

A lot subtracted, little added: How are the banks faring following the latest the Economic Recovery Plan measures?

In a new wave of measures under the “Maduro Plan,” this week was marked by two new government announcements. First of all the new requirements regarding the legal reserve that local banks have to maintain in the Central Bank of Venezuela were set; and, secondly, at the end of the week, the authorities, resorting to their habitual communicational style, officially presented the Foreign Exchange Agreement that is to define, henceforth, the rules of the game for operations in foreign currency and also for the exchange rate “for all purposes.”

Besides further disrupting the already chaotic domestic macroeconomic situation, both decisions seem to have specific impacts on the local banking sector. On the one hand, legal reserve measures, as an instrument available to the Central Bank for regulating imbalances in the money market, can cause changes in the banks’ lending activities. Since this is their main asset for generating income, it will not be long before the effects on their profitability will make themselves felt.

However, as we will see shortly, it is likely that not only will this measure be insufficient to control the excessive growth in monetary aggregates, taken in their broadest sense, but that, contrary to what is hoped for, it will encourage banks to grant more credit.

As for the impact of the new foreign exchange agreement, while, based on what has been revealed so far, it does not seem to bring anything new to the table (we will talk more about this in our next foreign exchange report), worthy of note is the new role of the banks in these operations. Whichever way you look at it, while the banks seem to have recovered some roles, they now also face greater restrictions.

A bigger “marginal legal reserve”: How does that work?

Just as nonfinancial private agents have to maintain deposits in their banks in order to be able to perform transactions, banks must maintain deposits or reserves with the central bank in order to honor their operational obligations, buy foreign currency or participate in the interbank market. These reserves are constituted based on a fraction of the deposits

that banks take from the general public, with a part of that fraction being defined by law (legal reserve) and the remainder being set voluntarily by the banks.

The compulsory fraction is used by the monetary authorities as an instrument for implementing policy. If they set a high requirement, a larger portion of each bolivar taken in deposit becomes immobile, raising the opportunity cost of each additional monetary unit (since it cannot be used to grant loans). This discourages the deposit demand of the banks, reducing their lendable funds. Currently, the banks are required to maintain 21.5% of their deposits (or reserve base) with the Central Bank. As at July, total availabilities of the local banks at the Central Bank were close to 48.9% of those deposits, which would imply that, on average, the banks maintain a voluntary or surplus reserve of close to 27.4% of those deposits.

In the case of the marginal reserve, the increased requirement falls on the variations in deposits compared to a benchmark value. Besides the compulsory fraction, each bank must include a percentage of that surplus in its legal reserves. This scheme has been implemented previously by the Central Bank, when it set the percentage at 31.0%, which remained in force until 2014.

This new marginal reserve scheme requires that the banks include 100% of the variations in their voluntary reserves. However, given that the accumulation of these reserves accounts for a relatively fixed fraction of deposits taken, this scheme does not differ from previous experiments based on variations in deposits.

So, will a bigger reserve mitigate the expansion in money supply?

If we go by what happens as a general rule, any increase in the reserve will restrict loans by means of reductions in the demand for deposits and, therefore, reduce the second-round effects that financing of the fiscal deficit by the Central Bank has on those loans. In other words, it discourages secondary money creation, at least in theory.

However, what we have observed in the local money market thus far allows us to assume that, in the present hyperinflation, the effects of these measures will be minimal. A simple rule illustrates this point. The dynamic of the new marginal reserve can be summed up in the following equation¹:

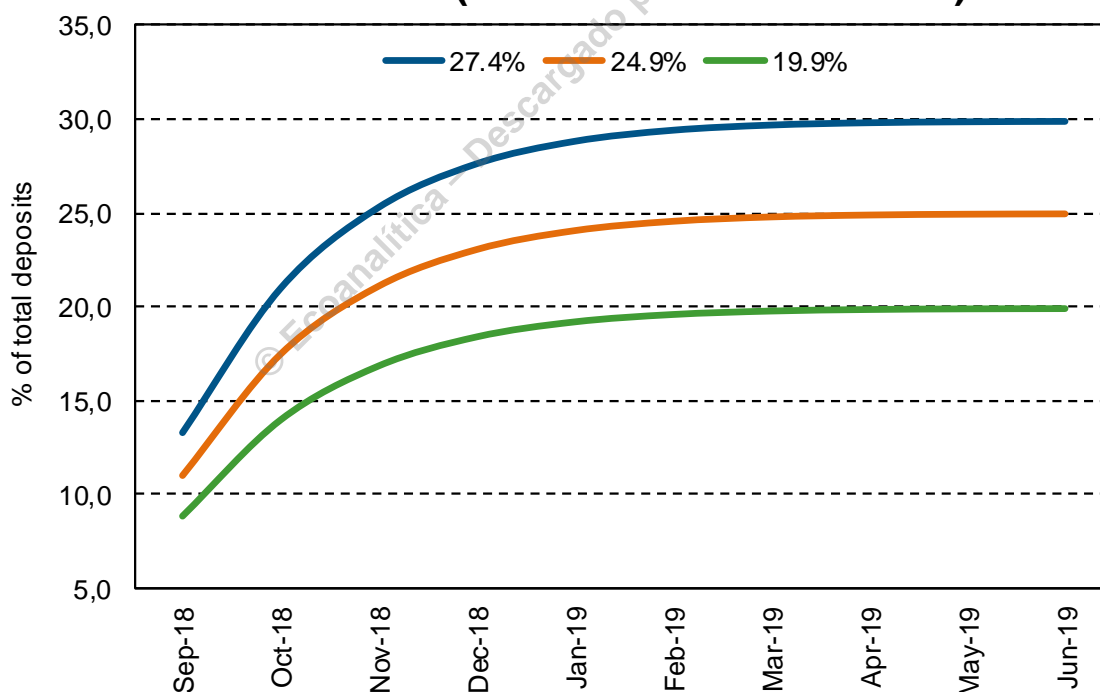
$$(RM/D)_t = \max \left\{ 0, \alpha \left[1 - \frac{\bar{D}}{D_t} \right] \right\} = \max \left\{ 0, \alpha \left[\frac{\Delta \% D_t}{1 + \Delta \% D_t} \right] \right\}$$

¹ This is merely the calculation of the marginal reserve performed by assuming a voluntary reserve coefficient α , where the benchmark surplus reserve level (as at August 31, 2018) has been obtained by $\bar{R} = \alpha \bar{D}$, where \bar{D} is the balance in deposits for that period and D_t is the balance in deposits for period t .

The above equation states that the new reserve RM (in terms of deposits D_t) depends ultimately on the growth in deposits compared to the base value ($\% \Delta D_t$) and the fraction of those deposits that the banks decide to maintain above the required level of reserves (α).

If the new reserve requirements manage to effectively reduce the levels of money supply, an increase in said quotient based on the amount deposited with the Central Bank as reserves would be expected to represent a bigger fraction of deposits. However, when we evaluate the equation using the expected rates of growth in deposits (or in money supply) for the remainder of the year, we find that, after a brief increase, that ratio tends to be set at a value close to the parameter α , i.e. to the coefficient associated with the amount in voluntary reserves.

Estimated amount of the new legal banking reserve (for different α scenarios)



Sources: Ecoanalítica

What is the reason for this result? Due to the context of hyperinflation, which will cause, according to our estimates, monthly increases in deposits to be above 70%, the amount siphoned off by the legal reserve will be increasingly less in terms of the increase in deposits. This is expressed as a drop in the quotient involved in the previous equation to

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 35 Week II
 September 2018

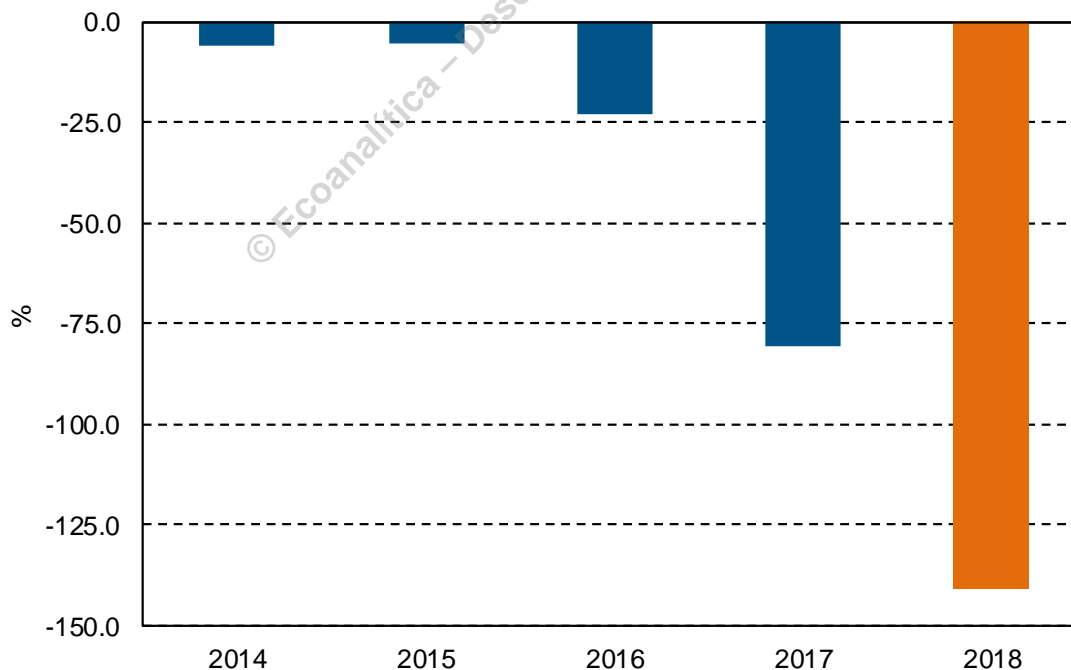
1; in other words, the effectiveness of the new marginal reserve is totally exposed to the decisions the banks take with regard to the value of α .

Bearing this in mind, decisions regarding the coefficient α could reflect the measures the banks take with regard to their offer of loans in view of the increased reserve. More specifically, the setting of an additional reserve requirement could create greater incentives to *raise* (or at least to not reduce) that offer.

In point of fact, in a scenario of hyperinflation where there are restrictions on rates and commissions, the bigger reserve could mean a greater reduction in the banks' capacity for generating income and, therefore, for accumulating capital.

That being the case, since the reserve consists of funds that do not generate interest, the banks could reduce their surplus deposits with the Central Bank to a minimum (less than α), directing funds they previously maintained as surplus deposits to loans. This would be a kind of defense mechanism in the face of those reductions in their profitability in real terms and the few additional coverage mechanisms available to them.

Real profitability of the banking sector



Sources: SUDEBAN y Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 35 Week II
September 2018

Two elements could, in fact, promote reactions of this type and would limit the use of the legal reserve as a mechanism of monetary control in the case of Venezuela. One is the absence of adjustments in interest rates in combination with the new reserve. In many cases, since this is part of a series of measures that define a contractive monetary policy posture, measures of this type are frequently accompanied by increases in the lending rates.

This means that the banks would enjoy a sufficiently wide spread of interest rates to offset the loss of net income resulting from the cutback in deposits and loans. However, since they are unable to obtain higher yields given the control of domestic interest rates, a logical mechanism for adjusting to the increased reserve in a situation of higher prices could be a bigger expansion of their loans portfolio. This could even have effects on the stability of the banking system, insofar as such an expansion in loans in the middle of a severe decline in the real economy results in an increase in nonpayment of loans and affects the potential solvency of the banks.

The second element is that Venezuela's interbank market does not provide domestic banks with a viable alternative for making this increased accumulation of reserves more profitable². Besides the low amounts traded, in recent months there have been times when the rates agreed in these transactions have not exceeded 5.0%; in other words only 1% in real terms based on the suppositions of implicit daily inflation in our estimates. An official measure that knocks down the implicit control of the overnight rates and that make more flexible this environment could impulse banks to maintain a part of their reserves (a high α) that mitigates the ineffectiveness of the new legal banking reserve.

Banks back in the foreign currency business, up to a point

On the other hand, under the new foreign exchange scheme, the role of the banks seems to be more limited. One favorable element is that the banks are included as foreign exchange operators once again and that, together with the exchange houses, they will be involved in small foreign exchange operations.

This could turn out to be not such a minor thing insofar as it will be possible for operations such as the remittances to be administered through the banks. It will be recalled that, according to our estimates, the flow of remittances increased by 56.5% in the first half of the year. The recent bans on the movement of bank accounts in bolivars from abroad would seem to point in this direction.

² Basically, the interbank market is a reserve market where banks that have a reserve deficit resort to banks that have a surplus in order to be able to meet their legal reserve requirements. See Bárcenas, Luis A (2009). El mercado interbancario (overnight) en Venezuela: naturaleza y funcionamiento. BCVOZ Económico (issued by Banco Central de Venezuela). for more details.

However, the new Foreign Exchange Agreement introduces more restrictions for the banks. The most noteworthy is that they are not allowed to act as buyers of foreign currency for their own account, which would make it difficult for them to have access to dollars as a coverage mechanism, at least legally or at the exchange rate determined by the Foreign Exchange Market System (aka DICOM).

This Foreign Exchange Agreement establishes other regulations that impose bigger barriers on the banking sector benefitting from the “new flexibilizations” of foreign exchange operations.

- The banks will now have to guarantee that the foreign currency is being requested by the small operations market, including foreign currency from the tourism sector.
- All the foreign currency acquired by the banks must be sold in the small operations market.
- Nor will the banks be able to take part in swap operations with securities (papers issued in dollars but tradable in bolivars).

The consequences of these restrictions may be more far-reaching than access to foreign currency as a coverage mechanism. Given the legal rigidity of the domestic interest rate structure, an additional source of funding could come from foreign exchange earnings. If the exchange rate is, in fact, allowed to fluctuate freely in accordance with supply and demand, foreign currency arbitrage would serve as an anchor for increased operational revenues and improvements in profitability. Even though we are talking about income in local currency (which is not much use as long as hyperinflation lasts), increased participation by the banks in the foreign currency market would allow them to rapidly safeguard those flows in a harder currency.

Another adverse effect of the new scheme is that, given growing deposits and the inability to improve their position in foreign currency assets, those banks with a reduced net worth will have fewer mechanisms at their disposal for raising their capital to levels higher than those required by the Superintendency of Banking Sector Institutions (Sudeban). This means that these banks could restrict their offer of loans in order to be able to comply with the internal regulations, even when a high net worth could be more costly to maintain in a situation of expansion in deposits³.

³ For a discussion of the role of capital in the offer of loans in Venezuela, see Bárcenas, Luis A (2018). Has banking capitalization limited credit supply? A first look to Venezuelan case, 2018. BCV, forthcoming.

When the solution is worse than the problem

Rather than an incentive, the latest series of measures looks more like a move against the already exposed local banking system. Moreover, it is incredible how monetary adjustments of a contractive nature can even promote the contrary effect to the one sought.

The latest foreign exchange guidelines not only ratify the government's unwillingness to implement a real adjustment plan, they also minimize any role the banks might play in a future program of serious measures that seek to improve the macroeconomic situation. Hyperinflation also seems to distort the usefulness of the legal reserve as a measure for putting things to rights in the local loans market. Nothing is further from the truth. Tovar (2016)⁴ manages to demonstrate how useful reserve requirements were for mitigating the overexpansion of credit in Latin America and, consequently, the potential occurrence of events of a systemic nature. Unfortunately, the distortions in our economy and the reluctance of those who govern us to tighten their fiscal belt seem to have more weight than an isolated measure on the monetary front.

Luis Arturo Bárcenas

⁴ Tovar, C et al (2012). Credit Growth and the Effectiveness of Reserve Requirements and Other Macprudential Instruments in Latin America. IMF Working Paper 142, 29 pp.

Year 14. Number 35 Week II
 September 2018

WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week September	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	61.93	0.4	0.4
	5th Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.8	0.4	1.0
	1st Week September	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	0.0	0.0	-0.5
	1st Week September	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.3	-0.4	-16.0
	5th Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	66,700,875	25.9	19,546.7
Price of International Oil Baskets (USD/bl)			
	1st Week September	Weekly chg. (%)	Annual chg. (%)
WTI	69.2	0.0	43.2
Brent	77.5	1.2	43.7
Price of the Venezuelan oil basket (USD/bl)			
	1st Week September	Weekly chg. (%)	Annual chg. (%)
Weekly Average	69.5	1.3	43.9
Annual Average	63.7	0.3	18.1

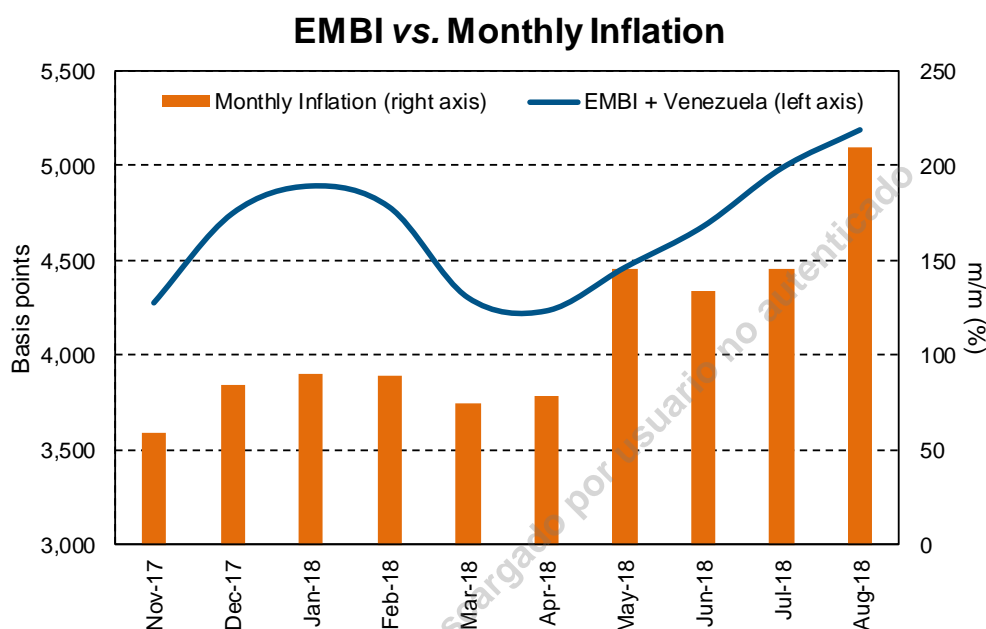
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
 Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

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


Sources: BCRP and Ecoanalítica

The Emerging Market Bond Index (EMBI) is a measure of sovereign risk that reflects how many points on average a sovereign security yield is from an instrument yield with a risk rating of close to zero (US Treasury Bills).

Historically, Venezuela has had a high risk rating. During the period 1997-2017 it had an average score of 652 basis points above the rating for the entire Latin American region. However, if we take just 2018, that difference goes up to 4,246 basis points.

This escalation is due mainly to two factors: the default on PDVSA's and the Republic's debts and the economic, social and political crisis the country is experiencing, marked by a hyperinflationary process that has been going on for 10 months now.

Since Venezuela formally entered a hyperinflationary spiral (in the same month as it fell into default), the EMBI and the growth in prices seem to have maintained a reciprocal relationship. External financing is needed to curb the hyperinflationary spiral and the cost of that financing will increase as the country's risk rating rises and monthly inflation grows faster than observed thus far. Moreover, the longer this hyperinflation lasts, the higher Venezuela's perceived risk will be and, therefore, it will become more difficult to find external financing. It remains to be seen which problem will be solved first.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECONOMIC TIPS

“Freeing” the exchange rate, after a fashion. Minister for the Economy and Finance Simón Zerpa announced that there would be “*free convertibility of the local currency.*” However, Foreign Exchange Agreement No. 1, published in *Gaceta Oficial* Number 6405, stipulates that the foreign exchange market will have “*a single fluctuating reference exchange rate.*”

All paths pass through the Central Bank... What is more, the Central Bank of Venezuela is to centralize the buying and selling of foreign currency in the country, regardless of whether it comes from the public sector or the private sector. Not only that, the Central Bank, together with the Ministry of Finance, may intervene in the market for the purpose of “*maintaining the equilibrium of the market.*”

...and through DICOM. The exchange rate is to be set based on the buy/sell operations performed in the “*Foreign Exchange Market System.*” The rate will be the weighted average calculated via this system. Moreover, the Central Bank is to stipulate the minimum amount based on supply and demand to be governed by the Foreign Exchange Market System.

A very minor role for the banks. According to the Foreign Exchange Agreement, the banks may act as foreign exchange operators provided they have the approval of the Central Bank’s board of directors. However, their role has been reduced to that of intermediary; in other words, all foreign currency they receive must either be sold to the general public or be sent to the Central Bank.

Paying a tax. In addition, companies or private individuals who engage in the exporting of goods may retain and administer 80% of their foreign currency revenues and must sell the remaining 20% to the Central Bank. Besides, those who are authorized to perform small transaction operations may only retain 25%.

From government to government. The imports of state-owned companies, such as PDVSA and the Cooperación Venezolana de Guayana (CVG), are to be administered by the Central Bank.

It’s not enough. However, at **Ecoanalítica** we are of the opinion that this foreign exchange measure will not bring about significant changes. For that to happen a more transparent system for allocating foreign currency needs to be implemented in which the exchange rate is closer to the market rate. Moreover it should be a system that generates confidence.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 35 Week II
September 2018

Devaluation on the horizon. President Nicolás Maduro said that the value of the petro could fluctuate “*from time to time.*” The idea is to guarantee a petro that maintains its “*market value*” so that everyone “*has their half petro.*”

In installments. The schedule for the payment of pensions, Homes of the Fatherland bonuses, and the wages in the public and private sectors has been published in the Official Gazette.

Not much in the vault. At the end of last week, the international reserves closed at USD 8.3 billion. They have not been this low since the early 1990s, when they came to USD 8.4 billion.

New DICOM, same exchange rate. At the close of the first week of September, the reference exchange rate set by the DICOM system was VES 61.67/USD, which means that there has been a devaluation of 2.27% since the DICOM was re-launched.

An increase in disbursements? During the same week, disbursements to companies came to USD 2.97 million and disbursements to private individuals were USD 554,000. What is interesting is that the disbursements to companies were 50.7% more than the maximum disbursed to companies before the re-launch of the DICOM system.

The never-ending emergency. The Official Gazette N° 41,478 established a 60 days extension on the state of economic emergency. Is important to note that the mention of said emergency exists since the first months of 2016.

Half a country. Congressman and member of Finance and Economics Commission of the National Assembly, Ángel Alvarado, informed that the economic activity has fallen by 50.61% since Nicolás Maduro was invested with the presidency.

Same or worst path for 2018. This information corresponds to the National Assembly's Economic Activity Index, that also reported for the first semester of 2018 a 25.0% economic contraction.

In search of the 0 deficit. The Official Gazette N° 41.479 published the modification of the Tax Unit from VES 0.012 (VEF 1,200) to VES 17. This represents a 141.566% increment considering the last adjustment done in July.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

OIL TIPS

Plummeting (I). According to primary sources, Venezuela's oil production in August was 1.448 million of daily barrels (mb/d), which represents a -21 kb/d decrease compared to the month of July (-1.4%). At the same time, this represents an accumulated fall of 173 kb/d (-10.7%).

Plummeting (II). On the other side, according to secondary sources, Venezuela's oil production was 1.235 mb/d, which means a decrease compared to the previous month of 37 kb/d (-2.5%). Additionally, it represents an accumulated fall of 412 kb/d (-22.2%).

First Amuay, now Cardón. Cardón, Venezuela's second biggest refinery, was shut down due to operational problems. The unit had already been closed down some time back and resumed operations in August. With a capacity of 310,000 barrels a day (b/d), Cardón Refinery closes down after Amuay Refinery.

S.O.S. Venezuela has signed agreements with at least seven companies under which it hands over the management of seven oil fields for them to raise production in exchange for a variable fee per barrel, according to Reuters. An initial investment of USD 430 million is estimated and PDVSA is to pay a "fee." No further details of the arrangement are known.

An uphill task. It is not known whether the companies are state- or privately owned. However, none have evident experience in operating oil fields, which means they will have to obtain technical and financial support, a difficult task given US financial sanctions and Venezuela's default on its debt.

A new board of directors. The new board of directors of the state-owned oil company, PDVSA, has been published in *Gaceta Oficial Extraordinaria* No. 6405. Manuel Quevedo continues as the company's president and Nelson Ferrer and Guillermo Blanco are two of its vice presidents. Remarkably, Tareck El Aissami, sanctioned by the United States, has been appointed as an external director.

The government's best solution... Minister of Energy and President of PDVSA Manuel Quevedo has created a new committee, which has been charged with reorganizing the company in these times of decadence and when it is about to lose its main asset abroad. The committee must "*propose within 30 days the adjustments that are necessary for organizing Pdv, its administrative and functional structure, including mergers and winding up (of units).*"

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 35 Week II
September 2018

...a new committee to come up with ideas. The committee is authorized to propose the laying off and hiring of personnel and this could affect some 100,000 employees. Miguel Quintana, who is also now a vice president, is to chair the committee, which has until December this year to carry out its mission.

How September kicked off. Argus Media reports that the production of crude in the first five days of September was below desired levels, in particular due to the drop in production in the Orinoco Oil Belt. It reports production of 1.5 mb/d, which is much higher than its estimate (300 kb/d) but still below target (1.77 mb/d).

Waiting for its money. ConocoPhillips is still waiting for the USD 2.0 billion PDVSA owes it according to the ruling by the judge that heard the case. The president of the US oil company commented that, if payment was not made, ConocoPhillips would resume its legal offensive against PDVSA.

What happened to the gasoline vending system? The news agency Reuters reported on the first days of the pilot version of the new gasoline vending system. In Ureña, where the devices arrived at three gas stations, it was not possible to get any of them to work because they lacked the code for activating them. In addition, the employees at the gas stations did not know how to use the dataphones or points of purchase, which means there have been problems with getting them to work.

One in three. There was a similar situation in Santa Elena de Uairén, Gran Sabana Municipality, on the Brazilian border. Reuters reports that last week only one of the gas stations that had been equipped with the new system was working. Many people are still waiting to see how this system works.

OPEC in August. S&P Global Platts published its report with oil production figures from the Organization of Petroleum Exporting Countries (OPEC) for August, according to which total OPEC output came to 32.89 mb/d.

Always producing more. Saudi Arabia, OPEC's biggest producer, produced 10.49 mb/d in August; that is 430 kb/d over its quota of 10.06 mb/d pursuant to OPEC's production cut agreement. However, this was below what Saudi Arabia had announced it could produce at previous meetings.

Production up for some... Libya, which reduced its production in July, recovered it in August to 940 kb/d, an increase of 40.3% compared to the previous month. Other countries that raised their production included Angola, Congo, Iraq, and Nigeria.

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 35 Week II
September 2018

...down for others. On the other hand, although US sanctions against Iran went into effect in November, Iran's production was already being affected, one reason being a reduction in purchases of crude by China and India. Production fell to 3.6 mb/d, for a reduction in the month of 3.2%, to its lowest level in the past two years.

In a free fall. Iran is accompanied by Venezuela, whose oil production continues to fall. S&P Global Platts reports that production in August was 1.22 mb/d, down 1.6% from July (1.24 mb/d).

BUSINESS SECTOR TIPS

Metro postpones fare hike. The Caracas Metro has postponed resuming the collection of fares until Friday, September 14, given the large number of people who were buying tickets at the ticket offices over the weekend. The new fare is VES 0.5 and a multiple ticket (the *metrotarjeta*), which is valid for 10 trips, can be purchased for VES 10.

CLAP boxes also hit by price hikes. The national coordinator of the Local Supply and Production Committees (CLAPs), Freddy Bernal, announced in his Twitter account that the price of the CLAP box of staples would be VES 100 starting in October. That is an increase of 39,900% compared to the last price (VES 0.25).

Youth Job Plan to get paid. Following a meeting with social sectors and some trade associations at the weekend, President Nicolás Maduro announced that the young people taking part in the Youth Job Plan would be getting VES 400 a month starting on Friday this week.

Alienation. He also said that the number of *Somos Venezuela* Movement brigade members would be increased to 350,000. He explained that these brigade members were to go out on September 14, 15 and 16 to defend the agreed prices, but without specifically saying what this involved, and that an agenda for the "*social protection of the people*" was still in the process of being drawn up.

Trying to save the transport sector. Given the imminent decline in public transport in Venezuela, Luis Colmenares, the president of the Caracas East bus drivers' organization, said that the government was to grant the sector loans and micro loans for the purchase of parts and spares. He said that he had met with Vice President Delcy Rodríguez to discuss the matter. Seeing is believing...

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Now Pirelli is really leaving, for good. The tire company Pirelli announced that it had sold its factory in Venezuela, located in Guacara, along with the rest of its assets. It has reached an agreement with an alliance of South American businessmen and the company Sommers International. Thanking its employees, Pirelli said goodbye to Venezuela.

Chao, Venezuela. According to figures from the office of the United Nations High Commissioner for Refugees (UNHCR), 137,220 people have requested asylum abroad this year compared to 113,438 in 2017, for an increase of 21%. Compared to 2016, the increase is 293.2% (34,897 people).

Empty classrooms. The pro-education organization *Fe y Alegría* relates how increasingly fewer children are getting an education in Venezuela. In September 2017, more than 113,000 started the school year, but only 90,900 completed it. *“When taking them out of school, the majority of parents explained that it was because they were leaving the country,”* commented *Fe y Alegría*’s director Noelbis Aguilar.

Left-behind children. There were also 4,000 cases of children and adolescents who were left in the care of others, a phenomenon that has been called “left-behind children.” Given the situation, others prefer to go out to work rather than study because they see the possibility of generating income much earlier.

No ticket pre-season ticket sales. Because of hyperinflation, it has not been possible to establish ticket prices for Venezuela’s 2018-2019 baseball season when the start of the season is just one month away. Since it is extremely complicated to plan in hyperinflation, it will come as no surprise if the prices of the tickets are published only a few days beforehand.

Loan portfolio recorded an increase of 12,898.3%. According to figures published by the Superintendency of Banks (Sudeban) the loan portfolio of the banking system amounted to VES 19,981.1 million, a variation of 12,898.3% since July last year, when it stood at VES 153.7 million. Yet, in real terms the portfolio shrunk by 89,6% (y/y).

Economic destinations of credit portfolio. Sector by sector, each one suffered a year on year slump of its credit aggregated credit on real terms. The worst performing was the automotive sector (-99.6%), followed by tourism (-98.2%), mortgages (-93.4%), manufacturing (-93.4%), consumption credits (-92.8%), agricultural loans (-89.0%), and finally microloans (-87.4%).

Total financial assets registered a nominal increase of 71.0% compared to June. By the end of July were worth VES 52,592.7 million, which represents a 15,731.4% variation

Year 14. Number 35 Week II
September 2018

compared to VES 332.2 million in July 2017. But in real terms, there actually was a recorded decline of 87.3% (y/y).

Investments in securities from the banking sector stood at VES 10,756.2 million in July, representing 20.5% of total assets, reflecting an increase of 65.7% compared to the previous month, when it stood at VES 6,489.6 million. Compared to the end of December 2017, the balance of investments in securities experienced a nominal rise of 25,862.5%. In real terms, there was a 53.5% fall (y/y).

The public deposits amounted to VES 39,308.6 million at the end of July, an increase of 81.0% compared to the previous month. In connection with the month of July 2017, public deposits increased 13,106.1%.

Time deposits grew, to settle at VES 39.6 million by the end of July, with a share of only 0.1% compared to total public deposits, experiencing an increase of 46.0% compared to the previous month, and 1,756.9% over the same period last year.

WORLD ECONOMY TIPS

Another boost? Despite trade tensions, the markets are continuing to bet on a stronger US dollar. The reason is a simple one: another increase in interest rates by the Federal Reserve is expected. This widespread expectation is reflected in the increase in the purchase of highly liquid instruments such as notes with maturity at one year. If this happens, the increase in interest rates will have major consequences for both developed markets and emerging markets.

Not so fast. But for now, the forecasts regarding growth of the US economy are even being revised downwards. The Atlanta Federal Reserve, for example, cut its estimate from 4.4% to 3.8% this week.

China faces high costs... Trade wars are costly. According to estimates by J.P. Morgan, China's economy could lose approximately 700,000 jobs as a result of the 25% US tariffs, equivalent to USD 200 billion in Chinese exports, and face an estimated 5% devaluation of the yuan. However, the impact will get worse the more the trade war escalates.

...but is playing by the rules... On this occasion, unlike the United States, China has decided to settle its trade disputes through the World Trade Organization (WTO). This Tuesday, China notified the WTO that it wants to impose a sanction of USD 7.0 billion a

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report.
Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

year on the United States for failure to comply with a ruling issued by the WTO against the United States in a case of dumping.

...and Canada reinforces them. The Government of Canada is planning a reform of the WTO that apparently seeks to protect the organization from protectionist practices such as those engaged in by the Donald Trump administration in the future. After producing a draft proposal in August, Canada is seeking support from other like-minded members of the WTO.

A race against nature. The hurricane season is here again. In the United States, Hurricane Florence threatens the winter harvest and farmers in states that are under threat, such as North Carolina, are trying to get the harvest in early before it is destroyed.

Investors are unfazed. According to weather agencies, Florence could be the worst hurricane to hit North Carolina in 64 years. Despite this, the municipal bonds market has remained stable and investors expect public finances will be sufficient to cover the cost of repairs.

“Les bleus” top the list. Mario Draghi’s term as the head of the European Central Bank comes to an end in October 2019. Among the ten candidates who have been nominated to replace him, three are French, more than any other nationality: Christine Lagarde (Director of the International Monetary Fund), Benoit Coeure (a member of the executive board of the ECB), and Francois Villroy de Galhau (Governor of the Bank of France). They are all nominations put forward by Emmanuel Macron for the ECB.

Russia is to decide. This Friday, September 14, the central bank of the Russian Federation is to meet and there will be one fundamental item of contention on the agenda: the level of interest rates. Although they have been maintained constant in nominal terms since 2014, Governor Elvira Nabiullina believes it is necessary to react to a changing global market. Andrey Belousov, a high-level economic advisor, on the other hand, believes that such a move is not desirable.

Egypt stabilizes. The increase in oil prices has been positive for Egypt. The higher revenues from oil have made the task of Egypt’s central bank easier and monthly inflation fell from 2.4% in July to 1.8% in August.

Keeping track of Argentina. Interest rates in Argentina continue to be the world’s highest in nominal terms at 60%. Officers of the central bank said this week that inflation had speeded up in August and September and forecast a recession this year and in 2019. They also stated that they would not cut interest rates in 2018 to stabilize the peso, which has lost more than 50% of its value this year.

Lula desists from his lawsuit. Former President of Brazil Luiz Inacio (Lula) Da Silva, who has been serving a prison sentence since April after having been found guilty of corruption, this week desisted from his lawsuit against the State to be

POLITICAL TIPS

There is no crisis, just one of its problems. Venezuela's foreign minister, Jorge Arreaza, said that there was no Venezuelan refugee crisis. His argument was that a refugee is someone who "is persecuted or whose life is in danger if he returns to his country," a definition that does not apply to the situation in Venezuela, since the mass migration of Venezuelans is due solely to economic reasons.

The deadly trap is "outside." Minister of Communication and Information Jorge Rodríguez claimed that the humanitarian crisis that is being used as an argument to justify the mass migration of Venezuelans is no more than a lie invented by the international community to discredit Venezuela and take advantage of slave labor.

A non-secret coup. An article published by The New York Times claims that rebel Venezuelan military officers met with US government officials to hatch a coup d'état.

The United States is lying in wait. As a result of this article, Jorge Arreaza denounced before the international community the United States' intention of overthrowing the Venezuelan Government by promoting plans of intervention and supporting military conspiracies. Diosdado Cabello seconded these statements, calling the United States a "coupster."

Smokescreens. The article also gave rise to repudiation from Venezuela's government benches. US Ambassador to the United Nations Nikki Haley accused the Venezuelan Government of trying to divert attention from the country's situation with these statements.

They will try to clear that smoke. In response, Haley said: "It comes as no surprise that Venezuela continues talking about everything it can to draw attention away from what is happening on the ground." She also gave assurances that the United States would continue working to denounce the violation of human rights and the latent corruption that is observed in Venezuela.

Creating an international network. Former President of the National Assembly Julio Borges said that he would attend the meeting of the UN Security Council to show "how

the establishment of networks of corruption within the institutions of the Venezuelan State has generated an unprecedented crisis in the country.”

Help from Heaven. The president of the National Assembly, Omar Barboza, handed him a list of 349 people who, according to the National Assembly, are being held as political prisoners in Venezuela. Barboza requested the Pope to intercede for their liberation, with the support of the international community.

Ayuda desde el cielo. El presidente de la AN, Omar Barboza, le entregó una lista con los 349 presos políticos que, de acuerdo con el organismo, están en el país. Barboza solicitó al Papa que, junto con apoyo de la comunidad internacional, interceda en su liberación.

Putting things on a formal footing. The United Nations Human Rights Council (UNHRC) is to debate and vote on a resolution on the situation of fundamental rights and freedoms in Venezuela. The starting point is to be a document submitted by the Group of Lima drawn up at meetings held by its member countries.

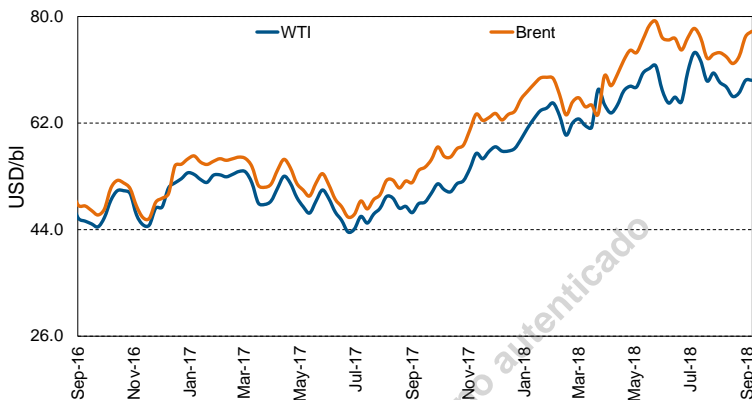
Stopping the persecution. Jorge Arreaza attended the meeting for the purpose of “*heading up the delegation in defense of our Fatherland.*” At the meeting the foreign minister called for the aggression against the Bolivarian Republic to cease.

Taking things a step further. Colombia’s President Iván Duque said it was necessary to maintain the debate on the Venezuelan Diaspora throughout the continent, stressing the need to take the issue before the Organization of American States (OAS) and the United Nations.

Friend and creditor. Venezuela’s Vice President Delcy Rodríguez held a meeting with He Lifeng, the chairman of China’s top economic planning agency, the National Development and Reform Commission (NDRC). Rodríguez said that the encounter will serve to boost areas of cooperation between the two governments under the recovery program announced by the Venezuelan Government.

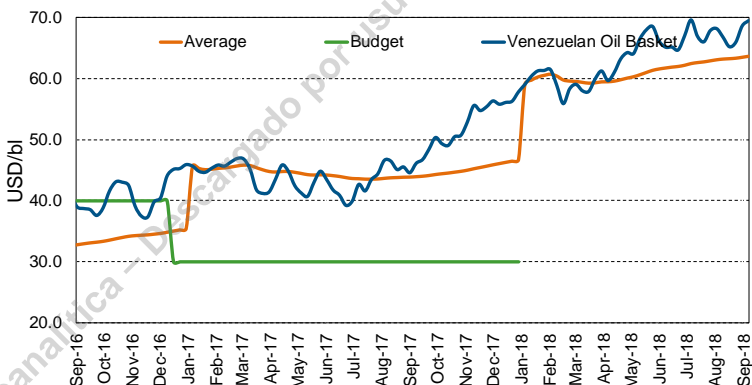
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



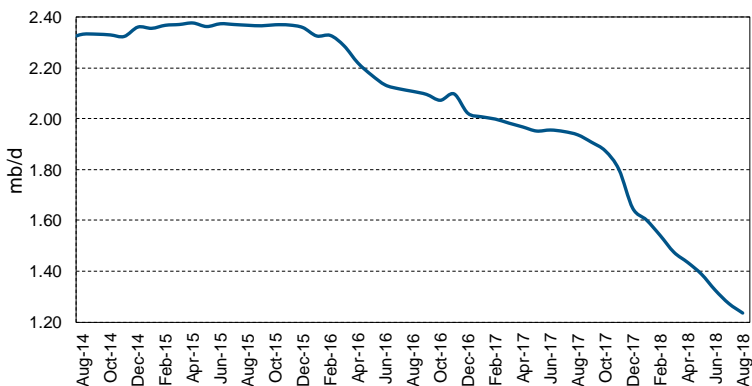
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)

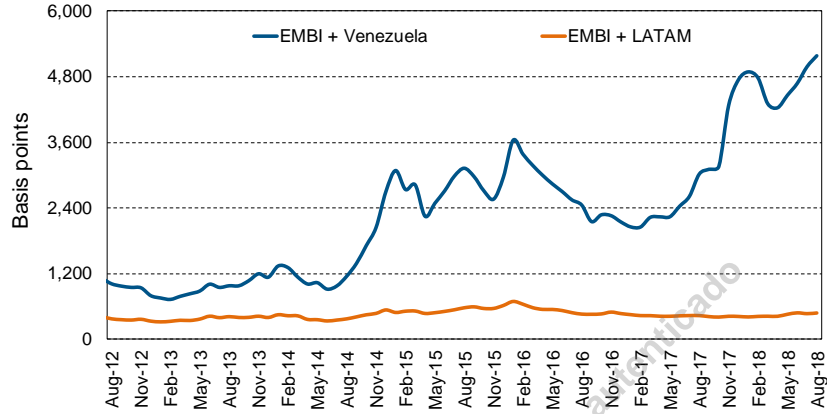


Sources: OPEC and Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

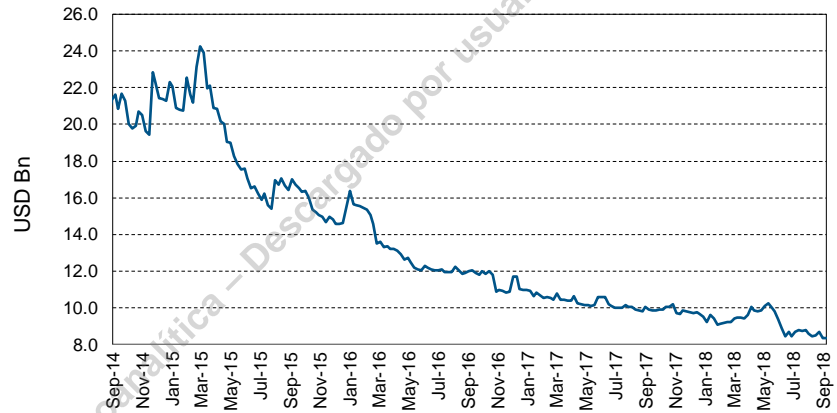
ECONOMIC INDICATORS

EMBI



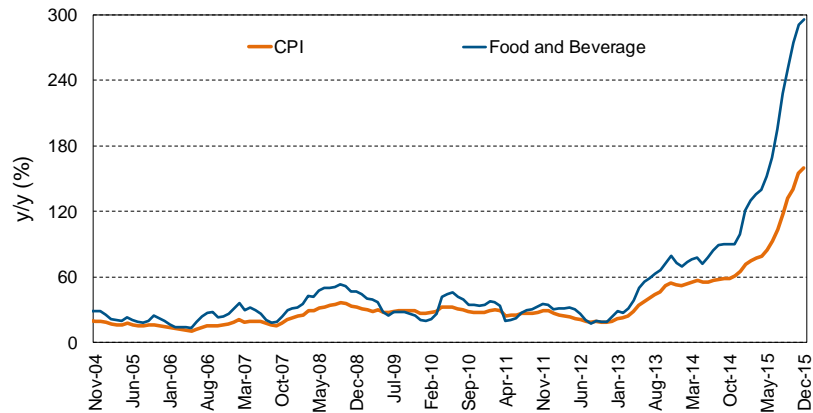
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



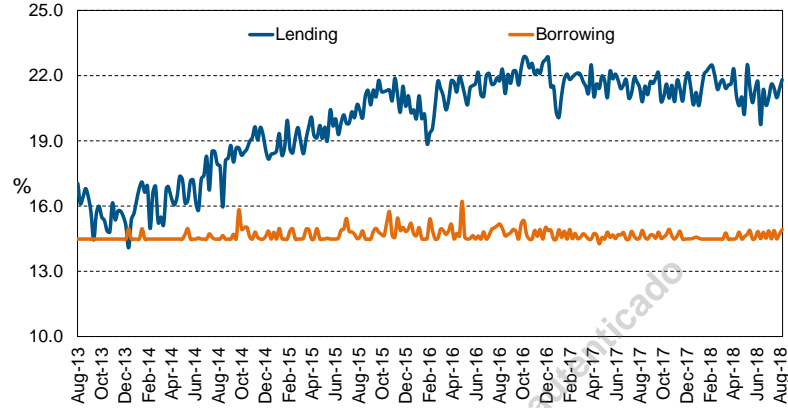
Sources: BCV and Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Year 14 Number 35 Week II
September 2018

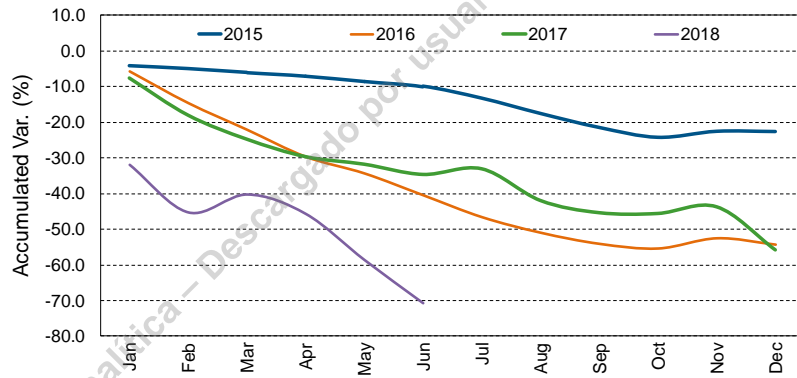
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



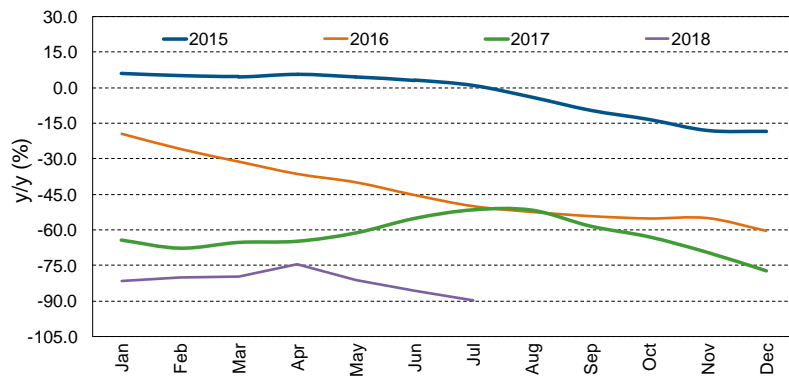
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

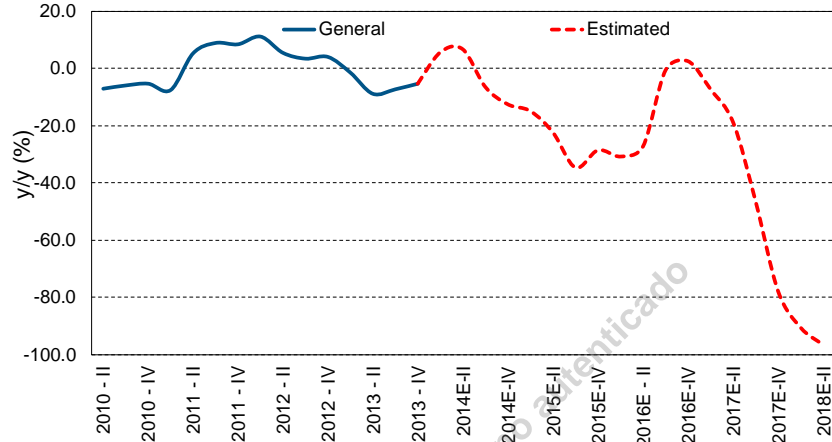
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14 Number 35 Week II
September 2018

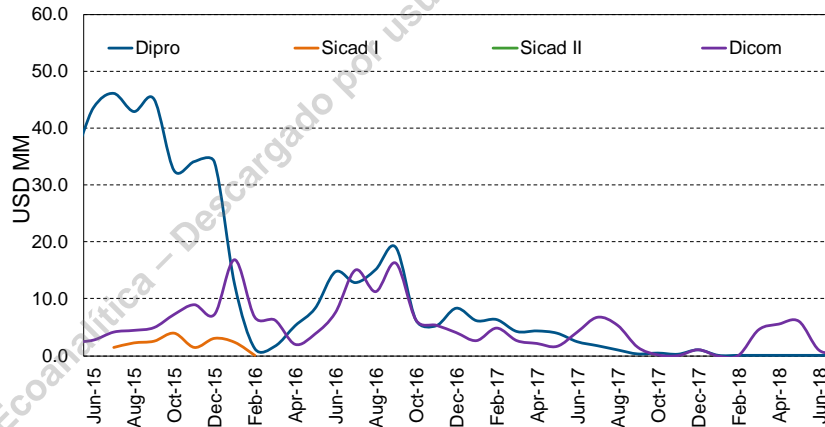
ECONOMIC INDICATORS

Real Wage Index



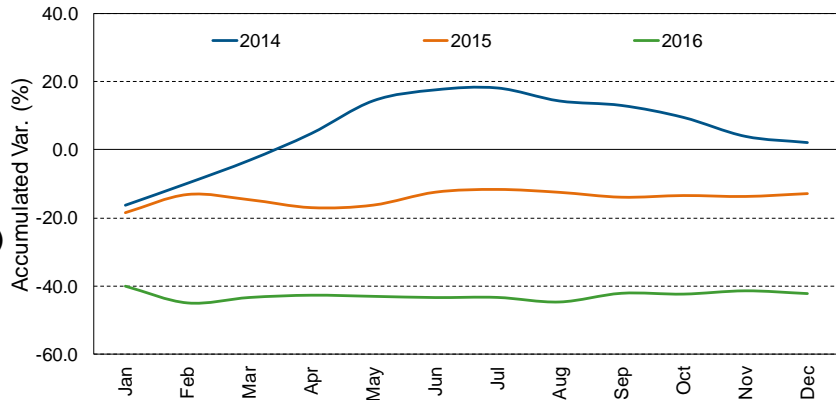
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

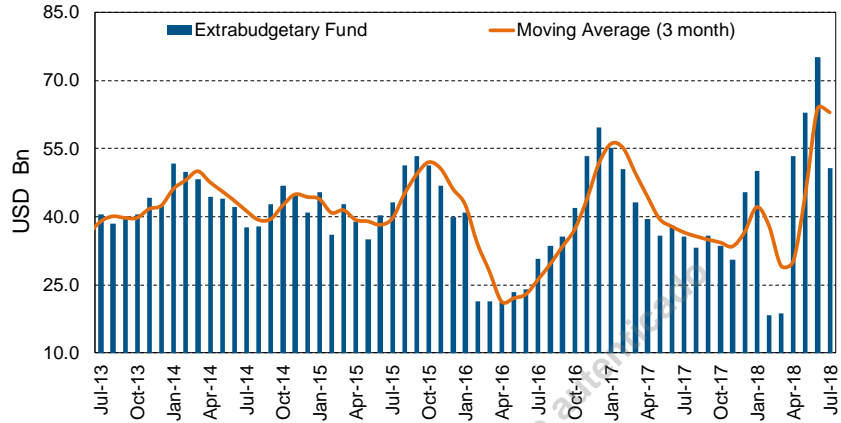
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14 Number 35 Week II
September 2018

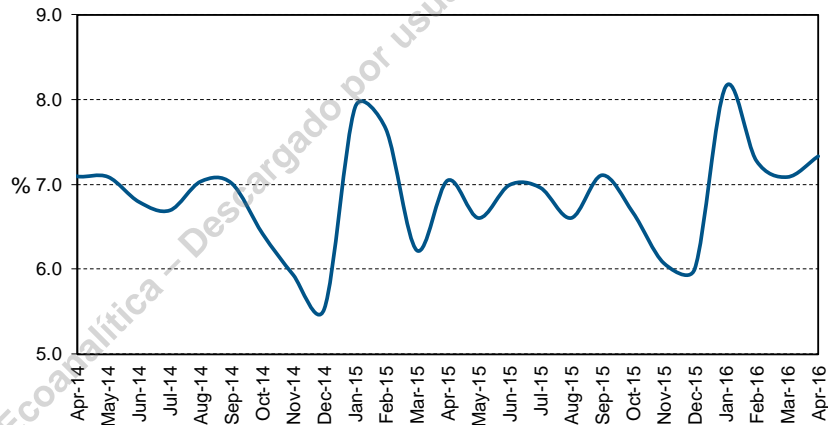
ECONOMIC INDICATORS

State Extrabudgetary Resources



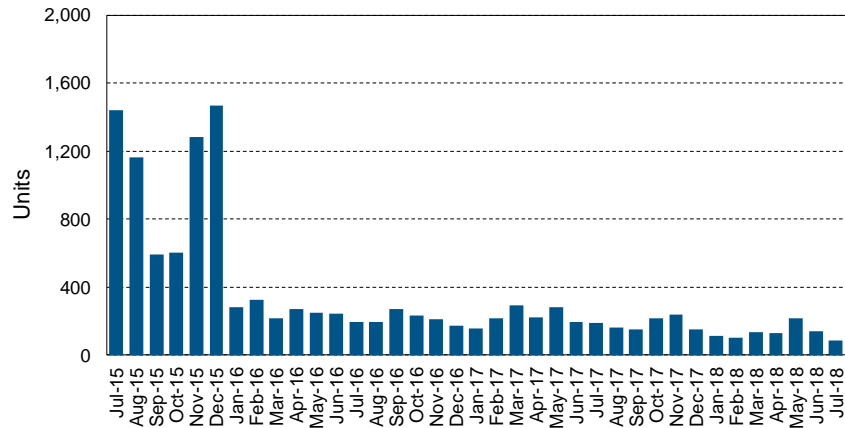
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+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

cristinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

Gorka Lalaguna / Economist

gorkal@ecoanalitica.net / @GorkaLG

Guillermo Arcay Finlay / Economist

guillermoaf@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