

Is inflation slowing down in Venezuela?

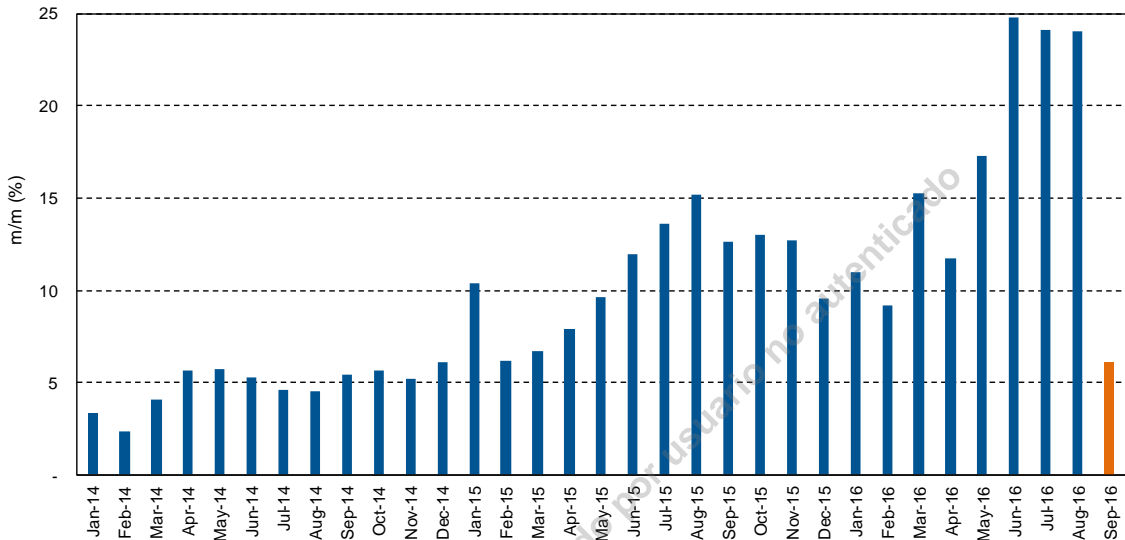
Throughout this year we have seen how our inflation indicators, both the one that follows the Central Bank of Venezuela's methodology and the underlying inflation indicator, have been spiraling, to the point where they averaged 24.3% and 30.1%, respectively, between June and August, which led one to think that Venezuela was set to become an inflationary economy.

However, in September we observed a considerable slowing down in both indicators. In the case of inflation as measured by the Central Bank of Venezuela's methodology, this went up by 6.1% compared to August, whereas underlying inflation rose by 3.2%. In this report, we take a look at the evolution of the different inflation indicators and our expectations with regard to prices in the short and medium terms.

Inflation per the Central Bank's methodology below two digits

Based on the historical figures for our inflation indicator using the Central Bank of Venezuela's methodology, we can say that the monthly inflation posted in September 2016 (6.1%) is the lowest since December 2014, when it was also 6.1%. However, the last time when the monthly increase in inflation was below two digits was in February 2016 (9.2%).

National Consumers Price Index Monthly Rate (BCV)



Sources: BCV and Ecoanalítica

Furthermore, inflation in September was 9.8 percentage points below this indicator’s average for the first nine months of the year (15.9%). However, the average for 2016 is 5.1 percentage points above the monthly average for the same period in 2015 (10.8%).

What is more, in view of the slowdown in inflation in September, we have revised downward our projections for this indicator to 463.2%, which means that we estimate that inflation for the last quarter of the year will stay below the monthly average for the year to date.

An analysis of how prices have behaved by category reveals that, in September, the category that posted the highest rate of inflation was education services, with an increase of 24.2%, followed by restaurants and hotels (12.5%) and transport (12.0%). On the other hand, the categories posting the smallest increases were household equipment (1.1%), communications (1.2%), and clothing and footwear (1.9%). The reduction in monthly inflation was driven mainly by the slowdown in price increases in categories such as food (which went from 32.6% in August to 2.8% in September) and health (from 20.9% to 2.8%), both of which have the biggest weightings in the index.

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BCV Methodology Inflation (September)

	m/m (%)
Education	24.2
Restaurants and Hotels	12.5
Transport	12.0
Leisure	8.4
Various Goods and Services	6.5
Alcoholic Beverages and Tobacco	5.7
Rental housing	5.3
Rent	4.1
Food and Non-Alcoholic Beverages	2.8
Health	2.8
Clothing and Footwear	1.9
Communications	1.2
Home Equipment	1.1
Total	6.1

Sources: BCV and Ecoanalítica

Underlying inflation below inflation per the Central Bank's methodology

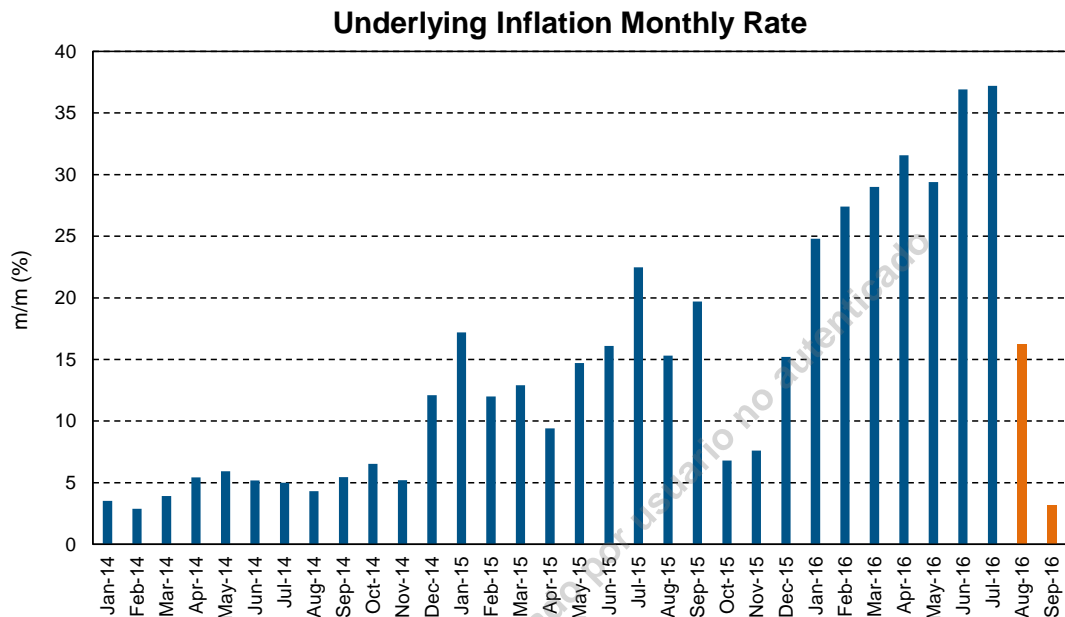
A look at the underlying inflation indicator indicates that history seems to be repeating itself. The monthly inflation posted in September 2016 is the lowest for this indicator since February 2014, when it was 2.9%. Although it was in November 2015 that it was last below two digits.

Unlike inflation calculated using the Central Bank's methodology, it was not only in September that underlying inflation slowed down, it had already been slowing down in August, when it posted 16.2%, down from 37.2% in July. In other words, underlying inflation posted both an historic high and a 31-month low within the space of two months, the highest level of volatility posted by this indicator since its inception.

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Sources: BCV and Ecoanalítica

As for our projections, as with inflation using the Central Bank's methodology, we have revised the underlying inflation indicator downward to 1,288.1%. However, given the high level of volatility observed in recent months and because this indicator responds to different factors than those that affect traditional inflation, it is not outlandish to think that it will close the year below 1,000.0%.

What explains this slowdown?

Although in September last year there was also a slight slowdown in monthly inflation, this year the slowdown is due to different economic dynamics. This year, we could summarize three key elements driving the price-formation dynamics.

First, a persistent fall in the aggregate demand. At **Ecoanalítica** we estimate that the drop-in Venezuelans' purchasing power in 2016 will be 9.4%. However, at the end of the first half of the year (1H2016), falling purchasing power had reached 27.2%. This implies that the contraction in demand has been even more severe than the contraction in supply, which largely explains what we have observed in September in terms of inflation.

Upon comparing sales in certain sectors of the economy thus far this year with the same period in 2015, we find that, in the case of the food sector, the contraction has

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been as much as 70.0% in some industries. Similarly, in the alcoholic beverage industry contraction in sales reached 65.0%, 60.0% clothing and footwear, recreation and culture 40.0%, 74.0% appliances, airline tickets 82.0%, the restaurants and hotels no longer the exception, sales have fallen to levels close to 80.0%. This behavior is the common factor in all sectors of the economy and results in a contraction in demand that has generated the slowdown in prices.

Second, a considerable improvement in the currency disbursements to the private sector. On average, the daily volume of currency received by the private sector, through all the official channels, has improved substantially compared to the 1S2016, passing from USD 13.9 million/day to 29.8 million/day on between June and September.

Bigger disbursements equal less scarcity, with a subsequent impact on the price levels, at least on the short term. However, it is important to highlight the fact that, due an economic context marked by a severe contraction of the oil revenue, this process isn't sustainable on the long run.

Private Sector Currency Disbursement (USD MM/day 2016)

Month	CENCOEX/DIPRO	DICOM	Totals
January	12.5	16.9	31.8
February	1.2	6.8	8.1
March	1.6	6.3	7.9
April	5.2	2.1	7.3
May	8.3	3.9	12.2
June	14.7	7.6	22.3
July	12.8	15.1	27.9
August	15.1	11.3	26.4
September	19.0	16.3	35.3

Source: Ecoanalítica

Third, regarding the underlying inflation, it's important to mention that the increase in the supply, due to imports executed by the private sector through their own currency at the parallel exchange rate, has performed a partial correction on the relative prices of several goods usually traded at the black market, generating pressures over the indicator.

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With this in mind, the fact that the underlying inflation reached a lower rate than the one estimated through the BCV method in August and September, tells us that the prices of several products sold at certain informal markets, have experienced a downturn on their prices due to the correction observed in previous months.

So, can we talk of a trend shift?

Quite apart from the description we have just offered, the important thing here is to analyze whether the slowdown in the increase in prices caused by the contraction in demand is a trend shift or only an outlier; and it is even more important, to analyze whether inflation in September is an indication that the inflation problems that Venezuela is experiencing are starting to come to an end.

In our opinion, the answer is a definite no. However, we do expect inflation to remain relatively low for the rest of the year compared to the first nine months. In other words, it is not that prices will start to come down, but that they will continue to go up more slowly for the remainder of the year. For that reason, it cannot be ruled out that monthly inflation for the rest of the year could even be below 10.0%, although inflation for October will be the key. If inflation in October is similar to that for September, the possibility that it will stay below 10.0% for the rest of the year is high, whereas if it is more than 10.0%, the average for the last quarter can be expected to be closer to 15.0%.

Even though we estimate a lower rate of inflation, it should be noted that at **Ecoanalítica** we do not consider that this lower rate will be sustainable over time. The economic model has not changed and inflationary pressures persist. As long as the underlying problems are not solved, inflation will continue to increase and at a fast rate.

While it is true that, given these results, we consider that Venezuela will not enter a hyperinflationary spiral in 2016, hyperinflation is an explosive process that anything can trigger. It also needs to be understood that supply has been the key issue. Although it is equally true that we have seen improvements here due to the increase in prices and the larger volumes of foreign currency disbursed to the private sector, a bigger devaluation than expected, this government's scant capacity for solving the problem, and its inability to increase imports next year will generate greater inflationary pressures.

Carlos Miguel Álvarez

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week October	Weekly var. (pp)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	659.5	-0.2	-0.2
	2nd Week October	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.6	-0.6	0.4
	3rd Week October	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	0.9	0.0	-7.4
	5th Week September	Weekly var. (%)	Annual var. (%)
International Reserves (Bn USD)	12.0	1.9	-26.6
	1st Week July	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	58.1	-10.3	95.4
	2nd Week October	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	6,878	1.6	115.9
Price of International Oil Baskets (USD/bl)			
	3rd Week October	Weekly var. (%)	Annual var. (%)
WTI	50.5	0.0	9.8
Brent	51.8	-0.8	6.4
Price of the Venezuelan oil basket (USD/bl)			
	3rd Week October	Weekly var. (%)	Annual var. (%)
Weekly Average	43.0	-0.1	9.0
Annual Average	34.1	0.6	-27.6

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

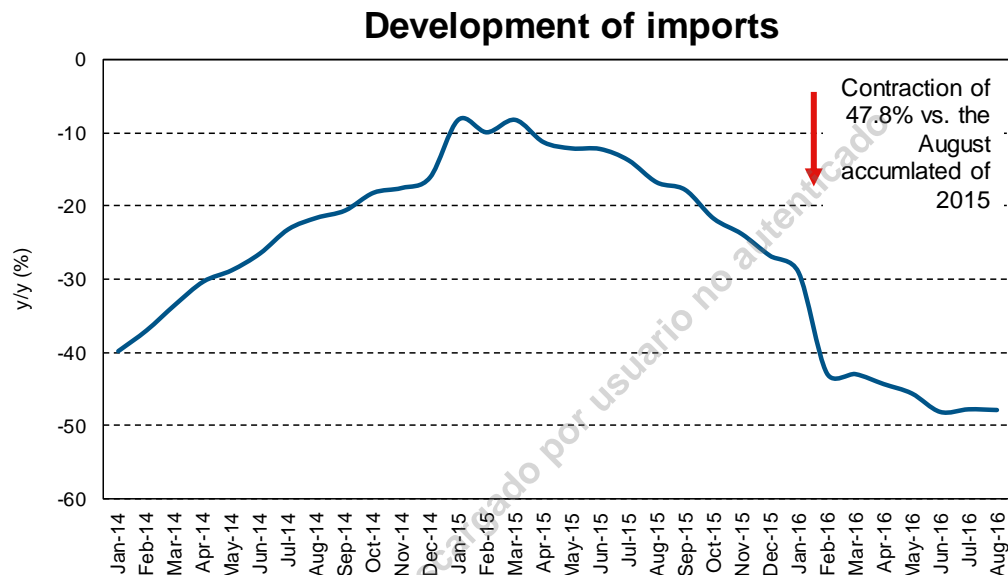
¹ Depreciation (+)/Appreciation (-)

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CHART OF THE WEEK: "IMPORTS OR DEBT SERVICE: WHAT CHOSE THE GOVERNMENT?"



Sources: BCV and Ecoanalítica

In Venezuela, the possibility of an economic adjustment has always been a relatively controversial issue when it comes to debates on the economy and within the different groups that are active in the political scene.

The fact that most of our exports come from the oil sector, the country's greater reliance on imports, significant imbalances in the domestic economy, and a sizeable debt are some of the elements that have led the authorities to implement a messy and extremely costly adjustment following the drop-in oil prices, which has meant a major contraction in the aggregate level of imports.

In this context and with a tight payment schedule for servicing the external debt, the refusal to make certain relative prices, such as the exchange rate, more flexible, and the perception of a default as a worse scenario than the present one, imports have been sacrificed in an attempt to maintain, at least to some extent, the deteriorated economic structure that Venezuela has today.

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ECONOMIC TIPS

Bread today, hunger tomorrow. In the context of the economic crisis the country is experiencing, with a view to “*protecting employment and job stability*,” President Maduro announced that he was decreeing a 40,0% increase in the monthly minimum wage plus an increase in the base figure used to calculate the meals allowance for each day worked from 8 tax units to twelve.

How much are we talking about? The minimum wage for workers will go up to VEF 27,091 and the meals allowance to VEF 63,720, giving an overall minimum wage of VEF 90,811, an increase of 93.4% compared to the previous overall wage (VEF 65,056).

A sick economy. Since Nicolás Maduro took office in April 2013, 14 increases in the minimum wage have been decreed, giving a nominal wage increase of nearly 1,002.6% in three years (from VEF 2,457 in May 2013 to 27,091 in November this year). In addition, the meals allowance has been raised seven times between February 2013 and November this year, for an increase of nearly 1,997.8%.

That’s not the way to go. At **Ecoanalítica** we are of the opinion that the wage is one of the elementary relative prices operating in the economic dynamic. That means that continuously raising wages without achieving a corresponding improvement in the country’s aggregate productivity can end up fueling inflation, since it is foreseeable that there will be higher levels of liquidity and government spending that will put pressure on this indicator.

Habemus swap! Following the expiry of the third extension to the early and later acceptance dates for the swaps of PDVSA17 (5.25%) and PDVSA17N bonds (8.5%), PDVSA announced the final results of the operation and closed the swap started in early September this year.

How much are we talking about? Bondholders offered to swap a combined total of USD 2.8 billion, equivalent to 52.6% of the maximum amount put up for the swap and to 39.4% of the remaining total principal of the two bonds pending payment.

How does the offer break down? In the case of PDVSA17 (5.25%), the amount offered by bondholders came to USD 942 million or 31.4% of the outstanding amount. As for PDVSA 17N (8.5%), the offer came to USD 1.86 billion or 45.3% of the amount

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still to be redeemed. The amount of the new issue offered by PDVSA (PDVSA20, 8.5%) will be approximately USD 3.7 billion redeemable in four years' time from 2017.

How does the international market see things? While reactions to the finalization of the swap have been varied, they do reflect a similar diagnosis to that given by JP Morgan, Eurasia Group, Barclay's and others. Despite having achieved a breathing space and minimized the likelihood of a default next year, elements such as the steady drop in production continue to pose additional challenges for PDVSA in the medium term.

Everything's easier in bolivars. At the end of last week, the web portal *El Estímulo* reported a petition filed with the Supreme Tribunal of Justice for an interpretation of Article 128 of the Central Bank of Venezuela Act, which stipulates that "*payments in foreign currency are made in legal tender at the exchange rate applicable in the place and on the date of payment, except when there is a special agreement.*"

God forbid. The purpose of this petition is to determine whether PDVSA can validly be released from its financial obligation by making payment of the bonds in legal tender, i.e. in bolivars, with special reference to the bonds that were included in the swap (PDVSA17 and PDVSA17N) and also to PDVSA16.

Bonds Made in Venezuela. In view of the fact that the primary placement of these bonds was in the local market and that they were acquired in bolivars at a specific exchange rate and given that there is an express provision that backs the foreign currency debtor, the persons who filed the petition for interpretation before the Supreme Tribunal of Justice wish to know the status of the instruments issued by PDVSA and the Republic and whether the Central Bank of Venezuela Act is binding.

Calm and common sense. Referring to the situation explained above, the president of PDVSA, Eulogio Del Pino, harshly criticized *El Estímulo* for publishing this information, alleging that this was the way the rightwing was waging the economic war and sabotaging the swap. However, he neither confirmed nor denied that this option was among the scenarios being evaluated by PDVSA for honoring its external debt.

Default by any other name. At **Ecoanalítica** we are of the opinion that payment of the debt associated with PDVSA17 and PDVSA17N in bolivars would be equivalent to a default, given that both prospectuses, which are subject to the corresponding US laws, state that the dollar is the exclusive currency for the accounting and payment of these instruments.

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It's hit 400 and is still rising! According to the Documentation and Social Analysis Center of the Venezuelan Teachers' Federation (CENDAS-FVM), the Food Basket came to VEF 405,452 in September, up 5.6% (VEF 21,258) from August and 555.0% more than in September last year. It takes 18 minimum wages (VEF 22,577) to purchase the entire basket.

Most things went up. Ten of the basket's categories went up in price, with the biggest increases being in fats and oils (28.1%) and cereals and derived products (18.5%), whereas meat and prepared meats was the only category to go down in price (-7.6%).

Half the items in the basket aren't available. The Venezuelan Teachers' Federation highlights that there is a difference of nearly 3,710.6% between the regulated prices of goods and their market value. It states, furthermore, that there was a shortage of at least 25 items in September, in other words, 43.1% of the 58 products making up the basket.

However, the worst is over. Minister for Foreign Trade and Foreign Investment Jesús Faría claimed that the contraction in the Venezuelan economy as a consequence of the overall drop in oil prices and persistent economic war was over.

OIL TIPS

Rig anemia. According to the consulting firm Baker Hughes, Venezuela's rig count in September was 51 units, the second lowest this year after the 50 units posted in July. This means that this indicator remains at an all-time low.

Gas exports. Vice Minister for Gas Douglas Sosa announced that the gas produced by the Cardón IV Project, located in the Gulf of Venezuela, will start to be exported to Colombia on December 1 this year.

At preferential rates. Minister Sosa also stated that they would "gradually" take the DICOM rate as the reference rate for gas exports, so that they would be profitable, and that the revenues obtained from these exports could be reinvested in increased gas production.

Businessmen with the revolution. The businessmen Oswaldo Cisneros is to invest USD 1.0 billion in an oil field controlled by the State through Delta Petroleum, a consortium formed by a group of Venezuelan businessmen.

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The King and the President. President Nicolás Maduro met with the King of Saudi Arabia to discuss the strategy to be implemented to stabilize crude prices, with an eye on the meeting that Organization of the Petroleum Exporting Countries (OPEC) is to hold in November.

International tour. This meeting was part of an international tour of several oil producing countries taken by President Maduro. During the tour he also met with the leaders of Iran, Hassan Rouhani and Ayatola Ali Khamenei and with President Ilham Aliyev of Azerbaijan.

Optimism in Azerbaijan. On leaving his meeting with the president of Azerbaijan, President Maduro said that he felt “*very optimistic*” regarding the possibilities of reaching an agreement on stabilizing prices.

Iranian comrades. Following the meeting with Iranian leaders, President Hassan Rouhani said that Iran would support any action that was in line with the stabilization of prices. As for the religious leader Ayatola Ali Khamenei, he denounced that the low oil prices were a strategy by the United States (US) to pressure independent countries.

Del Pino and Novak. The president of PDVSA, Eulogio Del Pino, held a meeting with Russia’s energy minister, Alexander Novak, during which Novak reiterated the need to step up efforts to reach an agreement that would make it possible to freeze global oil production.

The “empire” counterattacks. The US oil company ExxonMobil stated that the offshore oil fields discovered in Guyana are highly viable for exploitation with current oil prices.

The IEA’s take on global growth. According to the latest report from the International Energy Agency (IEA), global oil demand will go up by 1.20 million barrels a day (1.20 mb/d) in 2017 from 2016 levels. The growth in China’s demand will be the biggest contributor to global growth.

And as the World Bank sees it. According to the World Bank, oil barrel prices will be in the region of USD 55/b in 2017, up from the USD 43/b average expected in 2016.

High-level meeting. The oil ministers of Russia and Qatar held a meeting with the secretary general of OPEC, Mohammed Barkindo, to discuss possible joint action aimed at stabilizing oil prices; however, no details have been given of the proposals discussed.

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Wells on hold. Despite statements by Russian spokespersons in support of an agreement, Russia has plans to start to produce in new fields in the coming months, mainly in a Lukoil field in the Siberian region of Yamal, the Suzun Field in Siberia, and the Filanovsky Caspian Field in the Caspian Sea.

Apples of discord. It should be noted that these wells are operated mainly by Rosneft, Lukoil, and Gazprom, which enjoy a degree of autonomy from the Russian Government. Their production expansion plans make achieving a possible agreement among oil producing countries with a view to stabilizing crude prices more complicated.

Iraq's not going to the ball. Iraq's oil minister, Jabar Ali al-Luaibi, stated on Sunday that Iraq wants to be exempt from any agreement on reducing oil production, given that, according to him, it needs more revenues to fight the so-call Islamic State.

Posting a clear recovery. The rig count in the US is maintaining an upward trend at 553 units. This brings the increase in active rigs over the past 21 weeks to 18 and means that there has been a 36.8% increase from the 404-unit low posted in May.

BUSINESS SECTOR TIPS

Cut off from the rest of the world. Julio Arnaldes, the director of the Venezuelan Association of Tourism Wholesalers and Representatives, claimed that the aggregate drop in air ticket sales compared to 2014 is in the region of 75.0% and that, moreover, the contraction in sales in the third quarter of this year (3Q2016) compared to the same period in 2015 was approximately 40.0%.

The debt has an impact. Arnaldes stressed that the drop was due mainly to the debt that the Venezuelan State has maintained with the country's different airlines for the past three years, which, according to the International Air Transport Association (IATA), came to USD 3.8 billion in September last year.

That's not the solution. Rodrigo Agudo, the director of the Venezuelan Dairy and Meat Institute, rejected President Nicolás Maduro's decision to allocate 50.0% of production to the Local Supply and Production Committees (CLAPs), calling this mechanism inefficient, "*not only because it doesn't do the job, but also because it is being carried out by a military structure that doesn't have the preparation for distributing food,*" he explained.

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A crisis that is both economic and nutritional. Agudo, who is also a food advisor to the National Cattlemen's Federation of Venezuela (Fedenaga), further commented that the food crisis would get worse in 2017 and that the nutrition of the population is below ideal levels, given the continuing drop in the consumption of animal protein as a result of the economic crisis in Venezuela.

None of them can do it alone. Cipriana Ramos, the president of the National Commerce and Services Council (Consecomercio), stated that none of the economic engines proposed by the government is going to prosper given the government's insistence on dealing with issues of national interest on its own.

Let's be coherent. Ramos warned, furthermore, that the sale of imported products at international prices is a violation of the Organic Fair Prices Act and the foreign exchange regulations. *"The little that is imported is being brought in by the government, and (those goods) are being sold at international prices that Venezuelans cannot afford. If they have the foreign currency, why don't they lift the exchange controls?"* she asked.

Everything's fine... for now. Minister for Electric Power Luis Motta Domínguez described the current status of Guri Reservoir as normal and gave assurances that, if another emergency situation were to arise, it would be due to another climatic circumstance beyond human control.

Unsustainable. Juan Pablo Olalquiaga, the president of Conindustria, pointed out that production at Venezuela's industrial companies is at its lowest, as they are operating at 35.2% of their installed capacity on average. He stressed that what this situation has generated is a persistent inability by Venezuela's industrial apparatus to effectively meet the needs of the population.

8,700 fewer. Moreover, as Conindustria sees it, the deterioration of Venezuela's industrial park is not the only element that is causing this inability to produce enough to meet demand. According to Conindustria's figures, Venezuela lost 8,700 companies between 1997 and 2016, which is equivalent to a drop of 68.5%, going from 12,700 at the start of Hugo Chávez' terms in office to only 4,000 today.

WORLD ECONOMY TIPS

They don't want a recession. The president of the Federal Reserve Bank (FED) of San Francisco, John Williams, stated that the US economy is near to full employment and with inflation close to the target of 2.0%. In view of this, he insisted on the need to gradually raise interest rates in order to avoid growth in the economy stagnating.

They'll go up, but not that much. In the view of the majority of the members of the FED, putting up interest rates at the next meeting in December would be appropriate. At the moment, interest rates are between 0.25% and 0.5% and it is estimated that they will go up to at least 3.5%.

The yuan and the dollar. If interest rates are raised in the United States in December, this could have an impact on the yuan, said the chief economist at the People's Bank of China, Ma Jun. There is downward pressure on the yuan due to the expected increase in interest rates by the FED. However, it could recover once the interest rates have been raised.

More taxes for the wealthy. If Hillary Clinton wins the presidential elections on November 8, one of the main measures she proposes is more taxes for US citizens who earn more than USD 250,000, plus a "fair share surcharge tax" of 4.0% for those who have an income of more than USD 5 million a year.

Waiting to see. The International Monetary Fund (IMF), which has a team in Spain to conduct the annual evaluation of the country's economy, confirmed that it is waiting for the new government to be formed in order to present its preliminary conclusions, which it had planned to issue this week.

No figures until the end of the year. Inflation forecasts in the euro zone for 2016 are still not clear, commented a member of the European Central Bank's (ECB) Governing Council, Ardo Hansson. He also explained that it was too soon to be able to propose an extension of the region's "money-printing" (i.e. quantitative easing) program, although he did not rule out changes being made to the bank's policy in December.

Growth picks up. In October, business activity in the euro zone posted its biggest increase this year. The Purchasing Managers' Index compiled by Markit HIS (an indicator that measures business activity) was 53.7 last month, above the score of 50.0 that indicates growth, despite the fact that companies had implemented the biggest price hikes in the past five years.

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Capital flight? Some large international banks are making plans to transfer their operations outside the United Kingdom in 2017. This is due to the high level of uncertainty regarding Great Britain's future relations with the European Union following Brexit, as they could put their clients in the 28 countries of the European Union at risk.

No more cuts. Inflation forecasts for the next two years in Brazil show that there will be limited room for bringing down interest rates, according to Banco Central do Brasil, which suggests that it is unlikely that the bank will step up its cuts in interest rates at its next monetary policy meeting, to be held in November.

Peru pulls out all the stops. Peru's Minister for Foreign Trade and Tourism signed a collaboration agreement with China Eastern Airlines that will promote Peruvian exports by strengthening trade with the Asian Giant.

POLITICAL TIPS

Stillborn. Abiding by the decision handed down by five criminal courts in Carabobo, Aragua, Bolívar, Monagas, and Apure, the National Electoral Council (CNE) took the decision to suspend the collection of signatures of 20.0% of registered voters needed to activate the recall referendum against Nicolás Maduro.

More Venezuelan than ever. In addition, the Criminal Court of the First Instance in Valencia, exercising control functions, issued a resolution forbidding several opposition leaders to leave the country, among them Jesús "Chuo" Torrealba, the executive secretary of the Democratic Unity Alliance, Henrique Capriles, the governor of Miranda state, Ramón José Medina, and José Luis Cartaya.

Coup d'état. On this matter, opposition leader Henrique Capriles described the joint action by the Judiciary and the CNE as a coup d'état and issued an emphatic call to the entire Venezuelan population to defend the Constitution and restore the constitutional order.

La Toma de Venezuela start... What's next? After *La Toma de Venezuela*, the dirigencial train of the opposition coalition announced the next steps in order to reconstruct, in his view, the constitutional order in Venezuela.

General strike. In this sense, Jesus Torrealba, calls for a general strike on Friday 28 October, which would go from six o'clock until six o'clock.

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¡To Miraflores! Meanwhile, the governor of Miranda state, Henrique Capriles announced that if at the end of Sunday October 30 the National Electoral Council does not resume the scheduled process for collecting 20.0% of the manifestations of will to initiate a process eventually referendal , the opposition will mobilize in protest at Miraflores Palace this November 3.

The National Assembly takes the offensive. Given the present state of things, last Sunday the National Assembly held an extraordinary session to debate a single item on the agenda: *“the restoration of the Constitution of the Bolivarian Republic of Venezuela, the constitutional order, and democracy; a crucial session for the political and future course of the country.”* The following nine fundamental points were agreed:

1. Declare the rupture of the constitutional order by the regime of Nicolás Maduro.
2. Request the international community to activate all the mechanisms that are necessary to guarantee the rights of the people of Venezuela.
3. Formally file accusations against the judges and directors of the National Electoral Council before the International Criminal Court.
4. Appoint new directors of the National Electoral Council.
5. Appoint new justices to the Supreme Tribunal of Justice.
6. Start the process to determine the constitutional situation of the Presidency of the Republic.
7. Form a special high-level parliamentary commission to develop and define the decisions emanating from this agreement to restore the constitutional order.
8. Demand that the National Armed Force not obey or carry out any act or decision that is contrary to constitutional principles.
9. Call on the Venezuelan people to actively defend our Constitution.

National Assembly stormed. While the debate on the rupture with the constitutional order and the signing of an agreement on the steps to take was taking place, the chamber was invaded by violent groups waving PSUV flags. The president of the National Assembly, Henry Ramos Allup, condemned the violence perpetrated by armed gangs that burst into the National Assembly and attacked people who were on the premises of the Federal Legislature.

Fear among those present. The presence of those armed gangs generated fear, not only among the parliamentarians, but also among journalists, photographers, employees of the Legislature, and people who had been invited to attend the debate on the rupture with the constitutional order.

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Shoulders to the wheel. The National Assembly has started the debate of point six above and has approved the opening of impeachment proceedings against the President of the Republic, Nicolás Maduro. To that end, it has issued the pertinent notification for him to appear before the National Assembly next Tuesday to respond to the accusations made by the opposition coalition. It was also decided to approve a commission that is to be charged with starting the preparations for bringing possible criminal charges against Nicolás Maduro.

Washington-bound. The president of the National Assembly and secretary general of *Acción Democrática* (AD), Henry Ramos Allup, announced that a commission led by him is to travel to Washington next week to request the Organization of American States (OAS) to activate the democratic charter in the light of recent events.

Forever faithful. Following recent events and in response to the agreement passed by the National Assembly last Sunday, Minister of Defense General Vladimir Padrino López reiterated the Bolivarian National Armed Force's total support of Nicolás Maduro.

The long path of dialog. Following the incorporation of the Church in the process of achieving dialog between the opposing political factions in Venezuela, their reactions have been a mixed bag with a variety of implications. In this context, the announcement of the start of negotiations on October 30 on the Island of Margarita has generated a wide range of responses from both sides.

Communication is essential. Despite the fact that the spokesperson at the press conference held to outline the results of the talks with the Pope's emissary and to announce the start of the process of dialog was the executive secretary of the Democratic Unity Alliance, different personalities who are supporters of the opposition's cause, among them Henrique Capriles and María Corina Machado, stated that they had not been consulted about the dialog. As a result, some political parties, including *Acción Democrática* (AD) and *Voluntad Popular* (VP), dissociated themselves from this process, claiming, among other things, that the conditions for such a dialog do not exist.

Caracas and transparency. Because of the ruckus caused by these events, the opposition side has stipulated Caracas as the venue for the meeting and absolute transparency as conditions for any process of dialog.

We on this side are going to go. On the other side of the street, Nicolás Maduro confirmed his presence and the presence of the government coalition at the proposed

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dialog. However, at the time of writing, there is no schedule or agenda for the process in question.

Out in the cold. President of Argentina Mauricio Macri stated that, given the current conditions in Venezuela, it cannot be a part of MERCOSUR. Consequently, he is to propose discussing the application of the democratic clause to Venezuela in the next few days.

LEGISLATIVE TIPS

The agenda. Following the signing of the agreement to restore constitutional order, on Tuesday, October 25, a debate was opened whose sole point was “*Start of the process of evaluating and determining the constitutional status of the Presidency of the Republic.*” Opposition bench deputies gave their arguments against President Nicolás Maduro and urged that the debate continue and that the actions set forth in the agreement be taken.

The numbers don't lie. The chairman of the National Assembly's Oversight Committee gave a report on the irregularities committed by the former minister of oil and former president of PDVSA, Rafael Ramírez, when he was in office. The report establishes a shortfall of USD 11.0 billion on the industry's accounts and for whose use there are no justifications.

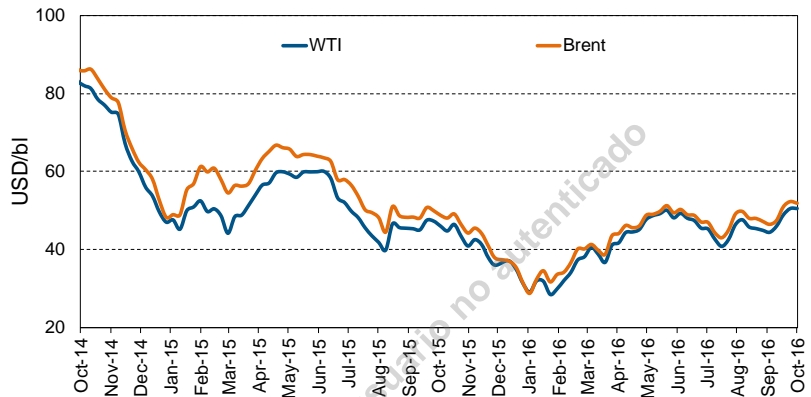
Political accountability. This case constitutes the most serious act of corruption in any Venezuelan public institution and for that reason the committee is to request the National Assembly to declare the political accountability of Rafael Ramírez, Asdrúbal Chávez, Eulogio Del Pino, and Javier Alvarado Ochoa for impairment of the public domain.

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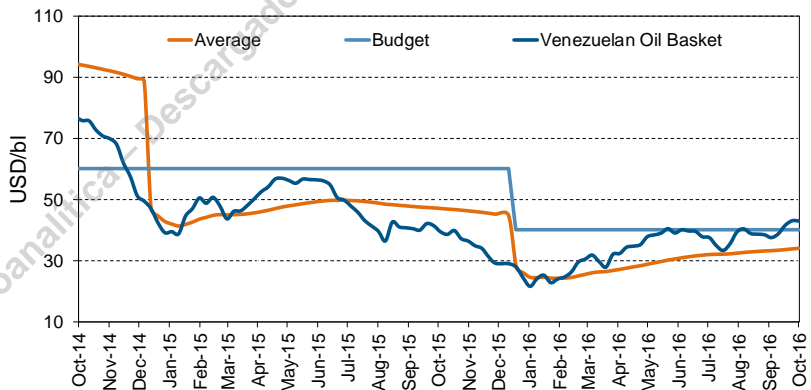
ECONOMIC INDICATORS

Oil Prices
(WTI and Brent)



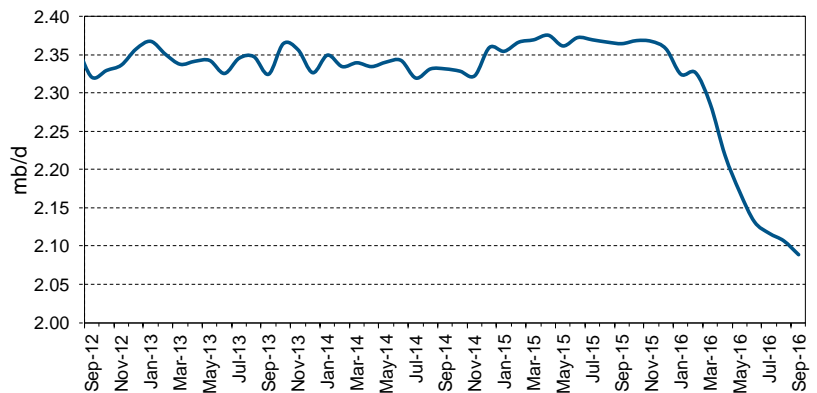
Sources: Menpet and Ecoanalítica

Oil Price
(Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production
(Secondary sources)



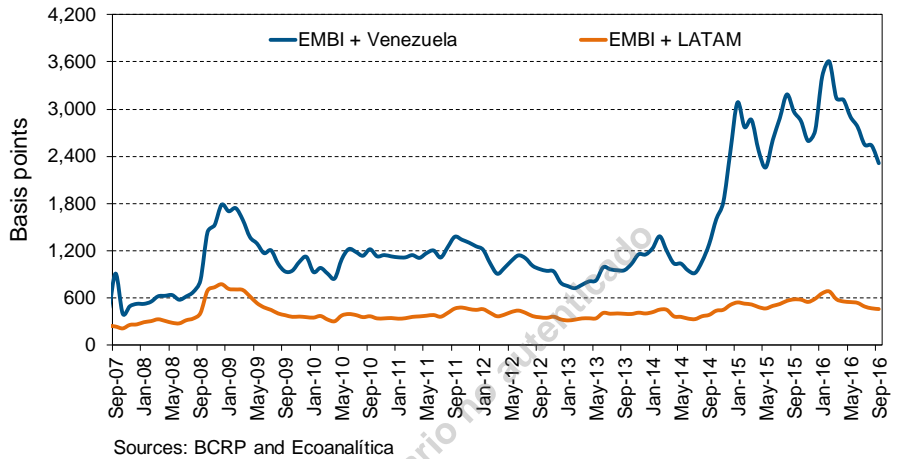
Sources: OPEC and Ecoanalítica

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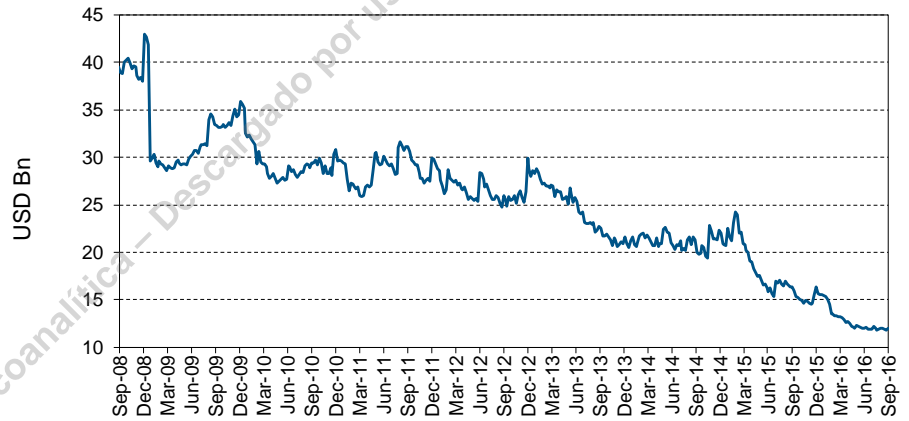
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EMBI



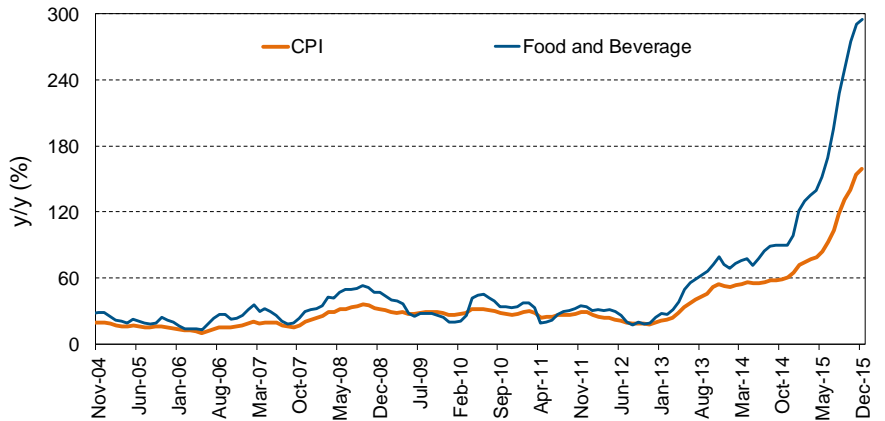
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



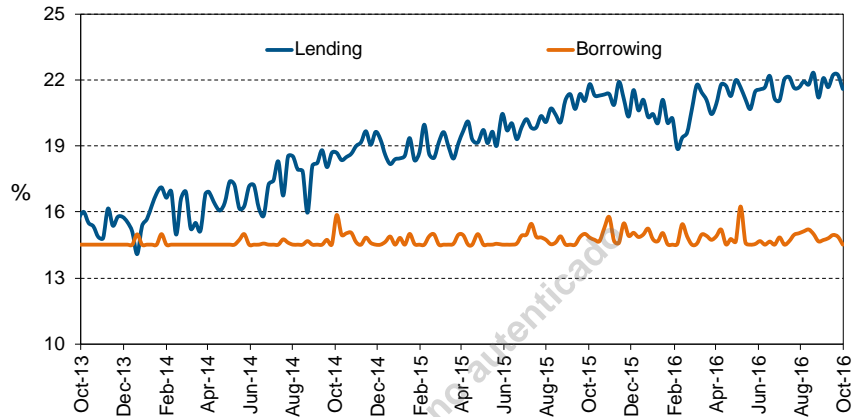
Sources: BCV and Ecoanalítica

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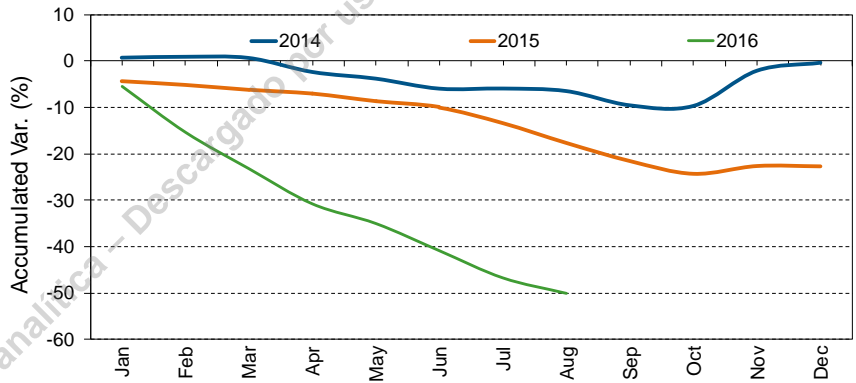
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**Interest Rate
(Six major banks)**



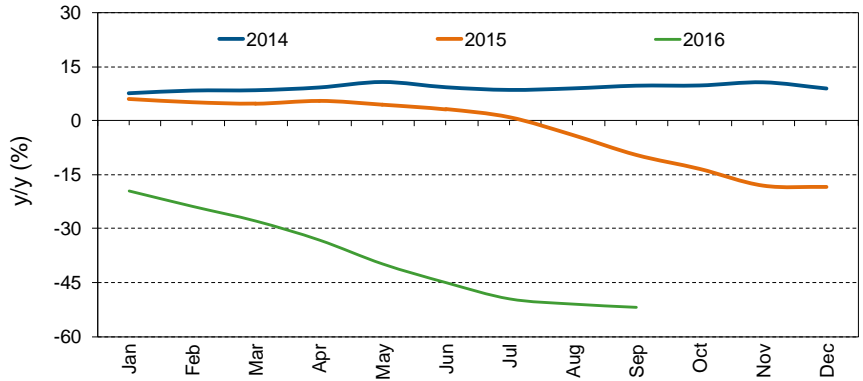
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

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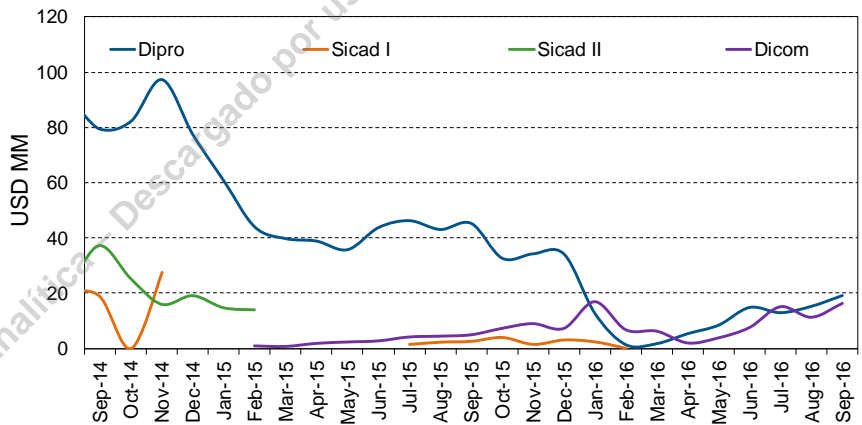
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Real Wage Index



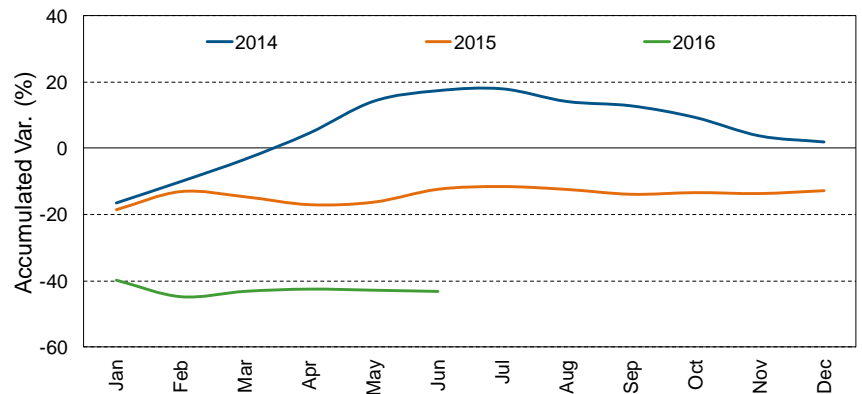
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



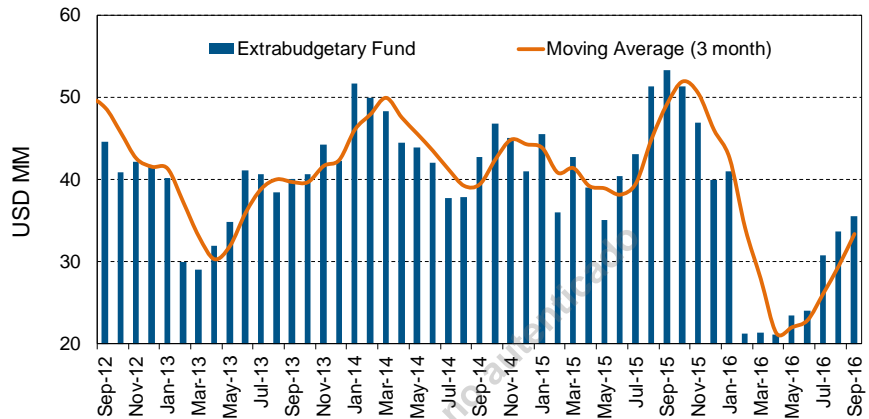
Sources: ONT and Ecoanalítica

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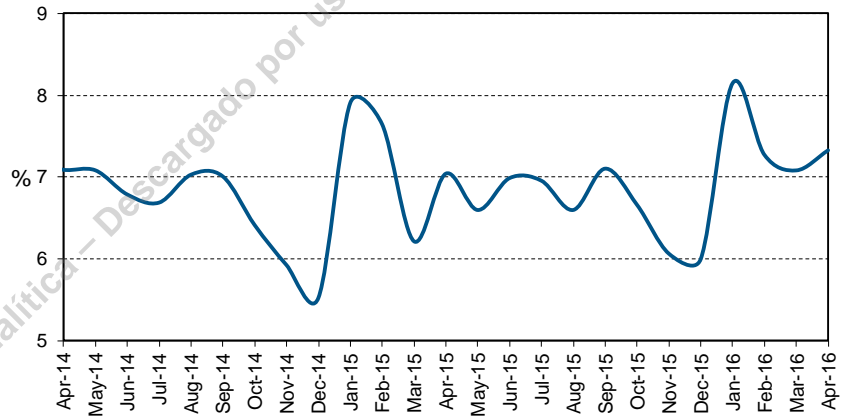
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State Extrabudgetary Resources



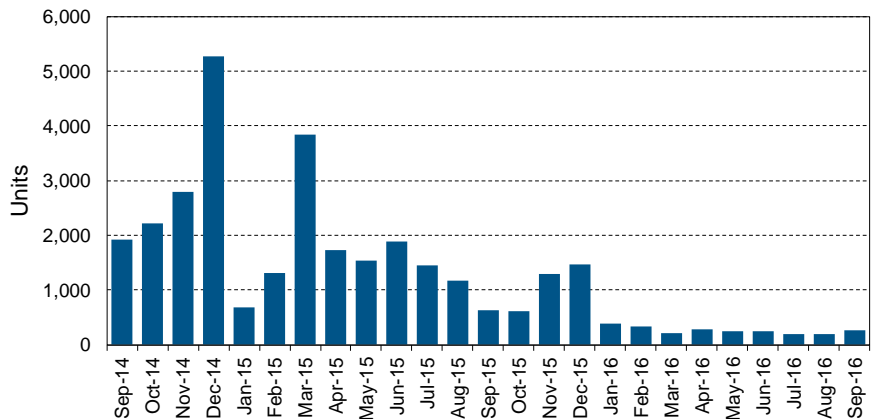
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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