

Why are they taking so long? A brief look at the political economy of stabilization plans

It is undeniable that, given the present state of the Venezuelan economy, the present administration should adopt a more radical stance when it comes to economic policy. Very much in spite of the statements offered by government spokespersons, who talk endlessly of the start of a profound revision of the government's fiscal management, what we have seen in the past few months under what has been called the "Economic Recovery Plan" does not, strictly speaking, constitute a compendium of adjustments aimed at attacking the main imbalances that are at the bottom of our biggest economic issues: hyperinflation, a shrunken production apparatus, and constant pressures on the real value of our currency.

This has not only detracted from the credibility of the Maduro administration's capacity to do things right, it also speaks to us of the governing coalition's intention to postpone an adjustment that, while still some way off, looks to be increasingly inevitable. By adjustment plan we mean the definition of the theoretical and empirical debate that encompasses a compendium of economic measures aimed at correcting the imbalances in the real and fiscal spheres that are the causes of hyperinflationary episodes.

According to this definition, neither raising direct and indirect taxes, nor putting up the domestic prices of gasoline, nor a higher bank transaction tax will discourage the use of seigniorage as a fiscal life raft or avoid the collapse of the demand for bolivars. Put another way, there is no adjustment plan. So, the government continues in the terrain of economic inaction. The question is: Why are they taking so long to act? Below we will attempt to give a somewhat formal answer to that question.

The role of the political regime

A highly popular argument in the theoretical debate on stabilization plans focuses on the role played by political management in the duration and efficiency of such adjustments. A pioneer study on this issue was developed by Drazen and Alesina (1989)¹. The basic idea is that stabilization plans can depend on the political regime. If the regime is democratic, the costs of implementing an anti-inflationary plan will tend to increase,

¹ Drazen, A. & Alesina, A. (1989) Why are Stabilizations Delayed? Massachusetts, National Bureau of Economic Research.

basically because governments' accountability to their citizens is greater. This means that the greater the degree of democracy, the greater the incentives will be for delaying carrying out a package of adjustments.

In the specific case of Drazen and Alesina (1989), the costs come from the distributive adjustments caused by the changes in taxation to reduce the fiscal deficit, where the policy of adjustment is delayed to the point where the segment of the population hardest hit by it is less resistant to paying more taxes. A less democratic (or more polarized) government makes this distribution less symmetric or fair, raising taxpayers' resistance, which prevents implementing fiscal measures within a shorter period of time.

This theory implies that a government with flaws in political management will tend to speed up the implementation of any program of measures against hyperinflation. In other words, its lack of transparency allows it to rapidly undertake a reduction in public spending or in the scheme of subsidies, for example, without this implying a high cost with its political base or greater malaise among the public in general.

That does not happen in the case of Venezuela. Even after nearly a year in hyperinflation as defined by Cagan, we do not perceive an attitude on the part of the governing coalition that allows us to say that a stabilization plan in the strict sense of the term has been implemented so far. This has happened in the context of certain events that make it possible to measure the government's scant accountability. The best indicator of this is the growing opacity of official figures, there having been no publication of official series of economic activity figures and prices for more than 3 years now and information on how the Republic's external debt is being managed (including bilateral commitments) being increasingly scarce.

The Venezuelan phenomenon would tend to respond more to a refinement of this theory offered by Oatley (2004)², in which regimes that lack any democratic overtones are able to cope more easily with social unrest due to the initial costs of any adjustment or because of the lack of one. So, regimes such as these can delay implementing plans because they are not forced to be accountable to society. As the author himself put it, a democratic government wants to implement adjustments rapidly but is unable to, and a more authoritarian government wants to implement them slowly, even when it is able to do it rapidly.

Other studies highlight some specific aspects of the political regime that can condition both the timing and effectiveness of stabilization plans. Studies such as those of Hamman

² Oatley, T (2004). Why is Stabilization Sometimes Delayed? Reevaluating the Regime-Type Hypothesis. SAGE Publications, Comparative Political Studies 2004, 37, 286.

& Patti (2002)³ or Alesina, Ardagna and Trebbi (2006)⁴, in particular, highlight that the loss of power by the executive branch to other sides of the government⁵ ends up affecting the success of a stabilizing policy (in terms of the reduction in prices it manages to bring about). According to this theory, the aspect of reputation prevails, where the credibility of the executive branch may be affected if its decisions respond largely to interests associated with other political power players.

A similar mechanism may be behind the inaction of the present administration in Venezuela. Faced with the multiple power groups that coexist within *Chavismo*, besides the military presence in several aspects of the local economic circuit (importing/distribution of food, oil production), the Maduro administration may be suffering from a lack of credibility fueled precisely by its limited capacity to reach agreement with these groups. So, local agents have come to expect the worst with each new announcement of measures, limiting still further the “scope” of their potential effects.

The longer we wait, the worse it will be

Just as political and institutional factors have marked the delay in implementing stabilization plans, this timing can, in itself, define the program’s effectiveness. In hyperinflationary environments, carrying out fiscal adjustment measures will entail less costs in the real economy when starting from annual inflation of close to 2,947.7%, as was the case prior to Brazil’s Plan Real, than starting with inflation of 4,124,000% (if the local government starts appreciable changes in January 2019) or with cumulative inflation (since the end of 2017) of 194,330,000%, if it decides to do it at the close of the first quarter of 2019.

In terms of the acceleration of inflation, each case poses markedly different scenarios with regard to the time it would take prices to converge at levels that would not put domestic absorption and, therefore, production at risk.

In 51 cases where stabilization plans were implemented, Hamman & Patti (2002) identified that, in countries with a long history of inflation, adjustment programs were less effective. The authors attribute this to different factors, from aspects having to do with reputation (an extensive inflationary precedent says much about the inefficiency of

³ Hamann & Prati (2002). Why do many Disinflations Fail? The Importance of Luck, Timing, and Political Institutions. International Monetary Fund.

⁴ Alesina, Ardagna & Trebbi (2006). Who Adjusts and When? The Political Economy of Reforms. International Monetary Fund, Vol. 53, Sepecial Issue.

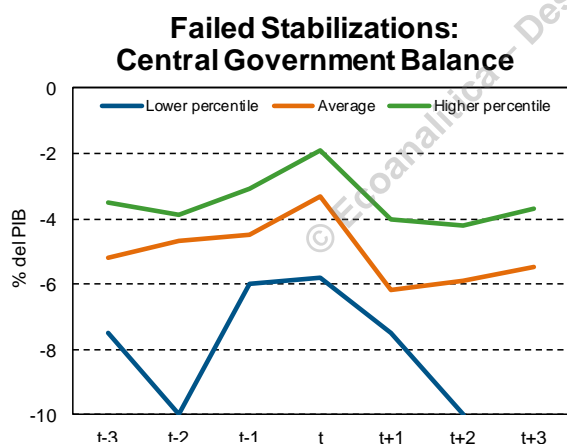
⁵ This being a measure of a government’s degree of democracy

previous governments) to the presence of wage indexations (which creates greater price inertia and, therefore, greater price explosiveness).

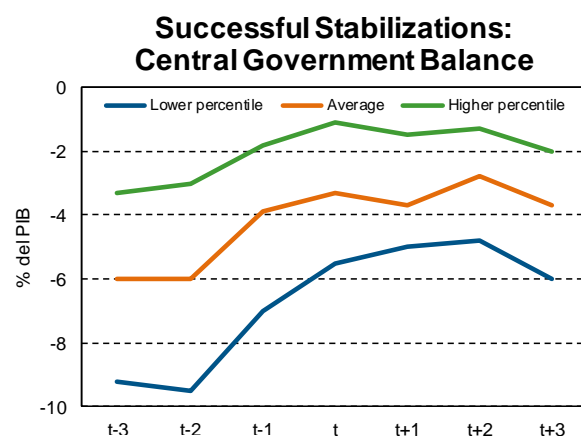
However, the study determines that in countries where inflation was high immediately prior to the government's intervention, the success of the stabilizations was greater. The authors argue that, in these cases, the loss of well-being was so great that the incentives for local agents to face higher taxes (as part of an adjustment plan) increased, making it easier for regulators to implement them.

The fiscal deficit is to blame

The review of the conditions that favored the implementation and effectiveness of adjustment plans also highlights the relevance of fiscal management. Hamman & Patti (2002) determine that the reduction in inflation was sustained in a group of countries with hyperinflation where the fiscal deficit was maintained at the same levels as or below the shock imposed during the implementation of the stabilization policy. This tells us that, in an economy such as Venezuela's, heavily reliant on the State, the success of the anti-inflation policy will be based on a higher real cost in the short term as a result of lower spending.



Source: Hamman & Prati (2002)



Source: Hamman & Prati (2002)

The timeframes within which these plans are implemented will be influenced by fiscal management. Veiga (2002)⁶ used data from 27 adjustment plans in 10 countries to determine that the probability of starting a stabilization plan increased if the countries showed a less unfavorable fiscal balance (presumably to minimize the costs of cutting spending). According to this argument, as hyperinflation progresses and economic

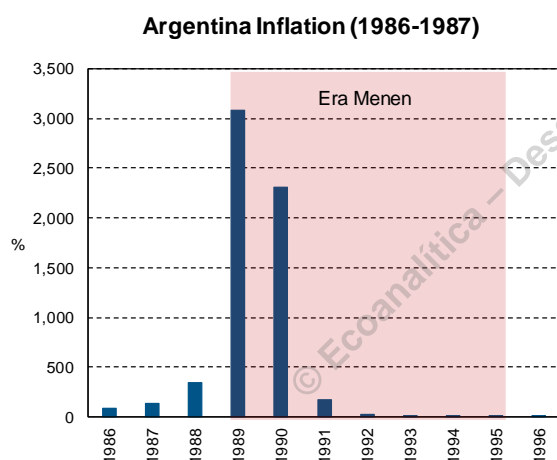
⁶ Veiga, F (2008). Why do Stabilizations Fail? Universidad do Minho and NIPE, Braga, Portugal.

Year 14. Number 42 Week V
 October 2018

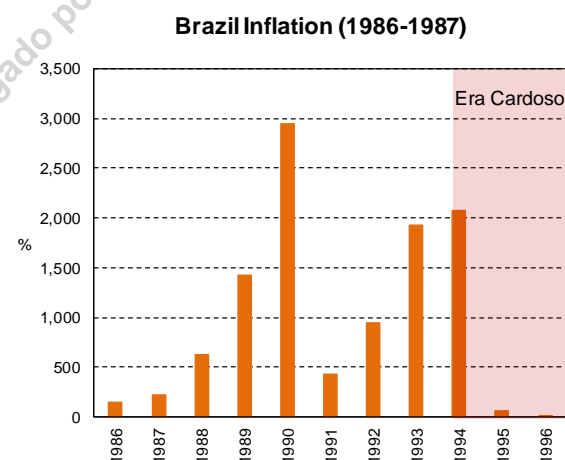
deterioration reaches the fiscal budget, the same imbalances that fueled the increase in prices ends up promoting a reduction in spending that could accelerate the implementation of an anti-inflation adjustment.

Leadership is important, very important

Another approach is developed by Özdemir (2015)⁷, in which he proposes political leadership as a determining factor in the effectiveness of an adjustment plan. Strictly speaking, a strengthened leadership means a political environment that is more suitable for coalitions that could favor anti-inflation measures being taken as quickly as possible. In the author's opinion, this mechanism prevailed in Brazil's Plan Real under President Fernando Cardoso and in Argentina with President Carlos Menem, both faced with a high degree of political fragmentation without this meaning loss of effectiveness of the price stabilization policies.



Sources: IMF and Ecoanalítica



Sources: IMF and Ecoanalítica

This theory proposes an additional aspect: the right leadership can get governments to operate in the transition towards an adjustment plan, even if it is implemented quickly. Moreover, this proposal means that, even with the costs of these plans, good leadership will allow policymakers to remain in government after the plan and capitalize on the political gains obtained from bringing down prices.

⁷ Özdemir, Y (2015). Political conditions for successful inflation stabilization: comparing Brazil and Argentina.

Is the adjustment really costly?

The above leads us to think that a stabilization policy, if successful, does not mean a strictly unsustainable political cost for those who carry it out. This would be a point against delaying implementing the plan (under certain conditions). Nevertheless, as we have outlined, the adjustment certainly entails real costs that discourage policymakers from taking the best path in regulatory matters.

What prevails at the end of the day? Studies such as Oakley's (2004) talk of a J-curve of the benefits of stabilization. In the short term, elements that make up these adjustments, such as cuts in spending, rationing of subsidies, and changes in taxation, can generate a smaller boost to domestic production, particularly in economies where the weight of the State is high.

On the other hand, asymmetry in the tax adjustments behind stabilization can provoke malaise in those strata of the population hardest hit by the higher taxes. Whereas the foregoing defines the downside of the J-curve, economic recovery after the adjustments would be the upside, and the most extensive part, of the curve. So, the subsequent boom as a result of the adjustment plan can turn out to be, at least in theory, greater than the initial costs, according to the findings set forth in Roldos (1995)⁸, which talk of a considerable increase in the influx of capital in economies that have overcome hyperinflationary events.

In the case of Venezuela, weighing whether the net cost of stabilization would exceed the benefits after the hypothetical end of hyperinflation and improvements in production is a complicated task. Certainly, the Venezuelan population would look favorably on a more sincere policy aimed at reducing the deficit. Nevertheless, what we explained earlier regarding the incentives for *Chavismo* to rein in fiscal spending somewhat and keep control of the local economy could weigh more in how Venezuelans view the government.

Moreover, if we take into account the conditions that Venezuelans have been facing recently, with a contraction in economic activity of close to 23.5%, an almost exponential loss of the purchasing power of wages, and higher taxes, local agents have been facing consequences similar to those observed in adjustment programs *without an adjustment program having been implemented*. This will certainly weigh even more on the present administration's final rating, assuming it carries out a more effective stabilization plan in the medium term.

Luis Arturo Bárcenas

⁸ Roldos, J. (1995). Supply-Side Effects of Disinflation Programs. Staff Papers (International Monetary Fund) (pp 158-183). Palgrave Macmillan Journals.

Year 14. Number 42 Week V
 October 2018

WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week November	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	64.55	0.9	0.9
	3rd Week October	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.5	0.0	0.6
	4th Week October	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	13.8	7.0	13.7
	4th Week October	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.8	0.2	-13.3
	3rd Week October	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	180,302,376	7.0	35,740.4
Price of International Oil Baskets (USD/bl)			
	4th Week October	Weekly chg. (%)	Annual chg. (%)
WTI	70.7	0.0	36.7
Brent	80.4	0.0	39.4
Price of the Venezuelan oil basket (USD/bl)			
	4th Week October	Weekly chg. (%)	Annual chg. (%)
Weekly Average	70.0	-3.1	38.0
Annual Average	65.1	0.2	45.3

Sources: BCV, MENPET, ONT and Ecoanalítica

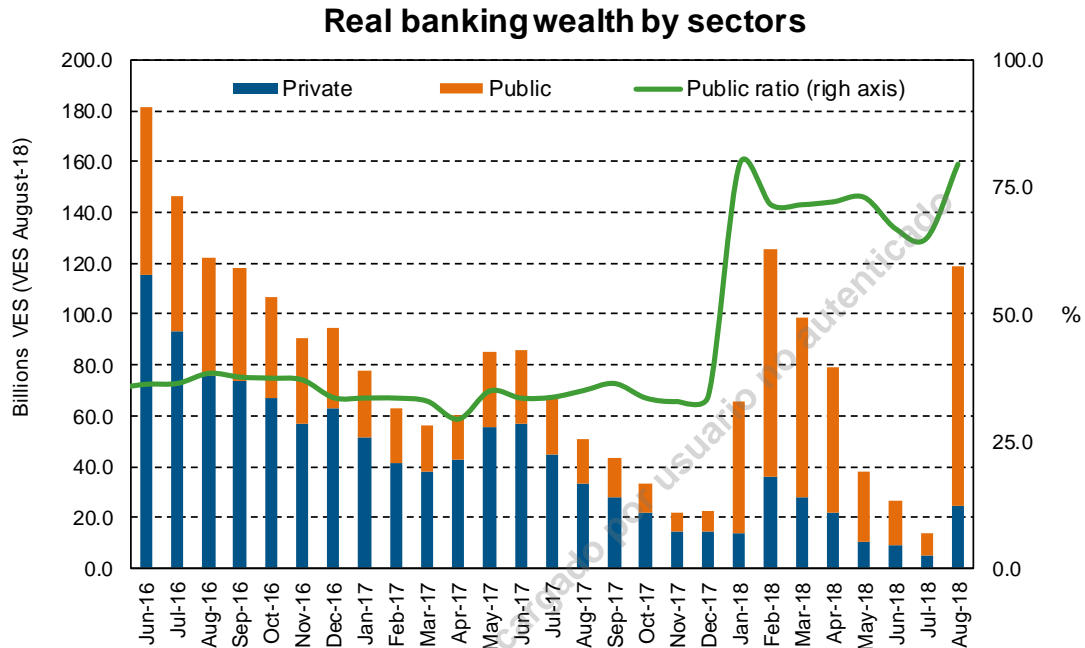
* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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

GRAPH OF THE WEEK: “AN ARTIFICIAL GROWTH”



Sources: Sudeban and Ecoanalítica

The repercussions of the Recovery, Growth and Economic Prosperity Plan continue to be felt in different aspects of the Venezuelan economy. In the case of the state-owned and private banks, the increase in the official exchange rate seems to have had a significant impact on their net worth.

In August, whereas the official exchange rate went up from VES 2.5/USD to VES 60.27/USD, the real net worth of the banks rose by as much as eight times their net worth in July. This occurred largely as a result of a revaluation of the bonds and securities denominated in dollars in the hands of the banks. The main beneficiaries of these gains were the state-owned banks, which maintain a high position of dollar-denominated sovereign bonds. As a result, their net worth rose to account for 79.4% of the total net worth of the country's banks.

Consequently, we can forecast an expansion in the local banking system's loans portfolio in the coming months, particularly in the state-owned banks. However, since it occurred merely as a result of a revaluation of assets, this increase in net worth does not necessarily indicate better management of their balance sheets by the banks, but simply "massaged" increases.

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

ECONOMIC TIPS

Gold does not shine so much now. Department of Treasury of the United States issued sanctions to those that operate in the Venezuelan gold sector. Responsibility and complicity will fall to the ones that participate, directly or indirectly, in activities involving deceptive practices or corruption and the Government of Venezuela or programs administered by them.

Consulting with the Chinese. Members of the Venezuelan Government held meetings with representatives of China Development Bank to “*strengthen*” the economic recovery plan. According to a press release from the Ministry of Finance, several delegations met with the advisors and items on the agenda included “*strengthening the international reserves and the use of the petro as an international currency.*”

Consulting with the Russians (I). According to the agency Bloomberg, the Russian Government decided to send a delegation to Venezuela to help design strategies to stem the “*economic collapse*” the country is currently experiencing.

Consulting with the Russians (II). A spokesperson at Russia’s Finance Ministry said that the team includes Vice Minister of Finance Sergey Storchak; however he refused to comment on the possibility of Russia granting Venezuela further financial aid.

Who wants petros? Petros are already on sale at the cashier’s windows at the National Superintendency of Crypto Assets and Related Activities (Sunacrip) and online via Sunacrip’s platform.

How can I get a petro? This crypto asset can be acquired by handing over foreign currency at the cashier’s windows in exchange for a certificate of purchase. These certificates can also be obtained online by offering other cryptocurrencies such as BitCoin, LiteCoin, Ethereum and Dash in exchange. For now these certificates are issued on paper since digital billfolds are not available.

The “bounties” of the petro. Minister for Productive Agriculture and Lands Wilmar Castro Soteldo said that the advent of the petro would “*iron clad the national economy.*” He argued that, with the petro, “*there should be no speculation*” since “*there would be no shortage*” of the “asset.”

Companies get priority. At the close of the third week of October, the DICOM rate was VES 64.17/USD, resulting from Auction 52. 91.8% (USD 12.4 million) of the foreign currency allocated (USD 13.9 million) went to companies. This is a significant change

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. Blandin, 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 14. Number 42 Week V
October 2018

from the second week of October, when only 50.1% of the total was allocated to companies.

A new development. In recent weeks there have been significant movements in interbank operations. Unlike what had been happening in previous weeks, there were transactions in this market everyday throughout October.

The “new” development in figures. The total amount traded during the fourth week of October was VES 9.2 billion for an increase of 64.66%. In relative terms, the amounts traded via this mechanism went from the equivalent of 9.1% of surplus bank reserves to 15.2%. The average rate traded during the third week of October was 13.7%.

OIL TIPS

Zero load. Cardón Refinery’s four crude oil distillation units are out of service due to the lack of crude and technical problems. Cardón is Venezuela’s second largest refinery. A refinery worker told Reuters *“the entire crude distilling complex is out of service, zero load.”* The first crude distillation unit was put out of service due to a failure in the furnace’s ventilator and the other three were taken out of service because they had not received crude.

Cardón and Amuay. So Cardón, which has a processing capacity of 310,000 barrels a day (b/d), is out of service. Reuters also reported that Amuay Refinery is producing 280 kb/d, 365 kb/d below its capacity of 645 kb/d. Apart from the problems already mentioned, the flight of specialist personnel is also contributing to the reduction in the refineries’ operations.

The first payment. ConocoPhillips stated that they had received an initial payment of USD 345 million in cash and raw materials in the last quarter, according to Reuters. This payment is part of the agreement reached with Venezuela’s state-owned oil company, PDVSA, regarding the USD 2.0 billion award in favor of ConocoPhillips for Venezuela’s failure to honor the oil contracts it had with the company.

2020. In the next few days PDVSA faces payments in connection with bonds with maturity in 2020. The assets of Citgo Petroleum were put up as collateral for 51% of Bond 2020. As for ConocoPhillips, it has said that it is waiting for the USD 155 million it is still due from the first payment PDVSA was to make under the agreement.

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 14. Number 42 Week V
October 2018

From Venezuela to Cuba... Argus Media reported that Cuba's main refinery is being supplied with Venezuelan crude at no cost to Havana. Cienfuegos Refinery will process 37,120 b/d in 2018, a significant increase compared to last year.

...with love. Some months ago, internal PDVSA documents showed that 50 kb/d were delivered to Cuba and that shipments delivered to Cuba were completely free of charge as part of a State-to-State agreement between Caracas and Havana.

Shipments to the USA. The state-owned oil companies of Venezuela and Mexico have rerouted crude shipments to the United States due to a holdup in supplies from Canada. This is the result of a number of factors, two being these Latin American countries' need for cash to pay debts and for investment and an unmet demand for heavy crude in the United States due to the reduced availability of Canadian crude.

For the lack of an oil pipeline. According to Refinitiv Eikon, the United States imported 1.68 mb/d of Latin American crude in August, the most since May 2017. US refineries want more Canadian crude because it is cheaper, but "*unless someone builds a new pipeline*" (they told Reuters), it will be difficult to promote the imports of Canadian crude.

Russia's capacity. The International Energy Agency (IEA) announced that Russia has the capacity to produce more than 10 mb/d in the next decade, despite sanctions applied by the West that restrict its access to technology and capital. This increase will be followed by a drop to 9.4 mb/d in 2040.

Possible purchases. The privately owned oil company Chevron has been negotiating to acquire the refining unit of Brazil's oil company Petrobras, Pasadena Refining System Inc., located in Texas. Chevron is seeking to expand its refining operations, which makes the acquisition of this refinery, with a capacity of 110 kb/d, an attractive proposition.

BUSINESS SECTOR TIPS

Zero cars. Not a single vehicle was produced in Venezuela in September, according to the Venezuelan Automobile Products Manufacturers Chamber (Favenpa). A total of 705 vehicles have been produced in 2018 so far, for a drop of 50% compared to the same period last year.

Sales are declining steadily. Favenpa also reported that 110 cars were sold in September, down 24.7% from August and 42.7% fewer than last year. A total of 1,725 vehicles have been sold in Venezuela this year to date.

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 14. Number 42 Week V
October 2018

More domestic cars than foreign. Seventy-two of the 110 cars sold in September were produced in Venezuela and the remaining 38 were imported. The total number of domestically produced vehicles sold in the first nine months of the year was 1,084, down 52% from last year, and the total number of imported vehicles sold was 641, 9.5% fewer than in 2017.

“Guaranteeing food.” In a press release, the Ministry of Fisheries and Aquiculture reported that it had held a meeting with officials of the food and planning sector to guarantee access to food throughout the country. This meeting is part of the Agri-food Sector Plan that comes under the Plan of the Fatherland 2019-2025.

Special CLAP Program. The mayor of Libertador Municipality (Caracas), Erika Farías, said that she would implement a special program for distributing 1,600 tons of food. This program is to be carried out via the Local Supply and Production Committees (CLAPs), Mercados y Alimentos, C.A., and the Ministry for Food.

More protests. Workers from different state-owned companies and government agencies protested outside the Ministry of Labor last week. Workers from Movilnet, CANTV, PDVSA, the National Integrated Customs and Tax Administration Service (Seniat), the Caracas Metro, Corpoelec, the National Electoral Council (CNE), and the National Assembly protested against the unification of salary scales and to demand that their collective employment contracts be respected.

Phone lines down. The telecommunications sector has been having problems in recent weeks or even months. It has been apparent from its Twitter account, how the state-owned telephony services company, CANTV, has been inundated with requests from subscribers to solve the problems. The states that have been most affected are Zulia and Táchira, according to *Efecto Cocuyo*.

The private service providers as well. However, it is not only CANTV that has been experiencing failures in its services. The lines of private telecommunications service providers such as Movistar have also been having problems. Their subscribers have been left without access to Internet or been unable to make calls for hours. Last week Movistar announced via its Twitter account that the problems had been solved by their technical personnel.

Dirty streets. The coordinator of the North Caracas Defense Front, Carlos Julio Rojas, denounced the serious garbage situation in Libertador Municipality. He also said that between 15% and 20% of the garbage trucks are out of service. In response to these complaints, Mayor Erika Farías said she was working on a “recovery, beautification, and cleanup plan.” We will have to wait and see whether it produces results.

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

The “white coat” Diaspora. According to the Venezuelan Medical Federation (FMV), some 26,160 doctors have left the country since 2004. Douglas León Natera, the federation’s president, announced that the departures have stepped up in the past four years. Referring to the medical students, he said: *“Many of them already have their bags packed ready to leave and they are only waiting for their certificates.”*

WORLD ECONOMY TIPS

Now forging ties with the Middle East. On October 29-30, Athens hosted a summit between the European Union and the Arab league Shared Horizons. This was the second summit in October in which the European Union took part without the United States, reflecting the region’s need to forge new alliances.

Never like it was before. Forecasts for growth in the United States’ GDP range from 2.1% to 3.9%, which is lower than the growth posted in the last half-year (4.2%). One of the reasons for the high growth last quarter was that US consumers anticipated higher prices due to the tariff war with China, a phenomenon that was not repeated this quarter.

Extreme measures. US President Donald Trump is considering blocking the country’s southern border and increasing the number of US troops on the border with Mexico to thousands. This is one of the US Government’s new aggressive measures to stop the caravan of Central American migrants that is making its way to the United States.

Getting ready for Brexit. Bank of England Deputy Governor Sam Woods suggested that banks in the United Kingdom build up sufficient cash in order to withstand the consequences of Brexit. One of the likely consequences is that it may upset the equilibrium of the financial markets in March 2019 and, for that reason, Woods said that they were making sure that Great Britain’s withdrawal from the European Union was as smooth as possible for the markets.

Brazil’s deficit. The Banco Central do Brasil announced that the public sector had posted a primary deficit of BRL 24.62 billion in September, for a cumulative total for the past 12 months equivalent to 1.3% of GDP. In September, the gross public sector debt was equivalent to 77.2% of GDP and the net debt was equivalent to 52.2%.

Starting off with reforms. In his first public statements, Brazil’s President-elect Jair Bolsonaro promised to reform the government’s finances and reorient diplomatic

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

relations. He said that he would start a virtuous cycle of lower deficits, a reduction of the public debt, and lower interest rates.

New president, new relations. Bolsonaro also committed to aligning Brazil with more advanced countries that are able to offer the benefits of trade and technology, reversing what he called the recent political bias in diplomatic relations.

The new conservative front. Following Jair Bolsonaro's victory in the Brazilian presidential elections, Trump said that "*Brazil and the United States will work closely on trade, defense and everything else.*"

Cuba's big fair. This week Cuba opened its annual international fair, which includes an investment fund and is designed to be Cuba's main business center. The event attracts hundreds of companies and government delegations from all parts of the world, including many allies of the United States'.

Goodbye airport... Mexico's President-elect Andrés Manuel López Obrador announced that his administration would abide by the results of a referendum to not continue with the construction of Mexico City's new airport, which was to have cost USD 13.3 million.

...hello economic decline. The decision to cancel this multimillion dollars project, the biggest one undertaken by the outgoing administration, triggered a nosedive on the Mexican stock exchange and of the local currency, the peso. This collapse will probably result in Mexico experiencing its worst economic situation since Donald Trump won the elections in the United States.

POLITICAL TIPS

Putting out feelers. An exclusive report by Reuters claims that, according to four of the sources the agency has in the two factions, the Venezuelan Government has put out feelers to actors of the opposition to start a process of dialog, but has been rejected by several political parties due to past experiences.

Their word's not good enough. The *Soy Venezuela* platform, to which political leaders such as María Corina Machado and Antonio Ledezma are affiliated, issued a press release in which it rejected a possible dialog between the opposition and the government.

No to dialog! The secretary general of *Acción Democrática* (AD), Henry Ramos Allup, confirmed what was reported by Reuters. The government has put out several feelers to

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 14. Number 42 Week V
October 2018

the opposition parties without success. Ramos Allup added that the government “*knows the tragedy it’s about to face*” and that his party is working on a peaceful transition without bloodshed.

An interregional meeting. The High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, confirmed that a meeting was being organized between a delegation of the European Union and the Organization of American States (OAS). The item on the agenda will be the latent crisis in Venezuela and the meeting will be held in Washington.

Always with bad intentions. The Venezuelan Government’s response to Mogherini’s statements regarding the present situation in Venezuela has been to denounce that the intention of the European Union is to disrupt social stability in Venezuela.

A communal effort. Betilde Muñoz-Pogossian, the director of the OAS’s Department of Social Inclusion, said that the Venezuelan migratory crisis needed the coordinated intervention of all the countries of the continent. She is a member of a technical team that is to visit the regions affected by the crisis in order to issue a report.

Great Britain states its opinion. Great Britain’s Foreign Office Minister for the Americas Alan Duncan said that Venezuela is experiencing “*the deepest economic and humanitarian crisis created by man in the modern history of Latin America.*”

Respectful relations. President Nicolás Maduro asked Brazil’s President-elect Jair Bolsonaro to “*resume respectful diplomatic relations*” with Venezuela. In the same communiqué, Maduro ratified that he hoped to maintain an active relationship with the Brazilian Government on different projects.

Peaceful means. Upon being asked about Venezuela, Brazil’s President-elect Jair Bolsonaro said that there were no plans to intervene in Venezuela, explaining that Brazil would always seek a solution by peaceful means.

Panic in Upata. The coordinator general of the political party *Vente Venezuela*, María Corina Machado, was injured in a demonstration organized by her party in Upata, Bolívar state. Machado held individuals sent by President Nicolás Maduro responsible for the incident.

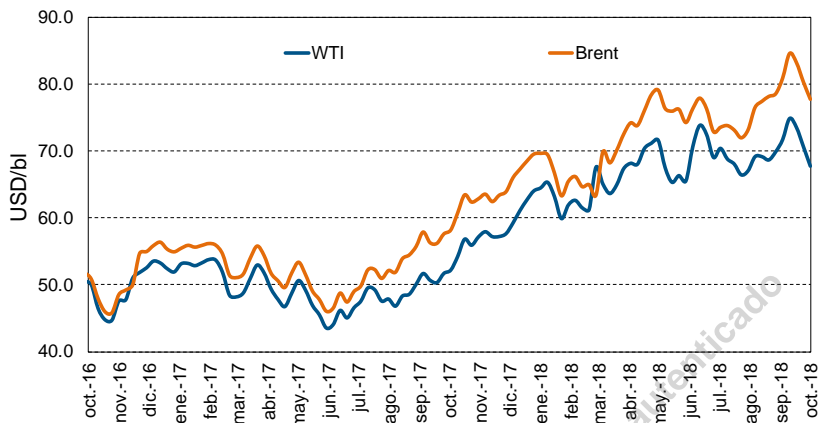
Waiting that never ends. Former presidential candidate Henri Falcón ratified that Venezuela is in a process of transition. He argued that the structural problem the country is experiencing, which is apparent on the social, economic, and political fronts, is creating the conditions for the government to be “*on its way out.*”

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

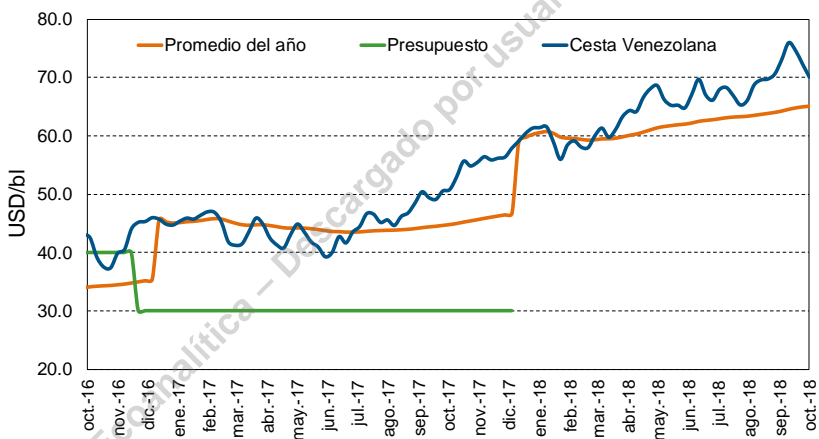
ECONOMIC INDICATORS

Precios del petróleo (WTI y Brent)



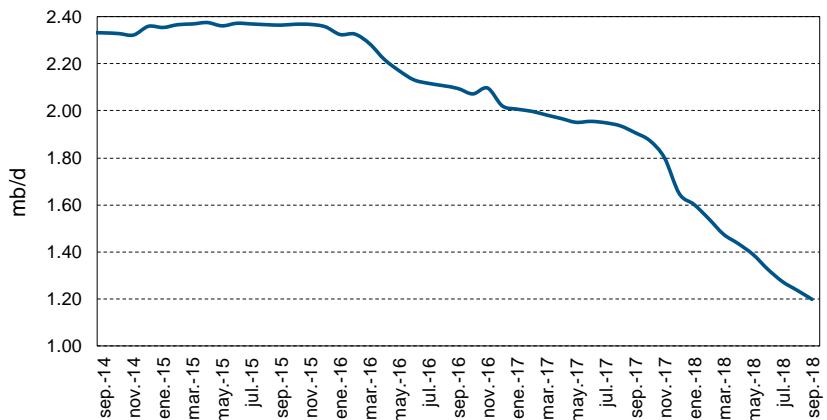
Fuentes: Menpet y Ecoanalítica

Precios del petróleo (cesta venezolana)



Fuentes: Menpet y Ecoanalítica

Producción petrolera (Fuentes secundarias)

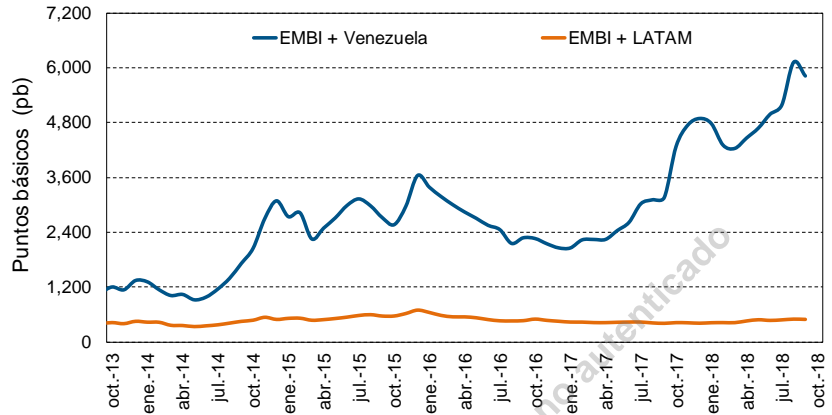


Fuentes: OPEP y Ecoanalítica

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.

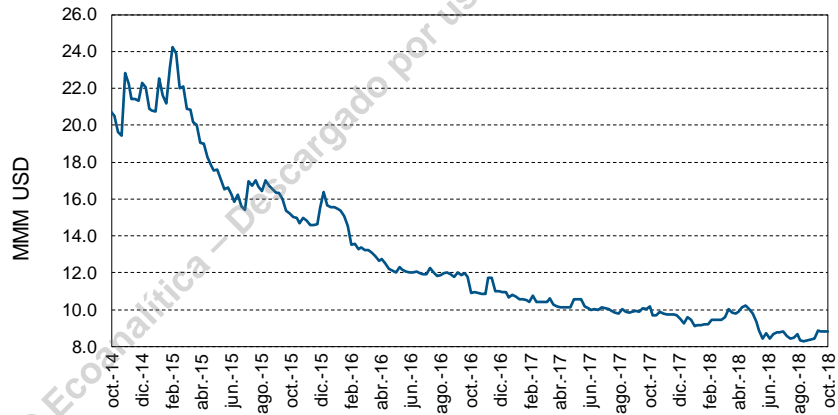
ECONOMIC INDICATORS

EMBI



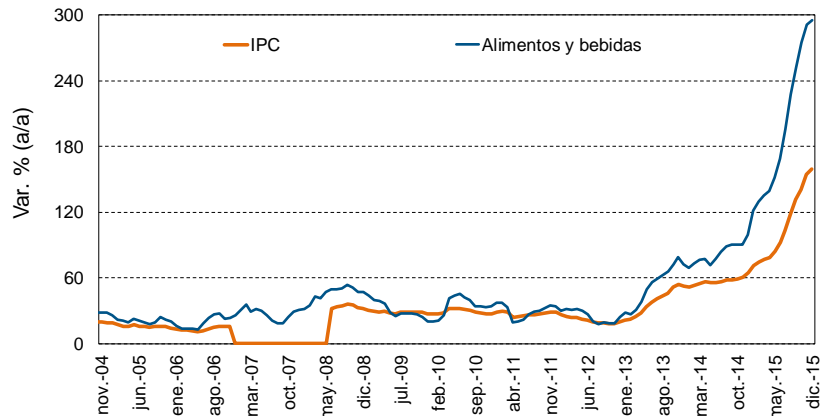
Fuentes: BCRP y Ecoanalítica

Reservas internacionales (BCV)



Fuentes: BCV y Ecoanalítica

Inflación (BCV)



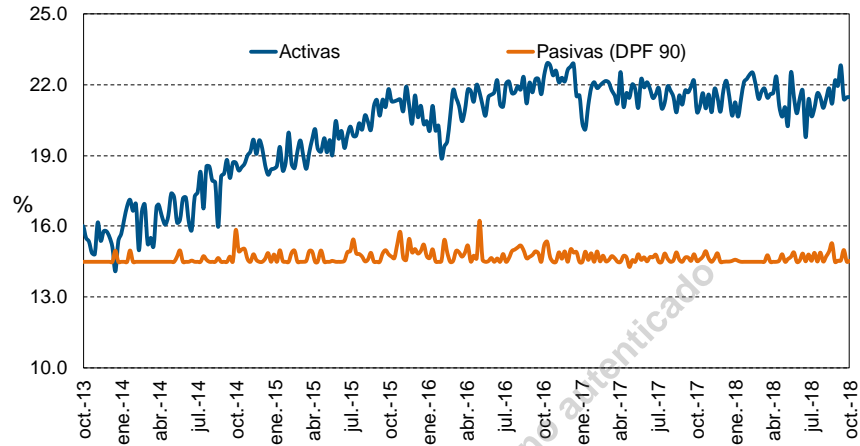
Fuentes: BCV y Ecoanalítica

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.

Year 14 Number 41 Week IV
October 2018

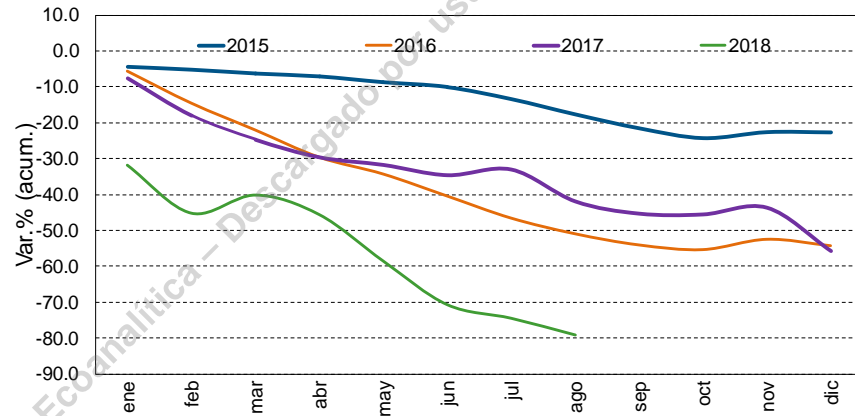
ECONOMIC INDICATORS

**Tasa de interés
(seis principales
bancos)**



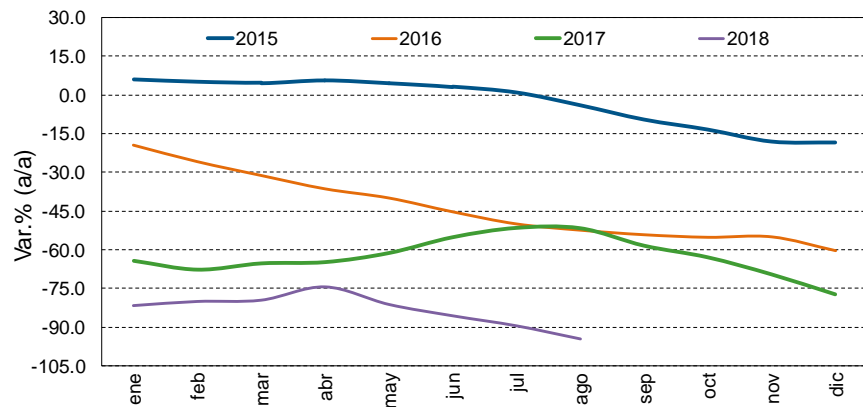
Fuentes: BCV y Ecoanalítica

**Expansión de M2
(real)**



Fuentes: BCV y Ecoanalítica

**Expansión de la
cartera de crédito
(real)**



Fuentes: Sudeban y Ecoanalítica

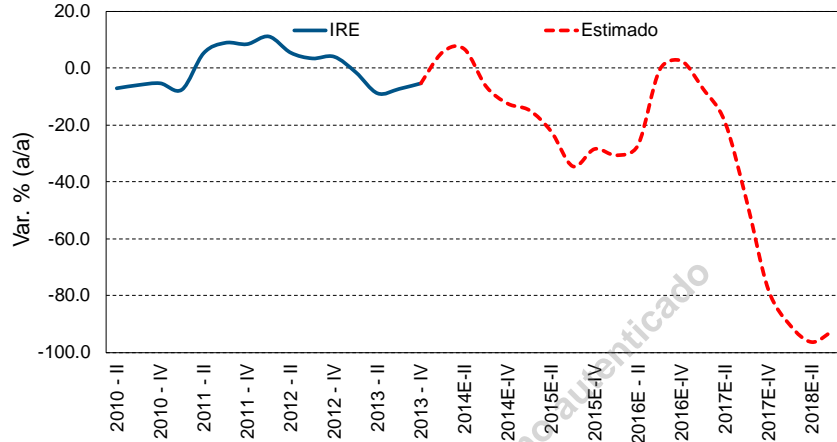
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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 14 Number 41 Week IV
October 2018

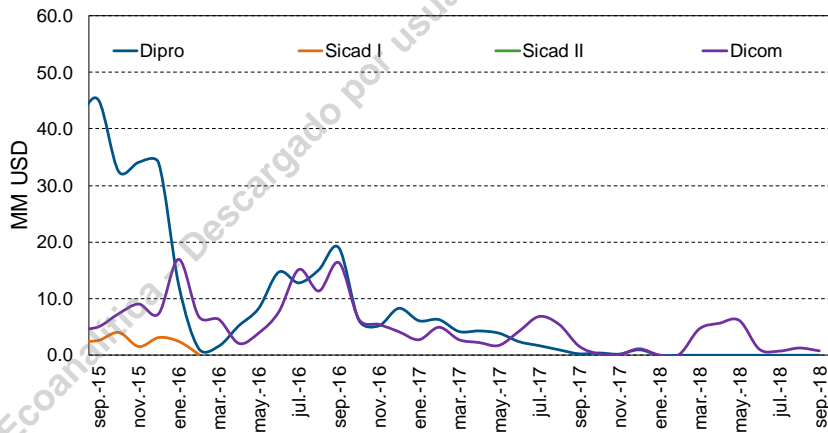
ECONOMIC INDICATORS

Índice de salarios reales



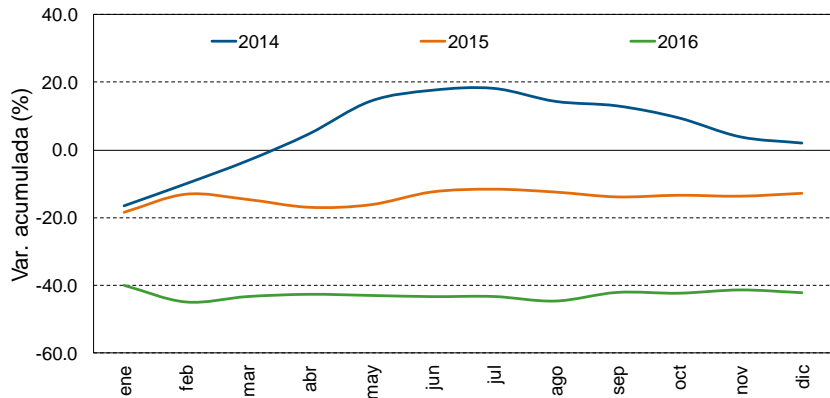
Fuentes: BCV y Ecoanalítica

Liquidaciones de divisas al sector privado (promedio diario)



Fuentes: Ecoanalítica

Expansión del gasto (real - Gobierno central)



Fuentes: ONT y Ecoanalítica

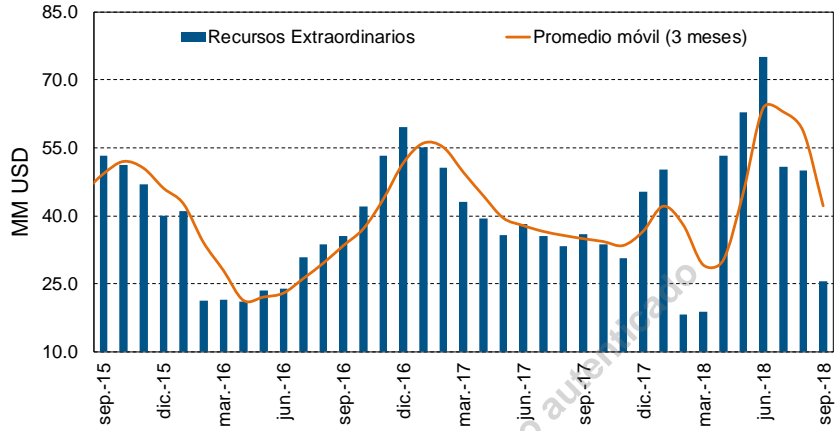
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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 14 Number 41 Week IV
October 2018

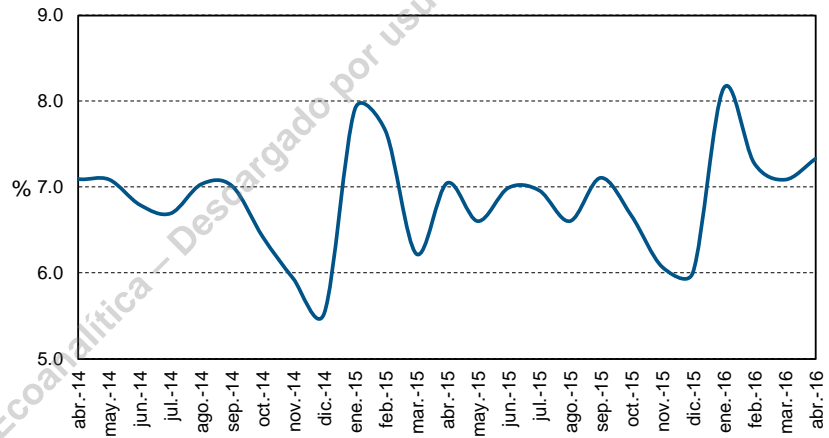
ECONOMIC INDICATORS

**Recursos
extrapresupuestarios
del Estado**



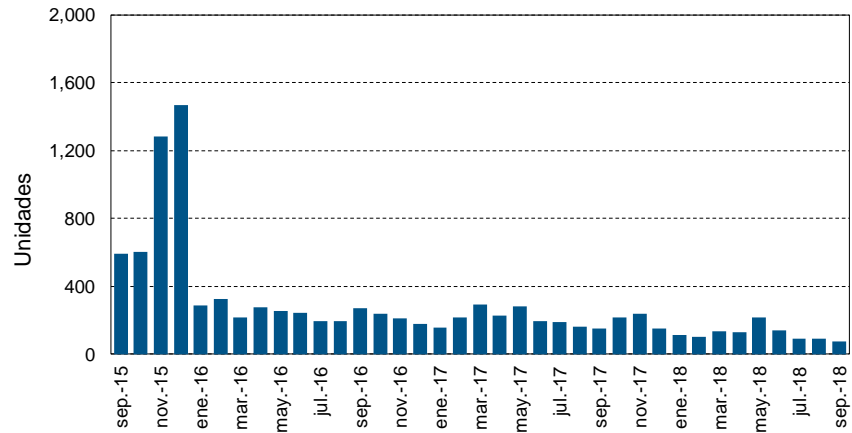
Fuente: Ecoanalítica

Tasa de desocupación



Fuentes: INE y Ecoanalítica

Venta de vehículos



Fuentes: Cavenez y 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

Alejandro Grisanti / Director

alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

cristinar@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