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Venezuela: Domestic Issues Could Bring Upset In Legislative Elections

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Electricity rationing, a determined discrediting campaign by the opposition press, and several Cabinet resignations have left the Venezuelan government in one of its worst moments. President Hugo Chavez continues to pull high approval ratings, but constant street demonstrations led by university students have begun to chip away at his popularity and have led many analysts to conclude that Chavez's positive image is entering an irreversible decline that could jeopardize his chances of winning the Sept. 26 legislative elections. On that day, Venezuelans will elect all 167 members of the unicameral Asamblea Nacional (AN), now dominated by pro-government deputies. In addition, the currency devaluation, implemented in early January, raises concerns of an as-yet-unseen acceleration of the inflationary process unleashed in 2009. Official statistics indicate that, beginning with the second quarter in 2009, the price of basic goods increased 24.3% to end the year at 25.1%, accompanied by a 2.9 decline in GDP for 2009, a 7.2% contraction in manufacturing production, and an 8.2% contraction in trade hitting hard the pocketbooks of sectors of society that until now have unconditionally supported the "21st century socialism" project promoted by Chavez's Bolivarian Revolution. Drought forces drastic measures Electricity rationing has changed Venezuelans' mood. Although the country is one of the largest petroleum producers in the world, in the domestic market energy consumption depends on hydroelectric facilities, which produce 70% of the power used by industry, commerce, and households. A long and unprecedented drought made it necessary to implement an unpopular regimen of restrictions that has no solution in the short term, other than altering Venezuelan's daily lives by reducing the use of elevators and street lights and shortening business hours in state offices, gasoline stations, and supermarkets where the population gets its food. The government announced a large investment to increase generation capacity, but experts point out that, besides the unreliability of official information, incorporating new energy to transmission lines will take time. The goal of the works to be carried out in various areas of the country is to eliminate dependence on generation from the El Guri hydroelectric plant, the largest reservoir in the country, whose water level dropped by an average of 13 cm per day during February and early March. The government said that the situation was the result of an unprecedented drought caused by the climatic phenomenon El Nino but "also by waste, which is what has led us to launch this campaign on the need to save [energy]." El Guri is the first of four dams on the last 100 km of the Rio Caroni before it empties into the Rio Orinoco. Two-tiered exchange rate On Jan. 8, the government authorized the devaluation of the bolivar, establishing two exchange rates, until then officially set at 2.15 bolivares to US$1.00. The new rates were 2.60 bolivares to US$1.00 and 4.30 bolivares to US$1.00. The 2.60 rate applies to priority imports (food, machinery, inputs for health, scientific and technological equipment, books, school supplies, and all imports for government use). Also included are remittances from Venezuelans living abroad, family assistance to students studying for advanced degrees in foreign universities, personal needs of retirees, disabled people, and others with special needs, and all foreign exchange that affects accredited diplomatic missions. "For everything else needs of the auto industry, commerce, and telecommunications, for example and above all to stop imports that are not strictly necessary and
to stimulate export policy, the 4.30 rate will be in effect," said Economy and Finance Minister Ali Rodriguez. Chavez added that the Banco Central "will intervene" in the parallel market to avoid speculation, which in effect acknowledged the existence of a third exchange rate. The dollar has exploded in that market in recent months to triple the official rate. Rodriguez said that "the objective of the government's actions in this grey and shadowy area of the market is to gradually make it disappear." While the official line is that the monetary adjustment aims to improve the Venezuelan economy's competitiveness and that it will only add between 3% and 5% to annual inflation, the opposition doubts the objective of the measure, its effect on prices, and the eventual benefits of the devaluation. Economist Pedro Palma said, "The adjustment means that for every dollar coming in from petroleum exports, more bolivares enter the government coffers, which in this election year will give the government more money to develop its social projects." Another economist, Orlando Ochoa, said, "It is rare in these times to see an exchange system that benefits the public sector so much." He added, "The government's popularity will be negatively affected because the inflationary impact of the measure reduces personal income, leading to less consumption." Ochoa also pointed out something that, in the government's judgment, is the real reason the opposition rejects the measure. "The devaluation will affect foreign businesses operating in Venezuela, because from now on they must pay twice as much to send their earnings to their home offices," he said. So far, the opposition's expectations have not been met. The first two months of the year, with the devaluation in place, saw accumulated inflation of 3.3%, a percentage point less than the same period in 2009 and 0.8% less than the government had predicted. Nevertheless, the opposition continues betting on an explosion in prices. "The country depends on imports for much of its necessities, and the devaluation makes those items more costly, meaning that price increases are inevitable," said Walter Molano, an analyst with BCP Securities, forgetting that the government included essential products among those covered by the lowest exchange rate. "Venezuelans will have a lower quality of life, but that's fine if it means that the government loses the elections," said former diplomat Victor Rodriguez Cedeno. Actions and reactions by government, opposition The bad omens caused important sectors of the middle class to go on a shopping spree "before the devaluation devours our savings." The preferred spots to shop were household-appliance stores. In unison, supermarket chains raised prices of essential goods, which set the scene for a government expropriation of two of the largest groups, Cadena de Tiendas Venezolanas (Cativen) and the French-Chilean Casino-Exito. The two businesses quickly accepted the government's offer and turned over their installations, with which Chavez created Hipermercado del Bicentenario, a chain of about 50 outlets throughout the country that sell low-priced good and that are visited daily by large numbers of bargain hunters. In this tense climate, the electoral campaign got underway, and the government imposed severe penalties on Radio Caracas Television (RCTV), one of the leading opposition media outlets. In 2007, the station's broadcasting license was revoked (see NotiSur, 2007-06-15). Since 2008, it has transmitted as a subscription-based cable channel, adding "international" to its name. RCTV hoped it could thus evade the regulations governing national stations, especially the requirement to carry national broadcasts of official events and Chavez's lengthy speeches. The government said that in reality 96% of RCTV's production was national, making it a national not international media outlet, and that its programming did not comply with existing limits on broadcasting films with excessive sexual content. For that, it was sanctioned. As in 2007, RCTV became an opposition cause. The US and French governments, the Catholic Church, and New York-based Human Rights Watch (HRW) condemned the government action. At least five Cabinet ministers resigned and were replaced, with various reasons given for their leaving, and students took to the streets throughout the country with
their protests. On Jan. 25, in the eastern city of Merida, two teenagers died in separate incidents putting a bloody overtone on the Venezuelan political reality.

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