

BOLIVARIAN REPUBLIC OF VENEZUELA¹

1. General trends

According to ECLAC estimates, the Bolivarian Republic of Venezuela saw its GDP shrink for the fourth straight year in 2017, with output dropping by 13%. Crude oil production was down by 13.7% December-December, according to data from secondary sources reported to the Organization of Petroleum Exporting Countries (OPEC). This would make 2017 the third year in which Venezuelan crude output has fallen since 2013. Prices also continued to soar, thus generating the economy's first multi-year episode of three-or-more-digit inflation. The growth rates of the monetary aggregates, the official and parallel exchange rates and the minimum wage also picked up speed during the year. The reduction in the productive capacity of the Venezuelan oil industry also detracted from the positive impact of the higher oil price on the country's public finances and external sector results in 2017.

For 2018, ECLAC is projecting another 12% drop in GDP, which will mean five consecutive years of contraction and a cumulative decline of over 40% relative to its 2013 level. Crude oil output continues to dwindle; and an even steeper drop in production is forecast than in 2017. Inflation continues to gather pace, and various estimates foresee a rate of five digits or more by the end of 2018. This inflationary surge has triggered further hikes in the minimum wage, and by June 2018 a total of five increases had been announced. The price of the Venezuelan crude oil basket continues to recover, and in the first six months of 2018 it has climbed above its end-2017 level. Non-oil tax revenues have fallen in real terms, as have Venezuelan bond prices. The rise in oil prices allowed for an improvement in the external accounts in 2017, although international reserves continued to dwindle. Owing to difficulties in fiscal management, the Treasury has resorted to monetary financing, which has boosted the monetary aggregates and pushed up the exchange rate.

2. Economic policy

(a) Fiscal policy

Faltering economic activity, burgeoning inflation and the decline in the production capacity of Petróleos de Venezuela S.A. (PDVSA) have undermined the country's public finances. Despite the recovery in the oil price in 2017, which persisted into the first six months of 2018, large-scale financing from the Central Bank of Venezuela (BCV) is still required, as noted in the next section. The average annual price of Venezuelan crude recovered by 28.9% in 2017, and in the first six months of 2018 it gained a further 15.9%. The recovery in prices contrasts with the continuing fall in oil production in the country, by 13.7% in 2017 and another 23.2% in the first half of 2018 compared to the previous year-end level. Non-oil fiscal revenues in 2017 were down by an estimated 77% in real terms, reflecting the slump in economic activity, decreased imports of goods and services and the high inflation that is eroding the purchasing power of tax revenue. Receipts from the Income Tax System (ISLR) and Value Added Tax (VAT) are estimated to be down by 84% and 78%, respectively. Non-oil revenues in the first quarter of

¹ The Ministry of Popular Power of Economy and Finance of the Bolivarian Republic of Venezuela has not published fiscal management figures since 2013, or information on the public debt since March 2017. Neither the national accounts nor external sector accounts have been published since 2015. Moreover, neither the Central Bank of Venezuela (BCV) nor the National Institute of Statistics (INE) have published inflation figures since 2015, or labour market indicators since 2016.

2018 are an estimated 78% below their year-earlier level, with reductions of 90% in the case of ISLR and 78% in the case of VAT.

In 2017, the Venezuelan public sector faced major obligations on its external debt and, given the concentration of these payments in the period between December 2017 and early 2018, the government announced a process to restructure its external debt, which began on 13 November 2017. Although the announcement triggered a sharp drop in Venezuelan bond prices, it enabled the government to reach an agreement with its Russian counterpart to restructure debt of US\$ 3.5 billion. Financial difficulties persisted in the first quarter of 2018, however, and the Venezuelan electric power company (ELECAR) defaulted on its bonds. For 2018, the commitments existing in 2017 were compounded by the ending of the grace period on the loans made by Chinese development banks, totalling about US\$ 4 billion, and the payment of some US\$ 2.25 billion (in crude oil) to the Russian firm Rosneft. In the first six months of 2018 the behaviour of Venezuelan bond prices has been mixed; and while the price of sovereign bonds maturing in 2027 are up by 28% since December 2017, the price of PDVSA 2022 bonds fell again in the first six months of 2018, although less steeply than in the previous year.

(b) Monetary policy

The monetary aggregates continue to grow exponentially. In 2017, the monetary base expanded by 1,737% —7.4 times as fast as in 2016— and the broader aggregates, M1 and M2, grew at similar rates. A decisive factor fuelling the growth of base money has been the financing extended by the central bank to non-financial public enterprises. This component grew by nearly 2,000% between 2017 and 2016, and at the end of 2017 it was equivalent to 1.3 times the monetary base. In the first six months of 2018 the growth of the monetary aggregates accelerated further, and base money grew by 6,961%, with M1 and M2 expanding by 6,724% and 6,682%, respectively. This substantial money supply growth reflects increasing use of the proceeds of monetary emission to finance the Venezuelan public sector. Whereas, in December 2016, loans granted by BCV to non-financial public enterprises represented 1.04 times the monetary base, in December 2017 the ratio was 1.2 and by June 2018 it had grown to 3.4. The proceeds of central bank monetary issuance in 2016 and 2017 represented around 20% of GDP. Despite the expansion in the money supply, the Venezuelan economy has faced cash shortages, which is why BCV decided initially to expand the “monetary cone” by introducing higher-denomination banknotes. More recently, taking inflation levels into account, the central bank joined with the government in announcing a monetary restructuring. A new “sovereign bolívar” will be put into circulation on August 20, 2018, with one sovereign bolívar being equivalent to 100,000 current bolívares. In 2017, despite growth of over 1,000% in the monetary aggregates, domestic credit extended to the private sector grew by 576%, with consumer credit up by 445% and mortgage loans rising by 341%, which means those aggregates declined in real terms.

(c) Exchange-rate policy and international reserves management

The country’s exchange-rate regime was altered in 2017, with the announcement that sales of foreign exchange through DICOM (the supplementary exchange rate used to pay for non-essential priority imports) would be made within a band that would vary according to market conditions, while at the same time maintaining the exchange rate applied for public sector imports. Between January and December 2017, the bolívar depreciated steeply, with the DICOM exchange rate rising by 396.5%, and the parallel rate climbing by 3,027%. As of end-2017, the gap between the official and parallel exchange rates had widened to 30 to 1, from the 5 to 1 ratio prevailing in 2016. In September 2017, the foreign exchange authorities announced the use of currencies such as the yuan, the rouble and the rupee in the Venezuelan foreign exchange market. In December that year, international reserves stood at US\$ 9.662

billion — their lowest level of the last 21 years and down by 12.1% since end-2016. This trend of international reserves shows that inflows associated with international trade (mainly oil exports) and with foreign investment and external borrowing (bonds or loans) have been insufficient to cover the country's debt obligations and pay for its imports. In an effort to increase its external liquidity, in 2017 the central bank liquidated a portion of its dollar-denominated financial assets —at discounts in excess of 70%— and also sold its gold holdings.

To narrow the gap between the parallel exchange rate and the official rate, in February 2018 BCV gave additional flexibility to the DICOM exchange rate and eliminated the DIPRO rate, which was quoted at 10 bolívares per dollar. As a result, the official rate —having risen by 396.5% in 2017, as noted above— posted a cumulative rise of 3,338% in terms of the DICOM rate in the first half of 2018, and more than 1,000,000% if the jump caused by the elimination of DIPRO is taken into account. This meant that, although the parallel exchange rate rose by 3,027% in 2017 and by 3,101% in the first six months of 2018, the ratio between the parallel and official rates narrowed from 31.8 to 29.6. In the first six months of 2018, international reserves shrank by another 9% relative to their end-2017 level, which implied a cumulative reserve loss of 70% between January 2013 and June 2018. In February 2018, the government announced the issuance of a cryptocurrency backed by the country's oil and mineral reserves. This would be used to raise foreign exchange and thus enable operations that are normally carried out in foreign currency, such as the payment of oil exports, labour market obligations and spending on tourism activities. The first operations with this instrument took place in February 2018.

3. The main variables

(a) The external sector

As noted above, oil production has decreased substantially, and with it Venezuela's export capacity. Nonetheless, the recovery in the oil price generated a 13% improvement in the terms of trade in 2017. Estimates by ECLAC, based on the information provided by OPEC and trade data supplied by the country's key trading partners, show the value of exports increasing by 16.7% in 2017; and, given the drop in imports (33.4%), the current account posted a surplus of 2.7% of GDP, following the previous year's deficit.

Data obtained from secondary sources show that Venezuelan imports in the first four months of 2018 were 33% higher than their year-earlier level, which was the lowest import value of the last five years. Despite this increase, ECLAC estimates show that, owing to financing constraints and the reduction in domestic aggregate demand, annual imports in 2018 will fall by 10% relative to the previous year's estimated level. ECLAC also expects Venezuelan exports to fall by 12.5%, owing to the drop in crude oil production —estimated at 25% between December 2017 and June 2018— which will offset the cumulative increase of 16% in the oil price recorded during this period. Given these results, in the first half of 2018 the current account posted a surplus that was 1.5 percentage points of GDP larger than in 2017.

(b) Economic activity

The Bolivarian Republic of Venezuela is going through a prolonged economic downswing. A GDP contraction of 13% is estimated for 2017, making it the fourth consecutive year of negative growth. The problems experienced in electric power generation and distribution, and in obtaining inputs,

compounded by constraints on access to foreign currency, have hampered production in the private sector and also that of the public enterprises responsible for hydrocarbons refining and metallurgy. Since 2014, crude oil production in the Bolivarian Republic of Venezuela has decreased for three years in a row; and 2017 was the second year in which the reduction exceeded 10%.

A 12% drop is anticipated for 2018, which would be the fifth straight year of negative GDP growth and the third year of two-digit declines. Comparing the 2018 estimates with the 2013 value, the cumulative reduction in GDP would be more than 40%. Sectors such as transport have been affected by problems in the supply of spare parts and fuel, while electric power outages undermine production and trade generally. The drop in oil production has gathered pace in 2018, and the June 2018 figures are 31% down on those of a year earlier, representing a reduction that is 4.4 times greater than that recorded between June 2016 and June 2017. The financial difficulties facing PDVSA, together with problems arising from the departure of trained personnel from the sector, make it difficult to keep the oil wells on stream and the refineries operating.

(c) Prices, wages and employment

The Venezuelan economy is also enduring a lengthy period of very high inflation, with rates of at least three digits since 2015 and a surge in the last 18 months. The annual inflation rate in 2017 is estimated at over 2,500%, with monthly rates above 50% since November.² The rapid growth of the monetary aggregates, together with the monetary financing of fiscal management, the steep depreciation of the exchange rate, wage hikes and the severe restrictions on obtaining foreign currency, are some of the reasons for the inflationary upsurge. This price trend has been accompanied by nominal wage hikes; and in 2017 the components of the minimum wage (basic minimum wage and food bonus) were raised six times, for a cumulative increase of 403%. This means a very substantial drop in purchasing power for persons who receive that wage, given the rise in prices.

Inflation is estimated to have gathered pace again in 2018; and various calculations see it reaching five-digit levels or more by the end of the year. The most recent estimates show monthly rates in the second quarter of the year exceeding triple digits. Variations in the exchange rate (both official and parallel) and in the main monetary aggregates have also accelerated in line with inflation. In the first six months of 2018 the minimum wage was raised five times for a cumulative increase of over 1,000% relative to its end-2017 level. Although data on the Venezuelan labour market are not available, recent patterns of migration, especially that involving skilled labour, have imposed severe constraints on labour supply in the country, significantly affecting health-care and education services and, as noted above, the oil sector.

² Information estimated from the National Price Index published by the National Assembly of Venezuela.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-3.2	-1.5	4.2	5.6	1.3	-3.9	-5.7	...	...
Per capita gross domestic product	-4.7	-2.9	2.7	4.2	0.0	-5.1	-6.9	...	...
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.0	0.9	-1.1	3.1	0.5	-4.7	...	...	...
Mining and quarrying	-7.7	-1.8	1.6	1.0	-0.1	-4.3	...	...	...
Manufacturing	-6.4	-2.3	2.9	1.7	-0.2	-6.9	...	...	...
Electricity, gas and water	4.1	-5.8	5.0	3.8	3.3	-1.0	...	...	...
Construction	-0.2	-7.0	4.8	16.6	-2.3	-7.0	...	...	...
Wholesale and retail commerce, restaurants and hotels	-7.7	-6.2	5.3	8.4	3.0	-10.2	...	...	...
Transport, storage and communications	3.4	4.2	6.7	6.8	3.1	0.7	...	...	...
Financial institutions, insurance, real estate and business services	-1.2	-2.8	6.0	13.3	9.4	4.2	...	...	...
Community, social and personal services	2.3	1.7	5.6	5.9	3.6	1.1	...	...	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	-2.1	-1.1	4.4	6.9	4.4	-2.5	-6.6	...	...
Government consumption	1.5	2.1	5.9	6.3	3.3	0.6	-6.0	...	...
Private consumption	-2.9	-1.9	4.0	7.0	4.7	-3.4	-6.8	...	...
Gross capital formation	-19.1	1.0	15.2	24.1	-14.0	-22.9	-2.4	...	...
Exports (goods and services)	-13.7	-12.9	4.7	1.6	-6.2	-4.7	-9.4	...	...
Imports (goods and services)	-19.6	-2.9	15.4	24.4	-9.7	-18.5	-2.3	...	...
Investment and saving c/	Percentajes of GDP								
Gross capital formation	25.8	22.0	23.1	26.6	27.3	24.8	...	...	...
National saving	25.9	24.3	28.2	27.3	28.5	25.6	...	...	...
External saving	-0.1	-2.3	-5.2	-0.7	-1.2	-0.7	...	...	...
Balance of payments	Millions of dollars								
Current account balance	429	5 585	16 342	2 586	4 604	4 919	-16 051	-3 870	...
Goods balance	16 907	25 153	41 172	31 926	31 570	27 421	3 928	11 033	...
Exports, f.o.b.	58 518	66 887	93 747	97 877	88 753	74 676	37 236	27 403	...
Imports, f.o.b.	41 611	41 734	52 575	65 951	57 183	47 255	33 308	16 370	...
Services trade balance	-11 181	-12 460	-14 950	-17 238	-17 041	-13 471	-11 000	-8 159	...
Income balance	-4 646	-6 208	-9 079	-11 099	-8 707	-7 425	-7 661	-6 918	...
Net current transfers	-651	-900	-801	-1 003	-1 218	-207	-155	174	...
Capital and financial balance d/	-10 691	-13 645	-20 374	-3 582	-9 194	-5 637	12 000	-2 938	...
Net foreign direct investment	-3 613	-918	6 110	1 679	1 928	-3 401	370	27	...
Other capital movements	-7 078	-12 727	-26 484	-5 261	-11 122	-2 236	11 630	-2 965	...
Overall balance	-10 262	-8 060	-4 032	-996	-4 590	-718	-4 051	-6 808	...
Variation in reserve assets e/	10 262	8 060	4 032	996	4 590	718	4 051	6 808	...
Other external-sector indicators									
Terms of trade for goods (index: 2005=100)	84.1	100.0	120.2	121.4	118.9	111.8	65.7	54.9	...
Net resource transfer (millions of dollars)	-15 337	-19 853	-29 453	-14 681	-17 901	-13 062	4 339	-9 856	...
Total gross external debt (millions of dollars)	84 602	102 354	118 285	130 785	132 362	135 767	138 869	...	...
Employment f/	Average annual rates								
Labour force participation rate	65.1	64.6	64.4	63.9	64.3	65.3	63.7	64.0	...
Open unemployment rate	7.9	8.7	8.3	8.1	7.8	7.2	7.0	7.3	...

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2014	2016	2017
Prices	Annual percentages								
Variation in consumer prices (December-December)	25.1	27.2	27.6	20.1	56.2	68.5	180.9	...	...
Variation in wholesale prices (December-December)	24.8	26.8	20.7	16.6	52.4	...	...	...	...
Variation in nominal exchange rate g/ (annual average)	0.0	97.6	1.2	0.0	41.5	3.6	0.0	47.2	8.3
Variation in average real wage	-5.8	-5.3	3.0	5.9	-4.4	...	...	...	...
Nominal deposit rate h/	16.2	14.8	14.6	14.5	14.5	14.7	14.9	15.1	14.7
Nominal lending rate i/	20.7	18.2	17.5	16.4	15.7	17.1	19.9	21.4	21.5
Central government	Percentajes of GDP								
Total revenue	21.4	19.3	22.5	23.5	26.8	33.0	17.5	...	...
Tax revenue	13.3	11.1	12.5	13.2	13.5	17.9	12.8	...	...
Total expenditure j/	26.5	22.9	27.5	28.4	30.5	35.9	19.2	...	...
Current expenditure	20.6	19.2	21.0	23.7	24.9	29.8	15.3	...	...
Interest	1.3	1.5	2.1	2.7	3.1	3.0	1.2	...	...
Capital expenditure	5.4	2.9	6.5	4.8	5.5	6.1	3.9	...	...
Primary balance	-3.7	-2.1	-1.8	-2.2	1.1	1.1	-0.2	...	...
Overall balance	-5.0	-3.6	-4.0	-4.9	-2.0	-1.9	-1.4	...	...
Central government public debt	25.2	29.0	25.1	27.5	32.9	28.5	31.7	...	...
Domestic	7.5	14.0	11.3	15.6	20.1	19.5	23.8	...	...
External	10.7	14.9	13.7	11.9	12.8	9.0	7.8	...	...
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit k/	32.9	27.6	30.8	40.4	49.7	59.7	...	...	...
To the public sector	5.1	5.6	7.8	12.8	16.2	15.6	...	...	...
To the private sector	22.9	18.6	20.4	25.2	29.7	39.5	...	...	...
Others	4.9	3.4	2.6	2.4	3.7	4.7	...	...	...
Monetary base	13.8	12.1	12.7	16.4	19.8	25.0	...	...	...
Money (M1)	28.6	26.8	31.4	42.7	53.4	64.4	...	...	...
M2	33.2	28.4	32.7	43.6	54.3	66.0	...	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1994 prices.

Review of data with base 2014 in progress.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Up to 2009, figures correspond to the urban total. From 2010, they correspond to Asunción and urban areas of Central Department.

i/ Weighted average of effective interest rates on time deposits.

j/ Commercial lending rate, local currency.

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	14 104	12 333	11 993	11 224	10 513	10 264	10 043	9 858	9 454	9 259
Nominal interest rates (average annualized percentages)										
Deposit rate b/	15.1	15.2	15.2	14.8	14.6	14.8	14.9	14.6	14.5	14.7
Lending rate c/	20.6	21.3	21.7	21.9	21.5	21.6	21.5	21.5	22.1	21.7
Interbank rate	2.0	6.3	3.8	0.6	0.3	1.1	0.5	0.2	0.1	3.5 d/
Monetary policy rates	6.5	6.5	6.5	6.5	6.5	6.4	6.4	6.1	6.5	...
Sovereign bond spread, Embi + (basis points to end of period) e/	3 007	2 546	2 017	2 138	2 330	2 450	3 178	5 780	4 422	5 367
Risk premia on five-year credit default swap (basis points to end of period)	5 259	3 892	2 946	3 750	3 571	3 562	5 191	...	...	11 154
Stock price index (national index to end of period, 31 December 2005 = 100)	72 875	64 255	64 805	158 525	219 385	616 775	2 447 495	6 315 700	23 237 200	464 660 050
Domestic credit (variation from same quarter of preceding year)	94.4	92.2	90.7	117.1	132.0	189.8	312.8	456.7	3 118.1	8 218.7 f/
Non-performing loans as a percentage of total credit	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.5	0.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ 90-day deposits rate.

c/ Average rate for loan operations for the six major commercial banks.

d/ Figures as of April.

e/ Measured by J.P.Morgan.

f/ Figures as of February.