



## Transactional dollarization: some reflections

The national-wide power cuts during last March were unprecedented in Venezuela, or at least in the country's capital region (considered by some untouchable when it came to the systematic deterioration in utilities). For almost 13 days, homes and businesses faced not only a power out but also acute disinformation and an unprecedented collapse in the systems of payment.

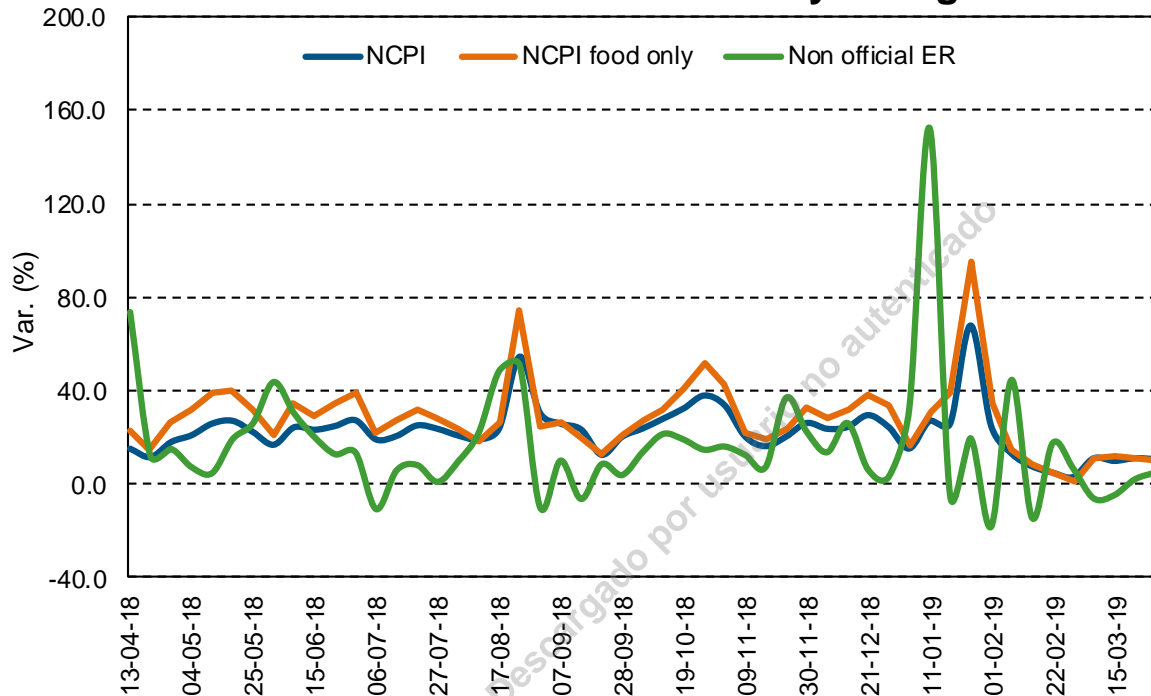
In the middle of this widespread collapse, the use of foreign currency as a means of payment was exacerbated, given the operational restrictions that prevented people from gaining access to their funds in bolivars to frantically buy essential goods in the belief that the same situation would likely happen again in the very short term. Another power out at the time of writing seems to have proved them right.

In those days of the power out, foreign currency became more usual as the means of payment in large stores and even in small establishments, with prices, paradoxically, not going up significantly. In fact, even in the middle of the power out, weekly inflation posted one of its lowest rates since 2018. This occurred partly because there was a drop in the price of the dollar as the market adjusted to this unusual informal injection of dollars, aside from the fact that merchants needed to obtain a quicker turnover of an explosively costly inventory.

So, the "lack" of local currency (as Venezuelans now refer to the exponential drop in their income's purchasing power) with which to buy a certain number of increasingly scarce goods turned out to be the common denominator during those days.

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### NCPI and non-official ER weekly changes



Source: Ecoanalítica

Even after the power outs, weekly inflation continued to be contained in the case of some emblematic items. This speaks of an exchange rate stability that is not normally part of the Venezuelan's way of processing events this type, where the exchange rate usually provides a particular series of data. So, since it is commonplace for agents' expectations to react, let us say, with an increased demand for dollars in response to official announcements, agents imposed a bigger premium on any transactions in foreign currency as the collapse in services generated chaos and uncertainty in people's daily round. This time, hyperinflation, as the catalyst of this other use of foreign currency, seemed to change the rules of adjustment.

Given this situation, people started to talk more frequently of a scheme of informal dollarization into which even individuals and companies with no prior experience started to venture more frequently. Many questions have been raised since then, reviving the debate as to whether dollarization is an ideal political scheme for reducing the spiraling of local prices. But before starting to judge the pros and cons of a situation of this type, it is worth offering some thoughts on the matter, starting with perhaps the most obvious of the doubts raised by the power out.

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### Is this a dollarization?

Strictly speaking, no. Even in a de facto (partial) dollarization, what is distinctive is the absence of frictions when performing transactions in a foreign currency, even though that currency is not established as legal cash. This does not happen in Venezuela. It is true that, following the latest Foreign Exchange Agreement issued in September 2018, certain operations using foreign currency that were previously banned are now permitted. So, for example, contracts in foreign currency have now become legal, provided the parties so require it, and the acquisition of foreign currency in cash through the banks, which are once again acting as foreign exchange operators, has now been authorized.

Moreover, the much-mentioned Foreign Exchange Market System was sold as a mechanism that would enjoy full freedom in its negotiations, as a result of which the economy would benefit from an increased supply of dollars (although their value at a nominal exchange rate that at times was overvalued reduced the incentives to sell).

However, under the present rules, the use of foreign currency still has an aura of limitation (illegality) that prevents the completely free circulation of the dollar in circumstances similar to other dollarization experiences. What has happened in Venezuela is rather the use of the dollar as a natural mechanism in the face of hyperinflation, in addition to the notion of it as a store of value par excellence in our current situation. In academic debate and the debate on public policy, this is known as *transactional dollarization*, which does not necessarily include *financial dollarization* or via asset substitution (in which banks are authorized to maintain balances in foreign currency, without any restrictions) or *real dollarization* (indexation of prices/wages to the exchange rate marker).

A clarification needs to be made here. Even though these elements had already been incorporated into our situation months ago, this did not occur in a legal framework that would permit the complete adoption of the dollar as the sole referent for prices or as a means of exchange. Examples abound. There are still companies whose basket of products is subject to the agreed prices regulations based on the DICOM exchange rate; banks are not authorized to offer financing in dollars or to freely participate in official mechanisms for creating their own coverage; individuals and companies that have foreign currency accounts still report restrictions on receiving or sending funds to or from international financial markets; companies do not invoice in foreign currency; and so on and so forth.

Moreover, DICOM continues to have considerable weight in the way in which dollars at the official exchange rate enter the economy, something that, in practice, prevents full movement of capital, which does find refuge in dollarization. In other words, it does not seem to be totally correct to talk of dollarization when such frictions exist.

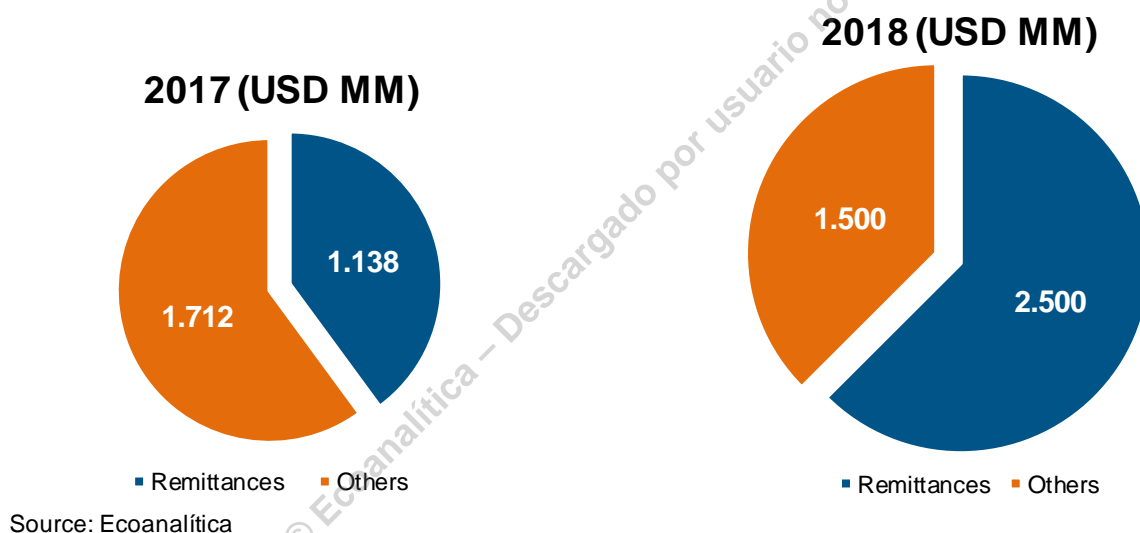
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Now both buyers and sellers of goods and services have more incentives to buy goods with dollars, although for fundamentally different reasons: the former in order to spend and the latter in order to save. With the upturn in hyperinflation, small operations in foreign currency have become more relevant (although with less public overtones), where private individuals are being forced increasingly to realize their positions in foreign currency in order to buy their usual basket of goods and so reduce the losses in the purchasing power of their real incomes.

### Local FX market composition



Official disinformation has been crucial to the extent that it reinforces arbitrariness in the pricing of assets, already disrupted by how Venezuelans have traded their goods based on a scheme of incentives linked to a rapid migration. The natural consequence of this has been a more volatile cocktail in terms of charges and major distortions in relative prices. At the end of the day, the fact that Venezuelans are resorting to the dollar as a means of payment on these terms is just one more expression of the distortions that hyperinflation has brought with it.

#### Has this dollarization been intentional?

Many of the things the government has done suggest that, rather than promote the drop in the unofficial exchange rate, it has encouraged this mutation in the use of the dollar. In the middle of the restrictions on credit as a result of higher legal reserve requirements, the authorities started to sell foreign currency in cash via the domestic banking system at

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the price set at the DICOM auctions. This created an unusual flow of foreign currency at official prices, i.e. at preferential prices whenever the gap between the official exchange rate and the unofficial rate was still positive.

However, this did not mean that the incentives for agents in the private sector to buy foreign currency at the DICOM rate changed (despite procedures that were, at times “unusual”), although it did seem to reduce the capacity for arbitrage by those who had access to these operations, as manifested in the minor adjustment of the unofficial exchange rate in the past few weeks.

Another element that set the pattern for the use of the dollar by electronic means (something not seen before thanks to the exchange rate subsidy) was the anchoring of the exchange rate in February and, with it, the devaluation of the official exchange rate above the unofficial market rate. For a few weeks, people with money outside Venezuela were able to obtain local goods at a lower cost (in dollars), which even encouraged the payment of services with international credit cards. Even though it is unlikely that the government’s intention was to encourage this form of payment (because historically these payments have been insignificant for the public sector’s budget in foreign currency), this situation certainly gave a boost to transactional dollarization with more aggressive overtones, albeit for a short while.

Moreover, since halfway through last year, the government has also turned its attention to favoring the flow of remittances by putting restrictions on performing movements in Venezuelan bank accounts from outside the country<sup>1</sup> and favoring the sending of remittances via official means in the weeks in which DICOM exchange rate went above the unofficial rate<sup>2</sup>. This type of procedure was the other face of the informal remittances that many families of Venezuelan migrants received from their relatives abroad. This meant that these migrants were left with no alternative but to use regular channels via ordering, shipping and payment agencies.

Nevertheless, even assuming that all recipients of remittances consider that it makes sense to exchange all the foreign currency they receive for bolivars, we are only talking about the equivalent to 19.7% of imports as at the close of 2018. While this would make remittances less relevant (exclusively in terms of volume) as an element that gives dollarization greater significance, it would certainly contribute to a larger sector of the population having access to foreign currency.

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<sup>1</sup> Sudeban’s Resolution 14,539, issued on august 27<sup>th</sup>, 2018.

<sup>2</sup> Local FX legal framework establishes that remittances shall be paid in bolivars at the DICOM exchange rate for the week in question, with a premium.

### Are the effects of this dollarization positive or negative?

It is true that, while we are not under the premise of a formal dollarization, in practice we find some reactions typical of that situation. The increased circulation of the dollar could curb a bigger increase in the exchange rate, exacerbating the appreciation of the domestic exchange rate. In other words, the variation in the price of foreign currency lags somewhat behind the variation in the prices of goods and services.

This generates opportunities to import to the extent that local companies invoice in bolivars, buy dollars at lower prices, and use those dollars to buy foreign goods. The low cost of the dollar would give the importer the possibility of covering a bigger share of the market by selling his goods at a lower price.

As long as this appreciation is maintained, dollarization will work against us, since the fraction of foreign currency we will have to spend to acquire the same basket of goods will be increasingly greater (the much-commented phenomenon of the cost of living getting more expensive in dollars). However, when the low price of the dollar fuels demand (when importers increase their purchases abroad), the nominal exchange rate will invariably become devalued, favoring those with long positions in dollars.

If the use of foreign currency becomes widespread, a latent danger is that transactions in foreign currency will mutate to a “natural” barrier to the acquisition of some goods and services. For a relatively small business that faces transactional costs in coverage formation, incentives may be generated so that a larger part of its inventory is offered exclusively in foreign currency, leaving it to the buyer to assume those costs.

Moreover, for months it has been very common for a fraction of the commercial sector to engage in the direct sale of imported goods as part of its survival strategy. While Venezuela’s system of laws eliminates from the outset the possibility of strategies of this type from becoming widely used, in some cases it covers items that are essential but transversally inaccessible for all social strata in Venezuela. Consequently, the adoption of the dollar as a means of exchange could exacerbate these restrictions.

Rather than asking what effects this dollarization could have, perhaps we should be asking where it comes from. Let us consider a brief model for the private sector. First of all, local agents demand foreign currency to protect themselves from increases in prices, when they obtain access to bigger loans or in the middle of expansions of base money (presumably as a result of bigger wage and salary payments to the public sector). As a result, a demand for foreign currency is described as follows (with  $p_t$  for prices,  $e_t$  nominal exchange rate,  $credit/deposits_t$  for banking intermediation and  $m_t$  for money supply):

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$$L_t^d = L^d(e_t, p_t; m_t, \text{credit/deposits}_t)$$

The supply of foreign currency is determined by the disbursements by the public sector in addition to the private supply fueled by fluctuations in the exchange rate and prices (where  $\text{Dicom}_t$  represents official FX supply):

$$L_t^s = L^s(e_t, p_t; \text{Dicom}_t)$$

Based on this, an exchange rate as a price that responds to market fundamentals ( $L^s = L^d$ ) is influenced by the following variables:

$$e_t^* = e(p_t; m_t, \text{credit/deposits}_t, \text{Dicom}_t)$$

Taking an econometric view of this functional form for weekly data between 2019 and first weeks of 2019<sup>3</sup>, the estimates reveal that the increased impact on the market in recent weeks seems to come from restrictions on credit, money supply, and prices. That the lack of credit is having a positive impact on the exchange rate would be a point “in favor” of transactional dollarization insofar as it is based exclusively on an increased flow of foreign currency (and fewer bolivars). However, the positive impact of prices would be a point “against” given that, while Venezuelans are selling foreign currency more aggressively since prices started to go up by at least 50% a month, the increase in prices still gives rise, marginally, to local agents also buying dollars.

$$e_t = -5.98 + 0.24 p_t + 0.64 m_t + 1.44 \text{ credit/deposits}_t \quad N = 53$$

(0.17)                      (0.26)                      (0.49)                       $R^2 = 0.98$

The foregoing reveals two additional elements: dollarization seems to have emerged from a destruction of the demand for foreign currency (associated with less credit) and has not prevented Venezuelans from “distrusting” the bolivar, as a consequence of which local agents will continue to take every opportunity to acquire other assets to the detriment of the former. Unintentionally or not, dollarization does not seem to attack the roots of the problem.

If prices have positive effects on the exchange rate, it is also because hyperinflation is making it more difficult for people to acquire foreign currency (which makes it more expensive). So, we are faced with a scheme where payment in dollars is becoming more common, but where people have fewer dollars to trade. This would reinforce the argument that access to a given basket of goods and services declines as this dollarization

<sup>3</sup> The equation was estimated by instrumental variable methods -for controlling the potential endogeneity of prices at the exchange rate- that would also overestimate the former over the latter.

escalates. Needs continue to be infinite and Venezuelans continue to mine their own foreign currency assets in order to feed the selfsame scheme.

### **Is dollarization a secure means of payment?**

Since inflation in Venezuela passed the two-digit barrier and has become more volatile, the buying and selling of foreign currency has become usual, even when the macroeconomic conditions in 2010 offered the population mechanisms for maintaining, in durable terms, assets in bolivars. Due to exchange controls, the mechanisms for acquiring foreign currency are controlled largely by the public sector, which added “security” to the operations despite the discretionary way in which these mechanisms were typically managed.

Now with this informal “dollarization” there are no security protocols between companies or private individuals that guarantee the legality of the funds or facilitate personal control of their assets by individuals or companies. Businesses do not have at their disposal formal mechanisms that allow them to manage their inventories using foreign currency, which hinders the monitoring of said foreign currency still further.

Moreover, in a situation marked by US sanctions against Venezuelan government officials and agencies, the Venezuelan population is in the eye of the hurricane as far as prevention of money laundering is concerned. So, the use of foreign currency as a common means of exchange exposes those who employ it to a greater supervision of their assets by the corresponding foreign jurisdiction, particularly if the volume of transactions increases. More than the lack of security, this adds uncertainty and puts an important private asset at risk should hyperinflation become more acute.

### **Can this dollarization be reversed? Should it be put on a formal footing?**

Assuming that this boom in the transactional use of the dollar is costly, then efforts should be made to eradicate it. In operational terms, an informal scheme can be dismantled more easily than a more formal regime. However, reversing the incentive to get involved in transactions in foreign currency necessarily implies restoring the credibility of the bolivar in all its facets. In other words, hyperinflation has to be eradicated, saving in bolivars has to be encouraged, and, as for the purchasing power of the bolivar is concerned, it has to be favored to the point that the bolivar is used as a means of exchange, as was customary before.

Some design elements undermined the credibility of the government’s recent efforts to promote greater stability in the exchange rate from the outset. As we established in our

first Foreign Exchange Report Number of this year<sup>4</sup>, the fiscal and monetary measures behind the new scheme seem to point in the diametrically opposite direction. So, under the present conditions, the government's "dismantling" of the old scheme is as difficult as doing away with hyperinflation itself.

And what about a scheme where dollarization is made legal? Already in our Weekly Report n° 10 from 2018<sup>5</sup>, we discussed some aspects of formal dollarization, with the negative aspects being the most abundant. Some are based on how economies that take advantage of exploiting raw materials find their capacity to accumulate external assets disrupted when faced with shocks to their terms of trade (an oil price cutoff, for example), which disrupts any leverage of a dollarized scheme.

So, we are talking about a system that is practically irreversible and that requires certain initial conditions on the fiscal front and in terms of the endowment of external assets for it to be successfully adopted. Unfortunately, our economy lacks those conditions. Similarly, as Edwards rightly stresses (2011)<sup>6</sup>, history shows us that, while it may be useful for mitigating the pressure of prices, adopting dollarization does not necessarily lead to an eradication of real contraction.

Finally, it must be remembered that adopting dollarization implies renouncing the monopoly of creating bolivars. While this means eradicating seigniorage as a trigger of hyperinflation, it would force us to give up our own mechanisms for dealing with situations that might destabilize the money market or the financial sector. From the point of view of public policy, there could be a considerable loss of well-being with dollarization.

As long as hyperinflation persists, Venezuelans will always seek the best options for coping with it. Adopting another currency that would protect our assets is one of them, although perhaps not the best. However, the range of options available is finite, which means that it is up to policymakers to speed up the debate and evaluate the economic and political actions that could be taken, in the interests of avoiding the escalation of unorthodox schemes that would distort our economic and social situation still further. Time is of the essence. Don't let's wait for another mega power out.

**Luis Arturo Bárcenas**

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<sup>4</sup> FX monthly report 1 (2019). A nominal anchor with birth defects (in Spanish).

<sup>5</sup> Weekly report 10 (2018). Dollarization: Are there any magical solutions?

<sup>6</sup> Edwards, S (2011). Exchange rates in emerging countries: eleven empirical regularities from Latin America and East Asia. NBER working paper 17074.

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week April	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VES/USD)	3,296.15	0.0	0.0
	2nd Week March	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	34.3	0.5	13.0
	4th Week March	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	46.4	10.5	46.4
	4th Week March	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	9.0	3.0	-5.8
	2nd Week March	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	3,379,938,136	5.8	113,693.2
Price of International Oil Baskets (USD/bl)			
	4th Week March	Weekly chg. (%)	Annual chg. (%)
WTI	59.3	3.5	-8.9
Brent	67.6	1.3	-3.4
Price of the Venezuelan oil basket (USD/bl)			
	4th Week March	Weekly chg. (%)	Annual chg. (%)
Weekly Average	61.6	1.5	0.5
Annual Average	57.2	1.4	-3.9

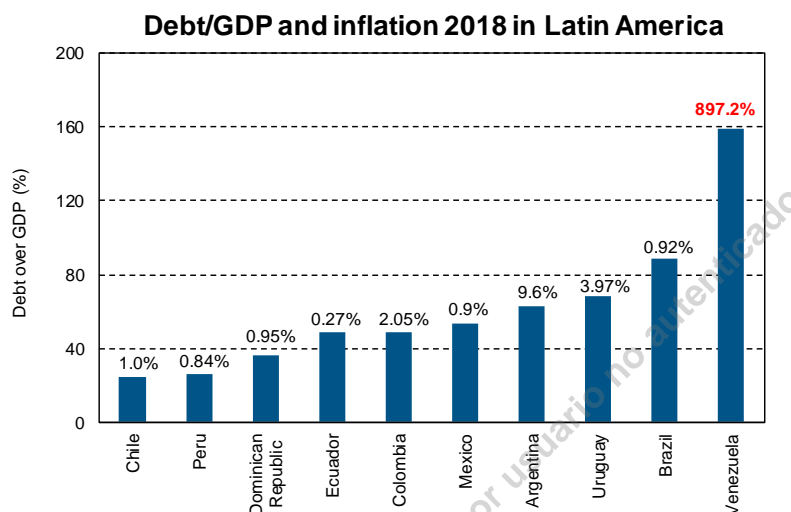
Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

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

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**GRAPH OF THE WEEK: “HYPERINFLATED AND IN DEBT”**


Sources: FMI and Ecoanalítica  
 The numbers above the bars show the countries' accumulated inflation in 2018.

As indebtedness increases, governments may be forced to levy higher taxes or cut public spending in order to render payment of these liabilities sustainable, generating a drop in aggregate demand and, therefore, a contraction in domestic production. Moreover, when a bigger debt requires a higher level of financing or puts pressure on the fiscal deficit, monetary and real gaps can be generated that unleash bigger increases in local prices.

Reinhart and Rogoff (2010)<sup>7</sup> compiled data from 44 countries over a period of 200 years to analyze the relationship among these three variables. One of their findings points to the fact that, in emerging countries, debt levels of more than 90% of GDP generated adverse impacts on their economic activity and encouraged upturns in prices. Specifically, some markets that crossed these thresholds saw their economic growth shrink by 3.5 percentage points compared to countries with debt that was below that range. Similarly, the former posted even twice the inflation of the latter. If we take a look at the graph, we will see that in 2018 there seems to be a similar logic. According to figures published by the International Monetary Fund, Venezuela was the only Latin American country to reach a debt/GDP ratio of more than 90%, having completed one year in hyperinflation and with a variation in its estimated GDP of around 26%. Other Latin American countries seem to be far from being in a similar situation. None of them reached that level of debt (although Brazil was close) or those levels of inflation. It seems that Venezuela's excessive indebtedness is yet another barrier to the fiscal sustainability of our economy, reinforcing the monetary origin of local hyperinflation.

<sup>7</sup> Reinhart y Rogoff (2010) Growth in Times of Debt.

**ECONOMIC TIPS**

**More sanctions.** The US Treasury Department has added Banco de Desarrollo Económico y Social de Venezuela (Bandes), Banco de Venezuela, and Banco Bicentenario to its list of Specially Designated Nationals (SDNs). In the case of Bandes, the Treasury Department specifically explains that the Maduro administration has used it as a vehicle for obtaining benefits by receiving assets from abroad.

**Visa and MasterCard.** As part of this measure, the US Department of State has forbidden companies such as Visa, MasterCard and American Express to maintain relations with any of these sanctioned banks after March 22, 2020.

**Meeting suspended.** The Inter-American Development Bank (IDB) suspended its annual general meeting in China, which was scheduled to take place at the end of March. The reason was the Chinese Government's refusal to issue Ricardo Hausmann, Venezuela's representative appointed by Juan Guaidó, with a visa.

**Financing.** According to Miguel Angel Santos, the director of applied research at Harvard University's Center for International Development, Venezuela needs a financial injection of between USD 60 billion and USD 70 billion in order to get the country up and running again.

**Recovery.** Santos, who is currently part of Ricardo Hausmann's team, explains that this financing is the first step of the country's recovery plan; the next steps would be to seek to restore the mechanisms of a market economy, open up PDVSA to foreign investment, and last of all engage in "aggressive" debt negotiations with creditors.

**Not yet.** The International Monetary Fund (IMF) admitted that the recognition of Juan Guaidó as acting president was still not clear and that, besides, no voting is planned. Moreover, Christine Lagarde, the IMF's managing director, anticipated that providing Venezuela with assistance would be "a monumental task."

**Payment systems.** The Superintendency of Banking Sector Institutions (Sudeban) called on the banks, both state- and privately owned, and the companies in charge of authorizing points of purchase to offer options for a new system of electronic payments.

**New bank charges.** The Central Bank of Venezuela announced the new rates for bank charges, raising the commission for withdrawals from the issuing bank or from third parties to 3% and 5% of the amount withdrawn and the charges for savings account passbooks to VES 1,232 and for checkbooks to VES 7,376; moreover, the charge for

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bounced checks will now be VES 10,000 for private individuals and VES 20,000 for companies.

**Loans.** In addition to the request for a payment system, Sudeban asked the banks to raise the ceilings on credit cards to VES 775,000, equivalent to 15,500 tax units, a request the banks promised to consider while explaining that the ceilings would depend on the customer's economic profile.

**The last DICOM auction.** The last auction was the one held on March 29th, and resulted in an exchange rate of VES 3,294.5/USD or VES 3,698.4/EUR. This gives a devaluation of the bolivar against the dollar of 0.02% compared to the previous auction.

**Disbursements.** The total amount disbursed was USD 953.7 billion. This time companies received USD 422.5 billion (44.3% of the total) and private individuals obtained USD 531.2 billion (the remaining 55.7%).

**International reserves.** At the end of the week of March 29th, the international reserves closed at USD 9.03 billion, up USD 267 million from the end of the previous week (USD 8.76 billion). While this gives an increase of 3.0%, year-on-year it represents a drop of 5.8%.

## OIL TIPS

**Down to zero.** US imports from Venezuela fell to zero last week for the first time ever, according to the US Energy Information Administration (EIA). Reuters reports that the supply of heavy crude, such as that produced in Venezuela, has stopped worldwide due to the sanctions on Venezuela and problems with production in Canada.

**India stands firm, Part I.** India Reliance Industries (RIL) is selling diluents to Venezuela from India and Europe to sidestep the sanctions imposed by the United States. At least three tankers from Reliance delivered refined products to Venezuela in recent weeks and another tanker with gasoil is about to set sail, according to Reuters.

**India stands firm, Part II.** In a statement, the company said: "*Reliance is and will remain in compliance with the sanctions and shall work with the concerned authorities.*" The Indian market is crucial for Venezuela's economy because it has always been the second-largest cash-paying customer after the United States.

**Afraid of the sanctions.** India Reliance Industries' privately owned refinery has reduced its purchases below the levels stipulated in contracts in a bid to not fall foul of US

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sanctions. At the same time, the company stated that it had not sidestepped the sanctions in any way, claiming that it had always been transparent in this situation.

**Refinancing for Citgo.** PDVSA's Citgo refinery is requesting a three-year USD 1.8 billion loan to cover operating costs and refinance its current debt, according to Reuters. This financing would help Citgo to fund operations and replace the existing line of credit.

**The problem with Citgo.** In 2016 part of Citgo was used by PDVSA as collateral for a USD 1.5 billion loan from Russia. Another part of the company's shares have been used to back PDVSA's 2020 bonds, the only Venezuelan bonds that have not fallen into default. This has turned Citgo into the Venezuelan state-owned company's most valuable asset.

**In debt.** As at the close of September 2018, Citgo had a financial debt of USD 3.4 billion and a cash debt of USD 490 million. However, its income was around USD 500 million in the first nine months of the year.

**Awaiting announcements.** The refinancing of Citgo has attracted several proposals, according to Reuters. The results of the refinancing will be announced at the end of the month, once the company has spoken to potential investors.

**Aftermath of the mega power out, Part I.** Jose Refining Complex has been having operational problems since the nationwide mega power out that started on March 7. Obstructed pipelines and excessive pressure are some of the problems that led to the complex being restarted. PetroMonagas and Sinovensa are experiencing similar situations.

**Aftermath of the mega power out, Part II.** ArgusMedia estimates that the recovery of these facilities to pre-power-out levels could take some time. The supply of electricity is unstable and the general condition of the facilities has deteriorated over the years.

**So now what do we do?** If Juan Guaidó and the National Assembly manage to stop the shipments of crude to Cuba, Cuba will have to spend around USD 2.0 billion in order to meet its local demand. The Miami Herald reports that, whereas Cuba needs around 130,000 barrels a day (b/d), it produces only 50,000 b/d.

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**BUSINESS SECTOR TIPS**

**By candlelight.** Most of the country was once again plunged into darkness from around 9:45 p.m. on March 25. According to reports, this time 20 states were affected by the power out, four only partially.

**Attacks.** According to different experts at Corpoelec, this time the power out was due to a failure in the country's main transmission line, caused by a fire that had to do with the lack of maintenance of the system's infrastructure.

**The winter cycle.** Celso Fantinel, the vice president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), warned of the seriousness of the situation the farming sector is currently facing, stressing that they do not expect the harvest from the winter planting cycle to exceed 5% of total food production.

**A technical stoppage.** Fantinel explained that this situation was due to the shortage of fertilizers, seeds and other inputs, plus the restriction on credit furthered by the Central Bank of Venezuela with the increases in the legal reserve. As for the new planting cycle, he commented that it may well be impossible to undertake.

**Andean producers.** The president of The Andes Farming and Livestock Union (Unagandes), Antonio Escalona, announced that more than 800 farmers and livestock producers in the Andean region have declared a technical stoppage due to the lack of fertilizers, seeds, agrochemicals, medicines, vaccines and feed supplements.

**Attacks on private businesses, Part I.** The president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), Carlos Larrazábal, announced that he met with the United Nations Human Rights Commission and that during the meeting he denounced the multiple attacks the private sector had been subjected to for number of years.

**Attacks on private businesses, Part II.** The arguments presented by Larrazábal included the contraction in domestic production, which he estimates at 56%, the flight of companies that has resulted in only 3,500 remaining out of 12,500, and the numerous expropriations, specifically in the agricultural sector, with the government having taken over 1,500 companies, equivalent to 40% of the installed capacity for the production of precooked cornmeal.

**Production halted at bakery.** Juan Crespo, the president of the National Federation of Flour Workers (Fetraharina) and the Flour Industry Workers Union (Sintraharina),

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announced that the Bimbo bakery in Guarenas Industrial Zone had not been producing since early March due to the lack of flour. As a result, the company decided to send its 1,400 employees home, paying them the minimum wage, as long as this situation lasts.

**Zulia still without power.** The national power company Corpoelec announced that there will continue to be electricity rationing in Zulia for another 15 to 20 days. According to local residents, this rationing can last as long as 10 hours a day.

**The price of health.** Nicolás Maduro announced the creation of a working group to set the prices for pharmaceutical products. According to Maduro, these prices will be set in line with international prices and a direct subsidy will be granted via the Carnet of the Fatherland.

**Financing for the agricultural sector.** According to a number of farmers in Portuguesa state 600,000 hectares will be planted during the winter cycle thanks to financing from state-owned banks. *“Portuguesa is the state called upon to guarantee the country’s food,”* said Governor of Portuguesa Rafael Calles.

## WORLD ECONOMY TIPS

**A costly delay.** Adam Marshall, a member of the British Chambers of Commerce (BCC), said that the uncertainty regarding the Brexit decision is doing "real world damage" to the British economy. As a result, Marshall recommended Members of Parliament to stop chasing rainbows and to concentrate on taking decisions to get out of the deadlock they find themselves in.

**Revised downward.** The US Department of Commerce published a new estimate for gross domestic product in the fourth quarter of 2018. This confirms a new slowdown in the US economy, going from an estimated 2.6% for annualized growth to an estimated 2.2%. It also points out that the government’s target was growth of 3%.

**The executive takes the helm of the economy.** Turkey’s President Tayyip Endorgan stated that he was personally directing the country’s economy. He also said that the executive’s efforts had managed to stop the “attacks” on the Turkish lira. Given the elections that are to be held at the weekend, Endorgan commented that plans were already in place to deal with “possible speculative attacks” on the eve of the elections.

**The automaton revolution, Part I.** The United Kingdom’s Office for National Statistics (ONS) published a report in which it reveals that 1.5 million British subjects are at a high

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risk of being replaced by automatons, in other words by computer programs, algorithms and even robots.

**The automaton revolution, Part II.** According to the report, the jobs most at risk are waiters, shelf stockers and basic sales jobs. Those that are at least risk, in theory, are medical practitioners, education professionals, and professionals who teach in higher education.

**On China's turf.** A US commission headed by US Trade Representative Robert Lighthizer and US Treasury Secretary Steven Mnuchin is to travel to China in early April to hold talks with its Chinese counterpart headed by China's Vice Premier Liu He.

**A dismal election atmosphere.** The Turkish lira posted 6% devaluation against the US dollar on Thursday in anticipation of the elections to be held the last weekend of March. This behavior was due to the figures published by the central bank, which showed a drop in the international reserves from the equivalent of USD 24.7 billion to approximately USD 14.7 billion, the understanding being that Turkey is dipping into its reserves to maintain its exchange rate.

**A tradeoff.** The latest China Beige Book showed a recovery of the Chinese economy in the first quarter of the year due to the increase in total loans. Even though revenues, earnings, investment and the hiring of first class labor have increased, the Chinese Government is concerned over the possible consequences of the level of indebtedness by large companies, whose total has already reached the highest since mid-2013, particularly because bank lending rates are going up.

**The cost of maintaining social security.** Brazil's Treasury stated that the Central Government posted a primary deficit of USD 4.64 billion. According to the Treasury, most of the spending comes from the USD 7.38 billion gap generated by the social security system.

**Plan under way.** The Bank of Mexico's Board of Governors has decided to maintain its target interest rate at 8.25%. This is in line with the decision taken by the US Federal Reserve to maintain its reference rate at between 2.25% and 2.5%. The Bank of Mexico's decision was taken based on the trend of prices stabilizing nationwide and the improved performance of assets in the domestic market. It was also stressed that, with inflation of 3.95%, they were on track for keeping to the inflation target of 3%, +/- one percentage point.

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## POLITICAL TIPS

**Up to their old tricks.** The director of the office of Acting President Juan Guaidó, Roberto Marrero, and National Assembly Deputy Sergio Vergara were arrested by members of the Bolivarian National Intelligence Service (Sebin) in the early hours of Thursday, March 21.

**A categorical response.** Guaidó described the incident as a “*kidnapping*” and the National Assembly repudiated the accusations leveled against Marrero and Vergara and at the same time requested that the Sebin be sanctioned for its actions.

**Will there be consequences?** In response to these incidents, the secretary general of the United Nations, Antonio Guterres, commented that, if the Nicolás Maduro regime repressed any faction of the Venezuelan opposition, it would be making mistake that could result in it facing “*drastic consequences*.”

**Barred from holding public office.** As a result of a decision taken by Elvis Amoroso, the comptroller general appointed by the Constituent National Assembly, Juan Guaidó has been disqualified from standing for or holding public office for 15 years. Guaidó rejected the decision, saying, “*That gentleman is not the comptroller general. He’s not. There is no Constituent Assembly; there is no disqualification.*”

**Repudiation from abroad, Part I.** Colombia’s Minister of Foreign Affairs Carlos Trujillo repudiated the arrest of Marrero and Vergara and called on the international community to ensure respect for freedom, life and integrity.

**Repudiation from abroad, Part II.** The secretary general of the Organization of American States (OAS), Luis Almagro, described these arrests as a “*totalitarian attack*” and called on the international community to take stronger action so as to ensure the safety and protection of the Venezuelan people.

**The network expands.** Six new “special representatives” have been appointed by Acting President Juan Guaidó after an authorization was issued by the National Assembly. The new appointees are: Vanessa Neumann (United Kingdom), Tamara Sujú (Czech Republic), Enrique Alvarado (Hungary), Ana Medina (Poland), Estefanía Meléndez (Bulgaria), and José Ignacio Guedez (Morocco).

**Booing when it suits.** The first vice president of the United Socialist Party of Venezuela (PSUV), Diosdado Cabello, said that the report presented by United Nations’ High Commissioner for Human Rights Michelle Bachelet was distorted, alleging that Bachelet

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only took into account the “*report submitted to her by the ‘escuálidos’* (a derogatory term used to refer to the opposition).”

**Another joint rejection of Maduro.** At a United Nations conference held in Buenos Aires, a group of 18 countries and the European Union expressed its repudiation of the “*illegitimate Nicolás Maduro regime*” and confirmed its decision to back Guaidó as the legitimate President of Venezuela.

**Favors in exchange for votes?** US President Donald Trump met with the president of the Bahamas, Jamaica, Saint Lucia, Haiti, and the Dominican Republic to discuss two issues: the importance of a “*peaceful democratic transition*” in Venezuela and establishing a “*priority status*” for these countries within the Overseas Private Investment Corporation (OPIC), the US Government’s development finance agency.

**Cutting off the financing of terror.** Reacting to the new sanctions by the US Treasury Department, Juan Guaidó said that the purpose of these measures was to prevent them from “*continuing to steal assets in order to kidnap our brothers.*”

**Left without a visa.** The Government of Panama withdrew the credentials of the Maduro regime’s ambassador, Jorge Durán, and of more than 10 Venezuelan diplomats. In the light of recent events, Panama stated that it would only recognize Fabiola Zavarce, Juan Guaidó’s special representative, as Venezuela’s ambassador in Panama.

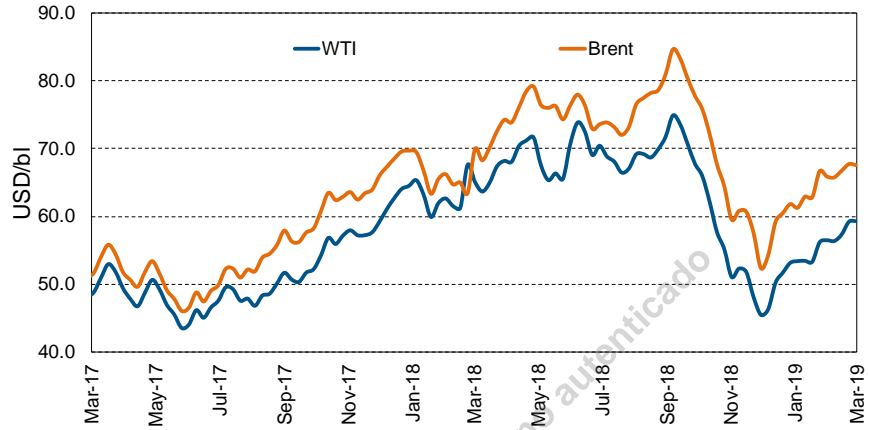
**Two months on, more patience.** After two months as acting president, Juan Guaidó called on Venezuelans to be patient and to participate, reminding them that they had achieved “*victories*” that will make it possible for there to be a change of government “*soon.*”

**Connection with the Caribbean.** Via a videoconference the president of the National Assembly, Juan Guaidó, took part in a meeting of the Caribbean Community (CARICOM) at which the current situation in Venezuela and possible peaceful solutions to the conflict were being discussed.

**Looking to the long term.** Attending the meeting was Julio Borges, Juan Guaidó’s representative to the Group of Lima. Borges added that the intentions of a potential new government would be to cooperate and maintain respectful relations with all of the Caribbean.

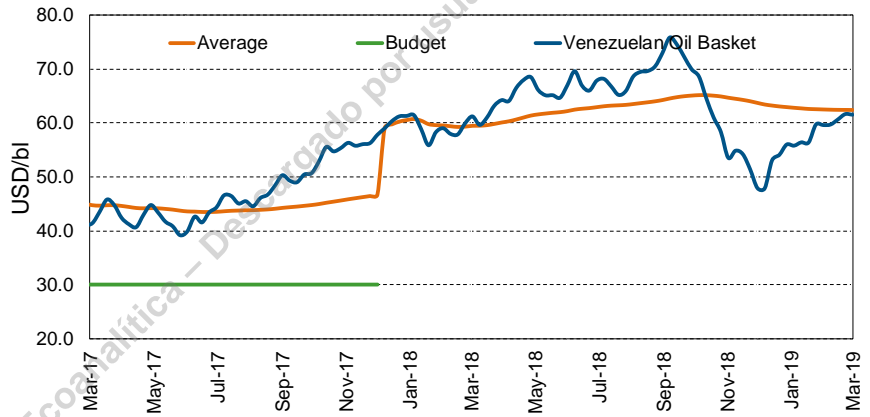
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



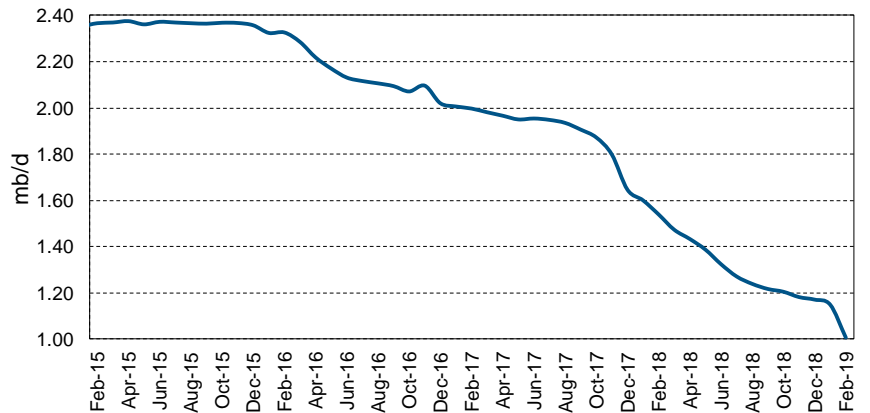
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

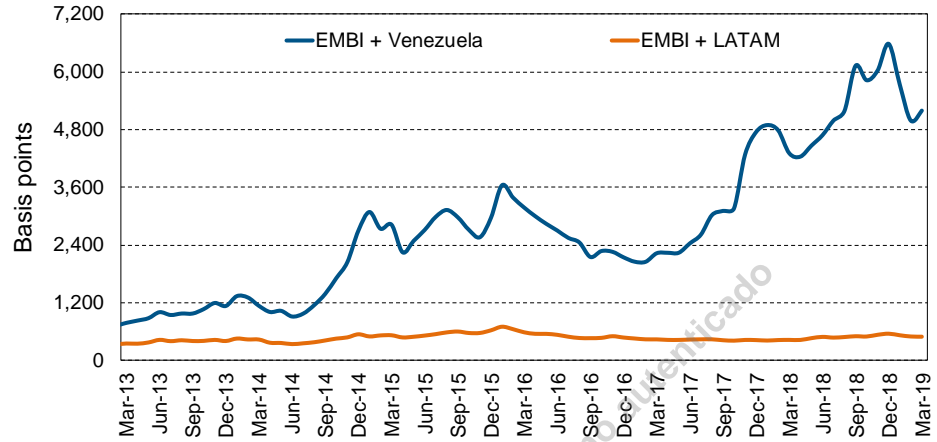
**Oil Production  
(Secondary sources)**



Sources: OPEC and Ecoanalítica

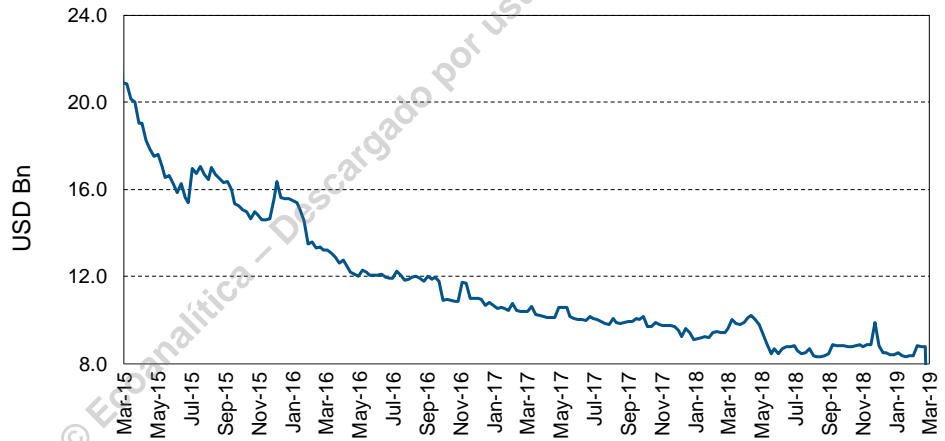
**ECONOMIC INDICATORS**

**EMBI**



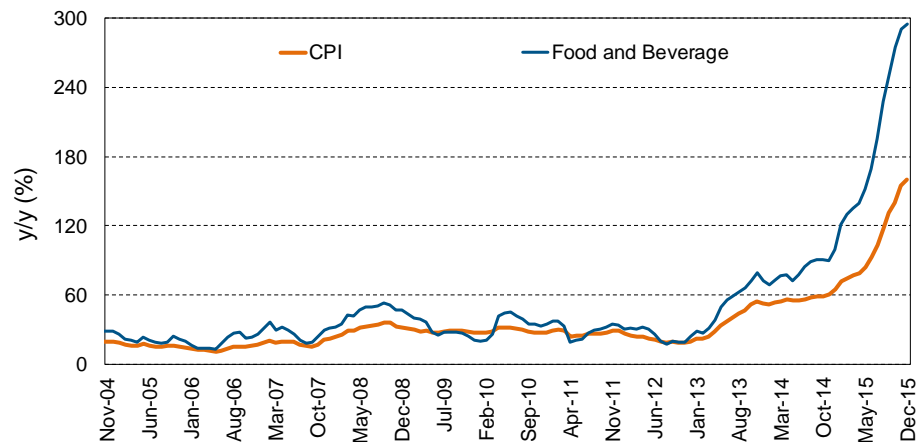
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

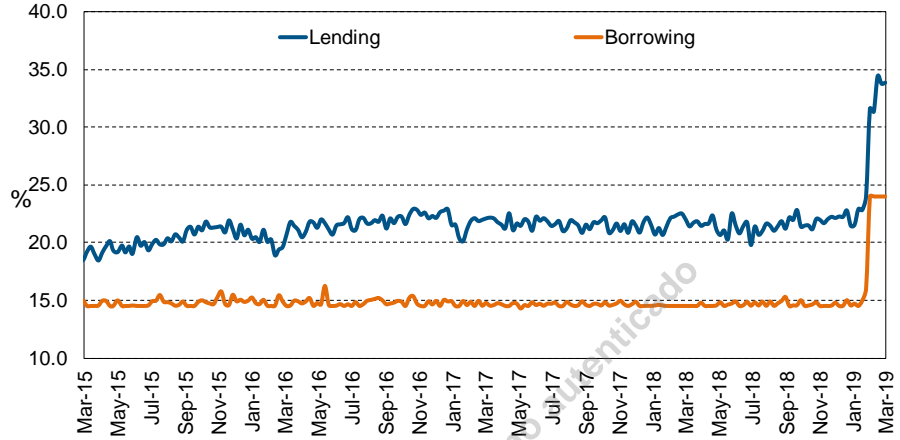
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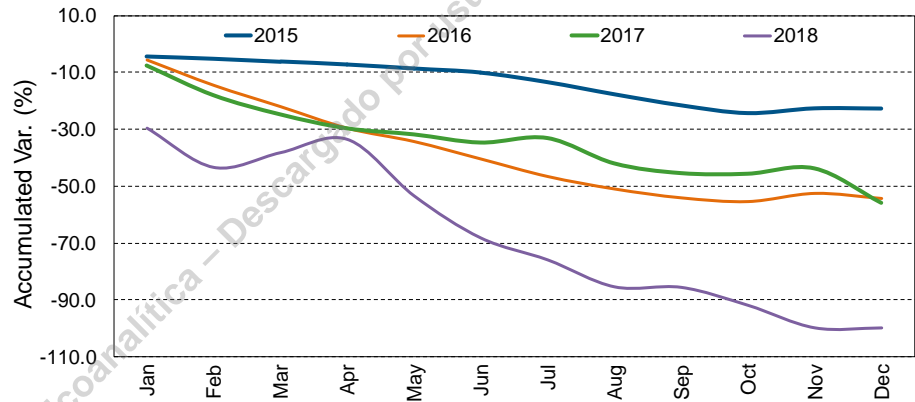
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



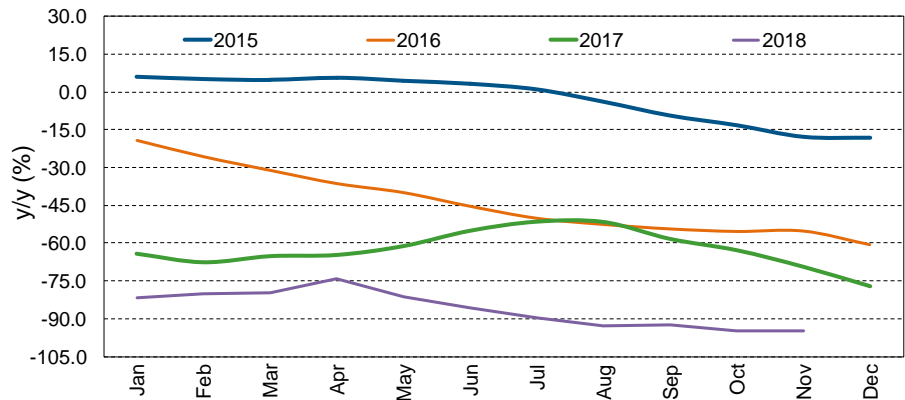
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



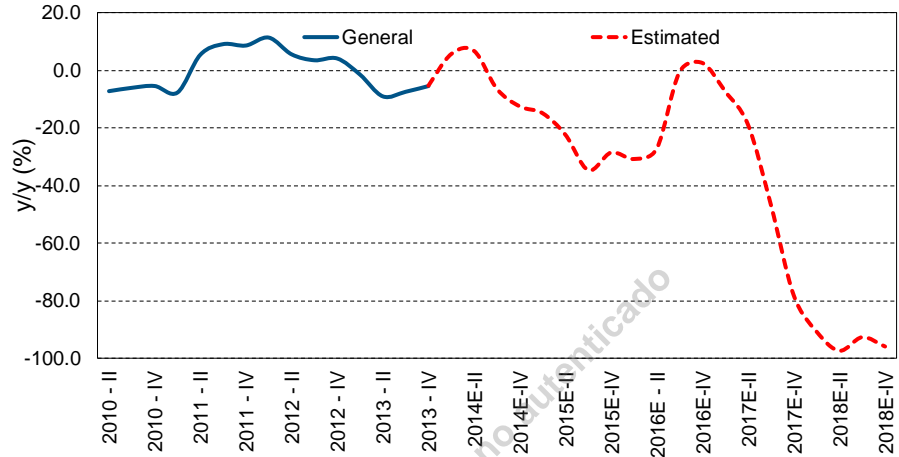
Sources: SUDEBAN and Ecoanalítica

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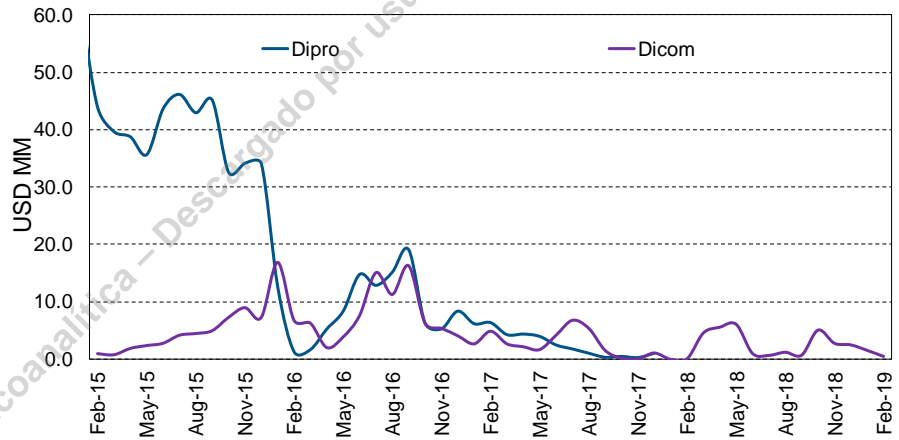
**ECONOMIC INDICATORS**

**Real Wage Index**



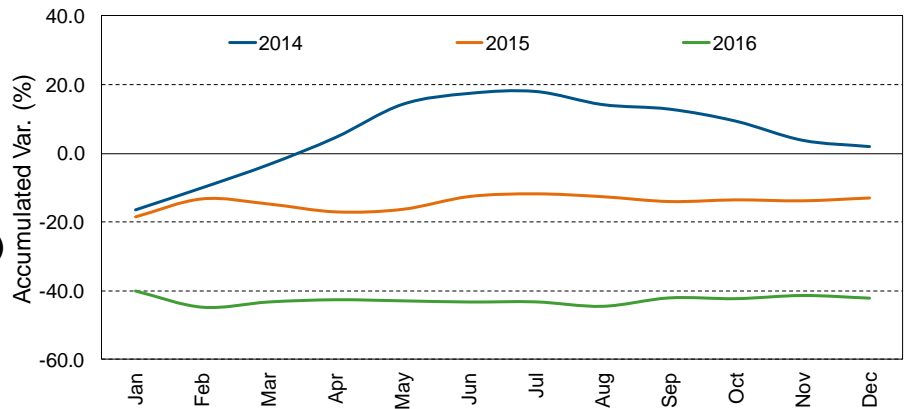
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



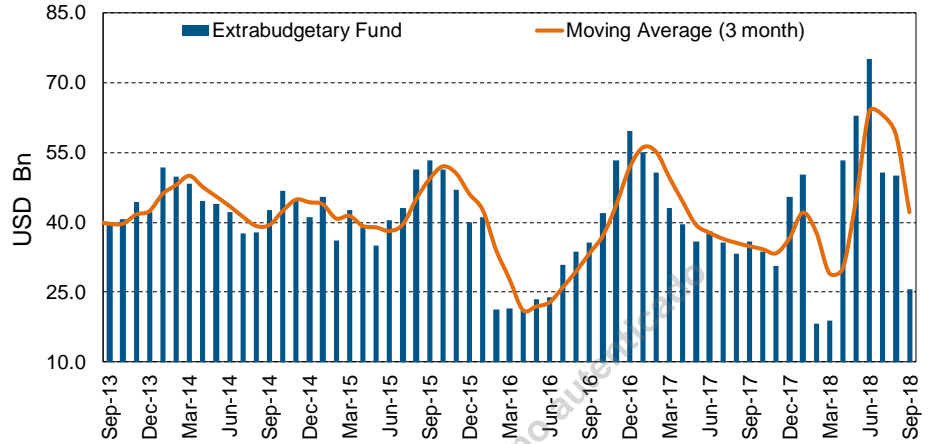
Sources: ONT and Ecoanalítica

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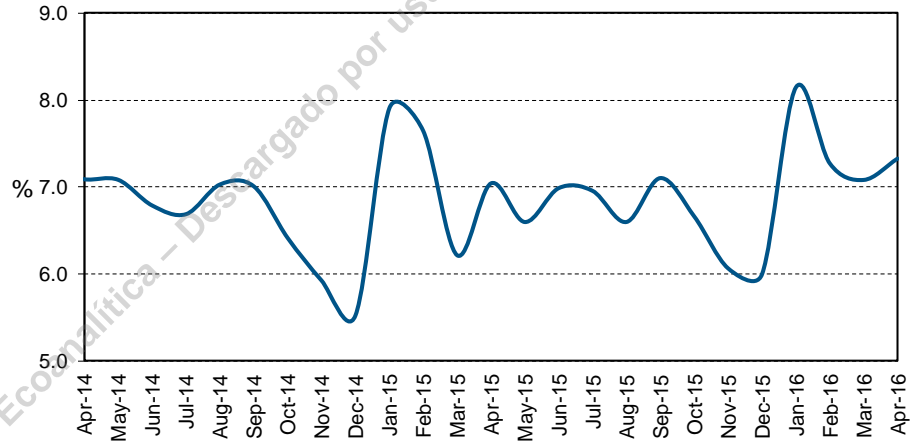
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



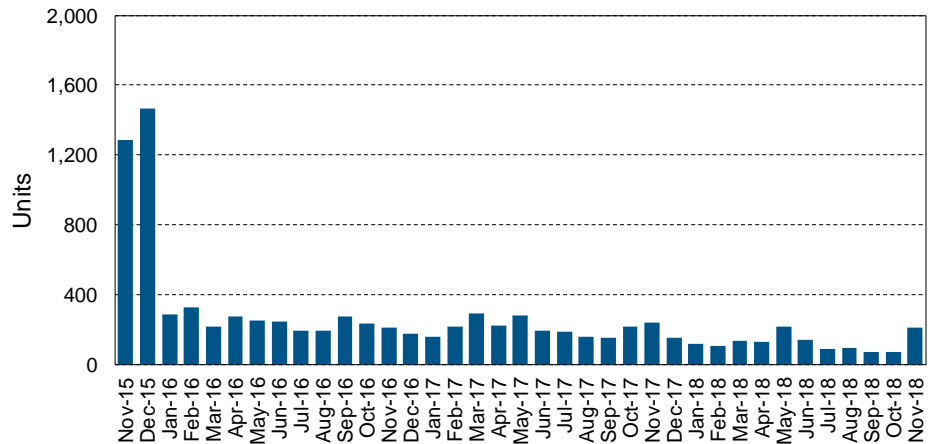
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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