

VENEZUELA

December 2009

Credit Risk Rating: 6
Bias: Negative

FORECAST FOR THE NEXT 12 MONTHS

INTERNAL FINANCIAL:

The economic numbers for the third quarter 2009 came in far below what officialdom had anticipated, showing a 4.5% plunge in real GDP compared to the like year-earlier span (Venezuela does not publish quarter-to-quarter results). This followed a 2.4% drop in April-June, so that, with two consecutive quarters of GDP decline, Venezuela is now officially in recession. Consumers have been cutting back so that retail sales slipped by 11.5%. Imports, hit by a drastic reduction in the amounts of dollars made available through Cadivi at the official exchange rate, fell by 29% in the third quarter. Rather than taking well-considered remedial action, though, Chavez is blaming the victims (accusing private enterprise of hoarding and price gouging and Venezuelans at large of wastefulness) and is getting ready to abolish GDP as a yardstick of economic activity. The economy's downturn was delayed by the residual effects of the global oil boom, but is now hitting with a vengeance.

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. More than likely, though, Cadivi will shift more transactions from the official to the parallel FX market.

POLITICAL:

While Pres. Hugo Chavez by now controls virtually all the levers of power in the country, he is still finding it difficult to fend off questions as to why his regime was so wrong in predicting that the country would not be harmed by the global recession. To distract attention from the economic problems, Chavez has spent hundreds of millions of dollars buying weapons, tanks, fighter jets and helicopters from Russia to beef up the country's armed forces (and his personal standing with them). He insists that Venezuela must prepare for the defense of the country by reorganizing the armed forces and arming militias, and he has ordered an increase in troop strength along the 2,000-kilometer border between Venezuela and Colombia, saying that he may "have to" declare a state of emergency. Nonetheless, he is losing popularity even with his key constituency, the poor, since social programs have been suffering.

CURRENCY:

The pressure for a devaluation of the "official" bolivar, distributed by the Cadivi agency, keeps growing. Notwithstanding intermittent relief efforts by the government such as the issuance of dollar-denominated bonds (which can be bought with local currency and then sold abroad for FX), capital flight keeps pushing down the unofficial FX rate at which companies and individuals must buy their hard currency if they cannot get enough, or any, dollars or euros from Cadivi. Also, the government needs ever-growing amounts of money to cover budget deficits and pay suppliers, and in the end the only way to increase substantially and in sustained fashion the amount of bolivares the authorities receive from dollar-based oil exports will be through a devaluation. The existence of tight capital flow restrictions, however, makes the "when" a political more than an economic decision, so that the timing of the coming currency debasement is hard to predict.

REGULATORY:

The government's latest nationalization drive, directed at banks, will not necessarily lead to a full-fledged systemic crisis. The institutions so far taken over by the government control only 8%-12% of deposits in the whole system. But the action, assertedly undertaken to fight corruption among bankers, has turned into a growing scandal that has unnerved investors and depositors and has also become a political liability for Pres. Chaves, because the affected banks owners were seen as being close to top officials in the regime.

(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:

While we said above that the government's bank takeover should not lead to a systemic crisis, bank interventions can be unpredictable, especially in Latin America, and if depositors panicked and withdrew funds across the board, it would not take long for even the larger institutions to be squeezed. The economy is not offering very good prospects for the banks, considering a deep economic contraction coupled with 30% inflation that are giving new meaning to the term stagflation, and oil production has been falling due to declines in investment. 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:	48.3%, with 56.2% of business				
Trends In Credit Terms:	More liberal: 0.0%; Less liberal: 5.7%; No change, 94.3%				
Average DSO	48 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	15.3%	14.4%	Minimal	1.1%	2.4%
In 10-30 days	13.5%	16.1%	Low	17.6%	15.3%
In 31-60 days	33.8%	28.3%	Moderate	23.4%	29.7%
In 61-90 days	27.1%	37.2%	High	51.1%	47.7%
Over 90 days	10.3%	4.0%	Extremely High	6.8%	4.9%
INTERNAL COMPANY TRADE & COLLECTION EXPERIENCE					
(indicate your in-house experience below)					
A) Shipping Terms			B) Payment Delays		
B) Payment/Credit Terms			D) Overall Impressions		