

CHAPTER 16 – Country Risk Analysis

Dollars are king in Venezuela, with nation's currency in crisis

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CARACAS, Venezuela — It's still possible to buy a gleaming Ford truck in Venezuela, rent a chic apartment in Caracas, and snag an American Airlines flight to Miami. Just not in the country's official currency.

As the South American nation spirals into economic chaos, an increasing number of products are not only figuratively out of the reach of average consumers, but literally cannot be purchased in Venezuelan bolivars (VEF), which fell into a tailspin on the black market last week.

Businesses and individuals are turning to dollars even as the anti-American rhetoric of the socialist administration grows more strident. It's a shift that's allowing parts of the economy to limp along despite a cash crunch and the world's highest inflation. But it could put some goods further out of reach of the working class, whose well-being has been the focal point of the country's 16-year-old socialist revolution.

The latest sign of an emerging dual-currency system came earlier this month when sources speaking on behalf of the Ford Motor Co. announced that the company had reached a deal with officials to sell trucks and sports utility vehicles in dollars only.

A few weeks earlier, American Airlines said it had stopped accepting bolivars for its 19 weekly flights out of Venezuela. Customers must now use a foreign credit card to buy the tickets online. Virtually all other foreign carriers have made the same switch with the government's consent, according to the Venezuela Airlines Association.

Driving the shift is the crumbling value of the bolivar, which has lost more than half its value this year, plunging to 400 VEF/USD on the free market as Venezuelans scramble to convert their savings into a more stable currency. Desperate, people are selling bolivars for a rate 60 times weaker than the strongest of country's three official exchange rates.

It's a politically uncomfortable situation for President Nicolas Maduro, who regularly leads chants of "gringo go home" and says currency speculation is one of the tools used by enemies to try to sow chaos and force him from power.

It's not just businesses chasing greenbacks. Real estate contracts are still drafted in bolivars to satisfy a requirement imposed by late President Hugo Chavez, but in upscale neighborhoods most owners operate outside the law and sell and rent in dollars only. A group of real estate agents in tony eastern Caracas has established a password-protected website for listings in dollar prices.

Analysts say the administration likely sees a limited transition to the dollar as the only way to prevent multinationals from leaving the country altogether, as Clorox did last year, citing problems brought about by decade-old currency controls, supply shortages, and

inflation that hit 68% last year and that economists believe is now well into the triple digits.

The Seattle Mariners have pulled out of Venezuela because of the conditions. The academy has been abandoned, and many other MLB teams have already done so as well. There was a time when as many as 20 MLB teams were in Venezuela with a scouting presence and an academy, but now, just four MLB teams remain. Those four teams are the Chicago Cubs, Tampa Bay Rays, Philadelphia Phillies and Detroit Tigers.

The move toward currency substitution doesn't sit well with hard-core government supporters, many of whom cut their political teeth listening to Chavez's tirades against the "dictatorship of the dollar." But outside economists say Maduro would be wise to embrace the dollar outright.

Questions

1. Describe your assessment of Venezuela's country risk.
2. Do MLB teams face country risk? Explain.
3. Analysts agree that currency controls discourage foreign direct investment. Explain why currency controls can make some FDI projects unfeasible.
4. Describe the foreign exchange exposure of an MNC like Clorox. Did the imposition of currency controls affect its cash flows?
5. How MLB teams could have attempted to account for country risk?
6. American Airlines is pricing its sales in USD. Upscale real estate transactions are also priced in USD. Does pricing in USD reduce country risk?