Maduro in his economic labyrinth

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Last Thursday, Nicolás Maduro announced the implementation of a "Recovery and Economic Prosperity Plan" starting on August 20.

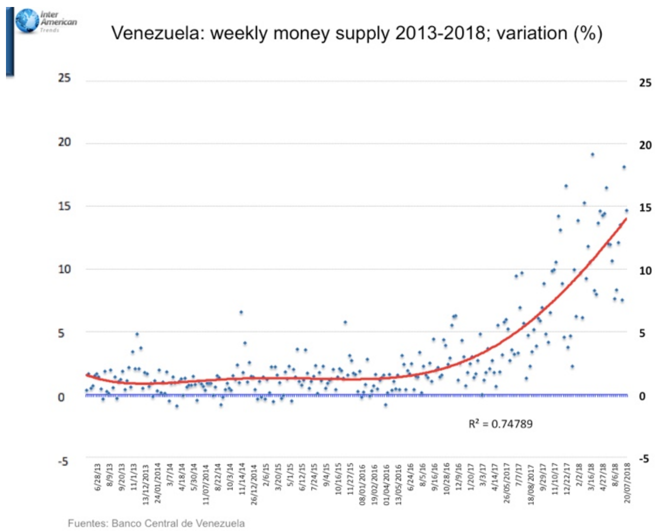
A plan with no objectives and goals, that only encompasses six measures with which Maduro plans to resuscitate a dying country, because he believes that the proposed actions may contain the hyperinflation, the fall in gross domestic product, the parallel exchange rate and the fiscal deficit, the "four horsemen of the apocalypse" in the Venezuelan economy.

To deal with the hyperinflation, he proposed to eliminate five zeros to the bolívar fuerte, for which he will make a monetary reconversion between the bolívar soberano and the bolívar fuerte. However, the increase in the prices of goods and services due to the unchecked consumption of bolívares by the regime will not disappear with this measure, because the growth of the production of goods and services is in free fall.

Last 19 months, the rate of growth of the amount of money in the Venezuelan market was 1,110% in 2017 and 2,053% in the first seven months of this year. A speed that leads to the inflation predicted by the International Monetary Fund of 1,000,000% at the end of 2018.

Year	2012	2013	2014	2015	2016	2017	Jul-18
Money (M1) billion Bsf.	702	1,200	1,953	3,932	10,276	126,362	2,720,206
Variation	65%	71%	63%	101%	161%	1130%	2053%

For five months, the printing of bolívares by the Central Bank of Venezuela had an average increase of 12% per week (12 million bolívares per day), a level never before seen in Venezuela's economy.



Therefore, the measure of eliminating five zeros to the currency is an accounting make-up, it will not affect in any way the sustained increase in prices; instead, it will aggravate it.

With the conversion, the monthly minimum wage will go from 5,196,000 bolívares fuertes to 52 bolívares soberanos. The price of a can of tuna will cost in bolívares soberanos, 80; a chicken, 60; a carton of eggs, 50; and a liter of milk, 17. The Dicom exchange rate will be between 1.8 and 2.1 bolívares soberanos, and the parallel dollar band will be between 35 and 40 bolívares soberanos.

On the other hand, the monetary reconversion leads to the cover-up of the gasoline increase, because the price of a liter of 95 octanes is currently worth 6 bolívares fuertes, that is, it would pass to a new amount of 0.00006 bolívares soberanos, i.e., 0 bolívares. Thus, there will be a new price of fuel that introduces an inflationary element, affecting transportation and, consequently, the final price of the associated goods and services.

If the 95-octane liter were to rise to 0.10 bolívares soberanos (10 cents) the increase would be 166.567% and if it were 0.05 bolívares soberanos (5 cents) the increase would be 83.233%, Without monetary reconversion, the price of a liter of 95 octane gasoline would go from 6 to 10,000 bolívares fuertes in the first case and in the second to 5,000 bolívares fuertes.

In this scenario, hyperinflation will continue to affect most Venezuelans, because the measure announced by Maduro to alleviate the situation of the increase in gasoline is a census of all motor transport with the country's license. This action would be to implement a fuel rationing due to PDVSA production loss. Likewise, it will reinforce the social control of the population, limiting its vehicular displacement. This measure will also generate a black market for fuel.

The increase in gasoline prices would be part of any adjustment program for Venezuela, because it intends to close the cash deficit of the state oil company and, therefore, the monetary financing of the central bank to PDVSA, which would reduce the fiscal deficit in Venezuela. However, that is not the objective of the Maduro regime. Besides, in hyperinflationary economies, the price of fuel would have to maintain a periodic increase to meet the objective of fiscal adjustment.

The other four measures seek to improve GDP by eliminating tariffs on capital goods and agricultural inputs; the increase of international reserves with the adjustment of the Law on Illicit Exchange Rates and the inclusion of the oil reserves of the Ayacucho II block of the Orinoco oil belt within the accounting assets of the central bank; and the stabilization of the bolívar soberano with a supposed "anchoring of the currency to the petro".

The elimination of tariffs on capital goods and agricultural materials is intended to increase private imports of inputs to generate an increase in the local supply of goods and, consequently, to reactivate the private sector. What it means to recognize the failure of the management of Agropatria in the Venezuelan countryside. Also, the elimination of tariffs would impact the collection of the Seniat (IRS), which would force the central bank to issue more money to finance this deficit, that is, more inflation.

The adjustment of the Law of illicit exchange rates is intended to intervene in the family remittances that grow every day. It is estimated that they could reach 4 billion dollars this year. At the same time, it would allow the legitimization of capital coming from corruption and drug trafficking. Furthermore, referring to the monetization of the oil reserves of the Ayacucho II block of the Orinoco belt, this would be the sale of the reserves to third parties, and this block would be to Rosneft. If 60 billion dollars of future oil production were sold to China, and nobody noticed how it was spent, now the Maduro regime is going through the oil reserves to continue using the dollars, destroying the future of the new generations.

Finally, the "anchoring of the currency to the petro" to stabilize the bolívar soberano is to insist on the use of a supposed cryptocurrency to continue monetary expansion, while avoiding international financial sanctions. In practice the "petro" is not a cryptocurrency, it is public debt. Therefore, as long as the monetary aggregates do not stop growing, the bolívar soberano will lack the necessary confidence to guarantee its stability.

In short, Maduro continues in his economic labyrinth. Its measures, instead of strengthening the "recovery and economic prosperity of Venezuela", will exacerbate hyperinflation, money laundering, social control of Venezuelans and economic contraction.