WEEKLY REPORT

Year 14. Number 48 Week II
December 2018

Ecoanalítica
acompañando las buenas decisiones

From bad to worse: the Venezuelan economy in 2018

2018 has revealed that the deterioration of the Venezuelan economy has reached many spheres. Hyperinflation has undoubtedly been the event that has had the biggest impact on our recent economic situation. After reaching, and surpassing, the barrier of 50.0% inflation a month in November 2017, local prices have not stopped climbing, reaching average weekly inflation of 21.6%[1]. The marked acceleration in price increases brought with it greater pressure on the foreign exchange front, with a demand for bolivars in free fall, albeit with a reduction in the purchasing power of foreign currency that is atypical and does not coincide with international experience in hyperinflations.

The year was also marked by increased pressures on the side of the Republic's external debt, which, together with the multiple sanctions imposed by the United States on a number of political actors and operations performed by the Venezuelan State, put the local market's access to external financing in check.

In the midst of a structural reduction in PDVSA's production capacity, these restrictions have plunged the local economy into a sort of limbo where, despite the generation of less cash in foreign currency, the default and real adjustments (mainly via fiscal channels), have allowed the government to manage an economy that is highly pro-cyclical in terms of the external situation and addicted to imports.

Certainly, the external dynamic has been the weakest link in the chain of macroeconomic imbalances behind hyperinflation and the contraction in the local economy, part of which stems from the decline in oil activity. And it is with the oil sector that we start this brief roundup of the Venezuelan economy during this year.

Oil industry in check

Venezuela's oil industry has been in a continuous decline for 18 months, according to data obtained from OPEC's secondary sources. Production in November 2018 came to 1,137 kb/d, for a drop of 51.7% since January 2015. This nosedive in production is neither fortuitous nor circumstantial, but is due to a structural dynamic where the operational

[1] This does not take into account the atypical value registered following the redenomination of the bolivar in August 2018.

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capacity of Venezuela's entire oil industry is compromised thanks to a combination of chronic disinvestment, deterioration of the infrastructure, financial negligence, and managerial incompetence.

In the first week of December, members of the Organization of Petroleum Exporting Countries and allied countries (OPEC+) agreed to reduce their joint production by 1.2 mb/d in an attempt to push up the price of crude. Although Venezuela is technically exempt from these cuts, the continuing decline in its production constitutes a *de facto* cut that is being covered by increases in other OPEC countries and by non-conventional producers in countries such as the United States.

At **Ecoanalítica** we estimate that Venezuela's production will average around 843.6 mb/d in 2019. That is equivalent to a drop of 25.8% compared to last November. This has extremely severe implications for Venezuela's capacity to generate the foreign currency to which it will have access in 2019, given our base scenario for 2019, a year in which for 647.6 kb/d of oil exports only 250.4 kb/d will generate cash flow and the remainder will be earmarked to pay down debts with China and Russia and honor agreements such as PetroCaribe.

Coping with the storm on the external front

The drop in oil production and exports will restrict the foreign currency available to the Venezuelan Government, which faces financing requirements of USD 10,693 million in 2019. Given this restriction in its cash flow, the government's strategy for alleviating its foreign currency situation, particularly the funds intended to beef up extra-budgetary instruments, seems to be resort to defaulting on its foreign currency obligations, which means failing to honor repayments of capital and payments of interest on PDVSA's and the Republic's debts amounting to USD 6,659 million.

The debts that seem to be on the top of the Venezuelan Government's list of priorities seem to be those with China and Russia, against which it has made payments equivalent to USD 5,491 million and USD 3,213 million, respectively, in 2018. However, the possibility of continuing to service the debt with the government's main benefactors in 2019 appears to be reduced.

At **Ecoanalítica** we estimate that disbursements earmarked for paying off debts with China and Russia will increase to USD 6,520 million and USD 2,249 million, respectively, next year. These amounts together come to USD 8,769 million and are equivalent to 2,4 times the public sector's nonoil imports. Even if public non-oil imports were reduced to zero, there would still be a gap of USD 3,293 million. For that reason, we consider that Venezuela will cease to honor its obligations with China and Russia in 2019.

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The outlook on the fiscal front

Given the reduction in revenues in hard currency generated by the external sector, the fiscal adjustments typical of their pro-cyclical response to the external situation soon made their appearance. Monetary emission has become one of the government's favorite fiscal instruments, representing 7.5% of GDP in 2013 and 2.7% of GDP in 2017. However, the continuous monetization of the fiscal deficit gave rise to the hyperinflationary episode that formally erupted in November last year and in which Venezuela has been plunged since then.

Hyperinflation favors a spontaneous abandonment of the local currency by the population, which is putting the existence of the bolivar at risk and, with it, the fiscal alternatives available to the government. For that reason, in 2018 the government carried out a consolidation of the fiscal accounts in an attempt to calm the monetary storm it has unleashed. This process of fiscal adjustment has been based mainly on a restructuring of the tax system along with a reduction in real expenditures by delaying nominal adjustments.

On the taxation side, the adjustment has focused on increasing the frequency with which income tax and value added tax (VAT) are collected, with income tax accounting for 10% of nonoil tax receipts in October and VAT 62.2%. Between August and September this change resulted in an improvement in tax receipts in real terms of 125.1% between August and October. This does not mean that the downward trend in tax revenues in real terms has ceased; far from it. In the past 12 months real receipts from customs duties and levies have dropped by 92.6% in real terms, from income tax by 90.4%, and from VAT by 85.9%.

Given that tax receipts have not recovered in real terms, the complementary policy the government is left with for improving its fiscal position is to make a cut in public spending that is greater than the drop in tax receipts; a proverbial fiscal race to the death in real terms. For that reason, the government has opted for allowing the nominal updating of its most significant costs to lag behind: the wages and remunerations of public sector employees.

Despite having decreed six wage increases since the start of 2018, which give a nominal increase of 641.9% average, inflation over this same period has reached 760,524.1%. This has meant a cut in wages in real terms of 94.3% (not counting the new wage from December). The government has used monetary illusion, or people's tendency to equate nominal increases in their income with improvements in their purchasing power, to minimize the political cost of contracting its spending.

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The outcome of these two strategies is a reduction of the fiscal deficit in real terms to 11.0% of GDP compared to our projection of 15.2% at the start of the year. This reduction does not mean that the fiscal origin of our hyperinflation has been fully dealt with. As long as the State continues to resort to seigniorage as an instrument for financing public spending (in November it was more than 229% of the amount contributed by non-oil tax receipts), hyperinflationary pressure will not stop, much less so if, on top of that, the demand for money drops.

Hiperinflation: 2019 million per cent

Venezuela started 2018 with two months of hyperinflation already on its back, and the increase in the monetary base has been an important factor when it comes to explaining this[2]. This year the monetary base has increased by 56.8% a month, on average, which is equivalent to 11.9% a week; in real terms, however, it has dropped by 97.2%. In turn, leveraged on the drop in the demand for money, each increase in money supply has had an impact that is more than proportional on the level of prices in the economy.

According to **Ecoanalítica**'s estimates, since 2017 there have been two fundamental turning points in the demand for real monetary balances: the first was on the eve of the crash of oil prices and another, more marked, point of inflection was November 2017, the date that marked the start of hyperinflation in Venezuela. As increases in prices exceed expectations more frequently, the incentives for holding on to money (real balances) to buy a basket of local goods tend to decline.

[2] De Gregorio, J. (2003) "Dinero e inflación: ¿en qué estamos?"

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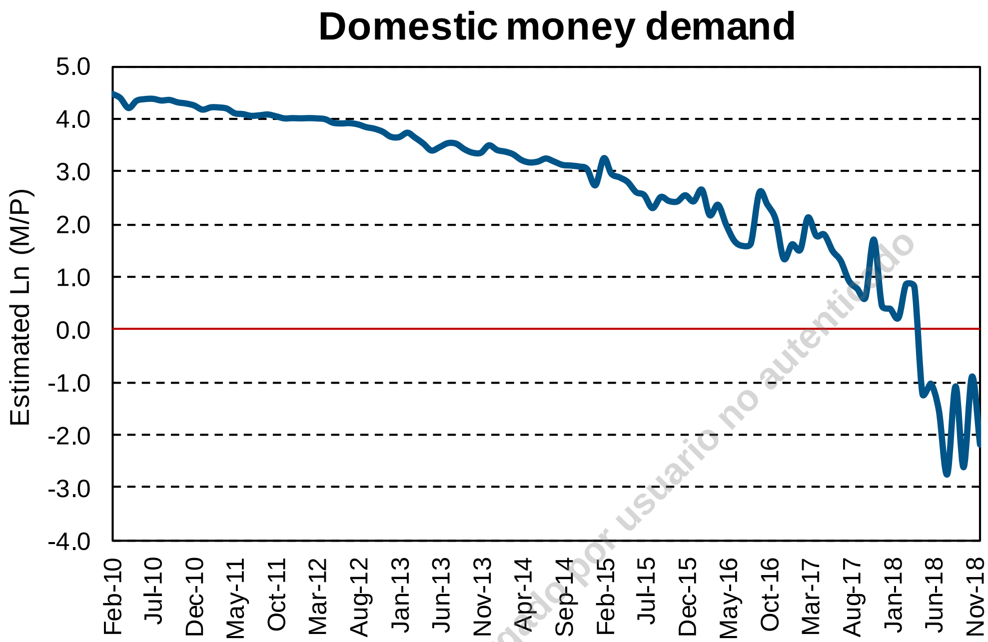

Source: Ecoanalítica

Once hyperinflation arrived in November 2017, and given the opacity of official figures, the multiplicity of exchange rates, and the few observations regarding weekly inflation, it seems natural to think that the adjustment in the demand for money was greater than the adjustment in expectations. In other words, local agents found it more difficult to establish an adequate metric that would quantify the bolivar's loss of value. Given this situation, the faster restructuring of Venezuelans' portfolios to the detriment of bolivars and a bigger lag in expectations probably set the pace of hyperinflation.

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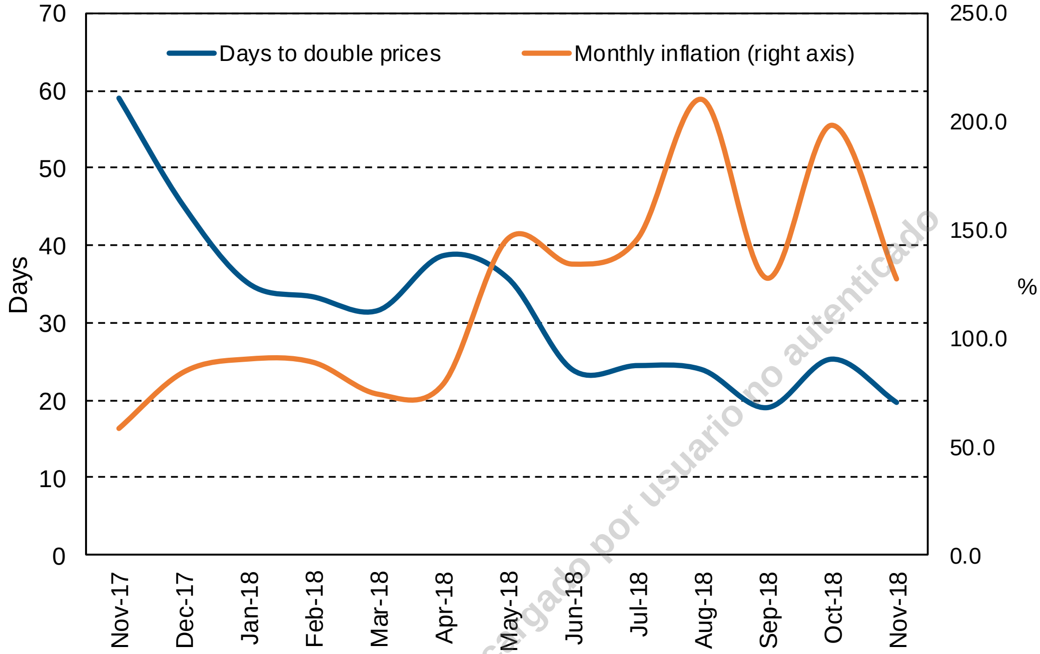
Days for prices to double



Source: Ecoanalítica

As the demand for real monetary balances in bolivars has plummeted and Venezuelans get rid of them fast as though they were "hot potatoes," maintaining a level of seigniorage emission becomes a more inflationary task. This means that an adjustment to bring down hyperinflation should not only reduce seigniorage in real terms (as the government has done partially), but it should also put a brake on the fall in the demand for bolivars. All that has been achieved so far is to reduce the size of the State and impoverish those who depended on it, while hyperinflation has got off without a scratch.

If they cannot convince Venezuelans to leave their money untouched by means of incentives, they may simply try to bamboozle them with "savings certificates in gold or Petros," a strategy that seems to underestimate the financial intellect of the less privileged and to put them on the path to poverty in order to slow down the speed at which money is circulating. The attempt will probably fail, and the next move will be to adopt a more "peremptory" approach and impose measures on people whether they like it or not.

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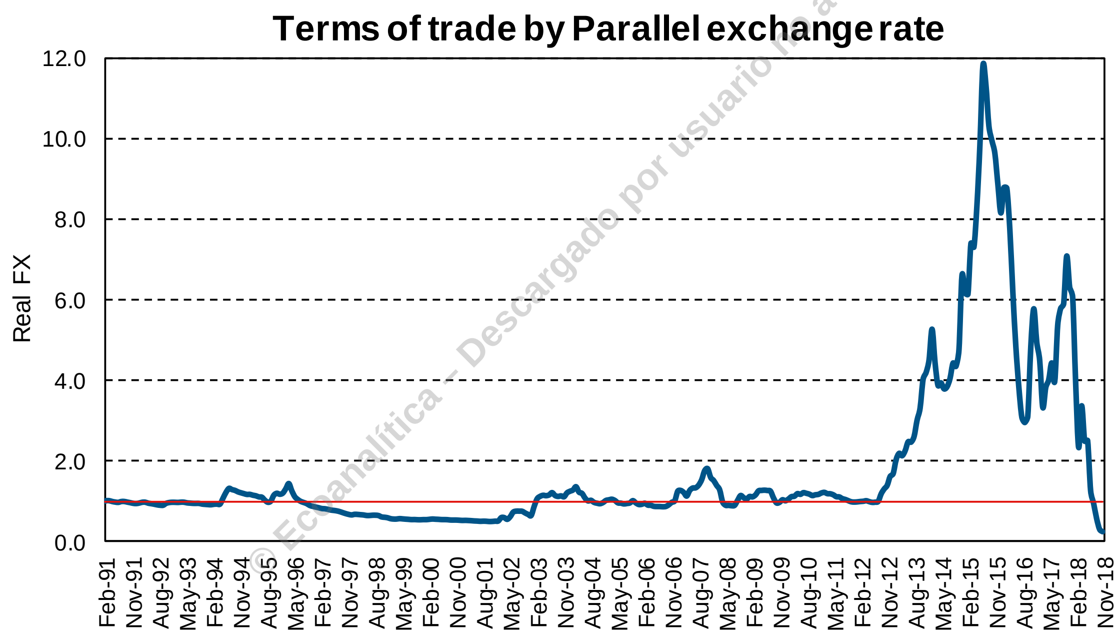
Foreign currency pressures Venezuelan-style

As far as public opinion is concerned –and also for 2019- perhaps the most relevant point with regard to the dynamic of the foreign exchange market in the past few months is the systematic loss of purchasing power experienced by the dollar -and other currencies- in the Venezuelan market. Since the hyperinflationary drama was unleashed in Venezuela the dollar has lost nearly 89.6% of its value compared to the basket calculated based on the Nationwide Consumer Price Index (NCPI) and nearly 98.6% and 77.9% compared to key items such as Food and non-alcoholic beverages and Transportation, respectivly.



Sources: Ecoanalítica
*A Real exchange rate under 1 is overrated and over is underrated

Although out of tune with a reality marked by five years in which a dollar went more than twice as far, on average, in the Venezuelan market than abroad, between 2012 and 2017 the increase in the cost of living in dollars –or appreciation of the real exchange rate- was due to an economy that was contracting rapidly while severe distortions were emanating from a system of prices that had been totally destroyed by the hyperinflationary maelstrom.

In general terms, there is an easily contrastable hypothesis preached by economic theory that suggests that the higher the rates of inflation, the greater the dispersion as regards the evolution of the different prices making up the NCPI basket. In short, when there is

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no credible anchor or a heterogeneous process of formation of expectations among sectors and given the different rigidities imposed by the government as regards prices, it is to be expected that the economy's different markers will not operate as a monolith and will advance with no clear north to guide them.

Even though at **Ecoanalítica** we are of the opinion that, on average, the real exchange rate will converge with its equilibrium level in the short term, its volatility should not influence a coverage strategy driven to a large extent by the acquisition of foreign currency in the short and medium terms.

In the event of an appreciation of the real exchange rate, the lag in the price of the dollar compared to other items in the economy will generate significant opportunities as long as the real capacity of a dollar acquired in Venezuela maintains its purchasing power abroad. This makes it profitable to acquire inventory offshore, which, when brought into the local market, undergoes a significant increase in value in real terms. On the other hand, if there is a depreciation of the real exchange rate, each dollar will increase its purchasing power locally and act as an ideal coverage strategy. In short, foreign currency coverage prevails as a positive sum –or win-win- game. In this situation, act fast and effectively. What is relevant in hyperinflation is the short term.

Surprises in 2019?

Given what has happened in 2018, at **Ecoanalítica** we believe that inflationary pressures (and what that entails for the monetary and fiscal dynamic), together with the restrictions on the external front, will continue to set the guidelines in the domestic dynamic in 2019. We do not forecast a definite end to hyperinflation in 2019. On the contrary, we propose a base scenario with monthly inflation averaging 300.0%. We recommend not thinking in terms of annual rates and moving over to a monthly, weekly or daily scheme. So, our estimate for average weekly inflation is 36.6% and 4.6% for the daily growth in prices.

With regard to the foreign exchange market, the analysis of the situation next year warrants special mention. It would be a cliché to say that the parallel exchange rate will experience a heavy devaluation in 2019 as a result of the disaster wrought by hyperinflation. So, assuming that this will happen, the focus should be on the timing of such an adjustment in relation to the internal dynamic in terms of prices. In other words, how will the purchasing power of the dollar evolve in 2019?

In the middle of such regulatory obscurantism, at **Ecoanalítica** we think it is possible for the elements typical of a true adjustment plan, with the costs that this implies, to appear

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in the medium term. According to the criteria of Reinhart & Savastano (2001)[3], no economy in hyperinflation has traveled these turbulent paths without making adjustments that seek to correct the underlying imbalances. So, the dynamic in 2018 and what is expected next year will put to the test *Chavismo*'s capacity to resist the social unrest and climate of political conflict that could be generated among its rank and file in response to a passivity on the economic front, which we believe will not be eternal.

Moreover, assuming that the Maduro administration's actions will be as irregular as they have been so far (or even more so), companies and private individuals will have to devise their survival strategies based on certain specific aspects: increasing the frequency with which prices are adjusted; promoting a greater diversification in the products portfolio; continuing with the coverage in foreign currency that gives them greater independence from the ups and downs of the exchange rate; taking advantage of the undervaluation of local assets; investing in education (particularly in the case of private individuals); and implementing aggressive policies aimed at retaining human capital.

Giorgio Cunto
Luis Arturo Bárcenas
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[3] Reinhart, Carmen & Savastano, Miguel (2003). "The Realities of Modern Hyperinflation," MPRA Paper 7578, University Library of Munich, Germany.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week December	Weekly chg. (%)	Depre/Apre (pp)[1]
FX Dicom (VES/USD)	253.73	67.3	40.2
	1st Week December	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	22.1	-0.1	0.7
	1st Week December	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	2.4	-2.6	2.4
	1st Week December	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.9	0.9	-8.3
	5th Week November	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	410,363,865	16.4	44,286.5
Price of International Oil Baskets (USD/bl)			
	1st Week December	Weekly chg. (%)	Annual chg. (%)
WTI	52.3	2.4	-8.6
Brent	60.8	2.1	-2.7
Price of the Venezuelan oil basket (USD/bl)			
	1st Week December	Weekly chg. (%)	Annual chg. (%)
Weekly Average	54.9	2.5	-1.6
Annual Average	64.5	-0.3	40.0

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

[1] Depreciation (+)/Apreciation (-)

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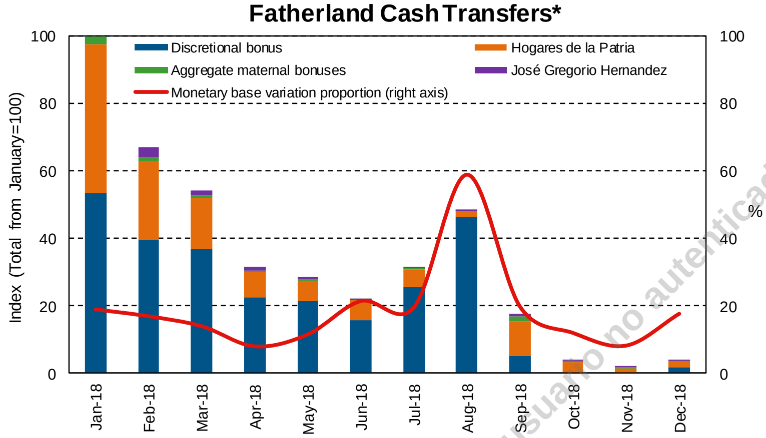
GRAPH OF THE WEEK: “THE ADJUSTMENT IS POVERTY”

Fatherland Cash Transfers*



Sources: Official announcements Patria.org and Ecoanalítica
*Numbers adjusted by inflation
Note: December estimates do not include "Bono Niño Jesus" as its ammount has not yet been published

One of the goals of the Economic Recovery Plan is to reduce the fiscal deficit to zero. Part of the government’s strategy, besides the measures that target revenue, was to reduce fiscal spending by anchoring the nominal wage to a variable that remains constant (the Petro). The same happened with the bonuses of the fatherland, whose value has shrunk in real terms since August. The government has increased the monetary base by only 8.7% a week on average over the last six weeks reported by the Central Bank of Venezuela, after it had gone up by 18.3% a week on average in the previous three months. This allowed the government to gain more time with a cut in spending that has had next to no political cost.

Three months later, the government was forced to put up the minimum wage by 150% and, therefore, increase its nominal spending. This will have major implications for the size of the fiscal deficit and be a setback for the adjustment. In the coming weeks, the problem will become apparent in the monetary growth figures published by the Central Bank. It is likely that, as happened in August, the bonuses of the fatherland will go up as a percentage of the variations in the monetary base, which had gone down from 59% in August to 12% in October.

The Venezuelan Government has tended historically to be much more openhanded in its spending at the end of the year, even without elections on the horizon. In that regard, the President’s announcements do not mark a departure from what has become predictable. Once again, financing this nominal public spending shock by expanding the monetary base will further fuel inflationary pressures by the end of the year.

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ECONOMIC TIPS

At least something's constant. Minister of Labor Eduardo Piñate clarified that the new minimum wage goes into effect in December and that the meals allowance will continue to be 10% of the minimum wage, in other words VES 450.

Russia is to provide financing, according to Maduro. President Nicolás Maduro stated that he managed to sign agreements with Russia's President Vladimir Putin to the value of more than USD 6.0 billion, USD 5.0 billion of which will be for oil production and the remaining USD 1.0 billion will be earmarked for mining, particularly gold mining.

Help, yes; financing, who knows? A spokesperson for the Russian President's office, Dmitri Peskov, said that the Russian Government would continue to back Venezuela, one way or another. However, he did not clarify whether that included granting Venezuela financing.

NACPI. Deputy Rafael Guzmán, a member of the National Assembly's Finance Committee, published that inflation for November came to 144%, highlighting the fact that food posted inflation of 171%.

Some details. According to Guzmán, this means that inflation this year to date comes to 702,521%, inflation over the past 12 months (November 2017 to November 2018) came to 1,299,742%, and that daily inflation is 3%.

The implications. Guzmán stated that there has been inflation in Venezuela for one year now and that Venezuela has become a unique case in the region due to the fact that "*never before has hyperinflation reached 1,300,000% in America*." He stressed, furthermore, that according to the Finance Committee's estimates, inflation in 2018 will be more than 1,000,000%.

Let's "rescue" the gold. Sources consulted by Reuters claimed that Simón Zerpa, the minister of finance, and Calixto Ortega, the president of the Central Bank of Venezuela, had asked to talk with members of the Bank of England to try to repatriate 14 tons of Venezuelan gold that is in the hands of the bank.

What floating rate? The exchange rate to result from the DICOM system's Auction 72 was VES 301.4/USD, up -49.7% from Auction 67 (a single devaluation of more than 6.0%) and -80.0% from the rate at which the system was "re-launched" at the end of March (Auction 27).

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On purpose? Since the rate resulting from the DICOM auctions started to devalue at a rate of more than 1% (Auction 60) on average, disbursements via this mechanism have shrunk. So, disbursements have gone down by 37% compared to average disbursements before and after Auction 60.

OIL TIPS

Estimated production for November. The agency S&P Global Platts estimates that Venezuela's oil production in November fell by 10 kb/d compared to October. This drop is below the average for the past two years and is equivalent to production of 1.18 mb/d that month.

What primary sources say. Primary sources reported an oil production of 1,464 kb/d for November. This represents a 31 kb/d increase compared to October (when they reported a 1,433 kb/d production).

What secondary sources say. Nevertheless, secondary sources reported to the Organization of Petroleum Exporting Countries (OPEC) a 1,137 kb/d production for November (close to what Platts estimated). This represents a drop of 52 kb/d compared to October, where there was estimated a production of 1,189 kb/d.

Fewer rigs. Furthermore, Baker Hughes announced that the number of rigs operating in November fell to 25, two fewer than in October. This gives a drop of 7.4% in the month and a drop of 37.5% compared to a year ago.

From bad to worse. Bill Barrett Corp. (BBG) reports that PDVSA has halted operations at three of its refineries and is producing at only 15% of its capacity. It also reports that the domestic gasoline shortage has got worse due to the fact that PDVSA is giving priority to its exports in payment of debt.

A pact with the devil. Russia and Venezuela have reached an agreement to raise the production of Venezuelan crude. Russia is to invest USD 5.0 billion to raise production by 1 mb/d. This agreement involves alliances between PDVSA and Russian companies, as yet unknown, in order to achieve this objective.

Oil workers protest. Workers at PDVSA in Monagas downed tools last week to demand better working conditions. They said that their two-weekly wage is only VES 700 and that they are no longer getting the boxes of subsidized staples distributed by the Local Supply and Production Committees (CLAPs) on a regular basis.

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A meeting of titans. The ministers of members of the Organization of Petroleum Exporting countries (OPEC) and allied countries, among them Russia, met to establish measures for stabilizing oil prices, which is of particular interest to the United States. All the members are in favor of reducing the supplies of crude.

Production cut. They announced that they had agreed to cut the production of crude by 1.2 mb/d in the first half of next year. For the members of OPEC, the cut is 0.8 mb/d, with Venezuela and Iran being exempt; and the non-OPEC countries will reduce their production by 0.4 mb/d.

Venezuela is to take the reins… Moreover, Venezuela is to assume the presidency of OPEC on January 1, 2019. This is a position held by a different member country each year and its function is to coordinate, open and chair the meetings of the ministers. Next year, Manuel Quevedo will take the place of Suhail bin Mohammed Faraj al Mazue of the United Arab Emirates.

…or it won't. Time will tell how developments will affect the presidency of OPEC. However, it is expected that there might be tensions among OPEC+ countries due to friction between the United States and Venezuela.

Taking second place. The Houston Chronicle reports that Guyana could become the second largest oil producer in the American Continent thanks to the discoveries made by ExxonMobil, which could mean up to 5.0 billion barrels of oil. If Venezuela and Mexico continue to reduce their production, Guyana would move up to second place in America.

BUSINESS SECTOR TIPS

Ciao, Goodyear. The tire company Goodyear informed its employees that it was closing down operations in Venezuela. In the social media, workers shared that "*C.A. Goodyear de Venezuela has been forced to stop operations at its plant located in Valencia, Carabobo, starting today [December 10]*."

A surprise. The company's labor union representative, Luis Lovera, said that the news came as a surprise because the plant was working normally last Friday. However, it was only producing between 1,500 and 1,900 tires a day, when it has the capacity for producing 10,500. This was due to the lack of raw materials and problems with the production of oil supplied by PDVSA.

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Metro fare has gone up. Starting this week a ticket for the Caracas Metro is to cost VES 1. The same fare is to apply to the Metrobus, the Cabletren, and the San Agustín and Mariche Metro cable railways.

A trip on the Cable Railway. The fares for going up in the cable railway in Warairarepano National Park have also increased. The fare for the general public is VES 250, whereas children between the ages of 3 and 12, students, and senior citizens of more than 60 years of age must pay VES 125. Foreigners must pay USD 20.

Twenty-nine more angels in Heaven. Twenty-nine children have died so far this year at José Manuel de los Ríos Hospital. In the first ten months of the year, the hospital received 1,088 cases of measles and three children died of diphtheria, three from leukemia, and six due to failures of the hospital's mechanical ventilators.

Shortcomings everywhere. The majority of the deaths at the hospital were due to the lack of medicines and services. Power outs and other problems have been factors that have hindered the care the hospital can offer its patients.

No medicines, no life. The Coalition of Organizations for the Right to Health and Life (Codevida) has recorded 19 deaths this year due to the lack of immunosuppressant medicines at the Venezuelan Social Security Institute (IVSS).

A serious situation. Reymer Villamizar, a founding member of Codevida, explained that "*patients lose their organs and go to dialysis; but they can't do their dialysis correctly because of problems with the water, shortage of materials, problems with the osmosis plants or the electricity crisis*."

Coming to a sad end abroad. The newspaper *El Nuevo Herald* has information of 41 deaths of Venezuelan women abroad between November 2017 and November 2018. The victims were taken in with false promises of a better lifestyle abroad only to then have their documents taken and be forced into prostitution. The countries where these deaths were documented are Mexico, Panama, Ecuador and Peru.

WORLD ECONOMY TIPS

Looking to March. This week China's Vice Premier Liu He, US Secretary of the Treasury Steven Mnuchin, and US Trade Representative Robert Lighthizer held a phone conversation during which they discussed the route map for the next stage of trade negotiations between the two countries.

Deadline. Lighthizer said that the negotiations should be successfully concluded by March 1, otherwise new tariffs would be imposed.

A calm process. Since the meeting of the presidents of China and the United States in Argentina, both parties have been communicating to reach an agreement before the stipulated date, according to Gao Feng a spokesperson at China's Ministry of Commerce. He also commented that the Chinese Government is confident that an agreement will be reached.

A proposal. Sources consulted by the agency Bloomberg said that the US Government had submitted a proposal to the Chinese cabinet for lowering the tariffs on motor vehicles manufactured in the United States from 40% to 15%.

Giving way. France's President Emmanuel Macron promised to cut taxes for pensioners and raise the minimum wage in January. However, even with the latent protests, he refused to restore the wealth tax. Macron said that his government would deal with the economic and social emergency by reducing taxes faster and keeping spending "*under control*."

Lower than expected. The Japanese Government's Cabinet Office published that the Japanese economy had contracted by 2.5% in the third quarter of 2018 compared to the third quarter last year, a significantly bigger contraction than the initial estimate of 1.2%.

Uncertainty weakens the pound. After Great Britain's Prime Minister Theresa May proposed a vote by Parliament on the Brexit agreement, the pound fell to USD 1.2546/GBP, its lowest since April 2017.

Disappointing uncertainty. The First Deputy Managing Director of the International Monetary Fund (IMF), David Lipton, warned that the present uncertainty in a world outlook full of tensions (making special mention of the trade war between China and the United States) could make future decisions by economic policymakers difficult.

Growth within the bands. Peru's Central Reserve Bank (BCR) published that inflation for November was 2.17%, higher than the rate published for October (1.84%) but still within the BCR's target range of between 1% and 3%.

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Year 14. Number 48 Week II
December 2018

POLITICAL TIPS

More victories, fewer votes. The PSUV won the elections of councilors held on Sunday, December 9, with abstention of 72.6%; 467 out of the 449 nominal seats went to the government party and 18 went to other parties and alliances.

Votes that don't see, elections that aren't felt. The opposition benches in the National Assembly declared the elections "*nonexistent since they violate the Constitution*." "*The right to elect has been sequestered by those who govern us*," denounced Deputy Juan Andrés Mejía.

As usual. The parties *Voluntad Popular* and *Primero Justicia* also refused to recognize the elections of councilors. They did not take part in the elections due to the fact that they did not have candidates running in previous elections, which they also considered fraudulent.

In chains. Venezuela ranks as the least free country in the world after Syria in the Human Freedom Index 2018, with a score of 5.52 points in the Personal Freedom section (out of a possible 10) and 2.88 points in the Economic Freedom section, for a total score of 4.20 points.

Prepared to receive more. Colombia's Minister of Foreign Affairs Carlos Holmes Trujillo announced that the Colombian Government had adopted the Global Compact for Safe, Orderly and Regular Migration (GCM), agreed at an intergovernmental conference in Marrakech, in order to cope with the "global scale" crisis that the wave of Venezuelans in Colombia implies.

Some join, others leave. Ernesto Araújo, appointed as the minister of foreign affairs by Brazil's President elect Jair Bolsonaro, announced that his country would leave the Global Migration Compact, since it was "*an inadequate instrument for dealing with the problem*." However, he did say that, despite this, Brazil would continue to receive the Venezuelans who "*flee from the Maduro regime*."

Getting prepared, for nothing. Minister of Defense Vladimir Padrino López announced that Venezuela and Russia are preparing for the defense of the country against a possible armed attack by carrying out military maneuvers that include "*combined operational flights*" in Caracas. "*We are preparing ourselves to defend Venezuela to the last inch when necessary*," said the minister.

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…with Tu-160s. The Venezuelan Government received a sizeable Russian military delegation in Caracas and, according to Russia's Ministry of Defense, it landed with a fleet of aircraft from Moscow, including two strategic Tu-160 bombers capable of transporting nuclear weapons.

Health or bombs? Colonel Robert Manning, a US Department of Defense spokesman, criticized the sending of Russian bombers to Venezuela. He compared the sending of the hospital ship USNS Comfort, saying "*the United States' approach to the region differs from Russia's. In the middle of the tragedy, Russia sends bombers to Venezuela and we send a hospital ship*."

International pressure regarding the Albán case. The Human Rights Commission of Parlasur (MERCOSUR's parliament) unanimously passed a resolution calling on the Venezuelan Government to carry out a thorough investigation into the causes of the death of Councilor Fernando Albán.

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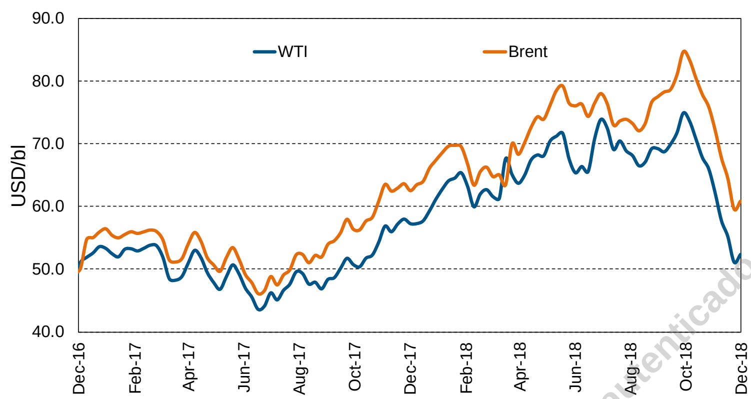
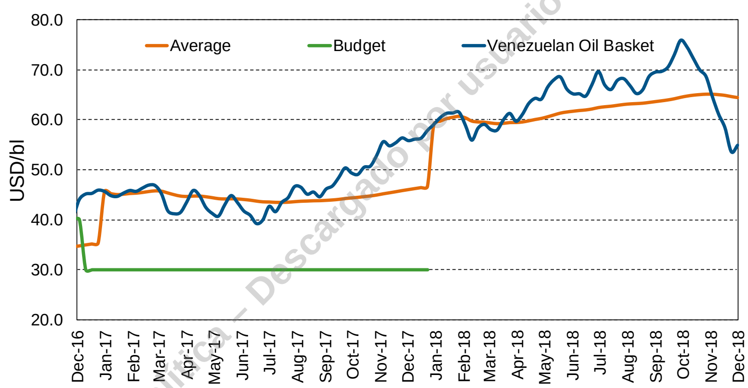
ECONOMIC INDICATORS

Oil Prices
(WTI and Brent)



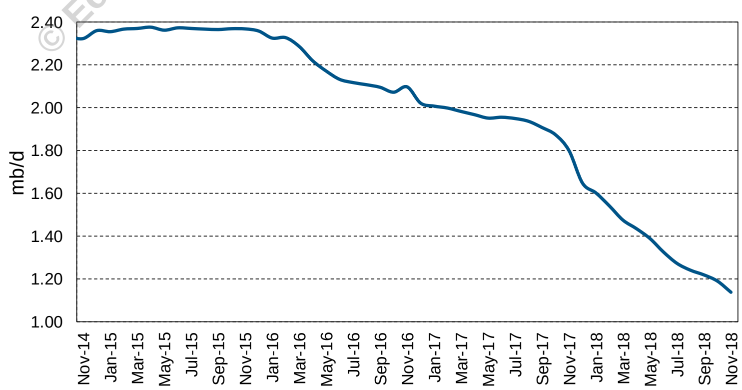
Sources: Menpet and Ecoanalítica

Oil Price
(Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production
(Secondary sources)



Sources: OPEC and Ecoanalítica

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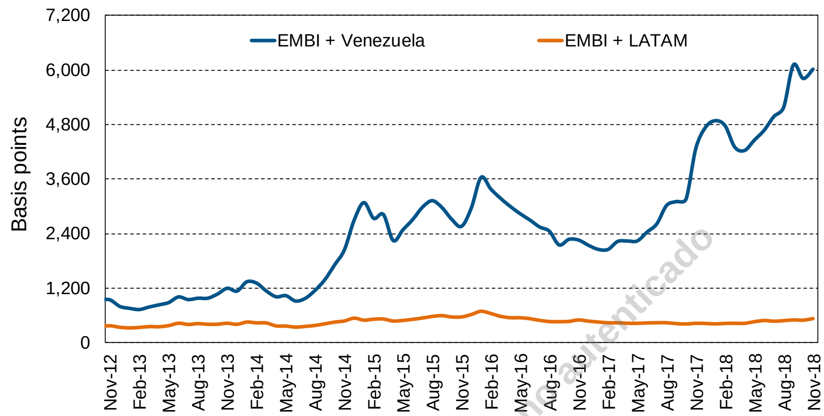
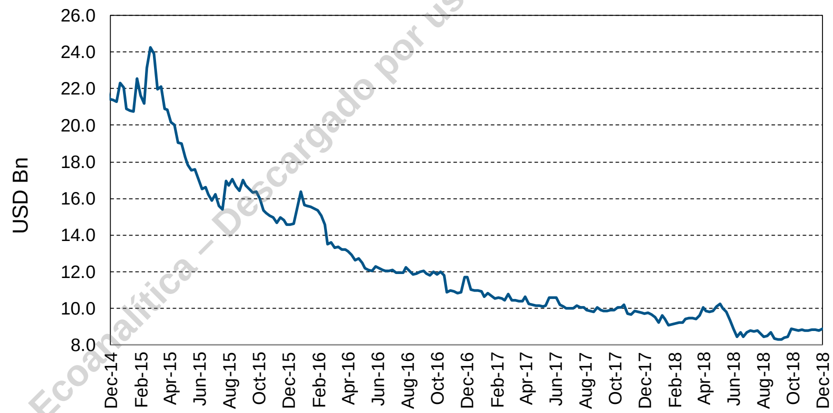
ECONOMIC INDICATORS

EMBI



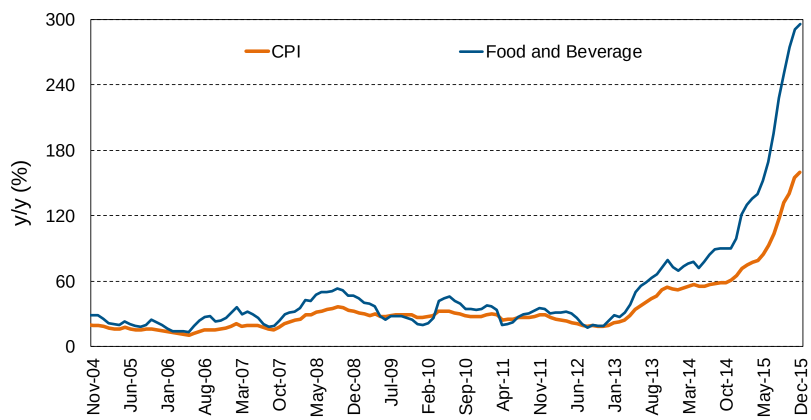
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

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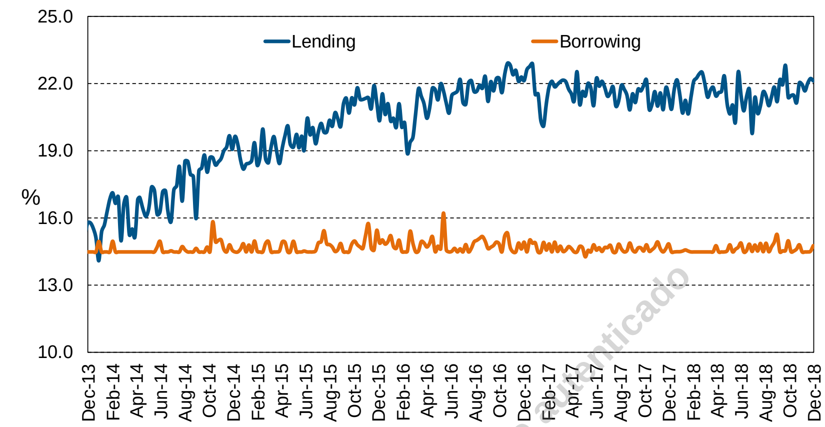
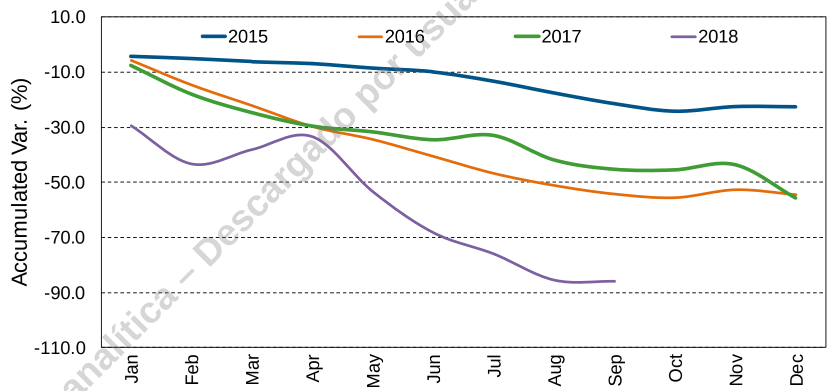
ECONOMIC INDICATORS

Interest Rate
(Six major banks)



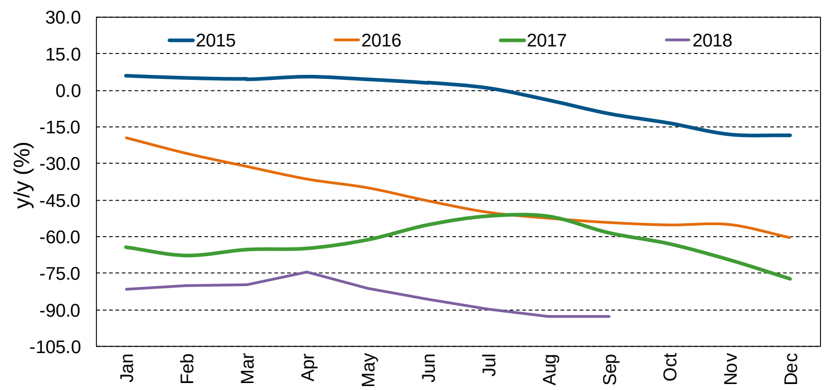
Sources: BCV and Ecoanalítica

M2 Expansion
(Real)



Sources: BCV and Ecoanalítica

Loan Portfolio
(Real)



Sources: SUDEBAN and Ecoanalítica

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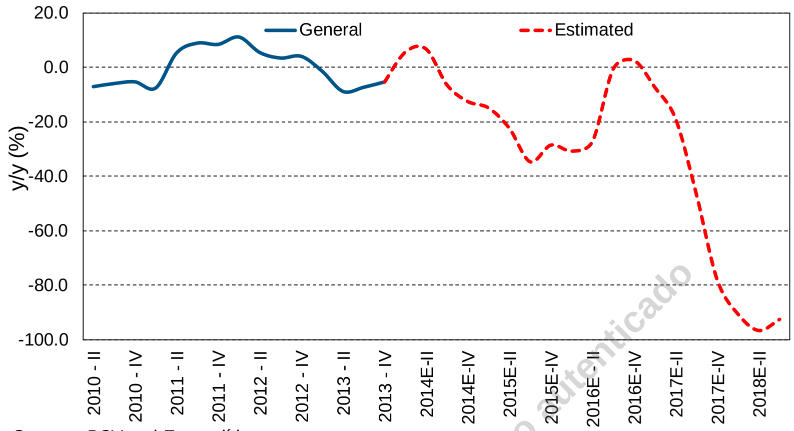
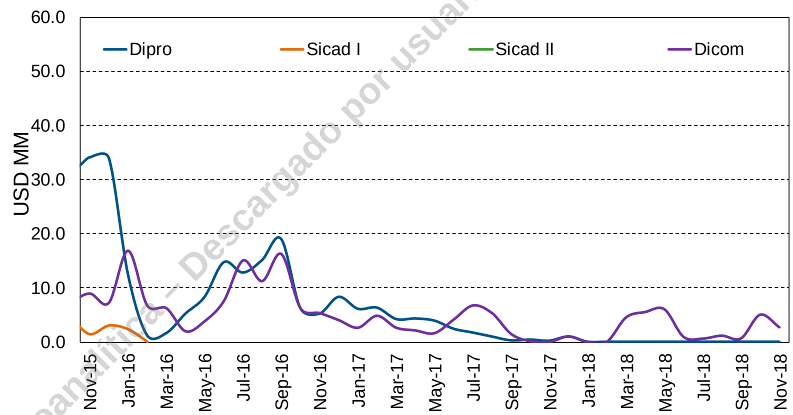
ECONOMIC INDICATORS

Real Wage Index



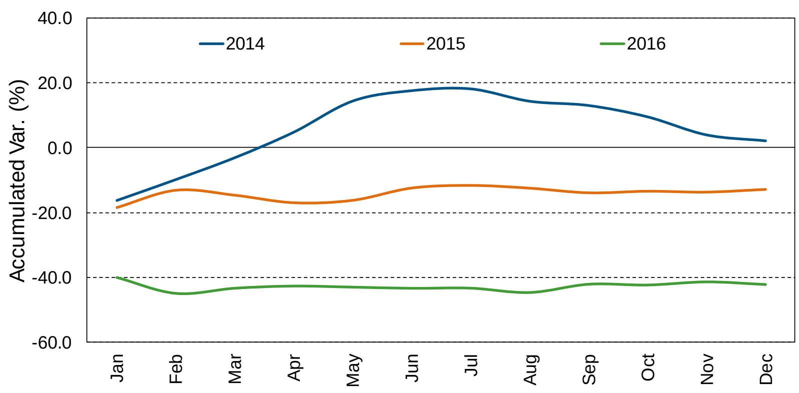
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

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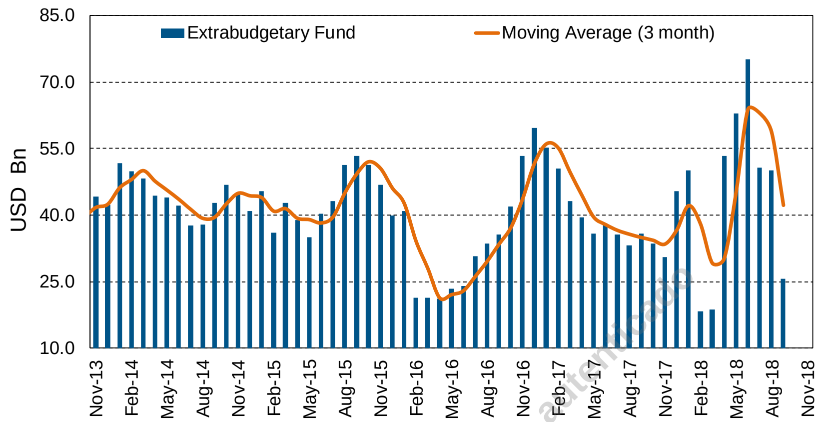
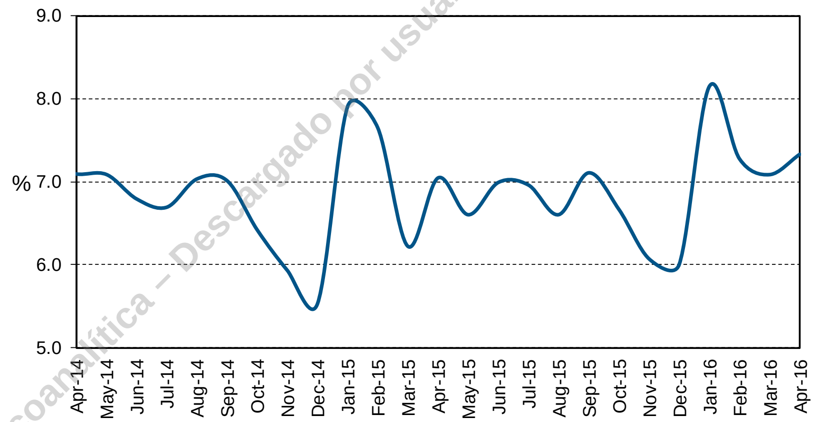
ECONOMIC INDICATORS

State Extrabudgetary Resources



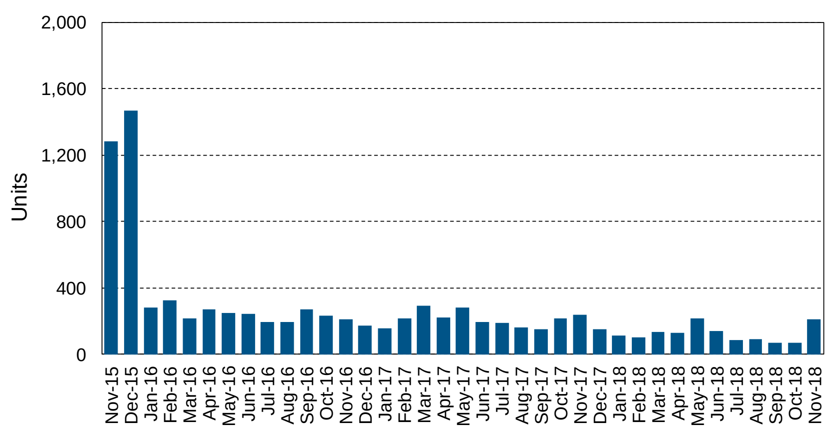
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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