



Perspective Report
**They call me the country
of crystal...**

July 2022

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Introduction

Venezuela remains at war

War is the continuation of politics by other means.
Carl von Clausewitz. From the war.

The conflict between Russia and Ukraine continues, and Venezuela, as well as the rest of the Latin American region, continues to feel its effects, both for better and for worse. On the one hand, global oil markers continue to rise, leading to a 64.5% increase in the Venezuelan oil basket during the first half of the year, according to our estimates. Such pressures have meant higher oil revenues for the country, which could reach a total of USD 18.87 billion by the end of 2022, even in a scenario in which oil production barely reaches its pre-pandemic levels.

However, both the sanctions framework [despite the recent licenses received for domestic gas trade with external partners] and the limitations imposed on the Russian economy in the midst of the current conflict continue to affect the mechanisms through which the Executive perceives such resources. Both aspects have an impact on the way in which the greater foreign energy boom promotes (and will promote) a recovery of the Venezuelan economy. Still, it is expected that, at the end of the year, USD 3,721 MM will enter the country in net terms, which contrasts with what has been seen previously, with imports being the main item to which a large proportion of these resources will be diverted.

As a negative effect, this external framework has also placed greater pressures on the cost structure of domestic firms. In this sense, the limitations that international trade still shows as a consequence of the confinement in China after the new outbreak of COVID-19, the frictions in the supply of raw materials and fertilizers related to the closure of the Ukrainian ports of Odessa, Mariupol, Mykolaev and Kherson, the higher external inflation and the high cost of indebtedness in international markets are beginning to affect the local private business. Not in vain, the BCV's own official figures reported an upturn in food inflation between April and May, one of the items most exposed to the new dynamics of commodities, as well as higher prices in educational services and the restaurant sector. Our figures coincide with that view, with an average monthly inflation of 8.8% in the last three months, highlighting the higher prices also in food.

Despite this, domestic households and businesses continued to spend above what was seen before the pandemic, an observation based, in part, on the higher number of visits by individuals to consumer centers, according to Google mobility data. This suggests that the revival of the local market appears to be beyond a post-COVID recovery, although this does not mean that it is sustained.

The new domestic price acceleration was accompanied by a greater increase in the exchange market markers. Both the official and the non-official exchange rate accumulated an increase of 20.7% in the first half of 2022, also forced by the Executive's foreign currency sales at a higher price [in an attempt to reduce the exchange rate appreciation of the last months], by a greater relative circulation of bolivars amidst more Public Sector's injections, and by the implementation of the new tax on domestic transactions in foreign currency. As a consequence, domestic money supply [M2] accumulated a remarkable increase of close to 45% between January and June in real terms. Likewise, the local banks found new obstacles in their mechanisms to feed the unofficial market and the transfers abroad from the BCV's allocations, presumably due to the reputational burden left by the conflict with Russia, imposing with them new premiums on the exchange rate fixed by the issuing entity.



In this sense, the Executive seems to be temporarily attacking its own inflationary target, and is taking advantage of the context of higher oil prices and the larger domestic taxes revenues to spend more, although it still maintains restrictions on credit activity and an aggressive stance in its foreign exchange interventions, selling up to USD 250 MM [on a monthly basis] in recent months. Despite the deceleration of prices, Venezuelans continue to face higher costs of the local basket measured in foreign currency, which, beyond the phenomenon of real appreciation itself, seems to reflect an unsatisfied real gap and a distorted cost structure even in the absence of hyperinflation.

In view of this scenario, at **Ecoanalítica** we anticipate that the Venezuelan economy will grow at least 9.7% by 2022 and 4.9% in 2023, driven by improvements in the oil sector and with a private business facing better conditions; However, both the operational and financial failures still facing the local oil industry and the constraints still surrounding the non-oil sector [more expensive inputs, foreign exchange transaction costs and lack of financing] lead us to believe that the market boom should be taken with optimism, but with caution. Likewise, local inflation and the exchange rate will continue to yield to the Executive's limitations, with an expected annual ratio of 150.8% and an unofficial closing exchange rate of VES 9.53/USD for this year, although the same will continue to be very volatile due to the secular effects of taxes on foreign exchange transactions (and their effect on local dollarization), the impact of the international environment and transitory changes in the official stance on local currency issuance.

In this context, the old reliable business practices are still in place and the key is still the accurate quantification of its cost structure (and its exposure to the regulatory environment and external shocks), the attention to competition both internally and with foreign goods and services, finding a reliable measurement of the target market and the search for alternatives to traditional financing. Furthermore, even with the possibility of a partial cessation of sanctions and an almost non-existent overcompliance with them, the local private sector should not neglect the close monitoring of its financial operations involving the international financial system.

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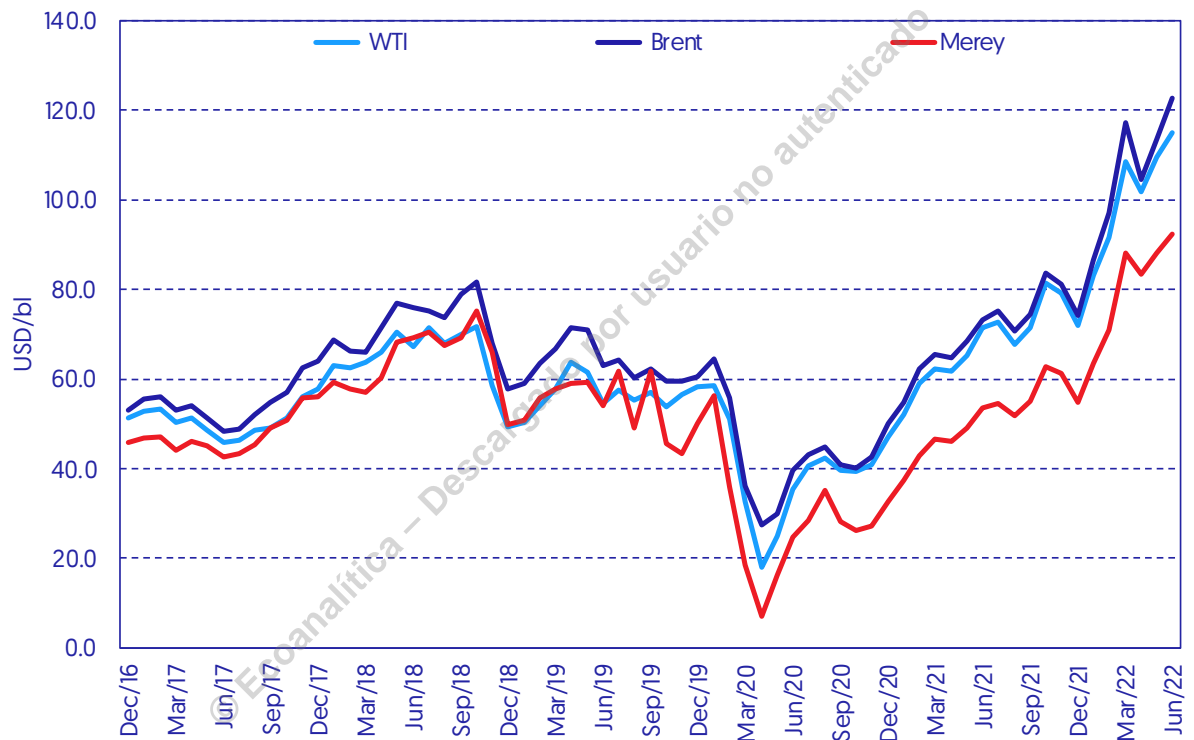


Oil sector

The environment to the rescue?

The new international context, full of geopolitical tensions and sanctions on one of the world's most important crude oil producers, has pushed up international crude oil reference prices. During the second quarter of this year, WTI and Brent crude oil prices increased, on average, by 15.1% and 13.2%, respectively, with respect to their values for the first quarter of this year. The Venezuelan oil industry is still sanctioned, so its crude oil continues to be traded in international markets at a discount; however, the value of the Venezuelan basket is not completely unaffected by the rise in the international market, as shown by the approximation that can be made through the average increase of the Merey reference crude oil of 18.4% between the first and second quarter of 2022.

Evolution of price indicators



Sources: OPEC, EIA and Ecoanalítica.

In addition, the needs of the global market to substitute crude oil from Russia, in view of the current and promised sanctions, have made Venezuelan oil exports more attractive to cover the new deficit in the market. On the other hand, the international context of high prices encourages potential buyers to acquire Venezuelan crude oil, even with the U.S. sanctions, due to the discount offered and the knowledge gained in the acquisition and transfer of this crude.

This new global circumstance has prompted statements from OPEC officials and other countries seeking substitutes for Russian crude and opening the possibility of relaxing part of the sanctions on the Venezuelan industry.

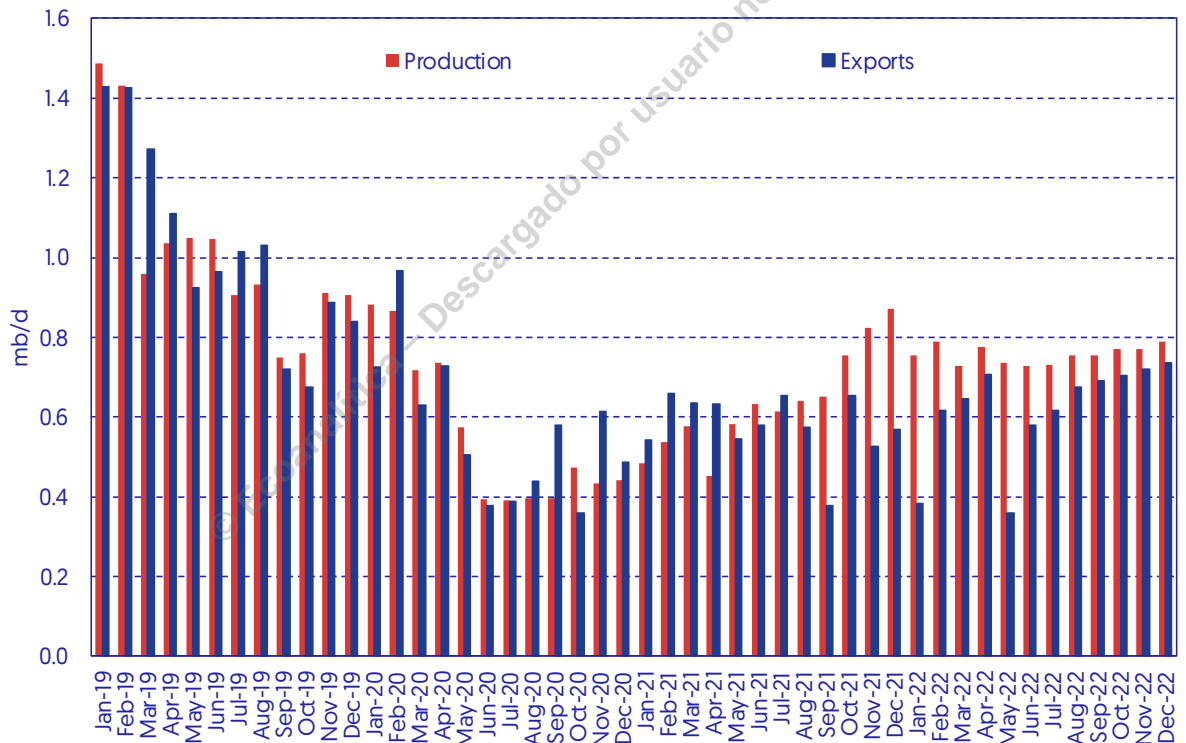


New needs, new ways?

Within this new context, the US Treasury Department granted Repsol and Eni new permits to import Venezuelan crude oil in exchange for alleviating the debt that PDVSA maintains with these companies for its relations in the joint ventures. This measure boosted exports in June by 61.1% with respect to the previous month; however, in the second quarter the country's crude oil shipping capacity has decreased due to repairs made at the loading port and the new requirement of Pdvsa to prepay shipments due to payment irregularities, resulting in crude oil exports remaining at a level similar to that of the first quarter.

Although this new agreement, in principle, will not represent income for the state-owned oil company, it could alleviate the country's inventory levels. These, being almost at full capacity, led to an interruption of production on several occasions in June. Meanwhile, according to secondary sources gathered by OPEC, oil production remained a full quarter above the 700 kb/d threshold for the first time since the arrival of the pandemic, so managing to correct the bottlenecks that are generating its marketing capacity would also have an impact on its ability to maintain a higher production level than that of 2021.

Venezuelan crude oil industry



Sources: OPEC, Refinitiv Eikon and Ecoanalitica.

Industry continues to be the main driver of the Venezuelan economic activity, but it still presents the irregularities that have historically characterized it and remains far from the pre-pandemic figures, which were already below the historical and internally installed capacity. The positive news brought by the international context for the inflow of foreign currency to the country is sufficient incentive to establish as a goal the stability of the production and export indicators in the short term. At the same time, the agreement with ENI and Repsol and the renewal of Chevron's operations within the territory have led to speculation about a possible partial easing of US



sanctions on Venezuela. Even so, Iran continues to be the major ally of the Venezuelan crude oil industry, having signed agreements that contemplate the execution of repairs in national refineries, the supply of spare parts and equipment and the shipment of Iranian crude to the country which, being lighter, is used in the refining of Venezuelan crude.

In this scenario, Ecoanalítica expects crude oil production to average 757 kb/d by 2022 and exports to be around 620 kb/d, which is equivalent to year-on-year increases of 19.1% and 7.0%, respectively. Even so, this framework could change in the medium term, considering the recent efforts of OPEC+ members and the agreements of a new programmed increase in their production quotas of up to 50% above the forecast for July and August.

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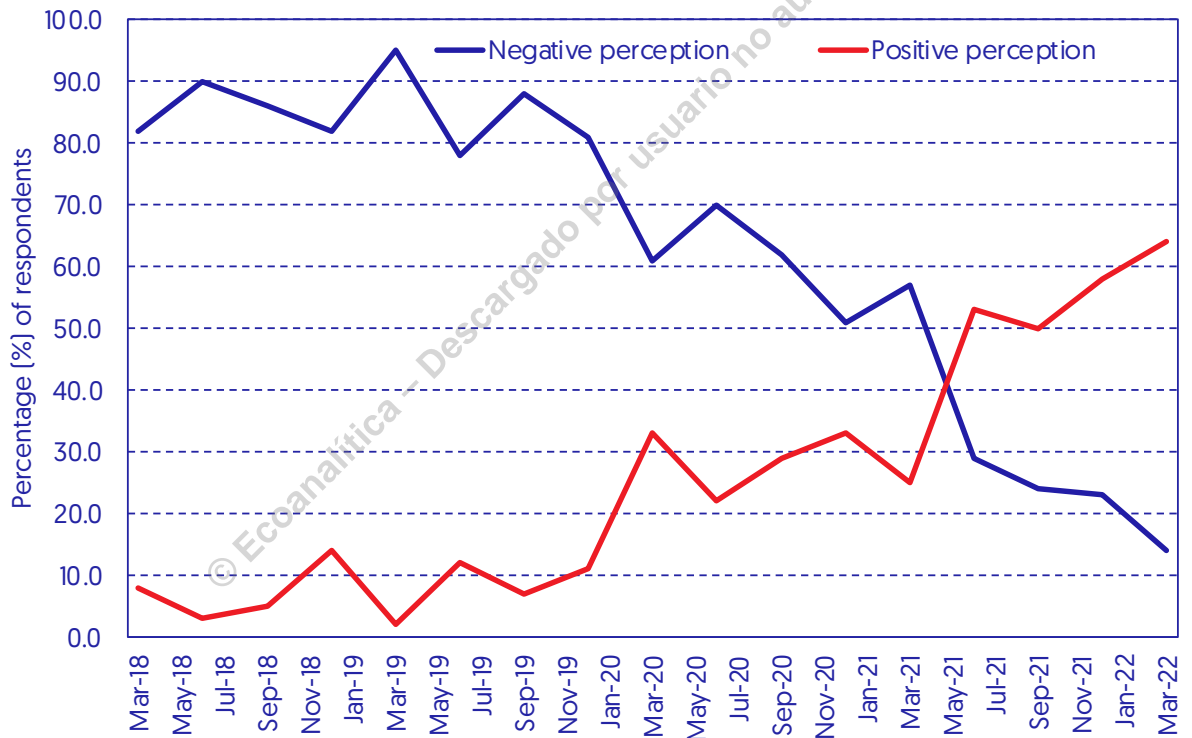
Real environment Growing up in a fragile environment

2021 seems to have marked the end of the deep economic contraction that began in 2014. After shrinking by nearly 78.2%, at **Ecoanalítica** we estimate that the Venezuelan economy grew by just 0.9% in 2021 and, so far, we forecast that it will expand by 9.7% this year. However, it still presents a high degree of vulnerability, intensified by further international disruptions that could lead to a global recession by the end of 2022¹.

Supply-side improvements

In general terms, a slight rebound in credit and wages and industrial markers has been observed since mid-2021, which generates certain improvements in the Venezuelan private sector. According to the Qualitative Survey of Industrial Situation for the first quarter of the year², 64% of the companies consulted reported that in the first three months of the year their production increased with respect to the same period of 2021 and, for the case of large and medium-sized companies, this percentage reached 68%.

Perception of production



Sources: Conindustria and Ecoanalítica.

Regarding credit, an increase of 92.2% in the value of credit in dollars has been observed between June 2021 and June 2022. This explains, in part, the slight increase observed in investment figures, where only 27% of companies reported an increase, according to the aforementioned survey.

The improvements observed seem to have allowed, in part, an increase in workers' salaries. According to Conindustria figures, salaries were increased for workers (67%

¹ CNBC (2022). *Atlanta Fed GDP tracker shows the U.S. economy is likely in a recession.*

² Conindustria (2022). *Qualitative Survey of Industrial Situation First Quarter 2022.*

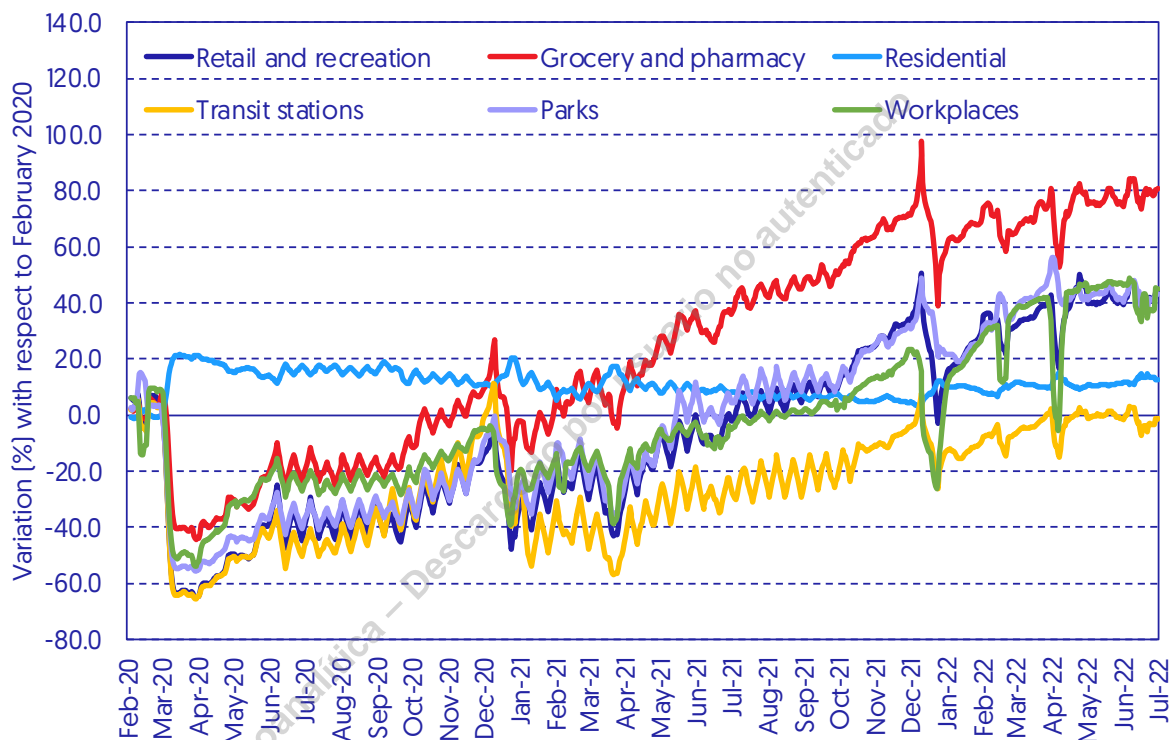


with respect to the first quarter of the previous year), professionals and technicians [97%] and managers [88%] to USD 130, USD 339 and USD 779, respectively.

Consumption: the engine of activity

Simultaneously, since mid-2021, a significant recovery in consumption seems to be observed, boosted, in part, by a higher level of imports [facilitated by tariff exemptions³ and an appreciated real exchange rate⁴], higher income via wages and remittances⁵ and lower transactional frictions [thanks to stable dollarization and less price and exchange rate volatility].

Evolution of mobility (Venezuela)



Sources: OurWorldinData and Ecoanalitica.

As a *proxy* for consumption, Google mobility figures were used, indicating visits to different locations in Venezuela since early 2020 [based on a pre-pandemic period]. These reflected a clear increase in visits to consumption centers, even when compared to the pre-pandemic period and mobility restrictions. Particularly noteworthy were visits to markets and pharmacies and to stores and recreational spaces, which were significantly above baseline figures⁶ , 80.9% and 44.6%, respectively⁷ .

³ Finanzas Digitales [2018]. *Official Gazette No. 41.446: Imports indicated in the Decree are exempted until December 31, 2019, from the payment of the Import Tax and Fee for determination of the customs regime.*

⁴ An appreciated real exchange rate promotes imports, since buying foreign goods is cheaper than consuming domestic products.

⁵ Weekly Report No. 22 of 2021: *Remittances, quarantine and food security.*

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

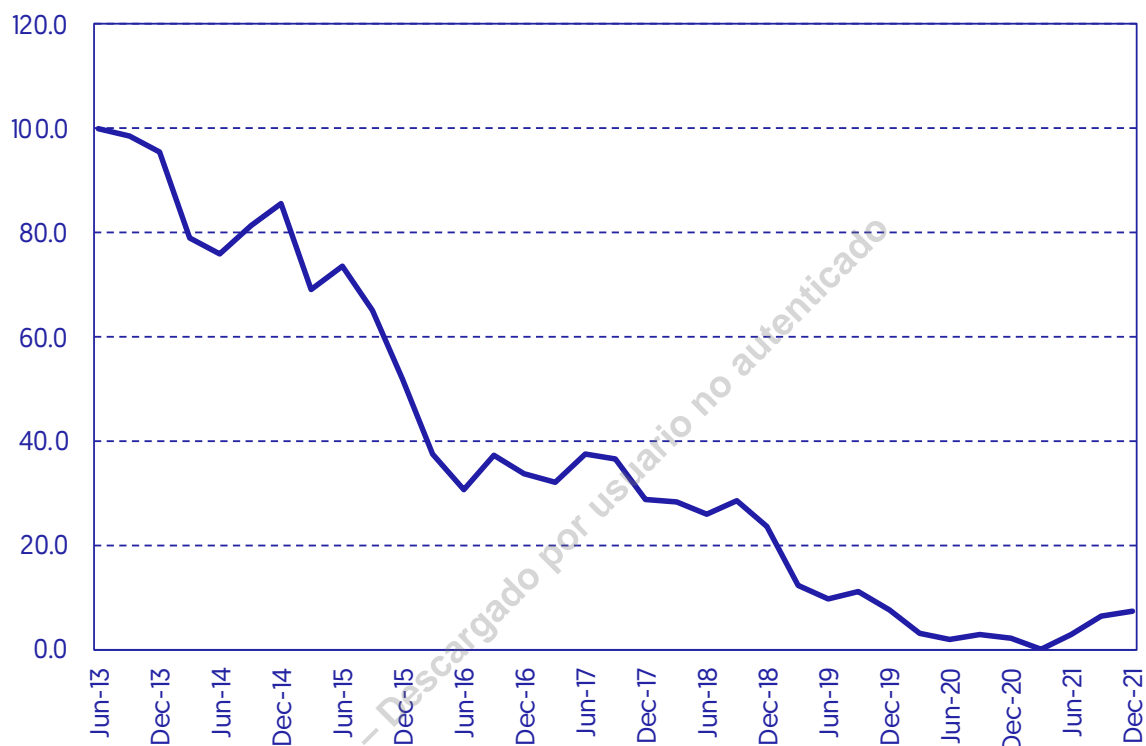
⁷ Until the week of July 14.



A restricted path

Based on the observed trends, **Ecoanalítica** calculated an activity indicator⁸. The resulting indicator allows us to detail a general improvement in the economy as of the second quarter of 2021, in line with the demand and supply pressures outlined above.

Activity indicator



Sources: Ecoanalítica.

However, despite evidence of notable improvements in Venezuelan economic activity, at **Ecoanalítica** we believe that its expansion trajectory is restricted; therefore, we believe that domestic activity will reflect the following in the medium term:

- Industrial indicators, a sign of local supply, seem to have improved moderately; however, local companies continue to have a limited range of maneuverability due to lack of financing, regulatory and tax restrictions and a low local demand that prefers to consume (either for quality or price reasons) imported goods.
- The upward pressures on consumption are attributable to a set of temporary factors, which will no longer be an impulse for the purchasing power of Venezuelans; therefore, the economic reactivation based on the resurgence of consumption has little productive drag. As a consequence, a sustained increase in added value is not foreseen.
- Despite the improvements observed in activity, the Venezuelan economy remains strongly linked to the oil sector and to the economic conditions of its

⁸ For more information on the formulation of the activity indicator, please refer to our Biweekly Report N°11: *Mirage or Oasis? Recontextualizing the economic recovery.*



main trading partners⁹, so global trade tensions¹⁰ and expectations of a global recession could lead to further disruptions in the local economy that limit growth possibilities, even with increases in oil prices.

- In this regard, we expect the economy to grow 9.7% in 2022, with growth slowing to 4.9% in 2023. Total consumption will maintain its growth path at 6.9% in 2022 and 5.5% in 2023.

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⁹ For more information, please refer to the external sector and oil sector sections of this report.

¹⁰ Mainly due to Russia's invasion of Ukraine and problems in China's ports.



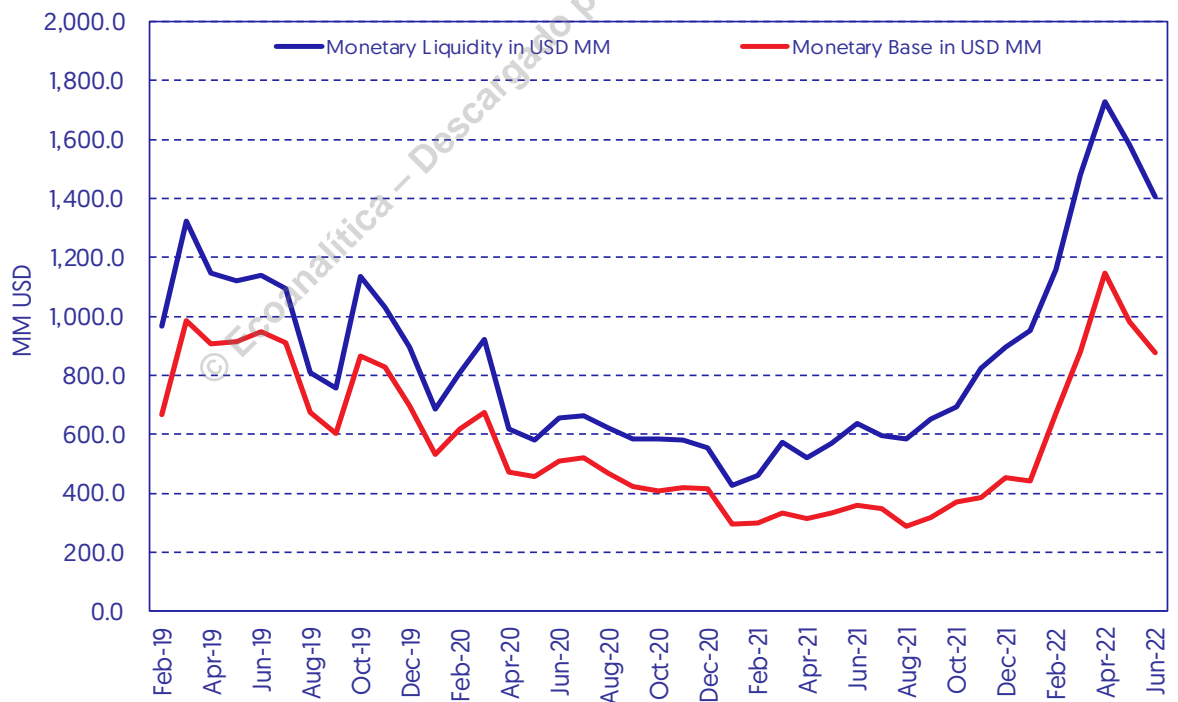
Monetary and fiscal policy **Undisciplined?**

Galloping aggregates

In the second quarter of 2022, both base money and monetary liquidity (M2) reached USD 876.5 MM and USD 1,403.9 MM in each case, which represented significant increases of such aggregates of 20.8% and 27.0% [relative to the first quarter of 2022], of 279.6% and 321.3% [relative to the same period of 2021] and of 86.1% and 129.1% in the first half accumulated. A glance at the behavior of both variables during the last quarter allows us to notice how base money as of April begins to show a downward trend with a drop of 6.9% between April and June, differing from the behavior of liquidity which, between April and May, increased 3.5% to then fall 3.9% between May and June.

Such results in the money market seem to be due to the slight rebound in bank financing, the adjustment of the minimum wage and higher fiscal disbursements [payment of salaries and bonuses through the Sistema Patria, mainly]. However, the scope of such adjustments seems to be reduced if we take into account that, on the one hand, the rebound in the exchange markers [due in part to the bolivars previously received and redirected to the purchase of foreign currency] sterilized part of the flow in local currency recorded at the end of the quarter. Likewise, at interbank level, short-term interest rates showed in this quarter maximum values above the thresholds of previous months. This continues to show the difficulties still faced by the domestic market to obtain resources in bolivars, even for strictly transactional use, and an environment affected by the higher costs of the new IGTF.¹¹

Monetary aggregates in USD



Sources: BCV and Ecoanalitica.

¹¹ An outline of the potential consequences of the new tax can be found in our Economic Situation Report No. 12: *Dollarization Study May and June 2022*.

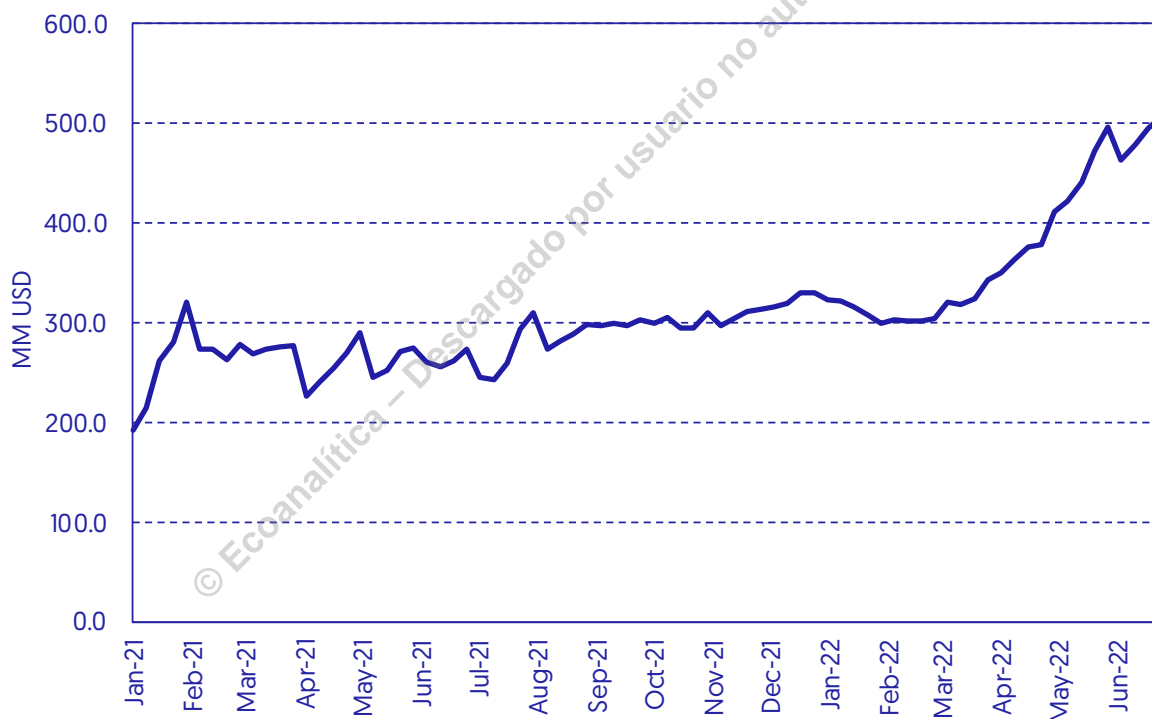


More credits? Not for everyone

After the downward adjustment of the bank reserve requirement last February, and with the improvement in the income of some local players in recent months, an increase of 67.6% in total loans measured in dollars has been observed since last quarter. This represents a notorious change with respect to what was seen in 2021, although in qualitative terms the destination of credit does not show important changes, since it is mostly oriented to commercial purposes and less than 5% of it was directed to consumer loans and credit to domestic manufacturing (figures as of May of this year).

In this sense, the increases reported in recent months are not sufficient for the demand for financing currently required by the Venezuelan productive apparatus. Two figures put this insufficiency in context: on the one hand, domestic bank financing still does not exceed 1.0% of GDP despite recent expansions, nor does it exceed 36.1% of deposits (in local currency) at the end of the quarter, after having reached 65.0% of such deposits in historical terms.

Loan portfolio in USD



Sources: BCV and Ecoanalítica.

When less is more...

Regarding tax revenues, according to the monthly tax collection figures of the National Integrated Customs and Tax Collection Service (SENIAT), in April and May, US\$ 320.68 million and US\$ 347.5 million were collected¹², respectively. This represented a month-on-month drop in real collection of 30.4%, which is (possibly) due to a seasonal effect of the month following Income Tax (ISLR) collection.

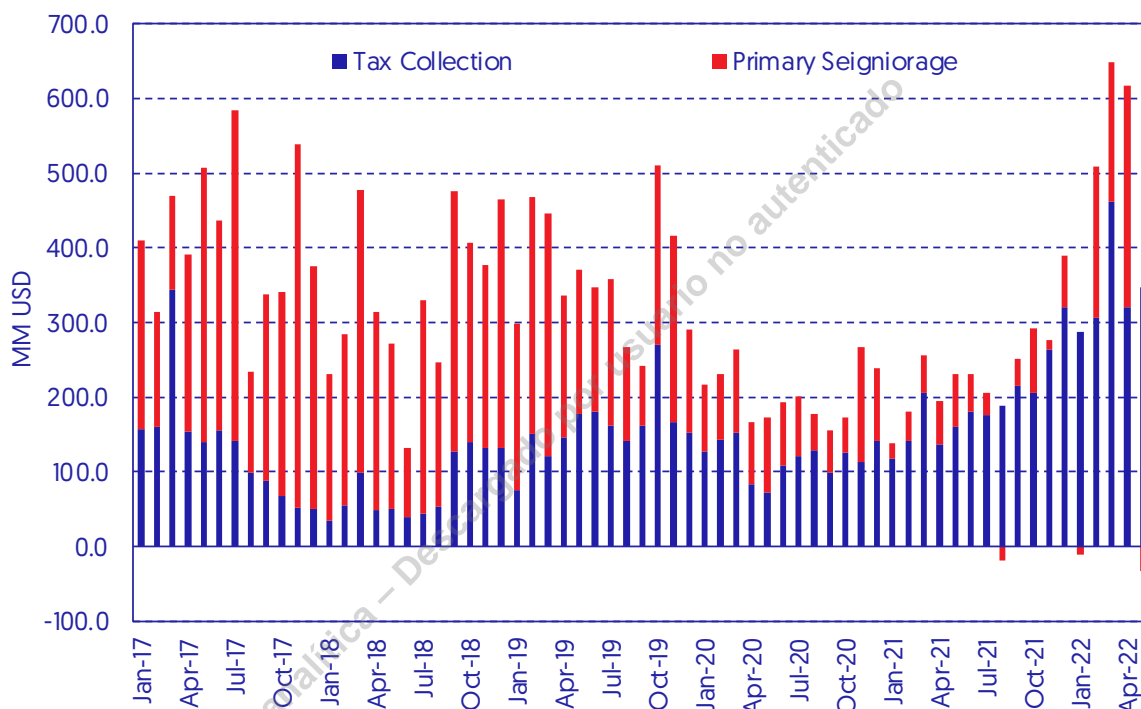
¹² These figures in foreign currency are calculated based on the monthly tax revenues in bolivars published by SENIAT and the monthly weighted exchange rate. With this, an approximation of the actual tax collection is obtained.



Nonetheless, the variation in collection continues to show an upward trend propelled mainly by the real appreciation and improvements in the tax collection scheme¹³ which generated an increase of 12.7% between April and May (in relation to the first two months of 2022) and of 157.2% with respect to the same period of 2021.

At the same time, there is a downward trend in primary seigniorage. In fact, a negative figure was recorded in May, which, given a reduction in the monetary base of 3.3% in that month, is interpreted as money that the public gave to the government through cuts in primary issuance (in the form of lower payments in local currency or the temporary cessation in the payment of indirect bonuses).

Non-oil tax collection and seigniorage (USD)



Sources: Seniat and Ecoanalitica.

In spite of this lower income, the increase in tax collection together with the increase in oil revenues [reported in the section Oil: *The environment to the rescue?*] have partially alleviated the Treasury's coffers. Although there is no extensive official information on the matter, an increase in public spending is perceived in the streets, such as the "Family Economy" bonus in June and the "Carabobo Victory" bonus with amounts of VES 9.20 bolivars [USD 1.67] and VES 21.40 [USD 3.89], respectively. At **Ecoanalitica** we believe that, although there seems to be greater incentives within the Government to partially relax its stance on its own spending, the recovery of revenues via tax collection and the clear improvement in Venezuela's terms of trade could contribute to a reduction in the size of the Government's deficit for this year.

¹³ During the pandemic period, there were negative variations in the real collection of tax revenues due to tax exemptions and the fall in consumption and output. With the reactivation of consumption in the post-pandemic period, tax collection began to increase again in a more voracious manner, which, in addition, was leveraged by a real appreciation of the currency. In addition, the government applied the IGTF.



Prices and exchange rate environment

No matter in which currency, prices are going up

During the first half of 2022, price dynamics in Venezuela continued its general trend of deceleration¹⁴ and recorded a year-on-year inflation of 273.3% at the end of June, which meant a drop of 1535.7 percentage points [pp.] with respect to the same period of 2021¹⁵. The exchange rate rose 20.7% during the first half of the year, which in year-on-year terms was equivalent to 70.7%.

Despite such long-term pace, inflation in Venezuela remains substantially high by regional standards¹⁶, and the rising cost of living is among the main challenges facing firms and households, with the added complexity that such inflationary pressures are not uniform across items or monetary signs.

More than one inflation rate

During the 2017-2020 period the explosive nature of the hyperinflationary episode in Venezuela made traditional inflation measurements in bolivars (VES) lose informative usefulness, with economic agents migrating to foreign currency benchmark anchors and means of payment and thus focusing their attention on the cost of living in foreign currency for their financial planning.

The frictions¹⁷ to adopt mechanisms for the use of foreign currency within the national financial system and the pressures of the Large Financial Transactions Tax (IGTF) foster a bimonetary environment where different inflation rates for different payment channels coexist.

In this sense, inflation in bolivars¹⁸ between the beginning of the year and July 1¹⁹ reached 64.5%, considerably higher than the increase in prices directly fixed in foreign currency²⁰ [26.5%]. In the same period, the real exchange appreciation²¹ grew 34.7%, which converged to the trend marked by prices in foreign currency to the extent that the nominal exchange rate is corrected for its lags²² with respect to other prices within the Venezuelan economy.

¹⁴ Initiated in February 2019.

¹⁵ 1809%

¹⁶ For May/June, the highest inflation rates in the region after Venezuela were in Argentina (64%) and Brazil (11.9%).

¹⁷ Both institutional and practical.

¹⁸ Monitored through the National Consumer Price Index (NCPI).

¹⁹ Calculated from weekly data.

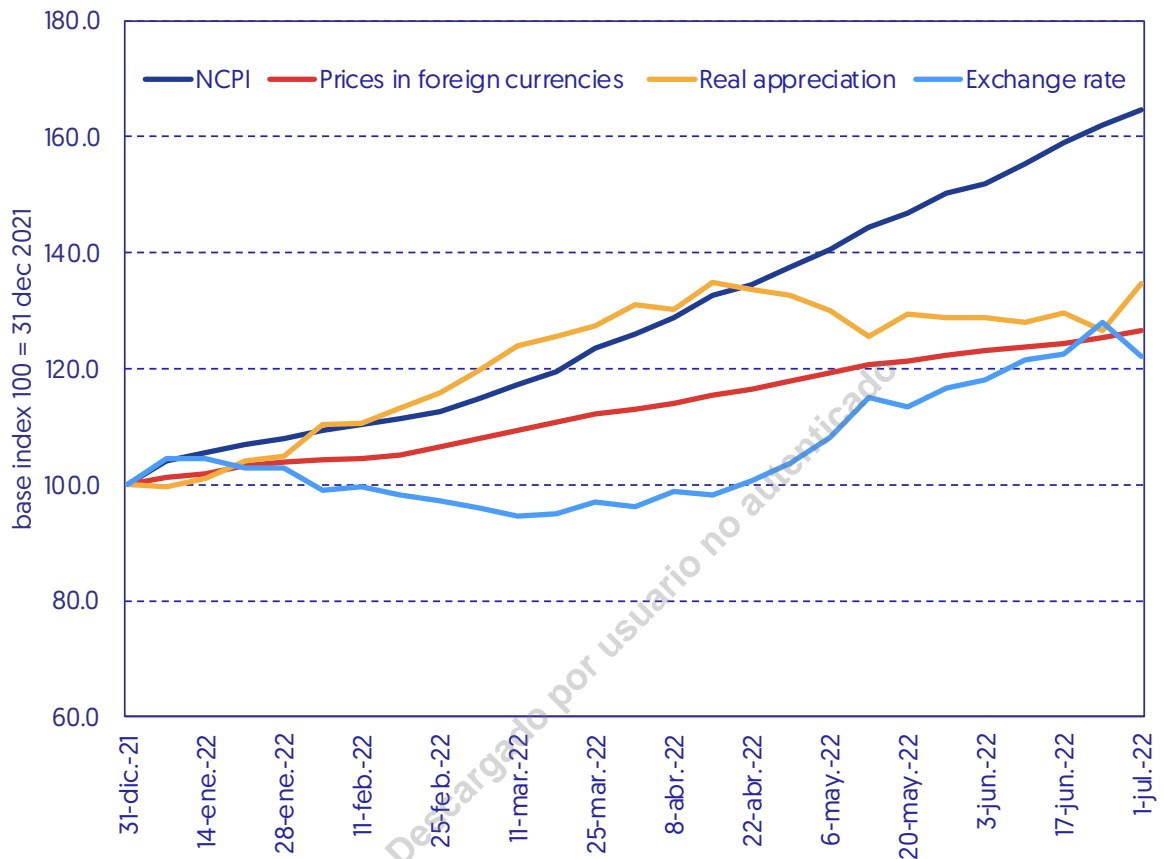
²⁰ For more information on this indicator, please refer to the Economic Situation Report No. 13.

²¹ It approximates the increase in the cost of living in foreign currency by comparing inflation in bolivars with changes in the exchange rate.

²² Frequent given the Central Bank's foreign exchange containment policy.



Cost of living growth (1st half 2022)



Sources: Ecoanalítica.

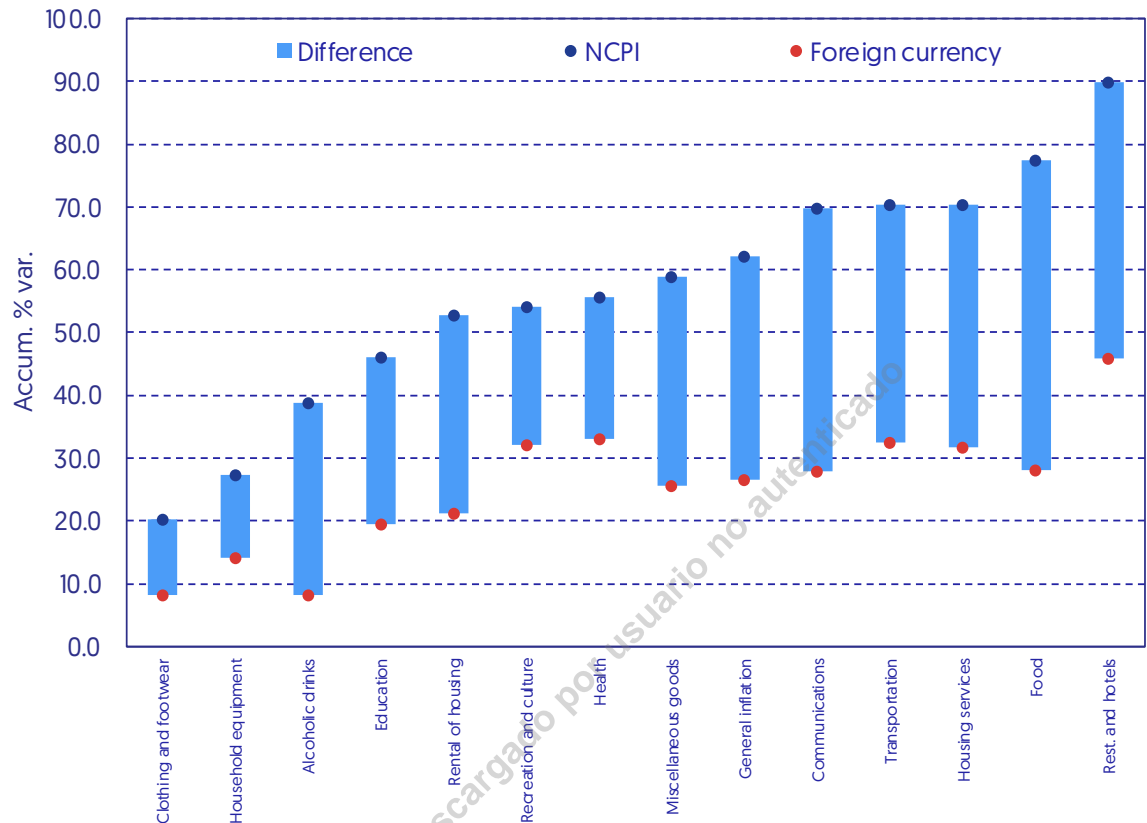
A look by category

As with inflation in bolivars, price increases in foreign currency are heterogeneous in the different categories of items; the highest increase during the first semester corresponds to Restaurants and Hotels (45.8%), Health (33.1%) and Transportation (32.5%), while the lowest inflation was registered by Household Equipment (27.3%), Clothing and footwear (8.3%) and Alcoholic beverages (8.2%); consequently, affecting relative prices.

There are non-trivial differences between the behavior of inflation in bolivars and price movements in foreign currency. Not only because the latter tend to be lower, but also because the order of the items experiencing the largest (smallest) variations is different between currency signs. The existence of asymmetries in the changeover from bolivars to foreign currency beyond the exchange rate.



Cumulative inflation by item (1st semester 2022)



Sources: Ecoanalítica.

Meta below 3 digits?

At Ecoanalítica we estimate a year-on-year price growth of 150.8% for the end of the year, a 38.9 pp. revision below last quarter's projections. Contrasted with a 109.3% growth in the exchange rate, this would point to a 19.8% increase in the cost of living in dollars. In this sense, some important aspects to consider are:

- Currency hedging remains more robust than bolivars in preserving value but is not infallible in the face of upward pressures of a real nature.
- The cost of living in dollars as measured by exchange rate appreciation may be subject to high degrees of volatility to the extent that the exchange rate is retained by the BCV and then undergoes corrections.
- Firms should consider that their "global inflation" may be a combination of different degrees of exposure to price increases differentiated by channel and means of payment.



External sector

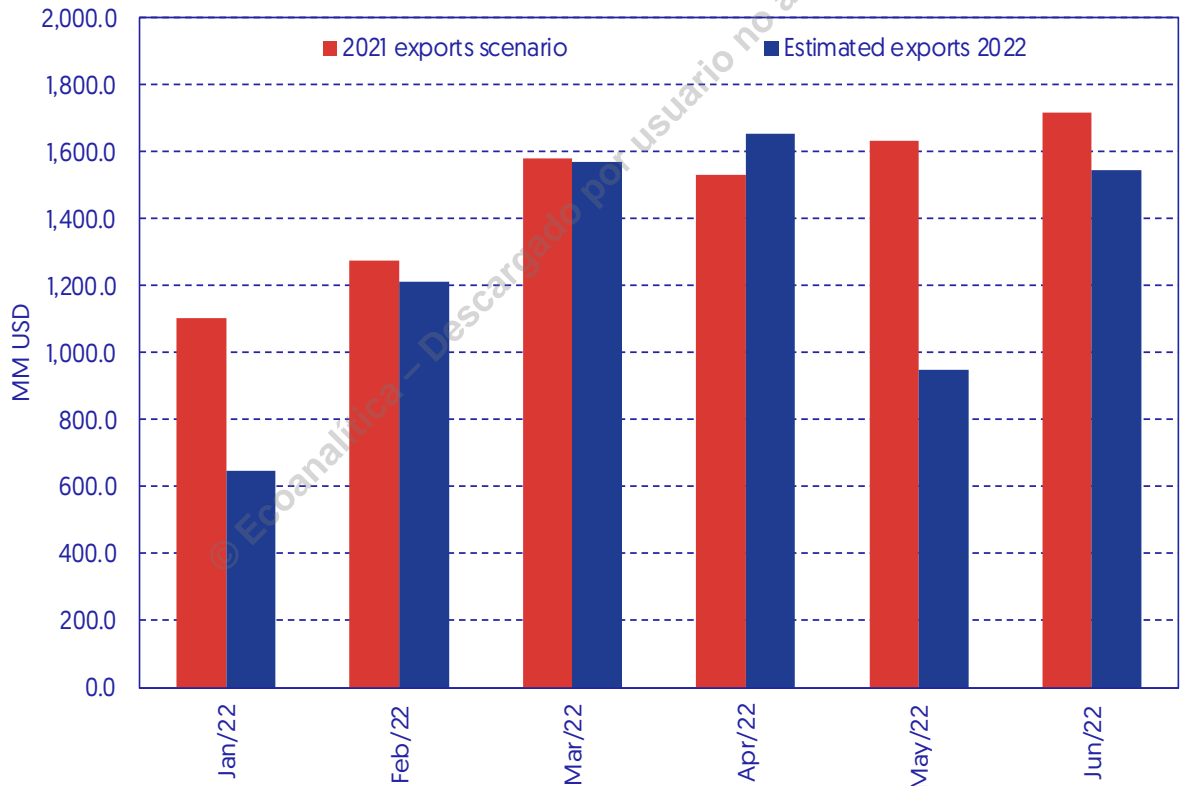
Surplus of circumstance

As we analyzed in our previous report, the expected effects of the geopolitical conflict between Russia and Ukraine on international price indicators and the still ongoing frictions in the global supply chain are still present. In the Venezuelan case, their expected effect was mixed. On the one hand, the new crude oil prices would introduce an important increase in the nation's income for the rest of the year and an adjustment in imports would be expected given an increase in the costs associated with the production and transportation of foreign goods. Even with this, our year-end projection would remain at a current account surplus by the end of 2022.

The expected from the unexpected

During the year, international reference crude oil prices have been above USD 100/bl for the first time since 2014, raising the discounted prices at which the Venezuelan industry trades; however, as we reviewed in our section *Oil sector: The environment to the rescue?* However, as we have already reviewed in our section *Oil sector: The environment to the rescue*, this price increase could not be fully exploited during the quarter due to the difficulties faced by the industry in marketing.

Comparison of crude oil export scenarios



Sources: OPEC, Refinitiv Eikon and Ecoanalítica.

To exemplify the lost opportunity, if crude oil exports for the first half of 2022 had been as we projected at the beginning of the year, with these observed prices, oil revenues would have been 16.6% higher than those estimated with observed exports. It would be expected that, for the rest of the year, Venezuelan crude oil exports will be less volatile and take advantage of the context of high international prices that will be maintained in the short term. *A priori*, crude oil production levels have not suffered a major impact in the first six months of the year due to the interruptions in its exports,



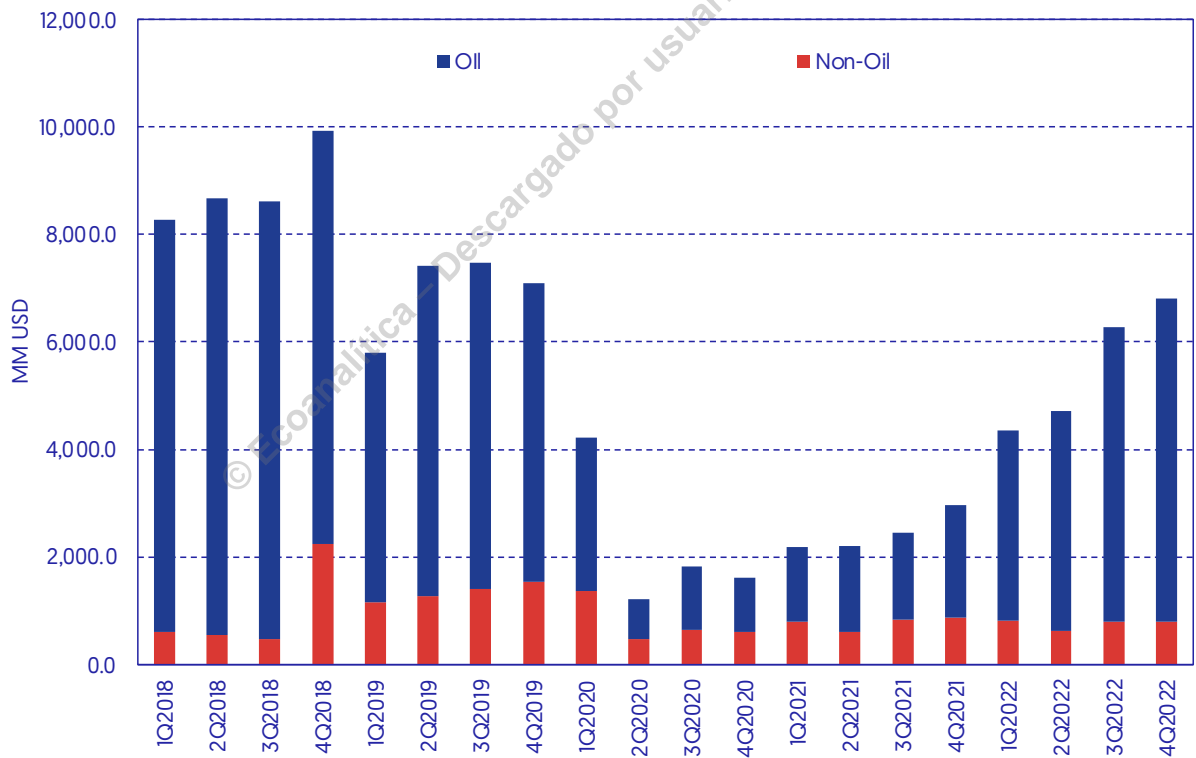
so it would be expected that the price incentive would be sufficient to maintain stable sales during the rest of 2022.

Slight window of opportunity.

On the other hand, the outlook for non-oil exports does not present major changes with respect to 2021. Figures from UN COMTRADE for the first quarter of 2022 reveal indications of how such sales will behave for the rest of the year. According to the data, non-oil exports figures remained at a similar level to the first quarter of 2021, but there are changes in their composition with respect to the total observed the previous year.

Thus, the weight of exports of "Steel and iron" would present the greatest increase to represent close to the total observed in this first quarter, but the evolution in items such as "Fish and crustaceans, including their preparations", "Fertilizers" and "Coffee, tea and spices" would also stand out. These preliminary figures reinforce the point we have made in other reports about the opportunity the country has to diversify its exports²³. In this regard, the president of AVEX, Ramón Goyo, recently stated that the private sector is in a process of "reactivation" of its export facet and that several sectors are, to different extents, optimizing their supply chains to achieve an attractive exportable offer.

Evolution of Exports



Sources: UNComtrade, IMF, OPEC and Ecoanalítica.

However, the current global context of high external prices, restrictive policies and the possibility of a global recession could set back the private sector's intentions to

²³ For a more detailed review, please refer to our Economic Report No. 5: *Trade with the World: A Tale of Collapse, Sanctions and War.*



make these investments. In this scenario, we foresee non-oil exports that, although far from their 2019 level, will remain at a similar level to those of 2021.

On the other hand, in the aforementioned database, the figure for imports in March stood out. In that month, purchases of imported goods were 40.1% higher than in the previous month and 93.4% higher than in 2021, even when the first effects of the war conflict were already present. Given the relative importance of "Cereals" within the total, it could be expected that the value of imports would not be significantly reduced even with the increase in international costs. However, since the private sector is the main importing sector in the country, its capacity to keep its foreign purchases high will depend on the impact on its costs of the trade frictions still in force and the expected increase in the price of inputs and finished goods from abroad.

A glass bead.

In the current international scenario, **Ecoanalítica** expects a current account surplus of USD 3.72 billion by 2022²⁴. However, much of this scenario will depend on the oil industry's ability to capitalize on high crude oil prices. In our scenario of average exports of 620 kb/d by 2022, we forecast oil revenues of USD 18.87 billion, complemented by non-oil revenues in the order of USD 3.03 billion.

Foreign currency flow

Item (Billion USD)	2021	1Q2022	2Q2022	3Q2022	4Q2022	2022
Income						
Net Oil Income	6.7	3.5	4.1	5.5	6.0	18.9
Non-Oil Income	3.1	0.8	0.6	0.8	0.8	3.0
Total Income	9.8	4.4	4.7	6.3	6.8	21.9
Expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Oil imports	-1.1	-0.6	-0.9	-1.2	-1.3	-4.1
Other imports ²	-7.7	-1.7	-1.8	-1.9	-1.7	-7.2
Net Services	-3.7	-1.6	-1.4	-1.3	-1.6	-6.0
Net Rents	-1.4	-0.6	-0.6	-0.6	-0.6	-2.3
Current Transfers	1.9	0.6	0.6	0.6	0.6	2.5
External Debt Service	0.0	0.0	0.0	0.0	0.0	0.0
Net Capital Outflows	-1.2	-0.3	-0.3	-0.3	-0.3	-1.2
Total Expenditure	-13.2	-4.2	-4.4	-4.7	-4.9	-18.2
Balance	-3.4	0.2	0.3	1.6	1.9	3.7
Financing (MM USD)	0.0	0.0	0.0	0.0	0.0	0.0
Net Flow with China	0.0	0.0	0.0	0.0	0.0	0.0
Net Flow with Russia (Rosneft)	0.0	0.0	0.0	0.0	0.0	0.0
Net Balance	-3.4	0.2	0.3	1.6	1.9	3.7

¹ Includes non-oil imports and other oil imports.
Sources: BCV, Menpet, Pdvsa and Ecoanalítica.

In the case of total imports, we project a value for 2022 of USD 11,256 million, which represents an increase of 29.7% above the estimated level for 2021. Although the

²⁴ In addition to the high crude oil price scenario, this upward adjustment to the foreign exchange surplus is also driven by an adjustment in our methodology for calculating the income balance.



increase in the indicator may be striking, it should be noted that this would be due to the behavior of oil imports which, under the international scenario of high prices, would rise in 2022 to USD 4,072 million [+285.2% with respect to the value for 2021], leaving oil imports at USD 7,184 million [-7.2%].

Although the surplus of foreign currency inflows seems high compared to our estimates for the first quarter [surplus of USD 900 million] and the estimated gap for 2021 [deficit of USD 3,398 million], we must reiterate that this year's behavior will be marked by the historical circumstance of international crude oil prices. At the same time, according to our projected scenario, most of this net inflow of foreign currency would be observed in the second half of the year, so the margin of maneuver²⁵ that the Executive could count on is still not significantly large²⁶ nor has it ceased to rely on the development of its oil industry in the short term.

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²⁵ If our foreign currency inflow projection is met, it would be 1.8 times the estimated off-budget resources in December 2021.

²⁶ As a point of comparison, in 2019 there was a surplus in the flow of foreign exchange of USD 6.53 billion [discounting debt payments to China and Russia that year].



Conclusion

A fragile balance

The Venezuelan market continues to be exposed to tensions, which adds fragility to the local economy's recovery from previous years. Despite the relative stability in domestic activity and prices, both trade with other countries and local inflation are still sensitive to what is happening in global markets. Venezuela is still not taking advantage of the boom in high oil prices, because the operational deficiencies of PDVSA, the sanctions and the financial restrictions currently faced by Russia continue to hinder a greater recovery of the country. Nevertheless, at **Ecoanalítica** we forecast that the Government will have a total of USD 18,870 MM in oil revenues by the end of the year, which will allow it to close its external position in blue numbers.

Non-oil activity seems to enjoy better conditions on the demand side, although the volatility of domestic prices, an ever-increasing cost in dollars and an inefficient domestic payment ecosystem will continue to work against it. This sector will not be unaffected by what continues to happen in the international context, as its imports (and their freight) continue to increase their costs. In this regard, even though the slowdown in domestic inflation and exchange rate stability is expected to persist, local prices will continue to show greater variability, and although Venezuelan households have improved their incomes compared to previous months, informality still serves as the main source of such income, adding instability to their recovery.

At **Ecoanalítica**, we update our forecasts for the recovery of the local economy. We estimate that the local market will grow 9.7% this year, with private consumption and imports (of goods and services) expanding by at least 6.9% and 18.6% in each case. Domestic prices are also expected to grow by 150.8% at year-end, with an unofficial exchange rate of no more than VES 9.53/USD. With the cost distortions still faced by local companies and the high demand for certain items, the cost of living in dollars in Venezuela is expected to rise (in annual terms) by at least 19,8% by the end of 2022, based on the real variation of the exchange rate estimated for that period. In the face of this, appreciation, internal competition, and the size of the domestic market, as well as the lack of credit and external factors, will continue to be key for the business and its costs.

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Table of Projections

Variables	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)	2024 (*)	2025 (*)
Output indicators (Annual changes on %) ^{1/}							
Gross Domestic Product (GDP)	-39.8	-31.4	0.9	9.7	4.9	3.9	3.1
Domestic Aggregate Demand	-39.8	-20.3	-8.2	10.9	5.1	3.4	2.2
Total Consumption	-38.2	-22.2	-4.1	6.9	5.5	3.6	2.1
Public consumption	-25.0	-24.8	-5.2	5.2	8.2	3.3	1.6
Private consumption	-43.1	-20.8	-3.6	7.7	4.3	3.7	2.3
Gross fixed capital formation	-36.0	-32.2	-3.0	3.0	2.3	0.8	-0.1
Public gross capital formation	-32.5	-35.4	-5.8	3.2	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	13.4	16.8	9.6	2.9
Oil exports	-25.9	-46.7	2.1	7.1	22.4	13.7	-0.4
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	18.6	14.4	5.9	-2.4
Imports of goods	-22.8	12.2	-38.0	16.0	15.3	5.2	-2.5
Imports of services	-22.9	-29.1	-14.6	28.2	11.3	8.3	-2.0
Real results by sectors (Annual changes on %) ^{1/}							
Per capita GDP	-40.5	-32.1	-0.1	8.6	3.9	2.3	1.5
Oil GDP	-19.9	-34.5	2.8	8.1	6.3	8.6	3.4
Non-Oil GDP	-42.6	-28.3	0.5	10.3	4.9	3.2	3.1
Prices indicators (Annual changes on %)							
NCPI-based inflation, eop (2007 = 100)	9,584	2,961.0	686.9	150.8	91.3	87.7	83.5
NCPI-based inflation, aop (2007 = 100)	19,906	2,354.8	1,589.5	269.0	114.2	92.7	86.1
CPI-based inflation, eop (2007 = 100)	10,095	2,929.1	672.2	185.1	114.9	97.2	92.5
CPI-based inflation, aop (2007 = 100)	20,026	2,375.8	1,613.1	330.3	139.1	99.0	92.0
WPI-based inflation, eop (2007 = 100)	8,253	1,667.4	802.0	139.7	81.6	78.4	74.6
WPI-based inflation, aop (2007 = 100)	17,490	1,714.1	933.0	284.8	106.3	86.3	80.2
Official exchange rate, eop [VES/USD] ^{2/}	0.05	1.09	4.59	9.33	17.90	33.99	62.94
Official exchange rate, aop [VES/USD] ^{2/}	0.02	0.37	3.39	6.06	13.01	26.62	49.67
Non-Official exchange rate, eop [VES/USD] ^{2/}	0.06	1.07	4.55	9.53	18.29	34.72	64.29
Non-Official exchange rate, aop [VES/USD] ^{2/}	0.02	0.37	3.47	6.19	13.28	27.19	50.73

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

^{2/} Adjusted by monetary reversion.

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

Source: BCV and Ecoanalitica.



Variables	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)	2024 (*)	2025 (*)
Money market (Annual changes on %)							
Monetary aggregates							
Money Base (BM)	7,172	1,232.0	397.9	262.2	87.0	86.0	82.7
Money (M1)	4,951	1,287.1	635.2	196.6	78.4	81.9	75.1
Broad money (M2)	4,946	1,286.8	635.2	239.1	90.2	87.9	81.0
Monetary multiplier (M2/BM)	1.28	1.34	1.97	1.88	1.91	1.93	1.89
Interest rates (levels, %)							
Bank lending rate (average)	29.3	33.0	43.3	49.9	30.9	27.8	24.4
Time- deposit rate (average)	30.6	52.9	43.7	44.9	26.9	23.8	19.4
External sector (Annual changes on %)							
Balance of payments							
Export of goods (USD MM)	27,804	8,978	9,381	22,018	24,854	27,148	28,047
Export of goods	-17.4	-67.7	4.5	134.7	12.9	9.2	3.3
Oil exports (USD MM)	22,405	5,795	6,715	18,928	21,383	23,463	24,215
Oil exports	-24.8	-74.1	15.9	181.9	13.0	9.7	3.2
Total imports (USD MM)	7,955	9,013	8,699	11,885	13,701	14,825	14,999
Total imports	-37.8	13.3	-3.5	36.6	15.3	8.2	1.2
Trade balance (USD MM)	19,849	-34	682	10,133	11,153	12,322	13,048
Services balance (USD MM)	-6,305	-3,706	-3,652	-5,971	-4,801	-5,263	-5,502
Rents and transfers (USD MM)	-3,805	-20	407	47	-39	-1,561	-2,562
Current account balance (USD MM)	9,739	-3,760	-2,563	4,209	6,313	5,499	4,984
Capital and financial balance (USD MM)	-7,500	5,633	1,942	-3,528	-3,818	-3,748	-1,391
Balancing item (USD MM)	-4,197	-975	-1,154	-1,162	-1,845	-1,845	-1,938
BOP balance (USD MM)	-1,958	898	-1,677	-480	650	-95	1,655
Gross International Reserves (USD MM) ^{1/}	6,627	6,337	5,879	5,408	6,048	5,953	7,608
Operative International Reserves (USD MM) ^{1/}	1,787	1,232	1,264	1,193	2,333	2,238	3,893
Oil sector							
Oil crude production (PDVSA's definition, mb/d)	1,023	558	632	757	892	1,013	1,020
Average local oil basket price (USD/b), without discount	57.0	33.2	50.0	78.7	79.1	78.4	79.2
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	11,464	12,491	12,864	13,217
Labour							
Unemployment (% of labor force)	27.3	45.7	38.0	32.4	29.0	27.3	25.9
Minimum wage (VES) ^{2/}	0.15	1.10	10.00	265.00	465.000	675.000	875.000
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
Source: BCV and Ecoanalítica.



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	5.4	4.8	5.4	2.8
Minig	-22.1	-17.7	2.1	5.3	4.2	1.6	-0.4
Manufacturing	-48.5	-34.9	-3.4	9.4	3.3	2.6	3.7
Construction	-38.0	-31.6	1.8	7.1	4.5	0.5	-0.7
Water and electricity	-36.1	-38.7	-2.7	3.5	1.5	2.4	2.5
Commercial sector and remediation services	-47.5	-40.1	1.4	15.0	5.3	6.8	4.3
Transport and storage	-59.8	-34.1	-1.2	4.9	4.5	1.3	0.8
Communications	-37.2	-17.3	-0.7	5.6	5.8	1.9	1.8
Financial institutions and insurance companies	-51.1	-44.5	-3.0	6.2	9.2	3.5	1.8
Government services	-40.6	-40.3	-6.9	5.0	5.1	2.8	2.3
Other services	-69.1	-5.3	-2.2	9.0	4.3	6.7	4.7
Non-oil goods	-37.6	-32.4	-1.1	6.6	3.7	3.4	2.7
Non-oil services	-44.1	-27.0	1.0	11.4	5.2	3.1	3.2

*1/ All data refer to eop figures (in real terms, 1997 prices). Otherwise, it will be indicate.
 (*) Forecasts. Additional projections are available upon request to atencionalcliente@ecoanalitica.net, or to luisb@ecoanalitica.net
 Source: BCV and Ecoanalítica.*





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