



Economic Outlook **Report**

09 – May 2022

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Extrabudgetary resources

The bullet that is always in the chamber.

As the name indicates, extrabudgetary resources are those funds (divided into bolivars and dollars) available to the National Executive outside the parameters of the budget published, *a priori*, at the end of each year. This concept began to gain relevance within the Venezuelan economy as of 2004, when evidence of the presence of a "*parallel budget*" began to circulate.

Such resources constitute a sort of petty cash that the administration uses, for example, to finance extraordinary expenses through additional credits approved by the National Assembly or those made through public financial sector institutions by entities other than the central government. This practice gave the Executive greater discretion in the distribution of its resources, which resulted in greater ease in financing projects, campaigns and missions for political benefit.

At the same time, being controlled by the central agency, the accumulation of these funds could give this entity greater influence over the governors' and mayors' offices, which would already have had their resources allocated since the end of the previous year. Even so, a major reason for the existence of these funds was the obsession to accumulate liquidity to avoid the same vulnerability experienced during the oil strike, which motivated the country (even with the accumulation of resources outside the budget) to begin an aggressive strategy of debt accumulation since the end of the 2000s to finance part of the State's spending.

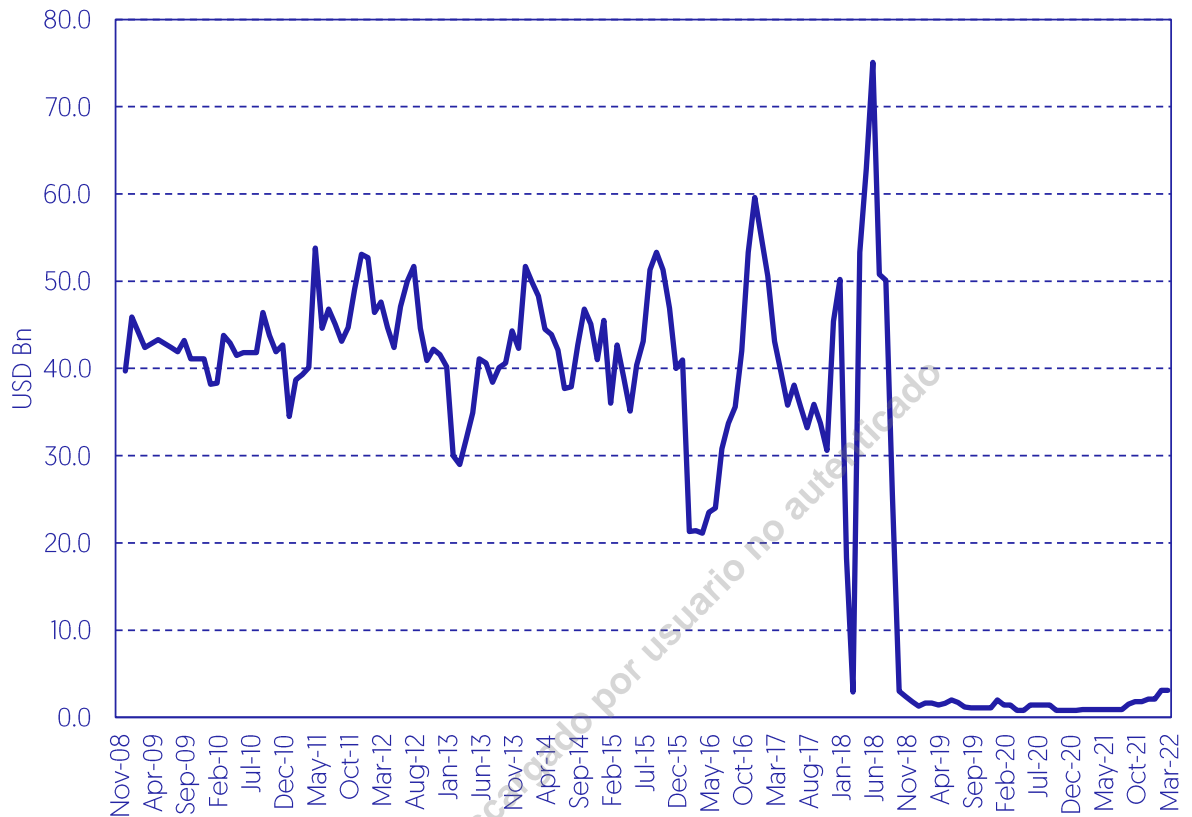
Among the main sources of budgetary resources were: the foreign currency that PDVSA accumulated and did not sell to the Central Bank of Venezuela (BCV), others that it transferred to the National Development Fund (Fonden), the international reserves considered "surplus"¹ and the "extraordinary" income of the state oil company resulting from an inflow via crude oil exports at a price per barrel that was above the budgeted price².

¹ At the time, the BCV determined an optimum amount of reserves, with the excess value being that which exceeded that estimate.

² A practice that was carried out consciously given that the estimated barrel was usually below market consensus.



Total extrabudgetary resources*



*For February 2018 and as of October 2018 only the dollar portion is available.

Source: Ecoanalitica.

Even so, the outstanding feature of this parallel mechanism was its opacity, where there was no transparency whatsoever regarding the strategy and use of its execution or accumulation. This allowed not only to make decisions without further review by the legislative body (as in the case of expropriations), but also to distract from the true purchasing power of the State when determining its spending capacity³. Such aspects seem to be more relevant today than in the past, given the recent significant increase in these resources in a context in which the capacity to generate tax revenues has been considerably reduced.

How have they evolved?

In our most recent estimates, we calculate the extrabudgetary resources for the close of March 2022 at a minimum of USD 3.1 billion, 47.6% higher than the estimated value for the close of 2021 and 244.4% above that observed in March 2021. Said amount is referential, given that the only information we

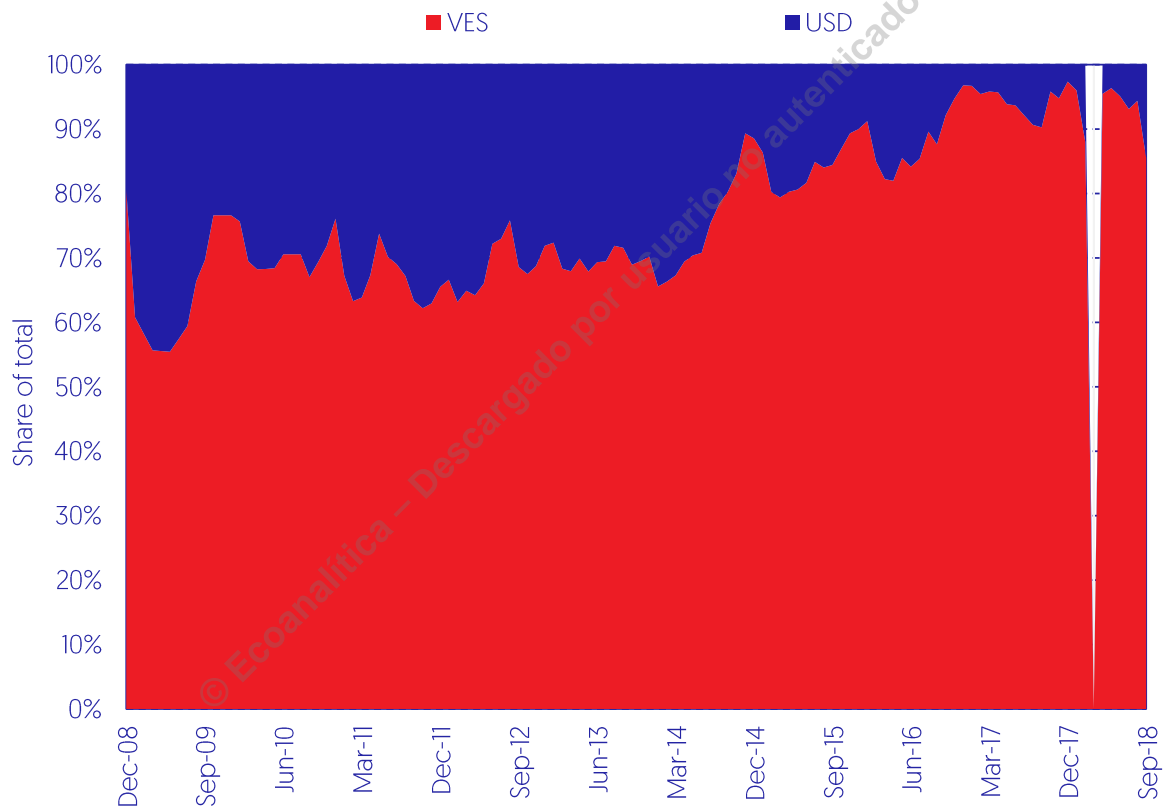
³ A topic of conversation during the 2012 presidential campaigns, as the exact origin of the funds that financed the ruling party's campaign was not known.



have available is on the foreign currency portion of these funds; as we do not have since September 2018 the availability of the bolivar portion of the extrabudgetary resources -which has led to only the disposition in foreign currency being estimated.

However, the lack of this information would not imply a noticeable change in the Executive's estimate of the availability of these funds (or its analysis). In particular, an underestimated exchange rate and the acceleration of inflation since the beginning of the last decade made foreign currency availabilities increasingly important as the local currency lost purchasing power.

Disaggregated extrabudgetary resources

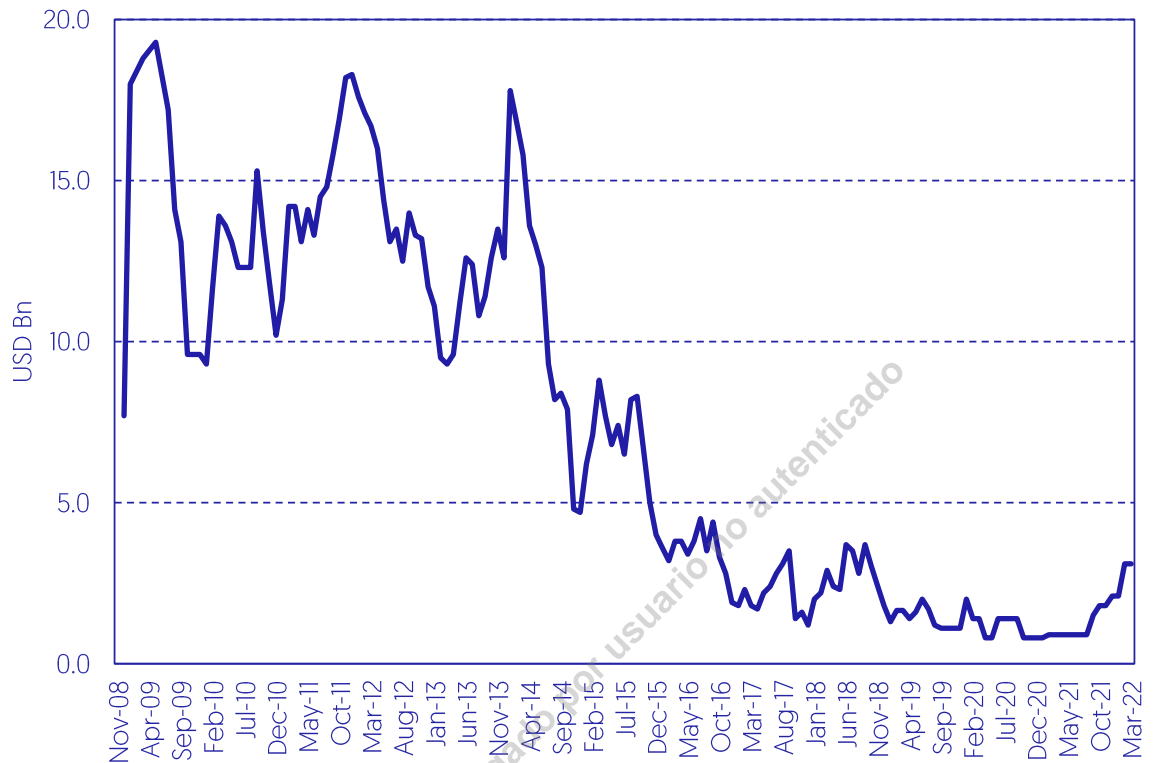


Note: Data for March 2018 is not available.
Source: Ecoanalitica.

Precisely, the greatest deaccumulation of resources in dollars occurred around the end of 2014, and, from then on, the preference to keep this portion stable was observed. This preference seems to be inferred from the coincidence of these dates with the greater use of monetary financing to cover the fiscal deficit of the date, and thus maintain the importance of public sector activity on the national economy.



Extrabudgetary resources – dollar portion



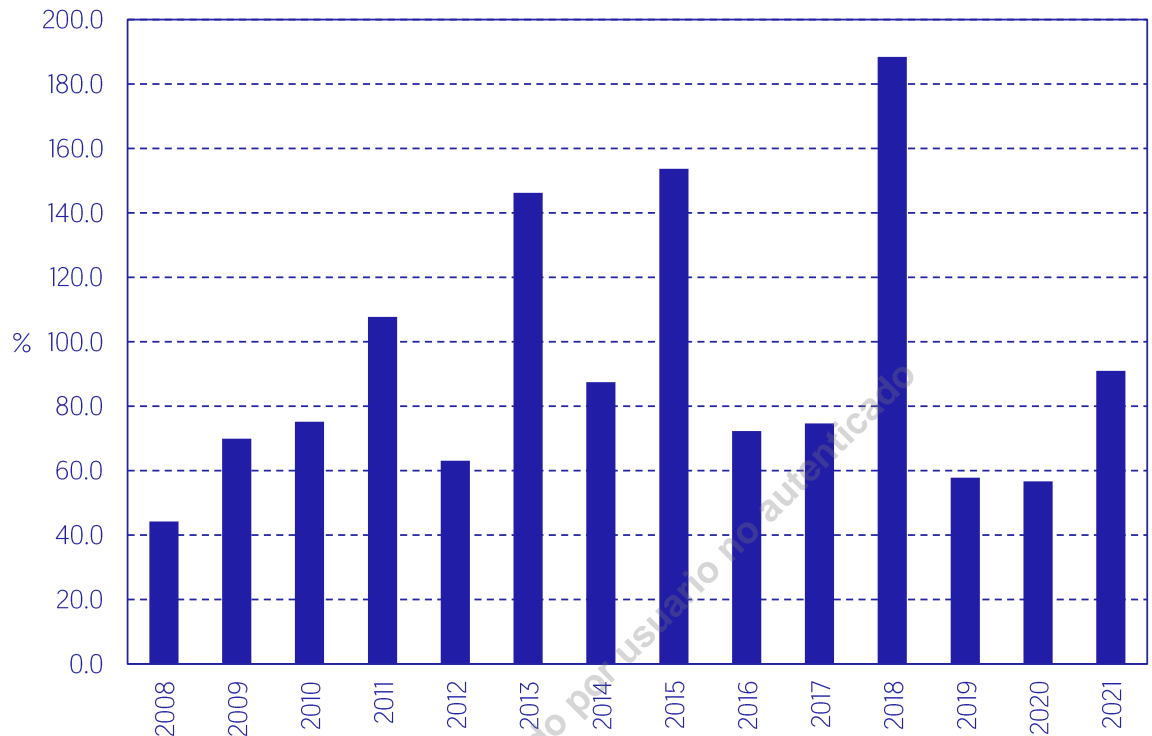
Source: Ecoanalitica.

Revived in a new context?

However, in 2022, the availability of these resources may acquire a different shade in view of the expected changes in the configuration of government revenues. Likewise, the current implementation of price containment policies and the limitations of the Executive to obtain funds through external indebtedness increase the need to monitor them.



Ratio of extrabudgetary resources / non-oil revenues



*Note: Only the dollar portion of extrabudgetary resources is considered.
Sources: Seniat and Ecoanalitica.*

On the other hand, although still far from previous levels, the reduction in the size of the national economy could make the influence of the use of these resources acquire a non-negligible importance. Especially, considering that these have gone from representing 57.8% of Seniat's total collection in 2019 to 91.0% in 2021 and from 1.8% of GDP in 2018 to 4.8% in 2021⁴.

Opaque origin.

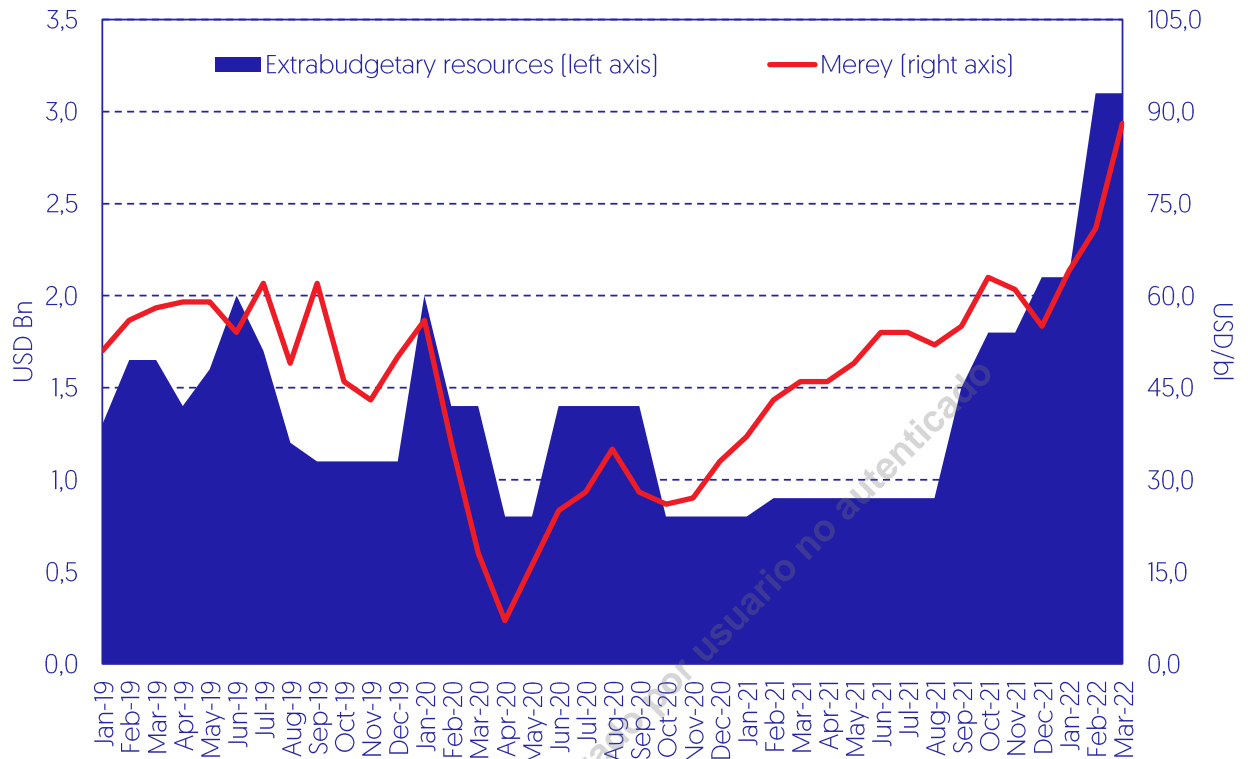
The lingering question about the recent evolution of the indicator lies in its origin. As in the case of each of the related fiscal figures⁵ since the middle of the last decade, opacity is what stands out. Even so, the recent increase in off-budget resources since mid-2021 coincides with the increase in crude oil prices, where the benchmark crude Merey 16 has risen from USD 54/bl in July 2021 to USD 88.1/bl in March 2022.

⁴ Estimates made taking into account the year-end value of extrabudgetary resources.

⁵ Even the monthly figures of non-oil tax collection, published in Seniat's social networks, are often inconsistent in the extent of disaggregation and there have even been months without the total data published.



Extrabudgetary resources vs Merey



*Dollar portion only.
Sources: OPEC and Ecoanalítica

At the same time, at **Ecoanalítica** we have followed up on alternative sources of income that the country has been able to count on by resorting to illicit activities, and these could indicate a new explanation for the recent accumulation of funds due to the increase we estimate in the income obtained from these activities between 2020 and 2021.

Losing the capacity for wonder.

Once again, the disposition of these funds is once again governed under the opacity in which the Executive previously operated. It is not officially known under what price Venezuelan crude oil is sold in its current context of sanctions or, given the incomplete nature of the most recent publications of the nation's budgets, the price used as a reference in its fiscal accounts⁶.

Recently, the Executive operates with the priority of increasing its fiscal revenues and stabilizing exchange rate indicators and domestic prices. Thus, part of these funds could be used to inject foreign currency into local banks

⁶ If the financing of extrabudgetary funds continues to depend on the difference between the reference barrel price in its budget and that observed.



to keep the exchange rate stabilized⁷ or to finance part of the expenditure as the scope of the reform of the Large Financial Transaction Tax (IGTF) is determined.

And it is precisely this lack of clarity that leads us to keep reminding about the existence of these funds. At the time, when information on the subject was beginning to circulate, **Ecoanalítica** kept its presence and scope in the debate, so that it would not be forgotten that the Executive had resources beyond the traditional ones.

Now, given the impact they may have due to their relative size in a shrinking economy and the context of crude oil prices (which are expected to remain high for the rest of the year), the use of extrabudgetary resources may be a factor to be considered in the Venezuelan economy in the short (current spending) or medium term (greater accumulations for spending in the next fiscal year). For this reason, **Ecoanalítica** keeps a monthly follow-up of the total indicator and its components through another of the reports we offer in our services.

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⁷ Foreign currency cash sales to local banks have averaged USD 150.2 million in the last six months, 4.8% of funds availability at the end of March 2022.



Weekly Indicators

Weekly Economic Indicators

	1st Week May	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD)²	4.5	1.5	1.5
	3rd Week April	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	53.9	-4.6	-5.2
	1st Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	5.1	-2.0	-206.1
	4th Week April	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	10.6	-0.43	69.9
	3rd Week April	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)**	7,095.3	2.1	521.9
Price of International Oil Baskets (USD/bi)			
	4th Week April	Weekly chg. (%)	Annual chg. (%)
WTI	102.9	-1.1	67.2
Brent	103.9	-1.7	61.1
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.

¹ Depreciation (+)/Appreciation (-)

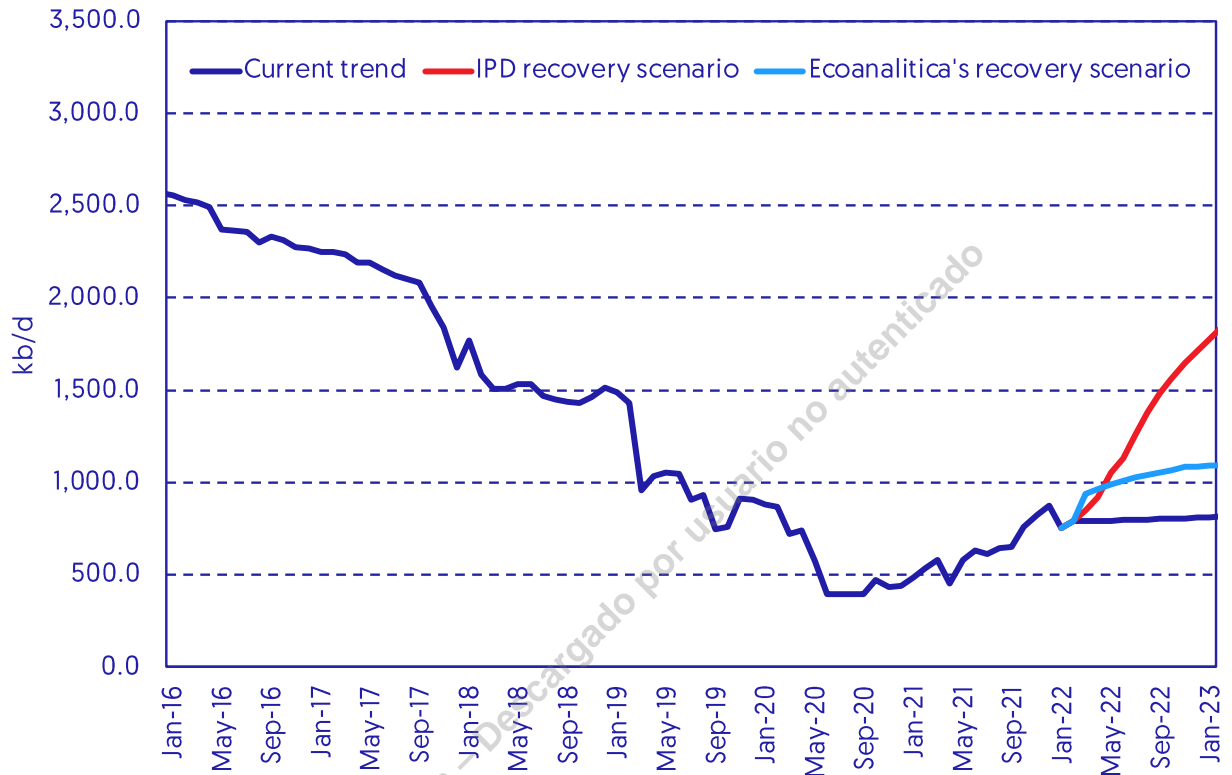
² FX Borads' average exchange rate



Graphic of the week

A fast recovery, but is it feasible?

Monthly oil production



Note: A macroeconomic stabilization program with reforms for the rapid recovery of the oil sector is assumed.
Sources: OPEP, IPD and Ecoanalitica.

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 pre-pandemic 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. 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 May 5th, the country has 522,564 registered cases of coronavirus and 5,709 deaths from the virus. In turn, according to OurWorldInData, it is estimated that 77.2% of the population has received at least one dose of a vaccine as of March 25th of 2022.

ECLAC projections (I). The Economic Commission for Latin America and the Caribbean (ECLAC) revised its growth projections for 2022 for the countries of the region. In its update, ECLAC projects that economic growth in Latin America and the Caribbean will be 1.8% in 2022, 0.3 percentage points (pp.) below what was indicated prior to the war between Russia and Ukraine.

ECLAC projections (II). Divided by region, expected growth for Central America and Mexico was cut to 2.3% from the 3.3% previously estimated. Likewise, the growth projection for the Caribbean (excluding Guyana) was reduced by 1.4 pp. to 4.7% in the last report. On the other hand, ECLAC revised slightly upward the economic growth of South America, from 1.4% to 1.5%.

ECLAC projections (III). In the particular case of Venezuela, the organization raised its economic growth projection for the country in 2022 by 2.0 pp. from 3.0% estimated in January to 5.0% in its April update. However, the report states that the Russia-Ukraine conflict opened a new source of uncertainty that is negatively affecting the global economy.

Intervention in decline (I). Different financial sources informed Banca y Negocios that, in the nineteenth exchange intervention of 2022, the Central Bank of Venezuela (BCV) is placing USD 50 million and EUR 30 million in cash, at a fixed price of VES 4.74/EUR, equivalent to VES 4.5/USD.

Intervention in decline (II). This is the first injection of foreign currency to banks in May. The value established is 1.04% lower than that indicated in the previous intervention, so that the BCV continues to send a containment signal to the prices of the US currency in the official market, but also in the parallel market.



More bolivar issuance... Monetary issuance has been increasing at a faster pace, in fact, liquidity has reached a new record at VES 7,095.3 million, an increase of 26.65% in April, according to the last cut reported by the BCV, which is the highest monthly expansion of this indicator so far this year.

...by new measures implemented. In 2022, monetary liquidity has risen 68.73%. The increase in the minimum wage and a higher demand for bolivars due to the application of the Large Financial Transaction Tax (IGTF) may be driving a higher issuance of money which, according to the Government, are "organic" bolivars and, therefore, should not stimulate an increase in inflation.

Food over USD 300. The *Centro de Documentación y Análisis Social para los Trabajadores* (Cenda) reported that the Food Basket was at VES 1,503.72 in March (equivalent to USD 347.68). It also reported that this basket, which contemplates 60 food items for a family of 5 members, increased by 4.2%, that is, a variation of 2.3 pp. with respect to February, which was 1.9%.

Increase of the tax unit. According to Official Gazette No. 42,359, the value of the tax unit changed from 0.02 to 0.40 bolivars, which translates into an increase of 1,900%.

Money Tables. For the last week of March, the average money desk rate was VES 4.5/USD, which represents an appreciation of 1.5% with respect to the previous week.

OIL TIPS

Falling exports. For April, Venezuela's oil exports fell to 420 kb/d which is equivalent to a 28% drop with respect to March, when 583 kb/d were exported. Exports reported in April are still 410 kb/d below PDVSA's stipulated target. Ninety-five percent of exports were shipped to China and the remaining 5% to Cuba.

US in search of oil. The US oil companies that have their operations frozen in Venezuela got together to ask the US government for the concession to drill again on Venezuelan soil. Companies such as Schlumberger, Halliburton, Baker Hughes and Weatherford International are waiting for a relaxation of the license shared with Chevron by the US Treasury Department to expand their operations.

PDVSA and Cuba. According to Reuters news agency, Venezuela is preparing a shipment of 190,000 barrels, specifically diesel, to its neighboring country, Cuba. After a seven-month pause, the company explains that the



shipment is intended to help its ally to avoid fuel shortages and electricity failures.

Request for review. The workers of the companies PDV Marina and PDV Puerto intend to submit a report to the International Labor Organization (ILO) to denounce the imposition of officials by Will Rangel, the current president of the Unitary Federation of Petroleum Workers (Futpv). The objective is to request the organization to review the report at its working tables.

Maduro and Iran. In Caracas, Nicolás Maduro met with the Minister of Petroleum of the Islamic Republic of Iran, Javad Owji, in order to review the agenda of each country in oil matters. During the meeting, several bilateral agreements were reviewed, as well as alliances within the Organization of Petroleum Exporting Countries (OPEC), of which both countries are members.

In search of an agreement (I). According to Reuters, Indian oil refiners, such as Indian Oil Corp. (IOC.NS) (IOC), Bharat Petroleum Corp (BPCL.NS) and Hindustan Petroleum Corp (HPCL.NS), are in negotiations for a six-month deal with Russian oil companies to import millions of barrels per month.

In search of an agreement (II). This agreement has come about because, in the two months that have passed since the invasion of Ukraine in February, India has acquired more than twice as much Russian crude as last year, since, due to this same war and the sanctions granted to Russia, Russian crude has dropped significantly in cost, giving India the opportunity to obtain good crude at a lower price.

Oil prices slump. After closely analyzing the situation in China, oil prices decreased due to the significant outbreak of COVID-19 and the possibility of limited demand for crude oil from the Asian country. Brent crude and West Texas Intermediate (WTI) crude, both for June delivery, decreased in price to USD 101.84 and USD 97.43 per barrel respectively.

Historic level for U.S. gas. U.S. natural gas showed an increase of 9%, equivalent to USD 8.14 per million British thermal units (MMBtu), which marks the highest level for this resource since 2008. Over the course of the last two Wall Street sessions, gas prices have increased by more than 12%. Campbell Faulkner, vice president and chief data analyst at OTC Global Holdings, believes this increase is due to the "wave of tighter market conditions."



SECTORIAL TIPS

Back to the bolivar (I). The Superintendence of Banking Sector Institutions (Sudeban) informed that transactions in bolivars have increased significantly since the entry into force of the Tax on Large Financial Transactions (IGTF). According to Sudeban, point of sale transactions has increased 22% nationwide since March 28.

Back to the bolivar (II). Additionally, the institution indicated that there was an increase of 21% in "Mobile Payment" transactions from person to person (P2P), 27% in payments from person to commerce (P2C) and 10% in payments from commerce to person (C2P).

Half way. Tiziana Polese, president of *Consecomercio*, informed that, so far, 50% of the companies affiliated to the organization are able to collect the tax. The leader clarified that there is a group of companies that have fiscal machines that do not admit the adjustment and are waiting to acquire the necessary equipment and technologies.

It is not enough. The General Secretary of the Venezuelan Workers Confederation (CTV), José Elías Torres, stated that more than 50% of the public workers resort to informal jobs to supplement their salary. The leader indicated that even professionals and technicians have been forced to look for additional income to subsist.

Growth of supermarkets. Italo Atencio, president of the National Association of Supermarkets and Self-Service Stores (ANSA), indicated that, after the growth observed by the supermarket sector in the center-west, there has been a recovery in the eastern and Andean regions. Atencio added that, according to ANSA studies, consumption in April has increased compared to last year.

Still far away. The president of the National Institute of Civil Aeronautics (INAC), Juan Manuel Texeira, exposed that the number of international flights in the country is 40% below the 2019 figures. However, Texeira assured that six airlines have shown interest in reactivating their routes with Venezuela.

Insufficient credits... According to Fedeagro's figures, bank credit was only able to cover 34.3% of the financing required for the planting of cereals for the winter cycle, while the remaining 65.7% was covered by the producers. The president of Fedeagro, Celso Fantinel, stated that the investment required for planting ranged between USD 300-350 million and was achieved by the effort of producers in bringing inputs.



...and fertilizer deficit. Fantinel also added that they estimate a fertilizer deficit of close to 50,000 tons, since inventories and expected land imports will not be enough to cover domestic requirements. The leader indicated that Russian fertilizer arrived between February and March, but that the flow will not continue.

Rain of problems. The president of the Venezuelan Chamber of the Dairy Industry (Cavilac), Roger Figueroa, stated that five processing plants have stopped receiving around 800 thousand liters of milk per day in the last week of April due to the closing of roads and landslides caused by the rain. The leader added that the rain aggravates the electrical problem and this conditions the life cycle of the milk.

Survival basket. In the third week of April, a family of four needed USD 24.9, or VES 116.1 weekly, to cover the caloric load equivalent to 60% of its food needs. The survival basket decreased 0.4% in dollars with respect to the second week of the month, while in bolivars it increased 0.2%, according to the report of the Venezuelan Observatory of Finance (OVF).

POLITICAL TIPS

An important negotiation (I). U.S. Secretary of State Antony Blinken reiterated to Juan Guaidó that talks between the regime of Nicolás Maduro and the opposition Unitary Platform are "the best path for the return to democracy in Venezuela".

An important negotiation (II). Blinken's call came on the same day that Washington ruled out inviting the governments of Cuba, Nicaragua and Venezuela to the June Summit of the Americas, to be held in Los Angeles, California, because it considers that they do not respect democracy.

New setback (I). A U.S. appeals court denied the appeal filed by Colombian-Venezuelan businessman Alex Saab, considered Maduro's front man, and left the decision on immunity in the hands of a lower court.

New setback (II). The Eleventh Circuit Court of Appeals recalled that Saab sought to nullify his fugitive status and argued that "he is immune from prosecution because he is a foreign diplomat". In this regard, the court concluded that the South Florida district court should decide, in the first instance, that immunity.

Lies in the open. According to The Economist, US and Venezuelan officials met in Trinidad and Tobago to discuss the possibility of Venezuela sending



oil to the US. However, the US Undersecretary for Latin America and the Caribbean, Brian Nichols, denied that the governments of Joe Biden and Nicolás Maduro had meetings on that island.

Rejection (I). The Venezuelan Civic Forum, a platform grouping 690 organizations and 194 actors of the civil society, affirmed that the appointment of the magistrates of the Supreme Court of Justice offers somber signals regarding the exercise of justice. The Venezuelan Parliament appointed 20 new magistrates who will make up the seven chambers of the TSJ for the next 12 years.

Rejection (II). In the opinion of the Civic Forum, this affects the possibilities for Venezuelans to travel "a path that brings us all together in a common and plural project for the future".

New agreements. Venezuela and Turkey agreed to expand the legal framework for cooperation, during a meeting in Caracas between the Minister of Petroleum, Tarek El Aissami, and the Chancellor of Turkey, Mevlut Cavusoglu, on the occasion of the III Joint Commission between both nations.

High rewards. The Government of Nicolás Maduro announced last May 2, a reward of VES 4,000,000,000,000 (USD 888,888) to anyone who offers information leading to the whereabouts of Carlos Lanz, a university professor who has been missing since August 2020.

Economic "paquetazo" (I). Diosdado Cabello rejected that there is talk of an economic "paquetazo" in Venezuela and that it is said that President Maduro did not increase the salary of workers on May 1. The minimum income of workers was fixed at VES 130 as of March 15 and not at half a petro as announced by Maduro at the beginning of last month.

Economic "paquetazo" (II). This May 1st, as had been tradition in Venezuela on International Labor Day, workers had the expectation of a new increase in the minimum wage, this time to bring it to one petro, but this was not announced by Maduro. Instead, the President informed about the approval of a VES 10,000 bonus for retirees between 2018 and 2022, among other benefits.

Almost ready (I). Leaders of three opposition parties, which form the commission responsible for drafting the primary regulations, confirm that the instrument is almost ready, two of them speak of a 90% advance. According to the sources consulted, what delays the announcement are the discussions related to the political strategy.



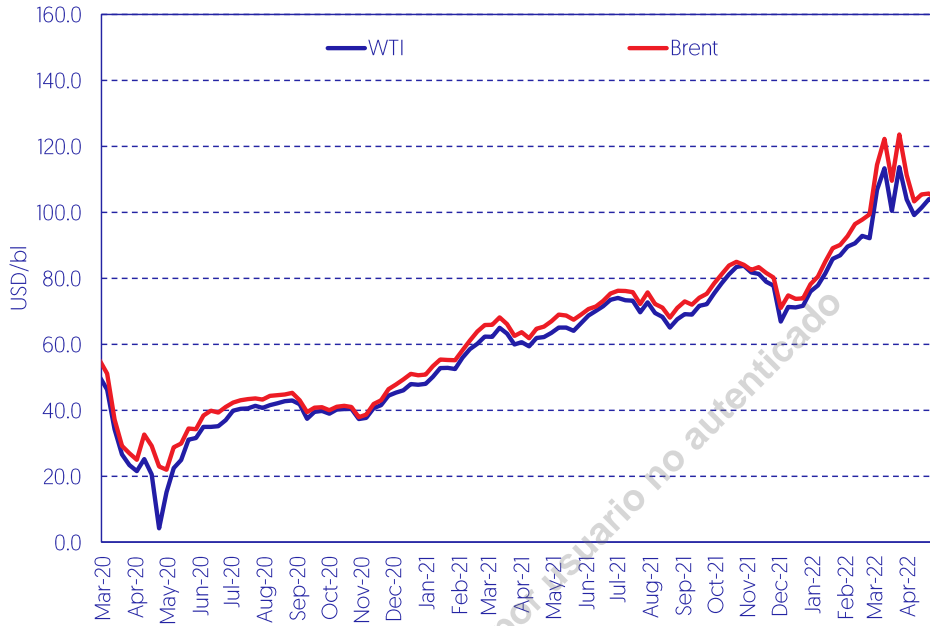
Almost ready (II). The request for technical assistance to the National Electoral Council (CNE), for example, is one of the points that has generated the most debate and on which politicians did not want to advance their position.

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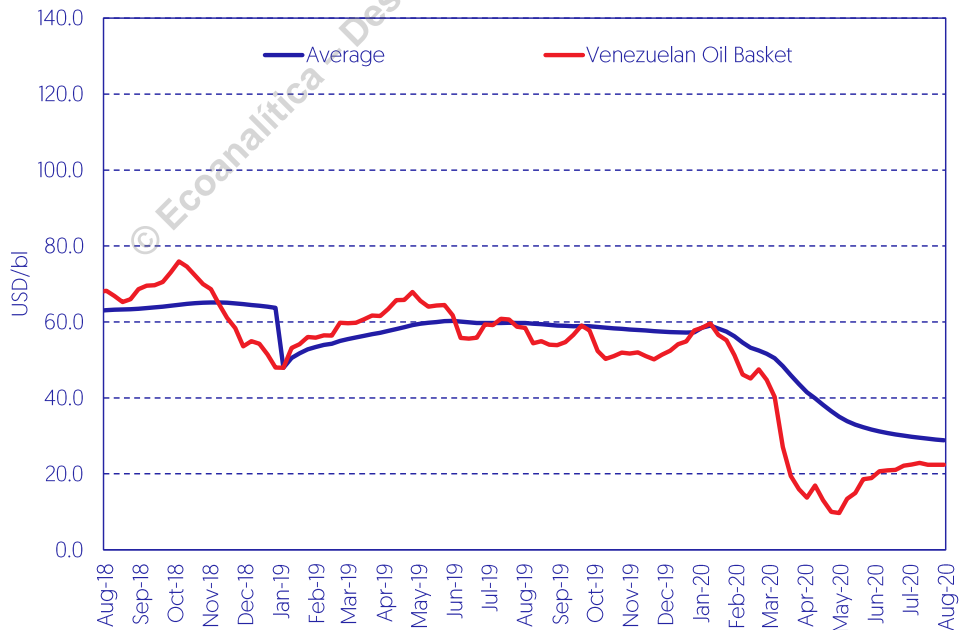
Economic Indicators

Oil prices [WTI and Brent]



Sources: Menpet and Ecoanalitica.

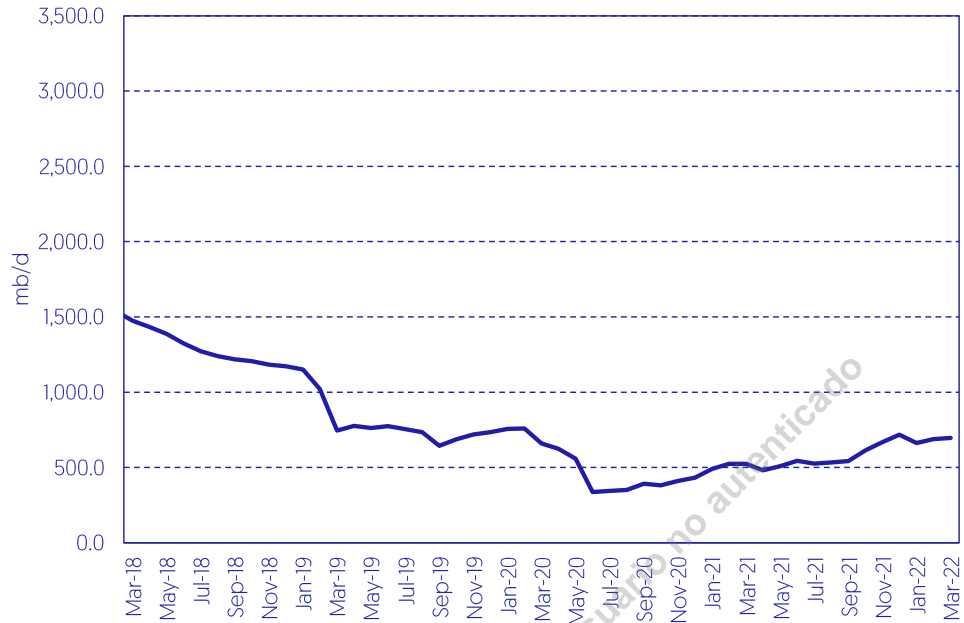
Oil prices [Venezuelan basket]



Sources: Menpet and Ecoanalitica.

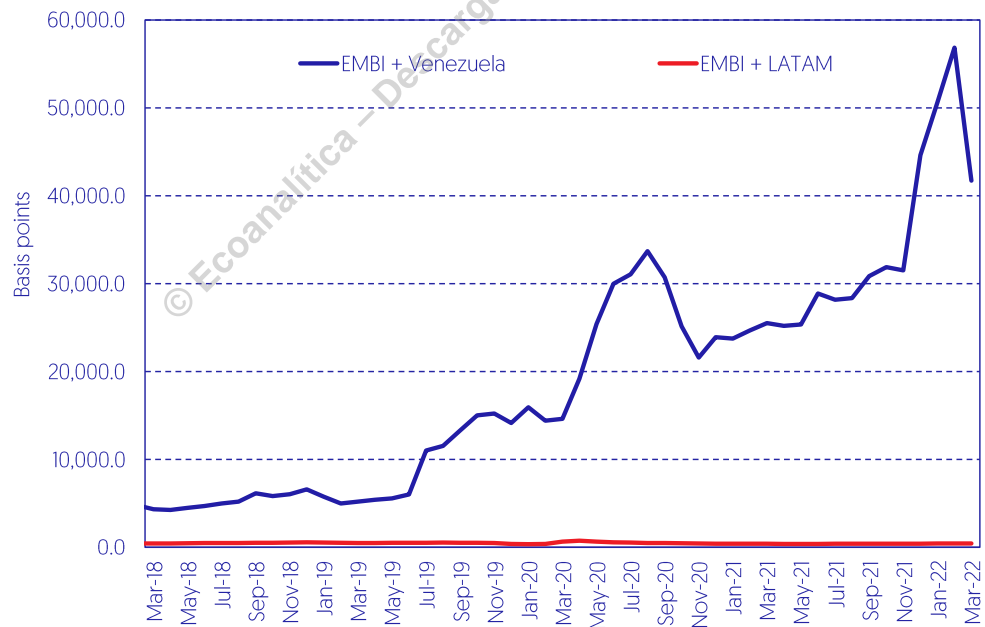


Oil production (secondary sources)



Sources: OPEC and Ecoanalítica.

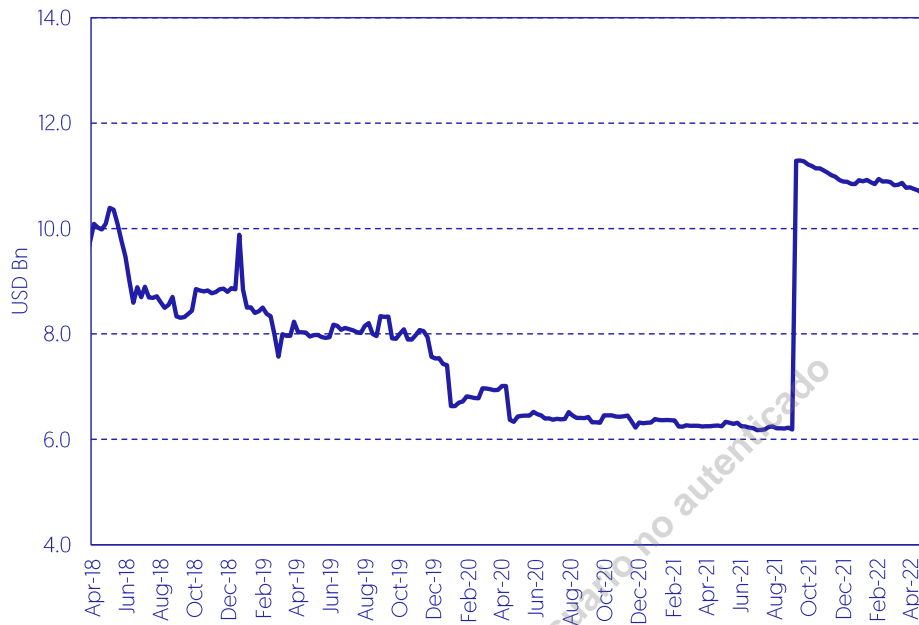
EMBI



Sources: BCRP and Ecoanalítica.

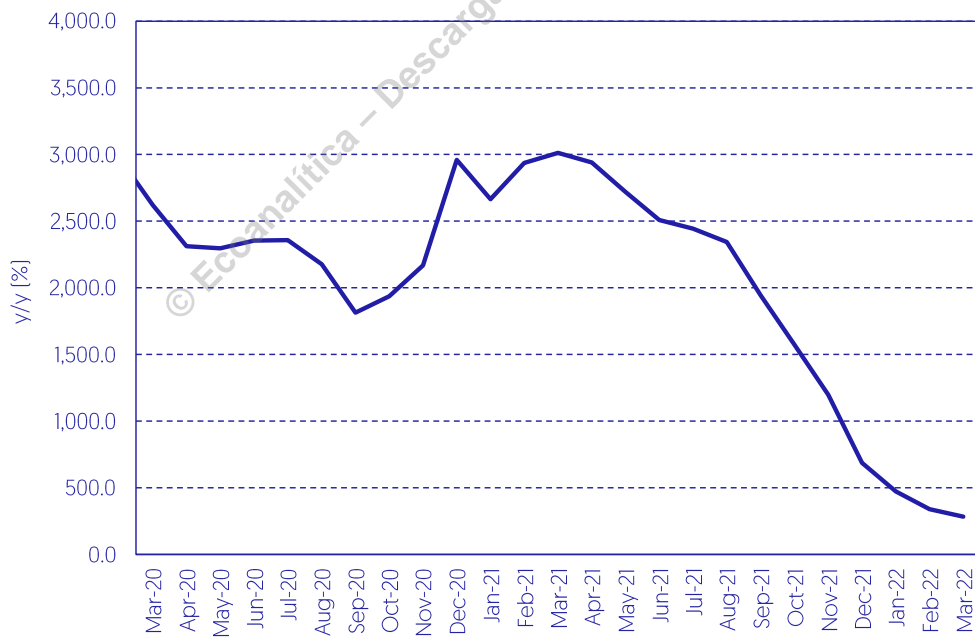


International reserves (BCV)



Sources: BCV and Ecoanalítica.

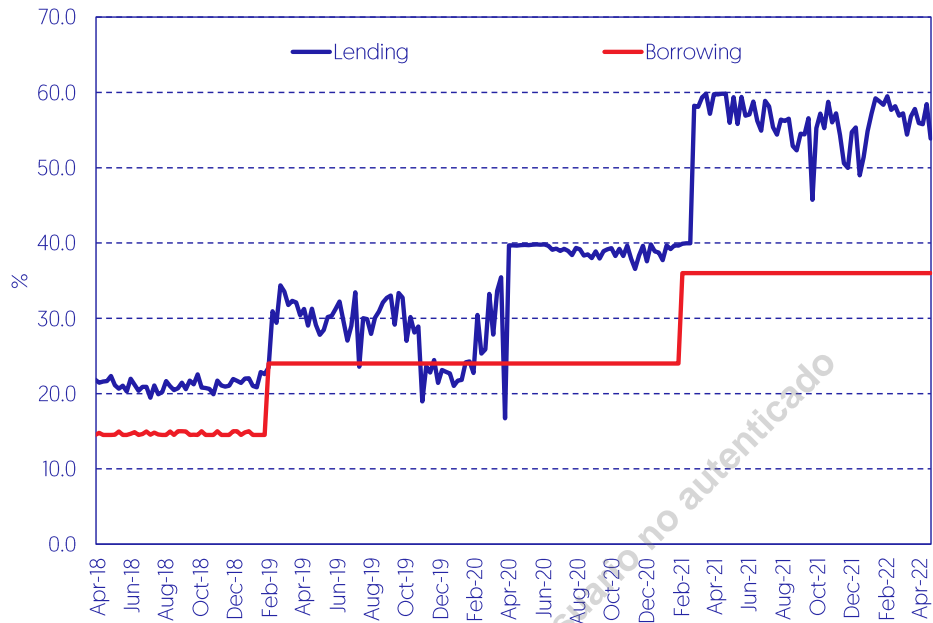
Inflation (BCV)



Sources: BCV and Ecoanalítica.

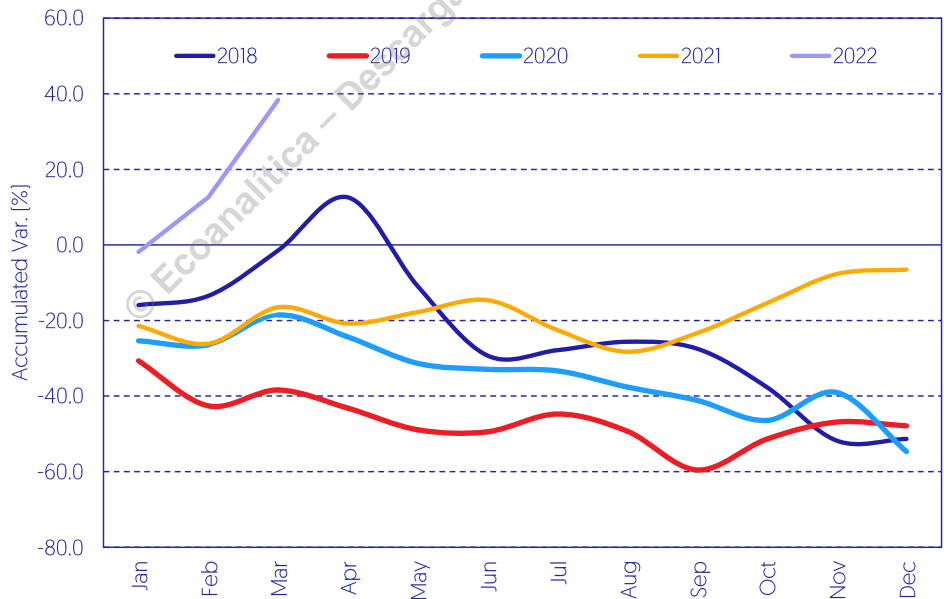


Interest rate (six major banks)



Sources: BCV and Ecoanalitica.

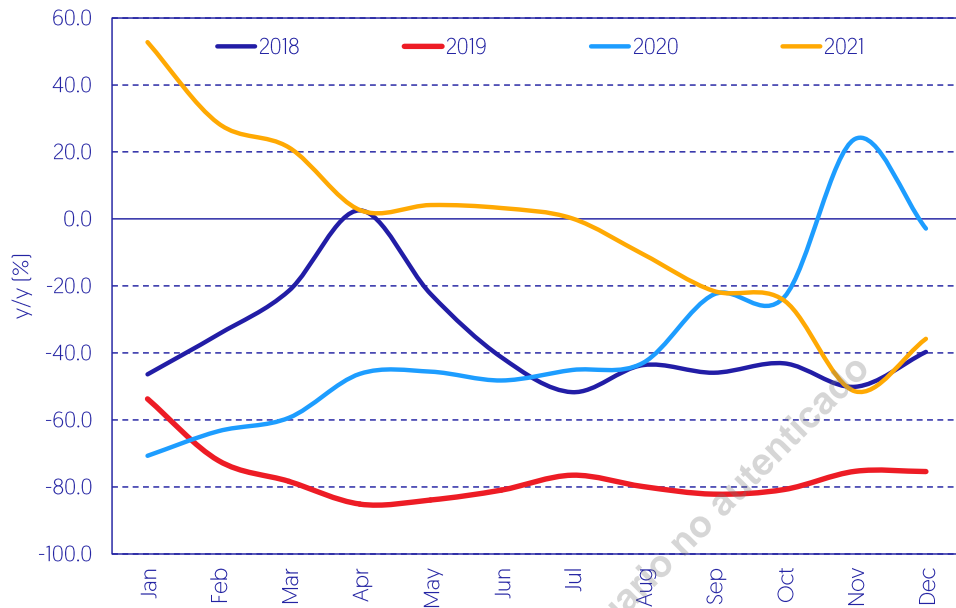
M2 Expansion (real)



Sources: BCV and Ecoanalitica.

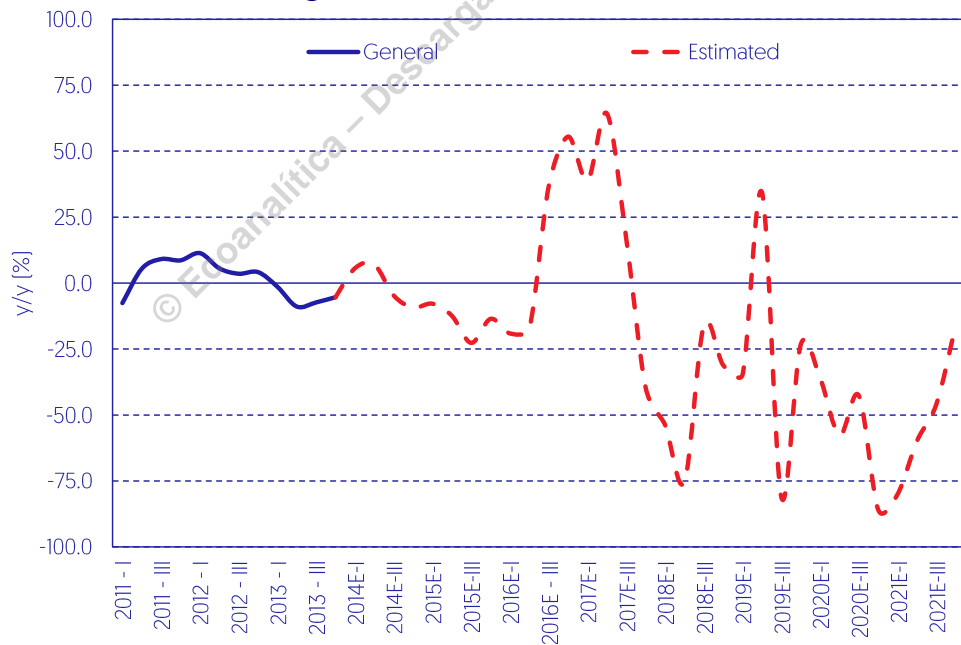


Loan Portfolio (real)



Sources: Sudeban and Ecoanalítica.

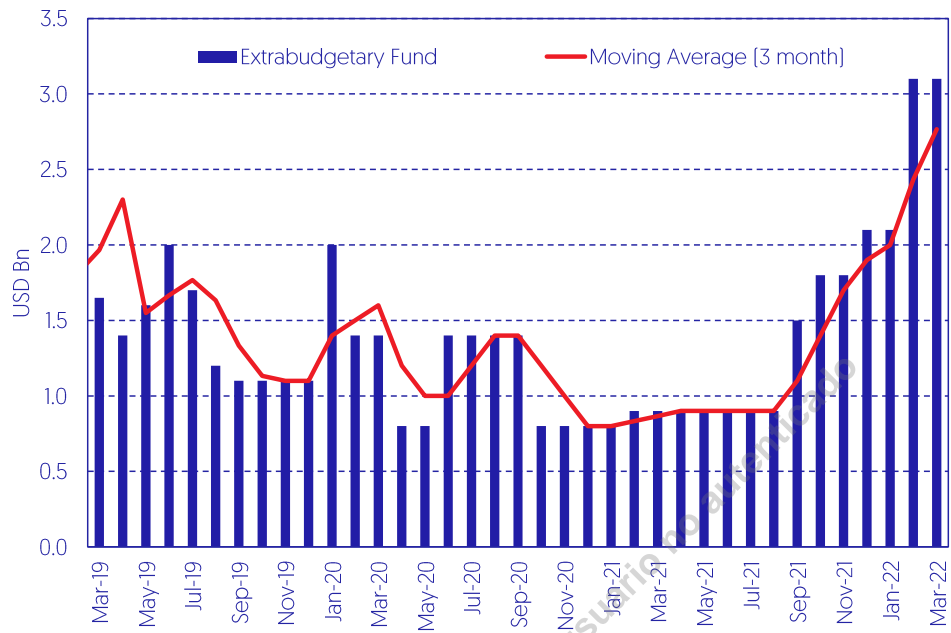
Real wage index



Sources: BCV and Ecoanalítica.



State extrabudgetary resources



Source: Ecoanalítica.

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