

FAQ: questions for the present (and future) of the Venezuelan economy (I)

In these times of announcements, peggings, redenominations and other paths dreamed up from limited conception of current government related to domestic economic policy, the future of the Venezuelan crisis is generating more questions than public opinion is capable of answering –at least at the speed that circumstances warrant.

In an economy where prices double every 24 days and economic activity is approaching the levels it was at in 1950, the very evolution of the crisis generates a sense of vertigo that gives rise to questions regarding, for example, what will the final outcome of the political conflict be, how long will hyperinflation last, is there or is there not a bottom to be reached, how are people –and the government- coping, and other doubts regarding the Venezuelan economy in the medium term.

On the other hand, the very interaction of the man in the street with hyperinflation –and consequently with the destruction of the system of prices- makes him question the basic elements of modern economic theory, which, even though they are absent in the formulation of policies, continue to play a key role in the Venezuelan economy's daily round. In this process a number of additional questions arises: Why is the cost of living getting more expensive in dollar terms? Why do some prices go up more than others? and other questions that, in general terms, go through Venezuelans' minds as they go about their daily business.

In view of this situation, anticipating limited answers to these questions, at **Ecoanalítica** we have undertaken the task in two reports of offering some simplified answers to a series of questions that, in our opinion, are crucial in order to be able to put together a good narrative on what is happening –and what will happen in the coming months- in the Venezuelan economy.

1) What is the main phenomenon that underlies (or unleashes) a hyperinflationary process?

Some popular beliefs in Venezuela say that the shortages are the cause of hyperinflation because, since there are fewer goods, their relative values increase and prices go up. Others believe that hyperinflation is caused by the depreciation of the exchange rate, given that this forces producers to import inputs at a higher cost and sell their products at

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a higher price. The fact is that, even though both phenomena occur daily, they are not responsible for unleashing a hyperinflationary process, as this does not occur in the goods market but in the money market.

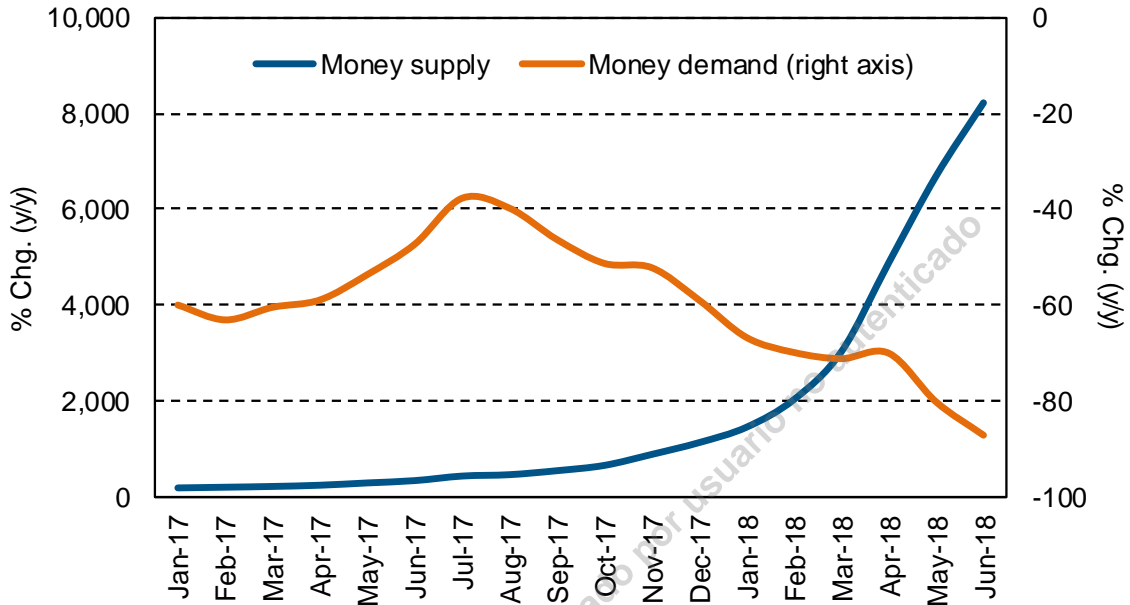
In theory, the price of a good denominated in bolivars is the relative price at which that good is traded in bolivars. In a way, the bolivar is the common denominator by which we measure, relativize, and compare the value of all goods. But, since what we use is the common denominator, any change in its value also alters the prices of all goods. If individuals were to place greater value on the bolivar, the prices of goods in bolivars would come down. But as individuals place increasingly less value on the bolivar, it becomes necessary to exchange increasingly more bolivars in order to purchase the same good.

Put simply, hyperinflation is not the exponential increase in the value of goods but the exponential decline in the value of the bolivar. Mathematically, while the value of the bolivar tends towards zero, prices tend towards infinity. But, why is the bolivar tending towards zero?

Basically, the bolivar market is constantly receiving shocks in the form of increases in supply and reductions in demand of magnitudes that grow exponentially over time. Whereas the supply of bolivars (money supply) grew by 62.4% a year on average between 2008 to 2016, in the past 12 months it grew by 8,210.6%, and in 2018 it has grown by 11.2% a week on average; on the other hand, the demand for money¹ shrank by 7.4% a year on average between 2008 to 2016, in the past 12 months it fell by 87.2%, and in 2018 it has gone down by 6.1% a week on average.

¹ Measured using the quantity equation

Money market



Sources: BCV and Ecoanalítica

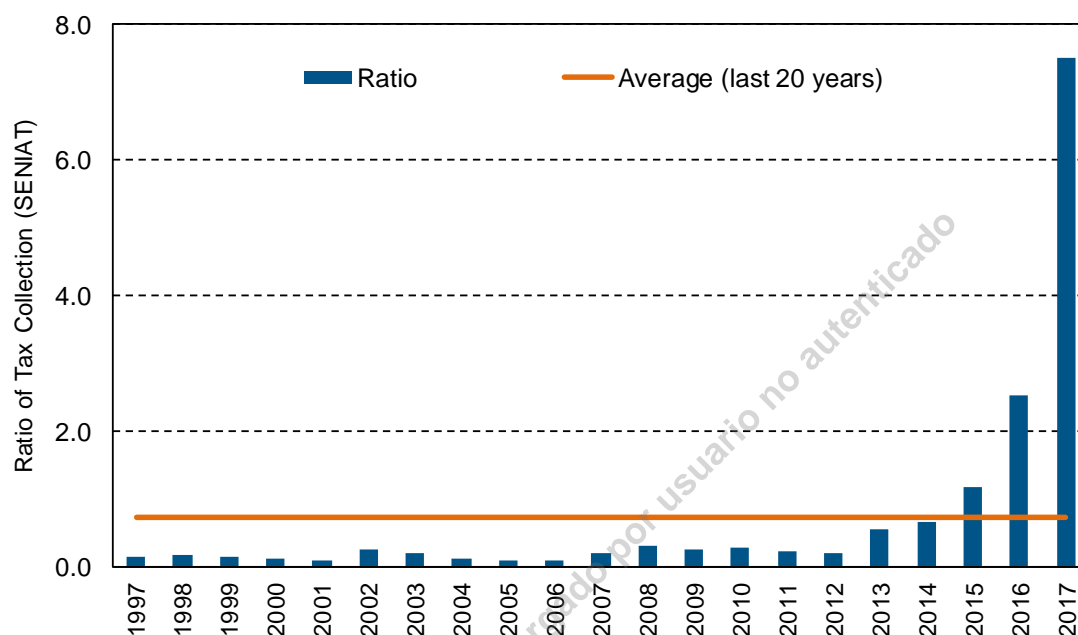
In the past, hyperinflations were generally caused by external shocks that increased countries' fiscal deficit to such an extent that the central bank was forced to issue large amounts of money and lend it to the government to finance the fiscal gap. The increases in the supply of money generated inflation and this reduced tax receipts in real terms and forced the government to continue issuing money. When individuals adjusted their expectations and internalized that inflation was a consequence of a policy that was not going to change in the future, they tried to get ahead of the game by getting rid of their money and buying safe-haven assets or increasing their consumption to the detriment of saving.

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Tax Collection (SENIAT) vs. Inflation Tax



Sources: BCV, SENIAT and Ecoanalítica

Since the demand for money falls, inflation is higher than the increase in the supply of money and the government needs to issue increasingly large amounts in order to obtain the same level of seigniorage in real terms and, as a consequence, the vicious circle of increased supply of and lower demand for money is exacerbated exponentially. In Venezuela, hyperinflation was not caused by an exogenous fiscal shock but by endogenous fiscal and monetary imbalances that have progressively caused nonoil tax revenues to decline to the point where, in June, they had shrunk by 83.6% compared to a year ago.

2) Why is inflation different depending on the category of goods?

In the past nine hyperinflationary months, prices have gone up asymmetrically. For example, whereas in June inflation in food products came to 429,022.2% compared to a year ago, inflation in the education sector was only 1,365.0% over the same period. In general, there are marked differences when it comes to the dynamic of the variation in prices between tradable and nontradable goods and between essential goods and all other types of goods.

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Inflation by sectors (Chg. %)							
Sector	January	February	March	April	May	Year on year*	2018**
Food and non alcoholic beverage	136.9	150.0	86.4	123.1	222.1	194,810	4,042,143
Alcohol and Tobacco	71.0	56.2	62.3	82.4	136.2	32,542	119,924
Clothing	50.1	36.1	24.1	55.0	75.0	4,313	10,060
Housing Rent	26.1	48.1	38.0	30.0	58.2	1,899	5,076
Housing Services (except telephone)	83.5	72.5	95.1	88.2	164.9	23,078	402,535
Household Equipments	96.7	50.7	33.0	128.5	170.0	42,462	265,359
Health	97.4	95.0	101.0	45.2	107.4	37,978	199,993
Transport	43.0	49.4	90.0	26.0	61.5	4,418	16,124
Communications	26.8	10.3	22.4	18.0	50.9	816	1,202
Recreation and culture	106	89.6	99.9	69.1	120.0	40,264	330,151
Education Services	34.0	12.0	7.6	20.5	40.1	1,044	878
Hotels and Restaurants	120.6	118.2	159.2	91.5	194.1	161,081	2,918,837
Other goods and services	93.5	60.3	57.0	72.0	174.4	19,924	214,098
Inflation BCV Methodology	90.6	89.1	74.4	79.0	145.8	34,221	302,063

Source: Ecoanalítica

*Acumulated Inflation of the last 12 months until June 2018

**Inflation at year end if the following 7 months were to have inflation equivalent to the average of the first months.

In order to understand this asymmetry, it is necessary to analyze the process whereby the seigniorage engaged in by the government becomes inflation. Bearing in mind that public spending consists mainly of the public sector's payroll, pensions, and direct transfers to low-income households of one kind or another, seigniorage has a redistributive effect. Whereas the entire population pays the inflation tax, only low-income individuals receive the spending financed via seigniorage, because the additional bolivars enter the economy via the hands of consumers who mainly demand essential goods such as food.

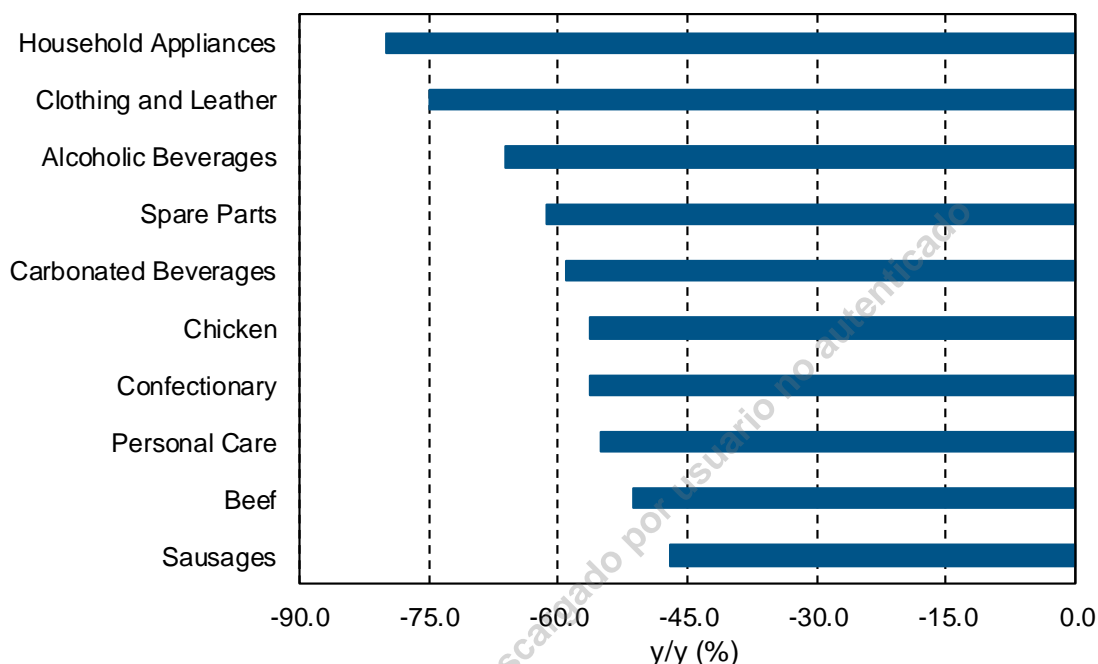
In addition, it is not only that the additional bolivars enter the economy through those consumers with a basket that gives priority to food, but that there are daily more Venezuelans who go from the high to the medium stratum and from the medium to the low stratum, making changes in their consumption basket in the process. According to the Survey of Living Conditions in Venezuela (Encovi), poverty in Venezuela went up from 48.4% in 2014 to 87.0% in 2017, and was particularly devastating when it came to wages. In the past 12 months alone, the overall minimum wage has shrunk by 98.4% in real terms. While their preferences have not changed, the tighter budgets of the new poor consumers have forced them to push their demand for food higher up on their list of priorities and bring down their demand for non-priority items such as household equipment.

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Sales Volume Evolution (1T2018)



Source: Ecoanalítica

Moreover, there are government restrictions on price increases that have had a disproportionate impact on services such as education, telecommunications, and public transport. The inexistence of an informal market that encourages true competition, the nontradeable nature of services, and the belief in the minds of Venezuelans that essential services should be subsidized and practically free of charge have resulted in the prices of these sectors falling behind to the point where the amount they have increased in the past 12 months is only 0.34% of the increase in the prices of food over the same period.

3) Why has the cost of living in dollars gone up?

After a month of exchange rate stability but no price stability, it is clear that this hyperinflation is not a problem exclusively caused by the depreciation of the exchange rate. Although there is no causal relationship between the two, both problems are correlated because they stem from the bolivar's accelerated loss of value. However, there is one thing that differentiates one from the other, and that is the mechanism of transmission. Whereas the bolivar's loss of value results in growth of prices via transactions involving consumer goods and services, depreciation is transmitted via savings and hedging in foreign currency.

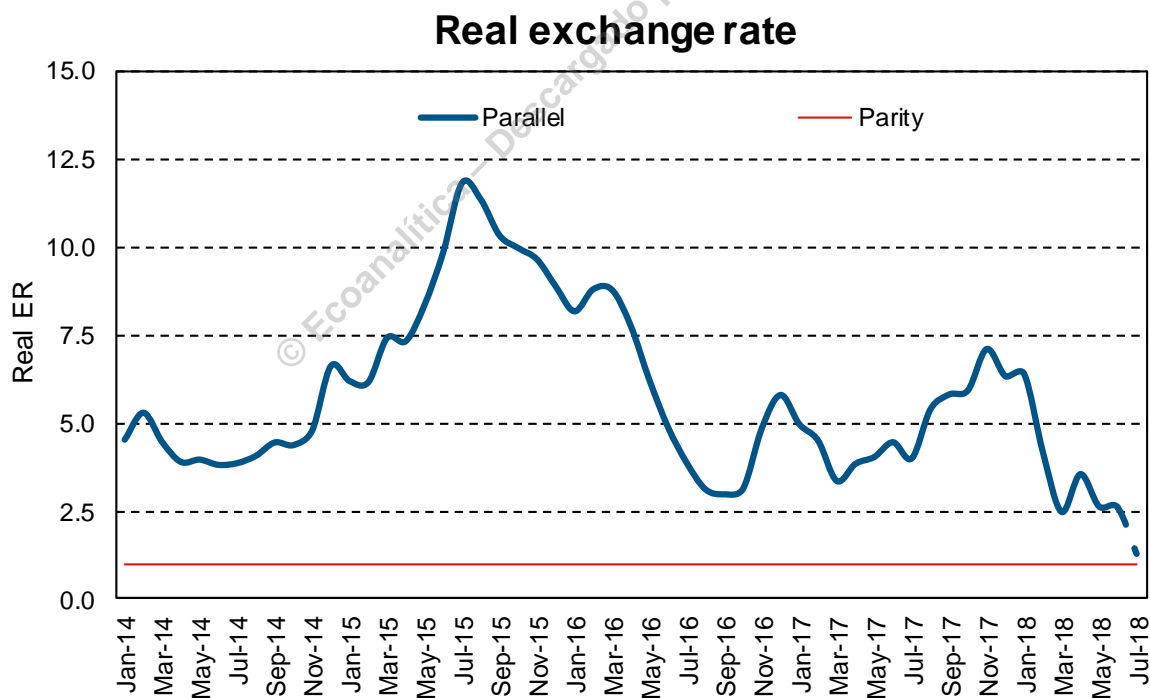
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Since our hyperinflation has coincided with a projected contraction in GDP of 19.0% for 2018 and a drop in real revenue of 98.4% in the past 12 months, the possibility of saving for both companies and individuals has declined and, with it, the demand for dollars as a hedging mechanism. Since neither companies are earning sufficient profits to keep themselves afloat nor workers are earning enough to meet their basic consumption needs, a phenomenon of net undercapitalization is occurring in which there has been a falling off in the demand for dollars.

In fact, Venezuela's real exchange rate went down from 7.1 in November to 1.3 in July. This means that, whereas in November, you could sell a basket of goods and services in the markets of our trading partners to obtain a given amount of dollars, sell those dollars at the official exchange rate and buy 7.1 times the same basket of goods, in July, you could only buy 1.3 baskets. At the same time, whereas in November you could sell the NCPI basket of goods in bolivars, change those bolivars for dollars at the unofficial rate and import 14.1% of that same basket produced by our trading partners, in July that figure went up to 78.5%.



Sources: Ecoanalítica

*A Real ER over 1 is undervalued and under is overvalued

As long as locally produced goods continue to be cheaper than imported goods it is possible that the exchange rate will continue to depreciate more slowly than prices

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increase. In fact, as households reduce their demand for dollars by selling remittances or existing savings and increase their demand for food and other goods acquiring them with those funds, it is logical that the real exchange rate will get closer to the commercial parity. However, according to our calculations, if the exchange rate continues to be stable, it will only take 13 days before it reaches parity and at that moment the demand for dollars to import goods, which will be cheaper in the international market, will increase. It is then that the exchange rate will start to depreciate at approximately the same pace as prices go up in the local market.

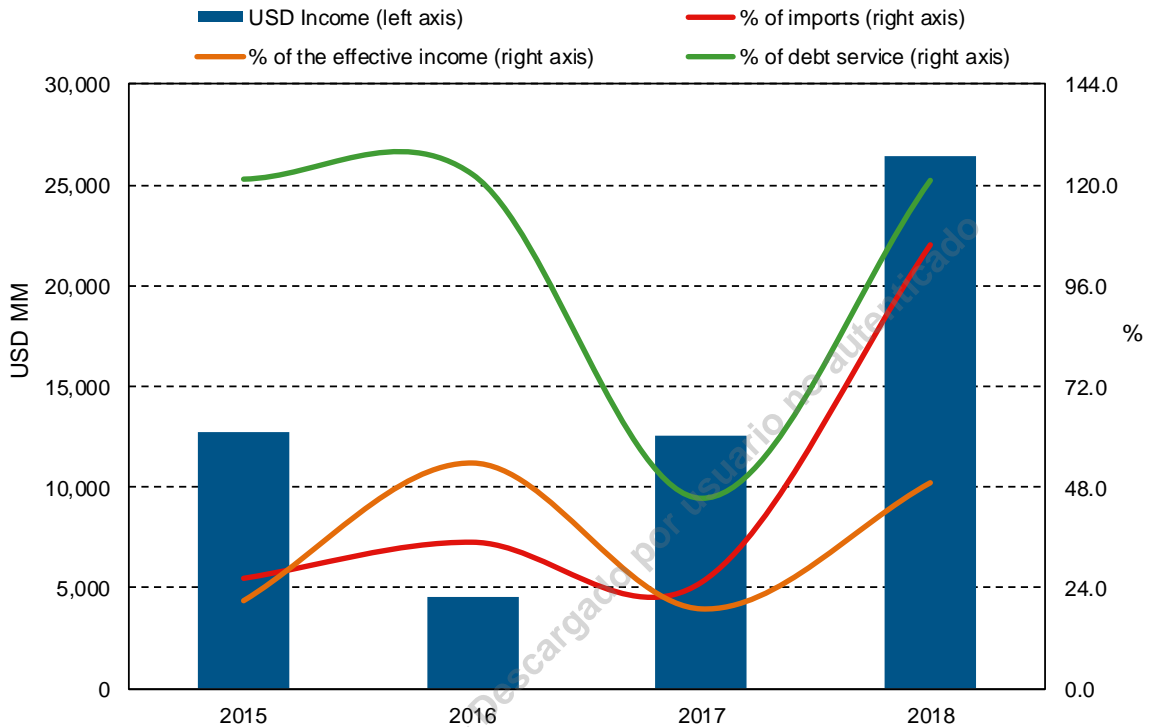
4) *How much have oil revenues fallen?*

Broadly speaking, in the minds of Venezuelans, higher oil prices mean increased growth and greater well-being. However, the *Chavistas* have turned PDVSA into an organization unable to take taking advantage of any type of gain from a potential recovery in oil prices.

The path trodden has taken its toll. At the time of writing, the price of the Venezuelan Oil Basket is USD 47.4 per barrel (/bl), that is, 219.3% higher than the minimum posted during Nicolás Maduro's term in office, whereas oil production is down by close to 1.02 mb/d (40.1%)² and without the necessary muscle to sustain such a deteriorated external situation as the Venezuelan economy is currently facing. In short, even though oil prices are tending to recover, the steady decline in the volume of exportable crude in the past few years points to the effect of price on the foreign currency revenues obtained by Venezuela being neutralized.

² Compared to January 2016 (2.58 mb/d), when the price of the Venezuelan Oil Basket was at its lowest in the previous five years

Opportunity Cost of the Drop in the Oil Exports*



Sources: Pdvsa, Menpet and Ecoanalítica
* 2012 as reference.

For example, let us assume a scenario in which we manage to maintain the same number of cash-generating barrels³ as in 2016 (1.88 mb/d) and we take the average price for the Venezuelan Oil Basket in 2017 (USD 46.7/bl.), we find that Venezuela forfeited revenues of close to USD 6.49 billion last year; whereas if we take the period 2012 as the benchmark year (1.98 mb/d), the opportunity cost goes up to USD 12.568 billion, equivalent to 105.7% of goods imports in 2017 and to 121.0% of debt servicing scheduled for that year.

Now then, if we take those same years (2016 and 2012) as the benchmark and assume the average price of the Venezuelan Oil Basket in May this year as the annual benchmark (together with our estimate for exports for 2018⁴), we would be forfeiting revenues of close

³ This calculation of cash-generating barrels seeks to offer a proxy of how many exportable barrels PDVSA actually generates. It is calculated by deducting the shipments under the different energy agreements to which Venezuela is a party and the number of barrels sent as part of servicing the debt with China and Russia (Rosneft) scheduled for each year.

⁴ Based on the industry's internal dynamic in the past, the domestic market, and the outlook for oil internationally, we estimate that cash-generating barrels will average close to 733 kb/d in 2018.

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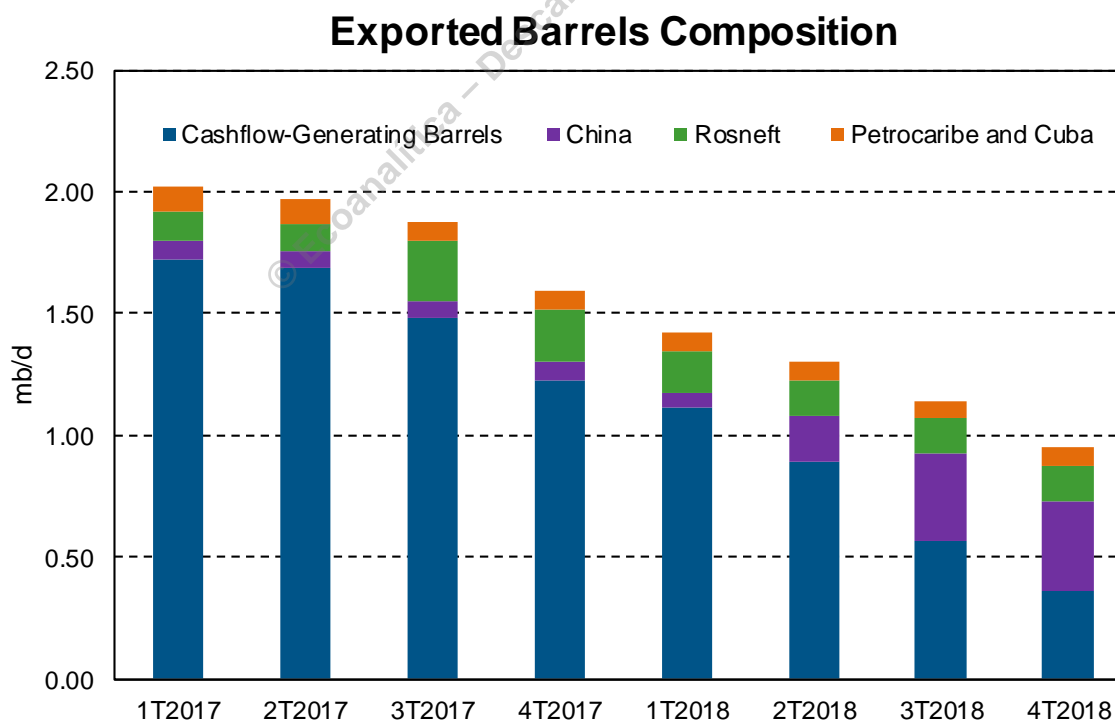
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to USD 20.148 billion and USD 26.4 billion, respectively, which is equivalent in the latter case to nearly 225.6% of debt servicing scheduled for this year and nearly 2.3 times the value of imports posted in 2017.

5) How much further could they fall?

Despite this situation, at **Ecoanalítica** we see no reason of weight for assuming that there will be any change in the oil industry in the short term. Quite apart from the structural and institutional reforms needed for formulating and implementing an oil and economic policy that would raise production levels, PDVSA is incapable of obtaining and/or generating sufficient funds to maintain the necessary cycle of investment in the oil industry.

PDVSA's drama can be summed up in its inability to break with the vicious circle of the close relationship between its cash flow problems and the decline in oil production. The contraction in production significantly reduces the number of cash-generating barrels, thus shrinking the flow or revenues daily. This, in turn, is one of the main causes of the company's liquidity problems, which, in turn, reduces its margin of maneuver in terms of investment and further contributes to the drop in production.



Sources: Pdvsa and Ecoanalítica

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If we take the number of rigs as a proxy of PDVSA's operations and investment dynamic and we combine it with a number that, in June, was close to 26 units, we find that the industry is in a similar situation to the one that existed during the oil strike. In other words, based on this figure, according to our calculations, the number of rigs operating in Venezuela is 29 units (52.4%) below the number needed to maintain production at close to 1.50 mb/d, 46 units (63.9%) fewer than those needed to achieve production of close to 2.0 mb/d, and 59 units (69.6%) fewer than what would be needed to obtain production of 2.8 mb/d. Based on these figures, it is to be expected that oil production will continue to decline.

Gorka Lalaguna
Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week July	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	172,800	20.0	16.7
	3rd Week July	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	20.7	-0.7	-1.0
	3rd Week July	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	6.2	-1.4	6.2
	4th Week July	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.8	0.5	-12.6
	3rd Week July	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VEF Bn)	2,720,206	14.7	9,890.2
Price of International Oil Baskets (USD/bl)			
	4th Week July	Weekly chg. (%)	Annual chg. (%)
WTI	70.4	2.0	48.1
Brent	73.6	0.9	47.6
Price of the Venezuelan oil basket (USD/bl)			
	4th Week July	Weekly chg. (%)	Annual chg. (%)
Weekly Average	69.1	1.6	45.2
Annual Average	63.0	0.3	26.4

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: “YEAR I A.C”

Comparison of the Venezuelan economy		
Variable	jul-17	jul-18
NCPI (% y/y)	737.8	110,001
Monetary Base - chg. % (m/m)	30.6	71.03
International Reserves (MM USD)	10,059	8,743
Average parallel exchange rate (VEF/USD)	8,154	3,512,471

Sources: BCV and Ecoanalítica

A year after the induction of the Constituent National Assembly, apart from its lack of legitimacy, some of its members have made statements regarding the situation in the country and have even suggested alleged “solutions.”

Since its induction, PDVSA and the Republic have defaulted on the payment of their external obligations and the economy formally embarked on a hyperinflationary process in November, a process that has lasted nine months so far. As a consequence, real wages have contracted by 97.2% while the cost of the family food basket has gone up by 30,663.7%, adding to the general impoverishment of the population.

During the induction of the Constituent National Assembly, Nicolás Maduro promised that it would be a bastion to “*definitively defeat the economic war.*” However, the deterioration of the economy is apparent in a number of variables: the remarkable expansion of the monetary base has been maintained (a monthly increase of 71.03% in July this year compared to a monthly increase of 30.6% in July 2017); the international reserves have shrunk (USD -1,316 million); and the hyperinflationary spiral has got to the point where inflation year-on-year has reached 110,001%. According to Diosdado Cabello, the Constituent National Assembly will continue as long as necessary, “*whether it is for two, three or even four years.*” We will have to wait and see how much more ruinous its legacy will be.

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ECONOMIC TIPS

DICOM Auction 24. The 24th DICOM Auction resulted in an exchange rate of VEF 201,363.8/EUR for a depreciation of 16.3% compared to the previous auction. Converting this rate to dollars gave VEF 172,800/USD, with a depreciation of 16.7%.

A recovery for companies... The total amount disbursed to companies was VEF 172,800/USD, an increase of 4.6% compared to the previous auction after the amount awarded to companies had been reduced two weeks in a row.

...but not for private individuals. On the other hand, the total amount disbursed to private individuals was USD 20,196.5, 66.9% less than at the previous auction. This time private individuals came out the losers.

Are they recovering? The international reserves recovered slightly at the close of the week of July 27. They closed at USD 8.8 billion for an increase of 0.5% after having fallen 0.3% the previous week.

It continues to increase. Money supply in the week of July 20 came to VEF 2.72 trillion, for an increase of 14.7% compared to the previous week and a cumulative increase of 2036%.

There's no stopping it. As at July 20, the monetary base came to VEF 1.51 trillion for an increase of 15.5% compared to the previous week and an increase of 9206.3% year-on-year. The average weekly growth in the monetary base in 2018 is 9.9%.

The basic basket reaches VEF 654,214,674.03. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in June 2018 was VEF 654,214,674.03, an increase of 117.2% with respect to the prior month, and 37,538.6% with respect to June, 2017.

The behavior of the CBF in June was marked by an increase in all of its items, among them: education (656.9%), clothing (442.9%), personal hygiene articles (88.5%), basic public services (84.1%), housing rent (73.3%), food (71.8%), and health (43.4%).

Lunch costs VEF 1,850,000.00. Also, they enhance that the average cost of a lunch is VEF 1,850,000.00, while the food ticket covers VEF 73,200.00 per day, for June. And to buy the basket, it is required 217.5 minimum wages.

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OIL TIPS

Strengthening ties between Sudan and Venezuela. Manuel Quevedo, the president of Petróleos de Venezuela, S.A. (PDVSA), had a meeting with Sudan's Ambassador Eltayeb Abdulgassim to strengthen energy relations between the two countries. In PDVSA's Twitter account, it was announced that they had managed to *"reactivate bilateral energy relations, besides confirming the economic strength and Sudan's confidence in Venezuela."*

Tapping potentials. It was also stated that agreements beneficial to both countries had been reached. One of the matters touched on during the meeting was Sudan's two oil pipelines that export crude mainly to China as a potential opportunity for cooperation between Venezuela and Sudan.

The Central Bank is to pay a visit. Calixto Ortega Sánchez, the president of the Central Bank of Venezuela, announced that he will evaluate options in order to be able to use the assets of the Orinoco Oil Belt adequately together with PDVSA. He explained, furthermore, that the actions to be taken would be part of the emission of financial assets and of the international reserves.

Inspections... Among other things, Quevedo conducted an inspection of the operations facilities in the northern part of Anzoátegui state. These inspections are part of the project revision plan aimed at giving a renewed boost to oil production. He also announced that 210,000 barrels of crude are to be processed at the facilities in this area, 170,000 barrels of which will be from the Orinoco Oil Belt.

...and yet more inspections. Quevedo also conducted inspections in Zulia state, specifically at Bajo Grande Refining Complex, where he listened to "proposals from the workers" on the plant's problems and their possible solutions.

Zulia in a decline. An article by the news agency Reuters tells how Zulia state has gone from producing 38% of Venezuela's oil to producing only 25% in the past 10 years, according to PDVSA's figures. This is just one more example of Venezuela's state of decline.

Raising production. The Organization of Petroleum Exporting Countries (PDVSA) has produced 32.6 million barrels a day (mb/d). That is an increase of 70,000 barrels a day (700 kb/d) compared to June. Part of this increase was due to Congo joining OPEC, even though the losses posted by Iran and Libya offset part of this growth in production.

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The Saudis add fuel to the fire. Following the attack on two Saudi tankers in the Red Sea, Saudi Arabia decided to suspend its shipments to that area. It is thought that Yemen (an ally of Iran's) was responsible for the attack, which prevented shipments of crude from being delivered to the European Union and the United States. As a result of this incident, Saudi Arabia is bringing pressure to bear on its Western allies to join the fight against Yemen and, subsequently, against Iran.

AMLO's investments. Mexico's new president elect, Andrés Manuel López Obrador, announced that USD 9.4 billion is to be invested in a new refinery in the south of Mexico starting next year. He said that Mexico must reverse the decline in the country's oil production that has been occurring over the past 14 years.

BUSINESS SECTOR TIPS

Niño Simón App. The "*Niño Simón Bolívar*" bonus will not be distributed in the same way as the other bonuses. A special application has been made available that allows beneficiaries to receive the bonus and be notified via a text message. The application was allegedly made available on July 24.

Getting ready for monetary redenomination. The vice president for the economy demanded that the country's banks increase the number of electronic transactions that can be made per day. The idea is, supposedly, to "*stabilize the economy*" and to get the country ready for the monetary redenomination on August 20.

We've only got enough cornmeal for two months. Aquiles Hopkins, the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), reported that, given the state of inputs and a loss in domestic production of 70%, they would only be able to guarantee two months' corn consumption.

They're persevering. Health sector workers continue to protest and to demand decent wages and that the right to health and life be guaranteed. The Federation of Health Sector Workers (Fetrasalud) and patients suffering from chronic ailments complained about the lack of medicines for treatments and the lack of maintenance of health care facilities.

Pregnant and hungry. The latest report by Cáritas Venezuela states that 38% of the 278 pregnant women it evaluated in different parts of the country were suffering from severe malnutrition and that 31% were suffering from moderate malnutrition.

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Plunged in poverty. Cáritas also revealed that 86% of households reported that they had insufficient food. Ninety percent of the households interviewed reported that they had sacrificed the quality of their diet in order to be able to eat, and 76% said that they had incurred in food deprivation.

Slaves of the Fatherland. According to the 2018 Global Slavery Index compiled by the Walk Free Foundation, six out of every 1000 inhabitants of Venezuela are victims of modern slavery. Venezuela and Haiti are the countries with the highest rate of modern slavery in Latin America.

Shanks' pony. Sergio Cárdenas, the president of the United Transport Bloc, said that 92% of public transport units in Vargas state are out of service due to the lack of spare parts and supplies. Only 60 out of the 700 units that used to provide a service on the Caracas-La Guaira route are operating; and those 60 units have to carry 38,000 passengers a day.

New companies attached to the CVG. President Nicolás Maduro announced another attempt to solve the country's economic problems. This time it consists of attaching 28 companies to the *Corporación Venezolana de Guayana* (CVG). He also decreed that the Ministry for Industries and Domestic Production is to be responsible for centralizing these companies' activities and procedures. As always, these are no more than plans that look as though they will not produce results.

WORLD ECONOMY TIPS

USD 113 million for a "new era." The Indo-Pacific region is anxiously awaiting the payment of USD 113 million by the United States to be invested in new initiatives announce by US Secretary of State. Apart from investing in technology, energy and infrastructure, the purpose of the United States is to establish relations with this region at a time of trade tensions between Beijing and the South China Sea region.

China is filling the void. Taking advantage of the cooling of relations between the British and the Americans and a possibly disorderly Brexit, Beijing has offered the British a free trade proposal. Last week the British foreign secretary and China's state councilor agreed to "*expand the scale of mutual trade and investment.*"

The dollar's on its best form. Although many agree that the dollar has already seen its best days, the US economy continues to grow. With an appreciation of close to 6% this quarter, the dollar has benefitted from a year of effective Federal Reserve policies. In

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addition, Trump's protectionist policies have had a bigger impact on the United States' trading partners than on the local economy, as a result of which their currencies have lost value against the dollar.

Brazil's deficit continues to grow. Even though the government promised to cut the fiscal deficit, figures from the Central Bank show the opposite. Predictions put the deficit at BRL 13.2 trillion (USD 3.54 billion), but the actual deficit was BRL 13.5 trillion (USD 3.6 billion).

The ECB overshoots its inflation targets. The European Central Bank's 2% inflation target was not met by Spain and Germany. Both countries posted annualized inflation of 2.1% and 2.3%, respectively. As a consequence, the ECB will continue with its prudent approach by reducing its monetary policies.

Canadians are pessimistic. Surveys conducted by Nanos Research show that economic pessimism among Canadians is at its highest since the last recession, despite the fact that unemployment is at an all-time low and prices in the real estate market have stabilized. The US President's threats to Canada regarding motor vehicle imports contributed to this drop in confidence.

Consumption in Japan improves. After a sharp 1.5% drop in May, sales recovered in the second quarter, with fuel sales catapulting other sales. However, the recovery of Japan's economy continues to depend on its exports and, as long as the United States is considering imposing tariffs on motor vehicles, Japan's future continues to look cloudy.

Southeast Asian could benefit from the trade war. Southeast Asia's relatively small and humble electronics industry could benefit from the tariffs imposed by Trump on Chinese electronics. Vietnam, Thailand, Malaysia and the Philippines are the main destinations for those seeking to assemble outside China after the United States imposed an additional tariff of 25% on 818 Chinese electronic items.

Sweden's boom continues. Sweden's economy continued to grow in the second quarter with annualized growth in GDP of 1%, public debt is at its lowest since 1977, and employment is reaching its highest level. This economic growth is mainly due to consumption and exports. However, the central bank has warned of a possible increase in interest rates, which would affect growth in favor of stability.

South Africa faces a risky future. The rapid growth of South Africa's debt is one of the biggest concerns for the International Monetary Fund (IMF). If this trend continues, they will have to take fiscal restriction measures to prevent things from getting worse. Meanwhile, projected economic growth for South Africa in 2018 is maintained at 1.5%.

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Russia has a last card up its sleeve. The future looks difficult for Russia's central bank. Even so, it has managed to make place for a possible additional cut in the interest rate with a view to containing inflation. This upcoming cut could cause a neutral point in monetary policy where inflation would not be affected.

Kenya is exploiting its maximum potential. Kenya's Monetary Policy Committee cut its reference interest rate from 9.5% to 9% with its sights firmly set on stimulating loans for the private sector to improve economic growth, which, according to Governor Patrick Njoroge, was "*below its potential.*" Given growing inflation, this rate cut seems strange, but the central bank has an estimated band (between 2.5% and 7.5%) within which it claims that inflation will be maintained.

POLITICAL TIPS

A leader. At the close of the congress of the United Socialist Party of Venezuela (PSUV), the party's vice president, Diosdado Cabello, announced the decision to ratify Nicolás Maduro as the party's president.

Plenipotentiary. Furthermore, Cabello stated that this ratification as the party's president grants Maduro "*all the faculties, powers and authority necessary to take decisions regarding the appointment of the national board*" and the power to take any organizational decision to ensure the strengthening of the party.

Grateful. Maduro expressed his gratitude for the decision taken by the party and ratified only Diosdado Cabello as vice president and Eduardo Piñate as secretary. In the case of the other positions, Maduro requested that working groups be organized to draw up a list of 30 names of potential candidates to fill them.

Shoulders to the wheel. President Nicolás Maduro admitted that "*the production models we have been trying so far have failed and the responsibility is mine, ours...*," in view of which he exhorted everyone to set aside the argument of "*imperialism*" as an impediment to the solutions that must be implemented in order to palliate the country's crisis.

Four more years. At a ceremony to celebrate the first anniversary of the Constituent National Assembly, its president said: "*Let us make of this Constituent National Assembly for as long as we have left to work, whether it is one year, two years, three years, four years, a totally and absolutely insurgent Constituent National Assembly.*" It is worth

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recalling that, during its induction, it was said that the Constituent National Assembly would last for two years, until August 2019.

They failed. Nine officers of the Venezuelan Navy were arrested on the orders of a military court after they were accused of taking part in an alleged plan to carry out a coup d'état. Under the name of "*Operation Armageddon*," this plan consisted of preventing the presidential elections held on May 20 and making an attempt on President Maduro's life.

A carnet to govern the people. During his election campaign in Lara state, President Nicolás Maduro said that the cornerstone of his future plan of government was the mass issuing and use of the Carnet of the Fatherland. He also asked people for their support to win 600,000 votes in Lara with a view to achieving the target of 10 million votes nationwide.

No vote of approval. Jorge Giordani, former finance minister during the presidency of Hugo Chávez, said that Chávez made a mistake when he appointed Nicolás Maduro as his political heir. Giordani commented that Maduro's coming to power allowed a clique to take power that pretends, with unlimited craving, to remain in power, regardless of the cost to the country.

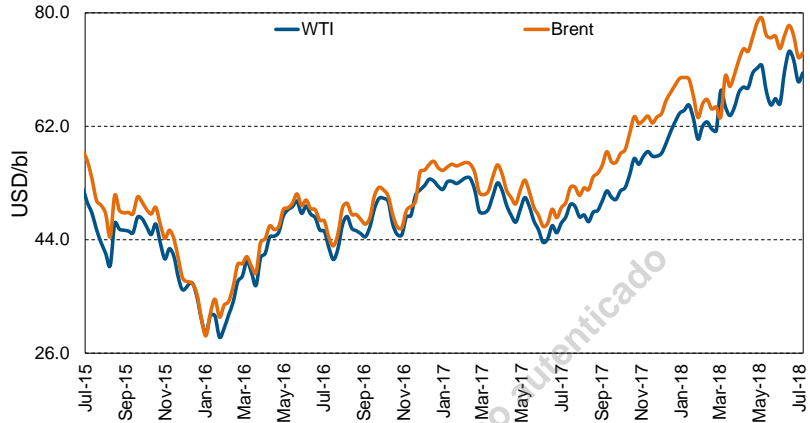
Express renewal. The National Electoral Council (CNE) is requiring the political parties *Acción Democrática* (AD), *Un Nuevo Tiempo* (UNT), *Nueva Visión para mi País* (Nuvipa), and *Generación Independiente* (Gente) to renew their memberships on August 13 and 15. The parties will have to obtain the signatures of 0.5% of voters in at least 12 of the countries states.

Eliminated off the bat. The CNE also eliminated the possibility of the party *Primero Justicia* (PJ) presenting objections and confirmed the cancellation of *Voluntad Popular* for the purposes of the upcoming municipal elections to be held in December.

Workers united. Belsái Yánez, a representative of the party *Bandera Roja* and a spokesperson for *Frente Amplio Venezuela Libre*, called on social movements and organizations to accompany the protests of the people and the different unions that have been happening in recent months.

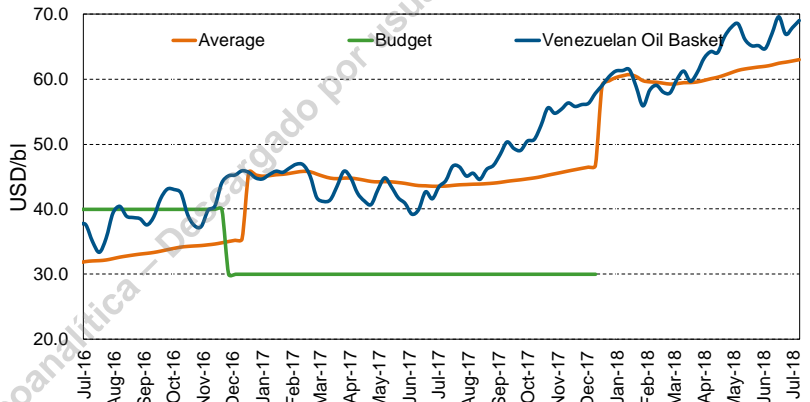
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



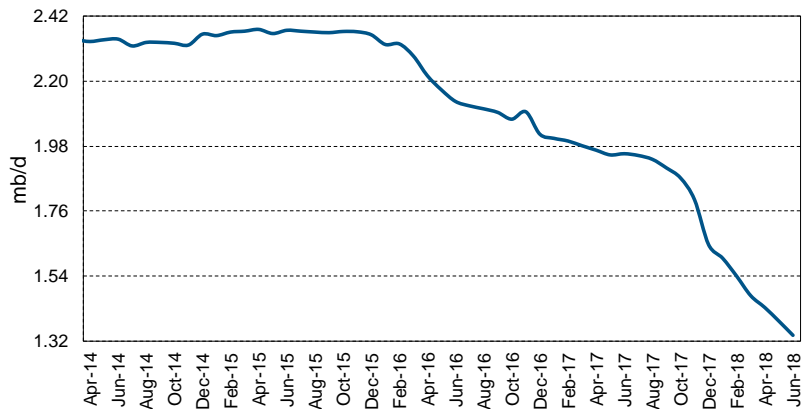
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)

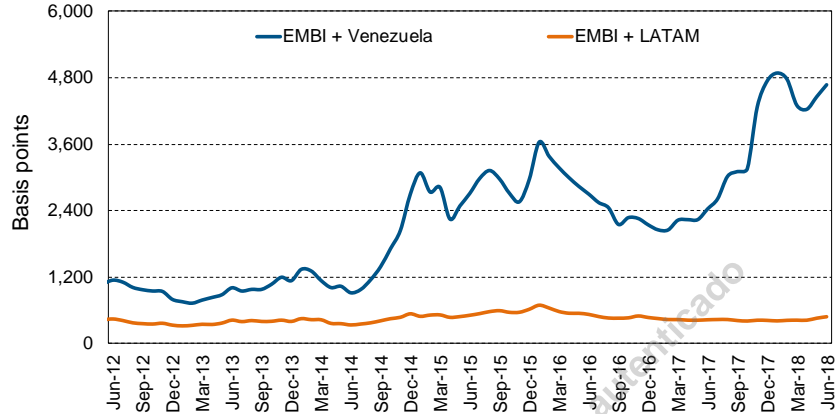


Sources: OPEC and Ecoanalítica

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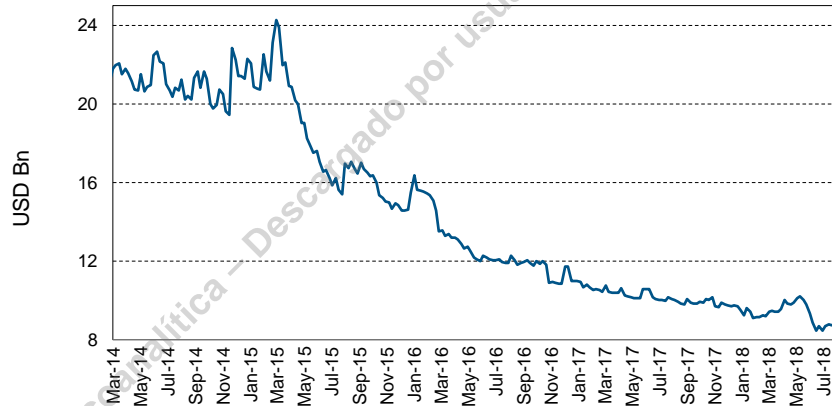
ECONOMIC INDICATORS

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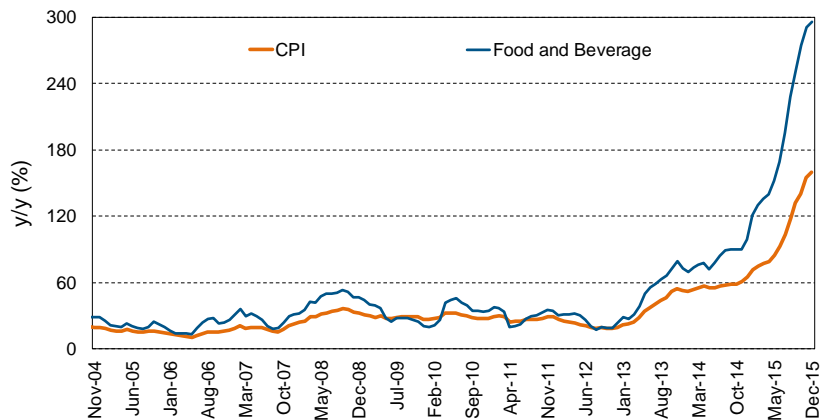
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



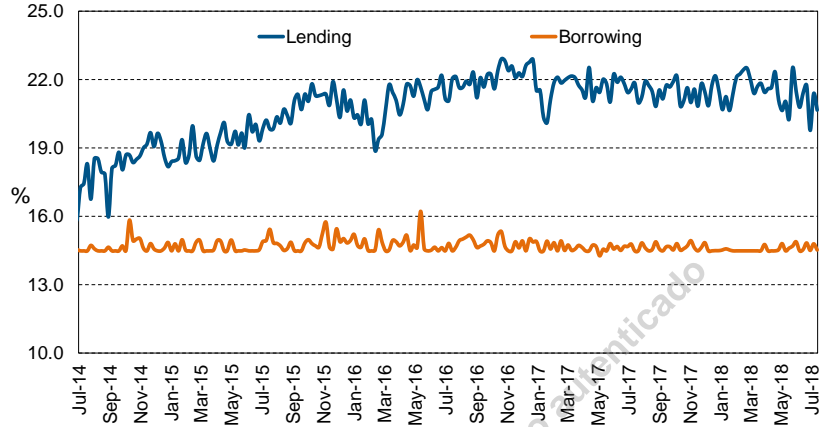
Sources: BCV and Ecoanalítica

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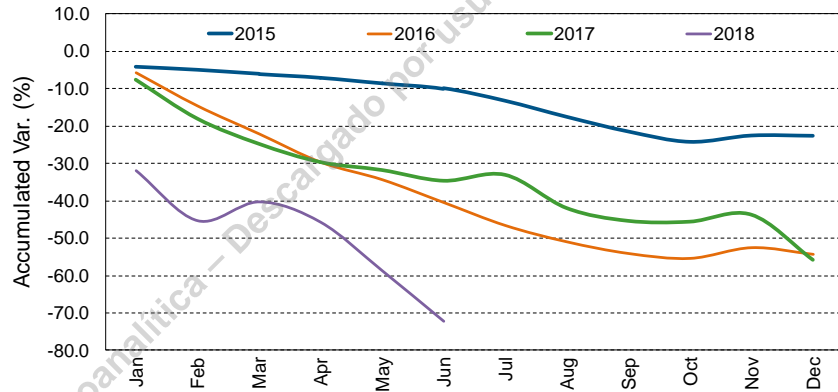
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



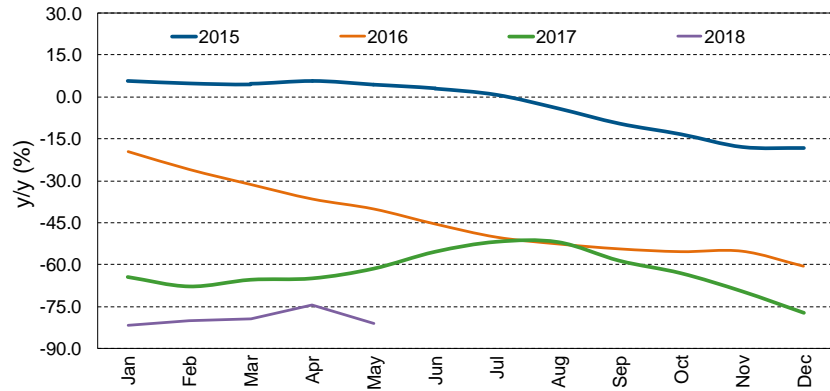
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

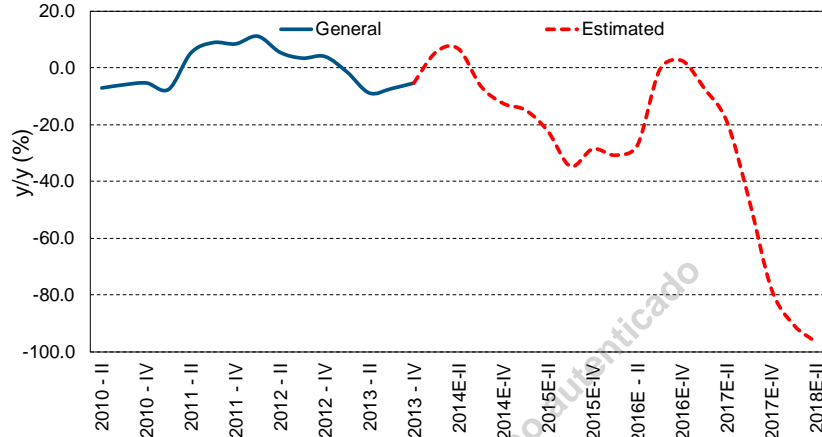
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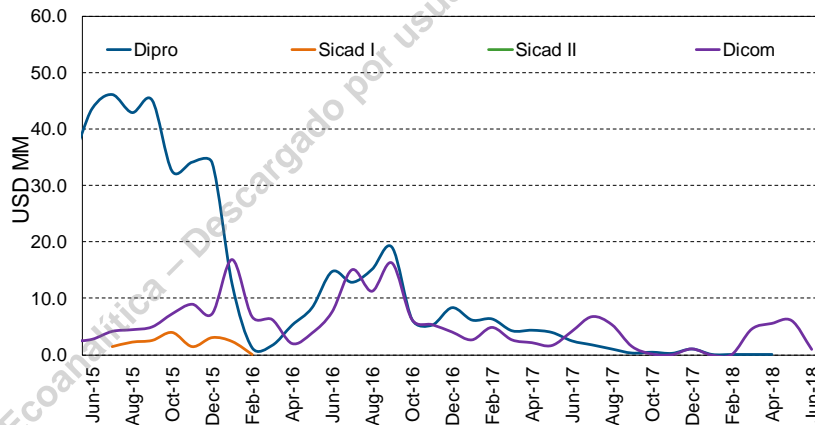
ECONOMIC INDICATORS

Real Wage Index



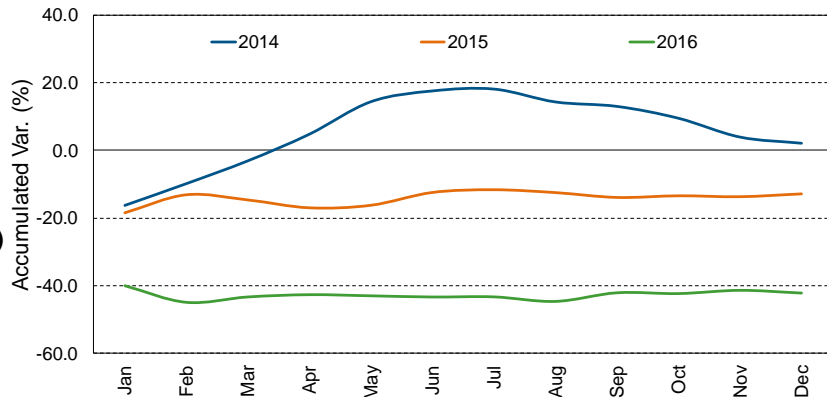
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

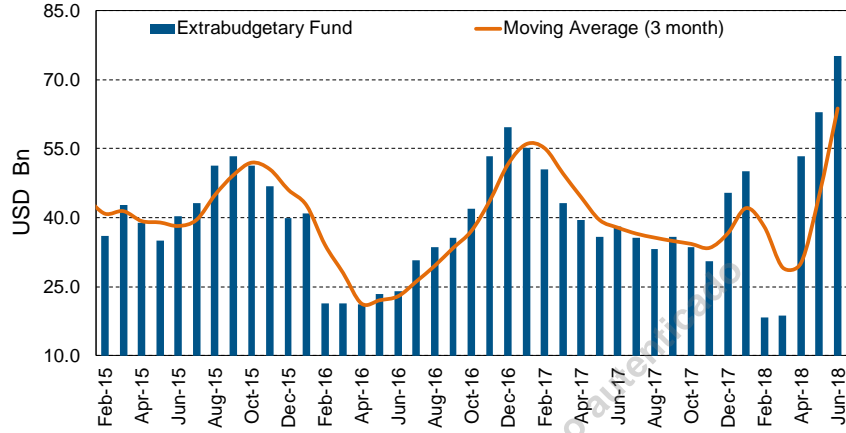
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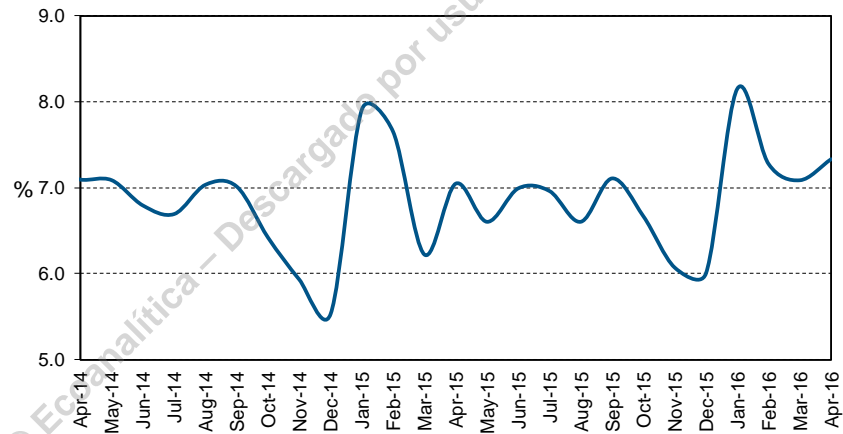
ECONOMIC INDICATORS

State Extrabudgetary Resources



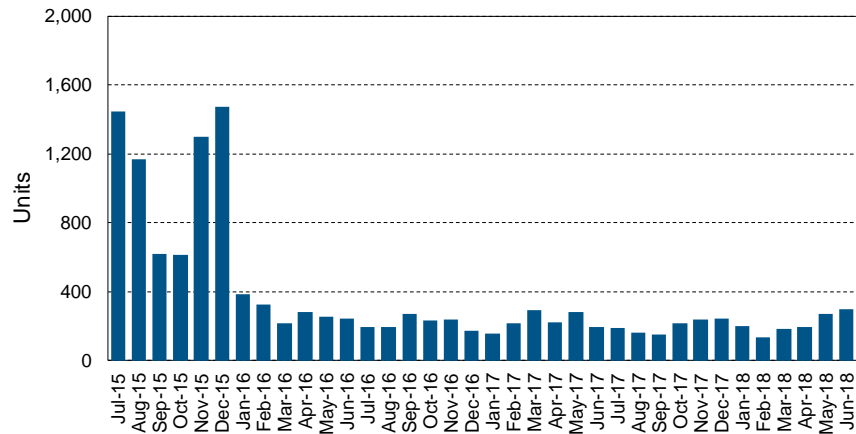
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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