



# Inflation and exchange rate

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## Inflation cooldown in 2024 rests on oil and politics

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## INFLATION AND EXCHANGE RATE

### EXECUTIVE SUMMARY

In November, thanks to near stability in the parallel exchange rate (up by only 1.3 percent), the pace of monthly inflation slowed to 3.5 percent from the 5.9-percent rate observed in October. The Central Bank of Venezuela (BCV) intervened aggressively in foreign exchange markets during the week of November in which public outlays peaked for the year. Also, the Bank kept close watch over operations at private bank exchange desks, thus keeping a lid on currency sale markups.

Inflation for the year to November was 183 percent. We forecast that it will close the year at 196 percent. We see the bolivar ending 2023 down 51 percent against the dollar. We forecast a 104-percent increase in the exchange rate in the parallel market to 38 bolivars per dollar. We further project that the BCV allocates \$3 billion in cash in defense of the bolivar this year, with Chevron sales at bank exchange desks totaling \$1.1 billion.

For 2024, we hold to our two scenarios. In *Lasting Relief*, General License 44 (GL 44) remains in effect throughout the year, whereas, in *Truncated Relief*, it expires on April 18. Electoral incentives shape government behavior in both scenarios. Fiscal largesse and conflict are the government's tools of choice for strengthening its political base. The Barbados agreement and public finances are linked through GL 44, a fact that bears on outlooks and puts the central bank's exchange rate intervention regime to the test, especially in the *Truncated Relief* scenario.

If GL 44 does remain in effect throughout the year—in other words, if Extended Relief materializes—the BCV will have a forecast \$4.0 billion at its disposal with which to contain the bolivar's slide, and dollar sales by Chevron and other companies opting for a scheme similar to Chevron's will rise to \$3.0 billion. Inflation in this scenario slows to 145 percent, and the exchange rate rises by 92 percent to close 2024 at 73 bolivars per dollar.

In *Truncated Relief*, BCV cash dollar sales fall to \$3.4 billion, and those of oil companies to \$1.7 billion. Outlooks turn sharply negative, with effects felt in the foreign exchange market. The exchange rate moves up by 219 percent to close the year at 121 bolivars per dollar, and inflation accelerates to 315 percent.

#### What to watch for

- Path of oil prices
- How the conflict with Guyana plays out
- Release of U.S. political prisoners
- Statements from the U.S. Department of State
- Government relations with Chevron

## INFLATION AND EXCHANGE RATE

### Our 2023–2024 outlook in numbers

		2021	2022	2023f	2024f	
					Extended relief	Truncated relief
Inflation (yoy)	%	686	234	196	145	320
Inflation (avg)	%	1,589	187	338	104	180
Market FX rate (eop)	Bs/\$	5	19	38	73	122
	Ch%	348	288	104	92	222
Market FX rate (avg)	Bs/\$	3.3	7.3	31	51	69
	Ch%	909	119	319	68	126
Dollar purchasing power FX rate had it kept up with inflation	%	-43	16	-31	-22	-23
BCV intervention as % in non-Chevron exports	Bs/\$	8	16	55	93	160
	\$ million	1,079	3,709	2,863	4,000	3,400
		10	28	30	33	33

Source: Síntesis Financiera.

### Inflation continued to cool during November

By our estimations, monthly inflation slowed down to 3.5 percent in November from 5.9 percent in October owing to deceleration in the pace of dollar appreciation against the bolivar to 1.3 percent from 3.0 percent in October. November's monthly slowdown was the second in a row. Inflation for the year to November came to 183 percent, and for the 12 months to November, 283 percent.

November brought a 33-percent jump in primary money supply (M0), the steepest jump seen so far this year. Yet, November's pace of bolivar weakening was the slowest we've seen since April.

In our opinion, three main factors provided support to the bolivar:

- *BCV exchange rate interventions:* The BCV adjusted its foreign exchange intervention strategy, conducting its largest dollar sale in the first week of the month, when government spending reached a record \$330 million. Also, throughout the month, the BCV kept a tight lid on excess liquidity in the banking system.

## INFLATION AND EXCHANGE RATE

- *Reserve requirement policy:* Despite an increase in bank deposits, the reserve requirement policy resulted in the highest reserve deficit of the year (41 percent) and the lowest liquidity ratio<sup>1</sup> of the year (0.0418 percent).
- *A cap on bank forex sales price:* The BCV on 5 October 2023<sup>2</sup> extended the scope of its cap on the price banks could charge for intervention currency sales. Thereafter, it began closely monitoring bank forex operations. Our sources tell us that the BCV has been compelling banks to unwind transactions and refund their clients whenever the exchange rate exceeds the intervention rate by more than 1.2 percentage points. This parameter is not specified in any regulation. Thus the BCV is keeping the official exchange rate, which serves as the benchmark for all domestic payments, in check.

### What's our outlook for the close of 2023?

The fiscal monetary impulse will wane in December as public spending tends to decrease. Additionally, the BCV is in a position to replicate its November strategy and thus keep the exchange rate steady.

We project a closing exchange rate for December of 38 bolivars per dollar (a 3.0-percent increase for the month), and a monthly inflation rate of 4.5 percent. Also, an annual inflation rate of 196 percent, a parallel exchange rate increase of 104 percent, and a 51-percent rate of bolivar depreciation against the dollar. The BCV is forecast to have allocated \$3.0 billion for the defense of the bolivar by year-end, down from \$3.7 billion in 2022, and Chevron to have sold approximately \$1.1 billion on exchange desks at private banks.

Bank credit is constrained by the high 73-percent reserve ratio. We project that aggregate bank loan portfolios will close the year at the equivalent of \$1.4 billion (+\$735 million from December 2022), or 2.4 percent of GDP. We expect a year-end credit intermediation ratio (loans/deposits) of 38 percent.

### 2024: Politics and licenses

We hold to our two scenarios. In *Lasting Relief*, General License 44 (GL 44) remains in effect for the whole year, whereas, in *Truncated Relief*, it ends on 18 April 2024.

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<sup>1</sup> Excess liquidity of the banking sector as a percentage of deposits.

<sup>2</sup> Since November 18, 2021, banks could not sell foreign currencies for prices higher than those they paid for intervention currencies until they sold all the assigned cash currencies. As of October 5 of this year, the cap was extended to include digital currencies—currencies originating from the use of international credit cards in Venezuela and non-oil exports—that the Central Bank of Venezuela authorizes banks to sell as part of its intervention program.

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In both scenarios, we assume that the government will seek to strengthen its political base by increasing spending and fueling political controversy both at home and abroad. Expectations will be keenly sensitive to political events, a fact that will put the central bank's exchange rate intervention policy to the test, especially in the *Truncated Relief* scenario.

Fiscal spending will grow strongly in both scenarios. Throughout the year, most of it will go into people's pockets, either through new Patria bonds or increases in the existing ones. We assume that Patria bonds will continue to be indexed, but that there will be no salary increases. And that the government will strive to improve the content and distribution of basic CLAP food baskets and will raise the food bonus (food voucher) from an equivalent of \$40 to \$55 starting in March.

How long Venezuela can hold on to its GL 44 will determine oil revenues and the availability of BCV foreign exchange reserves for containing the exchange rate.

### Oil indicators

	VOLUME		PRICES		EXPORTS <sup>a</sup>		
	Exports <sup>a</sup>		Brent	Basket	Total	JV's <sup>b</sup>	Other
	average b/d	eop b/d	average \$/b	average \$/b	\$USMM	\$USMM	\$USMM
2021	575	584	71	53	11,314		11,314
2022	574	629	101	62	13,114		13,114
2023	647	714	84	54	12,834	3,339	9,495
2024							
Lasting	799	842	90	70	18,633	6,631	12,003
Truncated	783	810	90	63	16,639	4,982	10,220

<sup>a</sup> Excludes shipments to Cuba.

<sup>b</sup> Through special Chevron-like contracts.

Source: Síntesis Financiera.

### Oil fiscal revenues and foreign exchange supplies in the official market

\$US million

	Tax revenue			Oil dollars coming onto the market		
	Pdvsa	JV's <sup>a</sup>	Total	BCV	JV's <sup>a</sup>	Total
2021	3,790		3,790	1,046		1,046
2022	4,393		4,393	3,681	0	3,681
2023	4,273	1,119	5,391	3,133	1,119	4,252
2024						
Lasting	5,401	2,984	8,385	3,961	2,984	6,945
Truncated	3,424	1,669	5,092	3,372	1,669	5,041

<sup>a</sup> Through special Chevron-like contracts.

Source: Síntesis Financiera.

## Forecast

Under *Lasting Relief* assumptions, the government spends 1.04 trillion bolivars, 273 percent more than what we're projecting for 2023. Real fiscal expenditures rise by 83 percent in 2024, in contrast to their 4-percent projected decline in 2023. The BCV allocates \$4.0 billion for

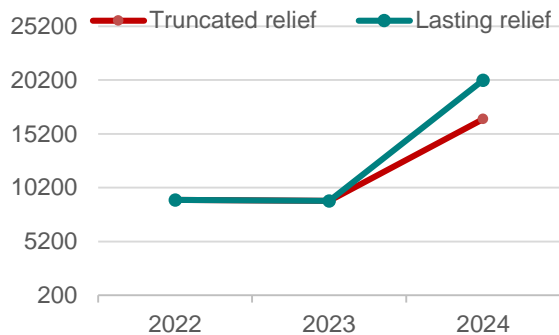
## INFLATION AND EXCHANGE RATE

interventions, up from \$3.0 billion in 2023. And Chevron and other B partners provide \$3.0 billion to bank exchange desks, up from the \$1.1 billion we're forecasting for 2023. The exchange rate rises by 92 percent, slightly less than the 104% projected for 2023. The bolivar depreciates by 48 percent (versus 51 percent in 2023), and annual inflation slows to 145 percent from this year's projected 196 percent.

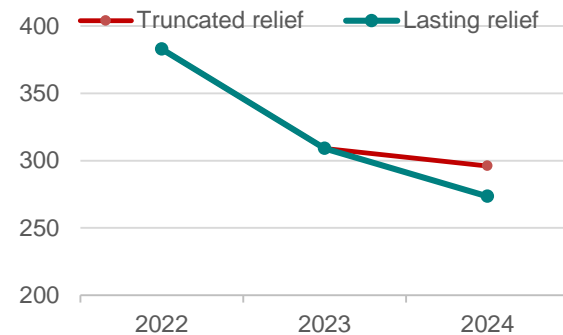
In *Truncated Relief*, the political climate is more tense than in *Lasting Relief*. The expiration of GL 44 in April signals a path toward less credible elections, worse political conflict, and lower oil revenues. Expectations deteriorate, negative outlooks permeating life in Venezuela. The 294-percent rise in public spending is steeper than in *Lasting Relief*; the demand for foreign exchange is stronger, but only \$3.4 billion is available for BCV intervention, and currency sales by Chevron and other B partners amount to only \$1.7 billion. Inflation closes 2024 at 315 percent, the exchange rate rises by 219 percent, and the bolivar loses 69 percent of its value against the dollar.

### 2024 at a glance

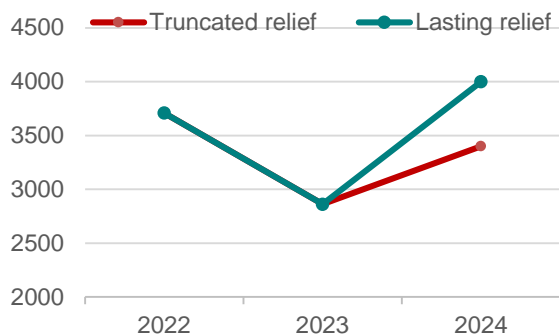
**Public sector outlays**  
\$US million



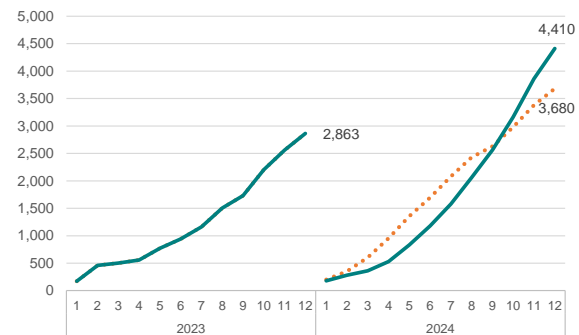
**Change in public sector outlays**  
%



**Central bank dollar sales**  
\$US million



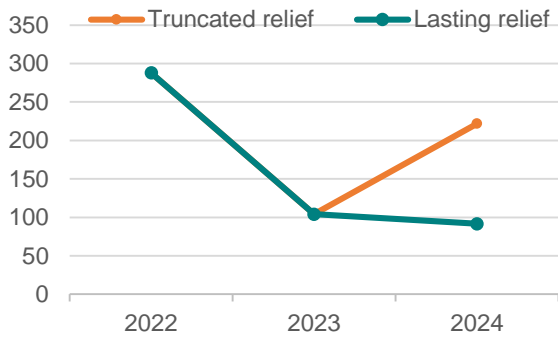
**Accumulated CB dollar sales**  
\$US million



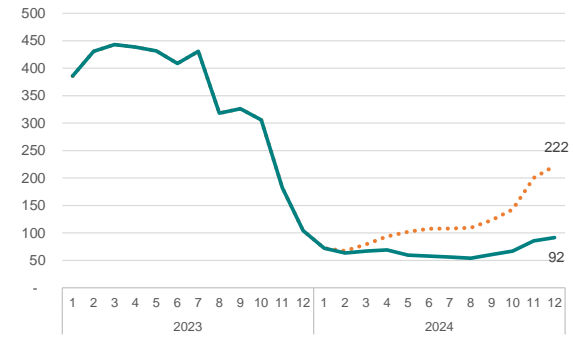
Source: Central Bank of Venezuela, Síntesis Financiera.

# INFLATION AND EXCHANGE RATE

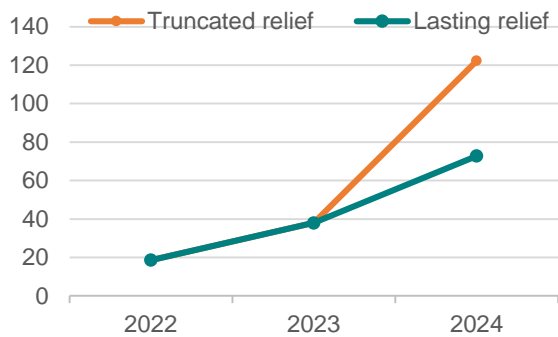
**Market FX change**  
%



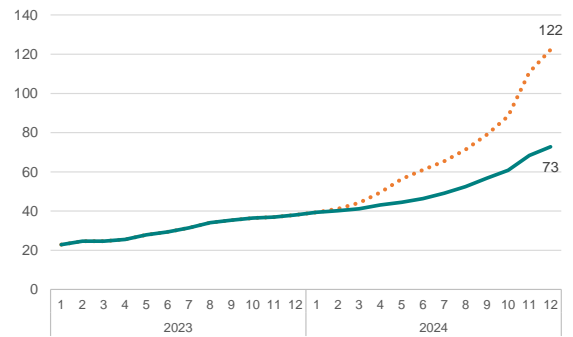
**Market FX change**  
yoy%



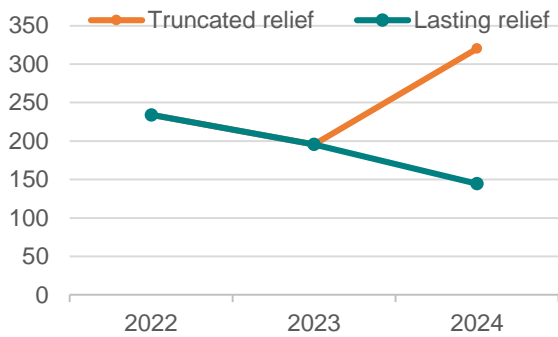
**Market FX rate**  
Bs/\$



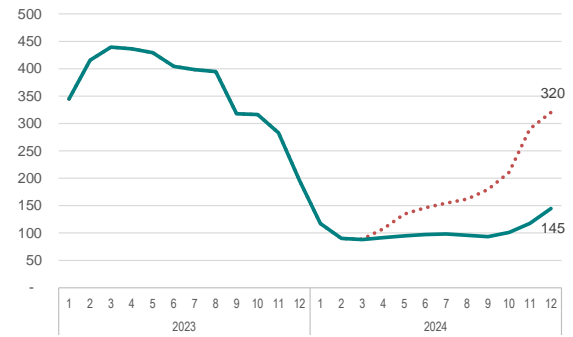
**Market FX rate**  
Bs/\$



**Inflation**  
%



**Inflation**  
yoy%



Source: Central Bank of Venezuela, Síntesis Financiera.



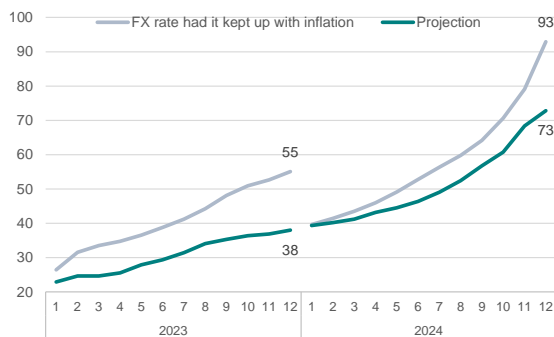
## INFLATION AND EXCHANGE RATE

### The U.S. dollar's purchasing power in bolivar terms

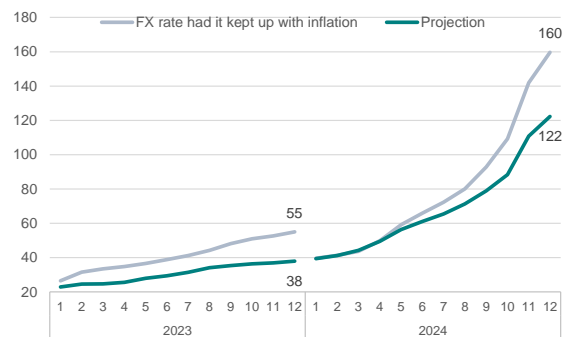
The pace of real bolivar appreciation has shot up in 2023. We project that, by year-end, the dollar will have lost 30 percent of its purchasing power in bolivar terms, because the dollar strengthens against the bolivar more slowly than prices listed in bolivars go up. Inflation will reach 196 percent this year, while the dollar will be able to buy only 104 percent more bolivars. For the dollar to have held on to its purchasing power in bolivar terms, it would have had to appreciate by an additional 45 percent to 55 bolivars per dollar.

For 2024, in both scenarios, the government's anti-inflation strategy will continue to foster real bolivar appreciation (dollar weakening). The dollar loses 22 percent of its purchasing power in the *Lasting Relief* scenario and 23 percent in the *Truncated Relief* scenario. To match the projected inflation rate, the dollar would need to strengthen against the bolivar by an additional 28 percentage point in both scenarios. The exchange rate that would be needed for the dollar's bolivar purchasing power unchanged would be 93 bolivars per dollar, or 158 percent up from our forecast exchange rate for December 2023.

**Market FX rate – Lasting Relief**  
Bs/\$



**Market FX rate – Truncated Relief**  
Bs/\$



Source: Central Bank of Venezuela, Síntesis Financiera.

## INFLATION AND EXCHANGE RATE

### Statistical Annex

TABLE 1  
Inflation, Jan 2022 - Dec 2023  
% change

		MOM	YTD	YOY
2022	Jan	6.7	7	472
	Feb	2.9	10	340
	Mar	1.4	11	284
	Apr	4.4	16	222
	May	6.5	24	167
	Jun	11.4	38	157
	Jul	7.5	48	137
	Aug	8.2	61	114
	Sep	28.7	107	157
	Oct	6.2	119	156
	Nov	12.6	147	166
	Dec	35.3	234	234
2023	Jan	42.1	42	345
	Feb	19.3	70	416
	Mar	6.1	80	440
	Apr	3.8	87	436
	May	5.1	96	429
	Jun	6.2	108	404
	Jul	6.2	121	398
	Aug	7.4	138	395
	Sep	8.7	158	318
	Oct	5.9	173	316
	Nov	3.5	183	283
	Dec	4.5	196	196

Source: Síntesis Financiera.

TABLE 2  
Inflation under two scenarios, Jan - Dec 2024  
% change

		TRUNCATED RELIEF			LASTING RELIEF		
		MOM	YTD	YOY	MOM	YTD	YOY
2024	Jan	4.4	4	117	4.4	4	117
	Feb	4.5	9	90	4.3	9	90
	Mar	5.0	14	88	5.6	15	89
	Apr	5.8	21	92	14.2	31	108
	May	6.8	29	95	18.6	56	135
	Jun	7.5	39	97	11.4	73	146
	Jul	6.8	48	98	9.8	90	154
	Aug	6.0	57	96	10.6	111	162
	Sep	7.4	69	93	16.0	144	180
	Oct	10.0	86	101	17.6	187	211
	Nov	12.0	108	118	30.0	274	290
	Dec	17.5	145	145	12.5	320	320

Source: Síntesis Financiera.

## INFLATION AND EXCHANGE RATE

**TABLE 3**  
**Parallel market dollar price in bolivars, Jan 2022 – Dec 2023**

		Bs/\$	MOM	YTD
2022	Jan	4.71	-1.9	-1.9
	Feb	4.64	-1.5	-3.4
	Mar	4.54	-2.1	-5.4
	Apr	4.74	4.5	-1.2
	May	5.25	10.6	9.3
	Jun	5.77	10.0	20.3
	Jul	5.92	2.6	23.4
	Aug	8.15	37.5	69.7
	Sep	8.29	1.8	72.7
	Oct	8.97	8.2	86.9
	Nov	13.06	45.6	172.0
	Dec	18.62	42.6	287.9
2023	Jan	22.88	22.9	22.9
	Feb	24.62	7.6	32.2
	Mar	24.66	0.2	32.4
	Apr	25.54	3.6	37.2
	May	27.90	9.2	49.8
	Jun	29.38	5.3	57.8
	Jul	31.44	7.0	68.8
	Aug	34.06	8.4	82.9
	Sep	35.33	3.7	89.7
	Oct	36.40	3.0	95.5
	Nov	36.88	1.3	98.1
	Dec	37.99	3.0	104.0

Source: Síntesis Financiera.

**TABLE 4**  
**Parallel market dollar price in bolivars under two scenarios, Jan – Dec 2024**

		TRUNCATED RELIEF			LASTING RELIEF		
		Bs/\$	MOM	YOY	Bs/\$	MOM	YTD
2024	Jan	39.37	3.6	3.6	39.37	3.6	3.6
	Feb	40.19	2.1	5.8	41.14	4.5	8.3
	Mar	41.19	2.5	8.4	44.21	7.5	16.4
	Apr	43.15	4.8	13.6	49.47	11.9	30.2
	May	44.50	3.1	17.1	56.40	14.0	48.5
	Jun	46.37	4.2	22.1	61.02	8.2	60.6
	Jul	49.06	5.8	29.1	65.42	7.2	72.2
	Aug	52.44	6.9	38.0	71.30	9.0	87.7
	Sep	56.74	8.2	49.4	78.93	10.7	107.8
	Oct	60.77	7.1	60.0	88.41	12.0	132.7
	Nov	68.37	12.5	80.0	110.77	25.3	191.6
	Dec	72.81	6.5	91.7	122.29	10.4	221.9

Source: Síntesis Financiera.

## INFLATION AND EXCHANGE RATE

**TABLE 5**  
**Dollar purchasing power in bolivar terms, Jan 2022 – Dec 2023**  
 % change

		MOM	YTD	YOY
2022	Jan	-8	-8	-55
	Feb	-4	-12	-45
	Mar	-3	-15	-43
	Apr	0	-15	-48
	May	4	-12	-37
	Jun	-1	-13	-31
	Jul	5	-17	-38
	Aug	27	6	-8
	Sep	-21	-16	-35
	Oct	2	-15	-22
	Nov	29	10	-1
	Dec	5	16	16
2023	Jan	-14	-14	9
	Feb	-10	-22	3
	Mar	-6	-26	1
	Apr	0	-27	0
	May	4	-24	0
	Jun	-1	-24	1
	Jul	1	-24	7
	Aug	1	-23	-15
	Sep	-5	-27	2
	Oct	-3	-29	-3
	Nov	-2	-30	-26
	Dec	-1	-31	-31

Source: Síntesis Financiera.

**TABLE 6**  
**Dollar purchasing power in bolivar terms under two scenarios, Jan – Dec 2024**  
 % change

		TRUNCATED RELIEF			LASTING RELIEF		
		MOM	YTD	YOY	MOM	YTD	YOY
2024	Jan	-1	-1	-21	-1	-1	-20
	Feb	-2	-3	-14	0	-1	-11
	Mar	-2	-5	-11	2	1	-5
	Apr	-1	-6	-12	-1	-1	-6
	May	-3	-9	-18	-4	-5	-13
	Jun	-3	-12	-20	-3	-7	-15
	Jul	-1	-13	-21	-2	-10	-17
	Aug	1	-12	-21	-1	-11	-19
	Sept	1	-12	-17	-3	-14	-18
	Oct	-3	-14	-17	-6	-19	-21
	Nov	0	-14	-15	-4	-22	-22
	Dec	-9	-22	-22	-2	-23	-23

Source: Síntesis Financiera.

## INFLATION AND EXCHANGE RATE

**TABLE 7**  
**Additional change in FX to match inflation pace, Jan 2022 – Dec 2023**  
 %

		MOM	YTD	YOY
2022	Jan	9	9	120
	Feb	5	14	81
	Mar	4	18	76
	Apr	0	18	92
	May	-4	13	59
	Jun	1	15	46
	Jul	5	20	61
	Aug	-21	-5	9
	Sep	27	20	54
	Oct	-2	17	28
	Nov	-23	-9	1
	Dec	-5	-14	-14
2023	Jan	16	16	-8
	Feb	11	28	-3
	Mar	6	36	-1
	Apr	0	36	0
	May	-4	31	0
	Jun	1	32	-1
	Jul	-1	31	-6
	Aug	-1	30	18
	Sep	5	36	-2
	Oct	3	40	3
	Nov	2	43	36
	Dec	1	45	45

Source: Síntesis Financiera.

**TABLE 8**  
**Additional change in FX to match inflation pace, Jan – Dec 2024**  
 %

		TRUNCATED RELIEF			LASTING RELIEF		
		MOM	YTD	YOY	MOM	YTD	YOY
2024	Jan	1	1	26	1	1	26
	Feb	2	3	16	0	1	14
	Mar	2	6	13	-2	-1	5
	Apr	1	7	13	2	1	7
	May	4	10	22	4	5	16
	Jun	3	14	25	3	8	18
	Jul	1	15	27	2	11	22
	Aug	-1	14	27	1	12	25
	Sept	-1	13	20	5	18	25
	Oct	3	16	20	5	24	28
	Nov	0	16	17	4	28	30
	Dec	10	28	28	2	31	31

Source: Síntesis Financiera

## INFLATION AND EXCHANGE RATE

**TABLE 9**  
**FX rate had it kept up with inflation, Jan 2022 – Dec 2023**  
 Bs/\$

		MOM	YTD	YOY
2022	Jan	5.12	5.12	10.37
	Feb	4.85	5.27	8.38
	Mar	4.70	5.35	8.00
	Apr	4.74	5.58	9.10
	May	5.05	5.95	8.35
	Jun	5.84	6.63	8.40
	Jul	6.21	7.12	9.57
	Aug	6.41	7.70	8.86
	Sep	10.49	9.92	12.76
	Oct	8.80	10.53	11.45
	Nov	10.10	11.85	13.16
	Dec	17.67	16.04	16.04
2023	Jan	26.47	26.47	20.96
	Feb	27.30	31.57	23.91
	Mar	26.12	33.50	24.50
	Apr	25.60	34.77	25.44
	May	26.85	36.55	27.77
	Jun	29.61	38.80	29.12
	Jul	31.20	41.21	29.51
	Aug	33.77	44.26	40.31
	Sep	37.02	48.10	34.62
	Oct	37.40	50.92	37.36
	Nov	37.66	52.68	49.98
	Dec	38.54	55.05	55.05

Source: Síntesis Financiera.

**TABLE 10**  
**FX rate had it kept up with inflation, Jan – Dec 2024**  
 Bs/\$

		TRUNCATED RELIEF			LASTING RELIEF		
		MOM	YTD	YOY	MOM	YTD	YOY
2024	Jan	39.65	39.65	49.68	39.65	39.65	49.68
	Feb	41.12	41.42	46.79	41.06	41.35	46.72
	Mar	42.20	43.49	46.39	43.43	43.66	46.57
	Apr	43.56	45.99	48.95	50.50	49.87	53.08
	May	46.09	49.12	54.32	58.69	59.16	65.43
	Jun	47.83	52.80	57.93	62.81	65.88	72.28
	Jul	49.52	56.39	62.34	67.00	72.34	79.97
	Aug	52.00	59.78	66.66	72.37	80.02	89.24
	Sep	56.32	64.20	68.33	82.70	92.81	98.78
	Oct	62.42	70.62	73.16	92.86	109.19	113.12
	Nov	68.07	79.09	80.24	114.93	141.95	144.02
	Dec	80.33	92.93	92.93	124.62	159.69	159.69

Source: Síntesis Financiera.

**SINTESIS FINANCIERA**



## **Inflation and exchange rate**

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