



Ecoanalítica

acompañando las buenas decisiones

PERSPECTIVE REPORT

Year 18, Number 1
1st Quarter

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Less COVID, more Putin

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Introduction

At the economic level, first quarter results continue to point to a recovery of Venezuelan activity. After the passage of the most critical phases of the COVID-19 pandemic, both private business and the public sector seem to show a better performance. In the public sector, the rebound in the post-pandemic global demand for crude oil and the impact of the Russia-Ukraine war on global oil markers have provided the Executive with additional resources in recent months, despite the discount still imposed by the sanctions on Venezuelan oil revenues. If such trends continue, and with the *status quo* of the sanctions, Venezuela could receive close to USD 17,690 million by the end of this year for oil alone.

On the non-oil side, sectors such as trade, manufacturing and banking maintain part of the improvements seen since the end of 2021, favored by a context of less adverse prices and a global supply chain still little affected by the new *post-COVID-pre-war* scenario. However, higher commodity and freight prices caused by the current global context could affect part of the reactivation of the non-oil business in the coming months, particularly in the agricultural sector.

Regarding prices, both official figures and **Ecoanalítica** data validate a new deceleration in domestic inflation in the first quarter of the year, in which prices grew by an average of 5.8% per month between January and February (and which will continue in March). Beyond the seasonality in the local money market typical of direct tax payment periods, the dynamics of the monetary aggregates in the last two months continue to reflect a still restricted fiscal environment and credit activity. In this respect, the recent measures to relax reserve requirements and the slight opening of foreign currency credits continue to be insufficient to reactivate banking intermediation at the levels demanded by the Venezuelan real environment. This environment, together with the high circulation of foreign currency in the country, boosted by the BCV's aggressive foreign exchange interventions, have kept the local exchange markers strongly appreciated, putting even more pressure on the cost of living of Venezuelans and on the management of private companies.

On the other hand, the recently approved reform to the law on large financial transactions could act as a new source of additional costs for the private sector. However, its scope will continue to be limited both by the interest of the country's households and firms to continue carrying out their transactions in dollars and by the alternative mechanisms offered by the new regulations to avoid the new taxes. Within this framework, the control on the issuance of bolivars will continue to weigh on the price scenarios expected for the coming months.

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During these months, the Venezuelan external sector was dominated by the recent developments of international geopolitical, an aspect that we estimate will continue to set the tone in the short term. Being the adjustment in the value of the domestic oil basket the main, and perhaps the only, advantage that international tensions have given Venezuela in oil matters, the critical point for the country as a result of the new conflict will be to make up for the absence of Russia as a financial agent of the Government. Likewise, for the non-oil sector, the challenges will come from the rise of costs for other raw materials with the disruption in the supply coming from such countries, increasing the value of imports. This expansion of external purchases will be reinforced by higher oil imports, in case Venezuela still depends on its partners to make up for the lack of supplies for crude oil production and refining in the months to come. At this point, it is expected that, should it occur, the easing of sanctions by the US on the local industry will not be a comprehensive or expeditious process.

Overall, with the expected adjustment in oil production, it is estimated that the Venezuelan economy will show an 8.1 % real growth (higher than our forecast for the previous quarter), with prices in bolivars that will not grow more than 190.0% per month and a real appreciation of close to 24.3% by the end of this year. The evolution of the rest of the activities and their exposure to future *commodity* cycles will limit or increase the scenarios of sector recovery implicit on this overall growth assumption. Despite the expected rise on the value of imported goods (up to USD 10,600 million), the local market would face a foreign surplus close to USD 900 million, although still lower than pre-pandemic levels. In this framework, part of the recommendations to the private sector remains:

- Redefine private business by taking the persistent exchange rate appreciation as a new source of internal competitiveness.
- Incorporate the new costs derived from the new legal framework for domestic transactions in foreign currency. To this end, it is recommended to take advantage of the exemptions to the new IGTF Law, minimizing the use of informal mechanisms to evade the new taxes.
- Think about a new business plan, considering the risks that the current world scenario will leave behind. Aspects such as the increase in the cost of raw materials or freight services will be key variables in the decision of whether or not to purchase inputs and imported goods in the short term.
- Alternative sources to bank credit should not be ruled out, considering that the upcoming easing of local financing will continue to be carried out under a price-indexed scheme.

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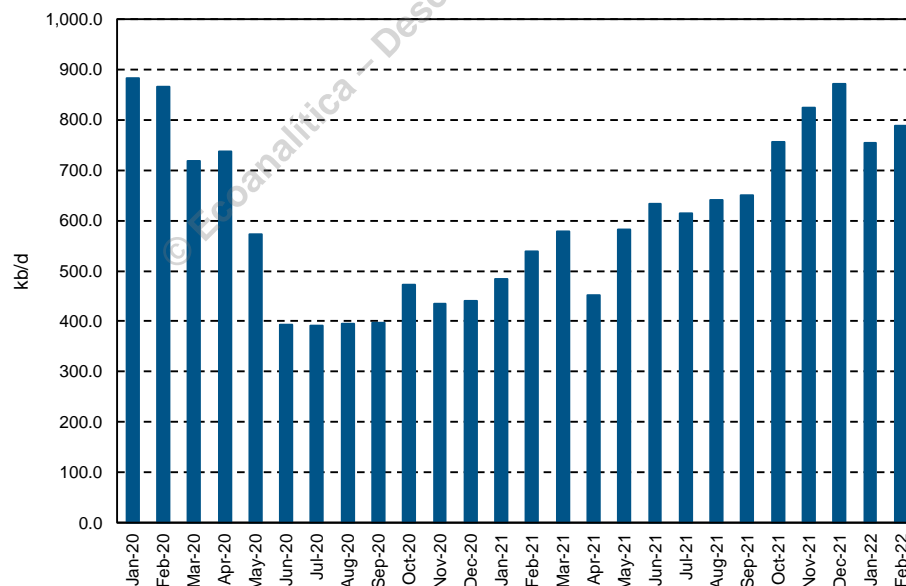
Oil Sector: Between good and bad news

The last few months have been marked by a slight recovery of the oil sector with moderate increases in local production and refining¹ and a stabilization of exports close to 560 kb/d. However, readjustments in international trade, mainly due to the conflict between Russia and Ukraine, impose new challenges and opportunities for the Venezuelan oil industry.

An oil respite

Between January and February 2022, oil production averaged 772 kb/d, 51.1% higher than the average for the first two months of 2021. However, current production levels are still below pre-pandemic levels², limited by the difficulties that PDVSA still has to trade its crude oil due to the sanctions imposed by the United States. In this regard, Venezuelan crude exports have been highly volatile in recent months, with a monthly drop of 32.7% in January (to 383 kb/d), followed by a 75.5% increase in February (to 672 kb/d).

Venezuelan oil production



Sources: OPEP and Ecoanalítica.

¹ Reuters. (2022). *Venezuela gasoline output approaches 160,000 bpd, sources say.*

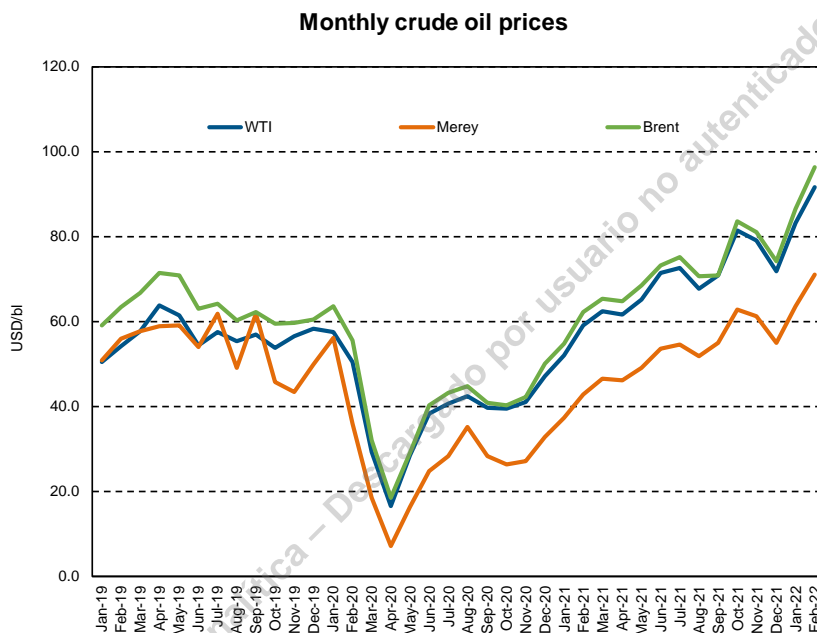
² On average 1,015 kb/d during 2019.

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The conflict between Russia and Ukraine has led to a reduction in the global supply of hydrocarbons, causing the price of Brent to rise from USD 99.36 to USD 122.29 per barrel in just three weeks³, an increase of 23.08%. The Merey crude followed a similar pattern, which, once taking into account a discount for sanctions, has averaged USD 67.3 per barrel in the first quarter of the year.



Sources: EIA, OPEP and Ecoanalítica.

New problems in times of war

Current geopolitical tensions appear to present both challenges and opportunities for Pdvsa. The excess demand for oil, mainly from the West, has led to negotiations between the Venezuelan and U.S. governments with the possibilities of easing sanctions and new options to sell domestic crude⁴. This, together with higher oil revenues from the increase in prices, could lead to a larger cash flow of the Venezuelan government. However, such benefits could be offset by financial difficulties, particularly for the recent U.S. sanctions against Russia and new obstacles these decisions might impose over the payment schemes of Pdvsa's oil shipments. Hence, local oil industry could stop receiving a large fractions of those payments managed through Russia (financially restricted⁵). In this

³ Between the week of February 25 and March 11.

⁴ Reuters. (2022). *U.S. officials travel to Venezuela, a Russian ally, for talks - source*

⁵ Time. (2022). *Here's What the New, Tightened SWIFT Sanctions on Russian Banks Actually Do*; Bloomberg. (2022). *Why SWIFT Ban Is Such a Potent Sanction on Russia*

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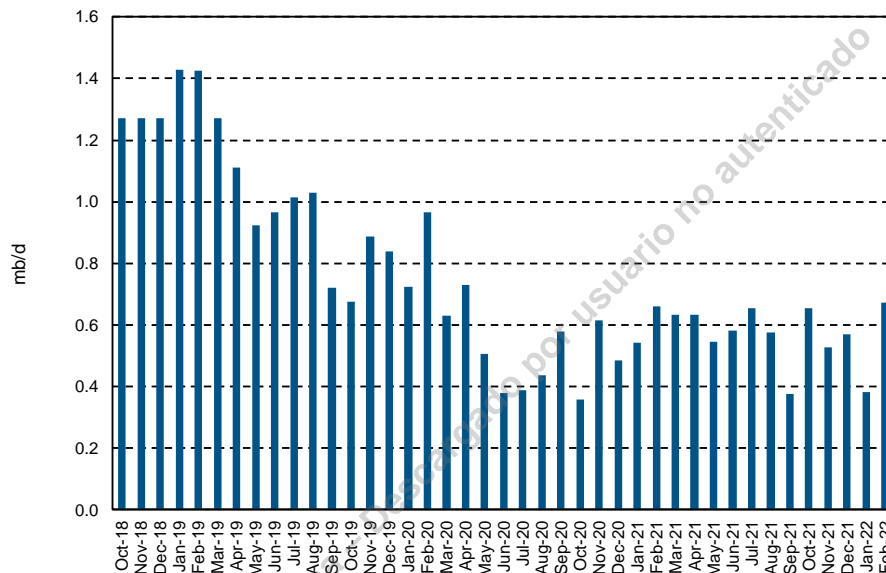
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sense, **Ecoanalítica** believes that, in spite of a slight increase in crude oil production and exports, PDVSA's activities will continue to be strongly restricted as Russia loses maneuvering range in the management of Venezuelan oil funds.

Venezuelan oil exports



Sources: Tanker Trackers, Refinitiv Eikon, Reuters and Ecoanalítica.

War warned, still kills soldier

Given the new geopolitical environment, at **Ecoanalítica** we expect oil production to average 838 kb/d during 2022, still 17.4% below the production observed during 2019. Such increase will be propitiated by an increase in exports, which, by averaging 650 kb/d, would generate approximately USD 17,693 million in oil revenues. However, this outcome will depend on the following factors:

- The possibility of an agreement between the United States and Venezuela is still very uncertain. However, in the event that the negotiations are successful, this will not necessarily translate into a greater cash flow for the Venezuelan Government with slight increases in production and exports. This would happen if such agreement establishes a mechanism for the exchange of barrels for debt relief, which would not be of interest to the Executive in the short term.
- With the loss of Russia as a financial mediator of its oil revenues, whether Venezuela will be able to benefit from the new oil environment will depend on whether it can find a new trading partner to replace that role. However, under the current

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geopolitical tensions, it is difficult for Venezuela to find a viable replacement in the near future.

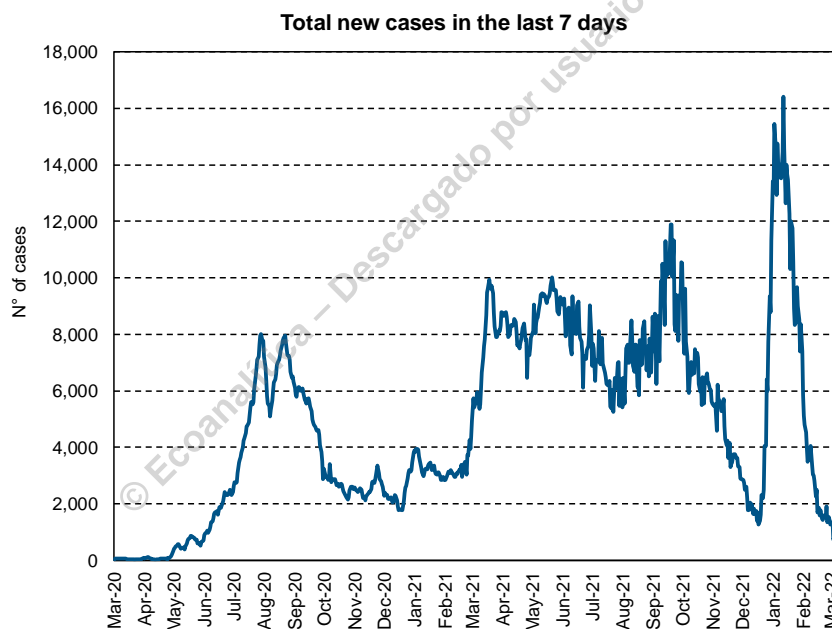
- If sanctions are maintained, Venezuelan crude oil exports will continue to present a high level of volatility, especially if PDVSA maintains its irregular crude oil marketing strategies⁶.

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⁶ For a more in-depth look at this aspect review: Perspective Report N° 1 2021: The New Chinese "New Year".

Real environment: A real environment beaten down trying to stay on its feet

Despite the fragility of the local health system and the little fiscal muscle of the government to deal with the effects of the pandemic, Venezuela seems to have passed the worst stage of the pandemic, although with a very slight increase of 0.9% in real activity during 2021. In that sense, according to figures from **Ecoanalítica**, 2022 would be the first year out (of eight under recession) in which the country presents a significant positive variation of its real output. However, as we have mentioned before, this growth must be seen in relation to the 31.4% drop in 2020 and after an extended period of economic contraction.



Sources: Our world in data and Ecoanalítica.

After the peak of infections in January, COVID-19 cases in February and March decreased to 185 new cases each day on average. This represents a decrease of 84.5% compared to the first month of the year. Similarly, studies in England show that a combination of reduced immunity to the Omicron variant and vaccination against the disease have made COVID less lethal than influenza⁷. In this sense, it could be said that we are entering the beginning of a post-pandemic stage, in which several economies have recovered from the shock and the cases curve appears to be taking a flatter shape.

⁷ Burn-Murdoch, J. & Barnes, O. *Vaccines and Omicron mean Covid now less deadly than flu in England.* [Financial Times.](#)

COVID persists, but it takes a back seat. Here, the Ukraine-Russia conflict has generated deeper international economic consequences in the last months, with aftermath that we may not yet fully understand.

A big policeman lying in a street with many holes

As expressed in our previous version of the Outlook 4Q2021: 2022: A *(not entirely) different year*, 2022 gives room for most Venezuelan non-oil sectors to grow. Among them, the commercial sector stands out with a year-on-year growth of almost 10.0%, and domestic manufacturing as one of the activities with less annual expansion, still affected by real appreciation. However, these projections may change depending on the external environment.

On the other hand, the effects of recent global events on the Venezuelan economy may be both positive and negative. The war between Russia and Ukraine will make the external environment much more volatile and unpredictable, with little certainty as to what will happen in the Venezuelan business environment in the coming months⁸. In this context, the domestic private sector⁹ will ultimately be the most affected by this conflict. Although in the last few years private firms have reported better performance, playing a more fundamental role in the trade balance¹⁰, the higher prices of their imports, particularly cereals¹¹, and higher transportation costs due to the increase in crude oil prices will make it difficult for this sector to trade as it has been doing for the last year.

Which path will we follow?

Considering what has been described in this section, **Ecoanalítica** believes that the following projections should be taken into account:

- GDP will grow 8.1% in 2022, 7.2 percentage points (pp) more than the previous year, where it will be driven mainly by better results on oil activity. Although this variation deviates from the decreasing trend of the Venezuelan economy from 2014 to 2020, we should not forget that today we are in an economy that has lost 80% of its size during the last seven years.

⁸ In the external section of this report: *Oil Strikes Back*, details will be provided.

⁹ For more information on Venezuela's trade development, please refer to our Economic Outlook Report N°5: Trade with the World: A Tale of Collapse, Sanctions and War.

¹⁰ Between 2020 and 2021, the private sector exported about 19.6% of exports. In addition, between 2014 and 2018, the private sector accounted for about 41.9% of imports.

¹¹ Cereals are currently the main import item in Venezuela.

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- Despite of these issues, growth will be also conducted by non-oil activity, which will grow 8.0%. In particular, commercial areas, banking and agricultural sectors will stand out, with growth variations of 10.8%, 8.4% and 6.0%, respectively. Public services as well as domestic manufacturing will also rise, although in a reduced pace, affected by the lack of public spending on the former and the higher cost (in dollars) of those goods locally produced.
- Private consumption will have a variation of 6.6%, still bounded by the lack of domestic credit.
- All these indicators will change depending on the emergence of new variants of COVID that complicate the picture and on the evolution of the conflict in Europe, which may aggravate conditions. In addition of this, regulatory repression over domestic foreign-currency transactions (given the new local FX operations taxes) could offset part of the recovery of private sectors related to local dollarization, affecting operative costs faced by both housing and firms. Finally, good results on domestic banking would depend on Government's willingness to allow foreign-currency credit operations in the upcoming months.

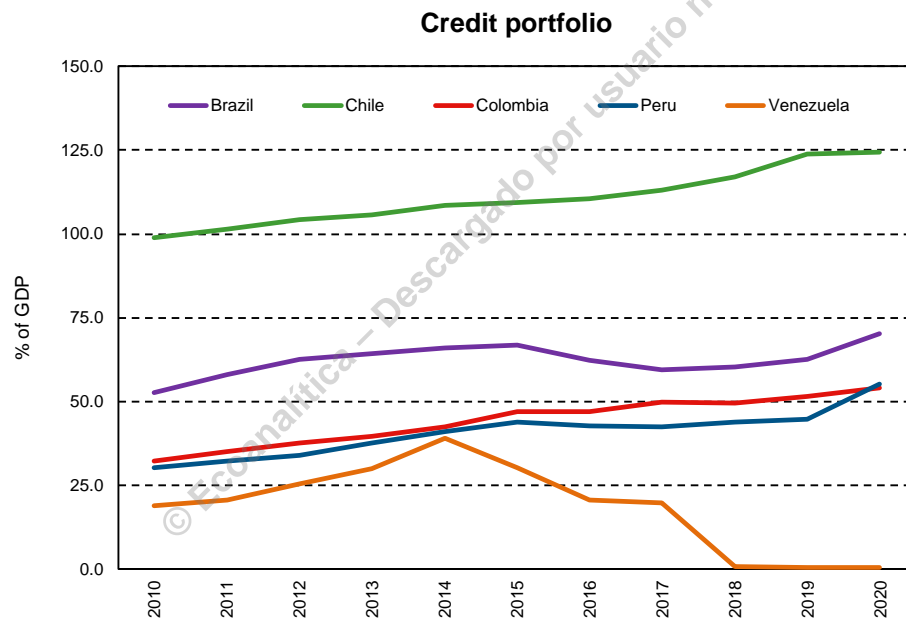
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Monetary and fiscal policy: New turning point?

In this quarter, the reform to the Law of Tax on Large Financial Transactions (IGTF), the provision for financing through indexed credits of 10% of the national deposits in foreign currency and a new reduction of the legal reserve were highlighted in this area. According to the official narrative, these measures are aimed at boosting the real economy, increasing the tax base and, in addition, recovering the demand for bolivars. Even so, the initial impressions of what has been announced reveal that the Executive maintains as a priority its policy of containing the price level and the exchange rate.



Sources: World Bank and Ecoanalítica.

Old recipe

Legal reserve requirements went from representing 85% to 73% of deposits, something that, added to the greater availability of funds through the use of a segment of foreign currency deposits, should mean a greater dynamization of credit activity and, consequently, on economic activity. However, this would still not derive in a significant impact, given the increasingly reduced importance of credit in the national economy, whose portfolio accumulates a real fall of 99.8% since 2013 and represents, approximately, 0.7% of GDP. Moreover, the presence of indexed credits already represents an entry barrier to credit acquisition such that a release of resources of this

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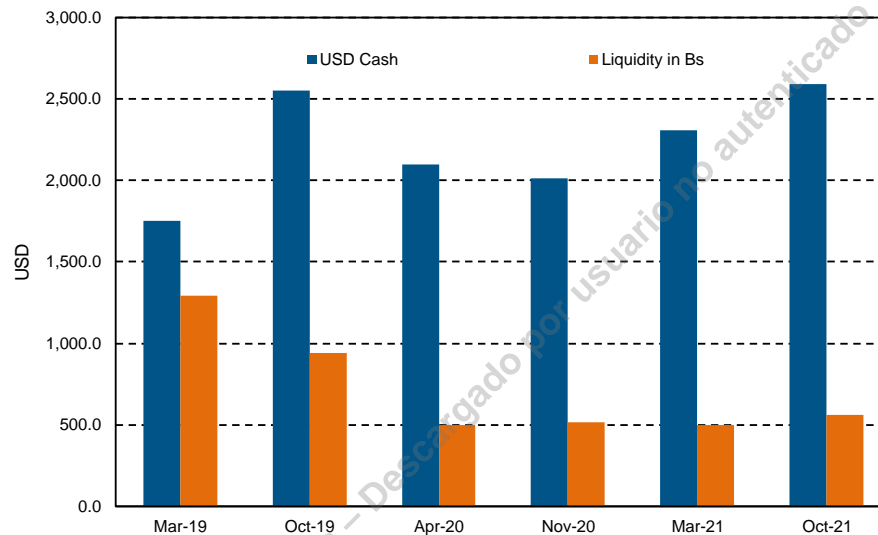
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magnitude would be significant, demonstrating that limiting the use of credit as a driving mechanism for increased demand for foreign exchange remains a priority. Such controls have contributed to the slowdown in the growth of the circulation of bolivars, affected in this quarter by the collection of the ISLR.

Circulation by currency



Note: Liquidity (M2) in VES converted to USD using the official exchange rate by the end of the month.
Sources: BCV, Gallup and Ecoanalítica.

Stalked by Laffer

On the other hand, the reform of the IGTF was directly announced with the objective of restoring the demand for the local currency, thus encouraging agents to give greater importance to means of payment in bolivars to the detriment of those made in foreign currency. However, the exceptions granted reduce the initial scope of the reform, since local agents would prioritize the use of these alternatives given their still existing preference for the use of foreign currencies over the domestic currency. This, a priori, could encourage tax evasion and, therefore, reduce the scope of the second objective sought by this new measure: the increase of the tax revenue base.

In the short term, given the recent deceleration of the price level, the evolution of monetary indicators will be key, in case they decide to resume the path of large expansions to seek to ensure the possibility of an economic expansion this year, risking a new pronounced acceleration of the price level. At the same time, the aforementioned reform may represent an initial step towards new tax schemes based on the current multi-currency

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environment, although this will depend on its execution in operational terms and its final impact on fiscal revenues.

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Prices and exchange rate environment: A hydrated market, for now...

Although Venezuela has been out of hyperinflation for more than a year now, both the rising cost of living in dollars and a context of chronic inflation are still in place. In spite of this, during the first quarter of this year, prices have grown less aggressively than expected. While, at the end of 2021, **Ecoanalítica** estimates an average monthly inflation for 2022 of 10.5%, in the first two months of 2022 the increase in domestic prices has not exceeded 9.62%. In turn, cumulatively, in the first quarter of the year, domestic prices (in bolivars) were estimated to grow by 25%, 87.3 pp¹² less than what was observed in the same period of the previous year. This seems to denote the beginning of a new process of deceleration of Venezuelan inflation, which seems to have started in 2019 with the new role of dollarization and the new credit restrictions.

In terms of exchange rate, the nominal exchange rate maintained its trend towards appreciation during this quarter. Between January and March, the unofficial exchange rate has not surpassed the barrier of VES 4.78/USD, with an appreciation of 4.6% between the opening and closing of this period. This is consistent with a negative accumulated variation in the first quarter of the year of 4.4%, 68.1 pp¹³ . less than the same period of the previous year, consistent with a lower adjustment in the price of the currency with respect to the change in domestic prices in bolivars.

Nominal or real effects?

The limitations still faced by the Venezuelan real environment have caused inflationary pressure expressed in foreign currency to be not only a nominal problem due to the effect of relative prices with respect to the exchange rate, but also due to real adjustments in the economy, both in terms of productive capacity and the way in which prices are set.

Given that the vast majority of companies mark their prices in dollars, such appreciation seems to be explained, in the first instance, by an increase in input costs and wage payments. Such changes would tend to affect their cost structures and, in effect, the final price of their products. Secondly, the excess demand (lack of supply) of certain items put upward pressure on their prices, strengthening this tendency to increase the cost of living in dollars.

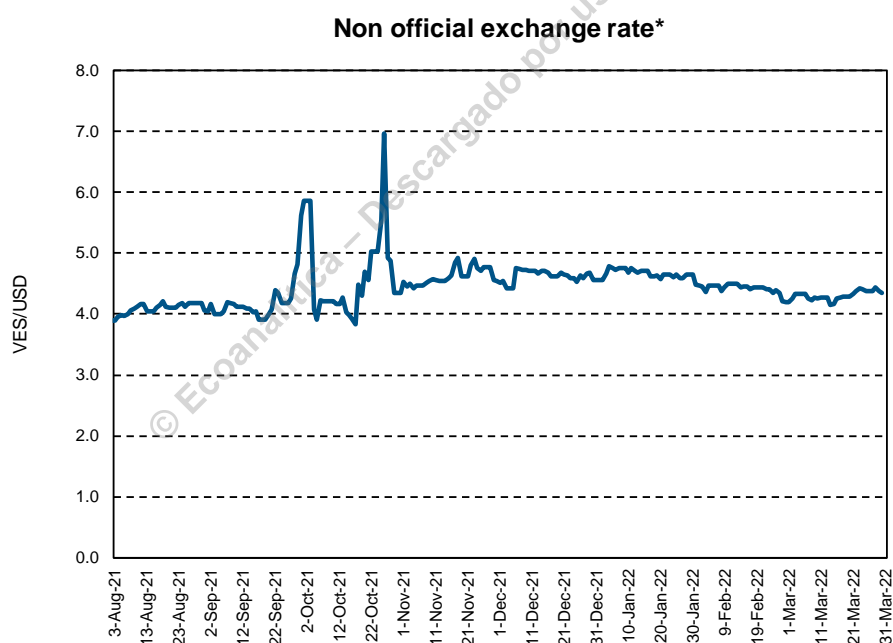
¹² Preliminary figures from Ecoanalítica for March 2022.

¹³ Ecoanalítica figures as of March 28, 2022.

With this disparity between the behavior of domestic inflation and the evolution of exchange markers, the cost of living in dollars recorded an overall increase of between 12.8%¹⁴ and 36.4%¹⁵ during the first quarter of the year.

Exchange rate aggressiveness

Part of what has been evidenced in the Venezuelan exchange rate environment is due to the persistence of the National Government in continuing with its strategy to reduce inflation by stabilizing the exchange rate, injecting dollars into the financial system and thus increasing the supply of resources in foreign currency. This trend became more notorious from mid-February through March, as companies and households have had to comply with direct taxes, demanding bolivars (in exchange for dollars) to meet their fiscal responsibilities.



* Calculated with the implicit Bitcoin exchange rate (BTC).
Sources: BCV and Ecoanalítica.

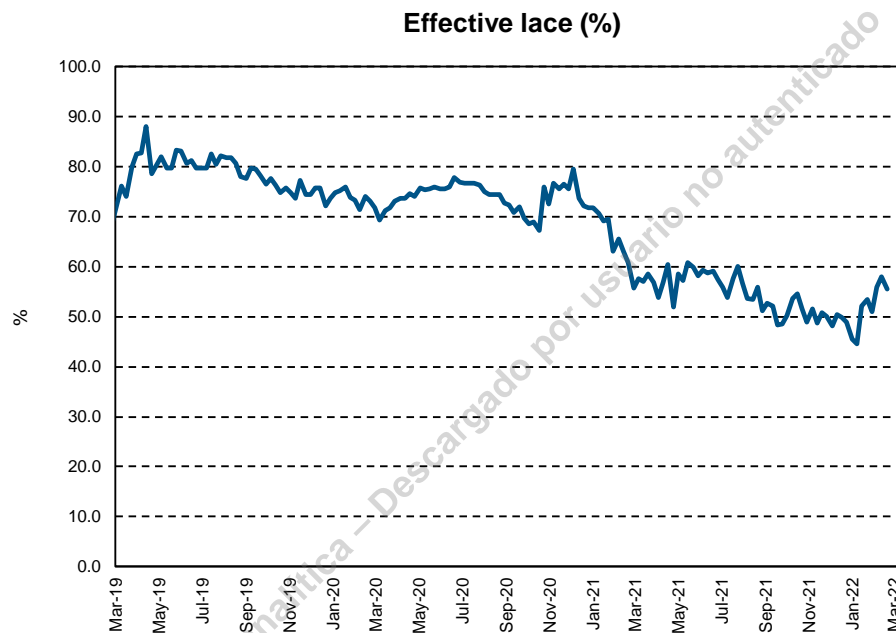
On the other hand, in the first quarter of the year, the government has implemented several measures that could influence the exchange rate and inflation in 2022. Among them, the reduction of the bank reserve requirement from 85% to 73%, which together

¹⁴ From a price perspective measured directly in foreign currency.

¹⁵ From an exchange appreciation perspective, or variation in the relative price of goods in bolivars with respect to the exchange rate.

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with the decision to allow lending up to 10% of foreign currency deposits in bolivars, could increase the country's credit base and, consequently, the supply of bolivars and prices (via aggregate demand). However, the true scope of the measure is still uncertain, in view of the BCV's aggressive stance of intervention with dollars in the banking system, in addition to the high circulation of foreign currency that persists in the country.



Sources: BCV and Ecoanalítica.

New salary + new taxes = new prices?

An event with potential price implications was the recent official adjustment of the minimum wage, which went from USD 1.6 to USD 28.0 per month, as well as the new taxes to be applied in the coming months on domestic transactions in dollars. Due to the monetary effect and the higher labor costs and liabilities, it is possible to think that such measures could generate changes in the deceleration of domestic inflation, at least temporarily. However, at **Ecoanalítica** we consider that, with the current weight of transactional dollarization and the interest the BCV may have in continuing to keep the market "hydrated" with foreign currency, the impact of these measures on prices in Venezuela will be minimal or null.

However, in the current international context, it is possible that the sanctions approved by the United States and Europe against Russia will have a medium-term effect on the local exchange market. Given that PDVSA has mobilized a large part of its finances through

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the Russian banking system, sanctions to that market would have a negative effect on the Venezuelan government's cash flow, compromising the BCV's exchange rate stabilization policy. In this sense, unless the supply of bolivars continues to be limited by the actions of the Executive, such frictions could alter the stability of the official exchange rate, and therefore prices. Nevertheless, at **Ecoanalítica**, we consider that the vision of a market scarce of bolivars and flooded with foreign currency will prevail, with which inflation for the year will not exceed 190.0% on annual basis during 2022, and the exchange rate will remain in the vicinity of the VES/USD 9.9. Thus, real appreciation will continue to be the key variable for local agents in terms of prices.

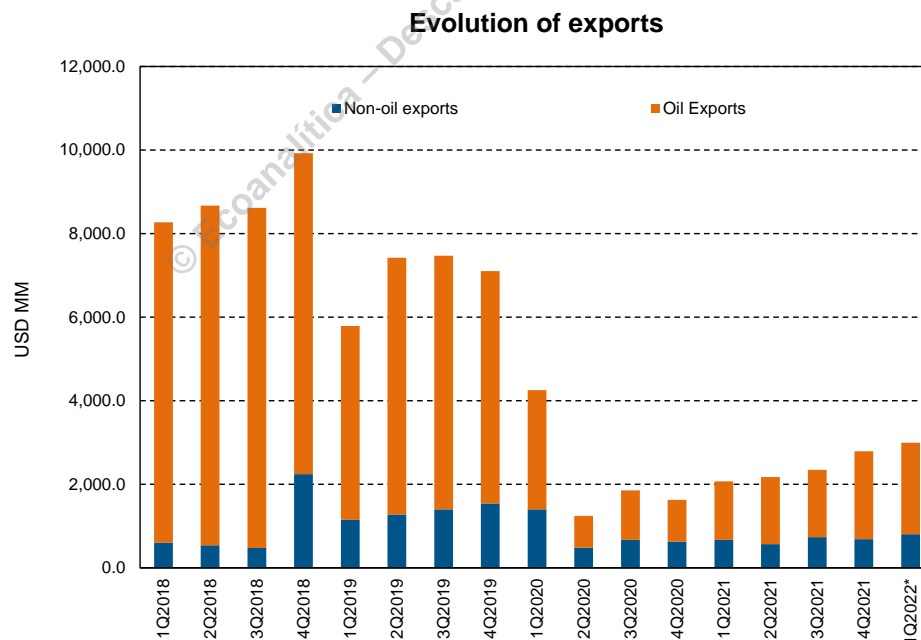
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External Sector: Oil strikes back

The Venezuelan external sector has maintained its recovery path since the beginning of 2021, particularly with cumulative increases in total exports and a higher estimated flow of remittances. Although a large part of this recovery is attributable to higher oil revenues, the private sector has also seen a revitalization in the same period, with increases and compositional changes in its trade with the rest of the world.

A more open economy

According to our estimations, total Venezuelan exports will approach USD 9,382 million in 2021, an increase of 4.5% with respect to 2020. Much of this increase is due to higher crude oil prices and production, with revenues reaching USD 6,716 million in 2021, an increase of 15.9%. However, the private sector seems to have shown a moderate expansion, reaching 19.6% of total exports between 2020 and 2021, and a 59.1% growth in their exports¹⁶.



*Estimated.
Sources: UNComtrade, IMF, OPEC and Ecoanalítica.

¹⁶ This growth corresponds to estimates based on available UNComtrade data on exports by item.

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Thus, oil remained as the main export product in 2021, but, when isolating only private exports, "Iron and steel" (25.7%), "Organic chemicals" (20.5%) and "Meat, fish and crustaceans, including their preparations (19.5%) stand out as new export and diversification items in the sector¹⁷. However, it should be noted that the levels of total exports are still significantly below pre-pandemic levels, standing 66.2% below the goods sold abroad in 2019.

On the other hand, imports decreased in 2021, accumulating a drop of 2.5% with respect to 2020¹⁸. This seems to be due to greater downward adjustments in public imports and the increase in maritime transport prices, as a result of complications in supply chains due to the pandemic. In this sense, it is also expected that, despite the general contraction, the private sector will have a greater participation in the purchase of goods from the rest of the world.

Currency Cash Flow						
Item (Billion USD)	2018	2019	2020	2021	1Q2022	2022
Income						
Net Oil Income	31.6	22.4	5.8	6.7	2.2	17.7
Non-Oil Income	3.9	5.4	3.2	2.7	0.8	3.1
Total Income	35.5	27.8	9.0	9.4	3.0	20.8
Expenditure						
Oil imports	-3.5	-3.7	-1.2	-1.1	-0.6	-3.0
Other imports ²	-11.6	-4.3	-7.8	-7.7	-1.9	-7.5
Net Services	-6.2	-6.3	-3.7	-3.7	-1.6	-6.0
Net Rents	-8.0	-7.3	-1.7	-1.4	-0.9	-4.7
Current Transfers	2.0	3.5	1.7	1.9	0.6	2.5
External Debt Service	-4.5	-4.4	-0.3	0.0	0.0	0.0
Net Capital Outflows	2.3	1.1	-0.8	-1.2	-0.3	-1.2
Total Expenditure	-29.5	-21.2	-13.8	-13.2	-4.7	-19.9
Balance	6.0	6.5	-4.9	-3.8	-1.7	0.9
Financing (MM USD)						
Net Flow with China	-4.2	-3.2	0.0	0.0	0.0	0.0
Net Flow with Russia (Rosneft)	-3.2	-1.9	-0.5	0.0	0.0	0.0
Net Balance	-1.5	1.5	-5.3	-3.8	-1.7	0.9

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

¹ A 90 day delay to reflect oil market dynamics is considered up to 2019. Result net from discount losses.

² Considers non oil exports and other oil exports that do not involve re-exportable material.

¹⁷ Economic Outlook Report N°5: *Trade with the world: A tale of collapse, sanctions and war.*

¹⁸ For 2021, total imports were calculated using a simple average of the amounts reported by the International Monetary Fund and **Ecoanalítica's** own estimates (based on data disaggregated by item from UNComtrade).

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Trade in times of war

The slight expansion trends of exports could be strongly disrupted by the conflict between Russia and Ukraine. Although there seems to be no significant direct effect on Venezuelan trade, as Ukraine and Russia represent a non-trivial percentage of global exports and imports, the effect of this conflict on oil and grain prices could generate significant changes on the domestic trade balance. For the oil sector, as described in the section "*Oil sector: Between good and bad news*", a slight expansion of exports is expected. On the other hand, since cereals are Venezuela's main import item, their higher prices will be reflected in an impact on the prices of finished products, in addition to the impacts that are expected as local activity shows a greater reactivation.

Thus, the increase in oil and grain prices will have opposite effects on the Venezuelan trade balance; however, it is to be expected that, given the predominance of the oil sector in Venezuelan exports, the positive impact of an increase in hydrocarbon prices and exports will be greater than the adverse shocks due to increases in cereal prices and oil imports¹⁹.

Re-balancing the current account

Considering the readjustments in global trade, **Ecoanalítica** expects exports to reach USD 20,783 million in 2022, more than double the amount traded in 2021, of which 85.1% will be from crude oil sales abroad. Meanwhile, imports of goods will approach USD 10,533 million, an expansion of 19.9% compared to the previous year. On the other hand, despite inflationary pressures on a global scale, we maintain the estimates of remittances received in Venezuela at USD 2,477 million, 33.5% higher than the estimate for 2021. Additionally, at **Ecoanalítica** we recommend taking into consideration the following points:

- The current account will be positive during 2022, with a surplus of USD 2,075 million, an increase of USD 4,723 million from the previous year's current account deficit.
- The degree of import growth will depend on the dynamics of international trade, since, to the extent that maritime transport costs remain high and import prices increase (due to higher raw material prices), the private sector's ability to finance the purchase of goods from abroad will be hindered.
- The increase in oil and grain prices could lead to a displacement of the private sector by the public sector, to the extent that oil exports become more profitable, resources

¹⁹ With a net effect of approximately USD 8,691 million on the Venezuelan trade balance.

are diverted to this industry and, given a generalized increase in international costs, the private sector loses its ability to compete in the face of higher input costs.

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Conclusion

During the first quarter of 2022, the Venezuelan economy continued trends that had been settling in since the second half of 2021, as the real contraction has slowed and shows faint signs of reversal, year-over-year inflation is converging to three low figures, and the pandemic did not wreak enough havoc on the weakened health care system for the authorities to reestablish mobility restrictions.

In this environment, the Executive continues with its fiscal consolidation efforts due to higher oil prices externally, while withdrawing subsidies and increasing taxes domestically. This greater budgetary leeway allows the State to afford spending increases, such as the increase in the minimum wage, although it is far from having the financial muscle to resume a more interventionist stance in the economy.

In the short term, the Venezuelan economy's greatest exposure will be tied to the ups and downs of the external sector. The tailwinds of rising oil prices come with turbulence in trading capacity linked to disruptions in the Russian financial system and Western sanctions on both countries. Likewise, global inflationary pressures on raw materials will negatively impact an import-inclined economy without necessarily implying that local producers will recover competitiveness.

Although the Ukrainian conflict has revived channels of contact between U.S. and Venezuelan authorities, at **Ecoanalítica** we believe that the slow pace of institutional arrangements means that the most likely outcome, in the short term, is a maintenance of the *status quo* with the reestablishment of relations or the lifting of sanctions being much slower and more tenuous than what some private observers inside and outside Venezuela might expect.

On the domestic front, the rising cost of living will continue to be a major concern for firms and households. Although inflationary rates are not as aggressive as in the past, they are reflecting real imbalances to a greater extent and the establishment of dollarization hinders the frequency with which adjustments can be made to production constraints that are difficult to overcome when the efficiency gains for many operations lie in adjusting their size to a smaller and shallower market stimulated by consumption.

In this sense, the challenges faced by firms and households in Venezuela are no longer related to surviving a prolonged contraction, but in adapting to the fact that the remaining economic structure has a low productive potential. The *momentum* of commercial activity associated with the resumption of consumption does not generate much drag on the

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generation of added value, which, added to a persistent insufficiency of financing, makes it difficult to sustain high growth rates in the long term.

In this light, we forecast a recovery in economic activity of 8.1% by 2022 and averaging 5.6% per year until 2025, with much of this growth associated with the inertial "rebound" from a relatively small economic size. Although this growth will be comparatively higher than that of other countries in the region, Venezuela will still be far from its pre-pandemic levels, which will not be reached until at least 2028.

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Tables

Variables	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)	2024 (*)	2025 (*)
Output indicators (Annual changes on %) ^{1/}							
Gross Domestic Product (GDP)	-39.8	-31.4	0.9	8.1	5.8	5.1	3.4
Domestic Aggregate Demand	-39.8	-20.3	-8.2	9.5	5.5	3.4	3.2
Total Consumption	-38.2	-22.2	-4.1	6.0	5.6	4.2	2.1
Public consumption	-25.0	-24.8	-5.2	4.6	7.7	3.3	1.6
Private consumption	-43.1	-20.8	-3.6	6.6	4.6	4.6	2.3
Gross fixed capital formation	-36.0	-32.2	-3.0	3.1	2.3	0.8	-0.1
Public gross capital formation	-32.5	-35.4	-5.8	3.4	0.5	1.0	-0.3
Private gross capital formation	-42.2	-25.7	2.0	2.7	5.2	0.6	0.1
Total exports	-23.0	-45.0	-7.5	17.0	23.8	10.7	2.9
Oil exports	-25.9	-46.7	2.1	12.3	32.7	14.6	0.0
Non-Oil exports	12.0	-45.3	-32.7	11.3	9.3	3.6	2.7
Exports of services	-10.4	-34.5	-6.4	50.1	3.4	-2.0	1.4
Total imports	-22.8	2.6	-34.3	21.8	18.0	2.9	0.2
Imports of goods	-22.8	12.2	-38.0	10.8	17.9	2.5	0.3
Imports of services	-22.9	-29.1	-14.6	63.2	18.1	3.8	-0.1
Real results by sectors (Annual changes on %) ^{1/}							
Per capita GDP	-40.5	-32.1	-0.1	7.0	4.8	3.5	1.8
Oil GDP	-19.9	-34.5	2.8	9.6	11.6	9.5	1.1
Non-Oil GDP	-42.6	-28.3	0.5	8.0	4.9	4.3	4.1
Prices indicators (Annual changes on %)							
NCPI-based inflation, eop (2007 = 100)	9,584	2,961.0	686.9	189.7	114.5	89.6	83.5
NCPI-based inflation, aop (2007 = 100)	19,906	2,354.8	1,589.5	200.7	162.5	94.3	86.1
CPI-based inflation, eop (2007 = 100)	10,095	2,929.1	672.2	115.5	96.6	90.0	83.6
CPI-based inflation, aop (2007 = 100)	20,026	2,375.8	1,613.1	140.6	123.7	92.6	86.2
WPI-based inflation, eop (2007 = 100)	8,253	1,667.4	802.0	91.1	101.4	79.1	67.4
WPI-based inflation, aop (2007 = 100)	17,490	1,714.1	933.0	193.4	112.3	85.7	69.6
Official exchange rate, eop (VES/USD) ^{2/}	0.05	1.09	4.59	9.78	20.87	40.01	74.08
Official exchange rate, aop (VES/USD) ^{2/}	0.02	0.37	3.39	6.19	15.78	31.24	58.47
Non-Official exchange rate, eop (VES/USD) ^{2/}	0.06	1.07	4.55	9.98	21.31	40.86	75.66
Non-Official exchange rate, aop (VES/USD) ^{2/}	0.02	0.37	3.47	6.32	16.12	31.90	59.71

^{1/} All data refer to eop figures (in real terms, 1997 prices). Otherwise, it is indicate.

^{2/} Adjusted by monetary reconversion.

(*) Forecasts. Additional projections are available upon request to atencionalcliente@ecoanalitica.net, or to luisb@ecoanalitica.net

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Variables	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)	2024 (*)	2025 (*)
Money market (Annual changes on %)							
Monetary aggregates							
Money Base (BM)	7,172.4	1,232.0	397.9	114.9	104.7	76.1	59.5
Money (M1)	4,951.4	1,287.1	635.2	104.9	112.6	73.7	62.0
Broad money (M2)	4,945.6	1,286.8	635.2	105.3	112.7	77.4	60.1
Monetary multiplier (M2/BM)	1.28	1.34	1.97	1.88	1.96	1.97	1.98
Interest rates (levels, %)							
Bank lending rate (average)	29.3	33.0	43.3	55.3	41.8	32.9	27.9
Time- deposit rate (average)	30.6	52.9	43.7	54.0	37.8	28.9	22.9
External sector (Annual changes on %)							
Balance of payments							
Export of goods (USD MM)	27,804	8,978	9,381	20,783	24,481	27,003	27,196
Export of goods	-17.4	-67.7	4.5	121.5	17.8	10.3	0.7
Oil exports (USD MM)	22,405	5,795	6,715	17,693	21,010	23,318	23,365
Oil exports	-24.8	-74.1	15.9	163.5	18.8	11.0	0.2
Total imports (USD MM)	7,955	9,013	8,699	10,604	12,149	12,818	13,338
Total imports	-37.8	13.3	-3.5	21.9	14.6	5.5	4.1
Trade balance (USD MM)	19,849	-34	682	10,178	12,332	14,185	13,859
Services balance (USD MM)	-6,305	-3,706	-3,652	-5,971	-6,841	-7,223	-7,651
Rents and transfers (USD MM)	-3,805	-20	407	-2,138	-2,917	-4,109	-4,123
Current account balance (USD MM)	9,739	-3,760	-2,563	2,070	2,574	2,853	2,085
Capital and financial balance (USD MM)	-7,500	5,633	1,942	-480	-561	-240	-171
Balancing item (USD MM)	-4,197	-975	-1,154	-750	-2,275	-2,275	-2,389
BOP balance (USD MM)	-1,958	898	-1,775	840	-262	338	-475
Gross International Reserves (USD MM) ^{1/}	6,627	6,337	5,750	6,590	6,328	6,666	6,191
Operative International Reserves (USD MM) ^{1/}	1,787	1,232	1,139	2,379	2,617	2,954	2,479
Oil sector							
Oil crude production (PDVSA's definition, mb/d)	1,023	558	632	838	1,015	1,164	1,176
Average local oil basket price (USD/b), without discount	57.0	33.2	50.0	75.2	68.4	68.0	66.3
Demographics and labor indicators (Annual change, %)							
Population							
Total Population (thousand)	32,769	33,100	33,430	33,765	34,102	34,648	35,202
Labour force (thousand)	10,788	9,915	10,480	11,459	12,484	12,860	13,217
Labour							
Unemployment (% of labor force)	27.3	45.7	38.0	32.8	29.1	27.2	25.8
Minimum wage (VES) ^{2/}	0.15	1.10	10.00	265.00	465.00	675.00	875.00
Minimum wage (%)	3,233.3	633.3	809.1	2,550.0	75.5	45.2	29.6

^{1/} Excluding last IMF's Special Drawing Rights (SDR) allocation, made by august, 2021.

^{2/} Adjusted by monetary reconversion.

(*) Forecasts. Additional projections are available upon request to atencionalcliente@ecoanalitica.net, or to luisb@ecoanalitica.net

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Variables	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)	2024 (*)	2025 (*)
Real output indicators (Annual changes on %) ^{1/}							
Gross Domestic Product (GDP), by sectors							
Agriculture	-25.0	-27.5	1.1	6.0	5.0	5.0	2.0
Minig	-22.1	-17.7	2.1	4.7	4.2	1.7	-0.5
Manufacturing	-48.5	-34.9	-3.4	4.4	3.0	1.9	3.0
Construction	-38.0	-31.6	1.8	6.0	4.7	0.9	-1.2
Water and electricity	-36.1	-38.7	-2.7	3.4	1.5	2.4	2.5
Commercial sector and remediation services	-47.5	-40.1	1.4	10.8	9.3	6.8	4.3
Transport and storage	-59.8	-34.1	-1.2	4.2	4.0	1.4	0.8
Communications	-37.2	-17.3	-0.7	3.6	2.1	2.1	2.0
Financial institutions and insurance companies	-51.1	-44.5	-3.0	8.4	9.2	3.3	1.5
Government services	-40.6	-40.3	-6.9	4.9	4.8	2.8	1.3
Other services	-69.1	-5.3	-2.2	1.7	9.1	4.0	4.5
Non-oil goods	-37.6	-32.4	-1.1	5.0	3.7	3.1	2.1
Non-oil services	-44.1	-27.0	1.0	8.9	5.3	4.7	4.7

^{1/} All data refer to eop figures (in real terms, 1997 prices). Otherwise, it will be indicate.

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