

## Adjustment à la Maduro: At what cost?

In our Weekly Report 18, we pinpointed the main factors behind the recent slowdown in the growth of prices in Venezuela. It will be recalled that since February, inflation has shown a radical change compared to the end of 2017. In particular, prices went from going up by 12.0 percentage points a month on average in 2018<sup>1</sup> to only 18.3 percentage points between February and May this year (38.1 percentage points if we take into account the figures released recently by the Central Bank of Venezuela).

The foregoing meant that local prices “temporarily” abandoned the path that technically defines hyperinflationary events, without this implying that our market has formally left that situation behind. In fact, the same criteria that define the thresholds after which the collapse in the demand for the local currency results in an explosive growth in prices also suggest that the ceasing of hyperinflation can only occur after there have been 12 months running with monthly growth of less than 50%.

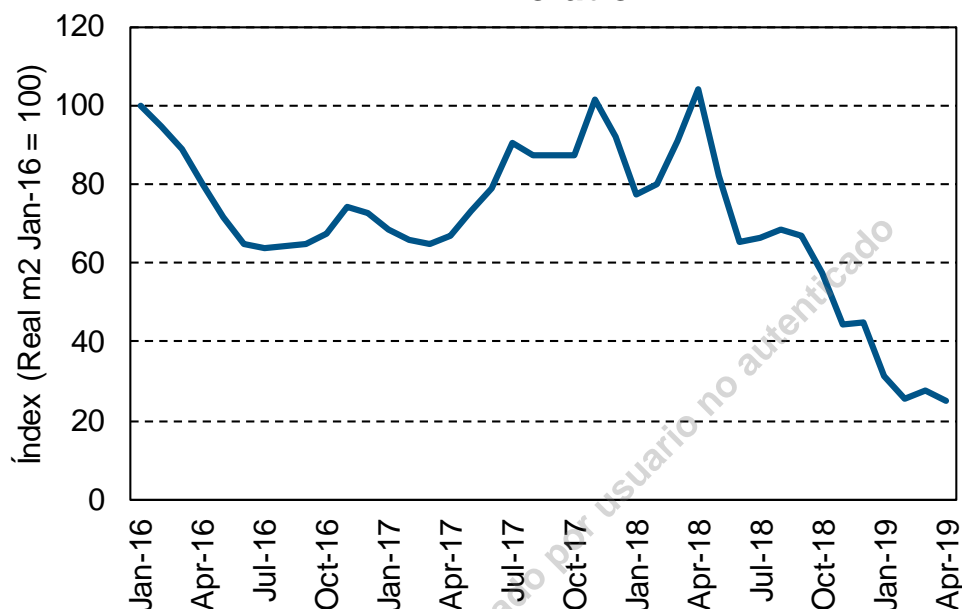
The assumption behind this criterion is that the loss in confidence in the local currency will cease to be critical once our economy manages to sustain annual inflation of no more than 12,771.2%. Based on this, the contrast with the recent price dynamic allows us to reject this argument in Venezuela’s case, not only because the slowdown (along with exchange rate pressures) is barely starting, but also because of the factors that have operated behind this behavior. At the same time, the dynamic of the demand for bolivars still implies a rotation of bolivars that has not completely mitigated the need to print money, in a context that is still depressed as a result of structural shortcomings in the generation of goods and services.

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<sup>1</sup> Variation in the rate of inflation between two periods

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## M2 Evolution



Sources: BCV and Ecoanalítica

As we pointed out in our previous report, what has happened, basically, is a reduction in prices in a situation where there has been a considerable contraction in domestic demand. On the one hand, the lower purchasing power of local agents has taken power away from the offerors of domestic goods and services. Since they are unable to achieve a higher turnover of inventories and thereby put a brake on the drop in sales, these agents have been forced to reduce the pace at which they put up prices.

However, the measures that have led to a slower increase in prices seem to fall within a broader scheme of decisions, among them monetary changes, “downward adjustments” in wages, and the dismantling of controls. Despite all this, the costs of these adjustments do not appear to be high; however, they do seem to be unsustainable over time, as we shall explain briefly in this report.

### Less credit, more poverty

Perhaps the most notable element behind the Maduro administration’s adjustment policy has been the restriction of credit for the private sector by means of an aggressive legal reserve policy. Following its failure to establish the Petro as a benchmark for local prices, the government decided to turn its attention to credit. After implementing a somewhat unorthodox legal reserve measure involving the use of surplus reserves (and not deposits, as is the custom), the regulating authority raised the general and marginal

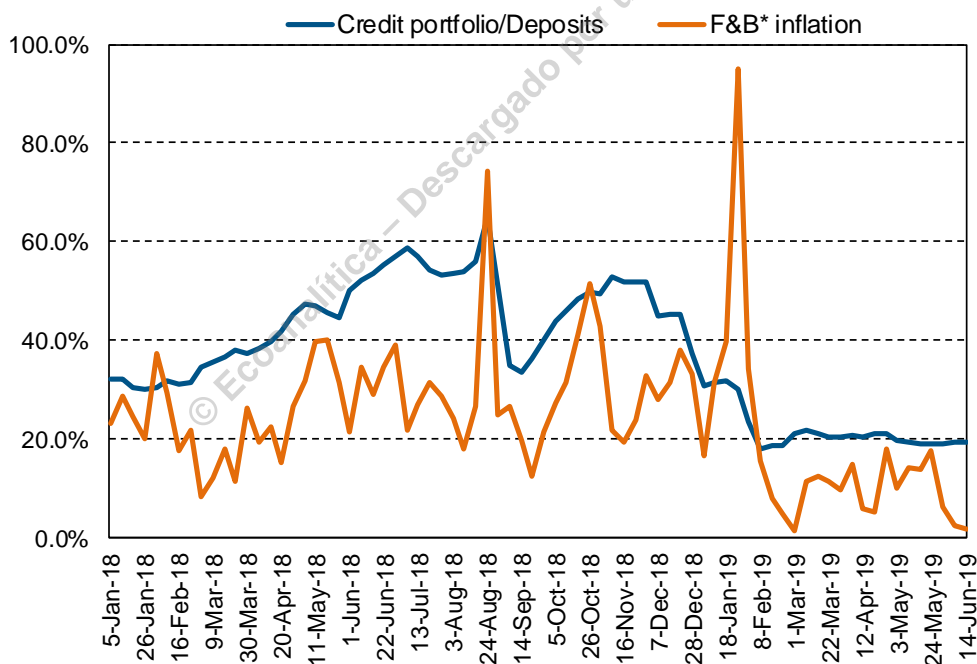
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coefficients of the legal reserves (even knowing the huge impact this would have on the supply of credit) on the (incomplete) premise that local inflation is dominated largely by exchange rate tensions. As the government saw it, less credit would mean a lower demand for foreign currency, a more depreciated exchange rate and, ultimately, less expensive local goods.

While recent results have validated this mechanism, particularly in the midst of hyperinflation, this reduced credit has also meant reduced consumption. Households and companies have allocated fewer bolivars to acquiring domestic goods and services, resulting in a strong contraction in demand. It is not by chance that, even in a sector that is relatively immune from rising prices such as food, purchases have started to decline in the context of a drop in credit activity.

### Bank Credits vs. Foodstuff and non-alcoholic beverages inflation



Sources: BCV and Ecoanalítica  
\*Foodstuff and non-alcoholic beverages

In private business, the absence of credit is also recognized by the manufacturing sector as an element that has prevented it from performing better. According to the findings of the latest local industry survey conducted by the Venezuelan Confederation of Industrialists (Conindustria), during 2019Q1 nearly 60% of private companies mentioned the contraction in credit as the third element that had limited the number of sales in the

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sector. So, the measures that have curbed the growth in prices have meant higher costs in terms of generating goods and the purchasing power of Venezuelans, which are as harmful as inflation itself.

### **The Central Bank gives way, for now.**

Certainly, there has also been a cutback in the financing obtained by the Central Bank, which is a key element in local inflation. Even though it was still high at the start of 2019, the government seems to have put limitations on direct financing granted to public sector entities, which temporarily curbs the growth in prices due to monetary imbalances driven directly by the Central Bank. As a result, the growth in the monetary base from this source has gone from 39.9% to 12.0% in the past 24 weeks of 2019 for which figures are available.

On the other hand, the use of monetary control instruments has had more contractive overtones, presumably to complement the cutback in direct credit. In net terms, the Central Bank's placement of bonds has gone up to 6.2% of the monetary base, after accounting for only 1.9% of the aggregate at the end of last year.

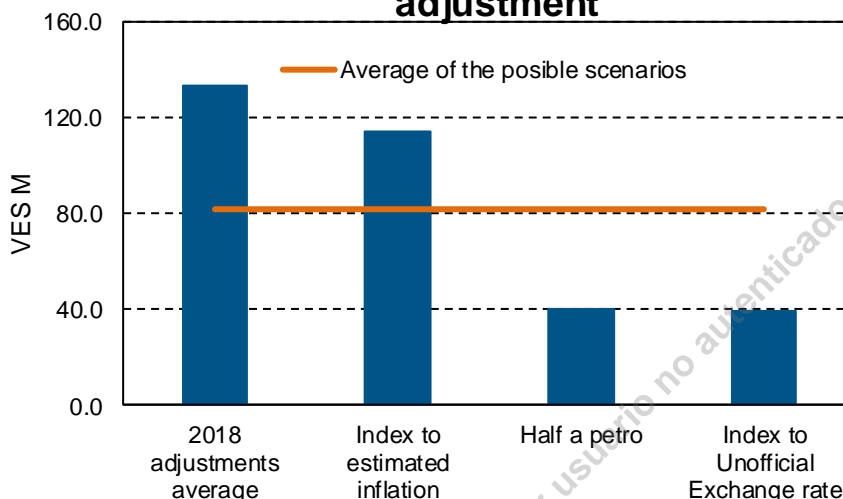
More important than the changes promoted by the Central Bank with regard to its direct operations is the issue of credibility. In particular, these changes have lacked a policy for informing agents of their objectives and of the actions that will be implemented consistently over time. Unfortunately, this introduces possibilities for the regulatory authorities to exercise discretion even before things get off the ground. In other words, it is possible that there will be incentives for the government to revive monetary financing when faced with the slowdown in prices and in the midst of growing political unpopularity when the effects of sanctions become more acute.

### **The minimal minimum wage**

The adjustment has also affected the wage policy. As we have mentioned previously, since December 2018 the increases in the minimum wage have not only been few but also truly minimal. A curious "non-incident" was the absence of the customary announcement of the expected increase in the minimum wage during the Labor Day celebrations. Instead, the 122.2% increase in the minimum wage was made official on April 15.

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### Posible Scenarios of minimum wages adjustment



Source: Ecoanalítica.

Regardless of the different scenarios considered, the magnitude of this adjustment was close to what we estimated before it was made official, way below what was required to maintain the minimum wage's purchasing power unchanged, at least temporarily. In other words, it went from losing 95.1% to losing 91.2% in real terms, which indicates the amount the government no longer had to pay in wages and, therefore, the cut in its spending.

Given the cash flow difficulties we estimate the government will face in the coming months, it is foreseeable that increases in the minimum wage will be less frequent than in the past. Therefore, with contracted nominal and real credit and assuming that the minimum wage dynamic will determine the salary structure of a large segment of the Venezuelan population, an even bigger collapse in private consumption will be inevitable.

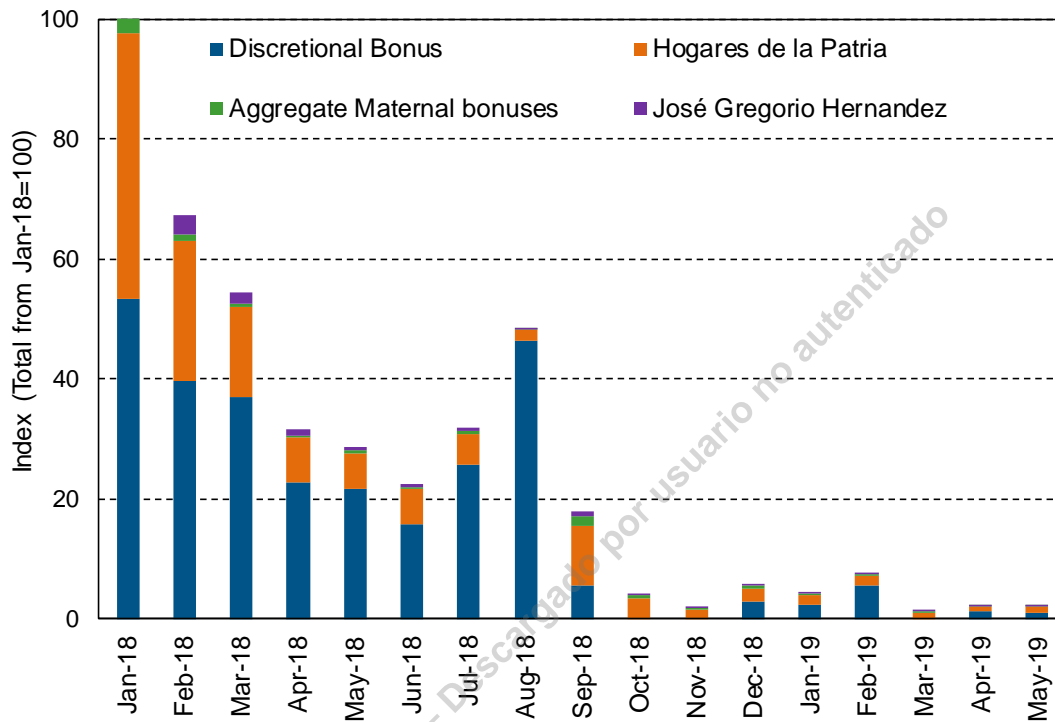
#### A bonus-less Fatherland

Another aspect of this adjustment policy is the bonuses of the Fatherland. In our Weekly Report N° 6 of 2019 "Round 3: No rounds in the chamber", we noticed a considerable reduction in the amount granted in direct bonuses in real terms, and things have not changed since then. The bonuses have been adjusted not only in terms of volume but also as regards the frequency with which they are paid. The time between payments of the already customary food bonuses are getting longer and longer.

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### Fatherland Cash Transfers\*



Sources: Official announcements, Patria.org and Ecoanalítica  
\*Numbers adjusted by inflation

A review of the reports published by the government media reveals how, after the payments of these bonuses slowed down in the second part of 2018, there have been 32 payments of these subsidies in 2019. This fact allows us to expand our earlier assumption: not only will we observe a bigger collapse in consumption, but also a drop in the already diminished consumption of the poorest stratum, which is also the stratum that relies most heavily on these programs.

#### A decontrolling socialism

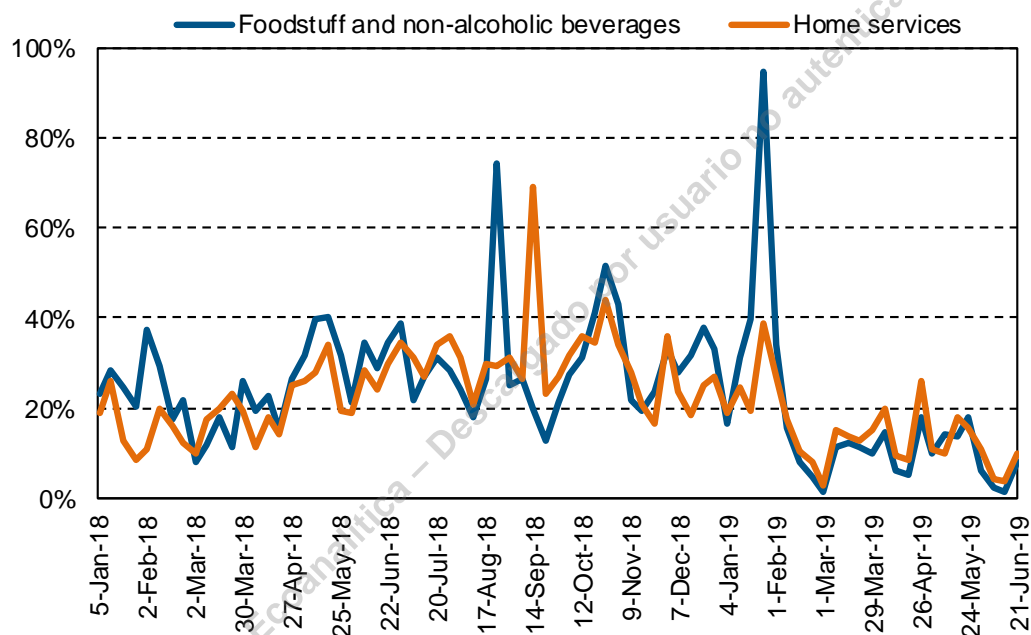
One element of these economic changes has been the lifting of price controls. The premise is that, with fewer price controls, the financing requirements for covering higher subsidies will be reduced, so alleviating the government’s fiscal pressures. Since last year, a pattern in prices has become steadily more apparent that reveals the ceasing of price controls on some non-tradable items such as utilities and public transport. However, this has not only resulted in prices going up more sharply but also in their evolution becoming more volatile.

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At the same time, it seems that the government has abandoned its “agreed prices” policy. Not only the dynamic shown by food prices but also the absence of reports in the press of punitive measures taken against businesses that sell at above the agreed prices (so popular in previous years when “fair prices” were in vogue) indicate that there are incentives for the government to allow private businesses to set their own prices with less friction.

### Weekly Inflation of regulated items



Source: Ecoanalítica

The prices charged by public transport warrant special mention, because even with the latest official increase in the minimum fare in VES 500, transport continues to be all over the place in terms of its weekly behavior. As is happening with food, the government’s interest in controlling prices seems to be minimal. This has resulted in greater distortions in relative prices, insofar as there are no clear benchmarks for setting charges in each sector.

On top of that there is the adjustment in the price of gasoline. In our Weekly Report N° 31, we offered different scenarios that could define newly gasoline prices. As happens with the other subsidies, this adjustment would result in less pressure on the fiscal deficit, reducing the need for financing. However, the criteria for putting up gasoline prices were not made clear from the start; and, today, gasoline is one of the goods whose price is

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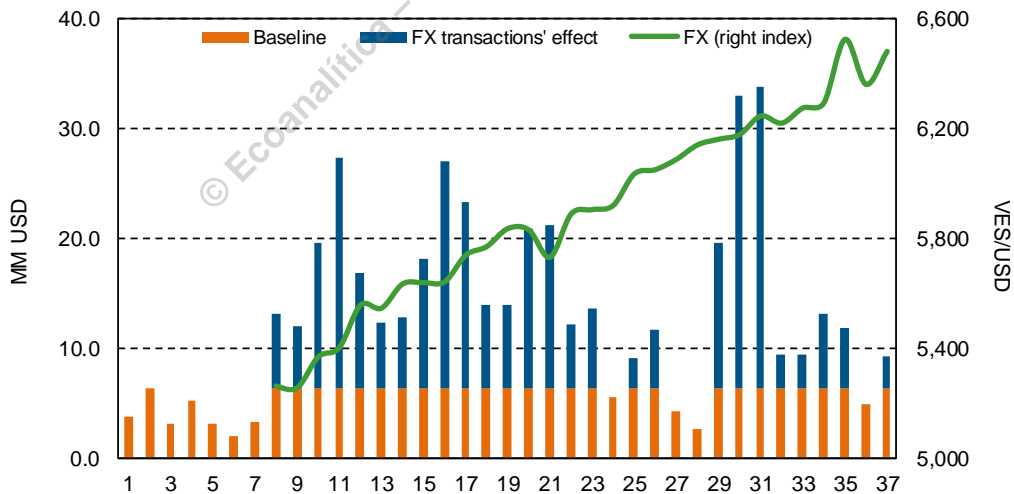
deeply defined arbitrarily. The upshot? The fuel subsidy is still alive and kicking, more so than ever.

### What free convertibility?

In another attempt to mitigate exchange rate pressures since the monetary redenomination in 2018, a total of three “trials” have been run on the foreign exchange front. The latest efforts were aimed at creating an environment of free convertibility in which agents would be able to meet their foreign currency requirements without any limitations. The pivotal element of this policy is based on imposing greater restrictions on local banks as the agencies that permit arbitrage in the buying and selling of foreign currency.

Nothing could be further from the truth. The parameters imposed on the banks’ participation prevent them from making use of the resources for mediating in these transactions, which, in turn, has private agents from fully participating in them. Moreover, it is presumed that the new foreign exchange desks lack the depth necessary to mitigate current foreign currency requirements, in particular in the present price environment.

**Daily amount negotiated in the interbank and reference FX**



Sources: BCV and Ecoanalítica  
 Note: Date starts from May 13th.  
 (\*) Valued at the corporate FX (pre May-13) and the FX of the foreign exchange desks.

Apart from that, the recent decisions authorizing the Central Bank to act at its discretion (via the banks themselves) onto these operations have ended up undermining the credibility of this mechanism as the guarantor of greater foreign exchange stability. With

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this precedent, few private agents will find incentives for getting rid of their position in foreign currency if expectations regarding inflation persist.

### Imports are less important

Unlike what happened last year, an element that has been part of this series of adjustments is the reduction in nonoil imports brought in by the public sector. In our first quarterly report for this year, we identified this cut as a potential strategy for coping with the public sector's foreign resources deficit. Our latest estimates indicate a contraction in this item of around 51.1%<sup>2</sup> in the first quarter of 2019.

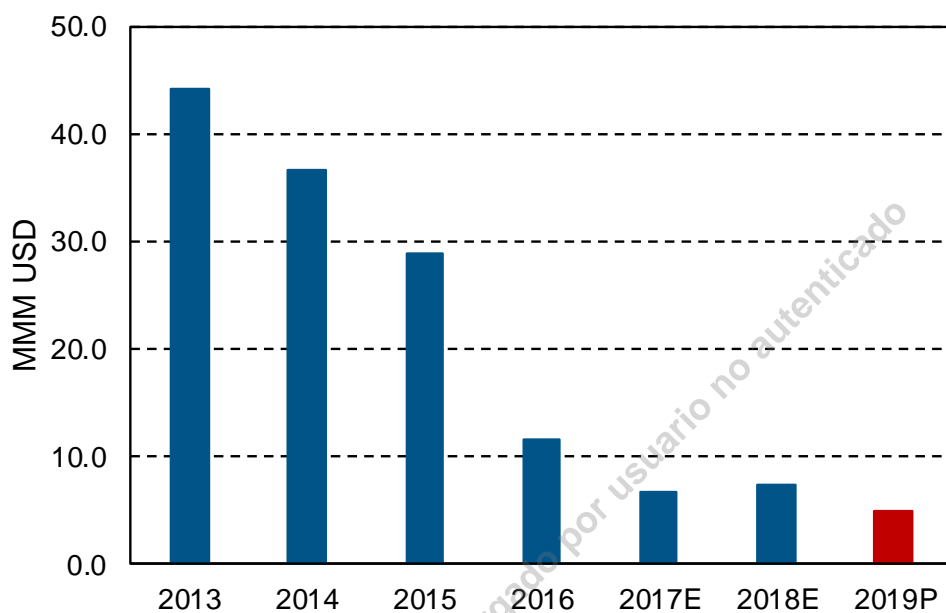
A clear example of this is the delays the government itself has promoted in handing out the boxes of staples distributed by the Local Production and Supply Committee (CLAPs), which are not of the same quality as in previous years nor are they distributed with the same frequency<sup>3</sup>. Even though this means a "saving" in the government's outlays, this cut will presumably not last long as fewer imports will end up having an impact on the already scant production of local goods. With a limited domestic supply of both locally produced and imported goods, the increase in shortages could push up prices more in the medium term.

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<sup>2</sup> It doesn't include transactions with Russia.

<sup>3</sup> <https://www. ntn24.com/america-latina/venezuela/protestas-por-falta-de-comida-bloquea-acceso-al-aeropuerto-en-margarita>

## Non-oil imports



Sources: BCV, UNComtrade and Ecoanalítica

### When how things are done matters

Some of these adjustments are similar to the series of measures developed by different Latin American economies for promoting a stable inflationary environment. All these policies were not only clearly oriented to solving the fiscal problem but also enjoyed the confidence of local and external agents as regards achievement of the proposed objectives. The present administration in Venezuela seems to be continuing to act with a lack of credibility, in particular when the measures it has designed have been based fundamentally on destroying the demand for domestic products.

Moreover, as we have already mentioned, without official announcements and given the lack of policy objectives and specific actions, it seems reasonable to think that the Maduro administration will resume monetary financing when social and institutional pressures emerge. Taken as the dominant strategy, the legal reserve policy, allowing wages to lag behind, and stopping the subsidies, among other things, offer a somewhat unstable equilibrium.

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At the end of the day, Venezuela seems to be incurring the economic and social costs of an adjustment program without the presence of a serious and consistent adjustment plan as such. As a result, the effects of these measures will end up making the starting point for a true plan more difficult and raising the cost of implementing it. The danger, therefore, is that Venezuelans will become very much against any adjustment policy, an obstacle that a new regulatory authority, whoever that may be, will not find it easy to overcome.

**Luis Arturo Bárcenas**

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week June	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Boards (VES/USD) <sup>2</sup>	6,479.15	3.3	3.2
	2nd Week June	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	32.4	-0.4	11.6
	3rd Week June	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	123.2	-2.3	117.1
	3rd Week June	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.1	-0.4	-6.8
	2nd Week June	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	7,282,558	4.8	49,518.1
Price of International Oil Baskets (USD/b)			
	3rd Week June	Weekly chg. (%)	Annual chg. (%)
WTI	53.8	1.8	-18.0
Brent	62.3	0.7	-16.2
Price of the Venezuelan oil basket (USD/b)			
	3rd Week June	Weekly chg. (%)	Annual chg. (%)
Weekly Average	55.9	0.4	-13.7
Annual Average	59.7	-0.3	-3.6

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

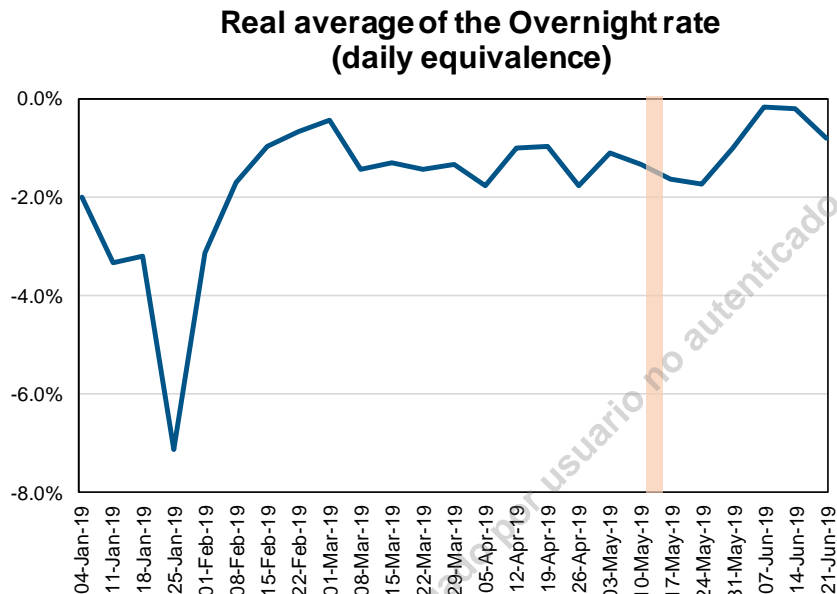
<sup>1</sup> Depreciation (+)/Appreciation (-)<sup>2</sup> FX Borads' average exchange rate

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## GRAPH OF THE WEEK: “THE NEW INTERBANK DRAMA”



Sources: BCV and Ecoanalítica

Note: the date in which the Foreign Exchange Boards started working is highlighted

Since the implementation of the new legal reserve policy, one relevant development has been the increased tensions in the interbank market. Given that this is a space where the banks can obtain funds rapidly for covering their operating costs such as taking care of public sector bank drafts, dealing with obligations to their customers at other banks, and the buying and selling of foreign currency, the terms on which these short-term loans are agreed reveal how easy or how difficult it is for banks to obtain funds for their operations. As a result of the new legal reserve requirements, the amount available for covering their operations other than legal requirements has been reduced, forcing them to incur in greater debt at a very high cost in historical terms. This explains the huge leap in the interbank interest rates following the implementation of the new legal reserve policy.

Previously, the banks enjoyed low costs for these operations in real terms, since inflation reduced the value of the bolivars involved in the payment of interest. However, the recent slowdown in the increase in prices has changed this premise somewhat. If we calculate the rate the banks pay one another daily and compare it to the equivalent daily inflation to that reported by **Ecoanalítica** each week, interbank interest costs have gone up in real terms as a result of the new legal reserve requirements, or at least they have fallen less sharply.

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As fund requirements have increased and inflation has become increasingly affected by contractions in local demand, real interbank rates have swiftly moved closer to the positive range, raising the future cost of an increasingly aggressive leverage. If weekly inflation's historical minimum is reached again and given the few incentives for the government to give way on the issue of the legal reserve requirements, it is expected that this behavior will be either maintained or exacerbated. Unfortunately, until the imbalances in the monetary market are dealt with, any positive effect in the form of a lower growth in prices will mutate into a bigger drama for the banks, even when they go in search for funds solely to meet their regulatory obligations.

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## ECONOMIC TIPS

**Weakened support.** A piece of investigative reporting published in The New York Times claims that Russia's support for Venezuela has become weaker as Venezuela's economic collapse has got worse.

**They're not playing to lose.** According to the article, Russian state-owned companies have been reducing their activities in Venezuela in order to protect their financial results. Added to this, Russia has refused to grant Venezuela fresh lines of credit or make new investments, although it has condoned existing debts.

**Not a good destination.** As a result, Russian exports to Venezuela fell by more than half in the first four months of the year compared to the same period in 2018, with wheat exports falling by 60% sufficient to meet only 10% of annual demand in Venezuela.

**Leaving them alone.** What is more, two sources said that Russia's biggest banks have refused requests by Nicolás Maduro to transfer the Venezuelan Government's accounts in order to avoid US sanctions. This is because they do not want US sanctions to affect Russia's financial system, which uses US currency extensively.

**Toxic.** Consequently, none of Russia's 15 main banks granted Venezuela credit in April. Most worthy of note were the measures taken by Gazprombank, which eliminated almost all its portfolio of loans to Venezuela in April.

**Stability, a new term.** The economic analysis firm Torino Economics published that they expected the slowdown in prices to be maintained throughout the rest of the year, as reflected in the consumer prices indexes issued by both the National Assembly and the Central Bank of Venezuela.

**Two reasons.** There are two main reasons for this: the fact that hyperinflations are not eternal phenomena and the reduction in real public spending due to the real contraction in wages, which means there will be a smaller fiscal deficit that will need to be covered by monetary financing.

**Debacle, a familiar term.** At the same time, Torino Economics forecasts that economic activity will have contracted by 37% by year-end. This contraction, they say, will be a result of the oil sanctions imposed by the United States, which have already reduced crude exports, with the consequent impact on the capacity to import and, subsequently, on gross domestic product (GDP).

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**Savage delayed payment interest.** According to an administrative directive issued by the National Integrated Customs and Tax Administration Service (Seniat) and published in *Gaceta Oficial* No. 41,656, interest for delay in payment has been set at 42.52%.

**Gold that does not shine.** Curacao's Prime Minister Eugene Rhuggenaath has signed a ministerial order forbidding Venezuelan gold from being imported into the island or from it using the island as a transit point. Rhuggenaath justified the decision saying that this involved a security risk that brought no benefit to the island, since Curacao did not receive any significant revenues from the trading of gold.

**Is it just an investment issue?** The Ministry of Foreign Trade and International Investment is seeking to establish encounters with the United Nations Conference on Trade and Development (UNCTAD) with a view to strengthening the country's Special Economic Zones and thereby promoting foreign investment.

**Foreign Exchange Desks.** This week the average exchange rate at the foreign exchange desks was VES 6,479.6/USD, for a devaluation of 1.85% compared to last week. Nevertheless, the unofficial exchange rate maintains a premium of 18.0%.

**State-owned versus private banks.** The private banks traded at an average exchange rate of VES 6,664.7/USD, whereas the rate established by the state-owned banks was lower, at VES 6,366.2/USD.

## OIL TIPS

**Investigation under way.** The board of directors of Citgo, PDVSA's biggest asset, said that the US Government had requested information for an investigation into cases of corruption involving the Venezuelan state-owned oil company. The board said it would collaborate with the US Department of Justice to "*clarify alleged irregular actions or corruption.*"

**Under the old management.** The ad hoc board of directors clarified that these investigations had to do with actions taken by the company in the past, according to Reuters. The ad hoc board was appointed by Juan Guaidó to take measures relating to Citgo's operations.

**Recovering spaces.** Workers at Amuay Refinery managed to get a unit with a capacity for generating 635,000 barrels a day (b/d) up and running again. The unit had been out

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of service since 2017. They managed to do this with parts built on site to replace a glass component of a compressor.

**A slight improvement.** The restored unit has been working for a week, which has allowed PDVSA to recover capacity for producing 85 kb/d of vacuum gas oil. This, added to production from Cardón Refinery (around 305 kb/d), brings PDVSA's production in the Paraguaná Peninsula in Falcón state to approximately 940 kb/d.

**Less gasoline.** According to Argus Media, as at June 15, domestic consumption of gasoline and diesel in Venezuela had fallen to 80 kb/d and 60 kb/d, respectively. The same time last year, consumption was 300 kb/d in the case of gasoline and 190 kb/d in the case of diesel.

**Improvements are expected.** However, with the recovery of the unit at Amuay Refinery, PDVSA expects the consumption of gasoline to go up to 130 kb/d by August. Added to that, there are sporadic gasoline imports from Russia and Turkey, the Venezuelan state-owned oil company's main suppliers.

**The other side of the coin, Part I.** Even though the recovery of this unit at Amuay Refinery is good news, the infrastructure at Pdv's and PDVSA's facilities is far from recovered. El Palito Refinery in Carabobo, for example, with capacity for processing 140 kb/d, has been out of service since 2017.

**The other side of the coin, Part II.** Another example of this type of problem is the facility in Puerto La Cruz, Anzoátegui state, with a capacity of 190 kb/d. It is out of service due to lack of raw materials, besides problems due to power outs.

**Other obstacles.** Workers at Corporación Eléctrica Nacional (Corpoelec) and at each refinery are working to correct the current problems. A PDVSA worker told Argus Media that *"the provision of electricity is critical for restoring stable operations and minimizing the drop in the production of crude at the plants."*

**Replacements.** Since US sanctions were imposed, the United States has been importing crude from Canada, Iraq and Colombia. More than 130 kb/d from Canada is going to Texas; and imports from Mexico have gone up by 12%, going as high as 459 kb/d between January and May, according to data published by Refinitiv Eikon and US customs.

**Citgo as well.** According to data published by Refinitiv Eikon, Citgo is also obtaining the heavy crude it needs from these same sources: Canada, Mexico and Colombia. It imported more than one million barrels of crude from the Colombian company Castilla.

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**Those who are benefitting.** Colombia in particular has been able to take advantage of this situation. Its crude imports to the United States went up from 118 kb/d in January this year to 228 kb/d in May. But Canada is not far behind; now the US company Phillips 66 has become its main customer.

## BUSINESS SECTOR TIPS

**CLAP boxes at VES 6,000.** Beneficiaries have reported that the boxes of staples distributed by the Local Production and Supply Committees (CLAPs) in June are more expensive and contain fewer products. The new price is VES 6,000, 140% more than the old price (VES 2,500).

**With only the minimum for survival.** Beneficiaries say that the boxes came without mayonnaise, tomato ketchup, sugar, canned tuna or black beans. They only had 5 kg of rice, 1 kg of powdered milk, 2 kg of precooked cornmeal, four half-kilo packets of pasta, and 1 kg of lentils.

**Soon they'll cost VES 9,000.** Furthermore, Freddy Bernal, the coordinator of the CLAPs, said that the price of the boxes will go up to VES 9,000 in July due to "*transportation costs, which have to be paid to companies in foreign currency.*"

**Costs due to the lack of gasoline.** The Santa Bárbara Cattlemen's Association (Asogasab) and the Monagas chapter of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras Monagas) expressed their concern over the problems with the supply of gasoline in Monagas, which are affecting the production of milk and cheese in the area and their distribution.

**They don't reach their destination.** Carlos Pérez, the president of Asogasab, said that farmers cannot leave their farms and take their products to market, which is generating losses for them. "*There have been cases where colleagues have run out of fuel on their way to market,*" he commented.

**Only at one quarter.** José Zerpa, the president of Fedecámaras Monagas, said that producers are working at 25% of their capacity. He explained that the gasoline that is currently being supplied is "*insufficient to enable producers to go from farms that are a long way from Maturín; and the return journey is even more complicated.*"

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**Gasoline at resale prices.** Zerpa claimed that this shortfall has resulted in an increase in food prices because truckers have to buy gasoline on the black market and even pay for it in foreign currency. Yesterday lines could be seen once again outside the few service stations that were open in Caracas.

**Pro-state-dependent fairs.** Vice Minister for Food Olby Monsalve said that the Central Government would distribute food to more than 300,000 families via the Sovereign Farmers' Markets organized by the Ministry for Food. He stressed that this was the fourth week running that these markets had been organized throughout the country, a proposal by the government for "solving" the economic and food crisis Venezuela is experiencing.

**One very tiny step at a time.** Miranda Government's Agro-Food Sovereignty Secretary Miguel Marín explained that they were doing house-to-house visits in Miranda to guarantee the supply of food. He said that food was being distributed to 160,000 people in Miranda state.

**Maduro's new proposal, Part I.** Maduro approved funds for providing Venezuelans who are most vulnerable as a result of the crisis with primary care. First of all he allocated VES 94.8 billion to nutritional care programs, soup kitchens, *Mamá Rosa* school canteens, and Nutritional Recovery and Education Centers (CARENs).

**Maduro's new proposal, Part II.** He also allocated VES 69.99 billion to the Negra Hipólita Mission (a program aimed at people living on the streets) to "*expand its activities nationwide and to provide in-depth care for those hardest hit by life.*" He also repeated the order to repair 200 Socialist Mission Bases, a task that has been assumed by the *Barrio Nuevo, Barrio Tricolor* Mission (shanty district improvement program).

**Digitalized financial Venezuela.** The president of the Central Bank of Venezuela, José Javier Morales, said that the Mi Comuna BDV Digital program hopes to offer itinerant banking services to communities in 60 cities throughout the country by the end of 2019. This will be achieved through the creation of two new offices that are to operate in the western and eastern regions of the country.

**Milk lost due to power out.** Edgar Medina, the vice president of Táchira State Cattlemen's Association (Asogata) and a director of the National Cattlemen's Federation of Venezuela (Fedenaga), commented that the mega power out between June 21 and 23 caused the loss of at least 70% of milk production, equivalent to 220,000 liters of dairy products.

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**WORLD ECONOMY TIPS**

**Back to the negotiating table.** China's Ministry for Trade said that negotiations between Chinese and US government officials would be resumed shortly. This statement was issued after a telephone conversation between China's President Xi Jinping and US President Donald Trump in which they agreed to meet at the next G-20 Summit to be held in Japan.

**Fears.** The Conference Board's consumer confidence index fell in June to its lowest level since September 2017. This could be due to pessimistic expectations in the labor market and agents' concern over the escalating tension in the trade dispute with China.

**Energy and trade.** Argentina's head cabinet chief, Marcos Peña, stressed that his country was directing its efforts at promoting agreements with China that would allow Argentina to develop its nuclear activities and exports. As a result, he hoped that China would collaborate with the construction of a fourth nuclear plant in Argentina and that it would permit the entry of Argentina's soybean exports.

**Awareness is crucial.** China's Assistant Minister of Commerce Wang Shouwen said that both the United States and China should know that, in order to be able to reach an agreement, they both needed to make concessions.

**No one said there wouldn't be a price.** Shouwen also said that the tariffs that had been imposed were a threat to the world economy. China's Assistant Minister of Foreign Affairs Zhang Jun said that the international community had recognized the harm caused by protectionism, stressing that China would protect its interests.

**No surprises.** Colombia's Central Bank maintained its reference interest rate at 4.25%, in line with market predictions. This means that the rate has been at a five-year minimum for one year.

**Stagnation.** The Bank of England expects 0% growth in the United Kingdom's economy in the second quarter of 2019 compared to last year. This is apparently due to fears regarding the global tariff war and the possibility of a Brexit without an agreement.

**Throwing down the gauntlet.** The European Union is to allocate more than EUR 100 million to Cuba under a cooperation agreement between the EU and the island. Neven Mimica, the European Union's Commissioner of International Cooperation and Development, also said that an additional EUR 4 million would be allocated for

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modernizing the island. This is in line with the European Union's rejection of the United States' decision to step up its embargo on Cuba.

**Healthy.** The vice president of the US Federal Reserve, Richard Clarida, said that the FED expects the US economy to continue to expand but that it would be on the lookout to bring down interest rates if uncertainty-related factors put those expectations at risk.

**Under target.** Japan's core inflation was 0.8% in May compared to May last year. Japan's policy objective is 2%, which means that the central bank may be expected to adopt expansive policies.

**Dragged down by imports.** According to Colombia's National Statistics Department (DANE), Colombia's trade deficit increased in April by 79% compared to April last year to USD 460.1 million. This was due to the acceleration in the growth of imports, which came to USD 4.33 billion.

## POLITICAL TIPS

**Taking the skeletons out of the cupboard.** Maduro's former intelligence chief, General Manuel Ricardo Cristopher Figuera, arrived in the United States on June 24, bringing with him secrets and stories of the Maduro regime and information regarding the April 30 failed overthrow attempt. Those comments were published by The Washington Post in an exclusive article.

**Tidbits about each kind of criminal activity.** In the article, Figuera, who was in hiding and protected in Colombia, accuses the Venezuelan Government of illegal gold deals, tells of the presence of Hezbollah cells in Venezuela, and highlights Cuba's influence over Maduro.

**In total decline.** On the state of the Maduro regime, Figuera comments: "*I never saw the country's situation and the government's corruption as closely as I did during my last six months. I quickly realized that Maduro is the head of a criminal enterprise, with his own family involved.*"

**Plot by big shots confirmed.** Figuera certifies the participation of Mikel Moreno, the president of the Supreme Tribunal of Justice, and Vladimir Padrino López, the minister of defense, in the uprising of April 30, through individuals close to the Venezuelan and US governments, such as Raúl Gorrín and César Omaña.

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**Everything was going perfectly until the last minute.** Last of all, General Figuera said it was he who brought the uprising forward because it was expected that there would be a bloody attack on the protesters on May 1 carried out by Maduro's collectives. He claimed that Moreno was ready to bring out a sentence that legitimized the National Assembly and that everything fell through due to Padrino's failure to act.

**A visit that turned a blind eye, Part I.** UN High Commissioner for Human Rights Michelle Bachelet ended the visit she paid to Venezuela to learn about the situation in the country, which took place between June 19 and 21.

**A visit that turned a blind eye, Part II.** Among the points touched on by the high commissioner were the designation of two representatives of the High Commissioner's Office for Venezuela and prioritizing violations of the right to health. She also spoke out in favor of negotiations to solve the crisis. In any event, it will be necessary to wait for the publication of the United Nations' official report to learn of the outcome of the visit.

**Waging the fight from the United States.** Former Police Captain Iván Simonovis said in his Twitter account that he would be in the US Congress at a meeting with Democrat and Republican senators and representatives working to recover Venezuela's freedom. Simonovis confirmed that he was in the United States after having spent more than ten years in prison accused of 19 deaths that occurred on April 11, 2002.

**Maduro and his pals celebrating in Valencia.** Nicolás Maduro led the military parade organized by the governing coalition to celebrate June 24, the 198th anniversary of the Battle of Carabobo, during which Maduro promised there would be 4 million militiamen by next year. He appeared alongside Vladimir Padrino López, the Commander General of the Army, Jesús Suárez Chourio, Cilia Flores, Tareck El Aissami, and Delcy Rodríguez.

**More carnets, less materials.** According to Freddy Bernal, the "protector of Táchira," Colombian citizens will have up until July 17 this year to obtain the border carnet. They will have to apply for the carnet at the offices of the Administrative Identification, Migration and Immigration Service (SAIME) in San Antonio del Táchira.

**A carnet valid for just two municipalities.** The border carnet, which will be valid for one year, will allow Colombians to move around only two border municipalities, Bolívar and Pedro María Ureña de Táchira. If they wish to travel further afield, they will have to present a passport like any other foreign visitor entering Venezuela.

**The Russian visit, Part I.** An aircraft of the Russian air force landed at Simón Bolívar Maiquetía International Airport with civilian and military personnel on board. The aircraft

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was the same one used to bring in 99 Russian military men and officers and 35 tons of cargo under the command of the chief of staff of Russia's Ground Forces' Main Command, Vasily Tonkoshkurov.

**The Russian visit, Part II.** At that time, the Russian news agency Sputnik claimed that the aircraft contained "*military materials and personnel to fulfill several military and scientific collaboration agreements signed by Russia and Venezuela.*"

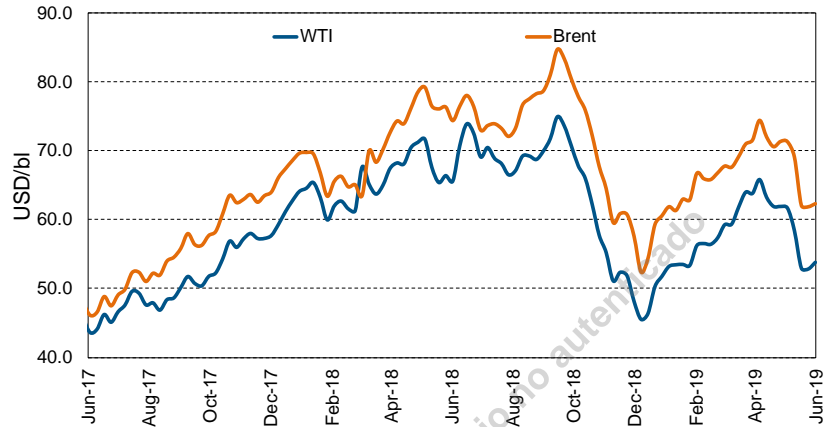
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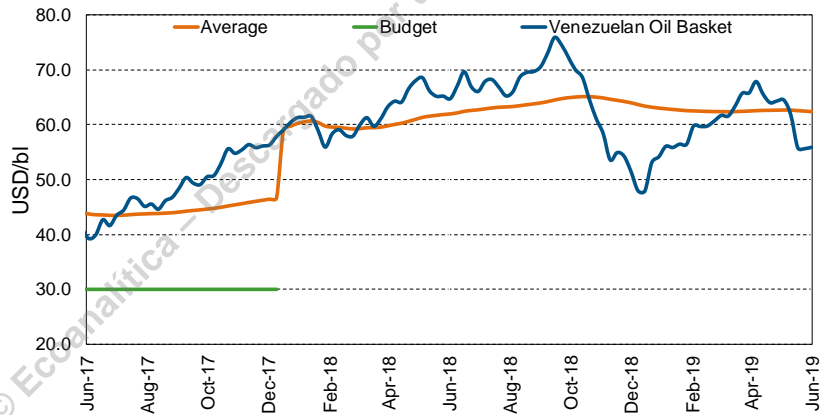
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



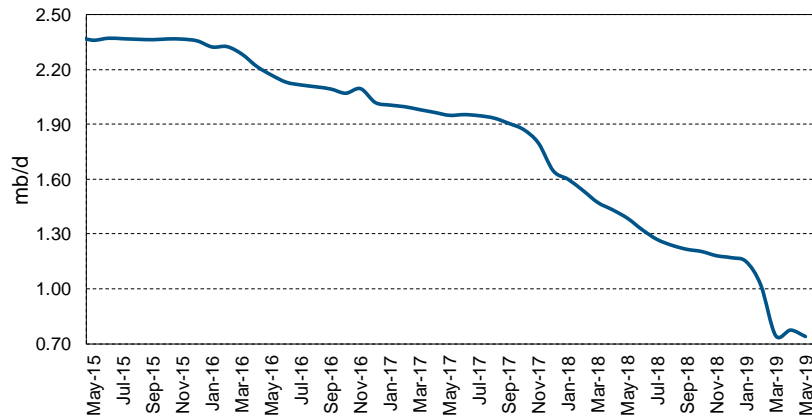
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**



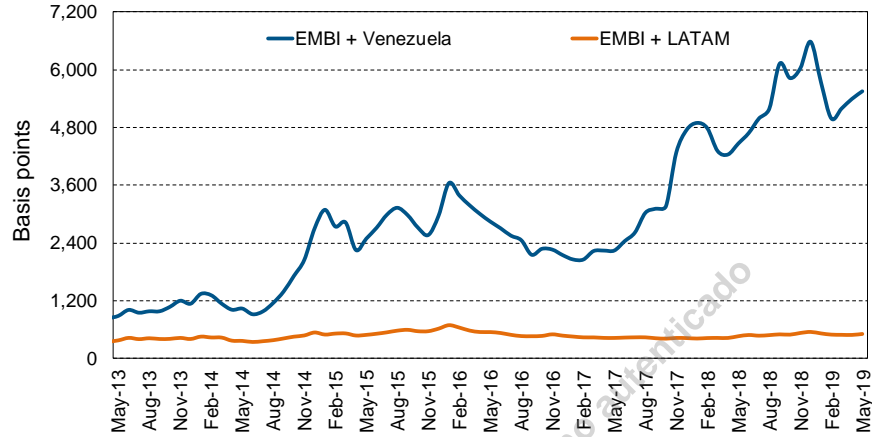
Sources: OPEC and Ecoanalítica

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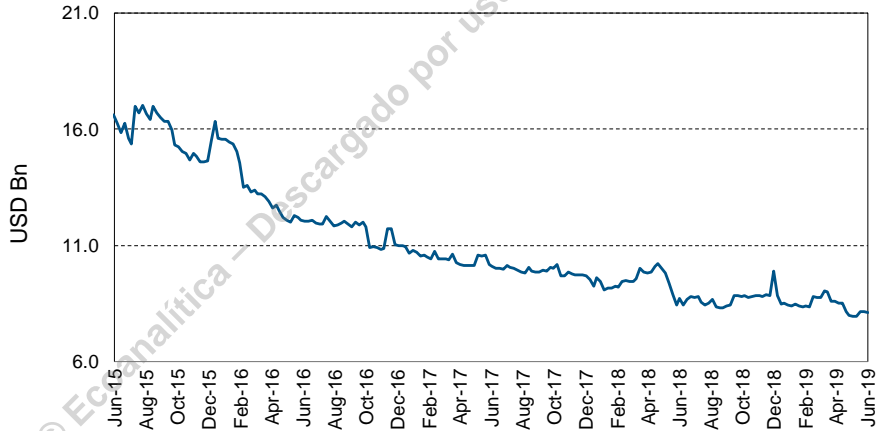
**ECONOMIC INDICATORS**

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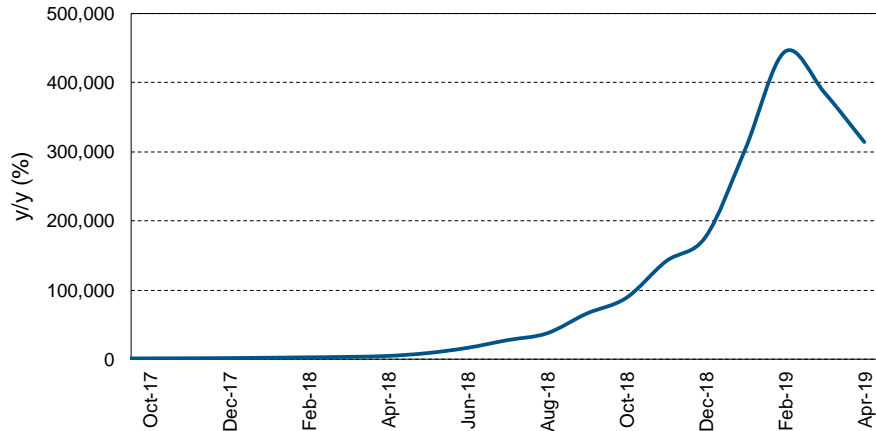
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

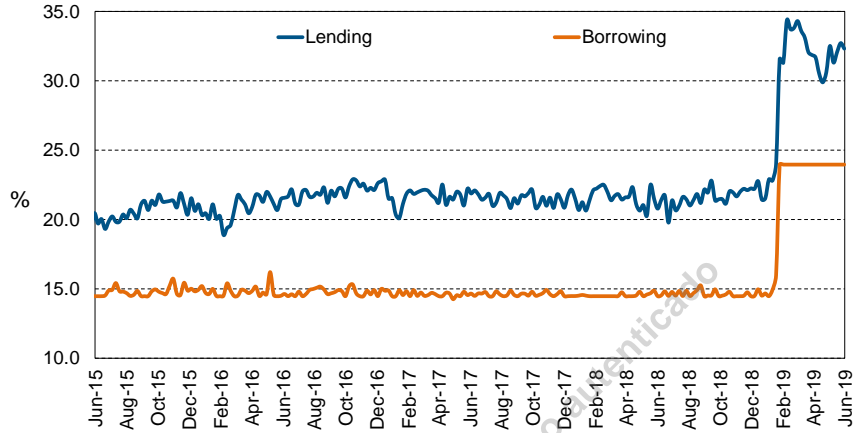
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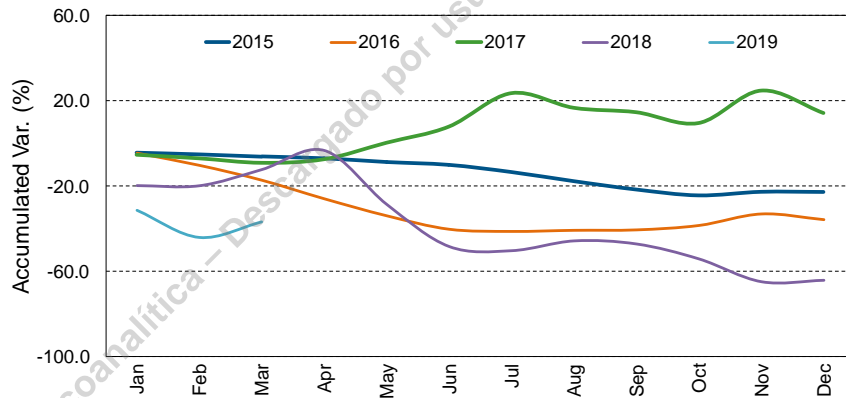
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



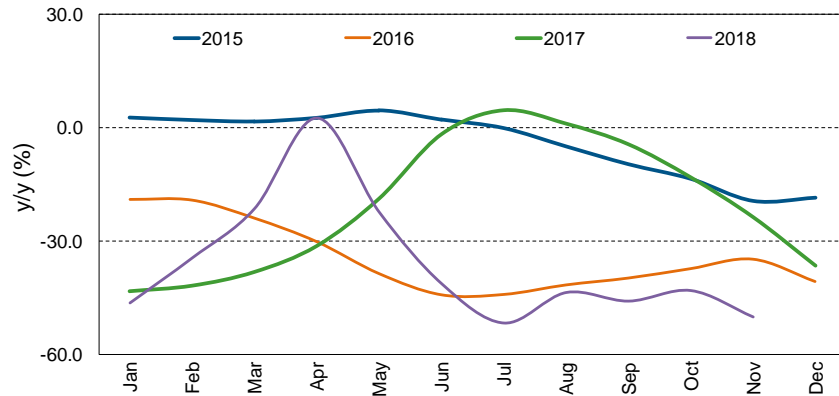
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

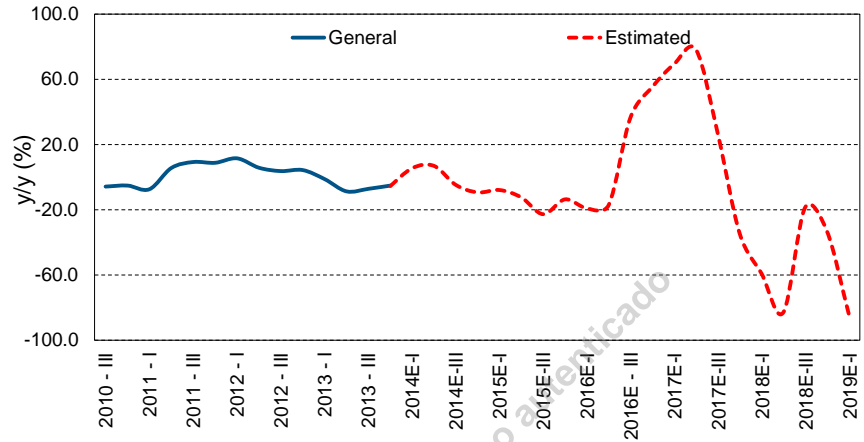
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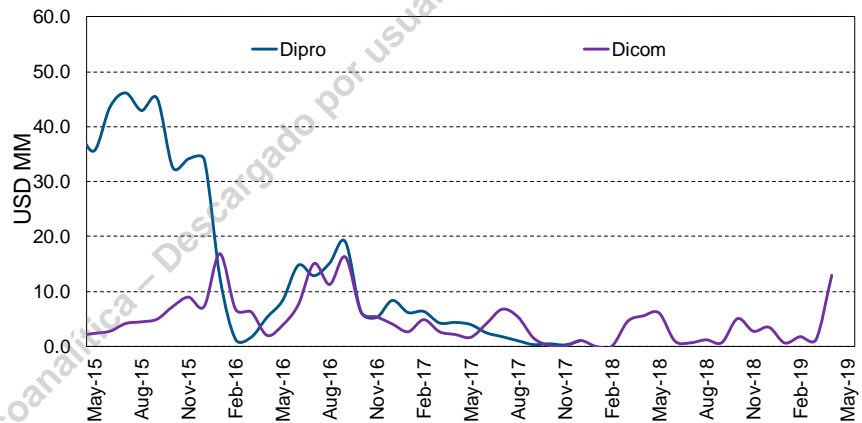
**ECONOMIC INDICATORS**

**Real Wage Index**



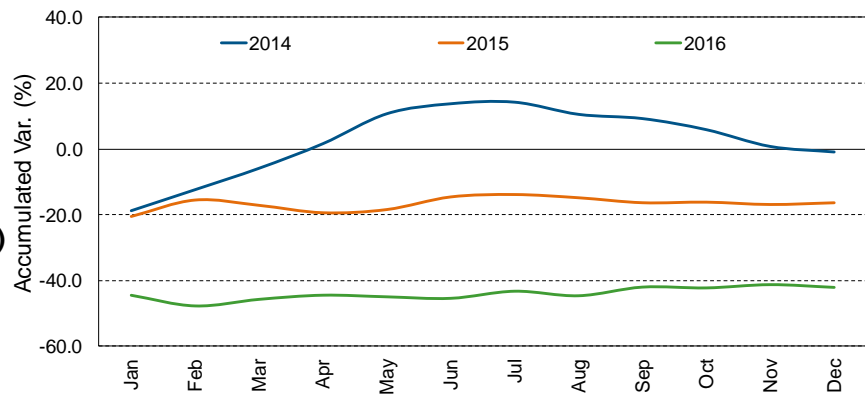
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

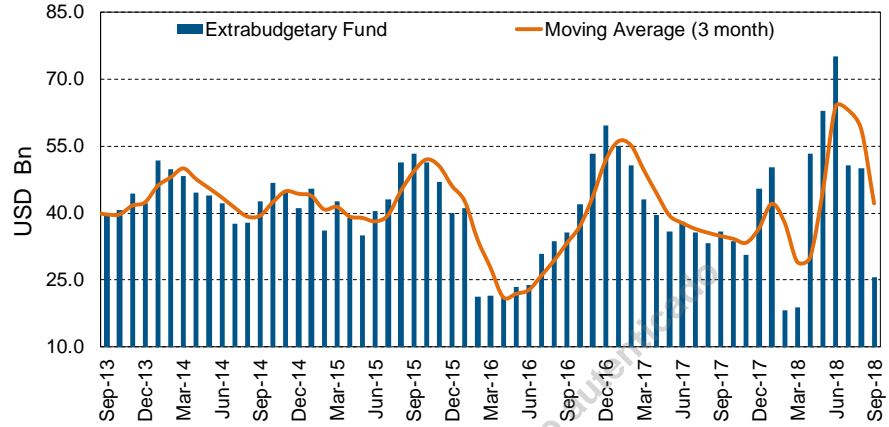
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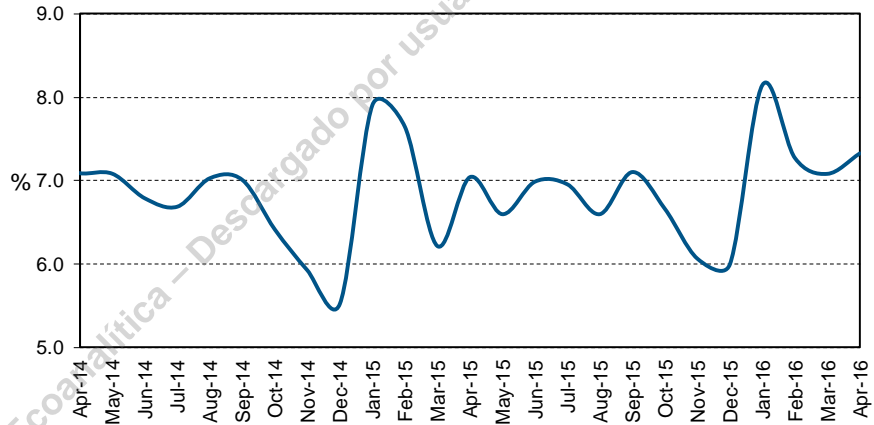
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



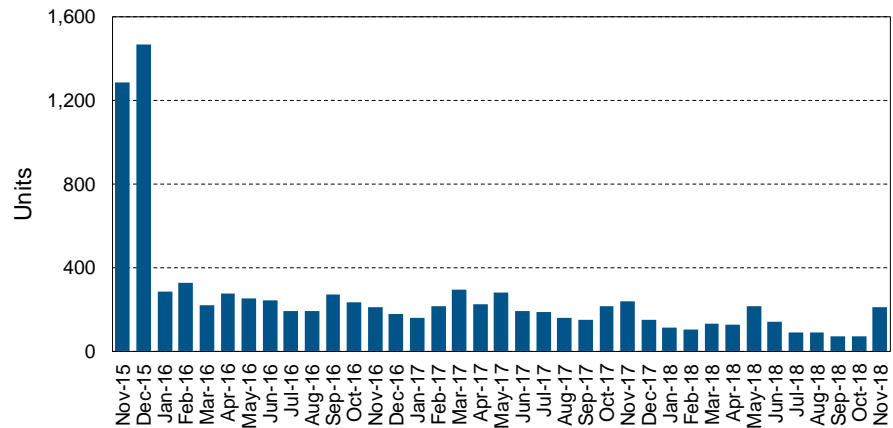
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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