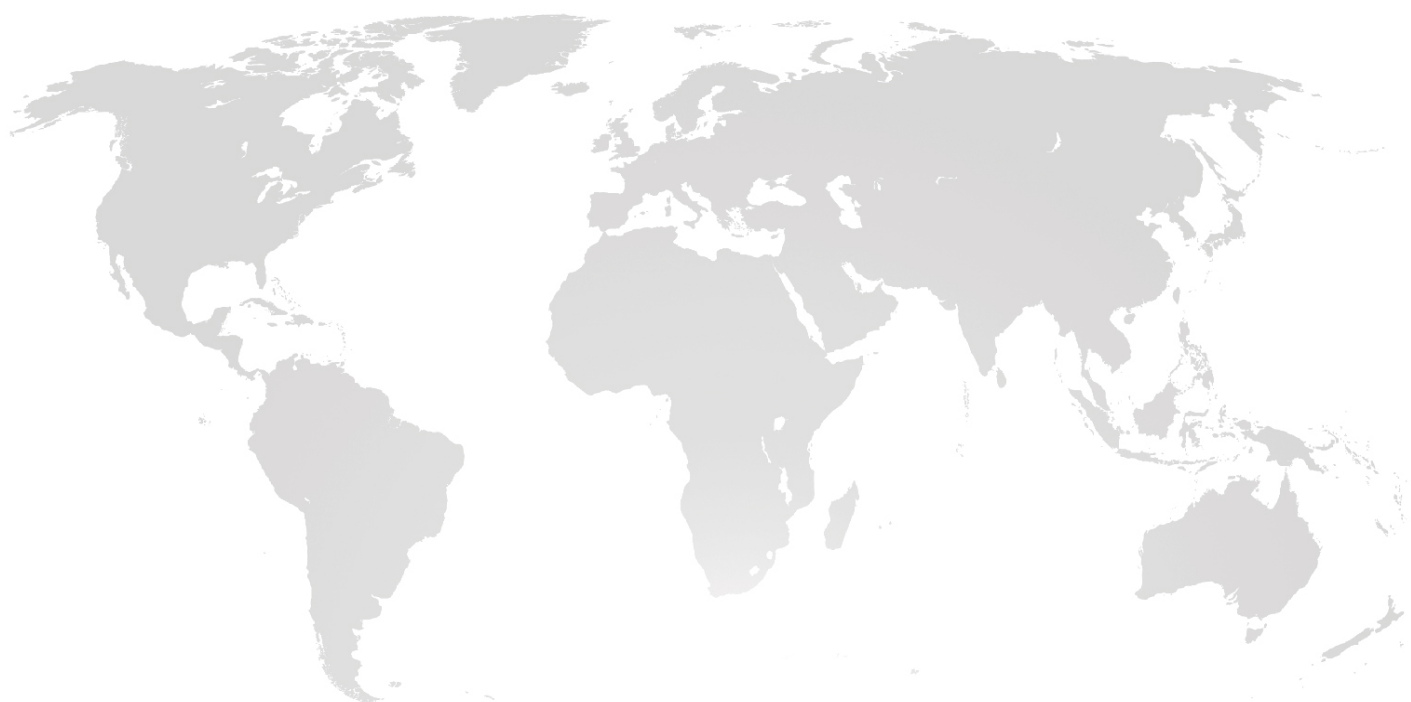




# D&B Country Insight Snapshot: Venezuela

*December 2014*





**Overview**

**Overall Country Risk Rating : DB6d**



**Very high risk** : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

**Rating Outlook:** Stable →

**Core Outlook**

+ With almost a third of its population below the age of 15, and a median age of 26.3 years, future demographic developments augur well for Venezuela’s long-term economic potential.

+ The quality of human capital is good, reflecting Venezuela’s relatively-advanced level of development and government spending on healthcare and education.

- There is little to suggest that Venezuela will deviate from an over-dependence on the energy sector and under-investment in the manufacturing sector.

- Expropriation risks in sectors involved in the production and distribution of basic necessities remain high as acute shortages persist.

**Key Development**

The short-term outlook deteriorates as falling oil prices push the fiscal deficit to unsustainable levels, prompting the government to drastically cut public spending.

Credit Environment Outlook

Key Development has had a negative impact on the outlook.

Supply Environment Outlook

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

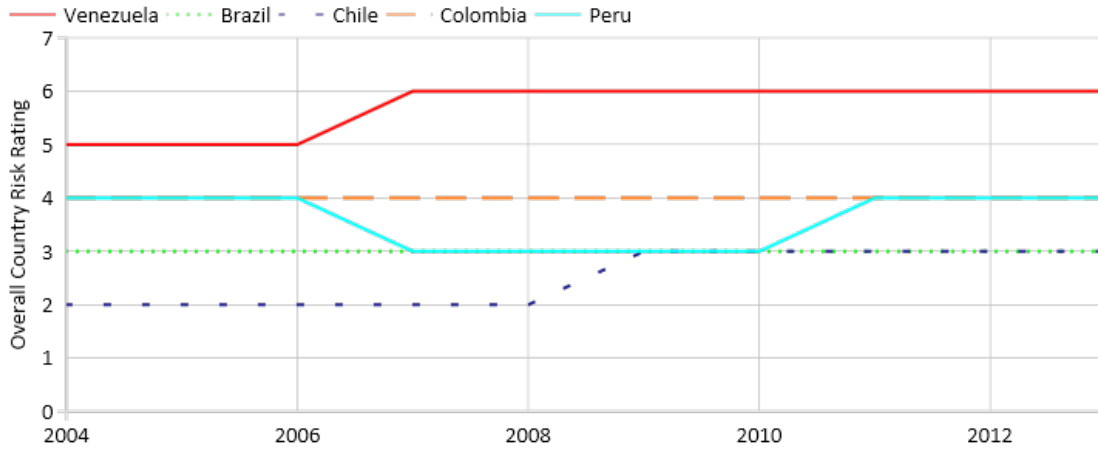
Key Development has had a negative impact on the outlook.

Political Environment Outlook

Key Development has had a negative impact on the outlook.

## Key Indicators

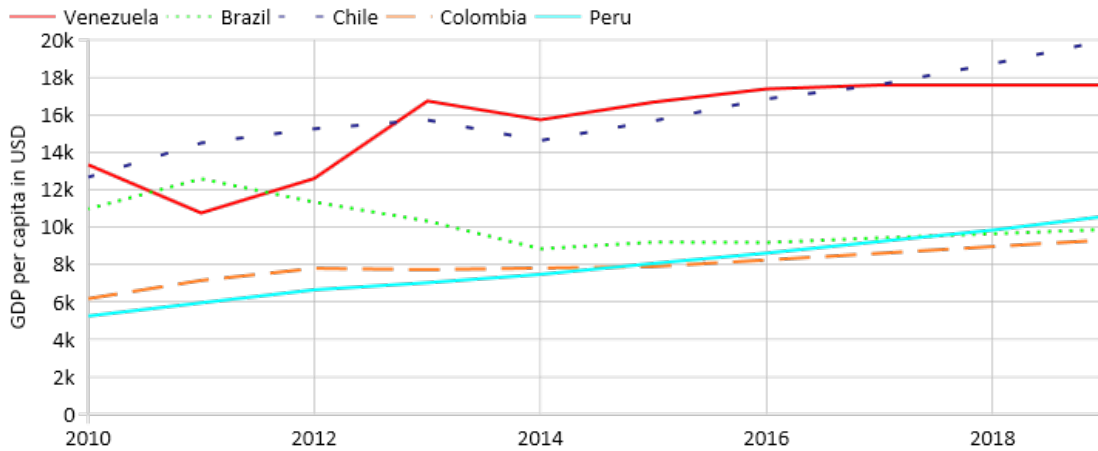
### Rating History and Comparison



Source : D&B

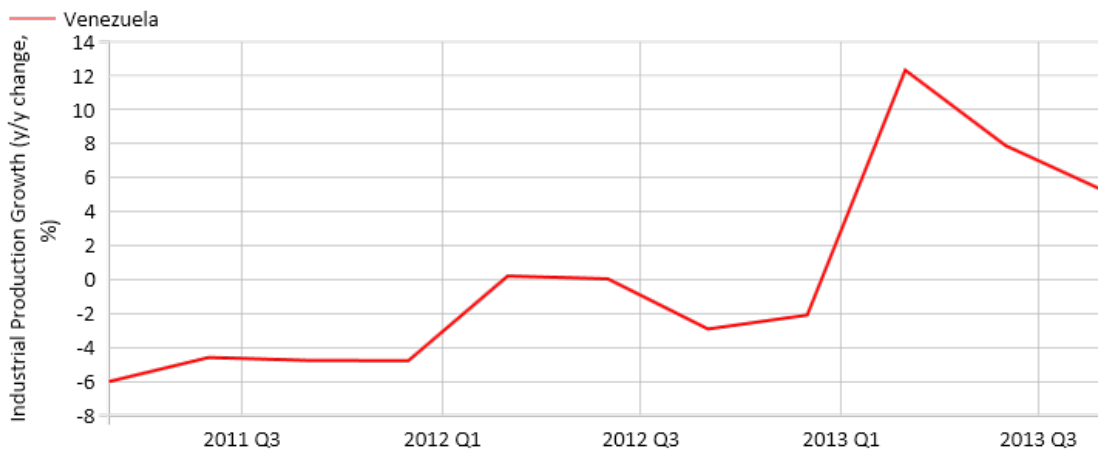
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : D&B

### Chart of the Month



Source : National Statistical Offices / Haver Analytics

## Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	7.7	2.9	0.6	1.9	2.9	2.8	3.2	4.0
External Debt, % GDP	27.1	48.0	50.3	52.5	55.0	56.0	56.0	56.0
Govt balance, % GDP	-8.7	-9.5	-9.8	-10.1	-9.9	-9.8	-9.5	-9.5
Inflation, annual avge %	26.1	21.1	65.0	65.0	68.0	65.0	60.0	58.0
Real GDP Growth, %	4.2	5.6	1.2	-2.6	-0.6	0.5	1.5	1.9

Source : Haver Analytics/D&B

## Trade and Commercial Environment

Payment risks are at a record high as international reserves diminish further. In October foreign reserves stood at USD20.48bn, 6% lower than one year prior. Concerns about Venezuela's ability to pay its foreign-currency denominated debt contributed to yields on the government's 2027 bonds rising to its highest levels since 2009. In a change of direction, government has signaled its intention to modify its multi-tiered exchange rate system which could clear the way for a long-overdue devaluation of the bolivar. The gap between the official and parallel market FX rates has widened further with the official VBF:USD rate at 6.30 versus a black market rate of 143 per dollar. Foreign exchange scarcity will negatively impact firms' and consumers' ability to buy critical imports.

## Trade Terms and Transfer Situation

### Minimum Terms: CLC

*The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: CiA

*D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-60 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 months

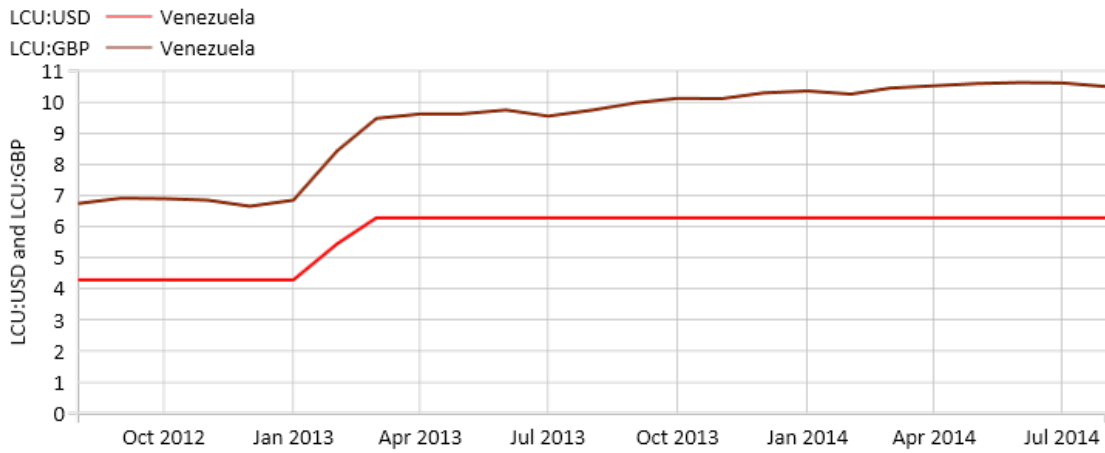
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 2-4 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



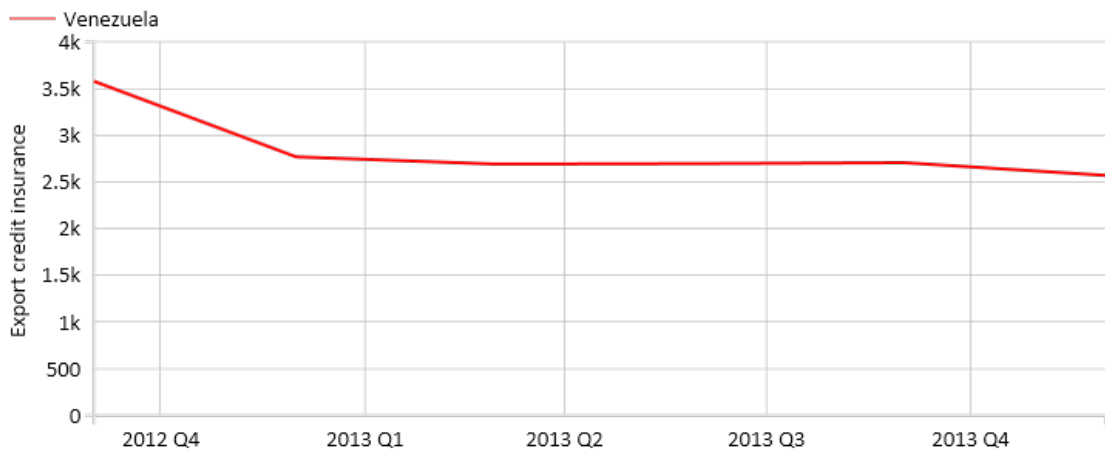
## Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions



Source : Haver

*Insured export credit exposures, USDm*

## Risks and Opportunities

### Short-Term Economic Outlook

*Falling oil prices push deficit to unsustainable levels*

Venezuela's short-term economic outlook continues to deteriorate as falling oil prices push the country's fiscal gap to unsustainable levels. With the government deficit estimated at 17% of GDP, President Nicolas Maduro has authorised a 20% cut in public spending. This follows legislative changes in November which cleared the way for a fuel price increase. If implemented, it would be the first fuel price hike in 18 years but would reduce the subsidy's estimated USD11.9bn annual cost to the heavily cash-strapped government. According to the most recent official statistics, inflation rose by 3.9% in August to bring the 12-month inflation rate to 63.4%. Food and non-alcoholic beverages prices rose by a staggering 91% y/y in August and have been the main contributor to price pressures for the year. D&B is forecasting annual average inflation of 65.0% this year and economic contraction of 2.6%.

### Insecurity/Civil Disorder Risk

*Civil disorder risks on the rise*

Despite the president's assurances that spending on social services will not be affected by the recently-authorised 20% cut in government spending, insecurity and civil disorder risks are on the rise. Consumers continue to face acute shortages of basic goods including food and medicine while record high inflation steadily erodes spending power. Worryingly, this is unlikely to change despite a 15% minimum wage rise which took effect on December 1st. The minimum wage now stands at VBF4,899. Unsurprisingly, the president's popularity is at an all-time low having slid to 24.5% in November (down from 55% last year) according to a recent Dataanalysis poll. Firms are advised to monitor announcements of a removal or reduction of fuel price subsidies, as this would trigger violent protests, similar to those in February.

### Business Environment Quality

*Business environment amongst the worst globally*

Venezuela's commercial environment remains one of the most challenging for firms. It again ranks near the bottom of the World Bank's *Doing Business* rankings, sitting at 182nd place of the 189 countries scored, sliding from 181st place in the previous year. Specifically, the report highlighted higher incorporation costs as a factor which made starting a new business more difficult. Unsurprisingly, Venezuela ranked poorly in almost all of the survey categories: paying taxes (188), starting a business (182), trading across borders (176) and resolving insolvency (165). The least difficult aspect of doing business is enforcing contracts for which it was ranked at 79th place. On a related note, Venezuela remains on the USTR's Priority Watch List in 2014 with inconsistency between domestic laws and international obligations being highlighted as a source of concern. Weak enforcement of laws against physical and online counterfeiting and piracy were among the main reasons for Venezuela's inclusion in the most recent Watch List.

## Country Profile and Statistics

### Overview

Venezuela is situated on the northern coast of South America, sharing borders with Brazil, Colombia and Guyana. Despite efforts to diversify the economy, it is dominated by the oil sector, which accounts for a third of GDP, 95% of export earnings and over 50% of federal budget revenues. Falling oil production owing to a lack of investment in the industry and volatility in oil prices have highlighted Venezuela's vulnerability to trends in the oil sector. Despite having the world's largest reserves of oil, acute shortages in basic necessities and dwindling foreign reserves have worsened in the recent past. In addition, power shortages, rampant inflation and insufficient USD constantly plague the private sector. Worryingly, political instability has increased sharply in the past year, foreign investment has fallen dramatically and the country's political institutions are growing weaker.

### Key Facts

Key Fact	Detail
Head of state	Nicolas MADURO
Capital	Caracas
Timezone	GMT -04-30
Official language	Spanish
Population (millions)	30.9
GDP (USD billions)	485.4
GDP per capita (USD)	15,734
Life expectancy (years)	74
Literacy (% of adult pop.)	93
Surface area (sq km)	912,050

Source : UN / Haver Analytics / D&B

### Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	-1.49	4.18	5.63	1.2	-2.6
Nominal GDP in USDbn	387.2	317.32	377.4	508.82	485.41
Nominal GDP in local currency (bn)	1,003	1,361	1,619	3,206	5,414
GDP per Capita in USD	13,332	10,756	12,599	16,735	15,734
Population (year-end, m)	29.04	29.5	29.96	30.41	30.85
Exchange rate (yr avge, USD-LCU)	2.59	4.29	4.29	6.3	11.15
Current Account in USDbn	8.7	24.39	11.02	2.84	9.2
Current Account (% of GDP)	2.25	7.69	2.92	0.56	1.9
FX reserves (year-end, USDbn)	30.33	29.89	29.89	28.63	30
Import Cover (months)	7.4	5.84	5.77	5.33	5.47
Inflation (annual avge, %)	28.2	26.1	21.1	65	65
Govt Balance (% GDP)	-6.4	-8.7	-9.5	-9.8	-10.1

Source : D&B

## Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	-0.6	0.5	1.5	1.9	1.9
Nominal GDP in USDbn	521.8	551.5	565.6	573.1	580.6
Nominal GDP in local currency (bn)	9,312.46	15,747.36	25,841.42	41,888.95	67,901.98
GDP per Capita in USD	16,675	17,382	17,588	17,586	17,591
Population (year-end, m)	31.3	31.7	32.2	32.6	33
Exchange rate (yr avge, USD-LCU)	17.8	28.6	45.7	73.1	117
Current Account in USDbn	15	15.5	18.1	22.8	22.8
Current Account (% of GDP)	2.87	2.81	3.2	3.98	3.93
FX reserves (year-end, USDbn)	32.3	33.6	34.5	35.2	35.2
Import Cover (months)	5.62	5.64	5.6	5.71	5.71
Inflation (annual avge, %)	68	65	60	58	58
Govt Balance (% GDP)	-9.9	-9.8	-9.5	-9.5	-9.5

Source : D&amp;B

## Comparative Market Indicators

Indicator	Venezuela	Brazil	Chile	Colombia	Peru
Income per Capita (USD)	15,734	8,843	14,624	7,816	7,478
Country Population (m)	30.9	203.2	17.8	49.5	30.7
Internet users (% of population)	54.9	51.6	66.5	51.7	39.2
Real GDP Growth (% p.a., 2014 - 2023)	1.5 - 2.5	2.5 - 4.5	4.5 - 5.5	4.5 - 5.5	5.5 - 6

Source : D&amp;B



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