



Venezuela Economic Outlook

By Arca Análisis Económico

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

- President Nicolás Maduro announced on March 3, 2022, the increase of the minimum salary by a half-petro, equivalent to 126 bolívares soberanos per month (around US\$30), according to the official rate of the Central Bank of Venezuela (BCV). He also approved to compute the social vouchers delivered through the Sistema Patria (Homeland System) by his administration as part of the salary. Thus, the total amount would be 171.32 bolívares soberanos or US\$39.20 at the exchange rate.
- In February, the BCV reported the lowest monthly inflation increase since February 2014. The bank stated that the national Consumer Price Index (CPI) rose only 2.9 percent in the second month of 2022. So far this year, the accumulated variation stands at 9.88 percent, and the annual rise has been 340.44 percent.
- Only the communications and education services sectors stand out for variations high above the general average, with increases of 23.1 percent and 17.5 percent, respectively, in February. To a lesser extent, recreation and culture (8.4 percent), transportation (6.2 percent) and miscellaneous goods and services (4.6 percent) also exceeded the average.
- On the other hand, clothing and footwear (0.4 percent) and health (0.8 percent) showed minimal variations. Among other fundamental categories, such as food and non-alcoholic beverages (1.1 percent), alcoholic beverages and tobacco (2.2 percent), housing rentals (2.5 percent) as well as restaurants and hotels (2.7 percent) reported increases below the average CPI in the second month of 2022.
- According to BCV data for the last 12 months, monthly CPI variations have been below 10 percent for a consecutive semester but do not show a clear downward trend, except for February. It remains to be seen if low indicators of price movements will be maintained for the remainder of 2022, once President Maduro has announced an increase of more than 1,700 percent in the minimum wage, and tax burden also impacts companies' costs and results.
- The war in Ukraine and rising oil prices have shed new light on oil producing countries such as Venezuela and Iran. The United States has applied tough sanctions on Venezuela, limiting its access to foreign capital, international oil markets and even its ability to service its debt. It is extremely challenging to trade Venezuelan defaulted bonds. However, the world is awash with bonds issued before the sanctions. The rapprochement with the U.S. may represent a radical change for the country.
- Venezuela has the largest proven oil reserve in the world. In 1997, the country was producing almost 3 million barrels per day (bpd) and was on track to produce 4 million bpd. Unfortunately, oil production has fallen to 668,000 bpd due to a lack of investment, maintenance and management. Still, this is similar to oil production in Colombia. The Latin American country is rapidly running out of reserves. It will take some time and billions of dollars in investment



to repair the oil sector, but the West may be motivated to do so to replace much of the oil that will be displaced by the imposed sanctions on Russia. This motivation may shed new light on Venezuelan instruments.

- In this regard, President Maduro expressed willingness to supply oil and gas to the United States, as well as countries in Asia and Europe. With the current prices of a crude oil barrel, Venezuela could receive between US\$1.5 billion and US\$2 billion per month, figures 10 times higher than the earnings in 2020.

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