

# Country Insight Snapshot

## Venezuela

September 2019





## 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.

R

**Rating Outlook:** Deteriorating rapidly

## CORE OUTLOOK

- + With almost a third of its population younger than 15, and with a median age of 26.3 years, demographics bode well for long-term economic potential.
- The quality of human capital has declined due to the 'brain drain' triggered by Venezuela's worsening socio-economic crisis in the last few years.
- The ruling party has tightened its hold on power at all levels of government through allegedly-fraudulent elections, although its grip appears to be slipping.
- There is little to suggest that Venezuela will deviate from an over-dependence on the energy sector and under-investment in non-oil sectors.

## KEY DEVELOPMENT

Economic pressure tightens as the US freezes Venezuelan assets and threatens new sanctions for firms that continue to do business with the Maduro regime.

## CREDIT ENVIRONMENT OUTLOOK

R

**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK

R

**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK

R

**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK

R

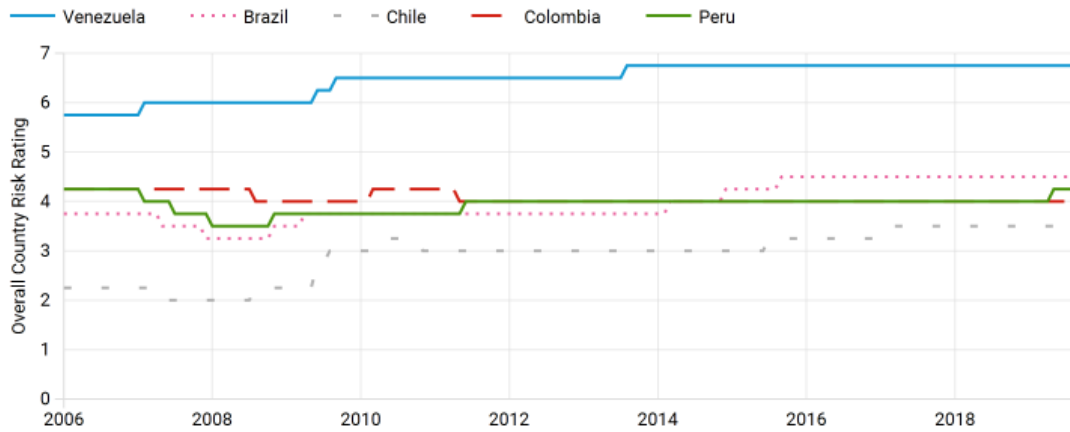
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

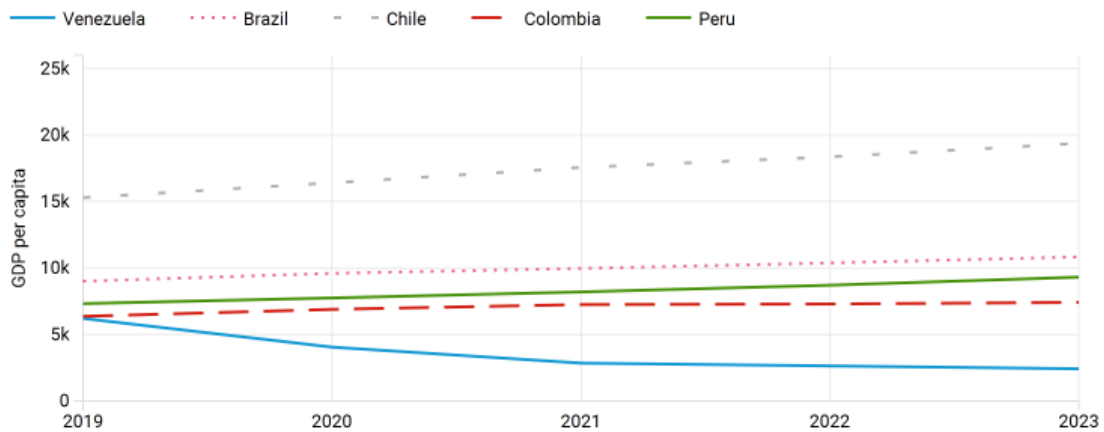
### Rating History and Comparison



Source: Dun & Bradstreet

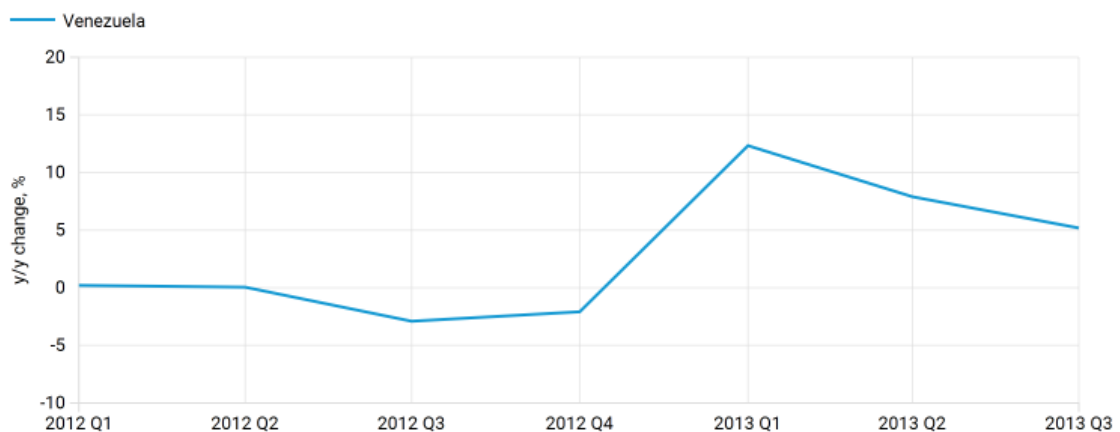
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-1.7	4.1	0.5	1.0	0.9	0.9	0.7	0.6
External Debt, % GDP	47.8	47.2	113.3	130.2	87.2	97.2	104.4	99.8
Govt balance, % GDP	-10.8	-23.0	-29.9	-29.8	-30.1	-30.0	-29.6	-29.9
Inflation, annual avge %	254.4	985.0	1,033,000.0	105,560.0	250.0	125.6	75.0	35.0
Real GDP Growth, %	-16.9	-15.7	-18.8	-25.5	-6.5	-3.0	-1.0	1.0

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

In August 2018, the bank issued a new currency, the Bolivar Soberano (Bs.S) and on 13 June the bank issued notes in denominations of 10,000, 20,000 and 50,000 to counteract hyperinflation. The parallel rate continues to weaken, hitting Bs.S21,051.03:USD on 8 September from Bs.S1,120.17:USD on 10 January. The central bank's weighted average rate stood at Bs.S20,430.11:USD on 9 September. In 2018 the government had promised to inject EUR2bn into the foreign exchange system as part of its plan to replace the US dollar with the euro as the reference currency for the official FX system, but this is yet to materialise. Troublingly, foreign reserves are extremely low at an estimated at USD9.17bn (including gold). The severe scarcity of foreign exchange exacerbates long delays in purchasing US dollars and maintains an elevated probability of more defaults on cross-border private commercial transactions. Consequently, we recommend CiA terms. Meanwhile, the discontinuation of the DIPRO, the bank's preferential rate for imported necessities, removed some of the distortion in the FX market, but has done little to solve the problem of scarce USD.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: CiA

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

### Recommended Terms: CiA

*Dun & Bradstreet'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

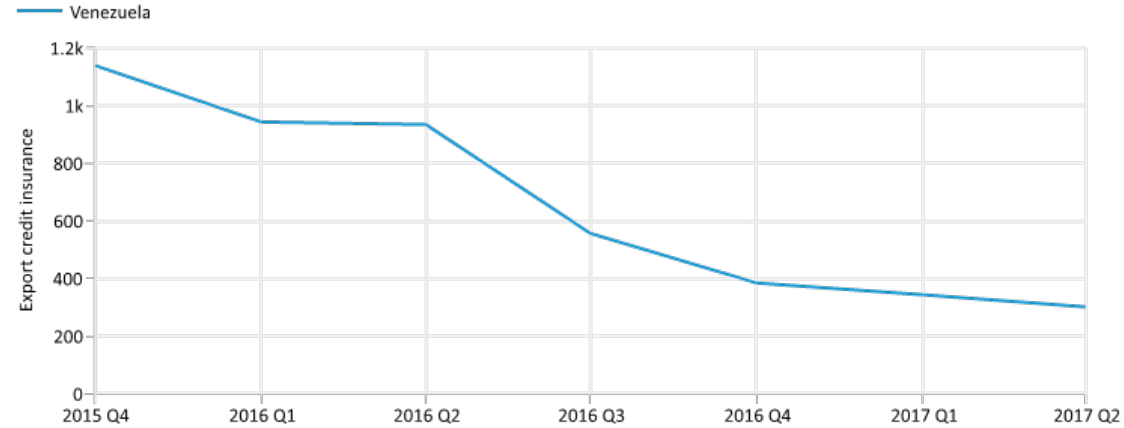
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



### Credit Conditions



Source: Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Business Regulatory Environment

#### *US freezes assets and threatens further sanctions*

Fresh sanctions were slapped on Venezuela in mid-August. The US froze Venezuelan assets in the US and threatened to sanction countries and firms which continue to conduct trade with the regime led by President Nicolas Maduro. In response, Maduro withdrew from talks with the opposition, that are being held in Norway, aimed at resolving the current political and economic crisis. Moreover China, a major creditor, indicated its defiance of sanctions by pledging to continue its co-operation with Venezuela.

Notably, the Citgo oil refinery, which is partly owned by Venezuela, is allowed to conduct business with US citizens/entities. This is because of exceptions to sanctions which permit transactions with individuals appointed by Juan Guaido, self-appointed interim president, who has been recognised by over 50 countries. The board of Citgo was recently appointed by Guaido. In July a US federal appeals court ruled that the Canadian mining company, Crystallex, could seize Citgo's assets, although this is not expected to be implemented in the near term.

Oil production and exports have been tightly squeezed by escalating sanctions in an effort to force Maduro from office. The US has sanctioned President Maduro's son, Nicolas Maduro Guerra, a member of the National Constituent Assembly and head of the corps of the president's special inspectors. The younger Maduro's US assets have also been frozen, and he is unable to conduct business with US institutions, including banks. This adds to previous US sanctions on over 150 government officials loyal to Maduro, including his wife Cilia Flores. Recently, Canada extended sanctions to include a further 43 members of the government in addition to 70 already sanctioned. Of the 43, there are 3 members of the Constituent Assembly which Maduro created to supplant the democratically-elected opposition-led National Assembly. The president has held on to power despite extended US sanctions which included BCV, the Venezuela central bank, to prevent the government from accessing USD and conducting foreign transactions. However, we are forecasting a change in administration within the next year.

### Short-Term Economic Outlook

#### *Official data confirm deep contractions*

The central bank confirmed a severe economic contraction between 2015 and 2018 with the release for long-awaited official economic data; according to the bank, the economy contracted by 17% in 2015, 15.7% in 2017 and 19.5% for Q1 2018. No data was released for 2019. Also released were 2018 headline inflation statistics. The bank's estimate of 14,822% for last year is significantly below the National Assembly's estimates and thus likely a significant underestimation. The motive for the recent data release is unclear, but is likely a political move to address criticism about the lack of transparency regarding economic data. The economy is set to contract for a fifth consecutive year and we have significantly adjusted our GDP projection to -25.5% for 2019. The IMF is currently reviewing economic data that was recently submitted by Venezuela. The government's failure to correct its crippling macroeconomic policies, submit data and refusal to allow the IMF to conduct an annual review since 2004 led to a declaration of censure from the Fund. The Fund is projecting inflation of 10 million percent in 2019.



## 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 - due to a lack of investment in the industry and volatility in oil prices - has highlighted Venezuela's vulnerability to trends in the oil sector.

Despite having the world's largest reserves of oil, the country's acute shortages of basic necessities and the dwindling of foreign reserves have worsened recently. Moreover, power shortages, rampant inflation and a scarcity of US dollars constantly plague the private sector. Worryingly, political instability has increased sharply, foreign investment has fallen dramatically, and the country's political institutions are becoming weaker.

### Key Facts

Key Fact	Detail
Head of state	President Nicolas MADURO
Capital	Caracas
Timezone	GMT -04-30
Official language	Spanish
Population (millions)	29.2
GDP (USD billions)	1,205.6
GDP per capita (USD)	41,306
Life expectancy (years)	72.5
Literacy (% of adult pop.)	97.1
Surface area (sq km)	912,050

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	-3.9	-6.2	-16.9	-15.7	-18.8
Nominal GDP in USDbn	215	283	236	215	1,206
Nominal GDP in local currency (bn)	3,031	6,025	23,740	198,702	5,364,957
GDP per Capita in USD	7,156	9,238	7,694	7,058	41,306
Population (year-end, m)	30.0	30.6	30.7	30.5	29.2
Exchange rate (yr avge, USD-LCU)	14.1	21.3	100.5	923.4	4,450.0
Current Account in USDbn	4.9	-16.2	-4.0	8.7	6.4
Current Account (% of GDP)	2.3	-5.7	-1.7	4.1	0.5
FX reserves (year-end, USDbn)	22.1	16.4	11.0	9.5	9.2
Import Cover (months)	4.1	4.2	5.1	5.2	5.9
Inflation (annual avge, %)	57.3	111.8	254.4	985.0	1,033,000.0
Govt Balance (% GDP)	-16.2	-10.7	-10.8	-23.0	-29.9

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	-25.5	-6.5	-3.0	-1.0	1.0
Nominal GDP in USDbn	174	110	77	72	66
Nominal GDP in local currency (bn)	38,520,394	65,484,671	68,758,904	72,196,849	75,806,692
GDP per Capita in USD	6,209	4,052	2,848	2,638	2,423
Population (year-end, m)	28.1	27.1	27.1	27.1	27.1
Exchange rate (yr avge, USD-LCU)	221,060.0	595,610.0	890,000.0	1,008,600.0	1,153,200.0
Current Account in USDbn	1.8	1.0	0.7	0.5	0.4
Current Account (% of GDP)	1.0	0.9	0.9	0.7	0.6
FX reserves (year-end, USDbn)	8.8	8.6	8.4	8.2	8.0
Import Cover (months)	6.2	6.7	7.2	1.5	1.5
Inflation (annual avge, %)	105,560.0	250.0	125.6	75.0	35.0
Govt Balance (% GDP)	-29.8	-30.1	-30.0	-29.6	-29.9

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Venezuela	Brazil	Chile	Colombia	Peru
Income per Capita (USD)	6,209	9,006	15,289	6,365	7,324
Country Population (m)	28.1	209.8	19.0	50.0	31.8
Internet users (% of population)	60.0	59.7	66.0	58.1	45.5
Real GDP Growth (% p.a., 2019 - 2028)	-2.0 - 1.0	1.0 - 2.0	2.2 - 3.2	4.2 - 6.7	3.9 - 8.5

Source: Various sources/Dun & Bradstreet





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