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Venezuela Economic Outlook

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

- The reform of the Large Financial Transactions Tax Law (IGTF) seems not to have received much encouragement. The IGTF on foreign currency payments attacks the symptom, but not the cause, of the debilitation of the circulation of the bolívar soberano. And depending on how it is implemented, it may end up encouraging foreign currency payments to recur to the informal economy. If so, it will decrease the foreign currency deposits made in the banking system and weaken the possibility of achieving meaningful and duly regulated credit intermediation considering the foreign exchange risk. It will also undermine recent improvements in the payment system that facilitate day-to-day commercial transactions, especially between individuals.

- The new IGTF seeks to preserve the bolívar soberano in the payment system and increase tax collection by making payments in foreign currency more expensive. The bill approved in the first discussion recently maintains the current rate for payments in bolívares soberanos at 2 percent and set a provisional rate of 2.5 percent (previously zero percent) for payments made in foreign currency or cryptocurrencies, which will be in force until the executive branch establishes a definitive rate between 2 percent and 20 percent.

- The bolívar soberano circulation decreased due to the plummeting demand for bolívares soberanos. Credibility in this currency as a unit of account and value-bearing asset was lost due to hyperinflation, interest rate and bank credit regulations, and the collapse of oil revenues. In addition, the lack of circulating bolívar coins and bills facilitated the dollar as a means of payment.

- The new IGTF may also halt the rise of dollar deposits under Convenio Cambiario No. 1 (CC1). The accounts based on the CC1 currently amount to $732 million, 34 percent of the total bank deposits in Venezuela. A year ago, these deposits were $196 million (9 percent of the total. The year-on-year increase of this balance has been 273 percent in the last 12 months.

- The government certainly has strong incentives to increase tax collection. It faces the need to loosen the draconian cutting regime, which brought spending to 14 percent of the Gross Domestic Product in 2021 (from 27 percent in 2018) under the banner of the battle against hyperinflation. Furthermore, the government should not allow increases in Central Bank of Venezuela (BCV) monetary financing to avoid reviving hyperinflation.

- January saw a couple of signs of increased public expenditure, which should be followed up, including the announcement of the payment of the bonuses that public sector employees receive through the Patria platform.

- This official announcement of "the payment of the Patria bonuses" suggests that the legal minimum income may remain unchanged. On Jan. 24, 2021, President Nicolás Maduro promised to pay and increase the bonuses of the Patria system, approving a total of 80 million bolívares soberanos for their payment to employees of governors' and mayors' offices. Considering these salary bonuses will impact social benefits, vacation bonuses and other labor benefits received by public employees, this measure does not involve the Patria system bonuses received by the remaining population.

- However, the legal minimum income as of May 2021 is 10 bolívares soberanos (approximately US$2.20), with 7 bolívares soberanos corresponding to the minimum salary and 3 bolíivares soberanos to the food bonus.

- President Maduro, together with Vice President Delcy Rodríguez, sectorial Vice President of Economy Tareck El Aissami, Superintendent of the Banking Sector Institutions (SUDEBAN) Antonio Morales Rodríguez, and Vice Minister of the Banking and Insurance System Román Maniglia, had a meeting with the private and public banks of the country to discuss key elements of the sector.

- In this regard, the vice president announced the following measures for the banking sector:

  - reduction of the legal reserve requirement from 85 percent to 73 percent – progressively – to expand the credit base

  - banks are authorized to use 10 percent of their foreign currency holdings to grant credits in bolívares soberanos indexed at the exchange rate issued by the BCV, which is equivalent to US$74 million

  - the National Entrepreneurship Fund was created in compliance with the law recently approved by the National Assembly, and a "seed" capital of 46 million bolívares soberanos was assigned to this fund

  - the requirements to open accounts with a balance of up to 1,000 bolívares soberanos in all national banks were simplified

  - project for the listing of entrepreneurial projects in the stock exchange

  - Engineer Maryury Bargiela was named as president of the National Entrepreneurship Fund

- On the oil front, TankerTrackers reported that Venezuela's crude oil exports decreased 25.1 percent in the first three weeks of January compared to the average of 537,000 barrels per day (bpd) exported in December. China received an average of 354,000 bpd (88.1 percent) of exports, and an average of 48,000 bpd (11.9 percent) were sent to Cuba. However, this source's monitoring does not cover all of Venezuela's exit ports.

- An article on the Bloomberg website reported that the Venezuelan government and Chevron Corp. are in preliminary talks to grant the company greater control of some operations in exchange for debt relief as the country's socialist leaders seek to increase production despite U.S. sanctions.

- Javier La Rosa, head of Chevron's Venezuela unit, and Asdrubal Chavez, president of state oil company Petróleos de Venezuela, S.A. (PDVSA), have been involved in the discussions, according to two people with knowledge of the matter. However, before a deal can be reached, Chevron will need a special waiver from the U.S. Department of the Treasury that would allow it to engage in more formal negotiations.

- According to a third-party source, the company is simultaneously applying for a license from the Treasury Department's Office of Foreign Assets Control, which oversees foreign sanctions. The four fields that Chevron and PDVSA jointly operate produced more than 200,000 bpd before the sanctions, compared with the current production of 140,000 bpd.

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