

Storms of change

The economic crisis that Venezuela has been suffering from during the past four years is not due to phenomena that have never been explored by economic science and whose solution is a mystery. In fact, quite the opposite is true. Hyperinflationary phenomena are a rarity in the twenty-first century precisely because of widespread general knowledge of their causes and how to avoid them. The lessons on the consequences of fixing relative prices, with their attendant surpluses of demand and inefficient distribution of resources, are subjects dealt with by any undergraduate study program of economics. There is also broad consensus regarding the institutional reforms that are necessary in order to avoid unsustainable public sector borrowing by developing countries that rely on natural resources. None of this is new; it could all be avoided *at least if it were only a matter of immediately adopting known reforms*.

The causes of a long and drawn-out economic disaster need to be sought in the actual political configuration of the groups of power making up *Chavismo*. In principle, if one thinks of the United Socialist Party of Venezuela (PSUV) as a well-coordinated uniform entity, the paralysis it is suffering from when it comes to implementing reforms and that is threatening its remaining in power would make no sense. However, the proliferation of rent-seeking mechanisms through distortions in prices, the exchange rate, and appropriation of public resources financed by borrowing is a clear symptom of a fragmented government; a symptom that explains the lack of reforms and how serious the process of widespread impoverishment is in Venezuela.

Given the imminence of a hyperinflationary process and a default of PDVSA's and Venezuela's sovereign debt, the cumulative costs of that fragmentation are starting to be unsustainable. Putting off the necessary reforms on the monetary, exchange rate and fiscal fronts is already having a considerable impact on the State's fiscal and external viability. However, any process of economic reform, which is necessary for both rescuing the State Leviathan from hyperinflation and for reaching some kind of agreement on rescheduling the external debt, involves dismantling rent-seeking spaces and giving up political power to opposition groups (to some extent). This entails a considerable risk of conflict within the government coalition, as well as social malaise that could result in new episodes of street protests.

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.

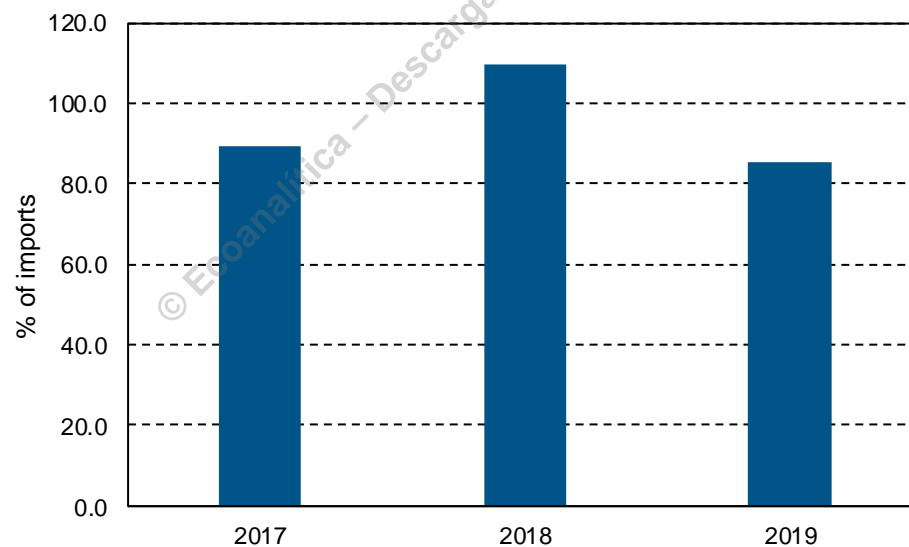
Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

While it is difficult to foresee the final outcome of these economic policy tensions, studying their nature will allow us to clarify the possibilities of a change of direction in economic policy in 2018 (regardless of whether it is successful or not). That is the purpose of this report.

Excessive borrowing

Over the past two weeks, the issue of the Republic's and PDVSA's external solvency has made the headlines at home and abroad, initially due to the announcement made by President Nicolás Maduro in a nationwide networked broadcast regarding his intention to reschedule (or refinance) commitments having dates after this year, while promising to make payment of all bonds maturing and interest falling due in 4Q2017. However, the initial ambiguity regarding the conditions of a potential rescheduling or refinancing was followed by the failure to keep that promise.

Total debt service



Sources: PDVSA, MEFBP and Ecoanalítica

The credit rating agencies Standard & Poor's and Fitch already consider PDVSA and the Republic to be in imminent default due to the delay in paying the PDVSA17N bonds and the failure to pay interest on the 27 bonds.

This situation prompts us to raise the question: What caused the government to borrow beyond what was sustainable for the country and to put off any attempt at rescheduling?

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.

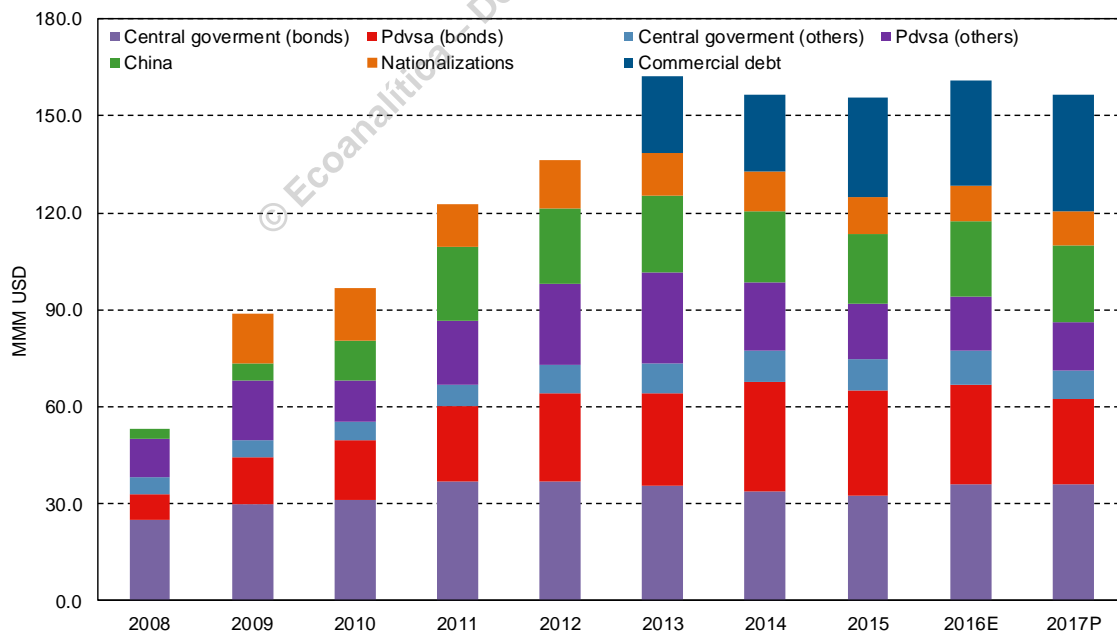
Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

As we pointed out earlier, the dispersion of political power in the governing coalition could partly explain this situation. As Velasco (1997)¹ states, in the presence of a weak government, as the number of rent-seeking groups multiplies so will borrowing multiply to levels that are unsustainable over time.

In order for a situation similar to the one described by Velasco to occur it is necessary for spending financed through borrowing to be easily accessed by groups of power. This rent seeking could occur via unnecessary and over-invoiced infrastructure projects or public-sector imports paid for with foreign currency at a preferential exchange rate, to mention just two mechanisms. Given the fiscal opacity characteristic of the Hugo Chávez and Nicolás Maduro administrations, this first requirement seems to have been met.

Moreover, the more heavily the Executive relies on the support of those factions in order to remain in power, the greater will be the tendency to increase the issuing of external debt to satisfy their demands for public resources. On the other hand, the convergence towards an unsustainable debt threshold will increase if oil revenues get reduced. This, indeed has occurred: the average oil price has declined by 56.3% and oil output has fallen 23.3%.

Central government's and Pdvsa's debt stock



Sources: BCV, PDVSA, MEFBP and Ecoanalítica

¹ Velasco, A. (1997). *A model of endogenous fiscal deficits and delayed fiscal reforms* (No. w6336). National Bureau of Economic Research.

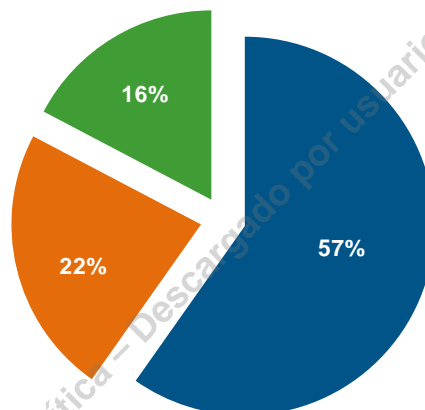
It is forbidden the total or partial reproduction, publication and/or distribution of the content in this report. Detecting an information leak will cause the cancellation of the contract without any refund of the subscription.

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

In fact the debt stock has increased by 14.6% during the Nicolás Maduro administration compared to what it was during the last year of the Hugo Chávez administration. This supports our hypothesis regarding the weakness of the government as a cause of Venezuela's external imbalance. The PSUV has given priority to satisfying its factions given the political weakness it has experienced since 2012, even at the cost of making the State financially unviable and impoverishing the population.

Distribution of the Financing Sources (IS2017)

■ Cash Flow Relieve Through Good's Imports and Services ■ New Debt ■ Use of the IR



Sources: BCV, PDVSA and Ecoanalítica

This excessive borrowing and the resultant debt servicing have been the main cause of an estimated 29% drop in imports compared to last year. At **Ecoanalítica** we estimate that this has caused a 12.7% drop in consumption and will make no small contribution to the expected contraction in 14.1% in GDP this year.

Paralysis on the monetary and foreign currency policy fronts

Another phenomenon that can be understood in similar terms to the situation proposed by Velasco (2012) has to do with the economically unjustifiable continuation of the preferential exchange rate system. At the time of going to press, the parallel exchange rate was VEF 65,962.69/USD compared to a DIPRO rate of VEF 10/USD and a DICOM rate (a mechanism that is no longer operating) at VEF 3,345/USD, giving a margin for arbitrage of 659,526.9% and 1,872,0%, respectively.

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.

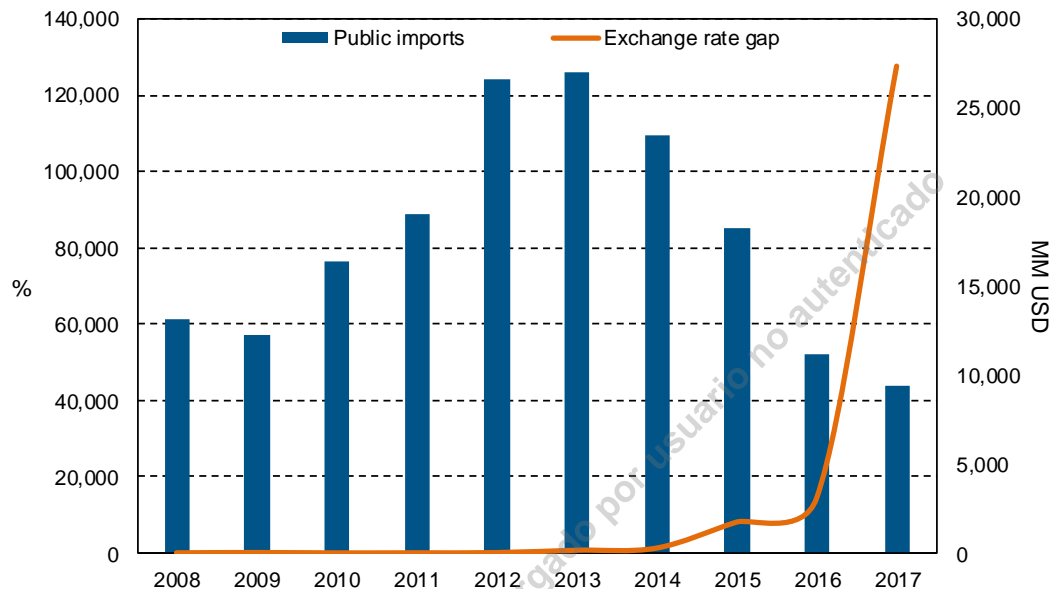
Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
 (+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

This distortion, which is extremely profitable for those who benefit from allocations of foreign currency at the preferential rates, is one of the main reasons for the monetization of the Restricted Public Sector's deficit (14.0% of GDP at the close of GDP, according to **Ecoanalítica's** estimates). This is due to the cash flow deficit, which forces PDVSA to sell its dollars at the DIPRO rate and which can only be covered by promissory notes that are bought by the Central Bank via monetary base emissions.

If we take into account the negative effects that inflation has had on nonoil tax receipts, in a context of declining crude prices, there is little doubt as to its capacity to fiscally weaken the State. In October, this source of tax receipts contracted by 52.9% compared to a year ago, caused mainly by the Olivera-Tanzi effect: i.e. the delays between the time the tax is levied and the time it is actually collected result in increasingly large losses of real value for the National Treasury.

Given that this is a self-inflicted wound, maintaining an exchange rate system that has given rise to the advent of a hyperinflationary process would seem to be an irrational decision on the part of a monolithic government. However, if we consider the foreign exchange spread as being a transfer of rent to groups of power with the capacity for managing public sector imports, we can arrive at a similar approximation to our reasoning with regard to excessive borrowing: the more the Executive needs the support of those factions, particularly in cases where they are made up of members of the military, the less the incentive will be for it to reduce the margin for arbitrage between the exchange rates. This seems to be consistent with the way in which the foreign exchange spread has evolved since 2013, particularly when compared to the period 2008-2012.

Exchange rate gap arbitration vs. public imports



Sources: BCV, Dólar web and Ecoanalítica

As in the previous section, the PSUV decided to allow a greater margin for arbitrage following Nicolás Maduro’s arrival in the Presidency. Once again, given a weakened administration and a multiplicity of factions, the incentive to share out rents via this mechanism has become greater.

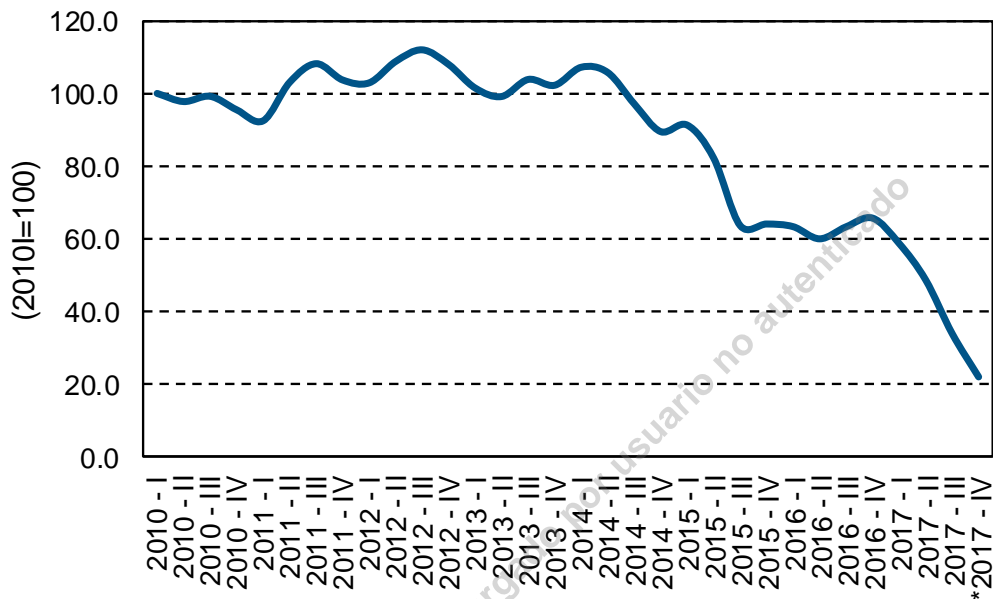
However, the losses in terms of efficiency associated with foreign exchange distortions, both due to their effects on relative prices and to their impact on inflation, could be considerably greater than those due to excessive borrowing. In terms of the average overall wage alone, today a worker earns 82.29% less than in 1Q2010.

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 13. Number 44 Week III
 November 2017

Real Wage Index



Sources: BCV and Ecoanalítica

This drop in purchasing power of a worker's wage explains the contraction in real sales of basic foods such as red meat, chicken and processed meats. The consequences for the formation of human capital in terms of the infant population (0 – 3 years of age) due to a lack of sufficient protein in the formation of neurons will have impacts in the long term with regard to their productivity and opportunities for social advancement. And that is just one of the long-term costs of the crisis.

There are crises, such as ours, that are unsustainable

While the outlook is gloomy, there are reasons for hoping for a possible change in the present economic policy.

Taking the experiences of other countries as a guide, there have been no eternal hyperinflationary episodes. In fact, the average duration of hyperinflations in South America is approximately 5.7 months from the time Cagan's threshold (1956), i.e. 50%, is reached. At **Ecoanalítica** we expect inflation of 52.0% in November.

The reason for this stems from the impoverishment of the State, which generates a combination of the Olivera-Tanzi effect and a steady decline in the inflation tax due to the

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

collapse in the demand for real balances in local currency. As long as the Government depends more on monetary expansion to finance itself, more severe inflation will be and lesser the desire to hold real cash balances. Therefore, the vicious cycle gets reinforced. In this sense, hyperinflation results from a fiscal imbalance which threatens Government's survival.

Consider the following analogy: Hyperinflation puts the Government in a situation similar to that of a hard-drugs addicts. As their consumption increases, their capacity to deal with daily life gets reduced. This creates additional incentives to consume more drugs, which further reduces productivity and reinforces the cycle.

Just like an addict, the government has two basic alternatives to choose from: To try to correct the fiscal imbalances (rehab therapy) through an orthodox macroeconomic reform; or to insist on failed economic policies (drug habits) which pauper the public treasury. If the first alternative is taken, the Government could at least have a non-zero chance of success (even if small) at the price of risking a rupture inside the governing party due to reduced rent distribution. However, if the second alternative is chosen, it will only get even more impoverished. Such a pauper authority could hardly retain power and achieve public order if put under enough political stress. That could lead eventually to a Hobbesian Nightmare (or State of Nature).

No change, no survival

Velasco (1997) brings some hope in terms of potential political change. He proved that it is possible to achieve a strategic equilibrium consisting of an economic policy change taken by a fragmented government. The author argues that the power groups would seek a macroeconomic reform which keeps them in power, as long as fiscal impoverishment reaches a certain threshold. Even more: to guarantee that no other faction breaks the pact upon which reforms are taken (therefore pushing for unsustainable rents), all other power groups threaten to misbehave in response, therefore making all of them poorer than if no misconduct had occurred. Faced with such a threat, everyone behaves properly.

Of course, negotiating the reforms package could lead to the ostracism of certain radical factions, or the inclusion of opposing parties to the government's coalition. It's even possible that a complete change of government occurs in the process.

Winds of change are coming, even if more turbulent and uncertain than what could be desired. There's no other option, besides a social abyss.

Jean Paul Leidenz Font

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 13. Number 44 Week III
 November 2017

WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week September	Weekly var. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	3345.0	2.9	2.8
	1st Week November	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.6	0.6	-1.2
	2nd Week November	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	0.0	0.0	-0.3
	2nd Week November	Weekly var. (%)	Annual var. (%)
International Reserves (USD Bn)	9.7	-0.2	-11.4
	1st Week November	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	58,862	9.8	670.7
Price of International Oil Baskets (USD/bl)			
	2nd Week November	Weekly var. (%)	Annual var. (%)
WTI	56.8	4.8	26.9
Brent	63.5	4.4	38.1
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week November	Weekly var. (%)	Annual var. (%)
Weekly Average	55.6	5.1	48.9
Annual Average	45.2	0.5	30.7

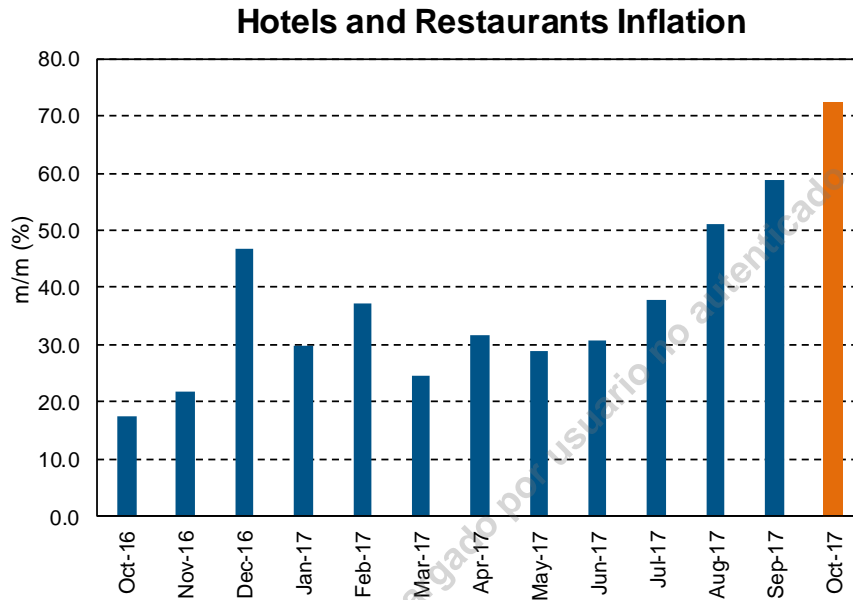
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

Price of the Venezuelan oil basket published in yuans since 09/08/2017

CHART OF THE WEEK: “THE COST OF PAYING”



Source: Ecoanalítica

With just a few weeks to go until the end of 2017, the latent threat of hyperinflation is becoming increasingly tangible. Even though prices are going up more frequently and the increases are bigger day by day, they still do not meet the theoretical requirement of inflation of 50% a month.

If we take a closer look at certain categories of products, the picture is quite different. The restaurants and hotels category posted inflation of 51.1% in August, going from galloping inflation to a hyperinflationary dynamic. In September, inflation for this group came to 58.7% to then hit an all-time high in October (72.4%). Inflation year-on-year in October was 4,919%.

There are now fewer options for leisure and if people want to enjoy plans for entertainment they are finding that they take up an increasingly large share of their total income. These restrictions are reducing Venezuelans’ well-being and their capacity to meet their needs.

Even though these figures are already alarming, the last quarter of the year adds a seasonal factor owing to the payment of year-end bonuses, which will probably push up prices above the average for the year. As a consequence, non-basic categories (such as restaurants and hotels) could be harder hit by the effect of a higher level of monetary emission in the last two months of the year.

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

An unsuccessful attempt. After “decreeing” a rescheduling of its entire debt, the Venezuelan Government called a meeting with bondholders to be held on November 13. Nicolás Maduro stated that 414 creditors from Europe, the United States, and other parts of the world, equivalent to 91% of the holders of Venezuelan debt, attended. The meeting, held in Caracas, produced no firm conclusions.

No clear proposal. The brokerage firm Rendivalores stated that the government had said it would continue to pay, adding that no clear proposal was put forward and part of the meeting was given over to justifying the failure to pay with the sanctions imposed by the United States.

The problem is the sanctions. In its Twitter account, Rendivalores stated that Deutsche Bank had closed the Venezuelan Government’s accounts and that Citibank had also closed its correspondent facility at its office in China, according to authorities attending the meeting.

The default is official... Standard & Poor’s (S&P) has downgraded its rating of Venezuelan debt papers yet again. “*We have lowered two issue ratings to 'D' (default), and we lowered the long-term foreign currency sovereign credit rating to 'SD' (selective default)*”, said the agency in a press release. This happened directly after the meeting held between creditors and the Venezuelan Government.

...and almost irreversible. After being the first credit rating agency to classify Venezuelan debt as being in default, S&P stated that it would monitor the situation closely, as they considered that a moratorium was highly like in the next three months. They concluded that, in order to raise its rating, Venezuela would have to honor outstanding payments before a possible rescheduling of its debt.

They can always drop further. The international reserves closed at USD 9.68 billion on November 10. This is equivalent to a drop of 0.23% (USD 22 million) from last week. The international reserves have fallen by 11.8% so far this year, a drop of USD 1.3 billion.

Littering the streets with confetti. In October, the total amount of coins and banknotes in circulation grew by 2.9%, according to figures published by the Central Bank of Venezuela. In October alone, 284.4 million VEF 500 banknotes (89.2%) and 160.2 million VEF 1000 banknotes (37%) were put into circulation, whereas 5.1 million VEF 100 banknotes were issued.

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 13. Number 44 Week III
November 2017

Monetary emission continues to spiral. The monetary base was VEF 35.4 trillion as at November 3, for an increase compared to the previous week of 12.3%. The increase compared to the same time last year was 893.8%. As for money supply, it came to VEF 58.9 trillion, for an increase of 101.9% in the space of just one month.

OIL TIPS

The decline in oil production continues. According to official figures published by the Organization of Petroleum Exporting Countries (OPEC), Venezuela's oil production posted a drop of close to 130,000 barrels a day (130 kb/d) in October to nearly 1.96 million barrels a day (mb/d), the lowest level in the past 28 years. This information is based on data provided to OPEC by Venezuela's state-owned oil company, PDVSA.

Ten months and still counting. Counting October, there has been an almost uninterrupted decline in production over the past 28 months (except for September 2016) for a cumulative contraction of 315 kb/d so far this year. Output has posted an average drop of close to 260 kb/d compared to the same period last year.

And what about secondary sources? When we evaluate the production dynamic based on secondary sources, we find a drop of 44 kb/d between June and July this year (86 kb/d less than reported by primary sources) to 1.86 mb/d. As for cumulative contraction, it came to 158 kb/d for the first ten months of the year, which means it was down 234 kb/d compared to October 2016.

Collapse. Despite the steady rise in prices (31% on average compared to January-October last year), the drop in oil production (10.7% on average over the same period) has managed to cancel out the effect of an improvement in the external situation as a result of the significant improvements in the terms of trade.

How much has this cost us? At last week's price, had we exported all that oil, the drop in oil production implies an opportunity cost of close to USD 206.3 million (USD 6.9 million a day) in October alone. If we take the entire year, the drop in oil production has cost us close to USD 3.5 billion, equivalent to 27.3% of **Ecoanalítica's** estimate for imports in 2017 and close to 30.9% of debt servicing scheduled for 2017.

We're continuing together. Venezuela's state-owned oil company, PDVSA, signed an agreement with China Petroleum Technology and Development Corporation (CPTDC), the oil services affiliate of China National Petroleum Corporation (CNPC), for identifying opportunities of financing and participation between the two energy consortia.

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 13. Number 44 Week III
November 2017

With an eye on gas. The president of PDVSA, Nelson Martínez, stated that the initial agreement covers a specific agreement for the construction of a gas pipeline to the Josefina Joaquina Sánchez Bastidas Power Station in Tacoa, Vargas state. *“This gas pipeline will make it possible to take advantage of gaseous fuel and produce a saving of 10,000 barrels a day,”* stressed Martínez.

We have to carry on. A few days ago, Martínez also held a meeting with P. K. Rao, the director of the Indian company Oil and Natural Gas Corporation Videsh Limited (ONGC-VL) to go over a number of oil production plans that they have in Venezuela. India’s state-owned oil company expressed its willingness to continue strengthening the projects it has been developing in Venezuela via the joint ventures Petrocarabobo and Petrolera Indovenzolana located in the Orinoco Oil Belt.

Speeding things up. According to several sources inside OPEC, both OPEC and non-OPEC oil producers could be moving towards deciding at their November 30 meeting whether or not to extend the present agreement to cut oil production levels. According to Mohammed al-Mazroui, the United Arab Emirates’ energy minister, there was no reason for waiting until March to take the decision and they would not meet in that quarter unless an extraordinary circumstance were to arise.

The future does not look very promising... The International Energy Agency (IEA) revised downward its oil demand estimates for by the end of 2017 and for 2018. As the IEA sees it, the drop in demand will occur at the end of this year and will continue until the end of 2018, mainly as a result of a milder winter and a significant increase in prices.

...but not for everyone. Referring to the same situation, in its latest report, OPEC estimates that there will be significant growth in the demand for crude given a surprisingly good performance of the world economy (1.5 million mb/d). OPEC also states that the reduction in supply as a result of the production cut agreement reached by a number of oil producing countries had been successful in bringing down crude stocks and pushing the market to a more stable equilibrium, but at higher prices next year.

BUSINESS SECTOR TIPS

Arrests on grounds of corruption at PDVSA. Tareck William Saab, the prosecutor general appointed by the so-called “Constituent National Assembly,” announced the arrest of 10 high-level employees at the state-owned oil company, PDVSA, on the grounds of having *“inflated oil production figures in order to obtain bigger royalty payments and increase the budget allocated to their area.”*

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

Selective Yuletide inspections. Last Sunday, President Nicolás Maduro ordered a thorough inspection of commercial establishments throughout the country. On Monday, the Superintendency for the Defense of Socioeconomic Rights (Sundde) started to inspect establishments selling meat in Anzoátegui, Guárico, and the Capital District as part of an operative that, in theory, will take in 11,890 establishments. Sundde will be accompanied by the Bolivarian National Police Force and the Bolivarian National Armed Force in order to guarantee this repression against commercial establishments and, in Maduro's own words, "to lay hands on everyone."

Will they finally take a decision? On September 7, Maduro announced Plan 50 for setting prices "by consensus" directly with producers. Two months and inflation of 97.15% later, Tareck El Aissami stated that the first list of those 50 agreed prices would be revealed. According to El Aissami, they will take into account the entire production chain; however, it was not clear for how many weeks or days those prices would be maintained.

At what cost? The president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), Aquiles Hopkins, claimed that the Executive did not take into account the true cost structures when "agreeing" these prices and that the "agreement" reached already lags behind this week's prices.

Total disinformation. The president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), Carlos Larrazábal, claimed that the government did not take into account the imported inputs component, which accounts for 90% of costs, and that he was concerned because the lack of information is delaying the taking of decisions regarding production. As for the president of the National Commerce and Services Council (Consecomercio), María Carolina Uzcátegui, she forecast that the products would disappear as soon as the list of regulated prices was published.

A cry for help in self-defense. The private sector, through Consecomercio, denies that it is to blame for the high prices, the increase in the parallel exchange rate, and the economic distortions. In fact, they argue that the only solution to the crisis is the correction of the *Chavista* administration's misguided economic policies.

The problem with the pensions. Last Monday, Banco Bicentenario started an operative to pay VEF 284,011 to 1 million pensioners. This payment includes the pension for December, a retroactive payment for November, and an "economic war bonus." After standing in line for five hours to get their money, a large number of pensioners ended up with being given only two VEF 100,000 banknotes because the bank did not have any lower-denomination bills.

Sudeban hastens to cover up the mess. To prevent the unfortunate pensioners who were last in the line getting only VEF 200,000, the Superintendency of Banking Sector Institutions (Sudeban) paid surprise visits to a number of bank branches to supervise the payment of pensions. In any event, they were not able to solve the problem either.

A communist Christmas. Given the shortage of traditional Christmas fare, such as *hallacas*, “ham bread,” and pork roast, and Venezuelans’ paltry incomes, the government has decided to give away Christmas CLAP (Local Supply and Production Committee) bags of food and sell pork roasts at “sovereign farmers’ fairs.” Sure enough, now the government has taken over ownership of Christmas, and if you want to celebrate it you will have to play by its rules.

The parallel financial system. Government control of traditions is not limited only to the distribution of food items and their prices. Now the method of paying for the regular and Christmas food bags distributed by the CLAPs, as well as the food sold at the “sovereign farmers’ fairs,” will be with the “carnets of the fatherland,” which will become a “mobile wallet” based on the QR code. In practice, the government has created the debit cards with the worst possible level of security.

Encouraging people to join the parallel State. The government is to give a VEF 500,000 Christmas bonus, financed through monetary emission, to anyone who meets two requirements: “being Venezuelan and having a carnet of the fatherland.” If a Venezuelan still does not have his carnet of the fatherland, he can sign up now and he will still get the bonus. Four million Venezuelans are expected to receive this benefit.

The transaction cost has an impact. Jesús Mata, a merchant in Catia La Mar, states that “for months now the system (of points of sale) has been slow. You would restart the equipment, but you could get round the problem. But in the last five days it’s become impossible.” José Da Silva, who owns a charcuterie, said that he had to stop using points of sale and start using transfers, but that not all the payments are going into his account.

WORLD ECONOMY TIPS

A more encouraging outlook. According to forecasts by the European Commission, economic activity in the euro zone will grow by 2.2% in 2017, the highest rate of growth in a decade. This forecast is much higher than the growth of 1.7% estimated initially. On the other hand the commission expects more moderate growth in 2018 (2.1%) and in 2019 (1.9%).

A momentary drop. Industrial production in the euro zone fell by 0.6% in October compared to September, in line with projections by analysts. Compared to a year ago, however, industrial production posted an increase of 3.3%.

Good growth figures... Economic activity in Germany rose by 0.8% in the third quarter of the year compared to the previous quarter, better than forecast by analysts. Compared to a year ago, growth was up by 2.3%. This is the most solid result since early 2014.

...maintains optimism. Investor confidence in Germany posted an increase in November to 18.7 points compared to 17.6 points in October, indicating that the markets expect Germany's economy to continue growing in the coming months. Even so, this figure was below the 20 points forecast by analysts.

Producers are paying more. The Producer Price Index in China rose by 6.9% in October compared to October last year, a bigger increase than forecast by analysts and in line with inflation for September. This result is being viewed as a momentary sign of strength by the Chinese economy.

Lower than expected. Industrial production in China grew by 6.2% in October compared to October last year, posting a slowdown in growth from the 6.6% posted in September and below forecasts by analysts. This growth is being driven mainly by public spending and exports; consumption is growing more slowly than expected, however.

Falling from its high point. Confidence in Japan's manufacturing sector fell to 27 points in November from the 31 points posted in October, its highest score in a decade. However, analysts are of the view that this result is a sign that the Japanese economy is maintaining its impetus.

Dragged down by oil. Industrial production in Mexico contracted by 1% in September compared to September last year. The sector that was hardest hit was mining, which fell by 15.1% as a result of the drop in oil production. Manufacturing, on the other hand, posted an increase of 3.4%.

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

Driven by foreign direct investment. Net foreign investment in Colombia rose by 4.8% in October compared to October last year to USD 738.9 million, driven mainly by investment in the oil sector. Worthy of note is the 66.4% drop in portfolio investments to USD 31.6 million, a drop that was offset by a 35.3% increase in foreign direct investment.

Plowing back the profits. Direct investment in Panama came to USD 2.9 billion in the first half of the year for growth of 5.8% compared to the same period last year. Most of this increase was accounted for by profits amounting to USD 1.9 billion that were plowed back into the economy.

POLITICAL TIPS

The world is still talking about Venezuela. On Monday, November 13, the United Nations Security Council held a meeting at which the situation in Venezuela was discussed, but without representatives of the country being present. During the meeting, several ambassadors agreed that the Venezuelan Government should address itself to solving the humanitarian crisis and they called on President Nicolás Maduro to respect the rule of law and human rights in Venezuela and to create the conditions for the release of the political prisoners.

The eternal enemy. US Ambassador Nikki Haley stated that the fact that the Venezuelan Government had not appeared before the Security Council was indicative of a feeling of guilt, stressing that the government had demonstrated that it was a dictatorship by refusing to acknowledge the National Assembly and promoting dubious elections.

Leader-Follower. The European Union approved a series of sanctions against Venezuela during its meeting last Monday in Brussels, the purpose of which is for decisive action to be taken to find a solution to the political and humanitarian crisis in Venezuela. The sanctions include bans on travelling to the countries of the European Union, the freezing of assets, and an embargo on weapons and they target those members of the regime who are most responsible for the crisis and the suffering of the Venezuelan people.

At least some people are trying to do something. According to Justice Elenis Rodríguez, who sought asylum in Chile, the Constitutional Chamber of the Supreme Tribunal of Justice (appointed by the National Assembly and currently in exile) is soon to declare the opening of a humanitarian channel to palliate the shortage of food and medicines in Venezuela. Rodríguez stated that, to that end, they would request the

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

backing of international organizations, such as the Organization of American States (OAS), to ensure that President Nicolás Maduro complies with setting up the humanitarian channel.

First yes, then no; we don't know. Referring to another meeting intended to set up a dialog between the Venezuelan Government and the opposition slated for November 15, Luis Florido announced that the opposition coalition would not attend since guarantees had not been given regarding the attendance of the Latin American foreign ministers who were to accompany the negotiation process with a view to securing fair conditions for holding elections and the opening of a humanitarian channel for the supply of food and medicines.

Don't play their game. The opposition platform *Soy Venezuela* (I'm Venezuela) warned that what the Nicolás Maduro administration aims to achieve with the dialog is for the National Assembly, in the hands of the opposition, to endorse the existing external debt and to allow the State to continue financing itself. *"The regime's intention is for a debt incurred illegally and used for ends other than those that are in the national interest to be explicitly recognized without any commitment to a change in economic policy,"* claimed the organization.

I'm not to blame, you are. Always ready to set up a scapegoat in every speech he gives, President Nicolás Maduro said that the president of the National Assembly, Julio Borges, would pay for *"what he has done to the country in the economic and financial field,"* referring to Borges' alleged responsibility for the sanctions imposed on Venezuela by a number of countries, including the United States.

Freedom is slavery. Last week, the "Constitutional Law against hatred and for peaceful coexistence and tolerance" went into effect upon its publication in *Gaceta Oficial* Number 41,274. The purpose of this new law, consisting of 25 articles, is to promote tolerance and prevent hatred, harassment and violations, to which end it forbids the issuing of messages that could be considered negative and promote war and discrimination.

War is peace. Venezuela's recently appointed Minister of Communication and Information Jorge Rodríguez announced that the National Telecommunications Commission (Conatel) would prevent the proliferation of "policies" of hatred in social networks through the Law against Hatred recently approved by the Constituent National Assembly.

Hate transformed. On the other side of the street, the National Assembly unanimously passed a motion rejecting the Law against Hatred, calling it an instrument that generates hatred and intolerance promoted by President Nicolás Maduro and the Constituent

National Assembly. Deputy Ángel Medina said that the Executive aims to “*transform the hatred they themselves proclaim into a legal instrument to legitimize persecution, not only of the political opposition, but of the people in general.*”

Coincidence? A report submitted by the Haitian Senate’s Special Investigations Committee revealed an alleged fraud and embezzlement in connection with the management of the funds of Petrocaribe, an oil alliance created by Venezuela with countries of the Caribbean in September 2008 and that operated until September 2016, during the administrations of Hugo Chávez and Nicolás Maduro.

It’s probably not the only case. The report concludes that the management of the alliance’s funds had been “*marked by serious anomalies, irregularities, acts of embezzlement and prevarication...*,” which leads one to think that the individuals involved in the projects did not comply with the legal norms and provisions of those contracts.

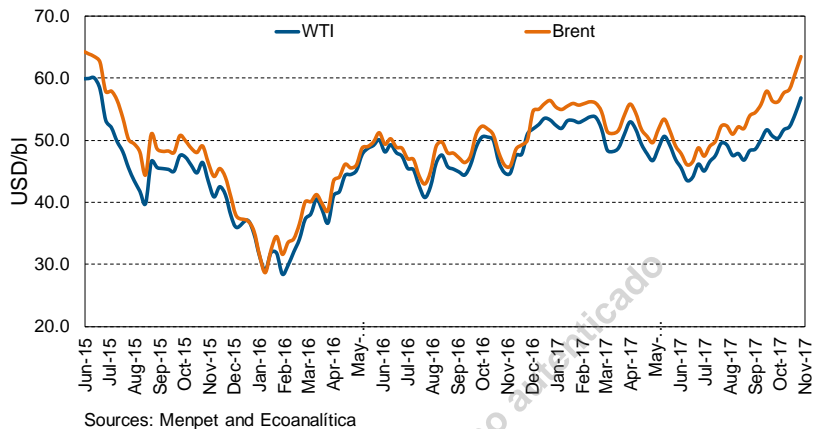
Another bloc. Deputy to the National Assembly Richard Blanco announced that a group of 13 parliamentarians (including himself) had created a new parliamentary faction called “July 16th” for the purpose of “*enforcing political freedoms and the mandate of the 7 million Venezuelans who voted at the plebiscite on July 16.*”

Taking steps. Luisa Ortega Díaz, the ex-Prosecutor displaced by the Constituent National Assembly, went to the International Court of Justice in the Haya and denounced crimes against humanity committed by the Venezuelan government. Additionally, she asked for the capture of the president, Nicolás Maduro.

The defendants. The Prosecutor center her denounce not only in the President, but also in the minister of Defense, Vladimir Padrino Lopez, the minister of Interior and Justice, Nestor Reverol, the director of the Bolivarian Service of National Intelligence, Gustavo Gonzalez Lopez, and the chief of government of the Capital District, Antonio Benavides Torres, by their involvement in crimes against humanity.

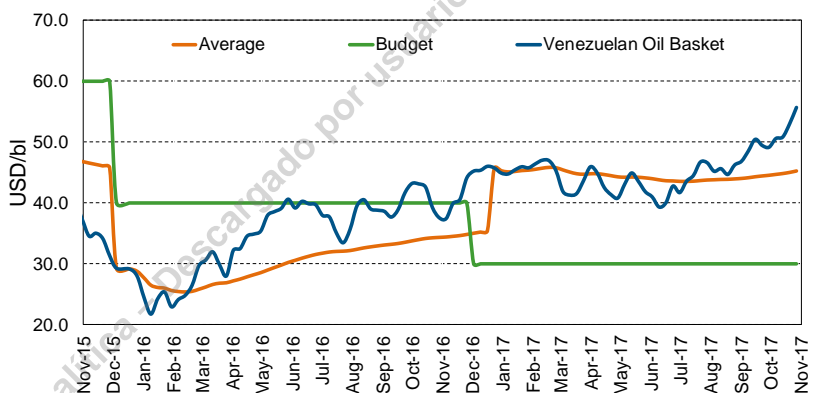
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



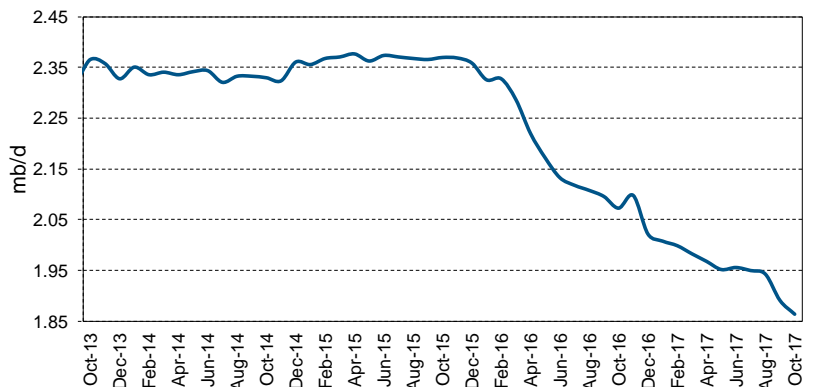
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

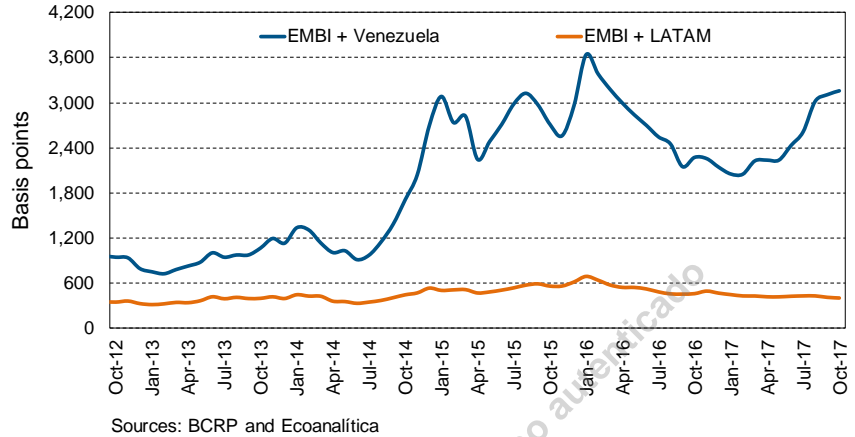
Oil Production (Secondary sources)



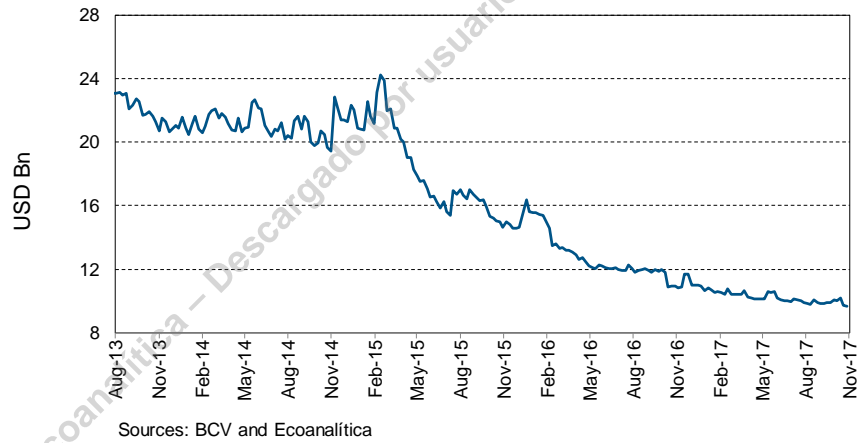
Sources: OPEC and Ecoanalítica

ECONOMIC INDICATORS

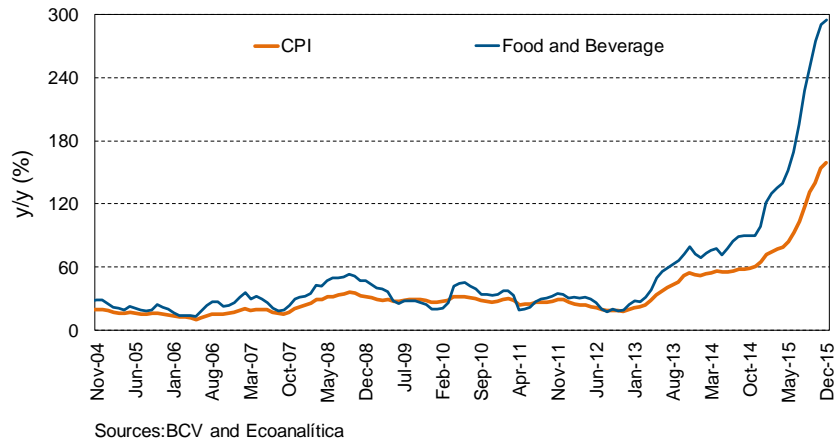
EMBI



FX Reserves (BCV)

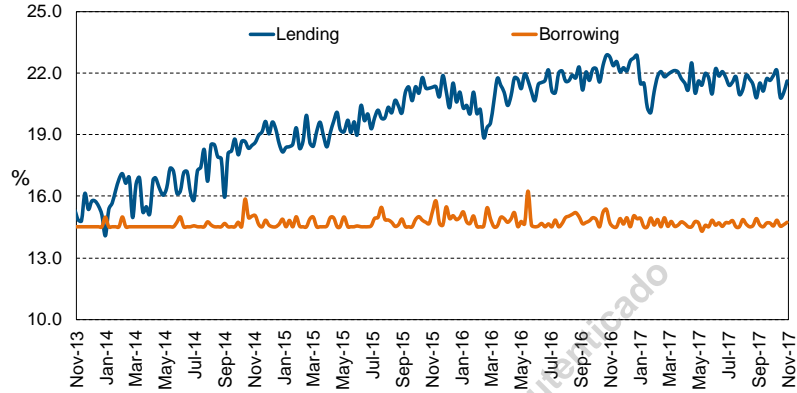


Inflation (BCV)



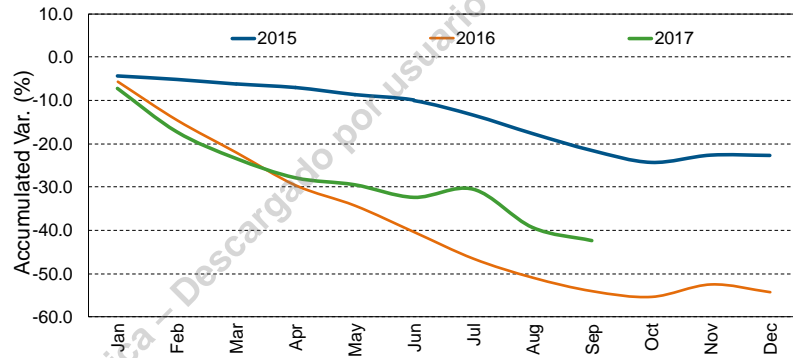
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



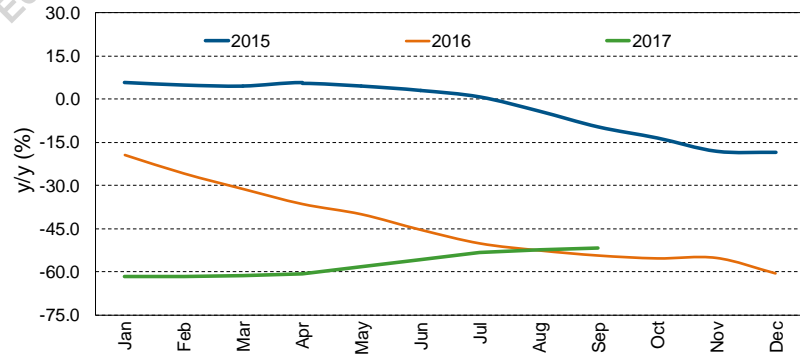
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

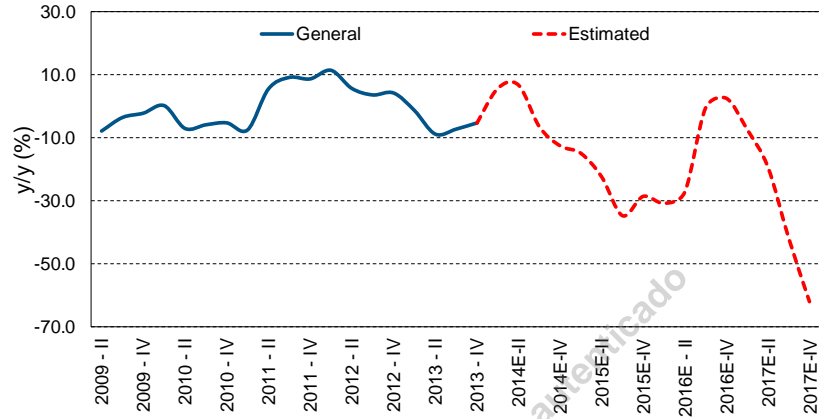
**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

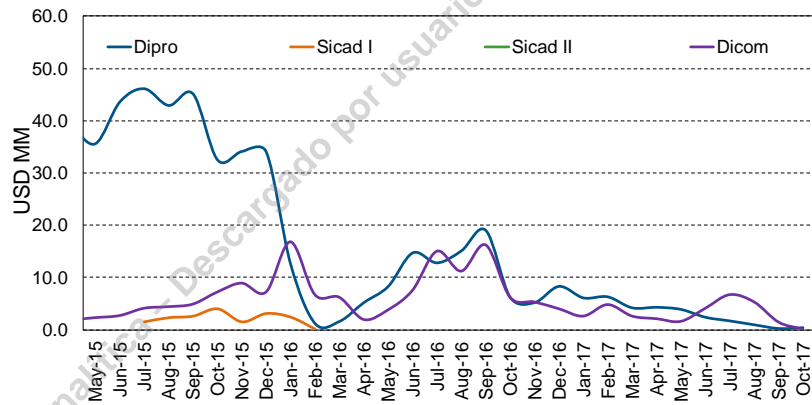
ECONOMIC INDICATORS

Real Wage Index



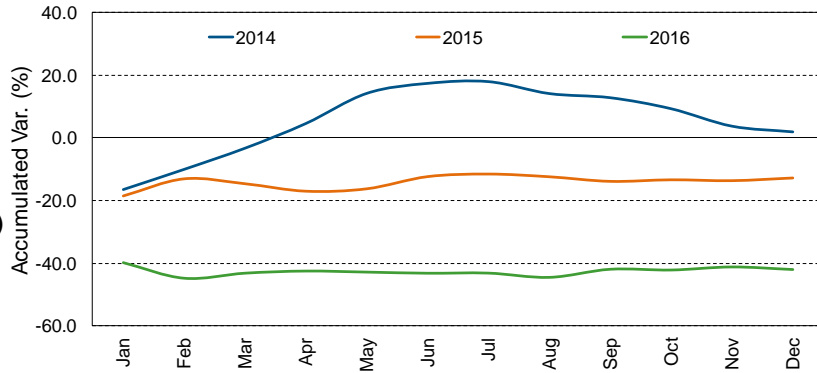
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

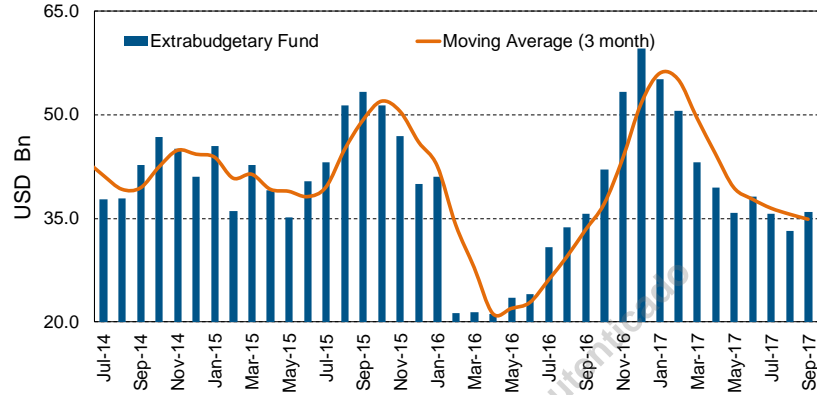
Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

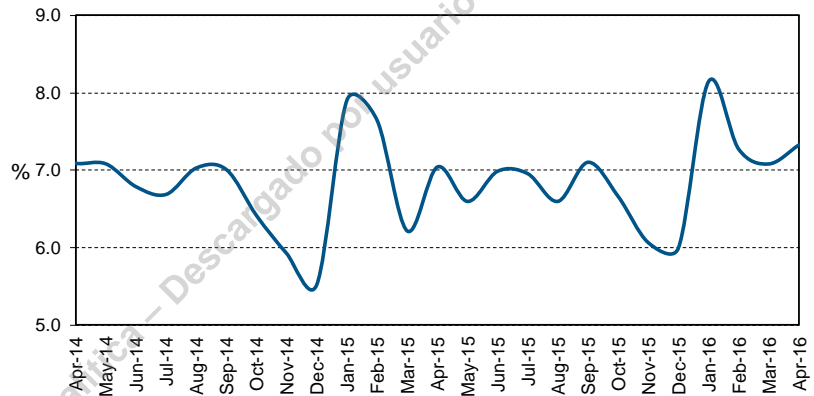
ECONOMIC INDICATORS

State Extrabudgetary Resources



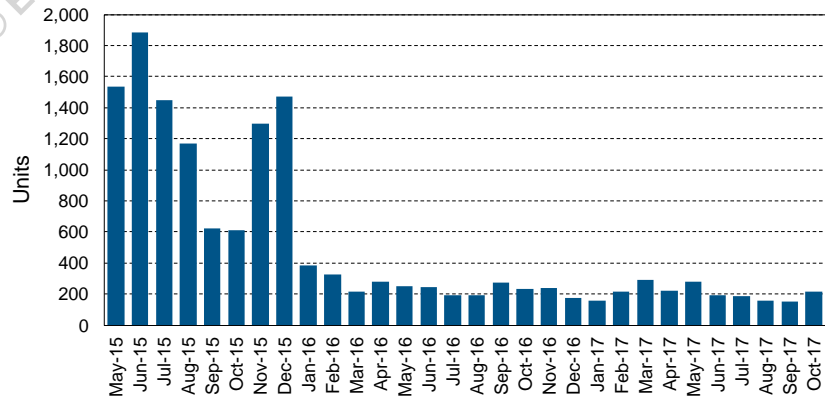
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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

crystinar@ecoanalitica.net

Jean Paul Leidenz Font / Senior Economist

jpauill@ecoanalitica.net / @isabelpnavarrob

Armando Gagliardi / Senior Economist

armandogo@ecoanalitica.net / @agagliardio

Gorka Lalaguna / Economist

gorkal@ecoanalitica.net / @GorkaLG

Mariana Petitjean / Economist

marianap@ecoanalitica.net / @maripetitjean

Ana Isabel Heredia / Economist

anah@ecoanalitica.net / @AnalsaHP

RESEARCH ASSISTANT

Guillermo Arcay

Jhoan F. Castellano

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