



# *Economic Outlook* **Report**

10 – May 2022

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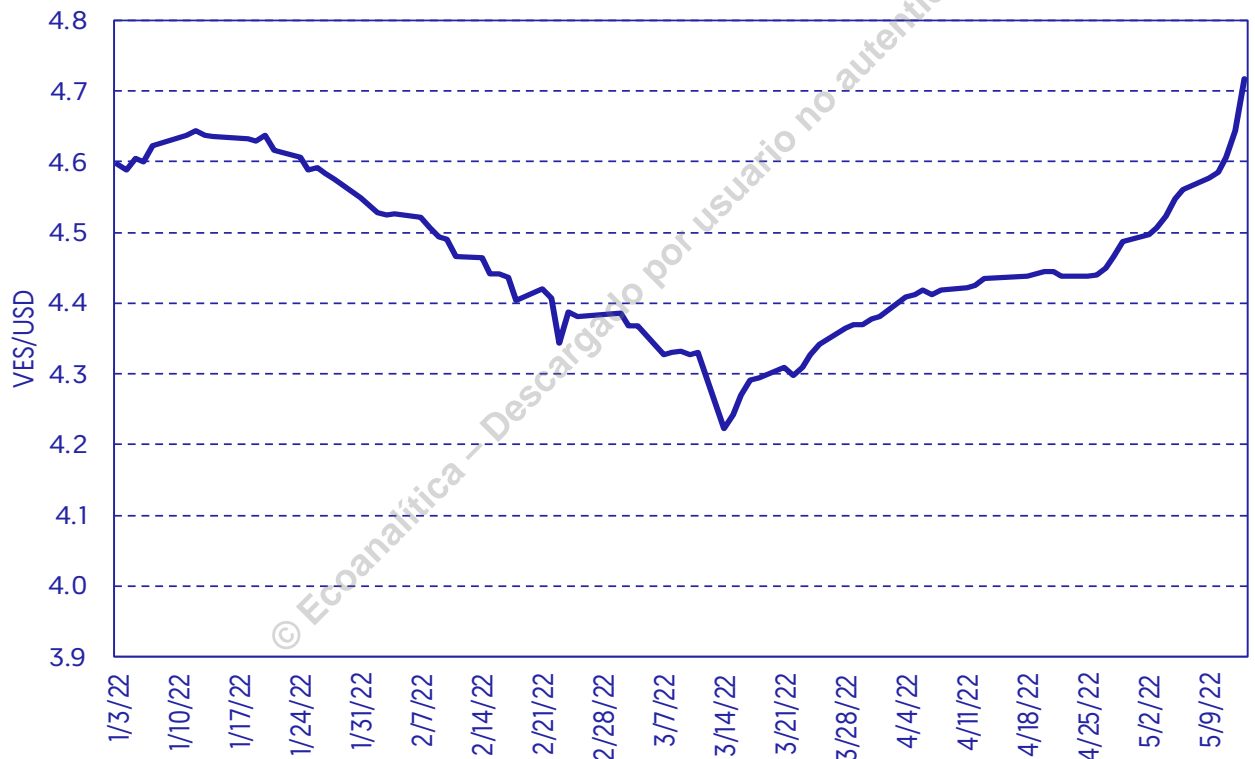
*Economic  
Indicators*

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## The repentant dollar Is back

In recent days, the Venezuelan exchange market has shown some different trends from those observed since the first weeks of October 2021. Except for the last two weeks, the exchange rate had not registered major fluctuations after overcoming the initial phases of the monetary reconversion of that year, when a mixture of uncertainty and doubts about its effectiveness and the corresponding precautions triggered the demand for foreign currency and, therefore, its price. As was to be expected, such changes aroused fears in the country, due to their apparent and usual effects, particularly in terms of price distortion in the country.

### Sales exchange rate (VES/USD) (adjusted scale)



Sources: BCV and Ecoanalítica.

However, a brief review of those dimensions that usually explain the exchange rate dynamics in Venezuela indicates that this recent performance may respond to purely transitory events. In fact, at the time of writing this note, the unofficial marker seemed to start a new phase of successive cuts, where the exchange rate has not surpassed that implicit barrier of USD 5 that it has been showing since last year. With this in mind, we will now take a brief look at possible explanations for the phenomenon and review why (we believe) such pressures may persist less than expected.



### Usual suspects

A notorious aspect in the last weeks has been the increased circulation of bolivars. Official figures place monetary liquidity (M2) at the end of April at over USD 1,700 MM, 86.6% above that seen at the end of 2022. This coincided, on the one hand, with a slight rebound in public sector disbursements in the last month<sup>1</sup> [as an improvement of its revenues in view of the new world oil context] and with a slight expansion of credit activity.

### Monetary Liquidity in USD (Dec 31-Dec 2021 = 100)



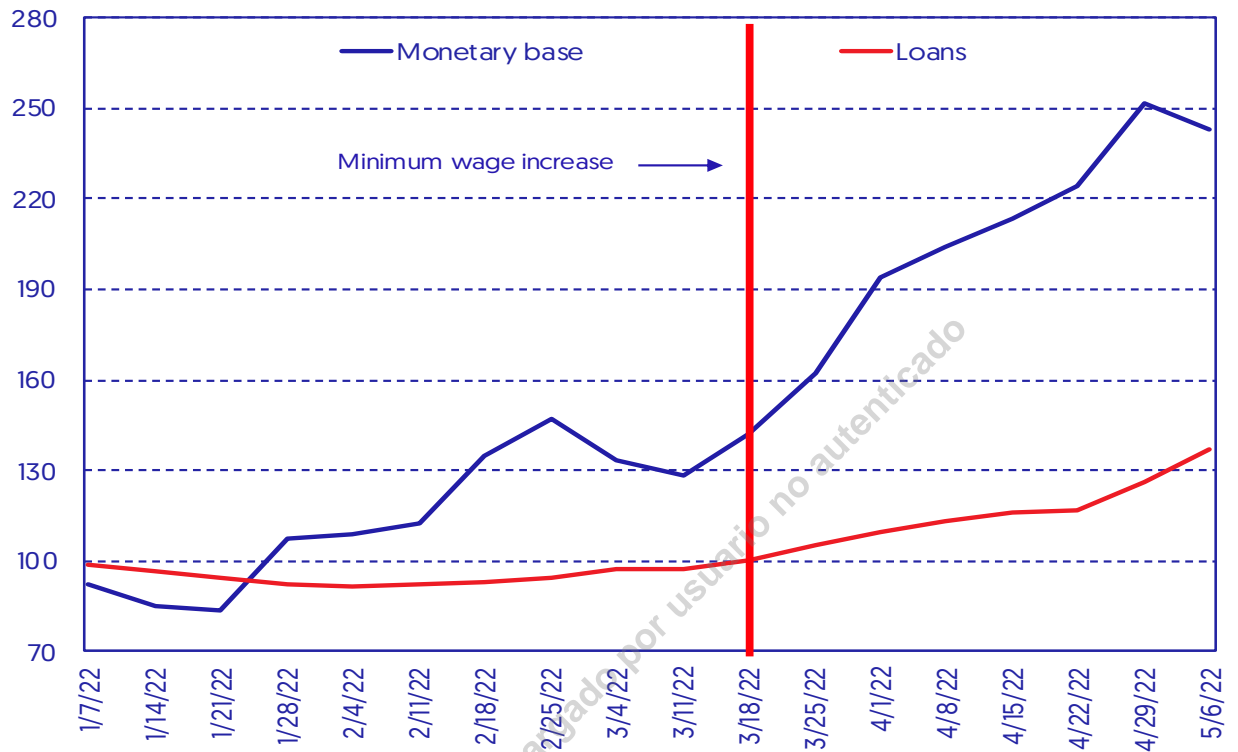
Sources: BCV and Ecoanalítica.

With more bolivars, this may have implied an upward push on the dollar via demand. However, such pressures have probably been lower in the past if we consider that (1) public sector spending was in sharp decline in the months before the wage adjustment and (2) lending activity still comprises too low a fraction of total deposits to foresee such a high increase in demand for foreign currency.

<sup>1</sup> Note that the change in trend occurs in the weeks following the setting of the new minimum wage in mid-March.



## Monetary base and credits in local currency (in USD) (Dec 31-Dec 2021 = 100)

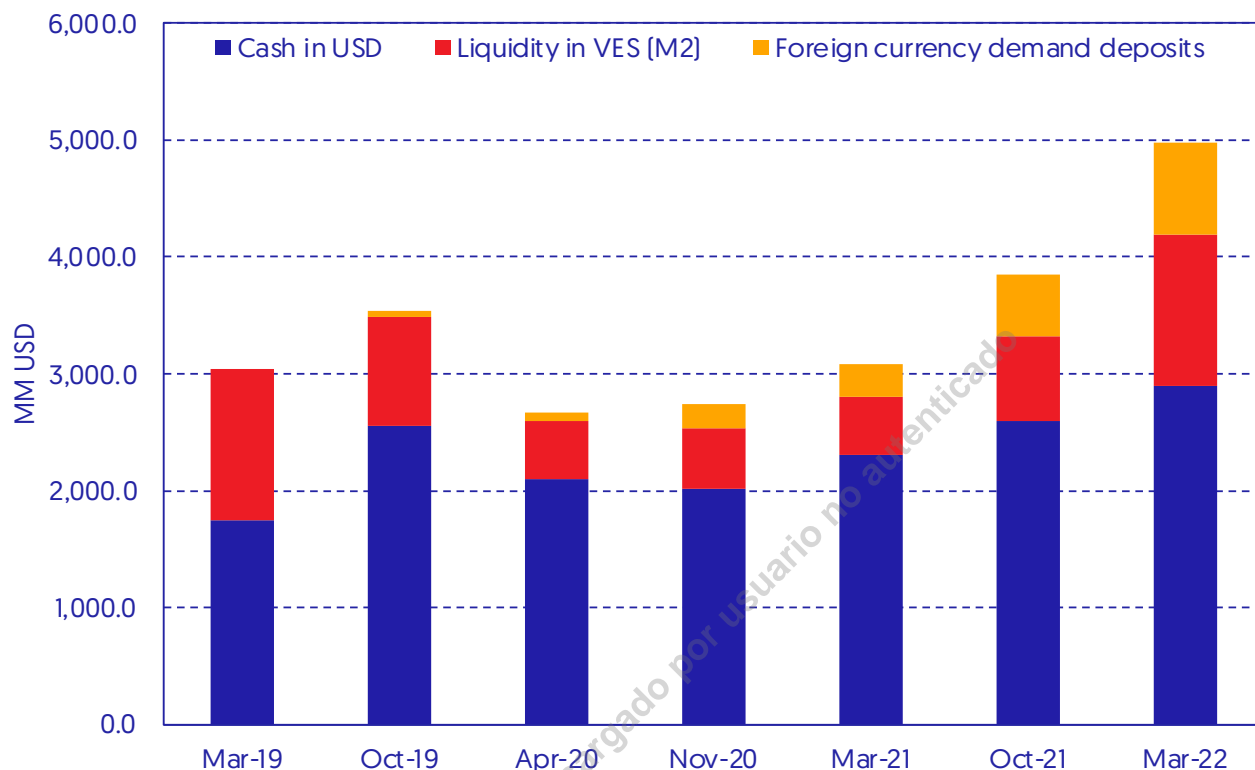


Sources: BCV and Ecoanalítica.

The higher flow of bolivars that has recently circulated must also be analyzed in the context of the high stock of foreign currency still in the country. Despite the higher amount of bolivars reported at the end of April, they still represent less than half of the amount of foreign currency in cash. To this must be added the more than USD 795 MM that banks have as liquid deposits in foreign currency. In this sense, although the mobilization of such deposits still faces restrictions, the incentives to acquire foreign currency at a high price will be lower as long as there is the alternative of acquiring it through domestic banks at a lower price.



## Circulation of bolivars and dollars. Demand deposits in foreign currency



Sources: Sudeban, BCV and Ecoanalítica.

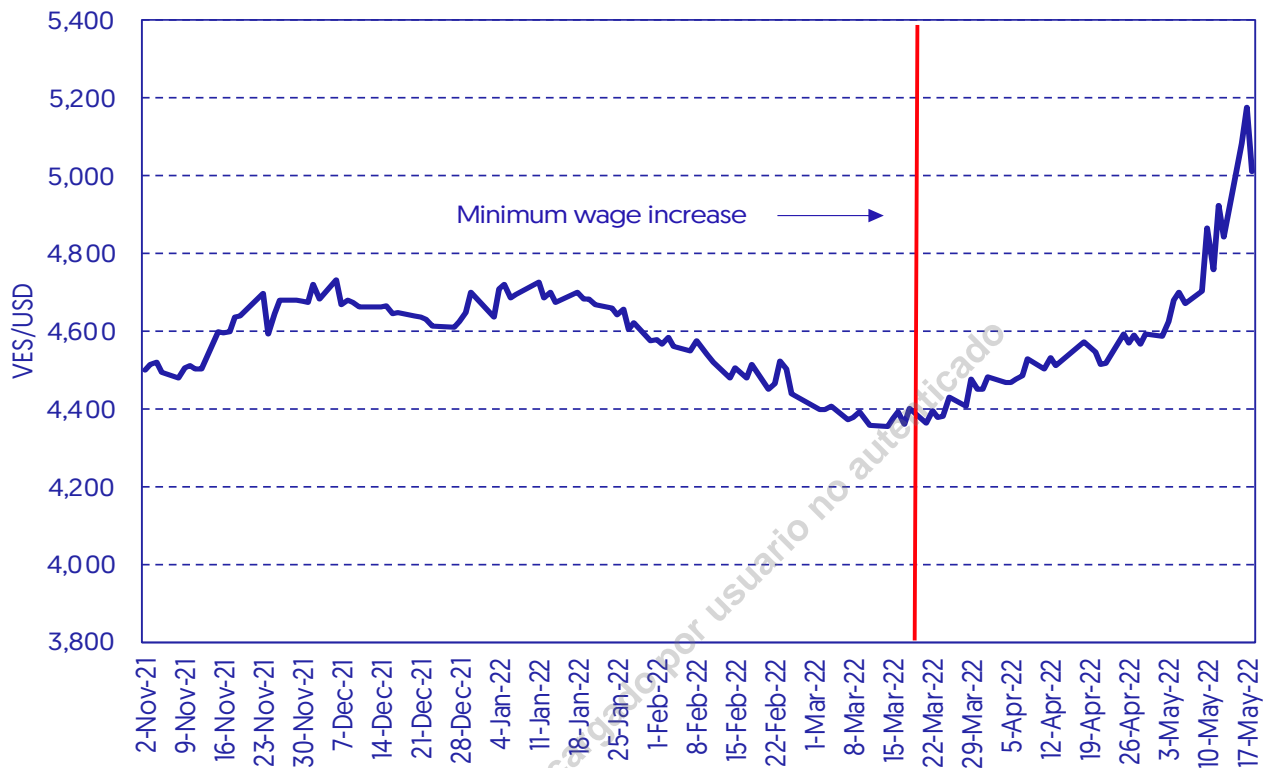
### *Forced depreciation (or correction of appreciation)?*

One aspect that has attracted attention in the last few days is the change in the monetary authority's position (in foreign exchange matters). The BCV has increased in the last few weeks the price of foreign currency assigned to the local banking system. In this sense, the increase in both markers (official and unofficial) could be due to a partial correction (driven by the issuing entity itself) of the marked overvaluation of the local exchange rate. In an environment of lower growth of prices in bolivars, the issuing entity would be supplying a greater flow of foreign currency at a higher exchange rate and thus promoting a relative decrease in the cost of local goods and services denominated in dollars<sup>2</sup>. This lower cost is validated by Ecoanalítica's figures for the variation of prices valued exclusively in foreign currency, which dropped 5.4% in the first two weeks of May, precisely in the period when the exchange markers began to rebound.

<sup>2</sup> Such strategy finds more room in the unofficial market, considering that, as from the last quarter of 2021, local banks may not assign unsold foreign currency (previously assigned by the issuing entity) at a different exchange rate than the one agreed in the BCV's exchange tables (see circular published by the BCV on November 18, 2021).



## Maximum (selling) exchange rate traded at the BCV's foreign exchange desks.

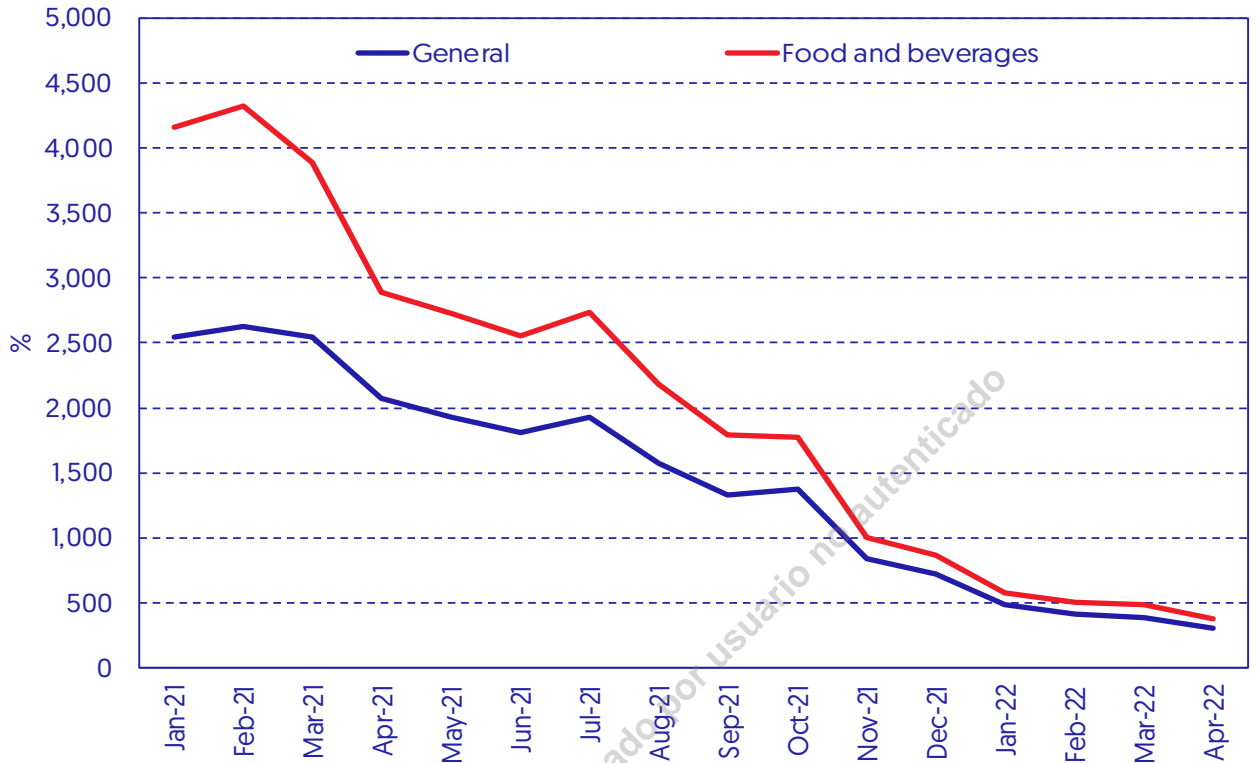


Sources: BCV and Ecoanalítica.

At this point, domestic inflationary dynamics continue to be decisive. On the one hand, the marked deceleration in recent months (from the official point of view) allowed the BCV to let the exchange rate depreciate in nominal terms. This could continue until such depreciation begins to affect local pricing (and forces the monetary authority to resume its strategy of using the exchange rate as a nominal anchor). On the other hand, from an alternative view in which prices have adjusted to a greater extent in the last few weeks (as shown by Ecoanalítica figures), the significant advance of the exchange rate seems to respond to the increased demand for foreign currency as a hedge for those who still receive their income in bolivars. Such demand may be reinforced by the recent upward pressures on food prices (partly as a consequence of the higher cost of raw material imports associated with the recent geopolitical tensions), which probably encourages the interest of households and some companies in the sector to acquire foreign currency that they would then use to face such costs.



## Year-on-year inflation in Venezuela



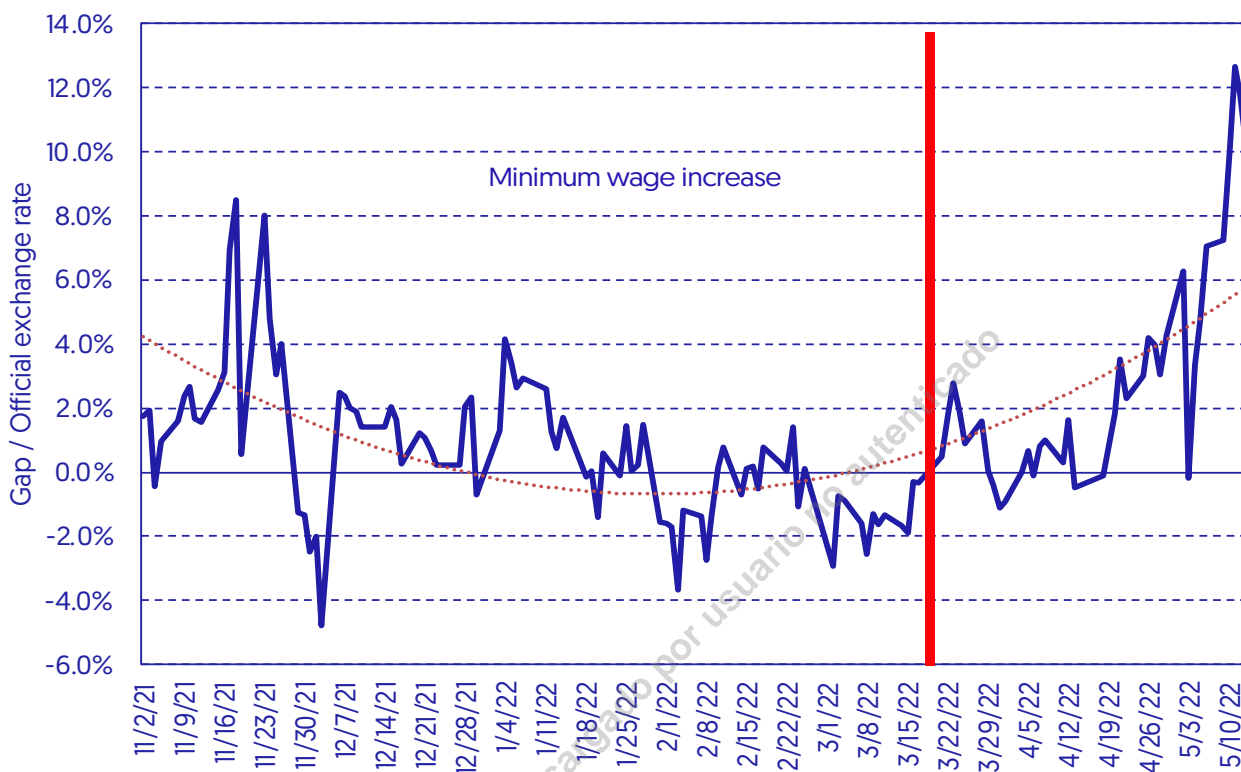
Sources: Ecoanalítica.

### Higher margin, lower capacity

With the rebound of the official rate and in the midst of the new exchange rate pressures, the gap between this official marker and the parallel exchange rate also increased. This margin was 12.6% of the price set by the BCV at the time when the unofficial price reached its maximum in the last two weeks. This implies greater pressures for the business, as suppliers demand to pay for foreign currency at a higher exchange rate, while the largest source of local foreign currency agrees to pay at a lower exchange rate (the official rate).



## Daily gap between unofficial exchange rate and BCV exchange rate (as a percentage of the official price)



Sources: Localbitcoins, BCV and Ecoanalítica.

On the one hand, such differences reveal the lack of confidence that local agents seem to have in the actions taken by the BCV in foreign exchange matters, where only a few temporary events (salary increases, relaxation of reserve requirements, among others) are enough to break the link between the official view of the exchange rate and the unofficial quotation. Likewise, given that most unofficial operations include foreign currency movements abroad (particularly transfers between private individuals), the increase in the premium ends up reflecting greater difficulties for foreign currency injected locally to be transferred to assets abroad.

These recurrent changes in the exchange rate context lead to reflect on the real capacities of the BCV to generate stability in the local money market. Up to now, the issuing entity has used reserve requirements and (sometimes forced) sales of foreign currency to banks as the only effective measure to reduce exchange rate tensions, in addition to a strategy of "renewing" operations in the open market as a method to promote savings in local currency indexed to a practically fixed exchange rate (?). However, such actions have not only generated non-trivial costs at the real level, reducing consumption and the saving capacity of companies and households in the country, but have also been ineffective in discouraging the use of dollars in transactional matters and in reducing annual inflation to double digits.

### *What can we expect? Nothing new*

If we assume that most of the changes that have caused the new rebound in the domestic exchange markers are transitory, it seems plausible to predict that such cracks in the price of the currency will also be transitory. Although a scenario of high



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inflation will continue to affect Venezuelans' decision making for the remainder of the year, it should not be forgotten that the regulator still has a strong interest in continuing to limit the growth of prices in Venezuela. In this sense, if in the coming months inflation in bolivars ends up absorbing the recent exchange rate depreciation, a new round of official interventions in the exchange market at a similar exchange rate to the one agreed in the past days is foreseen.

Even in the hypothetical case in which public foreign currency sales cease due to an unanticipated disruption of the government's external revenues, we are likely to see a cut in bolivar spending or a further dollarization of public sector payments in an attempt to maintain a "hydrated" foreign exchange market. Therefore, it is likely that we will reach a new, higher (but not excessive) exchange rate level, followed by a new period of stability.

*Luis Arturo Bárcenas*

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# Weekly Indicators

	3rd Week May	Weekly chg. (%)	Depre/Apre (pp)
FX Boards (VES/USD) <sup>2</sup>	4.8	3.7	3.6
	1st Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	59.3	3.2	1.4
	3rd Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	138.8	92.1	-72.4
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	10.4	-1.71	65.1
	1st Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)*	7,722.2	-1.3	430.8
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
WTI (USD/BL)	105.0	-1.6	61.1
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
Brent (USD/BL)	107.4	-2.7	56.7
	5th Week July (2020)	Weekly chg. (%)	Annual chg. (%)
Weekly Average VOB (USD/bl)**	22.4	0.0	-61.9
	5th Week July (2020)	Weekly chg. (%)	Annual chg. (%)
Annual Average VOB (USD/bl)**	28.8	-0.7	-51.7

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Reconverted amounts.

\*\* Venezuelan Oil Basket (VOB)

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

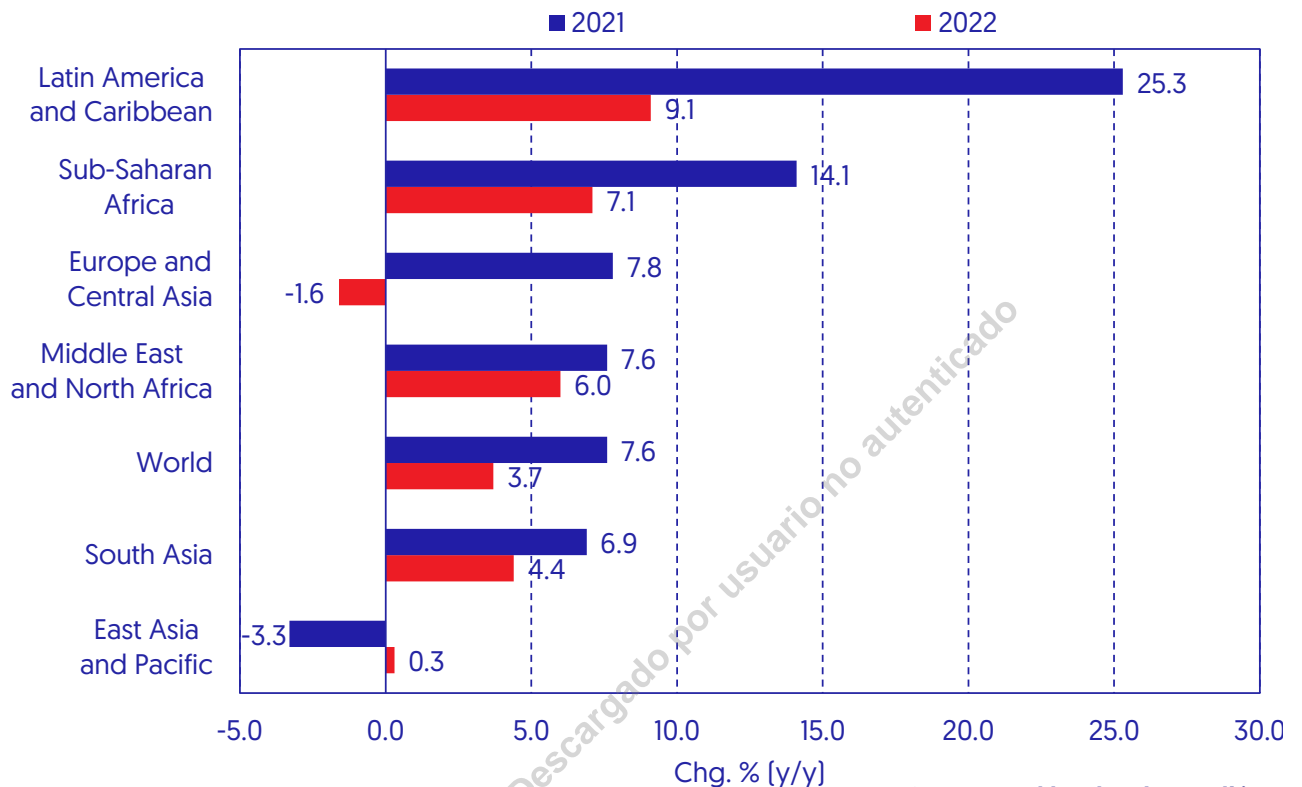
<sup>2</sup> FX Boards' average exchange rate



# Graphic of the week

## A helping hand

### Annual growth of remittances by region



Sources: World Bank and Ecoanalítica.

The Venezuelan oil industry is going through a highly vulnerable situation due, on the one hand, to the complete stoppage of drills (used in the extraction of crude oil) and of most of the wells due to lack of maintenance after years of lack of investment and lack of professional and technical follow-up. Likewise, part of the challenges of the current oil activity is because the Russian financial system plays a very important role in obtaining cash resulting from oil exports and, since Russia is currently the country with the most sanctions in the world, it may bring complications in the collection of payments at the end of PDVSA's commercialization process.

For all these reasons, the capacity to increase the country's oil production seems to be structurally limited. However, in the event of changes in the Hydrocarbons Law or relaxation of sanctions that promote the entry of foreign capital, oil export revenues could reach between USD 25 and 31 billion, with an average production between 984 kb/d and 1,211 kb/d, in a 12-month period.

Based on the analysis of experts from the energy consulting firm IPD Latin America, a first "optimistic" scenario can be considered, in which a month-on-month production growth rate of 7.4% would be expected in the first year, bringing oil production to prepandemic levels in just two years. This assumption, however, does not consider the role of domestic factors such as the aforementioned shutdown of drills and wells and the lack of preparedness of technical personnel.



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An alternative scenario, based on Ecoanalítica's forecasts, considers a more discreet flow of investment due to fears of a weak regulatory framework and the high costs that could be involved in the recovery of the industry. In this scenario, month-on-month production increases of 2.85% are expected, with a volume of 1,090 kb/d by the end of the first year after the structural changes are implemented.

Beyond the differences, we are faced with scenarios that demonstrate Venezuela's potential in the event of eventual structural changes that would allow a significant increase in production with the addition of the current high oil prices.

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# Tips Economic, oil, sectorial and political

## *Economic Tips*

**COVID-19 in Venezuela.** According to government figures as of March 17, 2022, the country accumulated 523,119 registered cases of coronavirus and 5,713 deaths. In turn, according to OurWorldInData, it is estimated that 77.19% of the population has received at least one dose of some vaccine as of March 25, 2022.

**April inflation (I).** The BCV published that the monthly inflation for April was 4.4%, which is significantly lower than that observed in April 2021 (24.6%) and reaches the eighth consecutive month with single digit figures. With this result, accumulated inflation in the first four months of the year stands at 16.3%, while inter-annual inflation rises to 222.3%.

**Inflation in April (II).** In detail, the item with the highest price increase in the month was "Education services", which registered a month-on-month inflation of 15.2%, followed by "Restaurants and hotels" (6.2%) and "Leisure and culture" (5.7%). Alcoholic beverages and tobacco and "Transportation" were the items with the lowest monthly inflation in April, registering 0.9% and 1.9%, respectively.

**Liquidity soars.** In contrast with the low inflation levels observed by the BCV, monetary liquidity has increased considerably so far in 2022. Thus, from the beginning of the year to the week of April 29, monetary liquidity recorded an accumulated variation of 89.5%, which, discounting inflation, translates into a real increase of 62.9% in the first four months of 2022.

**Positive first quarter.** The Venezuelan Observatory of Finance (OVF) published that the economic activity for the first quarter of 2022 registered an increase of 7.8% year-over-year. According to its estimates, this growth is largely explained by a rebound effect of oil production, due to the fact that it compares to the low production levels of the first quarter of 2021.

**Increased injection.** In the first two weeks of May, the BCV injected a total of USD 269.5 million to banks in order to counteract the recent rise in the exchange rate. This figure was reached in two exchange interventions, the first of USD 143.5 million and the second of USD 126 million. With this, the BCV has sold a total of USD 1,600 million to banks so far this year and exceeds the total amount injected in 2021 for this concept (USD 1,553 million).

**Money Tables.** For the last week of March, the average money desk rate was VES 4.8/USD, representing a 3.6% depreciation from the previous week.

## *Oil Tips*

**Forecasts are downgraded (I).** OPEC has revised down its oil demand forecast for this year, due to the impact of the Ukraine war on the world economy, accelerating inflation rates and COVID-19 restrictions in China.

**Forecasts decline (II).** In its latest Monthly Oil Market Report (MOMR), OPEC forecasts global oil demand growth of 3.4 mb/d, down 300 kb/d from its previous forecast. The report mentions that the downward revisions for the coming quarters were made to account for the possible slowdown in global growth and the resurgence of COVID-19 in China.

**Two-year recovery (I).** The Secretary General of the Organization of Petroleum Exporting Countries (OPEC), Mohammad Barkindo, stated that the Venezuelan oil industry recovered "in a record time" of two years. He stated that in this period he saw "each one of the country's plants working optimally and the increase in production



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from very low levels to almost more than one million". The OPEC Secretary is in Venezuela to strengthen cooperation between the country and the organization.

**Two-year recovery (II).** In relation to the above, according to the organization's monthly report, Venezuela's oil production grew 6.4% in April with respect to the previous month, which is equivalent to an increase from 728 kb/d to 775 kb/d.

**Venezuelan imports to Iran...** According to Reuters data, in the last weeks, Venezuela has imported approximately 600,000 barrels of Iranian heavy crude oil to supply the national refineries. 200,000 barrels were delivered to the Cardón refinery and the remaining 400,000 barrels to the José Antonio Anzoátegui Petrochemical Complex. With these barrels, Iran continues supplying Venezuelan branches. The Venezuelan tanker Máximo Gorki is ready to unload two million barrels of condensate and the Iranian vessel Derya is waiting to deliver its cargo.

**delivery tactics.** According to Reuters, the two million barrels of condensate from the Maximo Gorki were delivered through a ship-to-ship delivery tactic off the Maldives for the evasion of sanctions by countries. The news agency stated that "A Venezuelan-owned tanker sailed in March to a remote location in the Indian Ocean; encountered an Iranian-flagged ship; took on a cargo of Iranian condensate and sailed home, according to monitoring services and shipping documents."

### *Sectorial Tips*

**Review of the exoneration (I).** The Venezuelan Confederation of Industrialists (Conindustria), together with the Government of Nicolás Maduro, will maintain the revision of the list of products exempted from value added taxes and import duties. After the elimination of these benefits to 1,260 tariff codes in the recent reforms, Luigi Pisella, president of Conindustria, expressed that these were on "a positive path".

**Review of the exoneration (II).** In addition, according to Banca y Negocios, Conindustria agreed with the Government the creation of a mechanism that will allow a permanent follow-up of the sector with the purpose of generating adequate solutions to the problems suffered, among which are the unfair competition between imported and domestic production.

**What weighs more?** Wael Raad, president of the Anzoátegui State Chamber of Commerce, explained that traders in the state continue working with foreign currency in spite of the 3% tax on large financial transactions and the increase of the parallel dollar. He expressed that the informal circulation of foreign currency continues to be necessary, in spite of the tax applied to transactions, due to the fact that the bolivar has little circulation.

**Decrease in coffee production.** Celso Fantinel, president of the Confederación de Asociaciones de Productores Agropecuarios de Venezuela (Fedeagro), informed that the country's coffee production has decreased between 500,000 quintals and 600,000 quintals in the last years, in contrast with the comments made by Nicolás Maduro, who assured that 17 quintals of coffee were produced per hectare; Fantinel comments that the average does not exceed 4 quintals or 5 quintals.

**Food basket at record value (I).** The Venezuelan Observatory of Finance (OVF) reported that the food basket reached a record value of USD 381 in April, which is equivalent to an increase of 31.51% with respect to April last year. The reasons behind this increase are "the supply shocks being experienced by the economy due to the war in Ukraine, supply bottlenecks in global trade chains due to COVID-19 and the overvaluation of the real exchange rate in Venezuela" according to the Observatory.

**Basket at record value (II).** Likewise, the OVF indicated that the inflation rate for April was 3.6% and that, in inter-annual terms, the variation of prices in Venezuela continues to be the highest in the world with 172%. Finally, it specified that the items that showed



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the highest increases were leisure [5.4%], clothing and footwear [4.5%], alcoholic beverages and tobacco [3.3%] and communication services [3.3%].

### *Political Tips*

**Investment expectations (I).** Nicolás Maduro stated that there are "hundreds of investors ready" to invest in the shares of public companies that the Government will offer through local stock exchanges.

**Investment expectations (II).** Likewise, he assured that the offering of shares in the stock exchange is part of the strategies to rescue the country's economy and referred that they handle figures that show "encouraging results" of this economic recovery during the first four months of the year.

**New changes (I).** Nicolás Maduro announced changes in his ministerial cabinet; among them is the appointment of Carlos Faria as Minister of Foreign Affairs to replace Félix Plasencia, who will assume new responsibilities to be announced soon.

**New changes (II).** Maduro assured that these changes are made by virtue of suggestions made by the Council of Ministers. He also informed that the union leader and deputy of the 2020 National Assembly, Francisco Torrealba, will replace Juan Arias in the Ministry of Labor.

**Primary elections...** Members of the Unitary Platform announced that, after a process of debate and consultations among its member organizations, it was agreed to hold primary elections in 2023 to choose a presidential candidate.

**in search of decisions.** Similarly, the Venezuelan opposition announced that they decided to appoint Omar Barboza as executive secretary of the Unitary Platform. Members of the organization pointed out that Barboza will be a facilitator of the decisions and operations of the leaders who oppose Nicolás Maduro.

**Affirmations...** Social Watch warned that the International Cooperation Law that could be approved by the National Assembly in 2020 is a threat to the freedom of people who are part of NGOs in Venezuela.

**seeking accountability.** Such statements refer to Article 26 of the proposal which empowers the Executive to, through administrative or financial agencies, eliminate organizations that are "promoting the application of coercive measures against Venezuela".

**Electoral Mission (I).** The European Union [EU] was in favor that the negotiation process being carried out in Mexico by the Venezuelan authorities and the Venezuelan opposition should work on the implementation of the recommendations presented by the EU observation mission in the last local and regional elections of November.

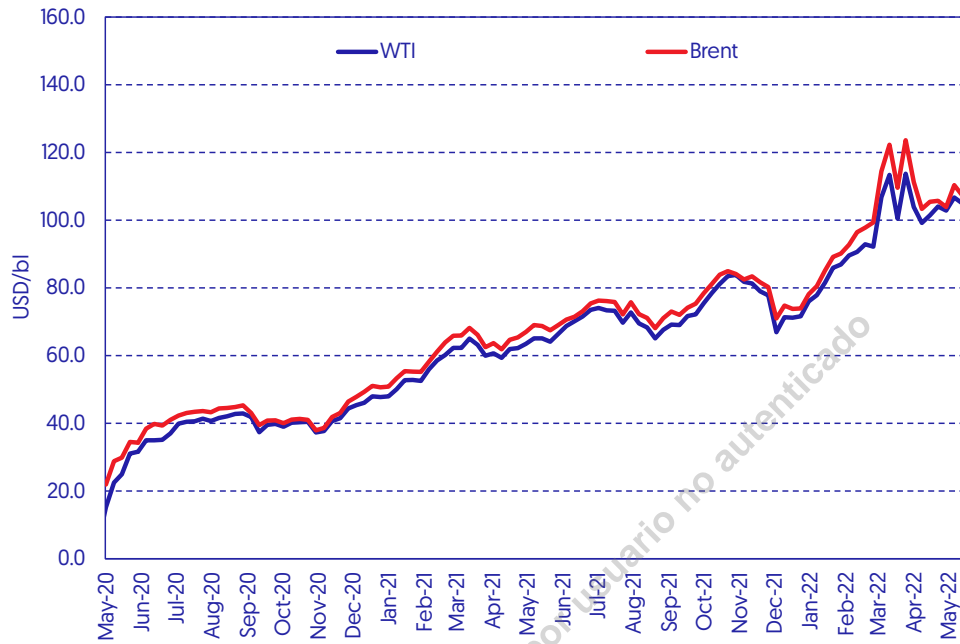
**Electoral Mission (II).** The main recommendation of the mission is to strengthen the separation of powers and confidence in the independence of the Supreme Court of Justice for future elections.

**Crisis in Venezuela.** The International Rescue Committee [IRC] mentioned that Venezuela's migration crisis requires greater funding, support and protection for citizens leaving the country in search of safety and stability in other Latin American nations.



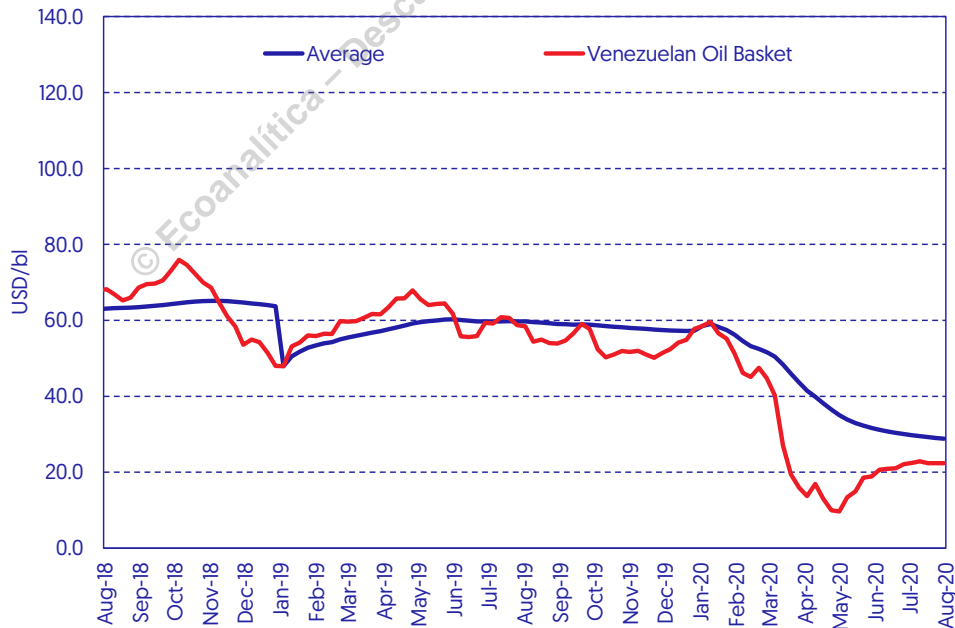
# Economic Indicators

## Oil prices (WTI and Brent)



Sources: Menpet and Ecoanalitica.

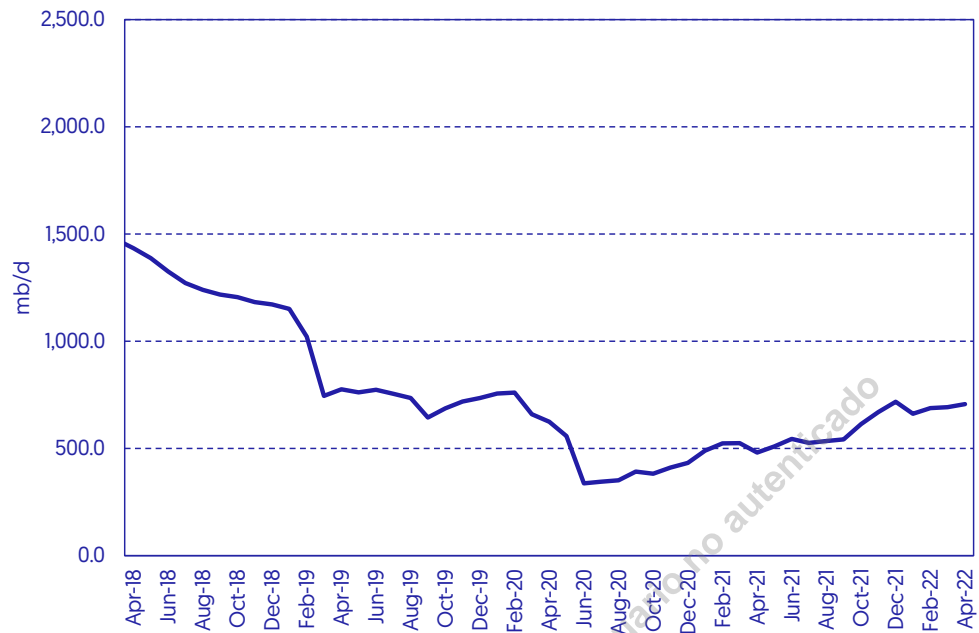
## Oil prices (Venezuelan basket)



Sources: Menpet and Ecoanalitica.

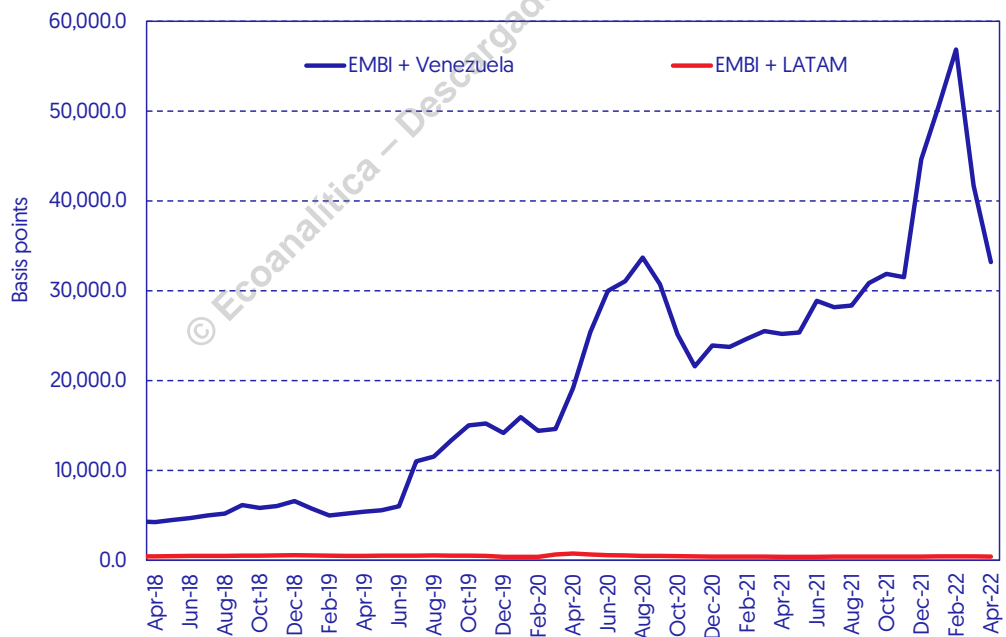


## Oil production (secondary sources)



Sources: OPEC and Ecoanalítica.

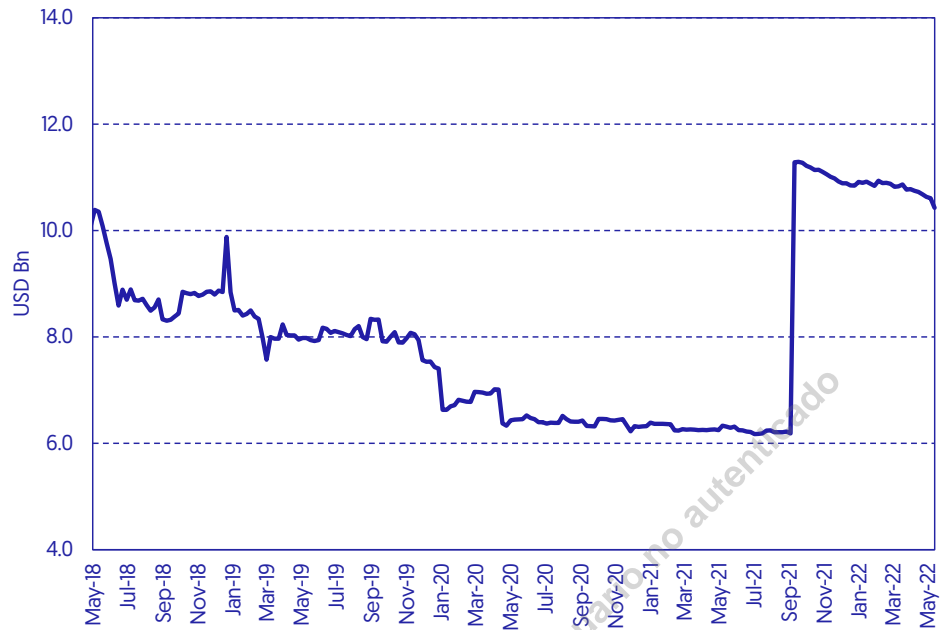
## EMBI



Sources: BCRP and Ecoanalítica.

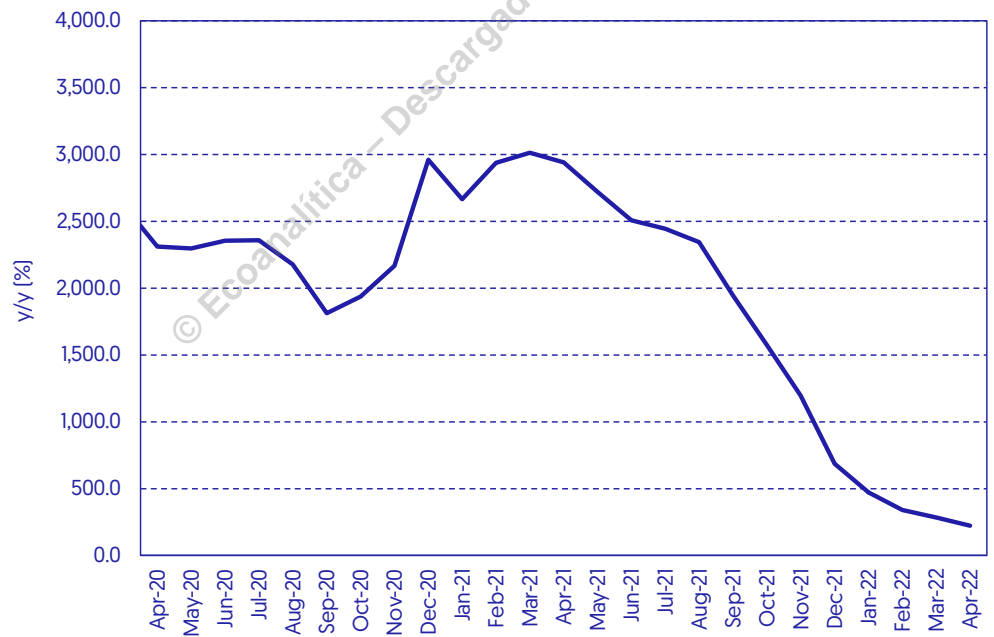


## International reserves (BCV)



Sources: BCV and Ecoanalítica.

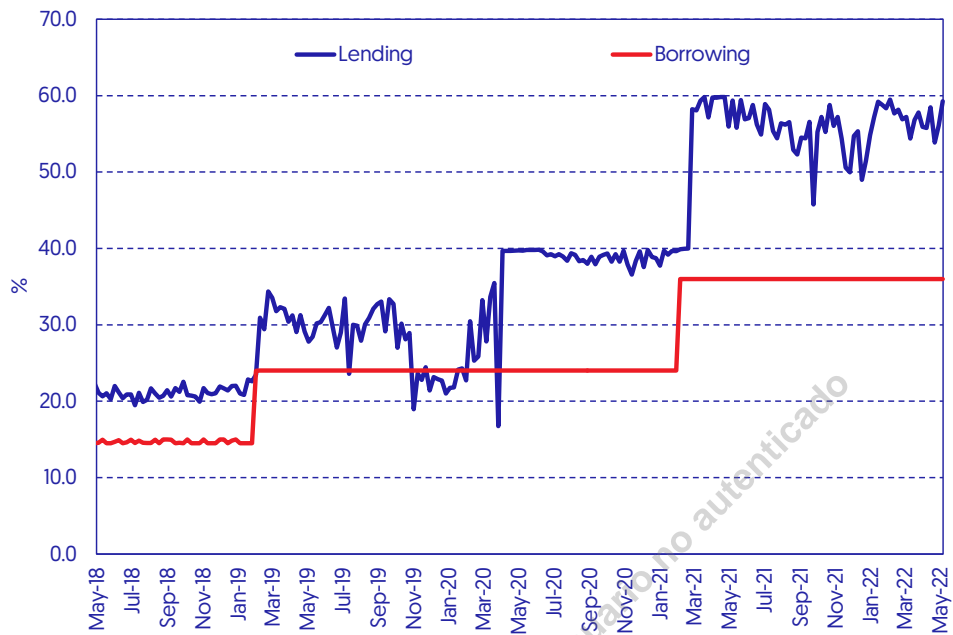
## Inflation (BCV)



Sources: BCV and Ecoanalítica.

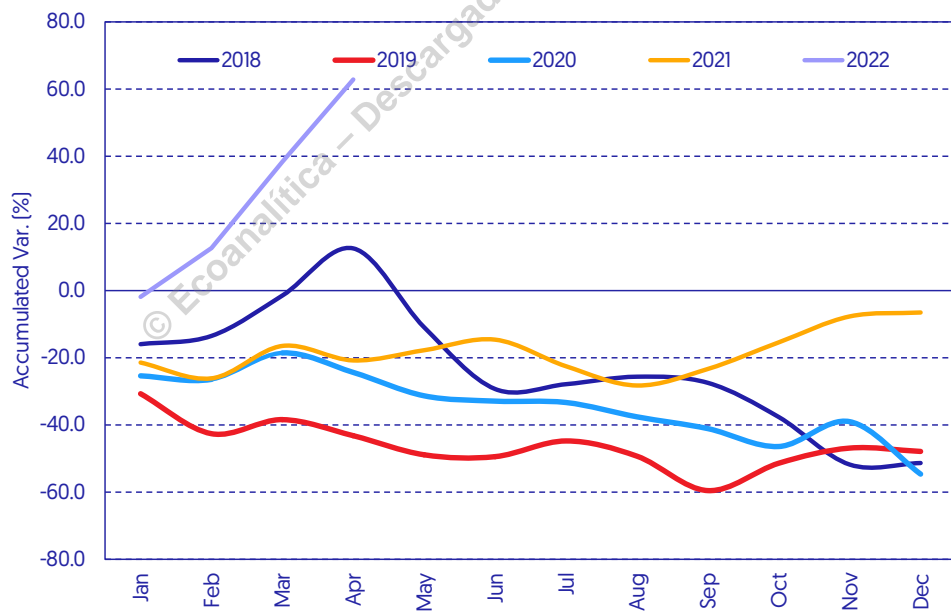


## Interest rate (six major banks)



Sources: BCV and Ecoanalítica.

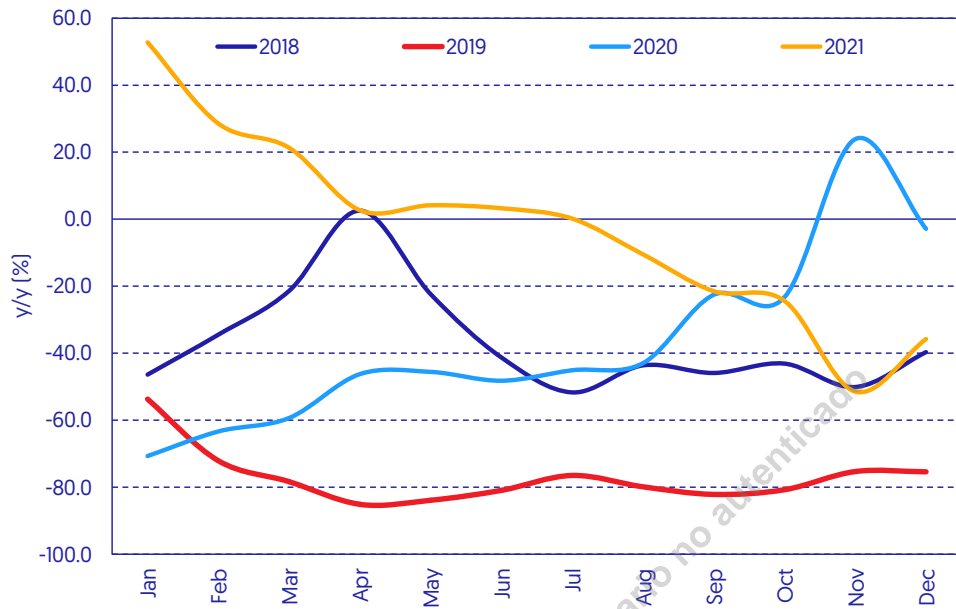
## M2 Expansion (real)



Sources: BCV and Ecoanalítica.

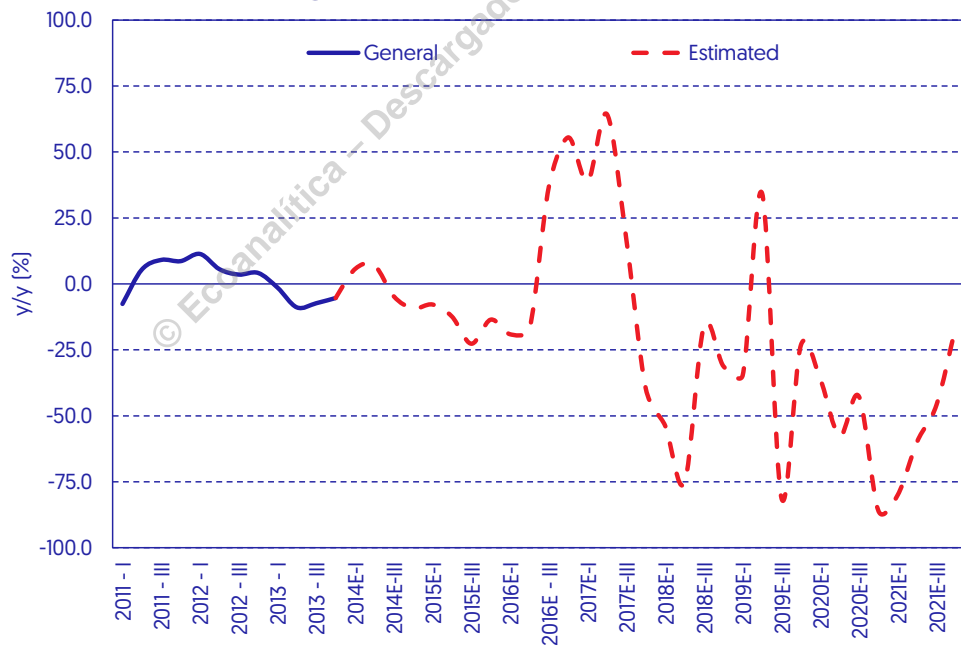


## Loan Portfolio (real)



Sources: Sudeban and Ecoanalítica.

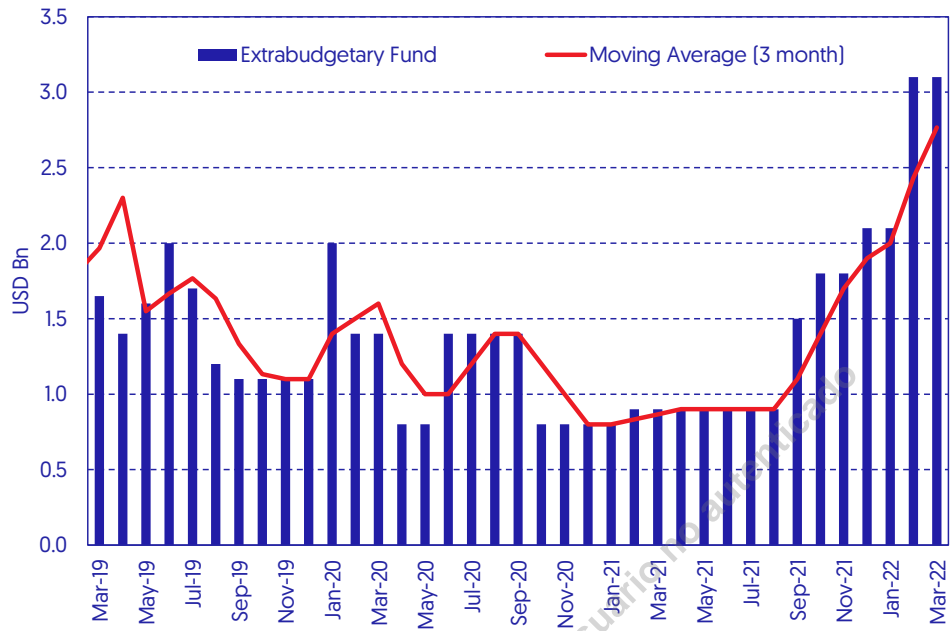
## Real wage index



Sources: BCV and Ecoanalítica.



## State extrabudgetary resources



Source: Ecoanalítica.

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***Directors***

Alejandro Grisanti, Pedro Palma, Asdrúbal Oliveros,  
Armando Grisanti, Reinaldo Planchart.

***Research Team***

Luis Arturo Bárcenas, Giorgio Cunto Morales, Jesús Palacios Chacín,  
Jhoan F. Castellano, Diego Santana Fombona, Carlos Penfold.

***Research Assistants***

Mariana Fernández, José Antonio Medina, Pablo De Sousa.

---

***Venezuela***

C.C. Mata de Coco, 5th floor, office 5-E, La Castellana,  
Caracas 1060, Venezuela.

J-31130403-7

+58 212-266.9080

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***República Dominicana***

Torre Da Silva IV, 19th floor, La Esperilla,  
Santo Domingo 10107, Dominican Republic.

RNC 132303352

+1 809-895.0227

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