



Venezuela Economic Outlook

By CNI Asesores Financieros

Here is our monthly summary of recent economic developments in Venezuela:

- Between March 5 and 8, oil prices plummeted 30 percent by virtue of the collapse in global demand as a result of the coronavirus (COVID-19) and the disintegration of the OPEC+ and Russia alliance (led by Saudi Arabia) that influenced oil prices since 2016, an alliance that was created after the collapse of oil prices in 2014. OPEC proposed a cut in production of 1.5 million barrels a day of which, if Russia had agreed to such terms, it would have to reduce its production by 500,000 barrels a day. The West Texas Intermediate (WTI) price fell from \$45.90 on March 5 to \$32.22 a barrel. These abrupt price changes have not been seen since the Gulf War in 1991.
- On Feb. 18, 2020, the U.S. Department of the Treasury announced sanctions and blocking of U.S. assets and accounts held by Rosneft Trading, S.A. and its president, for carrying out business with the Nicolás Maduro regime. Rosneft Trading, a subsidiary of Rosneft, is dedicated to the sale and transportation of crude oil from Venezuela. It is estimated that recently Rosneft Trading, jointly with TNK Trading, controlled and sold 70 percent of Venezuelan crude oil to the Indian and Chinese markets, the principal buyers of Venezuelan oil. The U.S. Treasury Department granted Rosneft Trading a three-month transition period, until May, to end any Venezuelan oil operations.
- The initial impact of the announcement created a loss of market value of \$3.5 billion to Rosneft's shares. It is the first sanction of this nature to foreign companies. TNK Trading, another Rosneft company that markets Venezuelan oil, as of March 9 has not been sanctioned.
- Rosneft has major oil "joint ventures" with Petróleos de Venezuela, S.A. (PDVSA) companies, including equity investments of 40 percent in Petromonagas, Petroperija, and Petrovictoria; 32 percent in Petromiranda, 30 percent in Petrojunin and 26.6 percent in Boquerón. PDVSA's original debt to Rosneft amounted to \$5 billion and \$6 billion, and it is anticipated that the balance of \$800 million due will be canceled in March 2020.
- The U.S. government reasserted its call insisting that companies should not carry out business with the Maduro government, adding that these sanctions are the start of a much broader campaign.
- On March 2, Mercantile & Maritime (M&M), a Singapore-based major shipping company with nine oil tankers, announced that it would stop providing Venezuelan oil transportation services to Rosneft. M&M was one of the main shipping companies for Rosneft trading.
- Reliance Industries and Nayara Energy, Indian refining companies, have announced that they will no longer buy Venezuelan oil. India has been one of the major purchasers of Venezuelan oil.



- On Feb. 20, 2020, after the announcement of sanctions against Rosneft Trading, President Maduro declared an "Energy Emergency," and set a goal to increase oil production this year to 2 million barrels a day. He proceeded to restructure PDVSA by appointing a Plenipotentiary Board led by Tareck El Aissami, the vice president of Economy who was included in the Clinton Administration list for alleged connections to drug trafficking and terrorism three years ago. Other members of the new board include Asdrúbal Chávez, former president of Citgo and cousin of Hugo Chávez; Manuel Quevedo, major general of the National Guard and president of PDVSA since 2017; Vladimir Padrino Lopez, minister of defense; and Admiral Remigio Ceballos, chief of the Strategic Command Operations of the Bolivarian National Armed Forces.
- Oil production has remained at levels of 730,000 barrels per day (719,000 in November, 732,000 in December and 733,000 in January 2020) production levels similar to those 76 years ago, in 1944.
- Venezuela's international reserves fell \$744 million from \$7.5 billion in December to \$6.8 billion, the lowest level reported since 1974. Gold reserves stood at \$4.8 billion in December 2019.
- After Fitch Ratings issued the risk downgrade of the Development Bank of Latin America (CAF) in late January 2020, as a result of the risks that include its exposure to loans to Venezuela (Venezuela represents 14 percent of the CAF loan portfolio). On March 3, 2020, the CAF's board of directors approved the repurchase of the type "B" shares that Venezuela has in CAF, in order to use the repurchase funds to eliminate payment arrears of \$180 million for debts that Venezuela has with the entity since December 2018. Venezuela has a period of six months to settle its payment arrears. Venezuela has a total debt with CAF that amounts to \$3.6 billion. Spokesmen of the National Assembly announced that they consider such an operation to be illegal. Venezuela is estimated to have an external debt of more than \$150 billion, including PDVSA.
- The Central Bank of Venezuela (BCV) published the inflation rate of 2019 at 9.585 percent, a somewhat higher percentage than reported by the National Assembly for that period, which was originally 7.371 percent. In 2018, the BCV published an inflation of 130.060 percent.
- Although the country continues to struggle with hyperinflation, inflation has shown a downward trend as a result of the cut in public spending and the total reduction in bank credit. Dollarization has had a positive effect on inflation. The Bloomberg's "Venezuela Café Con Leche Index" created in 2016 to measure inflation in Venezuela, was estimated at 4.344 percent in January 2020.
- Venezuela has become the third poorest country in the region, according to figures issued by the International Monetary Fund. These figures are measured according to per capita Gross Domestic Product (GDP) of constant prices: Haiti \$765; Nicaragua \$1,869 and Venezuela \$2,427. The economy has lost two-thirds of its value since 2013, with a contraction of 35 percent in 2019, an estimated contraction of 10 percent for 2020, and a contraction of 5 percent for 2021.
- A study published in February 2020, by the United Nations World Food Program (WFP) concluded that one in three people in Venezuela (9 million people) does not have enough food, has difficulties bringing food to the table, and does not consume the minimum nutritional requirements.



- The devaluation of the bolívar soberano has paused its upward trend. On Jan. 3, 2020, the parallel dollar reached 73,322 bolívares soberanos per dollar, a 162 percent increase in two months. A month later, on Feb. 3, it was valued at 73,800 bolívares soberanos per dollar, and on March 6, it amounted to 75,008 bolívares soberanos.
- The "Dollarization" continues. It is estimated that more than half of retail purchases are paid in cash with dollars or euros. Some Venezuelan banks are opening escrow accounts in dollars. These accounts cannot send or receive transfers in dollars from abroad due to the absence of the correspondent banks. Accounts are used to hold "dollars" and carry out transactions within the same bank in Venezuela.

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