

# Venezuelan people protest the dire state of their country's economy

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A Venezuelan opposition activist waves the Venezuelan national flag during a rally in the capital Caracas against the government of President Nicolas Maduro, May 18, 2017. Photo by: Federico Parra/AFP/Getty Images

Venezuela is experiencing the worst economic crisis in its history. It has an inflation rate of over 400 percent, bringing huge price increases.

The country's exchange rate, a value used to convert its money to other countries' currency, is not stable.

Facing shortages of food and medicine, its people continue to take to the streets in protest.

President Nicolas Maduro announced wage increases and the creation of a new popular assembly government with the ability to rewrite the constitution.

International concern grew, with Chile and Argentina among the countries expressing worry. The Venezuelan opposition says the move further weakens the chances of holding a vote to remove Maduro.

But backing has come from regional leftist allies including Cuba, and Bolivia's President Evo Morales said Venezuela had the right to "decide its future ... without external intervention."

## **Venezuela Has Lots Of Oil**

The country has the world's largest oil reserves. However, over the past decade, it has been the region's poorest performer in at least one measure of growth in the economy, which is the system of buying, selling and producing goods and services.

Since 2014 the government has not made any economic data available, making it difficult to track.

But what went wrong?

Oil revenue has sustained Venezuela's economy for years. During the presidency of Hugo Chavez, the price of oil reached a historic high of \$100 a barrel.

The billions of dollars in revenue were used to finance social programs and reduce food costs.

But when the price of oil fell, those programs became unsustainable.

## **Low On Cash, High On Unemployment**

The government is also running out of cash. According to the Central Bank of Venezuela, the country has \$10.4 billion in foreign reserves left, and it is estimated to have a debt of \$7.2 billion.

According to International Monetary Fund figures, in 2016 the country had a negative growth rate of minus 8 percent and an inflation rate of 481 percent. It had an unemployment rate of 17 percent, which is expected to climb to 20 percent this year.

Government money controls have limited imports, putting a strain on supplies.

The government controls the price of basic goods, and this has led to a black market, or illegal trade, that has a strong influence on prices too.

The most recent report by the Center for Documentation and Social Analysis indicates that in March 2017 a family of five needed 1.06 million bolivares to pay for basic goods for one month. Bolivares are units of money in Venezuela.

The cost shows an increase of 424 percent over 2016.

## **Government Can No Longer Pay For Imported Goods**

During the rule of Chavez, the prices of food and medicines were reduced but it could not continue because they were below the cost of production.

When it became too costly for Venezuelan companies to continue making products, the government decided to import them, using oil money.

But oil prices have been falling since 2014, which has left the economic system unable to maintain the programs and price controls of the oil boom years.

The inability to pay for imports with bolivares and the decline in oil revenues have led to a shortage of goods.

The state has tried to ration food and set prices, but the consequence is that products have disappeared from shops and ended up in the black market. Prices are higher in the illegal market.

## **Food And Medicine Shortage**

As many as 85 of every 100 medicines are not available. Shortages are so extreme that patients sometimes take medicines ill-suited for their conditions, doctors warn.

Some experts think the only two options for Maduro's government are to back out on its debt or to stop importing food.

"For those of us who work with a normal wage, we can barely eat. It's like a war situation because the price of food is astronomical," Leonardo Bruzal, a Venezuelan citizen, told Al Jazeera.

Many Venezuelans search for food, occasionally opting to eat wild fruit or garbage. "We are facing a food crisis," Jose Guerra said to Al Jazeera.

Venezuela has established different exchange rate systems for its national currency, the bolivar.

## **Bolivar Carries Very Little Value**

Two primary rates overvalue the bolivar, but the black market values the bolivar as near worthless.

This has generated a situation in which Venezuelans are opting for dollars instead of bolivares.

The government maintains a trade around 710 bolivares per U.S. dollar. But the black-market rate has risen to 4,283 bolivares for one dollar. The government has also increased the number of bolivares available, as the money in circulation has not been enough to pay for basic goods that now cost much more. This has stoked fears of hyperinflation, in which money loses its value and prices go higher.

On April 30, Maduro announced a 34 percent increase in the total salary.

Economists said that this new wage increase — the 15th under Maduro — is insufficient to deal with inflation. They warn it will get worse in this situation.

Between 1900 and 1920, Venezuela's economy grew slowly. Between 1940 and 1948 it grew at a much faster rate.

## **The Good Old Days**

By the 1960s and 1970s, the governments in Venezuela were able to maintain social harmony by spending fairly large amounts on public programs.

Venezuelan workers were known for enjoying the highest wages in Latin America, a situation that dramatically changed when oil prices collapsed during the 1980s.

The economy contracted and inflation levels rose, remaining between 6 and 12 percent from 1982 to 1986.

The inflation rate surged to 81 percent in 1989. That year, the capital city of Caracas experienced rioting following cuts in government spending by President Carlos Andres Perez.

When Chavez first took office as president in 1999, the country was not an economic model. Almost half the population was below the country's poverty line, but it was a rich country and the government finances were in fairly good shape.

## Quiz

- 1 Which answer choice would BEST describe President Nicolas Maduro's reaction to Venezuela's economic crisis?
  - (A) slow but impressive
  - (B) strong but ineffective
  - (C) perceptive and popular
  - (D) caring and compassionate
  
- 2 Which option BEST explains how Venezuelans have been exposed to inflation and food shortages?
  - (A) Wage increases have helped curb the effects of inflation, but they also have limited the government's ability to import food and goods.
  - (B) Wage increases have caused workers to have more money to spend on buying all new goods, so there are fewer for others to buy.
  - (C) Dropping oil prices have made it harder for the government to pay for goods and regulate their price on a growing black market.
  - (D) Dropping oil prices have forced the government to hire more workers and print more money to keep up with international inflation.
  
- 3 Which of the following details is MOST important to the development of the article's main idea?
  - (A) International concern grew, with Chile and Argentina among the countries expressing worry. The Venezuelan opposition says the move further weakens the chances of holding a vote to remove Maduro.
  - (B) However, over the past decade, it has been the region's poorest performer in at least one measure of growth in the economy, which is the system of buying, selling and producing goods and services.
  - (C) The government is also running out of cash. According to the Central Bank of Venezuela, the country has \$10.4 billion in foreign reserves left, and it is estimated to have a debt of \$7.2 billion.
  - (D) As many as 85 of every 100 medicines are not available. Shortages are so extreme that patients sometimes take medicines ill-suited for their conditions, doctors warn.

- 4 Which option provides an accurate and objective summary of the article?
- (A) Venezuela has had an economy that provides ample programs and goods through generous financing by the government. Recent actions in which the government tried to take more power to regulate food rations and prices have caused shortages and inflation.
  - (B) Venezuela has an economy that has relied for a century on the fact that it possesses the world's largest oil reserves. The economy has been negatively affected by inflation and food shortages for the first time in its history as the oil reserves are depleted.
  - (C) The people of Venezuela are protesting new actions to increase the power of President Nicolas Maduro's government. Neighboring countries such as Chile and Argentina are understandably worried about the broad reach of Maduro's new constitutional powers.
  - (D) The people of Venezuela are unhappy with the actions their president has taken in response to growing inflation and shortages of goods. The financial crisis is the result of falling oil prices that have affected the government's ability to pay for goods and programs.