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# Lessons from Populism in Latin America

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**Abstract**

We analyze the institutional and economic consequences of populist leaders in Latin America over the last fifty five years. Populist leaders weaken institutions and macroeconomic fundamentals. The duration of populist leaders depends on external conditions, especially the terms of trade. We also present country studies to illustrate the results of the paper.

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## 1 Introduction

What macroeconomic policies do populist leaders pursue? What are the consequences of these policies? And how do populist leaders affect the strength of institutions? Do favorable external conditions have a positive impact on the duration of populist regimes?

To address these questions, we study the experience of Latin America. We focus on Latin America for several reasons: first, Latin America has a long populist tradition starting with Juan Perón in Argentina, Getúlio Vargas in Brazil, and Lázaro Cárdenas in Mexico. Second, Latin America has had both right wing and left wing populism. Third, Latin American countries have

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a tradition of personalistic leadership within their presidential systems. Fourth, external shocks, including terms of trade, are very prominent in the region and help in the econometric identification of the effects of populist regimes on the variables of interest and contribute to finance populist policies. Fifth, unlike populist regimes in advance economies, which often prioritize immigration and cultural issues, populist leaders in Latin America have typically centered their focus on economic matters.

Much of the academic literature has focused on the domestic causes of populism rather than on its economic and institutional consequences. We emphasize the role of external conditions and focus on the consequences of populism.

We find the following results. First, the most recent wave of populist governments have been longer in power than earlier episodes of populism because they have coincided with unusually favorable external conditions, especially high commodity prices. Second, populist governments tend to undermine institutions. Third, and in line with prevailing understanding, populist regimes are associated with expansive unsustainable macroeconomic policies.

Populist leaders rely on weakening institutions that limit the government's ability to pursue their agenda. Institutions such as those that impose checks and balances are frictions that populists need to reduce. Not surprisingly, we find that, compared to non-populist government, populist leaders negatively affect institutional variables such as democratic accountability, property rights, the quality and the effectiveness of government spending, and business and financial freedom.

On the macroeconomic consequences of these leaders, we find that populist leaders (as compared to non populists) implement expansive policies which appreciate the real exchange rate. This typically occurs under fixed (or semi-fixed) nominal exchange rate regimes often adopted by populist leaders to contain the inflation generated by their own expansive policies. Moreover, this happens after controlling for the commodity terms of trade, which are especially relevant for Latin American economies.[1] In turn, the appreciation fuels an increase in imports, on the back of growing consumption and investment, and a deterioration of exports. Eventually the current account deteriorates, given that, despite the improved terms of trade, import growth surpasses the positive valuation effect on exports from the terms of trade improvement. The expansive policies are also reflected in fiscal ratios. Though not statistically significant at the start, as public expenditure expands, activity increases. Eventually the size to public spending grows faster than the economy, and the ratio of government spending to GDP increases which in turn deteriorates the fiscal balance, further contributing to the deterioration of the external current account balance and inflation starts to get out of control.

A key challenge is the definition of populism, which is an elusive concept and therefore has been defined in different ways. The literature has sometimes used an almost tautological concept ("populist economics is an inconsistent set of policies which leads to an economic crisis," (Dornbusch and Edwards, 1991)), therefore populist leader "always deliver bad economic outcomes." Another

[1] Importantly, commodity terms of trade are more exogenous that standard terms of trade. This is because, all else equal, the latter could be affected by domestic policies, such as industrial or trade restriction policies. Commodity terms of trade are equilibrium global prices.

definitional shortcoming is the use of secondary sources—a populist regime is whatever many others define populism, as in Funke et al. (2023).

We take a different approach: we use an identification strategy based on an exogenous definition of populist regimes drawn from the political science literature, which relies on politicians' own rhetoric. We use the continuous index constructed by Hawkins (2009) that measures the degree of populism, based on the analysis of public speeches that identifies the modern-day political science understanding of populists leaders. This definition, which measures intent rather than outputs, avoids the issues of circularity and/or indirect measurement. However, uncertainty remains inherent.[2]

Given the elusive nature of the definition of populism it is important to run several robustness checks. First, our robustness tests include different cut-off levels to define who is a populist. To that end, instead of using the continuous index, we restrict the sample to those populist leaders that are relatively more populist. We use a dummy variable that equals one for those leader above the $50^{th}$ and $75^{th}$ percentiles of the populist distribution, respectively. Moreover, using a dummy variable avoids the fact that the continuous variable assumes linearity (for example, those with an index equal to two would be twice as populists those with an index of one, which is not necessarily the case). Second, we add the populists governments identified by Dornbusch and Edwards (1991) to our sample to account for "older" observations of populists. Third, we run the baseline specification using the populists leaders identified by Funke et al. (2023) instead of the Hawkings index to validate our analysis. Fourth, we also ran our regressions using commodity terms of trade as an instrument for populist periods (given the region's reliance of commodities and the windfall that high commodity prices bring to help pursue expansive polices). Fifth, we restrict the sample to only left-wing populists. Finally, we also restrict the sample to only net commodity exporters. In all these alterative the baseline results remained unchanged.

In short, Latin American populist leaders only deliver in the short run as economic policy and institutional boundaries are pushed while expansive policies can still be financed. Eventually, however, budgets constraints bind and corrections would be needed, resulting in a end-state of nature probably worse than before the start of the populist leader time in office.

It is important to highlight what we do *not* do. We show significant *correlations* between populist leaders in power and deterioration of macroeconomic outcomes and, especially, institutional variables. These correlations are also consistent with the findings of previous studies and the case studies. However, we cannot claim *causality*. The instrumental variable approach gives consistent results, but it should be interpreted with caution given the weakness of the first stage. A second (related) limitation of this work is that we do not test any specific model or mechanism through which populist leaders affect macroeconomic and institutional variables. This is important also to establish causality but would require a different approach that we leave to future work

The remainder of the paper is organized as follows. Section 2 reviews the related literature,

[2]Although the index we use solves some of the measurement problems, it continues to be an indirect measure of an elusive concept.

emphasizing recent contributions from economics and political sciences. Section 3 provides a brief history of populism in Latin America, focusing on historical context, ideological foundations, and international conditions. Section 4 documents some stylized facts of populism in the region. Section 5 tests key hypotheses from the literature using the local projection model. Section 6 discusses caveats on the interpretation of the results. Section 7 concludes. An appendix presents a few case studies for Argentina, Bolivia, Ecuador, and Venezuela.

## 2 Populism in the Economic and Political Science Literature

The study of the economic effects of populism has long been challenging, largely because the concept itself remains elusive and reflects substantial heterogeneity across populist experiences. Early political economy studies in the 1980s focused primarily on political (or electoral) cycles in advanced economies. That changed with the work by Dornbusch and Edwards in the early 1990s.[3]

In absence of a widely accepted definition of populism, Dornbusch and Edwards (1991) defined macroeconomic populism as "an approach to economics that emphasizes growth and income distribution and de-emphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive non-market policies."[4] This definition is grounded in policymakers' stated objectives. While innovative at the time, this approach has since been superseded by definitions that emphasize governments' ideology rather than their stated economic goals.

Dornbusch and Edwards (1991), however, suffered from a few limitations. First, populism was defined tautologically, given that if we define it as a regime that implements macroeconomically unsustainable policies, it does not make any sense to look at the economic implications of these regimes. While this reflected the state of knowledge at the time, political science has made substantial progress over the past three decades in conceptualizing and measuring populism. Second, the analysis relied largely on anecdotic evidence, a necessary choice given the small number of available episodes. Third, the focus was exclusively on macroeconomic outcomes and less on institutional impact. We address these limitations by using the ideational definition of populism as studied by political scientists (see below.)

Dornbusch and Edwards (1991) document how several Latin American countries experienced populist regimes during the 1980s, with similar negative long-run effects on per capita income and income distribution. They argue that, despite differences in rhetoric and initial economic conditions,

[3] There is a vast literature on the effect on the effect of democracy on growth. While this is a different question that the issue analyzed in this paper, the findings of that literature are important to interpret the result of this paper; Papaioannou and Siourounis (2008) finds that in countries that abandoned autocracy and consolidated representative institutions per capita growth increases on average by 1 percent.

[4] An earlier definition by Drake (1982) indicates that populism has three features: 1) it uses political mobilization, recurrent rhetoric and symbols designed to inspire the people; 2) it draws on a heterogeneous coalition; 3) it proposes a reformist set of policies to promote development without explosive class conflicts. This definition is not particularly useful to draw economic implications because it is based on mobilization, type of coalition, and proposed policies, instead of economic policy objectives. Possibly for this reason, Dornbusch and Edwards, 1990 proposed their own definition. However, the Dornbusch and Edwards (1990)'s definition is affected by circularity.

populist governments implemented a remarkably similar set of macroeconomic policies.

After Dornbusch and Edwards (1991)'s contribution, the literature on the macroeconomic consequences of populism remained largely dormant for nearly two decades. For example, the encyclopedic *Political Economy in Macroeconomics* (Drazen, 2000) mentions populism only once, in reference to the work of Dornbusch and Edwards. The relative neglect of the topic during the 1990s may reflect the widespread belief that countries had permanently abandoned populist policies.

While economists paid relatively little attention to populism until recently, political science made substantial conceptual and empirical progress. The classic article by Weyland (2001) argues that the concept of populism has become excessively broad and analytically imprecise because scholars have attached it to diverse economic, social, and ideological fields. This is the issue with the definition by Dornbusch and Edwards (1991) which mixes economic and political issues. A definition that avoids mixing political and economic concepts (a "cumulative definition" in the terminology by Weyland) is crucial if the scope of the analysis is to study how populist leaders affect economic and institutional outcomes.[5] For this reason, we adopt a definition straight from political science.

According to the ideational approach, populism is "an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite,' and which argues that politics should be an expression of the volonté générale ('general will') of the people" (Mudde, 2004). Accordingly, a populist leader claims to represent and defend "the people" against entrenched elites, who are portrayed as either exploiting the underrepresented for their own benefit or neglecting popular demands (Mudde and Rovira Kaltwasser, 2017).[6] This definition encompasses both traditional left-wing populists and right-wing populists. We base our empirical analysis on this definition, which we describe in greater detail below.

Despite these advances, political scientists have largely overlooked the economic implications of populism. For instance, the comprehensive *Oxford Handbook of Populism* by Rovira Kaltwasser et al. (2017) includes 34 chapters covering topics such as technocracy, nationalism, fascism, foreign policy, identity, gender, religion, and media, but none focusing on economic policy or macroeconomic outcomes. Similarly, Rovira Kaltwasser (2019) argues that there is no such thing as "economic populism," citing the heterogeneity of economic policies implemented by populist leaders. In contrast, this paper takes a different view and argues that populists in power implement a consistent and identifiable set of economic policies.[7]

[5] Rovira Kaltwasser et al. (2017) gives a comprehensive and exhaustive overview for specialists, while Mudde and Rovira Kaltwasser (2017) presents a brief and accessible summary of the literature.

[6] Note that Latin American left-wing populism often identifies the "people" using economic and social class criteria rather than ethnicity. In addition, we do not analyze or take a stand on whether or why elites may or may not ignore the people's claim.

[7] The reasons why Rovira Kaltwasser comes to this conclusion are threefold. First, the concept of economic populism developed by Dornbusch and Edwards (1991) was focused on Latin America before the 1990s and did not have a broader perspective. Second, economic populism was applied only to left-wing (or inclusionary) populism. Third, economic populism comes with a negative connotation while many other countries can run similar policies but are not defined as populist. This paper shows that these points have some limits. While it is true that we focus only on inclusionary populism, it is also noticeable that the same findings hold for very different periods (pre-1980s and post-1990s). In other words, we have an 'out-of-the-sample' confirmation of the initial intuition in Dornbusch

The paper by Acemoglu et al. (2013) formalizes a political economy mechanism to explain why populist leaders adopt policies which are not favored by the majority of voters. In a context in which voters distrust elites, a politician may signal that she is not beholden to the interests of the right by choosing moderate or even left-of-center policies. Acemoglu et al. (2013) calls this mechanism populist bias and analyzes the conditions that can make it bigger. This mechanism is consistent with the findings of this paper, i.e. populist policies often lead to bad outcomes, especially for the relatively poor voters.

This populist policy bias is greater when the value of remaining in office is higher for the politician; when there is greater polarization between the policy preferences of the median voter and right-wing special interests; when politicians are perceived as more likely to be corrupt; when there is an intermediate amount of noise in the information that voters receive; when politicians are more forward-looking; and when there is greater uncertainty about the type of the incumbent. We also show that soft term limits may exacerbate, rather than reduce, the populist bias of policies

Moreover, the recent wave of economic research on populism has focused primarily on its causes rather than its consequences (Algan et al., 2017, Guiso et al. (2018), Inglehart and Norris, 2016, Boeri et al., 2018a, Boeri et al. (2018b), Edwards, 2010, Eichengreen, 2018, Finkelstein, 2017, Edwards (2019) and Guriev and Papaioannou, 2022).[8] This literature has sought to determine whether populism is driven mainly by domestic economic factors—such as crises or rising income inequality—or by cultural factors, including perceived cultural deprivation and broader social concerns. By contrast, the macroeconomic and especially the institutional effects of the recent resurgence of populism remain underexplored. This paper aims to fill these gaps.

The paper closest to ours is Funke et al. (2023), which also focuses primarily on the consequences of populist governments. The key difference is the definition of populism and the scope of the st"udy. Funke et al. (2023) use a "big literature" approach (i.e. they digitized "770 books, chapters, and articles on populism from all social sciences, comprising more than 20,000 pages of case studies on populist politicians.") This approach allows the authors to create a large database on populist leaders starting from 1900 and for all regions of the world, but it is based on *secondary* information sources, and not directly the speeches and the public statements by the leaders. Using secondary sources presents similar challenge as in Dornbusch and Edwards if the (some) secondary sources use outcome as a criteria. Because of this, we stick to the the political scientists' approach and focus on the narrative of the original speeches and manifestos, which have no risk of capturing ex-post assessments.[9] However, this choice restricts the sample in space and time. Instead of the

and Edwards (1991). Additionally, the findings hold when using the very same definition as political scientists, thus avoiding tautological definitions. Also, the fact that non-populist regimes have sometimes inconsistent macro policies is not a reason to deny that this is a prevalent feature of populist governments. Finally, it seems that all populists undermine the institutions of liberal democracy, which are key for long-term growth. All these factors suggest that there are indeed a set of policies that often (though not always) are associated with (inclusionary) populism. Therefore, the question posed by the present paper is legitimate.

[8]Gerchunoff et al. (2020) elaborate on structuralist causes for populism, in which the social equilibrium differs from the market equilibrium. The latter is achieved with external and fiscal equilibrium, while the former implies full employment along with external and fiscal deficit owing to a structurally stronger equilibrium real exchange rate than the market equilibrium owing to the perception of the "fair" real wage.

[9]The baseline definition of populism is not the same, although Funke et al. (2023) use also our definition for

entire world starting in 1900, we focus on Latin America starting in the 1970s. While Funke et al. (2023) focus on synthetic control models due to their interest in long-run effects and a worldwide sample, we rely more on local projections to assess the short- to medium-term dynamics. Notably, approximately half of their sample consists of Latin American countries. Finally, we place greater emphasis on the role of external factors, which are particularly salient in Latin America.

In terms of findings, Funke et al. (2023) document long-lasting negative effects of populist leaders on economic activity, persisting up to fifteen years after they leave office. Given our focus on more recent Latin American episodes—many of which ended only a few years ago or are still ongoing—we are unable to study long-run effects and leave this issue for future research. However, we document the cyclical nature of populist policies in Latin America, especially given the reliance of populist leaders on favorable external conditions (which are cyclical) to support the implementation their policies. Regardless of the time horizon, both papers document that populist policies tend to lead to deteriorating macroeconomic conditions and weaker institutions. However, we place particular emphasis on external-sector dynamics. Differences in institutional findings partly reflect data availability, as several of the institutional indicators we analyze have only been systematically collected since the mid-1990s.

Our paper is also connected to the literature on the (political) curse of natural resources. Brollo et al. (2013) highlights political effects of a (natural resource) windfall: "... First, there is an effect on moral hazard: with a larger budget size, the incumbent has more room to grab political rents without disappointing rational but imperfectly informed voters. In other words, the electoral punishment of corruption decreases with budget size, and this induces the incumbent to misbehave more frequently. Second, there is a selection effect: a larger budget induces a decline in the average ability of the pool of individuals entering politics. This is a by-product of the first result (that rents increase with budget size) and of the assumption that political rents are more valuable for political candidates of lower ability. The selection effect in turn magnifies the adverse consequences on moral hazard: an incumbent facing less able opponents can marginally grab more rents without hurting his reelection prospects. As a result, and despite the increased level of corruption, in equilibrium a windfall of government revenues also increases the reelection probability of the incumbent." These mechanisms are consistent with the result of the current paper that a natural resource boom give populist leaders extra time in office, and this, in turn, results in worse institutions.

Also political scientists have found that populism has a long-term impact on policy. For instance, Levitsky and Loxton (2013) argues that "populism—the election of a personalistic outsider who mobilizes voters with an anti-establishment appeal—is a major catalyst for the emergence of competitive authoritarianism. Lacking experience with representative democratic institutions, possessing an electoral mandate to destroy the existing elite, and facing institutions of horizontal accountability controlled by that elite, populists have an incentive to launch plebiscitary attacks on institutions of horizontal accountability. Where they succeed, weak democracies almost invariably slide into competitive authoritarianism. The argument is demonstrated through a comparative

robustness checks.

analysis of all 14 elected presidents in Bolivia, Ecuador, Peru, and Venezuela between 1990 and 2010." Our findings are consistent with these conclusions.

Our paper is also related to the debate on the relationship between democracy and populism. Populism and democracy have a complicated paradoxical relationship. Populism is possible in democracies but, at the same time, it is a threat to liberal democratic institutions (as this paper argues) and may end up ultimately in authoritarian regimes. The reason why democracy sometimes begets populism is because populism gives voice to the "people" which vote in democracies; democracy favors mobilization, participation, gives voice to unrepresented voter, and movements which challenge the elites. All this can ultimately fuel populism. The reason why populism degenerates in authoritarian regimes is that it emphasizes the role of the leader who bypasses institutions, checks and balances, technocratic elites, which are de-legitimized by the populist leader.

Indeed, the story of Latin American discussed below shows many instances of populist movements in democracies to give voice to unrepresented people. It also shows the possible involution under which populist leaders become autocrats, ultimately weakening or destroying the democratic institutions, which allowed them to come to power.[10] But, crucially, not all populist leaders become authoritarian leaders and destroy democracy. In the definition of political scientists, populism is a thin ideology which is perfectly compatible with democracy. In sum , populism is not an external enemy of democracy, but a recurring possibility *within* democracy itself, that sometimes can degenerate into autocratic regimes.[11] Studies (for instance (Papaioannou and Siourounis, 2008)) have found that democratization has a *positive* effect on growth. Precisely to avoid confusing the effect of populism and democracy we control for democracy throughout our regressions.

# 3 A Brief History of Populism in Latin America

## 3.1 Who Is a Populist?

As discussed before, populism has always been an elusive concept. Sometimes it is used in a derogatory way against political adversaries; other times it is used as a synonym for demagoguery or nationalism; yet still other times is used with a positive connotation. Populism is generally considered a "thin ideology," implying that it may be associated with other ideologies. For instance, a populist rhetoric may be related to a nationalist ideology (as it is often the case in contemporary Europe) or it can be linked to a leftist ideology that emphasize income redistribution (as it is often the case in Latin America).[12] Facing this challenge, Dornbusch and Edwards (1991) defined economic populism as a set of (time) inconsistent economic policies.

A problem with the definition of populism of Dornbusch and Edwards (1991) is that the definition is tautological when the purpose is to study the economic implications of populism: a government is classified as populist based on policy outcomes (e.g., fiscally irresponsibility). It is

[10] This is documented also in the case studies discussed in the paper

[11] Ernesto Laclau Laclau (2005) argues that populism is an inherent feature of democratic politics because democracies always involve struggles over who truly represents "the people."

[12] Sometimes the terms 'exclusionary' or 'inclusionary' populism are also used.

therefore no surprise that these episodes end up with unsustainable macroeconomic outcomes.[13] In order to avoid this problem we use the prevailing definition in political science.

Mudde and Rovira Kaltwasser (2017) define populism following the ideational approach. Along these lines, Hawkins (2009) constructs a continuous variable measuring the degree of populism, based on the analysis of public speeches that identifies modern day populists. To compute a metric of populism by discourse based on holistic grading methods, Hawkins interprets textual speeches of Latin American leaders. Analysts read the speeches and, after interpreting their content in a systematic way, tabulate speeches as either non-populist (0), mixed (1), or populist (2). The analyzed speeches should be comparable in length (number of words) and situation (i.e., inauguration, campaign speech, ribbon cutting, international speech, and "famous" speech—typically inauguration or annual address reports).[14] Given that the metric of populism is a continuous variable in the $[0; 2]$ interval, we not only use the variable in continuous form, but also exploit the data by looking at different areas under the distribution curve. Tables 1-3 show which governments are identified as populist if we define populist as those above the $50^{th}$, $75^{th}$, and $90^{th}$ percentile of populist distribution, respectively. We also show the starting and ending dates, thus computing the duration of each populist leader in power. Next, we compute the mean and median of the durations. We also highlight whether the populist leaders were of a left- or right-wing inclination. For comparison purposes, and as we use in the robustness checks, Table 5, presents the populist identified for Latin America by Funke et al. (2023).

### 3.2 Characteristic of the three historical waves of populism in Latin America

There have been three waves of populism in Latin America to date.[15] These waves come with different ideological connotations and with different external conditions. Independently of the type of populism, what it is clear is that populism in Latin America seems to always come back, as suggested by Casullo (2019).

**First wave**

The first wave of populism (or classical populism) started in the 1930s and ended in the 1960s. Populism started on the back of the international crisis in the 1930s, followed by protectionist policies in advanced economies, and the collapse in the price of natural resources. Many countries in Latin America saw a massive urbanization during this period. Workers, who left the impoverished countryside in search of a better life in the cities, were the main supporters of populist leaders. Populist leaders presented themselves as the champions of the *pueblo* (the common people) against the elites, which were accused of colluding with foreign powers.[16] There was an effort to expand the

[13] We thank Rovira-Kaltwasser for stressing this point in bilateral discussions.

[14] The author not only identifies these regimes in Latin America, but also in Europe. Here, we focus on Latin America only. We thank Professor Hawkins for providing the original data set, as well as its update through 2024 available online in the project Team Populism.

[15] This section draws on the chapter on Latin America in the Oxford Handbook of Populism, Rovira Kaltwasser et al. (2017)

[16] Curiously the definition of *pueblo* included the urban masses but excluded indigenous people.

franchise to groups which had been previously discriminated against (for example, the extension of voting rights to women in Argentina by 1951). In some instances, previous stigmas turned into positive virtues (see *descamisados* in Argentina). Charismatic leaders presented themselves as the voice of the underdog along with the authoritarian appropriation of people's will. In some countries, various enduring political organizations were created, including APRA in Peru, the Peronist Party in Argentina, and the *Movimiento Nacionalista Revolucionaro* in Bolivia. Notable leaders included Vargas, Perón, Velasco Ibarra, and Haya de la Torre. This first wave of Latin American populism ended in the 1960s with right-wing bureaucratic authoritarian regimes—though some returned in the 1970s.

The economic policies of this first wave of populism were focused on import substitution and state-sponsored industrialization. State 'dirigisme' was a key feature drawing from the experience of Italian corporativism under fascism and from the Soviet Union's central economic planning.

**Second wave**

The second wave of Latin American populism occurred in the 1990s and reflected neo-liberal economic policies. Examples include Menem in Argentina, Collor de Mello in Brazil, and Fujimori in Peru. Their rhetoric focused on defending the citizens against incompetent domestic elites. While the first wave emphasized foreign exploitation of domestic riches in collusion with local leaders, the leaders of the second wave focused on the sheer incompetence of domestic elites.[17]

The economic policies of this second wave focused on market-friendly reforms, presented as necessary to eliminate previous corruption and inefficiencies under the umbrella of the Washington Consensus. These leaders also weakened institutions, however, sometimes doing so in response to frustrations related to their inability to implement reforms due to vested interest. For instance, Fujimori staged the "autogolpe" in 1992 and assumed full legislative and judicial power; this gave him free rein to implement some reforms but at the cost of destroying the necessary checks-and-balances.

**Third wave**

The third wave of populism in Latin America occurred in the late 1990s, when the *pueblo* was described as suffering from the economic and social consequences of 'neoliberal' policies. Unlike the first wave of the 1930s, the pueblo now included the masses in the countryside in addition to the urban populations, often emphasizing the indigenous component (for instance, ethno-populism in Bolivia). The dominant ideologies were Socialism and Anti-imperialism, and examples of these regimes include Chávez/Maduro in Venezuela, Correa in Ecuador, and Ortega in Nicaragua. Often these leaders advocated constitutional changes to purportedly give more voice to the people and to strengthen their power (through constituent assemblies). Under such views, constitutions became living documents that needed to be updated roughly every ten years, and would be aspirational

[17]Thus, by definition, this second wave of populists would aim at achieving sustainable macroeconomic policies. This is also consistent with the failure of past industrial substitution policies and the debt defaults that resulted in the 1980s been labelled Latin America's "lost decade."

rather than simply designed to limit power or enforce the rule of law and property rights (see Edwards, 2010 for a thorough analysis). Consequently, constitutions became very long and detailed documents, as opposed to traditional short constitutions, potentially increasing uncertainty. More flexible constitutions also resulted in shifts from a traditional 3-power system (executive, legislative, and judicial) to a 5-power system that includes citizens' power and electoral power, resulting in more frequent referendum-like decision mechanisms. The economic implications of the third wave led to a far bigger state with the goal of improving income distribution and nationalization, especially in the energy sector. Given this context, the recent wave of Latin American populist shows a prevalence of leftist populism in Latin America (Figure 1).

**The end of the third wave**

On January 3rd, 2026, as part of the United States operation Absolut Resolve, Delta Force commandos stormed Miraflores Palace, Venezuela's presidential palace, capturing Nicolás Maduro and his wife, who were subsequently taken to be tried in a U.S. court. This event marked the conclusion of the third wave of populist governments in Latin America. Just a few months prior, the presidential elections in Bolivia resulted in the end of the Morales-Arce populist regime. In the Appendix we review the economic, institutional, and political narratives of these two governments, along with those of Argentina and Ecuador, where populism ended earlier. Table 6 summarizes some key features of these regimes. All these governments came to power after significant macroeconomic disruptions, capitalized on favorable terms of trade, and significantly expanded government expenditures. Redistribution took place through social programs; minimum wage increases and price controls of basic utilities. Dornbusch and Edwards's macroeconomics of populism are also very present in this sample as fiscal balances deteriorated significantly during these populist experiences, and capital controls, inflation and appreciated currencies were also a feature of these regimes. The exchange rate regime did play a role in limiting macroeconomic excess. Ecuador, a dollarized economy, and Bolivia that maintained a fixed exchange rate throughout this period, implemented less heterodox macroeconomic policies. In contrast, Venezuela and Argentina had adjustable pegged exchange rates, which imposed less stringent constraints, leading to high inflation in both countries and a hyperinflation episode in Venezuela. On the structural side, in each of these countries there was a move to deepen the role of the State in the economy, expropriations of key firms and a weakening in the rule of law.

During the populist episodes, the four countries in question experienced notable democratic backsliding. As Corrales (2022) and Levitsky and Loxton (2013) argue, populist regimes that position themselves as champions of the "common people" perceive constraints on executive power as maneuvers by entrenched groups (the "elites") aimed at limiting their agendas—often by capturing judicial and legislative systems, as well as the press. Consequently, democratic backsliding emerges as an inherent characteristic of populist governance. In Venezuela, as support for Maduro eroded, the nation devolved into an autocratic and repressive state. Unlike the Latin American dictatorships of the 1970's and 1980s, the Maduro administration continued to use manipulated elections to legitimize its government, even when these maneuvers escalated into overt fraud. Classifying

Venezuela during Maduro's tenure, one may characterize it as a populist autocracy. Additionally, it is significant to note that, except for Argentina, all these populist governments called for a constitutional assembly and drafted and ratified new constitutions, that played a central role in their narrative of change. Table 6 presents data on the duration of governance, windfall commodity income, decline in democratic institutions index, and consumption growth for these four cases. A preliminary examination of the table suggests that countries experiencing more substantial terms of trade booms possessed greater resources, political capital, and time to systematically undermine institutions, consolidate power, and extend their periods in office significantly more than those with lesser booms.

**Takeaways from the three waves**

Even though domestic political dynamics played a big role, (external) economic conditions were key in all three episodeswaves of populism. The Great Depression of the 1930s and the accompanying fluctuations in commodity prices are key to understanding the first wave of Latin American populism. Likewise, concerns about worsening income distribution triggered the third wave of populism, this time on the back of strong improvements in terms of trade because of the commodity super-cycle.[18] Below we focus on external conditions, which played a key role in prompting and perpetuating populism.

# 4 Populism: Stylized Facts

Based on the detailed description in Appendix, the experience of Latin American populist leaders, suggest some following 'stylized facts'

**Fact 1: The recent wave of populist leaders enjoyed unprecedented favorable terms-of-trade**. Many Latin American economies have traditionally been (and still are) dependent on natural resources exports. This dependency means that fluctuations in commodity prices significantly influence economic and political developments. As illustrated in Figure 2 there is a remarkable correlation between commodity prices and the recent rise of populist leaders in the region, a trend that extends across various commodities. Moreover, running a simple regression $\ln[Y_{p,c}] = \alpha + \beta \ln[Y_{COMBoom,c}] + \psi_c + \epsilon$, in which $Y_p$ stands for years in office of populist leaders, $Y_{COMBoom}$ denotes the number of years during a populist government that the commodity terms of trade have been larger or equal to the level of commodity terms of trade in the year prior to the populist taking office, and $\psi_c$ a country fixed effect, the elasticity given by $\beta$ is 39 percent (Table 4). This simple exercise shows the association of supporting terms of trade contribution to the duration of a populist in office. This also contributes to recent populists having been able to able to last longer in office during the commodities super cycle of the early 2000s.

**Fact 2: Recent Latin American populists, supported by external conditions, lasted**

[18] Di Tella et al. (2019) suggest that populists are effective communicators in order to convince voters.

**longer than other populist regimes**. Populist governments lasted an average of just over five years (Table 7). We also noted above that left-wing populist lasted longer than other populist regimes.

**Fact 3: Populist governments favor strong fiscal expansion**. In all these events, government spending had expansionist stance. As part of the populists' agendas, they needed higher levels of spending. Favorable external conditions facilitated such fiscal impulse, on the back of disregard for their medium-term fiscal implications.

**Fact 4: Populist governments are associated with real exchange rate appreciation and external current account deterioration**. Domestic inflation above foreign inflation ends up appreciating the domestic currency, owing to rigid exchange rate arrangements in all of the observed populist governments. Exchange rate pegs or highly managed exchange rate regime were used in all the above populist experiments in Latin America. The latter partly reflects the intention of using the nominal exchange rate as an inflation anchor on the back of highly regulated foreign exchange markets. Real appreciation has also been used to support consumption booms with the intention of creating the image of successful re-distributional policies—aimed at increasing popular support and voting intention during elections periods. Furthermore, many trading partners of populist countries had flexible exchange rates. As flexible currencies depreciated in response to negative terms-of-trade shocks, populist governments with rigid exchange rate arrangements saw their currencies appreciate in real multilateral terms, even if their inflation rates were not higher than their trading partners' inflation.[19] In turn, the expansion of aggregate demand and the strength of the domestic currency—which also made domestic goods expensive in U.S. dollar terms—have fueled consumption booms. To the extent that these terms-of-trade cycles are transitory—however persistent—the external current account will eventually need to adjust. See Adler et al. (2018) for historical evidence on these adjustments in emerging market and developing economies.

**Fact 5: Populist regimes are associated with weaker institutions**. As described in the case studies in the Appendix, by its own nature and rhetoric, populist leaders weaken checks and balances which are fundamental in a liberal democracy.[20] Populists claim to be the *only* legitimate representative of 'the people.' For this reason, they are intrinsic opponents of a pluralistic society, which includes checks and balances as well as intermediate social bodies (see (Boeri et al., 2018a)). The consequence is that the quality of institutions worsens over time while these regimes are in power.[21]

In the following section we empirically test this list of stylized facts.

[19] See Carriere-Swallow et al. (2021)

[20] Moreover, Laclau (2005) claims that populists should "democratize" democracy, which includes weakening the liberal democratic order institutions. Furthermore, as mentioned above, populism regimes seemed to have aimed at relaxing constitutions, affecting institutions more generally.

[21] It is also true that attempts to strengthen institutions in Latin America were mostly short-lived and countries quickly reverted back to their underlying "extractive" norm, once conditions become more favorable.

# 5 Econometric Analysis

In this section, we document more formally the stylized facts discussed in the previous section. We use a multivariate unbalanced panel dataset for close to 40 Latin American and Caribbean countries for the period 1970-2025, with annual frequency, as described in the subsection 5.1.[22] Given that we want to focus on the short- to medium-term dynamics, we use local projections.

## 5.1 Data

**Macroeconomic variables** include the real effective exchange rate, inflation, fiscal balance (percent of GDP), government spending (percent of GDP), government revenue (percent of GDP), and the external current account balance (percent of GDP), which are obtained from Müller et al. (2025). Export volumes, import volumes, real consumption, real private consumption, real investment, and real private investment are from the IMF's *World Economic Outlook*.

*Commodity prices* are obtained from the IMF's *Commodity Terms of Trade* (CTOT) database (Gruss and Kebhaj, 2019). We use the pre-constructed Commodity Export Price Index, in which individual commodities are weighted by each country's ratio of exports of that commodity to total commodity exports. Formally, the index is defined as:

$$\Delta \log(\text{CXPI})_{i,t} = \sum_{j=1}^{J} \Delta P_{j,t}\, \omega_{i,j} \tag{1}$$

where $P_{j,t}$ is the logarithm of the real price of commodity $j$ in year $t$, deflated by the IMF's unit value index of manufactured exports, $\Delta$ denotes first differences, and $\omega_{i,j}$ is the fixed weight of commodity $j$ for country $i$, given by:

$$\omega_{i,j} = \frac{\bar{x}_{i,j}}{\sum_{j=1}^{J} \bar{x}_{i,j}} \tag{2}$$

where $\bar{x}_{i,j}$ denotes the average export value of commodity $j$ by country $i$ over 1980–2015, expressed in US dollars. Weights are time-invariant and provided directly by the database, following Deaton and Miller (1996), to ensure that the index captures variations in international prices rather than endogenous supply responses to those price changes. The index covers up to 45 individual commodities across four broad categories: energy, metals, food and beverages, and agricultural raw materials.

The *commodity trade balance* is constructed following Gruss and Kebhaj (2019) as follows:

$$CTB_{i,t} = \sum_{j=1}^{J} \frac{x_{i,j,t} - m_{i,j,t}}{GDP_{i,t}} \tag{3}$$

where $x_{i,j,t}$ ($m_{i,j,t}$) denotes the export (import) value of commodity $j$ by country $i$ in year $t$,

[22] The Appendix lists the countries in our sample.

expressed in US dollars, and $GDP_{i,t}$ denotes country $i$'s nominal GDP in US dollars in year $t$. The index thus measures the aggregate net commodity export position of a country as a share of output. We use this variable to determinewhether a country is a net commodity exporter or importer.

**The institutional variables** used in the analysis include democratic accountability from the *International Country Risk Guide* (ICRG); property rights, government spending, business freedom, and financial freedom from the Heritage Foundation; and government effectiveness from the World Bank's *Worldwide Governance Indicators* (WGI).

*Democratic Accountability* is a component of the International Country Risk Guide (ICRG) Political Risk Rating, produced by The PRS Group. The Political Risk Rating is based on a possible 100 points distributed across 12 components. Democratic Accountability carries a maximum weight of 6 points. The variable measures the degree to which a government is responsive to its people, on the basis that less responsive governments face a higher probability of removal from power—peacefully in democratic societies, but possibly violently in non-democratic ones. Points are assigned through expert judgment according to a qualitative typology of five regime categories, ranging from Alternating Democracy (highest score, lowest risk) to Autarchy (lowest score, highest risk). Because the variable is assigned through expert classification into discrete regime categories rather than derived from a continuous formula, it takes on a limited set of integer values and should be treated as an ordinal measure in empirical applications. The data are available for 140 countries from 1984 to the present, with annual averages reported in the ICRG Researcher's Dataset. For further detail on the construction of this variable, see The PRS Group, *International Country Risk Guide: Methodology*.

*Property Rights* is a composite index scored 0–100, derived from the simple average of three equally weighted sub-factors: risk of expropriation, respect for intellectual property rights, and quality of contract enforcement. Each sub-factor is normalized to a 0–100 scale using the following min-max transformation:

$$\text{Sub-factor Score}_i = 100 \times \frac{\text{Sub-factor}_{Max} - \text{Sub-factor}_i}{\text{Sub-factor}_{Max} - \text{Sub-factor}_{Min}} \tag{4}$$

where $\text{Sub-factor}_i$ is the raw value for country $i$, and $\text{Sub-factor}_{Max}$ and $\text{Sub-factor}_{Min}$ are the upper and lower bounds of the corresponding dataset. The final score is the simple average of the three normalized sub-factor scores. Primary sources include Credendo Country Risk and Insights, the U.S. Chamber of Commerce International IP Index, and the World Bank Worldwide Governance Indicators.

*Government Spending* is scored 0–100 using a nonlinear quadratic penalty function:

$$GE_i = 100 - 0.03 \times (\text{Expenditures}_i)^2 \tag{5}$$

where $\text{Expenditures}_i$ is the three-year average of total general government expenditure as a percentage of GDP, and the coefficient 0.03 controls score dispersion. The quadratic specification implies that the marginal penalty increases with the level of spending—doubling expenditures

reduces the score by a factor of four—with the score reaching zero at approximately 57.7% of GDP. The minimum score is bounded at zero. This variable measures government austerity. Primary sources are the OECD, Eurostat, the IMF World Economic Outlook database, and the African and Asian Development Banks.

*Business Freedom* is a composite index scored 0–100, derived from the simple average of four equally weighted sub-factors: access to electricity, business environment risk, regulatory quality, and women's economic inclusion. The first three sub-factors are normalized via the following min-max transformation:

$$\text{Sub-factor Score}_i = 100 \times \frac{\text{Sub-factor}_{Max} - \text{Sub-factor}_i}{\text{Sub-factor}_{Max} - \text{Sub-factor}_{Min}} \tag{6}$$

The women's economic inclusion sub-factor is used directly on its native 0–100 scale without transformation. The final score is the simple average of the four sub-factor scores. Primary sources include the World Bank Worldwide Governance Indicators, World Development Indicators, Credendo Country Risk and Insights, and the World Bank Women, Business and the Law database.

*Financial Freedom* is a qualitative index scored on a discrete 0–100 scale in increments of 10, based on an assessment of five dimensions: the extent of government regulation of financial services, the degree of state ownership of banks and other financial institutions, government influence over credit allocation, the depth of financial and capital market development, and openness to foreign competition. Because the index is assigned through expert judgment in discrete steps rather than derived from a continuous formula, it exhibits limited within-country variation over time and should be treated as an ordinal rather than cardinal measure in empirical applications. Primary sources include IMF Staff Country Reports, OECD Economic Surveys, U.S. Department of State Investment Climate Statements, and the World Bank World Development Indicators.
For further detail on the construction of these indices, see Heritage Foundation, *Index of Economic Freedom: Methodology*.

*Government Effectiveness* is one of six aggregate governance indicators comprising the Worldwide Governance Indicators (WGI), produced by Kaufmann and Kraay at the World Bank. The indicator captures perceptions of the quality of public services, the independence of the civil service from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. It covers 214 economies annually over the period 1996–2024.

The indicator is constructed by aggregating individual variables drawn from 35 existing data sources—comprising household and firm surveys, expert assessments, and commercial data providers—using a statistical Unobserved Components Model (UCM). The UCM assigns precision-based weights to each source, with greater weight given to sources that are more strongly correlated with one another, and produces a governance estimate expressed in units of a standard normal distribution, typically ranging from $-2.5$ to 2.5. We use this continuous estimate directly, rather than the rescaled 0–100 absolute score. Standard errors are reported alongside each estimate.
For further detail on the construction of this indicator, see World Bank, *Worldwide Governance*

*Indicators: Documentation*, and Kaufmann and Kraay (2024).

**The control variables** include a democracy indicator drawn from Freedom House's *Freedom in the World* report. The report uses a two-tiered system consisting of scores and status. Each country is awarded 0 to 4 points on each of 25 indicators—grouped into Political Rights (0–40 points) and Civil Liberties (0–60 points)—for a maximum total of 100 points. The equally weighted combination of both scores determines a country's status as *Free* (F), *Partly Free* (PF), or *Not Free* (NF). Following Acemoglu et al. (2019), we construct a binary democracy indicator that equals one if a country is classified as *Free* or *Partly Free*, and zero if classified as *Not Free*.
For further detail on the construction of this indicator, see Freedom House, *Freedom in the World: Research Methodology*.

**Populism variable.** The key variable is populism from Global Populism Database v2.1.[23] The variable "populism" measures the level of populist discourse in the speeches of 269 chief executives (presidents and prime ministers) from 77 countries across all continents. The original dataset covers 361 government terms and includes 1,388 speeches, mostly between 2000 and 2025 (though the data goes back to 1970). Each speech is coded manually by one or two coders using the "holistic grading" (Hawkins (2009)) technique." The Index of Populism analyzes political speeches to assess their populist content. It focuses on several key elements: (1) "Anti-Establishment Rhetoric" (examines how speakers describe or criticize elites, institutions, and established political entities); (2) "Us vs. Them Mentality" (looks for language that divides the population into two groups: the "pure people" and the "corrupt elite"); (3) "Appeal to the Common People" (gauges how speakers reference their connection to ordinary citizens and their struggles, often using inclusive language); (4) "Emotional Appeal" (populist speeches typically leverage strong emotional language to inspire immediate responses from the audience); (5) "Simple Language" (it considers the complexity of language used; populist speeches often employ straightforward, accessible language to resonate with the general public); and (6) "Direct Engagement" (examines how speakers address their audience directly, creating a sense of personal connection and immediacy). By analyzing these elements, the Hawking Index quantifies the populist tone and impact of political speeches.[24] Populism is

[23]The dataset is available at Global Populism Database - Harvard Dataverse

[24]Hawkins et al. (2019a): "Starting in 2006, the authors created a dataset of populist discourse for political leaders using textual analysis of political speeches. The initial effort by Hawkins (2009) covered contemporary and historical Latin American presidents plus a few presidents and prime ministers from other regions. Since then, the database has been expanded several times to more countries and time periods. After recent efforts in 2018-2019 as part of The New Populism project at The Guardian, they rolled out a combined version of our dataset called the Global Populism Database.... The Global Populism Database applies a technique known as holistic grading which was designed by educational psychologists to measure diffuse, latent aspects of texts such as tone, style, and quality of argument. The technique, originally used to grade essays in the College Board AP exams, has coders apply an integer grade scale and a rubric to identify rough attributes of texts at each grade. Coders are then trained by repeated exposure to anchor texts, or texts that benchmark scores in the rubric (White 1985; Sudweeks, Reeve, and Bradshaw 2004). In our rubric, texts are initially assigned one of three scores, listed below with their descriptions. In more recent versions, coders have used a decimal scale (0.1, 0.2, etc.) in which 0.5 rounds to a 1 and 1.5 rounds to a 2. 2: A speech in this category is extremely populist and comes very close to the ideal populist discourse. Specifically, the speech expresses all or nearly all of the elements of ideal populist discourse, and has few elements that would be considered non-populist. 1: A speech in this category includes strong, clearly populist elements but either does

measured using a continuous index ranging from 0 to 2, as documented in Müller et al. (2025). We use the continuous index for in the baseline regressions, and we dichotomize it for some of the robustness tests. Specifically, we explore whether the the results hold when instead of using the index we substitute it for a dummy that identifies those leaders whose discourse is sufficiently populist to place them above the $50^{th}$ and the $75^{th}$ percentile of the distribution. As shown in Tables 1-3, as the threshold for populism increases, the number of leaders classified as populist declines.

Table 7 shows summary statistics of the data.

### 5.2 Local projections

To assess the impact of a populist leader in power (compared to a non-populist), in this section, following Jordà (2005) local projection method, we investigate this using the following specification:

$$y_{i,t+h-1} - y_{i,t-1} = \alpha^h + \gamma POP_{i,t} + \delta CTOT_{i,t} + \sum_{j=1}^{J} \rho_j^h \, \Delta y_{i,t-j} + \sum_{j=0}^{J} \beta_j^h \, x_{i,t-j} + \mu_i^h + \varepsilon_{i,t}^h. \qquad (7)$$

where $y_c$ denotes a macroeconomic variable of interest (real effective exchange rate, inflation, fiscal balance, fiscal revenue, government expenditure, external current account balance, real imports, real exports, real consumption, real private consumption, real investment, real private investment) or institutional variable (democratic accountability, property rights, government austerity, business freedom, financial freedom, government effectiveness) in country $i$ and period $t$, such that the dependent variable measures cumulative values of these variables between $t-1$ and $t+h$; $POP$ stands for the degree of populist discourse in a leader, while $CTOT$ refers to the commodity terms of trade (a price measure, as given by Gruss and Kebhaj (2019), given the importance in Latin America of commodity income in supporting governments, as well as the economic cycle; $x$ denotes a set of controls, which include the lagged real GDP and the degree of democracy, $\mu$ are country fixed effects, and $\epsilon$ is a random disturbance. Errors are clustered at the country level. We show results with confidence intervals of 68 and 90 percent in all charts.

The local projections method requires some additional steps to improve efficiency and reduce any potential biases. First, the error term follows a moving average process of order $h-1$ by construction, so it requires an estimator that is robust to serial correlation. Second, the local projections method implies a loss in efficiency that increases with the horizon $h$. Jordà (2005) suggests that efficiency can be significantly improved by including the residual from the estimation corresponding to horizon $h-1$ as an additional regressor in the estimation for horizon $h$, and thus

not use them consistently or tempers them by including non-populist elements. Thus, the discourse may have a romanticized notion of the people and the idea of a unified popular will (indeed, it must in order to be considered populist), but it avoids bellicose language or references to cosmic proportions or any particular enemy. 0: A speech in this category uses few if any populist elements. Note that even if a speech expresses a Manichean worldview, it is not considered populist if it lacks some notion of a popular will."

we include it.[25] Adding the residual from the regression for horizon $h-1$ also addresses a potential bias identified in Teulings and Zubanov (2014).[26]

### 5.3 Results

The cumulative impulse-response functions show the macroeconomic consequences of populist regimes (Figure 3), compared with non-populist regimes. The real exchange rate appreciates, even though we are controlling for the commodity terms of trade—a proxy for external factors, which are especially relevant for Latin American economies. Even accounting for the effect of terms of trade on real appreciation, the real exchange rate appreciates further when a populist leader in power.[27] In turn, this fuels a strong increase in imports, on the back of growing consumption and investment, and a deterioration of exports. In Latin America, many capital goods, are imported. A stronger currency enables more consumption and investment, as tradable foreign good become cheaper—all else equal. Eventually the external current account deteriorates as well, given that, the increase in imports surpasses the increased in the value of exports. This effect is also supported by the fact that despite the improved terms of trade, real exports do not increase. The expansive policies are also reflected in fiscal ratios. Though not statistically significant at the start, as public expenditure expands, activity increases, but eventually the size to public spending grows faster than the economy, and the ratio of government spending to GDP increases for populist leaders—which in turn deteriorates the fiscal balance, further contributing to the deterioration of the external current account balance. In line with this, eventually the rate of inflation gets out of control.

Institutions weaken under populist leaders (Figure 4). Weaker institutions help them implement increasingly distortionary polices. Democratic accountability weakens, as well as property rights, government austerity (labeled government spending), business freedom, financial freedom, and government effectiveness. In the medium term some eventually improve, probably as eventually some correction may be necessary—and which could be driven by post-populist leader trying to correct the received institutions.

In short, in line with the description in the country cases in the Appendix, Latin American populist leaders only deliver in the short run as economic policy and institutional boundaries are pushed while expansive policies can still be financed. Eventually, however, budgets constraints binds and corrections are needed, typically pushing these economies into economic situations that are probably worse than before the start of the populist leader time in office.

[25] This procedure has been implemented in a different context by Faust and Wright (2011), who show that augmenting a forecasting model with ex-post forecast errors observed between $t$ and $t+h$ improves forecast accuracy by reducing the variance of the error term.

[26] Teulings and Zubanov (2014) show that not controlling for innovations in the regressors between periods $t$ and $t+h$ when estimating the impulse response at horizon can bias the local projection estimates of the impulse response. However, innovations in those regressors are included in the error term, which means that augmenting the regression with the residual from the previous stage regression $(h-1)$ can approximate the solution proposed by Teulings and Zubanov (2014) to address this problem.

[27] Importantly, commodity terms of trade, as used here, are to some extent more exogenous that standard terms of trade. This is because, all else equal, the latter could be more affected by domestic policies, such as industrial or trade restriction policies. Commodity terms of trade are equilibrium global prices.

### 5.4 Robustness

In this section we assess the robustness of the above results along various dimensions. The most critical issue is the definition of populist leader. Thus, the list of robustness checks includes:

- Using a dichotomized definition of the dependent variable by restricting the populist variable to those above the $50^{th}$ percentile. Using the variable in a continuous way we implicitly assumed that the variable is cardinal; so for instance a leader with a score of two is considered twice as populist as a leader with a score of one. This is a strong assumption given that there is no reason why the effect on macro and institutional variable should be twice as big. In order o address this issue we have discretized the distribution of populist leaders by using a dummy that takes value one for those populist leaders that are above the 50th percentile of the populist distribution.

- In the same spirit, to focus on those populist that are relatively more populist, we further restrict to those populist above the $75^{th}$ percentile;

- To test if our results hold also for the past, we extend the sample back in time and use the definitions in Dornbusch and Edwards (1991). Given that these are dummies, we use dummies for those populist above or equal to the median of the continuous populist index distribution.

- We repeat the previous exercise using only those that populist larger or equal to the $75^{th}$ percentile.

- As a controlling sample (which is defined differently than ours), we use the populists identified by Funke et al. (2023).

- External shocks can determine a change of regime; for instance, Brückner and Ciccone (2011) find that a temporary shock such as rain can have a long-lasting effect on democracy. In that spirit, we also run the exercise by instrumenting populists using the commodity terms of trade given the prominence of high commodity terms of trade during the last wave of 2000s populists Latin America (note, however, that the latter has a low F-statistic, thus not being a good enough instrument).

- Populism is a thin ideology which can be associated with left or right policy stances. To check if the specific political leaning makes a difference, we restrict the sample to only left-wing populist leaders.

- Similarly, we restrict the subsample to only net commodity exporters.

Interestingly, in all these robustness checks the results remain unaltered.

The idea of restricting populist to those above the $50^{th}$ and $75^{th}$ percentiles is to focus on those leaders that are relatively more populist, given the distribution of populism in Hawkins (2009)'s and their updates in Hawkins et al. (2019b). We observe in Figure 5 and Figure 6, respectively,

that the main macroeconomic and institutional variables dynamics (and scale) do not change for this smaller group of populists.

Another important issue is covering "older" populists, not included in Hawkins et al. (2019b). To that end, we create dummy variables by discretizing the distribution of populist, focusing on those that are larger or equal to the median of the distribution. Then we add to the sample of populist those identified by Dornbusch and Edwards (1991), which goes further back in time than our sample—the discretization is needed because Dornbusch and Edwards (1991) identify which governments, in each country, have been populist—others not being populist under their definition. Figure 7 shows these results, while Figure 8 those when the sample from Hawkins et al. (2019b) is restricted to being above the $75^{th}$ percentile—that is "more populist" leaders. We see that results remain unaltered when including these past events.

To further validate our findings, we explore using alternative sources to identify which leaders are populists. We rely on Funke et al. (2023) to that end. We re-run the specification for both macroeconomic variables, and for institutional variables. Despite small differences in terms of magnitudes, the dynamics of replacing our identified populists with those identified by Funke et al. (2023) are similar (Figure 9). This helps validate our previous results, including the fact of having populist from less recent periods.

Another robustness exercise is to use instrumental variables (IV) to instrument for populist regimes. Figure 10 shows these results. The dynamics and scales are similar to our baseline regression. Moreover, we observe that using IV depicts the typical boom-bust cycles usually attributed (and anecdotally documented) to populist cycles. The logic of such cycles being that, eventually, these leaders lose their financing and all the distortions that they have imposed on the economy start to bind. Unfortunately, the F-statistic of the first stage of the IV was too low to rely on these results. Further work is necessary.

Also, the results are unchanged if we ran the same experiment only for left-wing populist (Figure 11) or only for those economies that are net commodity exporters (Figure 12).

## 6 Caveats in the interpretations of the results

Our results need three qualifications. First, populist governments are not the only ones to create macroeconomic imbalances. Second, not all populist governments have implemented irresponsible economic policies. Third, populist politicians, by bringing new issues to the political arena, have also helped address important social issues. We take the three issues in turn.

First, populist governments have not been the only ones engineering unsustainable consumption-driven boom-bust cycles and weakening institutions. Many of the (in)famous Latin American macroeconomic and financial crises took place under non-populist regimes, such as the Tequila crisis that took place in Mexico in 1994-95 and in Brazil circa 1999. Also, in Argentina Alfonsín, who is not classified as a populist leader, implemented macroeconomic policies which ended up being unsustainable; the ensuing economic crises had political implications.

Second, not all leaders labeled as populist by the political science literature implemented unsustainable economic policies. A primary example is Mexico between 2018 and 2024. The macroeconomic policy mix implemented by Andres Manuel Lopez Obrador has been relatively more conservative, in macroeconomic terms, than most of the other populist presidents since the late 1990s—especially when compared to those regimes that can be labelled as left-wing populist governments. Crucially, it did not end in high inflation or economic crisis. The relatively prudent macro-economic management is considered one of the reasons of why Lopez Obrador' party won in the elections in the 2024 election. A caveat in this situation is that the recent Mexican populist episode continued with his anointed successor Claudia Sheinbaum and therefore it is an ongoing regime.[28] The same can be said for Fujimori in Peru during the 1990s.

Third, populist leaders may raise issues, or give them substantially more prominence than before, which the dominant elites may have under-emphasized. Some of these issues are then accepted into the main political mainstream. For instance, the Peronist movement in Argentina enfranchised large sectors of the population, including extending voting rights to women in 1951, who were previously excluded from the political process. In Bolivia, President Evo Morales strove to include large segments of the native population which had theretofore been excluded. In other cases, populists, even if not in power, force ruling parties to change their agenda and to be more inclusive. For instance, the Governor and U.S. Senator of Louisiana during the late 1920s and early 1930s, Huey Long, may have had some impact on the New Deal agenda, though causality is not clear.

Thus, although we document the economic unsustainability and institutional deterioration of populist regimes, we do not mean to disqualify some of the *policy objectives* that brought populist regimes to power. Regardless of whether governments were democratically elected or not, or whether leaders were or were not populist, the problem with Latin American populist policies has not been lack of genuine demands, but unsustainable policies to achieve such social needs and the destruction of democratic institutions that in the long term contribute to growth and social wellbeing.

# 7 Conclusions

Populism is a recurrent phenomenon and appears to be on the rise once more. There are several recent papers looking at the *causes* of populism, but fewer focus on its *effects*. While political scientists have made great progress in the conceptualization of populism following the more recent wave of populist regimes, they have mostly not looked at the economic consequences. We define populists based on the political science, which we take as exogenous, thus strengthening our identification strategy. Specifically, populists are identified based on leaders' own discourse—as opposed to simply looking for their policies or how scholars classify them.

[28] If a similar exercise would have been made six years into the Evo Morales regime the conclusion would have been that macroeconomic management was also prudent, however when natural gas income collapsed and the government avoided the adjustment a balance of payments, crisis ensued.

We document that the latest wave of populism is characterized by a very different external environment than past episodes. The commodity super cycle and the relatively favorable external financing conditions have helped populists to stay in power longer than in previous episodes. This has allowed them to pursue their policies for a longer period without running into budget constraints. While this has not changed populism's basic economic effects, the longer duration of these policies may have had a deeper and longer lasting effect on the weakening of some institutions than has been previously considered.

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# Tables and Figures

## Tables

Table 1: Populist P50

| *Country* | *Leader* | *Period* | *Duration* | *Left-wing* | *Populist Index* |
|---|---|---|---|---|---|
| Argentina | Carlos Menem | 1989–1999 | 11.000 | | 0.750 |
| | Eduardo Duhalde | 2002–2003 | 2.000 | | 0.533 |
| | Nestor Kirchner | 2004–2007 | 4.000 | ✓ | 0.250 |
| | Cristina Fernandez | 2011–2015 | 5.000 | ✓ | 0.188 |
| | Alberto Fernández | 2019–2023 | 5.000 | ✓ | 0.287 |
| Bolivia | Gonzalo Sanchez de Lozada | 2002–2003 | 2.000 | | 0.225 |
| | Evo Morales | 2006–2019 | 14.000 | ✓ | 1.344 |
| | Luis Arce Catacora | 2020–2025 | 6.000 | ✓ | 0.775 |
| Brazil | Luiz Inacio Lula da Silva | 2003–2010 | 8.000 | ✓ | 0.250 |
| | Dilma Rousseff | 2015–2016 | 2.000 | ✓ | 0.338 |
| | Jair Bolsonaro | 2019–2023 | 5.000 | | 0.500 |
| Chile | Michelle Bachelet | 2014–2018 | 5.000 | ✓ | 0.213 |
| Colombia | Gustavo Petro | 2022–2025 | 4.000 | ✓ | 0.475 |
| Costa Rica | Abel Pacheco | 2002–2006 | 5.000 | | 0.222 |
| | Luis Guillermo Solis | 2014–2018 | 5.000 | ✓ | 0.400 |
| | Rodrigo Chaves | 2022–2025 | 4.000 | | 0.625 |
| Dominican Republic | Leonel Fernandez | 2004–2012 | 9.000 | | 0.250 |
| | Danilo Medina | 2016–2020 | 5.000 | | 0.375 |
| Ecuador | Jose Maria Velasco Ibarra | 1970–1972 | 3.000 | | 1.667 |
| | Gustavo Noboa | 2000–2002 | 3.000 | | 0.233 |
| | Lucio Gutierrez | 2003–2005 | 3.000 | | 0.967 |
| | Alfredo Palacio | 2006–2006 | 1.000 | | 0.389 |
| | Rafael Correa | 2007–2017 | 11.000 | ✓ | 1.570 |
| | Lenin Moreno | 2018–2020 | 3.000 | ✓ | 0.188 |
| | Guillermo Lasso | 2021–2023 | 3.000 | | 0.360 |
| El Salvador | Antonio Saca | 2004–2008 | 5.000 | | 0.583 |
| | Mauricio Funes | 2009–2013 | 5.000 | ✓ | 0.625 |
| | Salvador Sanchez Ceren | 2014–2019 | 6.000 | ✓ | 0.625 |
| | Nayib Bukele | 2020–2024 | 5.000 | | 0.500 |
| Guatemala | Otto Perez Molina | 2012–2015 | 4.000 | | 0.350 |
| Honduras | Manuel Zelaya | 2006–2009 | 4.000 | ✓ | 0.500 |
| | Porfirio Lobo Sosa | 2010–2013 | 4.000 | | 0.333 |
| | Juan Orlando Hernandez | 2014–2022 | 9.000 | | 0.463 |
| Mexico | Vicente Fox | 2000–2006 | 7.000 | | 0.250 |
| | Andres Manuel Lopez Obrador | 2018–2024 | 7.000 | ✓ | 0.962 |
| Nicaragua | Daniel Ortega | 2007–2025 | 19.000 | | 0.933 |
| | Daniel Ortega | 2007–2025 | 19.000 | ✓ | 1.180 |
| Panama | Martin Torrijos | 2004–2008 | 5.000 | | 0.222 |
| | Ricardo Martinelli | 2009–2014 | 6.000 | | 0.500 |
| | Juan Carlos Varela | 2015–2018 | 4.000 | | 0.250 |
| | Laurentino Cortizo | 2019–2024 | 6.000 | ✓ | 0.287 |
| Paraguay | Nicanor Duarte | 2003–2008 | 6.000 | | 0.500 |
| | Horacio Cartes | 2013–2018 | 6.000 | | 0.238 |
| Peru | Alejandro Toledo | 2001–2005 | 5.000 | | 0.333 |
| | Alan Garcia | 2006–2011 | 6.000 | | 1.000 |
| | Ollanta Humala | 2012–2016 | 5.000 | ✓ | 0.500 |
| | Pedro Castillo | 2021–2021 | 1.000 | ✓ | 0.587 |
| | Dina Boluarte | 2022–2025 | 4.000 | ✓ | 0.625 |
| Uruguay | Jorge Batlle | 2000–2004 | 5.000 | | 0.217 |
| | Tabare Vazquez | 2005–2020 | 16.000 | ✓ | 0.231 |
| Venezuela | Hugo Chavez | 1999–2013 | 15.000 | ✓ | 1.850 |
| | Nicolás Maduro | 2014–2025 | 12.000 | ✓ | 1.600 |
| ***Full Sample*** | | Average | | | 6.231 |
| | | Median | | | 5.000 |
| ***Left-wing Sample*** | | Average | | | 7.167 |
| | | Median | | | 5.000 |

*Note:* see the data description for details about the data.

Table 2: Populist P75

| *Country* | *Leader* | *Period* | *Duration* | *Left-wing* | *Populist Index* |
|---|---|---|---|---|---|
| Argentina | Carlos Menem | 1989–1999 | 11.000 | | 0.750 |
| | Eduardo Duhalde | 2002–2003 | 2.000 | | 0.533 |
| Bolivia | Evo Morales | 2006–2019 | 14.000 | ✓ | 1.344 |
| | Luis Arce Catacora | 2020–2025 | 6.000 | ✓ | 0.775 |
| Brazil | Jair Bolsonaro | 2019–2023 | 5.000 | | 0.500 |
| Costa Rica | Rodrigo Chaves | 2022–2025 | 4.000 | | 0.625 |
| Ecuador | Jose Maria Velasco Ibarra | 1970–1972 | 3.000 | | 1.667 |
| | Lucio Gutierrez | 2003–2005 | 3.000 | | 0.967 |
| | Rafael Correa | 2007–2017 | 11.000 | ✓ | 1.570 |
| El Salvador | Antonio Saca | 2004–2008 | 5.000 | | 0.583 |
| | Mauricio Funes | 2009–2013 | 5.000 | ✓ | 0.625 |
| | Salvador Sanchez Ceren | 2014–2019 | 6.000 | ✓ | 0.625 |
| | Nayib Bukele | 2020–2024 | 5.000 | | 0.500 |
| Honduras | Manuel Zelaya | 2006–2009 | 4.000 | ✓ | 0.500 |
| Mexico | Andres Manuel Lopez Obrador | 2018–2024 | 7.000 | ✓ | 0.962 |
| Nicaragua | Daniel Ortega | 2007–2025 | 19.000 | | 0.933 |
| | Daniel Ortega | 2007–2025 | 19.000 | ✓ | 1.180 |
| Panama | Ricardo Martinelli | 2009–2014 | 6.000 | | 0.500 |
| Paraguay | Nicanor Duarte | 2003–2008 | 6.000 | | 0.500 |
| Peru | Alan Garcia | 2006–2011 | 6.000 | | 1.000 |
| | Ollanta Humala | 2012–2016 | 5.000 | ✓ | 0.500 |
| | Pedro Castillo | 2021–2021 | 1.000 | ✓ | 0.587 |
| | Dina Boluarte | 2022–2025 | 4.000 | ✓ | 0.625 |
| Venezuela | Hugo Chavez | 1999–2013 | 15.000 | ✓ | 1.850 |
| | Nicolás Maduro | 2014–2025 | 12.000 | ✓ | 1.600 |
| | ***Full Sample*** | | Average | | 7.360 |
| | | | Median | | 6.000 |
| | ***Left-wing Sample*** | | Average | | 8.385 |
| | | | Median | | 6.000 |

*Note:* see the data description for details about the data.

Table 3: Populist P90

| *Country* | *Leader* | *Period* | *Duration* | *Left-wing* | *Populist Index* |
|---|---|---|---|---|---|
| Bolivia | Evo Morales | 2006–2019 | 14.000 | ✓ | 1.344 |
| Ecuador | Jose Maria Velasco Ibarra | 1970–1972 | 3.000 | | 1.667 |
| | Lucio Gutierrez | 2003–2005 | 3.000 | | 0.967 |
| | Rafael Correa | 2007–2017 | 11.000 | ✓ | 1.570 |
| Mexico | Andres Manuel Lopez Obrador | 2018–2024 | 7.000 | ✓ | 0.962 |
| Nicaragua | Daniel Ortega | 2007–2025 | 19.000 | ✓ | 1.180 |
| | Daniel Ortega | 2007–2025 | 19.000 | | 1.000 |
| Peru | Alan Garcia | 2006–2011 | 6.000 | | 1.000 |
| Venezuela | Hugo Chavez | 1999–2013 | 15.000 | ✓ | 1.850 |
| | Nicolás Maduro | 2014–2025 | 12.000 | ✓ | 1.600 |
| | ***Full Sample*** | | Average | | 10.900 |
| | | | Median | | 11.500 |
| | ***Left-wing Sample*** | | Average | | 13.000 |
| | | | Median | | 13.000 |

*Note:* see the data description for details about the data.

Table 4: Duration Model

| ***Duration Model*** | | |
|---|---|---|
| Variable | ln(DPG) | ln(DPG) |
| ln(DCTOT) | 0.393*** | 0.396*** |
| | (0.111) | (0.110) |
| Democracy | 3.66e-02 | . |
| | ( 1.25e-01) | ( .) |
| Cons | 1.232*** | 1.261*** |
| | (0.180) | (0.145) |
| Obs. | 336 | 336 |
| N. countries | 18 | 18 |
| F | 6.45 | 13.03 |
| Country-FE | YES | YES |

*Note: ln(DGP)* denotes the natural logarithm of the duration (in years) of a populist government spell. *ln(DCTOT)* denotes the natural logarithm of the number of years within the spell in which the commodity terms of trade exceeded their pre-entry level.

Table 5: Populist Funke

| ***Country*** | ***Leader*** | ***Period*** | ***Duration*** |
|---|---|---|---|
| Argentina | Perón-Martínez | 1973–1976 | 4 |
| | Menem | 1989–1999 | 11 |
| | Kirchner-Fernández | 2003–2015 | 13 |
| Bolivia | Morales | 2006–2019 | 14 |
| Brazil | Collor | 1990–1992 | 3 |
| | Bolsonaro | 2019–2022 | 4 |
| Ecuador | Velasco | 1970–1972 | 3 |
| | Bucaram | 1996–1997 | 2 |
| | Correa | 2007–2017 | 11 |
| Mexico | Echeverría | 1970–1976 | 7 |
| | López Obrador | 2018–2024 | 7 |
| Peru | García-Fujimori | 1985–2000 | 16 |
| Venezuela | Chávez-Maduro | 1999–2025 | 27 |
| | | Average | 9.4 |
| | | Median | 7.0 |

*Note:* see the data description for details about the data.

Table 6: Some data on populist periods

| | **Populist Period** | **Length** (years) | **Terms of Trade windfall** (percent) | **Cons Growth** (percent) | **Fall Dem** (percent) |
|---|---|---|---|---|---|
| **Argentina** | 2003-2015 | 12 | 90 | 60 | 10 |
| **Bolivia** | 2006-2025 | 19 | 190 | 88 | 20 |
| **Ecuador** | 2007-2017 | 10 | 116 | 51 | 18 |
| **Venezuela** | 1999-2025 | 26 | 303 | -52 | 72 |

*Note:* A simple look at the table suggests that the countries that experienced larger terms of trade booms had more resources, political capital and time to erode institutions, consolidate power and lengthen their period in power significantly more than those that had smaller booms.
Source: Adler and Magud (2015), WEO Data-IMF, V-Dem and National central Banks.

Table 7: Summary Statistics

| ***Variable*** | ***Source*** | ***Obs*** | ***Mean*** | ***SD*** | ***Min*** | ***P10*** | ***P25*** | ***P50*** | ***P75*** | ***P90*** | ***Max*** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Populist index | Hawking (2009) | 392 | 0.553 | 0.511 | 0.025 | 0.083 | 0.188 | 0.344 | 0.750 | 1.500 | 1.917 |
| Current Account Balance, in Percent of GDP | GMD | 1832 | -5.572 | 9.555 | -74.430 | -17.210 | -8.593 | -3.721 | -0.797 | 2.522 | 38.300 |
| Real Effective Exchange Rate, Index (2010 = 100) | GMD | 1725 | 155.600 | 394.500 | 20.320 | 72.640 | 89.400 | 101.100 | 115.600 | 148.800 | 9067.000 |
| Government Expenditure, in Percent of GDP | GMD | 1626 | 23.590 | 10.830 | 0.000 | 11.380 | 16.870 | 22.980 | 28.600 | 35.270 | 106.000 |
| Government Revenue, in Percent of GDP | GMD | 1611 | 21.140 | 8.361 | 0.036 | 11.000 | 14.530 | 21.520 | 25.800 | 31.420 | 62.780 |
| Government Deficit, in Percent of GDP | GMD | 1663 | -1.777 | 5.733 | -30.980 | -6.685 | -3.976 | -1.947 | -0.018 | 2.094 | 60.930 |
| Inflation Rate, in Percent | GMD | 1936 | 98.010 | 1633.000 | -11.820 | 0.996 | 2.724 | 5.849 | 14.190 | 34.090 | 6.5e+04 |
| Government Effectiveness: Estimate | WDI-WGI | 805 | -0.053 | 0.698 | -2.228 | -0.867 | -0.544 | -0.078 | 0.391 | 0.887 | 1.563 |
| Property Rights | Heritage.org | 854 | 47.050 | 19.890 | 0.000 | 23.200 | 30.000 | 50.000 | 58.300 | 70.000 | 90.000 |
| Government Spending | Heritage.org | 854 | 75.570 | 15.540 | 0.000 | 54.800 | 67.700 | 78.100 | 87.000 | 92.000 | 99.300 |
| Business Freedom | Heritage.org | 854 | 64.280 | 12.210 | 30.800 | 52.600 | 55.000 | 65.000 | 70.700 | 80.000 | 100.000 |
| Financial Freedom | Heritage.org | 854 | 52.120 | 15.320 | 10.000 | 30.000 | 40.000 | 50.000 | 70.000 | 70.000 | 90.000 |
| Democratic Accountability (K) | PRSGROUP | 1007 | 4.023 | 1.171 | 0.000 | 2.000 | 3.000 | 4.000 | 5.000 | 5.500 | 6.000 |
| Democracy index based on Freedom House | Freedom House | 2013 | 0.703 | 0.457 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Commodity Export Price Index, Individual Commodities Weighted by Ratio of Exports to GDP | IMF Data | 1781 | 96.620 | 6.678 | 54.340 | 90.060 | 95.950 | 98.490 | 100.000 | 101.000 | 119.800 |
| Commodity trade balance relative to GDP | IMF Data | 1120 | 0.018 | 0.133 | -1.711 | -0.073 | -0.037 | 0.016 | 0.072 | 0.152 | 0.404 |
| Gross fixed capital formation, Constant prices, Domestic currency (growth rate) | WEO | 1021 | 3.056 | 16.780 | -104.800 | -15.480 | -4.138 | 4.240 | 11.250 | 19.030 | 146.000 |
| Gross fixed capital formation, Private sector, Constant prices, Domestic currency (growth rate) | WEO | 492 | 3.627 | 16.940 | -63.820 | -15.500 | -3.076 | 4.622 | 12.100 | 20.830 | 88.650 |
| Final consumption expenditure, Constant prices, Domestic currency (growth rate) | WEO | 1002 | 2.664 | 7.660 | -71.720 | -3.598 | 0.915 | 3.220 | 5.241 | 7.739 | 83.080 |
| Final consumption expenditure, Private sector, Constant prices, Domestic currency (growth rate) | WEO | 993 | 2.733 | 9.999 | -72.060 | -4.409 | 0.758 | 3.275 | 5.386 | 8.524 | 145.000 |
| Volume of imports of goods (growth rate) | WEO | 1456 | 3.449 | 15.820 | -77.990 | -14.270 | -3.670 | 4.070 | 11.690 | 20.010 | 92.940 |
| Volume of exports of goods (growth rate) | WEO | 1481 | 2.760 | 18.160 | -161.800 | -14.550 | -4.073 | 3.113 | 10.200 | 19.110 | 183.900 |

*Note:* see the data description for details about the data.

Table 8: Summary of XXI Century Latin American Populist Episodes

| Country | Populist Period | Main Trigger for Rise | Economic Model and Policies | Institutional/Political Features | Macroeconomic Outcomes | End of Cycle |
|---|---|---|---|---|---|---|
| Argentina | 2003–2015 2019–2023 | Collapse of the currency board and severe 2001–02 crisis | Expansionary fiscal policy, capital controls, utility price freezes, social transfers, central bank financing, and expropriations | Attempts to weaken judiciary and central bank independence, though democratic checks remained relatively stronger | 90% terms-of-trade windfall, rising inflation, fiscal deterioration, and prolonged market exclusion | Electoral defeat in 2015 and stronger anti-populist shift in 2023 |
| Bolivia | 2006–2025 | Social unrest after privatization disputes and rising inequality | Initially prudent macroeconomic policies with large social spending financed by gas revenues, subsidies, SOE expansion, and state-led development | New constitution (2009), stronger executive role, judiciary reforms, and expanded role of the state | 190% terms-of-trade windfall, reserve accumulation followed by depletion, shortages, and rising inflation | Election of a center-right government in 2025 |
| Ecuador | 2007–2017 | Political instability and distrust in traditional elites | Dollarization limited heterodox policies; higher public spending, redistribution, infrastructure investment, and oil-financed borrowing | New constitution (2008), expanded executive powers, and emphasis on social rights | 116% terms-of-trade windfall, increased public debt, and later stagnation after oil shock and earthquake | Transition began under successor government that distanced itself from Correa |
| Venezuela | 1999–2025 | Collapse of traditional party system and political discontent | Oil-financed redistribution, subsidies, expropriations, price and exchange controls, and debt accumulation | New constitution (1999), concentration of executive power, democratic backsliding, repression, and manipulated elections | 303% terms-of-trade windfall, hyperinflation, GDP collapse, and mass migration | Collapse of the Maduro regime in 2026 |

## Figures

Figure 1: Political spectrum of Latin American populists

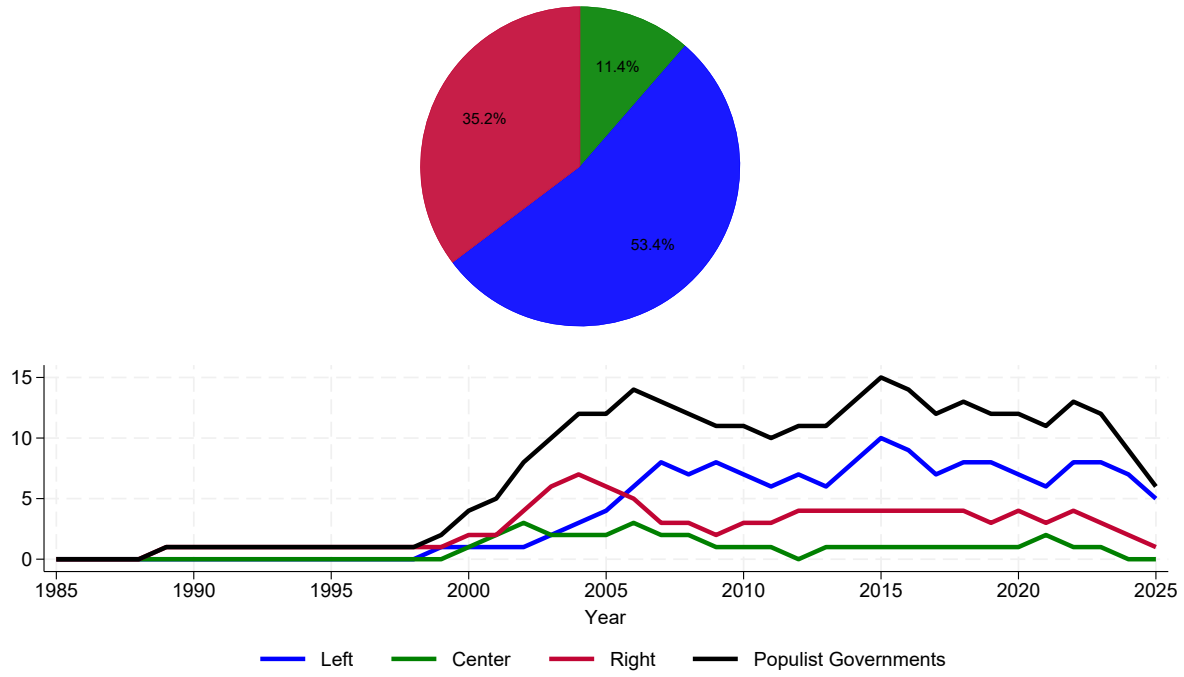


Figure 2: Commodity prices and populist governments in Latin America.

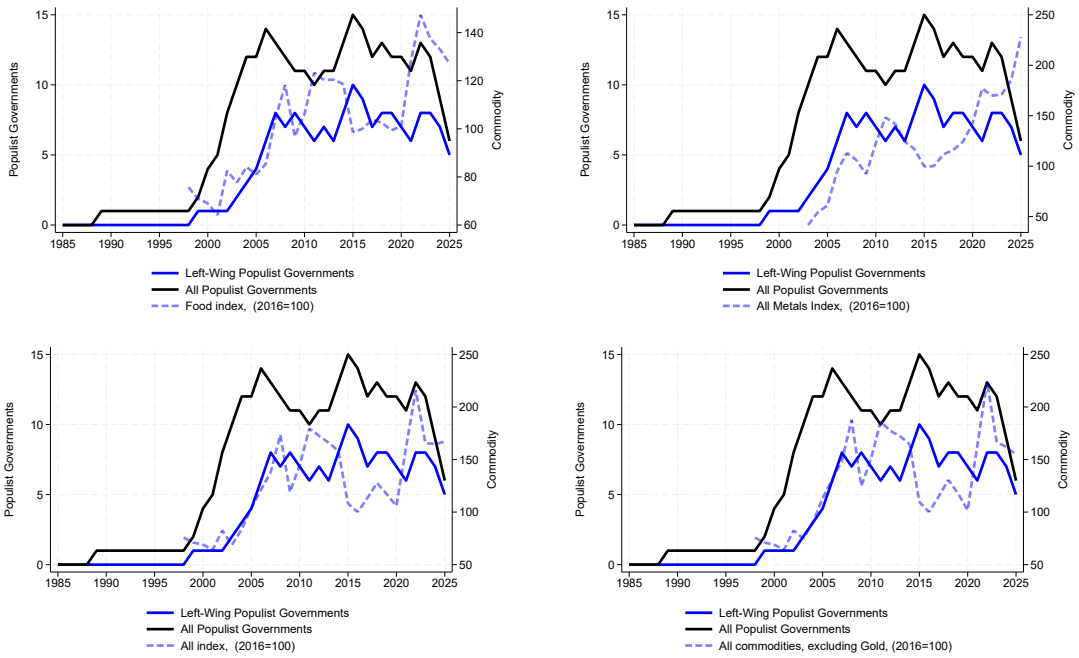
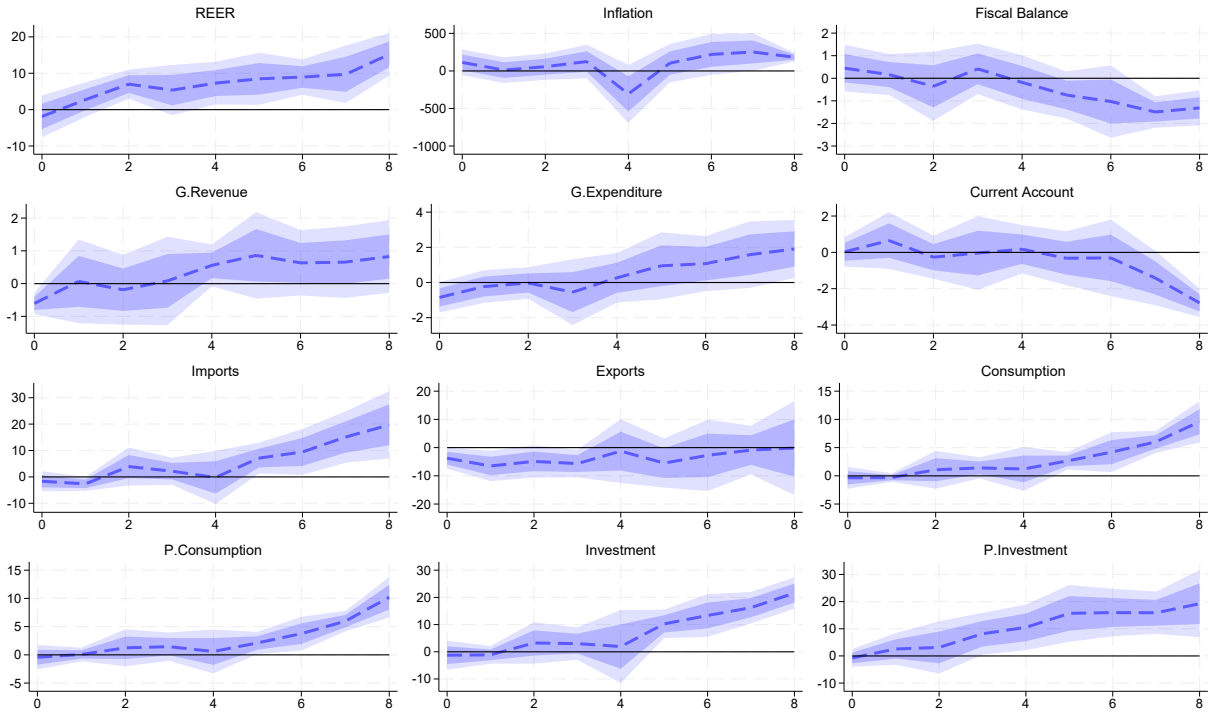
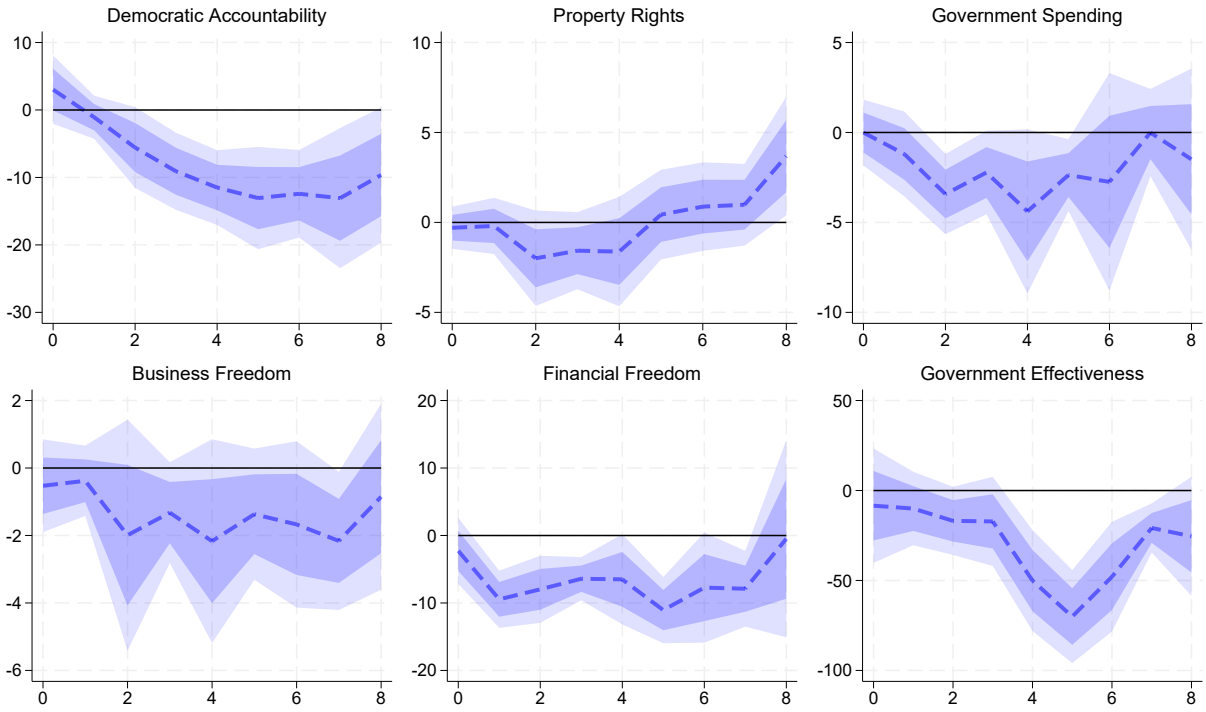


Figure 3: Macroeconomic effects of populist leaders



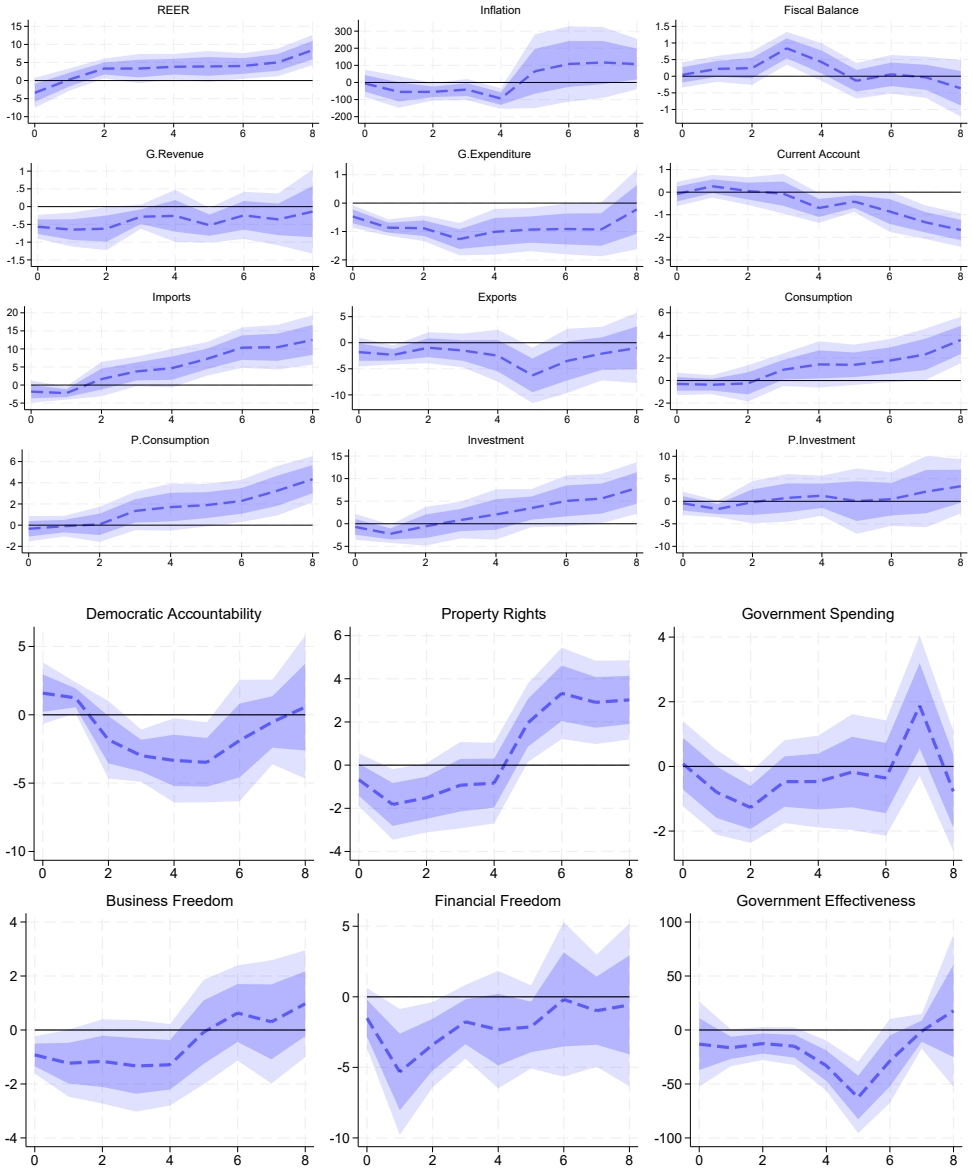

***Note:*** This figure plots the change in macroeconomic variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 4: Institutional effects of populist leaders



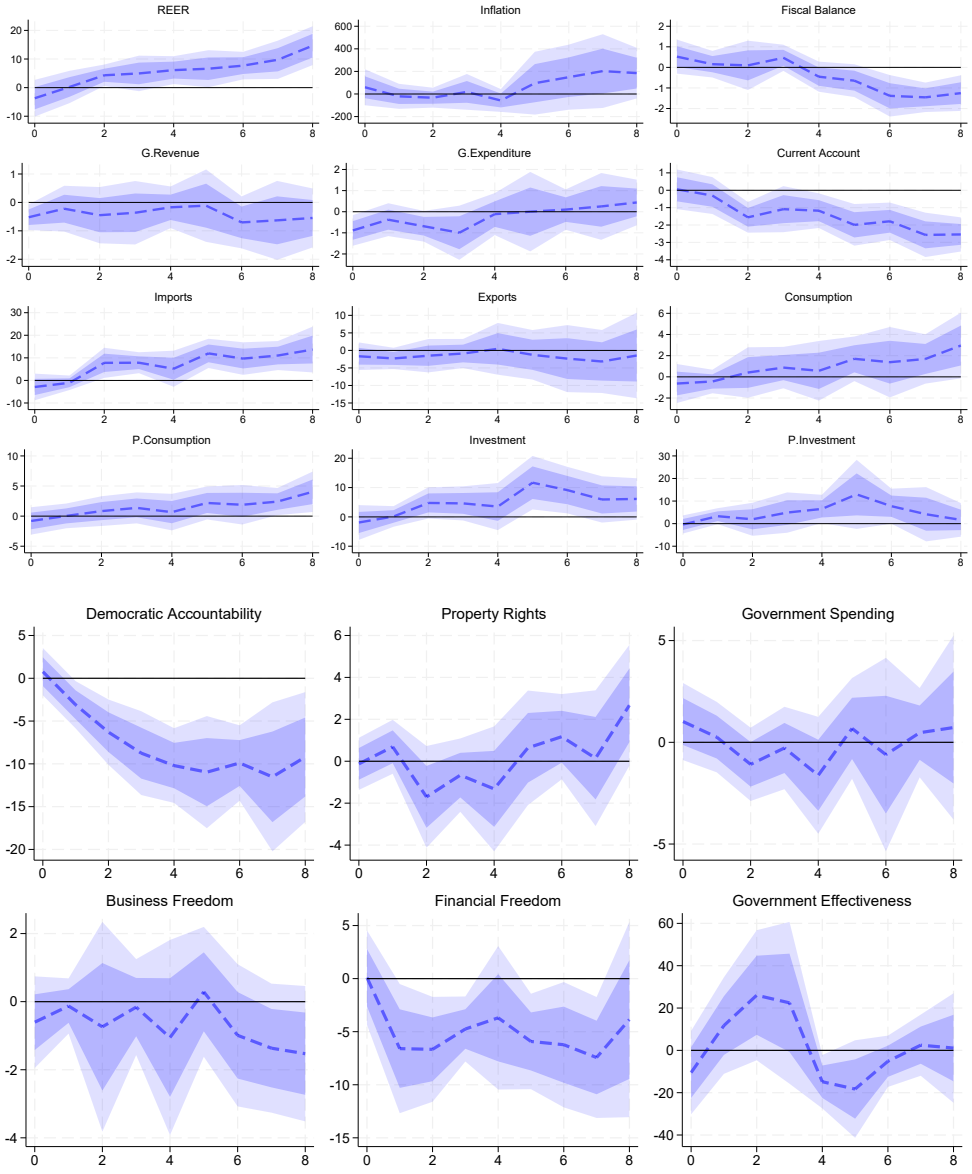

***Note:*** This figure plots the change in institutional variables h years after a populist regime enters office. Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 5: Robustness I. Populists above the $50^{th}$ percentile



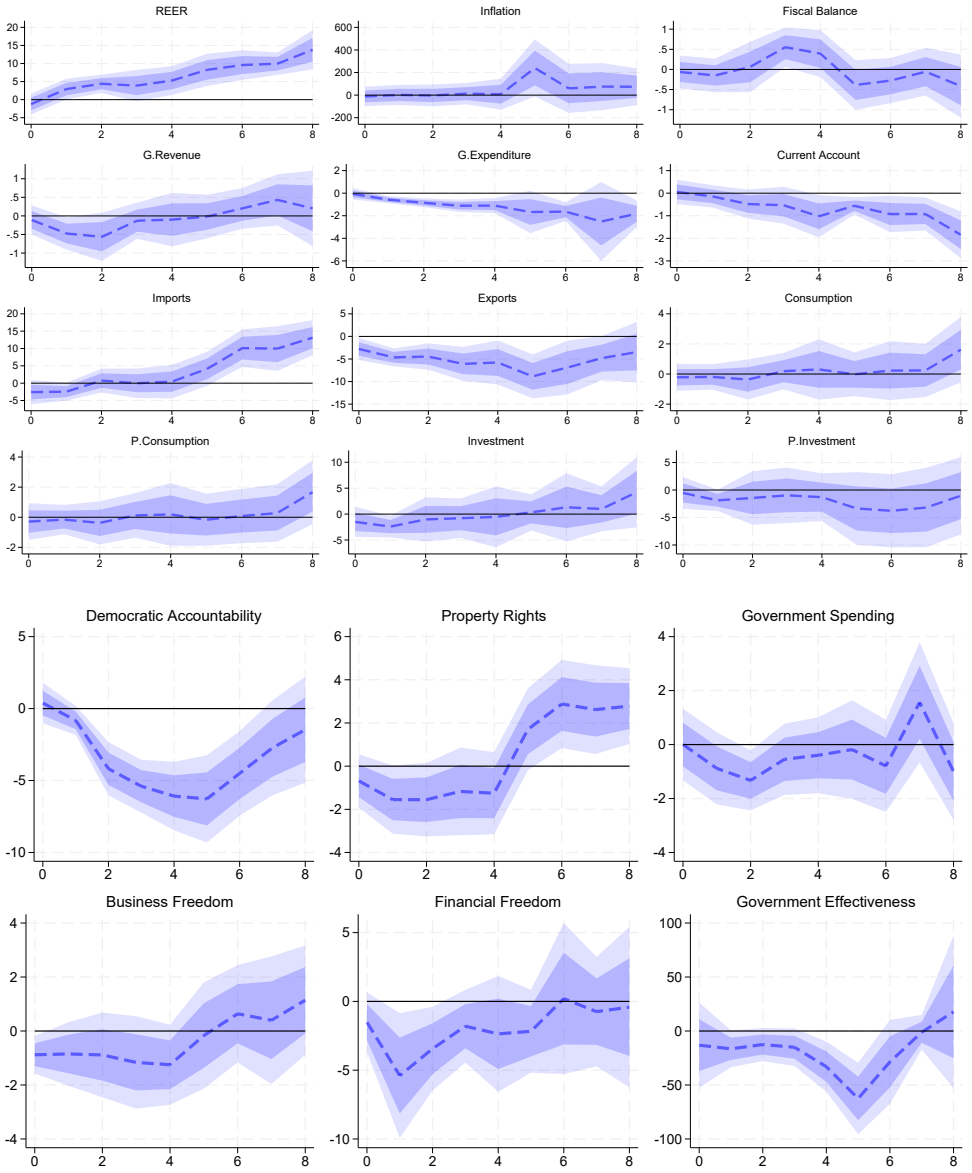

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist leader enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 6: Robustness II. Populists above the $75^{th}$ percentile



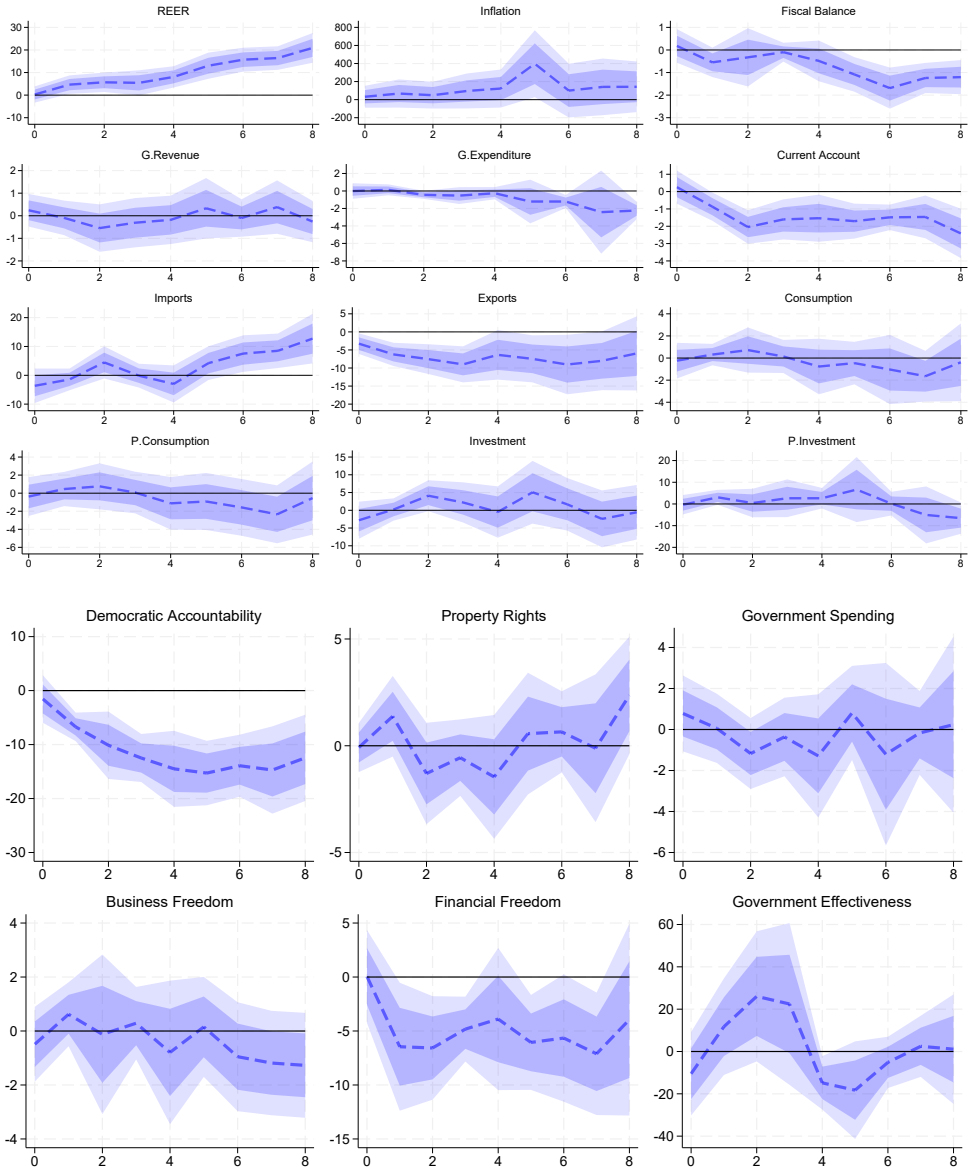

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 7: Robustness III. Populists above the $50^{th}$ percentile plus populists in Dornbusch and Edwards (1991)



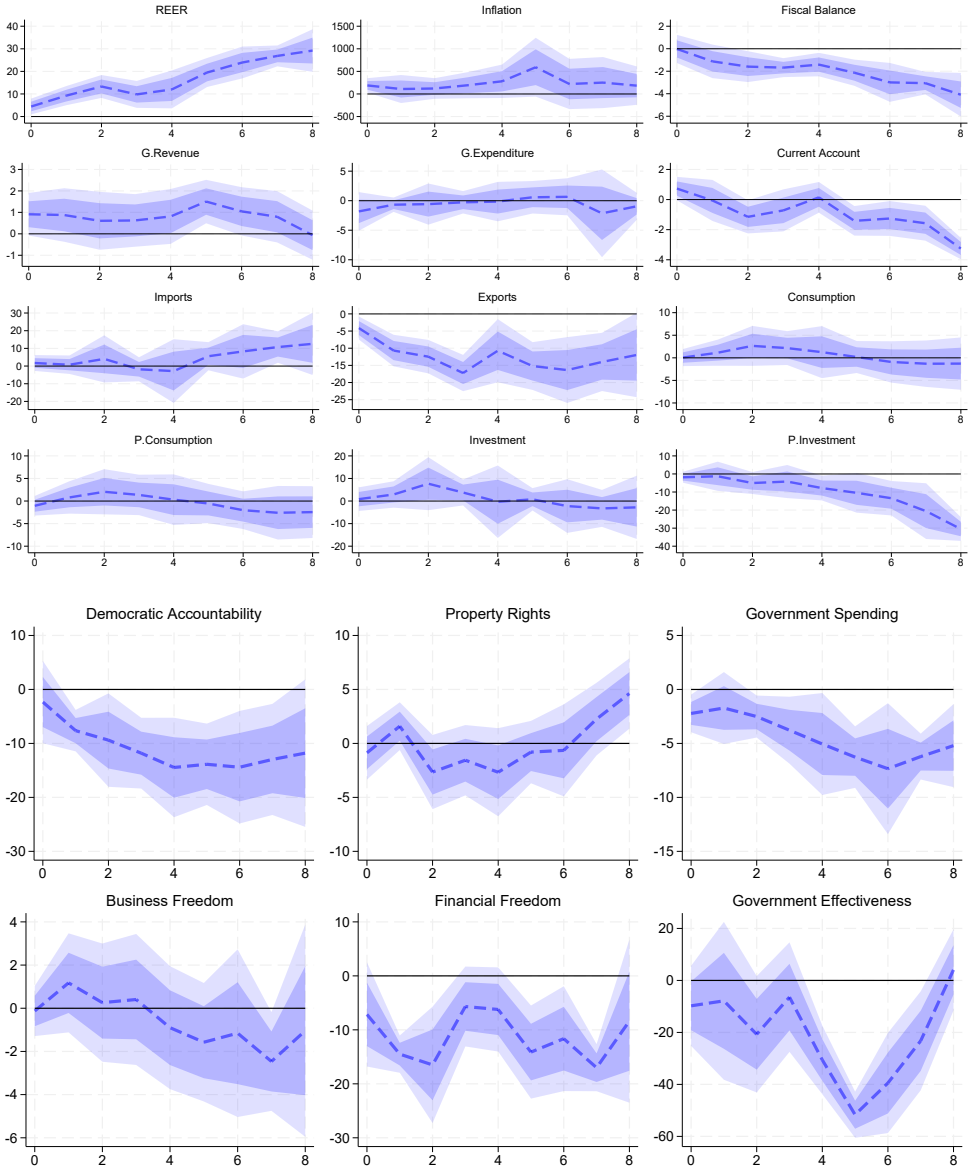

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 8: Robustness IV. Populists above the $75^{th}$ percentile plus populists in Dornbusch and Edwards (1991)



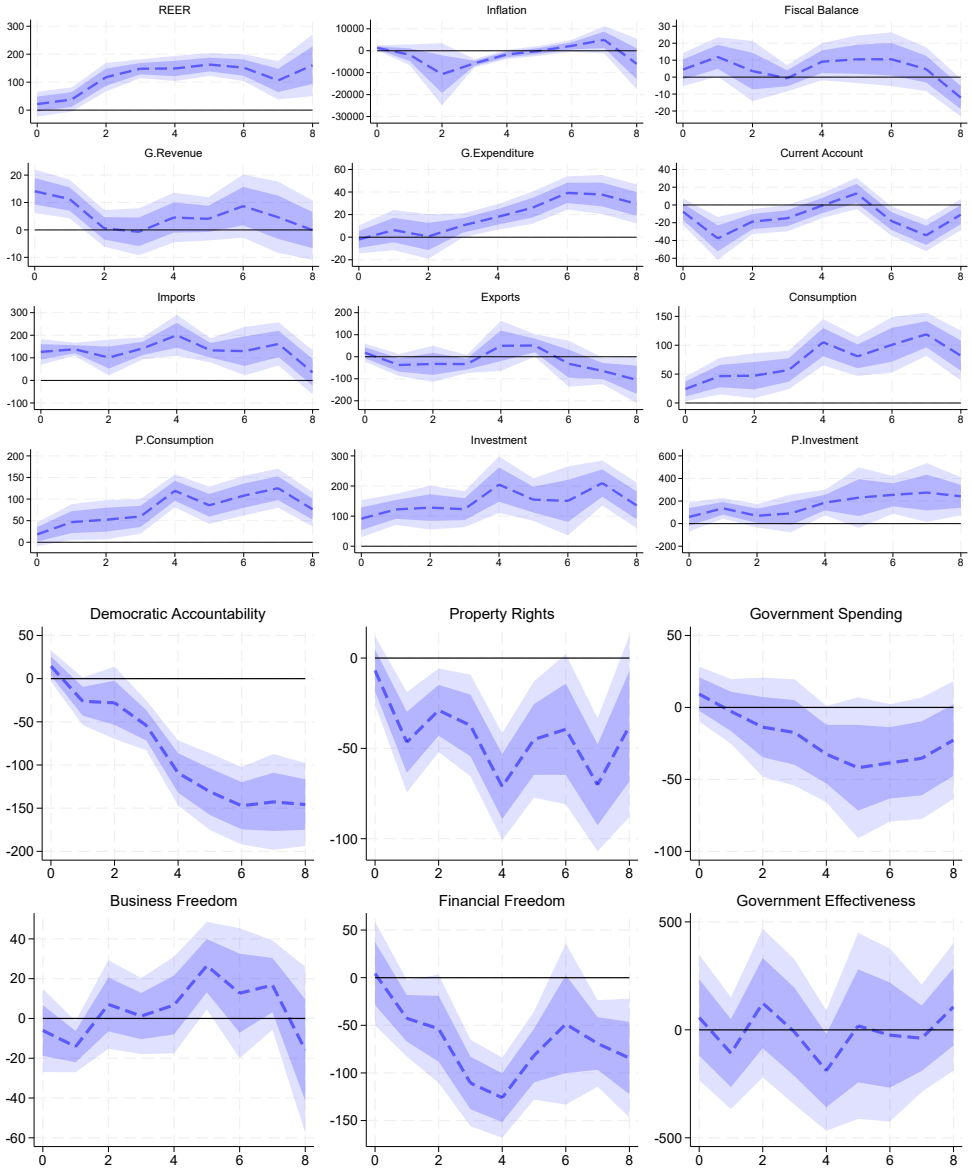

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 9: Robustness V. Populists, as identified by Funke et al. (2023)



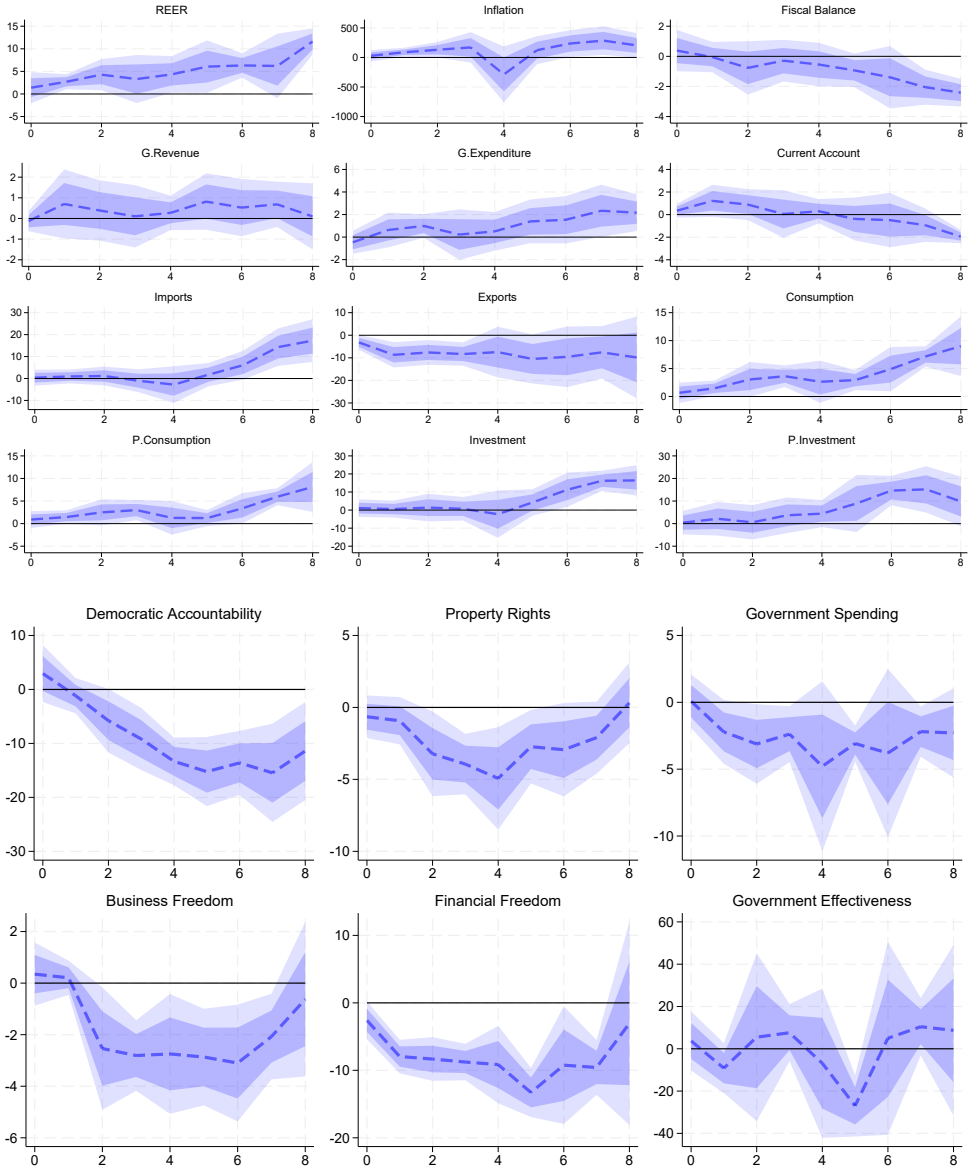

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 10: Robustness VI. Use CTOT as IV for populists



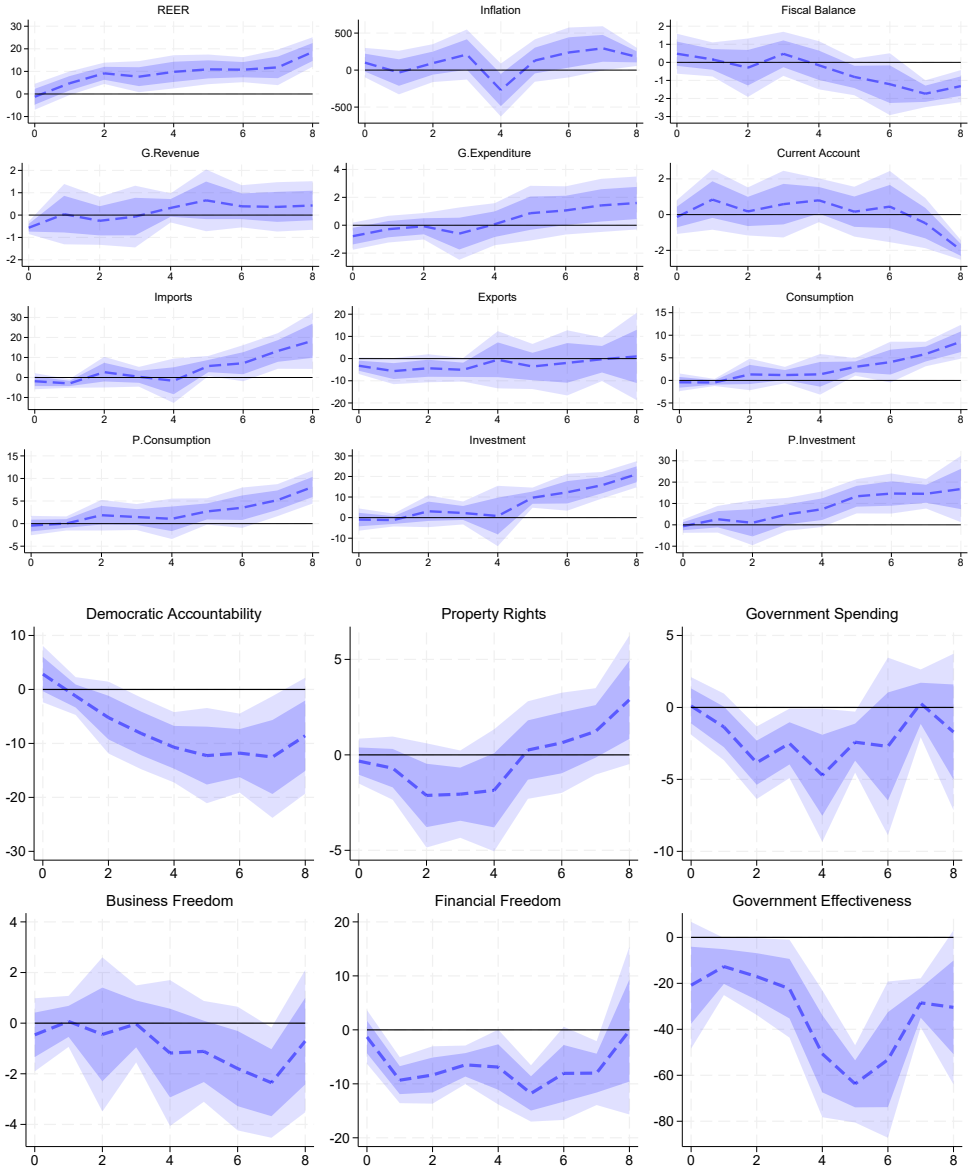

***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 11: Robustness VII. Left-wing populists




***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

Figure 12: Robustness VIII. Net commodity exporters.




***Note:*** This figure plots the change in macroeconomic and institutional variables h years after a populist regime enters office. Inflation is expressed as the one-period difference in the inflation rate (in percentage points). Fiscal balance, government revenue and expenditure, and the current account are expressed as the one-period difference in the variable-to-output ratio (in percentage points), while REER, imports, exports, consumption, private consumption, investment, and private investment are expressed as the one-period log change of levels (in percent). Property rights, government spending, business freedom, and financial freedom are expressed as one-period difference (in percentage points). While democratic accountability and government effectiveness are expressed as one-period log change of levels (in percent). Results follow the specification in equation (7). Standard errors are clustered at the country level, and fixed effects are estimated at the country level. Shaded areas represent 68 percent (one standard deviation) and 90 percent confidence intervals.

# A Appendix

## A.1 Case Studies of the XXI Century Latin American Populism

This appendix presents a summary of the economic and social context that preceded the rise of populism and key economic and institutional issues of these regimes for the most salient of the recent Latin American populist episodes. At the end of each section, we present figures on GDP's path compared with that observed in countries that had similar income windfalls, public expenditures and deficits and inflation.

### A.1.1 Kirchnerism: Argentina's Twenty-First-Century Brand of Populism

Populism in Argentina reemerged between 2003 and 2015 under the lead ership of Nestor Kirchner and his wife Cristina Fernández de Kirchner. Argentina's populist tradition, however, dates to Juan Perón and his wife Eva, two of the most emblematic figures of Latin American populism. More recently, some scholars have also characterized the presidency of Carlos Saúl Menem, a center right Peronist reformer, as a variant of populism. The new populist phase started after Argentina's deepest economic crisis, triggered by the collapse of the rigid currency board arrangement known locally as *convertibility* at the end of 2001 / beginning of 2002. The original plan was to alternate power with his wife, but Nestor passed away during Cristina's first term, so she ran for reelection in 2011. After completing her second term in 2015, her party barely lost the presidency to Mauricio Macri, a center right candidate. Populism resurfaced again during the period 2019–2023, when Cristina Fernández de Kirchner served as vice president and exercised significant influence over the administration of President Alberto Fernández. For this reason, the discussion below refers not only to Nestor and Cristina Kirchner's governments but also mentions the administration of Alberto Fernández.

The collapse of convertibility triggered a drop of more than 20 percent in GDP per capita between 1999 and 2002. Thereafter, economic activity recovered strongly, supported by macroeconomic normalization and the onset of a favorable commodity boom. According to Adler and Magud (2015), in the decade after 2003 Argentina received an income windfall of 90 percent of GDP. Between 2002 and 2011, GDP per capita rose by almost 60 percent, reaching a level roughly 30 percent higher than in 1999. Since 2011, however, growing macroeconomic imbalances and the absence of credible policy corrections led to a sustained decline, with GDP per capita falling cumulatively by about 11 percent between 2011 and 2023.

While Néstor Kirchner initially maintained a relatively prudent macroeconomic framework, delivering consistent primary surpluses, policy discipline deteriorated steadily during Cristina Fernández de Kirchner's two terms. This period was characterized by rising fiscal deficits, the strengthening of capital controls, increasing reliance on central bank financing of the treasury, price controls on privatized utilities, and an expansion of social transfers. As demand pressures intensified and inflation accelerated, the government altered the production of official statistics, to maintain the fiction that inflation was under control and to reduce the cost of inflation indexed

debt. For several years, official inflation was reported at around 10 percent, while private sector estimates—based on alternative price indices—placed inflation at levels higher than 20 percent. This divergence eventually led the International Monetary Fund (IMF) to initiate formal proceedings regarding the reliability of Argentina's official data.

Following the 2001 sovereign default, Argentina remained largely excluded from international capital markets and maintained several lawsuits with holdout bondholders throughout the Kirchner administrations. The government also suspended its cooperation with the IMF by declining to allow regular Article IV consultations. In parallel, regulatory changes and expropriation measures were challenged by private firms in international arbitration, resulting in cumulative adverse rulings against the Argentine state amounting to more than 30 billion dollars over the past two decades. The most significant interventions included the nationalization of the privately managed pension system when the government appropriated more than 30 billion dollars of private savings accounts, the expropriation of the oil company YPF, and the re-nationalization of the airline Aerolíneas Argentinas.

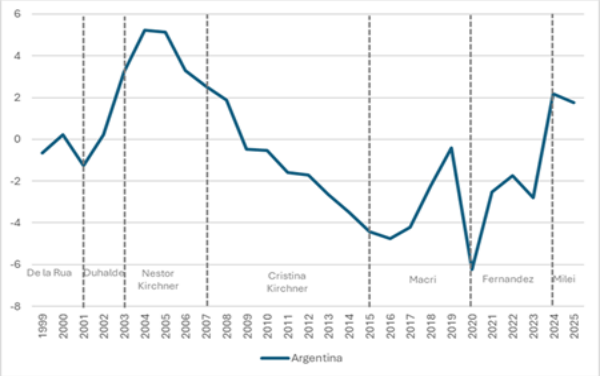
Institutionally, the government significantly weakened the Central Bank with its reform of the legal charter of 2012 that introduced a dual mandate and allowed for unlimited financing of the government. Regarding the institutions underpinning the liberal democratic system, although the president attempted to weaken the judiciary, she was ultimately unable to secure congressional approval for these reforms. Different from what will see in the other case studies, the Kirchner governments never had the majority to alter the institutional foundations of the Argentine Republic.

The 2007–2015 Kirchnerist period ended with the election of Mauricio Macri, a center-right candidate and former mayor of Buenos Aires, in 2015.[29] The outcome did not constitute a decisive social rejection of the populist model. President Macri tried to gradually normalize the fiscal situation, establish a modern inflation targeting regime, a floating exchange rate, and integrate trade and finance with the rest of the world. However, his plan ran into trouble during the second half of his mandate forcing him to reach out to the IMF for support, accelerate fiscal consolidation and eventually bring back capital controls delivering poor growth and inflation results. Kirchnerism returned to power in 2019, with the more moderate Alberto Fernández as president and Cristina Fernández de Kirchner as vice president. This government brought back the old populist playbook together with escalating inflation and lack of investment and growth.

In the 2023 election, voters delivered a stronger signal of policy change by electing Javier Milei, a right-wing, self-described libertarian candidate. At of the end of 2025—ten years after the first electoral defeat of Kirchnerism—Argentina remained largely excluded from international capital markets, GDP per capita was still about 7 percent below its 2015 level, and monthly inflation hovered around 3 percent. These outcomes underscore the economic and political difficulties associated with exiting a prolonged populist cycle. The following charts provide a glimpse at the main macro indicator of this period, while the figure provides a comparison of the evolution of GDP with that

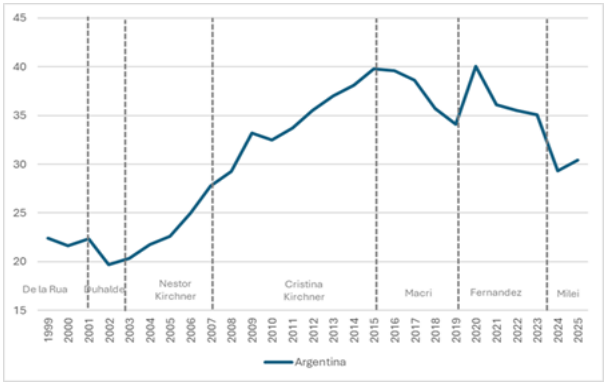
[29] Constitutionally barred from seeking a third consecutive term, Cristina Fernández de Kirchner endorsed Daniel Scioli, then governor of the Province of Buenos Aires, who narrowly lost the runoff election to Macri who obtained 51.4 percent of the popular vote.

Figure A.13: Argentina



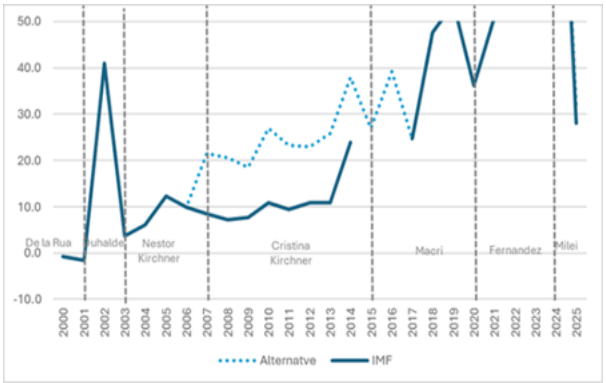

(a) Primary balance of the general government, percent of GDP

Source: IMF, WEO, October 2025



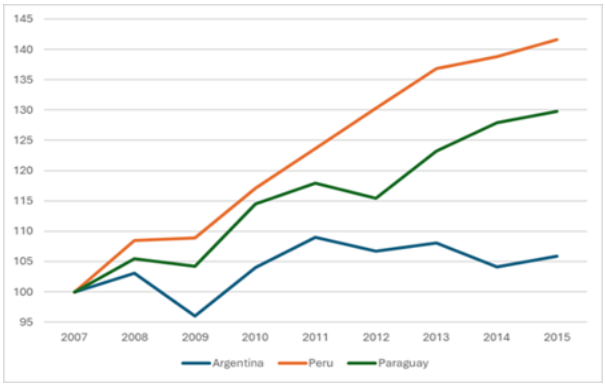

(b) Primary government spending as percent of GDP

Source: IMF, WEO, October 2025




(c) Consumer price index, End-of-period, percent change

Source: IMF, WEO, October 2025 for "IMF" measure and the "Alternative" measure was calculated with data from INDEC, BCRA, San Luis and CABA. Note: Cut off at 50 percent. The values missing are the following: 50.9 percent for 2021, 94.8 percent for 2022, 211.4 percent for 2023, and 117.8 percent for 2024. Data is not available for 2015 and 2016




(d) GDP per capita in domestic currency, constant prices (Index, 2007 = 100)

Source: IMF, WEO, October 2025

of two countries that had the similar size of windfalls during the period.

### A.1.2 Bolivia. Evo Morales, the fiscally prudent populist, until he ran out of gas (literally)

Evo Morales was sworn into the presidency on January 22, 2006. His political career began as a *cocalero* activist, eventually becoming a prominent union leader. He transitioned into politics to strengthen his union demands and eventually became a national political figure renowned for his anti-establishment stance. His party, the Movement for Socialism (MAS), gained prominence and emerged as the second most voted party in the 2003 national elections.

This same year, protests against the privatization of the gas sector precipitated a political crisis,

which led to the exceptional elections of 2005 that brought Morales to power with 54 percent of the vote—the first absolute majority victory in that country in 40 years. The decline in GDP per capita, rising poverty rates, and worsening income distribution from 1999 to 2003 contributed to social unrest. This unrest, combined with the backlash against hydrocarbon sector privatization, ultimately paved the way for the MAS to seize power. In 2008, Morales obtained almost 70 percent of the votes in the recall referendum and, shortly after, promulgated a new constitution that established the pillars of a new economic model, in which the state would play a preponderant role and a new design of the Judiciary in which judges would be elected by popular votes. Evo Morales' constitution, adopted in 2009, represents a significant milestone in the construction of a political narrative, marking a new era in the country and signaling the president's focus on the disenfranchised. It establishes Bolivia as a democratic, unitary, and "plurinational" state, changing the official name of the country to the "Plurinational State of Bolivia". This constitution acknowledges the rights of indigenous peoples, promoting the recognition of their languages and cultures. Furthermore, it enshrines rights to natural resources, advocating for state control over essential sectors such as gas and minerals, while emphasizing the rights to health, education, and environmental protection. The document also integrates progressive social policies aimed at mitigating inequality and enhancing participatory governance.[30]

The first decade of Morales's government was characterized by prudent macroeconomic policies and a significant expansion of the state's role in the economy, particularly in hydrocarbons, mining, and electricity. Key policies included a substantial increase in the minimum wage, reductions in salaries for high-ranking public sector officials—including the president—gasoline and electricity subsidies, and important expansion of social programs. These initiatives were financially supported by an annual increase of almost 10 percentage points of GDP of public sector revenues, linked to the natural gas boom. According to Adler and Magud (2015), Bolivia experienced the second-largest windfall gain in Latin America, amounting to nearly 200 percent of GDP over the 2006 and 2015 decade, the production and value of gas exports grew by 76 percent and 252 percent, respectively.

During the first ten years of the Morales-Arce regime, significant government expenditures were accompanied by the accumulation of considerable financial buffers. Bolivia used these resources to reduce poverty, improve income distribution, and increase the presence of the state in the economy. Public debt was reduced from 50 to 35 percent of GDP, international reserves increased from $2 billion to $20 billion, and poverty decreased by 30 percent. However, challenges emerged in the second half of their two-decade government, as natural gas prices fell, production declined, and

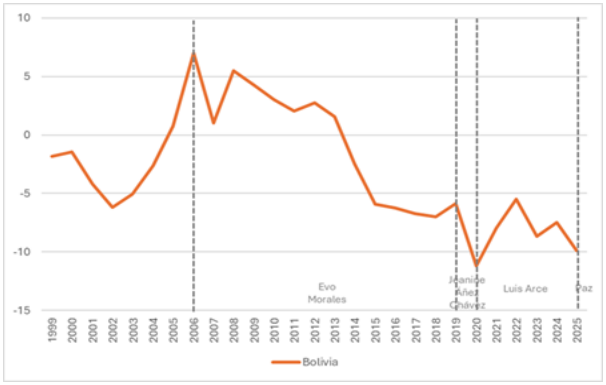
[30]Prior to the 2009 constitution, Bolivian law permitted presidents to serve only two consecutive terms, while enabling them to return to office after a break. The new constitution expanded the scope of re-election, initially permitting presidents to serve three consecutive terms. In 2014 the Constitutional tribunal ruled that Morales could run for a third term because his first term took place before the new constitution and therefore did not count for the constitutional restriction. However, a 2016 referendum aimed at amending this provision to enable Morales to seek a fourth term was ultimately rejected by voters. Subsequently, in 2017, Bolivia's Constitutional Tribunal ruled that Morales could run again, invoking a human rights justification based on the right to political participation. This controversial decision facilitated Morales' candidacy in the 2019 elections, which were marred by allegations of electoral fraud, ultimately leading to his resignation. After a period of political volatility, Luis Arce, a long-lasting minister of finance under Morales became president and maintained the policy direction of few previous years.

the State-Owned Enterprise model struggled to invest in discovering new gas reserves. Instead of utilizing accumulated buffers to provide space for a gradual adjustment, the government chose to postpone necessary reforms, depleting reserves by maintaining high expenditures and financing deficits through central bank credit. This approach led to an increased demand for foreign currency, resulting in a gradual depletion of the reserves built up during the boom years. By 2024-2025, significant shortfalls in reserves necessitated rationing of international reserves and imports, giving rise to a foreign exchange black market, while inflation began to rise.

Inefficiencies in public companies, including those in the hydrocarbons sector, together with the fall in gas prices, reversed this process. In the last decade, gas production fell by 50 percent and the value of exports by almost 70 percent. The economy, which had grown by an average of 5 percent during the first decade of Morales' government, slowed to 2 percent in the last five years and is likely to register negative growth in 2025. Inflation, which for more than two decades had not been a problem in Bolivia, went from 2 percent to 22 percent between January 2024 and October 2025. Likewise, international reserves, which reached almost 30 percent of GDP, today range between 2 and 3 percent. The country is facing shortages of gasoline, food, and other basic goods. Faced with a situation that required balancing public finances and opening spaces for private investment, the government prioritized political objectives at the cost of increasing economic and financial fragility.

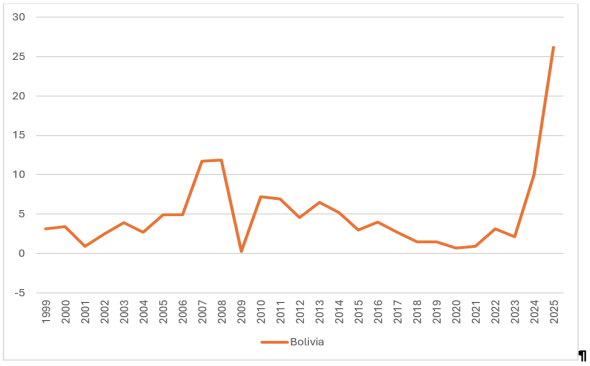
For a long time, the abundance of resources from the "commodity boom" allowed Bolivia to achieve several social and economic objectives, in addition to masking the inefficiency of a public sector that was present in the economy. First, gas resources were exhausted; then, savings and borrowing capacity ended; and finally, the results of that economic mismanagement became evident. In January 2026, the new center right government lead by Rodrigo Paz assumed office and quickly implemented measures to normalize macroeconomic policies.

Figure A.14: Bolivia



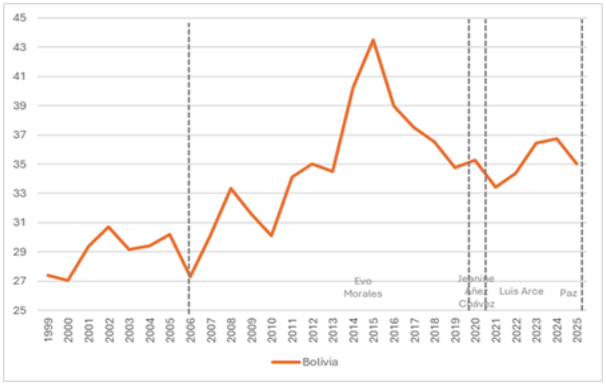

(a) Primary balance of the general government, percent of GDP

Source: IMF, WEO, October 2025



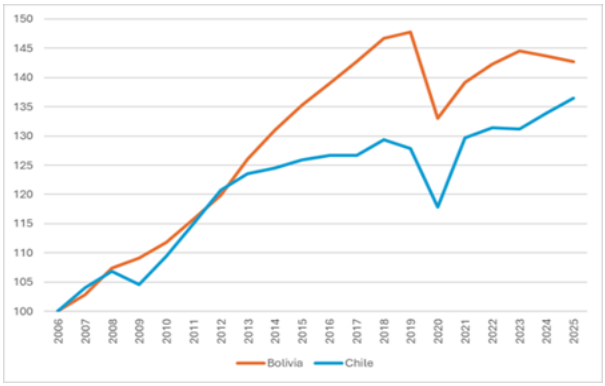

(b) Primary government spending as percent of GDP

Source: IMF, WEO, October 2025




(c) Consumer price index, End-of-period, percent change

Source: IMF, WEO, October 2025




(d) GDP per capita in domestic currency, constant prices (Index, 2006 = 100)

Source: IMF, WEO, October 2025

### A.1.3 Ecuador. The PhD in economics Populist

Rafael Correa became the president of Ecuador after winning the general elections in October 2006. He garnered significant support due to his populist appeal, addressing the concerns of the poor and marginalized while promoting economic reforms aimed at reducing poverty and increasing social spending. His background as the former Minister of Economy and Finance (who also held a PhD in economics from a U.S. university) provided him with credibility and experience in governance. Correa campaigned on an anti-corruption platform and promised to create a new constitution that would empower the people and tackle systemic issues within the country. Contrary to the other episodes, in Ecuador the arrival of populism was not preceded by an economic crisis. However, the country did go through significant period of political tensions and society's loss of confidence in political elites. Therefore, Rafael Correa's campaign as a political outsider generated significant support. The other important difference with the other cases is that by the time he became president the country had already established dollarization, and inflation was already at one digit.

Upon taking office in 2007, Correa initiated the process to draft a new constitution. A Constituent Assembly was elected, leading to the approval of the new constitution in a 2008 referendum, where approximately 64 percent of voters supported it. The 2008 Constitution introduced significant changes, including the recognition of nature's rights, expanded social rights, protections for indigenous territories, and alterations to the political structure that strengthened executive powers. Additionally, the official name of the country was changed to "Republic of Ecuador" to emphasize national identity.

During his presidency, Correa implemented a variety of key policies focused on social equality, economic growth, and governance reform. His administration prioritized social programs aimed at improving access to essential services, particularly healthcare and education, exemplified by initiatives like "Bono de Desarrollo Humano," which provided cash transfers to low-income families. Correa promoted a development model centered on wealth redistribution and increased public spending while implementing progressive taxation. His government renegotiated oil contracts to redirect revenue towards social programs and infrastructure development, and significant investments were made in building roads, schools, and hospitals.

Education was a priority, with increased funding to enhance access and quality, alongside initiatives to construct new schools and hire more teachers. Correa also emphasized environmental policies, making Ecuador a leader in recognizing the rights of nature within the 2008 constitution. Furthermore, his administration adopted an independent foreign policy that sought closer ties with leftist governments in Latin America.

Like the other cases he significantly increases government expenditures, the minimum wage and investment in infrastructure. All of this was possible as income from oil exports increased significantly. However, procyclical fiscal policy was also the norm and income from oil was complemented with debt to support expansionary policies.

However, Correa's presidency faced challenges, especially in the last three years (2015-2017). The global decline in oil prices had a profound impact on Ecuador's economy, and a devastating

earthquake also derailed the economy leading to budget deficits and a notable economic slowdown. The country experienced its first GDP contraction in years, and inflation rates increased, raising consumer costs. With reduced oil revenue, the government resorted to borrowing to cover deficits, which raised concerns about fiscal sustainability. Austerity measures were implemented in response to the economic crisis, affecting public spending and drawing criticism from those concerned about the impact on social programs. Facing this situation, Correa reengaged with the IMF, undertook the first Article IV in years and solicited emergency financing.

Correa also faced social protests against the austerity measures and declining living standards. Additionally, a devastating earthquake struck Ecuador in April 2016, causing significant loss of life and infrastructure damage, further straining the country's resources.[31]

Politically, Ecuador followed a different path as Correa's chosen successor, Lenin Moreno, who had served as his vice president during both terms, won the elections. Correa believed Moreno's moderate stance and experience would appeal to both the party's base and a broader electorate, helping to maintain stability and continuity in governance. This decision reflected Correa's desire to ensure that the progressive agenda he championed would endure beyond his presidency. However, after two years Moreno facing Correa's push to govern from the shadows broke with his former boss and shifted towards more conservative policies, that had to be deepened during COVID when Ecuador also undertook a sovereign debt restructuring. After, Lenin Moreno, center right candidates have won the elections, but the shadows of potential Correa loyalist have been present with potential successors bringing with them a significant level of political risk. This situation has complicated macroeconomic policy normalization and delivered almost a decade of stagnation with no market access.

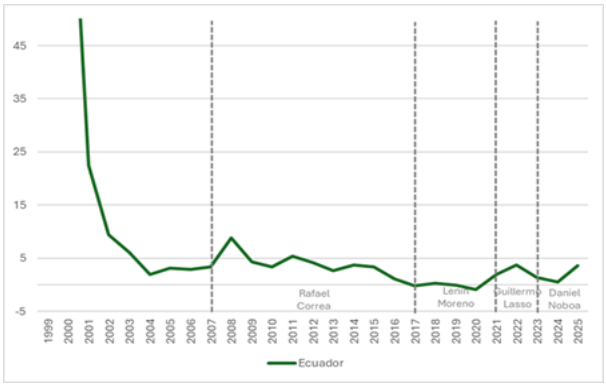
Overall, Rafael Correa's presidency was marked by significant social and economic reforms, a focus on reducing inequality, and ambitious constitutional changes, but it also faced considerable economic challenges and social unrest in its final years, shaping Ecuador's political landscape for the future.

[31] Natural disasters sometimes expose the inefficiencies of a regime and foster political change. There is an interesting parallel between the 1985 Mexico City and the 2016 Ecuador earthquakes. In both cases, natural disasters acted as catalysts that exposed institutional fragilities and contributed to the decline of long-standing political projects. In Mexico, the earthquake revealed the declining capacity of the PRI regime, as civil society often responded more effectively than the government, accelerating the gradual erosion of one-party dominance. Similarly, in Ecuador, the 2016 earthquake struck amid economic difficulties and intensified dissatisfaction with Rafael Correa's administration, increasing fiscal pressures and weakening support for Correa.

Figure A.15: Ecuador


(a) Primary balance of the general government, percent of GDP

Source: IMF, WEO, October 2025

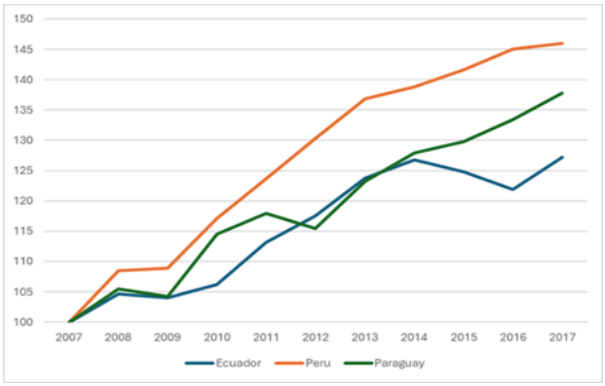



(b) Consumer price index, End-of-period, percent change

Source: IMF, WEO, October 2025. Note: Cut off at 50 percent. The values missing are the following: 60.7 percent for 1999 and 91 percent for 2000.


(c) Primary government spending as percent of GDP

Source: IMF, WEO, October 2025




(d) GDP per capita in domestic currency, constant prices (Index, 2007 = 100)

Source: IMF, WEO, October 2025

### A.1.4 Venezuela: From Chávez to Maduro: The Transition from Turbocharged Oil-Driven Populism to Economic Catastrophe, Authoritarian, Rule and a Criminal State.

In December 1998, following two failed coup attempts and a period of incarceration, Hugo Chávez won the presidential election with 56 percent of the vote against his closest opponent's 40 percent. Chávez was inaugurated in February 1999 and promptly initiated the implementation of his central campaign promise: the drafting of a new constitution. By April, a referendum set in motion the formation of a constitutional assembly, which convened in July; by December, the new constitution was ratified through another referendum, consolidating unprecedented power in Chávez's hands. This constitutional reform, among other provisions, renamed the nation as the "Bolivarian Republic of Venezuela," laid the groundwork for an enhanced state role in the economy to diversify from oil dependency and redistribute wealth, and introduced several measures that positioned the state as a protector of the "people" against the elites perceived to have led the nation to ruin. The new constitution also consolidated the Executive's power by eliminating the Senate, sacked and replace most members of the supreme court, extended the president's term from 5 to 6 years, limited political parties funding and gave the president more control over the military, it also contained elements that "looked" more inclusive and democratic like introducing a recall referendum, expanding representation of minorities, among others. However, with the passage of time, it was clear that these elements were used as instruments to incentivize political alignment and to strengthen the figure of the "caudillo." The new constitution also mandated new elections to renew all terms of elected officials, therefore extending Chavez' term until 2006. In this year he stood for reelection defeating Enrique Capriles by more than ten percentage points. Maduro became president after Chavez death in 2012 and stood for "reelection" in 2013, barely defeating Enrique Capriles by less than 2 percent of the vote.[32]

Economically and politically, the tenures of Chávez and Maduro diverged significantly. Chávez's early years were marked by traditional macroeconomic policies, evolving into an expansive fiscal and redistributive strategy during the commodities supercycle. Maduro was left to navigate the consequences of declining oil prices and production with diminished capacity, charisma, and political capital. This deterioration prompted a descent into outright authoritarianism and led the Venezuelan economy into one of the deepest crises in modern history, with GDP per capita plunging over 70 percent from its zenith in 2015 to its nadir in 2021.

During his inaugural term, Chávez confronted the legacy of economic stagnation and a precarious oil market. His administration implemented fiscal and monetary policies that produced

[32]Chávez's emergence was emblematic of the role that pervasive economic and social discontent have played in bringing through the democratic process anti-establishement figures that eventually undermine the institutions that made possible their ascend to power. Once the wealthiest nation in Latin America, Venezuela entered a protracted period of negative growth and rampant inflation starting in 1978. Between 1978 and 1998, GDP per capita contracted by 22 percent, leaving over half the population below the poverty line. During this period the economy was affected by the severe drop in the price of oil that took place in the early eighties and the Latin American Debt Crisis associated to low commodity prices and the increase in international interest rates. Subsequently, the 1998 collapse of oil prices triggered another round of macroeconomic volatility and social unrest.

outcomes reminiscent of the preceding decade, ultimately leaving him politically vulnerable. Several analysts attribute Chávez's consolidation of power to strategic missteps by the opposition, including a failed coup and two important labor strikes, one national and the other at PDVSA, which permitted him to gain control over the military and the oil company. This shift allowed Chávez to regain the political initiative, culminating in victories in the recall referendum and subsequent local (2004), legislative (2005), and presidential (2006) elections. The consolidation of political power and the recovery of oil prices enabled Chávez to pursue a radically expansionist fiscal strategy, spending not only the oil windfall but also accruing substantial debt to fuel the economic boom. Supported by abundant revenue streams, his administration bolstered household income through transfers and subsidies, especially in the energy sector, his social expenditure expansion took place through "misiones" that were sectoral programs in education, heath, housing etc., that mixed support with political mobilization and ideological indoctrination. Simultaneously statist impulses extended beyond "strategic sectors" through the expropriation of over 700 firms across the whole economy. This approach not only provided the government with additional levers of policy control but also diminished the influence of the private sector in national issues through the credible threat of potential expropriation. As oil prices fell and remained suppressed from 2008 to 2010, inflation surged, fiscal deficits widened, reserves dwindled, and public debt as a share of GDP increased. In an effort to secure the election of his Vice President and anointed candidate and manage a smooth transition of power during his cancer treatment in Cuba, Chávez adopted even more aggressive fiscal policies, leaving his successor, Nicolás Maduro, to grapple with a considerably weakened macroeconomic landscape.

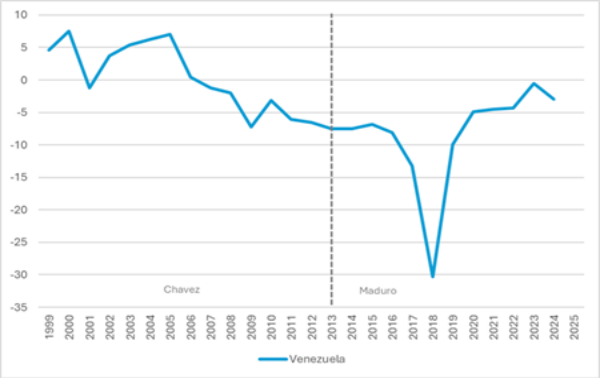
Maduro inherited a volatile economic scenario, characterized by lower oil prices and output, more expensive international credit, imposition of economic sanctions by the international community and increasingly cautious lending from Chinese authorities, as the stability of the political and economic system started to be questioned. This environment precipitated a collapse in economic activity and a dramatic escalation in migration. Between 2015 and 2021, GDP per capita decreased by 72 percent, prompting the exodus of more than seven million Venezuelans. Amidst this turmoil, inflation soared, ultimately reaching hyperinflation in 2017, intensifying a humanitarian crisis characterized by widespread deprivation and societal dislocation.

In the wake of this economic calamity and the decline of charismatic leadership within the regime, the opposition seized the opportunity to regroup, directly challenging the government. According to Corrales (2022), an environment of democratic regression coupled with a unified and strengthening opposition often propels regimes toward authoritarian outcomes, a phenomenon clearly seen in Venezuela. Consequently, repression, including the imprisonment and repression of political adversaries, became pervasive, accompanied by the systemic coercion of electoral rights and the politicized distribution of government support. As Venezuela became increasingly isolated on the international stage, its relations with rogue states and criminal networks deepened, permitting the latter to operate with impunity within the country. This trajectory prompted economic sanctions from the United States and other nations, exacerbating the prevailing malaise. In

response to this, Maduro's government opened the economy and made political concessions that allowed the economy to stabilize and grow from the low levels it had reached in the past.

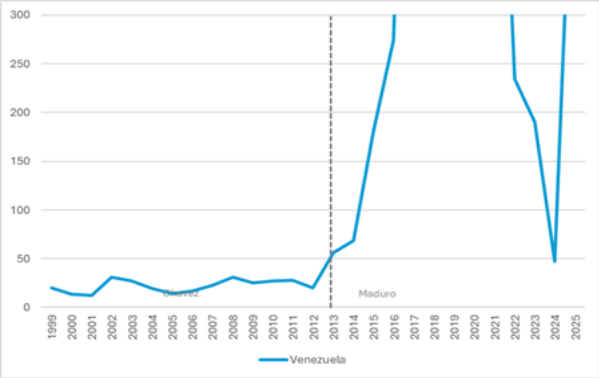
Maduro won one reelection in 2019 but then he had to rely on outright fraud in the legislative elections of 2019 and presidential elections of 2025. The transition to a new regime has just begun but the economic, institutional, political and social challenges are much larger than in the other cases.

Figure A.16: Venezuela



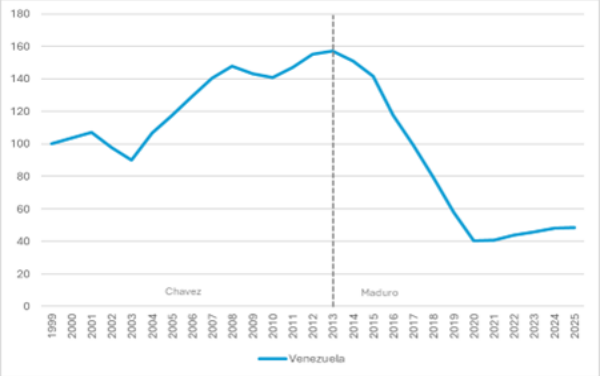

(a) Primary balance of the general government, percent of GDP

Source: IMF, WEO, October 2025



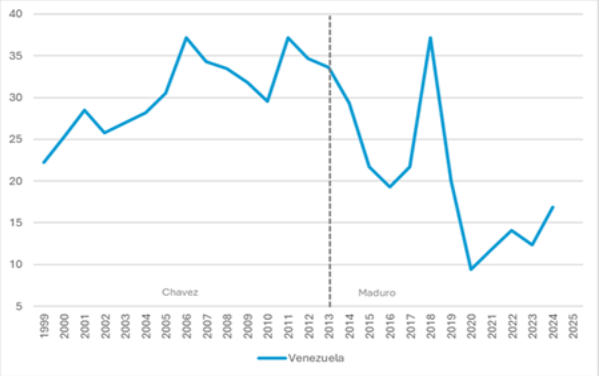

(b) Consumer price index, End-of-period, percent change

Source: IMF, WEO, October 2025. Note: Cut off at 300 percent. The values missing are the following: 862.6 percent for 2017, 130060.3 percent for 2018, 9585.5 percent for 2019, 2959.8 percent for 2020, 686.4 for 2021, and 548.6 percent for 2025. .




(c) Natural Logarithm of GDP Index (1999 = 100, Constant Prices)

Source: IMF, WEO, October 2025




(d) Primary government spending as percent of GDP

Source: IMF, WEO, October 2025

## A.2 Sample of countries

Table A.1: Country Data Coverage

| *Country* | *Pop Index* | *Current Account* | *REER* | *Gov Expenditure* | *Gov Revenue* | *Gov Deficit* | *Inflation* | *Imports* | *Exports* | *Investment* | *Priv. Investment* | *Consumption* | *Priv. Consumption* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Anguilla | 55 | 34 | . | . | . | 18 | 33 | . | . | . | . | . | . |
| Antigua and Barbuda | 56 | 49 | 54 | 36 | 36 | 35 | 56 | 12 | 12 | 12 | 12 | 12 | 12 |
| Argentina | 56 | 56 | 55 | 56 | 56 | 56 | 56 | 56 | 56 | 46 | . | 41 | 41 |
| Aruba | 56 | 40 | . | 31 | 31 | 31 | 41 | . | . | . | . | . | . |
| Bahamas | 56 | 50 | 54 | 36 | 36 | 52 | 56 | 56 | 56 | 37 | . | 37 | 37 |
| Barbados | 56 | 56 | 54 | 32 | 32 | 43 | 56 | 56 | 56 | . | . | . | . |
| Belize | 56 | 46 | 54 | 36 | 36 | 36 | 56 | 47 | 47 | 45 | . | 45 | 45 |
| Bolivia | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 46 | . | 46 | 46 |
| Brazil | 56 | 56 | 56 | 56 | 53 | 53 | 56 | 56 | 56 | 46 | 36 | 46 | 46 |
| Chile | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 36 | 56 | 56 |
| Colombia | 56 | 56 | 55 | 56 | 56 | 56 | 56 | 56 | 56 | 49 | . | 46 | 46 |
| Costa Rica | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 41 | 35 | 41 | 41 |
| Curaçao | 55 | 13 | . | . | . | . | 47 | . | . | . | . | . | . |
| Dominica | 56 | 50 | 54 | 36 | 36 | 36 | 56 | 26 | 26 | . | . | . | . |
| Dominican Republic | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 33 | 56 | 49 | 29 | 49 | 49 |
| Ecuador | 56 | 50 | 54 | 54 | 54 | 54 | 56 | 56 | 56 | 47 | 26 | 36 | 36 |
| El Salvador | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 45 | 36 | 45 | 36 |
| Grenada | 56 | 49 | 48 | 36 | 36 | 36 | 56 | 12 | 12 | . | . | . | . |
| Guatemala | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 43 | 36 | 43 | 43 |
| Guyana | 56 | 56 | 54 | 52 | 52 | 52 | 56 | 56 | 56 | . | . | . | . |
| Haiti | 56 | 56 | 54 | 48 | 47 | 47 | 56 | 56 | 56 | 52 | 31 | 52 | 52 |
| Honduras | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 48 | 48 | 48 | 48 |
| Jamaica | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 36 | . | 36 | 36 |
| Mexico | 56 | 47 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 46 | 46 | 46 | 46 |
| Montserrat | 55 | 38 | . | . | . | 15 | 23 | . | . | . | . | . | . |
| Nicaragua | 56 | 56 | 54 | 54 | 55 | 54 | 56 | 56 | 56 | 48 | 32 | 48 | 48 |
| Panama | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 30 | 30 | 30 | 30 |
| Paraguay | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 56 | 56 | 49 | . | 49 | 49 |
| Peru | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 56 | 46 | 36 | 46 | 46 |
| Saint Kitts and Nevis | 56 | 46 | 45 | 46 | 46 | 46 | 56 | 12 | 12 | . | . | . | . |
| Saint Lucia | 56 | 47 | 54 | 41 | 41 | 41 | 56 | 46 | 46 | . | . | . | . |
| St-Vincent | 56 | 48 | 54 | 46 | 46 | 46 | 56 | 12 | 12 | . | . | . | . |
| Suriname | 56 | 49 | 54 | 36 | 36 | 36 | 56 | 56 | 56 | 35 | . | 35 | 35 |
| Trinidad and Tobago | 56 | 56 | 54 | 56 | 44 | 38 | 56 | 56 | 56 | . | . | . | . |
| Uruguay | 56 | 56 | 54 | 56 | 56 | 56 | 56 | 14 | 14 | 45 | 10 | 45 | 45 |
| Venezuela | 56 | 56 | 54 | 54 | 54 | 54 | 56 | 42 | 44 | 49 | 29 | 49 | 49 |

*Note:* The table depicts all macroeconomic variables and their coverage. The numbers indicate the number of years in which the country has non-missing observations. The data coverage spans 1970–2025. Therefore, 56 means the country has data for all years.