

Tax reform amid dollarization

In the last few days of January, the Constituent National Assembly issued substantial amendments to Venezuela's taxation, customs and banking scheme via *Gaceta Oficial (Extraordinaria)* Number 6507, dated January 29, 2020. The main components of these amendments are the defining of a new Tax Code (COT), the reform of the Organic Customs Act¹, a partial reform of the law that establishes Value Added Tax (VAT), and the creation of the National Single Production Portfolio.

The most substantial changes constitute an abrupt adaptation by the Venezuelan Government to the dynamic of dollarization the Venezuelan economy is experiencing, by establishing rates for VAT on transactions entered into and performed in foreign currency and by employing foreign exchange indexation mechanisms for calculating tariffs, customs duties and levies, and fines for tax offenses, among other things.

At **Ecoanalítica** we consider that these changes are an extension of the fiscal adjustment promoted by the government since the start of 2019. Efforts last year focused on reducing costs; now these new measures point to beefing up revenues from taxation. We are of the view that these intentions face considerable operational and logistical challenges resulting from operating in an environment in which a growing number of transactions are performed via opaque and informal channels. In addition, even without these restrictions, the potential of raising revenues will be limited by an inevitably smaller taxation base after six years of economic contraction.

The exchange rate is king

The common element in the majority of the tax and tariff adjustments is that they are tied, one way or another, to the use of foreign currency in Venezuela as a benchmark for setting prices or as a means of payment. So, the reforms are in alignment with a trend by the Venezuelan Government to use the Petro and markers that have ties with the exchange rate as a budgetary and fiscal reference.

¹ Technically, what are being amended are *decrees* that have the rank, value and force of law.

VAT for operations in foreign currency

Article 27 of the partial amendment to the law on VAT imposes an additional rate of between 5% and 25% on transactions involving goods (moveable and real estate) and services *paid*² in foreign currency, cryptocurrencies or crypto assets other than those issued by the Republic³. Operations performed by public sector entities are exempt and determining⁴ the different rates applicable to different goods, along with the possibility of issuing exemptions for goods, economic sectors and means of payment, is left to the government's discretion.

The additional rate even applies in cases where the goods in question are exempt⁵ from the base VAT rate (between 8% and 16.5%), which means it could be considered a general tax on operations in which foreign currency is used as the means of payment. It is also specified that, in these cases, the invoices should be drawn up in both the foreign currency and bolivars and that notaries and registrars shall have the authority to request and corroborate proof of the means of payment.

What the Tax Code says about the exchange rate

The main changes to the Tax Code focus on centralizing tax exonerations in a single administrative act⁶ by the government in each fiscal year⁷. The articles that determine the fines for tax offenses⁸ will no longer be calculated based on the Tax Unit, but on an amount that is n^9 "times the official exchange rate of the currency having the highest value published by the Central Bank of Venezuela." Moreover, there is explicit mention of the obligation to draw up, issue and keep invoices and their supporting documents.

The tax unit has not been completely discarded. It will still be the main basis for the National Integrated Customs and Taxation Administration Service (Seniat) to determine the taxes for which they are responsible, the difference being that their modification and adjustment¹⁰ will no longer be subject to a given timeframe or be based on objective bases of adjustment, but will be at the discretion of Seniat with the prior approval of the President of the Republic. In other words, the tax unit will no longer have to be updated during the first 15 days of February each year, following consultation with the National

² Regardless of what form billing takes.

³ Therefore, the Petro is exempt from this additional VAT.

⁴ Within a period of 30 from the publication of the *Gaceta Oficial*.

⁵ Article 62.

⁶ Article 77, which refers to a *General Decree on National Tax Exonerations*.

⁷ Which reduces the period during which the exonerations are valid to one year.

⁸ Articles 91, 92, 100, 101, 102, 103, 104, 105, 106, 107, 108, 115, 116, and 117.

⁹ The number varies depending on the article or section in question.

¹⁰ Article 131.

Assembly's Permanent Finance Committee regarding the rate of inflation for the previous year.

Customs tariffs in the foreign exchange orbit

Continuing with the Tax Code, the main amendments to customs legislation have to do with setting charges for customs services¹¹, taxes¹², or penalties for persons involved in customs matters¹³, forwarding agents, companies, warehouses, agencies, declarations of merchandise, and misuse of the computer system within a range of *n times the official exchange rate of the currency having the highest value published by the Central Bank of Venezuela*, and establishing what will be duty free.

Not even the best of plans will survive contact with implementation

In theory, the logic the Venezuelan Government is apparently using is one where it adjusts its tax collection strategy to the fact that more and more Venezuelans are migrating to foreign currencies to perform their day-to-day transactions. If that preference remains inelastic despite the new rates, then revenues will increase simply due to the fact that transactions are being performed. In the event that the new tax is viewed as a very high cost¹⁴ for performing a transaction, then incentives to migrate to using the Petro will increase. This, together with a scheme that makes it compulsory to register transactions in foreign currencies and an apparatus of sanctions for failing to do so, will reinforce the Value-added tax, the most important component of nonoil receipts, which went from 27.7% in 2007 to 53.4% in 2019.

¹¹ Article 6.

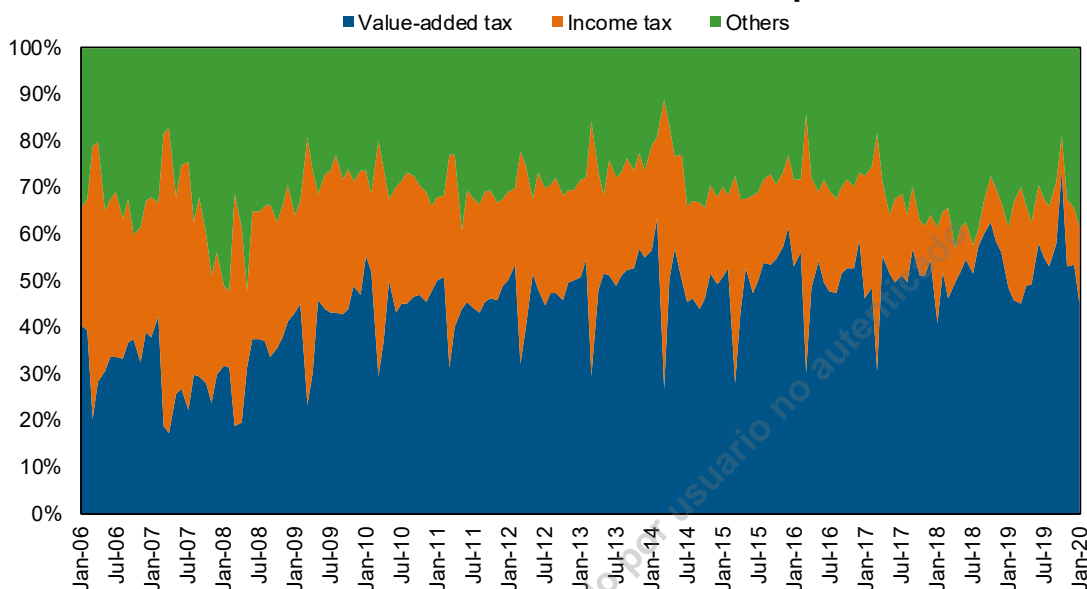
¹² Article 118.

¹³ Articles 161,162,165,166, 167, 168, 177, 178, and 180.

¹⁴ For practical purposes, the new rate is a penalty for operating in a foreign currency.

Year 15. Number 05 Week I
 February 2020

Non-oil internal tax revenue composition



Sources: Seniat and Ecoanalítica.

Note¹: Others contain customs revenues and other internal rents.

Note²: The composition for September 2018 was calculated as the average between the revenues of the previous month and the one that followed.

Sliding down the negative slope of the Laffer curve

The problem with this proposal -and with the government's strategy in general- is that the assumptions regarding the logistical capacity for effectively broadening the field of tax receipts and the assumption that economic agents will not seek alternatives to the Petro are not very realistic. In principle, the disorderly nature of the dollarization process means that many of the operations that are paid in foreign currency are registered only in bolivars or are simply not backed by an invoice.

The means available to the authorities for verifying that transactions were, in fact, performed in a foreign currency and then collecting the taxes are asymmetric between one company or sector and the next. Even after a round of successful inspections, there will still be incentives for private agents to migrate to operations performed informally or via more opaque channels.

The limited economic buoyancy¹⁵ of some dollarized market niches is thanks to a de facto loosening of restrictions that is occurring outside the official mechanisms¹⁶. The

¹⁵ Weekly Report Number 1, 2020: 2020: *Same hole, new shovel*.

¹⁶ But with the tacit consent of the authorities.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandin, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

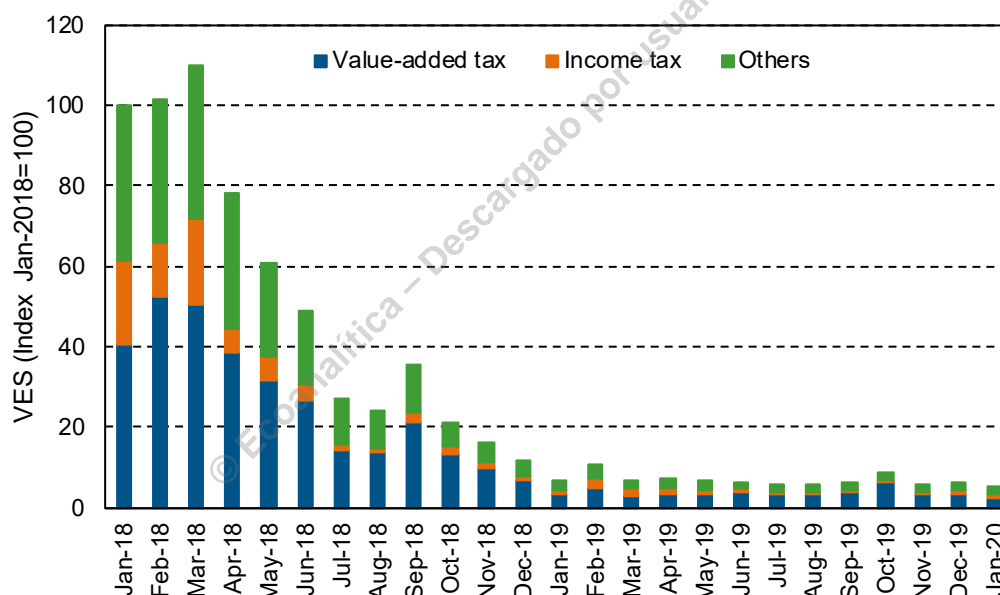
Year 15. Number 05 Week I
 February 2020

incentives for agents to continue to operate under these schemes are still present, but the same cannot be said with regard to their willingness to adopt means or instruments established by the government, such as the Petro, when there is little appetite for it or when the practical means for doing so are lacking.

The Olivera-Tanzi Effect counterattacks

The biggest challenge facing the tax reform is not necessarily collecting taxes and monitoring operations that will become increasingly more elusive. It is rather the fact that inflation and the contraction of the economy have eroded tax receipts in real terms, causing them to contract by 94.5% since the beginning of 2018.

Non-oil real internal tax revenue



Sources: Seniat and Ecoanalítica.

Note: The composition for September 2018 was calculated as the average between the revenues of the previous month and the one that followed.

According to comments¹⁷ by some members of the Constituent National Assembly, the government's strategy aims at offsetting the immediate depreciation of tax receipts because of how slowly the tax unit is updated¹⁸. Based on this argument, the changes to

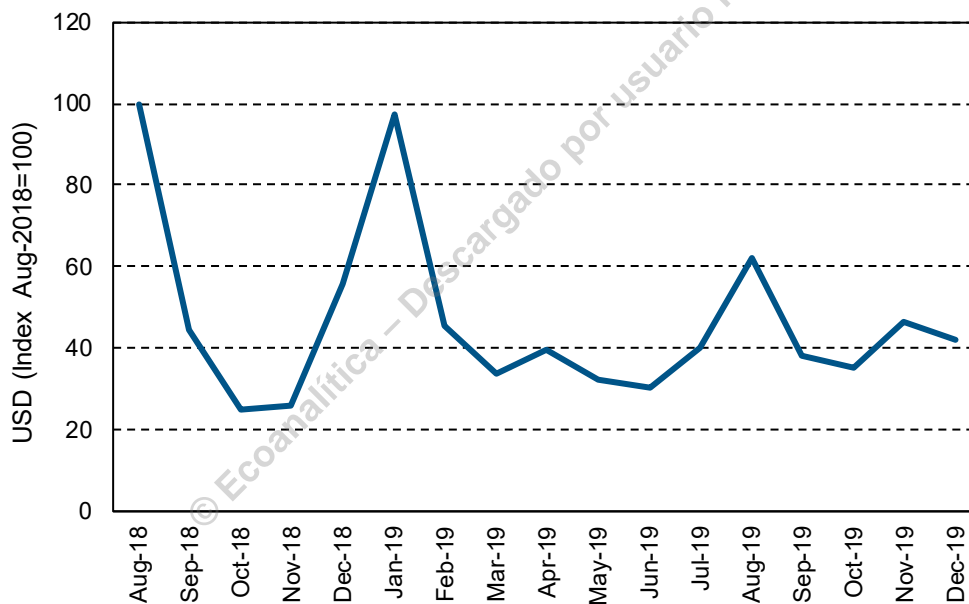
¹⁷ ¿Qué implica la reforma tributaria? (Prodavinci): <https://prodavinci.com/que-implica-la-reforma-tributaria/>

¹⁸ The government could be discouraged from updating the tax unit in order to avoid the fiscal impact that this would have by considerably increasing the bonuses that are pegged to it such as the Food Bonus. In

the Tax Code and the customs regulations that index amounts to the exchange rate can be considered a way of protecting tax revenues from inflation.

Any adjustment reduces losses due to inflation, but that does not guarantee that indexing to the exchange rate will keep the value of revenues that depend on it stable thanks to the effects of the appreciation of the exchange rate. If we compare inflation and the growth of the official exchange rate published by the Central Bank of Venezuela, we find that the dollar has lost 57.8% of its purchasing power since August 2018, month in which the adjustment and normalization of the official foreign exchange market started, process that continued in 2019.

Dollar purchasing power (BCV)



Sources: BCV and Ecoanalítica.
Note: Inflation and exchange rate data from BCV.

Regardless of the levels of the highest reference exchange rate¹⁹, in the long run, maintaining the real value of revenues will depend on how they vary against inflation. So, the success of this strategy will depend on an essentially perfect synchrony between the exchange rate and inflation, which is difficult to achieve when a large number of anti-

in addition, there is a predictable confrontation with the Legislature, which, according to the Tax Code, should take part in this process.

¹⁹ Which, based on the preference displayed by the authorities, seems to be the euro.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandin, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

inflation policies²⁰ –to which these new regulations and penalties have now been added- are specifically designed to contain the exchange rate in the first place.

Dollarization by another name

Even though the calculation, denomination and payment of taxes and fines will still be in bolivars, the most remarkable element of the tax reform is the explicit implementation of foreign exchange benchmarks outside traditional foreign exchange operations. The implications of this arrangement are a more extensive use by the authorities of currencies other than the bolivar as a nominal anchor, opening the door to more *de jure* incorporations into the new economic scheme defined by dollarization.

Lumping them all together

The last element in *Gaceta Oficial* 6507 having important economic implications is the unification of the banking sector's compulsory loans portfolio into a single portfolio for the agri-food, manufacturing, tourism, health sectors and mortgages, which is to be overseen by a Governing Committee appointed by the President of the Republic.

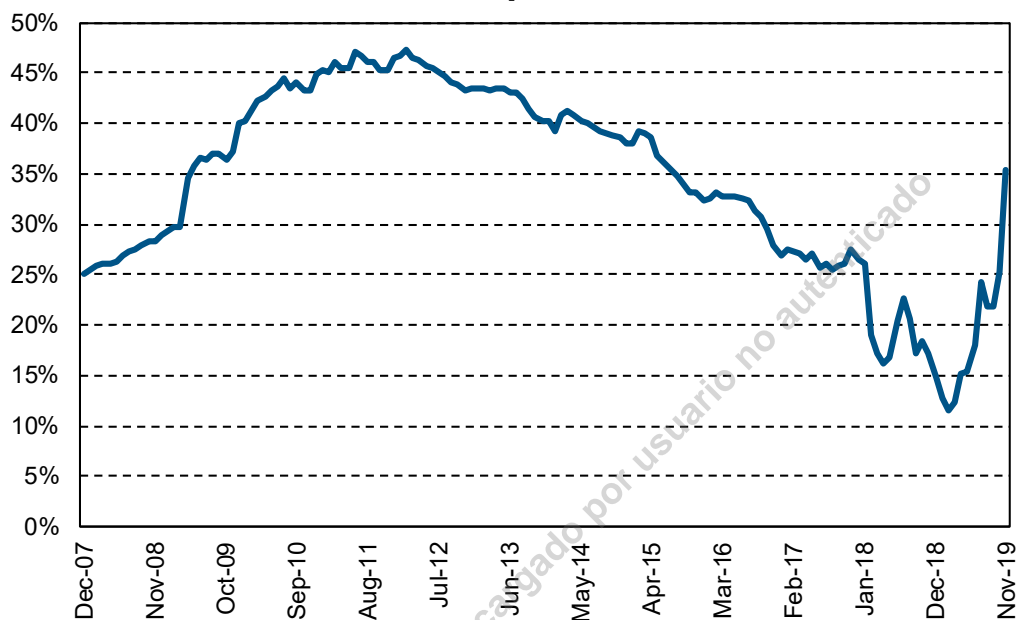
The single portfolio must be equivalent to between 10% and 25% of the total value of the banking sectors gross portfolio at the close of each month. While this would be below the historic trend, according to which the total compulsory portfolio²¹ averaged 37.1% of the gross loans portfolio between 2008 and 2017, it would be more in line with the average of 19,1% posted since 2018, a period during which the compulsory portfolio went over the 25% ceiling in 2 of 23 months.

²⁰ Legal reserve requirements for the banking sector, penalties for failing to meet those requirements, indexed loans, operation of money desks, and intervention by the Central Bank in the foreign exchange market via the sale of euros in cash

²¹ Adding the compulsory loans portfolios: agricultural, microentrepreneurs, mortgages, tourism and manufacturing

Year 15. Number 05 Week I
 February 2020

Proportion of compulsory loans in the gross loan portfolio



Sources: Sudeban and Ecoanalítica

The way the single compulsory portfolio is made up will increase the government's ability to shift the focus of those compulsory loans at its discretion, loans that are getting less in real terms for the same reasons that have eroded tax receipts. Given the overall reduction in the size of the banking sector and the loans portfolio in general, equivalent to only USD 224.1 million in November 2019, it is unlikely that this new single portfolio will have much impact in terms of raising domestic production.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Seeking to give a boost

The tax reform can be viewed as a continuation of a fiscal strategy that is facing pressures from opposite directions: keeping a balance between closing the deficit in order to reduce monetary pressure on prices on the one hand and maintaining an adequate level of spending in an election year on the other. Like the reduction in spending in 2019, the increase in taxes and a more aggressive adjustment of sanctions by pegging them to the exchange rate are pro-cyclical in nature in a recessive environment. Potentially they will inhibit the economic activity of formal businesses that come within the radar of the tax authorities and this will motivate more agents to operate informally. With its agenda for giving production a “boost,” it looks as though the government has stumbled rather than taken a leap ahead.

Giorgio Cunto

© Ecoanalítica – Descargado por usuario no autorizado

Year 15. Number 05 Week I
 February 2020

WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week February	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	73,607.36	-0.6	-0.6
	3rd Week January	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	24.3	0.1	1.7
	1st Week February	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	140.2	-2.5	136.2
	4th Week January	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.8	1.4	-19.8
	3rd Week January	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	48,194,659	5.2	3,072.6
Price of International Oil Baskets (USD/b)			
	4th Week January	Weekly chg. (%)	Annual chg. (%)
WTI	53.3	-7.5	-0.3
Brent	59.5	-7.0	-2.9
Price of the Venezuelan oil basket (USD/b)			
	4th Week January	Weekly chg. (%)	Annual chg. (%)
Weekly Average	51.2	-7.1	-8.2
Annual Average	56.2	-2.2	5.2

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

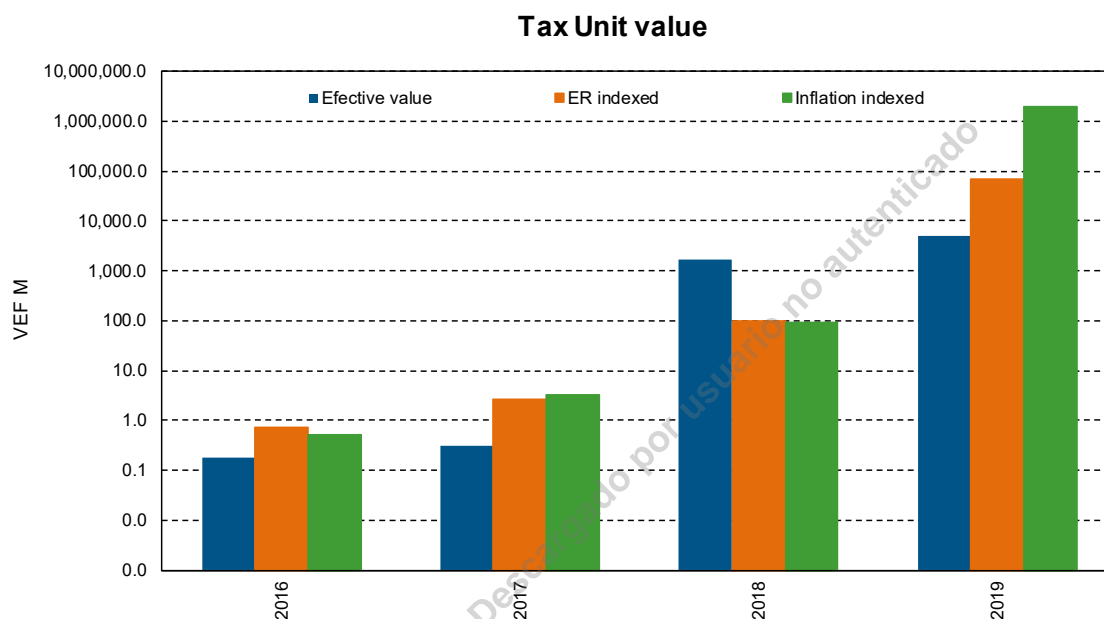
¹ Depreciation (+)/Apreciation (-)² FX Borads' average exchange rate

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15. Number 05 Week I
 February 2020

CHART OF THE WEEK: “THE LOST TREASURE”



Source: Ecoanalítica.

Note: the effective value considered for 2018 was that of the last adjustment for that year.

The tax unit is a fiscal unit of measurement used to calculate taxes and charges levied by the government and government services in Venezuela. The purpose of the tax unit is to keep the amounts that have to be paid according to the different tax laws and regulations up to date. It first went into force in 1994 and its current legal framework is established in Article 229 of the Tax Code (COT), which was amended in 2014 via *Gaceta Oficial (Extraordinaria)* Number 6152. Article 121 of the Tax Code specifies that the National Integrated Customs and Taxation Administration Service (Seniat) shall adjust the value of the tax unit at the start of each year based on the variation in the Consumer Price Index (CPI) of the previous year, i.e. the annual rate of inflation.

Nevertheless, as can be seen from the chart, while the value of the tax unit has been adjusted each year, these adjustments are not in line with the annual inflation for the preceding year. That is why the green line (what the value of the tax unit would be had it been pegged to monthly inflation for the previous year) is higher than the blue line (the actual value of the tax unit) for the majority of the years evaluated. However, in 2018 Seniat made three adjustments. The last one was following the monetary redenomination in August that year and was so big that it made the value of the tax unit higher than it would have been using either of these two indexations. This margin was maintained until,

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
 Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

with the increase in 2019, the adjustment was not big enough for the value of the tax unit to close the year higher than the other two values.

A comparison of this adjustment to the value of the tax unit pegged to the exchange rate at the start of each month (orange line) reveals that this tax unit is lower than the tax unit pegged to inflation, despite remaining higher than the actual value of the tax unit (even though the effects of the monetary redenomination promoted a temporary change in that trend). As is happening with the cost of local goods measured in foreign currency, this occurred due to the real appreciation of the exchange rate as a result of the exchange rate going up more slowly than inflation. So, if the increase in prices persists and if only indexation to the exchange rate is considered in the taxation scheme, the revenues the government obtains from taxes will continue to be unprotected given a rate of inflation that is still high.

© Ecoanalítica – Descargado por usuario no identificado

ECONOMIC TIPS

Expanding their services. According to anonymous sources consulted by Reuters, for some months now at least six Venezuelan banks have been accepting packs of dollar and euro banknotes for safekeeping in their vaults.

This service is not available to everyone. This service is offered mainly to supermarket chains and industrial companies that receive payment in dollars or euros. However, one of the sources clarified that they only handle cash in foreign currency for clients of long standing.

Major changes. As a result of what was approved by the Constituent National Assembly, on January 29 *Gaceta Oficial (Extraordinaria)* Number 6507 was published, which establishes changes to the Customs Act and the Value Added Tax Act.

The most important changes. These changes cover four main points: a change in how penalties for tax offenses are calculated; a high rate of VAT on payments in foreign currencies or cryptocurrencies; a reduction in tax breaks and exonerations; and an increase in prison sentences for tax offenses.

Basis for calculation. Juan Carlos Castillo, the president of the Venezuelan Tax Law Association, clarified that the first of these points implies that the way penalties for tax offenses are to be calculated will no longer be based on the tax unit but will be indexed to the currency having the highest value published by the Central Bank of Venezuela. At the moment, that currency is the euro.

139,900% more. Castillo stressed that this was a huge change, given that the tax unit in force since March 7, 2019, was at VES 50 and the exchange rate is now more than VES 70,000/USD. He also pointed out that, due to the constant fluctuation of the exchange rate, there is no guarantee for taxpayers.

Seeking to maintain value. Andrés Eloy Méndez, the chairman of the National Constituent Assembly's Committee for the Economy, explained that this decision was due to the fact that they were under the obligation to "address the fiscal system," which meant that they could not continue levying taxes based on a tax unit that was constantly devaluing. "That only devalues Venezuelans' income," he said.

Different rates for different products. As for the amendment to the VAT Act, the idea is to exonerate more basic basket products, which is why a variable rate of between 8% and 16.5% will be implemented.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

How is it going to be paid? Besides that, an additional tax of between 5% and 25% will be levied on goods and services that are paid for with foreign currency or a cryptocurrency other than the Petro. However, the National Constituent Assembly gave no details of the mechanisms that will be used to collect this tax.

Against the new tax. National Assembly Deputy Ángel Alvarado expressed his disagreement with this tax on transactions performed in dollars, saying it had not been consulted and describing it as regressive and confiscatory. He also said that if the tax is set at 25%, it will be the highest tax in the world.

Better than before, but not much, Part I. The International Monetary Fund (IMF) announced that it projects a contraction in the Venezuelan economy this year of 10%. To arrive at this figure, it bore in mind that Venezuela's gross domestic product (GDP) contract 35% last year.

Better than before, but not much, Part II. The IMF highlighted that growth in Latin America stayed at 0.1% last year and that expectations are for it to increase this year, but less than forecast previously.

Increasing reserves. The international reserves closed at USD 6.8 billion in the week ending January 31, up 0.1% compared to the close of the previous week (January 24). That gives a drop of 19.8% compared to a year ago.

Money desks. On February 6, the average money desk exchange rate was VES 73,607/USD for a depreciation of 0.6% compared to the previous week.

Money supply. Money supply came to VES 48.2 trillion in the week of January 24, for an increase of 5.24% in nominal terms compared to the previous week and of 3,072.6% compared to a year ago.

OIL TIPS

The same accounts, Part I. Petróleos de Venezuela (PDVSA) announced that its debt had gone down by less than 0.1% between 2018 and 2019. This would keep the amount at around USD 34.5 billion. The situation of the bonds in default remains unchanged following the application of US sanctions.

Year 15. Number 05 Week I
February 2020

The same accounts, Part II. In its announcement, the state-owned oil company commented that it owed around USD 25.2 billion to bondholders alone, more than the USD 24.7 billion that were owed in 2018.

The same accounts, Part III. Moreover, the approximate debt with commercial partners such as Chevron and China National Petroleum Corporation (CNPC) came to USD 2.65 billion at the end of 2019. While only a tiny figure, it means a reduction compared to the amount owed in 2018.

Incomplete information. PDVSA has not published an annual report since 2017, and 2019 was no exception since the report that was published does not contain more information about the company. The outstanding debt with suppliers, for example, is not shown in this report.

Only just. A year on from the United States imposing sanctions, Venezuela's state-owned oil company is still standing. As a result of the sanctions, PDVSA has sought to give joint ventures greater leeway in handling crude exports and other operations.

Seeking stability. Thanks to these measures, Venezuela's oil exports went up to 1.1 million barrels a day (mb/d) in December. While this was below pre-sanction levels, it meant that exports had stabilized somewhat compared to August, when they had fallen below 800 kb/d.

False stability. However, it should be noted that total exports in 2019 did not make up for the loss of purchases by US companies and were 32% below 2018 on average.

Russia, Venezuela's favorite ally. Throughout 2019, Rosneft acted as a middleman and helped to solve PDVSA's shipments. It continued to dispatch crude to China, the main destination for Venezuela's crude last year, by performing ship-to-ship transfers at sea, the idea being to conceal the origin of the crude, according to Reuters.

Different strategies. Reuters comments that these measures, and other creative tactics, were responsible for keeping PDVSA standing in 2019. Meanwhile, even though the United States has said that it will take a closer look at Rosneft and its operations with Venezuela, it has not actually established sanctions that make its threats credible.

From A to C. PDVSA has shut down the last two of its refineries that were operating in Venezuela, Cardón and Amuay located at Paraguaná, the country's biggest refinery complex. According to information obtained by Reuters, these shutdowns are not permanent.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15. Number 05 Week I
February 2020

Technical problems and lack of crude. Amuay, with a refining capacity of 645 kb/d, was shut down due to a variety of technical problems, such as the nonfunctioning of its five distillation units and lack of sufficient crude in order to be able to process. Amuay Refinery stopped functioning on Monday last week.

Lack of maintenance. Cardón Refinery, on the other hand, with a capacity of 310 kb/d, was shut down the previous Saturday in order to carry outstanding scheduled maintenance on the refinery's first distillation unit, which had been producing only 50 kb/d, 260 kb/d below its potential.

Back in service soon? According to a source within the company, it will take at least two or three days for Amuay to get up and running again and at least a few weeks to restore operations at Cardón. Platts reports that Amuay has not worked at full capacity since the explosion at the refinery in August 2012.

Those that were left. The other two refineries operated by PDVSA in Venezuela are Puerto La Cruz Refinery, with a capacity of 187 kb/d, and El Palito Refinery, with a capacity of 140 kb/d. Both were shut down due to the deterioration of their units, lack of light crude for their operating processes, and problems with the electricity supply.

BUSINESS SECTOR TIPS

Tax issues. The president of Charallave Chamber of Commerce, Orlando Pérez, explained the complaint made by merchants in Cristóbal Rojas Municipality regarding payment of taxes for fiscal year 2018-2019.

Making changes without notification. Pérez said that Mayor Humberto Marte raised the tax unit and created a minimum tax by modifying Article 1 of the Municipal Regime Act.

Based on this version, not the other. According to the businessman, up until December 2019, the mayoralty allowed them to go by the 2016 ordinance, Article 1 of which had not been modified. However, the amount they have to pay in taxes for 2019 will be based on the modified article approved in 2018.

No information released beforehand. Besides pointing out the change in the amounts, the merchants criticized the fact that the mayor concealed the new regulation, because they only learned about it when they went to pay their taxes.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15. Number 05 Week I
February 2020

A bit of an increase,,. According to *Gaceta Oficial* Number 41,805, public transport fares range from VES 3,500 to VES 6,000.

Petitions ignored. The president of the West Caracas Public Transport Bloc, Hugo Ocando, said that the fares published in that *Gaceta Oficial* were not the ones proposed by the bus drivers but were imposed by the Ministry of Transport.

...but not enough. Ocando has warned that the imposed fare is not viable, because if the regime decides to make it obligatory to charge these amounts, it will be left without any public transport.

Migrating to fewer controls. Ocando explained that the fleets of the regular bus lines have shrunk because the drivers prefer to join the “express” lines, which means they charge higher fares for the service.

They didn't go for long. Bolívar State Government has resumed the regulations for selling fuel to motor vehicles, including motorbikes, in Ciudad Guayana. It has called this set of regulations the C3B System, which stands for Bolivar Fuel Dispatch Control.

Controlling the situation. The system includes keeping a detailed record of the place and date on which gasoline is supplied. They hope to achieve this using an application where the service station employees enter the driver's identity card number and the vehicle's registration plate.

Like the game. The system works like a traffic light. If the driver gets a green light, he can fill up with gasoline; if he gets a yellow one, he has been sanctioned for infringing the system; and if he gets a red one, he cannot fill up his tank.

New forms of payment. The Identification, Migration and Immigration Service (Saime) announced in a publication that payment for passports or extensions can be made with debit or credit cards issued by Banco de la Fuerza Armada Nacional Bolivariana (Banfanb).

Don't forget. Saime emphasized that the charges for these services following the last increase is VES 14,013,378.50 for new a passport and VES 7,006,689.25 for an extension.

More expensive but affordable. The price of the box of staples distributed by the Local Food Supply and Production Committees (CLAPs) has been increased to VES 20,000, for an increase of 45%. According to the president of Empresa de Alimentos del Guárico,

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15. Number 05 Week I
February 2020

this amount includes transportation of the boxes to the place where they will be delivered to the beneficiaries.

WORLD ECONOMY TIPS

It's happened. On January 31 the United Kingdom's withdrawal from the European Union went into effect. Prime Minister Boris Johnson reacted with optimism and invited everyone to continue working for the immediate future, whereas Merkel and Macron (Germany's and France's political leaders) said that January 31, 2020, would go down as a black day in history.

There is still some packing to do. The Union Jack has already been taken down at the European Union's headquarters. However, even though its name does not appear, the United Kingdom will continue to take part in decision-making until the end of the year.

Terms of the divorce, Part I. In view of the new situation, the European Union and the United Kingdom are negotiating a new trade agreement. However, Johnson said that the European Union's requirement that the United Kingdom abide by the European Union's norms in different areas was an obstacle to reaching such an agreement.

Terms of the divorce, Part II. Johnson added that the European Union and the United Kingdom should opt for an agreement like the one the bloc has with Canada or Australia. So far, the European Union has only said that the further the United Kingdom departs from its norms, the more difficult it will be to reach an agreement.

Slow but steady. The US Department of Commerce published that the United States' gross domestic product (GDP) posted growth of 2.3% in 2019. Even though this is the lowest growth seen since 2016, the Department of Commerce said that the behavior of this indicator was in line with growth posted in 2018 (2.9%).

It fell short. President Donald Trump had set a growth target of 3% for the US economy, and to that end he approved a USD 1.5 trillion tax cut with the expectation of sustaining the expansion in economic activity. Besides that, as part of the plan for stimulating the economy, there were three cuts in the reference interest rate in 2019. Despite this, trade tensions seem to have generated a decline in investment by the private sector.

No changes, for now. The president of the Federal Reserve, Jerome Powell, announced that the reference interest rate would remain unchanged and that they expected moderate

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

economic growth to continue. Powell also warned that the coronavirus outbreak in China could pose a risk to the US economy in the short term.

Controlling growth. Zhang Ming, an economist at China's Academy of Social Sciences, a group of government experts, said that the coronavirus outbreak could reduce growth in the first quarter of 2020 compared to the same quarter last year by one percentage point to 5%.

Ready to act. Ming added that the Chinese Government should be monitoring the repercussions of the disease and that, if necessary, it is likely that it would implement measures to stimulate the economy. It should be noted that Ming based these statements on expectations that the outbreak will reach its peak between the end of February and early March.

An external diagnosis. The investment bank Morgan Stanley issued a press release in which it estimates that, based on the same assumption that the outbreak of the virus will reach its peak between February and March, growth of the world economy could drop by between 0.15 and 0.3 of a percentage point in the first quarter and that China's growth could fall by between 0.5 of a percentage point and 1pp.

Rethinking the inflation indicator. Phillip Lane, the chief economist at the European Central Bank, said that the ECB should give housing costs a bigger weighting in the way in which the bloc's inflation is measured. This proposal is only under consideration for now and Lane did not say that implementing changes to the method of measurement was on the cards.

A new order. The Organisation for Economic Cooperation and Development (OECD) issued a press release announcing that government authorities had met in Paris to negotiate guidelines for the collection and payment of taxes in the case of digital companies and firms geared to consumers that do not have a physical presence.

Action and reaction. While some countries are preparing to levy digital taxes in the absence of a global agreement, the US Government has threatened to impose tariffs as it considers that these taxes would be tantamount to discrimination against US technology companies.

POLITICAL TIPS

He's got a new job. Constituent National Assembly Deputy Darío Vivas has been appointed as the new chief of the Capital District by Nicolás Maduro, who made the announcement in his Twitter account.

Forcing change. At the request of Nicolás Maduro, on January 29, the Constituent National Assembly approved the Constitutional Bolivarian National Armed Force (FANB) Act.

Are we more protected? This new law contemplates the inclusion of the Militia as a fifth component of the FANB, along with the Army, the Air Force, the Navy and the Bolivarian National Guard.

He doesn't agree. The chairman of the National Assembly's Defense and Security Committee, Eliezer Sirit, said that this decision is unconstitutional given that Article 328 of the Constitution establishes that the National Armed Force is made up of only the four components mentioned above.

Poking its nose in where it doesn't belong. Furthermore he criticized the fact that the National Constituent Assembly was meddling in matters that are not within its bailiwick and that the purpose of the decisions it takes is to disturb people's peace of mind.

An historic step forward. On the other side of the fence, Minister of Defense Vladimir Padrino López said that the approval of the law strengthens the nation's defense doctrine and is "an historic step for the organic and institutional life of the FANB."

A tremendous invitation. During his speech at a ceremony in Caracas, Maduro issued an invitation to Colombia's President Ivan Duque to resume "relations on the consular level."

He's not the one who did it. Responding to this invitation, Duque said that it was not he but Maduro who broke off diplomatic relations when he expelled the members of Colombia's embassy from Venezuela.

Invitation turned down. Furthermore, Duque said that Maduro's proposal was unviable due to the fact that his government recognizes Juan Guaidó as Venezuela's legitimate president not Maduro.

Year 15. Number 05 Week I
February 2020

Extending the deadline, Part I. The deadline for registering candidates from civil society to become members of the Election Postulations Committee has been extended for another week until Friday, February 7.

Extending the deadline, Part II. This decision was announced in a press release issued by the group of deputies, headed by Ángel Medina, who make up the National Assembly's preliminary commission charged with setting up the Elections Postulations Committee.

Definitely not! Maduro's foreign minister, Jorge Arreaza, revealed in a letter that the visit by the delegation of the Inter-American Human Rights Commission (IAHRC) reported by the media had not been authorized.

It has no business being here. In the letter Arreaza argues that the delegation's visit is considered legally without grounds, given that Venezuela ceased to belong to the Organization of American States (OAS) on April 27 last year.

Ignoring them. Arreaza added that "Venezuela does not recognize or give any legal value to the actions taken before the OAS and the IAHRC by persons who usurp or pretend to usurp the legitimate representation of our country."

Yes, of course! Commenting on Arreaza's refusal to allow the visit, Guaidó said, "As the legitimate government and given that Venezuela is a member of the Organization of American States and the inter-American system, we ratify the invitation to the IAHRC."

It's still on. In similar vein, the National Assembly's Human Rights Committee announced at a press conference that "the visit of the IAHRC is still on" and that not allowing these representatives to enter the country would be the most damaging thing for the regime as it would demonstrate that it is violating human rights.

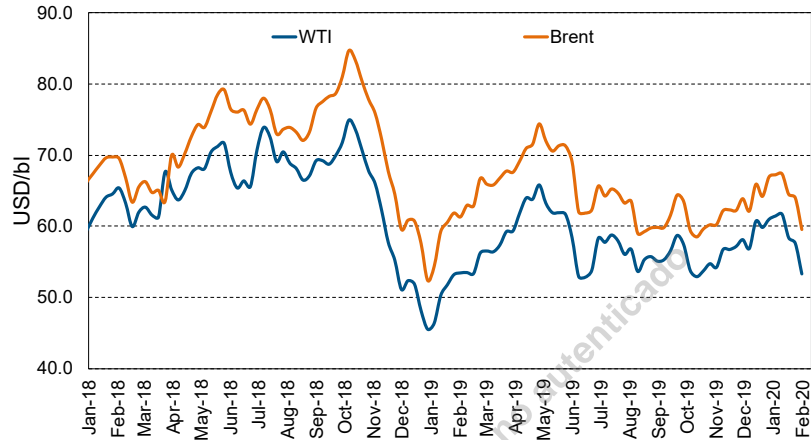
Calling passengers. Despite this, on Tuesday, February 4, an official statement by the IAHRC revealed that Copa Airlines prevented the delegation from boarding the aircraft that was to fly them from Panama to Venezuela. According to the statement, this was due to the fact that the airline had been advised that the delegation did not have authorization to enter Venezuela.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

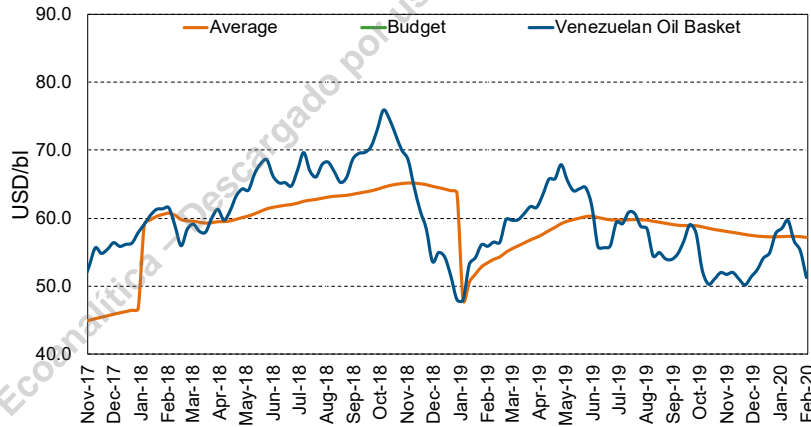
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



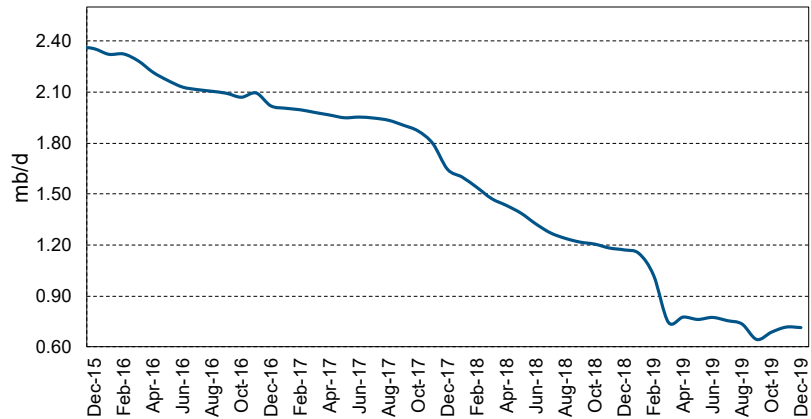
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

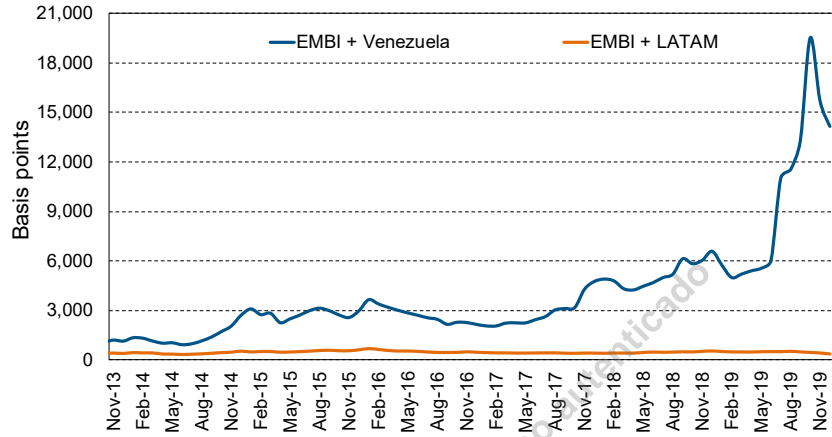


Sources: OPEC and Ecoanalítica

Year 15 Number 05 Week I
February 2020

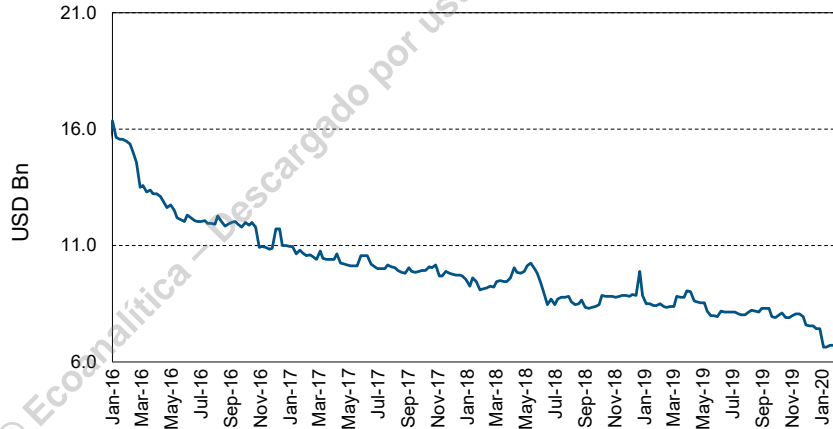
ECONOMIC INDICATORS

EMBI



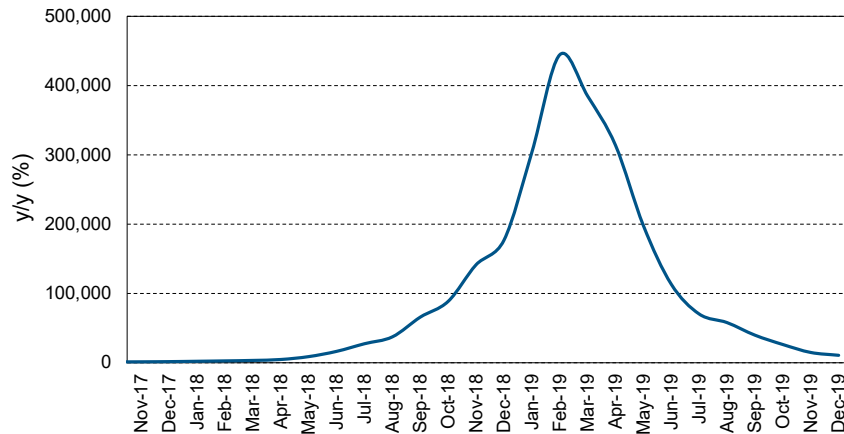
Sources: BCRP and

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

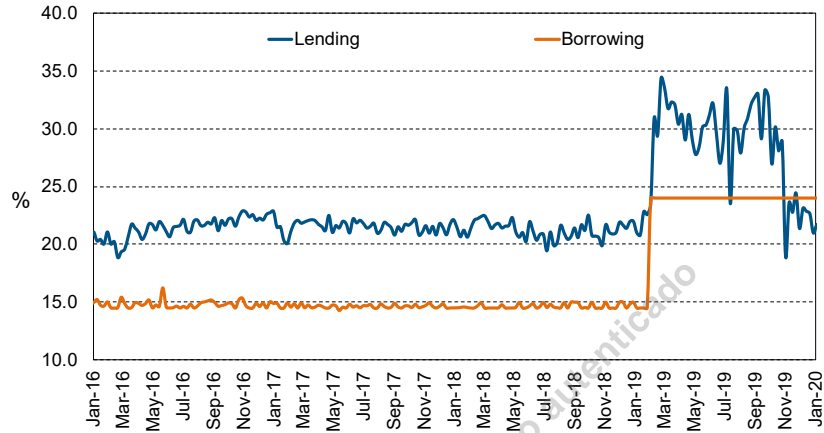
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15 Number 05 Week I
February 2020

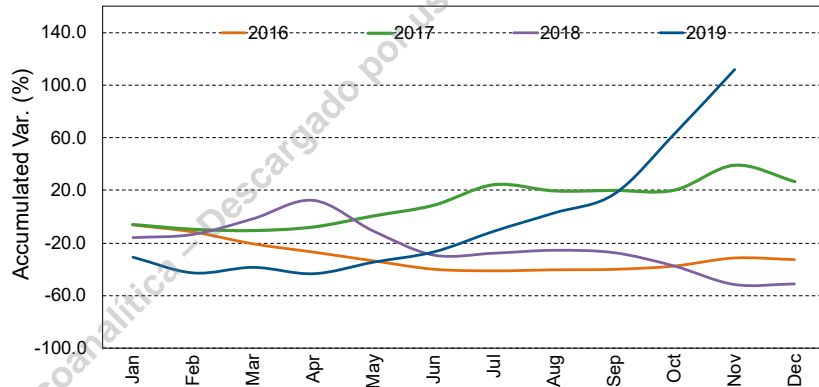
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



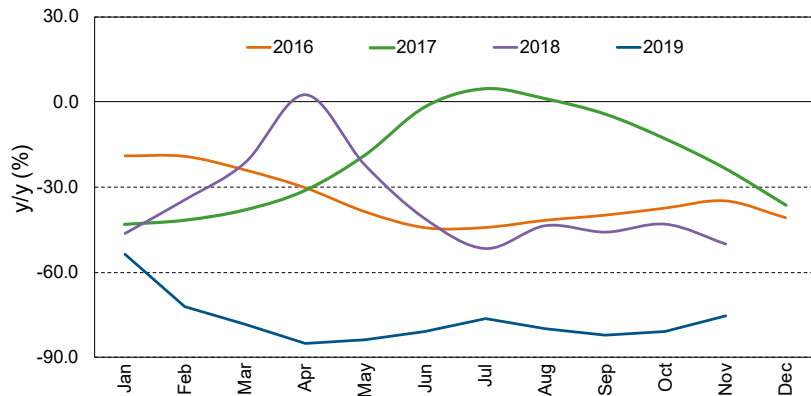
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

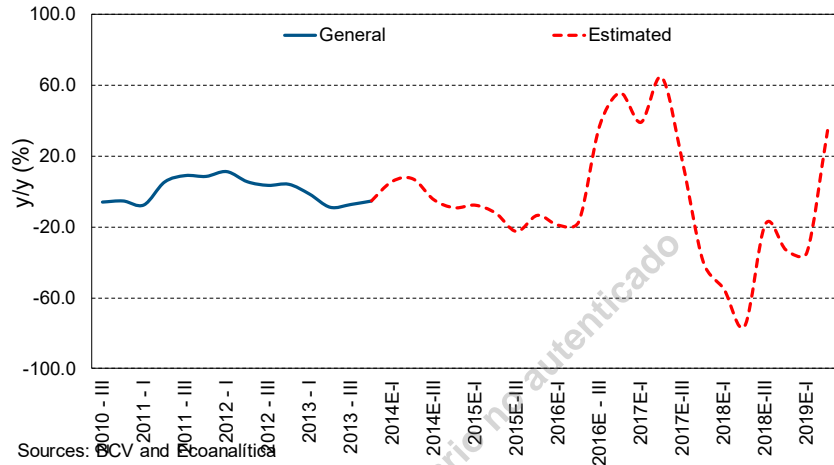
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

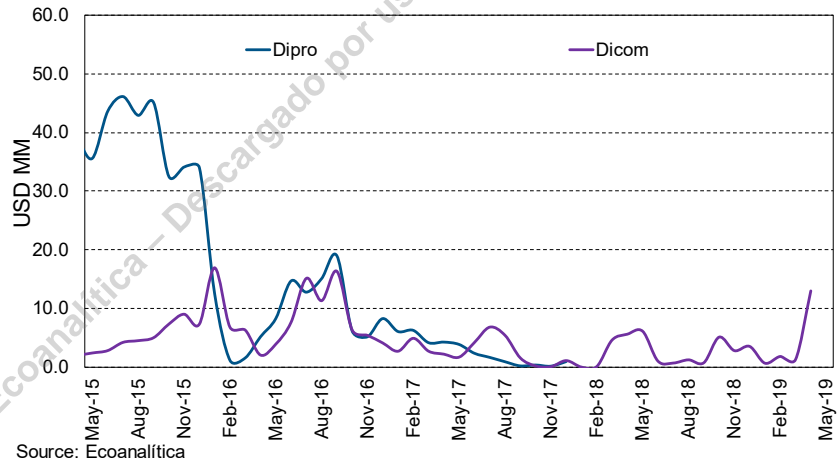
Year 15 Number 05 Week I
February 2020

ECONOMIC INDICATORS

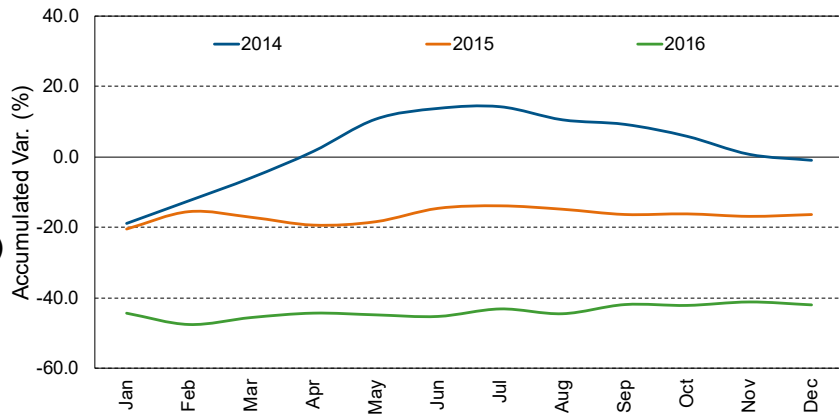
Real Wage Index



Disbursements to the Private Sector (Daily Average)



Primary Spending NTO (Real - Central Government)



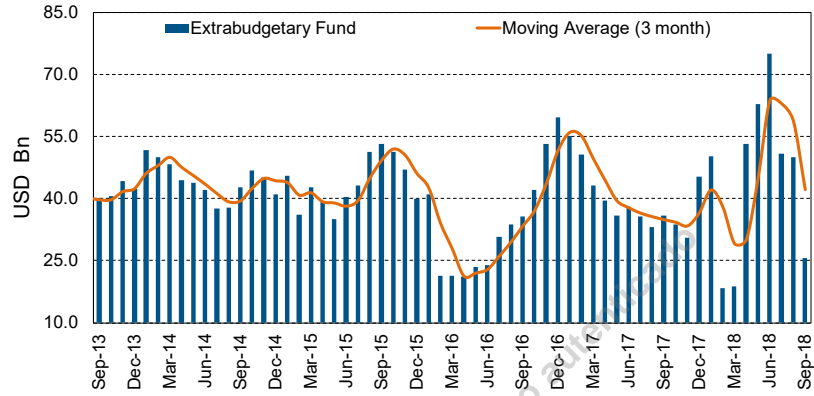
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 15 Number 05 Week I
February 2020

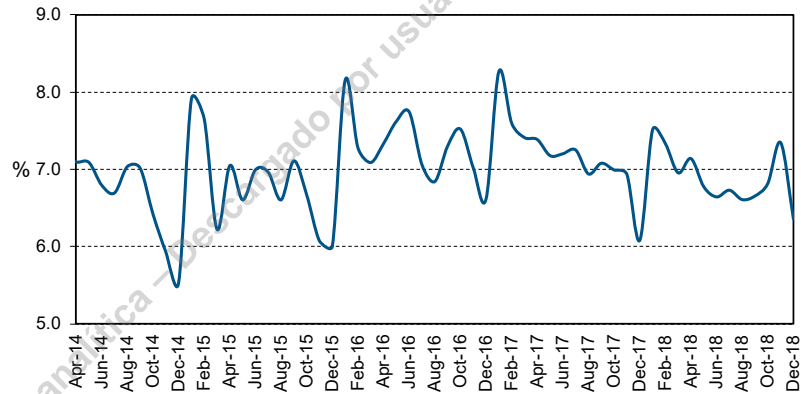
ECONOMIC INDICATORS

State Extrabudgetary Resources



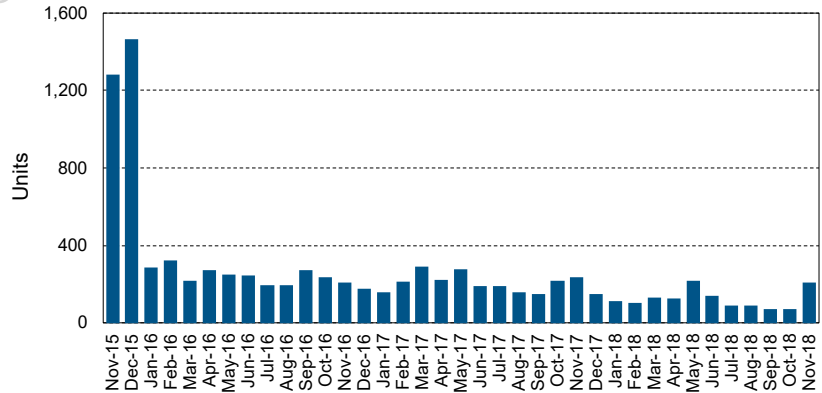
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

ECOANALÍTICA'S TEAM

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

cristinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

Guillermo Arcay Finlay / Economist

guillermoarcay@ecoanalitica.net / @guillermoarcayf

Giorgio Cunto Morales / Economist

giorgioc@ecoanalitica.net / @giorgiocunto

Corina Fung / Economist

corinaf@ecoanalitica.net / @corinafung7

Jhoan F. Castellano / Economist

jhoanc@ecoanalitica.net / @castellanojhoan

RESEARCH ASSISTANT

Diego Santana

Carmen Pelay



CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalitica