

## Between classical and modern: The Venezuelan “Stag-hyperinflation”

Some elements have marked Venezuela's hyperinflationary experience as a case worthy of analysis. Like in other cases, a significant increase in local prices takes place amidst a boom of seigniorage as a deficit leverage mechanism. It's true that after the drop in oil production by 1.1 mb/d between end of 2014 and 2017 alone, along with an average domestic crude oil price that went from 88.8 USD/b up to 46.6 USD/b during the same period, and an economic contraction two thirds lower than that of 2008, which minimized the role of non-oil taxes. The Administration, decided to use credits from the BCV to finance the cumbersome public apparatus, riddled with direct subsidies and a bloated payroll which it had to cover.

Furthermore, prior to the intensification of seigniorage, the Venezuelan economy already exhibited weaknesses that have caused the impact of local hyperinflation to be higher than in other cases, and the economy to show “exotic” adjustments (particularly, the exchange market) when compared to more traditional economic theory. An increasingly weakened oil industry, an overvalued exchange rate, import dependence, a contracted financial system, and a Central Bank that has seen its actions limited, have been some of the critical aspects of our market, which make it comparable (and, at the same time, different) to other economies have been under the yoke of hyperinflation.

### Initial conditions: the treasury, oil and imports

The structural weaknesses of the Venezuelan economy since the inception of the exchange control, disguised by the fiscal “boom” resulting from an local oil barrel price at 94.2 USD/b on average from 2010 to 2013, was in part the cause of hyperinflation. After overvaluation of the exchange rate throughout 2011, led by the then minister Jorge Giordani, paved the way for high import subsidies believing that cheap imports would stop inflationary pressures<sup>1</sup>.

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<sup>1</sup> See article “El Gobierno aspira a reducir el impacto de importaciones en la inflación”, Correo del Orinoco, april 2011, at <http://www.correodelorinoco.gob.ve/giordani-este-ano-debemos-elevar-produccion-maiz-y-arroz/>.

This rendered local supply more dependent on such imports, negatively impacting non-oil exports (by cutting off their diversification), and diminished the role of the private sector as a counterweight to any kind of deterioration of the public activity resulting from fiscal failures. The government's response to inflationary pressures was to implement firm price controls, particularly on foods and certain services; however, albeit stable, price controls provoked yearly inflation increased from 20.1% to 56.2% between 2012 and 2013, in addition to acting against the private sector that was forced to produce increasingly regulated goods.

The fiscal "boom" ended in late 2014 when the collapse of oil production was marked and oil prices dropped until at a minimum level of 24.2 USD/b. During the same period, the economic activity reached a new turning point accumulating a drop of 55.9% per capita, according to our estimations. No case of hyperinflation in modern history, except for the tragic case of Zimbabwe, reports a real deterioration of this magnitude as its starting point.

Under these tough conditions, in 2014, Venezuelans were once again faced with a new wave of shortages, consumption restrictions and a significant deterioration in services; during which the State did nothing but exacerbate subsidies, and especially, during the election processes of 2012 and 2013. Being a purely oil-based economy, this situation led Venezuela to overlap an increasingly higher fraction of spending with moneys from the BCV, which was the origin of hyperinflation, although in Venezuela's case, with a progressively deteriorating market. Amidst this collapse of tax revenues, Venezuela looks like the modern cases of hyperinflation. Particularly, the deterioration in our condition as an exporter of commodities makes us look more like the Zimbabwe experience.

## A strong real vulnerability

As a result of the dependence of the private sector on imports due to the exchange subsidy, local supply has been strongly linked to import dynamics since 2004, since the beginning of controlled ER regime. In this regard, many price changes are explained by these imports, which are assumed as the main input for local production. Bárcenas, Chirinos and Pagliacci (2013)<sup>2</sup> warned that supply events, characterized by oil and import booms, in fact favored a lower increase in prices (under the assumption that supply of goods improved). Pagliacci (2019)<sup>3</sup> also points out that a significant fraction of inflation in

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<sup>2</sup> Bárcenas, L; Chirinos A, Pagliacci, C (2013). Transmission of macroeconomic shocks in Venezuela. A structural factor model approach. El Trimestre Económico, vol 80, n° 320, pp. 903-942.

<sup>3</sup> Pagliacci, C (2019). Are we ignoring supply shocks? A proposal for monitoring cyclical fluctuations, Empirical Economics, vol 56, n° 2, pp. 445-467.

Venezuela, as well as in other Latin American countries, can be partially attributed to supply events.

However, these works analyze periods in which price distortion wasn't so marked. Which is to say that, it's not clear whether, in fact, the premise that hyperinflation is exclusively triggered by supply (import drop and reduction in oil cash) is fully applicable to the case in question.

A more plausible argument is that the convergence of said distortions with the inability of the Central Bank to control cash flows have favored the onset of hyperinflation. That is, seigniorage happened to be a more aggressive determining factor of prices, as shortages became more acute and supply restrictions increased prices (even in the absence of a stronger seigniorage).

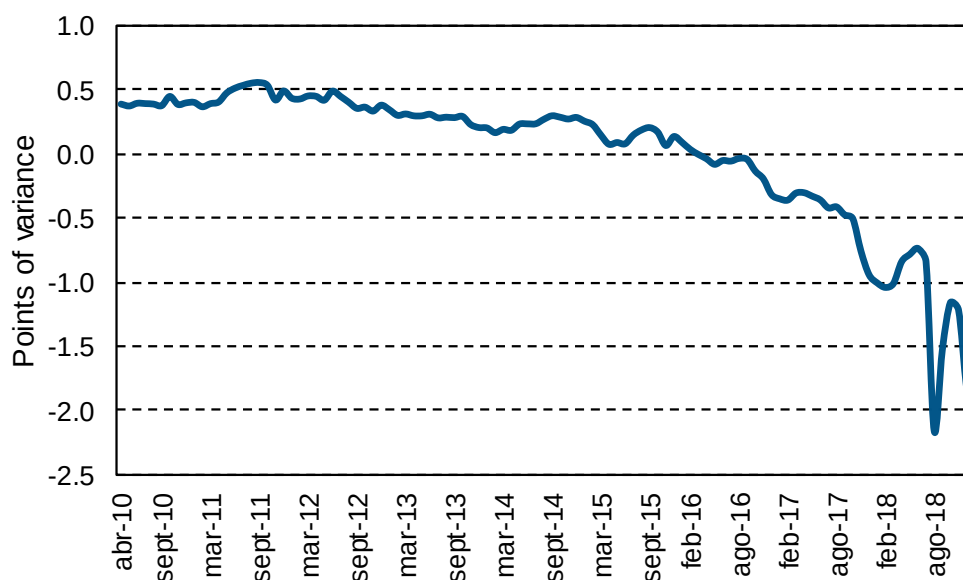
One may believe that money rotation, due to its lack of credibility, has been more evident in an environment marked by shortages (with respect to a normative case with less shortages). A higher fiscal vulnerability makes us seem more like a modern case of hyperinflation, but weaknesses in supply that preceded and coexist in our hyperinflation seem to make us less like these cases.

From a multidimensional approach, it's possible to identify that in 2014 the weakness in fiscal accounts was evident from multiple perspectives: credit from the BCV to Pdvsa over-accelerated, oil production began to decline, international prices were cut back, international reserves and tax revenues dropped, and credit intermediation was limited<sup>4</sup>. What happened before 2014 provides us with an interesting counterfactual perspective: in the previous years, when monetary financing was already a reality, but with a less vulnerable economy, fiscal deterioration (that is, drops in this indicator) was not as evident as in the years immediately before hyperinflation.

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<sup>4</sup> The indicator was approximated as a linear combination that maximized variance (i.e, principal component) between production and oil prices, bank credits (as a percentage of deposits), international reserves and loans to Pdvsa. Positive values indicates simultaneously rises on oil prices (lagged 90 days) and production, along with a large credit-to-deposit ratio, larger external assets and a lesser role of fiscal money creation.

## Fiscal "conditions" indicator (in pb of variance)



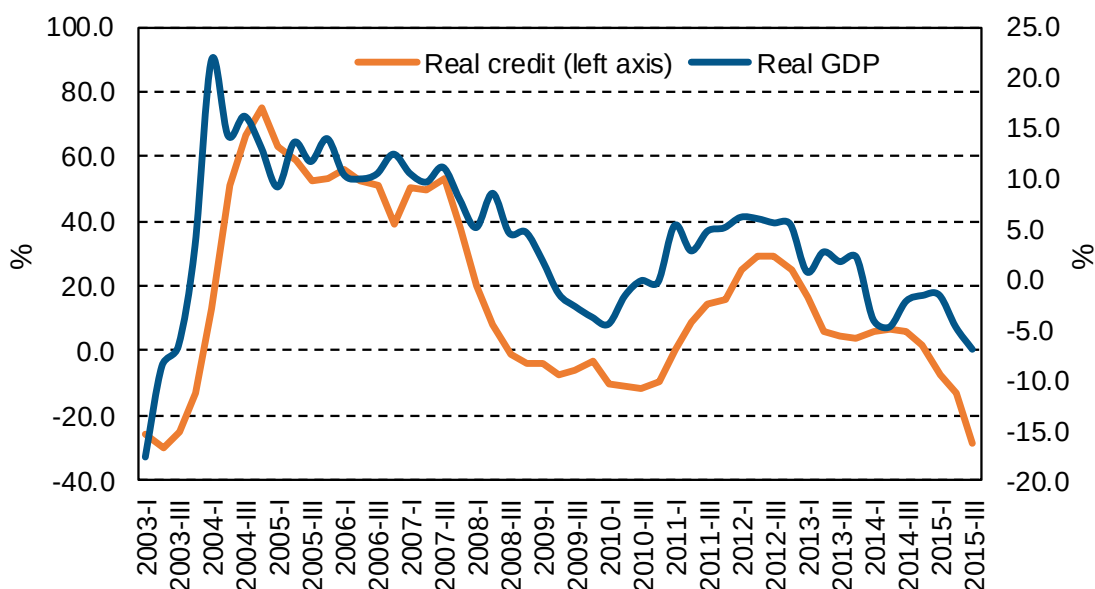
Sources: BCV and Ecoanalítica.

### The banks' role

With the diminished capacity of the public sector to generate goods and services and the strong procyclicality of the public sector, no wonder that much of the dynamic of the private sector was impacted by credit activity. While the situation of banks seemed endogenous to the reduced dynamism in the real economy, banks became increasingly relevant to certain local actors as the Venezuelan market suffered the consequences of the drop in oil revenues.

The damage, however, had happened before the oil collapse. We're talking about an essentially repressed banking system, with rate and fee controls, which it has been also forced to earmark their credits to strategic sectors defined by the government, with significantly subsidized rates.

## GDP and bank credit growth (annual variations)



Source: BCV, Sudeban and Ecoanalítica

While the banking system has appeared to be stronger during expansive cycles, in terms of solvency, it has been vulnerable inasmuch as that cycle is underpinned by the strong monetary expansions derived from the oil boom; this forces banks to face a deposit volume that, in the context of exchange control, becomes unmanageable in terms of profitability. Works like Carvallo and Pagliacci (2012) offer evidence about how local banks have been exposed to more insolvency, as reduced margins (for deposits overexpansion) might diminish banking equity accumulation<sup>5</sup>.

When the real cycle reversed, without any apparent damage to the issuance of (this time inorganic) money, banks had to deal with more deposits, but with an economy with a reduced capacity to support a higher level of credits. This capacity was aggravated by exchange controls, when discretionary allocation of foreign currency prevented exchange operations to serve, as is the case, as mechanisms to sterilize monetary excesses.

Against this background, the banks and the subsequent recipients of this leverage saw that their mechanisms to cushion the drop in their real revenues had been progressively

<sup>5</sup> Carvallo, O, Pagliacci, C. (2012). Macroeconomic shocks, housing market and banks' performance. Banco Central de Venezuela, Documento de trabajo 147, 41pp.

limited, above all when credits were more necessary due to increases in inflation (evident since 2015 when monthly inflation reached two digits) With the deceleration of credit supply, a more limited consumption pattern (particularly in the private sector) emerged, implying new challenges for locals when hyperinflation set in. Since August 2018, the government has demonstrated with its regulatory mistakes in terms of banks' legal reserve, the importance of credits (either limited or selective) for the local economy.

### A response to the true appreciation

The initial context of hyperinflation also appears to condition what has been seen in the local exchange environment so far. As we already mentioned, no economy has exhibited hyperinflation preceded by so marked drops in local production as has occurred in Venezuela; therefore, the starting point of domestic inflation was more critical than those other cases. This seems to point to a chronic absence of mechanisms to create coverage in real or financial assets, including foreign currency.

The exchange market has not responded like what happened in with other international cases in terms of hyperinflation. In all modern cases (post WW2), the price increase was accompanied with higher exchange pressures that ended up giving rise to increases in the real exchange rate. This is nothing more than another expression of the collapse in demand for local currency of hyperinflationary economies. Venezuela, in turn, has shown a strong increase in goods valued in dollars, where dollars' power purchase (in local market) has cumulated a fall near to 85.0% in the last seven months.

Furthermore, while hyperinflation imposed more significant distortions on relative prices, asymmetry in the cost of tradable goods with respect to services have done nothing but recently exacerbate this appreciation. In another context, this phenomenon would stimulate an increase in imports to the detriment (in this case) of local production, However, economic contraction accumulated in Venezuela appears to be weigh more terms of private sector decisions.

In other words although buying foreign currency to import appears to be cheaper than spending more bolivars in local production, local businesses have not generated enough revenue (or, since August, they have less cheap financing) to accumulate funds in foreign currency; or worse, the contraction in profitability after hyperinflation has reached critical levels, taking away their import capacity. In any case, the convergence of both phenomena appears to be behind real appreciations.

## Close behind prices

Amidst the deterioration of fiscal accounts, wage policy in Venezuela was only oriented toward momentarily mitigating the drop in real wage, but without an official wage indexation policy being applied to the evolution of prices, which is a common strategy in earlier cases of hyperinflation, before modern hyperinflation cases. Adjustments were always late (and continue to be late) and in proportions dissimilar to the inflation dynamics. While in the year when hyperinflation started taking off, six official adjustments of minimum wage were adopted, annual cumulative wage growth was only 98,474% with an estimated inflation of 2,106,601% for the same period.

It's true that failing to implement a full indexation of wages to price changes has reduced the explosiveness of price evolution; so, as long as prices react to higher wages today, but in turn, are adjusted according to yesterday's prices, a close link is established between a price and the price it is adjusted to, which would imply a supposedly more acute hyperinflationary spiral.

However, the lack of cadence or a more compensating magnitude in relation to these wages has contributed to the real collapse of Venezuelans' income, above all the lower-income population sectors, taking away more of their capacity to face hyperinflation with coverage in assets other than bolivar.

## What about the institutional order?

Local hyperinflation is also distinguished from other previous cases of hyperinflation by the way how the institutional order of regulatory entities shapes the creation of money in Venezuela. As long as oil income must, by law, be channeled by the BCV, an inertial creation of money of sorts is generated each time the oil rent is exacerbated, limiting its capacity to control any imbalance in the money market.

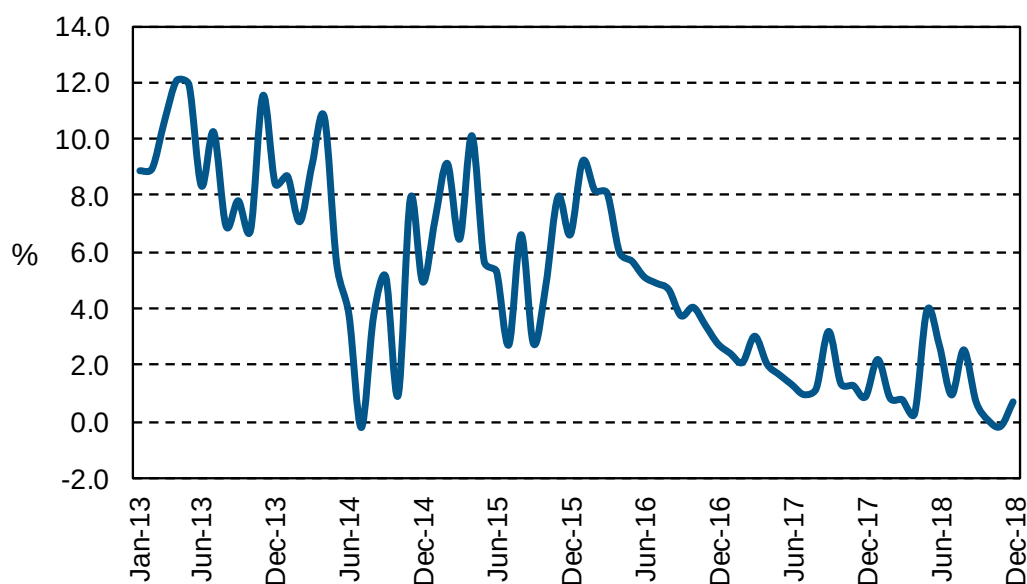
Furthermore, in instrumental terms, the BCV only has the banks' legal reserve or sales or repurchase of securities issued by it or by the central government to control the excess of local liquidity. The Central Bank is also having troubles with the current exchange regime; as long as, as we previously disclosed, foreign currency sales are limited (with respect to a more flexible environment) and, with that, demonetization of funds.

Except for the recent decisions regarding this instrument, the banks' legal reserve has raised a little less than 20.0% on average, of the stable deposits in banks. Therefore, their recent relevance as a means of monetary control must be contextualized in our current dynamics: a reduced and little diversified bank environment has magnified the impact of the banks' legal reserve on credit. Other options of monetary sterilization, such as open-

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market operations, have accounted for not less than 12.1% of monetary base (barely above zero at end of 2018).

### Net absorption by OMO's (% of the monetary base)



Sources: BCV and Ecoanalítica

The reform to the Law of the BCV in 2009 brought about new limitations to the control of monetary aggregates. The new law authorized the BCV to directly finance the operations of non-financial public companies (i.e., Pdvsa), marking the beginning of the monetary financing of the public sector deficit.

Up until now, cases have been reported in which the BCV has purchased promissory notes from Pdvsa for up to 65.9 times the money base. With inflation increasingly higher, the financing requirements became deeper, rendering the effects of these operations on prices more explosive.

### Lessons for the new discussions

It seems clear that hyperinflation in Venezuela has emerged in conditions that make its fiscal roots have more aggressive effects on prices and intensify the impact of the same hyperinflation on wages of workers and remuneration to capital. Amidst the escalation of the debate on a new stance of the local economic policy, it's not trivial to evaluate in detail

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under which conditions Venezuela came into hyperinflation and to which extent the recent economic events depend on this initial context. In this regard, thinking of an economy with a diminished role of the private sector and without alternative sources other than the oil rent makes it possible to pragmatically design a new regulation scheme addressed to the economic imbalances currently present in Venezuela.

**Luis Arturo Bárcenas**

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## WEEKLY INDICATORS

| Weekly Economic Indicators                  |                   |                     |                                 |
|---------------------------------------------|-------------------|---------------------|---------------------------------|
|                                             | 4th Week February | Weekly chg.<br>(%)  | Depre/Apre<br>(pp) <sup>1</sup> |
| FX Dicom<br>(VES/USD)                       | 3,301.07          | 0.0                 | 0.0                             |
|                                             | 3rd Week February | Weekly chg.<br>(pp) | Annual chg.<br>(pp)             |
| Lending Interest<br>Rate (%)                | 34.4              | 3.1                 | 12.0                            |
|                                             | 4th Week February | Weekly chg.<br>(pp) | Annual chg.<br>(pp)             |
| Overnight Interest<br>Rate (%)              | 12.4              | -12.1               | 12.4                            |
|                                             | 4th Week February | Weekly chg.<br>(%)  | Annual chg.<br>(%)              |
| International<br>Reserves<br>(USD Bn)       | 8.4               | -0.1                | -11.3                           |
|                                             | 3rd Week February | Weekly chg.<br>(%)  | Annual chg.<br>(%)              |
| Monetary<br>Liquidity<br>(VES)              | 2,676,706,486     | 17.9                | 10.1                            |
| Price of International Oil Baskets (USD/bl) |                   |                     |                                 |
|                                             | 4th Week February | Weekly chg.<br>(%)  | Annual chg.<br>(%)              |
| WTI                                         | 56.2              | 0.0                 | -10.3                           |
| Brent                                       | 66.7              | 0.0                 | 0.6                             |
| Price of the Venezuelan oil basket (USD/bl) |                   |                     |                                 |
|                                             | 4th Week February | Weekly chg.<br>(%)  | Annual chg.<br>(%)              |
| Weekly Average                              | 59.8              | 0.0                 | 1.2                             |
| Annual Average                              | 55.0              | 0.0                 | -7.7                            |

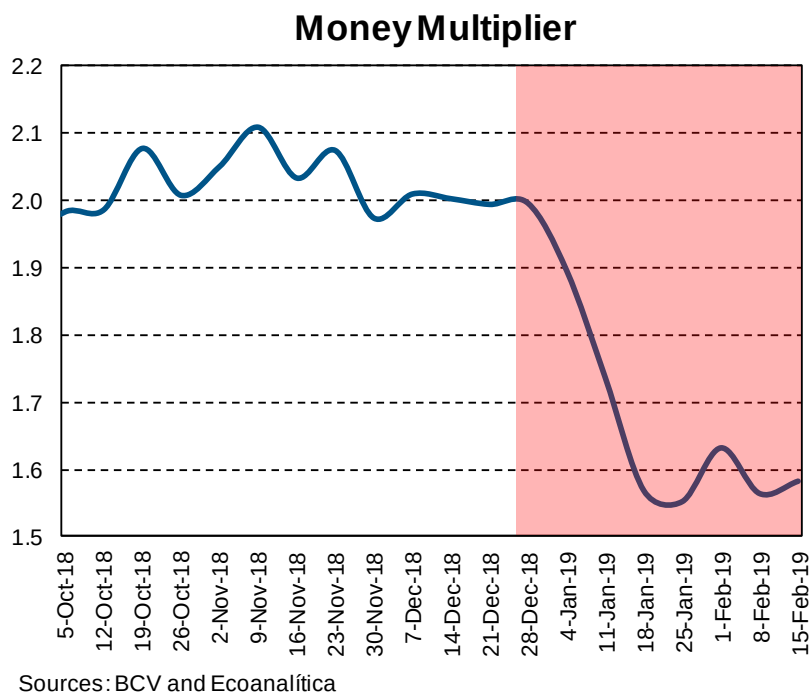
Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

<sup>1</sup> Depreciation (+)/Appreciation (-)

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**CHART OF THE WEEK: "A SHORT-RANGE MEASURE"**


Over recent months, the Central Bank of Venezuela has been applying regulations on the banking system, severely affecting the possibility of granting credits and, thus, reducing the "Monetary multiplier". This metric measures the degree at which the banks increase the monetary base through credits.

It's clear that these policies had a drastic effect on the multiplier during the last week of 2018 and the first three weeks of this year, when liquidity went from twice to only 1.57 of the monetary base. In fact, although this proportion recorded a temporary increase after the elimination of the special banks' legal reserve at feb 1<sup>st</sup> week, this phenomenon is temporary, because it dropped again to minimum levels the following week.

When the bank multiplier decreases, pressures on the exchange rate and prices, which were caused by credit, temporarily alleviate. Notwithstanding, the effect of this measure on prices of the economy and exchange rate is purely transient. Venezuela continues amidst hyperinflation and the unofficial exchange rate exceeded the official exchange rate, all this at the expense of a substantial decrease in credit and the overall soundness of the banking system.

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## ECONOMIC TIPS

**A new Foreign Exchange system?** The Ministry of National Commerce, the Central Bank of Venezuela (CBV) and the Bank of Venezuela (BoV) reunited with the economic sectors related to the imports and production of the country to present the new methodology of the new foreign exchange system. This system allows automatic foreign exchange operations with universal banks.

**Foreign currency if you desire.** José Javier Morales, president of the BoV, informed that its main headquarter in Caracas opened two ticket offices for the selling and acquisition of foreign currency. After Carnivals, ticket offices will be established in other states: Miranda, Zulia, Lara, Táchira, Falcón, Aragua, Anzoátegui, Sucre, Nueva Esparta y Vargas.

**10.5 million.** Morales assured that the rate of the foreign currency will be the one of the Dicom system. According to Morales, the bank has more than EUR 10.5 million available for those who want to acquire them.

**Asking for an extension (I).** Juan Guaidó asked Citibank to delay 120 days the gold delivery that Venezuela owes -settled in 2015 by Nicolás Maduro-. Reuters informs that Guaidó ha reunited with Citibank officials to ask for an extension for the debts settled by Maduro that he won't be able to pay.

**Asking for an extension (II).** According to agency sources, Citibank has not answered this request. Information Ministry and Venezuelan Central Bank president have not given comments about the news. The same agency comments that Guaidó's request is part of the opposition strategy to protect the country's assets.

**Representative for the IDB.** Juan Guaidó named Venezuela economist Ricardo Hausmann as the representative of Venezuela in front of the InterAmerican Development Bank (IDB). Venezuela's representatives for the World Bank and the International Monetary Fund (IMF) have not been named.

**Gold departure.** Reuters reports that at least eight tons of gold were taken out in vans from the Central Bank of Venezuela (BCV) last week allegedly to be sold outside the country, according to an opposition deputy and three government sources.

**It didn't go unnoticed.** Ángel Alvarado informed that when the gold was being taken out, no personnel were guarding the BCV and the tons of gold were transferred in official vehicles. The president of the BCV, Calixto Ortega, was out of Venezuela at that time.

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**Smuggling?** Alvarado said: *"They have been taking out gold in four vans through gates 3 and 4 of the Bank, using a document dated last year to mislead any witness. They want to take the gold as contraband out of the country."* The BCV did not make any comment.

**DICOM at the end of February.** The last auction of the last month took place on February 28th, at an exchange rate of VES 3,302.24/USD, or VES 3,758.94/EUR. This represents a devaluation of 0.12% with respect to the first auction of February. The total amount allocated amounted to USD 10.16 million.

**DICOM number (I)...** The last auction was held on March sixth, at an exchange rate of VES 3,301.07/USD, equivalent to VES 3,760.58/EUR. This Exchange rate represents a devaluation of 0.7% from the previous auction (March first).

**DICOM number (II)...** At this auction, a total of USD 628,371.92 million was sold. Once again, the legal entities led the auction, receiving USD 406,985 million (64.8% of the total amount). Individuals, in turn, received USD 221,386.92 million (the remaining %).

**February reserves.** International reserves closed at USD 8.37 million the last week of February, down USD 12 million from the closing of the previous week (USD 8.38 billion). This accounts for an increase of 0.1%. However, on a year-to-year basis, this is equivalent to a drop of 11.3%

**It always grow in nominal terms.** The last liquidity figure reported corresponds to the week of February 15<sup>th</sup> and shows that liquidity amounted to VES 2.68 trillion This number represents a variation of 17.9% from the previous week, and 110,004% on a year-to-year basis.

**Tax collection for February.** According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES 48,6 billion were collected in taxes for the month of February. In nominal terms this means a 367,698% increase compared to the same month the previous year. Of this amount, VES 10,4 billion came from Income Tax, and VES 22,2 billion from the VAT.

**In real terms.** Total revenue in February of 2019 compared with the same period last year decreased by 93.5%. The VAT decreased 91.6% in real terms and customs revenues also decreased 93.1%. Meanwhile, income tax revenues decreased 95.6% in real terms over the same period of 2018.

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## OIL TIPS

**A month since the sanctions.** News agency Reuters informs that Venezuela's oil exports dropped 40.0% a month after the United States imposed the new sanctions, according to numbers from Pdvsa and Eikon de Refinitiv. Oil exports went to 920,000 (b/d) according to the reports.

**Who has accepted it?** Since the sanctions, most of the Venezuelan oil has been directed to clients in Asia, given the fact that we cannot trade with U.S companies. India was the first client, followed by Singapore and China. Singapore, particularly, is a storage, transshipment and re-exports center.

**And the rest of the world?** Europa, particularly, increased its Venezuelan crude imports by 15.0%. The continent was followed by the U.S with an 11.0% participation and finally the Caribbean with a 2.0% participation.

**The fall in numbers.** This month after the sanctions, Pdvsa exported 675 kb/d of crude oil and 245 kb/d of fuel. The month before the sanctions, the national oil company exported between 1.28 mb/d and 1.46 mb/d of crude oil, and 200 kb/d of fuel.

**From Portugal to Russia.** The Vicepresident of Nicolás Maduro's regime, Delcy Rodríguez, established that Manuel Quevedo, Oil Ministry, will visit Russia to move Pdvsa's office from Lisbon to Moscow. According to Maduro, this move is to safeguard the country's assets.

**Closing.** Isla refinery in Curacao is ceasing operations due to the lack of Access to materials and chemicals necessary for the refinery's production. Citgo fired its employers in Aruba given the fact that the refurbishment of the refinery cannot take place after the sanctions. Besides, the Jamaican government is looking to have complete control of the Petrojam refinery, since it cannot fully function by Pdvsa's mandate.

**Unions' meeting.** After his return to Venezuela, Juan Guaidó announced that he will reunite with the country's unions the 5th of March, to present his transition plan and other labour proposals. According to ArgusMedia, every union of the oil subsidiaries sent a representative to this meeting.

**Captured.** Rosa Mota, president of Pdv Gas, was detained on February 26<sup>th</sup> evening by the National Bolivarian Intelligence Agency (SEBIN) as part of an internal dispute to ensure political loyalty to the regime of Nicolás Maduro, ArgusMedia reports.

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**“Witch-hunt”.** The reason for her detention are still unknown, but Pdv officials commented that the event is related to a “witch-hunt” of sorts among top executives. Likewise, Argus reports that these events happen while the minister of Oil, Manuel Quevedo, is out of the country.

**Severing ties.** The US refining firm, Citgo Petroleum, is severing ties with its parent firm, Pdvsa, to obey the sanctions imposed by Washington, Reuter reports. Citgo executives established February 26<sup>th</sup> as the deadline to end corporate relations.

**It’s over.** Citgo has stopped payments to the parent firm, subscriptions to corporate services, communications via electronic mail and has minimized mentions as to advertising and on the web site, Reuters informs. The aim of Citgo is to set free from the sanctions that are preventing the company from having access to financing.

**Saudi Arabia is leaving.** Saudi State-owned oil firm, Saudi Aramco, the world’s largest oil exporting company, is also planning to stop producing oil at its refineries for the next five years. The reason behind this decision is because they are planning to redirect to cleaner machineries.

**In 2024.** Abdulazziz al-Judaimi, vice-president of Saudi Aramco, said in an interview that their aim is to reduce oil production from their own assets to zero by 2024.

### SECTOR TIPS

**Unions.** The president of the National Assembly, Juan Guaidó, held meetings with representatives of more than 600 Trade unions of public administration workers with the intention of calling for a general strike. Some of the trade unions that assisted to the reunion were the ones representing the workers of the oil sector, the workers of the CNE, the workers of Corpoelec, and the Caracas Subway.

**No more intervention.** The superintendency of banks announced the revocation of the special intervention measure against Banesco Banco Universal, this measure was taken based on supposed laundering and for a presumed “Attacks against the national currency” according to declarations of Tarek William Saab, the General attorney.

**No more sales.** The chamber commerce of Maracaibo published the results of their Encounter of economic conjuncture for the last quarter of 2018. The data shows that 60% of the surveyed affirmed that their sales dropped in the last quarter or the year, 83% affirmed a general increase of the prices in the economy and 86% affirmed not having done any imports in that span of time.

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**Unemployment on sight.** The survey taken by 350 affiliated companies showed really important data about the unemployment in the commerce sector, according to the data collected, about 42% of the companies are likely to fire several individuals of their employee template.

**Bare feet.** Luigi Pisella, president of the Venezuelan Chamber of Footwear and Components (CAVECAL), announced that currently the industry is working at 10% of its capacity, mainly due to the high costs of raw materials and hyperinflation.

**What we need are credits.** María Carolina Uzcátegui, president of Consecomerio, explained that, the business sector doesn't need any economic support by the State, but a functional financial system for businesses to be able to go to a bank and apply for credits required to replenish stocks and raw material.

**Entrepreneurs.** Banesco Banco Universal opened the registrations for their Entrepreneur education project of 2019. This program, since its creation in 2008, has given capacitation to 55.448 entrepreneurs in Venezuela. The program contains 50 academic hours of administrative capacitation and 16 hours of technological capacitation.

**Pharmaceuticals.** Héctor Rodríguez, governor of Miranda, led the meeting together with the Minister of Health, Carlos Alvarado, and the Technological Scientific Council of Miranda to assess the alternatives to activate the pharmaceutical industry, as a part of the initiative of the working tables for the recovery and maintenance of different sectors of national production.

**Transport mission.** Hipólito Abreu, minister of transport, announced the arrival of 19,500 spare parts imported from Japan. With this import, the number of spare parts reaches 58,000 units, which, according to Abreu, could be used to recover about 4,5000 transport units in 2019.

**Turism investment.** According to the minister for the People's Power for Tourism, Stella Lugo in late March Venezuela will hold meetings to promote the national and international investment in the tourism sector and to enhance the development of destinations as Morrocoy, Canaima, La Gran Sabana, Mochima y Los Roques.

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## INTERNATIONAL TIPS.

**World economic slowdown.** The Organization for Economic Co-operation and Development (OECD) reduced its forecasts for the global economy in 2019 and 2020. The organization warned that trade disputes and Brexit uncertainty would hit world commerce and businesses. The OECD forecasts that the global economy will grow 3.3% in 2019 and 3.4% in 2020, those forecasts reduce the previous ones by 0.2% in 2019 and 0.1% in 2020.

**It's not enough.** The Federal Reserve published the GDP figures for the last quarter of 2018, which are released one month late due to the partial shutdown of different government agencies. According to this figures, the economy grew 2.9%, slightly below the 3.0% target set by President Donald Trump for the end of the year.

**It won't last.** According to Joel Naroff, chief economist at Naroff Economic Advisors, this growth rate will not continue, because the tax cut implemented by Trump's administration already began to lose effect; therefore the country will return to the growth path it had in the previous years.

**End of negotiations.** The US President, Donald Trump, announced that they could end negotiations with China if the deal is not good enough, even though his advisors believe that negotiations are advancing well toward an agreement and, thus, the end of the dispute.

**There isn't any deal yet.** The USA and China were still negotiating on March 1<sup>st</sup>, the deadline set by Washington to raise tariffs to imports from the Asian giant for USD 200.00 billion. The deadline was extended, but the parties have not reached any agreement yet.

**No more.** Trump plans to end preferential trade with India and Turkey. The president announced that the US will no longer allow products from these countries to enter the US duty-free as part of a beneficiary program. He explained that India has not assured the US of complete access to its markets, and that Turkey is no longer a developing country.

**War victims.** While negotiations move forward, China is dealing with its own troubles in the economy. In February, manufacture shrank to a three-year minimum, because export prices dropped at their fastest rate since the global financial crisis.

**VIP Taxes.** France slapped a 3% tax on internet giants. The bill targets digital companies with global revenues over \$848 million, this bill its likely to impact Google, Amazon, and

Facebook. France moved forward with the tax after failing to get support for EU-wide implementation.

**European Renaissance.** the French president, Emmanuel Macron, set forward his vision for a united Europe ahead of EU parliament elections in May. Macron's proposals include an EU minimum wage, an agency to stop election cyberattacks and fake news, and a harder European border.

**Big Fall.** According to the National Institute of Statistics and Census of Argentina, the industrial production decreased in 10.8% in January with regard of January 2018, the construction fell by 15.7% in the same period. In the exports, the soy exports fell by 12.3% interannual in 2018 and it represented 24.4% of the total exports.

## POLITICAL TIPS

**The great comeback.** The intern President of Venezuela, Juan Guaidó, returned from his Latin-American tour. The entrance to the country was made through the Maiquetía International Airport, despite Maduro's regime threats.

**77 less.** The Vicepresident of the United States, Mike Pence, announced that the Government of USA will revoke the visas of 77 Venezuelans, among them, Maduro's officials and family. Pence added that Washington will continue to blame Maduro's Government "*until libertad (freedom) is restored in Venezuela*".

**Refer to as it is required.** The Department of State of the United States urged the press to refer to Juan Guaidó as intern president of Venezuela. Assuring that nor referring to Gaudió as "intern president" of Venezuela would be to comply with a "*dictatorship's narrative*".

**Persona non grata.** Jorge Arreaza published in his twitter account that the chancellery declared as *persona non grata* the ambassador of Germany, Daniel Kriener, because of "recurrent acts of inherence" and gave him 48 hours to leave the country. The chancellery signaled that Kriener's acts "*contraposed the international relationship norms*".

**An incomprehensible decision.** The German Minister of Foreign Affairs, Heiko Maas, classified as "*incomprehensible*" the expulsion of Germany's ambassador to Venezuela. "*We have taken note on the decision of declaring our ambassador Kreiner as persona non grata*", assured Maas.

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**Fight of giants.** Two opposite draft resolutions were presented at the UN Security Council to solve the crisis in Venezuela. One was led by the US and the other by Russia; none reached the consensus required to be passed.

**One drops.** The US proposal that asked free elections in Venezuela was vetoed by Russia and China. Nine countries backed up this plan, three rejected it and other two did not vote. The resolution presented also proposed the launching of “a *peaceful political process*” in Venezuela

**The other too.** Russia’s initiative, which defended the no-intervention in the internal affairs of Venezuela, was rejected by seven members of the Council and was only supported by China and South Africa (which voted against the US plan) and Equatorial Guinea (one abstention).

**Guaidó in Brazil.** The Venezuelan Interim President, Juan Guaidó, after his meeting with Brazil’s Jair Bolsonaro, assured that they will continue to fight for the entry of the humanitarian aid to Venezuelan territory and for freedom in Venezuela.

**Open borders.** Colombia opened its border with Venezuela at the site joining the Department Norte de Santander with Venezuela. Notwithstanding, the Colombian migration authorities warned that there isn’t any guarantee of personal security in the area.

**Opened with caution.** The Colombian agency evaluated the obstacles that have been placed on the Venezuelan side at the Simón Bolívar, Francisco de Paula Santander and La Unidad bridges and underscored that they have been hindering the transit of people.

**58 detained.** 58 citizens were detained in the Gran Sabana Municipality, Bolívar State, for having been involved in the attempt to enter the humanitarian aid. Eighteen people were arrested and accused of incitement to hatred, an offense sanctioned with up to 20 years’ imprisonment.

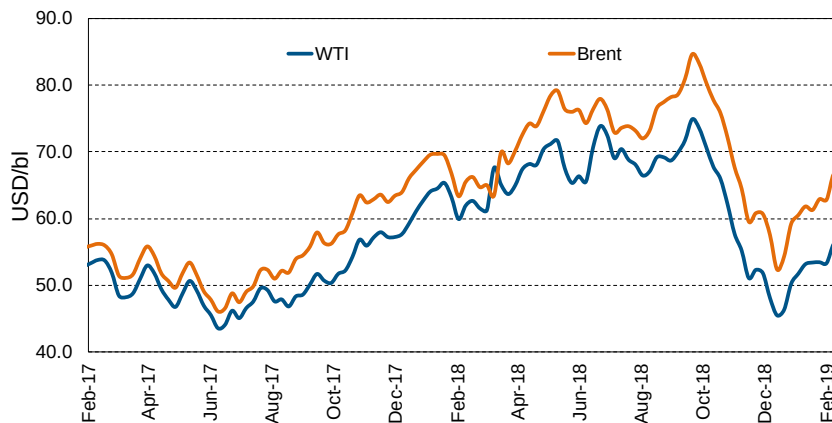
**It will enter one way or another.** Eduardo Stein, in Buenos Aires during the presentation of the Regional Response Plan to Venezuelan Refugees and Immigrants, which was coordinated by OIM together with the UN Refugee Agency (UNHCR), informed that “*informal talks*” are being currently sustained to coordinate the entry of some forms of humanitarian aid in the Venezuelan territory.

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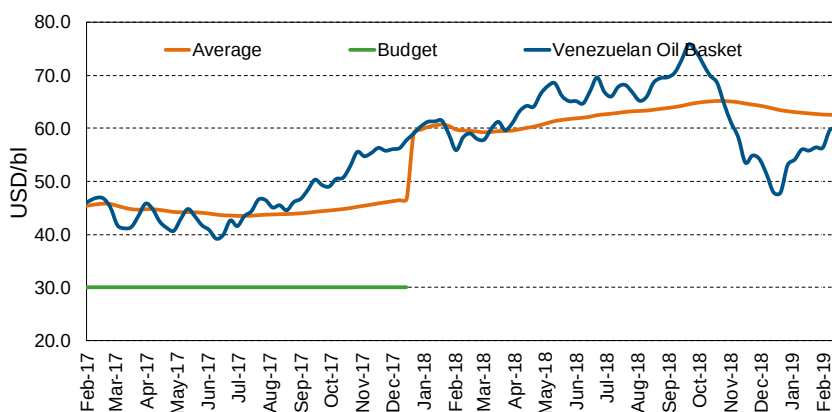
## ECONOMIC INDICATORS

**Oil Prices  
(WTI and Brent)**



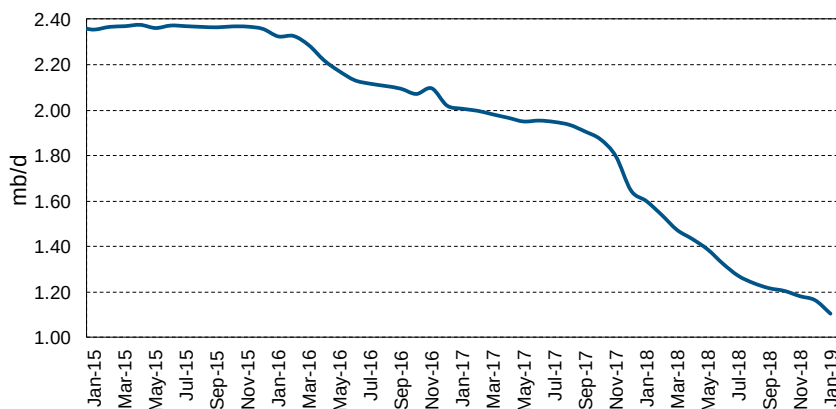
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

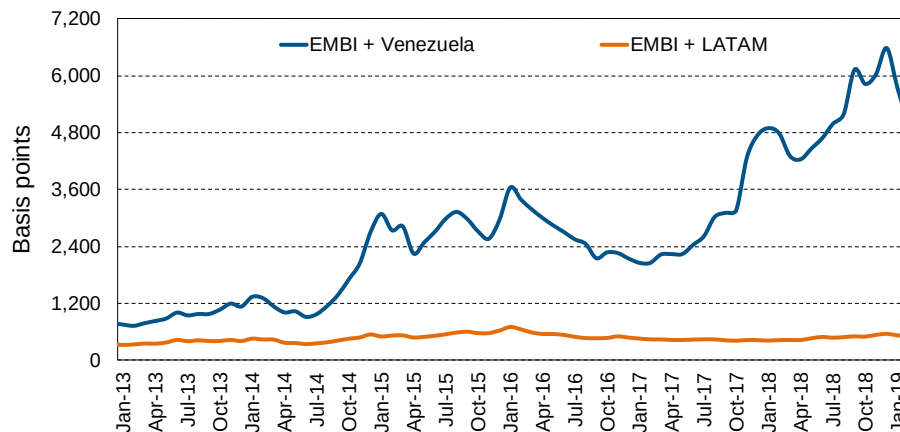


Sources: OPEC and Ecoanalítica

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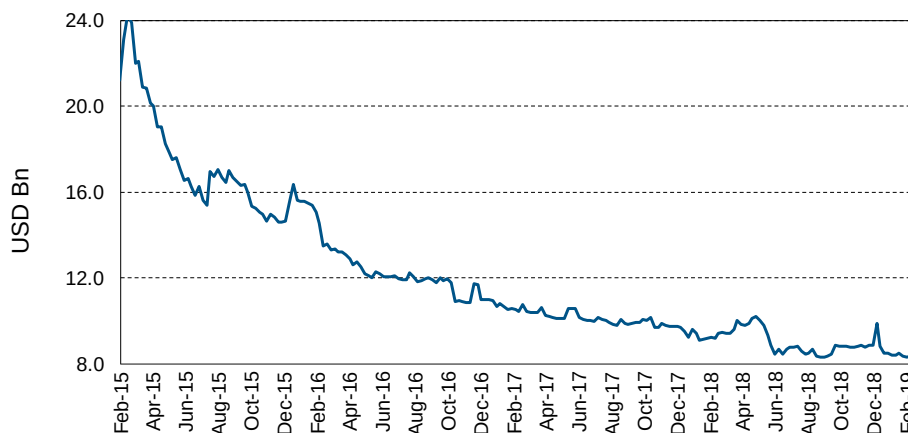
## ECONOMIC INDICATORS

### EMBI



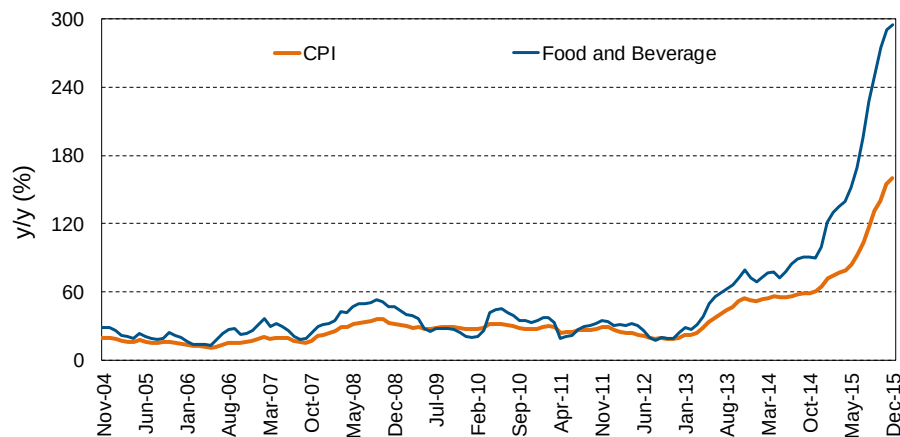
Sources: BCRP and Ecoanalítica

### FX Reserves (BCV)



Sources: BCV and Ecoanalítica

### Inflation (BCV)



Sources: BCV and Ecoanalítica

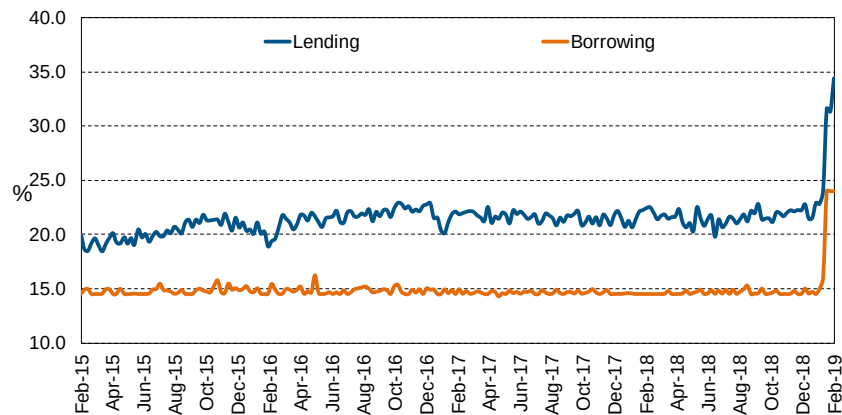
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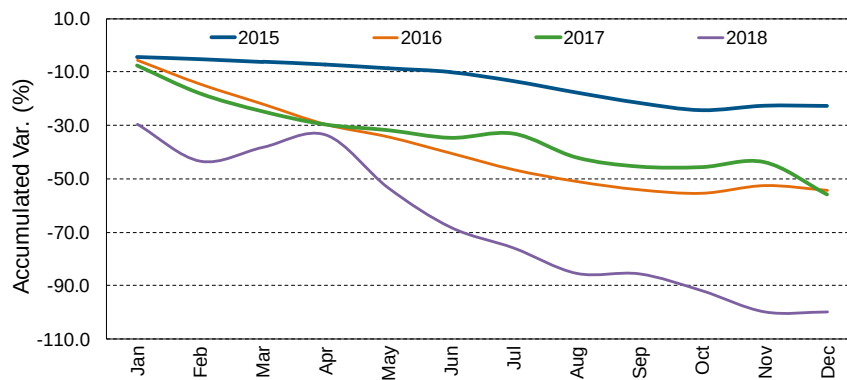
## ECONOMIC INDICATORS

**Interest Rate  
(Six major banks)**



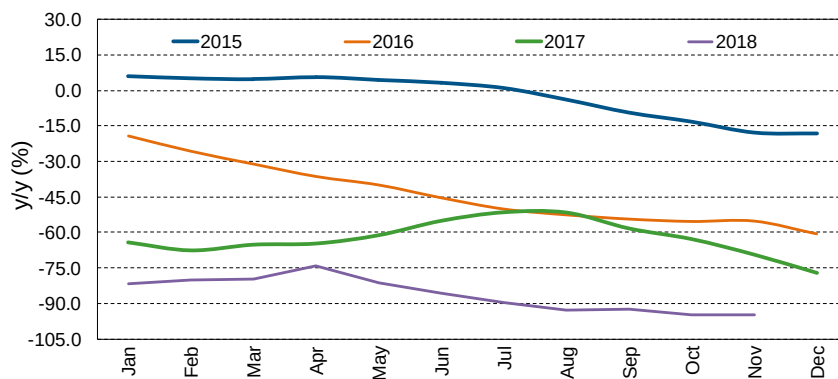
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

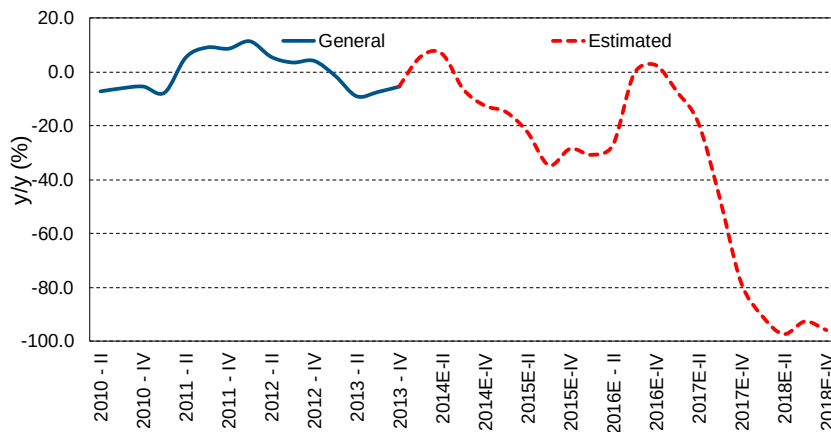
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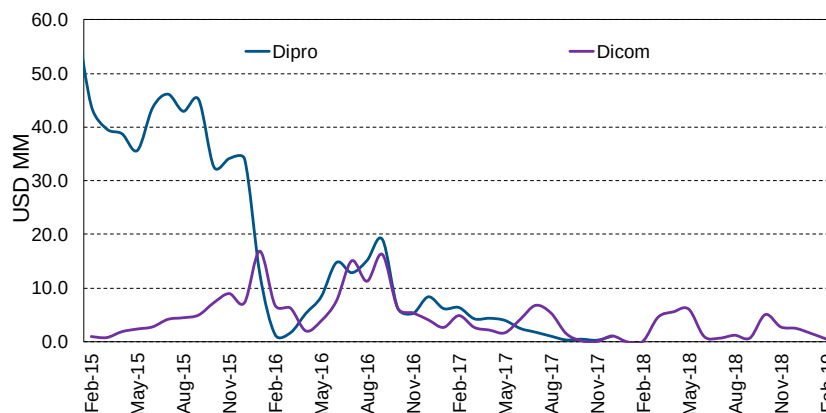
## ECONOMIC INDICATORS

**Real Wage Index**



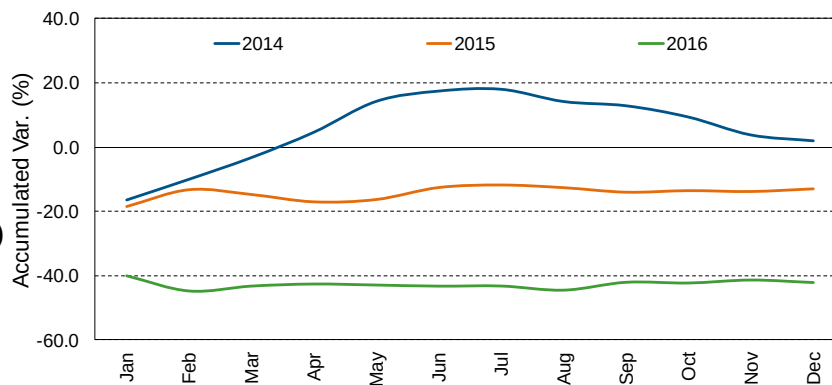
Sources: BCV and Ecoanalítica

**Disbursements to the Private Sector (Daily Average)**



Source: Ecoanalítica

**Primary Spending NTO (Real - Central Government)**



Sources: ONT and Ecoanalítica

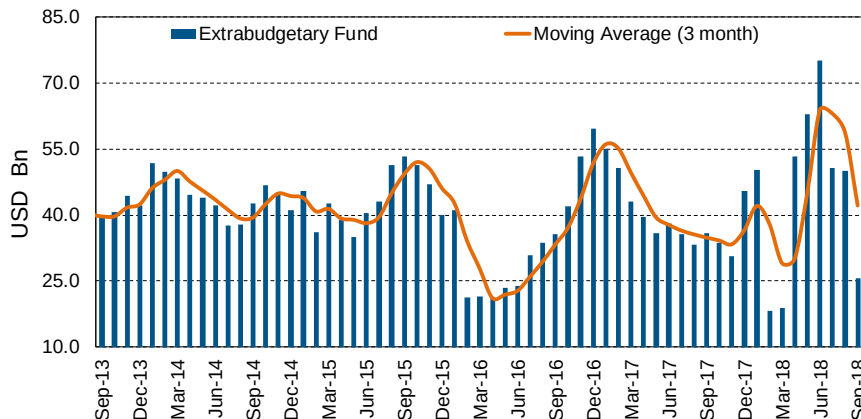
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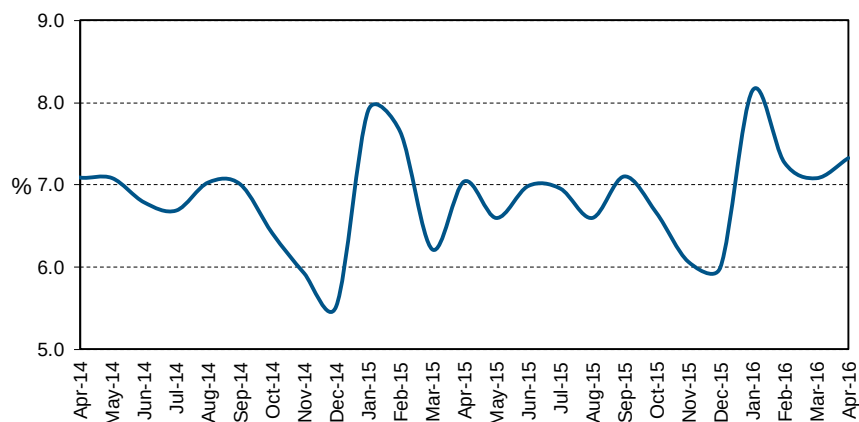
## ECONOMIC INDICATORS

**State Extrabudgetary Resources**



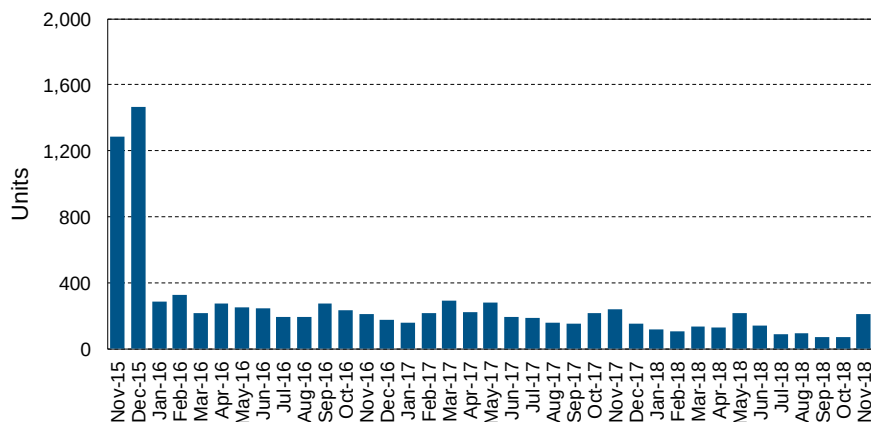
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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