

VENEZUELA

January 2012

Credit Risk Rating: 7
Bias: Stable

FORECAST FOR THE NEXT 12 MONTHS

INTERNAL FINANCIAL:

While the government can sustain its massive social spending, even in stepped-up form in the run-up to the presidential elections this year, so long as world oil prices are at USD 100 a barrel or higher, it cannot avoid the inflationary impact of this spending. Despite extensive price controls in effect since 2003, monetary erosion according to official (and probably understated) is running at a yearly clip of 27%, despite the economy's relatively slow recovery from a year and a half of recession. Showing some flexibility, Chavez has been rolling back a few of his nationalizations, but this should not be seen as a real course change. If he wins re-election, the push for "Bolivarian Socialism" will persist, even though the regime has been finding out the hard way that fully nationalized companies have been floundering under inexperienced management.

EXTERNAL FINANCIAL:

The state oil company PdVSA, which the regime has been using as a cash cow for its social projects, is pretty much tapped out. In all, PdVSA has about USD 25.5 billion of dollar bonds outstanding. As for the government, it predicts that its debt service costs will jump 141% this year after it issued USD 7.2 billion of bonds this year with interest rates of 11.95% and 11.75%. One cushion the government has is that it often sets a conservative oil export price in the budget. The 2012 household plan was calculated using an average quotation of USD 50 a barrel, while the actual price in 2011 averaged a record USD 99.58 pb. But, then, the budget is considered a floor on spending, with outlays rising during the year through "additional credits" that are awarded discretionally to various Ministries.

POLITICAL:

Seeking to batten the hatches for what is likely to be a rather turbulent presidential election campaign, Hugo Chavez has reshuffled the pack of his leading aides in a manner suggesting that he wants to be assured of the support of the military, should he fail to win as easily as he likes to predict. Of course, the key question still is whether Chavez's assurances that he is fully cured from his illness can be taken at face value, since he knows how to run a successful campaign and could probably win even against a united opposition if he put his full energy behind the drive. Never short of odd ideas, he is already commenting that – since Argentina's Pres. Cristina Fernandez de Kirchner became the fifth Left-of-Center Latin American leader to be diagnosed with cancer – this is a "very, very, very strange" situation, perhaps suggesting that the United States might have developed technology to "induce cancer" in its political foes. Such idiocies aside, however, if his health allows him to be fully up to the task, his chances of winning re-election next October should not be underestimated, whatever current public opinion polls may say.

CURRENCY:

Foreign exchange availability for private imports remains tight, and – despite two devaluations in 2010 – the bolivar at the official rates is still substantially overvalued.

REGULATORY:

The regime won an important victory when an arbitration panel at the International Chamber of Commerce awarded ExxonMobil just USD 908 million on a restitution claim in which the company had been seeking USD 7 billion for the 2007 nationalization of the giant Cerro Negro project in the Orinoco tar belt. The ruling appears to back the Venezuelan position that companies whose assets are nationalized should be compensated not for the market value the assets may fetch if sold, but only for the amount invested, i.e., the book value. This is not the end of the story, however. Exxon is pursuing a separate case against Venezuela before the World Bank's arbitration tribunal. Currently about 20 law suits are pending there against the Venezuelan government.

(Venezuela continued)**CREDIT
INSURANCE:**

The US Eximbank remains off cover, whether the customer is a private company or a government entity. Except for PdVSA, the Bank can still consider financing arrangements that eliminate or externalize country risks. Also, coverage under the WCGP may be available for a transaction that is supported by an irrevocable L/C issued by a bank and/or due from a buyer located in a country where Exim is open without restrictions for short-term transactions. The private insurance market has limited capacity except for PdVSA.

**TRADING
TERMS:**

Firms in Venezuela depend heavily on imported materials or parts for their local production, and they often cannot get the needed dollars at the official exchange rate. Foreign companies operating in Venezuela are subject to particular scrutiny, which should be one of the considerations in establishing terms for Venezuelan customers. Another one should be the likelihood that the next devaluation of the bolivar is not far away. Chavez & Co. may seek to postpone it until after the presidential elections, but they may also decide that the additional domestic spending a currency debasement allows them serves them better in rallying their political base.

PERFORMANCE IN THE LAST FOUR MONTHS					
General Condition:	Poor				
Exporters Using L/C:	63.4%, with 65.0% of business				
Trends In Credit Terms:	More liberal: 0.0%; Less liberal: 0.0%; No change, 100.0%				
Average DSO	62 Days				
Collection Experience Past Four Months			Risk Perception Past Four Months		
Payment Made	Commercial Buyers	Government Buyers	Risk Seen As	Commercial Transactions	Government Transactions
Prompt	14.7%	12.8%	Minimal	4.4%	3.5%
In 10-30 days	8.9%	13.3%	Low	17.5%	15.1%
In 31-60 days	37.2%	27.4%	Moderate	22.2%	25.7%
In 61-90 days	28.8%	36.9%	High	48.1%	48.3%
Over 90 days	10.4%	9.6%	Extremely High	7.8%	7.4%
INTERNAL COMPANY TRADE & COLLECTION EXPERIENCE (indicate your in-house experience below)					
Shipping Terms			Payment Delays		
Payment/Credit Terms			Overall Impressions		