



Economic Outlook

Report

11 – June 2022

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Mirroring or Oasis?

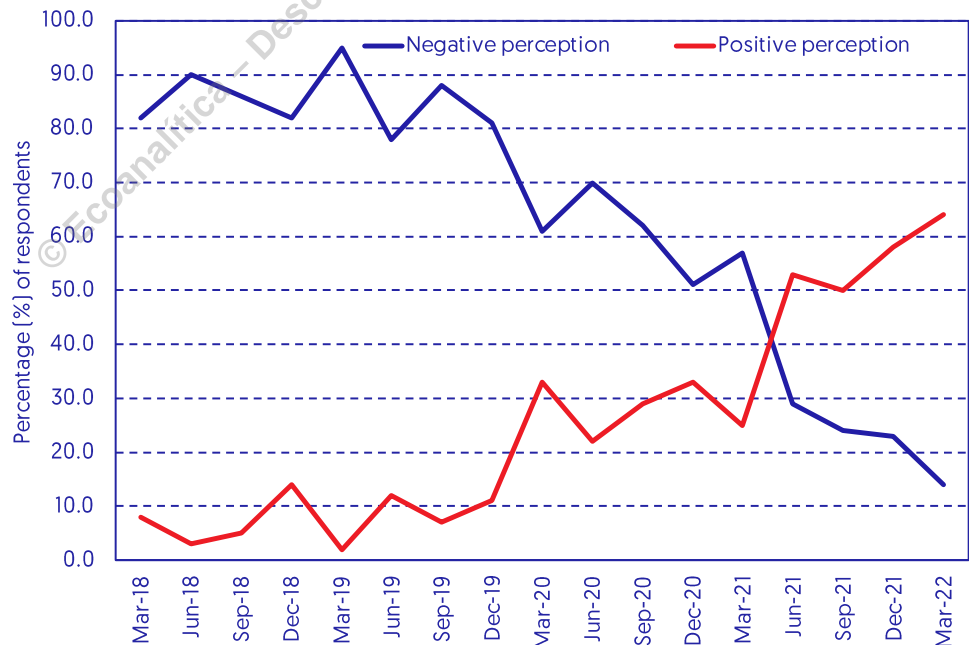
Recontextualizing economic recovery

According to **Ecoanalítica's** estimates, 2021 seems to have represented the end of the deep economic contraction that began in 2014. After shrinking by nearly 78.2%, we estimate that the Venezuelan economy grew by only 0.9% in 2021 and, so far, we expect it to expand by 8.1% this year. However, the Venezuelan economy still presents a high degree of vulnerability and, in view of the latent growth expectations, it is worth contextualizing how this expansion has been achieved and the opportunities and challenges arising from the economic trends.

An X-ray of the industries: healing the wounds

Figures from Conindustria provide clarity to the change in the trend of the Venezuelan economy. According to the Qualitative Survey of Industrial Situation of the first quarter of the year¹, 59% of the companies surveyed perceive that, compared to 12 months ago, the country's economy is better, 37% the same and only 4% considered that the economic conditions are worse.

Perception of production



Sources: Conindustria and Ecoanalítica.

¹ Conindustria [2022]. *Qualitative Survey of Industrial Situation First Quarter 2022.*



In the same survey, 64% of the companies surveyed reported that in the first three months of the year their production increased compared to the same period in 2021, and, in the case of large and medium-sized companies, this percentage reached 68%. The perception of production has steadily improved since the third quarter of 2021, when 50% of the companies reported increases in production. In fact, the improvements are notable compared to the lows observed in 2019, when only 2% of companies indicated that their output had grown in the first quarter, while 95% reported that their output had contracted from the levels of the first three months of 2018.

Additionally, installed capacity utilization (ICU) figures² have also shown improvement in recent quarters and stood at 27.4% in Q1 2022, 10.6 percentage points (pp.) above the low observed in the first three months of 2019 (18%); however, ICU is still well below the levels observed before the economic contraction began. By the third quarter of 2013, the UCI was at 57%.

Installed capacity utilization (%)



Sources: Conindustria and Ecoanalítica.

The improvements observed seem to have allowed, in part, an increase in workers' salaries. According to Conindustria figures, salaries of workers (67% with respect to the first quarter of the previous year), professionals and technicians (97%) and

² Installed capacity refers to the production potential or maximum production volume that a company can achieve during a given period of time, taking into consideration all the resources available to it, whether production equipment, facilities, human resources or technology.



managers [88%] were increased to USD 130, USD 339 and USD 779, respectively. Beyond the productive improvements, the salary increases seem to be due to the increase in the cost of living in dollars, since companies have had to adjust their salaries according to the rise in the economy³.

Despite increases in production and wages, investment figures remain relatively stagnant. Only 27% of companies reported an increase, and a large portion of these were large industries, of which 57% saw an increase in investment.

In general terms, industrial indicators, indicative of local supply, seem to have improved moderately; however, local companies continue to have a limited range of maneuverability due to lack of financing, regulatory and tax restrictions and a low local demand that prefers to consume (either for quality or price reasons) imported goods.

Consumption: The protagonist of the recovery

Even considering the slight improvements on the supply side, the real protagonist of the economic improvements seems to be on the demand side. In general, more imports (facilitated by tariff exemptions⁴ and an appreciated real exchange rate⁵), higher income via wages and remittances⁶ and lower transactional frictions (thanks to stable dollarization and less price and exchange rate volatility) seem to have encouraged consumption by the average Venezuelan, which has given a significant boost to activity.

Unfortunately, the scarcity of official figures makes it difficult to accurately analyze the evolution of consumption patterns in the Venezuelan economy; however, different data compiled by Google allow us to have an approximate overview of how the demand of agents has varied in recent years.

³ Weekly Report N° 29 of 2021: *The Art of Payroll: Wages in Venezuela*.

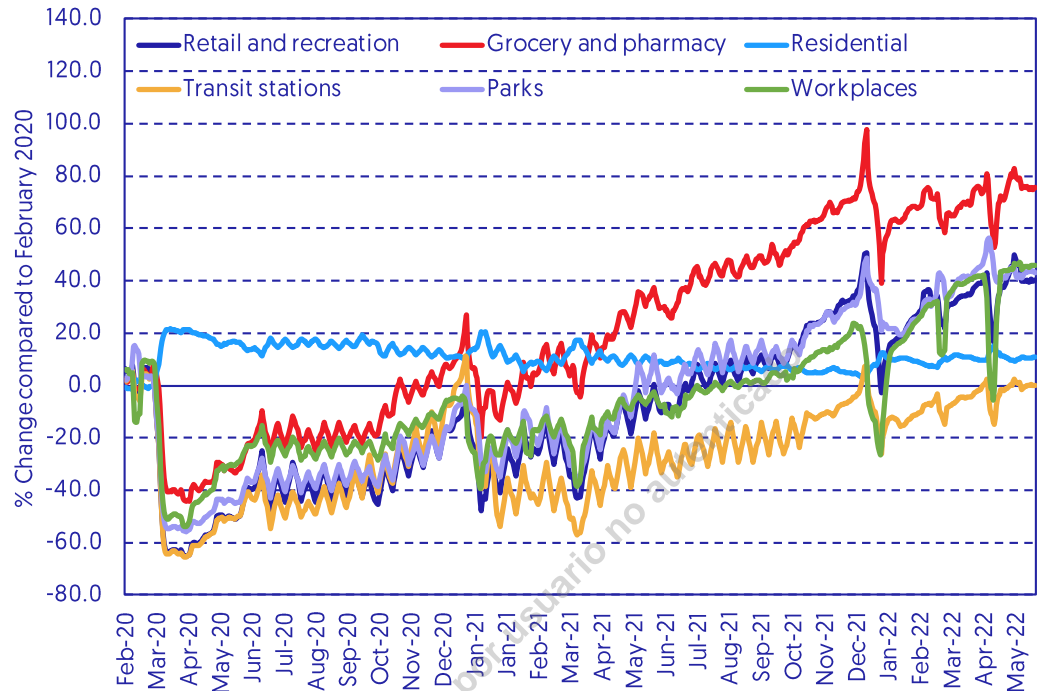
⁴ *Digital Finance* [2018]. *Official Gazette No. 41.446: Imports indicated in the Decree are exempted until December 31, 2019, from the payment of the Import Tax and Fee for determination of the customs regime*.

⁵ An appreciated real exchange rate promotes imports, since it is cheaper for the country to buy foreign goods than to consume domestic products.

⁶ Weekly Report N° 22 of 2021: *Remittances, quarantine and food security*.



Evolution of mobility (Venezuela)



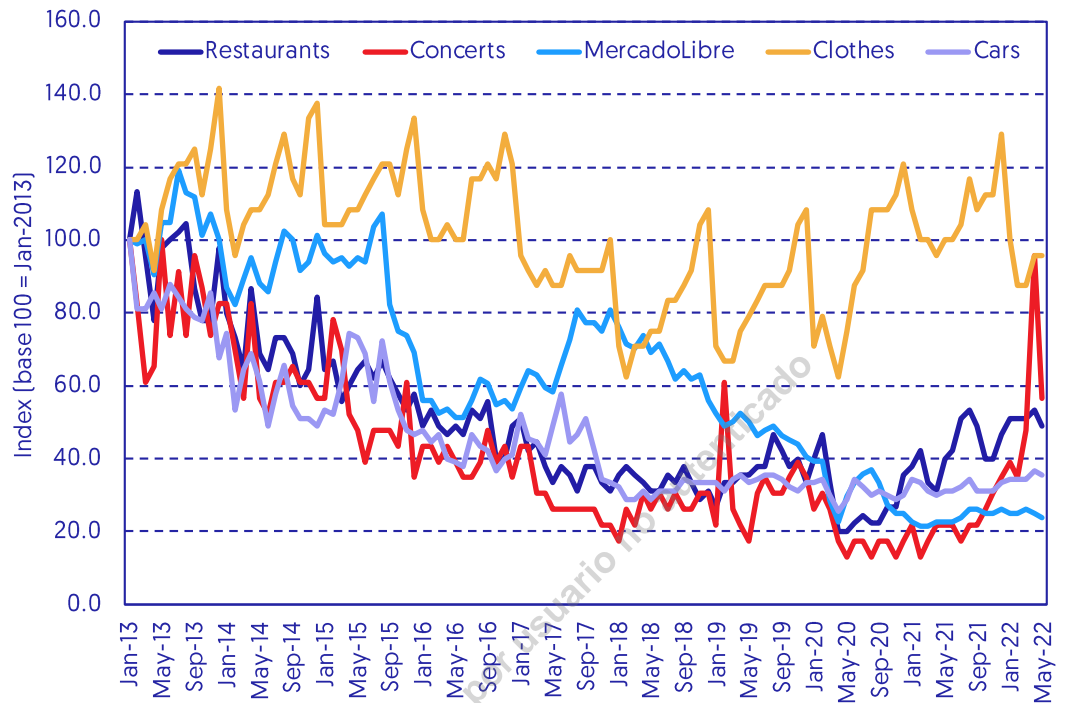
Sources: OurWorldinData and Ecoanalitica.

In the case of mobility figures from Google⁷, which indicate visits to different locations in Venezuela since the beginning of 2020 (based on a pre-pandemic period), a clear increase in visits to consumer centers is noted, even when compared to the pre-pandemic period and mobility restrictions. Visits to markets and pharmacies and to stores and recreational spaces are significantly above the baseline figures, 75.4% and 40.1%, respectively. Accompanying these destinations are visits to workspaces and parks, which also exceed the pre-pandemic reference level. This would seem to indicate that, beyond having returned to "normality" in terms of mobility, Venezuelan agents visit places of consumption with greater frequency, which is representative of greater purchasing power, at least in a certain group of the population.

⁷ Google reports information on how population mobility has changed in the midst of the pandemic. The dataset measures the number of visitors to specific categories of locations on a daily basis and compares the relative change from a base date. A median value is used between the 5-week period from January 3 to February 6, 2020.



Evolution in Google search terms (Venezuela)



Sources: GoogleTrends and Ecoanalítica.

Another consumer indicator can be Google Trends⁸, which, for this case, was used to detail the search for consumer goods, services and platforms. Although not all search terms show the same behavior over the years, a common trend is observed: searches start to fall between 2014-2015 and then, rebound from mid-2020⁹. In particular, the terms "restaurants", "cars" and "free market" stand out, which between 2020 and 2022, increased their search level by 22.2%, 14.3% and 5.3%, respectively¹⁰.

Multiple variables, one indicator

In spite of having figures that help to observe the behavior of supply and demand, it is not necessarily evident the complement that exists between both forces, especially if we consider that a great part of the demand is directed to the consumption of imported goods, which can displace the domestic industry.

⁸ Google Trends. [2022]. *Google Trends*.

⁹ It is possible that part of this upturn is due to the quarantine, which forced households to use digital media more frequently to access goods and services. However, these search levels continued to increase even after the relaxation of mobility restrictions, so the increase in searches could also be attributed to an increase in consumption.

¹⁰ It should be noted that, despite giving an indication of consumption patterns, both Google indicators have major limitations, since they can only report the movements and searches of a small group of Venezuelans, which are not necessarily representative of the population and, consequently, of the economy.



Activity indicator



Sources: Ecoanalítica.

Accordingly, at **Ecoanalítica** we performed a principal components analysis¹¹ to represent, based on a set of variables¹², an indicator of economic activity. The behavior of the indicator is mainly explained by real credit, the utilization of installed capacity (Conindustria), the level of exports and imports and searches for certain terms in Google¹³. The resulting indicator allows detailing a sustained drop since 2013 (similar to that provided by BCV activity figures¹⁴), such drop softened between 2020 and 2021, and started to grow at the end of 2021 in line with demand and supply pressures. Thus, the economic activity indicator seems to represent an additional analytical tool to capture the direction of Venezuelan activity.

In this sense, despite the possible *trade-offs* between the factors that have boosted local demand and the fragility of the Venezuelan industry, it seems that both forces have managed to shore up the economy in the short term, presenting significantly better conditions since the second quarter of 2021.

¹¹ Principal component analysis is a statistical process that allows multiple variables to be summarized into a smaller set of "indices", called principal components, which makes it easier to visualize and analyze the original data set.

¹² The dataset contains figures reported by Conindustria, financial variables, external flow amounts and search and mobility figures published by Google.

¹³ "Free Market", "Clothing" and "Restaurants".

¹⁴ GDP data calculated by the BCV are only available through the first quarter of 2019.



Sustainable growth?

The different elements developed seem to evidence notable improvements in the Venezuelan economic activity; however, at **Ecoanalítica** we consider that rather than a sustained reactivation, the trajectory of expansion of the Venezuelan economy is severely restricted. On the one hand, the upward pressures on consumption are attributable to a set of conjunctural factors, which will no longer be an impulse for the purchasing power of Venezuelans. On the other hand, the economic reactivation based on the resurgence of consumption has little productive drag, so a sustained increase in added value is not foreseen. In this sense, the main restrictions related to productivity are still present, such as the lack of financing, a limiting regulatory framework and restrictive tax rates.

Despite the inherent fragility of the new economic conditions, it is a fact that the economy has "stabilized in the background" and has even managed to expand production and consumption levels. As in any restructuring process, there are opportunities for growth - albeit limited - for local industries, which could satisfy the demand of different population groups experiencing an increase in their purchasing power. This seems to be especially true for companies with a long history in the country, for which, after 7 continuous years of economic contraction, the hardest times have already passed.

Diego Santana Fombona

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Weekly Indicators

	1st Week June	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD) ²	5.1	2.1	2.0
	4th Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	58.8	0.2	0.9
	1st Week June	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	60.3	-4.9	-68.8
	5th Week May	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	10.5	-0.06	66.5
	4th Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)**	7,708.1	0.7	429.9
Price of International Oil Baskets (USD/bi)			
	4th Week May	Weekly chg. (%)	Annual chg. (%)
WTI	112.2	6.8	72.1
Brent	112.9	5.1	64.7
Price of the Venezuelan oil basket (USD/bi)			
	5th Week July (2020)	Weekly chg. (%)	Annual chg. (%)
Weekly Average	22.4	0.0	-61.9
Annual Average	28.8	-0.7	-51.7

Sources: BCV, MENPET, ONT and Ecoanalítica.

*Annual variation of accumulated expenditure.

**Reconverted amounts.

¹Depreciation (+)/Appreciation (-)

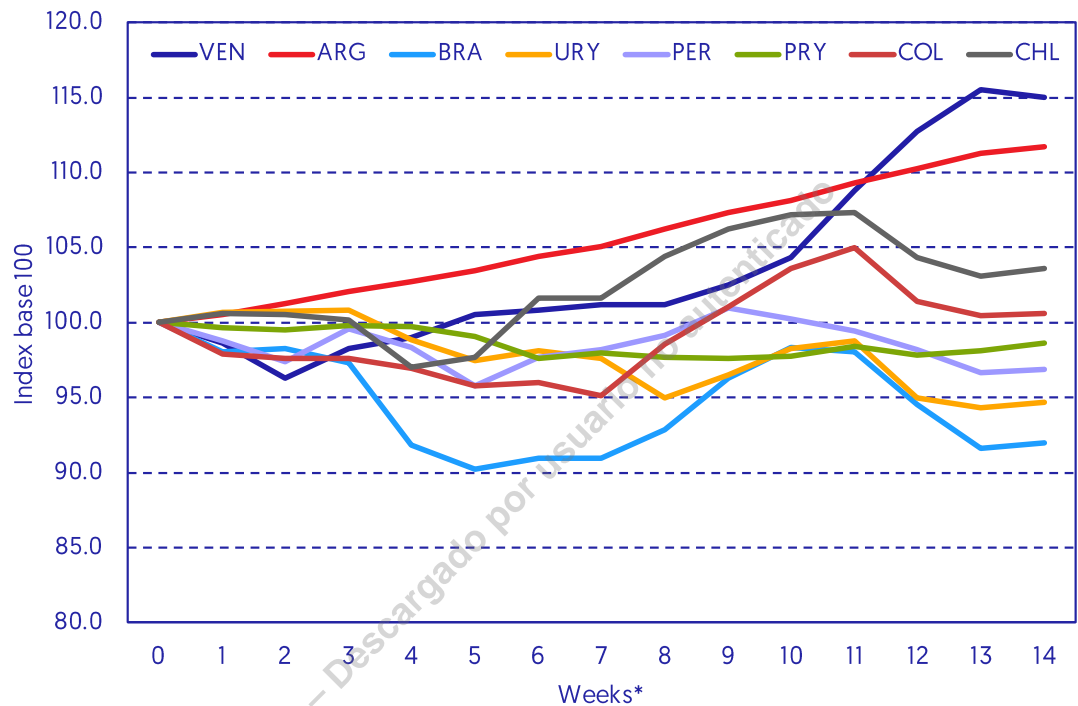
²FX Boards' average exchange rate.



Graphic of the week

Abnormal behavior despite the disaster

Exchange rate in the Region



*The numbers refer to the weeks following the invasion of Ukraine in a range of fourteen weeks.

Note: The base 100 index was established on the week in which Ukraine was invaded and reflects the change in the exchange rate change in each country of the region.

Sources: Investing and Ecoanalítica.

Russia's invasion of Ukraine, which began on February 24, 2022, has brought various economic implications, specifically, pressures on global food, raw materials and fuel markets, while exacerbating delays in supply chains, shocks to which Latin America is particularly vulnerable, as exemplified by the worsening of price increases throughout the region.

Curiously, exchange rates have not reacted so sharply, and in fact some had already been appreciating before the beginning of the war. Establishing a base index of 100 at the time of the invasion, we can see cases such as Argentina [12%], Venezuela [15%], Chile [4%] and Colombia [1%] where their exchange rates have been depreciating in the 14-week period since the invasion. On the other hand, Peru [-3%], Paraguay [-1%], Uruguay [-5%] and Brazil [-8%] continue to appreciate.

For many of these countries, inflationary pressures in the region continue to be greater than exchange rate variations. On the one hand, this may partially mitigate the effect



of increases in tradable goods, but on the other hand, if this difference were to widen, many economies would be experiencing real exchange rate appreciation, which would make them more expensive in dollars.

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Tips

Economic, oil, sectorial and political

ECONOMIC TIPS

COVID-19 in Venezuela. According to government figures as of June 2, 2022, the country has 523,710 registered cases of coronavirus and 5,722 deaths. In turn, according to OurWorldInData, it is estimated that 77.2% of the population has received at least one dose of some vaccine as of March 25, 2022.

Not much change. The United Nations (UN) projects that Latin America will grow 2.1% in 2022, cutting growth for the region by 0.1 percentage points (pp.) compared to January's estimate. Although the note indicates that the outlook for the region has worsened with recent events, the low adjustment responds to the fact that strong signs of a slowdown were already visible at the beginning of the year.

Intervention continues... In the last two weeks of May, the BCV injected a total of USD 205 million to banks, which is a continuation of its strategy to stabilize the exchange rate. This figure was achieved in two exchange interventions, the first of USD 120 million and the second of USD 105 million. This brings the average amount per intervention to USD 83 million.

at a higher rate. The price set for the sale of the first intervention was VES 5.22/EUR, equivalent to VES 4.9/USD, while the second intervention raised the sale price 4.02% and reached VES 5.43/EUR, equivalent to VES 5.07/USD.

They lose weight. According to the portal Banca y Negocios, bank deposits in foreign currency fell 1% month-on-month in April, and the total balance of foreign currency accounts stood at USD 1,309 million at the official exchange rate at the end of that month. As a result, foreign currency deposits now represent 42% of total deposits, compared to 47% in March.

Hedging securities. The BCV informed that as of May 16, the new terms and rates of the hedging securities came into effect, which are part of the liquidity absorption strategy assumed by the institution. Thus, the new terms of the securities are 7, 14, 28, 42, 56 and 90 days, while the annual interest rates for each term are set at 8.0%, 8.25%, 8.5%, 8.75%, 9.0% and 10.0%, respectively.

Family food basket. CENDAS reported that the price of the family food basket for April was VES 2,231.3 or USD 481.9, which represents an increase in relation to March of 5.5% in bolivars and 2.3% in dollars. The main price increases were recorded in fruits and vegetables (12.1%), roots and tubers (9.6%), and sugar and salt (5.1%).



Money Tables. For the first week of June, the average money desk rate was VES 5.1/USD, representing a 2.0% appreciation from the previous week.

OIL TIPS

No more supply. According to the European Union (EU) High Representative for Foreign Affairs, Josep Borrell, a possible solution to the stalemate in the proposed EU embargo against Russian oil would be to impose sanctions only on supplies by sea, leaving Hungary and other countries free to continue importing Urals by pipeline.

Minimal presence (I). Joe Biden's administration will keep intact the broader sanctions policy toward Caracas and restrictions on Chevron's operations in Venezuela for another six months, after hinting at a possible easing of Chevron's operating conditions.

Minimal presence (II). The U.S. Treasury Department extended a sanctions waiver for Chevron and service companies Schlumberger, Halliburton, Baker Hughes and Weatherford to maintain a minimal presence in Venezuela.

Minimum presence (III). This exemption will be in effect until December 1, 2022 and maintains strict conditions aimed at preventing Chevron from drilling, lifting, purchasing or processing crude oil or petroleum products in Venezuela.

Temporary tax. The British government will impose a "temporary" tax of 25 percentage points (pp) on the profits of oil and gas companies.

due to the hike. UK Finance Minister Rishi Sunak announced that the "temporary levy on energy profits" will be removed when oil and gas prices return to historically normal levels. He said the levy will raise £5 billion (US\$6.3 billion) in its first year.

Damage due to lack of maintenance. Libya's Agoco reported a loss of 220 kb/d in crude oil production following a leak in the Sarir-Tobruk pipeline due to lack of financing, which has prevented it from carrying out maintenance work on its transmission lines and associated facilities.

The exchange agreement continues (I). An Iranian tanker arrived at Venezuelan shores to deliver one million barrels of heavy crude to Amuay.

Exchange agreement continues (II). Iran and Venezuela recently extended an exchange agreement signed last year, adding the supply of Iranian heavy



crude to the El Palito refinery and the Paraguaná Refining Center, in Falcón state.

Obstacles persist... Iván Freites, union leader, stated that up to the first half of May Venezuela had a production of 85 kb/d due to problems in the country's refineries.

to produce. Freites indicated that in recent days the country has a production of 50,000 barrels of gasoline and 50,000 barrels of diesel. In addition, he explained that although the Cardón Refinery has a capacity to produce 350 kb/d of oil, only 45 kb/d are being produced monthly.

SECTORIAL TIPS

Competitiveness is lost. The Venezuelan Association of the Chemical and Petrochemical Industry (Asoquim) estimates that the Tax on Large Financial Transactions (IGTF) increases the final price of its products by 12%. Its president, Guillermo Wallis, indicated that the fact that it must be paid at several stages of the production process makes the domestic sector lose competitiveness with imported products, which only have to pay the tax once.

They demand an increase. The Frente Unido de Transporte requested the publication in the Official Gazette of an increase in the price of the minimum fare to VES 3.0. This was made by its president, José Luis Trocel, who added that the V-Tickets collection system should be suspended due to the insecurity generated by paying fares with smart phones.

Growth expectations... Tito López, president of the Chamber of the Pharmaceutical Industry (Cifar), informed that the growth of the drug sector for the end of the year is expected to be between 12% and 15%, which would imply a distribution of approximately 175 million units.

...but it is not enough. The leader commented that, although the industry has achieved a 19% growth in two consecutive years, it is still not fully recovered, due to the fact that it has the lowest average price in the region. He also added that the average salary in other Latin American countries is higher than the Venezuelan one.

More production (!). The Confederation of Agricultural Producers' Associations (Fedeaagro) estimates that rice production this year will reach 400,000 tons, which would mean an increase of 66.6% in relation to the 240,000 tons produced in 2021.



More production (II). Similarly, Fedeagro forecasts that corn production will grow 17.6% to reach one million tons by the end of 2022. These increases would respond to the fact that the State has granted permits to the private sector to import the necessary inputs, changing the previous dynamics in which these imports were exclusive to the public sector.

Meat consumption. José Agustín Campos, president of the Confederación de Agricultores y Ganaderos de Venezuela [Confagan], reported that current per capita meat consumption is 12 kg per year, which reflects a 50% increase with respect to the minimum observed a few years ago. Campos indicated that it is expected to continue increasing until stabilizing at an average of 24 kg per year.

Petare Basket. The price of the Petare basket, as recorded by economist Angel Alvarado, showed a decrease between the week of May 15-21 of 1.4% in bolivars and 3.3% in dollars, standing at VES 182.7 or USD 34.7.

POLITICAL TIPS

Defaulters (I). The NGO Súmate denounced that the Venezuelan Electoral Power is three months late in its obligation to submit the accounts of its management corresponding to 2021. This was to be presented before the National Assembly [NA] within 60 days after the expiration of the annual fiscal year, as established in the regulations.

Defaulters (II). In this regard, Súmate reminded that the CNE has yet to render accounts to the citizens, particularly on the amount of resources assigned in an ordinary and extraordinary manner, and on the destination and use of these in the regional and municipal elections of November 2021 and of the governor of Barinas.

Vulnerable and unacceptable situation. Venezuelan NGOs and opponents expressed their rejection of the conditions in which the country's senior citizens live. Fundaredes mentioned that, although a high number of men over 60 and women over 55 are pensioned or retired, their income and social protection is below that of other countries.

Absolutely not (I). The United States assured that under no circumstances will it invite representatives of the government of Nicolás Maduro to the Summit of the Americas, scheduled for next month in Los Angeles.

Absolutely not (II). After Maduro assured that the voice of Venezuela, as well as those of Cuba and Nicaragua, would be present at the Summit of the



Americas, the U.S. government has made it clear that it will not invite anti-democratic regimes.

In Presence (I). Nicolás Maduro arrived in Havana, Cuba, last Friday, May 27, to participate in the XXI ALBA-TCP Summit.

In Presence (II). According to an analysis published by the EFE news agency, this meeting of leaders is part of the pulse between the U.S. on the one hand, and Cuba, Nicaragua and Venezuela on the other, as a result of the U.S. decision to exclude them from the Summit of the Americas.

Vanity contest. Juan Guaidó reiterated last May 28 that any personal aspiration "is secondary" in view of the primaries that the opposition plans to hold to elect the candidate that will face Maduro's government in the 2024 presidential elections. He added that it must be a mechanism of unity and not a "vanity contest".

Darien Jungle (I). David Smolansky, OAS commissioner for the Venezuelan refugee and migrant crisis, announced that the number of Venezuelan migrants and refugees crossing the Darien Jungle increased during 2022.

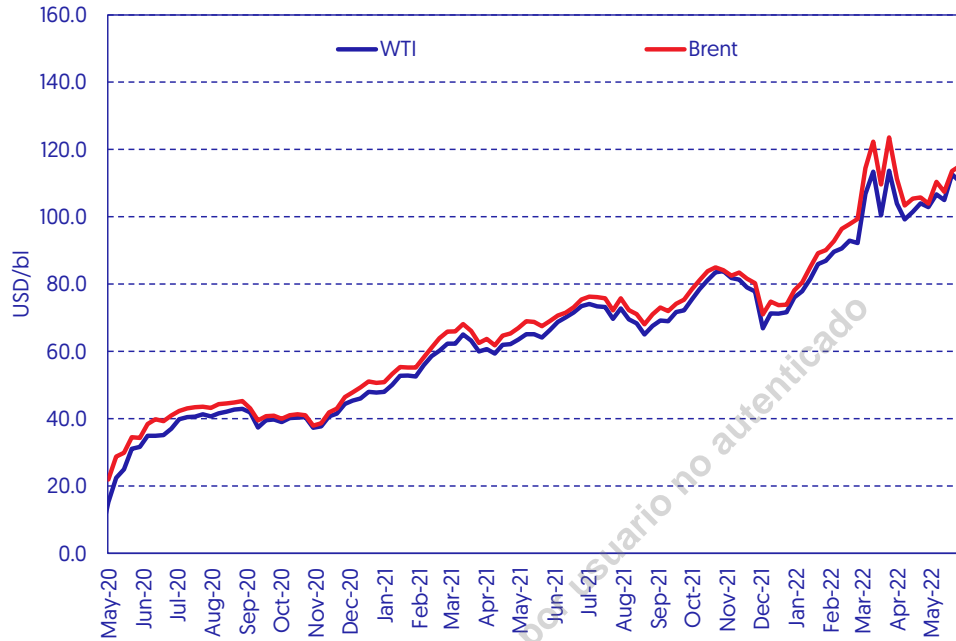
Darien Jungle (II). He also pointed out that the National Migration Service provided data showing that some 7,000 migrants from Venezuela crossed the Colombia-Panama border.

© Ecoanalítica - Nicolás Maduro y el escenario no nuclearizado



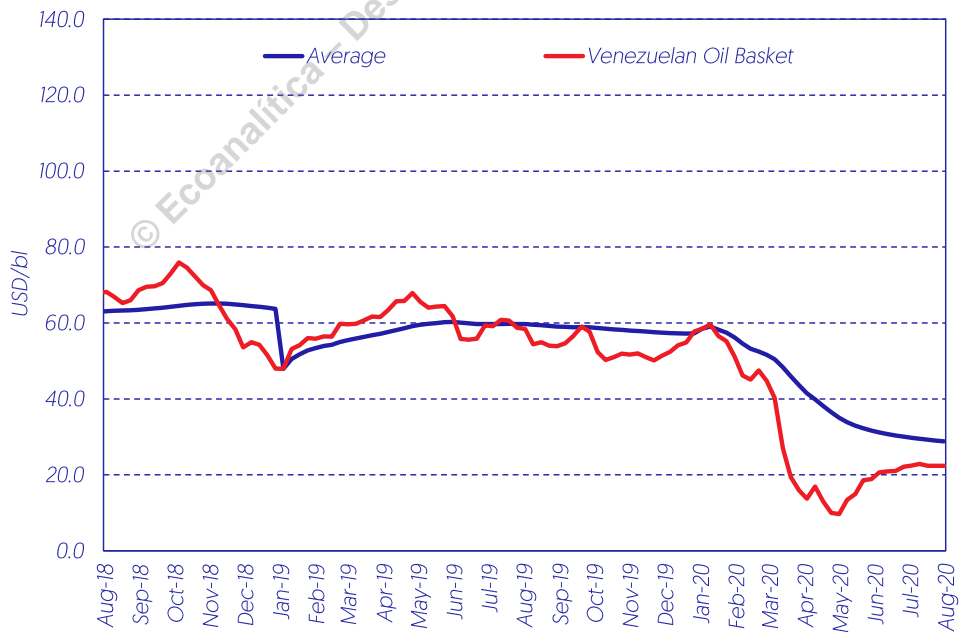
Economic Indicators

Oil prices (WTI and Brent)



Sources: Menpet and Ecoanalitica.

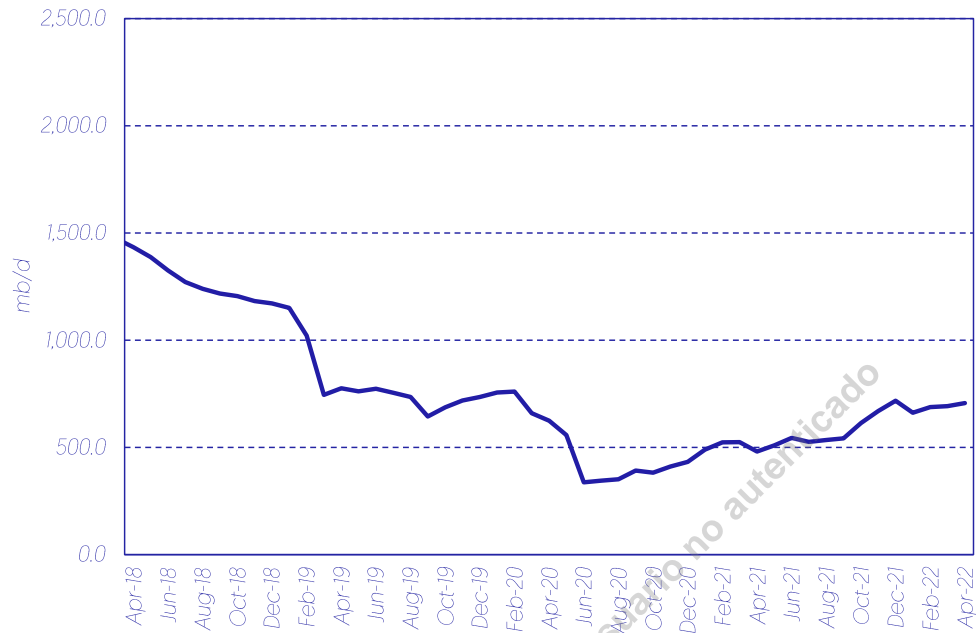
Oil prices (Venezuelan basket)



Sources: Menpet and Ecoanalitica.

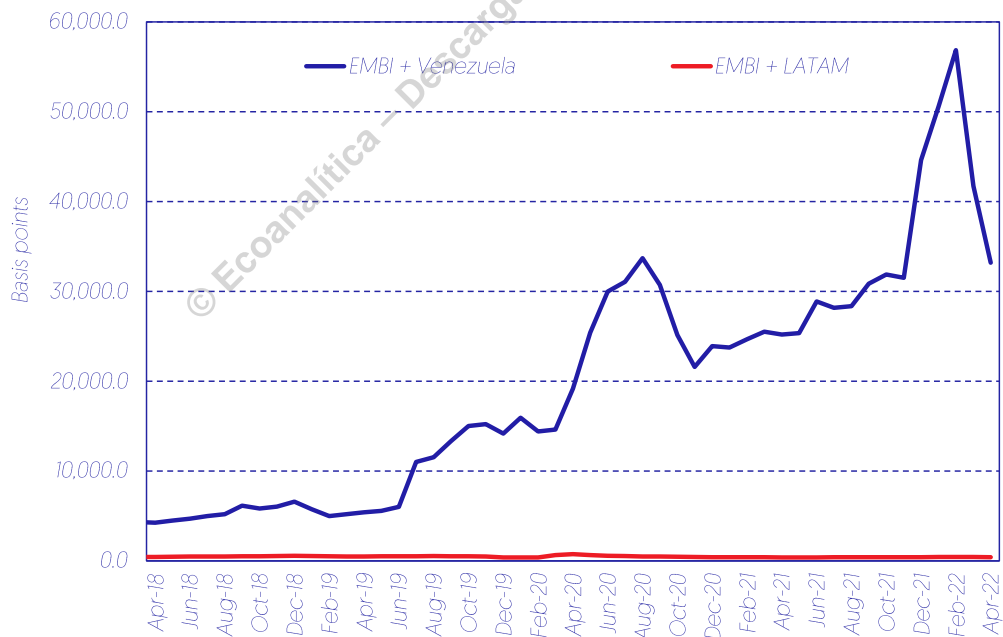


Oil production (secondary sources)



Sources: OPEC and Ecoanalítica.

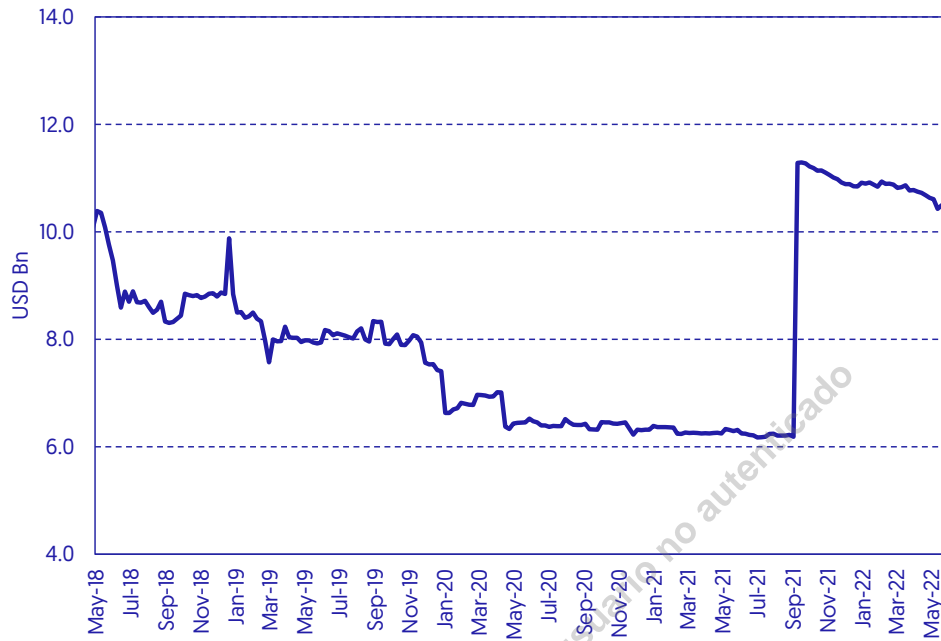
EMBI



Sources: BCRP and Ecoanalítica.

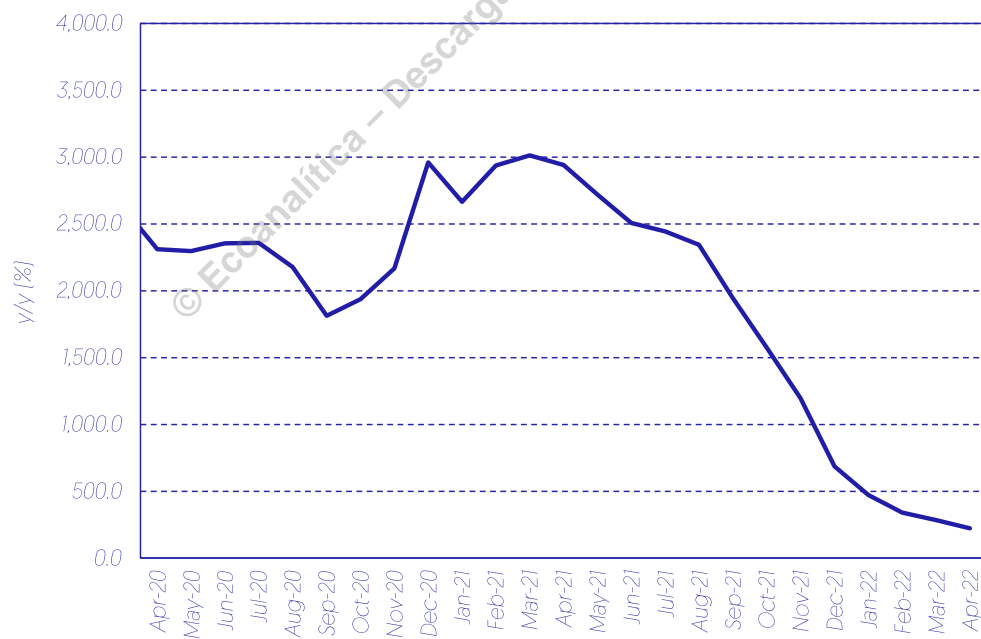


International reserves (BCV)



Sources: BCV and Ecoanalítica.

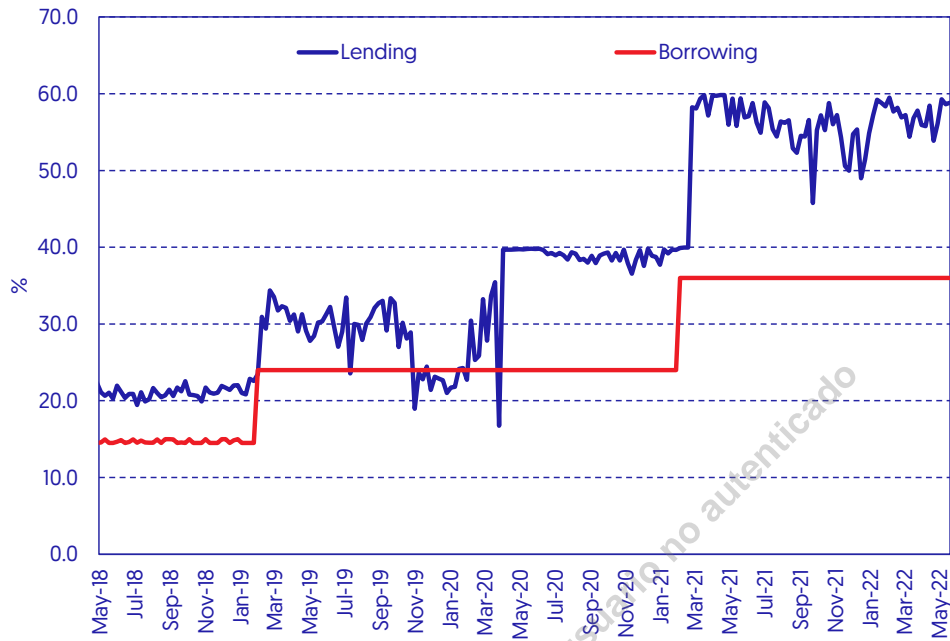
Inflation (BCV)



Sources: BCV and Ecoanalítica.

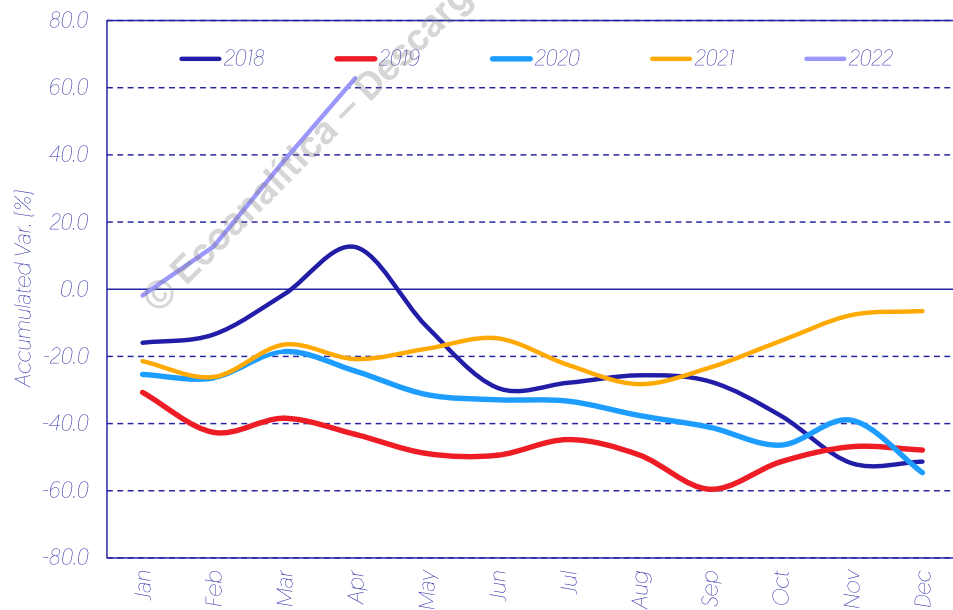


Interest rate (six major banks)



Sources: BCV and Ecoanalítica.

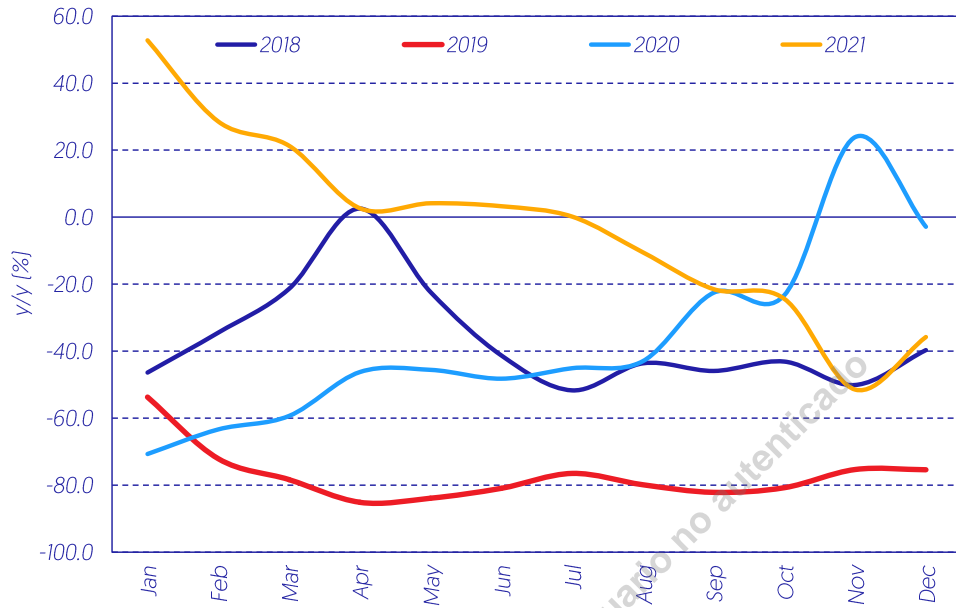
M2 Expansion (real)



Sources: BCV and Ecoanalítica.

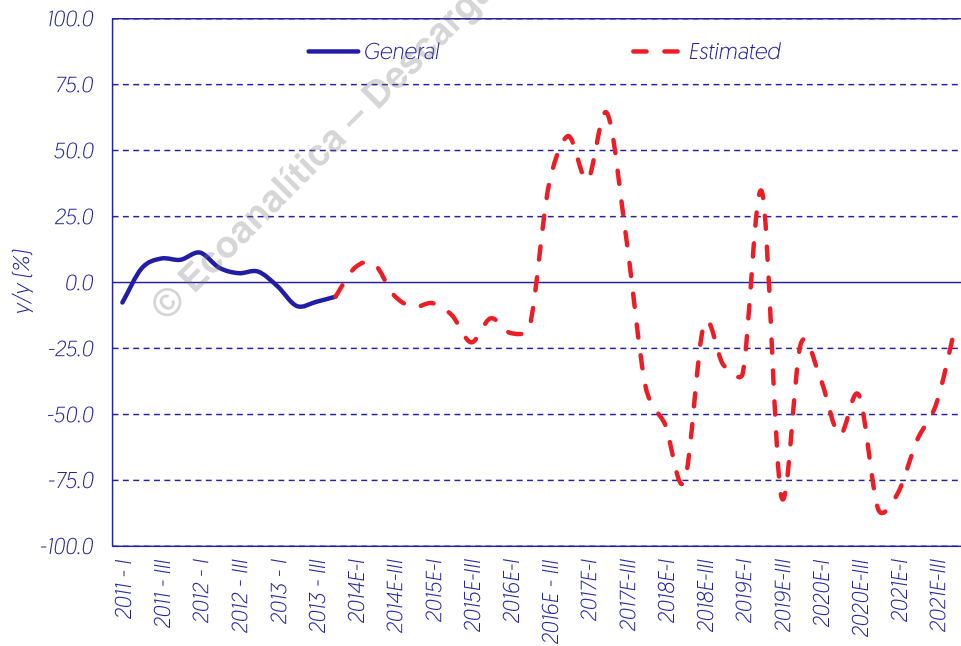


Loan Portfolio (real)



Sources: Sudeban and Ecoanalítica.

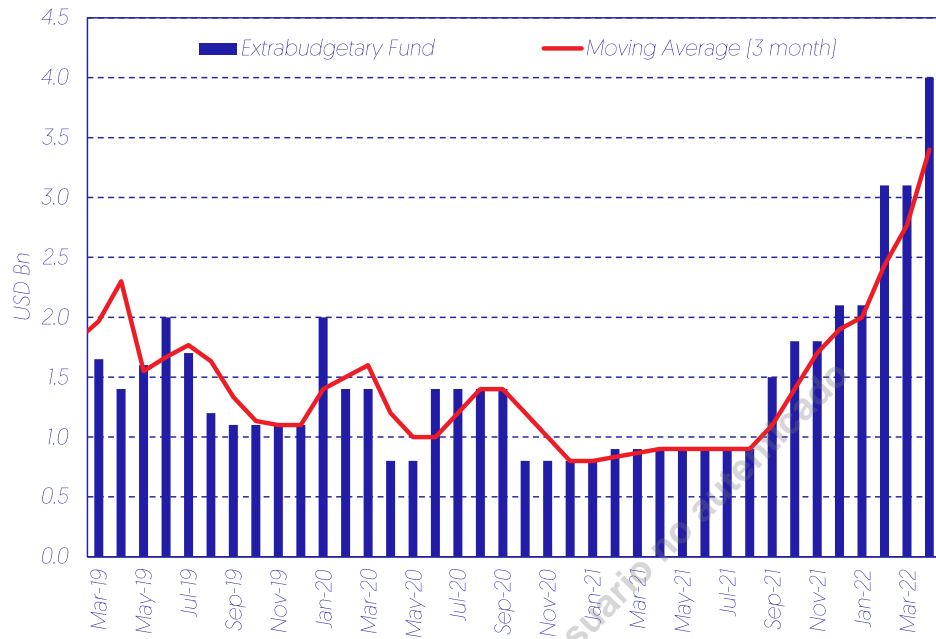
Real wage index



Sources: BCV and Ecoanalítica.



State extrabudgetary resources



Source: Ecoanalítica.

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