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Perspective Report

Reaching the limit?

October 2022

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Content

Introduction
C'est fini?

As the end of 2022 approaches, the Venezuelan economy seems to face new challenges that could question its capacity to maintain in the coming years a level of recovery similar to that observed between 2021 and the first half of this year. After overcoming the adverse effects of the pandemic, recent exchange rate and price developments show that the Venezuelan market is still under a fragile balance between fiscal and external restrictions, institutional vulnerability, relative exchange rate stability and the interest of regulators to revive the bolivar as a valuable asset for Venezuelans.

At this point, oil activity (as the main generator of foreign currency for the country) continues to be key to maintain such balance. Venezuelan crude oil production is still below pre-pandemic thresholds, with an industry still plagued by operational failures, irregularities in the supply of inputs by Iran and by a major competitor (due to the sanctions) in the Asian market: Russia. Likewise, the value of Venezuelan oil seems to have resumed the downward trend of previous months, since global markers seem to have overcome the overadjustment to the Russia-Ukraine conflict and began to fall below what was seen at the end of the last quarter. At **Ecoanalítica**, we estimate that with an oil basket that will be around USD/b 76.5, the nation will have received close to USD 16.5 billion from oil exports by the end of this year. This flow would be partly affected by the financial consequences of the international geopolitical context, and by a discount in the market value of oil in the face of financial sanctions that are still ongoing.

In spite of this, higher oil revenues will keep the country in blue numbers externally, with imports totaling around USD 12.1 billion at year-end (39.0% above 2021), favored by recent reductions in freight costs and lower bottlenecks in post-pandemic global trade activity. In fact, the Government has managed to increase its availability of resources held in the international financial system, outside its traditional finances, where public extra-budgetary funds increased from USD 2.1 billion to USD 4.5 billion between January and September of this year.

Non-oil activity continued to perform well. Sectors such as food, professional services and technology have maintained a pace of recovery similar to that seen in previous months, although sectors such as personal care, logistics and health still seem to be affected by a volatile price environment, the precariousness of public services, lack of financing and constantly changing consumption patterns. With this reactivation, State revenues via taxes (measured in dollars) have risen between January and August above what was seen in the whole of 2021. This, together with the greater resources provided by the oil activity and with a less unstable inflation, allowed the Executive to temporarily relax its spending restrictions, through the payment of extraordinary bonuses and advance of profits in the last months, amid pressures from employees of the sector for better salary conditions. With its credibility still undermined, the effect of such actions on domestic pricing was not long in coming.

Precisely, after a period of relative stability, domestic prices resumed their double-digit monthly growth rate between August and September, affected by the unanticipated increase in the circulation of bolivars associated with such public sector disbursements. This, together with a late response from the BCV in exchange rate matters -due to the limited availability of foreign currency- caused the rebound in the exchange markers (official and unofficial), which at the end of the third quarter were 72.9% above the closing level of 2021 (own estimates), in addition to raising market uncertainty regarding the expected value of the exchange rate in the coming months.

Even with the greater adjustment of the nominal exchange rate, the cost of living in dollars in the country has maintained its upward trend, accumulating an increase of 33.6% so far this year. Likewise, in spite of the Executive's interest in remonetizing the local money market and the fact that the weight of foreign currency in the local means of payment has decreased, the internal transactional dollarization continues to be notorious and decisive in the setting of domestic prices and in the exchange rate stability. To date, the total amount of bolivars in circulation continues to represent one third of the amount of cash dollars reported. This continues to be reinforced by the official credit stance, where bank loans still do not exceed USD 609.2 million and represent less than 22.2% of its total deposits.

At **Ecoanalítica,** we maintain our view of an expansion of the Venezuelan economy below 10% (on a year-on-year basis) by the end of this year, in which oil production is expected to remain below 750 kbd in the coming months (in line with our initial estimates) and a non-oil environment still limited by the absence of credit and inflationary dynamics. Along with this, we expect annual inflation to be above 200% (based on our own estimates) by the end of 2022, with an exchange rate that will trade between VES/USD 10.7 and VES/USD 12.5, affected by what happens in fiscal matters at the end of the year and by the regulator's interest in allowing a further rise in the exchange rate, which will slow down its real appreciation.

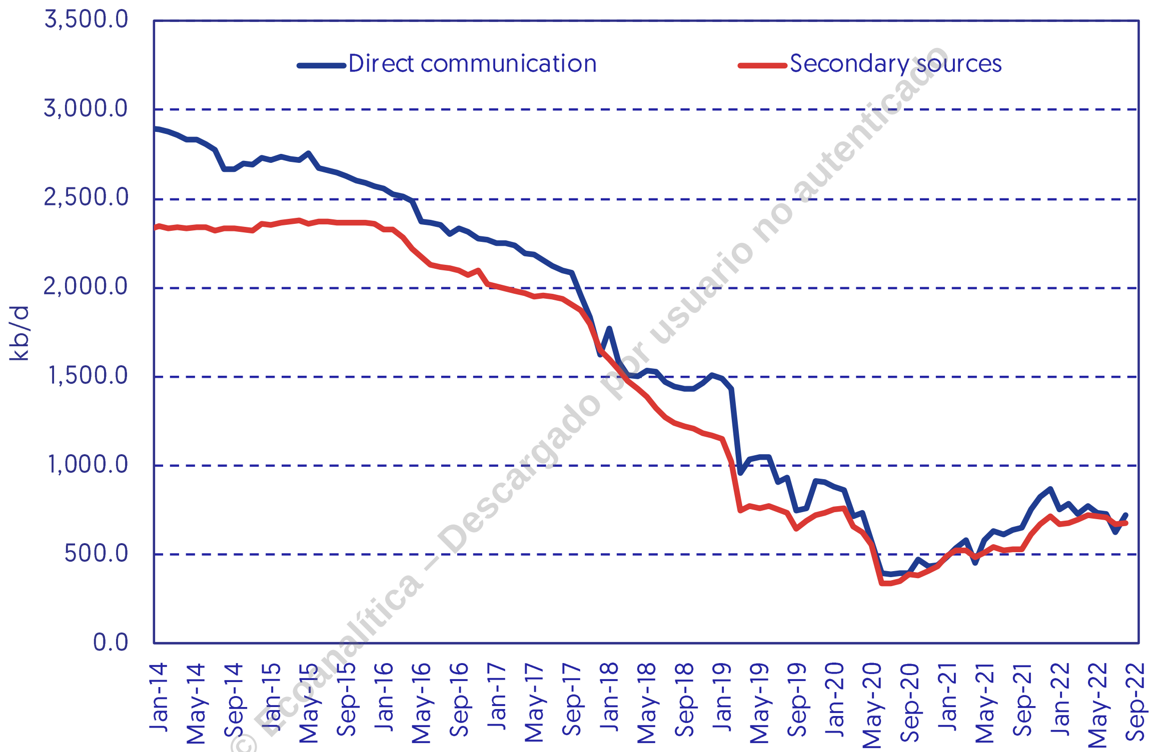
The outlook for 2023 is optimistic, but limited. Considering that the regulator's main goal will continue to be domestic price stability, the incentives to make its spending less procyclical to oil dynamics or to limit financing in local currency may not change. On the other hand, a critical element for public finances and domestic price stability will come from what happens in the international area during 2023. In this sense, the new OPEC+ agreements on production, as well as the US position regarding sanctions against the country and Russia, the scope of the internal political conflict (highlighting the end of the interim in January), in addition to the possible global recession during 2023, will be elements that will condition the inflow of resources to the country.

Therefore, if the limitations on private business in terms of dollarization and financing operations persist, the Venezuelan economy will not show the same level of recovery seen in the last year in 2023. Likewise, it is expected that the environment of volatile prices and higher cost of goods in dollars will remain for that period, affected not only by its inertial nature, but also by the difficulties faced by the Government in fiscal matters. This price scenario will continue to be one of the main challenges to be overcome by Venezuelan private enterprise in the coming months.

Oil Sector
Instead of a big leap, a jump

By the close of the third quarter of 2022, monthly oil production stood at 666 kb/d according to information provided by PDVSA to OPEC, reaching an average of 725.1 kb/d[1] so far this year; which constitutes an increase of 16 kb/d (or 2.5%) with respect to the close of the third half of 2021 and 150.4 kb/d in relation to the average of that same year.

Oil production



Sources: OPEC and Ecoanalitica.

Production has recovered to levels similar to those of March-April 2020, largely due to the strengthening of activities in the Orinoco Belt. However, the production ceiling remains relatively low due to limited inventories of light crude for blending, mechanical failures in the upgrading complexes, and persistent power and gas service interruptions[2].

[1] According to OPEC secondary sources, this average would stand at 687.1 kb/d.
[2] In July, power outages and a pipeline explosion at the Jose Terminal Complex and blending facilities forced the closure of heavy crude upgraders.

One of the most important elements in this productive dynamic is the intermittent arrival of cargoes of inputs and diluents from Iran under a *swap* scheme[3], which in September averaged 130 kb/d of crude oil and 66.7 kb/d of condensates, delivered with the purpose of feeding local refineries for the production of automotive fuel and freeing Venezuelan crude oil for export.

The Persian connection

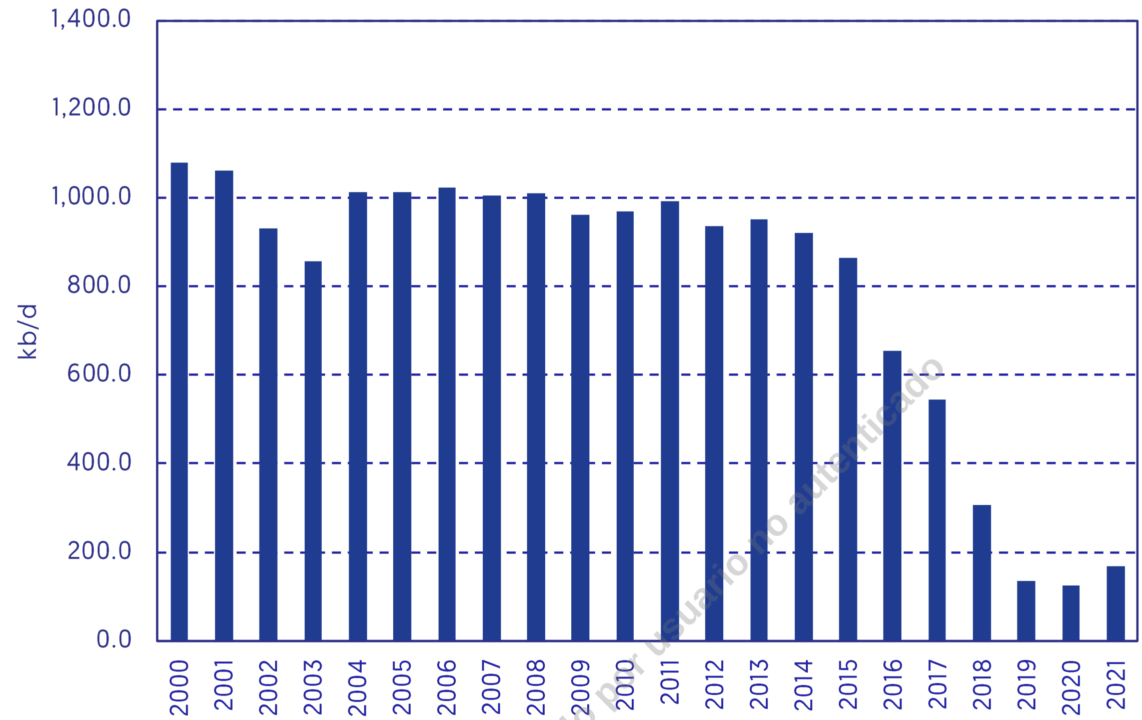
To a large extent, Iranian cooperation has been focused on the refurbishment of refineries in Venezuelan territory, with Iranian entities starting work in May to renovate the Paraguaná complex (970 kb/d), in addition to work contracts obtained by the state-owned NIORDC[4] to work in El Palito (140 kb/d); with agreements for the construction of an Iranian refinery in Venezuelan territory[5].

Despite the Iranian technical assistance, the complexes continue to be plagued by operational interruptions, including during the third quarter the suspension of gasoline refining at Cardón for almost two months[6]; due to unplanned maintenance in one of the naphtha reformers, an electrical outage at Amuay in July, and fires at the Puerto la Cruz complex in September.

By 2020, Venezuelan refining activity[7] fell to its historical minimum, being estimated around an annual average of 123.4 kb/d, rising slightly to 168.7 kb/d in 2021, which keeps it considerably far from a nominal installed capacity of 1,300 kb/d[8]. By the end of the third quarter, the combined effective refining of the Amuay, Cardón, Puerto La Cruz and El Palito refineries reached 140 kb/d of gasoline and 80 kb/d of diesel.

[3] More details of these operations can be found in the External section "*Balance neither good nor terrible*".
[4] National Iranian Oil and Distribution Company.
[5] Preliminary contract details were disclosed by the Iranian legislature for the first offshore facilities in Uruguay and Venezuela. Information on refining capacity of the complex or estimated construction time has not yet been released.
[6] Between June 29 and August 22.
[7] Measured by *throughput* or the amount of crude oil and condensate that a refinery processes or transforms under normal conditions, which may differ from the actual refined product *output* due to process losses.
[8] Disinvestment and depreciation of equipment makes it likely that the effective existing capacity at these complexes, even in a full recovery scenario, will be structurally lower than the levels of installed capacity that existed when the complexes came online.

Oil refining (throughput)



Sources: bp Statistical Review of World Energy 2022 and Ecoanalitica.

One million [barrels] is a long way off.

At **Ecoanalítica** we believe that in the short term there will be no substantial changes in the status-quo of the oil environment, either in logistical or institutional conditions, that will translate into significant variations in oil production, which we have placed at 735 kb/d by the end of the year. We believe that, for sector observers, some of the most determinant points to consider in the 4th quarter include:

- The Executive has shown interest in making an offer in the stock market with shares of joint ventures in which PDVSA currently has majority capital, emulating the public offer of CANTV. The schedule for such offering has not been defined, but it remains on the sidelines as an alternative for attracting private capital to the sector, in a scenario without further modification to the Organic Hydrocarbons Law.

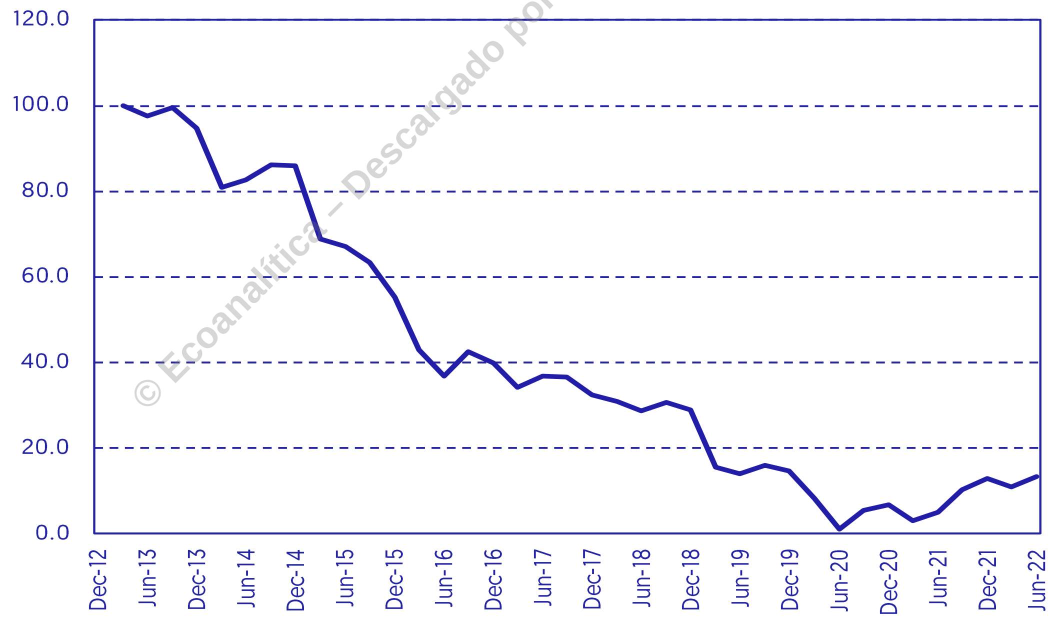
- No abrupt changes in the sanctions regime on the Venezuelan oil industry are anticipated, and if they occur, the immediate effect on Venezuelan production capacity would be gradual in materializing and depending on the extent to which foreign firms are allowed to participate; with operating restrictions to increase production above 800 kb/d in the medium term without substantial investments.

Real Environment
The sky is (not) the limit

The real non-oil sector in Venezuela has been favored by the rebound in domestic spending, once the most critical phases of the pandemic have been overcome. The commercial sector has probably been the area most favored by higher consumption, in which sectors such as food, professional services and technology continue to show a greater recovery, contrasting with areas such as personal care, logistics and health which have slowed their growth pace. In this sense, the new price framework reported since mid-year, in an environment where the lack of bank financing continues to be key both for consumption and for the replenishment of the sector's inventory, have ended up slowing part of the greater boom in these areas.

In spite of this, in the overall, the domestic market seems to be robust. On the one hand, **Ecoanalítica's** activity index, which summarizes the patterns of the real economy in a single dimension[9], shows an improvement in the second quarter of 2022, standing at 13.5, 8.4 points above the level estimated in the same period of the previous year. This is explained by an improvement in external sector conditions, thanks to a slight increase in exports and imports, accompanied by a rebound in private consumption and an increase in local supply.

Activity indicator

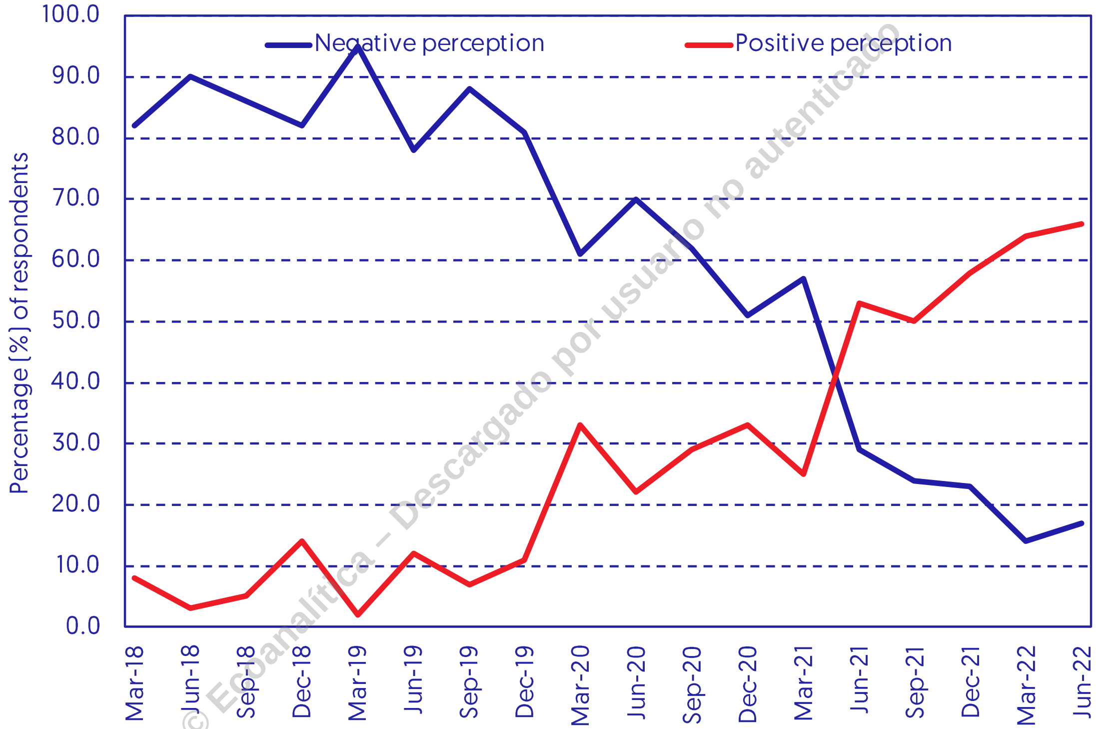


Sources: Ecoanalitica.

[9] To construct the index, a principal components analysis was performed, which is a statistical process that allows multiple variables to be summarized into a smaller set of "indexes", called principal components, which makes it easier to visualize and analyze the original set of data. The group of variables considered is composed of figures reported by Conindustria, financial variables, external flow amounts, tax collection data and search figures published by Google. For more information, please refer to the Economic Situation Report N°11 (2022) "*Mirage or oasis: recontextualizing the economic recovery*".

On the other hand, even though the appreciation of the exchange rate continues to reduce competition to local production, the domestic generation of goods continues to enjoy good results. According to Conindustria's measurements for the first half of this year, the private manufacturing sector's view of its production levels (with respect to 2021) is more optimistic than what was revealed at the beginning of the year, while maintaining an upward trend in the level of operating capacity. However, the sector has not yet overcome the difficulties associated with the low cost of imports, the current tax system and the lack of financing, which are the main aspects limiting the production of local goods.

Perception of production



Sources: Conindustria and Ecoanalitica.

Googling the demand

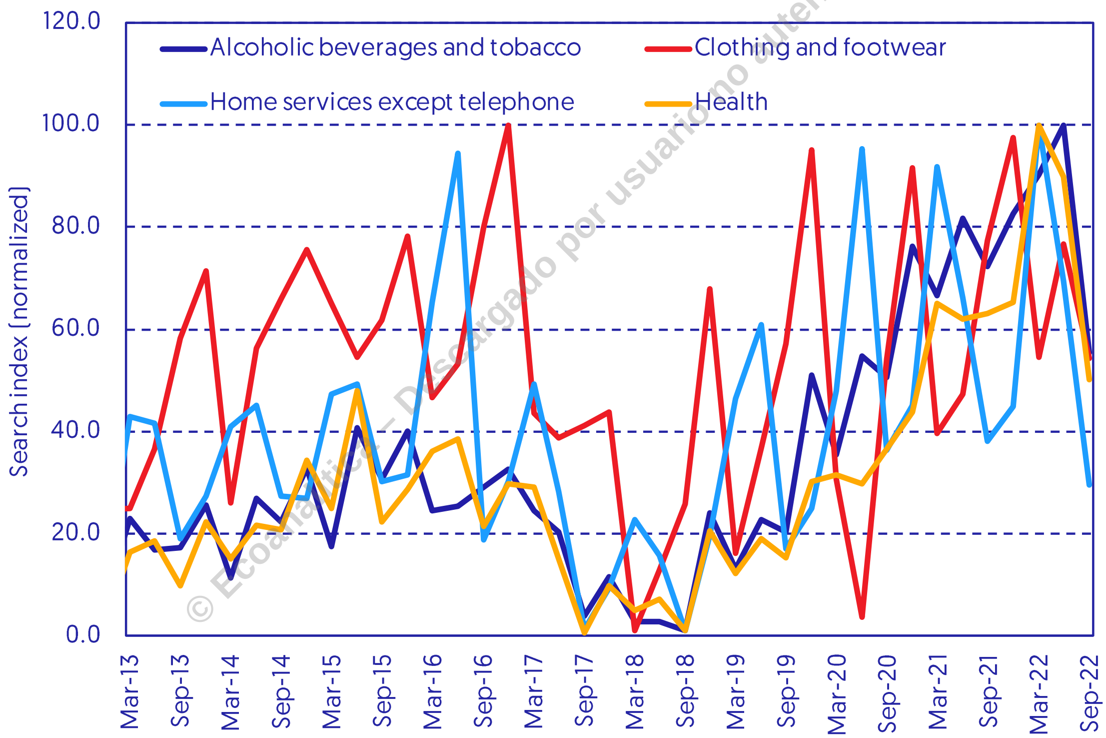
On the demand side, using Google searches to observe the dynamics of private spending in Venezuela[10], it is possible to validate the recovery of private consumption in 2022, although still with limitations. The aggregate index of searches accumulates an expansion of 5.4% since the beginning of the year, where "Health", "Housing rental" and "Housing services, except telephone" have

[10] At **Ecoanalítica**, we use a synthetic indicator of local activity based on the popularity of internet searches conducted in Venezuela through the Google search engine between 2012 and 2022, where a higher index implies a higher level of demand. For more details, please refer to our report Googleando la economía: Búsquedas de internet como métrica de mercado (Googling the economy: Internet searches as a market metric).

been the items with the highest growth, with expansions of 26.7%, 12.0% and 10.5% respectively. However, groups of goods such as "Clothing and footwear" and "Alcoholic beverages and tobacco" maintain a certain lag, reflecting lower private spending relative to 2021. Given the price framework in the same period, it is likely that Venezuelans' consumption decisions will still be affected by the distortion of domestic prices (despite their deceleration), in the midst of still scarce credit.

Additionally, it is worth noting that categories such as "Clothing and footwear", "Alcoholic beverages and tobacco" and "Household services, except telephone" show a clear seasonality. Under this pattern, we foresee that the sectors that trade these types of items will see a rebound in the last quarter of the year, mainly driven by private spending during the Christmas period.

Google search index by category



Note: The indexes were normalized from the simple sum of the search terms for each item, where the highest value equals 100 and the lowest value equals one.
Sources: Google and Ecoanalitica.

Due to the nature of the search platform, the method used to observe demand patterns also seems to contain other information processes, such as digitization of the economy and economic expectations (uncertainty). In that sense, the indicator also reflects the general increase of digitalization throughout 2022, particularly in items such as "Food and non-alcoholic beverages", "Alcoholic beverages and tobacco" and "Housing rental", while uncertainty levels have been slightly reduced, compared to previous years.

Turbulence on take-off.

The outlook for the Venezuelan real environment remains positive, but cautious. Although the pandemic left room for the recovery of domestic activity, it continues to be affected by price dynamics and exchange rate appreciation, in addition to operational aspects such as the collapse of public services, the cost of the current tax framework, the weight of the illicit economy and informality, among others. Likewise, the management of the public sector in terms of dollarization and credit, together with the inability of companies to establish a wage policy that compensates for such failures, continues to cause the reactivation of the economy to continue to be unequal among the different social strata that make up the economy. In this sense, at **Ecoanalítica** we maintain our vision of a 9.0% growth for 2022, with a view to slowing down to 3.9% by 2023 amidst an inflationary framework and consumption patterns that will continue to adjust.

Monetary and Fiscal Policy
Revolutionary austerity?

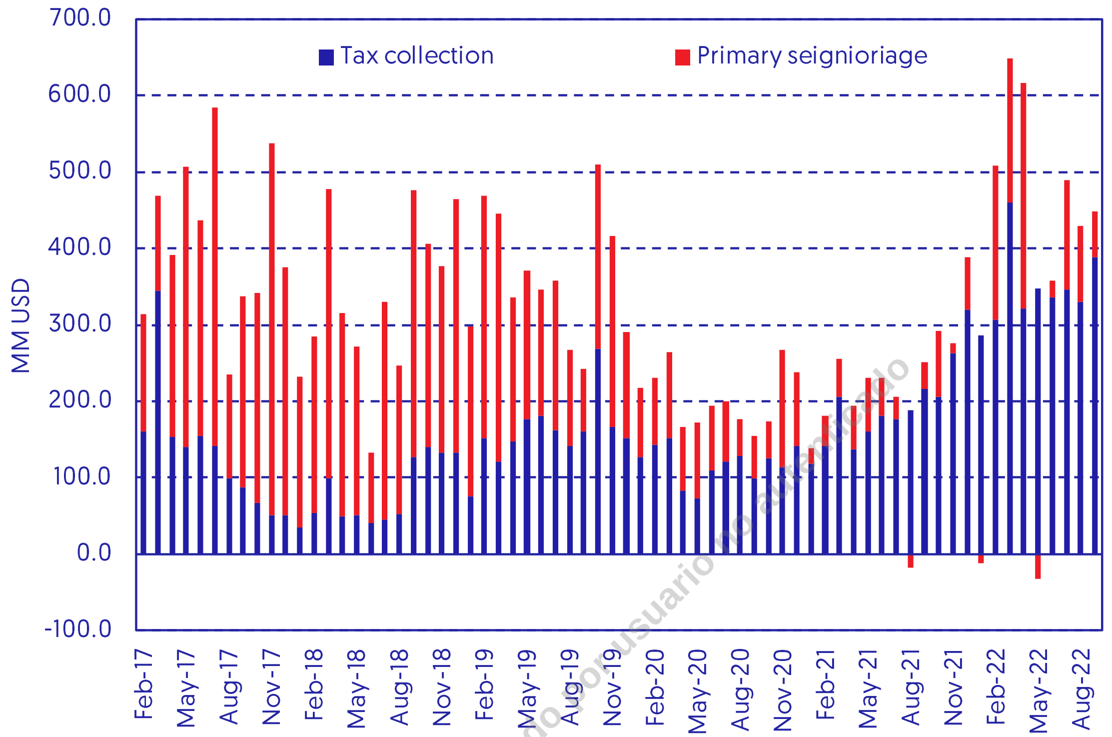
From the fiscal perspective, 2022 has been characterized by a higher level of discipline on the part of the authorities, achieving a reduction in the monetary financing of the fiscal deficit, as well as an increase in non-oil tax collection, accompanied by a greater flow of foreign currency from the oil sector, thanks to a stabilization of production and growing international prices. This allowed for a progressive reduction in inflationary pressures, and with it a relative stabilization of the exchange market, as well as a reversal of the economic trend, where between 2021 and 2022 the economic recession that began in 2014 came to an end. However, not everything is rosy in the fiscal outlook, where recent events have evidenced the precariousness of the supposed Venezuelan fiscal stability.

Between monetary and fiscal imbalances

In recent years, the BCV has managed to reduce the creation of money to cover its spending needs (seigniorage), with the main objective of reducing inflationary and exchange rate pressures. Thus, during 2019 the weekly growth of the monetary base averaged 8.9%, an average that has been gradually reducing, until presenting an average weekly growth of 3.4% in 2021 and 3.9% in 2022. Nevertheless, the National Executive and the Central Bank do not seem to be able to refrain for prolonged periods from resorting to monetary financing, as was observed in the week of August 19 and October 7, where the monetary base increased 36.2% and 14.6% respectively, in order to meet spending goals, particularly payroll spending in the two most recent cases[11]. The expansion of the monetary base brought with it exchange rate and price volatility, where August was the month with the highest exchange rate and inflation growth in 2022. Thus, the sudden increases in seigniorage allow us to foresee collection difficulties, both through tax and oil revenues, where conventional sources of financing remain insufficient to meet the Central Government's spending needs, which by 2022 would seem to represent an amount close to 16% of GDP.

[11] For teachers in August and Christmas bonuses in October.

Non-oil tax collection and seigniorage (USD)

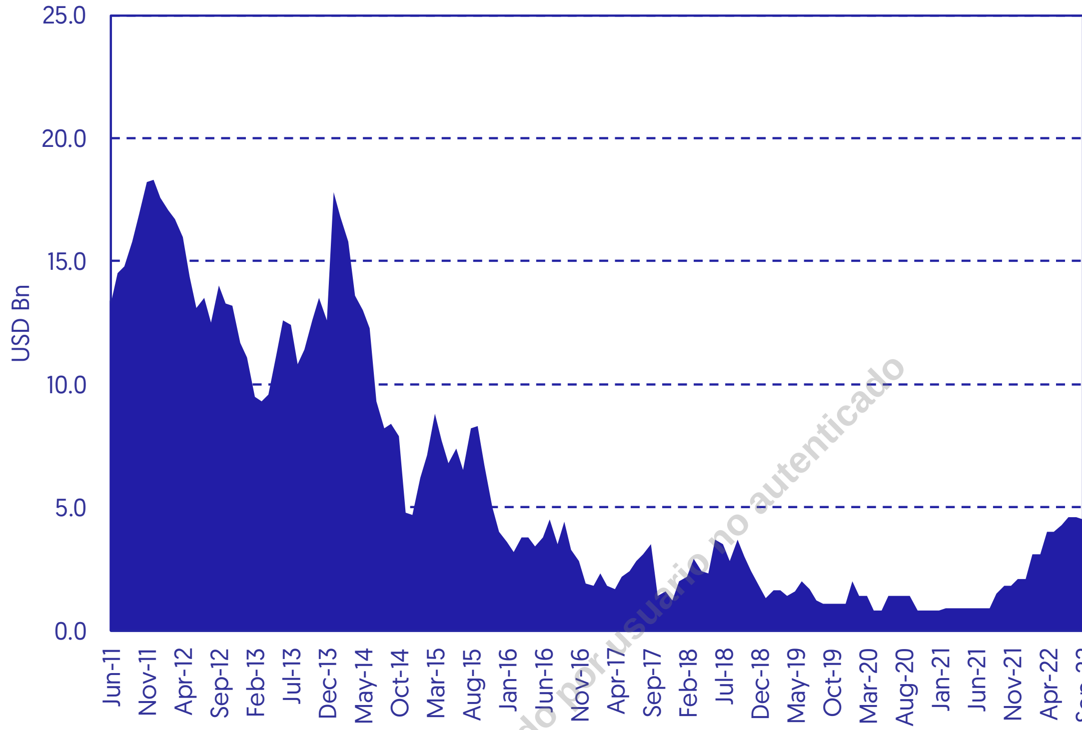


Sources: Seniat and Ecoanalitica.

Despite the difficulties described above, the Executive has managed to expand its tax collection levels throughout 2022. By September, non-oil tax collection was equivalent to USD 388,609.04 million, 80.6%[12] higher than what was collected in the same period of 2021. Similarly, it is evident that seigniorage has lost relevance within the Government's financing scheme, where it currently represents 23.0% of non-oil financing[13] , while tax collection represents the other 77.0%; on the other hand, by August 2019, seigniorage represented 47.3% of the total, 24.3 percentage points higher than the current level. However, the increase observed in revenue collection has been insufficient to cover spending needs, and, although sustained economic growth could increase revenue collection and help meet the targets set by the authorities, at **Ecoanalítica** we expect that economic expansion will be accompanied by greater pressures to increase public spending, offsetting possible tax increases.

[12] Part of this increase is influenced by the real appreciation of the exchange rate.
[13] By August 2022.

Extrabudgetary resources



Sources: Ecoanalitica.

Beyond conventional spending needs, it is necessary to take into consideration the disbursements made by the Executive to stabilize the foreign exchange market, which have increased by 15.1% year-on-year, averaging USD 184.1 million per month in 2022. Despite the fact that the sale of these currencies in the local market seems to have a significant impact on international reserves, the Government also indicates to maintain at the same time a sustained inflow of less liquid resources abroad, currently standing at USD 4.5 billion, 200% higher than that observed in the same period of 2021 (September). Thus, although the Executive has managed to accumulate resources, its main current problem appears to be one of liquidity, where it is difficult to access or transform its resources into liquid foreign currency with which to meet its short-term spending goals.

Austerity? Not everything is rosy

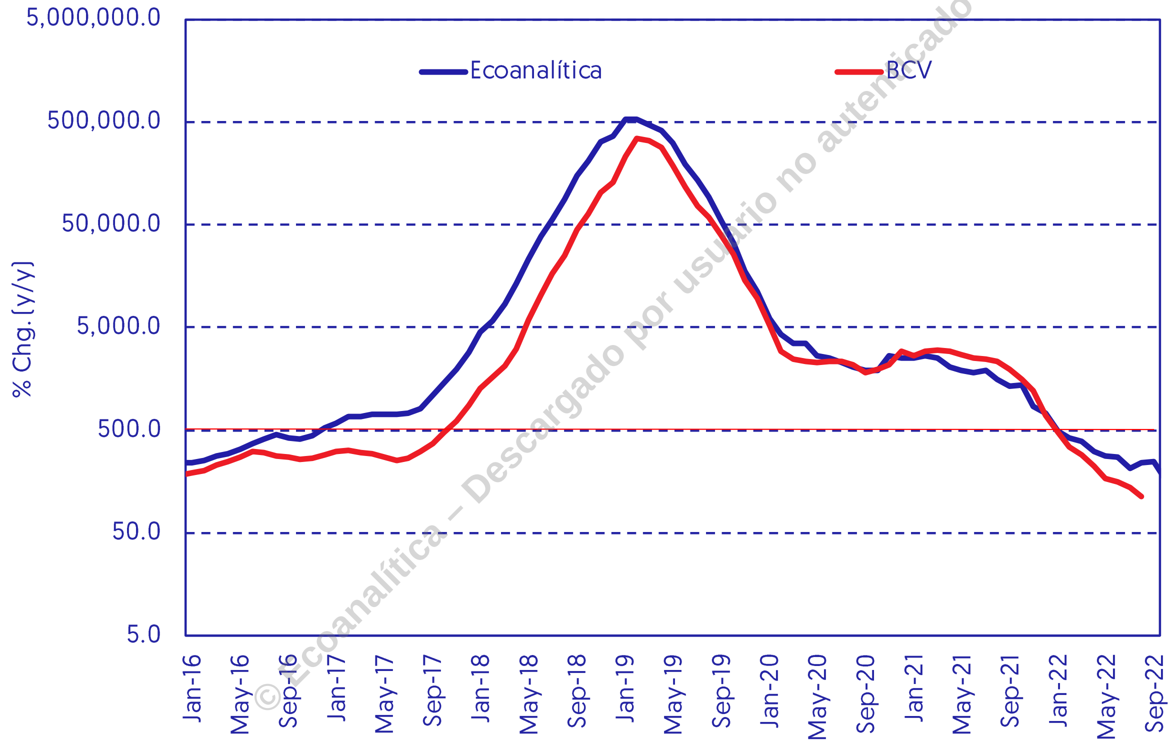
During 2022, the Government has managed to achieve monetary and fiscal stability that allowed the exit from the hyperinflationary episode and certain improvements in the real economy; however, most of the structural problems persist in the fiscal balances of the Executive, which makes it prone to resort to heterodox financing mechanisms and policies, with harmful repercussions on the economy.

In this regard, at **Ecoanalítica** we believe that the increase in the cost of living in dollars in Venezuela, accompanied by an environment of economic growth, will impose upward pressures on public spending. We expect public consumption to grow 5.2% in 2022, followed by an expansion of 7.7% in 2023, increases that, considering the limits of tax and oil revenues, could force the Government to increase seigniorage again, with upward repercussions on prices and the exchange rate.

Prices and Exchange Rate Environment
Chipped stability

After 17 consecutive months showing year-on-year decelerations, domestic inflation[14] in August and September broke this trend. The price index observations for both months presented monthly price variations of 15.8% and 15.0%, respectively (the two highest values of the year), placing their year-on-year comparison at 239.2% and 245.3%, respectively.

Year-on-year inflation



Sources: BCV and Ecoanalitica.

The inflationary behavior responds to the depreciation observed in the exchange rate during August (monthly increase of 39.5%, the highest since February 2021), which resulted in the acceleration of the price of the items that make up the basket for the eighth month of the year. The September price indicator would also reflect this increase in the exchange rate, with some items that had been "lagging behind" in August becoming those with the highest variation during September. In effect, in September, the increases in the prices of "education services" (22.0%), "communications" (20.4%) and "housing rental" (18.1%) stood out, after being positioned as the three items with the lowest increase in their price levels in August.

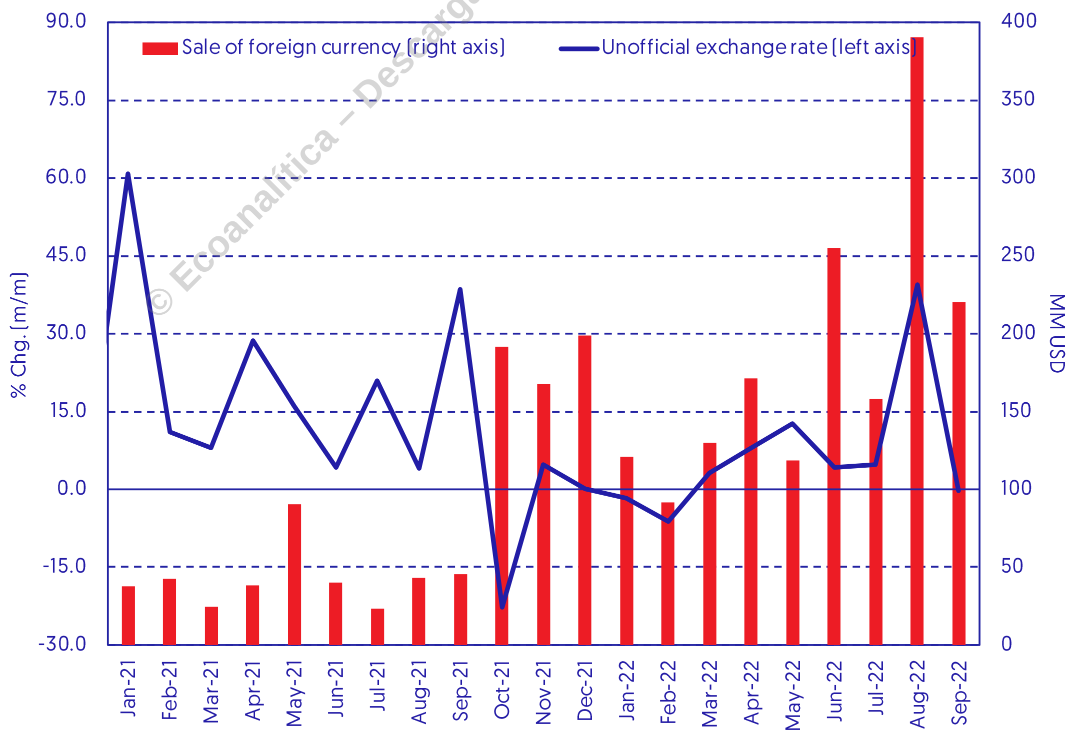
[14] Measured through our CPI indicator.

The exchange rate and the until when.

The increase in the reference exchange rate indicators during August was driven by two specific factors: the payment of holiday bonuses for workers in the public education sector (financed with a weekly increase in the monetary base of 36.2%) and the limitation by the Central Bank of Venezuela (BCV) to intervene in the market in an expeditious manner through the sale of foreign currency to the financial sector. Although the monetary authority corrected the second point by injecting the largest amount of foreign currency in the series that we compiled since February 2019, the first one corresponds to a more structural cause and, therefore, of greater care in the medium term.

Mistrust in the bolivar as an asset has not ceased, causing any monetary stimulus to cause agents to turn to the foreign exchange market in search of greater stability, either for hedging or transactional purposes. This distrust is also manifested in other instruments: an attempt was made to contain the escalation of the exchange rate during August through the issuance of Hedging Securities (TCC), but, even with their indexation to the official exchange rate and favorable interest rate, this market did not slow down until the foreign exchange intervention by the BCV.

Foreign currency sales to the financial system vs. exchange rate



Sources: Localbitcoin and Ecoanalitica.

At the same time, during the first week of October, an increase of 6.6% was observed at the same time that the first part of the eoy-bonuses payment was delivered to State workers. While the total impact of this current measure on the exchange rate is yet to be known, the last increase similar to the one observed during August occurred - due to uncertainty - during the monetary reconversion in force since October 2021.

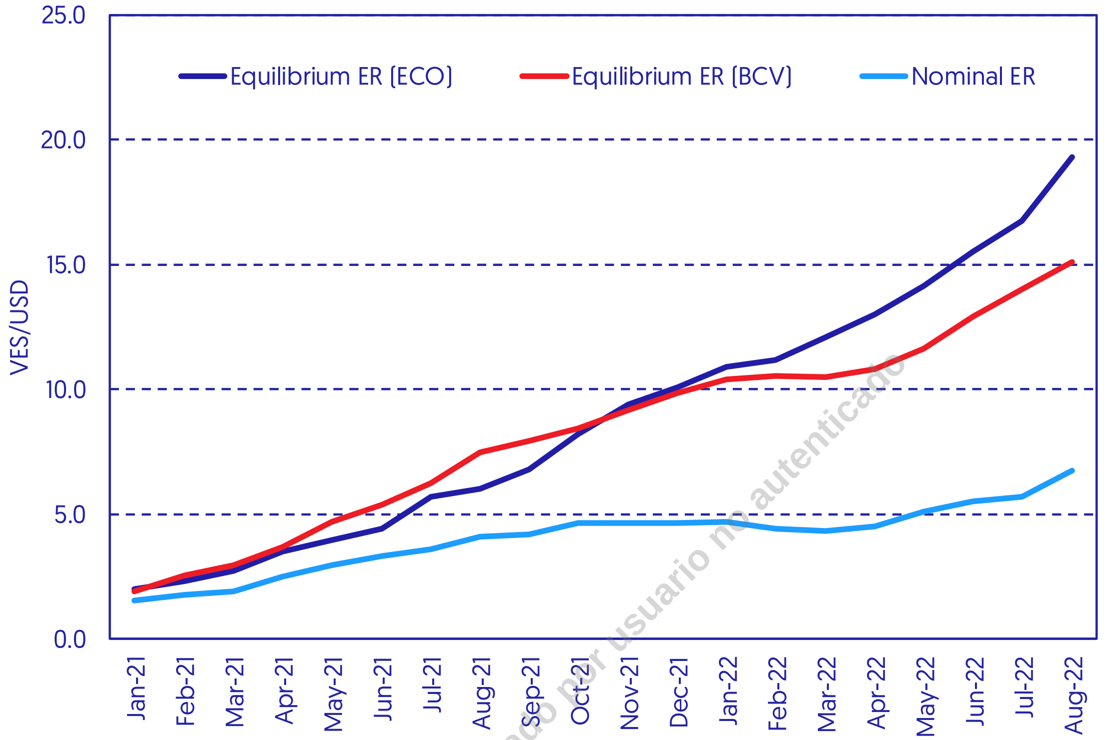
In other words, so far, policy decisions by the central agency, which are not related to interventions in the foreign exchange market to anchor exchange rate expectations and keep its value "stable", have resulted in further increases in the exchange rate and, consequently, in the price level.

It is expected that this type of behavior will be repeated, especially considering that the recent payment of profits to the public sector corresponded to the first of four parts that will be distributed during the next quarter[15]. The impact will depend on the State's ability to finance it and thus resort or not to monetary base expansions to cover such expenditure. However, it should be taken into account that there is a greater probability that the funds available in the State's coffers will go first to sustain the mechanism of intervention in the local financial system than to the distribution of these bonds.

Another way of affirming that these imbalances will persist may be to review how far the nominal exchange rate is from its parity measured through the real exchange rate index. In our most recent estimates, we calculate that the nominal exchange rate is between 65.2% and 55.4% below the possible equilibrium levels, with respect to the calculations based on data from **Ecoanalítica** and the BCV, respectively[16].

[15] The impact of the same practice by the private sector should also be taken into account.
[16] For an in-depth review, please refer to our Economic Situation Report No. 19 (2022): The Real Disaster: Real Exchange Rates in Venezuela and Latin America.

Real exchange rate

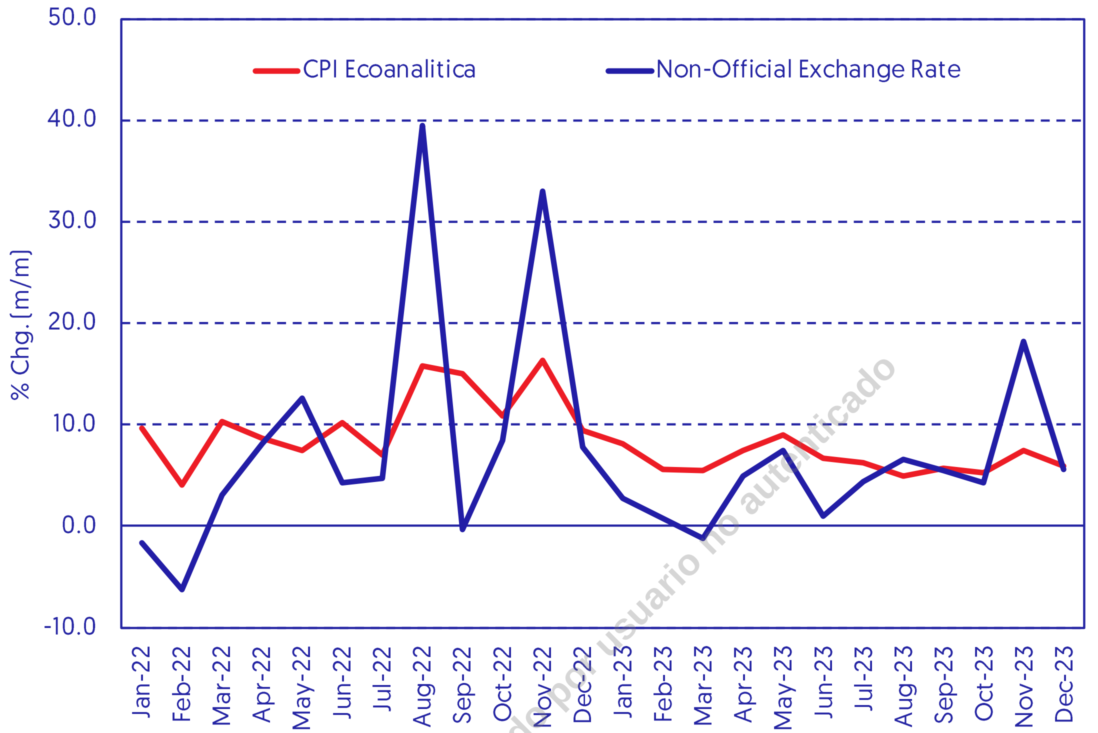


Sources: BCV and Ecoanalitica.

Stumbling.

Due to recent exchange rate and price developments, **Ecoanalítica** has adjusted our projections upwards with respect to the previous issue of this report. With this, we expect inflation in 2022 to be 226.3% and the exchange rate to close at VES 12.5/USD. Even so, we maintain our deceleration scenario for both indicators for 2023 with inflation of 117.8% and a depreciation of 43.8% (63.5% in 2022).

Price and exchange rate projections



Sources: BCV and Ecoanalitica.

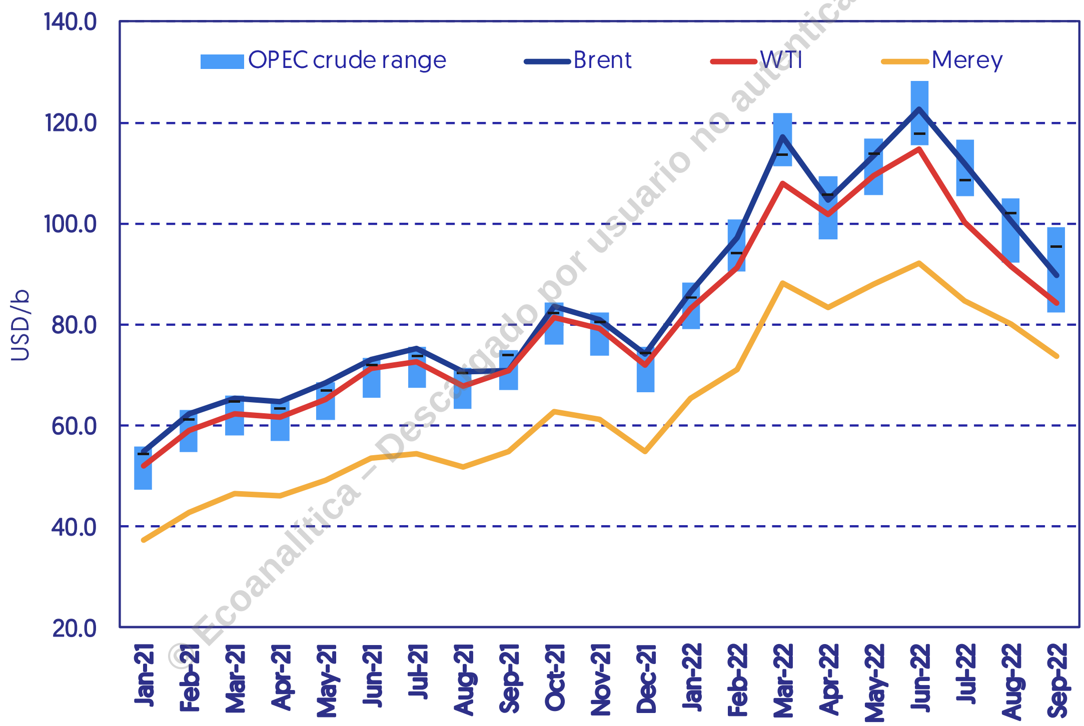
However, this adjustment serves as a reminder of the environment in which local price indicators are evolving. Just as these payments were made in August or will be made by the end of this year, it is likely to expect another future scenario in which the State will have to resort to base expansion to cover future projects, thus generating another new situation of instability in local prices.

Therefore, as long as a structural plan for the containment and stability of the increase in the price level is not proposed and implemented, this fragility in which they find themselves will persist over time. Therefore, it can be expected that, even if a certain sense of stability or "normality" settles back into the price indicators, it cannot be ruled out that new stimuli may come in and once again shatter their calmness.

External Sector
Balance neither good nor terrible

During the third quarter of 2022, the performance of the Venezuelan external sector was mainly characterized by jumps in oil exports in an environment of rising prices. Between the close of June and September, WTI[17] and Brent markers fell by an average of 26.7% to stand at USD/b 84.3 and 89.7 respectively; with the OPEC basket falling to USD/b 95.3. In comparison, the lowest OPEC+ crudes were Venezuelan Merey and Russian Urals, falling to USD/b 73.7 and USD/b 68.8; respectively.

Oil prices



Sources: EIA, OPEC and Ecoanalitica.

On the other hand, Venezuela finds itself competing with Russia in the "sanctioned market" destined for Asia[18], and the inherent opacity of such operations forces it to incur greater discounts to market its oil, which in effective terms is averaging 35%[19] since June.

[17] West Texas Intermediate.
[18] According to Reuters, by June, 58.5% of Venezuela's oil shipments were destined for China through distribution centers such as Malaysia.
[19] Higher than the explicit discount on international marker prices.

Oil exports averaged 635 kb/d during the quarter, with month-to-month fluctuations[20] due to logistical or mechanical interruptions, including the use of space at the José terminal to offload an average of 88 kb/d of crude oil and diluents from Iran[21].

These export and price dynamics translate into quarterly oil revenues of USD 4,631 million, a nominal increase of 187.4% year-on-year, but USD 847 million less than our Q2 forecast. At **Ecoanalítica** we consider that the seasonal inertia[22] gives a slight space for a recovery in export volume in the fourth quarter, which combined with an average oil price of USD/b 69.0[23] would lead to net revenues of USD 19,350 million at the end of the year.

Foreign currency flow

Item (Billion USD)	2021	1Q2022	2Q2022	3Q2022	4Q2022	2022
Income						
Net Oil Income	6.7	3.3	4.2	4.6	3.9	16.2
Non-Oil Income	3.1	0.8	0.6	0.8	0.8	3.1
Total Income	***9.8***	***4.2***	***4.8***	***5.4***	***4.7***	***19.4***
Expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Oil imports	-1.1	-0.6	-0.9	-1.0	-1.0	-3.6
Other imports [1]	-7.8	-1.9	-2.5	-2.1	-2.1	-8.5
Net Services	-3.7	-1.7	-1.5	-1.5	-1.8	-6.5
Net Rents	-1.4	-0.5	-0.5	-0.5	-0.5	-2.2
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	***-13.3***	***-4.5***	***-5.1***	***-4.7***	***-5.1***	***-19.5***
Balance	***-3.4***	***-0.3***	***-0.3***	***0.7***	***-0.3***	***-0.1***
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***	***-0.3***	***-0.3***	***0.7***	***-0.3***	***-0.1***

[1]Includes non oil imports and other oil imports.
Sources: BCV, Menpet, Pdvsa and Ecoanalitica.

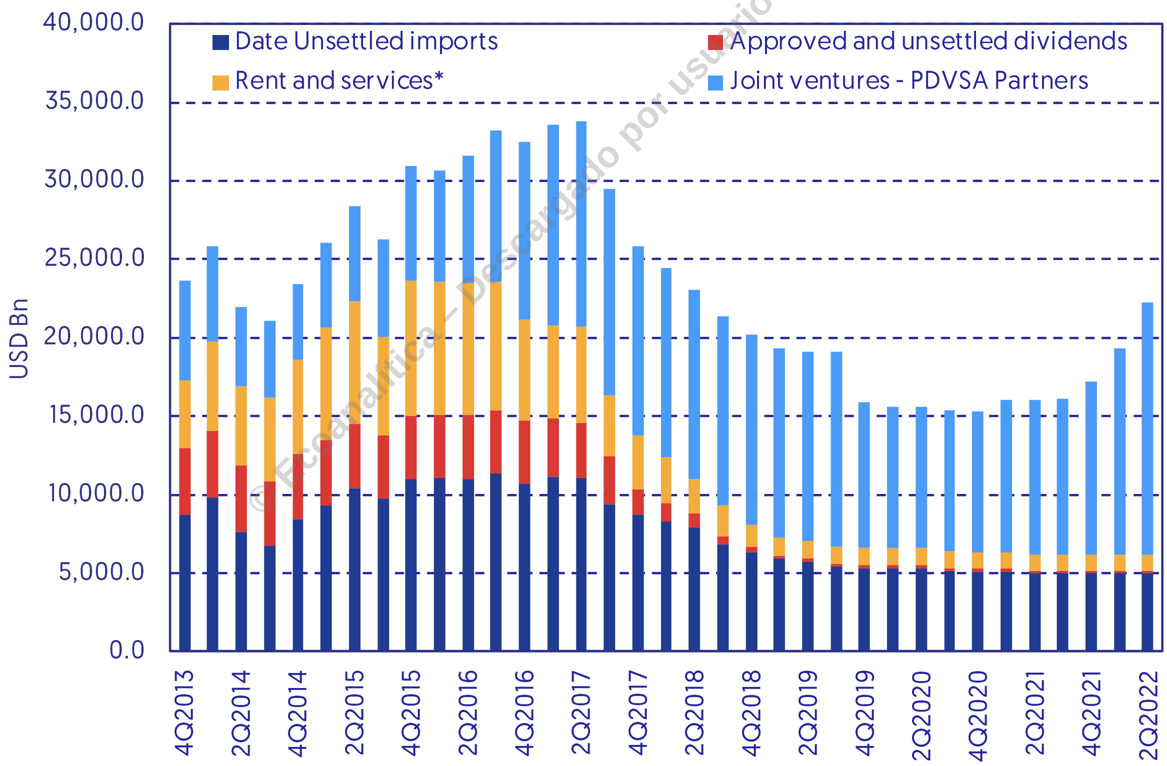
[20] In absolute terms, oil exports have varied by an average of 34 kb/d in the first three quarters of 2022.
[21] As part of a swap agreement, Venezuela has sent to the Persian nation an average of 77 kb/d of derivative products in the same period.
[22] Moderate due to increasing recessionary risks in advanced economies and slowdown in emerging Asia.
[23] Potentially conditioned by the start in November of the 2,000 kb/d cuts agreed by OPEC+ on October 5.

Filling a leaking foreign exchange well

The comparatively positive external result with respect to 2020 and 2021 is mainly attributable to the behavior of international prices, leaving oil production and export volumes below the government's aspirations at the beginning of the year, especially after a lifting of sanctions restrictions on Venezuelan industry did not materialize.

This does not necessarily imply a closing of the Executive's maneuvering range, which, despite recording minimum international reserves of USD 4,970[24] million at the end of September, has accumulated foreign currency through other methods, such as extra-budgetary funds that have grown to USD 4,500 million for September, and a growth to USD 16.106 million in debt with partners of oil joint ventures by the end of the 2nd quarter of 2022; the latter for liabilities accumulated by PDVSA for operating oil fields and commercializing its crude oil since the imposition of secondary sanctions.

Non-financial (partial) debt in foreign currencies



***Includes debt with airlines.**
Sources: Ecoanalitica.

[24] This does not include the equivalent of USD 5,038 million in IMF Special Drawing Rights (SDRs) nominally assigned to Venezuela, but which the Executive cannot yet dispose of due to diplomatic restrictions.

At **Ecoanalítica** we consider that Venezuelan industry has little capacity -in the short term- to substantially increase its export volumes, so that the ups and downs of the external sector will mainly depend on price dynamics. On a more diplomatic-institutional level, if nominal changes in the *status quo* occur during the first quarter of the year, they will take several months to have a tangible impact on the commercial or productive environment, in this sense, we highlight some aspects to take into account for the last quarter of the year and the beginning of 2023:

- Global oil market dynamics will be affected by forces in opposite directions such as OPEC cuts, economic slowdown, and Western energy needs for the first winter of the Russian-Ukrainian war.

- Greater appetite for Venezuelan crude does not necessarily guarantee more relevant arrangements for the global oil market, with the initial agreement reached by Eni and Repsol in June to export Venezuelan crude under a debt cancellation scheme suspended by PDVSA in less than a quarter.

- On the margin, trade resumption with Colombia may raise trade volume from a minimum of USD 223.5 million in 2020, but hardly on a scale to modify the (low) space that each country occupies as a trading partner of the other; especially conditioned to the reduction of the size of the Venezuelan market.

- At the diplomatic-political level, the end of the term of office of alternative representatives to the Executive[25] at the international level may have an impact on the dynamics of the control of Venezuelan assets abroad, including 31 tons of gold of the BCV in the Bank of England, and the PDVSA's subsidiary CITGO in the United States. Their access by the Venezuelan State will be conditioned to the recognition status adopted by the authorities in the jurisdictions where such assets are located, together with the outcome of numerous legal proceedings for their confiscation by creditors demanding compensation, either by arbitration awards or by default of debt instruments of Venezuelan public entities.

[25] Referred to as "internal government" in the diplomatic sphere.

Conclusion

Repairing cracks in a fragile pitcher

The visions presented in this report show a recovery of the Venezuelan market that is beginning to show signs of exhaustion. The oil sector, although recovered from the aftermath of the COVID, does not seem to be taking advantage of the new global commodities super-cycle, both due to failures in domestic production and to frictions still existing in its commercialization. Likewise, for next year, the sector's capacity to generate resources will be subject to what happens with the real cycles at a global level, the persistence of the Russia-Ukraine conflict, and OPEC's decisions regarding production. Therefore, the Venezuelan oil basket is not expected to exceed USD 76.51/b for next year, subject to discounts with respect to international levels in the midst of sanctions that will still persist. The political conflict will continue to weigh on the country's revenue generation, if the end of the Interim Government implies a greater availability of previously restricted medium-term foreign assets, or exposes the Executive to greater pressure from its creditors.

The non-oil sector, although performing better than in previous years, seems to show vulnerabilities in an environment of still volatile prices and an ever-increasing cost of living in dollars. This price environment will continue to be affected by official fiscal, monetary and exchange rate actions. In this sense, inflation in the coming months will be the result of a transactional dollarization that will continue to struggle in the face of the government's interest in remonetizing the market, and with pressures on the regulator to increase its spending and relax its credit restrictions.

Considering that this price context will be one of the key points for the business during the coming year, at **Ecoanalítica**, we reaffirm that the private sector should pay particular attention to the following points:

- *Foreign exchange hedging continues to be an option*: despite the appreciation and its effect on the internal value of the dollar, the purchase of foreign currency will continue to serve as a strategy that allows the business to mitigate price volatility and its aftermath. In an environment where transactional dollarization will continue to set the tone, hedging will acquire another nuance in terms of the company's operations, employee compensation, working capital maintenance, among other aspects.

- *Consumption patterns will continue to change*: in the midst of greater uncertainty in the exchange rate environment, local rates and, therefore, the interest of Venezuelans to consume one good/service or another, will continue to adjust. At this point, it should be understood that prices end up being the most relevant variable in private spending decisions and, therefore, the one that requires more attention from business.

- *The tax system will continue to weigh heavily*: with the application of taxes on foreign currency transactions and the regulator's interest in improving its collection mechanisms (at the national and regional levels), the fiscal needs of the Executive will continue to generate costs for companies. In this sense, it is recommended to design strategies that internalize such costs and minimize their impact on prices or on the operation of the company in general.

Projection ***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***	***9.0***	***3.9***	***3.3***	***3.8***
Domestic Aggregate Demand	-39.8	-20.3	-8.2	11.4	3.5	3.5	3.8
Total Consumption	***-38.2***	***-22.2***	***-4.1***	***7.3***	***5.8***	***3.6***	***2.1***
Public consumption	-25.0	-24.8	-5.2	5.2	7.7	3.3	1.6
Private consumption	-43.1	-20.8	-3.6	8.2	4.9	3.8	2.3
Gross fixed capital formation	***-36.0***	***-32.2***	***-3.0***	***4.3***	***2.9***	***2.3***	***1.9***
Public gross capital formation	-32.5	-35.4	-5.8	3.6	1.5	2.0	1.8
Private gross capital formation	-42.2	-25.7	2.0	5.4	5.4	2.8	2.0
Total exports	***-23.0***	***-45.0***	***-7.5***	***12.4***	***19.1***	***5.0***	***2.9***
Oil exports	-25.9	-46.7	2.1	5.1	25.7	5.6	5.1
Non-Oil exports	12.0	-45.3	-32.7	12.3	9.3	3.6	2.7
Exports of services	-10.4	-34.5	-6.4	51.7	4.6	4.0	-0.3
Total imports	***-22.8***	***2.6***	***-34.3***	***23.1***	***13.1***	***5.4***	***4.0***
Imports of goods	-22.8	12.2	-38.0	21.3	13.5	5.4	4.7
Imports of services	-22.9	-29.1	-14.6	30.1	11.7	5.2	1.6
Real results by sectors (Annual changes on %) [1/]							
Per capita GDP	-40.5	-32.1	-0.1	7.9	2.8	1.7	2.1
Oil GDP	-19.9	-34.5	2.8	7.1	5.9	8.1	3.8
Non-Oil GDP	-42.6	-28.3	0.5	9.6	3.7	2.4	3.9
Prices indicators (Annual changes on %)							
NCPI-based inflation (Official), eop (2007 = 100)	9,585	2,961.0	686.9	147.6	97.9	82.7	76.8
NCPI-based inflation (Official), aop (2007 = 100)	19,906	2,354.8	1,589.5	164.1	139.0	86.9	79.4
NCPI-based inflation (Ecoanalítica), eop (2007 = 100)	11,033	2,509.9	721.5	226.3	117.8	87.7	83.5
NCPI-based inflation (Ecoanalítica), aop (2007 = 100)	233,765	2,968.4	1,774.6	292.1	185.0	99.8	85.6
CPI-based inflation (Official), eop (2007 = 100)	10,095	2,929.1	672.2	132.8	89.6	83.2	77.0
CPI-based inflation (Official), aop (2007 = 100)	20,026	2,375.8	1,613.1	152.7	124.4	85.8	79.5
WPI-based inflation, eop (2007 = 100)	8,253	1,667.4	802.0	119.4	92.5	78.6	76.7
WPI-based inflation, aop (2007 = 100)	17,490	1,714.1	933.0	239.6	103.2	83.4	76.8
Official exchange rate, eop (VES/USD) [2/]	0.05	1.09	4.59	11.80	21.73	41.25	76.38
Official exchange rate, aop (VES/USD) [2/]	0.02	0.37	3.39	6.80	15.43	32.30	60.28
Non-Official exchange rate, eop (VES/USD) [2/]	0.06	1.07	4.55	12.46	22.19	42.13	78.01
Non-Official exchange rate, aop (VES/USD) [2/]	0.02	0.37	3.47	6.91	15.83	32.99	61.57

1/ Actual figures at year-end (unless otherwise indicated) at 1997 prices.
2/ Adjusted for reconversion.
(*) Projections. Further details and additional items subject to projection may be requested at atencionalcliente@ecoanalitica.net, or at luisb@ecoanalitica.net.
Source: BCV and Ecoanalítica.

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	357.6	109.7	61.7	50.4
Money (M1)	4,951	1,287.1	635.2	330.7	104.8	64.3	62.0
Broad money (M2)	4,946	1,286.8	635.2	331.4	105.0	64.5	51.2
Monetary multiplier (M2/BM)	1.28	1.34	1.97	1.86	1.82	1.85	1.86
Interest rates (levels, %)							
Bank lending rate (average)	29.3	33.0	43.3	48.3	33.3	30.1	27.4
Time- deposit rate (average)	30.6	52.9	43.0	41.4	29.3	26.1	22.4
External sector (Annual changes on %)							
Balance of payments							
Export of goods (USD MM)	***27,804***	***8,978***	***9,381***	***19,624***	***21,774***	***22,501***	***23,443***
Export of goods	***-17.4***	***-67.7***	***4.5***	***109.2***	***11.0***	***3.3***	***4.2***
Oil exports (USD MM)	22,405	5,795	6,715	16,508	18,274	18,734	19,424
Oil exports	-24.8	-74.1	15.9	145.8	10.7	2.5	3.7
Total imports (USD MM)	***7,955***	***9,013***	***8,699***	***12,095***	***13,727***	***14,880***	***15,229***
Total imports	***-37.8***	***13.3***	***-3.5***	***39.0***	***13.5***	***8.4***	***2.3***
Trade balance (USD MM)	19,849	-34	682	8,530	8,047	7,621	8,214
Services balance (USD MM)	-6,305	-3,706	-3,652	-6,495	-7,556	-7,872	-8,163
Rents and transfers (USD MM)	-3,805	-20	407	311	-223	-633	1,144
Current account balance (USD MM)	9,739	-3,760	-2,563	2,346	269	-884	1,195
Capital and financial balance (USD MM)	-7,500	5,633	1,942	-1,064	768	2,302	236
Balancing item (USD MM)	-4,197	-975	-1,056	-920	-1,584	-1,346	-1,414
BOP balance (USD MM)	-1,958	898	-1,677	-638	-548	71	17
Gross International Reserves (USD MM) 1/	6,627	6,337	5,875	5,248	4,690	4,761	4,778
Operative International Reserves (USD MM) 1/	1,787	1,232	1,264	1,036	979	1,050	1,067
Oil sector							
Oil crude production (PDVSA's definition, mb/d)	1,023	558	632	735	835	934	1,006
Average local oil basket price (USD/b), without discount	57.0	33.2	50.0	76.5	66.4	63.5	63.3
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	11,410	12,411	12,782	13,135
Labour							
Unemployment (% of labor force)	27.3	45.7	38.0	32.7	29.5	27.8	26.3
Minimun wage (VES) 2/	0.15	1.10	10.00	171.00	300.000	650.000	1,150.000
Minimun wage (%)	3,233.3	633.3	809.1	1,610.0	75.4	116.7	78.8

1/ Excludes IMF special allocation of Special Drawing Rights (SDR), made in August 2021.
2/ Adjusted for reconversion.
(*) Projections. Further details and additional items subject to projection may be requested at atencionalcliente@ecoanalitica.net, or at 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	5.2	4.8	5.1	2.8
Minig	-22.1	-17.7	2.1	5.1	5.2	2.1	0.7
Manufacturing	-48.5	-34.9	-3.4	9.4	3.1	2.2	4.6
Construction	-38.0	-31.6	1.8	6.9	3.0	0.7	0.3
Water and electricity	-36.1	-38.7	-2.7	3.5	1.7	2.5	2.6
Commercial sector and remediation services	-47.5	-40.1	1.4	13.0	4.1	3.9	5.9
Transport and storage	-59.8	-34.1	-1.2	5.2	4.7	2.4	0.8
Communications	-37.2	-17.3	-0.7	5.6	4.5	2.0	2.7
Financial institutions and insurance companies	-51.1	-44.5	-3.0	4.4	4.2	3.2	3.8
Government services	-40.6	-40.3	-6.9	4.7	3.8	3.2	2.9
Other services	-69.1	-5.3	-2.2	6.2	4.6	3.7	4.2
Non-oil goods	-37.6	-32.4	-1.1	6.5	3.5	3.2	3.1
Non-oil services	-44.1	-27.0	1.0	10.5	3.7	2.4	3.9

1/ Figures are in real terms at year-end (unless otherwise indicated) at 1997 prices.
(*) Projections. Further details and additional items subject to projection may be requested at atencionalcliente@ecoanalitica.net, or at luisb@ecoanalitica.net.
Source: BCV and Ecoanalitica

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