

The show must go on: inflation scenarios for 2018

Following the latest events surrounding the economic measures implemented by the Maduro administration five weeks later, there is now greater uncertainty regarding the macroeconomic outlook for Venezuela in what remains of 2018. It comes as no surprise that, given the acute hyperinflation we have been experiencing for nearly 11 months, the most common questions we are asked have to do with our projections and scenarios for domestic prices.

At **Ecoanalítica** we assume that, at least in the short term, the present government's position regarding economic policy will be no different to what it has been up until now. With restrictions on external leveraging, the oil industry in a sorry way, and fewer flexibilizations on the foreign exchange front, monetary financing will continue to be the favorite means for narrowing the fiscal gap.

This allows us to infer some aspects that will determine the dynamic of direct prices in the coming months: 1) the credibility of policymakers will be steadily eroded; and 2) lack of confidence in the local currency and the collapse of the demand for money will continue. These premises have been common denominators in the region's multiple hyperinflationary laboratories and, therefore, have been evaluated by some empirical applications used in connection with inflationary processes of this caliber. For that reason, as part of the projections derived from our in-house macroeconomic models, we have employed a simple and powerful structure that will help us in the hard task of constructing inflation projections for the remainder of the year.

What process underlies our forecasts?

Based on the initial premises, at **Ecoanalítica** we have assumed that, given the scant structural corrections contemplated with regard to the fiscal deficit once the "Maduro Plan" has been evaluated as a whole, the expected behavior of prices will continue to be closely linked to Venezuelans' scant confidence in the bolivar and the decline in the demand for money, as is commonplace in episodes of hyperinflation as measured by the Cagan model (1956)¹.

¹ Cagan, P. (1956). The monetary dynamics of hyperinflation. Studies in the Quantity Theory of Money.

A simple direct scheme for using this mechanism is offered by Sybisz and Sybisz (2017)², who characterize some emblematic cases of hyperinflation in Latin America using this approach. More specifically, prices continue a process over time that depends on past forecasts, which are formed once agents observe past prices.

Put more simply, what each person will be prepared to pay for each good tomorrow (period $t+1$) depends on what he observed happening with prices (on average) in t , where each belief regarding the future is updated or “adapted” as that expected value varies compared to the price that was paid today (in t). So, those authors explain the dynamics that prices display from an initial posting of inflation π_0 , as follows:

$$\pi_t = \pi_0 + \theta E(\pi_t/\pi_{t-1})$$

$$\text{With } E(\pi_t/\pi_{t-1}) = \pi_{t-1}[1 + \lambda\pi_{t-1}^\alpha], \quad 0 < \alpha < 1$$

So, if the monetary authority enjoys scant credibility, once each person has seen prices go up, today he will immediately speed up his consumption because he knows that tomorrow prices will be higher (given that the central bank does little, nothing or what is least advisable). This encourages the collapse of the demand for local currency (in any of its various uses). These prices will put pressure on future forecasts and, therefore, on future inflation. We are talking, then, of feedback effects between effective and expected prices.

In this strategy, the influence of adaptive expectations (and the collapse of the demand for money) is measured by the parameter λ . Depending on the severity of the hyperinflationary scheme, this coefficient is constant or has its own dynamic over time. In other words, the feedback will become more marked as expectations of higher future inflation become increasingly exacerbated. This defines how explosive prices will be.

What can we expect?

Using growth data from the National Consumer Price Index (NCPI) as a proxy for the level of prices in the economy, we took the previous formula for performing our projections. The equation was calibrated using those parameters that, on average, minimized the absolute historical differences between projected and observed values³.

² Sybisz, M y Sybisz, L (2017). Hyperinflation in Brazil, Israel, and Nicaragua revisited, *Physica A* Vol. 465; pp. 1-12.

³ In more technical terms, the parameters were those where the root of the median quadratic error (as a measure of forecast accuracy) was minimal, at least locally.

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An interesting fact is that, in Venezuela's case, the feedback parameter turned out to be close to the lower limit estimated for the case of Brazil under the "Real Plan." This is an additional element that validates adaptive expectations as a common mechanism in hyperinflationary episodes, including the domestic case.

Forecast scenarios for 2018 (Estimates of 2018 Q1 and new revisions)

Date	Monthly Inflation (NCPI)		Weekly Inflation (NCPI)		Critical weeks**	
	2018 Q1	2018 Q3 (*)	2018 Q1	2018 Q3 (*)	2018 Q1	2018 Q3 (*)
Jan-18	90.6%	90.6%	17.50%	17.50%	4	4
Feb-18	89.1%	89.1%	17.26%	17.26%	4	4
Mar-18	74.4%	74.4%	14.92%	14.92%	5	5
Apr-18	79.0%	79.0%	15.66%	15.66%	5	5
May-18	145.8%	145.8%	25.21%	25.21%	3	3
Jun-18	134.2%	134.2%	23.71%	23.71%	3	3
Jul-18	117.3%	145.7%	21.41%	25.20%	4	3
Aug-18	126.2%	209.8%	22.64%	32.67%	3	2
Sep-18	117.9%	181.9%	21.49%	29.58%	4	3
Oct-18	144.6%	202.3%	25.06%	31.85%	3	3
Nov-18	172.1%	225.6%	28.44%	34.33%	3	2
Dec-18	205.3%	252.6%	32.18%	37.03%	2	2
2018 annual inflation	1.409.047%	4.822.098%				

Source: Ecoanalítica

(*) Preliminary.

**Average of the number of weeks necessary for prices to double.

Upon being compared with the scenarios offered in our last quarterly report, our latest forecasts indicate a greater acceleration in prices expressed in higher monthly rates of inflation than those posted in the previous scenario. These updates involve some changes in the weekly dynamics for the rest of the year. While, on the previous scheme, prices between July and December would double after four weeks maximum, with the new estimates, prices of local goods will double in only 15 days.

Even though the recent announcements regarding wages resulted in prices practically tripling in August, the model forecasts a slowing down in inflation in September of 27.9 percentage points. So, rather than a slowing down in inflation this month, we believe that the figure for August was a kind of overshoot prompted by the "Maduro Plan," which means that the figures for September should reflect more precisely the deterioration in the local currency and its role in the formation of expectations. This does not mean that further isolated increases in the estimated trend in prices are not anticipated as companies and households start to adjust to the new wages and taxes.

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 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

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Even taking all this into account, we forecast that annual domestic inflation will continue its perverse seven-digit pattern. In specific terms, we are talking about 4,822,098% by the close of 2018, 3,413,051 percentage points higher than our previous projections.

What is the reason for the change in these forecasts? It is due precisely to the government's failure to take action, which triggers expectations when it comes to determining prices, negative expectations in this case. The parametrization chosen based on the foregoing takes into account the process underlying the perverse deficit-money-inflation cycle.

On the other hand, these forecasts are also telling us that, without taking into account aspects such as imbalances in the foreign exchange market (due, for example, to transfer of pressures in the parallel market or new devaluations) or real or oil shocks, the increases in prices driven by fiscal measures will be even greater than previously forecast. We anticipate that unexpected events in these areas will cause bigger fluctuations in these figures in the short term.

Money and inflation: together but not joined at the hip

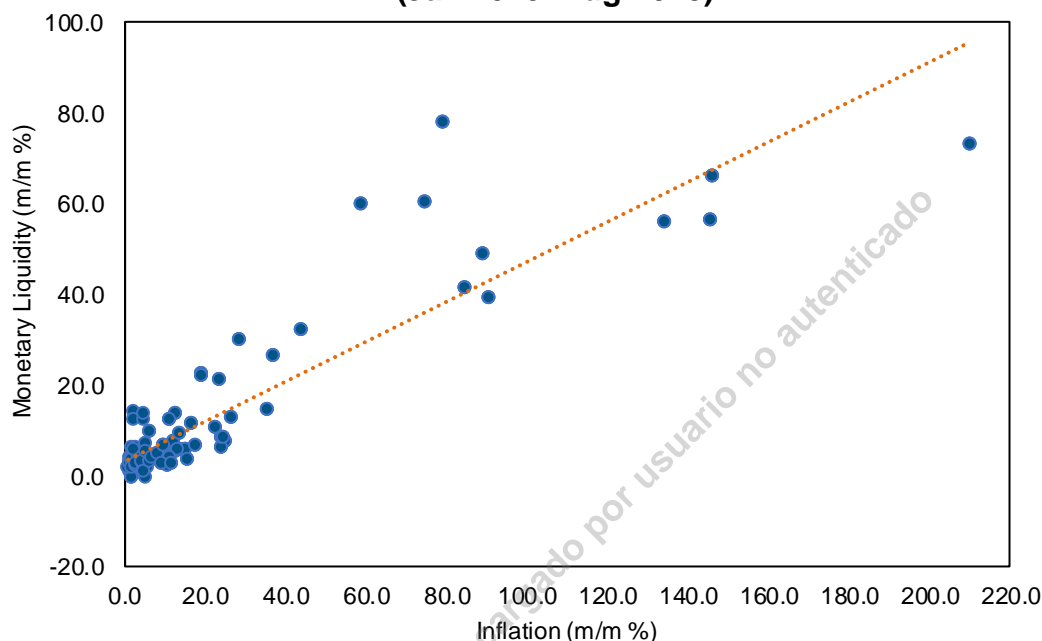
Given the continued monetary financing of the deficit (and the consequent loss of local policymakers' credibility), there will continue to be a close dynamic between prices and money in Venezuela. This merely acknowledges what has historically been the case in Venezuela, where prices and money supply seem to move at much the same pace. The Maduro administration seems to acknowledge this relationship, given the timid measures it has taken to cut back money supply, such as the recent setting of a marginal legal reserve and even the sale of gold.

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Monetary Liquidity vs. Inflation (Jan 2015- Aug 2018)



Sources: BCV and Ecoanalítica

Assuming the validity of this relationship, it is foreseeable that monetary aggregates and prices may share a common underlying dynamic. Based on this premise, the quantitative structure employed for prices was used to identify probable money supply (M2) scenarios for the close of the year, with the corresponding reparametrizations. The purpose of this is to validate whether, given that the fiscal scenario for 2018 is still in construction, the changes in the monetary aggregates are compatible with our price formation premises and actions by the fiscal authorities.

So, what can we expect in terms of monetary aggregates? What is offered by our forecasts seems to capture the explosive component of money supply associated with the hyperinflationary scheme; at least as far as the trend is concerned. More specifically, the forecasts speak of a monthly average increase in money supply of more than 87.1% throughout the rest of the year, closing the year at twice what is expected for the month of November.

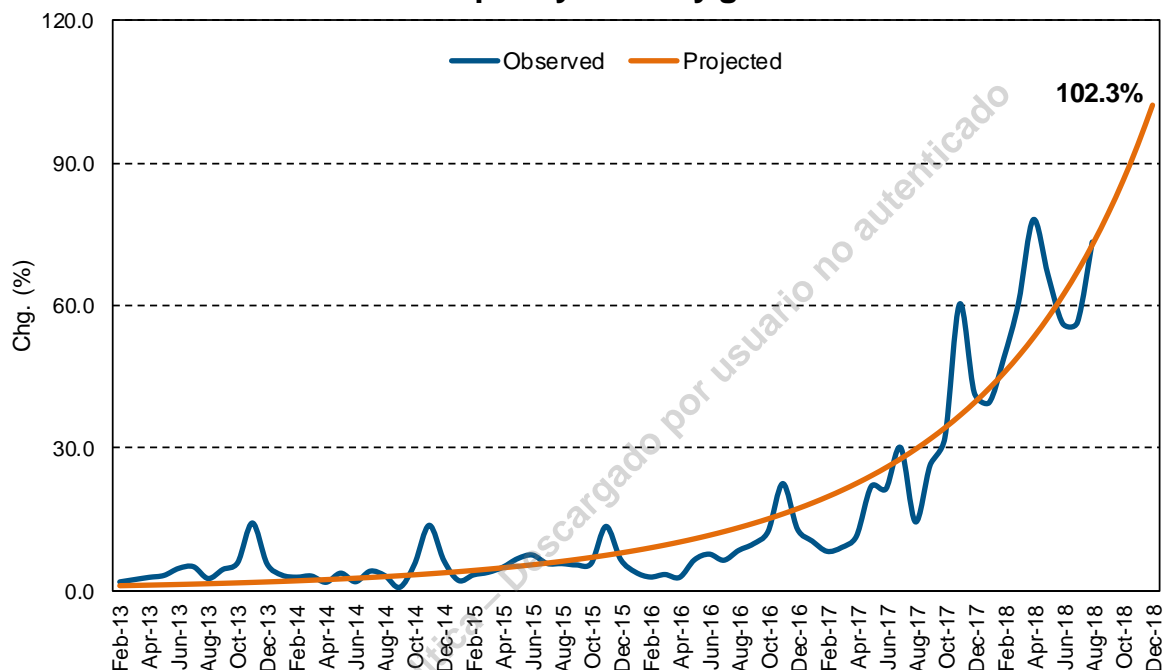
In assuming measures taken on the fiscal front as the common element in both processes (prices and money), what we are forecasting for money supply using this method will be associated with the Maduro administration's scant credibility regarding its attempts to put a brake on the fiscal disaster. In fact, since this type of approach does not take into account the seasonal aspect typical of money supply, the figures could even be higher

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by year-end if the government does not disappoint and continues with its custom of increasing Christmas bonuses and companies do not refrain from paying out the usual end-of-year bonuses.

Liquidity monthly growth



Sources: BCV and Ecoanalítica

Nevertheless, we find that, while in terms of acceleration, prices and money will tend to grow at the same pace, when it comes to the levels reached they are not comparable. Based on the figures obtained, money supply will close the year with an increase of 55,206% compared to last year, much lower than what is expected for prices. This ultimately supports the notion that real balances will become increasingly less desirable and that the government, with an exponentially smaller tax base with which to solve its cash deficit, will have no alternative but to print more money. What conclusion can we draw from this? Fiscal show will go on, and local price generating mechanism that we adopted in our calculation will be validated in part.

Forecasting trends

The processes described by Sybisz and Sybisz (2017) attempt to illustrate the trend in inflation, which is exponential in cases where certain levels of severity are reached. For that reason, in line with the foregoing, it is likely that the inflation that is finally observed

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will present temporary deviations from the figures presented here, assuming that agents manage to change their consumption and production patterns to new regulatory situations relatively quickly.

Such would be the case of the potential effects of the tax measures, in particular the effects of value added tax (VAT). Certainly, the change in VAT that is to be implemented could have an impact on price formation, particularly in September. Nevertheless, even assuming that the adjustment in prices will be complete (i.e. that inflation completely absorbs the 4 percentage point increase in VAT), the increase expected in September would be 191.9%, in other words below the expected figure for October. In view of this, it has to be stressed that, even with these temporary deviations, prices will tend to reflect the values already forecast by this method. However, as usual, all these forecasts are subject to further arbitrary measures that might be taken by the authorities on the economic front.

Luis Arturo Bárcenas

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WEEKLY INDICATORS

Weekly Economic Indicators			
	5th Week August	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	61.12	1.4	1.4
	4th Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.4	0.4	-0.1
	5th Week August	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	0.0	-5.8	0.0
	5th Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.3	-3.7	-17.0
	4th Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	53,548,322	18.6	16,630.5
Price of International Oil Baskets (USD/bl)			
	5th Week August	Weekly chg. (%)	Annual chg. (%)
WTI	69.2	3.1	47.8
Brent	76.6	4.6	47.5
Price of the Venezuelan oil basket (USD/bl)			
	5th Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	68.8	3.6	47.0
Annual Average	63.5	0.6	22.3

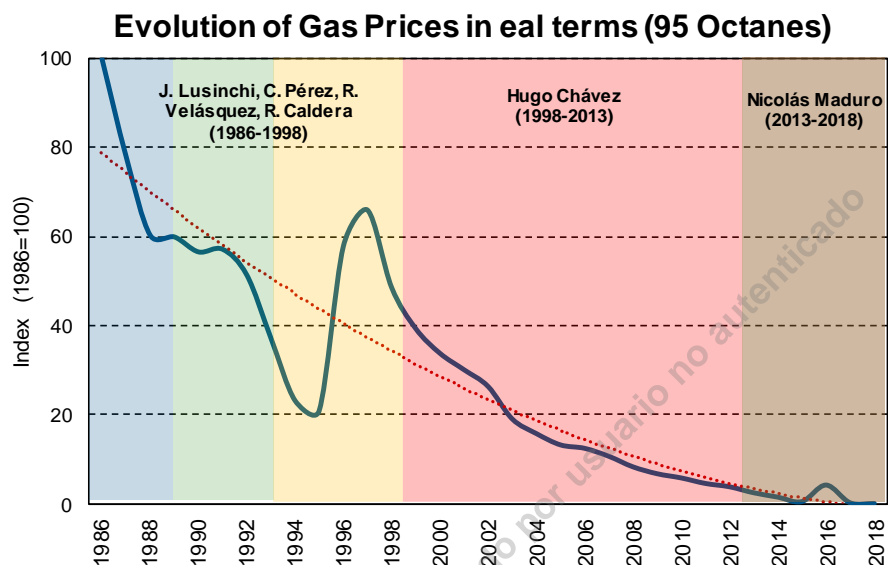
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “THE CHEAPEST GASOLINE IN THE WORLD”


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

In recent weeks, President Nicolás Maduro has announced several measures as part of what he has called the “Economic Recovery, Growth and Prosperity Plan.” One of the main objectives, he explained, is to put an end to fuel smuggling. He also commented that the gasoline subsidy is a “deformity” that has become consolidated over the years. For that very reason, he announced that gasoline is to be sold at international prices starting in October.

It is said that Venezuela sells gasoline at “giveaway” prices. And that is true. In fact, in real terms, its price has shrunk over the years due to high inflation. The price of gasoline contracted by 92.3% on average during the Hugo Chávez administration; by 99.9% during the five years Nicolás Maduro has been in office; and by 96.6% between 2016 and 2017 alone. Put another way, for every bolivar Venezuelans paid for gasoline in 1986, today they pay only 0.002 cents, for a drop of 99.9% in real terms.

Maduro believes that, by raising the price of gasoline, he will generate a change that will lead to the recovery, growth and prosperity of Venezuela. But there will be no change as long as monetary and fiscal measures for stopping hyperinflation are not implemented. According to unofficial figures, the price of gasoline could be VES 10 per liter (91 octane) and VES 15 (95 octane). However, by October, estimating inflation at 181.9% in September, the liter of gasoline will be VES 9.32 (91 octane) and VES 13.98 (95 octane). In real terms, gasoline will still be cheaper every time.

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ECONOMIC TIPS

So says the Central Bank. The board of directors of the Central Bank of Venezuela issued Resolution No. 18-08-01, published in *Gaceta Oficial* 4443.040, in which banks are ordered “to maintain a special legal reserve, in addition to the ordinary legal reserve (...) equal to 100% of the increase in surplus bank reserves at the close of August 31, 2018.”

What the authorities say. The president of the Central Bank, Calixto Ortega, and Vice President for the Economy Tareck El Aissami said that it had been agreed to raise the legal reserve for state-owned and private banks to 100% of the deposits received starting on September 1.

What should you do? Give the differences between the two statements, it is advisable to go by what is stipulated in the resolution and to be on the lookout for any possible modifications.

They have added 1/20 of a petro. *Gaceta Oficial Extraordinaria* N° 6,403 confirmed that the minimum wage is now VES 1,800 a month and it also set the meals allowance at VES 180 a month for a total overall monthly minimum wage of VES 1,980.

In installments. The *Gaceta Oficial* also gave the payment schedule for pensions, Household of the Fatherland bonuses, and the payrolls of the public and private sectors.

How the schedule works. 25% of the wage is to be paid to workers in the public and private sectors on September 7, another 25% is to be paid on September 14, and the remaining 50% is to be paid on September 28.

Will they ever get their stories straight? Superintendent of the National Integrated Customs and Tax Administration Service (Seniat) José David Cabello reported that the increase in VAT from 12% to 16% applies to large taxpayers and that food, medicines, medical services, and transport are exempt. However, *Gaceta Oficial Extraordinaria* N° 6,403 states that the new VAT rate will apply to all sectors.

New measures, same panic. The chairman of the National Assembly's Finance Committee Rafael Guzmán said that inflation in the third week of August (the same week in which President Nicolás Maduro announced his economic measures) was more than 50%.

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DICOM crypto. President Maduro announced that the petro would start to be offered in the DICOM system starting in October. He also said that it was hoped to have weekly auctions in October and he invited businessmen to take part in the system to “*stabilize*” the exchange rate.

Back to square one. The director of the Documentation and Social Analysis Center of the Venezuelan Teachers’ Federation (CENDAS-FVM) Óscar Meza commented that they estimate that the cost of the basic basket will go up to VES 10,000, which means that five minimum wages will be needed to cover its cost.

Check your RIF and payment day. *Gaceta Oficial* No. 41,468 sets the dates for advance payments of VAT and income tax that special tax payers will have to make in October, November and December. It also provides a table showing taxpayers which day of the week they have been allocated for making tax payments according to their Fiscal Information Registration (RIF) number.

Tax collection for August. According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES 4,337 million were collected in taxes for the month of August. Of this amount, VEF 168.2 million came from Income Tax, and VES 2,485 billion from the VAT. The agency raised VES 8,436 million during 2018, of which VES 519.5 billion came from Income Tax, and VEF 4,607 million from Value Added Tax (VAT).

In real terms. Total revenue in August of 2018 compared with the same period last year decreased by 87.2%. The VAT decreased 86.8% in real terms. Meanwhile, income tax revenues decreased 86.8% in real terms over the same period of 2017.

OIL TIPS

The new gasoline era. President Nicolás Maduro announced that the new system for paying for gasoline would be launched on Tuesday, September 4. This system is to operate as a pilot scheme in some border areas of the country prior to the increase in fuel prices.

Putting a stop to the Colombian miscreants. The new system’s electronic devices are to be installed at gas stations in Táchira, Zulia, Amazonas, Apure, Bolívar, Delta Amacuro, Falcón, and Sucre, which have borders with Colombia, Brazil and the Caribbean. He said that the main purpose of this system is to “*cut off the hands of the Colombian miscreants who are stealing our gasoline.*”

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It's going up to "international prices." In October, gasoline is going to start to be sold at the new "international price" mentioned by the government. There is also to be a system of subsidies for those who have the Carnet of the Fatherland and who took part in the transport census carried out in August.

Amuay completely out of service. The news agency Reuters reported that the catalytic cracking unit at Amuay, Venezuela's biggest refinery, stopped production due to low stocks of one of its main inputs. The missing component is vacuum gas oil or VGO, without which it is impossible to produce certain fuels. "*A real good start for the (new) gasoline prices,*" commented labor union leader Iván Freites.

Problems, problems and more problems... Sources at PDVSA said that they are redirecting the product to El Palito Refinery, which has a production capacity of 146,000 barrels a day (b/d). This is not the first time PDVSA has had problems due to the breakdown of units, lack of inputs or incidents when it is desperately trying to raise production.

Totally out of service. Labor union leader Iván Freites commented that the crude refining facilities have been "*operationally destroyed because the company no longer has the money, qualified workers or technical capacity to operate its refineries safely.*" The lack of qualified workers and the inability to import the materials that are needed have led to the shutdown of the catalytic cracking unit at Amuay Refinery.

Shortfall for honoring debt with Rosneft. After a tanker hit one of the docks at Jose Port, Reuters reports that this incident could delay 5 mb/d shipments of crude to Rosneft, which could complicate PDVSA's payment in kind of loans it obtained from the Russian oil company.

Desperate... The estate-owned oil company PDVSA has signed a USD 430 million contract with seven companies that seeks to boost its steadily declining oil production. According to S&P Platts, production is currently at 348 kb/d.

...but naive as well. The president of PDVSA, Manuel Quevedo, announced that this contract would help to raise production to 641 kb/d. The companies will seek to boost production at the Arecuna, Sanvi Guere, Dacion, Jusepin, Franquera-Tomoporo and Carito-Piritall wells.

Brazil's production is falling. Brazil's oil production fell for the second month in a row in July, when it produced 2.6 mb/d for a reduction of 0.6% compared to June and a drop of 1.8% compared to July last year.

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But they're going all out. Nevertheless, they made progress in the production of pre-salt oil, specifically in the Campos and Santos fields, which are responsible for 56.5% of average production. As for Petrobras, it contributed approximately 1.95 mb/d, although it has not yet published its official figures, according to Reuters.

Petrofin closes down. The Government of Trinidad & Tobago announced the closing down of Petrofin Refinery due to constant losses of oil imports over the years. The refinery, which has a capacity of 150 kb/d, has only been producing 100 kb/d.

Workers protest. However Trinidad & Tobago's Oilfields Workers' Trade Union threatened to go on strike if the shutdown goes ahead, as their jobs depend on this refinery.

BUSINESS SECTOR TIPS

In total decline. Some companies in Venezuela, among them Tío Rico, Unilever and Ford, have been forced to cut back production due to the lack of inputs. Tío Rico used to produce 800 1,000-liter containers of ice cream a month and now only produces 40.

And that's not all... But the problems are not only on the supply side, they are on the demand side as well. Ford comments that it has experienced significant drops in the demand for its products. At the moment it is only offering one model in Venezuela. As for General Motors, it left Venezuela in 2017 due to similar problems.

Getting the Metro ready. In its Twitter account, the Caracas Metro announced that it has begun to adapt its turnstiles so as to be able to start charging the new fare of VES 0.5. Before the fare was only VES 0.00004, which gives an increase of nearly 1,250,000%.

So-called "agreed" prices... The government has announced the new "agreed" prices for seven of the first 25 products covered by "Plan 50." The biggest increase is in the price of mortadella, which has gone up from VES 18 a kilo to VES 90, an increase of 400%. Next is tomato ketchup, which has jumped from VES 36 to VES 114 (216.7%), followed by salt, which has gone up from VES 13 to VES 31.5 (142.3%).

...for seven of the 25. The other products are mayonnaise, which has gone up from VES 31 to VES 58, for an increase of 87.1%; margarine, from VES 42 to VES 70 (66.7%); and the carton of 30 eggs, from VES 81.5 to VES 120 (47.2%).

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The cost of keeping clean (I). The government also announced the agreed prices for eight personal hygiene products. At the top of the list is laundry detergent powder at VES 360, followed by deodorant at VES 150, and the bar of laundry soap at VES 145.

The cost of keeping clean (II). The price of four toilet paper rolls is now VES 91, toothpaste has gone up to VES 51, a packet of eight sanitary towels costs VES 50, a liter of bleach has gone up to VES 48, and last of all, with the lowest price, is toilet soap at VES 24.12.

Mass emigration. According to the United Nations, more than 7% of the Venezuelan population has emigrated since 2014. The majority of Venezuelan emigrants have gone to nearby countries such as Colombia, Ecuador, Brazil, and Peru, a situation that has generated considerable social and economic pressures in those countries.

Pensioners protest. On Saturday, September 1, pensioners were out on the streets at the break of dawn protesting because they were not able to withdraw the first installment of their pension in cash. El Rosal, Avenida San Martín, Avenida Urdaneta in San Bernardino were some of the places where pensioners congregated.

Pirelli is coming back. Pirelli is to restart operations at its tire factory on September 10, but with cuts in production. They estimate a production of 306 tires a day, which is only 9% of the factory's capacity. Because of the lack of inputs, the company is waiting for imported materials on loan.

More meetings on agreed prices. As was to be expected, the agreed prices provoked an uproar. Superintendent for the Defense of Economic Rights (Sundde) William Contreras said that they had held meetings with the meat producing sector to discuss meat prices.

WORLD ECONOMY TIPS

No more tax cuts. In principle, the Republicans in the House of Representatives had planned to use proposed tax cut legislation to force the Democrats into a difficult vote just prior to the midterm elections for Congress, which are to be held this year. But it seems that the party has discarded this proposal so as not to complicate the situation for some candidates in districts where competition is fierce.

Tensions in the North. As part of its strategy for renegotiating the North American Free Trade Agreement (NAFTA), US President Donald Trump has agreed a preliminary

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bilateral agreement with Mexico's President and has threatened Canada with either signing a similar agreement or being left out in the cold in the future. However, there has been opposition to this tactic from both sides of the House and Trump does not have enough support to follow through on his threat to Canada and make it credible.

But Canada is reacting. Despite the trade tensions, confidence among Canadian consumers seems to have started to rebound after falling to a low in June. In fact, according to opinion polls conducted by Nanos Research, the consumer confidence index went up from 55.4 in July to 56.5 in August.

Continuity in the UK. This week the governor of the Bank of England, Mark Carney, opened the door to the possibility of extending his term for the third time. If that happens, Carney, who is viewed by the markets as a source of stability for the British currency, could guide the pound sterling during the stormy months that are in store as a result of Brexit.

China with high cholesterol... Activity in the heart of China's economy experienced a contraction in August. This contraction was posted in the factories in south of Guangdong province, China's biggest regional economy. The province's manufacturing index fell to 49.3 last month. This is the first time since early 2016 that it has dropped below the 50-point mark that separates expansion from contraction.

...and defending its investments. China's President Xi Jinping promised investments in Africa amounting to USD 60.0 billion during the opening of the Forum on China-Africa Cooperation. According to a high-level Chinese government official, China is helping to generate development in Africa and is not putting nations into debt in order to generate clientelist geopolitical relations; however, critics doubt that these financial relations will be sustainable.

Budget in the crosshairs. According to Italy's Deputy Prime Minister Matteo Salvini, the government coalition's economic plans will be implemented gradually over a five-year period. Increased spending and tax cuts are two of the most noteworthy proposals. This week they started to debate the 2019 budget and the international debt markets will be on the lookout for any departure from the European Union's fiscal standards.

Argentina tries... After a massive flight of foreign investment, Argentina's President Mauricio Macri announced that his team would meet again with the International Monetary Fund to coordinate a new package of measures and a faster injection of funds from the USD 50.0 billion line of credit. He also announced an increase in export tariffs.

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Assuming domestic costs. It is expected that Argentinean farmers will delay the sale of their products and will plant for a smaller crop this year, after the government announced a 10% export tariff on grains. The purpose of this measure is to bring the fiscal accounts into balance faster and stop the run on the Argentinean peso.

Drowning markets. The emerging markets have not had good months recently. Following the increase in interest rates in the United States and the relative appreciation of the dollar, South Africa has gone into a recession, whereas Indonesia, Argentina, Iran and Turkey are facing a rapid depreciation of their currencies to minimal levels.

The tentacles of the FED. In an attempt to curb the depreciation of the rupee, the Government of Indonesia has suspended energy projects amounting to the equivalent of USD 25.0 billion. The funds saved will be used to defend the value of the Indonesian rupee against the dollar.

Australia and Russia discuss their rates. Given the depreciation of currencies throughout the emerging markets, the central bank of the Russian Federation is to discuss whether or not to raise its interest rates next week in order to generate a bigger demand for rubles. As for Australia, it has decided not to adjust its rates and to maintain them at 2016 levels. Australians do not fear depreciation because they believe they can stimulate exports elastically.

Brazil drops, but only slightly. Brazil's industrial production contracted less than expected in July. Compared to an average estimate of -1.0%, the Brazilian Geography and Statistics Institute (IBGE) reported a slight contraction of -0.2%. These results suggest that there could be a slow but steady recovery, despite protests by truckers in the first half of the year.

POLITICAL TIPS

A plan to bring them home. President Nicolás Maduro ordered the activation of an air bridge to facilitate the return of Venezuelans who were included in the census for the Return to the Fatherland Plan. He commented that this measure had become necessary in view of the acts of "*xenophobia and discrimination*" against Venezuelans who had emigrated. Implementation of the first stage of this plan was observed when 89 Venezuelans returned home from Peru.

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Now it's a migratory campaign (I). Executive Vice President Delcy Rodríguez expressed the Venezuelan Government's disagreement with the meeting held by several countries in the region to find solutions to Venezuela's migratory situation.

Now it's a migratory campaign (II). Rodríguez claimed that those countries were working for "imperial" interests to "attack Venezuela," casting doubts on the existence of a "migratory crisis." For that reason, President Nicolás Maduro is to go to the United Nations to dismantle the "international campaign against Venezuela."

Now it's a migratory campaign (III). The executive vice president justified the migratory movements as a "natural phenomenon." She reiterated that there is no humanitarian crisis in the country that needs to be attended to, unlike in Colombia, "which continues to suffer from the effects of the war."

An exploratory meeting. Ecuador has called a meeting with several countries of the region to address the situation of Venezuelan emigrants. This will be a "technical" meeting and authorities from Argentina, Brazil, Costa Rica, Colombia, Chile, Ecuador, Mexico, Panama, Paraguay, Peru, Bolivia and Uruguay are to take part.

The paranoia continues. The president of the Constituent National Assembly, Diosdado Cabello, issued a warning saying that the Colombian Government was conspiring against the Venezuelan Government. Cabello claimed that they are practicing "military maneuvers" against Venezuela from Colombia.

United leadership needed. The director of the Center for Political Studies at *Universidad Católica Andrés Bello* (UCAB), Benigno Alarcón, said it was necessary for the Venezuelan opposition to establish a united leadership. He commented that this measure was necessary in order to be able to have an opportunity of winning an election, due to the unfavorable conditions under which any election would be held.

Testing the waters. An exclusive article posted on the portal *Efecto Cocuyo* claims that the leaders of the opposition political parties are meeting to reach "points of encounter."

The only solution is from outside. Former Caracas metropolitan mayor said that the country's situation warranted humanitarian intervention by the international community. Moreover, Deputy Ismael García had commented on the need for the international community to take a stand and intervene in the decisions taken by the Venezuelan Government.

Open your doors, you'll be thankful for it later. The chairman of the National Assembly's Defense and Security Committee, Edgard Zambrano, commented that the

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countries that are receiving Venezuelans will be thankful for it in the long term due to the fact that Venezuelans have academic training that will contribute to the “*growth, development and strengthening of the institutions of the State.*” Zambrano is on a tour of Latin America with other deputies to find solutions to the migratory crisis.

More needs to be done. The European Parliament Committee on Petitions agreed to send a letter to the High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, requesting that the European Union increase its pressure on Venezuela. However, the commission admitted that the European Union has little margin of maneuver since there was no system of cooperation currently in place with Venezuela.

As a matter of urgency. Mogherini said that Venezuela’s situation is a matter of urgency for European diplomacy that the European Union should address, comparing it to countries such as Ukraine, Afghanistan and North Korea.

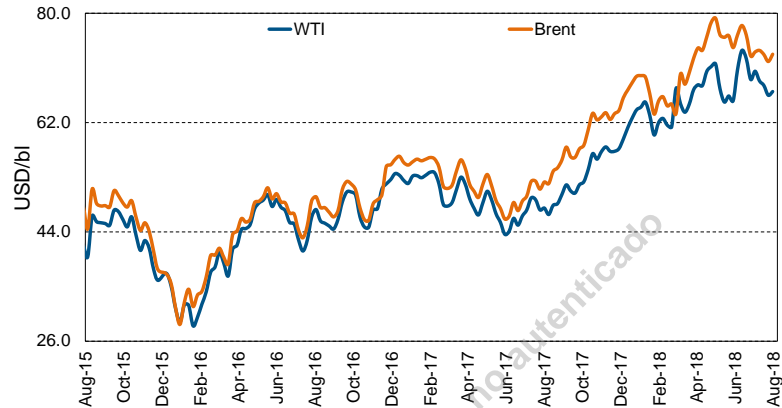
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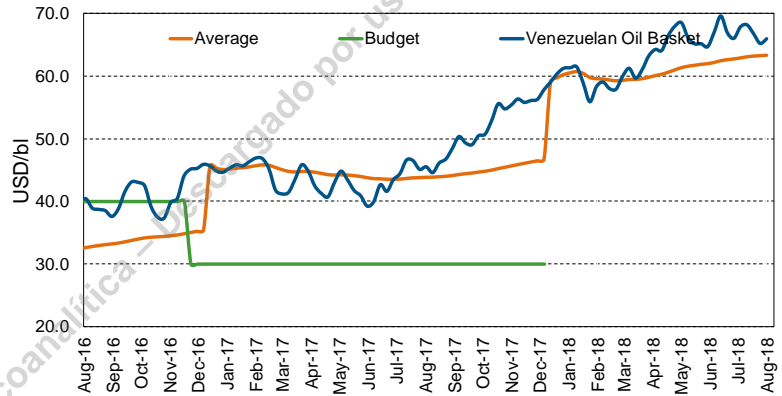
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



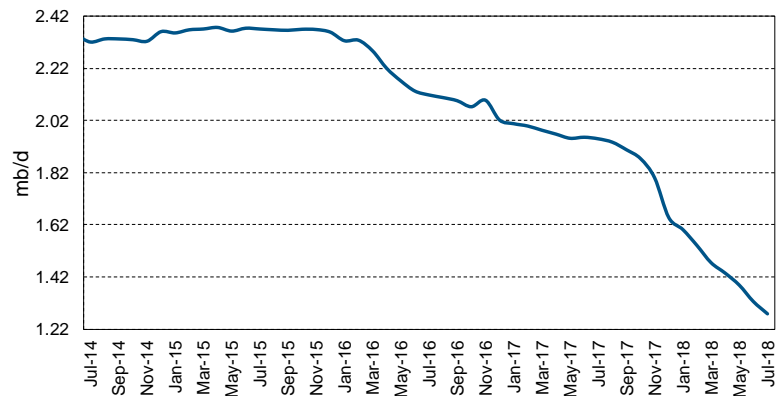
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

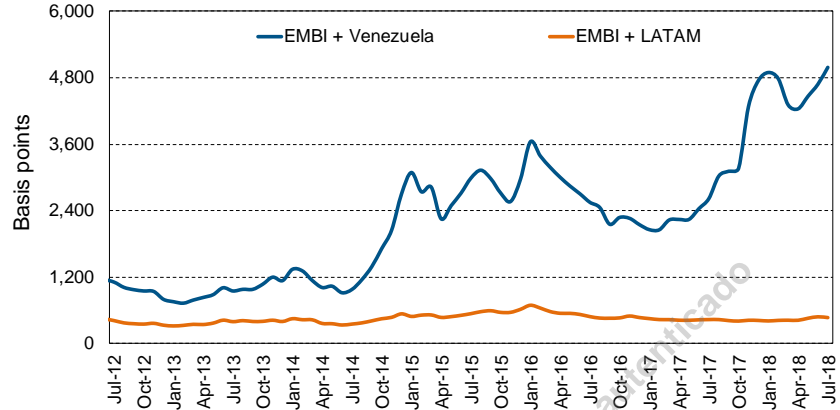


Sources: OPEC and Ecoanalítica

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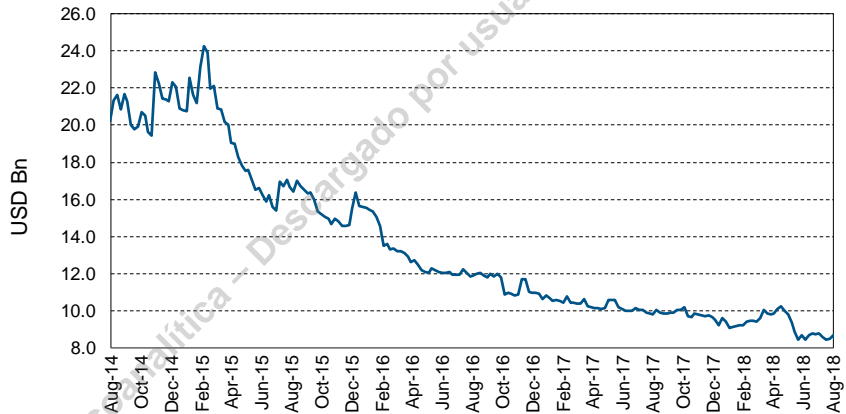
ECONOMIC INDICATORS

EMBI



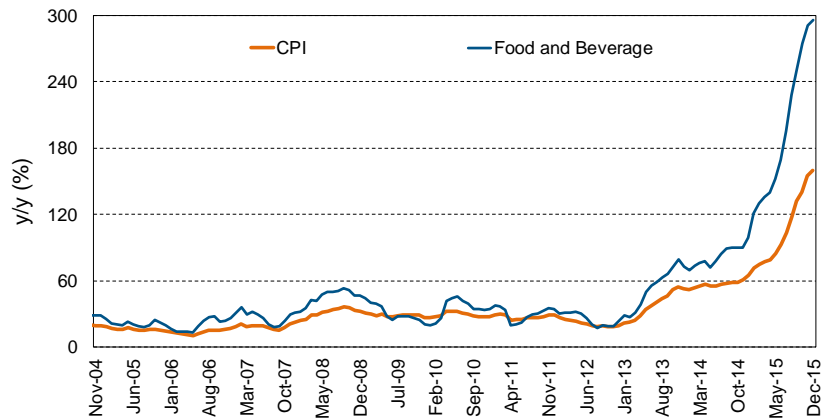
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



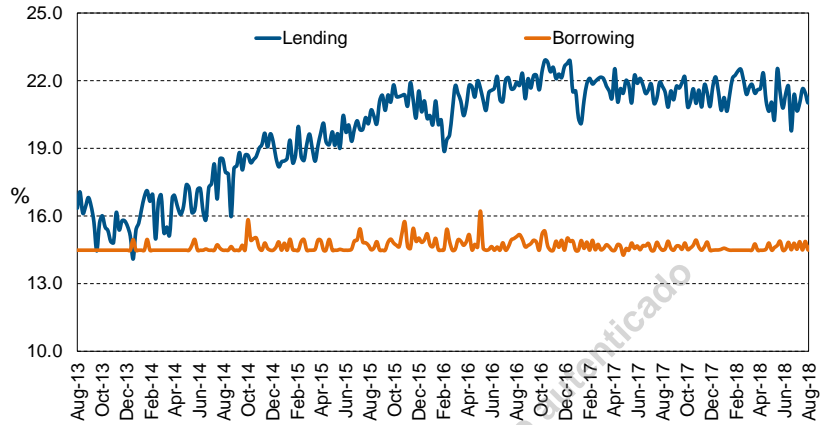
Sources: BCV and Ecoanalítica

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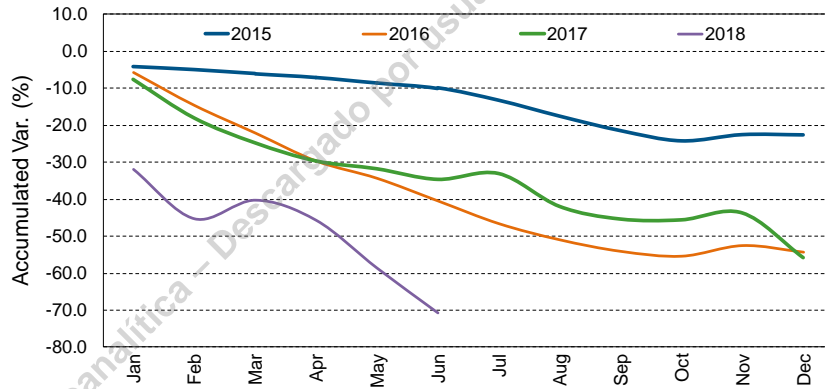
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



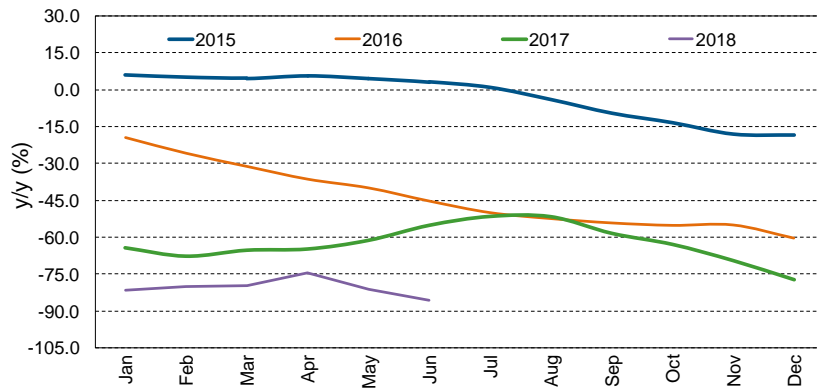
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

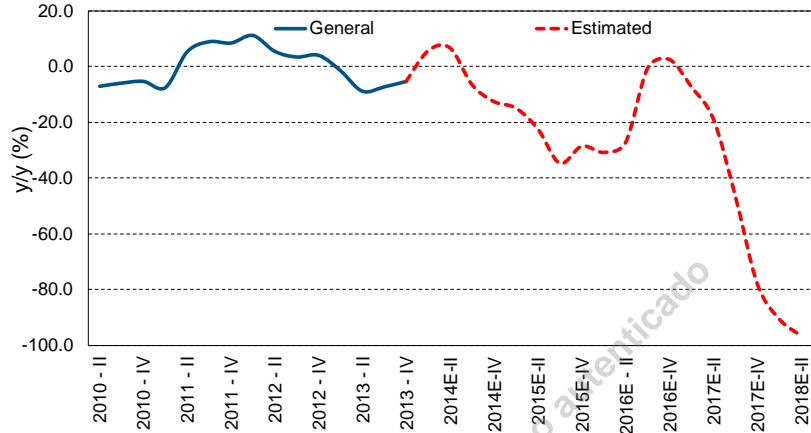
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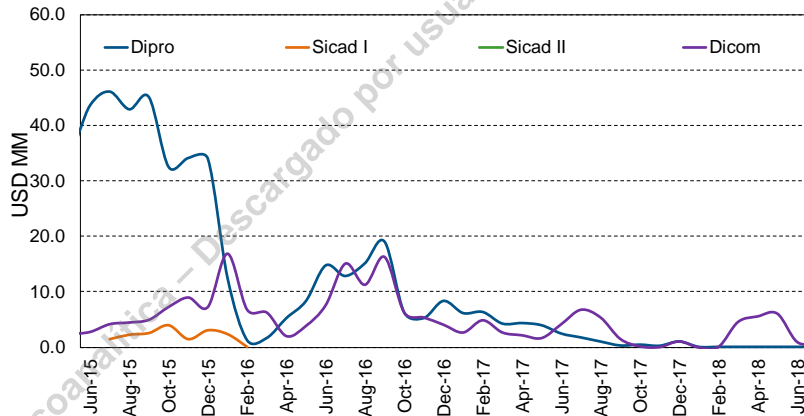
ECONOMIC INDICATORS

Real Wage Index



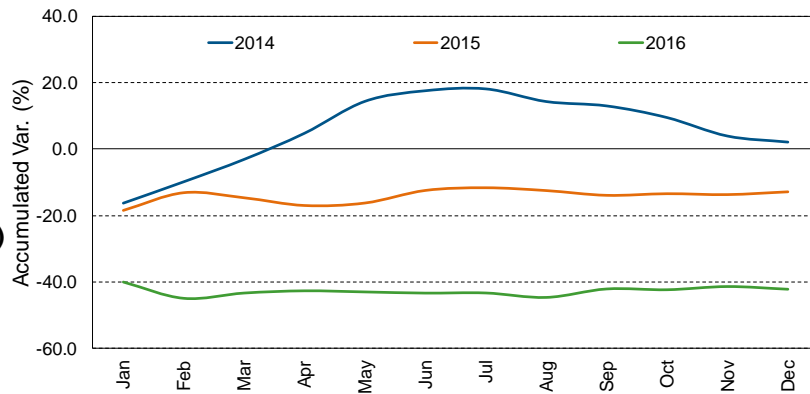
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

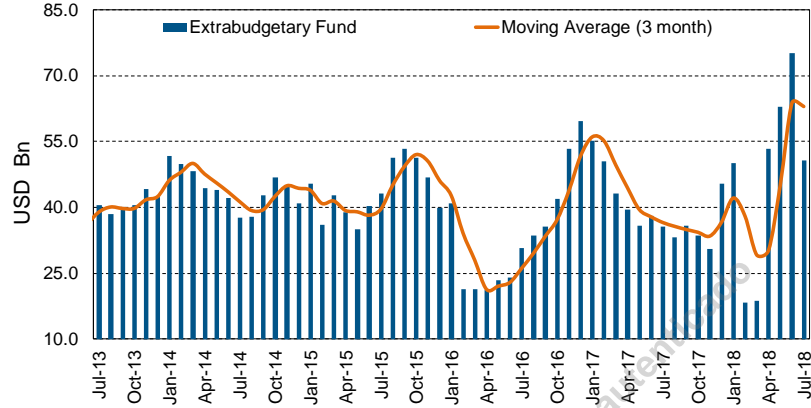
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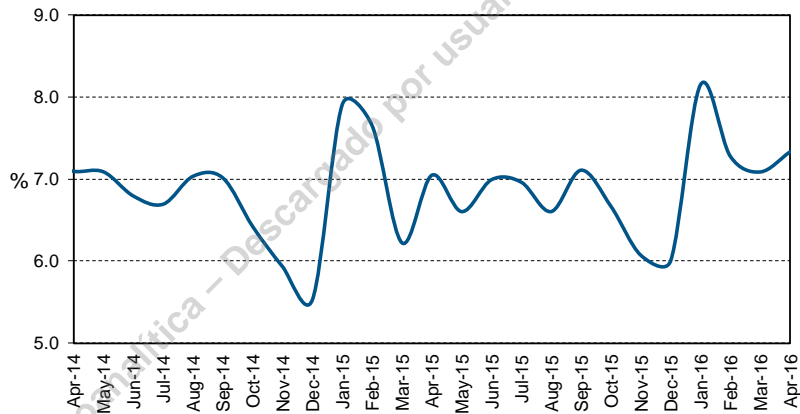
ECONOMIC INDICATORS

State Extrabudgetary Resources



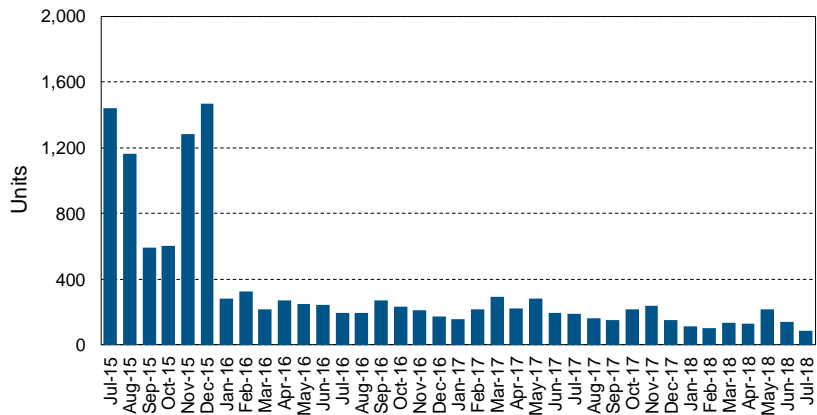
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECOANALÍTICA'S TEAM

Alejandro Grisanti / Director

alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

crisinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

Gorka Lalaguna / Economist

gorkal@ecoanalitica.net / @GorkaLG

Guillermo Arcay Finlay / Economist

guillermoa@ecoanalitica.net / @guillermoarcayf

RESEARCH ASSISTANT

Jhoan F. Castellano

Corina Fung

Diego Santana

CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalitica