

Riding the wave: Strategies for fighting the “Maduro Plan”

Quite apart from the discretionary manner in which the foreign currency auctions have been handled via the DICOM system, the latest government announcements regarding the “Adjustment Plan” implemented by the Maduro administration give rise to more questions than answers. What does seem to be clear is that policymakers are unwilling to carry out an economic plan that is in line with the objective of putting an end to hyperinflation and reviving domestic economic activity.

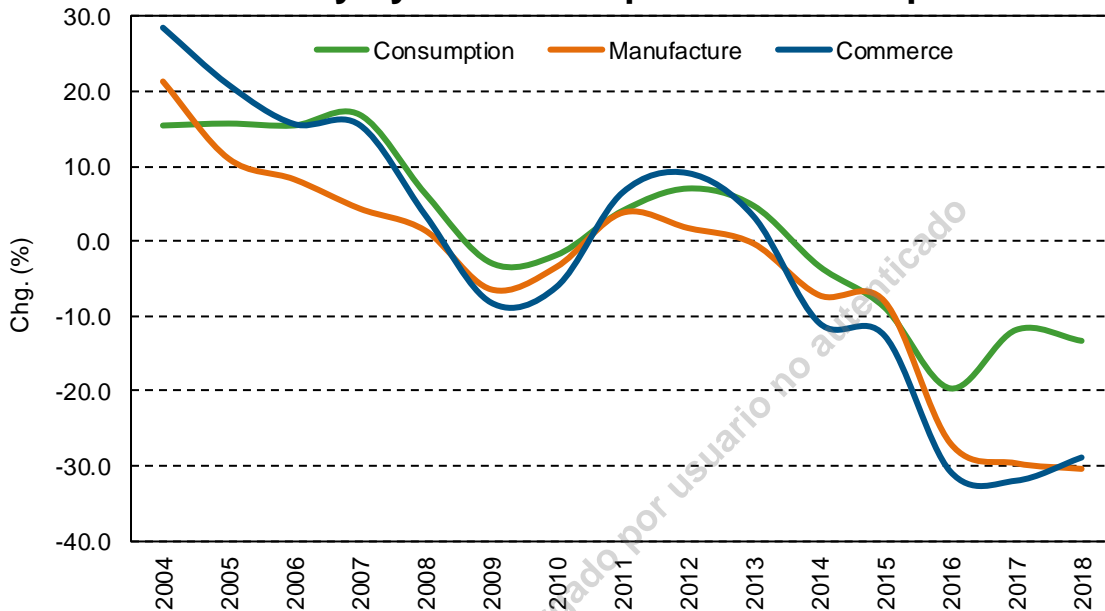
Venezuelans certainly seem to have detected the government’s lack of credibility, by being more aggressive on their recent adjustments, since neither the foreign exchange agreement nor the game rules regarding the new wages scheme have been yet published. Just this week, inflation posted 54.4%, with the prices of food and some nontradable goods doubled in seven days.

This kind of situation gives rise to two questions: Why is the government taking so long to take the proper measures to reduce the macroeconomic imbalances that are behind hyperinflation? Answering that question requires a more in-depth analysis and, for that reason, we will address it in a future article. The other question is: Assuming that the Maduro administration’s attitude does not change and this extremely adverse macroeconomic situation simply continues, what can be done? How can companies cope with the inclement inflationary spiral? Should they reduce the number of employees? Is coverage in foreign currency necessary?

Understanding a compendium of strategies that address these concerns is not only crucial for a business’s survival, the multiplier effect will contribute to the recovery of domestic consumption to the extent that these strategies would have an effect on the already deteriorated domestic production apparatus. Moreover, if companies employ similar mechanisms for coping with the upcoming macroeconomic disaster, it is foreseeable that discretionary prices setting would be reduced, tackling with government’s continued reluctance to address the lack of information.

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Activity by sectors vs. private consumption



Source: Ecoanalítica

Note: estimate data from 2016-2018.

Strategy 1: identifying how big an impact the new regulations will have on cost structures.

A common element of the measures implemented is their potential impact on companies' costs. On the one hand, by designing a wages scheme that is pegged to the value of the petro, any attempt by the government to set a target exchange rate (by modifying the VES/petro parity or the number of barrels that are equivalent to one petro) will have a direct impact on the cost structure of those companies whose processes are labor-intensive. Similarly, the scant flexibility of the new foreign exchange system (in part due to the restrictions imposed on demand and on the participation of the banks) will continue to put pressure on spending for importing intermediate or capital goods.

On the other hand, the proposed scheme of daily and weekly advance payments of direct taxes (income tax) and indirect taxes (value added tax) poses greater challenges for companies (including the banks) when it comes to monitoring their sales, the volume of their daily transactions, and the administration of their business. The decline in the operational efficiency of companies as a result of these measures is practically a certainty.

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Bearing this in mind, it is crucial that companies conduct an exhaustive revision of those aspects of their production process that are exposed to these changes in the regulations. In particular, companies should identify those inputs whose cost will be more sensitive to changes in the reference exchange rate or are part of the tax base. This will allow them to minimize potential losses resulting from unexpected changes in the regulations and in the conditions of the foreign exchange market, and even from changes in the economic cycle.

A strategy such as this is usual in times of hyperinflation. In his book on business schemes in this type of context, Swanson (1989)¹ states that raising bigger profits from increased sales is less effective than doing it by cutting costs during these periods. In Venezuela's case, the validity of this mechanism lies in the poor performance of the country's economic activity, besides the setting of so-called "Agreed Prices" for certain priority items. For companies in the food sector and even the banks, which face restrictions on their earnings to a large extent, revising these costs will be crucial.

Strategy 2: redefining key personnel and the payroll burden, taking into account critical personnel.

Undoubtedly, one recommended adjustment in view of the "Adjustment Plan" measures has to do with defining a company's crucial employees, given the greater labor liabilities that are in store. Here, companies should give priority to key personnel, particularly those involved in the technical and financial management of the business. Therefore, one challenge facing companies will be to carry out this revision without neglecting the strategies they have already been implementing to mitigate the impact of migrations on the supply of labor (advance payments of salaries, indexation schemes, and so on).

On the other hand, those responsible for designing these plans should focus both on the intensive and extensive margins of the labor force, with a view to reducing impacts on productivity. In other words, companies should implement policies that reduce payroll burdens (extensive component) and at the same time to keep the technical quality of their workers (intensive component²).

On this issue, Swanson (1989) points out that technical employees allow companies to identify critical areas of the business at a lower cost in contexts of hyperinflation. This means that the technical quality of the priority employee goes from his technical training

¹ Swanson, G. (1989), *The Hyperinflation Survival Guide*, University of Arizona, Figgie International.

² The intensive margin refers more precisely to the number of hours per employee hired. What we want to emphasize here is that a more qualified component of employment is associated with a higher productivity of the labor factor and a lower number of hours worked.

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to his level of experience in that particular business. For that reason, this priority staff should be employees with extensive knowledge of the company's sector of interest and/or a high level of technical knowledge

Strategy 3: taking the time to establish a price strategy in response to the announcements.

Redefining processes in light of the new regulations will not be an easy task. It is foreseeable that companies will face a variety of adjustment costs as a result of adapting the different aspects of their business to the new tax, labor and foreign exchange context. For example, by reducing the timeframes for paying taxes, many companies will be forced to speed up their administrative and accounting processes in order to determine their tax base and, consequently, expected reductions in their net income.

So, with a view to minimizing costs, it is advisable to make the changes that are implied by the new measures within lapses that will make it possible to set new prices more efficiently (*or less inefficiently*). This implies a good understanding of the current legal framework and a gradual adaptation of the processes, which could take more man-hours than are usually required by the business.

However, this does not mean neglecting the time factor for the remaining processes. In hyperinflation, changes in prices can take only days, which means that any payment involving local currency should be performed quickly. Therefore, in adapting to the new regulations and given how aggressively prices have been going up in the past week, companies should take the "slowly-but-surely" approach. As Swanson (1989) put it, given the uncertainty surrounding hyperinflationary processes, while precautions are valuable, so are rapid adjustments.

Most important hyperinflation cases

Country	Daily inflation (%)	Period in which prices doubled
Hungary	207	15 hours
Zimbabwe	98	24.7 hours
Yugoslavia	64.6	1.4 days
Germany	20.9	3.7 days
Greece	17.9	4.3 days
China	11	6.7 days

Source: Fischer, Sahay, Vegh (2002) and Ecoanalítica

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Strategy 4: optimizing all internal prices and acting fast and with flexibility.

Tying in with the previous point, the outlook for the economic situation in the short term will require companies to adapt swiftly to change. This will require companies to set rates under a scheme that will allow them to respond swiftly to any future regulatory shock. Authors such as Manson (2007)³ even establish that companies that introduced greater flexibility into their processes managed to be more aggressive when it came to entering the market of interest.

One aspect associated with this degree of flexibility and facilitates the administration of the business is based on decentralizing decision-making. This means that an adequate strategy might focus on giving greater autonomy to the purchasing or administrative areas that speeds up decisions regarding setting prices, handling inventories or even financing.

Part of the historical evidence endorses such mechanism. In the case of Zimbabwe's hyperinflation, Gumbe and Kaseke (2008)⁴ determined that, in 59.0% of local companies, the business and administrative areas took decisions with a greater degree of independence from top management, so as to reduce the time spent on decision-making.

The effectiveness of this type of policy as a means of guaranteeing the survival of the business is associated with the quality of the labor factor (Strategy 2) insofar as the employees' capacity for responding is associated with their level of technical knowledge or how well they know the sector in which they operate.

Strategy 5: redefining the product portfolio.

One mechanism available to companies for reducing losses in hyperinflation is based on restructuring the products they offer. Swanson (1989) suggests that, in this context, companies should concentrate on production in sectors where the generation of net income is higher. This implies that companies should be more flexible in managing their business in a more adverse economic environment, in line with Strategy 4.

An associated strategy is revising quality standards. At least in the short term, companies that are less bound by international standards might consider modifications to their standards without affecting the quality of their products. Referring once again to

³ Mason, R (2007). *The external environment's effect on management and strategy*, Management Decision, Vol. 45 (1), pp. 10 – 28.

⁴ Gumbe, S. & Kaseke, N (2008), *Manufacturing firms and hyperinflation- survival options: the case of Zimbabwe manufacturers (2005-2008)*, University of Zimbabwe.. This study is based on the findings of a survey conducted by the Confederation of Zimbabwe Industries (CZI) on the performance of 100 local companies between 2006 and 2008.

Zimbabwe, Gumbe and Kaseke (2008) determined that more than half the private companies employed a similar strategy, particularly those that were not subject to the requirements of their parent companies.

Another aspect worth considering is the effects of competition. Depending on the types of products a company works with, it is possible it may have to face a larger variety of products whose prices cannot be adjusted more aggressively. In this case, a local company could identify segments in its market where there is a scant supply, thus allowing it to make bigger price adjustments.

Obviously, this will depend on the company's type of business. While companies that focus on the sale of priority goods will certainly find opportunities resulting from the shortage of certain products, they will also be limited in terms of how free they are to engage in price arbitrage.

Strategy 6: caution when “dollarizing” prices.

For some companies, a usual coverage mechanism is one that focuses on indexing its sales prices to the exchange rate, on the assumption that their earnings will be protected by the stability of the dollar against changes in costs (dominated in part by local inflation). However, prior to the announcement of the measures, the acceleration in price increases resulted in inflation being greater than the devaluation of the exchange rate, which meant a drop in the purchasing power of the dollar.

If this situation is maintained, companies that set their prices based on the exchange rate could find that their earnings will increase more slowly than their costs. This would be the case of companies that offer salary packages that are indexed to inflation but leveraged via revenues from “dollarized” prices or even to reducing their positions in foreign currency.

In view of the foregoing, a better strategy would be to be prepared for the changes in regulations or in the market by means of coverages in hard currency, but without indexing. Swanson (1989) suggests that a strategy of this type allows companies to more effectively avoid a potential deterioration in their earnings as a result of fluctuations in the exchange rate typical of hyperinflations.

This ties in with Strategy 1 to the extent that coverages of this type are aimed at mitigating unexpected changes in costs that are sensitive to foreign exchange regulations (the importing of inputs, for example). This should be a fundamental aspect as long as the government continues to refrain from establishing specific rules for the foreign currency market and make it more flexible.

Strategy 7: intensifying coverage not only in hard currency but also in durable goods.

Given the heavy imported component in local industry's inputs, accumulating foreign currency emerges as a means by which private companies can protect their net worth. Moreover, given the government's opacity with regard to the new foreign exchange regime and its prohibitions, this bigger accumulation of foreign currency will be crucial for companies, as it will allow them to cope with any change or new unexpected announcement on the foreign exchange front.

Nevertheless, given the difficulties in obtaining foreign currency resulting from hyperinflation and scant liquidity in hard currency in the market, this strategy could be complemented by the acquisition of durable goods that would make it possible to minimize the loss of any reserves in bolivars in real terms. The fundamental premise, as Swanson (1998) rightly points out, is that any liquid resources should be immediately invested in inventories, raw materials or capital goods.

Accumulating durable or intermediate goods could provide companies with an additional mechanism for keeping their business afloat. Companies could go to a secondary market and raise funds with that merchandise, provided their own production needs are covered. During Bolivia's period of hyperinflation in the 1980s, many local companies adopted this strategy to offset the drop in their earnings.

Strategy 8: adopting an aggressive sales scheme, eliminating credit and migrating to the prepaid scheme.

Just as every day counts for the government in hyperinflation, so it does for private agents. Given the expectations of a more aggressive setting of local prices (depending on how effective the regulation of "Agreed Prices" is), it is likely that each company will decide to raise its prices more frequently in order to minimize losses. So, companies should implement schemes that will allow them to have revenues available faster and reduce their loss in value in real terms to a minimum.

Companies that are able to demand advance payments could operate with prepaid methods. Following the same logic, schemes based on credit sales are the least appropriate in the present situation and in the situation that can be expected in the future. Gumbe and Kaseke (2008) determined that during hyperinflation in Zimbabwe in 2006, 87.0% of local companies that were operative reduced this sales scheme in order to have quick access to funds.

Short-term payments are also usual in situations of this type. According to Swanson (1989), long-term or fixed-price contracts were abandoned by Bolivian companies during hyperinflation in the 1980s. These companies also introduced vertical integration processes in which they undertook to make or acquire their own raw materials and also to invest in distribution chains to reduce costs.

Maintaining relations with banks is fundamental. Bank credit is an alternative source for financing capital, while the use of their technological platform makes it possible to speed up payments. For the banks, this strategy will be beneficial as long as leverage needs remain practically unchanged, even when they are agreed on a short-term basis and with little possibility of interest rate arbitrage.

Strategy 9: Adjusting prices is what counts in hyperinflation, not market share.

As we have already stressed on more than one occasion, faced with the unstoppable spiraling of domestic prices that causes agents to adjust their charges aggressively and in an unsynchronized manner, local companies should focus on raising their prices fast, disregarding the drop in demand resulting from said increases.

Why? Since their earnings are dominated largely by the volatility in prices, the potential losses for any company that “falls behind” its competitors in adjusting its prices will always be greater than the revenues it forfeits when the demand for its products drops. Given that the battery of measures implemented by the government so far further fuels expectations that the bolivar will continue to lose value, prices will continue to spiral and the gains from setting a price below the competition’s will be practically nil.

When going for price adjustments rather than market share, another fundamental aspect is managing inventories. In seeking to get the best price, companies can employ the NIFO (next in-first out) scheme instead of the LIFO (last in-first out) scheme. This approach takes more account of the effects of inflation to the extent that the inventory is valued at its replenishment cost (and not at historic or past costs where the impact of prices is less).

Strategy 10: redesigning the distribution and sales channel, giving priority to online platforms.

Some lessons on product distribution and sales mechanisms in hyperinflation can be learned from South America’s experiences in hyperinflationary processes. For example, Swanson (1989) points out how, in Bolivia, the price of merchandise in hyperinflation was determined based on the delivery date of the products. This meant that payments were made in cash and at the unofficial exchange rate on the day of payment.

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He also speaks of self-financing schemes in which the companies themselves acted as creditors of a debt used to finance the purchase of their products. Another strategy used in Argentina was the leasing of goods or services whose rates were indexed to the exchange rate against the dollar.

These companies also adapted their sales schemes to the new need for rapidly gaining access to funds. More specifically, some companies established “penalties” for customers who delayed payments by giving them the lowest priority on their order delivery list. Assuming that these mechanisms can be implemented by local companies, the use of electronic means of payment would allow them to take greater advantage of them. In point of fact, implementing systems on line would provide a low-cost solution to delays in payments that slow down the distribution of products.

And what about households?

Certainly, private individuals will also be on the receiving end of a fair share of the effects of the new regulations, either because they will be affected by the potential layoffs by companies that are unable to sustain a large payroll or even by small enterprises that do not have the mechanisms to cope with the higher costs or the shortage of inputs resulting from the increased exchange rate pressures.

Perhaps the mechanism most readily available to households for coping with the real deterioration in their income is the consumption of durable goods. This was a common strategy in China in the 1980s, according to Abbarge and Zu (2001)⁵, when the population was faced with a real reduction in savings due to hyperinflation⁶. Nevertheless, today such operations are not free of friction insofar as access to such goods has been restricted to agents with positions in foreign currency.

Another mechanism comes from resorting to a secondary market where it is possible to acquire goods payable in bolivars but indexed to a hard currency. Similarly, small savings in a foreign currency will always be a good alternative, insofar as the deterioration in real income does not prevent it. On the other hand, for people who have family members abroad, the flow of remittances is an additional source of foreign currency.

⁵Aaberge, R. & Zhu, Y, (2001), *The Pattern of Household Savings during a Hyperinflation: the case of Urban China in the late 1980s*, Review of Income and Wealth, Series 47.

⁶ This hyperinflation scenario does not meet the usual criteria, in which monthly inflation exceeds 50.0%. Between 1988 and 1989, prices grew by between 18.0% and 19.3% a year on average. Moreover, this inflation occurred as a consequence of an overexpansion in domestic demand, where the growth in GDP was insufficient to leverage that expansion in the short term.

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A short round-up: Have these measures been successful?

Even taking into account other countries' hyperinflation experiences, it is not easy to offer a final take on which of these mechanisms have been the most suitable in dealing with events of this type. The idiosyncrasy of each experience and the structural differences of each economy are certainly aspects that pose restrictions on any such evaluation.

Without wishing to establish a preference for any specific pool of strategies, Gumbe and Kaseke (2008) gave a summary of the performance of a group of private companies in Zimbabwe during hyperinflation that implemented a large number of the suggestions mentioned here.

Effectiveness of strategies

Parameter	Declined	Improved	Breakeven
Profitability	26.5%	26.4%	47.1%
Capacity utilisation	77.4%	9.7%	12.9%
Market share	46.4%	21.4%	32.1%
Working hours	63.3%	13.3%	21.3%
Cost reduction	45.2%	41.9%	12.9%

Sources: Gumbe, S. & Kaseke, N (2008); and Ecoanalítica

It is clear that a large number of the companies posted improvements in their profitability associated with a reduction in their costs and with a loss of market share; and that was despite having experienced losses in their installed capacity and a reduction in their labor force. In the light of this evidence, we can say that this type of "adjustments to Maduro's adjustments" could give a respite to local companies and households. It is not harebrained to think that the Maduro administration will continue with its perverse dynamic of *trial and error* on the economic front, which means that everyone, households, companies and the public and private sectors, had better be prepared for more improvisations.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	60.89	1.1	1.1
	3rd Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.0	-0.4	-0.7
	3rd Week August	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	0.0	-6.1	-0.2
	4th Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.7	1.9	-12.2
	3rd Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	45,176,433	12.5	-85.5
Price of International Oil Baskets (USD/bl)			
	4th Week August	Weekly chg. (%)	Annual chg. (%)
WTI	67.1	0.9	40.1
Brent	73.2	1.7	40.4
Price of the Venezuelan oil basket (USD/bl)			
	4th Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	66.4	1.8	38.8
Annual Average	63.1	0.2	21.0

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

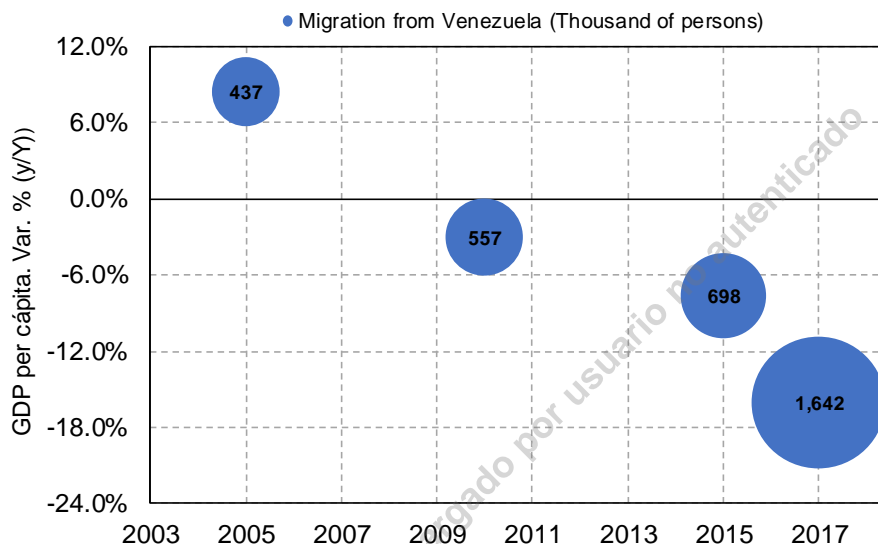
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GRAPH OF THE WEEK: “FLEEING FROM THE DISASTER”

GDP per cápita vs. migration from Venezuela



Sources: BCV, IOM and Ecoanalítica

Living conditions in Venezuela have got so bad to the point where, for some, the decision to emigrate has become the only way to achieve some degree of well-being. The variations in gross domestic production (GDP) per capita provide an approximation for this loss of well-being. It can be clearly seen that the migrations abroad have increased as the decline in GDP has become more acute.

In 2010, the drop in GDP per capita was 3,02% and –according to figures from the International Organization for Migration (IOM)- total migrations from Venezuela came to 556,641; and in 2017, a 16,04% drop in GDP per capita coincided with the emigration of 1,642,442 Venezuelans. While the drop in GDP could act as a catalyst for higher emigration, the exodus of a larger number of Venezuelans would mean a reduction in the supply of qualified manpower and, consequently, a more pronounced decline in economic activity in the future, thus giving rise to a vicious circle of higher levels of emigration and bigger drops in GDP.

This week, the mass migration of Venezuelans to other countries in the region on foot hit the headlines. These images coincided with the new plan for “restructuring” the economy proposed by the government, which has inspired no confidence either in the people or among analysts. For that reason, it is foreseeable that by the end of 2018 even more people will have left the country in search of better opportunities.

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ECONOMIC TIPS

The lie of the petro. Nicolás Maduro assures that the new “cryptocurrency”, the petro, is supported by the oil reserves in the city of Atapire, which apparently comprise more than 5,000 million oil barrels. Nevertheless, Francisco Monaldi expresses that, due to the lack of infrastructure in the area makes, the extraction of these reserves would be impossible.

Does the petro market exist? Related to this, News Agency Reuters carried a further investigation. This search “*left little evidence of a prosperous petro’s commerce*”. So far, these cryptocurrencies have not been exchanged on the most popular markets, and there are no shops that accept it as payment method either.

Conned and forgotten. At the time of interviewing petro buyers, some people told they were conned; others denied commenting. On the other side, Atapire’s inhabitants said they were forgotten and the decline is bigger than ever. They live in the city that “gives life” to the petro but they do not even know what it is. “*How do you buy a petro? what do you buy it with?*”, asked one of its inhabitants.

Gold fever. President Nicolás Maduro launched a “gold savings plan,” which is to start up on Tuesday, September 11. He explained that Venezuelans will have two options for obtaining the gold reserves: in 1.5 gram ingots at a cost of VES 3,502 and 2.5 gram ingots, which will cost VES 5.837. “*I’m already prepared. I’ve got thousands of pieces so that the Venezuelan people can save in gold,*” said Maduro.

A new ministry. Maduro also announced the creation of the Ministry for Domestic Trade, which is to be “*the governing body for articulating the domestic market, the functioning of the country’s domestic commerce.*” William Contreras is to head up this new ministry, adding yet one more member to a cabinet of 33 ministers.

The basic basket comes to VES 11,572.53. The director of the Documentation and Social Analysis Center of the Venezuelan Teachers’ Federation (CENDAS-FVM), Oscar Meza, announced that the cost of the basic basket for a family of five in July came to VES 11,572.53. This means that it would take 6.42 new minimum wages (VES 1,800) to purchase the basket at July’s prices, which today are much higher.

Auction No. 29. At DICOM Auction No. 29, the third auction under the “new” foreign exchange regime, the resultant exchange rate was VES 60.89/USD, practically the same as the rate from the previous auction (VES 60.25/USD). This indicates that the government does not intend to establish a floating exchange rate and that it will maintain the same scheme it has been using for the past few years.

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Foreign currency for companies. The total amount disbursed to companies was USD 288,133.90, down 39.85% from the previous auction and significantly less than the average of all the auctions (USD 650,532.05). This amount accounted for 84.12% of the foreign currency awarded.

Fewer dollars for private individuals. On the other hand, the total amount disbursed to private individuals was USD 54,391.16, for a drop of 18.02%. This amount was awarded to 268 private individuals, fewer than the average for the last five auctions (309.4).

They continue to grow. In the week of August 24, the international reserves came to USD 8.67 billion for an increase of 1.9% (USD 161 million) compared to the previous week. This is the second week in which the international reserves have gone up, for a total increase of USD 227 million.

OIL TIPS

Operating at half steam. After an oil tanker collided with one of its three docks, Jose Port is only partially operational. This is Venezuela's main oil port and this incident has reduced its capacity for exporting crude and for receiving imported diluents, according to Reuters.

Cardón is back on line. Operations have been resumed at Cardón's catalytic cracking unit after "repairs," according to PDVSA. PDVSA claims that this unit, which only has a capacity of 310 kb/d, will increase production by 600 kb/d. It is not known how long this unit was out of service or how much it is currently producing.

The fight's on. The auctioning of the assets of Pdv Holding (PDVH), with a refining capacity of 750 kb/d, has started. The lawyers of the different creditors are in a shark fight to see who makes off with the best morsels.

The possibility of a bond. However, the judge offered Venezuela the opportunity of taking out a bond and of appealing the decision. Pdv has entered an appeal against the ruling that allows Tenor Capital Management to auction off PDVH's holdings in order to pay monies due as a result of the expropriation of the Las Cristinas mining project.

We'll have to wait and see. It is by no means certain that the Venezuelan Government has the funds with which to pay the bond, according to Argus Media. It also reports that

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the government will try to reach an agreement with Crystallex, just as it did with ConocoPhillips.

Citgo is being seized... PDVH also owns Citgo Aruba Refining (CAR), but this facility is not included in the auction of Citgo's assets by the Canadian mining company Crystallex. So, if Crystallex wants to include CAR in the auction it will have to file a separate lawsuit.

...but they're acting as though nothing is happening. However, the president of PDVSA, Manuel Quevedo, said that they had inspected the Saint Nicholas Refinery on Aruba and that it would be turned into "an upgrader for processing 200 kb/d of extra-heavy crude" from the Orinoco Oil Belt. Argus Media reports that this facility has an estimated capacity of 209 kb/d, according to Citgo.

Restoration of Aruba's refinery is under way. It is planned that the refinery will resume operations this year. While the restoration project is under way, the refinery is being used to transfer and store Venezuelan crude. Quevedo also announced that, following the inspection of the refinery, they are discussing the possibility of building an oil pipeline between Venezuela and Aruba.

Yet another agreement... The governments of Venezuela and Trinidad & Tobago signed an agreement to promote the energy sectors in the two countries. The agreement establishes the construction, operation and maintenance of a submarine oil pipeline from the Dragon field in Venezuela to the Hibiscus field in Trinidad & Tobago.

...it's not known whether it will be carried out. The companies involved in this agreement are PDVSA, the National Gas Company of Trinidad & Tobago (NGC), and Shell Trinidad and Tobago Limited. However, no further details of the project have been released, according to the Energy Analysis Institute (EAI).

Objections to Norway's plan. A commission appointed by the Norwegian Government recommended against the country's sovereign wealth fund getting rid of USD 40 billion in oil and gas stocks. The commission claims that this move would not protect Norway from the drop in oil prices.

Has the sale of Saudi Aramco been postponed? The Government of Saudi Arabia planned to sell Saudi Aramco, the state-owned energy company that produces 10% of the world's oil and finances the Saudi State, in 2018. Early in the year, the company was worth more than USD 100 billion. However, things do not seem to be going as well as before, according to Bloomberg.

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Until 2019. The Saudi Government is being forced to postpone the sale until 2019. Some members of the company's management even doubt that the sale will take place at all. The reasons for the postponement include a lack of interest or doubts on the part of investors and an extremely ambitious calendar.

Increase in CO2 emissions. CO2 emissions increased by 1.4% in 2017 to an historic high of 32.5 gigatonnes, according to the International Energy Agency (IEA). Even though global emissions were up, countries such as the United States, the United Kingdom, Mexico and Japan reduced theirs.

BUSINESS SECTOR TIPS

More money to share out. President Nicolás Maduro announced an increase in the various bonuses that are distributed via the Carnet of the Fatherland. These increases will be effective starting on September 1, along with the new minimum wage.

400,000 pregnant women. He announced that the Humanized Birthing bonus would go up to VES 600 (one-sixth of a petro) and that 400,000 pregnant women would be getting it next month. As for the José Gregorio Hernández bonus, it will now be VES 450 (one-eighth of a petro).

Families of the fatherland. The Households of the Fatherland bonuses have been segmented based on the number of family members. Families with two members are to receive VES 360, families of three VES 550, families of four VES 740, families of five VES 930, and families of six are to get VES 1,120.

Social control. Minister for the Economy and Finance Simón Zerpa said that both state-owned and private companies and their workers should register with the Fatherland platform in order to receive the wage increase (VES 1,800). He explained that "*this payment [...] is going to go directly to the worker [...] via the Fatherland platform's change purse, and from there it can be transferred to his bank account.*"

It seems like a whole lot registered. According to Vice President for the Economy Tareck El Aissami, 7,700,000 workers have registered with the Fatherland platform and the Company Management and Payment System (Tiuna-IVSS) in order to receive the new minimum wage.

A 0.2 petro bonus. Minister of Communication and Information Jorge Rodríguez announced that self-employed workers would receive VES 720, which is 40% of the new

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minimum wage, as a bonus over the next three months. He also issued a call to everyone to register with the Fatherland platform in order to receive the bonus.

Continuation of Plan 50. Following the publication of the list of 25 “Plan 50” products, Minister El Aissami said that the agreed prices for medicines, cleaning products, clothing, footwear, and vehicle parts would be announced shortly.

More meetings. In his Twitter account, Minister El Aissami said that he had held a meeting with representatives of the Ansa, Makro and Garzón supermarket chains and other establishments in order to reach an agreement on these prices.

Sovereign bolivars and petros only. The Superintendency of Banking Sector Institutions (Sudeban) announced that all banks must enter their balances in petros and sovereign bolivars (VES). He asked that the petro be included as the country’s second unit of account, following the economic measures announced by President Nicolás Maduro.

Protests outside Pirelli. Workers at Pirelli’s tire plant protested on Monday, August 27, when they found the factory gates closed. The workers’ leader, Luis Álvarez, said that they were not notified that operations were to cease due to the company’s inability to pay the increase in the minimum wage.

Rentals chaos. The president of the Real Estate Chamber of Venezuela, Carlos Alberto González Contreras, said that the new monetary cone had caused chaos in housing rentals. “*As long as there is a law that benefits one of the parties and is openly detrimental to the other, housing for rent in Venezuela will continue to disappear,*” he explained.

Solutions on paper... Following the protests by health sector workers and in response to their demands, President Nicolás Maduro agreed to the creation of a new Organic Health Act, which is to be “*adapted to the humanistic, socialist, non-mercantilist vision.*” He also agreed to “*constitutionalize*” the *Barrio Adentro* primary health care network.

...and price regulation. In the same statements, President Maduro established that the workers’ demands had been met with the increase in the minimum wage. He also commented that the prices of medicines would be updated to bring them into line with the economic measures.

Caracas, homicide city. According to the Victims Monitor published by *Efecto Cocuyo*, 1,589 murders were committed in the country’s capital between May 2017 and April 2018, which gives 47.3 murders for every 100,000 inhabitants.

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Young victims. Half of the victims were under 30 years of age and 102 of that group were minors. Four out of every 10 victims had children under the age of 18, and some 1,804 children were left orphans thanks to violence in Caracas.

WORLD ECONOMY TIPS

No progress. In the middle of their trade war, the United States and China decided to meet to start negotiations. After two days of meetings, the negotiators stated that no real progress had been made, although Beijing did say that the talks were constructive.

And the war continues. Despite the trade negotiations between the United States and China, Washington finally decided to impose tariffs of up to 25% on Chinese goods amounting to USD 16.0 billion. Beijing is to take reprisal measures, equaling the tariffs imposed by the United States.

Central bank Summit. The annual conference of the world's leading bankers at Jackson Hole in Wyoming will focus on the depreciation of the Turkish lira and the European currency. The director of the US Federal Reserve System, Jerome Powell, will discuss monetary policy issues.

“Our position hasn't changed.” These were the comments offered by a German official regarding the possibility of Germany providing Turkey with financial aid following the sharp depreciation of the Turkish lira. On August 20, Germany said that this possibility did not exist due to differences between the two countries over the arrest of German citizens in Turkey.

Offer to buy Italian debt. Recently US President Donald Trump told Italian Prime Minister Giuseppe Conte that he would offer to buy Italy's sovereign debt next year. Italy's bonds have paid the price of the new government's fiscal promises and its anti-European stand.

Even more sanctions. The sanctions imposed by the United States on Russia go into effect this week. The restrictions prevent any type of foreign aid for Moscow and also restrict the sale of weapons to Russia. They are to remain in place for one year.

A preliminary agreement. Mexico and the United States have made real progress in their bilateral trade negotiations regarding vehicles and energy and they have announced a preliminary agreement that could potentially replace the North American Free Trade Agreement (NAFTA).

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And enter Canada. Canada's Minister of Foreign Affairs cut short her European tour in order to be able to travel to Washington and take part in the discussions regarding a new Free Trade Treaty after Mexico and the United States announced a preliminary agreement.

Argentina makes savings in dollars. The plan implemented by Argentina's Central Bank of getting rid of its stock of debt papers contributed to the depreciation of the peso and to companies and investors turning to making purchases in dollars. Savings in dollars in August so far have gone up by 13.5% and the peso has depreciated 11.2%, hitting an historic low.

Costa Rica under pressure. Economic growth in Costa Rica is threatened by the financing of its growing budget deficit, according to the president of the Central Bank. They estimate that the economy will slow down this year and next due to the drop in consumption and growing government spending, which has resulted in investments being postponed and a reduction in the demand for loans by companies.

POLITICAL TIPS

Putting them all in the same bag. The Supreme Tribunal of Justice in exile ordered the investigation of Minister of Communication and Information Jorge Rodríguez, Minister of Education Elías Jaua Milano, Seniat Superintendent José David Cabello Rondón, and former Governor of Miranda State and former presidential candidate for the Democratic Unity Alliance Henrique Capriles Radonski on charges of corruption and money laundering, the same crimes for which it sentenced President Maduro to 18 years in prison.

Neither afraid nor guilty. After being implicated in this investigation, Henrique Capriles gave statements in which he denied that he had anything to do with the acts of corruption involving the Brazilian company Odebrecht, calling the decision by the Supreme Tribunal of Justice in exile a muck-raking campaign. He also said that he did not fear the investigation as there was no evidence that would prove his guilt.

Support from abroad. Deputy to the National Assembly Julio Borges expressed his support of the statements made by Capriles, accusing the Supreme Tribunal of Justice in exile of wanting to injure the reputation of the former governor.

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It now turns out that he's not. After the uproar it caused, the Supreme Tribunal of Justice in exile stated that Capriles was not mentioned as an accomplice in the trial. In a press release, the court stated: "*Prosecutor General Luisa Ortega Díaz did not implicate Henrique Capriles in the crimes committed by Maduro in an item of evidence submitted by the Public Prosecutor's office (in exile).*"

An inhuman government. In the face of the recent migratory wave of Venezuelans to Ecuador, the Ecuadorian Government issued a press release in which it criticized "*the Venezuelan Government's lack of political will to seek democratic solutions to the problem generated by an irresponsible and inhuman administration.*"

Smoke and lights. The president of the Constituent National Assembly, Diosdado Cabello, berated the international media for carrying out a "*campaign without scruples*" against the Venezuelan nation. He claimed that the images of Venezuelans crossing the border on foot were nothing more than "*lights, camera and action.*"

Raise your voices. The parties *Voluntad Popular* (VP) and *Primero Justicia* (PJ) have called a protest against the economic and political crisis the country is experiencing to be held this Saturday.

All on the red side. Tania D' Amelio, a director of the National Electoral Council (CNE), announced that there would be a validation of political parties in which *Acción Democrática* (AD), *Un Nuevo Tiempo* (UNT), *Generación Independiente* (Gente), and *Nueva Visión Para mi País* (Nuvipa) would not take part since they had not previously submitted the application for validation.

On moral grounds. Colombia's President Iván Duque announced that Colombia would withdraw from the Union of South American Nations (Unasur) as he considered the organization to be the "*biggest accomplice of Venezuela's dictatorship*" since it had never denounced the actions of the Venezuelan Government.

It's everyone's problem. The steady wave of Venezuelan emigrants has caused such serious problems in the region that it became necessary to hold a meeting of representatives of Brazil, Colombia, Chile and Ecuador. It is hoped that the meeting will result in new measures for attending to Venezuela's emigrants.

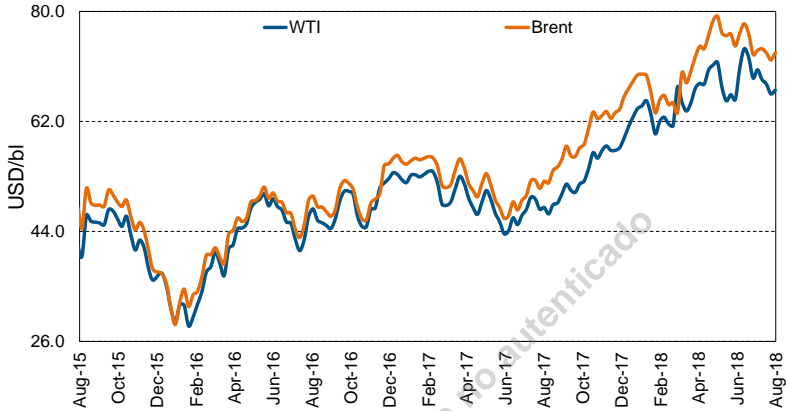
It's not just a regional issue. During his tour of Latin America, Spain's Prime Minister Pedro Sánchez addressed the issue of the Venezuelan Diaspora with his Chilean counterpart, Sebastián Piñera. They both expressed their willingness to collaborate with Venezuela to find solutions to the crisis.

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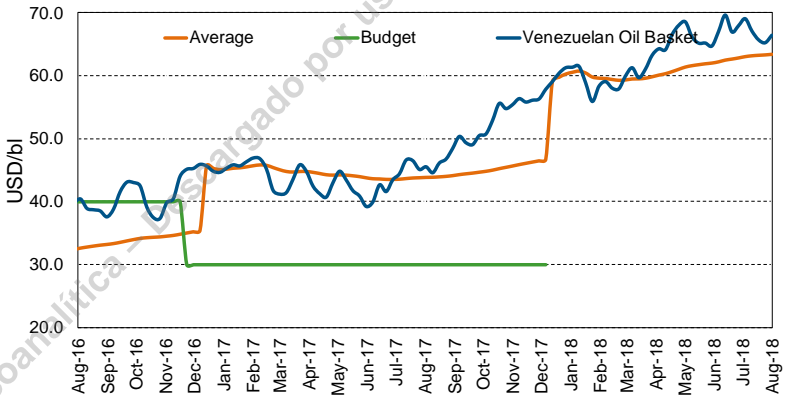
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



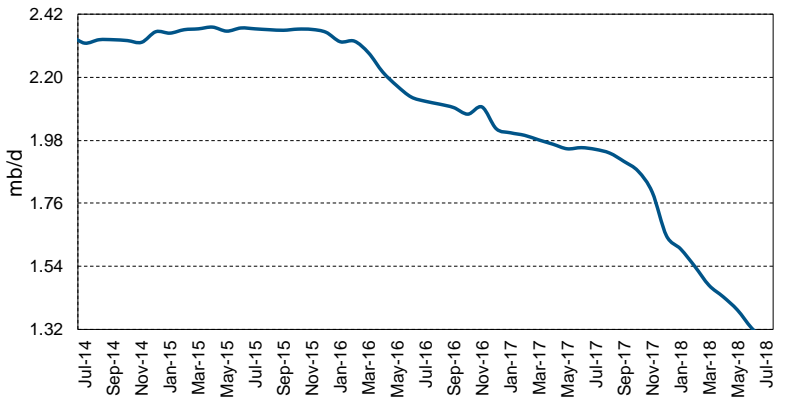
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

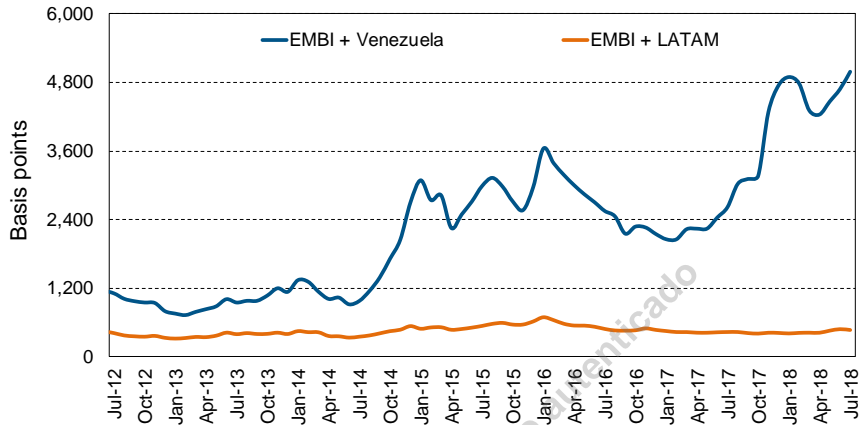


Sources: OPEC and Ecoanalítica

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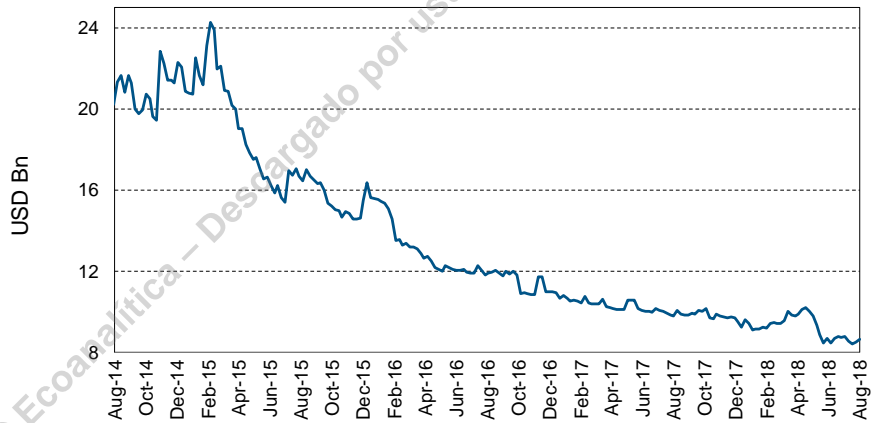
ECONOMIC INDICATORS

EMBI



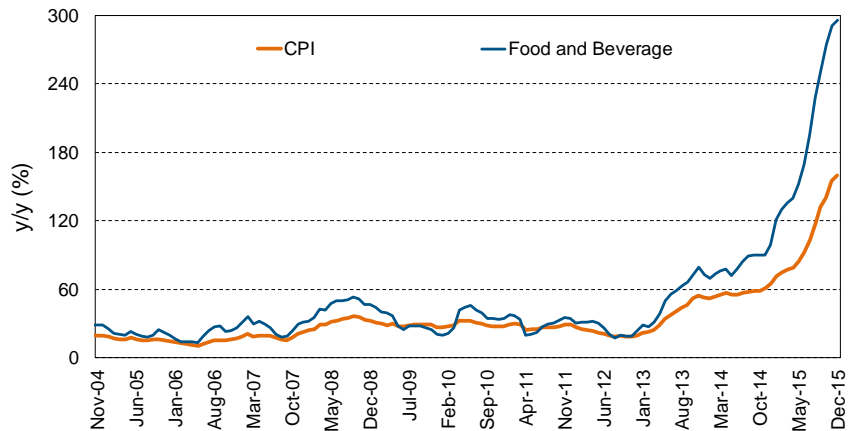
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



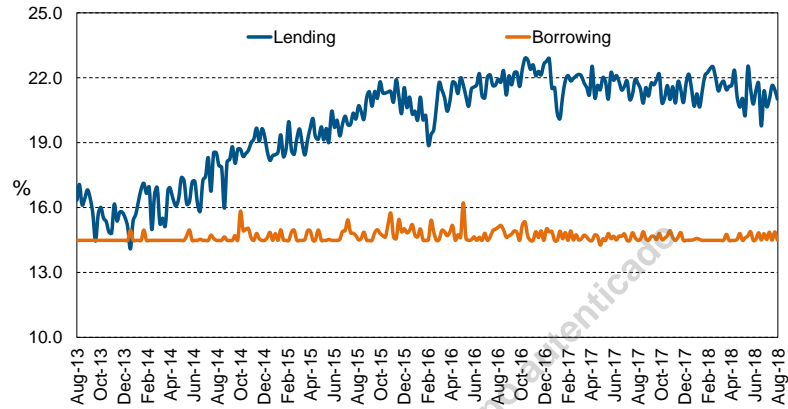
Sources: BCV and Ecoanalítica

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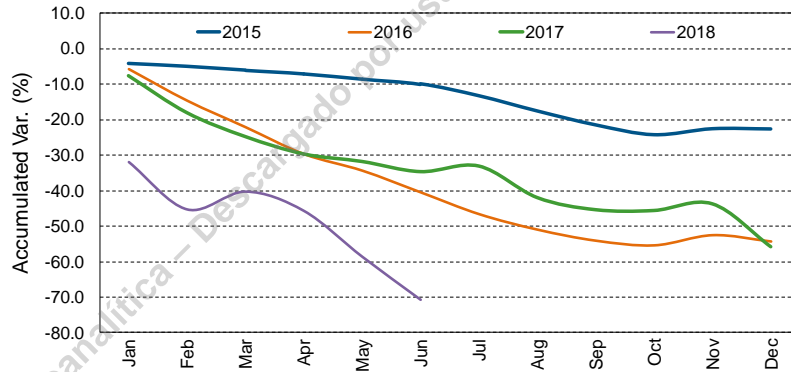
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



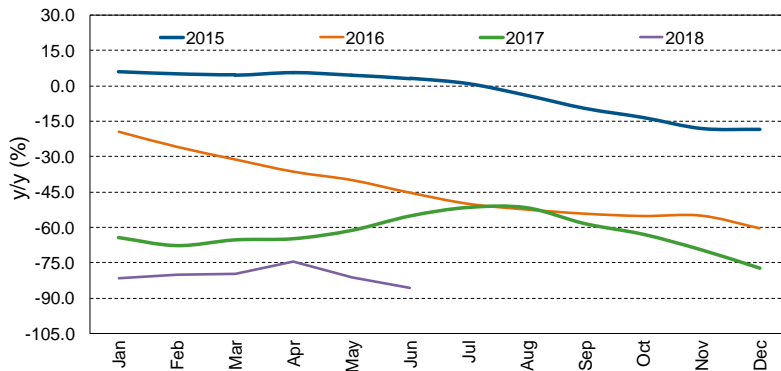
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

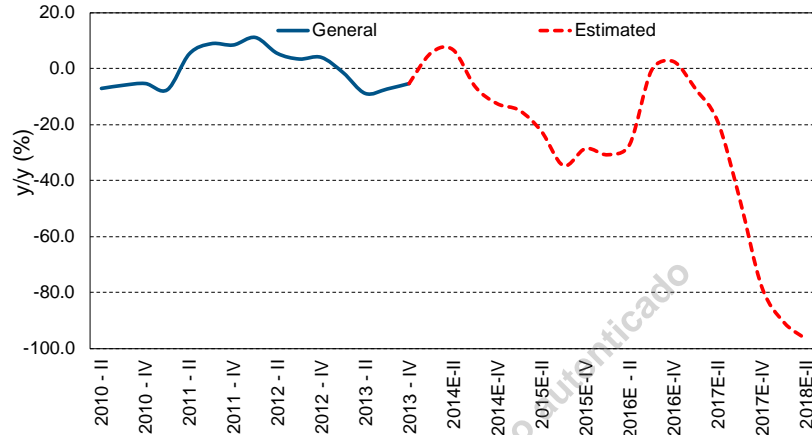
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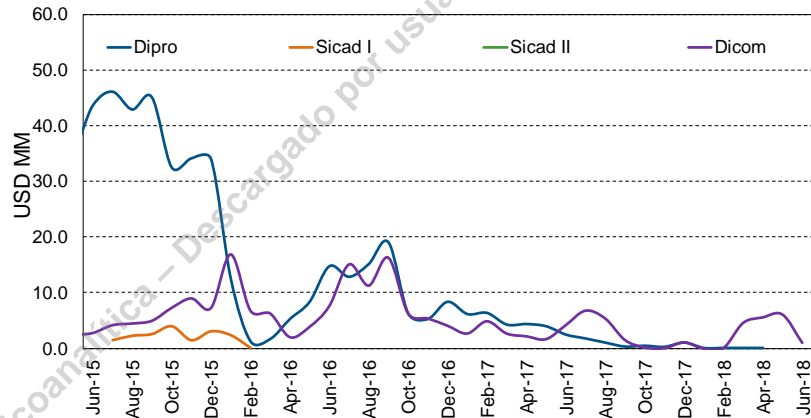
ECONOMIC INDICATORS

Real Wage Index



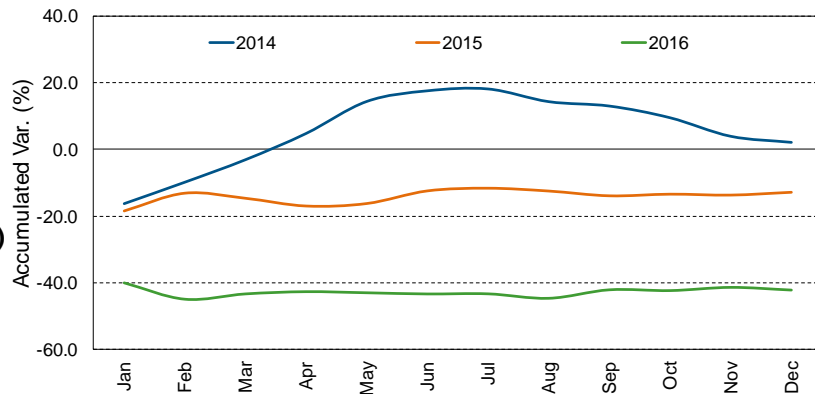
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

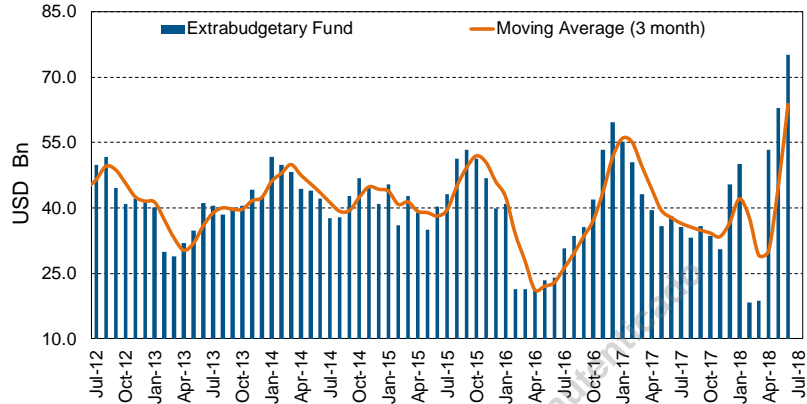
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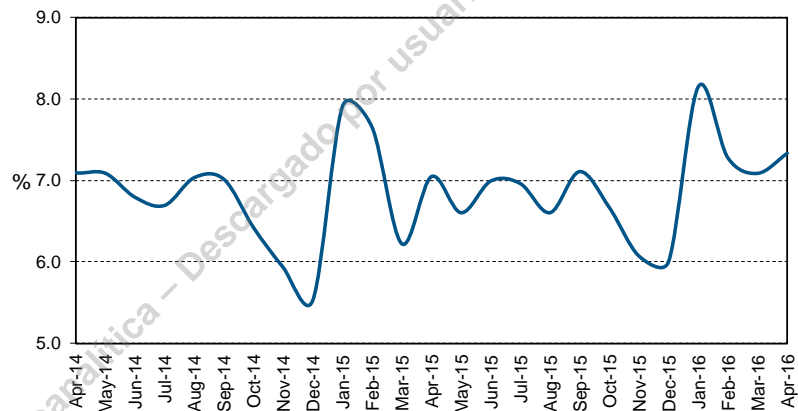
ECONOMIC INDICATORS

State Extrabudgetary Resources



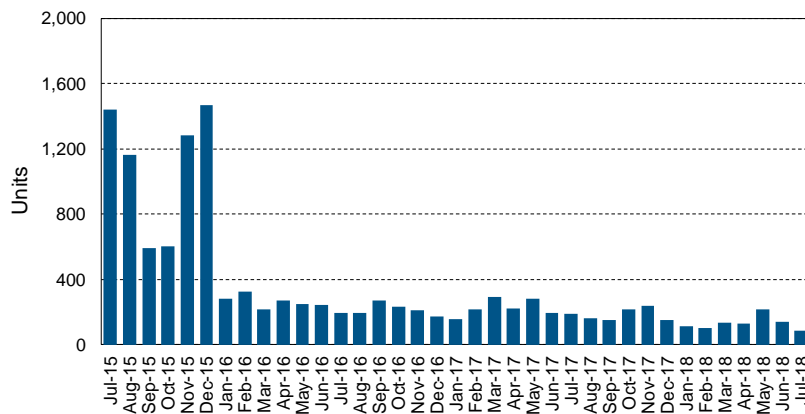
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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