

Venezuela Business Forecast Report Q1 2015

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Abstracts

Core Views

We expect economic growth to remain sluggish, characterised by a slowdown in private consumption, net exports and investment. The negative outlook has deteriorated further amid falling oil prices. President Nicolas Maduro has consolidated his position at the helm of the Partido Socialista Unido de Venezuela, but his popularity has waned amid economic difficulties affecting all segments of society. He will continue his predecessor's policies of elevated social spending, resulting in sizeable fiscal deficits.

Inflation will remain elevated, at the highest level in Latin America, and the operating environment will remain very precarious for foreign multinationals in the country.

Major Forecast Changes

We have downgraded our GDP forecast for the next several years, amid a growing number of business closures, soaring inflation and a downgrade to our oil forecasts. We now forecast real GDP to contract by 2.0% in 2014 and expand by only 0.8% in 2015 and 1.9% in 2016, compared with our previous forecasts for real GDP growth of 0.5%, 1.2% and 2.5% in 2014, 2015 and 2016 respectively.

Also due to our oil price downgrade, we have downwardly adjusted our forecast for the budget deficit to 12.6% of GDP in 2014 (compared with our previous estimate of 8.8%), which we expect will narrow only slightly to a deficit of 10.3% in 2015. Lower oil prices are also negative for Venezuela's balance of payments position, and we have downgraded our current account forecast to 1.4% of GDP in 2015 and 1.2% in 2016, from a previous 3.3% and 2.7% of GDP respectively.

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PSUV Missteps Pave The Way For Opposition Gains

The Venezuelan public's dissatisfaction with the government's handling of the economy and security in recent quarters paves the way for opposition gains in the 2015 legislative election, particularly since the administration of President Nicolas Maduro has shown limited willingness to enact much-needed reforms. Nevertheless, any opposition inroads will be predicated on bridging internal divisions and improving outreach to poorer segments of society.

TABLE: Political Overview

Long-Term Political Outlook

Post-Chavez Era To See Greater Turbulence

Venezuela entered a new era following the election of Nicolas Maduro as successor to the late President Hugo Chavez, but the narrowness of his victory points to an increasingly polarised electorate, which will make the country harder to govern. With the economy looking weak, Maduro could well leave office before his term expires in 2019. Regardless of who rules Venezuela, the country will face formidable economic challenges, such as excessive state control, high inflation, corruption, violent crime and a brain drain.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Index
Economic Activity

Deteriorating Business Climate, Lower Oil Prices Underpin Growth Downgrade

The massive distortions in the Venezuelan economy caused by complicated and ever-changing government policies, a hostile business climate and rampant inflation will cap real GDP growth over the coming years. We have downgraded our forecasts for 2014

and 2015 on the back of lower average oil prices and the prospect of continued high inflation.

TABLE: Economic Activity

Monetary Policy

Shortages And Market Distortions To Keep Price Pressure Elevated

Venezuelan inflation will remain extremely high in the coming months, as fundamental weaknesses in the economy exert tremendous upward pressure on the informal exchange rate and the cost of basic goods. We are forecasting end-2014 inflation of 64.1% y-o-y, and see price growth easing modestly in 2015, to an average of 57.1%.

Fiscal Policy

High Social Spending To Keep Fiscal Account Under Pressure

Venezuela's fiscal account deficit will remain deeply negative over the coming years as revenues continue to be constrained and expenditure, notably on large-scale social programmes, continue to be elevated. We note significant downside risks stemming from the recent drop in the price of oil, which may hinder the government's ability to meet debt obligations over the coming quarters.

TABLE: Fiscal Policy

Balance Of Payments

Lower Crude Prices To Weigh On External Account

Following a major downgrade to our oil price forecasts, we have lowered our forecasts for Venezuela's current account balance. Although imports are on the decline, the fact that oil products account for nearly all of the country's export basket will weigh heavily on its balance of payments outlook.

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