

New limitations on local transactional dollarization: Sense or regulatory delirium?

Last Friday, the Venezuelan Central Bank would order, by means of an official notice¹, the ceasing of the offer of payment mechanisms to facilitate the acquisition of goods and services offered in Venezuela through foreign currency accounts in the hands of local banks. Strictly speaking, the new ordinance establishes electronic transfers (internal or from correspondents), payments abroad and cash withdrawals as the only means authorized to mobilize such accounts. Such limitations refer to Article 32 of Exchange Market Agreement I, which regulates local currency operations since mid-2018.

Strictly speaking, the new regulations seem to restrict recent innovations in local banking in terms of means of payment, with implications both for the banks themselves and at the transactional level. As we have pointed out in several previous reports, transactional and financial dollarization would be deepened to the extent that banks would have the mechanisms to allow the exchange between banks of foreign currency coming from deposits or custodies in such currencies and that, in addition, they would be allowed to intermediate such resources through financing to the private sector, something not authorized until now.

Within the new exchange rate framework, financial institutions found a new market niche: capturing the growing flow of foreign exchange and offering instruments to mobilize it internally or abroad, which could further nourish the bank's income from financial commissions. Several banks adapted their systems to facilitate the exchange of foreign currency among their own clients or modified their pre-existing electronic card mechanisms (including cell phone means) to allow a "dual" scheme of payments in *bolívares* and dollars in current transactions and mediated by the already operational point of sale system.

Although they do not enjoy the same popularity as traditional means of payment in *bolívares* (nor can they be equated with other forms of foreign currency, cash or electronic payments), little by little such deposits and associated products began to emerge as an alternative to the use of physical dollars, in a context where the fetish of deteriorated bills

¹ Available [here](#).

or the lack of low-denomination bills continues to impose friction on everyday transactions.

Similarly, despite the risk involved in maintaining foreign currencies in the local financial market (as they are subject to internal regulatory changes), some companies showed some preference for such deposits as transactions between different banking institutions began to gain feasibility, operationally speaking. Not in vain, deposits in foreign currency already cover more than 60% of total bank deposits, even considering public capital banks.

With all this, the new ban seems to put a brake (at least partially) on such improvements. As we shall see, beyond the reasons behind such a decision, the costs to both the private sector and the regulator do not seem to be negligible.

What motivated such a prohibition?

So far, no clear reason is known for the change in the BCV's stance on handling local transactional dollarization. Although the prohibitions refer to the criteria for mobilization of new foreign currency accounts established in Article 32 of the exchange market agreement², the offer of cash accounts in dollars and instruments for their mobilization is not a recent development. Since 2019, there has been a resurgence of new means to facilitate such mobilization, first *intranbank* (between clients of the same entity) and then *interbank* (for clients of different entities).

Perhaps the main argument behind such a measure *is the loss of the monopoly on means of payment* that the BCV faced as dollarization began to deepen. In the absence of a public sector controlled mechanism by which banks would exchange their clients' foreign currency deposits among themselves (the much mentioned *compensation system*), those banks that offered payment in foreign currency through electronic means had to resort to **private** exchange mechanisms. As a result, *inter-bank* transactions for current payments of goods and services through the network of points of sale or cell phone payment mechanisms, for example, were allowed.

Under such mechanisms, the circulation of foreign exchange outside the network regulated by the monetary authority could have increased beyond its interest, even considering the prohibitions that are also imposed on non-bank payment providers.

² The aforementioned article states that such recruits can only be mobilized by transfers, checks from the depositary bank drawn on its correspondents abroad, as well as through debit instructions for payments of consumer expenses and withdrawals made with cards abroad.

The lack of compensation outside the scope of the BCV may have other implications beyond its direct management. On the one hand, a scheme outside its supervision imposes challenges when it comes to taking advantage of such transactions through the implementation of taxes. Likewise, private compensation mechanisms may be covered exclusively by the participating entities and not by the regulator. In other words, foreign exchange transactions strictly mediated between private parties may not be guaranteed by the public sector (assuming that the public sector has foreign resources to act as a lender of last resort) in the event that, for example, one of the entities goes bankrupt³. In this view, such restrictions may be the beginning of the establishment of a formal compensation system that seeks to "correct" such operational and regulatory gaps.

What is the true scope?

While the new ordinance aims to limit some of the dollars used as means of payment in Venezuela, its objective is not to completely outlaw the use of foreign currency in local transactions. In fact, the new prohibitions only apply to instruments or services offered by local banks to mobilize funds in foreign currency in the hands of such entities; that is, merchants or service providers may continue to receive, in addition to cash, international cards and electronic means associated with foreign accounts.

However, there is some ambiguity in the new order with respect to its applicability to those products or services where money desk operations are mediated. In some cases, the compensation between banks for foreign exchange operations passes first through purchase and sale transactions at the exchange tables managed by the BCV. For example, when users use these means to pay in a trade with their foreign currency holdings, they are basically authorizing the bank that issued such instruments to sell (on their behalf) part of the foreign currency they hold at the bank.

With the *bolívares* obtained from such sale, the bank deposits the equivalent of the purchase in the account or deposit (in local currency) of the trade, using the mechanism of compensation in *bolívares* already existing in the issuing entity. Although this does not strictly qualify as a payment for goods and services in foreign currency (since these were used in a purchase and sale operation of *bolívares*), the new ordinance does not make it clear whether these transactions qualify as "prohibited". However, if the vision of the regulatory entity is to maintain control over the transactions, they would not be prohibited, since it depends on platforms under the direct control of the BCV: *exchange tables and clearing house in local currency*.

³ The absence of such guarantees or insurance would still occur under an official compensation system. Strictly speaking, the rules of the Social Protection Fund for Deposits (Fogade) do not contemplate offering coverage for foreign currency deposits in the event that the banks that collect such funds cease to operate.

What are the potential repercussions?

Even in the absence of further details, several effects can be foreseen with the implementation of the new measures.

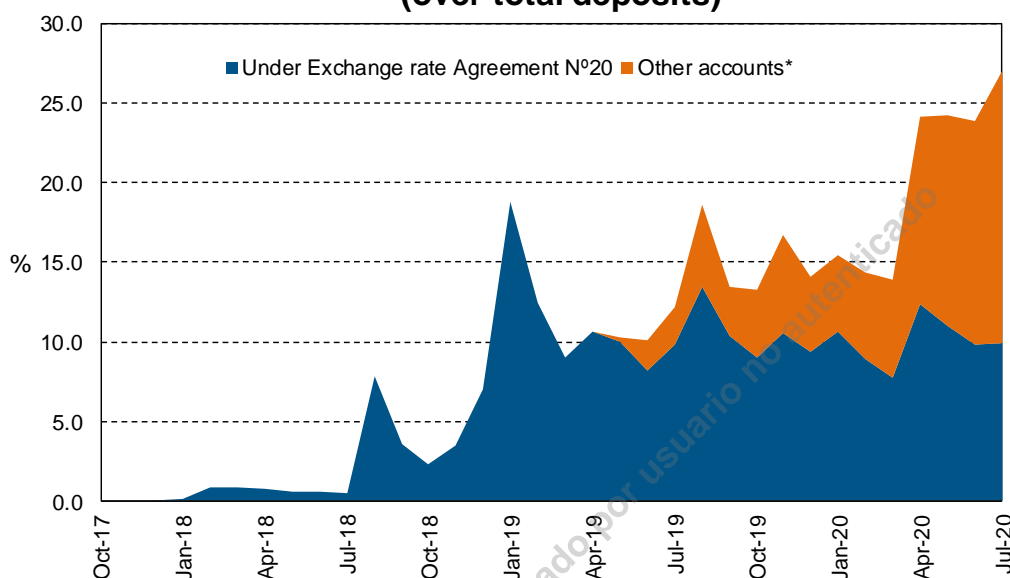
1. **Limits to internal currency circulation:** Although the use of foreign currency in cash and instruments or mechanisms associated with foreign currency accounts abroad (Zelle system or international cards) prevails, the prohibition would tend to hinder the transaction of these deposits. With the lack of local compensation schemes administered by regulators, for the owner of such resources moving their funds implies going exclusively to persons or companies that have accounts in the same bank (and make the transfers allowed in the new ordinance), even in the most basic transactions.

In this sense, although the new prohibitions do not imply a complete immobilization of the dollars deposited in the local bank, the universe of business premises, clients and suppliers with whom a user (a company, for example) accustomed to constantly mobilizing resources electronically and maintaining a deposit in foreign currency in a given bank, is notoriously reduced, since there is no card or means of payment associated with their accounts that can be used to acquire goods or services through other entities.

This seems not trivial if we consider that such foreign exchange networks have spread, in recent months, in the form of an expansion of foreign currency collections within Venezuelan banks.

Year 16. Number 37. Week III
 October 2020

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)

- 2. Reduction of incentives to demand deposits in foreign currency from local banks:** Based on the above, it can be stated that the fact that the BCV established this prohibition almost two years after the start of a less rigid exchange rate scheme (promoted by the issuing entity itself) and almost one year after starting to offer current accounts in foreign currency with instruments to facilitate such mobility (debit cards, payments by P2P or P2C systems) generates greater uncertainty about the true position of the monetary authority in matters of dollarization⁴.

In this sense, with the fear that the mobility of such resources will be further restricted, households and companies will not find greater reasons to keep foreign currency in deposits and will opt for resources with greater liquidity (cash) or for electronic instruments in foreign currency with less operational friction (Zelle). The lower interest in acquiring these deposits would also mean more bad news for local banks, since with fewer foreign currency accounts there will be less fees to compensate for the lack of traditional income.

⁴ This is particularly noticeable when such instruments have been offered even by public banks. In this sense, some state entities offered debit cards to mobilize the foreign currency deposited in such banks and which were acquired at the exchange tables managed by the BCV (see [here](#)).

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

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

- 3. (Larger) Loss of credibility of the issuing entity:** Linked to the above, the changes in the BCV's position on the management of foreign exchange end up undermining the "confidence" that local agents have with respect to the decisions that the Central Bank takes, from now on, in exchange matters. If we consider the use that the issuing entity itself has given to transactional dollarization as a means to contain hyperinflation and exchange rate tensions, we foresee that the "noises" that end up generating these sudden changes in position may play against it when it comes to implementing measures that divert the attention of Venezuelans from the *bolívar* (in favor of the dollar) or that even propitiate the adoption of an alternative means of payment in accordance with their interests or monetary "objectives".

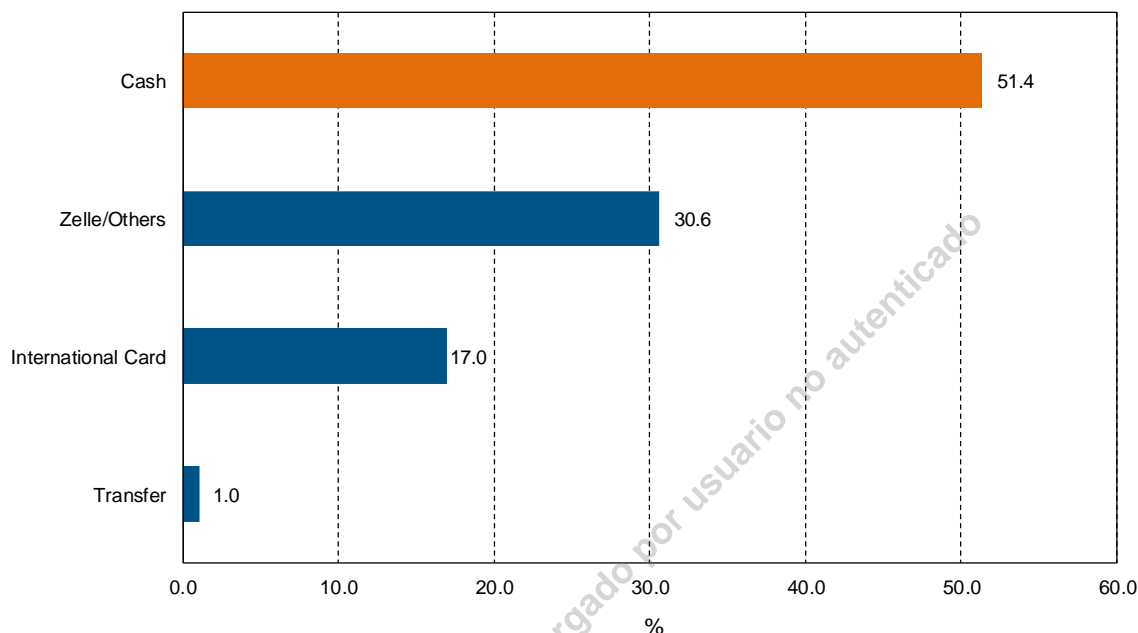
Proof of this is the apparent inconsistency between the new bans and the recommendations of the issuing body itself in a statement of August 6. In that communiqué, the local population was urged to use the means of payment offered by local non-bank operators authorized in accordance with the provisions of National Gazette Number 41,547. However, with the new limitations, the participation of certain non-bank actors in the provision of local means of payment was also prohibited; that is, it seems that the action of intermediaries of those services that the BCV itself ends up recommending as alternative means of payment is limited. With such inconsistencies in the decisions of the monetary authority (with respect to its previous positions), it seems obvious that fears resurface among local agents about a merely discretionary management of their foreign currency assets in the hands of local banks, especially in a context of a deficit of external resources on the part of the Executive.

- 4. Back to cash currency costs:** For those who do not have the means of payment associated with foreign accounts or who are not willing to face the high costs of exchanging with correspondent banks, the use of cash dollars is the only way to go, from a transactional perspective, under these new prohibitions.

On the one hand, for companies, the management and safeguarding of an increasing flow of physical currency has become a process that is not free of costs (payments for securities custody, insurance against theft, mechanisms for validating banknotes, among others), which were partially overlapping with cash accounts of wide mobility among local banks. If such collections lose mobility in the face of new prohibitions, their attractiveness as a safeguard for these funds is reduced, forcing businesses to return to the initial practices. Although businesses have already adapted to accept payments with charges to foreign accounts, not having electronic means in "local" currencies limits them in case any of the mechanisms already established fail.

Year 16. Number 37. Week III
 October 2020

Currency transaction methods (%)



Source: Ecoanalítica.

Note: Information collected from 20 to 22 July.

Similarly, businesses have shown in the last year that they are not prepared to deal with frictionless cash payments. Thus, cash transactions in foreign currency have mutated into a rather inefficient process for households, who frequently have to spend more dollars than estimated due to the lack of low-denomination bills, or must give up on purchasing products in various establishments because of the rejection of deteriorated or bad bills. In this sense, for families, the measure seems more expensive since foreign currency accounts with an associated debit card (or mobile payment means) served as an alternative to the use of "expensive" cash.

Luis Arturo Bárcenas.

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

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

Year 16. Number 37. Week III
 October 2020

WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week October	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD)²	446,205.46	1.8	1.7
	1st Week October	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	39.3	0.2	10.8
	2nd Week October	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	114.0	-1.8	-14.7
	2nd Week October	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	6.5	0.0	-19.3
	1st Week October	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	225,945,192	7.5	1,192.0
Price of International Oil Baskets (USD/bl)			
	1st Week October	Weekly chg. (%)	Annual chg. (%)
WTI	39.0	-2.0	-30.6
Brent	40.0	-2.2	-36.3
Price of the Venezuelan oil basket (USD/bl)			
	5th Week July	Weekly chg. (%)	Annual chg. (%)
Weekly Average	22.4	0.0	-61.9
Annual Average	28.8	-0.7	-51.7

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)² FX Boards' average exchange rate

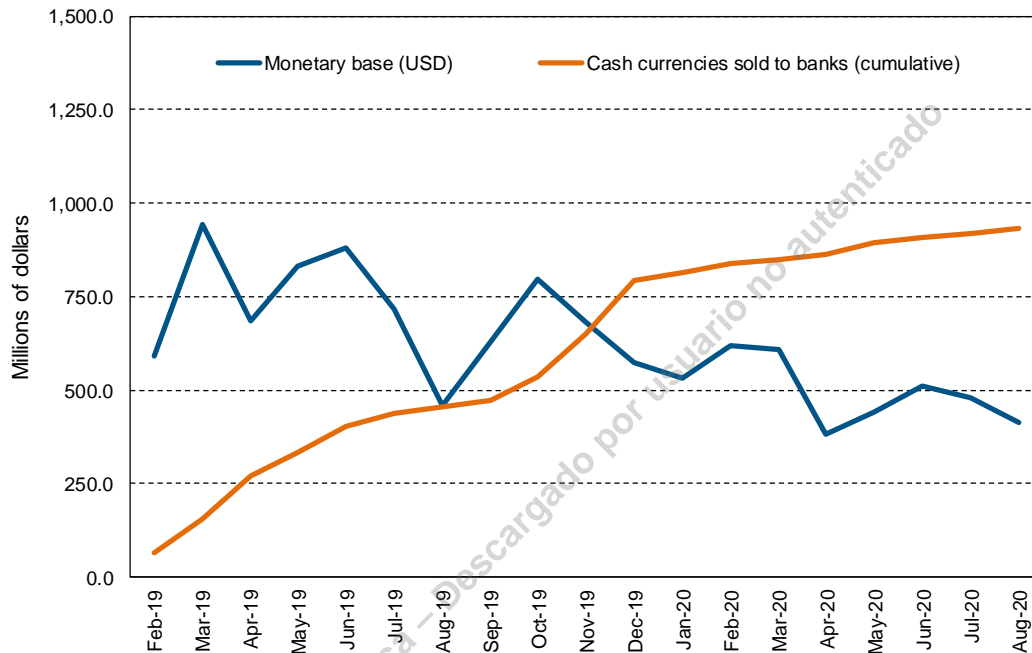
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 16. Number 37. Week III
 October 2020

CHART OF THE WEEK: “BCV CASH CURRENCIES BEAT THE MONETARY BASE”

BCV: Monetary base vs. cash currency sales



Note: Up to 2020 the foreign currency sales to the financial system were in EUR, from then on it has been exclusively in USD. For this graph they were placed on the same scale using the average USD/EUR exchange rate.
 Sources: BCV and Ecoanalítica.

Since February 2019, the Central Bank of Venezuela (BCV in Spanish) has sold foreign currency in cash to the financial system as a mechanism to stabilize the exchange market to complement the dismantling of the Dicom system. During 2019, the equivalent of USD 792.6 million was introduced to the Venezuelan economy.

Even when the volume of foreign currency sales slowed down in 2020, the accumulated amount of those currencies in cash, which was initially euros and then concentrated in US dollars, is significant when compared to other monetary indicators.

If we take the unofficial monthly closing exchange rate and compare it with the monetary base, the value of the same in dollars decreases progressively even though its amount in *bolívares* has technically not stopped growing. By August, the value of the money supply was USD 412 million. If we assume that all the cash currencies that the BCV has sold to the banks are still circulating in the Venezuelan market, then the accumulated

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

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

value of these currencies is, for the same period, USD 931.5 million, 2.3 times the total of the monetary base.

These currencies sold by the BCV are only a portion of the total currencies in the hands of Venezuelans. But their function of containing the exchange rate implies increasing the availability of monetary signs to which citizens are turning spontaneously to carry out daily transactions. By trying to contain the exchange rate, the BCV also partially facilitates the process of transactional dollarization in the Venezuelan economy.

© Ecoanalítica – Descargado por usuario no autenticado

ECONOMIC TIPS

COVID-19 in Venezuela. According to government figures as of October 15, the number of positive cases of coronavirus reached 85,005 and the number of deaths was 714.

Confined. For the week of October 11-17, the majority of the states in the country were managed under a scheme of general flexibility, where activity was allowed in staggered time bands of the different sectors of the economy, except in the capital city and some municipalities in border states where activities were carried out under radical confinement as part of the 7+7 scheme proposed by the government.

Updated projections. The IMF updated the projections for Venezuela in its World Economic Outlook report. In detail, the IMF worsened the projection of the drop in GDP to 2020 and placed it at -25%, when in the April report it had been calculated at -20%, while the drop in GDP in 2021 will be 10%, although it had been projected at 5% in the previous report.

From bad to worse. In addition, inflation is projected at 6,500% by the end of 2020, although in the April report it had been calculated at 15,000%. The same is true of projections for 2021. The balance of payments for the end of the year is estimated at -4.1%, while in the previous report it had been calculated at 2.4% of GDP

Our debt changed hands. According to Reuters, Guernsey-based Canaima Capital Management in the English Channel, Uruguay-based Copernicus and Cayman-Island-based Altana have purchased heavily discounted and defaulted bonds from Venezuela with a face value of hundreds of millions of dollars.

What are your plans? The funds argue that investors may be unable to recover past due interest payments for more than three years after 2020 by virtue of a clause, in the statutes of limitations, included in the bond covenants; however, this assertion has been flatly denied by the Venezuelan Creditors Committee.

They have to sue before they lose them. Altana has already taken legal action against Venezuela to try to force payment. In a lawsuit filed on October 8 before the U.S. District Court for the Southern District of New York, the fund demanded Venezuela to pay USD 108 million in unpaid bonds.

Is the clause to be feared? The clause has already been applied in some Argentine bonds in 2015, so these funds are closely following the dynamics of Venezuelan bonds. Meanwhile, the Venezuelan Creditors Committee (which mainly groups US investors who

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

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

are prohibited from negotiating Venezuelan debt), argues that such clause can only be applied at the time of payment of the arrears on principal and interest of these bonds.

Is anyone there? Meanwhile, the Ministry of Finance issued a statement extending the deadline for creditors to send their response to the "interruption of payments" offer made by the Minister of Economy and Finance, Delcy Rodríguez, which ended on October 13. According to Reuters, the offer has been largely ignored due to sanctions imposed by the US Treasury Department.

Countermeasure policies. The Central Bank of Venezuela ordered "*the immediate cessation of any product or service that the universal and microfinance banks are offering to their clients or users, in order to facilitate the payment in foreign currency of goods and services in the territory of the Bolivarian Republic of Venezuela, charged to the foreign currency accounts held there.*"

This is allowed. Despite this prohibition, local agents can still use credit card linked with foreign deposits abroad, where businesses must credit the payment in *bolívares* at the BCV exchange rate and the bank that receives the foreign currency must declare it in order to sell it at the exchange tables.

OIL TIPS

The figures for September (I). The new monthly report of the Organization of Petroleum Exporting Countries (OPEC) shows that, according to primary sources, Venezuela's crude oil production for September was 397,000 barrels per day (b/d), which represents a slight increase of 0.3% with respect to August.

The figures for September (II). According to secondary sources, September production was 383 kb/d, 14 kb/d lower than primary sources. This figure also represents a variation of 9.1% with respect to the previous month. The figures of both sources show inter-monthly increases.

3T2020. According to figures from secondary OPEC sources, Venezuelan crude oil production for the third quarter of 2020 averaged 359 kb/d. This amount is lower than the production of the two previous quarters, when Venezuela produced 730 kb/d and 501 kb/d in the first and second quarters, respectively. These figures are equivalent to variations of -50.8% and -28.3% in these periods.

Year 16. Number 37. Week III
October 2020

Improvements? Reuters agency reports that, according to internal company documents, PDVSA has had the highest oil mix in six months and an increase in oil exports, not seen in the whole quarter.

Able to... On Tuesday of last week, the Petropiar improver, a joint venture with Chevron, produced 115 kb/d of synthetic crude. In turn, Sinovensa, a mixed company operated with CNPC, produced 158 kb/d of Merey. The production of these improvers has been the highest since March.

Getting rid of inventory. Reuters reports that this is due to the increase in exports in September, which allowed PDVSA to reduce its inventories, which had risen to levels close to capacity when the United States imposed the sanctions.

You can't block the sun with one finger. However, this has not stopped the problems within the oil headquarters. On September 30, Petropiar stopped working for two days due to the explosion of a power transformer. It began operating continuously after October 3. The other upgraders, however, have not operated for over a year.

On fire (again). Last Friday, October 9, gasoline production was stopped at the El Palito refinery due to a fire in one of its units, reports Reuters. The catalytic cracking unit, fundamental in the production of fuel, was affected by the incident. *"They had to cut the load to the plant,"* a worker told Reuters.

Islamic Salvation (I). On October 9th, the Iranian tank set sail after unloading around 1.9 mb of crude oil at the José de Venezuela terminal, according to data from Refinitiv Eikon. The momentary relief of the situation of gasoline shortage in Venezuela is thanks to the Islamic nation and its oil imports, despite the US sanctions that both countries are facing.

Islamic Salvation (II). Reuters reports that Iran also shipped 2.1 mb of Iranian condensate to be used as a diluent in oil production. Subsequently, the Iranian ship loaded Merey crude oil, which has become emblematic in Venezuela, to be exported under an agreement between PDVSA and the National Oil Company of Iran (NIOC).

Shady aspects. In order to avoid US sanctions, many ships and cargoes coming from or going to Venezuela have changed their names and turned off their locators, according to Refinitiv Eikon data. Beyond the detention of a flotilla in July, the US has not intervened with the other oil operations that Venezuela has done throughout the year.

Manoeuvres with Tipco. Since January 2019, PDVSA has been seeking various ways to evade the effects of the economic sanctions imposed by the United States. One of them is the alliance with Tipco Asphalt, to whom Venezuela granted large discounts in

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

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

Year 16. Number 37. Week III
October 2020

the price of oil. Tipco paid the invoices of PDVSA and deducted the amounts from what it owed, according to information from The Associated Press (AP). In short, Tipco allowed PDVSA to move large amounts of money that it would not have been able to do otherwise.

Who is Tipco? Tipco Asphalt is a large Thai asphalt distributor. Its refinery in Malaysia is designed specifically to process Venezuela's extra-heavy crude oil, AP reports. This is because it is one of the best crudes to make the asphalt that this company sells.

How did it work? Tipco's role with PDVSA was that of a third party payment processor. The Asian company was transferring money from its accounts at a Thai bank to PDVSA clients around the world, AP reveals. *"PDVSA recorded what its customers owed and periodically sent detailed instructions to Tipco to pay its suppliers on its behalf"*. PDVSA agreed to provide invoices and bank certification letters so that Tipco could perform these transactions.

With the hands in the mass. According to AP, Tipco stated that its payments to third parties were *"perfectly legal"* and not prohibited by the U.S.; however, the latter further investigated these payments and informed Tipco that it could be sanctioned for *"challenging U.S. policy that seeks to deprive Maduro of oil revenues, a risk that Tipco itself acknowledged last month"*.

We better go. As a result, on September 11, Tipco announced that it would stop buying Venezuelan oil due to pressure from the U.S. administration and reported that, *"to avoid sanction, the company is taking steps to comply with the request"*. Tipco also commented that its refinery in Malaysia, which produces half of the company's asphalt, must temporarily close until sanctions against Venezuela are lifted or an alternative supply is found. After the announcement, the company's shares plummeted 40%.

Benefited by the Tipco scheme. AP reported that, since the beginning of last year, almost one hundred companies received large amounts of money under the scheme planned with Tipco. Some of these companies are the law firm Dentos, shipping companies, small Venezuelan companies with bank accounts in Russia and Turkey, and even OPEC, which received about USD 2.3 million.

Not everyone was aware. However, there has been some confusion about this scheme. Kamaz, a Russian truck manufacturer, reported that, as part of its agreements, it was asked for alternative methods of payment, such as receiving remuneration in euros rather than dollars, but was never advised that Tipco would be the one to make the payment. In other words, not all PDVSA clients seemed to be aware of this alliance.

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

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

Year 16. Number 37. Week III
October 2020

In sauce. The list of PDVSA clients who have made deals under this mechanism also includes suppliers with headquarters in the United States, whose names are not known. These are under federal criminal investigation. Any payments to these companies would violate U.S. sanctions unless they had a license from the U.S. Treasury Department.

We only know how to depend on someone else. Due to this alliance and its implications, PDVSA has become dependent on Tipco when performing different operations as a financial intermediary. AP reveals that a recent presentation by PDVSA shows that foreign income at the Central Bank has decreased 90% since the imposition of the sanctions.

Why did Tipco do it? Tipco's profit within this agreement is clear: the oil discounts were significant. The company was receiving cheap oil to boost its asphalt production. AP reports that, while crude oil prices were USD 41/bl in the summer, discounts from PDVSA to Tipco were USD 25/bl for a 700 kb shipment. This represents a discount of 60.9% for the Thai company.

We are: desperate. PDVSA offered to send Tipco oil without charging it for the freight, thus reducing the risk of sanctions against "ship owners, shipping operators and insurance companies" doing business with Venezuela.

Everything under the table. Despite the fact that Venezuela was the supplier of 90% of the crude used in its Malaysian refinery, neither PDVSA nor its country of origin are mentioned in Tipco's reports. Its last mention was in 2018. However, a spokesman for the U.S. Department of State's Bureau of Western Hemisphere Affairs commented to AP that, by having a refinery designed to process Venezuelan crude, *"we have been aware of Tipco's operations and continue to be interested in how they do business"*.

SECTORIAL TIPS

2020 with no way out. The National Institute of Civil Aeronautics (INAC) extended (again) the restriction of air operations in Venezuela until November 12; therefore, the reactivation of commercial, national and international flights will remain in abeyance.

With some exceptions. INAC reiterated that there will only be authorizations for emergency flights, cargo and mail flights, humanitarian travel and repatriation of citizens from Venezuela to their countries of residence.

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

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

Which airports? In the statement, the INAC ratified the closure of the airports of Maiquetía, Maracaibo, Porlamar, Barcelona, Barquisimeto, Valencia, Punto fijo, San Antonio del Táchira, Santo Domingo, Puerto Ordaz, Maturín, and Caracas (Charallave).

Unjustified extension. The president of Fedecámaras, Ricardo Cusanno, objected to the decision taken by the INAC and cited investigations that reveal the low incidence of virus transmission on board. He added that the extension "*puts thousands of jobs at risk without health reasons*".

An informal country. The general director of the Association of Workers, Entrepreneurs and Micro-entrepreneurs (Atraem in Spanish), Alfredo Padilla, said that more than seven million Venezuelans work in informal commerce, living off what they produce daily. This figure represents more than half of the economically active population in Venezuela.

A diverse group... Padilla explained that these jobs, despite being part of the informal sector, should not be qualified as "*peddlers*", since in many cases professionals provide their services without intermediaries. For example: teachers who teach on their own and technicians who repair objects at home.

...and in need of help. Due to this, the Director of Atraem advocated the creation of public policies to facilitate the registration of new businesses and the collaboration of private companies for the advice and training of new merchants.

One third lost. Leudo Gonzalez, president of the Superior Council of Tourism (Conseturismo), reported that about 30% of the inns and small hotels have indicated that they will not open after the pandemic, due to the seven-month standstill.

The usual: reactivation and exonerations. In the face of these adversities, Gonzáles asked the Venezuelan government to progressively reactivate tourism operations in the country considering the economic reality of the sector. Additionally, he asked for the suspension of payment of public services to hotels that lodge patients with coronavirus.

No more 7+7. The Chamber of Commerce of Maracaibo called on the Venezuelan government to enter into a permanent flexibilization of all sectors of the economy, because after almost seven months without work, there are sectors that cannot continue to pay payroll, taxes and rents without generating income.

May he rest in scarcity (I). The director of the National Chamber of Funeral and Allied Companies, Joel Urribarri, highlighted the difficulties that the lack of fuel has brought to the transfer of the bodies, despite being one of the priority sectors for the supply of fuel in the service stations.

May he rest in scarcity (II). Urribarri pointed out that the sector has had to acquire gasoline through resellers at a price of USD 3 per liter, in view of the congestion that is generated at the stations.

Active? The Minister of National Trade, Eneida Laya, assured that more than 80% of the national trade was activated during the week of flexibilization between October 5th and 11th. Maduro explained that, among the authorized sectors, construction was activated 92%, shopping centers 90% and textile and footwear 87%.

A different story for the banks. With respect to the banking sector, Maduro reported that 1,782 agencies were active throughout the country, representing 60% of the banking sector, serving 1,829,616 people. Additionally, the President pointed out that the simplification of procedures for the constitution of Small and Medium Enterprises (SMEs) allowed the registration of 1,507 new companies.

INTERNATIONAL TIPS

COVID-19 in the world. According to figures published by the World Health Organization (WHO) as of October 15, the number of positive cases of coronavirus reached 38,510,232 and the number of deaths was 1,092,144.

Contraction for (almost) everyone. According to the October World Economic Outlook (WEO) report, the International Monetary Fund (IMF) forecasts that the world economy will contract by 4.4% in 2020, less than projected in the June report, and grow by 5.2% in 2021.

China is saved from contraction, the United States is not. For the world's two largest economies, the United States and China, the IMF forecasts that the former will contract -4.3% this year and have a 3.1% recovery by 2021. In contrast, the agency projects that China will grow in both periods, 1.9% in 2020 and 8.2% in 2021.

Latin America: "a little bit better". For the Latin American region, the IMF projects a contraction of 8.1% in 2020, less than the 9.2% drop expected in June, but reduced its expansion projection for next year to 3.6%.

Thanks to the world powers. Although Latin America's projections imply production losses, these have been moderating due to the accelerated rebound of its two main trading partners, China and the United States, in the last quarter.

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

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

Reviving the second flank of the trade war (I). The World Trade Organization (WTO) gave the European Union the right to impose tariffs on approximately USD 4 billion in products from the United States, in response to subsidies granted to the aircraft manufacturer Boeing.

Reviving the second flank of the trade war (II). Today's decision follows a resolution last year by the same organization that allows the US government to impose tariffs on USD 7.5 billion in EU goods for state support given to Airbus, which has offices in the UK, France, Germany and Spain.

Reviving world trade (I). According to official figures from the Government of China, the Asian country's exports in September grew 9.9% over the same period last year, above the 9.5% increase reported in August. While imports in September expanded 13.2% in year-on-year terms, after presenting a fall of 2.1% in August.

Reviving world trade (II). The increase in imports caused China's trade surplus in September to fall to USD 37 billion, lower than the USD 58.93 billion surplus in August.

All is well, for now (I). Haruhiko Kuroda, Governor of the Bank of Japan, said that the Japanese economy was beginning to recover and was likely to continue to do so thanks, in part, to the momentum of fiscal and monetary stimulus measures.

All is well, for now (II). Kuroda clarified that, although consumer prices will fall for the time being due to lower oil prices, they are likely to recover as the effects of the pandemic on the economy diminish.

The evidence. Following Kuroda's comments, it was reported that orders for basic machinery from Japan increased by 6.3% and 0.2% in July and August, respectively. The increase was due to strong orders for general production machinery as well as oil and coal products.

Low performance at the moment of truth. The German Federal Statistical Office reported that German industrial production fell by 0.2% in August, after an increase of 1.4% in July. The German Ministry of Economy added that current industrial production is equivalent to approximately 90% of pre-crisis production in the fourth quarter of 2019.

POLITICAL TIPS

Shall we continue? Yes! The Ministers of Foreign Affairs of the European Union conveyed their support to the High Representative for Foreign Policy, Josep Borrell, to continue facilitating the dialogue between the regime and the opposition in Venezuela.

Shall we stop? No! Arancha González Laya, Minister of Foreign Affairs of Spain, expressed that *"it is the mandate by which the High Representative sent a team to Venezuela, to continue trying that facilitation"*, although she considers that *"the conditions for these (parliamentary) elections to take place do not meet the necessary requirements from the democratic point of view"*.

If these are my friends... Alberto Fernández, president of Argentina, in his first public statement on Venezuela, after Argentina voted to renew the Independent International Fact-Finding Mission to Venezuela for two years, stated that human rights have no ideology and that, if they are violated, they are violated.

...why do I want enemies? The Argentine president has never agreed with the position of the Lima Group and considers that *"behind the whole proposal to Venezuela there is a geopolitical proposal, there is an expressed interest of the United States, there is a war unleashed by the United States more with commercial than political foundations. But that is one thing and the problem of human rights is another"*.

Ensuring transparency. On October 9, Juan Guaidó installed the National Council for Judicial Defense of the Republic with the mission of guaranteeing an efficient and transparent process in the contracting and legal processes carried out by the interim government.

Assembling the team. According to information published by the National Communication Center, the Council is composed of David Natera, Council Secretary, Arghemar Pérez Sanguinetti, Romer Rubio, Jonathan López, Gabriel Gallo and Freddy Orlando.

Collateral damage begins. On Monday, October 12, officials of the Bolivarian National Intelligence Service (Sebin in Spanish) raided the house of the director of the Caroní Post Office and recently appointed secretary of the National Council of Judicial Defense of the Republic, David Natera. After the raid, Natera is being held in the headquarters of the Sebin in San Felix.

Threatening utopia. At the Internationalist Festival of the Peoples in Resistance 2020, Nicolás Maduro assured that *"in Colombia more than a thousand mercenaries are being prepared under the training of the Colombian National Army. They are doing so under the intelligence structures of Colombia, under the knowledge, protection and support of President Ivan Duque"*.

False of all falsehoods. In response, the Colombian Foreign Ministry published on its Twitter account that *"The Colombian Government rejects the statements of the dictator Nicolas Maduro as false and absolutely lacking in truth"*. Furthermore, the Government of Iván Duque added that *"Maduro intends to distract attention from his human rights violations and attacks against the population and democracy"*.

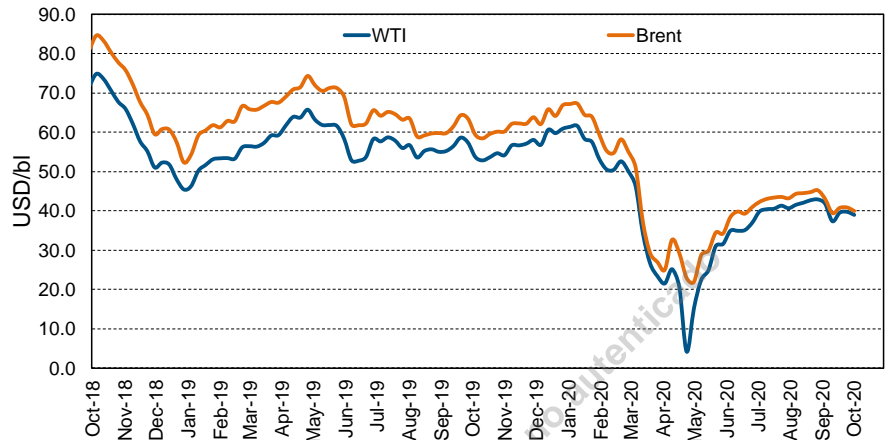
Criticism of the anti-blocking law. The presidential commissioner of Foreign Affairs of the Interim Government, Julio Borges, assured through his Twitter account that the anti-blockade law *"is the officialization of organized crime in Venezuela. The international community and the FANB must reject this maneuver that only seeks to grant Maduro unlimited powers to deliver the money and national sovereignty to his partners"*.

What did I get myself into? José Gregorio Correa, a deputy who was expelled from Primero Justicia for running as a candidate in the parliamentary elections, sent a request to the European Union to send to Venezuela the same observation team sent for the elections in Bolivia next Sunday, October 18.

A no is expected as an answer. The EU stated to AFP that *"the policy of the European Union on Venezuela has not changed: the conditions are not in place for a free, fair and democratic electoral process to take place, and without those conditions the EU cannot consider sending an electoral observation mission"*.

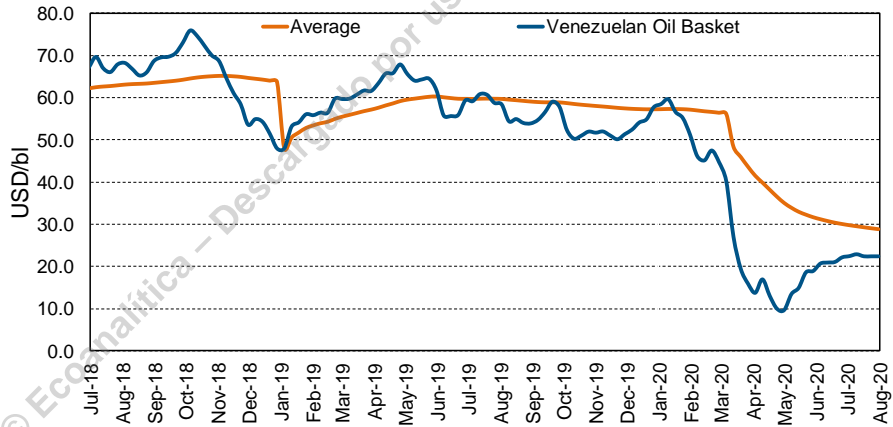
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



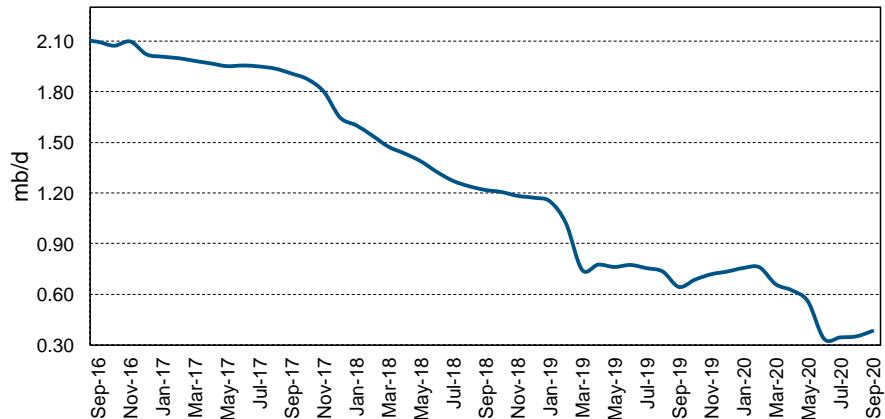
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

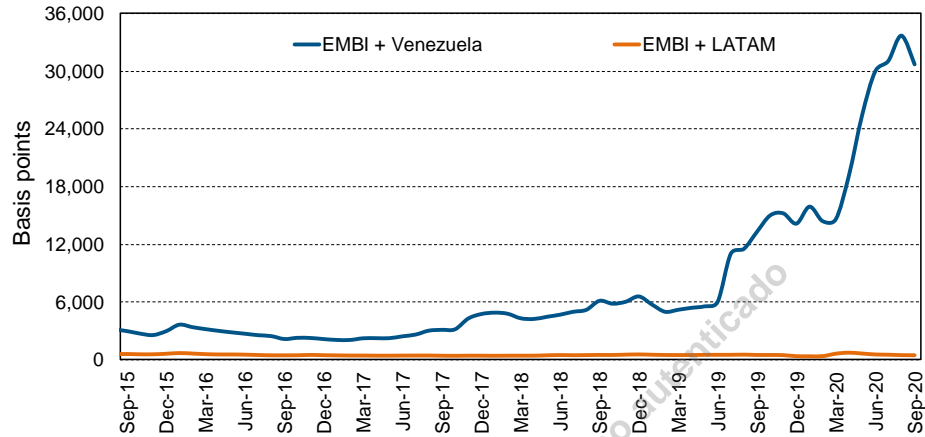
**Oil Production
(Secondary sources)**



Sources: OPEC and Ecoanalítica

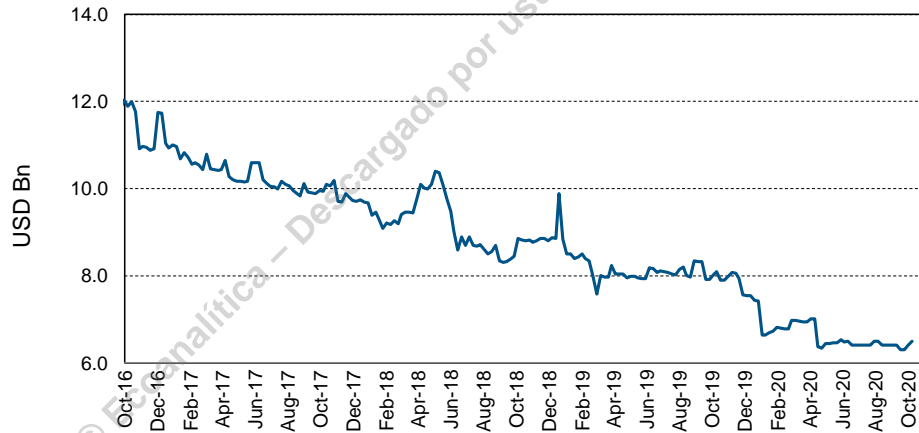
ECONOMIC INDICATORS

EMBI



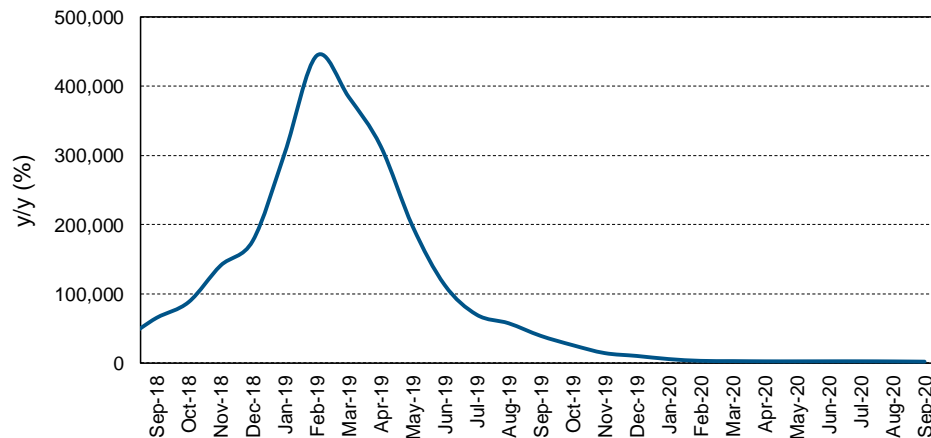
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

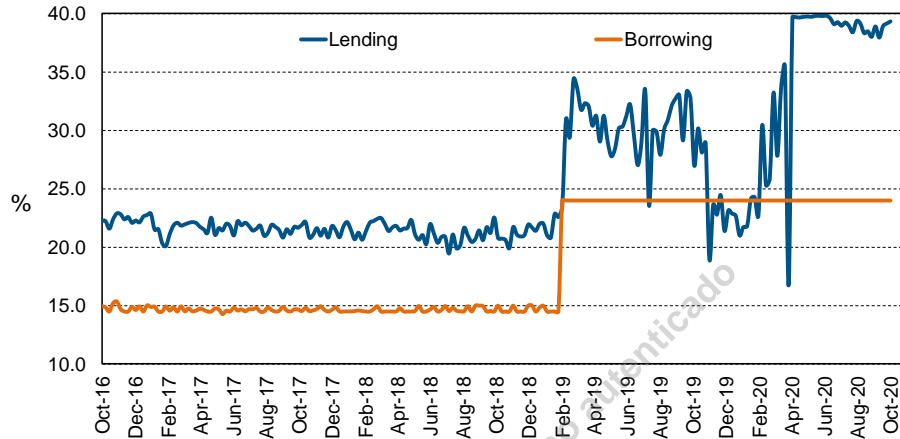
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 16. Number 37. Week III
October 2020

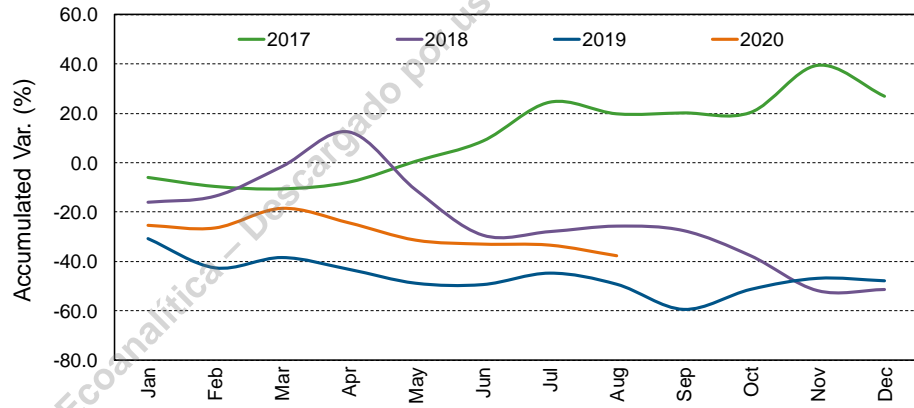
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



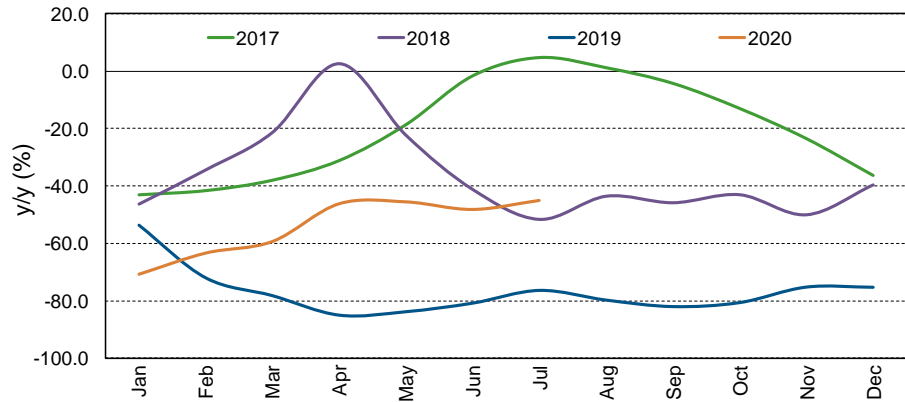
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

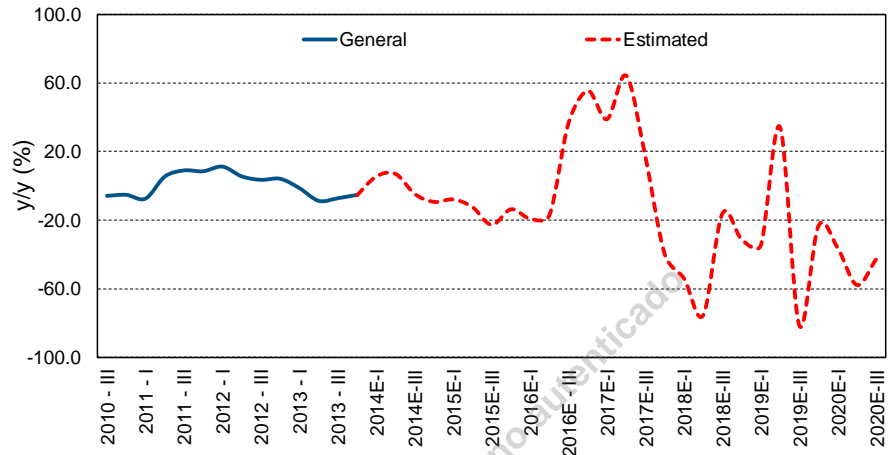
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 16. Number 37. Week III
October 2020

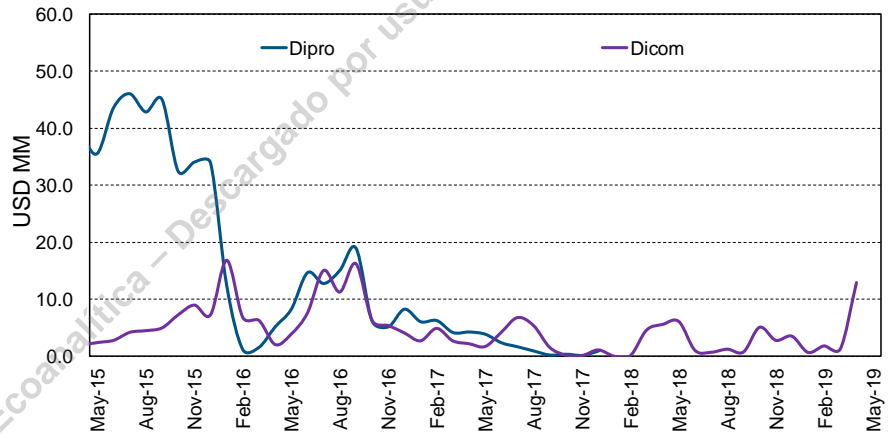
ECONOMIC INDICATORS

Real Wage Index



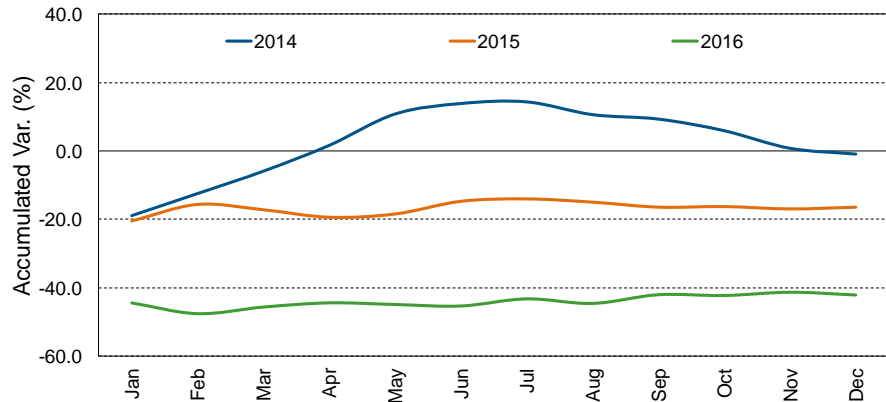
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

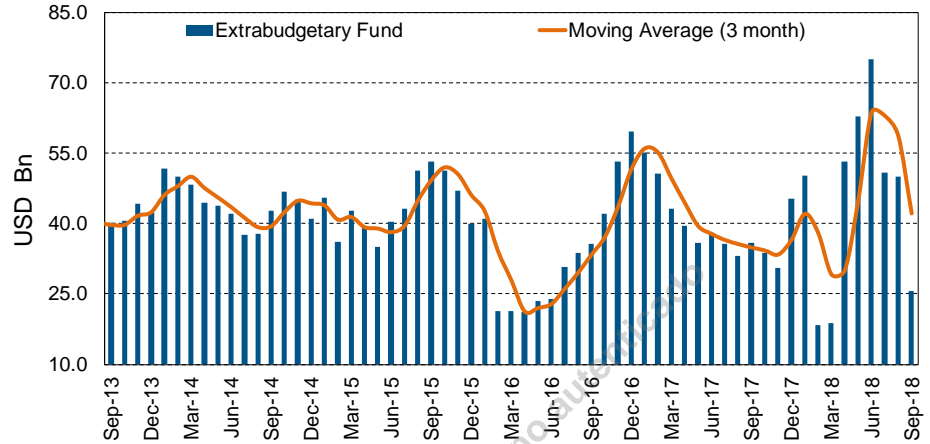
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

Year 16. Number 37. Week III
October 2020

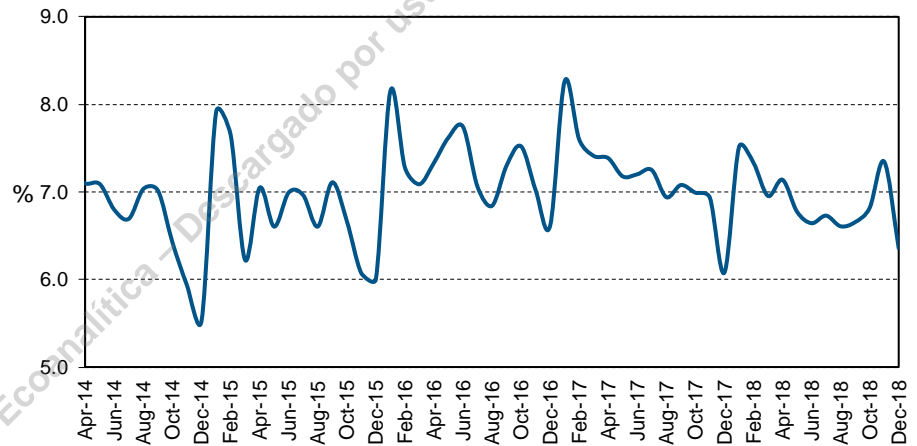
ECONOMIC INDICATORS

State Extrabudgetary Resources



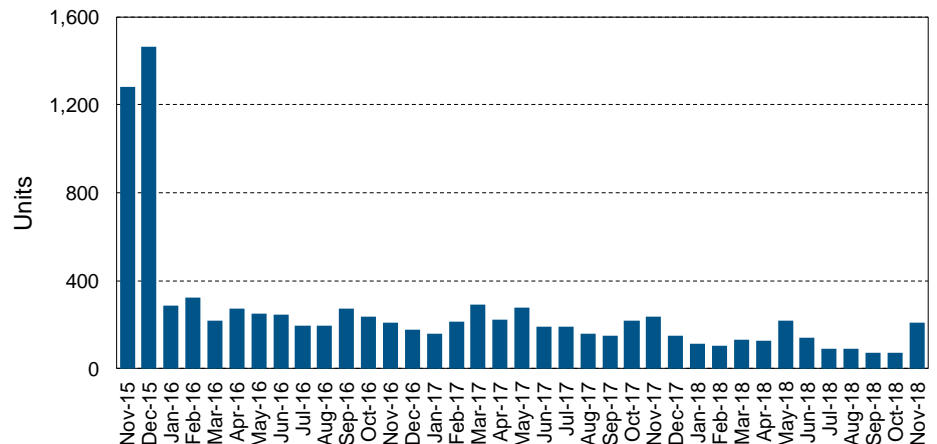
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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

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

ECOANALÍTICA'S TEAM

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

crisinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

Giorgio Cunto Morales / Economist

giorgioc@ecoanalitica.net / @giorgiocunto

Corina Fung / Economist

corinaf@ecoanalitica.net / @corinafung7

Jhoan F. Castellano / Economist

jhoanc@ecoanalitica.net / @castellanojhoan

RESEARCH ASSISTANT

Diego Santana

Diego Almau



CONTACT US

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

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalitica