Venezuela

IMF crunches the numbers for possible Venezuela rescue

Move could require $30bn a year or more in international help

Nicolás Maduro has clung to power despite growing pressure to resign © Reuters

OCTOBER 16, 2017 by John Paul Rathbone in New York and Shawn Donnan in Washington

The International Monetary Fund has begun preparations for a possible rescue of Venezuela that could require $30bn or more in international help annually and come alongside one of the world's most complex bond restructurings and a big test of Fund rules.

The IMF has had no official relationship with Venezuela since Caracas cut off relations in 2007 and has not conducted an on-the-ground review in 13 years. Officials insist no rescue is imminent and publicly say they are simply conducting normal surveillance, stressing that they have had no meaningful contact with the government other than occasional low-level responses to requests for data.

But in recent months IMF staff have quietly crunched numbers for a potential bailout that, were it to happen, could be bigger financially and more politically complex than its much-criticised involvement in Greece.

"The market needs to be properly prepared for this," said a senior IMF official. "This is going to be Argentina meets Greece in terms of complexity," added Douglas Rediker, a former US representative at the IMF.

Venezuela held elections for 23 state governorships on Sunday in which polls suggested the opposition would trounce the government amid a severe economic recession that has shrunk the economy by a third, and inflation that the IMF estimates at more than 1,000 per cent. Shortages of foreign currency have slashed imports by 80 per cent in five years, leaving the country teetering on the brink of default and suffering extreme shortages of food and medicine.

Venezuela's opposition during a vigil for a young protester who died in June. The country's economic recession has become a humanitarian crisis as supplies of basic foods and medicines dry up © Bloomberg

On Monday, the government-dominated electoral council announced the ruling Socialist party had won 17 out of 23 governorships. The opposition cried fraud, and said it would refuse to recognise the results, raising the prospect of further international sanctions against the government.

"Like others we're very concerned about the dramatic economic and humanitarian conditions in Venezuela," an IMF spokesman said. "As part of our surveillance mandate, we've been gathering information and following the situation closely, including monitoring how the crisis is affecting neighbouring countries."

The Trump administration, which has already selectively imposed sanctions on Venezuelan officials, for a time pushed the IMF to consider sanctions on the country for failing to live up to data-sharing commitments. But it has since decided such measures would be toothless and only complicate any future bailout.

Venezuela is all but shut out of international capital markets, and a controversial debt placement earlier this year with Goldman Sachs had an estimated yield of 48 per cent. By contrast, the IMF typically lends at 2 per cent.

However, the biggest barrier to an IMF rescue of Venezuela is the government of President Nicolás Maduro, which has clung to power even as pressure grows for him to resign. Opposition street protests this year left more than 125 people dead.

1,000%

IMF estimate of Venezuelan inflation

IMF programmes depend on a request from a government for help and co-operation from national authorities. But "there has been no dialogue, so the timeline [of any programme] would be more uncertain," said a senior IMF official. "Plus, much depends on the nature of any [political] transition. If it is messy, and there is no consensus, the international community will not want to pour good money after bad."

Another factor likely to delay any lending programme is the lack of reliable statistics. The last time Venezuela had a so-called Article 4 consultation was 2004 and officials liken the lack of information to what they saw with Soviet bloc countries before the fall of the Berlin Wall.

The scale of Venezuela's needs will probably also be an issue. Normally, IMF programmes across three to four years are limited to a maximum 435 per cent of a country's quota, which in Venezuela's case would be $23bn. Other multilateral lenders might contribute another $2bn each, and bilateral donors — from Europe and the US — might reach $5bn. That adds up to a total possible multiyear package of around $32bn.

But Venezuela would probably need that annually. To return imports to 2015 levels of $35bn, and so boost consumption and some rebuilding of the country's decayed capital stock, would require balance of payments support of $22bn annually. On top of that, the fiscal deficit, currently about 7 per cent of GDP, would need to be financed. In total, Venezuela might need $30bn a year in help from the international community.

That is far more than might be available — unless Venezuela can convince the IMF and shareholders such as the US to grant it "exceptional access". That was the case with Greece, which got IMF credit lines worth 17 times its quota. With similar treatment, Venezuela, which sits on the world's largest energy reserves, could borrow more than $88bn.

But the politics are fraught. Republicans in the US Congress demanded a tightening of the IMF's exceptional access rules as a condition for approving IMF quota reforms in 2015 and a "systemic exemption" rushed through for Greece in 2010 is still viewed with scorn.

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Douglas Rediker, a former US representative at the IMF

A further complication lies with the inevitable debt restructuring that would accompany any rescue. Venezuela's total debt load is some $140bn, including $70bn of traded bonds, bilateral Chinese and Russian loans, promissory notes issued to unpaid suppliers, and compensation claims from nationalised companies.

That is equivalent to 116 per cent of GDP with debt service payments of about 75 per cent of the value of Venezuelan exports, which according to Torino Capital is the highest level in the world.

"The Republic and its national oil company PDVSA are facing what may be the most complex and challenging sovereign debt restructuring yet," experts Mark Walker and Richard Cooper warned in a recent paper.

Still, at least one part of normal IMF interventions may have been taken care of. IMF programmes have been associated with austerity. But Venezuela has already suffered a massive drop in consumption.

"In many ways, the most painful part of the adjustment has already happened," said Miguel Angel Santos, an economist at Harvard's Centre for Economic Development who has studied Venezuelan transition scenarios.