



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- So far this year, Venezuela's exchange rate stability has weakened due to increased public spending ahead of the upcoming presidential elections in July. Tension has been generated by an increase in the exchange rate gap between the official and parallel exchange rates. From the beginning of April to May, the exchange rate has risen more than 5.6 percent, while the gap between both markers has doubled, going from averaging 5.6 percent during the first quarter to 11.3 percent in recent days. This dynamic generates impacts on the private sector given that companies must account for operations at the official rate and replenish inventories at the parallel rate, a rate much more sensitive to fluctuations in spending and the effect of expectations.
- Reducing the gap is difficult as long as the Central Bank of Venezuela (BCV) rate remains static. The BCV exchange rate continues to be far behind the inflation rate, promoting the real appreciation of the bolivar, while as mentioned, the evolution of the parallel responds to broader expectations that are not corrected only with greater intervention. However, the stability of the BCV rate is of vital importance for the government's anti-inflationary policy. It defines the rate of increase in salaries indexed to the dollar and, therefore, the trajectory of public spending. In May, indexed payments reached 45 percent of public spending. Despite this, public spending has grown less than expected in this election year.
- Despite the widening gap between exchange rates, commercial transactions in dollars continue to decline in volume, registering their lowest level since June 2019, as operations in bolivars in the country increased, according to a recent report by the firm Ecoanalítica. According to this report, in terms of payment methods, the use of bolivars represented 54.9 percent of transactions, while in dollars they were 32.7 percent.
- On the other hand, the president of the Chamber of Venezuelan Manufacturers of Automotive Products (Favenpa), Omar Bautista, said that the income of imported products has increased by 30 percent during the first two months of 2024. Highlighting that the sale of new vehicles in the country has increased by approximately 80 percent. It is noteworthy that the Venezuelan vehicle fleet has an average age of 22 years. More than 70 percent of the vehicles in the country are more than 15 years old. To date, 99 percent of the vehicles sold are imported. This year, according to figures from the Venezuelan Automotive Chamber (Cavenez), 36 completely knocked down (CKD)<sup>1</sup> and around 780 semi-knocked down (SKD) vehicles have been assembled.

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<sup>1</sup> CKD means that the vehicle comes completely disassembled and there is the possibility of incorporating national parts and the SKD are vehicles that come almost assembled and do not have national auto parts.

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