

## The new reality of Venezuela's banking system

Recently official figures were revealed for the balances and flow of results of the banks in Venezuela. Although the latest data published by the Central Bank of Venezuela included part of the balances in weekly figures, they do not permit a more detailed examination of other sides of the banking business. Aspects such as past due indebtedness and profitability have been affected recently not only by the regulatory dynamic but also by the behavior of prices and how this has impacted operations and risk management.

While it is possible that the recent slowdown in local inflation may prove to be less of an impediment to bank activity, the banks still seem to be facing serious difficulties that prevent them from safeguarding their business and, consequently, the supply of financing and means of payment that are necessary to help bring down increasingly high prices. As we have proposed on previous occasions, both the new legal reserve requirement policy and the foreign exchange measures have ended up undermining that ability even further, besides putting generation of revenues by the banks in jeopardy and, with it, the ability to pay their debts. As we will see, the situation the banking system currently finds itself in is far from encouraging.

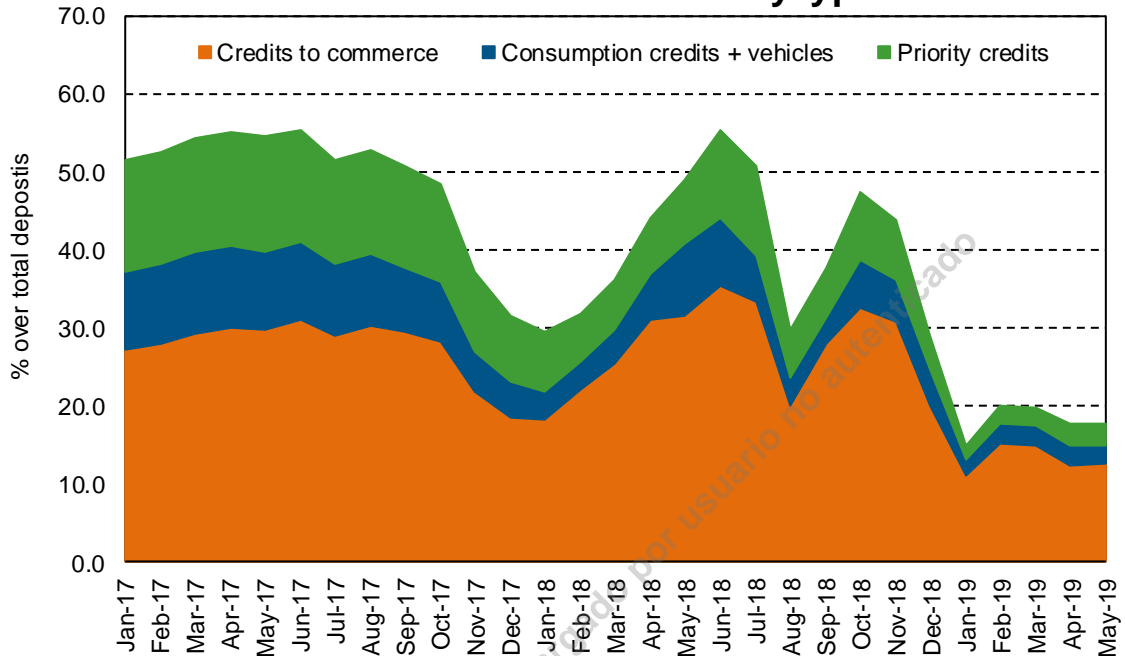
### The impact of the legal reserve

The new official figures confirm the grave decline in credit activity as a result of higher legal reserve requirements. As we anticipated in previous reports, the legal reserve policy has forced the banks to restructure their balances, allocating less of the amount they take in deposits from the general public to traditional financing. In May the tendency was for the banks<sup>1</sup> to lend 17.3% of their deposits compared to 48.0% a year ago.

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<sup>1</sup> Given its relevance in the total banks sample, we use data from the universal and commercial entities system.

### Credit Intermediation by type



Sources: SUDEBAN and Ecoanalítica

With regard to the types of loans granted, the banks have reacted initially to the higher legal reserve requirements by cutting credit granted to priority sectors for the regulating authority (credit “drawers”). The preferential terms negotiated for much of this financing reveal how costly this type of financing is for the banks, not to mention the problems of risk management implicit in these operations. Strangely enough, the banks have also tended to favor financing for commerce to the detriment of consumer loans. So, while revolving credits represent a source of considerable revenues for the banks, the actual yields applied by local banks seem to be higher in operations of the first type (corporate financing, lines of credit), which partly explains this reorganization as regards the types of loans granted.

There is another limiting factor that stems from the latest measures on the foreign exchange front. The new numbers show a greater concentration of sight deposits in foreign currency to the detriment of traditional current accounts. While these deposits started to get bigger following the establishment of the Petro as a self-denominated “price anchor,” and also following the changes to the DICOM system, the deposits generated under the guidelines of Foreign Exchange Agreement No. 20 account for 42.0% of all deposits taken by the banks in May.

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However, a closer look at this figure shows that the three main recipients of these funds were state-owned banks (89.8% of the total), where those funds represent between 66.4% and 79.8% of liquid funds. This situation became more acute as a result of the changes promoted by the government on the foreign exchange front during the second half of 2018, in which the state-owned banks played a predominant role.

Because the banks are not authorized to grant loans in foreign currency, this sterilization means there are fewer local resources available for lending. It is usual for the state-owned banks to reflect less friction in their supply of credit the closer their incentives are to the public interest rather than to aspects such as profitability or solvency<sup>2</sup>. So, the concentration of operations of this type in these banks may generate greater limitations on the supply of credit from this sector. These limitations may change if the effect of US economic sanctions on these banks reduces the flow of foreign currency they receive or if, in response to a decline in their profitability, they are forced to dismantle the credit subsidy scheme that they may still be able to maintain.

### Where are deposits and reserves concentrated?

Moreover, the reserves held at the Central Bank represent less in terms of availabilities. On the one hand, the increased role of cash and the reduction in surplus reserves may play a role in this regard; on the other, the bank reserves show a lesser degree of concentration. So, the demand for these reserves seems to have become more transversal throughout the system (and not a dynamic exclusive to the smaller banks). In other words, the needs for these funds have increased systematically, presumably raising exposure in a larger number of banks in terms of nonpayment between banks.

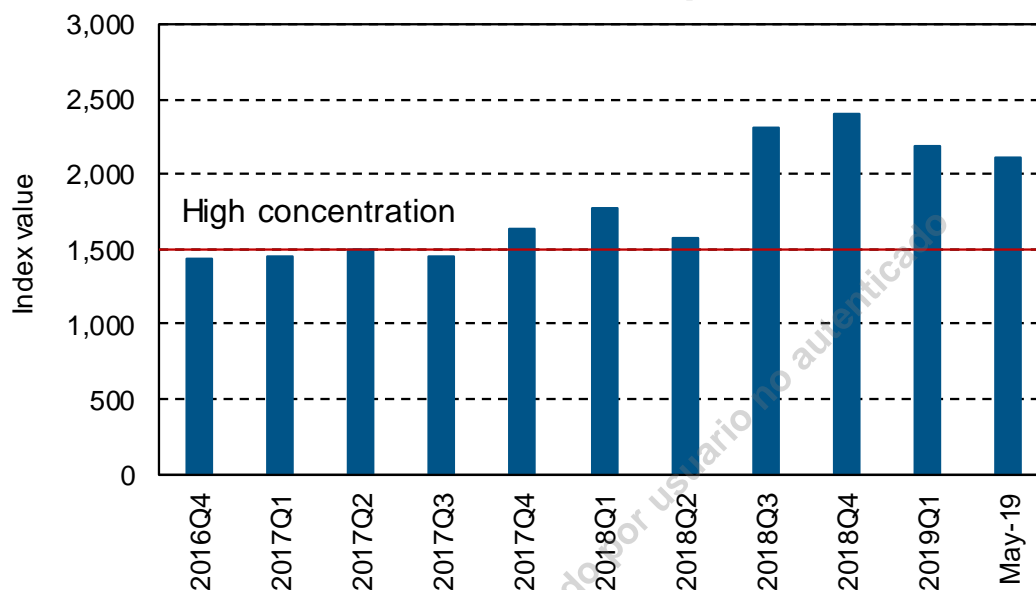
The concentration of deposits has been more marked. According to the Herfindahl–Hirschman Index (sum of the squared share of the deposits by bank), the banks crossed the high-concentration threshold in May. Besides the possible implications of this in terms of setting rates (taking this as a proxy of market power), it also tells us of the potential systemic risks. With few banks concentrating a very high fraction of deposits, a run on those banks that affects only a few could have adverse effects on the availability of funds for the rest of the system.

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<sup>2</sup> A good discussion on this issue is to be found in Micco, U. & Panizza, U. Bank ownership and lending behavior. *Economics Letters*, Volume 93, número 2, pp 248-254.

Year 15. Number 24 Week II  
 July 2019

## HHI index for deposits



Sources: SUDEBAN and Ecoanalítica

Another aspect has to do with the deposits made by public sector entities in private banks. Given US sanctions, there may be fewer incentives for private banks with correspondent banks to do business with public sector entities. In fact, today the funds of public sector entities have fallen to less than 10.0% of public sector deposits, possibly a reaction on the part of private sector banks to avoid more severe restrictions.

### Net worth and intermediation

Another aspect worth commenting on is capital accumulation. According to the Superintendency of Banking Sector Institutions (Sudeban), the banks that currently have assets available that would allow them to use 9.5 assets out of every ten as net worth (1,4 of the assets if we take the average weighted by the assumed risk). This implies overcompliance with current bank net worth requirements.

However, given the present limitations on credit and the flood of deposits they are taking as a result of hyperinflation, it is not clear how the local banks are maintaining capital accumulation levels that are even higher than the average for Latin American banks.

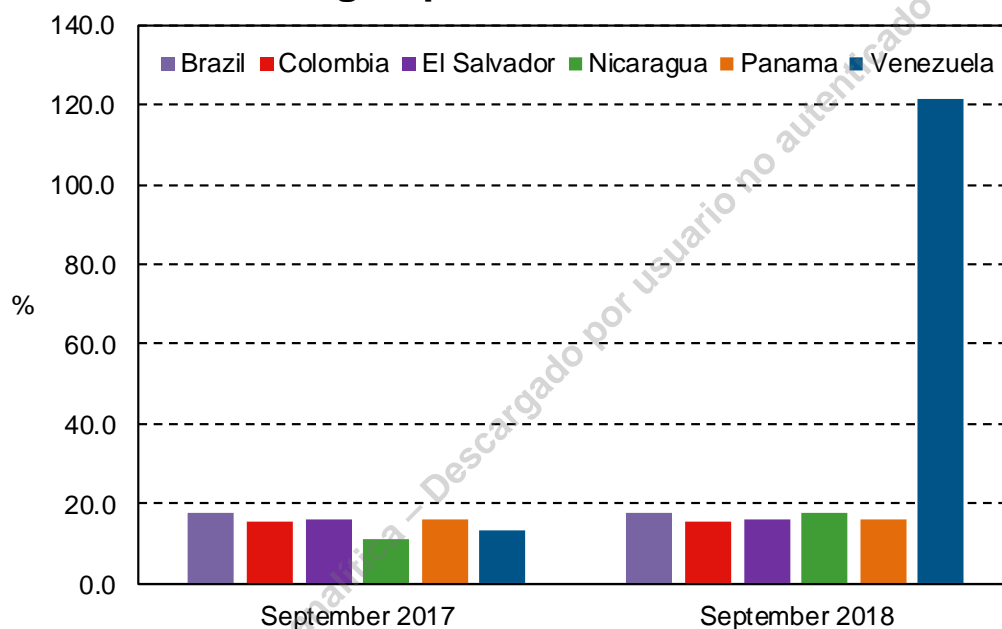
Basically, capital has been favored by mere accounting adjustments, above all due to the appreciation resulting from the successive devaluations in foreign currency of the official exchange rate prior to the establishment of the foreign currency desks in 2019. The

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securities position of the state-owned banks<sup>3</sup> alone accounts for 53.5% of total assets of the banking system in 2019; this is particularly true of Banco de Venezuela, which has the biggest (accounting) capital accumulation ratio in the entire system. In 2016, securities' investments were just 2.5% of the system's assets, being just 16.0% in July 2018 before the official devaluation after the indexation to the petro.

### Banking Capitalization in Latin America

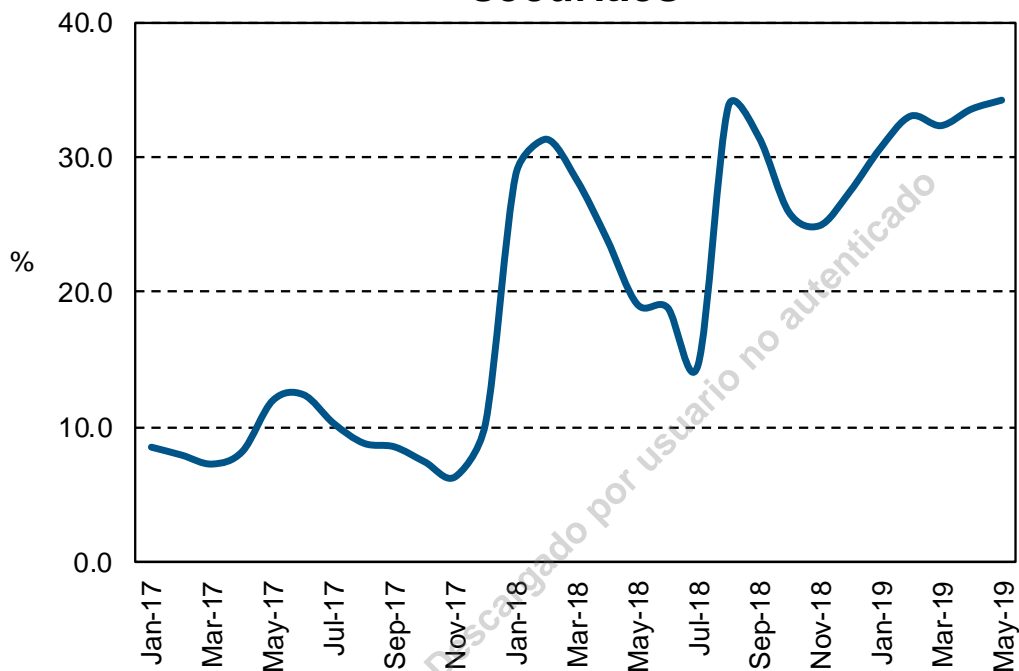


Fuentes: FELABAN, SUDEBAN and Ecoanalítica

What is more, this result is very different to the behavior shown by the Central Bank's recent figures. As generators of value, financial institutions –along with insurance companies- posted a cumulative contraction of 83.0% between 2014 and 2019 to date (based on each end-of-quarter). The calculation of the banks' leverage in this case seems to be more revealing. Despite showing a clearly upward trend, capital –solely in capital accumulation terms- shows a lower level than that revealed by the capital accumulation indicators, besides slight stagnation in recent months compared to the traditional indicators.

<sup>3</sup> Mostly public debt bonds in foreign currency and Central Bank of Venezuela's obligations.

## Patrimony over Credits and Investments in securities



Sources: SUDEBAN and Ecoanalítica

### Profitability

In May local banks seemed to show higher profitability compared to 2018. However, intermediation does not seem to be the main source of revenues. Revenues from loans are less, while the high volume of deposits (due to hyperinflation) has led to bigger deposit outflows.

Year 15. Number 24 Week II  
 July 2019

Statement Accounts as Proportion of the Financial Incomes						
Banking	May 2018			May 2019		
	Universal & Commercial	Private	Public	Universal & Commercial	Private	Public
<b>Financial Income</b>	100.0	77.8	22.2	100.0	73.2	26.8
Income by investment securities	3.9	1.5	2.4	14.6	8.1	6.5
Income by credit portfolio	90.9	71.1	19.8	79.3	59.3	20.0
<b>Financial Expenses</b>	5.7	3.1	2.6	18.5	11.4	7.1
Expenses for the public's deposits	4.3	3.0	1.3	7.7	5.3	2.4
<b>Gross Financial Margin</b>	94.3	74.8	19.6	81.5	61.8	19.7
Uncollectibility net expenses	32.4	22.9	9.4	10.0	6.3	3.7
<b>Net Financial Margin</b>	61.9	51.8	10.1	71.5	55.5	16.0
Operative net income	39.0	29.1	9.9	132.6	113.5	19.1
<b>Financial Intermediation Margin</b>	100.9	80.9	20.0	204.1	169.0	35.1
<b>Transformation Expenses</b>	40.1	30.8	9.3	114.9	84.7	30.2
Staff expenses	14.9	10.0	4.9	40.9	29.7	11.2
General and administrative expenses	23.9	19.5	4.4	70.7	52.2	18.5
<b>Gross Operating Margin</b>	60.8	50.1	10.7	89.2	84.3	4.9
<b>Net Operating Margin</b>	55.6	45.7	9.9	75.7	71.5	4.2
<b>Net Result</b>	<b>46.9</b>	<b>36.4</b>	<b>10.5</b>	<b>68.8</b>	<b>64.8</b>	<b>4.0</b>

Sources: SUDEBAN and Ecoanalítica

Another casualty of the hyperinflationary scheme has been the increase in operating costs. Payroll and administrative expenditures exceeded total financial revenues. It is not mere chance that Sudeban's own figures show that the banks have reduced the number of branches and also the number of automatic teller machines<sup>4</sup>. Fewer ATMs and branches mean lower maintenance costs, which means that all this is part of the banks' efforts to reduce their operating costs.

It is likely that the problems in this dimension will continue. Given the shortage of cash and the higher cost of transactions, the number of points of purchase has increased to levels that suggest heavy reliance on their use by the local population<sup>5</sup>. Likewise, a recent resolution issued by the Central Bank of Venezuela requires the banks to speed up implementing the operational measures necessary for buying and selling small amounts of foreign currency, including opening a larger number of branches<sup>6</sup>. So, given those guidelines and recent instructions on the upcoming implementation of a new payment system, it cannot be ruled out that the dynamic of operating costs and the consequent

<sup>4</sup> More specifically, in the space of one year (May 2018 – Mayo 2019), the total number of branches, workers and ATMs went down by 3.0%, 9.7%, and 24.9%, respectively.

<sup>5</sup> Back in our weekly report N°18: *What is behind the slowdown in hyperinflation?*, we pointed out that, whereas the fraction of the population using credit and debit cards as a recurrent means of payment in Latin America remained stable at 30.0% between 2014 and 2017, in Venezuela that fraction rose from 46.0% to 61.0% over the same period.

<sup>6</sup> Central Bank of Venezuela Circular dated July 3, 2019

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Year 15. Number 24 Week II  
 July 2019

reduction in profitability will take on a more aggressive tone associated with those changes.

ATMs and Workers in Banking Agencies by state				
State	2018		2019	
	Number of ATMs	Number of Workers	Number of ATMs	Number of Workers
Dependencias Federales	0	2	0	1
Apure	59	321	48	252
Carabobo	576	2,429	427	2,034
Bolívar	326	2,312	279	1,952
Yaracuy	92	330	81	280
Mérida	261	1,037	208	889
Aragua	438	2,127	341	1,831
Cojedes	54	277	36	239
Amazonas	23	110	17	95
Lara	450	1,831	369	1,591

Sources: SUDEBAN and Ecoanalítica

Note: Corresponds to the states with the highest drop in number of workers.

What, then, have been the main sources of higher profitability? Basically, the flow of revenues from securities and revenues from commissions. Neither of these items implies a stable or sustained source of revenues. The former have been influenced by recent adjustments to the charges for services ordered by the authorities in the first quarter. Moreover, by including foreign exchange profits, nonfinancial profits were changed by the latest foreign exchange measures. The result has not been symmetric. In fact, it is the private banks that have benefitted most in terms of commissions charged.

### And what about risk?

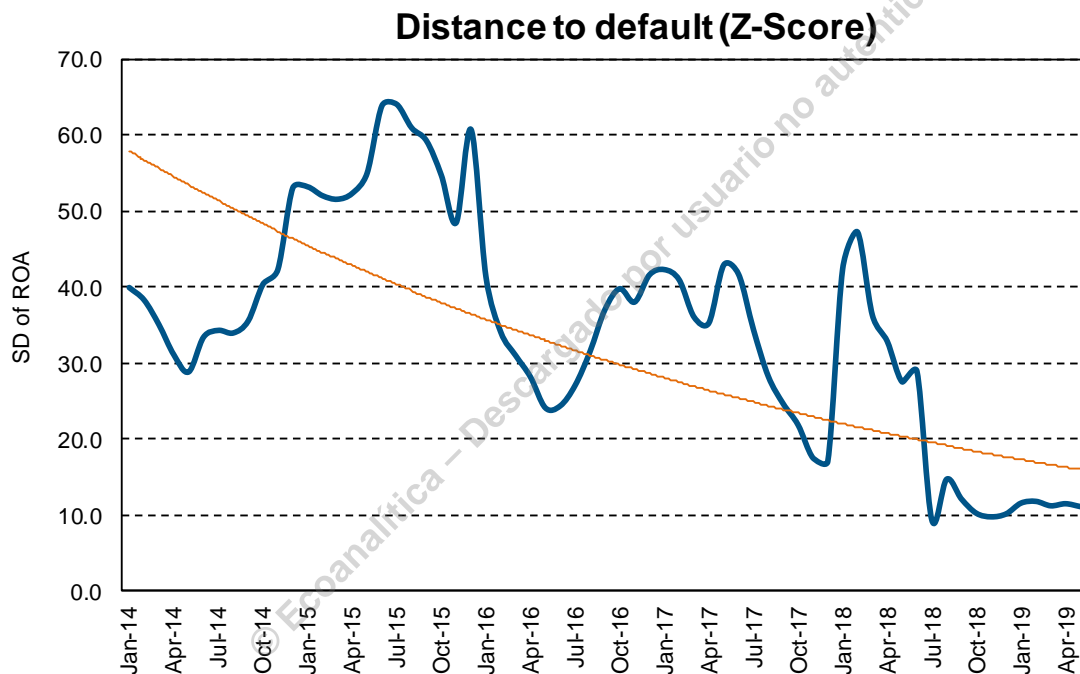
As for risk, the banks do not seem to have posted outstanding increases in their costs for past due indebtedness (10.0% of its financial income, from 32.4% of such entries in 2018). However, even though they account for a small proportion of financial revenues, immobilized loans increased in the first months of 2019 (from 0.13% of the credits until 2.7% in the last year). This has meant that reduced access to credit, which in turn has not only limited consumption but also the use of credit to cover prior borrowing. This can certainly reduce exposure to nonpayment, on the one hand, as it minimizes the supply of credit to precisely those sectors that used that strategy and were therefore the most insolvent. However, fewer loans mean fewer funds for paying off old debts, which leads to new increases in past due indebtedness.

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Year 15. Number 24 Week II  
 July 2019

Moreover, the increase in the rates on current loans that went into force in January of 2019 have also pushed up nonpayment on this type of loan, particularly in the absence of mechanisms for coping with the higher rates of interest. Another analysis of the potential insolvency the banks may have to deal with in the short term stems from the analysis of the distance from default<sup>7</sup>. So, even though the banks are benefitting from higher profitability, the extreme volatility of that higher profitability in recent months has reduced the corresponding indicator, i.e. a shorter distance between the banks' solvency and the capital/profitability combination.



Source: SUDEBAN y Ecoanalítica

Put another way, the greater uncertainty introduced into the management of the banks' balance sheets by hyperinflation seems to put the future capacity of the banks to honor their obligations with their main creditors (depositors and shareholders) at risk, even with minor expenses by indebtedness.

<sup>7</sup> Defined as the sum of capital ratio and profitability ratio, in terms of profits to asset' standard deviation.

## The situation is serious

As happened with the data revealed by the Central Bank, the official figures mentioned here tend to show that the state of local banking system is as critical as or even worse than the state the rest of the private sector is in. Besides the considerable deterioration of the balance sheets in a hyperinflationary environment, the banks are experiencing weaknesses on the operational level, in risk management and in terms of generating resources (regulatory in origin, for the most part) that are negatively affecting their mechanisms for coping with bigger macroeconomic shocks. The recent tensions in the short-term money market already tell us of the serious difficulties the banks are facing in maintaining resources that will guarantee their daily operations while complying with the recent regulations. Without a rectification on the regulatory front and by leaving the banks out of the foreign exchange game (as recipients of coverage), their useful life will expire before hyperinflation runs its course.

**Luis Arturo Bárcenas**

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Year 15. Number 24 Week II  
 July 2019

## WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week July	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Boards (VES/USD)<sup>2</sup></b>	7,144.48	6.9	6.4
	4th Week June	Weekly chg. (pp)	Annual chg. (pp)
<b>Lending Interest Rate (%)</b>	29.4	0.6	7.5
	1st Week July	Weekly chg. (pp)	Annual chg. (pp)
<b>Overnight Interest Rate (%)</b>	126.1	2.2	123.4
	1st Week July	Weekly chg. (%)	Annual chg. (%)
<b>International Reserves (USD Bn)</b>	8.1	-0.3	-6.3
	4th Week June	Weekly chg. (%)	Annual chg. (%)
<b>Monetary Liquidity (MM VES)</b>	8,097,211	6.3	43,249.7
Price of International Oil Baskets (USD/b)			
	1st Week July	Weekly chg. (%)	Annual chg. (%)
<b>WTI</b>	57.7	-1.0	-21.9
<b>Brent</b>	64.2	-2.1	-17.6
Price of the Venezuelan oil basket (USD/b)			
	1st Week July	Weekly chg. (%)	Annual chg. (%)
<b>Weekly Average</b>	59.2	-0.3	-15.1
<b>Annual Average</b>	59.7	0.0	-4.4

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

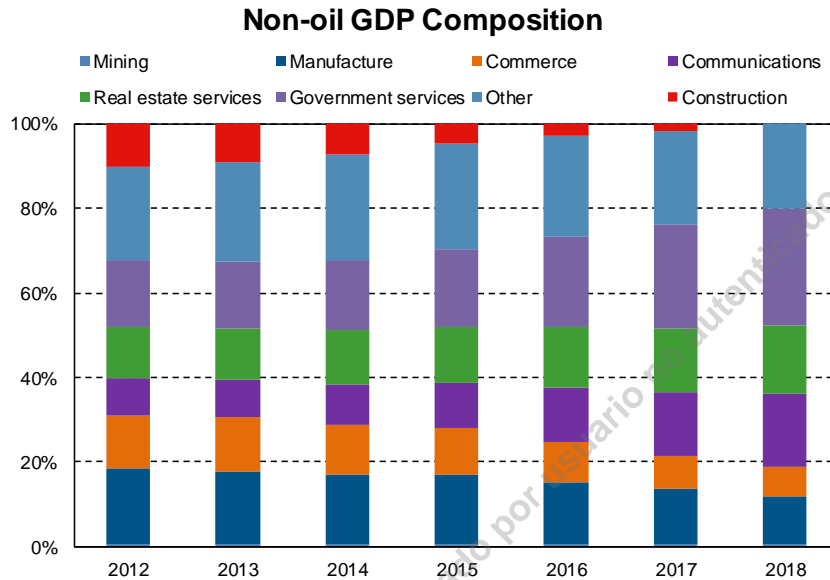
<sup>1</sup> Depreciation (+)/Apreciation (-)<sup>2</sup> FX Borads' average exchange rate

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Year 15. Number 24 Week II  
 July 2019

## GRAPH OF THE WEEK: “COMMUNICATION IS KEY”



Sources: BCV and Ecoanalítica

Venezuela is an oil country, since the oil business has been the mainstay of its economy. Today, the decline of both Venezuela's economy and its oil activity is not a secret to anyone. According to figures published by the Central Bank of Venezuela, Venezuela's GDP fell by 36.9% between 2013 and 2017. As for oil GDP, it fell by 27.6% over the same period. And if we look at the other side of GDP, nonoil activity, we find that there was a drop of 36.0%.

The sectors making up nonoil GDP are mining, commerce, manufacturing, transport, electricity and water, real estate services, and government and community services. Worth noting is the contraction in some components of nonoil GDP such as manufacturing, construction and commerce, which accounted for 20.0%, 9.9%, and 13.0%, respectively, in 2013. By 2017, their share had shrunk to 12.9%, 3.1% and 7.3%. The contribution made by other components such as mining was only minor. So, which sectors sustain nonoil GDP?

According to the Central Bank's data, the sectors that had most weight within nonoil GDP were government services and communications. Whereas in 2013 they accounted for only 16.0% and 9.0%, today they account for 23.8% and 14.6%, respectively. The drop in nonoil activity is reflected in the decline of the different sectors, leaving GDP reliant on insubstantial sectors.

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## ECONOMIC TIPS

**Only a third of what we once were.** The National Assembly published its economic activity indicator for the first quarter of 2019, which gave a contraction in the economy of 39.9% for a cumulative drop of 63.4% since Maduro took office in 2013.

**Close to breaking records.** Commenting on these findings, National Assembly Deputy Ángel Alvarado said that these contractions ranked Venezuela fifth among the worse economic collapses in modern history, surpassed only by Liberia (91.7%), Georgia (78.6%), Tajikistan (70.6%), and Iraq (64%).

**Time to dot the 'i's and cross the 't's.** Juan Guaidó's financial team, headed up by Special Prosecutor José Ignacio Hernández, published an official document giving the "Guidelines for Renegotiating the External Public Debt Inherited from the Chávez/Maduro Period," which states that this renegotiation will not take place until the usurpation of Nicolás Maduro ceases and the sanctions imposed by the United States on that regime are lifted.

**There's a lot of work ahead.** In the case of private claims, the document states that attempts will be made to renegotiate and conciliate all obligations contracted in foreign currency. To that end the authorities will appoint a debt conciliation agent whose responsibilities will include "compiling a complete list of outstanding inherited claims and inventorying them and also determining the amounts of each of these claims for the purposes of renegotiation."

**Keeping a firm eye on corruption.** The document also stresses that there may be foreign currency denominated claims that will require a more detailed investigation. This would be the cases of inflated amounts at the time of issue, debt instruments issued at a significant discount on the original discount, and claims affected by accusations of corruption, to name just a few.

**The same treatment for all.** The document states that equal treatment for taking part in the renegotiation will be given to all conciliated private claims, regardless of their origin (type of instrument), nature or domicile of the claimant or identity of the public sector debtor. It also says, however, that different treatment will be given to claims for which an asset belonging to the Venezuelan State has been given as collateral.

**The IMF to the rescue.** Last of all, the document requests financial assistance from the International Monetary Fund (IMF) and other multilateral agencies in order to "attend to

*the humanitarian crisis in Venezuela and also to develop a long-term program for the country's economic recovery."*

**The tragedy of the international reserves.** The international reserves closed the week of July 4<sup>th</sup>, at USD 8.1 billion, down 0.3% from the previous week (June 28<sup>th</sup>). That gives a drop of 6.3% compared to a year ago.

**Foreign Exchange Desks.** On July 10<sup>th</sup>, the foreign exchange desk rate was VES 7,144/USD, for depreciation of 0.6% compared to the previous week. However, the unofficial exchange rate maintained a premium of 9.3%.

## OIL TIPS

**Always falling.** The Organization of Oil Exporting Countries' (OPEC) report indicates that, according to secondary sources, Venezuela's crude production in June was 734,000 daily barrels (b/d). This number represents a 16.0 kb/d decrease compared to the previous month.

**Over the 1000.** Nevertheless, according to direct communication, June's production was 1.05 mb/d, which represents an increase of 3.0 kb/d compared to May's oil production.

**Which one is it?** Once again, numbers between secondary and primary sources differ between them with a 313 kb/d gap. Noting that the secondary sources still maintain a bigger production decrease to the one presented by the primary sources.

**Once upon a time...** Since the implementation of US sanctions against PDVSA, Venezuela's state-owned oil company has had to seek out little known buyers in order to have customers. Reuters reports that one of these buyers is a small Turkish company that has no refineries but does have ties with the Nicolás Maduro administration.

**...there was a small Turkish company.** According to in-house PDVSA documents, the Turkish company Grupo Iveex Insaat started to buy oil from Venezuela in April. Information from the Istanbul Chamber of Commerce shows that the company was founded a year ago with capital of approximately USD 1,775 and that its main business is the construction of residential buildings.

**Between April and June.** PDVSA's exports have dropped by more than one fifth since the sanctions and only five companies agreed to take improved Venezuelan crude

Year 15. Number 24 Week II  
July 2019

between April and June, among them Iveex. In April alone, Iveex took just under 8% of PDVSA's exports (294,413 barrels of natural gasoline and light virgin naphtha).

**Turkish yet Venezuelan.** The company's documents show that Iveex Insaat's owner is Miguel Silva, a Venezuelan businessman who is the president of the Venezuelan Exporters Chamber (CAVEX) and worked at the Ministry of Housing under the Nicolás Maduro administration.

**What's the deal?** It is not known on what terms the Turkish company is receiving oil from Venezuela or who the end buyer or refiner of the crude is, given that Iveex Insaat does not have any refineries. A source at PDVSA said that the company gave fuel in exchange for oil.

**Other new customers.** Other companies that started to receive crude from Venezuela are Melaj Offshore Corp registered in Panama and Sahara Energy based in Nigeria. Neither of the companies was available for comment.

**The environmental "iguana" or scapegoat.** Amuay and Cardón refineries suffered from a power out last week that brought operations at both to a halt. A refinery worked commented, "There was a power out at both refineries. The problem started in a turbogenerator and the general power out in those areas was due to the fact that the entire circuit is interconnected."

## BUSINESS SECTOR TIPS

**Everyone or no one.** Nicolás Maduro said that 90.0% of Venezuelans have a bank account, but the goal was for everybody to have one. To that end, he ordered the creation of a new system of payment via a QR code. This measure is being taken to avoid the consequences of Visa and MasterCard potentially withdrawing from Venezuelan systems of payment.

**So finally, does the Petro exist?** Maduro also ordered Banco de Venezuela to set up teller's windows at all its branches throughout the country so that anyone can perform transactions with Petros.

**There'll only be water to drink.** The president of the National Cattlemen's Federation of Venezuela (Fedenaga) said that problems with the power supply and the supplies of gasoline in all parts of the country are making it impossible to preserve milk so as to meet domestic demand, adding that at the moment they are covering 37.0% of that demand.

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**A gloomy environment.** A survey conducted during the Congress of the Venezuelan Confederation of Industrialists (Conindustria) gives an indication of the situation its members are in at the start of the second half of the year. At least 85.0% consider that their companies are going to close down at some time during the next two years and 59.5% estimate that their production will fall in 2019. In addition, they have seen how 22.6% of their workforce, on average, has left.

**Frozen capacity.** The Portuguesa Chapter of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras Portuguesa) revealed that they were only able to plant 10.0% of available hectares, leaving idle capacity of 90%. Among the factors that caused this situation are price controls and the state monopoly of the importing and distribution of inputs (seeds, agricultural chemicals, and spare parts for machinery).

**A Venezuela we're all too familiar with.** The Venezuelan Franchise Chamber (Profranquicias) announced that only 6,000 of the 12,500 establishments representing 575 brands that were operating in Venezuela two years ago are still doing business; in other words, 52.0% have closed their doors in the past two years.

**Not enough.** Aquiles Hopkins, the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), said that the investment proposed by Maduro for the Sow Plan 2019-2020 would not be enough to meet requirements and, specifically, that it would cover only 25.0%.

**A Venezuela we're all too familiar with.** The Pharmaceutical Industry Chamber (CIFAR) reported that the pharmaceutical sector would contract by 89% over the next six years. CIFAR argued that hyperinflation, through its impact on demand, was a key factor, in addition to smuggling and counterfeit products.

## WORLD ECONOMY TIPS

**Demonstrating their commitment.** China's Ministry of Commerce issued a press release saying that, if the United States wanted to reach an agreement, it should eliminate existing tariffs.

**Ready for winter.** China's international reserves came to USD 3.12 trillion in June. The biggest reserves in the world rose by USD 18.23 billion in June thanks to the truce

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between the United States and China, which made it possible to ease downward pressure on the yuan, thus allowing the value of the reserves to increase.

**What autonomy?** Turkey's President Tayyip Erdogan removed the governor of the Central Bank, Murat Cetinkaya. Sources consulted by Reuters said that this was due to differences between the parties regarding the ideal time for a cut in interest rates.

**Relative urgency.** According to the same sources, President Erdogan was frustrated by the decision to maintain the reference interest rate at 24%, where it has been since September. After two quarters running with the economy in contraction, Erdogan considered that the rates should be reduced. He named Murat Uysal, the second in command at the Central Bank, as Cetinkaya's replacement.

**Naming her successor.** Following Christine Lagarde's resignation from her position as managing director of the International Monetary Fund (IMF), France's Minister of Finance Bruno Le Maire said that the European finance ministers should reach an agreement to choose a candidate to replace Lagarde at the IMF.

**Low but not expected.** Colombia's National Statistics Department (DANE) reported inflation of 0.27%. Cumulative inflation for the year to date is 3.43%, considerably higher than the Central Bank's target for 2019 (3%).

**Betting on the plan.** Brazil's stock exchange reached an all-time high at the close of last week due to the expectations generated by the possibility that the Chamber of Deputies will pass the pension reform that it has been debating, the ultimate purpose of which is to relieve the country's fiscal situation.

**Putting a brake on optimism.** The Central Bank of Peru revised its projection for the country's growth downward from 4% to 3.4% based on the poorer performances by the mining sector and private investment.

**On the right track, but...** The US Federal Reserve published a report stating that the country posted healthy growth in the first half of the year. However, this growth could have been weakened by the tariffs that exist worldwide, which reduced business investment.

**Monthly report.** The US Department of Labor published a report on the state of the labor market in June. Growth in employment averaged 172,000 jobs a month in the first half of the year and hirings cooled down from an average of 223,000 a month in 2018. Besides that, the average wage went up by 0.2% or 3.1% annualized.

Year 15. Number 24 Week II  
July 2019

**Positive and on track.** Chile's central bank said that the economy grew by 2.3% compared to last year, in line with forecasts. Moreover, the Monthly Economic Activity Index (Imacec) was up 2.1% compared to April.

**Confirmation of a bad year?** Germany's Ministry for the Economy published that domestic industrial goods contracts fell by 2.2%, an unmistakable indication that the sector will experience an upturn during the rest of the year.

**New forecasts.** Argentina's Ministry of Finance published that projected inflation for Argentina this year would be close to 40% and that there would be a drop in economic activity of 0.8%. However, it is expected that inflation will be 26.1% in 2020 and that there will be growth in economic activity of 3.5%.

**Optimism that's not shared.** It also stated that they would achieve fiscal equilibrium this year followed by a surplus in 2020. However, sources consulted by Reuters put these projections in doubt and together they came up with a deficit of 0.7% for 2019 on average.

## POLITICAL TIPS

**From Norway to Barbados.** Juan Guaidó announced that a delegation from his administration would attend a meeting with Nicolás Maduro's representatives in Barbados. He said, *"Having regard to the mediation of the Government of the Kingdom of Norway in order to put an end to the tragedy we Venezuelans are suffering, we will attend a meeting with representatives of the usurper regime in Barbados to negotiate the departure of the dictatorship."*

**The other side of the story.** Minister of Communication Jorge Rodríguez confirmed the new meeting in Barbados. *"History will recognize the determined disposition for dialog that the Bolivarian Government, our Eternal Commander Hugo Chávez, and President Nicolás Maduro have shown. We hope that their efforts to consolidate peace and national understanding will bear fruit,"* said Rodríguez.

**The Russian shadow.** As for Russia, represented by Alexander Shchetinin, director of the Latin American Department at Russia's Ministry of Foreign Affairs, ratified its support for the Norwegian Government's proposal to hold the meeting between the two bands of Venezuelans in Barbados.

**On the way to regional reintegration.** Juan Guaidó announced that the National Assembly would approve Venezuela rejoining the Inter-American Treaty of Reciprocal

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Assistance (TIAR), a defense agreement that contemplates the union of American signatory nations to deal with attacks against peace in the continent.

**The Constituent Assembly in international crosshairs.** On July 7 the International Commission of Jurists (CIJ) presented a report describing the situation of the rule of law in Venezuela and offering a detailed analysis of the main acts of the Constituent National Assembly.

**An antidemocratic institution.** The report states that the Constituent National Assembly should be dissolved, and the powers of the National Assembly restored as a basic step for the return to democracy. It called on the international community to get involved with the creation of an investigation commission to study Venezuela's constitutional crisis.

**What are they proposing?** Sam Zarifi, the secretary general of the CIJ, added; *“Our conclusion is that the Constituent National Assembly was created inappropriately, without attending to the will of the people and in violation of the Constitution. For those reasons we recommend that it be dissolved or that a referendum on its existence be called.”*

**The regime gets a reshuffle.** Nicolás Maduro announced changes in the Higher Chief of Staff during a ceremony to celebrate the graduation of and transfer to the active reserves of members of the armed forces.

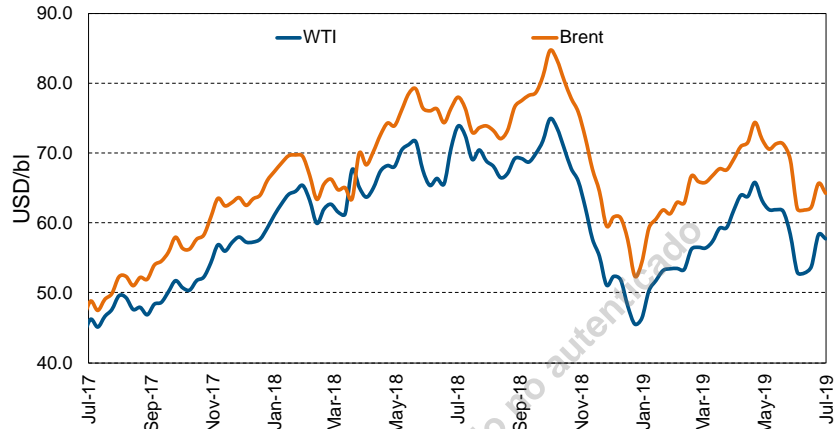
**Some stay, others leave.** During the ceremony he ratified Vladimir Padrino López as Minister of Defense and Admiral-in-Chief Remigio Ceballos at the head of the Operational Strategic Command. He also announced the removal of Jesús Suárez Chourio as Commander General of the Army.

**Army, Navy and Air Force.** The army is now commanded by Alexis Rodríguez Cabello, a cousin of Diosdado Cabello's. The persons commanding the Navy and the Air Force were ratified: Major General Pedro Juliaca is to continue to head up the Air Force and Admiral Guiseppe Alessandrelo is to be in charge of the Navy.

**Homeland security chiefs.** Maduro also appointed Major General Fabio Zavarse Pabón to head up the Bolivarian National Guard in the place of Richard López Vargas and he relieved Carlos Leal Tellaría of the command of the Militia, replacing him with Major General Bernal Martínez.

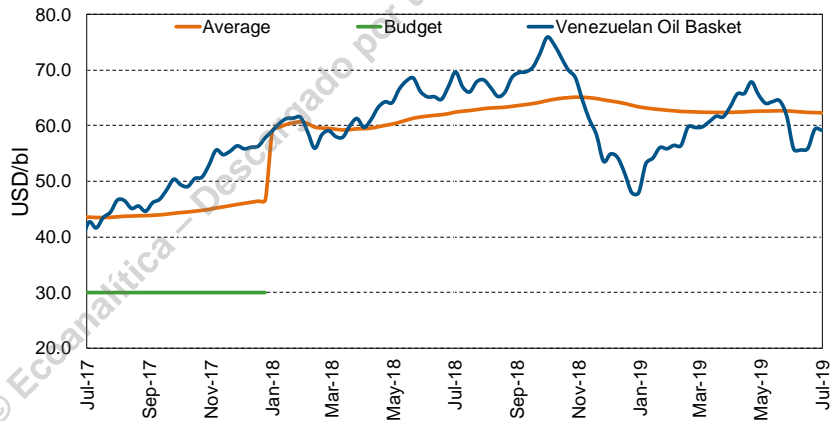
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



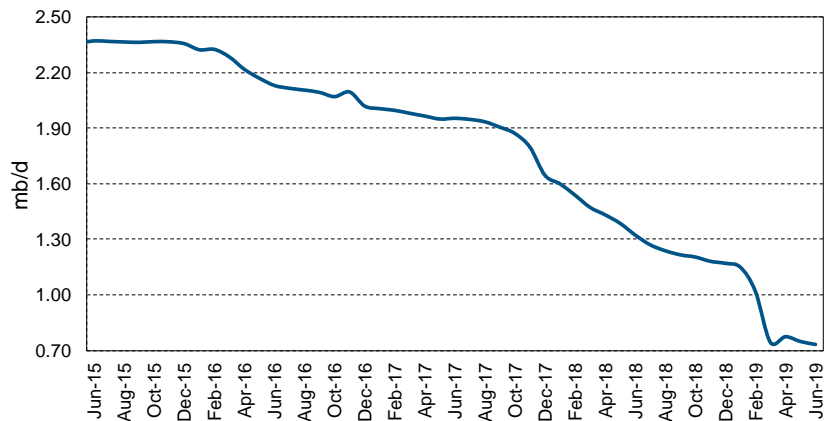
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

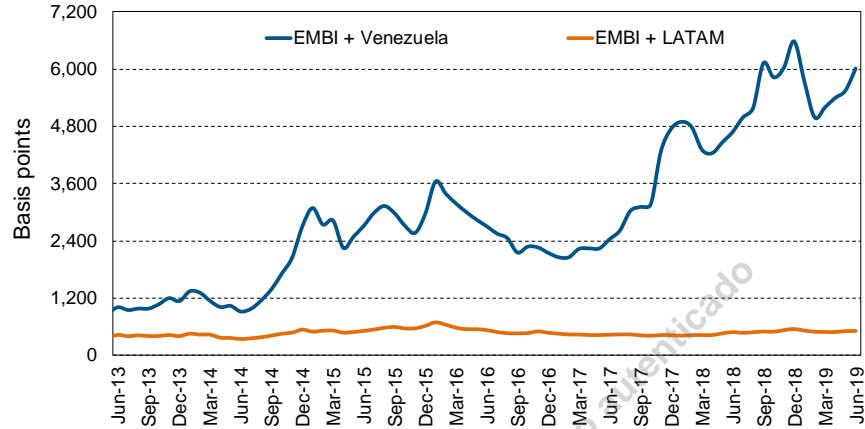


Sources: OPEC and Ecoanalítica

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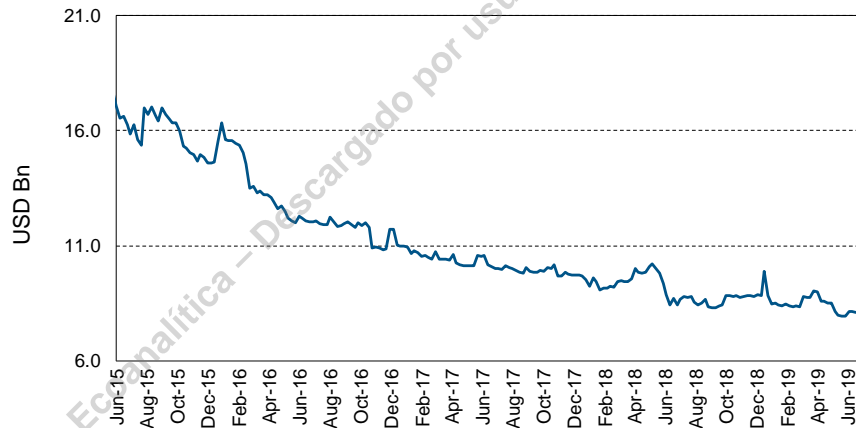
**ECONOMIC INDICATORS**

**EMBI**



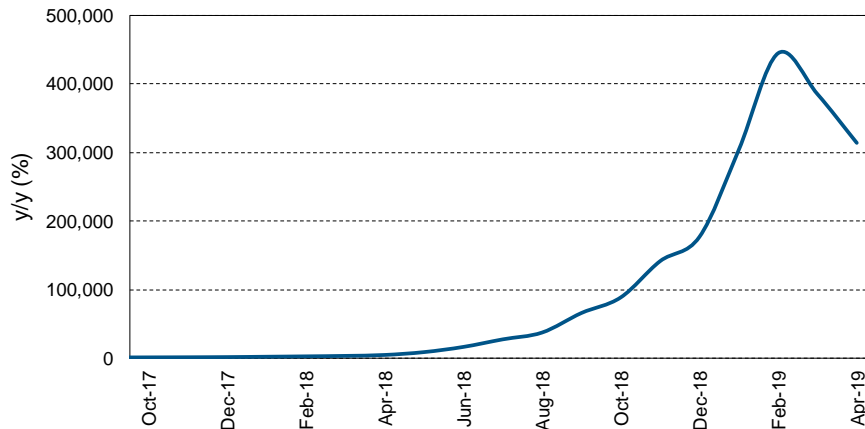
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



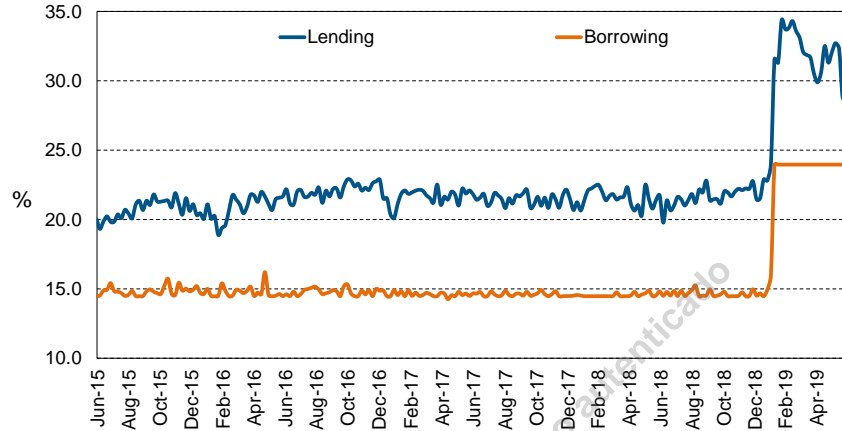
Sources: BCV and Ecoanalítica

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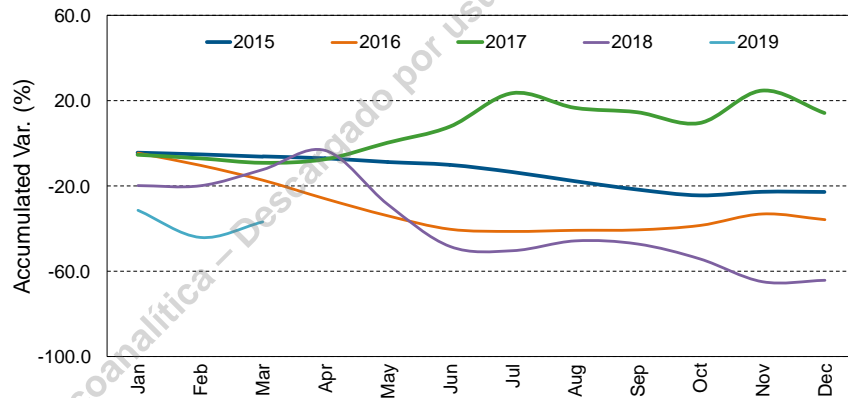
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



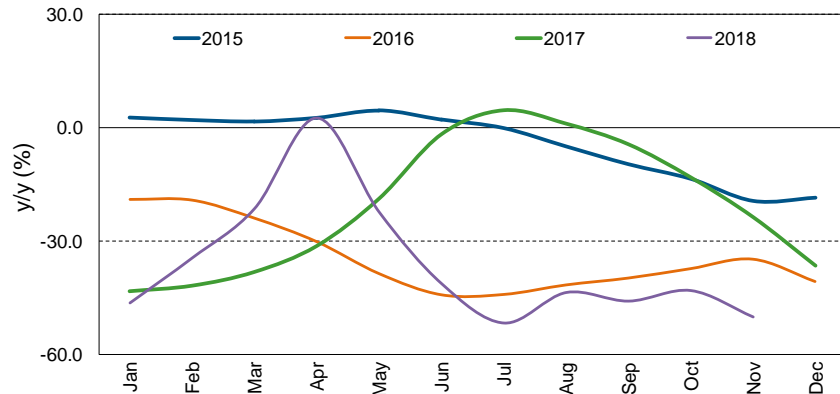
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



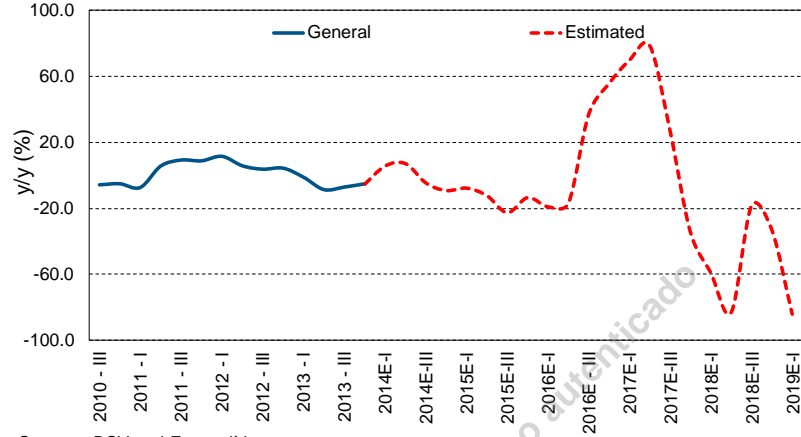
Sources: SUDEBAN and Ecoanalítica

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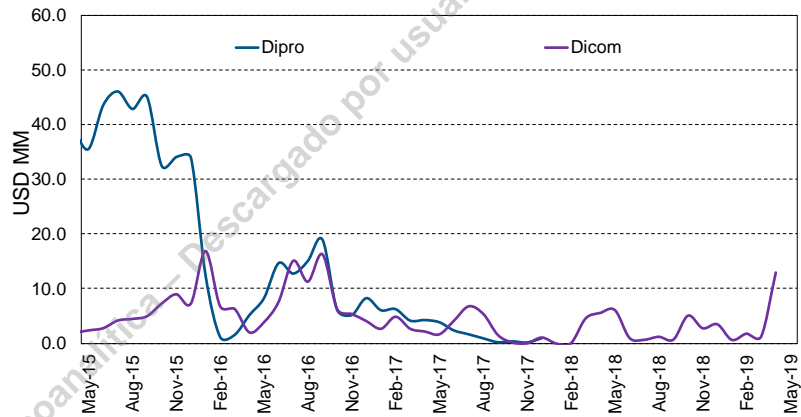
**ECONOMIC INDICATORS**

Real Wage Index



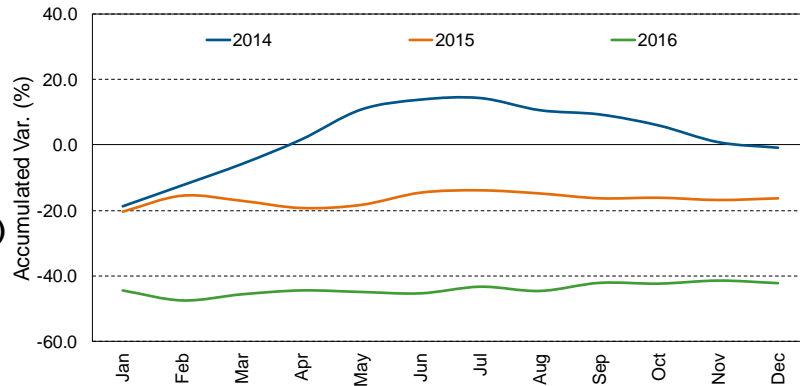
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

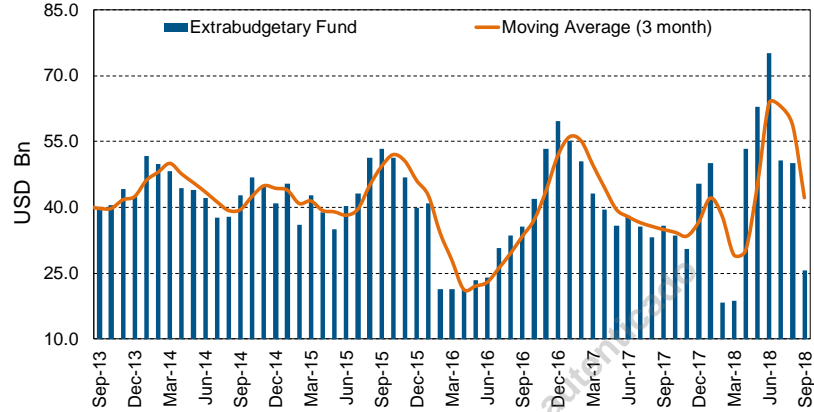
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Year 15 Number 22 Week IV  
June 2019

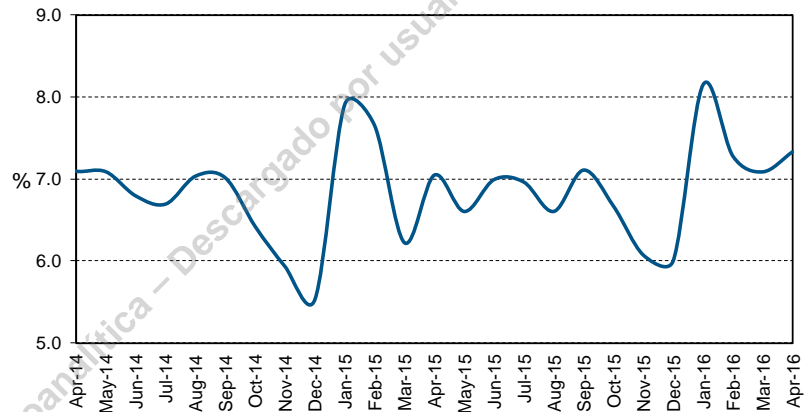
**ECONOMIC INDICATORS**

State Extrabudgetary Resources



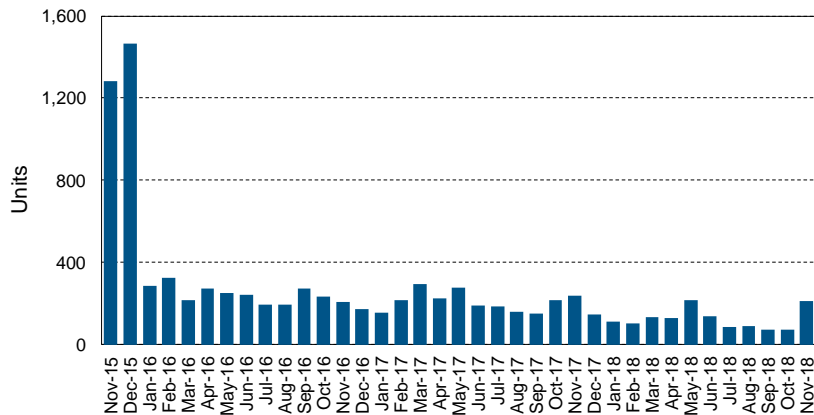
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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## ECOANALÍTICA'S TEAM

**Asdrúbal Oliveros** / Director

asdrubalo@ecoanalitica.net / @aroliveros

**Pedro Palma** / Director

pedrop@ecoanalitica.net / @palmapedroa

**Cristina Rodríguez** / Director

cristinar@ecoanalitica.net

**Luis Arturo Bárcenas** / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

**Guillermo Arcay Finlay** / Economist

guillermoarcay@ecoanalitica.net / @guillermoarcayf

**Giorgio Cunto Morales** / Economist

giorgioc@ecoanalitica.net / @giorgiocunto

## RESEARCH ASSISTANT

Jhoan F. Castellano

Corina Fung

Diego Santana



## CONTACT US

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

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

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

@ecoanalitica