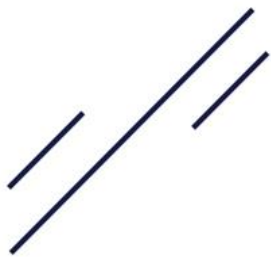




Report
January 2019

VENEZUELA

President Maduro is sworn in for his
second term



Political Analysis
Regulatory Information Service



Executive Summary

On **January 10**, Nicolás Maduro was sworn in for his **second term as President of Venezuela** after winning the country's national elections May 20, 2018. Maduro will therefore hold office until January 9, **2025**. The background for Venezuela against which the inauguration was set - **economically, politically, socially and in a regional context** - is one of considerable adversity.

Venezuela is facing one of its **worst economic crises**, with a level of **hyperinflation among the highest ever** recorded anywhere. Politically, the **ruling party and the opposition disagree** on measures to guarantee institutional order, all the while with the existence of **two separate legislatures working** simultaneously and a **judiciary that is heavily loyal to the President**.

Many **countries in the region oppose** President Maduro's second term, considering it illegitimate. Some even urge him to transfer powers to the National Assembly and call **new presidential elections**. In contrast, a small clutch of Latin American states as well as world powers including **Russia and China** continue to support the Chavist government and assist the country **economically**. Meanwhile, **millions of Venezuelans** are fleeing for other countries in the region in search of better living conditions.



A collapsed economy

Venezuela's economy has been struggling as of 2013, when Maduro first assumed the presidency. And the ensuing **economic crisis** has significantly worsened since then. Economic indicators reflect this: according to the International Monetary Fund (IMF), Venezuela's **Gross Domestic Product (GDP) dropped over 45% between 2013-2018**; last year the country's **inflation rose above 1,000,000%**. The country's productive capacity has thus been decimated, its **price system** pulverized and the **availability of basic necessities** such as food and medicine made increasingly scarce.

In an attempt to deal with this, Maduro's administration has introduced a series of **financial, commercial and agricultural policies** in recent months. First, the Executive branch applied a **monetary reversion** August 20, 2018, which saw five zeros slashed off the previous national currency, the Bolívar, and a change in the currency's denomination to **Bolívar Soberano (Bs.S)**.

Also, President Maduro has worked to promote the **consolidation of the Petro cryptocurrency** as a national and international exchange currency. The aim of this is to reduce the

population's dependence on cash, **get hyperinflation under control and protect itself from US imposed economic sanctions**. The price of the Petro is a weighted average drawn from the value of a barrel of oil, gold, iron and diamond - convenient for the government since those are all national resources. Currently, the Petro's exchange rate is USD 14 (9,000 Bs.S). It can be acquired by both natural and legal persons.



A collapsed economy (continuation)

Other financial measures announced in recent weeks are the **increase in funds that private banks must keep at the Central Bank of Venezuela, the substitution of the US dollar for the euro as the reference currency** in the exchange market, the **free convertibility** of the Bolívar Soberano and the raising of the minimum and maximum **financing limits in credit cards**.

To stem the fall in Venezuelans' purchasing power, the government decided November 29 to increase the **minimum wage** from USD 2.82 (1,800 Bs.S.) to USD 7.05 (4,500 Bs.S.), the equivalent of half a Petro. In addition, the Executive branch together with business chambers agreed on the prices of several

consumables and products of the basic basket. For example, a kilo of wheat flour now costs USD 0.15 (100 Bs.S). Maduro created the **Ministry of Domestic Trade (MCI)** to control compliance with the agreed prices and monitor the distribution and marketing of products. The MCI is assisted by the **Local Supply and Production Committees (CLAP)**, which are local groups that distribute boxes with products from the market basket to the low-income population.

A weakened government

Chavism has ruled Venezuela **since 1998** when Hugo Chávez, from which the term derives its name, assumed the country's presidency for the first time. By the time Nicolás Maduro's term ends in 2025, this political movement will have been at the helm of the Executive for 27 years. **Overwhelming victories** in the presidential elections of May 20, 2018 and the **local elections** of December 9, 2018 are a measure of the popularity of the Partido Socialista Unido de Venezuela (PSUV). However, the PSUV **does not enjoy the support and legitimacy it once did.**

Maduro's victory in the 2018 presidential elections is questioned for several reasons. For one thing, the **elections were moved forward by** seven months and announced four months in advance, in violation of the Electoral Law. For another, the two best-positioned former public officials of the opposition in electoral terms, Henrique Capriles and Leopoldo López, could not participate in the elections because they had been **disqualified and imprisoned**, respectively. Also, the **main coalition of opposition parties**, Mesa de Unidad Democrática (MUD), chose to **abstain from the election** which it deemed as untransparent. These factors impacted voter turnout which at 46% was the lowest in a presidential election in recent decades. In the December 9 municipal elections only 27% of Venezuelans eligible to vote did.

Despite the low voter engagement and the country's economic woes, PSUV's victories testify to it maintaining a **faithful electoral base**. Hugo Chávez and Nicolás Maduro have had success in running on tickets of pro-socialism and anti-capitalism/imperialism as embodied, as they see it, by the United States. In the same combative vein, recent months have seen President Maduro stoke tensions with **Colombia**, fuelling a **conflict hypothesis** in alleging that the administration of the current president, Ivan Duque, seeks to orchestrate a coup d'état in Venezuela. The objective of Maduro's message is to **unite Venezuelans regardless of ideology against a common foreign enemy**. His thus casts himself as a leader fighting for his country's sovereignty and honor.



A weakened government (continuation)

Another reason why some remain faithful to PSUV is the belief that the **current administration is not to blame for the economic crisis**, which is rather, as Maduro claims, the result of the economic war on Venezuela being waged by the United States. Other Venezuelans believe the government carries some responsibility for the country's plight but don't see the opposition offering better solutions.

A criticism of the PSUV is its apparent use of the **Carnet de la Patria** as a means to

compel its followers to vote. This is an identity document which possesses a unique QR code and enables those carrying them to receive economic aid from the government. As such the opposition claims that the Executive branch, through the issuing of the Carnet de la Patria, obliges citizens to participate in the elections, knowing that should they not do so they risk losing out on state benefits.

The Executive has all the power

A basic element of any republican nation is the **division of its three branches of government** (Executive, Legislative and Judiciary). However, in Venezuela this is not the case. **President Maduro rules the country without checks and balances.** Among the institutions allied to his administration is the **Supreme Court of Justice** itself (TSJ), composed of members of the ruling party, PSUV. Since these magistrates took office in December 2015, they have acted as a **shield for the Venezuelan president** in the face of opposition attacks. The most controversial measure by the TSJ was to **declare the country's Legislative branch, the National Assembly (AN), in contempt of court** in April 2017. The reasons for the ruling were alleged irregularities when the NA legislators took office in December 2015.

As a consequence, the Supreme Court **adopted the legislative powers** of the NA and exercised them until August 2017. At that time, the Executive convened a **National Constituent Assembly (ANC)**, composed of 545 Chavist-only legislators, to reform the constitution. The TSJ also transferred its **legislative powers** to the new Assembly. Since then, the ANC has acted as the de facto Legislative branch in Venezuela, to the detriment of the National Assembly, which still continues operating even when the laws it passes are not implemented.

All the bills introduced by the Executive branch to the ANC were **unanimously passed**, a sign of the institution's subordination to President Maduro. For example, on November 20, the ANC approved a bill that creates the Comprehensive Crypto-asset System. A legal framework was thereby established paving the way for the consolidation of the Petro cryptocurrency. Other enacted initiatives revolve around **large financial transactions**, **productive foreign investments** and **Value Added Tax (VAT)**.



An opposition in disarray

The electoral supremacy of PSUV over the years has coincided with an erratic and disjointed political opposition. The main opposition coalition is the **Frente Amplio Venezuela Libre** (FAVL) which brings together long-established parties such as Primero Justicia (PJ), Acción Democrática (AD), Copei, Un Nuevo Tiempo (UNT) and Voluntad Popular (VP). The strategies of the opposition in recent years' elections have ranged from the presentation of **joint candidacies** (Henrique Capriles as the opposition presidential candidate in the 2013 elections) to **abstention** (May 2018 presidential elections).

The finest hour of the opposition was its victory at the December 2015 legislative elections, where it obtained **control of the National Assembly**. As a consequence, the FAVL coalition could promote a **recall referendum** in October 2016 to interrupt President Maduro's term. However, due to the country's growing political, economic and social instability, that referendum was never held.

The opposition also failed to take advantage of the so-called **peace negotiations** with the government that took place in the Dominican Republic between December 2017 and February 2018. Although both sides were originally willing to settle their differences, the outcome was quite different. The opposition's main demand had been to **undo the political disqualifications** of

opposition leaders such as Henrique Capriles and Leopoldo López. As Maduro's administration refused to comply, the opposition did not support the proposals of the Venezuelan Executive branch either, causing the negotiations to **stall and be suspended**.

Nowadays, those making up Venezuela's **principal opposition figures** are the former house deputy and presidential candidate María Corina Machado, the current president of the Directive Board of the National Assembly Juan Guaidó, the former presidential candidate Henry Falcón, and former house deputy Julio Borges.



María Corina Machado

Region turns its back on Venezuela

Venezuela is **increasingly isolated both regionally and globally**. At present, the only Latin American countries that expressly **support** the Caribbean nation in international fora are **Bolivia, Cuba, Nicaragua**, and Saint Vincent & the Grenadines. Worldwide, its other backers are China, Russia and Turkey. The rest of the states in the region, such as **Argentina, Brazil, Colombia**, Costa Rica, and Peru, deeply oppose Maduro's **government and condemn** it for its authoritarianism. The United States and the European Union express similar views.

Beyond Venezuela's Latin American allies, **its main trading partners are, therefore, China, Russia and Turkey**. Their importance for Maduro lies in the fact that they provide the vital **financing** that the weakened Venezuelan economy needs. In recent weeks, the Bolivarian administration has signed numerous **cooperation agreements** with the presidents of these three countries, valued at billions of dollars. Russia may also install a **military base** in Venezuela, a move that would exacerbate tensions with the United States.

Meanwhile, the countries that **oppose Nicolás Maduro's administration exert pressure** through different means. The **Lima Group**, comprising Argentina, Canada, Colombia, Mexico and Peru, is one of them. This multilateral group was

created in August 2017 with the objective of finding a **peaceful solution** to the Venezuelan crisis. In the last few days the Lima Group asked the Venezuelan president **not to take office and instead transfer his powers to the National Assembly**, which could then call for early elections. Although the **United States** is not part of the group, **its opinion is taken into account** in its decisions.

The **Organization of American States (OAS)** holds a similar position. Its **Secretary General Luis Almagro** is one of the main detractors of the Venezuelan government. He has previously labelled the country a **dictatorship**, and is on record as being unopposed to **military intervention**, something for which he has been criticized by the countries in the region.

The most significant regional impact of the Venezuelan crisis relates to the **massive number of citizens fleeing the country in search of a better quality of life**. The International Organization for Migration (IOM) estimates that more than **three million Venezuelans** are scattered across 16 Latin American countries, mainly Colombia, Ecuador and Peru. This situation poses a problem for **Latin American governments** most of which lack the **infrastructure** to cater for such high numbers of migrants.

Region turns its back on Venezuela (continuation)

The wave of migration has had a **strong impact on legislative activity and regional public opinion**. The National Congresses of countries such as **Chile and Colombia** have discussed **bills to regulate the migratory status** of Venezuelan citizens. In **Peru**, the Executive branch established that migrants wishing to enter the country must present a passport and the new president of Brazil, Jair Bolsonaro, wants to **withdraw his country from the Global Compact on Migration**, which establishes common international practices to address the migration of people in a safe and efficient manner.

For its part, Maduro's administration recently attempted, with little success, to **bring back Venezuelans in exile** through the **"Vuelta a la Patria"** plan. Through the program, the Chavist administration pays for return flights to Venezuela and, upon arrival, offers returnees aid through **social programs**.



Final considerations

In light of the various factors looked at, **Venezuela's future** following Nicolás Maduro's inauguration for a second term as president is **uncertain**.

Maduro, now set to be in office until 2025, and his **ruling party** will be in a **relatively comfortable position** as long as they have the **support of the armed forces**, **the opposition remains disorganized** and bereft of a solid political strategy, and the followers of the Partido Socialista Unido de Venezuela continue to see the Bolivarian **government** as the **best option for tackling the country's challenges**.

However, the international arena may also impinge. **Joint measures** from countries of the **Lima Group**, which can range from the withdrawal of ambassadors to the rupture of diplomatic relations, would **isolate Venezuela** further and hamper its international trade. As such, the level of continued support from and, crucially, the degree of **financing provided by Maduro's allies** (China, Russia and Turkey), will be **critical** to sustaining Maduro's government. .



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