Critical situation

General Information

- **GDP**: USD438.28 bn (World ranking 27, World Bank 2013)
- **Population**: 30.41 mn (World ranking 41, World Bank 2013)
- **Form of state**: Federal Republic
- **Head of government**: President Nicolas MADURO
- **Next elections**: 2015, Parliament

Strengths

- Large-scale energy resources.
- Moderate external debt levels.

Weaknesses

- Over-dependence on oil (95% of export earnings).
- Policies are highly interventionist and unsustainable without high oil prices.
- FX reserves decreasing rapidly despite exchange controls leading to shortages of even basic goods and penalizing the industrial sector.
- Inflation among the highest in the world.
- Increasing political tensions over constant shortages, high inflation and crime.
- Extremely poor business environment. Heavy state intervention includes unpredictable nationalisation in various sectors.

Country Rating

![Country Rating Diagram](image)

Trade Structure

By destination/origin (% of total)

<table>
<thead>
<tr>
<th>Exports</th>
<th>Rank</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>India</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>Other America</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>China</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4%</td>
<td>5%</td>
</tr>
</tbody>
</table>

By product (% of total)

<table>
<thead>
<tr>
<th>Exports Products</th>
<th>Rank</th>
<th>Exports</th>
<th>Rank</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil</td>
<td>80%</td>
<td>1</td>
<td>7%</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>Refined Petroleum Products</td>
<td>18%</td>
<td>2</td>
<td>6%</td>
<td>Refined Petroleum Products</td>
</tr>
<tr>
<td>Basic Organic Chemicals</td>
<td>1%</td>
<td>3</td>
<td>5%</td>
<td>Engines</td>
</tr>
<tr>
<td>Iron Steel</td>
<td>0%</td>
<td>4</td>
<td>4%</td>
<td>Meat</td>
</tr>
<tr>
<td>Iron Ores</td>
<td>0%</td>
<td>5</td>
<td>4%</td>
<td>Basic Organic Chemicals</td>
</tr>
</tbody>
</table>

Source: ITC, Chelem (2013)
Economic Overview

Recession will continue
While the economy was already suffering from electricity and water cuts, soaring inflation, price and FX controls, shortages of imported goods and strong state interventionism, the fall in oil prices (15% of GDP, 90% of total exports and 40% of fiscal revenues) delivered a final blow. The recession recorded in 2014 (-4.5%) is expected to deepen dramatically in 2015, with real GDP falling by -7.5% in 2015 and by -1.5% in 2016.

The currency hits a new low, fuelling concerns on inflation
In hopes of mitigating issues facing their exchange rate, the government replaced in February their SICAD2 tier (of the three tiered system) with a new system, Simadi, which enables banks and brokerages to sell dollars at a free rate. The Simadi exchange rate has continuously depreciated since then, reaching recently 200 VEF/USD implying a devaluation of around -70% against the previous SICAD2 rate (52 VEF/USD). The exchange rate has even reached around 400 VEF/USD bolivars in certain (outlawed) markets. Along with Simadi, two other exchange rates co-exist: the official exchange rate currently at 6.3 VEF/USD which is applied for the purchase of “essential-goods and the SICAD1 exchange rate, currently at 12 VEF/USD, which distributes dollars to individuals and businesses through auctions at a higher rate than the official exchange rate. These figures indicate that further change is likely just around the corner. As the cash-strapped country experiences shortages of essential goods as a consequence of imports and tight FX controls, the price-wage loop and further depreciation of the Bolivar means upside pressures on inflation will strengthen, further compounded by consumer efforts to shield themselves from the disheartening outlook.

External situation continues to deteriorate
Public accounts are deteriorating from already worrying levels (public deficit nearly -15% of GDP in 2014), further pointing to building levels of financing and external vulnerability, as well as an increasing risk of sovereign default. The recent fall in oil prices will drive the current account balance into deficit in 2015 (-2.5%) for the first time in at least 15 years, and improve only slightly in 2016 (-2.0%). FX reserves have now halved since 2008, implying just a 3 month import cover remains.

As the threat of Sovereign Default looms, China has become the main source of external financing (through oil for loan agreements), and EH expects external debt to rise to nearly 60% of GDP in 2015. The lack of access to international capital markets has further elevated the risk of expropriation or nationalization within the private sector: Venezuela already ranks 182 out of 189 countries on the World Bank’s ease of Doing Business Survey, citing unclear boundaries regarding nationalization.

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