

## Foreign exchange subsidy: Marshall Plan squandered

After the end of the Second World War, the US Government allocated around USD 12.7 billion between 1948 and 1951 to the economic reconstruction of 17<sup>1</sup> countries in what was to be called the Marshall Plan. Adjusted for inflation in 2019 dollars, that is equivalent to USD 133.5 billion in 2018. These funds were used to restore agricultural and industrial production, establish financial stability, and promote trade. The recovery was a success, with cumulative rates of growth that reached 33.5% in the first years of the plan. All of this was possible thanks to efficient and effective use of resources and to the availability of those resources in the first place.

Bearing in mind the state of the economy in the first quarter of 2019, allusions to the reconstruction plan will start to be made almost immediately when talking of initiatives of this type. In both cases we are referring to countries that, after a catastrophe, found that they were in the position of needing to seek funds they did not have in order to make an economic recovery possible. However, this article does not refer to Venezuela's immediate needs for its version of the Marshall Plan, but to the fact that at one point in time it potentially had sufficient resources to finance 1.9 European reconstruction programs and simply frittered them away on foreign exchange subsidies.

### The opportunity costs of a bad policy

In economics, opportunity cost is defined as the loss of benefits incurred when one alternative is chosen at the expense of others. In other words, besides the accounting cost of implementing a decision, there is the economic cost of what was not done or what was not obtained as a result of having taken that decision. In the case of economic policies, the opportunity cost of using resources for a given initiative is the benefits that another policy would have obtained had it received those resources.

When it comes to deciding which policy to implement, the opportunity costs are calculated by estimating the difference between the expected benefits for both the option that is actually chosen and the best alternative that is sacrificed. This can give us an idea of the preferences and priorities of the authorities for favoring one specific policy over another.

<sup>1</sup>The countries that benefited from the Marshall Plan were West Germany, Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Norway, Portugal, Netherlands, United Kingdom, Sweden, Switzerland, Turkey.

Since we neither have details of the cost-benefit analysis performed by the government when it set up the foreign exchange subsidy mechanisms nor can we even say that they exist, we will analyze the opportunity costs retrospectively.

In order to calculate the opportunity costs of the foreign exchange subsidy, we will start by estimating the value as such of that subsidy and then we will go on to make comparisons with historical data of alternative uses of those resources.

### How much do 10 dollars cost?

Between 2005 and 2018 there have been a total of 10 different mechanisms for allocating foreign currency at preferential exchange rates for imports in Venezuela. The existence of the subsidy is verified to the extent that the rates of the different mechanisms are appreciated or, in other words, below what the open market rate would be. Due to the fact that, since the implementation of exchange controls in 2003, the only legally recognized rates are the government mechanisms' rates, the closest to a "free" exchange rate in Venezuela is the one found in the parallel market, which has emerged due to the fact that the Central Bank is unable to cover the demand for foreign currency at artificially low rates.

In order to calculate the foreign exchange subsidy, we take the amount of dollars disbursed<sup>2</sup> at a given time by one of the foreign currency allocation mechanisms and we multiply it by the difference in cents<sup>3</sup> between the parallel market rate<sup>4</sup> and the rate of the allocation mechanism in question. The bigger this subsidy rate is the more foreign currency the importer can obtain than he would be able to obtain in the parallel market. The result is the amount of subsidized dollars handed over each year. If we break this result down by recipients of this foreign currency, we find that the private sector obtained the lion's share of the subsidy, as much as USD 28.5 billion in 2013.

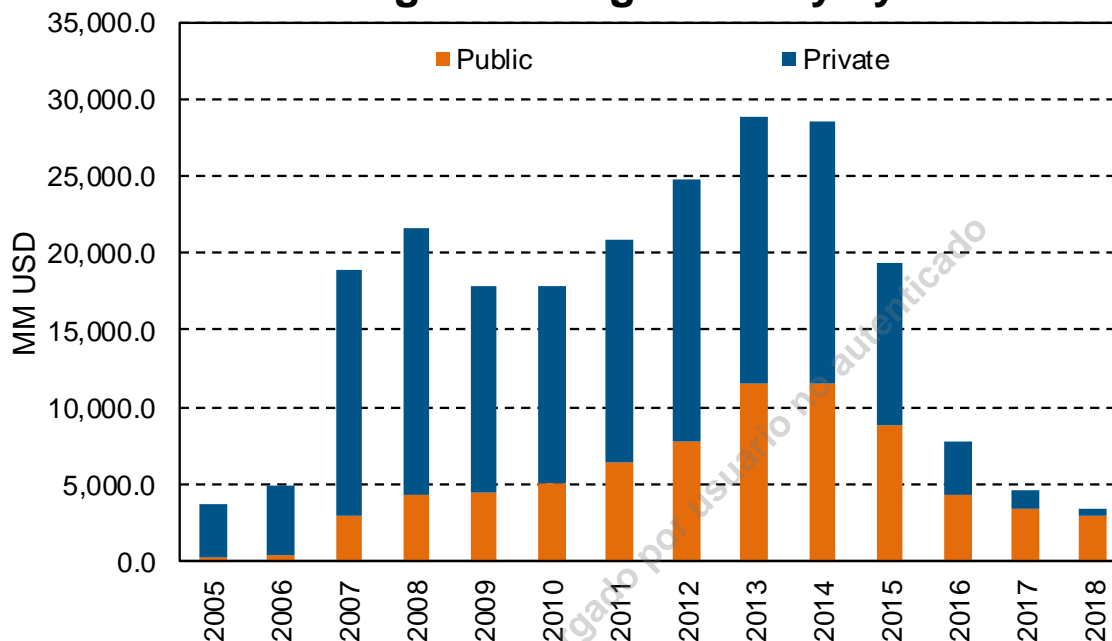
---

<sup>2</sup> Estimated based on the proportion of imports allocated to each scheme.

<sup>3</sup> Estimated using Formula 1: parallel exchange rate / scheme's exchange rate.

<sup>4</sup> For these calculations the non-official exchange rate is used.

### Foreign exchange subsidy by sector

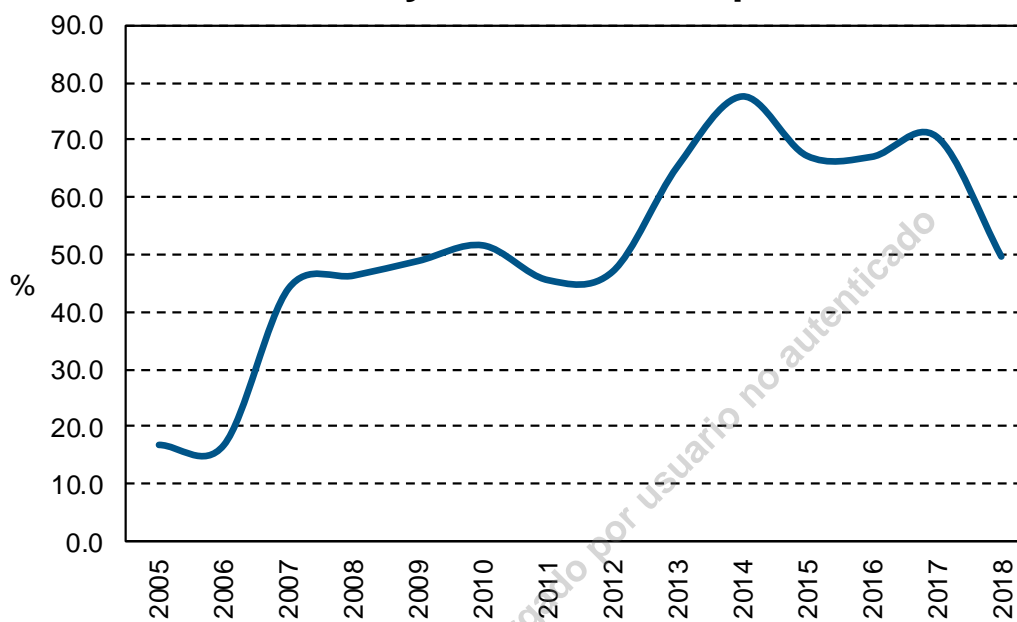


Sources: BCV and Ecoanalítica

These are not trivial amounts, particularly when they are expressed as percentages of nonoil imports. In fact, it could be said that, structurally speaking, the subsidies scheme has been one of the most important elements in the configuration of imports brought in by Venezuela in the past 14 years.

Year 15. Number 07 Week IV  
 February 2019

## Subsidy over non-oil imports



Sources: BCV and Ecoanalítica

The subsidy amounts can also be broken down by the different schemes or mechanisms used to award foreign currency at preferential exchange rates. In order to take them to a more solid comparative scale, the annual amounts have been adjusted based on the United States' Consumer Price Index and we have expressed them in 2019 dollars, thus establishing the size of the subsidy in today's terms, the biggest being awarded via the Cadivi<sup>5</sup> system with a subsidy of USD 148.3 billion between 2005 and 2018. With the average subsidy rate we can estimate the actual price of having access to dollars in that system. In the case of Sicad I, that has an average subsidy rate of 0.78 cent per dollar implies that for every 10 dollars bought in this system the importer pays only 2.2.

<sup>5</sup> Cadivi eventually evolved into Cencoex and Dipro, but they are considered as a continuation of the same scheme.

Year 15. Number 07 Week IV  
 February 2019

### Foreign exchange subsidy by mechanism

Mechanism	Time Period	Average subsidy rate	Total amount (MM USD)*
Cadivi/Cencoex/Dipro	2005-2018	0.54	148,295.7
Publi imports	2005-2008	0.56	81,943.5
Preferential Cadivi	2010	0.66	7,274.7
Sitme	2010-2013	0.51	6,425.5
Sicad I	2013-2016	0.78	5,967.9
Simadi/Dicom	2015-2018	0.70	3,047.7
Sicad II	2014-2015	0.45	1,516.9

Sources: BCV and Ecoanalítica

\*In 2019 dollars

It should be remembered that in economics there is no free lunch and that handing over artificially cheap dollars to importers, regardless of whether they are in the public or private sector, implies that the State forfeits compensation equivalent to what it would have received had it sold those dollars at the unofficial market rate. Those 7.8 dollars in every 10 that are not paid for by the importer is a cost that is assumed by the State and are 7.8 dollars that cannot be used in other projects.

In order to have a more concrete figure for this policy's opportunity cost, we add together the totals of all the schemes mentioned earlier, which gives a total foreign exchange subsidy between 2005 and 2018 equivalent to USD 254.7 billion.

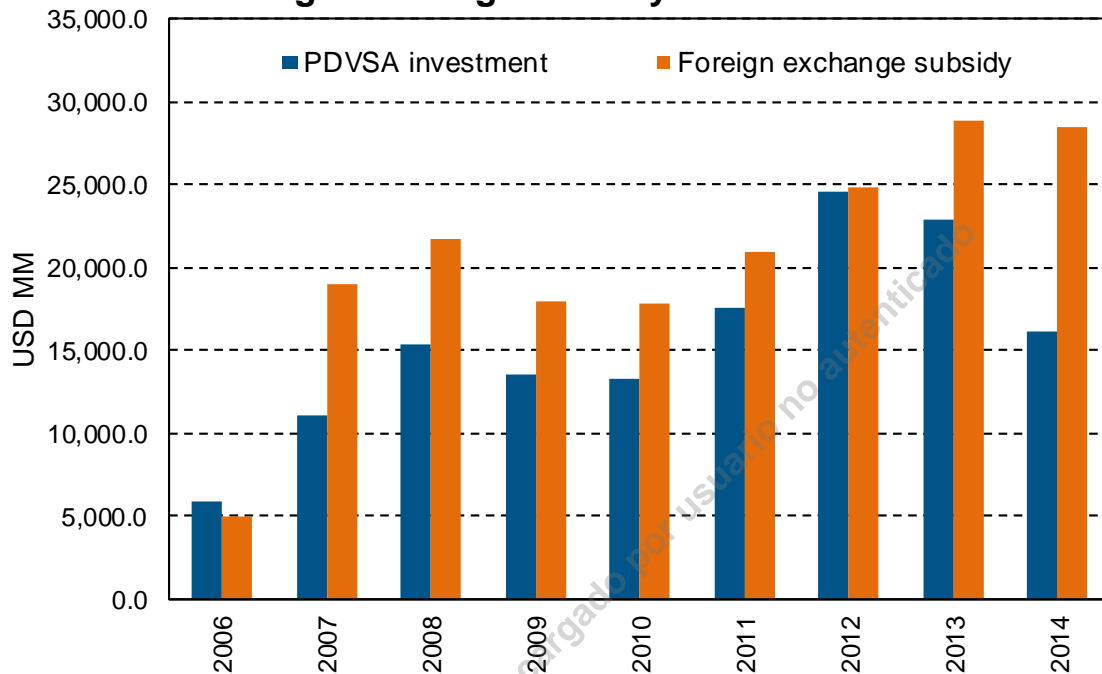
#### What it cost us back then

Now that we have estimated the total size of the subsidy, we can compare it to public spending in other areas during the same period. Since the main source of foreign currency available to the State and the country in general is the sale of oil, an immediate point of comparison would be investments made by PDVSA between 2006 and 2014. Calculating the percentual difference between the subsidy and investments, it was superior to the investments made in all these years for the exception of 2006, reaching positive differences of 71.8% in 2007 to 77.5% in 2014.

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

**Foreign exchange subsidy vs. PDVSA investment**



Sources: PDVSA, BCV and Ecoanalítica

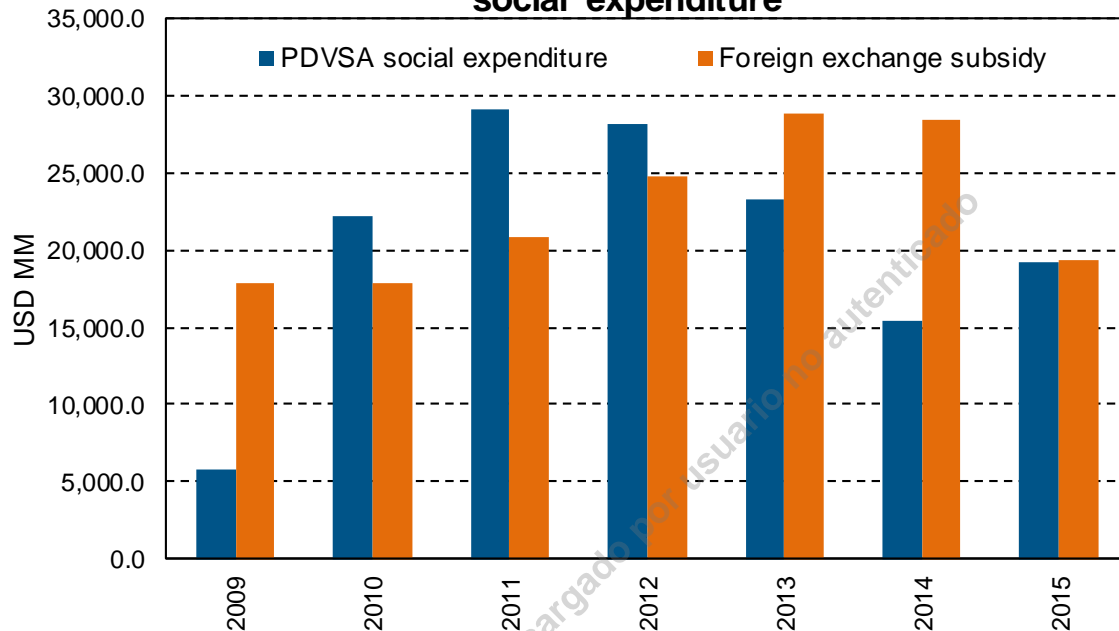
The case of PDVSA clearly illustrates an alternative use of those resources that were sacrificed in favor of the foreign exchange subsidy, with considerable consequences to the industry. Expanding what the oil state's operations are, the foreign exchange subsidy amounts can be compared to the contributions to Missions and Social Programs that PDVSA did between 2009 and 2015, what could be considered other opportunity costs to the oil company that already gives to the Government foreign currency at appreciated rates. The progression in which the subsidy started to meet, and surpass, the social expenses show us an evolution of the preferences of the authorities, at least in what refers to the destination of the oil rents.

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 07 Week IV  
 February 2019

### Foreign exchange subsidy vs. PDVSA's social expenditure



Sources: PDVSA, BCV and Ecoanalítica

#### What it costs now

Another way of analyzing the opportunity cost of the foreign exchange subsidy is the debts both the Republic and PDVSA have had to incur and now have to honor. If we take into account the amounts of debt in default as at February 2019, amounting to a total of USD 9.3 billion, this is equivalent to only 4.2% of the foreign exchange subsidy. We could take this example even further and apply it to a more dramatic case. If we were to bring forward<sup>6</sup> the dollar liabilities the public sector has to meet, Central Government liabilities would account for 20.0% and 24.4%, respectively, of the foreign exchange subsidy. In a hypothetical scenario in which the nation had those amounts, it could pay off the debt in full and still have money left over.

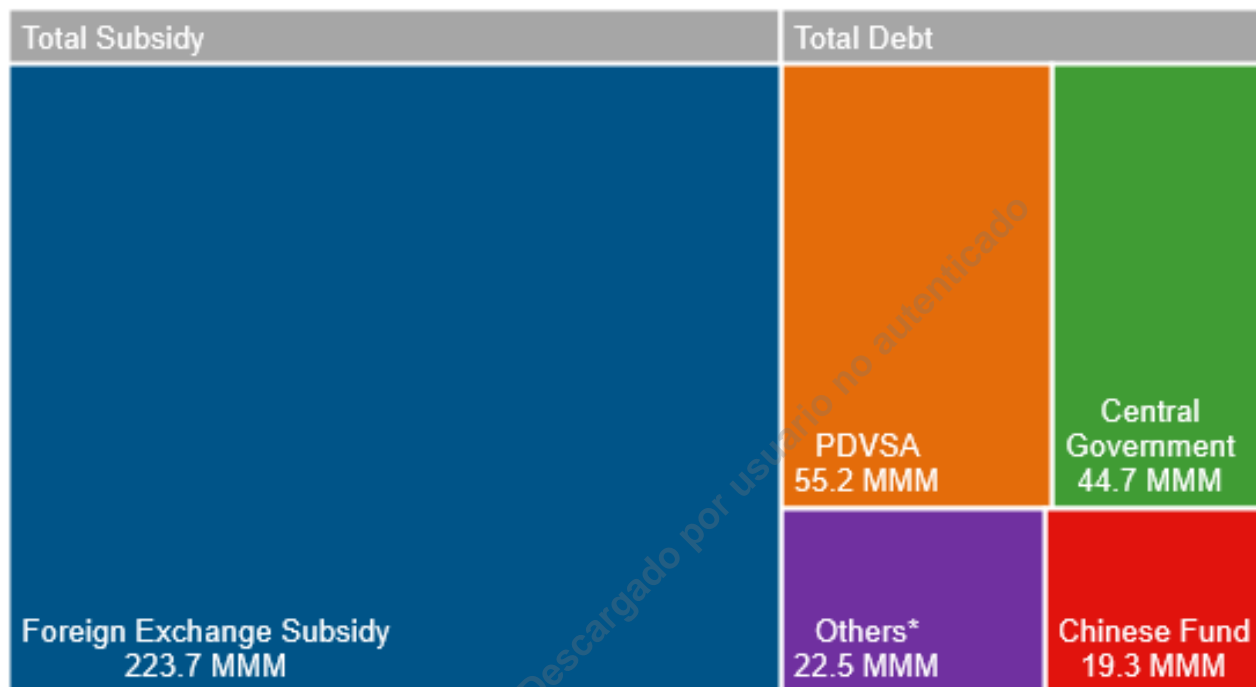
<sup>6</sup> If payment were made of all debts scheduled for payment at some future date.

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 07 Week IV  
 February 2019

## Foreign exchange subsidy vs public sector debt



Sources: BCV, MFBP, Pdvsa and Ecoanalítica

Amounts on nominal billion of dollars

\*Includes Rosneft, Nationalizations and Public Sector Debt

### Anonymous rent seekers

Taking a retrospective approach, the benefit of the foreign exchange subsidy can be limited to the imports brought in at low cost by the public and private sectors. However, these calculations only take into account the amounts disbursed and do not consider the not insignificant portion of foreign currency allocations made in cases of over-invoicing and that did not result in actual imports. To be more specific, the benefit of subsidizing USD 223.7 billion in 14 years limits to the satisfaction of those who were able to have access to those amounts.

Like any price control, the foreign exchange controls implemented by the Venezuelan Government unleashed a whole array of distortions that, in turn, provided highly perverse incentives in the economic dynamic. The foreign exchange subsidy became an instrument for distributing rent and the bigger the differential between the exchange rates became the more attractive it became to take part in the scheme. The excess in demand

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

combined with a free exchange rate that had been made illegal created the conditions for the appearance of the parallel market with ample opportunities for arbitrage, all in a context in which the economic policy itself stimulated the precedence of consumption over investment.

At the end of the day, the tangible result of the foreign exchange subsidy as public policy is somewhat pyrrhic. Any advantage obtained by importers and consumers from access to artificially cheap goods was not capable of lessening the economic recession that in 2019 is in its sixth year. Venezuela squandered the equivalent of 1.9 times the Marshall Plan in 1948 or 2 times the International Monetary Fund's formation capital in 1945<sup>7</sup> with nothing to show for it. Looked at from that point of view, the foreign exchange policy of the last few decades are indefensible in terms of both opportunity costs and results. While it is difficult to suppress the attractiveness of the foreign exchange subsidy, today the Venezuelan economy does not have the resources to maintain it, and even if it were to have them in the future, there are many better alternatives uses to which those resources could be put.

**Giorgio Cunto Morales**

---

<sup>7</sup> USD 9.1 billion at that time, equivalent to USD billion in 2019.

Year 15. Number 07 Week IV  
 February 2019

## WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week February	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Dicom (VES/USD)</b>	3,298.64	0.0	0.0
	2nd Week February	Weekly chg. (pp)	Annual chg. (pp)
<b>Lending Interest Rate (%)</b>	31.3	-0.3	8.8
	4th Week February	Weekly chg. (pp)	Annual chg. (pp)
<b>Overnight Interest Rate (%)</b>	24.5	-4.9	24.5
	3rd Week February	Weekly chg. (%)	Annual chg. (%)
<b>International Reserves (USD Bn)</b>	8.4	0.5	-9.0
	2nd Week February	Weekly chg. (%)	Annual chg. (%)
<b>Monetary Liquidity (VES)</b>	2,269,798,873	13.4	107,545.6
Price of International Oil Baskets (USD/bl)			
	3rd Week February	Weekly chg. (%)	Annual chg. (%)
<b>WTI</b>	56.2	5.4	-9.3
<b>Brent</b>	66.7	6.1	1.8
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week February	Weekly chg. (%)	Annual chg. (%)
<b>Weekly Average</b>	59.8	5.9	2.4
<b>Annual Average</b>	55.0	1.3	-7.8

Sources: BCV, MENPET, ONT and Ecoanalítica

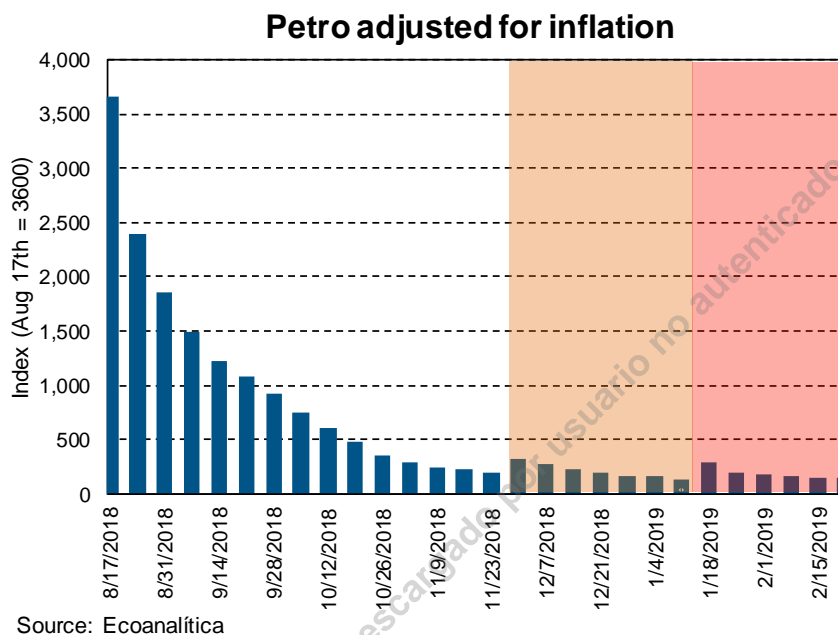
\* Annual variation of accumulated expenditure.

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

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 07 Week IV  
 February 2019

## GRAPH OF THE WEEK: “PETRO = 0”



On August 17, 2018, Maduro announced the Petro. Venezuela’s “new” cryptocurrency was to have a value of VES 3,600. Since that announcement, its value has been adjusted twice: to VES 9,000 on November 30, 2018, and to VES 36,000 on January 15 this year. While they appear to be significant increases, in hyperinflation nominal values are never what they seem.

Given average monthly inflation of 183.5% between August and January, the Petro has been losing much of its value, despite the nominal increases already mentioned. For example, by the first increase to VES 9,000, the drop in the Petro’s value in real terms was 92.8% and by the week ending February 22, it had fallen by 97.7%. If account is taken of the fact that the minimum wage is set at half a Petro, that real drop in value results in a proportional loss in the purchasing power of that wage

The Petro is only a unit of account that seeks to maintain a false economic stability by pegging the minimum wage and pensions to a constant value. The fact of the matter is that this “*cryptocurrency*” is not immune to the economic imbalance caused by the Maduro regime’s monetary and fiscal irresponsibility and its loss of value is inevitable in a process of hyperinflation in which the proper adjustments are not being made.

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 TIPS

**Golden problems.** Bankers from Citigroup have had talks with US Treasury officials to find a solution to a (gold) arrangement entered into with Nicolás Maduro years ago. Although this arrangement was interrupted prior to the entry into force of the sanctions against the Maduro regime, it is about to end next month.

**Gold in England.** The agency Bloomberg reported that Citigroup Inc. struck a loan deal with the Central Bank of Venezuela in 2015 in which the USD 1.1 billion in gold currently being held at the Bank of England was put up as collateral.

**“Protected.”** Citigroup established that a subsidiary would purchase the gold up front, taking full legal ownership under a contract that requires the Central Bank of Venezuela to periodically buy back portions on predetermined dates. In view of the complex situation in Venezuela, Citigroup is seeking to settle the deal. *“Citi believes it is protected against market and credit risk related to the agreements,”* said the company.

**The latest auction.** The last DICOM auction (held on February 28) closed with an exchange rate of VES 3,302.24/USD, equivalent to VES 3.758,94/EUR. That gives a devaluation of 0.12% compared to the last auction and of 0.10% compared to the auction held on Thursday last week.

**Auction breakdown.** At this auction, a total of USD 1,281,779.01 was disbursed, distributed as follows: 79.2% (USD 1,015,466.0) went to companies and 20.8% (USD 266,313.01) went to private individuals. Once again, it was the companies that obtained the lion's share of the disbursements.

**International Reserves.** At the close of the week of February 22, the international reserves came to USD 8.38 billion, up USD 44 million from the close of the previous week (USD 8.34 billion). Although this is an increase of 0.5%, it represents a drop of 9% compared to a year ago.

**Is there liquidity?** The last money supply figure posted is for the week of February 15 and it shows that money supply came to VES 2.27 trillion, up 13.4% from the previous week and an increase of 107,545% compared to a year ago.

Year 15. Number 07 Week IV  
February 2019

## OIL TIPS

**The official board.** The new directors of Citgo appointed by the National Assembly arrived at the refinery in Houston last Friday, February 22, and have held their first official meeting, according to the news agency Reuters. The confirmed appointees are Luis Palacios, Rick Esser, Edgar Rincón, Ángel Olmeta, Luis Urdaneta and Andrés Eloy Padilla.

**Changes.** Four high-level executives were removed following the arrival of the new board and there were changes in the Finance, Public Relations, and Treasury departments. The company's previous CEO, Asdrúbal Chávez, is still in hiding.

**Welshers, Part I.** A tanker whose final destination was Venezuela has been turned back, according to managers at Bernhard Schulte Shipmanagement (BMS). This tanker had been moored for two years in the middle of the Tagus River in Lisbon, the capital of Portugal, owing to debts that had not been paid by the Venezuelan State.

**Welshers, Part II.** Another tanker intended for Venezuela, the Parnaso, which is at the port of Setubal to the south of Lisbon, is also to be removed due to lack of payment by Pdv Marina, a PDVSA subsidiary.

**Price premiums.** According to the news agency Reuters, Venezuela is paying high premiums for gasoline imports from Russia and other countries in Europe. According to the information available, Venezuela's main suppliers since sanctions were imposed on January 28 are the Russian state-owned oil company Rosneft, the Spanish oil company Repsol, Reliance Industries of India, the Trafigura Group and Vitol.

**Hugely expensive.** A PDVSA executive commented, "*The prices they're charging us are horrible.*" He also said that the premium being charged was due mainly to the fact that shipments have to go through many hands before reaching Venezuelan ports. Whereas before the sanctions, charges were around 15 and 20 cents, today they are 50 cents.

**More fuel to the fire.** There was a fire at Ero Pumping Station in the Orinoco Oil Belt's Carabobo Division last Thursday, which prevented transportation of crude to the refinery, according to the news agency Reuters. Fortunately, the fire was controlled and no one was injured, said PDVSA.

**Future problems.** However, the incident will affect transportation of crude from this pumping station, which has the capacity for transporting 300 kb/d. It could be closed down

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

for months while the damaged equipment is changed. According to PDVSA, the fire was caused by “*an act of sabotage perpetrated by the opposition rightwing.*”

**Who else will be affected?** PDVSA has several joint ventures in the area, among them Sinovensa with the Chinese state-owned oil company CNPC and PetroMonagas with the Russian state-owned oil company Rosneft. There are also some smaller joint ventures, namely PetroCarabobo with Repsol and an Indian consortium, PetroVictoria with Rosneft, PetroIndependencia with Chevron, and PetroDelta. So far it is not known which joint ventures have been affected.

**But they're ignoring it.** Despite this, Sinovensa, in which PDVSA has a 60.0% stake and CNPC has a 40.0% holding, is aiming to reach an average of 165 kb/d in 2019. This would be an increase of 27.0% compared to last year. According to PDVSA's reports, this is the company's maximum capacity.

**New technologies.** To achieve that target, Sinovensa plans to reactivate 11 wells in Monagas with an estimated production of more than 2.5 kb/d. Besides that, for the first time in the company's history they are working with flexible pipe technology that will make it possible to raise production.

**Increased costs.** Since the latest oil sanctions on Venezuela, oil in the State of California in the United States has gone up significantly in price, according to Bloomberg. Californian refineries have been forced to import a large part of their crude as a result of low production in the state.

**Internal and external factors.** This situation is due to several external factors, such as the sanctions mentioned earlier, the reduction in Canadian crude, and a cut in supply from member countries of the Organization of Petroleum Exporting Countries (OPEC) such as Saudi Arabia. Internal factors include the lack of connection between the refineries in California and those in the other states.

**BUSINESS SECTOR TIPS**

**Reviving production.** According to Luis Silva, the chairman of the National Assembly's Industrial Development, Trade and Tourism Subcommittee, USD 2.5 billion are needed to jumpstart the agriculture and livestock sector in Venezuela. The purpose of this plan is to immediately put an end to the food emergency, achieve full supply of products in the shortest time possible, and recover agricultural, livestock and agro-industrial production.

**The steps to be taken.** This plan has five goals: creating a supply program that includes humanitarian aid; external financing; the immediate acquisition of inputs, seeds, fertilizers, and agricultural chemicals to activate 50.0% of the agro-industrial park; optimizing the distribution networks with the private sector; and guaranteeing inputs, raw materials and financing for producers. Last of all there is the repeal of the Fair Costs and Prices Act.

**Deserted.** Daniel Aguilar, the president of the Táchira chapter of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras Táchira), reported that more than 92.0% of the stores in Táchira are closed because of fear of armed civilian groups. He also commented that the closing of the border could be harmful for the region's economy as it relies heavily on border trade.

**Tax receipts.** The National Integrated Customs and Tax Administration Service (Seniat) announced a new income tax drive, which was to start on Friday, February 22. It also announced the launching of its mobile application, which will allow users to consult RIF (Fiscal Information Registration) numbers and customs tariffs. Last of all it issued the reminder that the last day for filing income tax returns and paying income tax is March 31.

**(In)dependence, Part I.** Executive Vice President Delcy Rodríguez announced the setting up of seven working groups whose purpose will be to "*break with the chains of technological and operational dependence on foreign currency controlled from imperial centers.*"

**(In)dependence, Part II.** This plan's working groups will be on Oil and Petrochemicals, Water, Electricity, Public Transport, Medicines, Food, and Telecommunications. With regard to the working group on medicines, Rodríguez explained that the production of medicines and medical equipment will be activated to take advantage of the infrastructure Venezuela has for manufacturing these important items.

Year 15. Number 07 Week IV  
February 2019

**Inspections.** Inspections of agri-food industry companies were carried out in Yaracuy. The purpose behind these inspections was to “*raise the status of the country’s economy and evaluate the reception of raw materials.*” José Silva, the director of the National Superintendency of Agricultural and Livestock Supplies (Sunagro) in Yaracuy, announced that they would also be evaluating sugar and wheat flour with a view to verifying production levels.

**Industrialization in Miranda.** Nicolás Maduro announced the transfer of processing plants and industrial complexes to the Miranda State Government. The plants include a cement factory, a plastics factory, four food processing plants, and an agricultural complex. He also announced the approval of **USD 708,320** for reactivating and expanding Ezequiel Zamora Industrial Complex.

**More permits.** Miranda State Governor Héctor Rodríguez granted exploitation permits to 34 private companies (seven quarries, seven potteries, and 20 sand companies) after they complied with the requirements set forth in Miranda’s Nonmetallic Minerals Act.

**High demand.** Rodríguez explained that the nonmetallic minerals industry offers an opportunity for Venezuela, given its proximity to the Caribbean market where there is a constant demand for construction materials as a result of the tragedies the islands regularly experience. He also mentioned that Venezuela has allies in the Middle East that “*are asking us to be their construction raw materials suppliers.*”

**We’ll have electricity, supposedly.** Minister for Electric Power Luis Motta Domínguez announced the arrival of 740 transformers of different voltages. These transformers are to be installed at various substations in the national grid to guarantee the electricity service.

## WORLD ECONOMY TIPS

**A somewhat urgent emergency.** US President Donald Trump declared a state of emergency to redirect funds to build the wall on the border with Mexico. Democrats in Congress responded with a resolution of disapproval. Meanwhile, 16 states led by California filed a lawsuit challenging Trump’s declaration.

**Doing well, but slow.** According to the chairman of the US Federal Reserve (FED), Jerome Powell, the US economy will grow consistently but more slowly in 2019. Consequently, the FED will be “patient” when deciding whether or not to continue raising interest rates.

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 07 Week IV  
February 2019

**More time for everyone.** Trump has announced that he will postpone the date for raising tariffs on Chinese products, originally set for March 1, thanks to a series of “productive” meetings, and that he will meet with China’s President Xi Jinping if these meetings continue.

**A possible trade agreement.** Some of these meetings were held in Washington, during which President Trump and China’s Vice Premier Liu He discussed a number of documents relating to agriculture, trade barriers, services, technology transfer, and intellectual property, all of which could be the basis for a trade agreement between the two countries before March 1.

**From bad to worse.** UK Prime Minister Theresa May postponed voting in the British Parliament until March 12, only 17 days before the United Kingdom officially leaves the European Union, increasing politicians’ fears of a withdrawal without a planned project.

**Not such a promising future.** Goldman Sachs revised its 2019 economic growth forecasts downwards for several countries in Latin America and also reduced its outlook for interest rates in the region. It forecasts that Brazil’s economy will grow by 2.2% this year, down from an earlier forecast of 2.6%, and its expectation for the Mexican economy is an expansion of 1.5% in 2019 versus its earlier estimate of 1.7%.

**Current account in the red.** Figures from Brazil’s central bank posted a slight increase in the deficit on the current account and a slowdown in foreign investment in January compared to January last year. A reduction in the trade surplus was mainly responsible for this, with imports going up by 16.2% while exports were up by only 9.4%, cutting the trade surplus to USD 1.6 billion.

**Maintaining growth.** According to Mexico’s National Statistics Institute, the Mexican economy expanded by a seasonally adjusted 0.2% in the fourth quarter of 2018. Gross domestic product was up 1.7% in the fourth quarter compared to the fourth quarter in 2017.

**A modest dream: 4% and 2%.** The president of Peru’s central bank, Julio Velarde, said that, while monetary easing would not end in the “*immediate future*,” it would be stopped if Peru’s economy continued to be strong. Velarde commented that Peru’s growth should be at 4.0% by the end of the year and that it was probable that inflation would be maintained at 2.0%.

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 07 Week IV  
February 2019

**The Fund to the rescue, Part I.** Ecuador obtained financing of USD 4.2 billion from the International Monetary Fund in addition to another USD 6.0 billion from other multilateral agencies. These funds are to be made available up until 2021.

**The Fund to the rescue, Part II.** According to the IMF, Ecuador will continue with its public spending optimization plan, strengthen its international reserves, and implement tax changes over the next three years.

**Baby steps.** “Elections” were held in Cuba to approve a new constitution that will replace the old one, drafted in the Soviet era. The new constitution maintains a one-party socialist system as “*irrevocable*,” but includes modest economic and social changes, such as recognition of private property.

## POLITICAL TIPS

**23F roundup.** After the events of February 23, Luis Almagro made public a preliminary report by the Organization of American States (OAS) regarding what happened that day, highlighting the desertion of a number of members of the Venezuelan armed and police forces from early on.

**The start of the problem.** At around midday, the arrival of four trucks with humanitarian aid at Francisco de Paula Santander Bridge was confirmed. The trucks were met with teargas, rubber bullets, and stun grenades from the Bolivarian National Guard, which caused the demonstrators to withdraw temporarily.

**Deplorable actions.** At approximately two in the afternoon that day, it was noticed that the first two trucks of the humanitarian aid caravan, already on the Venezuelan side of the border, were on fire. According to the OAS’ report, this fire was caused directly by action on the part of members of the Venezuelan security forces.

**A human chain.** Because the way over the Simón Bolívar Bridge was completely blocked, a group of volunteers organized a human chain to get the humanitarian aid across the bridge; this action was repressed with shooting and teargas by security forces on the Venezuelan side.

**Official figures.** According to the official figures in this report, the events of February 23 left a balance of 285 people injured and, according to reports made thus far, 14 people murdered, presumably as a direct consequence of action taken by the Venezuelan security forces and armed collectives.

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 07 Week IV  
February 2019

**The day after.** Juan Guaidó arrived in Bogota to attend the meeting of the Group of Lima on the crisis in Venezuela, at which presidents of the region and US Vice President Mike Pence were also present. During the meeting Guaidó requested the countries present to give all the help possible to restore democracy in Venezuela.

**Without intervention.** In response to this request, the Group of Lima restated its willingness to do this by bringing greater economic and political pressure to bear on the Nicolás Maduro regime, but ruled out any use of force.

**Yet another meeting.** The US Government requested the United Nations Security Council to hold a meeting for the sole purpose of discussing the situation in Venezuela and seeking a solution to the problem.

**More sanctions.** The US Treasury Department announced that more people had been included in the Specially Designated Nationals (SDNs) category, among them four Venezuelan governors: Rafael Lacava (Carabobo), Jose Garcia Carneiro (Vargas), Ramón Carrizales (Apure), and Omar Prieto (Zulia).

**Excessive use of force.** United Nations High Commissioner for Human Rights Michelle Bachelet strongly criticized the events that occurred on February 23 as a result of action taken by pro-government security groups on the borders with Colombia and Brazil. She put special emphasis on the use of paramilitary forces by the regime, given that they have a “*long sinister history in the region.*”

**“Cheap shows.”** Univisión television presenter Jorge Ramos and his production team were held inside Miraflores Palace after an interview with Nicolás Maduro. All the recorded material was seized and they were then deported. After the journalist was deported, Minister of Communication Jorge Rodríguez referred to the incident saying, “*We don’t take part in cheap shows.*”

**Promises.** On February 25, Brazil’s Minister for Human Rights Damares Alves announced that Brazil had no intention of intervening against the Nicolás Maduro regime, but that they would continue with joint efforts with the Juan Guaidó administration to get humanitarian aid into Venezuela.

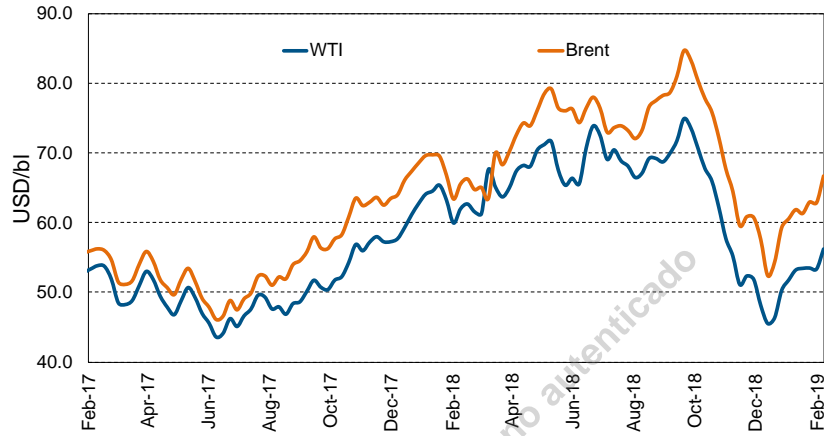
**Avoid intervention.** The European Union, like Brazil, announced that it does not support a military intervention in Venezuela. However, it made it clear that, at the moment, Nicolás Maduro’s right to govern “*lacks necessary legitimacy,*” and for that reason amply recognized elections are needed.

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

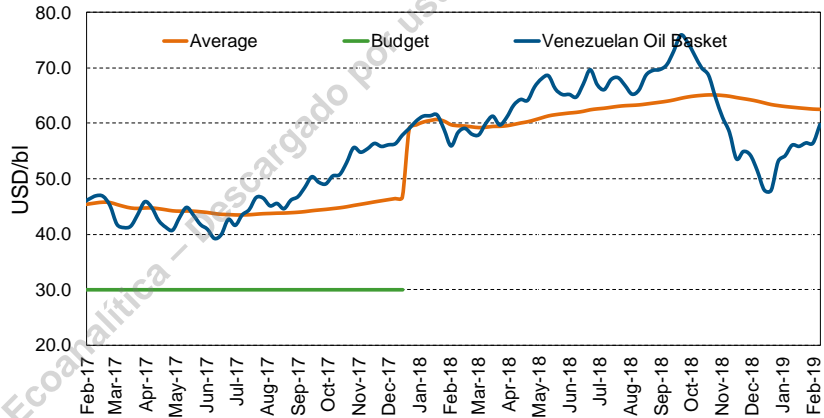
**ECONOMIC INDICATORS**

**Oil Prices (WTI and Brent)**



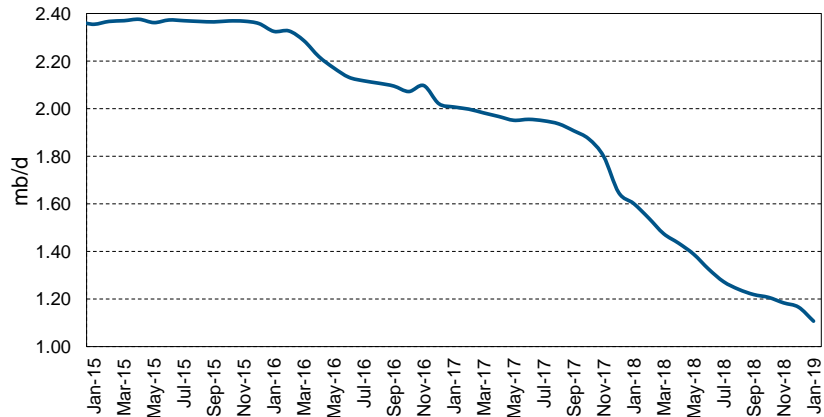
Sources: Menpet and Ecoanalítica

**Oil Price (Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

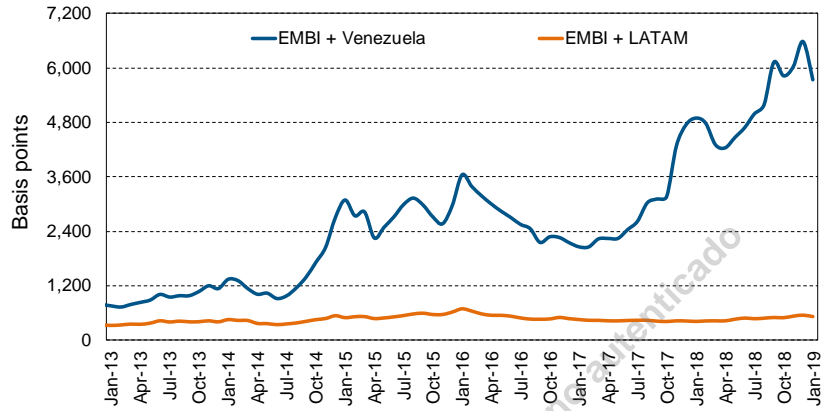
**Oil Production (Secondary sources)**



Sources: OPEC and Ecoanalítica

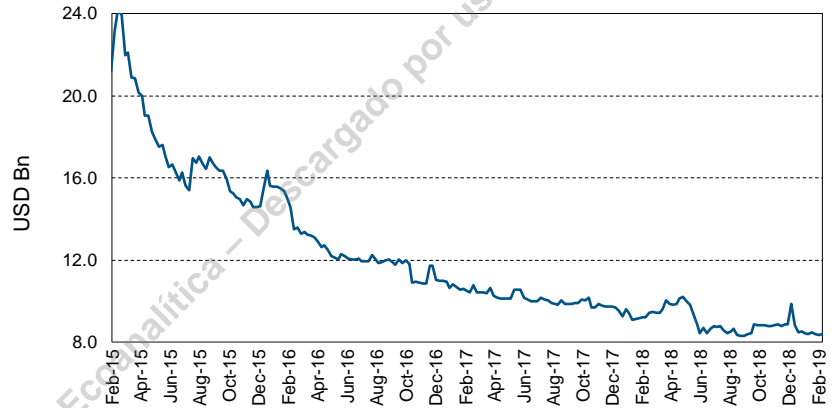
**ECONOMIC INDICATORS**

EMBI



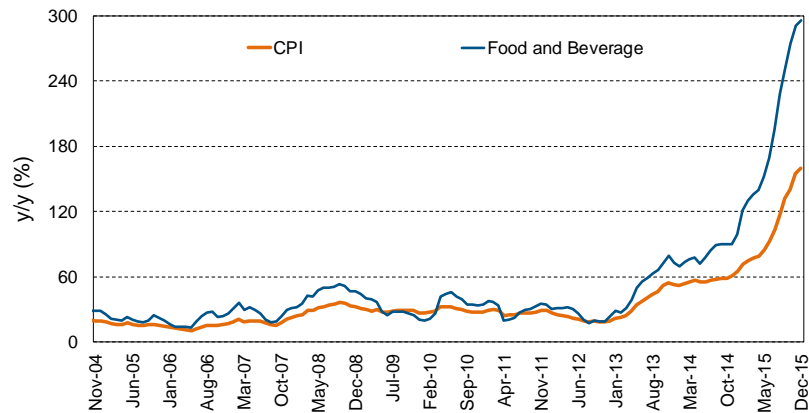
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

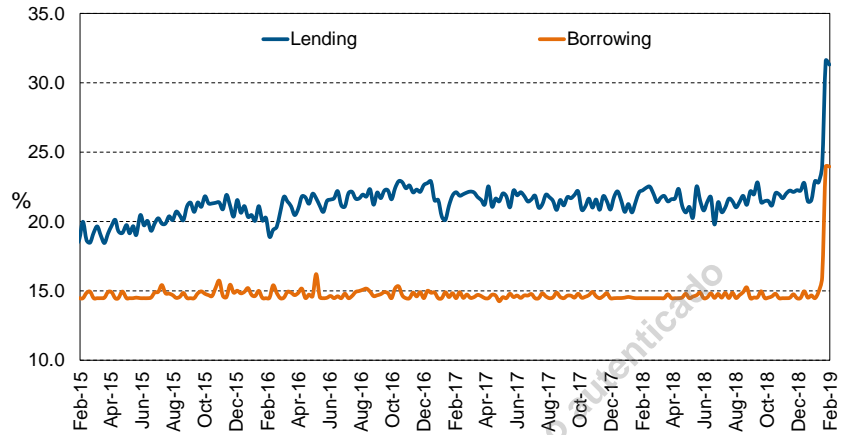
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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 14 Number 07 Week IV  
February 2019

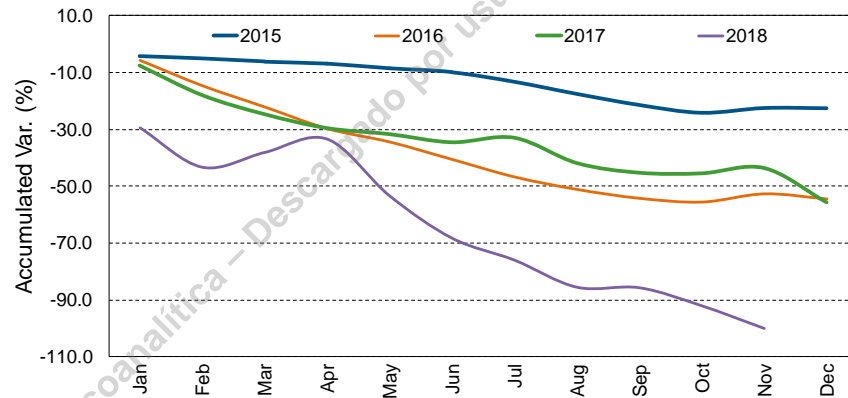
**ECONOMIC INDICATORS**

Interest Rate  
(six major banks)



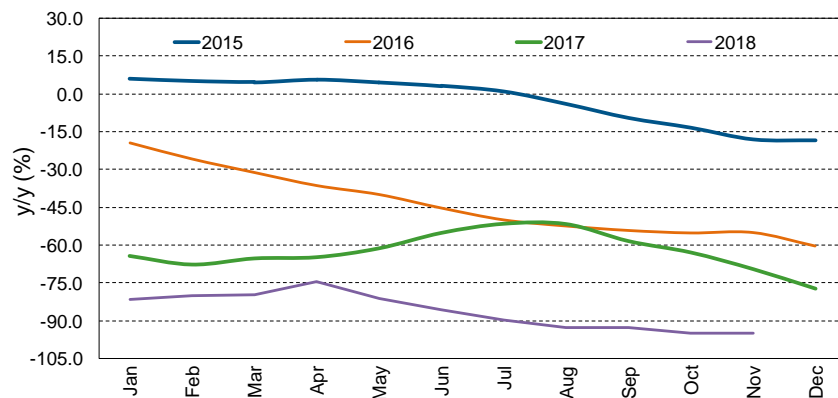
Sources: BCV and Ecoanalítica

M2 Expansion  
(Real)



Sources: BCV and Ecoanalítica

Loan Portfolio  
(Real)



Sources: SUDEBAN and Ecoanalítica

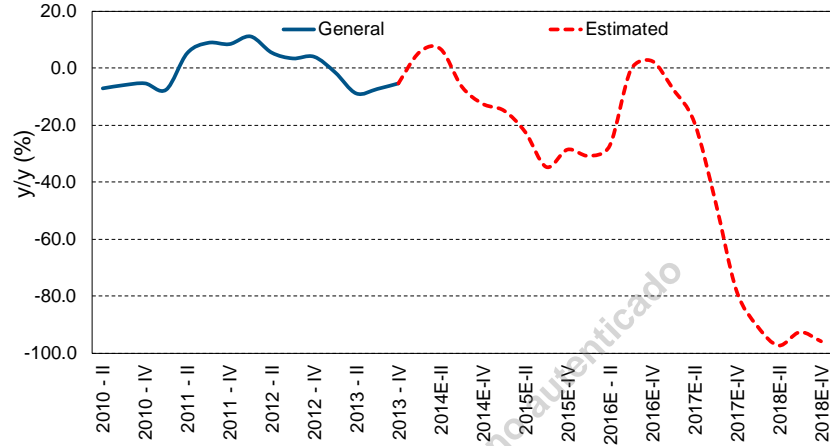
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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 14 Number 07 Week IV  
February 2019

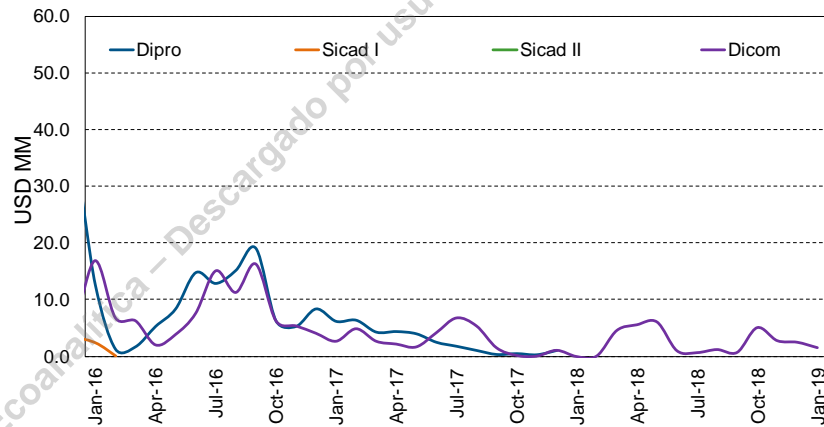
**ECONOMIC INDICATORS**

**Real Wage Index**



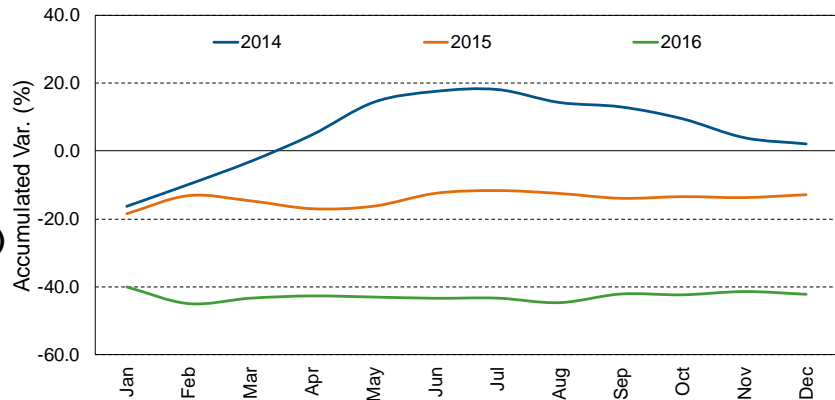
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

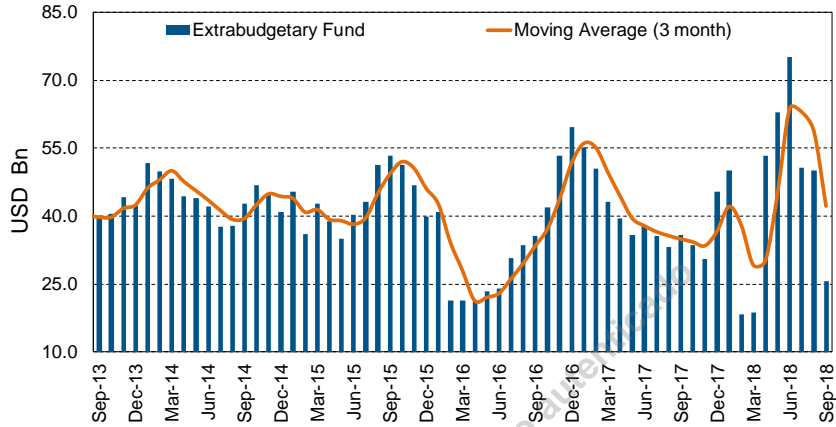
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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 14 Number 07 Week IV  
February 2019

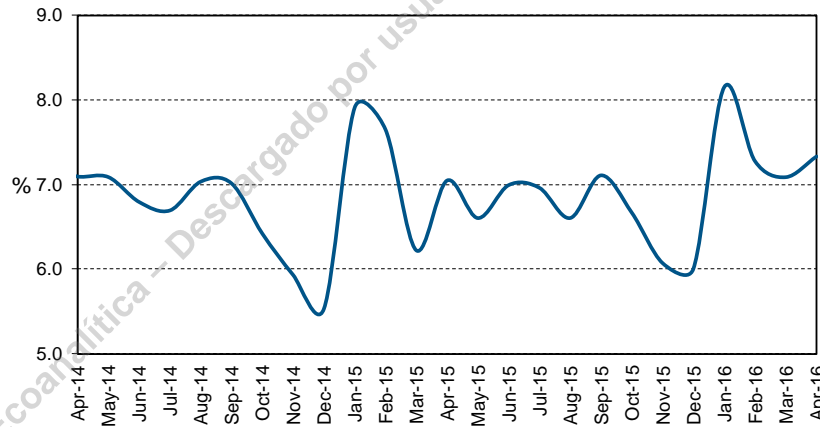
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



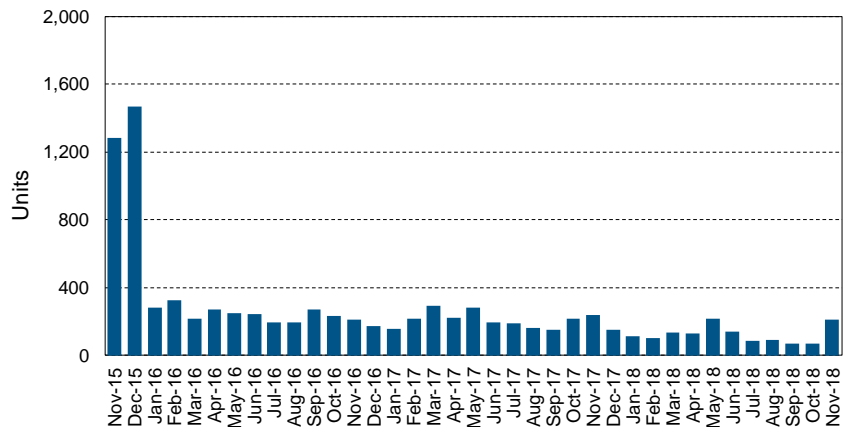
Source: Ecoanalítica

**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.

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

## ECOANALÍTICA'S TEAM

**Alejandro Grisanti** / Director

alejandrog@ecoanalitica.net / @agrisanti

**Asdrúbal Oliveros** / Director

asdrubalo@ecoanalitica.net / @aroliveros

**Pedro Palma** / Director

pedrop@ecoanalitica.net / @palmapedroa

**Cristina Rodríguez** / Director

crisinar@ecoanalitica.net

**Luis Arturo Bárcenas** / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

**Gorka Lalaguna** / Economist

gorkal@ecoanalitica.net / @gorkalg

**Guillermo Arcay Finlay** / Economist

guillermoarcayf@ecoanalitica.net / @guillermoarcayf

**Giorgio Cunto Morales** / Economist

giorgioc@ecoanalitica.net / @giorgiocunto

### RESEARCH ASSISTANT

Jhoan F. Castellano

Corina Fung

Diego Santana

Manuel Sánchez

### CONTACT US

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

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

[www.ecoanalitica.com](http://www.ecoanalitica.com)

@ecoanalitica