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Venezuela's crisis drains its foreign reserves

Central bank coffers drop below \$10bn for the first time in 15 years

Gideon Long in Bogotá

Venezuela's foreign reserves have dropped below \$10bn for the first time in 15 years as chronic mismanagement, corruption and subdued oil prices continue to batter what used to be the wealthiest country in South America.

The reserves stood at \$9.983bn, according to figures published on Friday from the central bank, representing a 77 per cent decrease since January 2009 when they hit a peak of \$43bn.

The fall comes at a time of heightened political tension. On Sunday, Venezuelans will vote in a referendum on President Nicolás Maduro's widely despised plan to create a "constituent assembly".

The vote has been organised by the opposition and is non-binding but will give some indication of Venezuelans' views. They will be asked about the assembly, the role of the military and their thoughts on free elections. According to Datanalisis, the country's most-respected pollster, 67 per cent of people oppose the assembly, which would have powers to dissolve Congress, re-write the constitution and change laws.

The country is also in the grip of a legal battle between the Supreme Court, which is packed with supporters of Mr Maduro, and the attorney-general Luisa Ortega, who has emerged as one of his most important critics. On Friday, in a bizarre twist to the battle, the Supreme Court ordered Ms Ortega to undertake a lie-detector test. Meanwhile, the fall in the reserves is likely to rekindle fears that Venezuela might default on its debt obligations this year. The state and its oil company PDVSA are due to make capital and interest repayments of \$3.7bn in the fourth quarter.

"The state of the foreign reserves and the general waste of Venezuela's foreign exchange earnings is one of the saddest stories of modern economic history," said Javier Hernández, an economist at the Universidad Central de Venezuela in Caracas.

Over the longer term, Venezuela also owes money to Russia, China, the Latin American development bank CAF and to companies that have taken it to court over broken promises and expropriation of assets.

Risa Grais-Targow, Latin American director for the Eurasia Group in New York, says the country owes \$3.7bn to companies that have successfully taken it to ICSID, the World Bank's

tribunal for investment disputes. More cases were in the pipeline and were due to be settled in the coming months, she added.

The central bank recently sold nearly \$1bn of bonds to Goldman Sachs and Nomura, but the international outcry over the deal means it will struggle to perform the same trick again.

Francisco Rodríguez, chief economist at Torino Capital in New York, says the Maduro government could raise about \$14.5bn through a variety of other measures, however.

It could recall loans made to small Caribbean and Central American nations during the Chávez years. Of these, its biggest debtor is Nicaragua, which owes about \$2.9bn.

The government could also seize onshore private sector holdings from Venezuelan banks and insurance companies, which are under state regulatory control. It could take cash from PDVSA and other state institutions, and it might still have some money left from Chinese loans issued years ago.

“Money from Chinese loans cannot be used to service debt but can be used to pay for imports,” Mr Rodríguez said.

Mr Hernández said Venezuela could raise about \$1.2bn by selling shares in oil joint ventures but once that money is gone “I see China as the only source of income, because of its geo-strategic interests and its desire to control access to natural resources”.

In the past, high oil prices have ridden to the country’s rescue, but that seems unlikely now. Prices have plummeted by two-thirds since their peak in 2008 and Brent crude fell 15.5 per cent in the first six months of this year — its steepest first-half decline since 1998.

The Maduro government blames this, and US-led sabotage, for its economic woes, although the oil price is still nearly twice as high as it was in 2002, the last time the foreign reserves were this low. Figures from Opec this week showed that Venezuelan oil output fell 13.6 per cent month-on-month in June while in most major producers output rose.

“The decline in oil revenue is not only because of the lower price,” Mr Hernández said. “It’s also due to a sharp decline in production.”

And yet despite the increasing chaos, most analysts expect Venezuela to muddle on financially and avoid complete collapse, at least this year.

The government “will likely be able to scrape together the resources to avoid a default in the fourth quarter, assuming that Maduro is still in power,” Ms Grais-Targow said. However, she warned it will be “a close call”.

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