Coronavirus Covid-19 Update

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot
Venezuela
November 2020

Written 06 November 2020

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

+ Abundant natural resources, particularly vast oil reserves, could herald significant positive economic growth and development, if the government reverses course and pursues prudent policies.

- The quality of human capital has declined due to the 'brain drain' triggered by a worsening socio-economic crisis that has resulted in around four million people fleeing since 2015.
- The ruling party has tightened its hold on power at all levels of government through allegedly-fraudulent elections.
- 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

Business continuity will deteriorate further as tightened US sanctions terminate previously-permitted diesel swaps by non-US companies.

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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

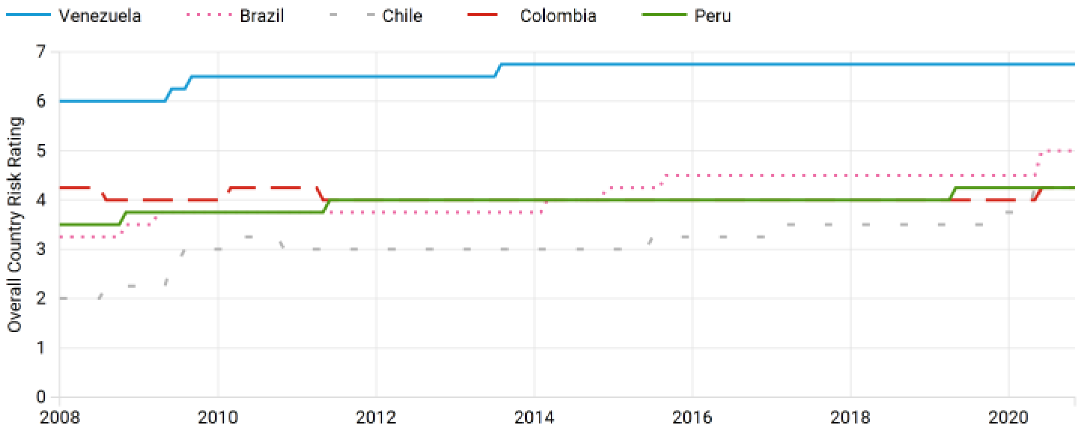
R

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

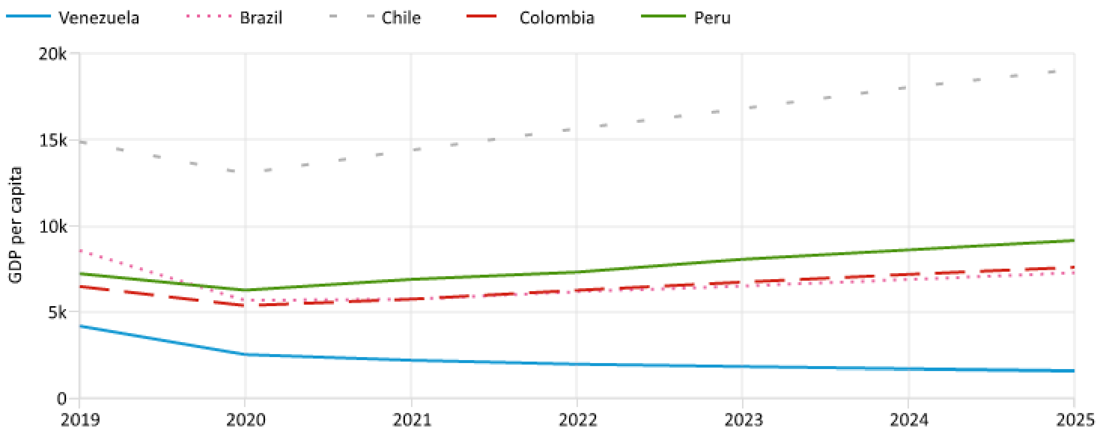
Rating History and Comparison



Source: Dun & Bradstreet

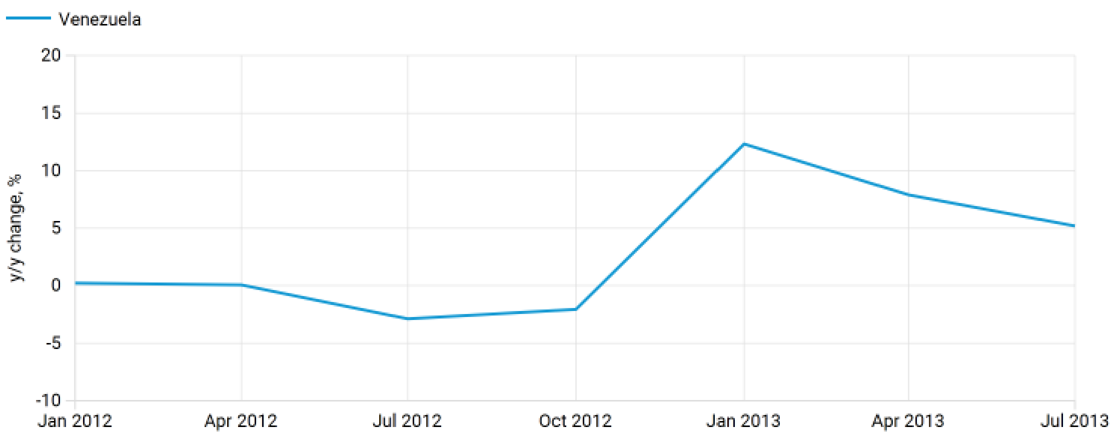
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020f	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	3.9	1.3	-1.1	-0.9	3.7	6.1	5.4	3.2
External Debt, % GDP	113.3	130.2	87.2	97.2	104.4	99.8	98.0	96.0
Govt balance, % GDP	-23.0	-28.5	-22.0	-16.9	-17.1	-17.8	-17.5	-17.1
Inflation, annual avge %	130,060.0	17,350.0	2,945.0	803.0	445.0	350.0	150.0	80.0
Real GDP Growth, %	-19.6	-36.5	-30.0	-5.0	3.0	2.2	1.5	1.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The bolivar continued its sharp and continuous descent against the US dollar with the parallel (informal) exchange rate trading at Bs. 540,023.64 on 7 November from Bs.364,023.00 on 6 September. In addition to the increasing the cost of servicing dollar-denominated debt, the continued scarcity of US dollars is an added burden when doing business in Venezuela. International reserves stood at USD6.52bn (including gold) at end-July, down 20% y/y. The severe scarcity of foreign exchange and capital controls exacerbate long delays in purchasing dollars for transactions such as remittance of profits. Worryingly, the price of Venezuelan crude and daily production have sharply declined in the past six months. With a heavy reliance on government spending to drive growth, the outlook remains grim despite Venezuela reportedly receiving a moratorium to December 2020 on repayment of USD19bn outstanding on a USD50bn loan from China Development Bank. A combination of severe multi-year economic contraction, US sanctions and Covid-19 has prevented Venezuela from adhering to agreed terms involving repayment in crude oil. While a re-evaluation of the grace period in December is expected to result in an extended moratorium, Venezuela's request for additional financial support from China is unlikely to be approved.

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.

RISKS AND OPPORTUNITIES

Business Continuity

Acute diesel shortage anticipated as sanctions tightened

The US ended a sanctions exemption was permitted on humanitarian grounds which allowed non-American companies to supply diesel as payment for Venezuelan crude oil, natural gas production, or to repay old debts. The three main foreign enterprises that had engaged in diesel swaps and thus directly affected by the latest tightening of American sanctions against Venezuela are India's Reliance Industries, Spain's Repsol and Italy's Eni. Under the Trump Administration in the past year the US has taken tough measures to enforce its sanctions against Venezuela. While hammering the economy by severely restricting crude oil exports, 2019 US oil sanctions have so far failed to achieve its goal of dislodging Nicolas Maduro. In August, the US government seized a shipment of over 1m barrels of oil from Iran, itself facing US sanctions, that were destined for Venezuela. The US government also took control of websites that allegedly facilitated that Venezuela-Iran transaction. Iran has been an ally to Venezuela as demonstrated by its supply of 1.5m barrels of gasoline to help ease the scarcity caused by sanctions.

Despite expectations that Iran will likely attempt to fill the new gap in the supply of diesel, severe shortages are expected in the near-term negatively impacting power generation, water production and distribution, food supply and public transportation. The government has already been urging reduced consumption of water and electricity in anticipation of even lower supplies of already-unreliable utility supplies. Notably, it remains unclear how the incoming administration under US president-elect Joe Biden will proceed vis-à-vis the political situation in Venezuela.

Market Potential

Hyperinflation persists

Continued hyperinflation will erode purchasing power in 2021, weighing heavily on household consumption and further narrowing margins already constrained by price controls. Even if wage hikes are implemented in the next year, as had been done several times by the Maduro administration in recent years, these are unlikely to preserve workers' spending power. In January 2020 the president implemented a 67% increase in the minimum wage, the 11th rise in in two years which took it to USD3.60. However, with inflation projected by PDVSA to rise by 175,000% by end-2021, the cost of living will continue to rise exponentially as purchasing power dwindles similarly. We continue to project upward pressure on prices in coming months as the bolivar soberano depreciates further.

Short-Term Economic Outlook

Record oil production drop exacerbates economic crisis

The on-going record drop in oil production continues to exacerbate Venezuela's economic crisis. In July, crude production fell to 339,000 barrels per day which was the second lowest level, after June 2020, since the 1920s. Exacerbating the situation is the declining trend in Venezuela crude prices which averaged USD28.32 in July compared to an average of USD100.11 in 2012, although the government projects USD35 per barrel in 2021. With the oil sector burdened by tightening sanctions, government payments will face even longer delays and defaults in coming months.

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)	28.5
GDP (USD billions)	119.6
GDP per capita (USD)	4,195
Life expectancy (years)	72.3
Literacy (% of adult pop.)	97.1
Surface area (sq km)	912,050

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020f
Real GDP growth (%)	-17.0	-15.7	-19.6	-36.5	-30.0
Nominal GDP in USDbn	236	215	219	120	72
Nominal GDP in local currency (bn)	23,752	198,803	5,367,669	38,539,865	65,517,771
GDP per Capita in USD	7,901	7,323	7,584	4,195	2,531
Population (year-end, m)	29.9	29.4	28.9	28.5	28.4
Exchange rate (yr avge, USD-LCU)	100.7	923.4	24,500.0	322,200.0	910,200.0
Current Account in USDbn	-3.9	8.7	8.6	1.5	-0.8
Current Account (% of GDP)	-1.6	4.0	3.9	1.3	-1.1
FX reserves (year-end, USDbn)	11.0	9.5	9.2	7.5	5.6
Import Cover (months)	5.1	5.2	5.9	5.3	4.3
Inflation (annual avge, %)	254.4	985.0	130,060.0	17,350.0	2,945.0
Govt Balance (% GDP)	-24.5	-20.7	-23.0	-28.5	-22.0

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	-5.0	3.0	2.2	1.5	1.0
Nominal GDP in USDbn	63	58	55	52	50
Nominal GDP in local currency (bn)	68,793,660	72,233,343	75,845,010	79,637,260	83,619,123
GDP per Capita in USD	2,198	1,969	1,832	1,705	1,592
Population (year-end, m)	28.7	29.3	30.0	30.8	31.5
Exchange rate (yr avge, USD-LCU)	1,090,200.0	1,253,700.0	1,379,100.0	1,517,000.0	1,668,700.0
Current Account in USDbn	-0.6	2.1	3.3	2.8	1.6
Current Account (% of GDP)	-0.9	3.7	6.1	5.4	3.2
FX reserves (year-end, USDbn)	4.2	3.1	2.7	2.4	2.1
Import Cover (months)	3.6	2.4	1.8	1.4	1.7
Inflation (annual avge, %)	803.0	445.0	350.0	150.0	80.0
Govt Balance (% GDP)	-16.9	-17.1	-17.8	-17.5	-17.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Venezuela	Brazil	Chile	Colombia	Peru
Income per Capita (USD)	2,531	5,687	13,060	5,378	6,279
Country Population (m)	28.4	212.6	19.1	50.8	32.1
Internet users (% of population)	72.0	67.5	82.3	62.3	52.5
Real GDP Growth (% p.a., 2021 - 2030)	-7.0 - 2.0	1.5 - 2.5	1.8 - 3.0	2.0 - 3.5	3.2 - 6.5

Source: Various sources/Dun & Bradstreet

LINKS

User Guide

Please click here to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 20 7149 5000
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 20 7149 5000

Publisher

Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk, and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. Visit www.dnb.com for details.

Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.