

# VENEZUELA

February 2008

**Credit Risk Rating: 6**  
**Bias: Negative**

## FORECAST FOR THE NEXT 12 MONTHS

### **INTERNAL FINANCIAL:**

The economy is officially still growing at a clip of more than 10% per annum, but there is a mushrooming black market where vendors hawk essentials such as sugar, milk, rice, cooking oil, beef, pork, eggs and beans, usually for at least double the official prices. Massive government spending and interest rates in real terms well below inflation rates drove inflation to an officially admitted 22.5% in 2007, but the real rate is much higher and official price controls merely create distortions that ultimately hurt the poor more than the wealthy.

### **EXTERNAL FINANCIAL:**

In the short run, there is no reason for worrying about the country's international liquidity position, bolstered, as it is, by sky-high world market prices for oil that make even the heavy petroleum of the Orinoco belt increasingly profitable. The current-account BoP is in solid surplus, the public sector debt is still only about 22% of GDP (one-third that of, for instance, Turkey) and foreign exchange reserves are reasonably ample at about USD 22 billion. Moreover, the national development fund Fonden also holds at least USD 25 billion in assets. At that, national oil production has been declining ever since Chavez took over. Flight capital is seeping out of the country through many leaks, the tight exchange controls notwithstanding. The government is spending money like a drunken sailor, and the country will run into trouble very quickly if oil prices ever go into a sustained decline. Chavez' threats to suspend oil exports to the US in retaliation for court orders freezing PdVSA assets on behalf of ExxonMobil are mostly bluster, but they do underscore weaknesses in the Venezuelan oil company's position.

### **POLITICAL:**

President Hugo Chavez' defeat in the constitutional referendum that would have lifted presidential term limits, allowed the media to be censored and civil liberties to be suspended under a state of emergency, and permitted the seizure of private property before a court order has been issued, was an encouraging development, especially because of the high-profile defectors from his ranks who helped to make this outcome possible. But one should not get one's expectations of positive change in Venezuela too high. Chavez is angry and has certainly not given up on his quest to transform the country into an authoritarian, Socialist state after the Cuban pattern. The opposition needs to prove not only that it can hang together, but also that it can agree on a single platform with which it can win over voters. This is a tall order.

### **CURRENCY:**

With the beginning of January this year the government, as heralded many months ago, launched what it calls a "new currency," the so-called "strong bolivar," by lopping three zeroes off its dollar exchange rate. This turned the old official exchange rate of VEB 2,147 per USD 1.00 into 2.147:1.00, but accomplished little else. It surely will not "reinforce confidence in the monetary symbol" so long as the dollar in the curb market buys three times as many bolivars as Cadivi offers at the official window. It will not serve as the symbol of a "strong economy, strong country," so long as rampant inflation erodes its domestic value.

### **REGULATORY:**

A new law dealing with foreign exchange rules will require that importers must inform buyers whether they bought goods with dollars acquired from Cadivi in the official exchange market, or on the parallel market. The purchase and sale of hard currency up to USD 10,000 on the unofficial (albeit legal) market will be condoned without punishment, but publication of the bolivar/dollar exchange rate in that bazaar will be prohibited, as the public release of any exchange rate other than the official one will be punishable by a fine of up to 37.6 million bolivars (the equivalent of about USD 17,500) for the first offense.

**(Venezuela continued)****CREDIT  
INSURANCE:**

Since April 17, 2003 the US Eximbank has been off cover for short-, medium-, or long-term deals, whether the customer is a private company or a government entity. The Bank says it will consider structured financing arrangements such as its project finance program, asset-based aircraft leases, and other financing arrangements that offer a reasonable assurance of repayment, including reliable access to adequate FX. 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:**

We have downgraded the rating bias to negative not because of any weakening of Venezuela's external financial position, which remains quite strong in line with international oil prices, but because his referendum loss could easily prompt Pres. Chavez to toughen exchange controls and take other steps with a potential to hurt outbound payments. Still, for now, if there are delays or a company is unable to get FX at the official rate, this is either because the importer did not have the documentation in order or is on a governmental "black list," something that qualifies more as a customer than a country risk problem. For this reason, collection experience with Venezuelan customers will remain highly uneven.

| <b>PERFORMANCE IN THE LAST FOUR MONTHS</b>   |   |                          |   |                                |                                |
|--|---|--------------------------|---|--------------------------------|--------------------------------|
| <b>General Condition:</b>  | Fair  |                          |   |                                |                                |
| <b>Exporters Using L/C:</b>  | 40.3%, with 39.1% of business                             |                          |   |                                |                                |
| <b>Trends In Credit Terms:</b>   | More liberal: 0.0%; Less liberal: 0.0%; No change, 100.0% |                          |   |                                |                                |
| <b>Average DSO</b>   | 39 Days   |                          |   |                                |                                |
| <b>Collection Experience Past Four Months</b>  |   |                          | <b>Risk Perception Past Four Months</b> |                                |                                |
| <b>Payment Made</b>  | <b>Commercial Buyers</b>                                  | <b>Government Buyers</b> | <b>Risk Seen As</b>                     | <b>Commercial Transactions</b> | <b>Government Transactions</b> |
| Prompt   | 18.8%   | 21.1%                    | Minimal                                 | 4.2%                           | 8.2%                           |
| In 10-30 days  | 17.3%   | 23.5%                    | Low                                     | 19.8%                          | 22.4%                          |
| In 31-60 days  | 36.6%   | 22.7%                    | Moderate                                | 23.6%                          | 27.0%                          |
| In 61-90 days  | 21.1%   | 28.1%                    | High                                    | 44.9%                          | 39.2%                          |
| Over 90 days   | 6.2%  | 4.6%                     | Extremely High                          | 7.5%                           | 3.2%                           |
| <b>INTERNAL COMPANY TRADE &amp; COLLECTION EXPERIENCE</b><br>(indicate your in-house experience below) |   |                          |   |                                |                                |
| A) Shipping Terms  |   |                          | B) Payment Delays                       |                                |                                |
| B) Payment/Credit Terms  |   |                          | D) Overall Impressions                  |                                |                                |