

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

A mere 17 days –or cumulative inflation of 54.7%- after Nicolás Maduro announced the “Economic Recovery and Prosperity Plan,” we at **Ecoanalítica** have set ourselves the task of continuing to provide answers to the series of questions we raised last week, this time in the context of what it seems the Venezuelan economy will look like in the second half of the year (2H2018).

6) Why is hyperinflation more severe for the poorest segments?

One of the things we at **Ecoanalítica** have noticed in recent months is the strongly regressive component that has accompanied Venezuela’s (hyper)inflationary process in recent years. While imperfect¹, if we take the evolution of the overall minimum wage as the metric, we find that, at the close of July, in real terms, it represented only 0.7% of its value in April 2013, the month in which Nicolás Maduro came to power. The cost has not been a small one.

Since they are receiving only 1.7% of what they earned a year ago², workers have been forced to change their consumption patterns, giving priority to food and transport over the other items in the basket used to calculate the Nationwide Consumer Price Index (NCPI), leisure and culture, for example.

The change in the distribution of consumption by type of goods and services has had an asymmetric repercussion on the levels of demand and, therefore, on prices. The prices of the food group have gone up by more than 3,070 times in just 12 months; whereas nontradable services, such as telecommunications, education, and housing rentals, have experienced significantly lower levels of inflation (2,066.5% on average in July³).

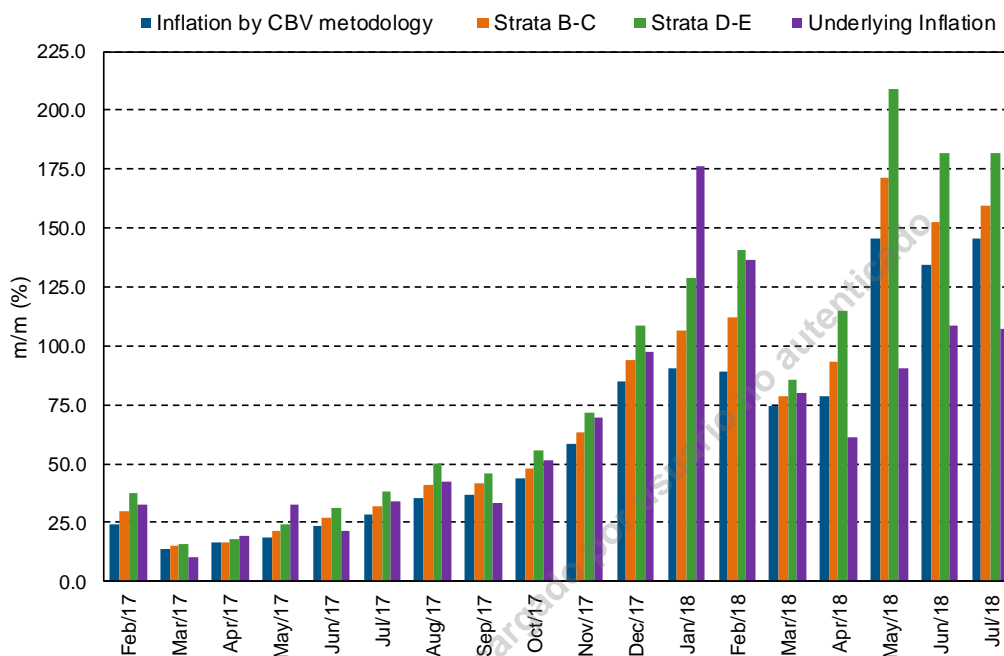
¹ The distortions typical of a labor market such as Venezuela’s make it somewhat difficult to estimate any kind of average (or median) wage in the Venezuelan economy.

² Taking July 2017 as the point of reference.

³ Compared to a year ago.

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Monthly Inflation by Socioeconomic Strata



Sources: BCV and Ecoanalítica

In this regard, based on our estimates, strata D-E, whose consumption is restricted essentially to food and transport, have experienced inflation of close to 662,148.3% in a matter of 12 months, 409,118.7 percentage points higher than that experienced by strata B and C (253,029.6%), whose consumption is more varied, and 537,752.5 percentage points higher than the increase in prices experienced by stratum A, which we assume has maintained a basket similar to the one proposed initially by the Central Bank of Venezuela⁴ (124,395.8%).

In addition, the oppressive weight of the inflation tax has a dramatic impact on the lowest income deciles. With extremely limited access to the financial system, foreign currency and/or durable goods, the lowest strata face more severe restrictions when it comes to getting rid of their bolivars at a rate that would minimize their losses due to inflation. In other words, in addition to having to cope with higher inflation, they have fewer weapons with which to fight it.

⁴ This series of baskets is made up based on the findings of the Survey of Living Conditions in Venezuela (Encovi) conducted by the *Universidad Católica Andrés Bello* (UCAB), *Universidad Simón Bolívar* (USB), and *Universidad Central de Venezuela* (UCV).

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7) How high can hyperinflation go and for how long?

How long a hyperinflationary process lasts depends solely and exclusively on how long it takes the authorities to implement a comprehensive stabilization plan that eliminates the fiscal deficit and, as a result, the need to issue money in order to finance it. The plan should also include measures to guarantee the convertibility of the local currency at an exchange rate that will dry up the foreign exchange market; and to do that, sufficient international reserves or external financing will be needed. In addition, it will be necessary for there to be sufficient confidence that the reform measures undertaken will be maintained in the future and will not be temporary.

Of the 57 cases of hyperinflation in modern history, Venezuela is ranked in 29th place, 13 have lasted only one month, 27 have lasted less than six months, and 30 have lasted more than six months. Among the cases that lasted less than six months, the average duration was 2 months, and among those that lasted more than six months, the average was 20 months. At first glance, it seems that some governments find it easier to admit to the need to stabilize than others, possibly due to reasons of political economy and to the political costs that implementing such measures imply.

Periods and Magnitude of Past Hyperinflations

Position	Name	Starting Year	Months of Duration	Highest Monthly Rate (%)	Position	Name	Starting Year	Months of Duration	Highest Monthly Rate (%)
1	Nicaragua	1986	58	261	16	Danzig	1922	15	2,4*10 ³
2	Greece	1941	44	1,4*10 ⁴	17	Armenia	1993	15	438
3	Ukraine	1992	35	285	18	Bosnia & Herz.	1992	15	322
4	China	1943	26	302	19	Polonia	1923	13	275
5	Rusia/USSR	1922	26	212	20	Georgia	1993	13	211
6	Angola	1994	26	84	21	Hungary	1945	12	4,2*10 ¹⁶
7	Azerbaijan	1992	24	118	22	Moldova	1992	12	240
8	Turkmenistan	1992	23	429	23	Austria	1921	12	129
9	Yugoslavia	1992	22	3,1*10 ⁸	24	Congo (Zaire)	1991	12	114
10	Srpska Republic	1992	22	2,9*10 ⁸	25	Hungary	1923	12	98
11	Tajikistan	1992	22	201	26	Phillipines	1944	12	60
12	Zimbabwe	2007	20	7,9*10 ¹⁰	27	Congo (Zaire)	1993	11	250
13	China	1947	20	5,0*10 ³	28	Argentina	1989	11	197
14	France	1795	19	304	29	Venezuela	2017	9	146
15	Bolivia	1984	16	183	30	Taiwan	1948	8	108

Sources: Hanke, S. & Krus, N; and Ecoanalítica

Only considering the cases that lasted 6 or more months.

The refusal to introduce reforms is so extreme in some governments that we have cases such as Nicaragua where hyperinflation lasted for approximately five years. History is full of failed attempts at stabilization marked by measures that do not attack all the roots of

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the problem. It is also full of plans with heterodox measures that try to “innovate” when it comes to stabilizing prices and plans of redenominations and monetary substitutions that do not achieve the desired end. How long will it take the present administration to understand the need to implement reforms? No one knows. However, to judge by its first attempt at a stabilization plan and by the debates that took place at the United Socialist Party of Venezuela’s (PSUV) congress, what the future holds in store is hyperinflation in the medium term.

8) If it sets its mind to it, is the Nicolás Maduro administration capable of curbing hyperinflation?

At **Ecoanalítica** we are of the opinion that it is not. Broadly speaking, a stabilization plan that focuses on stopping the hyperinflationary hemorrhage must establish a series of clear fiscal and monetary goals that aim to stabilize price levels and correct certain key imbalances in the economy.

Some key points that a plan of this type implies⁵:

1. A credible commitment by the authorities to limit monetary financing of the deficit
2. Making the State fiscally viable
3. Restructuring the country’s external obligations
4. Recovering oil production
5. Allowing a foreign currency market whose reference price is in line with the fundamentals sustaining the market, among other things

It is important to bear in mind that a strategy that contemplates the aforementioned points should be conceived of as a whole. It is highly unlikely that a series of isolated proposals that does not aim to correct the deteriorated fiscal, monetary and political situation will manage to curb hyperinflation. All for one and one for all.

However, theoretically, even if we were to assume that the Nicolás Maduro administration sets out to do away with hyperinflation, it would come up against stumbling blocks in each of the points mentioned above.

- Sanctioned and lacking legitimacy in the eyes of the international community, it is virtually impossible for the government to obtain the external financing that is needed to complete points 2, 3, 4 and 5.

⁵ These conditions are necessary but insufficient.

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- With the financial markets closed to it, a restructuring of the debt that would lighten the fiscal burden in the future looks unlikely, beyond the pointless meetings called at the end of 2017.
- The present legal system, along with the other risks inherent in operating in Venezuela and made worse by bad choices on the economic policy front, severely restricts the inflows of private capital, a key element for the recovery of the oil industry.
- Fragmentation within the government is considerably restricting the possibility of implementing a foreign exchange arrangement with the market as the key player.
- Any attempt to adjust charges, subsidies and other isolated fiscal measures will be useless if the problem of hyperinflation is not solved.

Last of all, there is a key piece in the jigsaw puzzle on which all the aforementioned points depend directly or indirectly: Without a credible commitment to fiscal and monetary responsibility, it will be impossible to stabilize or recover the demand for money, a prerequisite for the success of any stabilization plan and the lack of which was what ultimately triggered the hyperinflationary process.

The results obtained by Nicolás Maduro speak for themselves. Since he assumed the presidency, prices have gone up 246,130 fold, oil production is 1.22 million barrels a day (mb/d) less, and the economy is 50.0% smaller. In other words, perhaps the biggest challenge Maduro might face in the event of a possible stabilization process is that of convincing people to have confidence in a currency that is destined to take the path proposed by his economic policy; and, without any rules or a credible commitment on the fiscal and monetary front, any attempt at stabilizing the economy will fail.

9) What measures were taken recently and what repercussions will they have?

The stabilization plan announced by President Maduro on July 25 consisted of six main proposals: (i) a monetary redenomination between the “sovereign bolivar” and the “strong bolivar” of 1:100,000; (ii) the elimination of customs tariffs on agricultural inputs and capital goods; (iii) making the Foreign Exchange Crimes Act more flexible; (iv) the announcement of an alleged “pegging of the bolivar to the petro”; (v) the inclusion of the oil reserves in Block Ayacucho II located in the Orinoco Oil Belt in the assets of the Central Bank of Venezuela; and (vi) extending the use of the Carnet of the Patria as an instrument for the census of Venezuela’s motor vehicle park and a possible targeted gasoline subsidy.

A few days later, Vice President for the Economy Tareck El Aissami submitted a decree to the Constituent National Assembly that decriminalizes transactions in the unofficial foreign exchange market and hints that a new foreign exchange system with a flexible

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exchange rate and the intermediation of exchange houses is in the works. A decree exonerating oil companies from paying income tax was also approved.

At **Ecoanalítica** we believe that the only measure capable of having significant repercussions in the economy in the short term is making the foreign exchange market more flexible. Whereas the monetary redenomination, “pegging” the bolivar to the petro, and including the oil reserves in the Central Bank’s assets are inconsequential, the impact of eliminating customs tariffs and exonerating the oil companies from paying income tax is very marginal. As for the measures regarding the gasoline subsidy and the motor vehicle park, they will possibly be postponed given the logistical limitations on implementing a target subsidy of such magnitude.

According to Andrés Eloy Méndez, the chairman of the Constituent National Assembly’s Committee for the Economy, the DICOM system is to be eliminated, but the public sector will continue to operate with a subsidized exchange rate, which has still not been determined. Méndez also said that he and the government party are aware of the big item that is missing from the stabilization plan. In his opinion, it is necessary to realistically address the fiscal issue, as they have done with the foreign exchange issue. However, no measures for reducing expenditures have been included, only measures for increasing revenues.

Based on the premise that hyperinflation is generated by monetary financing of the fiscal deficit, we forecast that the accelerated growth in prices will continue and get worse in the medium term. The foreign exchange measures will be insufficient and could cause the cost of living in dollars to increase if they are not accompanied by a fiscal and monetary reform.

10) Conclusion: How far could Venezuela’s economy contract?

To conclude, we put to our readers perhaps the most frequently asked questions and whose answers are both insistently sought and difficult to find: Is there such a thing as the bottom, the limit? If so, what is it? And, if it can be defined: How much longer before we reach it? The uncertainty regarding the crisis and the undeniable feeling of denouement that has existed among Venezuelans for some time now give this line of thought a special place in people’s daily conversations.

At **Ecoanalítica** we are of the opinion that countries do not hit bottom. So far, neither economic theory nor empirical evidence has thrown any light on that threshold, which, once crossed, will result in some degree of noticeable improvement or, analogically, will produce a change. Just as each mind is a world unto itself, each process is different and the nonlinearity of dynamics such as Venezuela’s makes it impossible to determine the

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political, economic, and social conditions that will trigger a possible change in the country, much less how much longer it will take for those conditions to occur.

Nevertheless, this does not invalidate the premise that nothing lasts forever. The collapse of the economy, the breaking of the social contract, and the disastrous state of the institutions serve as elements that reflect, legitimately and justifiably, the exhaustion of a model that began to be implemented just over 20 years ago.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	207,360	20.0	16.7
	1st Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.6	0.6	0.4
	1st Week August	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	0.0	0.0	0.0
	1st Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.6	-2.5	-14.5
	4th Week July	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VEF Bn)	3,067,998	12.8	10,561.7
© Price of International Oil Baskets (USD/bl)			
	1st Week August	Weekly chg. (%)	Annual chg. (%)
WTI	68.8	-2.3	39.0
Brent	73.9	0.4	41.4
Price of the Venezuelan oil basket (USD/bl)			
	1st Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	67.1	-2.8	35.5
Annual Average	63.2	0.2	20.8

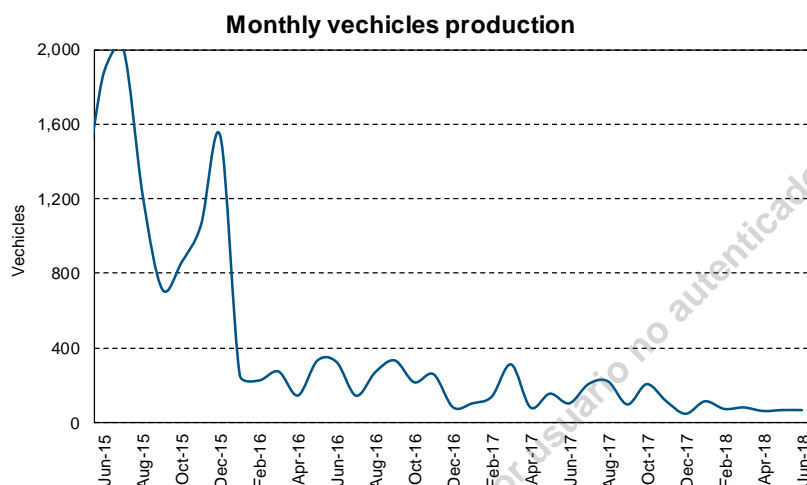
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: “A CENSUS, WHAT FOR?”



Sources: Cavenez and Ecoanalítica

The lack of buses and the breakdown of public transport in Venezuela have been constantly making the headlines in recent weeks. Given this situation, on July 25, President Nicolás Maduro announced in a nationwide networked broadcast that there would be a “*census of the country’s motor vehicle park for the new policies of support and subsidies in general.*” This census started last Saturday, August 3, for the purpose (according to the government) of curbing the smuggling and wasteful use of fuel, factors that are being held mainly responsible for the deterioration of the sector.

But it would seem that there is no need to conduct an official inventory in order to see what is patently obvious: the alarming drop in the number of vehicles produced in Venezuela. According to figures from the Automotive Chamber of Venezuela (Cavenez), motor vehicle production in January was 113 units and in June it was only 66 units, for a reduction of 41.6%. If we compare these figures to those for previous years, the drops are even bigger. Three years ago, in June 2015, 1,881 vehicles were produced, 96.5% more than at the moment. Given the clear decline in motor vehicle production in Venezuela, the question is: What else is behind this census? Maduro’s announcement of the gasoline subsidy has only raised more doubts. He proposed a differentiated subsidy that would only be available to those who have the Carnet of the Fatherland. This would mean the adoption of a scheme of differentiated prices, which would not solve the lack of parts, spares and repairs; in fact, it is precisely this that is exacerbating the drop in production. The only thing that controls of this type do is to add to the corruption. Once again, the government is reacting with policies that fall short when it comes to solving the problems to which the Venezuelan economy has succumbed.

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ECONOMIC TIPS

“Authority” speaks. The president of the Economic Commission of the Constituent National Assembly, Andrés Eloy Méndez, gave an interview where he offered a future perspective of the economic decisions taken and to be taken in the country.

Long term “freedom”. He asserted that the measures taken seek to eliminate the Dicom system. Additionally, he reassured, that this is the first step for *“a money exchange release”*.

Let them take charge. Méndez added that the State will no longer take the responsibility of assigning foreign currency. Therefore, the private sector will exchange between themselves and will be able to use the enabled exchange offices.

Transparency. Furthermore, the private sector will be able to show in their accountings the purchase of goods in foreign currency. According to Méndez this will allow *“to know the structure of costs to set stable prices”*.

On their own. He clarified that the State will be able to do the public imports at discretion, using the *“national patrimony and the international reserves”*.

Matters pending. Méndez declared that one of the matters that has not been discussed in the economic measures to be taken by the executive regards the fiscal deficit.

Unleashing the fiscal issue. He added the issue regarding the income via tax collection must be solve. To clarify, Méndez commented that it is necessary *“to have a solid State in their investments that allow a stable change”*. Nevertheless, when he focused in the expenditure item, he declared that *“social investment will not decrease”*.

What will that resolution be? These statements came after the State lost tax revenue sources due to the tax exemption over Pdvsa’s income, its subsidiaries and the joint ventures, along with the decision of eliminating tariffs over capital goods and agricultural supplies.

A slight breather? The Constituent National Assembly approved a decree that repealed the Foreign Exchange Crimes Act. This will allow companies and private individuals to conduct transactions in foreign currency inside Venezuela.

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But they'll still go after scofflaws. However, the decree also establishes that anyone who engaged in “*illegal activities*” prior to the publication of this new decree will be investigated so that, if necessary, they are required to pay damages.

Recovering the economy is the goal. Commenting on the decree, Vice President for the Economy Tareck El Aissami stated that they were “*seeking new situations in the sphere of the domestic economy to lay solid bases of support and security for all investments and operations in convertible foreign currencies.*”

It's not enough. At **Ecoanalítica** we are of the opinion that this measure should be accompanied by corrective measures on the fiscal, monetary and political fronts, as without such measures it is unlikely that hyperinflation and the depreciation of the bolivar will be halted.

NA-CPI. The National Assembly's Finance Committee reported that inflation in July was 125%. This means that cumulative inflation to the end of July came to 10,664.7% and inflation year-on-year came to 82,766%. The committee also reported that prices in Venezuela double every 26 days.

Third time lucky? The Central Bank of Venezuela published a press release in which it started the process of delivering the banknotes of the new monetary cone to state-owned and private banks. It stated, moreover, that the distribution of these new banknotes would be “*by stages,*” but without going into greater detail.

DICOM Auction 25. The exchange rate resulting from DICOM Auction 25 was VEF 207,360/USD, for a depreciation of 16.3% compared to the previous auction. Strangely enough, this is the third week in a row that the auctions have produced exactly the same rate of depreciation.

A big upturn in allocations for companies. The total amount disbursed to companies was USD 888,202.5, for an increase of 610.7% compared to the previous auction, after two weeks in which the amount allocated to companies did not exceed USD 120,000.

Back to normal. On the other hand, the total amount disbursed to private individuals was USD 65,886.9, for an increase of 226.2%. After being awarded USD 20,196.5 at the previous auction, private individuals received a similar amount to those awarded in Auctions 21, 22, and 23, when the average amount was USD 65,134.

Falling. The international reserves came to USD 8.58 billion at the close of business on August 6, for a drop of 3.53% (USD 309 million) compared to last week and of 12.63% (USD 1.22 billion) compared to the close of 2017.

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July puts us at 3 quadrillion. On July 27, money supply came to VEF 3.06 quadrillion. In July, the weekly increase in money supply averaged 13.3%, which meant that in just three weeks it grew by VEF 1.0 quadrillion.

Tax collection for July. According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VEF 157,364 billion were collected in taxes for the month of July. Of this amount, VEF 9,817 billion came from Income Tax, and VEF 81,157 billion from the VAT. The agency raised VEF 409,973 billion during 2018, of which VEF 35,130 billion came from Income Tax, and VEF 214,470 billion from Value Added Tax (VAT).

In real terms. Total revenue in July of 2018 compared with the same period last year decreased by 89.6%. The VAT decreased 90.6% in real terms and customs revenues also decreased 91.9%. Meanwhile, income tax revenues decreased 96.3% in real terms over the same period of 2017.

OIL TIPS

An income tax exemption. *Gaceta Oficial* Number 41,452, published on August 2, established that “enrichments arising from territorial or extraterritorial sources obtained by *Petróleos de Venezuela, S.A. (PDVSA)*, its affiliates, and the joint ventures domiciled or not domiciled in the Bolivarian Republic of Venezuela from activities in the production of hydrocarbons” are to be exempt from paying income tax for fiscal year January 1 to December 31, 2018, only.

PDVSA is looking for ways to fix things... Following the seizure of its assets by ConocoPhillips in May this year, the state-owned oil company, PDVSA, has found it more difficult to honor its exports. Given this situation, PDVSA has been looking for ways to reduce the damage that this drop in its exports has caused.

...but is still coming up short. The news agency Reuters reports that one of the measures PDVSA is taking is to transfer oil between tankers at sea (mainly fuel) and loading vessels in Cuba. And last month it even requested several customers to accept exports delivered via ship-to-ship transfers so as not to have to temporarily suspend export contracts. Even so, PDVSA is still not fulfilling at least 60% of its commitments.

Operations at a standstill. According to Reuters, operations at Isla Refinery on Curaçao, which is run by PDVSA, are currently at a standstill. A problem with a plant that supplies

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compressed air, water and power is the cause of this suspension in operations at the refinery, which is capable of processing 335 kb/d.

Strict control. Carlos Ramos, PDVSA's operations coordination manager, said that they would have "*control of inventories, balances, and spaces in a room given over to the permanent handling of information on operational processes involving the reception, storage, inspection and pumping of crude,*" for the purpose of having total mastery over the movements of crude shipments in the Western Region.

Trying to recover. As for PDVSA's president, Manuel Quevedo, he announced that they had all the resources, expertise, companies and technology to carry out the oil production recovery plan. The first phase of the plan consists of reviving the wells that produce heavy, light and medium crudes, in order to subsequently activate the inactive wells. Time will tell how this plan will work out.

OPEC production. Figures published by S&P Global Platts show that crude output by the Organization of Petroleum Exporting Countries (OPEC) in July was 32.66 mb/d, up 340 kb/d from June.

The countries that raised their production... The increase in overall output was due to Saudi Arabia, Kuwait and the United Arab Emirates raising their production. Saudi Arabia increased its production by 10.63 mb/d, the highest since August 2016. Kuwait posted an increase in production of 70 kb/d and the United Arab Emirates an increase of 90 kb/d, the highest levels of production since December 2016 in both cases.

... and those whose production fell. The increase in the production of crude in the aforementioned countries was offset by a reduction in production in other countries such as Iran, Libya, and Venezuela. Iran's production fell to 3.72 mb/d, the lowest since January 2017, and Libya reduced its output by 30 kb/d to 670 kb/d, the lowest since April last year.

Obviously, Venezuela's fell as well. According to figures published by Platts, Venezuela's production fell to 1.24 mb/d, down 60 kb/d from June. Estimates by the US Energy Information Administration (EIA) put Venezuela's production by the end of the year at below one million barrels a day.

Are imports stable? In June, Venezuela's crude imports were more than 45% of production, according to Platts. Platts estimates that, even though production continues to fall, imports will remain relatively stable.

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The United States and its customers. The main export destinations of US crude in June were China (15 mb/d), Canada (8.51 mb/d), India (7.83 mb/d), South Korea (7.1 m/d), Italy (6.59 mb/d), and finally the Netherlands (5.5 mb/d).

No one should buy from Iran. The United States has restored the sanctions on Iran, which are directly affecting its production of crude. US President Donald Trump said that he hope that no one would buy Iranian oil. Oil companies will have until November 4 this year to comply with this ban.

BUSINESS SECTOR TIPS

One million signed up. Despite public transport providers' rejection of the National Transport Census, one million vehicles have already been registered via the digital platform, according to Minister of Transport Hipólito Abreu. He also said that they are evaluating the possibility of creating a Transport School and a bank for public transport providers.

Banco del Transportista. The National Transport Census and "defensive" measures in favor of the public transport sector are among the promises made by the Venezuelan Government. Minister of Transport Hipólito Abreu announced the setting up of a bank for public transport providers as part of these measures as well as an alleged guarantee of fast financing for the sector.

What's the reason for the census? In view of the news of the census being conducted by the government, Omar Bautista, the president of the Venezuelan Automobile Products Manufacturers Chamber (Favenpa), said that, according to figures obtained by Favenpa, 40% of the motor vehicle park is out of commission. "*They are not running owing to the lack of parts and spares or because they need repairs or because their owners have not been able to get an insurance policy; and that does not include motorbikes,*" he said.

Banking sector Diaspora. According to the statistics for May this year published by the Superintendency of Banking Sector Institutions (Sudeban), 16,892 bank employees have resigned from their jobs in the past 12 months. In May 2016, the banking sector employed 75,101 people; two years later it employs 58,209. This is equivalent to a reduction of 22.5% that is contributing to the emigration of workers.

More blackouts on the horizon? Statements by the president of the **Electricity** Sector Workers Federation (Fetraelec), Ángel Navas, give much cause for concern. He said that Venezuela is relying solely on hydroelectric generation since thermoelectric generation is

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only operating at 20% of its capacity. Even though the country's electricity consumption has gone down by 27.7% since 2014, due to the lack of maintenance the amount of electricity the country's biggest power stations are producing is only the same as the amount that is being consumed.

Productivity falls still further. Carlos Larrazábal, the president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), said that the crisis in the public services is severely compromising production in the provinces. Furthermore, the director of Fedecámaras-Zulia reported that the electricity and water crises are having an impact on industrial activity and on activity in the region in general.

Bolívar and Amazonas under water. Due to the rising water levels in the Orinoco and Caroni Rivers, several parts of Bolívar and Amazonas states have been seriously affected. Former Governor of Amazonas Liborio Guarulla said that more than 60,000 people have been affected and areas such as Puerto Páez have completely disappeared under the water.

And yet more companies are closing their doors. Domestic production, which has already been affected by the economic crisis and the lack of a coherent contingency plan, is now being compromised by the present climate of political instability. The president of Fedecámaras reported that 1000 of the 3500 companies that currently exist are planning to close their doors in 2018 if things do not change.

WORLD ECONOMY TIPS

Sanctions on Iran are back. The United States reinstated the sanctions on the purchase of foreign currency and essential goods by Iran and also imposed a ban on importing certain products from Iran. European allies fear that the stability of the region will be compromised still further.

Trump threatens companies. After Iran rejected the United States' attempt to negotiate a new nuclear treaty, President Donald Trump decided to impose new sanctions. He also stated that companies that do business with Iran will not be able to do business with the United States. Despite the promises made by European countries to alleviate the economic blow so that Iran does not withdraw from the present treaty, many companies have already stopped doing business with Iran.

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Salaries in Japan break records. Salaries in Japan went up by 2.8% in June compared to a year ago to their highest level in 21 years. In addition, domestic spending fell by 1.2%, less than the 1.6% drop that was expected. Domestic revenues, on the other hand, posted their biggest growth in three years.

Full employment in the USA. The labor market in the United States is at its narrowest point not only because of the number of people applying for unemployment benefits has grown slower than expected, but also because nonfarm jobs grew by 190,000 in July and 213,000 in June. The growth of jobs in this half of the year averaged 215,000 a month.

The Bank of England is acting normally. Many people expect the Bank of England to raise its interest rates for the second time in a decade at its next meeting. On the other hand, some are of the opinion that an attempt to normalize the rates could be premature due to the uncertainty regarding Brexit.

ASEAN assesses the risks. The foreign affairs ministers of the member countries of the Association of Southeast Asian Nations (ASEAN) are to hold several meetings to discuss China's aggressive trade moves. US Secretary of State Mike Pompeo is expected to be present at these meetings, where he will have the opportunity to meet with his North Korean counterpart.

Turkey hit by sanctions. Following the sanctions imposed on Turkey's Minister of Justice and Minister for Homeland Affairs by the United States, the lira fell 1.1% against the dollar and the reference stock index plummeted. Turkey's President Recep Tayyip Erdogan ordered the imposing of sanctions as a reprisal.

Mozambique grants multinationals concessions. Finally, after four years of negotiations and delays, the government of Mozambique has granted exploration rights to multinational companies to act on concessions awarded to them in the area of Mozambique's Northern Zambezi basin known as Block 5. This block has enough oil reserves to supply energy to Great Britain, Italy, Germany, and France for more than 20 years.

Argentina stands firm. As part of the stabilization of Argentina's economy and despite expectations of a probable raise in the interest rate to defend the peso, the Central Bank of Argentina took the decision to maintain its reference interest rate at 40%.

Odebrecht files a lawsuit against Colombia. The Colombian Government is preparing its defense in a USD 1.3 billion lawsuit brought against it by Odebrecht. The Brazilian construction company alleges that some of its assets in Colombia were illegally

expropriated during the investigation into bribery when the South American country failed to comply with the investment protection treaty signed with Spain.

POLITICAL TIPS

First to be pointed. The deputy of the National Assembly, Juan Requesens, was arrested in his residence after the president Nicolás Maduro accused him publicly of orchestrating the assassination attempt against him.

Guilty no matter what. Maduro used as evidence the testimony of one of the supposedly involved. By means of a video, he reassured the participation of Requesens and Julio Borges in the assassination attempt.

Second to be pointed. After the evidence was presented, the Supreme Court of Justice ordered the arrest of deputy Julio Borges charging him with “*intentional homicide*” against Nicolás Maduro.

There is no escape. The Constituent National Assembly took away the diplomatic immunity of both deputies. Diosdado Cabello, president of the institution, declared that the decision was unanimous and that the immunity of other deputies involved will be revoked.

They fell from the sky. A military parade was interrupted when, according to the military authorities, drones carrying explosives and that were set off near the dais where President Nicolás Maduro was giving a speech. The authorities claim that this was an attempt on President Maduro’s life.

More details. Minister for Homeland Affairs, Peace and Justice Nestor Reverol reported that people involved in the assassination attempt had been arrested and he explained that they managed to put the drones off track and to get them to explode outside the target area.

Ordered from Colombia. Nicolás Maduro claimed that the incident was orchestrated by Colombia’s President Juan Manuel Santos with the support of intellectuals and financiers in the United States.

Don’t use this as an excuse. The political parties *Un Nuevo Tiempo* (UNT), *Voluntad Popular* (VP), and *Primero Justicia* (PJ) demanded that the government open an

investigation into the so-called “assassination attempt” and that it refrain from using this incident as an excuse to step up its persecution of the opposition.

Enemies beyond our borders. Diosdado Cabello, the president of the Constituent National Assembly, said that there were no precedents in Venezuela’s history for what happened and that “*everyone who is implicated must pay.*” He claimed that another coup was attempted in February, for which he also held leaders of the opposition responsible, with international support.

Don’t look to pin it on them. The governments of Colombia and the United States denied that they were behind the attempted assassination of Nicolás Maduro and rejected the accusations of their involvement in the incident leveled against them. John Bolton, President Trump’s national security advisor, refuted the accusations and urged the Venezuelan authorities to provide the United States with information relating to the case so that they could investigate it. Luis Almagro, the secretary general of the Organization of American States (OAS), crowned it all saying that it was difficult to take Maduro’s accusations seriously given the Venezuelan Government’s total lack of credibility.

A while in the planning. Minister of Communication and Information Jorge Rodríguez claimed that the assassination attempt had been planned over a period of six months and he also confirmed that the majority of those involved had been arrested.

From Colombia. Venezuelan opposition leaders are to take advantage of the swearing in of Iván Duque as Colombia’s new president to meet to continue the exploration of agreements started previously. The leaders in exile Julio Borges and Antonio Ledezma are to attend the meeting.

“Everything’s under control.” Tarek William Saab, the prosecutor general appointed by the Constituent National Assembly, confirmed the number of people arrested announced by Minister Reverol. Although he did not give the names of the detainees, Saab did say that they knew where they had operated the drones from and the place where those involved had been staying.

Onward. The leader of *Avanzada Progresista*, Henri Falcón, stated that the political and social direction the country is taking is unpredictable and that, therefore, it is necessary to rectify and take decisions that lead to understanding in order to explore a negotiated solution.

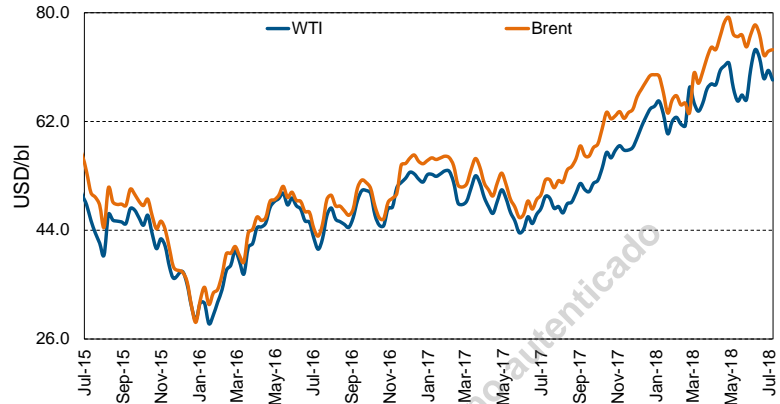
As long as it’s necessary. At a ceremony to celebrate the Constituent National Assembly, Diosdado Cabello said that the Assembly would pass constituent laws whenever the Executive so requested.

Theory No. 1. María Alejandra Díaz, the chairperson of the Constituent National Assembly's commission that is investigating the promoters of intervention in Venezuela (yes, it does exist), said that one of the reasons for the attempt on Maduro's life was the reorganization of the gasoline subsidy.

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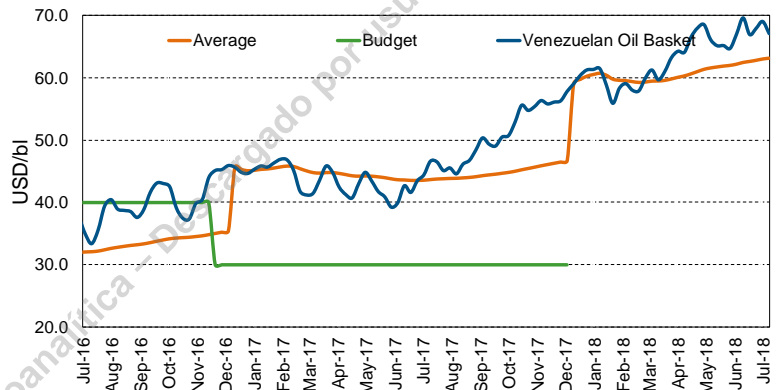
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



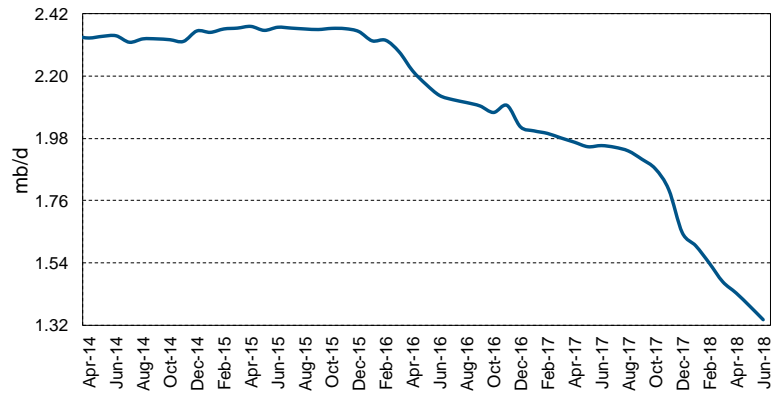
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)

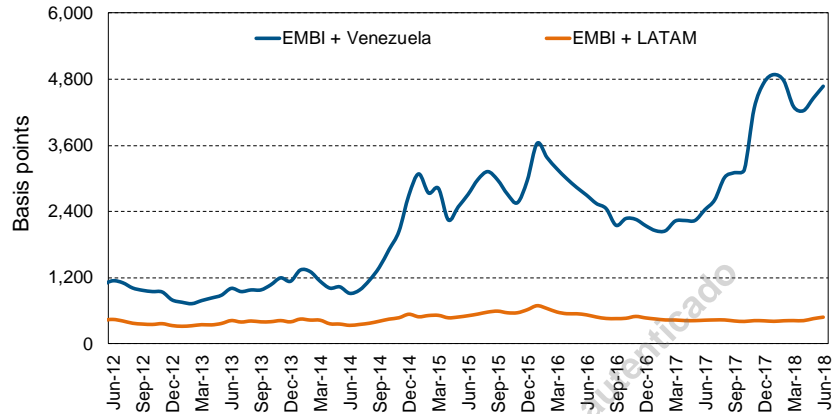


Sources: OPEC and Ecoanalítica

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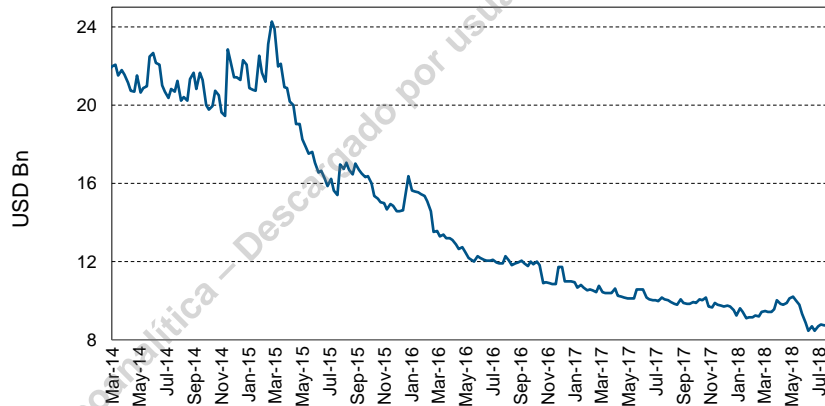
ECONOMIC INDICATORS

EMBI



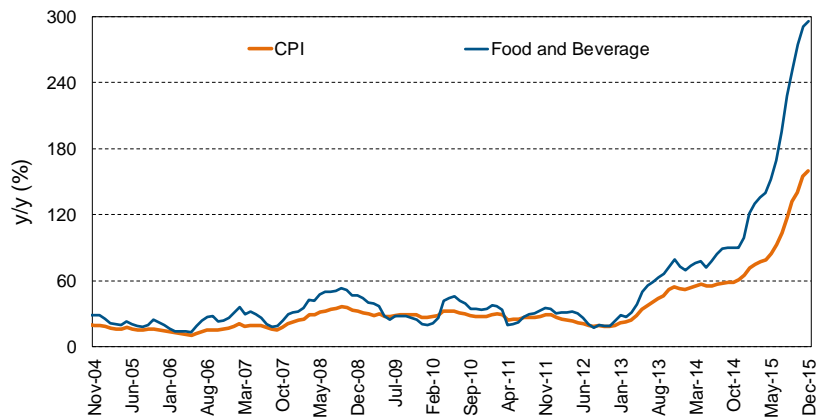
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



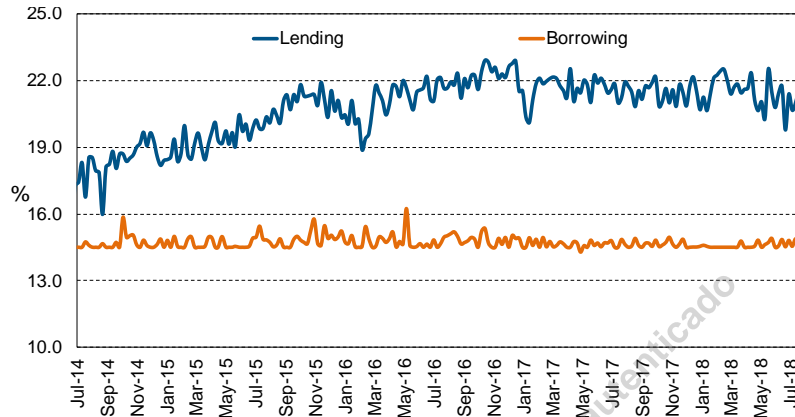
Sources: BCV and Ecoanalítica

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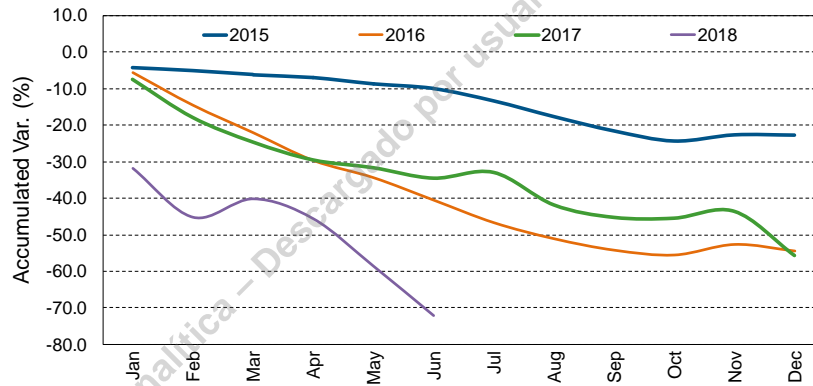
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



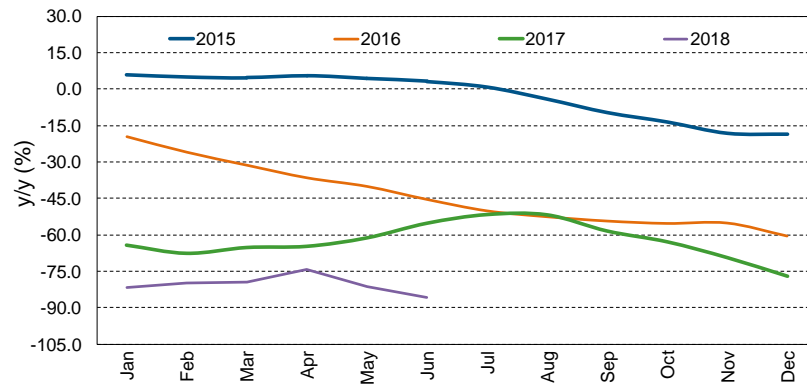
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

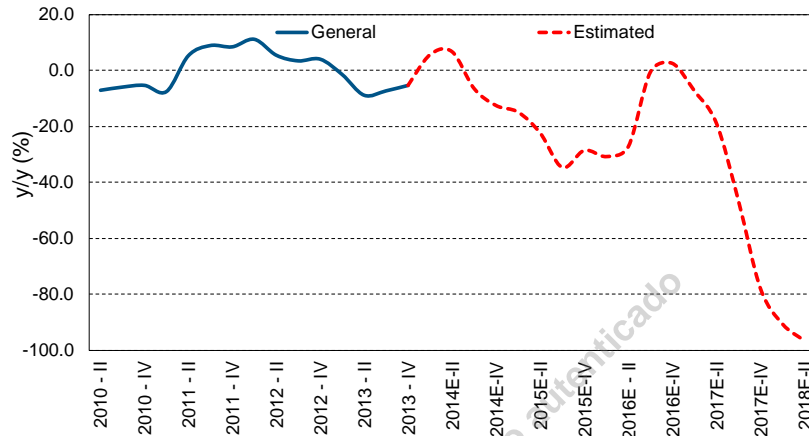
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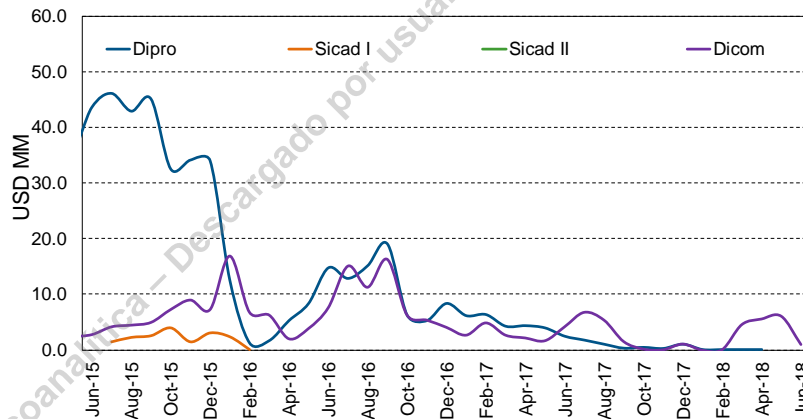
ECONOMIC INDICATORS

Real Wage Index



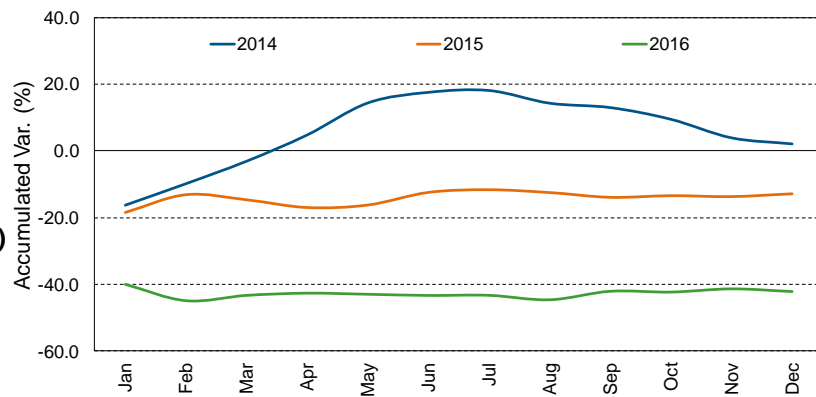
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

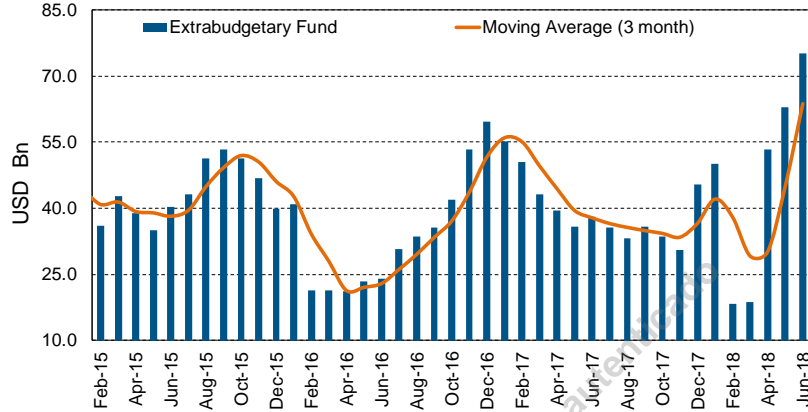
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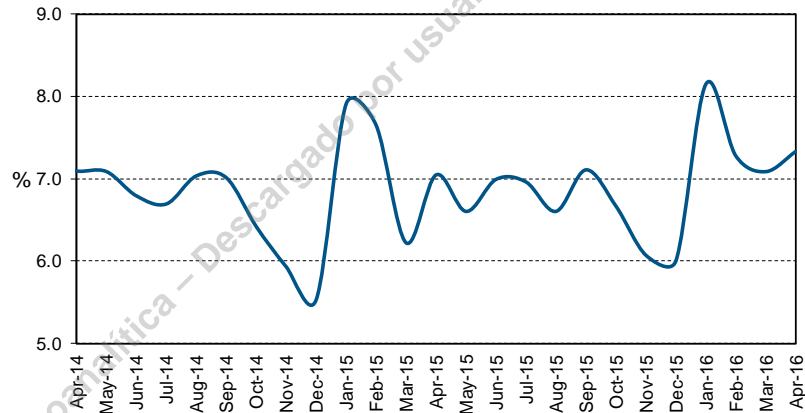
ECONOMIC INDICATORS

State Extrabudgetary Resources



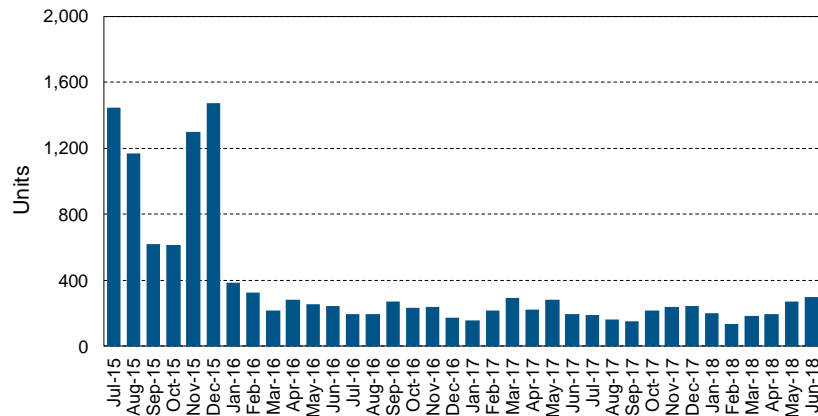
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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