

The new exchange control regime, in detail

After weeks of anticipation, on September 8 Foreign Exchange Agreement Number 40 went into effect; although for some reason the government decided to call it “Foreign Exchange Agreement 1.” While this new piece of legislation does not rise to the occasion and meet the needs of circumstances and the stabilization plan, it does contemplate reforms that differ substantially from the old exchange control regime, and for that reason merits a detailed analysis.

Far from meeting the objective stated in Article 1 of “establishing the free convertibility of the local currency (...) with the purpose of favoring the development of economic activity,” the agreement outlines the parameters of the new exchange control regime and its asymmetric application for different sectors of the economy.

As has been commonplace in the *Chavista* era, the new regime establishes different rules for the public and private sectors, with significant changes in both cases. In the case of the private market, the DICOM system has been reformed once again and a system that is to regulate small transactions has been created. In the case of the public sector, a portion of the exchange rate subsidy has been eliminated partially and for the time being. In addition, contracts denominated in foreign currency and the issuing of corporate debt denominated in foreign currency have been made legal.

Two weeks after its entry into effect, the agreement seems to have gone unnoticed and its reforms have not been implemented. Ignorance of how it is going to function is widespread, in both the public and private sectors, but that could gradually change.

FEMS: the fifth DICOM

The cornerstone of the agreement is the Foreign Exchange Market System (FEMS), a mechanism that is so similar to DICOM that Nicolás Maduro has continued to call it by its old name, as have the web pages of the Venezuelan State. Like DICOM, the FEMS is a far from transparent system of auctions controlled by the Central Bank of Venezuela.

According to Article 11, any private individual or company can buy and sell foreign currency in exchange for bolivars through foreign exchange operators without any restriction, who, according to Article 12, will be exclusively universal banks, in the first

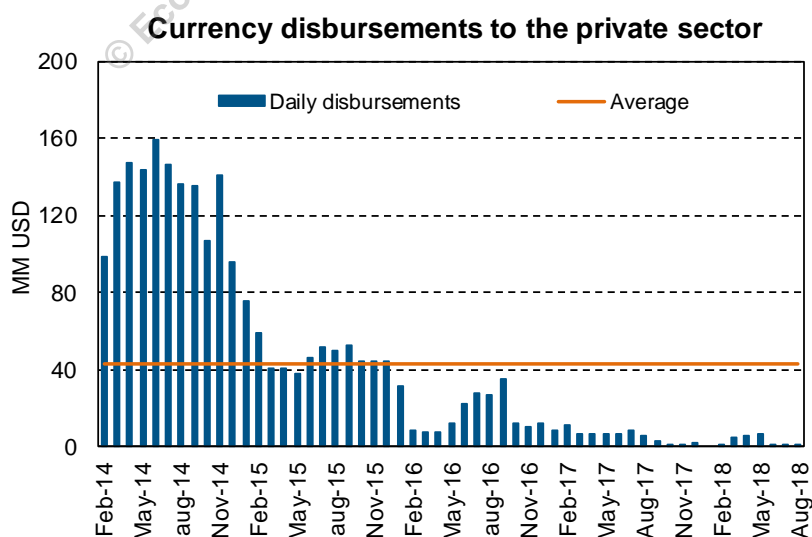
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instance. However, unlike what it says in Article 11, Article 14 immediately restricts the participation of the banks, insurance companies and brokerage houses.

As happened in previous mechanisms, the Central Bank will not only be the supervisory agency but will also be the agency that decides which transactions will be carried out and at what rate, and it will intervene with reproachable practices from the point of view of justice and efficiency, according to Articles 9, 10, and 18, among others.

Article 18 establishes that, depending on the rate resulting from the buy and sell bids at each auction, the cheapest buy bids will be sold in bolivars to those who offer more. In all cases, the Central Bank will take possession of the differential between the offer and demand bids. After crossing the transactions, each transaction will be weighted based on its volume and exchange rate and the result will be the exchange rate published by the Central Bank. Covered by Article 9, the Central Bank will buy the foreign currency at an exchange rate that is 0.25% lower than the published official rate whenever it wishes, and it will also take advantage of Article 10 to take possession of all the foreign currency for which there is no demand at any given auction.

Since the FEMS came into force, there have been four auctions with an average volume traded of USD 1,558,760 per auction or USD 1,039,173 a day. Compared to the third and fourth DICOM auctions, the volume has been fairly similar, as in both the transactions were between private agents. However, compared to the volume in the second DICOM auction, it is equivalent to only 5.9%, and only 1.0% compared to the first, given that previously the public sector traded foreign currency via the system.



Source: Ecoanalítica

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Even though there has been a reduction in the foreign exchange differential, this will have no effect on the amount offered via the FEMS, because it was partial. As long as there is a gap between the FEMS exchange rate and the unofficial rate, private agents will offer their foreign currency in the parallel market, which at the moment is 10 bigger in size than the FEMS.

One-way small transactions

After having announced the opening of 300 foreign exchange houses throughout the country on August 17th, with the idea of catering to the needs of low-volume or small purchases and sales of foreign currency, the government changed its mind on September 8th and gave the universal banks the responsibility of being operators in the small-transactions market. In addition, it eliminated the option of the banks buying foreign currency and they can only sell it. We expect a negligible volume in this market.

The only incentive for selling foreign currency in this market is access to an exchange rate that is 1.0% higher than the official exchange rate, according to Article 22. But transactions are restricted to EUR 8,500 and the banks will charge a commission. As for the banks, they will not be allowed to use the dollars they buy as a result of small transactions and they will not be able to take part in the FEMS, which means that their only profit in the new system is the commission they charge in bolivars on the few transactions they perform.

According to Article 23, the Superintendence of Banking Sector Institutions (Sudeban) will issue the necessary "prudential" regulations to ensure that the dollars the banks receive cannot be used by them and that they are sold directly to the Central Bank. As foreign exchange operators, they will also be responsible for generating their internal capacities so that anyone who wants one can open an account in dollars. The dollars to be deposited in these accounts may come from small-transaction deposits, purchases of dollars via the FEMS or transfers via the international financial system.

Once these dollars have been deposited in the dollar account, they cannot be used in whatever way the account holder deems fit. On the contrary, Article 32 contemplates restrictions on withdrawals and, depending on the provenance of the funds, a fraction of those dollars must be sold directly to the Central Bank in exchange for bolivars, and the remainder must be used for operating expenses and investments in the country. However, there are cases in which the totality of the funds may be transferred abroad. So, even though Article 34 declares otherwise, there are restrictions that depend on the origin and destination of the funds, which much be specified for each transaction.

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In the case of tourism, there are some exceptions. Here foreign exchange operators may hold on to 25.0% of the foreign currency they buy directly from tourists without having to sell that foreign currency immediately to the Central Bank. In theory, tourists may have special accounts at the banks and pay with special debit cards that exchange their dollars at the exchange rate of the day and transfer bolivars to the establishments. In addition, Articles 75 and 76 permits tourism services for transport and accommodation to use 80.0% of the foreign currency they obtain from providing services to pay operating expenses and make local investments.

A new swap?

The purpose of the third section of the Foreign Exchange Agreement is to establish the legal framework in order to start to perform buy/sell operations in bolivars with securities issued in foreign currency. Even though the securities in question may be issued locally, at **Ecoanalítica** we believe it unlikely that any Venezuelan private company will be tempted to borrow in foreign currency under a legal scheme that could change at any time and that is subject to an official exchange rate that lags behind the real rate.

On the other hand, Article 25 opens the door to the possibility that any private individual or company may perform operations with securities in a foreign stock exchange, if the National Securities Superintendence of Venezuela (Sunaval) authorizes it, via the intermediation of a local brokerage house. The details of these operations are to be revealed by Sunaval in the coming weeks, according to Articles 25, 27, 28 and 29.

Given this possibility, a swap mechanism could be established via which foreign securities are purchased in bolivars at the official exchange rate and then sold to a third party in exchange for dollars. However, there are doubts regarding the logistics of an operation of this type. If Sunaval forces the brokerage houses to sell the dollars directly in exchange for bolivars at the official exchange rate, the profitability of the operation would depend on the fluctuations (currently nonexistent) in the official exchange rate. This means that any investment would lag behind. However, if the third party to whom the security is sold is part of the swap operation, the buying and selling of the security supervised by Sunaval will be immediate and, from the third party's point of view, the security could be sold in exchange for dollars eluding the watchful eye of the Venezuelan Government

Basically, depending on Sunaval's regulations, the possibility exists of being able to buy subsidized dollars from the private sector via swap operations using foreign securities. But, even in this case, it will depend on whether Sunaval has the foreign currency available for performing these operations.

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Partial decriminalization of the dollar

Probably one of the main positive aspects of the Foreign Exchange Agreement is the legalization of contracts denominated in a foreign currency. Article 8 permits entering into new contracts in a foreign currency and contemplates the possibility of paying them both in foreign currency and in its equivalence in bolivars at the exchange rate of the day.

Curiously and running counter to the spirit of Article 3 of the Decree Repealing the Foreign Exchange Crimes Act, in this case the payment in foreign currency of contracts agreed in foreign currency is permitted, even if they were entered into at some time in the past when entering into such contracts was illegal. This is a kind of retroactive liberalization.

Even if that were the case, there are no details regarding permitted methods of payment in foreign currency. In other words, restrictions may well be imposed that make it compulsory to perform such transactions from foreign currency accounts in the local financial system, as has happened with the tourism sector; otherwise, we would have legalized mechanisms such as labor contracts and buy/sell contracts payable in foreign currency. If that is the case, a step will have been taken towards an informal dollarization of the economy.

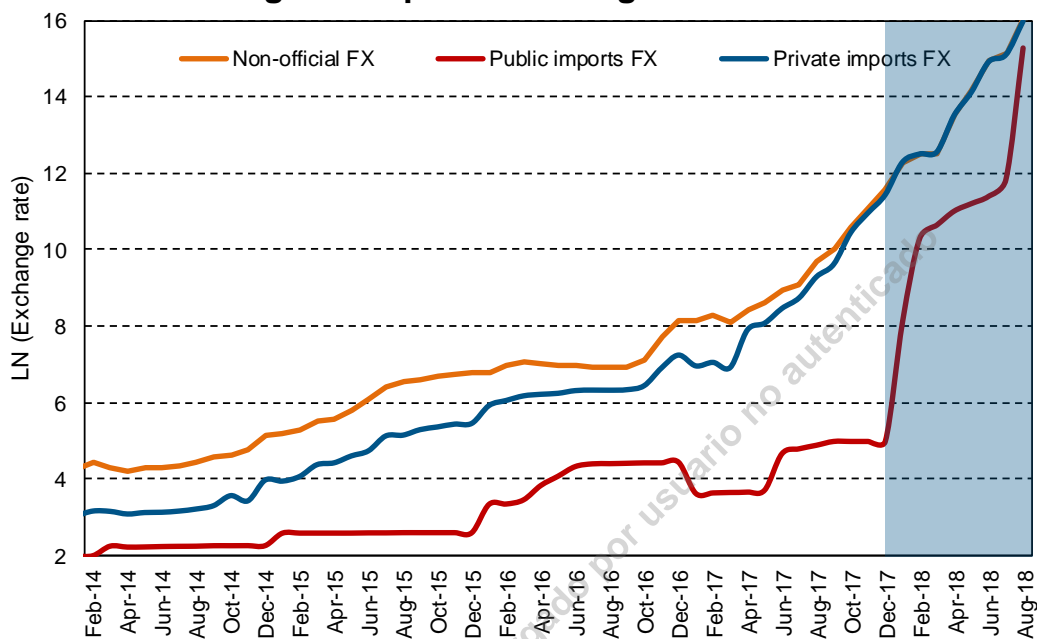
Centralization of the Public Sector

As for the public sector, little has changed. The Foreign Exchange Agreement reaffirms the centralization of all foreign currency belonging to state-owned companies or public sector entities in accounts at the Central Bank in order to closely supervise them, although some exceptions are permitted for the oil sector in Articles 41, 42, and 44 and for public sector importers in Article 39. On the other hand, although there is some supervision, the Central Bank does not impose any major obstacles in the way of state-owned companies and public sector entities when it comes to them mobilizing their funds, as can be seen from Articles 46, 47, 48, 49, 50, and 53 of the agreement.

Probably the most significant change in the foreign exchange regime for the public sector was the devaluation of 95.9% on August 22nd. After that, public sector importers went from an exchange rate of VES 2.49/USD and a virtually total subsidy to an exchange rate of VES 60.27/USD and a foreign exchange subsidy of only 46.2%.

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Weighted imports exchange rate evolution



Sources: BCV and Ecoanalítica

On the one hand, public sector importers will have to put up a larger amount of bolivars in order to carry out their operations in the short term, but on the other, the significant foreign exchange distortion was partially corrected. Needless to say, the impact in the medium and long terms will depend on the government's willingness to perform frequent devaluations so that the official exchange rate does not lag behind again.

International relations

The government has taken care to establish the legal bases to allow it to manage the funds from bilateral agreements with China or Russia on a more discretionary basis. Article 39 permits a greater degree of autonomy in the case of operations involving international public credit.

As for the contracts entered into and transactions performed by the government with international entities, diplomatic or consular representatives, their local officers and officials of international bodies, their treatment is different under "Foreign Exchange Agreement 1."

Scarily, Article 38 contemplates the possibility of indexing payments denominated in bolivars and adjusting them by means of a "local currency value maintenance" factor and financing the payment of these unbudgeted transactions by issuing money directly from

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the Central Bank. The article publicly admits to the payment, financed by means of seigniorage, of expenditures previously agreed at other amounts in contracts that may be entered into with Venezuelan government officials.

Countless legal diatribes

The new exchange control regime provides for some adjustments that point to a partial relaxation of certain aspects. But it is uncertain how far this relaxation goes and its widespread application has not yet begun. For now, the only way to test some of the limits is by exposing oneself to criminal charges, and until the first bold folks give it a try, we will not know the extent of the relaxation of the controls or its center of interest. Many questions will remain unanswered for now:

In what context will it be possible to pay and charge in dollars without fear of being penalized according to Article 8? Will PDVSA use Article 43 as a pretext for paying in bolivars a part of its local expenditures denominated in dollars? Are companies subject to US sanctions if they take part in an auction-based market together with the Central Bank of Venezuela? Will PDVSA publish its budget in foreign currency or will it only submit it to the Central Bank, as provided for in Article 42?

Last of all, as under the previous exchange control schemes, only a partial solution to the fundamental problem of the foreign exchange market is to be found in the FEMS. If the decision to depreciate the local currency in line with the real pressures of supply and demand were actually made and the foreign exchange subsidy for the public sector were done away with altogether, Venezuela could take a step towards an efficient foreign exchange market. If that decision is not made, then it will not and we will continue on the path that has led us to the collapse of the economy.

Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week September	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	61.33	-0.6	-0.6
	1st Week September	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.2	-0.6	-0.3
	2nd Week September	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	2.0	-0.3	1.5
	2nd Week September	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.3	0.2	-15.6
	1st Week September	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	79,639,821	19.4	22,487.7
Price of International Oil Baskets (USD/bl)			
	2nd Week September	Weekly chg. (%)	Annual chg. (%)
WTI	68.7	-0.7	41.4
Brent	78.2	1.0	43.6
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week September	Weekly chg. (%)	Annual chg. (%)
Weekly Average	69.7	0.2	49.0
Annual Average	63.8	0.3	45.2

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “FUTURE CHAMPIONS OF THE REGION?”

Hyperinflationary Ranking

Position	Country	Length in months	Highest monthly inflation (%)	Daily inflation equivalent (%)
1	Hungary	12	41,900,000,000,000,000	207.19
2	Zimbabwe	20	79,600,000,000	98.01
3	Yugoslavia	22	313,000,000	64.63
4	Srpska Republic	22	297,000,000	64.35
5	Germany	5	29,500	20.89
21	Bulgaria	1	242.0	4.18
22	Moldovia	12	240.0	4.16
23	Rusia/USSR	26	212.0	3.87
24	Georgia	13	211.0	3.85
25	Venezuela	10	209.8	3.83
26	Tajikistan	22	201.0	3.74
27	Georgia	2	198.0	3.71
28	Argentina	11	196.6	3.70
29	Bolivia	16	183.0	3.53
53	Germany	1	56.9	1.51
54	Kazakhstan	1	55.5	1.48
55	Lithuania	1	54.0	1.45
56	Belarus	1	53.4	1.44
57	Taiwan	1	50.8	1.38

Sources: Steve Hanke & Nicholas Krus and Ecoanalítica

The inflation of August (209.8%) positioned Venezuela in the 25th spot of the Hyperinflation Ranking. It is under Georgia; whose highest monthly inflation was 211.0% and had a hyperinflation of 13 months. The country is also above Tajikistan (22 months) with a monthly inflation of 201.0%.

The above-mentioned inflation of August has become the second highest monthly observation in the study cases of South America, outnumbering the highest monthly inflations of Argentina (196.6%), Bolivia (183.0%) and Brazil (82.4%). Besides, curiously, it is only behind Peru's August of 1990 inflation (396.6%). In addition, the inflation of that month's third week (54.4%) was higher than the monthly observation of this ranking's top bottom cases.

Venezuela has been 10 months on hyperinflation now. Differences aside between cases and its countries, in **Ecoanalítica** we think that this process is going to last through this year and, also, during 2019. Time and policies made by the Executive will set the ending of this story.

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ECONOMIC TIPS

Visiting Big Brother. President Nicolás Maduro was in China on a state visit for the purpose of enhancing relations between the two countries with the signing of economic, commercial, energy and financial agreements.

USD 5.0 billion more for the fund. In an interview posted on Bloomberg's news portal, Minister for the Economy and Finance Simón Zerpa said that Maduro was going to China to finalize a USD 5.0 billion credit agreement for Venezuela. According to the minister, the agreement was already a done deal and Venezuela is to repay China in cash and in kind (oil).

The outcome of the meeting. The meeting between the two governments culminated with the signing of a total of 28 agreements dealing with economic, health, technology, security, mining and oil matters. In addition, Venezuela is to be part of the Chinese Government's New Silk Roads infrastructure investment project.

Is China fully on board? China's Prime Minister Li Keqiang said that his country was prepared to support Venezuela in its economic recovery plans. However, there is no official communiqué anywhere on the handing over of the mentioned USD 5.0 billion loan.

Hidden information? Extra officially it is known that this credit would be conditioned with oil and mining imports in Chinese joint ventures. Additionally, the request for a six months grace period was rejected, and Venezuela will have to pay the capital amortizations.

Gold on line? Starting this week, it will be possible to purchase the so called gold certificates on line. These certificates are intended to be an instrument so that people can save as part of the policy for encouraging saving adopted by the Venezuelan Government.

Reality... In the second week of September, a total of USD 3.8 million was disbursed to companies and private individuals. This is highest weekly disbursement of foreign currency via DICOM in 2018.

...or illusion. However, Auction 37 (held on 09/17/2018) posted total disbursements of only USD 464,884. This, in addition to the reluctance to implement a devaluation that would put this rate close to the reference market rate (the differential between the market and DICOM exchange rates is currently 70.6%), casts doubts on this system lasting over time.

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Climbing more sharply. Exchange rate closed August with an increase in the last week of 26.04%, the biggest increase ever according to information available. As for the monetary base, it showed a similar trend, with an increase of 29.7% in the last week of the month.

The food basket reaches VES 11,689.0. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Food Family Basket (Canasta Alimentaria Familiar - CAF) in July 2018 was VES 6,784.6, an increase of 72.3% with respect to the prior month, and 57,978.9% with respect to August 2017.

The behavior of the CAF in August. was marked by an increase in cereals and cereals products (163.9%); sauce and mayonnaise (61.6%); fats and oils (62.0%); coffee (107.0%), fish and seafood (14.5%); milk, cheeses and eggs (89.2%); fruit and vegetables (58.9%); tubercles and others (73.7%); meat and meat products (72.3%), sugar and salt (139.2%).

Seventeen products are running low. According to the same report, 17 products are in short supply of the 60 that the Basket have (28.33%). Also, there are 34 other commodities that are scarce.

A lunch cost. Also, they enhance that the average cost of a lunch is VES 85.0, while the food ticket costs VES 0.73 per day, for August. And to buy the basket requires 389.6 minimum wages (in August).

OIL TIPS

Signing a contract with the devil... During the negotiations between China and Venezuela, a USD 184 million loan was agreed upon for a joint venture between PDVSA and China National Petroleum Corporation (CNPC), the purpose of which will be to exploit the Zumano field. According to Venezuela's Ministry of Communication and Information these funds are part of a special credit.

...in exchange for our souls? As for Venezuela, it signed over 9.9% of the shares in the oil company Sinovensa in which PDVSA was the majority shareholder. No further details are available. However, sources at PDVSA said that oil services and procurement at Sinovensa are to be handled by Chinese companies. It is not known what China gave in exchange for the shares.

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Need money to grow. “*You need investment in order to recover production,*” said David Paravisini, a member of the Constituent National Assembly. He also commented that he was working on articles that will reduce state control of the oil industry and facilitate private investment.

A lot of hot air. Both Paravisini and Hermann Escarrá said that a document with all the proposals is going to be submitted to the president of the Constituent National Assembly, Diosdado Cabello, so that they can be implemented. Neither of them offered any more details.

Helping our neighbor. The news agency Reuters reported that Venezuela was once again supplying Cuba with medium crude, according to internal documents of the state-owned oil company, PDVSA. The shipments, totaling 4.19 million barrels, started in June and continued through to August.

Barely producing... Official PDVSA documents show the decline of Venezuela’s refineries, according to Reuters. It is expected that PDVSA will produce at 29% of its capacity this month, which is equivalent to 1,304 million barrels a day (mb/d).

...and with diminished capacity. With Amuay and Cardón down, Venezuela is left with Puerto La Cruz and El Palito refineries. It is estimated that Puerto La Cruz will operate at 36% of its capacity, equivalent to 187 kb/d, and that El Palito will operate at 48%. The insufficient supply of crude has prevented these refineries from raising their processing rate.

The PDVSA racket. Juan Carlos Castillo Rincón, an employee of a logistics company in the United States, pled guilty before a Houston federal court to approving bribes in order to guarantee contracts with PDVSA. José Orlando Camacho, a PDVSA employee, was also found guilty.

How many more? So far 14 people have pled guilty to acts of corruption associated with Venezuela’s state-owned oil company. The investigation of these cases started following the arrest of two Venezuelan businessmen in December 2015.

Guilty. During the trial, Castillo admitted that he had conspired with Camacho between 2011 and 2013 in exchange for help in obtaining contracts and information on the company’s bid. Both are to be sentenced on February 21 next year.

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Are prices going to go up? The International Energy Agency (IEA) commented that if Venezuela's and Iran's exports continue to fall, oil prices could go up, unless there are increases in production from other sources.

More than Venezuela. The oil production of North Dakota in the United States in July was 1.27 mb/d. That is the same as Venezuela's entire production. What is more, in August, Venezuela produced 1.24 mb/d, nearly half of what it was producing in early 2016, according to OPEC's secondary sources.

BUSINESS SECTOR TIPS

New Tax Unit. *Gaceta Oficial* No. 41,479 published an adjustment to the tax unit. This is the fourth adjustment. It went from VES 0.005 to VES 0.0085, then to VES 0.012, and finally to VES 17. The last increase was 141,567%.

Charging fares again is complicated. On the day when the Caracas Metro started to charge fares again there were long lines and several unexpected developments. *Efecto Cocuyo* reported problems at several stations. At Capitolio, for example, most of the turnstiles were not in use and at both Bellas Artes and Plaza Venezuela, the lines of people waiting to buy tickets were incredibly long.

Total devastation. The president of the National Commerce and Services Council (Consecomercio), María Carolina Uzcátegui, reported that 40% of stores have closed, some temporarily and others for good. With a drop in sales of 90% and the minimum wage going up 60 times, companies are finding it impossible to continue operating. "*We are experiencing the biggest devastation in the commerce sector in the past century,*" she commented.

Beef prices that were *not* agreed. The president of the National Cattlemen's Federation of Venezuela (Fedenaga), Armando Chacín, said that he was in disagreement with the list of beef prices agreed by the government. "*They put a price in the Gaceta that wasn't agreed with the sector,*" claimed Chacín. The prices are between VES 80 and VES 90. He explained that those prices are one of the things that have caused the shortage of beef in the past few days.

No water, no life. At the end of last week, protesters filled Carretera H in Cabimas, Zulia state. Kidney patients were out on the road protesting over the lack of water, which prevents them from receiving dialysis. The lack of water for 48 hours has meant that the patients have been unable to receive their treatments.

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40 victims. Western Region Dialysis Center, which attends to 200 patients with kidney diseases, reports that at least 40 people have died in 2018 due to the dialysis machines being out of order. The fact that there is no money in the budget to repair them and the lack of water make it impossible for patients to receive the treatment they need.

The disaster caused by flooding. Inhabitants of the Orinoco Delta have lost their homes and many of their possessions due to the flooding that has occurred in recent months. The indigenous populations have been hardest hit. Liborio Guarulla, a former Governor of Amazonas State, said that this has been the worst flooding the state has experienced and he stressed the lack of action by the government for dealing with this situation.

Ignoring a growing problem. According to reports published by the authorities on August 14, 6,700 families have fallen victims to the flooding. Since then the situation has only got worse. The Pan American Health Organization has confirmed cases of measles and the number of cases of dengue has increased, yet the Venezuelan Government has said nothing about the number of people who have been affected.

No going back to school for many. The flooding has affected a total of 66 schools in Amazonas and Bolívar and a further 109 schools have been taken over as shelters for families that have lost their homes. Minister of Education Aristóbulo Astúriz was unable to say when these schools could start classes again. However, he did promise to distribute some 50 million school supplies to children throughout the country.

Malnutrition at election time. According to the nongovernmental organization Cáritas, the government bonuses have had an impact on acute child malnutrition. Its report for April-June 2018 shows that there was a gradual reduction in acute malnutrition from 14.1% in April, to 11.7% in May and to 10.5% in June.

Doing everything to raise the numbers... The same report highlights that, during those months, there were three increases in the minimum wage and at least three direct subsidy bonuses were issued: the Independence Day bonus, Labor Day bonus, and the election bonus granted for the presidential elections held in May. When it needs votes, the government steps up to the plate.

...but acute poverty is not fixed in just a few months. Even though the figures have improved, this is no guarantee that they will continue to do so, and the nutritional state of children in Venezuela is still precarious. The emergency malnutrition threshold established by the World Health Organization is 15%. Both Vargas and the Capital District have overstepped that threshold with 19.7% and 16.7%, respectively.

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WORLD ECONOMY TIPS

Expectations regarding the US. Analysts expect the United States to have increased its sales by 0.4% in August, in line with the 0.5% increase in July. It is also expected that the Federal Reserve will publish figures for industrial production and manufacturing production, with forecasts predicting a 0.3% increase in August.

The “war” continues. US President Donald Trump announced new tariffs of approximately 10% on Chinese products amounting to USD 200.0 billion. In response, the Chinese stock market closed this Monday at its lowest level since 2014. The 10% tariffs will go into effect on September 24 and will go up to 25% in early 2019, unless China and the United States reach an agreement.

Tariffs and more tariffs. In response, China has announced that it will impose tariffs on US products to the value of USD 60.0 billion. These tariffs, which are on meats, wheat and textile products, will also go into effect on September 24. China's finance minister explained that the Chinese Government is ready to negotiate with the United States in order to put an end to trade tensions.

China, the creditor. China has lent the Maldives approximately US 13.0 billion, more than a quarter of its GDP. This island nation is experiencing an infrastructure boom that has not improved the nation's productivity and is backed only by China. Therefore, economic stagnation might be a consequence. Because of this, it is one of the countries that pose the biggest risk to the Belt and Road Initiative being carried out by China.

No respite for Turkey. After a small recovery phase, the Turkish financial crisis is expected to return with a vengeance due to the exposure of Turkish banks to the volatility of the exchange rate through its loans to the corporate sector. The Turkish Government is considering measures to help banks cope with an expected increase in delinquency in loans caused by the depreciation of the lira and the huge increase in interest rates.

A strong but vulnerable Colombia. The co-director of the Central Bank of Colombia, Carolina Soto, announced that, although Colombia's economic recovery would be consolidated next year with an expansion of at least 3.5%, the economy continues to be vulnerable on the trade front. This vulnerability is due to global trade tensions unleashed by US protectionism.

More coming in than going out. The National Statistics Department (DANE) reported that Colombia increased the deficit on its July trade balance by 15.7% (USD 557.7 million)

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compared to last year. This imbalance was the result of imports of USD 4.16 billion and exports of USD 3.60 billion.

Argentina continues in a nosedive. The Argentinean peso fell before a millionaire bill auction by the central bank. This is a serious blow to the Argentinean economy, which has implemented a series of measures to suck up the largest quantity of pesos possible in order to achieve its recovery. Those measures include another increase in the legal reserve to avoid the transfer to dollars given the heavy devaluation of more than 50% in 2018.

Brazil's figures. According to the Central Bank's Economic Activity Index (IBC-Br), the Brazilian economy posted growth of 0.57% in July compared to June. The Central Bank's figures indicate that this is the second month of growth in a row, and that growth compared to July last year was 2.56%.

An historic low. The high level of uncertainty due to the presidential elections in Brazil caused the real to depreciate against the dollar to an all-time low, when it ended up trading at BRL 4.19/USD. At the same time, the Sao Paulo Stock Exchange, the biggest in Latin America, fell by 0.59%.

POLITICAL TIPS

Three attempted coups. According to President Nicolás Maduro, there were three attempted coups d'état between March and May. Responding to a question put to him by a New York Times journalist, Maduro claimed that his government had discovered three attempted coups d'état in Venezuela thanks to the intelligence and counterintelligence agencies of the Bolivarian National Armed Force (FANB).

Agreements in the National Assembly. The National Assembly passed an agreement rejecting Decree No. 3610 that establishes that there is an economic emergency in the country and that, consequently, grants President Nicolás Maduro exceptional powers. The agreement also states that all decrees issued by the Executive Branch lack validity and should be considered null, and it insists, furthermore, that the solution to the economic crisis lies in a political change.

Almagro on the crisis in Venezuela. The secretary general of the Organization of American States (OAS), Luis Almagro, said that a military intervention, under the "Responsibility to Protect" of international law, against the Nicolás Maduro administration to put an end to the suffering of the Venezuelan people could not be ruled out.

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The secretary's words. Almagro said: *"Let us talk about what we have to talk about. Of the horror of the dictatorship and its consequences and the force that International Law gives us and the instruments of the Inter-American Legal System. Our message, taken integrally, is not of violence, but is precisely to stop violence, to stop aggression and repression."*

The Venezuelan Government's reaction. In response to these words, Vice President Delcy Rodríguez said that she would denounce Almagro before the United Nations for promoting a military intervention in a way that was *"vulgar and grotesque."* She also claimed that Almagro was a *"usurper"* and that he pretended to *"revive the worst experiences of imperialist military intervention in the region."*

Rejection from the Group of Lima. In response to Almagro's statements, the Group of Lima, made up of ten Latin American countries that consider that there has been a rupture in the democratic order in Venezuela, rejected a possible military intervention. Rather it called for *"a peaceful and negotiated solution"* for restoring democracy in Venezuela.

The new Constitution. The chairman of the Constituent National Assembly's Constitutional Commission, Hermann Escarrá, said that Venezuela's new Constitution, drawn up by government supporters only, is inclined to include a form of organization and government based on the communes, incorporate the so-called militias as a component of the Armed Forces, and permit egalitarian marriage.

It's 80.0% ready. Escarrá explained that 80% of the work teams had already handed in their proposals and that they were waiting for four commissions, which they estimate will complete their contributions this quarter, because he believes that the discussion of each article in the Constituent National Assembly could start at the end of this year or the beginning of next.

Borges against Cuba. Deputy to the National Assembly Julio Borges rejected the resumption of PDVSA's shipments of medium crude to Cuba. *"It's an unjustifiable act on Maduro's part and is proof of his subordination to the Cubans. Giving away the little we have left, when we are in the middle of a humanitarian crisis, is treason,"* he said.

Falcón rejects "forced exit." When taking part in a humanitarian activity in Barquisimeto, former presidential candidate Henri Falcón took the opportunity to reject the invitations issued by some political sectors to promote "forced exits" and insisted that the true solution is a National Unity Agreement.

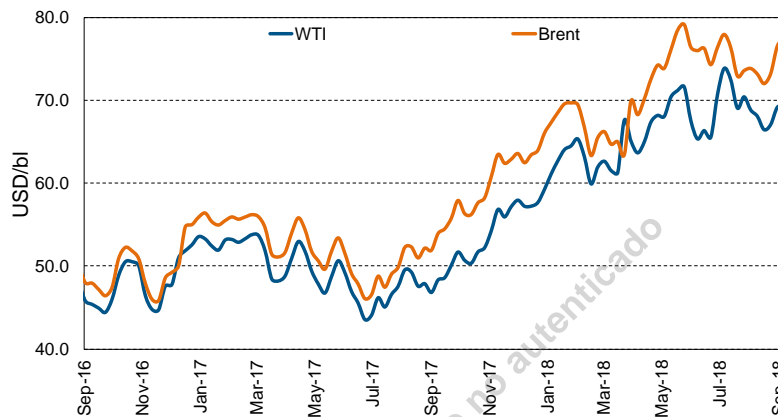
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The migratory “campaign.” The president of the Constituent National Assembly Diosdado Cabello insisted that Venezuelans are not going to other countries on foot. What is more, he claimed that the migratory wave was only a well designed campaign paid for by “*imperial forces*” in the United States.

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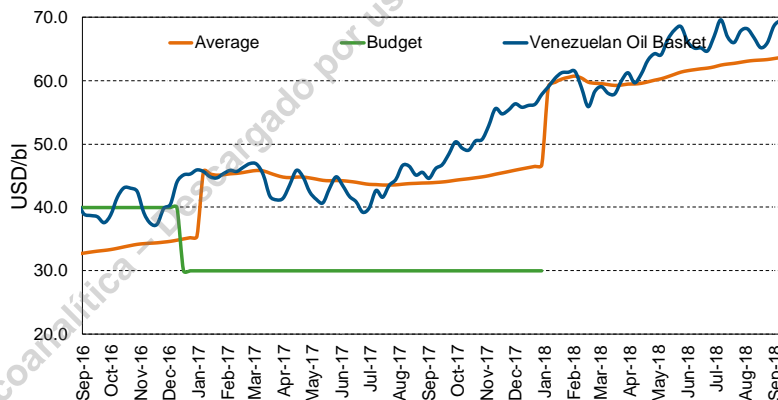
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



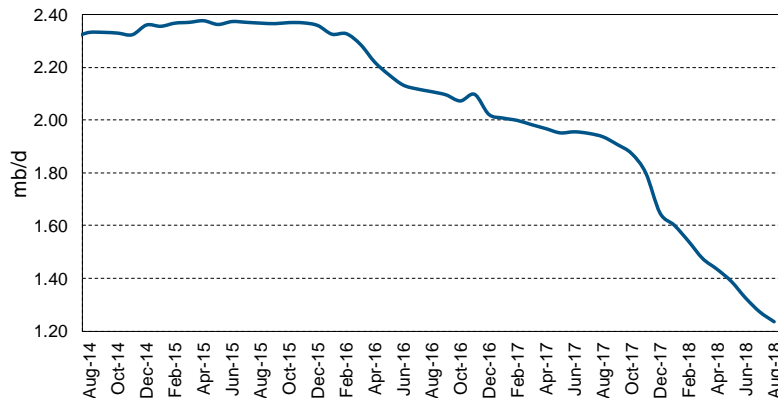
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

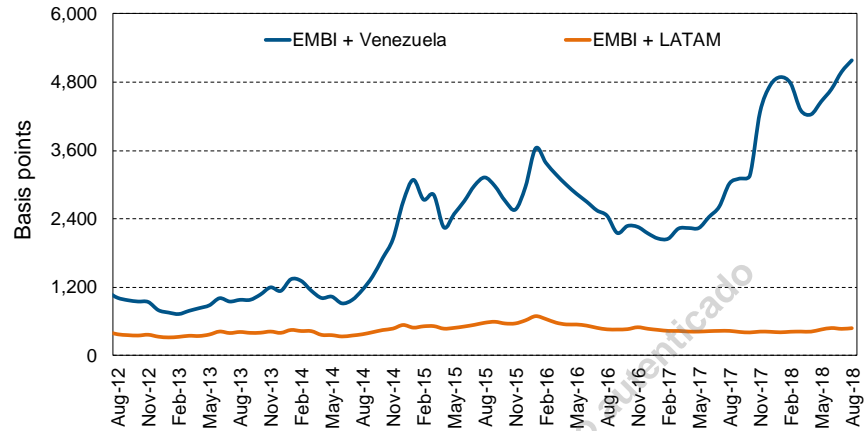


Sources: OPEC and Ecoanalítica

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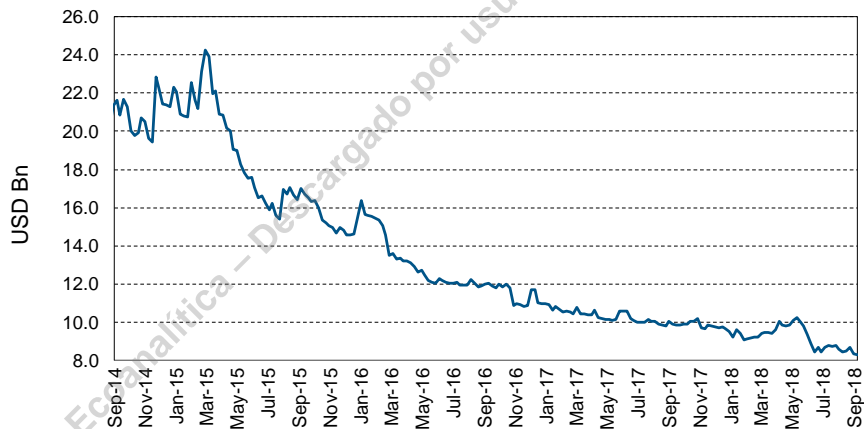
ECONOMIC INDICATORS

EMBI



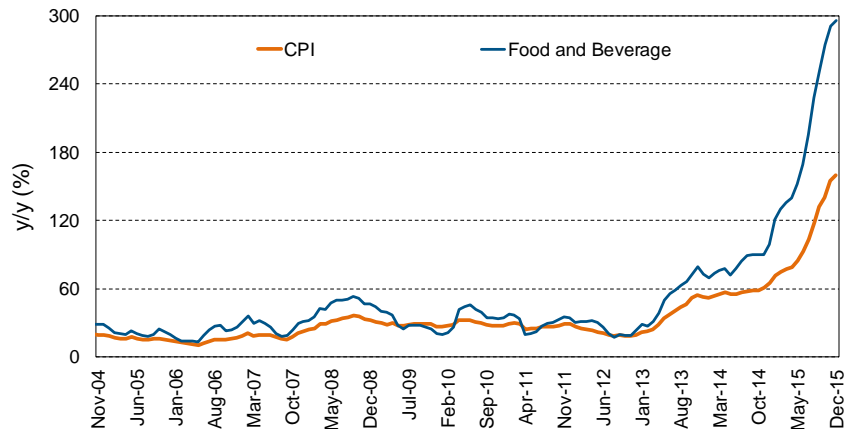
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



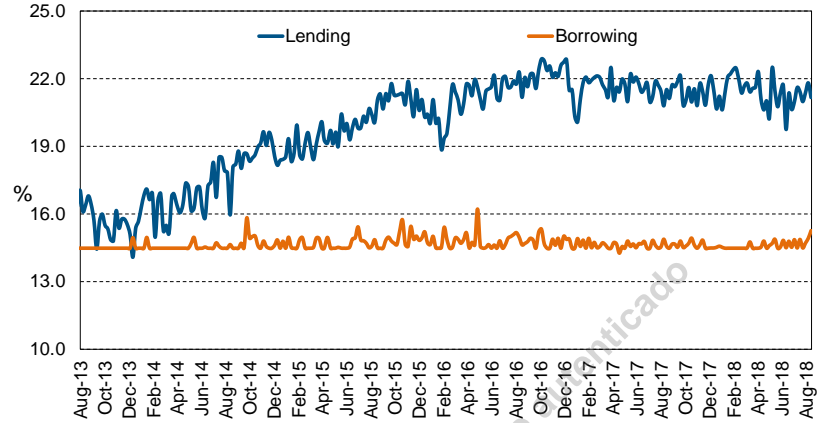
Sources: BCV and Ecoanalítica

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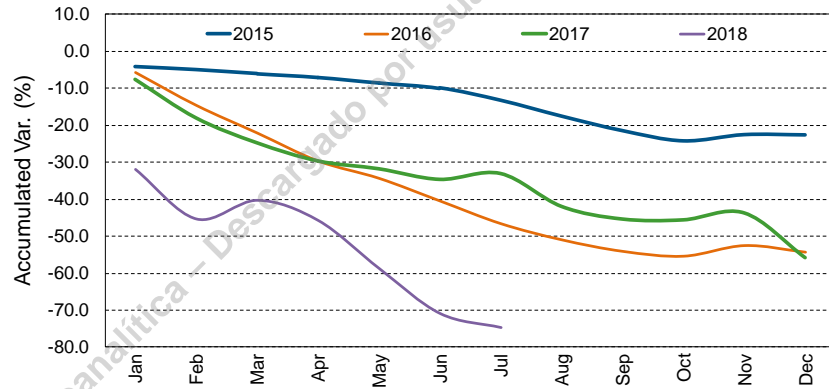
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



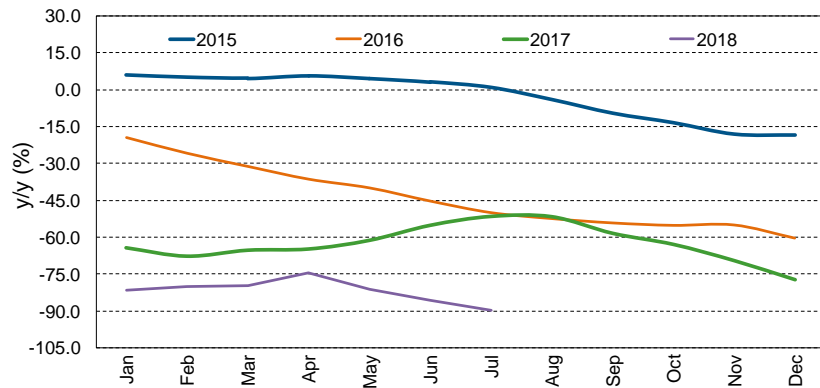
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

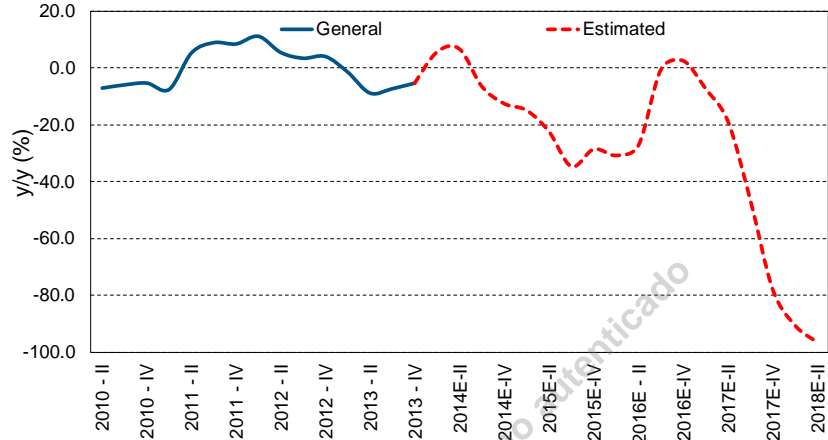
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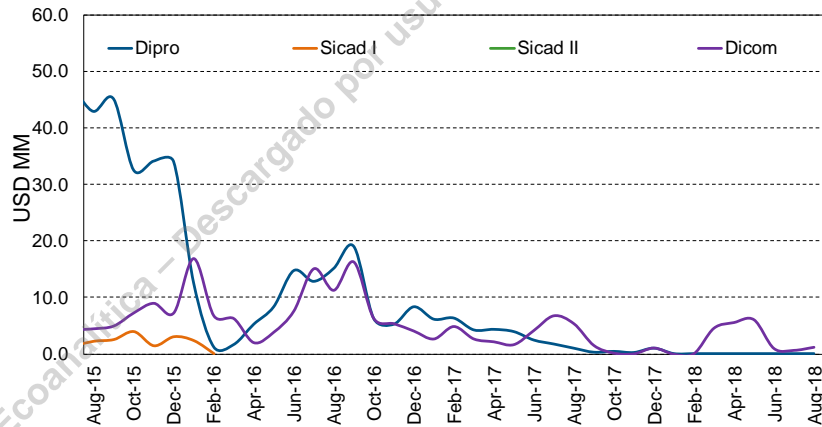
ECONOMIC INDICATORS

Real Wage Index



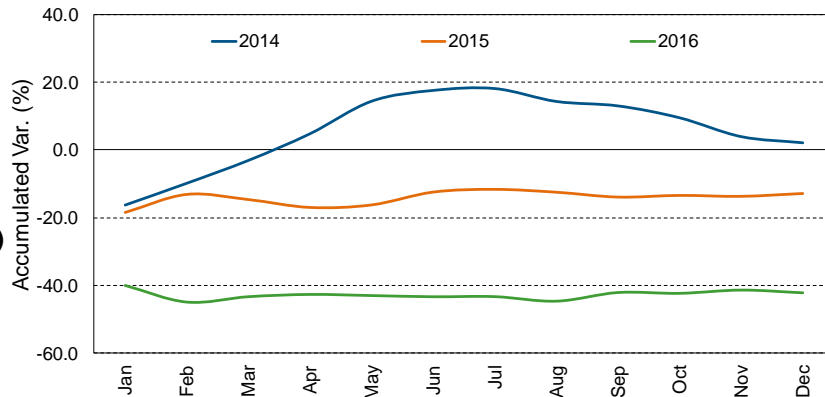
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

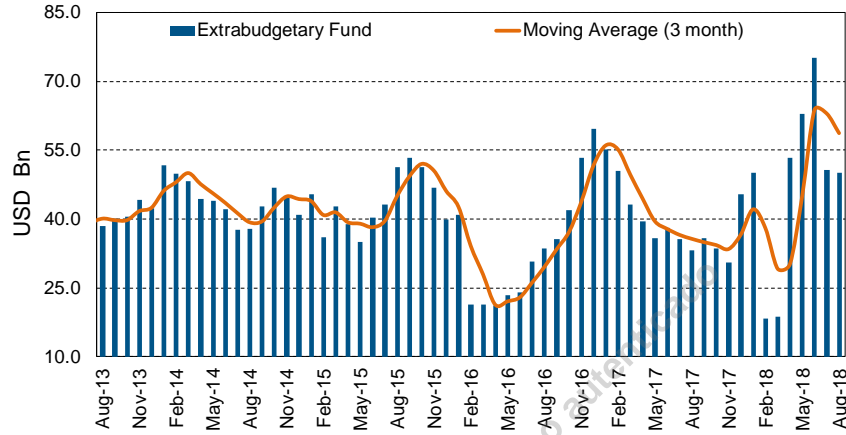
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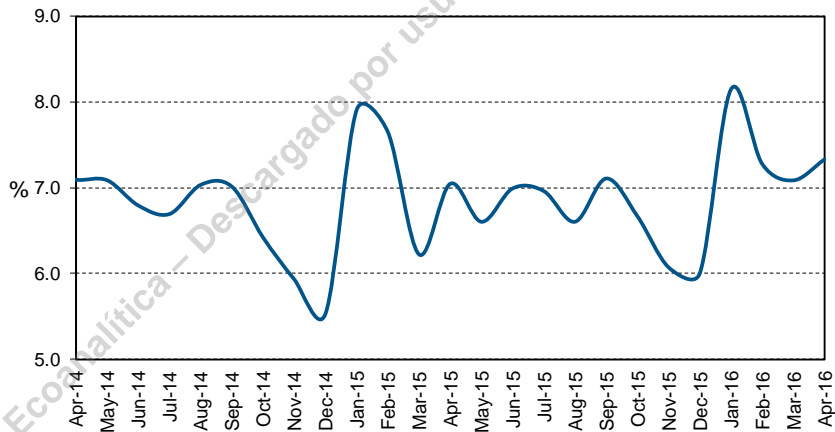
ECONOMIC INDICATORS

State Extrabudgetary Resources



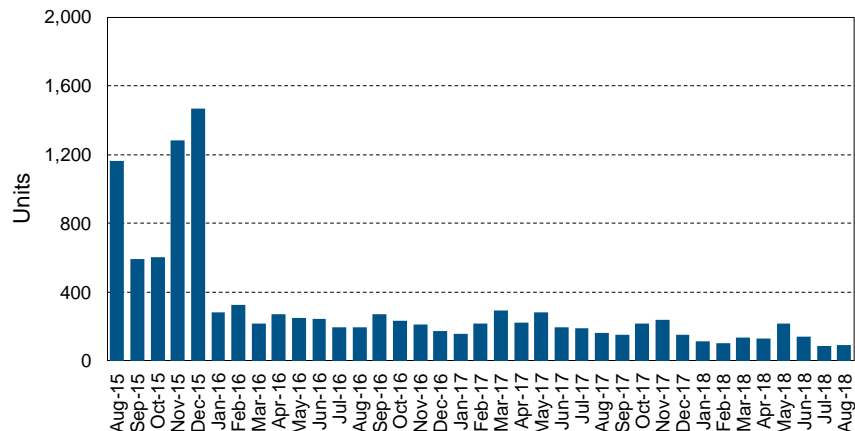
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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