Venezuela’s Economic and Financial Crisis

Hugo Chávez swept into office in 1999 on an anti-corruption, pro-social-welfare platform, buoyed by soaring oil prices that would pass $96 per barrel by 2008. Sitting atop the world’s largest proven reserves, his government poured petroleum windfalls into food subsidies, health, and education. The outlays, however, proved unsustainable and were increasingly financed through short-term external borrowing. When the 2009 global financial crisis hit, reserves fell sharply while reliance on foreign debt climbed; by 2010 Venezuela’s external debt exceeded its total reserves by roughly $10 billion (Figure 1). Oil prices slid, and export receipts plunged from $98.2 billion to $60.6 billion (Figure 2). Classic “Dutch-disease” symptoms—an oil-centric economy and under-investment in other sectors—left the country exposed, and the government relied ever more on dollar loans converted into bolívars for domestic spending.

Although output rebounded after 2009, it did so at the cost of a swelling debt load. The bolívar’s official exchange rate doubled from 2.14 to 4.29 per US dollar between 2009 and 2011 (Figure 3). Unlike Norway’s petroleum fund, Venezuela never established a sovereign-wealth buffer, making the economy acutely sensitive to commodity swings.

Figure 1: Reserves and Short-term Debt

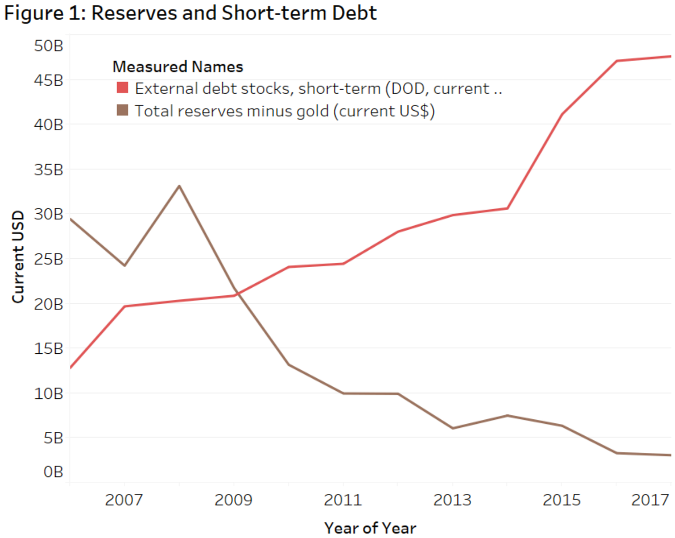


Figure 2: Export and Petrolium Tend

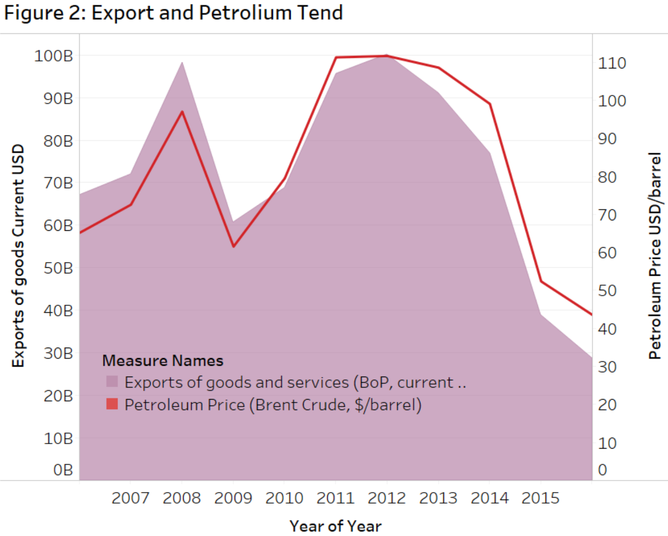


Figure 3: Exchange Rate and External Debt

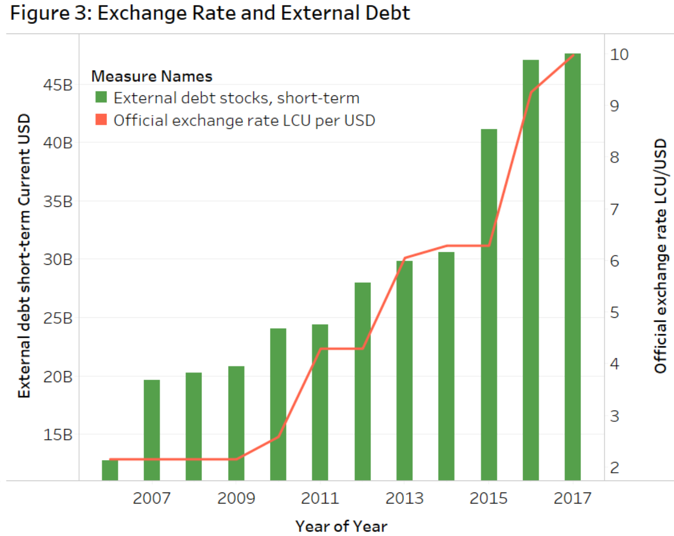
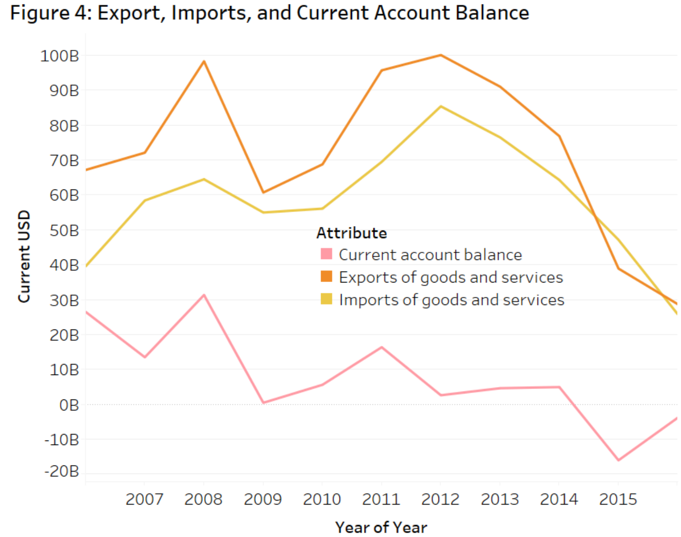


Figure 4: Export, Imports, and Current Account Balance



Exports and oil prices both peaked in 2012, then slid—plummeting in 2015 to $38.8 billion and pushing the exchange rate to 52.35 bolívars per dollar (Figure 2). External debt soared to $47 billion as the state borrowed to maintain spending, crowding out private credit while state-owned enterprises entrenched weak institutions. Chávez's death in 2013 brought Nicolás Maduro to power, and fiscal mis-management deepened into political and humanitarian crisis.

As the bolívar lost value, both exports and imports shrank; by 2016 exports were $28 billion and imports $25.8 billion. Higher import costs triggered shortages, while short-term debt hit $47 billion in 2017. With the current-account balance collapsing to –$16 billion (Figure 4) and reserves depleted, inflation accelerated in lockstep with falling oil prices.

Real GDP (constant LCU) dropped from its 2013 peak of 62 billion bolívars to 40 billion in 2017—a 35 % contraction. An oil-dependent, undiversified economy meant rising poverty and eroding social protection. Incomes fell as consumer prices soared; food and basic goods became scarce. Mass protests erupted against what many viewed as an illegitimate Maduro regime. Foreign-direct-investment inflows, positive at $5 billion in 2011, collapsed to –$6.8 billion by 2017.

To service debt, the government resorted to printing money, triggering hyperinflation on top of an already inflated currency. Quantitative easing failed to generate sufficient bolívar liquidity for essential imports, and with minimal non-oil economic activity, Venezuela entered a vicious spiral of shrinking output, skyrocketing prices, and widespread hardship.