BOLIVARIAN REPUBLIC OF VENEZUELA

1. General trends

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that economic activity in the Bolivarian Republic of Venezuela contracted for the seventh consecutive year in 2020, posting a year-on-year decline of -30%. That reduction in GDP appeared to be across-the-board, in both the oil and non-oil sectors, as well as in all components of aggregate demand. That was the largest contraction in the Venezuelan economy since 1950, the year in which the Central Bank of Venezuela (BCV) began to disseminate the figure and reflects the joint and simultaneous effects of the coronavirus disease (COVID 19) pandemic, the tightening of sanctions imposed by the United States on the Venezuelan public sector, the fall in oil exports, the decline in remittance income and serious problems in the oil industry, especially in gasoline and diesel refining.

The lower fiscal and external constraints resulting from the recovery in oil prices and a slight increase in oil production suggest that the decline in the country's economic activity will be less pronounced in 2021. However, given ongoing physical distancing measures, the exacerbation of gasoline and diesel supply problems and the maintenance of sanctions by the United States, ECLAC projects that Venezuelan GDP will contract by 4% in 2021. In addition, favourable conditions in the oil market, an increase in crude oil production and an easing of sanctions could lead to a halt in the fall of GDP and to a 1% growth in the economy in 2022.

As regards prices, the hyperinflation that began towards the end of 2017 persists, although inflation has tended to decline and fell from 9,585% in 2019 to 2,960% in 2020. In the first five months of 2021, year-on-year inflation was 2,720%. Major expansions of monetary aggregates, continuous depreciations of the exchange rate and substantial monetary financing of the fiscal deficit are some of the factors that have been fuelling this lengthy hyperinflationary process.

To lessen the inflationary impact of monetary expansions and exchange rate depreciation, the Central Bank of Venezuela stepped up its interventions in the foreign exchange market and adopted a series of policies, including increases in reserve requirements. In that way, it was able to slow the growth rates of M1 and M2 until the first half of 2020. However, as part of the plan to mitigate the effects of the pandemic, since July 2020 this policy has been reversed, accelerating the pace of growth of these aggregates.

In turn, stark differences between the pace of inflation and the minimum wage led to a fall in the real minimum wage in 2020, as well as in the first five months of 2021.

2. Economic policy

(a) Fiscal policy[1]

In 2020, as a result of the impact of the crisis generated by COVID-19 in the international oil markets, the severe financial restrictions that the Venezuelan public sector has been facing since mid-2017 were accentuated. It

[1] At the time of writing, no official information was available on the country's fiscal situation, which makes it impossible to assess that situation or estimate the magnitude of the effects of the COVID-19 crisis on Venezuelan public finances.

is estimated that the drop in oil exports (price and export volume contractions) led to historically low levels of oil tax receipts. Although the financial squeeze was extremely severe throughout 2020, it intensified especially between January and May of that year, when benchmark Venezuelan crude oil prices plummeted by 50% (the Merey crude oil price dropped to US$ 16.33 per barrel), while crude oil production fell by 24%.

For its part, the suspension of payments on foreign debt decreed at the end of 2017 and the sanctions imposed by the United States Government have effectively shut down external financing to the Venezuelan Government. At the same time, the sharp contraction in economic activity and imports, combined with the deterioration in purchasing power caused by hyperinflation and the Olivera-Tanzi effect, suggest a real-terms drop in domestic revenues during 2020. This situation led to a reduction in public spending in real terms and to increased dependence of fiscal management on monetary financing. Despite this, and in the context of the crisis generated by COVID-19, the government announced a series of measures to alleviate the effects of the crisis, including a set of transfers and subsidies for households and companies.

(b) Monetary policy

In 2020, the growth rate of Venezuelan monetary aggregates slowed, reflecting the authorities' efforts to combat hyperinflation. Between December 2019 and December 2020, the monetary base grew by 1,232%, much less than the cumulative growth rate between 2018 and 2019, which exceeded 7,000%. During the first nine months of 2020, the monetary base posted average month-on-month growth of 20.1%, less than half the average observed in the same period of 2019 (49.2%). In the last quarter of 2020, however, growth accelerated to 38.1%. In the first five months of 2021, the average month-on-month growth of the monetary base was 18.1%, while year-on-year growth to May 2021 was 1,033%.

As for the sources of monetary base expansion, at the beginning of the COVID-19 crisis, the monetary authorities unified the marginal and ordinary cash reserve requirement rates at 93% and kept them at that level until January 2021, when they were set at 85% in an attempt to stimulate lending. Financing to non-financial public enterprises continues to be the main source of expansion of the monetary base, and its relative share has increased, from 35% in December 2019 and 64.5% in December 2020 to 78.0% in May 2021. For its part, the performance of the broader aggregates, M1 and M2, was similar to that of the monetary base, moving from rates of growth of around 5,000% in 2019 to rates close to 1,300% in 2020. In the first five months of 2021, the broader aggregates expanded at an annualized rate slightly higher than that recorded at the close of 2020 (1,430%).

Lending to the private sector reflects the authorities' handling of legal reserve requirements and has tended toward faster growth in nominal terms, from a rate of 2.160% in 2019 to 2.881% in 2020. As of April 2021, the year-on-year growth of lending to the private sector was 3.671%. Despite the nominal changes in lending described above, the combined impact of hyperinflation, the sharp depreciations of the bolívar and the marked contraction of domestic aggregate demand caused a more than 87% real-terms decline of the portfolio of loans to the private sector between November 2017 and March 2021. The share of commercial loans in total credit increased by more than 18 percentage points over the same period, from 58.9% in November 2017 to 77.4% in March 2021. The share of the industrial loan portfolio in the total portfolio contracted from 8.9% in November 2017 to 0.2% in March 2021, while that of the consumer credit portfolio decreased from 14% to 2.9% over a similar period.

Nominal lending rates have been on an upward trend since 2017; on average, they increased 7.5 basis points in 2019 and 3.8 basis points in 2020. In the first five months of 2021, on average, these rates have increased again (11.2 basis points) compared to the average observed in the same period of 2020. However, these increases in lending rates have little effect on the cost of money, because, given the high levels of inflation and sharp depreciations of the bolivar, the resulting real interest rates are undoubtedly negative.

The Venezuelan monetary authorities recently announced a new monetary restructuring, with six zeros eliminated from the current currency (the bolívar) as of 1 October 2021. This is the third restructuring of the Venezuelan monetary system since 2007.

(c) Exchange-rate policy

As occurred with the monetary aggregates, in 2020 there was a decrease in the rate of depreciation of the bolivar against the dollar: from a depreciation of the official exchange rate of 7,205% between December 2018 and December 2019 to a depreciation of 2,274% during 2020. In the first six months of 2021, the exchange rate continued that trend so that depreciation was 1,525% with respect to June 2020 and 190% with respect to the close of December 2019. The dynamics of the parallel market exchange rate were very similar, with year-on-year depreciations of 7,394% as of December 2019, 1,796% as of December 2020 and 1,488% as of June 2021. A noteworthy development is the increasing use of foreign currency, particularly the dollar, to carry out transactions in the country.

International reserves declined again in 2020: by 4% compared to the level recorded at the end of 2019. That was the sixth consecutive year of contraction, with the cumulative drop amounting to 72% with respect to December 2014. During the first half of 2021, reserves fell again (by 3% compared to the end of December 2020), despite the significant recovery in oil export estimates. Factors that may be behind this decline include large fuel imports by the government and an increase in central bank interventions in the foreign exchange market.

3. The main variables

(a) The external sector

ECLAC estimates that Venezuelan exports of goods and services plummeted by nearly 50% in 2020, after falling 33% in 2019. That plunge in exports in 2020 reflects the sharp decline in the average price of the Venezuelan crude oil basket, which fell by 50% compared to the average value in 2019 (US$ 56.6 per barrel). The crisis caused by COVID-19 significantly affected oil prices, especially in the first half of 2020: between January and May, the average value of the Venezuelan crude oil basket fell by 87.4%. The estimated 36% reduction in the volume of exports likewise contributed to the steep decline in Venezuelan exports during 2020. Imports of goods and services fell by more than 40% in 2020, reflecting the sharp contraction in aggregate demand, as well as the lower availability of foreign currency due to the drop in exports and the marked decline in remittances sent by Venezuelans working abroad during 2020.

Improvements in international oil market conditions and higher Venezuelan crude oil output are likely to lead to a recovery of exports in 2021. However, the increase in petroleum product prices will also raise the cost of Venezuelan imports, since the country has become a net importer of gasoline and diesel. The anticipated recovery of labour markets in countries receiving Venezuelan migrants means that foreign exchange inflows from remittances are likely to increase in 2021, although income from remittances will probably be below that estimated for 2019 (around US$ 3.5 billion).

(b) Economic activity

Economic activity fell 30% in 2020: the largest contraction ever documented in Venezuelan economic history. It was the seventh consecutive year of GDP contraction. Despite the fact that national accounts statistics have not been released beyond the first quarter of 2019, a sharp decline in consumption was estimated for 2020 given the reduction in household income (lower real wages, the fall in employment, lower transfers from abroad and ongoing hyperinflation) and more severe public sector financial constraints. At the same time, the physical distancing measures implemented to mitigate the spread of the pandemic have also curtailed productive sector activities, along with frequent and prolonged power outages, major reductions in the loan portfolio, fuel supply problems and restricted access to imported inputs needed for production.

ECLAC estimates that the country's economy will grow by 1% in 2022, owing to increased availability of external assets that are likely to induce increases in both crude oil prices and exported volumes, as Venezuelan crude oil marketing processes return to normal in response to higher growth rates in countries importing those products and a possible easing of the sanctions imposed by the United States. That would also prompt some reactivation of Venezuelan refineries, which, in turn, would help mitigate the fuel crisis facing the country.[2] Private consumption could recover as a result of more robust remittances and the end of restrictions on mobility within the country. In this scenario, the economy would see an end to eight years of contraction which, by the close of 2021, will have shrunk GDP to just over 24% of what it was in 2013.

(c) Prices, wages and employment

Inflation declined in 2020 vis-à-vis the previous year: from 9,585% in 2019 to 2,959.8%. Despite that steep decline, the hyperinflation that began at the end of 2017 persists, and as of June 2021, year-on-year inflation amounted to 2,719.5%.

Although the increase in prices is across-the-board, core inflation posts the highest growth rate: after closing 2020 at 3,292%, in June 2021 it stood at 3,593%. Inflation in the services sector posts the second largest growth rate among the groups that make up the consumer price index (CPI), registering 2,852% at the end of 2020 and 3,099% as of June 2021.

During 2020, as in 2019, the integrated minimum wage (basic wage plus food bonus) was increased on three occasions (January, May and November): a cumulative increase of 700% vis-à-vis 2019. Minimum wage hikes were less than inflation, so that the real minimum wage contracted by 73.1% compared to the prior-year period. In the first six months of 2021, the minimum wage was revised twice and posted a cumulative (nominal) increase of 317%. During the same period, the minimum wage fell by more than 30% in real terms. Lastly, it is worth noting that many companies have reported that they pay their workers' wages in foreign currency in order to avoid talent drain.

[2] The sale of shares of the European oil companies TotalEnergies and Equinor from the joint venture with Petróleos de Venezuela S.A. (PDVSA), for example, may alter this scenario, given that this was the largest and most important project in the Orinoco Oil Belt.

Table 1

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	Annual growth rates b/								
Gross domestic product	5.6	1.3	-3.9	-6.2	-17.0	-15.7	-19.6	-28.0	-30.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.9	4.4	-2.5	-7.7	-18.3	-14.1	-17.3	-21.8	-19.3
Government consumption	6.3	3.3	0.6	-3.2	-14.7	-7.2	-9.1	-8.0	-7.4
Private consumption	7.0	4.7	-3.4	-8.9	-19.4	-16.2	-20.1	-27.0	-25.0
Gross capital formation	24.1	-14.0	-22.9	-23.7	-54.1	-64.8	-31.3	-27.0	-30.0
Exports (goods and services)	1.6	-6.2	-4.7	-0.9	-11.7	0.0	-10.8	-35.7	-38.3
Imports (goods and services)	24.4	-9.7	-18.5	-23.1	-50.1	-34.7	0.3	-3.0	-7.0
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	26.6	27.3	24.8	...	...	...	...	...	...
National saving	27.3	28.6	26.6	...	...	...	...	...	...
External saving	-0.7	-1.4	-1.8	...	...	...	...	...	...
Balance of payments	**Millions of dollars**								
Current account balance	2 586	4 604	4 919	-16 051	-3 870	8 706	8 613	-1 242	...
Goods balance	31 926	31 570	27 421	3 928	11 033	22 007	20 895	10 723	...
Exports, f.o.b.	97 877	88 753	74 676	37 236	27 403	34 030	33 677	22 227	...
Imports, f.o.b.	65 951	57 183	47 255	33 308	16 370	12 023	12 782	11 504	...
Services trade balance	-17 238	-17 041	-14 870	-12 163	-8 159	-6 321	-6 260	-6 378	...
Income balance	-11 099	-8 707	-7 425	-7 661	-6 918	-7 567	-7 973	-7 733	...
Net current transfers	-1 003	-1 218	-207	-155	174	587	1 951	2 146	...
Capital and financial balance d/	-3 582	-9 194	-5 637	12 000	-2 938	-9 196	-7 658	-965	...
Net foreign direct investment	1 679	1 928	-3 401	370	27	-2 302	225	...	...
Other capital movements	-5 261	-11 122	-2 236	11 630	-2 965	-6 894	-7 883	...	...
Overall balance	-996	-4 590	-718	-4 051	-6 808	-2 302	225	...	...
Variation in reserve assets e/	996	4 590	718	4 051	6 808	758	1 300	...	...
Other external-sector indicators									
Terms of trade for goods									
(index: 2005=100)	120.8	119.8	115.9	66.7	57.5	63.9	80.8	69.4	...
Net resource transfer (millions of dollars)	-14 681	-17 901	-13 062	4 339	-9 856	-16 763	-15 631	-8 698	...
Total gross external debt (millions of dollars)	130 785	132 362	135 767	149 755	149 859	148 328	148 432	147 899	...
Employment f/	**Average annual rates**								
Labour force participation rate	63.9	64.3	65.1	63.7	64.0	66.3	67.9	...	...
Open unemployment rate	8.1	7.8	7.2	7.0	7.3	7.2	6.8	...	...

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	20.1	56.2	68.5	180.9	274.4	862.6	130 060.2	9 585.5	2 959.8
Variation in wholesale prices (December-December)	19.1	75.9	56.6	207.3	488.7	2 668.4	357 206.6	...	...
Variation in nominal exchange rate g/ (annual average)	0.0	42.8	299.5	561.8	216.7	336.0	365 843.6	19 264.4	2 268.5
Variation in average real wage	5.9	-4.4	...	...	...	...	...	...	...
Nominal deposit rate h/	14.5	14.5	14.7	14.9	15.1	14.7	14.7	23.3	29.3
Nominal lending rate i/	16.4	15.7	17.1	19.9	21.4	21.5	21.9	29.3	33.2
Central government	**Percentages of GDP**								
Total revenue	23.5	26.8	33.0	19.3	...	...	...	...	...
Tax revenue	13.2	13.5	17.9	14.2	...	...	...	...	...
Total expenditure	28.4	30.5	35.9	21.2	...	...	...	...	...
Current expenditure	23.7	24.9	29.8	16.8	...	...	...	...	...
Interest	2.7	3.1	3.0	1.3	...	...	...	...	...
Capital expenditure	4.8	5.5	6.1	4.3	...	...	...	...	...
Primary balance	-2.2	1.1	1.1	-0.2	...	...	...	...	...
Overall balance	-4.9	-2.0	-1.9	-1.5	...	...	...	...	...
Central government public debt	27.5	32.9	28.5	31.7	31.1	...	...	...	...
Domestic	15.6	20.1	19.5	23.8	21.3	...	...	...	...
External	11.9	12.8	9.0	7.8	9.8	...	...	...	...
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit j/	40.4	49.7	59.7	...	...	...	...	...	...
To the public sector	12.8	16.2	15.6	...	...	...	...	...	...
To the private sector	25.2	29.7	39.5	...	...	...	...	...	...
Others	2.4	3.7	4.7	...	...	...	...	...	...
Monetary base	16.4	19.8	25.0	...	...	...	...	...	...
Money (M1)	42.7	53.4	64.4	...	...	...	...	...	...
M2	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 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/ On the basis of information from Bloomberg.
h/ 90-day deposits rate.
i/ Average rate for loan operations for the six major commercial banks.
j/ Credit granted by the commercial and universal banks.

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	-26.8	...	...	...	...	...	...	...	...	...
Gross international reserves (millions of dollars)	8 206	8 010	8 164	7 388	6 775	6 453	6 469	6 337	6 287	6 233
Open unemployment rate c/	...	...	...	...	...	...	...	...	...	...
Consumer prices										
(12-month percentage variation)	329 567.6	116 436.3	39 113.8	9 585.5	2 430.6	2 354.8	1 813.1	2 959.8	3 012.2	2 719.5 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	21.0	24.0	24.3	24.1	24.1	35.4	33.6	24.0	46.9	57.2 d/
Lending rate f/	29.6	31.1	31.1	25.6	29.0	37.1	34.8	31.8	41.1	47.0 d/
Interbank rate	24.3	96.6	127.4	189.8	152.9	190.3	257.9	130.1	378.8	394.1 d/
Monetary policy rates	13.7	17.6	18.0	17.5	...	...	...	...	...	...
Sovereign bond spread, Embi +										
(basis points to end of period) g/	5 224	8 867	18 473	14 740	19 270	19 270	19 270	19 270	26 168	31 091
Risk premiia on five-year credit default swap										
(basis points to end of period)	7 721	5 381	5 381	5 381	5 381	5 381	5 381	5 381	5 381	1 697
Domestic credit (variation from same quarter of preceding year)	550 201.0	216 363.2	28 954.5	9 164.6	1 884.8	2 695.1	1 717.1	2 324.9	2 446.8	1 581.0 h/

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.
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