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Venezuela Market-Watchers Need Crystal Balls: Mac Margolis

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(Bloomberg View) -- Forget Donald Trump. Long before the White House began trafficking in alternative facts, Venezuela's government had cornered the market in magical thinking. You say gross economic mismanagement is wrecking the economy? Nonsense, volleyed President Nicolas Maduro, the disappearance of goods like food and medicine is the work of unscrupulous profiteers. The continent's largest oil producer can't keep the lights on? Stop using hair driers, Maduro says. Bootleggers are shooting it out for a piece of Venezuela's flourishing black market border trade? "Enough of this terrorism," Maduro said, excoriating Colombian paramilitary forces.

Reliable economic information is as rare as insulin in the Bolivarian Republic. The government doesn't even pretend not to hide the homicide rate, and the poverty rate is anyone's guess. The Central Bank stopped publishing inflation data in Dec. 2015, and gross domestic product hasn't been updated in more than a year. The finance ministry's last report on federal fiscal accounts was in 2013. Even the reporting on oil output, on which Venezuela depends for 95 percent of its export revenue, dribbles out six months late, and often conflicts with data from the Organization of the Petroleum Exporting Countries.

So how to navigate the worst crisis in memory in Latin America's most troubled nation? "It's like detective work," Venezuelan energy economist Francisco Monaldi, who works at Rice University's Baker Institute, told me. "Most observers of Venezuela don't have a clue." Consider Venezuela's peculiar exchange rate system: The country has three different prices for the U.S. dollar, counting the black market rate; at one point in 2015, it had four. Depending on whom you consult, inflation for 2016 was 404 percent (according to Torino Capital LLC), a projected 720 percent (International Monetary Fund) and 800 percent (Reuters) or worse. National GDP fell by 10 percent last year, if you believe the International Monetary Fund, or 18 percent, according to Torino Capital economist Francisco Rodriguez.

That leaves employers, merchants, investors, bondholders and "anyone else whose business depends on a contract," said Rodriguez, flying blind. The few independent outfits whose job it is to "read the runes," as one Caracas banker put it to me, have acquired oracle status. In the absence of key headline data on growth, prices and fiscal health, many analysts have taken to

working the fringes, dabbling in what verges on espionage. "Following the Venezuelan economy is like following Poland during the Cold War," Monaldi said.

Perhaps the most comprehensive effort to crack Venezuela's information brownout is by Harvard University's Center for International Development, which assembled a multidisciplinary team of scholars to scour all publicly available data on sectors ranging from government spending to the banking system and social policy. Datanalisis, the country's biggest pollster, produces its own consumer survey data and complements it by tapping friendly technocrats in the National Statistics Institute or the Central Bank, which can be risky. "We have to be careful, because divulging information is forbidden, but their data is usually good and we have good sources," Datanalisis president Jose Vicente Leon said in a phone interview. Still, he said, the paucity of official statistics forced his company to shift from economic surveys to political analysis. "Most decisions in Venezuela end up being political anyway," he said.

To estimate oil exports, energy economists have relied on global systems for tracking oil tankers, which depending on the vessel can indicate how much crude or other petroleum byproducts are leaving Venezuelan ports for foreign markets. Using the black-market dollar as a guidepost, Johns Hopkins economist Steve Hanke together with the Cato Institute regularly plots inflation. By mining "pockets of available data," such as tax revenues and purchases by Venezuela's leading trade partners, Torino Capital's Rodriguez said his team can get a "pretty good picture of the government's fiscal health and prices." And for those who get lost in the arcana of economic regression analysis, Torino also keeps tabs on inflation through the Arepa Overvaluation Index, which tracks the monthly price of the country's favorite cornmeal snack. Even Bloomberg is trying its hand in divining just how outlandish Venezuela's prices have become, with its Café Con Leche index,

What the embattled Venezuelan government gets for its subterfuge is a mystery, but Leon has a theory. "People don't trust private data," he said. "Lack of information sows confusion at the base of the social pyramid. And it keeps the opposition guessing."

And yet Venezuela-watchers agree that the official sleight of hand is ultimately self-defeating, encouraging saboteurs to invent data or manipulate the little information that is available. "Sometimes markets assume things are much worse than they actually are," Rodriguez said. "The government would have a much better standing in the international credit market if they released their data." Besides, in time even autocrats can run out of magical stories to tell.