

VENEZUELA: ELECTIONS AND ECONOMIC CHALLENGES IN A PIVOTAL MOMENT

Venezuela faces a critical political and economic crisis as it approaches presidential and legislative elections in 2024 and 2025. Political fragmentation between President Nicolás Maduro's government and the opposition, coupled with economic instability marked by recession, hyperinflation, highlight the country's deep-seated challenges. The crisis has reached a critical point, marked by stalled discussions and electoral conditions favoring President Nicolás Maduro. Despite signs of economic recovery in 2022, Venezuela is grappling with renewed recession and inflation, compounded by corruption and U.S. sanctions.

This analysis emphasizes the urgent need for all parties to unite and achieve consensus, which is indispensable to ensure fair elections, address governance issues, and stabilize Venezuela politically and economically. Addressing the Maduro's government's reluctance to consider relinquishing power, evident in its control over the electoral system and appointment of new authorities, is a critical issue requiring immediate attention.

In this critical context, the active participation of neighboring Latin American countries, particularly Colombia and Brazil, is essential for facilitating an agreement on Venezuela's internal political processes, focusing on electoral reforms and governance issues crucial for fair and transparent elections. Their regional influence allows them to pressure, mediate negotiations, and promote stability amid Venezuela's crisis, which affects regional stability, migration, and economic dynamics. Advocacy for Maduro's government to implement democratic reforms and ensure electoral integrity is paired with collaborative opposition efforts to foster voter trust and support a more equitable electoral process.

Economic challenges and opportunities in 2024

Throughout 2023, Venezuela's economic landscape has shown notable contrasts. The first semester saw stagnation in consumption due to economic recession; high inflation rates (Figure 1) eroding purchasing power, ongoing shortages of basic goods, and uncertainty from fluctuating economic policies. However, several events have emerged that could positively impact the country's economic health. These include: (1) the lifting of sanctions that were imposed against Venezuela, primarily by the United States and the European Union among others, targeting sectors like oil and finance in order to pressure the Venezuelan government over alleged human rights abuses, anti-democratic actions, and corruption under the Maduro administration; (2) Chevron's commencement of operation since it's an American multinational energy corporation, operates extensively in Venezuela through joint ventures with the state-owned oil company, Petróleos De Venezuela S.A; (3) relative stability in the exchange rate; and (4) lower inflation rates. These factors are fostering positive expectations for Venezuela's economic outlook in 2024.

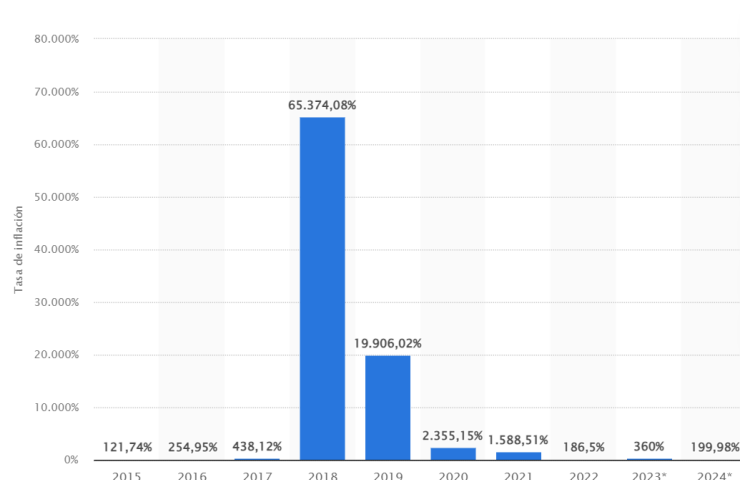


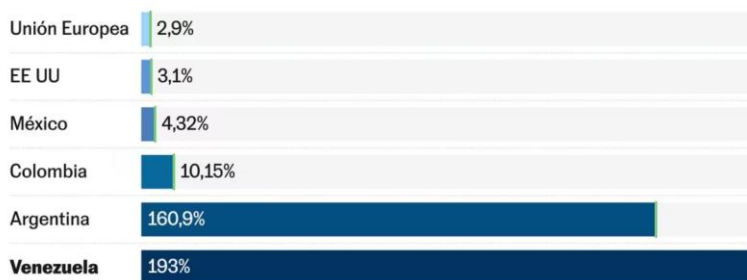
Figure 1. This graph illustrates the annual evolution of the inflation rate in Venezuela from 2015 to 2024.

Taken from <https://es.statista.com/>

In November 2023, despite a deceleration in public spending, the most significant monetary expansion of the year was recorded. Public spending growth decreased from 42 percent in October to 18 percent, while the primary money supply notably increased by 33 percent (Holland & Knight, 2023). Interestingly, this monetary expansion did not significantly impact the exchange rate, halting a sequence of three consecutive months of contractions in previous months.

Venezuela's monthly inflation rate decelerated in 2023 due to reduced public spending, improved tax collection, and Central Bank (BCV) interventions, supported by Chevron's currency sales. Moleiro (2023) reports the Consumer Price Index closed at 193%, slightly below expectations. December (3.9%) and November (1.9%) had the lowest monthly inflation rates in months. Despite the slowdown, Venezuela still had the highest annual inflation rates in months. Experts foresee moderate inflation and some economic expansion, with Lebanon and Argentina expected to surpass Venezuela's previous high inflation rates.

Inflación en Venezuela 2023



Venezuela cerró el año 2022 con un 305%

Figure 2. This graph depicts inflation in Venezuela compared to other countries at the close of 2023.

Taken from <https://elpais.com/>

Venezuela's economic challenges persist despite some positive signs. Nearly half of its industries rely on self-financing, limiting external investment and growth. Only 41% of industrial enterprises received bank loans in the third quarter, reflecting restrictive credit policies aimed at managing inflation but hindering economic expansion by limiting financing options for businesses. These factors highlight ongoing difficulties in accessing capital important for growth and development in Venezuela's economy. Overall, these factors contribute to a challenging economic environment in Venezuela, where industries face barriers to accessing necessary funds for growth and development. This situation underscores the need for policy adjustments that balance liquidity management with fostering economic expansion and investment.

Luigi Pisella, president of Conindustria (Confederation of Venezuelan Industries), and economist Tamara Herrera, interviewed by Sirven and Zapata (2023), addressed these issues. Pisella noted a decreased financing demand among affiliated companies to \$4 billion, down from \$5 billion, despite increased resource availability, emphasizing the need for expanded credit. Herrera highlighted the significance of General License No. 44 from the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) for 2024, allowing Venezuela to sell oil without discounts, potentially boosting foreign exchange earnings. As Venezuela faces 2024 electoral events and possible increases in public spending, the Central Bank of Venezuela (BCV) must secure additional foreign exchange to stabilize the exchange rate, following past practices. The past practices refer to historical strategies by the Central Bank of Venezuela (BCV) to stabilize the exchange rate. These include conducting currency auctions, implementing exchange controls to regulate currency flows, managing foreign exchange reserves, and using monetary policy tools such as interest rate adjustments.

In 2024, Venezuela faces economic challenges and opportunities. Key factors include monetary policy adjustments, moderated public spending, exchange rate stability efforts, and international policy developments like General License No. 44. Effective policies are important for sustainable economic recovery and strengthening Venezuela's foundations.

Heading to the polls

Until 2024, Venezuela's political landscape was marked by prolonged negotiations between the Maduro government and the opposition, amidst challenges of legitimacy and international sanctions. The signed agreement in Barbados represents a significant breakthrough after two years of talks, setting the stage for presidential elections in 2024. This milestone aims to address political polarization and improve electoral fairness, yet Laura Dib from WOLA notes it's partial, with more work needed for full implementation (Traeder, 2023). The Barbados agreement commits both parties to publishing the electoral schedule, auditing the electoral system, inviting technical electoral observation missions, ensuring media balance, and recognizing electoral results. Negotiations continue, emphasizing the need to lift government sanctions, suspend disqualifications, and release political prisoners for the opposition. The elected president will assume office for a six-year term starting January 10, 2025. Venezuela has 21.8 million eligible voters (2021), with voting not mandatory. Turnout in the 2018 presidential elections was 46 percent.

According to Harrison et al. (2024), Nicolás Maduro faces international pressure to ensure free and fair elections, amid a history of electoral irregularities and repression. In 2023, Maduro and the opposition agreed on an electoral roadmap contingent on Washington temporarily lifting sanctions in the oil and gas sectors. María Corina Machado, from the Unitary Platform (UP), won opposition primaries in October with significant participation (Infobae, 2023). Maduro denounced the vote as a farce, prompting Washington to threaten sanctions reversal unless Machado's candidacy was permitted. A last-minute agreement allowed banned candidates to appeal, easing tensions.

Edmundo González Urrutia emerged as the opposition candidate by uniting key leaders like María Corina Machado and gaining the backing of the UP. Recent polls by ClearPath Strategies show him leading President Nicolás Maduro significantly. With 66% of voters seeking change and 67% planning to vote on July 28, González Urrutia holds 96% recognition and a 54% favorability rating, compared to Maduro's 35%. His strong support from unified opposition voters and key figures like Machado positions him as the likely winner, crucial for ensuring the election's legitimacy (Infobae, 2024).

Brazilian President Luiz Inácio Lula da Silva and Colombian President Gustavo Petro discussing a plebiscite alongside Venezuela's upcoming presidential elections highlight their diplomatic efforts to promote stability and democratic dialogue within Venezuela. Both countries have played significant roles in regional initiatives aimed at addressing Venezuela's political crisis and supporting efforts for democratic reforms. Their involvement underscores their commitment to regional peace and stability in Latin America (France 24, 2024).

Diplomacy at play

In December 2023, Maduro held a referendum on annexing the Essequibo, a disputed territory with Guyana. Despite claims of high participation, reports suggest voter mobilization challenges, which could impact Maduro's prospects in the upcoming presidential elections. The complex relationship between Venezuela and Guyana, centered on the Essequibo dispute, has garnered international attention. This conflict spans legal, political, and economic dimensions, evolving amid shifting geopolitical dynamics (Romero, 2021). Freitas (2023) outlines Venezuela's challenge to the validity of the Arbitral Award issued by the Arbitral Tribunal of Paris in 1899 and settled the border dispute between Venezuela and the United Kingdom (representing British Guiana, now Guyana), favoring British Guiana (Guyana) and establishing the current border. Venezuela disputes the award's validity, citing procedural errors and geopolitical pressures. Guyana maintains sovereignty over the Essequibo region based on the award, while Venezuela asserts historical claims and seeks diplomatic resolution. Any review of the award could escalate tensions and involve global actors due to the territory's geopolitical and economic significance, while Guyana asserts sovereignty and grants resource concessions. An international tribunal's decision could either ignite a new sovereignty dispute or affirm Guyana's control over the Essequibo, despite ongoing Venezuelan objections.

The recent oil exploration in Guyana has intensified the conflict, with U.S. multinational companies near the disputed zone escalating tensions (Salazar, 2023). Joint naval

maneuvers between Guyana and the United States have further strained relations, prompting Washington to bolster alliances with Venezuela's neighbors. Venezuela portrays itself as a revolutionary nation aligned with intrahemispheric alliances. Those alliances refer to partnerships often based on shared regional interests, such as economic cooperation, security issues, or political alignments, distancing itself from the United States. In contrast, Guyana is seen as a pragmatic oil producer with strong Western and hemispheric ties. These shifts have reshaped international perceptions and support for both countries.

Guyana's disregard for the Geneva Agreement commitment and Venezuela's claim of Essequibo as its territory has heightened tensions, risking conflict escalation. This dispute involves complex international dynamics, including the influence of the International Court of Justice, geopolitical tensions, economic interests, and shifting global roles. International mediation may be necessary for a diplomatic resolution to prevent regional instability. Venezuela's recent non-binding referendum on Essequibo annexation, where the ruling party claimed over 95% of the vote with nearly 50% turnout, has exacerbated tensions with Guyana, seen as a provocative move aggravating geopolitical uncertainties in the region.

Final remarks

Venezuela is at a critical crossroads, grappling with severe political and economic challenges. Stalled negotiations and concerns over biased elections threaten internal stability and regional repercussions. Success depends on collaborative efforts between government and opposition to achieve tangible results and ensure fair elections, important for both Venezuela's future and regional stability.

The vision of a brighter future for Venezuela hinges on lifting sanctions, ensuring electoral transparency, respecting human rights, and collaborating with international actors. Collaboration among government, opposition, international community, and civil society is crucial to overcoming differences and building a stronger Venezuela, fostering democracy, stability, and prosperity.

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