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COMMITMENT TO DEVELOPMENT

RESEARCH REPORT

UNITED NATIONS ECONOMIC AND SOCIAL
COUNCIL (ECOSOC)

PROMOTING REFORM TO ELIMINATE
HYPERINFLATION IN VENEZUELA

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Basic Overview of the Issue

To understand the current economic and political state of Venezuela the past 20 years must be taken into consideration. Before the current president Nicolas Maduro was elected in 2013, Hugo Chavez was in power. In 1999, when Chavez took office, Venezuela had an economy that was highly dependent on oil production - Venezuela has the largest oil reserves in the world. Chavez wanted to implement social policies in his time, and he did so by taking advantage of the high international oil prices and invested the revenue from oil exports into social programs regarding education and healthcare. He also gave loans to neighboring countries to reduce the dependency on the U.S. economic influence. These policies did significantly improve social welfare in Venezuela: minimum wages increased, poverty levels reduced, and unemployment levels also decreased. However, there was an underlying problem of too much government spending, and the government had to borrow money to continue their social programs, creating a large amount of government debt. Additionally, the government was not continuing investment into oil production which decreased the revenue gained from that sector. In 2014, the international oil prices began to fall, and so did the Venezuelan economy as they were highly dependent on oil.

Chavez had a heart attack in 2013, leaving the office to his successor Nicholas Maduro. After Maduro was elected, he increased his authority as a president and suppressed any protests that were against him using military power. He established the Constituent Assembly to rewrite the constitution. Maduro's actions were condemned by international parties including the US which imposed economic sanctions on Venezuela. As the oil prices continued to decrease government spending on public policies also decreased and inflation continued to rise. In 2018, European countries also began to impose sanctions on Venezuela and with the continued economic decline it was becoming extremely difficult to get access to food and medicine. Once hyperinflation became uncontrollable, Maduro decided to create a state backed cryptocurrency called the Petro and make its value linked to the price of one barrel of Venezuelan crude oil. In May 2018 the presidential election took place in which the opposition boycotted. Maduro won 6 more years in office, but the elections were accused of being rigged and some international parties do not accept Maduro to be the rightful president.



Explanation of Important Terms

Hyperinflation

Hyperinflation is when inflation in an economy is higher than 50% a month. Inflation refers to the general rise in price levels which decreases the purchasing power of the currency. Inflation can have various causes including an increase in government spending or an increase in the factors of production.

Reform

An improvement or set of improvements made to a system, law, organization, etc. in order to make it more modern or effective. (Cambridge Dictionary) Since the Venezuelan government went through a set of changes in its constitution that compromised its democracy, governmental reform is vital to resolve the issue at hand.

Factors of Production

Land, labor, capital, and entrepreneurship are the 4 factors of production which are the inputs for producing goods and services. The prices of the factors of production directly affect the price levels of the produced goods and services. Oil is one of the major factors of production which is the reason that the oil dependent economy generated revenue for Venezuela prior to the fall in oil prices.

Public Spending

The money that governments spend on buying goods and providing services.
(Cambridge Dictionary)

Gross Domestic Product

The total value of goods and services produced by a government in one year.
(Cambridge Dictionary)



Detailed Background of the Issue

Presidency of Hugo Chavez

Hugo Chavez was the president of Venezuela from 1999 to 2013. Chavez made his first public appearance after a failed attempt of a military coup in 1992, which put him in prison for two years. After he got out, he founded the Movement of the Fifth Republic political party where he was joined by socialists and people with military backgrounds. The people of Venezuela were discontent with the current parties that were in office and Chavez took advantage of this. He proceeded to win the presidential elections in 1998 with



President Hugo Chavez 1

a 56 percent vote. Right after he took office in 1999, he passed a referendum to establish the Constitutional Assembly that would write a new constitution, which then was once again put into referendum and got 71.8% votes passed the new constitution, the voting turnout was 44.3%. There were major changes made in the constitution. The name of the country changed from the Republic of Venezuela into the Bolivarian Republic of Venezuela. The three-branch system of the government changed into a five branch one (executive, legislative, judicial, electoral, and citizen's branches). Several amendments were passed over the years including abolishing the term limits for elected officials. Moreover, the National Assembly appointed pro-Chavez justices to the Supreme Court. Chavez was becoming a more autocratic president day by day, he proceeded to pass laws limiting the freedom of independent press.

In 2002 there was a rally against Chavez in which approximately 1 million people marched. Pro-Chavez gunmen and the National Guard troops came and escalated the rally, leaving many wounded or dead. Soon after, a military coup took place, taking Chavez into custody. However, after 48 hours Chavez took back his position as president after turning the military on his side.

In 2004, the opposing party called for a referendum to go to early elections however it did not receive much support, leaving Chavez in power. In 2006 he was reelected as president for a six-year term. Chavez reinforced his power by arresting leaders from opposing parties. It was then found out that he had cancer, but it did not stop him for running



for elections again in 2012, which he won. In 2013 his cancer intensified, and he went to Cuba for surgery. He died in March 2013, leaving the government to his vice president, Nicholas Maduro.

Presidency of Nicholas Maduro

Nicholas Maduro is the president of Venezuela, first took office in April 2013 after elections to serve the remaining term of President Chavez. He and his wife had already been working in the government for a long time, Maduro was in the Constituent Assembly in 1999 that wrote the new constitution.

In 2014, protests against Maduro began but they were suppressed by the military and the police. Maduro followed Chavez's footsteps by arresting a leader of the opposition. Attempts to remove Maduro from office continued as the elections for the



President Nicholas Maduro 1

National Assembly changed the majority party into the opposition, which passed legislations to free many political prisoners including the opposition leaders and to reduce the term of presidency to four years. Maduro challenged this by going to the Supreme Court which ruled in his favor that if the amendment for reducing the term passed it would not apply to Maduro.

The electoral commission backed a recall to take Maduro from office and began petitions to do so. They collected around 1 million signatures, which were enough for the recall, but Maduro accused them of being forged signatures.

Maduro then announced a 60-day emergency where his authority increased. Protests Maduro intensified as many people poured into the streets. The number of signatures increased but the government announced that they were falsified and that a recall would not occur in 2016.

In 2017, the Supreme Court attempted to dissolve the National Assembly by claiming its powers. This caused outrage and the protests got out of hand, killing more than 60 people



and injuring many others.

Maduro announced that he wanted to write a new constitution and that there would be a new Constituent Assembly elected. Against public opinion elections took place, which were condemned by many international parties that questioned its legitimacy. The United States froze Maduro's personal assets.

The elections in 2018 took place, where the opposition told the people to boycott it and the voter turnout was around 46 percent and Maduro won the elections. However, the international community did not recognize Maduro's win including the US, Canada, and EU.

The head of the National Assembly now claims to be the President of Venezuela, which is recognized by many countries including the US.

The Venezuelan regional elections in 2021 were in favor of President Maduro, which has been a setback for the opposition.

Economic History

Hugo Chavez, while in power, capitalized on the fact that Venezuela has the greatest oil reserves. When he first came to office the oil price was as low as 14.4 dollars per barrel. Chavez met with OPEC countries to reduce the supply of oil and increase prices. In 2000 the price of oil became 30 dollars per barrel and Chavez made an oil deal with Cuba, to sell them 53 000 barrels of oil daily at reduced prices. In 2003 the oil company Petroles de Venezuela (PDVSA) employees went to strike. Chavez soon took over control and the PDVSA continued its operations.

The problem with an oil dependent economy is that the economy relied on imports of many goods because it did not diversify. Chavez did not reinvest into the oil industry either, with a lack of maintenance soon production levels began to fall. Instead, he spent money on social programs including transport, education, and healthcare. In the short run, unemployment levels more than halved to 6.2% in 2008, the national GDP increased but the government was borrowing because it could not support this much spending.

Moreover, in 2005, Chavez passed a law to make certain private lands public, many considered it to be an attack on private property. In 2006, Chavez signed a 3-billion-dollar arms deal with Russia to decrease dependency on US imports. In 2007, Chavez nationalized key energy and telecommunications companies.

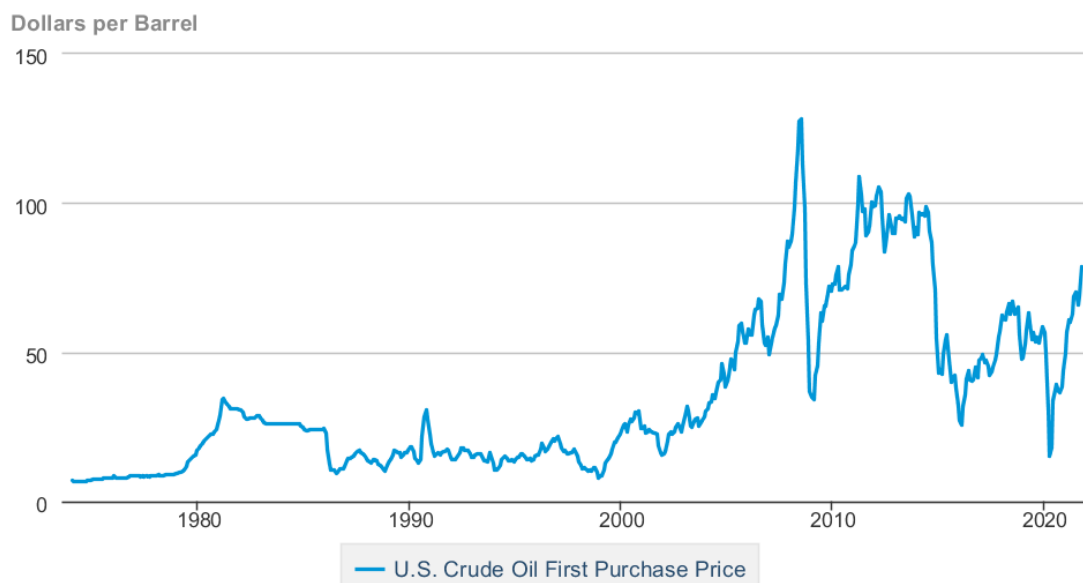
By 2010 the economy shrank by 5.8% in the last quarter of 2009 and Chavez devalued the national currency, Bolivar, to increase revenue from oil exports. To combat



inflation, the government puts price controls on basic goods.

When Maduro took office in 2013 the inflation rate was 38.5% and the price of oil was 92 dollars per barrel. In 2014, there was a data blackout, and the government did not share any data regarding GDP, inflation and public spending since the economy had shrunk by

U.S. Crude Oil First Purchase Price



 Source: U.S. Energy Information Administration

50% in a year. In 2015 the price of oil fell to 48 dollars which was a major problem for Venezuela, as it highly depended on oil revenues. Thus, the government cut public spending and the inflation rates continued to increase. The access to food and medicine became extremely difficult, making it a humanitarian crisis. In 2018, the migration crisis in Venezuela began, with extreme hyperinflation (929%), limited access to food and medicine and political changes people began to seek lives outside of the country. Nearly 3 million immigrants left Venezuela for neighboring countries. The same year the government announced a state backed cryptocurrency the Petro that equals to 1 barrel of Venezuelan oil, but it failed to raise revenue for the government. Today, hyperinflation, the humanitarian crisis and the economic crisis continue.



Major Parties Involved

Venezuela

Venezuelan government is the primary in this issue. So far, their actions have been severely deteriorating the economy. It is important to note that Venezuela itself is very divided at the moment in terms of political opinions.

Cuba

Chavez, since the beginning of his presidency, maintained close ties with Fidel Castro. They made oil deals with price cuts. Even when he was diagnosed with cancer, he made frequent visits to Cuba for medical reasons.

USA

Venezuelan government aimed to decrease US economic dependency by signing agreements with Russia. After imposing economic sanctions on the country, the US imposed personal sanctions on Maduro by freezing his assets. Furthermore, the US now recognizes Juan Guaidó as the rightful president of the country and supports him through means including financial aid. For further reading: <https://www.state.gov/u-s-relations-with-venezuela/>

OPEC

Organization of the Petroleum Exporting Countries, OPEC, is one of the most powerful organizations that influence the price of oil. They can increase or decrease supply and change the price of oil. They regulate policies and unify the exploration of petroleum.

Chronology of Important Events

1992	Hugo Chavez made his first public appearance as a part of the failed attempted of a military coup.
1998	Hugo Chavez got elected as Venezuela's president



1999	The Chavez administration passed the referendum to initiate the formation of a new constitution
2003	The oil company Petroles de Venezuela (PDVSA) employees went to strike. Chavez soon took over control and the PDVSA continued its operations.
2005	Chavez passed a law to make certain private lands public, many considered it to be an attack on private property
2010	Chavez devalued the national currency, Bolivar, to increase revenue from oil exports
2013	Nicholas Maduro became the president of Venezuela, first took office in April 2013 after elections to serve the remaining term of President Chavez
2015	The price of oil fell to 48 dollars
2017	The Supreme Court attempted to dissolve the National Assembly by claiming its powers.
2018	Elections took place after Maduro announced that he wanted to write a new constitution and that there would be a new Constituent Assembly elected. Maduro won.
2018	The migration crisis in Venezuela began, with extreme hyperinflation (929%), limited access to food and medicine and political changes people began to seek lives outside of the country. Nearly 3 million immigrants left Venezuela for neighboring countries
2018	Maduro launched the state backed cryptocurrency, Petro
2021	The Venezuelan regional elections in took place and were in favor of President Maduro

Relevant International Documents

- Draft Resolution, Security Council, 28 February 2019 (**S/2019/190**)
- Draft Resolution, Security Council, 28 February 2019 (**S/2019/186**)
- Council Meeting, Security Council, 10 April 2019 (**S/PV.8506**)
- Letter to the Council, Security Council, 03 April 2020 (**S/2020/277**)



Past Attempts to Resolve the Issue

The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) states that the UN has announced a response plan for the humanitarian crisis in Venezuela. The plan aims to collect 708 million US dollars. To date, the international donors have collected 84 million dollars that are used by NGOs and the UN to give immediate relief to the needs of Venezuelans such as medicine, food, clothing, sanitary products etc.

Solution Alternatives

Acknowledging the fact that Venezuela currently has an economic, politic, and humanitarian crisis, all areas should be addressed while referring to solutions.

Economically, Venezuela must boost the economy and increase its national GDP. However, the usual ways of achieving this is inapplicable since the government does not have the funds to personally invest in the economy and is in too much foreign debt. The two things that could be done is privatization and foreign investment. These could increase employment levels and initiate some development in the country. On the other hand, the government could change its currency temporarily to a stable foreign currency such as the pound until it has recovered from recession and then bring back its own currency to eliminate hyperinflation.

Politically, the two people who have been claiming to be the president of Venezuela should reach a consensus on the legitimate president, or in other word have an election. But the problem is that in a humanitarian crisis and the current number of immigrants would lead to a low voter turnout. Furthermore, the government should initiate reform that will address the current internal corruption. The parliament should become independent to practice the principle of separation of powers. This can also be linked to the 16th Sustainable Development Goal of “Peace, Justice and Strong Institutions”. The economic crisis should be made a priority within the government budget and the necessary actions must be taken. Overall, Venezuela should achieve a sustainable, unified, and legitimate government that will be recognized internationally for it to begin trading.

Socially, Venezuela must accept foreign aid to help its people to access basic good that are vital for their survival. The government should work towards eliminating economic sanctions.



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Useful Links

New York Times article on current political state of Venezuela:

<https://www.nytimes.com/2019/02/04/world/americas/venezuela-maduro-qauido-legitimate.html>

Wall Street Journal article on Venezuela receiving aid:

<https://www.wsj.com/articles/maduro-calls-u-s-aid-convoy-an-attempt-to-humiliate-the-people-11549666084>