



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- The exchange rate gap reached a level of 20.8 percent. This is the highest rate differential recorded since the first week of December 2022 (28 percent), which came in the midst of the exchange rate crisis of that year. The exchange rate differential is causing serious production cost problems throughout the economy, even though inflation is not reflecting it. The poor reaction in the prices of final goods indicates that a recessionary situation is brewing, with a decline in the scale of production and employment.
- Producers and merchants are unable to pass on the increase in costs, given the fragility in consumer demand and the low prices of imported goods. Although it is occurring with different intensity in various sectors, this works against the sustainability of production and the ability to improve the income of the employed population. The detrimental effects of this situation far outweigh the benefits of achieving monthly inflation close to zero and the greater use of the bolivar to offset the losses caused by the gap.
- In this same sense, the banking credit portfolio began to grow more rapidly in May, but it cannot be said that this is an acceleration compared to last year given the gap between the exchange rates. As of Sept. 13, 2024, the balance of the credit portfolio expressed at the official rate shows an interannual increase of 103 percent, while the parallel rate increase is 78 percent.
- The exchange rate gap expresses various risk aspects. A correction of the overvaluation would increase the cost of credit for debtors and raise the risk of covering the debt service, without avoiding the loss of purchasing power of the funds obtained in loans. For the banking sector, there are also credit risks and, in addition, all indexed costs will increase, such as the penalty for noncompliance with the reserve requirement. The perception of exchange rate risk may have contributed to banks eliminating their reserve deficit to avoid the cost shock that could come via the indexed penalty in the event of a devaluation of the bolivar.
- In September 2024, the inter monthly variation of the National Consumer Price Index (INPC) was 0.8 percent, according to the report of the Central Bank of Venezuela (BCV). Inflation in September slowed down compared to the previous month, as the INPC rose 1.4 percent in August. Monthly inflation for last month is the lowest for September since the start of the index at the national level in 2008.

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