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THEDIALOGUE

FEATURED Q&A

Will Venezuela Be Able to Tame Inflation?

President Nicolás Maduro's decision last week to remove Venezuela's largest banknote, worth about three U.S. cents on the black market, led to chaotic scenes at banks as Venezuelans sought to get rid of the currency. // File Photo: Venezuelan Government.

Q Venezuela on Dec. 3 became the 57th economy in world history to be categorized as hyperinflationary, according to the Hanke-Krus World Hyperinflation Table. The peak monthly inflation rate in Venezuela has been 221 percent, which is relatively low when compared to other instances of hyperinflation, according to a paper published by the Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise. Venezuelan President Nicolás Maduro's government outlawed the largest banknote in circulation and is working to distribute higher-denomination bills. Where is Venezuela's economy headed in the year ahead? Will Maduro be able to get inflation under control? Will the rising price of oil help stabilize Venezuela's economy?

A Gustavo Roosen, president of IESA in Caracas: "According to expert consultancy firm Econoanalítica, the Venezuelan economy has had the world's worst performance this year. The military civic regime of Nicolás Maduro insists on imposing an economic model based on failed communist principles. During these years, Maduro's government has also destroyed Venezuela's robust private economy. None of the members of the government's economic ministerial team has academic knowledge or experience in economic public policies. This explains the gross deficiencies in the definition and execution of fiscal, monetary and exchange policies. The IMF inflationary projections for Venezuela next year will exceed 1,600 percent, and again, the economy will shrink by more than 7 percent of GDP. With a consolidated external debt of $150 billion and exports of $37 billion, Venezuela

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TODAY'S NEWS

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At Least 29 Killed in Fireworks Market Blast Near Mexico City

Dozens were also injured as explosions tore through the San Pablito market in Tultepec, in Mexico state. The incident marked the third time the market suffered explosions in the past 11 years.

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Authorities Eye $3 Bn Settlement With Brazilian Companies

The fines against Odebrecht and Braskem are expected to be announced today.

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BUSINESS

Ford Halting Venezuela Vehicle Production Until April

The U.S. automaker's president for South America, Lyle Watters, said the move is due to a lower level of demand in the South American country.

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Watters // File Photo: Ford.

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POLITICAL NEWS

At Least 29 Killed in Mexico Fireworks Market Explosion

Powerful blasts tore through an open-air fireworks market north of Mexico City on Tuesday, killing at least 29 people and injuring dozens more, The Wall Street Journal reported. Tuesday's explosion marked the third time in 11 years that the San Pablito market in the city of Tultepec had previously been rocked by explosions, which occurred in 2005 and 2006. Changes, including concrete stalls for vendors, rather than tin huts, were supposed to have made the market safer, the newspaper reported. Eruviel Ávila, the governor of Mexico state, said 26 of the victims died at the scene on Tuesday, and that three others died later in hospitals. More than 70 others were wounded, he said. Mexican President Enrique Peña Nieto expressed his sympathies in a posting on Twitter. "My condolences to the relatives of those who lost their lives in this accident," said Peña Nieto. "And my wishes for a prompt recovery for the injured." Videos of the blasts posted on social media showed rockets shooting into the air and smoke billowing into the air as explosions ripped through the vendors' stalls. In an interview last week with online news site Animal Politico, the head of the state's pyrotechnical association, Juan Ignacio Rodarte, characterized the San Pablito market as the safest in Latin America, saying it featured precautions to "prevent a chain reaction in the case of a spark." The fireworks market, which is 25 miles north of Mexico City, is among the country's largest. The Christmas season is among the busiest times for the market, along with September, during Mexico's Independence Day celebrations. Deadly blasts involving fireworks in Mexico have been all too common. In 2013, an explosion killed 13 people and left more than 150 wounded in Tlaxcala state, not far from the site of Tuesday's blast.

The head of Mexico state's pyrotechnic association last week called the market the safest in Latin America.

Venezuelan Gov't Reopens Border With Colombia

Venezuela re-opened its border with Colombia on Tuesday after President Nicolás Maduro closed it for eight days in a bid to clamp down on smuggling, BBC News reported. Hundreds of Venezuelans had been crossing the border into Colombia to purchase necessities that are scarce in their own country. Maduro announced the closing of the border last week while also announcing the recall of the 100-bolívar bill, the country's highest denomination banknote. He had accused criminal gangs of hoarding the notes. Maduro said his Colombian counterpart, President Juan Manuel Santos, had agreed to the reopening of the border during a phone call on Monday. As many as 2,000 people are expected to cross into Colombia from Venezuela on the first day it is reopened, BBC News reported, citing Colombia's RCN radio. Maduro had argued that the withdrawal of the 100-bolívar bill was necessary to tackle the "mafias" attempting to destroy Venezuela. The measure sparked outrage and mass protests, as well as long lines forming outside banks as Venezuelans rushed to return the soon-to-be defunct notes. The government was eventually

Santos // File Photo: Colombian Government.

NEWS BRIEFS

Kimberly-Clark, CMPC Accused of Price-Fixing in Chile

Personal care and paper-based product company Kimberly-Clark and competitor CMPC allegedly fixed prices for diaper products and some other sanitary products in Chile between 2002 and 2009, according to a document from the country's competition regulator, FNE, Reuters reported Tusday, citing local newspaper La Tercera. A year ago, Peru's consumer regulator said it could sanction Kimberly-Clark after CMC said the two companies fixed prices for years in the country.

Bolivian Investigation Concludes Pilot, Airline at Fault in Deadly Crash

A Bolivian investigation into a plane crash that killed 71 people, including dozens of Brazilian soccer players from the upstart Chapecoense soccer team, has concluded that the pilot of the plane and the airline were directly responsible for the crash, said Bolivian Public Works and Services Minister Milton Carlos. "The evidence is conclusive; the direct responsibility of this event falls on the pilot and the airline company," he said. The plane was operated by Bolivian airline LaMia, and the company's CEO Gustavo Vargas Gamboa and his son, Gustavo Vargas Villegas are being held pending trial. They have both denied wrongdoing.

Brazilian Lawmakers Agree to Soften States' Debt Repayment

The Brazilian Congress on Tuesday approved a bill that would soften the debt-repaying conditions for cash-strapped states that are in debt to the federal government, while also removing some austerity measures the government had hoped to impose, The Wall Street Journal reported. President Michel Temer must sign the bill in order to become law.

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forced to back off the decree, postponing the deadline for exchanging the notes to Jan. 2.

BUSINESS NEWS

Authorities Eye $3 Bn Settlement With Two Brazilian Companies

U.S. and international authorities are today expected to announce one of the largest corruption fines ever, involving Brazilian companies Odebrecht and Braskem, people briefed on the matter said Tuesday, The New York Times reported. Construction conglomerate Odebrecht, which built Miami International Airport, and Braskem, an affiliated petrochemicals firm, are expected to settle the bribery charges in an agreement that could cost as much as $3 billion. The charges are come from investigations by federal prosecutors in Brooklyn as well as authorities in Brazil and Switzerland. Most of the fines collected are expected to go to Brazil. The case is part of the larger Petrobras corruption scandal, the newspaper's sources said. In the United States, the fine would be the largest in a case of a company violating the Foreign Corrupt Practices Act, a federal law that makes it illegal for U.S. companies to bribe foreign officials in order to gain access to a deal. Marcelo Odebrecht, a former chief executive of the construction company, was convicted of corruption and money laundering in March and was sentenced to 19 years in prison. On Dec. 1, the construction company released a statement apologizing for "participation in illicit actions."

Ford Halting Vehicle Production in Venezuela Until April

Due to falling demand, U.S. automaker Ford last week halted its vehicle production in Venezuela and will not restart it until April, a top company executive told reporters Tuesday in São Paulo, Reuters reported. "It is a measure to adjust production to demand in the country," said Lyle Watters, the company's president for South America. He added that the shutdown affects a factory that employs 2,000 workers. Ford is the only vehicle manufacturer that is still mass-producing cars in the South American country, which is facing numerous economic problems, including skyrocketing inflation that the International Monetary Fund has estimated will surpass 1,600 percent next year. Total vehicle production in Venezuela is just eight cars per day, according to Cavenez, the country's national automakers' organization. For the first 11 months of this year, Ford produced 2,253 vehicles in Venezuela out of the national total of just 2,768. It produces the Fiesta small car and Explorer SUVs in Venezuela. Nearly two years ago, Ford booked a charge related to its operations in Venezuela, cutting its net profit for the fourth quarter of 2014 by $700 million. That year, the company stopped production for about a month because a lack of foreign currency made it impossible to import enough vehicle components. In 2015, Ford rival General Motors closed its one plant in Venezuela. During an earnings conference call in October, Ford's chief financial officer, Bob Shanks, told analysts that, in general, South America's economies are moving in the right direction and that Ford could see growth in the region in 2017, The Wall Street Journal reported.

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will not be able to meet its external financial commitments in 2017, nor acquire the imports necessary to maintain an adequate supply of medicine and food. As for the oil industry situation, production continues to decline, beyond the cuts OPEC has anticipated, especially for light and medium crude oil. The refining system is in shambles, which translates to more imports of refined products. Internal costs and productivity are out of control. Debts with contractors and suppliers are unpayable. If oil prices were to rise to $60 per barrel for the Venezuelan oil basket, this would not compensate the negative conditions of the oil industry in Venezuela, nor suffice to cover the government's need for dollars. For the above reasons, Venezuela's performance in 2017 will be worse than in 2016."

Carlos Carcione, coordinator of the research team of the Socialist Tide political group in Caracas: "The recall of the 100 bolívar bill from circulation exceeded Venezuelans' patience and unleashed a potent response of dissent from them, causing Mr. Maduro to back away from the order, opening a new situation of greater instability and breakdown. The peaceful Christmas season is experiencing a long-anticipated social upheaval. This situation added a popular explosion to the other aspects of the crisis, such as hyperinflation, acute shortages of food and medicine, the deepening of authoritarian characteristics and the dictatorial temptation that is seducing the government. Cornered and without a mask, PSUV leaders may react violently. The leadership of the opposition Democratic Unity Roundtable, for its part, continues with internal disputes that have little to do with the population and increase the likelihood that citizens will reject it. In this case, the economic crisis has turned into an open political crisis. Neither the increase in the price of oil, which is certainly insufficient, nor other initiatives, like the Orinoco Mining Arc, can stop the pace toward the collapse of the model that Mr. Maduro has attempted. The answer to the question can be found in the result of the open social confrontation on Dec. 15 and

> **"The peaceful Christmas season is experiencing a long-anticipated social upheaval."**
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> **— Carlos Carcione**

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in what will stain the coming months. The developments are something else: the emergence of demonstrations in the street from a discontented public. And the emergence of a new political actor: Chavistas that are critical of the current state of Chavismo."

Carlos Miguel Álvarez, senior economist at Ecoanalítica in Caracas: "I do not agree with the methodology used by the Hanke-Krus World Hyperinflation Table to measure inflation in Venezuela. It takes variation on the non-official exchange market as an inflation indicator, thus implying that the whole economy is based on a market with a lack of transparency and liquidity. Besides, Venezuela's economy still enjoys subsidies that allow inflation to be lower than that indicated by Hanke-Krus. At Ecoanalítica, we built a basket of more than 720 products to measure inflation, and we estimate yearly inflation in 2016 to be around 511 percent, which is not considered to indicate hyperinflation, according to Cagan's definition. Venezuela is experiencing a grave economic and social crisis, plus a complex political situation. We are far from solving the grave inflation problem we are experiencing. Oil production has fallen, and the refining circuit has major problems. While PDVSA managed to honor its debt commitments, it was unable to reach satisfactory agreements with suppliers. This will be a key factor to be monitored in 2017. Next year poses major challenges for Venezuela, not only on the economic front, but also on the political and institutional fronts. The executive branch's arsenal of measures for putting off economic adjustments seems to be running out, as there are no longer funds in foreign currency, imports have dropped to a dangerous level and the doors to external financing seem to have been shut. Hopes are pinned on an increase in oil prices, but the Chavismo model needs the Venezuelan oil basket to be above $60 per barrel, and today that looks to be a highly unlikely scenario. Moreover, the Maduro administration will enter on a new stage on Jan. 10, as his removal from the presidency after that date would not trigger a new presidential election, a situation that would cause shifts in Chavismo's game board. So, President Maduro will not only have to confront the demands that have come mainly from the non-Chavista sectors of the population, but he will also have to cope with the pressures for change from within his own movement."

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> **— Carlos Miguel Álvarez**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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