



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- After Delcy Rodríguez was appointed as Minister of Economy and Finance on Sept. 10, 2020, two important economic decisions were implemented. Those decisions include the interruption of limitation periods for most of the sovereign bonds and a new amendment to the rules to calculate the legal reserve.
- The amendment of the legal reserve was effective immediately. It reduces the legal reserve that banks must keep, but its impact to the supply of bank credit will be limited. The legal reserve ratio remains at 93 percent. In other words, for every bolívar soberano deposited in the banking system, 93 cents will be kept as reserve by the Central Bank of Venezuela (BCV) and cannot be used for credit or investment.
- This new discount will be applied to the legal reserve. Henceforth, 30 trillion bolívares soberanos will be discounted from the legal reserve each week. This discount will be applied for one year and will be distributed among banks according to the frequency of defaults incurred by each bank during the period of Aug. 14, 2020 and Sept. 4, 2020. The banks with the best track record of compliance in that reference period will benefit from a higher discount.
- By virtue of the recent discount of the legal reserve and a high public expenditure, the liquidity buffer of the banking system created pressure and expectations of new increases to the dollar price. At the end of August, the exchange rate rose by 32.7 percent. However, the BCV continues to moderate the impact through foreign exchange interventions.
- As to the government's proposal to Republic's bond holders, and state-owned companies Petróleos de Venezuela SA (PDVSA) and Electricidad de Caracas. On Oct. 16, 2020, in pursuit of potential restructuring agreements, the government has offered to conditionally interrupt limitation periods of sovereign and state company bonds, and established an acceptance deadline until Oct. 13, 2020. The proposal covers the majority of the bonds issued by the Republic, PDVSA and Electricidad de Caracas with a face value of US\$74.5 billion. If adding the delays of payment of these bonds (US\$13.7 billion), the outstanding sum amounts to US\$88.2 billion.
- It is understood that the government aims to decrease the filing of lawsuits before U.S. courts, but for the moment sanctions protect Venezuelan assets susceptible to seizure. The government must be aware that this proposal is unfeasible at this time. In the first place, the bonds are governed by the laws of the state of New York and do not admit agreements outside this jurisdiction. Second, many bondholders may require the processing of an Office of Foreign Assets Control (OFAC) license in order to accept the offer, which will most likely not be granted due to the current political climate.
- Furthermore, the government's restructuring plan is unclear and difficult to visualize because of the country's current conditions. The market inferred that the proposal is predominantly political



and reflects the Venezuelan government's willingness to negotiate the flexibility of U.S. sanctions. The offer established that bondholders must have expressed their acceptance before midnight on Oct. 13, 2020, three weeks before the U.S. presidential election. This offer seems to be designed to press forward any negotiations in the event there is any change of government in the U.S.

- Venezuelan President Nicolás Maduro on Sept. 29, 2020, presented an anti-blockade law to "protect against and counteract" any U.S. sanctions, which he accused are irreversibly damaging the Venezuelan economy. Maduro stated that Venezuela needs to find ways to trade freely with other countries without fear of U.S. retaliation, and called for rapid approval of the Constituent Assembly.
- The president did not provide much detail about the legislation, which was described as a means to strengthen public administration, generate tax and labor incentives for national production, and create international alliances to develop local industries, including oil, mining and agriculture. It will also promote the use of cryptocurrencies, including Petro.
- According to Bloomberg, in the midst of the coronavirus pandemic and the collapse of oil demand, it is estimated that Venezuela's economy will have a seventh consecutive year of recession, contracting another 20 percent this year. Annual inflation at 2,400 percent has cut down Venezuelans' ability to buy goods, as the average family requires more than 100 times the official minimum wage to meet its basic needs and requires much more money for savings.
- In the oil sector, U.S. Energy Information Administration (EIA) and the Organization of the Petroleum Exporting Countries (OPEC) reported at the end of this month a decline in global oil demand for 2020 and 2021. According to the EIA, it will drop from 300,000 barrels per day (BPD) in 2020 and 600,000 BPD in 2021. OPEC forecasts that it will drop from 400,000 BPD in 2020 and 700,000 BPD in 2021, signaling a significant downward trend in its projections if the pandemic also significantly affects India's economy.
- According to the OPEC report, Venezuela's crude oil production rose in August to 340,000 BPD (up 0.3 percent in the month) according to secondary sources, and to 396,000 BPD (up 1 percent) according to direct communications. However, the country continues to face serious difficulties in meeting domestic fuel demand. U.S. sanctions restricting PDVSA's ability to import fuel from international markets have worsened. These sanctions were once sporadic shortages.

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