

Topic: Economic Emergency: Boon earlier, now a bane

Venezuela's president, **Nicolas Maduro**, declared a state of "economic emergency". Maduro's government **stopped publishing any economic data about the country in 2014**, other than updates on its shrinking gold and cash reserves. But that changed when Venezuela finally published years of economic data last week. And it was ugly. **Venezuela's economy shrank 7.1%** in the third **quarter of last year**, according to the government. It's been shrinking for seven **consecutive quarters going back to the start of 2014**. **Inflation in Venezuela skyrocketed 141%** over the year ending in September, the central bank reported. Incredibly, some experts believe even that figure is understating the problem. The IMF projects inflation in Venezuela will increase **204% this year**.

Reasons for Economic Crisis:

1. Depending on oil alone has brought Venezuela to its knees

Venezuela is home to the largest proven oil reserves in the world. The country's oil sector was **nationalized in 1975**, creating the **state oil company P.D.V.S.A.** The Venezuelan state depends on oil for approximately **95 percent of its export revenue**. The **Maduro government** inherited an economic crisis created by **Chávez's economic policies**, which involved expropriating industries, using P.D.V.S.A.'s revenues to pay for **generous social welfare benefits that won votes, failing to save for more difficult times, and discouraging private industry** that could have diversified the nation's economic base. All that came home not long after Maduro **took office in 2013**, when Venezuelan oil prices dropped by **50 percent in one year**, between 2014 and 2015. According to IMF figures, the Venezuelan state went from earning around **\$80 billion from oil in 2013** to a **projected \$20-25 billion in 2016**. Oil income provides the Venezuelan government with foreign currency that's distributed to domestic oil producers through a controlled, multi-tiered currency exchange market. **Thus, when oil prices drop, the entire economy takes a big hit. The International Monetary Fund (IMF) projects the country's economy will contract by 8 percent this year.** Economists fear the country could experience **hyperinflation** this year. The government's oil minister, **Eulogio Del Pino**, is on a diplomatic offensive to boost the oil market. Although he has **failed to persuade, OPEC**, oil production cut. However the discussions alone – and the possibility of such a cut — are helping boost oil prices. Since January, the price for **Brent oil**, a type of crude commonly used as a **global benchmark for gauging prices** is up more than **20 percent**. With demand still strong, and the risk of pop-up crises from national disasters and instability in producing nations making things still more uncertain, some analysts believe oil price will **settle around \$50/barrel**.

2. The boost in oil prices could help the Maduro government muddle through, but this will not fix Venezuela's economy.

If oil prices continue going up, that could help **Maduro see out his 2013-2019 term**. Higher oil prices could help Maduro's relations with international creditors. If the Venezuelan government **earns more income, China — which is the country's main sovereign creditor — may be willing to take the risk of loaning more or making existing loan terms more flexible**. Wall Street banks and hedge funds, which have been profiting from the country's high-risk bonds but are concerned about whether the government can pay its debts, may be similarly willing to continue to extend credit. But while higher oil prices might help Maduro avoid being ousted, this would not place Venezuela on a path to recovery. P.D.V.S.A.'s production capacity is reaching **record lows**, and, for that matter, **oil is a mixed blessing for the country**. Even leaving aside environmental concerns, being an oil state means Venezuela hasn't been investing in developing other parts of the economy, or fighting corruption, or working to get people to pay taxes rather than evading them.

Topic
Introduction

3. Venezuela has a presidential system, with multiparty elections for all levels of government, but it doesn't have checks and balances.

Some Venezuelans have had enough of Maduro. In January, **the opposition party, Democratic Unity, took 109 seats in Congress, far more than the 55 seats** Maduro's socialist party won. The opposition now controls **65% of Congress**. That's important -- that level allows Democratic Unity to **fire Maduro's cabinet members and pass reforms that Maduro can't overturn**. Maduro appointed **new Supreme Court justices** right before the new Congress took office. They could overturn the opposition's legislation, creating **government gridlock**. In any case, political instability is never good for an economy and it's on the rise this year.

4. A social explosion rocked the nation in 1989. Could it happen again?

In 1989, Venezuela was rocked by the *Caracazo* or *los saqueos*: **urban-based riots and lootings against the effects of IMF-prescribed austerity**. State security forces attacked protesters. Officially, police killed hundreds of protesters; unofficially, many believe the numbers ran into the thousands. Many today fear that the *Caracazo* (**literally, the big one in Caracas**) **could be repeated**. It might, but probably not in the same way. In 1989 the government was caught by surprise, largely unaware of the tensions, and it immediately cracked down. Today, the context is different. Already, small protests over deteriorating water and electricity erupt regularly while looting is becoming part of the daily landscape as **patience to stand in line or pay black market fees** to obtain basic goods and services runs out. The Maduro government is looking the other way during some of these small riots or store lootings, allowing people to blow off steam in the hope of averting confrontation. The new normal of monitored instability is a very dangerous gamble. If the instability escalates, **the government would be faced with the trade-off between heavy repression and complete social meltdown**.

5. A currency worth less than a penny

Venezuela's currency, **the Bolivar**, has plummeted at a breathtaking pace. A year ago, **one dollar equaled 175 bolivars**. Now a dollar is worth **865 bolivars**. Put another way, **one Bolivar is worth \$0.0011** -- less than a penny. Most Venezuelans exchange bolivars and dollars at the unofficial rate because **Maduro's regime** has created a **confusing system** that involves **three official exchange rates** -- two for different types of imports and one for ordinary Venezuelans. The two primary rates deeply overvalue the Bolivar, creating high demand for dollars.

6. Default in 2016 is 'difficult to avoid'

Venezuela has been teetering on the brink of default the past two months. The country is barely making enough money on oil exports to cover its **debt payments**. This year Venezuela owes over **\$10 billion in debt payments**. Nearly half of that is due in October and November. Barclays' Arreaza mostly agrees, saying that a Venezuelan **default in 2016 is "difficult to avoid."** The only thing preventing a default is if oil prices rise soon or one of its few allies -- China, Russia or Iran -- bail out the government. Both of those appear unlikely for now.

7. Food crisis

Venezuelans are bearing the brunt of the economy's problems. The **government can't pay to import basic food items like milk, flour and eggs**, leaving many supermarkets with empty shelves. A year ago, McDonalds (MCD) in Venezuela temporarily ran out of french fries. Food shortages -- along with lines lasting several hours in hot weather -- are a major source of the social unrest in the country.

Venezuela's President Nicolas Maduro has said that a referendum the **opposition is trying to call to oust him** will not take place this year.

On 10th June, the National Electoral Council (CNE) declared more than **600,000 signatures** on a petition for the **referendum invalid**. Timing is essential for both sides. **If the referendum is held by 10 January 2017 and President Maduro loses, a new election will be called**. If it is held after that date and the vote goes against him, his **vice-president takes over** and remains in power until the end of the presidential term, in **January 2019**. For the referendum to be successful, almost **7.6 million people will have to vote** to oust Mr. Maduro:

- 1% of voters on the electoral roll have to sign a petition within 30 days to kick-start the process
- 20% of voters (almost four million) have to sign a second petition in order to trigger the referendum
- For the referendum to be successful, an equal or greater number of voters than those who elected Mr. Maduro would have to cast their vote in favour of the recall - he won the 2013 election with 7,587,579 votes

Pedro Pablo Kuczynski officially became **Peru's president-elect** after his opponent in the election, Keiko Fujimori, conceded defeat. He called for Latin America's leaders to increase pressure on Venezuela **to uphold rights for political opponents** and address an economic crisis that has led to shortages of basic goods there. Pedro Pablo Kuczynski made the comments only days after the Washington-based Organization of American States said it would hold a special meeting **on June 23 to discuss whether Venezuela has violated democratic principles**. The meeting is being planned as the regional organization's human-rights arm, the Inter-American Commission on Human Rights, faces a financial crisis that could require it to suspend investigations and cut almost half of its staff. The commission has been critical of Venezuela's government.

Read further:

<http://money.cnn.com/2016/01/18/news/economy/venezuela-economy-meltdown/>

<https://www.washingtonpost.com/news/monkey-cage/wp/2016/05/18/6-things-you-need-to-know-about-venezuelas-political-and-economic-crisis/>

<http://www.ibtimes.com/venezuela-crisis-2016-coca-cola-sugar-shortage-latest-blow-big-companies-operating-2374038>

<http://www.bbc.com/news/world-latin-america-36508761>