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Finance Lab

Prospects for Venezuelan Debt Restructuring: A Trump Bump

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April 2025

2024 was a hopeful year for sovereign debt restructuring, with both Ghana and Zambia coming to terms with bondholders to restructure each nation's sovereign obligations. Sri Lanka and Ethiopia are nearing agreements with creditors, and some progress has been made toward a potential debt restructuring for Lebanon. Advisory firm Lazard predicts no new sovereign defaults in the remainder of 2025.

What are the current prospects of a restructuring for Venezuela, the country with the longest continuous default in modern history? This brief argues that a reconciliation between the US and Venezuela – necessary for restructuring negotiations – has become more likely. This is the result of pressures on energy prices, stemming from President Trump's actions on trade, as well as of convergence of creditors' interests.

Profiling Venezuela's current obligations is challenging. Since a 2019 release by the central bank, no official statistics are available on the country's external debt. Recent estimates suggest that, as of 2023, the government and state-owned oil company Petróleas de Venezuela, S.A. (PDVSA), was in default on $92 billion of sovereign principal and interest payments. Debts include an estimated $16.5 billion in bilateral and multilateral debt, owed primarily to China, and $22 billion in various arbitration awards. Except for some oil-for-debt relief swaps between Venezuela and China, Russia, and oil companies in PDVSA joint ventures, it appears that the government is in default on all sovereign obligations.

Shifts in the US may create an opening for a restructuring. The second Trump administration has aggressively sought to reshape trade relationships and expand US access to natural resources. If President Trump views improved relations with Venezuelan president Nicolás Maduro as supporting his policy objectives, including maintaining low-cost access to energy, he likely will be undeterred by Maduro's autocratic tendencies. For Venezuela, improved US relations could allow for an easing of economic sanctions, potential access to IMF resources, and a resumption of negotiations with creditors.

This brief begins by exploring the political factors, international as well as domestic, that would help facilitate debt restructuring in Venezuela. It then discusses some challenges that would remain if such a restructuring process gets underway.

Recognizing a Dictator?

A fundamental challenge to restructuring is the absence of a recognized Venezuelan legal authority. In 2019, during the first Trump Administration, the US government recognized Juan Guaidó, then-leader of the Venezuelan National Assembly, as the country's political leader. Since the National Assembly stripped Guaidó of his role in 2022, the US has not recognized a legitimate national leader in Venezuela.

Without a recognized head of state, bondholders – many of whom are US based, and who hold instruments issued under New York state law – find both legal remedies and negotiations with the Venezuelan government difficult to effect. In early 2023, the Venezuela Creditor Committee (VCC), a group of institutional investors holding more than $10 billion in Venezuelan sovereign and PDVSA bonds, sought a "tolling arrangement" in New York courts to delay expiration of outstanding Venezuelan bonds. But they lacked a legal counterparty with whom to negotiate. Months of inaction followed. A US judge eventually authorized a deal in November 2023 between the VCC and opposition-led Venezuelan National Authority, delaying expiration of the bonds to 2028. The nearly year-long hold up illustrates the challenge of even modest progress on a restructuring in the absence of a stable Venezuelan negotiating representative.

Despite the fact that Maduro apparently lost the Venezuelan presidential vote handily in 2024, he declared himself winner of a third term in office. Yet this may not bother Trump so much in 2025; Trump has demonstrated a willingness to partner with dictators, if he believes doing so supports his policy agenda. If Trump believes that Venezuela can help him to achieve his foreign policy and domestic economic goals, he may well be willing to recognize (and ultimately legitimize) the Maduro regime.

The Trump administration faces pressure from supporters in south Florida, however, to resume a maximum-pressure campaign against the Maduro regime. Three Hispanic-American congresspeople from Florida reportedly threatened to withhold crucial votes on Trump's recently proposed budget unless he revoked a Chevron waiver to continue oil ventures in Venezuela despite sanctions. Trump acted to revoke the Chevron waiver and ordered the company to wind down Venezuelan operations by April 3, and subsequently announced a 25% "secondary" tariff on any country that purchases crude oil from Venezuela.

Where Venezuela Fits into Trump's Priorities

But voters in south Florida are not Trump's only domestic political concern. Core elements of Trump's policy agenda include reducing the US trade deficit, while also limiting inflation (including of energy) for American consumers. Trump's broad use of tariffs might address the former but likely runs counter to the latter. Locating additional sources of energy imports, however, could help to limit inflation.

On March 4, 2025, Trump levied broad tariffs against both Canada and Mexico. Among these tariffs is a 10% tax on imports of Canadian crude oil. Canada accounts for more than 60% of US crude imports and supplies 20% of total US crude. Doug Ford, premiere of the province of Ontario, has suggested severing energy flows to the US in response to the U.S. tariffs.

For U.S. refiners, finding alternatives to Canadian crude oil is not easy. Canada produces heavy, sour crude oil, a grade of oil that refineries in the US Southeast and Midwest are designed to process. It is difficult to substitute for Canadian at comparable scale; it also is infeasible to replace it with the light, sweet crude oil produced from US shale. Light, sweet crude sells at a sharp premium to heavy sour oil. Venezuela, which has the deepest reserves of crude oil in Latin America (Figure 1), may be the only producer capable of replacing Canadian crude. Without such a replacement, US consumers can expect to see gas prices rise, as heavy oil refiners must either reduce refinery activity or process light, sweet crude at a premium.

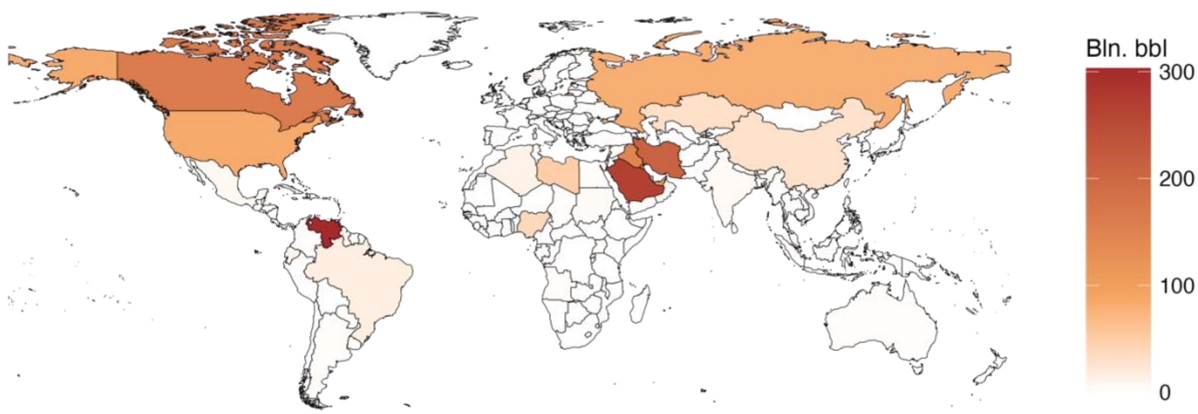

Figure 1: Crude Oil Reserves by Country, January 2025 (Oil & Gas Journal)

How does this relate to a Venezuelan restructuring? If President Trump continues with a broad use of tariffs, including universal tariffs of 10% set to take effect on April 5, the potential geopolitical value of Venezuela to the Trump administration grows substantially. To avoid spiking energy costs for US consumers – who will be facing higher prices for many other products, given the scope of the tariffs – Trump may be tempted to turn toward to Venezuela as a provider of heavy crude oil.[1] Current US relations with Venezuela complicate its use as a substitute, of course. The Venezuelan oil industry would need foreign investment to increase production capacity. Such investment would be difficult to

[1] In January, Canadian foreign minister Mélanie Joly warned of this very outcome from a US-Canada trade war.

mobilize with U.S. sanctions limiting economic relations with Venezuela and without recognizing Maduro as the legitimate head of state.

Were the U.S. government to normalize relations with Venezuela as a means of increasing imports of its oil, debt restructuring talks also might get a boost. U.S. holders of Venezuelan debt likely would hope that some of the proceeds of crude oil exports to the U.S. would fund debt repayment. Alternatively, engaging earnestly in restructuring talks might help signal to foreign direct investors, including those in the oil sector, that Venezuelan investment risk is declining (Johns and Wellhausen 2016).

The U.S. domestic politics related to Venezuela are not only about consumer prices. The Trump Administration is also facing pressure from US oil companies to improve relations with Venezuela. Following the revocation of Chevron's license in Venezuela, a lobbying flurry by Chevron CEO Mike Wirth resulted in an extension of the license. If U.S. refiners face an increased scarcity of heavy crude oil because of trade frictions with Canada, these oil lobbying interests may find an increasingly sympathetic partner in Washington.

Private creditors in the U.S. have an interest in negotiating a Venezuela restructuring. A lobbying effort by the VCC convinced the Biden Administration in 2024 to re-authorize trading of defaulted Venezuelan bonds on secondary markets. If public demand for lower energy prices were to align with oil industry and bondholder interests in softening the Trump Administration's approach towards Venezuela, the likelihood of a restructuring would increase.

Challenges with Creditors

The support of the US government is necessary for a Venezuelan debt restructuring, but is it sufficient? Even if the Maduro regime improves relations by courting the Trump administration, significant challenges to restructuring remain.

As in many recent cases of default, Venezuela's creditors are diverse. In addition to $67 billion to private creditors, Venezuela owes $13 billion to Chinese government entities. Venezuela will need to negotiate with China; as in recent cases such as Sri Lanka and Zambia, China's willingness to work toward restructuring is key. Governments owing large bilateral official debts to both Paris Club and non-Paris Club bilateral creditors may find restructuring of debt to Paris Club creditors difficult to achieve. This is especially true for countries geopolitically close to China. But in Venezuela's case, there is little bilateral or multilateral official debt, other than debt to China. In their analyses of the effect of China's presence as a creditor on debt restructuring, Cameron Ballard-Rosa, Layna Mosley, and Peter Rosendorff find little evidence that the presence of China holds up *private* debt restructurings. The presence of China as a creditor, however, also has been shown to slow down the negotiation of IMF stand-by agreements (Ferry and Zeitz 2024), which are typically part of the debt restructuring process.

The Venezuelan government is one of the least transparent globally. Venezuela is overdue for an Article IV consultation – part of the IMF's regular surveillance – by 217 months. Sovereigns have various motives for choices around economic transparency, and government preferences over transparency affect their choice of creditors (Mosley and Rosendorff 2023). Continued opacity would render it very difficult for Venezuela's creditors to assess how to return the country to debt sustainability.

There have been some positive developments towards restructuring. In 2023, the Biden Administration lifted sanctions that banned the trade of defaulted Venezuelan bonds on secondary markets. JPMorgan then incorporated Venezuelan sovereign bonds back into its emerging market debt indices. Inclusion in the JPMorgan indices may generate a higher "floor" of demand for defaulted Venezuelan bonds, given the use of the index as a guide for asset managers' portfolio choices (Cormier and Naqvi 2023).

Looking Forward

Does the Venezuelan government need the additional financing that restructuring would unlock, given the actions that would be required to access it? Typically, government income from non-tax sources such as resource exports are crucial for the stability of authoritarian regimes (Morrison 2015, Ross 2012). The regime has survived an expansive, prolonged campaign of economic sanctions enforced by most of the international community. But termination of the Chevron deal would further reduce government inflows by as much as a quarter.

Recent actions by the Maduro regime suggest a desire to pursue a debt restructuring and return to sovereign borrowing markets. The government expressed interest in bringing in IMF staff members for a long overdue Article IV assessment. The government also hired Rothschild & Co., a Paris-based sovereign advisory firm, to help disentangle the country's messy sovereign obligations.

If global liquidity conditions continue to loosen, autocratic countries such as Venezuela may find a smaller discount for their debt relative to that of democratic countries, as investors hazard more risk in search of high yields (Ballard-Rosa, Mosley and Wellhausen 2021). Whether Venezuela could take advantage of these conditions would depend first on whether the Maduro regime is authorized by the U.S. to negotiate with sovereign creditors.

Improving the relationship between the U.S. and Venezuela would not mean a restructuring is certain, of course. The Trump Administration might very well leverage temporarily improved relations with Venezuela to strengthen its negotiating position with Canada. But if the Trump Administration finds it in its longer-term interests to deal with Maduro, those hoping for a Venezuelan sovereign debt restructuring may get their wish.