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EXCHANGE MARKET REPORT

Year 16
December 2020

CONTENT

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Dollarization study in Venezuela November 2020

Transactional dollarization has become part of Venezuelans' normality as a response to the loss in value of the Bolívar and as a means of payment, due to the deterioration of "conventional" mechanisms. With the intention of approximating the scope of this phenomenon, **Ecoanalítica** has carried out several studies[1] that have described the levels of transactional dollarization in the country. On this occasion, the study corresponds to the days between November 23 and 26.

For this purpose, the payment methods of a given number of transactions carried out in the 10 main cities of the country were evaluated for the analyzed period[2]. This time, the number of establishments is 291, higher than those consulted in February, and a total of 18,935 operations were carried out. Caracas appears as the city with the most transactions and the most establishments, while Puerto Ordaz is the city with the least transactions, and Dairy Farms with the least number of establishments. Among the establishments are food, personal care, health, clothing and footwear, spare parts, electronic devices and home appliances.

Dollarization report: technical sheet

City	# of transactions	% of transactions	# of establishments	% of establishments
Caracas	5,895	37.0	76	29.5
Valencia	2,708	17.0	42	16.3
Maracaibo	1,465	9.2	22	8.5
Lecherías	1,206	7.6	10	3.9
Maracay	919	5.8	16	6.2
Barquisimeto	813	5.1	19	7.4
San Cristobal	806	5.1	23	8.9
Mérida	774	4.9	18	7.0
Nueva Esparta	705	4.4	17	6.6
Puerto Ordaz	661	4.1	15	5.8
Total	**15,952**	**100**	**258**	**100**

Note: Information collected between February 9 and 14.

Source: Ecoanalitíca.

[1] Our previous studies on the subject can be found in our Weekly Reports No. 39 of 2019: *General features of transactional dollarization in Venezuela*; Weekly Reports No. 7 and 27 of 2020: *New study of dollarization in Venezuela* and *Quarantined Dollarization.*

[2] San Cristóbal, Nueva Esparta, Maracaibo, Lecherías, Caracas, Puerto Ordaz, Valencia, Maracay, Barquisimeto, Mérida

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Dollarization report: technical sheet				
City	# of transactions	% of transactions	# of establishments	% of establishments
Caracas	7,336	38.7	86	29.6
Valencia	2,925	15.4	45	15.5
Maracaibo	1,685	8.9	24	8.2
Lecharias	1,326	7.0	12	4.1
San Cristobal	1,314	6.9	22	7.6
Maracay	1,029	5.4	24	8.2
Nueva Esparta	912	4.8	26	8.9
Barquisimeto	831	4.4	18	6.2
Mérida	810	4.3	17	5.8
Puerto Ordaz	767	4.1	17	5.8
	18,935	**100**	**291**	**100**

Note: Information collected between November 23rd and 26th.

Source: Ecoanalitíca.

In this report we will proceed to summarize the findings of this study and compare them with previous results. It should be noted that our last study corresponding to the month of July is only representative for the country's capital, so we will take as a reference the study of February of this year.

Increases in the capital

Of the total 18,935 transactions made, 12,486 were in foreign currency. This represents a level of dollarization of 65.9%, slightly higher than that observed in February[3]. In a disaggregated manner, San Cristóbal is the city with the highest level of foreign currency transactions with 88.3%. It is followed by Nueva Esparta and Maracaibo, with 86.4% and 86.1%, respectively. On the contrary, Merida is the city with the lowest level of dollarization at 38.1%. As can be seen in the graph, the cities with the highest and lowest use of foreign currency in transactions are the same as in February.

[3] In February, dollarization levels were 64.3%, 1.6 percentage points (pp) lower than currently in November.

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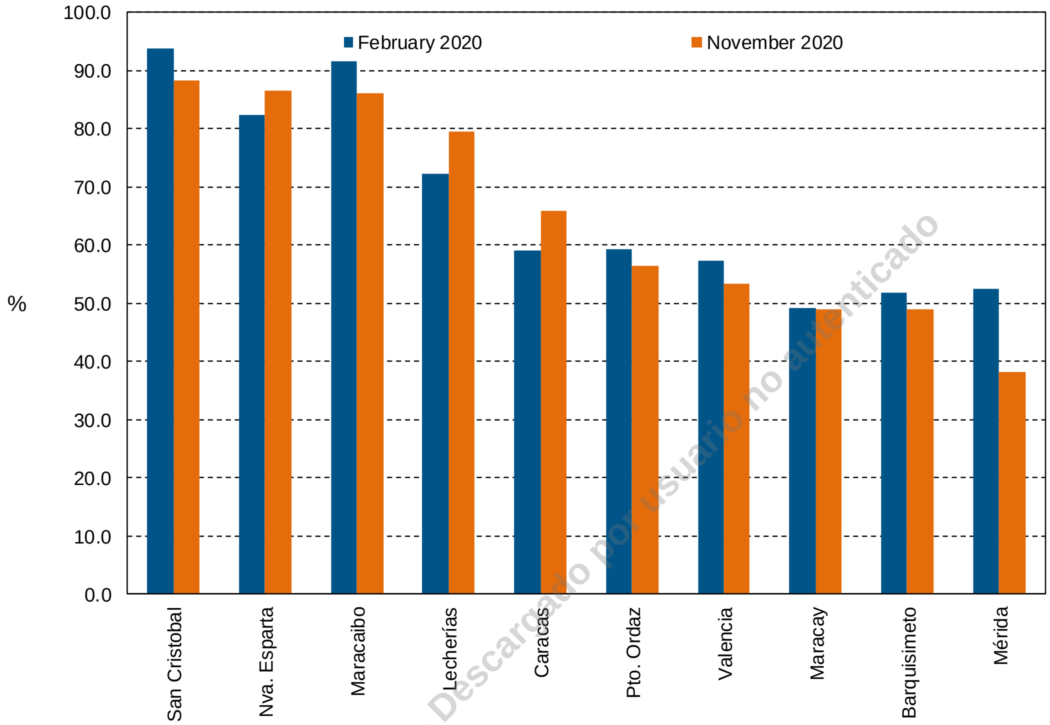
Proportion of transactions in dollars (%)



Source: Ecoanalítica.

All the cities, except Caracas, Lecherías and Nueva Esparta presented a lower proportion of foreign currency operations compared to the previous study. Nueva Esparta and Lecherías saw increases of 4.0 and 7.2 percentage points (pp) between February and November each. The dollarization in Caracas, on the other hand, increased 6.6 pp in this same period. Likewise, the survey carried out in July exclusively in the country's capital allows us to see that the increase from July to November was of 5.7 pp [4], which means that the increase in foreign currency transactions in the capital was particularly in the last four months.

As mentioned in previous reports, the preference for the use of foreign currency in certain cities may be due to the greater exposure they have to the entry of foreign currency, either through the development of illegal activities and the deterioration of public services that increase costs when dealing in the mechanisms that were usual.

Difference between items

[4] The dollarization levels in Caracas for November were 65.8%, while in July they were 60.1%.

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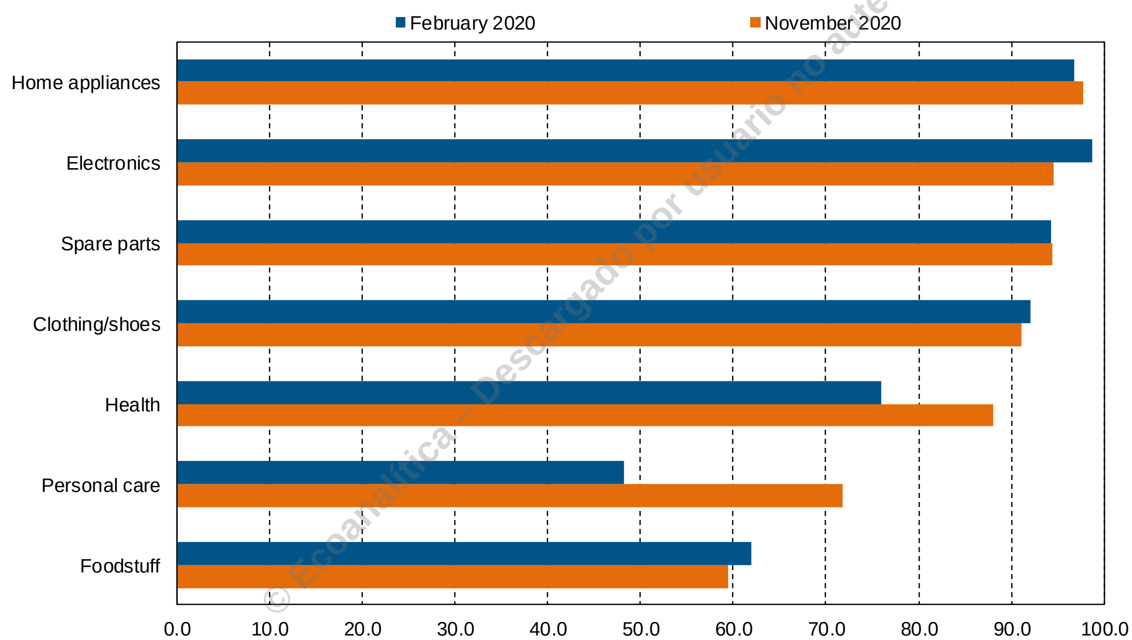
However, of the total of 291 establishments, most of them are stores of all purposes (194), followed by home appliances (25), electronic devices (21), health-related establishments (20), clothing and footwear stores (18) and, finally, spare parts stores (13). If we detail the different items, we see that household appliances remain the one with the highest proportion of transactions in dollars with 97.8%, followed by electronic appliances with 94.6%. For the former, this represents a slight increase of 1.1 pp with respect to February, which implies that practically all of these goods are paid with a currency other than the Bolivar. The next item, on the contrary, showed a small decrease of 4.2 pp.

Proportion of transactions in dollars (%)



Source: Ecoanalítica.

Health and personal care items increased significantly from previous results. The former went from having 76.0% to 88.1% of its transactions in dollars, a growth of more than 10.0 pp. The second had an increase from 48.2% to 71.8%, that is, now 7 out of 10 products in this category are paid with foreign currency. This particular shift may have been exacerbated by the pandemic, where people have had to prioritize the acquisition of goods from these categories.

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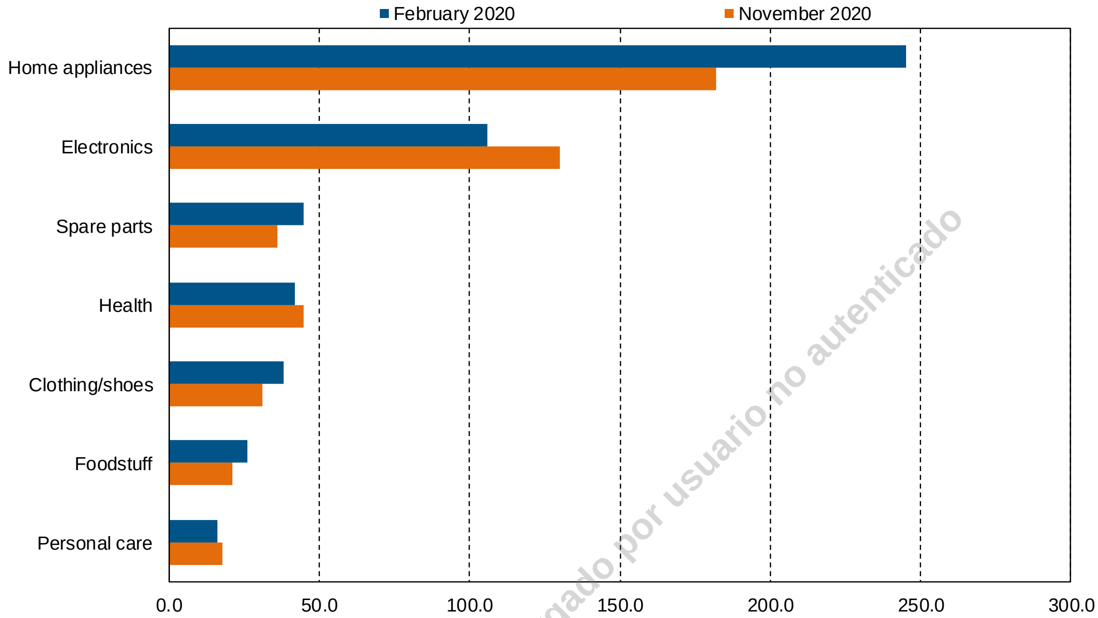
Average ticket in USD



Source: Ecoanalítica.

Not surprisingly, the average health and personal care ticket also increased (albeit slightly) to $45 and $18, respectively, for this survey in November. The other item that saw an increase in its average ticket was electronic equipment, from USD 106 to USD 130. The others decreased this amount, particularly household appliances, from USD 245 to USD 182.

Increased means of payment

Reviewing the currencies used in these transfers, we see that the dollar remains the predominant currency despite a decrease in its proportion of use compared to the previous survey. This is followed by the bolivar, which also saw a decrease in its use. Thus, the currencies that witnessed an increase in recent months were the peso, the euro and others. 6.9% of the population makes payments through pesos, 1.9% through euros and the remaining 1.9% uses other currencies. As previously mentioned, the high use of pesos as a payment currency is noteworthy because, although San Cristóbal and Maracaibo are among the cities with the highest levels of dollarization, they are also the only ones with a border with Colombia within the survey.

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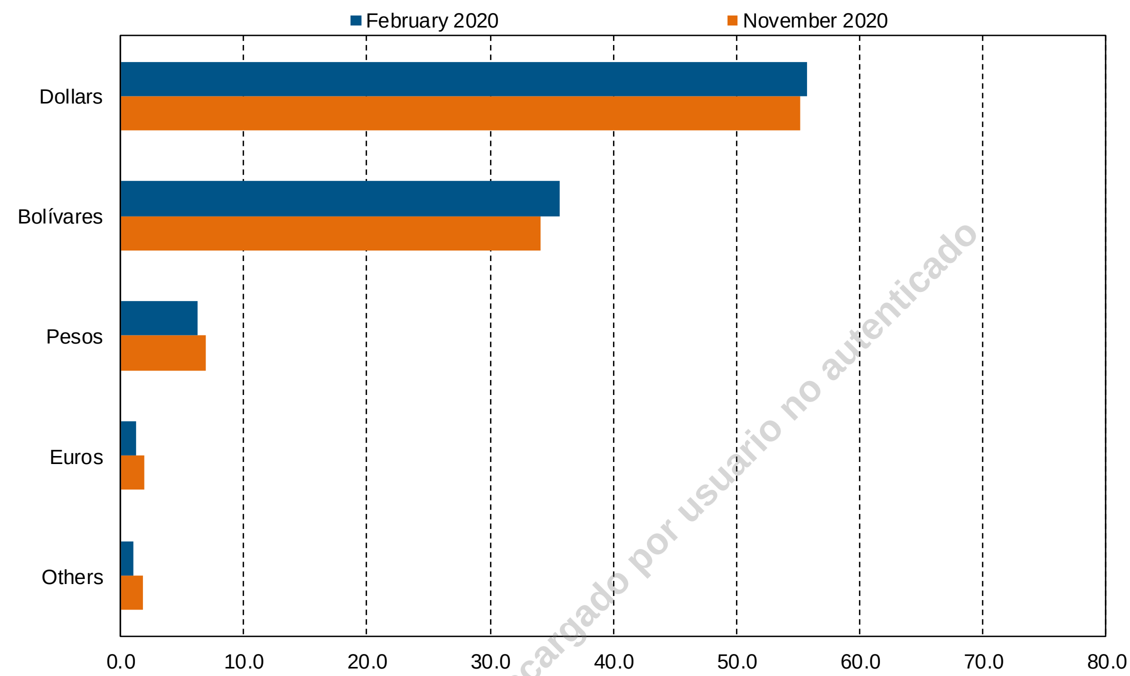
Proportion of transactions by currency (%)



Source: Ecoanalítica.

As for the methods of payment in dollars, cash remains the most used means, even though it has decreased. In February, 81.0% of transactions were in cash, but now they are only 54.8%. This represents a decrease of 26.2 pp. This may be due to the offsetting of the other methods, which saw increases such as the use of Zelle or Xoom, which went from representing 18.6% to 24.4% of payments, and transfers, which went from 0.4% to 1.9% of the payment methods used. Likewise, this avoids transactional problems about its credibility with cash, whether it is bent or broken, among others.

Information was also collected for this survey regarding other mechanisms that have emerged in recent months. These are the use of foreign cards, PayPal and electronic wallets. Not surprisingly, as dollarization becomes part of the norm in the country, both businesses and consumers are seeking to adapt and diversify in as many ways as possible.

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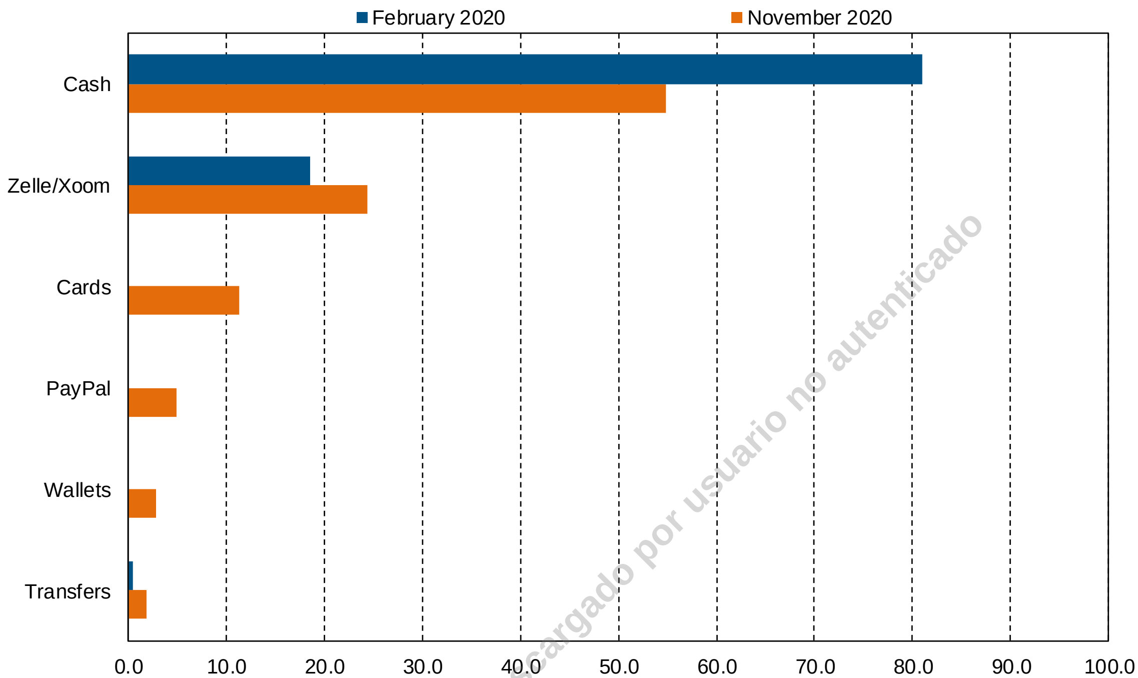
Means of payment in foreign currencies



Sources: Ecoanalítica.

It came to stay...

The findings of this latest survey show levels of dollarization similar to those seen in February, but show some changes in disaggregated data. First, increases in dollarization of personal care and cleaning products could be observed, most likely stemming from the need for stricter habits to prevent the spread of COVID-19.

There was also a slight decrease in the use of foreign currency cash when other methods of payment in foreign currencies became available. Agents, seeking to diversify the ways in which they can both save and transact, are beginning to use other methods that are also becoming increasingly accepted locally. The use of Zelle also saw an increase in its use despite the risk of exposure to international sanctions.

Finally, although not all Venezuelans have access to foreign currency and can completely adapt their lifestyle to a currency other than the Bolívar, it is clear that dollarization is here to stay. And it will not leave until adequate measures are taken to restore confidence in the local currency and stop hyperinflation. For the moment, the best strategy is to adapt

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to a multi-currency environment and keep abreast of changes that may occur in the Executive's measures to curb or encourage this phenomenon.

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Parallel Exchange Rate projections

Updates Fundamentals:

Given the technical difficulties in doing projections for the nominal exchange rate in a hyperinflationary environment, commented on in previous reports, at **Ecoanalítica** we find we are making adjustments to our prediction model. The results given in this report are due to that process of adjustment and, for that reason, they show relatively significant changes from our previous report.

Projections

Non-official exchange rate forecasts

Date	Actual value *	Forecast range					
		Low		Medium		High	
2019M01	2,175	849	1,187	1,415	1,881	**2,596**	3,418
2019M02	3,424	809	1,153	1,393	1,899	2,312	**3,604**
2019M03	3,362	553	881	1,120	1,674	2,170	**3,709**
2019M04	6,028	714	1,124	1,454	2,241	2,965	**5,257**
2019M05	6,450	916	1,204	1,589	2,577	3,538	**6,783**
2019M06	7,517	1,081	1,549	2,057	4,912	**7,539**	9,824
2019M07	11,974	2,468	3,448	4,111	5,465	9,078	**9,932**
2019M08	23,158	4,029	5,744	6,938	10,949	12,573	**17,949**
2019M09	19,662	7,198	10,743	15,947	**25,232**	32,784	38,528
2019M10	21,900	8,826	13,172	17,124	**26,827**	40,694	47,240
2019M11	37,191	11,428	17,055	19,574	30,258	**38,666**	61,168
2019M12	55,212	12,835	19,516	23,130	45,580	**54,411**	72,280
2020M01	72,027	14,601	22,201	26,312	51,852	**81,847**	82,226
2020M02	73,251	16,682	25,366	30,063	59,243	**75,158**	93,947
2020M03	89,197	16,212	24,651	29,216	85,451	**91,299**	170,097
2020M04	175,225	21,176	32,198	38,161	92,962	119,253	**237,964**
2020M05	195,647	65,528	107,279	**187,981**	207,635	268,682	342,777
2020M06	205,571	77,180	151,499	**196,612**	225,913	241,724	391,502
2020M07	261,415	84,624	172,993	**233,829**	294,665	351,803	429,260
2020M08	341,279	108,285	223,192	317,513	**365,428**	449,143	522,311
2020M09	432,117	110,036	340,751	374,678	408,605	**449,288**	489,971
2020M10	505,483	115,887	215,215	351,970	488,724	**525,269**	643,814
2020M11	1,034,437	174,338	362,381	528,195	697,768	849,775	**1,001,782**
2020M12		**295,285**	**580,294**	**1,128,906**	**1,430,167**	**1,811,823**	**2,952,848**

Sources: BCV, Ecoanalítica and own calculations.

*End-of-month; otherwise, if indicated.

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Foreign Exchange Market Indicators

Exchange rates indicators

Exchange Rate Indicators (VES/USD)			
	Nov-20	**m/m (%)**	**y/y (%)**
M2/IR*	63,383.7	46.8	1,423
RER**	1,560,675.4	77.5	2,755
Money desks ***	1,035,887.0	104.5	2,611
WER (Consumers)	762,267.9	58.4	2,311

Source: BCV, other Central Banks and Ecoanalítica

* End of month. ** Monthly average (Ecoanalítica). ***Last auction.

Annual exchange rates indicators

Exchange Rates (VES/USD)					
	2017	**2018**	**2019***	**Devaluation**	**Real Depreciation/ Apreciation**
Public Sector ER[1]	**0.001**	**70.8**	**10,584.0**	**99.331**	**-93.0**
Imports ER1	0.03	111.5	10,841.1	**98.972**	-92.8
Real exchange rate[2]	**0.2**	**3,754**	**178,037**	**97.52**	**0.0**
M2/RRII[2]	0.1	91.1	4,328.0	97.9	-97.1

Sources: BCV and Ecoanalítica

[1] Annual average. [2] At the end of the year.

*Data compiled until November. Additionally, the calculations were made using the National Assembly's inflation

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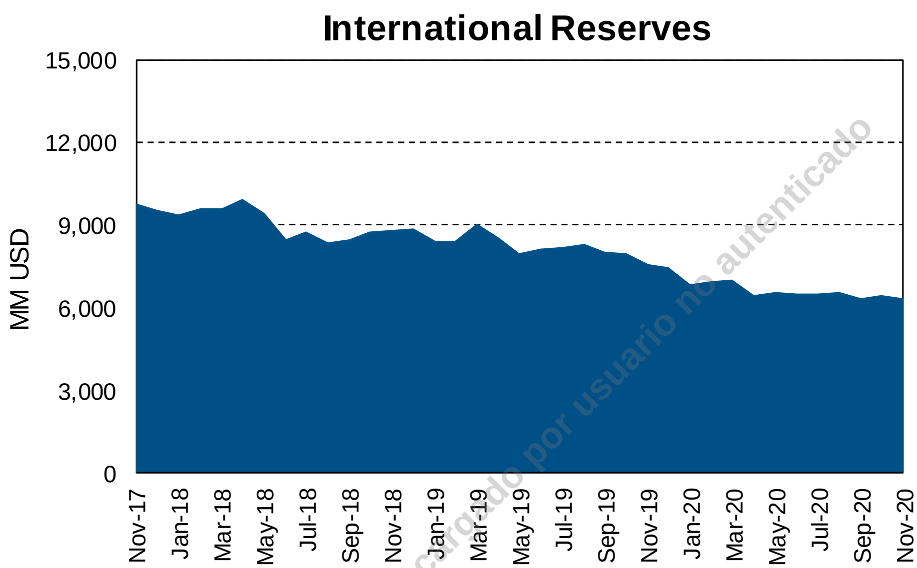
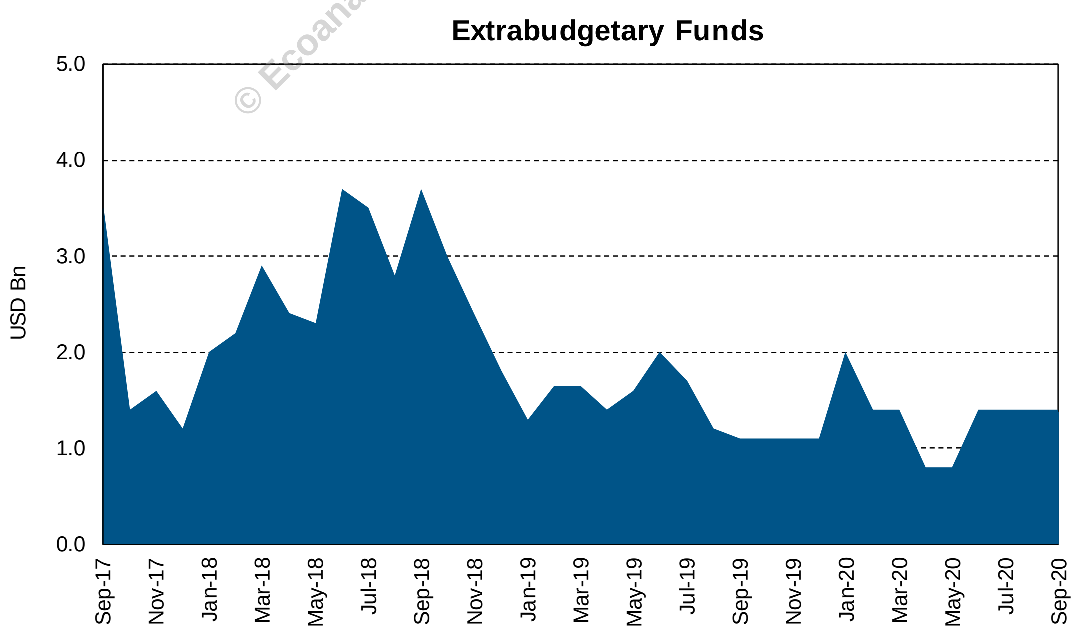
Foreign Currency Availability Indicators

International Reserves



Sources: BCV and Ecoanalítica

Extrabudgetary Funds



Source: Ecoanalítica

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Non-Financial Debt with the Private Sector

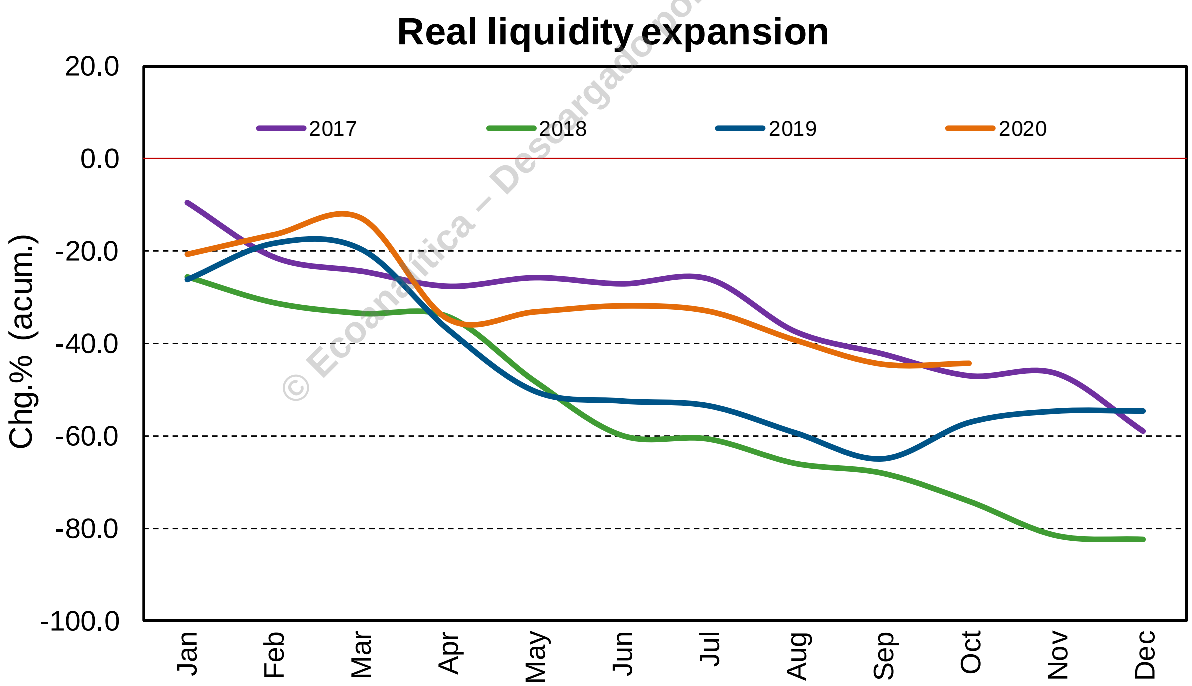
Non-Financial Debt with the Private Sector (USD MM)

	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	y/y (%)	q/q (%)
CADIVI -Non-settled imports	5.4	5.3	5.3	5.3	5.1	-5.5%	-3.5%
CADIVI -Dividends approved and unpaid	0.2	0.2	0.2	0.2	0.2	-1.0%	-1.0%
CADIVI -Rent and Services*	1.1	1.1	1.1	1.1	1.1	-0.8%	-0.2%
Mixed Companies - PDVSA partners	12.4	9.3	9.0	9.0	9.0	-27.5%	-0.1%
Total	**19.1**	**15.9**	**15.6**	**15.6**	**15.4**	**-19.4%**	**-1.3%**

Source: Ecoanalítica
* Includes debt with airlines.

Monetary Indicators

Liquidity (M2)



Sources: BCV and Ecoanalítica

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You should take into account

- The month of November was spent under a framework of partial confinement measures within the "7+7 plus" scheme implemented by the authorities, where most of the economic sectors were allowed to operate in staggered time bands over some weeks while other weeks more severe confinement measures were applied in the capital city and the border states.
- The Venezuelan Central Bank (BCV in Spanish) is considering a project of immediate credit (VCDInme) and immediate debit (VDDInme) payment that will operate with accounts in Bolivars or other currency through the Automated Clearing House. This would allow national banks to issue financial products such as credit or debit cards for accounts in foreign currency and allow individuals and corporations to use them at points of sale.
- According to Bloomberg, BCV officials have met with representatives of at least five private banks in the country to discuss plans for the creation of the foreign currency clearing and settlement system starting in 2021. These private financial institutions already offer foreign currency services such as cash deposits, withdrawals and transfers between accounts at the same bank.
- Unofficial information on a possible increase in the minimum wage has been available since mid-November. Rumors arise because on the website of the Mandatory Housing Savings Fund (FAOV in Spanish) it is not possible to register a worker with a salary of less than VES 1,200,000 or USD 1.23 at the official exchange rate of November 26.
- For the time being, no executive decree has been published in the Official Gazette regarding the increase of the minimum salary, therefore, legally the amount in force is VES 400,000 per month or USD 0.4, as published in the Extraordinary Official Gazette No. 6,532 of April 27, 2020.
- According to the Tanker Trakers portal, exports were approximately 5.5 million barrels as of October 14, which generates a flow of US$ 98 million. In the third week of the month another 2 million barrels were added for USD 32 million, but their destination is unknown. Finally, three oil tankers were sent to Cuba, each with about 300,000 barrels of crude oil.
- According to Argus Media, crude exports averaged 350,000 barrels per day in October after its main trading partners, Repsol, Tipco, and Eni, stopped buying crude, much of the month, because the United States suspended these companies' permission to make diesel to Venezuelan crude swaps with PDVSA.
- Liquidity was VES 277,629,536 million for the week of October 30, a variation of 10.7% in nominal terms with respect to the previous week (October 23) and 938.6% with respect to last year.
- The monthly increase of 10.7% in monetary liquidity could be responding to the monetary financing of the increase in public spending in these weeks prior to the Christmas holidays. In this sense, liquidity has varied on average by 4.4% since the beginning of the year; however, the average variation in liquidity for November and December 2019 was

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8.97%, so it is expected that these variations will remain above the average for the rest of the year.

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