

# VENEZUELA'S ECONOMIC CRISIS: A HISTORICAL PERSPECTIVE

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# THE CURRENT ECONOMIC CRISIS

- Severe drop in real economic activity: a contraction of 48% since 2013 (5 years), -16% in each of last 3 years
  - In the United States, great depression 1929-33, 31% decline in 4 years; great recession 2008-09 5% decline, average post-war recession cycle  $\approx -2.9\%$
  - Current oil production  $\approx 0.9$  million barrels/day, contraction of 70% relative to level in 1998 and 75% from peak in 1970
  - Cash flow aggravated by supply agreements with Cuba and other Caribbean countries; debt for oil
- Severe decline in imports and consumption:
  - Decline in production and exports mostly on imports and consumption...
  - Venezuela has continued paying foreign debt and shipping crude oil in supply arrangements

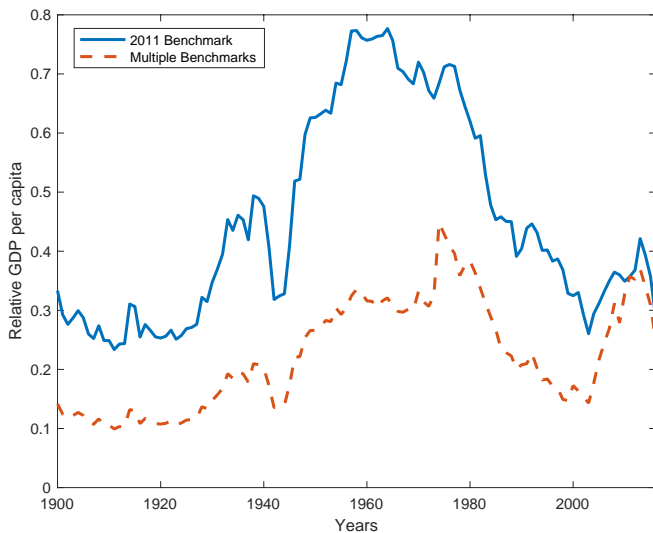
# THE CURRENT ECONOMIC CRISIS

- Inflation rate has surpassed 1,000,000% (12 month rate to November 2018  $\approx$  1.3 million percent according to study by National Assembly)
- Rising poverty, inequality, crime...
- Other social outcomes...
  - Alarming rising rates of (mostly eradicated) Malaria and other diseases
  - Out migration: According to UN International Organization for Migration, 1 million people just to Colombia, 3 million total since 2014 (population  $\approx$  30 million)

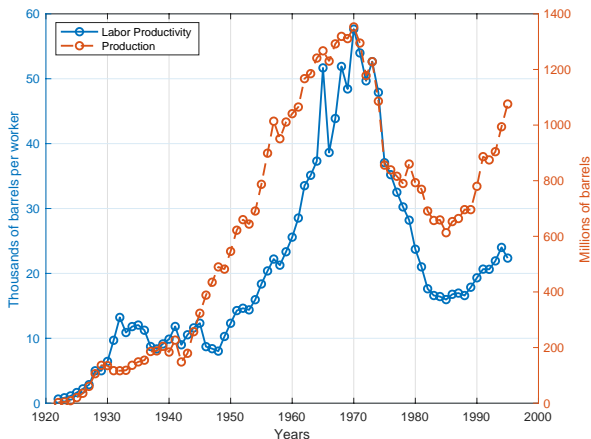
## A HISTORICAL PERSPECTIVE

- Context of current situation: long history of poor economic policies, long before Chavez/Maduro regime
- Background:
  - Bello, Blyde, and Restuccia, “Venezuela’s Growth Experience,” *Latin American Journal of Economics*, 2011
  - Restuccia, “The Monetary and Fiscal History of Venezuela 1960-2016,” Becker Friedman Institute, University of Chicago, 2019

# VEN REAL GDP PER CAPITA (REL. TO USA)



# CRUDE OIL PRODUCTION

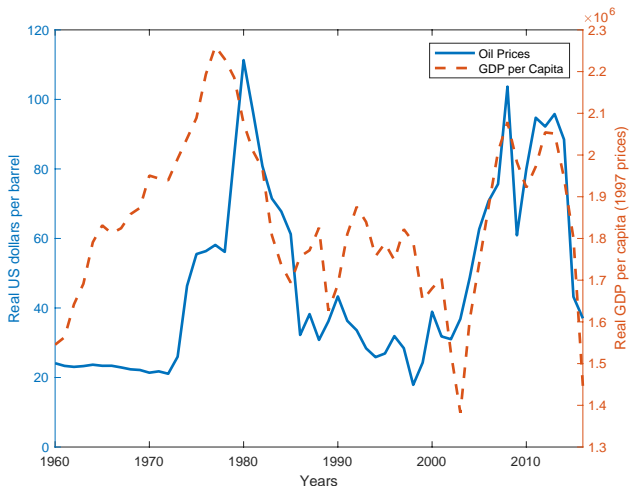


- Current production estimates  $\approx$  300 million barrels (0.9 million barrels/day), declining fast

## KEY TAKE AWAYS

- Unique growth experience: a “miracle” growth episode and a collapse within a short period of time
- Relative economic decline may have started earlier than first oil-price shock, much earlier than Chavez/Maduro regime
- Peak oil production 3.8 MM barrels/day in 1970, around the start of discussions for nationalization of the oil industry (formalized in 1976)
- Decline in oil production: 75% since peak in 1970, 70% since Chavez in 1998
- Paradoxically, under CAPII increase in oil production of almost 60%, plans underway to double peak production

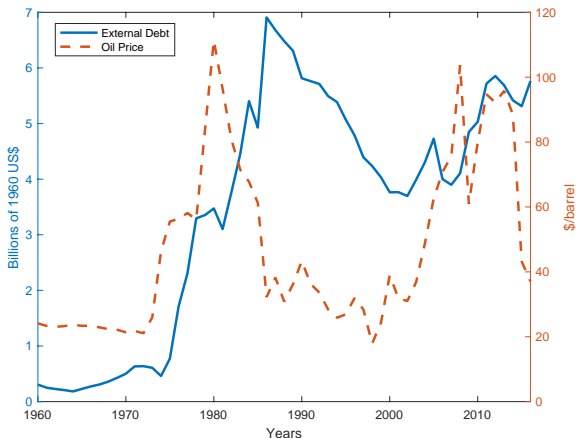
# REAL GDP PER CAPITA AND OIL PRICES



- Economic activity has moved with oil price cycles

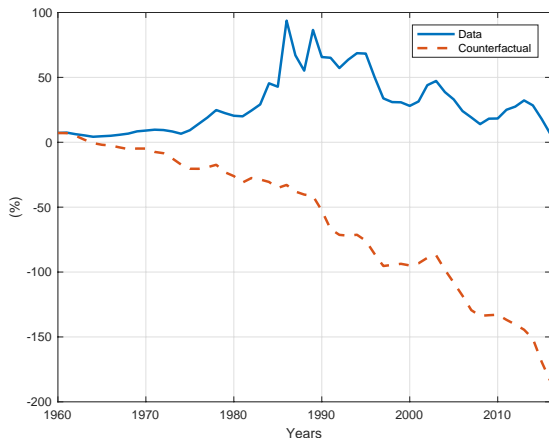


# REAL PUBLIC EXTERNAL DEBT AND OIL PRICES



- External debt increased substantially during boom times
- Current total debt  $\approx$  US\$ 150 billion, 5 times total exports

# COUNTERFACTUAL DEBT TO GDP RATIO



- Elimination of transfers would have resulted in a positive asset fund of the size of Norway's today

# CONCLUSIONS

- No economic policies are viable today without a political regime change, but I am optimistic about the eventual recovery process
- Transition will be difficult given social pressures and dire economic situation
- Setting a different long-run path requires an understanding and correction of economic policies that lead to current situation
- Venezuela is not a rich economy and will never be purely on natural resources, but the oil industry can be a stepping stone to development, as indeed it was before nationalization
- This requires a stable and rational institutional setting and limited discretion of government in economic activity and allocations