Bolivarian Republic of Venezuela

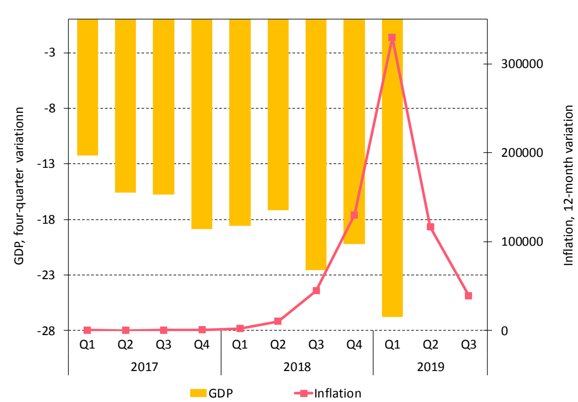
The GDP of the Bolivarian Republic of Venezuela shrank by 25.5% in 2019, representing a cumulative contraction of 62.2% since 2013. In 2019 the hyperinflationary process that began in November 2017 continued; and by September the annualized inflation rate was 39,113%. The external constraint facing the Venezuelan economy also worsened in 2019, owing to lower oil exports (down by 36% relative to the previous year's level) compounded by restricted access to international financial markets. In 2019 the trade balance is expected to record a surplus of 12.7% of GDP, following the previous year's surplus of 17.6%. International reserves are expected to shrink for the fifth consecutive year. The Venezuelan authorities continued the process of dismantling exchange controls and moved to a more flexible system, which, up to November 2019, meant a depreciation of over 4,900% as measured by the official exchange rate. For 2020, GDP is expected to fall further (by 14.0%), with inflation remaining at historically high, although declining, levels —given the severe external constraint facing the country, the continuing decline in oil activity, lack of fuel supply on the domestic market and the weak recovery of the Venezuelan electricity sector.

The financial constraint facing the Venezuelan public sector has tightened in 2019, for four reasons: (i) restricted access to external financing and persisting default on the majority of the public sector's external liabilities; (ii) the contraction in crude oil production and oil exports, which erodes the country's main source of revenue and foreign exchange; (iii) the tightening of the financial and trade sanctions imposed by the United States on Venezuelan public bodies; and (iv) lower domestic revenue in real terms.

The scenario described above has resulted in shrinking tax revenues, public expenditure cuts and a heavy reliance on monetary financing for fiscal management. At the time of writing, no official information was available on the country's fiscal situation; however, this may be inferred from an increasingly steep fall in the output of government services in the first quarter of 2019 (down by 23.4% relative to the year-earlier period) and a 23.1% reduction in final government consumption in the same period.

The use of monetary financing to meet the financial needs of the country's public sector has resulted in the monetary base expanding at three-digit rates, or more, for five consecutive years. Nonetheless, the pace of expansion eased between October 2018 and October 2019, when base money grew by 12,855%, compared to 31,233% in October 2017–October 2018. Other broader monetary aggregates also display lower growth rates, owing to a reduction in the money multiplier induced by the introduction of a legal marginal reserve requirement of 100% on deposits accepted since February 2019.

Bolivarian Republic of Venezuela: GDP and Inflation, 2017-2019



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

This legal reserve requirement meant that the year-on-year nominal expansion of credit to the private sector was 6,717% in September 2019 — the lowest rate since June 2018 and well below the high of 144,718% recorded in January 2019. The combination of the trend in nominal lending with high levels of inflation caused a sustained contraction in real credit to the private sector, which retreated by over 80% year-on-year to September. Nominal interest rates have trended up by over 10 points in the last year; but correcting for inflation means that real rates are deeply negative. This, in conjunction with lower household incomes and hyperinflation, discourages the demand for assets in bolívares and fosters the use of foreign currency in commercial transactions. To mitigate the effect of negative real interest rates, financial institutions have raised the fees they charge on credit operations. In October 2019, the Central Bank of Venezuela (BCV) introduced a regulation that indexes the valuation of the commercial portfolio to the trend of the exchange rate, in order to increase the real supply of credit and discourage foreign-currency purchase.

Bolivarian Republic of Venezuela: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	-15.7	-19.6	-25.5
Per capita gross domestic product	-16.7	-20.6	-26.3
Consumer prices [b]	862.6	130 060.2	39 113.8 [c]
Money (M1)	551.7	37 111.7	22 593.9 [c]
Terms of trade [d]	17.1	21.3	-7.9
	Annual average percentage		
Open urban unemployment rate	7.2	...	...
Nominal deposit rate [e]	14.7	14.7	23.1 [c]
Nominal lending rate [f]	21.5	21.9	30.6 [c]
	Millions of dollars		
Exports of goods and services	34 989	34 475	22 975
Imports of goods and services	19 279	19 838	18 630
Current account balance	8 706	8 613	-1 242
Capital and financial balance [g]	-9 196	-7 658	385
Overall balance	-490	955	-857

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/ Economic Development Division, calculations for Preliminary Overview 2019.
e/ Deposit rates for 90 days.
f/ Average rate for loan operations for the six major commercial banks.
g/ Includes errors and omissions.

In 2019, the Venezuelan external sector is expected to post a current account deficit of close to 1.5% of GDP, which basically reflects the collapse of oil exports (-36%). During the first 10 months of 2019, the average price of the Venezuelan crude oil basket fell by 7.7%, thus ending the rising trend recorded in 2017 and 2018 (up by 28.9% and 33.9%, respectively). Non-oil exports increased in the first quarter of 2019 to US$ 2.330 billion, equivalent to 73% of the value reported for the whole of the previous year. Imports were down by 13% year-on-year in the first quarter of 2019, with falls in both private and public sector imports, and a significant compositional change in the latter. The increasing difficulties faced by the Venezuelan oil industry had resulted in a 66.7% increase in public sector oil imports in 2018, mainly fuel purchased for the domestic market. In that period, non-oil public sector imports, especially food products, shrank by 28.4%. In the first quarter of 2019, non-oil public sector imports grew by 16.5% relative to the year-earlier level, while oil imports were down by 23%. Private-sector imports in the first quarter of 2019 totalled about US$ 500 million — down by 27.5% relative to the same quarter in 2018, thus exceeding the previous year’s 21% fall. As of November 2019, the official exchange rate was up by 4,930% (following the 1,907,762% rise in 2018, if the higher official exchange rate is used as a base), which was very similar to the 4,500% depreciation of the bolívar on the parallel market. The spread between the official and parallel exchange rates narrowed from a multiple of 2.7 in 2018 to one of 1.05 in November 2019.

Economic activity contracted by 25.5% in 2019, in the sixth consecutive year of contraction and the fourth in which output has shrunk by two or more digits. While both public and private sector GDP shrank, the pace of the deterioration in private sector activity in the first quarter of 2019 (-32.2%) is the largest contraction recorded since the first quarter of 2014, when private GDP first started to decline. In the first quarter of 2019, all sectors reported contractions, including mining, which had been the only sector to achieve positive growth in 2018. Moreover, 2019 is the fifth successive year in which oil production has decreased (by 44.5% according to the monthly production levels reported by the Organization of Petroleum Exporting Countries (OPEC) in December 2018 and September 2019), which means that monthly production has shrunk by a cumulative 68.7% between January 2013 and September 2019.

In 2019 the pace of inflation eased relatively, with the year-on-year rate in September coming in at 39,113%. Although this is much lower than the rate recorded at the end of 2018, it is still the second highest inflation rate in the history of the region. Price trends in sectors such as transport, household services, communications and education, which are much higher than the rise in the general index, reflect the effects of increases in service prices in the Venezuelan consumption basket, as authorized by the government. Nonetheless, the price of gasoline did not change, and the burden continues to be borne by the Venezuelan Treasury. Up to October 2019, the minimum wage (including the food voucher) had been altered three times, for a cumulative increase of 5,961% since end-2018. This trend of the minimum wage implies a 55% year-on-year decrease in the average minimum wage between January–September 2018 and January–December 2019.