President Maduro to rule by emergency decree as Venezuela heads toward default

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On Friday, January 15, hours before a scheduled state of the union address, the government of Venezuelan President Nicolás Maduro decreed a 60-day nationwide economic emergency. If approved, the decree would give Maduro broad leeway to bypass the normal legislative process. The state of emergency is being declared as Venezuela continues to experience an economic tailspin created primarily by the slowing of the global economy and the consequent fall in the price of commodities, particularly oil, upon which it is dependent.

The decree, which can be renewed for a further 60 days, was approved by the Supreme Court on Wednesday, January 20. However, it must still be approved by the recently elected National Assembly in order to take effect. Legislators from the right-wing Democratic Unity Roundtable, who currently hold 109 seats in the 167 member chamber, have indicated they may approve the decree, with Henry Ramos Allup, the Assembly's President saying, "If we can find points in common to get out of this mess, we won't be the ones denying a resolution of these problems."

Although the decree as published in the official gazette contains few details as to the measures that will be implemented, the decree states that it is intended to "safeguard … access to essential goods and services, mitigate the effects of induced inflation, speculation, the fictitious value of currency, as well as to counteract the war of oil prices."

Given the dire state of the economy, which is rife with shortages of basic goods, as well as medical supplies and other necessities, the decree could allow for the government to temporarily suspend customs requirements and modify financing requirements in order to incentivize certain imports.

The government is also seeking the power to order both state-owned and private companies to "increase production levels," and seeks to more tightly control distribution networks. Both measures are in line with the government's claim that economic sabotage and speculation are primary causes of the crisis.

Making clear the scope of the crisis, the Venezuelan Central Bank recently released economic statistics about the country for the first time since 2014. It reported that the economy contracted by 7.1 percent for the 12 months leading up through September 2015, while annual inflation hit 141.5 percent. Other indicators included a contraction of 20 percent in construction activity.

Much more seriously, the Central Bank reported that the country's current account went from a $8.4 billion surplus in 2014 to a deficit of $13 billion. The current account figure largely corresponds to the difference between imports and exports, and underscores the extent to which Venezuela has been hammered by the fall in oil prices. Because oil accounts for 95 percent of its export earnings, any fall in the price of oil has an enormous effect on Venezuela's ability to finance imports, pay its debts, and fund the government.

Falling from a high of over $90 per barrel, Venezuelan oil—a "heavy" crude that costs more to refine—is now selling for about $24 per barrel. This is coming close to the state-run oil company cost of production, which is about $20 per barrel, meaning that it is coming dangerously close to being unprofitable. Venezuela requested an emergency OPEC meeting to stop the fall in oil prices, but this request was largely ignored, as Saudi Arabia and other Gulf states work to push high-cost producers out of the market. An OPEC delegate quoted by Reuters said the price of oil "will not be low for a very long time," and that, "if the price does fall to $20, many producers will leave the market.”

It is becoming increasingly likely that Venezuela will default on some of its debt. According to a report in *Forbes*, with oil at its current low price, over 90 percent of oil export revenue would have to be allocated to paying back local and foreign creditors.

Most in danger from the fiscal crisis is the working class. Social programs and subsidies will be among the first areas to be hit by any moves to drastically cut the budget deficit and pay back creditors, something to which the government of Maduro, like that of Chávez before him, has always been committed. Already, Maduro’s state of the union address, delivered the same day as the announcement of the decree, suggested that the price of gasoline—currently just a few cents per gallon—would be increased for the first time since 1999.

A very large danger also comes from the military, which may be employed by Maduro to enforce any order to “increase production levels,” particularly if workers strike or otherwise object to working conditions. Maduro previously referred to striking steel workers as “labor criminals,” and the military dominates important cabinet ministries, including the defense and interior ministries, despite a recent cabinet shuffle.