

## The role of manufacturing

The oil business has been the mainstay of Venezuela's economy for decades. At this stage of the game, the decline of both Venezuela's economy and its oil and nonoil sectors is a secret to no one. According to figures published by the Central Bank of Venezuela, Venezuela's gross domestic product fell by 36.9% between 2013 and 2017. However, if the two main sectors into which the Venezuelan economy is divided are compared, the nonoil sector has fared the worse. During that period, oil GDP shrank by 27.6%, whereas nonoil GDP experienced a contraction of 36.0%.

Nonoil GDP is made up of mining, manufacturing, electricity and water, construction, commerce, communications, financial institutions, and government services, to name the main sectors. For the purposes of this weekly report, we will focus on the role of manufacturing in GDP, how it has evolved in recent years and how, in turn, this can explain, in part, the decline of the country's nonoil sector.

### A key sector

Kaldor (1975)<sup>1</sup> argued that the economic success of some nations such as England, France and Germany, to name just three, was due to the development of their industrial sector. Using this premise as a starting point, Kaldor decided to analyze the economic growth of different countries and thereby develop three laws that explain his findings.

1. The **first law** establishes that there is a high correlation between the increase in the gross aggregate value of the manufacturing sector and growth in GDP. When the manufacturing sector expands, specialization of human capital is strengthened and drives growth in GDP.
2. The **second law** establishes that there is a link between the rate of growth in industrial productivity and the growth in manufacturing GDP as a result of economies of scale derived from technical progress.
3. The **last law** establishes that, as production in the manufacturing industrial sector increases, the greater the absorption of labor will be in other sectors.

<sup>1</sup> Kaldor, N. (1975). *Economic Growth and the Verdoorn Law--A Comment on Mr Rowthorn's Article*. The Economic Journal, 85(340), 891-896.

Based on the hypotheses proposed by Kaldor, other authors such as Rodrik (2009)<sup>2</sup> and Logarda and Hidalgo (2014)<sup>3</sup> sought to prove these affirmations empirically. Logarda and Hidalgo took a group of countries, which they divided up into several clusters based on the weight of their manufacturing sector in their national GDP so as to be able to compare them with one another.

The findings of the study show that countries whose manufacturing has a low weight in their GDP (and that continues to become less) tend to have a bigger negative balance on their current account than other countries. That is the case of countries such as Australia, Denmark and Canada, to name but three. The countries in the other group, that is those where the weight of manufacturing in their product is high (and has not shrunk in recent years), show positive balances on their goods and services accounts. China, South Korea and Indonesia are in this cluster.

#### Manufacturing industry comparative chart of clusters

Indicators*	Cluster 1	Cluster 2	Cluster 3	Cluster 4
Manufacturing industry weight (% GDP)	13.4	16.3	20.5	26.9
Manufacturing weight evolution	-11.5	-1.3	-8.3	-0.6
Balance of goods (% GDP)	-3.9	-2.5	4.1	7.9
Balance of services (% GDP)	0.8	1.6	-0.1	-1.3
Balance of goods and services (% GDP)	-3	-1.1	4.5	6.3
GDP variation (%)	1.5	2.3	1.6	4.7

Sources: Logarda & Hidalgo (2014) and Ecoanalítica

\*Average indicators between 2006 and 2010.

The greater the weight of manufacturing industry, the more positive the balance on the goods and services account, which indicates that having a consolidated manufacturing sector generates greater exporting capacity, reflected in a positive impact on GDP. According to this study, the balance on the goods and services account starts to be positive when the proportion of manufacturing in the economy is at 20%. This indicates that countries should maintain approximately one fifth of its economy focused on the manufacturing industry for it to generate real consequences with higher reach.

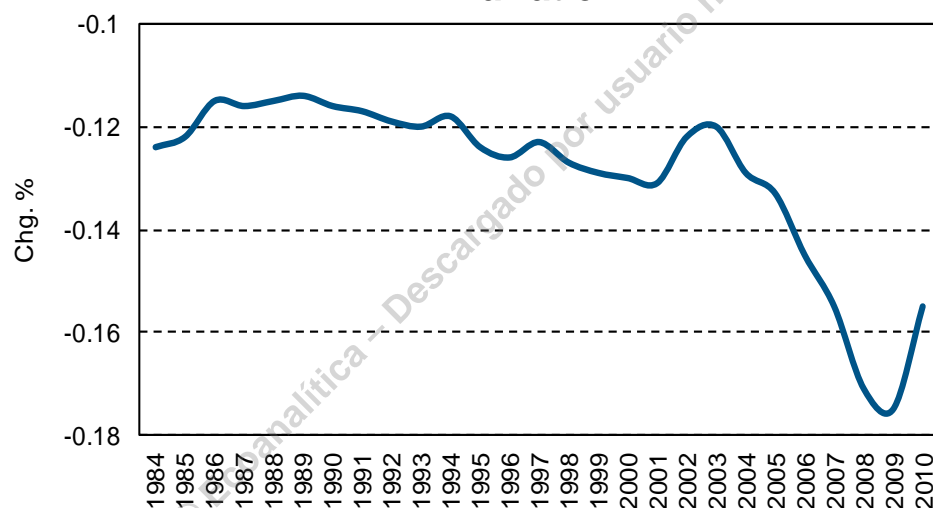
<sup>2</sup> Logarda, A. & Hidalgo, A. (2014). *La Importancia de la Industria Manufacturera en el Crecimiento y la Competitividad de un País*. Universidad Politécnica de Madrid.

<sup>3</sup> Rodrik, D. (2009). *Growth after the Crisis*. Harvard Kennedy, School, Cambridge, MA. 02138, May.

### In decrescendo

Where does Venezuela stand on this issue? Compared to other countries in Latin America, such as Colombia, Chile and Peru, industrialization occurred late. The boom of this sector in Venezuela occurred between 1950 and 1978. However, over time, Venezuela has experienced a drop in industry and manufacturing, generating consequences on the aggregate level. In a paper, Vera (2011)<sup>4</sup> verifies part of this deindustrialization in terms of this sector's share in employment. According to the data, employment in this sector peaked in 1988, after which it started to fall until it stagnated.

### Employment in the manufacturing sector variation



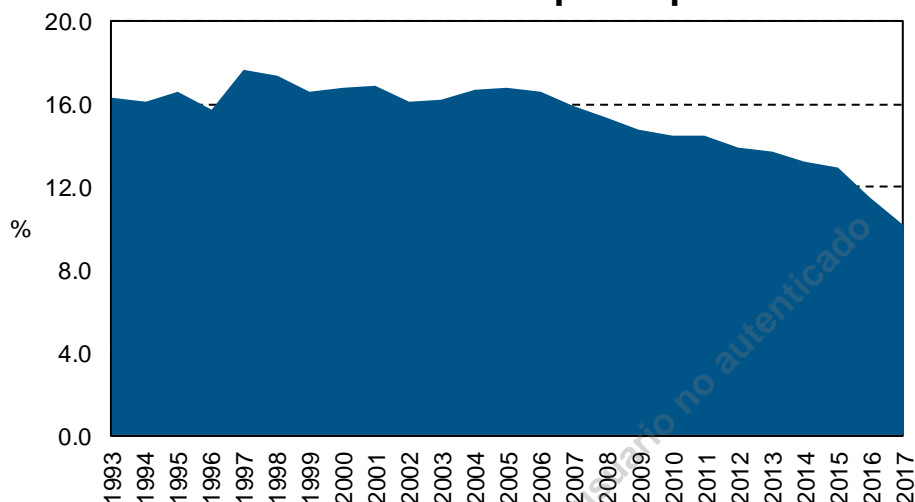
Sources: Vera (2011), INE and Ecoanalítica

Likewise, the weight of the manufacturing sector in Venezuela only achieved a status of more than 20% between the mid-1980s and the end of that decade. Since then, its importance has declined, almost negligibly initially, to account for 16.3% in 1993, and then more rapidly to represent 10.2% in 2017, according to data published by the Central Bank. Added to this there has been a contraction in the sector as such, which means that manufacturing has experienced reductions in both its levels of production and its share in GDP. Other sectors have acquired greater weight in GDP, leaving manufacturing behind.

<sup>4</sup> Vera, L. (2011). *Paradojas de la desindustrialización, ¿Hay evidencia de la Tercera Ley de Kaldor para Venezuela?* Nueva Economía, año XIX, n° 33.

Year 15. Number 26 Week I  
 August 2019

### Manufacture's GDP participation



Sources: BCV and Ecoanalítica

Vera (2011) comments that industrial and commercial protection since 1988 has contributed to the decreasing of this sector. The decade after began with two coup attempts in 1992, followed by a capital outflow process and deposits liquidation next year. As well, the financial and external crisis played a role in this issue. Moreover, in 1998 oil prices fell abruptly, which generated a new fiscal restriction while the political change that put Hugo Chávez into power was happening. With this, more controls are implemented like foreign currency rationing, expropriations and nationalizations that affected the productive sector, alongside the distribution and commercialization of final goods.

All this political and economic instability that Venezuela started to experience at the end of the 1980s brought about a strong reduction in the sector even in absolute terms. In fact, according to the National Statistics Institute (INE), in 1989 there were 9,464 industrial companies in Venezuela and this number fell to 8,891 in 1995 and then to 7,093 in 2007, these being the last figures reported by the INE. These figures serve as a measure of the decline experienced by this portion of GDP, yet another aspect of the disaster the Venezuelan economy is today.

### Loosing field

As was to be expected, the decline of the manufacturing sector has had consequences for the external sector. Exports of manufactured goods have also declined over the years. They accounted for 13.6% of total exports in 1995, and 4.1% in 2006 according to figures published by the United Nations Conference on Trade and Development (UNCTAD).

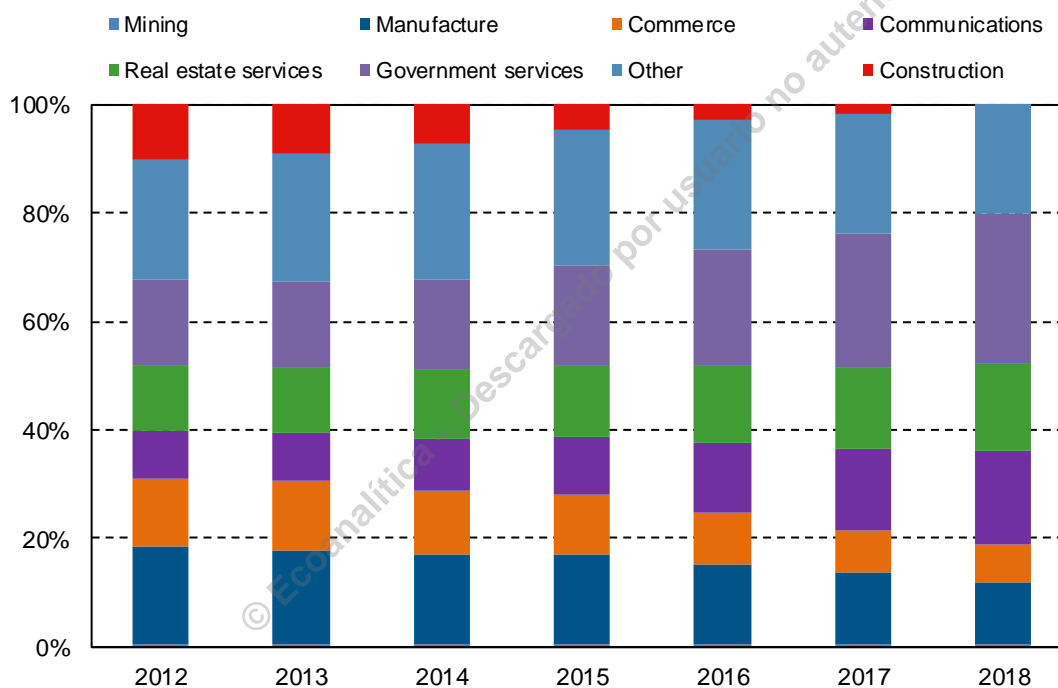
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 15. Number 26 Week I  
 August 2019

Similarly, Venezuela's productivity has declined due to products from sectors with relatively high productivity (the case of manufacturing) being crowded out by sectors with relatively low productivity (such as services). When we look at how the proportions of the different sectors in nonoil GDP have evolved, we find that sectors such as communications and others such as government services have increased their weight in economic activity. On the other hand, sectors that used to be significant, such as construction, to mention one other than manufacturing, account for less of GDP.

### Non-oil GDP Composition



Sources: BCV and Ecoanalítica

Another way of seeing this drop is through the Manufacture Index published by the Central Bank of Venezuela. Here we can see the behavior of the different areas inside the sector. We can notice that, for 2008, the fields that suffered the biggest contraction were textile fabrication, clothes, paintings, tires and vehicles. Ten years later, not only these items have been falling, but the fields related to foodstuffs have also reported a decrease. Cocoa and chocolate elaboration fell 53,1% in 2018, alongside lactose products (-47.5%), meat processing (-41.3%) and flour elaboration (-45.3%).

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

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

## Exports discipline

Given the situation in which Venezuela currently finds itself, the question that needs to be asked is, how can this disaster be put right? Cherif and Hasanov (2019)<sup>5</sup> argue that countries such as the Asian countries, whose manufacturing industries have a high weight in their economy, have been successful thanks to “True Industrial Policy.” This industrial policy consists basically of directing producers in more basic industries to other more sophisticated industries, orienting exports to goods that have a competitive advantage, and pursuing both domestic and international competitiveness in ways that are responsible.

In order to implement such a policy, discipline plays a fundamental role, being even the first step to get GDP to stop relying on insubstantial sectors. In the context of the industrial policy boosted by the Government over the last years, Venezuela seems far away from a regulation that will take local manufacturing to such levels, at least in the medium term. Nevertheless, this does not dismiss any future intention for its recovery. Our past seems to demonstrate that once our local industry reaches a clear expansive path in its development, it will be a key stone for any economic recovery.

**Luis Arturo Bárcenas**  
**Corina Fung**

---

<sup>5</sup> Cherif, R. & Hasanov, F. (2019). *The Return of the Policy that Shall not be Named: Principles of Industrial Policy*. International Monetary Fund.

Year 15. Number 26 Week I  
 August 2019

## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week August	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Boards (VES/USD)<sup>2</sup></b>	11,264.48	39.6	28.4
	3rd Week July	Weekly chg. (pp)	Annual chg. (pp)
<b>Lending Interest Rate (%)</b>	31.5	6.0	10.8
	4th Week July	Weekly chg. (pp)	Annual chg. (pp)
<b>Overnight Interest Rate (%)</b>	128.3	1.7	125.4
	3rd Week July	Weekly chg. (%)	Annual chg. (%)
<b>International Reserves (USD Bn)</b>	8.0	-0.6	-8.9
	3rd Week July	Weekly chg. (%)	Annual chg. (%)
<b>Monetary Liquidity (MM VES)</b>	9,464,472	1.9	34,693.2
Price of International Oil Baskets (USD/b)			
	4th Week July	Weekly chg. (%)	Annual chg. (%)
<b>WTI</b>	56.0	-3.3	-20.5
<b>Brent</b>	63.2	-2.2	-14.1
Price of the Venezuelan oil basket (USD/b)			
	4th Week July	Weekly chg. (%)	Annual chg. (%)
<b>Weekly Average</b>	58.8	-3.1	-13.5
<b>Annual Average</b>	59.7	-0.1	-5.1

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

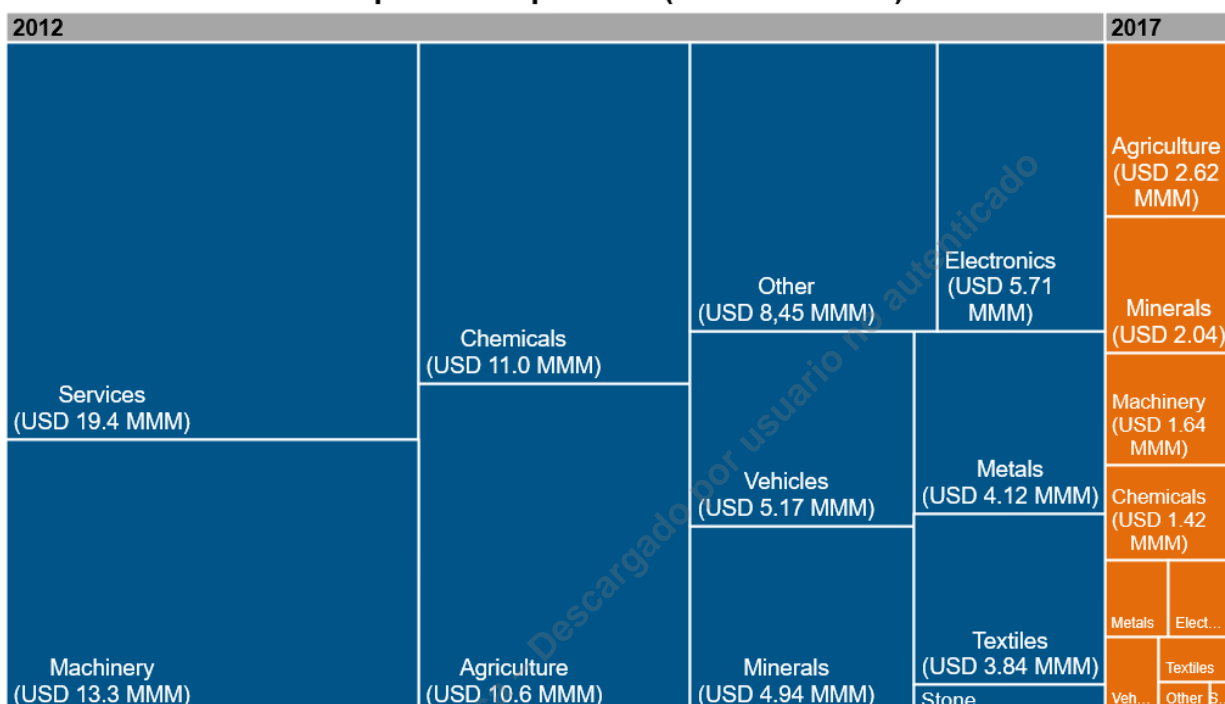
<sup>1</sup> Depreciation (+)/Appreciation (-)<sup>2</sup> FX Borads' average exchange rate

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

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

**GRAPH OF THE WEEK: “HOW MUCH DOES VENEZUELA IMPORT?”**

**Imports composition (2012 and 2017)**



Sources: UNComtrade, Harvard's Center for International Development and Ecoanalítica.  
Note: total imports for 2012 and 2017 were USD 87.3 MMM and USD 10.0 MMM respectively

Venezuela’s longstanding reliance on oil exports has made studying the makeup and volume of our imports particularly interesting, given that they are a relevant component of the domestic supply of goods and services. According to data processed by Harvard University’s Center for International Development, between 2012 and 2017, there was a drop of 88.5% in those purchases, which went from USD 87.3 billion to only USD 10 billion. In 2012, the main items purchased were services, machinery, and chemicals, whereas in 2017 agricultural products, minerals, and machinery headed the list of imports.

These figures seem to indicate a change in Venezuelans’ needs, since in 2017 they were no longer importing services (or only very marginally), while at the same time their purchases of machinery and chemicals had shrunk significantly. This coincided with a persistent drop in oil production, posting a cumulative contraction of 41.5% between 2012 and 2017, partly explaining the lower demand for these products in the international market.

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

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

Year 15. Number 26 Week I  
August 2019

On the other hand, the makeup of imports in 2017 indicates a greater demand for goods having to do with basic needs, mainly agricultural goods, which accounted for 26.1% of total imports. This also seems to point to the inability of Venezuela's industry to offer locally produced primary goods.

Unless there is a drastic change in domestic and foreign economic policies, we can only expect a more dramatic situation in 2018 and 2019. So, part of the possible change should focus on promoting the development of sustainable and competitive domestic industries that are capable of generating goods and services that meet Venezuelans' needs.

© Ecoanalítica – Descargado por usuario no autenticado

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

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

**ECONOMIC TIPS**

**2019 according to UCAB, Part I.** The July 2019 Country Situation Report prepared by *Universidad Católica Andrés Bello's* (UCAB) Economic and Social Research Institute (IIES) forecasts that the drop in gross domestic product in 2019 will be 22%.

**2019 according to UCAB, Part II.** The IIES estimates that the cumulative drop in GDP over the period 2013-2019 will be as high as 61%, commenting, *"This already very prolonged deterioration in the level of economic activity must have considerably affected the economy's potential capacity, making the possibilities of a sustained recovery much less."*

**2019 according to UCAB, Part III.** As for inflation, the IIES forecasts that it will reach 9,416% by year-end, adding that, even though this is a significantly lower figure than in 2018 (1,698,848%, according to the IIES), it will still be *"the highest (inflation) in Latin America and the world by far."*

**Venezuela according to the IMF.** Alejandro Werner, the director for the Western Hemisphere at the International Monetary Fund (IMF), said that the IMF had cut its projection for inflation in Venezuela in 2019 from 10,000,000% to less than 1,000,000%.

**Venezuela's situation as at July.** Werner added that Venezuela was still experiencing a hyperinflationary process but that monthly inflation had gone down as a result of the measures taken by the Central Bank of Venezuela.

**Outlook for economic activity.** With regard to economic activity, Werner commented that the expected contraction published by the IMF last week was an unprecedented figure in the region's recent history. What is more, the cumulative drop in economic activity since 2013 would be more than 60%.

**The region is watching us.** Luis Moreno, the president of the Inter-American Development Bank (IDB), said that finding a solution to the Venezuelan problem was a matter of urgency for the region. At the moment 94% of Venezuelans are in a situation of income poverty, which is prompting them to move to other countries of the region in search of a better standard of living.

**Revvng up the engines.** Following a meeting between Vice President for the Economy Tareck El Aissami and the United Nations Industrial Development Organization (UNIDO), the UNIDO-Venezuela Country Program 2018-2022 was presented. Under this program policies will be developed for optimizing production processes, strengthening production

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

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

Year 15. Number 26 Week I  
August 2019

chains, and improving quality in the production of sugar cane, cacao, coffee, corn, soybeans, rice and beans.

**Family food basket hits VES 2.63 million.** According to a report issued by the Documentation and Social Analysis Center of the Venezuelan Teachers' Federation (**CENDAS-FVM**), the cost of the Family Food Basket in June 2019 came to VES 2,625,578.2, for an increase of 2.8% compared to May and an increase of 69,304.5% compared to June 2018.

**The Family Food Basket in June.** The increase in the cost of this basket in June was determined by increases in the prices of sauces and mayonnaise (20.2%), fruit and vegetables (14.2%), fats and oils (14.1%), cereals (10.2%), coffee (8%), and sugar and salt (8.8%). On the other hand, the prices of some items fell: tubers and root and other vegetables (-11.8%), legumes (-10.7%), meat (-4.9%), milk, cheeses and eggs (-3.6%), and fish and seafood (-0.8%).

**Purchasing power at an all-time low.** The director of CENDAS-FVM, Oscar Meza, added that the current minimum wage of VES 40,000 is equivalent to 1.5% of the total cost of the basket. That means that 65.6 minimum wages are needed to cover the cost of the basket. He also pointed out that the minimum wage in Venezuela is four times less than the minimum wage in Cuba.

**Foreign Exchange Desks.** For July 31, the average exchange rate at the foreign exchange desks was VES 11,264/USD, for a depreciation of 28.3% compared to last week. Nevertheless, the unofficial exchange rate maintains a premium of 6.3%.

## OIL TIPS

**Free pass extended.** The US Department of the Treasury published a notice stating that it was going to grant Chevron and the service companies Halliburton, Schlumberger, Baker Hughes, and Weatherford an extension to allow them to operate in Venezuela until October 27.

**Chevron in Venezuela.** Chevron is Pdv Holding's biggest western business partner. It has a 30% stake in PetroPiar (a joint venture engaging in upgrading crude that Pdv is to turn into a facility for producing blends), a 39.2% stake in PetroBoscan and a 25.2% share in PetroIndependiente (both heavy crude joint ventures), and a 34% holding in PetroIndependencia, which is expected to produce 400,000 (400 kb/d) and is currently in the initial development stage.

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

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

**Past mistakes have become today's problems.** A court of appeals in Philadelphia, USA, has ruled that the Canadian company Crystallex International Corp. is authorized to collect the USD 1.4 billion Venezuela owes it in compensation for expropriations by taking possession of the shares of Citgo Petroleum Group, PDVSA's refining affiliate located in the United States.

**Are we still good?** PDVSA's ad hoc board of directors stated that it would pursue any available legal option to challenge this ruling, given that Citgo is one of the few assets of the Republic's to which the Juan Guaidó administration has access. This decision also affects the holders of PDVSA's 2020 bonds, for which half of Citgo's shares were put up as collateral.

**From New York to New Delhi.** India's imports of crude from Venezuela came to 303 kb/d in June, for an increase of 37% compared to May and of 25% compared to June 2018. That month, imports of Venezuelan crude accounted for 7% of India's total crude imports, whereas they accounted for 6% of crude imported by the United States.

**Adapting to the situation, Part I.** PDVSA, Venezuela's state-owned oil company, reported that the extra heavy crude upgrader PetroPiar had started operations as a crude blending facility. This is part of a strategic plan for overcoming US sanctions by focusing on the Asian market. The plant is expected to produce an average of 130 kb/d of Merey 16° API crude.

**Adapting to the situation, Part II.** PDVSA added that it had already sent the first shipment of 520 kb/d of Merey crude from Jose oil terminal, without specifying a destination. According to the report, this switchover in operations at PetroPiar is part of a series of projects being carried out at the crude upgraders in José Antonio Anzoátegui Industrial Complex (CIJAA).

**Adapting to the situation, Part III.** In the report, PDVSA does not specify whether there will be any changes at the other crude upgraders. So, it is expected that Petrocedeño (in which the Norwegian company Equinor and the French company Total have stakes) will continue to operate as crude upgraders.

## BUSINESS SECTOR TIPS

**Giving the education system a "helping" hand.** The National Superintendency for the Defense of Socioeconomic Rights (Sundde) ordered 189 private schools to freeze their

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

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

Year 15. Number 26 Week I  
August 2019

registration fees. It also ordered them to submit the necessary documents in order to evaluate their cost structures so as to determine whether they will be allowed to raise their monthly fees for the next school year.

**Medicines, there are none produced locally...** The president of the Pharmaceutical Industry Chamber (CIFAR), Tito López, said that Venezuela's pharmaceutical industry has idle capacity of 70% due to the lack of inputs and raw materials for producing medicines.

**...only what's brought in from abroad.** López said that 98% of medicines are imported and that the last allocation of foreign currency the pharmaceutical sector received through the National Foreign Trade Center (Cencoex) was in October 2016. He explained that this was the reason for the huge increases in medicine prices.

**Services that don't work, Part I.** The June edition of the Services Monitoring Report issued by the Center of Dissemination of Economic Knowledge for Freedom's (Cedice Libertad) Public Spending Observatory stressed the major collapse in public services.

**Services that don't work, Part II.** The report highlighted that in the provinces there are failures in the supply of electricity more than 75% of the time, with nearly seven power outs a day lasting at least two hours each. Some regions, such as the Andes and the Western Region, have been left for more than 19 hours without electricity. In Caracas there have been power outs in certain areas, in particular in the eastern part of the city.

**Services that don't work, Part III.** Cedice's report adds that only two out of every 10 inhabitants have a continuous supply of water; everyone else claims that they experience scheduled and unscheduled cuts in supply that affect their daily activities. At least 75% of the country's hospitals are experiencing problems with having access to water.

**A "coffee" hazard.** The president of the Venezuelan Coffee Industry Association (ASICAF), Nelson Moreno, has denounced that there has been a proliferation of millers of coffee and other foods recently who are not being supervised either by the mayoralties or by the health authorities. He claims that this poses a public health hazard.

**There's no paradise without cows.** Luis Prado, the vice president of the National Cattlemen's Federation (Fedenaga), reported that they are only covering between 30% and 35% of Venezuelans' food requirements, a situation that has been made worse by a huge drop in the production of meat (98%) and dairy products (70%).

**How can you compare dollars to apples?** Ricardo Cusanno, the president of the Federation of Commerce and Production Chambers and Associations of Venezuela

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

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

Year 15. Number 26 Week I  
August 2019

(Fedecámaras), expressed his rejection of the new policies implemented by Nicolás Maduro that are geared to collecting taxes from companies and commercial establishments in dollars and Petros, arguing that “*there is no sound correlation between these taxes and the country’s situation.*”

**The Petro is “alive and kicking.”** The National Superintendency of Crypto Assets and Related Activities (Sunacrip) published the “progress” made by Venezuela’s Integral Crypto Assets System during the Forum of Sao Paulo. Sunacrip explained the use of this virtual currency via PetroApp, a multi-currency billfold application that allows payments in Petros as well as the exchanging of a number of crypto assets.

**No aluminum until 2020.** Operations at the aluminum plant Venalum, an affiliate of the Corporación Venezolana de Guayana, have been suspended since March. The startup has been delayed due to the scant confidence management has in the electric power supply. Technicians at the plant say that Venalum’s president, Rafael Tellechea, proposed in private that the startup now be scheduled for January 2020.

## WORLD ECONOMY TIPS

**Like 2008.** The US Federal Reserve (Fed) decided to cut the benchmark interest rate by 0,25 percentage points (pp). With this decision, the federal fun rate was lowered to a 2,0%-2,25%. The last time the Fed decided to cut the benchmark rate was in 2008, during the financial crisis.

**The acclaimed and expected motives.** Jerome, Fed’s Chairman, justified the decision as a “*mid-cycle adjustment to policy*” rather than a change of monetary policy consisting in future cuts of interest rates.

**Old habits.** Donald Trump said that the US will impose a new tariff of 10,0% on USD 300 billion worth of Chinese imports on September 1<sup>st</sup>. The measure doesn’t include the 250 billion worth of the Chinese products already tarified at 25,0%.

**Unwanted pressure.** US President Donald Trump drew a comparison between the United States’ monetary policies and those of the European Union and China. He said it was “*too bad*” that China and the European Union were going to lower their interest rates to facilitate the sale of manufactured products, while “*in the meantime, and with very low inflation, our Fed (Federal Reserve) does nothing.*”

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

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

Year 15. Number 26 Week I  
August 2019

**He's the only one who can.** In other statements, Trump commented that he would not be surprised if part of China's negotiating strategy would be to wait for him to finish his term in office in the event that he were to lose the upcoming elections. He also said he believed that China expected that to happen in order to be able to "*make a deal with a stiff.*"

**Round X, venue Shanghai.** China's and the United States' trade negotiators are to be in Shanghai this week to hold meetings to try to reach an agreement to put an end to the trade war between their two countries.

**Baby steps.** These will be the first meetings since the "truce" achieved at the G-20 Summit. While it is not expected that an agreement on talks that have been going on for more than a year will be reached, there are hopes that the two sides will commit to future talks.

**New game board, new agreement.** Great Britain's Prime Minister Boris Johnson issued a statement through a spokesperson to the effect that, since Parliament had failed to pass the Brexit Agreement on three occasions, the leaders of the European Union should change their approach with regard to the agreement. Johnson would be prepared to negotiate Great Britain's withdrawal from the European Union only if there is such a change, otherwise he will get ready for a "no deal" exit.

**They're ready.** Taking the same line, Michael Gove –appointed by Johnson to prepare a no deal Brexit- said that planning for a Brexit without an agreement was now a "number one priority" for the Government, since a no deal Brexit was a very real possibility and they needed to be ready for it.

**Allowing things to evolve.** White House advisor Larry Kudlow commented that the US Government had ruled out monetary intervention to lower the value of the dollar. Kudlow stressed that President Trump wanted the value of the dollar to remain stable, but had expressed his concern over the possibility that the United States' trading partners may be manipulating their own currencies lower in an attempt to gain some trade advantage in the short term.

## POLITICAL TIPS

**More are added to the list.** On July 25, the US Department of the Treasury published that the US Government had sanctioned 10 individuals and 13 groups that have ties with

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

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

Year 15. Number 26 Week I  
August 2019

a vast network of corruption involving the purchase of food products that benefited, among others, President Nicolás Maduro and his stepsons.

**It's a family problem.** According to the Treasury Department, the person responsible for organizing the subsidized food import and distribution network is the Colombian Alex Nain Saab, who met Maduro's stepsons in 2011. Saab bribed Walter, Yosser and Yoswal Gavidia Flores, the three stepsons, to win contracts with the Venezuelan Government.

**Reserving the right of admission, Part I.** The director general of the Administrative Identification, Migration, and Immigration Service (SAIME), Gustavo Vizcaíno, announced that the National Migratory Police will require Colombian citizens who cross the border at San Antonio del Táchira to present a Border Mobility Carnet starting on August 1.

**Reserving the right of admission, Part II.** Vizcaíno said that 897 migratory policemen would guarantee control at migratory and border crossing points with neighboring countries and that around 117 policemen had already been deployed at pedestrian border crossings with Colombia to perform the corresponding controls.

**No country to go to, Part I.** Ecuador's President Lenin Moreno announced that Venezuelan citizens who want to enter Ecuadorian territory and who up until now were able to enter with only an identity document or passport would now be required to have a visa.

**No country to go to, Part II.** This new requirement was decreed as part of a law and order and security plan for migrants to be implemented by the Ecuadorian Government and comes on the heels of stricter requirements being demanded by Peru and Chile. In addition, Ecuador is to recognize the validity of passports and identity documents for a period of five years after their expiry date for the purpose of granting visas.

**A need for humanitarian visas.** President Moreno also said that they would grant a migratory amnesty for Venezuelan citizens who are already in Ecuador to enable them to regularize their situation in the country. This will include conducting a census and issuing temporary humanitarian visas.

**Keeping your enemies even closer.** Serguei Raibkov, Russia's vice minister for foreign affairs, said that his country maintains "sporadic contact" with the Venezuelan opposition, although this does not change its support of the Nicolás Maduro regime, which it considers is the only legitimate government.

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

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

Year 15. Number 26 Week I  
August 2019

**Spies in the sky.** Admiral Craig Faller, the commander of US Southern Command admitted that the United States is carrying out “*totally professional*” reconnaissance flights to better understand what is happening in Venezuela. He said this shortly after the US Government denounced that a Russian made Venezuelan aircraft intercepted one of these reconnaissance aircraft in an unsafe manner.

**Putting up a legal roadblock.** The Constitutional Chamber of the Supreme Tribunal of Justice has ruled that the National Assembly’s decision to approve Venezuela’s rejoining the Inter-American Reciprocal Assistance Treaty (TIAR) is null and void. The Venezuelan parliament approved the measure on July 23 at a session led by Juan Guaidó.

**Rejected right off the bat.** At the same time, Maduro repudiated the opposition’s initiative to rejoin the TIAR, saying, “*any intention to apply the TIAR in Venezuela must be considered (according to the Constitution) as a hostile act against national sovereignty and an act of aggression against our territory, our people, peace, and international law.*”

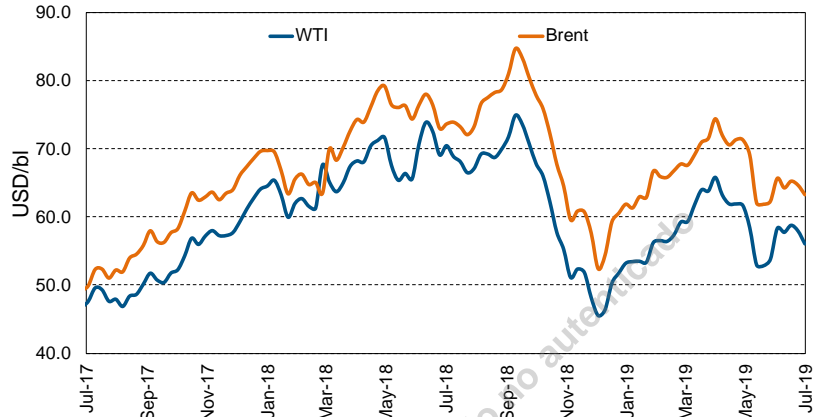
**A magnet of discord.** During the closing ceremony of the 25th Forum of Sao Paulo held at Miraflores Palace, Nicolás Maduro invited the Revolutionary Armed Forces of Colombia (FARC) to visit Venezuela “whenever they liked.” This comment was a response to statement by former Colombian President Álvaro Uribe, who described the former leaders of the FARC as “fugitives” and said they were in Caracas to take part in the Forum of Sao Paulo

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

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

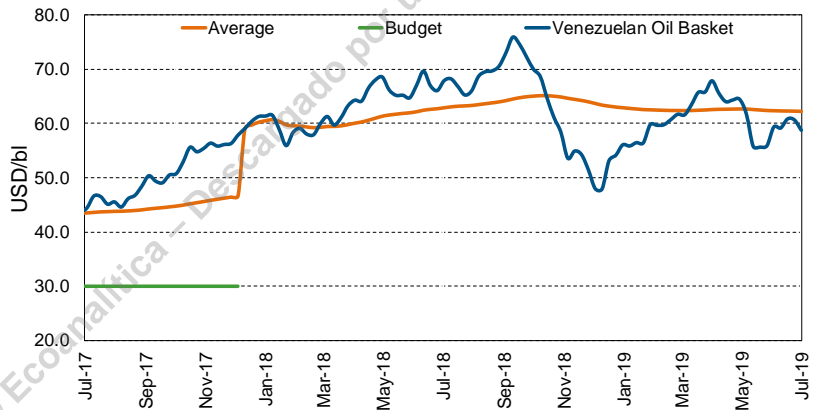
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



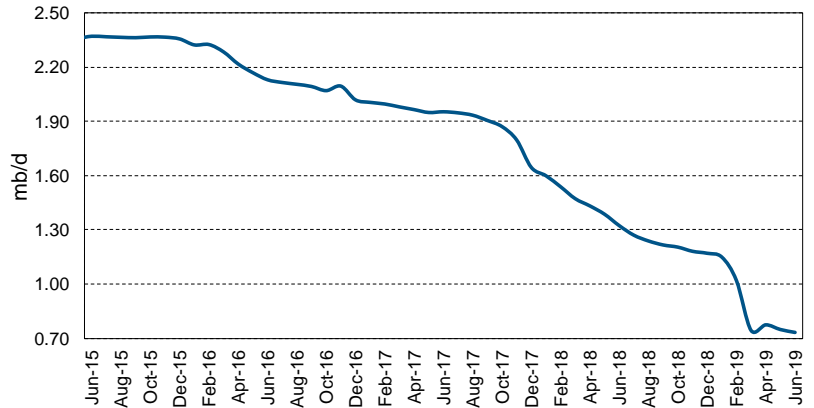
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

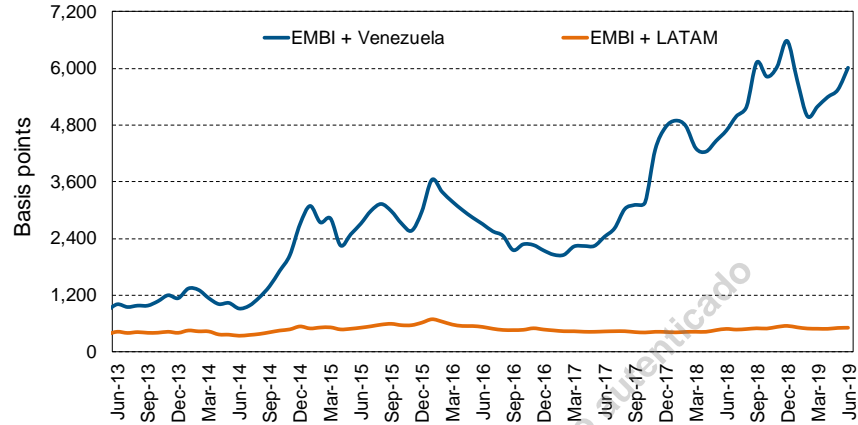


Sources: OPEC and Ecoanalítica

Year 15 Number 22 Week I  
August 2019

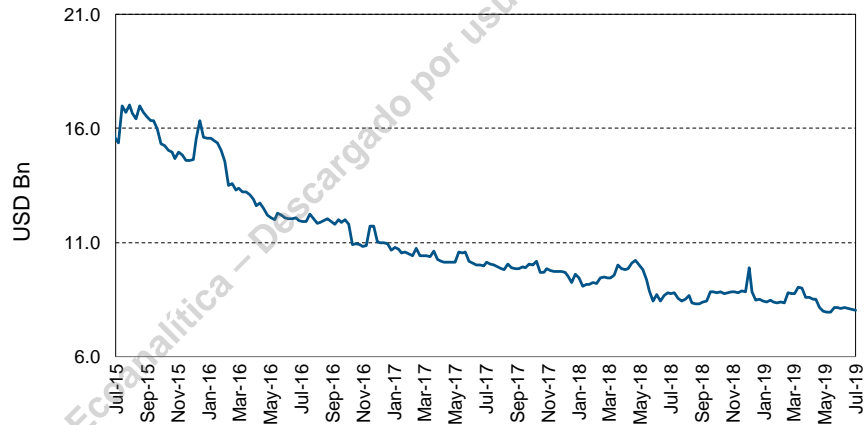
**ECONOMIC INDICATORS**

**EMBI**



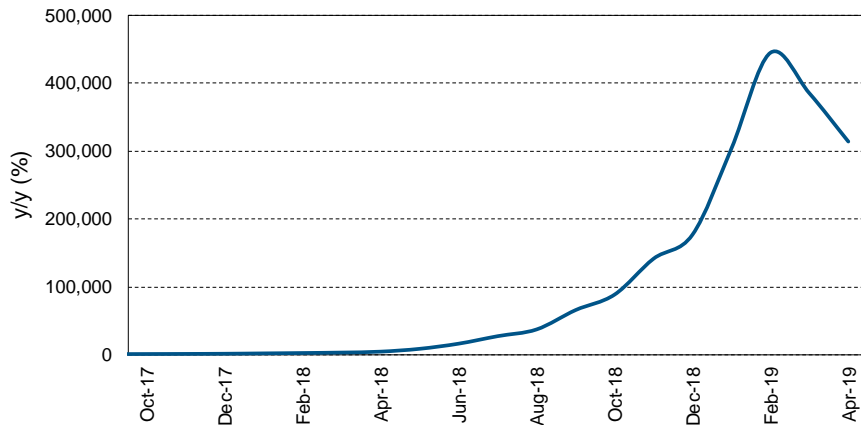
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

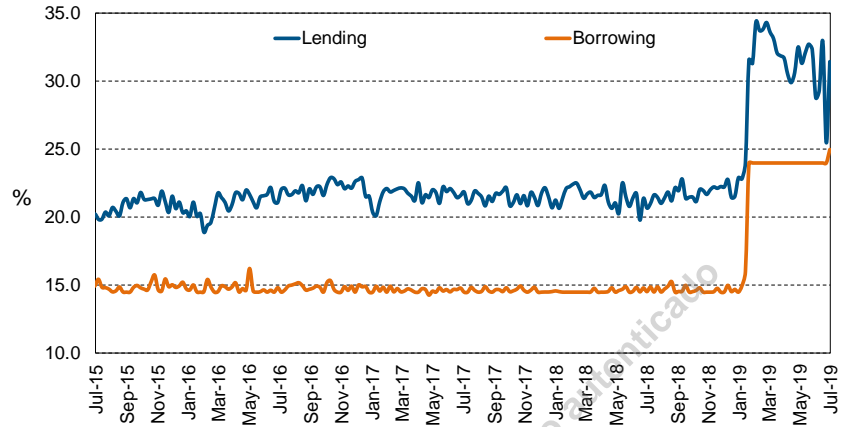
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 15 Number 22 Week I  
August 2019

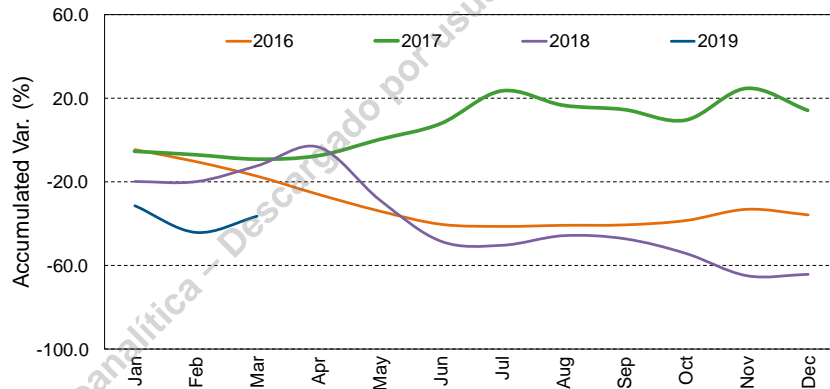
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



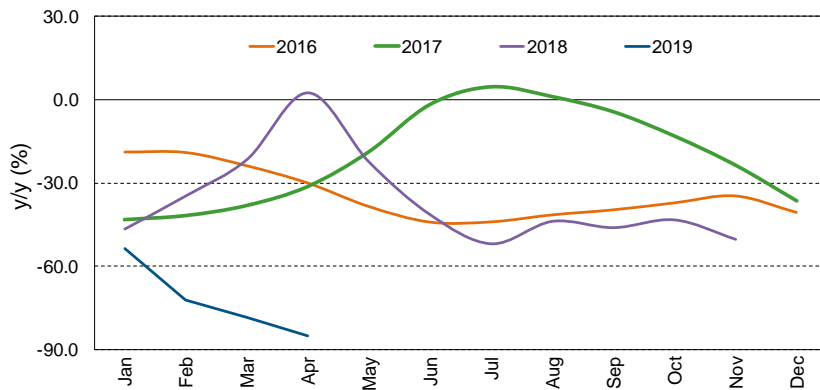
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

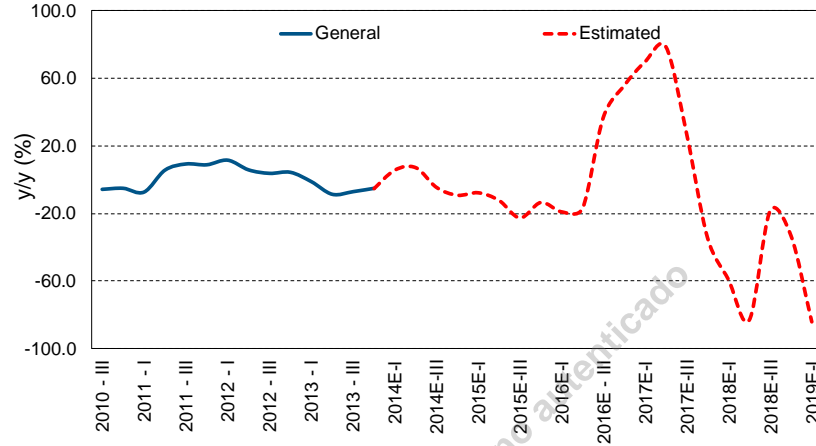
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 15 Number 22 Week I  
August 2019

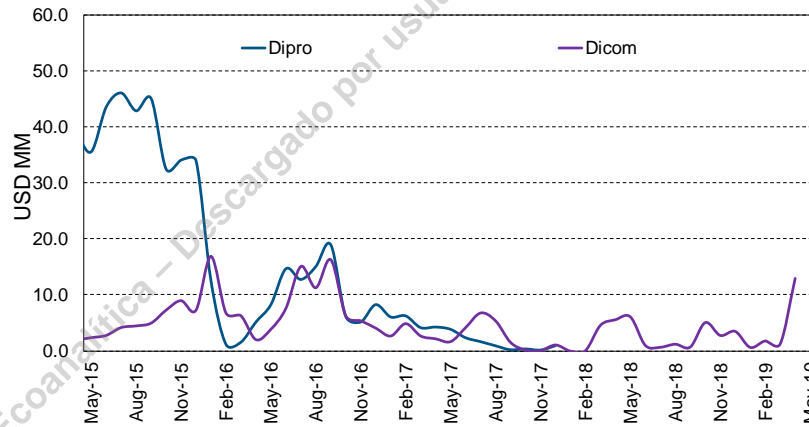
**ECONOMIC INDICATORS**

**Real Wage Index**



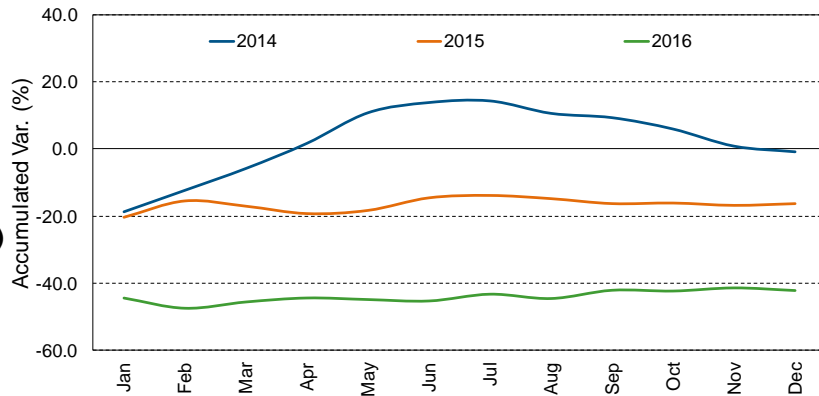
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

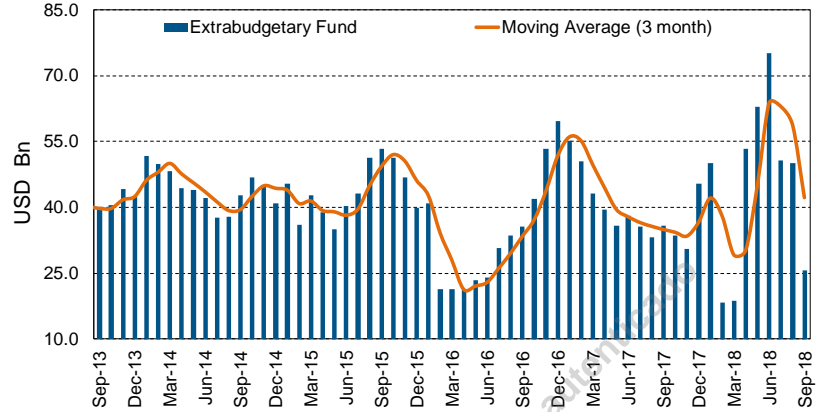
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 15 Number 22 Week I  
August 2019

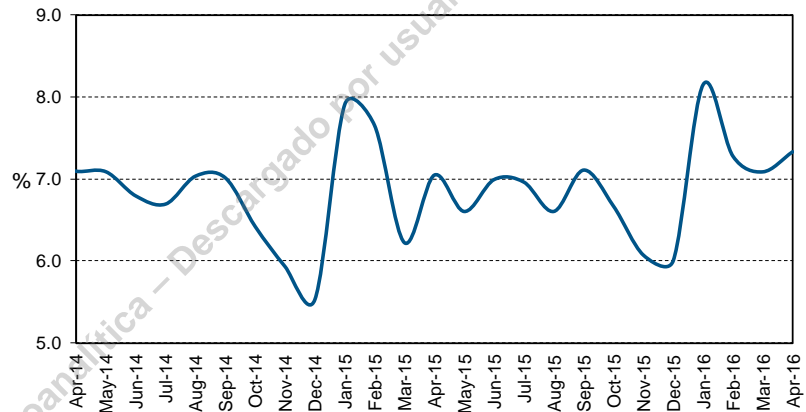
**ECONOMIC INDICATORS**

State Extrabudgetary Resources



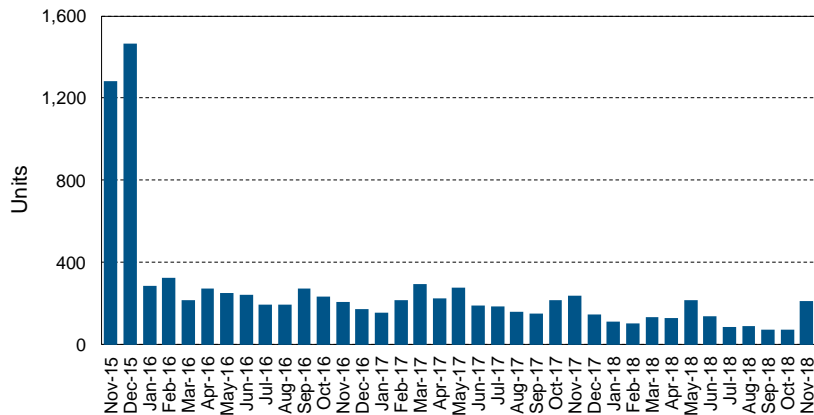
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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

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

## 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