

A look at Venezuela's quarantined banking

During the months of enforced confinement caused by the COVID-19 pandemic, one of the most seriously affected sectors in Venezuela has been the banking system. Not being able to count on remote work as a means to completely supplant some of the services they offer, nor to enjoy the flexibility in the legal reserve required to revive credit activity in the midst of the pandemic, financial institutions have suffered a further deterioration in their role as resource intermediaries, which has made them more vulnerable to the deposit shock caused by official actions.

On the other hand, local banks continue to generate income and accumulate capital through unorthodox and non-traditional mechanisms, while at the same time facing increasing operating costs, despite the lack of attention in agencies.

Also, despite the slowdown in commercial activity, tensions in the interbank market did not cease, therefore the need for liquid resources by smaller banks still persists. In this sense, as we will see briefly, the weaknesses of the Venezuelan banking sector in the face of the "COVID-19" shock look even greater and much less trivial.

Credit in distress

Bank financing in Venezuela has continued to be subject not only to the rigor of legal reserve requirements during the quarantine, but also to the lack of demand resulting from the decline in commercial activity due to containment policies. From the beginning of the official containment (week of 13 March) until the second week of June, banks reduced their loan balances by USD 44.4 million, injecting only up to a maximum of USD 10.6 million (per week),¹ or 2.8% of the monetary base in the same period.

With the exception of agricultural loans, which deteriorated least exclusively due to the increased financing offered by public banks for such activities,² the banking system's

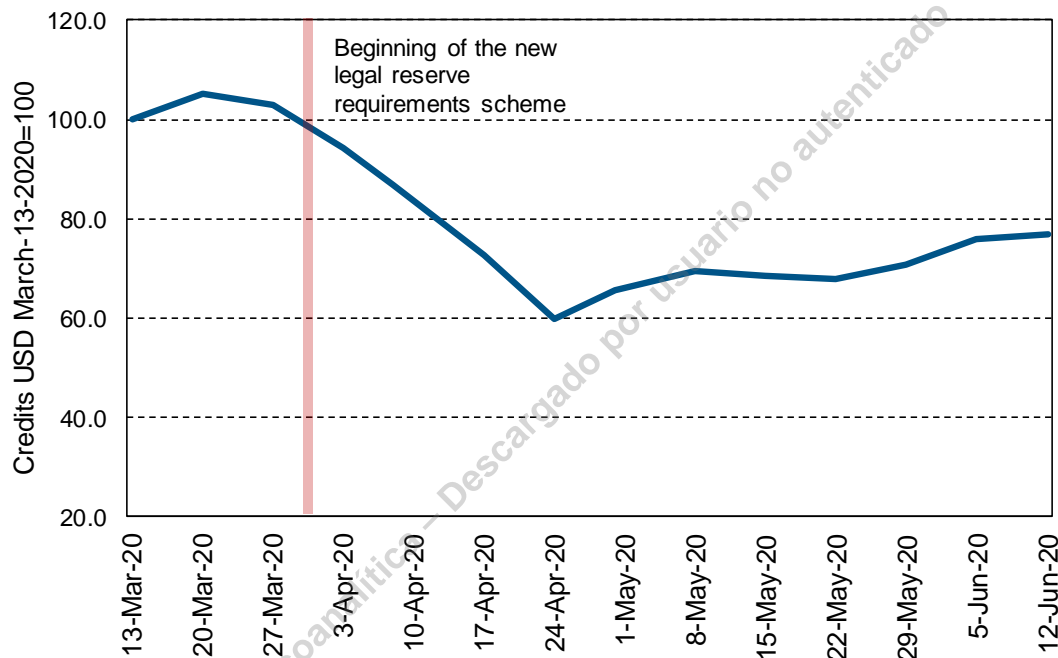
¹ Measured from the official exchange rate prices for each period.

² For April, the Bank of Venezuela increased 210.2% in real terms the credits granted to the agricultural sector, if we consider the official inflation metric. This was associated with official measures to address the effects of the quarantine on the domestic supply of essential goods, in which the Executive urged banks to prioritize financing for activities in the local agri-food system. It is therefore understood that public banks face a priori fewer resource constraints in lending in the face of higher reserve requirements, given their link to the State and their incentives to finance priority activities.

Year 16. Number 23. Week IV
 June 2020

credit balance (measured in foreign currency) contracted by 27.4% to 62.6% for all types of loans in April, suggesting almost no new lending even for many of the activities in greatest demand during the quarantine (consumer spending or foreign currency purchases by households and firms).

Venezuelan universal and commercial banks' total credits (in USD) during the quarantine



Sources: BCV and Ecoanalítica.

Furthermore, although changes in reserve requirements allowed banks to temporarily accumulate (on average) reserves at levels above the legal minimums, they have not managed to release more than 13.7% of their deposits per week as loans since the mandatory confinement began, a value even lower than that seen in the last quarter of 2019 (up to 19%).

On the other hand, the banks' balance sheets were exposed to readjustments in their stock positions in the middle of the quarantine. Strictly speaking, the banks doubled the nominal value of their portfolio as of April (measured in local currency) and more than 51.5% of this position continued to be dominated by securities issued by BCV. However, as these adjustments coincided with strong upward reactions of the unofficial exchange rate (and, consequently, the official level) and with the expansion in the issuing entity's net non-monetary foreign-currency liabilities, these changes reacted exclusively to exchange-rate gains and not to improved financial management by the banks

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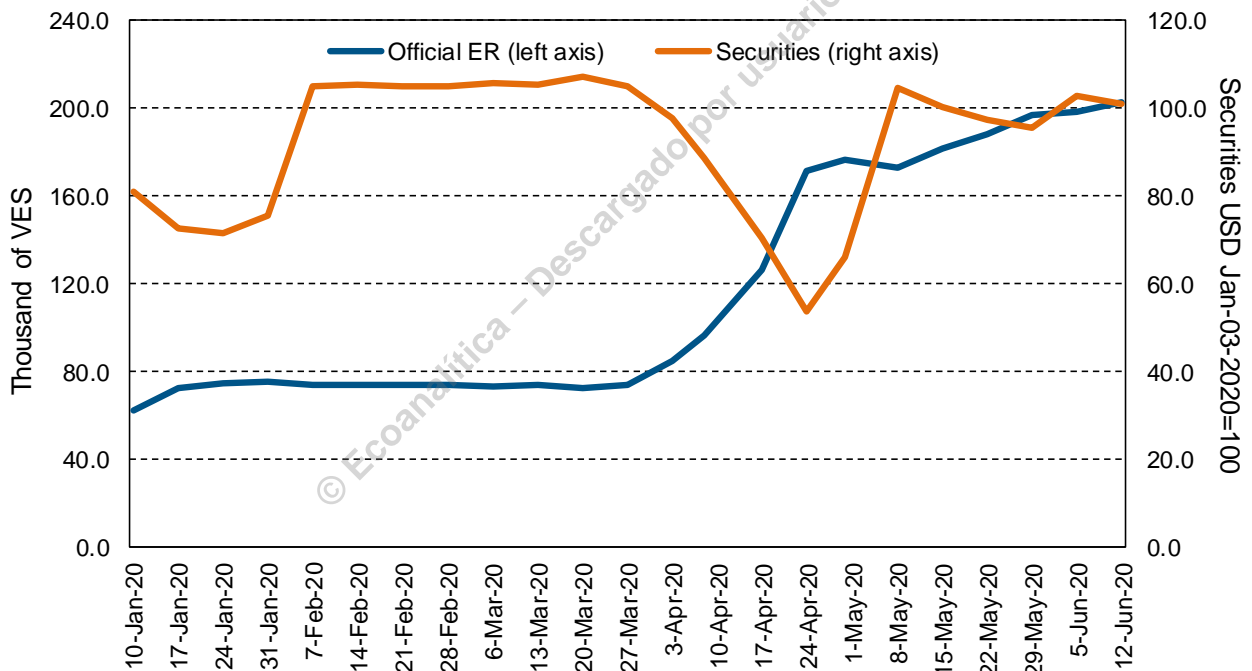
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Year 16. Number 23. Week IV
June 2020

themselves or they responded to the renegotiation of these bonds under more favorable conditions³.

The interesting thing is that these adjustments were an indirect mechanism for the BCV to sterilize part of the resources injected by the Executive (in local currency) through direct subsidies or wage payments to the private sector, such actions being part of the set of policies aimed at mitigating the effects of COVID-19 on private domestic consumption. Thus, to the extent that the greater injection of bolivars translated into exchange rate increases, the expansion of BCV liabilities caused the monetary base to contract, offsetting the initial expansions of fiscal origin.

Universal and commercial banks' securities vs. Official exchange rate



Sources: BCV and Ecoanalítica.

The availability of liquid reserves from local banks was also altered following the start of the COVID-19 pandemic. With the reduced commercial activity imposed by the quarantine and with still high reserve requirements, banks have only managed to

³ In fact, by deflating the position of the securities on the BCV's balance sheet using the official exchange rate, the variation in that position was very close to zero for that period.

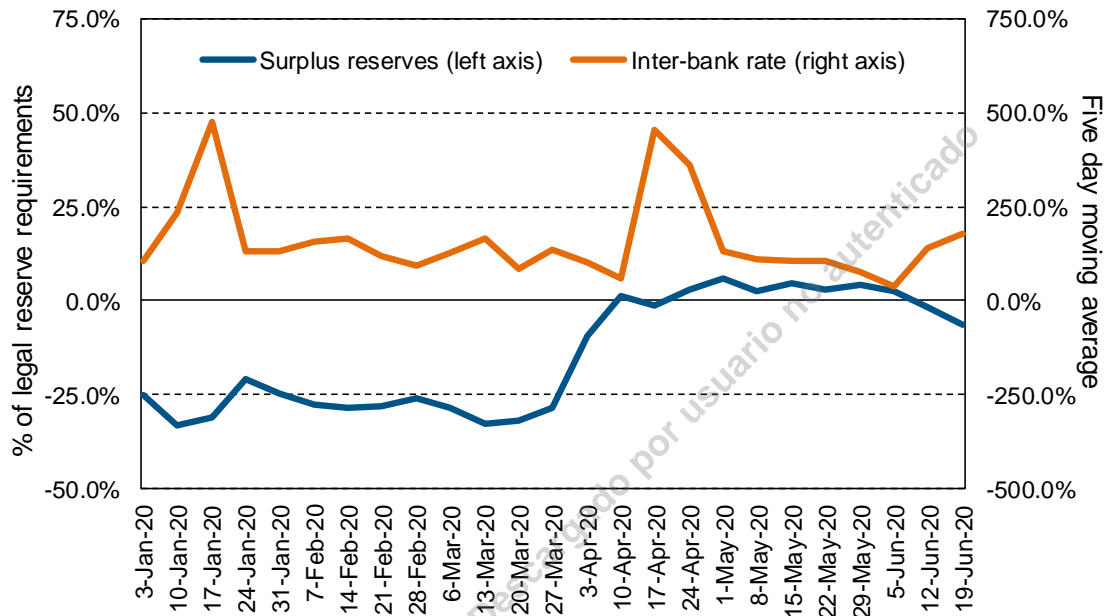
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Year 16. Number 23. Week IV
 June 2020

maintain excess reserves (on average) for eight of the fourteen weeks since the beginning of the social distancing policy in Venezuela.

Surplus bank reserves and inter-bank rate



Sources: BCV and Ecoanalítica.

On the other hand, this new design of the reserve requirement policy seems to have exacerbated the asymmetry in the distribution of bank reserves, in which the institutions with higher reserve requirements received a higher incentive not to "breach" the regulations, in the form of a lower initial requirement⁴. This seems to have caused that, even though an average daily amount of USD 12.0 MM has been traded between April and June in the Venezuelan interbank market,⁵ the rate agreed in this space will reach a new maximum (1,500% annually). Although, in annual terms, such securities represent a debt with a lower real cost in a still hyperinflationary environment, such quotes further limit access to smaller entities and are more exposed to the collapse of their income (financial and non-financial) in the midst of the pandemic.

In terms of liabilities, despite the contraction in real activity resulting from the quarantine, the total deposit base showed a growth in real terms of 22.2% between March and April

⁴ More technical details about the distribution of such incentives can be checked onto our *Outlook Note Report 01 (2020): New design of legal reserve requirements: More of the same?*

⁵ Between January and March 2020, this amount averaged USD 2.7 million.

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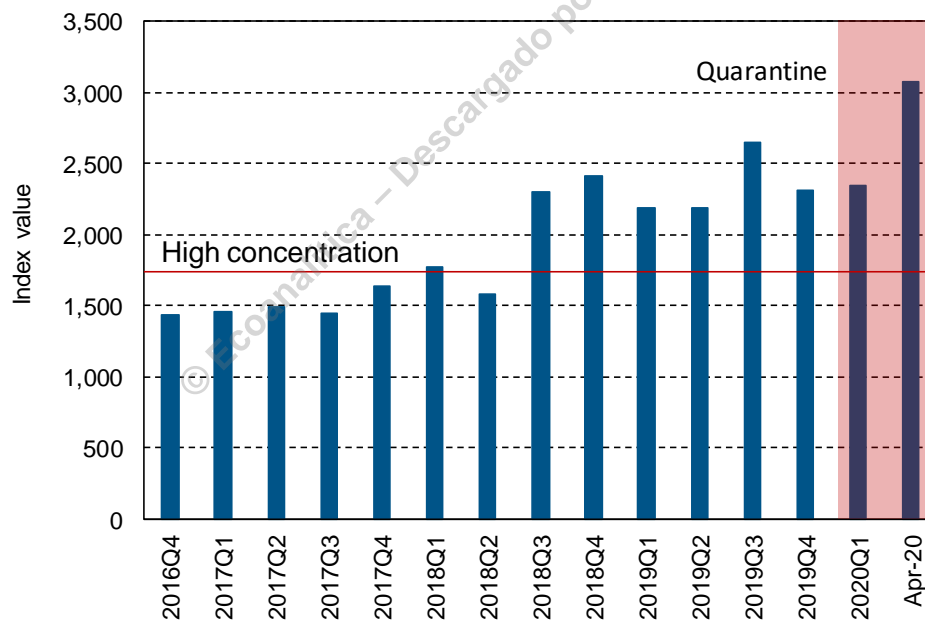
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Year 16. Number 23. Week IV
 June 2020

(under official prices) as a⁶ result of the fiscal actions of the Executive to counteract the impacts of the quarantine. In recent weeks, after a brief period of slowdown, the collections of universal and commercial entities would go from USD 925 MM (end of April) to USD 1,242 MM.

Not in vain, there was not only a rise in real terms in the deposits collected by public banks in the same period (32.3%, or 6.8% according to **Ecoanalítica**), but also a greater concentration of such liabilities in a few entities. In this regard, in addition to limiting brokerage margins (given the cutback in the supply of credit) and forcing banks to continue to maintain a high proportion of these deposits as reserve requirements, the expansion meant greater exposure for banks to events of a systemic nature in the circumstance that a small number of institutions collapsed. Once again, the results of the interbank market and its sensitivity to the context of the pandemic confirm some of these weaknesses.

Deposits HHI concentration index



Sources: SUDEBAN and Ecoanalítica

What about foreign currency accounts or custody? Balance sheet figures suggest that foreign currency deposits did not constitute more than 6.2% of total bank deposits as of April. At such levels, the new instruments do not yet represent a profitable service alternative for banks and are not very much used by the public in the midst of a

⁶ For **Ecoanalítica**, during this period, a slight real drop of 1.4% in these liabilities was reported.

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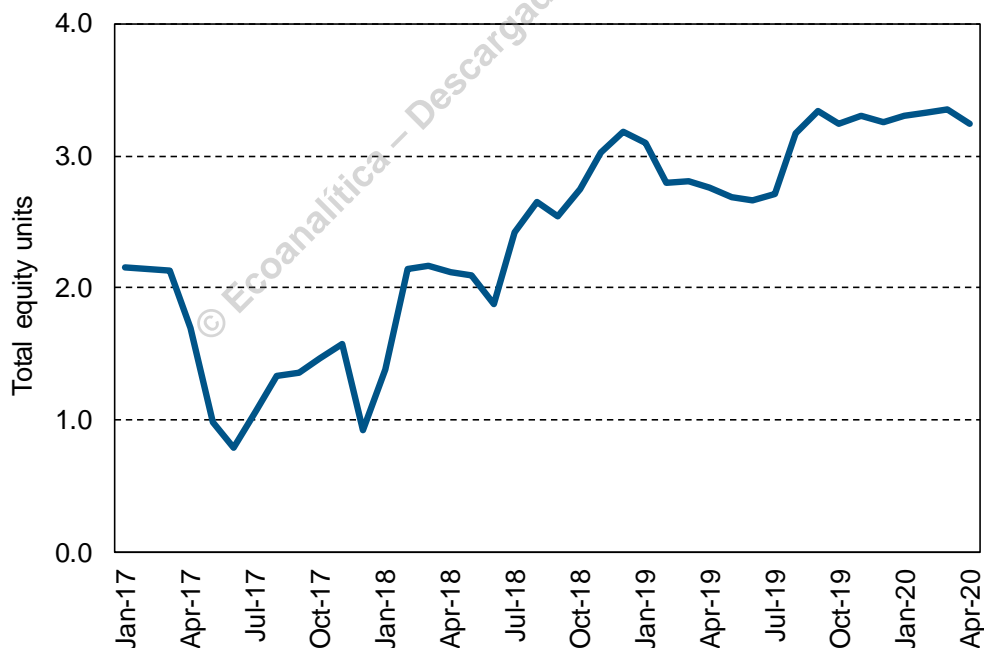
Year 16. Number 23. Week IV
 June 2020

quarantine context where liquid currencies are even more valuable than those with restricted mobility.

Despite a slowdown in lending and booming deposits, banks maintained a capitalization ratio above 100% at the beginning of the quarantine, a result that was entirely influenced by the book adjustments of the securities previously mentioned. Likewise, the bank's assets are still very close to the average for the first quarter of the year (USD 1,165 billion), which is no more than 1.5% of GDP at the end of 2018. We are not only talking about smaller banks, but also about banks that have capital (to face greater losses in the future) with a market value that has remained practically unchanged since the end of 2019.

On the other hand, in terms of leverage, only 1 out of every 3 VES (or dollars) held as securities finance the total equity of banks in Venezuela. In other words, a reduction of only 30% in the book value of investments in securities is enough to reduce the capital of the local banking system to zero.

Securities leverage ratio



Sources: Sudeban and Ecoanalítica.

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Year 16. Number 23. Week IV
 June 2020

The collapse of income

Naturally, the cessation of activities led to a greater decline in the income of the banks, which represented in net terms 27.3% of their assets in April (similar to what was seen in March and at the end of 2019). On the one hand, the notable expansion of their deposits, together with unchanged loan income due to low demand for financing, led to a reduction in bank margins for traditional activities. Another factor behind the lower profits was operating expenses, due to the more extensive use (maintenance) of electronic channels and the contingency that many banks had to assume to keep the business operational.

Statement of Accounts as Proportion of the Financial Incomes						
Banking	APRIL 2020			DECEMBER 2019		
	Universal & Commercial	Private	Public	Universal & Commercial	Private	Public
Financial Income	100.0	71.1	28.9	100.0	71.9	28.1
Income by investment securities	22.9	15.7	7.2	20.8	9.9	10.9
Income by credit portfolio	73.8	52.2	21.7	73.7	57.2	16.6
Financial Expenses	47.4	35.1	12.3	28.9	19.4	9.5
Expenses for the public's deposits	26.7	19.5	7.2	14.1	9.7	4.4
Gross Financial Margin	52.6	36.0	16.6	71.1	52.4	18.7
Uncollectibility net expenses	11.8	6.4	5.5	9.3	5.8	3.5
Net Financial Margin	40.8	29.6	11.2	62.0	46.6	15.4
Operative net income	190.4	156.7	33.6	139.8	113.9	25.9
Financial Intermediation Margin	231.1	186.3	44.8	201.8	160.5	41.3
Transformation Expenses	182.3	138.3	44.1	138.2	106.9	31.2
Staff expenses	57.6	40.5	17.1	45.0	34.1	10.9
General and administrative expenses	116.7	90.8	25.9	89.2	69.5	19.7
Contributions to the Deposit Guarantee and Bank Protection Fund	3.2	3.2	0.0	1.3	1.3	0.0
Contributions to the Superintendency of Banks and Other Financial Institutions	4.9	3.8	1.1	2.7	2.1	0.6
Gross Operating Margin	48.8	48.1	0.7	63.7	53.6	10.1
Net Operating Margin	30.8	26.4	4.4	43.0	35.3	7.7
Net Result	27.3	23.3	4.0	38.3	31.1	7.2

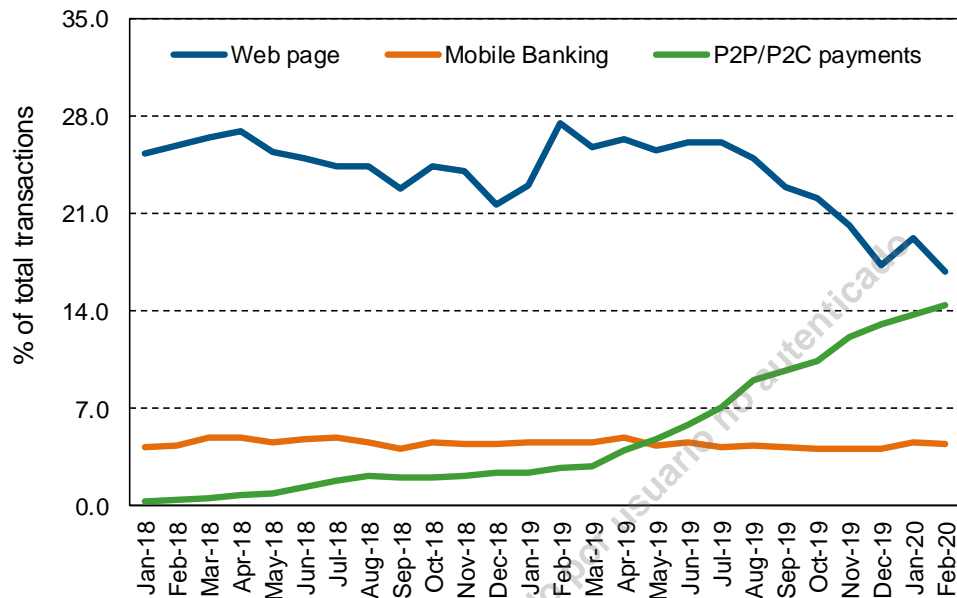
Sources: SUDEBAN and Ecoanalítica

At this point, not even the closure of agencies during containment could counteract the rise in such expenditures, where inflationary pressures continue to be a determining factor, even in quarantine, on the cost structure of local entities; however, despite the commercial limitations imposed by the COVID-19 in Venezuela, local banks managed to accumulate a large fraction of their income through the collection of commissions. In this regard, prior to the containment policies, electronic payment channels outside the points of sale (web portal, banking and interbank mobile payments) still covered 35.6% of total transactions in Venezuela, a proportion that presumably increased once the quarantine began in Venezuela.

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Use of payment methods in Venezuela



Sources: BCV and Ecoanalítica.

In terms of risk, the banking sector does not yet seem to be suffering from the changes imposed by the government in terms of credit restructuring⁷ during the quarantine. As of April, financing under default still did not exceed 8.3% of the total, although it did generate costs for banks with a greater weight in their revenue structure (11.9% in April, compared with 10.4% in March and 9.3% during past December). On the other hand, the greater volatility in net income imposed by rigid legal reserve requirements, higher exchange-rate gains and the high operating burden after the quarantine has meant that banks have maintained a combination of capital and return that is closer to the benchmark level of *default*.

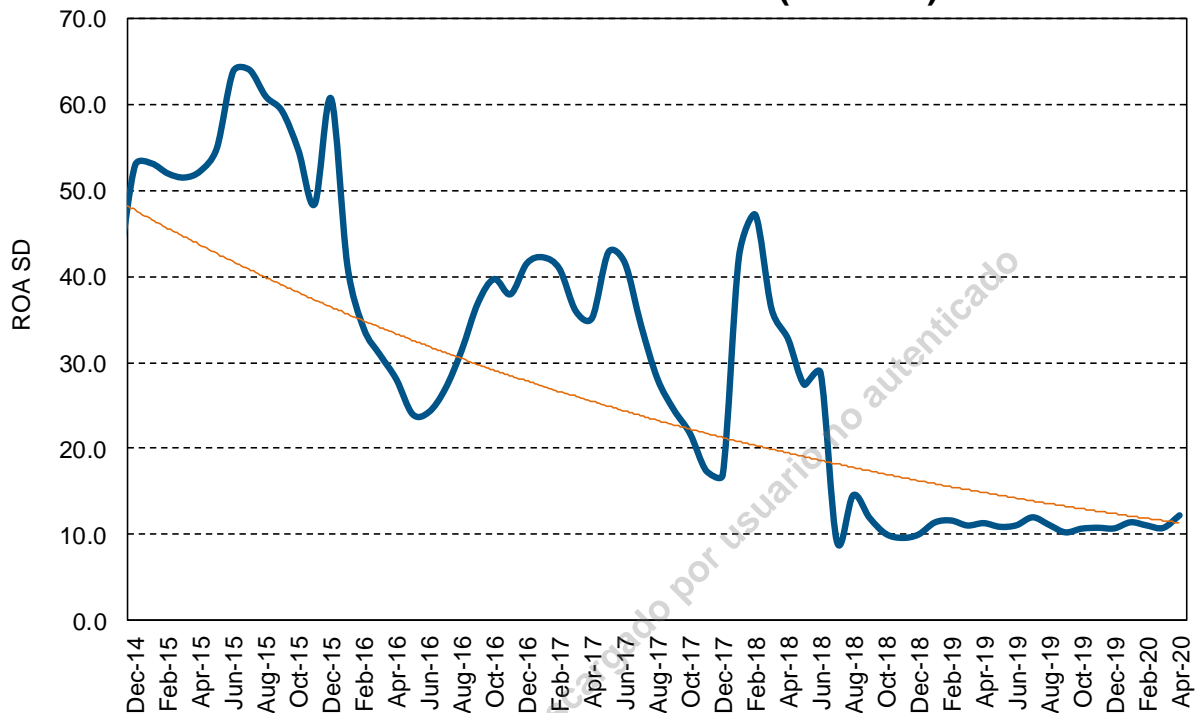
⁷ Such measures allow debtors to request changes in the conditions set out in their loans, except for consumer financing.

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Year 16. Number 23. Week IV
 June 2020

Distance from default (Z-Score)



Source: SUDEBAN and Ecoanalítica

In light of the heavy dependence of banks' assets on their holdings of securities, current conditions have ended up imposing income conditions that not only make them less profitable, but more likely than before to default on their debts.

Who's more vulnerable?

Which entities have been the weakest in the face of recent events? If we examine several banking dimensions simultaneously, considering official (and by own calculations)⁸ financial ratios for those aspects, we find that public banking entities seem to initiate local quarantine under more adverse conditions, especially in terms of liquidity, over-leverage and profitability. Those banks report lower liquid assets (as a proportion of deposits and short-run liabilities), larger securities positions, less equity and fee incomes (along with the lowest profits). Some smaller private banks showed similar results and, in some cases, negative net profits.

⁸ Liquidity ratios, leverage, capitalization, credit intermediation, financial and non-financial margins, operating expenses, and NPL related costs. Data and definitions are available upon request.

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Year 16. Number 23. Week IV
June 2020

Two of the largest private banks (along with the second largest public entity) revealed less adverse results among those aspects, including a bigger capital, although they seem to face larger operative expenses than the rest of banks. These institutions would be more exposure to local hyperinflation's cost, but we would account a more resilient balance sheet to tackle its effects.

All of the above means that, even if we look at banks from one or several perspectives at once, we will find a local financial environment that has faced (and will continue to face) the new virus with few tools to guarantee its long-term viability. Unfortunately, regulators have done little to change this trend, which means that if the pandemic worsens and official countermeasures are reinforced in the coming months, relying on some banks to seek to revive the Venezuelan economy on the basis of decrees and discretionary management will be more than impossible.

Luis Arturo Bárcenas

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Year 16. Number 23. Week IV
 June 2020

WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week June	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	202,883.19	0.2	0.2
	2nd Week June	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	39.6	-0.2	10.0
	3rd Week June	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	180.1	40.0	56.9
	3rd Week June	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.4	-0.9	-21.6
	2nd Week June	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	122,023,084	6.5	1,577.6
Price of International Oil Baskets (USD/b)			
	2nd Week June	Weekly chg. (%)	Annual chg. (%)
WTI	34.9	0.0	-33.8
Brent	39.8	3.7	-35.6
Price of the Venezuelan oil basket (USD/b)			
	2nd Week June	Weekly chg. (%)	Annual chg. (%)
Weekly Average	20.9	1.1	-62.4
Annual Average	30.7	-1.4	-48.7

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

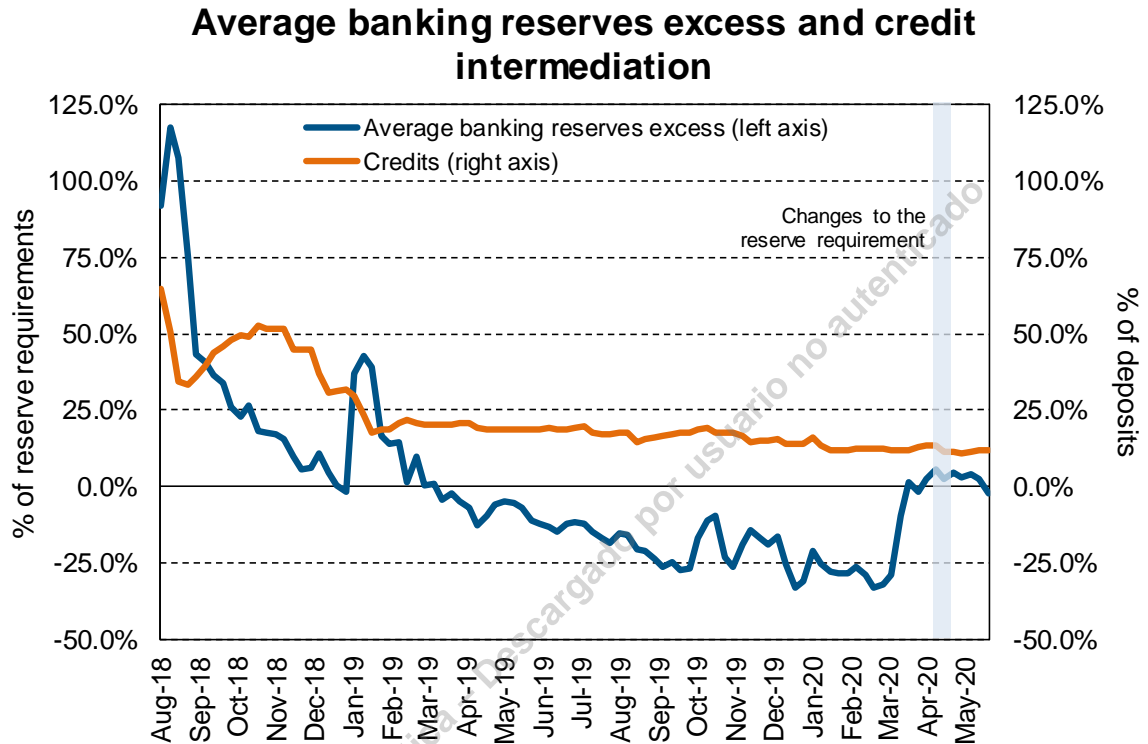
¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

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Year 16. Number 23. Week IV
 June 2020

CHART OF THE WEEK: "WORSE REMEDY THAN DISEASE"



Sources: BCV y Ecoanalítica

One of the strategies employed by Nicolas Maduro's government to deal with the consequences of the COVID-19 pandemic on the Venezuelan economy was to partially cut the legal reserve requirements needed by local banks by repealing those linked to the change in their deposits (with respect to a reference value) and an initial reduction in the initial amount required of VES 1,500 MM. Despite such adjustments, banks in Venezuela are still forced to maintain an average of 93% of their deposits in the BCV each week.

In that sense, even though specialized opinion, and even many local private sector associations, were acclaiming the flexibility of such regulations to help face the current crisis and despite the excessive optimism of the regulators who stated that such measures "contribute to counteracting, in part, the new limitations in the performance of national economic activity", unfortunately, the changes implemented were not enough to reactivate credit to the levels required by the local private sector in the midst of the current pandemic.

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Year 16. Number 23. Week IV
June 2020

As mentioned in previous reports, the reduction in the reserve requirement meant an initial injection of only USD 270.6 million, which would allow banks to grant new loans for five weeks, assuming that there was a demand for financing (close to USD 56.1 million per week) and that they managed to accumulate resources for this purpose. In fact, right after the changes in the legal reserve, the banks managed to maintain bank reserves on average above the required level. However, this behavior lasted only eight weeks, when they became negative (i.e., below the BCV's reserve requirement) after trade activity had been half-reopened due to the relaxation of mandatory quarantine.

As expected, this reduction in availability not only led to major disruptions in the interbank market (annual rates of up to 1,500% were agreed upon, a new all-time high), but also further reduced the banks' ability to offer credit and generate income amidst the adversities imposed by the policy of containment of the coronavirus. In this regard, the rate of intermediation (loans to deposits) did not exceed 13.7% in the weeks following the change in the legal reserve, even lower than that seen at the end of 2019, and despite the fact that the latest figures published by Sudeban showed a credit increase of 19.6% in real terms for April (with BCV price figures); however, if one assesses the yield according to the rise in the official exchange rate, except for financing directed at agricultural activity, all types of credit would show contractions of over 28% after the implementation of the changes.

In fact, during this period, banks showed a greater expansion in their securities portfolio, although this was strictly due to their revaluation following the increase in the official exchange rate (which was in turn affected by unofficial quotations). Not even the reopening of shops and the partial reactivation of activities at the beginning of June managed to affect the capacity of financial institutions to revive the supply of resources. Until the previous week, with the greatest relaxations in the quarantine, the banks were still not lending more than 12% of their obligations.

Thus, the new measure of the reserve requirement not only left the banks unable to make profitable the expansion of deposits received (in the face of the greater injection of money by the Executive, as a means to alleviate the crisis), but also put them at the mercy of a highly unstable source of income (and capital), supported only by the supply of non-financial services and mere accounting adjustments. This adjustment also made the interbank market more unequal in terms of the concentration of reserves, which has influenced the recent behavior of the agreed rates. Thus, the antidote left the banks more vulnerable, while it has made bank credit even more elusive for the Venezuelan trying to face the new crisis. Thanks for the favors received.

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Year 16. Number 23. Week IV
June 2020

ECONOMIC TIPS

COVID-19 in Venezuela. According to government figures, the number of positive cases of coronavirus reached 4,563 and 39 deaths on June 26.

New perspectives. The International Monetary Fund (IMF) updated its Economic Outlook Report (WEO) which estimates a global contraction of 4.9% by the end of 2020, while for 2021, growth is estimated to be at 5.4%.

Better or worse? Both projections worsened, as the previous report estimated a 3.0% drop by 2020 and a 5.8% rebound by 2021.

What about us? In detail, the outlook for Latin America and the Caribbean worsened for 2020, from a fall of 5.2% to a fall of 9.4%, while the outlook for 2021 improved from 3.4% growth to 3.7% growth in the region.

Syncopated confinement. Delcy Rodríguez announced new confinement measures for Caracas and 10 other states in the country, including border states which have the highest number of infected people. The measures will be maintained from Monday 22 to Sunday 28 June in case contagion is controlled.

In dispute over gold. A hearing in a London high court began last Monday, June 22, in which the Central Bank of Venezuela is seeking an order to force the Bank of England to release about USD 1 billion in gold bars.

What does the government argue? This amount, which represents about 15% of Venezuela's international reserves, would be used to strengthen the response of the Nicolás Maduro government to the pandemic, according to the BCV's advocate.

What does the opposition argue? On the contrary, the representative of the government of Juan Guaidó, introduces legal instruments so that he can be recognized as a leader of the nation and to dismiss the legitimacy of Nicolás Maduro as an entity capable of mobilizing such funds.

Was it calculated? (I). In an official document, the Central Bank of Venezuela (BCV) exhorted the banking institutions, which are the ones that operate in the exchange tables that determine the official exchange rate, to proceed with the sale of the foreign currency positions coming from the commercialization of the liquid fuel.

Was it calculated? (II). Consequently, the banking agencies will have to trade the foreign currency received by the service stations, which will bring an increase in the

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Year 16. Number 23. Week IV
June 2020

supply of foreign currency traded in this market which will possibly have a downward impact on the price of the dollar in the coming weeks.

Trade that thrives (I). A new Iranian ship arrived on the coasts of Venezuelan but this time with food, in order to inaugurate the first Iranian supermarket in the nation. In addition, two to three ships with fuel per month are expected to arrive at Venezuelan coasts according to Reuters sources.

Trade that thrives (II). The Iranian ship Golsan, owned by Mosakhar Darya Shipping Co, left the Bandar Abbas, the same port from which the other vessels carrying about 1.5 million barrels of liquid fuels departed.

Bonds and more bonds (I). Through the Patria System, the "100% Schooling" and "Stay at Home" bonds were granted as of June 21. The government urges the use of the bonds to cover the expenses related to the new period of strict confinement and at the moment the amount of the bonds is unknown.

Negative prospect. Economist Jesús Casique noted that the outlook for the second half of 2020 remains pessimistic. He predicts that the hyperinflationary environment will continue, purchasing power will continue to fall, as will foreign reserves, and the fiscal deficit will worsen.

An unfamiliar basket (I). The Center for Documentation and Social Analysis of the Venezuelan Federation of Teachers (CENDAS-FVM) calculated the May Food Basket at VES 55,376,516.36, which represents a monthly variation of 20.5% and a cumulative variation since the beginning of the year of 263.1%.

An unfamiliar basket (II). In this sense, 138.4 minimum wages or USD 283.98 are required to buy the CENDAS-FVM Food Basket

Money boards. For the week of June 19, the average rate for money boards was VES 202,883.19/USD. This represents a 0.2% depreciation from last week.

Liquids? Liquidity was VES 122,023,084 million for the week of June 12, a variation of 4.43% in nominal terms from the previous week (June 5) and 1,577.6% from last year.

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Year 16. Number 23. Week IV
June 2020

OIL TIPS

Internal divisions. Juan Guaidó's attorney general, Jose Ignacio Hernández, made public his resignation letter sent on May 28, after Vice President Delcy Rodríguez leaked a private audio recording of a meeting of the National Assembly's Energy Commission.

What does the audio say? In the audio you can hear Hernandez, saying phrases like "I'm surprised how long these defense walls I built have lasted," pointing out the fact that these "walls" must be protected or they will collapse at any moment. He also mentioned that he made a personal effort to gain recognition from the Guaidó administration through the World Bank President David Malpass.

What were the reasons? Hernández explained that his resignation was due to strategic conflicts with certain opposition personalities in the litigation cases with ConocoPhillips, Crystallex and the PDVSA 2020 bond holders over the future of CITGO and that he had already resigned before the audio was leaked.

What did the opposition do? As a result, the National Assembly appointed Dr. Enrique Sánchez as Special Prosecutor, a position that would remain in effect until a new Prosecutor General is appointed by the Guaidó government.

What did the government do? Nicolás Maduro's administration appointed Alfredo de Jesús to act at the International Centre for Settlement of Investment Disputes (ICSID, a sub body of the World Bank) as its representative in the arbitrations against ConocoPhillips and Crystallex.

Do you take fuel? (I). Reuters sources indicated that PDVSA is having discussions with private contractors to repair some refineries in the country. In exchange, the oil company would pay with gasoline, jet fuel and petroleum coke.

Do you take fuel? (II). Also, the private companies, which are unknown at this time, plan to discuss the plan with the Office of Foreign Assets Control (OFAC) to try to obtain a license to allow these activities.

So strict... At the 9th Meeting of the Joint Ministerial Monitoring Committee of the Organization of Petroleum Exporting Countries (OPEC), Tareck El Aissami urged member countries to comply with the specified cuts until July 31.

...like quarantine. He noted that the cuts are currently 87% of what was agreed and that there is still 13% of production above the agreed ceiling.

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Year 16. Number 23. Week IV
June 2020

OPEC+ ... In this regard, OPEC+ expects Iraq, Nigeria, Kazakhstan and Angola, the countries that have not implemented the cut fully, to do so until September. Iraq and Kazakhstan have already submitted plans to compensate for their failure to do so,

...remains firm... For their part, Venezuela, Iran and Libya are exempt from the commitment due to "involuntary falls" in their production, nonetheless, these countries are not expected to reactivate their production in the short term.

...with some casualties. While Brazil reported that due to the importance of oil exports in its trade balance, the South American nation is unable to adhere to OPEC+ cuts.

With intermittent gas. The Venezuelan Observatory of Public Services conducted a survey in which they revealed that only 18.1% of gas users have direct access to this service and 74% of users depend on individual propane cylinder refills.

State disinvestment (I). The board of directors of the National Agency of Petroleum, Natural Gas and Biofuels of Brazil (ANP) informed that it approved the assignment of rights of 10 concession contracts that the state-owned company had to Trident Energy of Brazil.

State disinvestment (II). The concessions were made to the Pampo and Enchova blocks, which cover the fields of Badejo, Bicudo, Bonito, Enchova Oeste, Enchova, Sole, Marimbá, Pampo, Piraúna and Trilha.

Peru continues in spite of the pandemic. After the Health Ministry approved the surveillance, prevention and control plans that the company and its contractors had for coronavirus, Petroperu informed them that they will start the gradual resumption of construction of the Talara refinery.

The problem affects everyone. According to Baker Hughes, about 189 oil pumps were operating in the United States by June 19, a figure that represents a minimum since 2010 and which on October 10, 2014 stood at 1,609 active pumps.

SECTOR TIPS

Food for only 25%. Celso Fantinel, the first vice president of the Confederation of Agricultural Associations of Venezuela (Fedeaagro), said the agricultural sector's harvest for 2020 will barely cover cover the necessities of 20-25% of the population.

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Year 16. Number 23. Week IV
June 2020

Back to the '70s. Furthermore, Fantinel stated that this level of production in the agricultural sector is equal to the production recorded between 1971 and 1972. This is largely due to the progressive drop in production since 2010, along with the conditions generated by the pandemic.

Historical minimums. Fantinel explained that the fall in corn will reach "*historical minimums*", declaring that "*hopefully*" they will reach 100,000 hectares. This is in high contrast to what was produced in 2010, when corn surpassed 700,000 hectares of production.

Flexibility for the essentials. Hipólito Abreu, Minister of Transport, stated that the return of the radical quarantine and the closure of the subway system, means that he will make five surface transport routes available to cover the route of the Caracas subway for essential workers.

The prioritized. The people who will have access to these routes are those working in the telecommunications, health, water, security, energy, food and transport industries.

Hidden opening. According to a report by *Efecto Cocuyo*, shopkeepers in Maracaibo have begun working clandestinely to cope with the consequences of the public service crisis and the quarantine.

Survival of the fittest. These businesses in Maracaibo are offering home delivery and pick-up service to help them stay afloat and pay their employees' salaries. Nonetheless, *Efecto Cocuyo* assures that the businesses are receiving little income and are losing money.

Please open up! The Maracaibo Chamber of Commerce (MCC) issued a statement asking the government to relax the quarantine restrictions in the city. The CCM argues that, if the quarantine is relaxed following basic sanitary protocols, this could greatly help businesses that have lost a lot of income since the quarantine began.

We're ready to go back. According to data retrieved by the CCM's Statistical Information Unit, 92% of its members are ready to return to work immediately. The organization said that the economic need is weighing more for families than the fear of coronavirus infection.

Reinvent yourself. Ezio Angelini, the president of the CCM, declared that businesses have had to reinvent themselves in order to stay afloat. They have achieved this through teleworking, internet sales, rebranding, and franchising.

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Year 16. Number 23. Week IV
June 2020

Lack of personnel (I). The medical association of the Central Hospital of Barquisimeto denounced that the hospital is functioning, in this critical period, with only a quarter of the nursing and medical professionals it requires.

Lack of personnel (II). The lack of staff in the hospital has been aggravated by mobility restrictions and transport problems. In addition, the hospital indicated that it is suffering from water shortages, but that, despite this, the hospital is still working on the COVID-19 situation. Additionally, it clarified that they are only receiving emergency and oncology patients.

Lack of personnel (III). The Lara College of Physicians is very concerned that measures have not been taken to ensure that hospitals respond efficiently to the pandemic, and that if there is an exponential increase in cases of COVID-19, the collapse of the first care facilities would be a tragedy.

INTERNATIONAL TIPS

COVID-19 in the world. According to figures published by the World Health Organization (WHO), the number of positive cases of coronavirus reached 9,296,202 the 26 of June, registering 479,133 deaths for the same date.

What is expected of the vaccine? Soumya Swaminathan, head of the WHO scientific team, said she expects hundreds of millions of doses of coronavirus vaccine to be produced this year and two billion doses to be available by 2021.

How are we doing? The director clarified that about 10 potential vaccines are currently in the human clinical trial phase and doses to protect populations from infection are expected to be available in a few months.

Digital taxes, yes or yes. The European Union (EU) economy commissioner, Paolo Gentiloni, announced that the European bloc is prepared to be the first to go ahead with the implementation of taxes on the activities of digital companies such as Google, Amazon, Facebook or Apple if no global agreement is reached on this matter this year.

With or without the United States. The Commissioner made this statement in response to the decision taken by the United States to withdraw from negotiations on a global solution for taxing digital services.

Another trade war. The Organization for Economic Cooperation and Development (OECD) warned that failure to negotiate an international agreement on such taxes could

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Year 16. Number 23. Week IV
June 2020

trigger a trade war. The organization urged countries to remain engaged in the process after Washington's decision to withdraw.

Giant fight. Indian authorities paused US\$600 million in contracts with Chinese companies after the border conflict on June 17. According to a statement by the Indian Army, at least 20 Indian soldiers were killed and more than 70 injured after violent clashes with Chinese troops along the de facto border in the Himalayas.

Worse than expected. According to the International Monetary Fund (IMF), the confinement in the United States has extended longer than expected despite the easing of some restrictions on transfers, which, according to the agency, points to a deeper contraction than estimated in the GDP during the second quarter.

More stimuli (I). The Boston Federal Reserve Chairman Eric Rosengren argued that the continued spread of the coronavirus could hamper the U.S. economic rebound, and more fiscal and monetary support is likely to be needed to get through this.

More stimuli (II). In the early days of the pandemic, the U.S. Federal Reserve moved quickly to support the economy by lowering interest rates to near zero and deploying a series of emergency credit lines. However, Rosengren indicated that those measures were probably not enough, and further fiscal and monetary stimulus is needed.

Flexibility leads to increased sales in the UK. Amidst the gradual easing of coronavirus confinement, official UK government data showed that retail sales volume in May increased by 12.0%, after a historic fall of 18.0% in April. However, in year-on-year terms, a 13.1% contraction in sales was observed.

Historical debt. On the other hand, official UK figures indicated that net public sector borrowing, which is increasing to finance the huge increase in government spending, reached GBP 55.2 billion (USD 68.7 billion) in May, a historic high for the European country.

Requirements: an agreement by October. The UK government warned the European Union (EU) that it would be difficult to conclude a post-Brexit free trade agreement by the end of the year unless a broad consensus is reached before October.

A lot of sensitive points. After Brexit on 31 January, the talks have moved on to reach a new trade agreement. Talks have mainly stalled over EU access to British fishing waters, British compliance with EU rules designed to ensure a level playing field and customs arrangements for Northern Ireland.

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Year 16. Number 23. Week IV
June 2020

Negative balance. In May, Argentina recorded a primary fiscal deficit of US\$ 3,666.3 million, higher than that observed in April (US\$ 3,423.4 million). According to the Ministry of Economy, the boost in primary spending is almost entirely explained by current transfers, social security benefits and public capital investment, which have increased to cope with the pandemic and meet public debt obligations.

POLITICAL TIPS

Change of strategy. The President of the United States, Donald Trump, declared in an interview with *Axios* that he would be willing to hold a meeting with Nicolas Maduro. According to the news agency, the president considers that he has nothing to lose from this meeting and knows that Maduro wants a meeting with him.

Lack of confidence? In this same interview, *Axios* assures that Trump was not confident when he spoke about his relationship with Juan Guaidó, stating that he has had doubts about his decision to support the opposition leader. Although the news agency indicated that Trump shows a lack of confidence towards Guaidó, the president declared that he supports political change in Venezuela.

Nothing has changed. White House press secretary Kayleigh McEnany said that for the executive branch "*nothing has changed, it continues to recognize Juan Guaido as the leader of Venezuela.*" She added that Trump has not lost confidence in the opposition leader.

Green light. In a VTV broadcast, Nicolas Maduro declared, "*I'm willing to talk respectfully with Donald Trump.*" He also said he would be prepared to have a dialogue if there was respect, as he had with Joe Biden in 2015.

Peaceful exit from power? After the interview, the U.S. president made it clear on his Twitter account that his "*administration has always been on the side of freedom and against Maduro's oppressive regime,*" clarifying that he would only meet with Maduro to discuss a peaceful exit from power.

Welcome? The Government of the United Kingdom informed the Guaidó-designated representative in his country, Vanessa Neumann, that, although she would be received in London, she would not be granted a visa or diplomatic immunity, or access to Venezuela's diplomatic properties.

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National Dialogue Table. The National Dialogue Table, made up of opposition parties that were minorities in the National Assembly, met with representatives of Maduro's team, to discuss the upcoming parliamentary elections were discussed.

How much for the private plane? According to the *Panam Post*, Nicolas Maduro wants to buy an Avior plane, model Airbus 340-300, with the aim of building an air bridge with Iran to avoid the sanctions imposed by the United States. The plane would be transferred to the state-owned Conviasa.

Venezuela absent in the ring. Jorge Arreaza, the foreign minister of Nicolás Maduro's government, said Venezuela will not participate in a hearing at the International Court of Justice, which will address Venezuela's border dispute with Guyana over the Essequibo territory, because Venezuela does not recognize the court's jurisdiction in the case.

All in agreement. Both the Guaidó and Maduro sides agree that Venezuela should not participate in this hearing. Furthermore, they both believe that Venezuela's legitimate claim to the Essequibo cannot be pursued at the request of the government of Guyana, because the court does not have jurisdiction and Venezuela did not authorize it.

It's the government's fault. Williams Dávila, the deputy of the National Assembly, declared that the territorial dispute between the two countries reached the International Court of Justice because of the negligence with which the Chavista government treated this historic dispute.

Get out! (I) In the state of Táchira, a process has begun to remove the governor, Laidy Gómez, for alleged administrative irregularities. Joshua Faratro, a PSUV deputy in the Legislative Council of the state of Táchira, said this was due to a serious crisis due to lack of social investment, maintenance and infrastructure.

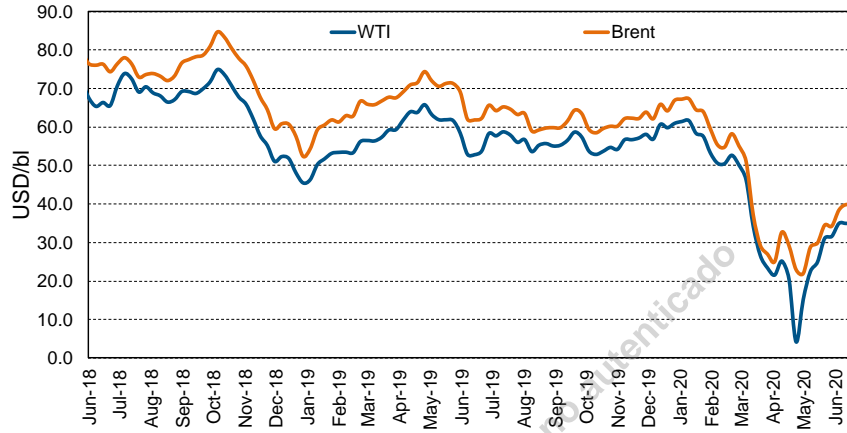
Get out! (II) Faratro announced on his Twitter account that a special commission will be elected to request the governor's dismissal. In the case the dismissal goes through, the secretary of government would move to the role of governor until the NEC (National Electoral Council) can organize an election.

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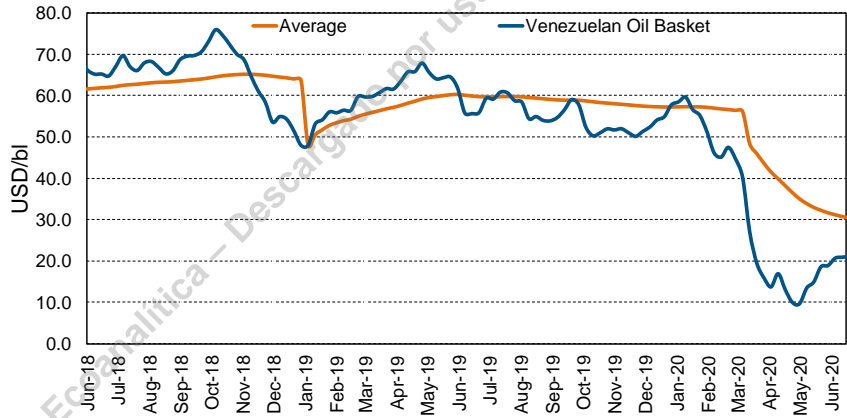
ECONOMIC DATA

**Oil Prices
(WTI and Brent)**



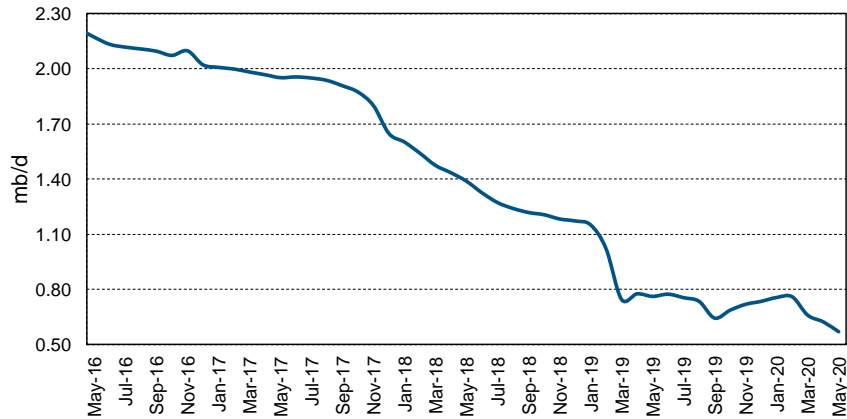
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**



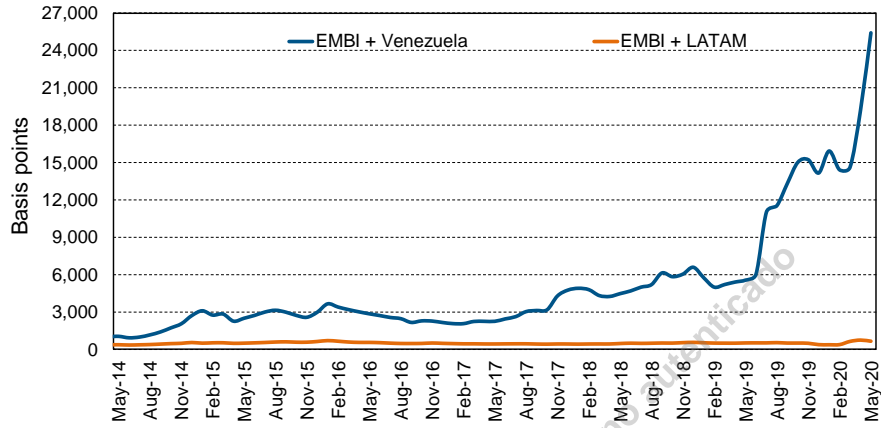
Sources: OPEC and Ecoanalítica

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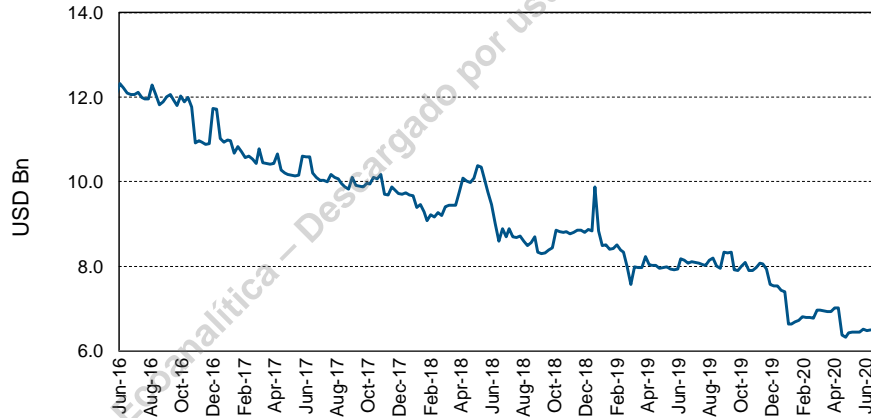
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EMBI



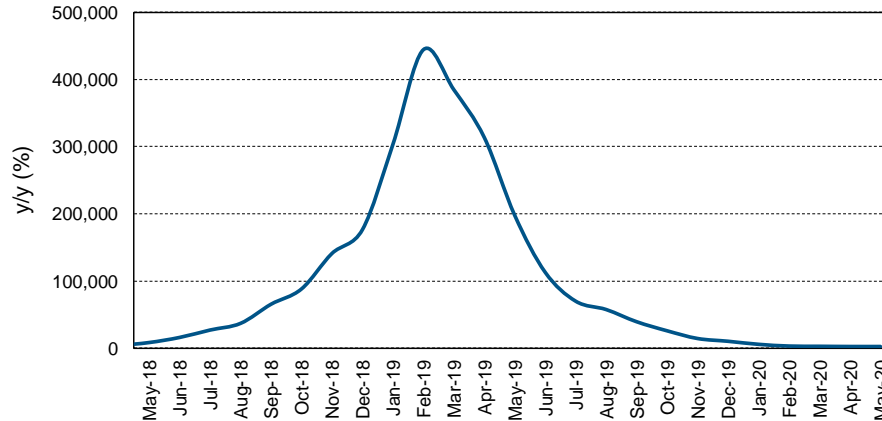
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



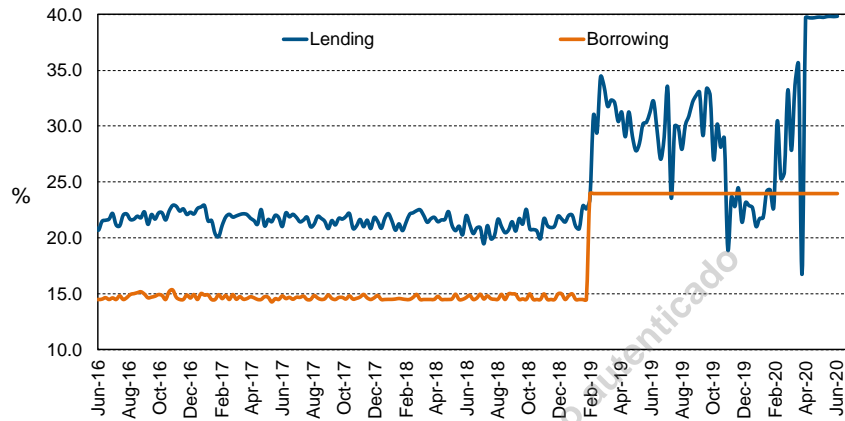
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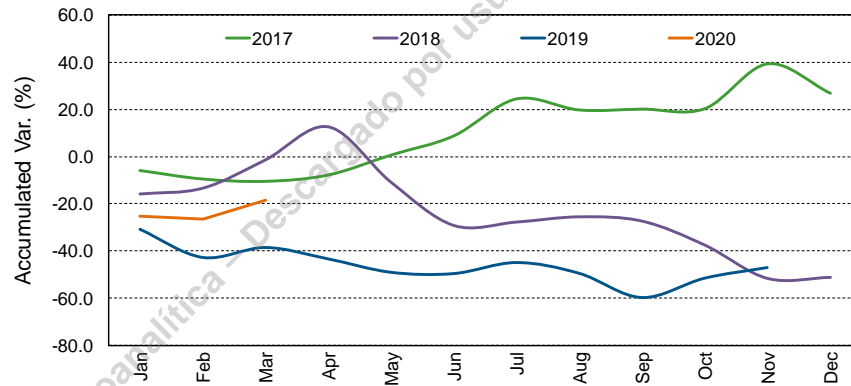
ECONOMIC DATA

**Interest Rate
(Six major banks)**



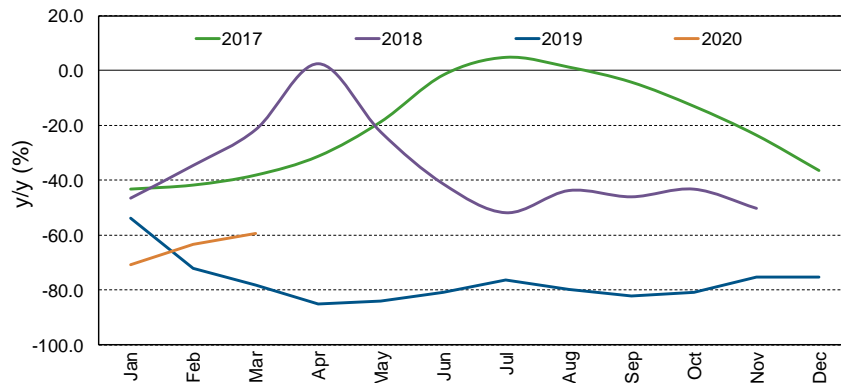
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



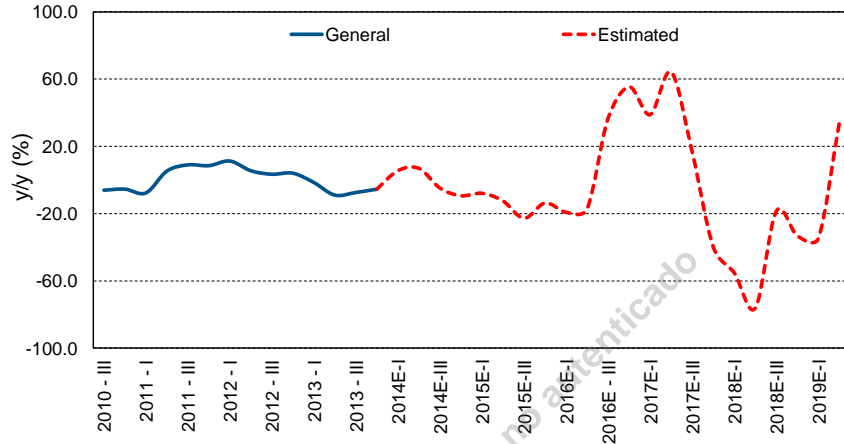
Sources: SUDEBAN and Ecoanalítica

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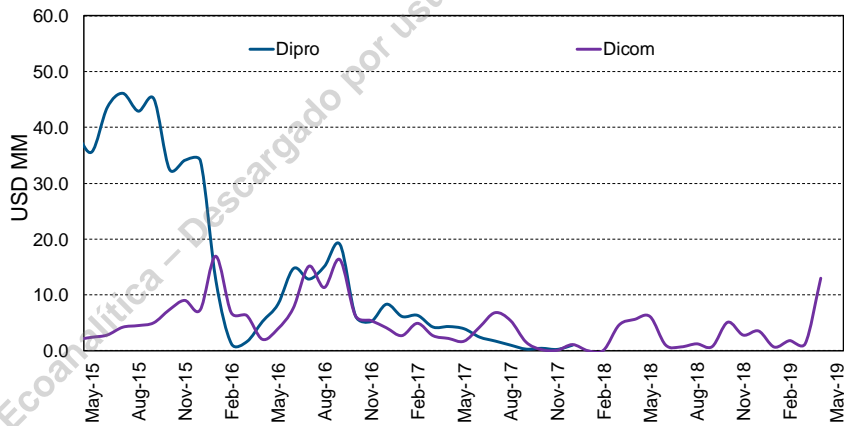
ECONOMIC DATA

Real Wage Index



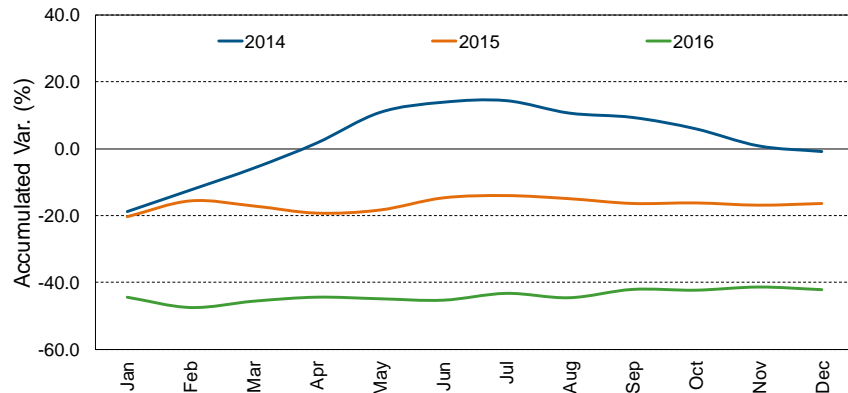
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



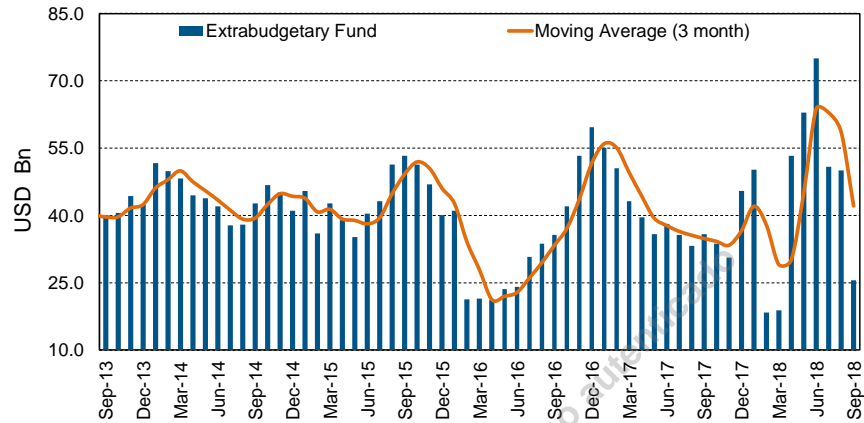
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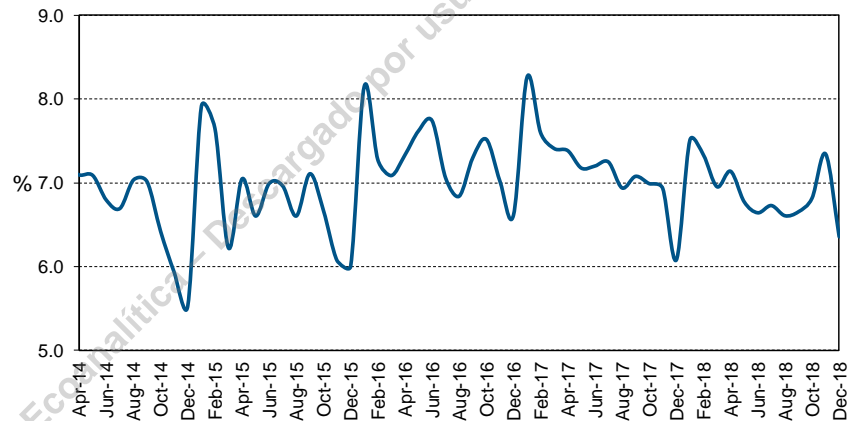
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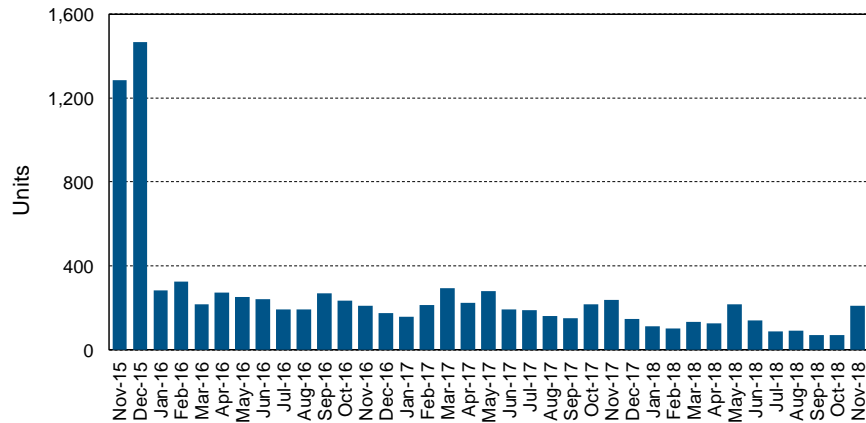
State Extrabudgetary Resources



Unemployment Rate



Vehicle Sales



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