PERSPECTIVE REPORT

Year 16, Number 3
Quarter III

Ecoanalítica
acompañando las buenas decisiones

Between dangerous stability and a silent transformation.

CONTENTS

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Introduction

Venezuela continues to go through turbulent times in the economic, social, and institutional spheres. In addition to being plagued by hyperinflation that does not lose ground, by continuous tensions in the area of exchange and a limited fiscal management plagued by mistakes, the local market is still exposed to the real effects of the COVID-19 pandemic. Until the completion of this report, there were at least 92.325 infected and 801 dead, with an average infection rate of 398,3 cases per day, which is in line with the trend in the region.

In this scenario, the Executive continues to implement an alternative scheme of social distancing as the only direct measure for the containment of the new virus, which consists of partial reopening of local commercial activity (with the exception of school activities) for seven continuous days, followed by a period (of equal duration) of suspension. The remote economy has therefore been the reality of our market in recent months, with effects on employment and income generation for both households and companies in Venezuela.

However, the limitations of the pandemic have led to a new reinvention of the private sector, with more intensive working hours during the weeks of reopening and local companies exploring new market segments and exploiting those services most in demand during the pandemic, such as delivery services, the resurgence of family economies, offers of essential and medical goods and even the buying and selling of foreign currency. Banks, on the other hand, have dedicated greater efforts to diversifying local means of payment, directing their interest to capitalizing on the services associated with local transactions in foreign currency. Such efforts have prevented the decline of the local market from deepening as the pandemic has progressed.

From a macroeconomic perspective, there were several events that marked the local economy in this quarter. In terms of oil activity, Venezuela continued to face limitations in international trade due to the pandemic, and the collapse of local oil industry. Between July and September, official sources reported a production that did not exceed 400 kb/d, that is to say, less than 4.5 barrels per capita and per year, which is equivalent to going back nearly 95 years in terms of production.

On the other hand, the collapse of domestic refining activity and the lack of resources for fuel imports caused the ghosts of the gasoline shortage to resurface last August and, as a consequence, the regulators started a new fuel allocation scheme under the control of the Executive.

As predictable, the decline in oil production has led the Executive to radicalize its inconsistent stance on fiscal matters. Despite the policies of support to the private sector through the traditional scheme of bonuses ("Patria" system) and partial payroll payments to the micro-enterprise sector, the flow of money issued directly by the regulators showed a marked deceleration in its expansion. Although part of this evolution reflects the greater dollarization of local transactions, such behavior also meant a public spending scheme reduced to a minimum, where the money supply was temporarily altered by changes in the legal reserve and its effect on credit.

The Executive's difficulties were further exposed with the latest "renegotiation agreement" proposal made by local Government, over USD 65,500 million of external public debt (currently expired and to be expired), presumably as a strategy to face the new maturities and show a "conciliatory" attitude towards potential creditors.

Internally, neither the pandemic nor the official quarantine has stopped the price increase in Venezuela, although this time at a more moderate pace. Despite not showing a minimum monthly inflation of 50% since the beginning of the containment policies, both the figures of **Ecoanalítica** and the recently revealed numbers of the BCV show that prices experienced an accumulated increase of 105.5% only in the last quarter, with a monthly and daily average of 27.1% and 2.4% more than any other country in the region. In addition to food, other items such as transportation and telecommunications services show the largest increases, associated with a greater demand for such services, along with the limitations derived from local gasoline shortages and failures in internet connectivity services.

In addition to suffering such pressures, the exchange market was subject to multiple modifications, not only because of the alterations in the flow of *bolivares* derived from public sector operations and changes in the regulation of credit in Venezuela, but also because of the climate of uncertainty regarding the duration of the pandemic (and the corresponding official measures) and the government's ability to maintain the new gasoline supply scheme and the possible reappearance of "black" markets.

In terms of regulation, the end of the quarter was marked by the approval of the so-called *Anti-Blockade Law for National Development and the Guarantee of Human Rights*, in addition to the implementation of new periodic cuts in the banking reserve requirements and the prohibition of the supply of domestic payment instruments associated with foreign currency accounts held by Venezuelan banks. Such elements have ended up intensifying doubts about the real stance of the government in the face of a greater flexibility (or deregulation) in private sector activities.

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In the external sphere, the contraction of oil exports and the inability of the Executive to access alternative sources of financing, due to high indebtedness and sanctions imposed by the United States, once again limited the accumulation of external assets. The flow of remittances (as an alternative private source) continues to be reduced, further limiting the ability of households to cope with the quarantine.

Once again, the private sector has been the main supplier of local imports, which have slowed their plunge in recent months due to lower tariffs on the acquisition of finished goods, with oil imports being kept to a minimum. At **Ecoanalítica**, we believe that the trend of public exports will not change during the rest of the year, so the Maduro government will receive less than USD 6,000 MM from oil activities at the end of the year and will have a foreign currency deficit of close to USD 2,300 MM.

Based on the above, at **Ecoanalítica** we project that the Venezuelan economy will show a year-to-year contraction of close to 32.5% by the end of 2020, with an annual inflation of no less than 1,900% and a rise in the exchange rate to 864,000 VES/USD. Both the limitations of the public sector and the deterioration of private consumption will be the main factors behind such results. The rise in prices and exchange rate markers may become more aggressive if the government stops relying on its anti-inflationary position and raises payments in local currency in the coming months (as a compensatory mechanism for the current crisis), as is usual at the close of each year.

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The Oil Sector: Barrels that come and go

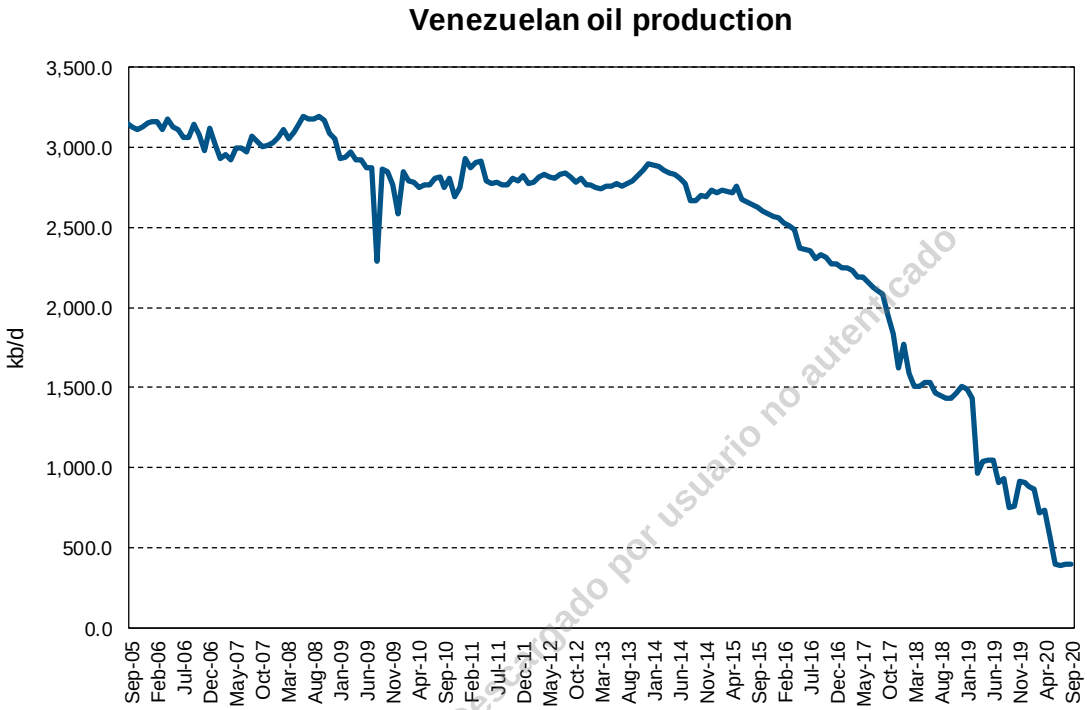
During the third quarter of 2020, the behavior of the oil sector did not experience major deviations from the conditions in effect at the end of the second quarter. On the domestic front, oil production averaged 395 kb/d[1] , while the authorities struggled with logistical obstacles to keep the domestic fuel market supplied. On the external front, a relative increase in exports reduced pressure on the accumulation of inventories, and Venezuelan price markers continued to lag behind those of other oil exporter countries.

It was an oil country

By the end of September, Venezuelan oil production was 397 kb/d, according to official sources, which represents a year-on-year decrease of 352 kb/d, or an annual drop of 47.0% and -85% since September 2013; indeed, 88.0% from its historical peak (September 2002).

In terms of relative declines, Venezuela has the steepest production declines in OPEC[2], which translates into *de facto* compliance, and in excess, of the cuts agreed to by the rest of the organization and from which Venezuela is technically exempt[3].

[1] According to direct communication from OPEC.
[2] Overtaken by Libya, immersed in a civil war since 2014
[3] Along with Iran and Libya.



Sources: Pdvsa, OPEP and Ecoanalítica

At **Ecoanalítica** we consider that the Venezuelan production will naturally converge in the short term to such levels, as long as the storage capacities that would force greater productive losses are not exhausted and logistical problems, such as electricity shortages[4], do not cause permanent losses. Thanks to the absence of major shocks, the third quarter of 2020 saw the absolute monthly variations in production measured in lower barrels since period 2018-2019 and in relative terms since 2003-2018.

[4] In September, 18,556 electrical failures occurred in more than 16 states, affecting the network on which PDVSA depends almost exclusively for its energy needs.

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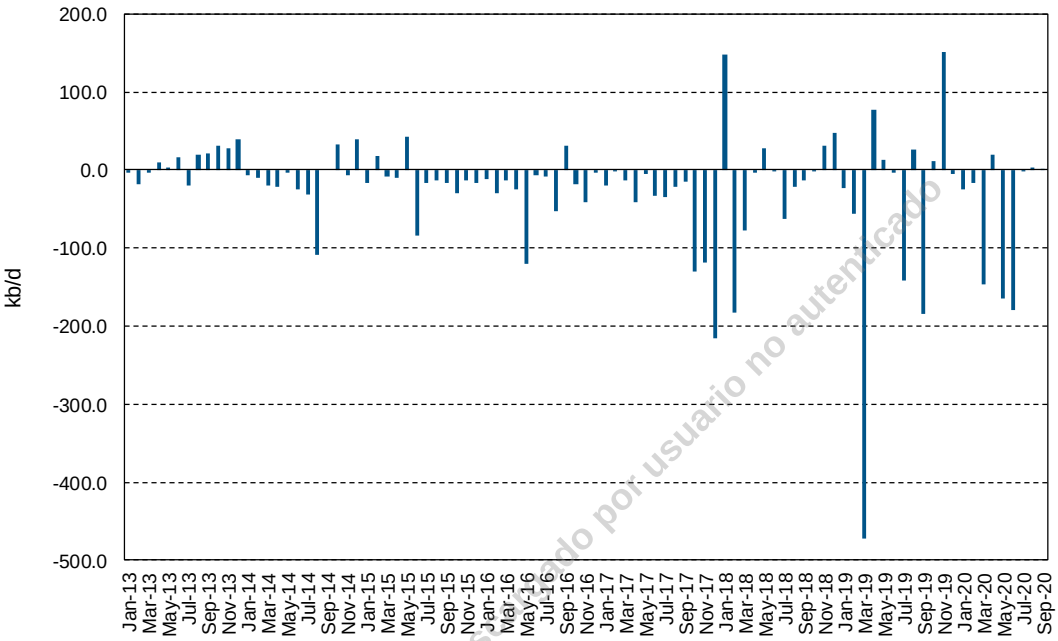
Oil production monthly change



Sources: Pdvsa, OPEP and Ecoanalítica

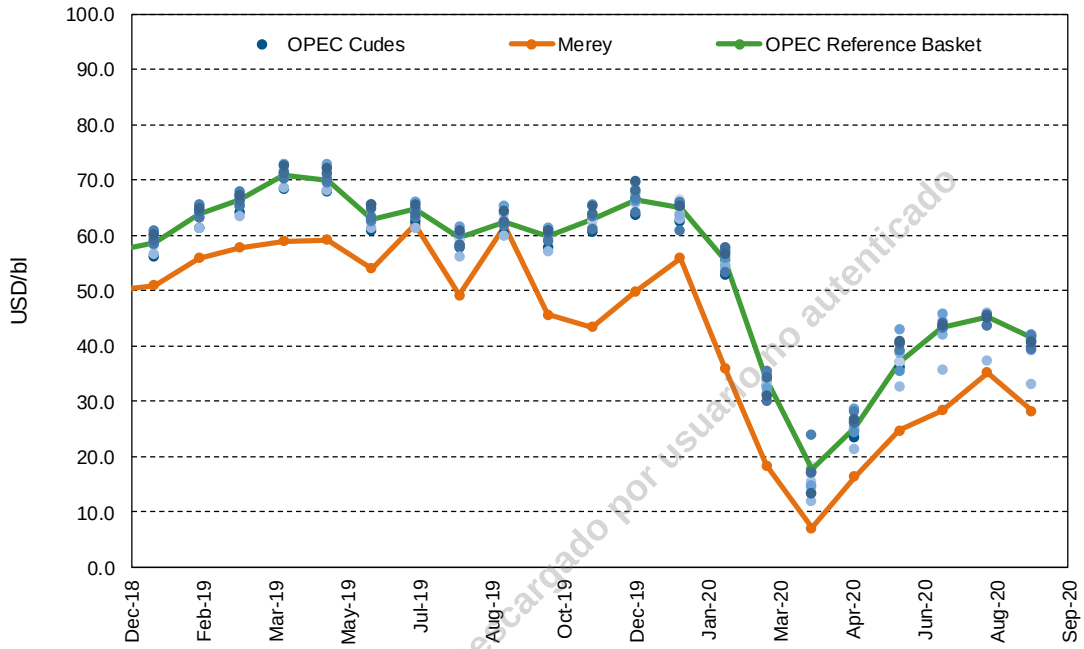
The stability of such production still depends on the development of an environment that remains vulnerable, especially when the marketing challenges are not trivial at all.

One of these is not like the others

Another element where the Venezuelan oil industry moves away from its OPEC peers corresponds to the value of its oil in the international market. Since 2019, PDVSA has focused its production on the Merey compound to adapt to the demand of the Asian market and has commercialized it with forced discounts to enter a region where it faces strong competition and to cover the reputational, legal and financial risks of international sanctions.

Under these conditions, Merey is persistently one of the OPEC compounds with the lowest price. It recorded, by the end of September, an average price of USD 28.22 per barrel (bl), 32.1% below the OPEC basket and 28.8% below the WTI. The difference becomes more atypical when compared to the average price of Iran Heavy (USD 41.93 per barrel), a similar crude coming from a producer who is also subject to US sanctions.

Dispersion of crude oil prices in the OPEC basket



Sources: OPEP and Ecoanalítica

If Merey oil becomes the representative Venezuelan crude in the international market, then its constant lag with respect to contemporary compounds would indicate that there is a limit to the space that Venezuelan oil exports can recover when the environment favors price increases.

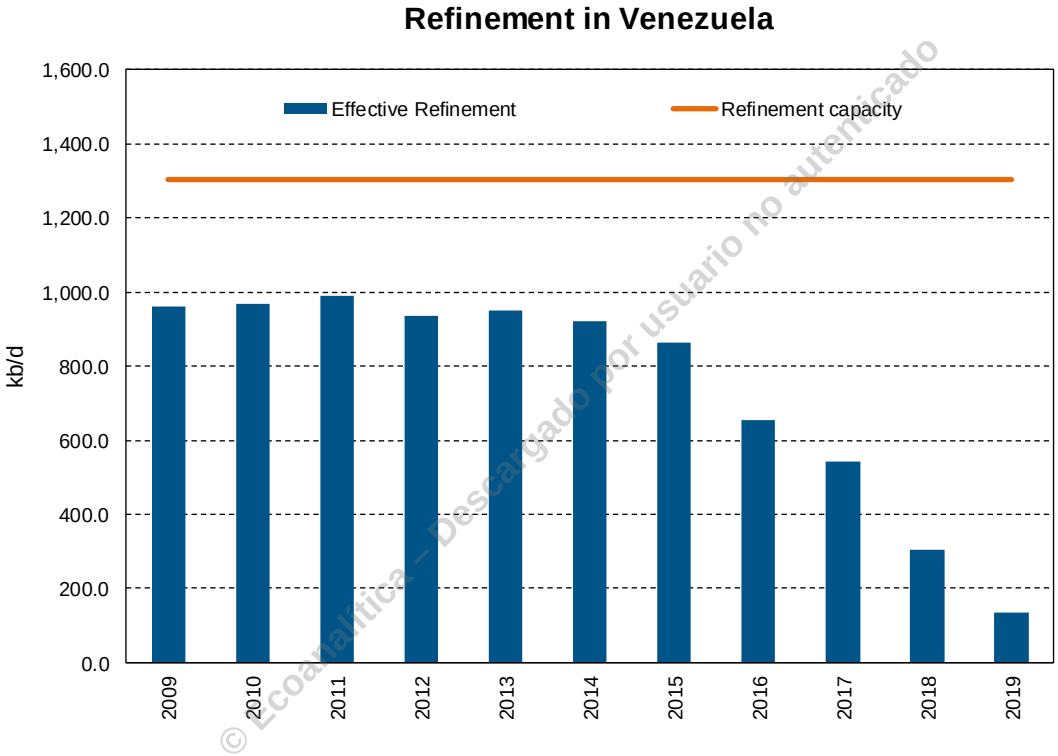
My kingdom for a tank of gasoline

The stability of overall production did not translate into local fuel supply during the semester. Once the first shipment of Iranian crude oil that arrived in May-June was exhausted, the seizure of crude in a second shipment by U.S. authorities in August and operational difficulties in reactivating the local refining complex resulted in some acute fuel shortages outside the capital. On September 11, the Executive announced a temporary rationing scheme, to be applied during 4Q2020, even though a third shipment of Iranian fuel and diluents arrived on October 3.

The Executive has concentrated its efforts on the reactivation of the Paraguaná Refining Center (CRP), which has a refining capacity of 940 kb/d[5] , after repeated failed attempts

[5] With 305 kb/d corresponding to the Cardón refinery and 635 kb/d to the Amuay refinery

to repair the El Palito complex[6], in the state of Carabobo. By the end of September, the effective refining capacity of the CRP complex was close to 127 kb/d and an average of 200 kb/d is projected for mid-October. This slight recovery is not sufficient to satisfy the local market, much less to recover the effective levels of 2013[7] .



Sources: BP and Ecoanalítica

A dose of *Perestroika* in the oil industry?

On September 29, the Executive presented the "*Anti-Blockade Law for National Development and the Guarantee of Human Rights"* for discussion and subsequent approval by the National Constituent Assembly (ANC). The text establishes several provisions that allow the Executive to discretionally reorganize the administrative composition and structure of state-owned companies[8], in addition to lifting restrictions on

[6] With a refining capacity of 140 kb/d
[7] 952 kb/d
[8] For more information on the content of the law, please review the Weekly Report No. 36 *Anti-blocking law: little perestroika and no glasnost*

participation in economic sectors of strategic consideration and where the state reserves exclusive participation.

Although the details of how the application of the law would affect the national oil industry remain unclear, its provisions are consistent with other alleged[9] initiatives of the Executive to restructure its participation in the hydrocarbon sector with a view to stabilizing production and consolidating marketing mechanisms that may evade international sanctions.

Given this panorama in which the Executive seeks to solidify operative structures to adapt to a prolonged context of lower productive capacity, in **Ecoanalítica** we consider that the oil environment will be defined in the coming months by the following tendencies:

- We forecast an average oil production of 537 kb/d by year-end, which will be conditioned by the level of accumulated inventory and the state of physical functional capital in 2021.
- We project that Venezuelan oil prices will close the year in USD 30.6 per barrel (on average), adjusted more to the behavior of the Merey than to that reported by the Venezuelan Oil Basket.
- Deepening of the dependence on foreign fuel supply to meet local demand due to the difficulties in the stable reactivation of national refining complexes.
- The political economy of the Executive's fuel supply will continue to prioritize the capital, at the expense of greater social conflict in other locations.
- If concrete initiatives for the reorganization of the administrative structure of the state oil company are presented, they will continue to face risks of legal legitimization, which may discourage the participation of private parties in the future.

[9] Reuters. (2020). *Cash-strapped Venezuela seeks deal with bondholders despite sanctions*.

The Real Sector: An X-ray of households and companies in COVID-19.

In this quarter, the scheme of flexible commercial activities has remained unchanged from what was seen in previous months: a "restricted" week, when only essential activities can operate, and another "flexible" week, when an extended set of activities is allowed.

However, despite such flexibilities, real and commercial activity in Venezuela continues to be subject to the adverse effects of official containment policies. This calls for a new review of the impacts that the spread of COVID-19 and the containment measures have had on the different sectors of the domestic economy. In this section, we will review the situation of the Venezuelan industry and households in this context and some available employment figures and offer our projections of actual figures for the end of 2020.

Quarantined concerns.

The second quarter 2020 edition of the Qualitative Industrial Survey[10] of the Venezuelan Confederation of Industrialists (Conindustria) offers the most updated measurement of the behavior of key local non-oil sectors. Such survey presents a diagnosis about the difficulties faced by the national industry during the pandemic, as well as various proposals for actions or guidelines that should have been followed in this context.

During that period, 73.0% of those surveyed stated that their supply decreased, highlighting that 8.0% directly had no production at all. This is exacerbated when reviewing the responses from the small business segment: 80.0% stated that their production was significantly reduced and the other 20.0% of the sample stated that they produced nothing. Among the reasons cited by business for this deterioration were low national demand, uncertainty in the political and institutional landscape, the precariousness of public services, competition from imported products, and the scarcity of fuel for transportation and operations.

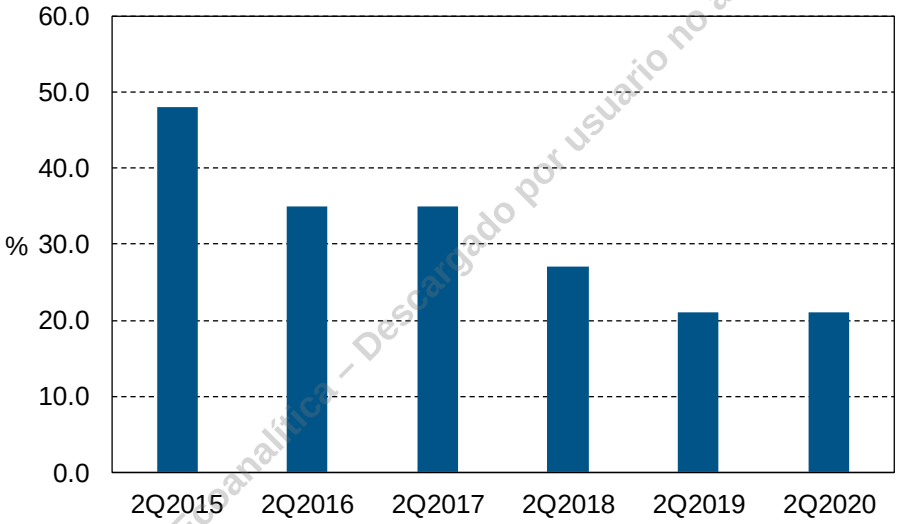
As for the level of sales, approximately seven out of ten respondents said that they decreased during the analyzed period. Again, what was observed in small businesses stood out: all said that their sales had contracted and 89.0% stated that it happened significantly. In this environment, 67.0% stated that their level of investment decreased (27.0% made no investment of any kind). The objective of the few investments made was

[10] Available here.

operations or inventories and only 1.0% would make major acquisitions that were related to buildings or machinery.

This has resulted in an average installed capacity utilization (ICU) of 21.5%[11], which is by far the lowest in South America, where it averages between 60.0% and 70.0%. If values in previous periods were analyzed, we would also find a clear downward trend in the indicator; the ICU in the second quarter of 2018 was 27.0% and in 2015 it was 48.0%.

Installed Capacity Utilization of the Venezuelan Industrial Sector



Sources: Conindustria and Ecoanalítica.

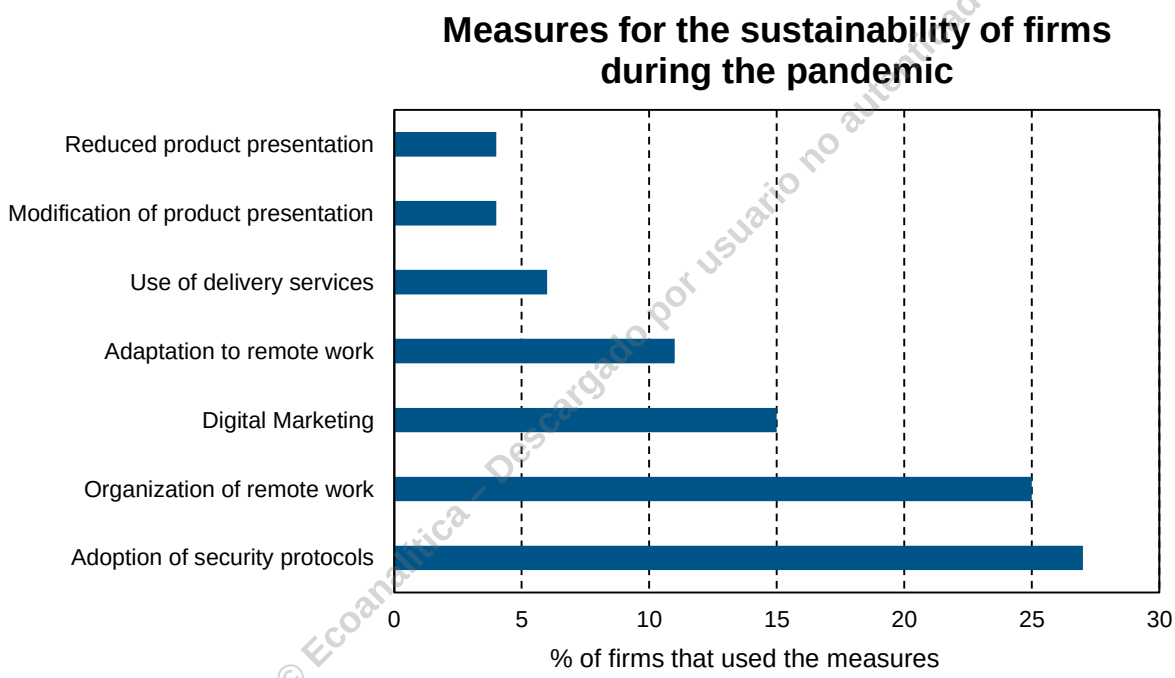
Impacts of quarantine

In addition to the above difficulties, consideration must be given to the adjustments that companies had to make to mitigate the impact related to COVID-19. Firstly, many companies were forced to close production lines, reduce staff and, to a lesser extent, liquidate assets and get into debt to ensure operational continuity.

In order to adapt to the new realities of the business, local firms adopted different measures, like the use of digital marketing, offering, in addition, home delivery services, the organization of teleworking (with the corresponding adaptation of the computer systems that facilitate it) and modifications in the presentation of their products.

[11]Which, even in this context, is the same value estimated for 2Q2019.

However, given that the intention of the national industry is to physically return to work in the plants (according to official statements from the sector itself), the adoption of new biosecurity protocols in the establishments was among the main actions taken. It is through these adjustments that companies will be able to honor their payroll commitments: 58.0% of the companies assured that they are going to keep their labor force during the next six months.



Sources: Conindustria and Ecoanalítica.

Respondents also gave their opinions on what factors allow them to maintain a degree of sustainability in their business, even if absence of COVID-19 pandemic. Among those, they highlighted the company's longevity, for the possible accumulated experience and the solid image of its brand, a highly qualified staff, access to services and high-quality technical support.

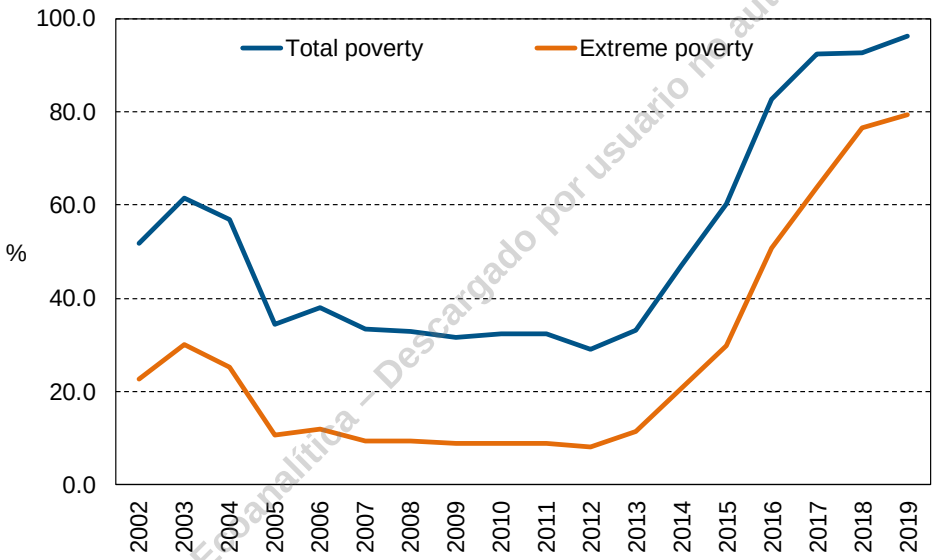
Unfavorable starting point

After reviewing the situation of the industrial companies, we looked at the National Survey of Living Conditions (Encovi in Spanish)[12] to find out the current situation of Venezuelan

[12] Developed by researchers from Universidad Católica Andrés Bello, Universidad Central de Venezuela and Universidad Simón Bolívar, who collected the data between November 2019 and March 2020.

households. Before the arrival of the pandemic to the country, 96.2% of Venezuelan households were classified as "poor", with 79.3% in a state of "extreme poverty". This would represent increases of 3.6 percentage points (pp) and 2.8 pp, respectively, compared to measurements made in 2018. Compared to 2014, the increases in poverty indicators would be 49.2 pp and 58.7 pp, respectively. On the other hand, from the perspective of "biological poverty", the survey identified that 68.0% of Venezuelans do not individually consume a minimum of 2,000 kcal per day.

Evolution of the poverty level at the income level



Sources: INE, Encovi and Ecoanalítica
Note: The indicator shows the proportion of poor Venezuelans of the total.

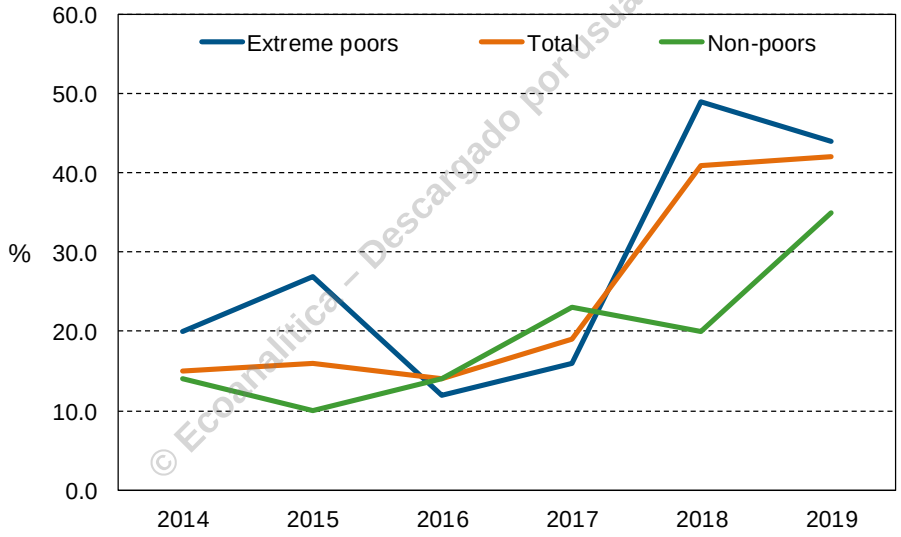
On the other hand, under a multidimensional criterion[13], 64.8% of Venezuelan households were considered poor, which would represent an increase of 13.8 pp over the 2018 measurements and 25.5 pp over 2014. This strong increase in multidimensional poverty would be justified by the deterioration of household income and the greater precariousness of working conditions; however, it highlighted an improvement in the provision and quality of public services and, in certain cases, in housing conditions, due to the fact that some people began to occupy the homes left by the migrant population.

Interrupted by the pandemic and the containment measures, a sample of 9,932 households was taken in several states of the national territory. Survey results are available here.

[13] A criterion developed by Encovi, which takes into account factors such as household income, employment characteristics, education, quality of public services and the conditions of residential housing in order to create a more global indicator.

In labor matters, Encovi pointed out that the most tangible effect of the pandemic and the containment measures has been on the income and employment of the respondents. Income generation capacity is one of the main concerns of households, especially when reviewing the weight that non-labor transfers (whether public or private) had on total household income. For the last edition, non-labor transfers would represent, on average, 44.0% of the income of households in extreme poverty and 35.0% in non-poor households; a ratio that has increased significantly since 2017, since the proportions in that year represented 16.0% and 23.0%, respectively. In other words, the boom in informality in Venezuela is more than tangible.

Weight of non-labor transfers over total income



Source: Encovi and Ecoanalítica

This scenario was a foreseeable consequence of the confinement measures that forced the paralysis of commercial activities in Venezuela, in addition to the loss of jobs and the consequent reduction in household income.

Conindustria's own survey shows, on the other hand, some data on unemployment as seen from the employer's perspective. The measurement indicates that, during 2Q2020, 61.0% of the companies had to reduce the number of employees and only 3.0% claimed to have increased their workforce. With this adjustment, 54.0% expect to maintain the current number of workers over the next twelve months and 37.0% believe they will have to reduce staff.

Finally, Encovi revealed a 6.9 pp increase in the unemployment rate on a national scale and a 10.2 pp increase in the capital region[14] . This would be reflected in the fact that 43.0% of the households surveyed reported the impossibility of working or the loss (total or partial) of their income level. The most affected groups would be the upper strata[15] and those related to the construction, mining, trade and service sectors (transport, hotels and finance).

Major institutional blockages

Recently, the Executive approved, through the National Constituent Assembly, the project of the "*Anti-blockade Law for National Development and the Guarantee of Human Rights*". This new law, in essence, justifies a greater discretionality of the Executive on the decision making in macroeconomic aspects, protecting itself from the sanctions on Venezuelan official organisms and officials.

Prior to its publication, there was an expectation that this new law would involve a greater degree of liberalization and private sector participation in the economy. Although it does allow for such a possibility, the law does not guarantee that the conditions of possible agreements will be optimally developed because the regulations extend the discretion and opacity in which the public sector can operate. At **Ecoanalítica**, we believe that this new law could have a series of repercussions on Venezuelan firms and households. We summarize them below:

- The law may provide for the continuation of the informal adjustment process initiated by the Executive in early 2019 in which it cedes economic spaces in a timely manner, motivated by financial restrictions and political pragmatism rather than as part of a comprehensive economic stabilization program.
- The law does not contemplate or imply a substantial reform of the conduct of national economic policy; therefore, its impact on addressing macroeconomic imbalances will be limited.
- The "avenues of liberalization" are conditioned to an environment of increasing opacity and discretion on the part of the Executive. The law does not provide sufficient guarantees of legal security to ensure that there will be no abrupt changes in government action in the future.

[14] This is because the containment measures, as expressed by respondents, were more strictly enforced than in the rest of the country.
[15] 53.0% of households in the highest income quintile reported being unable to work or having lost their income.

- Such discretion opens the door for collaboration with private actors to be influenced by political preferences, with no indication of an open or transparent bidding process.
- The Executive needs to clarify the details concerning the management of state-owned enterprises in order to evaluate whether, in fact, partial or total privatization of public assets will be consolidated.
- The possibility of introducing new financial mechanisms and instruments opens doors for the adoption of more substitute signs for the *bolívar* within the payment system.
- Technically, it follows the rules of controls that allow the State to resume its intervention in the economic activity if it considers it appropriate.
- Doubts about the legitimacy and future recognition of agreements made under this law may discourage the participation of domestic and foreign private actors.
- Frictions with foreign trading partners can arise from framing economic arrangements within a policy that seeks to accommodate international sanctions, especially if those partners have incentives to avoid being affected by the sanctions.

Confined year closure.

The real sector of the Venezuelan economy is composed of actors with limited possibilities that have been further restricted by the situation of the COVID-19. In the case of the industrial firms, it was necessary to carry out an adjustment exercise to ensure their survival in the short term and, despite this, they do not foresee that the measures taken will have significant repercussions, as only 29.0% expect their production to increase in the next twelve months and 38.0% of those surveyed expect it to remain at current levels. From **Ecoanalítica**, we project a fall in the Manufacturing sector of 35.7% with respect to the previous year.

In addition, the persistence of macroeconomic imbalances and the absence of corrective measures, the diminished business confidence and the current economic policy restrictions on different sectors during the COVID-19 period lead us to project an annual fall in economic activity of 32.5%. In the case of households, the possible extension of containment measures for the remainder of the year would have a negative impact on employment opportunities and their income generation.

This, added to the dependence of households on government transfers in a context of restricted fiscal spending, would lead to a projected fall in private consumption of 27.4% for this year. Furthermore, with the added uncertainty related with COVID-19 pandemic and the contraction of local households and firms' expenditures, it is estimated an annual

decrease of 30.0% on private investment by the end of the year, with a contraction of 46.3% on public investment.

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Fiscal and Monetary Policy: A hands-tied State

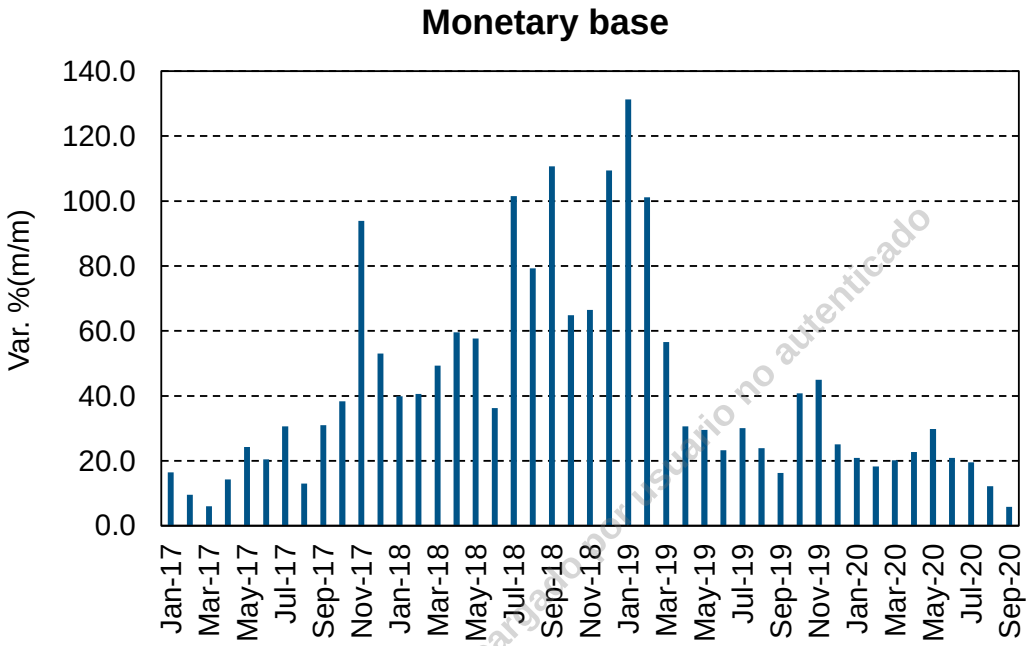
The collapse of income from oil exploitation, the persistence of the local hyperinflationary process and the closure to international financing continue to limit the actions of the Executive to alleviate the effects of confinement on households and firms in Venezuela. Such limitations are clearly in contrast with international experience, where many nations have undertaken a series of adjustments in the fiscal and monetary spheres to try to mitigate some of the damage to their markets from the pandemic.

In that sense, even though a new periodic discount on the legal reserve requirements faced by banks every week was approved, the risks of higher inflation and exchange rate pressures forced regulators to limit fiscal management financed by base money issues. Such restrictions began to increase as the placement of Venezuelan oil in international markets decreased due to the worsening of the global pandemic, and in the midst of a generation of tax revenues that were practically non-existent even with the flexible quarantine schemes.

Such conditions have ended up affecting the granting of direct subsidies (and therefore the most vulnerable population) and public sector imports (and thus the supply of public sector goods and services). In this section, we will review these facts.

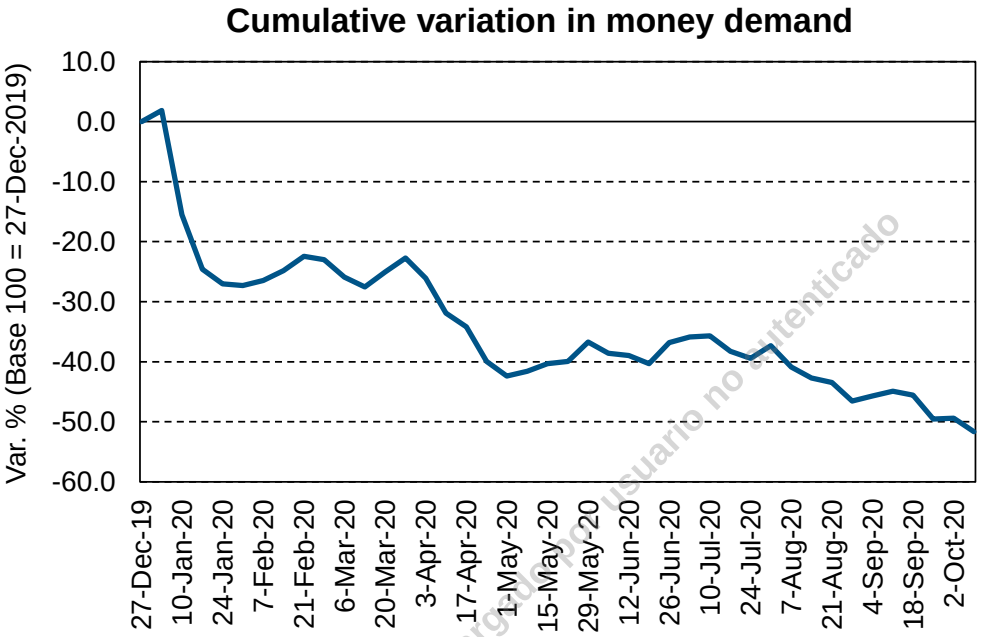
No impulse needed

In recent months, the Executive has radicalized its position of reducing the growth of the monetary base as part of its anti-inflationary strategy, to the point where a significant deceleration of 5.9% of its growth occurred in September. This value would not only represent the lowest monthly variation of the year, but also the lowest since March 2017, following a behavior like that observed in 2015 (where the average monthly increase was 6.7%).



Sources: BCV and Ecoanalítica.

This could be due to two factors. On the one hand, we would be facing a lower transactional demand in local currency associated with the impact of confinement on commercial activity and, on the other hand, we see a fiscal adjustment by the Executive that would only be injecting *bolívares* to cover salaries and bonuses.



Sources: BCV and Ecoanalítica.

In fact, during 2020, the demand for *bolívares* has been reduced by 51.7% until October 9 and 33.3% from March 13 to the same date. In addition to former reasons, this result was also related with the expansion of transactional dollarization in the country, in which the lower demand for *bolívares* suggests that operations in the country have been predominantly carried out in foreign currency. In a study carried out by **Ecoanalítica**, it was revealed that 60.1% of the transactions in Caracas were carried out in foreign currency during the week of July 20, which would represent an increase of 0.9 percentage points with respect to another study carried out in the same city during the second week of February[16] .

Second round of reserve requirements loosening

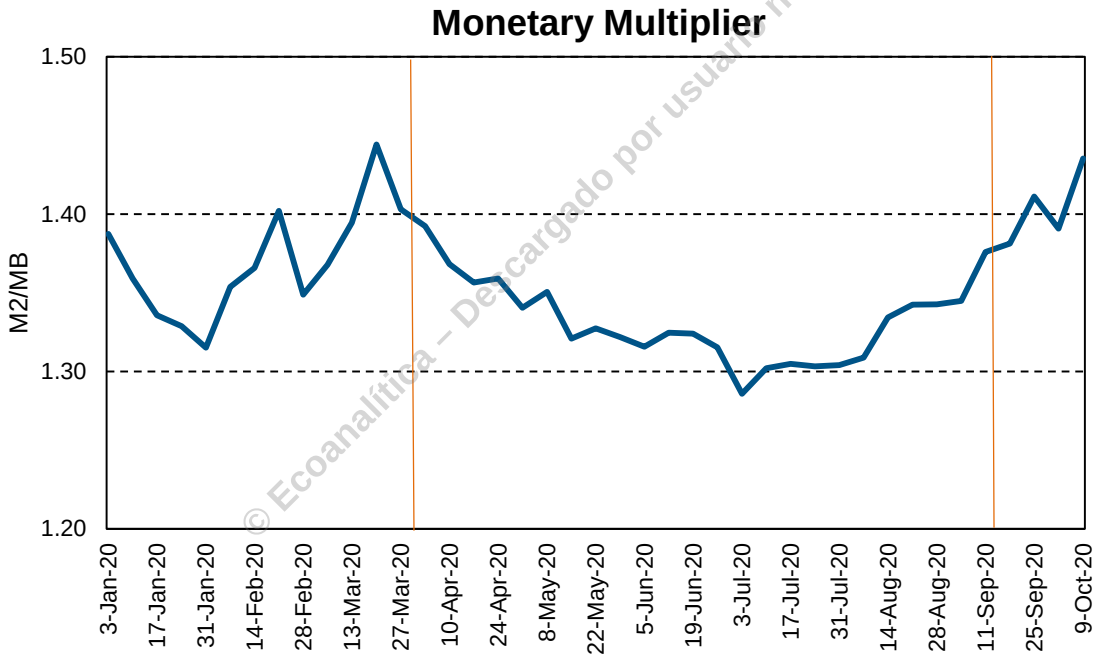
On September 17, by means of Ordinance 20-03-01, the BCV established a new Unique Incentive Amount (MUI in Spanish) for a fixed value of VES 30 trillion per week on the total resources that national entities must maintain in BCV accounts next year.

However, this weekly amount will not be distributed equally among all banks. Similar to the guidelines described in April, the banks that will receive a higher percentage of the

[16] Weekly Report N° 27: *Quarantined Dollarization*. July 2020.

incentive amount will be those that contributed more to the reserve requirement and have shown a lower default with respect to the deficit of the system as a whole. Even with this, the BCV will have the discretion to adjust the acceptable level of non-compliance[17].

Since this incentive consists of a fixed amount in local currency and is subject to an accelerated loss of its real value in the midst of local hyperinflation, the scope of this measure is expected to be as reduced as those discounts to the legal reserve approved since April. In fact, such measures have achieved only slight and transitory recoveries in the generation of secondary money (as a proxy for credit activity) in a few weeks after their application.



Sources: BCV and Ecoanalítica
Lines denote the beginning of reserve requirement discounts

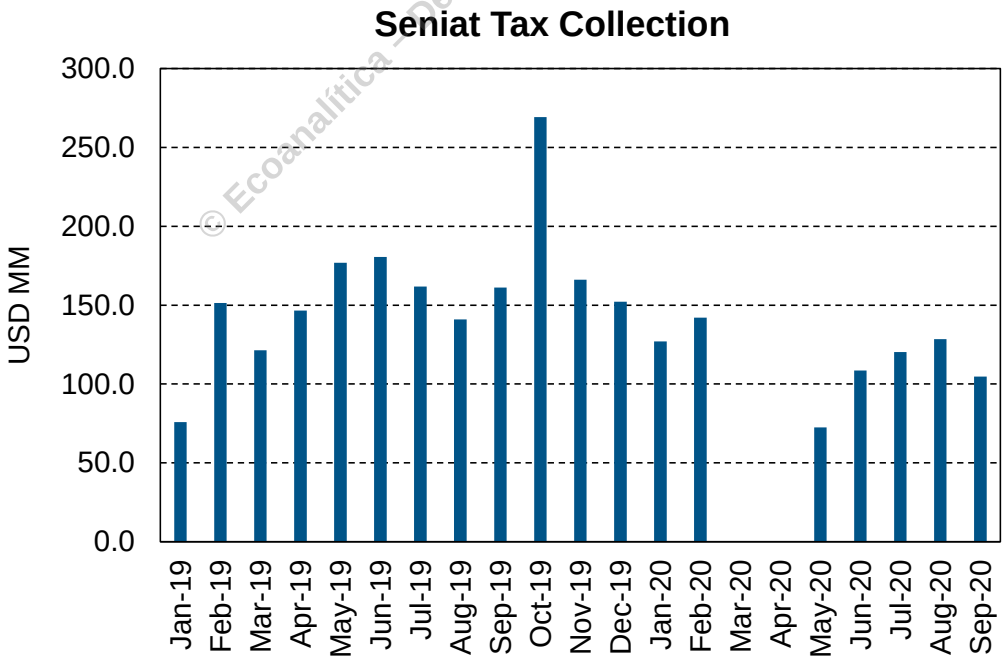
[17] Available here.

Little to offer

The opacity of the State acquired a new angle in the information about its tax revenues. Before the September 2018 observation, the monthly tax collection by the National Integrated Customs and Tax Administration Service (Seniat) was published without fail on its website. Since that date, the information is no longer available in that medium (in fact, the collection for September of that year is still unknown) and has been disclosed in sporadic press releases published by the agency or in announcements on its social networks.

Since this form of disclosure began, there has only been an irregular flow of publications of figures of the components of the total collection. Therefore, the items related to Income Tax, Value Added Tax or Customs Income have lost their value of analysis.

Since the total collection has only been published monthly until March and April of this year, it is not known *a priori* and with accuracy how the collection of taxes was during the first months of the confinement. Fortunately, the rest of the year's figures are available (for now).



Sources: Seniat, Localbitcoin and Ecoanalítica
Note: No values are available for March and April 2020.

January and February 2020 represented an optimistic start in terms of revenue. The average for both months was 18,4% higher (in US dollars) than the same reference period in 2019. Then, in May, the value of total collections was USD 72.6 million, 49.0% less than that observed in February. In June, the value would rise to USD 108.6 million, once the plan for the 7+7 relaxation of the quarantine came into effect, so the reactivation of non-essential activities could have explained the monthly increase in collection.

During the third quarter, with a change from weekly to biweekly VAT payments[18], monthly collection averaged USD 117.8 million, 23.8% less than the previous year's figure and 12.4% less than the average for January and February. As expected, in terms of collection, the Executive's income was reduced on a par with commercial activity.

Quarantine without major bonuses

During the quarters of confinement, the Executive has decided to keep active its platform of transfers to Venezuelan households from the Patria system. Based on the context of the confinement and the need of the households to compensate for their loss of income due to the generalized paralysis of activity, the Executive has opted for new monthly bonds in these last six months, explicitly using the quarantine narrative[19].

However, the total expenditure to be disbursed by the government is unknown in the absence of information related to the number of beneficiaries of each bond. Nevertheless, despite the absence of information, it can be observed that the same logic of minimum wage adjustment lag (mitigating its impact on fiscal spending via pension payments and public sector payroll) is applied to the nominal amounts of the published bonds. Therefore, the total monthly amount that a household would receive[20] would remain, on average, constant in real terms month by month between April and September of this year. If this figure in foreign currency were revised, each household would receive, on average, USD 20.0 per month in the same period, an amount 8.9% lower than that observed in the same period in 2019.

[18] RunRunes. (2020). *Maduro changed the VAT payment mode from weekly to biweekly*.
[19] Such as "#Stay-at-home", "Discipline and Solidarity", "Health and Life", "Discipline and Conscience", "Relative Normality", "Caring and Taking Care of Yourself", "Conscience and Responsibility", "Discipline and Commitment", "United for Life", "Discipline and Will".
[20] In case of being a recipient of all the bonuses every month.

Good news in austerity?

The decline in traditional tax revenues and the impossibility of borrowing have led to a contraction in fiscal spending for this year. As a result, in a context in which several countries have decided to increase their deficit level to counteract the effects of the mandatory quarantine, Venezuela would be one of the few to present a reduction of its deficit, demonstrating the importance of maintaining monetary discipline and avoiding a new worsening of the hyperinflationary process due to the possible measures to mitigate the consequences of the pandemic.

In this context, the new Anti-block Law recently published could emerge as a transitory relief in the nation's fiscal accounts. If the entry of private capital is allowed in search of a possible reactivation of operations in selected state-owned companies, a new source of fiscal income could be available. However, the discretional criteria and opacity from the Executive power could be risk factors that reduce the incentives to invest on these projects[21].

One factor that could contribute to increased fiscal spending shortly is the local parliamentary elections scheduled for December and their importance in the political narrative of the Executive at the international and national levels. This electoral process could bring new disbursements to encourage the participation of the local population, although with impacts over domestic prices that would bound the Government's interest to rise its spending until "politically-costly" levels.

[21] As it has been pointed out in the Weekly N° 36: *Anti-blocking Law: Little perestroika and no glasnost.* October 2020.

Prices and Foreign Exchange Policy: Inflationary Green Mile

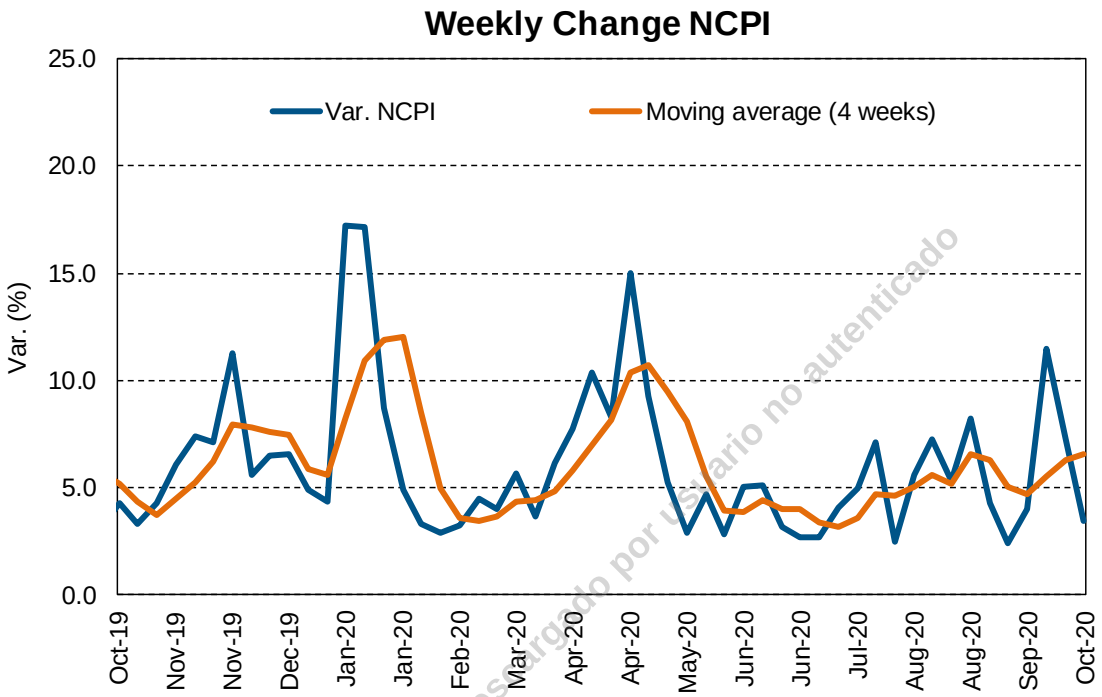
The general trend in prices and exchange rates showcased moderate growth during the third quarter of 2020, when the slowdown registered in the last two months of the second quarter was partially reversed, but without reaching the levels of the shock registered in April. The result is consistent with the *status quo* that emerged during the COVID-19 pandemic. The Executive continues to try to restrict its expenditures in order to contain the rise in exchange rates and prices, and these, in turn, are being counteracted by local inertia characterized by profound asymmetries in the supply of fuel in various locations in the country.

From terminal illness to chronic condition

On the eve of the third anniversary of the hyperinflationary process[22], Venezuelan inflation is settling down around low double-digit monthly variations, with a median of 5.2% since March 2019 and monthly inflation in July, August and September 2020 of 20.9%, 28.7% and 32.1%, respectively.

Median weekly inflation stood at 5.5% for the semester, 0.8 percentage points (pp) below the previous quarter, with the week of September 11 recording the lowest value in the 144-week sample (2.4%). However, the volatility of the second semester was concentrated in April while the third quarter registered more pronounced oscillations[23] compared to May and June.

[22] According to **Ecoanalítica'**s monthly figures and according to Cagan's threshold.
[23] Between July and August, the standard deviation of weekly inflation was 1.99 percentage points, while that of May and June was 1.14 pp.



Source: Ecoanalítica.

The weeks of greater upward pressure on prices may be the result of the fuel shortage since mid-August and the pressure on the demand side due to the modifications in the legal reserve announced in the week of September 25[24], this being the only instance in which inflation exceeded 10%.

Lack of gasoline does not drive engines, but it does drive prices

By separating the accumulated price behavior of the different items and their subsequent impact on the relative price relationship, the results are consistent with an environment where supply chains face logistical difficulties and household consumption is reoriented due to losses in purchasing power.

[24] For further details on the new reserve policy, please refer to our Current Situation Note No. 3: *New "incentives" for bank credit in Venezuela*.

Accumulated inflation by items		
Items	**3Q2020[1]**	**Quarantine[2]**
Foodstuff and non-alcoholic beverages	123.8	642.2
Alcoholic beverages and tobacco	81.8	246.1
Clothing and footwear	50.7	194.2
Housing rent	69.9	148.7
Home services except telephone	118.9	336.4
Home equipment	70.6	250.1
Health	121.2	557.3
Transport	169.1	970.0
Communications	127.3	377.4
Entertainment and culture	78.9	413.8
Education services	95.8	246.9
Restaurants and hotels	101.6	582.5
Other goods and services	82.4	213.1
NCPI Ecoanalítica	**112.5**	**442.8**

Source: Ecoanalítica.

[1]Accumulated inflation of 3Q2020 monthly base.

[2]Accumulated inflation since March 13th up to October 2nd on weekly base.

In that sense, "Transportation" and "Food and non-alcoholic beverages" were the items with the greatest increases, with average inter-monthly variations of 39.5% and 30.9%, respectively, during the semester. In terms of sequence, the costs of obtaining fuel through irregular channels[25] are incorporated into the process of correcting[26] transport prices and are transferred to the cost structures of food items, which, in turn, are subject to inertial pressures because they are at the top of the consumption priorities of an average household.

The other items that have suffered a greater relative increase in price correspond to "Restaurants and hotels", "Communications" and "Health", registering average inter-monthly inflation of 26.4%, 32.2% and 30.4%, respectively. "Health" maintains levels of inflation not very similar to those experienced before the pandemic[27], while "Communications" maintains tariff restrictions despite a greater demand to support teleworking modalities. On the other hand, there is a slight reversion in the increase in the

[25] Reaching prices of USD 2 per liter in some areas of the country, the highest in the world.
[26] Associated with the partial liberalization of tariffs since 2020.
[27] On average, 25.6% between October 2019 and March 2020, compared to 31.8% between April 2020 and September 2020.

price of "Restaurants and Hotels" with respect to that registered in "Food"[28] in 2019, despite the fact that their intermediate costs must be incorporated into both the food and transportation[29] categories. This relative decrease in price may be explained by the reduction of the target market, which before the pandemic had focused on sectors with greater purchasing power and had become essentially a "luxury" good.

Relative price change during quarantine (%)

Item	Foodstuff and non-alcoholic beverages	Alcoholic beverages and tobacco	Clothing and footwear	Housing rent	Home services except telephone	Home equipment	Health	Transport	Communications	Entertainment and culture	Education services	Restaurants and hotels	Other goods and services	Exchange rate
Foodstuff and non-alcoholic beverages	0.0	114.4	152.3	198.4	70.1	112.0	12.9	-30.6	55.5	44.5	114.0	8.8	137.1	46.6
Alcoholic beverages and tobacco	-53.4	0.0	17.7	39.2	-20.7	-1.1	-47.3	-67.7	-27.5	-32.6	-0.2	-49.3	10.6	-31.6
Clothing and footwear	-60.4	-15.0	0.0	18.3	-32.6	-16.0	-55.2	-72.5	-38.4	-42.7	-15.2	-56.9	-6.0	-41.9
Housing rent	-66.5	-28.1	-15.5	0.0	-43.0	-29.0	-62.2	-76.8	-47.9	-51.6	-28.3	-63.6	-20.6	-50.9
Home services except telephone	-41.2	26.1	48.4	75.5	0.0	24.7	-33.6	-59.2	-8.6	-15.1	25.8	-36.1	39.4	-13.8
Home equipment	-52.8	1.2	19.0	40.8	-19.8	0.0	-46.7	-67.3	-26.7	-31.9	0.9	-48.7	11.8	-30.8
Health	-11.5	89.9	123.4	164.3	50.6	87.7	0.0	-38.6	37.7	27.9	89.5	-3.7	109.9	29.9
Transport	44.2	209.1	263.7	330.2	145.2	205.6	62.8	0.0	124.1	108.3	208.5	56.8	241.8	111.4
Communications	-35.7	37.9	62.3	92.0	9.4	36.4	-27.4	-55.4	0.0	-7.1	37.6	-30.0	52.5	-5.7
Entertainment and culture	-30.8	48.4	74.7	106.6	17.7	46.7	-21.8	-52.0	7.6	0.0	48.1	-24.7	64.1	1.5
Education services	-53.3	0.2	17.9	39.5	-20.5	-0.9	-47.2	-67.6	-27.3	-32.5	0.0	-49.2	10.8	-31.5
Restaurants and hotels	-8.0	97.2	132.0	174.4	56.4	94.9	3.8	-36.2	43.0	32.8	96.8	0.0	118.0	34.8
Other goods and services	-57.8	-9.5	6.4	25.9	-28.3	-10.6	-52.4	-70.7	-34.4	-39.1	-9.7	-54.1	0.0	-38.1
Exchange rate	-31.8	46.2	72.1	103.5	16.0	44.6	-23.0	-52.7	6.0	-1.5	45.9	-25.8	61.7	0.0

Change calculated between March 13th and October 2nd.
Source: Ecoanalítica.

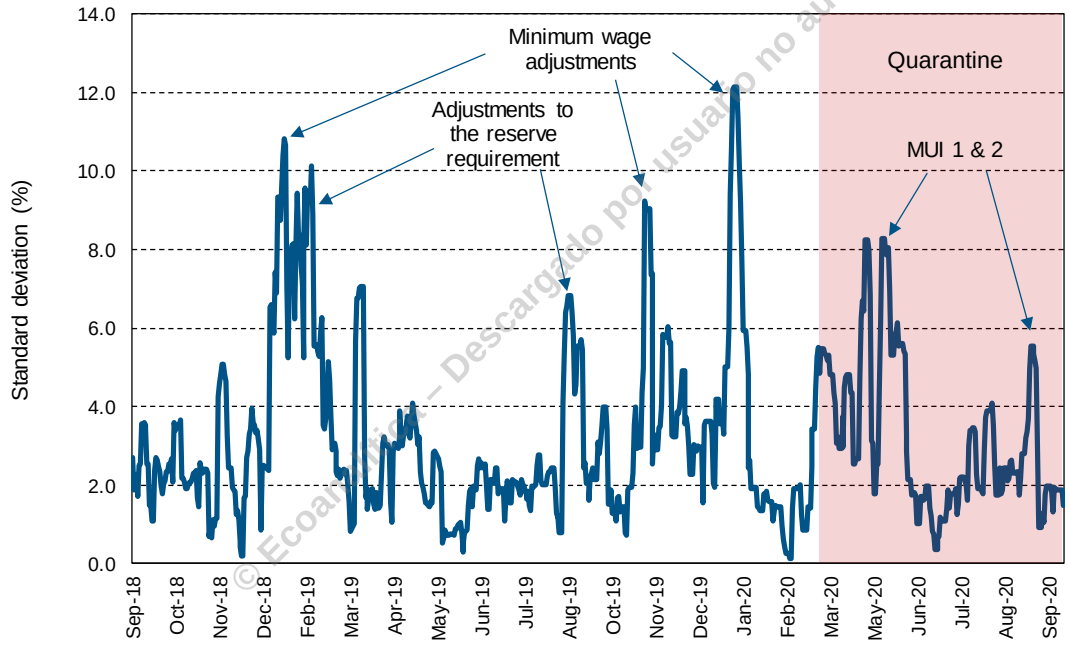
The endless story

As for exchange rate indicators, the exchange rate marker grew at a slower pace compared to the second half of the year, with its most notable peak coinciding with a 13.1% weekly increase in prices in the week of September 25, the highest variation since May 22. At **Ecoanalítica,** we believe that the exchange rate shocks are transitory processes[30], whose proximity to inflation levels in recent months is still insufficient to reverse the real appreciation of the exchange rate since 2018.

[28] In 2019, it recorded a relative increase of 210.1%.
[29] Especially for establishments with home delivery modalities.
[30] For more detail, see our Weekly Report No. 35 2020: A *(very short) guide to understanding and dealing with the recent exchange rate surge.*

Seen through the lens of upward pressure, the weekly increase peak in September is still below what was seen this year. The same is true in daily terms, with the largest daily variation in the exchange rate during the quarantine recorded in April. For practical purposes, the exchange rate volatility associated with economic announcements[31] has been on the decline compared to what was observed in 2018 and 2019.

Daily exchange rate growth volatility



*Calculated with the standard deviation of 7 days on the logarithmic difference of the unofficial nominal exchange rate.
Sources: Ecoanalítica

The reason behind the containment of the exchange rate in these months may be that, despite the incentives for its rise, such as the expectation of marginal increases in credit[32] and pessimism regarding the economic policy of the Executive, Venezuelans face frictions in their ability to acquire and dispose of foreign exchange in a context dictated by the pandemic, especially by the transactional restrictions due to the fall in commercial activity.

[31] Especially minimum wage increases.
[32] For lace discount.

For now, the bad news is only the absence of good news

In short, not much has changed in the dynamics of prices and the foreign exchange market compared to the rest of the pandemic. At **Ecoanalítica** we believe that, by the end of the year, the trends of such indicators will be marked by

- Seasonal inertia associated with higher consumption during the last quarter of the year compared to the rest, especially if the Executive concentrates the execution of lagging expenses in local currency.
- Pressure for greater public spending due to the holding of elections, although its effect is mitigated by low competitiveness and less need for the Executive to spend more for proselytizing reasons.
- Executive decisions on banking adoption of foreign currency instruments can influence exchange rate pressures, especially if the authorities put obstacles to the formalization of financial dollarization.
- Price spikes caused by interruptions and asymmetries in fuel supply.

In this sense, our projections of average monthly inflation for 2020 is 29.3%, with a cumulative variation for the year of 1,963%. We estimate the unofficial exchange rate until VES 863,655/USD by the end of 2020.

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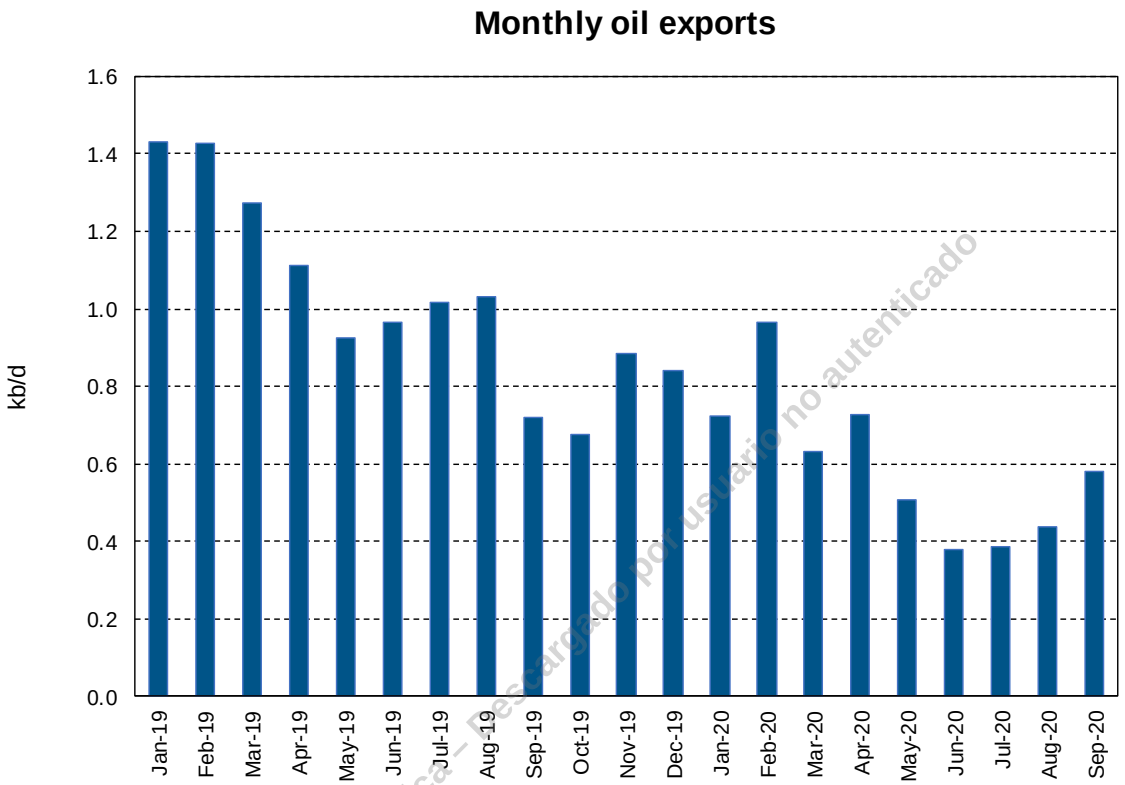
External Sector: Desires do not erase debts

On the external plane, the third semester of 2020 continued the path that the Executive had already traced in 2019, but with aggravated conditions that seem to acquire a permanent character during the COVID-19 pandemic, such as the attempts to establish parallel export and import channels to avoid sanctions, in an environment in which Venezuela is excluded from the external financing mechanisms to which the rest of the developing countries seek access.

20 months in a cat and mouse game

The third quarter saw a slight growth in oil exports[33] , partly due to recent orders from several clients who saw the deadline for exemptions from US sanctions in October and November approaching. Among these clients are[34] Eni (Italy), Repsol (Spain), Tipco Asphal (Thailand) and Reliance (India); the latter finally turned to Canadian crude, even when it had announced in July the resumption of the exchange with PDVSA.

[33] Reaching 580 kb/d in September, the highest level since April.
[34] Reuters. (2020). *Exclusive: PDVSA's customers schedule last oil cargoes amid U.S.-imposed wind-down*.



Sources: OPEP, Pdvsa, Reuters and Ecoanalítica.

For their part, U.S. authorities are actively discouraging private parties from facilitating the transit of crude oil and gasoline to and from Venezuela, although they are ambivalent[35] about closing exceptions to diesel *swaps.* In this sense, PDVSA has tried to consolidate commercialization alternatives, which include the use of its own tankers for crude dispatch[36], the installation of *hubs for* offshore transfers and the procurement of a fleet for the transfer of gasoline from Iran[37]. These are operations conducted with increasing degrees of opacity in the face of the difficulties of obtaining external resources through other means.

On the other hand, after an annual contraction during past January (-51.1%[38]) and despite those limitations imposed by COVID-19 pandemic over global trade activity, imports in Venezuela have reported a lesser contraction than that expected once the pandemic

[35] Argus Media. (2020). *US rethinking Venezuela diesel swaps*.
[36] Reuters. (2020). *PDVSA changes oil deals to include shipping as sanctions bite*.
[37] Bloomberg. (2020). *Venezuela and Iran Resist U.S. Sanctions with Fuel Flotilla*.
[38] The import data was obtained through mirror data from exports of its main trade partners.

begun. Alternative sources for such imports recognized a greater purchase of foreign finished products (an increase of 26% between January and June 2020), clearly favored by the current tax scheme imposed over this kind of goods. Such results reflect the crucial role that imports have on the local supply, which explain, in part, why (despite all the disparities in the Venezuela economy) different stores stay open with their shelves fully stocked, reducing, at least temporally, the fear of shortages, and also is part of the explanation for the behavior of this year's local inflation.

The elusive search for external funding

The impact of the COVID-19 pandemic has tightened the fiscal capacities of developing countries, leading to a significant increase in demand for multilateral financing lines and renegotiation of existing debt conditions. In Latin America, the International Monetary Fund (IMF) has provided until now USD 4,670 million in rapid financing instruments with the objective of addressing urgent balance of payments needs in Panama, Ecuador, Bolivia, among others.

IMF Instruments in Latin America

Country	Financing Instrument	Approved amount (USD MM)
Bahamas	Rapid Financing Instrument (RFI)	250.00
Barbados	Augmentation of Extended Fund Facility (EFF)	90.84
Bolivia	Rapid Financing Instrument (RFI)	327.00
Chile	Flexible Credit Line (FCL)	23,930.00
Colombia	Flexible Credit Line (FCL)	10,748.30
	Augmentation of Flexible Credit Line	6,200.00
Costa Rica	Rapid Financing Instrument (RFI)	508.00
Dominica	Rapid Credit Facility (RCF)	14.00
Dominican Republic	Rapid Financing Instrument (RFI)	650.00
Ecuador	Rapid Financing Instrument (RFI)	643.00
	Extended Fund Facility (EFF)	6,500.00
El Salvador	Rapid Financing Instrument (RFI)	389.00
Grenada	Rapid Credit Facility (RCF)	22.40
Guatemala	Rapid Financing Instrument (RFI)	594.00
Haiti	Rapid Credit Facility (RCF)	111.60
Honduras	Augmentation of SBA & SCF	223.00
Jamaica	Rapid Financing Instrument (RFI)	520.00
Panama	Rapid Financing Instrument (RFI)	515.00
Paraguay	Rapid Financing Instrument (RFI)	274.00
Peru	Flexible Credit Line (FCL)	11,000.00
St. Lucia	Rapid Credit Facility (RCF)	29.20
St. Vicent and the Grenadines	Rapid Credit Facility (RCF)	16.00
Total Amount Approved in LATAM		**63,555.34**

Sources: FMI and Ecoanalítica.

Venezuela, which at the beginning of the pandemic was already in a sensitive fiscal and external situation due to seven years of recession, is excluded from such mechanisms

and instruments. The absence of formal channels of contact between the executive and the multilaterals[39] and the disputes for legitimacy between the executive and the legislature mean that the conditions for the formalization of large-scale financial assistance programs are not met. This is a situation in which national authorities do not have much leeway to respond unilaterally.

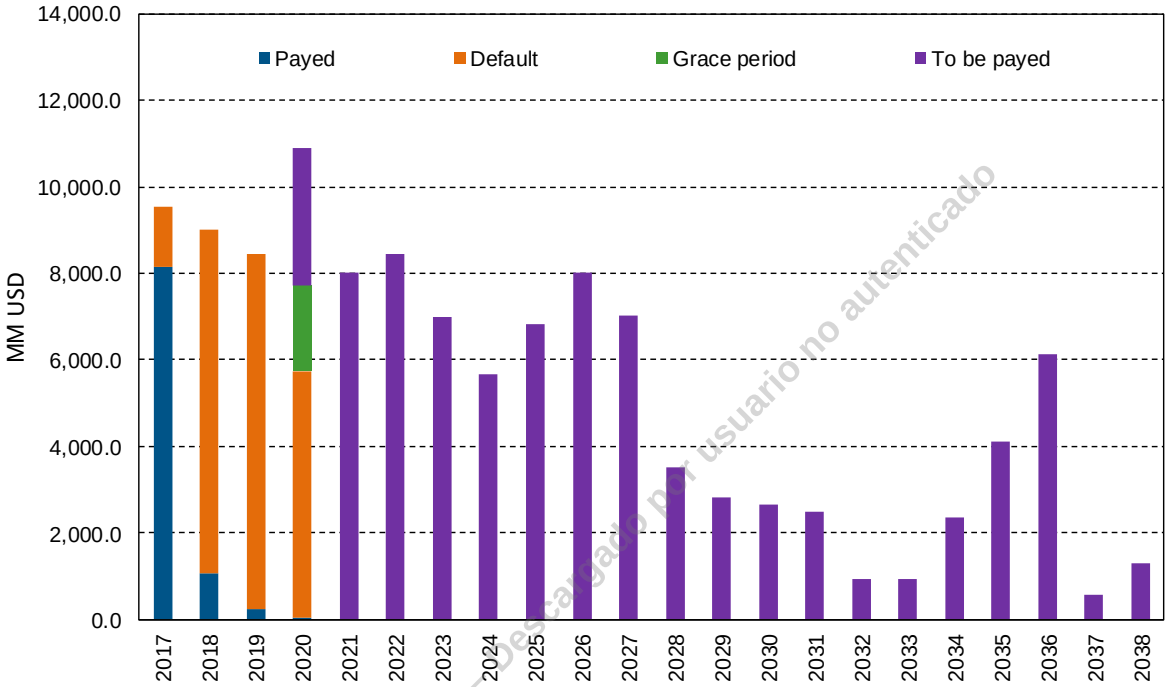
Restructuring cries fall on deaf ears

On September 15, the Executive, from the Ministry of Finance, issued a conditional offer[40] to Venezuelan bond holders[41] to agree to interruptions and suspensions in the terms of prescription of instruments, in exchange for the creditors not continuing with claims and judicial procedures related to the maturity or default of such bonds. The Ministry gave a 30-day period for creditors to respond.

In essence, the Executive seeks to resume the debt restructuring and refinancing procedure that it unilaterally announced in November 2017 at the beginning of the default of its instruments and the imposition of financial sanctions. By the end of the third quarter, there were no signs of substantial coordination by creditors to accept the terms of the agreement. In the meantime, the accumulation of *default* conditions continues.

[39] The IMF mission has not been able to conduct a local review since 2004.
[40] MPPEF. (2020). *Venezuela proposes conditional offer to holders of PDVSA and Electricidad de Caracas bonds*.
[41] Both of the Republic and of PDVSA.

Financial debt repayment schedule (2017-2038)



Note: Includes principal and interest payments of bonds of the Republic, PDVSA and Electricidad de Caracas.
Sources: Ecoanalítica.

Resisting the tide

At **Ecoanalítica** we estimate that the external income received by domestic economy could reach USD 8,600 million by end of 2020, which, when contrasted with potential expenditures of USD 10,300 million[42], would result in a deficit of almost USD 1,800 million on this year, excluding public payments to bilateral creditors (Russia).

[42] Based on non-oil imports of USD 4,300 million.

Currency Cash Flow							
Item (Billion USD)	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020
Income							
Net Oil Income	31.6	22.4	3.0	0.7	1.2	0.8	5.7
Non-Oil Income	3.9	5.4	0.5	0.5	0.9	0.9	2.8
Total Income	**35.5**	**27.8**	**3.5**	**1.2**	**2.1**	**1.8**	**8.5**
Expenditure	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Oil imports	-3.5	**-3.7**	-0.7	-0.2	-0.3	-0.2	**-1.4**
Other imports[2]	-12.1	-4.0	-0.8	-1.2	-1.1	-1.2	-4.3
Net Services	-6.2	-6.3	-0.9	-0.9	-0.8	-1.0	-3.7
Net Rents	-8.0	-7.3	-1.0	-0.2	-0.3	-0.3	-1.7
Current Transfers	2.0	3.5	0.5	0.4	0.4	0.4	1.7
External Debt Service	-4.5	-4.4	-0.2	0.0	-0.1	-0.1	-0.3
Net Capital Outflows	2.3	1.1	-0.1	-0.1	-0.2	-0.2	-0.7
Total Expenditure	**-30.0**	**-21.0**	**-3.2**	**-2.2**	**-2.4**	**-2.6**	**-10.3**
Balance	**5.5**	**6.8**	**0.3**	**-1.0**	**-0.3**	**-0.8**	**-1.8**
Financing (MM USD)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net Flow with China	-4.2	-3.2	0.0	0.0	0.0	0.0	0.0
Net Flow with Russia (Rosneft)	-3.2	-1.9	-0.5	0.0	0.0	0.0	-0.5
Net Balance	**-2.0**	**1.7**	**-0.1**	**-1.0**	**-0.3**	**-0.8**	**-2.3**

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

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

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

Under these conditions, at **Ecoanalítica** we consider that the external environment for the closing of the year, and the beginning of the next one, will be delimited by the following tendencies or events:

- The results of the elections in the United States could indicate the continuation or modification of the current policy of sanctions and protection of assets in the medium and long term, which influences the expectations of the Executive and the commercial partners with respect to which channels of interaction to employ; however, the substantial adjustments in the sanctions regime will hardly be made explicit before the first quarter of 2021.
- In the short term, the escalation of sanctions to cover diesel *swap* operations would have, in the margin, little impact on the cash flow perceived by the Executive, but it would have collateral effects on local transport and agricultural supply activity, with non-trivial humanitarian impacts.
- Moderate increase in exports that may extend into the fourth quarter as the end of the period that some trading partners have to disengage their activities with Venezuela approaches. Thereafter, export levels could see downward pressure if new customers are not found.
- Emptying inventories to boost exports means lower capital expenditures than a higher level of oil production would require. This inventory reduction would

moderately improve the balance between foreign exchange earnings and expenditures in the oil sector.

- Executive import priorities in the short term concentrated on fuel supply, followed by basic foodstuffs not produced locally. For the rest of the items, the Executive implicitly cedes the space to be occupied by the private sector.
- The year ends without the Executive being able to seek external multilateral or bilateral financing, beyond limited agreements to ease the burden of debt with China and Russia.
- Unsuccessful offers for agreed suspension of bond payments and proposals for debt restructuring. The absence of a credible macroeconomic stabilization plan and the persistence of external constraints make it difficult for creditors to accept the terms demanded by the Executive.
- Possible renewal of judicial proceedings for the liquidation of assets by external creditors in view of the uncertainty regarding the effective negotiation capacity of authorities linked to the National Assembly once their term ends in January 2021.

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Conclusion: ¿Stability or transformation?

During the third quarter, numerous challenges were faced by the main players in our economy to deal with the current crisis. In the external sphere, both the effects of the pandemic at the global level and the sanctions imposed by the United States are elements that limit the capacity of the State to generate external resources, which has implications in the fiscal sphere. It is estimated that, at the end of the year, the local oil industry does not export (on average) more than 544 kb/d, which will generate less than USD 5,700 million in net foreign currency income to the local economy, 70.0% less than last year.

In this sense, the government's management will continue to be limited, with reduced direct subsidies and sporadic support to the private sector and a reduced supply of foreign currency. In this context, the role of private suppliers in imports will continue to be predominant in the coming months; however, to the extent that their income generation is affected by the ravages of the pandemic, import activity may be altered in the coming months, with potential effects on local market supply and prices.

Local activity will continue to operate under the spectrum of the pandemic, with a smaller market, adverse effects on formal employment, a price and exchange rate environment subject to the ability of the private sector to provide goods and services, and uncertainty about the Executive's actions to contain the pandemic. As a result, the Venezuelan economy would close 2020 with a contraction of close to 32.5%, which will continue (although to a lesser extent) next year if the difficulties in oil and fiscal activities continue, in addition to the decline in private consumption still affected by the adverse effects of the pandemic.

Hyperinflation in Venezuela and exchange rate increases continue to advance. Despite the cessation of activities and the collapse of private consumption as a result of the pandemic, such persistence suggests that the monetary imbalances and institutional failures behind such processes remain in place even in quarantine; therefore, it is foreseeable that price pressures will intensify for the rest of the year if the government expands its spending in the coming months, as part of its strategy to alleviate the current crisis. We therefore estimate inflation at no less than 1,963% for this year, with similar levels for next year if the fiscal *throw-and-cut* persists and, with it, exchange rate instability. Such scenarios will be subject to next year's events in transactional matters, in which prices will be partially contained by the deepening of local dollarization.

Within this framework, the strategies to be followed by the private sector could be comprised as follow:

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- The main premise is flexibility (now more than ever) in the financial management of the business. In that sense, a key aspect will continue to be the coverage of the company against losses due to inflation. Thus, the recurrent exchange rate tensions that are expected will allow local firms to take advantage of transitory recoveries in the value of foreign currencies by quickly acquiring them as a hedging mechanism, before prices capture that adjustment and dollars become more expensive in real terms.

- However, to the extent that the exchange rate can mitigate its weekly increases (and prices continue to rise faster), the rapid accumulation of inventories would appear to be the best option for suppliers of goods. This coverage could also include other goods or inputs essential to the operation of the business such as the acquisition of equipment, spare parts, other inputs for resale or the purchase of fuel. The latter strategy may be key to addressing expected local gasoline shortages in the short term.

- Given the constant adjustment of prices, companies must gain efficiency to maintain their profit margins, not only by creating coverage against the rise in the prices they confront but also by reducing costs. Thus, using minimum supplies, better workforce management, adjusting to lower demand (or a different consumption pattern), taking advantage of new distribution/payment channels that have emerged in the aftermath of the pandemic, and reviewing their network of suppliers can serve as strategies to better ensure such efficiency.

- In relation to the above, local companies should prepare a business map in order to identify the critical areas of their activities and those most affected by the prevailing macroeconomic environment, setting short-term objectives that can be adjusted according to the context or in the face of regulatory changes. At least in the coming weeks, one element that will continue to condition the continuity of the business is the lack of bank credit supply, which merits its incorporation as an important element within the planning of the company.

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Tables

Variables	2018	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)
Output indicators (Annual changes on %) [1/]						
Gross Domestic Product (GDP)	-19.6	-39.8	-32.5	-1.1	5.1	12.6
Domestic Aggregate Demand	-21.3	-39.8	-33.0	-4.8	6.2	11.8
Total Consumption	-17.3	-38.2	-28.2	-8.2	4.8	11.5
Public consumption	-20.1	-43.2	-27.4	-2.1	5.9	12.6
Private consumption	-9.1	-25.0	-29.7	-20.8	2.1	8.7
Gross fixed capital formation	-37.5	-36.0	-46.3	-2.6	5.7	4.8
Public gross capital formation	n/d	-32.6	-54.2	-7.5	2.0	2.0
Private gross capital formation	n/d	-42.2	-30.0	4.1	10.2	7.9
Total exports	-10.8	-23.0	-44.3	13.3	10.3	13.3
Oil exports	n/d	-26.0	-48.8	10.4	8.3	19.3
Non-Oil exports	n/d	12.0	-47.6	21.1	5.4	8.3
Exports of services	n/d	-10.4	-10.0	13.0	24.0	1.7
Total imports	0.3	-22.8	-46.9	-6.1	17.6	9.7
Imports of goods	n/d	-22.8	-49.7	-11.3	8.9	10.0
Imports of services	n/d	-22.9	-37.7	7.7	36.6	9.1
Real results by sectors (Annual changes on %) [1/]						
Per capita GDP	-23.0	-40.5	-33.2	-2.0	4.1	11.5
Oil GDP	-24.1	-19.9	-35.5	2.6	8.2	11.9
Non-Oil GDP	-18.9	-42.7	-32.1	-1.5	3.3	13.9
Prices indicators (Annual changes on %)						
NCPI-based inflation, eop (2007 = 100)	130,060	9,584	1,962.9	1,115.1	99.5	66.4
NCPI-based inflation, aop (2007 = 100)	65,374	19,906	2,136.5	1,152.7	298.9	76.9
CPI-based inflation, eop (2007 = 100)	176,298	10,095	1,780.2	1,250.0	103.5	69.2
CPI-based inflation, aop (2007 = 100)	117,446	20,026	2,030.9	1,222.9	315.7	80.1
WPI-based inflation, eop (2007 = 100)	357,207	8,772	2,191.1	1,209.9	105.2	73.1
WPI-based inflation, aop (2007 = 100)	251,668	21,364	3,047.9	1,048.8	188.4	61.3
Official exchange rate, eop (VES/USD)	638.2	46,621	845,618	11,217,622	30,047,337	54,853,931
Official exchange rate, aop (VES/USD)	86.9	15,897	318,433	4,251,867	22,335,059	42,500,932
Non-Official exchange rate, eop (VES/USD)	739.7	55,212	863,655	11,456,883	30,504,911	54,908,840
Non-Official exchange rate, aop (VES/USD)	115.1	16,504	326,053	4,342,555	22,811,443	42,543,475

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

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

Source: BCV and Ecoanalítica.

Variables	2018	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)
Money market (Annual changes on %)						
Monetary aggregates						
Money Base (BM)	43,949.9	7,172.4	767.4	674.8	196.7	72.0
Money (M1)	63,384.9	4,951.4	844.8	713.7	237.4	75.5
Broad money (M2)	63,257.3	4,945.6	895.7	710.0	236.2	77.4
Monetary multiplier (M2/BM)	1.85	1.28	1.48	1.55	1.75	1.81
Interest rates (levels, %)						
Bank lending rate (average)	21.9	29.3	47.1	55.3	33.4	33.8
Time- deposit rate (average)	12.5	20.3	25.0	33.2	23.4	26.8
External sector (Annual changes on %)						
Balance of payments						
Export of goods (USD MM)	33,677	25,124	8,762	10,686	13,762	17,056
Export of goods	-1.0	-25.4	-65.2	22.0	28.8	23.9
Oil exports (USD MM)	29,810	19,724	5,927	7,191	10,046	13,001
Oil exports	-5.4	-33.8	-70.0	21.3	39.7	29.4
Total imports (USD MM)	12,782	9,551	5,104	4,678	5,233	5,843
Total imports	6.3	-25.3	-46.6	-8.3	11.9	11.7
Trade balance (USD MM)	20,895	15,573	3,658	6,008	8,529	11,213
Trade balance (USD MM)	-6,260	-6,303	-3,590	-3,982	-5,273	-5,894
Rents and transfers (USD MM)	-6,022	-3,385	108	641	373	-3,114
Current account balance (USD MM)	8,613	5,885	176	2,667	3,629	2,204
Current account and financial balance (USD MM)	-3,765	-4,583	-1,010	-917	-708	-1,133
Balancing item (USD MM)	-3,893	-3,265	-327	-980	-1,959	-1,959
BOP balance (USD MM)	955	-1,964	-1,160	771	962	-887
Gross International Reserves (USD MM)	8,837	6,635	5,475	6,245	7,207	6,320
Operative International Reserves (USD MM)	3,117	1,385	1,193	2,908	3,869	4,182
Oil sector						
Oil crude production (PDVSA's definition, kb/d)	1,517	1,022	537	590	640	762
Precio Cesta petrolera Venezuelana (USD/b)	63.7	57.0	30.6	37.5	42.3	45.9
Demographics and labor indicators (Annual change, %)						
Population						
Total Population (thousand)	32,370	32,769	33,100	33,430	33,765	34,102
Labour force (thousand)	12,441	10,786	9,857	10,033	9,857	9,935
Labour						
Unemployment (% of labor force)	15.2	27.3	44.2	39.6	37.5	33.6
Minimun wage (thousands of VES)	4,500	150,000	1,100,000	6,500,000	10,700,000	15,323,919
Minimun wage (%)	253,411.1	3,233.3	647.8	501.8	64.7	43.1

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Source: BCV and Ecoanalítica.

Variables	2018	2019 (*)	2020 (*)	2021 (*)	2022 (*)	2023 (*)
Real output indicators (Annual changes on %) 1/						
Gross Domestic Product (GDP), by sectors						
Agriculture	-16.3	-25.0	-29.5	3.0	6.3	10.0
Minig	0.3	-22.1	-20.0	-10.6	5.1	12.0
Manufacturing	-39.3	-48.5	-35.7	0.1	4.7	16.4
Construction	-52.2	-38.0	-52.3	7.1	-6.6	11.3
Water and electricity	-14.6	-36.1	-39.0	-5.0	3.4	7.5
Commercial sector and remediation services	-34.7	-47.5	-42.1	-4.6	8.4	12.9
Transport and storage	-28.4	-59.8	-45.9	-7.4	8.6	11.8
Communications	-5.8	-37.2	-21.6	1.6	4.9	5.5
Financial institutions and insurance companies	-45.5	-51.1	-52.1	0.7	9.7	17.4
Government services	-6.7	-40.6	-45.2	-16.1	2.1	13.5
Other services	-10.5	-69.1	-7.1	7.6	15.5	18.5
Non-oil goods	-40.8	-37.6	-35.2	0.3	4.3	12.0
Non-oil services	-12.7	-44.1	-31.1	-2.0	3.0	14.5

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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