

Uncertainty and the strategic game of sanctions

Between 2011 and 2019 the government of the United States (USA) imposed sanctions on officials, organizations and institutions related to or belonging to the Venezuelan government. The motivation behind these sanctions mainly includes human rights violations and links with illegal activities that fall under US jurisdiction. Those first penalties are of an individual¹. or financial² nature that, for practical purposes, did not represent a major impact on the economic relation between the United States and Venezuela, other than making it difficult for the Venezuelan government to refinance within the US debt market³ and use an inherently unusable cryptocurrency internationally.

This situation radically changes on January 28, 2019, with the imposition of oil sanctions that effectively stopped the largest component of the commercial interaction between the two nations. These sanctions are explicitly designed as an instrument of pressure, to force the exit of an administration, the legitimacy of which is not recognized by the US government.⁴ This escalation was part of a domestically and internationally coordinated strategy to bring about a political change in Venezuela in a period of a few weeks.

Six months after the imposition of the oil sanctions, the Venezuelan government hasn't given up its position and the confrontation between the main political forces in Venezuela is stalled without many signs pointing to an outcome being nearby. In that period the Administration has promoted a quite aggressive program of economic adjustments to stabilize around a challenging restriction of external flows; with the loss of its main oil export destination, thereby leaving the Venezuelan economy in a very fragile condition.

This episode of sanctions, and other threats in the future, can be seen from the point of view of game theory, or the study of interdependent strategic behavior, in which the US and Venezuelan decisions will depend on each other's choices and how this affects the

¹ Executive Order 13692 of March 8th, 2015.

² Executive Order 13808 of August 17, 2017, 13827 of March 19, 2018, and 13835 of May 21, 2018

³ A de facto situation occurs since 2015 given the level and profile of Venezuelan debt and a very high country risk.

⁴ Along with other 47 nations that rejected the results of the elections of May 20, 2018 and recognize the authority of the presidency of the National Assembly of Venezuela.

expected outcome. That way, it's possible to provide a formal meaning to a simplification of what would be the logical scheme that both parties have followed so far and could define how they will behave in the short and medium term.

Basic principles of sanctions

In their broadest definition, economic sanctions are commercial or financial penalties that a country, or group of countries, imposes on a state, government or individual. With respect to international sanctions, these take the form of restrictions on trade flows between the country "sending" the sanctions and the country being "targeted" them.

Sanctions can be broad, such as the embargo that the United States imposed on Cuba in 1960 as a result of the nationalization of US industries and businesses on the island; or more specific, such as those imposed by some Western countries⁵ and their allies against Russia in 2014 for their having annexed the Ukrainian territory of Crimea.

Sanctions are imposed when the sender wants to obtain political concessions from the target, usually because the target has incurred behaviors that violate any law, rule, custom, international standard which the sender abides by. The reasons that the sender may have may include: containing political influence of the target; preventing a military action by the target; destabilizing the target's government; freeing people, property or material; resolving territorial disputes; denying access to strategic resources; stopping human rights violations; among others.

For practical purposes, the sanctions, or the threat to implement them, have been adopted as an instrument of frequent use within the repertoire of foreign policy mechanisms of several countries, especially because from the second half of the 20th century they have become a tool of coercive nature which doesn't imply the use of military force.

Are sanctions efficient and effective?

To a preference by international community from avoiding large-scale war conflicts, we can add growth in international trade as a significant element in fostering an environment that favors the use of economic sanctions: the more trade there is, the more ways for one or more actors to deliberately interrupt it.

⁵ United States, European Union, Canada, Australia, New Zealand, Japan, Switzerland, Norway, Georgia, Albania, Macedonia and Montenegro.

This allows us to introduce a corollary to analyze the nature of economic sanctions.⁶ International trade is *efficient* in principle, as it allows countries to raise their level of well-being by accessing goods and services at a lower cost than what they could provide through autarky⁷. Therefore, economic sanctions are *inefficient* by forcing the loss of advantages and benefits from the exchange that would normally occur between the sender and the targeted countries.

This issue of inefficiency in which both parties leave a situation that is mutually beneficial configures the strategic panorama to explain the origin of these controversies in the first place. To trigger a confrontation, the target country must obtain a benefit from behaving contrary to the interests of the sender. The sender, in turn, must seek a benefit by sanctioning, or threatening to sanction, the target; usually for the target to change its behavior. This target's acquiescence with the sender's demands will determine if a sanction is effective or not.

The effectiveness of economic sanctions is a topic of extensive discussion, and controversy, in the literature⁸ on economics, political science, and conflict resolution. Given the strategic nature of the game, one must consider not only scenarios where sanctions are imposed, but also where only the threat of sanctions, without imposition, is enough to change the behavior of the target country.

To give us an idea of how these controversies unfold in real life, we can use the database of *Threats and Imposition of Economic Sanctions* (TIES) prepared by investigators from the University of North Carolina⁹, which gathers 1,412 cases that involve the intention to impose or the use of sanctions between 1945 and 2015, categorized by results. We can observe how almost half the cases (46.2%) involve a threat without the effective imposition of sanctions; in fact, in 19.7% of the cases, the target country yields its stance faced with the threat of sanctions.

⁶ Specifically, those that affect trade relations between countries.

⁷ This in some cases may be impossible in the practice due to institutional, technological and logistic limitations and the scarce availability of resources.

⁸ Whang, T y Kim, H (2015). International Signaling and Economic Sanctions. *International Interactions*, 41:427–452. Por otro lado, tenemos a Tsebelis, G (1990). ¿Are Sanctions Effective? A Game-Theoretic Analysis, the *Journal of Conflict Resolution*, Vol. 34, No. 1, 3-28.

⁹ Cliff Morgan, Navin Bapat, Valentin Krustev and Yoshiharu Kobayashi

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Sanction events (1945-2005)					
	Target Acquiesces	Sender Capitulates	Stalemate	Negotiated Settlement	Totals
During Threat Stage	19.7%	18.4%	2.2%	5.9%	46.2%
During Sanction Stage	17.8%	16.2%	6.9%	12.9%	53.8%
Totals	37.5%	34.6%	9.1%	18.8%	100.0%

1,412 studied cases

Sources: *Threat and Imposition of Economic Sanctions* (TIES), Spaniel, W. (2014) *International Relations* 101 (#48) and Ecoanalítica

In general, the results indicate similar probabilities of ending up in favor of the sender (37.5%) and the target (34.6%), with less than two percentage points of difference between them for scenarios with or without sanctions. However, it is prudent to note that the result is much more binary in the phases in which sanctions are only threatened. Once sanctions are imposed, the likelihood of reaching either a negotiated solution or the situation stagnating increases. We could consider that the confrontation between Venezuela and the US is in the phase in which sanctions have already been imposed.

A matter of uncertainty

An element that fosters this wide range of results is an environment with a high degree of uncertainty, where players don't necessarily have all the relevant information about their counterparts to gauge their decisions, even after a first round of interactions.

This translates into considerable information asymmetries regarding the commitment of the sender to impose and escalate sanctions (how "strong" the sender is), and the ability of the target to resist them. This is compounded by the incentive that both countries, especially the target, have for exaggerating their strengths in case of a hypothetical escalation of the conflict.

Since political rhetoric is essentially free in international diplomacy, to mitigate the uncertainty endemic to confrontation, sanctions have a "costly signaling" effect, in which the sender demonstrates its strength by taking an action that, due to the efficiency losses mentioned above, is inherently expensive. That way, the sanctioning party can test the resistance of the target; and the latter, in turn, updates its information regarding the sender's commitment.

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This can trigger a chain of events, like the one seen in the Venezuelan case, in which each sanction is used both as a coercive measure on its own, and as a signal that anticipates stronger sanctions down the line.

Does Nicolás Maduro believe Donald Trump?

A valid question is whether Venezuela's best response to new sanctions is to adjust. If so, the US is likely to believe that applying such sanctions is convenient, provided that applying them represents its best "response" (the one that generates the greatest benefit) to the adjustment on the part of Venezuela. The question is: to what extent does the US have enough strength or support to indicate, through sanctions, that it's able to escalate the restrictions it may impose in the future? In other words, how serious is the Trump administration about sanctions, in the eyes of President Maduro's management?

A set of sanctions, with a greater scope, has already been applied since last year. In this sense, the cost of not adjusting in the face of new sanctions is contingent on the strength or aggressiveness exhibited by the US, especially vis-à-vis the apparent resistance of the government of Nicolás Maduro to those already applied. With less support from allies for sanctions or with greater uncertainty about the true interest of the US in taking other actions, the political cost of sanctions for Venezuela may be lower (under certain conditions), and the cost of not adjusting may be higher for the US.

This translates, in the context of a strategic interaction, into changes in the benefits for Venezuela when the US is "strong", or in lower payments for the latter when it is (or is considered) weak.

To provide such arguments with a structure, we will use the approach employed in the signaling game theory, used in sequential strategies with incomplete (asymmetric) information. In the light of this structure, we analyze a possible new escalation in sanctions on Venezuela. It would depend on the level of force of the restricting party, associated with elements such as the political support that this country has for applying them, or the degree of aggressiveness or radicalism it assumes in the short term. This "force" would define the US ability to maintain a more rigid sanctions scheme than the one imposed so far.

Venezuela, as target of the sanctions, has little information to determine the degree of strength that the country imposing the sanctions has to bring them into fruition, hence the "game" is considered asymmetric in terms of the data that each one has to define their actions. In particular, Venezuela can only infer the "possibility" (likelihood) that the US will be strong, in the presence (absence) of further sanctions.

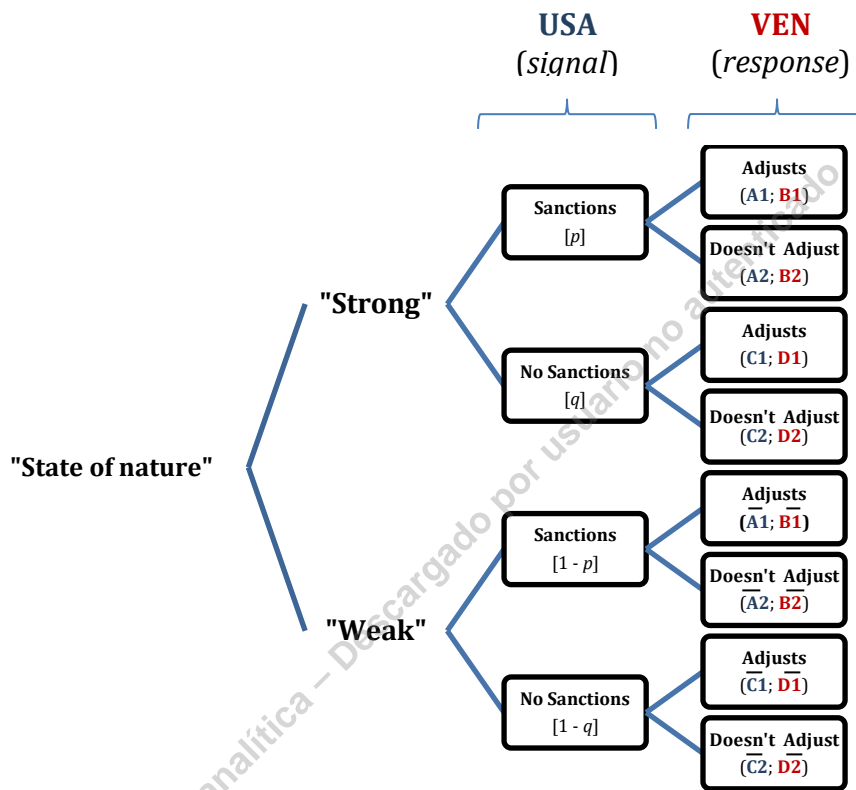
Based on this belief, the Venezuelan government would decide whether to adjust to the new sanctions or not. Works like the ones from Tsebelis (1990) and Whang & Kim (2015) take similar approaches to the study on resolution of political conflicts. The overall idea is to determine the likelihood from which greater sanctions signify greater power (or political strength) and thereby higher reputational costs for Venezuela.

The game in the Venezuelan case

The game is structured according to graph 1. The exercise is based on the definition of a “strong” or “not strong” US. (sender country). In both cases, this country can maintain the current sanctions (“Not to Sanction”) or intensify the current sanctions (“Sanction”). Faced with this, and assuming a probability of political support or aggressiveness (given it sanctions) of “p”, Venezuela (target country) decides whether or not to adjust to the new sanctions (“Adjusts”, “Doesn’t Adjust”). The exercise, therefore, is to find the strategy of Venezuela and the United States that maximizes the benefit of both (balance), based on the best response of each to the strategies followed by the other. The numbers in parentheses represent the payments that each one receives, according to the strategy followed.

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Graph 1: Potential Strategies of Venezuela and USA under sanctions (probabilities in brackets and payments in parentheses)



The conflict is resolved by backward induction: we define Venezuela's move according to what it thinks of the US based on what the latter points out, and then verify the US response to such moves, according to their type. With a premise on "p", assuming that the US would raise sanctions, regardless of the support it receives,¹⁰ Venezuela can obtain the expected benefit regardless of whether it "Adjusts" (equation 1) or "Doesn't adjusts" (equation 2), for each "signal" received:

¹⁰ Strictly, p represents the probability that the US is "strong", conditioned on the application of new sanctions. Using Bayes' theorem, such probability depends on two elements: the probability of applying new sanctions, conditional to being "strong", and the unconditional probability that the US is strong. Considering that, regardless of whether it is "strong" or "weak", the US can apply new sanctions, the first probability equals 1, so "p" entirely depends on the probability that the US is strong.

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If USA
 "Sanctions"

$$U_{VEN}(\text{"Adjusts"}) = p * B1 + (1 - p) * \overline{B1}$$

$$U_{VEN}(\text{"Doesn't Adjust"}) = p * B2 + (1 - p) * \overline{B2}$$

If USA "Doesn't
 Sanctions"

$$U_{VEN}(\text{"Adjusts"}) = q * D1 + (1 - q) * \overline{D1}$$

$$U_{VEN}(\text{"Doesn't Adjust"}) = q * D2 + (1 - q) * \overline{D2}$$

"Q" defines the probability that the US is not strong, even though it applies new sanctions, with "1-p" and "1-q" being the complements (probability of strength, given the "non-sanctions", and the possibility of it being weak when it doesn't sanction). Under such rules, Venezuela would choose to adjust to new sanctions if the benefit it would obtain in the future is greater than what it would obtain if it does not adjust.

$$p * B1 + (1 - p) * \overline{B1} > p * B2 + (1 - p) * \overline{B2}$$

Likewise, without additional incentives, Venezuela would not accept sanctions if the benefit of not acting is lower than the benefit of acting in the absence of new limitations.¹¹

$$q * D1 + (1 - q) * \overline{D1} > q * D2 + (1 - q) * \overline{D2}$$

Thus, the belief about US aggression in terms of new sanctions must be at least:

$$p > \alpha / (\alpha^1 + \alpha^2)$$

$$q > \beta / (\beta^1 + \beta^2)$$

Thus, beliefs are defined in terms of the possible payments to be received in each situation.

$$\alpha = (\overline{B2} - \overline{B1}); \alpha^1 = (B1 - \overline{B1}); \alpha^2 = (B2 - \overline{B2})$$

$$\beta = (\overline{D2} - \overline{D1}); \beta^1 = (D1 - \overline{D1}); \beta^2 = (D2 - \overline{D2})$$

The foregoing reveals that, with the restriction of no negativity ($p > 0$ y $q > 0$), a greater "p" value implies a greater gain when adjusting to an aggressive US versus "not adjusting". Or what is the same, not adjusting can lead to higher costs than what is earned (or in terms of reduction of losses) without adjustment. What's more, the belief about a US more

¹¹ It's assumed that, even in the absence of sanctions, there may still be benefits for adjusting to the framework of the already existing restrictions. However, it's likely that the current government is interested in obeying only new sanctions, not acting in their absence.

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aggressive or more politically supported is associated with a greater loss for not acting (according to the same equations); therefore, Venezuela would be more encouraged to act (as more benefit is generated) when it thinks that the US is able to apply sanctions more aggressively.

Even according to the expression for “q”, the cost for not adjusting can be great, even though no further sanctions are applied. In that sense, the official rhetoric of the Trump administration could play a relevant role in raising the potential costs because of not adjusting, even in the absence of new restrictions¹². If these conditions are met, the US (with complete information) best response would be to **apply more sanctions** under the following conditions

$$p > \alpha / (\alpha^1 + \alpha^2) \wedge A1 > C1$$

$$q > \beta / (\beta^1 + \beta^2) \wedge \overline{A1} > \overline{C1}$$

That is, that the US obtains a greater direct benefit with respect to not sanctioning, regardless of its level of “strength” and that -facing new sanctions- Venezuela decides to change its political administration. Such a benefit could signify a lower political cost for applying sanctions, so it seems intuitive to think that the US will take such action when said costs are minimal.

The above can be summarized as follows: it suffices that Venezuela “believes” that the US will be able to be stronger or more aggressive in applying new sanctions (and paying dearly for it), for it to adjust to these new actions. Such sanctions will only be applied by the US if Venezuela “believes” in such a signal and adjusts in the future to this new context.¹³ Both actors would have little incentive to deviate from such strategies, compared to the higher costs they would entail.

¹² A proxy of this cost can come from the discount in prices negotiated now in the Venezuelan oil crude sale. Thus, sanctions can force Venezuela to face a greater discount (a higher loss for not adjusting, without sanctions) as external restrictions intensifies.

¹³ It is easy to verify that a large part of the arguments is fulfilled when it is assumed that the US sanctions only when it is strong (that is, $q = 0$). Hence, it's enough that $\overline{C2} > \overline{C1}$, which is trivial, so that the US does not sanction.

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Conclusion

In the end, while the arguments outlined above allow us to identify part of the elements that condition the application and effect of new sanctions, the scope of this review doesn't allow for a more thorough analysis of the potential optimal action framework for both the US and Venezuela. History has shown that sanctioning processes are surrounded by such uncertainty, that equates to adding a random component to the payments received by those involved. Then not even the sender themselves have been able to draw a unique map that will lead them to achieve their goal, or that the recipient will be able to circumvent or accept, at a minimum cost. Unfortunately, the Venezuelan case doesn't seem to be the exception, which renders weighing the effectiveness of such sanctions, whether old or new, more difficult.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week July	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	8,067.86	11.3	10.2
	2nd Week July	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	25.5	-7.5	4.1
	3rd Week July	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	126.7	-1.7	120.6
	2nd Week July	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.1	-0.8	-8.2
	2nd Week July	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	9,286,436	9.8	39,040.2
Price of International Oil Baskets (USD/bl)			
	3rd Week July	Weekly chg. (%)	Annual chg. (%)
WTI	57.9	-1.4	-16.2
Brent	64.6	-0.9	-11.4
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week July	Weekly chg. (%)	Annual chg. (%)
Weekly Average	60.6	-0.3	-8.2
Annual Average	59.8	0.1	-4.7

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

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

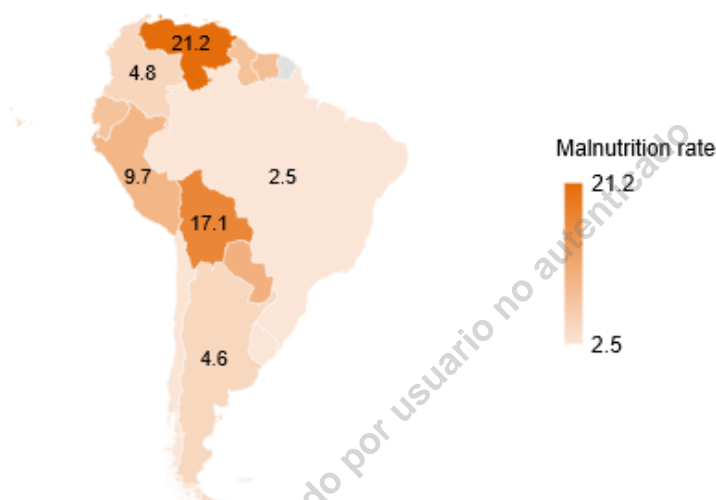
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GRAPH OF THE WEEK: "THE HUNGER GAMES"

Malnutrition in Latin America 2016-2018 (%)



Sources: FAO, The Economist and Ecoanalítica.

According to the most recent report by the UN Food and Agriculture Organization (FAO), the levels of malnutrition in the region have increased over recent years. The percentage of people with malnutrition in South America in 2013 was 4.6%, going up to 5.5% in 2017. This increase is partly a consequence of the Venezuela's economic decline, resulting in a rise in its malnutrition figures.

As shown on the map, Venezuela stands out from the other countries in the area. Surveys from the same source reveal that 6.4% of the population suffered from this condition between 2012-2014, while between 2016-2018 they are 21.2%. In other words, more than one in five Venezuelans suffer from malnutrition problems. The second country with the highest proportion of malnourished population is Bolivia, with 17.1%, followed by Paraguay with 10.7%. However, the numbers of these last two countries represent an improvement in terms of previous periods, that is, they have managed to reduce the rate of people suffering from malnutrition. In Venezuela, on the contrary, the number of people in this condition has increased as the crisis deepens. The sharp deterioration in terms of food in Venezuela coincides with the collapse of the product per capita (according to figures from the same organization), placing Venezuela - in both aspects - alongside countries that have been destroyed by war, such as Syria and Yemen. While the other nations in the region have managed to improve this situation, Venezuela worsens, reaching a scenario similar to that of any dystopian science fiction novel.

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ECONOMIC TIPS

1/3 smaller in just one year. The International Monetary Fund (IMF) World Economic Outlook report adjusted its projections on Venezuela and estimated that its economy will contract 35% by the end of 2019, 10 percent points higher than in its last report (25%).

The BCV Five (I). The National Assembly appointed a new five-member ad hoc board of directors to the Central Bank, in an attempt to protect assets abroad. The agreement of the AN provides for that the board “*will have the aim of rescuing and protecting international reserves of the Republic (...) therefore, the rescued funds may be neither use nor disposed of*”.

The BCV Five (II). The National Assembly designated Ricardo Villasmil, Ruth de Krivoy, Nelson Lugo, Manuel Rodríguez and Giacoma Cuius as members of the new board. But shortly after, the press team of the opposition leader, Juan Guaidó, issued a press note to indicate that those names are still under consideration.

Parisian restructuring. Ricardo Hausmann, who represents Guaidó at the annual meeting of Governors of the Inter-American Development Bank (IDB), said the team will lead the restructuring of the debt with Russia and China under the rules of the Paris Club. Due to this, they have not specified how the restructuring process will take place.

Mining at full throttle (I). The Vice President of Economy, Tareck El Aissami, announced that in early 2020, Venezuela will have the capacity to export iron ore, pellets and briquetted iron. Additionally, El Aissami mentioned the construction of the Second Line of the Pellet Plant, which records a 75% physical advance and is being built in an alliance between Venezuela and the People's Republic of China.

Mining at full throttle (II). It should be noted that this project is carried out with an investment of more than 450 million dollars. According to El Aissami, the construction of the Second Line of the Orinoco Ferrominera Pellet Plant will have a production capacity of 3,000,000 tons of pellets, which will allow the entire national briquette industry to be raised to 100%.

Help at all costs. During his press conference in Nueva Esparta, Juan Guaidó reported that he asked the United States for a protection measure to “*work on debt and safeguard the most important assets of the nation overseas.*” He added that he deemed as “relevant” the sanctions imposed by the United States government and those signaled by the European Parliament.

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Leak of reserves. According to Bloomberg, the Central Bank of Venezuela (BCV) sold around 40 million dollars in gold reserves, circumventing the sanctions imposed by the United States on the Maduro government. The agency reports that the Central Bank dispatched almost a ton of gold, thus reducing the dollar reserves of Venezuela to a minimum in about three decades.

The tragedy of reserves. The international reserves closed in USD 8,036 million the week of July 19th, down 0.4% from the closing of the previous week (USD 8,068 million). On a year-to-year basis, the amount accounts for a decrease of 7.6%.

Money desks. For July 23th, the average rate of money desks was VES 8,068/USD. This represents a devaluation of 10.2% with respect to last week; however, the unofficial rate maintains a premium of 34.5%.

Public vs. private. Private banks traded at a rate of VES 8,144/USD. In contrast, the rate established by the public financial sector was lower at VES 7,686/USD.

OIL TIPS

Refinanced. Citgo proposes debt refinancing. The company has plans to pay USD 1.87 billion in interest due next year through a refinancing that includes USD 1.37 million in bills due in 2024, another four-year loan. In addition, they established another USD 500 million loan that matures in four years.

More exports. Argus Media reports that PDVSA exports exceeded the July's production, thus reflecting a persistent backlog of inventory due to the bottlenecks derived from US sanctions and logistic problems in PDV terminals.

Everything to Asia. According to Argus Media numbers, about two thirds of exports went to Asia, particularly to China (400 kb/d). Another 230 kb/d went to India, mostly specifically to the Mayara refinery of the Russian state-owned company Rosneft.

Just before the collapse. Likewise, according to the data obtained by Argus, Pdv's domestic refining system is on the verge of collapse, which results in almost all the production being earmarked for exports; however, much of those exports are intended to pay debt. As a result, gasoline and diesel have been scarce in the country for weeks.

Hopes. Sinovensa, a Venezuelan crude oil company also managed by China's state oil company CNPC, plans to increase its production capacity to 165 kb/d. This will be the

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result of the expansion plans of the plant. Currently, its capacity is 105 kb/d, Reuters reports.

Everything is going well. PDVSA said in a press note that CNPC executives noted the “*optimal conditions and progress of the facilities, to begin its next start-up.*” According to Reuters, China has lent more than USD 50.00 billion to Venezuela in the last decade that must be paid with crude oil supplies.

Back to the action. After the blackout occurred in the Amuay refinery in early July, the refinery partially restored its activities with a capacity of 645 kb/d. Initially, the refinery started producing 68 kb/d, reports one of Reuters sources. However, other sources state that production reached 135 kb/d.

Others don't. Its neighboring Cardón refinery, however, remains out of operation. Other facilities such as the Paraguaná Refining Center (with a capacity of 955 kb/d) suffer frequent shutdowns.

Alternatives. In search of alternatives to the limited Venezuelan oil situation, Pdvsa is trying to transform Petropiar into a mixer capable of processing extra-heavy Orinoco crude and obtaining Merey as a result. Venezuela has four processors in the José Antonio Uzcátegui complex in Puerto La Cruz, which are planned to be used to attain this goal of PDVSA. The obstacles of this plan are related to the lack of available oil.

Collateral damage. Petrocedeno and Petromonagas processing plants have been recirculating crude oil within their facilities due to the damage caused by the blackouts. This recirculation has allowed the facilities not to further deteriorate.

SECTOR TIPS

Preparing to move. An exclusive report from Bloomberg said that officials of the Central Bank of Venezuela have requested information from their colleagues in Russia about the possibility of an alternative method to using Visa and MasterCard. This as a plan for the search for an alternative payment system in anticipation of compliance with US sanctions.

Fun for no family. The president of the National Federation of Hotels of Venezuela (Fenahoven), Alberto Vieira, said that the sector expects a dramatic fall in its activity for the next holiday period, due to the escalation of costs resulting from hyperinflation that has negatively affected the Venezuelan demand on the services of the sector.

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Opportunity for others. Vieira added that, according to the estimates of the Federation, occupancy in national and international tourists will decrease 50.0% compared to last year, underscoring that the destinations that international tourists might be interested in are being used by foreign tourist companies, because local companies cannot offer the service due to high costs.

Fun for no family. The president of the National Confederation of Farmers and Livestock Owners of Venezuela (Confagan), José Campos, considered that the financing of the sector is at the 1998's level, emphasizing that this is due to the effects of the legal reserve measures imposed to local banks, which have especially impacted large producers.

Fun for no family. The president of the Venezuelan Federation of Bakery Industries (Fevipan), Tomás Ramos, said that the sector has been harmed by the fall in demand (over 50.0%) for their products, together with the shortage of raw material for their manufacture.

Escalation. Carlos Larrazábal, president of Fedecámaras, said that the Federation filed complaints against the Government of Nicolás Maduro before the International Labor Organization (ILO) for the violation of international agreements.

It is not worth paying with air. Felipe Capazzolo, president of Consecomercio, said that the income that businesses receive in the capital city is not enough to pay taxes in petro. He added that it is necessary that all parties (public officials and representatives of the private sector) meet to agree on a more appropriate measure in the light of the current situation.

Like everything, more than half. Ricardo Cusano, president of Fedecámaras, said that since 1998, 370,000 companies have closed, for fall of 60.0% over the same period. Furthermore, he stressed that, during the first half of the year, the crisis of public services has been the factor with the greatest impact on the poor performance of the sector.

Without industry. The president of Conindustria, Adam Celis Michelena, said that the installed capacity of the sector is in the order of 18.0%, with the possibility of falling to 15.0% by the end of the year. At the same time, he added that, if this trend of economic activity continues, more than 500 industries of the 2,000 available in the country will close.

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INTERNATIONAL TIPS

Fiscal accounts clarified (I). The executive and legislative branches of the United States reached an agreement for a two-year extension of the debt limit and federal spending caps, until September 30, 2021.

Fiscal accounts clarified (II). Under the agreement, the Treasury Department's indebtedness authority would extend until July 31, 2021, and discretionary program spending would increase up to USD 1.37 billion in the fiscal year that begins October 1. Then, in the fiscal year corresponding to 2021 this would increase up to USD 1.375 billion.

Playing down. Michel Barnier, chief negotiator of the European Union for Brexit, said he was not impressed by the possibility of a Brexit without agreement. However, he hopes that Great Britain is ready to assume the consequences of that decision.

Clarity of objectives. Christine Lagarde resigned from her position in the International Monetary Fund on the grounds that she had more "clarity" about her nomination for the presidency of the European Central Bank (ECB): The resignation will be effective as of September 12 of this year.

New face, new results? After being elected by the Conservative Party, Boris Johnson was elected as Prime Minister of the United Kingdom, replacing Theresa May. Johnson said that by the end of October the decision around Brexit would be finalized.

Difficult promise. After being elected, Johnson declared: "As a sleeping giant we will rise and we will reject the male ropes from self-doubt and negativity," However, it's worth remembering that British lawmakers have declared or shown that they will hinder the management of any government that attempts leave the EU without prior agreement.

Policy measure Sources from *Der Spiegel* mentioned that the European Central Bank (ECB) has plans to resume the purchase of sovereign bonds in November. The same sources assure that Mario Draghi, president of the ECB, would approve the measure hoping that the measure will boost more business investments and greater consumer purchases.

It will be seen soon. ECB officials have already been commenting on the options they manage to boost the economy of the European Union (EU), ensuring that there would be no rate hike for next year. Consequently, these sources reported that the decision regarding rates would be made in the month of September.

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Pressure on the current account (I). According to the National Department of Statistics (DANE), Colombia's trade deficit increased 36.2% in the month of May compared to the same month of the previous year. The deficit reached USD 817.1 million; in May 2018 it was USD 600 million.

Pressure on the current account (II). This would be due to the growth of imports, which did so at a faster rate than exports, so imports were USD 4.58 billion and exports USD 3.765 billion.

Continuity. The Central Bank of Chile agreed to maintain the reference interest rate at 2.5%. In making the decision, the possibility of cutting the rate to 2.25% was discussed. According to the Bank, *"the risks for the timely convergence of inflation to the goal have increased in the political horizon,"* something that, if maintained, could make it *"necessary to expand the current monetary stimulus."*

In favor of cutting (I). John Williams, vice-chairman of the panel that sets the monetary policy and head of the regional bank in New York, said rates are, from a historical point of view, so low that a very small window is available to reduce them. Therefore, *"it pays to act quickly to lower rates at the first sign of economic distress."*

In favor of cutting (II). This opinion is echoed by Richard Clarida, vice-chairman of the board of governors of the Federal Reserve, stating that the Fed must act before such problems arise. He added: *"when you only have so much stimulus at your disposal, it pays to act quickly to lower rates at the first sign of economic distress."*

In favor of the cut (III). Thus, the trade war between the United States and China, the slowdown in global manufacturing activity, local inflation below the annual target of 2.0% could be enough reason for both officials to act aggressively through a cut in reference rates.

No good news in the East. According to data from the Ministry of Finance, Japan's exports in June fell 6.7% compared to the same month last year, for the seventh month in a run recording falls in the indicator. This fall has affected the production of Japanese factories, threatening to discourage investment in capital goods and reducing the hopes of policy makers that domestic demand helps to counteract the increase in external pressures.

A push. Reuters sources revealed that the US and Japan are working on a trade agreement that involves the automotive and agricultural sectors. The same sources assured that the deal would result in Japan's offering Japanese farmers access to its market, in exchange for the US reducing tariffs on certain Japanese auto parts. This

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agreement is expected to be signed during the visit of US President Donald Trump in the month of September to the Asian country.

POLITICAL TIPS

Without throwing in the towel. The National Assembly approved the reinstatement of Venezuela to the Inter-American Treaty of Reciprocal Assistance (TIAR), during a special session in Las Mercedes, a sector in Caracas, led by Juan Guaidó. The Treaty is intended “to prevent and repeal threats and acts of aggression against any of the countries of America,” its application depends not only on the Organization of American States (OAS), but ultimately on the UN Security Council.

The guilty will fall. After the death of the Navy Corvette Captain, Rafael Acosta, in the hands of the Dgcim, the United States decided to sanction four senior officials of the military counterintelligence agency. This is because Acosta's lawyers and relatives allege that the death was caused by torture.

Who are sanctioned? The sanctions fell on General Rafael Ramón Blanco Marrero (Deputy Director of the Dgcim), Colonel Hannover Esteban Guerrero Mijares (Head of Investigation), Major Alexander Enrique Granko Arteaga (Special Affairs Unit) and Colonel Rafael Antonio Franco Quintero (Former Head of Investigation).

Rearranging bets. The *LA Times* newspaper published an internal memo from the US president, Donald Trump, according to which that more than 40 million humanitarian aid is planned to be reallocated to Central America to support Venezuelan opposition.

All-in in Guaidó. The memo specifies that the money will be used instead for salaries, air tickets, propaganda, technical assistance for elections and training in “good management” for the Venezuelan opposition leader Juan Guaidó and his faction.

No one leaves until it is resolved. On July 21, Jorge Arreaza, Foreign Minister of Venezuela, said that the representatives of the ruling party “*will remain seated*” at the dialogue table with the opposition, in Barbados, until “*a political agreement*” is reached.

The German plays for both sides. German Ambassador Daniel Martin Kriener returned to Venezuela, after Nicolás Maduro withdrew the declaration of a person “non grata.” The German Foreign Ministry spokesman, Reiner Breul, explained that Kreiner's return to his position came without agreements between Germany and Venezuela and without

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preconditions, emphasizing that the return of the ambassador does not imply any change in Berlin's position regarding the Venezuelan crisis.

Conflict in the clouds (I). The United States Army said a Venezuelan fighter jet “aggressively” chased an EP-3 Aries II aircraft of its Armed Forces in international airspace, exacerbating political tension between Venezuela and the US.

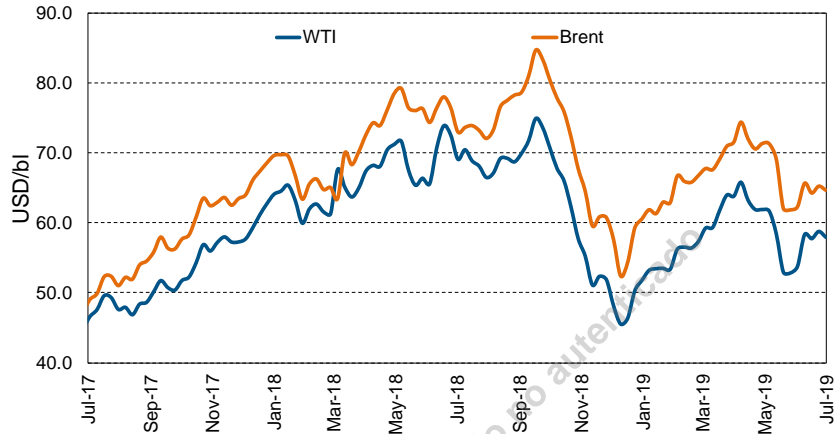
Conflict in the clouds (II). A few days later, the National Armed Forces denounced that a US intelligence plane entered Venezuelan airspace without notifying the aviation authorities. The aircraft was detected on June 18 by defense systems in the “flight information region” of Venezuela, “violating the safety of air operations and international treaties.”

Conflict in the clouds (III). The National Armed Forces of Venezuela added that they have registered 76 similar events that represent a “serious threat” to commercial aviation that travels daily through the northern area of the Maiquetía International Airport, indicating that this is Venezuela's exclusive economic zone.

Not all options are on the table. Mike Pompeo, US Secretary of State, claimed that he believed it was “inconceivable” that in Venezuela there are “fair and equitable” elections while Nicolás Maduro remains in the country. Pompeo responded in this way to a question from the press about alleged debates regarding Maduro's permanence in his country during an eventual transition.

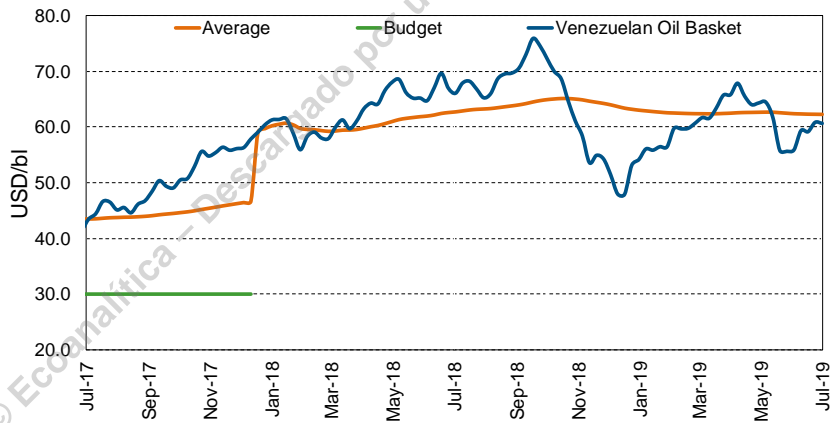
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



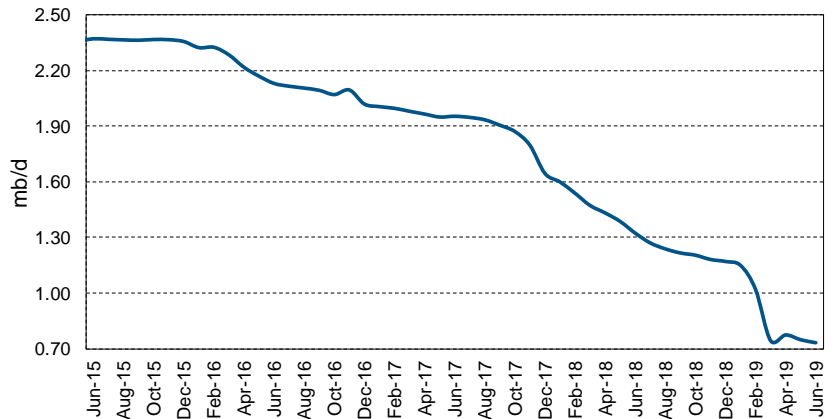
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

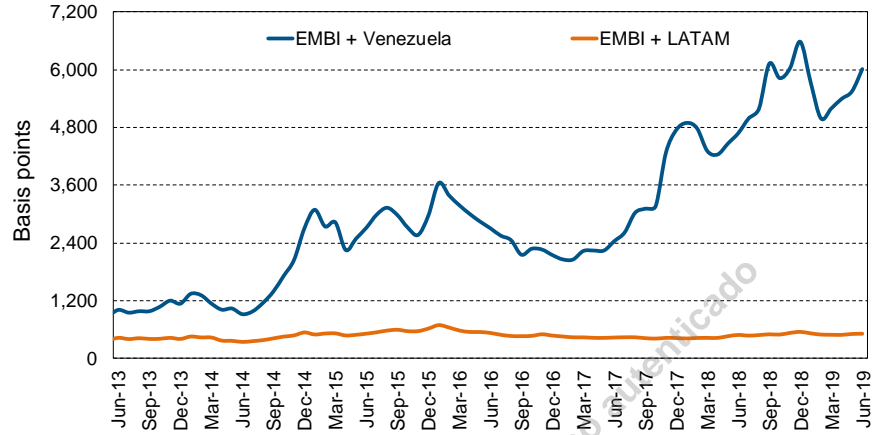


Sources: OPEC and Ecoanalítica

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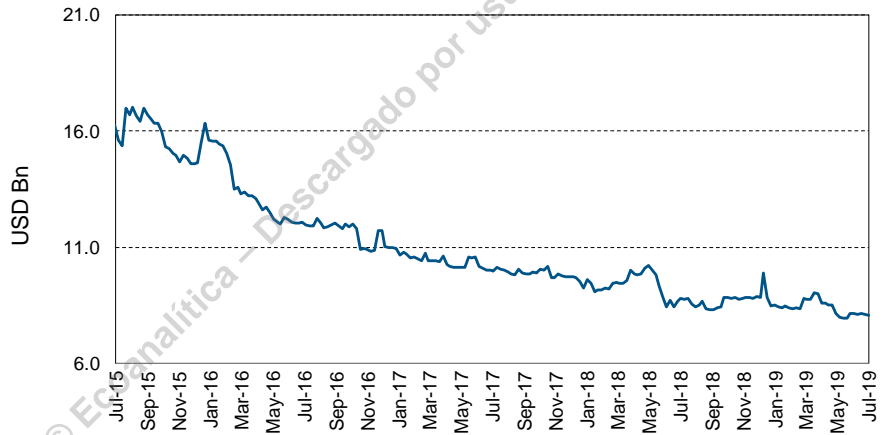
ECONOMIC INDICATORS

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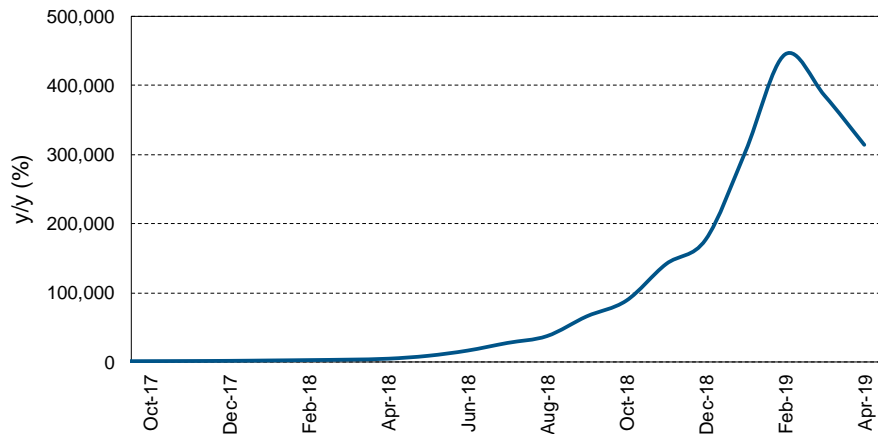
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

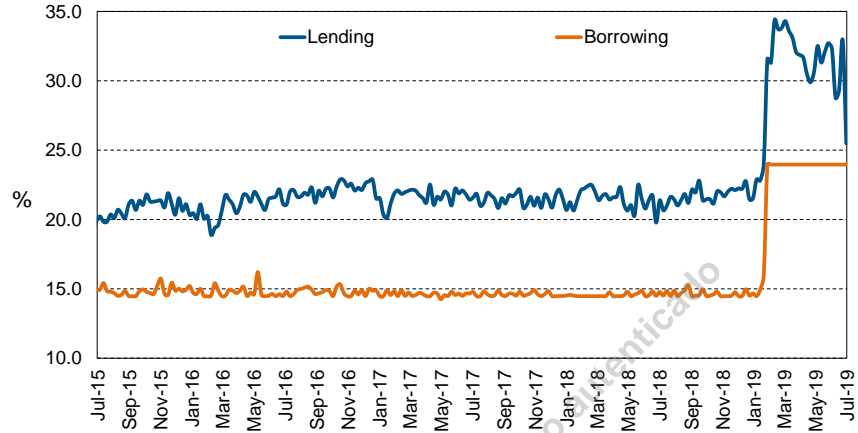
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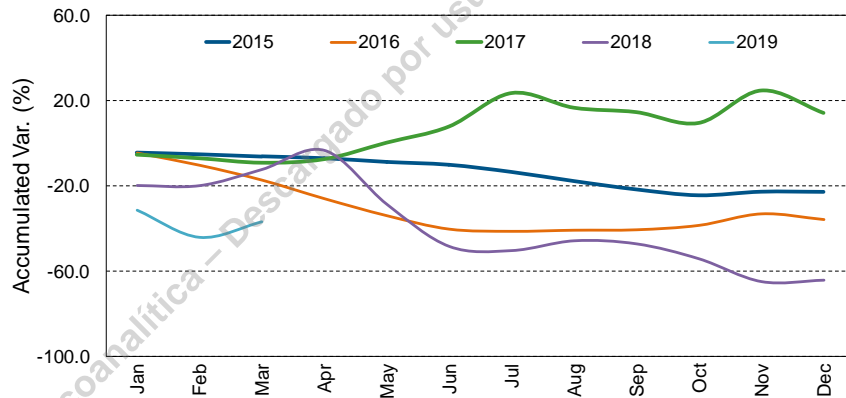
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



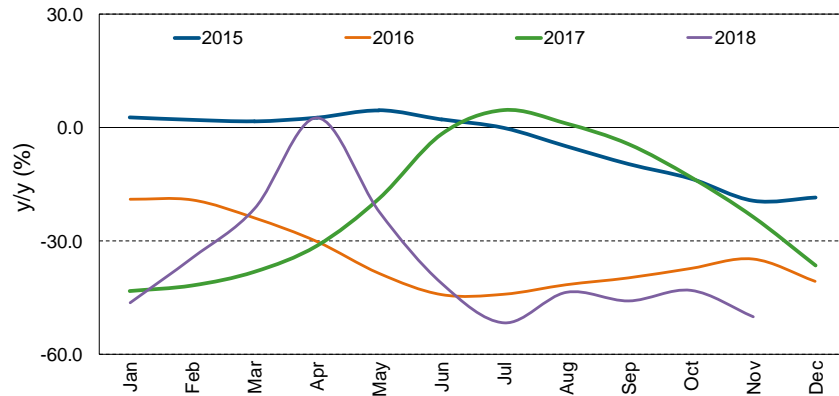
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



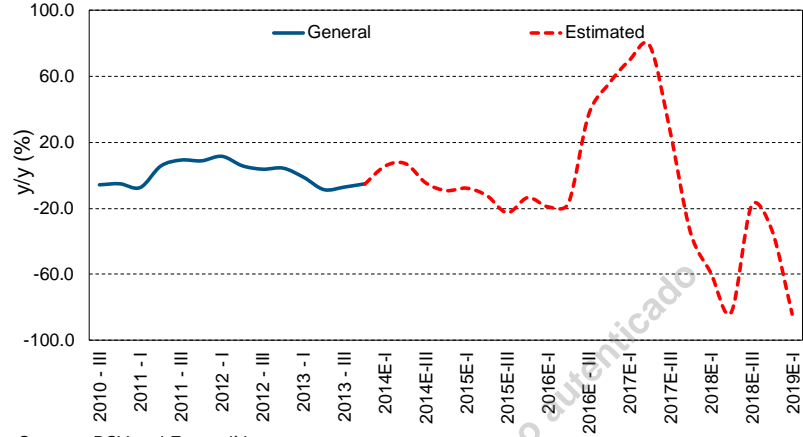
Sources: SUDEBAN and Ecoanalítica

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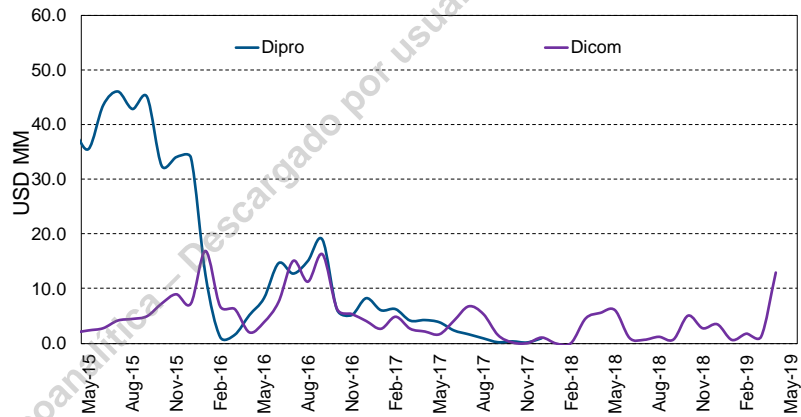
ECONOMIC INDICATORS

Real Wage Index



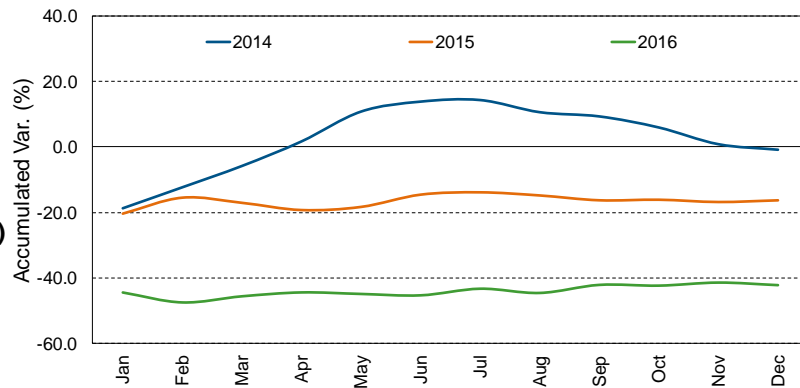
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



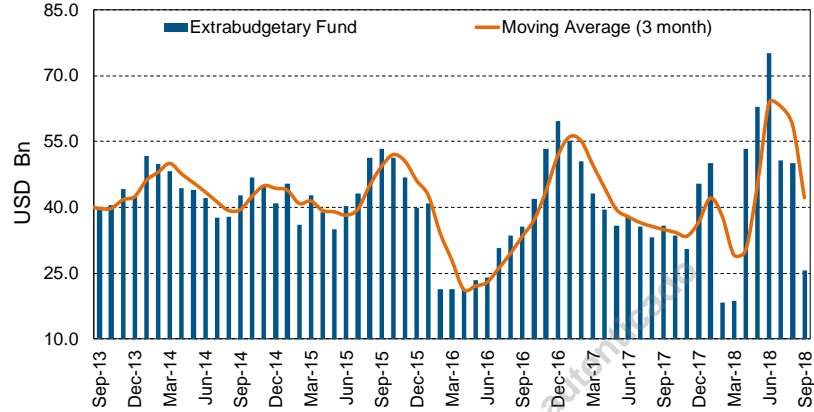
Sources: ONT and Ecoanalítica

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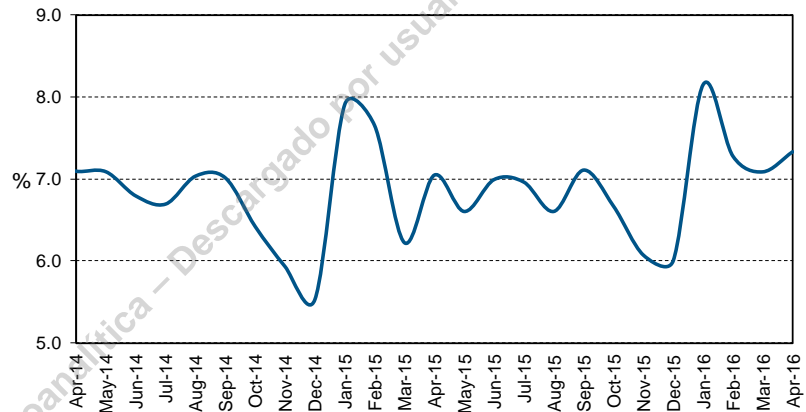
ECONOMIC INDICATORS

State Extrabudgetary Resources



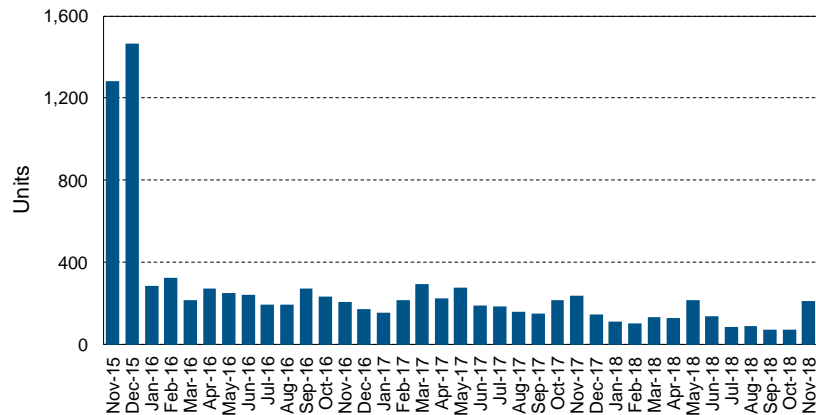
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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