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The Venezuelan Economy Overview 2013

The Venezuelan economy has stalled and begins to show signs of fatigue after more than drastically reducing its growth rate to 0.7% in the first quarter and see how inflation is rising, in a context of lack of foreign exchange excess money supply and shortages. Therefore, Venezuela is suffering nowadays the nasty combination of recession with a rising inflation of the two digits. According to the Central Bank of Venezuela (BCV) inflation prices rose a peak 6.1 per cent in May, and 3.0 in August compared with 1.6 and 1.1 per cent in the same months last year, bringing accumulated inflation for the first eight months of 2013 to 29.0 per cent, far in excess to the annual figure for 2012 of 17.1 per cent. Experts forecast an overall inflation of 44.20 per cent at the end of the year 2013.

Amidst these clear signs of recession there are other two big issues; a lack of foreign exchange excess money supply and the shortages of many basic products. Both currency devaluation in February 2013 and spiraling shortage are held accountable largely for this significant rise in the consumer price index.

Looking to cope with the crisis, Venezuelan President Nicolás Maduro has announced the establishment of a new foreign exchange market, which would complement the current two mechanisms available; namely, the Ancillary Foreign Currency Administration System (SICAD) and the Foreign Exchange Administration Commission (CADIVI). This measure will accentuate currency devaluation. This scheme provides that state-run oil company Petróleos de Venezuela (Pdvsa) and the Central Bank of Venezuela (BCV) can sell foreign currency via this new legal alternative, aimed at alleviating the foreign exchange crisis.

In consequence, there would be three different foreign exchange rates, one per every mechanism available. The problem is that by implementing that alternative, the parallel market would not disappear, because those who have no access to the new market, or need to buy more foreign currency, would resort to this informal market. The official exchange rate have been fixed at Bs. 6.30 since May this year, but the price of USD in the streets - very far above that figure - is used as a reference to calculate replacement cost, thus, increasing inflation.

This complex situation has also affected the foreign trade, particularly the liner market where the shipping lines have reported a fall of 40 per cent at the best on their traffic flows, with clear signs in the port business nationwide.

The Government expects that the new measures will alleviate somewhat the pressures on the foreign exchange market reducing the shortages of goods, so the economic panorama would improve at the end of the year. If so, no doubt there will be an increase on cargo volumes at ports and improvements in shipping traffic.

Should you need any assistance or further information regarding the topic stated above, please feel free to contact:

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