

## **BOLIVARIAN REPUBLIC OF VENEZUELA**

### **1. General trends**

The economic recession continued in 2016 with a decline in GDP (estimated at 9.4%), the third in as many years, while inflation remained at three-digit rates, also for the third year in a row. The considerable increase in the monetary base to finance the fiscal deficit fuelled the depreciation of the bolívar and inflation expectations. Projections for 2017 point to a further contraction in GDP, this time by 7.2%, and an acceleration in inflation. The sharp drop of 48% in imports in 2016 helped to narrow the estimated current account deficit for that year. New changes were made to the exchange-rate system, while central government debt diminished significantly in 2016 and so far has remained stable in 2017.

### **2. Economic policy**

#### **(a) Fiscal policy**

In 2016, public finances were affected by crude oil prices, which fell by 21.2%, and by crude oil production, which contracted by 9.1%, according to the Organization of the Petroleum Exporting Countries (OPEC). The goods basket posted an increase of 81% in prices, on average, in the first quarter of 2017 compared with the year-earlier period, and of 17.9% in the second quarter of 2017 versus the corresponding period in 2016. Higher crude oil prices in May 2017 compared with the year-earlier period did not trigger an improvement in the revenue of *Petróleos de Venezuela S.A. (PDVSA)*, owing to the sharp contraction (10.2%) in crude oil production over the period. PDVSA income has also been affected by debt repayment obligations which are projected to exceed US\$ 5 billion in 2017, despite the debt swap in 2016. The company has amassed a significant amount of debt owed to its providers, which has prompted the withdrawal of some operators from Venezuelan fields and a fall in production as a result. In the past five years, PDVSA has had to increase imports of crude oil and its derivatives (US\$ 2.6 billion, on average) in order to meet domestic demand, owing to refining problems.

Non-oil tax receipts shot up by 185.6% in nominal terms in 2016, according to the customs and tax office. Nonetheless, given inflation levels, real receipts fell more than 50%. Compared with the first half of 2016, receipts from non-oil tax, income tax and value-added tax (VAT) jumped by 301%, 370% and 376%, respectively, in the first half of 2017.

The central government's external debt climbed by 10% in 2016 compared with the end of 2015, to US\$ 4.229 billion, whereas external borrowing increased almost not at all (0.14%) in the first quarter of 2017. Meanwhile, domestic debt measured in dollars contracted by 21% in 2016 owing to the devaluation of the bolívar, and was down by 2% in the first quarter of 2017. According to the country's financial authorities, repayments will amount to US\$ 1.533 billion in 2017, and will exceed US\$ 3.5 billion in 2018, 2019 and 2020.<sup>1</sup>

#### **(b) Monetary policy**

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<sup>1</sup> The Ministry of People's Power for Economic Affairs and Finance has not published figures for the central government's budgetary spending or for total revenue since 2013.

Growth in the monetary base picked up pace in 2016, to 207.6%, representing an increase of 93 percentage points compared with the level seen in 2015. In the first half of 2017, the monetary base grew by 462.1%, bringing the number of consecutive quarterly increases above 90% to nine. The strong upward trend was also seen in aggregates such as M1 and M2, which rose by 161.3% and 159.2%, respectively, in 2016, and by 341.8% and 337.0%, respectively, in the first half of 2017.

The persistent increase in monetary aggregates, particularly the monetary base, derives from the central bank's financing of the public sector, especially PDVSA. Between December 2016 and June 2017, the breakdown of the central bank's monetary base shows that financing for non-financial public companies grew by 486.8% and was equivalent to 2.86 times the rest of the monetary base.

Domestic loans to the private sector increased by 90% on average in 2016, but, given inflation levels, lending contracted by 35% year-on-year in real terms. In the first quarter of 2017, domestic credit grew by 155% in nominal terms, but declined by almost 57.9% in real terms. In the same period, nominal lending rates rose slightly while real rates remained significantly negative, weakening demand for domestic assets.

### **(c) Exchange-rate policy and management of international reserves**

The exchange-rate system was modified in March 2016. One of the changes made was a reduction in the number of official exchange rates, from three to two: one protected rate to pay for priority food and medicine imports and other public imports (DIPRO) and another adjustable rate for all other transactions (DICOM). New exchange rates were introduced on 22 May 2017, and the government, in conjunction with the central bank, announced that sales through DICOM would subsequently be carried out within an adjustable range, starting at 1,800-2,000 bolívares per dollar. Comparing the value of DICOM prior to the change with the lower end of the range implies a devaluation of 147%. Nonetheless, this figure is much lower than the exchange rate on the parallel market and 180 times higher than the DIPRO used for public sector imports.

International reserves decreased by 32.8% in 2016 after falling by 25.9% in 2015. In the first half of 2017, they stood at their lowest level in 21 years: US\$ 10.004 billion, equivalent to a decline of 9.0% compared with the end of December 2016. This indicates that inflows linked to international trade — essentially oil exports— as well as foreign investment and external debt (bonds or loans) are not enough to cover debt obligations and imports. With a view to increasing external liquidity, the central bank sold a portion of the dollar-denominated PDVSA bonds in its portfolio, at a discount of more than 70%.

## **3. The main variables**

### **(a) The external sector**

There is currently no official information available on the balance of payments in 2016. Nonetheless, estimates by ECLAC, on the basis of data provided by OPEC and international trade data provided by the country's main trading partners, point to a 27% contraction in exports and a 48% drop in imports. In 2016 the current account is therefore estimated to have recorded a deficit of roughly US\$ 5.5 billion, which was much smaller than the US\$ 18 billion deficit seen in 2015.

### **(b) Economic activity**

The economy depends heavily on oil exports, and export basket prices have been hit hard in the past few years, with the terms of trade deteriorating by 43% and 17% in 2015 and 2016, respectively. Moreover, according to OPEC, average crude oil production in 2016 decreased by about 216,000 barrels per day, which is equivalent to a contraction of 9.1% compared with the level seen in 2015. Between December 2016 and May 2017, crude oil production fell by 58,000 barrels per day, or 2.9%.

In the first half of 2016, electricity and water services were rationed throughout the country owing to a harsh drought, which prompted the shortening of working days in the public sector, schools, shopping centres and hotels. Another factor which weighed on economic activity in the fourth quarter of 2016 and in the first quarter of 2017 was the announcement in December 2016 of the withdrawal from circulation of the 100 bolívar note, the most commonly-used at the time, which represented 38% of total bills in circulation and 76.4% of the value of currency in circulation.<sup>2</sup> Against this backdrop, ECLAC estimates a GDP contraction of 9.4% in 2016 and 7.2% in 2017.

### (c) Prices, wages and employment

As measured by the national consumer price index, inflation in 2015 stood at 180.9%, much higher than the 68.5% seen in 2014. In 2016 the government reported a figure of 254.9% to the International Monetary Fund (IMF).<sup>3</sup> Inflationary pressure continues in 2017 with the corresponding rate expected to remain at three digits.<sup>4</sup>

The minimum wage was raised four times in 2016 (in March, May, September and November), reflecting a cumulative change of 180.8%. In this period, the value of employees' food allowances was increased five times, from 6,590 bolívares at the end of 2015 to 63,720 bolívares in November 2016. Altogether, these wage components rose by 454%. So far in 2017 the minimum wage has been raised on three occasions (in January, May and July), reflecting a cumulative increase of 260%, while the value of food allowances was raised in March, May and July, by 140.1% overall.

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<sup>2</sup> Although the announcement was made on 11 December 2016, the government extended the use of these notes given delays in the arrival of the new bills. The 100 bolívar note remains in circulation.

<sup>3</sup> See International Monetary Fund (IMF), World Economic Outlook Database [online database], April 2017.

<sup>4</sup> Since January 2017, the National Assembly has been publishing a national price index, according to which the cumulative rate of inflation between December 2016 and May 2017 stood at 128.1%, and average monthly inflation was 17.9%.



Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2014	2016 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	30.9	25.1	27.2	27.6	20.1	56.2	68.5	180.9	...
Variation in wholesale prices (December-December)	32.4	24.8	26.8	20.7	16.6	52.4	...	...	...
Variation in nominal exchange rate (annual average)	0.0	0.0	97.6	1.2	0.0	41.5	3.6	0.0	47.2
Variation in average real wage	-4.5	-5.8	-5.3	3.0	5.9	-4.4	...	...	...
Nominal deposit rate h/	16.0	15.6	14.7	14.7	14.5	14.5	14.6	14.8	14.8
Nominal lending rate i/	22.8	20.6	18.0	17.4	16.2	15.6	17.2	20.0	21.5
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue	24.5	21.4	19.3	22.5	23.5	26.8	33.0	...	...
Tax revenue	13.4	13.3	11.1	12.5	13.2	13.5	17.9	...	...
Total expenditure j/	25.7	26.5	22.9	27.5	28.4	30.5	35.9	...	...
Current expenditure	19.8	20.6	19.2	21.0	23.7	24.9	29.8	...	...
Interest	1.3	1.3	1.5	2.1	2.7	3.1	3.0	...	...
Capital expenditure	5.7	5.4	2.9	6.5	4.8	5.5	6.1	...	...
Primary balance	0.1	-3.7	-2.1	-1.8	-2.2	1.1	1.1	...	...
Overall balance	-1.2	-5.0	-3.6	-4.0	-4.9	-2.0	-1.9	...	...
Central government public debt	14.0	18.2	29.0	25.1	27.5	32.9	28.5	29.6	...
Domestic	4.5	7.5	14.0	11.3	15.6	20.1	19.5	22.2	...
External	9.5	10.7	14.9	13.7	11.9	12.8	9.0	7.3	...
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit k/	28.6	32.9	27.6	30.8	40.4	49.7	59.7	43.7	...
To the public sector	2.4	5.1	5.6	7.8	12.8	16.2	15.6	8.0	...
To the private sector	20.8	22.9	18.6	20.4	25.2	29.7	39.5	32.5	...
Others	5.4	4.9	3.4	2.6	2.4	3.7	4.7	3.2	...
Monetary base	12.3	13.8	12.1	12.7	16.4	19.8	25.0	20.5	...
Money (M1)	24.6	28.6	26.8	31.4	42.7	53.4	64.4	50.4	...
M2	28.8	33.2	28.4	32.7	43.6	54.3	66.0	51.4	...

**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 1997 prices.

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/ Nationwide total.

g/ The figures correspond to the average for January-April.

h/ 90-day deposits rate.

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

j/ Includes extraordinary expenditure and net lending.

k/ Credit granted by the commercial and universal banks.

Table 2  
**BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS**

	2015				2016				2017	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	-1.4	-4.7	-7.1	...	...	...	...	...	...	...
Gross international reserves (millions of dollars)	22 592	17 613	16 610	15 390	14 107	12 336	11 996	11 227	10 509	10 362 c/
Open unemployment rate d/	7.7	7.1	7.4	6.2	7.5	...	...	...	...	...
Employment rate d/	58.7	59.9	58.1	59.0	58.3	...	...	...	...	...
Consumer prices (12-month percentage variation)	82.4	97.2	141.5	180.9	...	...	...	...	...	...
Nominal interest rates (average annualized percentages)										
Deposit rate e/	14.6	14.7	14.8	15.0	14.8	14.9	14.8	14.9	14.7	14.5 f/
Lending rate g/	18.8	19.6	20.4	21.2	20.4	21.4	21.8	22.4	21.5	21.8 f/
Interbank rate	0.4	2.5	6.8	4.2	2.0	6.3	3.8	0.6	0.3	0.3 f/
Monetary policy rates	6.2	5.9	6.1	6.5	6.5	6.5	6.5	6.5	6.5 h/	...
Sovereign bond spread, Embi + (basis points to end of period) i/	2 804	2 611	2 986	2 658	3 007	2 546	2 017	2 138	2 330	2 214 f/
Risk premiia on five-year credit default swap (basis points to end of period)	4 752	4 444	5 716	4 868	5 259	3 892	2 946	3 750	3 571	3 562
Stock price index (national index to end of period, 31 December 2005 = 100)	24 977	63 057	58 229	71 546	71 480	63 028	63 567	155 494	215 187	604 979
Domestic credit (variation from same quarter of preceding year)	61.7	64.6	82.3	84.3	94.4	92.2	90.7	117.1	132.0	...
Non-performing loans as a percentage of total credit	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3 f/

**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 1997 prices.

c/ Figures as of May.

d/ Nationwide total.

e/ 90-day deposits rate.

f/ Figures as of April.

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

h/ Figures as of February.

i/ Measured by J.P.Morgan.