



Venezuela Economic Outlook

By Arca Análisis Económico

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

The last four-month period of the year started with Venezuela's third monetary reconversion over the previous 13 years. The prices of products and services in commercial establishments had to be published as of Sept. 1, 2021, in their current form and the new monetary scale. Six zeros will be eliminated from the current currency. This measure will be enforced one month before the Central Bank of Venezuela (BCV) announces the new monetary reconversion. With this financial institution requirement, there will be three values to consider when paying for products and services: 1) the bolívar soberano, 2) the digital bolívar, and 3) the U.S. dollar. For transactions with the new coinage system, the BCV explained that the new monetary unit is obtained by dividing the sum by 1 million, equal to the elimination of six zeros. The new monetary scale consists of bills of 5, 10, 20, 50 and 100 bolívares soberanos and a 1 bolívar soberano coin. These currencies will circulate for an indefinite period, along with the current coinage system, to facilitate the population's adaptation and to be able to make accurate payments.

Despite attaching "digital" to the bolívar soberanos, the BCV's official announcement only clarifies the intention of increasing retail payments made through digital mechanisms, considering the high costs involved in the logistics of constantly issuing bills and coins for circulation in an inflationary environment. The reasons are obvious: hyperinflation has been systematically wiping out circulating coins and bills, and their replacement is costly. The ratio of cash to monetary liquidity today is barely 2.15 percent.

One of the main consequences of this cash shortage dynamic caused by high inflation has led the country's banks to close branches and reduce the number of ATMs. As a result, citizens have to wait in long lines or make longer trips every day to find bolívares soberanos.

Claudio Rivas, the secretary general of the Federation of Bank and Related Workers (Fetrabanca), said that in December 2019, Fetrabanca registered 7,512 ATMs in the country. However, a year later, there were 5,762, representing a 23 percent drop. This figure has decreased due to high inflation, de facto dollarization and the maintenance of these ATMs, which need foreign currency to be changed or importation of the parts required to adapt or perform maintenance to these machines.

Rivas assured banks that they have the resources to repair ATMs. "You gain nothing with having the ATMs in good condition if you don't provide the tools, such as cash, to fill it with," he said. For this reason, he indicated that the ATMs had lost their functionality, given the lack of bolívares soberanos. According to data published by the Superintendency of Banking Sector Institutions (SUDEBAN), in March 2014, there were 9,542 ATMs in the country. However, in the last report published in March 2021, SUDEBAN reported the existence of only 2,275.

Due to this exact situation and the COVID-19 pandemic, banks have also been forced to close branches. For example, the secretary general of Fetrabanca pointed out that in 2019 there were more than 7,400 bank branches, but now there are 3,700 left; a 50 percent decrease.



In this regard, it is believed that the logical consequence of the bolívar soberano cash dynamic will gradually diminish in the short and medium term. There are few bastions left for the use of bolívares soberanos in cash as a retail payment. The most significant goods and services for which bills and coins were used were petrol and public transport. The former has been significantly dollarized after incorporating petrol pumps at international prices; those that maintain subsidized prices can only be paid for through sales outlets. Public transport is still primarily cash-based, but there are clear intentions to migrate to digital payments.

It is important to note that although it seems that Venezuela is heading toward a cashless economy with this new reconversion, this is not entirely true. Cash is still used for most everyday payments, but cash payments are in U.S. dollars. According to a report on dollarization presented by Asdrúbal Oliveros, director of the Caracas-based consulting firm Ecoanalítica, 51.4 percent of transactions were made with foreign currency in cash, a lower figure than the 80 percent obtained in a previous study. A significant part of payments is still carried out with U.S. dollars. However, dollars are losing ground to digital dollar payments through Zelle, PayPal and even cryptocurrency payments.

The total elimination of cash payments in bolívares is not a realistic goal, but Venezuela is heading in that direction despite all potential setbacks. For instance, a field study conducted by Ecoanalítica (in 10 cities and 291 establishments) in November 2020 indicates that 33 percent of Venezuela's total transactions are still made in bolívares soberanos.

Reducing the small percentage of remaining bolívar soberano payments in cash will depend on how fast and effective the mechanism is devised to facilitate payments for purchasing or providing services, such as gasoline and passenger transport.

To expect digitalization, it will require relying on stable information and communication technology services. Therefore, the deployment of telecommunications infrastructure, the penetration of such infrastructure throughout the national territory and the investment in new generation networks will be needed for the potential development and implementation of the digital economy in Venezuela.

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