BOLIVARIAN REPUBLIC OF VENEZUELA

1. General trends

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that, in 2019, economic activity declined in the Bolivarian Republic of Venezuela for the sixth consecutive year, with a contraction of 28%. The fall in GDP was recorded in both the oil and non-oil sectors, and in all components of aggregate demand. This was the situation of the Venezuelan economy in early 2020, when it was hit by the coronavirus disease (COVID-19) pandemic and a tightening of sanctions on the Venezuelan public sector by the United States. In view of the global drop in oil prices caused by the COVID-19 crisis, the decline in oil production, increasingly severe fiscal and external constraints, the economic effects of physical distancing measures and gasoline supply problems, ECLAC predicts that Venezuelan GDP will contract by 26% by 2020.

In terms of prices, the hyperinflationary process that began in late 2017 has continued: inflation was 9,585% in 2019 and 2,294% in the first five months of 2020. In an attempt to reduce the inflationary impact of monetary expansion, the Central Bank of Venezuela (BCV) increased the legal reserve requirement, and reined in the growth rates of M1 and M2 monetary aggregates in 2019 and in the first few months of 2020. However, as part of the plan to mitigate the effects of the pandemic, this policy has been relaxed since March 2020 and the rate of growth of the aggregates has accelerated once more. The frequent minimum wage hikes failed to offset price inflation, resulting in a 37.4% decline in the minimum wage in real terms between December 2018 and December 2019, and a further 30.0% fall in the first six months of 2020.

In 2019, the financial constraints faced by the Venezuelan public sector intensified, precipitating a fall in public spending in real terms and increased dependence on monetary financing to fund fiscal deficits. Similarly, the suspension of payments that began in late 2017 has been maintained and unmade payments are set to total more than US$ 27 billion by the end of 2020. This fiscal situation has limited the resources available to address the pandemic and its repercussions.

To reduce the tax burden resulting from highly subsidized gasoline prices in the country, a new mechanism was introduced whereby payment in bolívares and a significant subsidy are maintained for two of the established rates, and for a third rate payments are in dollars. This change was made after widespread gasoline shortages in the first half of 2020.

2. Economic policy

(a) Fiscal policy

In 2020, the financial constraints that the Venezuelan public sector has faced since mid-2017 intensified. As a result of defaults on most external public sector liabilities, the country still has no access to foreign financing. Declines in the volume and price of oil exports have also reduced the related fiscal revenues. In addition, the sharp contraction in economic activity, the drop in imports caused by lower aggregate demand, and the combination of hyperinflation and the Olivera-Tanzi effect, have caused domestic revenue to decrease in real terms. Moreover, political tensions between the executive and parliament, coupled with the tightening of sanctions by the United States, have hampered use of the country's foreign assets and made it difficult for other countries to trade with Venezuelan public entities.

This has led to a slump in public spending in real terms and greater dependency on monetary financing to fund fiscal deficits. At the time of writing, no official information was available on the country's fiscal situation; however, an increasingly steep fall in the component of GDP related to government services in the first quarter of 2019 (down by 23.4% on the prior-year period) and a 23.1% reduction in final government consumption in the same period suggests that it has worsened. Similarly, the information provided by BCV for that quarter indicates that, although public sector debt remained stable, growing by 1.7% with respect to year-end 2018, public sector bonds and promissory notes increased as a result of accumulated debts with private oil operators. In contrast, loans to the public sector and monetary and financial assets declined.

At the end of 2017, the Bolivarian Republic of Venezuela defaulted and payments have only been made in connection with the 2020 bonds issued by Petróleos de Venezuela S. A. (PDVSA), since they are backed by shares in CITGO Petroleum Corporation. It is estimated that, by the end of 2020, the total amount outstanding will top US$ 27 billion, 4.2 times the amount of international reserves available in June 2020.

(b) Monetary policy

Between 2018 and 2019, the year-on-year growth rate of the monetary base fell from 43,950% to 7,172%. A key contributor to this trend was the decline in the growth rates of net assets linked to the public sector, which were the main source of expansion of the monetary base in both 2018 and 2019. Growth in these assets slowed from more than 1,000,000% in 2018 to less than 9,000% in 2019. The trends in the base and in the public assets reflect the importance of monetary financing in the Venezuelan economy in recent years.

In February 2019, the ordinary legal reserve ratio was raised from 31%, its level until January of that year, to 57%, where it remained for the rest of the year. At the same time, the marginal reserve ratio was increased from 60% in January 2019 to 100% in February of that year. Growth in the broadest monetary aggregates thus slowed: the growth rates of M1 and M2 fell from over 60,000% in 2018 to almost 4,500% in 2019. The COVID-19 outbreak in the region prompted the monetary authorities to revise the reserve requirement policy in 2020 to stimulate lending and, in March, the marginal and ordinary reserve rates were aligned at 93%.

Lending to the private sector and borrowing rates clearly reflected the effects of the changes to the legal reserve ratios. The nominal credit growth rate slowed from 106,615% in 2018 to 2,174% in 2019, and year-on-year credit growth rates then accelerated from 582% in March 2020 to 1,200% in April, when the reserve requirement was cut. Despite the high nominal growth in domestic credit to the private sector, the hyperinflationary process in the economy caused credit to fall at a real rate of 67% on average in 2019 and by more than 60% in the first four months of 2020. This contraction in real terms undoubtedly reflects the sharp fall in domestic aggregate demand. Average lending rates increased by 7.5 percentage points from 21.8% in 2018 to 29.4% in 2019, and then dropped by 6.5 percentage points in the first quarter of 2020, driven down by increased liquidity resulting from alignment of the ratios and the cut in the legal reserve requirement.

(c) Exchange-rate policy and international reserves management

In 2019, the Venezuelan authorities finished dismantling the exchange control that had been in place since 2003, giving way to a more flexible system with a unified official exchange rate that will be determined by the BCV foreign-exchange desk. As a result of this greater flexibility, the official exchange rate depreciated by 7,205% between December 2018 and December 2019, in line with the parallel rate (7,394%). In 2019, the use of foreign currency for transactions between domestic agents became more widespread, enabling an easing of the restrictions that were implemented in response to a shortage of bolívares banknotes, following a worsening of the situation in 2018.

In the first half of 2020, exchange rate depreciation slowed: between December 2019 and mid-June 2020, the official exchange rate depreciated by 325% and the parallel rate by 259%. One factor that contributed to this slower depreciation was a new measure to index the value of the Unified National Productive Portfolio (Cartera Única Productiva Nacional) —which groups together preferential lending to the agrifood, manufacturing, tourism, health and mortgage sectors— to variations in the official exchange rate. This measure discourages borrowing for purchases of foreign currency and stimulates lending for productive activities.

International reserves fell for the fifth consecutive year, shrinking by 25% between year-end 2018 and year-end 2019. In the first half of 2020, reserves contracted by a further 2.0%. In April 2020, the country’s international reserves stood at US$ 6.429 billion, the lowest level in 30 years.

(d) Policies to tackle the COVID-19 pandemic

On 26 March 2020, the first death from COVID-19 was reported in Venezuelan territory; by 23 June, 4,185 people had been infected and 35 had died, according to government information. A number of measures were announced in mid-March 2020 to prevent the spread of the disease and to mitigate its effects on the population. The main actions were: (i) a lockdown that began on 17 March (the authorities have been exploring how to relax these restrictions since the beginning of June); (ii) extension of the freeze on dismissals unless special approval is obtained; (iii) support for six months for the payroll payments of small and medium-sized enterprises (SMEs); (iv) maintenance of cash transfers; (v) reinforcing the programme to deliver food boxes through Local Supply and Production Committees (CLAP); (vi) suspension of payments of commercial and residential rent, with compensation for lessors for six months; (vii) a ban on disconnecting telecommunications services; (viii) maintenance of the exemption from import duties; (ix) suspension of interest and principal payments on loans for six months; (x) suspension for six months of late payment interest for loans; and (xi) a credit plan for SMEs. To date, it has not become clear what volume of additional fiscal resources will be allocated to finance these measures, or when they will come into effect.

(e) Changes to gasoline pricing policies

The sharp drop in Venezuelan crude oil production and the virtual standstill at the country’s refineries have turned the economy into a net fuel importer. The toughening of sanctions by the United States in 2020 has restricted the options Petróleos de Venezuela, S.A. has for importing gasoline, causing the fuel supply problems that began in 2019 to get worse in the first half of 2020. Fuel arrived in the country from the Islamic Republic of Iran in early June 2020. However, in parallel with the arrival of the fuel, the Venezuelan Government announced a new mechanism to set gasoline prices, which kept subsidies in place but reduced the tax burden on the government in relation to the sale of gasoline in the local market. Three price rates were announced. The first rate is for public and freight transport, with a 100% subsidy. The second, of 5,000 bolívares per litre, is for private vehicles and motorcycles (up to 120 litres and 60 litres per month, respectively). Although this price has been increased, is remains highly subsidized. This rate will only apply to those who have their vehicles registered in the Patria system vehicle survey. The third rate is for the sale of gasoline in dollars or cryptocurrencies, at US$ 0.5 per litre.

3. The main variables

(a) Economic activity

ECLAC estimates that exports of Venezuelan goods and services declined by 34% in 2019, after falling 1.0% in 2018. This downturn in exports in 2019 reflects a 7.6% drop in the average price of the Venezuelan crude oil basket, and an estimated 32% reduction in the volume exported. In 2019, the main export markets for Venezuelan crude oil were in Asia, which accounted for around 65% of total exports. The crisis caused by COVID-19 has had a severe impact on oil prices: the average value of the Venezuelan crude oil basket was 67% lower in January to May 2020 than it was in the prior-year period. Moreover, new sanctions have been imposed on companies that trade and transport Venezuelan crude oil, making exporting the country's oil even more difficult, and resulting in a considerable rise in inventory levels. This has led to a policy of large price discounts on the Venezuelan oil basket to encourage purchases.

Venezuelan imports also slowed in 2019, falling 10%. This reflected a slump in aggregate demand and the impact of the restrictions on the country's public enterprises. As a result of the reduction in the refining capacity of the Venezuelan oil industry, fuel became the main import item, accounting for 54% of total imports in 2018. Imports are expected to fall further in 2020 as a result of a decline in aggregate domestic demand and greater external constraints on the country.

The net performance of exports and imports led to a deterioration of nearly US$ 10.172 billion in the goods balance, from a surplus of US$ 20.895 billion in 2018 to a surplus of US$ 10.723 billion in 2019. Taking into account the income, services and goods accounts, the Venezuelan external sector current account recorded a deficit equivalent to 0.7% of GDP, following a surplus in 2018 equivalent to 4.9% of GDP.

Given this external and fiscal context and the marked worsening of the economy in terms of growth and inflation, the country has the highest risk indicators in the region, having risen sharply in recent years. Indeed, the Emerging Market Bond Index (EMBI) associated with Venezuelan instruments stood at 14,740 basis points in December 2019, but by May 2020 it had climbed to 27,907 basis points.[1]

(b) The external sector

In 2019, Venezuelan economic activity shrank for the sixth year in a row. According to BCV data, in the first quarter of 2019, the year-on-year contraction was 26.8%. ECLAC estimates that this trend continued throughout the year, putting the annual fall at 28%. This contraction was reflected in both the oil and non-oil sectors. Crude oil production plummeted in 2019, dropping to 735,000 barrels per day by December, compared to 1,165,000 barrels per day in 2018. All non-oil activities also slowed. The fall was particularly sharp in manufacturing, construction and financial services, which are estimated to have contracted by over 50%.

[1] For the purpose of comparison, the level of the EMBI Global Stripped Spread Latin America component index was 349 basis points at the end of December 2019 and 581 basis points at the end of May 2020.

In terms of aggregate demand components, BCV data for the first quarter of 2019 show that government spending and private consumption were down by 23.9% and 34.8%, respectively, compared to the same period of 2018. The central bank had not reported such a large year-on-year fall in these components since 1999. Gross fixed capital formation, meanwhile, contracted by 43.7% in the first quarter of 2019. These components of Venezuelan aggregate demand have been falling for some time. There have been consecutive drops in private consumption since the first quarter of 2014, government consumption has been falling since the first quarter of 2015, and investment since the second quarter of 2015. The reasons for the deepening of the Venezuelan economic depression in 2019 include new and prolonged interruptions of electricity supply, a lack of financing for productive activities, fuel supply problems, sustained falls in tax revenues and especially oil revenues, declines in real household income, price controls and enormous external constraints.

In 2020, the COVID-19 outbreak and the tightening of sanctions by the United States dealt further blows to the Venezuelan economy. Firstly, fiscal and external restrictions were exacerbated by further drops in crude oil production (22%) and a reduction in oil exports owing to lower prices, lower production and greater trade problems. Secondly, there was turmoil in non-oil activities, caused by widespread gasoline shortages and restrictions on movement during the lockdown. In addition, there were widespread electricity blackouts in the first half of 2020. As a result of all these factors, ECLAC estimates that Venezuelan GDP will contract by 26% in 2020. That would be the second year with a fall of 26% or more, and would result in a cumulative contraction in GDP of 74% since 2013.

(c) Prices, wages and employment

The hyperinflationary process that began at the end of 2017 has continued, albeit with reductions in inflation in 2019 and the first few months of 2020. After recording the highest ever annual rate of inflation in the region in 2018 (130,060.2%), the country saw inflation slow considerably to 9,585% in 2019; in the first five months of 2020, the year-on-year rate was 2,294%. Price rises were fairly widespread and were recorded in all the components of the consumer price index (CPI). In 2019, underlying inflation was 15,130%, well above the general index, owing to food price inflation of 7,891%. Inflation in non-tradables (15,277%) was 1.7 times the rate for tradables (8,946%). In 2020, greater exchange rate and pricing flexibility and increased use of the dollar in transactions in the Venezuelan economy led to convergence of components of CPI towards rates close to 2,000%: underlying inflation was 2,640%, while food inflation was 2,065%. In May 2020, inflation of tradable goods was 2,327%, and inflation of non-tradable goods was 2,486%.

During 2019, the integrated minimum wage (basic wage plus food bonus) was raised three times, resulting in a cumulative increase of 5,961% on its value in 2018. Increases in the minimum wage were below inflation, meaning that in real terms the minimum wage shrank by 37.4% between December 2018 and December 2019. In the first six months of 2020, the minimum wage was raised twice, for a cumulative increase of 167%, resulting in a fall of more than 30% in real terms on year-end 2019.

Although no employment data are available for 2019, the sharp GDP contraction in activities such as construction, manufacturing and commerce over the course of the year suggest there was an increase in unemployment and informality, since these activities accounted for 49% of the employed workforce at year-end 2018, when employment data was last published. Given the sharp contraction in economic activity expected in 2020, the Venezuelan labour market will be hit hard, and unemployment and informality will increase.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	4.2	5.6	1.3	-3.9	-6.2	-17.0	-15.7	-19.6	-25.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.4	6.9	4.4	-2.5	-7.7	-18.3	-14.1	-17.3	...
Government consumption	5.9	6.3	3.3	0.6	-3.2	-14.7	-7.2	-9.1	...
Private consumption	4.0	7.0	4.7	-3.4	-8.9	-19.4	-16.2	-20.1	...
Gross capital formation	15.2	24.1	-14.0	-22.9	-23.7	-54.1	-64.8	-31.3	...
Exports (goods and services)	4.7	1.6	-6.2	-4.7	-0.9	-11.7	0.0	-10.8	...
Imports (goods and services)	15.4	24.4	-9.7	-18.5	-23.1	-50.1	-34.7	0.3	...
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	23.1	26.6	27.3	24.8	30.9	0.1	-3.7	-4.8	-4.5
National saving	28.0	27.3	28.6	26.6	20.2	-1.8	1.9	0.1	-5.2
External saving	-4.9	-0.7	-1.4	-1.8	10.7	1.9	-5.7	-4.9	0.7
Balance of payments	**Millions of dollars**								
Current account balance	16 342	2 586	4 604	4 919	-16 051	-3 870	8 706	8 613	-1 242
Goods balance	41 172	31 926	31 570	27 421	3 928	11 033	22 007	20 895	10 723
Exports, f.o.b.	93 747	97 877	88 753	74 676	37 236	27 403	34 030	33 677	22 227
Imports, f.o.b.	52 575	65 951	57 183	47 255	33 308	16 370	12 023	12 782	11 504
Services trade balance	-14 950	-17 238	-17 041	-14 870	-12 163	-8 159	-6 321	-6 260	-6 378
Income balance	-9 079	-11 099	-8 707	-7 425	-7 661	-6 918	-7 567	-7 973	-7 733
Net current transfers	-801	-1 003	-1 218	-207	-155	174	587	1 951	2 146
Capital and financial balance d/	-20 374	-3 582	-9 194	-5 637	12 000	-2 938	-9 196	-7 658	...
Net foreign direct investment	6 110	1 679	1 928	-3 401	370	27	-2 302	225	...
Other capital movements	-26 484	-5 261	-11 122	-2 236	11 630	-2 965	-6 894	-7 883	...
Overall balance	-4 032	-996	-4 590	-718	-4 051	-6 808	-2 302	225	...
Variation in reserve assets e/	4 032	996	4 590	718	4 051	6 808	758	1 300	...
Other external-sector indicators									
Terms of trade for goods									
(index: 2005=100)	120.2	121.4	118.9	111.8	65.9	55.3	64.8	78.6	72.3
Net resource transfer (millions of dollars)	-29 453	-14 681	-17 901	-13 062	4 339	-9 856	-16 763	-15 631	-7 733.3
Total gross external debt (millions of dollars)	118 285	130 785	132 362	135 767	149 755	149 859	148 328	148 432	147 899.0
Employment f/	**Average annual rates**								
Labour force participation rate	64.4	63.9	64.3	65.3	63.7	64.0	65.6	67.0	...
Open unemployment rate	8.291736	8.1	7.8	7.2	7.0	7.3	7.2	6.9	...

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	27.6	20.1	56.2	68.5	180.9	274.4	862.6	130 060.2	9 585.5
Variation in wholesale prices									
(December-December)	19.8	19.1	75.9	56.6	207.3	488.7	2 668.4	357 206.6	…
Variation in nominal exchange rate g/									
(annual average)	1.2	0.0	41.5	3.6	0.0	47.2	…	…	…
Variation in average real wage	3.0	5.9	-4.4	…	…	…	…	…	…
Nominal deposit rate h/	14.6	14.5	14.5	14.7	14.9	15.1	14.7	14.7	23.3
Nominal lending rate i/	17.5	16.4	15.7	17.1	19.9	21.4	21.5	21.9	29.3
Central government	**Percentages of GDP**								
Total revenue	22.5	23.5	26.8	33.0	…	…	…	…	…
Tax revenue	12.5	13.2	13.5	17.9	…	…	…	…	…
Total expenditure	27.5	28.4	30.5	35.9	…	…	…	…	…
Current expenditure	21.0	23.7	24.9	29.8	…	…	…	…	…
Interest	2.1	2.7	3.1	3.0	…	…	…	…	…
Capital expenditure	6.5	4.8	5.5	6.1	…	…	…	…	…
Primary balance	-1.8	-2.2	1.1	1.1	…	…	…	…	…
Overall balance	-4.0	-4.9	-2.0	-1.9	…	…	…	…	…
Central government public debt	25.1	27.5	32.9	28.5	31.7	31.1	…	…	…
Domestic	11.3	15.6	20.1	19.5	23.8	21.3	…	…	…
External	13.7	11.9	12.8	9.0	7.8	9.8	…	…	…
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit j/	30.8	40.4	49.7	59.7	42.4	26.7	22.6	148.7	41.4
To the public sector	7.8	12.8	16.2	15.6	7.7	4.3	1.9	66.0	18.8
To the private sector	20.4	25.2	29.7	39.5	31.6	21.5	20.4	19.4	2.2
Others	2.6	2.4	3.7	4.7	3.1	0.9	25.7	63.3	20.4
Monetary base	12.7	16.4	19.8	25.0	19.9	19.2	49.2	19.3	7.0
Money (M1)	31.4	42.7	53.4	64.4	48.9	36.6	62.9	35.7	9.0
M2	32.7	43.6	54.3	66.0	50.0	37.0	63.2	35.8	9.0

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

	2018				2019				2020	
	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/	-18.6	-17.2	-22.5	-20.2	-26.8	...	...	...	...	...
Gross international reserves (millions of dollars)	9 512	9 695	8 464	8 796	8 206	8 010	8 164	7 388	6 775	6 475
Open unemployment rate c/	7.3	6.8	6.7	6.8	...	...	...	...	...	...
Consumer prices (12-month percentage variation)	2 127.9	10 470.7	44 950.5	130 060.2	329 567.6	116 436.3	39 113.8	9 585.5	2 430.6	2 296.6 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	14.5	14.7	14.8	14.8	21.0	24.0	24.3	24.1	24.1	...
Lending rate f/	22.1	21.8	21.6	22.0	29.6	31.1	31.1	25.6	23.1	...
Interbank rate	0.1	5.7	6.2	10.8	24.3	96.6	127.4	189.8	152.9	225.1 d/
Monetary policy rates	6.5	6.2	6.1	6.0	13.7	17.6	18.0	17.5 g/	...	...
Sovereign bond spread, Embi + (basis points to end of period) h/	4 189	5 011	5 499	6 845	5 224	5 224	5 224	5 224	19 270	30 757
Risk premiia on five-year credit default swap (basis points to end of period)	15 047	11 154	9 284	8 281	7 721	5 381	5 381	5 381	5 381	5 381
Domestic credit (variation from same quarter of preceding year)	3 118.1	9 969.9	119 947.3	414 319.8	550 201.0	216 363.2	28 954.5	17.9	1 884.8	2 822.6 d/

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/ Nationwide total.
d/ Figures as of May.
e/ 90-day deposits rate.
f/ Average rate for loan operations for the six major commercial banks.
g/ Figures as of October.
h/ Measured by J.P.Morgan.

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