

The multi-currency environment in Venezuela: a tale of little success

Since the end of 2018, following the implementation of the new legal rules for Venezuela's foreign exchange system, transactions in foreign currency in the local market having the agreement of the parties concerned became legally authorized, and, as a result, the bolivar started to compete more markedly with other currencies, not only as a store of value but also as a means of payment. Moreover, with the implementation (albeit incomplete) of the Petro for the payment of certain transactions with the public sector, local agents have started to pay more attention to the crypto-assets market, both as a means for protecting their liquid assets and as a relatively affordable mechanism for companies to keep their business running.

So, the Venezuelan economy has started to function in line with the general characteristics of a multi- or two-currency market. Strictly speaking, under these schemes commercial transactions between private (and even public) entities, if they are performed in currencies other than the local currency or the currency defined as being legal tender since its creation, are legally endorsed. So, if they substitute one another, the value placed on one currency compared to another currency in circulation takes on another overtone: besides seeking protection in the currency that preserves its value longer (to the detriment of other currencies) agents will tend to accept the currency that allows them to have access to a larger basket of goods.

There have been many experiences internationally that have emerged as a mechanism used by economies to attempt to solve real or monetary imbalances that have an impact on the value of the "original" currency by adopting an alternative means of payment. So, whether in response to real gaps due to unmet demand or because of excess amounts of the original currency in circulation, the new means of payment emerge to supplement or complement the roles of the original currency, avoiding the frictions that result in inflationary pressures the monetary authority is unable to contain.

As proposed by many of these cases, the successful coexistence of multiple currencies seems to depend on the existence of mechanisms that permit free access to these currencies and free convertibility between them, without the emitting entity refraining from pursuing the ultimate objective of safeguarding the local currency. However, given the

particularities of our current crisis (especially in the real economy)¹, as well as the regulatory shortcomings with regard to the promotion and use of assets other than the bolivar, some characteristics observed in other experiences with multiple currencies do not seem to be present in our economy.

Nothing new

The multi-currency environment is nothing new in present-day Venezuela, much less in the Latin American region. The first attempts to implement a currency other than the bolivar go back to 2007, when Hugo Chávez, then president, decreed² the creation of the so-called *communal currencies*, which were different to the bolivar and were to be used exclusively in community barter markets. The value put on these currencies and their emission and system of exchange was left in the hands of “produ-sumer” assemblies (entities that played the dual role of producer and consumer).

Unlike the traditional multi-currency schemes, these policies seemed to be set rather in the context of a political project: the communal economy, a model based on the creation of self-sustainable economic regions, although at the end of the day they would depend on the central government³. By the same token, the scope of these schemes was limited, since the currencies could only be used to buy products generated within each commune and could not be accepted as a mechanism for saving in banks (given that they were not legal tender), nor was there a parity (at least explicit) with the bolivar. In other words, their use did not alter in any major way the decisions taken by Venezuelans with regard to how much to spend or save either in bolivars or in these currencies.

¹ Some details of interest with regard to the changes imposed by the contraction of real economic activity on the dynamic of prices and the exchange rate in Venezuela are discussed in our Weekly Report Number 8 of 2019. *Between classical and modern: The Venezuelan “Stag-hyperinflation”*.

² Decree 6310: Law for the Promotion and Development of the Popular Economy dated July 31, 2008

³ El Universal (2018). *Alcaldía de Libertador lanzó moneda “caribe” que equivale a 1.000 bolívares*. See: <https://www.eluniversal.com/politica/6319/alcaldia-libertador-lanzo-moneda-municipal-denominada-caribe>

Some experiences with communal currencies in Venezuela



By 2018, the new experiments with communal currencies were more consistent with the formal appearance of hyperinflation in Venezuela. So, the creation of currencies such as the “caribe,” the “panal” or the “elorza” for performing transactions in low-income areas of Caracas and Apure⁴ between January and September 2018 coincided with cumulative inflation of 15,765% since the formal onset of hyperinflation (according to the Central Bank of Venezuela) and also another monetary redenomination and the constant failures of the Central Bank to supply cash⁵.

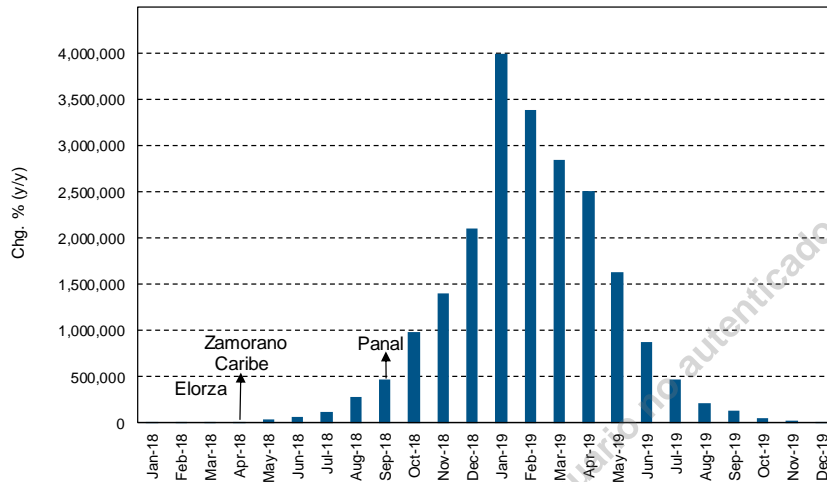
⁴ With values of VES 0.01, VES 10.0 and VES 0.00001

⁵ Prior to the redenomination, cash in circulation was only 2.6% of money supply and high-denomination banknotes accounted for 1.3% of that cash.

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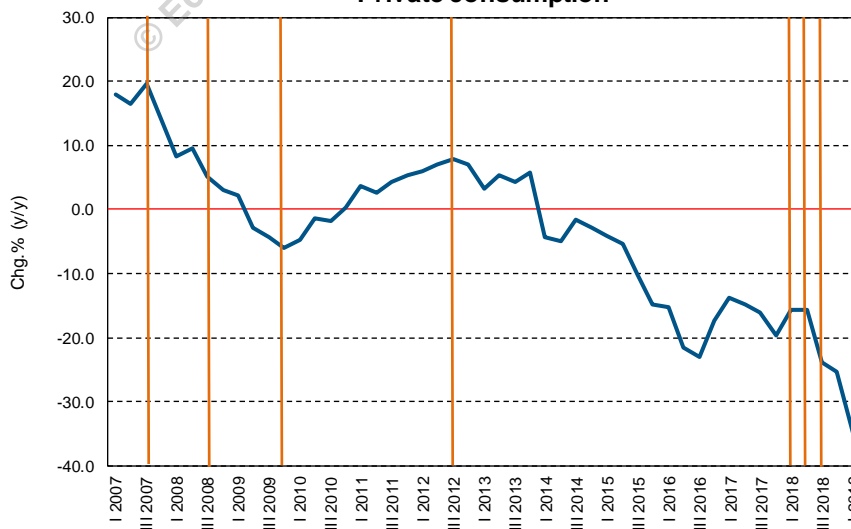
Interannual inflation



Sources: Ecoanalítica.

These instruments not only suffered from the shortcomings of their predecessors in terms of widespread use and convertibility, but they did not manage to stop the collapse of private consumption in Venezuela either due to the higher price acceleration. So, the circulation of alternative currencies did not prevent the contraction of private consumer spending in the third quarter of 2017 and 2018 (something that had not occurred since the 2001) this in contrast to the usual expansion in this indicator in the same period of each year.

Private consumption



Sources: BCV and Ecoanalítica.

Note: the orange lines indicate the creation of communal currency.

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International experience

A similar monetary fragmentation occurred in the middle of Argentina's economic crisis in 2001, when each province issued bonds or provincial quasi-currencies (which coexisted with Argentinean pesos) via local banks. In this way regional activities were financed in the context of stringent fiscal cutbacks that were part of President de la Rúa's adjustment plans.

Given the uncontrolled proliferation of multiple currencies that were not convertible with one another, in August of 2001 the State centralized these new forms of money via Letras de Cancelación de Obligaciones Provinciales (LECOP), bills for the payment of provincial obligations that were accepted in all the provinces as a means for raising funds that were not forthcoming from the Central Government.

Unlike Venezuela's initial experiment, instruments such as the patacón (bills issued by provincial authorities) were used to pay the wages of government employees and even to pay taxes in the province of Buenos Aires, with parity against the peso of nearly 740 USD. Its adoption was not free of apprehension however, since Argentineans feared that their assets (converted to patacones) would drop in value should the patacón be rejected by the suppliers of goods and services, causing it to depreciate against the peso.

So, these instruments were issued to be redeemed at a premium of 7% of their value upon maturity⁶ and were ultimately widely accepted by local agents, thus avoiding a greater deterioration in private economic activity⁷.

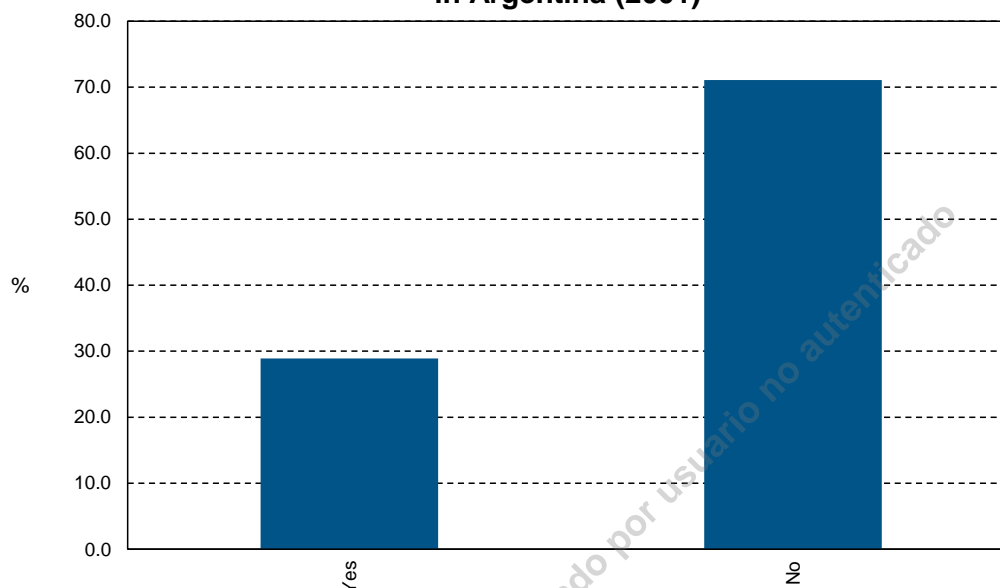
⁶La Nación. *Con la emisión de bonos provinciales y las Lecop, ya circula en el país una tercera moneda.* Disponible en: <https://www.lanacion.com.ar/economia/con-la-emision-de-bonos-provinciales-y-las-lecop-ya-circula-en-el-pais-una-tercera-moneda-nid352327>

⁷ An interesting case was the destruction of nearly 400 square meters of patacones that had been previously redeemed and kept in the vaults of the Central Bank of the Republic of Argentina (BCRA). These instruments would be equivalent to USD 176 MM in 2016. El País. *Buenos Aires destruye 239 millones de patacones, herencia de la crisis de 2001.*

Available on: https://elpais.com/internacional/2016/08/03/argentina/1470254315_787245.html.

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Quasi-cash agreement level in Argentina (2001)



Sources: Maeso, M. "Emisión de cuasimonedas en la Argentina del 2001: relación tributaria y lazo social" and Ecoanalítica.

Another case in which multi-currencies were a solution to an inflation crisis occurred in Zimbabwe in 2009. However, unlike the case of Argentina, the Zimbabwean economy embarked on a kind of quasi-dollarization in which five different currencies coexisted as legal tender: the US dollar, the euro, the pound sterling, the South African rand, and the Botswana pula⁸. Even with the multiplicity of means of payment, the relative price distortion was stabilized and thus was created a sounder price fixation system. The transition to the new scheme wasn't free of any friction, especially because to the great low denomination hard currency shortage in the commercial sector (Kramarenko et al, 2010)⁹.

In both cases, the existence of the dual-currency system contained the aggressive growth of prices by allowing the State to maintain a level of fiscal discipline in line with the monetary conditions that the foreign exchange regime of the day (currency board) required in the case of Argentina; and in the case of Zimbabwe, by reducing the effects

⁸ In 2014 the basket of currencies legally permitted in Zimbabwe was expanded to include four new currencies: the Australian dollar, the yuan, the rupee, and the yen.

⁹ Kramarenko et al, 2010. *Zimbabwe: Challenges and Policy Options after Hyperinflation*. IMF. See: https://www.elibrary.imf.org/doc/IMF087/11002-9781462309184/11002-9781462309184/Other_formats/Source_PDF/11002-9781589069978.pdf?redirect=true

of the collapse in the demand for the local currency and the appearance of the consequent environment of hyperinflation.

Recent developments in Venezuela: dual interest

Following the changes in the foreign exchange regulations in 2018, the use of foreign currencies in Venezuela as alternative currencies seems to be geared mostly to mitigating the effects of local inflation, particularly in the past year.

Why did this not occur prior to 2019 when prices were going up almost exponentially? As we explained in our Weekly Report of 2019¹⁰, two factors seem to explain this phenomenon: 1) the higher legal reserve requirements for the banks, which meant that there was no longer a mechanism that would allow households and companies to leverage expenditures (particularly following the onset of hyperinflation); and 2) the implementation of the new Foreign Exchange Agreement, with the de facto legalization of the performance of local transactions in foreign currency.

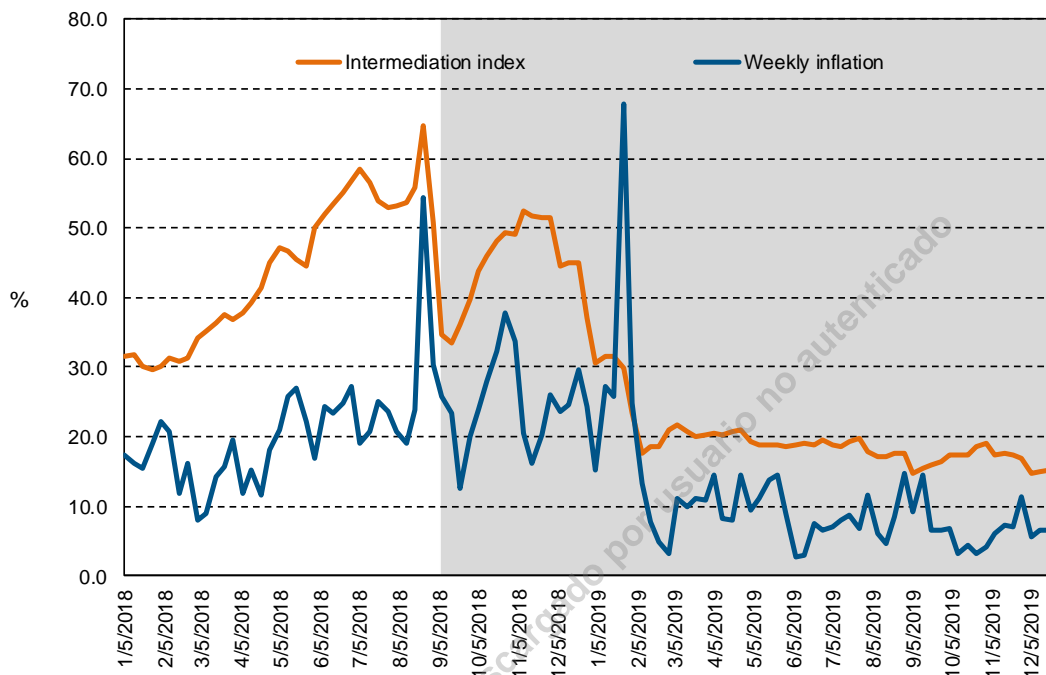
So, on the one hand, Venezuelans' attention was directed in the past year to acquiring foreign currency not as a means of saving but as a means for performing the most day-to-day operations. Similarly, the new set of rules seems to point to the government's interest in cutting its spending. So, by tolerating these transactions, the government sought to create incentives for the private sector to generate a flow of goods and services it was not producing and also to reduce the increased political and social tensions generated by a strongly repressed foreign exchange market to which there was limited access.

As happened with the international experiences, the coexistence of the dollar and the bolivar seems to have contributed to the recent slowdown in local inflation. In point of fact, besides the limitations on the granting of loans and the impact this has had on private consumption, the use of foreign currency has meant a restriction on the circulation of bolivars, which, even in the middle of reduced demand, put upward pressure on prices (including the exchange rate).

¹⁰ Weekly Report N° 11: *Transactional dollarization: some reflections*, march of 2019.

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Credit activity and weekly inflation



Sources: BCV and Ecoanalítica.

Note: the grey area indicates the validity of the new exchange agreement.

Nevertheless, contrary to the international experiences, the adoption of the dollar and consequent “dollarization” have not occurred with the complete support of the State, in a situation where the supply of foreign currency from oil revenues is increasingly less and the design of the current Foreign Exchange Agreement prevents the banks from generating greater intermediation in foreign currency.

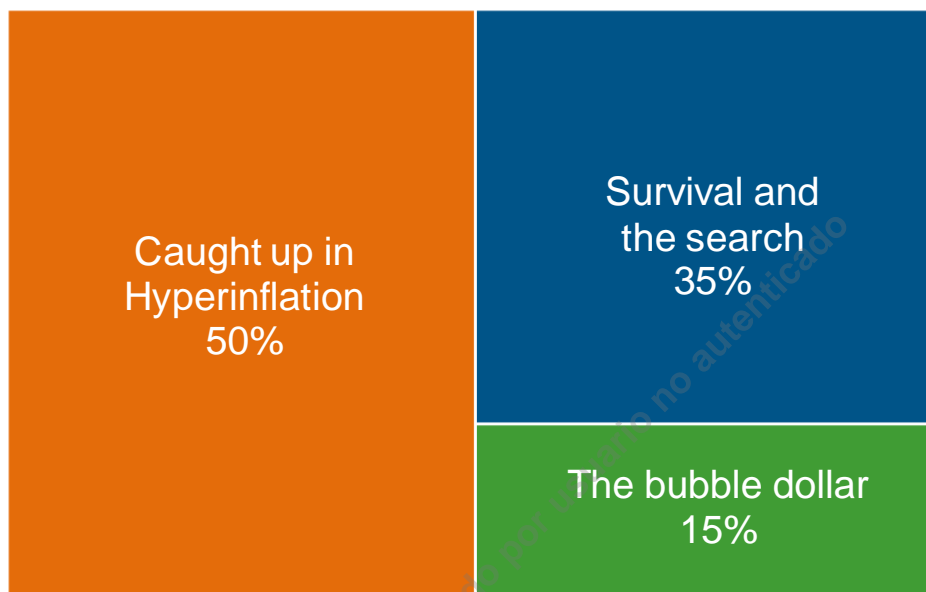
This has not only caused a higher depletion of capital in the private sector, which is making use of its own foreign currency assets to cope with this dollarization, it has also resulted in an asymmetrical distribution of foreign currency in the local population. So, even though both currencies are still accepted by the local commercial sector, not everyone has the patacón that would allow them to acquire a bigger basket of goods (dollars) and there are still a large number of people who only have pesos (bolivars), which continue to lose value as long as inflation (in bolivars) persists.

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Population distribution (%)



Sources: Ecoanalítica.

Another element that differentiates us from international experiences is the absence of the appreciation of the dollar against the bolivar. In particular, even given Venezuelans' interest in accumulating foreign currency and getting rid of bolivars, their capacity to do this has been eroded by the decline in real economic activity (with a cumulative drop of 68.5% since 2014), the absence of bank financing, and the effects of greater inflation on the demand for foreign currency¹¹. On the other hand, it is likely that, at least transactionally, the rejection of the bolivar will not be as systematic as it was in 2018, due to the failures in the provision of hard currency among the local population

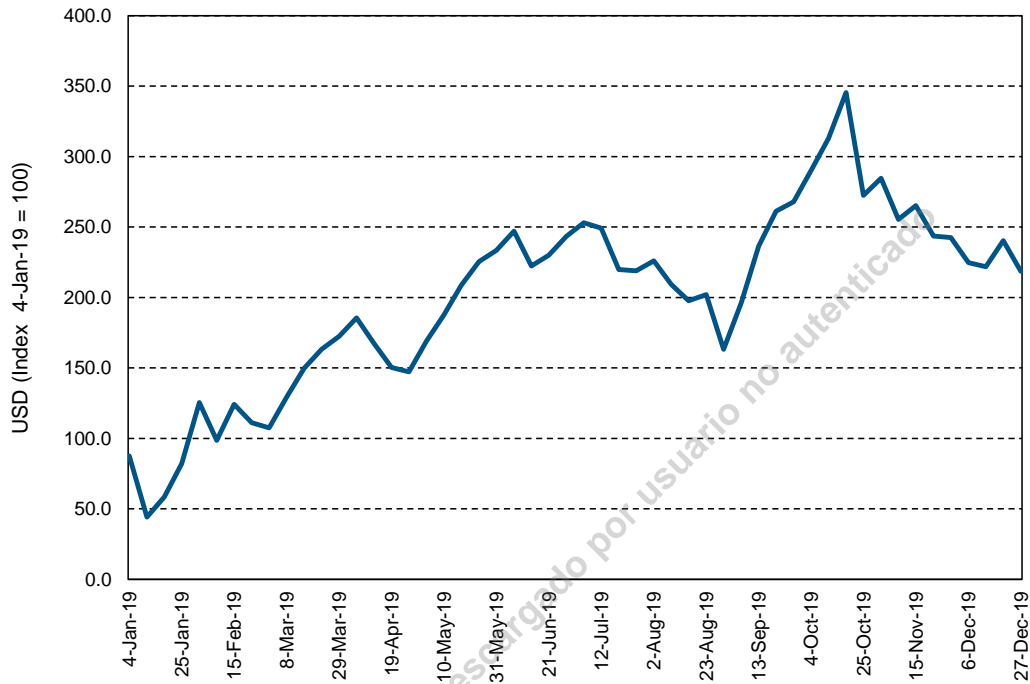
So it is that the relative price of the dollar against the bolivar (i.e. the exchange rate) has not been adjusting itself at the same pace as the bolivar has lost value (given the collapse in demand). What is more, the imbalance in the circulation of the two currencies (more dollars/fewer bolivars) tends to exacerbate this unaggressive growth in the relative price of the two currencies. What conclusion can be drawn from this? That the prices of local goods measured in dollars continue to grow, although at a slower pace.

¹¹ Strictly speaking, the relative value of the dollar does not end up being consistent with Thiers' Law: in the midst of hyperinflation, with the coexistence of multiple currencies, the loss of exchange value of the local currency causes its massive and accelerated rejection in favor of the hard currency, in addition to a greater depreciation with respect to the latter. See He, L (2017). Hyperinflation. A World Story.

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Required dollars to keep purchasing power unchanged

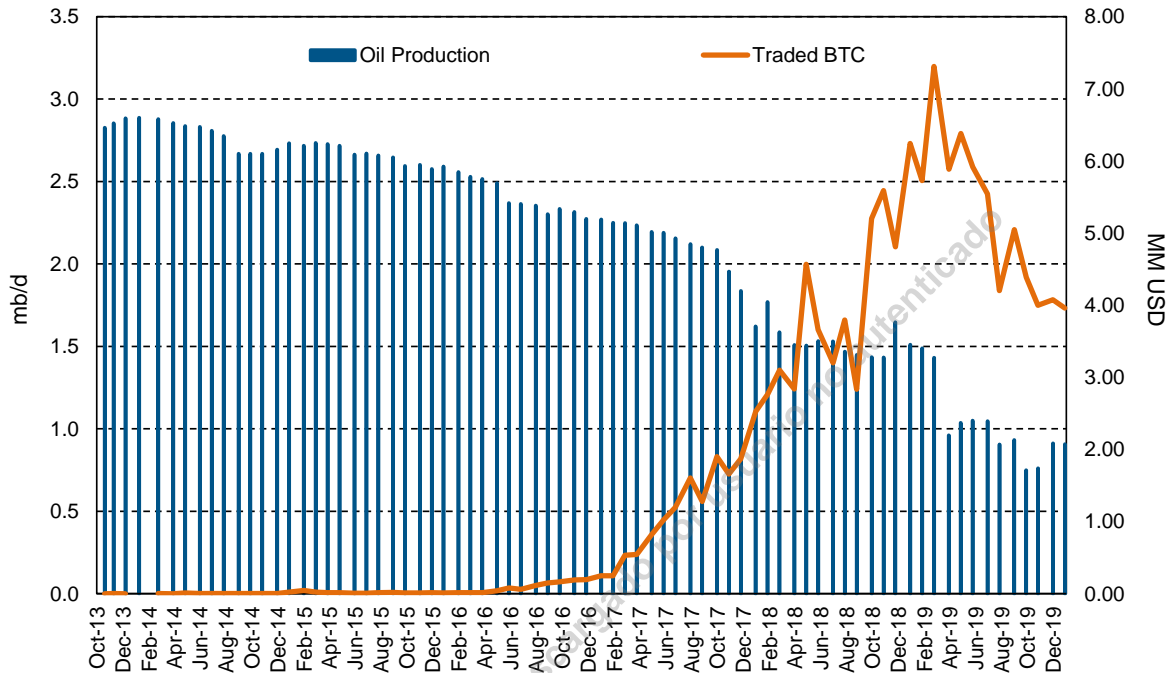


Cryptocurrencies and Petros

In the middle of the tensions in Venezuela’s foreign exchange market and its exposure to developments on the oil front, cryptocurrencies have emerged as another mechanism for saving and for performing transactions in Venezuela. Use of these assets to perform operations goes back to the end of 2013, precisely at the time when oil production started to fall below 1.97 mb/d and the price of local crude was close to USD 97.0/bl (USD 101.6/bl at the start of that year). Consequently, with strict exchange controls still in force and local annual inflation that year of nearly 56.2%, the incentives for Venezuelans to resort to this new “currency” started to emerge, albeit timidly.

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Oil Production and traded BTC



Sources: OPEC and Ecoanalítica.

The transactional use of this “currency” la emerged more strongly as local hyperinflation became more entrenched. Between the end of 2017 and early 2019, the amount of Bitcoins traded went from USD 2.53 M to USD 5.73 M, and they were extensively used in different local commercial establishments even before the charges for services by the public sector were posted in Petros¹². Since then the volume traded has been maintained at USD 5.12 M (average), possibly affected by the changes in credit activity as a result of the increased legal reserves the banks are required to keep. Compared to the recent circulation of bolivars (USD 621.7 M), cryptocurrencies traded do not account for more than 0.9% of said stock.

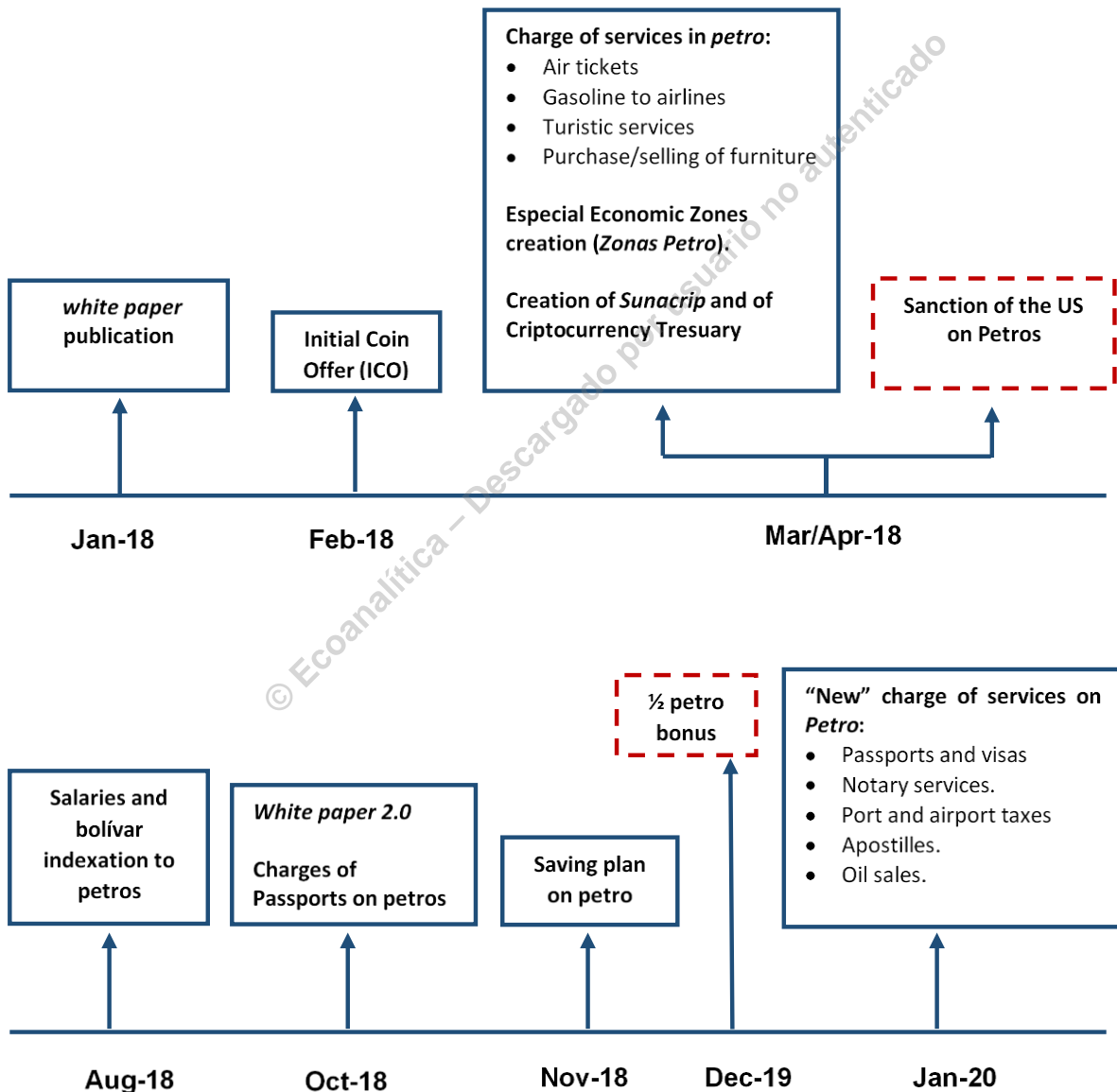
Given the environment of these new currencies, the Venezuelan Government tried to capitalize on the interest of local actors by creating its own cryptocurrency (the Petro), first of all to encourage a greater flow of bolivars to be channeled towards savings in this currency. In doing so, it created an alternative mechanism for sterilizing increasingly scarce foreign currency. In other words, with the Petro, the government started to admit

¹² Efecto Cocuyo. *Comercios abren sistemas de pago con criptomonedas y divisas*. Source at: <https://efectococuyo.com/economia/comercios-migran-a-sistemas-de-pagos-con-criptomonedas-y-divisas/>

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two fundamental elements: 1) the appearance of hyperinflation, and 2) the crisis in the generation of foreign currency by the public sector.

Petro's chronology



Rather than an alternative currency, with the start of its Recovery, Growth and Economic Prosperity Program the government seemed to indicate its interest in managing the Petro

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using a scheme similar to Brazil's Plan Real. By establishing a fixed parity in dollars (the price of a barrel of oil) and setting local prices in Petros, the government sought to substitute the bolivar with another currency payable in bolivars and covered against loss due to inflation (provided the Petro/bolivar parity was adjusted daily in line with said inflation).

However, the government's actions lacked two essential aspects for guaranteeing this scheme's success: a guarantee on the part of the emitting authority (Central Government, the Central Bank, and the National Crypto Assets Superintendency (Sunacrip)) with regard to the full convertibility of the Petro to dollars or bolivars and its full recognition of the loss of value suffered by the weak currency (inflation).

The creation of Special Economic Zones for the commerce of the "currencys", making use of the Petro compulsory for the payment of public services (including the sale of oil), and the payment of direct subsidies in Petros points to the government attempting to promote the adoption of this cryptocurrency by force following the failure of its initial measures. It has also become clear that Venezuelans have every interest in even hanging on to bolivars rather than use the official cryptocurrency in any transaction. Specifically, Venezuelans seem to have detected the Petro's three fundamental weaknesses:

- 1) **Backing:** The Central Government's lack of foreign resources and its interest in cutting back spending would prevent the conversion of Petros to bolivars or dollars (given that it is not a decentralized cryptocurrency).
- 2) **Legality:** Executive Order Number 13692 issued by the US Treasury Department's Office of Foreign Assets Control (OFAC), which establishes sanctions for entities having ties with the United States' financial system that trade with Petros, restricts foreign markets' access to this cryptocurrency.
- 3) **Market value:** Given that the Venezuelan State is the only issuer, the price of the Petro depends entirely on its preferences with regard to other cryptocurrencies. So far there is no space that allows the Petro to be traded and correctly valued as an asset.

A new economy?

Even in the absence of an adjustment in the relative prices in-line with its functioning. The multi- or two-currency environment has brought with it significant changes in how our market functions, from decision-making by households with regard to how much and what to consume to the schemes for setting prices and establishing compensations adopted by companies and the type of business they are going to develop. However, much of local economic activity still seems to be unprepared to cope with the increase in transactions in other currencies. The lack of low-denomination foreign currency bills, fetishism with

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regard to the physical nature of cash, and the absence of operating mechanisms for accepting crypto assets work against the potential advantages of employing a new scheme of payments.

The authorities' willingness to promote an efficient mechanism in this area has not been up to par either. Restrictions on the banks participating more actively in dollarization; shortcomings in making known how the Petro will work; and a bigger direct commitment to the objective of fighting inflation have ended up weakening the few alternatives available to Venezuelans for mitigating the decline in local economic activity.

Luis Arturo Bárcenas

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week January	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	74,727.19	0.7	0.6
	2nd Week January	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	24.2	2.3	1.3
	4th Week January	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	142.6	11.5	139.5
	3rd Week January	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.7	0.4	-20.1
	2nd Week January	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	45,796,980	4.6	3,854.3
Price of International Oil Baskets (USD/bl)			
	3rd Week January	Weekly chg. (%)	Annual chg. (%)
WTI	57.6	-1.3	8.3
Brent	64.0	-0.7	3.5
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week January	Weekly chg. (%)	Annual chg. (%)
Weekly Average	55.2	-2.5	-1.6
Annual Average	57.5	-1.3	8.8

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

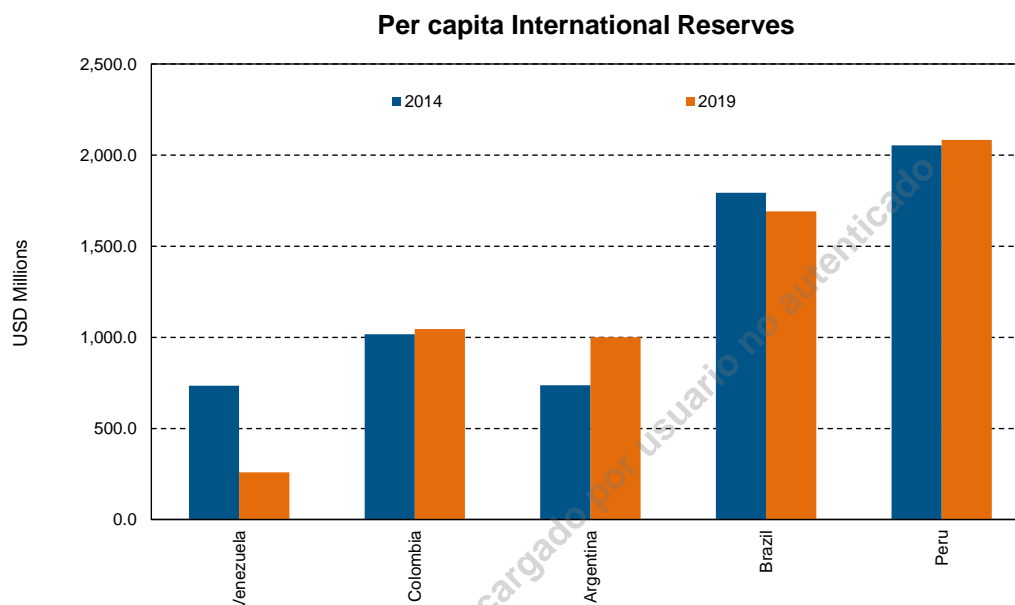
¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

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CHART OF THE WEEK: “SHOW ME THE MONEY”



Sources: IMF, BCV and Ecoanalítica.

According to the International Monetary Fund, international reserves are the external monetary resources that are immediately available and under the control of the monetary authority. In general, countries maintain reserves to guarantee payments for goods they import and debt service. On the other hand, for economies operating under fixed exchange rate regimes, the importance of reserves increases, as it allows them to maintain balance of payments equilibrium (recording of transactions with the rest of the world) and thus preserve the value of the domestic currency.

However, countries with more flexible exchange rate regimes also have an interest in international reserves as they see them as a mechanism to cope with an adverse external shock such as deterioration in their terms of trade or capital flight. By selling these assets, central banks can intervene in local exchange markets, preventing collapses of the domestic currency resulting, for example, from a sudden capital outflow due to high inflation, or a fall in interest rates, among others. This limits an abrupt depreciation of the currency and its effects on local inflation and trade with other countries.

The figure shows that Venezuela's international reserves are not only among the lowest in the region but have also contracted drastically over the past five years. Precisely, such decumulation has coincided with the acceleration of local inflation, multiple tensions in the exchange rate area (including the transit through multiple official exchange rate

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arrangements) and the collapse of imports . By the first week of 2020, a new historical low was reached (USD 6.631 billion), with a downward trend in the following weeks. One consequence of this low level of reserves is that there is no longer confidence in the country's ability to repay its debts, making access to international loans difficult.

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ECONOMIC TIPS

Basic family basket. According to the report of the Centro de Documentación y Análisis de los Trabajadores (Cenda), the family food basket for December 2019 cost VES 8,250,481.7, which is equivalent to USD 177 according to the official exchange rate for that month.

It keeps growing. The amount of the basket registered a month-to-month increase of 48.8% in comparison to November when it cost VES 5,543,084.3. This variation was 18.5 percentage points (PP) higher than the previous period.

Not enough. The report concluded that, in December, families required two minimum wages per day to cover the cost of food, since the minimum wage and food ticket (VES 300,000) together only covered 3.6% of that basket.

The worst in the world. According to The Spectator Index, in 2019 the worst result of the world index of Gross Domestic Product (GDP) was that of Venezuela, due to the fact that it presented the greatest world decrease with its 25% contraction.

“It’s not coming back.” On a TVI nationwide broadcast, Maduro assured that the National Commission of Administration of Currency known as Cadivi will not be implemented again, clarifying that he intends to establish a model of “shared profits and economic growth”.

Small changes. On January 21, the U.S. Treasury Department issued a new license to the economic sanctions applied by that country, in which the World Bank is added to the list of international organizations authorized to carry out transactions with the Central Bank of Venezuela (BCV).

Important clarification. Although not specified in the license, Jose Ignacio Hernandez, the attorney general appointed by Guaidó, clarified that the authorization given by the Department only applies to BCV authorities who were designated by Guaidó.

18 months for sure. The Department stipulates that such a license “automatically renews on the first day of each month and is valid for a period of 18 months from the date of the license’s effective date.

With you, yes. According to the license, the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), the Latin American Development Bank (LADB) and

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the World Bank are among the organizations that can carry out transactions with the Venezuelan monetary authority.

No more “blood gold”. During the World Economic Forum (WEF) meeting in Davos, Juan Guaidó explained the need to stop the illegal flow of gold into and from Venezuela, indicating that sanctions may be needed to achieve this goal.

More reserves. For the week of January 24, international reserves closed at USD 6,719 billion, which represents a 0.4% drop from the previous week’s close (January 17).

Money desks. As of January 24, the average rate for money desks was VES 74,727.2/USD.

Liquids? Liquidity was VES 45,796,980 million for the week of January 17, a variation of 4.6% in nominal terms over the previous week and 3,854.3% over last year.

OIL TIPS

Broken ties. Representatives of President Juan Guaidó’s administration are close to reaching an agreement with the Government of Aruba to suspend the lease of assets managed by Citgo Petroleum on the island.

In context. The state oil company of Aruba, GDR, signed an agreement in 2016 with PDVSA for the Valero refinery on the island to be transformed into an oil upgrader. However, by the end of this month RDA is expected to sign an agreement with Citgo Aruba Holding and its local subsidiaries Citgo Aruba Refining and Citgo Aruba Terminal.

In context (II). PDVSA had planned to recondition the San Nicolás refinery - with a capacity of 235 kb/d- to upgrade the extra heavy crude extracted from the Orinoco belt into a lighter synthetic crude. In principle, the project would have absorbed some of the heavy oil production that could not be treated in the Jose terminal upgraders due to its state of inoperability.

The operational part. Citgo Aruba Holding will meet with the 76 project employees and different contractors to reach legal agreements regarding the pending settlements.

The financial part. Sources within Citgo told Argus that outstanding debts to Aruba will be serviced, but without access to the conglomerate’s restricted funds. They also hope that

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joint projects between the governments of Aruba and Venezuela can be resumed in the event of a political transition.

Fun facts of the current oil sector. A special report developed by Yahoo Finance gave an account of the current situation of the Venezuelan oil industry. By consulting with experts in the area, some general aspects can be learned.

Fun facts of the current oil sector (II). Rafael Quirós Serrano commented that the refining capacity is at 180 kb/d, approximately 15.0% of its installed capacity. However, Francisco Monaldi, Professor of Energy Policy at Rice University, stated that this capacity would be around 10.0% of installed capacity, or 120 kb/d.

The cost of the rebound. Quirós said that an investment of USD 18 billion in one year could increase production by 250 kb/d. In the long term, both experts agree that going back to the 3 mb/d produced in 2008 required an outlay of time and money: Quirós stated that USD 250 billion would be needed in 10 years and Monaldi, USD 120 billion in eight years.

PDVSA bombers. The U.S. Treasury Department has just added 15 PDVSA-owned aircraft to its sanctions package. The decision would be due to security reasons and for having acted as transport for sanctioned officials.

PDVSA Bombers (II). U.S. Secretary of State Mike Pompeo said the state-owned company's planes "*have been involved in the harassment of U.S. military flights in Caribbean airspace*". In addition, the Treasury Department said that some sanctioned individuals have been transported on those planes, including Manuel Quevedo when he attended the OPEC meeting in the United Arab Emirates.

BUSINESS SECTOR TIPS

I have Petros, but I can't use them (I). January 3, 2020 was the last day that payments were active with Petro through Banco de Venezuela's BiopagoBVD system. After more than 20 days, the technological platform of Sistema Patria is still not working. In that time those who received the Petroaguinaldo have not been able to use the "*cryptocurrency*".

I have Petros, but I can't use them (II). In addition to the suspension of the payment system, there was also a pause from the main chain of shops that accepted the Petro through the PetroApp, which was used to exchange the "*cryptocurrency*" for Bolívars.

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Measles victims. According to the Pan American Health Organization (PAHO), three people died in Venezuela from the measles virus during 2019, all in the state of Zulia. The report states that between the last week of June 2017 and the last week of 2019, 11,310 suspicious cases were reported in the country, of which 1,998 were recorded in 2019.

A simple solution. Venezuela was one of the three countries that recorded deaths in 2019, ranking behind Brazil with 15 and above Colombia with one. In addition to strengthening epidemiological surveillance, PAHO recommends that countries vaccinate to maintain homogeneous coverage of 95% in the first and second doses of measles, rubella and mumps immunization.

Subway: out of order. The Caracas subway system failed again on the morning of January 28, when two trains lost traction and a third had to be evacuated in Chacao. In view of this, a Temporary Single Track was activated between El Valle and Plaza Venezuela stations, on Line 3, due to this partial paralysis of the system.

To sign for dollars (I). Juan Crespo, president of the National Federation of Flour Industry Workers, said the dollar boom in transactions in Venezuela (Fetraharina) is a reason to dollarize the wages of Fetraharina's employees. Therefore, the workers began to collect signatures to request the state to increase their salary to USD 600.

To sign for dollars (II). Crespo pointed out that *"there is no justification for charging \$15 or \$25 when you go to the dentist. The reality is that wages aren't paid in foreign currency and we consumers are already used to paying in that currency.* This requirement is in addition to several made last year including those of teachers and health workers.

Three years' worth of bonuses. Nicolas Maduro announced the delivery of a bonus of VES 200.000 for the third anniversary of "Carnet de la Patria". This is being done through the Patria platform from January 24th to 31st.

Bonus for all (I). After the adjustment of the minimum wage published recently in the Official Gazette, the regime increased the country's bonuses granted through "Carnet de la Patria".

Bonus for all (II). For the Hogares de la Patria program, the amounts were as follows: 1 member VES 58,000, 2 members VES 84,000, 3 members VES 125,000, 4 members VES 167,000, 5 members VES 209,000 and for 6 or more members VES 250,000.

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Bonus for all (III). The bonuses for the Parto Humanizado and Lactancia Materna programs (program to help nursing mothers and infants) were at VES 167,000, while the José Gregorio Hernández bond rose to VES 100,000.

Only 459 new cars. The president of the Venezuelan Chamber of Automotive Products (Favenpa), Omar Bautista, said that in 2019 the automotive industry worked at 15% of installed capacity, just assembling 459 new units.

No international support. Bautista added that coping with the economic crisis in the sector has become an uphill battle, especially after companies like General Motors ceased operations.

INTERNATIONAL TIPS

Davos Vol. 50. The 50th World Economic Forum was held in Davos, Switzerland, an event that brings together executives from the world's largest companies and international political leaders. The central topics of the forum were climate change, the rise of populism, economic inequality and the future of technological progress.

China in quarantine. A minimum of 137 people have died from the coronavirus, with more than 7000 confirmed cases worldwide, five in the United States. In response, the Chinese Government has established restrictions on leaving and entering the country, including extending the lunar new year holiday to 2 February, to discourage people from travelling.

Hong Kong separated. Carrie Lam, Hong Kong's Chief Executive, announced plans to suspend high-speed train and ferry connections with mainland China as part of her city's efforts to limit the spread of the virus.

Chinese 5G. The United Kingdom allowed the Chinese telecommunications giant Huawei to build its 5G networks, albeit with a limited role. The Chinese company will be excluded from the sensitive core of the networks and there will be a 35% cap on its participation in the non-sensitive parts.

Will 5G be worth it? The US government recommended that UK Prime Minister Boris Johnson veto Huawei entirely, arguing that Beijing could use the company's technology to steal Western secrets. This could increase tensions between the two countries.

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No strings attached. Michel Barnier, chief negotiator of Brexit on behalf of the European Commission, indicated that the European Union “will never, ever, ever” compromise the integrity of its single market, referring mainly to the case of the border between Northern Ireland (part of the UK) and the Republic of Ireland (part of the EU)

There’s no turning back now. Barnier pointed out that London will have to face reality after underestimating the costs of leaving the bloc and that negative consequences among the “Irish” are inevitable. Furthermore, he pointed out that, although Brussels is willing to be flexible and pragmatic in trade talks, the Brexit has made frictionless trade with the EU impossible.

The EU: advantage on the field. Irish Prime Minister Leo Varadkar said the EU would have control and the upper hand in the post-Brexit trade talks, questioning Boris Johnson’s timetable for reaching an agreement before the end of the year. He also added that, in order to get a trade agreement, the UK would have to give legal guarantees that it would not harm the EU.

Waiting for the Canadians (I). On January 28, the Canadian government began the process of ratifying the new North American trade pact, the Treaty of Mexico, United States and Canada (TMEC), the only one that has not yet been ratified. This pact updates the North American Free Trade Agreement (NAFTA).

Waiting for the Canadians (II). Business and industry groups have indicated their desire for the Justin Trudeau government to ratify the trade pact as quickly as possible to alleviate economic uncertainty. The Canadian Chamber of Commerce noted that “*it’s crucial for business that this agreement is ratified expeditiously.*”

Argentina and the IMF at the table. Martín Guzmán, Argentina’s economy minister, met with International Monetary Fund (IMF) officials in New York on January 28. Among them Julie Kozack, Deputy Director of the IMF’s Western Hemisphere Department, and Luis Cubeddu, the IMF’s mission chief for Argentina.

New president, new debt. During these meetings, the Argentine government seeks to renegotiate its sovereign debt with its creditors, including the IMF, with which it has a USD 57 billion financing program. This is part of President Alberto Fernández’s plan, who is trying to restructure and negotiate his country’s debt, estimated at around USD 100 billion.

There’s no one to rescue Cuba anymore. According to figures from the Chinese Customs Office, its exports to Cuba fell in 2019 to USD 791 million, its lowest level in a decade. This reflects the liquidity crisis on the island, which has lost Venezuela’s financial support in recent years.

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POLITICAL TIPS

For more sanctions. While in Brussels, Guaidó asked the European Union (EU) to maintain pressure on Nicolas Maduro's administration through more sanctions. Guaidó said that the ideal objective to be achieved would be that the pressure would allow elections to be held in more transparent conditions.

They can't make up their minds. However, this request generates controversy within the EU, because some members agree that deeper sanctions should be applied and to more people, but others consider that dialogue between the opposition and the Venezuelan government should be resumed.

Responding with votes. Nicolás Maduro's foreign minister, Jorge Arreaza, criticized Guaidó's request and assured that the Venezuelan people will give a "forceful response" with their vote in the parliamentary elections.

He doesn't agree. Similarly, Congressman Ramón Lobo of the United Socialist Party of Venezuela (PSUV) said he regrets Guaidó's request since these sanctions affect the people.

Asking for it to be fixed. Ramon Lobo also said that the other deputies of his party are urging Luis Parra to take the necessary steps to ensure that the National Assembly is no longer in contempt. He clarified that this would allow Parliament to articulate efforts with the other branches of government.

Start the process. Angel Medina, Deputy of the National Assembly, announced that the Preliminary Committee has already begun the process of receiving the candidacies of civil society for the formation of the Electoral Nominations Committee (CPE), which will take place from January 27 to 31.

With a new place. Medina stated that this process should take place in the Legislative Palace. However, he clarified that this institution is "taken over militarily and paramilitarily" so the process is taking place in the facilities of the Central University of Venezuela.

With new problems. However, in a session held under Parra's directive, both deputies belonging to the Psuv and opposition dissidents raised legislative omission, with the intention that the Supreme Court of Justice (TSJ) and not the Nominations Committee be the authority that appoints the new rectors of the National Electoral Council.

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No validity. In response, constitutional lawyers stated that this legislative omission is contrary to the Constitution and is not appropriate because there is already a Preliminary Committee in place.

Without complying. Similarly, the jurist and ex-parliamentarian Gerardo Blyde stated that the *TSJ* “does not have constitutional competence to appoint the electoral authorities” and that the aforementioned session is not valid either because it did not meet the minimum quorum required.

Unanticipated scale. The Vice President of the Maduro administration, Delcy Rodríguez, together with Felix Plasencia, Minister of Tourism, took a private plane to Turkey, which stopped at Barajas Airport, Madrid.

In good company. Since Rodríguez is sanctioned by the EU, she was accompanied at all times by police officers who prevented her from entering Spain, according to the country’s Interior Ministry.

Dubious history. José Luis Ábalos, Minister of Transport and Secretary of Organization of the Spanish Socialist Workers’ Party (PSOE) after various versions, admitted having gone to the plane in which Rodríguez was, to meet her. According to Ábalos, after this meeting, Rodríguez took a commercial plane to Doha, the capital of Qatar.

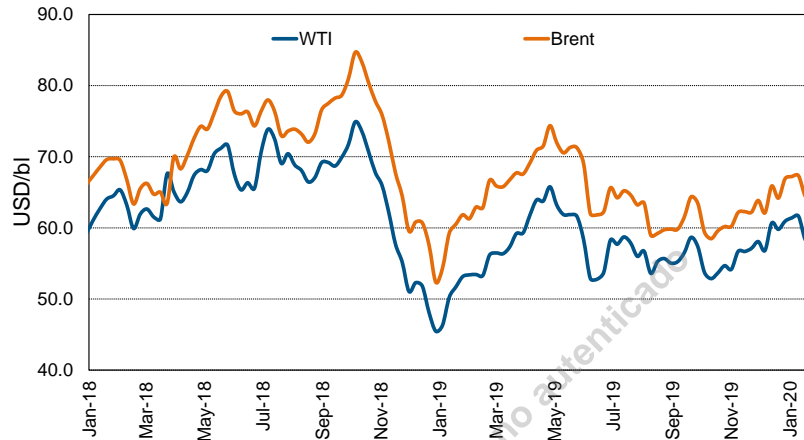
Big welcome. During his visit to Madrid, Guaidó was received by the President of the Community of Madrid, Isabel Díaz Ayuso, who presented him with the International Medal of the Community of Madrid.

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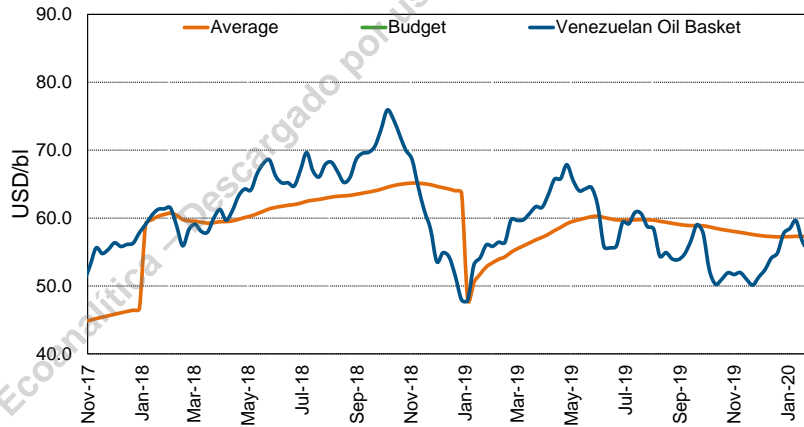
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



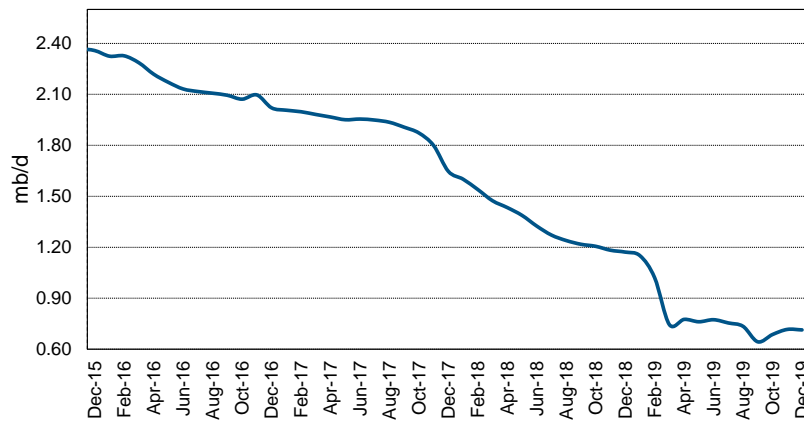
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

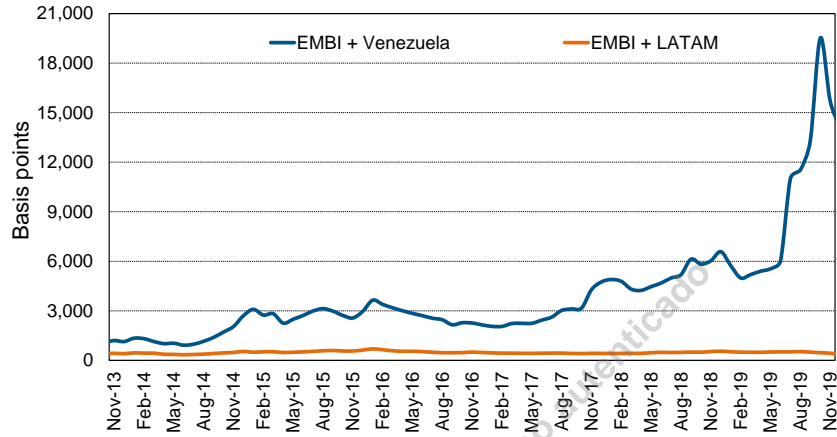


Sources: OPEC and Ecoanalítica

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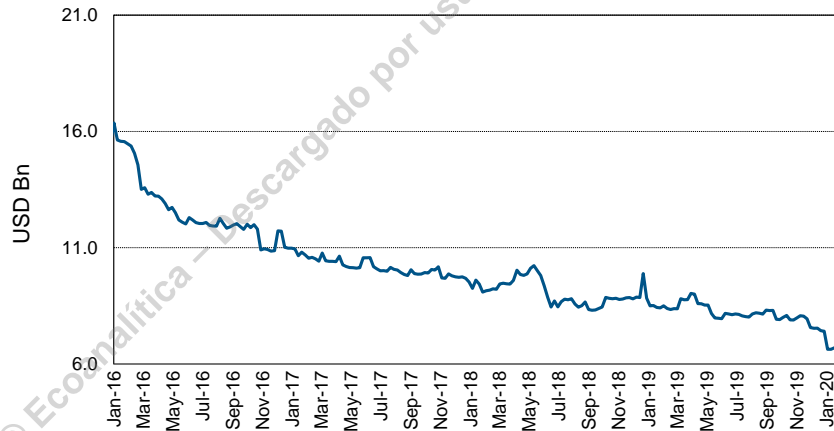
ECONOMIC INDICATORS

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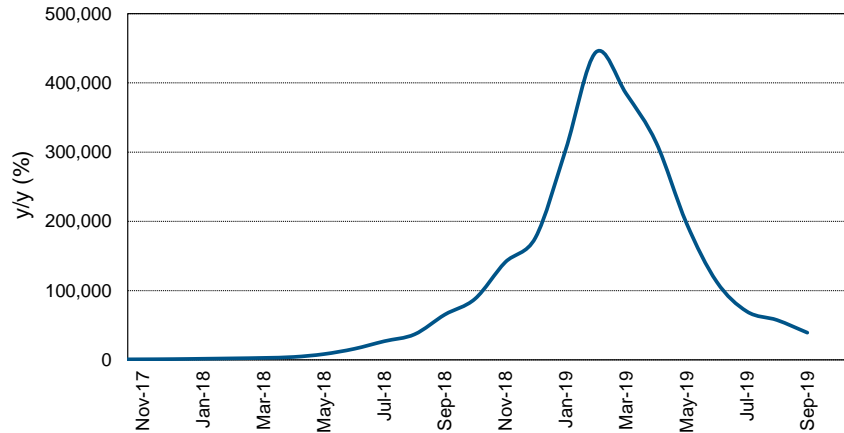
Sources: BCRP and

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

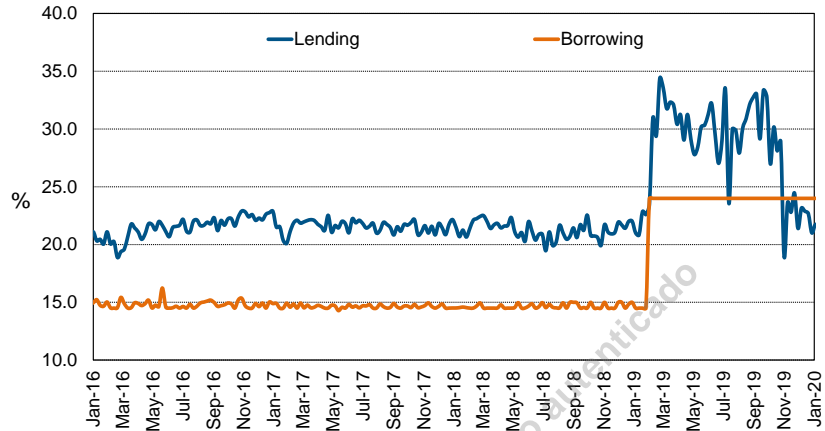
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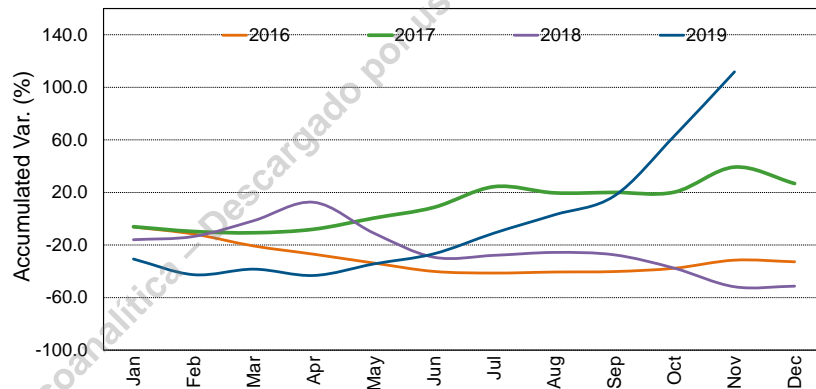
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



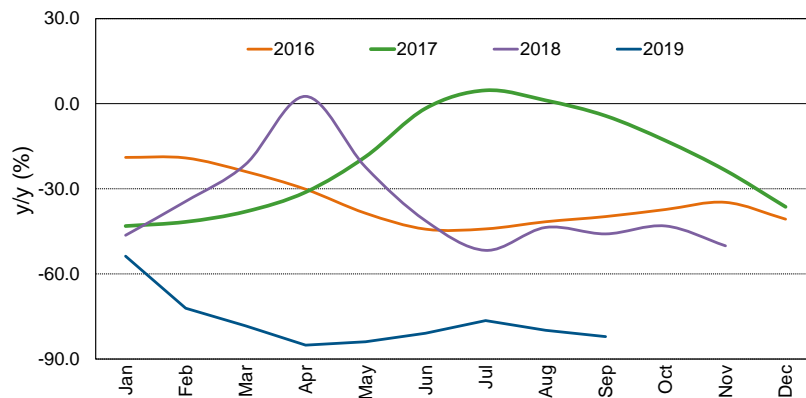
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

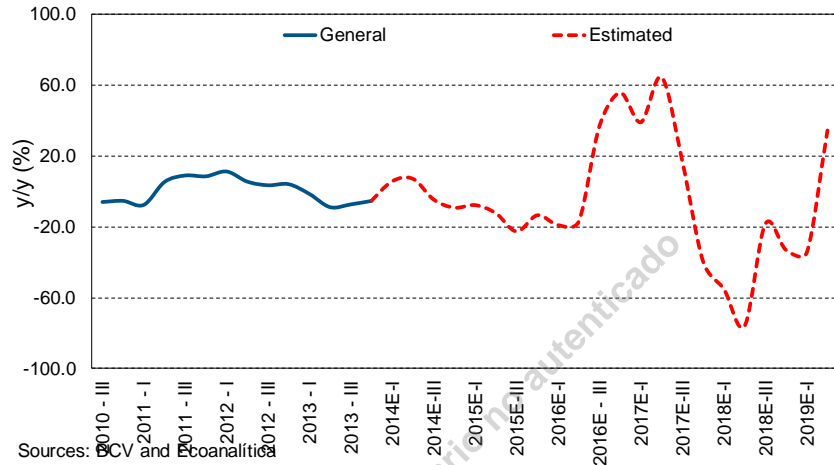
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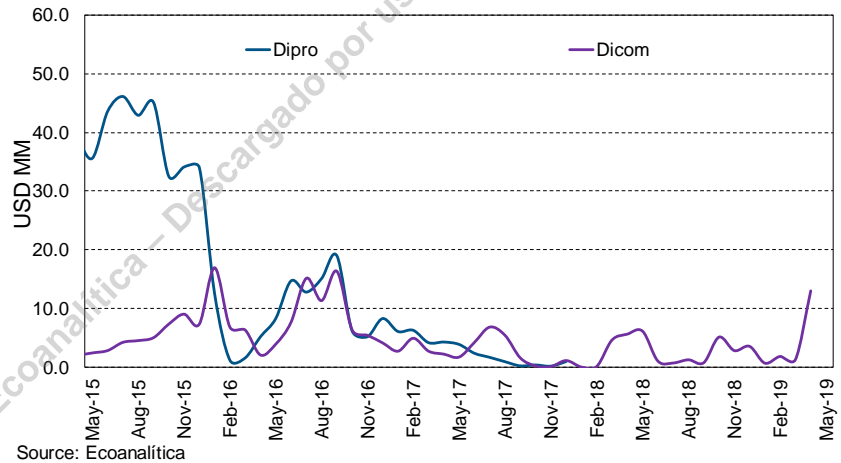
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ECONOMIC INDICATORS

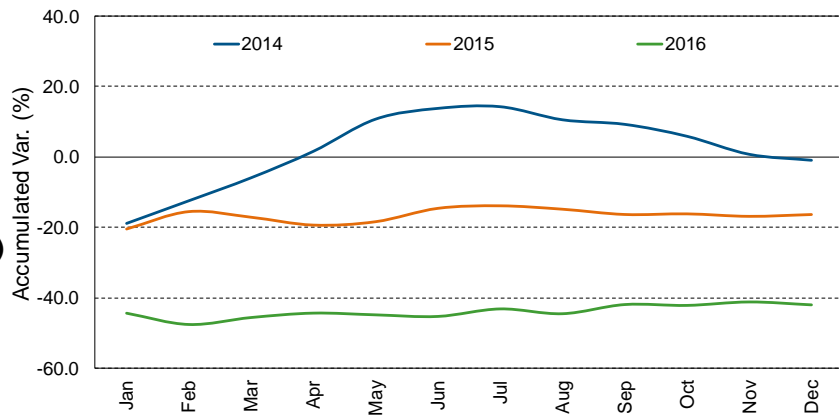
Real Wage Index



Disbursements to the Private Sector (Daily Average)



Primary Spending NTO (Real - Central Government)

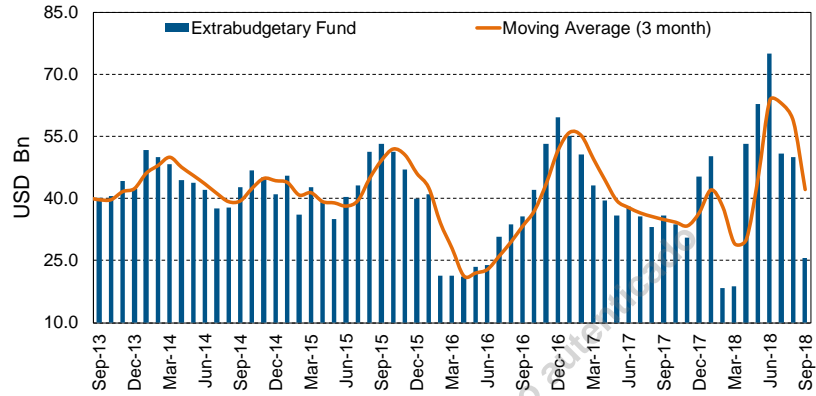


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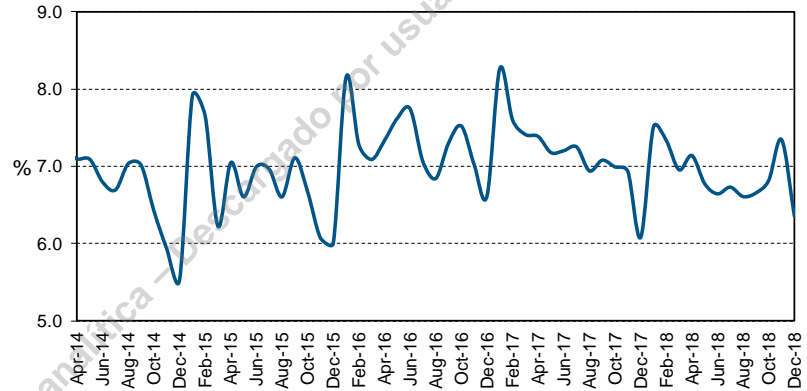
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ECONOMIC INDICATORS

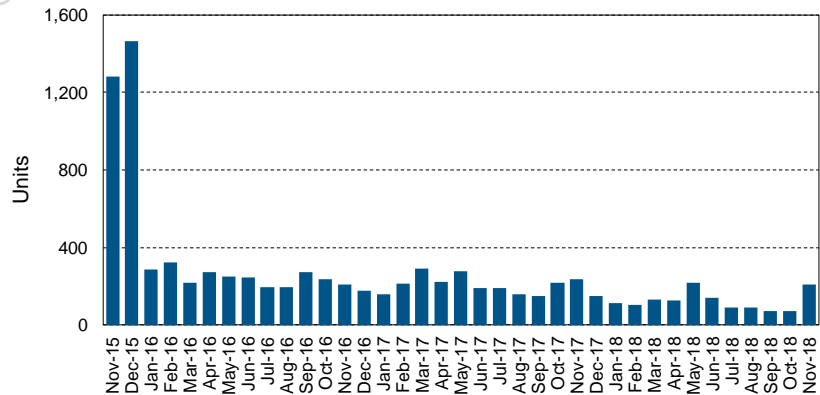
State Extrabudgetary Resources



Unemployment Rate



Vehicle Sales



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