



Prepared for the conference  
**“The Size and Importance of Venezuela’s Illegal Economies”**  
Latin American Program, Woodrow Wilson Center  
January 14, 2020

# Venezuela’s Shadow Economy.

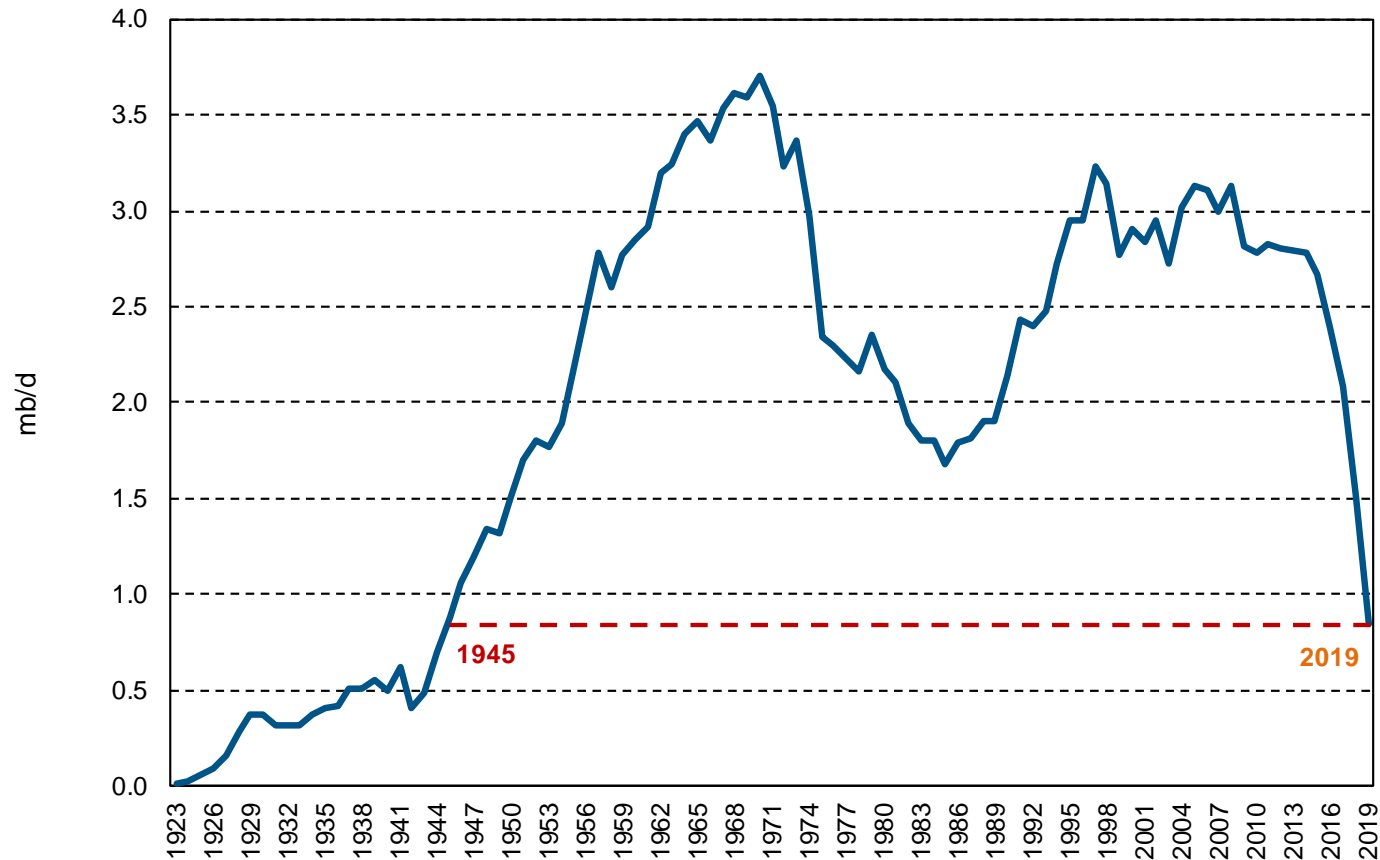


# The Government Financial Lifeline

- Prolonged recession and oil industry collapse have cut the government's traditional revenue sources.
- US Sanctions places Venezuela in political isolation, prompting approach to less transparent associates.
- Sanction evasion prompts off-record transactions.
- Need to maintain rent distribution mechanism puts pressure on to find alternative revenue flows.
- Venezuela's dollarization and services collapse pushes for unconventional transaction means.
- A de-facto liberalization pushes both private and public sector into harder to trace channels.

# An industry a century in the past

## Evolution of Venezuela's Oil Production



Sources: Baptista (2002), Pdvsa and Ecoanalítica.

**Average increase 1943-1970: +118 kb/d**

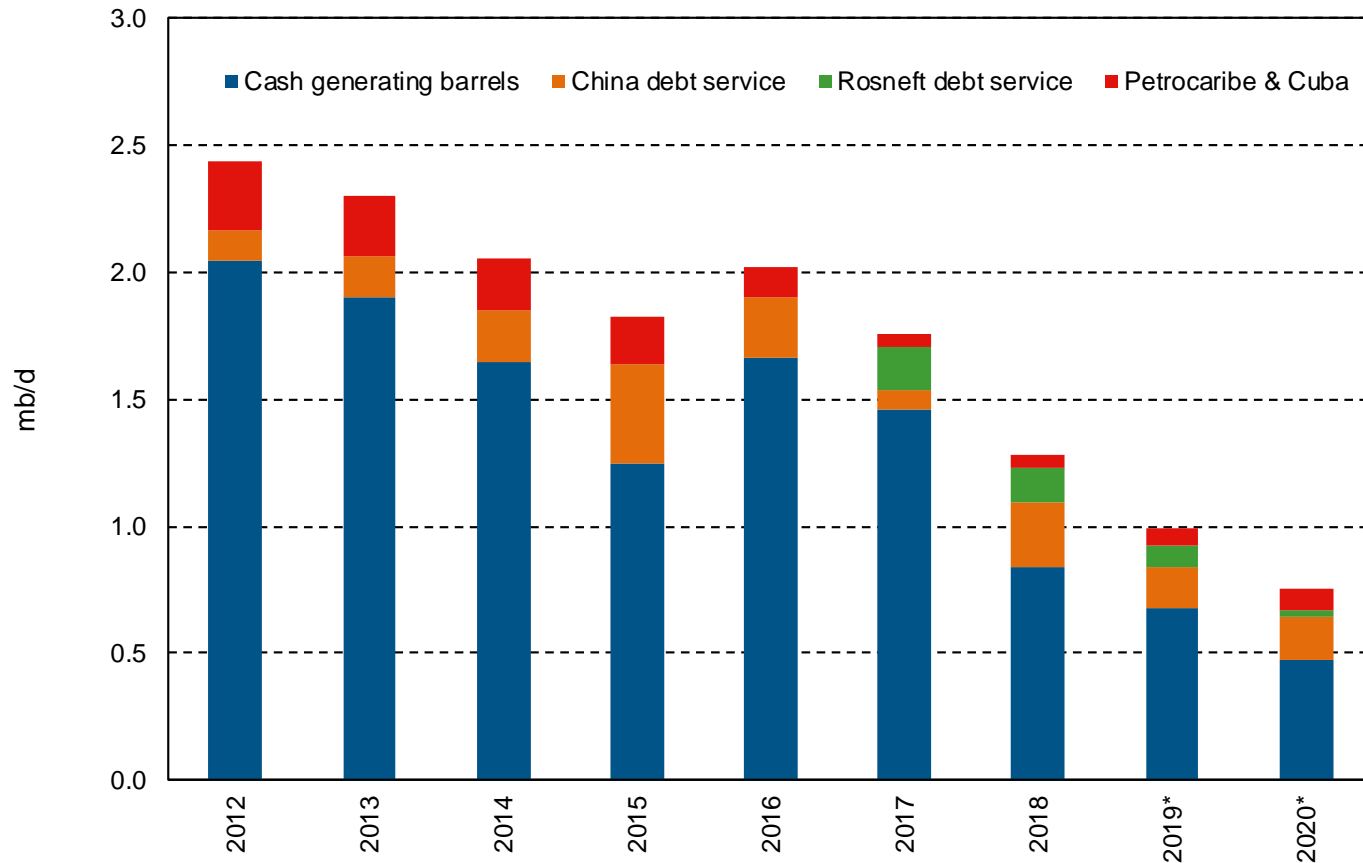
**Average increase 1986-1998: +112 kb/d**

**Maximum increase 1947-1957: +159 kb/d**



# Depending more and more from Russia and China

## Oil exports composition

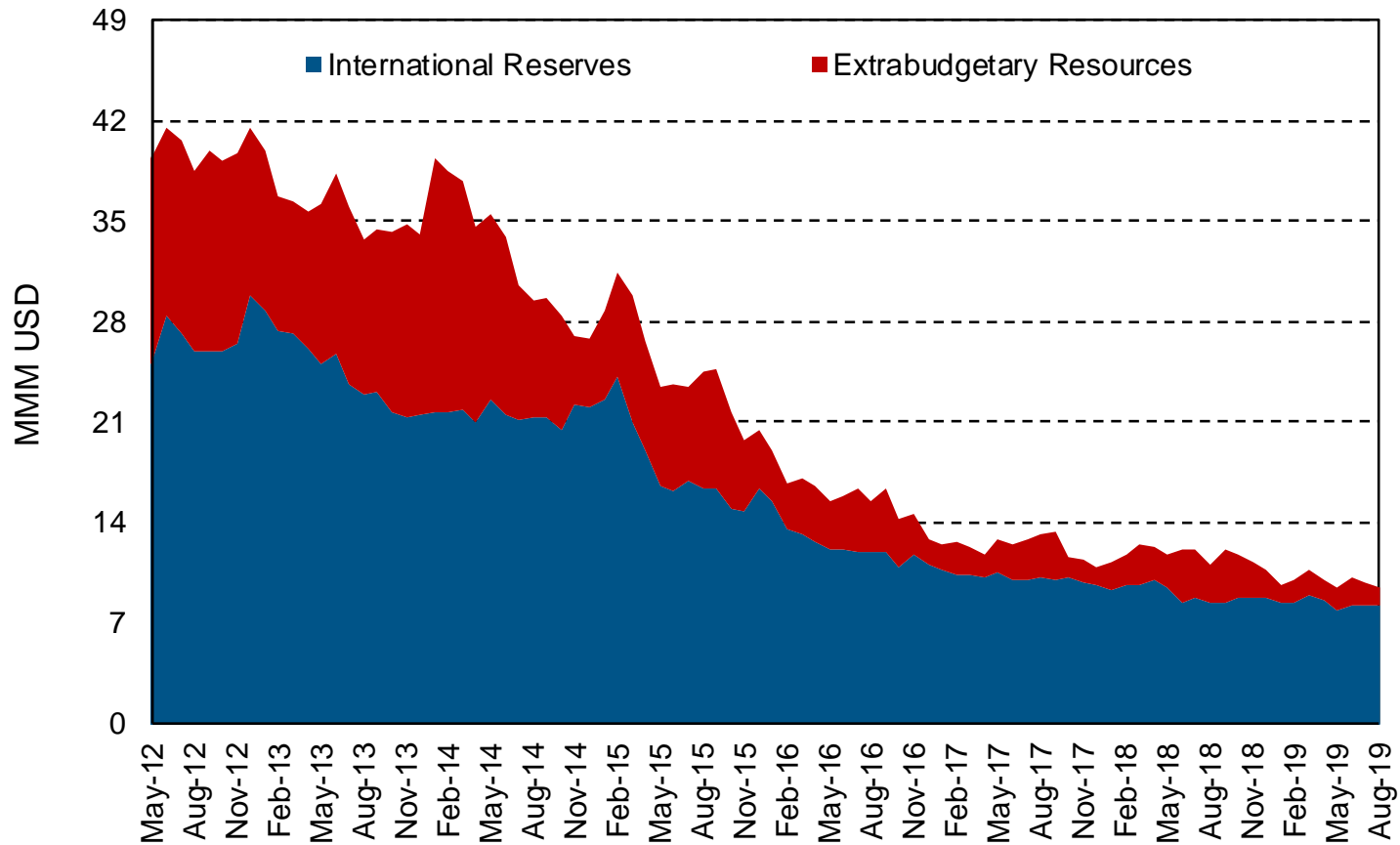


Sources: Pdvsa, Mefbp and Ecoanalítica.

\*Forecast.

# Pressuring hard currency reserves

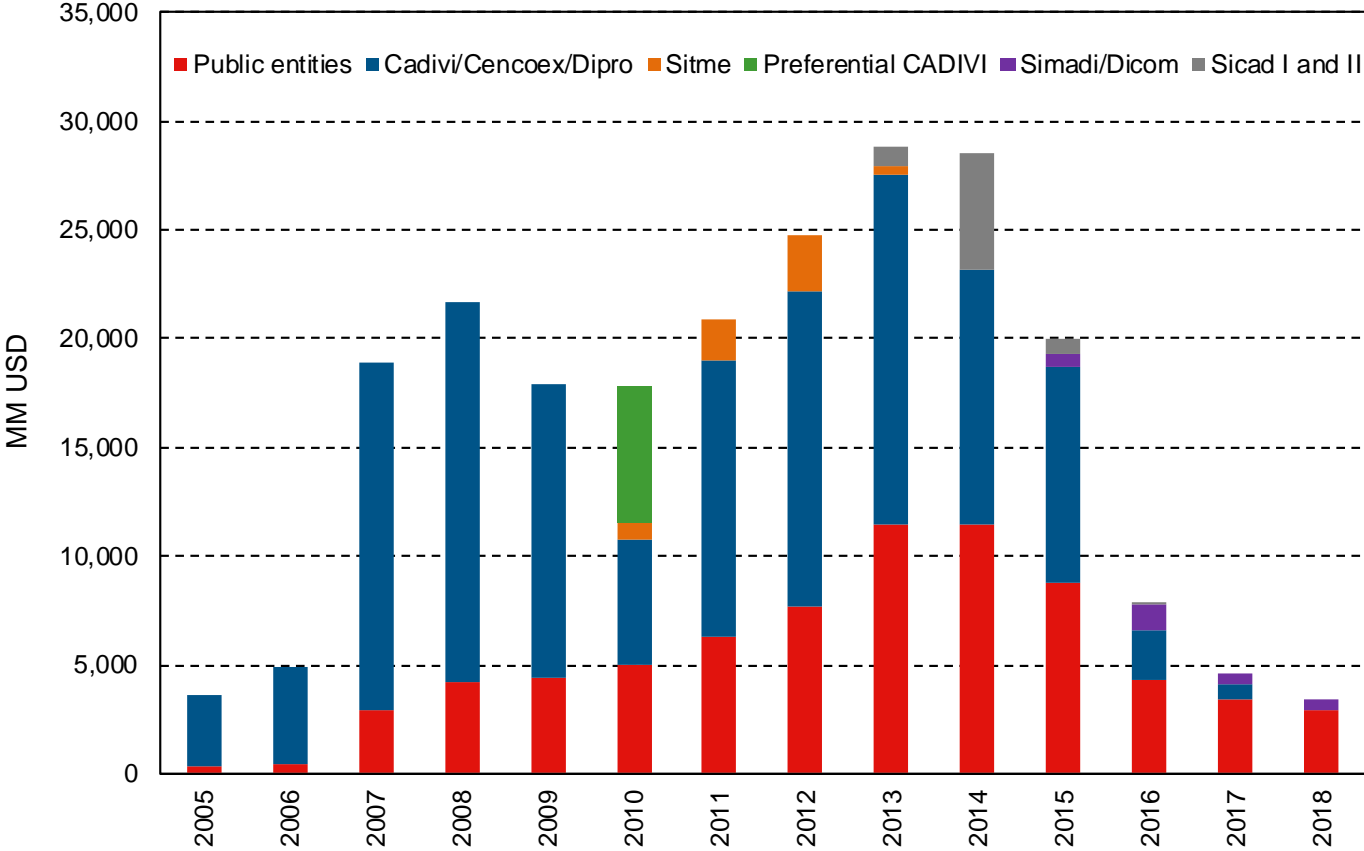
## IR vs. Extrabudgetary resources



Sources: BCV and Ecoanalítica

# And the usual rent distribution mechanism dries up

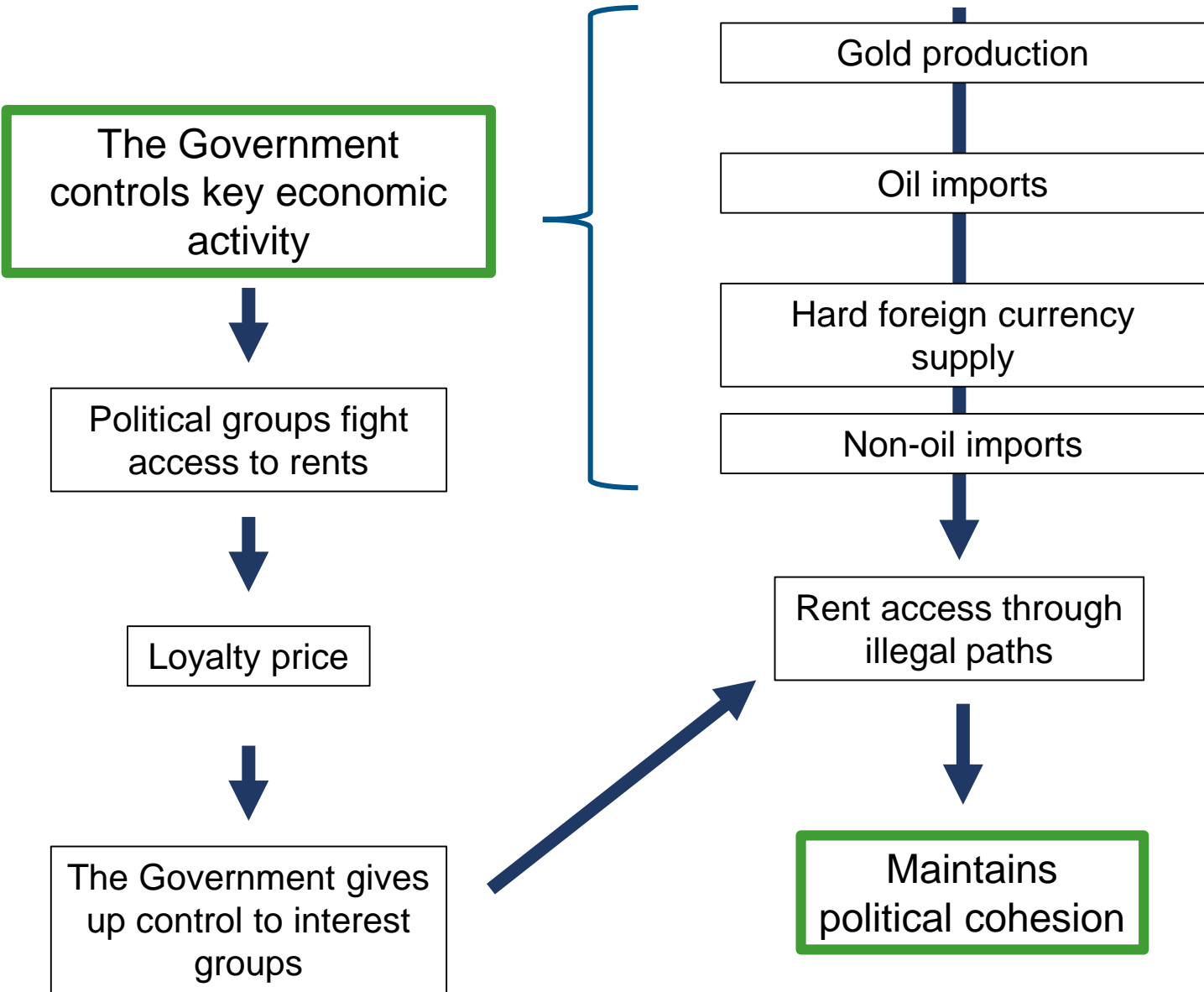
## Exchange rate subsidy scheme



Sources: BCV and Ecoanalítica.



# The Venezuelan Political Marketplace



# The parallel economy

## Income from *other* activities in 2018

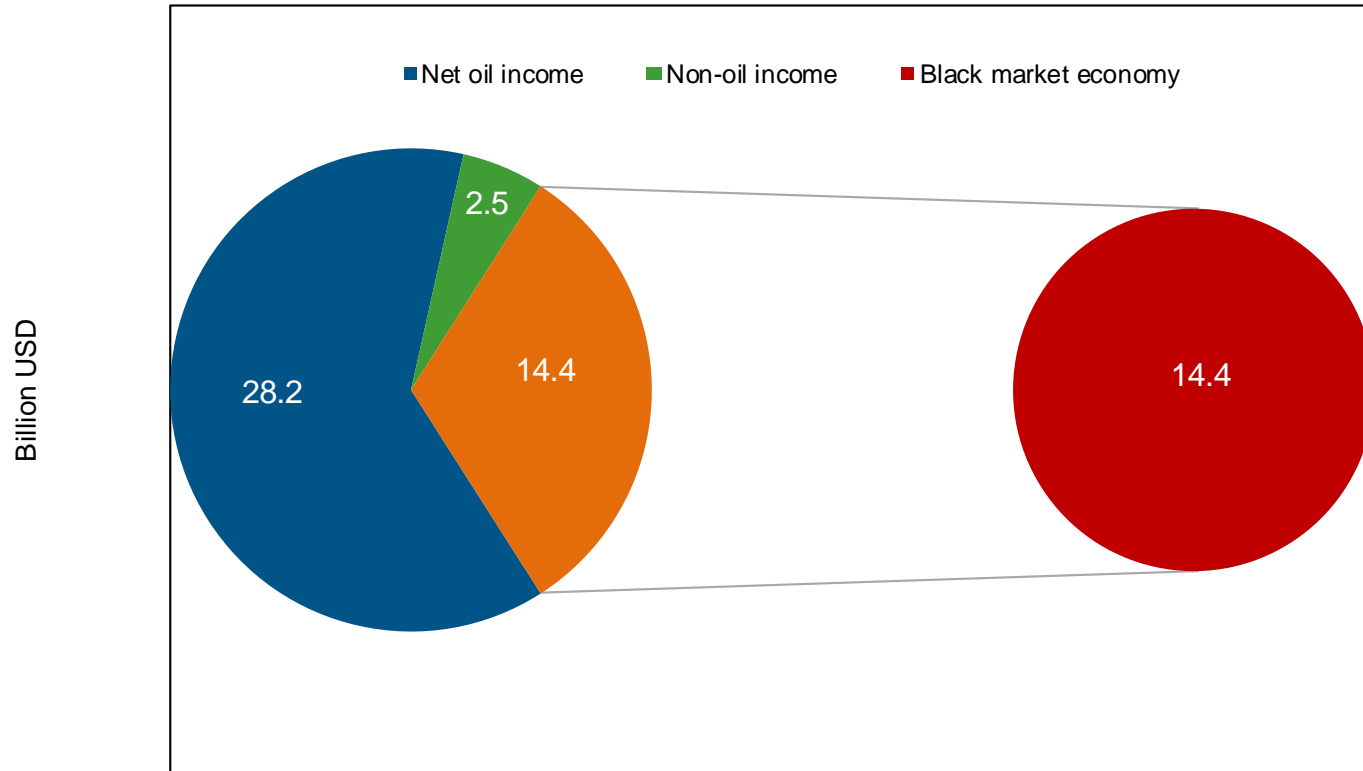
Activity	USD MM
Gold contraband	2,711.0
Gasoline contraband	1,860.3 - 2,790.5
Narcotic trafficking	2,650.0
Exchange rate subsidy	3,446.4
Overbilling	3,710.8
<b>Total</b>	<b>14.378,5 - 15.308,6</b>

Sources: OEA, UN Comtrade, TSI and Ecoanalítica.



# Government financial lifeline

## Black market economy vs other income sources in 2018 (USD MMM)



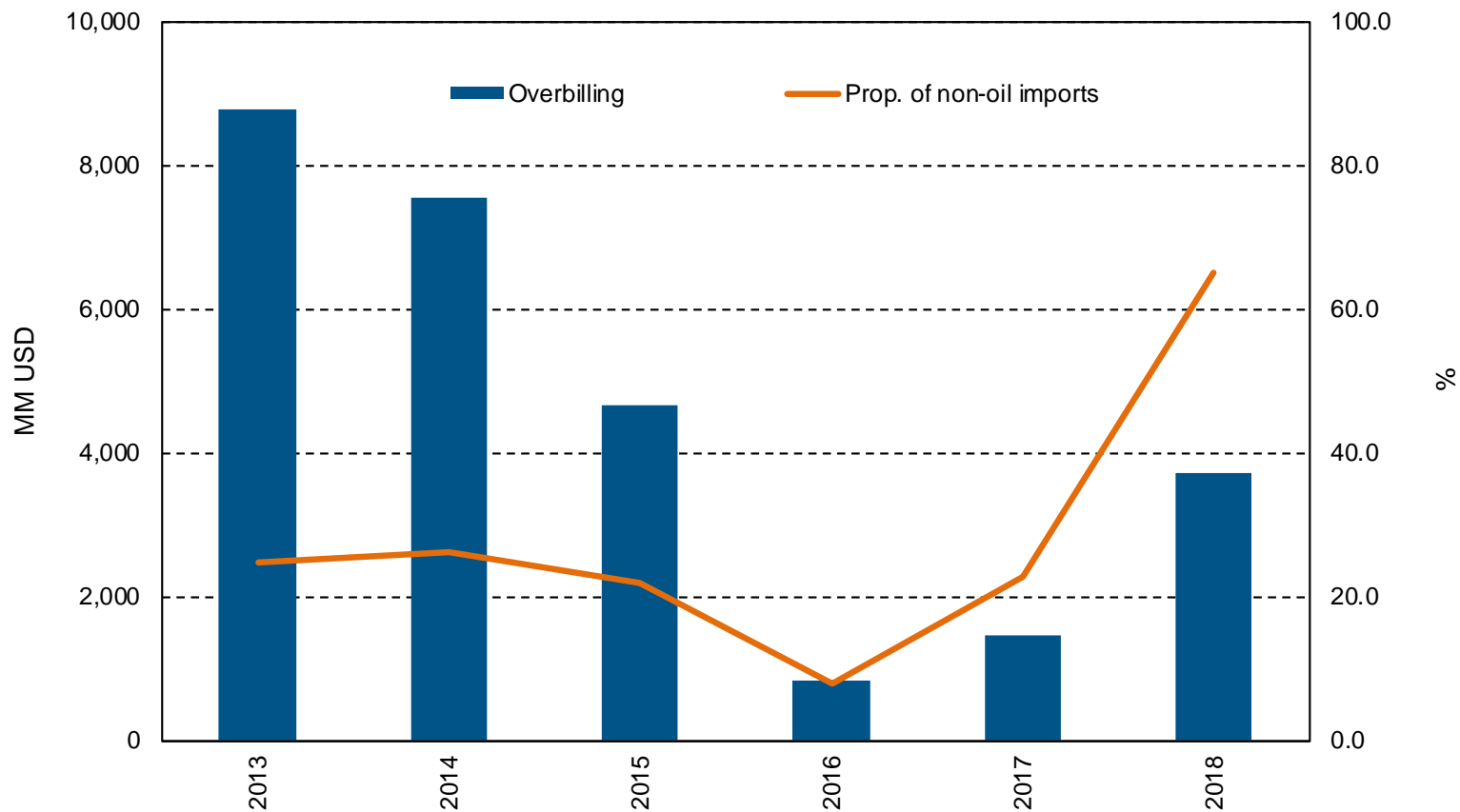
Sources: BCV, OEA, UN Comtrade, TSI and Ecoanalítica

**The black market economy sources represented 31.9% of the income**



# Renewed focus on imports overbilling

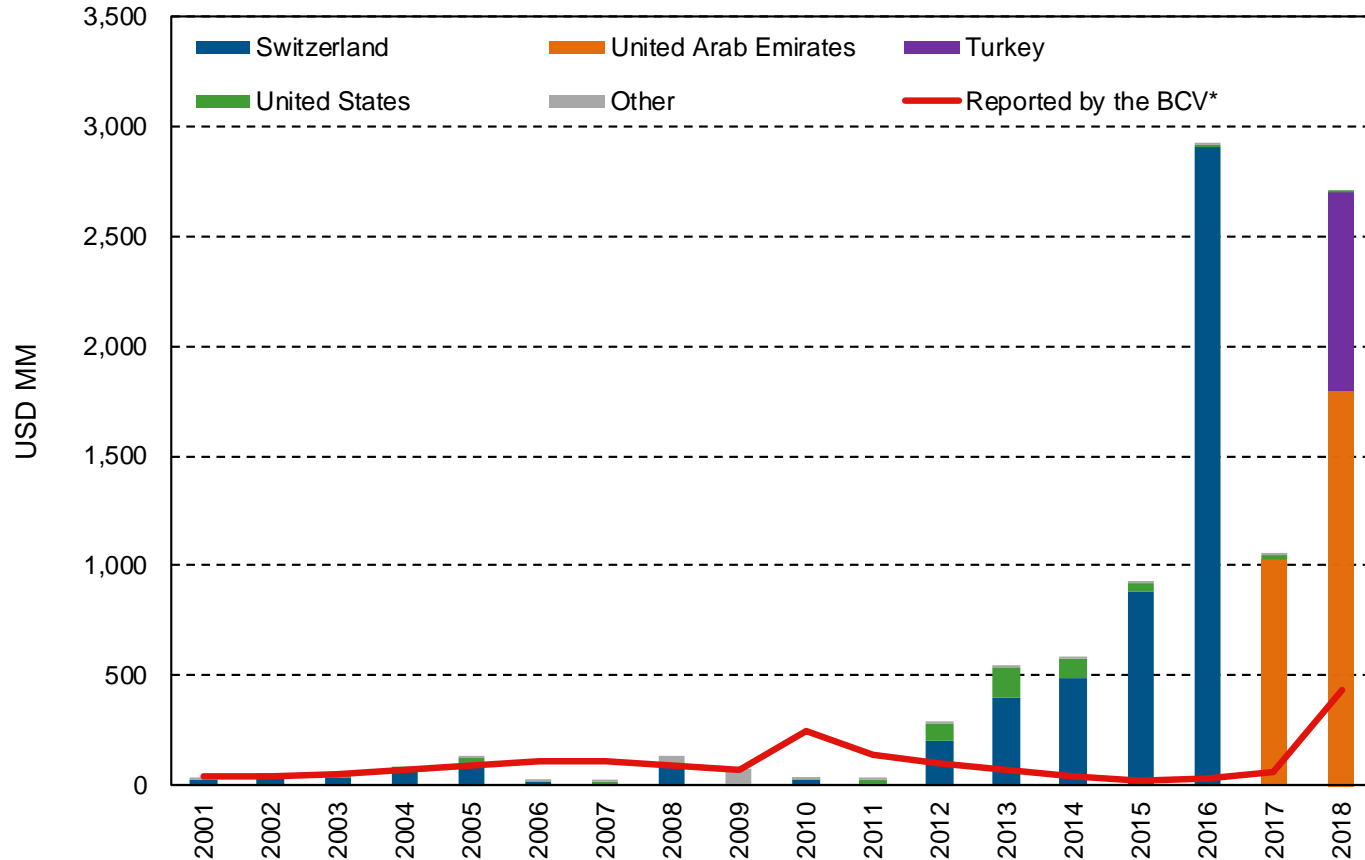
## Imports overbilling



Sources: TradeMap, BCV and Ecoanalítica.

# Rising gold transaction costs

## Gold smuggling\*\* (by destination)



Sources: UN Comtrade and Ecoanalítica

\*Gold purchases in the local market reported to the BCV.

\*\*After nationalizing gold (2011), export were higher that purchases done by the BCV.

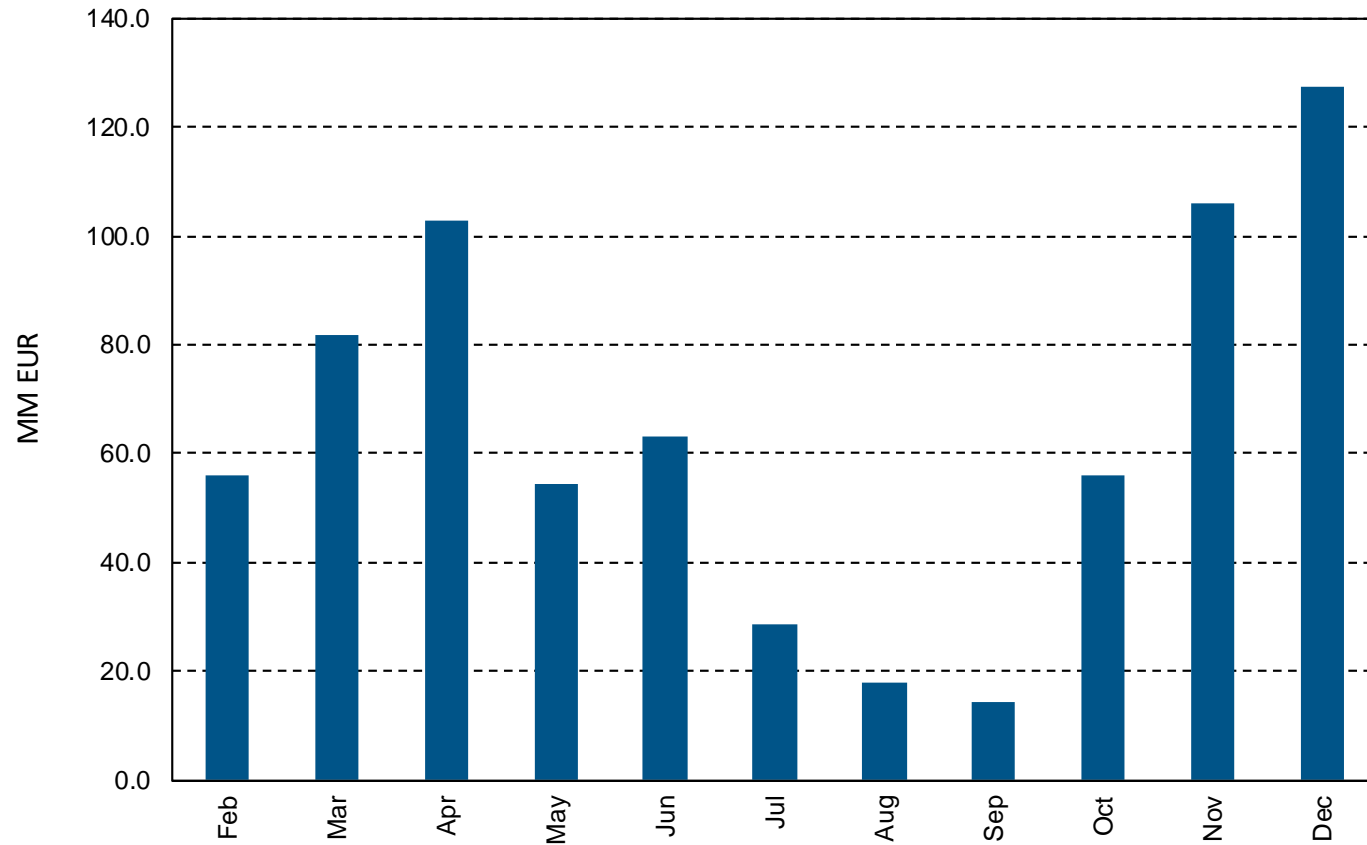
**In 2018 they sold USD 3,280 MM at USD 2,710 MM (17.3% discount)**

# Effects in the real economy

- Income from unorthodox sources finds its way to the real economy.
- Deepening transactional dollarization in an environment of looser regulations.
- Redirecting into Venezuela funds that cannot be taken to tax havens.
- Cash euros used as foreign exchange market stabilizer.
- Difficulty to discern dollars from criminal activities from legitimate ones.

# Intervening in the currency exchange market

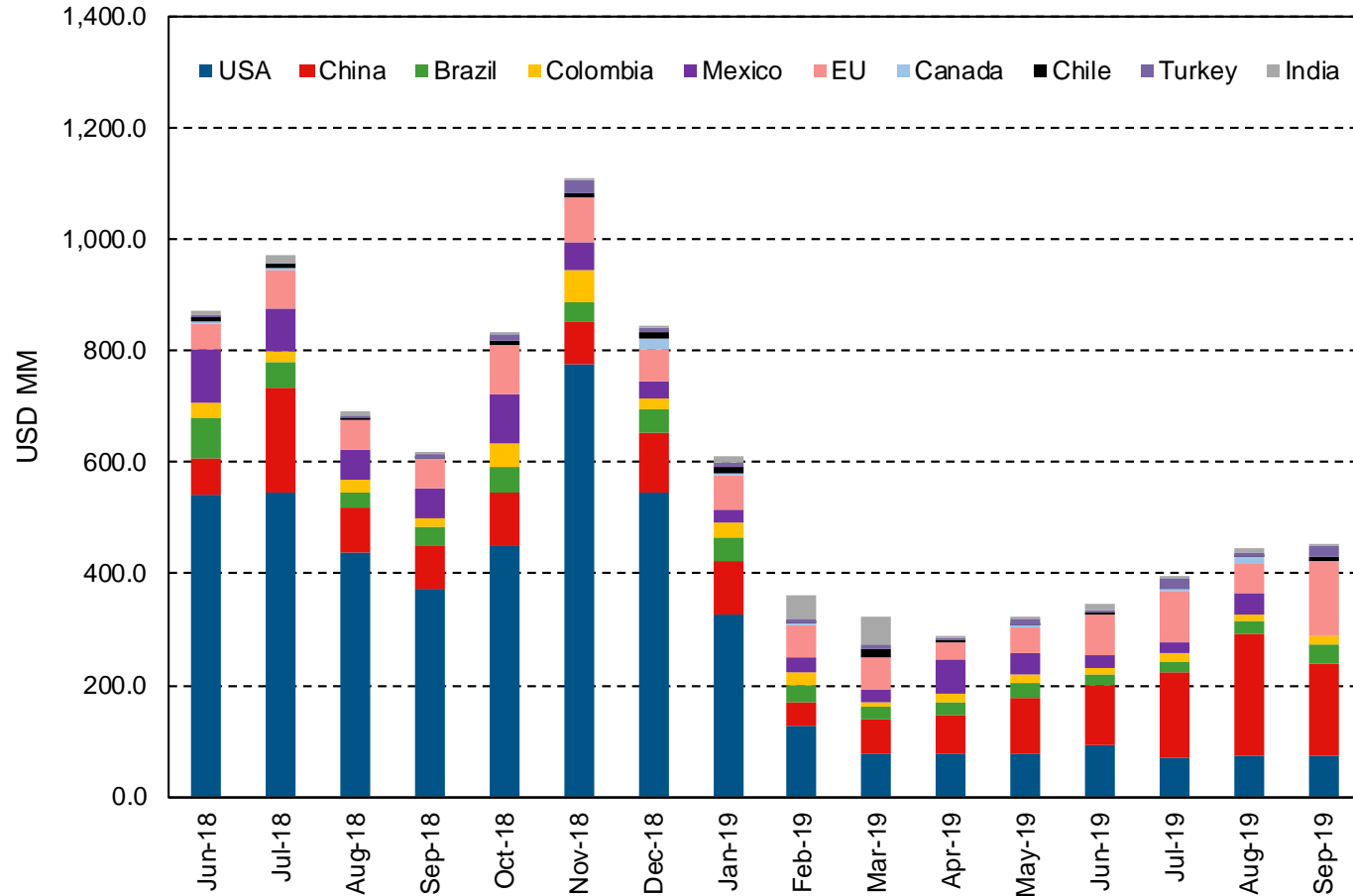
## Euros in cash sold to the financial system (2019)



Sources: Ecoanalítica.

# Imports become harder to track

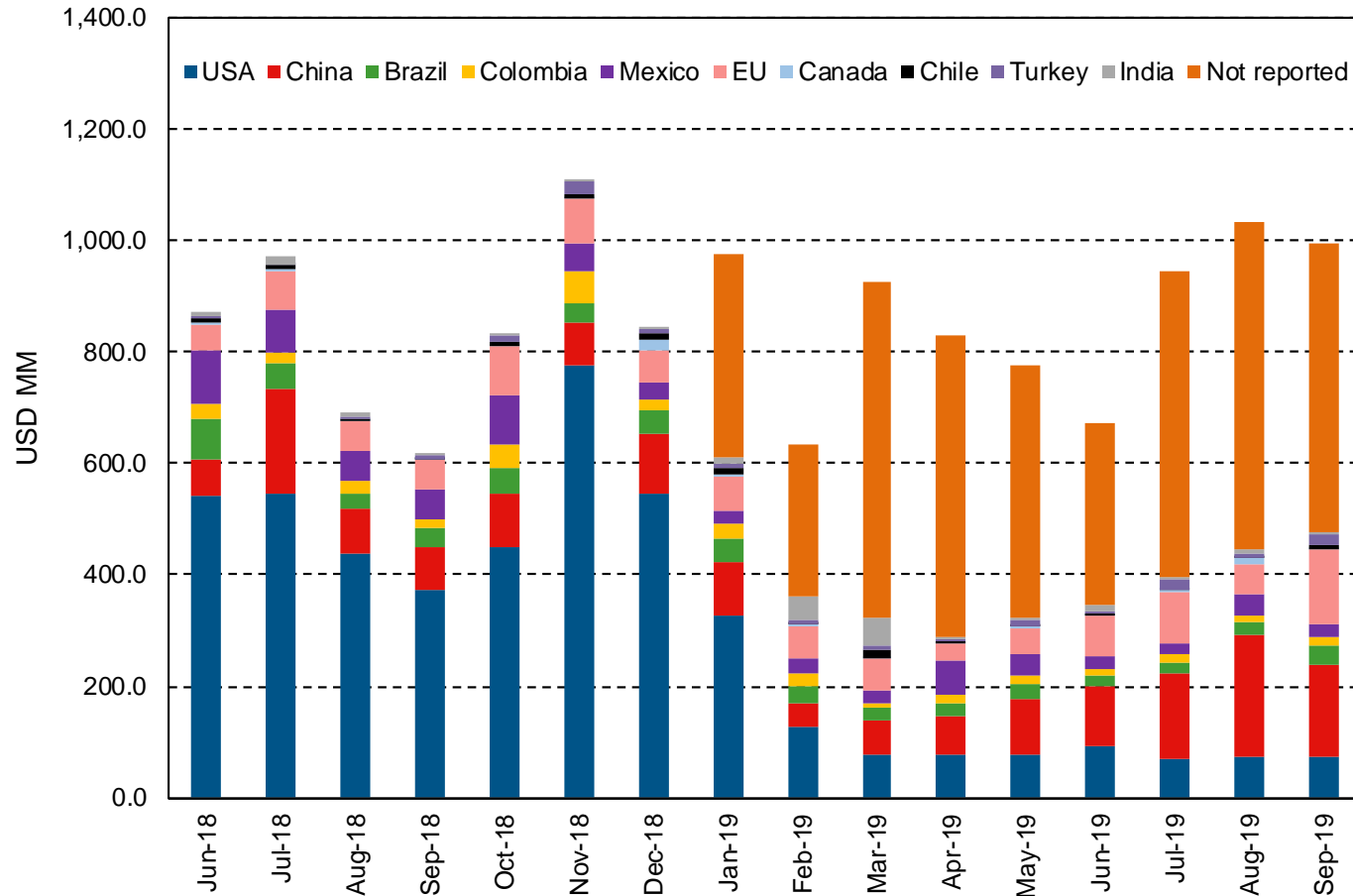
## Imports by origin (Top 10)



Sources: Official data reported by each country and Ecoanalítica.

# Imports become harder to track

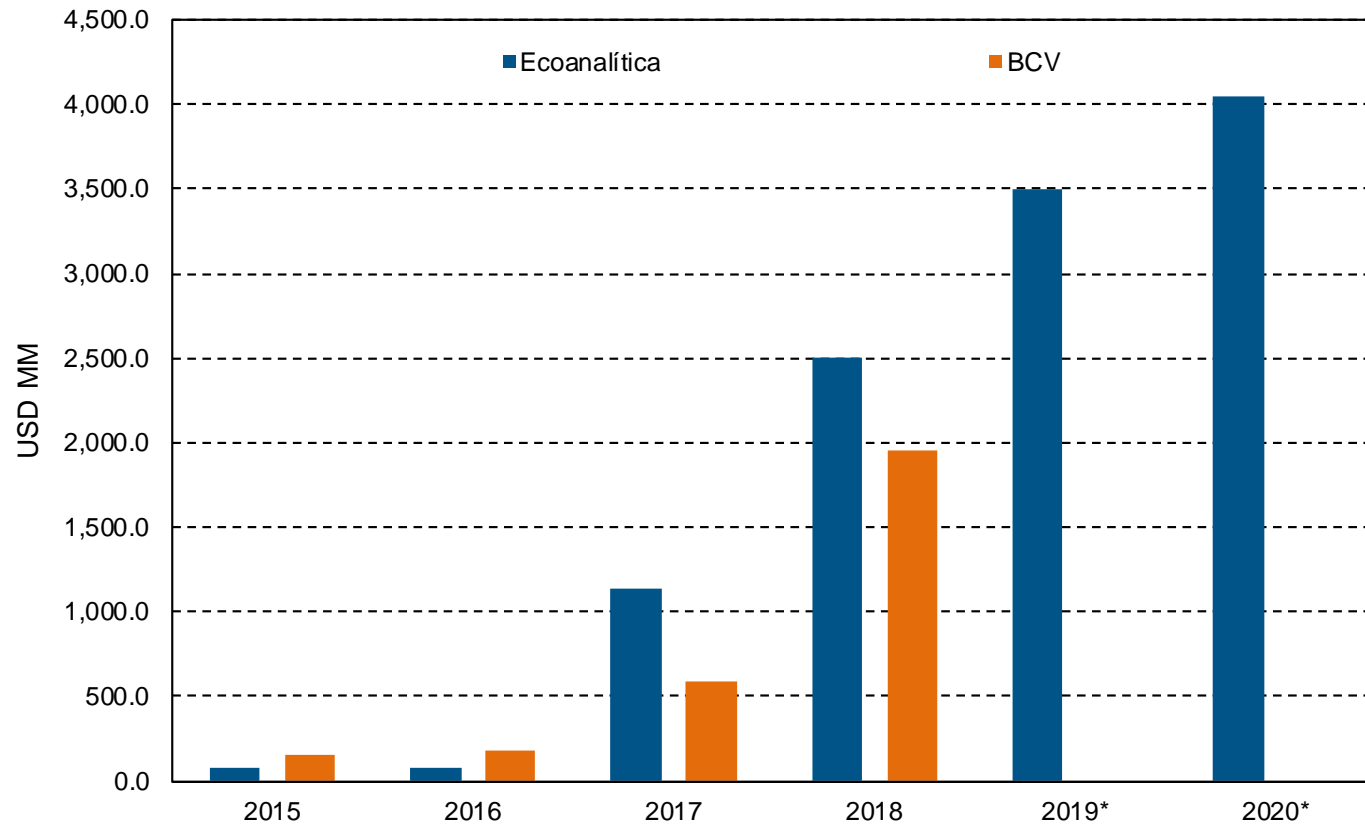
## Imports by origin (Top 10)



Sources: Official data reported by each country and Ecoanalítica.

# Getting tangled with other cash flows

## Remittances to Venezuela (MM USD)



Sources: Banco Mundial, Cemla, BCV and Ecoanalítica

\*Estimations.

Note: Current transfers from BCV are valued as remittances.



## What to expect this year?

- Low chances of a political change.
- Economy, firms and business reduction.
- Illegal market expansion.
- Almost irreversible degree of informal dollarization.
- Continued pressure over external accounts.

# The Executive will have to reduce expenses

Hard Currency Cashflow			
Item	2018	2019	2020
<b>Income</b>	<b>0</b>	<b>0</b>	<b>0</b>
Oil Exports (mb/d)	1.35	1.0	0.7
Energy Agreements (mb/d)	0.1	0.1	0.1
Oil Imports (mb/d)	0.1	0.2	0.1
<b>Effective Oil Exports (mb/d)<sup>1</sup></b>	<b>1.4</b>	<b>1.1</b>	<b>0.7</b>
Brent Price (USD/bl)*	69.7	65.7	59.9
Venezuelan Oil Basket Price (USD/bl)*	61.9	59.6	51.5
<b>Oil Income (Billion USD)</b>	<b>31.8</b>	<b>23.1</b>	<b>13.9</b>
<b>Oil imports (Billion USD)</b>	<b>3.5</b>	<b>3.7</b>	<b>2.1</b>
Oil Imports (Diluents and Supply)	0.0	-1.0	-0.9
Other Oil Imports	28.2	18.4	10.9
<b>Non-Oil Income (Billion USD)</b>	<b>2.5</b>	<b>6.3</b>	<b>6.6</b>
<b>Total income</b>	<b>30.7</b>	<b>24.7</b>	<b>17.5</b>
<b>Expenditure</b>			
<b>Other imports (Billion USD)<sup>2</sup></b>	<b>9.1</b>	<b>5.9</b>	<b>5.9</b>
<b>Net services</b>	<b>6.2</b>	<b>5.8</b>	<b>5.6</b>
<b>Net rents</b>	<b>8.0</b>	<b>7.9</b>	<b>7.6</b>
<b>Current Transfers</b>	<b>-2.0</b>	<b>-2.7</b>	<b>-2.0</b>
<b>External Debt Service (Billion USD)</b>	<b>4.5</b>	<b>1.2</b>	<b>0.6</b>
<b>Private Capitals Outflow (Net)</b>	<b>-2.3</b>	<b>-1.1</b>	<b>-1.0</b>
<b>Total Expenditure</b>	<b>23.4</b>	<b>16.9</b>	<b>16.7</b>
<b>Result</b>	<b>7.3</b>	<b>7.8</b>	<b>0.8</b>
<b>Financing (MM USD)</b>			
<b>Oil income retained by the USA</b>	<b>0.0</b>	<b>-3.1</b>	<b>0.0</b>
<b>Net Flow with China</b>	<b>-4.2</b>	<b>-3.2</b>	<b>-3.2</b>
<b>Net Flow with Russia (Rosneft)</b>	<b>-3.2</b>	<b>-1.9</b>	<b>-0.5</b>
<b>Net Result</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-2.8</b>

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

\* Considers a 90 day lag due to the internal dynamics of the oil market

<sup>1</sup> We take into account the reexported imports

<sup>2</sup> Considers non-oil imports and other imports from the oil sector



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