



Venezuela Economic Outlook

By Arca Análisis Económico

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

- As a consequence of the marked and progressive deterioration of the purchasing power of bolívares soberanos, the Central Bank of Venezuela (BCV) announced on March 5, 2021, the circulation of three new banknotes. The banknotes have denominations of \$200,000, \$500,000 and \$1 million bolívares soberanos, equivalent to approximately US\$0.10, US\$0.30 and US\$0.55, respectively. The sum of these new bills' nominal value does not exceed the equivalent of one U.S. dollar at the official exchange rate. At the date of the report, these bills would be used to pay very few expenses, basically suburban public transportation fares and any other payment with a price less than one U.S. dollar; something challenging to achieve at present since the prices have been adjusted to the circulating currency.
- An exception may be a tank of subsidized gasoline, whose price is US\$0.002 per liter, so the new lower denomination banknote (200,000 bolívares soberanos) would cover the cost for a 40-liter tank. This report would be good news if the shortage of banknotes and the shortage of gasoline were not a part of everyday Venezuelan life. The new bills can also be used to pay for the Caracas Metro card, whose initial cost is US\$0.50, and the 20-trip recharge is US\$0.20. Although these prices are indeed too low, the entry into circulation of the new banknotes will reduce – for some time – the transaction costs faced by thousands of Caracas citizens who continue to use public transportation around the city.
- This issue suggests that the process of digitalization of the economy, which will allow all local currency transactions to be carried out through electronic payment, will not be as fast as was expected. Therefore, the BCV was forced to issue three new bills to adapt the set of currency again to the pace of hyperinflation.
- According to the most recent cut of monetary liquidity reported by the BCV, the currency in circulation in the economy reached historical levels in bolívares soberanos. Simultaneously, the component of coins and bills stood at 1.90 percent of total net liquidity. Never in the country's contemporary history has the circulating cash represented such a low proportion of liquidity. The consensus of monetarists indicates that an ideal percentage is between 9 percent and 12 percent.
- As of March 10, Vice President Delcy Rodríguez reported 475 new COVID-19 infections in Venezuela, of which 472 corresponded to community cases and three were imported, when offering the official report by the Presidential Commission for the Prevention and Control of COVID-19. Given the new outbreaks in Caracas, Venezuelan authorities have declared the week from March 8-14 as a week of radical confinement, implementing measures such as the suspension of interurban transport services. As shown above, the government is trying to return to a confinement scheme as strict as the one implemented at the beginning of the pandemic, more than one year ago.
- The most recent statistics issued by the board of directors of the Venezuelan Chamber of Shopping Centers (Cavececo) highlights the magnitude of the impact that the pandemic has



had on the commercial retail sector, which registered a "high" level of unemployment, in a range between 12 percent and 20 percent at a national level. The unemployment rate in Caracas' shopping malls varies between 12 percent and 15 percent after one year of quarantine. At the same time, in the country's interior, unemployment reached a record of 20 percent, also exacerbated by the failures in public services.

- According to a Reuters article, Petróleos de Venezuela, S.A. (PDVSA) began to ration the diesel supply to transporters at the same time that fuel imports are falling due to U.S. sanctions and the crisis of the national refinery fleet continues. The unprecedented rationing could create delays in the dispatch of imported products and industry, especially those in food processing, agriculture, electricity generation and public transportation.
- PDVSA's refinery complex, which operates at a fraction of its 1.3 million barrels per day (bpd) capacity, produced around 37,000 bpd of diesel in February 2021, according to the consulting firm Gas Energy Latin America. In February, the same institution pointed out that the state-owned oil company had inventories of about 4 million barrels of diesel, which would hypothetically cover the requirements of a maximum of four months of consumption, considering that private estimates calculated Venezuelan diesel consumption between 35,000 and 49,000 bpd.
- On the other hand, the rate of placements in the fixed-income market fell 45 percent in the week before Feb. 15, 2021. The amount traded was 39 percent lower than the weekly average for January 2021.

Learn more about our [Venezuela Focus Team](#).

Information contained in this newsletter is for the general education and knowledge of our readers. It is not designed to be, and should not be used as, the sole source of information when analyzing and resolving a legal problem, and it should not be substituted for legal advice, which relies on a specific factual analysis. Moreover, the laws of each jurisdiction are different and are constantly changing. This information is not intended to create, and receipt of it does not constitute, an attorney-client relationship. If you have specific questions regarding a particular fact situation, we urge you to consult the authors of this publication, your Holland & Knight representative or other competent legal counsel.
