



Cash shortage: Between a rock and a hard place

Among all the problems Venezuelans have to deal with in the present crisis, one of the most routine and also the most harmful of the many is the lack of cash. Venezuelans are forced to stand in long lines at the banks in order to obtain ever smaller amounts of cash, as though cash were an essential good. The market is starting to acknowledge the shortage by establishing increasingly higher commissions for the purchase of cash in exchange for bank transfers.

We are even starting to find cases where the same product has different prices, depending on the means of payment used. This situation is affecting segments of the economy that perform their transactions in cash, such as the informal economy, public transportation, and small stores.

The government argues that a sizeable amount of the money available is being sent to the border to cover dollar transactions in the black market. While there may be some truth in this, it is undoubtedly only part of a story that goes back several years.

Like many of the components making up the current general crisis, getting this problem to disappear will not be easy. In this article we will assess the causes of the crisis and the challenges it poses for the government.

Bullheadedness that turned out to be too expensive

Supplying cash is one of a central bank's basic functions. It is true that new financial technologies are reducing the need for cash thanks to debit cards, transfers, and the new forms of electronic money. But cash still plays an important role in the economic dynamic, particularly in developing countries.

In the past few years, supplying money has become a growing financial burden for the government, since each banknote in circulation has a production cost apart from its nominal value.

Since 2010, the total stock of banknotes in circulation has increased sevenfold with the entry into circulation of more than 14.0 billion banknotes, and that does not include those

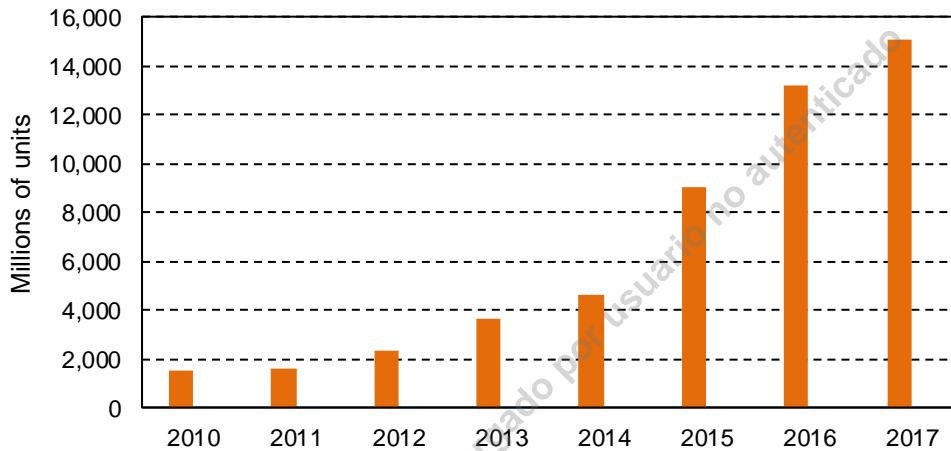
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that have had to be withdrawn from circulation due to wear and tear or obsolescence. In an apparent contradiction, throughout most of this period Venezuela has experienced a real contraction in economic activity. This means that the government needs more banknotes in order to trade the same amount of real value.

Total amount of banknotes in circulation



Sources: BCV and Ecoanalítica

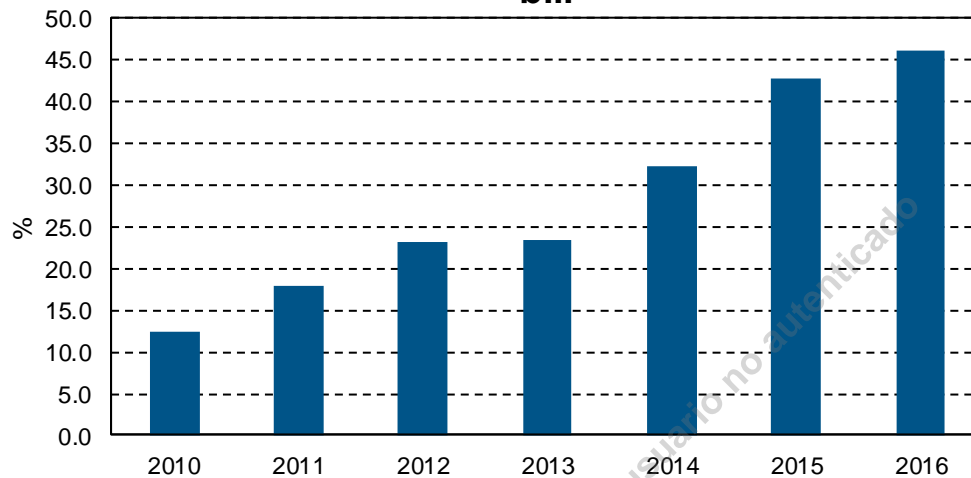
This phenomenon is due in part to the government's decision to maintain the VEF 100 banknote as the highest-denomination banknote in a context of high inflation. More than nine years elapsed between the introduction of this banknote in January 2008 and the appearance of the new monetary cone in January 2017, during which time there was cumulative inflation of 22,704%.

This lag became apparent when, during that period, the VEF 100 banknote eventually accounted for half the banknotes in circulation, when initially it accounted for just over 10%. At that point it was already clear that there was a significant problem with the supply of cash.

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VEF 100 banknotes as a propotion of circulating bill



Sources: BCV and Ecoanalítica

The universally accepted method for measuring the ideal value of banknotes is the so-called D-metric model. This was developed by Payne and Morgan¹ in 1981 based on an empirical study of a sample of several countries.

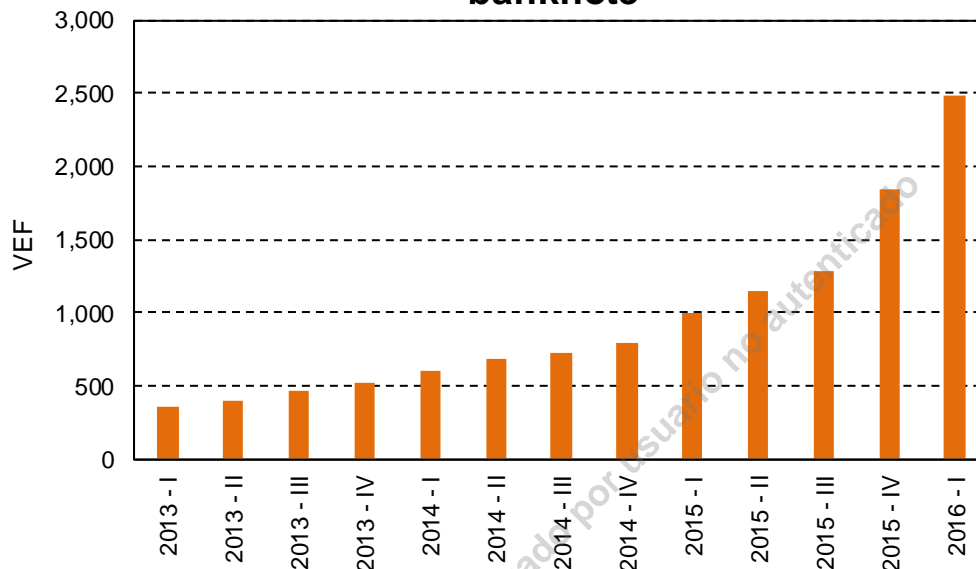
D-metric is equivalent to the population's average daily wage. Based on that, the coverage of the banknote cone should go from a minimum value of $D/20$, which would represent the lowest-denomination banknote, to a value of $5D$ for the highest-denomination banknote.

Using this criterion and taking the D-Metric value of the cone, a VEF 500 banknote was already needed by the first quarter of 2014 and a VEF 1000 banknote by the start of 2015. Despite this, the government insisted on not issuing higher-denomination banknotes until January 2017.

¹ Payne, L. C.; Morgan, H. M. "UK Currency Needs in the 1980s," *The Banker*. April 1981.

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Optimal value for the highest denomination banknote



Source: Ecoanalítica

It is difficult to determine why the government forced itself to print more banknotes than were necessary. The reason seems to be the narrative spread by the government that the high levels of inflation were due to “profiteering,” fueled mainly by the parallel dollar.

According to the government’s version, the price structure of subsidize staples, public services with charges that had lagged behind, and the controlled exchange rate were the “real” prices in the economy, whereas the prices determined by supply and demand were the result of profiteering. That being the case, adding new higher-denomination banknotes to the monetary cone was, in theory, not necessary.

It was only at the end of 2016, when the situation became unsustainable and it was left with no alternative, that the government decided to change course and issue a new six-banknote monetary cone all at once, multiplying the nominal value of the highest-denomination banknote two-hundredfold.

The dilemma of supplying money in hyperinflation

Despite this measure, 2017 was the year in which the cash crisis was felt most acutely. The effect of the new monetary cone was swiftly wiped out by record 2,874% inflation that year.

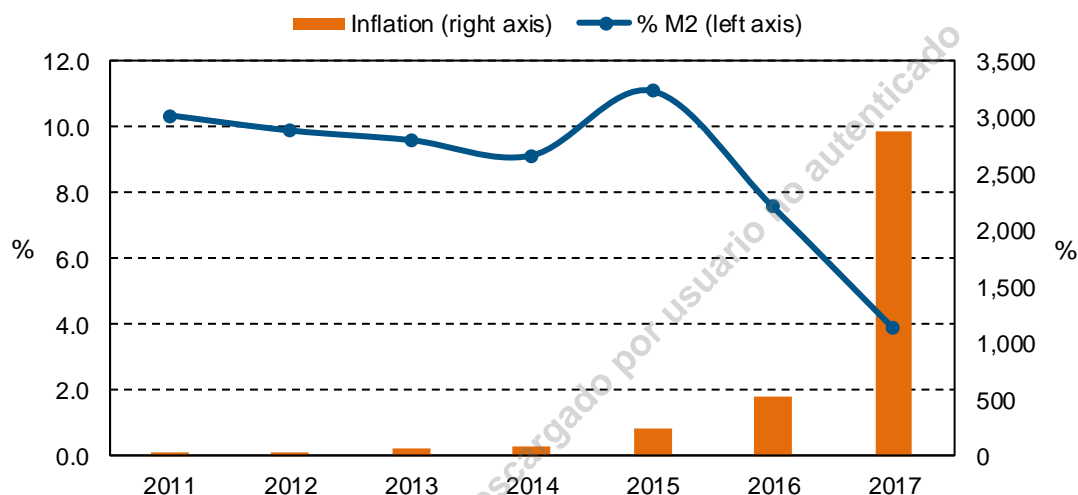
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The most basic metric for measuring the supply of cash in an economy is the ratio of the total value of the banknotes in circulation in the economy to total money supply (M2). As can be seen, this indicator has been declining steadily since 2010, although it did post a fleeting upturn in 2017 of its value to just below 4% from 11% in 2015.

Banknotes and coins (% M2) vs. Yearly inflation



Sources: BCV and Ecoanalítica

So, in 2017 the problem was the opposite to the problem in previous years. Up until 2016, the government printed huge amounts of very low-denomination banknotes. In 2017, the highest-denomination banknotes were put in circulation, but the government was not able to issue the new banknotes in sufficient quantities.

According to press releases from the Central Bank of Venezuela, between December 2016 and August 2017, the government imported at least 614 million banknotes manufactured in Sweden by the US firm Currency Crane. This company is the main banknote supplier to the US Federal Reserve and to several countries around the world.

To get an idea of the cost of purchasing these banknotes, we can take the cost of producing US dollars as a point of reference. According to the Federal Reserve, the production cost varies between USD 0.05 and USD 0.12 per banknote.

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Total of banknotes acquired between December 2016 and August 2017

| Denomination | Received banknotes (Millions of units) | Nominal Value (Millions of VEF) |
|--------------|---|------------------------------------|
| 500 | 284.5 | 142,250 |
| 1,000 | 193.2 | 193,169 |
| 5,000 | 74.5 | 372,500 |
| 10,000 | 34.0 | 340,000 |
| 20,000 | 28.5 | 570,000 |
| Total | 614.7 | 1,617,919 |

Sources: BCV Press releases and Ecoanalítica

Taking this price range, the cost of importing new banknotes can be estimated at between USD 30 million and USD 73 million. However, it should be noted that this cost covers only part of the 1,776 million banknotes that had been put into circulation up until November 2017, the last month for which figures are available.

The remaining banknotes were apparently produced by the Mint. These banknotes represent a lower cost for the country, given the availability of the necessary capital and the fact that domestic costs are defrayed in bolivars. Even so, the raw materials needed to print the banknotes, mainly paper and ink, have to be imported.

Assuming that the cost of internal manufacturing is located in the lowest range of cost of USD 0.05 per banknote, the total cost of banknotes manufactured in Venezuela would total USD 58 million, which would come to swell the total cost of the new monetary cone.

This is not such a huge amount if it is an occasional expense. But it is likely that in 2018 the country will have to pay out a similar or even higher amount for the same thing.

A useful life that gets shorter and shorter

This huge amount of new banknotes that have been put into circulation has not managed to meet the growing demand for cash.

Unfortunately, the vast majority of the new banknote issues have been VEF 500 and VEF 1000 banknotes, the lowest denominations in the new monetary cone. These were the denominations most sought after at the start of the year, but given spiraling prices, they have fast become obsolescent.

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This same phenomenon could happen with what are currently the highest-denomination banknotes. Even if the government prints them in sufficient quantities, they could become obsolete in a matter of months. Taking into account the time it takes to design, print and distribute new banknotes, it will be easy to lag behind the dynamic of the real economy.

It is difficult to estimate how much it will cost the government in hard currency to print money during 2018, as it will depend on how high inflation goes and how quickly the government manages to launch higher-denomination banknotes. Nevertheless, it is possible to project two extreme scenarios.

Both scenarios share two basic assumptions, but differ in other aspects. The first assumption is that the inflation of 90.6% posted in January will be maintained throughout the rest of the year. The cumulative effect of such a high inflation rate throughout the year would result in cumulative inflation 220,000% at the close of 2018. an astronomic figure by Venezuelan standards, but one that is in line with other recorded cases of hyperinflation. The second assumption is that only the highest-denomination banknotes will be printed each time.

The first scenario is where the government consents to use the D metric and updates it in line with the increase in prices. In this case, it would have to bring out new denominations almost every month if it follows the conventional pattern of banknotes based on multiples of 2, 5 and 10. If that happens, the highest-denomination banknote would have a value equivalent to VEF 50 million in current bolivars by year-end. In this scenario, the government would have to print some 275 million new banknotes during the year, which would have a total cost of USD 13,7 million, assuming the standard price of USD 0.05 per banknote. Even if it were to have sufficient foreign currency to import the new banknotes from abroad, a scenario of this kind would be logistically difficult to manage.

The second extreme scenario is where the government repeats the mistake it made with the VEF 100 banknote, but this time with the VEF 100,000 banknote, keeping it throughout the year. In this case, by 4Q2017 it would have to have printed a total of 17.8 billion new banknotes, which would have an estimated cost of USD 893 million.

Both scenarios proposed look to be highly unlikely given the economic and logistical difficulties involved. Given unprecedented levels of inflation, it is likely that the government will have to resort to unconventional solutions.

When the optimum solution is the least likely

One of those possibilities would be to allow the system of cash payments to collapse and turn to a strategy of e-payments based on the Carnet of the Fatherland, smart phone applications or SMS messages. The latter solution would allow the government to make almost infinite use of seigniorage without incurring the cost of issuing cash.

But this is not a cost-free option either, nor is it easy to implement. An e-payment network based on mobile telephony or even on the *Carnet de la Patria* would require a huge investment in communications infrastructure. And it is common knowledge that the point-of-sale payment network is currently working at the limit of its capacity, which means that expanding it sufficiently would be no small undertaking. A solution of this type would also discriminate heavily against the sectors of the population that have very limited access to electronic equipment and/or banking services, in other words the most underprivileged sectors.

Unless a feasible solution is found, it is possible that the bolivar will simply cease to be used as a reference means of payment and the population will start to use alternative forms of payment. In fact, the government itself has sponsored initiatives such as barter or community currencies in the past, so that a measure of this type would not be completely off the charts.

Last of all, it is always necessary to clarify that the optimum solution to the problem would be to implement the structural economic reforms that would make it possible to reduce the growth of the monetary stock and, therefore, the growth in prices. That solution would correct not only the cash problem but also a considerable part of the structural distortions the country is facing. But this is precisely the most difficult option to implement in political terms.

As can be seen, there is no easy or clear solution to this problem. Everything indicates that the inability to be able to do something as basic as make or receive payments will be just one more of the many headaches Venezuelans will have to cope with in 2018.

Armando Gagliardi

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WEEKLY INDICATORS

| Weekly Economic Indicators | | | |
|---|-------------------|------------------|------------------------------|
| | 1st Week February | Weekly var. (%) | Depre/Apre (pp) ¹ |
| FX Dicom (VEF/USD) | 24,996 | 647.3 | 86.6 |
| | 4th Week January | Weekly var. (pp) | Annual var. (pp) |
| Lending Interest Rate (%) | 20.6 | -0.6 | 0.5 |
| | 1st Week February | Weekly var. (pp) | Annual var. (pp) |
| Overnight Interest Rate (%) | 0.03 | 0.0 | -0.1 |
| | 1st Week February | Weekly var. (%) | Annual var. (%) |
| International Reserves (USD Bn) | 9.1 | 0.6 | -13.2 |
| | 4th Week February | Weekly var. (%) | Annual var. (%) |
| Monetary Liquidity (VEF Bn) | 159,119 | 6.2 | 1,311.2 |
| Price of International Oil Baskets (USD/bl) | | | |
| | 1st Week February | Weekly var. (%) | Annual var. (%) |
| WTI | 65.4 | 1.3 | 22.8 |
| Brent | 69.5 | -0.3 | 24.3 |
| Price of the Venezuelan oil basket (USD/bl) | | | |
| | 1st Week February | Weekly var. (%) | Annual var. (%) |
| Weekly Average | 61.5 | 0.2 | 34.1 |
| Annual Average | 60.7 | 0.3 | 34.2 |

Sources: BCV, MENPET and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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

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CHART OF THE WEEK: "IT'S A MATTER OF QUALITY, NOT QUANTITY"

| Democracy Index ranking | | |
|--------------------------------|------------------------------|-------------|
| Rank | Country | Score |
| 1 | Norway | 9.87 |
| 2 | Iceland | 9.58 |
| 3 | Sweden | 9.39 |
| 4 | New Zealand | 9.26 |
| 5 | Denmark | 9.22 |
| 116 | Côte d'Ivoire | 3.93 |
| 117 | Jordan | 3.87 |
| 117 | Venezuela | 3.87 |
| 119 | Kuwait | 3.85 |
| 120 | Myanmar | 3.83 |
| 163 | Democratic Republic of Congo | 1.61 |
| 164 | Central African Republic | 1.52 |
| 165 | Chad | 1.50 |
| 166 | Syria | 1.43 |
| 167 | North Korea | 1.08 |

Sources: The Economist Intelligence Unit and Ecoanalítica

Since 2006, The Economist has been publishing a democracy index based on five categories: electoral process, pluralism, the functioning of government, political participation, political culture, and civil liberties.

The last publication highlights the drop in the global score, a sign that democracies the world over are weakening. As for Latin America, its score fell relatively little, from an average of 6.33 points in 2016 to 6.27 points in 2017. Ecuador was the country in the region to post the biggest increase and Venezuela was the country with the biggest drop.

Venezuela obtained 3.87 points and ranked 117th out of 167 countries. To put this ranking in context, in 2006, Venezuela came in 93rd with a score of 5.42. This loss of ranking implies that, for the first time, we are considered a hybrid regime after having achieved a lower score.

ECONOMIC TIPS

NACPI. Inflation between January 2017 and January 2018 came to 4,068%, according to the CPI calculated by the National Assembly. National Assembly Deputy Ángel Alvarado reported that inflation in January was 84.2%. In December, inflation was 85.0%, in 2017, the total inflation was 2,684%.

The first round. Last Monday, the Central Bank of Venezuela published a press release with the preliminary results of the first “new” DICOM auction. The resultant exchange rate was VEF 30,988/EUR, equivalent to VEF 24,996/USD, for an increase of 647.3% compared to the last rate published (VEF 3,345/USD) and a devaluation of 86.6%.

Yes, but no. In the press release, the Foreign Currency Auctions Committee stated that, due to the current sanctions imposed by the US Government, there had been difficulties with making foreign currency transfers. It also stated that it was working to favor and facilitate “*the harmonious interaction between private enterprise and the Foreign Currency Auctions System.*”

Wait and see. Bearing in mind that the preferential exchange rate for the public sector (DIPRO) was eliminated under Foreign Exchange Agreement 39 and that the foreign currency allocation schemes for both the public and private sectors were changed over to the new complementary floating market exchange rate, the public sector faces a devaluation of 99.9%. Moreover, given that nearly 72.3% of total imports in 2017 were brought in at the DIPRO rate, we expect an adjustment in cost structures with the attendant impact on prices.

Pre-sale of the petro is to start on February 20, according to the white paper published recently. This pre-sale consists of the creation and sale of a token (digital asset) on Ethereum. The white paper explains that a total of 100 million petros will be issued, 82.4 million of which will be available for sale.

Substitution? Forty-four percent of this initial issue will be allocated to the initial offer and 38.4% will be allocated to the pre-sale on March 1. The remaining 17.6% will be withheld by the Superintendency of Venezuelan Cryptocurrencies and Associated Activities (Supcacven). This new asset appears as a new currency that can be used for the purchase of goods and services and be exchanged for fiduciary money and other digital assets.

Money supply... Money supply closed at VEF 159.1 trillion on January 26. In the first four weeks of the year alone it grew by 24.9% with an average of 5.8%, totaling VEF 31.8 billion more than at the close of 2017.

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...and the monetary base. As for the monetary base, it was VEF 125 trillion, according to the last report for January published by the Central Bank. Deposits in commercial and universal banks accounted for 92.8% of that amount and coins and banknotes in circulation accounted for the remaining 7.2%. So far this year, the monetary base has increased by VEF 26.2 trillion (26.5%).

OIL TIPS

It's a possibility. A few days ago, US Secretary of State Rex Tillerson said that the United States was still evaluating the possible implementation of trade restrictions on Venezuela's oil sector. He also commented that the scope of a sanction of this type could cover both exports of Venezuelan crude to the United States and imports of US diluents and other refined products by Venezuela.

Every barrel counts. With regard to exports to the United States, at **Ecoanalítica** we are of the opinion that, given the critical situation Venezuela's oil industry finds itself in, an embargo on oil exports by the United States would be a harsh blow to the Republic's external situation.

Every barrel counts (II). Today, if we take the figure posted for Venezuela's oil exports in December (1.2 mb/d) and subtract the shipments sent in payment of debt (China and Russia) and shipments amounting to close to 85 kb/d under the different energy cooperation agreements (Petrocaribe, Cuba, and others), the number of cash-generating barrels would come to 853 kb/d.

Every barrel counts (III). However, the weight of the United States in this item has been increasing significantly in recent years to 65.8% in December. In other words, if this trade window were to be closed, based on the last available price for the Venezuelan Oil Basket, PDVSA would cease to receive nearly USD 11.72 billion, and the number of cash-generating barrels would be 278 kb/d.

Placing them in other markets isn't easy. What is more, as **Ecoanalítica** sees it, there are a number of restrictions on placing those barrels in new market segments imposed by the availability of a refining park with the capacity for receiving Venezuelan crude, which means that the impact on cash flow could be extended for a considerable period of time.

And what about imports? On the matter of imports, at **Ecoanalítica** we believe that, due to the collapse of Venezuela's refining park and with a basket of increasingly heavy

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exportable crudes, the ban on selling diluents and other products to Venezuela could have negative repercussions in the domestic market and speed up the evident drop in production.

The collapse continues. According to statements by labor union leader Iván Freites, the catalytic cracker at Amuay Refinery has been down for several days as a result of a substantial drop in its operations due to the lack of investment, thefts, bad handling of different units, and the lack of inputs needed for it to function. “*The catalytic cracking unit is shut down due to lack of feed (...) they don’t have enough production and they’ve no alternative but to shut down,*” he explained.

Is the upturn on the way? Strangely enough, a few days after his announcement, Freites commented that operations inside Amuay had been restored and that they were apparently producing around 230,000 barrels a day (230 kb/d), despite the fact that some units were still undergoing maintenance or had been shut down.

Let’s continue for five years more. During his meeting with the secretary general of the Organization of Petroleum Exporting Countries (OPEC), Mohammed Barkindo, President Nicolás Maduro stated that he would officially propose to OPEC and non-OPEC crude producing countries that the mechanisms of the Joint Ministerial Monitoring Committee (JMMC) be extended for at least another five years.

Praise. As for Secretary General Mohammed Barkindo, he made special mention of President Maduro’s efforts to consolidate a final agreement among producers for the purpose of stabilizing the market and recovering crude prices. “*We were able to explain the entire evolution of events in 2017 and we can say that we have turned over the page of the most difficult moments the organization has experienced in recent times,*” he said.

A slight recovery? According to Thomson Reuters Trade Flows, Venezuela’s oil exports to the United States came to 476,550 b/d in January, for an increase of 21.3% compared to 392,710 b/d in December. However, compared to January last year, there was a drop of 29%.

BUSINESS SECTOR TIPS

The distributor State. Last Monday, an agreement between tuna fishermen in the Caribbean Sea and the Central Government was signed. The government is to pay between VEF 30,000 and VEF 40,000 per kilo of tuna and intends to distribute this fish via the Local Supply and Production Committees (CLAPs). Thus the State takes over the

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market distribution functions of yet another item and takes another step towards state ownership of the means of production.

Extortion of cattle ranchers in the regions. Under the decree issued two weeks ago, mayoralties in Guárico are demanding that cattle ranchers hand over 18.0% of their production, even though the Guárico State Agricultural and Livestock Producers Association (Aprolegua) has determined that only 5.0% is needed to supply the entire state, which means that the remaining 13.0% would be surplus to the mayoralties' requirements.

Fueling the inflation fire. Minister for Communication and Information Jorge Rodríguez announced that some 778,000 families had received the "Homes of the Fatherland" bonus. Assuming that all the families received the smallest bonus (for three people), this means that the minimum disbursement the government made this month under this item would be VEF 248.96 billion, equivalent to 312,172 all-in minimum wages that will add fuel to the inflation fire.

Pensions of the Fatherland. Minister Rodríguez also announced that 503,000 senior citizens had signed up to receive their pension via the Carnet of the Fatherland. At **Ecoanalítica** we estimate that this number has to be smaller because it would be equivalent to 98.0% of pensioners; either that or the government is handing out pensions to people who are not entitled to one.

Dreaming of proteins. The consumption of both red and white meat has become an unaffordable luxury for the majority of Venezuelans. In the past two weeks alone, sales of red meat fell by 60.0% in Anzoátegui, according to butchers in the area. The situation of fish sales is similar, with a contraction of 50.0%.

Chrysler drove to the border. After years of red numbers, a loss of USD 60 million in 2017 was the drop that spilled the glass. The main reasons for falling sales in the Valencia plant are a weaker purchasing power from Venezuelans and the fact that the government owes them USD 200 million. The international headquarters decided to separate from its Venezuelan affiliate.

Mobile money's second fase. The Superintendence for Banking Sector Institutions (Sudeban) met with technical representatives from the Venezuelan Banking Association (ABV) to establish new rules for the mobile money system. Notably, the possibility to transact with juridical entities and significant changes to tariffs and commissions to the service.

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We will manufacture something. Last week “Venezolana de Industrias Tecnológicas” (VIT) made a deal with the Venezuelan Plastic Corporation (Coveplast) to produce a small part of the shell that covers the “Mini PC VIT” computers that Venezuela currently imports from China to assemble here. The deal was highly covered by State media.

Nothing to absorb the recession’s shock. Four consecutive years of economic contraction left “Amortiguadores Gabriel” alone in the automotive shock absorber-producing business. Last week the only firm in the business paralyzed indefinitely due to falling sales and their workers fell into unemployment. As their main provider Sidor is also paralyzed, the company had to import supplies using black-market exchange mechanisms and prices were inaccessible to consumers.

WORLD ECONOMY TIPS

Employment, full steam ahead. Unemployment in the United States remained stable in January at 4.1%, the lowest since 2000. More than 200,000 new jobs were created in the month, a higher figure than expected by analysts. Meanwhile wages went up by 2.9% compared to a year ago, the biggest increase since June 2009.

A sharp drop. On Monday, February 5, the New York Stock Exchange Dow Jones Index posted its biggest drop in percentage terms since 2011 and its biggest points drop in the index’s history. Analysts attribute this drop to expectations of an increase in interest rates by the US Federal Reserve following the good employment figures for January, published recently.

No signs of coming down. The Purchasing Managers’ Index (PMI) for the US services sector went up 3.9 points to 59.9 points. This is the highest reading for this indicator since August 2005. It should be noted that this upturn occurred when the USD 1.5 trillion tax cut approved in January was only just going into effect.

An import boom. The United States’ trade deficit came to USD 53.1 billion in December, the biggest deficit since 2008. This increase was due to a growth in imports in response to domestic demand driven by the low level of unemployment.

Returning home. According to a report by the United Nations, the tax cut in the United States could bring more than USD 2.0 trillion that US companies have abroad in the form of retained earnings back into the country. This influx of money could affect the dollar’s rate of exchange against other currencies.

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Keeping a watchful eye on the negotiations. Investor confidence in the euro zone as measured by Sentix fell in February to 31.9 points compared to 32.9 points the previous month. The main reason for this drop is apparently the widespread discontent among investors regarding the direction negotiations on forming a government in Germany are taking.

Signs of heating up. The PMI in the euro zone, as measured by Markit, was 58.8 points in January, up from 58.1 points posted in December. This is the indicator's best score since June 2006. Growth in demand occurred despite companies having posted the biggest increase in prices in seven years.

Final divorce. According to British Prime Minister Theresa May, the United Kingdom rejects any type of customs union with the European Union once the UK's separation from the European Community has been completed.

It continues to go up. The PMI for Japan's services sector rose in January to a seasonally adjusted 51.9 points from 51.1 points in December, the best score in three months. As for the producer prices index, it posted its biggest increase since May 2014.

Zero growth. The PMI for Brazil's services sector stabilized in January at 50 points, compared to 47.4 points in December. It should be noted that 50 points marks the threshold between growth and contraction.

An unfavorable climate. In January Colombia's coffee production fell by 11.0% year-on-year to 1.13 million 60 kg sacks, compared to 1.27 million sacked harvested in 2017. This drop in production was due mainly to adverse weather conditions.

POLITICAL TIPS

We have the date. Later that Wednesday, the National Electoral Council (CNE) announced presidential elections will take place on April 22. The deadline to postulate candidates will be February 26. The campaign will last 16 days, and it will start on April 2.

Achievements in revolution: a prisoner a day. According to the Venezuelan Penal Forum, "there are 233 political prisoners in Venezuela. (...) 30 new political prisoners in 2018." Alfredo Romero, the organization's director, pointed out that a report containing this information had been sent to the secretary general of the Organization of American States (OAS), Luis Almagro,

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More fall by the wayside. Last Friday, before starting the process of validating the political party *Primero Justicia* (PJ), the National Electoral Council (CNE) denied PJ the possibility of questioning the results, a phase provided for in the regulations, thus invalidating the yellow party.

Democracy first and foremost. Responding to this decision, CNE director Luis Rondón repudiated the fact that the CNE had “*modified the conditions for the renewal of political parties, even failing to comply with the schedule that had already been approved and published in order to prevent Primero Justicia from proceeding to the phase of questioning the results.*”

But I set the rules. *Primero Justicia* expressed its rejection of the unfair measure, saying that, with it, the National Electoral Council puts the dictatorship’s willingness to guarantee free and transparent elections in question.

None as blind as he who doesn’t want to see. After US Secretary of State Rex Tillerson mentioned the possibility of imposing oil sanctions on Venezuela, President Nicolás Maduro rejected such a measure, describing it as “*a set of extremist ideas,*” saying that there were many countries prepared to take up the oil normally sent to the United States.

A respectful suggestion. Speaking on behalf of the Group of Lima, Peru’s minister for foreign affairs, Cayetana Aljovín, said that the presence of President Nicolás Maduro at the Summit of the Americas should be “*carefully evaluated.*”

The immediate response. Immediately, Minister for Foreign Affairs Jorge Arreaza confirmed President Nicolás Maduro’s attendance at the 8th Summit of the Americas to be held next week.

The now customary black smoke. Last Tuesday, talks between the Venezuelan Government and the opposition were resumed. These talks continued on Wednesday due to the lack of an agreement between the parties. The negotiation process was suspended later that Wednesday, and it was confirmed that no agreement was reached.

Telling it how it is. In view of the failure to reach an agreement, Deputy to the National Assembly Julio Borges, who heads up the opposition’s negotiating team, announced that “*if an agreement has not been signed it is because we consider that what is written there is not worthy of the Venezuelan people (...) We are never going to sign anything that Venezuelans do not deserve.*”

Communication but without information. As for Jorge Rodríguez, the leader of the government's delegation during the negotiations, he accused the opposition of being pressured from abroad into not signing an agreement between the parties. The opposition's representative denied this version of what happened.

Authoritarian in everyone's eyes. Colombia's President Juan Manuel Santos stated that his Venezuelan counterpart, Nicolás Maduro, "*would never accept free elections because he knows he would lose,*" claiming that Colombia would not recognize the results of the presidential elections given that the call to elections was made without the necessary conditions to guarantee the process's transparency.

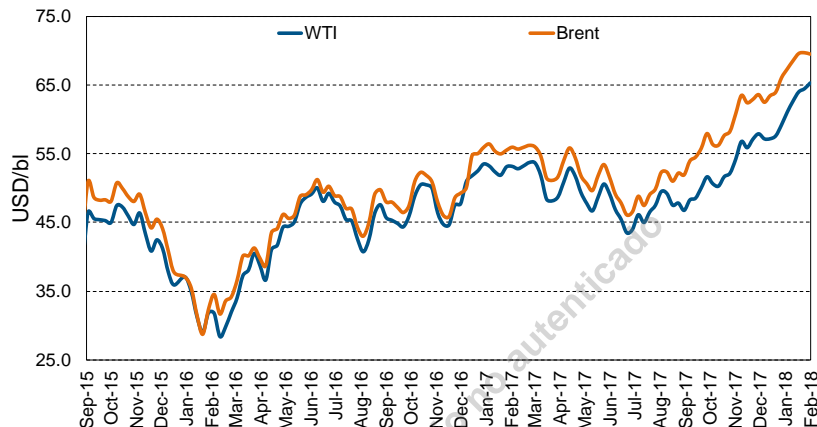
Joining the sanctions? Costa Rica's Minister for Public Security Gustavo Mata announced that they had issued a ban on the possible entry into Costa Rica of Venezuela's Minister of Defense Vladimir Padrino López and his family. According to intelligence information available to the Government of Costa Rica, they were expecting that the minister's family might enter the country.

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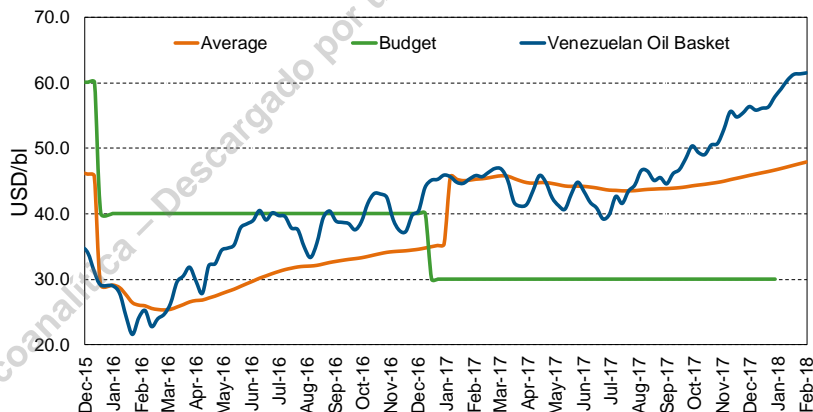
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



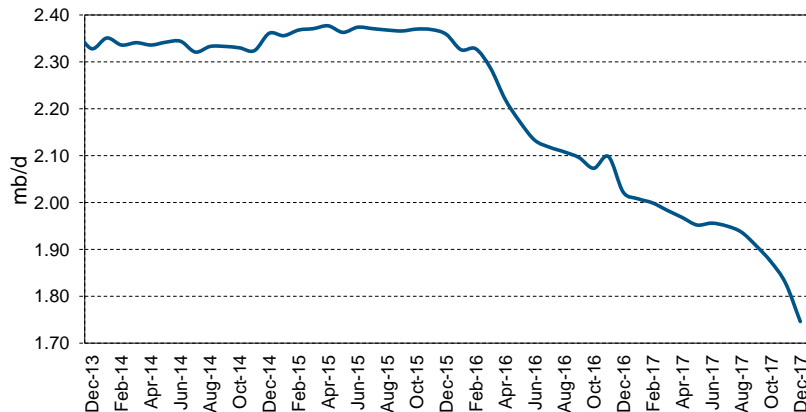
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

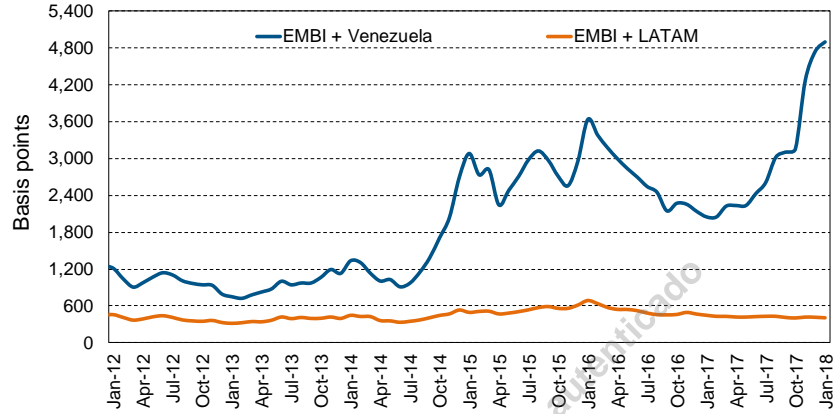
**Oil Production
(Secondary sources)**



Sources: OPEC and Ecoanalítica

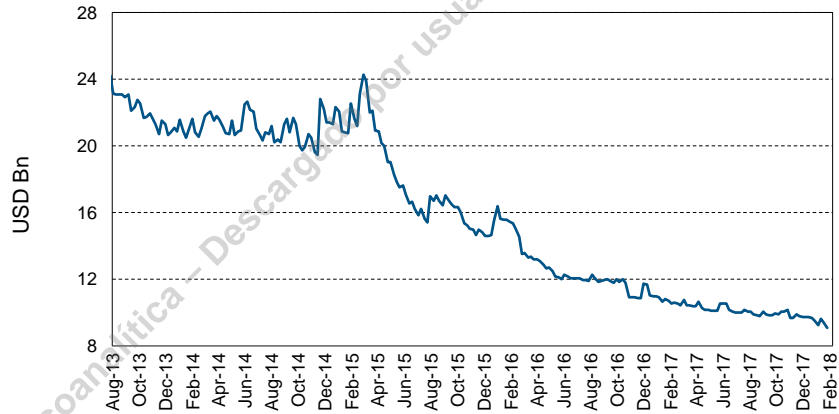
ECONOMIC INDICATORS

EMBI



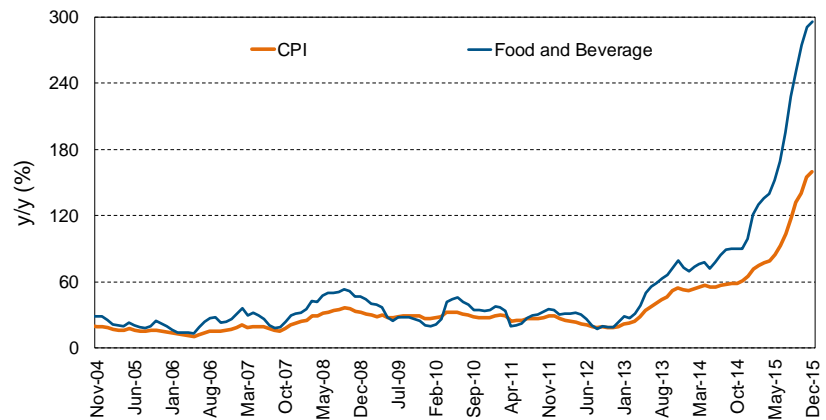
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

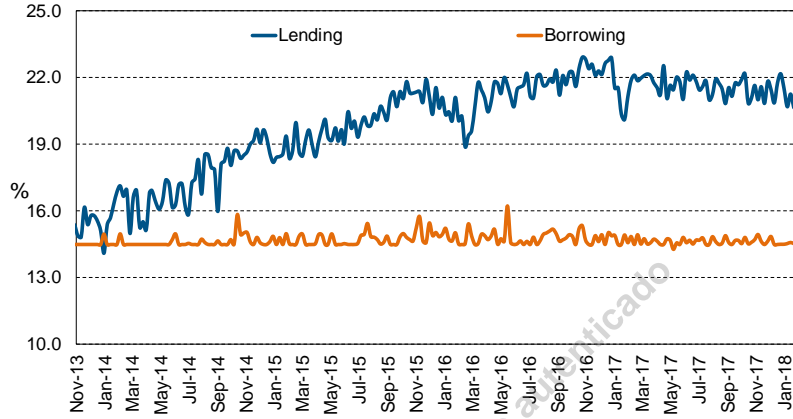
Inflation (BCV)



Sources: BCV and Ecoanalítica

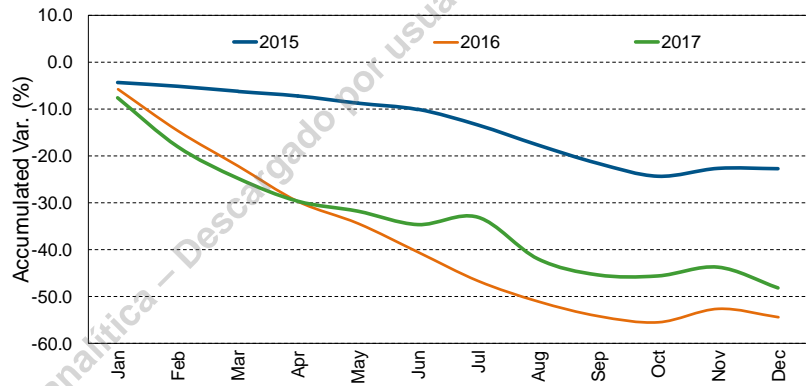
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



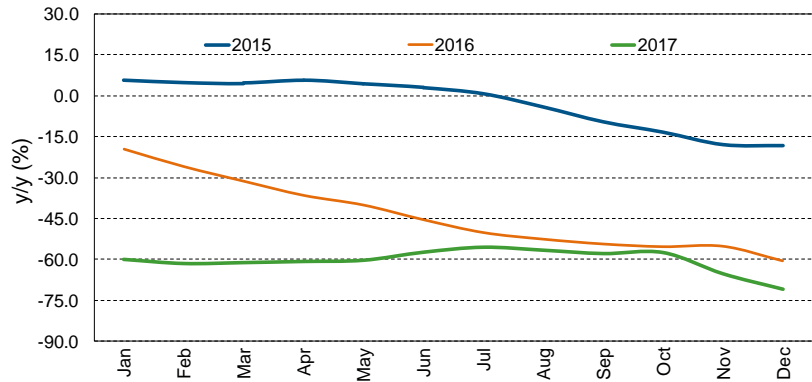
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

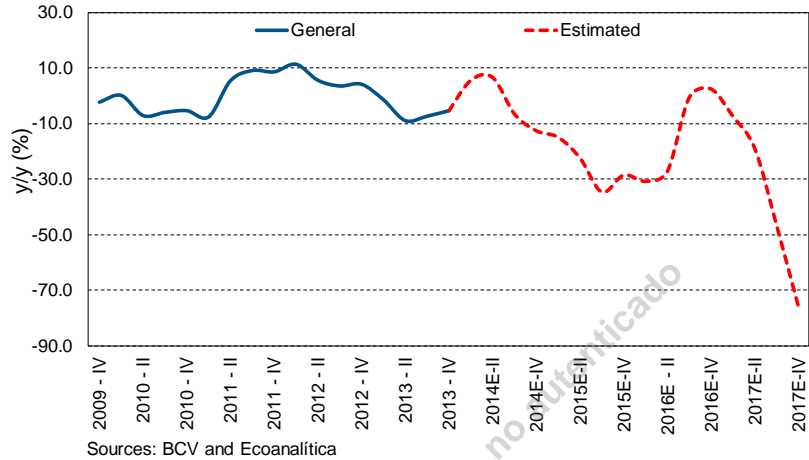
**Loan Portfolio
(Real)**



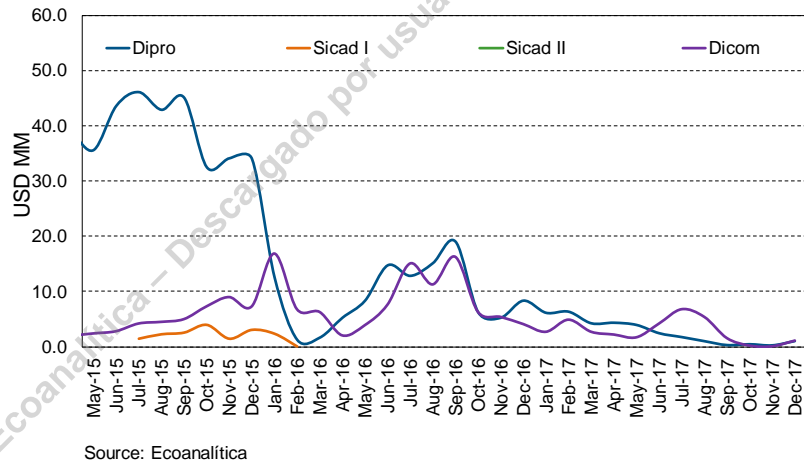
Sources: SUDEBAN and Ecoanalítica

ECONOMIC INDICATORS

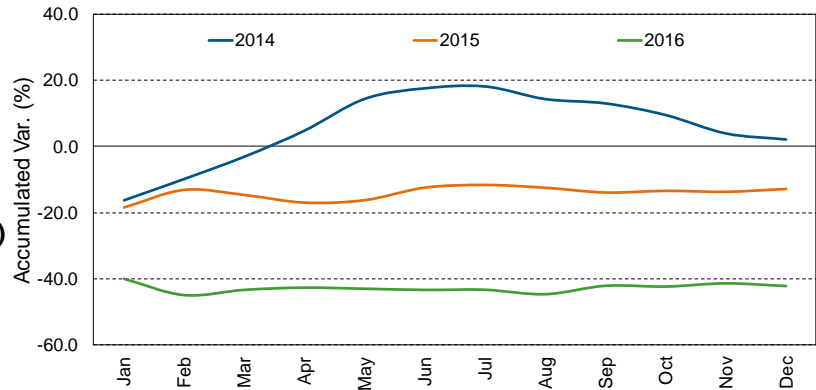
Real Wage Index



Disbursements to the Private Sector (Daily Average)

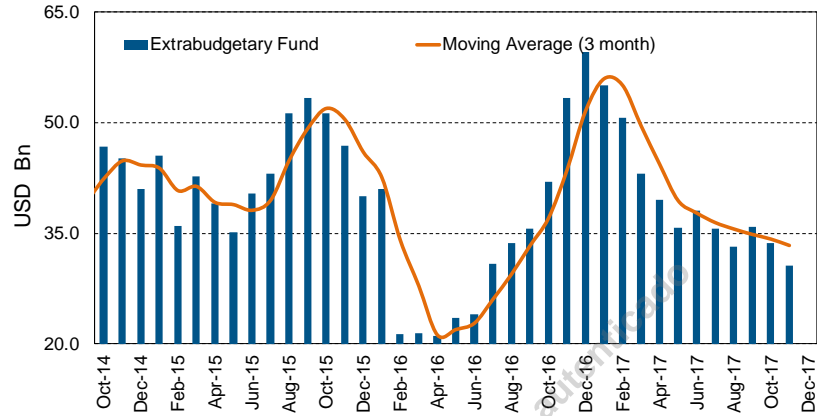


Primary Spending NTO (Real - Central Government)



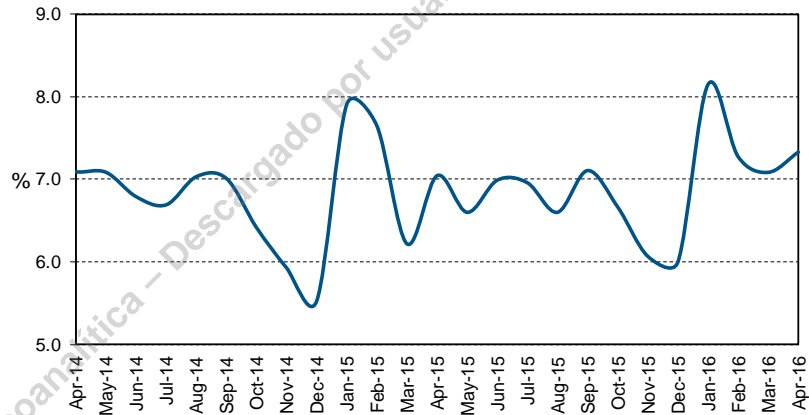
ECONOMIC INDICATORS

State Extrabudgetary Resources



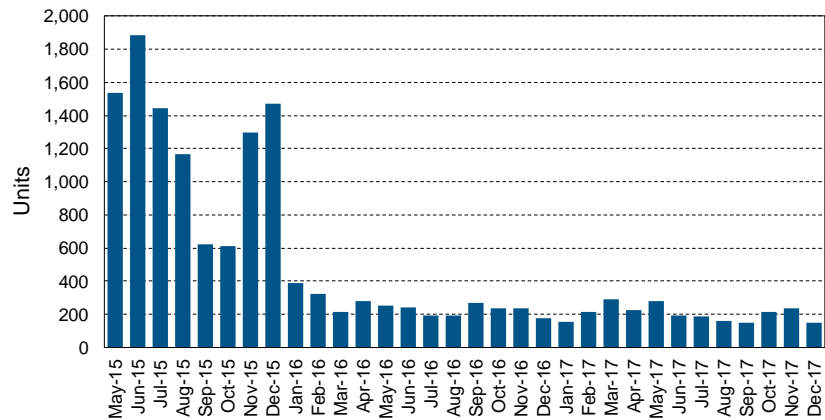
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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