



Venezuela Economic Outlook

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

- Inflation in 2021 closed at approximately 540 percent, in contrast to 2,500 percent in 2020. This achievement is far from meaning that the Venezuelan economy has stabilized. Venezuela should reach a low single-digit annual inflation in a sustained and sustainable manner, which on the current path will not be achieved by 2022.
- The formula applied by the government since September 2018 was harshly heightened during 2021. As a result, primary money creation was reduced to one-third and bank credit to one-seventh, so that the growth rate of monetary liquidity fell by half. In addition, the price of the dollar rose only 340 percent vs. 2,200 percent last year.
- The collection of non-oil taxes increased 1,600 percent, while public spending rose only 1,200 percent, and the Central Bank of Venezuela (BCV) sold about \$1 billion, double the amount of 2019 and 2020. The BCV benefited from the increase in oil exports, which rose to \$10.5 billion vs. \$4.5 million in 2020.
- This policy relied on two inhibitors of economic growth: the suppression of bank credit and the real appreciation of the bolívar soberano. Consequently, the dollar price rose 340 percent while inflation rose 540 percent. Bank credit grew only 370 percent, as compared to 2,700 percent in 2020.
- The reversal of these two inhibitors will not happen anytime soon. The authorities do not seem willing to allow credit to flow, neither in bolívar soberanos nor in dollars, reducing the companies' ability to maneuver what their cash flow can generate, and commercial credit will never fill the bank credit gap. Moreover, the persistent tendency to extend the overvaluation of the bolívar soberano inhibits production and condemns Venezuela to depend on artificially cheap imports. And all this while the country navigates the transition to a bimonetary economy.
- The key to achieving stability and growth lies in public policies that encourage the private sector to invest. In the absence of changes, 2022 will be a year with inflation between 100 percent and 200 percent and a Gross Domestic Product (GDP) growth of 5 percent to 7 percent, which is insufficient to recover the jobs lost in the last seven years.
- The scarce liquidity of bolívar soberanos slowed down the momentum of placements in the private debt market in 2021, halting the momentum that came from the demand for funds from companies in the face of scarce bank credit and the diversification of investment opportunities, with the appearance of issues in foreign currency indexed to the dollar price. Nevertheless, the market expanded thanks to the regulatory changes implemented last year. This allowed the issuance of instruments denominated in dollars or indexed to the BCV exchange rate and the acceleration of the authorization process. In addition, in September, the Promissory Note Program (PPB) was enforced, which allows the issuer to program medium-term issuances without requiring constant authorizations.



- In 2021, the National Securities Superintendency (Sunaval) authorized 157 new public offerings (versus 101 in 2020), 5,077 placements were carried out (up 70.7 percent vs. 2020), and the amount placed rose to the equivalent of \$15 million from \$5.5 million in 2020 (up 175.2 percent). As a result, the bolívar market accounted for 91.4 percent (\$13.7 million) and the foreign currency market for 8.6 percent, with \$500,000 in the foreign exchange market and \$800,000 in the indexed market. In addition, the equivalent amount of \$300,000 was traded in the secondary market.
- Venezuela's oil production averaged 824,000 barrels per day (bpd) in November, a level close to that of the first months of 2020 (up 86.9 percent in 2021). Iranian condensate supply has played an essential role in the last quarter's acceleration, and it will be crucial that the crude-for-condensate swap agreement is renewed in 2022.
- Reuters reported that oil exports revenues will account for 61 percent of the 2022 national budget. Furthermore, according to J.P. Morgan, this will happen if domestic production is increased (without reaching the 1 million bpd target) and the Brent prices reach up to \$125 per barrel by 2022.

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