

VENEZUELA

August 2010

Credit Risk Rating: 6
Bias: Negative

FORECAST FOR THE NEXT 12 MONTHS

INTERNAL FINANCIAL:

Everyday life is getting harder for all Venezuelans, the poor as well as the rich, against the backdrop of relentlessly declining real wages and persistent shortages of staple goods. While the rest of Latin America is now recovering strongly from recession, Venezuela is deep in a mire of stagflation, on track to chalk up another year of falling gross domestic product and facing monetary erosion at a clip of at least 30% per annum (most likely more). The only things flourishing in Venezuela these days are crime and corruption. President Hugo Chavez, however, continues to focus on fighting the symptoms rather than the root causes of these problems.

EXTERNAL FINANCIAL:

Almost entirely dependent on oil and controlled by the FX distribution of Cadivi, the external accounts are not likely to run into serious problems in the near term, even at current world market prices for petroleum.

POLITICAL:

With the authorities continuing to fight the symptoms rather than the root causes of a plunging parallel-market exchange rate and runaway inflation, and with shortages of basic goods and other economic problems getting worse by the day, it may seem surprising that two out of five Venezuelans still support Pres. Chavez, with only a month to go to general elections. He still has a number of things going for him, though, and a major opposition win, come September, is by no means a foregone conclusion. The legislative elections on September 26 may very well set the tone of a presidential balloting that is to be held next year. These elections could, therefore, be quite critical for Venezuela, as they confront voters with a choice between Chavez and democracy.

CURRENCY:

The authorities in June opened a new, tightly regulated exchange market to replace the “informal” or “parallel” market they have shut down and, they hope, to shore up the bolivar’s exchange rate and put a brake on inflation. The Central Bank is setting the prices in this bazaar. It has established an initial range of VEB 4.5-5.4 per USD 1.00. This means that the bolivar now effectively has four different exchange rates, namely three official ones at 2.6:USD 1, 4.3:USD 1, and within the new range, plus a black-market one. Since the informal market quoted the bolivar at roughly eight to the dollar before it was shut down, the new band obviously overvalues the unit. Since it is artificially maintained, supply and demand forces will not be able to burst the established corridor, but it is almost a foregone conclusion that the supply of greenbacks via this venue will be insufficient and that small companies and individuals will find it even more difficult than before to get hard currency, now that the government has even greater discretion over who gets dollars and who does not. The result will be the emergence of a flourishing black market that will, however, operate underground and be subject to all sorts of nasty influences from official corruption and organized crime.

REGULATORY:

Aside from establishing the new FX market (q.v., above) the regime changed two articles in the foreign exchange law, handing control of all FX to the Central Bank and including dollar-denominated securities as a prohibited form of currency. More specifically, anyone who purchases a dollar-denominated security is now able to obtain foreign currency from the instrument just once and is not allowed to resell it in the secondary market. The new rules also give the securities regulator the authority to inspect and audit operations at brokerages. Venezuelans have been using these to access dollars in the parallel market through the purchase and sale of bolivar- and dollar-denominated bonds.

(Venezuela continued)

**CREDIT
INSURANCE:**

The US Eximbank remains off cover for short-, medium-, or long-term deals, whether the customer is a private company or a government entity. 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. In Europe, official insurers remain quite tight. The private insurance market has limited capacity except for PdVSA.

**TRADING
TERMS:**

There are payment delays arising from the fact that Cadivi still has to get used to the new exchange rate setup. Also, members of the Venezuela-US Chamber of Commerce complain that they are owed sizeable amounts in delayed dollar sales at the two official exchange rates, since Cadivi has been assigning dollars approved only with very substantial delays. As for the regime, it has forced banks to serve Pres. Chavez agenda with the help of such means as interest controls and growing pressures on them to lend more, even as the recession is driving up non-performing loans. So, while the government should be able to contain the growing crisis, there are no guarantees.

PERFORMANCE IN THE LAST FOUR MONTHS					
General Condition:	Fair to Poor				
Exporters Using L/C:	51.2%, with 60.7% of business				
Trends In Credit Terms:	More liberal: 0.0%; Less liberal: 0.0%; No change, 100.0%				
Average DSO	56 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	17.2%	15.0%	Minimal	2.3%	3.3%
In 10-30 days	11.1%	14.7%	Low	19.1%	13.6%
In 31-60 days	31.8%	27.2%	Moderate	22.7%	28.8%
In 61-90 days	28.3%	38.1%	High	50.6%	47.1%
Over 90 days	11.6%	5.0%	Extremely High	5.3%	7.2%
INTERNAL COMPANY TRADE & COLLECTION EXPERIENCE					
(indicate your in-house experience below)					
A) Shipping Terms			B) Payment Delays		
B) Payment/Credit Terms			D) Overall Impressions		