Kuwait Times
Established 1961

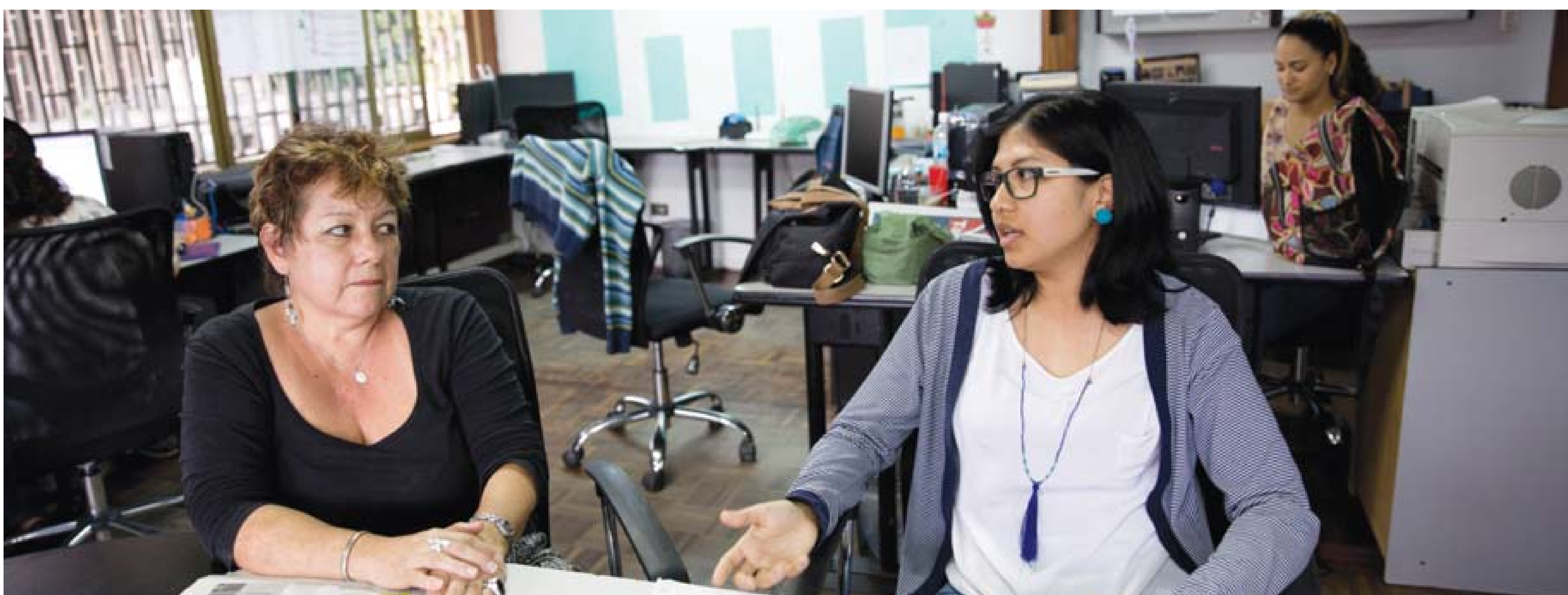
Business

SUNDAY, NOVEMBER 5, 2017

18 Why US pay raises are elusive even with jobless rate so low

19 Yellen's impact on the Fed and US economy to stay

21 Boubyan receives 'Best Islamic Digital Bank Award Worldwide'



CARACAS: Gloria Villamizar (left), and Luisa Quintero journalist of newspaper TalCual speak during an interview at their headquarter in Caracas. Editors and reporters at the scrappy, independent newspaper say they are ending their print edition and will publish only online. — AP

Crisis-hit Venezuela calls creditor meeting

Credit-rating agencies deal another blow with double downgrades

CARACAS: Venezuela on Friday called foreign creditors to a November 13 meeting in Caracas aiming to restructure its estimated $150 billion debt, as credit-rating agencies dealt the crisis-stricken country another blow with double downgrades. Standard & Poor's cut the nation's long-term foreign currency rating to "CC" from "CCC-" over growing concerns of the risk of a debt default in the oil-producing country, while fellow agency Fitch cut the long-term debt rating to "C" from "CC."

The increasingly dire warnings followed President Nicolas Maduro's calls to "investors across the whole world and to holders of Venezuelan debt" to attend a Caracas meeting November 13 "to start a process to refinance and renegotiate the external debt."

His vice president, Tareck El Aissami, who is leading a commission tasked with the restructuring, said the government is seeking "sovereign commitments" for a debt renegotiation.

Flanked by the ministers in charge of the economy, finance and energy, El Aissami confirmed the country had on Friday started to pay out $1.2 billion due to service the debt of state oil company PDVSA. Maduro announced Thursday that Venezuela would begin talks to refinance the debt immediately after that payment was made.

El Aissami, one of the Venezuelan officials sanctioned by the United States due to alleged ties to drug trafficking, said the talks with creditors will "establish the groundwork to renegotiate the terms of the foreign debt of the Republic and of PDVSA."

"We will begin a sovereign renegotiation of our debt and we will continue to comply fully, transparently, as our government has done historically," he said in a televised statement.He noted that since 2014 Venezuela, which has the largest proven crude oil reserves in the world, has paid nearly $72 billion in principal and interest payments on the debt.

Country seeks to restructure $150bn debt

Blasting US sanctions

Maduro has repeatedly blamed the United States for the country's woes, saying Washington is trying to strangle Venezuela with sanctions. US sanctions imposed on Venezuela in August ban US trade in any new bonds issued by the Venezuelan government or PDVSA-a needed step in any restructuring.

El Aissami denounced the "continued aggression, permanent sabotage, blockade and financial persecution" he said US President Donald Trump has imposed on the people of Venezuela. But he said the sanctions really hurt bondholders and financial institutions.

Much of Venezuela's debt is held by China and Russia, to be paid off in oil the resource that underpins the Venezuelan economy. The country has less than $10 billion in foreign currency reserves.

Analysts were pessimistic about Venezuela's chances of successfully restructuring its debt.

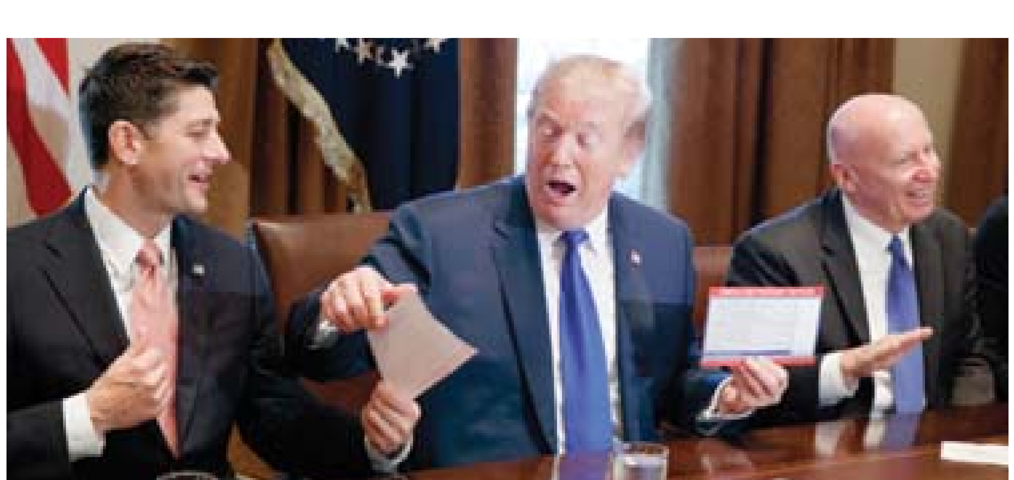
"Venezuela's options to keep up with its payments are shrinking rapidly, mainly because any restructuring needs to be matched with clear and credible economic reforms capable of winning the trust and support of bond-holders," said Diego Moya-Ocampos, an analyst at London-based IHS Markit. Another analyst, Asdrubal Oliveros, director of Ecoanalitica in Caracas, said that while investors had anticipated a debt renegotiation, they wanted "a plan of restructuring and reorganization, of putting accounts in order-this isn't that plan."

Sinking economy

According to estimates by private consultancies, Venezuela has a debt mountain of $150 billion, of which $45 billion is public debt, $45 billion is owed by PDVSA, $23 billion is owed to China, and $8 billion is owed to Russia. A default could see investors try to lay claim to PDVSA assets, including tankers, oil in shipment and subsidiaries such as the Citgo refiner and service station network in the US. "The government has mortgaged the future of Venezuelans in an irresponsible way," said Stalin Gonzalez, head of a grouping of opposition lawmakers who dominate Venezuela's parliament.

Venezuela's economy is in dire shape, shrinking by 36 percent in the past four years, according to the International Monetary Fund (IMF), and is now suffering hyperinflation estimated to top 2,300 percent next year. — Agencies

Why tax plan might not put US firms' overseas cash to work



WASHINGTON: US President Donald Trump holds an example of what a new tax form may look like during a meeting on tax policy with Republican lawmakers in the Cabinet Room of the White House in Washington, with House Speaker Paul Ryan, and Chairman of the House Ways and Means Committee Rep Kevin Brady (right). — AP

WASHINGTON: The House Republican tax bill is meant to send trillions in corporate profits overseas pouring back home and, in the process, give the US economy a healthy boost.

It may be more likely to land with an economic thud and provide a windfall to tax attorneys scouring the Byzantine bill for tax breaks on behalf of corporate clients. "Every tax lawyer in town is going to get a new car," says Martin Sullivan, chief economist for Tax Analysts and a former US Treasury Department economist.

The bill is designed to solve a vexing problem: Many big US companies earn fat profits overseas. But they don't want to return the money to the United States because they would have to pay the hefty 35 percent US corporate tax. So an estimated $2.6 trillion remains stranded abroad.

"You don't have to pay US tax as long as you leave it offshore," says Kimberly Clausing, an economist at Reed College. "But your shareholders get upset if you leave it there forever."

Enter the House Republican tax plan. Besides reducing the US corporate tax rate to 20 percent, the plan would let companies repatriate their existing overseas profits at much lower rates - 12 percent for profits that have been kept in cash and 5 percent for profits from investments that are hard to sell.

Once the bill took effect, most overseas profits could be returned to the United States tax-free. Some very high overseas profits would incur a US tax of 10 percent.

"For a lot of these companies you are talking about tens of billions, or in the case of Apple, hundreds of billions of dollars," says Scott Kessler, analyst with CFRA Research, referring to untaxed profits overseas. — AP

CB chief urges China to root out 'zombie' companies

SHANGHAI: China's central bank boss spelt out his strategy to prevent a future financial crisis, urging broadened equity funding and direct finance to reduce corporate leverage and eliminate "zombie" companies, official media reported yesterday. Zhou Xiaochuan, Governor of People's Bank of China, said that the market should play a "decisive role" in allocating financial resources, but also stressed the importance of stronger regulation and Communist Party leadership in guiding financial reform, according to the Shanghai Securities News.

In warding off systemic financial risks, China should deal with "both cause and symptoms", and be active in "both preemptive measures and reactive solutions," Zhou wrote in an article aimed at helping the public deepen understanding of last month's 19th Communist Party Congress report.

During the Congress, Zhou, who is widely expected to step down soon, spoke of the risks of a "Minsky moment", referring to a sudden collapse in asset prices after long periods of growth, sparked by debt or currency pressures. China has so far avoided a sharp slowdown in its economy, but analysts and global economic bodies such as the International Monetary Fund warn Beijing that China is over-indebted. Rating agencies estimate the overall debt burden at almost three times annual economic output.

In his article, Zhou said that China should "actively develop equity financing, and steadily increase the proportion of direct finance."

In direct finance, borrowers borrow funds directly from the financial markets without using intermediaries, potentially reducing risks in the banking system. — Reuters