

## Remittances: A new stage in Venezuela's economy

After leaving behind a dual official exchange rate scheme with the elimination of the Protected Foreign Currency System (DIPRO), the government recognized a new exchange rate for remittances. Although this new official exchange rate is supposed to be the maximum rate resulting from the DICOM (Complementary Foreign Currency System) auctions, until four weeks ago it was the marginal rate resulting from those auctions.

The government authorized three exchange houses to operate with remittances at an initial exchange rate of VEF 1,300,000/USD, 1,525% higher than the marginal exchange rate and 22.3% lower than the parallel rate. We have now gone back, once again, to having two official exchange rates: one highly overvalued that applies to all transactions conducted by the public sector, and an alternative rate for specific activities, in this case remittances.

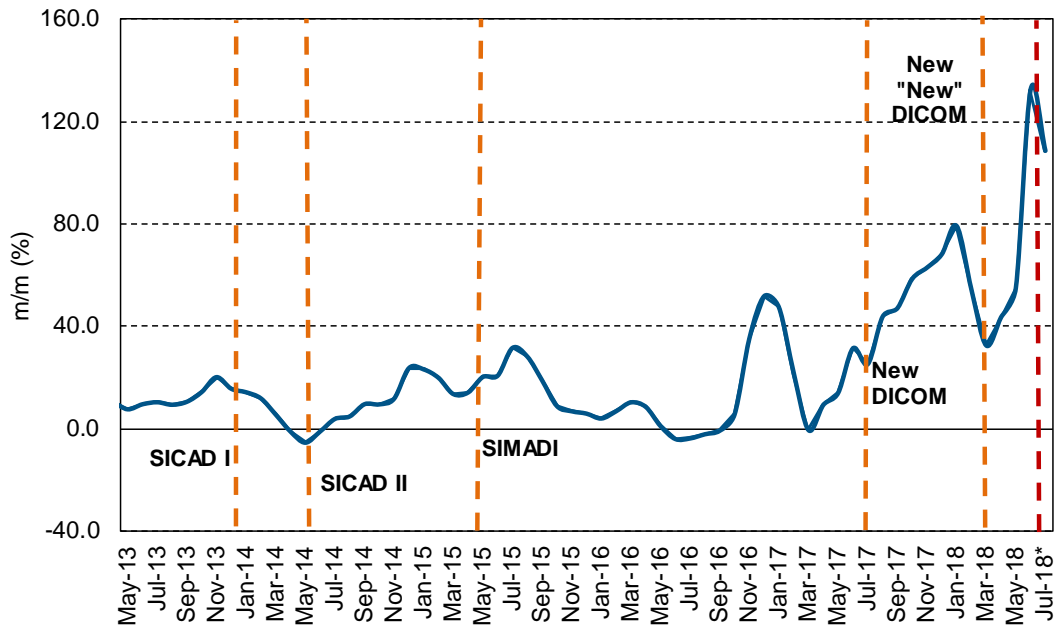
As has happened on previous occasions, the announced rate was close to the parallel exchange rate, giving signals of a possible unification and legalization of the unofficial foreign currency market. With the creation of alternative foreign currency administration systems, the government is betting on changing expectations and thereby having an impact on the unofficial exchange rate; and even though agents do react, this reaction is not sustainable over time, which is why it is likely that the parallel rate will resume its depreciation path in a matter of weeks. Credibility is a key factor, and this is the main virtue the Maduro administration lacks. Consequently, it is foreseeable that this new system will fail.

This new "opening up" of the foreign exchange regime hints at the urgent need to attract revenues through remittances, which have been steadily gaining ground. In a situation where the government is facing a foreign currency drought, emigrants have become the source of an attractive benefit for relieving its tight cash flow.

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### Non Official Exchange Rate



Sources: Dólar web and Ecoanalítica

\*First two weeks of July

Note: data refers to a three month moving average

However, these “efforts” could be insufficient because, if this remittances exchange rate is not in line with the hyperinflationary environment, the losses will get increasingly bigger as a result of the opportunity cost that not selling this foreign currency in the informal market implies. Because of this, added to the scant credibility of official mechanisms and the risk of payees being discriminated against because they receive additional income, it is highly likely that the people who have been sending remittances via these three exchange houses will stop doing it.

Next we will explain in greater detail why Venezuela does not meet the conditions to be a formal net recipient of remittances and what the potential losses would be of not implementing the corrections to the government’s economic policy that would allow it to obtain these additional revenues.

### Remittances and their vitalizing role

Having remittances play a key role in the economy is something new for Venezuela. This transition to a leading role is due to the intensification of the economic crisis, which has generated a significant increase in the number of Venezuelans who have emigrated in recent years. According to Consultores 21, 63.0% of Venezuelans who are considering leaving the country give the economic situation as the main reason. Besides that, those

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who emigrate leave behind members of their family who are finding that their incomes are shrinking fast, which means that they are increasingly in a position where they need to ask for help from those who have emigrated. Based on Consultores 21's data, nine out of every 10 Venezuelan families said they expect to receive remittances from members of their family.

In the absence of signs of a radical change in the near future, we can expect remittances to take on a bigger role. This phenomenon is not entirely negative for the Venezuelan economy, however; even though its causes stem from an overall collapse, advantage can be taken of its effects.

The evidence regarding the effect of remittances on the economies that receive them in large quantities is ambiguous. In some cases, they have proved to be beneficial on the macroeconomic level. Glytsos<sup>1</sup> (1993) states that, in the case of Greece, remittances had a multiplier effect of 1.7 on gross domestic product (GDP). This multiplier varies from one industry to the next. In many other cases, the researchers concluded that there was not a sufficiently strong relationship between remittances and a country's macroeconomic performance to determine their effect.

### The prerequisites

However, there is one factor on which opinions converge. In order to obtain the best possible effect on the inflow of remittances, it is necessary for government policy to adapt to them and try to direct them to the most convenient sectors. It is here where Venezuela might not be up to the challenge. The main difficulty in a project such as this is establishing conditions that would make it possible to officially authorize and monitor the largest possible proportion of remittance flows.

The main concern of people who send remittances is that payees receive the largest amount of the principle sent to them. An expatriate will always choose the least costly method. Government policy should be geared to establishing conditions that make it possible to reduce the cost of official channels and a natural migration to that system. According to Freund and Spatafora<sup>2</sup> (2008), this total cost is mainly generated by the transaction cost set by the exchange house, the existence of several exchange rates in the market, and the destination country's level of financial development, among other factors.

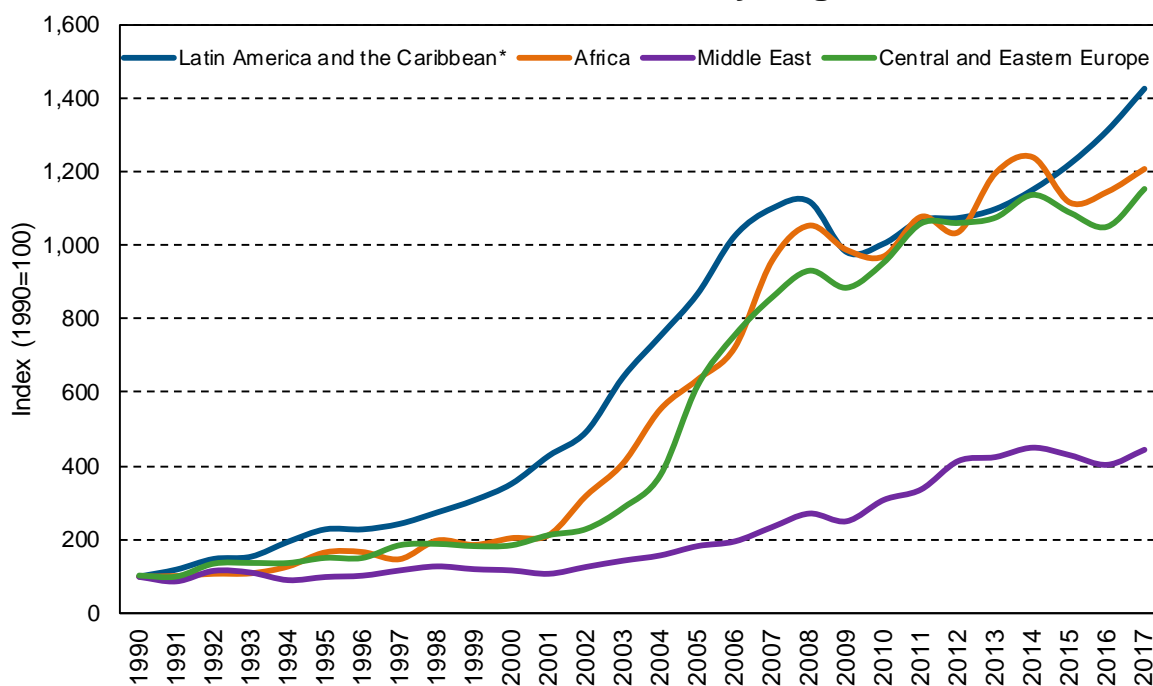
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<sup>1</sup> Glytsos, N. (1993) Measuring the Income Effects of Migrant Remittances: A Methodological Approach Applied to Greece. Economic Development and Cultural Change.

<sup>2</sup> Freund, C. Spatafora, N. (2005) Remittances: Transaction Costs, Determinants, and Informal Flows. Policy Research Working Paper.

When we compare different regions, we find that, in the cases where it is more costly to send remittances via official channels, the number of remittances recorded is much lower. We also find that, in regions such as Latin America, big increases in formally recorded remittances coincide with periods in which financial and technological developments have resulted in greater competition among institutions that reduce the cost of sending the remittance.

### Remittances Inflow by Region



Sources: World Bank and Ecoanalítica

\*Venezuela was excluded since most of the remittances in Venezuela move through unofficial channels

Unfortunately, Venezuela’s present circumstances put it in the group of countries where formal channels have a high cost. The situation in Venezuela’s foreign exchange market is one of the most detrimental factors for the development of the remittances market. The exchange rate used by the exchange houses for converting remittances is tied to the official exchange rate; they must use the highest rate resulting from the DICOM auctions. Even though official recognition of this exchange rate reduced the gap with the unofficial rate, it is still below the amount payees could get by going through informal channels. Besides, the auctions are not held frequently enough to effectively reflect the effect of hyperinflation on their rates. Last month the parallel rate went up by 70.3%, whereas the remittances rate went up by only 13.6%. For the average Venezuelan, going through formal channels would represent a loss of 144.0% of the real value of the remittance, not counting transaction costs regardless of the exchange rate used.

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Moreover, in Venezuela the financial and monetary system could pose a huge problem for getting access to remittances. The proportion of the population that was banked in 2017<sup>2</sup> was 70.0%. The 30.0% of the population that does not have access to banking services probably belongs to strata D and E. These sectors are, in turn, the ones that rely most on receiving remittances in order to survive. Besides, the banking sector is currently facing a profitability crisis that would not allow it to cope with banking the population on a large-scale. This, added to a general collapse of the means of payment in Venezuela, constitutes a series of barriers that prevent unbanked payees from taking advantage of remittances. This means they are forced to resort to alternative mechanisms in order to have access to their remittances, which fosters the presence of a huge informal market.

Even if policy were changed to allow considerable growth in formal financial services, current circumstances in Venezuela make it difficult to expect a positive impact as a result of the influx of remittances. Two of the benefits most frequently mentioned in the majority of studies on the impact of inflows of foreign currency from remittances are increases in the consumption of goods outside the basic basket and increases in school attendance. To obtain those benefits, remittances must represent a higher level of income than is needed for survival. However, in Venezuela the cost of living has gone up 144.0% in real terms in the past six months. Assuming that the average remittance is USD 100 and that every two emigrants<sup>3</sup> leave 3 family members behind, it is difficult to imagine a scenario in which payees would use their remittances for anything other than survival.

### And what if we were to correct things?

From the point of view of economic development, understanding the potential that remittances have for contributing to growth is crucial. Therefore, we must remember that we are not pioneers when it comes to exporting human capital. In order to understand the economic impact of these new revenues on our economy, there is a key question we need to address: How is the income from remittances used?

Although numerous studies have been conducted in countries that receive remittances that may help to answer that question, their findings are not conclusive. The conclusions offered by global studies such as the one conducted by Ralph Chami, Connel Fullenkamp and Samir Jahjah<sup>4</sup> (2003) are discouraging. This study reports that money from remittances is commonly used in “socioeconomic status” consumption. Put another way, the authors conclude that the money from remittances is spent on dispensable goods,

<sup>3</sup> According to Consultores 21, 1.97 persons per family have emigrated

<sup>4</sup> Chami,R., Fullenkamp, C. &Jahjah, S. (2003). Are Immigrant Remittance Flows a Source of Capital for Development? Fondo Monetario Internacional.



such as jewelry, housing and partying, which are not necessarily productive for the economy.

However, if we take a look at studies that focus on the Latin American region, we find more optimistic counterarguments. A study conducted by Pablo Acosta et al (2010) in 10 Latin American countries shows that for every 1% increase in the remittances-to-GDP ratio, poverty is reduced by 0.4%<sup>5</sup>.

There are also studies that focus on remittances being used to invest in human capital. One example of this is cited in a study conducted in Guatemala by Richard Adams Jr. and Alfredo Cuecuecha<sup>6</sup> (2010). This study shows that consumers who receive remittances from abroad spend 194% more on education, on average, than they would have spent had they not received remittances. Similarly, according to Alejandra Edwards et al<sup>7</sup> (2003), receiving remittances reduces the number of dropouts from primary education in rural areas of El Salvador by 54.0%.

### Remittances and hyperinflation

In Venezuela the migratory phenomenon is accompanied by hyperinflation that is as high as 145.8% a month. There are few studies that focus on the impact that remittances have during periods of hyperinflation and how they are used. To find this approach in economic literature we have to go outside our region and take a look at the case of Zimbabwe. Zimbabwe reached monthly inflation of 79,000,000,000% while experiencing a major flight of human capital. In the book “Economic Management in a Hyperinflationary Environment” by Geoge Kararach and Raphael Otiendo (2016)<sup>8</sup>, the authors maintain that the emigration of skilled workers had its positive side for the economy. According to Kararach and Otiendo, the remittances were what kept the economy afloat in stormy

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<sup>5</sup> The study was realized in Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay and Peru through the recollection of information in the polls of the national consumer of every country. Acosta, P., Fajnzylber, P. & Lopez, J. (2010) The Impact of Remittances on Poverty and Human Capital: Evidence from Latin American Household Surveys. World Bank Policy Research Working Paper 4247.

<sup>6</sup> Adams, R., Cuecuecha, A. (2010). Remittances, Household Expenditure and Investment in Guatemala. World Development, vol. 38.

<sup>7</sup> Edwards, A. (2003). International migration, remittances, and schooling: evidence from El Salvador. Journal of Development Economics.

<sup>8</sup> Kararach, G., & Otieno, R. (2016). Economic Management in a Hyperinflationary Environment: The Political Economy of Zimbabwe, 1980–2008. Oxford Scholarship Online.

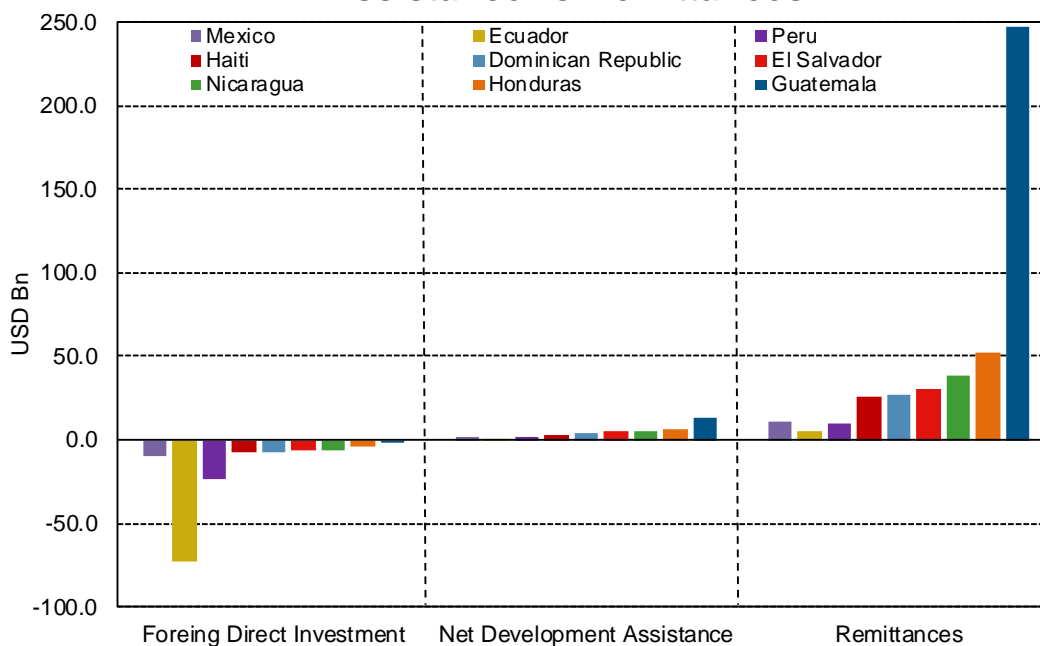
times. The study also found that the money of the remittances was used mainly to guarantee food security.

The case of Zimbabwe could be extrapolated to Venezuela’s experience in 2018. Today, it is estimated that Venezuelan households with family members abroad receive USD 100 a month on average. Bearing in mind that the minimum wage is VEF 5,196,000 and the food basket costs VEF 301,138,353, it is safe to assume that the money from remittances is used to guarantee access to food products.

### Taking a closer look at the region

The potential of remittances as a mechanism of subsistence or development is not always valued. If we look at countries that have historically been recipients of remittances we find that, even under normal economic conditions, the remittances-to-GDP average ratio is much as 21.3% in the case of Honduras, 21.8% in El Salvador, and 6.5% in Ecuador (during 2007-2016). On the other hand, if we turn our attention to how remittances help economic development, we find that their ratio to GDP is only 3.8%, 0.5%, and 0.4%, respectively, in those countries.

### Foreign Direct Investment and Development Assistance vs. Remittances



Sources: World Bank and Ecoanalítica

Note: The data corresponds to an annual average for each country during 2007-2016.

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July 2018

In Latin American countries that are recipients of remittances, the average amount received in remittances during the period 2007-2016 was more than the money from foreign direct investment (which in the case of Latin America tends to be negative) and assistance for economic development. On the one hand, between 2009 and 2016, remittances went up by 62.2% and on the foreign direct investment shrank by 23.7%.

The case studies of Guatemala, Honduras, and Nicaragua are examples that great interest to the region. The aforementioned nations have had a negative average foreign direct investment for USD 974.3 million, USD 943.1 million, and USD 674.1 million respectively. On the other hand, the average flow of remittances has been USD 5,176.3 million, USD 3,026.1 million, and USD 977.2 million. Interestingly enough none of these countries have exploited the potential that remittances appear to have.

Bearing these indicators in mind, it becomes necessary to consider remittances as a potential source of capital formation. Remittances from Venezuelan emigrants can be viewed as a dividend on our most important asset (the know-how of our human capital), which in the present situation is more productive abroad. For that reason, facilitating mechanisms for obtaining those dividends could be a key channel of development that will drive the economy from the micro to the macro.

### **In today's Venezuela, how can the government use remittances?**

According to the Remittance Prices Worldwide Report published by the World Bank, in 2017 the global trend in remittance costs has been for them to go down. The average transmission charge went down by 2.1% between 2013 and the first quarter of 2018. The reduction in transmission costs via formal mechanisms encourages the use of those mechanisms.

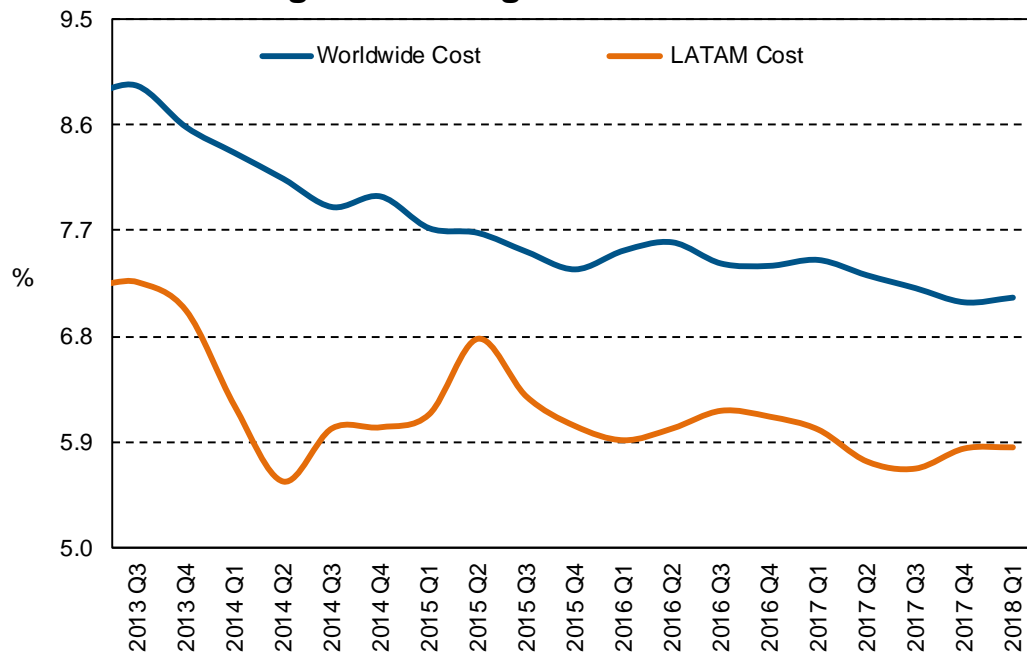
However, the situation in Venezuela is very different. The problem stems from the duality of the exchange rate scheme and the legal loophole left by Foreign Exchange Agreement 39. This agreement makes no mention of the charge the issuer of remittances should pay. This legal loophole makes it impossible for us to calculate the accounting cost of a transaction conducted through formal mechanisms. Consequently, we can only estimate the opportunity cost and use that as a point of comparison with the average worldwide transaction cost.

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### Weighted Average Cost of Remittances



Sources: World Bank and Ecoanalítica

If we make that comparison, we find that, today, sending a remittance to Venezuela implies a loss of 32.0% of that remittance if the person decides to use formal mechanisms. On the other hand, we found that in the first quarter of 2018, the world average cost of sending remittances was 7.0%. Put another way, sending remittances to Venezuela via formal mechanisms is approximately 25.0 percentage points more expensive than sending remittances to any other part of the world.

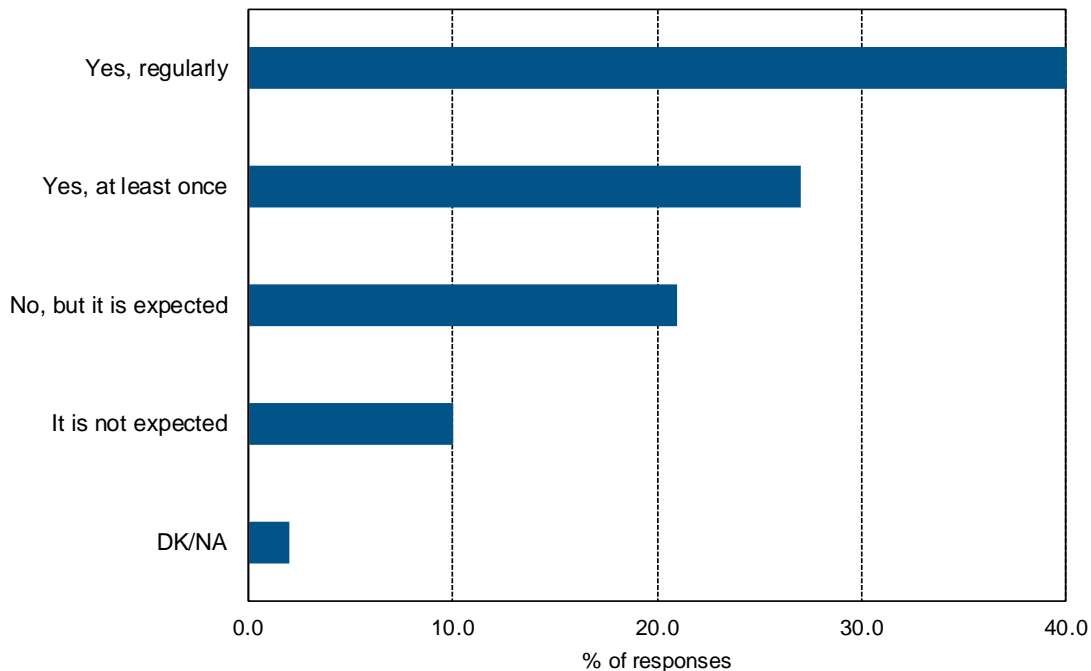
Despite the Venezuelan Government’s recent “efforts” to reduce the cost of sending remittances, the Venezuelan system continues to be divorced from what is happening in the rest of the world. In order to reduce the opportunity cost of using formal mechanisms in Venezuela, unification of the exchange rate is essential. Establishing a legal framework that would clarify the amount exchange houses are entitled to charge for handling remittances would also be pertinent.

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### Have Any of Your Family Members Abroad Managed to Send Remittances Back to Venezuela?



Source: Consultores 21

Note: Survey conducted by Consultores 21 between November 17th and December 4th. The question asked to the surveyees was: Have any of the people in your family been able to help you financially or to those who live in this home here in Venezuela?

Given the number of emigrants and the fact that migration will continue to grow, remittances will take on an increasingly relevant role in the standard of living of Venezuelan households. For that reason, it is vitally important to know what the potential benefits of the official flow of remittances might be.

- **Public policies:** The design of efficient public policies cannot be complete without accurate knowledge of how much money is entering the country. If the government wants to encourage an increase in investment in given sectors, it is vitally important for it to have adequate figures that will allow it to design incentives that have some basis in reality.
- **Foreign Exchange Market:** In the short term, the flow of remittances could result in an appreciation of the local currency. A study by Humberto López et al<sup>9</sup> (2010) states that a 1.0% increase in the remittances-to-GDP ratio results in a real

<sup>9</sup> Lopez, H., Molina, L. & Bussolo, M. (2007). Remittances and the real exchange rate. World Bank Policy Research.

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appreciation of the local currency of 21.0%. Bearing in mind that Venezuela is an oil exporting country, an appreciation of the local currency would not result in a loss of comparative advantage. On the contrary, that appreciation would result in an increase in Venezuelans' purchasing power.

- **Financial Sector:** An increase in the proportion of formal remittances in the economy could increase competition among banks and providers of money transfer services. This would bring about a reduction in transmission charges and, therefore, an increase in the amount received in remittances. This increase in the use of financial entities could bring the country other positive externalities. For example, an increase in savings in foreign currency could bring more credit opportunities for the public and private sectors.

### Breathing machine

If the present conditions persist or even get worse, the flow of emigrants will continue to grow, increasing the number of potential senders of remittances. This fact, added to the increasing cost of living in dollar terms, will force an increase in the average monthly amount sent per emigrant. We estimate that this increase will be around 15.0% and that the total sum of remittances could be in the region of USD 1.5 billion in 2018.

If the use of foreign currency in the country is not made more flexible and the pace at which the local currency is being devalued is not recognized, there will be few people who are willing to side with the government and use official mechanisms. Moreover, if announcements are not consistent with objectives, lack of credibility will frustrate any attempt at corrective action. Even so, there is a group of emigrants who will be forced to use official mechanisms, mainly those who do not have access to banking services in their destination countries and find it difficult to obtain such access. So, it is likely that the government, sustained by this base of Venezuelans, will continue to devalue the remittances exchange rate in line with the DICOM marginal rate.

The benefits from remittances are indisputable and the restrictions in the Venezuela economy on taking advantage of them are even clearer. However, even though the government is unable to take advantage of these revenues, in 2018 remittances will continue to partially palliate Venezuelan households' loss of purchasing power and inject new life into some production sectors.

**Ana Isabel Heredia**  
**Mariana Arrieta Yáñez**  
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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week July	Weekly var. (%)	Depre/Apre (pp) <sup>1</sup>
<b>FX Dicom (VEF/USD)</b>	120,000	4.3	4.2
	1st Week July	Weekly var. (pp)	Annual var. (pp)
<b>Lending Interest Rate (%)</b>	19.8	-2.0	-1.7
	1st Week July	Weekly var. (pp)	Annual var. (pp)
<b>Overnight Interest Rate (%)</b>	4.0	4.0	3.7
	1st Week July	Weekly var. (%)	Annual var. (%)
<b>International Reserves (USD Bn)</b>	8.7	2.6	-13.6
	5th Week June	Weekly var. (%)	Annual var. (%)
<b>Monetary Liquidity (VEF Bn)</b>	1,867,880	13.5	8,209.2
Price of International Oil Baskets (USD/b)			
	1st Week July	Weekly var. (%)	Annual var. (%)
<b>WTI</b>	73.9	4.5	60.0
<b>Brent</b>	78.0	2.1	59.8
Price of the Venezuelan oil basket (USD/b)			
	1st Week July	Weekly var. (%)	Annual var. (%)
<b>Weekly Average</b>	69.7	3.8	63.2
<b>Annual Average</b>	62.5	0.5	43.4

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

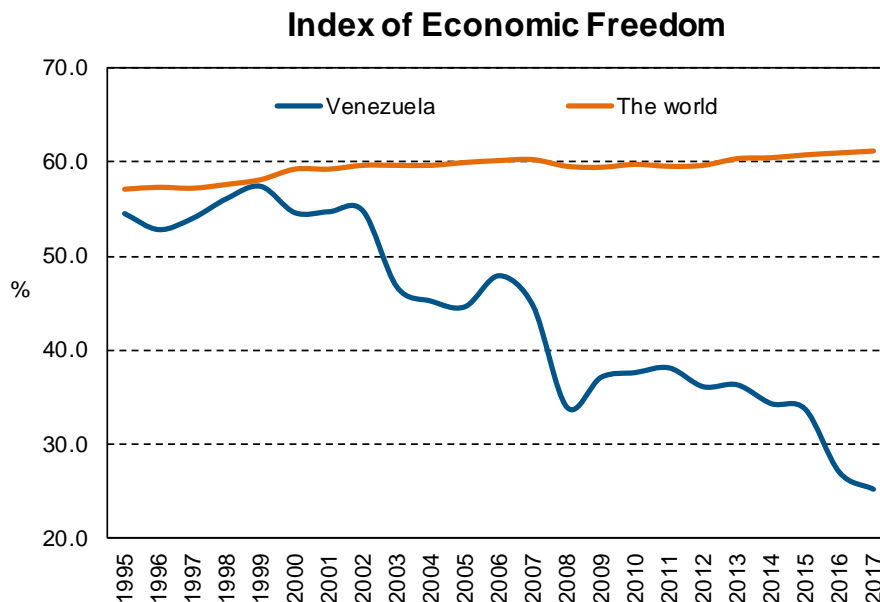
<sup>1</sup> Depreciation (+)/Appreciation (-)

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## CHART OF THE WEEK: “WITHOUT ECONOMIC FREEDOM, THERE’S NO EXCUSE”



Sources: Index of Economic Freedom and Ecoanalítica

The government has spent years blaming all the bad things that happen in Venezuela on the “economic war.” According to this narrative, the economic problems are due to the existence of groups that control and block economic activity. Although the official discourse lays the blame for the decline in production, acute shortages, and spiraling prices on external agents, the economic freedom index (EFI) proves otherwise.

Compiled by The Heritage Foundation, this index takes into account factors such as property rights, judicial effectiveness, freedom of employment, and monetary, trade and investment freedom, since a greater degree of economic freedom allows markets to adjust to society’s needs.

In 2017, Venezuela posted an index of 25.2%, 35.7 percentage points below the world average and 34.7 percentage points below the average for Latin American countries. A breakdown of the factors used to compile the index shows that Venezuela scored 5.2% in property rights and 35.4% in freedom of doing business, which could explain the low overall score. In 1999, Venezuela’s score reached a peak (57.4%). Since then, it has plummeted. So, the people who are responsible for the “economic war” are the same people who have failed to provide basic conditions such as property rights, government integrity, and monetary and trade freedom that would make it possible for the private sector to be able to produce in a stable environment.

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**ECONOMIC TIPS**

**NA-NCPI (I).** The National Assembly's Finance Committee reported its inflation estimates for June. According to the National Assembly, inflation for the month was 128.4% and inflation year-on-year was 46,305%. According to the National Assembly's Nationwide Consumer Price Index, since it started nine months ago, hyperinflation has reached 8,750.8%.

**NA-NCPI (II).** What is more, inflation for the year to date comes to 4,684.3% and average daily inflation is at 2.8%, according to a note posted on its Twitter account by the Finance Committee.

**We're only declining.** The National Assembly (NA) offered the results of Venezuela's economic activity. Based on its Index of Economic Activity, they assured that Venezuela's economy contracted 12.0% in 1Q2018 compared to the same period last year. Also, they informed that since 2012 the economy has reduced 42.0%. According to the same estimates, in 2017, the decline of the Gross Domestic Product (GDP) was 13.2%.

**The Group of Five.** The appointment of the Central Bank of Venezuela's new board of directors was published in *Gaceta Oficial* Number 41,434. The new directors are Iliana Ruzza Terán, Yosmer Arellán Zurita, Santiago Lazo Ortega, William Contreras, and Simón Zerpa Delgado.

**Slowly yes, but surely?** The National Integrated Customs and Tax Administration Service (Seniat) published its tax receipt figures for April, May and June on its news website. Tax receipts in June came to VEF 114.5 trillion (up 87.7% from the previous month): VEF 9.05 trillion (55.1%) from income tax and VEF 62.5 trillion (98.3%) from value added tax (VAT). In real terms, tax receipts were down 23.7% (income tax down 36.9% and VAT down 19.3%).

**Nominal increases...** Total tax receipts came to VEF 252.4 trillion in the first half of the year; VEF 25.3 trillion from income tax and VEF 133.3 trillion from VAT. These amounts are equivalent to nominal increases of 5,017.6%, 1,849.7%, and 5,401.7%, respectively.

**...real reductions.** In real terms, total tax receipts in the first half of the year posted a decline of 74.7%. The decline in income tax receipts was 87.3% and 73% in VAT receipts.

**'Fessing up.** After authorizing three exchange houses to operate with remittances, four weeks ago the government acknowledged that the marginal exchange rate was way below the maximum at which foreign currency was traded at the DICOM auctions. The

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most recent rate is VEF 2,500,000/USD, which gives a differential of 2,073.9%. This exchange rate has been devalued by 47.9% in four weeks.

**DICOM, DICOM.** The exchange rate resulting from DICOM Auction Number 21 was VEF 120,000/USD, equivalent to a devaluation of 4.3% compared to the previous auction. The total disbursed was USD 1.3 million, 94.8% of which was allocated to 69 companies.

**Stable bilateral trade.** According to data published by the Chamber for Colombian-Venezuelan Integration (CAVECOL), trade between the two countries came to USD 130 million in the first quarter of the year. This is equivalent to an increase of 0.78% compared to the first quarter last year.

**At whose expense?** However, this stability was maintained thanks to a reduction in Venezuelan exports, which offset an increase in Colombian exports. Venezuelan exports were down 30.5% compared to the same period last year to USD 41 million. The main products exported by Venezuela are aluminum and its derivatives, which have accounted for 37.1% of total exports so far this year.

**Colombia takes the lead.** As for Colombian exports to Venezuela during the same period, they were up 27.1%. These exports came to USD 89 million in the first half of the year. Among the products exported to Venezuela were sugar and confectionary items, which accounted for 13.5% of the total (USD 12 million), followed by meat (8.9%), and plastics and manufactured goods (6.5%).

## OIL TIPS

**June's production.** According to primary sources, Venezuela's oil production in June was 1,531 thousand barrels per day (kb/d), representing a 2.0 kb/d decline compared to last month. This represents an accumulated decline of 90 kb/d and a year-to-year variation of -625 kb/d.

**Changing the numbers?** Nevertheless, secondary sources establish that oil production in Venezuela was 1,340 thousand barrels per day (kb/d), which represents a 191 kb/d difference with the primary sources. There was a 48 kb/d decline compared to the month of May, the accumulated decline was 307 kb/d, and the year-to-year variation was -615 kb/d.

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**All we can do is pray...** Last Friday Minister for Oil and President of Petróleos de Venezuela (PDVSA) Manuel Quevedo organized a mass to ask the Lord to raise oil production and to ensure that the 26 rigs active in June did not stop producing.

**...that God will provide.** Moments before the mass started, Quevedo gave out small bottles with samples of crude from the Orinoco Oil Belt to symbolize the event. “PDVSA’s recovery is also the recovery of the entire country,” said the priest during the mass. When all else fails, calling on God is the only thing left.

**A slight recovery.** Following the drop in PDVSA’s oil exports, sales of Venezuela’s crude to the United States managed to recover in June, according to Reuters. PDVSA exported 563,962 barrels a day (b/d) or 5% more than in May and the highest volume since August last year.

**From Aruba and Curaçao.** Reuters reported that the production of naphtha blended with extra-heavy crude and shipments from the terminals on Aruba and Curaçao prior to the seizure by ConocoPhillips were the reasons why PDVSA was able to increase its exports to the United States, mainly to Citgo.

**But the same didn’t happen with India.** Reuters reported that, according to internal PDVSA documents, oil exports to India fell by 21.2% in the first half of 2018. Shipments went from 355,500 barrels a day (b/d) in the first half of 2017 to 280,000 b/d in the first half of this year. PDVSA executives met with India’s Reliance Industries and Rosneft to discuss the issue.

**How much are we exporting?** At the start of July, Tanker Trackers published the data it had gathered on oil exports in the first week of the month, according to which Venezuela had exported 531,241 b/d when official reports put the figure at one million barrels a day (mb/d).

**Plants back in service.** PDVSA’s Petropiar plant, which has been down since May, is to go back on line after a series of repairs were carried out. PetroMonagas and PetroCedeño are currently undergoing repairs and it is estimated that, once all the plants are operating, their joint production will come to 600,000 barrels a day (600 kb/d).

**Saudis seek to raise production.** Saudi Arabia is prepared to raise its oil production to respond to changes in supply and demand. Its Council of Ministers said how important it was to inject crude into the market when it was “*necessary to achieve common interests and stimulate the global economic growth.*”

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**And OPEC is following the same path.** The Organization of Petroleum Exporting Countries (OPEC) agreed to raise oil production slightly starting in July after Saudi Arabia, the cartel's leading country, convinced Iran to cooperate with taking these steps.

## BUSINESS SECTOR TIPS

**The CVG has a new president.** Pedro Rolando Maldonado Marín has been appointed the new president of Corporación Venezolana de Guayana (CVG), a corporation attached to the People's Power Ministry for Industries and Domestic Production. According to the news agency Runrun.es, news of the appointment was published on July 6 in *Gaceta Oficial* Number 41,434.

**The promised announcement of prices...** was conspicuous by its absence. After weeks of discussions and negotiations regarding the prices of the products included in Plan 50, Tareck El Aissami was supposedly to have announced the new agreed prices on Saturday, July 7. However, the announcement was postponed.

**A lie.** According to the government's figures, 1.5 million housing units were built between 2011 and 2017 thanks to the Great Venezuela Housing Mission. However, estimates by the Infrastructure, Housing and Habitat Commission (CIVH) put the number of homes built between 2008 and 2009 at 85,000 and the number built in 2017 at only 5000. The number of housing units built in Venezuela in 2017 fell by 95%.

**Producing at 20%.** The plant of Guayana Ferroatlántica de Venezuela (Ferroven) is producing at only 20% of its capacity due to the lack of raw materials. This has prompted the company to reduce the shifts of its workers, 90% of whom earn the minimum wage plus the meals allowance and the employer's contribution to their trust fund.

**So what happened to the economic emergency plan?** After Corporación Eléctrica Nacional (Corpoelec) failed to honor the contract in which it promised to advance the payment of wages as a protection against hyperinflation, workers turned out on Avenida Soublette in Maiquetía and warned that they would take more extreme measures if their demands were not met.

**Restructuring Plan Number...** Nicolás Maduro has announced yet another plan for restructuring the basic industry companies, this time the companies in Guayana. The goals of this plan are, in the words of Maduro, to "*solve logistics issues, break with dependencies on the dollar, and use the petro to substitute imports.*" Time will tell if this plan will actually produce results.

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**Now we have the “Niño Simón” bonus.** The “Independence Bonus,” which is in commemoration of the Act of Independence, will start to be distributed this week to people who have the Carnet of the Fatherland. In addition, the “Niño Simón” bonus, in honor of the birth of Simón Bolívar, is to be deposited on July 24.

**They’re not backing down.** Following the protests by nurses, President Nicolás Maduro granted them a 10% wage increase. However, this raise is a long way from meeting their demands and was rejected. Ana Rosario Contreras, the president of the Capital District’s Nurses Association, said that they were determined to “*maintain the dispute until our rights are recognized.*”

**Shank’s pony.** The problems with public transport continue; only 5% of public transport units in Caracas are operating. Organizations with more than 400 vehicles are operating today with only 100 units, forcing the majority of passengers to get around on foot or even to leave their jobs when getting to work becomes too difficult.

**Looking for solutions to the transport problem.** The Minister of Food and the Minister of Overland Transport decided to meet with a view to strengthening the distribution of products. This meeting seems to be necessary, given that 90% of public transport units were out of service in June, according to the National Federation of Communal Councils and Communes (Fenecomunal).

**Bus fare hike.** Public transport leaders in Libertador Municipality asked for the fare to be raised to VEF 20,000, an increase they consider necessary to be able to maintain the service. This request is understandable given the number of transport units that have gone out of service in the past month. The request is to be discussed before then being approved or not by the mayoralty.

**“Offer your resignations.”** In a Tweet, Minister of Transport Hipólito Abreu, recently appointed, called on “*all national and regional directors of the National Overland Transport Institute to offer their resignations for the purpose of starting an in-depth revision as one of the authority measures we have started.*”

**Improving tourism in Venezuela.** The Minister of Tourism, the Minister of Agriculture and Lands, and Conseturismo met to discuss plans to improve transport and domestic and international air connectivity, public services, and security in tourism destinations.



**WORLD ECONOMY TIPS**

**Freedom of choice.** The United States' expansive economic policy has shrunk the labor market, increasing the number of vacancies and improving workers' negotiating position. According to the Job Openings and Labor Turnover Survey (JOLTS) for June, the number of employees who resigned voluntarily went up by 212,000 to 3.3 million. This meant that resignations increased to 2.4%, the highest rate in 17 years.

**Complaints before the WTO pile up.** Switzerland has become the eighth country to officially file a complaint against the United States with the World Trade Organization (WTO) regarding its tariffs on steel and aluminum. Switzerland alleges that the argument of national security does not justify the additional tariffs. Under WTO rules, the United States has 60 days to settle the dispute, after which time Switzerland will have the option of taking reprisals as approved by a court of international judges.

**China's response.** China's Minister of Commerce Zhong Shan announced an increase in the antidumping tariffs against the United States. This increase in tariffs, which ranges from between 4.7% and 18.6% to between 33.3% and 78.2%, went into effect on Wednesday, July 11, for a specific type of optic fiber imported from the United States.

**Latin America is not bothered.** Even though China and the United States imposed tariffs on different products amounting to USD 14 billion last Friday and despite the new tariffs on optic fiber, several Latin American currencies appreciated against the dollar as the belief is that there would not be a substantial drop in global GDP as a result of the trade war. The Mexican peso appreciated even more after an over-depreciation associated with the recent presidential elections.

**A volatile pound today and tomorrow.** UK Prime Minister Theresa May's plans for a softer Brexit have been criticized by euro-skeptics in the Conservative Party. Two party vice presidents, the minister of Brexit, and Foreign Secretary Boris Johnson resigned in less than a week. The pound has been experiencing relatively high volatility and will continue to do so, at least until May's team meets with European negotiators in a month's time.

**Alarm as Italy considers taking a similar route.** The yield on Italian bonds went up last Tuesday following euro-skeptic remarks by the new government's minister for European affairs, Paolo Savona. The minister said he was open to "any of the options" when it came to membership in the European Union, causing an increase in the perceived risk of a default on the external debt and a drop in Milan's first-class securities index.

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**ECB in check.** A lawsuit against the European Central Bank (ECB) reached the European Union's highest court. The allegation is that the bank overstepped its powers in implementing its quantitative easing program with the discretionary purchase of sovereign and corporate bonds, causing uncompetitive distortions in the debt markets. The court will decide whether or not European legislation allows the ECB to perform these operations and this decision could put the implementation of a similar plan in the future at risk.

**The Canadian dollar.** According to data from the Commodity Futures Trading Commission, hedge funds and other large speculators took a short position on the Canadian dollar halfway through 2017. These positions may be forced to reverse if there is a second interest rate hike by the Bank of Canada this week in a move known as a "short squeeze."

**All powerful Erdogan.** Turkey's President Recep Tayyip Erdogan appointed his son-in-law as president of the Central Bank of Turkey and said that only he had the power to choose who would hold that post. The Turkish lira depreciated by more than 3% following the news of the central bank's loss of autonomy.

**Pakistan follows in Argentina's footsteps.** The Pakistani economy is in a financial crisis. Pakistan has had three devaluations since December and has already used up all its international reserves to try to stop the devaluation of its currency. It is expected that Pakistan will apply to the International Monetary Fund (IMF) for an emergency loan only two years after the last infusion of USD 6.6 billion. The outcome of the parliamentary elections to be held on July 25 will be decisive for the possible adjustment plan the IMF will require.

## POLITICAL TIPS

**They think they'll do better on their own.** The withdrawal of the party *Acción Democrática* (AD) from the Democratic Unity Alliance has been confirmed. This decision was taken due to disagreements the party has had with the opposition coalition.

**Did they want to be the leader that much?** The secretary general of AD, Henry Ramos Allup, said that the party's withdrawal was due to the delay in electing a new coordinator for the coalition and to the impossibility of touring the entire country. "*It's not about any war or any confrontation, it's an administrative obstacle,*" Ramos Allup explained.

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**Fleeing from the down cycle.** The former president of the National Assembly also commented that, in its role as an “electoral alliance,” the Democratic Unity Alliance has up cycles and down cycles. *“When there are up cycles we have to take advantage of them; but when there are down cycles that doesn’t mean we should all freeze.”*

**It’s a shame.** In response to AD’s withdrawal from the Democratic Unity Alliance, the secretary general of *Voluntad Popular* (VP), Juan Andrés Mejía, said that the decision to withdraw was *“incoherent and lamentable.”* *“AD’s new position is extremely lamentable because, if there is something we have learned from all these years, it’s that we should stay united,”* he added.

**Lessons still to be learned.** Mejía referred to *Frente Amplio* as the new model of unity to be followed, because all the political parties, university rectors, and trade and business organizations take part in this front. He also admitted that there were problems of communication within the Democratic Unity Alliance that made it difficult for it to function and that this was a mistake that should not be repeated in the future.

**It’s time to change.** Enrique Ochoa Antich, an activist of the group *Concertación por el Cambio*, proposed a new coalition model following AD’s departure from the Democratic Unity Alliance. Antich said that AD’s actions had opened the door to a new process of forming the opposition.

**The same old, same old.** Antonio Ledezma said that a process of reconstituting the country was urgently needed, starting with Nicolás Maduro’s departure as president of the Republic. The political leader in exile said: *“No project can rule out recognition of free competition, the development of a market economy that is solidary with a social State where the rule of law and justice prevail, the idea of having a State with autonomous institutions, and promoting a competitive and productive economy.”*

**Touching base with his few allies.** Referring to his upcoming visit to Turkey, President Nicolás Maduro ratified Venezuela’s commitment to strengthening relations and cooperation with the Republic of Turkey. During his visit he hopes to evaluate several areas of endeavor that will allow both nations to benefit from possible cooperation agreements.

**Some stay, others leave.** Nicolás Maduro ratified Vladimir Padrino López as minister of defense and replaced the commanders of the air force and the navy, appointing Alberto Juliac and Giuseppe Alessandrello Cimadevilla, respectively, in their place.

**More elections.** The National Electoral Board proposed that the National Electoral Council (CNE) hold municipal elections on December 9 this year. In a press release, the

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Board said that meetings would be held throughout the week to draw up the election calendar.

**More elections.** The executive director of *Foro Penal*, Alfredo Romero, published an updated list of political prisoners. There are a total of 261 political prisoners, 80 of which are members of the military, 181 are civilians, and four are minors.

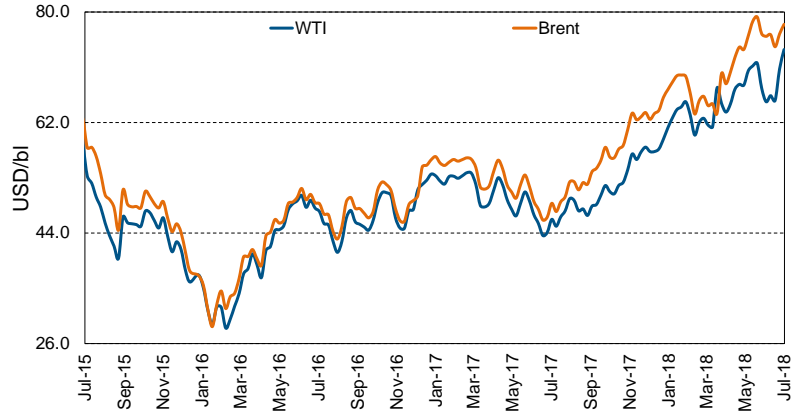
**An inspection is needed.** A group of prisoners being held at the Helicoide called on the Constituent National Assembly's Truth Commission to visit these facilities to analyze each of the cases. Their main demands are that the prisoners whose release papers have been issued be released and that those who need medical attention be taken to a hospital.

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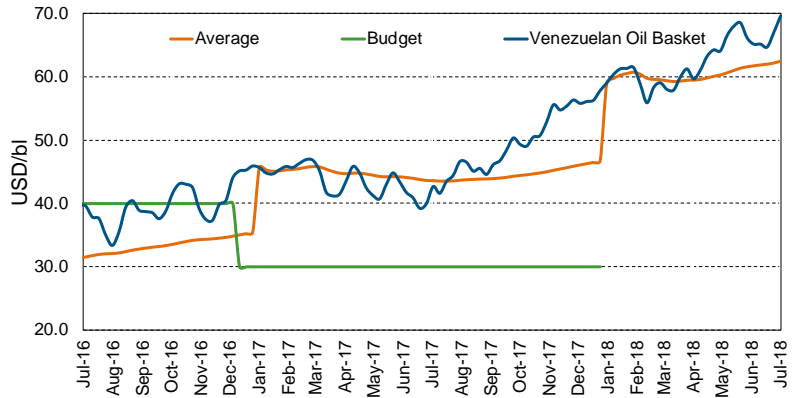
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



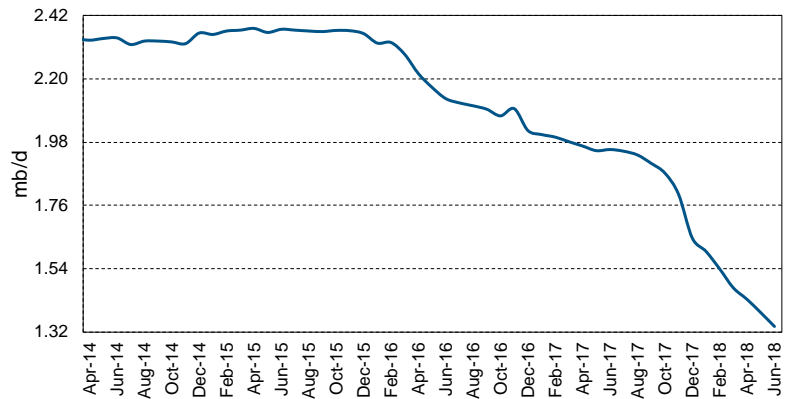
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**



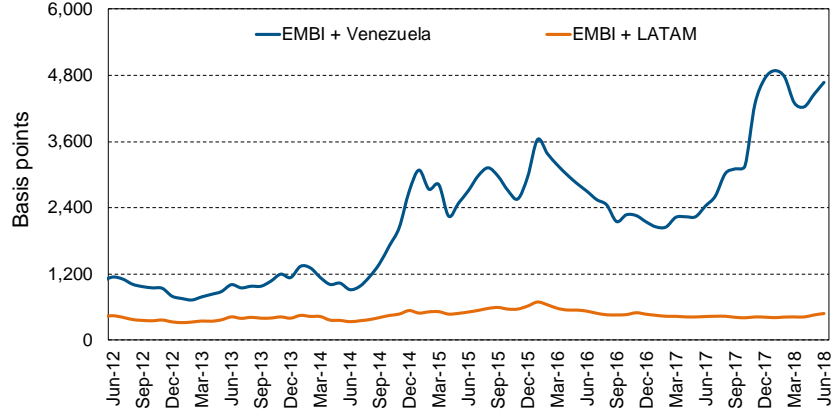
Sources: OPEC and Ecoanalítica

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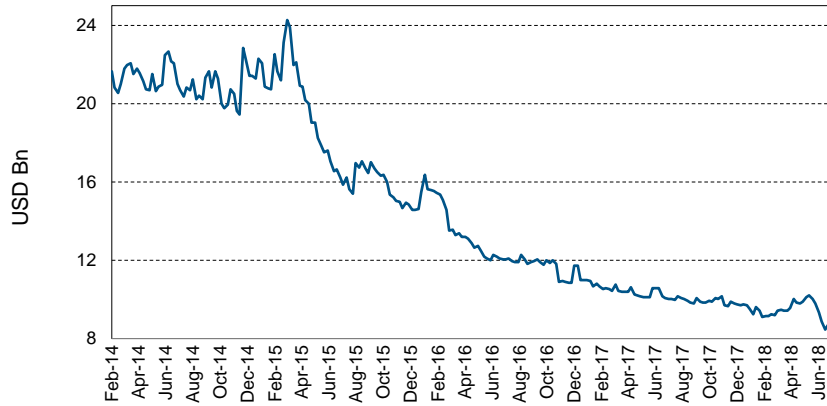
**ECONOMIC INDICATORS**

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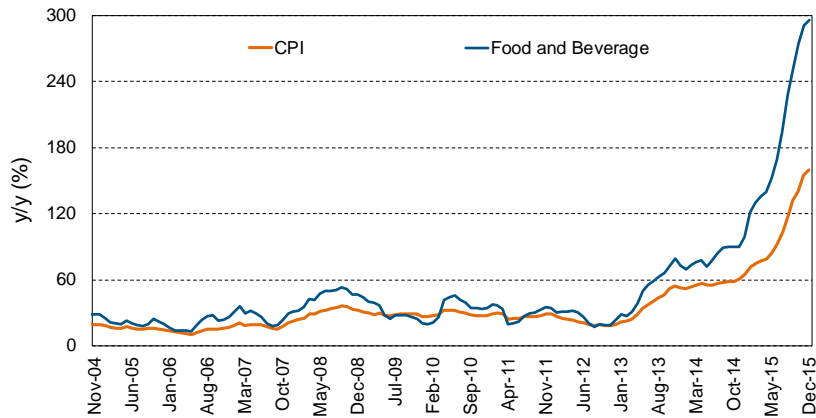
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

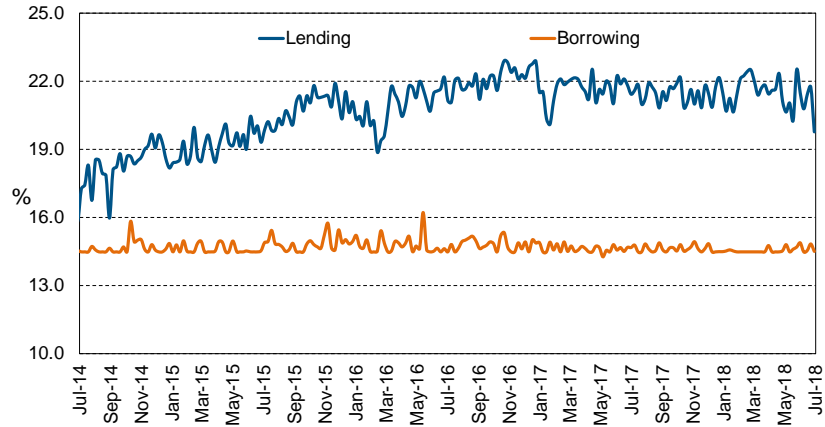
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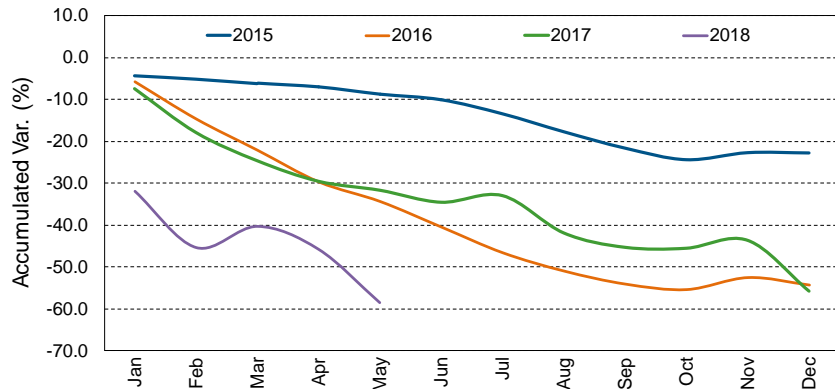
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



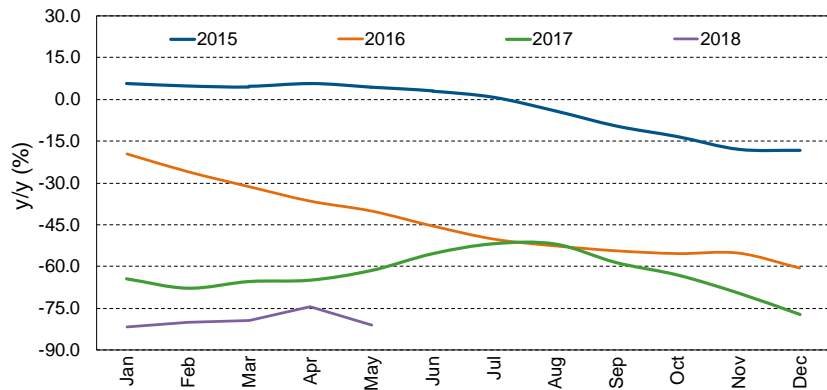
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

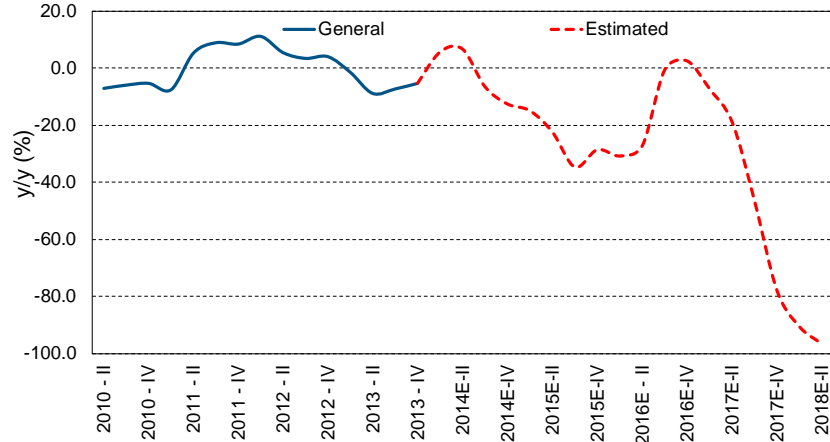
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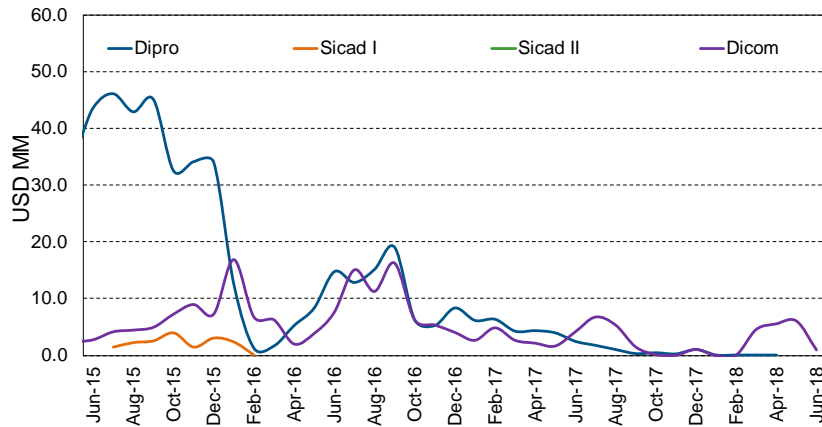
**ECONOMIC INDICATORS**

**Real Wage Index**



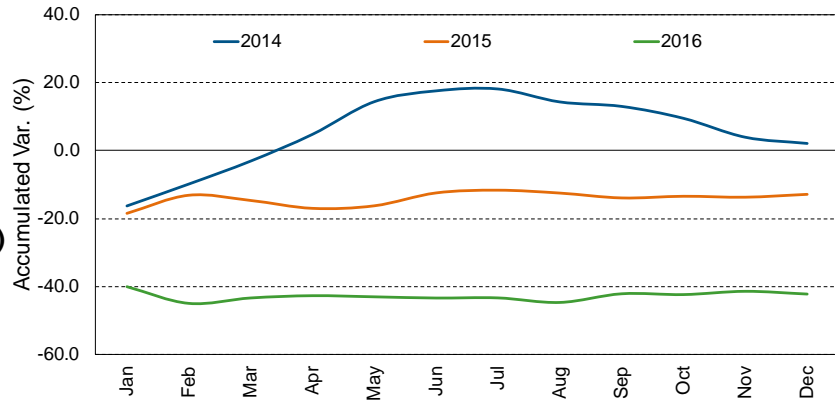
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

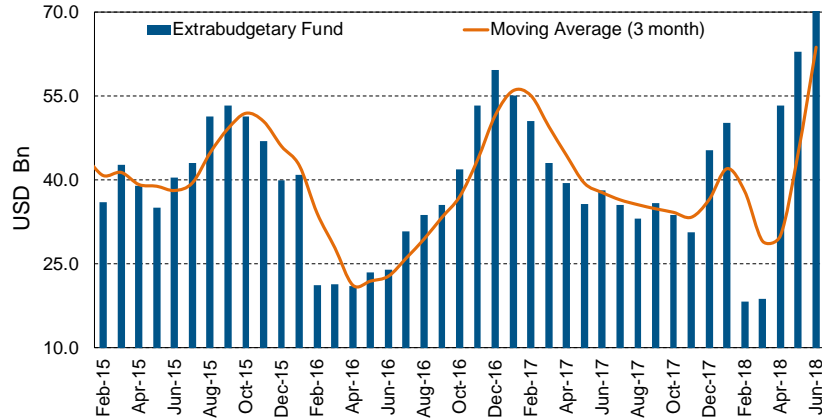
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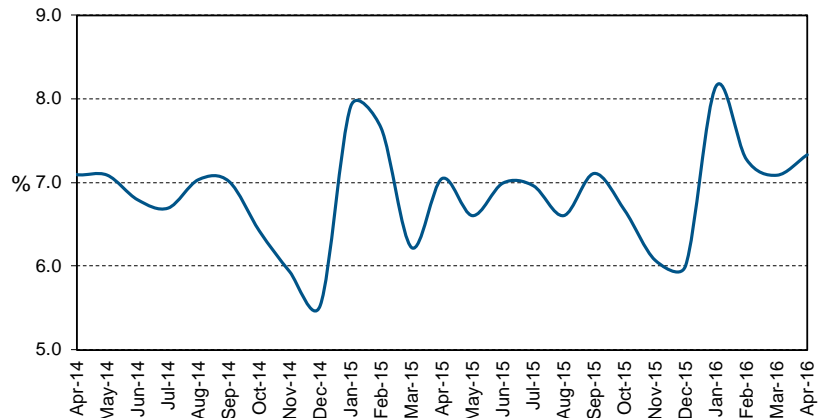
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



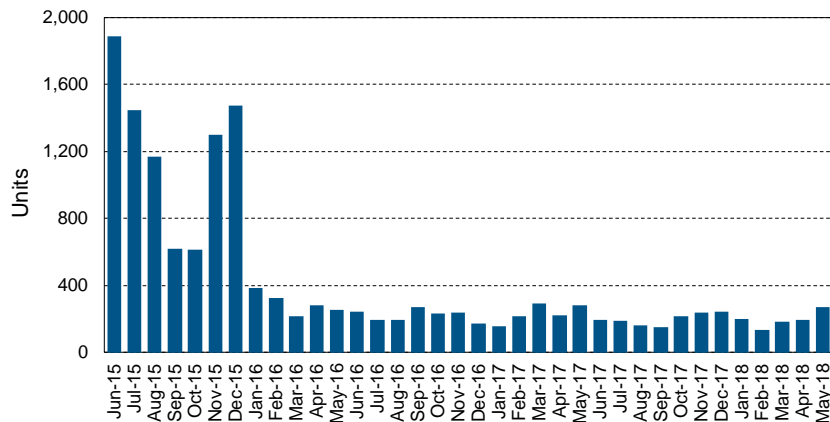
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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