Macro-economic Project



Name: Vidit Khemani

Class: FYBBA-J

Roll No: 61

SAP ID: 74022119722

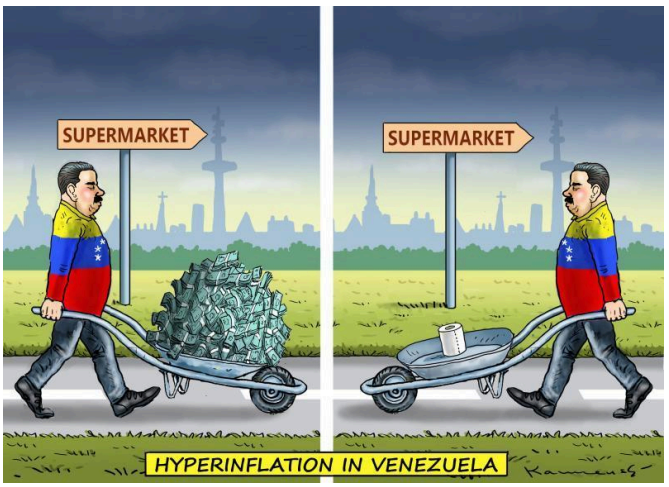
Faculty: Mr. Sagar Raut

Topic: The fall of Venezuela

The Fall of Venezuela

Introduction

This image is a true reflection of the situation Venezuelans are going through currently.



It is tough to imagine a life in which you get a loaf of bread for a truck full of cash, but the flawed economic and political decisions taken by the leader of the Venezuelan Republic has unfortunately brought the country at this stage. Today in between sanctions from world powers and protests from within the nation, this petrostate is on the verge of a fall.

But, as we all know, Venezuela wasn't like this from the beginning. This country was once envied by most countries in South America. Blessed with the **largest oil reserves in the world**, the country once had a fast-growing economy, recording a growth of 26% in the 2nd quarter of 2003. So, what went wrong? What was the monetary or political decision which brought Venezuela to a stage where it can hardly stand on its foot? To answer some of these questions and many more, here's a research work depicting the story of Venezuela. Beginning with introduction of certain general knowledge regarding this nation, we will start with what was the historical wrongs done by the different presidents which brought Venezuela to such low heights. Following which we will know about the current situation of Venezuela.

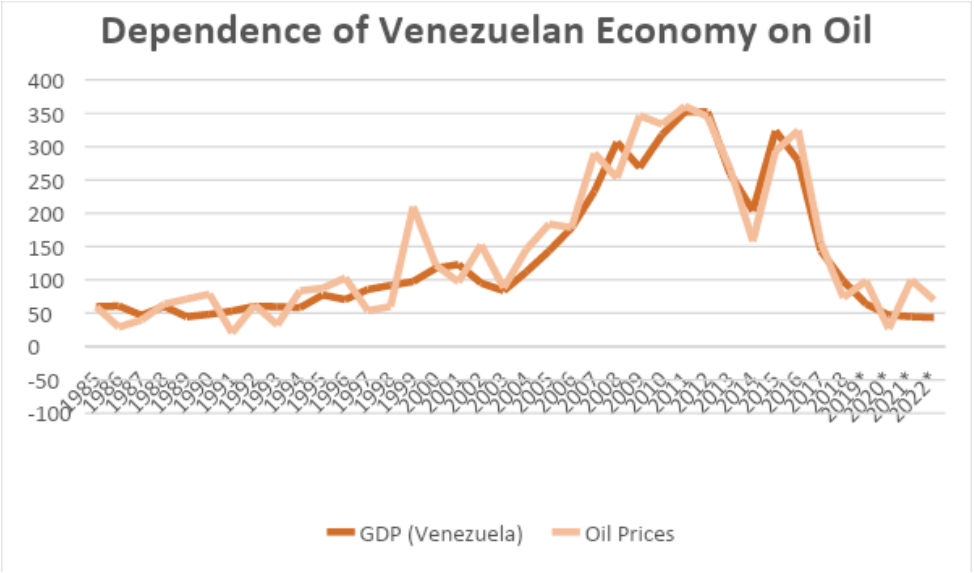
Established in the year **1958** as a **democratic country**, the republic of Venezuela had a market based mixed economy dominated by the **petroleum sector** which though being the reason for its success, is also one of the main reasons why Venezuela is, where it is today. Petroleum is so important for Venezuela that it accounts for roughly a third of GDP, around 80% of exports, and more than half of government revenue.



The **Venezuelan Bolívar** is the official currency of Venezuela. Named after the hero of Latin American independence Simón Bolívar, this currency since 1983 has experienced a prolonged period of high inflation and currently is standing at nearly 5,00,000 bolivars for 1 USD.

Diving deeper into the problem, we will be 1st knowing what is the crisis Venezuelans are facing today. For this we will first have to know what was the primary reason behind such a drastic fall.

This small nation in Latin America has always been intensively dependent on Oil. The success of the country's GDP and its subsequent failure both have oil as its major driver.



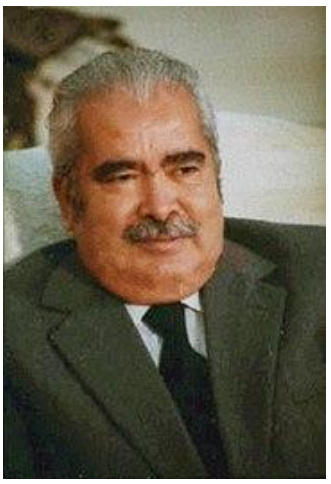
This chart depicts how majorly Venezuelan Economy is dependent on Oil Prices. Whenever there has been an increase in oil prices, the revenues for the nation have increased and the GDP boomed as a result. This tendency and over dependency on oil is why Venezuela is facing such a drastic situation today.

Source: Macrotrends.com

The inflation issue that Venezuela is facing today, actually started taking shape from 18th Feb, 1983. Devaluation of Bolivar or what came to be known as **Viernes Negro** in Venezuela was preceded by events such as the departure of Venezuela from the gold standard, the nationalisation of oil, and the beginning of a stage of decreasing public spending compared with State revenue. This situation was just the beginning of the disaster. This situation was afterwards worsened with a steep fall in Oil Prices from early 1980's stretching to 1986, when the prices were one of least. **President Herrera Campins** also created different exchange rates for imports and exports, creating economic distress in national revenue and for transfer of goods, which contributed to the decline and ultimate devaluation of Bolivar.

Viernas Negro

18th February, 1983 is referred to as Viernas Negro in Venezuela which in English means Black Friday, because on this day, Bolivar was apparently sold in discount.



President Herrera Campins

The fall of Oil prices in 1980s and corresponding devaluation of Bolivar coupled with inefficient monetary policies was what led to Venezuela facing the 1st wave of what we today know as Hyper-Inflation in Venezuela!

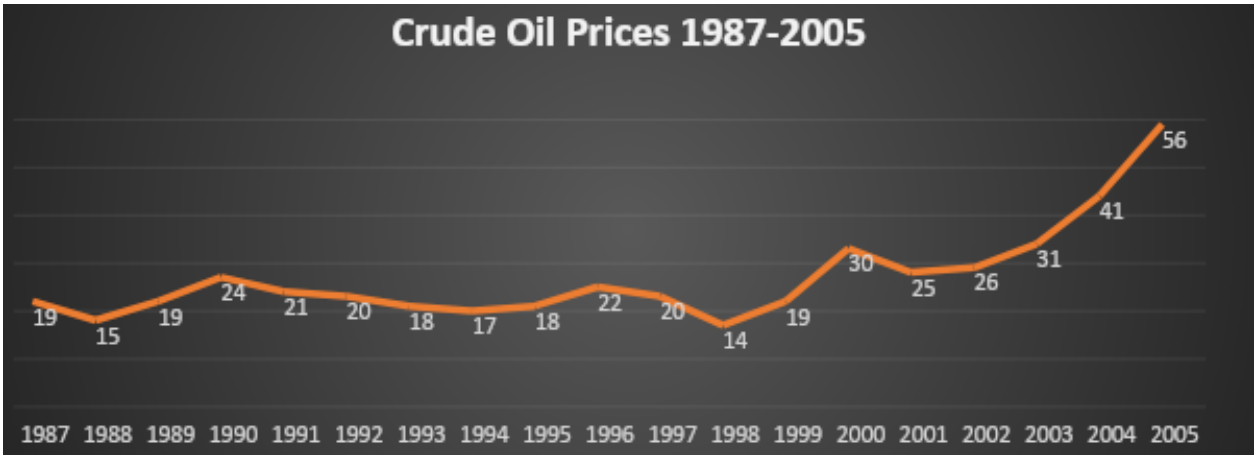
Venezuelan diplomat Juan Pablo Pérez Alfonzo, a founding member of the Organization of the Petroleum Exporting Countries (OPEC), predicted that Venezuela's dependence on petroleum would leave it destitute amidst the Oil Boom in 1970s. And this is what happened in 1980s when Venezuela experienced a double-digit inflation, although remaining between 6-12%.



President Rafael Caldera

In 1989, the inflation rate peaked at 84%. The same year, a new president**, Carlos Andrés Pérez** was instated in office who ordered a cut in government spending and the opening of markets. After Pérez initiated liberal economic policies and made Venezuelan markets more free, Venezuela's GDP increased from a −8.3% decline in 1989 to 4.4% in 1990 and 9.2% in 1991. In the same years of economic prosperity, i.e., from 1990-1992, the inflation rates were also around 30% which is fairly lower for Venezuela.

In 1993, President Perez was impeached and the following years was a disaster for Venezuela. Perez was followed by **President Rafael Caldera** during whose rule, Venezuela faced a deep economic crisis. By the mid-1990s under, Venezuela saw annual inflation rates of 50% to 60% from 1993 to 1997, with an exceptional peak of 100% in 1996. The percentage of people living in poverty rose from 36% in 1984 to 66% in 1995, with the country suffering a severe banking crisis in 1994. But as said before, upon finding, we will find that the underline problem behind such economic crisis is again the same. **Fall in Oil Prices.** During 1990s, the



oil prices were severely low

due to excessive supply of it. From the Graph, we can see that the prices of Oil, dipped around 1998.

Socialistic Measures taken under Bolivarian Revolution.

In 2001, Chavez passed 49 laws that aimed to redistribute land and wealth from the rich or private companies to poor citizens.

Chavez engaged in door-to-door anti-poverty activities that include food distribution, a vaccination campaign and increasing education in slum areas.

In August 2008, Chavez announced plans to nationalise one of the country's largest private banks, the Spanish-owned Bank of Venezuela.

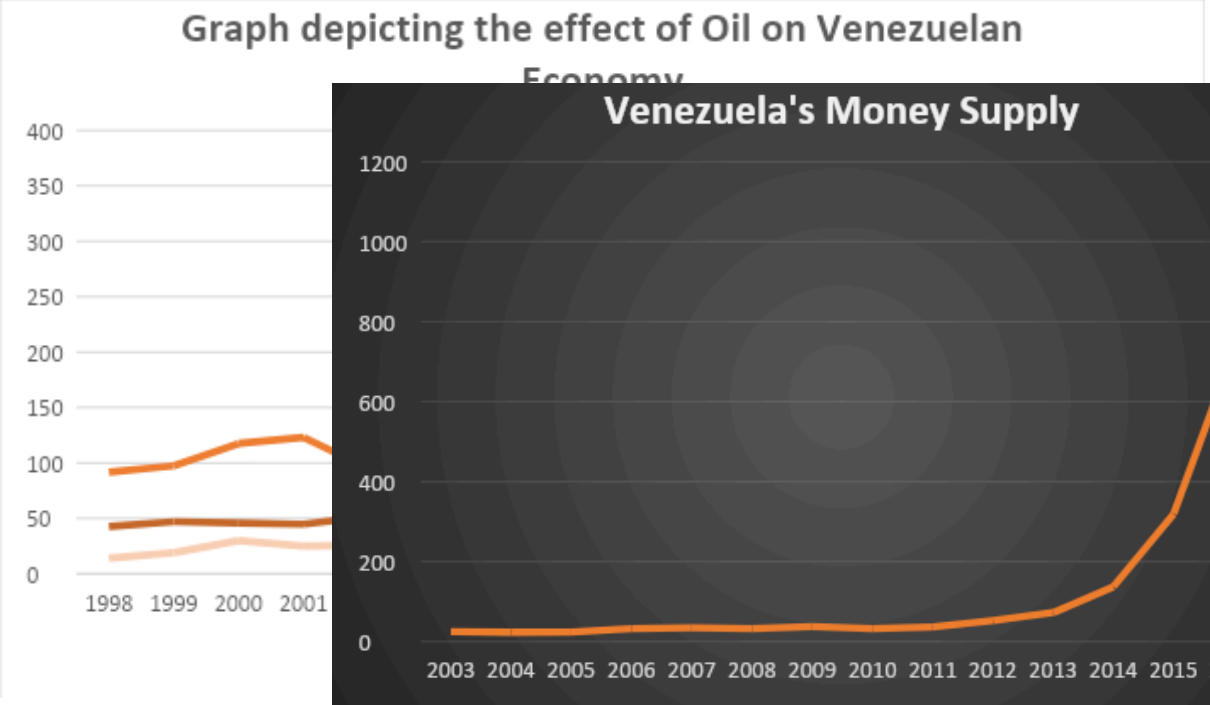
Following the 1998 Venezuelan presidential election, **Hugo Rafael Chavez**, became the president of Venezuela. Hugo Chavez is one of the longest serving presidents of Venezuela but according to some also the reason for its downfall. Hugo Chavez believed in socialism and henceforth encouraged excessive government spendings. he was elected, Hugo Chavez n Revolution', which aligned to his socialist policies and about which I have written ahead. During his tenure it could be seen that the inflation rate, measured by consumer price index, which was 35.8% in 1998, fell to a low of 12.5% in 2001 but rising to 31.1% in 2003. In an

President Hugo Chavez



attempt to support the Venezuelan Bolívar and mitigate the impact of the oil industry work stoppage on the economy, the Ministry of Finance and the Central Bank of Venezuela (BCV) suspended foreign exchange trading on 23 January 2003.

The socialistic measures taken by the then president Hugo Chavez did show its colour and succeeded in bringing the poverty down to a great extent in Venezuela. This was very well reflected in the graph given below, showcasing the fall in poverty rate in Venezuela from the early 2000s. But the graph also showcases something which we already know of very well till now. The dependence of Venezuela on Crude Oil. Other than the fall in poverty rates, we can also see from the graph that during the same period, the prices of crude oil increased from $14 to $72 and $99. The basis of Venezuelan Inflation crisis could very well be traced from the steps taken by this government with Hugo Chavez as its supremo. By taking the decision of not spending the surplus generated from oil prices, once again, this Venezuelan Leader, in an attempt to gain popular support, took the route of spending the government treasury onto unproductive and no-returns investment. It chose to not spend its revenue on diversifying the economy and preparing itself for future possibilities. As a matter of fact, the dependence of the economy on Oil during the rule of



Hugo Chavez, increased from 81% in 1998 to 95% by 2009. The economy of Venezuela soon in these decades shifted its naming from oil depended economy to an Economy of Oil.

But all was well until the effects of Hugo's Huge charity started showing its effect. Gearing up for the 2012 elections, the government of Venezuela increased its spending on public good to so much extents that it had to print notes at an alarming rate to fund its economy. The government at the same time devalued its currency by 32% in order to increase its revenue, since the economy depends on exports. The inflation rate of Venezuela had stabilised to a great extent and the economy had also shown a positive growth in the 2000s. But

government in the years 2012-2013 did something which for Venezuela was the start of its biggest tragedy. It printed notes extravagantly. While looking for Data at World Bank's website, we found data only till 2013. The graph given below is enough to explain how much did Venezuela print in those years.

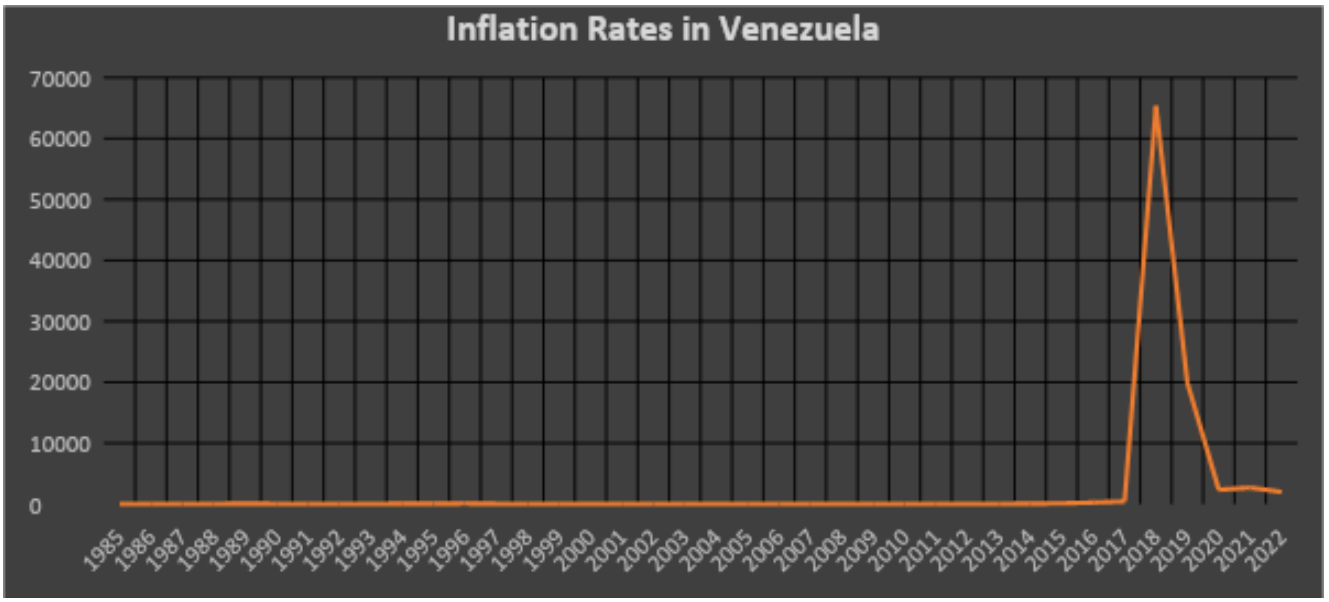
In the year 2013, President Hugo giving away the reigns to his choosen succesor, President Nicholas Maduro, in whose reign Venezuela is witnessing worst of its worst times. By 2014, it was the highest in the world at 69%. By 2016, the media reported that Venezuela was suffering an economic collapse. The IMF estimated a 500% inflation rate and a 10% contraction in GDP. In November 2016, Venezuela entered a period of hyperinflation. In December 2016, monthly inflation exceeded 50% for the 30th consecutive day, meaning the economy was officially experiencing hyperinflation. The inflation rate reached 4,000% in 2017. During the Christmas season in 2017, some shops no longer used price tags; since prices inflated so quickly, customers were required to ask staff how much each item was.

interesting part here is that even this time, the reason for the disaster didn't change. One has to be truly dumb to repeat the same mistake N number of times, even after knowing that the mistake harms him drastically. But unfortunately, Venezuelans did feel dumb. The crude oil prices started dipping by the end of 2013, falling continuously until 2016. Falling oil prices, increased government spendings, lack of alternate source of Income and the new aspect to it, excessive printing of notes. All these factors came together as if there was a planned attack against Nicholas Maduro. But every watcher of Venezuela's Economy knew, that it wasn't bad luck, but bad Policy behind Venezuela's fall.

Current Situation of the Venezuela:

You know what is worse for a country facing a historical economic crisis? Lack of political will and corruption. While Venezuela is facing such a drastic economic disaster, the Madura and his friends are living on the corruption money from Venezuela's Oil Operations. Usually a country facing economic crisis is helped by strong world powers in balancing its economy. But in this case, USA, the world's most powerful economy is putting sanctions on Venezuela. Since 2017, the U.S. has sanctioned people, businesses, and oil entities associated with the former Maduro regime, both inside and outside of Venezuela. The reason behind this is quite political henceforth we will avoid discussing it over here.

The inflation rate in Venezuela in the years 2018, 2019 peaked with exceeding 1000000% in



2018. In 2019, the International Monetary Fund estimated that inflation would reach 10,000,000% by the end of the year but since the central Bank of Venezuela has stopped reporting data on Inflation and other economic parameters, the situation can't be assessed accurately of the period. But it is of no doubt that not just Venezuela, in fact the world saw the worst of its economic crisis, here in Venezuela.

But as we say in India, 'Bhagwan ke ghar der hai, Andher nhi', the economy of Venezuela has started showing signs of recovery after 8 years of downfall. The latest growth figures portend to a slight turnaround in an economy. Its president Nicolas Maduro also celebrated inflation numbers posted last year. Inflation in December was 7.6%, marking 12 straight months below the hyperinflation threshold of 50%.

Seeing the hope of millions of populations being shattered due to wrong economic decisions by some bureaucrats and politicians is a pitiful sight. But unfortunately, the world is seeing this scene for quite some years now in Venezuela. But seeing some positive results as highlighted in the above paragraphs gives a ray of hope.

Thank you for giving your time, hope you liked it.

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