

## Survival of the sharpest

It is now six years that the Venezuelan economy has been experiencing a recession and there is no sign of it letting up. The drop in production, added to spiraling prices and the government doing nothing to correct the problems with the economic policy, has led to negative expectations with regard to the future becoming widespread. This situation is not a new one for Venezuelan companies, households and other economic agents, already accustomed to the need to adapt to a context where the only guarantee is that things will get worse.

However, a consistently pessimistic outlook does not mean that the Venezuelan economic crisis is predictable when it comes to the details or that its dynamics are necessarily constant. On top of a status quo in which the main macroeconomic variables get worse, there are individual events, policies and interventions that can force economic agents to adjust their priorities and response strategies in the very short term.

### Old problems meet up with the new

At the start of 2019, projections for economic activity<sup>1</sup> indicated that domestic private production would post a cumulative contraction of 52.5% by year-end compared to 2013, with commerce and manufacturing posting cumulative drops of 88.3% and 71.4%, respectively. Those figures compare to a cumulative drop in consumption of 62.3% over the same period. The overall outlook is for the local market to get smaller, a dynamic amplified by migration<sup>2</sup> and impoverishment<sup>3</sup>. In other words, the target market of companies is shrinking and is made up of consumers with less purchasing power.

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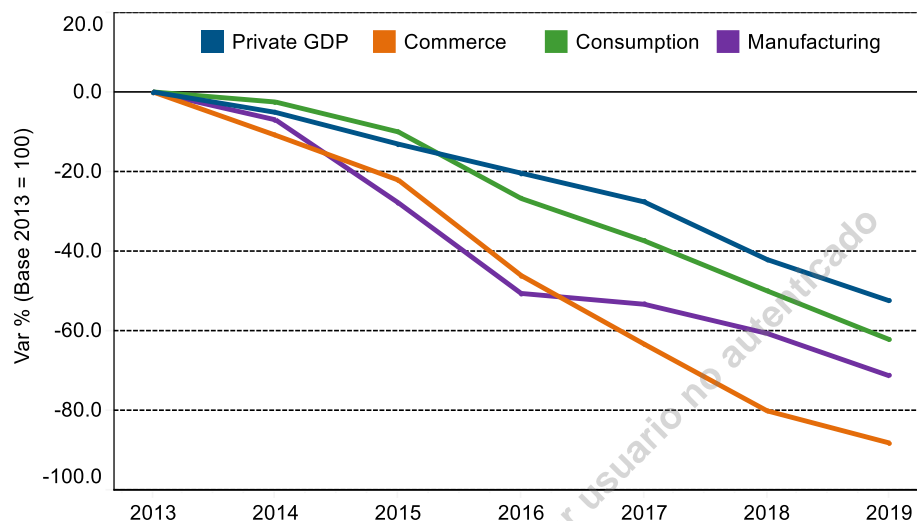
<sup>1</sup> Estimates calculated in December 2018

<sup>2</sup> The International Organization for Migration (IOM) estimates that the exodus of Venezuelans will increase to 5.6 million people.

<sup>3</sup> According to estimates by the National Living Conditions Survey (Encovi), multidimensional poverty will be 51.0% in 2018, for an increase of 10 percentage points compared to 2015.

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### Economic Activity Contraction



Sources: Ecoanalítica

During the first quarter of the year, added to this context of contraction there were three major shocks with sufficient impact on the conditions households and companies have to cope with to prompt the writing of this report. On the monetary and foreign exchange front, starting on January 29th<sup>4</sup>, we have the increase in the banking sector's legal reserve requirements in order to restrict money supply; on the external front, there are the sanctions imposed by the US Government on Venezuelan public agencies and entities that went into effect on January 28th; and on the real front, we have the mega nationwide power outs in the second and fourth weeks of March.

### The cost of a fleeting stabilization

On January 29 and in early February, the Central Bank of Venezuela hugely increased its use of the legal reserve as a monetary and foreign exchange policy instrument, raising the ordinary reserve to 51% and the marginal reserve to 100% with the explicit purpose of restricting credit granted via the financial system and anchoring the official exchange rate at VES 3,300/USD<sup>5</sup>. This resulted in a squeeze on the banks' availability

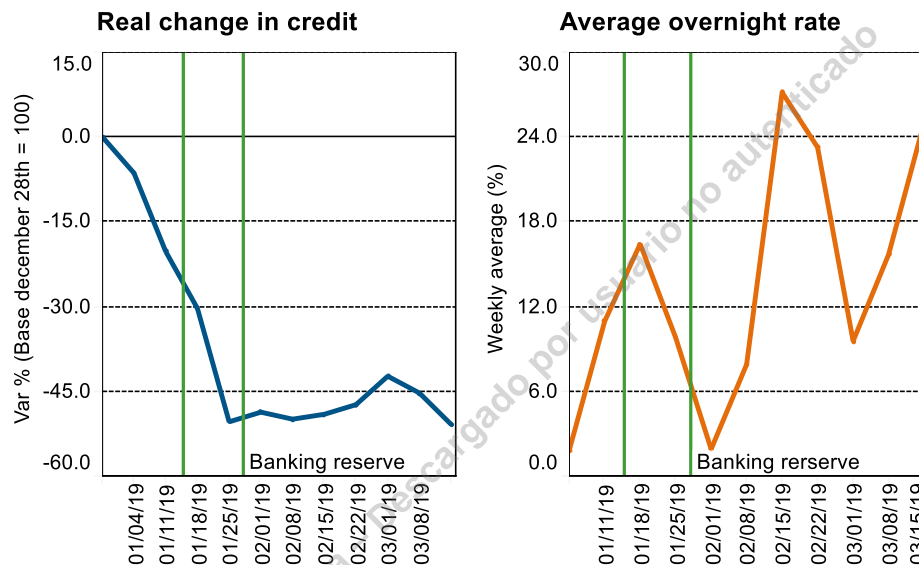
<sup>4</sup> Increases in the legal reserve requirements had already started to become a frequent monetary policy instrument in September 2018. For the purposes of analyzing the events in 2019, we consider the modifications to the legal reserve rates in January and February as one-off economic adjustments.

<sup>5</sup> Resolutions issued by the Central Bank of Venezuela's board of directors dated January 19, 2004, and January 19, 2005.

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of balances. On the one hand, there was a sharp drop in the loans portfolio, which shrank by 50.9% between December 28th and March 15; and on the other, the banks had insufficient liquidity to meet the legal reserve requirements, forcing them to resort to short-term borrowing, thus raising to overnight rate average by more than 9.0 percentage points over the same period.



Sources: BCV & Ecoanalítica

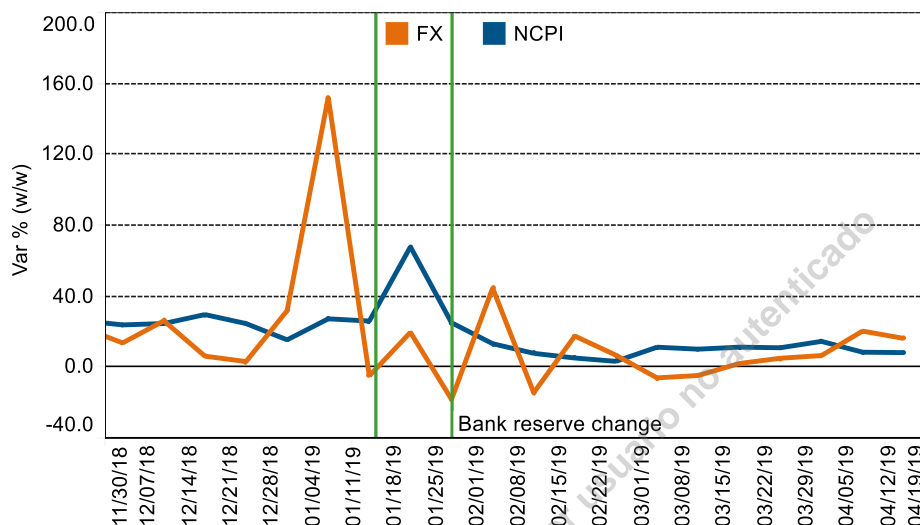
This operation effectively did away with loans for households and companies and resulted in a momentary slowdown in weekly inflation, which went from an historic high of 67.7%<sup>6</sup> in the week of January 25<sup>th</sup> to bottom out at 3.1% in the week of March 1<sup>st</sup>. In addition, the small transactions exchange rate experienced slight weekly fluctuations, staying within the range of VES 3,037.8/USD to VES 3,516.9/USD between February and March. This lag in the adjustment of the exchange rate contributed to its appreciation, thus reducing the purchasing power of the dollar in the Venezuelan economy.

<sup>6</sup> Compared to a sample of 68 weeks from January 2018.

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### Weekly inflation and changes in Parallele Exchange Rate



Source: Ecoanalítica

### Sanctioned and alone

The imposing of sanctions by the US Department of the Treasury on agencies and entities of the Venezuelan State coincided with an escalation of political conflict at home and on the external front, with the Venezuelan Government finding itself more and more isolated by both its trading partners and in terms of international recognition. On top of the first battery of sanctions, explained in Weekly Report No. 3 of 2019<sup>7</sup>, on March 22nd, a series of public banks such as Banesco, Banco de Venezuela and Banco Bicentenario were added to the list of Specially Designated Nationals (SDNs), followed by the Central Bank of Venezuela on April 4th. This measure prevents any individual or institution under US jurisdiction from interacting or having commercial relations with designated entities, except under the terms established in the general licenses<sup>8</sup> issued by the US Treasury Department's Office of Foreign Assets Control (OFAC).

Practically speaking, the series of sanctions seeks to restrict the flow of currency to the Venezuelan State by banning crude exports to the United States and the capacity of the main state-owned banks to operate with the international financial system. Given the

<sup>7</sup>Weekly Report N°3: Endgame.

<sup>8</sup> In particular licenses 15A, 17 and 19.

scope of the sanctions, having contact or associating with any of these entities is potentially toxic, particularly when the responsibility of demonstrating the applicability of exceptions established in the general licenses falls to the companies individually.

### The night is dark and full of terrors

The nationwide mega power outs on March 7th and 25th were events that resulted in an almost total stoppage of production. They interrupted all processes that rely on power provided by the national electricity grid. These power outs hit the entire production system two-fold: first by interrupting operations until power is restored; and then as a result of damage to capital goods and inventories that can be a total write-off or be rendered less effective in the future.

Quantifying the losses caused by the power outs is not an easy task, since it requires a broad analysis and diagnosis that essentially takes into account all sectors of the economy. Moreover, given the lack of information, the little that is available is taken from isolated evaluations performed by individual companies and business associations. Despite this lack of official information, the drop in PDVSA's production from 1,432 kb/d<sup>9</sup> to 960 kb/d (the biggest monthly drop since March 2018) and the loss of 73 aluminum reduction pots at Venalum and Alcasa serve to illustrate the extent of the damage.

An additional effect of the prolonged power outs is their impact on the means of payment. Given the impossibility of making payments in bolivars using electronic means or having easy access to cash, the transactional benefits<sup>10</sup> of using other currencies increase, thus speeding up a process of "spontaneous dollarization" and the abandonment of the bolivar.

Interruptions in the electricity service have been persistent in parts of Maracaibo and Punto Fijo, for example, long before the March mega power outs<sup>11</sup>. However, the announcement of a 30-day electricity rationing plan starting on April 1 and reports of failures<sup>12</sup> to keep to the plan indicate that the capacity to get the service back to normal

<sup>9</sup> According to direct sources consulted by OPEC

<sup>10</sup> This dynamic is explained in depth in Foreign Exchange Report No. 3 (2019) The debate is over: The dollarization emerged.

<sup>11</sup> Survey conducted by the Venezuelan Public Services Observatory (2018)

<sup>12</sup> *El Tiempo* (April 10, 2019). *Usuarios denunciaron incumplimiento del plan de administración de cargas en la zona norte de Anzoátegui.*

in the short term is very limited and that the government seems to be favoring the Capital at the expense of the rest of the country, without any guarantee that it will be able to maintain this scheme for any length of time.

### Adapting plans

At **Ecoanalítica** we consider that these three shocks have become key elements in the configuration of the situation that companies and households have to cope with. For that reason, we recommend updating existing strategies to adapt them to these new circumstances.

**Adapting to the market and to customers:** Swanson (1989)<sup>13</sup> establishes that strategies of obtaining bigger profits on the basis of increased sales are rendered ineffective in hyperinflationary processes. Venezuela is a case in point, given the reduction in the market of both the number of participants and their real purchasing power. This makes it imperative to precisely define the population segment that is to be targeted; more specifically, their payment capacities, frequency of transactions, and where on the scale of importance for the customers are the goods or services being offered. As purchasing power declines, economic agents, of any stratum, will modify their pattern of consumption to concentrate on what they consider a priority or essential.

**Optimization and control of internal processes and costs:** In hyperinflation, reducing costs is the surest way to maximize earnings or minimize losses. This becomes more relevant when the availability of external resources, such as credit, is restricted. In addition, costs are not only monetary they are also measured in terms of time. The collapse of public services such as electricity and water reduces the actual time companies have for performing activities that rely on existing infrastructure. The intermittent and unpredictable availability of these services makes it necessary to review essential activities and adapt them so that they can be carried out as completely as possible when the opportunity arises.

**Energy autonomy:** Complementing the previous recommendation, as far as is possible “ease” energy consumption for essential activities by means of backup systems, so increasing available room for maneuver in the event of failures in the system. Logistical and financial capacities of companies or households permitting, adapting equipment to extend the expected time energy will be available should be made a priority.

**Time horizons are the short term and the very short term:** Although the general trend of the main indicators are predictably unfavorable, calculating the magnitude and the ups-and-downs of said variables should be done meticulously in order to facilitate

<sup>13</sup>Swanson, G. (1989), The Hyperinflation Survival Guide, University of Arizona, Figgie International.

decision-making regarding the use of resources; and the nature of those decisions is liable to change rapidly. Days or weeks of relative foreign exchange stability or favorable variations in relative prices can be taken advantage of if responded to quickly enough and if it is realized that those windows of opportunity will not necessarily remain open for long.

**Clarity regarding the type of coverage given the country context:** Preserving real value is the main defense against the onslaughts of hyperinflation and recession. The most obvious coverage option is foreign currency, particularly when the exchange rate continues to be relatively appreciated<sup>14</sup>. Other recommended alternatives are intermediate, capital or durable goods, depending on the company's priorities. Harking back to the previous recommendation, coverage should not be conceived of as something static, but as something that has a potential use (sale) in the secondary market in the event of developments, if necessary.

**Exercising prudence in foreign currency transactions:** Foreign currency, in particular the dollar, not only serves as coverage but also as an instrument of payment in a growing number of interactions throughout the country. Although this practice will continue to expand, companies should take care when using foreign currency for day-to-day transactions and operations and should only use it when this represents real benefits and there are reasonable replenishment expectations. When carrying out operations in foreign currency, greater attention should be paid when they involve contact with the national public banking structure, particularly with those banks that are subject to sanctions. Even operations recognized as being legitimate under the general licenses, association with sanctioned entities could complicate dealings with agents abroad, which may operate on the side of caution in order to avoid problems with the US financial system.

### Taking the initiative given the (almost) inevitable

The aforementioned recommendations are responses to developments that have already occurred (such as the increase in the legal reserve requirements) or are starting to come into effect (such as the sanctions). However, given the reduced timeframes for taking decisions, it is wise to get ready for new impacts, even when they may have a high dose of *déjà vu*.

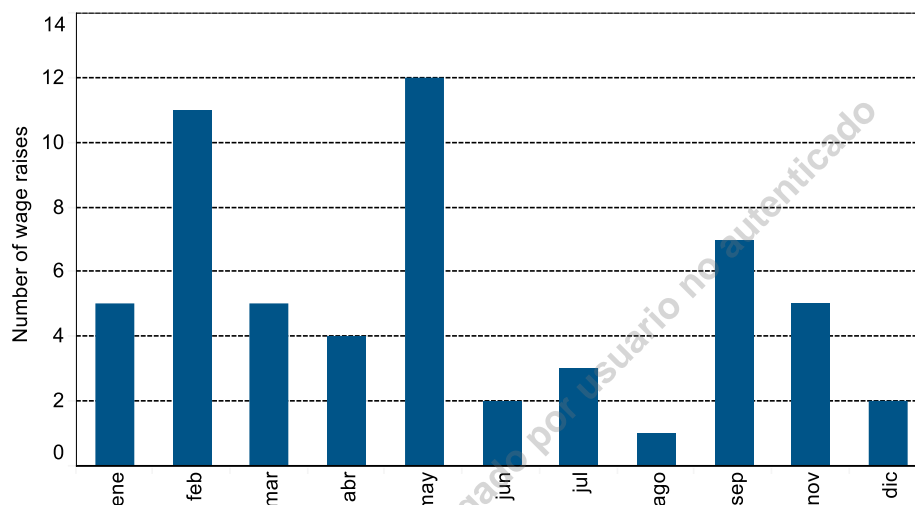
Between January 1998 and April 2019, the government decreed 59 increases in the minimum wage, 12 of which occurred in May. The announcement of wage increases on

<sup>14</sup> Even given the 16.8% depreciation during the April 5<sup>th</sup> week.

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Labor Day have been an annual occurrence since 2009, becoming one of the Venezuelan Government's most consistently predictable economic policy measures<sup>15</sup>.

### Waige raises per month [1999-2018]



Sources: Official Gazettes & Ecoalítica

Swanson (1989) recommends anticipating the policies the economic authorities will take and, within the scheme of expectations in the Venezuelan context, wage increases are accompanied by other announcements on economic matters, which, in turn, are accompanied by an increase in inflationary pressures. The months in which wage increases are announced and go into effect tend to have higher inflation than other months. Cases in point are the announcements of August 17, 2018, and January 15, 2019, which were accompanied by monthly inflation of 209.8% and 261.2%%, respectively.

The size of the next increase will depend on how the government evaluates its series of preferences. As explained in Weekly Reports Number 46 (2018)<sup>16</sup> and Number6 (2019)<sup>17</sup>, the authorities face a dilemma in terms of calculating the economic implications when it comes to raising wages. On the one hand, allowing remunerations in the public sector to lag behind becomes a mechanism for reducing the fiscal deficit

<sup>15</sup> In the event –possible but unlikely- that the minimum wage is not increased in May, that would bring the number of weeks without a wage increase to more than 15.

<sup>16</sup> Weekly Report N°46: “Moving heaven and earth was not enough to close the huge fiscal gap”.

<sup>17</sup> Weekly Report N°6: “Round 3: No rounds in the chamber”

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and reining in public spending given the budgetary restrictions, at the cost of an increase in poverty and a weakening of political support. On the other hand, raising wages increases the fiscal deficit, which has to be financed via monetary emission. This, added to expectation based on past experience of higher inflation, will result in a bigger increase in prices than would occur without a wage increase.

At the end of the day, the improvements in well-being will be almost imperceptible and short-lived. Only 14 of 40 wage increases decreed since 2009 meant improvements in real terms compared to the previous increase<sup>18</sup>; and since 2012 the cumulative wage increases each year have not beat inflation during the year in question.

This does not mean that the consequences of the wage increases are trivial. For many companies they are shocks to their cost structures that exceed their capacity to pay in the very short term, a situation that is made more difficult by the absence of credit. For that reason, we have added one more recommendation:

***Anticipate shocks and mitigate impacts:*** It is possible to anticipate recurrent policy measures and, even though timing and magnitude are arbitrary decisions taken by those who execute policy, it is possible to adapt a company's operating structure to such developments. In the case of increases in wages and remunerations, companies should weigh in the balance their financial capacity for coping with them and the potential loss of qualified personnel resulting from allowing wages to lag behind in real terms. To avoid problems, it would be wise to incorporate and adjust indexation and compensation schemes in line with the company's availabilities. Workers want to preserve their real income just as companies want to maintain their real earnings, and the minimum wage is rapidly losing its value, eroding its usefulness as a benchmark.

### Intelligence and instinct

Venezuela's economic environment is extremely demanding and punishes mistakes and indecision harshly. Coping with it means synchronizing a meticulously and rationally studied operating strategy with a prompt instinctual response to any danger. As in the animal kingdom, in an economy in crisis, the cost of dying once is infinitely higher than the cost of a thousand scares; so being alert and taking previsions are key to survival.

**Giorgio Cunto**

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<sup>18</sup> In other words, the nominal increase in the wage was more than cumulative inflation since the previous wage increase.

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week April	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VES/USD)	5,201.03	26.4	20.9
	1st Week April	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	32.1	-1.1	10.7
	2nd Week April	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	65.6	8.9	64.8
	2nd Week April	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.6	0.0	-12.4
	2nd Week April	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	4,800,535	6.7	92,279.2
Price of International Oil Baskets (USD/bl)			
	3rd Week April	Weekly chg. (%)	Annual chg. (%)
WTI	63.8	-0.2	-5.3
Brent	71.5	0.8	-1.4
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week April	Weekly chg. (%)	Annual chg. (%)
Weekly Average	65.8	0.1	7.7
Annual Average	58.6	0.8	-1.6

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

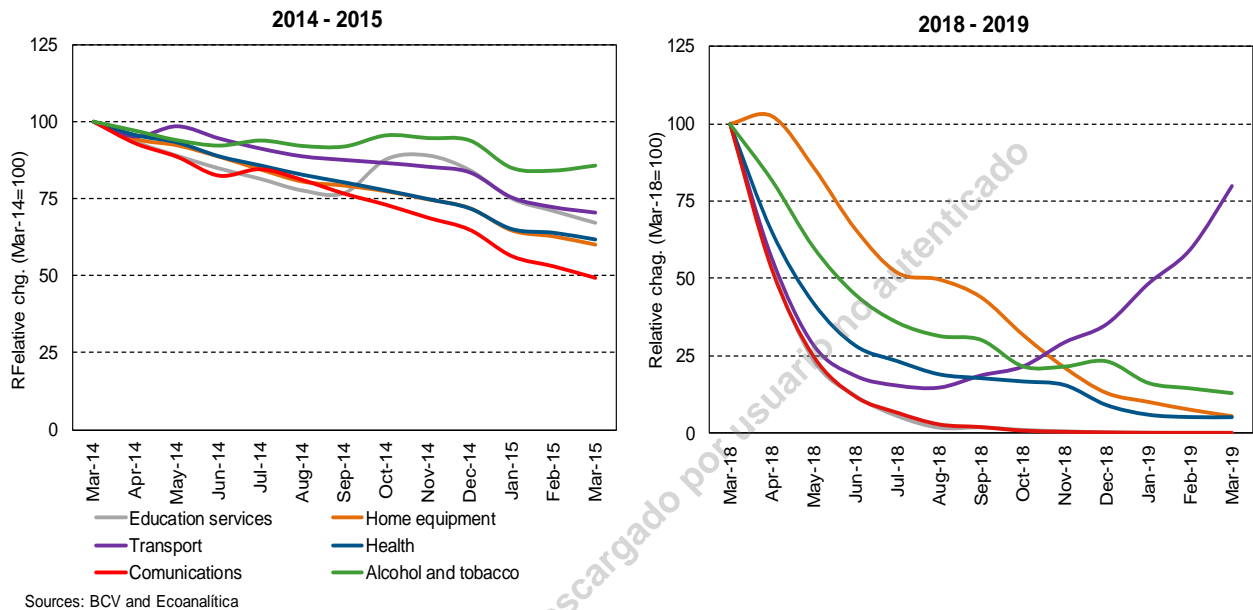
<sup>1</sup> Depreciation (+)/Appreciation (-)

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**GRAPH OF THE WEEK: “VENEZUELA: A DISTORTION OF RELATIVE PRICES”**

Relative prices to Foodstuff



Prices are economic variables with high information content. Besides revealing the preferences of agents and some features behind the production of goods and services, they also give us an idea of the value agents put on the products they acquire. By differing in nature and usage value, each good has a price that is different from the rest. So, systems that fix prices are not only based on the specific cost of each good, but also on the differences between products.

Based on this premise, buyers and sellers tend today attention to relative prices, or the cost of acquiring one good or service compared to the cost of another. In an environment where agents seek to decide how much to produce/consume at a minimal cost, these relative prices should indicate when to stop buying one good in order to buy another. However, in hyperinflation, this relationship is distorted due to the fact that people do not know what value to put on the goods they consume or produce in the middle of a disorderly and volatile growth in prices and where policymakers usually do not act in accordance with clear rules that give references for an orderly system of prices.

Venezuela is proof of this. The chart shows the variation in prices of education, transport, communications, health, household appliances, and economic beverages compared to the prices of food over two periods of time: one before hyperinflation in

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Venezuela (2014-2015) and the other after (2018-2019). It can be seen how between 2014 and 2015 the variations in prices of other groups of products and services compared to the variations in food prices remained at around 75% throughout the year. With the onset of hyperinflation, on the other hand, the variations in prices were distorted, not only because there was a bigger difference between one group and the next, but also because there was greater heterogeneity throughout the year. Whereas in the early months the variations in prices in Communications were around 50.0%, by March 2019 they were only 1.0%.

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## ECONOMIC TIPS

**Just in time.** Russia's finance minister, Anton Siluanov, reported that Venezuela paid Russia the interest on its debt on time. The Venezuelan Government had to pay Moscow more than USD 100 million in interest at the end of last month.

**Tax collection for March.** According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES42.9 billion were collected in taxes for the month of March. In nominal terms this means a 171,815% increase compared to the same month the previous year. Of this amount, VES10.8 billion came from Income Tax, and VES19.3 billion from the VAT.

**¿In real terms?** Deflected by NCPI growth, total revenue in March of 2019 compared with the same period last year decreased by 94.0%. The VAT decreased 94.1% in real terms and customs revenues also decreased 98.9%. Meanwhile, income tax revenues decreased 92.2% in real terms over the same period of 2018.

**De facto dollarization.** During an Open Session of Parliament held in Plaza Bolívar in Chacao, Deputy José Guerra said: *"The dollarization of the Venezuelan economy is happening; not by decree, it is occurring in practice."*

**A false raise.** Guerra also mentioned the possible increase in the minimum wage it is assumed Maduro will announce on May 1. *"A wage increase is expected on May 1 or perhaps before then, but we don't know how much it will be. However, if the wage is increased and inflation continues, we'll be back where we started,"* he said.

**Defending Citgo.** Venezuela's National Assembly expects to review the payment of interest on PDVSA bonds amounting to some USD 71 million next week. By making payment of the interest on PDVSA's 2020 bond, they are seeking to protect Citgo, PDVSA's affiliate in the United States and one of Venezuela's main assets abroad.

**Help from all sides, Part I.** The United States, several Latin American and European countries, and Japan are to promote a commercial financing fund of USD 10 billion to be put at the disposal of an eventual new government in Venezuela. The initiative emerged at a meeting of finance ministers from 19 countries to discuss the situation in Venezuela.

**Help from all sides, Part II.** The president of the World Bank, David Malpass, said that this multilateral agency was working to help with the grave humanitarian crisis in Venezuela as the situation develops.

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**DICOM Auction 135.** The last auction was the one held on April 24th, at which the resulting exchange rate was VES 5,201.9/USD or VES 5,823.0/EUR. That gives a devaluation of the bolivar against the dollar of 36.7% compared to the last auction in March and a devaluation of 20.9% compared to the same day last week.

**Everything for the private individuals.** The total amount awarded at this auction was USD 137,933 million. Companies did not receive any foreign currency, and private individuals were awarded all the auctions.

**The international reserves.** At the close of the week of April 16th, the international reserves came to USD 8.59 billion, down USD 3 million compared to the close of the previous week, this gives a drop of 12.4% year-on-year.

**Money supply.** As at April 24th the monetary base came to VES 3.96 trillion for a weekly increase of 10.2%, a cumulative increase for the year of 810.2%, and an increase year-on-year of 111,480%.

## OIL TIPS

**March production.** According to the monthly report issued by the Organization of Petroleum Exporting Countries (OPEC), Venezuela's oil production in March, based on information from primary sources, was 960,000 barrels a day (960 kb/d). This gives a drop of 472 kb/d compared to February (1.4 mb/d).

**Secondary sources.** However, secondary sources reported production of 732 kb/d, a difference of 228 kb/d compared to primary sources. This figure gives a drop of 289 kb/d from production in February, when secondary sources reported production of 1.0 mb/d.

**Fewer rigs.** According to Baker Hughes, the number of rigs operating in March came to 22, five fewer than in February when there were 27 rigs active.

**Evading the sanctions.** The news agency Reuters reports that Maduro has been evading US sanctions by funneling the cashflow from sales of Venezuelan oil through Rosneft, Russia's state-owned oil company. This means that Venezuela has become more dependent on Russia since the sanctions started.

**Everything goes through Russia.** According to documents found by Reuters, PDVSA passes the invoices for its oil sales to Rosneft. Rosneft then pays Venezuela at a

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discount on the sales price and collects the full amount from the buyer. What is more, Rosneft avoids the usual period of 30 to 90 days for completing the transaction.

**Change in the method of payment.** PDVSA requested Reliance Industries Ltd. of India, its biggest customer, to pay in cash or with the supply of products. According to data compiled by Reuters, Reliance imported 390.5 kb/d of Venezuelan crude in March, equivalent to 40% of the country's exports.

**Lies, pure lies.** Between the two of them, PDVSA and Reliance pay a surcharge of approximately 3% on the sales price. Rosneft's charges are negotiated on a case-by-case basis. However, Reliance stated that it was not conducting any transactions on those terms and that it was complying fully with the White House's sanctions.

**Everything's in order.** Reliance added that reports of cash payments being made to PDVSA via third parties were false. It also commented that it was in contact with the United States in order to be able to conduct its operations without violating any of the sanctions.

**Buy dear, sell cheap.** Reuters concludes its exclusive saying that Venezuela is paying high premiums to Rosneft for buying gasoline and diluents, apart from the discounts for Rosneft handling the payment of sales to third parties. An anonymous PDVSA source commented to the news agency that "*Rosneft is buying our oil for cheap and is selling us gasoline at a very high price in exchange. We always owe them money.*"

**Bye-bye, Repsol.** The Spanish oil company Repsol has suspended its payments of refined products in exchange for Venezuelan crude, according to Reuters. Previously, Repsol was skirting US sanctions, which establish that companies have up until April 28 to stop dealing with PDVSA.

**More sanctions?** US National Security Adviser John Bolton said that they are considering applying sanctions to non-US companies that are doing business with PDVSA.

**Citgo goes back to court...** Last week the appeal before a US court regarding the shares of Citgo, a refinery located in the United States belonging to Pdv Holdings, was resumed. Last year, a court ruled that the assets were, in fact, a possession of the Venezuelan State and also allowed Crystallex to hold an auction of the shares in Citgo controlled by the United States.

**...and Crystallex as well.** One important point of the case is that Pdv must pay Crystallex USD 400 million in December, although last month the judges hearing the

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case permitted deals between the bond holders and the company's board of directors appointed by Juan Guaidó.

**They want their money.** Crystallex said that they are waiting for their payment and the settlement of outstanding legal matters, regardless of who is in charge of Citgo's board of directors. Crystallex expects a response from Citgo, in its capacity as a Pdv affiliate, setting aside any political issues.

**Discussing the debt.** Reuters reports that Citgo's board of directors appointed by Guaidó is going to review the payment of interest on the bonds, which comes to around USD 71 million. The purpose of the review is to protect this Venezuelan oil asset. "We are working on taking a decision," said Guaidó.

**Come hell or high water.** He did not mention how the ad hoc board would make the payment or what funds it would use, given that it still does not control all of PDVSA's operations. After April 27, PDVSA has a 30-day grace period in which to pay. The board said that, with the approval of Congress, it would be possible to convince the US Treasury Department's Office of Foreign Assets Control (OFAC) to allow the payment.

## BUSINESS SECTOR TIPS

**Pensions.** The Venezuelan Social Security Institute (IVSS) paid the pension for May, which meant that the government deposited VES 18,000 in beneficiaries' accounts. However, and as has happened in the past three months, pensioners were not able to withdraw the entire amount via the cashier's window due to the persistent shortage of cash.

**A preventive measure.** Vice President of Communication, Tourism and Culture Jorge Rodríguez announced that a special work and school half day had been approved for April 22, 23 and 24 in order to "continue with the work and guarantee the consolidation of the electricity system," which he had said previously was "in better conditions."

**How can you enjoy leisure time without electricity?** The president of the Higher Tourism Council (Conseturismo), Jesús Irausquin, warned that it would not be possible to develop tourism without first guaranteeing adequate investment and stable public services.

**No power plants, no fiesta.** In a similar vein, the president of Cumana Commerce, Industry and Production Chamber, Jorge Najjar, said before Holy Week that Sucre state

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was not in a condition to receive tourists because they did not have power plants to offer an adequate electricity service.

**Now they're going after nickel.** The general manager of the Russian company TexLiBetmet, Serguei Steshenko, said that Russia was interested in exploiting nickel in Venezuela under the cooperation agreements between the two countries. The company has plans to invest in exploiting the deposit and modernizing the plant run by the Venezuelan Mining Corporation (CVM). Steshenko also said that they were considering the idea of articulating the mining production of Venezuela, Cuba and Guatemala.

**Who's going to want to open?** The vice president of the National Commerce and Services Council (Consecomercio), Felipe Capozzolo, said that, after traveling around the country on his campaign tour for the presidency of Consecomercio, he had determined that between 40% and 80% of the businesses had closed their doors in more than 20 states. He stressed that the lack of public services and security were the main reasons for this situation.

**Not even them.** National Assembly Deputy José Guerra revealed that the Central Bank of Venezuela had been closed for 28 business days with their basic functions suspended, even though the basic utilities that are necessary for people to work have been restored.

**Contingency plan for sometime in the future.** Interim President Juan Guaidó said that companies in the energy sector in Germany, Japan, Colombia and the United States have kept in contact with him to “*deal with the electricity crisis immediately.*”

**Only one tenth.** The former president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), Hiram Gaviria, said that agricultural activity in Venezuela was at around 10%. He added that production and rural employment were at 1940 levels, which meant that there would not be enough production to meet the food needs of the population.

**Emergency in a failed state.** The Zulia Chapter of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras Zulia) has warned that the “*bruta*” rationing had hit commerce and production hard to the point where only 25% of establishments were functioning.

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## WORLD ECONOMY TIPS

**A complete cycle?** Single-family home sales in the United States increased unexpectedly by 4.5% in March to an annualized 692,000 homes sold. This could be due to lower mortgage rates, rising wages, and the decision by the Federal Reserve to put a pause on borrowing costs.

**Looking for a director.** US President Donald Trump said that he would not nominate Herman Cain to occupy the post of director of the Federal Reserve because Cain had asked him not to.

**A matter of health.** Kevin Hassett, the chairman of the US Government's Council of Economic Advisers, used the analogy of the cases of scurvy in the 18<sup>th</sup> century to illustrate the present "tariff war" being waged between the United States and China. He claimed that tariffs, like lemons, help to treat the disease in that, while they do not eliminate the uncertainty of a cure, at least they eliminate the certainty of death.

**Looking for a boost.** Dubai's Department of Economic Development (DED) published its GDP growth projections. It expects economic activity to expand by 2.1% in 2019, by 3.8% in 2020, and by 2.8% in 2021. This is after Dubai grew by only 1.9% in 2018, when the International Monetary Fund had estimated growth of around 3.3%. The DED expects retail sales and tourism could influence growth.

**There's nothing to fear.** Official statistics revealed growth in China's economic activity in the first quarter of 2019. Growth of 6.4% compared to the first quarter of 2018, boosted by industrial production, has dispelled doubts held by analysts, who expected the Chinese economy to grow by "only" 6.3%, which would have been the lowest rate of growth in 27 years.

**Seeking to protect themselves.** Following Donald Trump's decision to put an end to the practice of suspending a section of the Helms-Burton Act, the European Union is apparently considering filing a possible complaint with the World Trade Organization (WTO) as well as a series of claims in European courts in a bid to protect the interests of European companies from possible lawsuits by US citizens.

**We're on the right track.** The president of the European Council, Donald Tusk, made a call to not give up the dream of revoking the withdrawal of the United Kingdom from the European Union, urging politicians not to allow themselves to be discouraged by the possible exhaustion resulting from the exit negotiations.

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**The start of something good?** European Union Trade Commissioner Cecilia Malmström announced that the European Union is ready to start negotiations with the United States in order to reach a trade agreement between the parties by the end of the year.

**The motion is under way.** The countries of the European Union have already approved two negotiating mandates that were well received by a wide majority. Only France voted against and only Belgium abstained. The European Council will start negotiations on two fronts: one to reduce tariffs on industrial products and the other to ensure that products comply with European Union and US standards.

**Giving way in the interests of the agreement.** According to sources consulted by Reuters, US negotiators have scaled down their demands regarding the reduction of China's industrial subsidies. This would be a step backwards for the United States in terms of the agreement's objectives.

**Let's see how they are doing in another ten years.** Turkey's unemployment rate went up to 14.7% between December and February, the highest for this indicator in nearly a decade.

## POLITICAL TIPS

**Another march, another opportunity.** During the Open Session on April 19, Interim President of Venezuela Juan Guaidó called a march for May 1 "to bring in those we need," claiming that this would be "the biggest march in Venezuela's entire history."

**Freedom Committees.** For the march, he announced that they were moving on to the next phase of "Operation Freedom," which consists of swearing in the Freedom Committees with the intention, according to Guaidó, of stepping up organization and mobilizations in the next few days.

**Marches for everything and for everyone.** Chavismo has called two "big mobilizations" for April 27 and May 1. The first is to celebrate Venezuela's "withdrawal" from the Organization of American States (OAS), as requested by Maduro two years ago.

**Yet another one captured, Part I.** Otoniel Ramos, a systems analyst at Corpoelec, is being held incommunicado at the headquarters of the General Military Counterintelligence Directorate (DGCIM) in Puerto Ordaz, Bolívar state, for, according

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to Nicolás Maduro, attacking Guri Hydroelectric Power Station and causing the longest power out in Venezuela's history.

**Yet another one captured, Part II.** However, engineers who are familiar with the matter have ruled out the thesis of sabotage and insist that it was corruption and lack of maintenance that caused the mega power outs in Venezuela.

**Some 500 million euros.** The Spanish judge, Juan Carlos Peinado, is investigating high-level officials in the Nicolás Maduro administration for laundering money from bribes paid by Petróleos de Venezuela, S.A. (PDVSA) in Spain. The investigators estimate that the individuals implicated in this corruption scandal could have laundered approximately EUR 500 million.

**A lost cause.** Guyana has requested the International Court of Justice to continue with the hearings to establish its jurisdiction in the border dispute with Venezuela, claiming that the Essequibo Decision is valid. On the other hand, the Venezuelan Government has said that it does not accept the intervention of the court in the case and has rejected its ruling.

**Ready to act.** Gustavo TarreBriceño, appointed by Guaidó, took Venezuela's seat at the Organization of American States (OAS) for the first time, a seat that will allow him to actively participate in this body by means of the vote.

**The Pope raises his voice.** In his Easter Sunday message, Pope Francis called on Venezuela's politicians to put an end to "*the social injustices, abuses, and violence*" in the country and he also called for a peaceful and negotiated solution in Nicaragua.

**A possibility.** The spokesperson of Russia's Foreign Ministry, Maria Zajarova, shared her concern regarding a military intervention by the United States in Venezuela. "The action of force by the United States in Venezuela is not an abstraction but a possible reality that is admitted to in Washington. We are hearing increasingly of the possibility of a scenario of the use of force against Venezuela," she said.

**It's everyone's responsibility.** Ecuador's President Lenin Moreno said that the member countries of the Organization of American States (OAS) should not remain unmoved or keep quiet in the face of the breakdown of democracy and the violation of human rights in Venezuela. He requested that the OAS apply the 1980 Roldós Doctrine to Venezuela and Nicaragua. This doctrine establishes that the defense of human rights should be a commitment and an obligation for all countries.

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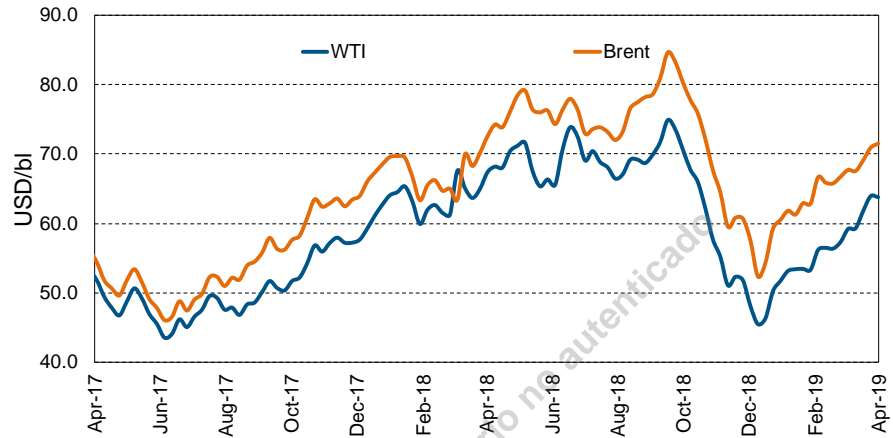
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**A busy day.** Colombia's Foreign Minister Carlos Holmes announced that Juan Guaidó's ambassadors would meet in Colombia on April 27 and that the Red Cross has already been contacted to hand over the humanitarian aid stored in Cucuta to Venezuela.

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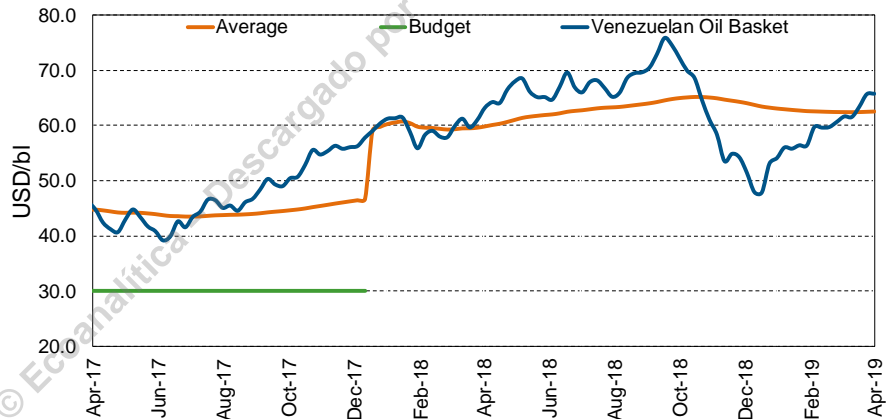
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



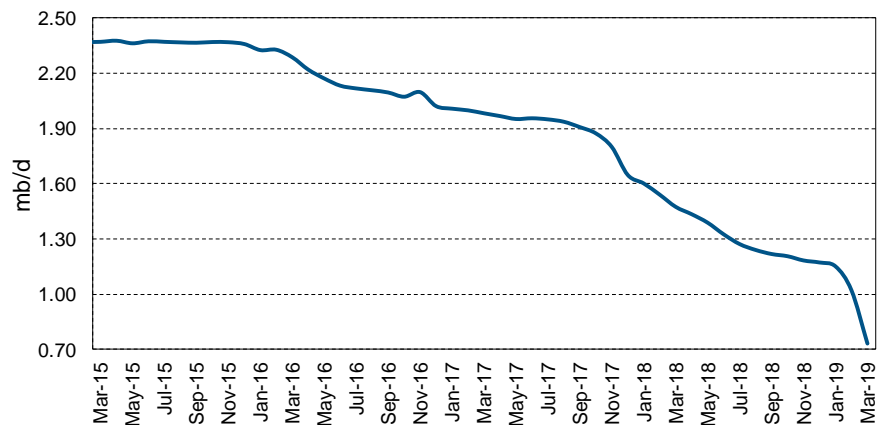
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**



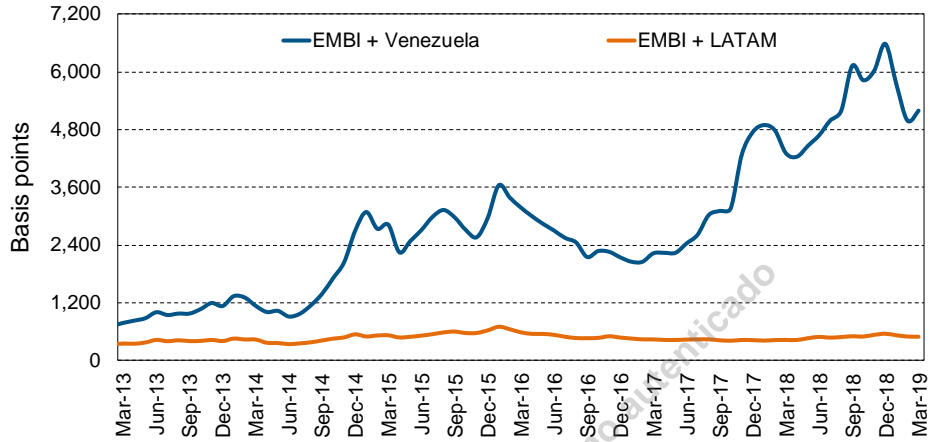
Sources: OPEC and Ecoanalítica

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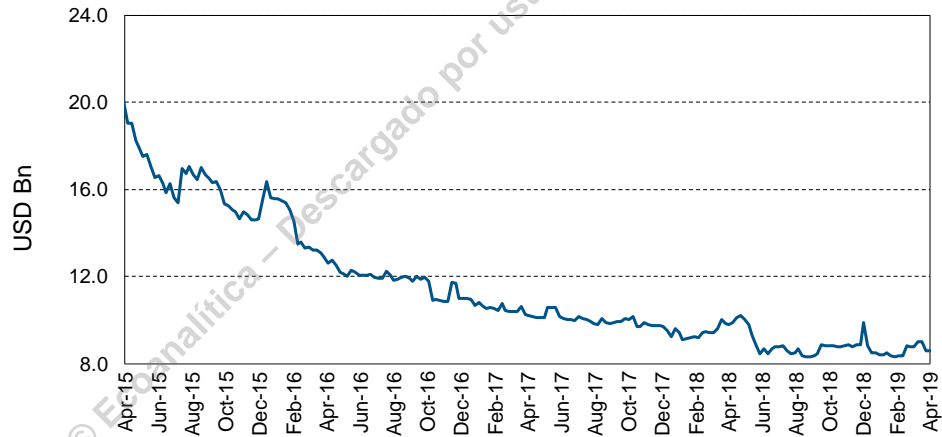
**ECONOMIC INDICATORS**

**EMBI**



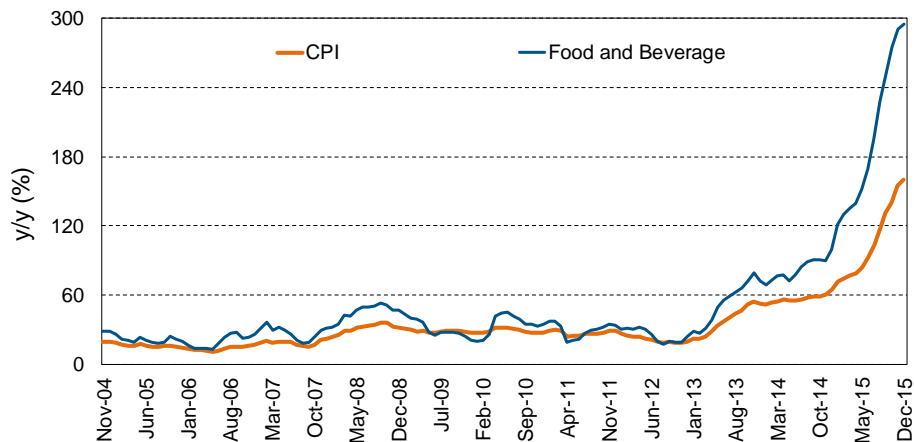
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

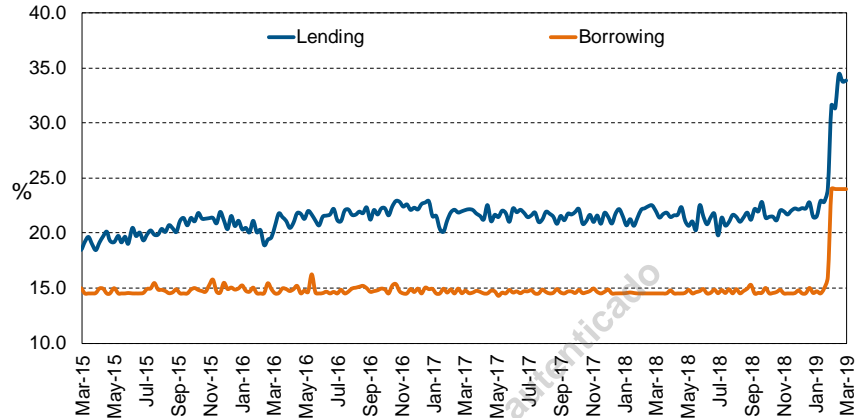
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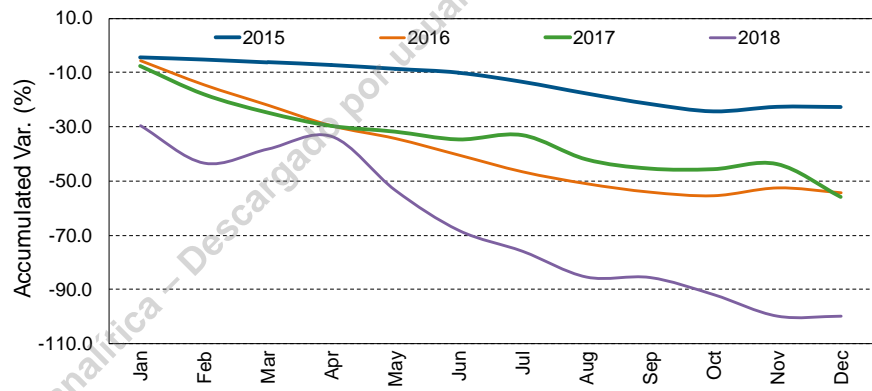
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



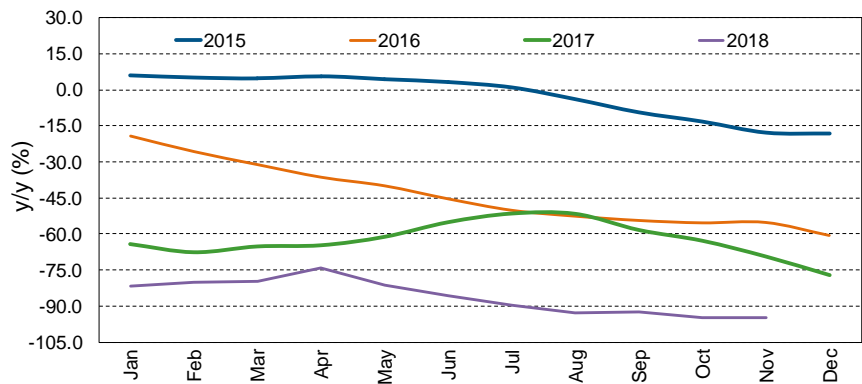
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

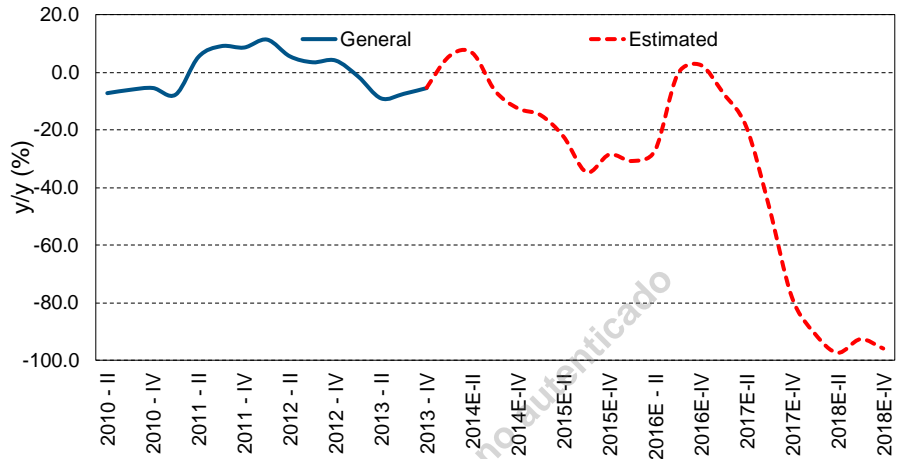
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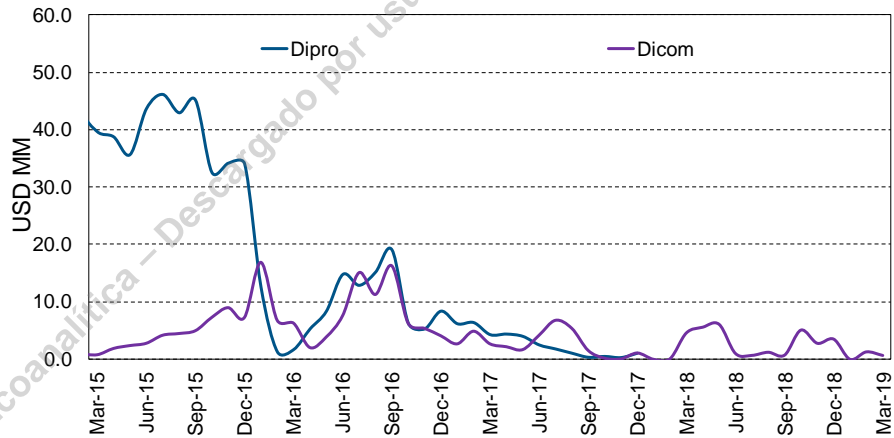
**ECONOMIC INDICATORS**

**Real Wage Index**



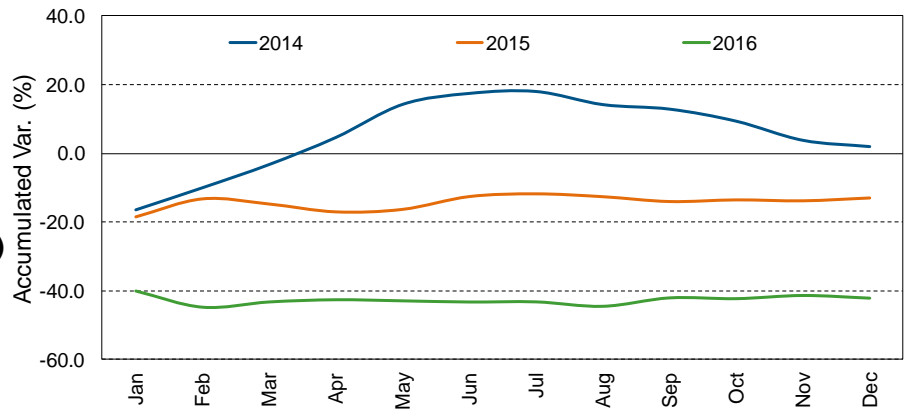
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

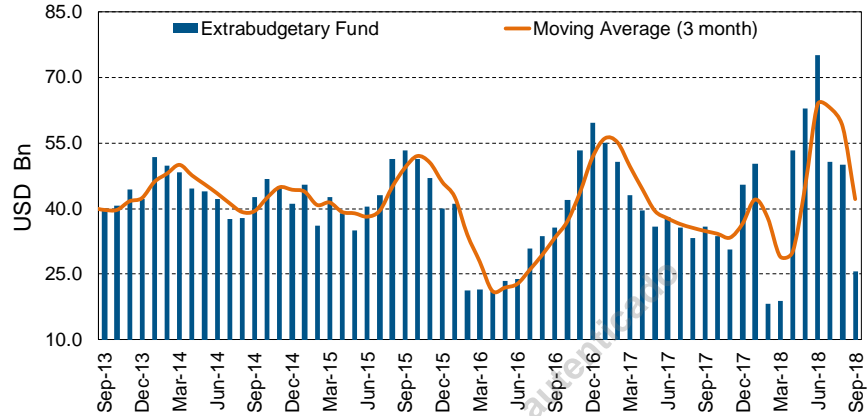
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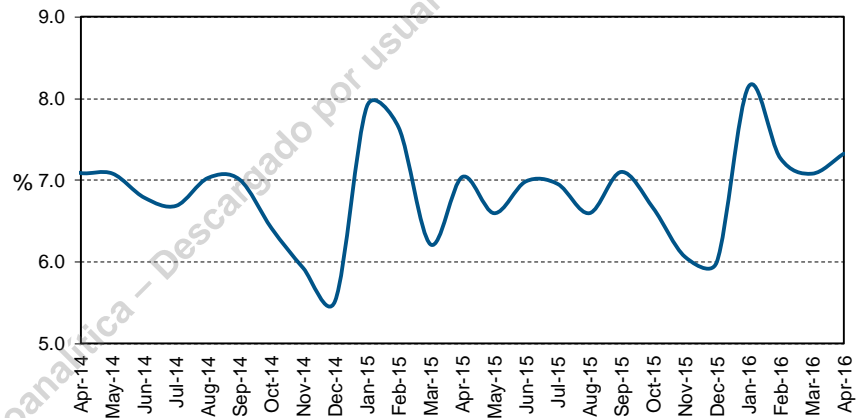
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



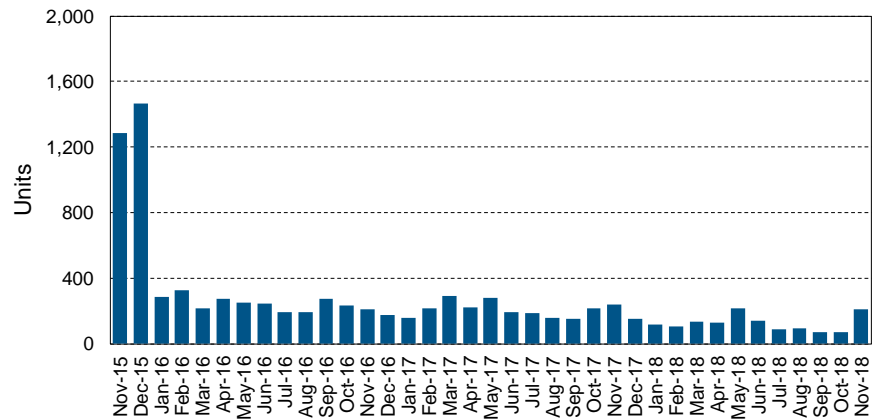
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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