

PDVSA: Racing with itself

Forty-two days after the scheduled date, PDVSA published its audited and consolidated Financial Statements for the year 2016, piercing a hole in its black box. Through this window, we can investigate and understand PDVSA's finances and, therefore, the finances of Venezuela. However, PDVSA, always clever when presenting its accounts, has not made delving into them an easy task.

Curiously, the independent firm of accountants that performed the audit drew attention to several irregularities in a new section specifically created for the 2016 statements; from those we highlight these:

- In its capacity as a state-owned company, PDVSA performs significant transactions with related parties. Consequently, some amounts in the Financial Statements and some disclosures in their notes are irregular. They differ from what would have resulted had those transactions been performed with third parties.
- Information on the Consolidated Financial Statements does not cover internal management and operations because the Annual Management Report 2016 was not shared or audited.
- Risks of irregularities (fraud or irregular conduct) were identified, mainly in processes involved procurement of goods and services or the payment of suppliers.

This series of warnings, written only a few pages into the report, is a symptom of the overall unsustainability of a “pay as you go” scheme, incurring in increasingly higher costs for an economy that has lost a quarter of its capacity in only four years. This has become a race to finance until each year's end regardless of the cost.

There is no free lunch

Following what would seem to be a tacit rule, the Consolidated Financial Statements show the usual features that make any official publication an essentially hermetic document full of uncertainties. Juggling between different exchange rates, the omission

of data, and a lack of explanations, impose severe restrictions on any analysis of the figures.

Despite this, the figures provided in the Financial Statements give an idea of a situation that is difficult to hide: in economics, and more so in the limited conception of economic policy proposed by the government, there is no free lunch.

Far from presenting a company focused on efficiency, the Financial Statements depict a PDVSA that is in a constant race against itself to cope with both its external commitments and its own internal operations.

How has that race been run inside PDVSA?

PDVSA's current situation is dramatic. In 2016, the Venezuelan Oil Basket plummeted 20.6%, oil production contracted by 279,000 barrels a day (kb/d)¹, 29 kb/d more than the contraction in refining capacity (-250 kb/d). Additionally, economic policy - especially rigid in terms of the exchange rate regime - gravely affected the results of the state owned company.

The logic behind this is simple: putting PDVSA in a leading role in the fiscal picture² (and also as regards the external situation), with extreme rigidities in terms of the exchange rate, has resulted in PDVSA being constantly in deficit, forcing the State to monetize a large part of that deficit. Even so, as the situation has deteriorated with the passing of time, PDVSA was forced to refine different accounting methods to justify monetary emission by the Central Bank of Venezuela. To do that, PDVSA is currently resorting to new mechanisms, the majority of which are reflected, one way or another, in the Financial Statements.

Reconfiguring the sale of promissory notes to the Central Bank

This has been the main vehicle through which the Central Bank has channeled monetary financing to the state-owned oil company. It simply consists of PDVSA issuing a promissory note that is then transferred to the Central Bank and classified as an Account

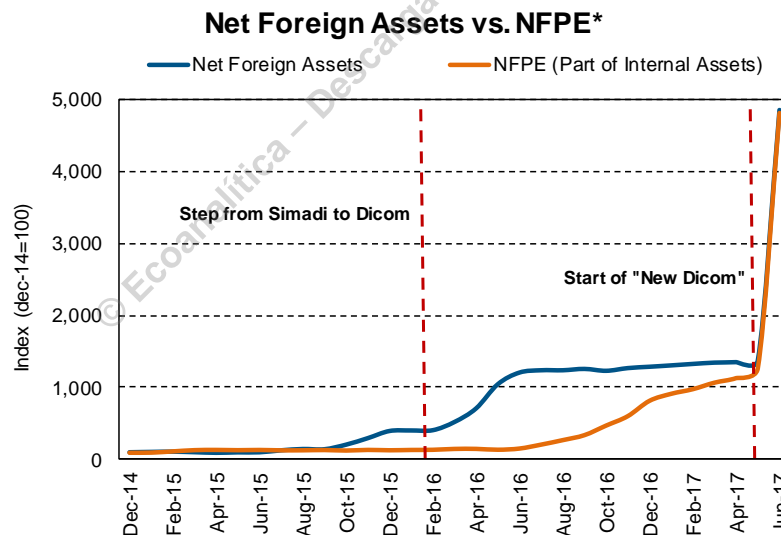
¹ According to primary source figures published by the Organization of Petroleum Exporting Countries (OPEC)

² Based on multiple mechanisms that place PDVSA as executor of a part of quasi fiscal spending, a significant increase in its payroll, and an overall increase in its sphere of action within economic policy (contributions to social development, the Social Development Fund (Fonden), and other missions or social programs), among other things

Payable to Related Parties (in this case PDVSA) and as an asset on the Central Bank's balance sheets.

As a rule, PDVSA states the total amount owed the Central Bank under this item in each of its Financial Statements³. However, in 2016 there is an exception. According to the Financial Statements, between January and November 2016, PDVSA performed a swap with the Central Bank, issuing it with a new promissory note, this time denominated in dollars, in the amount of nearly USD 8.0 billion (VEF 5.4 trillion)⁴.

Strangely enough, the aggregate amount of the proposed swap is somewhat similar to the assessment, at the DICOM exchange rate (VEF 674.81/USD⁵), of the current stock on the Central Bank's account receivable from PDVSA stated in the monetary base at the close of 2016 (USD 8.23 billion). Here we could be in presence of a reconfiguring of the conventional promissory note into a dollar-denominated instrument given the accounting benefits for the Central Bank of maintaining instruments of this type on its balance sheets: gains from a devaluation of the bolivar against the dollar.



Sources: BCV and Ecoanalítica

*Non-Financial Public Enterprise, account from the Monetary Base

³ Each with its counterpart in USD depending on the exchange rate applicable in the accounting used for the Financial Statements

⁴ At this point in the balance sheet, PDVSA compares this operation to one performed in 2014 in the sum of USD 4.19 billion. However, there is no record of a similar operation in 2015.

⁵ Stated on the Financial Statements

Other financial instruments and the role of the state-owned banks

In addition and with no lesser weight, PDVSA has made use of the different accounts receivable that are usually generated under the energy agreements with countries of the Caribbean (Petrocaribe, for example) in order to obtain financing from the Central Bank. Given that the Central Bank is the recipient of dollar-denominated external assets, which, in accordance with their accounting classification, would be entered under the category of external assets and be subject to the fluctuations of the exchange rate and therefore be liable to generate a potential accounting gain as a result of the devaluation of the exchange rate.

In 2016, PDVSA states that it transferred a series of papers to the value of some USD 500 million, strangely enough 88.3% less than in 2014 (USD 4.3 billion), when this mechanism first appeared, after a two-year hiatus.

At **Ecoanalítica** we have learned that, while not explicitly stated in the 2016 Financial Statements, the state-owned banks play a fundamental role in financing PDVSA's operations via a variety of investment certificates (stated in previous Financial Statements) and other lines of credit that allow PDVSA to cover some of its local currency requirements.

Last of all, a key element that has allowed PDVSA to continue despite a severely restricted cash flow, is the restructuring of certain accounts payable to suppliers. Here, PDVSA has opted for two paths, depending on the type of supplier/contractor⁶.

1. The first, according to the 2016 Financial Statements, is that PDVSA signed a series of credit notes with suppliers to the value of some USD 1.37 billion, thus replacing outstanding invoices with more attractive financial instruments.
2. The second, according to some contractors, is that PDVSA has opted for paying dollar-denominated invoices in full in bolivars at the parallel exchange rate, so putting considerable pressure on inflation and, inevitably, on the exchange rate.

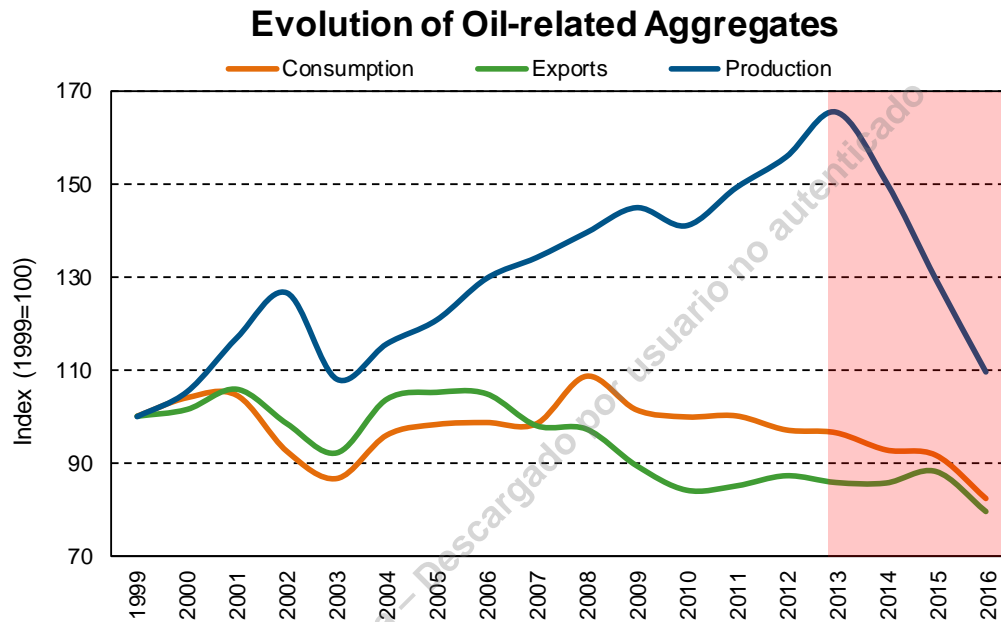
The race to meet external liabilities: the cash flow issue

Despite the severe complications confronting PDVSA on the home front, the production dynamic and operational difficulties the industry is currently facing are shaping up as

⁶ It is worth noting that, according to our estimates, around 42% of total accounts payable to suppliers is denominated in dollars (USD 8.33 billion).

Year 13. Number 32 Week IV
 August 2017

major challenges given an extremely adverse external situation. In this regard, PDVSA has acknowledged a drop in production of close to 292 kb/d⁷ added to a 248 kb/d contraction in aggregate refining capacity⁸ and a 236 kb/d cut in exports. These two elements warrant special mention.



Sources: Pdvsa, PODE and Ecoanalítica

The aggregate deterioration in PDVSA's refining capacity, combined with a greater weight of heavier crudes in the basket of exportable products, makes it necessary to import more fuels and other diluents both to meet the demand of the local market and for production in the Orinoco Oil Belt, thus generating considerable pressures on cash flow. According to its Financial Statements, PDVSA posted a 61.7% increase in its purchases of crude associated with the refining and production process in 2016.

Moreover, although less, due to the effect of a contraction in domestic consumption⁹, the impact of the drop in exports contributes considerably to the narrative that the State

⁷ Unlike in previous years, the drop in production was spread across the board geographically speaking, including the Orinoco Oil Belt, which had been posting increases for several years.

⁸ Mainly due to the sale of Hovensa, a refining complex located in the Virgin Islands early last year. In addition there was a 396 kb/d contraction in total crude refined.

⁹ This impact should not be ignored. Despite the consumption of hydrocarbons having been given a strong boost from a general subsidy (mainly via prices), the contraction in economic activity has reduced domestic

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Year 13. Number 32 Week IV
 August 2017

currently maintains with regard to the various external restrictions it is facing and the options available to it for coping with them.

Despite the fact that there was a significant drop in aggregate exports, cash-generating barrels posted an increase of 210 kb/d after a sharp drop in shipments under the various agreements with Caribbean and other Latin American countries (-234 kb/d) and a reduction in shipments to China in payment of debt¹⁰ (171 kb/d).

Oil Production and Exports (kb/d)					
	2012	2013	2014	2015	2016
Production (oil)	3,034	3,015	2,899	2,863	2,571
Internal Consumption (liquids)	661	686	647	580	491
Exports	2,357	2,425	2,357	2,425	2,189
Crude exports	1,897	1,935	1,897	1,950	1,818
Refined products exports	460	490	460	475	371
Oil Agreements	499	580	562	740	294
China	105	203	205	383	171
Petrocaribe	394	377	357	357	123
Cash generating barrels	1,858	1,845	1,795	1,685	1,895

Sources: Pdvsa, PODE and Ecoanalítica

However, this impact could turn out to be a mirage. Even though the Venezuelan State still enjoys a degree of freedom as regards shipments to Latin America and the Caribbean, allowing it to cut them back more sharply, there are two elements that fall outside its sphere of action: Russia and China.

As PDVSA acknowledges in its Financial Statements, it has negotiated a kind of advance payment for crude of some USD 6.5 billion with its Russian counterpart in order to be able to meet its liabilities both at home and abroad. In this regard, and based on information published by Reuters, at **Ecoanalítica** we are of the opinion that PDVSA is sending around 250 kb/d to Rosneft by way of payment, barrels that are deducted from exports as they do not generate cash and are part of a scheme that is expected to remain in place until 2019.

consumption by 183 kb/d, a fact that prevents, at least in part, a complete pass-through of the effect of the drop in production on exports.

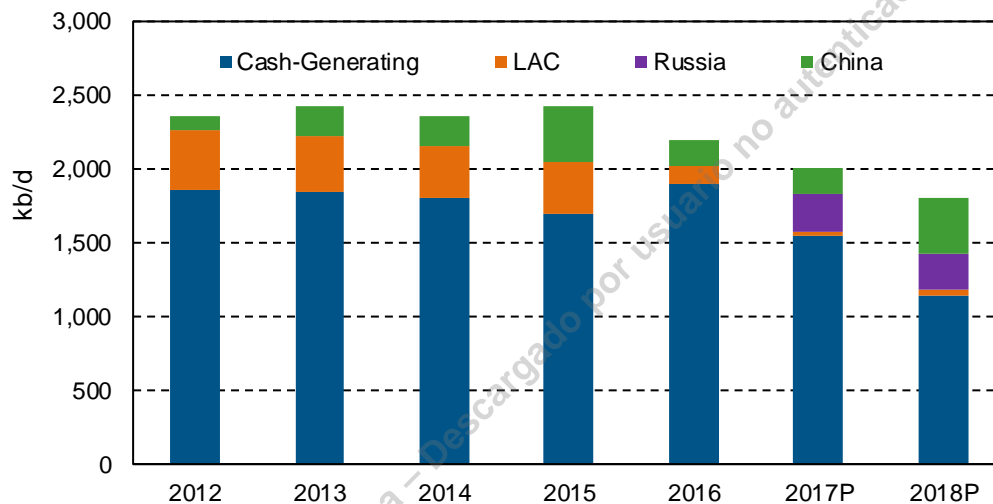
¹⁰ Halfway through last year, China granted a grace period for redemptions of outstanding debt until 2018, which meant an overall reduction in shipments as it was only necessary to pay interest.

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In addition, if China were to decide to withdraw the grace period for repayment of capital, PDVSA would be forced to send close to 400 kb/d each year in payment of the debt. If to this we add an overall decline in oil production (and therefore in exports), we could be looking at a drop of 349 kb/d in cash-generating barrels in 2017 and 404 kb/d in 2018 to an all-time low of 1.1 million barrels a day (mb/d).

Evolution of Cash-Generating Barrels



Sources: Pdvsa, Reuters and Ecoanalítica

If it is unable to renegotiate some part of these arrangements, Venezuela would have to face 2018 with significant debt servicing payments in the midst of an extremely deteriorated situation on the external front, which would tend to result in losses of well-being for the population.

Will the race come to an end?

PDVSA, like Venezuela, has spent many years running a race that can only change its course through a major change in the economic model and, therefore, the political model. It is time for a change of energy paradigm in our country, a change that is becoming more urgent by the day.

Gorka Lalaguna
Guillermo Arcay

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Year 13. Number 32 Week IV
 August 2017

WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week August	Weekly var. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	2970,0	0,0	0,0
	2nd Week August	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21,9	0,7	0,3
	4th Week August	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	0,0	-0,4	-3,2
	3rd Week August	Weekly var. (%)	Annual var. (%)
International Reserves (USD Bn)	9,9	-0,8	-16,7
	2nd Week August	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	30.531	4,7	430,0
Price of International Oil Baskets (USD/bl)			
	3rd Week August	Weekly var. (%)	Annual var. (%)
WTI	47,6	-3,4	2,6
Brent	51,0	-2,5	3,9
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week August	Weekly var. (%)	Annual var. (%)
Weekly Average	45,1	-3,0	14,5
Annual Average	43,8	0,1	34,6

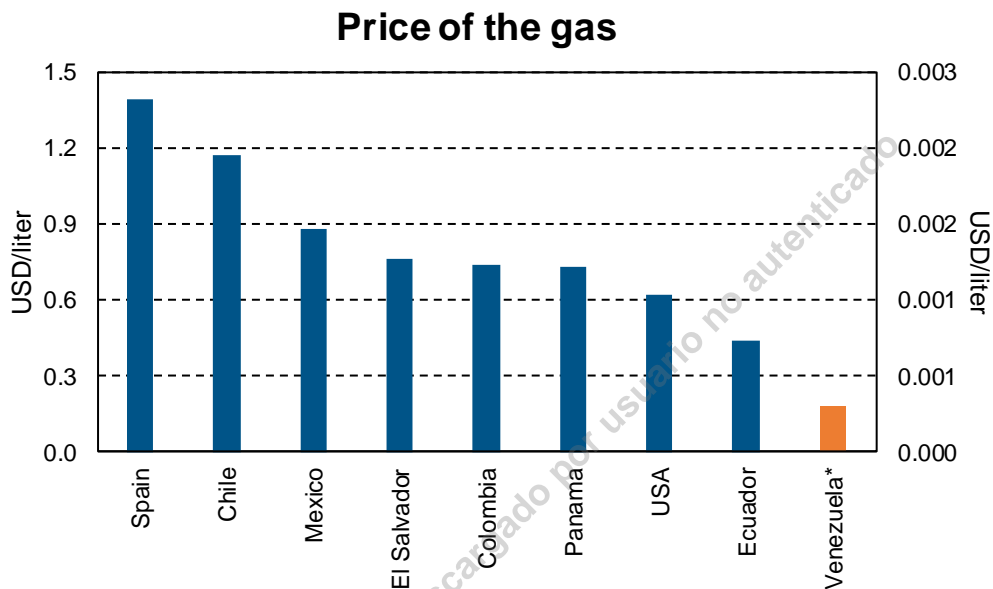
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: “SO THEY DON’T COMPLAIN”



Sources: Preciosmundi, Dólar web and Ecoanalítica
*Calculated parallel exchange rate (VEF 16.841/USD).

Establishing subsidies is a common economic policy tool for modifying the distribution of income. However, in Venezuela there is an abundance of subsidies whose efficiency is highly questionable, when they are not clearly regressive.

The latest financial statements published by PDVSA reveal that the Venezuelan State granted the state-owned oil company a subsidy of USD 5.73 billion (at the DICOM exchange rate) to cover the gap between the selling price of gasoline and its actual cost of production. Between 2014 and 2016, PDVSA contributed a total of USD 24.55 billion to cover that gap; the domestic market consumed 491,000 barrels a day (491 kb/d); and the subsidy per barrel was approximately USD 32, which gave a total subsidy of close to USD 16 million.

The average selling price of a liter of gasoline in the rest of the world is just under USD 1.0, whereas in Venezuela it is sold at VEF 6.0/liter (95 octane), which is equivalent to USD 0.0004/liter based on the parallel exchange rate¹¹.

¹¹ Exchange rate on August 22: VEF 16,841/USD

Year 13. Number 32 Week IV
August 2017

In 2016 PDVSA's revenues fell to USD 48.0 billion, for a reduction of 33.4% compared to 2015 (USD 72.17 billion). At **Ecoanalítica** we estimate that the cash flow deficit will be close to USD 5.56 billion by year-end. PDVSA and the Venezuelan State are losing margin for maneuver, and even so the government insists on populist measures that only "guarantee" it an "irreproachable image" before its followers and the world.

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ECONOMIC TIPS

Something new. For DICOM auction No. 14, the exchange rate bands were adjusted as follows: the upper limit is VEF 3445/USD and the new lower limit is VEF 2697.6/USD. This gives a devaluation of 13.8%.

Exchange rate “stability.” DICOM auction No. 13 maintained the exchange rate at VEF 2970/USD. The total amount awarded was USD 22.6 million, USD 18.2 million of which was allocated to companies and USD 4.4 million to 15,004 private individuals.

Companies... The breakdown of the foreign currency allocated to companies was as follows: 67.4% went on importing raw materials, 20.2% on inputs and spare parts, and 5% on finished products.

Private individuals... In the case of private individuals, 38% of the amount allocated went on savings, another 38% went on travel abroad, and 16% on medical treatment.

The basic basket reaches VEF 2,043,083.39. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in July 2017 was VEF 2,043,083.39, an increase of 17.5% with respect to the prior month, and 339.3% with respect to July, 2016.

The behavior of the CBF in December was marked by an increase in six of its seven items, among them: health (36.4%) and housing (22.5%).

Fifteen products are running low. According to the same report, 15 products are in short supply of the 58 that the Basket have (25.9%). Also there are 56 products that según los registrados por Cendas, al menos 61 productos escasean fuera de la canasta.

Lunch costs VEF 7,800.00. Also, they enhance that the average cost of a lunch is VEF 9,600.00, while the food ticket covers VEF 4,500 per day, for July. and to buy the basket, it is required 16.2 minimum wages.

Worker's Food Basket reaches VEF 956,261.31. According to the last report by the CENDA, the Worker's Food Basket (CAT for its Spanish acronym) reached VEF 956,261.31 on July 2017. This represents an increase of 14.6% compared to the previous month and of 319.0% compared to July 2016.

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Year 13. Number 32 Week IV
August 2017

Family income only covers 10.2% of the basket. According to the report by CENDA, the minimum wage of VEF 97,531.50, effective in July, 2017 had a purchasing power of 10,2%. Which means that, a family requires 13 times the minimum wage just to cover their basic expenses on food.

Down and down they go. The international reserves closed at USD 9.85 billion on August 18, down 0.8% from the previous week and a drop of 10.3% from the close of 2016.

Up it goes higher and higher. In just one week the monetary base grew by 2.1%. On August 11 it closed at VEF 17.0 trillion. The increase compared to the close of 2016 was 215%.

OIL TIPS

They're all lining up. The Canadian mining company Crystallex is seeking to put an embargo on the shares of PDV Holding, the owner of the refining company Citgo, a PDVSA affiliate, as part of a legal dispute that arose after the Venezuelan State nationalized its gold mining operation in Bolivar state (Las Cristinas) in 2008.

Why is Crystallex taking this action? Today Crystallex is trying to collect nearly USD 1.4 billion that a World Bank arbitration tribunal ordered the Venezuelan State to pay in compensation for the expropriation of its operation at Las Cristinas Mine.

Don't put us all in the same sack! PDVSA, Venezuela's state-owned oil company, firmly rejected Crystallex's claim, stating that the measure was "*totally without merit*" and that it would take the pertinent legal measures to protect its assets. "*It should be noted that PDVSA was not part of this arbitration case and there is no sentence against the national oil company in this regard,*" it said in a press release a few days ago.

The problem of the "corporate veil." Even though the Venezuelan State is PDVSA's sole shareholder, they operate as two completely different entities in the eyes of the law. So, given that it is the Venezuelan State that has the commitment with the Canadian company, Crystallex would have to demonstrate that PDVSA operates as an additional arm of the Venezuelan State, thus lifting what is termed the "corporate veil" in order to achieve an effective embargo on any assets in PDVSA's name.

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Year 13. Number 32 Week IV
August 2017

Citgo is still mortgaged, for now. However, it is worth pointing out that all of Citgo's shares have been given as collateral for two financial operations performed by PDVSA at the end of last year to honor its external liabilities: the swap of the PDVSA17 Bond (8.5%) for the new PDVSA20 Bond (8.5%) and an advanced payment for crude by the Russian state-owned oil company, Rosneft, to PDVSA.

The world is closing its doors to Venezuela. According to an exclusive report published by the English news agency Reuters, an oil tanker with a cargo of nearly one million barrels (mb) of Venezuelan extra heavy crude is moored off the Louisiana coast owing to the lack of a letter of credit that would permit the vessel to unload its cargo.

A symptom of something worse (I). As a general rule, sellers of crude require their customers to provide a series of letters of credit that guarantee payment of the shipment within 30 days. These documents have to be issued by a bank and be received by the selling party. So far, PBF Energy Inc., the intended buyer of the shipment, has been unsuccessful in finding a bank willing to provide a letter of credit that would remove the stumbling block to this arrangement and permit the crude to be finally dispatched.

A symptom of something worse (II). According to Reuters, certain major banks are reducing their exposure to Venezuela as a result of the lengthy political conflict that is afflicting this South American country, and they have even closed a number of accounts of Venezuelan government officials who have been sanctioned by the US Government and banned providing any type of financial services in operations having to do with the Venezuelan Government and PDVSA.

Leave us in peace! Commenting on this situation, a few days ago the president of PDVSA, Eulogio Del Pino, denounced that PDVSA was being subjected to a financial blockade by the United States without any formal economic sanction having been imposed, a situation that is having a considerable impact on the company's operations. *"We have to engage in financial tourism. We have to go to China; we have to perform financial triangulations, as they are, in fact, applying a financial blockade on our country,"* he complained.

Let's continue together! According to trade flow data obtained by Reuters, PDVSA and other companies operating in Venezuela sent close to 639,000 barrels of crude a day (639 kb/d) to the United States in July, 33% more than in June but 22% less than in July last year.

Down again. According to Daniel Gerber, the CEO of Petrologistics, aggregate supply from the Organization of Petroleum Exporting Countries (OPEC) could fall by around 419

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Year 13. Number 32 Week IV
August 2017

kb/d in August based on the monthly movement of oil tankers by this company. To date, compliance with the agreement has been positive, except for the past few months, when the cartel's production rose in July to its highest this year, thanks largely to increases in output from Nigeria and Libya, which were not party to the agreement initially.

Meanwhile, we'll see one another in November. Essam al-Marzouq, Kuwait's oil minister, stated that OPEC could decide whether or not to extend the oil production agreement confirmed in May this year at the meeting scheduled for November.

BUSINESS SECTOR TIPS

Avianca departed and left a problem behind in Caracas. The sudden closing down of Avianca's operations in Venezuela has left 47 employees with their job situation up in the air. Although they were told initially that they would be indemnified or transferred to another office, last week they approached the firm Littler run by the lawyer Wilmer Barrios, who told them that their employment with Avianca had been terminated.

Cutting prices is not the answer. At a meeting with the People's Power Ministry for Fisheries and Aquaculture (MinPesca) 22 Fishermen's and Aquaculture Farmers' Councils (Conppa) argued that the cause of the high prices is the lack of distribution channels that guarantee the cold chain. Despite the fact that these channels were destroyed by price control policies, MinPesca is currently working with the Superintendency for the Defense of Socioeconomic Rights (Sundde) to "find the way to bring them (the prices) down."

A new Prices Act? President Nicolás Maduro announced that he would work together with a commission appointed by the so-called "Constituent National Assembly" and Sundde to take actions to ensure that the fair maximum sale prices are respected. In his words the actions "*are going to shake up society. I will not hesitate to do whatever has to be done.*"

Giving negligence the rank, value and force of the Constitution. According to Carlos Larrazábal, the so-called Constituent National Assembly seeks to get the government policies that have caused 75% of industrial establishments to disappear and the 4000 that are still standing to operate at 30% of capacity to be incorporated into the Constitution it will be proposing, in other words to become law by means of the so-called "Constituent Acts."

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The threat of expropriation. Despite being one of the country's most productive farms, "El Gólgota" has been expropriated by the Venezuelan Government, presumably because its owner (the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeaagro)) has openly criticized the government's policies. Representatives of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras) and the National Commerce and Services Council (Consecomercio) have expressed their condemnation of the expropriation.

Is that how they hope to attract foreign investment? While the government rides roughshod over the property rights of those who point out the errors of its ways on the one hand, on the other it is attempting to implement a "National Strategic Foreign Trade and Investment Plan." To this end it has met with bin-national chambers, ambassadors, and merchants from more than 20 countries.

The solution: cashing in at points of sale. Because of the high rate of inflation, the monetary cone is becoming less and less capable of meeting people's demand for cash, which has meant that the banks have had to ration the amount of cash they hand over both at their cashier's desks and via their ATMs. To solve the problem, businesses with a high cash flow have made "cash advance payments" popular; this consists of swiping the consumer's card through the point of sale to "sell" him cash.

...But Sudeban didn't like the idea. Antonio Morales, the chief of the Superintendency of Banking Sector Institutions (Sudeban), argued that the practice of making cash advance payments had become a business (not a good thing, in his opinion) and for that reason it should be forbidden. In order to ensure that this ban is complied with, Sudeban is to seek the help of Sundde and the National Integrated Customs and Tax Administration Service (Seniat).

Ceilings on transfers adjusted in line with inflation. Banesco has decided to adjust its daily transfer ceilings for all types of transfers. It has raised the maximum for transfers by private individuals within Banesco to VEF 15 million and for interbank transfers to VEF 10 million, and for companies the ceiling has been raised to VEF 40 million.

Rationing quality tourism. The electricity problems, which have been neither prevented nor solve by the Government, persist in Nueva Esparta, even during the tourist season on which it relies economically; and they are expected to continue for another 22 days, the time Minister for Electricity Luis Motta estimates it will take for a new turbine to arrive.

Conatel urges everyone to "regularize" their situation. Since some communicators have ignored its regulations that attempt to hinder freedom of expression, the National

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Year 13. Number 32 Week IV
August 2017

Telecommunications Commission (Conatel) has invited “all the country’s broadcasting and telecommunications service providers to regularize their legal situation.”

WORLD ECONOMY TIPS

Europe’s engine. Germany’s economy could grow more than expected this year by 2.1% compared to 1.9% as forecast initially, according to the Bundesbank. This improvement is apparently due to higher levels of industrial production, exports, and consumption than anticipated.

Not everything’s perfect. However, confidence among German investors as measured by the Mannheim Centre for European Economic Research (ZEW) fell in August for the third month in a row to 10.0 points compared to the 17.5 points posted in July. This drop is attributed to doubts arising as a result of the scandal over Volkswagen’s diesel engine emissions.

A persistent deficit. Spain’s trade deficit posted growth of 40.7% in the first half of 2017 (1H2017) to EUR 11.09 billion. During this period exports grew by 10% to EUR 140.88 billion, whereas imports were up by 11.8% to EUR 151.97 billion. Both figures are historic highs for the period.

Despite everything. Mexico’s economy grew by 0.6% in the second quarter of 2017 (2Q2017) compared to the previous quarter, giving annual growth of 3%. This result is better than expected given the uncertainty over the renegotiation of the North American Free Trade Agreement (NAFTA).

Next year will be better. Colombia’s economy will grow by between 2.5% and 3% in 2018, according to forecasts announced by the Central Bank of Colombia. It also estimates growth of between 1.6% and 1.8% and inflation of 3.9% this year. By way of comparison, Colombia’s GDP grew by 2% in 2016 and by 3.1% in 2015.

After a long decline. Colombia’s oil production grew by 1.6% in July compared to July last year to 856 kb/d. This is Colombia’s first monthly increase in oil production since October 2015. The decline in production is attributed to less investment as a result of the drop in crude prices.

With its ups and downs. Investment in mining in Peru was up by 28% in 1H2017 compared to the same period in 2016. However, the figures for 1H2016 were down by

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Year 13. Number 32 Week IV
August 2017

34.4% compared to 2015, which means that this increase reflects a recovery in mining driven mainly by an upturn in the prices of copper, Peru's main mining export.

POLITICAL TIPS

They're continuing to take measures. Last Friday, the Constituent National Assembly, by a unanimous vote, lifted the parliamentary immunity of Deputy Germán Ferrer, the husband of former Prosecutor General Luisa Ortega Díaz, for alleged involvement in cases of extortion.

Patience runs out and survival kicks in. Because of that and because of Ortega Díaz' removal as Prosecutor General, also by the Constituent National Assembly, and the raid on their home, Ferrer and Ortega Díaz left the country and arrived in Colombia last Friday. However, on Tuesday they continued their journey to Brazil, where they apparently met with Brazilian diplomats.

A solidary brother. On receiving news of their arrival in Colombia, President Juan Manuel Santos conveyed his support to Ortega Díaz and Ferrer, stating that Prosecutor General Luisa Ortega Díaz was "*under the protection of the Colombian Government. If she requests asylum, we will grant it.*"

The most assiduous shoe lickers. President Santos' response caused an uproar among members of the Nicolás Maduro administration, who strongly objected to the stand taken by Santos. Among them was Minister for Foreign Affairs Jorge Arreaza and former Ombudsman, now Prosecutor General, Tareck William Saab.

Making things clear: there's nowhere to hide. As for President Nicolás Maduro, he accused Luisa Ortega Díaz of keeping company with the Colombian and Brazilian oligarchies and he stated that both she and her husband were "*going to be put on the Interpol wanted list. I hope that these criminals will be handed over to Venezuela.*"

Showing the skeletons in the closet. The Prosecutor Luisa Ortega Díaz revealed relevant information which relates government officials with corruption cases. In her allegations, she pointed out persons like Tareck William Saab, Diosdado Cabello, and even the President Nicolás Maduro.

Dirty linen in public. Ortega Díaz assured she has evidence against Nicolás Maduro, Diosdado Cabello and Jorge Rodríguez of being involved in the Odebrecht case, a corruption networking that affected several countries of Latin America. On the other hand,

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the Prosecutor revealed details of an investigation about a company, owned by Nicolás Maduro, linked to the CLAP's alimENTS bag.

Still no dates. The National Electoral Council (CNE) has still not decided on or published the date for the regional elections, which were scheduled for December 10 and then moved up to October this year on the orders of the Constituent National Assembly. On August 15, a director of the CNE, Socorro Hernández, gave assurances that the date would be announced that same day; however that announcement has still not been made.

Only one thing's certain: they want to go to the polls. The Venezuelan opposition has called on people to turn out for the primaries on September 10. To that end, the Democratic Unity Alliance has appointed a Primaries Commission made up of representatives of the different political parties. Voting and counting the votes will be done manually as the CNE's support will not be enlisted, and the opposition coalition is to invite international and national observers to be present.

Not even Smartmatic. The opposition's Primaries Commission is to be chaired by Francisco Castro, who stated that, in order to guarantee the transparency of the primaries, audits will be conducted in the presence of witnesses. He explained that the audits will consist of five processes: putting together the voters' lists; sending out the ballot cards for each polling station and polling desk; auditing the vote counting system; counting the votes; and putting together the final results.

Important work. The executive director of the Venezuelan Penal Forum (FPV), Alfredo Romero, reported that FPV had sent an updated list of political prisoners in Venezuela to Luis Almagro, the secretary general of the Organization of American States (OAS), explaining that, with the release of 50 and the arrest of another 19, the total number of political prisoners had increased to 645.

Solidarity from the American Continent. The Chilean Government has granted diplomatic asylum to five of the justices appointed to the Supreme Tribunal of Justice by the National Assembly on July 21 who went to the Chilean Embassy in Caracas after being persecuted by the regime.

"Playing" its cards. The United Socialist Party of Venezuela (PSUV) has submitted its list of 23 candidates to the regional elections scheduled for October. Eleven of its candidates are seeking reelection and 10 come from the ranks of the military.

Making a mockery? Last Tuesday, August 22, referring to news published and broadcast by the international media, President Nicolás Maduro admitted he was responsible for the situation Venezuela is experiencing, a crisis whose consequences are being felt in

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different areas of the economy. “OK, it’s my fault. Everything you say is true. But what I won’t be to blame for is betraying this revolution,” he said.

“They won’t be back.” President Maduro stressed that he would not betray the revolution and that he would not be responsible for giving up such a heroic effort as Venezuela’s. “Today, August 22, we can say that here the Bolivarian revolution still stands. So here we are,... We haven’t handed over power to the oligarchy, nor will we,” he said.

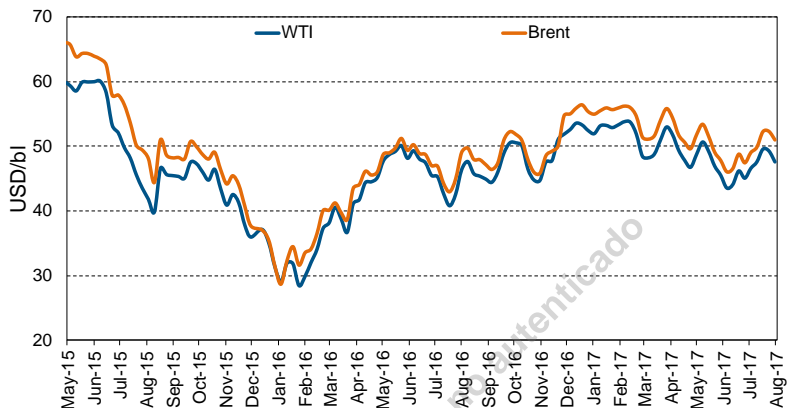
So now it’s a matter of concern? President Maduro also referred to Venezuela’s relations with the United States given the threats of an oil embargo, claiming that he wants to have talks with President Donald Trump, “on good terms,” as the measures the United States is thinking of applying are going to make the economy worse.

Issuing threats and taking measures. Last Friday, August 18, the Constituent National Assembly assumed the competences of the National Assembly to pass laws and parliamentary acts, justifying this on the grounds that the National Assembly’s Board of Officers did not answer the summons to appear before the Constituent National Assembly that day. Subsequently the president of the Constituent National Assembly, Delcy Rodríguez, “clarified” that the National Assembly had not been dissolved and that it was continuing to perform its duties, but that they (its members) must act “in peace.”

The squandering continues unabated. In its ruling No. 686 of August 14, 2017, the Constitutional Chamber of the Supreme Tribunal of Justice declared the absolute nullity, for reasons of unconstitutionality, of the Organic Law of Emoluments and Pensions of High-level Government Officials published in *Gaceta Oficial* No. 39,952 dated January 12, 2011.

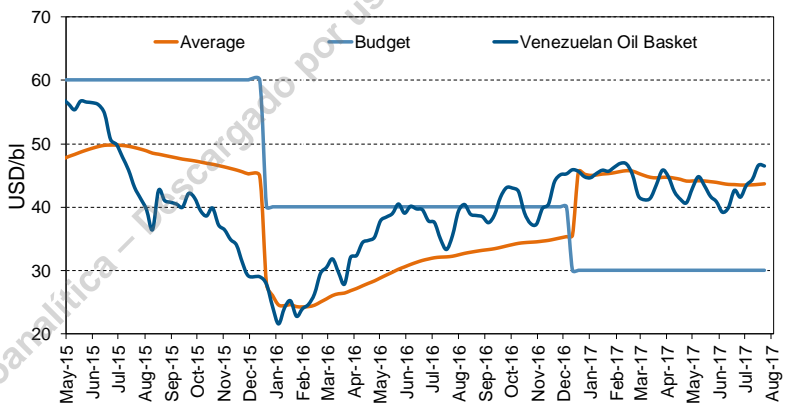
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



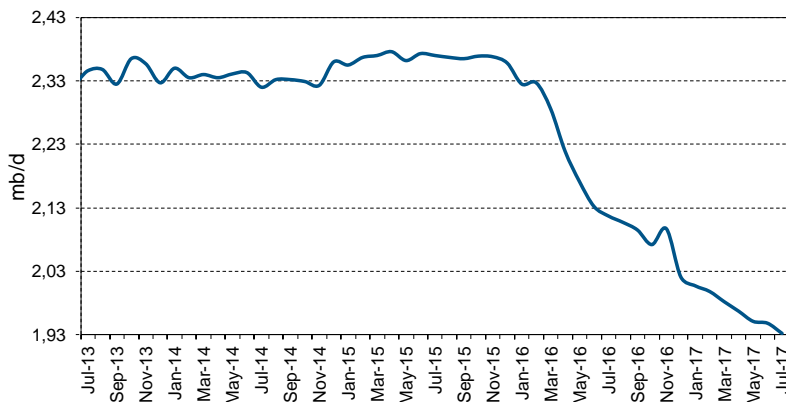
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

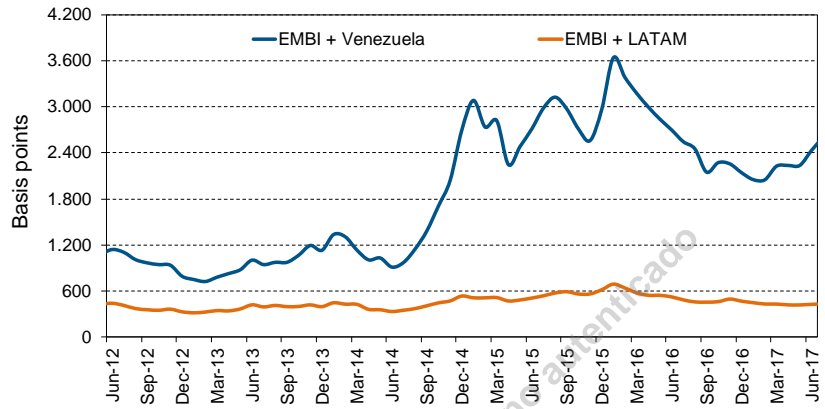
**Oil Production
(Secondary sources)**



Sources: OPEC and Ecoanalítica

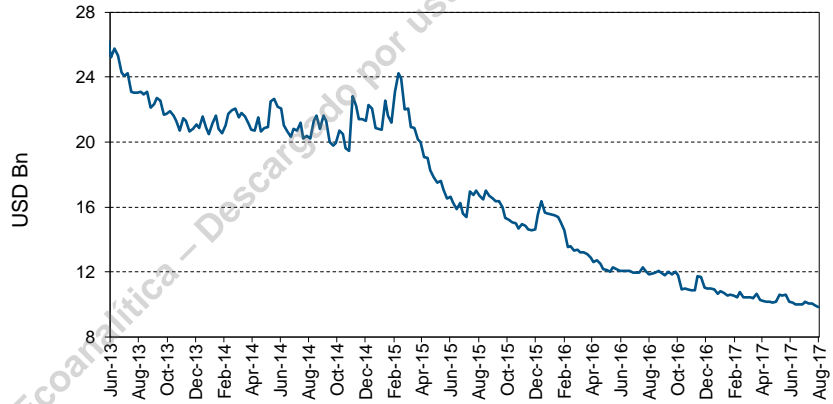
ECONOMIC INDICATORS

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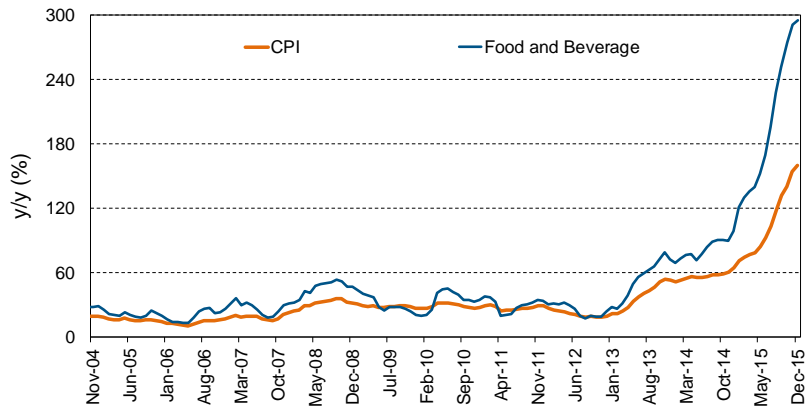
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

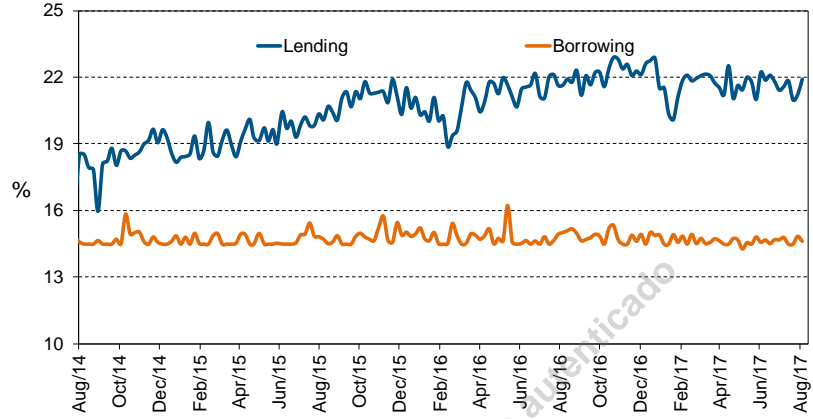
Inflation (BCV)



Sources: BCV and Ecoanalítica

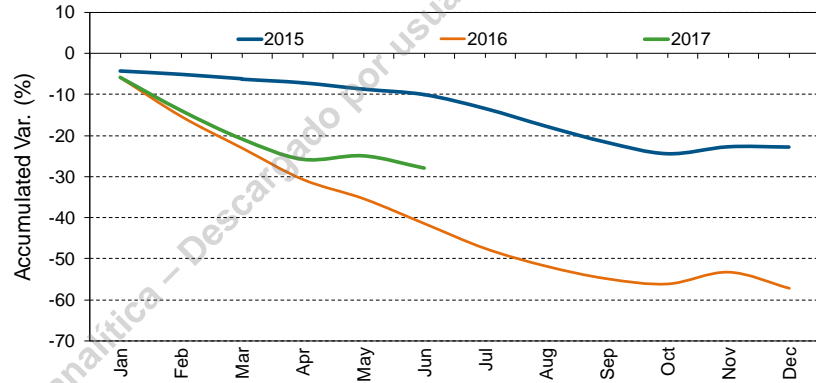
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



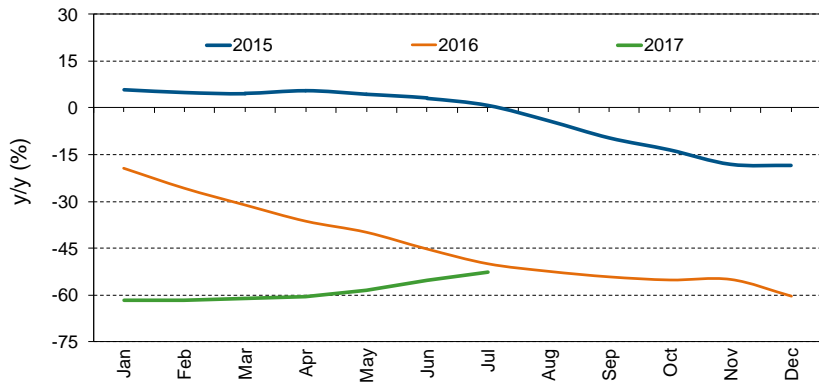
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

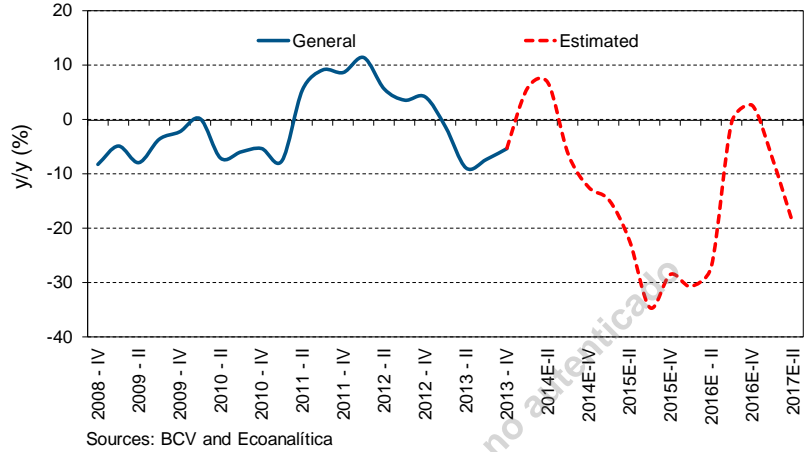
**Loan Portfolio
(Real)**



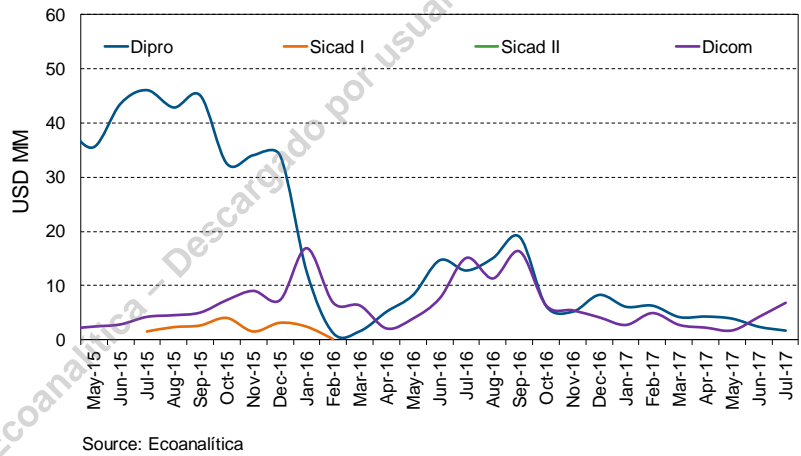
Sources: SUDEBAN and Ecoanalítica

ECONOMIC INDICATORS

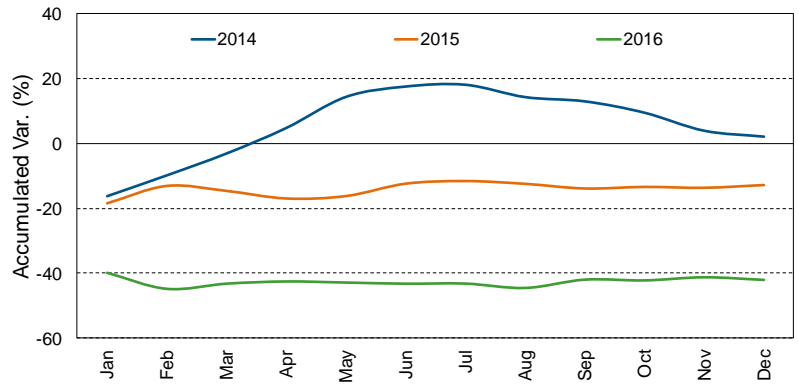
Real Wage Index



Disbursements to the Private Sector (Daily Average)

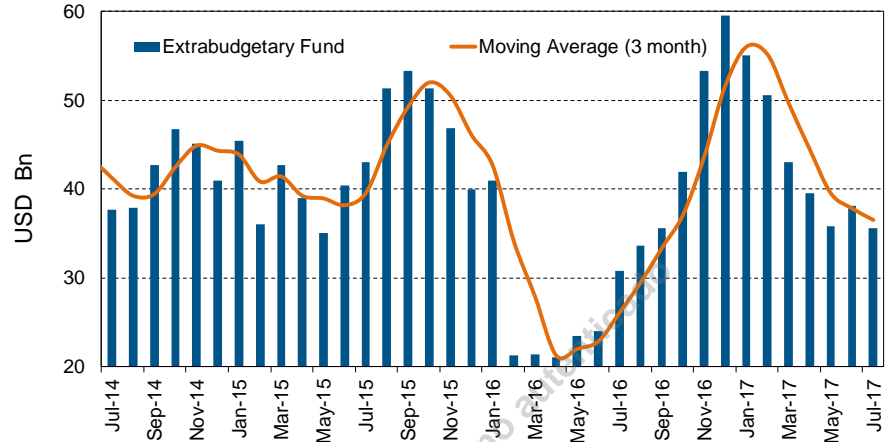


Primary Spending NTO (Real - Central Government)



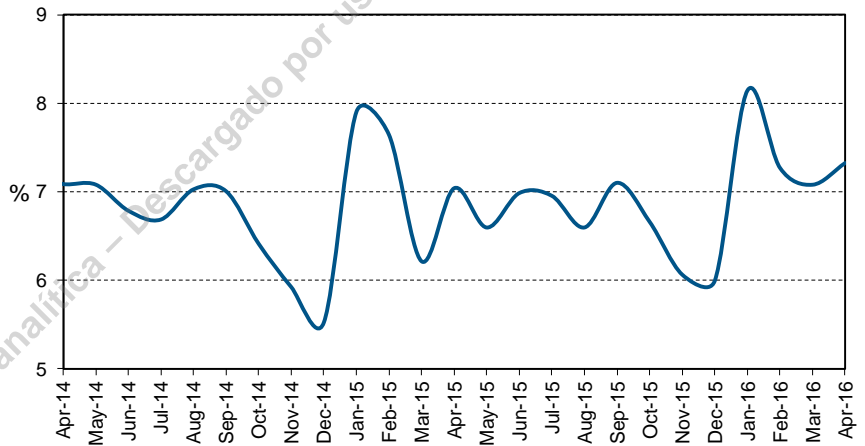
ECONOMIC INDICATORS

State Extrabudgetary Resources



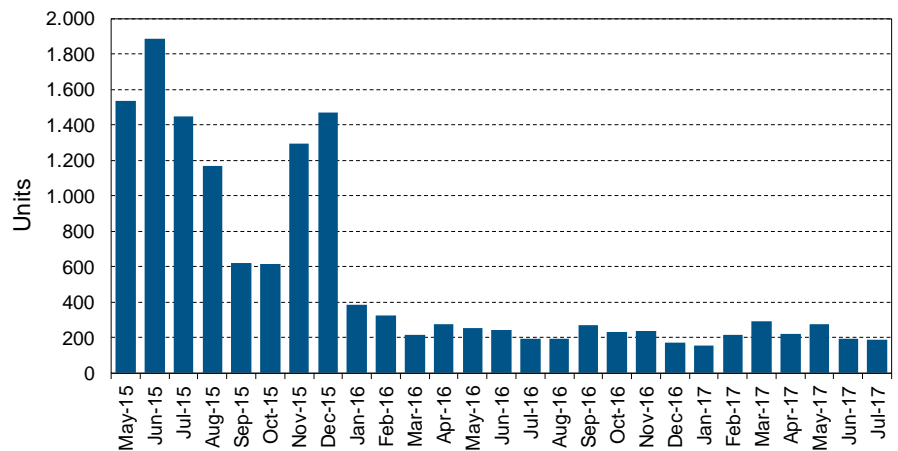
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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