



Economic Outlook

Report

12 – June 2022

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Dollarization study

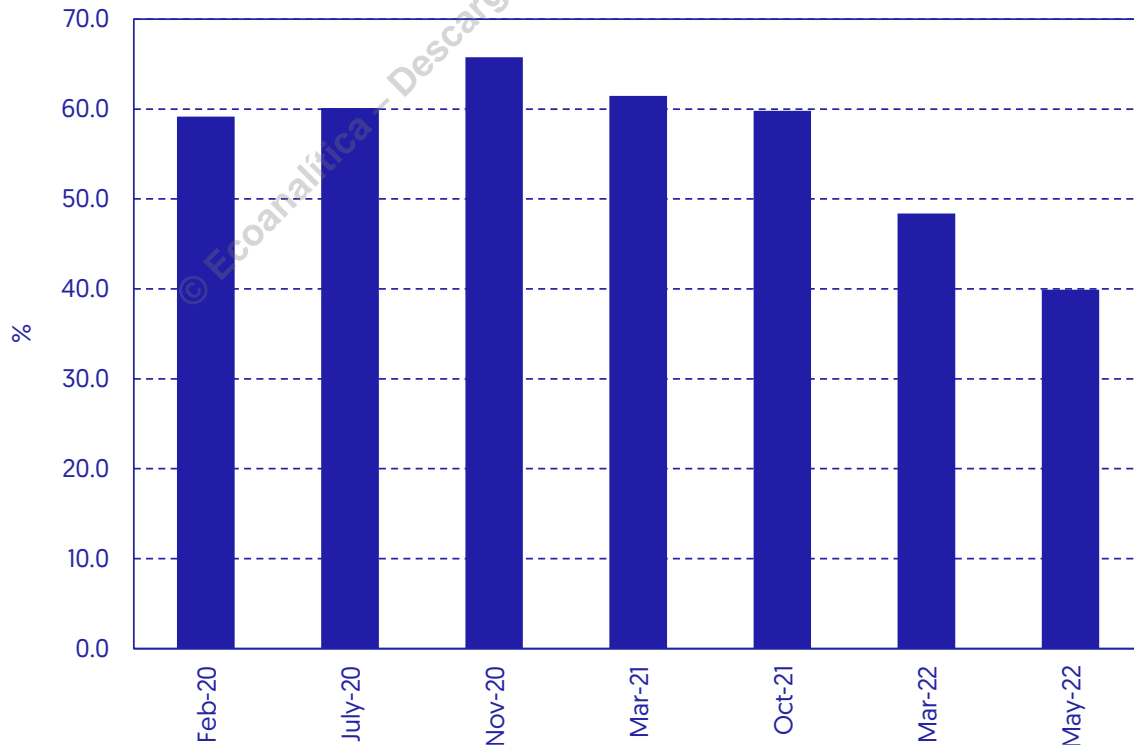
May and June 2022

The degree of transactional dollarization in Venezuela has been monitored semi-annually by **Ecoanalítica** since 2019. In this report, the most recent version of the measurement carried out exclusively in the city of Caracas between May 30 and June 4, 2022 is published. In this sense, this study is a partial update [Caracas] to the last revision of said process made last March for the capital region and other states of the country. The purpose of this study is to assess the role of the dollar in local operations, amid the latest changes implemented in regulatory matters.

Dollarization and IGTF

This survey covered a total of 131 establishments in the nation's capital. In that sample, around 10,346 transactions were recorded, of which 4,126 were made in foreign currency, which is equivalent to a proportion of payments in foreign currency of 39.9% for the study period. This indicates that, according to the data collected by Ecoanalítica, slightly less than half of current transactions in Caracas are made in foreign currency.

Share of foreign currency transactions in Caracas



Source: Ecoanalítica.



A look at previous results shows how transactional dollarization in Caracas had deepened until November 2020. After that date and until the second month of 2022, influenced by the end of the confinement, the process started to have a stable trend, although leaning downwards in a very tenuous way. Then, in March 2022, the Government reformed the Large Transaction Tax Law (IGTF) to encourage the use of the bolivar and attempt to [partially] de-dollarize the economy through a tax on foreign currency transactions¹.

As a result, dollarization in Caracas dropped 11.4 pp, from 59.8% in October to 48.4% in March, shortly after the new tax came into effect. This seems to be influenced by greater monitoring and control of operations carried out in foreign currency (in this case, in the capital region), in line with the interests of the Executive to collect higher revenues and take advantage of the importance of the dollar for domestic transactions. Thus, from **Ecoanalítica** we can affirm that the reform of the IGTF law seems to have a high share of responsibility in the reduction of 19 pp of the proportion of payments in foreign currency between October 2021 and June 2022.

Caracas still seems to be at the end of the line

Even in the absence of measurements for the rest of the country's cities, the comparison of these results with those obtained in our March study is still useful to contextualize recent changes in domestic transactional dollarization. Thus, if we contrast the degree of dollarization of the Venezuelan capital with that of the other large cities in the country reported in the last study², we see that Caracas is the least dollarized city, below that previously shown by Maracay (50.1%) and Barquisimeto (50.9%), although in these cities the use of the currency has probably also declined in recent months.

On the other hand, in the surveys prior to the March survey, Caracas was always in the middle of the list of the 10 largest cities in the country, which leads us to think of two elements present with greater relevance in the capital (with respect to other regions) that influenced such changes. The first is a larger ecosystem of banking and financial services (or less inefficient and exposed to fewer power failures), which facilitates the use of the national currency and prevents foreign exchange from completely clouding the bolivar. The second may be related to the larger number of control centers that monitor more rigidly the application of the IGTF.

A view by item

According to this last review, those items with the highest number of transactions in foreign currency were non-essential goods, such as household appliances (77.2% of the total), the item "spare parts" (66.9%) and products associated with clothing and footwear (52.7%). In contrast, in items such as food and health goods and services,

¹ Economic Outlook Report No 7 [2022] *No to foreign currency, yes to bolivars!*

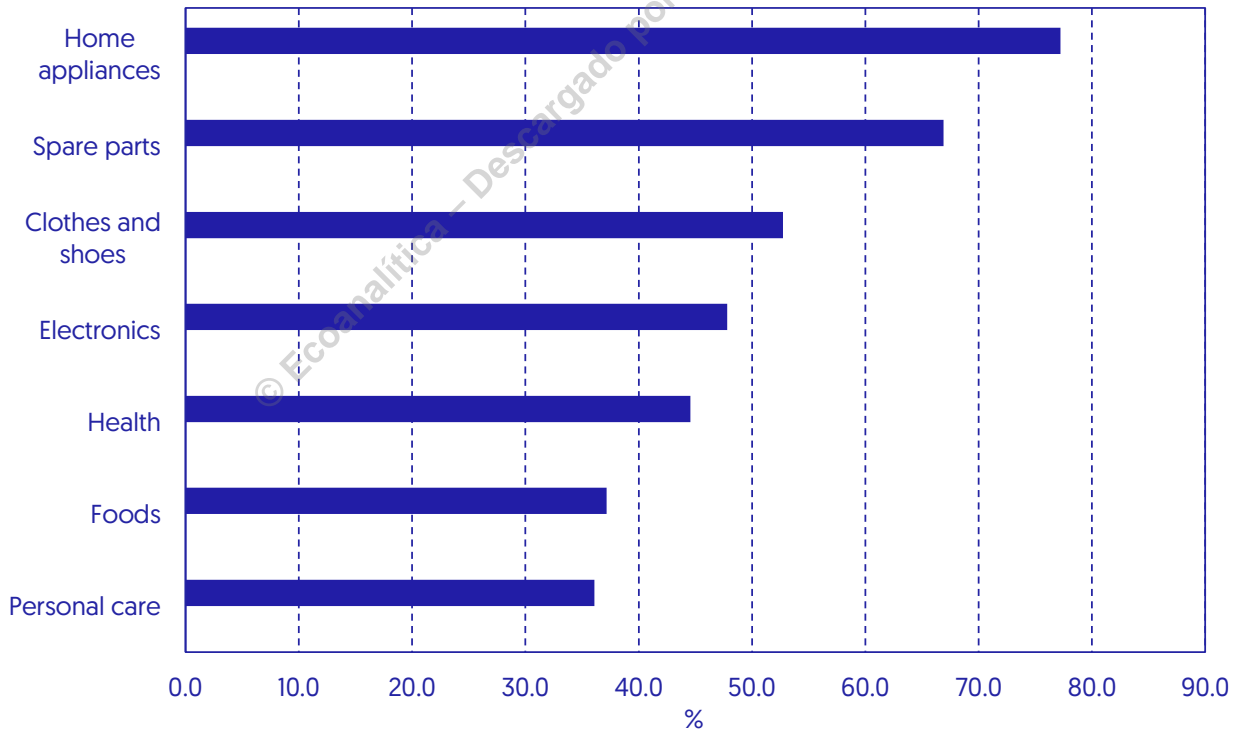
² Economic Outlook Report No 8 [2022] *Dollarization Study March 2022.*



less than half of the transactions were negotiated in currencies other than the bolivar. Interestingly, and in line with the general result, those products or services most traded in foreign currency were those that accounted for a smaller proportion of the total, with food being the good with the highest presence in the total transactions analyzed (69.8%).

What does this tell us? On the one hand, that, despite the lower use of the currency in general terms, the premise we have maintained since previous measurements that the bolivar has greater scope for the payment of priority goods and services continues to be valid. On the other hand, the result continues to indicate, at least indirectly, that Venezuelans' access to foreign currency continues to be very unequal (being the lower income sectors those who spend more of their income to acquire food). And, finally, the findings also suggest that the differences in the cost in USD in Venezuela among items (where food seems to be leading the recent rise) seems to be affecting the decision of Venezuelans regarding the use of their foreign currency, especially since the new taxes were set.

Share of foreign currency transactions in Caracas by category



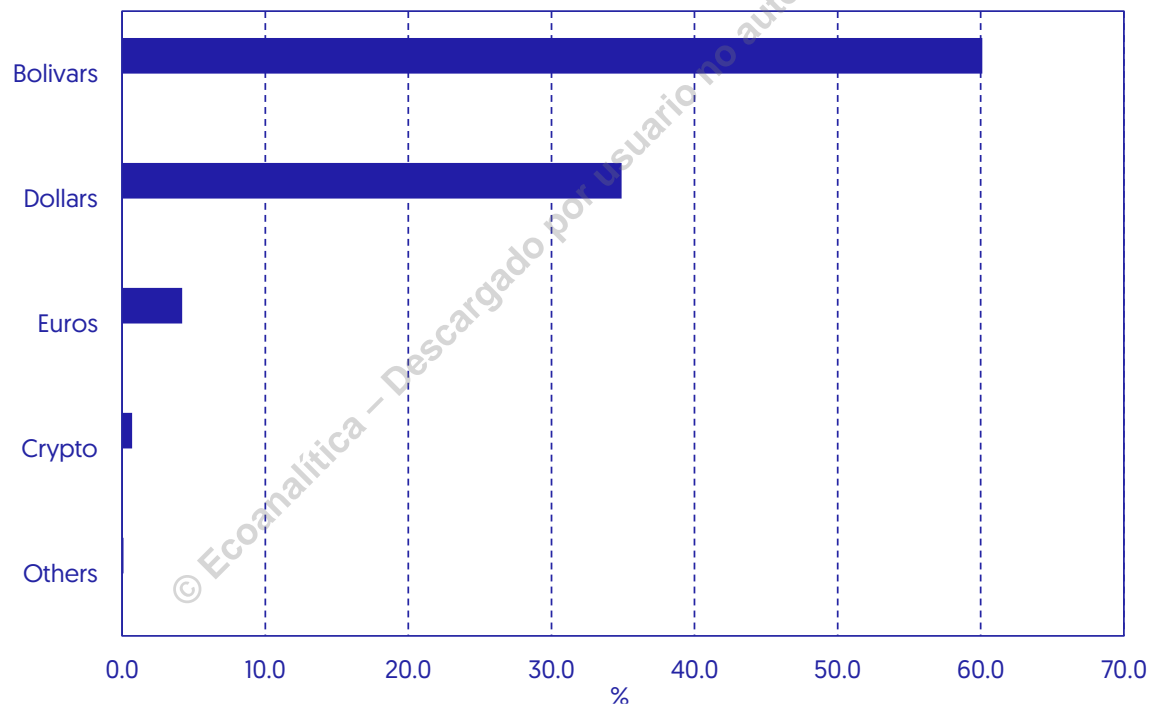
*Note: Information collected from May 30 to June 4.
Source: Ecoanalítica.*



Currency sign and payment methods

Regarding the monetary sign and payment methods, of the total of the 10,346 transactions made, 60.1% were made in bolivars, 34.9% in dollars, 4.2% in euros, 0.7% in cryptocurrencies and 0.1% in other monetary signs. In the case of foreign currency payments, the method with the highest use was cash (52.1%), followed by Zelle and other transfers (35.4%) and international cards (9.4%). The least used methods were transfers (1.0%) and wallets (2.1%). In this sense, the lack of operational mechanisms and bank clearing systems in foreign currency in the country continues to increase the interest of Venezuelans (in the capital region in this case) to use foreign currency in cash. Note that such use did not decrease even though the IGTF rate for liquid transactions may be higher (or is expected to be).

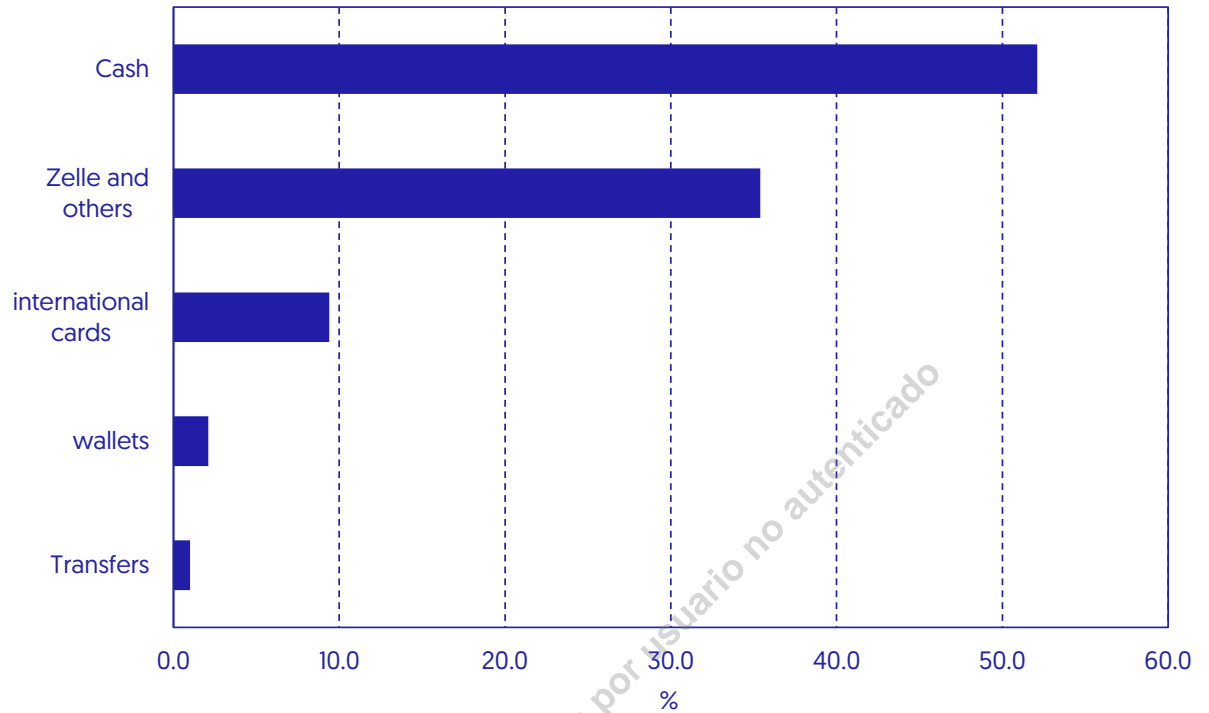
Share of transactions by currency



Note: Information collected from May 30 to June 4.
Source: Ecoanalítica.



Means of payment



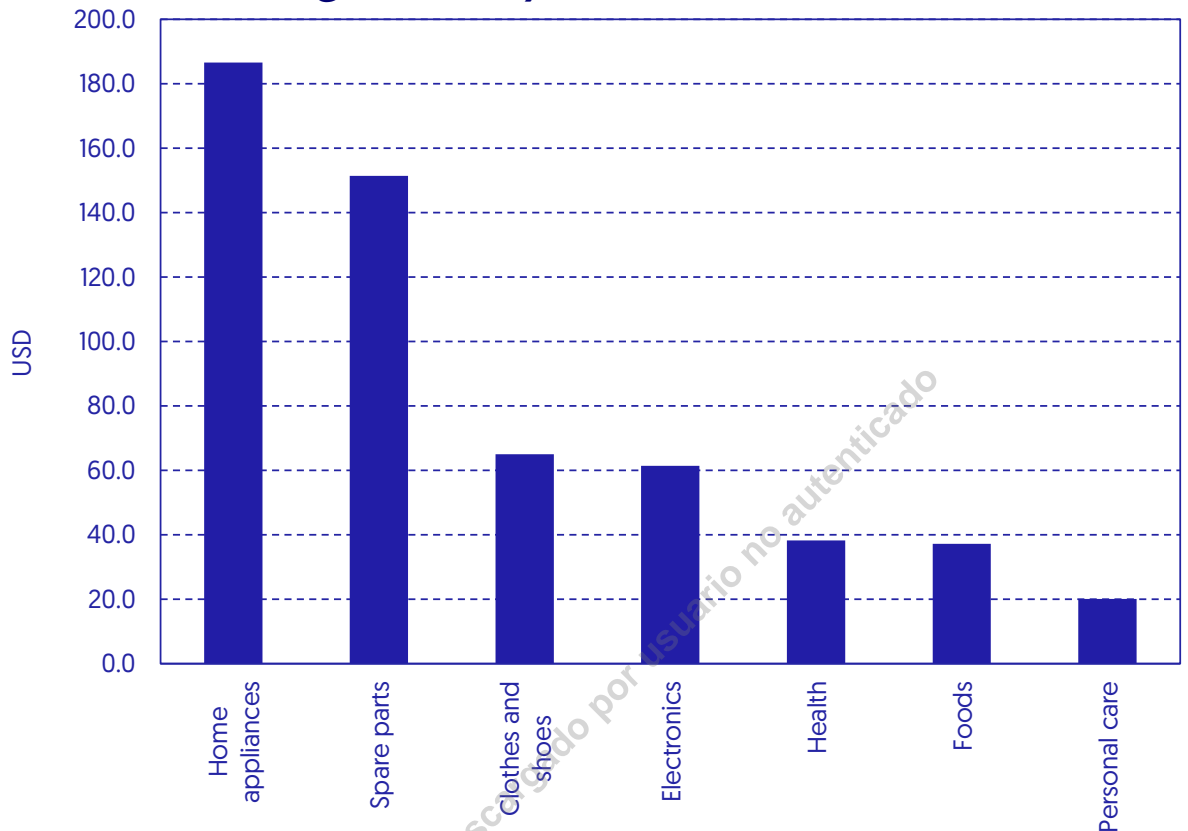
*Note: Information collected from May 30 to June 4.
Source: Ecoanalítica.*

Average Tickets

As for the average tickets, which refers to the average expenditure of agents in the different items, those with the highest figures were "Household Appliances" and "Electronics" with an average expenditure of USD 186.57 and USD 151.43, respectively. On the other hand, the items where the average dollar expenditures were lower were "Personal care" with USD 20.03, "Health" with USD 37.15 and "Food" with USD 38.21.



Average ticket by item



*Note: Information collected from May 30 to June 4.
Source: Ecoanalítica.*

Looking at de-dollarization?

Ecoanalítica summarizes the main points of interest for companies and households regarding dollarization for the immediate future:

- The IGTF is a government strategy to de-dollarize the economy by making the use of foreign currency more expensive in formal spaces, which has had a significant short-term effect in Caracas. However, the effectiveness of such measure in the rest of the regions of the country is conditioned to the control and monitoring capacity of the tax authorities and to the moderation of inflationary pressures.
- Trends in the main macroeconomic indicators favor dollarization. Given that inflation in bolivars is higher than inflation in prices measured in dollars, Venezuelan agents prefer to use the currency for savings and transactions.
- The advantage of using the currency in terms of coordination (budgets and contracts) and anchoring price expectations remains a strong reason for stakeholders to prefer dollarization over bolivars.
- Saving in local currency continues to generate a sense of risk for agents. Given people's lack of confidence in the bolivar, it is very unattractive to maintain real balances in that currency for long periods of time.



- A policy that attempts to reverse dollarization, when such process has been a key element in economic stabilization, runs the risk of unleashing an inflationary escalation if accompanied by an increase in real circulation in bolivars, as long as confidence in the local currency remains low.

Carlos Penfold
Luis Arturo Bárcenas

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Weekly Indicators

	3rd Week June	Weekly chg. [%]	Depre/Apre [pp] ¹
FX Boards (VES/USD) ²	5.3	2.8	2.7
	1st Week June	Weekly chg. [pp]	Annual chg. [pp]
Lending Interest Rate [%]	57.9	1.3	1.2
	3rd Week June	Weekly chg. [pp]	Annual chg. [pp]
Overnight Interest Rate [%]	255.2	135.6	126.1
	2nd Week June	Weekly chg. [%]	Annual chg. [%]
International Reserves [USD Bn]	10.4	-1.49	66.2
	1st Week June	Weekly chg. [%]	Annual chg. [%]
Monetary Liquidity [MM VES]**	8,050.8	1.1	350.5
Price of International Oil Baskets [USD/bl]			
	2nd Week June	Weekly chg. [%]	Annual chg. [%]
WTI	120.4	3.5	69.7
Brent	127.4	2.7	75.3
Price of the Venezuelan oil basket [USD/bl]			
	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 (-).

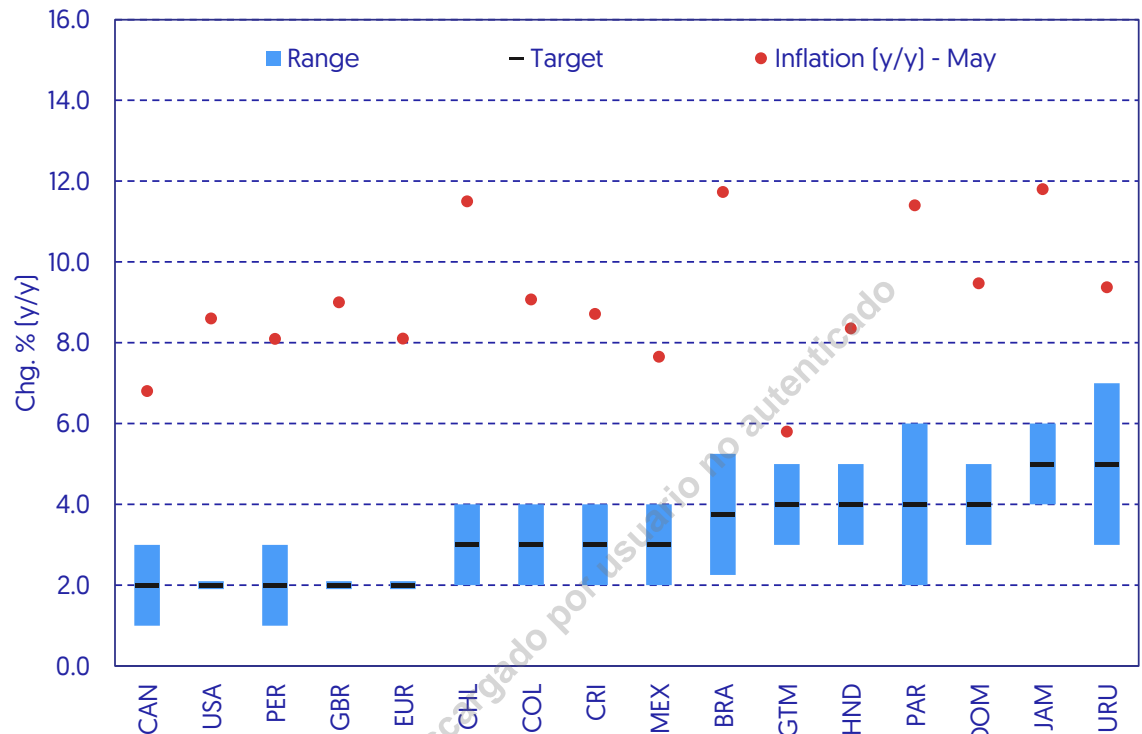
²FX Boards' average exchange rate.



Graphic of the week

Central Banks miss the mark

Observed Inflation vs Monetary Policy Targets



Note: For Canada (CAN), United Kingdom (GBR), Honduras (HND) and Jamaica (JAM), the most recent inflation corresponds to April 2022.

Sources: Central banks of each country and Ecoanalítica.

Since the early 1990s, many central banks have established inflation targeting in their monetary regimes, whereby the authorities set and commit themselves to achieving explicit targets for general price increases, usually within a range, for a given time horizon.

The economic reopening after COVID-19 confinement has been accompanied by an inflationary boom on a global scale. Stimulated demand coupled with disrupted local and international supply chains combine with the shock of the Russian-Ukrainian war to push year-on-year inflation to record levels in many countries.

In the American continent, practically no country is reaching its inflation targets and prices are rising much higher than anticipated. Chile (CHL) stands out, with a difference of 7.5 percentage points (pp.) between its year-on-year inflation and the upper limit of its target range for May. It is followed by the United States (USA) and Brazil (BRA) with 6.6 pp. and 6.5 pp. of difference, respectively.



On the other hand, Honduras [HND] and Uruguay [URU] also exceeded their target range, but by 0.8 pp and 2.4 pp, respectively. The countries observed in Latin America exceeded their upper band by an average of 4.5 pp, which coincides with the difference recorded in the Dominican Republic [DOM].

For comparative purposes, on the other side of the Atlantic, the Eurozone and Great Britain recorded deviations from their targets of 7.0 pp and 7.5 pp, respectively. In general, the conditions that led to the rise in prices will remain in place in the short term and most countries will probably not be able to return to their target limit until 2023-2024.

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Tips

Economic, oil, sectorial and political

ECONOMIC TIPS

COVID-19 in Venezuela. According to government figures as of June 15, the country accumulated 524,370 registered cases of coronavirus and 5,724 deaths. In turn, according to OurWorldInData, it is estimated that 77.19% of the population has received at least one dose of a vaccine as of March 25, 2022.

May collection (I). The National Integrated Customs and Tax Administration Service (Seniat) informed that tax collection in May totaled VES 1,817.9 million, which is equivalent to USD 358.9 million, according to the official exchange rate. The information was shared by the National Customs and Tax Superintendent, José David Cabello.

Collection in May (II). A review of the detail shows that in May a total of VES 336.5 million, or USD 66.4 million, was collected in Income Tax (ISLR). In the case of Value Added Tax (VAT), the figure amounts to VES 786.4 million, equivalent to USD 155.3 million. For customs, Seniat received VES 224.3 million or USD 44.3 million, while the amount obtained from Other Internal Revenue was VES 470.7 million, equivalent to USD 92.9 million.

May collection (III). Cabello added that Seniat has collected so far this year a total of VES 8,015.7 million, which is equivalent to USD 1,582.6 million, according to the official exchange rate at the end of May.

Increased frequency... Between June 6 and 8, the BCV made two foreign exchange interventions, which contrasts with its usual strategy of executing a weekly intervention. However, this did not manifest itself in a greater injection of foreign currency, as the first operation was USD 80 million, while the second one barely reached USD 20 million.

... and higher prices. In the aggregate, the BCV's intervention in the second week of June was lower than those of the previous four weeks. On the other hand, the price established for these interventions was VES 5.15/USD for the first one and VES 5.16/USD for the second one, which represents the sixth and seventh consecutive injections with an increase in the exchange rate.

First offering (I). Banco de Venezuela (BDV) presented its main performance indicators to representatives of the national securities market as part of the process to carry out its public offering of shares. It was reported that the first stage will consist of 5 rounds and 5% of the shares will be offered.

First offering (II). Among the figures presented, it is worth mentioning that the institution ranks first in the financial system in terms of both public deposits and loan



portfolio. In addition, the BDV recorded a delinquency rate of 0.17%, lower than the financial system average of 1.32%.

Money Tables. For the last week of March, the average money desk rate was VES 5.3/USD, representing a 2.7% depreciation from the previous week.

OIL TIPS

Production falls... OPEC's monthly report published that Venezuelan oil production in May was 735 kb/d, as reported by primary sources. This figure represents a 5.2% drop with respect to April's production level.

according to both sources. According to secondary sources, Venezuelan crude oil production stood at 717 kb/d in May, 0.3% lower than the 719 kb/d produced the previous month. It is noteworthy that the difference between the production level according to both sources has been reduced to only 18 kb/d, the smallest gap in recent months.

Moderate increase. The price of Meresy, Venezuela's benchmark crude oil, increased 5.6% month-on-month in May, reaching USD 88.07/bl. However, within the OPEC reference basket, the price of Meresy showed the third lowest growth in the month.

Permits and bans (I). The U.S. administration will extend until December 5 a sanctions waiver that exempts third-party purchases of Russian oil, natural gas and other energy products.

Permits and bans (II). The United States banned imports of Russian oil and other energy products into the United States but has exempted Russian banks from U.S. sanctions for business transactions with foreign buyers of Russian energy products.

Lower forecasts... OPEC has slightly cut its non-OPEC supply growth forecasts for this year, mainly due to a lower projection for Russian production. In contrast, it has kept its demand growth forecasts virtually unchanged.

for significant losses. In its latest Monthly Oil Market Report (MOMR), OPEC says it forecasts non-OPEC liquids supply growth of 2.1 mb/d this year, down 250 kb/d from its May estimate, which itself was down 300 kb/d from April.

Advance payment requested (I). According to Reuters, since May, PDVSA has demanded that all crude oil sales be paid in advance due to non-payment by certain countries. As a result, customers went from demanding discounts of USD 35/bl to USD 47/bl of oil over the Brent reference price. However, if the measure is successful, PDVSA's cash flows would accelerate, and the immediate effect of such measure is a decrease in the company's exports.

Advance payment requested (II). Another consequence is that PDVSA's intermediaries with its clients demand commissions of up to 8% for changing the payment modality. Before the measure, shipments were authorized upon receipt of one third of the



payment. With the full payment measure, the volume of barrels in ships without authorization to sail increased from 1.9 million to 3.7 million.

Trade despite sanctions (I). According to Reuters, an Iranian vessel arrived in Venezuela with one million barrels of crude oil. Suexmax Sonia I is the third vessel arriving in the name of Iran's Naftiran Intertrade C.O. company headed for PDVSA. All these deliveries occur in defiance of U.S. sanctions on Venezuela and Iran since 2020.

Trade despite sanctions (II). Despite the sanctions, the state-owned companies of both countries signed a contract covering the renovation and expansion of the El Palito refinery, which also puts on the table the exchange of Iranian condensate for Venezuelan crude.

SECTORIAL TIPS

Increase in coffee (I). According to calculations by the Confederation of Agricultural Producers' Associations (Fedeaagro), the country will increase its coffee production by 24% in 2022, with respect to 2021. Production is expected to increase by 4,680 tons to add to the 19,320 tons produced in 2021 and thus reach a total of 24,000 tons.

Coffee increase (II). Celso Fantinel, president of Fedeaagro, stated that this increase is because the State, which had a monopoly on the importation and commercialization of fertilizers, granted permits to private actors to import and produce coffee with greater freedom.

It is necessary to reconsider. The first vice-president of Fedecámaras de Nueva Esparta, Gabriel Briceño, expressed that the Executive should reconsider the measures taken with respect to the increase of diesel. He stated that the increase to USD 0.50 per liter will make services, food and tariffs more expensive and will considerably affect tourism. In addition, he explained that *"this increase and the tax on large financial transactions (IGTF) have been a hard blow to the timid economic recovery"*.

Fines for those who do not have (I). José Alejandro Lossada, president of the National Federation of Commerce (Fedecomercio), denounced that small businesses have been fined USD 600 by the National Integrated Service of Customs and Tax Administration (Seniat) for not having the fiscal machines for the collection of the tax on large financial transactions (IGTF).

Fine for those who do not have (II). Lossada explained that the payment of this fine by the small trader makes the acquisition of the tax machine even more difficult. He also pointed out that one of the difficulties in the dynamics of the businesses is not only the adaptation of the tax machine to incorporate the IGTF, but also the adaptation of the same with the data transmission storage device.

There will not be a total recovery. Osman Quero, president of FEDECÁMARAS Portuguesa, explained that in Venezuela there are no agricultural policies that motivate the primary sector to produce, so it is not possible to recover all that has been lost in the last 10 years. He stated that, among so many complications, two of the



most relevant that prevent the recovery are the lack of financing and the stability in the supply of important inputs such as fuel.

Pharmaceutical growth. The Chamber of the Pharmaceutical Industry estimated a 6% growth from January to June of this year. The organization projects that it will reach up to 12% by the end of the year in optimistic scenarios, but even so, the figures do not compare with those of 7 years ago. Tito López, president of the association, states that Venezuela is one of the cheapest countries to buy medicines in the region; the average price is between USD 2.7 and USD 3.6, compared to prices in other Latin American countries that reach USD 10.

POLITICAL TIPS

Red Alert. U.S. Senator Marco Rubio asked U.S. Attorney General Merrick B. Garland to request Interpol to issue a red alert for the search and capture of Nicolás Maduro, who has been on an international tour for days.

Cooperation plans. Nicolás Maduro concluded on June 14 his first official visit to Kuwait, after meeting with high authorities of the Arab country within the framework of a Middle East tour (which also takes him to Turkey, Algeria and Iran) to promote "strategic ties" and strengthen economic cooperation.

Violent attacks... Venezuelan opposition leader, Juan Guaidó, was removed from a local in San Carlos, Cojedes state, by pushing and insults. The attack took place during the tour that the political leader was carrying out in the state of Cojedes.

...leaves dissatisfied. For their part, the U.S. government, and the Organization of American States (OAS) condemned the events against the Venezuelan opponent. Due to this, the U.S. Secretary of State, Antony Blinken, commented that his country is deeply concerned about the fact that Guaidó has been attacked for the second time in two weeks.

Humanitarian assistance (I). The U.S. Government provided an additional US\$314 million in humanitarian assistance to Venezuelan refugees throughout the hemisphere.

Humanitarian Assistance (II). These resources include \$103 million from the State Department's Bureau of Population, Refugees and Migration (PRM) and more than \$171 million from the U.S. Agency for International Development's Office of Humanitarian Assistance, as well as \$40 million in development funds through USAID.

Unanimity. The National Assembly (AN) elected in 2020 unanimously approved the implementation of political and criminal actions against the mayor of the Zamora municipality (Guatire) of Miranda state, Raziél Rodríguez, who is accused of the alleged illegal eviction in March of 11 peasant families in the Villa Zamora I area.

Applying pressure. The Under Secretary of State for Western Hemisphere Affairs, Brian A. Nichols, of the U.S. Department of State, spoke out at the Summit of the Americas for the release of political prisoners in Venezuela, Cuba and Nicaragua, whose



governments were excluded from the meeting for being labeled as human rights violators.

Positive permits... Following the authorization issued by the United States, Italian oil company Eni SpA and Spanish Repsol SA could start shipping Venezuelan oil to Europe next month to offset Russian crude. According to *Reuters*, the authorizations would have arrived in May, but the details and resale restrictions are unknown.

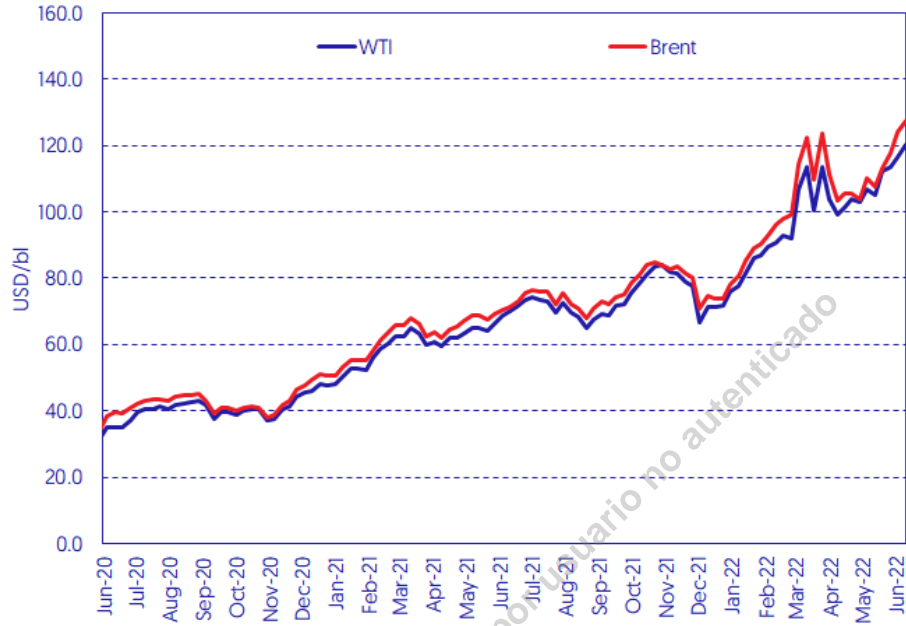
but unknown. Citing unofficial sources, *Reuters* warns that the volume of oil expected to be received by Eni and Repsol is not large, so any impact on world oil prices will be modest.

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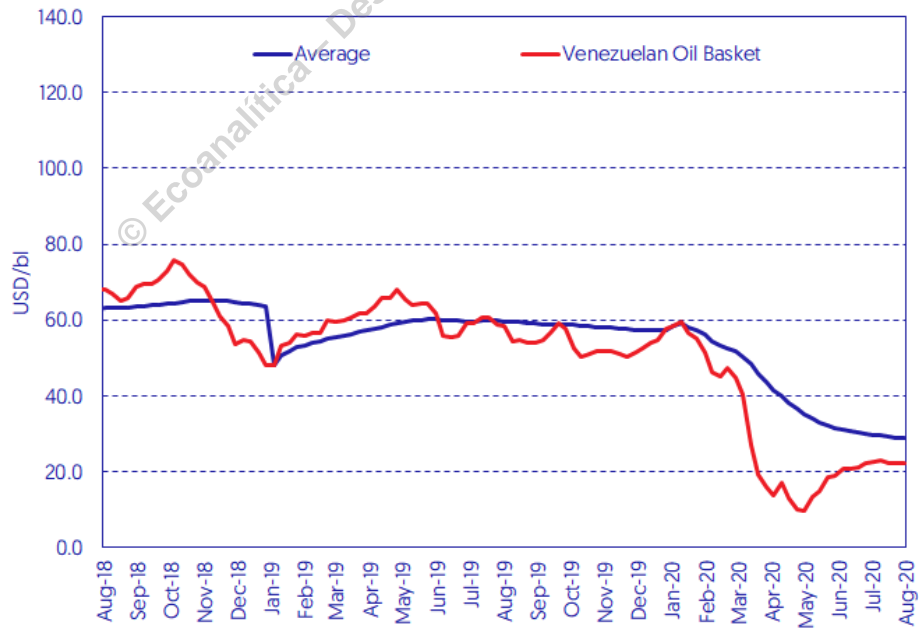
Economic Indicators

Oil prices (WTI and Brent)



Sources: Menpet and Ecoanalítica.

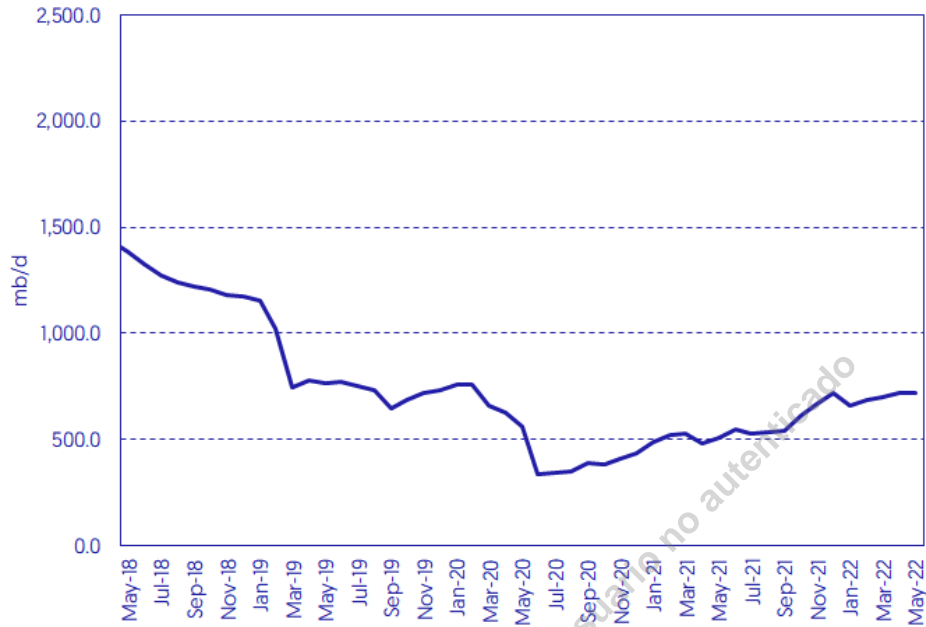
Oil prices (Venezuelan basket)



Sources: Menpet and Ecoanalítica.

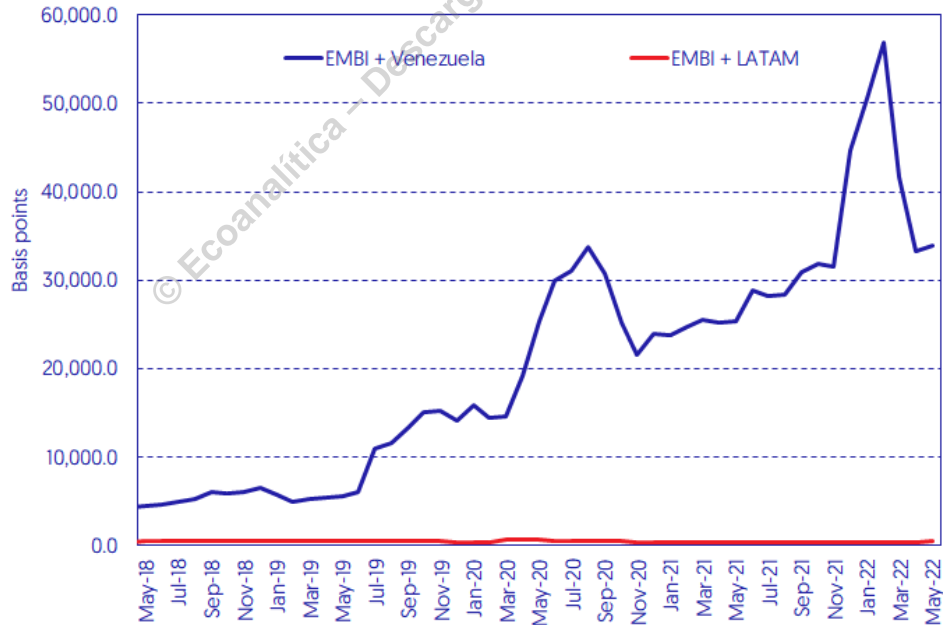


Oil production (secondary sources)



Sources: OPEC and Ecoanalítica.

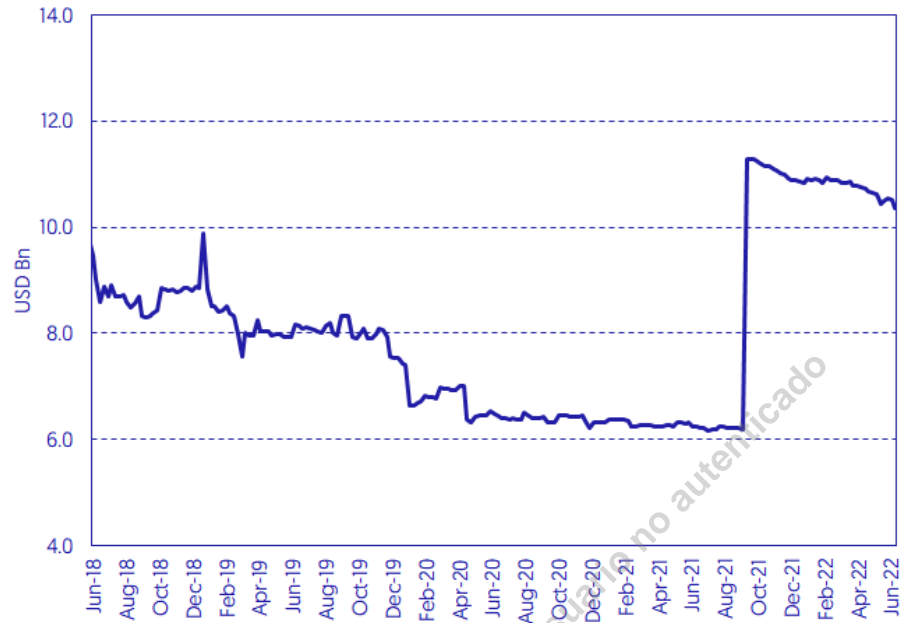
EMBI



Sources: BCRP and Ecoanalítica.

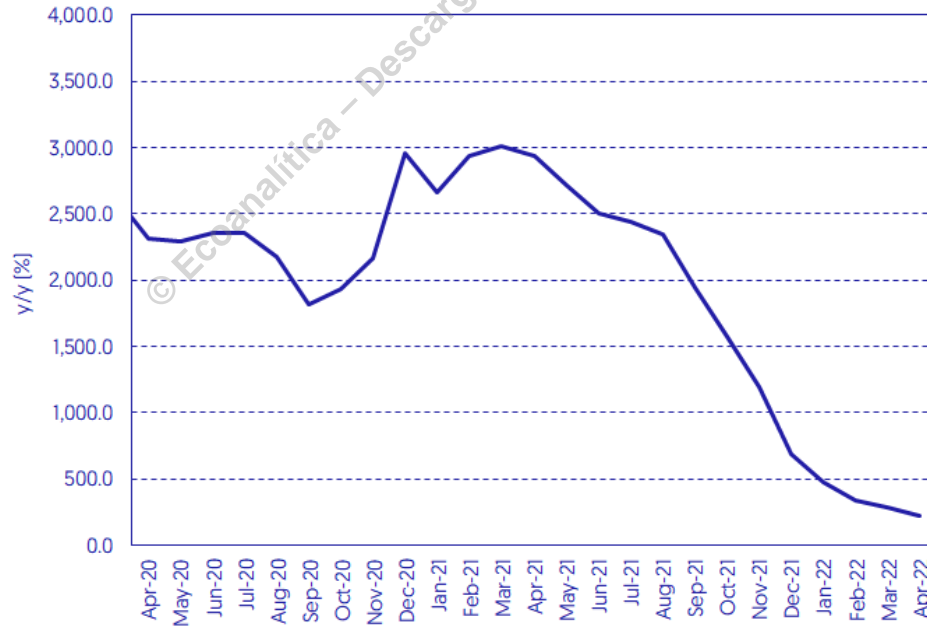


International reserves (BCV)



Sources: BCV and Ecoanalítica.

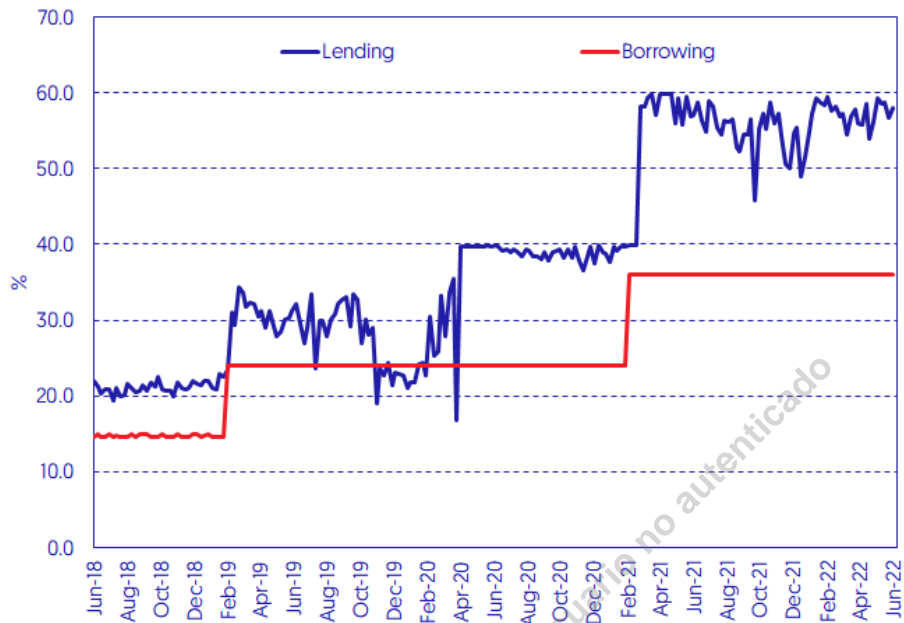
Inflation (BCV)



Sources: BCV and Ecoanalítica.

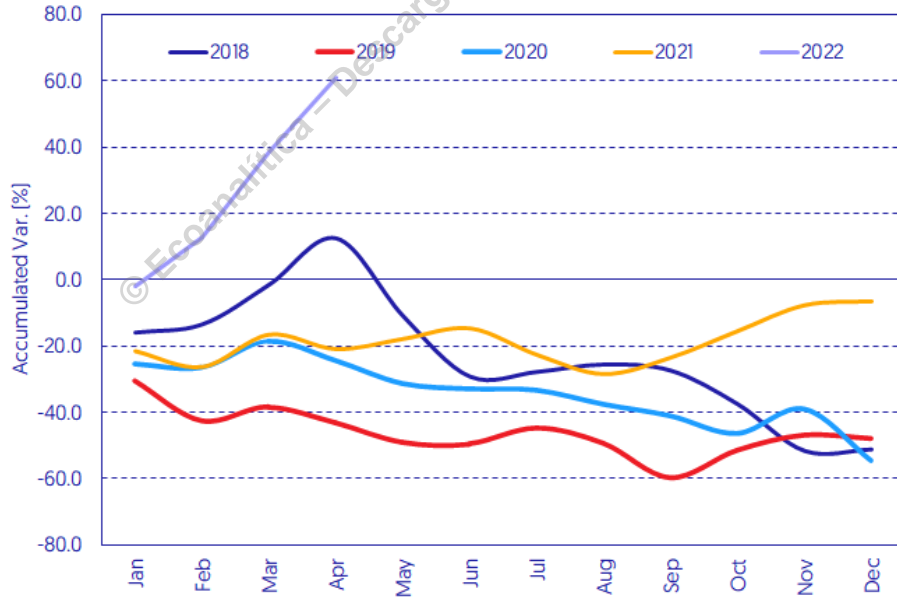


Interest rate (six major banks)



Sources: BCV and Ecoanalítica.

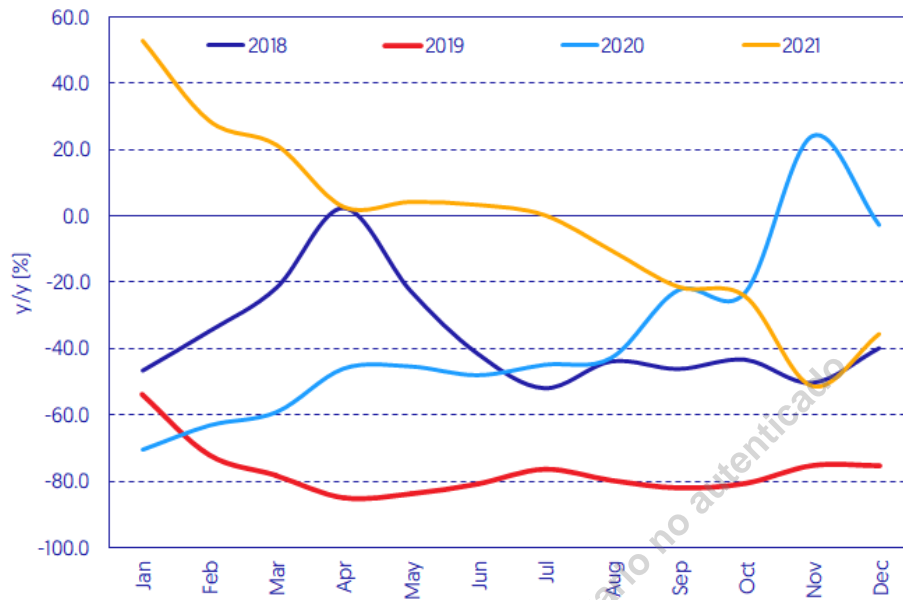
M2 Expansion (real)



Sources: BCV and Ecoanalítica.

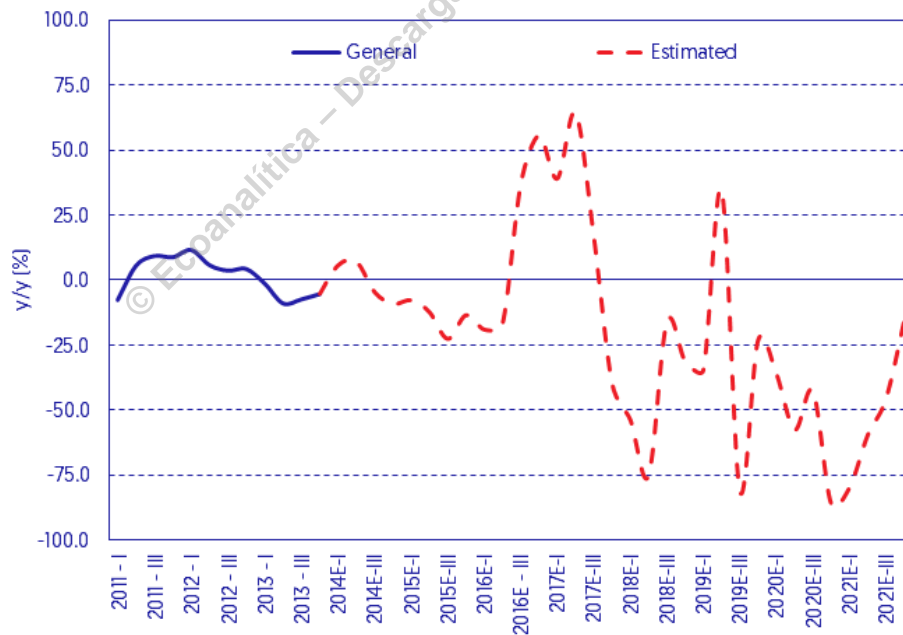


Loan Portfolio (real)



Sources: Sudeban and Ecoanalítica.

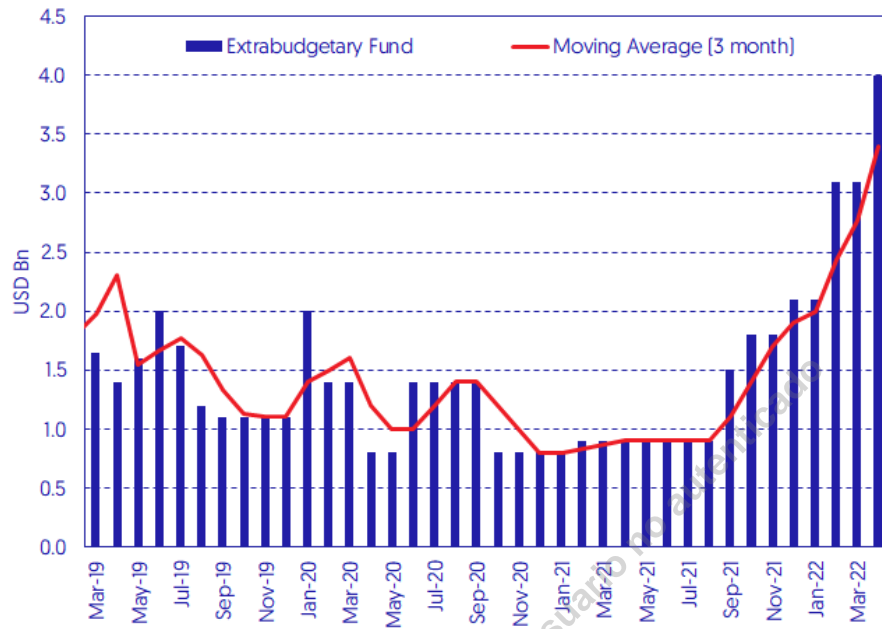
Real wage index



Sources: BCV and Ecoanalítica.



State extrabudgetary resources



Source: Ecoanalítica.

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