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The Venezuelan government took significant steps to fiscally delink its foreign-currency reserves from the US this month. During the first week of October, the Banco Central de Venezuela (BCV) announced that it pulled US$20 billion of its foreign-currency reserves out of US Treasury bonds, moving the funds to Europe. Opponents of the decision said it showed that the BCV had lost its autonomy from the executive branch and was a bad financial decision.

Most of Venezuela's reserves go from the dollar to the euro Venezuela had moved its BCV foreign reserves out of US banks, liquidated its investments in US Treasury securities, and placed the funds in Europe, Venezuelan President Hugo Chavez said on Sept. 30. "We've had to move the international reserves from US banks because of the threats" from the US, Chavez said during televised remarks from a South American summit in Brazil. "The reserves we had [invested] in US Treasury bonds, we've sold them and we moved them to Europe and other countries." Chavez often criticizes foreign banks for the power they wield in international financial markets at the expense of poorer countries.

Foreign-exchange reserves held by the central bank stood at US$30.7 billion as of Sept. 30, according to BCV data. Record oil prices have led to a doubling of the BCV's foreign reserves since 2003. Currency controls have also kept more capital inside Venezuela. The BCV later acknowledged that the US$20 billion had been deposited in a bank in Basel, Switzerland.

BCV director Domingo Maza Zavala said the bank sold its US Treasury certificates of deposit because "the US dollar has been depreciating relative to the euro....It was thus considered convenient." About 60% of Venezuela's foreign reserves are now placed in euros and 40% in US dollars, according to Maza Zavala. He said the bank has about US$350 million in gold. He declined to give an exact breakdown of the bank's reserve investments to reporters from Bloomberg. The dollar has rallied 13.4% against the euro this year and 11% against the yen, reversing three years of declines against those currencies.

**Opposition decries central bank's lack of "autonomy"**

Opponents of Chavez who accuse the president of assuming autocratic powers criticized the decision to move the reserves to Europe, saying it showed that the BCV had lost autonomy from the executive. "This wasn't a decision made by President Chavez, but rather the central bank," said Maza Zavala, denying such criticisms. Morgan Harting, an analyst with Fitch Ratings, said he doubted that Chavez was not involved in the decision. "This is an example of how the central bank is much less autonomous now than five years ago," said Harting.

"It's taking cues from the executive branch. It's a tactic taken by the government to snub the US." "What worries me about this," said Venezuelan economist Pedro Palma, "is the total control the
executive is taking, and the loss of autonomy of the central bank.... These are decisions that are the exclusive prerogative of the board of the central bank the way in which this has been handled is highly irregular."

Chavez has argued against central bank autonomy, saying excess foreign reserves should be spent on economic development projects. Venezuela's Chavista-controlled Congress changed central bank laws earlier this year so the government could tap reserves for spending, despite criticism that it would lead to devaluation of the local currency and higher inflation.

Every year the central bank must now compute an "optimum" amount of reserves and hand over the surplus to a newly created national development fund, the Fondo de Desarrollo Nacional (FONDEN). Money held in the fund will be used for overseas purchases and to pay off outstanding debt. The FONDEN received an initial transfer of US$3 billion in September and it is expected that there will be a similar amount paid to the fund by the end of the year. Chavez says that the ideal foreign reserve level is US$25 billion, meaning the government could have access to another US$5 billion.

Michael Shifter of the Washington-based think tank Inter-American Dialogue said Chavez's decision "removes one more possible instrument that the US might have been able to use against him" by seizing Venezuelan assets. Some critics said that interest rates in Europe are about 2% lower than in the US, implying a loss of several hundred million dollars to Venezuela per year. "The BCV is now nothing other than an office of the executive."

When the central bank acts on political terms, the benefit is irrelevant," said Benito Raul Losada, a former BCV president. US government response was similar to those of opposition critics, with Deputy Secretary of State Robert Zoellick telling reporters, "I'm not sure I'd trust Chavez as a banker," although he prefaced the Oct. 6 remark with the proviso that he did not yet know the details of the proposal.

Central bank representatives denied that any of its decisions with regard to the placement of foreign reserves were made under pressure from the president or for political considerations. They instead painted the decision as purely economic, based on the high US deficit and the dollar's depreciation. If Asian investors, major holders of US debt, follow Venezuela's lead in the future, it could have serious effects on the US economy.

**Chavez offers payment for South American development bank**

The previous week, Chavez had called for the creation of a South American development bank while speaking at the presidential summit of the Comunidad Sudamericana de Naciones (CSN). He offered US$5 billion for such a bank from Venezuela's more than US$30 billion of international reserves. "We have moved the reserves from the US to Europe, but instead of moving them to a European bank, we should move the reserves to a South American one," he said.
Leaders from Chile, Bolivia, Peru, Paraguay, Ecuador, Venezuela, Brazil, and Argentina attended the CSN summit where Chavez proposed that they should all consider depositing a part of their foreign currency reserves into a newly created South American development bank. Chavez said such a bank could eventually include countries from Asia and Africa, to become a world bank. "It is a stupidity that a majority of our international reserves are in banks of the North," said Chavez to the gathered leaders.

The move by Chavez’s government represents part of an ongoing push to delink Venezuela from US policies and economy. The decision to pull out of a drug-interdiction agreement with the US (see other NotiSur article this issue) was another prong of the autonomy-from-the-US strategy. Chavez also recently announced the decision to make Venezuela a full member of the Southern Cone Common Market (MERCOSUR).

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