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FEATURED Q&A

Has Venezuela's Economy Started to Turn a Corner?

Venezuela's rate of inflation has fallen, and some analysts are expecting double-digit growth in the country's economy this year. Venezuela's central bank is pictured. // File Photo: Venezuelan Government.

Q Inflation in Venezuela hit its lowest level in almost a decade in March, finishing the first quarter of 2022 with a rate of 11.4 percent, according to data from the Andean country's central bank. Prices in the country have stabilized, thanks in part to the wider circulation of hard currencies, including the U.S. dollar. Some analysts estimate that Venezuela's economy could grow 20 percent this year due to an increase in hydrocarbon output and the rising global price of oil, Bloomberg News reported. What accounts for the slowdown in consumer price growth in Venezuela, and will President Nicolás Maduro's policies allow for this trend to continue? What are the drivers for economic growth in the Andean country, and can they be sustained in the long term? What sectors would benefit the most from continued economic growth in Venezuela?

A Ruth Krivoy, country analyst for Venezuela at GlobalSource Partners and former president of the Central Bank of Venezuela: "Exchange rate policy has been the main anti-inflationary pillar, with heavy sales of foreign exchange by the central bank, within a highly contractive monetary and fiscal policy stance, that slowed down consumer price growth, while deepening recession and feeding inequality. Last November, the central bank also imposed a ceiling on the exchange rate that banks apply when reselling to clients the dollars purchased weekly from the central bank. Recently, the bank began issuing foreign exchange risk hedging securities to sterilize high-powered money after pausing its open-market operations for three years. A permissive import policy geared to address shortages and widespread

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López Obrador's Power Reform Fails in Congress

Mexican President Andrés Manuel López Obrador's reform of the country's power sector failed to get the two-thirds majority it needed for passage in the lower house of Congress.

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López Obrador // File Photo: Mexican Government.

ECONOMIC NEWS

Mexican President's Power Reforms Fail in Lower House

Mexican President Andrés Manuel López Obrador's radical reform of the country's power sector fell short of the number of votes it needed for passage in the lower house of Congress in a session held on Easter Sunday, Bloomberg News reported. The reforms would have guaranteed state-controlled electricity provider CFE 54 percent of the country's power market and limited the participation of private firms. In the vote, 275 legislators voted for the measure, and 223 voted against it, falling short of the two-thirds majority required for the constitutional amendment that would have been necessary for the reforms' implementation, Bloomberg News reported. López Obrador has sought the reform in an effort to strengthen state control of the country's energy sector and reverse the privatization of the sector, which began more than 20 years ago, Bloomberg News reported. Critics of the reforms have said it would harm investment in the country's power sector. "If approved, the reform proposed by President Andrés Manuel López Obrador would be a strong blow to Mexico's economy and future," Gerónimo Gutiérrez Fernández, who was Mexico's ambassador to the United States under López Obrador's predecessor, Enrique Peña Nieto, told the Dialogue's Energy Advisor in a **Q&A** published Feb. 11. "This is a huge mistake, going clearly against an inescapable world trend, severely jeopardizing private investment in the sector as well as Mexico's competitiveness." The U.S. government also could have filed a formal complaint under the U.S.-Mexico-Canada Agreement, or USMCA, and then imposed tariffs on Mexican goods. In January, U.S. officials, including Energy Secretary Jennifer Granholm, met with López Obrador in Mexico City and expressed concerns about the reforms. While investors are likely to welcome the defeat of the reforms, analysts expect continued political uncertainty in the sector, the Financial Times reported.

POLITICAL NEWS

Blinken Headed to Panama to Discuss Migration

U.S. Secretary of State Antony Blinken will travel to Panama on Tuesday to co-host a Ministerial Conference of Migration and Protection with the government of Panamanian President Laurentino Cortizo, the State Department said Friday. Blinken will be joined by Secretary of Homeland Security Alejandro Mayorkas, among other U.S. officials. They will meet with representatives of Latin American and Caribbean governments to "discuss collaboration on safe, orderly, and humane migration" in the Western Hemisphere, the State Department said. U.S. President Joe Biden has vowed to address the "root causes" that lead migrants from Central America–as well as other parts of Latin America–to leave their homes and countries, Reuters reported. Brian Nichols, the U.S. assistant secretary of State for Western Hemisphere affairs, told reporters that the migratory "challenges" in Latin America "did not begin yesterday, and they will take time for us to resolve alongside our partners," the wire service reported. State Department spokesman Ned Price said Blinken will seek to "draw attention and excitement in the region" ahead of the upcoming Summit of the Americas, which the United States is set to host from June 6-10 in Los Angeles. Price added that at the summit, leaders in the region "will expand on efforts to address our hemisphere's most pressing issues with the aim of building a sustainable, resilient and equitable future."

Brazil Seizes Equipment Used for Illegal Gold Mining

Brazilian authorities on Saturday found and seized a raft with gold mining machinery managed by illegal gold miners in Pará state in an effort to protect members of the Xipaya

NEWS BRIEFS

Ecuador's Lasso to Meet Today in Buenos Aires With Fernández

Ecuadorean President Guillermo Lasso arrived in Argentina on Sunday for an official visit to the South American country, MercoPress reported. Greeted by Argentine Foreign Minister Santiago Cafeiro, Lasso is set to meet with President Alberto Fernández today to develop "a very important agenda to strengthen bilateral ties," the foreign minister said. The presidents are also set to discuss topics related to Argentina's pro-tempore presidency of the Community of Latin American and Caribbean States (CELAC) regional organization, the Buenos Aires Times reported.

Peru's Fujimori Hospitalized for Second Time in a Month

Former Peruvian President Alberto Fujimori, who is serving a 25-year prison term for committing crimes against humanity, was hospitalized on Sunday for the second time in a month, Agence France-Presse reported. Fujimori, 83, suffered a drop in blood pressure and an irregular heartbeat, according to Peru's National Penitentiary Institute.

Bolsonaro Criticizes WhatsApp for Holding off on 'Communities' Feature

Brazilian President Jair Bolsonaro criticized popular messaging platform WhatsApp on Friday for refraining from launching its new Communities feature in Brazil until after the country's October presidential election, Reuters reported. WhatsApp, owned by Meta Platforms, announced last Thursday that the new tool is meant to organize groups–with a 256-user cap–in larger structures and that it could be used in workplaces or schools. Bolsonaro supporters rely heavily on WhatsApp to communicate and organize, Reuters reported.

Indigenous group and their land, the Ministry of Justice and Public Security said in a statement. The seizure happened within 24 hours of the operation's launch, the ministry added. Approximately 200 Indigenous people live in the Xipaya reserve, and Chief Juma Xipaya said in a video that a large raft with gold mining machinery had been moving down the Iriri River toward their territory, the Associated Press reported. Mitã Xipaya, a member of the community, wrote on social media that the raft "is giant and has state-of-the-art equipment and even radar with gold capture and with antennas for communication." Paulo Teixeira, the head of the Federal Police's Service for Repression of Crimes Against Indigenous Communities, said the "apprehension took place with the work of the teams of 'Operation Guardians of the Biome.' " The operation consisted of the coordinated action of Federal Police agents, the National Public Security Force, the Brazilian Indigenous affairs body Funai, and the Chico Mendes Institute for Biodiversity Conservation. In a Twitter posting, the justice ministry said that the operation aimed to "protect both the residents of the region and the reserve against environmental crimes and illegal exploitation."

Chile's Boric Sees Disapproval Rating Rise to 57 Percent

The disapproval rating of new Chilean President Gabriel Boric has risen to 57 percent just a month into his term, Bloomberg News reported Sunday. His disapproval rating rose 10 percentage points since he took office in mid-March, according to the survey by Santiago-based polling firm Activa. The same poll showed his approval rating falling 6.2 percentage points to 28 percent. Boric's approval rating has fallen along with support for the assembly that is drafting a new constitution for Chile. "The text that the Constitutional Convention is drafting is far too radical for what most Chileans want," Patricio Navia, a professor of liberal studies at New York University, told the Advisor in a **Q&A** published Friday.

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dollarization also helped. Authorities are focused on stabilizing the nominal exchange rate to lower inflation and 'de-dollarize' the economy. The government has the funds to defend the bolívar if fiscal and monetary policy remain strongly contractive. Challenges will come from political pressures to allow for higher oil revenues to trickle down ahead of the 2024 elections and stronger imported inflation triggered by the Russian invasion of Ukraine. Last year, the economy moved from collapse and hyperinflation to modest growth with high inflation. The main growth drivers were the removal of foreign exchange controls and a de facto relaxation of price controls, improving business conditions and generating short-term opportunities. But the government has not shown the intention, or the political capacity, to dismantle the legal scaffolding that undermined the rule of law, hindering investment. Moreover, there is very little room to allow for bank credit growth. Demand for money is weak, animal spirits are lethargic and exchange rate stability rests on the strangulation of credit. Commerce, transportation and storage services are the earliest winners. Communications, agribusiness and real estate services are also growing. This year will be the first since 2016 with positive growth rates in all sectors. The current policy framework favors non-tradable sectors. Tradables' growth will lag."

A **Ricardo Hausmann, founder and director of Harvard's Growth Lab and former chief economist of the Inter-American Development Bank:** "Inflation in Venezuela was tamed with very orthodox remedies. Enormous fiscal deficits that were monetized caused the 2016-2019 period of hyperinflation. These deficits were caused by huge subsidies to authorized imports, gasoline, credit and a large expansion of the number of employees and pensioners. The deficit was brought under control by eliminating exchange rate differentials, raising gasoline prices, eliminating private sector credit (through 100 percent marginal reserve requirements) and allowing public sector wages and pensions to decline to less than $10 a month. The bounce-back of the economy is less of a puzzle than its previous collapse. If you index the GDP of 2013 to 100, it fell by 2021 to 20. A 20 percent increase from there means it will go up to 24. The persistent collapse is still the puzzle."

A **Asdrúbal Oliveros, director at economic analysis firm Ecoanalítica:** "At the economic level, the results of the first quarter continue to point to a recovery in Venezuelan activity. After the passage of the most critical phases of the Covid-19 pandemic, both private business and the public sector seem to show better performance. In public matters, the rebound in global demand for post-pandemic crude oil and the impact of the war between Russia and Ukraine on global oil markets have provided the executive branch with additional resources in recent months, despite the discount that sanctions still impose on the collection of Venezuelan oil. If such trends continue, along with the status quo of the sanctions, Venezuela could receive about $17.69 billion at the end of the year for oil alone. In the non-oil sphere, sectors such as trade, manufacturing and banking maintain part of the improvements seen since the end of 2021, favored by a context of less adverse prices and a global supply chain still a little affected by the new post-Covid-pre-war scenario. However, the higher prices of raw materials and freight rates caused by the current global context could affect part of the reactivation of the non-oil business in the coming months, particularly in the agricultural sector. Regarding prices, both official figures and data from Ecoanalítica validate a new slowdown in domestic inflation in the first quarter of the year, in which prices grew an average of 5.8 percent per month between January and February."

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A **Gustavo Roosen, member of the Advisor board and president of the Institute for Advanced Management Studies in Venezuela:** "After an accumulated 75.29 percent collapse in GDP between 2014 and 2020, the Venezuelan economy is geared toward modest economic growth. A 'buffer effect' will take place after such a strong contraction and the boost generated by high oil prices. But the 20 percent that Credit Suisse projects will be highly unlikely. A consensus forecast among the 12 main international firms that analyze Venezuela shows that on average the estimated GDP growth for Venezuela is 3.80 percent, and the median is 4.25 percent. The multiple macroeconomic imbalances that led Venezuela to the worst economic performance in the world in the last 40 years are still present. Evidence of this are three economic policy options implemented since 2019. The first is an openly appreciated exchange rate, which sooner or later will be adjusted in pursuit of the equilibrium exchange rate and the level of inflation that continues to be the highest in the world. Certainly, 1.4 percent was the figure published by the Venezuelan central bank for March 2022, but the annualized figure for March 2021-March 2022 is 284.4 percent–a figure more than 40 times the average projected for Latin America in 2022. Secondly, economic policies that favor the imports of 7,000 items without VAT and without tariffs create a false sense of well-being but severely damage national industrial and agricultural production. The third economic policy option is that oil production has risen with the corrections that the 16 main contractors in PDVSA's own fields have been able to carry out ('quick wins'). None of them will bring new investments and 'drilling activation' that will result in a significant increase in oil production."

A **Jonathan Coles, partner at Renaissance Growth Advisory and former Venezuelan agriculture minister:** "Even though the official figures for inflation seem overly optimistic, it is clear that the government and the central bank have worked to control inflation. The central bank has used the windfall income generated by higher oil prices and additional production to buy dollars and stabilize the exchange rate, and the prospects seem favorable for continuing this stability in the near term. The central bank has slowed monetary emissions. Inflation should be significantly below the 686 percent of last year, probably below 70 percent. Growth prospects are positive and could reach as much as 8 percent, depending mainly on what happens with investments in the oil sector, which in turn depends on the softening of sanctions that have prevented investment by the companies that know the country and its potential best. It is clear that there have been less arbitrary measures on the part of the government, but there are still laws from recent years that make it risky for investors in the oil sector. If the negotiations with the United States turn out favorably for diminishing sanctions and reducing risks for investors, production could continue to increase from the 800,000 barrel levels at present. Venezuela is will potentially benefit from the sanctions on Russia, but it has also become dependent on some of the financial channels that are now under severe limitations by U.S. sanctions. So the possibilities of leveraging the present opportunities will require careful and decisive steps on the part of the Venezuelan government. Commerce and services have taken the most advantage of inflation control and new growth, while manufacturing continues to suffer. It will take smart policy management to consolidate and expand growth while controlling inflation in the next year."

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