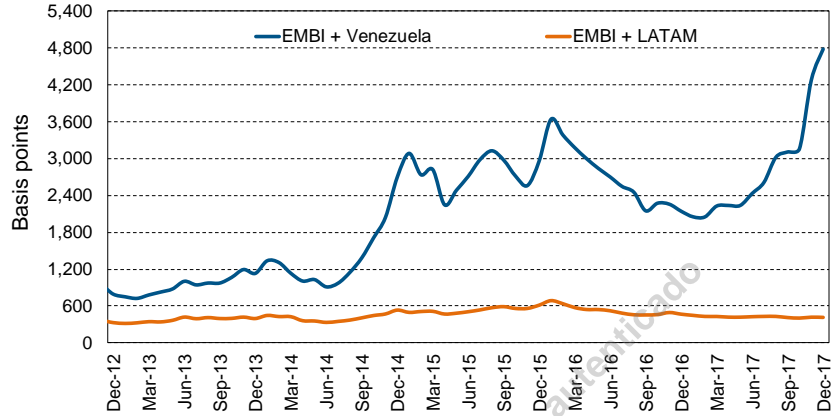
**Oil Production  
(Secondary sources)**



Sources: OPEC and Ecoanalítica

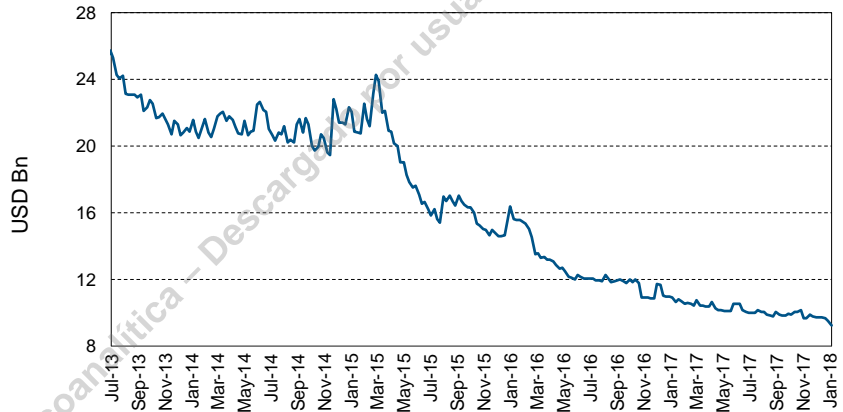
**ECONOMIC INDICATORS**

**EMBI**



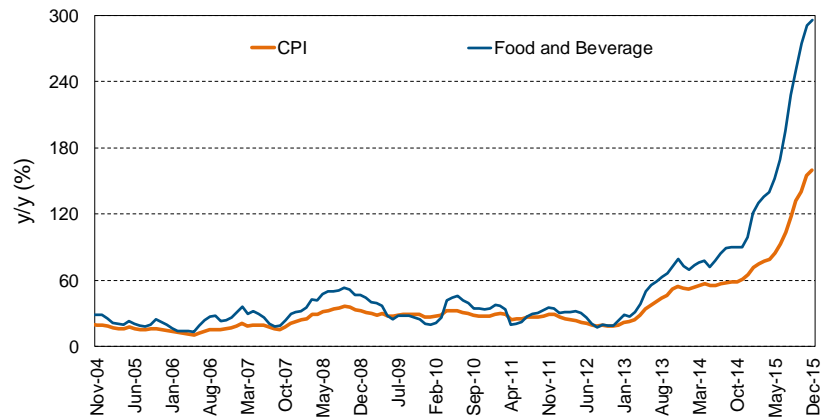
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

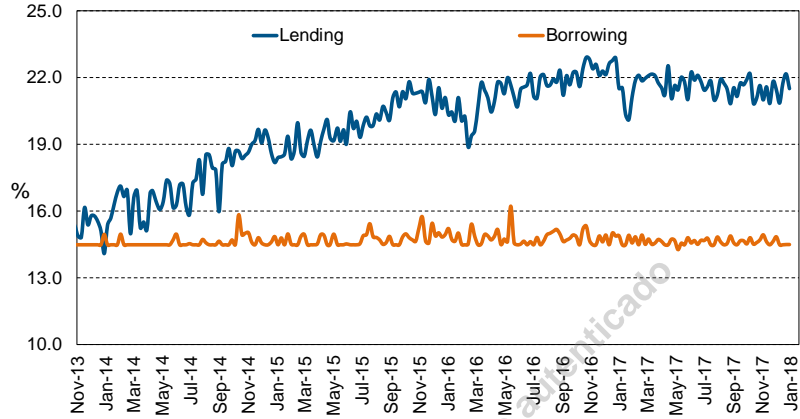
**Inflation (BCV)**



Sources: BCV and Ecoanalítica

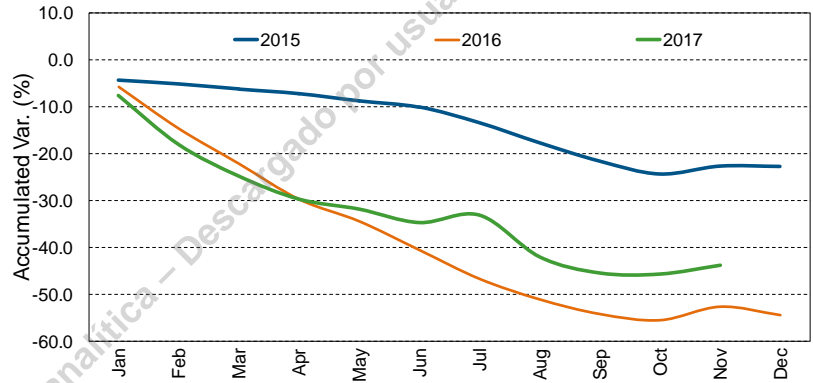
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



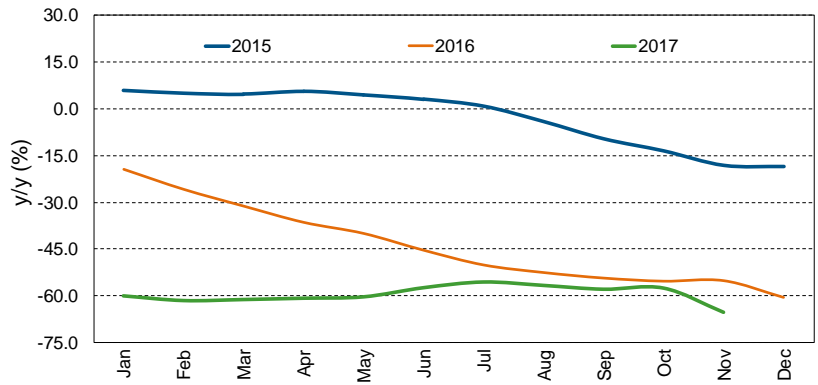
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

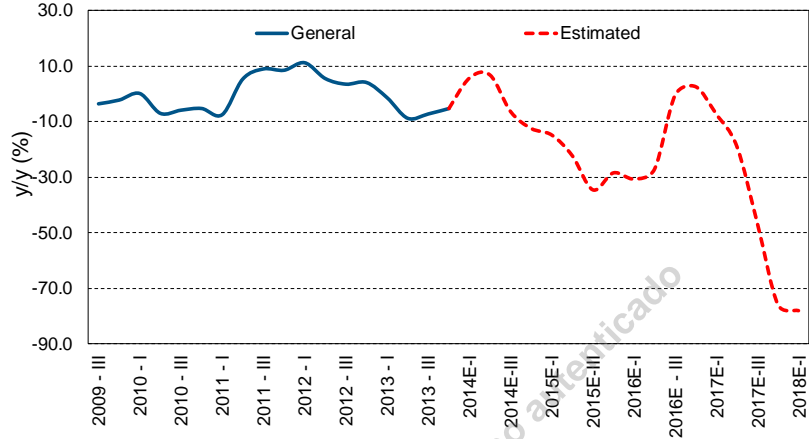
**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

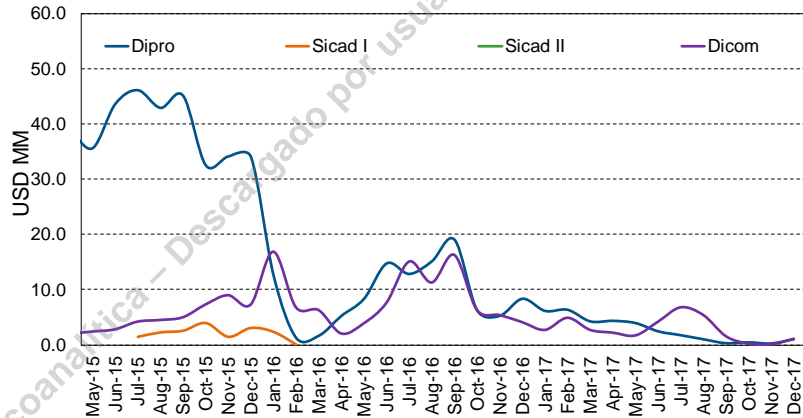
**ECONOMIC INDICATORS**

**Real Wage Index**



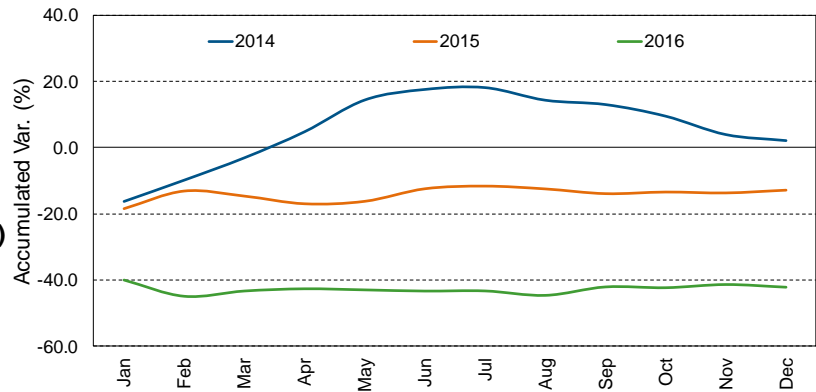
Sources: BCV and Ecoanalítica

**Disbursements to the Private Sector (Daily Average)**



Source: Ecoanalítica

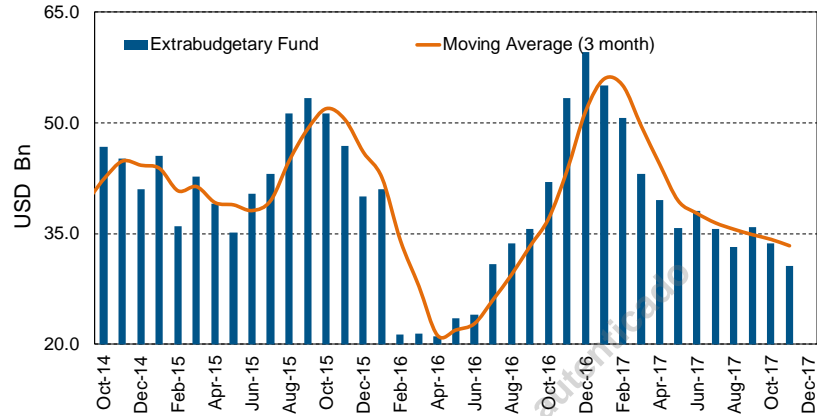
**Primary Spending NTO (Real - Central Government)**



Sources: ONT and Ecoanalítica

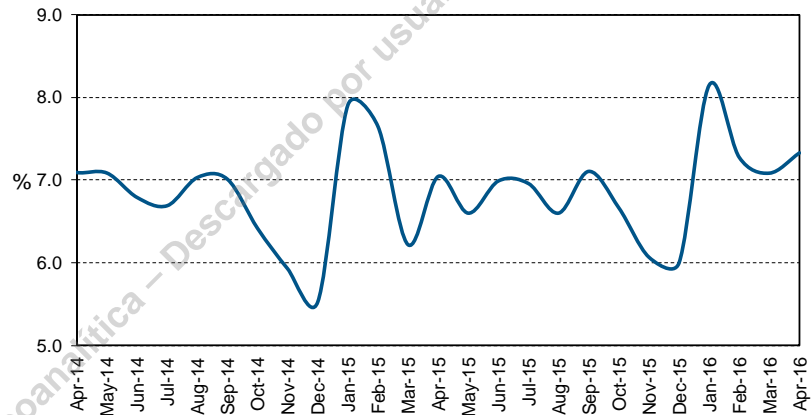
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



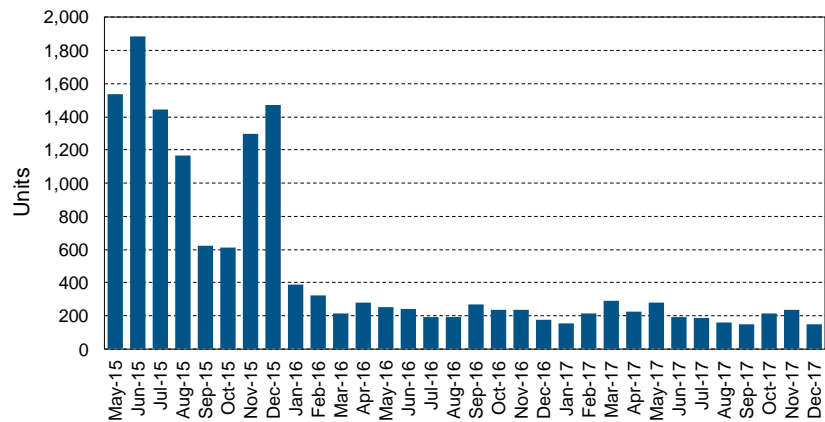
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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