

Bases for consensus: Venezuela 2019-2030 (I)

At the time of writing, Venezuela is experiencing the most dramatic crisis in Latin American history. In a matter of five years, income per capita has collapse by around 54.5%¹ putting us at a level similar to that posted in 1947, oil production per inhabitant is approaching the level posted in 1927 when oil was transported in carts, and poverty levels are above 80.0%² while a diaspora of refugees and migrants comes to around 3 million Venezuela according to figures published by the United Nations.

For several months now, actors from different sectors of civil society –academicians, professional and business associations, labor unions, and others- and actors in the political arena have started to give structure to a kind of “*day after*” based on a series of basic consensuses that, if a political change in Venezuela does come about, would act as the central spirit of the different economic, social and other policies that would establish the guidelines for post-*Chavismo* Venezuela.

The crisis in Venezuela is so harsh and has affected so many sectors that, at **Ecoanalítica**, we are impressed by the consensuses that have been reached among actors who, a year ago, were wont to have very dissimilar positions regarding what should be done in Venezuela. While it is true that these consensuses started to be built among those of the same mind, they were gradually opened up to those of a similar mind and today they are seconded by a considerable number of factors. However, even though it is necessary to continue adding ideas regarding –and support for- what Venezuela should be in the event of a change of government, at **Ecoanalítica** we are of the opinion that what has been achieved thus far gives sufficient reasons for optimism.

Bearing this in mind, this report aims to give a broad outline of the logic underlying the different consensuses reached in economic and oil matters and to offer a brief roundup of the results inherent in a model we have constructed at **Ecoanalítica** based on the central spirit of the agreements; in other words to have a photo of “*the day after*.”

¹ Estimated for 2014-2018.

² According to figures published in the National Living Conditions Survey (Encovi) conducted jointly by *Universidad Católica Andrés Bello* (UCAB), *Universidad Simón Bolívar* (USB), and *Universidad Central de Venezuela* (UCV)

It must be stressed that, besides its authors, the proposal counts on spokespersons and interlocutors rather than protagonists. It is not the vision of one person or group of people. By being a joint effort, this series of consensuses represents a collective vision held by many sectors that want, at the time of writing, to commit to a change. In that spirit, at **Ecoanalítica** we are proud of having had the honor to be part of this initiative, with regard to both its economic aspects and its social and oil aspects.

What is the spirit? A look at the policies that have priority

Broadly speaking, the spirit of “*the day after*” rests on four essential pillars it is estimated will operate simultaneously throughout the program: empowerment of society by restoring the market as the mechanism of social organization; the lifting of external restrictions, perhaps the restrictions that most shackle the Venezuelan economy at this time; an overall expansion of the oil industry; and reorganizing the country’s fiscal and monetary affairs and putting them on a sound footing.

The first two points warrant special mention. Even though the Venezuelan economy faces a considerable number of restrictions for achieving growth following “*the day after*,” the role of the market and the external restrictions play a fundamental role. Whereas a relaxation of the restrictions would increase the availability of external inputs needed for the production of oil as well as for importing raw materials and other capital goods, the role of the market is vital for guaranteeing efficient use of those materials and goods while generating the various incentives that are necessary for Venezuelan society to get the productive process back on track and manage to meet domestic demand, at least partially.

Re-establish market mechanisms

- Exchange control
- Prices control
- Imports control
- Mobilization of goods control
- Property rights
- Labour restrictions
- Bank restrictions

Lift up foreign currency restrictions

- International assistance
- International financing
- Debt restructuring
- Oil policy

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In this order of ideas, at the same time as correcting the different rigidities and distortions the Venezuelan economy has to deal with –as the above scheme shows-, the series of actions that will make up the program’s “zero-day” will be oriented, basically, to extricating the Venezuelan economy from the problem of financing it currently faces on the external front. Here, the first consensus is based on the idea that we cannot do this alone and that, therefore, a huge international financial aid program, of close to USD 80.0 billion, is needed, something that would be difficult to obtain unless the International Monetary Fund is involved.

However, the drama inherent in Venezuela’s external sector is not just a problem of access to financing. The collapse of Venezuela’s oil sector, along with a significant increase in indebtedness over the past twelve years³, has resulted in a severe balance of payments crisis that, since no corrective measures were forthcoming from the economic policy, generated a significant contraction in imports, which went from USD 2,382 per inhabitant (real figures) in 2012⁴ to only an estimated USD 436 this year (-81.6%). Bearing this in mind, the situation of the oil industry and the problem of indebtedness emerge as two key minotaurs that have to be overcome if we are to aspire to an external situation that is compatible with an opening up of the markets and financing of different types (bilateral, multilateral, donations, and so on).

It is here that two key ideas regarding the transition emerge: the need to restructure our foreign currency liabilities and the importance of greater participation in the oil industry by the private sector.

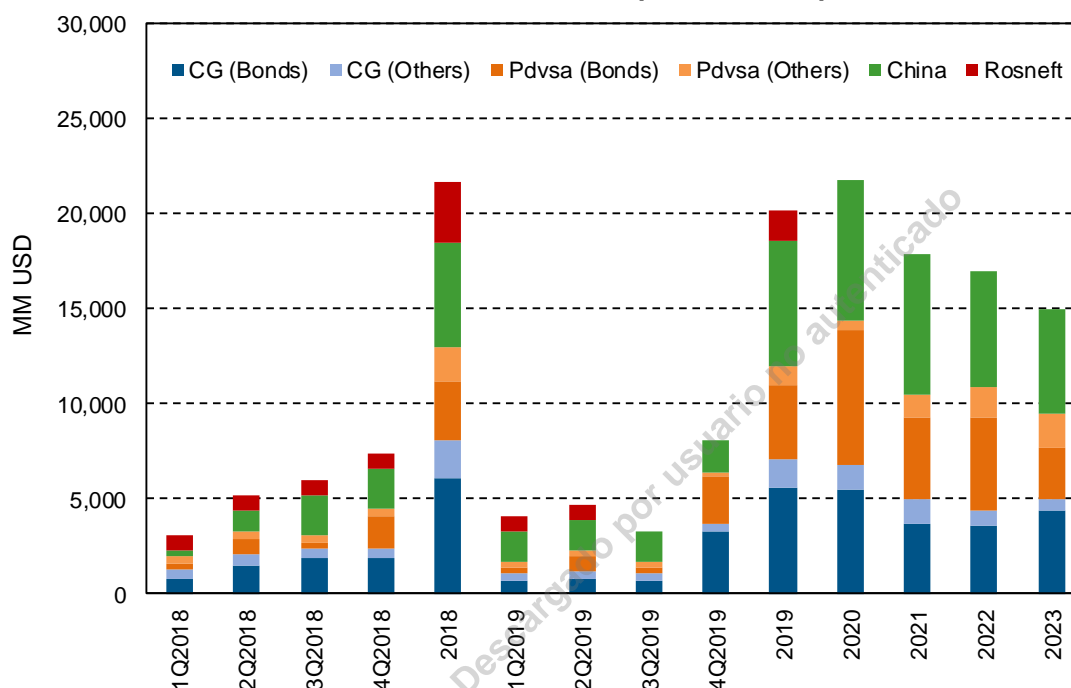
The first point is due to a situation that can be readily contrasted from the balance of payments standpoint. At the time of writing, neither the Republic nor PDVSA –nor the restricted public sector- are in a position to be able to honor the obligations arising from their stock of foreign currency liabilities on the terms agreed to previously. For example, even if we were to take a scenario with no default, debt servicing proposed for next year would come to USD 20.2 billion⁵, nearly 2.3 times the international reserves and 74.3% of the estimated exports at the end of 2018.

³ Despite an environment marked by favorable oil prices (USD 83.2/bl.), between 2004 and 2013 Venezuela multiplied its aggregate debt stock 5.7 fold on average in 2004-2013 dollars. At the time of writing Venezuela’s debt is equivalent to nearly 5.4 times total estimated exports for 2018 (USD 27.1 billion).

⁴ In 2017 dollars

⁵ This figure takes into account the different proposed payments (by both PDVSA and the Republic) as well as proposed servicing of the debt with China and Russia (Rosneft), the proposed payment of nonfinancial debts associated with the operation of the state-owned oil company, and other bilateral, multilateral and commercial debts incurred by the Central Government.

Debt service (2018-2023)

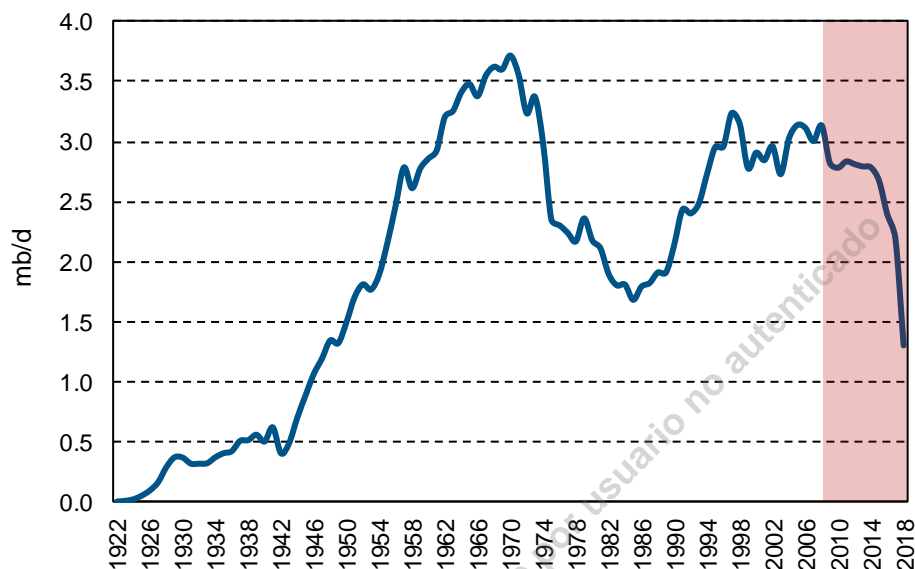


Sources: Pdvsa, Mefbp, BCV and Ecoanalítica

Moreover, it should be stressed that high levels of indebtedness –such as Venezuela’s– are not in line with a policy geared to generating growth and increasing foreign direct investment or with the possibility of attracting fresh international financing such as the aid required from multilateral agencies, in particular the International Monetary Fund. In short, prior debt stock has a key impact on the country’s future payment capacity and the potential return on investments made in Venezuela; the bigger the prior debts, the lesser the guarantees of payment in the future.

As for the oil industry, given a State that is not in a position to make the investment the industry needs to open up, it is a positive sum game. In general terms, a reduction of the State’s shareholding, plus a series of differentiated taxes and royalties depending on the investment’s level of risk, would result in a substantial increase in fiscal revenues –net of CAPEX– by transferring a large part of the responsibility for capital contributions to the private sector along with responsibility for sustained improvements in efficiency.

Venezuelan Oil production evolution



Sources: Baptista (2002), Pdvsa and Ecoanalítica

Last of all, the fiscal and monetary policies warrant special mention. Given the characteristics of the Venezuelan economy and the proposed access to major sources of international financing, there is consensus regarding the need to establish an exchange rate anchor⁶, the main purpose of which would be to curb the collapse of the real demand for money and stabilize the economy following the hyperinflation it is currently suffering from. The fiscal policy would be defined by three key characteristics:

- The very deterioration of the infrastructure and the collapse of public and emergency services make it necessary to increase spending in the short term.
- Replacement of indirect subsidies with a new battery of direct subsidies
- The financing needs inherent in the first years of the program would be covered by external resources and seigniorage and the inflation tax would be abandoned.

In general terms, this series of policies, taken as a whole, would make it possible to:

⁶ Given the Venezuelan context, the consensus is that starting with the exchange rate as the new nominal anchor would be the best monetary policy tool, mainly due to its effect on people's expectations and its impact on inflation.

In this scenario, the Central Bank of Venezuela would determine the exchange rate (fixed or crawling peg) and the market would determine the amount of money in the economy and the level of the international reserves based on its own expectations regarding the future and how the program performs.

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- *Finance a sustained increase in imports during the first years of the program*
- *Close the fiscal gap without the need to resort to seigniorage as the main source of financing*
- *Transfer resources to households to guarantee a certain level of domestic demand at the start of the program, providing a base for recovering production*
- *Use the capacities of society and the world to mobilize the different goods and services necessary for the recovery via a market-based scheme*

Venezuela: 2019-2030

Based on the spirit that encompasses the narrative commented on above, at **Ecoanalítica** we have undertaken the task of constructing a model of what not only the first years of such a stabilization program would be but the next 12 years with a view to having an idea of what things would be like in Venezuela once a stabilization plan on the terms proposed above has been implemented.

It should be noted that this initiative is a work in progress. Consequently, the purpose of this section is to describe, very briefly, the results that would be obtained with regard to the external situation –balance of payments and sustainability of the debt- and the growth dynamic.

Since this is an exercise that is greater in terms of scale and level of detail than this report, this will be the first of several that will seek to address each of the modules that cover the exercise as a whole in greater detail. With this in mind, in this section we will provide a “photograph” of oil production (2019⁷-2030), GDP (real and per capita), and some metrics referring to the balance of payments and the evolution of the restricted public sector’s aggregate debt.

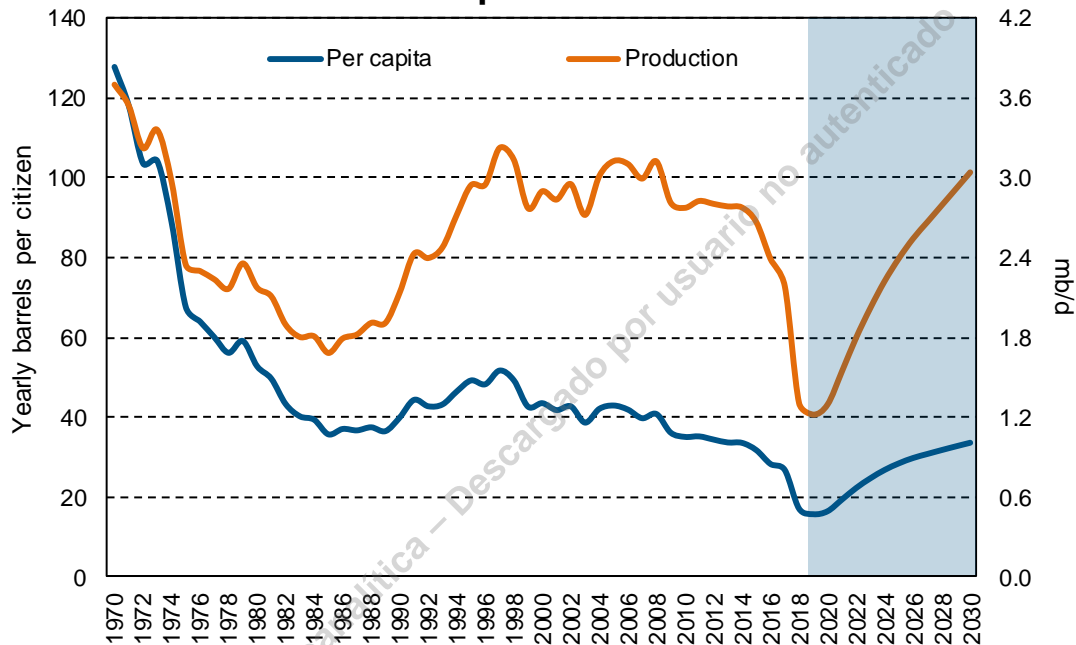
Oil production (2019-2030)

Some of the things about which we at **Ecoanalítica** have been warning most insistently in recent months is that the starting point is important, that the speed at which destruction is occurring is much greater than the possibilities of construction in the short term, and that it is going to take five years to recover from the drop in production that has occurred in the past 12 months. Generally speaking, stopping the drop in oil production during the first years of the program does not seem to be feasible given the inertia inherent in that drop and the technical requirements for stabilizing it. So, if we start from a slight drop in

⁷ Hereinafter, 2019 is taken as the start of the stabilization program.

the first year of the program –around 87 thousand barrels a day (kb/d)- and then post an average of close to 166 kb/d over the next 11 years of the program –with slightly higher rates in the first five years-, it would take us until 2028 to reach levels of production similar to those posted in 2014 (2.78 mb/d) and until 2030 to break the 3.0 mb/d barrier (3.04 mb/d).

Venezuelan Oil production evolution



Sources: PODE, Pdvsa and Ecoanalítica

Growth –real and per capita GDP- (2019-2030)

In general terms, the dynamic of gross domestic product in this model is intimately linked to the economy’s capacity to transform a sustained increase in imports –which obeys certain sustainability criteria with regard to the balance of payments’ current account as well as the absorption capacity of the local economic structure⁸- into growth.

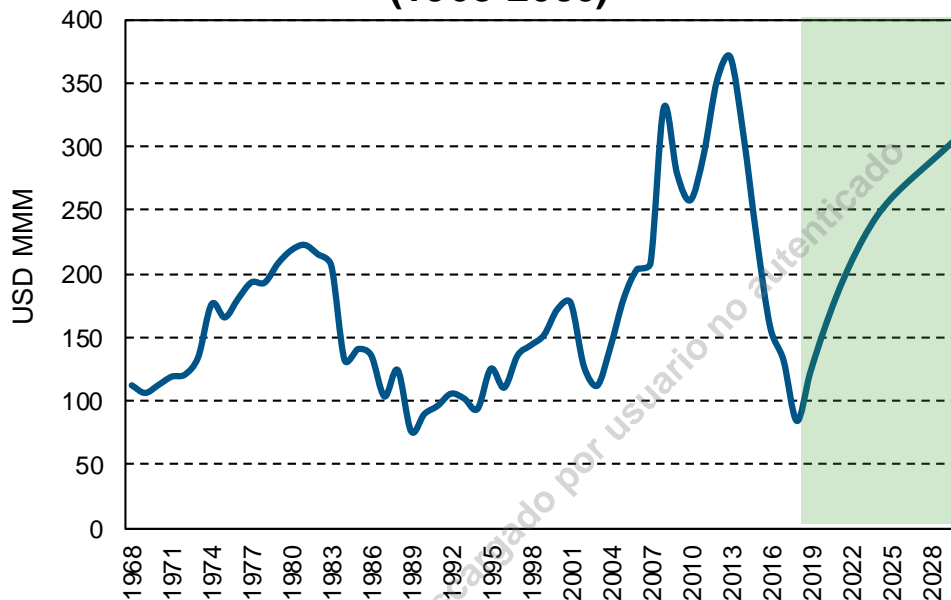
⁸ In general terms, at **Ecoanalítica** we are of the opinion that, given the orders of magnitude proposed in terms of potential financing via the IMF and other multilateral agencies (as well as donations and other bilateral aid), the current account’s minimum threshold would be close to USD 10.0 billion.

Furthermore, it is important to take into account the size of the economy today and its capacity to absorb close to USD 19.3 billion in imports (between the first and second year of the program) after having contracted to just over half in a matter of five years (a potential appreciation of the real exchange rate plays a key role in this analysis).

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GDP evolution (real*) (1968-2030)



Sources: BCV and Ecoanalítica
* Index 2017=100

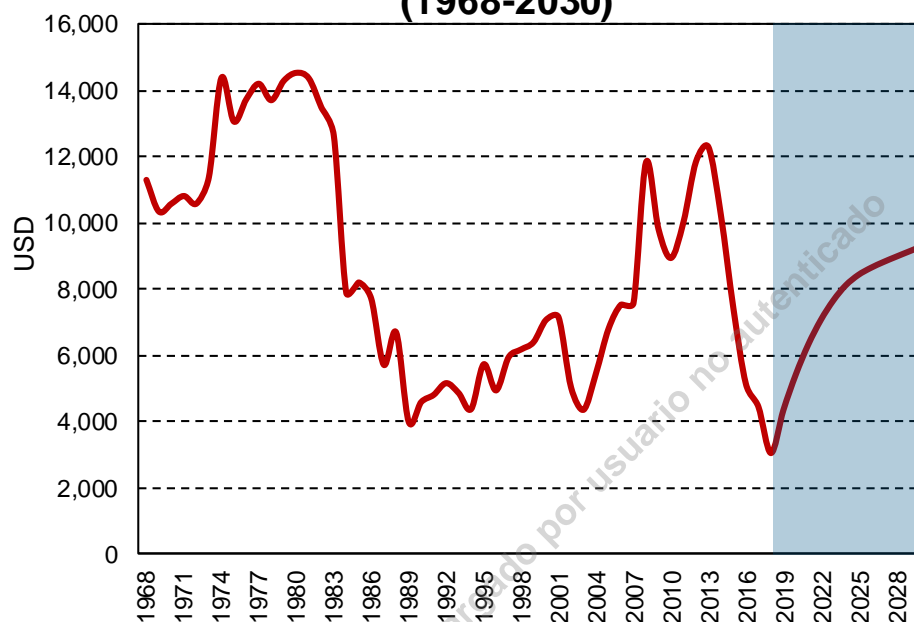
As a result of the widespread deterioration of the production apparatus and the collapse of productivity, we estimate that this capacity has been reduced, along with the program's initial rate of growth⁹. Nevertheless, Venezuela could post relatively high rates of growth in the first years –of even two digits–, although this would be contingent on the potential reaction of the economy and the dynamic of the emergency phase.

⁹ The role of donations and, more specifically, of the first phase of the program –or emergency phase- is not a minor one. By channeling the donations through certain structures budgeted for that phase, a group of no less than the level of imports in the first year could have a limited effect on the growth dynamic since they will be, essentially, final consumption goods and, more specifically, earmarked to deal with the humanitarian emergency.

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GDP per capita evolution (real*) (1968-2030)



Sources: BCV and Ecoanalítica
 * Index 2017=100

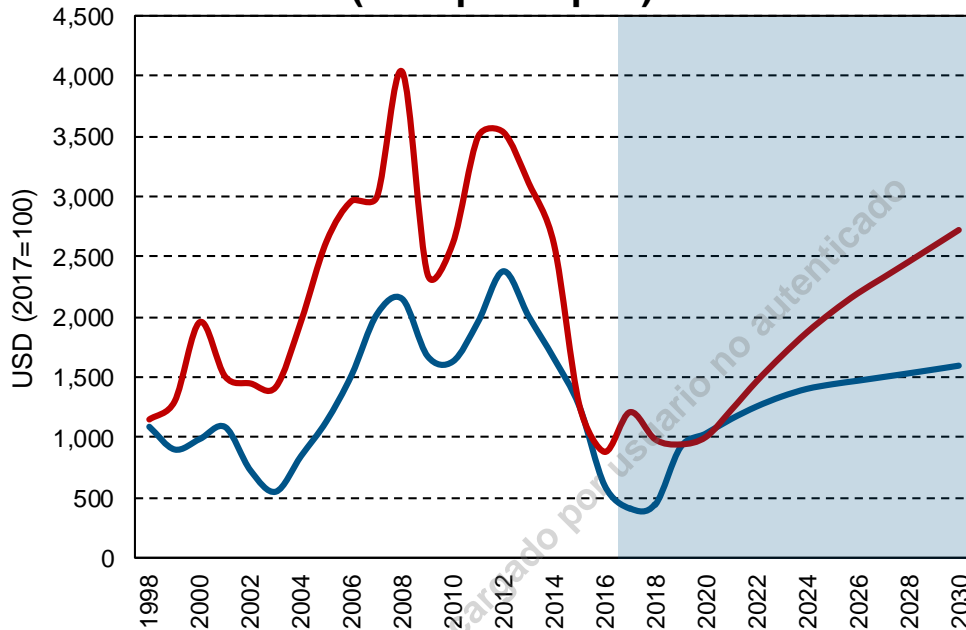
Overall, the model gives an average rate of growth year-on-year of nearly 10.3% in terms of income per capita¹⁰. However, if we deduct imports whose impact on the economy is potentially limited, that number falls to 8.7%. Nevertheless, regardless of the metric used, the basic idea is clear: It will take a significant amount of time to return to the levels of income of previous years, 2012, for example. If we take the first figure –the most optimistic in terms of growth- it would not be until 2030 that we would reach a per capita income close to that of 2013. It is fair to say, notwithstanding, that there were a series of circumstances in 2012 that made said level of per capita income unsustainable.

Balance of payments: evolution of the current account and the trade balance (2019-2030)

In general terms, the balance of payments converges towards a surplus scenario in the trade balance and on the current account, but in the medium term. With regard to the former, as a result of strong growth in imports in the first years of the program –in particular the first two- and slow recovery in the oil industry, at **Ecoanalítica** we expect that Venezuela will maintain a deficit on the trade balance at least until 2022.

¹⁰ Assessed in real terms

Trade balance evolution (1998-2030) (Real per capita)



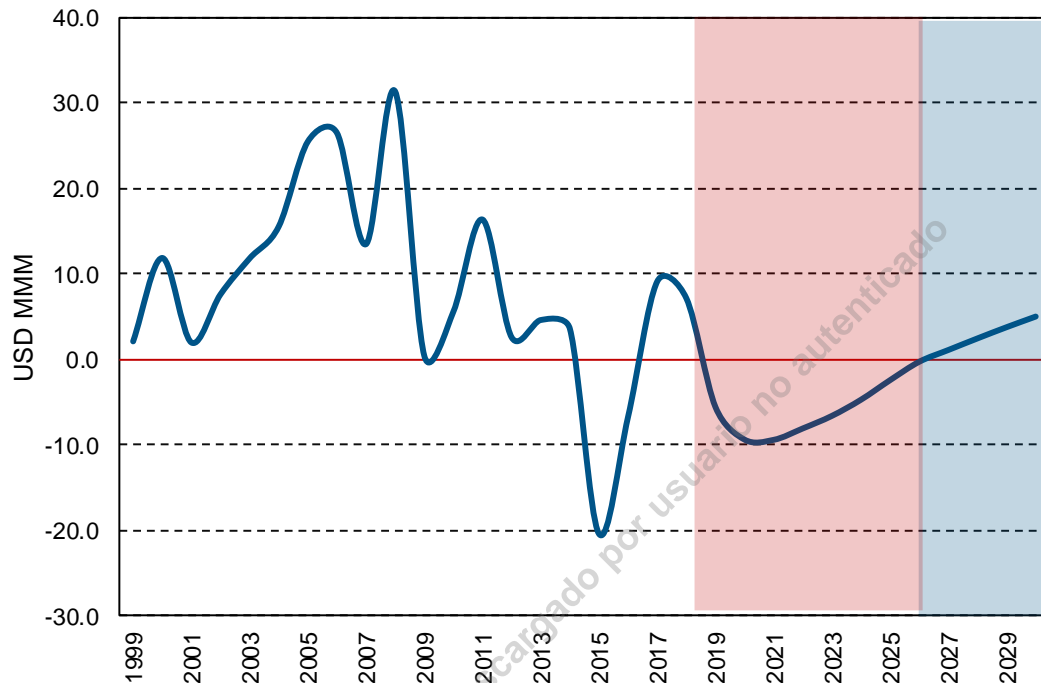
Sources: BCV, Bureau of Labor Statistics and Ecoanalítica

However, the current account warrants special mention. Starting off with a negative trade balance and taking into account the different interest payments (USD 3.64 billion on average between 2019 and 2027) and a negative balance on the services account, which increases as the program progresses (going from USD 5.71 billion in 2019 to nearly USD 12.44 billion in 2027), the deficit on the current account would continue until 2027, when it would once again be set on a surplus path as a result of the sustained recovery of exports.

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Current Account evolution



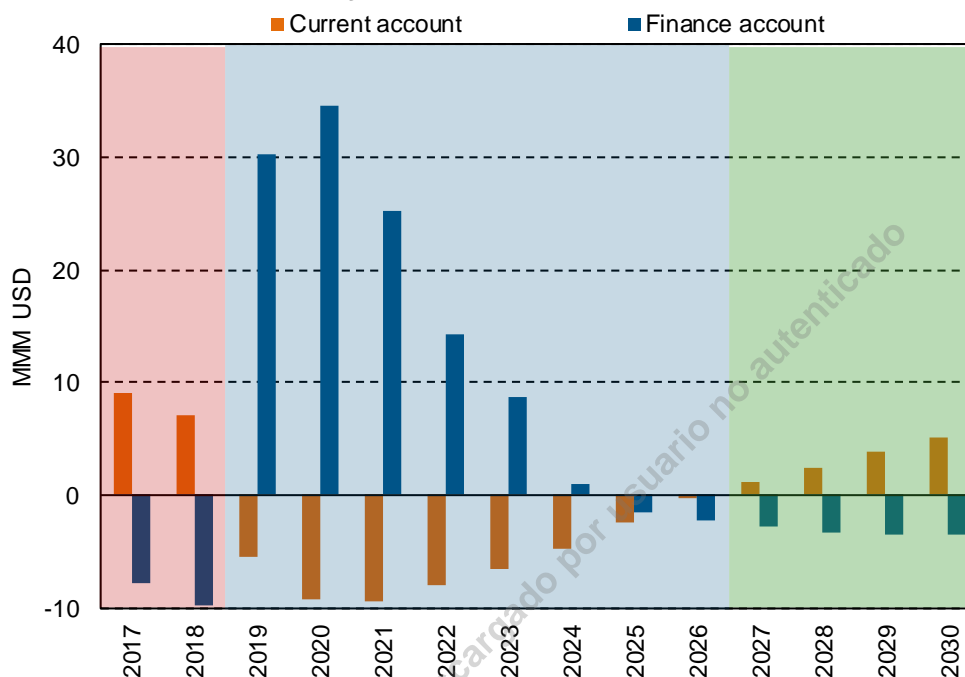
Sources: BCV, Pdvs and Ecoanalítica

As for the financial and capital account, based on the financing channeled through multilateral agencies, donations, bilateral loans, and foreign investment, we expect it to accompany this dynamic and to also contribute to substantially improving the Republic's external assets position. With a cumulative surplus on the balance of payments of nearly USD 63.03 billion between 2019 and 2030, at **Ecoanalítica** we expect a significant increase in the international reserves of nearly 115.1% between 2019 and 2030, going from USD 308 per inhabitant to USD 1,646 at the close of the exercise and posting highs of up to USD 2,443.

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Payment balance evolution



Source: Ecoanalítica

Sustainability of the restricted public sector debt (2019-2030)

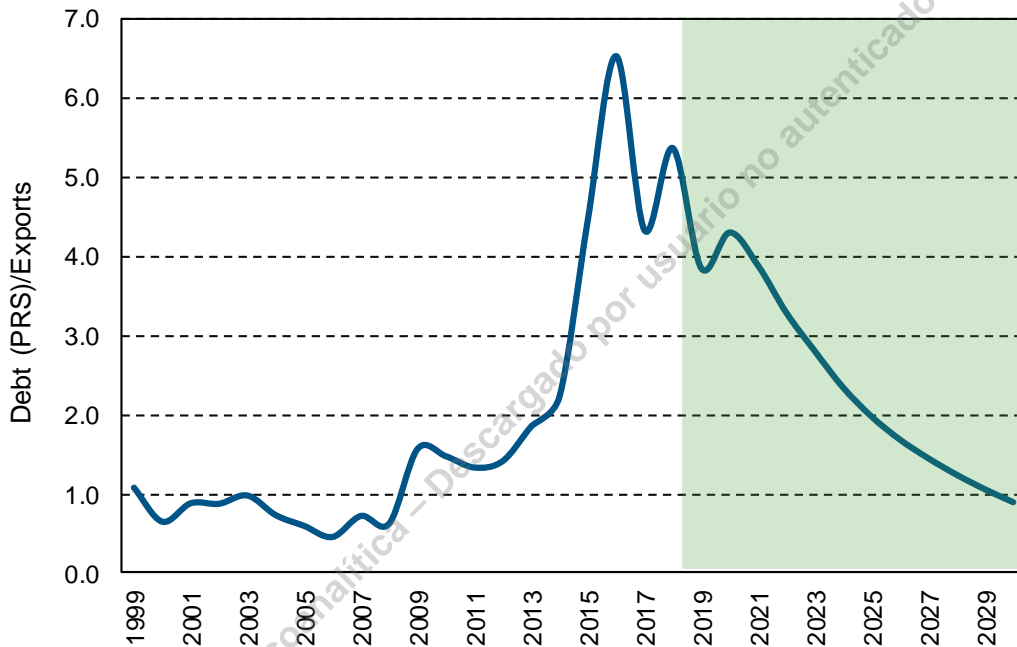
The strategy for dealing with foreign currency liabilities plays a key role in “*the day after*” dynamic. Since this strategy is crucial when it comes to handling the balance of payments and on the fiscal front and, consequently, for the economy as a whole, it warrants special mention.

In broad terms, Venezuela is an atypical case. The very legal –and political- structure underlying the restricted public sector’s stock of foreign currency liabilities makes it obligatory to devise a mixed strategy to deal with a group of creditors that are very different from one another. Given a series of actors that are different in terms of their power of negotiation¹¹ and preferences, the process of rescheduling requires different treatments that, overall, are in line with the external situation and the different economic objectives.

¹¹ Measured based on the potential role they could play in Venezuela’s recovery in the short and/or medium terms

For example, the greater the power of negotiation –and the more relevant the actor is for the Venezuelan economy in the medium term–, the less the haircut will be, except for a series of equilibriums on the external and fiscal fronts. In addition, depending on the actor’s preferences, instead of opting for a reduction of the nominal outstanding value of its debt, perhaps it would prefer a haircut on the debt’s current net value only.

Debt (PRS)/Exports Ratio



Sources: BCV, Pdvsa and Ecoanalítica

So, if we start off with a reduction in the nominal outstanding value of the debt of nearly 41.4% and take a net debt accumulation of close to USD 55.6 billion in the first years of the program with its respective debt servicing in the environment described earlier with regard to the balance of payments, we find that the debt/export ratio converges towards 0.9 in 2030 after closing 2018 at around 5.4.

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Results (restructuring exercise)

	2018E	2019		2023	2030
Outstanding*	145.4	85.2	101.4	139.6	80.3
Proposed debt service*	21.7	11.5		7.7	10.4
Exports*	27.1	26.4		49.8	89.8
International Reserves*	8.7	33.3		82.7	71.7
Debt/Exports (%)	5.4	3.8		2.8	0.9
Debt/International Reserves (%)	16.8	3.0		1.7	1.1

Source: Ecoanalítica

*Expressed in MMM USD

Live and let live

In short, we could sum up the broad outlines described above in four main ideas regarding the objectives of a potential stabilization program:

- Empowering people once again; this is fundamental.
- Lifting the external restrictions.
- Using the oil industry, our most competitive sector, as the growth engine for the first few years.
- Recovering the capacity of the State to do and, even more importantly, to refrain from doing.

Even though this report does not have all the details of the different aspects mentioned, we hope it will serve as an introduction to a series of reports that, at a later date, will address the essence and details of each of these aspects of “*the day after*.” We will continue to keep you informed.

Alejandro Grisanti
Gorka Lalaguna

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week November	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	65.43	0.8	0.8
	1st Week November	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	22.0	0.9	0.4
	2nd Week November	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	15.1	9.4	15.1
	2nd Week November	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.8	0.3	-9.2
	1st Week November	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	248,788,686	18.7	42,166.2
Price of International Oil Baskets (USD/bl)			
	2nd Week November	Weekly chg. (%)	Annual chg. (%)
WTI	62.2	-5.8	9.4
Brent	72.2	-4.9	13.7
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week November	Weekly chg. (%)	Annual chg. (%)
Weekly Average	64.6	-5.9	16.3
Annual Average	65.1	0.0	44.1

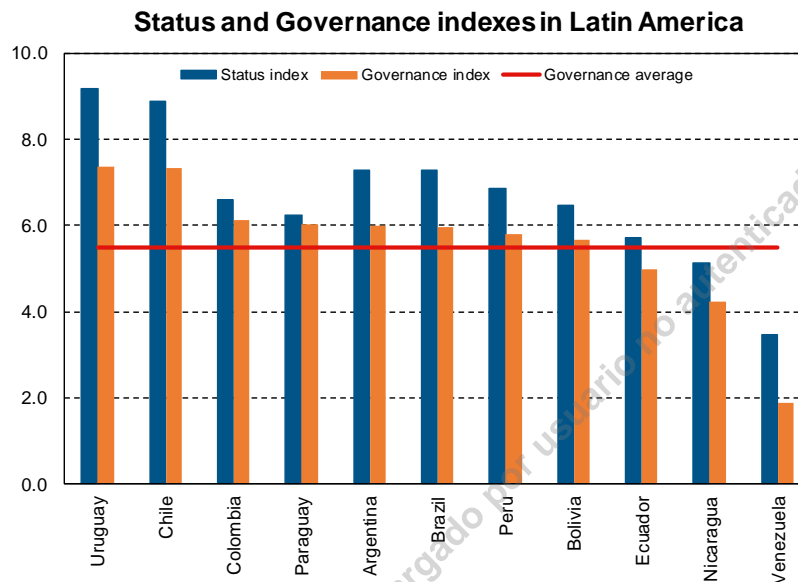
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “THE VIRTUE OF COOPERATION AND POWER”


The actual conditions of the Venezuelan economy show that there is a need for the government to adopt a more coherent role with regard to economic policy, and for that to happen it needs to increase its governance, in other words, the way in which it exercises power and cooperates with the private sector. The purpose of all of this is to manage efficiently its resources and act to generate a significant change on the economic and social fronts.

Bertlesmann’s transformation index used by multilateral agencies such as the World Bank measures the democratic stability of developing countries employing two parameters: their governance and their economic and social status. According to this index, Latin America has a governance of 6.53 and an average status of 5.50 out of 10, and Venezuela ranks among the lowest in the region in both cases with 1.86 and 3.47, respectively.

A closer look at the results for Latin American countries reveals that a high level of governance is usually accompanied by a high level of economic and social stability. This allows us to infer that, besides considering economic and social measures, it is important to establish mechanisms that regulate the political actions of the Venezuelan Government and that promote greater cooperation with other local actors.

ECONOMIC TIPS

A far from welcome call. Apparently the International Monetary Fund (IMF) made contact with officials at the Central Bank of Venezuela.

The costs of not assuming the disaster. During the call the IMF warned that, if it failed to receive the statistics for 2017, Venezuela would be sanctioned and possibly expelled from the IMF, which would result in an additional negative assessment for calculating Venezuela's country risk rating.

NCPI-NA. The National Assembly's Finance Committee published the inflation for October: 148.2%. Inflation for the 12 months from October 2017 was 833,997% and the estimate for inflation in 2018 is more than one million percent.

Impossible to ignore. Jesús Faría, a member of the Constituent National Assembly, said that hyperinflation is recognized within the government as being a problem. However, he explained that it had not been possible to take the necessary measures due to the "speculative situation" that exists in Venezuela.

So that they come home. He also said that the government's efforts are focused on reversing the emigration of Venezuelans to different countries in the region and the rest of the world. Faría expects that they will manage to defeat the hyperinflationary dynamic next year and that production will improve in the second half of 2019.

Falling on deaf ears. President Nicolás Maduro said that he would continue with the mining and exporting of gold, giving little importance to the sanctions applied by the US Government.

DICOM auction NNN, Week XI. The exchange rate resulting from the DICOM auction system at the close of the first week of November was VES 65.1/USD. That week a total of USD 21.8 million was disbursed for an increase of 139.8% compared to the last week of October.

Making those EUR 2.0 billion available. A new record for the year of USD 12.8 million was disbursed at the last DICOM auction. The previous record was USD 6.6 million posted in the first week of October.

Falling back into the old ways. The latest available monetary base figures reveal that there were two consecutive expansions averaging 18.3%. Prior to these expansions, the increases in the first three weeks of October averaged 4.7%.

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International reserves. The international reserves closed the first week of November at USD 8.8 billion, for an increase of USD 24 million compared to the previous week and a drop of USD 49 million compared to the same week last month.

OIL TIPS

Estimates for October. Global Platts' crude production survey for October showed that total OPEC production was 33.04 million barrels a day (mb/d), for a drop of 30 thousand barrels a day (kb/d) from September. It is estimated that Saudi Arabia increased its production by 70 kb/d, that Iran's production fell by 21 kb/d, and that Venezuela posted a drop of 40 kb/d.

What the figures say. According to figures published by OPEC based on information from secondary sources, Venezuela produced 1.17 mb/d in October, down 40 kb/d from September. In percentage terms, this is a drop of 3.3%. The cumulative drop in Venezuela's oil production is 26.9%.

And according to official sources? Venezuela did not send in an official crude production report for October. The difference between the official figures and those from secondary sources in the first nine months of the year was 146.6 kb/d on average.

Iran's production was also down. Iran did not send in official production figures for October either. However, OPEC's report estimates that Iran produced 3.3 mb/d in October for a drop of 156 kb/d.

But production was up overall. Saudi Arabia, not surprisingly, raised its production in October. It produced 10.6 mb/d, 141 kb/d more than in September. According to secondary sources, overall OPEC production totaled 32.9 mb/d, 127 kb/d more (0.39%) than in September.

Chevron is staying. Following the departure of other major oil companies such as ExxonMobil and ConocoPhillips from Venezuela, it was suspected that the same would happen with Chevron. However, Chevron has said that it plans to stay in Venezuela despite the deterioration of its economy and the growing humanitarian crisis, according to Bloomberg.

In free fall. Fatih Birol, the executive director of the International Energy Agency (IEA), said that Venezuela's oil product is in "free fall" and that it could fall below one million

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barrels a day. He also said that he did not believe that oil prices would go up in what is left of this year, which does not favor Venezuela's situation either.

A reduction of crude in 2019. Saudi Arabia's Energy Minister Khalid al-Falih said that, based on a technical analysis conducted by OPEC and its allies, the cartel believed it was necessary to cut the supply of crude by 1.0 mb/d next year. The purpose of reducing supply is to avoid an increase in oil inventories.

An increase on the cards for next year. Minister of Oil and President of PDVSA Manuel Quevado said that Venezuela plans to increase oil production next year but that it would respect any agreement OPEC reaches, even if it meant reducing production starting in December.

BUSINESS SECTOR TIPS

Who is behind the Fatherland's card? Chinese phone brand ZTE is helping the Venezuelan government to build up a control system through the Fatherland's card, according to a Reuters report. This mechanism allows following the behavior of the owner and personal information such as birthdate, family members, if the person voted or not, among others.

Social control. According to Reuter's article, members of the Venezuelan government visited China in 2008 to look for information to develop this personal identification cards. Nowadays, ZTE employees work under a Cantv's special unit on the development and functioning of this system.

It's all ours. On Friday, November 9, President Nicolás Maduro announced that the government should "*take all the governance (sic) of the production and distribution of meat, 100%.*" He also called on producers to respect the distribution of food, the agreed prices, the "*game rules.*"

Oh, really? Minister of Agriculture and Lands Wilmar Castro Soteldo said that they were working on the production of rice and corn seed varieties thanks to an agreement with Vietnam. According to the minister, in a couple of years, Venezuela could produce 60% of corn seed requirements.

An "announcement of expropriation." The president of the National Cattlemen's Federation of Venezuela (Fedenaga), Armando Chacín, described Maduro's statements as an "*announcement of expropriation.*" "*This is not going to turn out well, as has*

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happened before. What the government does is to take possession of our properties,” he said.

Another Dakazo. The vice president of Fedenaga, Luis Prado, claimed that the government’s measures will only paralyze the sale of meat. *“We’re warning consumers of the Dakazo-type attack on Venezuelan cattle rearing. If they finish with the cattle that are still left in the country, our protein requirements will be erased from the Venezuelan’s basic diet.”*

700 fewer companies. Juan Pablo Olalquiaga, the president of the Venezuelan Confederation of Industrialists (Conindustria), reported that 700 companies had closed down so far this year. He added that *“the closing of these companies is part of the destruction of the industrialization chains,”* and that in order to recover the country’s industries the government needs to lift the controls.

There’s no market. During his statements, Olalquiaga said that the closing down of companies was not due to the lack of raw materials but to *“the lack of a market.”* The power outs are also an important factor in industry’s performance.

Sabotage. Minister for Electricity Luis Motta Domínguez reported that the interruption in the electricity service in Nueva Esparta was the consequence of “sabotage” on a gas pipeline to the island and that Corpoelec was not responsible. *“We don’t have gas in order to be able to activate the thermoelectric power stations that supply the island of Margarita [...]. This was due to an induced explosion,”* he explained in his Instagram account.

Margarita without electricity. At the weekend the people of Margarita responded to the lack of electricity with protests. The minister called for calm and said that this was *“a plan meant to attack oil, petrochemical and electricity facilities in order to cause unrest and create a negative breeding ground environment for the upcoming election of councilors.”*

11.7% undernourished. The latest report by the United Nations Food and Agriculture Organization (FAO) states that *“Venezuela is today one of the countries in the region with the largest number of undernourished people (11.7% of its population), together with Haiti and Mexico.”* However, whereas hunger has been reduced in Mexico and Haiti in the past three years, in Venezuela it has increased.

Fewer workers, more protests. The president of the National Federation of Electricity Workers (Fetraelec), Ángel Navas, said that around 20,000 workers in the electricity sector had resigned due to low wages. Electricity workers held a meeting to protest and demand that their collective employment contracts be respected.

WORLD ECONOMY TIPS

Is peace around the corner? US Secretary of the Treasury Steven Mnuchin resumed talks with his Chinese counterpart, Liu He. The talks focused on relieving trade tensions between the two countries in anticipation of a meeting between Donald Trump and Xi Jinping, which is to be held at the end of this month.

The rates stay the same... After a two-day meeting, the US Federal Reserve decided to keep interest rates unchanged at between 2% and 2.25%. This decision was due to the fact that, according to the FED, the US economy was in good condition thanks to strong growth and a reduction in unemployment.

...for now. Thanks to the aforementioned economic conditions the Federal Reserve said it did not plan to raise the rates before December. It is expected that the decision to raise the rates will be made at its next meeting, when it is forecast that they will be set at between 2.25% and 2.5%.

The problems stay in the Continent. The World Trade Organization (WTO) published a document in which the United States, China and ten more countries demanded that the European Union set up an “appropriate compensation” mechanism to ensure that its separation from the United Kingdom does not affect the quality of the trade treaties with those countries.

At a good time. The prime minister of the United Kingdom, Theresa May, announced that a draft for the Brexit deal with the European Union was delivered. According to May, the draft “almost” accomplishes what the United Kingdom voted for in the 2016 referendum, in which the voters supported that their country left the European block.

They're not satisfied or prepared. According to the document, the countries that signed it are unsatisfied with the European Union's present plan of dividing its WTO quotas and tariffs with the British, pointing out that the European bloc has not established the necessary new commitments with the WTO for coping with Brexit.

Fragile relations. The president of the European Commission, Jean Claude Juncker, said that Europe would stop negotiating the tariffs imposed by the United States on the automotive sector. This decision reveals the fragility of the trans-Atlantic truce reached last quarter.

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A currency clash. Because the US Federal Reserve reaffirmed that it would continue to gradually raise its interest rates in view of the strength of the US economy, it is expected that the currencies of Latin America will have an uneven performance during the week.

The Mexican peso under pressure. In this situation, the Mexican peso, which posted its sixth weekly drop in a row last week, could come under pressure due to the economic decisions by the incoming administration. It will fluctuate between MXN 20/USD and MXN 20.5/USD, with the likelihood of even going as high as MXN 20.8/USD in response to a specific incident, if any.

Game of rates. The Argentinean peso will continue to be affected by the high rates imposed by the Central Bank to curb the inflation Argentina is experiencing. For that reason, operators forecast that the peso will be at ARS 35.5/USD, with investors being on the lookout for any intervention of the exchange rate by the monetary authorities.

What goes down has to go up. The Chilean peso, which depreciated by 1.3% last week and has depreciated by 10.2% this year, could post an upturn. A survey of operators conducted by the Central Bank revealed that the exchange rate would reach CLP 675/USD in six days' time.

Protecting jobs. The Argentinean Government published an Official Bulletin in which it establishes a mechanism whereby private companies must inform the Ministry of Production and Labor of their decision to lay off personnel without any justification. This rule, which will remain in force until March 31, seeks to make it difficult to cut jobs in Argentina.

The advantages of oil. Figures published by Colombia's Central Bank revealed that net foreign investment went up to USD 803.5 million in October, an increase of 8.74% compared to last year. This figure was driven by an influx of resources to the oil sector, whereas flows to other sectors were down.

POLITICAL TIPS

An eternal Constituent Assembly? The president of the Constituent National Assembly, Diosdado Cabello, said, "*There's no draft constitution so far.*" He explained that commissions were working and ideas were being developed for drafting the new constitution.

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Everything's ready. Vice President of the National Electoral Council (CNE) Sandra Oblitas reported that the trial election held on Sunday, November 11, was a success. She said that the “*electoral machinery*” functioned correctly and that there was a sizeable turnout of voters. This trial run was carried out in preparation for the municipal elections to be held on December 9.

They're not talking to one another. Venezuela's Foreign Minister Jorge Arreaza said that he is not maintaining communications with Colombia's foreign minister, Carlos Holmes Trujillo. Arreaza claimed that it was “*Colombia that decided to break off relations with Venezuela's legitimate government.*” He also reminded everyone that the Colombian Government should negotiate peace with the National Liberation Army (ELN).

Lacking legitimacy. Deputy Ángel Alvarado said that presenting the 2019 National Budget to the Constituent National Assembly will cause problems for the government. He added that the measure taken by the National Assembly to annul the 2019 Budget, on the grounds that it was not submitted to the Legislature, will close the doors to more sources of financing for the Venezuelan Government because “*since there is no Budget Act, there is no legal guarantee, and governments and agencies in the rest of the world know that any debt incurred will be invalid and will not be honored.*”

It's a window that should not be closed. Yván Gil, Venezuela's vice minister for Europe, welcomed the Spanish Government's favorable position with regard to dialog in Venezuela, despite the criticisms that the Spanish Government has leveled at the Venezuelan Government this year.

War victims. President Nicolás Maduro announced that measures and military security were going to be reinforced so as to prevent foreign armed groups from entering the country. Special efforts will be made to step up military intelligence so as to avoid another incident such as the one in which members of the Bolivarian National Guard were murdered in Amazonas.

Reaping what you sow National Assembly Deputy Franco Casella accused the Venezuelan Government of permitting and supporting the presence of guerrilla groups in the country, alleging that incidents such as what happened in Amazonas were not due to the fortuitous presence of those “*irregular groups.*”

International justice. The secretary of the Organization of American States (OAS), Luis Almagro, exhorted the International Criminal Court (ICC) to investigate the death of Councilor Fernando Albán while he was being held at the headquarters of the government intelligence agency, Sebin.

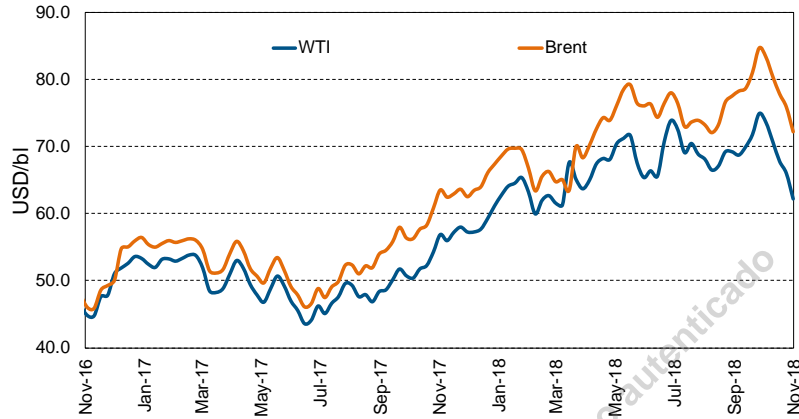
Working on solutions. The National Assembly approved a draft agreement on promoting “*a political solution*” to the country’s situation, according to which attempts will be made to “*appeal to the international community to strengthen the democratic forces and the Venezuelan people.*” “*Promoting the rule of law, effective exercise of human rights, respect for the branches of government*” and the release of political prisoners are other points included in the agreement.

A joint solution. Colombia’s President Iván Duque stressed the importance of action by the international community in seeking “*to put an end to the dictatorship in Venezuela.*” He argued that the Venezuelan migratory crisis was due to the political situation in Venezuela and insisted that he had never mentioned solutions involving military action.

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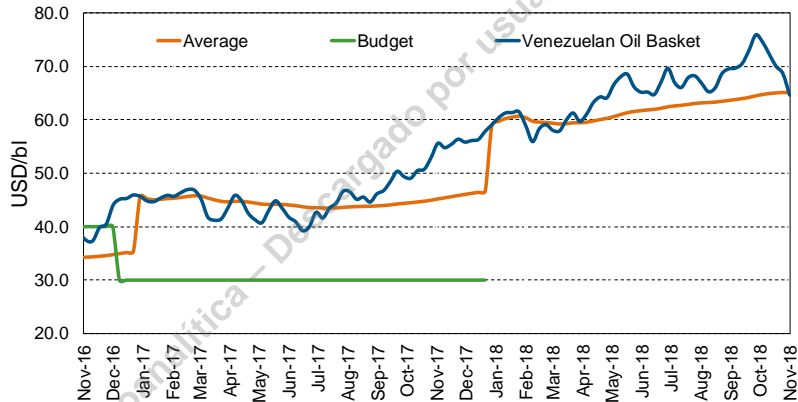
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



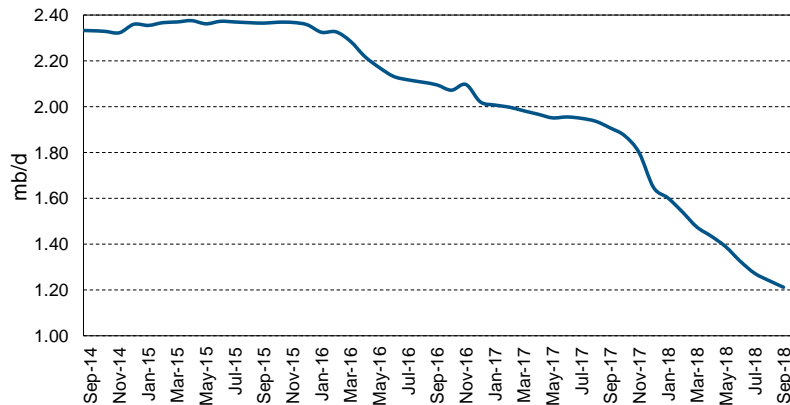
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

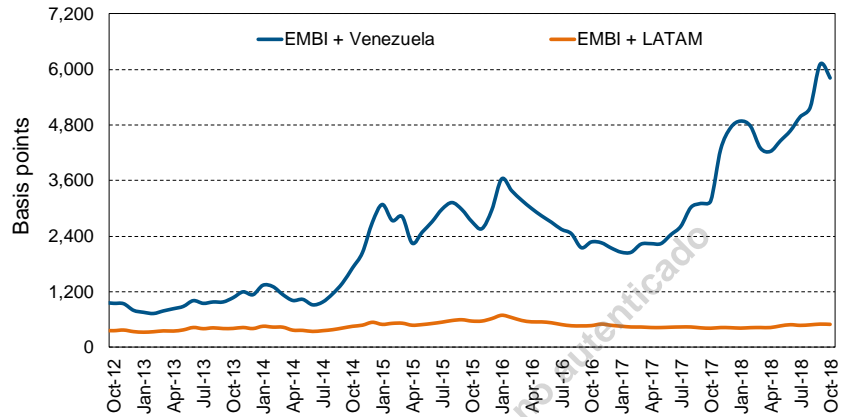


Sources: OPEC and Ecoanalítica

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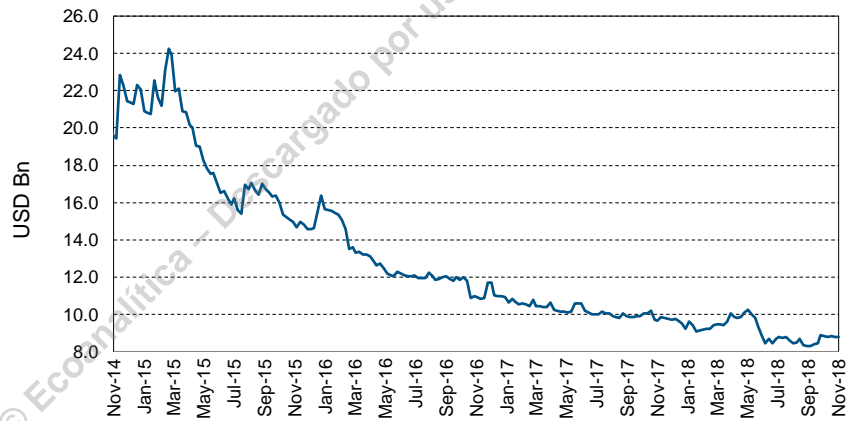
ECONOMIC INDICATORS

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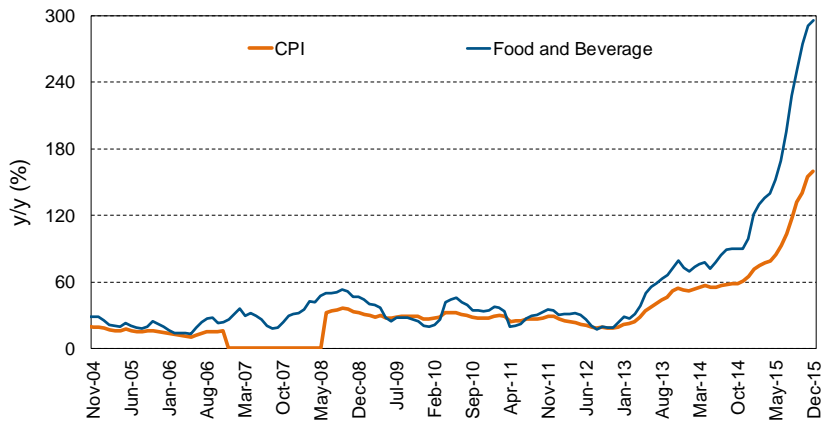
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



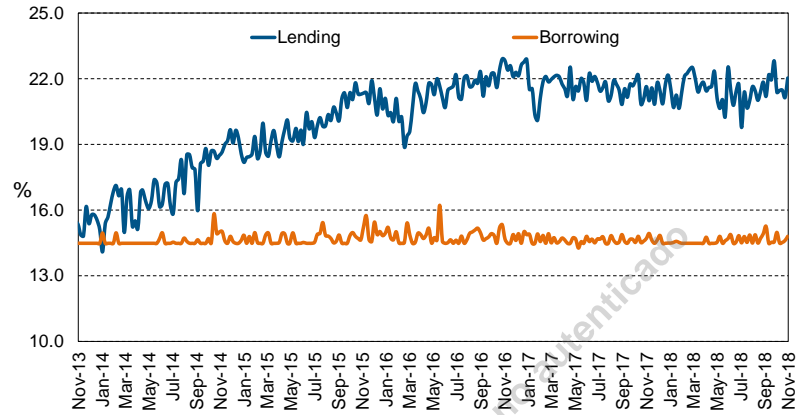
Sources: BCV and Ecoanalítica

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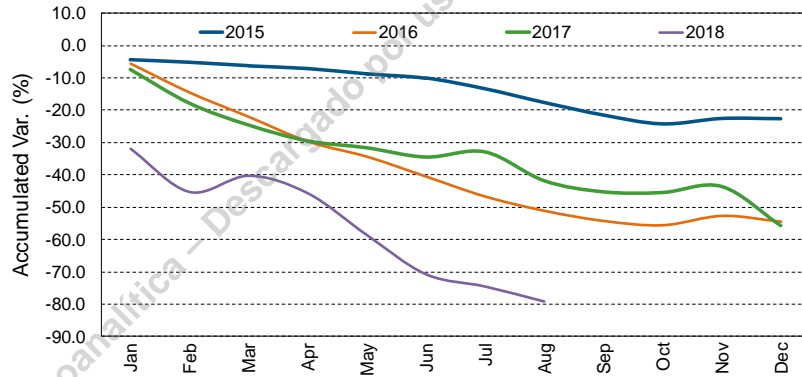
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



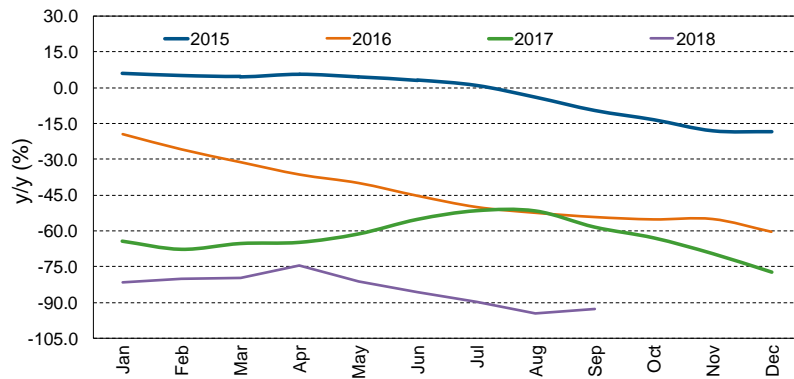
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

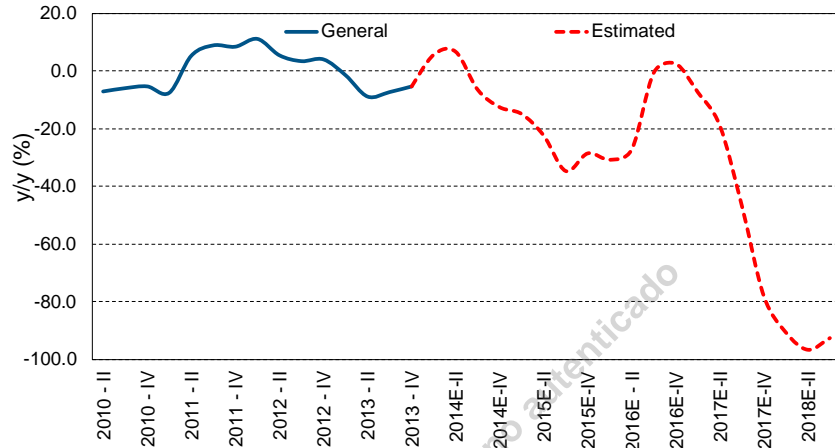
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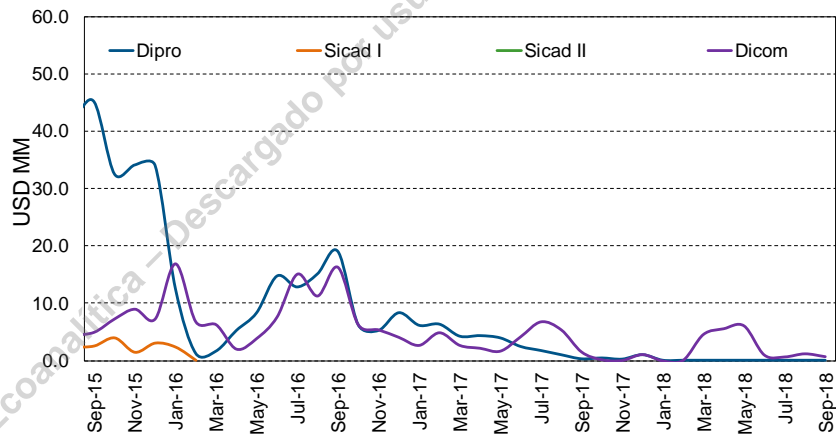
ECONOMIC INDICATORS

Real Wage Index



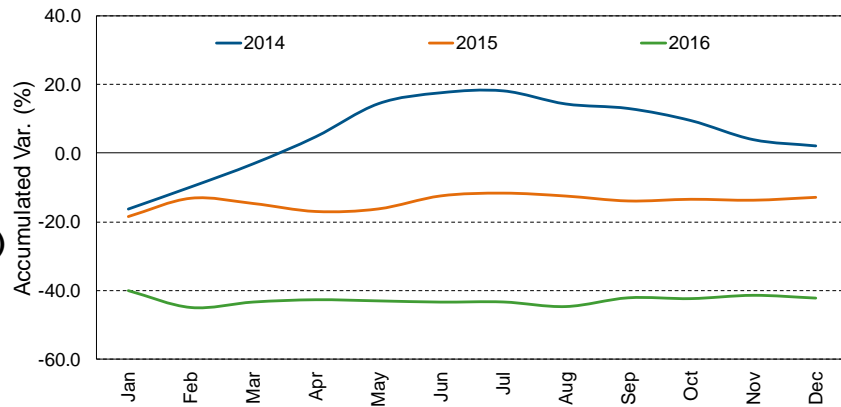
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

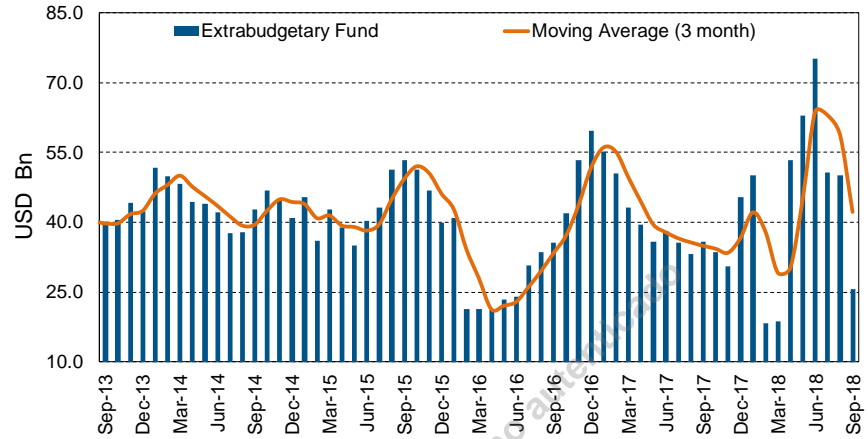
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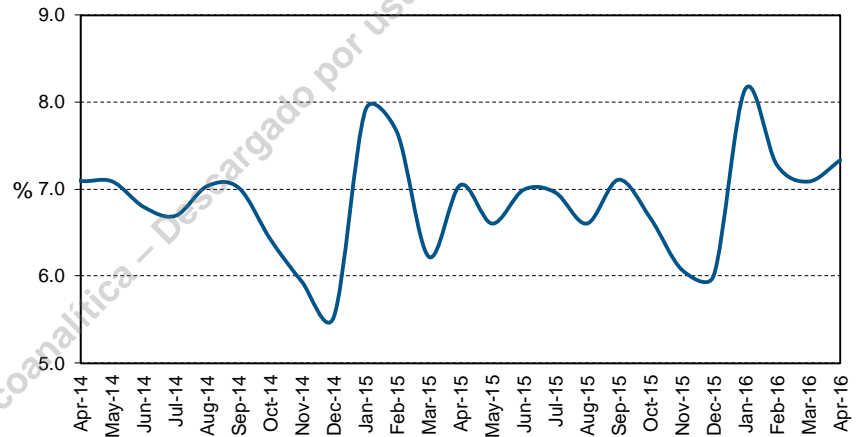
ECONOMIC INDICATORS

State Extrabudgetary Resources



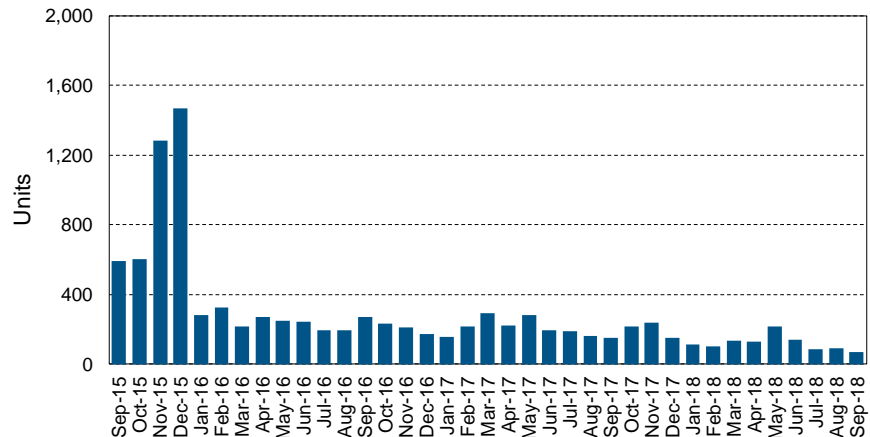
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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