Euler Hermes Economic Research

Country Report

Venezuela

Critical situation

General Information

GDP	USD438.28 bn (World ranking 27, World Bank 2013)
Population	30.41 mn (World ranking 41, World Bank 2013)
Form of state	Federal Republic
Head of government	President Nicolas MADURO
Next elections	2015, Parliament – 2019, Presidential

Strengths

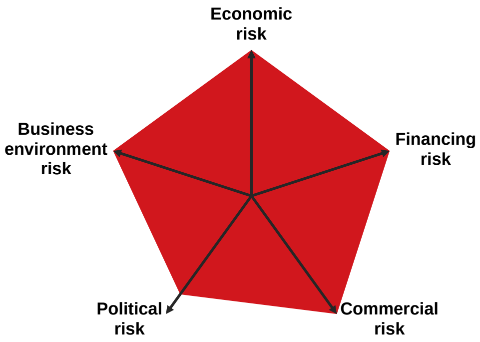
- Large-scale energy resources.
- Moderate external debt levels.

Weaknesses

- Over-dependence on oil (95% of export earnings).
- Policies are highly interventionist and unsustainable without high oil prices.
- FX reserves decreasing rapidly despite exchange controls leading to shortages of even basic goods and penalizing the industrial sector.
- Inflation one of the highest in the world.
- Increasing political tensions over constant shortages, high inflation and crime.
- Extremely poor business environment. Heavy state intervention includes unpredictable nationalisation in various sectors.

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	24%	1	24%	United States
India	11%	2	17%	China
Other America	11%	3	11%	Brazil
China	10%	4	5%	Colombia
Singapore	4%	5	5%	Mexico

By product (% of total)

Exports		Rank		Imports
Crude Oil	80%	1	7%	Pharmaceuticals
Refined Petroleum Products	18%	2	6%	Refined Petroleum Products
Basic Organic Chemicals	1%	3	5%	Engines
Iron Steel	0%	4	4%	Meat
Iron Ores	0%	5	4%	Basic Organic Chemicals

Source: ITC, Chelem

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Economic Overview

Recession will continue

While the economy was already suffering from electricity and water cuts, soaring inflation, price and FX controls, shortages of imported goods and strong state interventionism, the fall in oil prices (15% of GDP, 90% of total exports and 40% of fiscal revenues) delivered a final blow. The recession recorded in 2014 (-4.5%) is expected to deepen dramatically in 2015, with real GDP falling by -7.5% in 2015 and by -1.5% in 2016.

The currency hits a new low, fuelling concerns on inflation

In hopes of mitigating issues facing their exchange rate, the government replaced in February their SICAD2 tier (of the three tiered system) with a new system, Simadi, which enables banks and brokerages to sell dollars at a free rate. The Simadi exchange rate has continuously depreciated since then, reaching recently 200VEF/USD implying a devaluation of around -70% against the previous SICAD2 rate (52VEF/USD). The exchange rate has even reached around 400 VEF/USD bolivars in certain (outlawed) markets. Along with Simadi, two other exchange rates co-exist: the official exchange rate currently at 6.3 VEF/USD which is applied for the purchase of "essential-goods and the SICAD1 exchange rate, currently at 12VEF/USD, which distributes dollars to individuals and businesses through auctions at a higher rate than the official exchange rate. These figures indicate that further change is likely just around the corner. As the cash-strapped country experiences shortages of essential goods as a consequence of imports and tight FX controls, the price-wage loop and further depreciation of the Bolivar means upside pressures on inflation will strengthen, further compounded by consumers efforts to shield themselves from the disheartening outlook.

External situation continues to deteriorate

Public accounts are deteriorating from already worrying levels (public deficit nearly -15% of GDP in 2014), further pointing to building levels of financing and external vulnerability, as well as an increasing risk of sovereign default. The recent fall in oil prices will drive the current account balance into deficit in 2015 (-2.5%) for the first time in at least 15 years, and improve only slightly in 2016 (-2.0%). FX reserves have now halved since 2008, implying just a 3 month import cover remains.

As the threat of Sovereign Default looms, China has become the main source of external financing (through oil for loan agreements), and EH expects external debt to rise to nearly 60% of GDP in 2015. The lack of access to international capital markets has further elevated the risk of expropriation or nationalization within the private sector: Venezuela already ranks 182 out of 189 countries on the World Bank's ease of Doing Business Survey, citing unclear boundaries regarding nationalization.

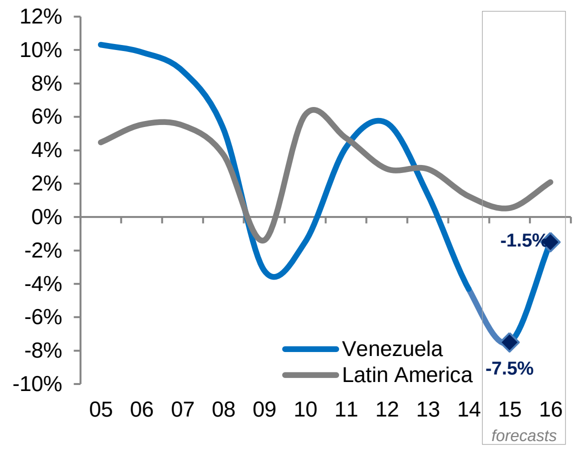
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	1.3	-4.3	-7.5	-1.5
Inflation (%, yearly average)	38.5	57.3	80.5	72.3
Fiscal balance* (% of GDP)	-14.6	-14.8	-20.0	-18.0
Public debt* (% of GDP)	55.4	45.6	39.9	30.9
Current account (% of GDP)	3.2	3.4	-2.5	-2.0
External debt (% of GDP)	32.8	44.6	59.4	69.8

**Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments*

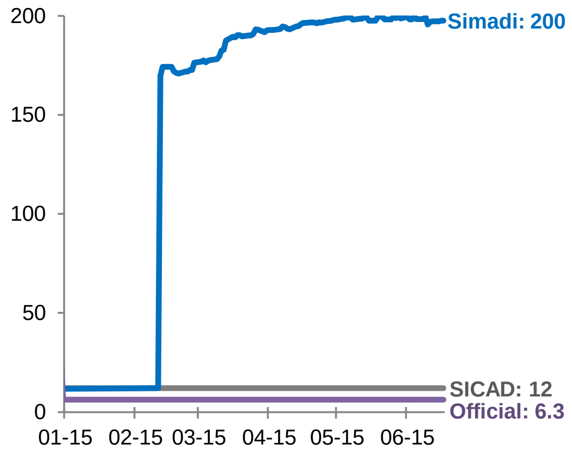
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Sources: National sources, IMF-WEO, IHS, Euler Hermes

Venezuelan Exchange rates (VEF/USD)



Sources: Banco Central de Venezuela, IHS, Euler Hermes

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