

## The day after

Most of the many reports that have been published in the aftermath of the COVID-19 pandemic have focused on the impact of this event (and of official countermeasures) on the local economy in the short and medium term. In that sense, now that the almost immediate effects of the pandemic on the Venezuelan market are known and the end of the internal quarantine is near, the next step seems to be to describe the new reality that we will begin to face once the obligatory social distancing ceases.

Certainly, the havoc that the virus containment policies have left on the world economy has forced several countries to reformulate their actions and even to apply some flexibility in their compliance. In fact, nations heavily impacted by the pandemic, such as the United States, Spain and Italy, have initiated a progressive return to certain commercial and recreational activities and have pointed to higher unemployment or lower income generation by some companies (and their employees) as the reasons that have forced this early reactivation. However, fears of trying to return to normal activities in the midst of a pandemic because of a virus that has yet to be formally treated have not ceased<sup>1</sup>.

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<sup>1</sup> According to the World Health Organization, at least six requirements must be met before the gradual relaxation of quarantine for COVID-19: disease transmission has to be under control, health systems are able to detect every new case, make sure that risks are minimized in health and residential centers, schools, workplaces and other essential places have established preventive measures, the risk of importing new cases "can be managed" and an engaged community.

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Country	Ranking of infection / deceased <sup>1/</sup>	Relevant measures	Beginning date
USA	1 / 1	Plan of 4 phases of flexibility. Their implementation will depend on the decision of the Governors.	04-16-2020
Spain	2 / 4	Business reopening by appointment, limited capacity. Later, bars and restaurants with terrace areas may allow 50% of their occupation.	05-04-2020
China	11 / 11	Gradual reopening of schools, bars and restaurants.	03-24-2020
		Elimination of controls at doors of establishments.	04-09-2020
Italy	3 / 3	Reopening of: Factories and construction sites.	05-04-2020
		Retailers	05-18-2020
		Bars and restaurants	Beginning of June

<sup>1/</sup> as of May 6, according to the Center for Systems in Science and Engineering, Johns Hopkins University

In the case of the United States, the data do not seem to show that infection and death rates have fallen sufficiently to implement any relaxation of the containment policy. Therefore, these measures represent a clear sign of how the economic cost of the pandemic seems to weigh more (in terms of welfare) than the same human cost, even though the two are closely related. With more people infected, less availability of work and less consumption, the benefit of reopening would be less than expected in net terms.

A similar incentive arises in the Venezuelan case. The contraction of local activity that has already accumulated seven years (according to official figures), the weaknesses of public institutions, the greater dependence on commercial activities (mainly for the private sector) and the degree of informality of our local market already exposed the Venezuelan economy to higher costs linked to the pandemic and quarantine. Such imbalances are still reflected in the process of internal price formation and in the constant tensions in the local FX transactions, which, contrary to the common vision, continue to operate even in a paralyzed economy.

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In that sense, a confinement that already totals 53 days has had a strong impact on Venezuelan commercial activity and on the income of an important fraction of the local population. On the other hand, despite the lack of a significant monetary injection as expected, but with a larger uncertainty surrounding future official actions (particularly after the sharp decline in international oil prices), households and businesses continue to suffer from the effects of still-rising inflation and greater tensions in the exchange rate area, although now with fewer resources and hedging mechanisms to deal with them.

The urgency of ending the quarantine and reviving local economic activity seems to be of interest to most sectors, including the Central Government. In view of this possibility, what reality will we face in the coming weeks after the end of the quarantine? Without denying the complexity of answering such a question, it is possible to infer some elements that will be present in this new reality, based on recent events.

### What can be anticipated?

#### *Persistent restrictions on international trade (imports)*

The local import activity will be subject to the recovery of the global economy and how this will influence the local activity dependent on such inputs, that is, even if the reopening in Venezuela means a (slow) return of the national commercial activities, this will not necessarily be accompanied by the complete reactivation of the generation of goods in our commercial partners. With the exception of China (already in a partial reopening phase and with a practically paralyzed infection rate), the United States, Brazil and Europe (from which about 48.5% of our imports by 2019 came) still remain at the top of the infection curve at the global level. We are not only talking about the operations that supply the finished goods market, but also the operations that private manufacturing in Venezuela uses to produce locally.

In this regard, the vision of many experts points more to a gradual recovery of global markets after the partial mitigation of the pandemic and the cessation of social distancing policies. In this sense, a U-shaped recovery is more likely<sup>2</sup> than a V-shaped or W-shaped one. In other words, once the quarantine ceases, the return to previous levels will not be sudden, but will occur more rapidly in the final phases of such a recovery.

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<sup>2</sup> Based on last *FocusEconomic's* survey to a group of global economic consultants, by May 6<sup>th</sup>.

Estimated recoveries types after COVID-19



Source: Ecoanalítica.  
Note: the figures used are hypothetical.  
\* Percentage of respondents supporting such a scenario.

Behind this gradual recovery is the gradual reopening of markets and the way in which the ability of households and businesses to maintain "stable" consumption over time has been reduced. In more technical terms, the lack of precautionary savings (reduced during the quarantine in companies with low demand and in households that lost their jobs) will mean that the income shocks that people receive, once markets are opened up, will be insufficient for the same consumption path to be maintained.

Even in economies where pessimism about the future is greater (such as Venezuela), consumption may take time to react, as many households will be left waiting for higher incomes and will privilege hard currency savings. Also, to the extent that indebtedness in

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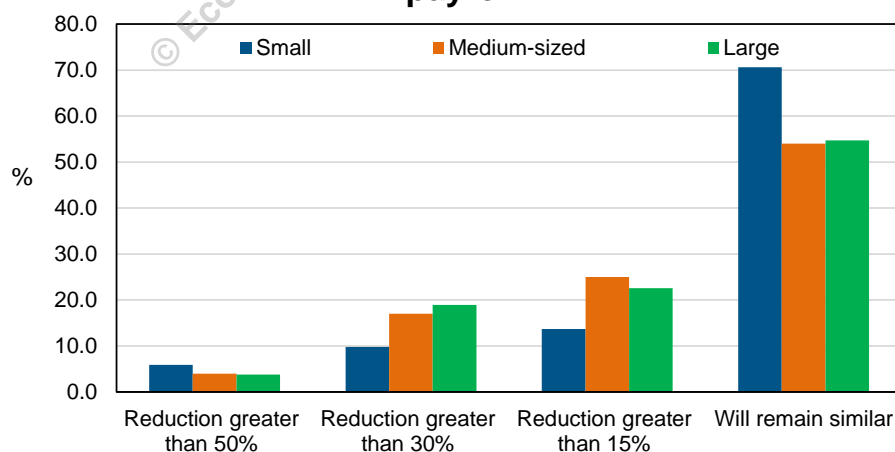
some global markets (to leverage recovery policies)<sup>3</sup> limits its fiscal space and imposes a greater burden on tax revenues, patterns in private inter-temporal consumption may be altered. In other words, a sort of Ricardian equivalence may emerge, where higher local spending leads to more savings in the present and more consumption in the future. Conclusion? The "hard" spending of households and businesses will be slow to react, even if the quarantine were to be lifted completely.

#### *A more rigid and informal labour market (with effects on consumption)*

After the end of the quarantine, companies around the world will face job losses due to mass layoffs or prolonged layoffs. In the Venezuelan case, even with the protection of the recent decree of labor immobility by the Executive<sup>4</sup> and with many companies (in particular, the service areas) that still maintain their operations with part of their personnel, many other labor-intensive businesses and industries have been forced to reduce their payroll or, what is the same in practical terms, minimize the working hours significantly, in the midst of a commercial activity that is being terminated.

The effects of such a standstill do not seem to be perceived as "transitory" for local entrepreneurs. A recent study of business conditions in the midst of the pandemic for various companies in Venezuela<sup>5</sup> shows that about 45.3% of the large firms evaluated (with at least 300 employees) revealed intentions to reduce their staff by at least 15%, in the short term.

#### Effect of the pandemic on the company's payroll



Sources: PGA Group and Ecoanalítica.

<sup>3</sup> Subject to multilateral support.

<sup>4</sup> Official Gazette No. 6520, March 23, 2020.

<sup>5</sup> Situation Report: Coronavirus, April 24, PGA Group)

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According to the same survey, 47% of this same group of companies are expected to face a reduction of at least 30% in the size (volume) of their operations, therefore, with the private company even with the income hangover that the quarantine meant, it is foreseeable that the flow of new employees (or the reactivation of previously dismissed equipment) will not be enough to recover the losses. Under such a framework, some firms' incentives to create new jobs or to apply more recurrent wage adjustments may be reduced, adding further rigidity to the local labor market. With other countries' migration policies still on hold as the reopening begins, exodus will no longer be an option for the newly unemployed or for those working in even more precarious conditions.

In Venezuela, the paralysis of the labor market is particularly relevant, not only because of its degree of informality, but also because of the dollarization itself. On the one hand, it is likely that a large part of the previously employed population has migrated to the informal sector as a means of subsistence during quarantine. This greater informality means that, in the future, a larger fraction of Venezuelans who are more exposed to macroeconomic imbalances will not have formal mechanisms for obtaining compensation for higher inflation or temporary layoffs.

On the other hand, to the extent that the pandemic has made it difficult for many companies to pay their employees in foreign currency, or the increase in the exchange rate during the quarantine has made it even more difficult for those workers with income in bolivars (such as those benefiting from direct transfers employed by the Executive) to acquire foreign currency for transactional purposes, many workers (formal and informal) will face the reopening with diminished purchasing power, even measured in dollars.

The discouragement of consumption may even be enhanced by the estimated lower flow of remittances (from USD 3,500 MM to USD 1,500 MM) that will enter Venezuela this year, due to the limitations that Venezuelan immigrants face in the economies where they operate. All these aspects suggest that local companies will face from the beginning a still lethargic demand for their "recovery".

Additionally, companies will face a labor force affected by the gasoline shortage. If we assume that public transport systems will be subject to limited use policies in the early stages of reopening, many local businesses and shops may face a "forced" layoff scheme due to the shortage of alternative means of transport or dependence on high-cost private transport systems due to lack of fuel.

Finally, after experimenting during the quarantine with new modes of work by replacing the face-to-face mode with distance work in certain areas, companies (particularly those operating in the service sector) will be able to create new schemes that are more goal-based and less time-based. On the other hand, with the suspension of face-to-face

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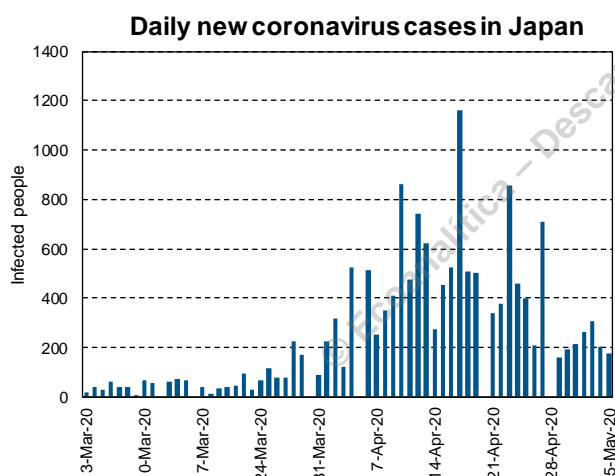
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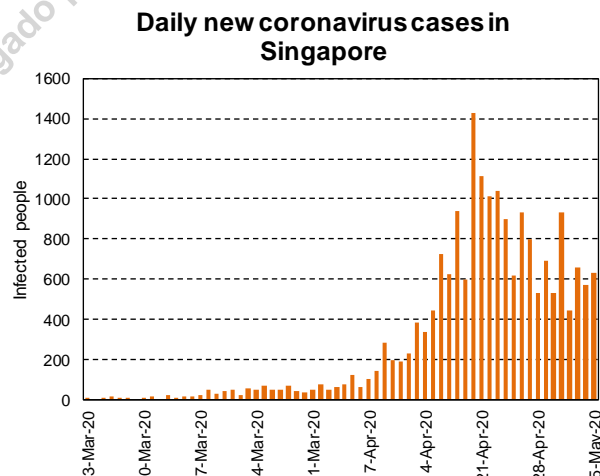
educational activities, many employees with school-age children face additional difficulties in physically attending to their jobs. Both elements will be key in redefining the typical working day (or in implementing mechanisms to avoid its alteration) and even in the new rigidities in hiring, in the form of a new process of selecting employees according to their exposure to such difficulties.

### *The fear of contagion*

It is foreseeable that, after the lifting of the quarantine, the fear of the spread of a non-fully eradicated virus will persist. This is not only an additional disincentive for certain companies to operate with regular pre-pandemic working hours, but also greater requirements for those companies that cannot use remote working (in a sustained manner) to adapt their operations to an "intra office" distancing scheme. This fear is completely justified. Cases such as the partial reopening in Singapore and Japan (after a "successful" containment of COVID-19) led to a sharp increase in the number of infections after reducing (totally or partially) the additional number of people affected.



Sources: Josh Hopkins University and Ecoanalítica.



Sources: Josh Hopkins University and Ecoanalítica.

This fear is reinforced by the limitations that Venezuela will still face at the fiscal and commercial level after the quarantine. The arrival of any coronavirus treatment in the country will take even longer than in other countries in the region; however, such concern may be less predictable in the less skilled or informal labor strata, to the extent that its loss of income has been more marked by low wages or an unstable income pattern.

The reluctance to accept quarantine (and the general fear of contagion) has another key background: the lack of medical care (or its high cost, in the case of private services). The collapse of the Venezuelan public health system is of greater concern to those

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without health insurance and afraid of contagion (and therefore more reluctant to return to their daily activities), while exposing those most in need of income recovery to further deterioration of their physical health (due to a higher risk of contagion), which could limit their ability to work in the future.

What will prevail in the end? With the high levels of poverty and inequality in Venezuela, it will unfortunately be common to see more people "forced" to value their physical stability less in order to face the adverse conditions still expected in the Venezuelan market. This does not rule out a more aggressive rebound in cases of COVID-19 infection in the country in the weeks following the reopening.

### *Persistent inflationary pressures and increasing asset shortages*

Due to the slow adjustment of oil activity in Venezuela, as a result of the partial lifting of the global quarantine, and with the US economic sanctions still in place on local oil and gold activity and on the Executive's debt capacity, the actions of the Treasury will continue to be limited. In this regard, within the framework of the recent measures announced by the Nicolás Maduro government to deal with the effects of the pandemic, the last few weeks have given us some indications of the position that the public sector could take in the coming months: discretionary increases in the supply of bolívares, slight restrictions on the food supply offered through the CLAP system and, so far, the use of price controls to curb a foreseeable acceleration in inflation.

Although the Executive appears to have reduced the monetary impact of the recently assumed payment of part of the private sector payroll<sup>6</sup> and direct bonuses, the Venezuelans' view on the management of the fiscal accounts in the medium term continues to deteriorate with each new announcement of salary adjustments, of payments of new bonds through the Patria system or with adverse shocks in the terms of trade (less future oil revenues) unrelated to the Government's actions.

Here, the adjustment variable continues to be the exchange rate, which will continue to grow after the quarantine as firms and households accelerate the acquisition of foreign currency as a hedge, generating higher inflationary pressures (additional to those caused by monetary imbalances resulting from potential government payments). This will occur as uncertainty about official adjustments increases with lower tax revenues (and even

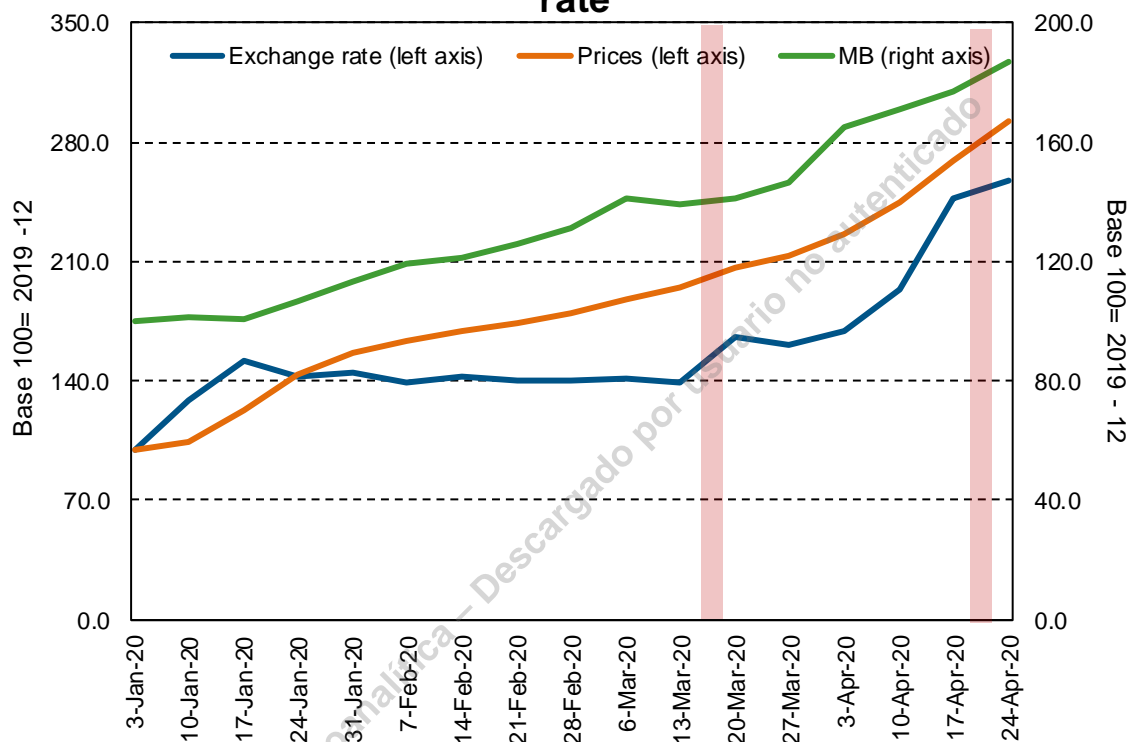
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<sup>6</sup> This fact seems to be influenced by the unwillingness of private companies to accept that the Government pays their payroll. In the same study on local companies mentioned above, it was found that about 63% of companies in Venezuela (regardless of their number of employees) would not make use of the new labor subsidy. Local companies seem to have little confidence in the regulator about compliance with such a policy (a fact reflected in the exchange rate hikes seen in recent weeks).

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with the possibility of a return to more aggressive distancing measures), and households and firms seek refuge in foreign currency.

### Monetary base, prices and non-official exchange rate



Sources: BCV and Ecoanalítica.

Note: The highlighted areas indicate the beginning of the quarantine and the first time that negative oil prices were registered, in that order.

With the difficulty of some companies and the government itself to feed the local foreign exchange market, exchange rate pressures can often reappear in the months following the reopening, and will ease only with the restrictions on foreign exchange demand as a result of inflation itself and the still existing restrictions on bank credit.

On the other hand, the price controls again used by the government, in the midst of less restricted monetary financing (compared to what was observed prior to the quarantine), will reinforce this more aggressive price growth scenario, even after the quarantine. As noted in the previous weekly report<sup>7</sup>, pricing could accelerate demand for certain goods even in poorer strata and thus exceed the capacity and incentives of producers of such goods.

<sup>7</sup> Weekly Report N°15: *The perfect storm: price controls during quarantine.*

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With import activity still in recovery at the beginning of the local reopening, the Venezuelan private company will not be able to accumulate inventories to reduce the gap between supply and demand of controlled goods. In other words, episodes of recurrent shortages will be observed for items in the basic basket. Certainly, this will impose greater valuation and caution in the management of merchandise inventories on the part of the private sector

It remains to be seen whether the Government will indeed impose this control scheme on a temporary or permanent basis. In the first case, the shortage of goods would not be so significant, as long as prices remain implicitly anchored to the (non-) official exchange rate, where price control leads exclusively to the expropriation of inventories of basic goods.

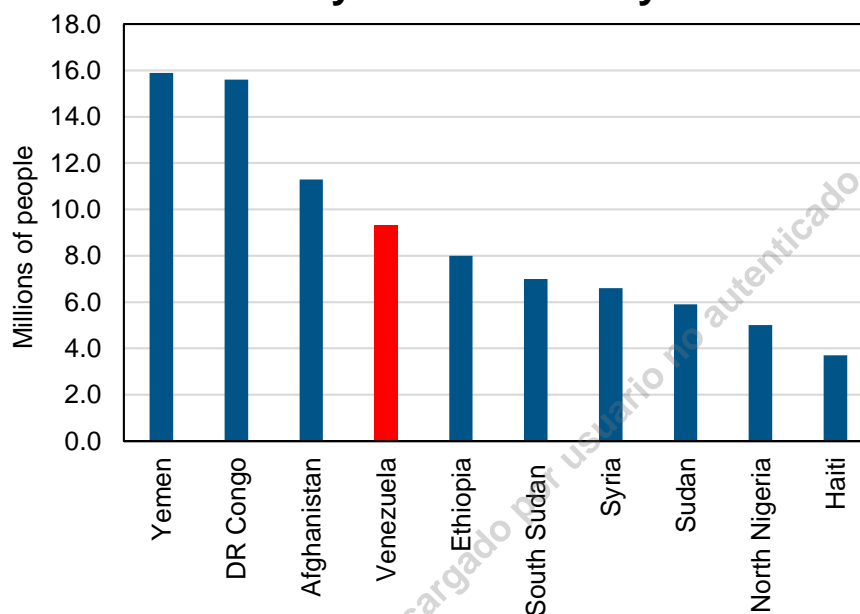
In this case, it is likely that the Government, once the quarantine is over, will resume its policy of delivering food through the CLAP system (according to the confiscated inventories) and reduce direct subsidies, partially eliminating one of the sources of higher inflation. If it becomes more permanent (especially if the number of people infected rises and the chances of a new quarantine increase), the control policy will clearly lead to a greater shortage of priority goods, which may be aggravated by the operational constraints imposed by the acute lack of gasoline. The latest UN forecasts of global famine levels following the passage of COVID-19 speak for themselves.

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### Worst-affected countries by food insecurity



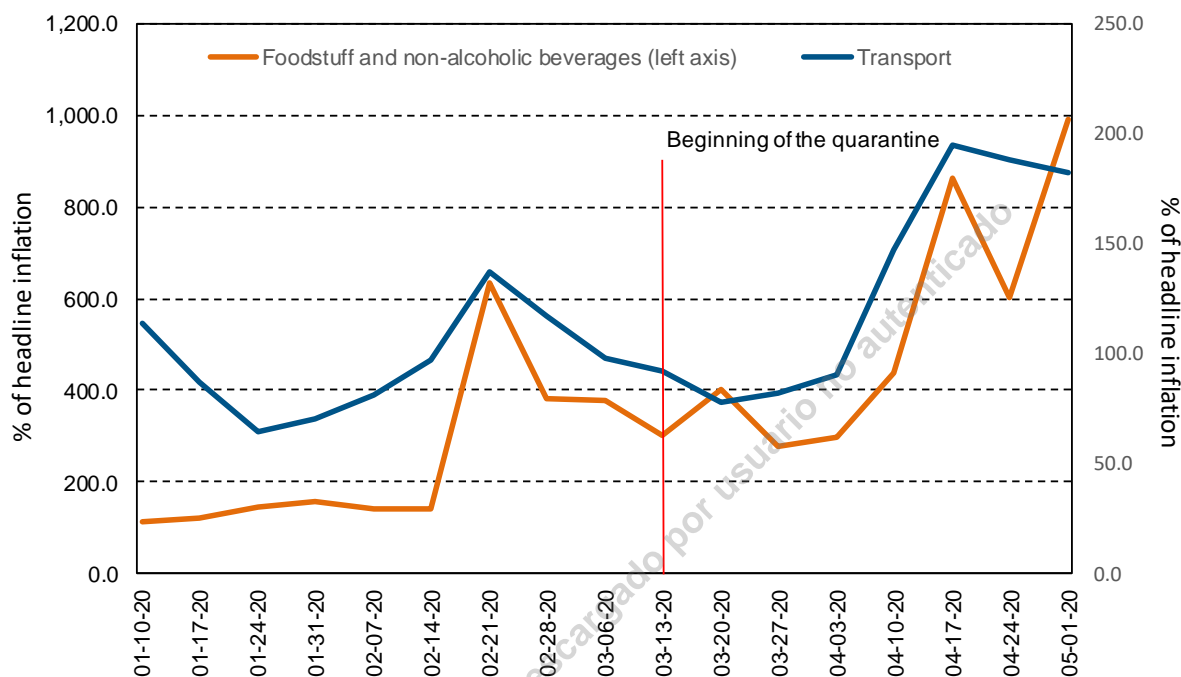
Sources: FSIN, GRFC, WFP 2020 and Ecoanalítica.

#### *Boom in informal gasoline markets and collapse of transport*

With the revival of commercial activities and the fear of a further collapse (if possible) of gasoline supply already evident in the midst of the quarantine, local demand for fuel could rise. This would lead to the emergence of new informal markets for the purchase of fuel and, therefore, greater pressures on the cost of goods, "intensive" factors of production and on freight; thus, the higher inflation seen in recent weeks in transport services may be replicated more strongly once the containment policy is lifted.

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### Monthly transport and foodstuff inflation



Source: Ecoanalítica.

While such shortage scenarios may be partially overlaid by supply shocks, both global constraints and those arising from US sanctions will continue to weigh on the Executive's ability to import gasoline.

On the other hand, as in previous years, gasoline shortage scenarios may be exacerbated by the government itself, to the extent that "unofficial" sales mechanisms serve to share revenues among the different factions of power (political and military). We would then speak of a scheme that moved from illegal gasoline trafficking in the country's border states to informal sales in the central states.

In any case, if the policy of fuel rationing continues and the automotive sector continues to be subject to import restrictions (as described above), the deterioration of public transport (still subject to regulated fares) and its effects on the mobilization of the labor force are more than to be expected when social distancing ceases. Even the mobilization of private vehicles may itself be seriously affected, which will impose even greater restrictions on the compliance of local employees with their working hours.

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*Further deterioration of public services and limited banking services:*

Coupled with the deterioration of transportation, Venezuelans may face a more pronounced collapse in several of the public services. The reactivation of commercial activity would mean an increase in the use of electricity services, leading to a greater collapse of the local system in the face of increased demand.

In addition, to the extent that many companies do not generate sufficient profits to cover all their operating expenses, the non-payment of telecommunications services (covered by the Executive's decree not to suspend them due to the moratorium) would cause a disincentive for their bidders to improve their quality in the short term. On the other hand, at least in the "initial" phases of the reopening, in which remote work continues to be a priority for some companies, the burden on the internet service may be high, threatening its quality.

Similarly, commercial and service activities may face a reduced supply of establishments for lease or the renewal of previously established contracts, given the disincentive imposed by the official prohibition on rent collection. This would adversely affect any private initiative to open new commercial premises, or to expand existing services as part of the strategy of certain companies to increase their revenue base

On the other hand, despite the "flexibilities" recently imposed on the legal reserve, the banking sector still seems to generate a large part of its income outside of the credit activity (commissions for electronic payments, for handling custody, among others). In this sense, it is likely that we are faced with a banking sector that, like the rest of the non-tradable area, will see its actions limited in the first weeks of reopening or will limit itself to providing attention exclusively to the activities that generate the highest commissions (and that, possibly, will not imply attention in agencies or will mean the minimum of commercial activity). Despite the optimism of the official narrative, the absence of credit will continue to be notable.

### Is it possible to think of an effective opening strategy?

*How many deaths and how much suffering are you willing to accept in order to return to what you want to be, or to some form of normality, sooner rather than later?*

Dr. Anthony Fauci

Member of President Donald Trump's COVID-19 task force.

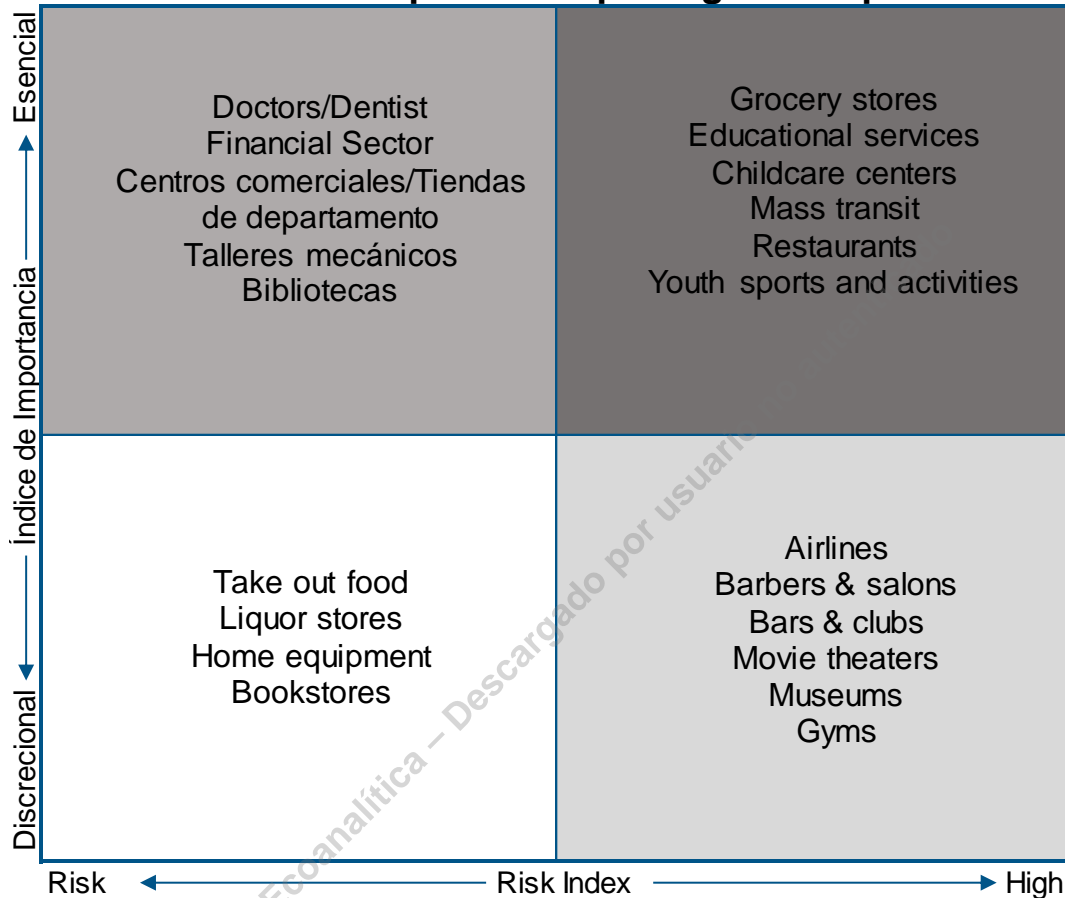
In the first instance, in the absence of a vaccine or treatment to isolate COVID-19, and with infection rates that raise the possibility of further "quarantines" in the future, no policy of openness can be described as successful. Thus, the effectiveness of the policy must be based on a return to the activities that are most relevant to Venezuelans today, with the minimum possible human and economic cost. Unfortunately, Venezuela stands out from the rest, not only because of the initial conditions under which the quarantine began, but also because of the official response to the pandemic, which is expected to bring greater difficulties in terms of goods and prices.

On the basis of the above, a problem that cuts across the aspects evaluated is the possibility of a greater shortage of gasoline and its impact on the transport of personnel and freight of goods in the early stages of reopening. In this regard, one possibility is to begin the reactivation by sector, starting exclusively with the most important commercial sectors such as the sale and distribution of food (including the activity of importing such goods<sup>8</sup>) and the medical services sector in the first weeks.

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<sup>8</sup> Following some warning calls from the private producers' associations, this policy of reactivating import activity could be reinforced with immediate improvements in the operational aspects of the acquisition and transfer of imported goods, as stated by representatives of the local private industry (consecomericio).

**Risk matrix for the partial reopening of the quarantine**



Sources: Deutsche Bank, C-SPACE and Ecoanalítica.

Note: The shaded areas indicate the level of "relevance", if it is darker it signals that the sector is more important and risky.

In addition to be a priority (but with a high risk due to the accumulation of people), this sector has benefited from official permission to continue operating while in quarantine and despite the failed plan to provide gasoline. In that sense, the first weeks of reopening should focus on improving the fuel supply scheme for employees and vehicles operating in such activities. In the following weeks, small shops, service providers and supply sales could be incorporated into the opening, leaving in a third phase the commercial offices operated, until now (and in the initial stages of the reopening), through teleworking.

In the last stage, high-risk sectors such as shopping centers, restaurants, cinemas, commercial banking, among others (some of which are still active through home delivery services) would be left. In the first phases of reactivation, the opening of the commercial

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sector could be limited by age range, trying to reduce contagion in high-risk groups. Another approach comes from resorting to rotating restriction by zones or municipalities for specific periods (two or three days), depending on the concentration of commercial areas.

The cessation of recreational activities could also be limited to days of rest in the first two to four weeks to reduce "unnecessary" crowding. This would implicitly limit the use of public transport systems as fewer employees are required to travel for operational activities in each week.

The reopening scheme could be managed with ten to fifteen days gaps between "stages", depending on the known incubation and emergence periods of the virus and its symptoms.

Given the relevance of the issue, such a plan depends on prior consultation between regulators and key private actors in each sector. In any case, before thinking about stopping the local containment policies, the initial aspect to be discussed within the design of these plans would be: are we ready for a gradual opening? And if so, what will be the cost for Venezuelans? Are we willing to assume it?

**Luis Arturo Bárcenas**

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# WEEKLY REPORT

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week May	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Boards (VES/USD) <sup>2</sup>	171,874.55	-2.7	-2.7
	4th Week March	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	16.7	-18.7	-13.7
	1st Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	134.5	53.0	62.1
	5th Week April	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.4	1.6	-19.9
	4th Week April	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	85,263,263	4.8	1,539.2
Price of International Oil Baskets (USD/bl)			
	5th Week April	Weekly chg. (%)	Annual chg. (%)
WTI	15.2	-26.2	-76.0
Brent	21.9	-24.9	-69.5
Price of the Venezuelan oil basket (USD/bl)			
	5th Week April	Weekly chg. (%)	Annual chg. (%)
Weekly Average	9.7	-3.1	-85.3
Annual Average	35.0	-4.1	-41.2

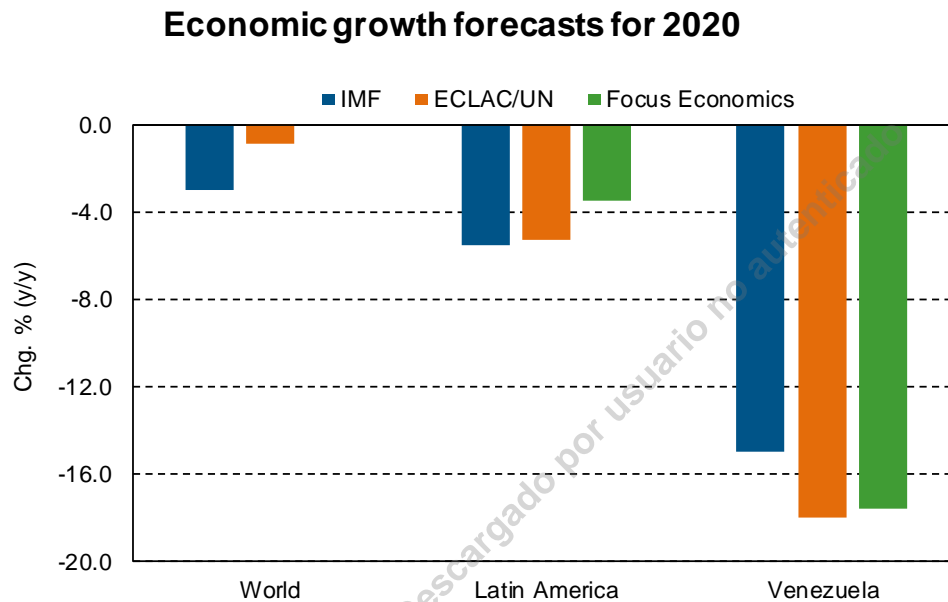
Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

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

<sup>2</sup> FX Borads' average exchange rate

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**CHART OF THE WEEK: “WHEN WILL 2020 END?”**


Sources: IMF, ECLAC, UN, Focus Economics and Ecoanalítica.

The coronavirus took the whole world by surprise. In response, governments, companies and organizations have had to change their expectations for the coming years, having to consider a totally different world than the one foreseen a few months ago, given the new political, social and economic dynamics.

In the economic sphere, organizations such as the International Monetary Fund (IMF), the United Nations Economic Commission for Latin America (ECLAC) and *Focus Economics* have drastically changed their economic growth projections for the next two years. All three organizations forecast a contraction of the world economy by 2020 averaging 1.3%. For the region, the organizations agree that Latin America will be among the hardest hit by the pandemic and project falls of 5.5% (IMF), 5.3% (ECLAC) and 3.5% (*Focus Economics*). Under these metrics, Venezuela is expected to have the worst performance in the region with a fall of 15.0% (IMF) and 18.0% (ECLAC).

These projections were more than predictable. The coronavirus has deteriorated global production chains, which is likely to have affected some trade relationships on a permanent basis. Even though a gradual recovery can be expected once the quarantine

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is over, the speed of recovery will differ from country to country, and international trade will take even longer to return to "normal".

Considering this, the challenge that Venezuela faces is especially difficult, since it does not depend only on its own recovery (already difficult per se), but on the heterogeneous recovery of the rest of the world so that oil demand is reestablished and it resumes the exchange with its main commercial partners. Even with this, it would only be possible to partially mitigate the deterioration of the local economy which, by 2021, would be presenting its eighth consecutive year of contraction of the GDP.

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**ECONOMIC TIPS**

**IMF projections for Venezuela.** The International Monetary Fund's (IMF) World Economic Outlook report published additional estimates of Venezuela's GDP, inflation and current account for 2020 and 2021.

**Future GDP.** First, in addition to ratifying the 15.0% drop in domestic production for 2020, the IMF projects a 5.0% contraction for 2021, which would represent the eighth consecutive year of economic contraction in Venezuela.

**We'll be on top of it.** Annual inflation projections for both years were 15,000%, 4,906 percentage points (pp) lower than the figure forecast for 2019. Similarly, Venezuela would continue to be the country with the highest inflation in the world.

**The surplus (I) is maintained.** With respect to the current account balance, the IMF projects that the current account surplus will be maintained during 2020 and 2021, i.e., there will be more exports and income than imports and payments abroad. However, this surplus will be lower as a percentage of GDP, while in 2019 it represented 9.8% of output, by 2020 and 2021 it is estimated to be 2.4% and 3.4%, respectively.

**Focus Economics' point of view.** *Focus Economics* projected similar trends in its April report *Latin Focus*, in which it published projections of GDP, inflation, fiscal balance and current account for this year and next.

**A less dramatic 2021.** The report projects a cumulative fall of 17.6% in gross product by 2020. For the following year, the organization expects a contraction of 1.2%, 16.4 pp less than what would be observed this year.

**A more "moderate" inflation.** According to *Focus Economics*, annual accumulated inflation for 2020 and 2021 will be 4.030% and 2.512%, respectively. A figure much lower than the inflation estimated by the organization for 2019 (9.585%), and much lower than the IMF's projection.

**They'll keep spending more than they're collecting.** The report also notes that Venezuela will maintain the highest fiscal deficit (as a percentage of GDP) in the region and indicates that the deficits will represent 23.3% and 17.5% of GDP in 2020 and 2021, respectively.

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**The surplus is maintained (II).** Finally, *Focus Economics*, like the IMF, projects that Venezuela will maintain a current account surplus during the two years indicated. This year it represents 3.2% of GDP and the next 4.8%.

**IMF Balance Sheet and Latin Focus.** Although the magnitudes between the two projections vary, the trends indicated are similar. In both cases, Venezuela will be one of the countries most affected by the pandemic, whose negative effects on the domestic economy will be felt over the next two years.

**Fewer and fewer reservations.** For the week of May 1, international reserves closed at USD 6,432 billion, a drop of 1.6% from the previous week's close (April 24). At a year-on-year level, the amount represents a decrease of 19.9%.

**Money tables.** As of May 6, the average rate for money desks was VES 171,875/USD. This represents a 2.7% depreciation from last week.

**Liquids?** Liquidity was VES 85,263,263 million for the week of April 24, a variation of 4.8% in nominal terms from the previous week (April 17) and 1,539.2% from last year.

## OIL TIPS

**April exports.** According to Refinitiv Eikon data reviewed by Reuters, Venezuela exported 848.5 kb/d in April, distributed in 31 shipments. This would represent a slight increase over the figures observed in March (814 kb/d).

**Initial overview of production.** According to documents reviewed by Reuters, Venezuelan oil production is averaging 653 kb/d. He noted that in the Orinoco Oil Belt production fell by almost 100 kb/d to 307 kb/d earlier this month. The cause would be in a series of fires in the Morichal Operating Center that forced to stop production.

**Reform plan.** A document reviewed by Reuters revealed that PDVSA would be considering a deep restructuring of its operations. The plan to transfer part of its current activities to private companies is particularly noteworthy. The possibility of changing the color of the logo from red to black, in order to break with the government and attract foreign investment, is also being discussed.

**Reform plan from the other side.** At the same time, deputy Luis Stefanelli of the National Assembly's Finance Committee presented a project for new oil legislation. This would be focused on promoting greater private investment and would propose dismantling the state

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model; in addition, he proposed a reduction in royalties, which would allow private companies to operate in their own fields, instead of doing so only in joint ventures with PDVSA.

**Something new and more open.** Stefanelli added that he would suggest creating an independent regulator to auction off some PDVSA fields. To do this, several articles of the current law would have to be changed to allow private control of joint ventures. These changes would have to be approved by the Executive.

**When nature opposes it.** A fire occurred in the state of Monagas, in the Morichal Operation Center, which affected the operation of the Petrocarabobo, Petroindependencia and Petroinvensa projects. It was known that the first two had to stop their activity.

**When nature opposes (II).** According to a worker who spoke on condition of anonymity with Reuters, this type of accident occurs because of the poor state of the plants and the absence of maintenance and prevention activities.

**When nature opposes (III).** According to Eudis Girot, the executive director of the oil foundation (FUTPV), the fire occurred in a sewage pit, which affected the electrical system and distribution lines of the Orinoco Oil Belt.

**Following traces.** Mike Pompeo, the U.S. Secretary of State, stated that the U.S. Department of State and Treasury requested support from the Government of Mexico to investigate two Mexican companies that would have exchanged with PDVSA crude oil - for resale in the Asian market- for water tanks and corn.

**Following traces (II).** The reason for the investigation of these operations would be that they were carried out in the middle of 2019, after the US imposed sanctions on PDVSA. Although Pompeo did not reveal which companies were being investigated, a senior U.S. government official told Reuters - on condition of anonymity - that these would be Mexican-based Libre Abordo and Schlager Business Group. Indeed, a shipment of water tanks signed by both companies arrived in Venezuela late last month.

**No fear of extensions.** Mike Wirth, executive president of Chevron Corp, said the company has no plans to stop operations or leave Venezuela, even though the U.S. government has banned drilling or transporting Venezuelan oil. Wirth said they will follow government regulations, but for now they only plan to reduce their activities.

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**BUSINESS SECTOR TIPS**

**Everyone's ready.** Nicolás Maduro reported that during the next three months the 2130 Workers' Productive Councils (CPT) must be 100% ready. Maduro stressed that the situation by the coronavirus pandemic represents an opportunity to develop a new economic model of production, distribution and marketing.

**"Cut what needs to be cut."** Maduro said that Tareck El Aissami, Sector Vice President of the Economic Area of the scheme, is responsible for ensuring production and that the product reaches the families.

**Threatening anyone who doesn't comply.** Similarly, Maduro urged all premises to respect fair prices and stated that if they do not do so, they will have to appear before the Prosecutor's Office. For this reason, he urged the population to denounce to the police or the military any premises that disobeyed price regulation.

**No variation.** On March 29, the Patria system began to allocate the Family Economy bonus, which is independent of the Hogares de la Patria bonus and amounts to VES 125,000. Although it was announced that, like the minimum wage, the amounts of the bonds will increase, this remained constant since it corresponds to the month of April and the new salary came into effect on May 1.

**On his first appearance.** Likewise, between May 4 and May 7, the Special Bond against the Economic War was issued, also in the Patria system, in the amount of VES 300,000, benefiting only pensioners.

**They want to come back.** The Venezuelan Confederation of Industrialists (Conindustria) requested through a statement that the progressive reactivation of business activity be initiated. In it, it specifies that the damage to the productive, commercial and industrial sectors is of "*incalculable dimensions*".

**Dragging out trouble.** The Confederation explained that this is because the negative effects of the pandemic added to the problems that the sector had been presenting given the political and economic situation and noted that it was operating at 21% of its installed capacity at the beginning of the year and had closed approximately 400 establishments during 2019.

**Big consequences.** Conindustria said it is urgent to reverse this situation in order to mitigate the consequences and protect thousands of Venezuelans who are employed in

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the private sector, with the aim of preventing the aggravation of "the situation of hunger, need and calamity" that a high percentage of the population is going through.

**Possible date.** Humberto Figuera, executive president of the Venezuelan Airline Association, reported that in Latin America most countries have raised the possibility that the "open skies closure" will be completed by the end of July.

**Heavy turbulence.** However, the representative said that there will not be many passengers when flights are reactivated and indicated that, because of this situation, more than 600 tickets have been lost, so he stressed that airlines and tourism have been the most affected by the limitations caused by the coronavirus pandemic

**No celebration (I).** Carlos Salazar, general coordinator of the National Trade Union Coalition, which groups more than 80 organizations, indicated that there is nothing to celebrate on Workers' Day and that they will organize protests to show their discontent. However, due to the quarantine, these protests will be held through social networks and on the windows or balconies of the house.

**No celebration (II).** This criticism was joined by Griselda Sánchez, coordinator of the education sector and claims secretary of the Caracas Teachers' Union, who stated that since 2018, collective hiring is not respected, with no teacher earning more than two minimum wages.

**There's no negotiation.** Similarly, Douglas Leon Natera, president of the Venezuelan Medical Federation, indicated that since 2003 the executive has refused to meet to negotiate the collective contracting of said federation.

**Limitations remain.** He also pointed out that health workers do not have the necessary supplies to comply with the minimum protection measures for the COVID-19 pandemic and added that the protective equipment has been delivered very selectively.

## WORLD ECONOMY TIPS

**A general panning.** According to figures published by the World Health Organization (WHO), the number of positive cases of coronavirus reached 3,672,238 until May 7, registering 254,045 deaths for the same date.

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**The epicenter.** The U.S. Centers for Disease Control and Prevention (CDC) reported 1,122,486 cases of coronavirus in the country on May 3, an increase of 29,671 from its previous count. They added that the number of deaths rose to 65,735.

**Brexit, an opportunity for America.** In the midst of their fight against the pandemic, the United States and the United Kingdom began trade negotiations to generate new agreements after the United Kingdom left the European Union.

**Simultaneous negotiations.** The talks represent the US government's first major new trade negotiation in 2020 and will take place while London works on the trade terms with the EU, for which the UK has a deadline which, in principle, is the end of this year.

**Key points.** One year ago, Robert Lighthizer, the U.S. Trade Representative, published a comprehensive set of objectives for such an agreement. These include full access to U.S. agricultural products and reduced tariffs on U.S. manufactured goods.

**Spain responds with funds and measures.** Pedro Sanchez, President of the Government of Spain, announced that his government will approve a EUR 16 billion (USD 17.57 billion) reconstruction fund to help the autonomous communities cope with the social and economic damage caused by the coronavirus.

**You can get out now, but two meters away.** Additionally, Spain initiated the next step to relax quarantine restrictions. During May 2 and 3, time slots were assigned to the different age groups for exit. The departures were forced to comply with social distancing guidelines, staying at least 2 meters apart.

**First of four.** The easing of restrictions is one of the first steps in a four-phase plan to gradually reopen the country by the end of June. As of May 4, businesses operating on an appointment basis resumed their activities with limited capacity.

**Restaurants, bars and small meetings are the next step.** In the next stage, businesses with terrace areas such as bars and restaurants will be allowed to open up to 50% occupancy, while groups of up to 10 people will be able to meet in public places and in their homes.

**Back to work in Italy.** Italy also began the relaxation of confinement on May 4. Some 4.5 million people were allowed to return to work after almost two months at home and family reunions were permitted.

**Testing is critical.** Giuseppe Conte, Italy's prime minister, said that "phase 2" will include more tests to see who has the virus, with 5 million tests being sent to the regions over the

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next two months. In fact, starting May 4, some 150,000 blood tests will be done to get an idea of how many Italians have already developed antibodies.

**Opening the doors to the neighbors.** In a joint statement, the governments of Australia and New Zealand agreed to begin work on allowing travel between the two countries. They noted that this agreement could eventually be extended to other Pacific island nations.

**Creditors reject disproportionate losses (I).** Groups of Argentine sovereign debt creditors said they would not support Argentina's proposal to postpone interest payments for three years and capital payments until 2026. The groups argued that the terms of the offer made require the bondholders to "*bear disproportionate losses that are neither justified nor necessary.*"

**Creditors reject disproportionate losses (II).** The conflict with creditors is increasing the risk that Argentina will fall into its ninth sovereign debt default on May 22, when the grace period for interest payment default expires.

## POLITICAL TIPS

**Unwanted boats.** On Sunday, May 3, the Venezuelan military announced that in the early morning they detected two boats in the area of Macuto, Vargas state. Later, Special Forces officials reported that there was a confrontation with the members of the boat, whom they accused of being mercenaries. Two individuals were arrested as a result of this confrontation.

**Most captured (I).** Tareck William Saab, the regime's prosecutor, reported via his Twitter account that, on 4 May, officials from the Bolivarian National Intelligence Service (Sebin) captured and transferred eight men who tried to enter the country off the coast of Aragua state.

**Clarifying intentions.** Saab stated that they are a group of mercenaries whose intention was to assassinate important officials of the regime and that they are part of "Operation Gideon". The Prosecutor thanked a group of fishermen from Chuao who were armed and who intercepted the boat of the eight men and informed the authorities of Poliaragua, which was flying over the area.

**Foreign visit.** Nicolas Maduro indicated that two of those men are American citizens belonging to the security team of Donald Trump, president of the United States.

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**Most captured (II).** In addition, he stated that among the detainees there is a police officer from Baruta and another one from Miranda State. He also reported that, subsequently, five other men were captured in the state, specifically in the town of Puerto Maya.

**A large inventory.** Maduro called this operation Black First and reported that it seized weapons of war, U.S. and Colombian military uniforms, communications equipment and other war equipment. According to this, since April 19, the supports of the terrorist plan that is supported by Iván Duque, president of Colombia, are being captured.

**Looking for responsible.** Continuing his accusations, Maduro accused the Drug Enforcement Administration (DEA) of gathering drug lords and cartels from the Colombian and Venezuelan Guajira with the aim of generating violence in the country. He also said that Trump along with a private company and Venezuelan opposition politicians are also linked to these events.

**It's the target.** In a virtual conference with the Non-Aligned Movement (NAM), Maduro said that "Operation Gideon" was aimed at killing him and indicated that they have evidence, testimonies and videos that prove the link between these individuals and the aforementioned countries and the opposition.

**International support.** Jorge Arreaza, the Venezuelan foreign minister of the regime, spoke with the Secretary General of the United Nations (UN), Antonio Guterres, to denounce the "terrorist actions" that the neighboring country and the United States want to carry out within the national territory. According to Arreaza, Guterres expressed his rejection of such action.

**Asking for the basics.** In a statement, Guaidó's team demanded "respect for the human rights and fundamental guarantees of the people captured in the last few hours. The statement stressed that the regime has a history of torture and disappearances that have been reported previously.

**Showing your support (I).** Maikel Moreno, president of the regime's Supreme Court of Justice (TSJ), published a statement in which he affirms that the judiciary is committed to guaranteeing peace and territorial security.

**Showing your support (II).** Moreno assured that the magistrates of the TSJ support the actions carried out by the National Armed Forces and will comply with their obligation, according to the law, to impose a sentence on those who were responsible for these "deplorable events".

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**"That's enough!"** The virtual U.S. Embassy in Venezuela denounced that the regime continues to carry out acts of persecution and violence, executed by security force officials against opposition members, mainly parliamentarians.

**No more guns.** The National Assembly demanded the total disarmament of criminal gangs and collectives. It stressed that the regime is responsible for allowing them to illegally possess and import firearms of war, along with ammunition and explosives.

**Big national operation.** Maduro's defense minister, Vladimir Padrino López, reported that an armed group of Colombian citizens in the state of Zulia was dismantled as part of Operation Black First.

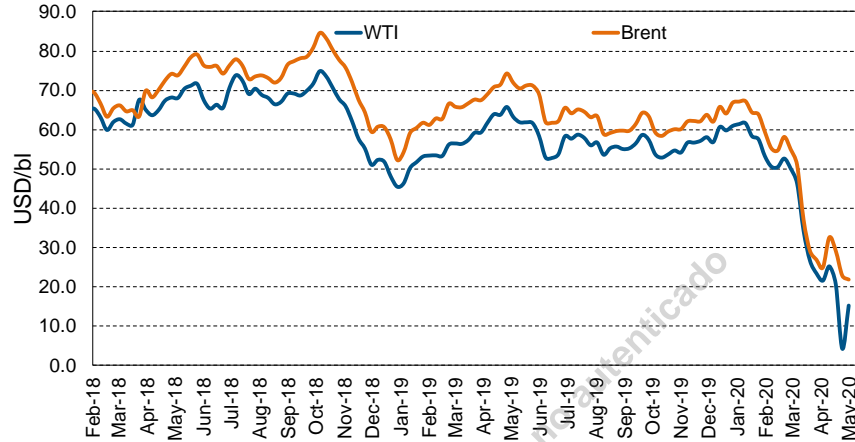
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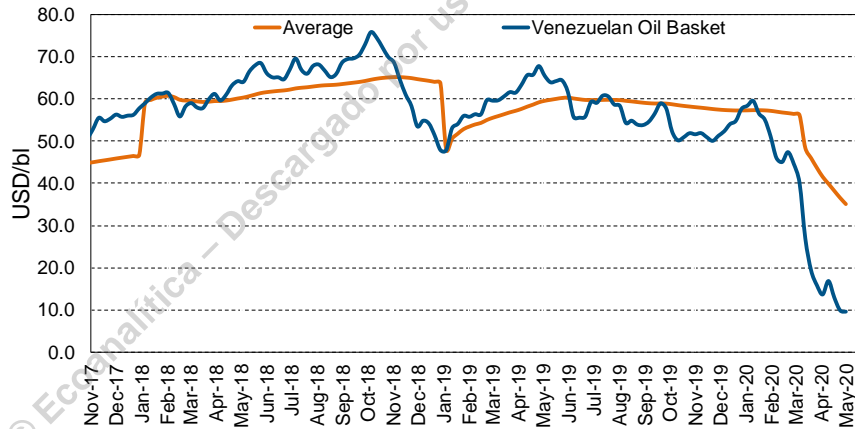
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



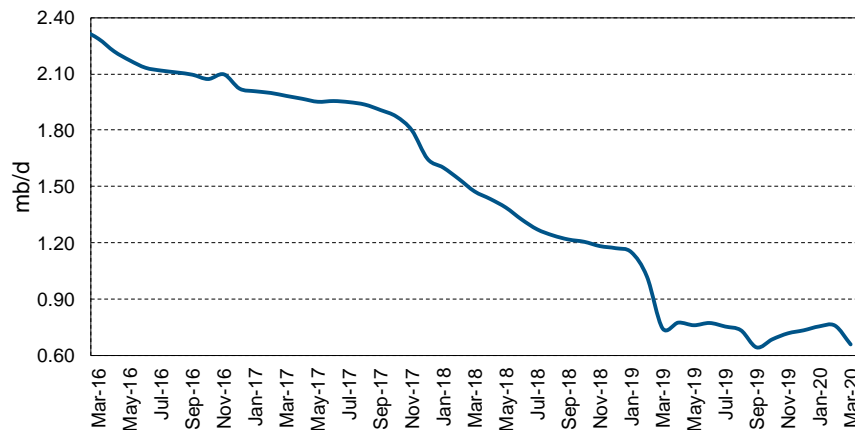
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

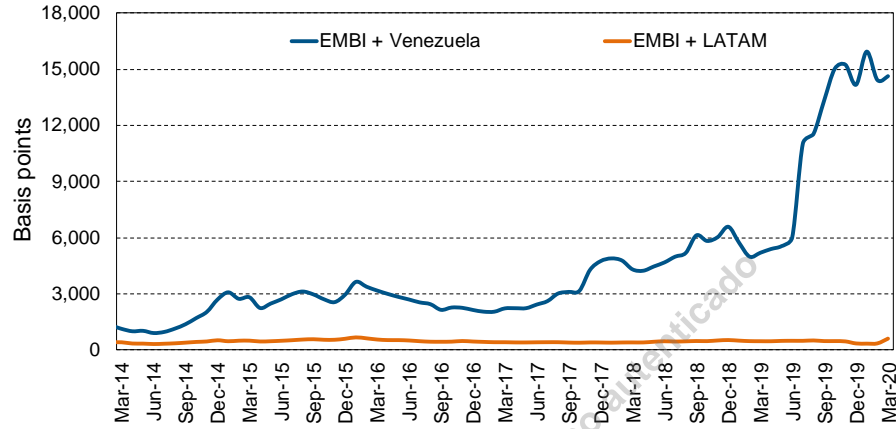
**Oil Production  
(Secondary sources)**



Sources: OPEC and Ecoanalítica

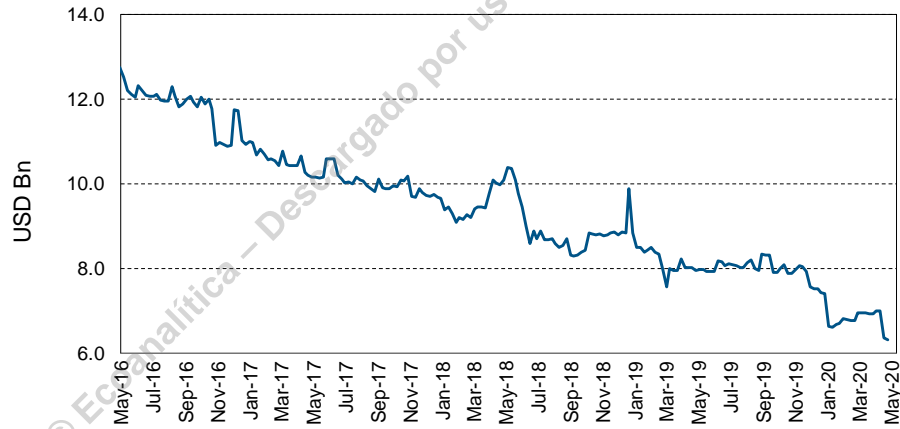
**ECONOMIC INDICATORS**

**EMBI**



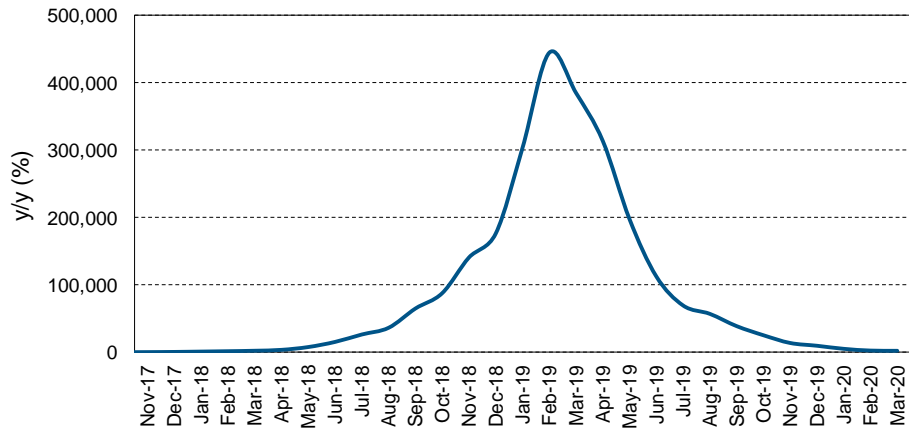
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

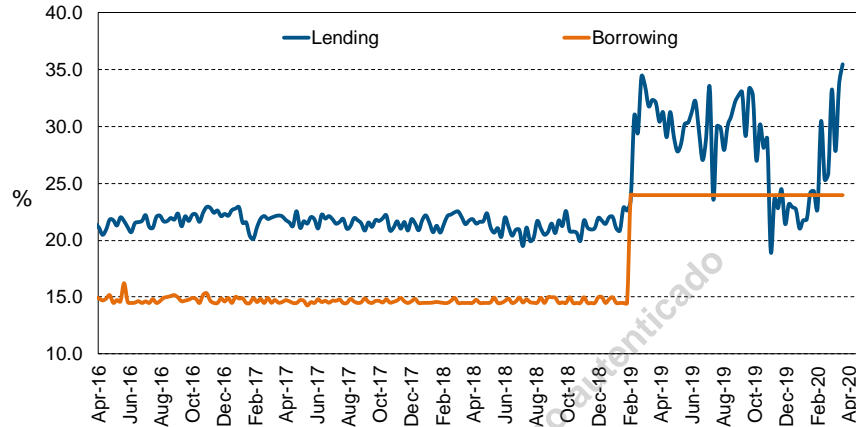
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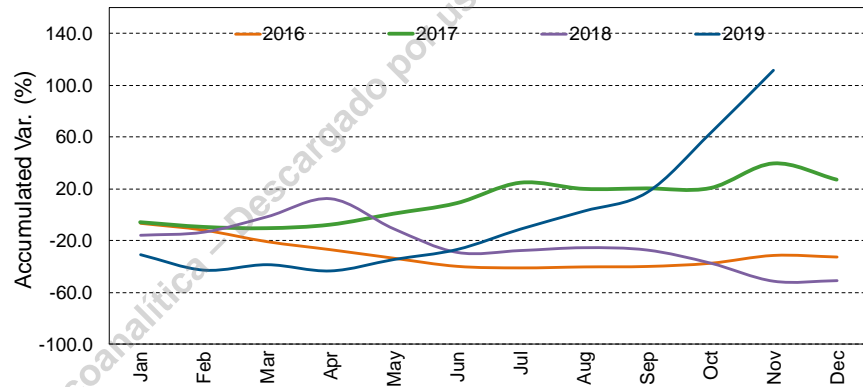
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



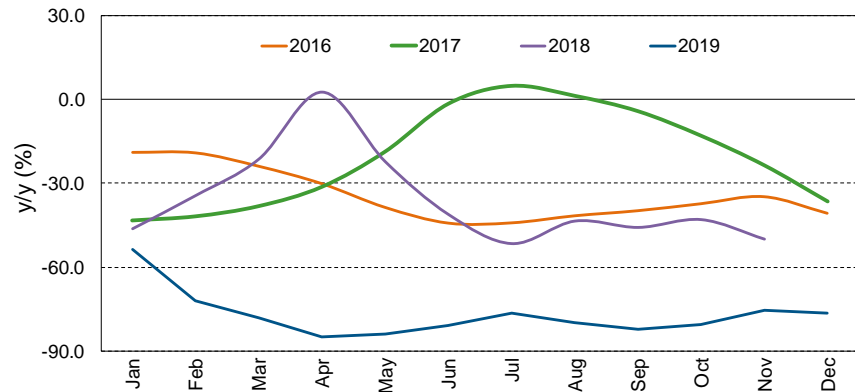
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

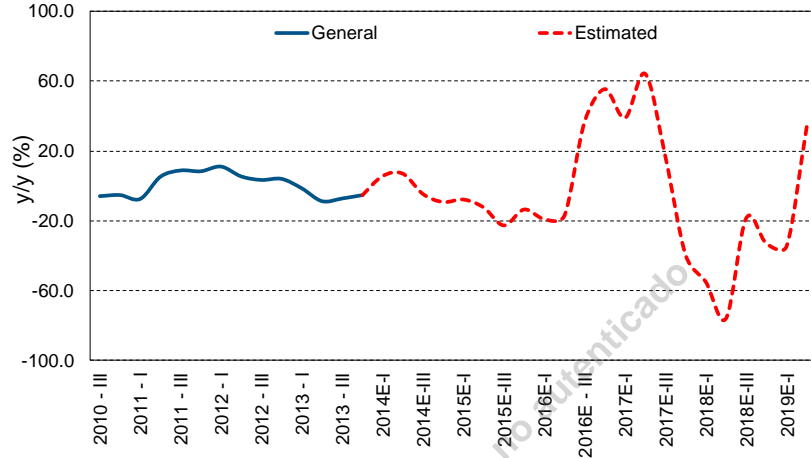
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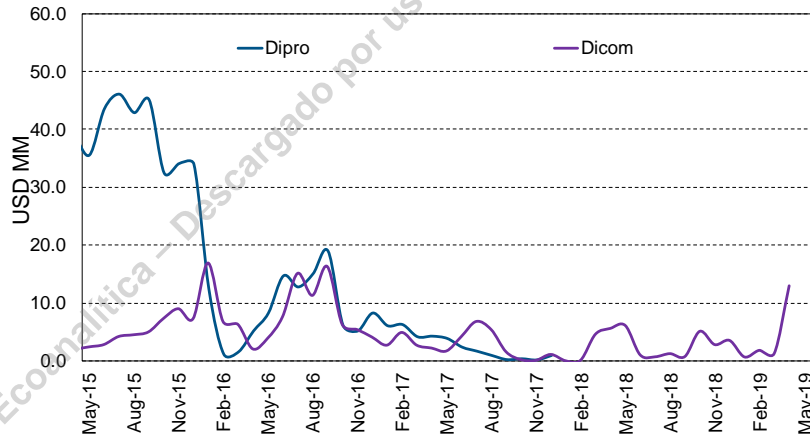
**ECONOMIC INDICATORS**

**Real Wage Index**



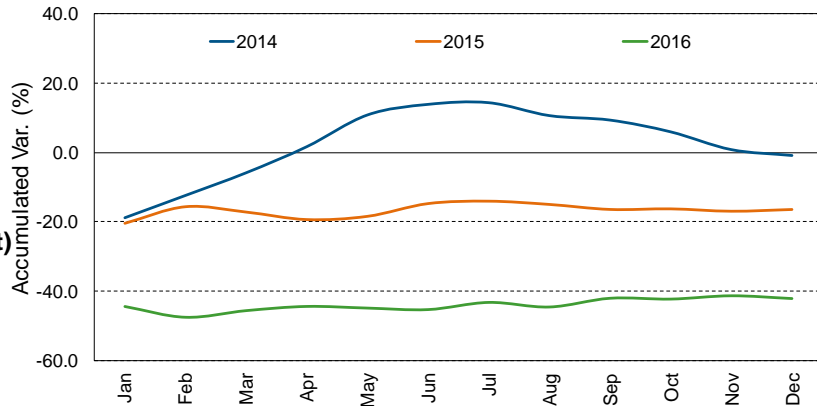
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

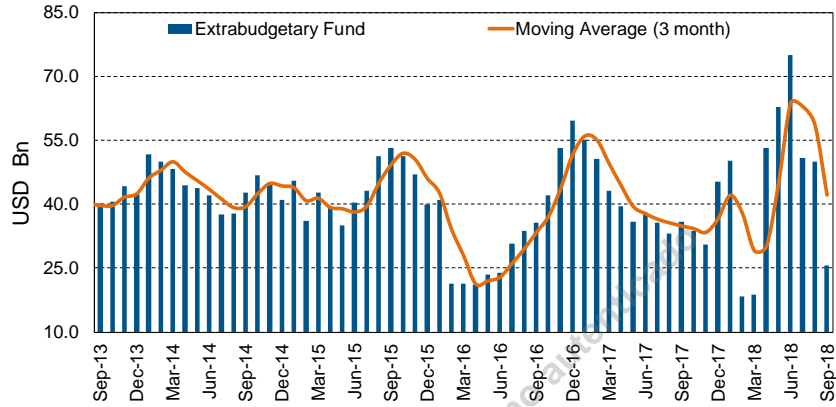
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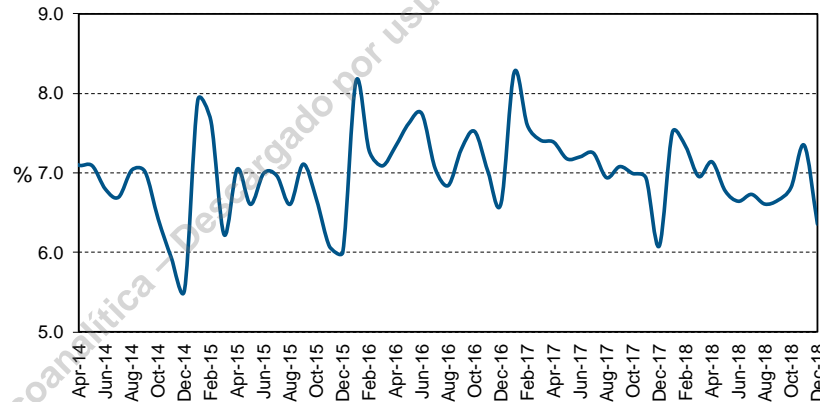
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**ECONOMIC INDICATORS**

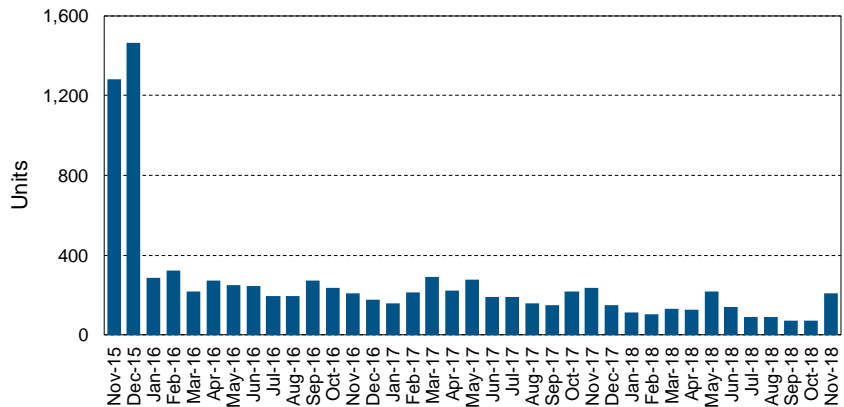
**State Extrabudgetary Resources**



**Unemployment Rate**



**Vehicle Sales**



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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

## ECOANALÍTICA'S TEAM

**Asdrúbal Oliveros / Director**

asdrubalo@ecoanalitica.net / @aroliveros

**Pedro Palma / Director**

pedrop@ecoanalitica.net / @palmapedroa

**Cristina Rodríguez / Director**

cristinar@ecoanalitica.net

**Luis Arturo Bárcenas / Senior Economist**

luisb@ecoanalitica.net / @barcenasluis

**Guillermo Arcay Finlay/ Economist**

guillermoarcay@ecoanalitica.net / @guillermoarcayf

**Giorgio Cunto Morales / Economist**

giorgioc@ecoanalitica.net / @giorgiocunto

**Corina Fung / Economist**

corinaf@ecoanalitica.net / @corinafung7

**Jhoan F. Castellano/ Economist**

jhoanc@ecoanalitica.net / @castellanojhoan

## RESEARCH ASSISTANT

Diego Santana

Carmen Pelay



## CONTACT US

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

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

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

@ecoanalitica