

# Venezuela 2.0

*Its economic challenges are herculean.*

BY STEVEN T. KARGMAN

**T**he capture of Nicolás Maduro by U.S. forces in the early morning hours of January 3, 2026, produced dramatic headlines and led to an immediate surge of optimism in financial markets. Prices of Venezuelan government bonds and the bonds of its state-owned oil company, PDVSA, spiked as some investors anticipated that long-delayed restructuring negotiations might finally be approaching. Yet the buoyant market sentiment that followed Maduro's capture overlooked the deeper structural challenges confronting Venezuela.

## VENEZUELA'S MULTIDIMENSIONAL CRISIS

Those challenges are not merely financial but reflect a broader, multidimensional national collapse and will therefore require a multi-pronged strategy to set the country on a path to recovery. On the economic and financial fronts, Venezuela will need to undertake the herculean tasks of both economic reconstruction and sovereign debt restructuring. Neither can succeed in isolation, and both require the country's major humanitarian and governance crises be addressed in a meaningful way.

The fundamental challenges that shaped Venezuela's trajectory before Maduro's capture remain in place as this article is written in early April, 2026, and none of the country's core problems have been or will be resolved by his removal alone. Prior to Maduro's capture, Venezuela faced a severe humanitarian crisis that had led to the exodus of millions of its citizens, a contraction of a peacetime economy on a scale unprecedented in modern times, and a sovereign debt overhang estimated to exceed \$150 billion.

Venezuela also faced an overriding crisis marked by the absence of a government regarded as legitimate and credible by both Venezuelans and the international community. Maduro's removal alters the political surface but not these underlying structural realities that continue to constrain the country.



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*Steven T. Kargman, an international restructuring advisor, is President of Kargman Associates. He served formerly as General Counsel of the New York State Financial Control Board and Lead Attorney with the Export-Import Bank of the United States. He has previously written several articles on Venezuelan debt restructuring for TIE.*

These challenges remain as acute today as they were before Maduro's removal. Venezuela cannot credibly restructure its sovereign debt without rebuilding the pillars of a well-functioning economy. Venezuela cannot rebuild those pillars without a debt restructuring that lessens its debt servicing costs and restores fiscal space. Even before Maduro's removal, Venezuela faced the prospect of a protracted and extremely complex debt restructuring, and that is still the case today.

Venezuela's economy has contracted by roughly three-quarters from the onset of the crisis in the mid-2010s through the early 2020s, a collapse far greater than that experienced by the United States during the Great Depression or by Greece during the eurozone crisis. In recent years, Venezuela has experienced extremely elevated inflation (including a period of hyperinflation), a deeply devalued currency that has contributed to widespread dollarization, and dwindling foreign exchange reserves.

The humanitarian crisis has been equally severe, with widespread malnutrition and food insecurity, high levels of poverty, and the breakdown of the healthcare system (including shortages of medicine and difficulty in accessing healthcare). An estimated eight million or more Venezuelans have fled the country, one of the largest mass exoduses in modern history that has deprived the economy of critical human capital and left families separated across borders.

These conditions are not peripheral to the debt restructuring challenge. A country such as Venezuela cannot sus-

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tain a debt restructuring agreement without the economic capacity to generate resources, nor can it rebuild that economic capacity without addressing the humanitarian emergency that has weakened its labor force and social stability.

The governance crisis compounds these difficulties. Although Maduro has been removed, many influential figures from his regime continue to wield authority in the new government under Maduro's former vice president, Delcy Rodríguez, who has yet to establish broad domestic or international legitimacy. While the Rodríguez-led government



**Delcy Rodríguez** is sworn in as Venezuela's interim president on January 5, 2026, following the capture of **Nicolás Maduro** by U.S. forces on January 3, 2026. Rodríguez's brother **Jorge Rodríguez**, who is the head of the National Assembly, administers the oath, while Maduro's son, **Nicolás Maduro Guerra**, a member of the National Assembly, holds a copy of the Venezuelan constitution.

has been recognized by the United States, broader international recognition has been limited so far.

Meanwhile, the democratic opposition led by María Corina Machado, last year's Nobel Peace Prize recipient, remains sidelined. Although it overwhelmingly won the 2024 presidential election, it was barred from taking office by the Maduro regime that nevertheless declared itself the victor. Thus, despite Maduro's removal and a modest recent cabinet reshuffle, the political landscape shaped by the Chavista movement remains largely unchanged, and the political stalemate between the government and the opposition persists.

Sovereign debt restructurings require public acceptance, particularly when a country's citizens are asked to bear the costs of adjustment or transition as part of the process. In the Venezuelan context, without a government broadly regarded as legitimate and credible, it will be difficult to build the political consensus needed to ensure that any restructuring agreement remains viable over time.

Moreover, Venezuela's recovery will require support from the international community, whether in the form of trade and investment, humanitarian assistance, or technical support. Yet such engagement may not be forthcoming in the absence of a government that is regarded as legitimate and credible in Venezuela and abroad.

### COMPLEXITIES OF A VENEZUELAN DEBT RESTRUCTURING

Against this backdrop, Venezuela confronts one of the largest and most complex sovereign debt overhangs in modern

history. With an estimated \$150 billion or more in liabilities across the government (the Republic of Venezuela) and PDVSA, the scale of the debt burden exceeds that of many recent high-profile sovereign debt restructurings.

The dual obligor structure of Venezuela's outstanding debt—encompassing obligations of both the central government and PDVSA—adds a layer of complexity rarely encountered in sovereign workouts. Most sovereign debt restructurings involve a single central government obligor. Here, however, the intertwined obligations of the Republic and PDVSA will require careful coordination and difficult decisions about the sequencing of these two restructurings and how Republic and PDVSA creditors are treated.

The Venezuelan creditor body itself is extraordinarily large and diverse. It includes international bondholders of the Republic and PDVSA holding an estimated \$50–\$60 billion of debt, and arbitration award holders, several of whom hold multi-billion-dollar judgments. Other creditor constituencies include bilateral creditors such as China and Russia, multilateral institutions (such as the Inter-American Development Bank and CAF), trade creditors, promissory noteholders, and parties with claims related to blocked revenues (such as foreign airlines).

These constituencies have distinct interests and legal claims, creating a high risk of intercreditor conflict. Coordinating such a broad and dispersed creditor body, including forming steering committees and the dissemination of confidential information, will be extremely challenging. Without a credible process for bringing creditors together, the restructuring could splinter into separate groups working at cross purposes.

Major uncertainties hover over the development of any debt restructuring plan. One of the most significant is the need for credible projections of Venezuela's future economic growth, as such projections critically underpin any debt sustainability analysis and the economic models used to develop a debt restructuring plan. These projections bear directly on the government's ability in the future to generate revenues and repay restructured debt.

Yet Venezuela's economy has been so severely degraded since the start of the crisis that reliable forecasting is difficult. The oil sector, long the backbone of the economy, has recently been producing roughly one-third of its early 2000s output when it was producing approximately three million barrels of oil per day. Reversing this decline will require tens, if not hundreds, of billions of dollars in investment, and it will also likely take years, not months, for Venezuela to be able to ramp up its production in any substantial way.

Forecasting the price of oil introduces a further degree of uncertainty. Oil is an inherently volatile commodity, as recent price movements following the outbreak of the war

in Iran make clear. Oil prices before the war that had been hovering in the low \$60s per barrel surged to over \$100 per barrel after the start of the war. In view of this price volatility, it is difficult to predict what the price of oil will be a few months from now, much less over a period of years spanning the course of a restructuring plan.

In short, under current conditions, generating reliable medium-term projections acceptable to both creditors and Venezuela could represent a major obstacle to any debt restructuring. (As discussed further below, the parties may decide to introduce GDP or oil-linked warrants to bridge the gap in projections and/or to mitigate any associated uncertainties.)

Beyond the difficulties inherent in making reliable projections, another set of complicating factors involves geopolitical considerations. Venezuela's largest bilateral creditors, China and Russia, may approach any future Venezuelan debt restructuring with considerations that are not merely financial in nature, but related to exercising strategic influence, obtaining or maintaining access to natural resources, and pursuing broader foreign policy objectives.

Litigation and arbitration proceedings, as well as enforcement actions resulting from them, pose additional serious risks. The Republic and PDVSA face extensive claims in

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multiple forums, and enforcement actions threaten to carve up assets that might otherwise support a debt restructuring. The ongoing auction process related to the ownership structure of Citgo Petroleum Corporation, PDVSA's U.S.-based refining subsidiary, is the starkest illustration of this risk.

Citgo is widely regarded as PDVSA's most valuable asset and is commonly referred to as its "crown jewel." However, if control of Citgo were to shift to third parties (which would require approval from the U.S. Treasury Department's Office of Foreign Assets Control), PDVSA's asset base would be significantly diminished, reducing the pool of resources that would be available to support an overall PDVSA debt restructuring.

More broadly, the ongoing litigation risks triggering a race to the courthouse as well as the premature dismemberment of what is effectively the country's insolvency estate before a debt restructuring has even begun. The longer the delay in initiating a serious restructuring process, the

greater the risk that assets will be lost to litigation and enforcement actions.

A further complicating factor stems from U.S. government policy. Shortly after Maduro's capture, the Trump administration issued an executive order under which Venezuelan oil revenues would be held in U.S. government-controlled accounts. The executive order shields these revenues from creditor enforcement and grants the U.S. government broad discretion to disburse them for governmental, foreign policy, and national security purposes.

In effect, the executive order gives rise to a form of policy-driven subordination, with creditor claims effectively subordinated to U.S. foreign policy and national security priorities. It remains to be seen how the executive order will be implemented over time, but this will determine the extent to which the interests of Venezuela's creditors will in practice be subordinated to broad U.S. government policy objectives.

#### **TOOLS AND CONTOURS OF A DEBT RESTRUCTURING**

Any eventual Venezuelan debt restructuring will require a bespoke design, given the scale of the collapse, the dual obligor structure, and the highly fragmented nature of its creditor body. Venezuela will need to employ both traditional and innovative sovereign debt restructuring tools. If the parties determine that Venezuela is fundamentally facing a solvency problem rather than a liquidity problem, the restructuring will need to deliver deep balance sheet relief for Venezuela as opposed to merely providing Venezuela with short-term cash flow relief. (If, by contrast, the parties conclude that Venezuela faces primarily a liquidity problem, the restructuring would likely focus on a more limited "reprofiling" of its debt.)

Traditional tools capable of delivering such deep debt relief would likely form the core of any sound and viable restructuring plan. These could include principal reductions or debt forgiveness (colloquially known as "haircuts"), extended maturities, coupon cuts, and long grace periods. The precise contours of any restructuring would depend on a debt sustainability analysis and on assessments of Venezuela's current economic performance and its projected recovery path.

Venezuela may also need to employ more innovative instruments to bridge disagreements with creditors and align incentives across several domains such as future economic performance and oil revenue dynamics. These could include debt-for-equity swaps, debt for nature or climate swaps, and so-called "value recovery instruments" such as GDP or oil-linked warrants.

Debt-for-equity swaps are common in corporate restructurings and are considered a very effective tool in

deleveraging the balance sheet of corporate debtors, but have been used less frequently in sovereign contexts. Their last widespread use occurred during the Brady Plan-era bond exchanges of the late 1980s and early 1990s, when creditors forgave debt in exchange for taking equity stakes

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### *Venezuela's recovery will require support from the international community.*

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in privatized enterprises or financing approved domestic investment projects. Indeed, Venezuela itself employed such debt-for-equity swaps at that time.

However, the model for debt-for-equity swaps at that time relied on conversions through the local currency, an approach that is no longer viable given the virtual worthlessness of Venezuela's current national currency. The structure for a Venezuelan debt-for-equity swap would therefore need to be updated so that, for example, it would rely on a hard currency, rather than Venezuela's domestic currency, as the medium of exchange.

In addition to traditional debt-for-equity swaps, Venezuela could employ a new, expanded version of swap in which the equity component of the swap has a broader scope than in the swaps of the Brady Plan-era conversions. In such a structure, the equity could take the form of oil development rights or, more broadly, other mineral development rights. Such a structure could make sense because Venezuela possesses not only vast oil reserves (reputed to be the largest in the world), but also significant mineral reserves, including several critical minerals that are expected to face rising global demand as inputs to technologies such as batteries for electric vehicles.

Nonetheless, any such debt-for-equity swaps would require independent valuation of the development rights to ensure that Venezuela receives fair value. Otherwise, the Venezuelan government could expose itself to public criticism for transferring valuable national assets on terms that don't reflect fair value—effectively giving away the "national patrimony" too cheaply. The government would also need to ensure that the public is comfortable with exchanging natural resource development rights for debt relief as part of the broader restructuring.

Debt for nature or climate swaps, whereby creditors effectively forgive a portion of a sovereign's outstanding debt in exchange for the debtor country committing a portion of

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the savings to agreed environmental conservation measures of specified ecosystems of the country in question, have recently been employed by several countries, including Belize, Ecuador, Seychelles, Barbados, Peru, and Gabon. Such swaps could offer Venezuela another important avenue for reducing its outstanding liabilities.

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systems, and considerable biodiversity. But these ecological assets are threatened by forces such as illegal mining, deforestation, and weak environmental enforcement by the government.

For their part, creditors may view the conservation of Venezuela's ecological assets as a legitimate basis for forgiving a portion of the debt they are owed. In return, Venezuela would be obligated to make firm, specific commitments to protect these ecological assets over time. While debt for nature or climate swaps can be technically complex and costly to structure and execute, they could still form a valuable component of a broader debt restructuring strategy.

Another set of restructuring tools that could be brought to bear are value recovery instruments. VRIs have played an important role in sovereign debt restructurings by helping bridge divergent debtor and creditor expectations about matters such as a country's future economic performance or the strength of commodity-based revenues in a commodity-dependent economy.

With GDP warrants, which have been used in several sovereign debt restructurings (including Argentina and Greece, among others), creditors receive additional payouts if GDP exceeds a predetermined baseline. Commodity-linked warrants provide additional payouts to creditors when, for example, the price of the relevant commodity exceeds an agreed-upon strike price.

For Venezuela, VRIs could take the form of GDP-linked or oil-linked warrants. GDP-linked warrants could

be modeled on instruments used in prior sovereign debt restructurings, but any oil-linked warrants would need to be adapted from prior commodity-linked structures. Specifically, instead of solely relying on one trigger—namely, a strike price for oil—an oil-linked warrant in a Venezuelan restructuring would need to take into account both global oil prices and domestic production levels.

This is because high prices alone would not necessarily translate into proportionately strong oil revenues given Venezuela's currently depressed production levels. A trigger tied to overall oil revenues—the product of global prices and domestic production volumes—would therefore be more suitable than a structure that relies only on a strike price.

Nonetheless, warrants—whether in the form of GDP- or oil-linked warrants—do not completely eliminate the risk of disputes between a sovereign and its creditors. Disagreements can arise over how the warrants operate in practice, including, for example, whether the correct procedures were followed in making the calculations that determine payouts to creditors.

Designing a restructuring plan is challenging in its own right, but securing approval from the requisite creditor majorities presents a distinct set of obstacles. Collective action clauses are intended to mitigate the holdout problem by allowing key payment-related terms central to any debt restructuring to be amended through a supermajority vote, in contrast to old-style bonds that required unanimous consent from the creditors.

As Lee Buchheit and Mitu Gulati have noted based on their review of the relevant bond documentation for Venezuela's outstanding debt instruments, PDVSA's bonds lack CACs, whereas most of the Republic's bonds contain only first-generation, series-by-series CACs rather than the more modern aggregated version. The limitation of series-by-series CACs is that a determined holdout can assemble a blocking position in a single series, potentially undermining an exchange that would otherwise command broad creditor support. Given these vulnerabilities in the existing bond documentation, both the Republic and PDVSA would likely evaluate the full range of restructuring tools available to address the holdout risk.

Although technically outside the restructuring itself, asset recovery efforts to repatriate the tens, if not hundreds, of billions of dollars in public funds misappropriated from Venezuela could, if successful, materially support both the restructuring and the broader reconstruction program. These efforts are inherently slow, costly, and complex, and success is far from guaranteed. Even so, any recovered assets would expand the pool of resources available for Venezuela's recovery program and could therefore play a supporting role in the overall recovery effort. However,

the recovery of such assets is inherently uncertain, and thus debt restructuring and economic reconstruction plans should not be predicated upon achieving a certain level of recovered assets.

Finally, a new Venezuelan government assessing which legacy obligations to include in a restructuring may also need to consider whether certain debts were incurred under questionable or illegitimate circumstances and should not be honored on the same terms as other claims that are considered legitimate. In particular, a Venezuelan government might examine whether any obligations fall under the rubric of “odious debt”—that is, debt incurred without public consent and used for purposes contrary to the public interest, such as a ruler’s personal enrichment or a regime’s repression of the population, where the lenders extending the credit were aware of these circumstances.

While odious debt has not been formally recognized by courts or arbitral tribunals as a binding legal doctrine, and any claim based on it would therefore face uncertain prospects in litigation, the concept could still influence restructuring negotiations by highlighting the potentially problematic aspects of certain obligations. This could potentially give a new government moral and political leverage *vis-à-vis* those creditors who financed the debt obligations at issue.

### STRATEGIES FOR ECONOMIC RECONSTRUCTION

Although a Venezuelan recovery will require a comprehensive debt restructuring, the country’s long-term recovery will depend just as much on its ability to rebuild a productive economy. A debt restructuring may relieve financial pressures both in the short term and over the longer term. Yet it cannot by itself restore Venezuela’s economic growth, reverse the collapse of its oil sector, repair the physical infrastructure on which economic activity depends, or restore the core legal and regulatory institutions that underpin the rule of law essential to that economic activity. Without a program of economic reconstruction that restores a functioning economy and the institutions that support it, no debt restructuring will be sustainable.

Before either economic reconstruction or debt restructuring can take hold, Venezuela will require a period of stabilization. This will involve, among other things, reining in Venezuela’s persistently high inflation, rebuilding the state’s fiscal machinery to collect revenues and manage public spending, and restoring basic public services such as electricity, water and sanitation, and health care.

As a fundamental matter, Venezuela needs an overarching economic strategy to guide its recovery, and economic diversification should lie at the core of any such strategy. The country’s overreliance on hydrocarbons has long exposed it to the so-called “resource curse” which has

had serious deleterious effects on the Venezuelan economy and Venezuelan society as a whole. Observers have argued that, as in other countries afflicted by the resource curse, Venezuela has suffered from widespread corruption as well as the misallocation of capital in the economy, with invest-

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ment concentrated in the hydrocarbon sector to the detriment of other sectors of the economy.

Moreover, as the global economy increasingly relies on alternative energy sources and electrification and less on hydrocarbons, demand for output from oil-producing countries such as Venezuela is expected to decline over time. Thus, Venezuela will want to reorient its economy so that it does not remain centered on hydrocarbons at a time when the global economy is moving toward a more decarbonized future.

As part of any diversification strategy, Venezuela will also need to develop sectors in which it can enjoy a comparative advantage in the global economy and generate a steady stream of foreign exchange earnings. Potential candidates include sectors such as ecotourism and high-end tourism, alternative energy (such as hydro and solar), logistics and services, specialty steel and aluminum, high-value-added agro processing, and critical minerals.

Some of these sectors will be entirely new areas of economic activity for Venezuela, while others, such as steel and aluminum, are sectors in which the country was once heavily involved. But the nationalizations under the Chávez government left many of the firms in these sectors in disrepair, so any decision by a new Venezuelan government to re-enter them will necessarily involve rebuilding industries where Venezuela previously operated.

Venezuela’s diversification efforts will require active and continued engagement and coordination with the international community, public and private. Rebuilding legacy sectors and developing new ones will depend on securing external financing, obtaining specialized technical expertise that may only be available abroad, and forming partnerships with multilateral institutions and private sector firms outside of Venezuela.

Diversification will move the Venezuelan economy in new directions, but any economic recovery plan will also have to address the chronic problems that exist in an important part of the Venezuelan economy: its state-owned enterprise sector. Reform or privatization of Venezuela's SOE sector will be an essential component of any economic recovery plan, as many SOEs are unprofitable, inefficient, and no longer viable. They therefore represent a continuing drain on the national treasury. Those SOEs that cannot be restored to operational and/or financial health should be wound down so that resources can be redeployed to more productive uses.

Any economic recovery plan—whether based on diversification, SOE reform, or otherwise—cannot succeed unless the country has sound and reliable physical infrastructure. However, Venezuela's infrastructure across

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the country requires extensive repair and upgrading after years of mismanagement, lack of maintenance, and insufficient investment.

Venezuela's electricity grid has suffered widespread and frequent outages which have disrupted economic activity and made daily life a strain for ordinary Venezuelans. Furthermore, roads and highways, ports, water and sanitation systems, and telecom networks also show serious degradation and will require major refurbishment.

The oil infrastructure in Venezuela has suffered from years of underinvestment and lack of regular maintenance and will therefore require major capital expenditures to restore basic operational capacity. But Venezuela's oil sector also depends on the country's broader infrastructure,

as power and water systems, for example, must function reliably for oil operations to function effectively. The successful revival of the oil sector will therefore depend in part on this broader infrastructure being restored to a state of reliable performance.

Rebuilding Venezuela's infrastructure could be a very expensive undertaking. Yet in rebuilding its infrastructure, Venezuela could explore the possibility of entering into public-private partnerships with firms experienced in the development and operation of infrastructure. Under PPPs, the costs of rebuilding Venezuela's infrastructure would be borne not by the Venezuelan government alone but by the private sector as well.

Infrastructure, however, is only one element of Venezuela's wider reconstruction agenda. The design of the sovereign debt restructuring could in itself reinforce this wider economic reconstruction agenda. For example, debt-for-equity swaps could be used to direct investment to sectors that are designated as high-priority sectors in Venezuela's economic diversification strategy. Moreover, debt for nature/climate swaps could support conservation and environmental protection of Venezuela's important and precious ecological assets, and such swaps could therefore potentially buttress any effort to develop ecotourism as a promising economic sector.

A successful debt restructuring more generally would allow Venezuela to re-enter capital markets and raise financing for investment in the economy. In addition, it would create fiscal space for the government to devote resources to health, education, and social welfare rather than to debt service payments.

Finally, recent developments since Maduro's capture may affect Venezuela's reengagement with the international community and the prospects for foreign investment in the Venezuelan economy. Investor interest in Venezuela has increased, and the U.S. Treasury's Office of Foreign Assets Control has issued limited licenses easing restrictions on U.S. participation in parts of the hydrocarbon and mining sectors. Nonetheless, whether these steps will translate into a significant inflow of foreign investment remains uncertain, given that Venezuela's institutional environment (including investor protections and the rule of law) has not fundamentally changed.

#### **LOOKING AHEAD**

Venezuela faces a difficult and lengthy path to recovery given the depth of its economic, humanitarian, political, and sovereign debt crises. Yet with a credible and legitimate government in place, as well as a cohesive, comprehensive strategy that advances economic reconstruction and sovereign debt restructuring in parallel, the country could begin rebuilding its economy and restoring financial stability. ♦