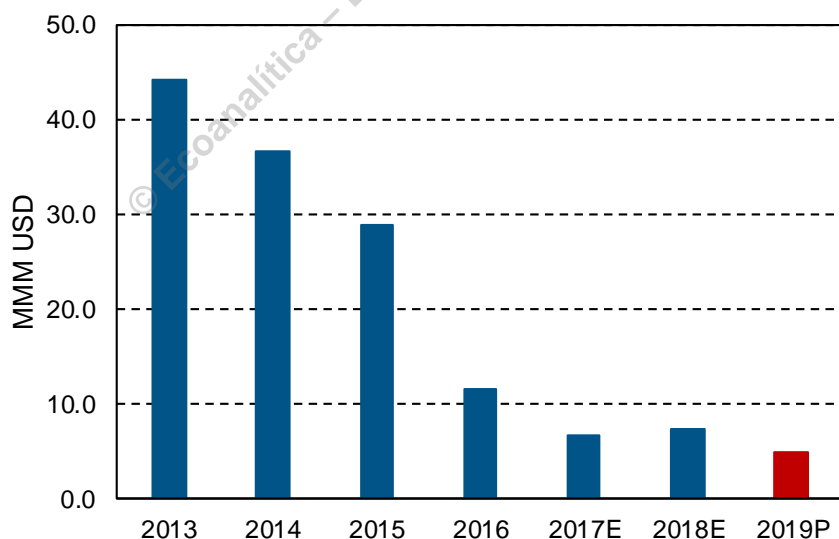


The political economy of the balance of payments crisis

At the end of last year, we argued that 2018 was the last in a long list of years in which, despite the worsening of financial restrictions due to progressive contractions in oil revenue, Nicolás Maduro had managed to close the external balance by taking aggressive measures such as cutting back imports, realizing international reserves and extra-budgetary resources, and refinancing or defaulting on financial obligations.

On his long and complicated path of survival between 2013 and 2019, Maduro shrank nonoil public sector imports from USD 44.1 billion a year to USD 7.3 billion (-83.5%). Total nonoil imports that never entered Venezuela because of Maduro's cutback were equivalent to USD 129.5 billion between 2014 and the close of 2018¹.

Non-oil imports



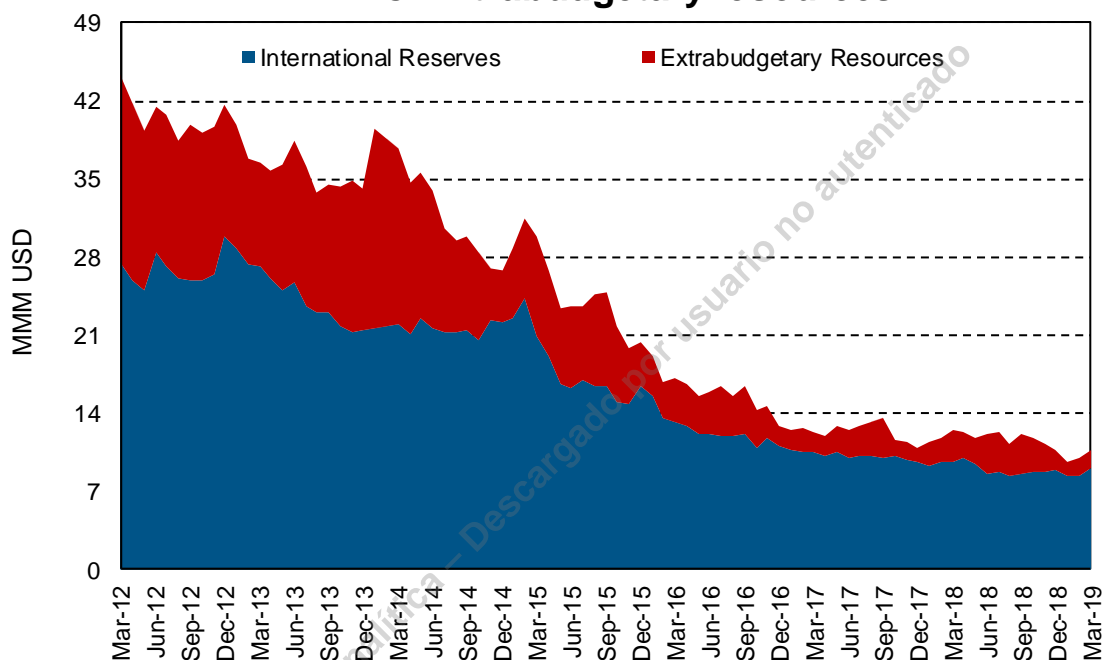
Sources: BCV, UNComtrade and Ecoanalítica

¹ The calculation assumes that the non-oil imports' cut is the difference between each year's affective imports and the 2013 level of imports.

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Furthermore, under his mandate, the State reduced its international reserves from USD 28.8 billion to USD 8.0 billion (-72.2%) and its extra-budgetary resources from USD 11.1 billion to USD 1.4 billion (-85.1%). With the two accounts combined, Nicolás Maduro spent USD 30.5 billion of the State's money.

IR vs. Extrabudgetary resources



Sources: BCV and Ecoanalítica

As though that were not enough, PDVSA's bonds were rescheduled in 2017, and the multilateral debt with the Corporación Andina de Fomento (CAF) – Latin America Development Bank was extended for various consecutive years. It became necessary to obtain a grace period for the bilateral debt with China between 2016 and 2017, and then to also refinance and reformulate the terms of the debt from 2018 to 2024. Terms were reformulated as well with Russia for 2019. Finally, the Republic fell into default on USD 10.2 billion in sovereign and corporate bonds in November 2017 until now.

Basically, Maduro spent all the country's savings and carried over the obligations incurred by Chavez to a future date, while cutting back imports.

By implementing these three strategies, Maduro managed to reach 2019, and they were even sufficient to generate a surplus of USD 4.0 billion on the external account in 2018 mainly with help of the default. However, as oil production and national revenues

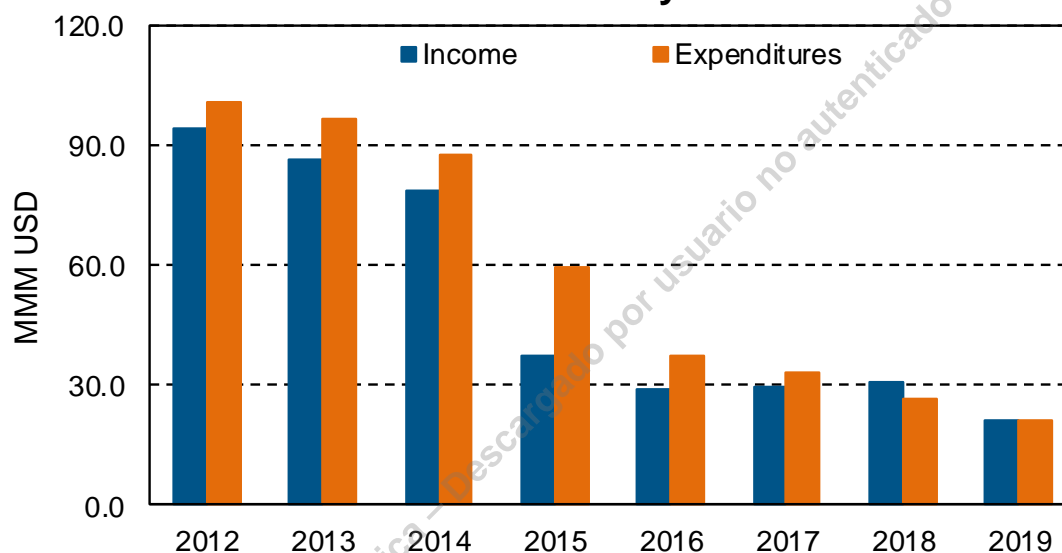
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continued to contract, the adjustments used in the past became insufficient and the need to implement new adjustments reemerged. In the first quarter of the year alone crude oil exported barrels contracted by 19.7% compared to 4Q2018. With this a necessity to make new adjustments resurges. After all, it is impossible to pay more.

Annual income and expenditures in hard currency



Sources: BCV, Menpet, PdvsA and Ecoanalítica

In a context of endogenous collapse of the oil sector, facilitated by years of underinvestment and by the replacement of qualified personnel with members of the military and people who are politically loyal, an exogenous shock came into play in the form of US sanctions.

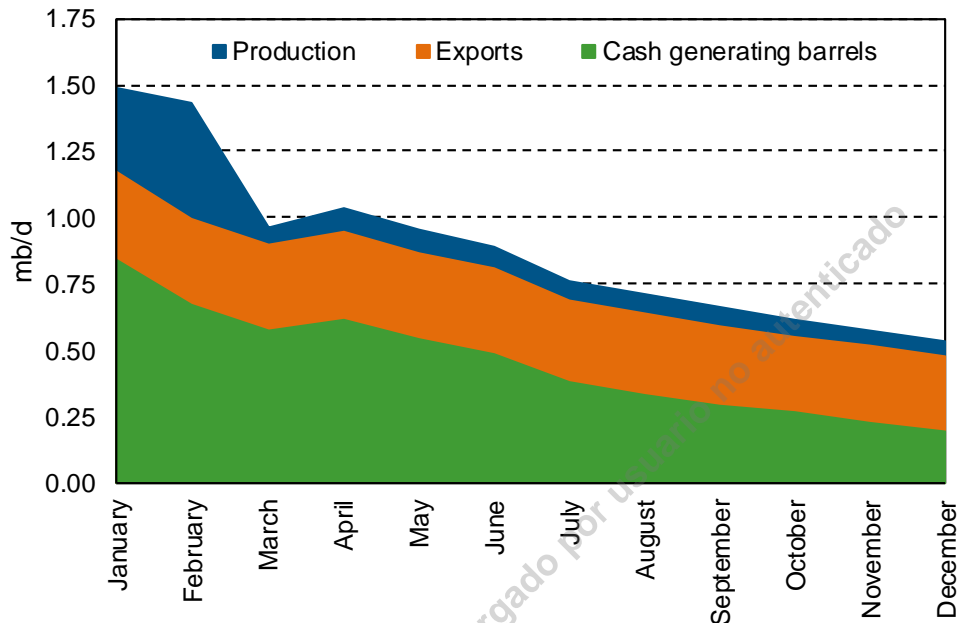
Nevertheless, the sanctions were not entirely activated at first. As it was explained in the Weekly Report N°3 "Endgame", a first part was activated at the end of January, another at the end of February, then a third at the end of April, and the last one will be activated at the end of July. The fact that part of the sanctions is to be implemented in the future makes it necessary to project the flow of foreign currency on the basis of atypically short intervals of time. For that reason, at **Ecoanalítica** we have reconstructed projected revenues and expenditures month by month and, based on those figures, the flow of foreign currency for each quarter in 2019.

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Oil sector projections (2019)



Sources: Pdvsa and Ecoanalítica

Needless to say, given the increasing likelihood of a change in the political regime, it is possible that our estimates for the last two quarters will take a positive turn, catalyzed by the inflow of foreign financing.

Only a transition government can unblock PDVSA

The past is written, the ink already dry. In April 2019, Venezuela produced 31.1% less oil than in April 2018, according to PDVSA, and 46.4% less according to secondary sources consulted by the Organization of Petroleum Exporting countries (OPEC). So far this year, the price of the Venezuelan Oil Basket has been 5.8% below the average in 2018. Venezuela's main trading partner, the same one that purchased 68.9% of our oil exports in 2018, decided to stop its purchases and deposit the money paid for its purchases of crude between November and January (which would have been collected between February and April) into blocked accounts, creating an escrow account at the service of an eventual transition government.

In an effort to redirect its exports to Asia, PDVSA increased its exports to India from 179 kb/d in January to 408 kb/d in February. But after diplomatic pressure was brought to bear by the United States, India reduced those exports to 300 kb/d in March, and the

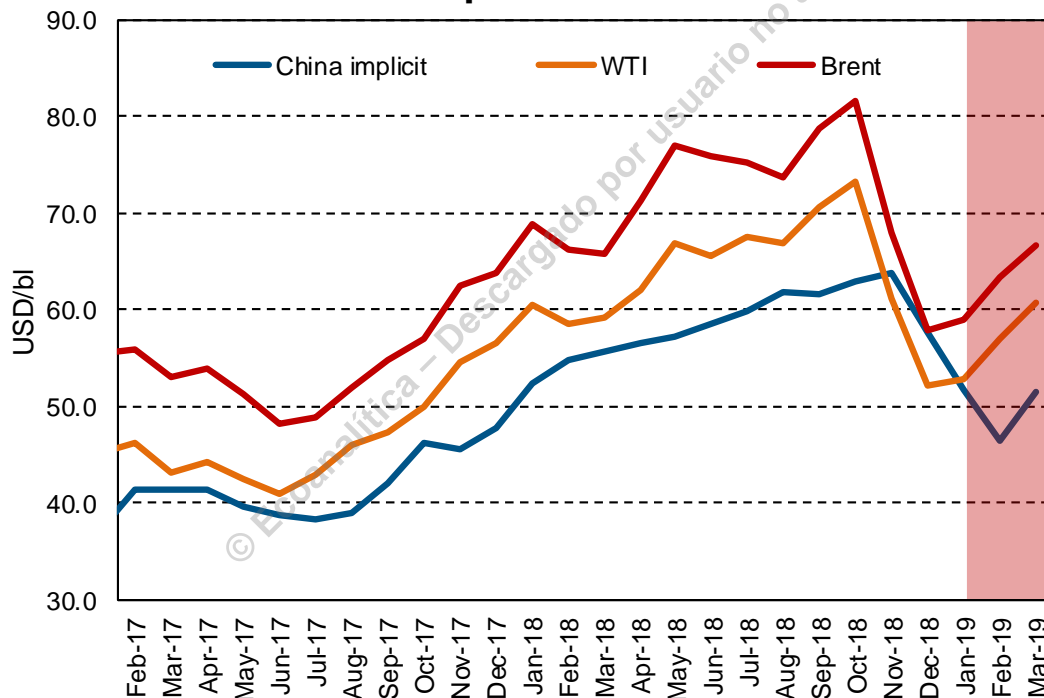
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23rd of May the Government of India announced that they would stop purchasing Venezuelan oil².

As for China, it has reemerged as a major buyer. Besides receiving approximately 159 kb/d in payment of debts, it is buying hundreds of thousands additional barrels through India and Singapore at a discount that came to 18.6% in February and 15.1% in March to then resell them to local refineries. The situation with Russia is similar, as the additional crude it is receiving from Venezuela is at a steep discount, given the improvised nature of the shipments.

Oil price indicators



Sources: Menpet, General Administration of Customs of China and Ecoanalítica

So, every time Venezuela is exporting less and selling it under its face value, on top of that, accepting steep discounts on its sales to Asia. Meanwhile, it will not be getting three months of accounts receivable for shipments to the United States.

² According to Tanker Trackers' data.

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In the last quarter of 2018, it was reported that PDVSA was falling into partial default on its debts with Russia and China and was sending part of the barrels allocated to them to the United States to generate cash. Those revenues will not be collected by Maduro and that strategy will not be repeated in the future. Without the United States, falling into default on the debt with China and Russia will be more difficult because there is no alternative destination for those barrels.

Revenues on the spreadsheet

In an optimistic scenario, it is estimated that oil exports will collapse to 467 kb/d (-36.7%) in the first half of 2019. As the provisional licenses granted by the US Treasury Department's Office of Foreign Assets Control (OFAC) gradually expire before July, the collapse in oil production and exports will be steady and fast. Compared to actual exports of 1.3 mb/d in December 2018, only 805 kb/d are projected for June.

Assuming losses due to discounts of USD 592 million and expenditures of USD 1.2 billion on crude imports, we estimate that net oil revenues will come to a total of only USD 10.6 billion in the first half of 2019, which contrasts hugely with the USD 14.0 billion that entered over the same period in 2018 (-24.6%).

Item	Currency cash flow					2019
	2018	1Q2019	2Q2019	3Q2019	4Q2019	
Income						
Oil Exports (mb/d)	1.35	1.22	0.98	0.83	0.62	0.9
Energy Agreements (mb/d)	0.1	0.1	0.1	0.1	0.1	0.1
Oil Imports (mb/d)	0.1	0.1	0.1	0.1	0.1	0.1
Effective Oil Exports (mb/d)¹	1.4	1.3	1.0	0.9	0.6	1.0
Oil Income (MMM USD)	31.8	7.1	5.2	4.7	3.6	20.7
Oil Imports (MMM USD)	3.5	0.6	0.5	0.6	0.4	2.2
China discount loses (USD MMM)	0.0	0.2	0.4	0.3	0.2	1.1
"Net" Oil Income (MMM USD)	28.2	6.3	4.3	3.9	3.0	17.5
Non-Oil Income (MMM USD)	2.5	1.0	0.9	0.9	0.8	3.6
Total Income (MMM USD)	30.7	7.2	5.2	4.7	3.8	21.0

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

* Considers a 90 day lag due to the internal dynamics of the oil market

¹ We take into account the reexported imports

Moreover, a contraction of 15.7% in traditional nonoil exports is projected for 1H2019, which will be partially offset by an increase in the illegal exporting of gold to the value of USD 1.5 billion.

On top of this complicated situation for the country's revenues, there is the blocking between February and April of USD 3.1 billion in accounts receivable from the sale of

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crude to the United States between November 2018 and January this year. In addition, the National Assembly's Finance Committee announced that, exercising its mandate and under the agreement on the protection of assets approved in January, they have managed to freeze at least USD 3.2 billion in the regime's accounts between the United States, America, Europe, and Asia.

With regard to the rest of the year, unless there is a change of the Head of State, revenues will continue to collapse, but more slowly. The shock effect of the sanctions will pass, but the endogenous collapse will last.

The impossibility of doing the same as in 2018

Merely to illustrate the dramatic financial situation, let us evaluate a hypothetical case in which the government attempts to maintain its pattern of spending and repeat what it did in 2018. In this case, with a constant level of goods and services imports at USD 12.6 billion, the subsidy to Cuba constant at USD 1.1 billion, and avoiding a default on additional obligations, the regime would have to find an additional USD 7.2 billion in order to close the foreign currency deficit. The USD 19.8 billion in revenues would be insufficient to cover spending of USD 27.0 billion.

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Currency cash flow						
Item	2018	1Q2019	2Q2019	3Q2019	4Q2019	2019
Income						
Oil Exports (mb/d)	1.35	1.17	0.92	0.8	0.57	0.9
Energy Agreements (mb/d)	0.1	0.1	0.1	0.1	0.1	0.1
Oil Imports (mb/d)	0.1	0.2	0.2	0.1	0.1	0.1
Effective Oil Exports (mb/d)¹	1.4	1.3	1.0	0.9	0.6	1.0
Oil Income (MMM USD)	31.8	7.1	5.2	4.7	3.6	20.7
Oil Imports (MMM USD)	3.5	1.0	0.9	0.9	0.8	3.4
China discount loses (USD MMM)	0.0	0.2	0.4	0.3	0.2	1.1
"Net" Oil Income (MMM USD)	28.2	5.9	4.0	3.6	2.7	16.2
Non-Oil Income (MMM USD)	2.5	1.0	0.9	0.9	0.8	3.6
Total Income (MMM USD)	30.7	6.9	4.9	4.4	3.5	19.8
Expenditure (MMM USD)						
Total Imports (USD MMM)²	9.1	2.6	2.1	2.1	2.3	9.1
Services	6.2	1.6	1.5	1.5	1.6	6.2
Rent and Current Transfers	1.9	0.4	0.5	0.5	0.5	1.9
External Debt Service	4.5	0.3	0.6	0.3	1.2	2.4
Private Capitals Outflow	-2.3	-0.3	-0.3	-0.3	-0.3	-1.4
Total Expenditure	19.3	4.5	4.4	4.0	5.2	18.2
Result	11.4	2.4	0.5	0.4	-1.7	1.6
Financing (MM USD)	0.0	0.0	0.0	0.0	0.0	0.0
Oil income retained by the US	0.0	-1.9	-1.1	0.0	0.0	-3.1
Net Flow with China	-4.2	-0.8	-0.8	-0.8	-0.8	-3.2
Net Flow with Russia	-3.2	-0.7	-0.6	-0.6	-0.6	-2.5
Net Result	4.0	-1.0	-2.1	-1.0	-3.1	-7.2

Sources: BCV, Menpet, Pdvs and Ecoanalítica

* Considers a 90 day lag due to the internal dynamics of the oil market

¹ We take into account the reexported imports

² Considers non-oil imports and other oil sector imports

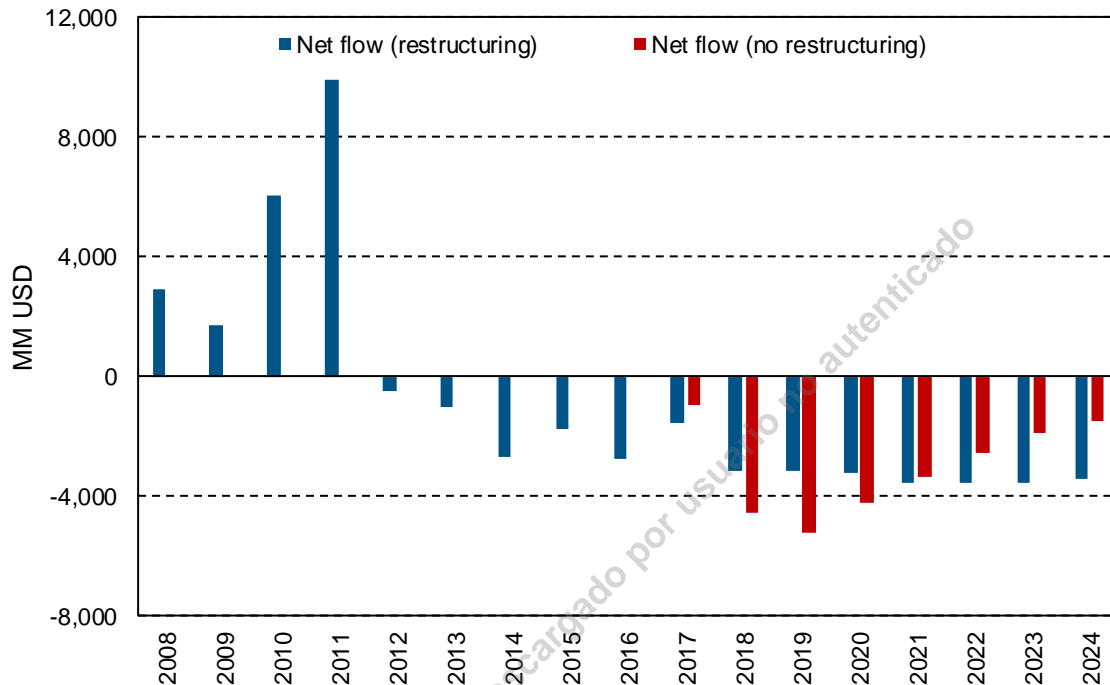
This scenario even takes into account refinancing the bilateral debt with China, without which the deficit would have gone up to USD 9.6 billion. At the end of 2017, the Venezuelan State reached an agreement with China to relax the deadlines for repayment of its debt. Under the new terms, tranches were consolidated, and the quarterly capital repayments were arranged in similar magnitudes up until 2024. In practice, between 2018 and 2021, this refinancing will save the Venezuelan State USD 4.2 billion, but between 2022 and 2024 it will cost it an additional USD 4.6 billion.

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Net flow with China



Sources: Pdvsa, BCV and Ecoanalítica

Additionally, at a quarterly call with Rosneft's investors, it was revealed that the terms of Venezuela's debt had been refinanced so that the last two repayments –scheduled originally for 1H2019- would be refinanced to be paid in equal parts over the four quarters of 2019, thus alleviating the burden in the first half of the year.

Under this scenario it is clear that both refinancing schemes are not sufficient to cope with the serious financial pressure the government is facing. It is also apparent that it is unlikely that a new refinancing agreement will be reached with the regime's partners, because the reformulated conditions are still fresh. Without a market such as the US market to hand as an alternative, defaulting on China or Russia seems to be a fairly unlikely adjustment tool in 2019.

The terrifying conservative adjustment

So far we have considered a relatively optimistic revenue scenario on both the oil and mining fronts. The fact of the matter is that in a context of political and economic instability, reasons abound for believing that, in the medium term, there could be new exogenous shocks to the model that will speed up the collapse of the oil industry still

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further. One or several additional shocks could occur in the form of a bigger scale electricity crisis, an additional escalation of oil sanctions that would reach Europe and Asia or some other factor not considered so far.

As for mining, US sanctions have managed to hinder the relationship of exporters of illegal gold with refiners in Switzerland, the United Arab Emirates, and have forced Turkey to hide the numbers, which means that gold will have to be sold through irregular channels or assuming high discounts.

While optimistic, this is an already sufficiently complicated scenario and requires aggressive adjustment measures. At **Ecoanalítica** we believe that the first adjustment variable will be a cut of at least 67.1% (USD 2.5 billion a year) in public sector nonoil imports. Although cutting this spending item has serious social and humanitarian implications, we believe that, from the political and logistical viewpoints, it will be Maduro's first sacrifice. If the regime plans to survive in the medium term, it will try to prioritize oil imports at the expense of the food and medicines that are needed to deal with the humanitarian crisis with a view to maintaining some degree of financial viability in the following quarters. Between 2011 and 2018, non-oil public imports decreased by 71.7%. while oil imports decreased only 21.7%.

As for imports by the private sector, they will not be able to fill the vacuum left by the public sector. First of all because the public catered to by subsidized public sector imports cannot afford to pay the market price of the goods they used to consume, and secondly because, after the regime's policy of banning credit implemented in January, the banks will not be able to finance the same proportion of private sector imports it financed in the past.

Nevertheless, we expect that the appreciation of the real exchange rate moves enterprises to substitute their local production with imports. We estimate that the effect of the real consumption contraction and the banking system financing will be compensated by the real appreciation incentives, and that private imports remain relatively constant in 2019 (+1.0%).

So far, even in this conservative revenue scenario, the deficit will still be close to USD 4.7 billion. This means that additional cuts will be necessary. Defaulting on the USD 985 million in payments scheduled for the bond PDVSA 20 up to date is already a certainty. Since the implementation of the sanctions, the National Assembly took the responsibility of paying the bonds with funds from the escrow account.

Another possibility is cutting payments for services (USD 1.5 billion) and 34.8% of oil imports (USD 1.8 billion). If all previous adjustments take place, in this optimistic

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scenario a USD 438 million deficit would still exist, which had to covered with assets. Under another alternative, they could incur in another default on the compensation agreements with ConocoPhillips, Gold Reserve and Crystallex. This decision would save the Venezuelan State the equivalent of USD 1.4 billion, depending on when the non-payment, but would generate a latent threat of an embargo on assets.

Currency cash flow (with expenses reduction)						
Item	2018	1Q2019	2Q2019	3Q2019	4Q2019	2019
Income						
Oil Exports (mb/d)	1.35	1.22	0.98	0.83	0.62	0.9
Energy Agreements (mb/d)	0.1	0.1	0.1	0.1	0.1	0.1
Oil Imports (mb/d)	0.1	0.1	0.1	0.1	0.1	0.1
Effective Oil Exports (mb/d)¹	1.4	1.3	1.0	0.9	0.6	1.0
Oil Income (MMM USD)	31.8	7.1	5.2	4.7	3.6	20.7
Oil Imports (MMM USD)	3.5	0.6	0.5	0.6	0.4	2.2
China discount loses (USD MMM)	0.0	0.2	0.4	0.3	0.2	1.1
"Net" Oil Income (MMM USD)	28.2	6.3	4.3	3.9	3.0	17.5
Non-Oil Income (MMM USD)	2.5	1.0	0.9	0.9	0.8	3.6
Total Income (MMM USD)	30.7	7.2	5.2	4.7	3.8	21.0
Expenditure (MMM USD)						
Total Imports (USD MMM)²	9.1	1.7	1.5	1.5	1.4	6.1
Services	6.2	1.3	1.2	1.2	0.9	4.6
Rent and Current Transfers	1.9	0.4	0.5	0.5	0.5	1.9
External Debt Service	4.5	0.3	0.6	0.3	0.3	1.4
Private Capitals Outflow	-2.3	-0.3	-0.3	-0.3	-0.3	-1.4
Total Expenditure	19.3	3.3	3.5	3.1	2.7	12.7
Result	11.4	3.9	1.7	1.6	1.1	8.3
Financing (MM USD)						
Oil income retained by the US	0.0	-1.9	-1.1	0.0	0.0	-3.1
Net Flow with China	-4.2	-0.8	-0.8	-0.8	-0.8	-3.2
Net Flow with Russia	-3.2	-0.7	-0.6	-0.6	-0.6	-2.5
Net Result	4.0	0.5	-0.9	0.2	-0.3	-0.4

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

* Considers a 90 day lag due to the internal dynamics of the oil market

¹ We take into account the reexported imports

² Considers non-oil imports and other oil sector imports

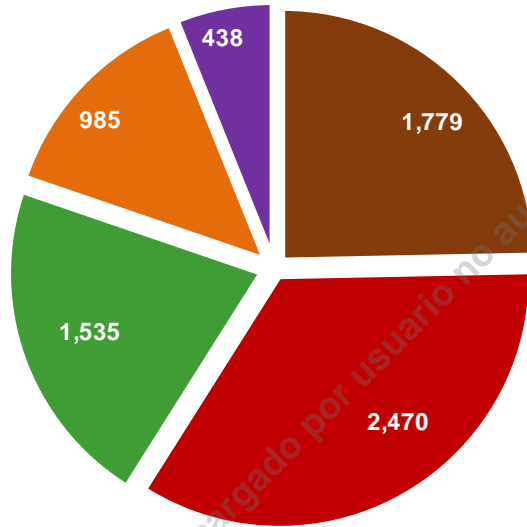
Realizing assets appears to be complicated. The National Assembly's efforts to protect the Republic's assets have been effective so far. Nevertheless, this will be the regime's first option. In fact, Foreign Reserves have already fallen USD 0,85 billion so far in 2019. If it fails in its attempt to squander the country's savings still further, it is possible that it will opt for cutting oil imports, even though this implies future lower production and a loss of quality in the crude that is finally sold.

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Financing sources (2019P)

- Oil public imports contraction
- Service imports contraction
- Non-accumulation of IR
- Non-oil public imports contraction
- Default to PDVSA 20 bond (6.5%)



Sources: BCV, Pdvsa and Ecoanalítica

2019 is still young and the lessons of the past indicate that unexpected obstacles will emerge in the coming months. For now, the restrictions are enough to force the regime to cut back its major expenditures and take aggressive measures. The magnitude of the economic, social and humanitarian implications is unprecedented in the country's history, and they could be one of the inflection points that would make the regime accept the humanitarian aid.

They could also be enough to generate a political transition that will allow Venezuela to carry out the necessary reforms under a transition government with technical capabilities and international financing in order to resume a path of economic growth and prosperity. A political change is the only thing that separates Venezuela from a temporary humanitarian crisis and a state of chronic abject poverty.

Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week May	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	5,638.45	7.3	6.8
	2nd Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	30.7	0.7	10.0
	4th Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	108.1	-0.4	108.1
	3rd Week May	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.0	-2.3	-20.3
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	5,656,627	5.2	62,258.2
Price of International Oil Baskets (USD/bl)			
	3rd Week May	Weekly chg. (%)	Annual chg. (%)
WTI	61.9	0.0	-13.1
Brent	71.3	1.1	-9.1
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week May	Weekly chg. (%)	Annual chg. (%)
Weekly Average	64.3	0.5	-5.4
Annual Average	60.0	0.4	-1.7

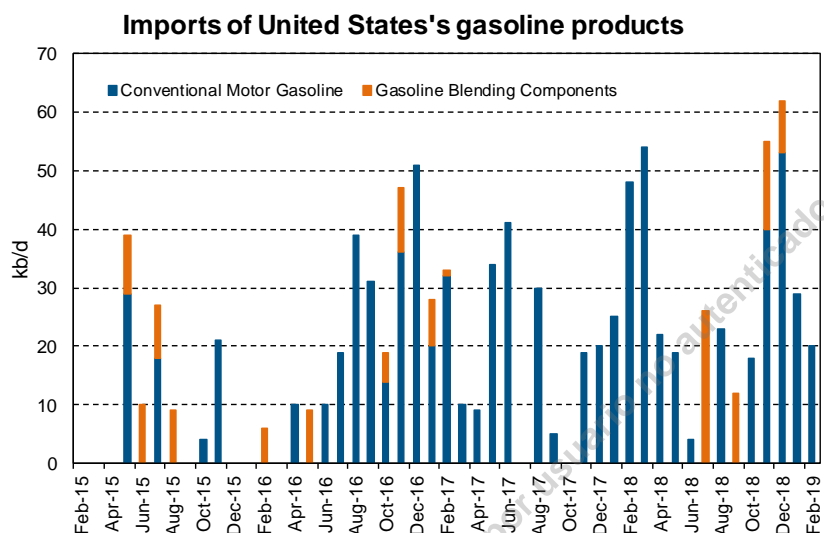
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “GONE WITH THE SANCTIONS”


Sources: Energy Information Administration and Ecoanalítica

Long lines of cars waiting to fill up their tanks with the little gasoline available have already become a common sight. Every so often, a fresh item of news triggers the lengthening of these lines along the country's streets and avenues, making life that was already difficult for Venezuelans even more difficult. Faced with this problem, the question we ask ourselves is: What are the reasons for this shortage of gasoline?

The first reason is obvious. The destruction of the oil industry in the past few years has resulted in a reduced supply of gasoline. According to secondary sources, production has fallen by 39.5% on average so far this year. This shortage has been made more acute in recent months as a result of the sanctions imposed on PDVSA by the United States at the end of January, which forbid US companies to sell PDVSA diluents, gasoline or any refined products. The sanctions came at the worst possible time for PDVSA. Figures published by the US Energy Information Administration (EIA) show how imports of diluents and gasoline from the United States had been growing by 58.3% a year on average since 2016, peaking at the end of last year at 60 kb/d, and with domestic consumption below 200 kb/d according to different sources. This reliance meant that, when sanctions were applied, their impact on domestic consumption was substantially greater.

In our Weekly Report No. 3 “*Endgame*,” we pointed out that, in a context of deterioration of the refineries, shortage of spare parts, poor management of the oil industry, and sanctions, the shortage of gasoline was imminent. Now the time has come, and without a structural change in the political conditions that would result the sanctions being lifted, it looks as though the problem is here to stay.

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ECONOMIC TIPS

Gold continues to flow out, Part I. A source consulted by the agency Bloomberg revealed that the Central Bank of Venezuela sold 9.7 tons of gold on May 10 and 4 tons on May 13. These last transactions meant that the international reserves came to USD 7.9 billion, their lowest level in 29 years.

Gold continues to flow out, Part II. Since the beginning of April, Venezuela has sold 23 tons of gold as a measure to generate alternative revenues in the face of the sanctions imposed by the international community. The main countries that have received the gold are Turkey and the United Arab Emirates.

Financing consumption. According to another source quoted by Bloomberg, the funds received from these sales will be used, in part, to finance imports via Venezuela's foreign trade office (Cencoex).

It's always worth getting a second opinion. The Russian news agency Sputnik published a news item announcing that Venezuela's ambassador in Geneva., Jorge Valero, had said that the Nicolás Maduro administration would be willing to receiving advice from Russia regarding rescheduling Venezuela's external debt with other countries.

Getting ready for the change. The Venezuelan opposition has hired Lee Buchheit, formerly of Cleary Gottlieb, a firm of lawyers that has represented other governments (in other countries) to defend their interests against creditors, for him to work on a rescheduling plan for Venezuela's debt.

Pointing out the consequences without remembering the causes. Nicolás Maduro administration's chargé d'affaires in Ecuador said that foreign banks had "*withheld and frozen more than USD 1.4 billion*" as a result of the financial sanctions imposed by the international community. He also commented that Venezuela currently maintains trade relations with 17 countries.

German motor vehicles to fill Venezuelan shortfalls. The National Integrated Customs and Tax Administration Service (Seniat) has authorized the importing of new and used motor vehicles by companies and private individuals, according to Resolution No. 013 published in *Gaceta Oficial* No. 6454.

OIL TIPS

Another door closed. According to India's ambassador based in Washington DC India ended its crude imports from Iran and Venezuela on May 3rd. This represents a critical hit to Venezuelan oil exports, of which an important relied on the Indian market.

The pressure's off... PDVSA's ad hoc board of directors appointed by Juan Guaidó reported that it had paid the interest on Bond 2020 in the week of May 16. This takes the pressure of Citgo's situation, whose shares had been put up as collateral for the bond in the event of default.

... for the time being. While this brings some relief, another interest payment on this bond amounting to USD 913 million falls due on October 27. On top of that there is the outstanding debt with the Canadian company Crystallex, which is seeking to take possession of Citgo for nonpayment of debts by PDVSA.

At half steam. The news agency Reuters has reported that the upgraders that process the extra-heavy crude have stopped production because Venezuela does not have any more space for storing the oil it is no longer able to ship abroad due to the sanctions. None of the country's upgraders are processing crude.

A kind of recycling. In order to avoid completely shutting down, the upgraders have started to "recirculate" products. That way the systems continue to function and this prevents the damage that would be caused if they were not producing. Reuters reports that *"the upgraders are recirculating because there is an excess of production, and there are no buyers."*

That's nothing new. The upgrader, which is one hundred percent owned by PDVSA, has not been operating for months, and the three remaining upgraders, which are joint ventures with foreign companies (Chevron of the U.S., France's Total, Norway's Equinor and Russia's Rosneft), are recirculating products. Reuters reports that none of the upgraders are processing anything, except the Sinovensa facility, a joint venture with China.

No one is willing to buy. Because of the difficulties PDVSA has been experiencing in getting buyers for its crude, stocks had built up to 1.9 million barrels in the first weeks on May, their highest in three months and nearly 20% higher than in April.

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Cardón out. Cardón Refinery has been completely off line since last week. Halting of operations at the refinery is due to damage in some of its units. The refinery has a production capacity of 310 kb/d, and the suspension of its operations has left Venezuela's oil sector even more debilitated than it was before.

From the Orinoco Oil Belt. Venezuela's oil production fell to 500 kb/d, according to the report issued by the Organization of Petroleum Exporting Countries (OPEC). Argus Media reports that much of this drop is occurring in the Orinoco Oil Belt, where production has fallen to less than 200 kb/d, compared to the 700 kb/d it was producing in early May.

Gasoline shortages are back. Maracaibo -Venezuela's second largest city- is experiencing gasoline shortages, which are creating long lines of vehicles waiting to get their tanks filled. AP News reports that some people wait for as long as 24 hours in order to be able to fill up their vehicles with gasoline. Among the causes of this situation is the lack of cash to buy diluents so as to be able to meet the domestic demand for gasoline.

Discounts. According to S&P Global Platts, PDVSA is offering 6.4 million barrels of crude to Indian, Russian and Chinese companies at a discount. The agency reports that the selling prices are outside the parameters for the European and Asian markets, but PDVSA is offering a low price because it needs to reduce stocks at the terminals in order to allow the refineries to continue operating.

BUSINESS SECTOR TIPS

And now? The Superintendency of the Banking Institutions (Sudeban, in Spanish) and the Central Bank of Venezuela (CBV) asked the bankign entities to develop new paying mechanisms independent from Mastercard, Maestro y Visa's services. Among the different options, there is the extension of Pago Móvil between people and an enterprise. Then other debit and credit payment mechanisms will come.

Reaction to the sanctions. The CBV expressed that this has "*no intentions of ending operations with international franchises of debit and credit cards*", but it is part of the reaction to the US sanctions and executive orders of prohibition to make transactions with Banco de Venezuela, Banco Bicentenario and Bandes.

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Drastic electricity rationing. *El Universal* reports that, apart from the operational problems that are occurring as a result of getting the country's electric power system up and running again, the electricity rationing Venezuela is being subjected to is just one of the consequences of the major nationwide power outs that happened in March. Serious damage in Guri's Yard B and the fact that 73% of hydroelectric generation and 88% of thermoelectric generation are no longer available are additional causes of the shortfall in electric power that the country needs.

Food isn't getting distributed. The Venezuelan Food Industry Chamber (Cavidea) has complained of problems with the Integral Food Control System (SICA). SICA is the platform used by the National Superintendency of Agricultural and Livestock Supplies (Sunagro) to distribute food nationwide.

Contingency plans fall short. Cavidea reports that contingency plans have been implemented but that they have not been enough to completely solve the problem. Among other things, Cavidea revealed that the flour industry is working at only 50% of its production capacity.

Fewer and fewer cars. The president of the Venezuelan Automobile Products Manufacturers Chamber (Favenpa), Omar Bautista, reported that the auto parts sector had shrunk by 90% in the past 10 years. In the first four months of the year, only 65 vehicles had been assembled compared to 326 units assembled during the same period last year.

Hyperinflation is to blame. Bautista commented, "*All the companies say that the drop in the market is the main problem due to hyperinflation, which has increased costs and wiped out people's purchasing power. No one is buying spare parts; there are no domestic or imported raw materials; and the private sector banks are not granting credit,*" he explained.

Measles. The Pan American Health Organization (PAHO) reports that the measles epidemic is still active in Venezuela. Between January and April 2019, 203 cases of measles were confirmed in the country. According to the PAHO's report, the states where it is still active are Anzoátegui, Zulia, Carabobo, Monagas, Capital District, Miranda, Cojedes, Amazonas, Aragua, and Bolívar.

Again. Measles reappeared in Venezuela in 2017, claiming some 78 victims. Since then 9600 suspected cases have been identified, 6600 of which have been confirmed. The states where the disease is most prevalent are Anzoátegui and Zulia, according to the PAHO.

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New strike. The Federation of University Teachers' Associations of Venezuela (Favup) reports that it has called another stoppage of teaching activities to demand that their labor and salary demands be met. The stoppage is scheduled for May 21, 22 and 23.

Date extention. In addition, three universities in Táchira state announced that they would suspend activities "until further notice" due to difficulties in getting to work as a result of the lack of gasoline. The universities that are to suspend activities are *Universidad Nacional Experimental del Táchira (UNET)*, *Universidad Pedagógica Experimental Libertador (UPEL)* and *Universidad Católica del Táchira (UCAT)*.

Without dialysis. The CARE Dialysis Unit in Maracay needs four tanker trucks of water in order to be able to provide its services. The water is needed to clean the machines and artificial kidneys to which the patients are connected in order to receive treatment. It is also needed to perform hemodialysis.

High costs. The CARE Dialysis Unit was notified that the Venezuelan Social Security Institute (IVSS) would no longer be able to cover the costs of the water trucks to supply it with water. This means that the unit may not be able to continue operating. *"It's very sad that people are being asked to contribute to a collection because many of the patients do not even have the money to pay the bus fare to get to the unit,"* said the director of Transplanted Patients' Friends of Venezuela, Reymer Villamizar.

Crime abundances. The 2018 report published by the NGO Community Learning Center (Cecodap) revealed that 287 children and adolescents died at the hands of the police in 2018; that gives an increase in deaths of this type of 265% compared to 2017. The number of violent deaths in 2018 was 1,484, up 130% compared to 2017.

WORLD ECONOMY TIPS

Maintaining stability. A press release from the People's Bank of China stated that the bank is to maintain the basic stability of the exchange rate of the yuan within a balanced and reasonable range.

They're ready. In an interview, Pan Gongsheng, the deputy governor of the People's Bank of China, added that the bank was confident it would be able to meet its stability target.

Escudo that defends its kingdom. In this environment marked by US sanctions, the People's Bank of China has said it will help to reduce the costs of loans for companies,

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in particular for small firms. This is in line with the reduction in the legal reserve requirements implemented last month to encourage loan activity and the cut in the lending rate of 28 basis points.

It will be necessary to keep a close watch. The Brazilian real (BRL) depreciated to above BRL 4.103/USD, up 3.5% from the previous week and the biggest weekly increase since August last year.

Plan aborted. Sources consulted by Reuters said that Turkey had decided to scrap a plan to transfer TRY 40.0 billion in legal reserves from its central bank to the treasury in order to balance the country's budget.

What else can they do? A document from Germany's Ministry of Finance revealed that the cost of integrating more than a million refugees who are currently living in the country went up to EUR 23.0 billion in 2018. That is an increase of 11% compared to 2017 (EUR 20.8 billion).

It's enough. On top of that, the government spent EUR 7.9 billion in 2018 on policies geared to keeping migrants out of the European Union and to improving living conditions in their countries of origin, 16% more than in 2017.

Invulnerable. The president and chief executive officer of the Federal Reserve Bank of St. Louis, James Ballard, commented that the US economy would not suffer any great damage as long as the trade war between China and the United States did not continue for any length of time. Ballard argued that the size and the diversity of the economy were the key for the United States to defend itself from trade tensions.

One step at a time. Brazil's President Jair Bolsonaro said that his government would submit a tax reform proposal to Congress as soon as it approves the pension reform. The pension reform seeks to generate savings of more than USD 306 billion over the next decade.

Running out of steam. The Bundesbank commented that Germany's growth would run out of steam in the second quarter. In its monthly report it clarified that the growth observed during the first quarter was due to "special factors," adding that expected growth was also due to weaker demand for motor vehicles in the rest of the world in a context where global motor vehicle sales will continue to fall in 2019.

Looking for more fertile ground. US President Donald Trump commented that the tariffs imposed on Chinese goods have prompted companies to move their production facilities from China to Vietnam and other countries in the continent.

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A matter of inclusion. The Inter-American Development Bank (IDB) has approved a USD 40 million loan for Panama, supplemented by a contribution of USD 3 million to implement a financial inclusion and entrepreneurial program in areas of the country where there are indigenous populations.

Getting stronger. Chile's Minister for the Economy, Felipe Larraín, said that the country was going through a complex and demanding situation in the current international scenario, which has meant that Chile's growth projections have been revised downwards four times (from 3.5%). He gave these statements after the World Bank published that Chile had posted growth of 1.6% in the first quarter, below the 1.8% that had been expected. However he gave assurances that this trend would be corrected over the rest of the year.

POLITICAL TIPS

A Constituent National Assembly for life. At an extraordinary session, the Constituent National Assembly debated and approved an extension to the deadline for carrying out its work until December 31, 2020, "at least." According to the proposal submitted by Pedro Carreño, this is so that the National Constituent Assembly can "extend the period during which its functions are valid."

Dominican Republic 2.0? The Norwegian Government announced that it had had "preliminary contacts" with representatives of the acting government headed by Juan Guaidó and envoys of the head of government in dispute, Nicolás Maduro, as part of an effort to put an end to the crisis Venezuela is currently experiencing.

Representatives, go forth and dialog. Regarding the meeting, both Guaidó and Maduro confirmed that they sent representatives to Oslo to start negotiations. Maduro's mission was headed by Minister of Communication and Information Jorge Rodríguez and Governor of Miranda State Héctor Rodríguez, and Guaidó sent the second vice president of the National Assembly, Stalin González.

Changing signals. On the matter of dialog, Stalin González commented that the talks with Norway to evaluate solutions to Venezuela's crisis had been with representatives with the Norwegian Government and not with officials of the Nicolás Maduro administration. "We are in an exploratory phase. All the meetings were conducted through Norway. There have been no direct meetings with the governing coalition," clarified González.

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Learning from past mistakes. Deputy González said that the negotiations held with the government in the Dominican Republic could not be compared to the path that is being evaluated with the help of Norway. *“There’s no comparison between one process and the other because the circumstances are different. We’re in an exploratory phase, seeing whether or not they accept what we are proposing,”* he said.

“They won’t deceive us.” Guaidó clarified that the Venezuelan Government seeks to confuse the opposition with an alleged dialog. The acting president claimed, *“They are so weak that they want to deceive us with a dialog (...). Yes, we went (to a meeting), but there is nothing to put on the table there. Here the entire country knows what it wants and what it needs. Let us make no mistake about it.”*

The letter has borne fruit. Juan Guaidó’s representative in the United States, Carlos Vecchio, held a meeting with top commanding officers of US Southern Command to talk about the restructuring of democracy in Venezuela. The encounter occurred in response to a letter from Vecchio in which he conveyed Guaidó’s willingness to *“start the cooperation talks offered by your command.”*

Problems on the border, Part I. Eskamoto Military Fort was taken over on May 19 by members of the General Military Counterintelligence Directorate (DGCIM) after rumors had been spread of a possible uprising of the troops at this border outpost located in Santa Elena de Uairén.

Problems on the border, Part II. The intervention by the DGCIM happened after officials at the outpost allegedly held meetings with the troops with a view to taking over the fort and then putting themselves at the service of the president of the National Assembly, Juan Guaidó.

New routes. The mission of the international contact group sponsored by the European Union that traveled to Caracas to meet with the different parties in the Venezuelan conflict announced that it would address a *“possible route for a negotiated electoral path.”*

All the players. This political mission was made up of representatives of the European External Action Service and the governments of Spain, Italy, Portugal, Sweden, and Uruguay, who met with *“all the relevant national actors.”*

Justice will be served. The first vice president of the United Socialist Party of Venezuela (PSUV), Diosdado Cabello, said that “justice” would be meted out to Acting President Juan Guaidó, whose parliamentary immunity has been removed by the

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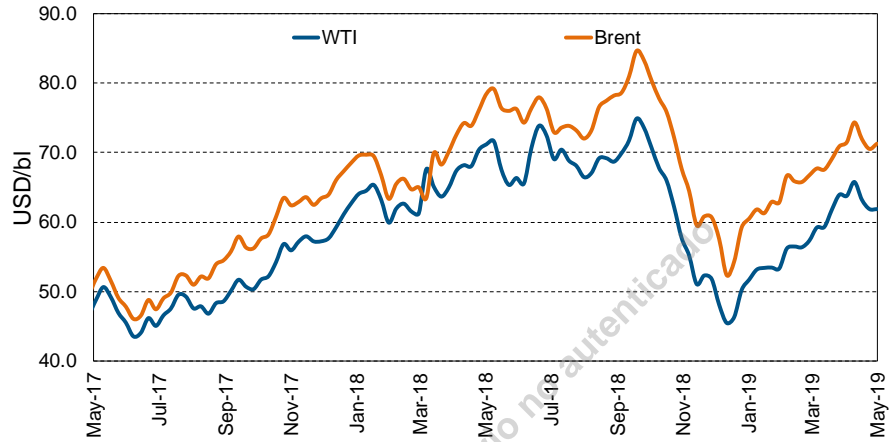
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Constituent National Assembly. The attacks on the National Assembly started in 2016 when it was stripped of its functions and are now continuing with the persecution of its members.

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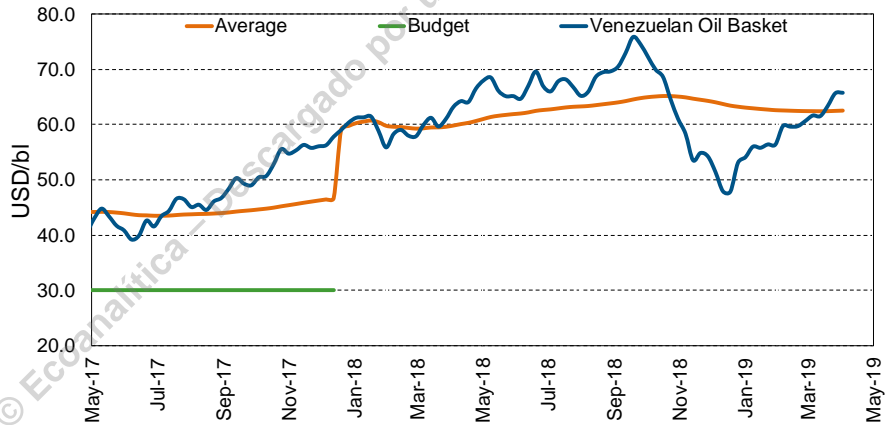
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



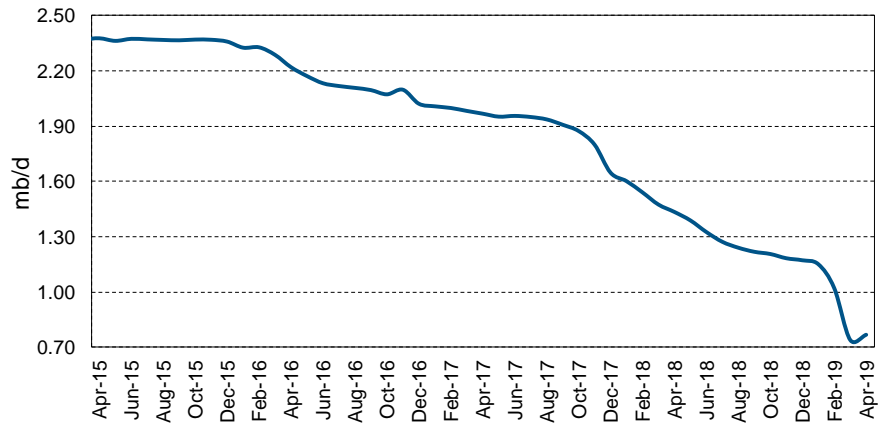
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

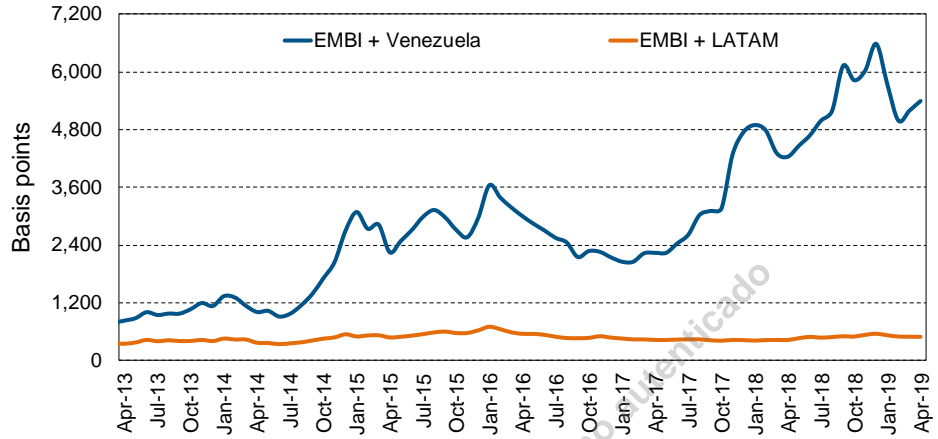
**Oil Production
(Secondary sources)**



Sources: OPEC and Ecoanalítica

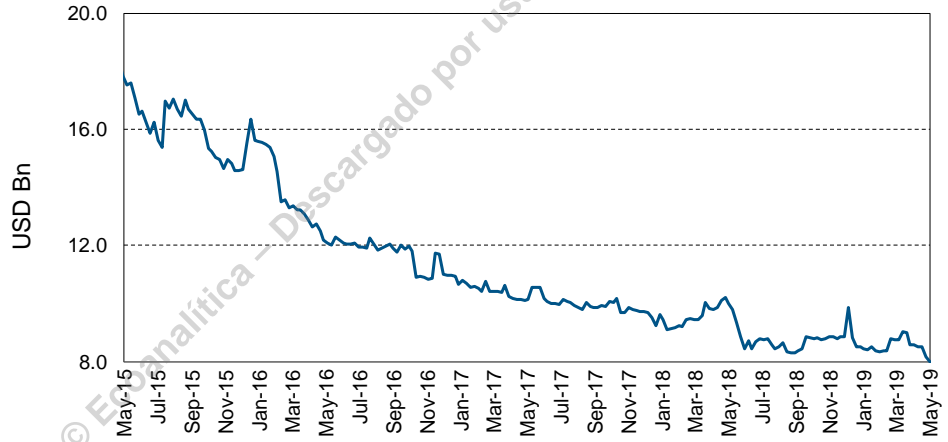
ECONOMIC INDICATORS

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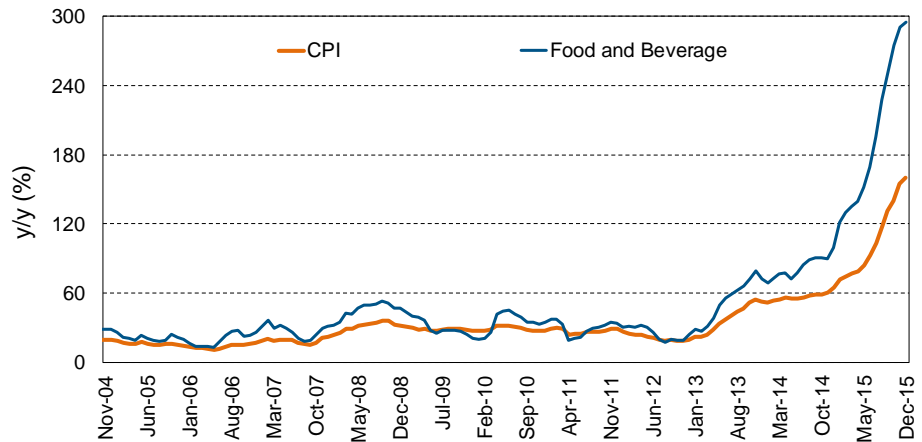
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



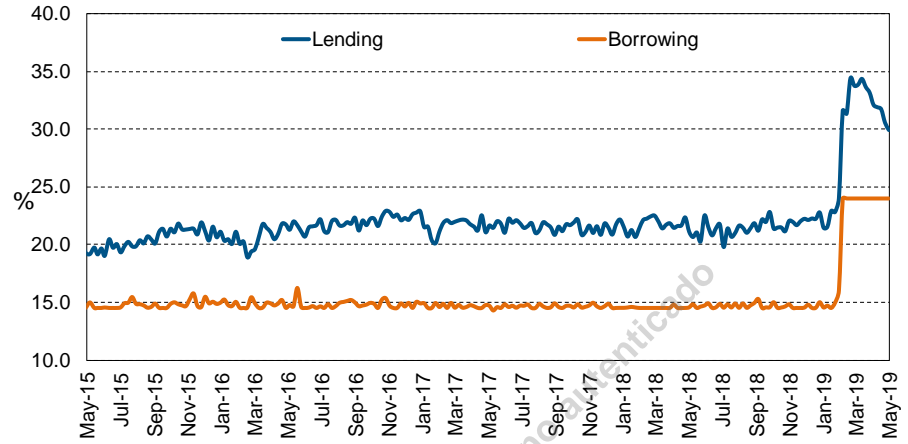
Sources: BCV and Ecoanalítica

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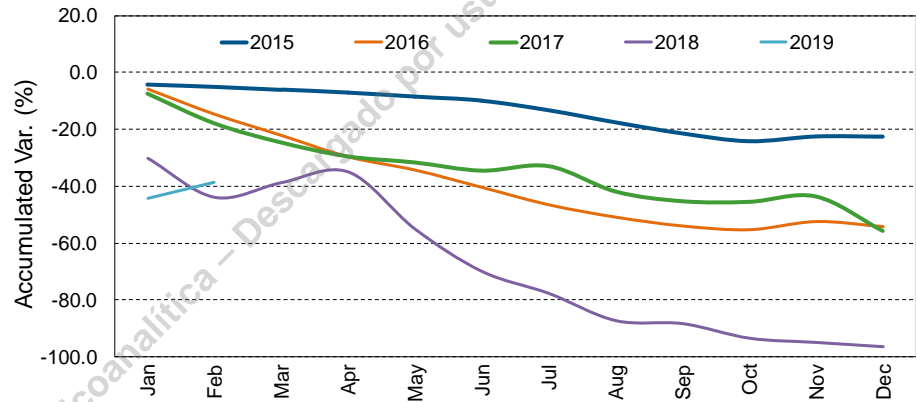
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



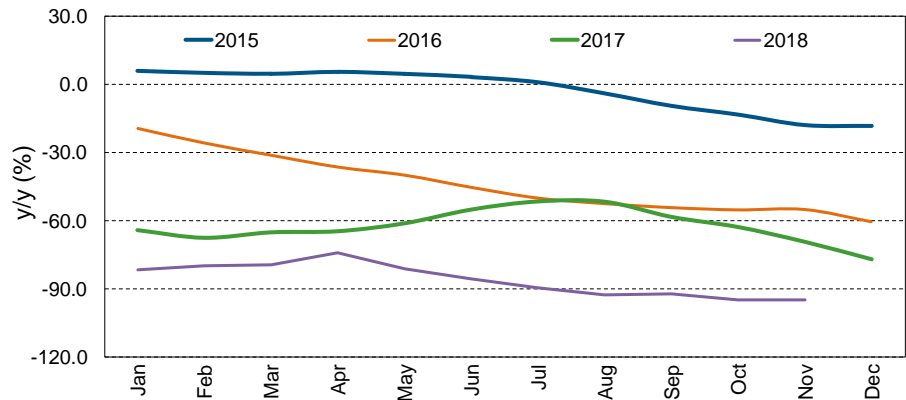
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

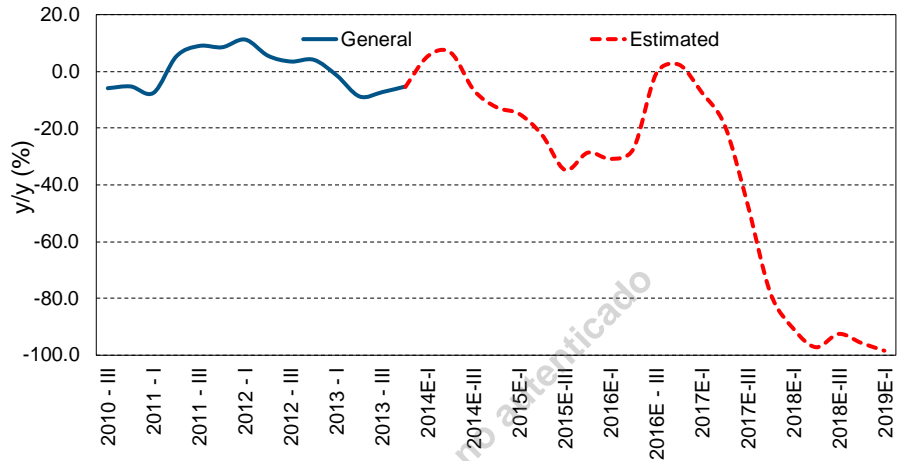
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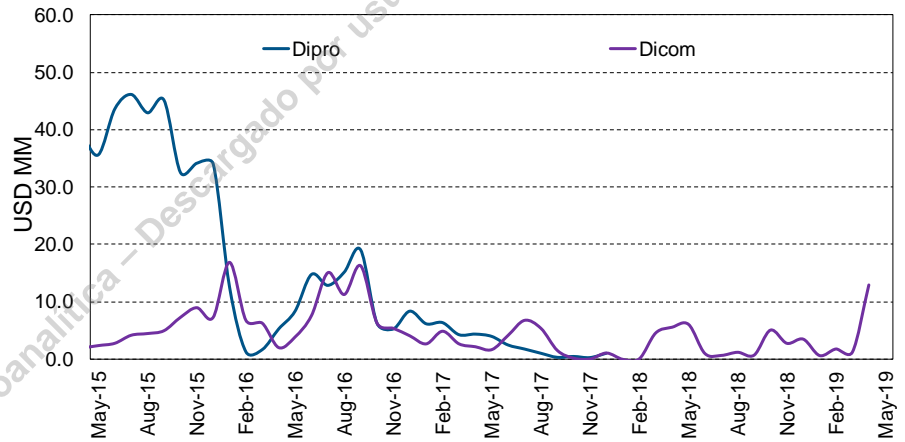
ECONOMIC INDICATORS

Real Wage Index



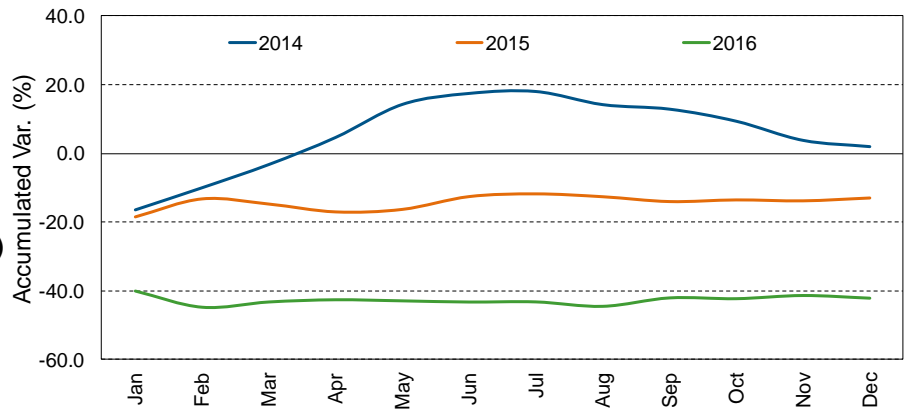
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

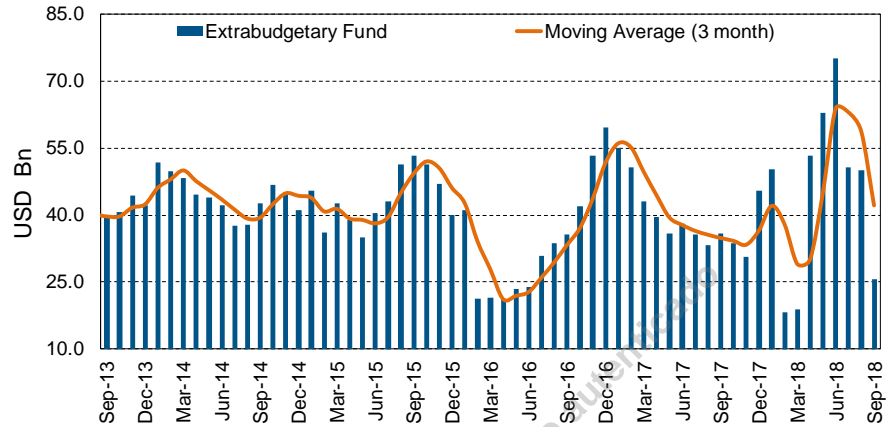
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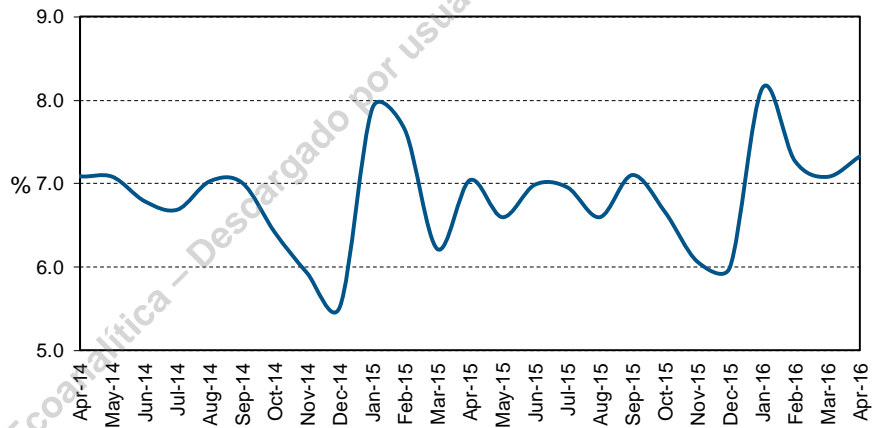
ECONOMIC INDICATORS

State Extrabudgetary Resources



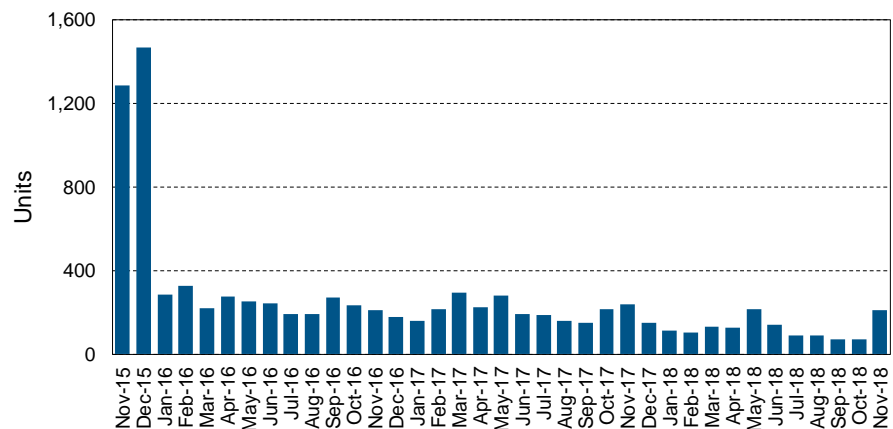
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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