



Venezuela Economic Outlook

By Arca Análisis Económico

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

- The Venezuela government has opted to "reduce" the legal minimum income of public workers. This happens to be made up of 93 percent by bonuses, while the virtual disappearance of the salary is raised if its value in bolívares is actually going to remain unchanged. The depreciation of the bolívar will dilute the value of Bs./\$130 of today's minimum wage, equivalent to US\$5. In the optimistic case that the exchange rate rises during the rest of the year at a rate of 3.8 percent per month, the average of the last three months, it would close the year at Bs./\$34.5 and the minimum wage would have dropped by US\$3.70 in December. But, in this spending scenario maintaining the policy announced on May 1, 2023, (without salary increase and with bond indexation), the projected exchange rate will close around Bs./\$51 in December 2023, with which the minimum wage it would drop to US\$2.50 per month and the proportion of bonuses in the legal minimum income will have risen to 96 percent.
- The lowering of the minimum wage has several purposes. It seeks to contain spending on labor benefits associated with salary and freeze labor liabilities. It is also intended to mitigate the shocks caused by strong tax disbursements on the exchange rate and inflation. This was the case with the payment of the vacation bonus to workers in the education sector in August 2022, whose abrupt disbursement caused a 37 percent skyrocket of the dollar in the month. Likewise, it seeks to mitigate the effect of the (dosed) payment of yearend bonuses associated with the salary received by all public workers and drive up the exchange rate and inflation in the fourth quarter of the year.
- Indexing appears for the first time as an explicit advertisement, opening a Pandora's box in public finances. It is a difficult measure to reverse, and dangerous for a country with such a marked vulnerability of the external sector. The lapses of exchange rate stability are short-lived and any episode of loss of control over the exchange rate would send public spending out of control, fueling the devaluation-inflation spiral and increasing the probability of a return to an exchange rate managed by the Central Bank of Venezuela (BCV).
- In the oil field, the U.S. oil producer Chevron Corp. could increase its production in Venezuela this year by up to 50 percent, to 150,000 barrels of oil per day (bpd), without significant new investments, President Michael Wirth said on April 28, 2023. The company is producing about 100,000 bpd in Venezuela, and Wirth said growth is limited by the terms of its U.S. license, which includes limits on the activities that it can carry out.

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