



## Venezuela Economic Outlook

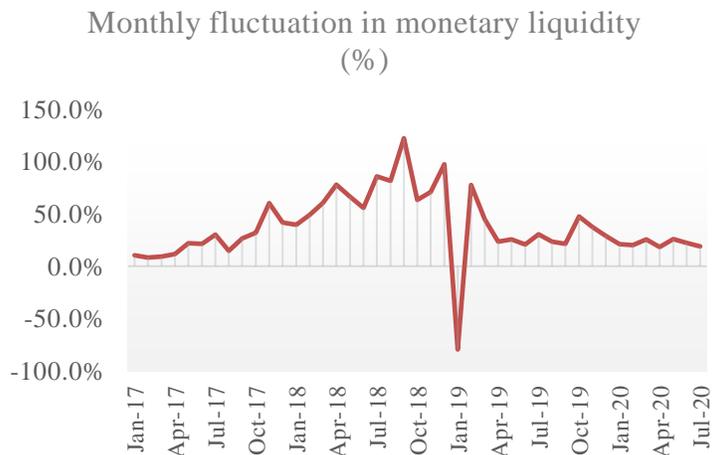
By Arca Análisis Económico

Here is our monthly summary of recent economic developments in Venezuela:

- In order to curb the infection spread of COVID-19, the government of Nicolás Maduro has implemented mobility restriction measures that have been enforced with the help of state security forces. However, in light of the country's urgent need to maintain a minimum of economic and commercial activity, since June 1, 2020, the country has officially eased restrictions, known as the "quarantine flexibilization," which allows greater mobility within and between states.
- The government has chosen to periodically switch the flexibilization with the radicalization of the mobility restrictions. For example, if during one week citizens can circulate with a certain level of freedom, during the following week the surveillance is stricter and documents that attest the need to circulate the streets are required (safeguards).
- Although problems with fuel supply persist and shortages have increased once again – particularly in cities other than Caracas there is a notable increase in transit and commercial activity during the flexibilization weeks, during which certain establishments (such as shopping centers) are also allowed to be open to the public.
- The alarm state that was enforced during June and July, was extended for the fifth time in August, considering the fact that the record of daily infections continues to rise. As of Sept. 10, 2020, the country had reported 56,751 cases, with 45,318 patients recovered and 452 deaths.
- Given the severe restriction to inputs that allow production reactivation, as well as cost increases that is reasonably entailed by the productive activity in the midst of the pandemic, the goods and services supply in Venezuela continues to be limited and relatively expensive. According to the Central Bank of Venezuela (BCV), the monthly variation of the Consumer Price Index (CPI) has been 19 percent for July. The cumulative inflation in 2020 has reached 491.9 percent and a year-on-year variation of 2,239.9 percent.
- The price of communications reported a 91.9 percent increase, which contrasts with just 16.2 percent increase in the prices of food and nonalcoholic drinks. Opportunities in the Communications sector are expected inasmuch as current fixed and mobile telephone and internet providers have a very limited capacity to improve their service offerings, particularly in view of the increased demand for high-speed internet services in residential areas, required to support remote working and education activities.
- It should be noted that monetary liquidity has increased in 2020 by a monthly average of 20 percent. The month of August will follow this trend because the government maintains a policy of reducing the issuance of fiat money through a restrictive reserve policy. However, there are still public expenditures that can only be financed monetarily. An

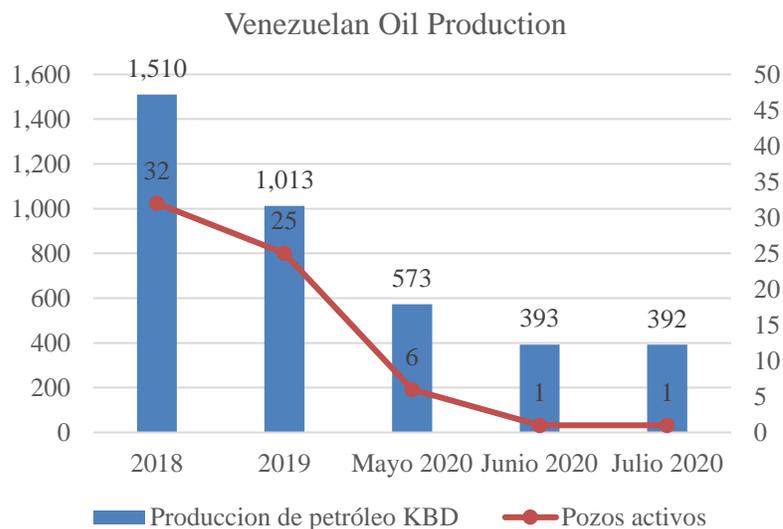


example of this is payments associated with pensions and social security, as well as the aid program provided by the *Patria* System.



Source: Central Bank of Venezuela

- On the other hand, reserves closed at US\$6.403 billion (a decrease of US\$113 million with respect to July). However, this slump mainly reflects the US\$467 million decrease in Foreign Currency Investments account as a result of the reclassification of foreign currency assets and liabilities with connection to the Latin American Reserve Fund (FLAR) on March 31, 2020.
- The Monetary Gold account increased by US\$204 million in the first semester of 2020, reaching US\$4.993 billion, despite a decrease in the sum of monetary gold. Tenure for physical gold decreased by 6.8 tons, amounting to 97.7 tons, and the effect of this slump was offset by the increase in the spot gold price used by the Central Bank of Venezuela (BCV) to value its tenures. Of the 97.7 tons reflected in international reserves, 31 tons are held by the Bank of England. Thus, the balance held by the BCV would amount to 66.7 tons, with a total value of US\$3.408 billion at an average BCV price.
- According to an OPEC report published on Aug. 12, 2020, Venezuelan oil production remained virtually stable in July compared to June, increasing from 336,000 barrels per day to 339,000 barrels per day, according to secondary sources, and from 393,000 barrels per day to 392,000 barrels per day, according to direct communications.



Source: Monthly Oil Market Report - August 2020

- According to Reuters on Aug. 12, 2020, the Chinese government granted Venezuela flexibility in debt payments. The grace period for amortizations extends until December 2020, thus preventing the breach of current agreements amid the oil crisis and the threat of a pandemic. In 2020, Venezuela had to send US\$3.098 billion in oil (US\$775 million for each quarter) to keep commitments up to date and comply with current agreements. This would be the equivalent of 400,000 barrels per day and would mean that, given current oil production levels, the country might have had difficulty meeting its goal of sending oil barrels to China.
- It is worth noting that the bond market still continued to show signs of vitality in August. The National Superintendent of Securities (SUNAVAL) authorized during this month a total of 94.5 billion bolívares soberanos in issuances (53.6 percent increase with respect to July), of which 49.5 billion bolívares soberanos (52.4 percent) were issued. The bid for bond instruments in the last week of August was increased and placements reached 31.8 billion bolívares soberanos (173.8 percent increase vs. the previous week). It is expected that this market will continue to develop in the short term as a result of the absence of bank credit to finance the operating and investment activity of private companies.
- The perspective for Venezuela's economic performance for the remainder of 2020 is not entirely optimistic, but the economy's capacity to continue to contract seems limited and new opportunities could present themselves as major political actors take a more pragmatic approach to dictating the rules of the game for the economy.
- In that sense, there has been a significant increase in commercial activity for certain niches, particularly during the COVID-19 pandemic, so it is believed that some of these sectors have a high potential for growth and profitability that can materialize as soon as conditions improve. The most salient of these niches are those related to micromobility and home



delivery services, where competition has increased significantly in recent months. Although official data is not available, industry players have pointed out that this is evidence of the growing interest that this sector creates among local and foreign investors.

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