

Venezuela Primer – A presidential election that sparks hope in a weary land

Background Brief:

Event: *The Presidential elections for a six-year term will be held on Sunday, July 28. Polls suggest an ample opposition victory under free and fair circumstances. A transfer of power is not expected to be frictionless. In fact, the very long interim period, between the election and the beginning of the new term (January 10, 2025), is unlikely to be smooth. Regional, local and legislative elections are set to take place in 2025 - date not determined - for a new five-year term.*

Government of Venezuela: *Venezuela is a federal presidential republic, with the president both head of state and head of government. Executive power is exercised by the President. Legislative power is vested in the National Assembly of Venezuela. Supreme judicial power is exercised by the Supreme Court.*

Key Figures: *Incumbent president Nicolás Maduro is running for a third consecutive term. Maduro narrowly defeated the opposition in 2013 by 50.6% to 49.1%, followed by a landslide of 68% to 21% in 2018. Venezuela has suffered a prolonged severe social, economic, and humanitarian crisis for several years. Oil production collapsed, infrastructure crumbled, poverty soared, and the brain-drain has been significant. The main opposition candidate is Edmundo González (Unitary Platform), a former diplomat. González is standing in for the popular María Corina Machado, barred from running by the government-backed Supreme Court. It should be noted that, given the lack of international validation, such as from the IMF, Venezuelan statistics are to be taken with an extra grain of salt.*

Polls: *A broad selection of polls points to support for President Maduro oscillating within a 10-30% range, while González receives 50-70%.*

Challenges: *A non-negligible share of the electorate resides beyond the Venezuelan borders. Yet, registration difficulties have limited the number of eligible voters. Estimates suggest that up to a quarter of the over 20 million electoral population live abroad. But only around 70 thousand of what is likely an opposition vote stronghold is correctly registered.*

Sanctions: *The disqualification of political competitors led the Biden administration to reimpose oil sanctions in April. Last October, the U.S. provided the Venezuelan government relief from sanctions on its state-run oil, gas and mining sectors after it agreed to work with members of the opposition to hold a free and competitive presidential election this year.*

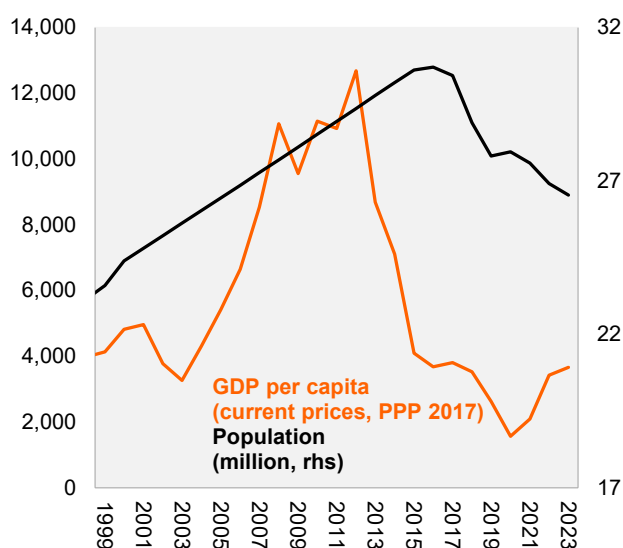
Possibilities: *While Maduro has indicated that only his victory would prevent bloodshed (a statement later downplayed), the potential negation of the apparent appetite for change may stoke division within government forces and heighten global backlash. A negotiated move towards a change of government, while gradually rebuilding democracy in Venezuela, and reinstalling confidence in the institutional framework may deliver, over time, an improvement in economic growth. A macro stabilization program would require massive financing needs. Venezuela has proven oil reserves that exceed Saudi Arabia. Oil production last year was 26% of where it was in 2008 and would unlikely improve in the short-term considering years of underinvestment. An opposition win, and a negotiated transition could lead to sizable immigration flows and a rally of Venezuelan assets (including government and PDVSA bonds), as hope that sanctions are lifted and FDI flows boost the country's short-term economic outlook. In the case of a transition, trade spillovers to the region in the near term appear limited considering low levels of imports and exports, estimated to have reached an annual total of USD10 billion and USD4 billion, respectively; rebuilding cross-border trade relationships is likely to require sizable support from trade guarantees. Nevertheless, Maduro's allies in Congress and the Supreme Court could stifle an opposition-led presidency.*

Diving into the Details:

A severe economic crisis (where to begin...)

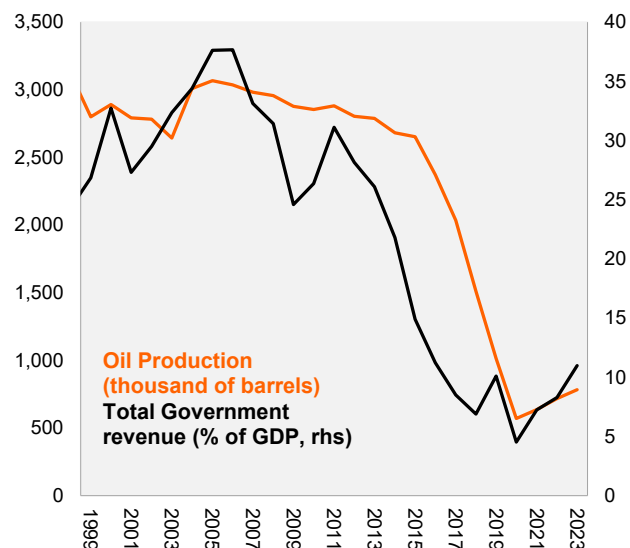
Catastrophic economic results over the last decade are likely behind growing calls for an administration change. Available data suggests that the Venezuelan economy has contracted sequentially since 2014, leading cumulative GDP to reach roughly one quarter of its 2014 level – a most impressive drop for a country that is not facing armed conflict. Despite having the largest proven global oil reserves (300 million barrels, equivalent to 20% of the total), oil production has plummeted in recent years to around 0.8 million barrels in 2023 (compared to over 3 million barrels in the late 2000s). According to the U.N., poverty peaked at 90% in 2019. Purchasing power as measured by GDP per capita in PPP terms fell to USD 3,600 in 2023, one of the lowest figures in the region. Hyperinflation remains relevant. Although prices are no longer surging at the record 20,000% pace seen in 2019, inflation during the last three years has generally exceeded three digits. The authorities have generally responded with a series of exchange rate and price controls, exacerbating the economic crisis.

An economic and social crisis



Source: IMF WEO, Haver, Itaú

With a large room for improvement



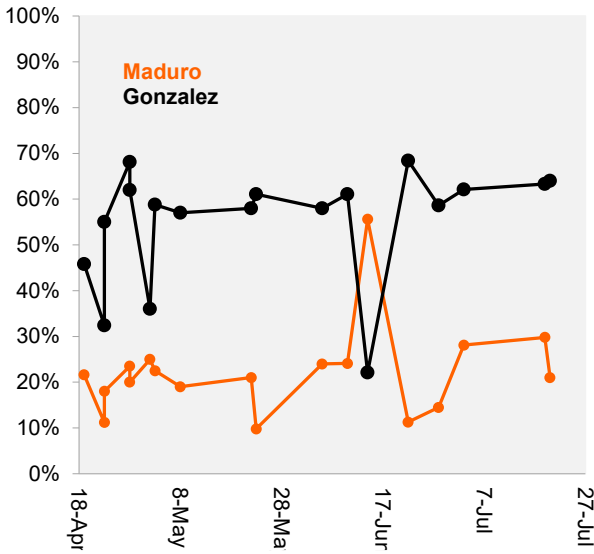
Source: IMF, WEO, Itaú

Time for change?

Polls suggest an ample opposition victory on the presidential election of July 28. There are, however, serious doubts over a free and fair process, while a potential transfer of power is not expected without contest.

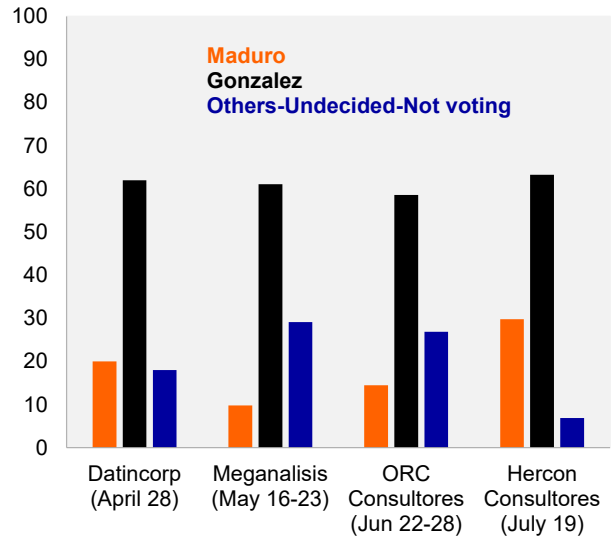
Venezuela is a federal presidential republic, where the President is both head of state and head of government. Executive power is exercised by the President, and legislative power is vested in the National Assembly, while supreme judicial power is exercised by the Supreme Court. When the National Assembly moved into opposition control in 2015, the Supreme Court stripped the Assembly of its powers, ruling that all powers would be transferred to the Supreme Court. Entering the 2024 election, incumbent president Nicolás Maduro is running for a third consecutive term. Maduro narrowly defeated the opposition by 50.6% to 49.1% in 2013, and then won by a landslide 68% to 21% in 2018, a vote many observers deem to have been skewed. The main opposition candidate is Edmundo González (Unitary Platform), a former diplomat. González is standing in for the popular María Corina Machado who was barred from running by the government-backed Supreme Court. A broad selection of polls points to support for President Maduro oscillating within a 10-30% range, while González receives 50-70%. The arbitrary disqualification of political competitors led the Biden administration to reimpose oil sanctions in April. Last October, the U.S. provided the Venezuelan government relief from sanctions on its state-run oil, gas and mining sectors after it agreed to work with members of the opposition to hold a free and competitive presidential election this year.

Polls show a regime change



Source: Consultores, Datincorp, Hercon Consultores, Hinterlaces, Mass Behavior Research, Meganalisis, More Consulting, ORC Consultores, Poder y Estrategia

Voting Intentions

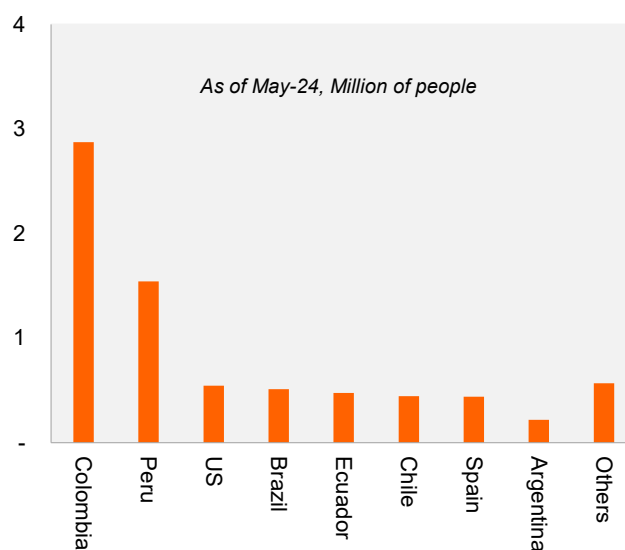


Source: Itaú

Short-term effects: Possible immigration boom and asset surge

A possible opposition victory may see the reversal of the strong outward migration flows evidenced over the last decade. Through June-24, around 7.5 million Venezuelans are reported to have left their country, with the bulk of the outward migration being absorbed throughout the LATAM region. Migration flows have had several heterogenous economic effects throughout the region, as initial outward waves were likely associated to higher levels of human capital, yet over time have placed a strain on public services and fiscal accounts of receiving economies. Venezuelan migration has also been increasingly associated to organized crime (Tren de Aragua gang). Immigration experts suggest up to 30% of migrants could return to their home country if the economic, social and political conditions improve. An opposition victory may also lead to a rally in government bonds as hope that sanctions are lifted and FDI flows resume boost the country's economic outlook. Oil output, however, appears unlikely to increase in the short-term, as infrastructure is presumably severely deteriorated after years of underinvestment, and human capital in the industry has been depleting for years. In the case of a transition, trade spillovers to the region in the near term appear limited considering low levels of imports and exports, estimated to have reached an annual total of USD10 billion and USD4 billion, respectively; rebuilding cross-border trade relationships is likely to require sizable support from trade guarantees. Uncertainty persists on the state of the financial system. The IMF has not completed an Article IV consultation for Venezuela since 2004.

Cumulative outward migration from Venezuela



Source: R4V, Itaú

Our take: While the incumbent Maduro has indicated that only his victory would prevent bloodshed (a statement later downplayed), the potential negation of the call for change may stoke division within government forces and heighten global backlash. A negotiated move towards a transfer of power, while gradually rebuilding democracy in Venezuela, and reinstalling confidence in the institutional framework may draw, over time, significant economic upsides. Nevertheless, allies of Maduro in Congress and the Supreme Court could stifle an opposition-led presidency.

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