



## Venezuela Economic Outlook

By Arca Análisis Económico

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 billion 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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## Government Authorizes Liquidation and Cease of Operations of Citibank N.A. Sucursal Venezuela

By Holland & Knight

The Ministry of Economy, Finance and Foreign Trade of Venezuela published Resolution 077.21 of 2021 in the *Official Gazette* No. 42,284 of Dec. 27, 2021, authorizing the liquidation and cease of operations of Citibank N.A. Sucursal Venezuela.

It is necessary to mention, taking into account the factual and legal basis of Resolution 077.21, Citibank N.A. Sucursal Venezuela in April 2021 filed an application for liquidation, cease of operations and revocation of operating authorization, as well as the revocation of the authorization to carry out financial intermediation activities in Venezuela. Consequently, the Ministry of Economy, Finance and Foreign Trade of Venezuela authorized such request through Resolution 077.21 of 2021.

Thus, Citibank N.A. Sucursal Venezuela ceases and closes its banking and financial operations in Venezuela, which it had been carrying out in the country since October 1926 as a financial institution, and since January 1997 as a universal bank.

The Ministry of Economy, Finance and Foreign Trade of Venezuela ordered Citibank N.A. Sucursal Venezuela to terminate all operations associated with it within 30 continuous days from the publication date in the *Official Gazette* (Dec. 27, 2021), refraining from carrying out any type of operation on behalf of the company.

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## Central Bank of Venezuela Issues New Regulations on Legal Reserve Requirements

By Tinoco Travieso Planchart & Nuñez

The Central Bank of Venezuela (BCV) issued on Dec. 27, 2021, Resolution No. 21-12-01 in *Official Gazette* No. 42,284, which establishes the rules governing the legal reserve's constitution.

Among the most relevant aspects are:

- Banking institutions must maintain a minimum reserve requirement, deposited in full at the BCV, equal to the sum of the amounts resulting from applying to 85 percent of the total amount of net obligations in local currency, 31 percent for foreign currency transactions and 85 percent on Designated Investments. In addition, institutions whose exclusive purpose is to finance microfinance activities, and have a credit intermediation index of at least 50 percent, must maintain a minimum reserve requirement of 40 percent of the total amount of net liabilities in local currency and Designated Investments.
- The reserve requirement position of each institution is determined based on five-day periods counted from Monday to Friday, based on the average of the daily balances of the transactions subject to reserve requirements during that period.
- The banking institutions must provide the BCV with the information requested by said institution every week for the reserve requirement outlined in the Resolution.
- The reserve requirement must be carried out in the legal tender. The calculation, reporting and control of the reserve requirement for foreign currency transactions shall be carried out separately from the reserve requirement for local currency transactions and in accordance with the methodology established in the regulations issued.
- In the event of a reserve requirement deficit, the institutions must pay the BCV a financial cost calculated daily according to the formula set forth in the Resolution and when the result is a positive value. The interest rate for the deficit collection (tibacde) will be 9 percentage points added to the rate fixed by the BCV in its ordinary discount, rediscount and advance payments. It may be increased according to the following assumptions:
  - 2 additional percentage points if the deficit is between three and seven times within 30 continuous days counted from the day on which the first default occurred
  - 4 additional percentage points if the deficit is eight or more times in a period of 30 continuous days counted from the day on which the first default occurred
- Banking institutions that fail to sell all of the foreign currency liquidated will be charged an annual interest rate of 25 percent on the unsold balance in purchase and sale operations, as from the date execution of the foreign exchange intervention and for each day in which



the reserve requirement deficit was incurred. The rate will be determined by the BCV at the closing of each week.

- The board of directors of the BCV may modify the minimum legal reserve established in this Resolution, in which case it will inform such modification through the Institute's web page and through the electronic data transfer system used by the BCV.

The Resolution was enforced on Dec. 27, 2021, and rescinded Resolution No. 21-01-01 (*Official Gazette* No. 42,050 of Jan. 19, 2021).

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