

## A (very short) guide to understanding and dealing with the recent exchange rate rise

Last week, the unofficial exchange rate presented a significant weekly increase of 13.1% (depreciation of 11.5%), representing the highest inter-weekly variation observed since the week of May 22nd of this year. This coincides with the announcement by the Central Bank of Venezuela (BCV) of modifications to the legal reserve policy. In Resolution 20-03-01, the<sup>1</sup> legal reserve was maintained at 90%, however, a fixed deduction, or Unique Incentive Amount (MUI) of VES 30 billion each week, would be applied to the legal banking reserves in the hands of the issuing entity during the following year.

In principle, with this measure, banks in Venezuela would have a greater availability of resources to lend, to the extent that the discount of the legal reserve implies that such banks must sacrifice less of their future deposits to comply with such requirement (although for very few weeks, as we pointed out in our note last week<sup>2</sup>). Along with this potential boost in the circulation of bolívares, Venezuelans could face greater pressures on the exchange rate in the coming days, associated with the failure to supply gasoline fuel in the local market. Nothing seems to indicate that exchange rate tensions will soon cease.

However, in the midst of these disruptions in the exchange rate, what sometimes seems to be lost sight of is the transient nature that these adjustments can have, especially in the current context. Although this price will not stop growing as long as the hyperinflationary scenario and pessimism against the bolívar persist, it is likely that the changes that the bolívar will show in the coming weeks will not be as noticeable as those seen last year, or their duration will be less than expected, or even, the ups and downs of the currency price will be even more frequent. The context, therefore, seems to demand more precision from the financial management of the local private business, even on a daily scale.

In the following report, we will try, on the one hand, to dimension the real adjustment that the exchange rate has suffered in the last days (comparing it with its recent history). Based on this, we will offer an updated vision to the local private sector on some of the

<sup>1</sup> Available [here](#).

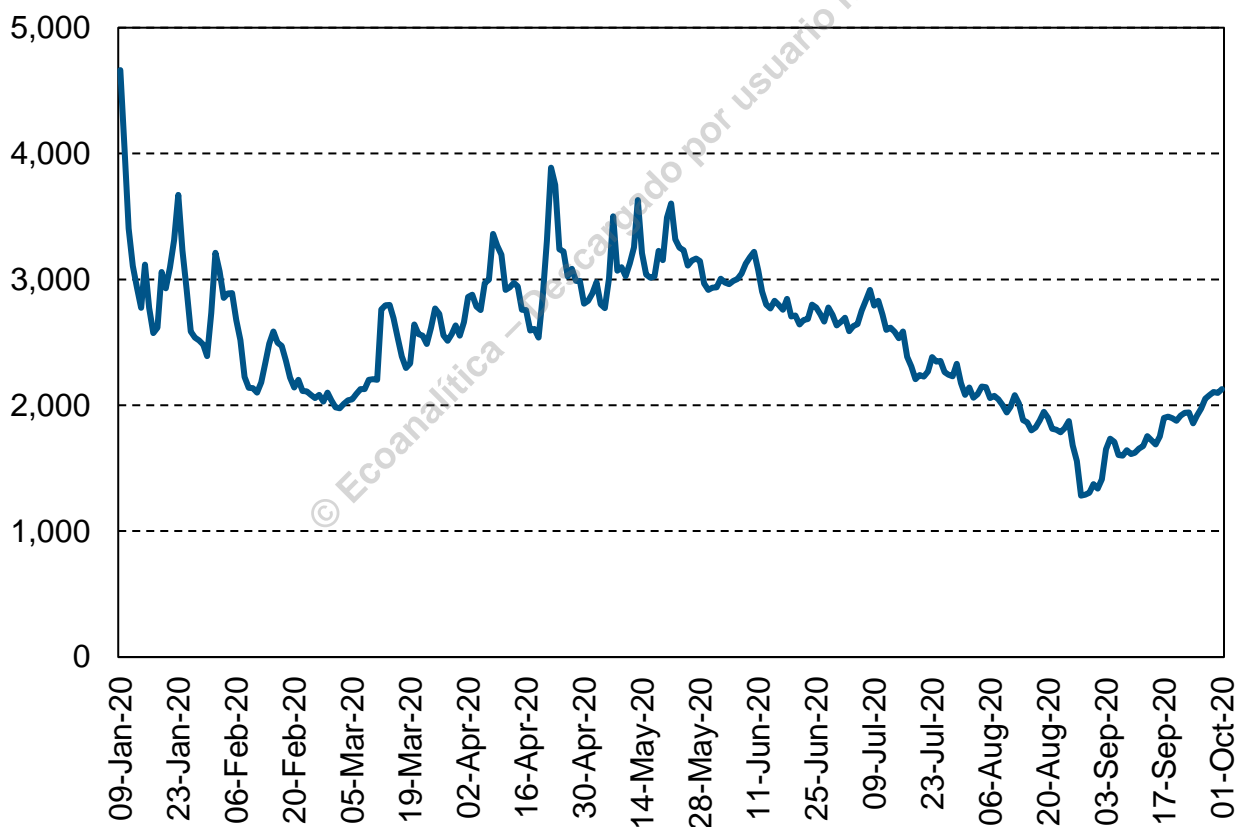
<sup>2</sup> For further information on the resolution, please review our Current Affairs Note No. 4 (2020): *New "incentives" for bank credit in Venezuela*.

actions that can be taken in the face of exchange rate operations whose behavior is increasingly difficult to anticipate.

### Peaks with many paths.

In order to propose new (or renewed) strategies aimed at reducing the costs of new exchange rate pressures, one must begin by trying to identify the nature of such pressures and their scope. Precisely, despite the numbers given at the beginning of the report on their weekly trend, in year-on-year terms the rise in the unofficial exchange rate is still below what has been seen so far in 2020.

### Y/Y chg. % of the Daily Unofficial Exchange rate



Sources: LocalBitcoins and Ecoanalítica

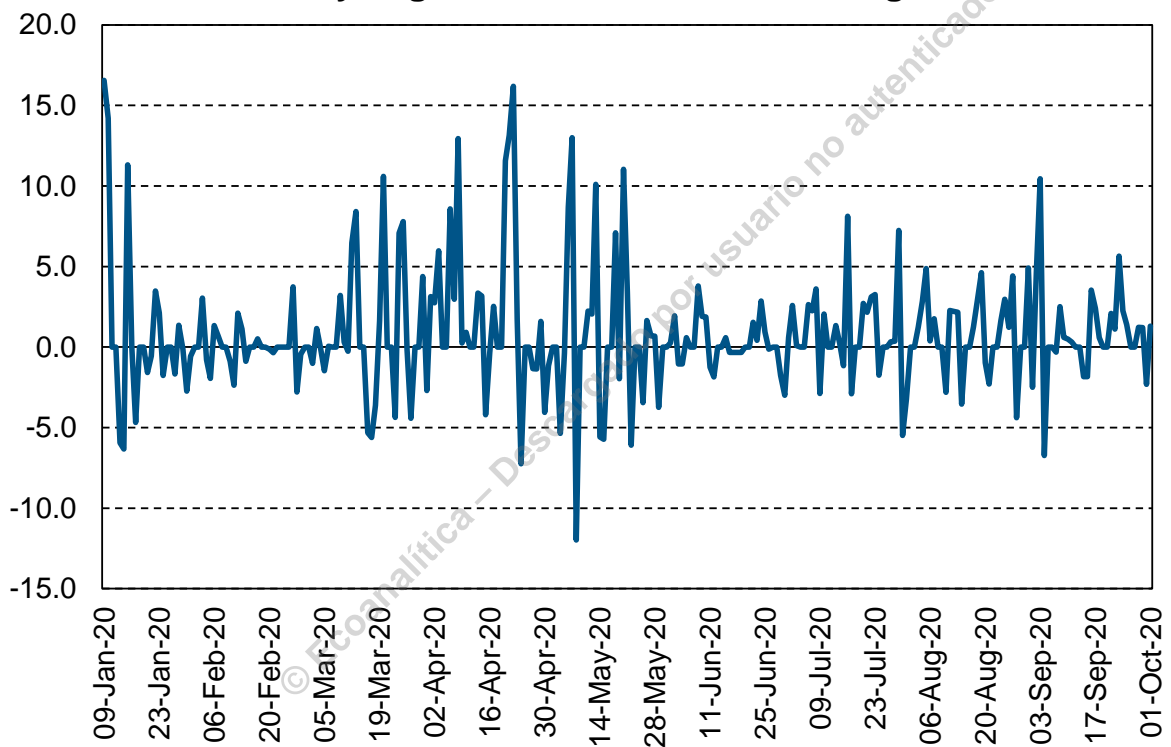
Even if we examine its daily behavior until last Thursday, the exchange rate has not reached the maximum increase observed during this year, registered precisely at the beginning of the quarantine in Venezuela. One explanation for this is that, despite the

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upward pressure generated by both the expected new credits and the uncertainty regarding the capacity of the Executive to continue supplying gasoline to the local market, the possibility of Venezuelans (households and companies) to acquire foreign currency continues to be affected by the COVID-19 pandemic and the limitations in local activity derived from the official quarantine.

### Daily chg. % of the Unofficial Exchange Rate



Sources: LocalBitcoins y Ecoanalítica

In this regard, even with its deceleration, local inflation continues to contribute to such limitations, once its evolution continues to reflect the increases in the exchange rate marker and reducing the real income of those who still receive it in local currency in the weeks following such exchange rate adjustments. In fact, as we have highlighted in previous reports on the local exchange market, in most cases prices tend to continue to grow in the weeks following exchange rate adjustments.

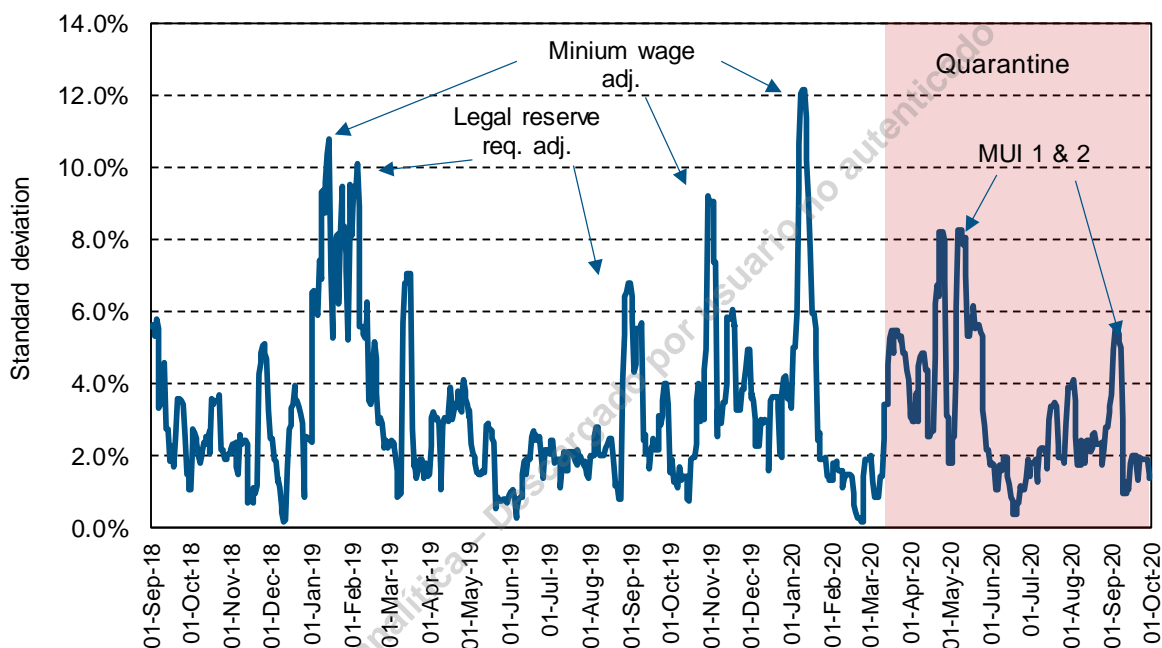
In terms of volatility, although exchange rate fluctuations have not been as noticeable as they were during the adjustments prior to the legal reserve or the minimum wage, the "noises" that would introduce the discounts of the legal reserve or the shortage of gasoline

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to the exchange transactions could end up adding more volatility to the fluctuations of the price of the currencies in the next few days. In other words, even if it does not increase that much, its price will be plagued by multiple daily swings, with ups and downs, one after the other, in the weeks to come.

### Daily exchange rate growth volatility\*



\*Measured as 7-day-window standard deviation over daily log-differenced non-official nominal ER.

Sources: Localbitcoins and Ecoanalítica

Such aspects may have implications for the real appreciation of the exchange rate, as firms and households may think that the reduction in the dollar price of local goods may last (or stabilize, as has happened in recent days) for more weeks each time they face an exchange rate shock as aggressive as the one in the last ten days.

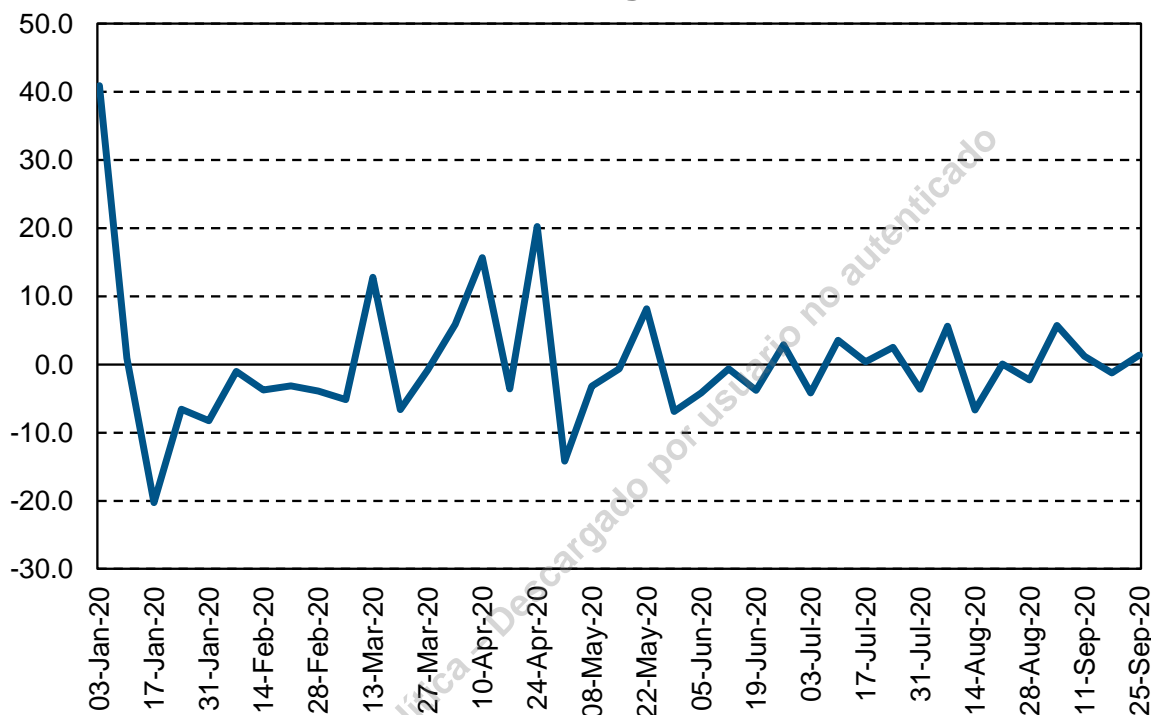
In this sense, if firms make decisions under such an assumption (dollarizing all their income, for example) and prices rebound more strongly in the weeks following such a shock (when the higher exchange rate moves to rates), their income could lose purchasing power whenever the exchange rate rise begins to lag behind inflation. In this regard, rather than dollarizing rates, in a volatile environment like the local one, the "when" seems to be gaining strength.

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## Real Chg.% of the Weekly Unofficial Exchange Rate



Sources: LocalBitcoins y Ecoanalítica

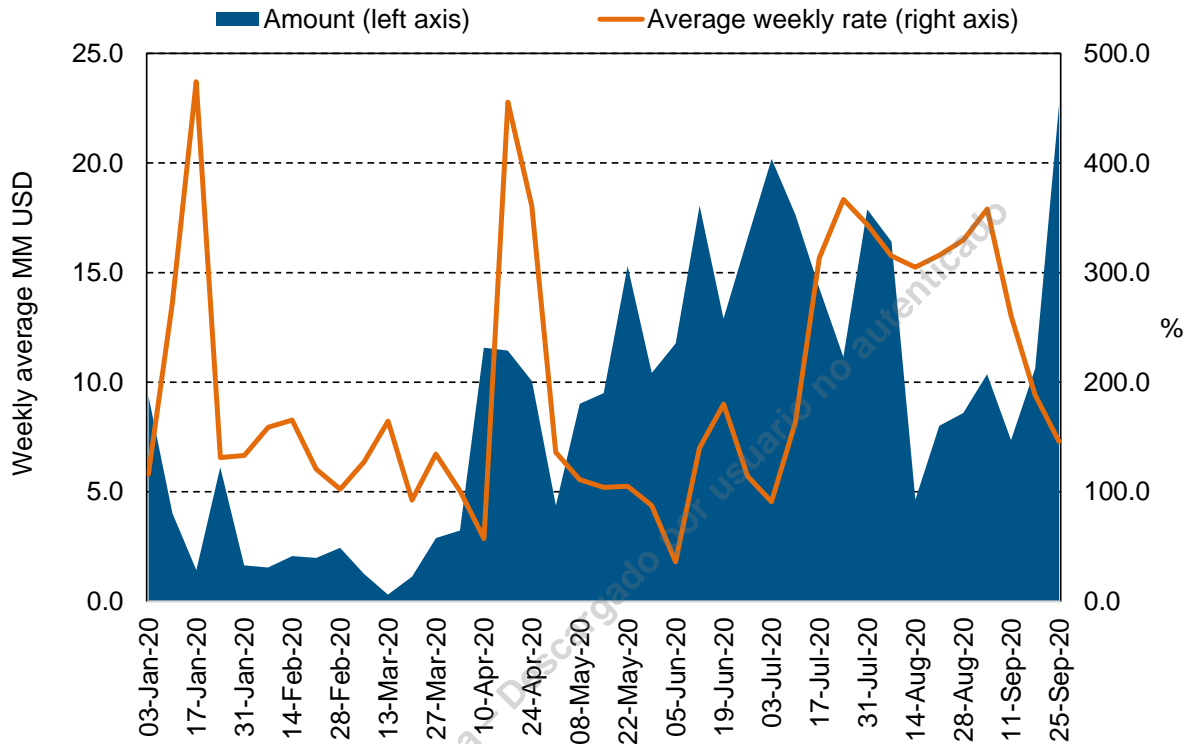
On the other hand, an element that would tell us about the duration of the exchange rate pressures is the recent adjustments in transactions between banks, amidst the new discounts to the lace. In particular, the daily interbank market (Overnight) was very active in the week of the beginning of such measures (from September 21 to 25), where an increase in the average weekly amount -in USD- of 113.5% was observed with respect to the previous week.

With almost two weeks of the new discount on the said reserve, the tensions still observed in these transactions could be indicating that a certain number of banks have not received the stimulus at the levels necessary to alleviate their foreign exchange deficit or, if they have, the paralysis of activities in the current context prevents them from doing so at the "usual" levels.

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**Weekly Overnight Market**



Sources: BCV, LocalBitcoins y Ecoanalítica

In this case, the search for funds by the banks in this market could be linked to the very expectations that these institutions have about the exchange rate in the coming days (since they know that, at least temporarily, the credit could increase). Thus, at least between now and next week, sudden rises in the exchange rate will be very frequent.

All of the above suggests that, despite its recent strong increases, the exchange rate will continue to react in the same way as on previous occasions with specific monetary "stimuli": it will show transitory upturns, lasting only a few weeks, also marked by strong volatility, but with important decelerations in the following weeks. Under such dynamics, the question is: what can companies do? do they completely index based on the exchange rate? do they cover themselves entirely with foreign currency?

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### Recommendations to the business community.

Based on the above, there are several aspects that should be highlighted as critical for the management of companies during the coming weeks:

- The main premise is flexibility (now more than ever) in the financial management of the business. The transitory recoveries of the exchange rate in these two weeks (with respect to the price rise) favor the immediate purchase of foreign currency as a hedging mechanism, before prices capture that adjustment and this currency becomes more expensive in real terms.
- In the following weeks, where the exchange rate may fall in its weekly increases (and prices continue to rise faster), the fast accumulation of inventories would emerge as the best option for suppliers of goods. This coverage could also include other goods or inputs behind the operation of the business: acquisition of equipment, spare parts or purchase of fuel.
- Assuming that the volatility in the exchange rate could last a few more weeks (especially as long as funds are provided by the banks), the purchase and sale of foreign currency may also appear as the best option for generating cash in bolivars in the coming days. However, such operations must be carried out with caution and weighing the risks of sudden falls in such volatility.
- Considering the transitory nature of the greater rise in the exchange rate, companies that still perceive flows in local currency should concentrate on dollarizing (indexing to the exchange rate) their prices or very short-run debts only in these first weeks (or while the exchange rate marker continues to rise notably). After that, when prices react to such pressures, indexation should be done through inflation measurements.
- Linked to the above, in terms of human talent management, these weeks could be ideal for advancing bonuses to employees in foreign currencies (especially in firms that have already adopted such policies in the past).
- It is likely that those businesses traditionally favored by pre-credit flexibilities will experience unanticipated income shocks in the coming weeks. The use of these based on the strategies proposed here will be fundamental.

All this is part of a fundamental strategy: the constant monitoring of the reference indicators. From **Ecoanalítica**, we emphasize the importance of the investment directed to the collection and analysis of relevant information about the environment. The

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incorporation of this could be a key factor in the effectiveness of decision making in internal processes, above all, in an environment as volatile as the Venezuelan economy.

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week October	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Boards (VES/USD)<sup>2</sup></b>	402,793.22	7.6	7.1
	3rd Week September	Weekly chg. (pp)	Annual chg. (pp)
<b>Lending Interest Rate (%)</b>	38.9	1.0	10.4
	4th Week September	Weekly chg. (pp)	Annual chg. (pp)
<b>Overnight Interest Rate (%)</b>	188.5	0.0	59.8
	4th Week September	Weekly chg. (%)	Annual chg. (%)
<b>International Reserves (USD Bn)</b>	6.3	-0.1	-21.1
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
<b>Monetary Liquidity (MM VES)</b>	203,480,725	2.8	1,063.6
Price of International Oil Baskets (USD/bl)			
	4th Week September	Weekly chg. (%)	Annual chg. (%)
<b>WTI</b>	39.8	0.6	-29.2
<b>Brent</b>	40.9	0.3	-34.8
Price of the Venezuelan oil basket (USD/bl)			
	5th Week July	Weekly chg. (%)	Annual chg. (%)
<b>Weekly Average</b>	22.4	0.0	-61.9
<b>Annual Average</b>	28.8	-0.7	-51.7

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

<sup>1</sup> Depreciation (+)/Appreciation (-)<sup>2</sup> FX Borads' average exchange rate

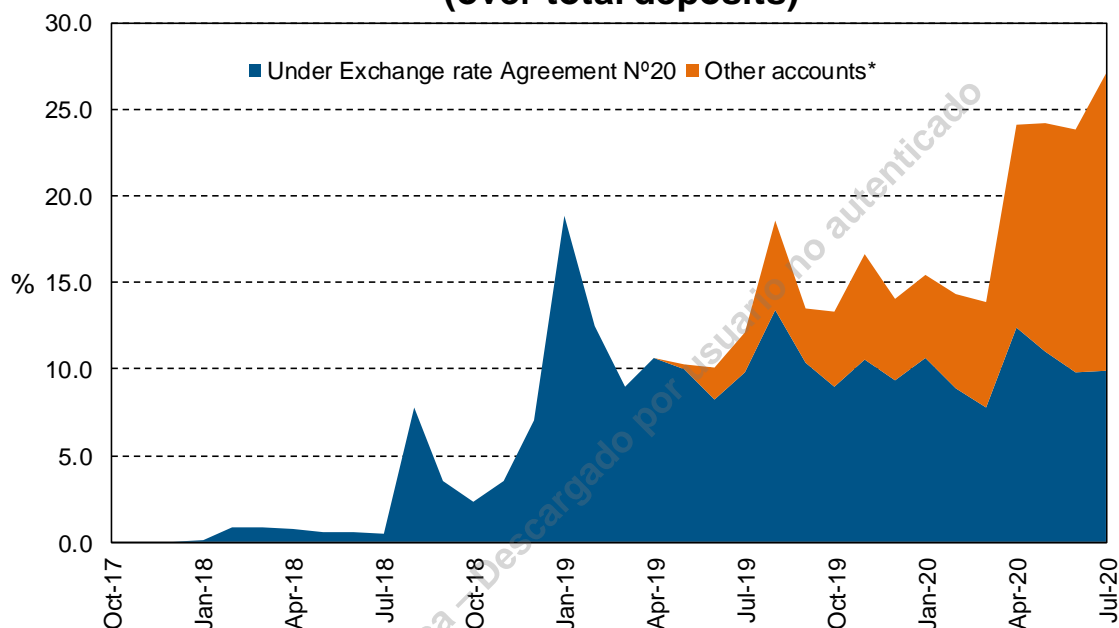
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### CHART OF THE WEEK: “DOUBLE-EDGED CURRENCIES”

#### Percentage of deposits in foreign currency (over total deposits)



Sources: Sudeban and Ecoanalítica

\*Includes call accounts and funds in trusts under the Exchange rate Agreement No. 1 (system of free currency convertibility)

One of the impacts of the boom in transactional dollarization in Venezuela has been the growth in bank deposits in foreign currency. In fact, with the increase in the use of the dollar in current local operations (especially after the application of the new Exchange Rate Agreement in mid-2018), domestic financial entities found a new opportunity to make their services profitable, offering not only the possibility to their clients to keep their foreign currency in cash in the form of custodians or trusts (a figure that already operated, but for a sample of specific clients), but also to acquire call deposits in foreign currency, admitting for both recurrent withdrawals in hard currency, something impossible until some years ago.

Such fundraising complemented those deposits that banks already had in foreign currency, fed by the previous mechanisms for their acquisition (Cadivi, Sitme, Dicom, among others). The latter began to gain ground as of 2016, when the BCV ceased to

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control such funds due to limitations in operations with its correspondents. This would change from mid-2019, with the appearance of the new instruments.

Little by little, new deposits have mutated from a mere custody or foreign exchange savings mechanism to an alternative means of payment more rooted within the local market. To this end, banks began to implement private mechanisms for the transfer of such resources among themselves (although still limited to a group of banks) and thus be able to offer mobility instruments such as debit cards or their integration to existing mechanisms for transactions in *bolívares* (such as payments by cell phone or electronic transfers). Against this, more clients have shown interest in acquiring this type of product, further increasing the foreign currency deposits held by those offering them.

According to the official figures of the Superintendence of Banks (Sudeban), by last month, foreign currency deposits of private banks already reached more than 25% of the total (from 10.6% in April 2019). Such services have also gained ground in the income generation of banks, whose rates are part of the main source of resource generation: the collection of commissions.

However, even though more foreign currency deposits can facilitate their circulation and make transactions easier for local agents, their growth can be seen as a double-edged sword for the bank. Despite charging commissions for this, such funds still cannot be used to grant credit (in this case, in foreign currency). Thus, with the limitations that banks already face in terms of legal reserve in *bolívares*, these foreign currency liabilities are "joined" with the already more than 90% (nominally speaking) of bank deposits in the hands of the BCV that cannot be made profitable in the form of credits.

On the other hand, to the extent that some banks only hold foreign currency liabilities covered by very few foreign currency assets (funds that banks hold at other banks abroad, for example), the effects of exchange rate increases will be increasingly harmful to banks. With a higher price of foreign currency, more *bolívares* will have to be dedicated by banks to honoring their commitments to their owners, reducing their wealth. In the absence of measures to protect banks from this type of risk, and in an environment where exchange rate pressures do not cease, the costs of greater dollarization for banks may be high, while they are unable to generate credit in the same currency from such foreign currency deposits. Definitely a double-edged sword.

## ECONOMIC TIPS

**COVID-19 in Venezuela.** According to government figures as of October 01, the number of positive cases of coronavirus reached 75,122 and the number of deaths was 628.

**Confined.** For the week of September 28 to October 4, most of the states in the country acted under a scheme of general flexibility, wherein activity was allowed in staggered time bands of the different sectors of the economy, except for Caracas and the border states, which entered the week of radical confinement of the 7+7 scheme proposed by the government.

**Appeal in progress.** As of September 22, an appeal filed by the Government of Nicolas Maduro at the London Court of Appeal (CoA) regarding the ownership of the 31 tons of gold belonging to Venezuela and held at the Bank of England (BoE) is underway.

**Let's remember.** On July 2 of this year, the first hearing that had begun in May concluded when the CoA ruled in favor of the opposition side arguing that the British government had "*unequivocally recognized*" the government of Juan Guaidó as "*interim constitutional president*".

**What's new?** Representatives of the Nicolás Maduro administration argued that the Government of England still maintains diplomatic relations with the Government, while representatives of the Juan Guaidó Government argued that the figure of "*one voice*" applicable in the United Kingdom should be used, which obliges state institutions to maintain a unified position in foreign policy.

**In the meantime, to wait.** Until September 24, the parties representing the governments of Juan Guaidó and Nicolás Maduro presented their arguments before judges Kim Lewison, Stephen Males and Stephen Phillips, who will present their ruling after the Nigel Teare ruling was ratified on July 2.

**The opposition will not renegotiate.** The Special Attorney General's Office and the National Assembly of the Government of Guaidó issued a communiqué informing bond holders that the 3 year statute of limitations for claims of unpaid obligations for PDVSA and Electricidad de Caracas securities cannot be applied and, in any event, they undertake to negotiate an extension if there is a case.

**Because the deadline does not apply.** According to the official statement, the claims prescription period referred to in the renegotiation proposal put on the table by the Nicolás Maduro government cannot be activated, because the contractual conditions for it are not

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met, so the only claims prescription periods that are in force are those provided by the financial legislation of the state of New York, of 6 years.

**Academically poor (I).** In the Situation Report presented by the Institute of Economic and Social Research (IIES for its name in Spanish) of the Universidad Católica Andrés Bello, a 30% drop in Venezuela's Gross Domestic Product is projected for the end of 2020.

**Academically poor (II).** In turn, the report details that "*there is no hope of recovery by 2021 if the political situation and economic policy regime is not radically changed*", so the IIES projects a 6% drop in GDP in 2021.

**New "anti-blocking law".** Nicolás Maduro announced that he will present, before the National Constituent Assembly, an "*anti-blockade law*" that will allow him to reverse the effects of the sanctions imposed by several US institutions and to promote the country's economy.

**Facing the sanctions (I).** The new law stipulates that the "*Observatory on Unilateral Coercive Measures and other restrictive or punitive measures*" will be created to carry out studies on the impact of the sanctions on Venezuela in the form of reports, studies and statistics.

**Facing the sanctions (II).** In addition, the law gives the National Government the authority to allocate resources generated by the application of this law, to social benefits and "*develop systems to compensate the real salary of workers*", among other aspects.

## OIL TIPS

**Land in sight!** The first shipment (of three) of crude oil from Iran arrived in Venezuelan waters the first days of this week, reports Reuters. It is estimated that in the three tanks there are different types of diluents, including gasoline. These shipments are expected to arrive at the El Palito and CRP terminals.

**The fuel caravels.** Forest, this first tank, loads about 270,000 barrels (bl). The other two missing ships, the Fortune and the Faxon are scheduled to arrive on October 1 and 4, respectively, reports Tanker Trackers. The latter two are expected to load around 820 kb.

**Distribution source.** El Palito has become a key location for fuel distribution throughout the country, despite the difficulties of resuming production there. Previous shipments from May and June, also from Iran, were delivered to this refinery.

**Black gold for golden gold.** The Commander in Chief of Iran's elite Revolutionary Guards (IRGC) established the condition of receiving gold bars in exchange for gasoline sent to Venezuela. He also commented that these bars were transported by plane "so that nothing would happen to them."

**In the spotlight.** The US Government has denounced the cooperation between Teheran and Caracas, but has not intervened to stop the shipments being sent. Nevertheless, the US Department of Justice informed that it had taken custody of 1.16 mb of Iranian gasoline that was going to Venezuela.

**False alarm.** This cargo was in Greek tanks identified with the Liberian flag. Taking the case further, the United Arab Emirates, Oman and the United Kingdom declared before the US courts that they owned this fuel and assured that it was not related to the operations between Iran and Venezuela.

**End of exemptions.** Currently, the USA is considering eliminating the exemptions between the European companies Repsol and Eni and the Indian company Reliance to supply petrol to PDVSA. In this sense, imports from Iran could be the equivalent of a break in the Venezuelan situation.

**Ending relationships (I).** Repsol, for its part, has been allowed to receive Venezuelan crude as payment of its outstanding debt, and received a last shipment from Venezuela this month in the Delta tank. A company source established that it has no intention of continuing to receive oil from PDVSA as of October, since it seeks to respect US measures.

**Ending relationships (II).** Eni, on the other hand, has a shipment pending to receive at the end of September and then another in October before ending business relations with PDVSA, reports Reuters. Eni stated that "it is and will continue to operate in compliance with all the regulations of the sanctions and is in continuous dialogue with the relevant authorities".

**Ending relationships (III).** Finally, Tipco has three shipments pending from PDVSA, all scheduled for October. The company has received warnings from the US State Department that the deadline for continuing operations with Venezuela is November. Tipco responded that it is "taking steps to comply with this request".

**What was done with these shipments? (I)** Low-sulphur diesel imports are destined for power generation, public transport and food distribution, all in fragile and vulnerable conditions.

**What was done with these shipments? (II)** Generally, Repsol, Eni and Reliance imports are directed to the production of natural gas from the Perla Coast field. This gas supplies Cardón, citizens of western Venezuela and various power plants throughout the country. Without efficient substitution, all of these sectors would be at risk.

**Internal shortage.** Reuters reports that PDVSA used to be the fuel supplier for most of the domestic market, with a capacity of 1.3 mb/d; however, as its equipment and facilities have deteriorated due to lack of maintenance, the company has been forced to import in an increasingly hostile external environment.

**Caracas has been affected for a long time.** Today, the shortage of gasoline is becoming more and more evident in the country, particularly in the capital, which was previously "exonerated" from this situation compared to the rest of the states. National production seems to be limited to the Cardón refinery in Falcón State with a capacity of 305 kb/d.

**Cardon is not enough.** However, Cardón is not operating at full capacity. It is estimated that it is producing about 20 kb/d of gasoline since last week. In addition, the gasoline produced is 83 octanes, while the official grades of Venezuelan gasoline are 91 and 95 octanes. A PDVSA manager comments that this production is estimated to increase to 40 kb/d for this week, reports Reuters.

**Future problems.** The repair team that was working to get the refinery back up and running stated, "...it's back up and running, but we're not sure there won't be more equipment failures as volumes increase this week".

**Instability in the refineries.** In addition, the repairs in Cardón have not been completed. Work continues on the naphtha reformer, looking to get it back into operation in the coming weeks. On the other hand, the distillation units and pipeline grids in both units are still "unstable", reports a team member.

**No fuel to live on.** The dire situation of the oil industry is reflected in the protests of the Venezuelan. Of the 748 protests held in August, 40% of these were due to fuel shortages, reports the Venezuelan Observatory of Social Conflict (OVCS). Likewise, this scarcity is related to other problems, since not having enough gasoline makes the distribution of food, medicine, etc. difficult.

**Negative externalities (I).** The instability and poor maintenance of the country's oil facilities are also affecting other sectors. Environmentalists are concerned about the effects of broken pipes, leaks, abandoned fields, fires and other events of a similar nature. Concerns are raised: if the return to operation is not properly done, it is feared that the consequences will be much worse.

**Negative externalities (II).** However, this is not a new problem. Lack of materials, scarcity of trained human capital, corruption, lack of maintenance and lack of monitoring of necessary protocols have made environmental accidents increasingly common in these locations, reports The Washington Post.

**Negative externalities (III).** According to the human rights NGO Provea, between 2010 and 2016 PDVSA has been responsible for 46,000 oil and other substance spills. These numbers indicate that thousands of gallons of gasoline have been dumped at sea.

## SECTORIAL TIPS

**Only one tenth.** The president of the Chamber of Commerce, Industry and Customs of La Guaira, Rusvel Gutiérrez, reported a fall of more than 90% of private imports due to the situation caused by the coronavirus pandemic and the economic crisis in Venezuela.

**Straight to the bodegones.** Gutiérrez added that some imports enter by air under certain authorizations of certain commercial sectors. In addition, he pointed out that only 20% of the population benefits from the products that enter by air, which he assured go to the *bodegones*.

**Higher costs for your health.** The Venezuelan Observatory of Finance (OVF for its name in Spanish) reported that, within the field of health in the country, an internal medical consultation exceeded VES 13,316,466.15 (USD 31.62) in August, which represents an increase of 61% with respect to the average price of VES 8,246,854.15 observed in July.

**Vegetable smuggling.** Celso Fantinel, Vice President of the Confederation of Associations of Agricultural Producers of Venezuela (Fedeagro), warned that the smuggling of vegetables from Colombia has increased in the Andean states.

**Equal conditions or fear of competition?** Fantinel stressed that the entry of these foods from Colombia represents unfair competition for national producers, since they cannot satisfy "that 20% or 25%" of the domestic market if they have to compete with those who import food without tariffs or VAT.

**Back to the 60s.** However, Fantinel pointed out that the national agricultural industry is no longer capable of supplying domestic demand, mainly due to factors such as fuel shortages, constant failures in public services, lack of fertilizers and machinery and non-existence of bank financing, factors that have brought the Venezuelan countryside to 1960 levels.

**Who gets the rest?** The Fedegro representative added that there is a 75% deficit in the production of all the agricultural items consumed in the country and emphasized that producers on the farms do not receive even a third of the price paid by consumers for vegetables in supermarkets and open-air outlets.

**From Brazil as well.** Fantinel also pointed out that in the east of the country the presence of products from Brazil increased, such as flours, cereals and pastas, which, in his opinion, also harms the producers of the Venezuelan countryside.

**Venezuela, it's not you, it's the pandemic.** The President of the National Institute of Civil Aeronautics (INAC for its name in Spanish), Juan Teixeira, informed that the French airline "Air France" temporarily suspended its operations to and from Venezuela, mainly due to the coronavirus pandemic.

**Will it come back?** Teixeira pointed out that the airline expressed its firm intentions to continue operating in Venezuela, although without offering further details.

**Reason: it is no longer profitable.** According to the newspaper El Nacional, Teixeira's announcement confirms the rumors of a possible suspension of operations for at least two years due to the low profitability of the route.

**Flights before December 15, perhaps.** Humberto Figuera, President of the Association of Airlines in Venezuela (ALAV for its name in Spanish), proposed the government to allow the resumption of ticket sales as a previous step to the reopening of domestic flights, which the union expects before December 15.

**Prepared for PCR tests.** Likewise, ALAV requested to enable several recognized private laboratories to perform PCR tests as a COVID-19 diagnostic method, since it is presumed that this test will be mandatory for passengers travelling to different national destinations.

**A gift for the end of September.** The Carnet de la Patria platform gave the "Unidos por la Vida" Bonus between September 22 and 30. The amount of the bonus was VES 1,690,000, equivalent to 4.02 USD as of September 30.

## INTERNATIONAL TIPS

**COVID-19 in the world.** According to figures published by the World Health Organization (WHO) as of October 1, the number of positive cases of coronavirus reached 33,968,093, and the number of deaths was 1,014,161.

**Tests for the poorest countries.** The WHO announced that it will make available to low- and middle-income countries about 120 million rapid diagnostic tests for coronavirus at a maximum price of USD 5 per unit.

**Fast, portable and easy to use tests.** According to Tedros Adhanom Ghebreyesus, director general of the WHO, the initiative was made possible by an agreement between Abbott Laboratories and SD Biosensor with the Bill & Melinda Gates Foundation. These tests will be rapid diagnostic, highly portable, and easy to use over a six-month period.

**This is not the time to collect debts.** G-7 finance ministers supported the extension of the G-20 Debt Service Suspension Initiative (DSSI), approved in April, by recognizing the need for far-reaching debt relief in the future and accusing China, a G-20 member, of a lack of transparency in its lending.

**USD 5 billion deferred.** The DSSI aims to help developing countries overcome the consequences of the pandemic. So far, it has helped 43 countries defer USD 5 billion in official debt payments.

**Bad news for Asia.** The World Bank said the coronavirus pandemic is expected to cause the slowest economic growth in more than 50 years in China and East Asia and the Pacific. It added that this could push as many as 38 million people back into poverty.

**China a little better than the rest.** The agency projects that the entire region will grow only 0.9% by 2020, the lowest rate since 1967. However, growth in China is expected to reach 2% this year, driven by government spending, strong exports and the low rate of new coronavirus infections since March, although offset by slow growth in domestic consumption.

**Historical contractions.** For the rest of the East Asia and Pacific region, the World Bank forecasts a 3.5% contraction, due to its high dependence on trade and tourism, two of the areas hardest hit by the pandemic.

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**Four months in a row in black.** Official Chinese figures reported that the profits of industrial companies grew 19.1% year-on-year in August and reached approximately USD 89.8 billion. This figure follows a 19.6% increase in July and represents the fourth consecutive month of profit growth.

**Internal conflicts due to trade war (I).** Approximately 3,500 US companies (including Tesla Inc, Ford Motor Co, Target Corp, Walgreen Co and Home Depot) sued the Donald Trump Government for the imposition of tariffs on more than USD 300 billion in products manufactured in China.

**Internal conflicts due to trade war (II).** One of the lawsuits argues that the administration cannot extend tariffs to other Chinese imports "*for reasons unrelated to the unfair intellectual property policies and practices it originally investigated*". While others argue that the Trump administration failed to impose the tariffs within the required 12-month period and failed to comply with administrative procedures.

**From trade to politic war (I).** The US Government imposed export restrictions on China's largest silicon chip manufacturer, *Semiconductor Manufacturing International Corporation (SMIC)*, after concluding that there is an "*unacceptable risk*" that the equipment supplied to it could be used for military purposes.

**From trade to politic war (II).** Reuters reports that U.S. suppliers of certain equipment to SMIC will now have to apply for individual export licenses. This marks another escalation of the trade war, and political conflict, between the world's two largest economies.

**Foreseeing failure?** The head of the European Commission, Ursula von der Leyen, said she is convinced that a post-Brexit agreement is still possible, despite statements made by both sides in recent weeks.

**A decisive week.** Ursula von der Leyen issued her comment shortly before the European bloc and Britain began a decisive week of talks on a new trade pact and the implementation of their divorce.

**No one travels in 2020.** Figures from the National Institute of Statistics (INE for its name in Spanish) in Spain indicated that hotel occupancy in the European country fell in August 42.5% over the same period last year. This shows the terrible effects of the pandemic on the tourism sector, one of the main economic engines of the country.

**Inflationary upturn.** Brazil's government statistics agency published that the country's producer price index (PPI) rose 3.28% in August from the previous year, the highest

increase in six and a half years, thanks to a sharp rise in the prices of food, refined oil products and biofuels.

## POLITICAL TIPS

**Let's get to work.** The European Union sent a diplomatic mission to Venezuela as the country prepares for the parliamentary elections scheduled for December 6.

**For what?** "An EU mission is in Caracas this week to have contacts with all interested parties (including the main political forces, civil society, academia, private sector and church)," an EU spokesman told Reuters.

**Possible actions.** The EU assured that it has received an invitation to observe the elections in Venezuela in December, but indicated that the government of President Nicolas Maduro has so far not complied with the "*minimum conditions*" to allow it.

**Possible postponement.** In the meetings held between the diplomatic mission of the EU, the government and the opposition, the government side has shown itself to be open to the possibility of evaluating scenarios of postponement of the elections, despite arguing that it is a constitutional mandate; however, no action has been taken, according to sources informed to the newspaper *Tal Cual*.

**Mission accomplished?** The diplomatic mission requested that the parties engage in a "*long term*" dialogue beyond the December 6 elections to find a solution to the crisis in Venezuela. Already the diplomats are "*returning now to Brussels after extensive discussions with the parties in Venezuela,*" sources told *Efe*.

**The lists are coming.** The president of the National Electoral Council (CNE for its name in Spanish), Indira Alfonzo Izaguirre, assured that as of September 5, the list of candidates that will participate in the next parliamentary elections will be published.

**Coordinating for the show.** He assured that they have received the political organizations to listen to their "*considerations*" in order to build "*the conditions and guarantees for the voters to participate in a plural and diverse way*". In addition, he informed that the only restrictions regarding the campaign will be those concerning the crowding of people due to the pandemic.

**In disagreement with the EU.** More than 200 personalities from Latin America sent a communication to different European Union (EU) leaders in rejection of the initiatives

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being undertaken by Josep Borrell, EU High Representative for Foreign Affairs and Security Policy, on the situation in Venezuela.

**Implications of the UN report.** Several former heads of state and government who are part of the Democratic Initiative of Spain and the Americas (DISA) urged, this Friday, the International Criminal Court (ICC) to act on the recent report of the UN Fact-Finding Mission on Venezuela.

**Five for the list.** The U.S. Treasury Department imposed sanctions on five legislators who support Nicolas Maduro and his planned legislative elections; Washington has said they are likely to be rigged.

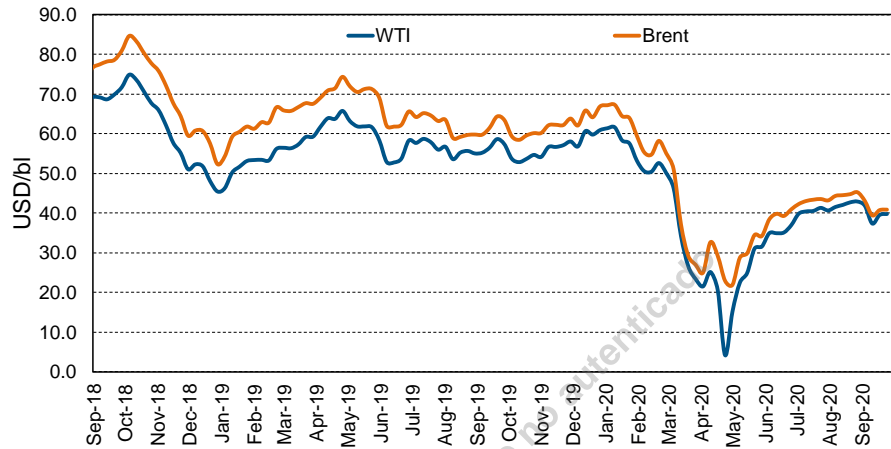
**Now what did they do?** In the statement, the five individuals are accused of having acted as part of a plan to manipulate the December parliamentary elections by "*placing control of Venezuela's opposition parties in the hands of politicians affiliated with the Nicolas Maduro regime, undermining any credible challenge by the opposition to that regime*".

**United against the empire.** Nicolas Maduro communicated to the UN General Assembly that all "*countries that defend peace*" must unite against the sanctions that the US has imposed on Venezuela and its allies like Cuba, Nicaragua and Syria.

**Looking for strategic alliances.** "*We must demand the cessation of all unilateral coercive measures, of all supposed sanctions, and that allow our people to exercise their own rights,*" said Maduro.

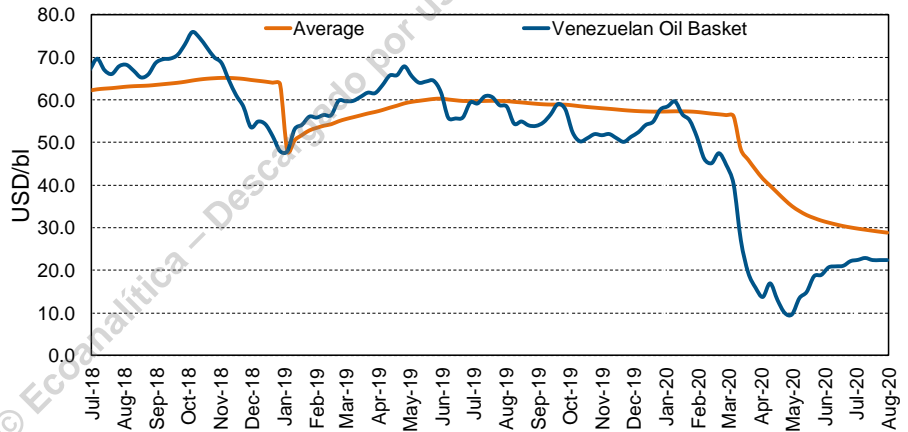
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



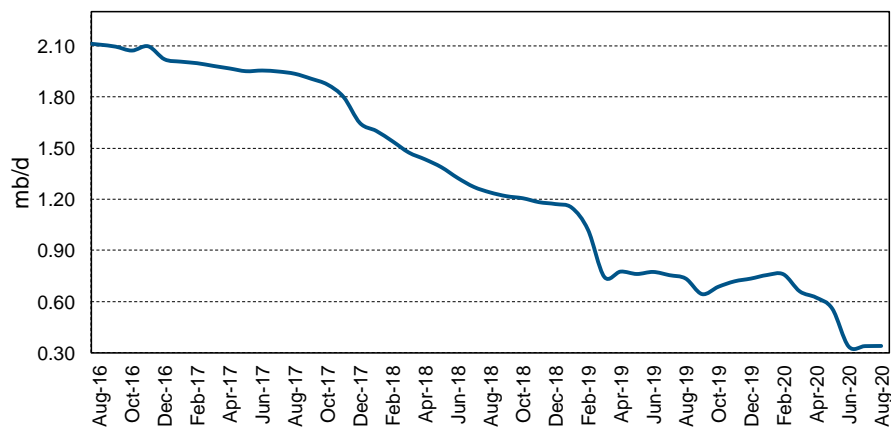
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

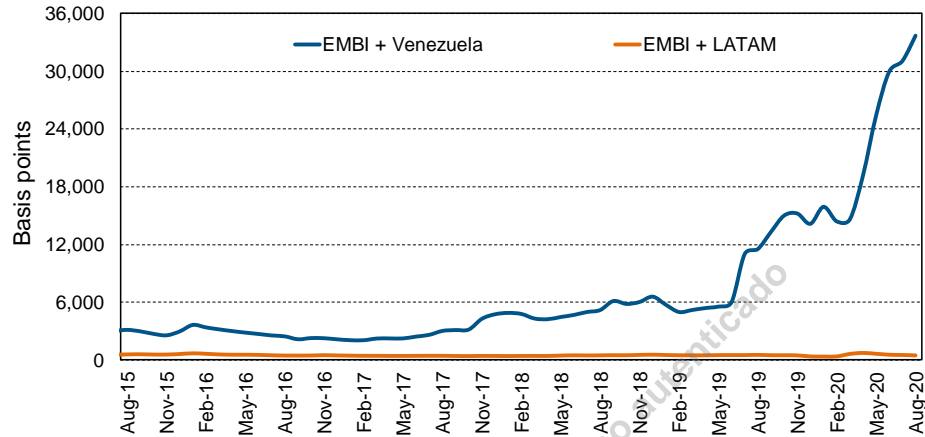


Sources: OPEC and Ecoanalítica

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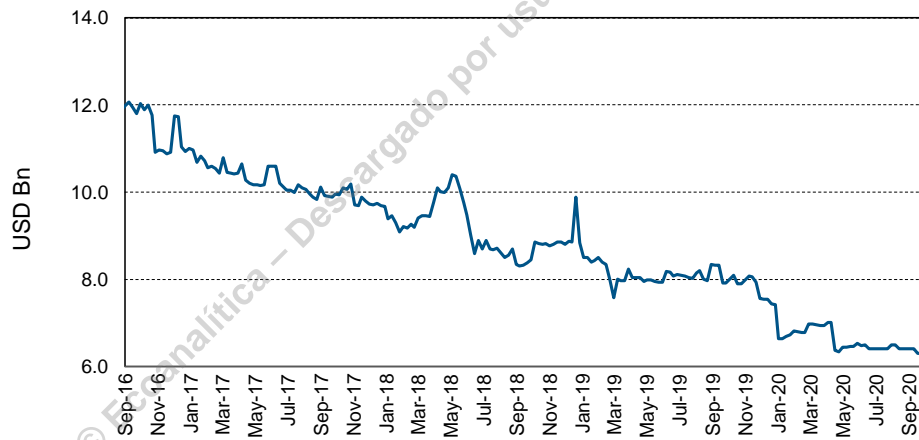
**ECONOMIC INDICATORS**

**EMBI**



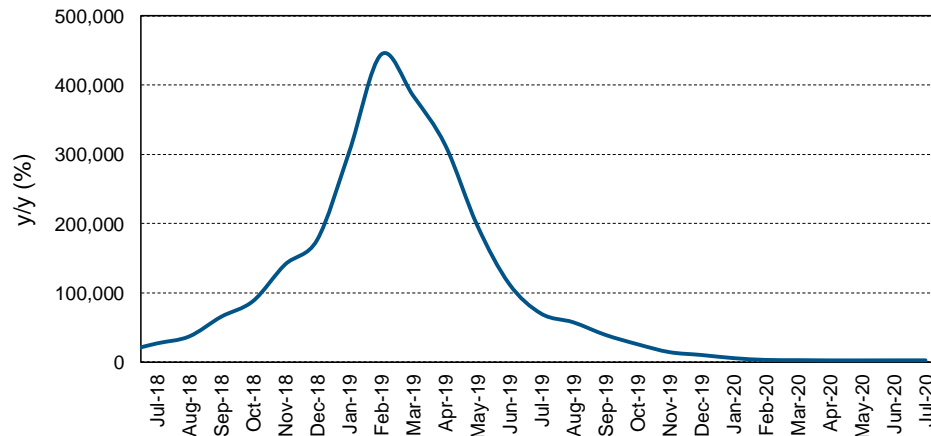
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

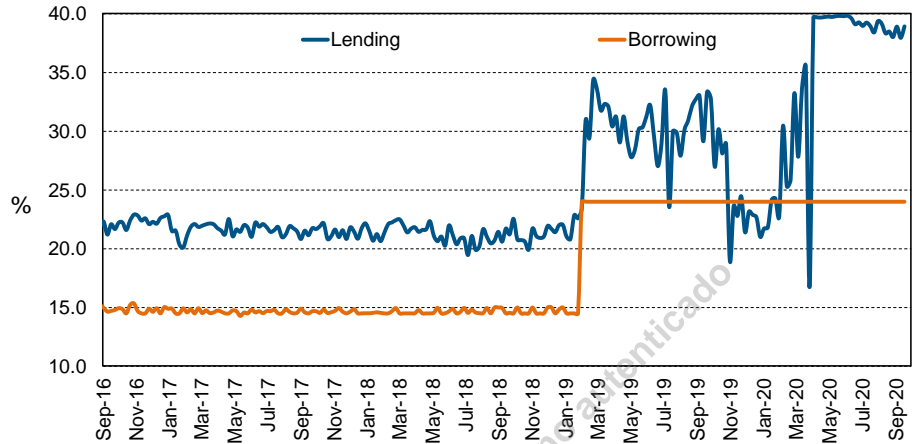
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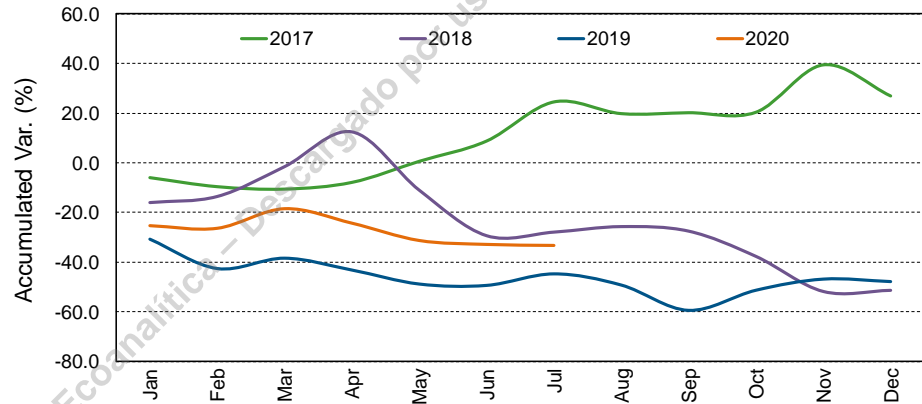
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



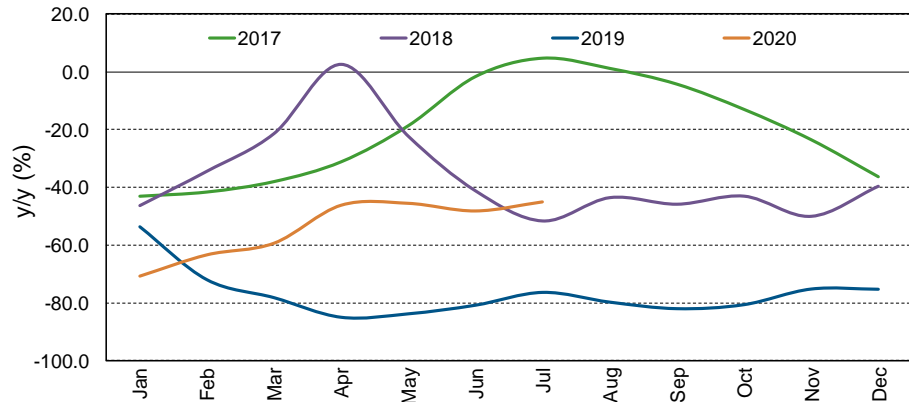
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

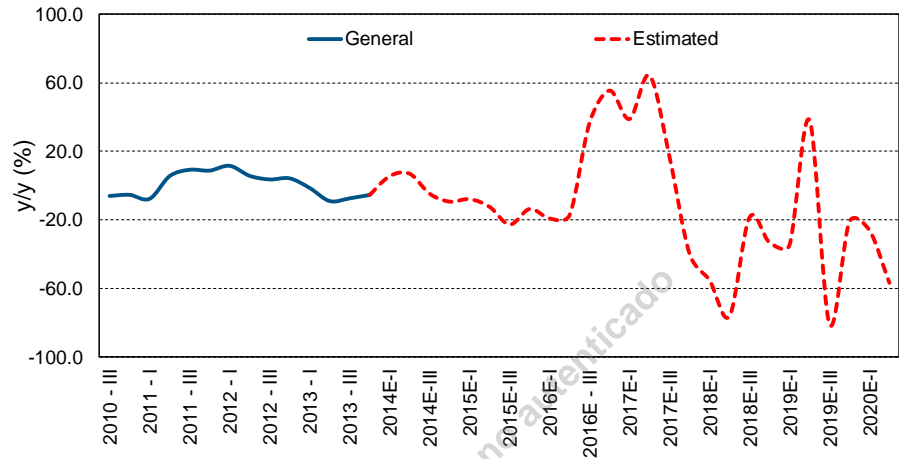
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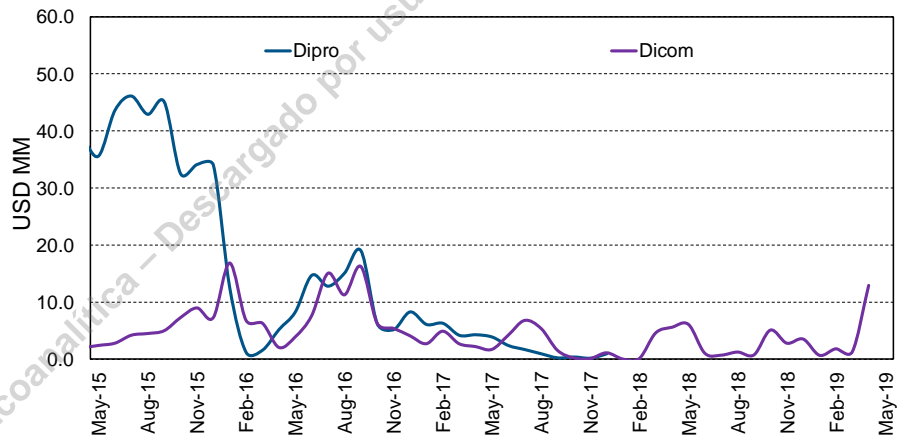
## ECONOMIC INDICATORS

Real Wage Index



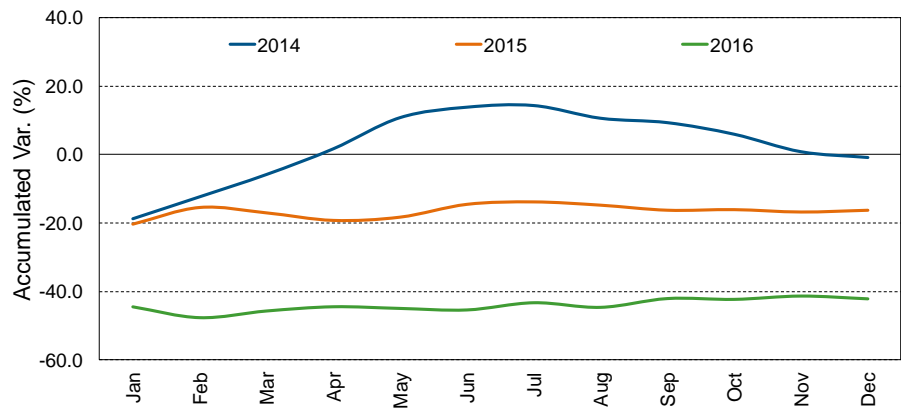
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

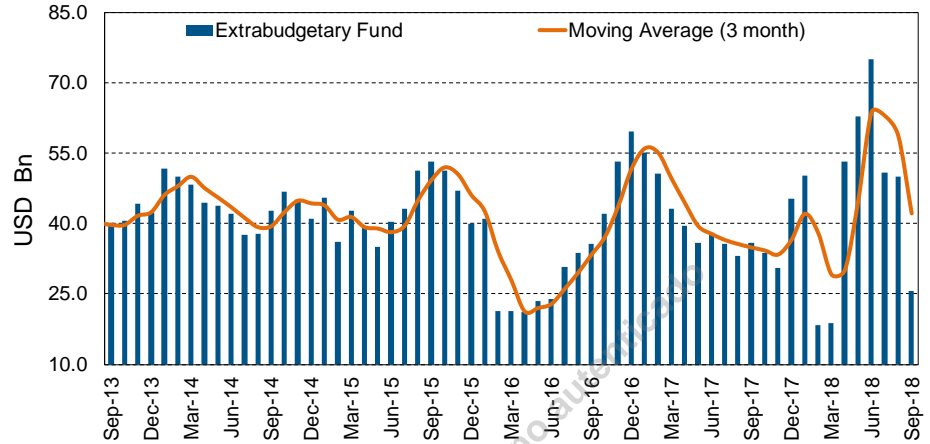
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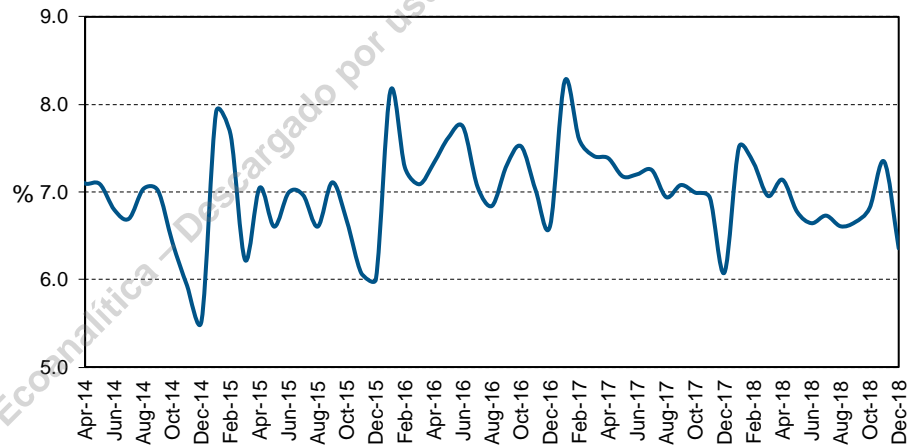
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



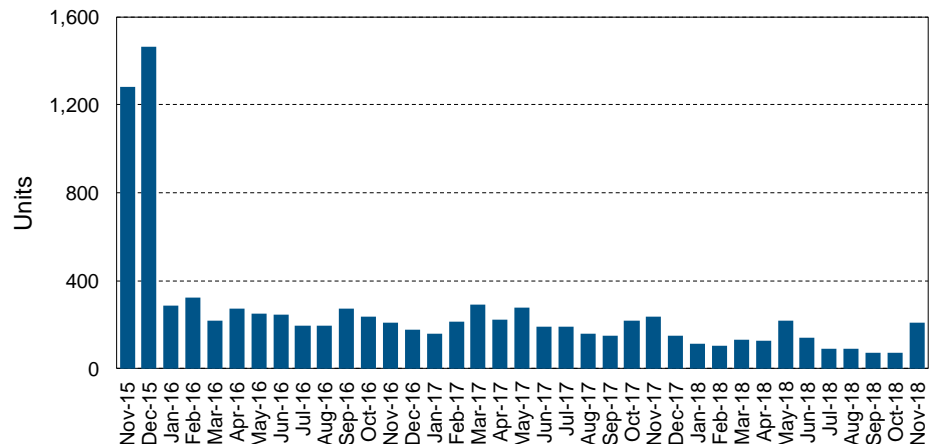
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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