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Venezuela Economic Outlook

By Arca Análisis Económico

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

- Venezuela began the fourth quarter of the year experiencing a significant increase in public expenditure, which was reflected in a strong rise in the official exchange rate, accompanied by an electoral environment that opens the way to a possible range of actions after the approval of the Anti-Blockade Constitutional Law. For these reasons, high volatility is expected in the exchange rate, as well as in the money market and inflation, while the Central Bank of Venezuela (BCV) will have a fundamental challenge to counteract the effect of the growing public expense on the exchange rate, through exchange rate interventions.

- Likewise, several government statements throughout October indicate a seasonal increase in social expenditure, due to the increase in discretionary transfers related to Christmas Eve. These transfers could be carried out in the form of delivery of toys, food, micro-credits to Small and Medium-sized Enterprises (SMEs), and direct monetary aid through various government social welfare plans. In addition, a series of year-end transfers and bonuses to various segments of the public sector have been implemented since Oct. 15, 2020.

- The scope of the reforms that can be implemented under the protection of the Anti-Blockade Constitutional Law is broad and unprecedented. Several analysts agree that this law will allow for the execution of international agreements to manage, assign or hand over public sector assets; to restructure decentralized entities; to reserve information provided by public entities; to manage additional resources outside the regular administration of the National Treasury; to annul legal norms or court orders; to restitute the property of expropriated companies or suspended concessions to their owners; and to grant privileges to national and international private investors in key productive sectors. It is expected that the law will function as legal support for the administration to continue promoting reforms in the economic sphere.

- As for the oil sector, the COVID-19 outbreak is again threatening the oil demand and mitigating options for rising oil prices around the world. Oil demand is weak in Europe, the U.S. and Latin America, and will remain depressed as long as the COVID-19 pandemic continues in what appears to be the second wave of infections. Gasoline demand in Asia is strong, and even jet fuel demand is recovering strongly as this region approaches pre-pandemic demand levels.

- In Venezuela, new sectors of the economy have been allowed to operate despite the fact that as of Oct. 30, 2020, 91,589 people were infected and 793 died of coronavirus, according to the most recent COVID-19 report issued by the Presidential Commission. According to the local media, the National Institute of Civil Aeronautics (INAC) authorized Conviasa, Aeropostal, Láser and Estelar to reactivate their national and international routes as of the first week of December, since they already have complied with all the biosecurity and operational requirements. Flights in Venezuela, domestic and international, have been suspended since March 12, 2020, due to the pandemic.

- On the other hand, pressure on Venezuela has increased for fuel supply, after the statements of Elliott Abrams, the U.S. Department of State's special representative for Iran and Venezuela, where he confirmed that the State Department has blocked the exchange of diesel for oil that had been allowed until last month. Diesel suppliers urged the Trump Administration to continue allowing the swaps, arguing that they were crucial for humanitarian purposes such as power generation and agriculture, as well as public transportation and freight services. This decision may have strong social repercussion because this fuel is used 85 percent by freight transportation and more than 20 percent by public transportation. More than 70 percent of the population depends on public transport for food and medicine. Likewise, this also adds risk to the country's thermoelectric generation, which is already severely affected by maintenance problems.

- As for the private sector, the BNY Mellon – Depositary Receipts reported on Oct. 30, 2020, to the FVI Fondo de Valores Inmobiliarios S.A.C.A. that the U.S. Securities and Exchange Commission (SEC) accepted the form submitted to it, which allows the increase in the number of American Depositary Receipts (ADRs) that can be issued in the U.S. market by the Venezuelan financial and real estate group.

- The ADR Program, under the name FNDOY U.S.: OTC, had a maximum limit of 100 million ADRs initially, and by virtue of this authorization was extended to a maximum amount of 800 million ADRs. Each of the ADRs packs 50 shares that are traded on the Caracas Stock Exchange (BVC) under the denomination fvi.b. Fondo de Valores Inmobiliarios, a Venezuelan financial and real estate company with 27 years in the national market. Fondo de Valores Inmobiliarios has listed its shares in the BVC since 1992 and has maintained a Level 1 ADRs program on the New York Stock Exchange (NYSE) since 1997. This is the first time in 12 years that there is news related to ADRs of Venezuelan companies, so it could be anticipating the potential dynamism of the local stock market sector.

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