



Tagging Info

**Fitch Affirms Venezuela's Ratings at 'B+' Ratings**

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Fitch Ratings-New York-11 April 2011: Fitch Ratings has affirmed Venezuela's ratings as follows:

- Foreign currency Issuer Default Rating (IDR) at 'B+';
- Local currency IDR at 'B+';
- Country ceiling at 'B+';
- Short-term IDR at 'B'.

The Rating Outlook is Stable.

Venezuela's ratings are underpinned by its manageable debt service profile, relative financing flexibility and good record of servicing debt even under political and economic stress in recent years. In addition to international reserves, the sovereign has foreign currency liquid assets (19% of CXR and 46% of end-2010 international reserves) that could be used for debt service. Finally, the current favourable international oil price environment is supportive of Venezuela's external and fiscal accounts.

Venezuela's credit strengths are balanced by a volatile macroeconomic performance and an exchange regime that leads to lower growth, higher inflation and the deterioration of external credit metrics. The importance of international oil prices for external and public accounts has increased in recent years. At the same time, there is limited transparency regarding the administration and use of the government's financial assets as well as the 'oil and devaluation related' windfalls.

Venezuela's macroeconomic performance continues to lag in relation to peers in the aftermath of the global financial crisis as the economy remained in recession in 2010 and inflation is stubbornly high. In spite of oil averaging 100 USD per barrel in 2011, growth is not likely to return to pre-crisis levels over the outlook period. Moreover, inflation, as reflected by the Metropolitan Caracas Price Index, will likely remain high closing 2011 at 29.5%, up from 27.4% in 2010.

'The country's exchange rate regime continues to weigh on sovereign creditworthiness as it contributes to high inflation and real exchange rate volatility, constrains economic growth, and leads to higher external debt,' said Erich Arispe, Director in Fitch's Sovereign Group.

While the favourable oil price outlook could be supportive for Venezuela's external and fiscal metrics, this is not likely to fully revert the past two years' deterioration, especially on the external front where international liquidity will remain lower than peer oil exporters. As the sovereign is likely to continue issuing external debt in the local market to sustain the current exchange rate regime, Venezuela will also remain as net sovereign external debtor.

Central government debt, at 25% of GDP in 2010 calculated at the VEF4.3 exchange rate, remains below that of peers, but Fitch notes that its growth has been rapid in the past two years. Moreover, 'limited transparency in the administration and use of government-managed funds as well as in fiscal operations poses challenges to accurately assessing the stance of fiscal policy and the full financial strength of the sovereign,' said Arispe.

Venezuela's ratings could benefit from policy adjustments that contribute to macroeconomic stability and reduce the vulnerability of the economy to oil price volatility. Significant strengthening of external solvency and liquidity indicators as well as greater transparency in the administration and use of government-managed funds would also be viewed positively. Fitch would view negatively greater than expected deterioration in external and fiscal credit metrics in relation to peers. Increased macroeconomic pressures and oil price shocks reducing the sovereign's debt service capacity would negatively affect Venezuela's creditworthiness.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:  
--'Sovereign Rating Methodology' (Aug. 13, 2010).

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