Euler Hermes Economic Research

Country Report

Venezuela

Spiral of turmoil

General Information

GDP	USD287.27bn (World ranking 42, IMF-WEO 2015)
Population	31.11mn (World ranking 44, World Bank 2015)
Form of state	Federal Republic
Head of government	Nicolas MADURO
Next elections	2019, Presidential

Strengths

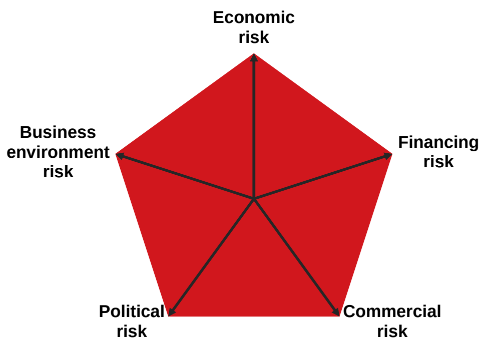
- Large-scale energy resources
- Strategic geographical location between the Caribbean and South America

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 among the highest in the world
- Increasing political tensions over constant shortages, high inflation and crime
- Poor business environment
- Heavy state intervention includes unpredictable nationalization in various sectors

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	27%	1	22%	United States
China	11%	2	21%	China
India	11%	3	11%	Brazil
Singapore	2%	4	5%	Mexico
Spain	1%	5	5%	Colombia

By product (% of total)

Exports		Rank		Imports
Crude Oil	77%	1	7%	Refined Petroleum Products
Refined Petroleum Products	17%	2	7%	Pharmaceuticals
Non-Monetary Gold	1%	3	5%	Engines
Basic Organic Chemicals	1%	4	4%	Fats
Iron Steel	1%	5	4%	Meat

Source: Chelem (2015)

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Economic, political and social chaos

The economic, political and social crisis continues to deepen. Recession hit the economy in late 2013. Circumstances were harsh: electricity and water cuts, soaring inflation, price and foreign currency controls, shortages of imported goods and strong state interventionism which led to foreign investment flight and deterred international companies.

The fall in oil prices in late-2014 made things even worse. Oil accounts for more than 20% of GDP, 90% of exports and 40% of fiscal revenues. Although economic data has not been released since Q3-2015, we estimate the economy shrank by -18% in 2016, after -6.5% in 2015. GDP is expected to continue its downward spiral until 2018 at least, completing five consecutive years of recession.

At the same time, inflation is estimated to have soared above +1000% in 2016, the highest rate in the world. Hyperinflation was fueled by (i) high monetization of the public debt by the Central Bank; (ii) strong depreciation of the currency in both the official and black markets while 80% of goods consumed are imported; (iii) dramatic shortages of basic goods.

Major demonstrations against President Nicolas Maduro erupted after he had called for a "constituent assembly" to modify the Constitution and enlarge his powers. Confrontations with the police and the army have led to dozens of deaths.

Default seems to be a matter of time

The government dramatically lacks liquidity. The probability of default exceeds 50% over the next 12 months and reaches 95% for the next 5 years. A default on debt payments due in April and May was avoided thanks to the selling (at a huge discount) of governmental national oil company shares. A USD700mn payment, due in August and USD3.5bn that must be paid in October-November will once again put the country on the back burner. Foreign exchange reserves have fallen to USD10bn in May, a historic low. These do not cover even one month of imports. The country will benefit only partially from the gradual increase in oil prices as production capacity is capped by a chronic lack of investment. Venezuela produces today 2mn barrels/day, 80% less than in 2015.

Foreign exchange risk is immense. The government devalued the currency by 60% in May (to 2197.25VEF/USD), but the black market exchange rate continues to be four times higher.

Venezuela is one of the worst countries in the world to do business. The World Bank ranks it 187th out of 190 countries in its 2017 'Doing Business' survey, ahead of Libya, Eritrea and Somalia.

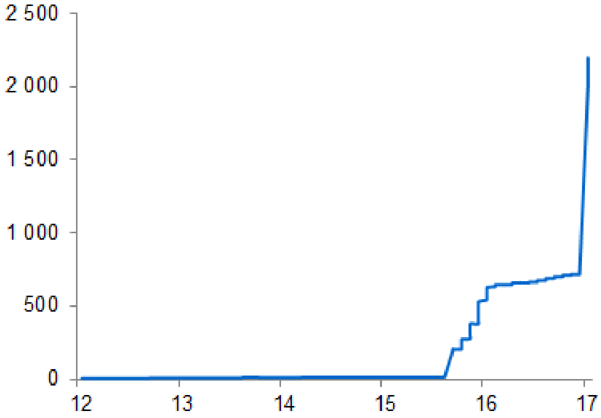
Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	-6.2	-18.0	-7.5	-3.1
Inflation (%, end-year)	121.7	254.9	1154.3	666.9
Fiscal balance (% of GDP)*	-17.6	-14.6	-14.2	-15.7
Public debt (% of GDP)*	32.1	28.2	17.3	16.6
Current account (% of GDP)	-7.8	-2.4	-1.7	-0.7
External debt (% of GDP)	65.0	100.7	134.9	280.1

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

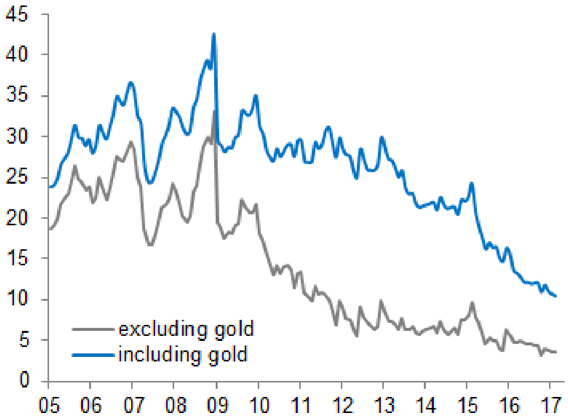
Sources: National sources, IMF-WEO, IHS, Euler Hermes

VEF/USD



Sources: National statistics, IHS, Euler Hermes

Foreign exchange reserves (USD bn)



Sources: National statistics, IHS, Euler Hermes

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