



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- The International Monetary Fund (IMF) executed on Aug. 31, 2021, the assignment to Venezuela of 3.611 million Special Drawing Rights (SDRs) equivalent to US\$5.130 million. This is Venezuela's portion of the global US\$650 billion allocation provided by the IMF to the 190 member countries, distributed according to their quota size. It should be noted that these resources are an allocation and not a loan.
- The use of this money is not subject to any economic policy condition that is to be expected in lending programs. Kristalina Georgieva, managing director of the IMF, has stated that this allocation is intended to strengthen the countries' reserves to avoid further internal or external public indebtedness due to the crisis generated by the COVID-19 pandemic.
- The money allocation is accompanied by an exhortation to developed countries to channel these resources to low-income countries through existing Poverty Reduction or Resilience and Sustainability Trusts as well as direct them to project financing through multilateral banks.
- Venezuela will not be able to mobilize these resources until the IMF board of directors reach an agreement as to which government is recognized as the official government of Venezuela. Therefore, the Central Bank of Venezuela (BCV) has recorded these SDRs as reserve assets and has included them in the international reserve balance in its balance sheet as of Sept. 8, 2021. However, this is an accounting record pending resolution by the IMF board of directors to use the funds.
- One of the events that singled out September was that the Bank of Venezuela (BdV) platform presented a failure that lasted five days and caused delays in the validation of operations for several more days. The BdV is the largest bank in the country, with 43 percent of the banking system's deposits and 16 million customers. Consequently, the bank system setbacks significantly impacted all kinds of payment transactions, as Sept. 15.
- BdV is the most important bank in the public banking system because it is used to pay the payrolls of state companies, pensions and bonds linked to the Patria system. Despite this, the consequences of the platform failure were not critical for most transactions since currently, more than 60 percent of bank deposits are in dollars, and more than two-thirds of the commercial transactions are made in dollars. Moreover, the dollar liquidity is five times higher than the liquidity in bolívares soberanos.
- September closed with the highest activity in the fixed income market this year regarding the local securities market. Total of 8.8 million bolívares soberanos and US\$124.903 million were offered compared to US\$2.3 million and 4.9 million bolívares soberanos expired, the third-highest amount of the year.



- Because of what could be expected shortly, Credit Suisse published an article on Oct. 1, 2021, entitled "Venezuela: A new phase?" In this article, they set out their expectations for the Venezuelan economy by the end of 2021, noting that they are raising their forecast for real gross domestic product (GDP) growth for 2021 to 5.5 percent from 4 percent. This upward adjustment to the GDP forecast is essentially a consequence of the favorable conditions expected in the oil market production, and the return to normalcy in mobility levels, which is expected to occur faster than what was expected.
- Available data shows that oil GDP is likely to increase between 3 percent and 5 percent year-on-year in 2021 instead of its previous expectation of no growth.
- Although mobility appears higher than in the rest of the region (relative to pre-pandemic levels), Venezuela's growth is likely lower than Latin America's in 2021. Other assumptions supporting Credit Suisse's estimates include a favorable external context and the recovery of Petróleos de Venezuela, S.A. (PDVSA) production, likely leading to a current account surplus in 2021. As a result, for 2022, Credit Suisse is considering its actual GDP growth forecast at 4.5 percent, up from 3 percent previously. In this case, the bank's estimate for next year presumes stability in oil production, and non-oil GDP growth of approximately 4 percent.
- According to Reuters, Venezuelan oil exports increased on average to 670,000 barrels per day (bpd) in July/August 2021, up from 410,000 bpd a year ago. According to the Merey price basket and various assumptions, it is estimated that Venezuelan exports could reach around US\$15 billion this year. Meanwhile, imports are considered likely to total approximately US\$7.5 billion. Therefore, the merchandise trade account is expected to tip the current account balance into a surplus of US\$3.4 billion, plus a few billion in remittances.
- A set of conditions in the U.S. energy market kept oil prices up, favoring Venezuelan oil revenues. One of these is Hurricane Ida, the most devastating hurricane in history regarding oil production disruption, with outages throughout September. The most brutal zone hit by Hurricane Ida, the Gulf of Mexico has not yet fully recovered from the 1.7 million bpd supply disruption. As of Sept. 17, an estimated one-quarter of the initial shut-in remains offline, causing a further drop in U.S. stocks and supporting higher prices. In addition, Hurricane Nicholas made landfall in Texas in mid-September and caused less damage than expected.
- According to the September report issue published by OPEC, Venezuelan production increased by 27,000 bpd in August. This third consecutive month with production above 600,000 bpd displays a slow, sustainable production estimated by several analysts to be between 650,000 and 700,000 bpd.
- According to direct sources, production increases were reported during six of the eight months of 2021. Secondary sources indicated no variation in Venezuelan production, which reported 523,000 bpd in July and August. In October, Standard and Poor's (S&P) noted that PDVSA offered upgraded crudes for sale, leaving behind Merey16, whose production fell



from 400,000 bpd in July to 90,000 bpd in August. According to S&P, Venezuela depleted its Merey inventories after exporting seven cargoes to Asia in August (10.3 million barrels; up 18.4 percent vs. July). Consequently, for October, it plans to export Morichal 16, Zuata Dulce 22 and Mezcla Especial de Hamaca 17.2, as a result of the restart of activities of the upgraders Petromonagas, Petrocedeño, and Petropiar.

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