

The Maduro Plan

Ten months and cumulative inflation of 46,620.7% later, the Nicolás Maduro administration has recognized that Venezuela is experiencing hyperinflation, that tax revenues are not sufficient to cover its spending, that it has been financing its spending by emitting bolivars, that the official exchange rate does not reflect the true value of the bolivar, that it has been giving away gasoline at a price close to zero, generating losses due to smuggling, and that it is time to reform the economy to put those mistakes right. To that end, the government has come up with a “play it by ear” stabilization plan.

The government has been gradually revealing parts of the “Maduro Plan” since July 25. So far, we have concrete measures on the foreign exchange and fiscal fronts, ambiguous announcements regarding the energy policy in the medium term, and utopian monetary objectives. Although all of the parts of the plan or the details of each have still not been announced, sufficient information is available to conclude that there is no combination of the parts that will make it possible to put the jigsaw puzzle together.

Unlike the government’s decision to divide all prices by 100,000, the measures contemplated in the Maduro Plan will have consequences for the economy. In this report we analyze each of these consequences and the impact they will have on companies, consumers, and different sectors of the economy.

The abominable exchange rate pipe dream

“We have to become a real economy; an economy where the dollar... sorry, the petro governs prices and wages.” Tareck El Aissami

Between August 2 and 21, the Venezuelan foreign currency market lived its freest three weeks since Nicolás Maduro became president. From the time the Foreign Exchange Crimes Act was repealed until the new Foreign Exchange Agreement was approved, any type of foreign exchange transaction was permitted without any legal repercussions.

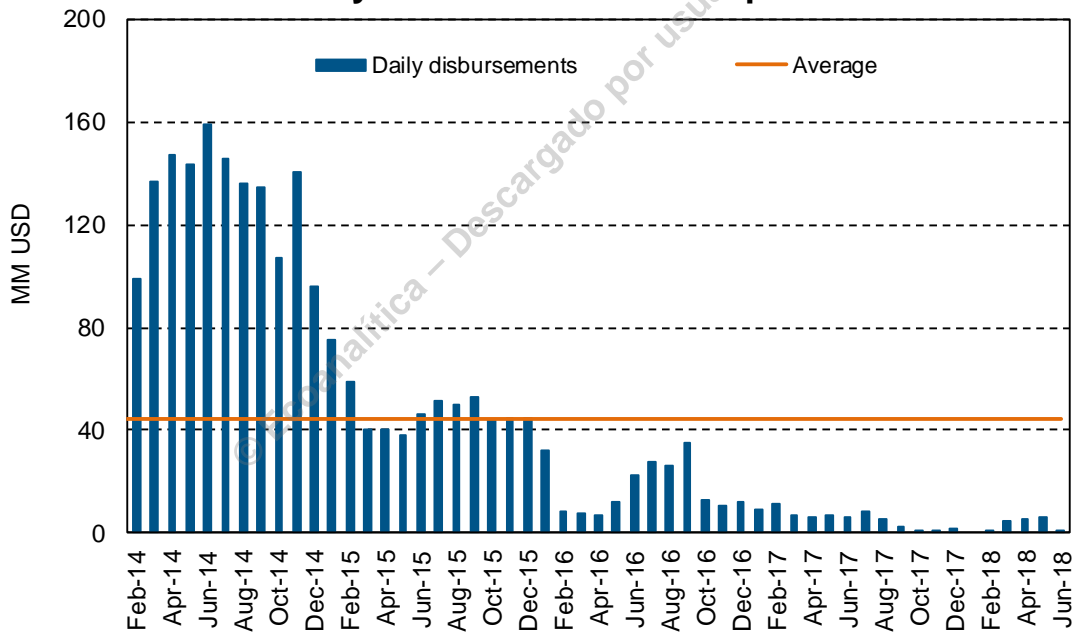
Now, with the approval of the Foreign Exchange Agreement 40 that has not been published yet, is expected that the legal mechanism for buying and selling foreign currency would be through an exchange house that has been previously authorized by the Venezuelan Government and a new version of Dicom. According to Vice President

for the Economy Tareck El Aissami, there are approximately 150 authorized exchange houses that started to operate on Wednesday, August 22.

The New³ DICOM

According to government officials, the DICOM system will operate under an auction scheme that will be completely flexible and the exchange rate will depend on the supply of and demand for foreign currency at the exchange houses. Under this scheme, this “new, new, new” DICOM (New³ DICOM) will be decentralized and supervised by the government, although the government promises not to intervene in its functioning. In fact, it has been said that the public sector will not sell any foreign currency in this market, which in part had already been happening.

Currency disbursements to the private sector



Source: Ecoanalítica

According to El Aissami, although there are only close to 150 exchange houses currently operating, it is hoped to increase that number to 300 in the medium term, which is why they are still open to offers. Meanwhile, they have made it legal for the banks to receive foreign currency in exchange for bolivars, but they have made it illegal for them to sell foreign currency. As for what will happen in the future, the authorities are to evaluate the possibility of some banks being authorized to operate as exchange houses “depending on their behavior.”

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Ever faithful to *Chavista* principles, under the New³ DICOM scheme, exchange houses will not be subject to any ceiling on the amount of foreign currency they receive, but there will be limits on the amounts they may sell. Companies will only be able to buy USD 400,000 a month, and for private individuals the maximum will be USD 500 a month. Since the restrictions on buying foreign currency are to be maintained, there will continue to be incentives for conducting operations in the unofficial market at a premium above the official exchange rate.

Three auctions a week are to be held initially. So, the exchange houses will operate three days a week. However, it is expected that they will operate the full five business days a week in the medium term. According to Simón Zerpa the average exchange rate of all transactions weighted based on volume will, in theory, be the implicit exchange rate published by the Central Bank of Venezuela on a daily basis camouflaged as the bolivar/petro exchange rate.

“Petrolization”: indexing to the dollar, but at 60

This bolivar/petro exchange rate is perhaps the measure taken by the government that will have the biggest impact on the economy in the coming months. At first glance, it might seem to be an inoffensive proposal, a kind of *Chavista* “*Real Plan*” where the petro will only be used as a unit of account and will maintain a parity of 60:1 to the dollar. Put simply, it will be the exchange rate to the US dollar multiplied by 60 and prices will be denominated in those terms.

In this case, consumers will get used to seeing prices on the shelves that remain stable over time and to relative prices actually becoming adjusted more efficiently as time goes by. Hyperinflation will be felt via the bolivar/petro exchange rate and, when it comes to paying for anything, one will simply take into account the rate of depreciation on that day published by the Central Bank to know how many bolivars are needed that day to pay a bill that is relatively stable in petros.

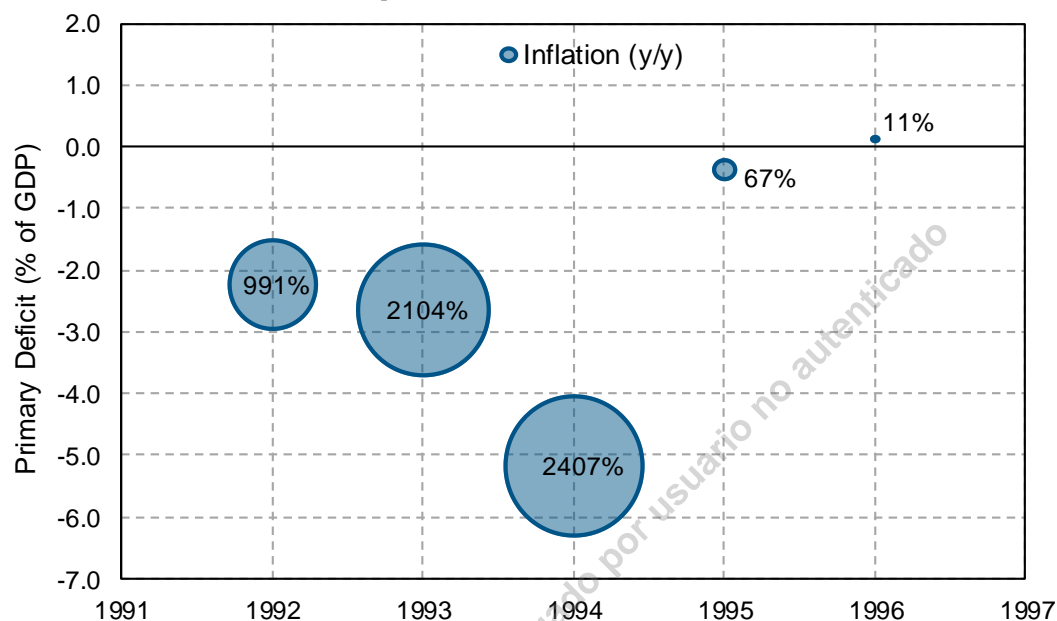
In Brazil’s case, after five unsuccessful plans to stabilize hyperinflation, a measure of this type helped to anchor high inflation expectations to the old currency. Then, after implementing the necessary monetary, fiscal and foreign currency reforms and waiting for a prudent period of one year to elapse, they replaced the old currency with the stable currency without any major problems and put an end to hyperinflation.

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Hiperinflación en Brasil



Sources: Nogueira Batista (1996), Banco Central do Brasil and Ecoanalítica

In Venezuela, the idea is different. In the ideological context of price controls, the government has decided to anchor the price of the 50 items it considers have “a greater degree of strategic importance” to the petro. Adopting a “policing” approach, the Superintendencia for the Defense of Socioeconomic Rights (Sundde) will continue to conduct inspections of private establishments and demand that prices be set in line with the movement of the bolivar/petro exchange rate, which is to be published by the Central Bank on a daily basis.

This means that the petro will lose its faculties of a benign unit of account that reflects the movements in relative prices of goods and services and will become a mechanism for setting prices that will create more confusion among consumers, sellers and government officials than the five-zero redenomination.

But that is not all. The minimum wage is to be set based on the petro, which will be equivalent to \$30 based on the bolivar/US dollar exchange rate resulting from the weighted average of the transactions conducted under the New³ DICOM scheme at all authorized exchange houses. Under the Maduro Plan, if the BCV fails to lag the exchange rate, the minimum wage will go up daily. Employees will not know how much they are earning and businesses will not know what their payroll will be until payday and the Central Bank publishes the rate.

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“Deficit ∞”

“We’re headed for what we’ve called fiscal deficit zero. We’ve taken the right decisions on this front. With fiscal discipline and eliminating the emission of inorganic money, we will sustain emission based on production.” Nicolás Maduro.

President Maduro’s statements are terrifying. On the one hand, he makes it clear that he understands the dangerous consequences of maintaining a fiscal and financial deficit with money issuance. Yet on the other, he has decided to implement a series of policies that increase the fiscal deficit and make it obligatory to raise the level of monetary financing.

The fundamental principle of the Maduro Plan is to seek a consolidation of the fiscal accounts by just one route: increasing revenues. Any policy of reducing spending has been completely ruled out. President Maduro will try to close a gap of 18.8 points of GDP by marginally increasing tax revenues, which currently are equivalent to only 1.8% of GDP, and he will fail in this attempt.

In a fairly typical *Chavista* move, it seems that the government has glanced at the “to do list” of a plan to stabilize hyperinflation and has decided to implement only those measures that suit it, in part and in its own inimitable fashion. From Brazil’s “*Real Plan*,” the government has only taken the use of a unit of account, omitting any policies aimed at restructuring the national budget that are necessary for eliminating monetary financing and really achieving something close to the goal of “zero deficit”. In other words, the first stage of the plan was omitted in order to skip to the last stage without preparation.

A dog chasing its tail

It is here that the petro comes into play and becomes more dangerous. Bearing in mind that a large proportion of public sector spending is allocated to paying salaries and wages, that the minimum wage is to be indexed to the petro, that the petro will be indexed to the depreciation of the bolivar as recognized by the Central Bank, that the depreciation of the bolivar depends on inflation, and that increases in wages that are not justified by increases in production, at **Ecoanalítica** we forecast an exponential acceleration in inflation significantly greater than that experienced during the first hyperinflationary cycle. If the BCV decides to recognize the market exchange rate instead of lagging it to VES 60/USD

To better understand this phenomenon, we need to perform a hypothetical exercise. If, prior to the Maduro Plan, the minimum wage was equivalent to USD 0.76 and the productivity of the average Venezuelan minimum wage earner has not gone up since the announcements, the wage hike will push up prices and generate a depreciation of the

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exchange rate until the minimum wage returns to the level of USD 0.76 a month. The speed at which this adjustment occurs via prices will depend on how big the wage increase, that causes it, is.

But if, while equilibrium is restored via the increase in prices, wages continue to go up every fortnight since they are indexed to the exchange rate, then agents will attempt to close the period of the adjustment cycle by putting up prices faster and generating a bigger increase in the minimum wage. Like a dog chasing its tail, the entire economy will be forced to run faster to catch up, becoming worn out and deteriorated in the process until companies close down, the humanitarian crisis takes a huge leap or the government stops its absurd policy.

Chavismo does not innovate, it only copies and for the worse. This phenomenon of hyperinflation accelerated by infinite indexation already happened once in the past. In 1946, Hungary –which was unable to reduce its spending because the Soviet Union demanded payment for post-war repairs that were out of all proportion- decided to solve the problem via revenues. When it realized that the Olivera-Tanzi effect reduced its tax receipts in real terms because, by the time the taxes were received, they had lost value, the government created a mechanism of inflation-indexed bank deposits.

The idea was that the money deposited in these accounts would multiply daily in line with inflation so that, when the time came to pay taxes to the government, the taxes would have maintained their value. This rapidly became a success and the Hungarians took out their multiplied money in the morning, spent it on goods and services, generating inflation, and went back to deposit it at midday before the banks closed. The next day, magically, they had more money and repeated the cycle all over again.

After ten months with indexed deposits scheme, the local currency experienced monthly inflation of as much as 1,810.6% and the banks started to issue notes representing indexed deposits. The new notes, like the petro if at some point it replaces the bolivar, appreciated against the original local currency in line with inflation and the entire country started to use them, getting rid of the original currency and generating monthly inflation rates of up to 8,496,436.5%.

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Hiperinflation in Hungary

Date	Monthly Inflation (%)	Minted Currency*
Aug-45	58	5
Sep-45	121	30
Oct-45	545	95
Nov-45	442	280
Dec-45	219	750
Jan-46	75	1,300
Feb-46	499	6,000
Mar-46	331	35,000
Apr-46	1,811	600,000
May-46	31,319	112,000,000
Jun-46	8,496,437	2,800,000,000
Jul-46	104,780,433,474	-

Sources: Bomberger, W., & Makinen, G., and Ecoanalítica

*Stated in millions of Pengös.

Since the government's expenditures were in the original currency, the government financed those expenditures by issuing that original currency. However, that currency was worth less daily, so the government decided to start to issue its own "indexed" notes and to finance its expenditures with this new indexed pseudo-currency. In the blink of an eye, it generated hyperinflation in the new currency, and the disaster resulted in Hungary having the worst hyperinflation in history; for now.

What budgetary restriction?

The Venezuelan Government's spending knows no bounds. Even before the first disbursement of the new minimum wage on September 7, *Chavismo* has already disbursed VES 6,000,000,000 in "Redenomination Bonuses" to 10 million holders of the Carnet of the Fatherland. This amount is equivalent to 33.6% of the monetary base at the close of July and USD 49.4 million at the exchange rate on the day these bonuses started to be distributed. All that money was issued by the Central Bank this week.

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Fatherland Transfers**

Month	Transfer Name	Cost	Total	MB* Chg.	Transfers/MB* Chg.
January	Three Kings Day	7,489,891			
	Motherhood	169,891	7,489,891	39,380,665	19.0%
	Home of the Fatherland	3,320,000			
February	Carnivals	5,600,000			
	Motherhood	169,891	9,523,748	56,081,412	17.0%
	Home of the Fatherland	3,320,000			
	José Gregorio Hernández	433,857			
March	Easter & Women's Day	9,100,000			
	Motherhood	169,891	13,438,748	95,881,178	14.0%
	Home of the Fatherland	3,735,000			
	José Gregorio Hernández	433,857			
April	Independence	10,000,000			
	Motherhood	169,891	13,923,748	172,885,145	8.1%
	Home of the Fatherland	3,320,000			
	José Gregorio Hernández	433,857			
May	Labor & Mother's Day	23,550,000			
	Motherhood	465,458	31,035,254	267,137,232	11.6%
	Home of the Fatherland	6,400,000			
	José Gregorio Hernández	619,796			
June	Battle of Carabobo	40,000,000			
	Motherhood	395,637	56,995,229	265,826,457	21.4%
	Home of the Fatherland	15,360,000			
	José Gregorio Hernández	1,239,592			
July	Independence & S. Bolívar	160,000,000			
	Motherhood	3,359,455	198,555,455	789,684,968	25.1%
	Home of the Fatherland	32,256,000			
	José Gregorio Hernández	2,940,000			

*Monetary base

**In Millions of Bolívares Fuertes.

Sources: BCV, Official announcements and Ecoanalítica

This amount is also equivalent to 18.6 times of the amount distributed in Households of the Fatherland bonuses this month and 1.8 times of the amount distributed in bonuses during the first 7 months of the year, nominally. But hyperinflation works in sinister ways so that, in real terms, this amount is equivalent to only 96.0% of the bonuses distributed in January. As for the minimum wage of VES 1,800 to be paid out to approximately five million and a half public sector employees and pensioners, this will take up 55.5% of the entire monetary base at the close of July.

In order to reduce the political repercussions of the government's measures, El Aissami and Maduro have promised to pay the difference between the old minimum wage and the

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new one to all formal and informal businesses in the country, regardless of size or level of productivity, for the next 90 days. This fundamental component also has to be added to the explosive cocktail of monetary aggregates. The State has undertaken to finance the payroll of practically the entire country by emitting money, and the payroll that will have to be covered will increase at the same pace as the depreciation of the bolivar/petro exchange rate recognized by the Central Bank. After that 90-day period, during which they may or may not receive the promised payment depending on what President Maduro decides, companies will be left to fare as best they can in a hyperinflationary tsunami.

The increase of the monetary base in July was equivalent to 42.2% of the monetary liquidity by the start of the same month. This means that, in order to finance its spending, the government needed almost half of the existing money. With these reforms, for August and September, 100% or more could be needed. Nevertheless, there is no tax reform that will allow the government to obtain more money in taxes than there is, in consequence it would have to be issued like it has been done throughout this year.

“Waiter, leave it like that because your boss pays my bill”

Irrationally, Maduro has claimed that they are going to achieve the goal of “zero deficit” with the tax reform. As he put it, those who have sufficient means will pay the cost so that the government can help those who do not. So, playing it by ear, there has been a complete change in direction with regard to the tax policy contemplated at the start of the plan, in which income tax on oil activities and customs duties on capital goods and agricultural inputs had been exonerated, leaving aside tax revenue that could be useful to oxygenate the economic activity.

According to *Gaceta Oficial No. 6,396*, changes have been introduced with regard to the payment of three taxes. First of all, value added tax (VAT), which is collected monthly, is to go up from 12.0% to 16.0%. VAT is to be paid in advance on a weekly basis and these amounts will be deducted from the amount of VAT due at the close of the month.

Secondly, nonoil income tax, which is collected annually, will be subject to advance monthly payments of between 0.5% and 2.0%, which will speed up the pace at which the government collects the tax in order to try to reduce the impact of the Olivera-Tanzi effect. In addition to the monthly advance income tax payments, Tareck El Aissami is pushing for a 1% tax on companies’ gross sales to be collected on a daily basis, which will also be deducted from the total amount payable in income tax when their value is insignificant due to inflation.

Setting aside the huge logistical hurdles in implementing a tax of this type, no account has been taken of the costs this will mean for companies, and this might well be the straw

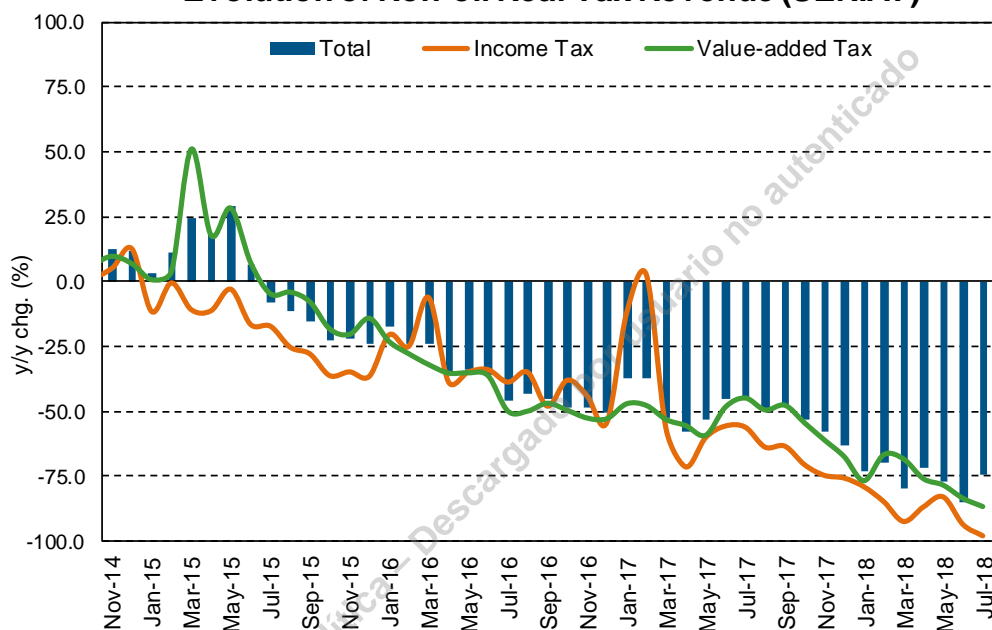
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-along with other straws resulting from the policies that are destroying the private sector- that could break the camel's back. While there is no way of estimating in full all the implications of these tax measures for the private sector ahead of time, everything points to them not going unfelt.

Evolution of Non-oil Real Tax Revenue (SENIAT)



Sources: SENIAT and Ecoanalítica

Last of all, there is to be a Large Financial Transactions Tax (LFTT) of between 0.0% and 2.0%, depending on the size of the transaction. Although it goes against the constitution, this legislative bill leaves to the discretion of the Executive to establish the different levels between zero and two percent. In the time it has not been established, the base aliquot would be of 1.0%.

The gasoline panacea

The announced increase in the price of gasoline has been postponed yet again until mid-September. It will not be implemented for the moment, until the government party has finished doing a census of Carnet of the Fatherland holders who have some kind of motor vehicle. According to official figures, around 3,000,000 motor vehicles have been registered in the system for the direct subsidy.

Depending on the proportion of active motor vehicles that register with the motor vehicle census, the reduction of the gasoline subsidy will be more or less successful. For

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example, if a third of the vehicles register with the census, then at least one third of the subsidy will remain intact. However, assuming that, under the Maduro Plan, they try to raise the price of gasoline to international levels, then the size of the adjustment and how fast it is implemented will determine how much of the subsidy will be left over for non-Carnet holders.

In an optimistic scenario in which the initial price of gasoline is 25.0% of the international price, 75.0% of the subsidy will continue to be granted for non-Carnet holders and 50.0% for all consumers. In this scenario, which the government considers hopeful, a subsidy that was USD 5,144 billion in 2017 will only be cut by USD 2,572 billion a year. That amount is only 17.1% of what the State needs to close the fiscal deficit.

On the other hand, considering that oil production has fallen at a rate of 58.5 kb/d a month in 2018 to date, it is not totally harebrained to think that, before the two years calculated by *Chavismo* for eliminating the subsidy are up, production will have fallen by more than the 337.8 kb/d represented by domestic fuel consumption at the date on which this policy was announced.

This last round that the government has in its chamber will also be insufficient to close the fiscal gap; and until the government takes the measures that are needed to reduce spending, Venezuela will continue to have hyperinflation.

Hyperinflation's revenge

“Commander Chávez always told us that it was necessary to put everything political before the economic.” Diosdado Cabello

The next few months will be unimaginably difficult for Venezuelans. In the case of businesses, a slow adjustment of prices will be paid for with bankruptcy and the price of a quick adjustment will be collected by Sundde. As how this will affect consumers, the drop in productivity in the economy will be paid for by a drop in real wages, regardless of what any decree may say. For that reason, our next weekly report will be given over to giving our clients advice on how to weather the coming months.

During hyperinflation –and particularly in hyperinflation of the magnitude that indexing wages to the petro could generate-, it is of prime importance to undertake coverage operations. The fourth of a petro received for the sale of products on the first of the month will not be the same fourth of a petro that will have to be paid to each worker on first payday of the same month if earnings are not protected by some kind of coverage operation. It is of prime importance to remember that, even though prices are expressed in petros, transactions will be conducted in bolivars.

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In the past, the Venezuelan Government has decided to postpone any kind of economic adjustment in order to avoid paying the political costs, and now that it thought it had sufficient political capital to allow it to implement those adjustments it has realized that meanwhile those costs have gone up. Possibly this will be the first of several unsuccessful stabilization plans in our hyperinflationary process. History is full of them. We only hope, for Venezuela's sake, that both the government and the people of Venezuela learn the economic lessons that this calamity is giving us.

Nevertheless, it is worrying that, after five years of economic contraction, a 1,475 kb/d drop in oil production, and the highest annual inflation in Latin America's history (124,653.6% at the close of July), such a difficult task is in the hands of a party that is just starting to crawl when it comes to economic policy.

Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	60	2300.0	95.8
	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
	3rd Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.5	0.8	-13.7
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	40,167,902	9.9	11,292.6
Price of International Oil Baskets (USD/bl)			
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
WTI	66.5	-2.4	39.7
Brent	72.0	-1.6	41.3
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	56.9	-13.5	19.6
Annual Average	63.0	-0.3	23.6

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

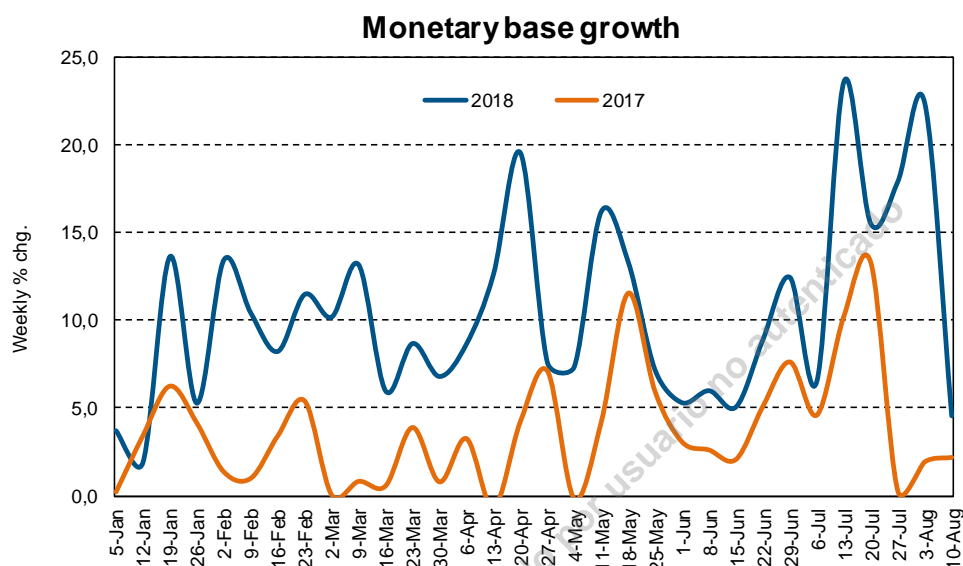
¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “TO INFINITY AND BEYOND”



Sources: BCV and Ecoanalítica

From the start, the government has issued money as a way of covering public spending and the fiscal deficit, a practice that has been stepped up as time has gone on. The numbers show that, in the first week of January, the monetary base was VEF 102.5 trillion (VES 1.03 billion) and in the second week of August it was VEF 2.28 quintillion, giving a cumulative increase for the year to date of 2,127%. The weekly dynamic is not encouraging either. The monetary base grew by only 3.7% a week on average in the first 32 weeks of 2017, and this year the average growth over the same period has been 10.4%, more than double.

Last Friday, August 17, President Nicolás Maduro admitted having resorted to money emission in order to back the construction of housing, the bi-monthly wage increases and other expenditures. He then went on to say: “*Now we have to play another way and we have to go to a Prussian fiscal discipline and definitively eliminate the emission of nonorganic money and support the emission of money [based on production].*”

However, he also announced an increase in the minimum wage to VES 1,800 (VEF 180 million) and a Redenomination Bonus of VES 600 (VEF 60 million) to be distributed to 10 million Venezuelans. That number alone is equivalent to 44.7% of the monetary base. Even though he clarified that he would put up VAT in order to be able to cover these new expenditures, the Central Bank’s lack of autonomy and the track record of fiscal disorder, it looks as though the government will continue to emit money to cover its expenditures, causing the monetary base to shoot up to infinity and beyond.

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ECONOMIC TIPS

“Maduro’s harsh package.” On August 17, President Nicolás Maduro made a series of announcements regarding the economy, bearing in mind the entry into force of the new monetary cone. These measures are scheduled to start, according with the published official gazettes, for the first of September of this year.

Advances. At the same time, a Temporal Regime payment for the advances of the VAT and the income tax was created for those who work in areas different than mining, hydrocarbons and any other related to those

Value Added Tax (VAT). Those announcements included raising VAT to 16.0%, with retentions to be made monthly. The number of products exempt from VAT was also increased. The advance payment of this tax will be calculated over the base of obtained gross income over the previous period of imposition regarding the VAT.

...and yet more taxes. A Large Financial Transactions Tax is to be established, which will be between 0.0% and 2.0%. It is estimated that approximately 133,000 special taxpayers will be liable to the maximum percentage.

A single exchange rate. Maduro announced the establishment of “a single floating exchange rate pegged to the petro,” which is to be determined by the DICOM auctions. Three auctions will be held a week, and the goal is to raise this number to five a week.

First auction in sovereigns. The 22 of August the first auction of this new scheme was realized. The resulting exchange rate was of VES 60/USD /VEF 6,000,000/USD), equivalent to VES 69.45/EUR (VEF 6,945,000/USD). This represents a depreciation of 95.9% with respect to the previous auction, which was done the 10th day of this month.

Less dollars were auctioned. The total amount liquidated was of USD 40,841.94 from which 59.1% was liquidated to legal entities and 40.9% to people. However, the total amount was reduced by 81.6% with respect to the last auction. Additionally, in this chance, only seven legal entities were granted liquidities in the auction, the people, on the other hand, were 85

The three currencies. The announcements included the establishment of the initial basis for pegging the exchange rate at VEF 6 million/USD and USD 60/petro. In other words, one petro is worth VES 3,600 or VEF 360 million, for an increase of 2011.6% compared to the previous exchange rate (VEF 248,832/USD).

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Minimum wage. Furthermore, Maduro also said that the new minimum wage would be half a petro, that is VES 1,800 (VEF 180 million) and that the difference would be paid for by the government during the first 90 days.

Money supply. According to the latest available figures, money supply is at VEF 4.02 quintillion for an increase of 3,054.2% this year to date. Money supply has gone up by an average of VEF 401.6 trillion a week.

Monetary base lags behind. The monetary base is at VEF 2.28 quintillion for an increase of 4.6% compared to the previous week and an increase of 15,806.5% compared to a year ago. The weekly growth of the monetary base in 2018 has been 10.43% on average.

Miserable increase. The international reserves for the week of the 17th of August were located at USD 8,506 billion. This represents an increase of 0.8% (USD 66 million) with respect to the previous week, but it also represents a fall of 13.6% (USD 1,344 billion less) with respect to the same week in the previous year.

The basic basket reaches VEF 1,157,252,851.26 or VES 11,572.5. 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 2018 was VEF 1,157,252,851.26 or VES 11,572.5, an increase of 76.9% with respect to the prior month, and 56,542.5% with respect to July, 2017.

The behavior of the CBF in July was marked by an increase in all of its items, among them: personal hygiene and household cleaning articles (130.1%), health (92.1%), food (79.3%), clothes and shoes (56.9%), house rent (46.2%) and education (38.2%).

The food basket reaches VEF 678,435,294.94 or VES 6,784.4. 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 Food Family Basket (Canasta Alimentaria Familiar - CAF) in July 2018 was VEF 678,435,294.94 or VES 6,784.4, an increase of 79.3% with respect to the prior month, and 4,011.4% with respect to December 2017.

The behavior of the CAF in July. was marked by an increase in beans (166.6%), fats and oils (109.5%), fruits and vegetables (98.3%), sauce and mayonnaise (92.2%), roots and tubers (84.0%), milk, cheese and eggs (82.7%), sugar and salt (71.5%), cereals and derived products (69.7%), meats and prepared products (62.2%), fish and seafood (58.6%) and coffee (50.3%). According to the same report, 15 products are in short supply of the 60 that the Basket have (25.0%).

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Lunch costs VEF 2,900,000.0. Also, they enhance that the average cost of a lunch is VEF 2,900,000.0, while the food ticket costs VEF 73,200.00 per day, for July.

OIL TIPS

The cheapest gasoline in the world. Minister of Communication and Information Jorge Rodríguez said that the new system for setting the price of gasoline would be implemented as part of the renewed hydrocarbons policy. He also claimed that “*the people of Venezuela are going to continue to pay the cheapest gasoline in the world, but subsidized directly.*”

PDVSA is to pay up. ConocoPhillips announced that it had reached an agreement with Petróleos de Venezuela, S.A. (PDVSA) according to which PDVSA is to pay USD 2 billion plus default interest. PDVSA has acknowledged the ruling handed down by the International Chamber of Commerce (ICC) court and will start to make initial payments totaling USD 500 million within the next 90 days. Payments are to be made quarterly over a period of 4.5 years.

Some good news. PDVSA and NuStar Energy LP have reached an agreement on the payment of outstanding storage charges at Nustar’s Statia terminal located on the Caribbean island of Saint Eustatius. The agreement allows PDVSA to resume its use of the terminal, which had been suspended several times since 2017 because of overdue payments.

Crystallex. The Canadian company Crystallex is getting ready for the auctioning off of Citgo in the hope of receiving compensation for what it is owed. Crystallex hopes to receive USD 1.4 billion for the loss of its Venezuelan assets at Las Cristinas gold mine in 2008. More than 20 companies that are owed around USD 19 billion have expressed their interest in the auction.

Using the sanctions as an excuse. In its defense, PDVSA tried to use the sanctions imposed on Venezuela by the United States in its favor to avoid losing its stake in Citgo. According to Global Platts, this move came into play when PDVSA argued that its shares in PDV Holding (Citgo’s parent company) had been frozen due to the sanctions imposed by President Trump.

What the judge said. However, Crystallex’ response to this was that PDVSA is still a commercial enterprise and continues to use its shares for engaging in commercial activities. And Justice Stark ruled that “*this executive order, directed to dividend payments*

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and purchases of securities, has no impact on PDVSA's ability to carry on the commercial activities based on exercise of shareholder rights."

Citgo surrounded by "sharks." Given the judge's ruling allowing the auctioning off of Citgo's assets, Francisco Monaldi, a Latin American energy policy fellow, said that Crystallex will have to get in line behind a lot of companies that are interested in those assets. "It is going to be a shark fest, and lawyers will make the most of it," he commented.

Venezuela withdraws from Argentina. Given the low oil prices and poor management by Petróleos de Venezuela, S.A. (PDVSA), the oil company suspended payments to Petrolera del Conosur (PSUR.BA), an Argentinean gas station operator. This decision was taken because the losses posted by Conosur had increased since the end of 2017 and came to a total of 226 million pesos in the first half of 2018.

In the fight against sanctions. China is increasing its consumption of Iranian crude, changing nearly all its oil shipments over to vessels belonging to Iran's national oil transport company. This is due to the China's decision to help Iran to maintain its supply of oil in the face of the sanction imposed recently by the United States.

BUSINESS SECTOR TIPS

The Plan 50 prices arrived. In the Official Gazette nº6,397 the list of prices, related to the Plan 50, of 25 food products was published. Some of the prices are: caned tuna 140 grams at VES 72 (VEF 7,200,000), the kilo of beef at VES 90 (9,000,000) 30 units of eggs at VES 81.5 (VEF 8,150,000), the kilo of mortadella at VES 18 (VEF 1,800,000), the kilo of fresh sardines at VES 17.5 (VEF 1,750,000), the liter of pasteurized milk at VES 48.5 (VEF 4,850,000).

Chicken and salt, the two extremes. The list indicates that the kilo of chicken was set at VES 18 (VEF 7,800,000) being this the most expensive product. The table salt is the cheapest product, costing VES 13 (VEF 1,300,000). Other goods such as 500 grams of coffee cost VES 60 (VEF 6,000,000) and the kilo of corn flour which costs VES 20 (VEF 2,000,000).

Sell to loss or be sanctioned. According to the gazette, the prices "*must be showed in all the commercial establishments where these products are sold and marked in the same ones, according to the current legal system*". At the same time, it establishes that the infringement of his prices would be sanctioned.

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New card limit. The Superintendency for Banking Sector Institutions placed the financial limit of the credit cards at 666,667 UT which is equivalent to VES 8,000 (VEF 800,000,000). Previously the limit was at 120,000 UT.

Redenomination completed. During the night of August 20, the Superintendency of Banking Sector Institutions (Sudeban) reported: *“The technological adaptation of the new monetary cone has been successfully completed, complying 100% with the schedule of activities proposed for the Monetary Redenomination at the country’s banking institutions.”*

Trying to cover up the obvious. Every wage hike comes with a new bonus. So it was that among the announcements made by Nicolás Maduro on Friday, August 17, came the allocation of a new bond of the fatherland called the Monetary Redenomination Bonus, only for Carnet of the Fatherland holders. This is a VES 600 (VEF 60 million) bonus and will be distributed to 10 million people. The purpose of the bonus is to help recipients to “adapt to the new monetary cone.”

Worried about the wage increase. María Carolina Uzcátegui, the president of the National Commerce and Services Council (Consecomercio), called on the commercial sector and its workers to meet on Tuesday, August 21, to discuss strategies to cope with the wage increase announced by Maduro. Uzcátegui expressed her concern regarding the difficulties companies will face when it comes to paying this wage increase.

Allegedly, more than two million. Minister of Transport Hipólito Abreu reported last week that more than two million vehicles had been registered with the motor vehicle census in the last registration effort. The minister said once again that the data gathered during the census would serve to outline the mechanisms for reducing and doing away with the smuggling of gasoline.

For more than gasoline. Abreu also announced that the subsidy would be granted not only for gasoline. He said that there was a policy for restoring the fleet of motor vehicles and that they were also working on the issue of spares and parts. *“We are already holding meetings with the auto parts sector to analyze critical points and to see how we can re-launch the system of production of spare parts in Venezuela,”* he explained. Time will tell how that works out.

“Agreed prices.” According to Minister for Agricultural Production and Lands Wilmar Castro Soteldo, the agreed prices for basic articles and consumer goods are to be announced on Tuesday, August 21. President Nicolás Maduro had announced that they would be *“guaranteeing that the fundamental consumption basket will be less than half a*

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petro, because those prices are already dollarized. They shouldn't even touch them." The prices on the shelves will tell whether that is true or not.

Remittance franchises. Given the announcements having to do with the exchange rate, which is to be a single rate and will fluctuate based on the DICOM auctions, Minister of Communication and Information Jorge Rodríguez announced that 300 exchange house franchises would be opened in hotels, at airports, and in shopping malls so that Venezuelans can freely exchange their foreign currency.

A helping hand for eliminating the zeros. The Minister for Economy and Finance and the National Telecommunications Commission (Conatel) have made a calculator available to help people with applying the monetary redenomination to their financial operations. This tool converts the amounts expressed in "strong bolivars" to "sovereign bolivars." Other similar applications are available on Google Play Store for android cell phones.

Pre-redenomination measures. The Superintendency of Banking Sector Institutions (Sudeban) planned to conduct an inspection of Consorcio Credicard last weekend to guarantee that electronic operations prior to the monetary redenomination were carried out without a hitch.

INTERNATIONAL ECONOMY TIPS

Taiwan versus China. El Salvador's President Salvador Sánchez Ceren announced that El Salvador had cut off diplomatic relations with Taiwan in order to forge new ties with China. This happened after Taiwan did not provide El Salvador with financial support. El Salvador is the third country to break off diplomatic relations with Taiwan this year.

More tariffs? In the middle of the trade war between China and the United States, the Office of the United States Trade Representative started hearings regarding the USD 2.0 billion in tariffs that are to be imposed on Chinese goods and how this will impact US companies.

Greece takes a step forward. Europe's bailout fund announced that Greece had successfully concluded its last three-year bailout program. Eight years later and after having received more than USD 340.0 billion in loans, Greece seems to have taken a step forward in its recovery, but it still has economic challenges to face.

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A package “from hell.” Due to its annexation of the Crimea, its participation in Syria’s civil war, and alleged cyber attacks to influence the outcome of elections, Russia is to face new sanctions by the United States. These possible sanctions have already cost Russia between USD 8.0 billion and USD 10.0 billion in weapons agreements and they will represent a cost in terms of foreign investment in the long term.

An exception for Iraq. After Iraq’s prime minister stated that Iraq would abide by all the trade sanctions imposed on Iran by the United States, it seems that his discourse changed. Due to the fact that Iraq imports crucial goods from Iran, an Iraqi delegation is to travel to Washington to request that exceptions be made to the sanctions imposed on Iran.

A leader despite Brexit. With eight months to go before Brexit is approved and despite forecasts that weaken Great Britain’s position in the global market, London has confirmed its place as a lead player in the foreign currency trade. The volume of foreign currency traded in Great Britain grew by 23% to set a new daily record with an average of USD 2.7 billion in April compared to April 2016.

“I don’t expect much.” This was what Donald Trump said about the meetings between the United States and China where they will discuss alleviating the trade war currently being waged between the two countries after the United States imposed tariffs amounting to USD 16.0 billion on Chinese goods. He added that there was no time limit for ending the dispute with China.

China does not obey. Even though the United States requested China to stop buying oil from Iran, China refused, thus preventing the United States from forcing Iran to negotiate. On the other hand, South Korea and Japan have reduced their purchases of oil before the November deadline.

Chile posts strong growth. Chile’s gross domestic product grew by 5.3% in the second quarter compared to last year. This is the fastest rate of growth for a second quarter in more than five years, driven by an increase in the production of copper and an upturn in investment. The economy expanded by 0.7% compared to the previous quarter.

A new treaty? The United States and Mexico are making progress with their bilateral negotiations regarding agricultural goods and the manufacturing of motor vehicles that are covered under the North American Free Trade Agreement, whereas Canada is waiting for the agreement to be made official before starting negotiations.

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Seeking the neutral point. With inflation within the 2% target and full employment in the economy, the US Federal Reserve is expected to raise its interest rates to reach a “neutral” level, which they say is currently between 2.5% and 2.75%.

POLITICAL TIPS

Striking for the cause. The political parties *Voluntad Popular* (VP), *Primero Justicia* (PJ) and *La Causa R* called a 24-hour national strike in protest over the economic measures announced by Nicolás Maduro.

There is more to come. In a joint press release, the parties stated that this was a “first step” in an agenda of activities to protest against the government. They said that there would be more strikes as part of the agenda.

Eighteen years. The Supreme Tribunal of Justice in exile found President Nicolás Maduro guilty of corruption and money laundering and imposed a prison sentence of 18 years three months. Following this decision, the court ordered that the vacancy of president of the Republic be filled since Maduro is a “*de facto*” president.

Should they tread carefully? The president of the National Assembly, Omar Barboza, commented that a decision had not yet been taken regarding the way this ruling is going to be carried out. He said that it was necessary to take precautions with regard to this decision as they were playing with “*the credibility of the only legitimate branch of government.*”

There is only one path. Luis Almagro, the secretary of the Organization of American States (OAS), warned Barboza that failure to abide by the decision of the Supreme Tribunal of Justice in exile would turn him into “*an accomplice of the dictatorship’s.*”

Calling for an investigation. The US Department of State issued a press release in which it criticized the measures taken by the Venezuelan Government in response to the failed attempt on Nicolás Maduro’s life. The agency lamented the arbitrary arrests and demanded that the rule of law prevail. It concluded saying that the United States joined the call issued by the international community for a committee of experts to investigate the incidents.

The strike in numbers. The leader of the political party *La Causa R*, Andrés Velázquez, claimed that 60% of the population responded to the call to take part in the national strike.

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He commented that, even though there was not full participation, on balance, the strike was considered a success.

It's down to the formalities. Argentina's President Mauricio Macri proposed that a joint petition be drawn up by several countries in order to take the case of Venezuela to the International Criminal Court.

A formal rejection. The National Assembly approved an agreement that rejects the economic measures announced by President Nicolás Maduro. It also called on people to fight for a political change in the country.

Autonomy first and foremost. The parliamentary fraction *Un Nuevo Tiempo* (UNT) expressed its disagreement with Luis Almagro's statements, alleging that decisions cannot be taken considering the "agenda" of other actors. It thanked the international community for its support, but insisted that they "*did not take instructions from any center of world power.*"

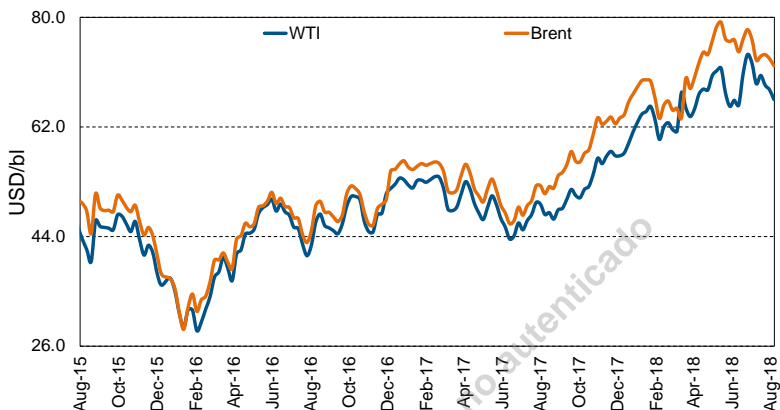
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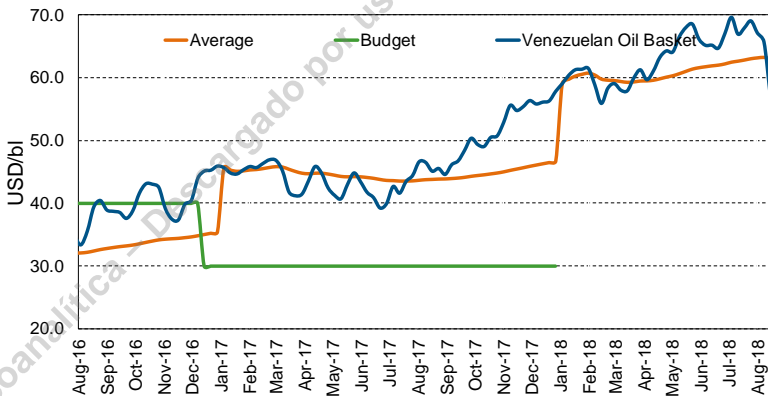
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



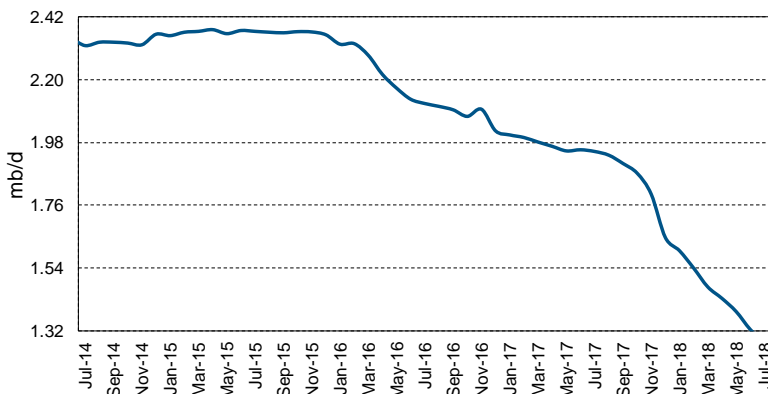
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

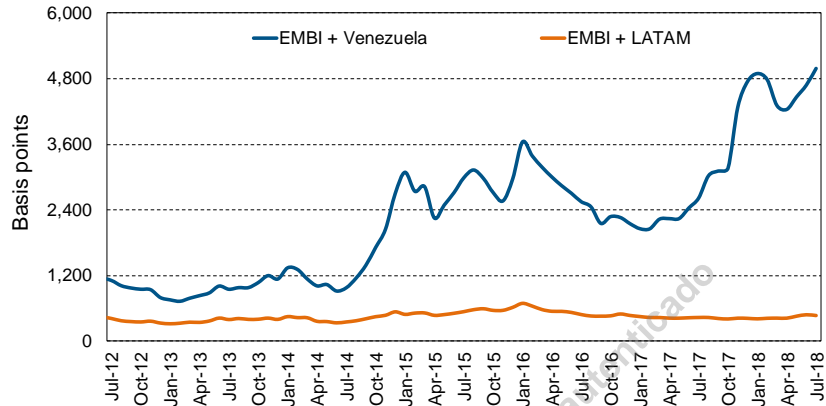


Sources: OPEC and Ecoanalítica

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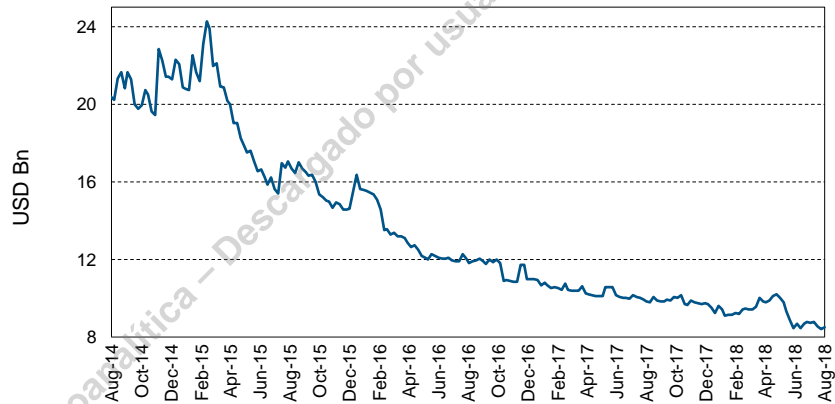
ECONOMIC INDICATORS

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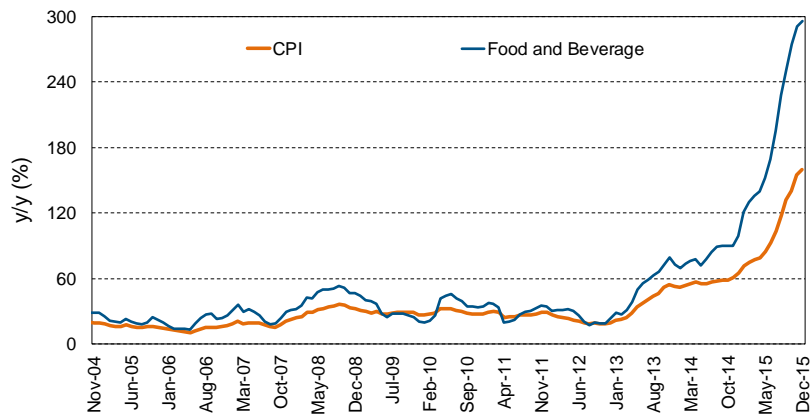
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



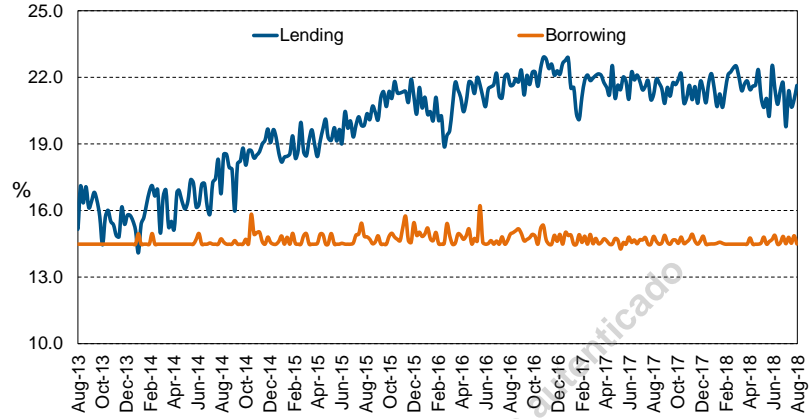
Sources: BCV and Ecoanalítica

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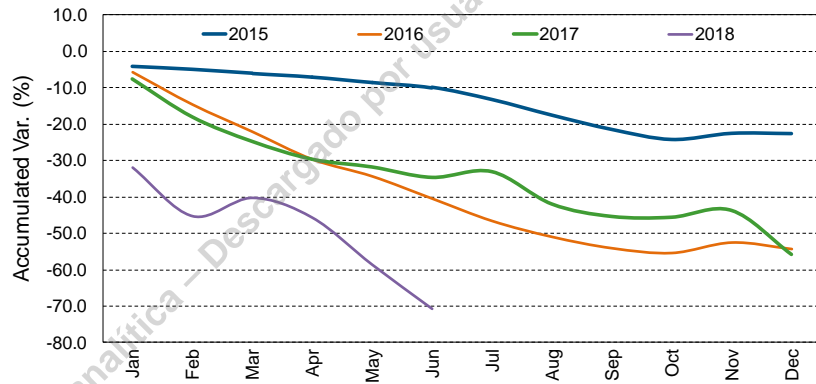
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



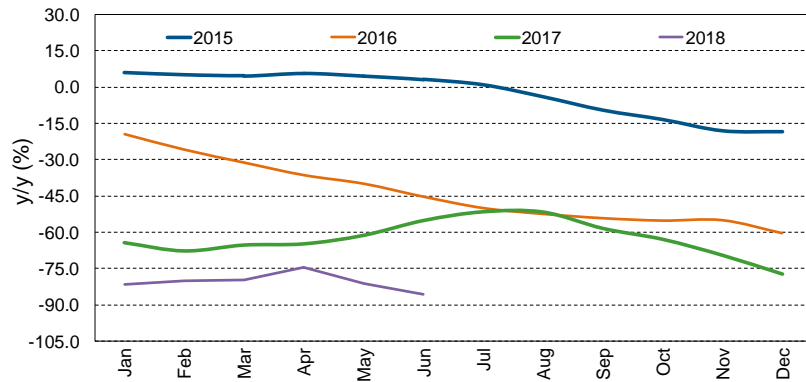
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



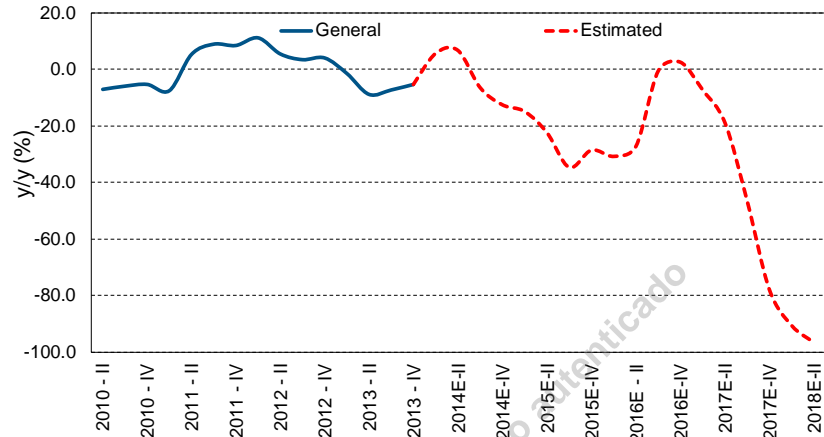
Sources: SUDEBAN and Ecoanalítica

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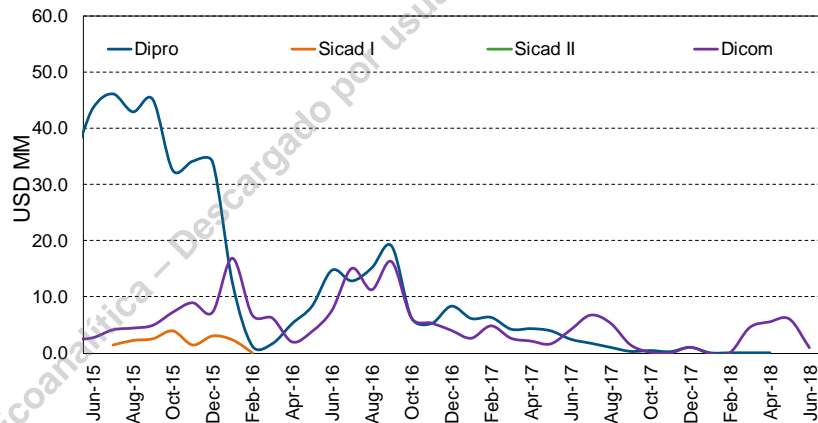
ECONOMIC INDICATORS

Real Wage Index



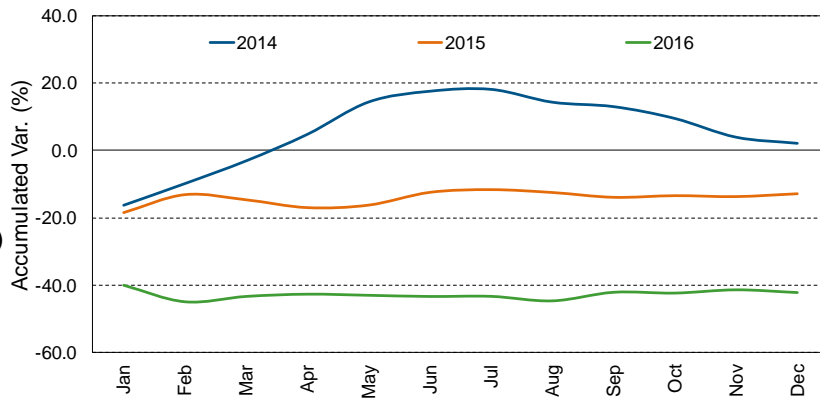
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



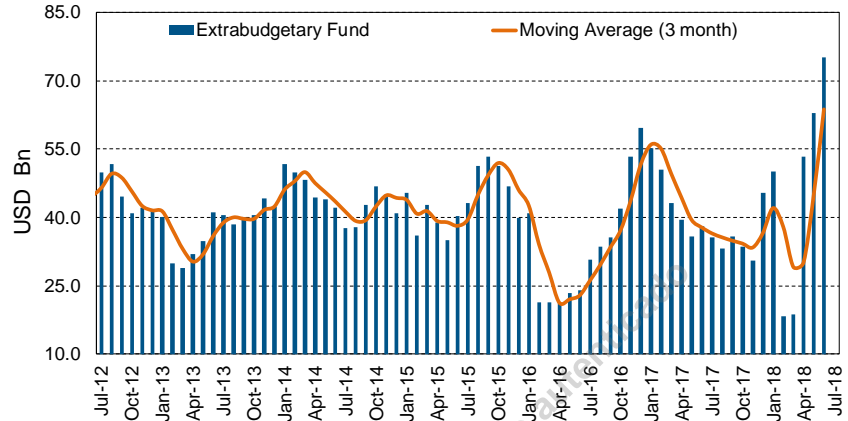
Sources: ONT and Ecoanalítica

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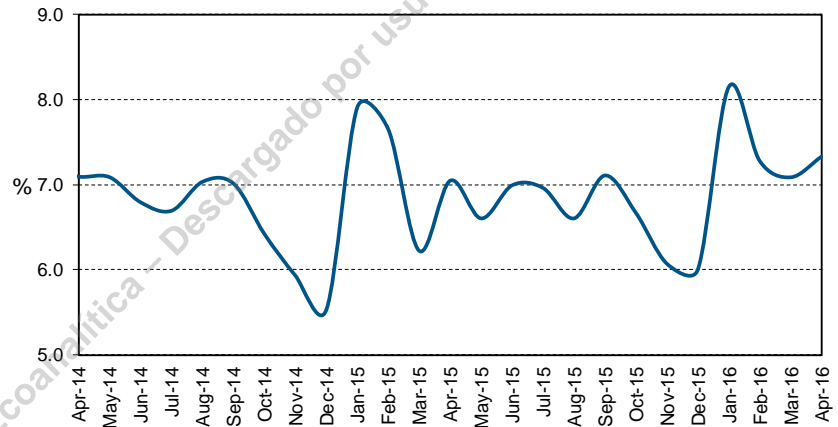
ECONOMIC INDICATORS

State Extrabudgetary Resources



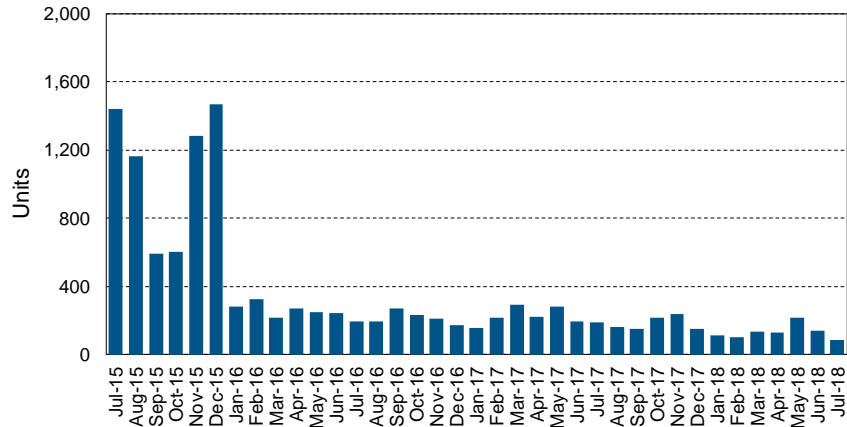
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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