



Venezuela Economic Outlook

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

- So far this year, the dollar price has gone through three stages. First, it rose almost uninterrupted until Feb. 24, 2021, accumulating a 58 percent increase. Then, it dropped for 16 days in which it decreased 6 percent, reinforced by tax collections. The dollar then rose 30 percent between March 22 and April 17, reporting a 106 percent increase this year.
- Under these conditions, a relaxation of the legal reserve requirement was expected, so the Central Bank of Venezuela (BCV), according to a circular issued on April 29, 2021, decided to adjust the methodology to determine the discount applied to the reserve requirements. In this sense, the BCV specified that the discount to the legal reserve will be calculated daily and will be determined by the sum of the interests paid to the issuing institution for the reserve requirement deficit from Jan. 4, 2021, and up to the banking business day before the evaluation of the reserve requirement compliance. The measure came into effect on April 30, 2021, and will remain in force until May 31, 2021.
- Two relevant news items for the external sector of the Venezuelan economy should be discussed.
- First, the media has reported that the Office of Foreign Assets Control (OFAC) has urged the Baltic and International Maritime Council (BIMCO) to impose penalties on ships that sail without keeping the Automatic Identification System (AIS) on during the entire voyage. According to International Maritime Organization rules, this measure violates the International Convention for the Safety of Life at Sea.
- OFAC's objective could be to affect the trade of Venezuelan oil in Asia, the destination to which Venezuelan crude oil shipments arrive after ship-to-ship transfer operations on the high seas. The AIS turned off prevents its identification as Venezuelan crude. Under this dynamic, Petróleos de Venezuela, S.A. (PDVSA) has been able to take advantage of the recovery of world crude oil demand, release significant accumulated inventories and raise production by 30 percent to 578,000 barrels per day (kbd) from 434,000 kbd in November, according to an official source reported by OPEC recently. Secondary sources also reported increased Venezuelan crude oil production, indicating a production level of 525,000 kbd (up 27 percent vs. November 2020).
- If this clause is included and implemented, it is expected that there will be a reduction in the volume exported from Venezuela and, at the same time, an increase in the discounts with which Venezuelan oil is sold.
- The second relevant news is related to the forthcoming approval of the allocation (donation) of \$650 billion in Special Drawing Rights (SDR) to be carried out by the International Monetary Fund (IMF) to all member countries. The goal is to strengthen international reserves and contribute to the global recovery after COVID-19. The IMF informed officials that Venezuela



would not be able to access the \$5.1 billion it would be entitled to because the executive board, in which 191 countries are represented, has not yet decided which government represents Venezuela.

- Until the country agrees to create a transitional government, this organization will not be entitled to carry out any procedures related to Venezuela. As a precedent, one may consider the case of the letter sent a year ago by Foreign Minister Jorge Arreaza requesting a \$5 billion loan, which could not be processed due to the institutional crisis the country is going through.
- Two additional aspects are relevant. When the time comes, Venezuela will have to fully reestablish its relationship with the IMF by remedying the noncompliance with Article IV, which dates to 2004. This article is a commitment to transparency to the IMF that all of its members must comply with information and data provision, regardless of ideologies. Despite this noncompliance, Venezuela had access to \$2.5 billion of SDRs allocated by the IMF in December 2009 to strengthen the economies of developing countries in the aftermath of the 2008 financial crisis. The Venezuelan government used those funds, quietly and without accountability since 2015, and it decreased the balance to its current level of \$12.6 million.
- Locally, on May 1, 2021, and as is customary in Venezuela, the Venezuelan government announced an increase in the legal minimum income. This measure is the second increase decreed this year. The minimum salary was increased by 289 percent, the food bonus by 67 percent and the legal minimum income by 178 percent. In the first four months of 2021, the Venezuelan government has incremented the overall minimum salary by 340 percent, food voucher by 150 percent and legal minimum income by 317 percent.
- Although the salary and minimum income increases exceed the estimated inflation for these four months (197 percent), the salary lag has been too protracted and far from the subsistence minimum, even in a family group where all members earn minimum income. Before the most recent increase, the minimum wage was equivalent to US\$0.60 and the legal minimum income to US\$1.30. Today, they are US\$2.50 and US\$3.50, respectively.
- Regarding domestic activity, Luis Prado, vice president of the National Cattle Breeders Association of Venezuela (Fedenaga), warned that the sector could be affected by the paralysis of the country's productive diesel supply activities if it is not regulated soon. According to Prado, around 80 percent of the equipment available to carry out work in the fields is affected by the lack of diesel.

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