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Venezuela Business Forecast Report Q4 2014

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Abstracts

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Core Views

We expect economic growth to remain sluggish, characterised by a slowdown in private consumption, net exports, and investment. President Nicolás Maduro has consolidated his position at the helm of the PSUV, 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. However, a series of currency devaluations has begun to ease fiscal pressures.

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 fiscal deficit forecast for 2014 and 2015, following a downward adjustment by our Oil & Gas team for crude production, to 6.7% of GDP and 6.5% of GDP respectively, compared to our previous projections of 6.5% and 6.2%.

We have incorporated our view that currency unification will occur in 2015, reflected in our forecast for the official exchange rate to reach VEF25.00/USD that year, compared to the current rate of VEF6.292/ USD.

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BMI Political Risk Ratings
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Protests To Persist As Opposition Gains Ground
We believe that public protests in Venezuela will continue over the coming months, although we expect them to remain largely peaceful.
This view is supported by recent polling data showing that Venezuelan President Nicolás Maduro's popularity has declined to its lowest
level since his election in April 2013, while support for key opposition figures and non-violent demonstrations is on the rise.
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Post-Chávez Era To See Greater Turbulence
Venezuela is entering a new era following the election of Nicolás Maduro as successor to the late President Hugo Chávez, 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 lose 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.

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Economic growth in Venezuela will remain extremely low, and may drop into negative territory in the coming quarters given the poor

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for acquiring foreign currency. We are forecasting growth of just 0.5% in 2014 and 1.2% in 2015, but we believe that risks continue to be
weighted to the downside.

Table: Economic Activit y

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Export Stagnation To Weigh On Current Account

Venezuela's current account will remain under significant pressure due to the poor performance of the oil sector and other industries
producing goods for exports. While import growth is also likely to have fallen in recent months, we maintain our view that the current
account surplus will narrow from 2.1% of GDP estimated in 2013 to 2.1% in 2014.

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Falling Revenues To Temper Fiscal Consolidation

Venezuela's fiscal deficit will narrow significantly in 2014 thanks to the government's greater purchasing power afforded by the ongoing
devaluation of the currency. However, we have downgraded our budget forecasts following a deterioration in the outlook for the
country's oil and gas production. We are forecasting a budget deficit of 6.7% of GDP in 2014, and 6.5% in 2015, compared with 9.8% in

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Currency Unification To Be Delayed Until 2015

We do not expect that Venezuela's multiple exchange rates will be unified in 2014, despite assurances from some government officials
that such reforms are imminent. However, we believe that the government's strategy of devaluing the bolívar gradually through migrating
more transactions to weaker exchange rates will continue apace and that currency unification will occur in 2015.

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