Bolivarian Republic of Venezuela

In 2018, the Bolivarian Republic of Venezuela saw its GDP shrink for the fifth year running (by 15%), bringing the cumulative contraction to 44.3% with respect to GDP in 2013. Moreover, since November 2017, monthly inflation rates have been above 50%, with an average monthly rate of 127.9% thus far in 2018. This year, changes were made to the exchange system and the official exchange rate of the bolívar against the dollar depreciated for the fifth consecutive year at annual rates exceeding 200%. In addition, international reserves fell for the fourth straight year, down 9.1% between December 2017 and November 2018. This was also the fourth consecutive year in which oil production declined, with a cumulative contraction of more than 50% between January 2013 and October 2018. Consequently, despite the increase in prices for the Venezuelan oil basket, in 2017 and the first nine months of 2018, the public sector continued to depend on funds transferred from the central bank. The increase in crude oil prices pushed up exports by 9.0% and this, together with the drop in imports (26.0%), yielded a small surplus on the balance-of-payments current account, according to ECLAC estimates. If the tight external situation persists, a further decline in GDP (-10.0%), rising inflation, a sharp increase in monetary aggregates, and a significant depreciation of the currency are projected for 2019.

In 2017, the Government of the Bolivarian Republic of Venezuela announced an external debt restructuring process, which allowed the Executive to reach an agreement with its Russian counterpart to restructure the US$ 3.5 billion debt owed to the Russian Federation. However, the financial difficulties of the Bolivarian Republic of Venezuela persisted in 2018, resulting in defaults on a number of public sector liabilities (bonds issued by the Venezuelan electric power company (ELECAR) or Petróleos de Venezuela S.A. (PDVSA) and government bonds) or late payments (debt owed to CAF-Development Bank of Latin America and the Inter-American Development Bank). In the first 11 months of 2018, the behaviour of Venezuelan bond prices has been mixed, because while the value of sovereign bonds maturing in 2027 has increased by 6.3% since December 2017, the value of PDVSA 2022 bonds fell again, by 28.5%, over the same period. Monetary aggregates grew by more than 25,000% between October 2017 and October 2018. This is the fourth year running in which the monetary base has risen at rates of three digits or more, and it has been growing at year-on-year rates of over 50% for the last 24 quarters. The performance of the monetary base is closely linked to the financing provided by the central bank to the public sector, in particular to PDVSA. The breakdown of the central bank's monetary base by sources and uses shows that funding provided to non-financial public enterprises soared by 2,500% between October 2017 and October 2018, while their share of the balance of monetary base jumped from 190% in 2017 to 1,480% in 2018.

Lending to the private sector, measured in nominal terms, has grown at annualized rates of more than 60% from the fourth quarter of 2013, and during the first 10 months of 2018, the average annualized monthly growth rate exceeded 7,000%. However, given the price hikes, this has meant a decline of over 70% in real credit at year-on-year rates in 2018. Nominal interest rates have remained quite stable but, when corrected for inflation, they represent highly negative real interest rates that, together with falling household incomes, have discouraged demand for assets denominated in bolívares.

In August 2018, the government launched its Economic Recovery, Growth and Prosperity Programme, consisting of a set of policy measures that seek to stabilize inflation and return the economy to a path of growth. These measures include monetary restructuring (the "sovereign bolívar" was put into circulation and replaced the bolívar fuerte, with 1 sovereign bolívar being equivalent to 100,000 bolívares fuertes), higher public utility rates (electricity, transport and telephone services) and an upward adjustment in gasoline prices. The exchange system also underwent a number of changes, which included unifying the official currency rates; adopting the petro[1] as an exchange-rate anchor; holding auctions to determine the currency's price; and amending the Foreign Exchange Violations Act to allow the use of convertible currencies, such as the dollar, the euro, the yuan, the yen and the petro. The government fixed the value of the petro at 3,600 sovereign bolívars and the exchange rate at 60 sovereign bolívars to the dollar. The Programme also includes a measure that sets the minimum wage at 0.5 petros, or 1,800 sovereign bolívars, equivalent to an increase of 43,273% compared to the minimum wage at the end of 2017. To alleviate the initial cost effects of the minimum wage hike, the government offered to pay the wage bill for small and medium-sized enterprises for 90 days. The government also stated its intention to reduce the fiscal deficit to zero, announcing that value added tax (VAT) would be increased by 4 percentage points —bringing the rate to 16%— and be collected on a weekly basis instead of fortnightly, as previously. It also established advanced income tax payments equivalent to 1% of daily sales for so-called "special" taxpayers and 2% for the financial and insurance sectors. A tax on "large financial transactions" was introduced, with rates ranging from 0% to 2% for special taxpayers, excluding the industrial sector. In September, the Government of the Bolivarian Republic of Venezuela reported that it had been granted a US$ 5 billion loan by China, which would be used primarily to finance the payment of imports from China. In November 2018, it announced an increase in the value of the petro to 9,000 sovereign bolivars, which also pushed up the minimum wage —unchanged at 0.5 petros— by 150%.

One hundred days into the Programme, inflation continues to pick up pace; the average monthly rate was 201.4% in the period from August to October 2018, up from 126.7% for June and July. This inflation hike reflects, among other things, the deterioration in fiscal accounts resulting from the fall in the oil bill and the consequent upsurge in the monetary financing of fiscal management. The uptick in inflation is also attributable to the devaluation of the official exchange rate and to minimum wage increases.

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[1] In February 2018, the Government of the Bolivarian Republic of Venezuela announced the issuance of a cryptocurrency, known as the petro and backed by the country's oil and mineral reserves, to attract foreign exchange resources and to facilitate operations normally carried out in foreign currency, such as the payment of oil exports, labour obligations and tourism expenditures.