

Elections in Venezuela: Mr. Chavez's weakening legacy



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Spotlight



Venezuela held on Sunday a presidential election that yielded an historic result: Chavism candidate won by only two points to his opponent, who stays out of Government for little more than 200,000 votes: 50,66% of the votes went to Mr. Chavez's

candidate, compared with 49% for his opponent. This result suggests that the power of the Bolivarian revolution has considerably weakened after the death of the charismatic leader, Hugo Chávez, who died on March 5.

It is a surprising result, even considering that polls already suggested that Nicolas Maduro, the candidate appointed by Mr. Chavez, would not win by a margin as wide as his predecessor used to reach, and that he would have to fight to

establish his leadership.

As analysts have many times appointed, an autocratic regime hardly survives its leader, at least in good shape, and Maduro is going to have to face the task of maintaining the chavismo standing until, at least, 2019.

Henrique Capriles, the candidate who failed to defeat Chavez in last's year election, has demanded a recount of votes. Capriles has been the opposition candidate that has gathered more support in over 14 years of the Chavez government, and represented hope both for Venezuelans opposed to the excesses of the centralized regime and the oligarchy in the country, as well as foreign investors.

Part of the Venezuelan upper class, Capriles had promised a friendlier environment to foreign investment and the free market, after years of State intervention and nationalizations carried out by a highly bureaucratized State.

And, although there were certain hopes in Mr. Maduro as a less radical Chavismo kind of leader, he made very clear, during the election campaign, that he will continue the Bolivarian revolution to the purest Chavez style, inflaming his speech with conspiracy theories and anti-American proclamations.

Poverty reduction

Venezuela is the best administered country in the region, according to the Gini coefficient, which measures the economic inequality between citizens. In addition, poverty in



◀ 2012 had been reduced by almost 25% over 2003, according to United Nations. The opposition, however, says that these data support a triggered inflation (over 20%), and the shortage of markets.

Mr. Maduro's challenge: a weakened economy

Mr. Maduro must now contend with a complicated legacy, that of a weakened economy with accelerating inflation, shortages of consumer goods and weakening growth, as well as with record violence rates.

According to data from HSBC, Venezuela's economy is expected to contract 0.6% and could enter

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recession this year, after an almost 30% devaluation and dollar shortages.

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Although Mr. Maduro has managed to maintain power, with his relative lack of support will be

difficult to maintain stability in a polarized country going through hard circumstances.

"The giant" Chavez, as Mr. Maduro calls him, is irreplaceable, and while the new President is declared "his son", he will have to be careful if willing to undertake economic reforms or to implement unpopular measures, for he does not have the 'blank check' – that of the unconditional support of the voters as well as within his party - which its beloved predecessor enjoyed.

While the recent devaluation of the bolivar has provided important resources to the Government, some believe that certain opposition sectors didn't even want to win, in order to avoid having to deal with the economic difficulties facing the country, letting Maduro's Government deal with Venezuela's economic difficulties and suffer from its negative impact.

The country faces problems of shortages in basic services such as electricity, as well as excessive bureaucracy, corruption and inefficiency in public enterprises.

For the President of the Datanalisis Company, Luis Vicente León, "with the foreign exchange market locked, all the money wants to go out instead of wanting to enter".

Complicating matters still further is the fact that powerful interest groups are bound to clash over access to Venezuela's vast oil resources.

This victory, by 2 points percentage represents a chance for the opposition in the next election, according to Goldman Sachs & Co.

So few reforms are expected from a President that must prove himself faithful to the chavismo.

Devaluation, prices a currency controls

According to data compiled by Bloomberg. Investors betting on

◀ market-friendly policies post- Chavez helped Venezuelan bonds return 46%, but they are on a downward tendency these days.

The recent devaluation affected the profits of companies such as the multinational Procter & Gamble, that faced as much as \$275 million in after- tax charges when the government devalued the bolivar to 6.3, the company said in a February.

Also, according to Barclays, Venezuela will keep currency controls and continue to impose price controls in a bid to tame the fastest inflation in the region.

Companies have also to deal with prices controls.

As The Economist informed, the government last year regulated the price of consumer goods including toothpastes and deodorants sold by more than 300 companies and Congress is debating price caps for cars.

Coca-Cola Femsa cut the price of

a five-liter bottle by 8.9 percent after Chavez threatened in February 2012 to seize assets from companies that overcharged consumers. P&G cut some prices as much as 25 percent after Chavez, during the same televised speech, said its deodorant was too expensive.

Also, Clorox Co. (CLX)'s Chief Financial Officer Stephen Robb said to Bloomberg, in February that the company was facing "market instability and difficulty implementing price increases" in Venezuela that were "negatively impacting our business."

Bloomberg also cited the example of automobile manufacturers such as Ford Motor Co., which at the end of 2012 had \$620 million in net monetary assets denominated in bolivars, stand to lose from any new price controls and from the existing currency controls.

"Although results will benefit from new products recently launched or to be launched during the year,

the competitive environment and currency risks across the region, especially in Venezuela, are expected to impact our profits adversely," Bob Shanks, Ford's chief financial officer, said on a January.

Business environment

According to the Heritage Foundation's index of economic freedom, Venezuela ranks 174 out of 177 countries, beating out only Zimbabwe, Cuba and North Korea as "prevalent" corruption and a heavy state presence in the economy hurt its standing.

"The biggest pitfall for big multinationals operating in Venezuela is the current exchange rate control that has blocked them from repatriating earnings," according to Asdrubal Oliveros, director of Caracas-based research group Ecoanalitica.

If instability continues, some companies may decide the risks there outweigh the benefits, Russo said. ■