Bolivarian Republic of Venezuela

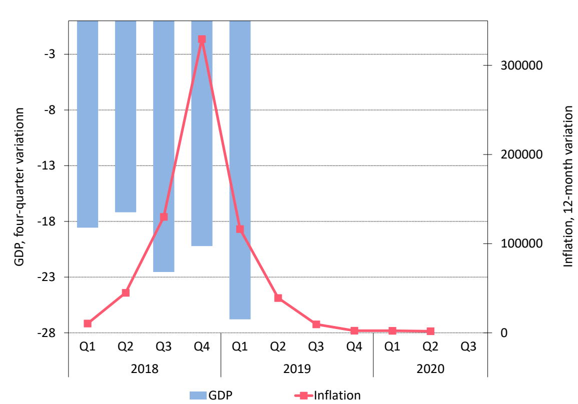
The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that in 2020, economic activity in the Bolivarian Republic of Venezuela fell for the seventh year in a row, recording a decline of 30%. Between 2013 and 2019, and taking into account both the oil and non-oil sectors, GDP reflected a prolonged and severe contraction, estimated at 63.4% in that period. This situation was exacerbated in 2020 by the effects of the coronavirus disease pandemic (COVID-19), acute fuel shortages and the tightening of sanctions imposed on the Venezuelan public sector by the United States. The financial constraints in the public sector also continued to worsen in 2020 as a result of the fall in tax revenue (oil and non-oil) and the default on external public debt, which has increased the dependence on monetary financing for fiscal action. In terms of prices, the hyperinflationary trend that emerged in late 2017 persisted, and in September 2020 the Central Bank of Venezuela reported year-on-year inflation of 1,813%. In 2021, a further drop in economic activity of 7% is expected, linked mainly to a decline in activity in non-oil sectors.

The sharp contraction in aggregate domestic demand, the decline in crude oil prices and the drop in oil production have led to a significant deterioration in tax revenue, both from oil activity and from the country's other productive activities. Thus, the revenue collected by the tax authority between January and October 2020 grew by 1,368% in nominal terms compared to the same period in 2019, but dropped by more than 30% in real terms. The average price of Venezuelan crude oil (Merey) plummeted by nearly 50% in 2020: it recorded a minimum value of US$ 7.04 per barrel in April, but has since recovered. Production also fell by nearly 40%; between January and October 2020, an average of 515,000 barrels were produced each day, according to data from secondary sources reported to the Organization of Petroleum Exporting Countries (OPEC). In October, 367,000 barrels were being produced per day, representing nearly 20% of the level seen in 2014.

The combined effect of falling prices and declines in average production resulted in a decrease of more than 60% in estimated gross income (price times production). The reduction in income was even greater bearing in mind that, with the sanctions imposed on Petróleos de Venezuela S. A. (PDVSA), and despite the significant drop in production, export restrictions led to the accumulation of reserves and the sale of Venezuelan crude oil at a discount. The lower oil tax revenue exacerbated the financial constraints faced by the Venezuelan public sector, forcing both a drop in public spending in real terms and greater dependence on monetary financing for fiscal action. In addition, the suspension of external public debt payments as of late 2017 was maintained and arrears at the end of 2020 are estimated to amount to more than US$ 27 billion.

In view of the arrival of COVID-19 in the region, the Government of the Bolivarian Republic of Venezuela announced a series of measures to

Bolivarian Republic of Venezuela: GDP and Inflation, 2018-2020



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

prevent the spread of the virus, including physical distancing —with various degrees of flexibility since June—, a

freeze on dismissals, temporary support for small and medium-sized enterprises (SMEs) to pay wages, cash transfers and the Local Supply and Production Committees (CLAP) programme for the distribution of food to the most vulnerable sectors. In addition, the government announced the suspension of commercial and residential rent payments and compensation for landlords for six months; a ban on cutting off telecommunications services; exemption from import taxes and the suspension of interest and capital payments on loans for a period of six months and of interest payments on loan arrears. The financial restrictions faced by the Venezuelan public sector undoubtedly made dealing with the pandemic more complicated and, in the absence of official data, it is not clear what amount of fiscal resources was earmarked for financing those measures, or how long they remained in place.

Bolivarian Republic of Venezuela: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	-19.6	-28.0	-30.0
Per capita gross domestic product	-18.2	-27.1	-29.8
Consumer prices [b]	130 060.2	9 585.5	1 813.1 [c]
Money (M1)	37 111.7	9 188.3	1 520.3 [c]
Terms of trade	21.3	-7.9	-22.7
	Annual average percentage		
Open urban unemployment rate	6.8	...	...
Nominal deposit rate [d]	14.7	23.3	31.1 [c]
Nominal lending rate [e]	21.9	29.3	33.8 [c]
	Millions of dollars		
Exports of goods and services	34 475	22 975	...
Imports of goods and services	19 840	18 630	...
Current account balance	8 613	-1 242	...
Capital and financial balance [f]	-7 658	-965	...
Overall balance	955	-2 207	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Nationwide coverage.
c/ Figures as of September.
d/ Deposit rates for 90 days.
e/ Average rate for loan operations for the six major commercial banks.
f/ Includes errors and omissions.

The economy also faced fuel supply problems in 2020. The situation was initially caused by the decline in Venezuelan crude oil production and the near paralysis of the country's refineries, but worsened as a result of the tougher sanctions imposed on the Venezuelan public sector and the greater difficulty for PDVSA to import gasoline as a result. Since mid-June, imports from the Islamic Republic of Iran have been the main source of gasoline in the country. In order to increase cost effectiveness and rationalize the supply of fuel, the government announced a new gasoline pricing mechanism, which entailed a reduction in fuel-related subsidies and established three rates. The first applied to public and cargo transport, which continued to benefit from a 100% subsidy. The second, 5,000 bolívares per litre, applied to private vehicles and motorcycles registered in the Patria system (up to 120 litres and 60 litres per month, respectively). The third rate, US$ 0.5 per litre, applied to the sale of gasoline in dollars or cryptocurrencies.

Taking into account the trajectory of the Venezuelan economy since 2013, the effects of COVID-19 and the measures adopted to mitigate its impact, the problems with gasoline supply, the now traditional problems of electricity supply and the tightening of sanctions imposed by the United States, ECLAC estimates a GDP contraction of 30% in 2020, which would reflect the sharp declines in both oil and non-oil activity, and in consumption and investment. This would be the seventh consecutive year of GDP contraction, and the third in which the decline exceeded 19%. This GDP trajectory indicates a cumulative drop of 74% since 2013.

In mid-October, the national constituent assembly adopted the Anti-blockade Act, which expanded the powers of the executive branch in various matters, in order to lessen the impact of sanctions on decisions taken by the government. This act includes greater powers for the internal reallocation of resources in the economy and for the restructuring of State-owned enterprises and mixed-capital enterprises. In addition, various measures were proposed to encourage private investment, including exceptional contracting mechanisms and investment protection and dispute resolution clauses, as well as the creation of a provisional regime for the classification of documents containing confidential and top secret information, aimed at protecting and ensuring the effectiveness of the decisions taken by public authorities.

With regard to monetary policy, the central bank adopted various measures to regulate the growth of monetary aggregates, based primarily on the management of legal reserve requirements and the establishment of interest rates indexed to the movement of the exchange rate for the loan portfolio. The monetary base declined in 2020; between January and October 2019 it grew by an average of 42% month-on-month, compared to an average of 20.4% month-on-month in the same period in 2020. The main driver of this growth was fiscal action, in particular through the purchase of securities from non-financial public enterprises. The pace of growth in lending to the private sector also slowed, from an average nominal rate of 33.3% month-on-month from January–September 2019 to an average of 27.6% in the same period in 2020. Despite these nominal increases, when adjusted for inflation, lending to the private sector contracted by 35% in the third quarter of the year compared to the year-earlier period.

The decline in oil production and the tightening of sanctions point to a decline in the country’s exports in 2020, while the sharp contraction in aggregate demand is projected to have led to a further decline in imports. Given the effects of COVID-19 on employment in the region, the remittances sent by Venezuelan migrants, a growing source of external resources for this economy, are also expected to reflect a decline in 2020. These dynamics point to a deterioration in the country’s current account in 2020. In general, this situation resulted in a further decline in international reserves (by 6% between December 2019 and November 2020) and tighter external constraints, given the inability to access external financing, including from multilateral agencies. In this context, the official exchange rate recorded a depreciation of over 2,000% between December 2019 and November 2020, higher than that observed in the parallel exchange rate (1,820%).

In 2020, inflation dropped sharply, although the hyperinflationary trend that emerged in late 2017 persists. Thus, in September 2020 year-on-year inflation came to 1,861%, compared to 39,113.8% in the same month of 2019. Although the central bank has not reported inflation figures for October or November, the indicators presented by the National Assembly suggest that the nominal increase in fiscal spending traditionally recorded at the end of the year, the rise in the minimum wage and an acceleration in depreciation will have pushed up inflation in the final months of the year.

The minimum wage was revised three times in 2020, and the cumulative increase was 700% in nominal terms. In real terms, the average minimum wage in 2020 reflects a decline of 54% compared to 2019, and a reduction of more than 80% compared to 2014.

Although there are no data available on employment in 2020, the various labour market indicators likely deteriorated as a result of the estimated sharp contraction in economic activity and the effects of the distancing measures adopted because of COVID-19.

In 2021, the change of administration in the United States may mean an easing of sanctions on the Venezuelan public sector and, therefore, an improvement in oil sector activity. However, given the marked deterioration of the oil industry and the considerable investments required to ramp up operations, it is estimated that its recovery will be relatively moderate. In the non-oil sector, severe constraints owing to the lack of fuel and problems in ensuring a stable electricity supply indicate a further decline in economic activity, particularly in sectors such as agriculture, agro-industry and transport. Therefore, ECLAC estimates that GDP will contract by 7% in 2021.