

History of an economic deformation

One thing that characterizes Twenty-first Century Socialism is the way it has gradually intervened in all aspects of the Venezuelan economy. All prices have been nominally distorted, and every distortion has turned in bigger inefficiencies. The result is an extremely atrophied economy that ended up contracting 53.1% over five years and plunging 87.0% of Venezuelans into poverty.

The price distortions have not only affected Venezuela's economic relations on the domestic front, they have also influenced our trade relationship with the rest of the world. Consequently, and in order to put our present situation into context, it is important to evaluate the historical variations in domestic relative prices and compare them with international relative prices.

This report seeks to give a detailed description of how the real exchange rate in Venezuela has evolved by type of product in order to expose two of the most pernicious practices in the history of *Chavismo*: the destruction of the system of relative prices and the erratic handling of international trade relations.

The calm before the storm

Controls on nominal prices tend to generate inefficiencies of lesser magnitude the more inflationary monetary and fiscal pressures are kept in check. As for exchange nominal controls, they are only sustainable as long as there is sufficient foreign currency to supply agents who are demanding it at the official exchange rate.

However, as inflationary pressures push up prices while only some of these prices are strictly controlled, the relative price between controlled and uncontrolled prices will diverge indefinitely. Similarly, as soon as the amount of foreign currency available to the State becomes restricted, the State's control over the foreign exchange market disappears and, in a distorted economy, the relationship between local prices and international prices, for those that cannot access to official mechanisms, will also take a diverging path.

In 2008, with the average price of the Venezuelan Oil Basket at USD 88.6/barrel, the economy was strong enough to supply foreign currency at an official exchange rate of VEF 2.15/USD without there being any pressure to devalue. In fact, between policies of delaying the payments in bolivars to the State's suppliers and restrictions on credit offered

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by the state-owned banks, the government was able to get the implicit exchange rate in the swap market to appreciate by 61.1%.

In 2009, things were different. External restrictions forced the government to reduce imports brought in at the CADIVI (Foreign Currency Administration Commission) rate from USD 38.7 billion in 2008 to USD 25.7 billion, and even to cut the travelers' allowance. To partially offset the drop in CADIVI disbursements, the private sector increased its imports by 88.8% financed with foreign currency obtained in the swap market, and the parallel exchange rate depreciated by 12.9%.

That year, food subsidies via the government's food distribution chains Mercal and Pdval reached 40.0% and 51.0% of the population, respectively, and public transport, electricity, telephony, and housing rent subsidies increased. These subsidies just mitigated price increases on some sectors which, combined with inflationary and pass-through pressures, caused depreciation in the real exchange rate that differed depending on the type of product.

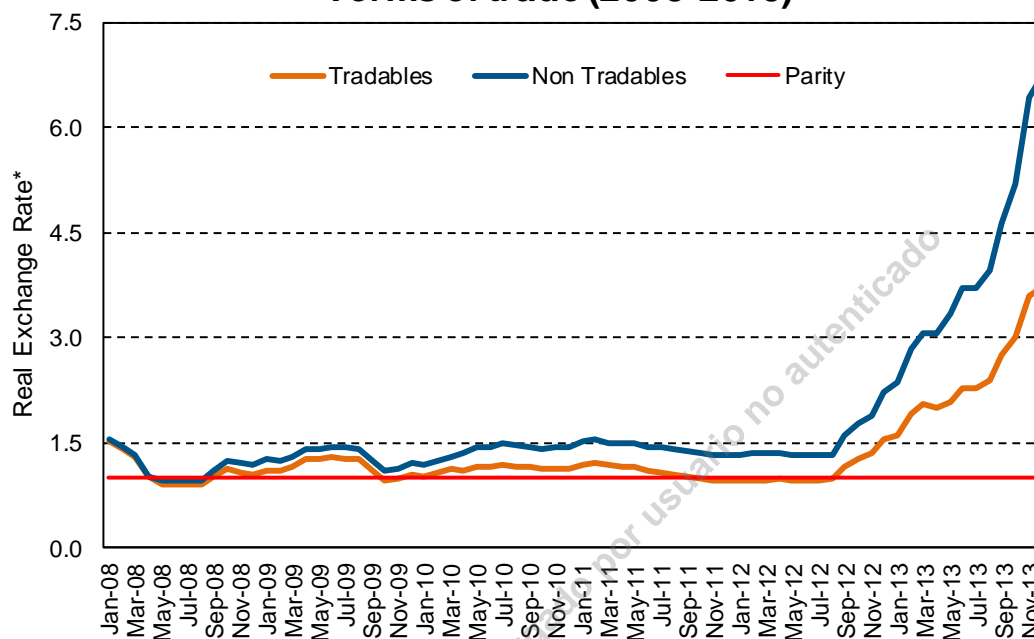
According to our real exchange rate model, whereas the subsidies caused extreme undervaluation closing 2009 in telecommunications and housing of 54.0% and 62.4%, respectively, the undervaluation of other items, such as alcoholic beverages and tobacco, only came to 6.3%.

A distorting turning point

Between 2009 and mid-2012, differences among subsidized / non-subsidized's terms of trade were enlarged, but on average the basket remained relatively stable in real terms for the most part. But in September 2012, everything changed. The run-up to the presidential elections generated an increase in the demand for foreign currency to provide coverage, given the climate of uncertainty and an expansion in government spending that was financed with the emission of money. In addition, the deterioration of the oil situation forced the government to reduce its daily disbursements of foreign currency by 14.5%, via both CADIVI and Sitme (Foreign-Currency Securities Transactions System), compared to the previous year. On the orders of the Ministry of Finance, the supply of foreign currency in the parallel market was also stopped.

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Terms of trade (2008-2013)



Sources: BCV and Ecoanalítica

*A real exchange rate higher than 1 is considered to be undervalued, and lower than 1 overvalued

In 2013, the Sitme was eliminated and the CADIVI rate had to be devalued by 31.7%. However, despite the depreciation, the variation of 72.7% in the parallel exchange rate increased the foreign exchange gap to 916.4%. On the other hand, price controls, still latent, restricted inflation and caused an accelerated real depreciation of the exchange rate, accentuating. Moreover, the differences in the terms of trade between the regulated and non-regulated sectors.

The restriction of foreign currency got steadily worse as the oil industry experienced a contraction in production and, subsequently, in 2014, a drop in crude prices. Between 2012 and 2015, the terms of trade (on average) between the Venezuelan economy and its trading partners became 687.7% more favorable for exports and 87.3% less favorable for imports brought in via the parallel foreign exchange market. Nevertheless, the imbalance in the terms of trade was much more aggressive for nontradable items.

A tale of 13 sectors

At one extreme of the relative reduction in prices in international terms were housing and telecommunications services. Between 2012 and 2013, the prices in these sectors became cheaper at a similar pace until 2014 when telecommunications subsidies distanced them from the rest. Between September 2012 and the end of 2015, housing

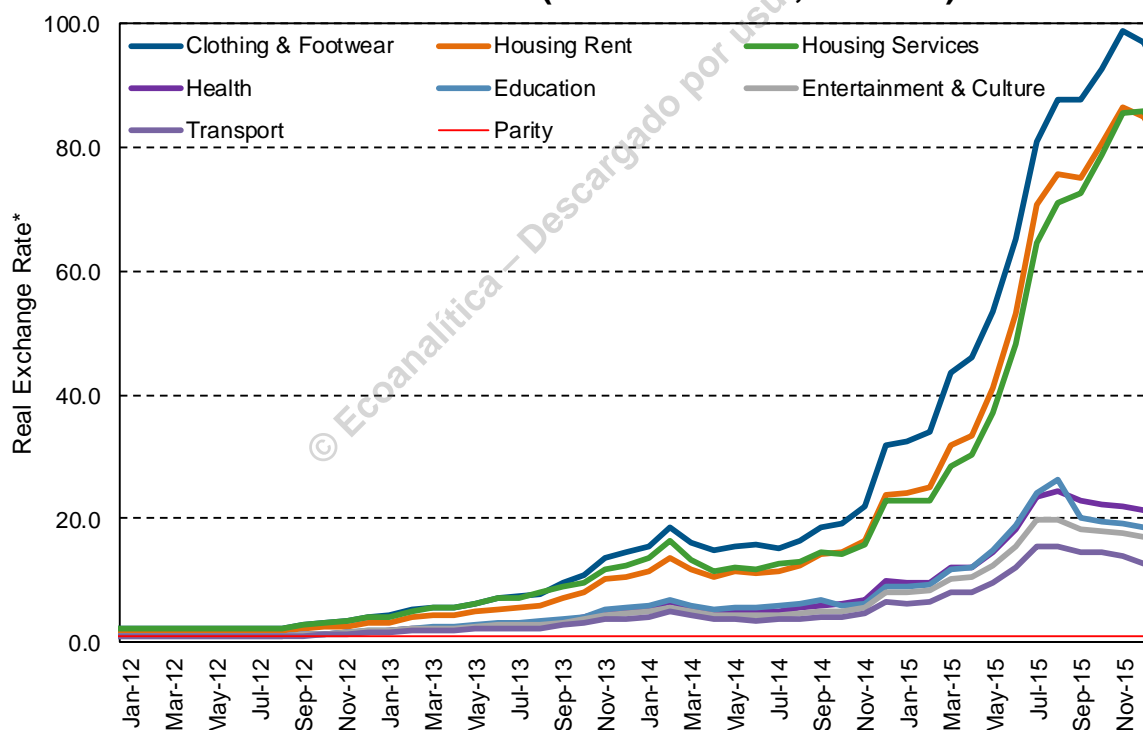
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services went from being 2.7 times to 86.0 times cheaper than the level historically represented by the real external equilibrium. On the other side, telecommunications prices went from being 2.8 times to 96.9 times cheaper than the historical equilibrium price over that same period¹.

The items whose prices became relatively cheaper from part times were household equipment (21.6 times), health (21.3 times), and education (18.6 times). It should be noted that, whereas the relative prices diverged from one another temporarily, the relative price of education showed more erratic movements due to seasonal factors, like the beginning of school year, during the months prior to the start of classes that, at times, made it relatively cheaper and, at others, relatively more expensive than other items, such as health for example.

Terms of trade (Non tradables, 2012-15)



Sources: BCV and Ecoanalítica

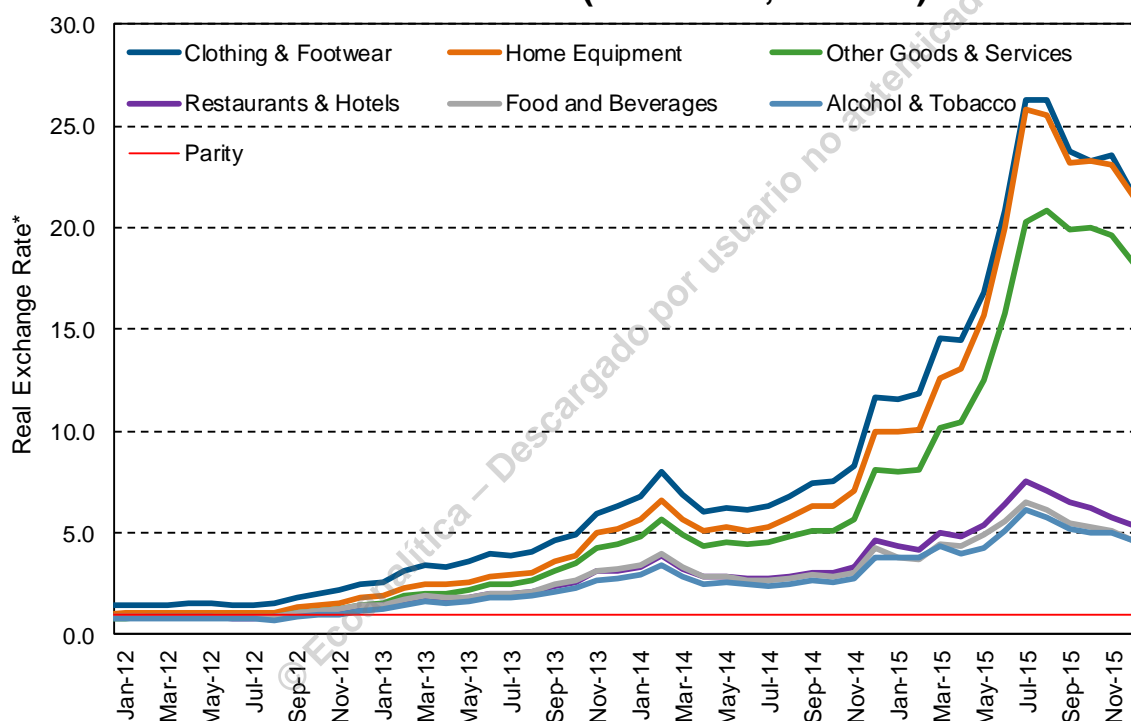
*A real exchange rate higher than 1 is considered to be undervalued, and lower than 1 overvalued

¹ When it is said that a product is X times cheaper than the equilibrium price, the argument is that the price of that product would have to be multiplied by X in order to return to historical terms of trade's equilibrium between Venezuela and the rest of world.

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On the other hand, more tradable items, such as alcoholic beverages and tobacco or food and nonalcoholic beverages were more difficult to control, on average, and experienced higher inflation than the rest. As a consequence, the reduction in their prices compared to the international market was not so great, and during their maximum level in July 2015, they were only 6.1 times and 6.5 times cheaper than the equilibrium price, respectively.

Terms of trade (Tradables, 2012-15)



Sources: BCV and Ecoanalítica

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During 2015, the exchange rate continued to depreciate at a faster pace than inflation, which meant that Venezuela's real exchange rate was even more undervalued. While the prices of the basket of goods used to calculate the Nationwide Consumer Price Index (NCPI) went up by 240.5%, the price of the parallel dollar went up by 381.0% that year. The prices of food, possibly the main item in the basket, depreciated in real terms until they bottomed out in July and then, after controls were lifted, they experienced higher inflation than the prices of the other items in the basket, moving them towards their convergence with the equilibrium price.

However, telecommunications, housing rentals, and housing services continued to experience inflation at below the average, making their prices cheaper in both local and

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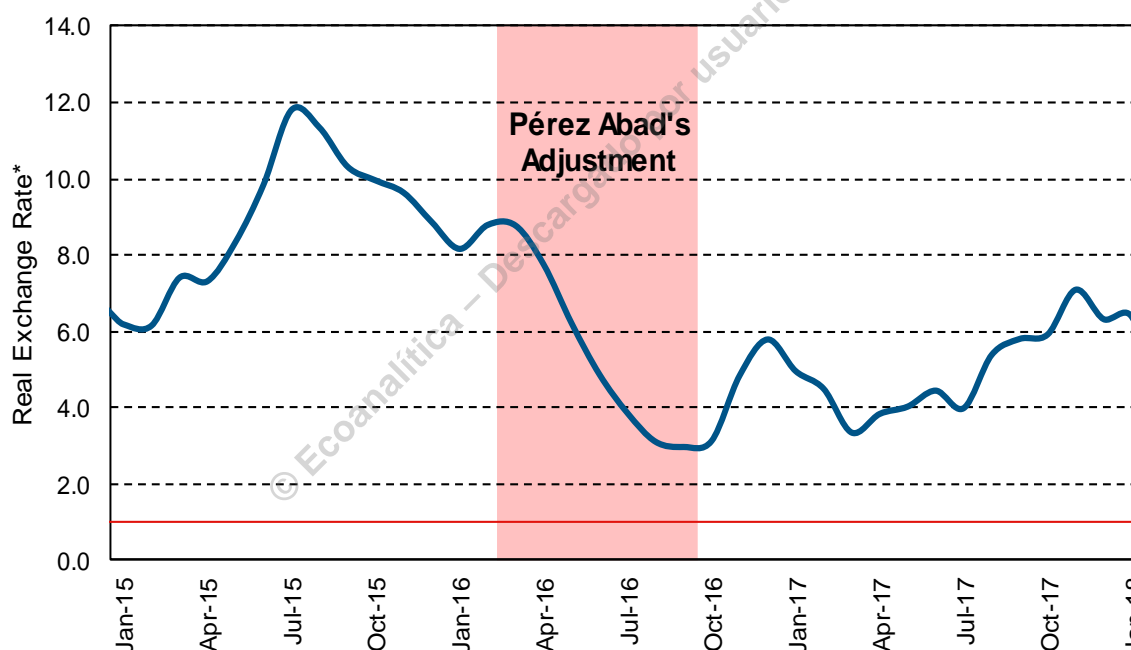
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international terms, until the monetary austerity policy implemented by Miguel Pérez Abad, then Vice President of the Productive Economy, halted the depreciation of the nominal exchange rate for 5 months. During that period of foreign exchange stability, local prices continued to go up and the real exchange rate appreciated, making all items in the economy without exception more expensive in international terms.

Unfortunately, Pérez Abad was displaced, and this adjustment was short-lived. In November of 2016, the Venezuelan basket started to gradually depreciate in real terms until November 2017. On average, in those 12 months alone, imports brought in at the unofficial exchange rate became 31.7% less competitive and exports sold at the unofficial exchange rate became 46.5% more competitive in the international market.

Terms of trade under unofficial market



Sources: Ecoanalítica

*A real exchange higher than 1 is considered to be undervalued, and under 1 overvalued

With the advent of hyperinflation, each industry encountered its own turning point between the end of 2017 and early 2018 and started to put up their prices at a faster pace than the exchange rate was depreciating, returning to a more reasonable position in terms of international prices.

In the case of alcohol, the turning point was November, after prices bottomed out at 8.8 times cheaper than the historical equilibrium price. For housing services, that point came

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in January of the present year, after being 111.0 times cheaper than the equilibrium price. Transport started to react in June, after being 47.0 times cheaper than the equilibrium price. Clothing and footwear began to appreciate immediately, but as a sector it still has a long way to go before it reverses a situation that put it in a position where its prices were 188.4 times cheaper than they should have been terms of the equilibrium price.

The cheap and the expensive

Bit by bit, since November, the different sectors of the economy have appreciated in both local and international terms, reversing the distortions perpetuated during six years of heterogeneous undervaluation. Nevertheless, although all items, except telecommunications, housing rentals and education, are closer to the equilibrium price, this does not necessarily imply that the relative price distortions between them have disappeared or that they are all at the same distance from the equilibrium price.

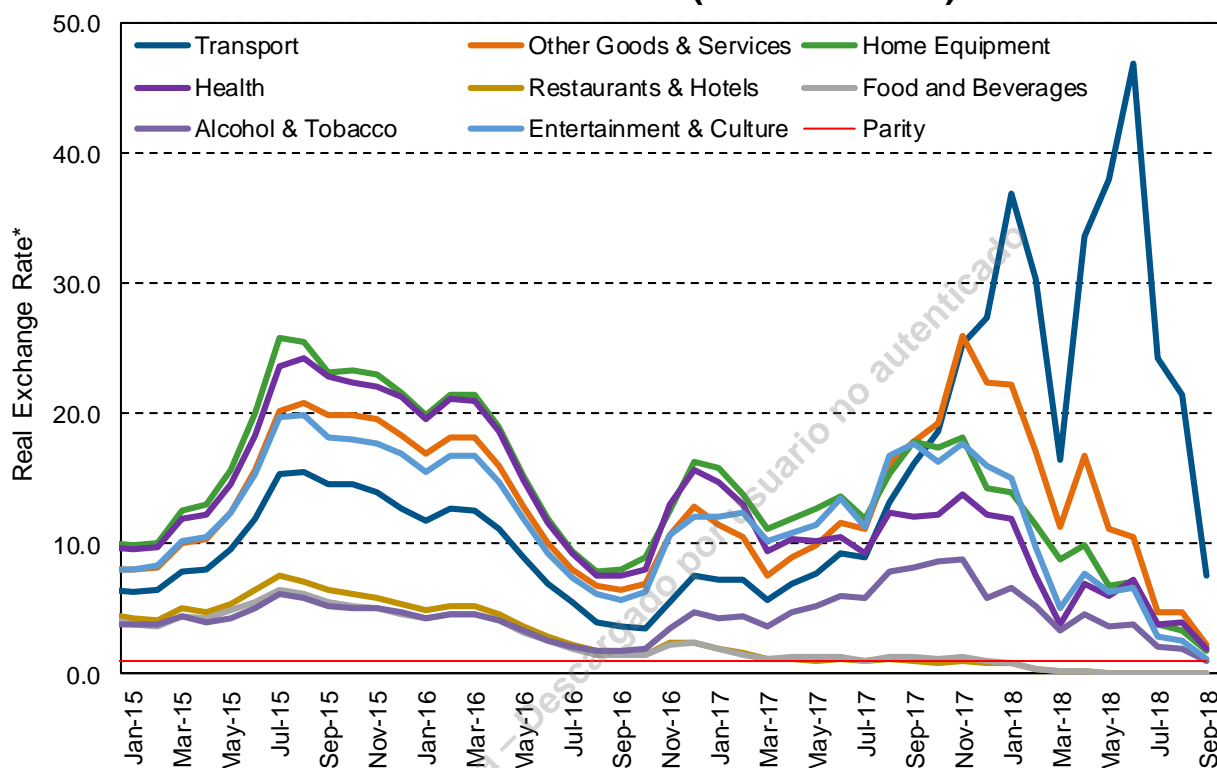
At the moment, given current prices and the present unofficial exchange rate, there are some tradable goods that have lost their competitiveness as export products and, on the contrary, offer opportunities for importers. This is the case of some food and beverages, both alcoholic and nonalcoholic. On the other hand, there are other tradable goods in the health, clothing and household equipment sectors that are still relatively cheap in the international market.

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Terms of trade (2015-Present)



Sources: BCV and Ecoanalítica

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As for services and other nontradables, they are still relatively cheap in the local market. It is precisely the non-exportable sectors of the economy that continue to be more competitive *internationally*, and their low prices put the scant supply they still have available in jeopardy.

Six wasted years

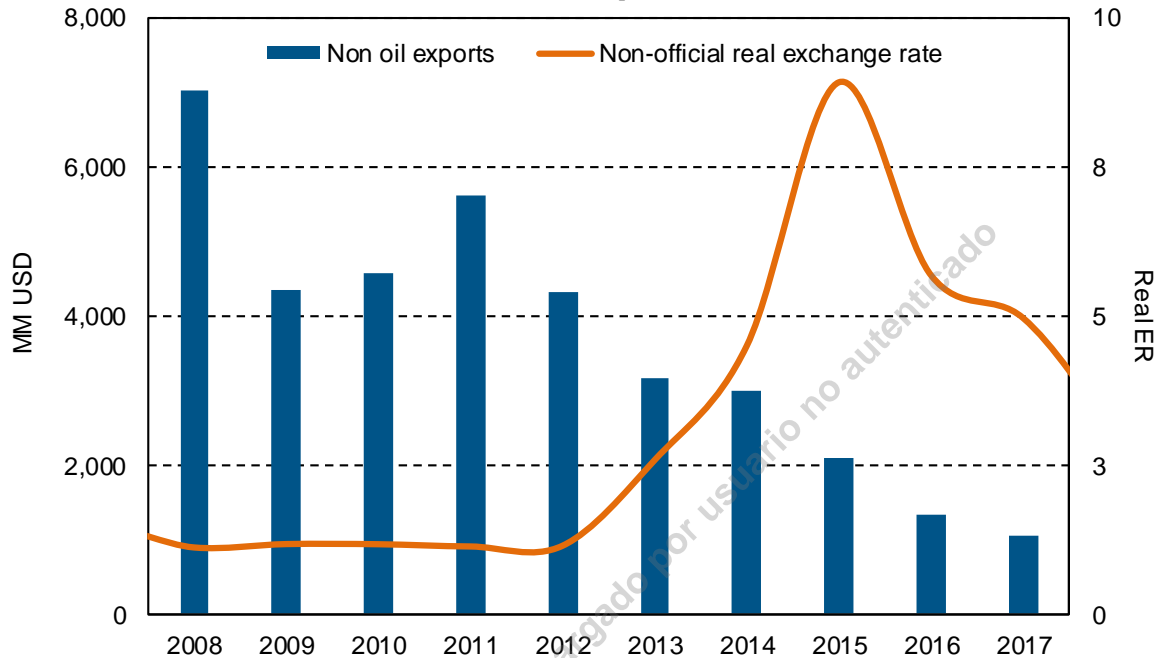
In retrospect, after more than half a decade in which the Venezuelan economy's tradable goods could have taken advantage of the overvaluation of the unofficial market exchange rate to be sold in the international market, the government's restrictions and distortions assured that this opportunity was not taken.

Compared to a level of nonoil exports of USD 5.6 billion in 2011, the annual average of exports during the period of undervaluation of the real exchange rate came to only USD 2.5 billion. Actually, nonoil exports contracted 75.9% between those six years.

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Non oil exports



Source: Ecoanalítica

To end on a bitter-sweet note, those exports started to take off this year, but due to mining production, and we estimate that they will increase by 13.9% in 2018 compared to 2017. Unfortunately, because of the distortions and government controls of the past, the few exporters that today continue committing to production in Venezuela and are struggling against the forces that have been contracting the economy by 23.5% in 2018 were not able to enjoy the exchange rate incentives that could have made them extremely competitive in the international market in the not too distant past.

Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week October	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	63.99	1.5	1.5
	2nd Week October	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.5	0.1	-0.7
	3rd Week October	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	6.9	0.8	6.7
	3rd Week October	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.8	-0.2	-12.3
	2nd Week October	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	168,556,563	8.7	34,804.2
Price of International Oil Baskets (USD/bl)			
	3rd Week October	Weekly chg. (%)	Annual chg. (%)
WTI	70.7	-3.9	36.7
Brent	80.4	-3.5	39.4
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week October	Weekly chg. (%)	Annual chg. (%)
Weekly Average	72.3	-3.1	43.1
Annual Average	65.0	0.3	45.5

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

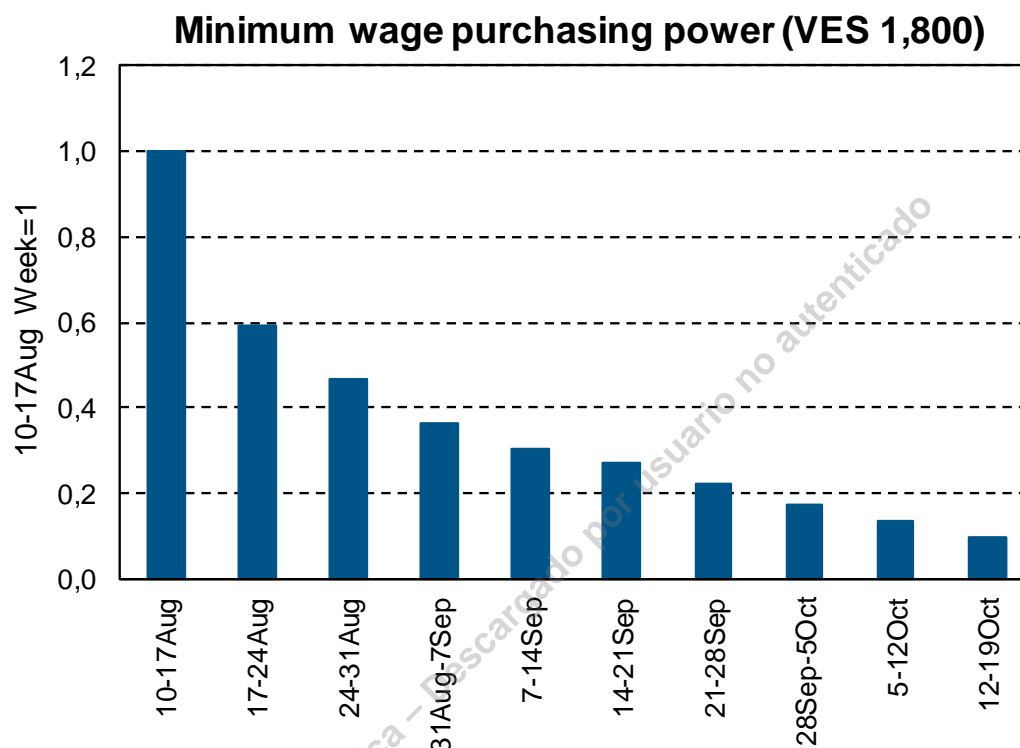
¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “THE SAD TALE OF THE MINIMUM WAGE”



Sources: Official Gazete and Ecoanalítica

On August 17, the Venezuelan Government announced an increase in the minimum wage from VES 30 to VES 1,800 as one of a series of measures it was implementing as part of its “Economic Recovery, Growth and Prosperity Plan.” The incoherence of the different measures and spiraling hyperinflation have meant that this wage hike has had little impact on Venezuelans’ purchasing power.

By the time the new minimum wage went into effect (September 3), it was only enough to buy 36.5% of what it would have bought just two weeks earlier, when the announcement was made. Not only that, just one month later it bought 9.5% of what it would have bought on August 17. It is obvious that an increase in the minimum wage on its own is not enough to raise the population’s purchasing power in a hyperinflationary economy such as Venezuela’s.

Beyond suggesting that the government make wage adjustments in line with Venezuela’s hyperinflation, the foregoing reinforces the argument according to which the government should complement adjustments of this type with a series of measures aimed at mitigating the real origin of this problem.

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ECONOMIC TIPS

ECLAC agrees that there will be contraction. The Economic Commission for Latin America and the Caribbean (ECLAC) has published its revisions for the region's growth projections. For Venezuela it estimates a contraction of 15% in 2018 and another contraction of 8% in 2019.

What about the remaining 24.4%? Vice President Delcy Rodríguez "presented" the National Budget for 2019. Without specifying amounts, she merely said that 75.4% of the budget would be allocated to social investment. The total budget is VES 1.52 trillion.

Zooming in on social investment. Breaking down that social investment shows that 13% of the budget is to go on education, 12% on the Fatherland Plan's social protection platform, 25% on food security, 7% on defense, 4% on safety, and the remainder on "other areas."

Are things stabilizing? The average amount disbursed at the DICOM auctions between the maximum of USD 5.4 million disbursed at the XLI auction (September 26) and the last auction for which results have been published (October 21) was USD 4.96 million. The resultant exchange rate of the last auction was VES 63.99/USD.

Is money emission falling off? Since the second week of September when the weekly growth of the monetary base was 39.9%, average weekly growth has been 8.8%. And if the growth in the last week of the month (20.6%) is left out, that average falls to 4.9%.

The food basket reaches VES 22,927.8. 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 September 2018 was VES 22,927.8, an increase of 96.2% with respect to the prior month, and 85,419.6% with respect to September 2017.

The behavior of the CAF in September. was marked by an increase in fruit and vegetables (132.6%); milk, cheeses and eggs (111.8%); tubercles and others (111.1%); meat and meat products (104.9%); fish and seafood (100.4%); sugar and salt (88.8%); cereals and cereals products (66.8%); coffee (66.6%); beans (28.9%); sauce and mayonnaise (25.6%); fats and oils (8.6%).

The basic basket reaches VES 44.079,02. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de

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Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in September 2018 was VES 44,079.02, an increase of 111.7% with respect to the prior month, and 112,894.2% with respect to September, 2017.

The behavior of the CBF in September was marked by an increase in all of its seven items, among them: basic public services (2,819.4%); education (234.5%) health (162.9%), food (96.2%), housing rent (66.7%) and personal hygiene and household cleaning articles .

Twenty-three products are running low. According to the same report, 23 products are in short supply of the 60 that the Basket have (33.8%). Also, there are 34 other commodities that are scarce.

Lunch costs VES 290.0. Also, they enhance that the average cost of a lunch is VES 290.0, while the food ticket costs VES 180, for September. And to buy the basket requires 12.7 minimum wages.

Worker's Food Basket reaches VES 12,211.6. According to the last report by the CENDA, the Worker's Food Basket (CAT for its Spanish acronym) reached VES 12,211.6 on September 2018. This represents an increase of 128.1% compared to the previous month and of 66,087% compared to September 2017.

Family income only covers 14.7% of the basket. According to the report by CENDA, the minimum wage of VES 12,211.6, effective in September, 2018 had a purchasing power of 14.7%. Which means that, a family requires 7 times the minimum wage just to cover their basic expenses on food.

OIL TIPS

A new board of directors. Five members of PDVSA's board of directors have been replaced, according to sources consulted by Reuters. The company's new directors are not known in the energy sector and at least one comes from the armed forces. Manuel Quevedo was ratified as president.

Some names. Miguel Quintana, previously vice president of planning and engineering, replaces Nelson Ferrer as vice president of exploration and production; and National Guard General José Rojas has been appointed vice president of commerce and supply.

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Starting up operations again. The fuel distribution center in Guatire, one of the most important distribution centers for Caracas, resumed operations following a fire. Hugo Martínez, the mayor of Guatire, reported that the fire had been controlled and that the causes of the incident had to do with circumstances outside the facility.

The biggest sanction against the oil sector. US President Donald Trump explained that the new sanctions he is thinking of applying to Venezuelan will not focus on the energy sector. *"The fact is that the greatest sanction on Venezuelan oil and oil production is called Nicolas Maduro, and PDVSA's inefficiencies,"* he said.

The pressure's on to make up. Three years ago, Saudi Arabia and Kuwait stopped oil production in the jointly operated Khafji and Wafra oil fields located in the Neutral Zone, reducing production by 500 kb/d. Given the increase in oil prices, Washington has been putting pressure on Riyadh to increase production and thereby bring down prices.

But without success. Saudi Crown Prince Mohammed bin Salman visited Kuwait with the purpose of proposing the resumption of production in the oil fields located in the Neutral Zone. However, sources consulted by Reuters report that political relations between the two countries took a turn for the worse. Kuwait was not prepared to give way and, therefore, no increase in production from that part of the world is expected.

An uphill task. The Organization of Petroleum Exporting Countries (OPEC) is struggling to raise crude production, according to an internal document reported by Reuters. The increase in Saudi Arabia's production in recent months has been offset by the drops in production from Iran, Venezuela and Angola.

Because they don't agree. Mexico's President-elect Andrés Manuel López Obrador (AMLO) criticized the purchase of several shipments of crude by Pemex, Mexico's state-owned oil company, from the US company Phillips 66. A few weeks ago, Pemex announced the importing of crude from the United States in order to be able to raise its production, a decision with which AMLO does not agree.

This is what's in store. On previous occasions, López Obrador had said that, once he assumes the presidency, Pemex will stop exporting so that the crude produced in Mexico can be processed at local refineries and thereby minimize the importing of gasoline and diesel for covering the country's requirements.

A snowball effect. An oil spill in the Gulf of Mexico in 2004 could become one of the worst disasters in the history of the United States. Some 300 to 700 barrels a day have been spilled off the coast of the State of Louisiana after a platform was hit by Hurricane Ivan.

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Turning a blind eye. No steps have been taken to stop the spill, which could continue for a long time. On the contrary, there are plans to extend oil platforms on that side of the coast. The company from whose facilities the spill is coming, Taylor Energy, says that there is no evidence of this situation and has refused to comment.

BUSINESS SECTOR TIPS

Production from Favenpa at 16.0%. The Venezuelan Automobile Products Manufacturers Chamber (Favenpa) reported that the sector is operating at only 16% of capacity. Omar Bautista, the president of Favenpa, commented that there has been “a major drop in production. We are down 85% compared to ten years ago. Our levels of operation are very low; some companies are not working.”

And it's dropping lower and lower. “We had hoped that with the repeal of the Foreign Exchange Crimes Act, we would be able to have access to foreign currency for raw materials, but what DICOM has allocated to us is very little,” said Bautista. He forecasts even lower levels of production by the end of next year.

The deal with the CLAPs. On Thursday, October 18, Mexico's Attorney General's Office published the findings of an investigation that expose a network of overpricing and corruption involving the boxes of staples and basic products subsidized by the Venezuelan Government and administered by the Local Supply and Production Committees (CLAPs). According to the investigation, the food products are of poor quality and are being imported from Mexico with a markup of as much as 112%.

Compensation. According to the report, the Attorney General's Office reached an agreement with those implicated in the investigation. The people who have been charged will have to pay USD 3 million to the United Nations High Commissioner for Refugees (UNHCR) and will be banned from selling food or medicines to the Venezuelan Government or to third parties associated with the program of the CLAP boxes.

Rejecting the accusations. This is how President Nicolás Maduro responded to the accusation: “I ratify to Mexican businessmen that Venezuela is going to continue to buy the products it needs to complement the diet of the CLAPs, which reaches 6 million households.” He also claimed that the products were quality products and that they were paid for at the prices they should have been.

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Nurses return to the streets. On October 19 the nurses were back on the streets again protesting outside the Dr. Miguel Pérez Carreño Hospital in Caracas. They rejected the collective employment contract signed by the National Federation of Regional, Sectorial and Related Health Sector Workers Unions (Fenasirtrasalud) because it does not favor the workers.

A switch in the agreements. “On July 2, Fenasirtrasalud signed a collective employment contract in which there were several improvements. Then, on October 11, they signed another contract in which some of the benefits agreed to previously have been reduced. For example, the longevity bonus has been cut from 60.0% to 30.0%,” explained Ana Rosario Contreras, the president of the Capital District Nurses Association.

They are demanding better wages. The nurses stated that they would continue to apply pressure “and demand that the minister of labor respect our collective employment contracts.” Upcoming protest actions will include other sectors that are also demanding fair wages, such as the oil and electricity sectors and workers in the government services.

Heavy rains and no electricity. Constant heavy rains in the country’s capital last week caused power outs in many places. In its Twitter account, the Corporación Eléctrica Nacional (Corpoelec) said that its personnel were working to solve the problems, but without specifying how long this would take.

Those who fell victim to the problem. Caracas was not the only part of the country affected by the consequences of power outs. A problem at La Arenosa Substation in Carabobo state last week affected the electricity service in 13 states. Directly affected by this power out was Maracaibo University Hospital, where three patients died as a result of artificial respirators failing.

WORLD ECONOMY TIPS

United States is left out. The leaders of 51 European and Asian countries came together at the Asia-Europe Meeting (ASEM) summit on October 18-19. The countries that attended the summit account for two-thirds of the world’s economy and more than half of the world’s population. The summit was an opportunity to discuss global issues without the United States.

New treaties, new friendships. At the meeting, European countries established trade treaties with Asian countries. In particular, the European Union signed free trade and

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investment treaties with Singapore and Japan. The rest of the meeting focused on two important issues: the denuclearization of North Korea and the nuclear treaty with Iran.

Abe strengthens alliances. Japan's Prime Minister Shinzo Abe and European Commission President Jean-Claude Juncker reaffirmed their efforts to establish a bilateral free trade agreement by early 2019. Furthermore, Abe and Germany's Chancellor Angela Merkel stressed the importance of strengthening the rules of the system of multilateral trade established by the World Trade Organization (WTO).

The caravan continues on its way. US President Donald Trump said he would cut aid to three Central American nations because of the caravan of Honduran migrants that is making its way to the United States. The countries threatened with the cuts are Guatemala, Honduras, and El Salvador. However, Trump did not reveal any details of the measures his government would take.

China is suffering the consequences. China published its lowest rate of growth since the 2008 crisis. Its GDP grew by 6.5% in the third quarter compared to the same period last year, below analysts' expectations (6.6%). These are the first economic growth figures that China has published since the start of the trade war with the United States.

Another trade war? In response to the tariffs applied by Canada on Mexican steel, the Mexican Government is studying a list of Canadian products on which it could impose tariffs in reprisal. Mexico calculates that Canada's tariffs on steel products will affect USD 200 million in Mexican exports of wire rod and pipes for the energy industry.

Goodbye deficit. Argentina's Minister of the Treasury Nicolás Dujovne announced that Argentina's primary deficit shrank in the first nine months of the year to USD 27.93 billion, down 31.1% compared to the same period last year. In the third quarter, the gap in Argentina's budget came to USD 4.39 billion, equivalent to 1.3% of GDP, better than the target set by the government of 1.9% of GDP.

A break in the bad run. Estimates indicate that Argentina's trade balance could have gone into the black in September, which would mean a break in the run of 20 months of trade deficit. The average of the estimates gives a surplus of USD 77 million, according to figures from the National Statistics and Census Institute (INDEC).

Brazil files a complaint. The World Trade Organization (WTO) has published a report in which it mentions a complaint filed by Brazil against China to contest China's restrictions on sugar imports. Brazil questions China's protectionist measure against imported sugar, the way it administers its tariffs, and its system of automatic granting of licenses for sugar.

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POLITICAL TIPS

No one asked them to stick their oar in. Venezuela's Ministry of Foreign Affairs rejected the investigation conducted by Mexico's Attorney General's Office that uncovered a network of corruption associated with the production of food items used to make up the boxes of staples distributed by the Local Supply and Production Committees (CLAPs).

A new front of attack. The Venezuelan Government alleges that the investigation by the Mexican authorities was biased so as to justify increasing the “*unilateral and coercive*” measures against the Venezuelan economy in order to “*cause chaos in our country, on the basis of denying the Venezuelan population access to food, medicines, and basic goods.*”

A reform rather than a change. The president of the Constituent National Assembly, Diosdado Cabello, suggested that the present Constitution could be reformed rather than replaced. Apparently Cabello had said that the Constitution establishes mechanisms for “*modifying it, for doing an amendment, a new constitution or structuring the laws.*” He also suggested the approach that would be given to possible changes to the Constitution: “*I have no doubt that the commune is the constituent power,*” he said.

Playing the long game. The president of the political party *Vente Venezuela*, María Corina Machado, confirmed meetings with leaders close to the government to discuss a possible transition of power in Venezuela. She also said that she does not aim to impose herself as the leader of this transition, but that she does aspire to being the first woman president in Venezuela.

Lies, as usual. Minister of Communication and Information Jorge Rodríguez questioned the figures reported by Ecuador's President Lenin Moreno regarding the number of Venezuelans who are entering Ecuador. Minister Rodríguez claimed that, in order for a million migrants to have gone from Venezuela to Colombia, 140 buses a day would have had to have left Venezuela for seven years. Strangely enough, in order for Minister Rodríguez's figures to tally, those buses would only have had to carry three passengers.

Responding to the slander. Ecuador's Ministry of Foreign Affairs and Human Mobility issued a press release in which it announced the expulsion of Venezuela's ambassador from Ecuador because of the offensive words used by Minister Rodríguez.

One thing doesn't affect the other. Carol Delgado, Ecuador's Ministry of Foreign Affairs, gave assurances that it would continue to "*offer assistance to Venezuelan citizens who enter the country,*" despite the expulsion of Venezuela's ambassador.

A reaction on the diplomatic front. In reprisal for the expulsion of its ambassador, the Venezuelan Government expelled Ecuador's chargé d'affaires in Venezuela, Elizabeth Méndez. It also described the Ecuadorian Government's decision as "*intolerant and out of proportion.*"

A call to increase the pressure. The National Assembly approved an agreement in which it called on more countries to join the petition requesting the prosecutor of the International Criminal Court (ICC) to speed up the process that will determine whether the Nicolás Maduro administration has committed crimes against humanity. The governments of Argentina, Chile, Paraguay, Peru, Canada and Colombia have already filed the petition.

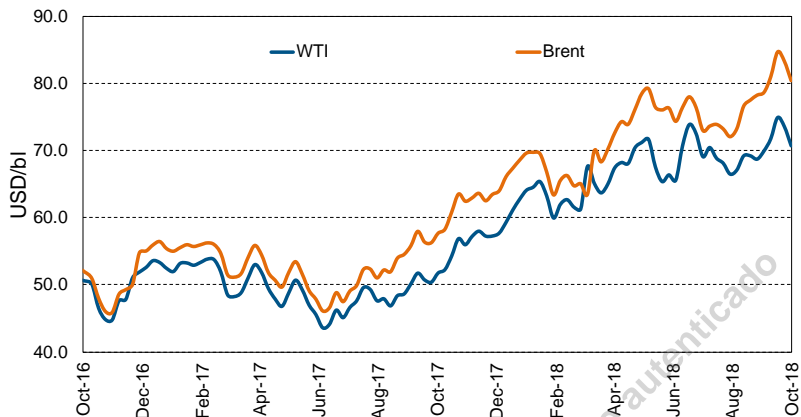
They weren't on the same wavelength. In response to a pronouncement by Nicolás Maduro calling on the Government of Puerto Rico to reject the demonstrations against his administration in the Commonwealth, the governor of Puerto Rico came out against "*the crimes and violations of human rights of his (Maduro's) dictatorship in Venezuela.*"

A pipe dream? US Secretary of State Mike Pompeo said that the United States would find new ways of bringing pressure to bear on the Nicolás Maduro administration so that it assumes the unsustainability of his mandate. He also hoped that the Venezuelan people would "*lead the transition.*"

Going back to its origins. The secretary general of the Organization of American States (OAS), Luis Almagro, accepted the request for a meeting with a group that has named itself the "*Original Chavismo*" with a view to talking about a possible transition that would guarantee stability in the country.

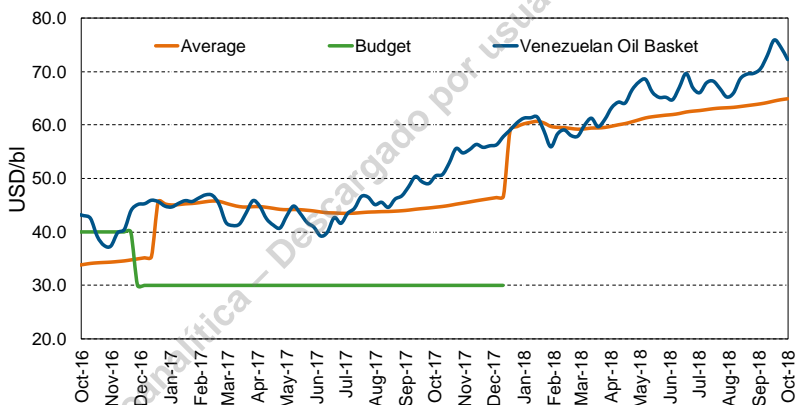
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



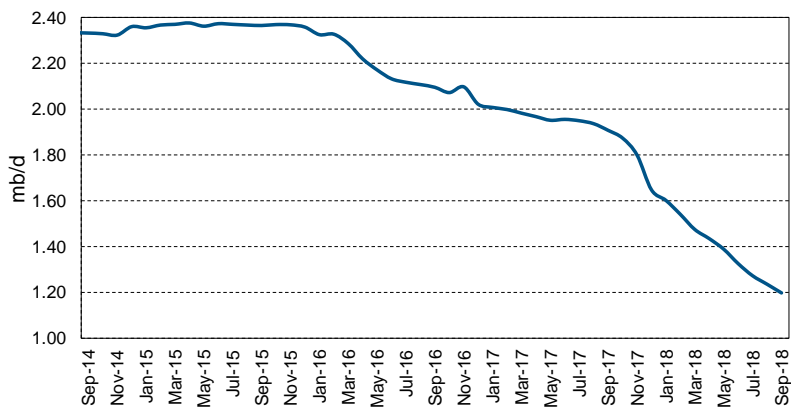
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

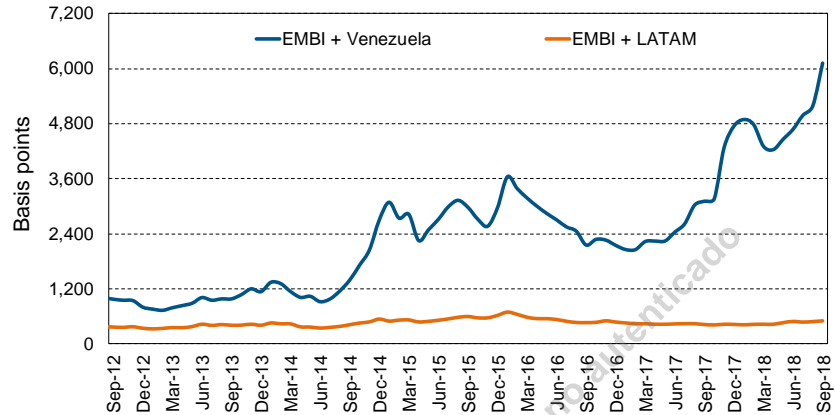


Sources: OPEC and Ecoanalítica

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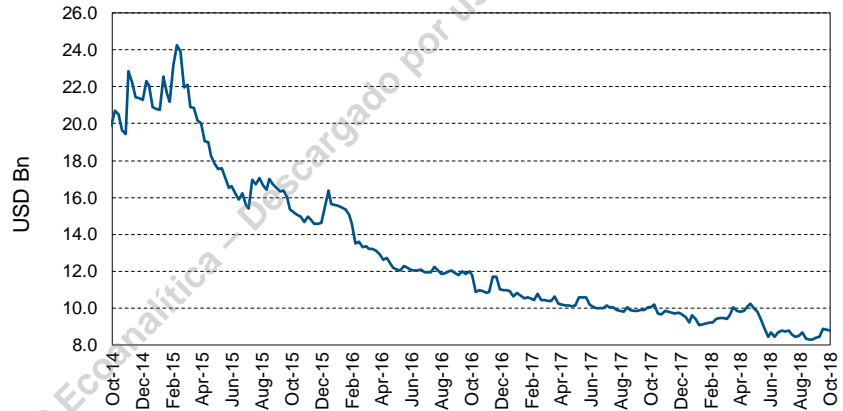
ECONOMIC INDICATORS

EMBI



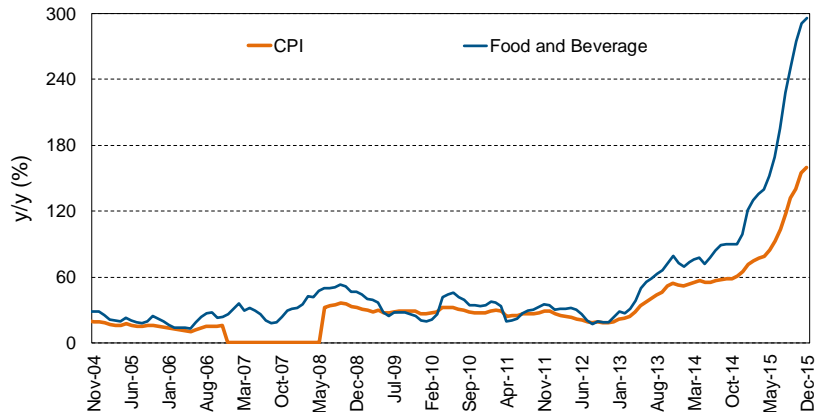
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

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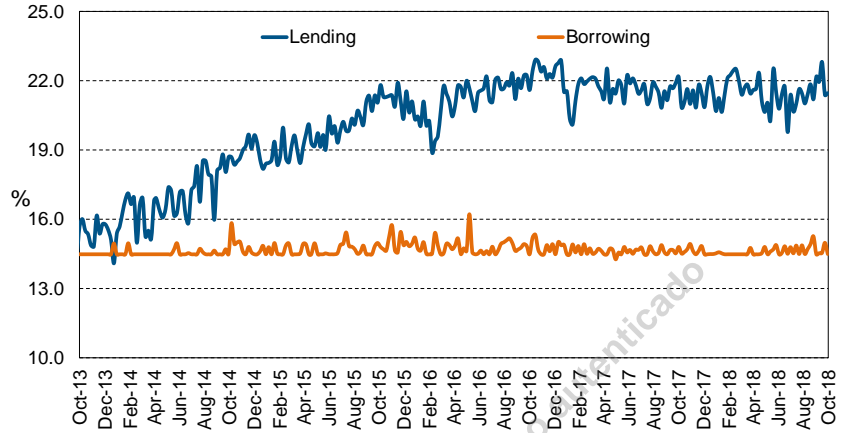
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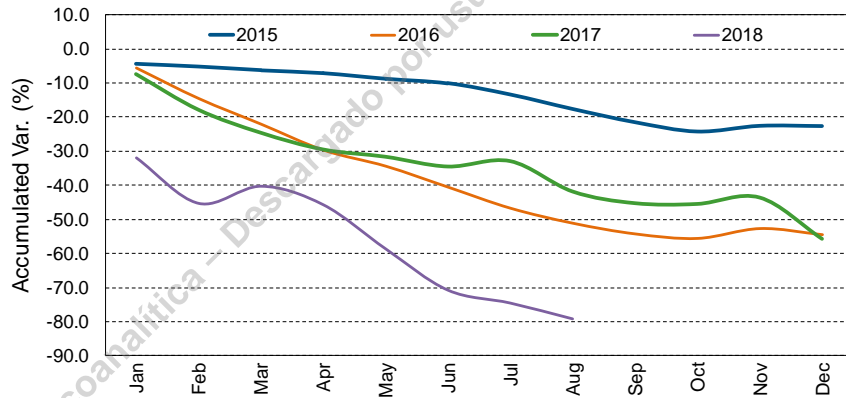
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



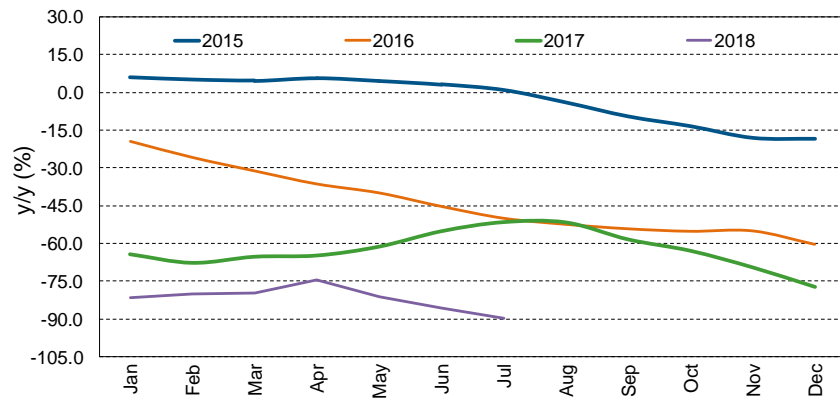
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



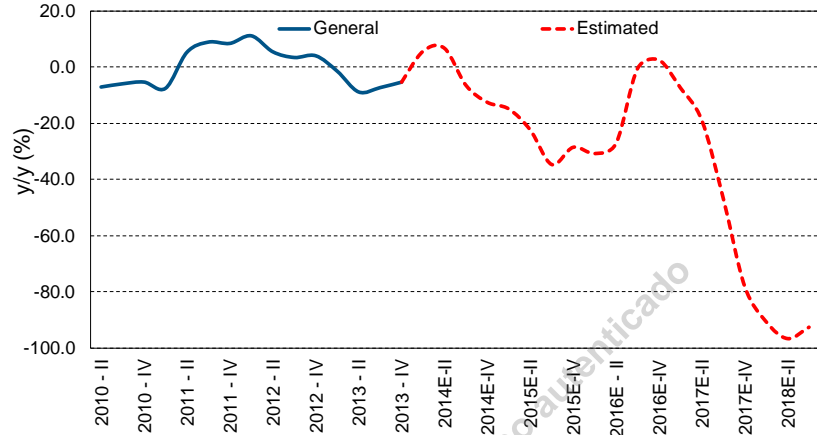
Sources: SUDEBAN and Ecoanalítica

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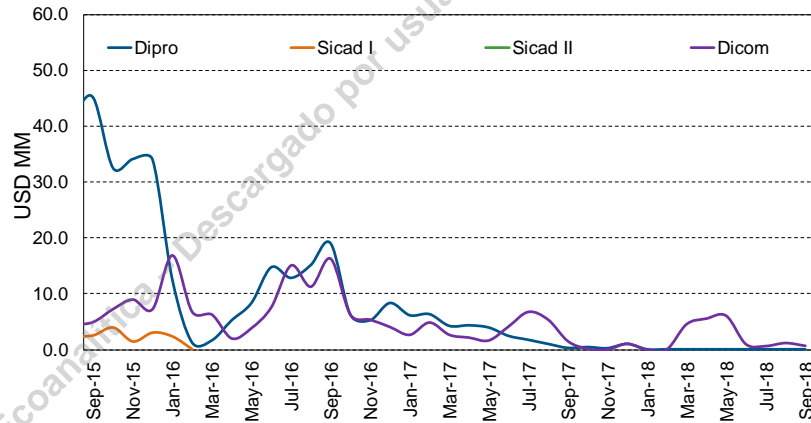
ECONOMIC INDICATORS

Real Wage Index



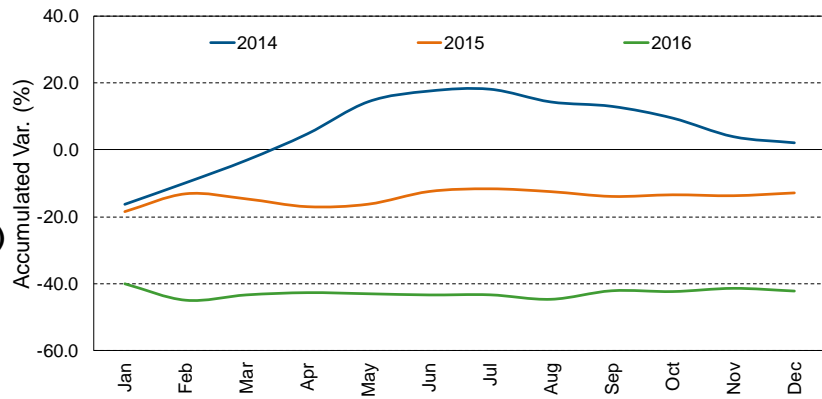
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

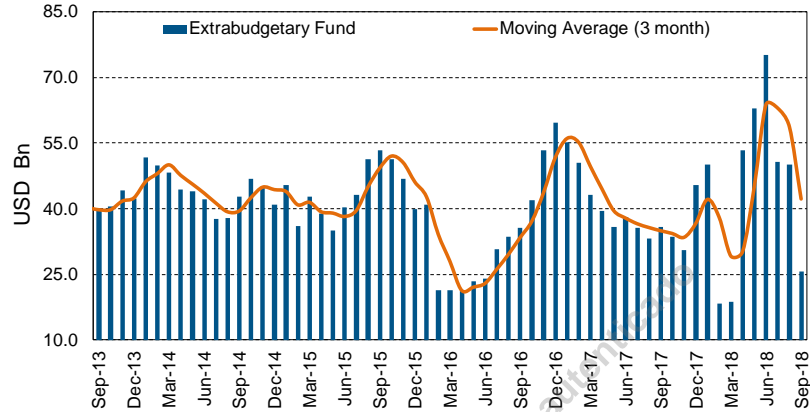
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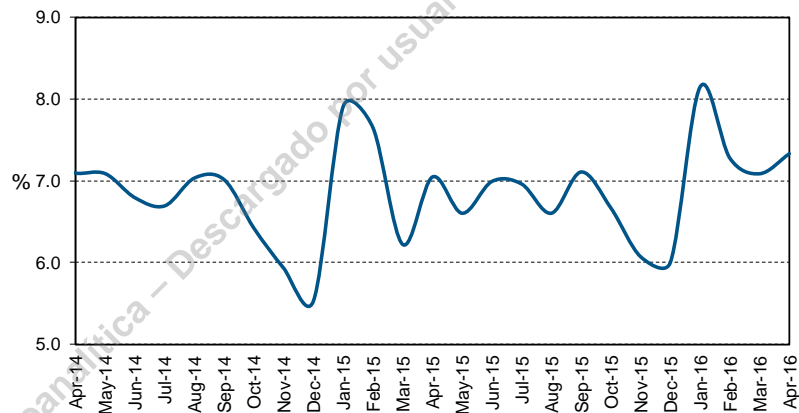
ECONOMIC INDICATORS

State Extrabudgetary Resources



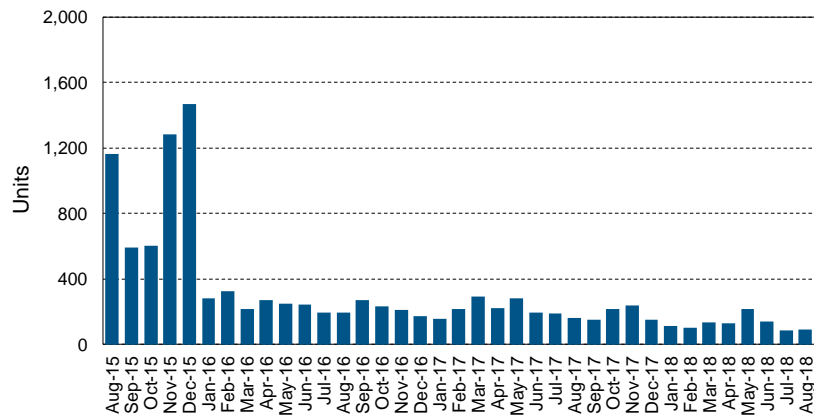
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECOANALÍTICA'S TEAM

Alejandro Grisanti / Director

alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

crstinar@ecoanalitica.net

Luis Arturo Bárcenas / Senior Economist

luisb@ecoanalitica.net / @barcenasluis

Gorka Lalaguna / Economist

gorkal@ecoanalitica.net / @GorkaLG

Guillermo Arcay Finlay / Economist

guillermoa@ecoanalitica.net / @guillermoarcaf

RESEARCH ASSISTANT

Jhoan F. Castellano

Corina Fung

Diego Santana

CONTACT US

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

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalitica