WEEKLY REPORT

Year 15. Number 35 Week I
October 2019

Venezuela's banks in transition: a difficult starting point

There has been much discussion regarding the role of the banks in a situation of economic and political transition, especially following the new scheme of regulations that went into force halfway through 2018. After having been exposed to a fierce legal reserve requirements policy over the past year, the banks have a very limited source of funding (to borrow). As we commented in our Weekly Report Number 24, "The new reality of Venezuela's banking system," the operational deficiencies of Venezuela's banking sector not only include the unstable mechanism with which it generates its earnings but also the heavy operational burden it has to shoulder, the makeup/concentration of its deposits, and its exposure to bad debts given the aggressive inflation. So, if a macroeconomic stabilization policy was to be implemented tomorrow, the role of the local banks would be uncertain under some clearly disadvantageous starting conditions.

Even when the design of a stabilization policy for Venezuela has focused on macroeconomic objectives, there is some interest in focusing on the plans by sector, including the aspects and measures that would concern the banks. Much of that debate has stressed the role of the banking system in the private sector's recovery and even in providing financial support to the strata hardest hit by the shortage of essential goods. However, if the present limitations continue, a discussion of this issue would have to include, in the very short term, measures for recovering the system itself that would allow the banks to fulfill this new role without making them more fragile.

Consequently, in this report we will address some of those weaknesses that could affect the success of government policies that make use of the banking system for their implementation. As we will see, after only three months since our last diagnosis, the "new" point of departure for the banking sector in Venezuela has only got worse.

The banks' current situation: from bad to worse

Today the conditions of the national banking sector would be somewhat critical if an adjustment plan were to be started in the short term. Credit activity remains unchanged. Even with the recent slowdown in inflation, loans have posted a drop of nearly 94.7% in annual terms in August. As in the last quarter, commercial credits account for a large share of financing available to date, with not even an upturn in the funding for vehicle

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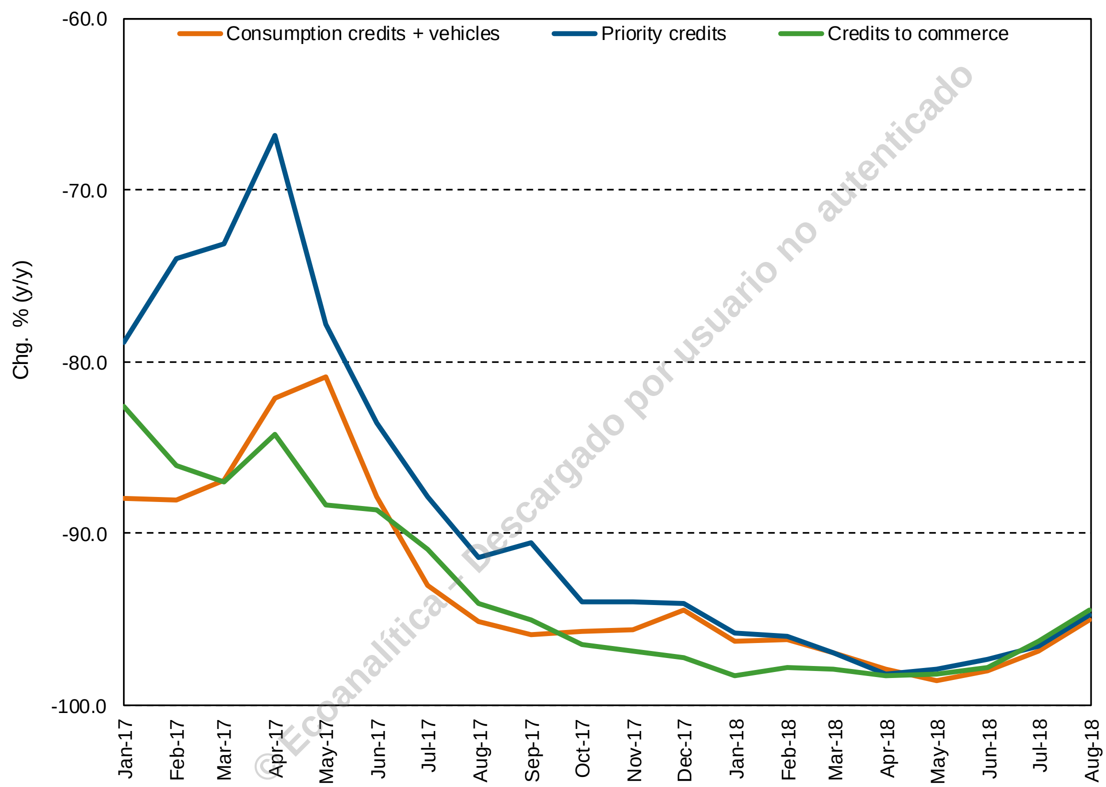
loans having managed to give a boost to consumer credit[1]. However, we are talking about a banking system in which 47.1% of its assets as at August were in non-interest-bearing reserves[2] (basically, the legal reserve) and only 3.3% are maintained as loans.

Real credits (by type) Evolution



Sources: SUDEBAN and Ecoanalítica

Concentration of deposits continues, with the largest state-owned bank holding a large percentage of these liabilities in the local system. This means that poor management of this bank could put a sufficiently high deposit base at risk to undermine the stability of the system as a whole. Moreover, the figures reveal an “unreal” banking environment in which eight out of every ten bolivars in assets are maintained as capital (according to Sudeban’s equity definition), driven by the revaluations resulting from recent fluctuations in the

[1] In nominal terms, compared to a year ago vehicle loans increased faster than other loans, at least until last month. This may be due to a financing policy by the banks supported by the secondary automotive market as a means of profiting from earnings in this sector when it is the middle of a sharp decline and from secondary operations resulting, in part, from the large number of people emigrating.
[2] Excluding the Central Bank’s figures and only for the stratum of universal and commercial banks

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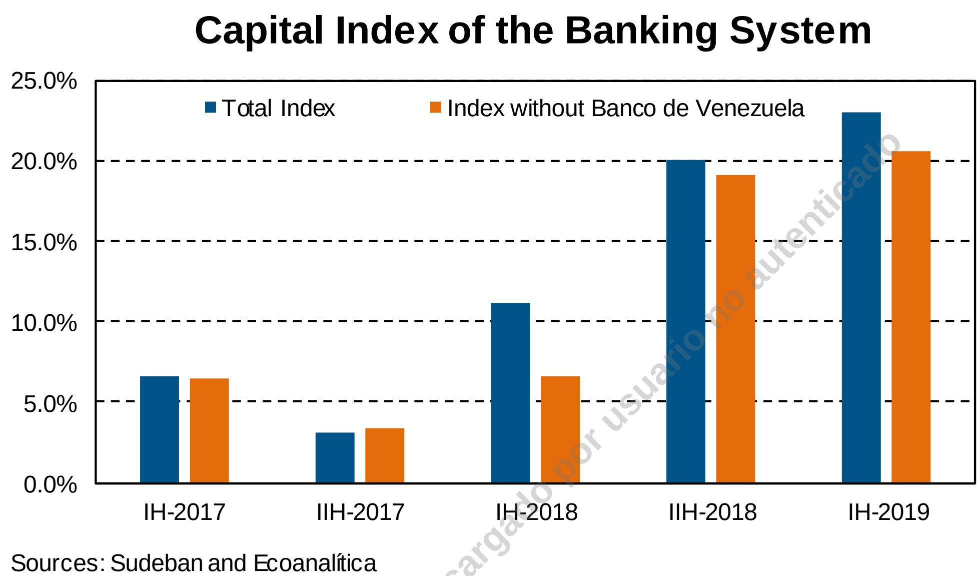
exchange rate. If we isolate those adjustments in the banks' net worth, we are actually talking about capital accounting for nearly 27.1% of their assets, down from last quarter.



As for profitability, the banks continue to resort to charging commissions or operative income (mostly on transactions) to maintain their flow of revenues. However, book revaluation resulting from the official depreciation of the bolivar in the past few months has also generated a bigger flow of resources in the last two months[3]. However, the banks continue to face bigger general expenses, given the deterioration or increase in price of services and labor liabilities driven by the contraction in the local activity and also by hyperinflation[4].

Holding securities is another item of weight in the scheme of profitability. However, as we warned earlier, the concentration of a large proportion of security holdings in a single bank (and a state-owned bank to boot) means that generalizing and saying that this source of revenues is a valid mechanism for the entire system is a stretch.

[3] Between July and August, the reference exchange rate (the rate agreed by the money desks) went up by 96.7%.

[4] While for the system as a whole these expenditures were equivalent to 70.0% of financial revenues in August, for the big (private) stratum of banks, they were equivalent to 1.23% of the flow from their financial assets portfolio. On the other hand, the greater difference between the gross and net operative margin (20.0% of the financial income), would also be associate with higher operating expenses of other kinds, such as expenses due to depreciation/depreciation of fixed assets.

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Statement Account as Proportion of the Financial Incomes

Banking	May 2019 Universal & Commercial	May 2019 Private	May 2019 Public	August 2019 Universal & Commercial	August 2019 Private	August 2019 Public
Financial Income	100.0	100.0	100.0	100.0	100.0	100.0
Income by investment securities	14.6	11.1	24.3	24.9	8.9	55.6
Income by credit portfolio	79.3	81.0	74.6	68.0	81.9	41.4
Financial Expenses	18.5	15.6	26.5	35.9	21.8	63.1
Expenses for the public's deposits	7.7	7.2	9.0	9.5	10.7	7.0
Gross Financial Margin	81.5	84.4	73.5	64.1	78.2	36.9
Uncollectibility net expenses	10.0	8.6	13.7	5.3	6.8	2.6
Net Financial Margin	71.5	75.8	59.7	58.7	71.5	34.3
Operative net income	132.6	155.1	71.2	118.2	145.8	65.2
Financial Intermediation Margin	204.1	230.9	130.9	176.9	217.3	99.5
Transformation Expenses	114.9	115.8	112.5	107.7	122.0	80.3
Staff expenses	40.9	40.6	41.9	33.7	37.4	26.6
General and administrative expenses	70.7	71.3	68.9	70.0	79.2	52.6
Gross Operating Margin	89.2	115.1	18.4	69.2	95.3	19.1
Net Operating Margin	75.7	97.6	15.8	49.2	67.7	13.7
Net Result	**68.8**	**88.6**	**14.9**	**43.5**	**60.4**	**11.2**

Sources: SUDEBAN and Ecoanalítica

One element that is already apparent from the official figures is the increase in the actual cost of borrowing as a means employed by banks to cope with the credit restrictions resulting from the legal reserve requirements. The effective annual rate applied to current loans exceeded 70.3% of the loan average in the past two months, which includes higher commissions for granting loans. However, this still implies monthly borrowing below the growth in prices, which, in real terms, is not sufficient incentive for the banks, particularly in view of the increasingly onerous operating costs. Moreover, despite the real negative interest rates, this increase puts greater restrictions on potential borrowers who are unable to honor repayments under these conditions.

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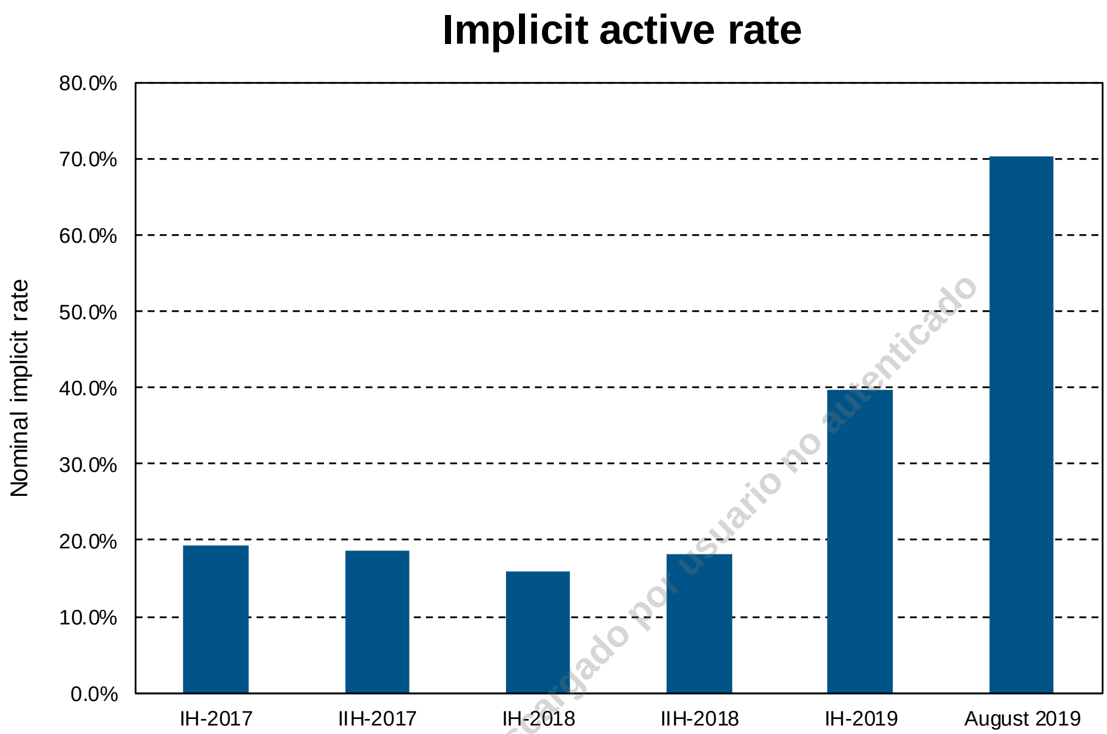

Sources: SUDEBAN y Ecoanalítica.

Despite these higher yields, the banks are still not generating bigger net revenues and their profitability measured in terms of assets and/or equity (ROA and ROE) was lower than at the close of the first quarter (1.8% and 7.9% versus 1.7% and 7.6%, respectively).

Credit risk continues to be a problem that is giving banks cause for concern even though the increase in past due indebtedness has not been that great, thanks to high inflation. Despite the fact that loans that have fallen due or are in litigation already account for 5% of total loans (from 1.5% at the close of last year), this has not meant a marked increase in associated costs (according to the results from their balance sheets shown in the previous table).

The banks' "positive" future

The present situation reveals banks incapable of offering much in the way of loans and confronted with weaknesses on the operations side and in terms of irrecoverable assets, which is affecting their generation of revenues and keeping them undercapitalized. The fact is that this situation not only puts their stability at risk, it could also affect the scope of any adjustment based on the stability of the local financial system.

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In point of fact, the general view of the system in the debate offered in the Country Plan (*Plan País*) is that of a sector capable of generating value, open to international markets, that resumes its role in leveraging private business, and mitigates fluctuations in consumption. Therefore, the state of the local banks is important if any external shock (resulting from any bilateral-multilateral support or improvements in capital inflows) is to generate favorable results in the real economy, above all in the middle of an opening up of the financial system.

The foregoing is upheld by the current relevance of credit activity in the economy. Despite being historically endogenous to changes in local production, today ruling out the real effects of credit in Venezuela does not seem to be a possibility. In fact, one aspect revealed by the implementation of the Recovery, Growth and Economic Prosperity Plan is the intense use of this source of financing by households and companies in hyperinflation.

Nevertheless, it is possible that the success stemming from an economic adjustment may not mean a lower level of risk for the banks. Krueger and Tornell (1999)[5] highlighted how, after overcoming the 1994 Mexican crisis (the origin of the Tequila Effect) thanks to adjustment policies and multilateral aid, payment arrears on loans persisted even in the middle of the economic recovery. Of particular note is the fact that, while the tradable sector found refuge in the international banking system in order to sustain the inflow of capital, the domestic banks were only able to direct their activities to the services sector with a lower capacity for repayment and, moreover, having limited funding with which to do this, besides the accumulation of a large number of consumer loans with payments outstanding.

In the end, with a decontrolled financial market and the initial depreciation of the peso, since this level of debt was not counteracted with more intense credit activity, the level of past-due indebtedness rose sharply even with a faster rate of economic growth[6]. On the other hand, shortcomings in asset recovery policies provided disincentives for paying debts, even in the case of borrowers who had the funds to do so.

This type of scenario seems plausible in Venezuela's case if the banks' low level of efficiency and their exposure to nonpayment of loans persist and prevent them from

[5] Krueger, A. and Tornell, A. (1999). The role of bank restructuring in recovering from crises: Mexico 1995-98. NBER Working paper 7042.

[6] At the start of the stabilization plans, the government undertook measures to cushion the drop in the quality of the banks' assets, among them securitizing loans (denominated in new inflation-indexed units), temporary capital injection programs (Procapte), and swaps of bad loans for government securities.

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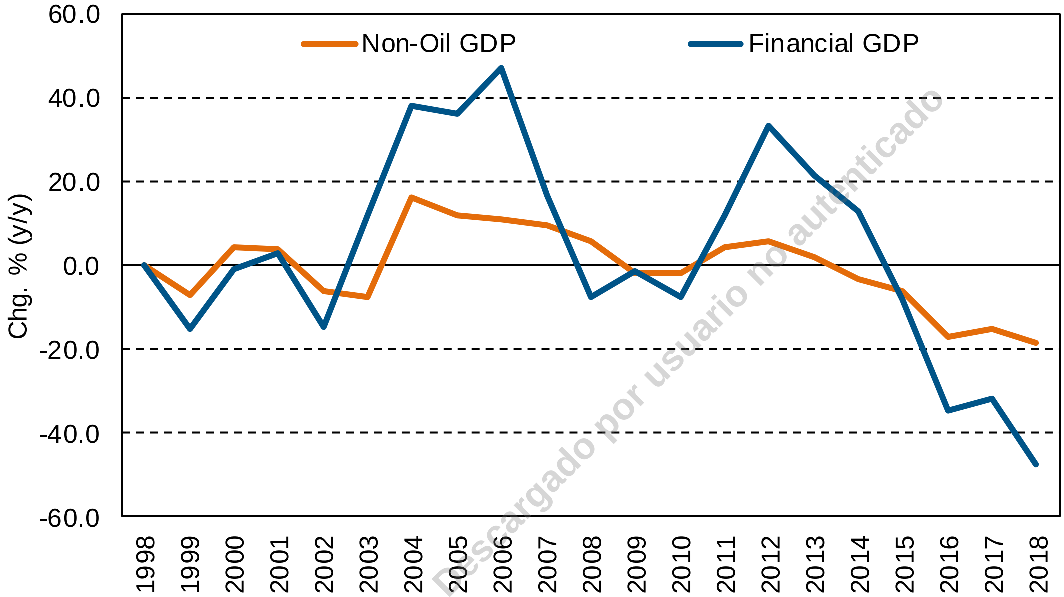
competing with foreign banks in an environment potentially free of controls on interest rates and the movement of capital[7].

No Oil GDP and Financial GDP Evolution



Souces: BCV and Ecoanalítica

A small economy can be hell

Another element that affects the banks' ability to take part in any recovery plan is the huge contraction already suffered by the Venezuelan economy. As we have commented in previous reports, the limitations imposed by adverse macroeconomic conditions (high prices and contraction of the economy), as well as the restrictions on buying foreign currency, have prevented the banks in Venezuela from creating coverages in foreign currency or making use of arbitrage as a means of generating revenue. This is in contrast to the performance of the sector in hyperinflationary economies such as Zimbabwe, where the banks made use of speculative activities in the capital market and the real estate sector (based entirely on Zimbabwean dollars) to maintain a source of stable revenues (Chagonda, 2012[8]). This allowed them to maintain a salary scheme that was better than other sectors.

[7] The final effect would depend on the foreign exchange scheme in place at the time. So, in a clean float scheme, external conditions could have a bigger impact on local banks than might be expected under a "controlled" float scheme.

[8] Chagonda, T. (2012). Teachers' and bank workers' responses to Zimbabwe's crisis: uneven effects, different strategies. Journal of Contemporary African Studies, Vol. 30, No. 1, pp. 83-97.

Particularly, the banks in Zimbabwe also benefited in particular from implementing the real-time gross settlement (RTGS) dollar or zollar, a kind of electronic currency traded with an exchange rate (against the Zimbabwean dollar) that was above the official rate. Since the financial institutions had ready access to funds, their employees used the funds to buy foreign currency (at the official exchange rate) and they then deposited that foreign currency again in their bank accounts (at the RTGS exchange rate), elevating automatically the level of deposits[9].

The Venezuelan bank system does not have access to this type of arbitration of foreign currency to create coverage. The current foreign exchange agreement puts them in a simple role of foreign exchange fund intermediaries. Also, with the imposition of minimum/maximum over its weekly sales/position in these currencies, the norm over the official currency exchange tables[10] limits the capacity of the bank system to bolster its patrimony o to improve its income flow through these operations.

Recent U.S. sanctions have aggravated such failures in the availability of banks' foreign exchange, in which many of their foreign correspondents have restricted the volume of operations, as a means of protection from potential direct penalties from the U.S. government.

The risks of undercapitalization

Their net worth situation could also prevent the banks from taking a more leading role in a sustained economic recovery. With capital of barely USD 1.12 billion as at August, a positive external shock could put the banking sector in a situation of over-leverage, bringing costs in terms of solvency in its wake. In other words, it is uncertain whether, under the present conditions, the banks could maintain the level of credit required to promote an economic recovery without this meaning the quality of their assets deteriorating still further.

This situation can also be included in the discussion on credit cycles. In this debate, it is assumed that overexpansions of credit (booms) can affect risk-taking by the banks in the midst of gaps in or faulty information (Dell'Ariccia & Marquez, 2006[11]). It is assumed, therefore, that there comes a point in the rate at which loans grow when pursuit of profitability by the banks has a negative impact on the reposition of lending activities.

[9] Everything would change with the formal dollarization of the local economy, where the adoption of a stable numerary eliminated the margins by arbitration, given the lower volatility in the price of assets.
[10] A detailed explanation on these limitations can be found in our Exchange Market Report Foreign Exchange desks: a first review, May 2019

[11] Dell'Ariccia, G. & Marquez, R. (2006). Lending Booms and Lending Standards. The Journal of Finance, 61(5), pp. 2511-2546.

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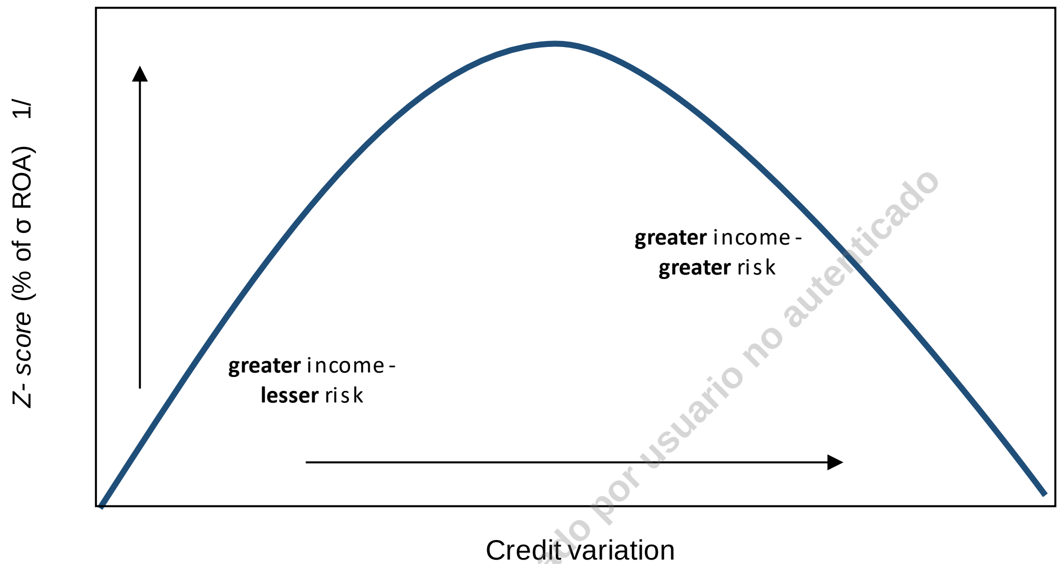
Theoretical relationship between risk and bank credit growth



1/ A higher *Z*-score mplies a greater distance to default and a lower risk.
Source: Ecoanalítica.

In our case, where high inflation persists at the onset of a transition, this aspect appears to be relevant. Barajas et al 2007[12], in particular, have determined that in markets where credit booms coincide with high inflation, the likelihood of a bank crisis occurring is greater. Arena (2015) et al[13], on the other hand, show that in middle-income economies overexpansion of credit tends to be associated with a major influx of foreign capital and administered foreign exchange schemes, an aspect that is usually inherent in any pro-growth program. These elements should be considered in programs that promote financing for lower income sectors (as part of a more ambitious government policy) and that warrant greater supervision in terms of compliance.

Another limitation stemming from scant capitalization has to do with the design of macroprudential regulation. Since they are defined based on asset position, the rules for capital accumulation tend to restrict decisions taken by the banks to how much to lend. Gambacorta and Mistrulli (2004)[14] show that banks with higher capital tend to lend more,

[12]Barajas, A., Dell'Ariccia, G. & Levchenko, A. (2007). Credit Booms: the Good, the Bad, and the Ugly. International Monetary Fund, mimeograph, p. 26 pp.
[13] Arena, M. et al (2015). Credit Booms and Macroeconomic Dynamics: Stylized Facts and Lessons for Low-Income Countries. IMF working paper 15/11. 44 pp.
[14] Gambacorta, L. & Mistrulli, P. (2004). Does bank capital affect lending behavior? Journal of Financial Intermediation, Volume 13, pp. 436-457.

since they face lower funding costs when there are gaps in information or faulty information, whereas they have more resources available for meeting requirements (without sacrificing lendable funds).

Some preliminary findings confirm this relationship in Venezuela's case[15]; what is more, it is more detrimental to credit in the middle of an over-expansion of deposits (as, marginally, more should be dedicated to capital). Based on this premise, scant capitalization poses an additional barrier to a bigger expansion of credit in Venezuela, as local banks would have to raise funds in a relatively small local financial market as their loans portfolio expands.

Summing up

Having reviewed the situation, there are several points that should be considered critical in Venezuela's banking system in the context of a sui generis stabilization program:

- The recovery of the banking system and the recovery of economic activity are reciprocal: healthy credit activity favors the recovery of the private sector. However, since it is asymmetrical (between goods and services), the sustainability of this recovery over the medium term may be compromised with adverse effects for the real economy.
- Bigger loans can consolidate economic recovery, but over-expansion of financing can be harmful for the quality of the banking system's assets, reducing the banks' capacity for generating revenues and accumulating capital.
- A banking system that is open to the international market can be strengthened by the influx of capital; however, it will have to adapt to competition from abroad promoted by any adjustment plan.
- It is not possible to promote more credit with current levels of capitalization, particularly when there are minimum requirements.
- The new, to be adapted, exchange market scheme should -among other aspects- the inclusion of local banks not only as guarantors of stability of a (potentially) more profound -and, maybe, more risky- but also as an active participant in the search for currencies to safeguard their assets, in the midst of a costly transition phase at its inception.

Luis Arturo Bárcenas

[15] Bárcenas, L (2018). Has banking capitalization limited credit supply? A first look to Venezuelan case. Banco Central de Venezuela, mimeo.

WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week September	Weekly chg. (%)	Depre/Apre (pp)[1]
FX Boards (VES/USD)[2]	20,708.17	4.4	4.2
	2nd Week September	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	29.1	-3.9	7.4
	4th Week September	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	126.4	-0.1	120.5
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	7.9	-4.6	-5.5
	2nd Week September	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	14,550,393	8.2	-85.8
Price of International Oil Baskets (USD/bl)			
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
WTI	58.7	3.8	-16.1
Brent	61.5	-4.4	-21.8
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
Weekly Average	59.0	4.3	-16.3
Annual Average	58.9	0.0	-8.0

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

[1] Depreciation (+)/Apreciation (-)

[2] FX Borads' average exchange rate

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CHART OF THE WEEK: "WELCOME TO THE ANTI-TOP 10"

Periods and Magnitude of Past Hyperinflations

Position	Name	Starting Year	Months of Duration	Highest Monthly Rate (%)	Position	Name	Starting Year	Months of Duration	Highest Monthly Rate (%)
1	Nicaragua	1986	58	261	16	Germany	1922	17	$3.0*10^4$
2	Greece	1941	44	$1.4*10^4$	17	Danzig	1922	15	$2.4*10^3$
3	Ukraine	1992	35	285	18	Armenia	1993	15	438
4	China	1943	26	302	19	Bosnia & Herz.	1992	15	322
5	Rusia/USSR	1922	26	212	20	Polonia	1923	13	275
6	Angola	1994	26	84	21	Georgia	1993	13	211
7	Azerbaijan	1992	24	118	22	Hungary	1945	12	$4.2*10^{16}$
8	Turkmenistan	1992	23	429	23	Moldova	1992	12	240
9	**Venezuela**	**2017**	**23**	**261**	24	Austria	1921	12	129
10	Yugoslavia	1992	22	$3.1*10^8$	25	Congo (Zaire)	1991	12	114
11	Tajikistan	1992	22	201	26	Hungary	1923	12	98
12	Zimbabwe	2007	20	$7.9*10^{10}$	27	Phillipines	1944	12	60
13	China	1947	20	$5.0*10^3$	28	Congo (Zaire)	1993	11	250
14	France	1795	19	304	29	Argentina	1989	11	197
15	Bolivia	1984	18	183	30	Taiwan	1948	8	108

Sources: Hanke, S. & Krus, N; and Ecoanalítica
Only considering the cases that lasted 6 or more months.

According to the criterion developed by Cagan, a hyperinflationary process is said to exist when a country posts an increase in its nationwide consumer price index (or equivalent) of more than 50% a month and this process lasts until the monthly increase in that index falls below 50% for 12 months in a row.

Based on this, Venezuela has been in a hyperinflationary process for 23 months running, since it started in November 2017 up until September this year (so far). Bearing this in mind, at **Ecoanalítica** we have drawn up a second ranking of hyperinflations that focuses on the duration of these processes as a study variable. The table compiles the cases that have lasted for a relevant period of time, in other words that have maintained the aforementioned criteria for at least six months.

According to these criteria, Venezuela would be the ninth longest case of hyperinflation ever recorded, joining cases such as Azerbaijan (24 months), Turkmenistan (23), and Yugoslavia in the 1990s (22).

Venezuela and Zimbabwe are the only cases of hyperinflation recorded this century. If we take a look at the last 20 years of the 20th century, we find that 15 more cases of hyperinflation join the ranking. Even though a battery of measures have been implemented that focus on trying to achieve some type of stability, which could eventually bring about a slowdown in inflation, hyperinflation persists in Venezuela, proof that the

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lessons to be learned from these cases in the past are still not being heeded by policymakers.

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ECONOMIC TIPS

What's needed is a magic lamp. On September 30, Nicolás Maduro announced he was prepared to resume negotiations regarding payment of the external debt that has been in default since November 2017. This debt comes to USD 60 billion.

The crypto-solution. According to Maduro, Delcy Rodríguez and Tareck El Aissami are to head up the negotiations with the holders of this debt. While the US Treasury Department has measures in place for this debt to be paid by traditional means, Maduro says that his government is proposing alternative means, such as payment in cryptocurrency.

His last ally. According to the Kremlin's spokesman Dmitri Peskov, Russia's President Vladimir Putin and Nicolás Maduro addressed the issue of Venezuela's outstanding debt with Russia, amounting to USD 3 billion, at a meeting in Moscow.

Solvent? Although Peskov did not give any further details of the conversation, Russia's Finance Ministry confirmed that Venezuela was up to date with payments of its debt with Russia and had recently made another payment.

New representative before the IDB. The economist Ricardo Hausmann resigned as Venezuela's representative before the Inter-American Development Bank (IDB). Hausmann was appointed as governor to the bank by Juan Guaidó in March this year.

Plaz takes the baton. In a two-page letter announcing his resignation, Hausmann thanked Guaidó for his recognition and explains that he was leaving the post due to his responsibilities at Harvard. Last of all, he proposes Alejandro Plaz as his replacement at the IDB.

Tax receipts in September. According to the National Integrated Customs and Tax Administration Service (Seniat), tax receipts in September came to VES 3.5 trillion. VES 461.64 billion of that amount came from income tax and VES 2,010.51 billion from value added tax (VAT).

Diminishing international reserves. In the week of September 20, the international reserves closed at USD 7.92 billion, down 4.9% compared to the close of the previous week (September 20). Compared to a year ago, this gave a drop of 5.5%.

Money desks. The average money desk exchange rate on October 1 was VES 20,426/USD, for a depreciation of 2.1% compared to the previous week.

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OIL TIPS

Cutting off the connection with the Caribbean. The US Treasury Department has sanctioned four maritime firms and vessels because they were transporting Venezuelan oil to Cuba in violation of existing sanctions imposed by the United States.

The consequences of supporting the regime. In its press release, the US Treasury Department explained that, "*As a result of today's action, all property and interests in property of these entities that are in the United States (...) are blocked and must be reported to the Office of Foreign Assets Control (OFAC)*."

Shipments to Cuba in numbers. According to three sources consulted by Reuters and data supplied by Refinitiv Eikon, Venezuelan crude exports to Cuba increased in September. Venezuela sent 119,000 barrels a day (119 kb/d) to Cuba in September compared to 70 kb/d in August.

Moving everything for Cuba. According to one of the sources consulted by Reuters, as a result of US sanctions Cuba is being left without any shipping companies prepared to transport crude from Venezuela, which is why PDVSA has started to use a large number of its oil tankers operated mainly by its affiliate PDV Marina.

The drop that's in store. A Venezuelan oil industry source consulted by *El Nuevo Herald* revealed that crude production could drop to between 350 kb/d and 500 kb/d by the end of October from the industry's current output of 700 kb/d.

No need to produce. This is apparently due to the fact that storage facilities are full thanks to difficulties in selling the crude as a result of US sanctions. The same source added that they had already used their storage capacity to the maximum previously and had been forced to give away crude.

It's not like turning a tap off and on. For that reason PDVSA could be forced to stop part of its production. According to Juan Fernández, a former PDVSA planning director, this could cause irreversible damage to the wells, which is why orderly processes and other works should be carried out to ensure that it will be possible to resume production in the best manner possible.

Halt in production continues. After a power out one day last week, Amuay and Cardón refineries, which between them have the capacity to process 955 kb/d, are still not producing.

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From a third to zero, Part I. A worker at Amuay told Reuters that they expected activity at Paraguaná Refining Park (made up of Amuay and Cardón refineries) to start up again next week. This facility was already operating at one third of its capacity due to the lack of parts needed for maintenance and raw materials.

Something's better than nothing. Meanwhile, four PDVSA workers commented to Argus Media that they expect processing activities to be partially resumed at Amuay next week.

Amuay is producing for everyone. Amuay accounts for approximately 48.9% of the country's total refining capacity and until it was shut down during last week's power out it was the only refinery of PDVSA's that was operating after Cardón (also affected by the power out) ceased operations in July. At that time Amuay was processing 140 kb/d.

September figures. Bloomberg reported that Venezuela exported 495 kb/d in September. It put production in September last year at 680 kb/d.

It's still doing business with Venezuela. Figures issued by China's customs authority reveal that imports of Venezuelan crude by China in August came to 328 kb/d. This gives an increase compared to July (159 kb/d) even though CNCP cancelled its orders of Venezuelan crude.

Getting it there is what's important, Part I. These figures could indicate that Venezuelan crude is getting to Chinese refineries via a third party.

Getting it there is what's important, Part II. Russia's state-owned oil company Rosneft is performing this role thanks to different measures it has been taking in order for Venezuelan crude to have an outlet despite US sanctions. Rosneft had previously supplied China with crude for its refineries in Shandong back in January.

Citgo exposed. The ruling handed down by the Third Appeals Court dated September 29 this year means that a measure issued by a lower court that had temporarily suspended sale of Citgo's shares has been lifted.

Crystallex is coming. As a result the Canadian mining company Crysallex will now be able to try to take control of Citgo's shares in part payment of an award against PDVSA following a lawsuit over the expropriation of Crystallex's assets by Hugo Chávez during his term as president.

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BUSINESS SECTOR TIPS

Overshadowed by more basic needs. Leudo González, the president of the Higher Tourism Council (Conseturismo), announced that hotel occupancy at the close of the summer season was 35% nationwide. González attributed this to the fact that vacationers' needs had changed.

The budget doesn't stretch that far. These changes were due to people "using their budget to meet their priority obligations, such as food, education and health." For that reason what they set aside for tourism has got less and, in some cases, they set aside nothing at all.

At rock bottom prices. Housing is currently being sold at between 20% and 30% of its value in hard currency, according to Martini Pietri, the chairman of the Housing and Habitat Infrastructure Commission of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras).

Lack of confidence. Pietri explained that the reasons for this situation were twofold. The first is that people do not trust the government to respect private property, or at least those who are prepared to invest in housing, which brings prices down.

No mortgages. The second reason is the lack of mortgages. At the moment the banks are not providing financing and people do not have enough money to buy a home in cash.

A census? Fine… With regard to the polemical census being carried out by the militia, Carlos González, the president of the Real Estate Chamber of Venezuela (CIV), clarified that he did not reject the census, given that it is a statistical process that needs to be done, but he was critical about the way the authorities are planning to carry it out.

…but not a badly done census. González' position is due to the fact that the census is to be done in two parts -a housing census and a census of the population- and that it is to be carried out by unqualified personnel, "*which makes people suspicious*."

It's not correct. However, according to González, the "Locate Your House" plan is something quite different. He considers it "criminal" as it encourages people to invade properties, stressing that invading is the same as stealing. For that reason he has asked the Public Prosecutor's Office and the Ministry of Housing and Habitat to put an end to this initiative.

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Shutting up shop. The president of the Venezuelan Confederation of Industrialists (Conindustria), Adán Celis, explained that industrial companies continue to close down due to the economic crisis. He said a change of paradigm and economic model was needed and also commented that until those changes are made, the loss of companies and jobs will continue.

Ignoring procedures. Referring to imports, Celis called on the authorities to regularize the procedures for importing, mainly for importing medicines, as the merchandise that is coming into the country does not comply with current regulations and the appropriate health standards.

Talking the talk without walking the walk. Coindustria's president also expressed his opinion with regard to the announcement made by Tareck El Aissami, the vice president for the economy, in which he claimed that 2020 would be "the year of a new economic beginning." Celis' position is that, in order for that to happen, they need to win the confidence of agents at home and abroad.

Abuse of power, Part I. Aquiles Hopkins, the president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), denounced that an office of the Cojedes Agricultural Secretariat is forcing farmers to hand over their rice harvest to supplement the State's food inventories.

Abuse of power, Part II. Hopkins reported that this is also occurring in Portuguesa and said that these incidents are in violation of the Constitution and the law, as no institution can force a farmer to hand over his harvest. Hopkins also stated that agricultural production has been declining for the past 12 years.

No one to buy from and no one to sell to. Felipe Capozzolo, the president of the National Commerce and Services Council (Consecomercio), said that the country was being left without consumers and without producers with goods to offer, which he called the systematic destruction of the market.

WORLD ECONOMY TIPS

Reconsiderations on the table. Democrats in the US Congress are once again considering impeaching US President Donald Trump due to reports published recently by an anonymous source.

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It backfired on him. The anonymous source handed over a document in which Trump requested his Ukrainian counterpart to help investigate his potential political rival at the upcoming presidential elections, Joe Biden. The document presumes that Trump bribed the President of the Ukraine by holding back financial aid the US Government had promised his country.

In limbo. The Purchasing Managers' Index (PMI) calculated based on a survey of more than 300 purchasing managers in the United States went up to 50 in September, the borderline score between economic expansion and contraction, according to the index's analysts. This is a much hoped for improvement after the index fell to 49.1, the lowest score in the past three years.

An important change for the IMF. Kristalina Georgieva, a Bulgarian economist with experience at the World Bank and the European Commission, has been chosen to be the new director of the International Monetary Fund.

The tariffs game, Part I. The European Union's Commissioner for Trade Cecilia Malmström said that the bloc expected the World Trade Organization (WTO) to authorize an increase in tariffs on this group of European countries. This was due to unfair competition practices by the Europeans when they illegally subsidized Airbus SE, one of the world's biggest aeronautical companies.

The tariffs game, Part II. It is expected that the US tariffs will go into effect in October. According to Malmström, if that happens the European Union would respond with retaliatory tariffs once the WTO recognizes that the United States engaged in similar practices with Boeing Co.

On a roll of the dice. Japan's President Shinzo Abe raised the taxes on a wide range of goods and services from 8% to 10%. Although this increase is expected to give the Japanese economy a boost, some analysts fear it will generate a recession as consumers slow down their spending.

Ecuador: disappointing figures, Part I. The Central Bank of Ecuador reported that the Ecuadorian economy grew by 0.3% in the second quarter of the year compared to 2Q2018, driven by an increase in nonoil exports and household consumption.

Ecuador: disappointing figures, Part II. The Central Bank expects modest growth of 0.2% by the end of the year. The International Monetary Fund (IMF), on the other hand, forecasts that Ecuador's economy will post a drop in growth of 0.5% as part of the adjustment plan agreed with the Ecuadorian Government.

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Oil and coal to blame. According to Colombia's National Statistics Department (DANE), Colombian exports fell by 11.6% in August, dragged down by lower oil and coal sales, Colombia's main generators of foreign currency. The value of Colombia's exports in August totaled USD 3.26 billion compared to USD 3.68 billion in August 2018.

In a situation of risk. According to the credit rating agency Moody's, the fiscal situation of the majority of countries in Latin America will experience a modest decline in 2020, in particular Brazil and Argentina. According to Moody's, this could reduced the region's capacity for absorbing external turbulence. It also said that it saw major differences among the fiscal situations in the region.

Uncertainty and poverty. Argentina's National Statistics and Census Institute (INDEC) reported that poverty in the country had increased to 35.4% of the population in the first half of the year, compared to 32% in the second half of 2018. It also said that in 1H2019 7.7% of the population was in a situation of extreme poverty, up from 6.7% in the second half of last year.

POLITICAL TIPS

Unconditional support. Nicolás Maduro has returned to Venezuela following his meeting in Russia with Vladimir Putin, the country's president. Commenting on his visit, Maduro said he had once again received support in "all areas of technical-military cooperation."

More dialog, less action. Maduro also commented that this month he had held talks with leaders of part of the Venezuelan opposition and reiterated his willingness to take part in talks in Oslo, Norway.

Changing the CNE board, Part I. Among the issues to be discussed during the proposed new round of talks is the appointment of a new National Electoral Council (CNE). To that end, members of the political parties *Soluciones, Movimiento al Socialismo (MAS), Avanzada Progresista*, and *Cambiemos* signed an agreement with representatives of the Maduro regime.

Changing the CNE board, Part II. This six-point agreement establishes the renewal of the National Electoral Council. To that end, Rafael Marín, the director general of the party *Soluciones*, said that a commission would be set up in the next few days to draw up a list of candidates for this new board.

Justice allegedly done. The Supreme Tribunal of Justice sentenced two members of the General Military Counterintelligence Directorate (DGCIM) to six years and eight months in prison for having preterintentionally caused the death of Lieutenant Commander Rafael Acosta Arévalo.

A torture cover-up. However, the NGO Provea (Venezuelan Human Rights Education-Action Program) rejected the sentence since it "*does not establish direct responsibilities associated with the torture and cruel treatment suffered by Arévalo in June*."

A mild punishment. Provea also blames the regime for wanting to avoid assuming its responsibility in the death of Arévalo by handing down a minimal sentence for these members of the DGCIM, one that is equivalent to the sentence for a common crime.

Pressure from Europe. In a press release, the European Union confirmed sanctions against seven members of Venezuela's security and intelligence forces, which consist of freezing their assets located on European soil and banning them from traveling to the European Union.

Sanctions for torture. Four of the seven people sanctioned had to do with Arévalo's death. However, all of them are considered to have been involved in "*acts of torture and other grave violations of human rights*."

False theft. Vice President of Venezuela Delcy Rodríguez used her intervention at the 74th United Nations General Assembly to accuse the United States of stealing USD 130 billion from Venezuela via its sanctions. She added, "*The Pentagon is used to destroy and steal the peoples' resources*."

A terrible liar. Rodríguez also used some of her speech to refute the accusations made by Colombia's President Iván Duque regarding the presence of terrorist organizations and illegal armed groups in Venezuelan territory.

Cornering them. Juan Guaidó, the president of the National Assembly announced that the approval of the advisory body to the Inter-American Treaty of Reciprocal Assistance would continue to bring diplomatic and financial pressure to bear on the Maduro regime.

Victims. Commenting on the recent cases of xenophobia against Venezuelans in Peru, Guaidó announced that there was a hotline for victims of xenophobia, saying "*forced migration is a harsh reality in our country*."

Unexpected company. Remigio Ceballos, the chief of the Operational Strategic Command of the Bolivarian National Armed Force denounced that 54 US aircraft had been detected this month performing exploration activities in the flight information region (FIR).

Illegal protection. The Colombian Government has stated that chiefs of the guerrilla group National Liberation Army (ELN) are living in Venezuelan territory and are being protected by the Maduro regime. Colombia's Minister of Defense Guillermo Botero insists that these guerrilla leaders have bank accounts and launder money without the authorities taking any action.

Polemical photos. However, the sting has been taken out of these accusations because photos revealed by Colombia's President Iván Duque as proof that protection was being given to members of the guerrilla were discredited after it was confirmed that they were taken in Medellin in 2015.

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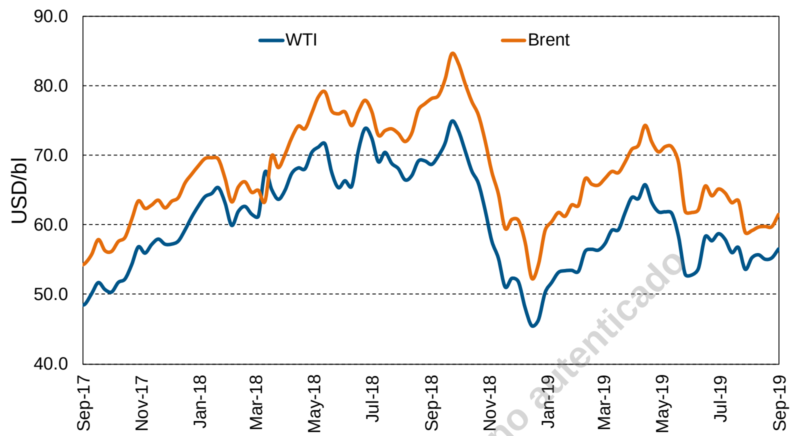
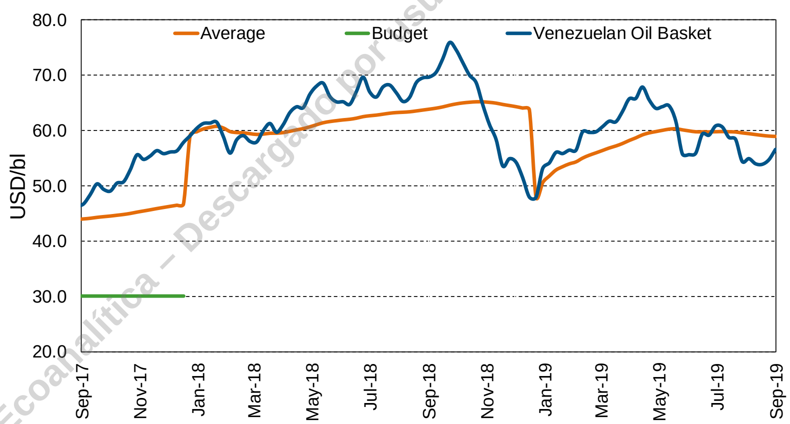
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



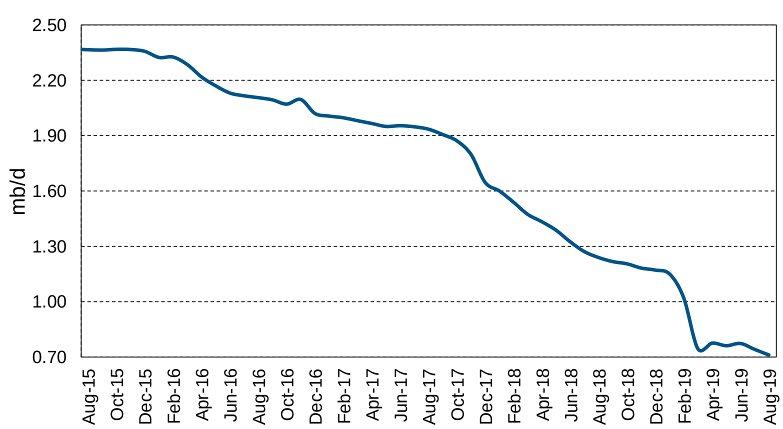
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)



Sources: OPEC and Ecoanalítica

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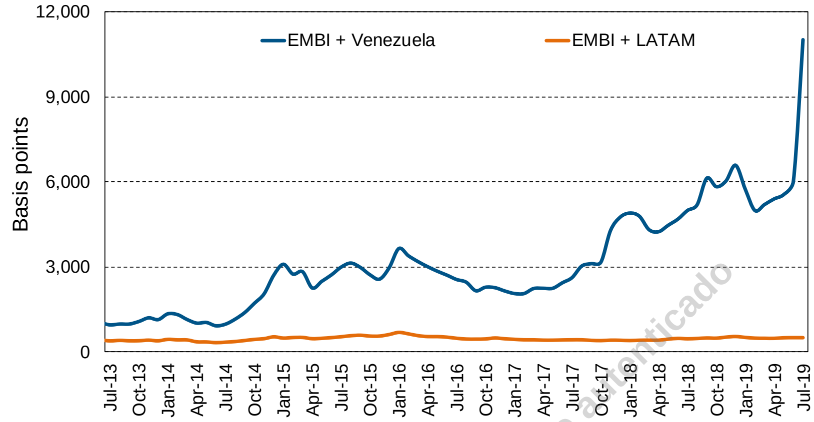
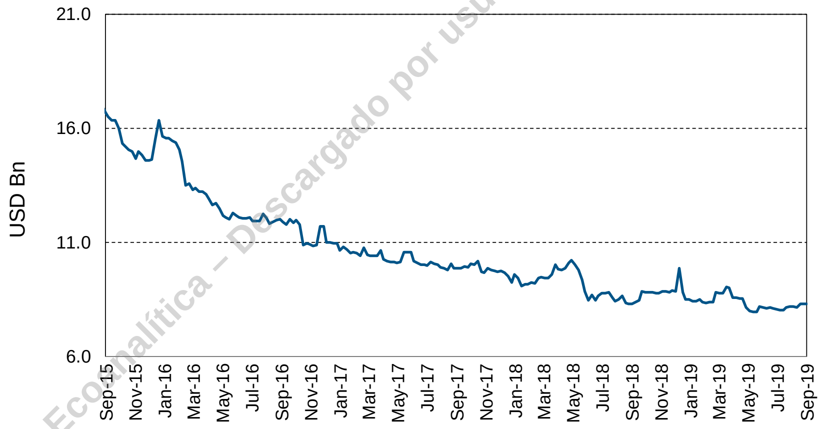


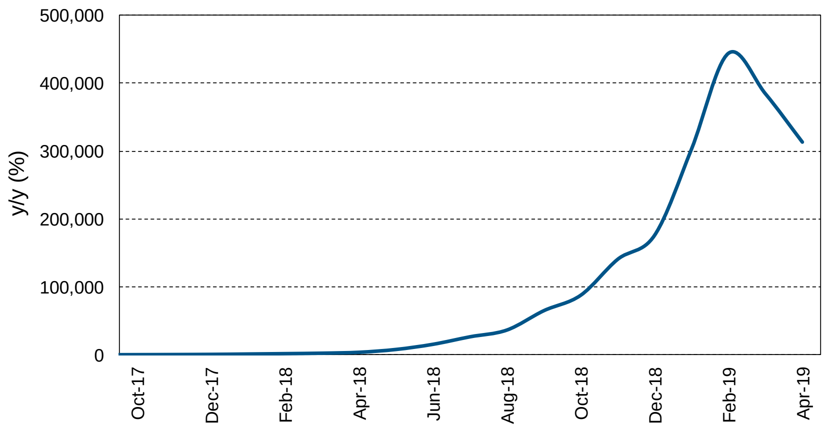
Sources: BCRP and

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

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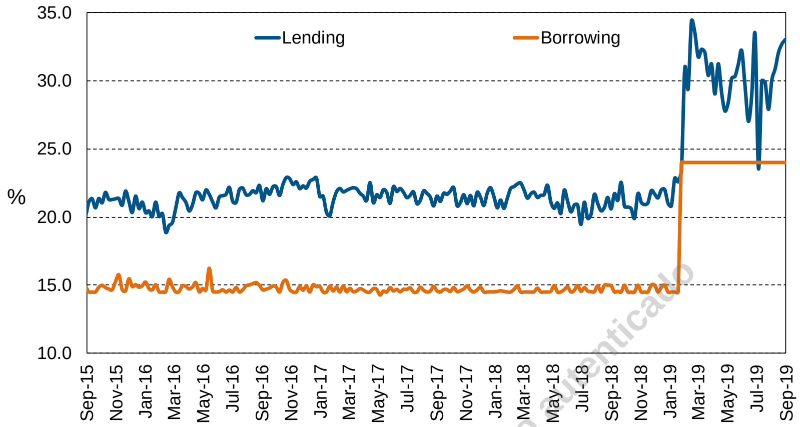
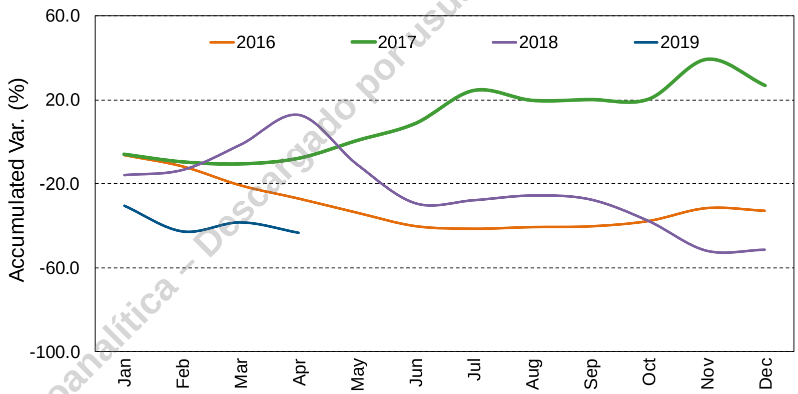
ECONOMIC INDICATORS

Interest Rate (Six major banks)



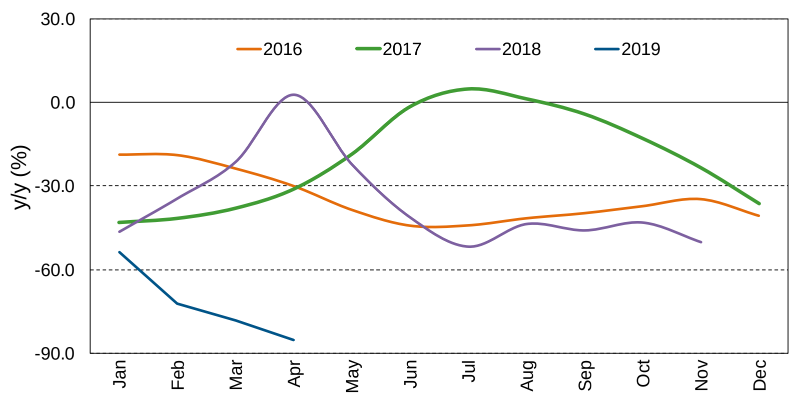
Sources: BCV and Ecoanalítica

M2 Expansion (Real)



Sources: BCV and Ecoanalítica

Loan Portfolio (Real)



Sources: SUDEBAN and Ecoanalítica

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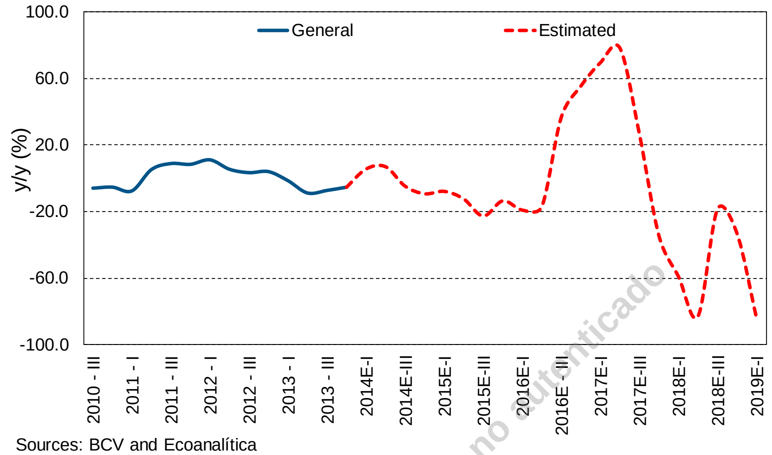
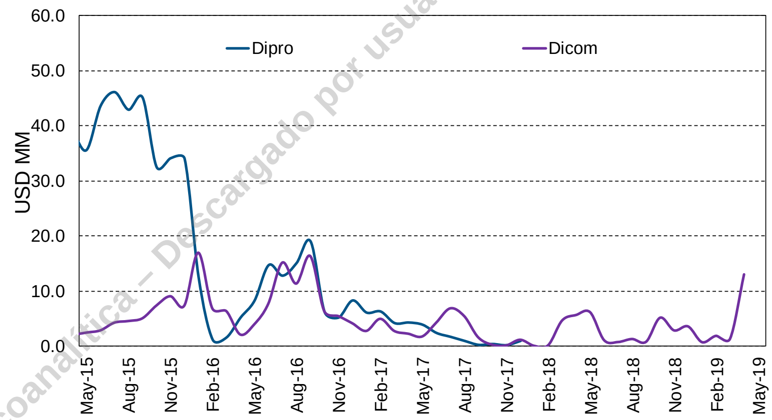
ECONOMIC INDICATORS

Real Wage Index



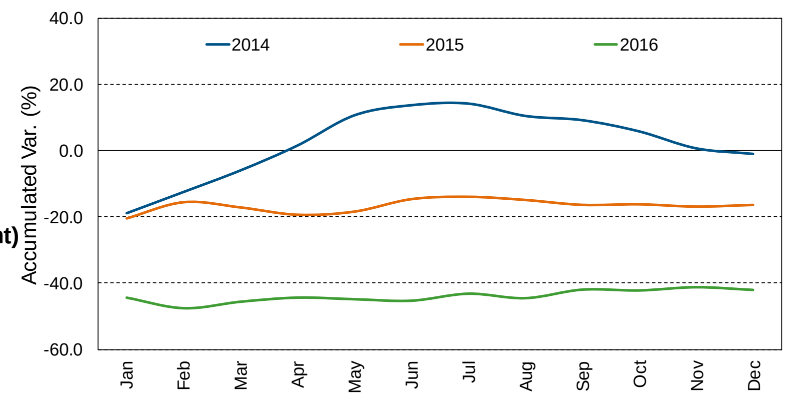
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

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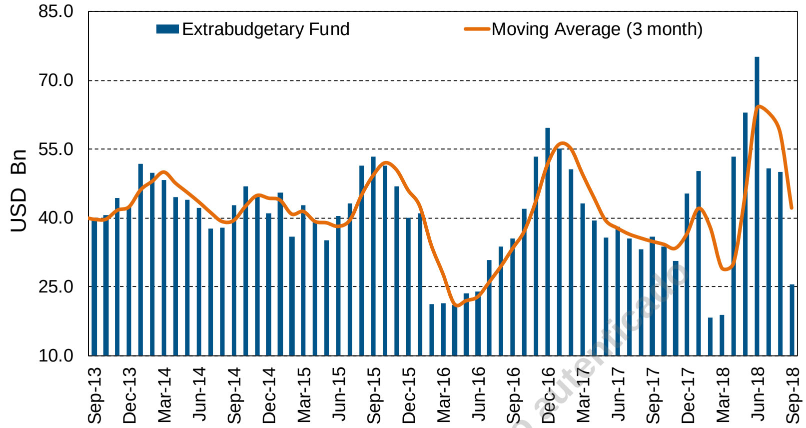
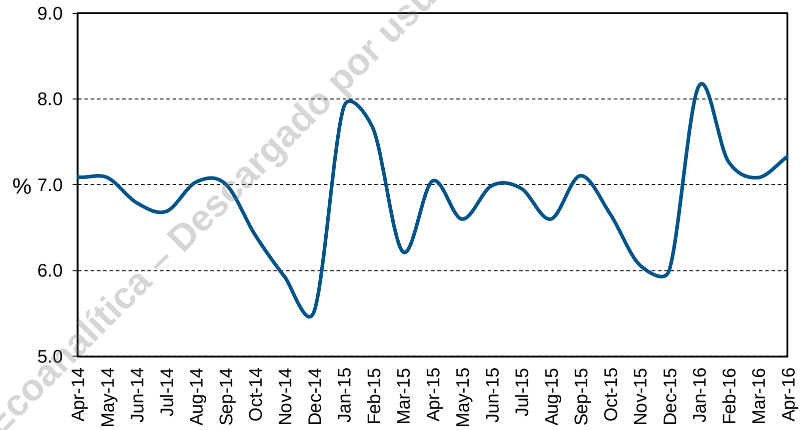
ECONOMIC INDICATORS

State Extrabudgetary Resources



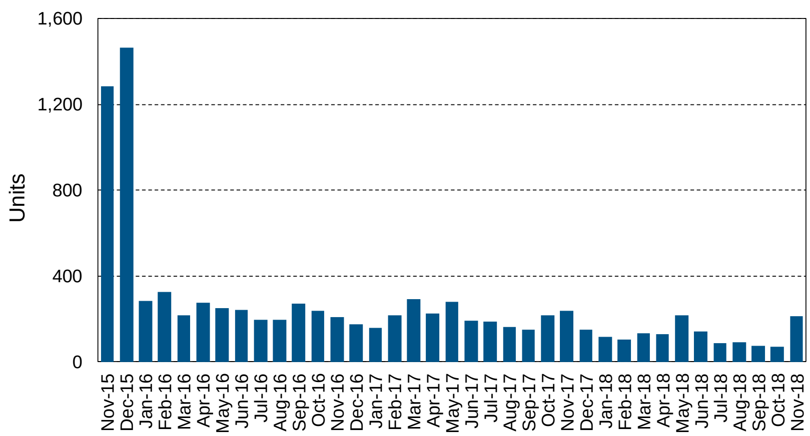
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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