ecoanalítica

Economic Outlook

Report

14 – July 2022

ecoanalitica.com

Content

Between ruptures and roses

Reviewing the commercial relationship between Venezuela and Colombia

Venezuela and Colombia have a long history of economic and political relations. For years, the commercial relationship between Colombia and Venezuela has been fluid and very relevant for both countries. In 2007, the value of Colombia's total exports to Venezuela was USD 5.21 billion, 15.8% of the total value sold, while imports from Venezuela represented 12.5% of its total imports[1]. However, due to political differences between the governments of both countries, trade relations deteriorated to the point of being almost non-existent. At the end of 2021, Colombia exported USD 331 million, which is equivalent to a drop of 93.6% compared to 2007 figures.

When did the flame go out?

After having been one of Colombia's main trading partners, Venezuela accounted for only 0.8% of Colombian exports in 2021. Beyond the political reasons, one of the main factors for the reduction in trade between the two countries was the collapse of the Venezuelan economy, which simultaneously reduced its capacity to import and export goods with Colombia. It is worth noting that a large part of Venezuela's imports since the beginning of the recession were public, averaging 62.5% of the total between 2014 and 2018. This means that they were largely financed by the oil sector, but as the sector deteriorated and production fell, these imports were also reduced; a reduction that became more aggressive between 2017 and 2019 due to U.S. sanctions against the country, making the commercialization of oil and oil revenues even more difficult.

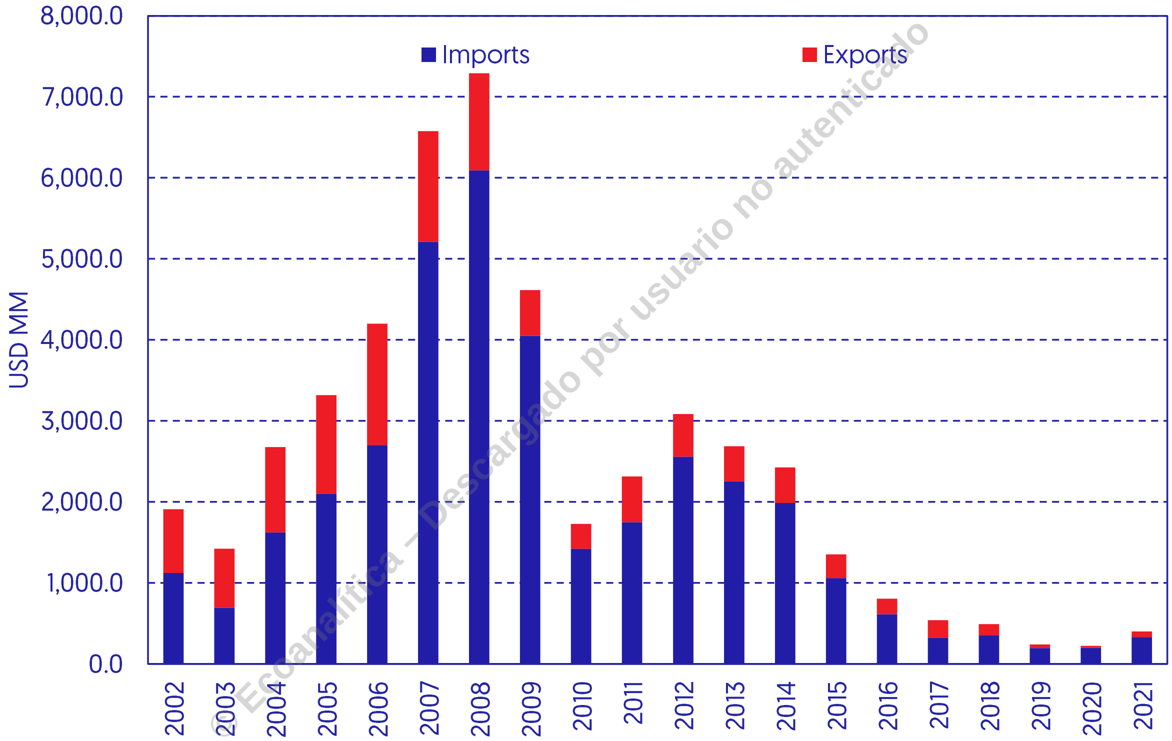
However, the relationship between the two countries has deteriorated. The rupture of diplomatic and consular relations had an impact on the commercial exchange, which is at the lowest level in their history as brotherly countries. In other words, the economic crisis in Venezuela and the enmity between the Governments of Hugo Chávez and Álvaro Uribe, which intensified with the closing of the borders during the Government of Nicolás Maduro and Gustavo Duque, caused a collapse in trade that harmed both nations, mainly due to the closing of the border that connects the Venezuelan state of Táchira with the Colombian department of Norte de Santander. As a result, many traders could not afford the increased costs of moving to the border between Zulia and La Guajira and broke off relations or took a leap to informality, which today predominates on the border.

[1] According to UNComtrade data.

Friends with benefits

After the Colombian elections that ended on June 19, the country is facing a new panorama. The presidency of Gustavo Petro could turn Colombian politics around and restore the importance of Venezuela. Petro stated that one of his priorities would be to reestablish trade relations with Venezuela. For this reason, the commercial sector, which depends on binational relations, is moderately optimistic about the possibility of increased trade in the medium term. In view of this, it is interesting to observe how bilateral trade between these countries has been recently.

Venezuela's trade with Colombia



Sources: Trademap and Ecoanalítica.

In the last three years, the trade exchange between Venezuela and Colombia recorded its worst figures of the XXI century. If we look in detail, we find that Venezuela's imports from Colombia in 2019, 2020 and 2021 stood at USD 195.9 million, USD 196.0 million and USD 331.2 million, respectively. On the other hand, what Venezuela exports to the neighboring country barely reached USD 43.8 million in 2019, USD 27.6 million in 2020 and USD 69.4 million in 2021. With respect to the trade balance, it can be noted that it has been positive for Colombia, since its imports exceed Venezuelan exports.

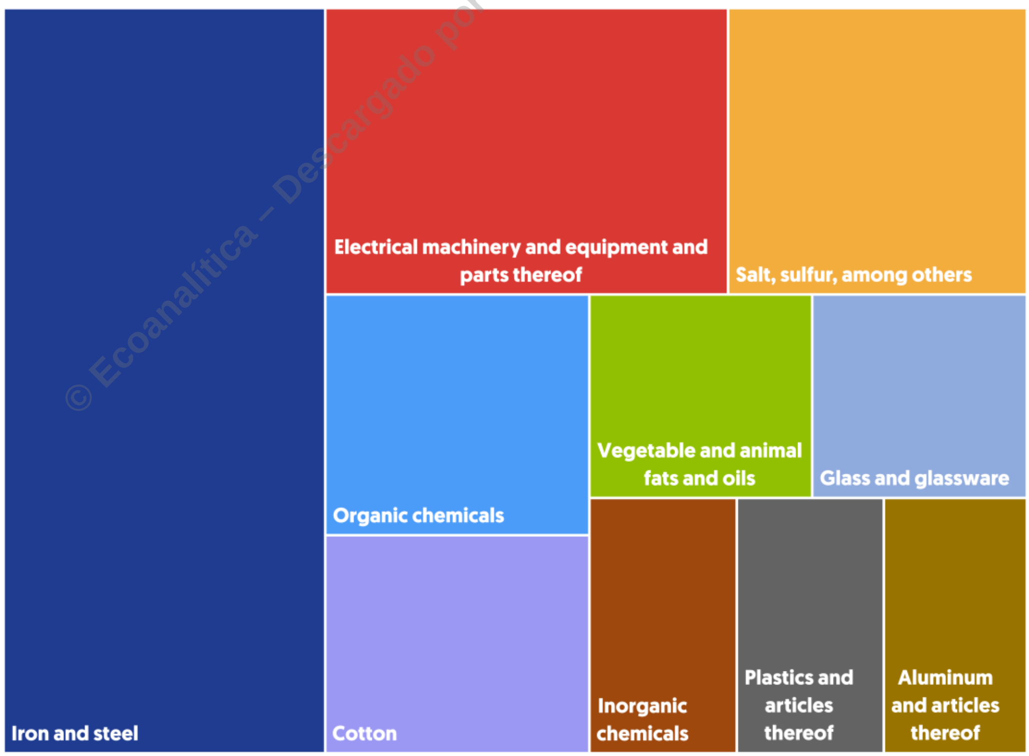
However, the reduction of bilateral trade between these countries has been seen since 2010. In this sense, if we compare the average of the 10 years between 2002 and 2011 with the average of the 10 years between 2012 and 2021, it is observed that Venezuelan imports from Colombia fell 63.1% from one period to the other, while exports contracted on average 74.4%, therefore, although a rebound in trade exchange is expected once trade relations are resumed, it is difficult to immediately recover the levels observed at the beginning of the last decade.

In this sense, according to estimates by the president of the Board of Directors of the Venezuelan-Colombian Chamber of Economic Integration (Cavecol), Luis Alberto Russián, in a positive scenario, the total trade exchange in 2022 could close between USD 800 million and USD 1.2 billion, which would triple the total trade compared to 2021. These figures are similar to projections made by the Colombian-Venezuelan Chamber (CCV), which estimates that bilateral trade could close the year between USD 1 billion and USD 1.2 billion if border restrictions are lifted.

It's not you, it's Venezuela: Main traded products

Among the main items exported from Venezuela to Colombia in 2021, we have "Iron and steel" which reached a figure of USD 17.8 million, "Electrical machinery and equipment" which reached USD 8.6 million and "Salt, sulfur, among others" which ended with USD 6.3 million, these items represent 25.6%, 12.3% and 9.1% of the total exported, respectively.

Exports in 2021 by item

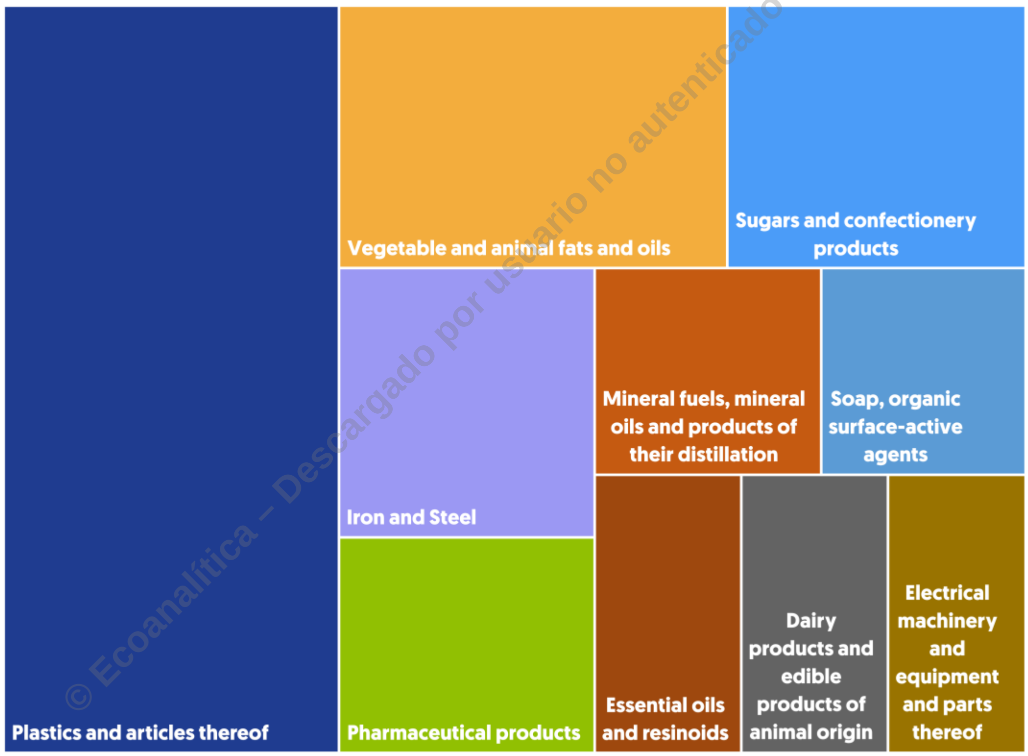


Note: the 10 main items are shown.
Sources: UN Comtrade and Ecoanalítica.

Between 2017 and 2021, the relevant exports that grew the most were "Electrical machinery and equipment" exporting, in 2021, 11 times more than what was exported in 2017 (USD 7.8 million more) and "Iron and steel" whose exports expanded by 80.5%; while those that contracted the most were "Plastic and its articles", "Aluminum and its articles" and "Organic chemicals", with a drop of 92.8%, 88.9% and 72.2%, respectively.

On the other hand, the items with the highest imports from Colombia were "Plastics and articles thereof" which reached USD 70.2 million, "Vegetable and animal fats and oils" with USD 28.5 million and "Sugars and confectionery products" with USD 21.9 million, representing 21.2%, 8.6% and 6.6% of total imports, respectively.

Imports in 2021 by item



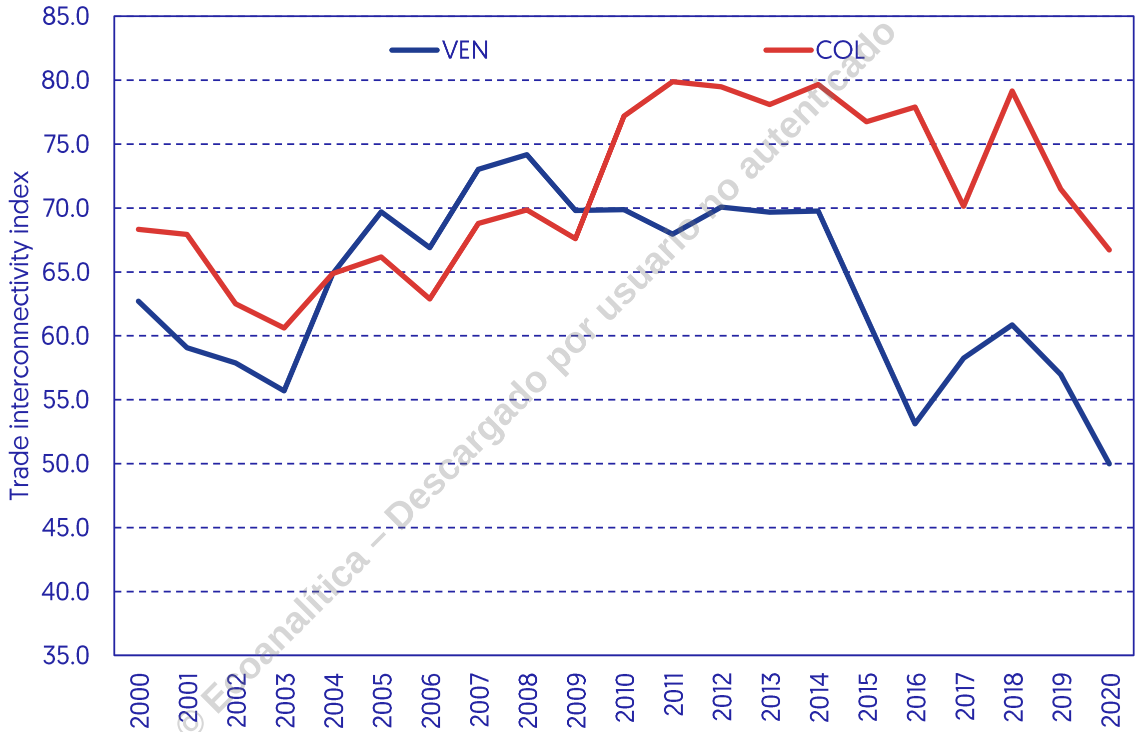
Note: the 10 main items are shown.
Sources: UN Comtrade and Ecoanalítica.

As for relevant imports, the items that grew the most were "Plastics and its articles", importing, in 2021, four times more than what was imported in 2017 and "Vegetable and animal fats and oils" increasing six times its imports in 2021. At the same time, those that presented the biggest drop were "Fertilizers", "Sugars and confectionery products" and "Machinery and mechanical appliances" by 81.8%, 30.1% and 69.9%, respectively. In this regard, it can be observed that Venezuela went from importing raw materials to produce its goods in the country, to importing finished goods because, due to the economic contraction, Venezuelan industries limited their demand for inputs as they lost production levels, and therefore, imports were mostly composed of products that are no longer produced domestically.

From dynamic duo to...

From a trade interconnectivity perspective, or the degree to which a country's external sector participates in global trade, studied by Cunto and Santana (2021)[2], the systemic importance[3] of Colombia and Venezuela was relatively similar between 2000 and 2009, with both countries oscillating between the 50 most important nations for global trade. But from 2010 onwards, the fall in Venezuela's trade volume (both exports and imports) and changes in its repertoire of trading partners, caused it to move away from its neighbor.

Venezuela and Colombia trade interconnectivity



Sources: Cunto and Santana (2021) and Ecoanalítica.

In this sense, years before the onset of the crisis, Venezuela remained stagnant in terms of trade partner diversification and did not gain ground in terms of interconnectivity. Even though Latin America has a slight importance in trade interconnectivity, Colombia, compared to Venezuela, enjoys a stronger position within the global network, being a more diversified nation and much more integrated in the network. So, in terms of size structures and number of trade connections,

[2] Cunto, G and Santana, D. (2021). *The Global Trade Network: Analysis of systemic interconnectivity (2000-2020).*

[3] Approximated by a weighted index that takes into account the size and number of trade connections a country has to determine its relative importance within the entire global trade network.

Venezuela and Colombia cannot be seen as peers, in fact, today they are not even on the same comparable scale.

Between 2000 and 2020, Venezuela fell by 13.1 percentage points (pp), one of the largest declines in the network, meaning that by 2020 Venezuela had dropped out of the top 50 countries in the network.

Couples therapy: Will they come back?

In the medium term, the expectations of the commercial sector between Venezuela and Colombia are somewhat positive because everything points to the reestablishment of commercial relations with the presidency of Gustavo Petro. However, recovering the country's economic activity, including Venezuela's external sector to 2008 levels is complicated because the oil sector is not the same either, which means that the country's capacity to import and export goods will not be the same. Additionally, it is to be expected that imports from Venezuela, even if trade relations with Colombia are resumed and the country's economic situation improves, will continue to be mainly of finished products due to the limits of productive expansion presented by Venezuelan firms. Even so, more trade, where before it was almost non-existent, represents a gain in welfare for both governments.

Diego Santana Fombona
Mariana Fernández
José Antonio Medina

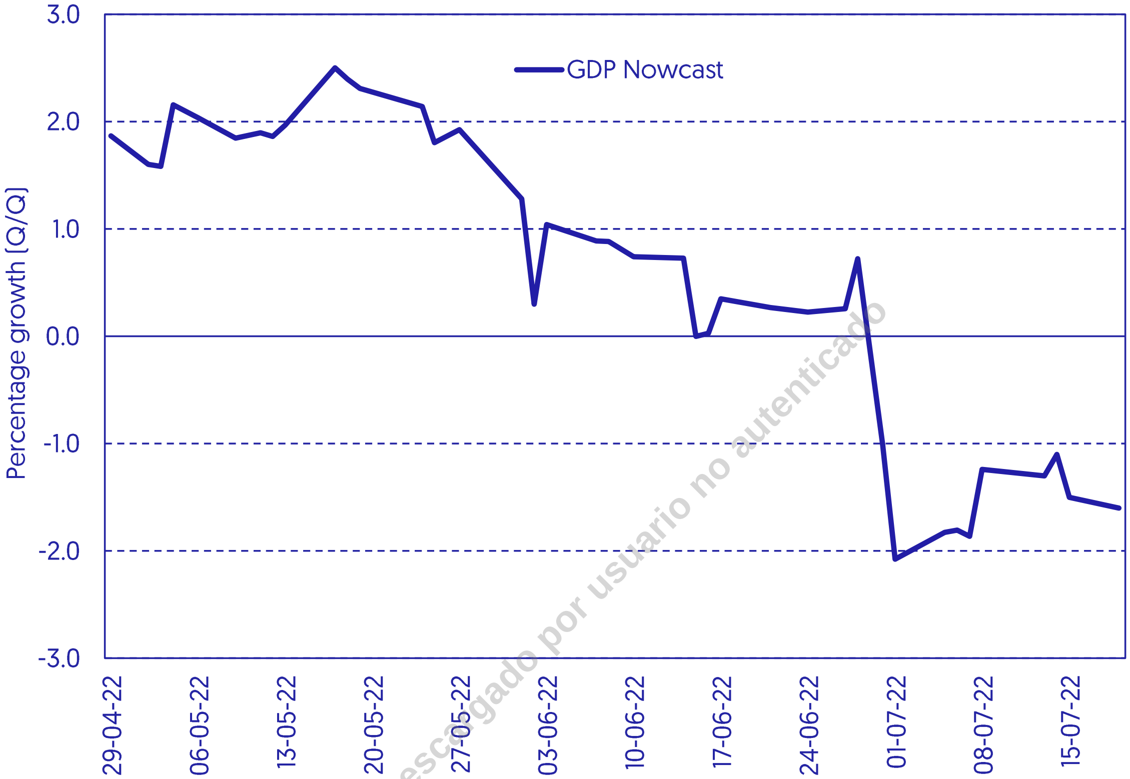
Weekly ***Indicators***

	3rd Week July	*Weekly chg. (%)*	*Depre/Apre (pp)*[1]
FX Boards (VES/USD)[2]	5.7	1.2	1.2
	1st Week July	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	59.2	2.1	2.5
	3rd Week July	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	119.4	10.2	-122.8
	2nd Week July	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	10.3	-0.50	64.9
	1st Week July	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)**	8,472.1	1.5	305.1
Price of International Oil Baskets (USD/bl)			
	2nd Week July	Weekly chg. (%)	Annual chg. (%)
WTI	99.9	-3.3	37.6
Brent	109.8	-3.4	46.0
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.***
[1]Depreciation (+)/Apreciation (-)
[2]FX Borads' average exchange rate.

Graphic of the week
Overheating of the economy

Evolution of U.S. GDP projections (2Q2022)



Sources: Federal Reserve Bank of Atlanta and Ecoanalítica.

Recent projections in the United States indicate that the country could be about to enter a recession by the end of the second quarter of the year, with recession being understood as a drop in economic activity for two or more consecutive quarters. According to the Atlanta Federal Reserve's latest GDPNow July 19 estimate (with high levels of effectiveness), an indicator that incorporates high-frequency information from official reports on the employment situation, wholesale purchases, international trade, construction spending, among others, and which functions as a real-time economic tracker and is continuously adjusted, shows that the U.S. economy will contract 1.6% year-on-year in the second quarter of this year.

This could be explained by interest rate increases, which are affecting home purchases and consumer spending, which could be a determining factor in the estimate of a further decline in GDP in the second quarter, after the negative result in the first quarter.

For now, the data show further weakness in consumer spending and domestic investment, which justifies the pessimism indicated around the results of the second quarter economic performance to be published on July 28.

Tips
Economic, oil, sectorial and political

ECONOMIC TIPS

COVID-19 in Venezuela. According to government figures as of July 19, the country accumulated 530,975 registered cases of coronavirus and 5,750 deaths. At the same time, according to OurWorldInData, it is estimated that 78.57% of the population has received at least one dose of a vaccine as of March 25, 2022.

Increase in remittances. The director of Anova Policy and Consulting, Hugo Fernandez, pointed out that remittance income in Venezuela increased significantly this year. By the end of the year, it is expected that remittances entering the country will be around USD 22 million in total. César Atencio, president of Zoom Casa de Cambio, added that the average amount of dollars sent to Venezuela per user is USD 157.

Deadline for liquidation. The Superintendency of Banking Sector Institutions (SUDEBAN) established two years to liquidate the assets of Banco Occidental de Descuento (BOD) and clarified that the transfer of assets and liabilities to Banco Nacional de Crédito is not a merger of both banking companies. It also informed that the objective is to prevent the insufficient liquidity of the BOD to cover the deposits of the public from affecting the continuity of the business.

Tax exoneration for cocoa. The Venezuelan government announced that there will be exoneration of taxes and duties for the exportation of cocoa and its derivatives in order to promote the growth of the sector; it established that China will be one of the main recipients of this product and, in addition, the prohibition of cultivation of any seed or material of non-Venezuelan origin was decreed. These measures are expected to increase cocoa production to 60,000 tons in three years.

Bolivar on the road to devaluation. In the last 30 days, the bolivar lost 6% of its value with respect to the dollar. If we consider the official rate of the Central Bank of Venezuela (BCV), we observe that one month ago a dollar was traded at VES 5.31 and today it is traded at VES 5.65; furthermore, since January 1 of this year, the national currency has depreciated 18.9%. If we consider the parallel exchange rate, it closed at an average of VES 5.84, which is even worse in terms of depreciation.

47% of deposits in June. Deposits in foreign currency of Venezuelan banks closed the first half of the year at an equivalent of VES 7,615.7 million (USD

1,375.4 million), which is equivalent to 47% of deposits. Banco Nacional de Crédito and Mercantil are the two banks that hold the most foreign currency with USD 190.5 million and USD 145.9 million, respectively. Despite this, Bancamiga is the bank with the highest proportion of its deposits in dollars, with 78% of them.

Reduction of foreign exchange intervention. The Venezuelan Central Bank (BCV) reduced the foreign exchange intervention to USD 95 million this July 18. Its value was VES 5.69 per dollar, which represents an increase of 0.52% with respect to the previous week. It is important to note that in the first half of the year, 29 foreign exchange intervention operations were carried out for a total value of USD 2,530 million. It is expected that, for the second half of the year, the BCV will intervene less than in the first half.

Money Tables. For the last week of March, the average money desk rate was VES 5.7/USD, which represents a depreciation of 1.2% with respect to the previous week.

OIL TIPS

Russian energy production falls. The Russian energy company Gazprom reported that so far this year its gas production was 10.4% lower than in the same period last year. Also, in this period, its gas exports to countries outside the post-Soviet Commonwealth of Independent States (CIS) fell by 33.1% year-on-year.

Deliveries to Europe are cancelled. In parallel, Gazprom suspended gas deliveries to three European buyers through the activation of emergency clauses in its contracts, reinforcing the signal of its intention to maintain limited supplies to the European Union. This follows other cuts in its gas exports such as the one made due to the closure of the Nord Stream pipeline for maintenance.

Seeking alternative routes (I). The European Union (EU) reached an agreement with Azerbaijan to double gas shipments from this country to Europe in the coming years. According to European Commission President Ursula von del Leyen, "the EU is betting on more reliable energy suppliers." This move comes as part of the EU's need to diversify its energy sources in the face of threats of Russian cutbacks.

Looking for alternative ways (II). France and the United Arab Emirates (UAE) have signed an agreement for long-term energy cooperation. The aim is to initiate new joint investment projects in sectors such as hydrogen, renewable energies, and nuclear energy. According to the French government, this partnership will enable them to address short-term energy security concerns while preparing for a carbon-free future.

Slight drop in production... OPEC's monthly report published that Venezuelan oil production in June was 727 kb/d, as reported by primary sources. This figure represents a drop of 1.1% with respect to May's production level.

...according to both sources. According to secondary sources, Venezuelan crude oil production stood at 706 kb/d in June, being 1.9% lower than the 720 kb/d produced the previous month. Although the gap between the figures reported by both sources increased with respect to May, it remains at only 21 kb/d, which is low in relation to previous months.

Gas pipeline explosion. The Minister of Petroleum, Tareck el Aissami, informed about the explosion of a gas pipeline operated by PDVSA in the eastern part of the country. The Minister denounced that it was caused by a new "terrorist attack" and that PDVSA workers, together with firefighters and the Armed Forces, are working to suffocate the fire and regularize the service.

SECTORIAL TIPS

Hopeful expectations (I). The president of the board of directors of the Venezuelan-Colombian Chamber of Economic Integration (Cavecol), Luis Alberto Russián, explained that after Gustavo Petro's victory in the Colombian presidency, there are positive expectations for trade relations between the two countries.

More employment. Gipsy Pineda, treasurer of Fedecámaras Táchira and president of the Chamber of Tourism of that state, stated that the reopening of the border with Colombia would generate approximately 4,000 direct jobs and 8,000 indirect jobs. She added that there is currently a paralyzed installed capacity and that the reactivation of trade between the two countries will be beneficial both socially and economically.

Early opening. Pineda also informed that there is a strong intention to reopen the border on August 8, the day after Gustavo Petro's inauguration as President of Colombia; however, he clarified that the recovery of border trade is progressive, because the process implies entering the markets and recovering clients, which entails many resources.

Initial agreement. Along these lines, close to 200 businessmen and representatives of different trade associations from Venezuela and Colombia signed the "Border Agreement" in the state of Táchira. The objective of this agreement is to cordially initiate commercial relations between both countries once the border is opened.

Flights to Colombia. Colombia's Civil Aeronautics authorized two airlines to resume flights to Venezuela. Specifically, Avianca and Latam Colombia airlines were authorized to cover the Bogotá-Caracas-Bogotá route, while Wingo was authorized for the Bogotá-Valencia-Bogotá route.

Goodbye subsidy? Luis Trocel, secretary of the Comando Intergremial del Transporte Urbano, stated that, in the last meeting with the Vice-President of Public Works, Néstor Reverol, the plan of the Executive to eliminate the fuel subsidy in a progressive manner was discussed. The leader indicated that, if the subsidy is eliminated, the sector proposes an urban rate of VES 4 or VES 5, as opposed to the VES 3 proposed by the Government, for which reason so far no agreement has been reached between the parties.

Good performance. According to the Venezuelan Chamber of Franchises (Profranquicias), in the first four months of the year, 61% of its affiliated companies increased their sales in relation to the same period of 2021. Similarly, 70% of them reported that they have more establishments and 21.7% increased their number of employees, while 60.9% retained the same number of workers compared to the previous year.

Suffering from hunger. According to a report on the state of food security and nutrition in the world published by five UN agencies, Venezuela is the second country in Latin America with the highest prevalence of hunger. With 22.9% of its population suffering from hunger, the country is only surpassed in the region by Haiti, where the figure rises to 47.2%.

Imports and informality. According to Roberto Rimeris, president of the Venezuelan Chamber of the Apparel Industry, 90% of the fabrics used in Venezuela are imported. He added that there are currently only 20 affiliated companies, compared to 400 in 2000, due to the fact that many of the companies have moved to the informal sector.

POLITICAL TIPS

Conversations for gold (I). The legal representatives appointed by the National Executive and Juan Guaidó established arguments in the High Court of London to obtain control of Venezuelan gold in the Bank of England. The trial will last four days, and Judge Sara Cockerill is expected to indicate when she expects to announce her sentence. If it is concluded that the jurisdiction of the Supreme Court of Justice is in force in England, the current Executive will be the holder of the gold, otherwise it will be Guaidó.

Conversations over gold (II). Since 2019, the Government and the opposition led by Guaidó have been fighting for access to 32 tons of gold held in custody at the Bank of England. At the time, it was decided not to deliver the gold to the pro-government board of directors of the BCV due to political arguments, but the lawyer of the pro-government board asserts that the board chaired by Guaidó is not a functional part of the Central Bank and that all its members are in exile.

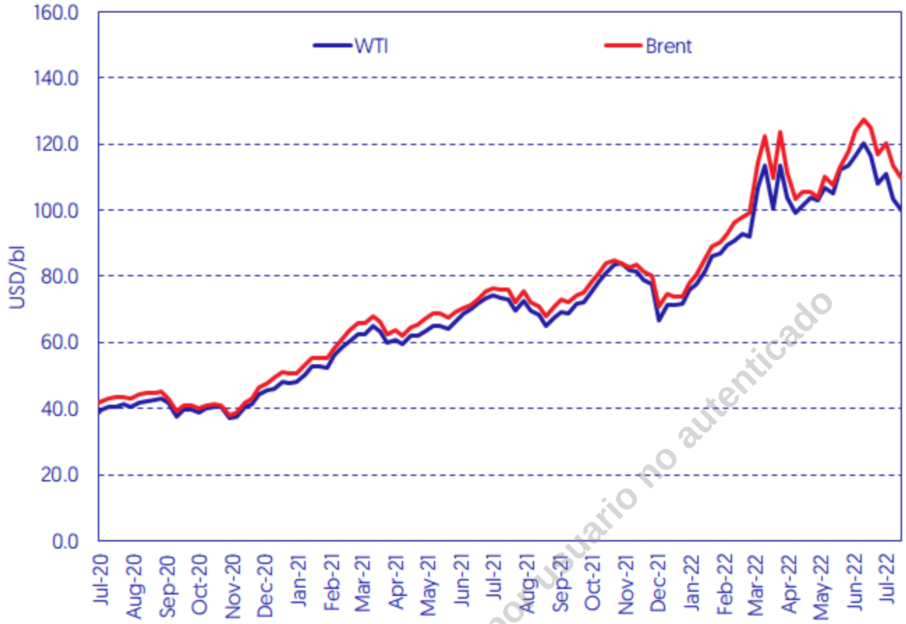
Negotiations on pause. The negotiation process in Mexico between the official government and the Venezuelan opposition continues without a resumption date. Last May 17, the leaders of each side held a meeting in Caracas to rescue the negotiation in Mexico, but both delegations have maintained secrecy since then and there is no official information to know if the negotiations will continue or not.

Presidential Candidate. Acción Democrática announced that its Secretary General, Bernabé Gutiérrez, will be a candidate for the presidential elections of 2024. Despite the fact that the party was intervened in 2020, the Supreme Court of Justice set up an ad-hoc board which may use all the organization's own concepts. Bernabé called on the opposition to choose a single candidate in primary elections, polls or other mechanism.

Assassinations of union leaders. The Observatory for the Defense of Life (ODEVIDA) presented a report compiling the murders of 44 union leaders between 2015 and 2020. In addition, ODEVIDA obtained 82 cases of violence against labor rights defenders and union leaders. Of these, 44 were murders, 28 were arbitrary detentions, 5 cases of threats and 4 attempted murders. Of all cases, 78 were against men and 4 against women.

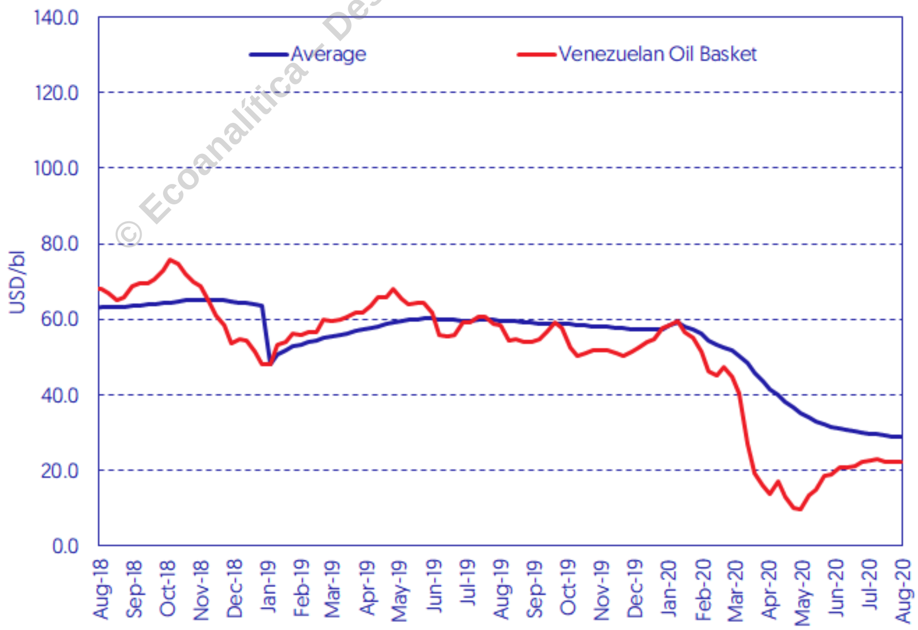
Economic
Indicators

Oil prices (WTI and Brent)



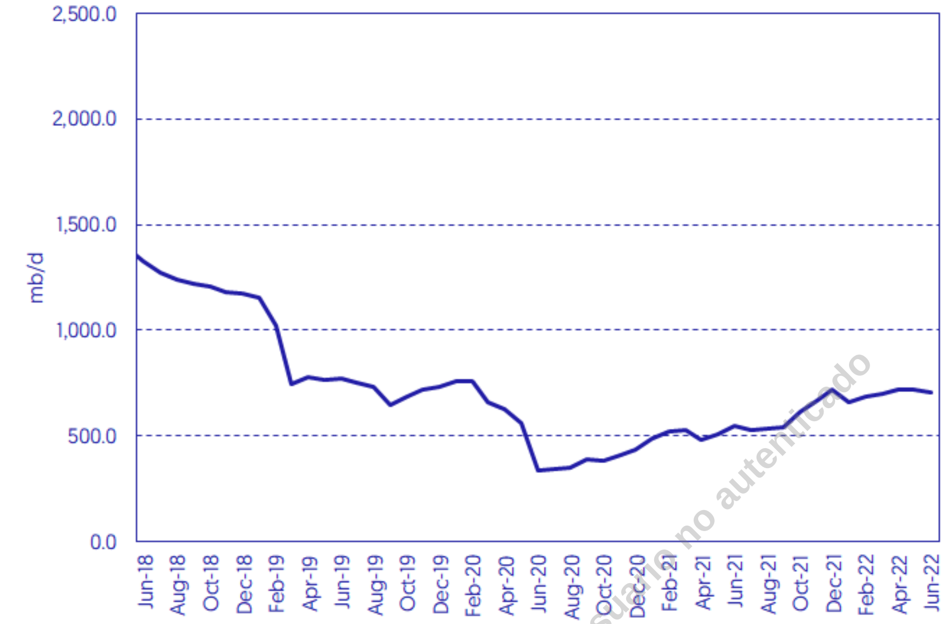
Sources: Menpet and Ecoanalitica.

Oil prices (Venezuelan basket)



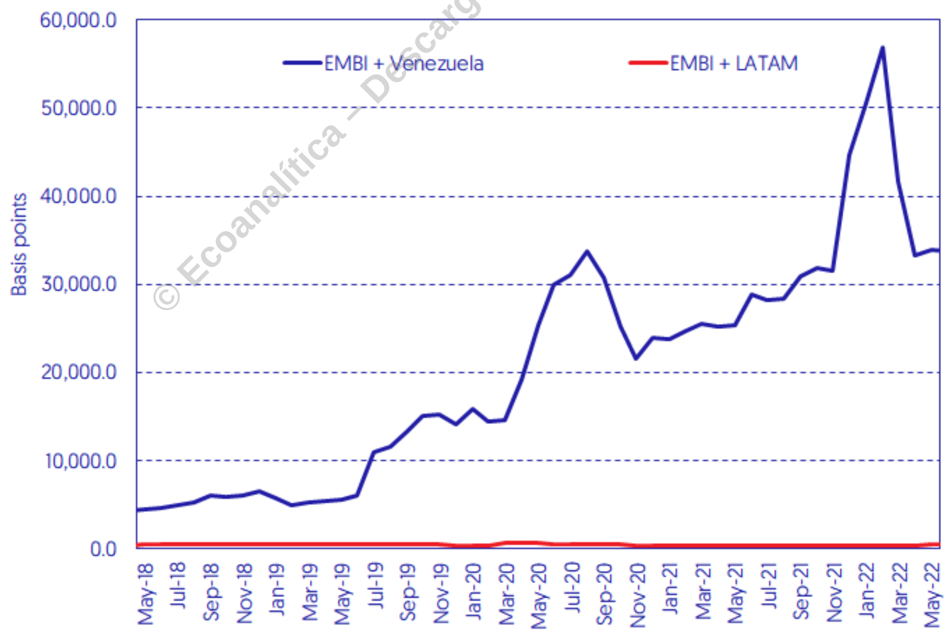
Sources: Menpet and Ecoanalitica.

Oil production (secondary sources)



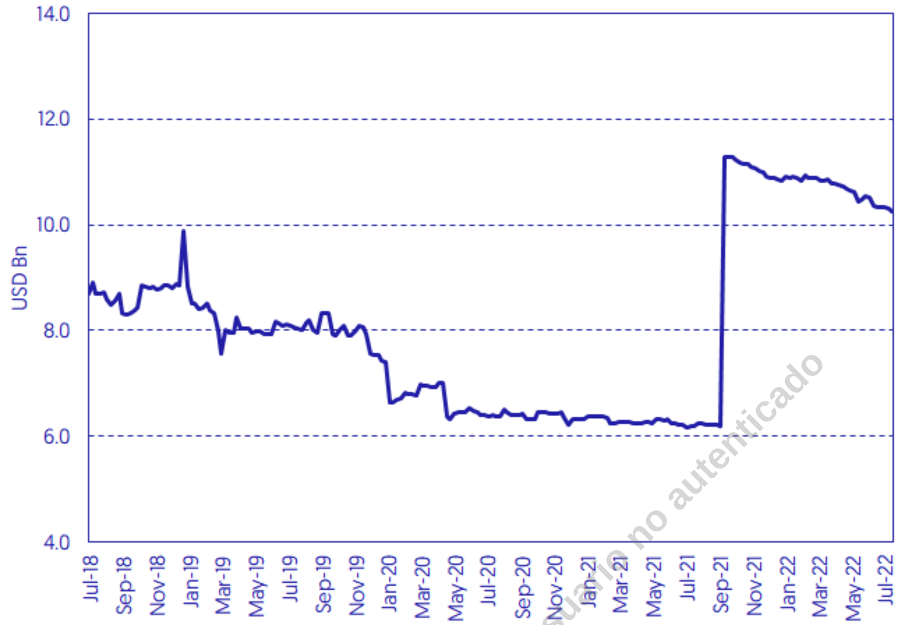
Sources: OPEC and Ecoanalitica.

EMBI



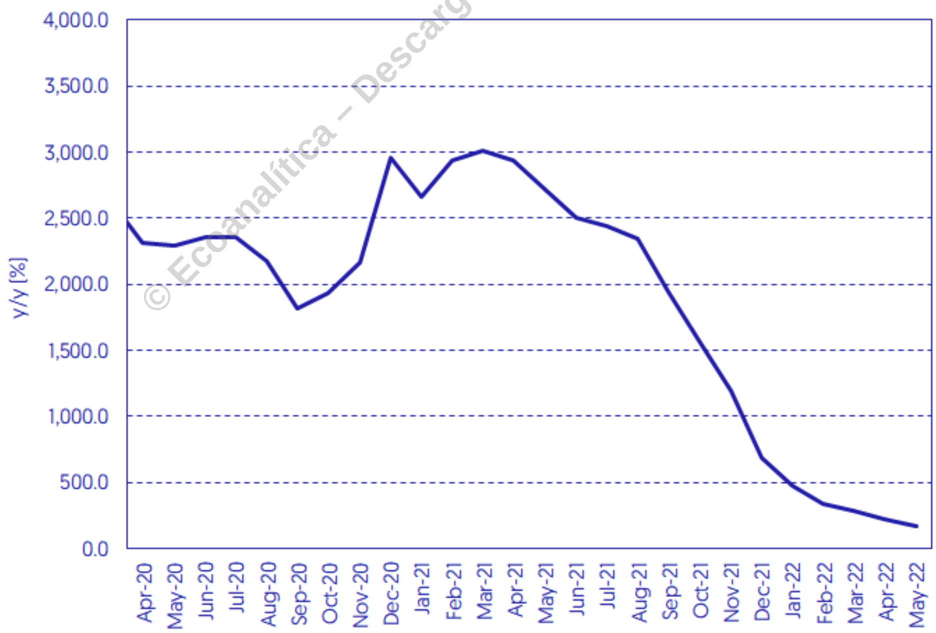
Sources: BCRP and Ecoanalitica.

International reserves (BCV)



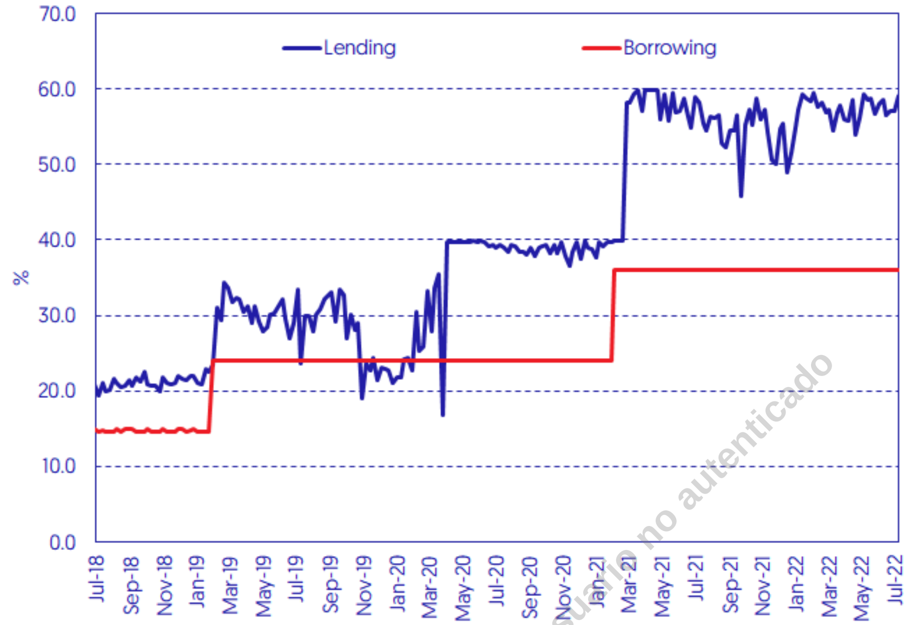
Sources: BCV and Ecoanalitica.

Inflation (BCV)



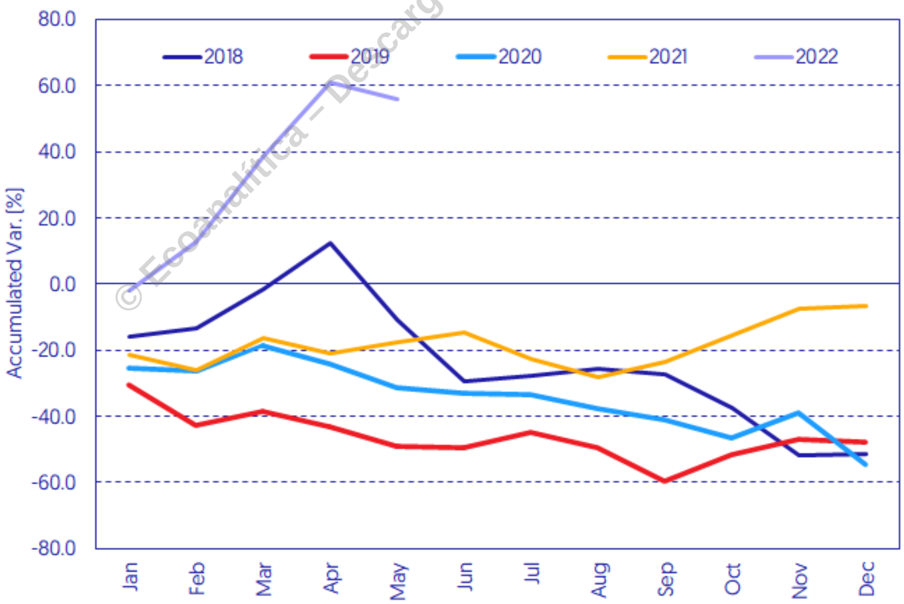
Sources: BCV and Ecoanalitica.

Interest rate (six major banks)



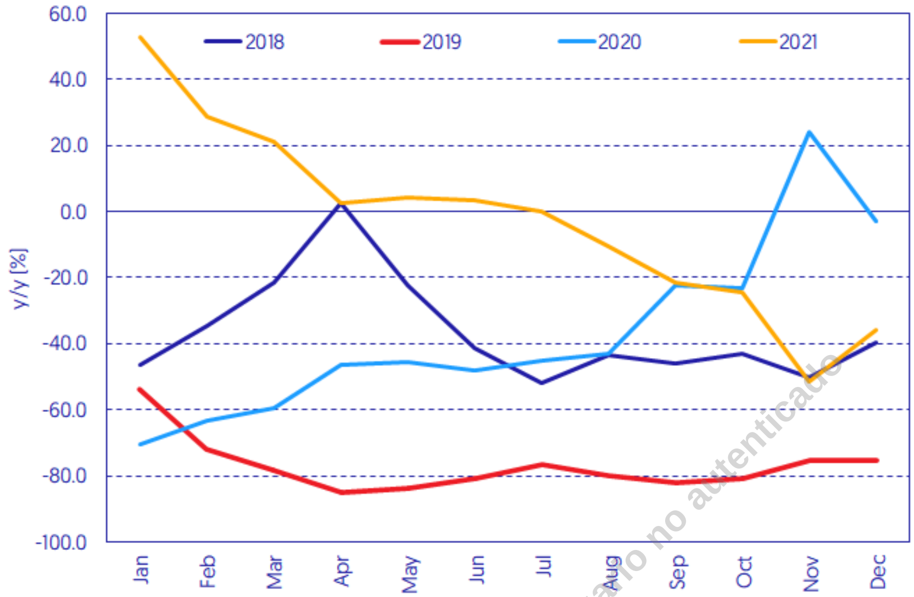
Sources: BCV and Ecoanalitica.

M2 Expansion (real)



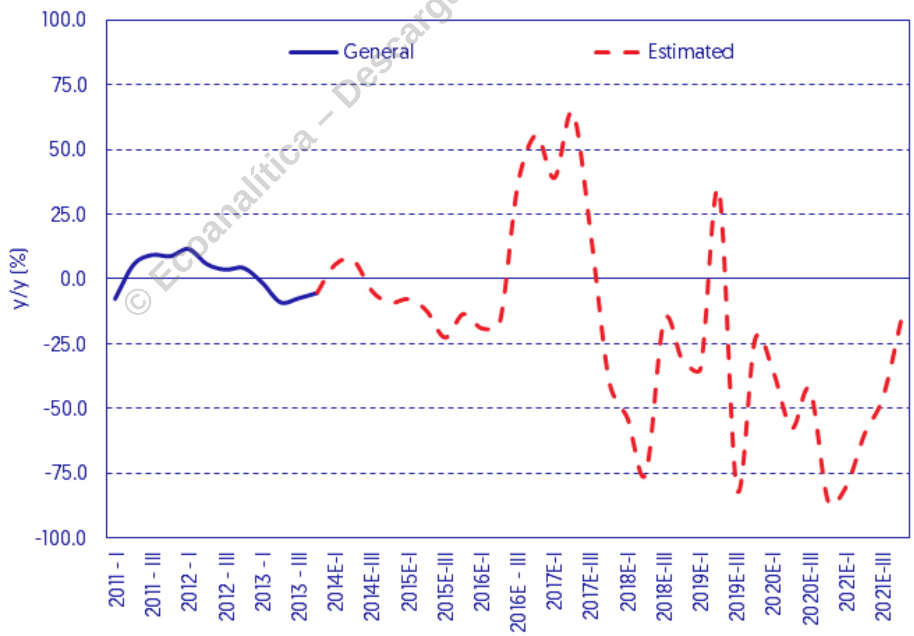
Sources: BCV and Ecoanalitica.

Loan Portfolio (real)



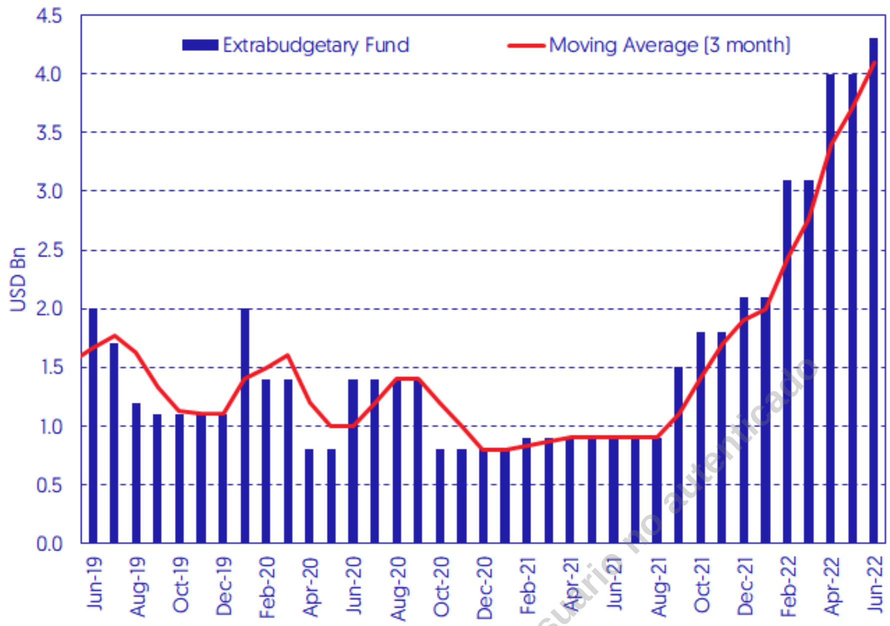
Sources: Sudeban and Ecoanalitica.

Real wage index



Sources: BCV and Ecoanalitica.

State extrabudgetary resources



Source: Ecoanalitica.

ecoanalítica

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

República Dominicana
Torre Da Silva IV, 19th floor, La Esperilla,
Santo Domingo 10107, Dominican Republic.
RNC 132303352
+1 809-895.0227