Sanctions and the Venezuelan Economy
How to Address the Humanitarian Impact

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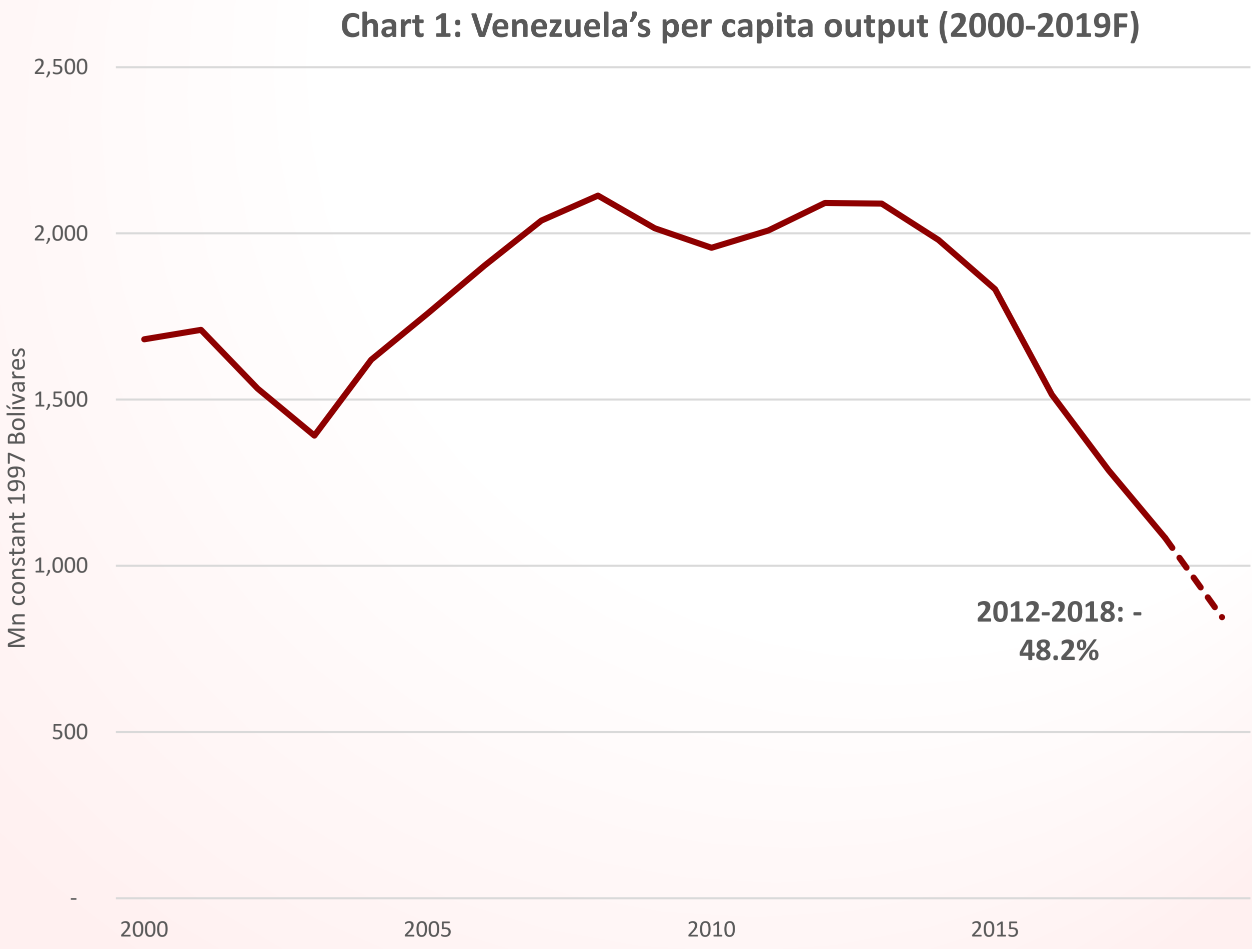
Crisis and sanctions

- Venezuela is suffering the deepest contraction in LatAm history.
- The start of Venezuela's economic slide certainly preceded sanctions.
- This does not disprove that sanctions have had an effect. It only proves that it is not the single cause.

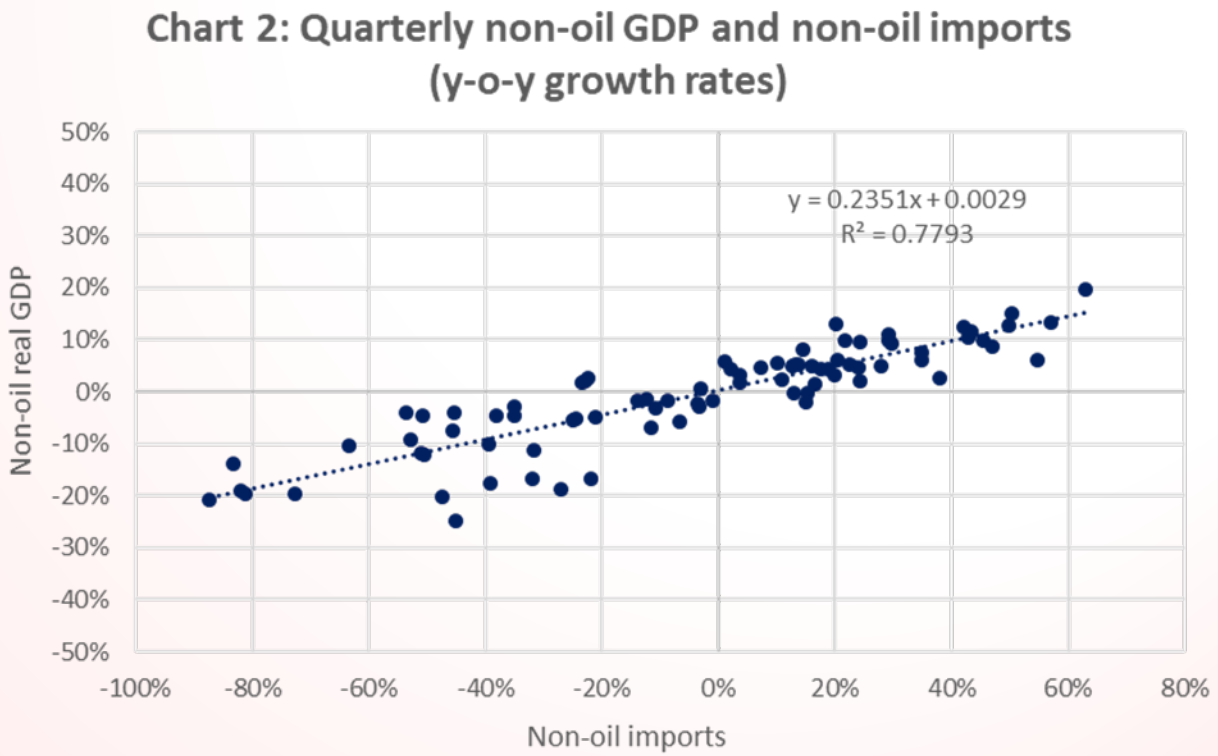


What caused Venezuela’s crisis?

- Much of the debate around the country’s crisis revolves around the question of whether sanctions or policies caused the crisis.
- This question is not correctly posed, since social and economic phenomena are multi-causal.
- Sanctions and policies both have had a negative effect on economic performance. Thus they have both caused the country’s crisis.
- Since poor policies predate sanctions, we can say that policies gave rise to the crisis, and that sanctions exacerbated it.

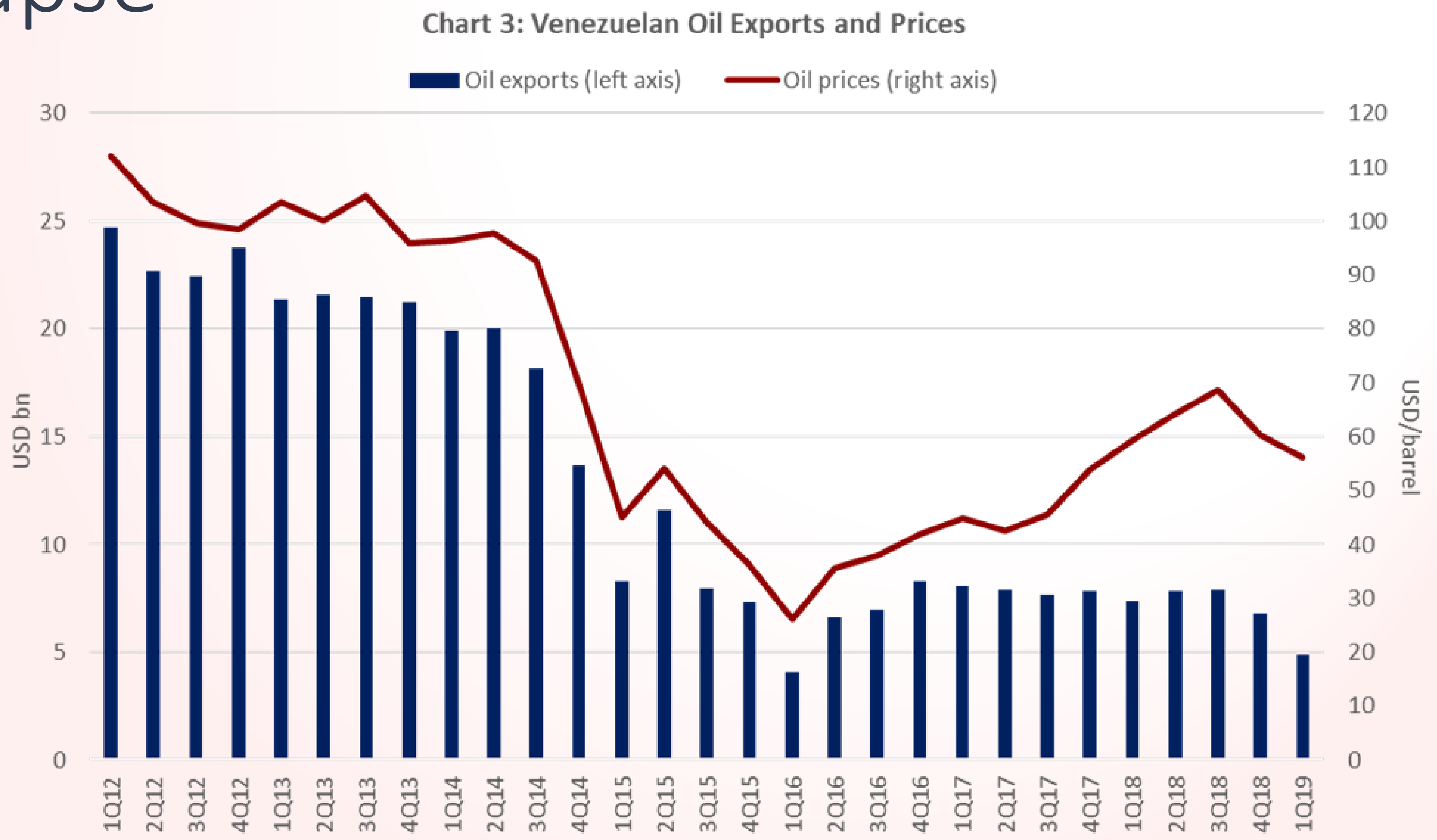
Oil and the Venezuelan economy

- Oil represents more than 90% of the country's export revenue. Gold and other state-controlled activities account for most of the rest.
- Most non-oil activity is what is made possible with the foreign currency obtained through oil exports.
- There is no simple way to starve the government of resources without at the same time starving the nation's economy.



Drivers of collapse

- Decline in living standards was caused by low oil prices, decline in oil output.
- Economy was unprepared to handle negative terms of trade shock.
- This was due to lack of government savings and accumulation of debt during the boom.



Sanctions and oil production

- Oil output began declining in 2016, but rate of decline accelerated after sanctions on August of 2017
- Econometric estimates: 2017 financial sanctions cost $17bn/year
- 2019 oil sanctions are estimated to cost an additional $10bn/year.

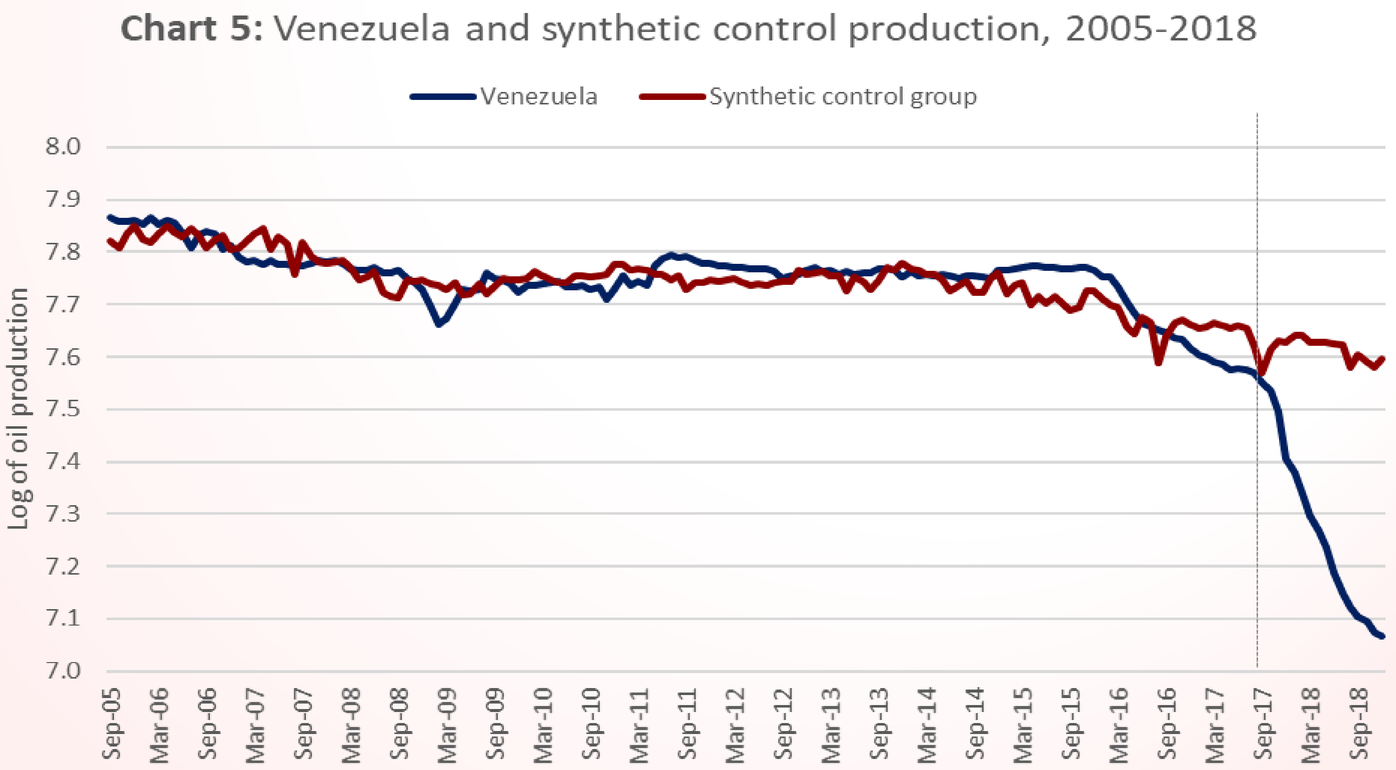
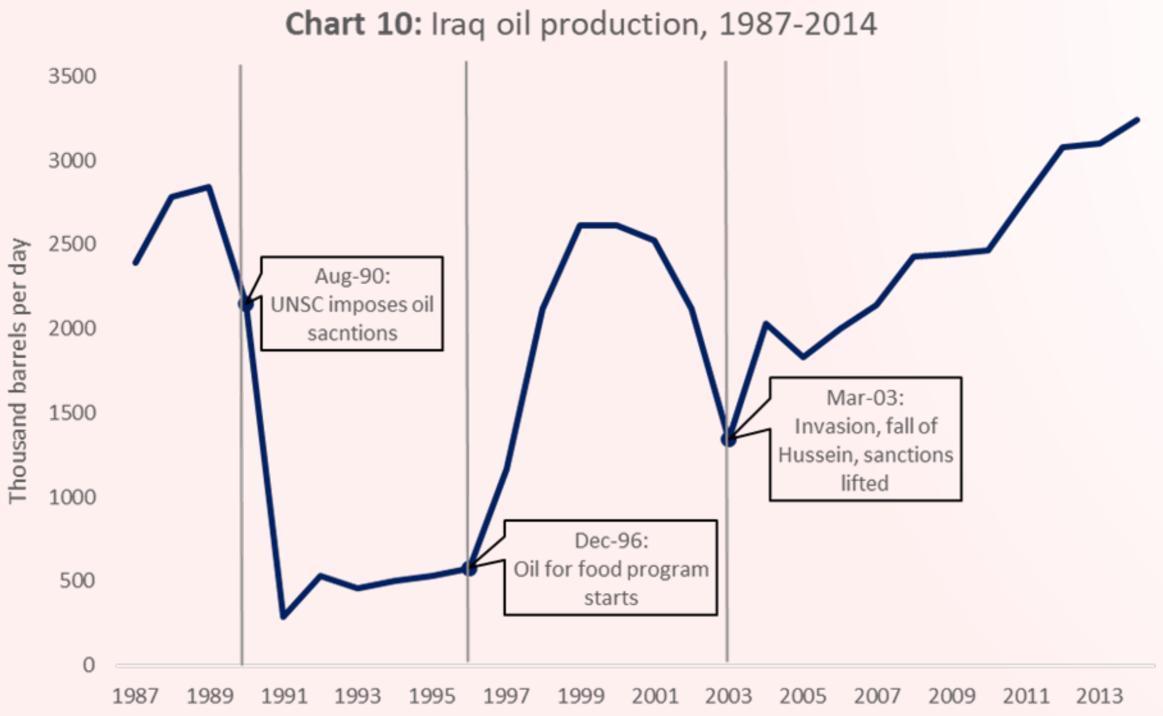


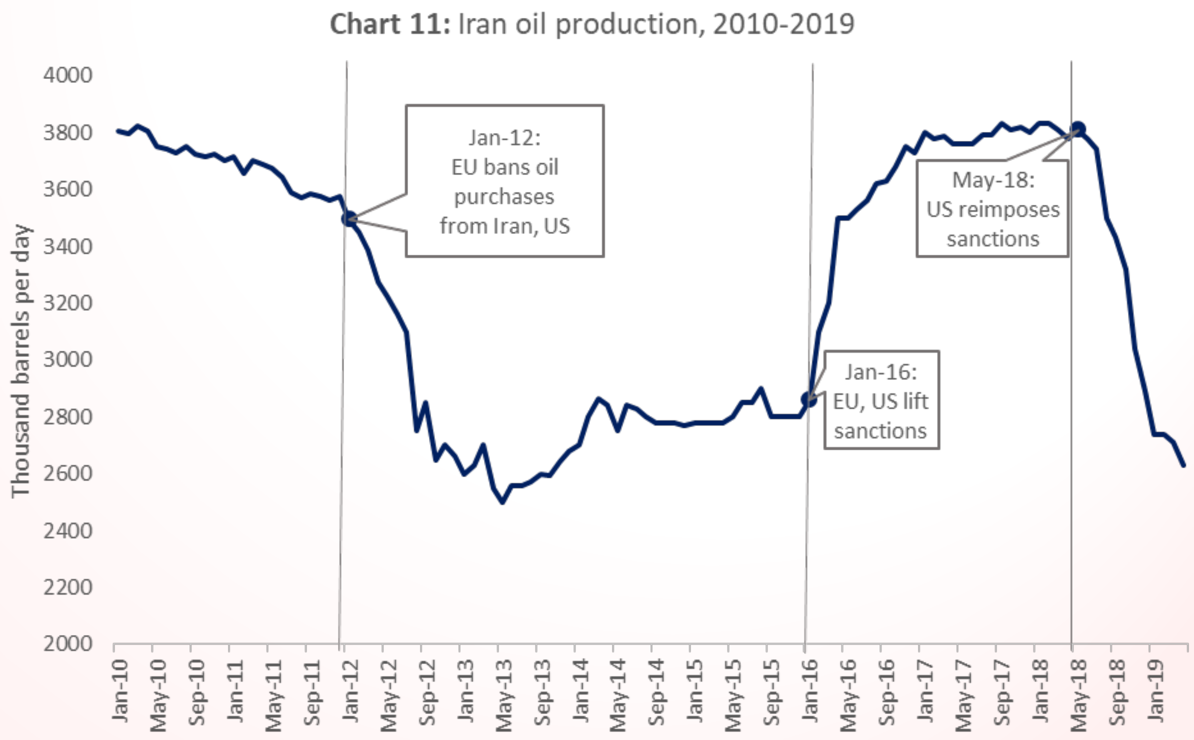
Chart displays the evolution of oil production in Venezuela and a synthetic control group. The synthetic control group is created by the method of Abadie, Diamond and Hainmueller (2010). Pre-treatment period begins in September of 2005 and thus has a 12-year length. Controls include domestic oil consumption, per capita GDP, refining capacity, oil reserves and the Polity Index. All variables except for the polity index are represented in logs. Donor pool includes all non-sanctioned countries with a per capita GDP of less than USD 40,000 in 2014.

Oil production collapses happen in wars, strikes

Rank	Country	Initial month	Production at initial month (tbd)	Final month	Production at final month (tbd)	Number of months	Decline (tbd)	Decline (%)	Key events
1	Libya	Jan-10	1,710	Aug-11	20	19	(1,690)	-98.8%	Intrastate war
2	Iraq	Apr-01	2,879	Apr-03	53	24	(2,826)	-98.2%	Interstate war
3	Libya	Jul-12	1,600	Nov-13	210	16	(1,390)	-86.9%	Oil strike
4	Syria	Aug-11	397	Aug-13	53	24	(344)	-86.6%	Intrastate war
5	Sudan	Jun-11	460	Apr-12	64	10	(396)	-86.1%	Interstate war
6	Yemen	Jul-13	135	Jul-15	22	24	(113)	-83.7%	Interstate war
7	**Venezuela**	**Oct-02**	**2,995**	**Jan-03**	**594**	**3**	**(2,401)**	**-80.2%**	**Oil and national strikes**
8	Libya	Oct-14	850	Feb-15	250	4	(600)	-70.6%	Intrastate war
9	Yemen	Jan-11	308	Mar-12	102	14	(206)	-66.9%	Intrastate war
10	**Venezuela**	**Jun-17**	**1,955**	**May-19**	**741**	**23**	**(1,214)**	**-62.1%**	**US sanctions and political crisis**

Effect of oil sanctions in other economies





A dangerous import contraction

- April imports fell to $303mn, 53% from 2018, 92% from 2012.
- In the three months after sanctions, imports have fallen 63% with respect to last year.
- Harvest is falling by around 50 percent as a result of gasoline scarcity.
- This will imply a massive curtailment of food consumption.

An Oil for Food Program for Venezuela

- Key question is how can we avoid a further deepening of essential imports as a result of sanctions.
- An O4F program would allow to resume imports of essentials while keeping the Maduro regime from using resources for political control.
- The O4F program would be supervised by international community and the Oversight Committee of the National Assembly.
- Recommendations of Volcker 2005 report should be incorporated to avoid repeating Iraqi experience.