

A year on from the “New Economic Start”

In mid-August 2018, the President of Venezuela announced the beginning of a “New Economic Start,” while giving more explicit recognition to the multiple imbalances in the Venezuelan economy and accompanying the announcement by a battery of measures intended to deal with those imbalances.

The signals sent out by the government regarding government policy were not very clear, ranging from the positive, such as admitting to the counterproductive effect of monetizing public spending, to the inconsequential, such as the monetary redenomination, which lopped five zeros from the bolivar, to the incomprehensible, such as anchoring and marking prices in Petros, Venezuela’s cryptocurrency.

While corrective plans¹ have not been unusual in the 22 extensions of the Economic Emergency Decree², at **Ecoanalítica** we consider that the strategy adopted by the government since August 2018 (the “Maduro Plan”) is a deliberate adjustment that is sufficiently significant to have an influence on the country’s economic dynamic.

Tactics without strategy are the noise before defeat

Despite the fact that the details and objectives of the *Economic Recovery, Growth and Prosperity Plan* were changed in line with the government’s rhetorical needs, its main operational aspects can be summed up as follows:

- A dual model of accounting units with the *bolívar soberano* (VES) and the Petro after the monetary redenomination in August 2018
- Anchoring the exchange rate, inflation and the minimum wage to the value of the Petro. Adjustments were to be made to each fluctuation in real time by the Central Bank of Venezuela.
- Reducing the fiscal deficit to “eliminate the emission of inorganic money”
- Establishing a direct fuel subsidy and raising the price of gasoline to international levels over a period of two years

¹ In 2014, it was also announced an Economic Recovery Plan (*Plan de Recuperación Económica*).

² In force since January 16th, 2016

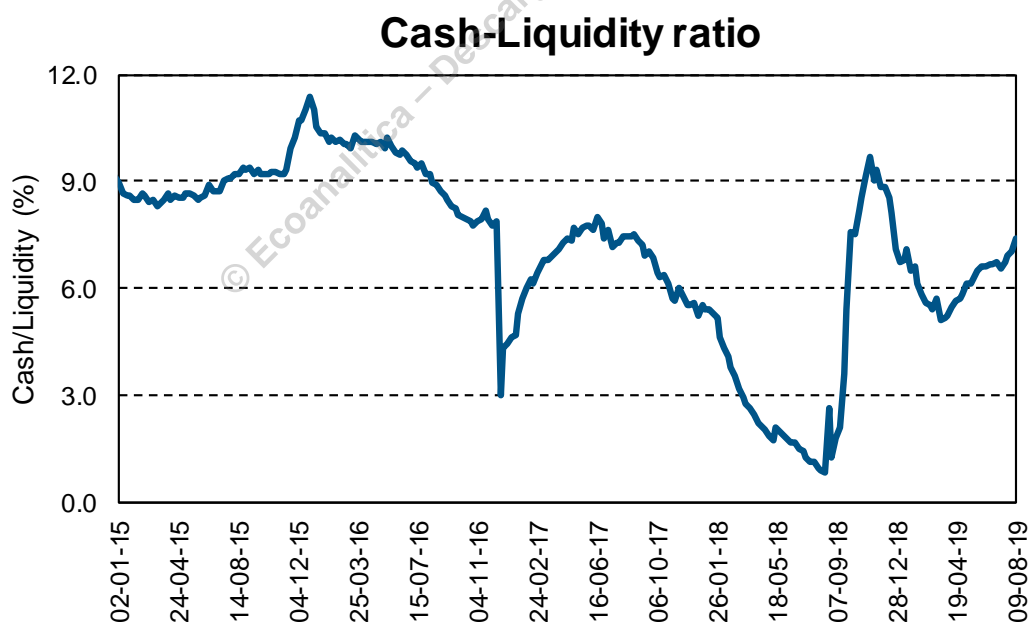
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Using these points, it is possible to define a retrospective route map for the course economic policy has taken over the past year and how this information points to the direction measures implemented by the authorities could take in the future.

New bolivars, same problems

The first thing to materialize from the Recovery Plan was the monetary denomination and the entry into circulation of the *bolívar soberano* (VES). Removing five zeros³ from all prices along with the renewal of the monetary cone served to simplify calculations by making the figures easier to handle when it came to doing calculations, either mentally or in computerized systems, while relieving the shortage of cash by making it easier for the Central Bank to print banknotes with a much higher nominal value than the *bolívar fuerte* (VEF) bills.

In this way, the Central Bank managed to recover lost terrain in terms of the availability of cash, which can be seen in the proportion of banknotes in circulation as a component of money supply, which went from an all-time low of 0.8% in the week of August 17th to 7.4% in the week of August 9th, 2019, maintaining an average of 6.4% since then.



Sources: BCV and Ecoanalítica.

³ When the redenomination was announced on March of 2018, it stipulated the removal of only three zeros.

Unable to claim victory

However, the purchasing power of those banknotes continued to erode due to rising prices. Cumulative inflation between the time the plan was announced and the time the redenomination went into effect was 353,333.3%⁴, which means that in the space of one year three of the zeros that had been eliminated were back. The lag experienced by the lowest denomination banknotes⁵ rendered them essentially obsolete, forcing the government to update the monetary cone and incorporate VES 10,000, VES 20,000 and VES 50,000 bills.

If we take these banknotes as the most desirable ones for performing day-to-day transactions, then the recovery of the availability of cash is not sufficient, given that in June⁶ 51.2% of the value of cash was concentrated in VES 500 banknotes compared to only 19.9% covered by the new bills, which account for 1.8% of money supply.

In other words, the recovery of the availability of cash is much lower when it is reduced to banknotes that can be used for performing transactions other than buying fuel or paying public transport fares.

A riddle shrouded in a mystery inside an enigma

Since it was announced in December of 2017, the Petro has continued to be basically cryptic by nature. Conceived of originally as a cryptocurrency that was supposedly to be linked to the price of the Basket of Venezuelan Crudes⁷, the inherent inconsistencies in terms of its “backing” and rules of emission⁸, plus the sanctions imposed by the US Government⁹ that limit its use in the financial system, turned the Petro into an undesirable and useless asset even before it took off.

In the August 2018 plans, the Petro was announced as the core element of a strategy for anchoring the exchange rate and inflation, to be followed by the activation of foreign exchange houses for small transactions and the issuing of Foreign Exchange Agreement No. 1. At **Ecoanalítica** we found¹⁰ that, while the initial idea might seem to be similar to the “*Plan Real*” adopted by Brazil in 1994, indexing wages and bonuses to the Petro could

⁴ Estimated as at the week of August 19th, 2019

⁵ The banknotes between VES 2 and VES 500

⁶ The last month for which the Central Bank has published information at the time of going to press

⁷ By October 2019, this “backing” was extended, essentially, to the reserves in Venezuelan hydrocarbons and minerals.

⁸ Exchange Market Report, January 2018: *Petro y Dicom: Algunas novedades...*

⁹ March 19th, 2018

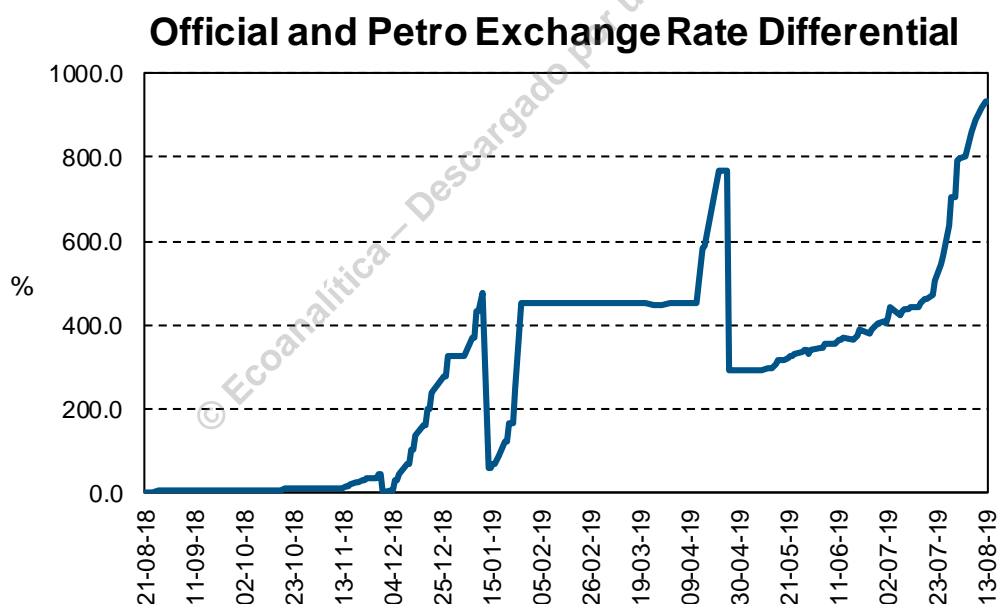
¹⁰ Weekly Report Number 32, 2018, “The Maduro Plan”

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accelerate hyperinflationary pressures by forcing monetary emission to cover fiscal spending that would increase as the petro-bolivar exchange rate went up.

An adjustment at the speed of continental plates separating

During the course of the year, the government abandoned the Petro as a foreign exchange and price anchor, which is apparent from the gap between the reference (official) exchange rate¹¹ used by the Central Bank and the implicit exchange rate reflected in the value of the Petro in dollars¹² and bolivars¹³ reported by the Central Bank itself. After a relative convergence of these two metrics between August and October 2018, the premium of the reference exchange rate went from 12.0% in November to 325.5% at the end of December. The slight recoveries associated with the devaluation of the Petro in order to raise wages did little to prevent the gap from increasing to 932.2% in mid-August 2019.



Sources: BCV y Ecoanalítica.

On the foreign exchange front, where the foreign exchange houses never had any significant impact, operations by the public sector continued to be performed mainly via the DICOM auctions and, from April 2019, via the money desks, whose functioning

¹¹ The exchange rate resulting from the DICOM auctions up until May 19th, 2019, and the rate resulting from the money desks thereafter

¹² USD 60.0 since it was launched

¹³ VES 80,000 since April 26th, 2018

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counted on an inexistent participation by the Petro in the resultant exchange rates. On the prices front, a formal mechanism for incorporating Petros into cost structures was never established, not even in the Official Gazettes containing the “Agreed Prices” decrees.

From being an anchor for price expectations, the Petro went on to occupying the role of nominal anchor for public spending¹⁴. The lag in the Petro has thus become a mechanism by which the government reduces its disbursements as inflation erodes the real value of wages and bonuses under the government’s control, which is one of the most significant and regressive ways in which the fiscal deficit is being reduced.

Killing the patient to wipe out the disease

Recognition by the presidency that monetizing the fiscal deficit was a problem was an unusual display of coherence with economic theory. In order to eliminate the fiscal deficit, the government sought to beef up its tax revenues by, among other things, raising VAT¹⁵, reducing the timeframes for paying this tax, establishing advanced sales tax payments in income tax, establishing a “large financial transactions tax,” and extending the universe of special tax payers¹⁶.

However, tax receipts were unable to cope with the pressure from inflation¹⁷ and fell by 80.1% in real terms between September 2018 and January 2019. At the same time seigniorage, or the gains obtained by creating money, posted a considerable jump in the first month following the first announcements of the economic measures. The levels of seigniorage remained relatively stable between October and January at around 17.0% below the levels of August 17.

¹⁴ Weekly Report Number 48, December 2018: *An Anchor Package*

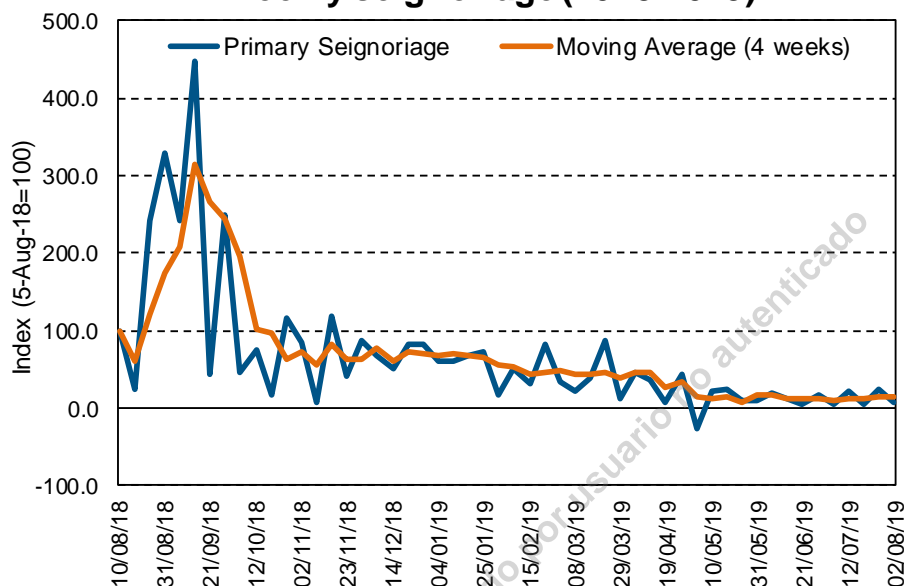
¹⁵ Which went from 12.0% to 16.0%

¹⁶ At the same time, an exception was made for certain activities in the industrial sector, which ended up excluding the firms with the most possibility of generating money from exports from contributing to tax receipts.

¹⁷ Caused in part by a nominal 5,900% increase in the minimum wage in August

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Weekly seigniorage (2018-2019)



Sources: BCV and Ecoanalítica

The drop in seigniorage has become more pronounced in 2019, when the government, in response to the sanctions imposed by the US Government, adopted a much more aggressive position in order to control inflation. Initially, it raised the banking sector's legal reserve requirements to their highest ever¹⁸ with a view to restricting credit that could be used to demand dollars in the foreign exchange market. On top of that, there was a lag in updating the public sector's wage tables, which explains the lag in the nominal value of the Petro.

Under this scheme, the Venezuelan Government is partially containing inflationary pressures by inhibiting the pressure of aggregate demand. Actions of this type are eminently countercyclical and discouraging for economic activity. The cost of slowing down inflation is a deepening of the contraction of the economy, which, according to **Ecoanalítica's** latest estimates will close the year at 39.9%.

¹⁸ The actual legal reserve requirement calculated as the inverse of the monetary base averaged 80.7% in July.

The gasoline subsidy: we can't live with it, but we can't live without it

Among the most controversial aspects of the announced economic measures was the initiative for correcting the distortion caused by continuing to sell fuel at what President Maduro described as “give-away” prices. At **Ecoanalítica** we consider that the gasoline subsidy represents significant opportunity costs for the nation (USD 115 billion¹⁹ between 2003 and 2018) and that it has not resulted in tangible benefits in redistributive, economic or environmental terms. Given the financial needs the National Treasury is facing, maintaining the subsidy is fiscally unjustifiable.

However, despite the fact that the initiative to do away with one of the biggest distortions in the Venezuelan economy is commendable, the government provided few details regarding how this adjustment would be implemented. The direct subsidy system administered via the Carnet of the Fatherland got no further than being a pilot scheme using a biometric system implemented in the border states. It was never established what the “international price” to which local prices should be raised would be nor was it determined what the exchange rate for converting that “international price” to bolivars would, how much the increases would be or how frequently they would be made until local prices converged with the international price.

A gap the size of the Grand Canyon

Given that the price of gasoline has remained nominally fixed, gasoline has become relatively cheaper as prices and the exchange rate have gone up, widening the gap that any adjustment will need to try to close. Cumulative inflation since the plan was announced has resulted in gasoline becoming 99.9% cheaper over that period.

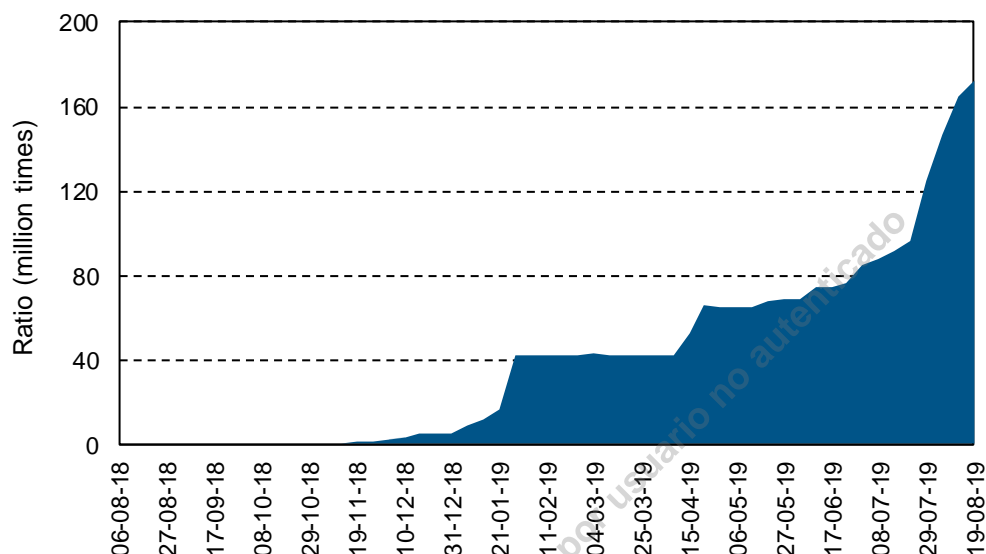
Looked at another way, if we use the official exchange rate to calculate the price of gasoline in dollars, it turns out that it went from USD 0.000001 in August 2018 to USD 0.00000004 a year later. If we compare this price to the cost of gasoline in Colombia²⁰, the ratio of the neighbor country price over the one in Venezuela went from 813,645 to 172,354,093 over that period of time.

¹⁹ Weekly Report N° 31, August 2018: Maduro vs. Taboo-second round: A look at the gasoline subsidy.

²⁰ The minimum “international price” to which gasoline should be raised to neutralize the incentives to engage in smuggling for arbitrage

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Relative price of gasoline COL-VEN



Sources: BCV, GlobalPetrolPrices.com and Ecoanalítica.

The government seems to have abandoned the idea of raising the price of gasoline, opting for adjusting quantities by rationing fuel for the purpose of maintaining political stability. This means that gasoline smuggling in the border states has been reduced, not due to the lack of opportunities for arbitrage but due to the lack of fuel available for smuggling²¹.

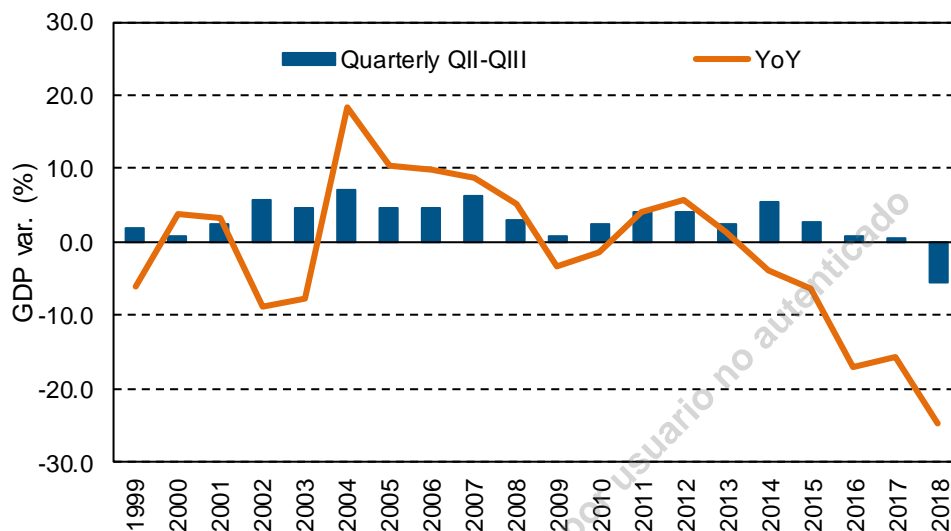
No plan survives its first contact with implementation

As for the “economic recovery,” the plan is faced with the recessive inertia of the Venezuelan economy. The third quarter of 2018 posted a contraction of 5.4% in gross domestic product compared to 2Q2018. While this does not seem to be anything new, given that the Venezuelan economy has been six years in recession, what does give cause for comment is that it is the only time since 1998 that the third quarter has posted a real drop in GDP compared to the second quarter. During the first quarter in which the plan was implemented, it was not able to jumpstart growth; rather it experienced a break in the seasonal trend of economic rebounds, even in recessive environments.

²¹ Weekly Report Number 28, August 2019: *Secondary sanctions: A statement of intentions*

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Real GDP variation



Sources: BCV and Ecoanalítica

Preferences revealed

A year on from the start of what the government announced was to be a new economic paradigm the majority of the most publicized initiatives were casually abandoned in favor of other methods. By the end of 2018, the inconsistency in terms of implementation made the aspirations of the plan unachievable. It was not possible to control inflation and at the same time raise wages and bonuses; nor was possible to relax the foreign exchange system while at the same time anchoring the economy to an inexistent cryptocurrency; and it was not possible to lift the controls on gasoline prices when there was uncertainty regarding whether or not there would be sufficient gasoline in the first place.

However, “fiscal deficit zero” and “control of inorganic money” have taken on key importance for the economic strategy. As a response to a much more restrictive external environment, the government adopted a scheme in which controlling inflation and the exchange rate has taken precedence over the economy’s capacity to produce, complemented by a de facto lifting of certain controls for the purpose of giving oxygen to the economic activity that remains.

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In this regard, the *New Economic Start* is similar to the *New Economic Policy* employed by the Soviet Government between 1921 and 1928: a temporary setting aside of policies that adhere strictly to an ideological scheme in favor of a dose of pragmatism with a view to consolidating the survival of the governing coalition. In both cases, the economic prosperity of the citizens is secondary and the results in terms of well-being a collateral external factor.

Giorgio Cunto Morales

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	14,642.86	6.4	6.0
	2nd Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	32.5	3.2	11.1
	3rd Week August	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	129.2	0.9	124.9
	3rd Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.2	-0.3	-3.8
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	11,031,708	2.4	27,510.4
Price of International Oil Baskets (USD/bl)			
	3rd Week August	Weekly chg. (%)	Annual chg. (%)
WTI	55.3	3.1	-16.9
Brent	59.2	0.4	-17.8
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	54.9	0.9	-15.8
Annual Average	59.4	-0.2	-6.1

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

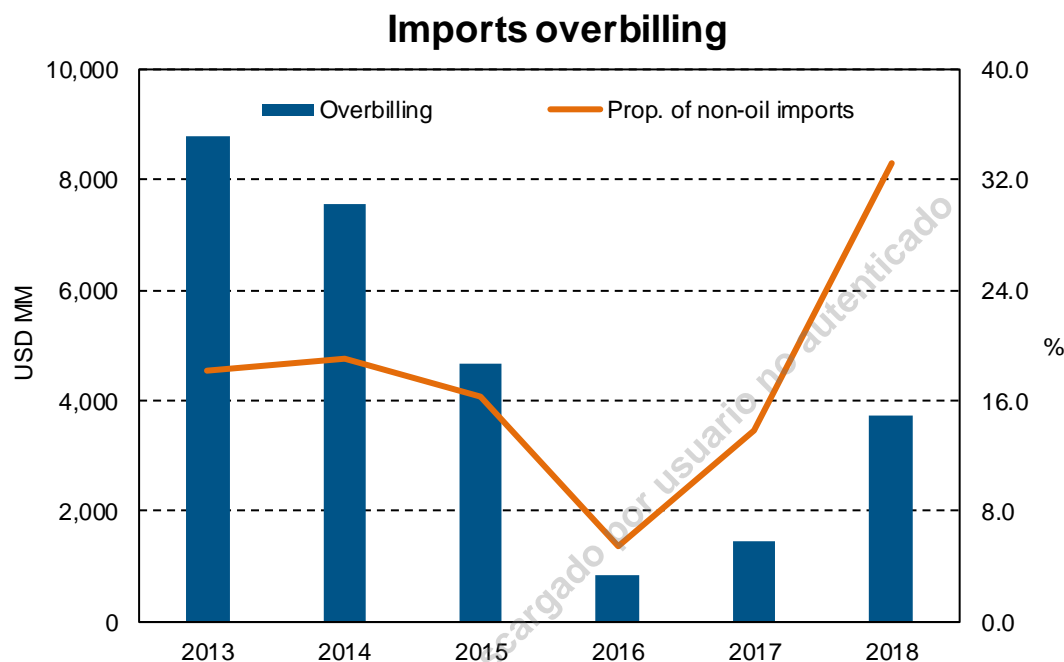
¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

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GRAPH OF THE WEEK: "IT'S TIME TO PAY THE PIPER"



Sources: TradeMap and Ecoanalítica

The sale of gold, the foreign exchange subsidy and over-invoicing of imports have been rent-generating mechanisms for different factions both inside and outside the Venezuelan Government. Specifically, over-invoicing consists of reporting purchases of goods produced abroad for a higher value than what is in fact imported, either by artificially increasing their value by putting higher prices or registering a larger quantity of goods than there actually are.

An approximation of over-invoicing is reached by comparing the data published by the Central Bank of Venezuela and *Trade Map* (a platform that compiles mirror data of our imports from more than 108 countries²²). Even with the potential inaccuracies in the calculation resulting from mistakes in the information provided by trading partners, the data reveal that between 2013 and 2018 Venezuela posted an average over-invoicing of USD 3.54 billion. This mechanism seems to have become more important in 2018, accounting for 33.3% of total nonoil imports, 18.8 percentage points higher than the average for the previous five years. However, both sources indicate cumulative drops in nonoil imports in the six years studied of 74% in the case of the Central Bank and of 77% in the case of *Trade Map*.

²² For 2018 figures

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Over-invoicing of imports was not only one of the main mechanisms for sharing out rents especially since the beginning of the exchange rate control boosted by *chavismo*. Moreover, since it was based on a legal activity (importing goods and services), it had become normal in the Venezuelan environment, although with an impact on the efficient use of increasingly scarce foreign currency resources. In this sense, with resources in dollars getting scarcer, this mechanism obstructs, to a large extent, the import activity over the internal generation of goods and services. Old fashioned practices are giving us more expensive bills to pay.

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ECONOMIC TIPS

Turkey takes care to not fall foul of the sanctions. Turkey's largest bank in terms of assets, Ziraat Bank, confirmed the closing of the Central Bank of Venezuela's account following the announcement of new sanctions imposed by the United States on the Government of Venezuela. The bank, headquartered in Ankara, gave no details regarding the decision. The account was used by the Central Bank to pay contractors and for importing Turkish products.

It's better to switch over to Russia. The repercussions of the recent sanctions have prompted the Venezuelan Government to consider the possibility of joining an international payment system managed by Russia instead of the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which is the system it is using at present.

Workers' Food Basket hits VES 1,649,306.80. According to the report issued by the Center of Documentation and Analysis for Workers (CENDA), the Workers' Food Basket closed at VES 1,649,306.80 in July for an increase of 17.3% compared to June and an increase of 55,653.39% compared to July last year.

A family's income covers only 2.4% of the basket. According to CENDA's report, the minimum wage of VES 40,000 (in force in July 2019) was enough to buy 2.4% of the basket. In other words, today a family needs 41 minimum wages just to cover their basic food requirements.

Money desks. On August 21st, the average exchange rate from the money desks was VES 15,685/USD, for a depreciation of 11.2% compared to last week. However, the unofficial exchange rate maintains a premium of 2.5%.

State-owned banks vs. private. The private banks traded at VES 14,867/USD, whereas the rate established by the state-owned banks was lower at VES 14,790/USD.

Monetary base and money supply. The monetary base in the week of August 09 was VES 9.07 trillion, for an increase in the week of 4.21% and an increase compared to a year ago of 69,102.55%. As for money supply, in the same week it was VES 11.03 trillion, which gives an increase of 2.37% compared to the week of August 02 and a increase compared to a year ago of 27,510.4%.

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Rates hit the roof. The interbank interest rate fluctuated between 126% and 145% on Tuesday, August 20, for an average of 131.05%. The overnight rate has averaged 128.35% so far this month, putting it above the average for the year to date (71.84%).

OIL TIPS

The results for July, Part I. The report issued by the Organization of Petroleum Exporting Countries (OPEC) indicates that Venezuela's oil production in July was 906,000 barrels a day (b/d), according to figures supplied directly by PDVSA. That gives a drop of 141 kb/d compared to June, when production came to 1,047 b/d.

The results for July, Part II. The figures reported by secondary sources indicate a smaller drop than suggested by those from primary sources. Secondary sources report production of 742 kb/d, which implies a drop of 32 kb/d from June, when production came to 774 kb/d.

A two-fold drop. Even though secondary sources continue to report lower production than primary sources, the drop indicated by the figures supplied directly by PDVSA is bigger. Based on these figures, Venezuela's oil production fell by 563 kb/d compared to July last year.

Threats that are impossible to ignore. The US Government has said that it is considering imposing sanctions on Russia's and China's state-owned oil companies Rosneft and Petrochina. The Donald Trump administration's intentions behind these measures are clear: to put an end to schemes under which the Maduro regime is benefitting.

Credible threats. Right after mention was made of these possible measures (August 15 and 16), Petrochina started to turn down direct purchases of Venezuelan crude. Since the sanctions against the telephone company Huawei, China knows that the United States is capable of following through on its threats.

Will it only be temporary? The orders cancelled by Petrochina are equivalent to 5 mb/d and the company has put a stop on its purchases of Venezuelan crude for the moment. While this does not mean that the ties between Petrochina and PDVSA are over for good, it does indicate that China does not want to run the risk of the possible sanctions being considered by the White House.

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Without going into detail. US government officials did not give any details regarding when the sanctions could be applied. Undoubtedly, this will complicate the outlook for PDVSA, since it was thinking of exporting at least 680 kb/d of crude in August, according to documents seen by the agency Global Platts.

A change of plans? Global Platts also reported that a source at PDVSA commented that there were plans to export at least 3.9 mb/d in August, or at least to deliver 125.8 kb/d to Rosneft in payment of interest on PDVSA's outstanding debt.

We only take euros. As for Rosneft, it has asked its buyers of naphtha to use the euro as the predetermined currency for the first time, according to in-house documents seen by the news agency Reuters. This measure suggests that the Russian state-owned company is seeking to mitigate any negative impact that potential sanctions applied by the United States might have.

Covering their back. For years, Rosneft has done all its business in US dollars. However, the company's document establishes that "*the determined currency of payment must be the euro.*" It also establishes that contracts in dollars or Russian rubles may also be entered into, but they must be by "*mutual agreement of the parties.*"

A new proposal. On the other hand, the ad hoc board of directors appointed by Juan Guaidó is considering a number of reforms to legislation regarding the oil issue in Venezuela. Part of the reform being discussed proposes opening up the oil industry to investment by the private sector.

Unclear outcome. According to the documents seen by Reuters, the proposal would allow private companies to be partners along with PDVSA and they would be permitted to export crude directly. However, even if the proposal is approved, it would have little immediate impact since Nicolás Maduro does not recognize this board of directors.

Giving the private sector more space. As Elías Matta, a member of this ad hoc board of directors, put it, "*due to the disastrous collapse of the oil industry, we believe we have to make the law more flexible so as to permit greater participation by the private sector.*"

BUSINESS SECTOR TIPS

What can you buy with the minimum wage? The National Coalition of Labor Unions (CSN) announced that they are to hold a nationwide protest on September 4 to reject the

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current minimum wage. The current minimum wage is VES 40,000 plus a meals allowance of VES 25,000.

55. According to labor union leader Carlos Salazar, workers need 55 minimum wages in order to maintain their families, given that the food basket costs around USD 300. He also complained that the government had not abided by the rules that establish that the workers should be consulted when changes are made to the provisions in their collective labor contracts.

More than enough reasons. The reasons for protesting are many and varied. Salazar said, *"We are not only protesting over the minimum wage but also because of the fierce persecution public sector workers are being subjected to [...], the disaster in the education system, corruption in the Caracas Metro and the bad service it provides, the lack of investment in the public sectors..."*.

Going off the rails. There was an accident in the Caracas Metro on Saturday, August 17, when one of the trains went off the rails between Miranda and Los Dos Caminos stations. According to workers, a wagon collided with one of the tunnel's columns, dislodging one of the doors from its frame, according to a report by *Efecto Cocuyo*.

Out of service. For a short while, the Caracas Metro only provided a service on Line 1 between Propatria and Chacaito. Some passengers were injured in the accident, but none seriously. They were all evacuated immediately after the accident.

The causes. Another train experienced problems between Petare and La California. These problems were due to deficiencies in the electricity system in the Caracas Metropolitan Area. What is more, the Metro's electrical equipment at its substations has not been renewed, which increases the possibilities of incidents of this type.

Under investigation, Part I. The Superintendency of Banking Sector Institutions (Sudeban) is to look into complaints regarding the costs of renting points-of-purchase by individuals who have nothing to do with the banks in question.

Under investigation, Part II. According to the regulations governing financial institutions, points-of-purchase can only be provided by suppliers registered with Sudeban. What is more, under no circumstances, may the banks or the suppliers of points-of-purchase establish minimum rates for the service.

Under investigation, Part III. Despite this, Sudeban has received several complaints involving cases that do not comply with these rules, according to Sudeban chief Antonio

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Morales. Consequently, they will be investigating these complaints and reviewing the contracts with registered companies.

Going bare foot. The president of the Venezuelan Footwear and Components Chamber (Cavecal), Luigi Pisella, said that the domestic footwear industry was only working at between 10% and 15% of its installed capacity, which has resulted in an increase in footwear imports, raising the costs of production nationwide.

Expiring halfway. The International Organization for Migration (IOM) reports that 514 people have died in America so far this year while attempting to emigrate. This number is 33% more than in the same period last year.

Venezuela is at the top of the list. The number of Venezuelans who have died under these circumstances (89) is the biggest in the region and is considerably higher than in past years. Haiti is next with the second largest number of victims (59), followed by Guatemala (55) and Honduras (42). However, the nationality of 178 of these migrants who died is as yet unknown.

Monetary roundup, Part I. The Superintendency of Banking Sector Institutions (Sudeban) reports that the Venezuelan banking sector's loans portfolio closed the first half of 2019 at VES 2.58 trillion (USD 383.3 MM at the official exchange rate on July 28), for an increase of 472% in terms of volume compared to December 31, 2018.

Monetary roundup, Part II. By category, the biggest flow of credit was for commercial loans (69.3%), followed by loans to the agricultural sector (13.5%) and micro loans (3.8%). Consumer credits totaled VES 317.45 billion.

Monetary roundup, Part III. The report highlights the fact that, as a result of the increase in legal reserve requirements, financial intermediation was only 18.5%. The banks with the biggest shares of total loans were Banco Occidental de Descuento, BBVA Banco Provincial, Banesco, and Banco de Venezuela, accounting for 48.8%.

WORLD ECONOMY TIPS

No common ground. A source consulted by Reuters revealed that there was a possibility that the G-7 Summit to be held next weekend might conclude without a joint communiqué by the participating countries due to marked differences on trade.

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Countercurrent. This is relevant because this would be the first time since these summits have been held (1975) that a joint communiqué will not have been issued. This would be due to differences regarding trade and environmental issues between the United States and the other members of the G-7.

There's no turning back. Boris Johnson is thinking of warning France's President Emmanuel Macron and Germany's Chancellor Angela Merkel that the British Parliament will not stop Brexit and that, therefore, a new agreement on Britain's withdrawal must be reached between the United Kingdom and the European Union to avoid the possible consequences of a no-deal exit.

More measures. An exclusive article in The Washington Post revealed that high-level US government officials were discussing the possibility of a temporary cut in payroll taxes.

Cuts to counteract slowdown. Citing three sources, the newspaper published that the measure would be geared to giving the US economy a boost in the event that there is a slowdown.

How big a cut? The payroll tax is currently 6.2% on earnings and is earmarked for financing the health insurance program Medicare for older people and Social Security. The Washington Post did not comment on how much the tax would be cut.

It isn't a sure thing. US Secretary of Commerce Wilbur Ross made some statements to calm fears of a recession after the yield curve of US Treasury Bills inverted temporarily. Commenting on the situation, Ross said, "*Eventually there'll be a recession but this inversion is not as reliable, in my view, as people think.*"

Everything's just fine. Economic advisor to the White House, Larry Kudlow, rejected the possibility of an economic recession, adding that the United States was "*doing pretty darn well.*" He ruled out a recession on the horizon, arguing that consumers were working, salaries were going up, and people were spending and saving.

Rich and with no cares. Donald Trump also downplayed the possibility of a recession in the United States, saying: "*We're doing tremendously well. Our consumers are rich.*"

He needs for there to be no distractions. Trump also gave statements regarding the negotiations with China. He commented that he was not ready to reach an agreement, adding that he would like the situation in Hong Kong to be settled before making an agreement with China official. Trump described solving this situation as being "*very good for the trade agreement.*"

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Taking the blow, understanding the agreement. Chinese government officials said they were prepared to counteract the new tariffs imposed by the United States but that, at the same time, they needed to maintain the lines of communication in the talks between the two parties during the G-20 Summit to be held in Japan this year.

Only his own agenda is important. In reply, Donald Trump said that the possibility of reaching an agreement depends on the conditions requested by the United States being met. He also commented that he considered that the talks between China and the United States had been good and that he hoped an agreement would be reached soon.

It wasn't enough. Trump also requested the Federal Reserve to consider reducing the benchmark interest rate by 100 basis points. He commented furthermore that it should add "*some quantitative easing*," but without going into details.

A structural change? The Central Bank of Chile reported that there was an increase of 1.9% in the second quarter compared to the same quarter last year. It clarified that this behavior was due to the services component, whereas manufacturing and farming and forestry fell during the quarter.

In line with the situation. Fitch Ratings cut Argentina's rating to CCC from B. the agency argued that they expected the contraction in Argentina's economic activity to be 2.5% (higher than the forecasts of -1.7%) due to the deterioration in the macroeconomic environment and the financial conditions that could affect the liquidity position in the short term and increase debt sustainability risks.

Thinking about everyone. Argentina's President Mauricio Macri decreed the temporary suspension (until December this year) of taxes on basic food items in a bid to reduce the impacts of the depreciation of the local currency on the population. The measure will cost USD 174 million and will cover food such as bread, milk and rice.

Not wanting to stray from the path. Meng Wei, the spokeswoman for China's National Development and Reform Commission, said that a plan geared to promoting domestic consumption would be implemented. This plan is to include reforms of the Hukou system, a family registration program that serves as a domestic passport, regulating rural-to-urban migration and expands the ways in which people can obtain income other than their wages.

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POLITICAL TIPS

Elections in exchange for lifting sanctions. According to The Washington Post, during the rounds of negotiations in May between the opposition and *Chavismo*, Maduro's team proposed holding elections with Maduro still in office in exchange for lifting sanctions.

The debate: with Maduro or without him. The Washington Post comments that the elections could take place in between nine months' and one year's time. However, the United States insisted that its measures against Venezuelan government officials would not be lifted until Maduro left office.

The value of a pardon... for some. The Washington Post states that whereas the opposition is bringing pressure to bear for the elections to be held strictly under the conditions necessary for free elections, it is willing to implement solid measures to offer government and military officers an amnesty and protection against being put on trial.

The struggle for competitive elections. During an interview on CNN, Juan Guaidó said he considered that presidential elections with Nicolás Maduro in power would not be "really free." In his opinion, elections with politicians and parties disqualified from taking part are unthinkable. "*Operating in that space would make competitive elections in Venezuela very difficult,*" he explained. He also mentioned the importance of re-institutionalizing the National Electoral Council (CNE) and of having international support during the elections.

Training for future rounds. Venezuelan opposition delegates who have been taking part in the negotiations in Norway went to the United States to hold meetings with some US authorities during a pause in the negotiations. The opposition delegates are to go over the points dealt with thus far in the negotiations with the US authorities, among them possible presidential elections in the future.

Some side with the United States, others with Russia. According to the Russian agency Interfax, Russia and Venezuela signed an agreement on August 15 for managing visits by warships from each country in the ports of the other. The agreement was signed in Moscow by the two countries' defense ministers, Sergei Shoigu and Vladimir Padrino López.

The effect of the Venezuelan overspill. Filippo Grandi, the United Nations High Commissioner for Refugees, requested more humanitarian aid for the Venezuelan refugees who are fleeing to neighboring countries, where social services are collapsing and generating tension locally.

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500 a day. According to Reuters, Grandi had planned to visit the Brazilian border town Pacaraima this weekend, but the authorities advised him to cancel his visit due to protests by residents who were angry about the arrival of more than 500 Venezuelans a day. The local inhabitants closed up their stores and demonstrated in the streets shouting “Venezuelans out”; “Pacaraima is ours”; “United Nations out”; and “Brazil for Brazilians.”

The Guaidó administration arrives in Athens. This Tuesday, Acting President Juan Guaidó appointed Eduardo Massieu as Venezuela’s ambassador in Greece after being recognized by the recently elected Greek Government as Venezuela’s leader in July this year.

The candidate. Massieu, a graduate in economics and law from *Universidad Católica Andrés Bello*, has worked as an economist at the Center for the Dissemination of Economic Knowledge and at Venezuela’s National Assembly, and is the author of the book “*El acceso a la información pública en Venezuela.*”

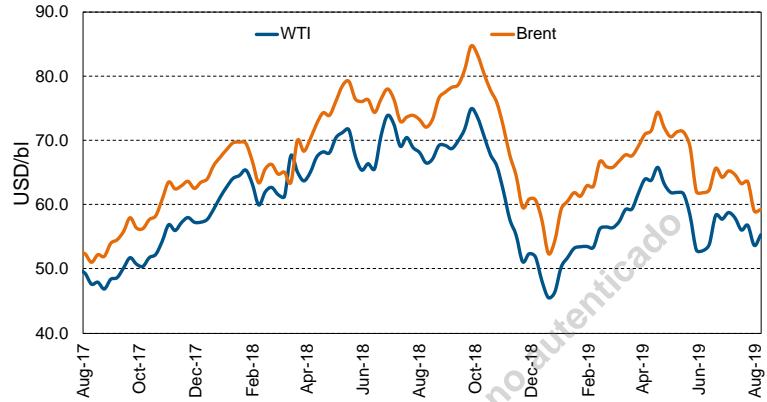
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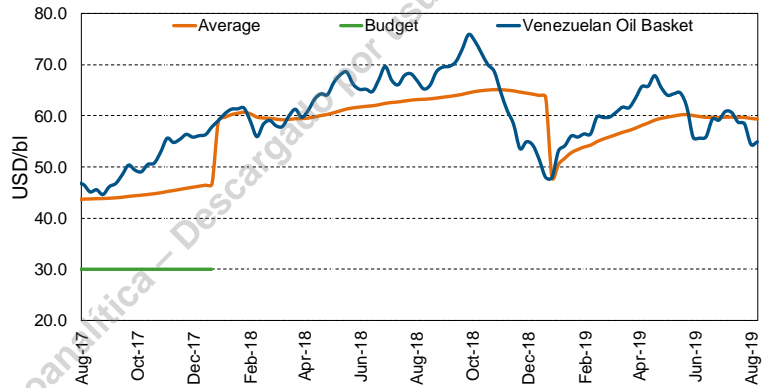
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



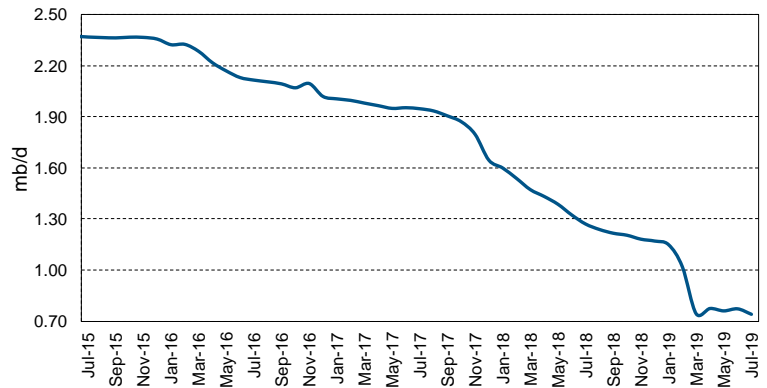
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

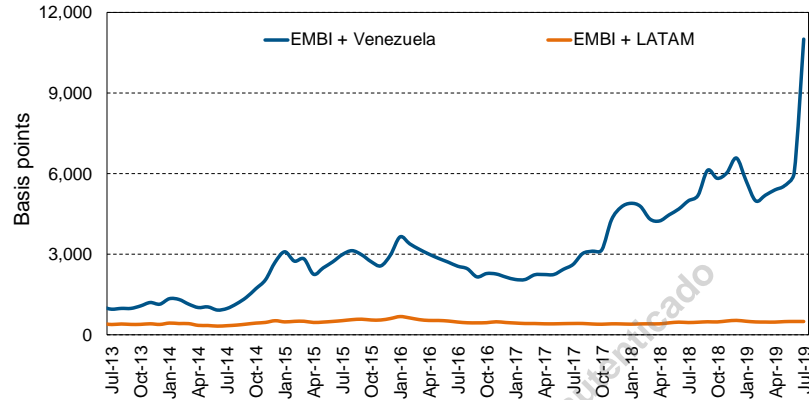
Oil Production (Secondary sources)



Sources: OPEC and Ecoanalítica

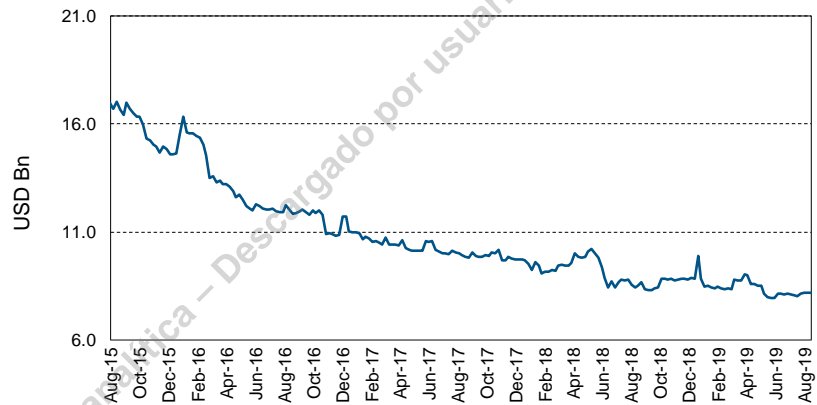
ECONOMIC INDICATORS

EMBI



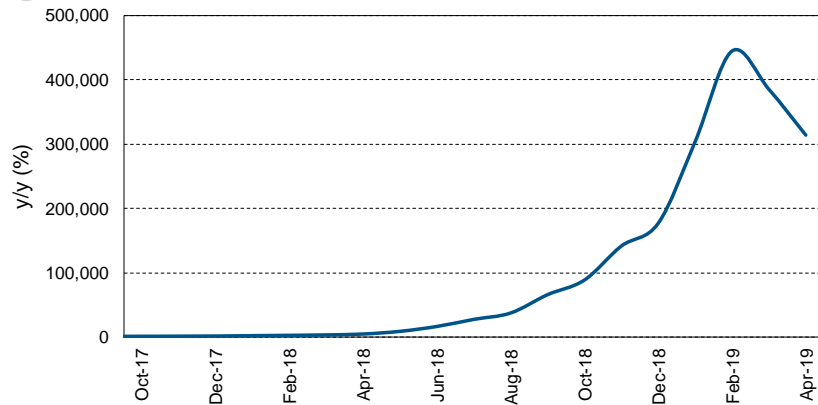
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

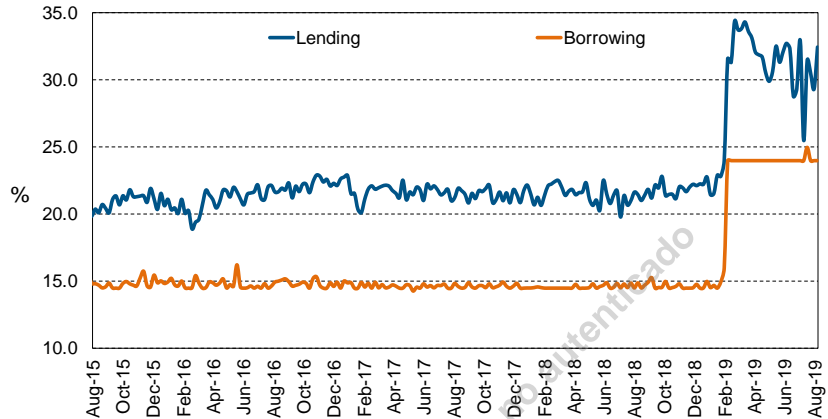
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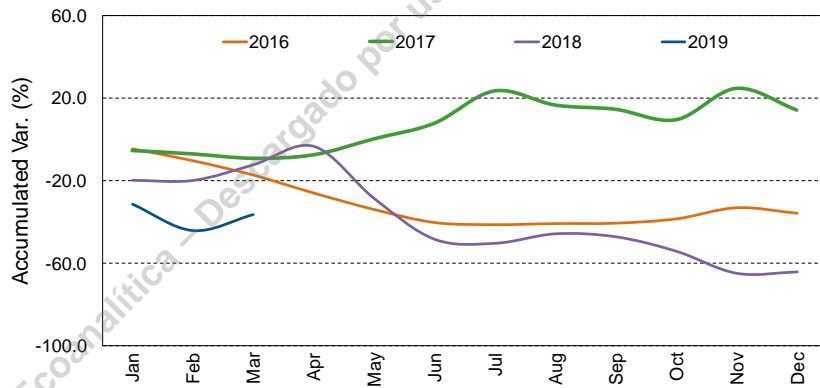
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



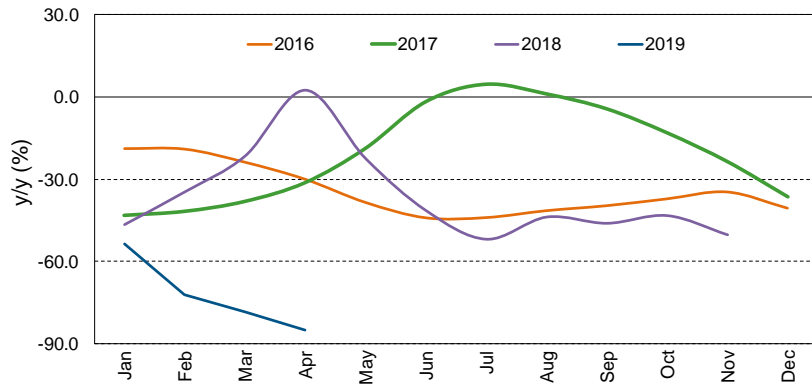
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



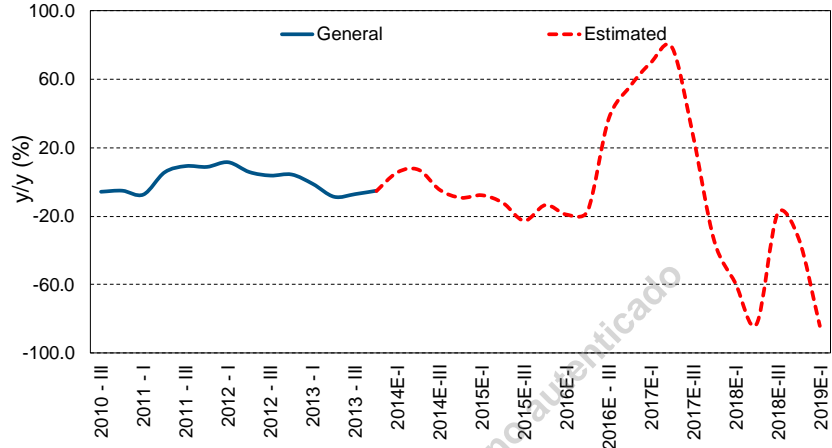
Sources: SUDEBAN and Ecoanalítica

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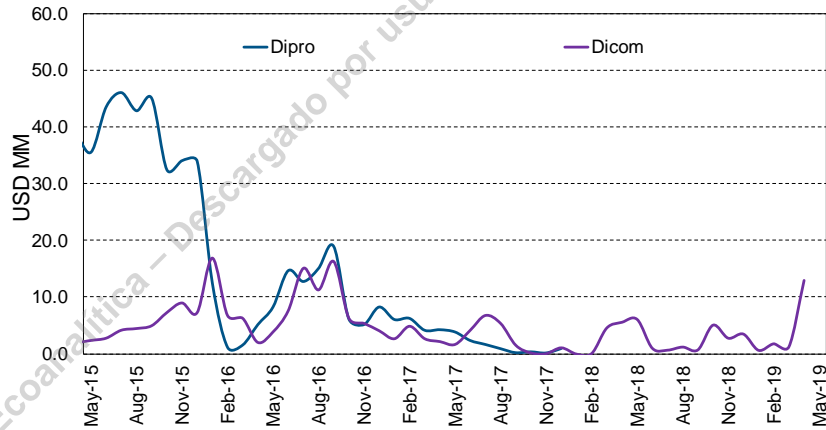
ECONOMIC INDICATORS

Real Wage Index



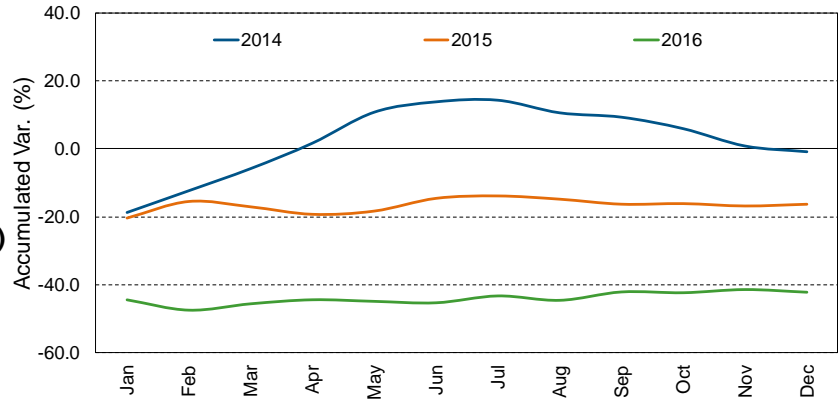
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

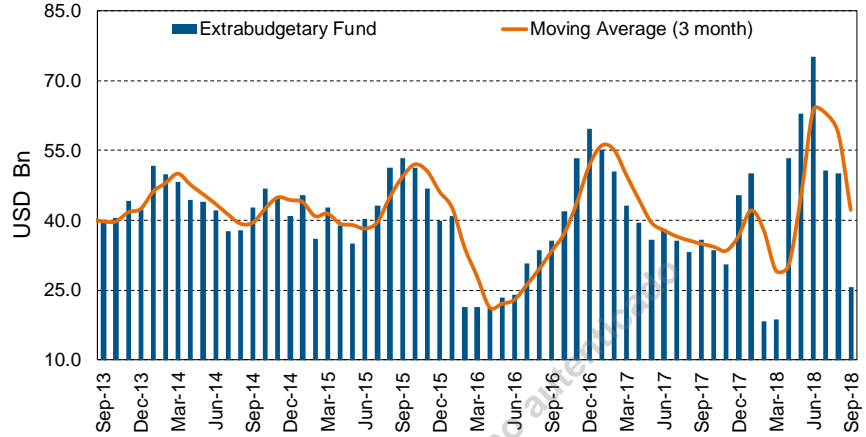
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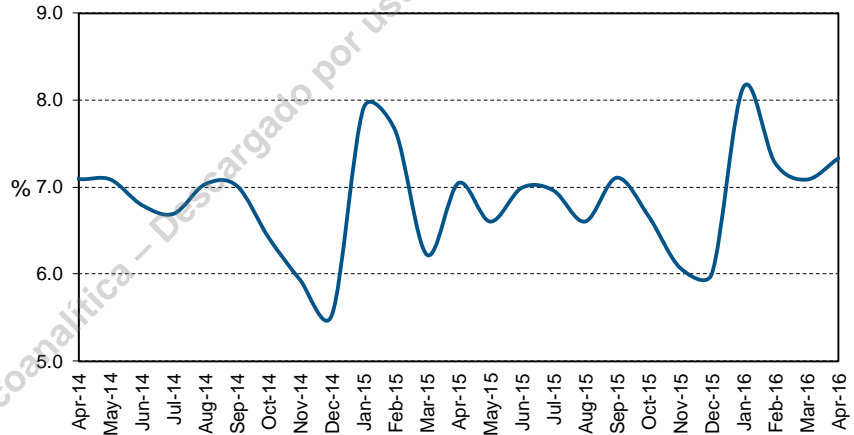
ECONOMIC INDICATORS

State Extrabudgetary Resources



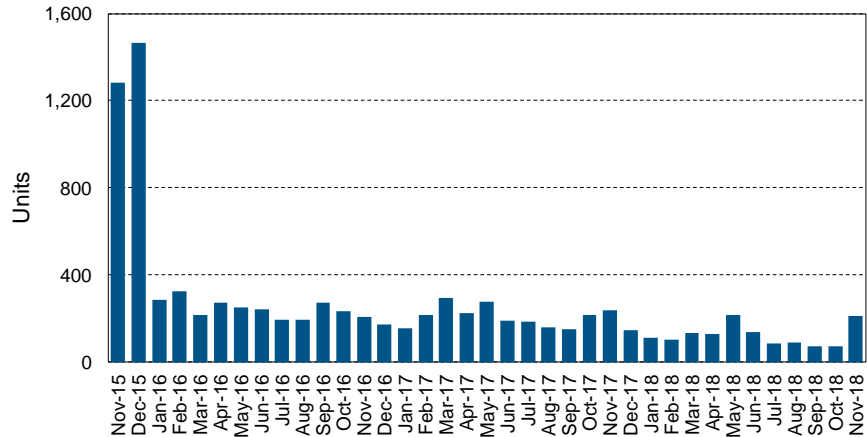
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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