

Maduro vs. Taboo-second round: A look at the gasoline subsidy

“I hope that, in two years at the latest, we have overcome the ‘deformity’ that has resulted from many years of practically giving away Venezuelan gasoline”
Nicolás Maduro¹

The mind’s eye of the Venezuelan people is peculiar, to say the least. The fact that Venezuela is an “oil economy,” and all that that implies, has resulted in the idea that everything related to the oil industry should be free or far below the market price. And there is no doubt, if our initial premise is that the oil belongs to us, and that oil is synonymous to wealth, even unlimited wealth, that this makes it very difficult to construct a narrative will allow people to see the whole forest, beyond the few trees that “cheap” gasoline, a priori, represents.

Notwithstanding, the relatively low price of gasoline, derived from the fiscal and inflation environment, results in the quotation marks around the word cheap assuming a fundamental role in both the daily life and official narrative. Nicolás Maduro stated this a few days ago when he described the gasoline subsidy as a “deformity” that has consolidated over the years.

Maduro’s statements – in parallel with his proposal – are the latest blow of Chavismo against a complex and relevant taboo as is the hydrocarbon subsidy. After two decades of ups and downs, in which current Government was faced with the dilemma of whether or not to raise the price of gasoline on the domestic market, Maduro, in his second round², is set out to implement what, up until now, is the most formal attempt by Chavismo to face the implications of lifting one of the most emblematic subsidies over the last decades.

¹ August 13, 2018.

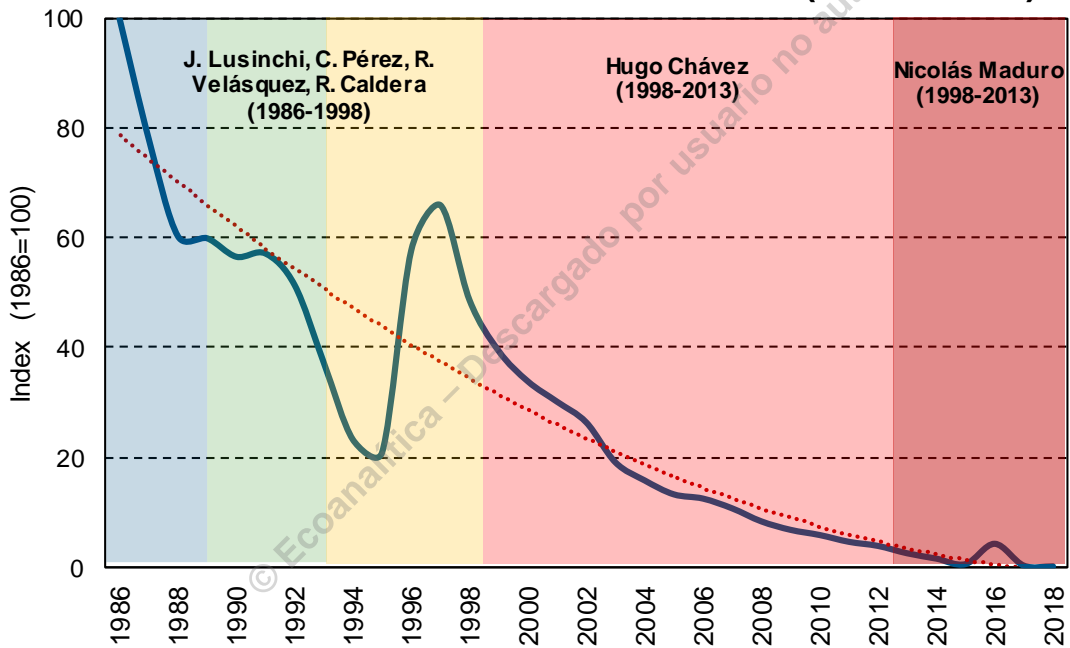
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² It’s worth highlighting that the last adjustment to gasoline price was implemented by Maduro himself in 2016, when he increased the price of the 91 octane gasoline to VEF 1,0 per liter (1,308.5%) and that of the 95 octane fuel to VEF 6.0 per liter (6,085.6%).

Let's look at the Taboo

The gasoline subsidy has been a very tough Minotaur to defeat. Given its entrenched nature and relevance given how Venezuelan's view this issue, as well as the potential political risk associated with an eventual elimination. Efforts of Chavismo to tackle this issue were limited, in an initial stage, to scattered statements by Hugo Chávez and Nicolás Maduro, making reference to a new phase in which the "gift" of cheap gasoline in Venezuela would come to an end. This phase never came.

Evolution of Gas Prices in real terms (95 Octanes)



Sources: Pdvsa, Menpet, BCV and Ecoanalítica
* 2018 figure considers the real losses up until July.

By anchoring the fuel prices in a highly inflationary environment, gasoline prices contracted by 99.3% (16.6% yearly, on average) in real terms during Hugo Chávez' term, and 99.9% in just five years of Nicolás Maduro's administration -96.6% between 2016 and 2017 only.

Furthermore, if we put both administrations in perspective, we can see that Chavismo made it possible that for every bolivar Venezuelans paid for gasoline in 1986, they only

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pay 0.002 cents³ (-99.9%) today. In this regard, far from representing a change of sorts, Chavismo deepened in an unprecedented scale, a subsidy that entails dramatic implications from the distributive and fiscal perspectives, and plays a significant role in the economy.

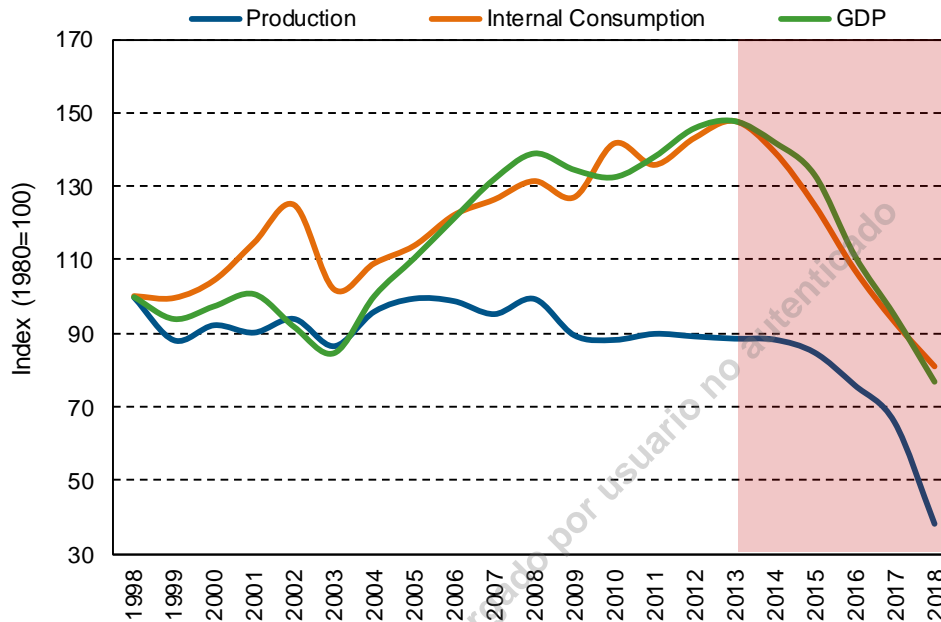
By the same token, perhaps one of the most polemic elements behind the gasoline subsidy is the high opportunity cost it represents. When a price is significantly below international markers, the government provokes a strong distortion in the relative prices on the domestic market, thereby stimulating arbitrage, i.e. smuggling, a higher fuel consumption (use of private vehicles), and all this underpinned by an opportunity cost that, according to our estimates, amounts to USD 115,029 million between 2003 and 2017.

In this regard, along with the relative cheapening of fuel through prices, changes in terms of quantities also play a role. A sustained population growth parallel to an increase in income, and consumption, during Hugo Chávez administration (77.2% growth between 2004 and 2012), resulted in an expansion of domestic hydrocarbon consumption of around 230 kb/d (48.6%) in a matter of ten years⁴, which increased subsidy and significantly raised the opportunity cost.

³ In Real Terms.

⁴ 1999-2003.

Production and Internal Consumption vs. GDP



Sources: Pdvsa, PODE and Ecoanalítica

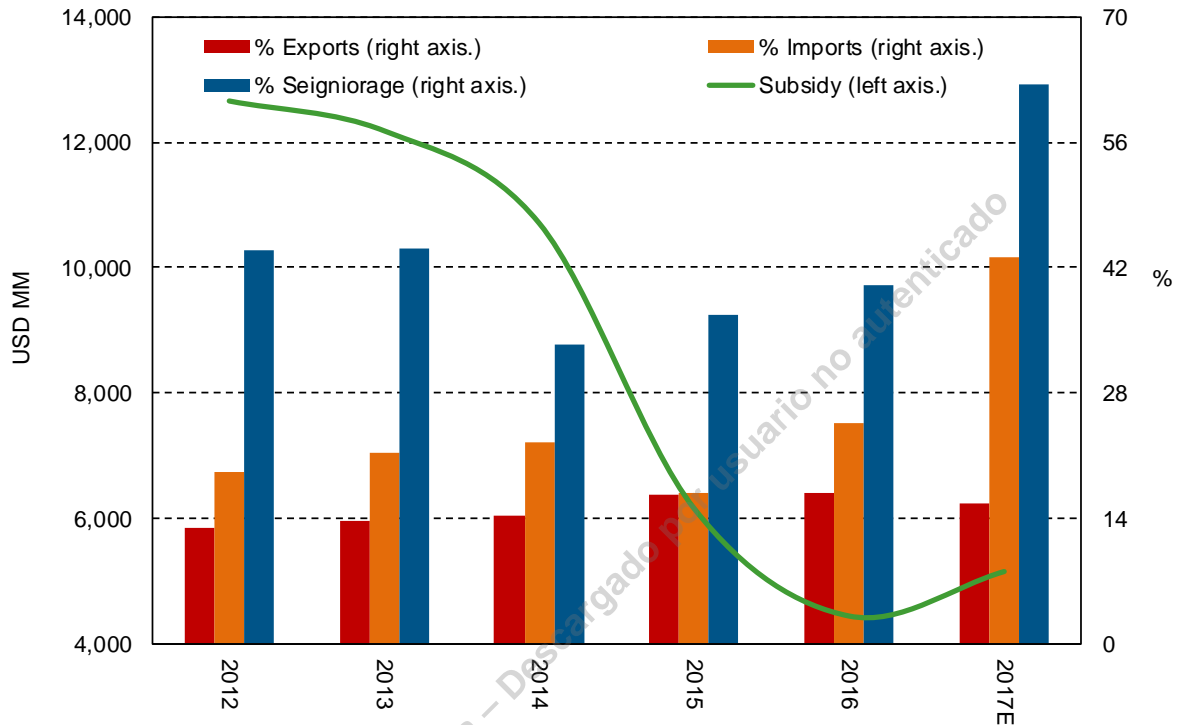
Furthermore, beyond the official rhetoric, the gasoline subsidy reached close to USD 51,076 million over the last four years of Hugo Chávez government (3.1 GDP points, on average) accounting for approximately USD 12,658 million only in 2012, 12.9% of the aggregated exports in that year and 2.13 times the debt service proposed. Furthermore, if we strictly compare from the fiscal perspective, the gasoline subsidy accounted for 22.1% of non-oil tax revenues for that year, 41.1% of seigniorage and 6.7% of total spending of the Restricted Public Sector (SPR). The cost wasn't lower.

With Maduro, it's a different story. Even though the contraction rate of gasoline prices in real terms is higher, on average, a product of the inflationary mess, the collapse of the economy and along with it the domestic hydrocarbon consumption, as well as a lower oil price, resulted in that, between 2013 and 2017, the gasoline subsidy reached USD 38,612 million, down USD 12,464 million (24.4%) from the amount recorded between 2008 and 2012. Notwithstanding, even though the opportunity cost is lower, when comparing with the market, the relative weight of those resources increases in a fiscal, monetary and external setting like the one Venezuela is going through today.

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Fuel Subsidy



Sources: Pdvs, Menpet, BCV, EIA and Ecoanalítica

At the end of 2017, we, at **Ecoanalítica**, estimated that the gasoline subsidy was at approximately USD 144 million, 16.0% (USD 711 million) up from 2016 (USD 4,433 million). Today, in spite of its being just 40.6% of 2012's number, the same represented close to 5.1 GDP points in 2017, 43.2% of the import level, close to half the debt service, and 15.6% of total exports; a substantial amount considering the cash flow and fiscal problems.

However, as we have mentioned on earlier occasions, the subsidy cost cannot be limited to a balance-of-payment and fiscal metric. In this regard, in spite of wielding the flag of social vindications, the numbers above reveal a cost that, far from providing an improvement of sorts in terms of income distribution and poverty, has paid a little contribution to both goals.

While the subsidy partially reduces the transportation cost of people and goods, it doesn't translate into a decrease in the final cost of goods and services, not even in terms of

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transportation (24,611,878% cumulative inflation only during Maduro's tenure⁵). Moreover, the subsidy is highly regressive, which benefits more the higher-income and less the lower-income segments. According to Barrios & Morales (2012)⁶, the largest part of the gasoline subsidy (52.8%) ends up benefiting the owners of private vehicles, 62.1% of which belong to the wealthiest quartile of the population, for instance.

The narrative is clear: A subsidy that has derived in an opportunity cost close to USD 89,688 million in only nine years, gives rise to a strong distortion in certain relative prices of the economy, and thus in the allocation of resources, and doesn't represent any improvement in terms of distribution and poverty, has to be eliminated or, at least, rethought, with a view to providing it with fiscal and political viability⁷.

Second round: August 2018

In this context, Nicolás Maduro is about to take his second turn at bat in over five years in an attempt to dismantling the current gasoline subsidy. In this regard, Maduro presented a few days ago, without further details, a scheme that provides for unifying hydrocarbon prices on the domestic market at the level of "international prices" and, at the same time, a direct subsidy channeled through the so-called Carnet de la Patria, and contingent on participating in a vehicle census that will end on August 17.

For now, Maduro's plan has two aims: *"Putting an end to gasoline being smuggled to Colombia and the Caribbean"* and progressively lifting the subsidy within two years, simultaneously with a *"recovery of the purchasing power of bolivar soberano anchored to Petro and wages, also anchored to Petro."* Even though the scheme has not been fully clarified, we at **Ecoanalítica** believe that the outcome of the measure will be marked by three key elements:

- *What is the final price expected to be reached?*
- *Will there be any kind of indexation on this price, given the hyperinflationary setting?*
- *What will be the amount of the subsidy and whether it will be subject to any type of indexation?*

⁵ July 2018-April 2013.

⁶ *Rethinking the Taboo: Gasoline Subsidies in Venezuela*, Douglas Barrios y José Ramón Morales, marzo 2012.

⁷ The Iranian case is presented as an innovative alternative; for a more in-depth discussion, we recommend: *"Iran—The Chronicles of the Subsidy Reform"*, Dominique Guillaume, Roman Zyteck, and Mohammad Reza Farzin (2011).

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Before proceeding to comment on the above questions, it's worth noting that, as mentioned in previous reports, we, at **Ecoanalítica**, believe that isolated measures that are not aimed at a significant turnaround in tax and monetary terms, with emphasis on the stabilization of money demand, will hardly stop the hyperinflationary drama and stabilize the economy.

In this sense, given the lack of a monetary agreement that credibly undertakes to stop growth sustained by monetary aggregates, and a fiscal policy aimed at overcoming the administration's deficit and providing the State with fiscal viability, it can be expected that a rearrangement of the hydrocarbon subsidy scheme, as the one proposed, will be doomed to coexist with hyperinflation rather than overcoming it.

With this in mind, let's deal with the first question, perhaps the most relevant one for practical purposes: *What is the final price expected to be reached?*

If we take what Maduro said at face value, the central aim of the measure is reducing the possibilities of arbitrage and, thus, smuggling, through convergence between the current price on the domestic market and that on the "international market"⁸. Notwithstanding, the timeframe proposed to materialize this parity of sorts isn't still clear. Even though Maduro has proposed the subsidy elimination within two years, he didn't make any reference to the details of the scheme backing up the proposal in the medium term (exchange market, price of reference, among other elements).

In this regard, the first step would be defining the external metric that would determine the price increase in principle, the reference exchange rate that would sustain its value in bolívares soberanos (VES), and the increase proposed of the international reference to fulfill the goal of two years mentioned by Maduro.

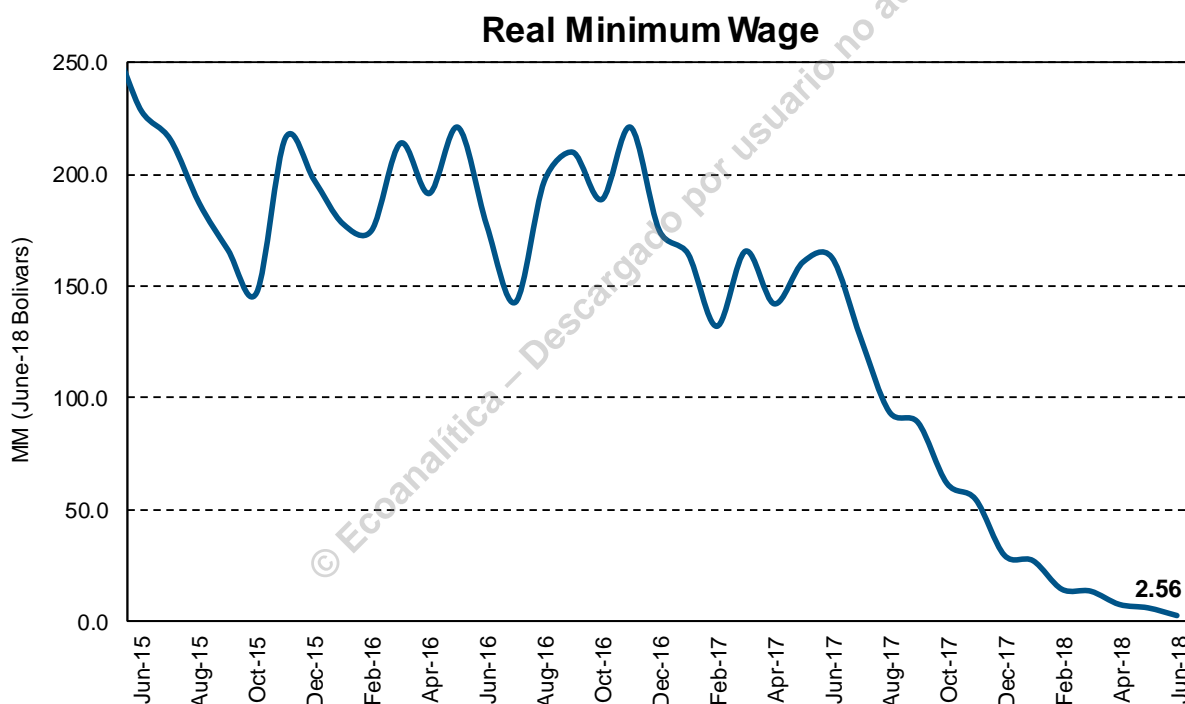
This means that not only defining the value in US dollars of the liter of gasoline, at a specific percentage of the international price, for example, is important, but also what will be the exchange rate at which that amount is to be translated into VES⁹. This last point deserves special attention since the generalized destruction of relative prices in the Venezuelan economy, the exchange rate among them, significantly complicates any assumption we may make in relation to the selection of an exchange marker.

⁸It is worth to say that the gasoline price is not a unique and valid number for the whole international market. Regarding this, the measure should specify the detailed indicator that would work as an external reference.

⁹ Regarding this last point, we believe it is linked to the Petro-VES ratio that, according to Maduro, shall govern the new economic phase starting August 20th.

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That said, at **Ecoanalítica** we believe that a corner solution, e.g. a marker equal to the international price at a market exchange rate, is not consistent with the country's economic reality, given the collapse in the real income of the agents and the current political picture; even more considering that the main fiscal advantage of the measure will be that the consumption will not be tied to the potential subsidy obtained for holding the Carnet de la Patria¹⁰. The price effect has a weight. For instance, a vehicle with a 50-lt tank, from paying close to VEF 300 per tank at the time of writing this report, would pay VEF 237.7 million - 45.7 integral wages, an increase of 79,237,330%, upon the entering into force of the measure¹¹.



Sources: BCV and Ecoanalítica

Smuggling deserves another point. While the difference between international references and the internal market prices is positive, there will exist incentives to keep contraband

¹⁰ Assuming that the same is about to account for 100% of budgeted spending based on the results of the vehicle census. Considering this, if done, the additional income that the Government would aim for would depend, exclusively, of the gasoline consumption that would not be financed by such ID card.

¹¹ Comes from an estimated price per gallon of USD 2,843 (USA's national average, 08/13/2018), published by the Energy Information Association (EIA) and an VEF 6,330,203/USD Exchange Rate.

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system that, regarding our estimates, has represented about 80 kb/d in previous years. Meaning, considering that the collapse of the agent's real income would impose an upper bound to the price growth, it is expected that the measure will not affect the smuggling dynamic if it depends, mainly, on the reduction of the related premium or, in other words, the difference between internal and external prices.

It's worth highlighting that as long as the increase is greater, two opposite effects will take place, in fiscal terms, depending on the resistance from the sector of the population belong to the network proposing the Carnet de la Patria. In the first place, the higher the price proposed, the higher the opportunity cost associated with the fact of not holding the Carnet de la Patria; this will result in higher migration to the scheme of subsidies channeled through said Carnet, especially, the one related to gasoline, assuming that the government will somehow be willing to make the requirement of participating in the vehicle census more flexible¹².

In that sense, the revenue from that consumption that is not related to the "Carnet de la Patria", would tend to decrease as the number of people entered in such system grows.

Furthermore, given the generalized impoverishment of the population, the government would have to deal with a strong contraction in fuel demand derived from the relative increase of its price, which will reduce domestic collection but, at the same time, partially improve the external picture, due to the oil barrels that would be released to become part of the exportable basket. However, the fall in oil production (642 kb/d accumulated until July's closing¹³) significantly reduces the potential cash to be earned from this set of barrels.

As one of the main elements behind the dismantling of the subsidy, the tax issue gains significance at the time of analyzing the measure. Based on the premise that the new scheme is going to be born and live in hyperinflation, it's important to answer the other two questions: *Will this price be indexed, given the hyperinflationary environment?* And *what will be the amount of the subsidy and will it be subject to indexation?*

The analysis of prices deserves a second analysis intended to make sense of how could the evolution of price look like in time. At **Ecoanalítica**, we believe that, given the high inflation rate, anchoring gasoline prices again or not providing for an indexation

¹² Otherwise, the decision will be limited, before the announcement of the new fuel price.

¹³ With respect to the cumulative average throughout the same period of the previous year.

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mechanism consistent with the market dynamics -specially through the exchange rate¹⁴- would result in a new relative decrease in fuel prices, thereby reducing the potential revenues derived from dismantling the subsidy.

For the purpose of illustration, let's assume that the government opts for setting the price of gasoline at 100% of the international¹⁵ reference, at an exchange rate close to that prevailing in the market (VEF 6,330,203/ USD). Even though this would represent a specific increase of 79,237,330%, at a year-to-year inflation rate of 4,842,449% (based on July's record¹⁶), in fifteen months, the gasoline price in real terms would return to its starting point, if the mechanism is not provided with an automatically stabilizing element that allows the amount in VES to fluctuate in accordance with the shocks that may be perceived by the gasoline market and the Venezuelan economic dynamics. Now, if said element is established, the internal fiscal loss would be limited to the variation in hydrocarbon demand.

Furthermore, the amount collected essentially depends on the number of people opting for the direct subsidy, the percentage of cost per vehicle proposed and whether it will have an indexation mechanism consistent with the inflationary dynamics. These factors, far from being defined in an isolated fashion, depend on the analysis above.

Overall, depending on the percentage proposed to be covered through transfers and the indexation mechanism planned, both in terms of prices and payments through the Carnet de la Patria, the tax benefit will be greater or smaller.

For instance, assuming that the decision is made to finance the total individual budgeted spending, the tax benefit will be restricted to what those individuals that don't have the Carnet de la Patria demand and pay. In this regard, if a similar scheme is concentered, we, at **Ecoanalítica** believe that, in spite of a strong drop in domestic consumption due to the price increase, there would be still sectors of the economy, especially the private sector, which would be buying gasoline at a high price to maintain their businesses afloat. In this sense, we are of the opinion that, albeit marginal, the measure will result in some kind of tax benefit for the government.

¹⁴ For example, despite opting for a possible external reference, by anchoring the exchange rate that changes such reference in VES (Dicom's inferior band and another exchange rate), the price of gasoline would decrease as the hyperinflation increases.

¹⁵ For this exercise, we will use as reference the USA's average price published by the EIA, mentioned previously.

¹⁶ 145.7%

If the decision is not financing the spending aggregate or leaving it to lag behind an asymmetric indexation between price and the amount to be transferred¹⁷, part of the tax benefit could even come from those having the Carnet de la Patria.

Let's wait and see

We, at **Ecoanalítica**, believe that, given the government's record, marked by strong inconsistencies between announcements and execution, and the hyperinflationary climate, the dismantling propose will hardly be optimum and translate into an improvement of wellbeing beyond a limited fiscal gain on the revenue side. The deterioration of the fiscal and monetary situation will continue to exist and hyperinflation and GDP fall with it.

It's worth highlighting that this is a step in the right direction. However, there are other more urgent elements in relation to which the government has a little degree of freedom to act, mainly, in terms of oil production and money demand, which hinder any stabilization attempt. It's important not to fixate on just three trees, when the problems of the Venezuela economy populate an entire forest.

Gorka Lalaguna
Alejandro Grisanti

¹⁷ That the price has an indexation mechanism and the amount to be transferred doesn't, for example.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	248,832	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
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.4	-1.6	-15.0
	1st Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VEF Bn)	3,654,340	19.2	12,434.9
Price of International Oil Baskets (USD/bl)			
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
WTI	68.1	-1.1	38.2
Brent	73.2	-0.9	39.9
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	65.7	-2.1	33.4
Annual Average	63.2	0.1	20.9

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

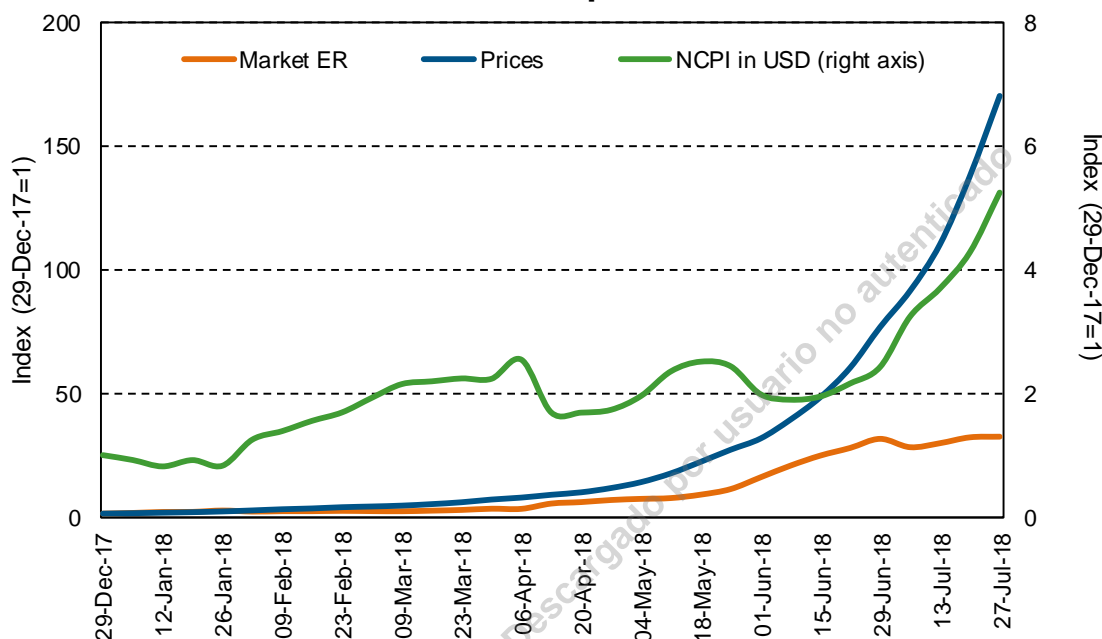
¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “MORE EXPENSIVE IN DOLLARS”

Inflation vs. Depreciation



Sources: API Bitcoin, BCV and Ecoanalítica

From some time now, Venezuela has been a “cheap” country in relation to the US dollar. People were demanding more foreign currency to cover against the accelerated bolivar depreciation. In this regard, local agents were trying to protect the purchasing power of their savings by having more dollars. However, over recent months, living in dollars has become more expensive. On July 27, a dollar could only buy 19.0% of what could be bought in early year.

As seen in the graph, the parallel exchange rate is no longer growing at the same rate as prices in the economy. In March, prices grew 13.3% weekly, on average, whereas the unofficial exchange rate grew 7.5%. Since then, the gap between both has become wider. In July only, the US dollar lost 54.2% of its purchasing power, because, whereas the exchange rate increased 12.5% (stable around VEF 3,252.2/USD, on average), prices of the National Consumer Price Index basket (INPC) gained 145.7%.

From a different perspective, in late March, US 2.23 were required to buy the same goods that would have been purchased with one dollar in early year. In July, USD 5.25 was required to buy the same basket of products.

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ECONOMIC TIPS

A new economic “offensive”. President Nicolás Maduro announced new economic measures intended to fight gasoline smuggling “mobs”.

Two sets of currency, one country. Among the new economic announcements, Maduro explained that the new set of currency is going to coexist with the old coinage system indefinitely, which will contribute with “retail operations”.

Two currencies, one country. Maduro also announced that starting August 20, Venezuela will have two accounting units: bolívar soberano and petro. In addition to this, the Central Bank of Venezuela (BCV) will start publishing official numbers of the functioning and anchorage of bolivar soberano to petro.

Wages and prices. Maduro explained that salaries and prices will be tied to petro, with the intention of “stabilizing” the Venezuelans’ purchasing power.

Remittances. The firm Zoom explained that the exchange rate to be applied to remittances was set at VEF 4,010,000/USD, as authorized by the Central Bank of Venezuela (BCV). Including this increase, five increases have been authorized over the last two months, which tripled the exchange rate value. This accounts for a depreciation of 86.8% since the remittance agencies were opened.

26th Auction. At the 26th auction of Dicom, the resulting exchange rate was VEF 248,832.0/USD, which represents a devaluation of 16.7% (curiously, exactly the same devaluation has been recorded for four weeks now) with respect to the prior auction.

A minimum for legal entities. The total amount allocated to legal entities was USD 99,323, down 87.9% from the prior auction; this amount represents the lowest allocated to legal entities since the 7th auction (USD 48,275).

Advantage to “people”. The total amount allocated to individual, in turn, was USD 122,249.15, up 85.5% from the previous auction; this amount accounts for 55.2% of the total amount allocated in the auction.

Liquidity. According to the last data available, liquidity was at VEF 3.65 quadrillion, up 2,769.7% for the year. On average, liquidity increased VEF 357,3 trillion weekly.

Up and up. The monetary base is at VEF 2.18 quadrillion, up 22.4% from the previous week, for a year-to-year variation of 16,664.1%. On average, weekly growth of monetary base has been 10.62% in 2018.

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New minimum. According to numbers released by the Central Bank of Venezuela (BCV), the ratio between cash and the total circulating money reached a new record low at 0.9%.

Less reserves. International reserves are at USD 8.44 billion, down 1,6% (USD 138 million) from last week and 15% (USD 1.48 billion) from last year.

OIL TIPS

Direct subsidy. President Nicolás Maduro announced that the measure regarding gasoline price, which was announced on July 25, does not refer to a differential price for the fuel. Those people who took part in the vehicle census and have the carnet de la patria will be granted a direct subsidy.

“At the international price”. In addition to this, Maduro’s statements were as follows: *“I’ve already created a direct subsidy system for gasoline and all hydrocarbons for the Venezuelan people and public transportation, but (fuel) has to be place at the international price to put an end to smuggling [...]. I’ve approved the direct subsidy for all private and public transport vehicles.”*

No further details. Beyond the above, the date of the entering into force of the new fuel prices or the referential exchange rate to be used was not established. Maduro announced that details will come later.

Primary sources. The Organization of Petroleum Exporting Countries (OPEC) has published that, according to official sources, Venezuela’s oil production reached 1,469 million barrels daily (mb/d) in July 2018, for a difference of -62.0 kb/d (-4.0%) from the previous month (1,531 md/d).

Secondary sources. Secondary sources, in turn, put July’s oil production at 1,278 million barrels daily (mb/d), down 47.7 kb/d (-3.6%) from June (1,325 mb/d).

Forged numbers. However, a special article by Argus Media (AM) reports that the numbers released by Pdvsa every month are systematically inflated, *“what they report isn’t true”*.

True Numbers? AM sources point out that production from the Orinoco Oil Belt was at 843,200 b/d, while official reports state that it was 908,200 b/d. Likewise, the actual oil

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production was 1.25 mb/d in July, i.e. a difference of 219 kb/d with regard to official numbers.

OPEC in July. According to figures released by OPEC, oil production in Libya, Saudi Arabia and Venezuela decreased in July, whereas the other members increased it. The Organization produced 32.32 mb/d in July, on average, up 0.12% from June (32.28 mb/d).

Let's go for Citgo. A US Federal Judge approved the motion filed by the Canadian mining company Crystallex International, to take control of Citgo assets to pay the outstanding debt of USD 1.4 trillion against Pdvsa, the Wall Street Journal reports.

Venezuela vs. Pdvsa. The judge informed that the motion was approved, because Crystallex proved that Pdvsa is not a separate entity from the Venezuelan State and that the debt bonds in question were used for commercial purposes by Pdvsa. It's still to be determined when the sentence enforcement will be ordered or to which extent the court will be involved in the enforcement of a sale of assets.

Still in trouble. Given the seizure of the Isla refinery in Curacao by ConocoPhillips, its operations have alarmingly dropped over recent months. Argus Media reports that with a production capacity of 335 kb/d, the refinery is currently producing only two thirds of this amount.

The same old news. Manuel Quevedo, Petróleos de Venezuela (Pdvsa)'s CEO, informed that adjustments have been implemented to improve the administrative procedures of the oil industry, especially in the El Palito refinery. Quevedo added that they're endeavoring to optimize the oil industry.

SECTOR TIPS

Bridge. President Nicolás Maduro announced that Monday, August 20 was declared non-working day, so as to allow the entering into force of the new coinage system. This, with the aim of "ensuring" the functioning of all banking platforms.

More empty promises. The Transportation Minister, Hipólito Abreu, stated that the extension of the vehicle census to August 10, 11 and 12 was "successful". Upon knowing the results and problems in this sector, the Minister pointed out that inputs, such as tires and batteries, will be given to the affected citizens.

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A second extension. A second extension of the vehicle census, from Wednesday, August 15 to Friday, August 17, was announced. This will be the last chance to register in the census and be eligible for the subsidy program.

Blaming others, as always. Likewise, Abreu assured that the failures in the public transportation system, especially Metro de Caracas, are due to the economic blockade by the US against Venezuela, but that thanks to a plan that will be implemented, *“we’re convinced that in more than 15 days, we’ll be able to reach quite interesting operational levels in terms of service rendering.”*

Cantv increases rates. Compañía Anónima Nacional Teléfonos de Venezuela (Cantv) (Venezuelan state-owned telephone company) increased its rates for telephone and other services. The basic rate went up from VEF 1,096.51 up to VEF 184,133, for a change of 16.7%, whereas the rate for calls from cell to fixed phones was increased 15.7%, from VEF 9.3 to VEF 1,473.06.

Road to reconversion... The Bank Superintendent (SUDEBAN) informed that August 17 has been declared a non-banking day, due to the preparation for the monetary reconversion, and that banks’ offices, counters, agencies, etc., will not be working on August 18 and 19, only electronic services will be operating.

Only losses. Fedecámaras Zulia reported that the industrial sector in the state has lost 70.0% productivity. Likewise, the organization stated that the commercial sector only provides 30.0% of goods and services and that 35.0% of vehicles are out of service. The lack of transportation, deterioration of technological equipment, the lack of spare parts and the loss of the purchasing power to replace them are signaled as causes of this situation.

Hvgvjkh. The Venezuelan Center for Disease Classification (Cevece), an entity of the Health Ministry, is closing its operations. With this, the Health Ministry *“limits the reliable statistical and epidemiological knowledge regarding the health situation in Venezuela and, therefore, weakens institutional responses intended to guarantee the quality of living and health of the population.”*

No data. Every year, The Ministry for Ecosocialism and Water (Minea) implements a plan to optimize water purification plants in the country and report on this. However, since 2015, neither data nor official information on this subject has been released.

Not even half of the plan has been implemented... A plan for *“optimization, modernization and major maintenance of water purification plants throughout the country”* commenced in January last year, and was expected to end in December 2019. For this

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project, VEF 18.00 billion have been disbursed, according to the web portal Efecto Cocuyo. Notwithstanding, the physical progress has been 20.0%, and financial execution, 12.0%.

Incomplete. Just like this project, there are many more that have not been completed or aren't even close to being completed. Efecto Cocuyo reports that the physical and financial progress of the rehabilitation of water purification plants is 3.0% and in the case of the optimization of water quality management, financial progress reached 19.0% and physical 2.0% only.

A turbid water country. According to the Inter-American Network of Academies of Sciences (IANAS), the coverage of the sewer service in Venezuela is 81.0%, which is considered "insufficient". Given the situation, Hidroven earmarked VEF 5.35 billion this year for "optimization, modernization and major maintenance projects of the water purification plants throughout the country." However, considering that projects launched in previous years haven't been completed, what is the guarantee that these projects are effectively to be completed?

INTERNATIONAL ECONOMY TIPS

Europe gets bigger... According to Eurostat, the European Union (EU) registered a growth greater than the one estimated in the second quarter. In the months of April, May and June, the zone posted a 0.4% growth vs. the rate previously expected of 0.3%.

...but some more than others. One of the biggest surprises is the German economy that, thanks to an increase in investment and private consumption, grew 0.5%. Unemployment rate in the UK, in turn, decreased 4%, for a record low in 43 years.

OFAC works uninterruptedly. The US has announced a new round of economic sanctions against Russia, which ban some exports, in response to the use of a nervous agent in England in March. At the same time, a group of Democrats is proposing to apply other sanctions against Russia for having interfered in the US election. These sanctions include a prohibition to buy Russian debt and carry out transactions with Russian public banks.

Russia: wounded and revengeful. As a result of this decision, the ruble depreciated to its record low in two years, and the transaction volume on the Russian securities market increased. Russian officials have said that they're preparing their own sanctions in

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retaliation, including trade restrictions with implications for the aviation industry and space launching.

Turkish diplomacy fails. The Turkish lira continued to depreciate this week. The Turkish delegation that traveled to Washington to negotiate refused to release the American prisoners who caused the imposition of sanctions and the intensification of sanctions became more plausible, which made the Turkish lira depreciate to TRY 5.5/USD.

Erdogan follows PSUV's steps. The subsequent days, the Turkish lira was traded at a rate over TRY 7/USD, which represents a 45.5% low of its value for the year. According to President Erdogan, the Turkish economic problems are part of an "economic war" against the country, and, in spite of being part of NATO, Erdogan called Turkish people to boycott American electronic equipment, get rid of their dollars and euros, and will meet Vladimir Putin to talk about sanctions.

Repercussions: The Turkish crisis has spread to other emerging markets and the South African rand experienced its greatest depreciation in one decade (-9.4%) on a single day. Given the drop in the Emerging Market Currency Index to a record low in one year, due to the Turkish lira, foreign investors got rid of USD 357 million in South African bonds, putting pressure on a rand that needs capital flow to finance their current account deficit.

Argentina and its stabilization. Stabilizing an economy isn't an easy task, as Argentina has proven. This week, Argentinians sold close to USD 200 million of their reserves at an average of ARS 29.4/USD, and raised their interest rate by another 5 percentage points, in anticipation to the effect of the Turkish lira spill. Furthermore, they postponed their plans to gradually reduce commercial rates to keep this revenue in their balances and help closing the fiscal gap.

China has its methods. In spite of American tariffs, China increased its exports 12% on a year-to-year basis. Chinese trade was helped by a sustained yuan depreciation that rendered China's exports more competitive. However, the US will apply new 25% tariffs to about USD 16.00 billion in Chinese imports.

Italy, a reason for doubt. Italian bonds have been impacted by the statements of the populist government coalition. The market was caught by surprise by the impossibility of harmonizing government goals, like a tax cut and the establishment of a basic income system for the poorest segments, with the fiscal deficit limit of 3% of GDP for EU member countries.

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Expectations for Chile. After a 4.9% growth in the Chilean economy in June, the Economic Expectation Survey (EEE) conducted by the Central Bank has forecast that the economy will slow down 3.6% for the third quarter, and a 0.2% price increase in August.

POLITICAL TIPS

Confession... 72 hours after the capture of Deputy Juan Requesens, the Communication Minister, Jorge Rodríguez, released at a press conference the video of the interrogatory of the Deputy. In the video, Requesens assumes responsibility for having assisted Juan Monasterios (involved in the murder attempt) from Venezuela to Colombia, following orders of Julio Borges.

...Or “confession”. Deputy Delsa Solórzano, in turn, assured that the video *“doesn’t have any probative value and is null and void.”* Likewise, Deputy Jorge Millán said that *“it’s evident that the regime has tortured Juan to make him say things against his will.”* Both deputies pointed out that the true will come out when Requesens is released.

At the Palace of Justice. The student leader Rafaela Requesens reported that her brother, Juan Requesens, was waiting for his arraignment hearing together with other six detainees.

International support. The Group of Lima condemned the detention of Requesens and demanded an exhaustive, transparent and independent investigation of the events of last August 4. The US Department of State, in turn, described the Deputy’s detention as illegal.

“Nobody will be untouchable!” Nicolás Maduro stated that *“Oligarchy and extremist opposition from Bogota”* will pay for the murder attempt against him. He also explained that they have the evidence necessary to prove the involvement of the former Colombian president and Deputy Julio Borges in the murder attempt.

A dialogue under threats. In relation to the current arrest warrant against Julio Borges, the Deputy said that in February, Delcy and Jorge Rodríguez together with Spain’s Rodríguez Zapatero and Tarek el Aissami had threatened him with imprisonment if he doesn’t sign the dialogue agreement with the government. Rodríguez Zapatero has denied the accusation, describing it as a *“gross slander.”*

Now yes, the “investigation” begins. The ombudsman, Alfredo Ruiz, informed that the investigation on the detention conditions of Deputy Requesens and the possible violation

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of his human rights has been started. He added that Requesens has already undergone several medical examinations and has been interviewed by two prosecutors from the General Prosecutors' Office.

Where is Requesens? The NGO Programa Venezolano de Educación – Acción en Derechos Humanos (Provea) spoke about the videos of Juan Requesens that were released recently. The NGO describes the fact of the Deputy being in solitary confinement as a crime against humanity and urges the Ombudsman to verify the health condition of the Venezuelan political leader.

Still not arrested. The President of the National Constituent Assembly (ANC), Diosdado Cabello, stated that, in addition to those people already accused, there are “*other*” opposition sectors involved in the failed murder attempt. And once again accused the former Colombian president and the US of being accomplices of the murder attempt and added that “*there is a global attempt to finish President Maduro off.*”

And he finally talked. The Attorney General Tarek William Saab informed that the number of individuals involved in the presidential murder attempt increased up to 34, of which, 14 are already in prison. He also ordered a toxicological exam and a medical check-up for Juan Requesens. Alfredo Romero, director of the NGO Foro Penal Venezolano, informed that 21 individuals have been arrested for the failed murder attempt.

The clock is ticking. The National Electoral Council (CNE) announced that a new validation process will be launched for the political parties that didn't participate in the past presidential and municipal election. Un Nuevo Tiempo (UNT) and Acción Democrática (AD) are two of these parties.

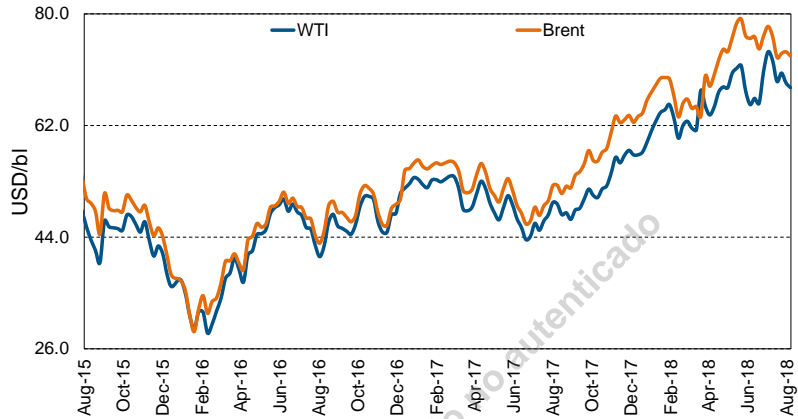
Distraction. The exile Julio Borges pointed out that with the recent accusations against him, Maduro's government is trying to distract citizens from the problems that are really hitting the Venezuelan people, and, at the same time, discrediting the opposition movement in Venezuela.

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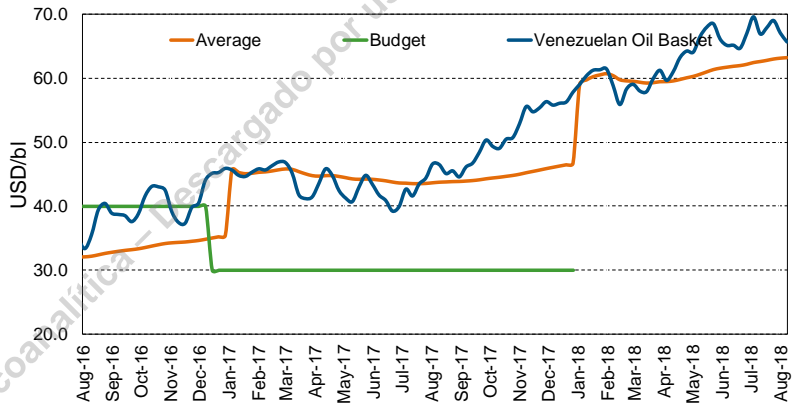
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



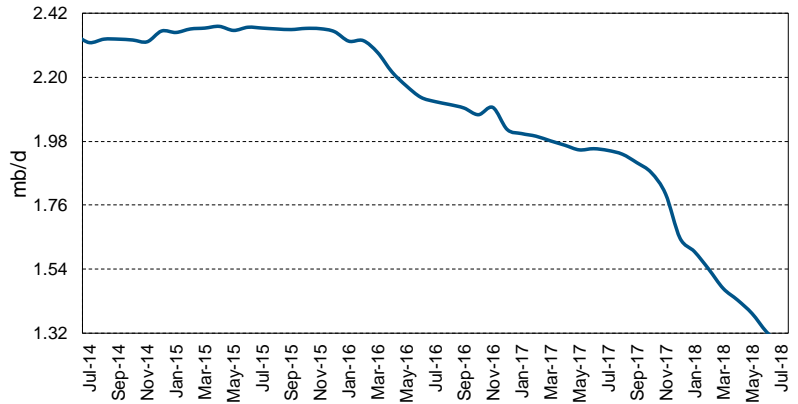
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)

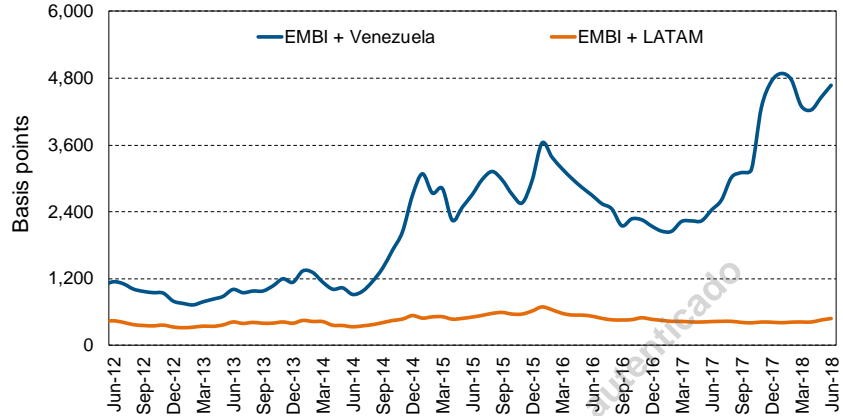


Sources: OPEC and Ecoanalítica

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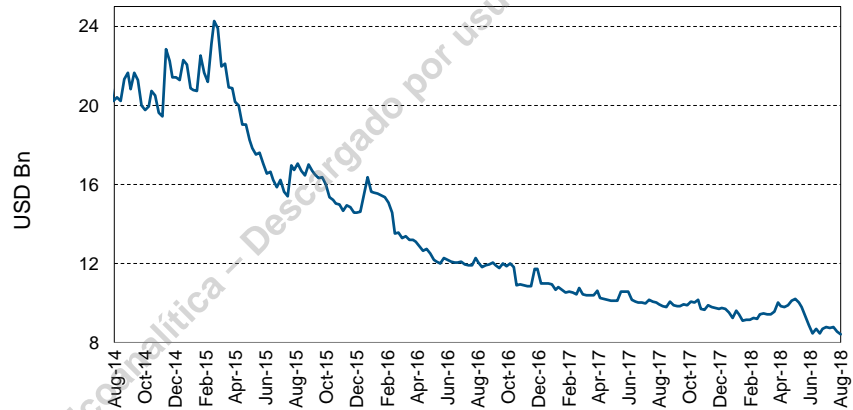
ECONOMIC INDICATORS

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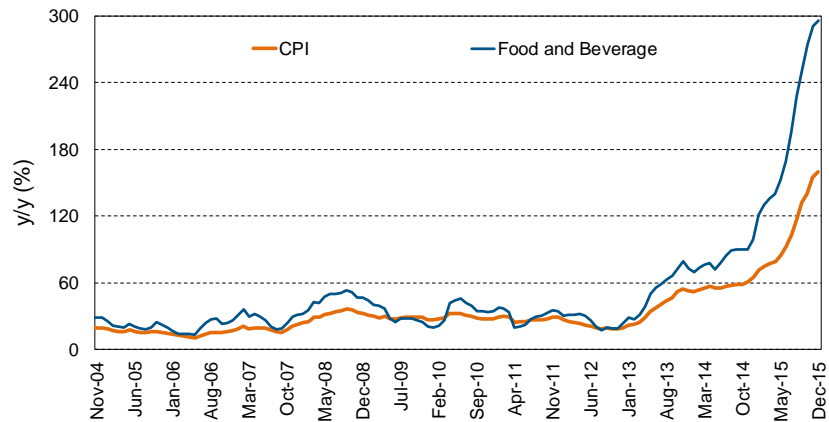
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



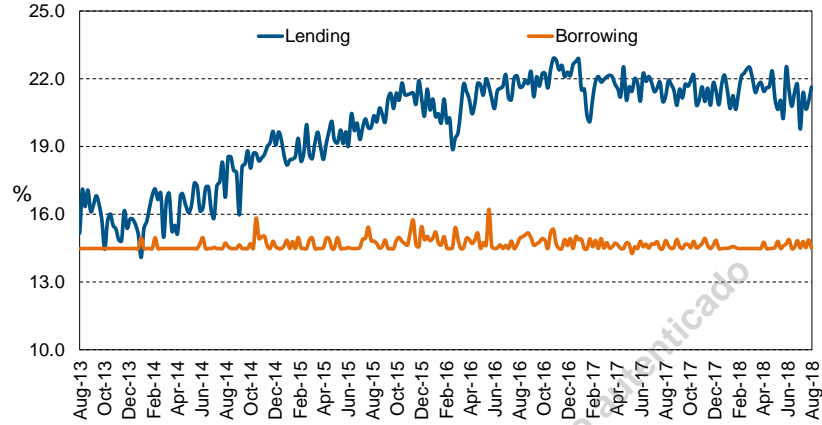
Sources: BCV and Ecoanalítica

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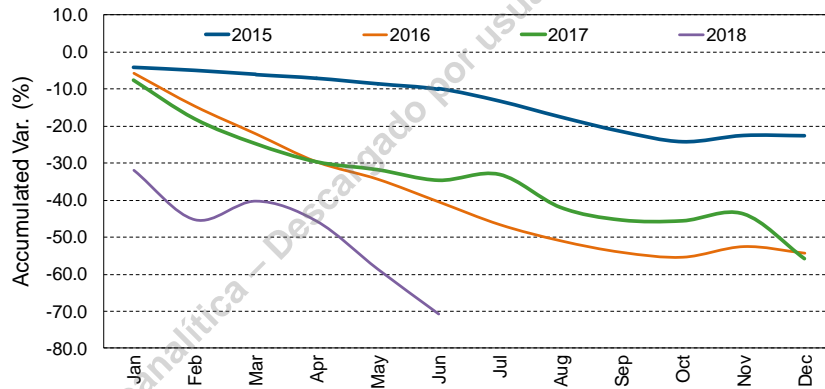
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



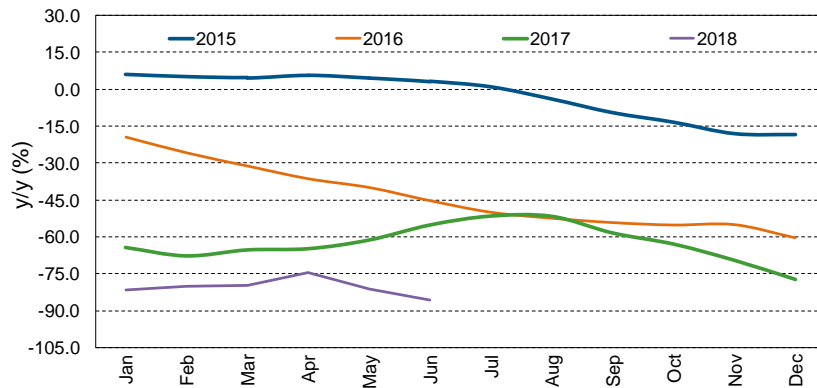
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

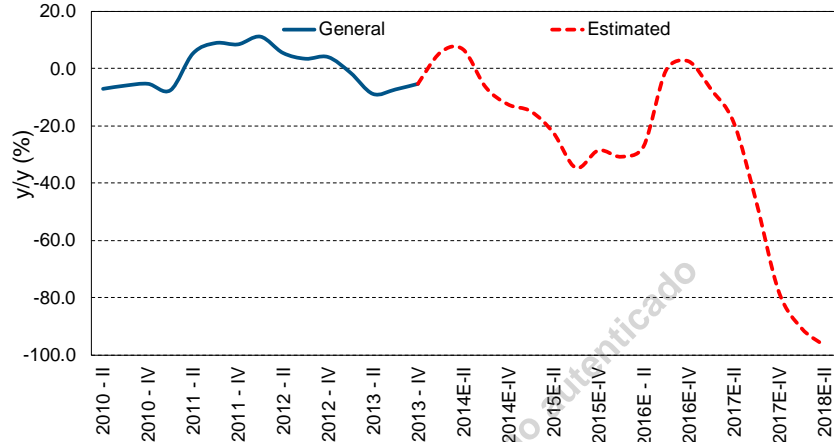
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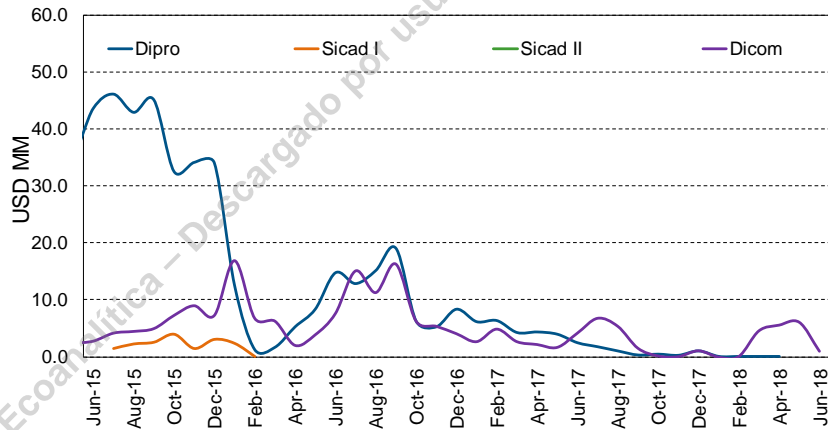
ECONOMIC INDICATORS

Real Wage Index



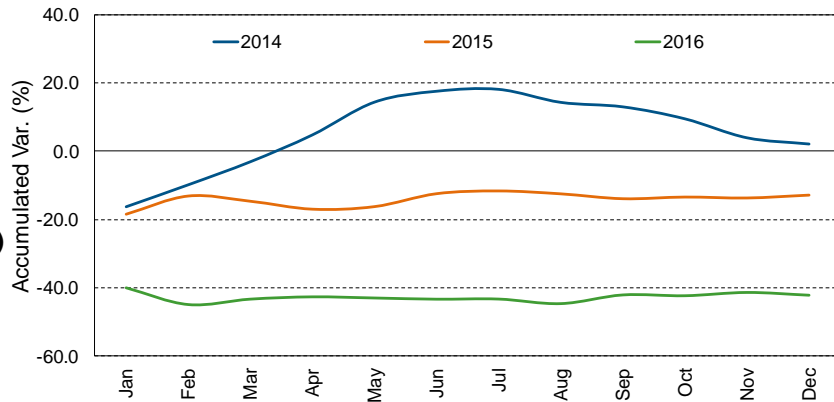
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



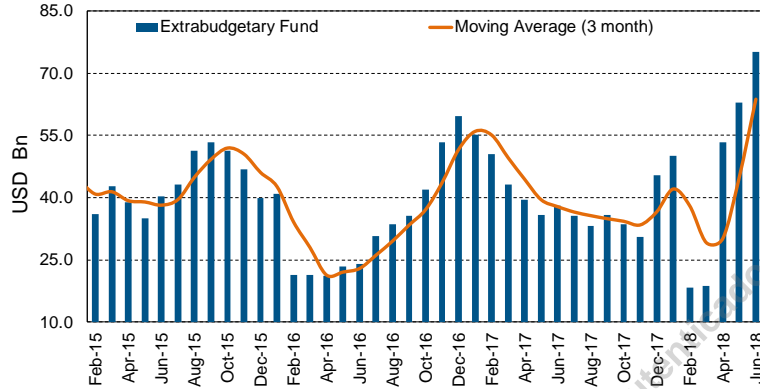
Sources: ONT and Ecoanalítica

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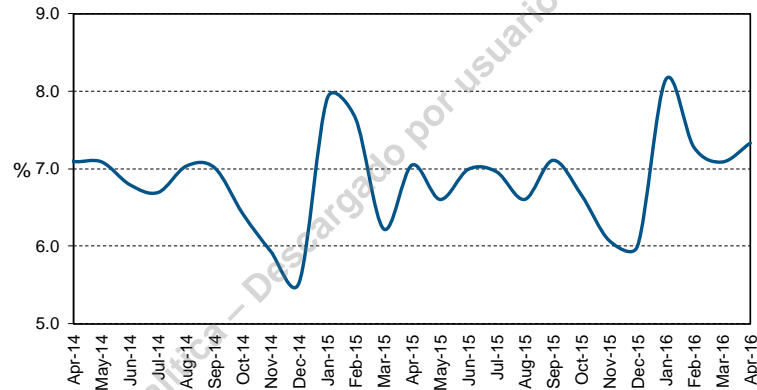
ECONOMIC INDICATORS

State Extrabudgetary Resources



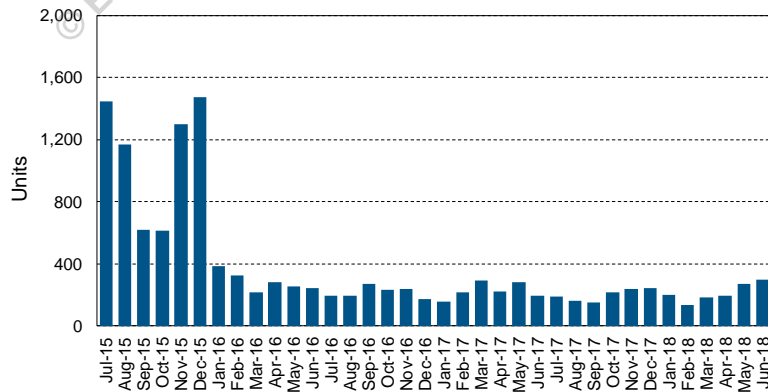
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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