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## Why Venezuela's Economic Pain Could Last Through 2025

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Venezuela is heading down precisely the same path as the now-defunct Soviet Union did a quarter-century ago. Put bluntly; the country is likely going further into a deep economic hole where it could remain until the middle of the next decade.

A recent report shows how the country, which is home to the world's largest proven oil reserves, has become yet another victim of socialist economics that fails time-after-time throughout history.

Its economy is currently wracked by hyperinflation and the economy is in a tailspin.

The annualized rate of inflation hit a staggering 121,102% on March 23, down from the nosebleeding recent high of 165,382% on February 26, according to estimates from Steve Hanke, professor of applied economics at Johns Hopkins University and an expert in hyperinflation.

The economy shrank more than 16% in each of 2016 and 2017 respectively, according to data collated by statistics website Tradingeconomics. GDP has likely receded even further since then as oil production, on which the country relies for export revenue, has approximately halved to 1.4 million barrels a day recently down from almost 3 million five years ago in early 2014, according to data from Trading Economics.

As if that wasn't bad enough, the malaise could continue for years to come, according to a recent report from the Washington-D.C.-based think tank The Institute of International Finance (IIF.) The report states a harsh truth:

“Venezuela is in a deep depression that is unlike the typical V-shaped recession in EM. The cumulative GDP decline since 2013 is comparable to the experience of FSU [former Soviet Union] states in the early 1990s, raising the risk of a slow recovery in a scenario where policy reform takes place.”

The report continues: "It took the median FSU state 12 years to achieve pre-crisis real GDP levels and significantly more in some cases."

Put another way, unlike the usually fast economy recoveries from recessions in the U.S., the former Soviet Union had to wait a dozen years to get back to where it started.

If Venezuela follows the same economic path as the former communist countries of eastern Europe, then it could take until 2025 to recover to where it was in 2013. That was the year before Venezuela's economy began to collapse.

To be clear, Venezuela faces a double problem of hyperinflation and economic collapse, whereas Russia and most of its former satellite states faced only the latter -- the economic decline.

IIF says fixing the hyperinflation will likely be the easier of the two matters. Stabilizing the currency could be fixed by pegging the Venezuelan Bolivar to the U.S. dollar. Similar such strategies have helped other countries end periods of hyperinflation with relative speed. "Although hyperinflation has set in, historical experience suggests it could end relatively fast under stabilization policies," the IIF report says.

However, the more significant matter facing Venezuela is in managing the broader economic recovery. "If policy direction changes, engineering a strong activity recovery might be more complicated than ending hyperinflation."

In other words, even if the country shakes off its socialist policies, the battle to bring back Venezuela's economy will likely have just begun.

That's because what will be needed will be wholesale reform from a centrally planned economy to one that is driven by market pricing.