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Forecast

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Freedoms will drive outcomes in 2024

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EXECUTIVE SUMMARY

The sanctions relief begun in late 2022 is gradually adding oxygen to the Venezuelan economy. While it's no panacea, it does translate into higher output for the joint ventures in which Chevron, Eni, Repsol, and Maurel & Prom hold minority stakes, and therefore stronger export revenue and foreign currency supplies with which the central bank can defend the bolivar. This is particularly timely as we approach 2024. Because of imminent presidential elections, the government will want to rev up fiscal spending and boost private consumption while trying to keep a lid on inflation.

In 2023, the Venezuelan economy abruptly lost steam after its 2022 recovery. Because of the collapse in consumer demand, growth in non-oil economy, after a 14-percent burst in 2022, came to a complete halt. Oil GDP, by contrast, was able to maintain its 2022 10-percent growth rates, thanks to expanding Chevron operations under General License 41 (LG 41).

Disinflation this year has been modest: inflation has slowed only to 204 percent from last year's 234 percent, despite successful BCV efforts to keep a lid on the exchange rate—it's up only 112 percent after having jumped a 288 percent in 2022. Pricing inertia has placed a hard floor under the inflation rate, while the policy framework has restrained economic activity.

Venezuela's economic performance in 2024 will be driven chiefly by politics and its implication for renewal of General License 44 (LG 44) in April. If LG 44 remains in force all year, Venezuela can take advantage of higher oil prices. Oil GDP can continue to grow at an annual 10 percent, non-oil GDP by 7 percent, and private consumption by 8 percent. In this case, however, because public policies act as a break on economic activity, the exchange rate rises by a forecast 150 percent, and inflation accelerates to 250 percent.

If, by contrast, LG 44 is not renewed in April, it will be because the process by which democratic freedoms are restored has become stuck, harming expectations and fueling political uncertainty and turbulence in the exchange market. Oil GDP growth in this case grows is a mere 8.5 percent and non-oil GDP only 3.9 percent. The pace of private consumption growth falls to half that which we forecast in our more optimistic scenario. The exchange rate increases by 228 percent, and the pace of inflation accelerates to 328 percent. Deteriorating expectations weaken the demand for money, eroding the effectiveness of forex sales as a weapon for combatting inflation.

What to watch for

- If the Essequibo issue generates turbulence and uncertainty and affects the Barbados agreements
- Statements by Pdvsa's B-type partners confirming arrangements similar to Chevron's
- How the Barbados democratic commitments evolve

2023: Stubborn inflation and the brakes slammed on growth

In 2023, the Venezuelan economy has undergone an abrupt loss of steam. This loss is due to the breakdown that occurred in the second half of 2022 in policymakers' anti-inflationary strategy, and to the sharp worsening of expectations that arose from the exchange rate crisis that the Pdvsa corruption earthquake triggered.

At the start of 2023, the inflation unleashed by the exchange rate crisis caused consumer demand to collapse and brought on economic paralysis, while companies sought to hold on to their market shares at the expense of profit margins.

The government again adopted its anti-inflationary strategy under extreme austerity given the revenue gap revealed in January, but managed to slow annual inflation only at the end of the third quarter.

The output recovery of 2022 proved fleeting. For 2023, we project a growth rate of just 2.7 percent in total GDP, 10.0 percent in oil GDP, and 0.0 percent for non-oil GDP.

Almost in parallel with the 2022 exchange crisis came General License 41 (LG 41), which was issued on 26 November 2022 by the U.S. Treasury's Office of Foreign Assets Control (OFAC) thanks to the signing by the government and the opposition of the first Mexico accord. LG 41 opened up operating space for Chevron and has translated into higher output, export volumes and, in the local exchange market, forex supplies.

We project that the year will close with a daily average oil output of 798,000 barrels, 19 percent up from 2022. Of this increase, 13 percentage points (70 percent) will have come from Chevron, whose production we expect to close the year 150,000 barrels a day. Average daily output for Pdvsa and non-Chevron joint ventures rise by 39,000 barrels. Export revenue falls by 2 percent to $12.8 billion because of the decline in oil prices, even though Chevron in the North American market can charge market prices rather than having to apply the steep discounts Pdvsa has to grant in order to conduct its shady sales to Asia.

Non-oil economic activity in 2023 has been constrained by the collapse of consumer demand, a 4-percent drop in real fiscal expenditure, competition from imported products and illicit trade, a lack of financing, excess and disorder in fiscal and parafiscal tax collections that the new Tax Harmonization Law has not yet resolved, and major failures in public services. In fact, for real private consumption, we project a growth rate of just 3.2 percent, versus 15.6 percent last year.

For 2023, we forecast inflation rates to have come down only slightly to 204 percent from last year's 234 percent. The year opened with an accumulation of 70-percent inflation in the first two months sparked by the episode of exchange rate instability seen in the second half of 2022. Since March, monthly inflation has oscillated between 4 percent and 9 percent, exhibiting high sensitivity to fiscal spending and exchange rate fluctuations, and showing persistent inflationary inertia despite frequent price markdowns by producers and merchants.

The demand for money remains anemic, with bolivars released into circulation by the Treasury translating straight away into demand for dollars. We project that for all of this year the pace of increase in the exchange rate will have slowed to 112 percent. This taming of the exchange rate stems from slower monetary expansion and $4 billion foreign exchange sales in the formal market. These sales include $3 billion in cash from the Central Bank of Venezuela (BCV) and $1 billion sold by Chevron on the foreign exchange desks at private banks. The latter have rendered the exchange market more even and fluid. The exchange rate slowdown stems, additionally, from the BCV rule regulating bank exchange rate.

Fiscal accounts have improved in 2023 thanks to higher oil and non-oil revenues and a modest slowdown in nominal spending to 311 percent this year from 383 percent in 2022. Slower spending growth has translated into less monetary financing, which, we estimate, will drop to 15 percent of total outlays in 2023 from last year's 40 percent.

Politics will dominate 2024

2024 will be dominated by the presidential elections. The shape of expectations and economic activity will depend on the decisions of actors involved in political negotiations over sanctions.

Venezuela's economic performance will continue under the limitations imposed by partial dollarization, public policies that do not offer clear horizons for private activity, low confidence in the bolivar, and uncertainty over sanctions and policy. We see no room for improvements in the overall policy framework and expect uncertainty to continue to limit room for the government and the BCV to expand credit.

The Maduro government will continue to walk a narrow path, seeking to achieve minimally acceptable elections and progressive sanctions relief without jeopardizing its stay in power.

Several important milestones lie ahead. The path to 2024 begins on 30 November 2023, when the U.S. government hopes that the Maduro government will have met its minimum conditions for the status quo to be maintained: indications that *all* candidates will be allowed to take part in elections; freedom for political prisoners (who include Venezuelan and North American citizens both); and a plan for elections. We think it likelier than not that the negotiation process will continue to flow and that Venezuela will be able to hold on to the licenses granted on 18 October 2023.

On 18 April 2024, General License 44 (GL 44) will expire. Its renewal will depend on Venezuela's having complied with its commitment to restore democratic freedoms within the framework of the Barbados agreement. Its renewal (or non-renewal) will mark a fork in expectations and economic performance. And then, presidential elections will take place in Venezuela. For the moment, it seems they'll be held in October, right before the November 4th U.S. presidential and legislative elections.

How the Maduro government will decide to act will depend on whether it can deliver public services well enough to feel confident in its public standing and thus be willing to participate in presidential elections that are internationally acceptable (read: fair). The degree of transparency and equity the government will be willing to swallow will depend on whether Maduro's standing in the polls will improve, the support he can hold on to from hard-core Chavismo, and the degree of opposition cohesion. Numerous unknowns loom: the legal fate of the opposition primary, which currently is at risk of being annulled by the Supreme Court of Justice; the treatment to be given to the organizers of the primaries, who today are subjects of criminal investigations; whether María Corina Machado will be allowed to run for president; and the opposition's campaign strategy.

Much of Venezuela's future will rest on whether opposition factions can show willingness to understand each other and unite in the 2024 presidential elections and 2025 legislative elections. Should Machado's disqualification from running not be lifted, they'll need to agree on a "successor". If the opposition fails to achieve a minimal degree of consensus, Chavismo will win in both years easily.

Oil assumptions for 2024

Sanctions

On 18 October 2023, LG 41, which last 22 November 2022 had expanded Chevron's operating space, was augmented by LG 44, which frees the production and marketing of Venezuelan crude oil from all restrictions as long as they avoid operations with Russian companies and individuals.

LG 41 is valid for six months and is automatically renewed monthly for six months at a time. It has remained in force with no need for the OFAC to provide notice.

By contrast, LG 44 will expire after six months and may fail to be renewed if the government does not comply with its commitments to restore democratic freedoms as per the Barbados Agreement signed on 17 October 2023. Although we judge the U.S. government to be inclined to renew it on 18 April 2024, the fact that it is valid for only six months and the uncertainty over its renewal limit the willingness of oil sector actors to commit to planning over horizons beyond the immediate term.

LG 44 is a fundamental driver of our 2024 projections. First, because plays an important role in oil revenues and the ability to defend the bolivar in a year when electoral incentives will be pushing the government to spend more and at the same time preventing inflation from skyrocketing. Second, because its renewal will depend on the government's political behavior and thus will be indicative of its willingness to accept the restoration of democratic freedoms in Venezuela.

Below we present projections under two scenarios. In our base case, which we call *Lasting Relief*, we assume that LG 44 will remain in force throughout 2024. In the alternative scenario, *Truncated Relief*, we assume non-renewal next April.

Output

Oil production has been growing, despite challenges imposed by how fragile are electrical and oil infrastructure and numerous logistical obstacles affecting the timely supply of diluents. The rise in output has been and will continue to be concentrated in the joint ventures in which Chevron is a minority partner. Chevron announced in October (before GL 44 was issued) that it will begin drilling in Petroindependencia under LG 41 protection in January June 2024.

In *Lasting Relief*, we see total crude oil production increasing by 104,000 barrels a day throughout the year. Chevron's joint ventures contribute an additional 50,000 barrels to close the year at 200,000 per day, while for the rest of the industry we project an average daily increase of 54,000 barrels to close 2024 at 702,000.

Under *Truncated Relief* assumptions, by contrast, while Chevron's joint ventures do stay their course, output for rest of the industry starts to decline in June to close 2024 at only 645,000 barrels a day. This level is scarcely higher than what we're forecasting for end-2023.

Prices

Our forecasts take as a reference point an average Brent oil price of $90, which corresponds to $74 for Merey marker crude oil under normal marketing and production conditions.

In *Lasting Relief*, the redirection of exports to transparent markets advances at an average price of $74 if they are destined for the United States and Western Europe and $68 if they are destined for China. The weighted average price for this scenario is $70.

In our *Truncated Relief* case, the weighted average price of exports drops to $63, because only Chevron is left exporting at the market price. The remaining 78 percent of exports return to opaque marketing in May.

Exports

2024 should bring in more export revenue than in 2023 in both scenarios.

In *Lasting Relief*, export revenues come to $22 billion (+59 percent from 2023 projections), of which $13 billion (+38 percent) are collected directly by Pdvsa and $7.2 billion (+117 percent) are placed on the market by mixed companies that operate per agreements with Chevron (they are Pdvsa joint venture B partners).

In *Truncated Relief*, export revenues swell by 40 percent to $18 billion, of which $13 billion are collected by PDVSA and $5 billion by the mixed companies.

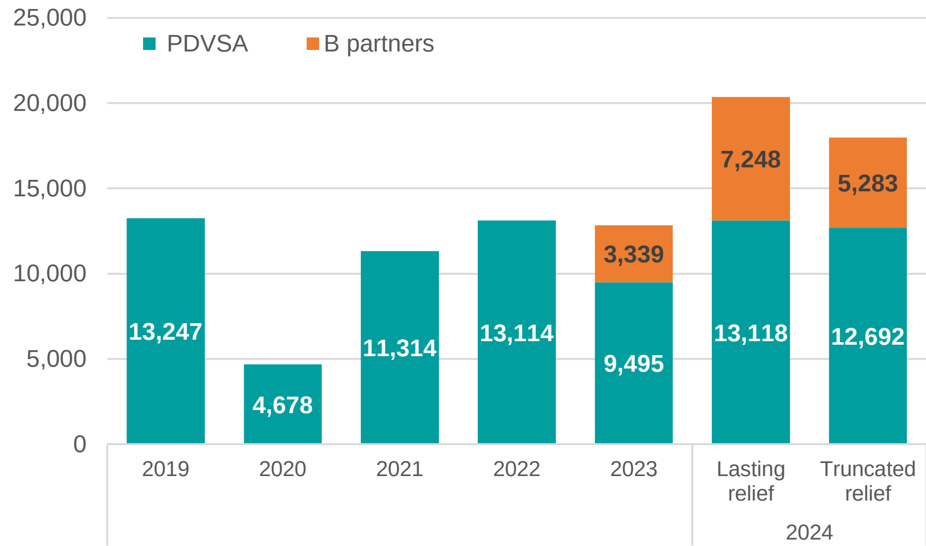
TABLE 1
Oil indicators

	VOLUME (kbd)				PRICES		EXPORTS *		
	Production average	Production eop	Exportaciones* average	Exportaciones* eop	Brent average	Ven basket average	Total ($USMM)	PDVSA ($US MM)	B partners ($US MM)
2022	692	669	574	629	101	62	13,114	13,114	0
2023	781	798	647	714	84	54	12,834	9,495	3,339
2024									
Lasting	860	902	799	842	90	70	20,365	13,118	7,248
Truncated	836	845	775	787	90	63	17,975	12,692	5,283
Ch %									
2022	8	-16	0	8	42	16	16	16	
2023	13	19	13	13	-17	-13	-2	-28	
2024									
Lasting	10	13	24	18	7	30	59	38	117
Truncated	7	6	20	10	7	17	40	34	58

* Excludes Cuba

Source: Síntesis Financiera.

CHART 1
Oil export revenue by exporter, 2019–2024



Source: Síntesis Financiera.

BCV exchange interventions and currency flows to private banks

Venezuela's economic performance in 2024 depends on how available foreign currency will be for defending the bolivar.

We assume that the BCV will remain under sanctions in 2024. Consequently, its exchange intervention operations will depend on Pdvsa cash foreign currency sales which, in turn, will be a function of how much crude oil Pdvsa can sell and collect on. Chevron and the other PDVSA partners that take advantage of the Chevron system (B partners) will keep on feeding the private banking exchange desk market.

To project foreign currency flows available for BCV cash exchange interventions and for direct feed into the exchange market, we separate export revenues into two groups: those collected abroad directly by Pdvsa, and those generated by partner B sales. We assume that one third of the sales revenue from B partner sales will be allocated to reducing Pdvsa debt to B partners, one third to covering the tax obligations paid in bolivars for which B partners sell the foreign exchange through the banking exchange tables, and a third to pay for B partner operating costs payable mostly abroad.

Forex supplies to the exchange market for B partner joint ventures' fiscal contributions rise in both of our 2024 scenarios. In *Lasting Relief* it rises to $2.5 billion and in *Truncated Relief* to $1.8 billion. Our projection for 2023 is $1.1 billion.

We project that the BCV's cash foreign exchange availability, originating from PDVSA exports, rises to $4.5 billion in *Lasting Relief* and $4.3 billion in *Truncated Relief*. They represent 33 percent of projected Pdvsa export sales collections.

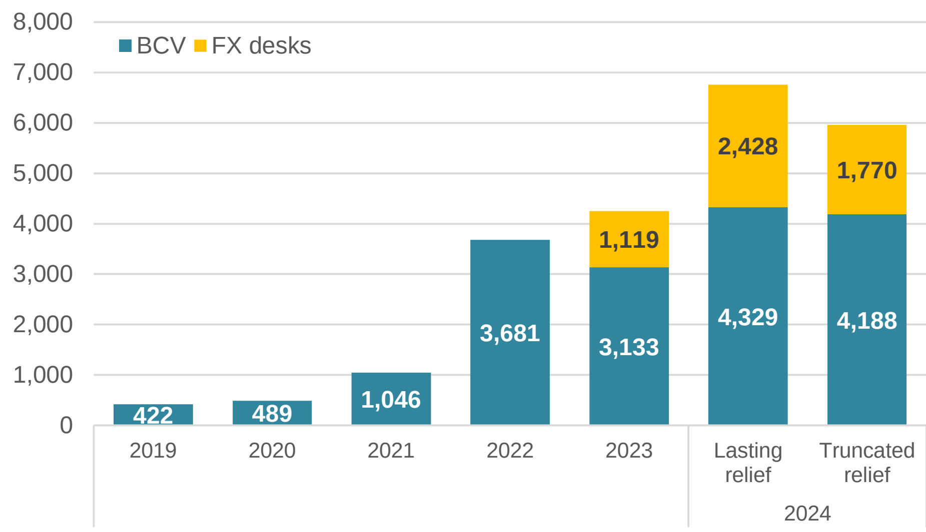
TABLE 2
Forex supplies in the formal market

	FISCAL CONTRIBUTIONS			OIL FLOWS TO FX MARKET		
	PDVSA ($US MM)	B Partners ($US MM)	Total ($US MM)	BCV ($US MM)	FX desks ($US MM)	Total ($US MM)
2022	4,393		4,393	3,681	0	3,681
2023	3,181	1,119	4,299	3,133	1,119	4,252
Lasting	4,394	2,428	6,822	4,329	2,428	6,757
Truncated	4,252	1,770	6,021	4,188	1,770	5,958
Var %						
2022	16		16	252		252
2023	-28		-2	-15		16
2024						
Lasting	38	117	59	38	117	59
Truncated	34	58	40	34	58	40

* Excludes Cuba

Source: Síntesis Financiera.

CHART 2
Forex supplies in the formal market by source, 2019–2024



Source: Síntesis Financiera.

Our projections for 2024

In 2024, the government will be forced to rev up public outlays to ensure a strong electoral performance. These outlays will focus on putting money into people's pockets, a tactic that can be more quickly harvested politically than that of investing in infrastructure. This will quickly improve household final consumption.

We assume that this behavior will not change substantially if GL 44 is not renewed in April 2024. In other words, that the government will hold to its spending targets even if it implies greater inflationary financing.

Lasting Relief

In our base case, Lasting Relief, oil expectations are favorable, and the economy is sharply responsive to fiscal stimulus. Given the state of domestic politics, however, business decisions will be marked by caution.

Nominal fiscal spending accelerates to 325 percent from 311 percent in 2023 and real spending to +58 percent from –4 percent in 2023.

Higher oil revenues prove key to managing exchange rates and preventing inflation from taking off sharply. BCV cash interventions in exchange markets rise to $4.4 billion from $3.1 billion in 2023, and foreign currency sales by mixed companies at bank exchange desks rise to $2.5 billion for a more than doubling of figure of the $1.1 million forecast for 2023. The exchange rate rises by 150 percent, which marks acceleration from the 112-percent we project for 2023, and the price of one dollar closes at 99 bolivars. Inflation accelerates to 250 percent from the 204 percent we forecast for 2023.

In this scenario, final consumption growth almost triples to 8.2 percent from 3.2 percent forecast for this year in response to fiscal stimulus. Economic activity recovers. GDP grows by 7.4 percent, up from 2.7 percent in 2023. The main driver of recovery is non-oil GDP, which grows by 7.0 percent, up from 0.0 percent in 2023. The non-oil economy continues to grow at the 10-percent pace forecast for 2023.

Venezuela's current account surplus swells to $11 billion, and the trade balance surplus doubles to $12 billion. Exports total $26 billion, of which $22 billion are oil, including $1.5 billion in oil shipments to Cuba. Improvements in non-oil export revenue of $3.9 billion and remittance income of $3.5 billion are modest. Imports rise in value to $13.9 billion, of which the oil sector accounts for $4.7 billion and the non-oil sector $9.2 billion.

The foreign currency cash flow surplus widens to $1.5 billion from $0.4 billion in 2023. Pdvsa amortization of its debts with Chevron, Eni, Repsol and Maurel & Prom (B partners in Pdvsa joint ventures) increases to $5.4 billion. Outflows of private capital financed via central bank exchange interventions rise to $4.3 billion.

Truncated Relief

Truncated Relief plays out the assumptions that the government will prove reluctant to restore democratic freedoms and that, as a result, oil activity hopes are dashed. Venezuela returns to isolation.

Oil revenue in this scenario improves chiefly thanks to higher oil prices and the fact that Chevron holds to its plans under GL 41. Public outlays accelerate, as they do in our base case, and this leads to greater BCV monetary financing of the Treasury. Central bank exchange intervention remains at around $4 billion, but deteriorated expectations weaken the demand for money, rendering interventions less effective. The exchange rate rises more strongly than in our base case to close at 129 bolivar per dollar, (+288 percent) and inflation accelerates to 328 percent.

Nominal public spending increases 325 percent, and the dollar equivalent reaches $12.6 billion (+43 percent). Central bank cash exchange interventions come to $4.2 billion, similar to those in *Lasting Relief*, but dollar sales by B partners of joint ventures are lower ($1.8 billion).

Final consumption growth accelerates modestly to 4.5 percent. GDP increases by just 3.2 percent from a 3.9-percent growth in non-oil GDP and a slowdown to 8.5 percent in oil GDP.

The current account closes at a surplus of $10.0 billion, almost identical to the trade surplus of $10.7 billion. Exports total $23.7 billion, of which $19.5 billion are oil (including oil shipments to Cuba for $1.5 billion). Non-oil exports rise to $3.9 billion, slightly more than in our base case. They're driven by sharper bolivar weakening. Income from remittances totals $3.5 billion. Imports rise to $13.0 billion, of which the oil sector accounts for $4.3 billion and the non-oil sector $8.6 billion.

Forex cash flows show a $1.0 billion surplus thanks to a rise in cash-generating oil revenues to $18.0 billion and in Pdvsa amortization of debt to its B partners to $4.9 billion. Private capital outflows financed by BCV exchange interventions total $4.2 billion.

TABLE 3
Key macroeconomic indicators

					2024	
		2021e	2022e	2023f	Lasting	Truncated
GDP growth	%	-1.7	12.7	2.7	7.4	3.2
Oil	%	12.5	10.1	10.0	10.0	8.5
Non-oil	%	-3.4	13.8	-	7.0	3.9
Private consumption (real)	%	-2.6	15.6	3.2	8.2	4.5
GDP	$US bn	53	62	63	70	72
GDP per capita	$US	1,937	2,246	2,358	2,646	2,722
Inflation	% YOY	686	234	204	250	328
Parallel FX (eop)	Bs/$	5	19	39	99	129
Change	% YOY	348	288	112	150	228
FX without inflation lag	%	8	16	57	138	169
Parallel FX (avg)	Bs/$	3	7	31	70	73
Change	% YOY	909	119	321	126	138
Imports	$ bn	8.3	12.4	11.2	13.9	13.0
Dollar cash flow balance	$ bn	1.7	-0.7	0.4	1.5	1.0

Source: Síntesis Financiera.

TABLE 4
Current account balance of payments

	2021e	2022e	2023f	2024 Lasting	2024 Truncated
Current account	3.5	2.9	5.5	10.9	10.0
Goods	5.4	4.9	6.1	11.9	10.7
Exports f.o.b.	13.7	17.2	17.3	25.8	23.7
Oil	12.5	14.4	14.2	21.9	19.5
Non-Oil	1.3	2.9	3.1	3.9	4.2
Imports f.o.b.	-8.3	-12.4	-11.2	-13.9	-13.0
Oil	-1.6	-3.2	-3.4	-4.7	-4.3
Non-oil	-6.7	-9.2	-7.8	-9.2	-8.6
Services	-5.3	-6.1	-4.9	-5.5	-5.3
Freight, travel, insurance, government	-1.7	-2.6	-2.3	-2.9	-2.7
Other (Cuba)	-3.6	-3.6	-2.6	-2.6	-2.6
Income	1.1	1.0	1.0	1.0	1.0
Transfers	2.3	3.1	3.3	3.5	3.5

Source: Síntesis Financiera.

TABLE 5
FX cash flow

	2021e	2022f	2023f	2024 Lasting	2024 Truncated
INCOME ($US bn)					
Exports	**13.7**	**17.2**	**17.3**	**25.8**	**23.7**
Oil	12.5	14.4	14.2	21.9	19.5
Cashed-in (includes swaps)	11.3	13.1	12.8	20.4	18.0
Non-cashed-in	1.1	1.2	1.4	1.5	1.5
Non-oil	1.3	2.9	3.1	3.9	4.2
Remittances	**2.3**	**3.1**	**3.3**	**3.5**	**3.5**
TOTAL PAYMENTS	**13.2**	**19.9**	**18.7**	**26.2**	**24.6**
Current payments (excl public debt interest)	**11.9**	**15.9**	**13.8**	**16.5**	**15.6**
Imports	8.3	12.4	11.2	13.9	13.0
Oil	1.6	3.2	3.4	4.7	4.3
Non-oil	6.7	9.2	7.8	9.2	8.6
Other payments (excl public debt interest)	3.6	3.6	2.6	2.6	2.6
o/w Cuba	3.6	3.6	2.6	2.6	2.6
Debt service (interest + principal)	**0.2**	**0.3**	**1.8**	**5.4**	**4.9**
Interest	0.2	-	-	-	-
Principal	-	0.3	1.8	5.4	4.9
Pdvsa	-	-	1.8	5.4	4.9
JV partners and service providers	-	-	1.8	5.4	4.9
Private capital outflow	**1.0**	**3.7**	**3.1**	**4.3**	**4.2**
Cash Flow Surplus / Deficit (-)	**1.7**	**-0.7**	**0.4**	**1.5**	**1.0**

Source: Síntesis Financiera.

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