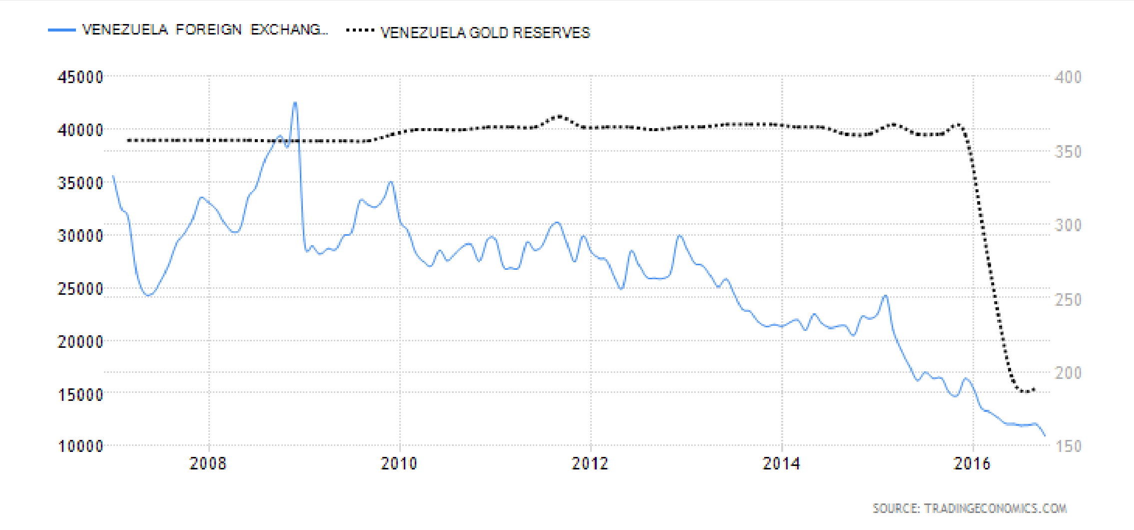
Venezuela's march towards default.

Venezuela: foreign exchange reserves and gold



ìIt is only a matter of time until Venezuela will default on its foreign debt. After a short peak in 2009, when the country's foreign exchange reserves stood at over 40 billion US-dollars, Venezuela has been steadily hemorrhaging its reserves down to 10 billion US-dollars. In 2016, Venezuela started to sell gold in order to compensate for the loss of its monetary reserves. As its consequence, Venezuela's gold reserves plunged from over 360 tons down to less than 190 tons. Other than in the case that some foreign power, such as China for example, would jump in as a lender, Venezuela's default seems unavoidable.

Venezuela is not only the victim of falling oil prices although these have the strongest immediate effect on the country's finances. Oil revenue finances more than half of Venezuela's government budget and accounts for almost all export income. Venezuela's deeper problem comes from the fact that almost all of the government's so-called social benefits in the wake of the "Bolivarian revolution" under presidents Hugo Chavez and Nicolás Maduro have been financed by monetary expansion.

In 1998, before Hugo Chavez became president, the extended broad money supply (M3) stood at 10.6 billion Bolivars. By 2010, the Venezuelan money supply had already risen to more than 290 billion Bolivars, and as of October 2016, money supply M3 reached 7513.9 billion Venezuelan Bolivars. As its consequence, annual price inflation shot up from around 25 per cent in the years before 2012 to over 180 per cent by the end of 2015 until the government practically stopped publishing the official figure. The International Monetary Fund estimates an inflation rate of 480 per cent for 2016 and of 1640 per cent for 2017.

Since 2012, the price of Venezuelan oil has dropped from 100 US-dollar per barrel to less than 50 US-dollars. Due to political turmoil and the socialization of the industry, the overall oil production of the country has fallen to a 13-year low in 2016. Venezuela's exports that consist almost completely of oil have plummeted from a peak of 30.7 billion US-dollars in the third quarter of 2008, to currently less than 10 billion US-dollars per quarter. In February 2016, the Venezuelan government officially devalued its currency by 37 per cent against the US-dollar from 6.3 to 10 Bolivars all the while when the black market rate stood at over 1000 Bolivars for one dollar.

Gráfico da Semana

Venezuela's march towards default.

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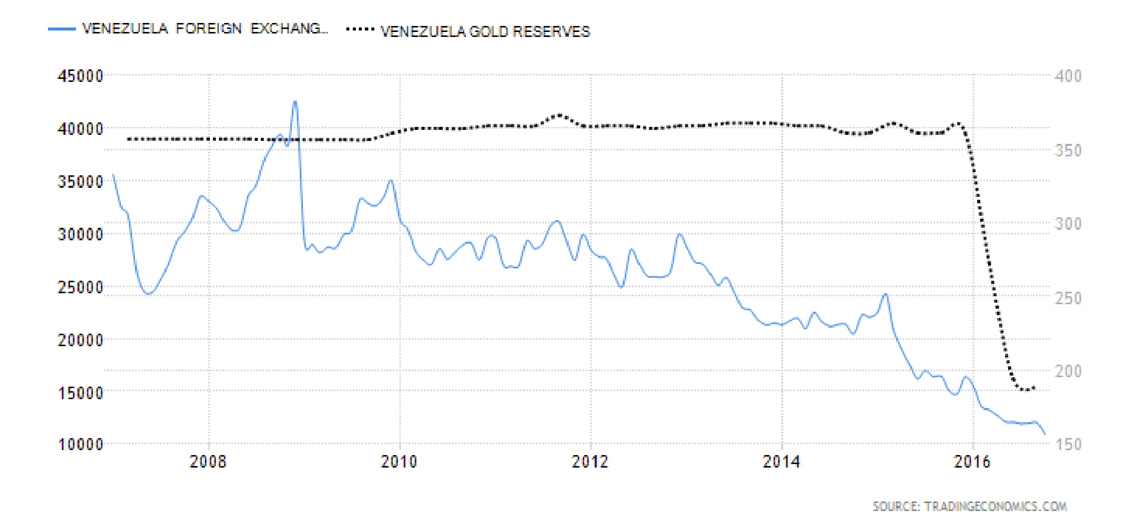

The Bolivarian Revolution, which Hugo Chávez started in 1999, is coming to its end. Severe shortage of basic goods, food lines, exorbitant black market prices, the collapse of the currency and hyperinflation now afflict a country that claims to possess the highest proven oil reserves of the world.
It is only a matter of time until Venezuela can no longer finance its imports and social and political chaos of unprecedented proportions will afflict the country. The fallout will also affect Venezuela's neighboring countries.

cafécomdados: **Postado por *Antony P. Mueller em 05/01/2017***