Holland & Knight

Venezuela Economic Outlook

By Arca Análisis Económico

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

- Bank credit continues to grow in Venezuela, however, it falls short of meeting demand. The intermediation ratio (the ratio of loans to deposits) reached 22 percent at the end of August 2022, rising from 16 percent with which it opened the year. But this level is slightly less than the 50 percent that it exhibited at the start of the current stabilization program, which began implementation in September 2018.

- So far, the anti-inflationary policy imposes chronic limitations on banking credit intermediation. It is enough to see how the regulations restrict the use of funds raised.

- At the end of August, only 24 percent of deposits are free to be used for credit. The reserve requirement immobilizes 19 percent of the funds collected. Twenty-one percent corresponds to bolívar soberanos blocked by foreign currency that was allocated and not liquidated under the previous Exchange Agreement (CC20). Finally, 35 percent of total deposits are in foreign currency under Exchange Agreement 1 (CC1), and the funds can only be used for credit after conversion to bolívar soberanos at the request of the depositor.

- Financing granted by Venezuelan banks to the agricultural sector amounted to $887.6 million bolívars soberanos, equivalent to US$112.5 million according to the official exchange rate at the end of August.

- In the last reported month, bank financing for agriculture recorded an increase of 42.7 percent, while so far in 2022, it has accumulated an increase of 177.95 percent. In year-on-year terms, this portfolio has climbed 194 percent. This year's data show that the increase has been accelerated, although it is below the growth of the total portfolio, which increased 49.9 percent compared to July 2022, and 287.4 percent compared to August 2021.

- The agricultural portfolio represented 18.9 percent of the total loan portfolio of the system. It is the second most financed item by banks, after the commercial portfolio, which absorbed 72.36 percent of total loans.

- However, according to an interview with Edison Arciniega, president of the Center for Agrifood Studies (CEA), it was estimated that between US$1.5 billion and US$1.8 billion of financial leverage is needed per production cycle for agriculture alone. An additional US$2 billion would be needed for the rest of the sector.

- If these requirements are added together, a minimum total portfolio of US$3.8 billion would be required, so that the financing deficit for agriculture would reach 97 percent. The sector's unions point out the fact that banks cover only 2.96 percent of the necessary leverage is an extremely serious and unprecedented circumstance.

- Although the loan portfolio has grown significantly during the year, it is still insufficient to meet the demand for financing.

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