



## Venezuela Economic Outlook

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

- May closed with a downturn in the rising pace of the dollar price (16 percent vs. 36 percent in April), and June began with the prospect that the Central Bank of Venezuela (BCV) will extend the validity of the discount to the legal bank reserve, reducing the default and penalty amount, but without eliminating it.
- It is important to remember that legal reserve requirements are part of a policy aimed at stabilizing inflation and the bolívar soberano's depreciation rate through the credit multiplier. Additionally, the government may use the public expenditure policy and tax collection, and the BCV may also intervene with the sale of foreign currency in cash (foreign exchange intervention) to sterilize bolívares soberanos. All of these measures aim to slow the monetary base's growth in concert with credit paralysis to decelerate the expansion of monetary liquidity.
- The expansionary monetary policy has been carried out in parallel with a significant reduction in the fiscal deficit. Although the latter was influenced by the increase in public sector salaries in May, the last five months demonstrated a modest acceleration in expenditure, while tax collection is growing faster.
- On the other hand, the dollar equivalent of the social transfers received by the population through the Patria system continues to decrease. The 10 special bonuses paid on a biweekly basis have been reduced by half in their dollar equivalent so far this year, going from US\$5 in December 2020, to US\$2.40 per beneficiary in May 2021.
- As for the banking sector, Banco de Venezuela (BDV) was positioned as the largest entity in the system because of its total assets. At the end of April, this figure amounted to 10.757 trillion bolívares soberanos (approximately US\$3.9 billion), which represented 67.4 percent of the total assets of the industry. This institution has gained market power and distinguished itself as the flagship of the state banking system.
- BDV's loan portfolio amounted to approximately 140 billion bolívar soberanos (approximately US\$51 million). Last April, its loan portfolio reported an increase of 24.2 percent in the month and interannual terms of 5,847.9 percent, the second-largest increase in this account with respect to the previous year. However, it ranked third in this item, surpassed by the private entities BBVA Banco Provincial and Banesco Banco Provincial. As has been noted, its levels of financial intermediation are low compared to the general average system. In April 2021, this factor stood at 6.35 percent, while the general average for the banking system was 18.58 percent. However, in interannual terms, the BDV's credit intermediation almost doubled at the end of April.



- On the oil front, crude oil prices rose as a result of the Organization of the Petroleum Exporting Countries' (OPEC) decision to maintain its plan to gradually restore supply to the market. Along with the prospect of a fuel demand recovery following the COVID-19 vaccination campaigns, OPEC and its allies agreed to meet to plan for a gradual reduction in supply restrictions. So far, the market has absorbed the production increase without problems, and future increases are not expected to pose significant problems either. According to the International Energy Agency (IEA), the excess supply resulting from the pandemic has disappeared.
- During this period, there was a substantial absence of information on Venezuelan production according to direct communications in the OPEC's monthly report. Data from secondary sources indicate a 15 percent drop in oil production to 445,000 barrels per day (bpd), from 525,000 bpd in March. Oil experts believe that the production cutbacks are related to the Orinoco Belt production cutbacks caused by the little availability of diluents and light crude, which were destined to reactive the Puerto La Cruz refinery and fuel production. According to Reuters, exports remained at 700,000 bpd, suggesting that inventories are being depleted even with the potential production cutbacks.
- Curaçao's state-owned refinery services company, Curaçao Refinery Utilities (CRU), plans to auction about 865,000 barrels of crude oil and products to settle part of its claims against the local entity of the Venezuelan state-owned Petróleos de Venezuela, S.A. (PDVSA). CRU and other creditors currently seized all the products destined for sale in the idle Isla refinery storage tanks, which have a processing capacity of 335,000 bpd and were operated by PDVSA under a long-term lease.
- At the end of May, Venezuela reported 1,402 new COVID-19 infections and 15 deaths, bringing the total count of cases and deaths to 235,567 and 2,661, respectively, since the beginning of the pandemic. On May 29, 2021, a new vaccination phase was initiated. According to national and international organizations, the country continues to be at the bottom of the Latin America index in terms of immunization against COVID-19.
- In this new stage, the government assures that it is moving toward "mass vaccination," inoculation points have been multiplied in all the states to accelerate the process. To date, the total number of vaccines available in the nation is unknown due to the authorities' contradictions when announcing the quantities. However, according to the Minister of Health Carlos Alvarado, a little more than 1 million vaccines have been applied.
- Despite the measures enforced to maintain quarantine restrictions in the country, according to the Vice Minister of Commerce Daniel Morales, since the spread of the COVID-19 pandemic began in Venezuela until now, 13,400 small and medium-sized companies (SMEs) have been created, which has increased and strengthened formality in this sector. The National Council of Commerce and Services (Consecomercio) requested to establish a digital invoicing system to guarantee compliance with tax obligations by traders. In this regard, the vice minister pointed out that meetings are being held between the private and public sectors to build a "healthy" and productive economy, which is one of the issues under consideration.



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