



VENEZUELA

Latin American Trends

Venezuela

October 2017

Economic Outlook

- **Crisis in the oil industry.** The continued subsidies policy for the commercialization of fuel, as well as the lack of investments that support increases in productivity, have led to a sustained drop in production in the hydrocarbons industry, which provides 96% of the country's foreign currency. . Thus, in a context of low oil prices and international sanctions that limit access to capital markets, the lack of liquidity faced by state oil company PDVSA means greater financial fragility, an increase in the risk of non-compliance external commitments and a greater shortage of gasoline in the domestic market of a country that has some of the largest oil reserves worldwide
- **Uncertainty in the exchange market.** The struggle, hitherto ineffective, against the parallel foreign exchange market, along with the difficulty of accessing the international financial markets, have led to a possible implementation of a new system, in which the operations of the official exchange rate are carried out through a basket of currencies including the ruble (Russia), the rupee (India) and the yuan (China), substituting the dollar as referent currency. This mechanism, clearly complex to implement, has meant the temporary closure of the official dollar offer, further boosting the exchange rate in the parallel market and the steadily increasing trend of prices in the economy.

Forecast Scenario

- **The tension on the political front will continue.** The election and subsequent establishment of the Constituent Assembly, whose objective is to modify the current constitution and transform the Venezuelan State, together with the results of the recent regional elections, in which the ruling party, according to the National Electoral Council CNE, obtained the majority in 70% of the states that make up the country, constitute, for the National Assembly as well as for a large part of the international community, processes that are not very transparent, that attempt against the political freedom of the nation; so it is expected a further escalation of political tensions and an increase in international sanctions in an adverse context of serious economic crisis, in which the country is submerged since 2014.
- **Worsening of the economic and social crisis.** The pernicious effect, on the inflationary spiral, of the wage increases carried out in the months of January (50%), May (60%), July (50%) and September (40%), will continue to generate diametrically opposite results to the expected in 2017, the collapse in private consumption (-10.0%). This policy continued on the rise of the interprofessional salary, worsens in turn, the fragile conditions in which the Venezuelan business network has been operating, which is affected by the loss of economic freedom, the institutional weakness and the lack of foreign exchange to import supplies, spare parts and machinery. In this context, a rebound in the shortage of goods and a worsening of the poverty levels of the population are expected.

Also in the news...

- Exports of Venezuelan crude to the United States were reduced by 24%.
- Because of the lack of gasoline, taxi drivers work only four hours a day.
- Venezuela was ranked for the third consecutive year, in the last place among the 159 countries evaluated in the Index of Economic Freedom 2017.
- Canada will impose sanctions against 40 high-level Venezuelan officials.
- The Chilean Central Bank revoked credit line to the Central Bank of Venezuela.

- The president decreed an increase of 40% of the minimum wage and pensions.
- Fitch decreases Venezuela's credit rating.
- In Venezuela, monetary liquidity increased fivefold in the last year.
- US sanctions will aggravate Venezuelans poverty.
- The purchasing capacity of the integral income of the workers is 14%.
- The IMF prepares to rescue Venezuela for \$ 30 billion.

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Main Economic Indicators

REAL ECONOMY	Latest Data	Previous	Annual Trend ⁽¹⁾	
Consolidated GDP ⁽²⁾ (% growth)	15. III	-7.1	-4.7	Negative
Oil GDP	15. III	-1.9	-1.5	Negative
Vehicle Sales	Apr.17	-20.1	-92.4	Negative
Consumer Price Index INPC	Dec.15	180.9	172.0	Negative
Venezuelan Oil Price	Sep.17	47.8	45.6	Negative
Trade Balance (Mill \$)	15. III	-782	3,300	Negative
Oil Exports	15. III	-56.2	-42.1	Negative
Reserves (Thou.Mill \$)	Sep.17	9.3	10.1	Negative
Unemployment Rate	Apr. 16	7.3	7.1	Stable

Annual change rates for GDP, CPI, Vehicle Sales and Oil Exports..

(1) Valued according to the past 12 months (2) Oil and non-oil.

Financial Data	Latest Data	Growth in		
		3 months	1 year	
Stock Exchange (IBC)	30 Oct. 17	-3.7%	-99.5%	-95.3%
Exchange Rate Bolívar/\$	30 Oct. 17	10.0	0.0%	0.0%
EMBI	27 Oct. 17	3,056	2,913 (*)	2,321 (*)
30-Day Deposit Rate	14 Oct. 17	14.5	14.6 (*)	14.7 (*)

(*) Value from 3 months and 1 year ago respectively.

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	-18.3	-9.7	-4.1
Inflation (% end period)	590	1,200	1,600
Trade Balance (Bill.\$USA)	6.0	12.0	13.0
Current Account Balance (% GDP)	-2.4	-1.3	-1.9
Public Sector Deficit (% GDP)	-7.5	-8.8	-8.1
Reserves (Thou.Mill. \$ USA)	11.0	9.0	10.5
30-Day Deposit Interest Rate	14.5	14.5	14.5
External Debt (% GDP)	19.3	21.9	13.2
Exchange Rate Bolívar/\$ (end of year) ¹	10.0	10.0	20.0

¹Essential godos.

Risk Evaluation: HIGH

Exchange Rate Instability: HIGH

The exchange rate quoted in the parallel market remains at historical highs, when exceeding 40,000 BsF / US \$, compared to 11,000 BsF / US \$ of the official quotation (DICOM). Thus, the temporary suspension of auctions in the official market, after the announcement of offering in the exchange system a basket of currencies that excludes the dollar, has meant a long period of uncertainty among economic agents.

Sovereign Risk: HIGH

The sustained decline in international reserves, in an environment marked by economic sanctions and declining oil production, will continue to erode the government's ability to honor its external financial obligations in the short term.

Public Sector Finance: HIGH

In an adverse economic context marked by a continuous collapse of GDP, as a result of the sustained decline of both the production and the price of the oil industry, as well as the application of economic policies that have mutilated the private sector, deterioration is expected to continue in public finances.

Socio Political Situation: HIGH

After the results obtained in the regional elections in October 15, a convulsive political climate characterized by confrontation will be maintained, since the National Assembly considers the election results obtained from the United Socialist Party of Venezuela (PSUV) to be fraudulent; declared winner in 17 of the 23 states of the country.

Venezuela: general information

Official Name: Bolivarian Republic of Venezuela

Area: 912,050 Km².

Population: 30.6 million (2015)

Government: Presidential democracy

President: Nicolás Maduro. Leader of the Polo Patriótico Party.

Next Elections: In 2019, presidential.

Minister of Economy, Finance and Public Banking: Ramón Augusto Lobo Moreno.

Central Bank President: José Ricardo Sanguino

Currency: Bolívar fuerte.

Exchange Rate System: Under changes.

Nominal GDP: 287 Thou. Mill. \$ (2016).

GDP/h (PPA in US\$): 13,761\$ (2016).

Life Expectancy (Years): 74.4 (2015).

Years of Schooling (average): 9.4 (2015).

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