

12 questions about rising petrol prices (II)

In the previous report "12 questions about rising petrol prices (I)" we described initial assessments of the fuel subsidy reform implemented by the Venezuelan government as of June 1st. In that first installment, we analyzed the implications of establishing differentiated prices¹ for gasoline, which creates strong incentives for arbitrage and encourages corruption similar to the system of multiple official exchange rates that operated until 2019.

At **Ecoanalítica**, we believe that the configuration chosen by the Executive corresponds to an imperfect response to resolve one of the greatest distortions in the Venezuelan economy: the fuel subsidy. In this report, we will continue to answer key questions to analyze the dynamics of the latest price increase and make general considerations about a successful subsidy reform.

8) What is the political economy of adjustment?

The adjustment of the price of gasoline is a politically sensitive and essentially *taboo*² subject within the Venezuelan public sphere. The precedent of the February 1989 riots³, known as the *Caracazo*, has motivated the authorities to be very discreet about the adjustment of fuel prices. Similar to other cases in Latin America and oil producing countries, Venezuelan governments tend to delay fuel price increases until the time they become fiscally unsustainable.

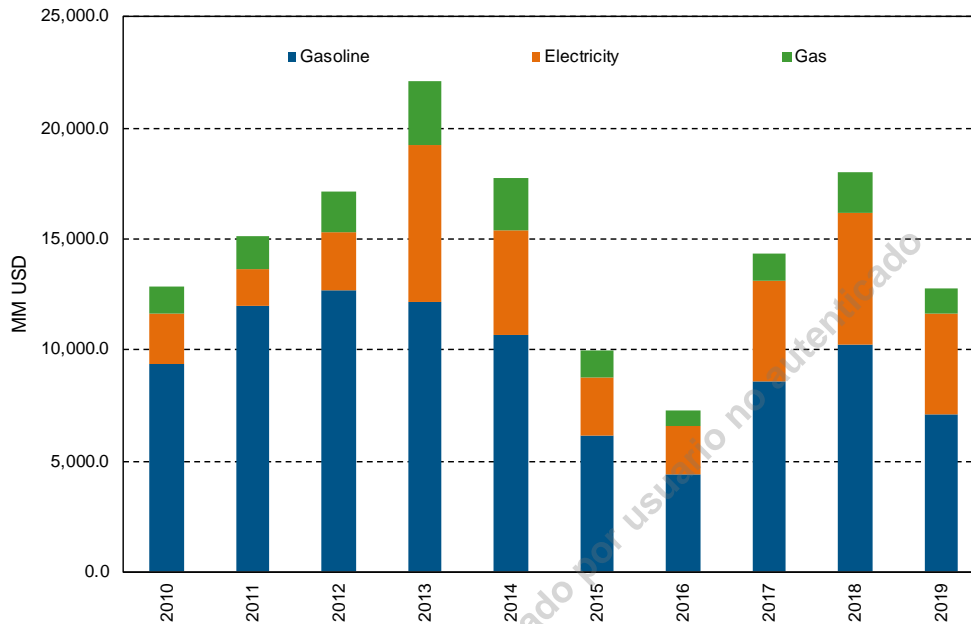
¹ One "subsidized" at VES 5,000 and one "international" at USD 0.5 per liter.

² Weekly Report No. 31 of 2018: *Mature vs. Round two: A look at the gasoline subsidy*.

³ Coincident with 30% and 100% increases in the price of gasoline as part of a macroeconomic stabilization program.

Year 16. Number 21. Week II
 June 2020

Energy subsidies in Venezuela



Sources: EIA and Ecoanalítica

In this sense, the increase⁴ decreed by the Venezuelan government can be analyzed within the framework of a balance of both budgetary and political restrictions. In principle, an adjustment that contemplates international prices shows fiscal pressures that make the previous scheme unviable to maintain, with the Executive needing to free up resources to be allocated to other expenditures. On the political front, the reform can be perceived as a sign that the government considers that it will not have significant political costs as to avoid its implementation. In addition, the establishment of differential rates, with predictable incentives for arbitrage makes it possible to maintain income distribution structures for members associated with the governing coalition.

9) Why is it so difficult to reform fuel subsidies?

Venezuela is in a similar balance to that described in a paper by Ebeke and Ngouana (2015)⁵, where high energy subsidies lead to low relative levels of social investment as

⁴ The second of the presidency of Nicolas Maduro, following an increase in 2016 that saw gasoline 91 octane rise to VES 0.00001 per liter (increase of 1,308.5%) and the 95 octanes to VES 0.00006 per liter (increase of 6,085.6%)

⁵ Ebeke, M. C., & Ngouana, M. C. L. (2015). *Energy subsidies and public social spending: Theory and evidence* (No. 15-101). International Monetary Fund.

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

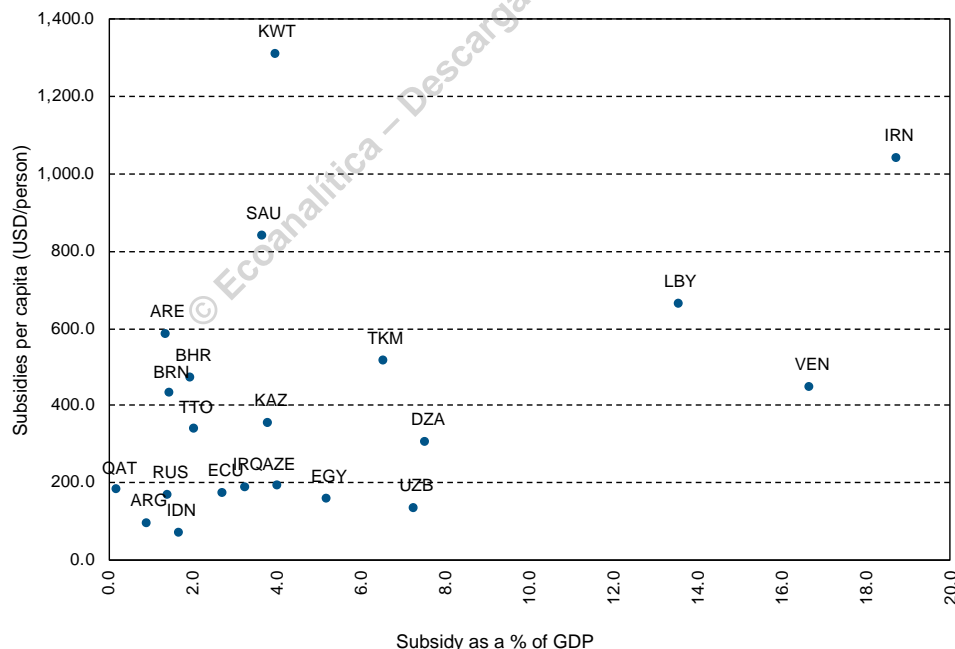
a result of a state with weak institutions⁶, deficient capacities in the provision of public goods and limited fiscal space, resulting in an arrangement in which the political class and high-, middle- and low-income sectors prefer the maintenance of subsidies in the face of pessimistic expectations that these resources would be better employed otherwise.

Clements *et al.* (2013)⁷ analyzed 28 cases of energy subsidy reforms⁸ and summarized the obstacles and barriers encountered in adjusting tariff schemes, including:

Lack of information on subsidies

The true scale of subsidies is rarely reflected in the budget, and the general population has no information on how national prices compare with international prices, much less on the adverse consequences of subsidies on economic efficiency, opportunity costs for resources that cannot be employed in other social investments, and negative externalities in terms of environmental impact.

Fuel subsidies: per capita vs. share of GDP



Sources: EIA and Ecoanalítica

⁶ In Health, Education, Infrastructure, for example.

⁷ Clements, M. B. J., Coady, D., Fabrizio, M. S., Gupta, M. S., Alleyne, M. T. S. C., & Sdravovich, M. C. A. (2013). *Energy subsidy reform: lessons and implications*. International Monetary Fund.

⁸ Of which 12 were successful, 11 partially successful and 5 failed.

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Lack of trust in the authorities

Even in situations where people are aware of the harmful and counterproductive effects of the existence of subsidies, they will not support a reform if they do not trust the Executive to use the savings wisely. In countries with a history of corruption, opacity and inefficiency in the management of public finances, citizens will oppose reform that involves losing what they consider to be the only guaranteed benefits they receive from the State.

Pessimism due to economic impact

In countries with a record of inefficiency in anchoring price expectations, subsidy adjustment, without a clear and coherent macroeconomic strategy to support it, can increase price volatility in the short term because of the increase in intermediate costs that were previously adjusted to the low price of subsidized goods. In addition, although energy and service subsidies tend to be captured disproportionately by more affluent sectors, their disorderly removal can have a significant impact on the consumption capacities of households in vulnerable financial situation.

Stakeholder Opposition

Attempts at reform may see their support eroded by organized pressure from groups that benefit from the *status-quo*, which may include members of government concerned about the resulting political costs, members of the middle class and industry who capture disproportionate shares of the subsidies, along with agents with the capacity to exploit the subsidy system as a mechanism for rent extraction.

10) What has been the international experience?

International experience with subsidy reforms is extensive, both in terms of success and failure. Within Latin America, Bolivia (2010) and Ecuador (2019) serve as examples to illustrate the consequences of implementing reforms without prior notification to the population or mitigation measures to smooth the effect on household income. In both cases, citizen rejection and subsequent political instability were enough to force the cancellation of the adjustments within a few days of their announcement.

Peru (2004-2012) and Chile (1990-2010) offer lessons on the design of fuel price stabilization funds. Over the years, it was necessary to undertake substantial

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
 June 2020

modifications to their calculation and operating regulations to make them financially viable and responsive to external shocks.

Brazil, for its part, (from the 1990s to 2001) carried out a successful program of oil product subsidy reforms that accompanied the macroeconomic stabilization of the 1990s that ended its hyperinflationary episode. The adjustment process was gradual and freed up, first, the prices of products with a limited number of consumers (asphalt, lubricants) and progressively moved to fuels with wider consumption, such as gasoline in 1996, liquid gas for end consumers in 1998 and diesel in 2001. Conditional transfer programmes were also established as part of the compensation and assistance network for low-income citizens, which would eventually become the famous *Bolsa Familia*.

Summary of energy subsidy reform cases summary			
Country	Product	Reform time frame	Result
Armenia	Electricity	Mid-90s	Successful
Bolivia	Gasoline	2010	Unsuccessful
Brazil	Gasoline	1990-2001	Successful
Brazil	Electricity	1993-2003	Successful
Chile	Gasoline	Beginning of the 90s	Successful
Ecuador	Gasoline	2019	Unsuccessful
Philippines	Gasoline	1996	Successful
Philippines	Electricity	2001	Successful
Ghana	Gasoline	2005	Partially successful
Indonesia	Gasoline	1997	Unsuccessful
Indonesia	Gasoline	2003	Unsuccessful
Indonesia	Gasoline	2005	Partially successful
Indonesia	Gasoline	2008	Partially successful
Iran	Gasoline	2010	Partially successful
Kenya	Electricity	Mid-90s	Successful
Mauritania	Gasoline	2008	Unsuccessful
Mauritania	Gasoline	2011	Partially successful
Mexico	Electricity	1999/2001/2002	Unsuccessful
Namibia	Gasoline	1997	Partially successful
Niger	Gasoline	2011	Partially successful
Nigeria	Gasoline	2011-2012	Partially successful
Peru	Gasoline	2010	Partially successful
Poland	Coal	1990-1998	Unsuccessful
Poland	Coal	1998	Successful
South Africa	Gasoline	1950s	Successful
Turkey	Gasoline	1998	Successful
Turkey	Electricity	80s	Successful
Uganda	Electricity	1999	Successful
Yemen	Gasoline	2005	Partially successful
Yemen	Gasoline	2010	Partially successful

Sources: IMF (2013) and Ecoanalítica

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

11) What does successful subsidy reform require?

Coherent reform strategy

Subsidy adjustment should be framed within a broader stabilization and reform agenda that defines clear long-term objectives and supports the redirection of resources towards more efficient social investments, while serving as an essential component in the recovery of public services. At the same time, particular attention should be paid to institutional strengthening for the depoliticization of subsidies and the prevention of their reintroduction for electoral purposes.

Effective and transparent communication

Any reform strategy must be supported by clear communication on the rationale, procedures and associated benefits to ensure, in particular, that the public is aware of the impact of subsidies. In this way, population expectations are adjusted well in advance of the first adjustment. In this regard, both the rules and the mechanisms that dictate the dynamics of the adjustments must be sufficiently transparent and consistent so that they do not fall prey to political interruptions.

Reform Sequence

Although the reform schedule will be conditional on the fiscal space available, it is recommended that it be gradual and executed in tandem with the consolidation of adequate compensation mechanisms. The adjustment sequence can be ordered in such a way as to balance between prioritizing adjustments in those items that represent the greatest potential for releasing resources and those that would imply disproportionate impacts on the most vulnerable population.

12) Is subsidy reform really necessary in Venezuela?

At **Ecoanalítica** we believe that subsidies to services in Venezuela, especially to fuel, represent considerable opportunity and resource costs that are wasted on inefficient, regressive policies, prone to perverse incentives and negative externalities. We believe that a reform of subsidies is vital for the restoration of fiscal sustainability and operational recovery in the provision of services; and that any strategy designed for that purpose must aim particularly at mitigating the impact of the reform on the population with fewer resources so that the adjustment can be not only corrective but socially and politically viable.

Giorgio Cunto
Jhoan F. Castellano

© Ecoanalítica – Descargado por usuario no autenticado

Year 16. Number 21. Week II
 June 2020

WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week June	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD)²	198,651.71	0.7	0.7
	4th Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	39.8	0.0	9.5
	1st Week June	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	36.1	-51.5	-39.6
	1st Week June	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.5	0.5	-20.8
	5th Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	114,595,401	8.3	1,602.7
Price of International Oil Baskets (USD/bl)			
	1st Week May	Weekly chg. (%)	Annual chg. (%)
WTI	22.5	47.8	-63.7
Brent	28.8	31.1	-59.2
Price of the Venezuelan oil basket (USD/bl)			
	1st Week May	Weekly chg. (%)	Annual chg. (%)
Weekly Average	13.4	39.1	-79.0
Annual Average	33.9	-3.2	-43.3

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

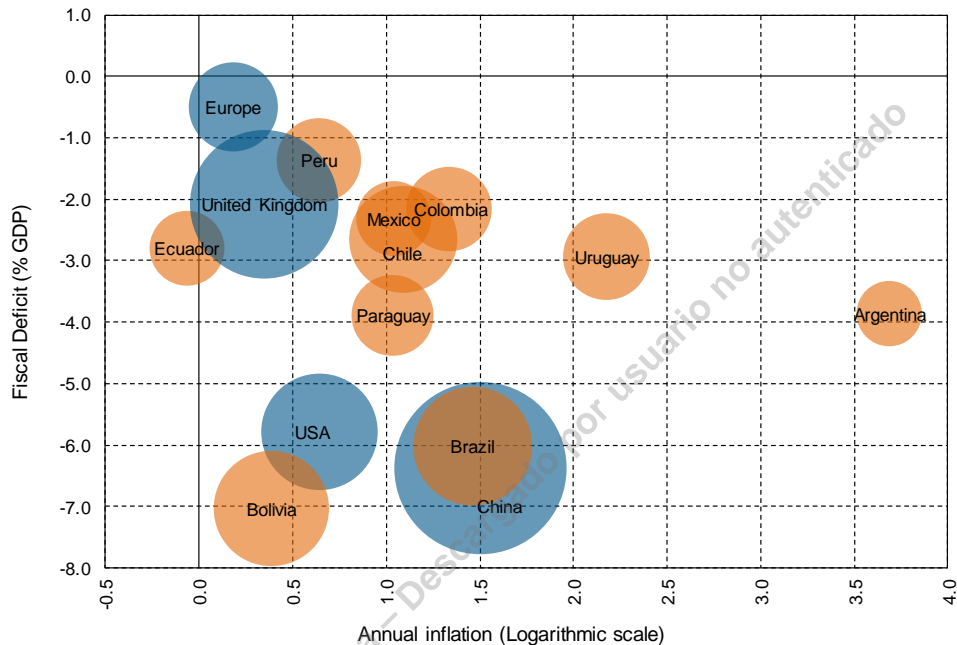
¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

CHART OF THE WEEK: "A NEW LIVING SPACE"

Fiscal and monetary margin to tackle COVID-19
(2018 -2019)



Sources: IMF, FocusEconomics and Ecoanalítica.
Notes: The size of each circle indicates the degree of monetization (as a % of GDP). Euro zone excludes Germany.
Orange indicates that the country belongs to Latin America.

Since the emergence of COVID 19 and its spread around the world, many nations have undertaken a series of fiscal and monetary adjustments to try to mitigate some of the damage caused by the pandemic in their markets. In addition to fiscal actions aimed at protecting local consumption and mitigating the labor impacts of official containment measures, many regulators around the world have pushed for monetary changes, fearing that this new shock will generate similar credit contractions as those seen during the subprime crisis.

The Latin American region has been no exception. In recent weeks, countries such as Colombia, Brazil and Peru have made successive cuts in benchmark interest rates and improvements in the mechanisms for providing liquidity to the local financial system, while making tax schemes and budgetary targets more flexible, accompanied by announcements of various fiscal stimulus packages to be implemented as the pandemic escalates. However, pending further spread of the virus throughout the region (given the recent trend in new infections), Latin America seems to be more deprived of the fiscal

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

and monetary "space" needed to continue making this type of adjustment at the lowest possible economic cost compared to some of the advanced markets that have taken a similar position.

If we look at the conditions in the region in these areas between 2018 and 2019, some economies such as Bolivia, Uruguay, Brazil and Argentina showed high fiscal deficits and relatively higher (or very high, in the case of Argentina) inflation than that shown in the Eurozone or the UK, although relatively comparable to the US in fiscal terms. Even China, the first major victim of the virus, showed similar conditions in the public and price areas. At the same time, the degree of monetization of these markets (scaled by the size of the circles in the graph) was also higher than that of their European peers, as in other countries with lower inflation but higher deficits such as Chile, Colombia, Mexico and Paraguay (to a lesser extent). In contrast, Peru was less constrained, in terms of money in circulation, deficit and inflation, while Venezuela (impossible to chart) has no room at all for further "stimulus", as a result of almost 300% inflation in the first five months of 2020.

All of the above indicated that the economies of the region were starting out in 2020 with a fiscal and monetary environment that, if expansionary policies were applied (increases in public spending or greater monetary injection), the resulting imbalances would put further pressure on price in the medium term, raising the cost of such actions. In this regard, the COVID-19 has forced some local economies to partially renounce their anti-inflationary objectives, as a result of the low level of action that the fiscal and price past has provided the region's policymakers with. For lack of space, the room seems to be filling up with water faster and faster for Latin America.

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

ECONOMIC TIPS

COVID-19 in Venezuela. According to official figures, there are 2,738 positive cases of coronavirus and 23 deaths have occurred as of June 10th.

Bonds and more bonds. The Venezuelan Institute of Social Security (IVSS) reported that it was granted the "Bono Contra la Guerra Económica" (Bond against the Economic War) through the Patria system. It was deposited a total of VES 300,000 until June 6th.

The inflationary roller coaster (I). The Central Bank of Venezuela (BCV) published National Consumer Price Index (NCPI) figures for April and May. Monthly inflation stood at 27.5% for April and 38.6% for May. In addition, accumulated inflation since the beginning of the year was 295.9% and the variation of the NCPI from May last year to May this year was 2,296.6%.

The inflationary roller coaster (II). On the other hand, the National Assembly's National Consumer Price Index (INPCAN) acknowledges an increase of 15.3% from April to May, 23.3 percentage points below BCV figures. In addition, the INPCAN places the accumulated inflation of May at 409.18% and the year-on-year one at 3,684%.

The inflationary roller coaster (III). When making comparisons, we note that the sector that recorded the largest rise in the INPCAN was the services sector with 85.8%, while for the BCV this sector varied only 18.7%. The prices of food items varied by 34.1% for the Legislative branch, while the BCV recorded a rise of 43%.

It would be the same with or without minimum wage. The Caracas Food Basket, which records the prices of eight basic items, published by Congressman José Guerra, presented a weekly variation of 4.3% for June 7 and reached a cost of VES 3,490,000 or USD 18.08. The congressman said that with a minimum wage you can only have access to 11.4% of its products.

In a constant race (I). According to the monthly report for April from the Superintendency of Banking Sector Institutions, the banks' surplus reserves stood at VES 20.8 billion, of which VES 7.76 billion were granted in the form of loans.

In a constant race (II). Comparing the variation of the portfolio in nominal terms, the amount destined to commercial and agricultural loans, whose inter-monthly variation was 73.9% and 121.0%, respectively, were the only ones that exceeded the variation of the National Consumer Price Index of 27.5% from March to April.

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

In the middle of the fall (I). In its "Global Outlook" report, the World Bank projected a 5.2% fall in global real GDP by 2020. All regions will contract except East Asia and the Pacific, which will grow by 0.5% thanks to the recovery of China, which will end the year with 1.0% growth.

In full fall (II). For Latin America, a 7.2% fall is projected for 2020 and a 2.8% recovery for 2021, not including Venezuela, since the WB did not make projections for this country.

Money tables. For the week of June 5, the average rate for money tables was VES 198,651.7/USD. This represents a 0.7% depreciation from last week.

Liquids? Liquidity was VES 114,595,401 million for the week of May 29, a variation of 8.3% in nominal terms from the previous week (May 22) and 1602.7% from last year.

OIL TIPS

On alert (I). According to Reuters sources, the United States could be preparing new sanctions for oil tankers. There are 25 super tankers with the capacity to transport up to two million barrels of crude oil and 17 smaller vessels that could be subject to sanctions.

On alert (II). Although no U.S. authority has issued a tweet on the subject, the White House National Security Council stated that "Flag registries, shipping companies and their associated suppliers are warned: Illegal transactions with the illegitimate regime of Venezuelan Nicolás Maduro may subject you to crippling financial and economic sanctions.

I better go! (I). Meanwhile, the ship Seadancer from the Tipco Asphalt company in Thailand, used in a long-term contract with PDVSA, returned to Gibraltar after waiting for a week in the Atlantic. According to sources at PDVSA's El Nacional, this ship was expected to load one million barrels of Boscan crude oil for Malaysia's Kemaman refinery.

I better go! (II). In turn, the ship Novo made a U-turn in the Caribbean Sea and turned off its geolocator moments later. This ship was expected to carry a million barrels of hammock oil to Singapore.

How many stations are running? PDVSA published that there are currently 1,568 active filling stations throughout the country, of which 1,368 will supply fuel to the population for the subsidized amount (VES 5,000 per liter), while the remaining 200

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

gasoline pumps will sell the fuel at the price established by the Executive, which is USD 0.5 per liter.

Extended until July (I). OPEC+, composed of OPEC members, Russia and its allies, agreed to extend oil production cuts until the end of July, prolonging a pact that has managed to withdraw almost 10% of global oil supplies from the market with the aim of increasing oil prices brought down by the coronavirus crisis.

Extended until July (II). The organization and its allies had agreed in April to cut the supply by 9.7 million barrels per day (bpd) during May and June, but then to reduce the cuts to 7.7 million bpd from July to December. The new agreement extended the 9.7 million bpd cut to July.

Mexico can't. Mexico's Energy Secretary Rocio Nahle Mexico announced that her country will not join OPEC+ to extend the cuts. Andres Manuel Lopez Obrador, president of Mexico, added that his country has already complied with the production cut and said it cannot cut further its pumping.

Up to the minimum (I). According to Baker Hughes, since May 31st there is only one drilling machine operational extracting crude oil in the whole country. Until April 30, 12 drills had remained operational. For the time being, it is not known specifically which is the only active extractor.

Up to the minimum (II). According to data handled by Refinitiv Eikon and internal documents, PDVSA exported 451,935 barrels of crude oil and gasoline per day. This figure represents a historical minimum for PDVSA in the last 17 years.

Up to the minimum (III). These figures may be due to the declaration of bankruptcy of the company Libre Abordo, which signed an agreement with PDVSA to commercialize 30 million barrels of crude oil from 2019, until at the beginning of the year they were investigated by the Federal Bureau of Investigation (FBI) for non-compliance with oil sanctions against the country.

PDVSA got a bad break. The former Minister of Energy and oil expert, Humberto Calderón Berti, said that "the recovery of the industry, taking into account the resources that exist, will have to be done by the national and international private sector. PDVSA will obviously have a relatively small role".

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

SECTOR TIPS

In strength is in unity (I). The National Council of Commerce and Services (Consecomercio) and the Venezuelan Federation of Chambers of Commerce (Fedecámaras) presented proposals to the National Executive to safeguard the Venezuelan economy.

Strength is in unity (II). Among the proposals is a request to reduce the rate of Value Added Tax (VAT) from 16% to 14% and that it be paid on a monthly rather than a weekly basis.

Strength lies in unity (III). In turn, it was proposed that "the regulatory framework for labour relations must be rethought in a tripartite manner and a more modern system created to generate employment", as part of a series of petitions to make the country's labour laws more flexible.

From bad to worse (I). The president of the Venezuelan Confederation of Industrialists (Conindustrias), Adán Celis, reported that, before the pandemic, the different Venezuelan productive sectors were operating at 25% of their installed capacity.

From bad to worse (II). He reported that before the arrival of the virus, some 800 companies were expected to close this year, a figure that may increase with the impact of the pandemic on the country.

7x7 syncopated. Confinement measures were reactivated for the week of June 8th and, according to new measures established by Jorge Rodríguez, the plan of relaxation will be 7x7, where there will be 7 days of confinement and 7 days of controlled economic activity, different from the 5x10 explained above.

With the wings on the floor (I). Humberto Figuera, president of the Venezuelan Airline Association (ALAV), announced that the airlines are waiting for authorities to say when they will be able to resume operations. He said that because of the forced shutdown of this sector, it is very likely that some airlines will resort to financing in order to survive.

With the wings on the floor (II). Figuera added that, in principle, he considers it very unlikely that the aeronautical sector will be reactivated in June, but that, in July, some destinations could be opened starting with Panama and then the Dominican Republic.

The mills of Don Quixote (I). At a press conference, the president of the National Federation of Flour Industry Workers (Fetraharina), Juan Crespo, indicated that the

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

minimum requests for raw material to reactivate the twelve mills and industries of the sector increased from 120,000 to 70,000 tons.

The mills of Don Quixote (II). However, he predicts that the possibility of having enough raw material will be very low and that the next six months will be very hard for the federation.

A new educational model (I). Fausto Romeo, president of the National Association of Private Educational Institutions (Andiep), warned that the beginning of the next school year will be a hybrid of face-to-face and online activities.

A new educational model (II). He also reported that experience has been gained with the use of online educational platforms and that the application of this model is not particular to Venezuela, since the global trend is towards online education.

Halfway through (I). Giovanni Peroza, president of the Automotive Union in Lara state, said restrictions of up to 30 liters per day are being imposed to supply gasoline to the state's transportation units.

At half speed (II). He added that they already have few units to meet the demand for public transport, so on many occasions the measures of social distancing are not complied with. Finally, he argued that due to the dollarization of spare parts, the regulated fare should increase to VES 20,000.

INTERNATIONAL TIPS

COVID-19 in the world. According to figures published by the World Health Organisation (WHO), the number of positive cases of coronavirus reached 7,273,958 on 11 June, recording 413,372 deaths for the same record.

Risk of a second wave? In a statement, WHO said that some countries have recorded "surges" of coronavirus cases after decontamination began and stressed that populations must be protected from IDOC-19 while authorities continue testing.

America: the new epicenter. According to Margaret Harris, a WHO spokesperson, the epicenter of the pandemic is currently located in the nations of Central, South and North America, especially the United States.

Protests and coronavirus, a bad combination (I). Over the past few weeks, tens of thousands of American protesters have marched in Washington and other U.S. cities

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

demanding an end to racism and law enforcement violence. The protests were sparked by the murder of a Black man, George Floyd, by the Minneapolis police.

Protests and coronavirus, a bad combination (II). Such protests have spread to other countries, mainly the United Kingdom. In considering the global reach, Margaret Harris recommended that protesters take the necessary precautions against COVID-19, as such activities can worsen the exponential spread of the virus, especially in the US which is one of the main epicenters of the pandemic.

Recovering 1/8 of the workforce. In its May employment report, the U.S. Department of Labor showed that the unemployment rate rose from 14.7% in April to 13.3%. This is because non-farm payrolls rose to just over 2.5 million jobs, following a record low of about 20.7 million in April.

Worst figure in democracy. According to data published by Spain's National Statistics Institute (INE), April's industrial production index (IPI) showed a 33.6% drop in year-on-year terms, once seasonal and calendar effects were eliminated. This figure represents the largest annual drop in the data since it was first collected in 1976.

Russia begins the opening. The Prime Minister of Russia, Mikhail Mishustin, announced the partial reopening of the border for some travelers. He clarified that foreigners who need treatment in Russia, or those who have close relatives in need of care, will be able to enter the country.

Back to normal, but away from the rest (I). According to New Zealand Prime Minister Jacinda Ardern, the government will lift all containment measures in the South Pacific nation, except for border restrictions.

Back to normal, but away from the rest (II). The New Zealand Government removed restrictions on social distancing from midnight on June 8th by moving from level 2 to national alert level 1. In this way, events, retail business, hospitality and public transport have resumed without the social distancing measures that are still in place in much of the world.

In surplus. The Central Bank of Chile recorded a trade surplus of US\$1.403 billion in May. This is because total exports were US\$ 5.23 billion, a year-on-year drop of 15.2%, while total imports amounted to US\$ 3.828 billion, a decrease of 36.4%.

And the copper? The value of copper exports, of which Chile is the world's largest producer, fell by 11.8% year-on-year in April, bringing total exports to US\$2.567 billion.

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

POLITICAL TIPS

A tailor-made NEC (I). On 5 June, the Supreme Court of Justice (TSJ) declared the legislative omission of the National Assembly (NA) in the appointment of the members of the National Electoral Council (CNE).

A tailor-made NEC (II). In addition, Ruling **No.** 0068-2020 of the Constitutional Chamber "disregarded articles of the Organic Law on Electoral Processes and ordered the CNE to assume the regulatory development.

A tailor-made NEC (III). The magistrates declared themselves "*competent*" to assume the appointment of the new CNE rectors following a request from the members of the minority opposition groups, who have been negotiating with Chavismo since last year.

Guaidó responds. In response to the TSJ ruling, Juan Guaidó warned that "*any electoral authority that is not appointed by the legitimate National Assembly will be rejected and unknown by Venezuela and the democratic world.*"

An emergency government? (I) In the communiqué he stressed the importance of promoting a national emergency government, "which will save Venezuelans from an unprecedented catastrophe and allow the country to return to democracy".

An emergency government? (II) Such an emergency government was "*the central point*" discussed during the negotiations which were promoted and mediated by the Norwegian Government. The plan contemplates the incorporation of a representative of the Armed Forces and the separation of the opposition deputy and Nicolás Maduro from their positions.

Iran, a new unconditional ally? Nicolás Maduro's planning minister, Ricardo Menéndez, announced the arrival of a humanitarian aid flight from Iran to the country, aid aimed at containing the expansion of COVID-19. Afterwards, he ratified that, "*as soon as possible*", President Nicolás Maduro will visit the Islamic Republic.

More disabled. Elvis Amoroso, the comptroller general of Nicolás Maduro's administration, announced the political disqualification for 15 years of Jhonnathan Marín, former mayor of Guanta municipality (Anzoátegui), and Ramón Muchacho, former mayor of Chacao (Miranda).

The accounts do not give (I). The Comptroller declared Martin's administrative responsibility for administrative irregularities. According to Amoroso, between 2013 and

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

2019 he was approved a budget of approximately USD 38.8 million in national currency, for which Martin did not present the documentation to support the administrative operations.

The accounts do not give (II). Amoroso requested the Ministry of Interior and Justice, the Public Ministry and Sudeban to apply "preventive actions" for Martin, such as the prohibition to encumber assets and the blocking of national and foreign accounts and financial instruments.

Vulnerable to corruption (I). The *Americas Society/Council of the Americas* and the consulting firm *Control Risks* published the Latin America Anti-Corruption Capacity Index (CCC) 2020, a policy analysis tool created in 2019.

Vulnerable to corruption (II). The index measures the perceptions or economic damage caused by corruption, and with this information it assesses and ranks countries according to how effectively they can combat the problem. Under this metric, Venezuela presented the lowest index of the entire sample, with 1.52, while Uruguay, Chile and Costa Rica presented the highest scores.

A new OPEration (I). María Corina Machado, national coordinator of the Vente Venezuela party, proposed the deployment of an international peace and stabilization operation in the country.

A new OPEration (II). Machado indicated that in Venezuela they have tried "*everything to dislodge the regime in 21 years of struggle*," but given the impossibility of achieving this, he said that this international force was necessary to recover Venezuela; therefore, he proposes the formation of an international coalition to deploy a "*Peace and Stabilization Operation in Venezuela (OPE)*".

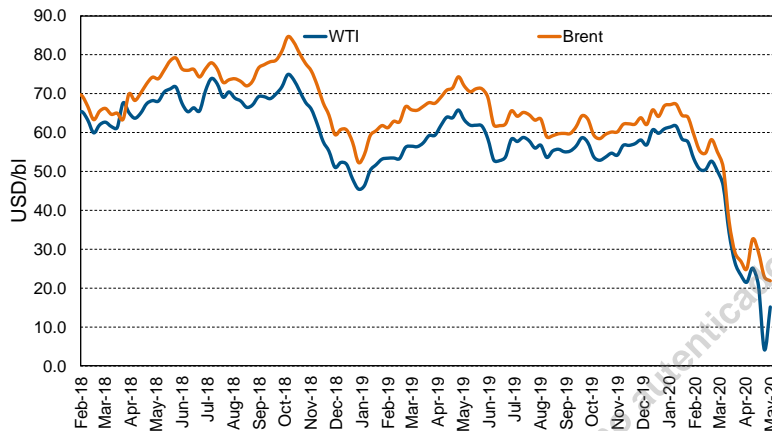
A new OPEration (III). Through the OPE, the political leader proposes objectives such as: blocking the financial and material flows from Venezuela to Cuba, expanding the capacities and scope of the multinational anti-drug operation and combating the regime's system of censorship and propaganda through high-tech media

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

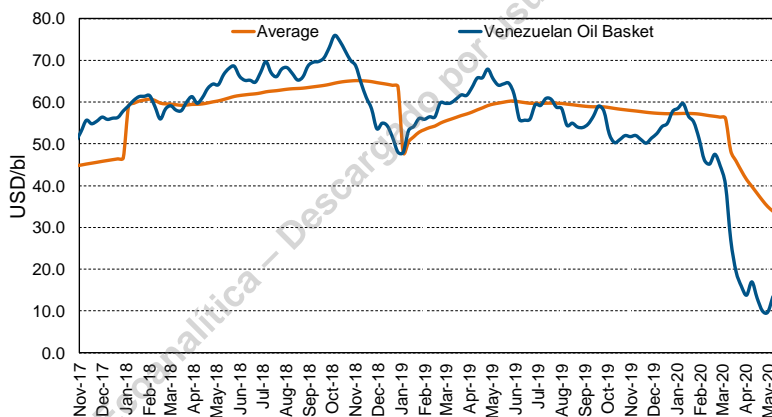
ECONOMIC DATA

**Oil Prices
(WTI and Brent)**



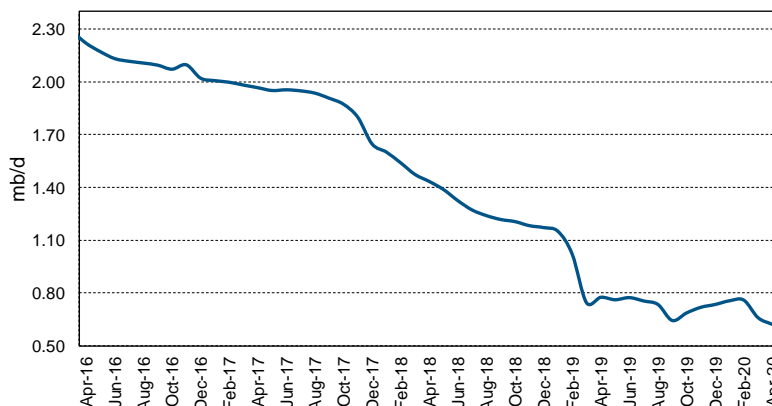
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**



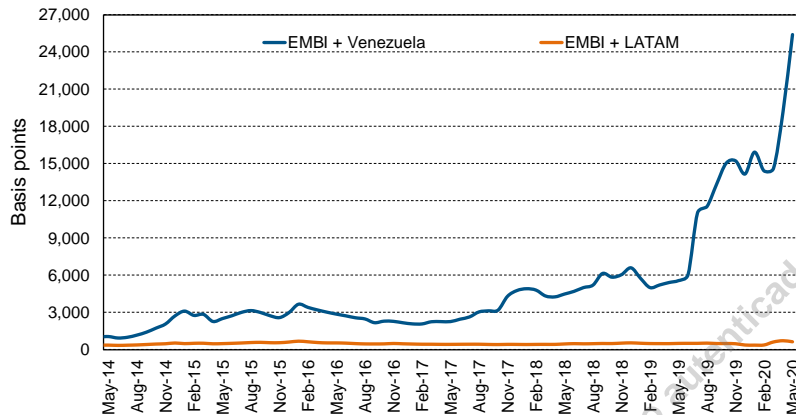
Sources: OPEC and Ecoanalítica

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

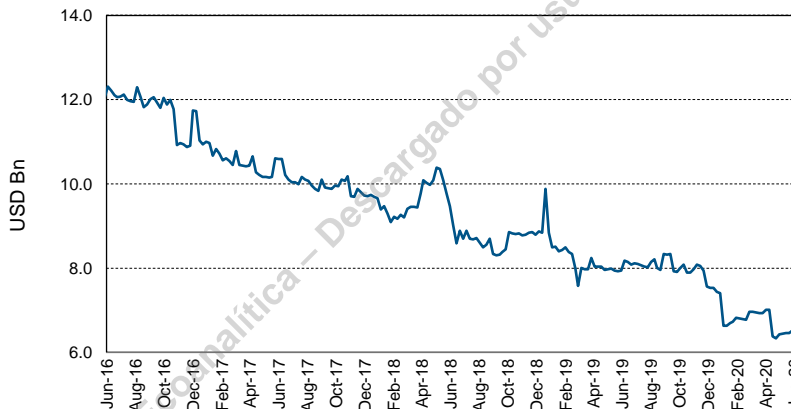
ECONOMIC DATA

EMBI



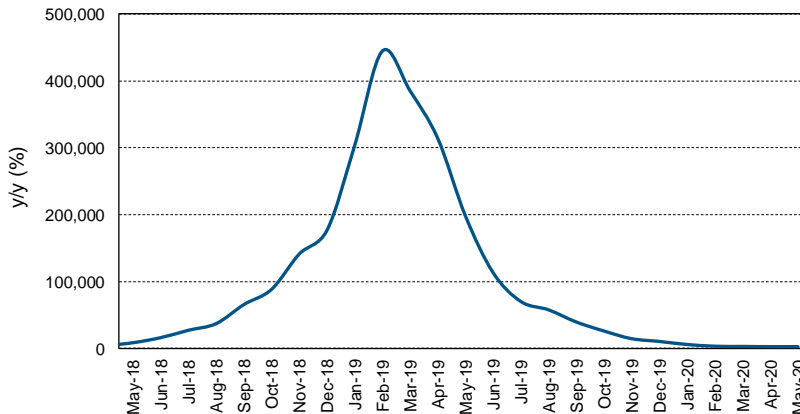
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

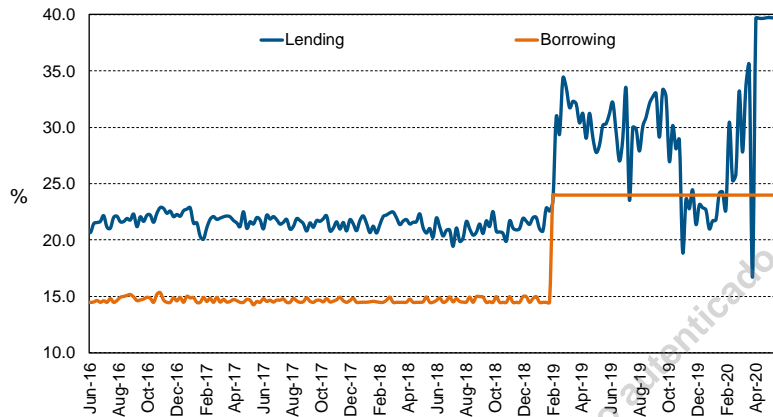
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 16. Number 21. Week II
June 2020

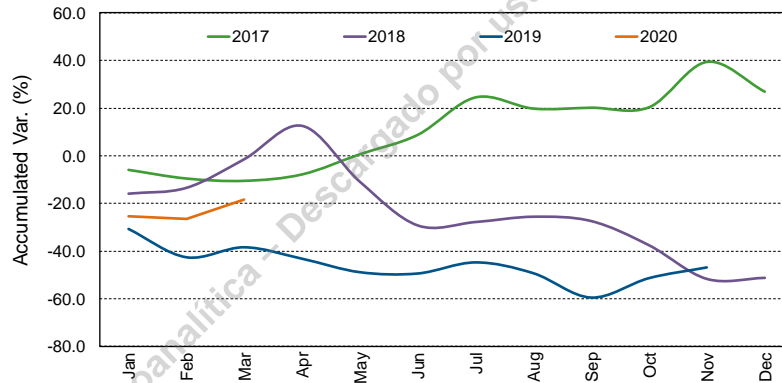
ECONOMIC DATA

**Interest Rate
(Six major banks)**



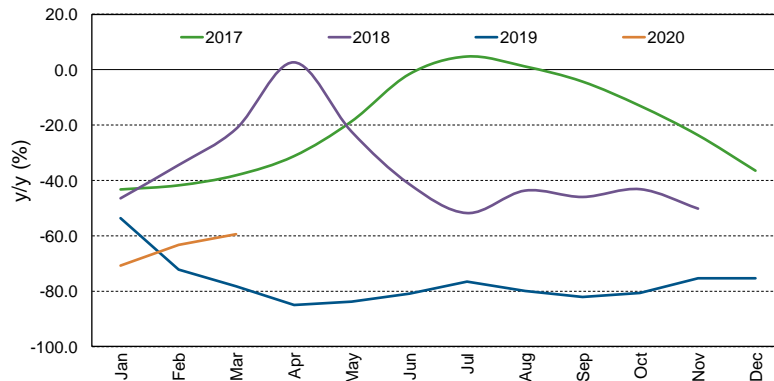
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



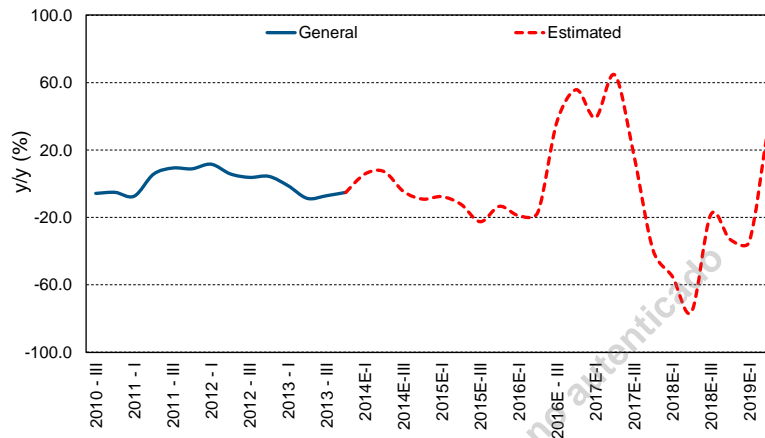
Sources: SUDEBAN and Ecoanalítica

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

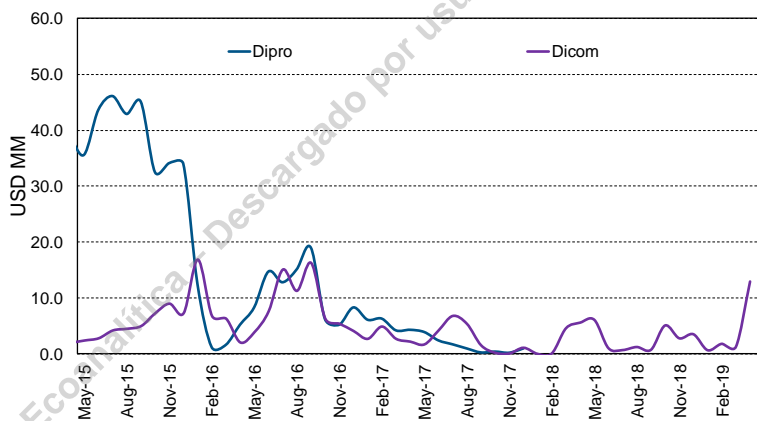
ECONOMIC DATA

Real Wage Index



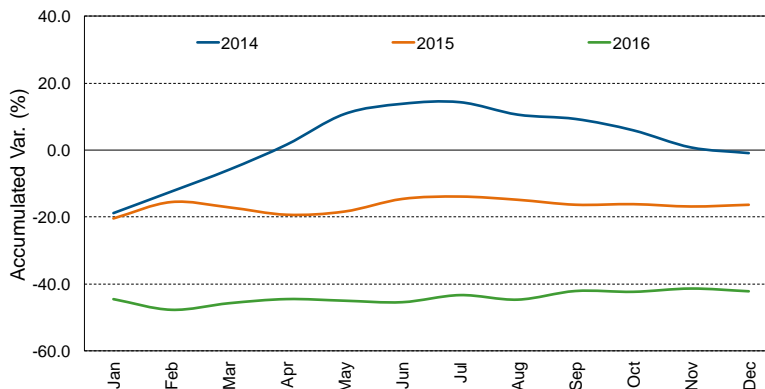
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



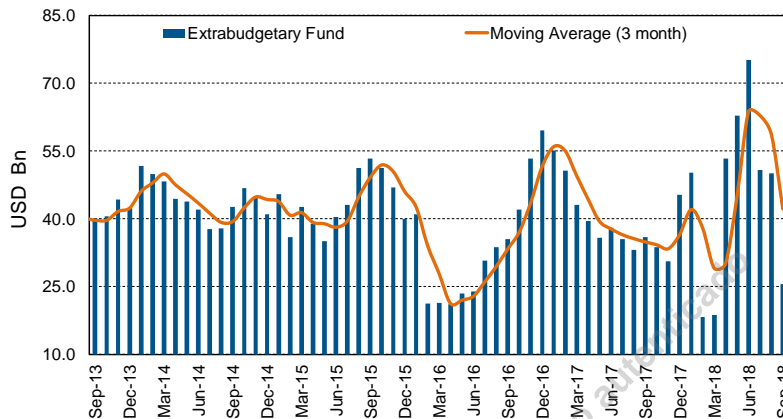
Sources: ONT and Ecoanalítica

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

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

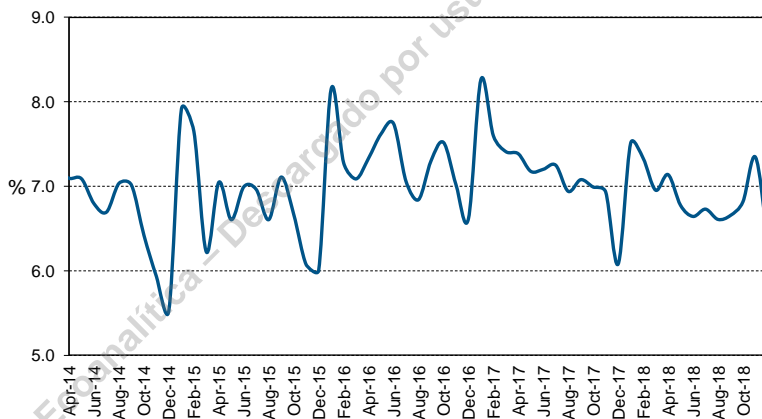
ECONOMIC DATA

State Extrabudgetary Resources



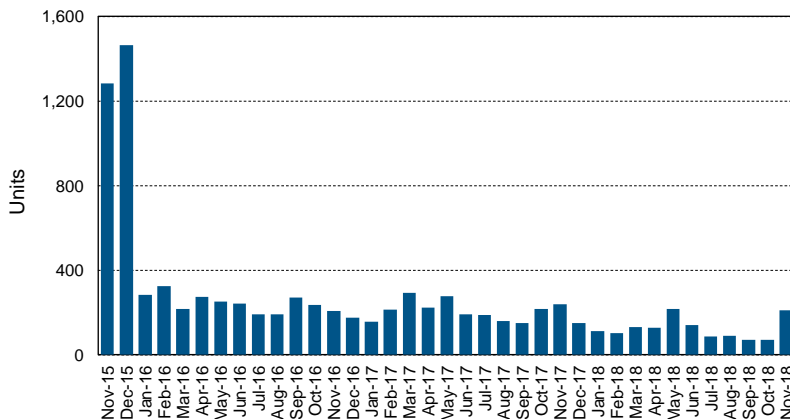
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.
 Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECOANALITICA'S TEAM

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

crisinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

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

Diego Almau

EDITION: Argelia Guédez and Zoraida Verkaik

CONTACT US

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

America: (+1 212)-994 1850

ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalytical