Venezuela

Venezuela issues $5bn in bonds as it seeks cash to ease shortages

Analysts say deal could unlock funds for government to pay creditors and suppliers

Members of a community group sort groceries for delivery in the outskirts of Caracas © Bloomberg

YESTERDAY by: **Andres Schipani** in Bogotá

Venezuela has issued $5bn in new bonds to state-run Banco de Venezuela in a private placement, as it seeks cash for imports of food and medicine as the country struggles with critical shortages of basic goods.

France-based Global Emerging Markets Group said it advised on structuring and executing the deal.

The operation was underwritten by China's Haitong Securities, according to two bond traders who had seen preliminary details of the issue, Reuters said.

"GEM anticipates this bond issue will boost the economy and ease the food and medical supply shortages many perceive exist in the country," Christopher Brown, founder and director of GEM North America in New York, told the FT.

He said GEM was keen to invest in Venezuela's mining and agriculture sectors, as the country tries to diversify away from oil.

The bond matures in 2036 and has a coupon of 6.5 per cent. This was Venezuela's first sovereign issue in five years, according to Bloomberg. The central bank could not yet confirm the transaction.

Mr Brown said he believed the funds would be used as a foreign exchange mechanism "for companies in the productive sector to access US dollars, and this will reactivate the sector and bring much-needed imports back into the country".

Local analysts said the deal could unlock funds for the cash-strapped government to pay creditors and suppliers. Others suggested funds might also be used to make good on more than $9bn in bond payments coming due in 2017, or to guarantee loan payments to China.

"This is a private placement mainly aimed at paying creditors be it in the oil, pharmaceutical or food industries," said Asdrúbal Oliveros at Caracas consultancy Ecoanalítica. "For 2017, the government is betting on higher oil prices and shrinking its debts with commercial suppliers by paying them with bonds."

But the issuance also comes as analysts and investors have been bracing for possible default. Since oil prices started to drop in 2014, Venezuela has been unnerving bondholders, commercial creditors and China which together hold an estimated Venezuelan debt of more than $120bn.

Last year, investors holding $2.8bn of bonds from national oil company PDVSA agreed to swap their holdings.

"What this says is that you have a government reaching the bottom of the barrel," said Russ Dallen at investment bank Caracas Capital. He added that, combined, Venezuela and PDVSA disbursed some $9.5bn in bond payments in 2016, and would have to pay a similar amount this year.

Some analysts argue that Venezuela is a long-term bet because, as holder of the world's largest oil reserves, its solvency is guaranteed.

The country's $11bn in foreign reserves have shrunk from more than $16bn a year ago. However, the recent rise in oil prices means Venezuela's ability to pay may improve.

"Barring a significant change in the direction of oil markets, Venezuelan export revenues should rise in 2017," said Francisco Rodríguez at Torino Capital.