



## 'Bodies Piling Up': All you need to know about Venezuela's looming implosion

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The headline at [ZeroHedge](#) back in January said it all. “This is what the death of a nation looks like”.

It now seems inevitable that Venezuela, for decades touted as a “socialist paradise”, will disintegrate by the end of the year.

It’s the ultimate case of “Dutch disease”, a country now rotten from depending far too much on the export of a primary product and, as a result, facing a currency so bloated it can’t maintain productivity and competitiveness.

Now, the inevitable violence and chaos is starting to spill over. On Sunday, the Financial Times cited reports of the morgue in the capital city of Caracas overwhelmed with the stench of dead bodies piling up.

There’s been no official homicide data from Venezuela since 2006, but El Nacional is claiming “5186” murders in 2016 to date. One local think tank puts the rate at 92 killings per 100,000 citizens – about 22,000 Australians a year in local terms, or 84 murders every weekend in Sydney.

It’s almost five times the rate in the year before Hugo Chavez came to power.

US journalist Jeff Berwick recently, bravely, stepped out for a night or two in downtown Caracas. He claims he virtually had the streets to himself. No one else was silly enough to venture outside at night.

Berwick, a US citizen, doesn’t miss the chance to turn the situation into a gun debate.

But in Caracas, he may have a point. “No guns” notices are present in every public space, every restaurant. The security guard at his hotel was hiding behind the door when they knocked, because he’s not allowed to carry a weapon.

The FT spoke to local man Luis Mejía, who said three members of his family had been shot in the past fortnight.

“This is now wilder than the wild west,” he said, adding the morgue attendant who a decade ago received seven or eight bodies every weekend is now faced with 40 and 50.

17 years ago Chavez brought his socialist revolution to Venezuela. Now, barely two years after his death, lynchings, prison breakouts, deadly student protests and mafia executions dominate the pages of national newspapers.

### **The problem with Maduro**

“Chavismo” is the term given to Chavez’s ruling style which takes in everything from of socialism, populism and feminism to green politics and workplace democracy.

They still love him. In 14 years, he won the presidency four times in closely scrutineered elections. He died of cancer in 2013, but the iconic image of his eyes are still present every day on t-shirts, posters, billboards and buildings.

Nicolás Maduro worked with Chavez since 2006 as his Minister of Foreign Affairs and vice-president. While he tries to adhere to the ideology of chavismo as Venezuela’s president, he simply lacks the charisma of the man he inherited this mess from.

And facing a no-win financial situation, charisma is the only tool he’s got left in his bag with hundreds of thousands of poverty-stricken locals demanding he take control of a problem he realistically has no power to control.

Instead, Madura and his party spokespeople:

- Blame food shortages on opposition misinformation and a wider CIA conspiracy to destabilise his government
- Blame inflation on local oligarchs trying to dominate the market by deliberately cutting their production capacity
- Take action against media which highlight the problems Venezuelan citizens face, and
- Blame violence on a war with right-wing Colombian paramilitaries.

None of which feeds or even inspires Venezuelans, with poverty levels now approaching 90%. But almost all experts agree it’s obvious even Chavez’s charisma wouldn’t have seen Venezuela through this crisis.

## **Backpacks full of cash**

Officially, a US dollar will cost you 9.95 bolivars. This time last year, the rate was around 6.50 bolivars to the US dollar.

Unofficially, on the black market, you can get a staggering 1142 bolivars for a single US dollar, according to dolartoday.com. That's up from 300 this time last year.

Venezuela's problem is the crashing price of oil, its major export commodity. About 95% of the country's exports, in fact. Because of that, it's considered to be burdened with the riskiest debt in the world.

Revenue from oil exports is said to have plummeted from \$US37.2 billion in 2014 to \$US12.6bn.

Compounding the problem, it also has to import roughly half of the food its people consume, so in those two stats alone, you can already see the trouble it faces.

Back to Berwick, who recounts leaving the airport with a backpack full of bolivar knowing it's only enough to buy dinner.

In November last year, McDonalds brought fries back after a 10-month absence, but because the state forced McDonalds to source potatoes from Venezuela, the fries cost \$US133 – for a single large serve.

Even the black market rate, which brings fries down to \$US1.15, is around 10% of the average weekly wage in Venezuela.

In many restaurants, prices are stuck on menus with printouts, as they have to be updated weekly, or sometimes several times a week.

## **The new national profession**

In February, Venezuela topped the "Misery Index," an annual list compiled by The Cato Institute. For the second year in a row, it was considered the most miserable country in the world based on data about a country's inflation rate, interest rates, and unemployment.

Note "second year in a row". Even before the oil crunch looked like it was setting in, Venezuelans were dealing with crazy rates of inflation. CPI skyrocketed in early 2014 and hasn't dipped since.

While the Venezuelan government still denies it, for nearly two years now, people have been saying they must wait several days in lines to enter government grocery stores for basic essential items which may not even be on the shelf when they finally get through the door.

Standing in line has actually become one of the better paid professions in Caracas. The queues are solely outside state-run supermarkets which see government subsidised staples selling for as much as four times cheaper than in private stores. Just last week, one woman gave birth while queuing.

The other edge of the sword is that when Venezuelans eventually get inside the stores, they're leaving with much more than they need, because reselling it across the border into Colombia and Brazil is extremely lucrative.

There's huge pressure on the government to maintain the subsidies or face a political backlash from the country's significant chunk of voters beset by poverty.

### **How did it happen?**

There's some irony in the fact that it's how well the former Chavez government looked after the poor that has triggered the country's slide.

Chavez was a noted, and beloved, socialist who subsidised gasoline down to two cents a gallon, and even provided free housing to make life easier for his people.

But to subsidise that kind of vote-buying, he installed loyalists in the state-owned oil companies who kept profits flowing to government coffers, at the expense of investment in the infrastructure needed to refine its extra-heavy crude.

That triggered a downward slide. According to the Washington Post, oil production dropped some 25 per cent between 1999 and 2013.

And the budget started to slide into the red, and Venezuela reacted in the worst possible way – by printing more money, so Chavez could keep his people fed and housed.

On February 19, gasoline prices rose for the first time in 20 years – by 6200%.

Then there's the toilet roll fiasco.

### **The toilet paper thing**

You might have read about how Venezuela is “running out of toilet paper” and figured it was simply something to do with everyone being poor and lining up for basic items. And you'd be right, to some extent, but there's a bigger problem in this for the government.

Since 2013, the Venezuelan government has been seizing toilet paper factories. That's because toilet paper is an essential item that receives “preferential dollars”.

If you need to know why that's a huge problem – aside from causing a chronic shortage of toilet paper – here's an example [dolartoday](#) used back in November, updated with the most recent valuations:

- Say you import 10 million bolivars worth of toilet paper. Officially, that's about \$US1 million worth.
- Toilet paper is a preferential item, so it can only be sold at the official government bolivar rate, and as such, you are only allowed to make a maximum of 20% profit on it in Venezuela.
- So you send 5 million bolivars worth back across the border and sell it for \$US500,000, which you spend on iPhones.
- iPhones receives no preferential dollars, so you can sell them in Venezuela at the black market rate of 1142 bolivars per US dollar.
- You receive \$571 million bolivars for your \$US500,000 worth of iPhones, which, converted back at the official rate, snag you \$57.1 million – a staggering 11,320% return.

You can see why the Venezuelan government is trying to shut down and sue dolartoday, which is a US website.

There's also the other problem all this subsidisation causes.

If you're not subsidised, there's no point buying any stock because people can't afford to buy it off you.

If you are subsidised, you'll just take the money the government gives you and exchange it for a whole lot more on the black market, rather than buy more stock.

Both outcomes result in less stock. Less food, less toilet paper. Reuters reported in March that things were so bad, the Venezuelan government was using bonds to pay for pharmaceutical imports.

Perhaps Venezuelans should be growing more food rather than exporting it, right? Except in the middle of Chavez's reign, the government seized control of some 3 million hectares of agricultural land in an effort to control production and prices. Now it sits idle, because the overvalued currency means it's cheaper to import food than grow and distribute it. Cheaper, but still too expensive for your average Venezuelan family.

And because of the lack of imported barley, Venezuela also faces running out of beer.

It even imports its own banknotes from Europe. What a mess.

### **What now?**

According to the International Monetary Fund, the Venezuelan economy shrank 10 per cent last year, and will shrink a further 8 per cent this year as inflation surges to 720% compared to 250%

last year. Going by black market rates, Venezuela's currency has lost 93 per cent of its value in the past two years.

It's almost impossible to see the country not defaulting soon on external debt fast approaching \$200 billion. Traders have put the chances of a default at up to 88% through to next June.

\$US14 billion is due in the next 12 months, but no one's exactly sure how big Venezuela's reserves are.

At the end of February, with crude hovering in the low \$30 range, Siobhan Morden of Nomura said Venezuela had about \$20 billion in oil revenues coming to it in 2016. Out of that, it has to find \$35bn to pay for imports and \$12bn to cover capital outflows – on top of the \$10.5 billion in repayments.

April's a relatively modest payment – \$782 million. May pushes up close to a billion and if Venezuela can get through those, there's some breathing space until October and November, where it will have to cough up nearly \$5 billion.

A recent update has the Bank of America thinking Venezuela might have assets and reserves around the \$50 billion mark. Nomura Holdings reckons it's closer to \$10 billion.

Okay, it looks tight. But at the end of last year, the country's reserves were dropping by around \$3 billion a month.

The only thing in Venezuela's favour right now is the fact its finances are nothing if not murky.

In February, everyone wondered how it would make a monthly downpayment of \$US1.5 billion, but a shipment of 35.8 tonnes of gold miraculously turned up on the doorstep of Swiss customs officials, a sign of good faith the country could just about cover it.

If Venezuela's government have managed one thing effectively, it's making bond payments, most likely because it fears what will happen if it doesn't. Essentially, the same thing that happened when Argentina defaulted in 2001 and more than half the country suddenly living in poverty took it out on the politicians.

The latest note from Deutsche Bank says even a return to \$US100 a barrel for oil won't help Venezuela. It needs closer to \$US200 just to balance its budget.

Even forecasts of how much the US will tighten supply won't come in time, or be enough to help:

### **It gets worse**

Communications services are now being cut. The government owes some \$US700 million to private telecoms and cable firms, one of which, the giant Telefonica, has suspended long

distance calls to the US, Europe and crucial South American partners Colombia, Brazil and Panama.

And now Venezuelans face the next stage in their seemingly inevitable decline – switching off the lights. Sadly, it has nothing to do with economic management, and there’s nothing they can do about it.

The country is in the middle of a chronic drought which has seen dam levels plummet, crippling the country’s hydro-generation plants.

President Maduro has designated every Friday through April and May a public holiday to take some of the burden off the grid.

Last month, he created a Ministry for Urban Farming and asked Venezuelans to follow his lead of keeping 50 chickens in his own home. He opened a Facebook account and promised to boost his social media profile.

He’s even tried to convince Venezuelan women to not use hairdryers, saying he “always think a woman looks better when she just runs her fingers through her hair and lets it dry naturally”.

On Friday, Maduro ordered all the clocks be set forward 30 minutes to give residents longer evenings during times of peak use times.

But clearly, Venezuelan society is well past the stage of being three square meals away from revolution.

Now, as the FT notes, “the economic crisis risks turning into a humanitarian one”.