

The background of the top half of the page is a photograph of the Venezuelan flag, which is yellow, blue, and red with white stars. Overlaid on the flag are dark silhouettes of a crowd of people, some with their arms raised, suggesting a protest or public gathering.

WHAT IS HAPPENING IN
VENEZUELA?

AN INSIGHT ON VENEZUELA'S CRISIS

AN ESSAY BY

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INTRODUCTION

Venezuela is a South America country, that has the biggest quantity of proven oil reserves in the world and an incredible touristic potential. However, everyday there are newspaper's highlights about the increasing values of its hyperinflation, its poverty levels and its shortages; there are images of protests, empty shelves on the supermarket and children starving on the hospital. Aware of the importance of the case of Venezuela for the World Economy, and by suggestion of the Professor of Thai Economy, Dr. Bhanupong Nidhiprabha, the aim off this essay is to provide a brief analysis of the key factors of the current situation in Venezuela.



CONTEXT

First of all, to better understand the present of Venezuela, it is relevant to have an insight on the past context.

It goes back to the times when Hugo Chávez became president of Venezuela, in the year of 1999. Chávez took advantage of the poverty, social disparity and corruption to build a populist campaign where he promised to eradicate these issues.

Once in power, the president started a reform called the Bolivarian Revolution that intended to realize his vows. Private land and foreign assets were nationalized; food, housing, education and health care subsidies were granted to the poor, ALBA and Petrocaribe were created (the first to unite Latin America countries, the second to provide oil to Caribbean countries at better rates). These actions worked, especially, from 2004, when the oil prices surged; as said before, Venezuela has the highest quantity of proven oil reserves, which means that billions of oil profits were spent on social welfare programs for the poor.

The investment on these programmes started achieving their goals: life quality improved and poverty was reduced to half. These programs helped the poor, but they were also favourable to Chávez. He knew that to be re-elected he needed to ensure the happiness of low classes. So all the oil funds were used on these programmes. This was the seed of the economic crisis that generated the complex crisis of Venezuela: first, because the profits were not used to scale back the huge economic dependence that the economy had on oil (90% of exports) which could collapse the economy if oil prices fell (which actually happened); second, because it would lead to a Dutch disease (situation in which a country that relies on natural resources tends to focus on that activity, stopping the industrialization process; moreover, the increasing exports of that product can increase the exchange rate making all the other products of the economy less attractive), third, because the over spend on these programmes became unsustainable, generating growing deficit.

After the death of Chávez in 2013, its Vice-President, Nicolas Maduro was elected president. One year later, in 2014, the undesired fall of oil prices happened. As a consequence, the economy collapsed with records of hyperinflation, shortages (caused by price controls), unemployment and poverty.



THE CRISIS

The Economic Chaos lead to a Crisis that can be analysed in 3 levels: Economic, Social and Political.

Economic

The hyperinflation in Venezuela is already one of the biggest in the world's history. The latest IMF forecast projects Venezuela inflation on 1,000,000%, with huge CPI values that are.

The GDP growth continues to reflect the recessionary trend, with an expected 18% decrease during this year, and recording a 35% from 2013 to 2017.

The Public Debt is also an issue, in November 2017, it amounted 105 billion USD (where we can see an increasing dependence on China) while the reserves amounted 10 billion USD.

The unemployment rate, I estimated to be 33.3% in the year of 2018.

All these indicators are related to an idea of "economic war", where Maduro blames the capitalist speculation for the disasters. Many investors are afraid of getting their properties nationalized which makes business opportunities harder.

Social

The economic instability lead to several social issues; housing problems, hunger, crime, health care and emigration.

Venezuela shortage on housing is an old problem. Even with the million spent by Chavez, the majority of the promised houses where never constructed. As the time went by, the situation got worse; private construction companies stopped operating (fearing the nationalization), shortages of steel made the construction impossible and house rents were fixed by the government.

Several studies noticed that Venezuelans suffered for lack of proper nutrition. The Observatory of Violence reported that in 2017, were reported 26,616 homicides. This crime problem is a result of the police conditions (bad paid, bad trained and corrupt), a politized judicial system and availability of illegal weapons.

After good improvements on health care before the crisis, Venezuela got back to a tremendous health problem with increasing infant and maternal mortality, hospitals with terrible conditions and difficult access to medicine.

This situation is leading to an exodus of Venezuelans to South America neighbours: Brazil, Peru and Equador.



THE CRISIS

Political

Maduro is not the beloved president that Chávez used to be. The country became worse in every aspect since his election, but the leader has gained power since then. Maduro's ambition became clear in December 2015. After a coalition of opposition parties have won the two-thirds of the National Assembly, Maduro replaced the judges of the Supreme Court for the ones who supported him. On the following year, the Supreme Court suspended the National Assembly, which generate massive protests. Even though the measure was reversed the protests continued: more than 200 were killed and thousands injured. Despite this, in July 2017 an election was held to elect the National Constituent Assembly which was boycotted by the opposition. This body had the power to rewrite Venezuela's Constitution and became a substitution for the National Assembly - the opposition was eliminated.

Since then, Maduro used the economy and corruption to keep himself in power. He set the official exchange rate in 10 bolivars per USD. This is a fake rate: only the oligarchy that surrounds him have access to it. In the black market the bolivar almost, worths nothing (250,000 in the past days). This means that the military and Maduro's political allies (the oligarchy) buy food to other countries with the official exchange rate and then sell it to the people at the black market: a lucrative business that helps him stay in power.

During this time, opposition leaders were arrested and protests continued.



THE CRISIS

Most Recent Measures

In order to solve the economic issues, the government has implemented measures such as the launch of a cryptocurrency: petro, backed by oil, gas, gold and diamond reserves of Venezuela and tacking advantage of the decentralization enabled by these type of currencies.

More changes will take place from the 20th of August, as the Business Insider states:

- "Devalue Venezuela's currency, the bolívar, by a whopping 95%. The new currency will be renamed the "sovereign bolívar."
- Instead of an exchange rate of 250,000 bolívares per US dollar, it will increase to about 6 million.
- The new bolívar will be pegged to the government's cryptocurrency, the petro.
- The sovereign bolívar will move in line with changes in the petro, which is linked to movements in oil prices.
- The petro is valued by the Venezuelan government at about \$60, or 3,600 sovereign bolívares.
- To make things more complicated, the new sovereign dollar will also be redenominated, which will remove about five zeros from its unit measurement.
- At the same time, Maduro also announced a huge 3,000% increase to the minimum wage: in the new redenominated currency, a person on the minimum wage will receive about 1,800 sovereign bolívares a month, instead of 1.8 million.
- The new minimum wage will be the equivalent of about \$30 a month."
- During 90 days, the government will pay the wage increase in the private sector.
- There are also announcements of VAT increase and subsidies on gasoline

According to Bloomberg will not solve the economic issues, and will increase the risks of inflation.



CONCLUSION

To sum up, the crisis in Venezuela is a good example of the impact of the economic policy in a country prosperity and constitutes a good case study that, for now, is far from the happy ending.

Protests will continue until the necessary good faith between government and opposition is attained, which means that this is an Historical moment, that as witnesses we should pay close attention to Venezuela.



READING SUPPORT

The last visit to these websites was made on the 19th of August

- <http://uk.businessinsider.com/statistics-about-venezuelas-economic-collapse-2017-8> [Business Insider]
- <https://www.businessinsider.com/venezuela-devalues-bolivar-and-pegs-it-to-cryptocurrency-2018-8> [Business Insider]
- <https://www.economist.com/finance-and-economics/2017/04/06/how-chavez-and-maduro-have-impoverished-venezuela> [The Economist]
- <https://www.bloomberg.com/news/articles/2018-07-23/venezuela-s-inflation-to-reach-1-million-percent-imf-forecasts> [Bloomberg]
- <https://www.theglobeandmail.com/world/video-surgeries-scrapped-taps-run-dry-in-venezuela/> [The Globe and Mail]
- <https://edition.cnn.com/2018/08/20/americas/venezuelan-humanitarian-crisis/index.html> [CNN]
- <https://www.osac.gov/Pages/ContentReportDetails.aspx?cid=23791> [OSAC report]
- IMF data on Venezuela
- https://www.google.co.th/search?ei=yRF7W9L7N5norQGzkbDgCw&q=dolar+bolivar&oq=dolar+bolivar&gs_l=psy-ab.3..0i67k1j0l4j0i22i30k1l5.8476.14333.0.14557.13.11.0.2.2.0.141.1152.5j6.11.0....0..1c.1.64.psy-ab..0.13.1159...0i10k1.0.vOnVkjj9dwc [Google Exchange Rate]