



Venezuela Debt: A Refresher

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Summary | Venezuela Debt – A Refresher

Introduction

- **A refresher on debt:** This is a refresher on Venezuela's debt stack given the numerous complications and individual bond differences to help to guide the much-increased trading in both VENZ and PDVSA bonds.
- **Recovery values need more work:** An assessment of longer-term potential recovery value needs more work. In any case, a restructuring is not happening anytime soon given the number of factors that would need to come together for this to happen. For our prior framework, see [Venezuela Economics and Strategy: Implications of Policy Change](#), February 14, 2019.

1)The Debt

- **High external debt:** Venezuela's external debt stands at around US\$167 billion, around 175-225% of GDP.
- **External bonds 54% of total:** External bonds make up US\$59 billion in principal and around US\$90 billion once arrears are added.
- **All in default:** All bonds are currently in default and assigned zero weights in the main EM bond index.
- **Index re-weighting the key near-term event:** However, the index may re-weight the bonds as liquidity picks up, leading to around US\$1.5 billion of market value in potential buying.

1)Bond-Level Considerations

- **Seven key bond drivers:** At a bond level, we see seven key drivers when it comes to differentiating between bonds – whether it's VENZ/PDVSA, the size of the claim, potential statute of limitation issue, CAC strength, collateral, real money holdings and the potential size in the index.
- **Assessing total claims is the most important one:** We suggest that a starting point for valuations is looking at bond prices versus claims, given the significant arrears that leave individual bonds with claims between 132-184. After that further adjustments can be made depending on individual bond features.
- **Upside remains in the near term:** This means that even with conservative near-term price/claims levels of 15 and 13 for VENZ and PDVSA, respectively, bond prices may reach 24 and 18.5 on average for VENZ and PDVSA.
- **Bond preferences:** Near term, we favour PDVSA over VENZ given the current price difference, with PDVSA 12.75% 22, VENZ 2022 and VENZ 2026 preferred bonds.

Debt Overview | Debt Outstanding

We estimate Venezuela's external debt stands at around US\$167 billion. The majority is from the sovereign at US\$107 billion, with PDVSA adding US\$59 billion and ELECAR another US\$1 billion. 21% is arrears due to missed interest payments.

- **Difficult to collect data leading to clear uncertainty as to final amounts:** With no real data published since 2019, or earlier, it's hard to establish exact claims. The numbers here use our own calculations for bonds and a mix of old data and local consultants for the rest. In an eventual restructuring, there is likely to be a lot of time dedicated to determining the admissibility of claims and reconciling them.
- **External bonds make up US\$90 billion, or 54% of the total:** The external bonds are from Venezuela sovereign (VENZ), Petroleos de Venezuela (PDVSA) and Electricidad de Caracas (ELECAR). US\$59 billion is the principal outstanding with another US\$31 billion in arrears given most bonds have been in default since 2017.
- **Other sovereign debt:** Bilateral debt is largely due to Russia while multilateral debt is with IDB and CAF. The debt to China is very hard to track due to multiple renegotiations and also still some ongoing repayments via oil sales. Finally, the arbitration claims via ICSID are made up of US\$14.5 billion that have already seen rulings and another US\$16.6 billion in pending cases (hard to assess final number).
- **PDVSA debt:** Outside of the bonds, PDVSA has a mix of debt via loans, promissory notes, supplier debt and others.
- **No real domestic debt:** While domestic debt tends to be less important in sovereign restructurings, although not always, in this case it will not be important given that it has nearly been entirely inflated away at this point.
- **We also ignore private sector FX claims:** There is likely around US\$6.5 billion in debt from private sector FX claims from arrears in the Cadivi/Concoex mechanisms, yet we doubt they will be included in an eventual debt restructuring.
- **Debt/GDP likely around 175-225% of GDP:** GDP is also unknown but generally seen to be around US\$75-95 billion in 2023, leaving debt/GDP at 175-225% of GDP.

Venezuela external debt, US\$ millions

Venezuela	107,197
Bonds	49,946
Principal	31,093
Arrears	18,853
Bilateral	3,157
Multilateral	4,310
China	18,644
Arbitration rulings	31,140
Rulings	14,535
Pending cases	16,605
PDVSA	59,292
Bonds	39,206
Principal	27,078
Arrears	12,128
Other financial debt	6,380
Suppliers and Contractors	10,000
Promissory notes	2,000
Others	1,706
Elecar	1,012
Bonds	1,012
Principal	650
Arrears	362
Total	167,501
of which arrears	34,843
Total ex arrears	132,658

Source: Bloomberg, GlobalSource, Morgan Stanley Research calculations

Bond Overview | Summary

There is US\$58 billion in outstanding external bonds across VENZ/PDVSA, with another US\$31 billion in past due interest to leave the total claim at US\$89 billion. We see seven key differentiating aspects between the bonds.

- **US\$31 billion in VENZ bonds, US\$27 billion in PDVSA, all in default:** We show 23 bonds in most tables. This excludes VENZ 2036 which was issued domestically yet never sold abroad so unlikely to enter any restructuring. For ease, we combine the two separate issuances (and ISINs) of VENZ 13.625% 2018. We also do not focus on the single issue from ELECAR. All bonds are in default, with all seeing the last coupon made in 2017 apart from PDVSA 2020 that defaulted in 2019.
- The rest of the presentation goes into more detail on multiple matters yet in the end we think markets will use seven different aspects to differentiate across the bonds, with the following page detailing how it impacts each bond.
 1. **VENZ/PDVSA: Very important:** Unsurprisingly this will be a key differentiator. An eventual restructuring process is likely to be very different for the two entities, with VENZ looking like a more ordinary sovereign debt restructuring while PDVSA likely has to go through an insolvency procedure and reorganisation to settle all claims. While this doesn't prevent recovery rates eventually being similar, the process will likely be very different.
 2. **The total claim: Very important:** The bonds have very different coupons and claims thus accrue at very different rates. A restructuring can choose to ignore this but we think it will matter, especially given the size.
 3. **Statute of limitation/maturity: Moderately important:** The actual prescription period is not 100% clear, yet for now the assumption should be that it has been handled by legal representatives of both sides.
 4. **CAC strength: Moderately important:** They differ materially across bonds and will drive pricing in the near term yet in the end we think it's unlikely to lead to materially different recovery values.
 5. **Collateral: Very important:** As the only one, PDVSA 2020 is collateralised by 50.1% of Citgo Holdings.
 6. **Real money holdings as % outstanding: Moderately important:** Since this can give an idea of where demand will be higher for certain bonds in the near term, it can matter for differentiating between bonds.
 7. **Potential share in the index: Important near term:** In particular, we think it's important to track the bonds that potentially would not qualify for index inclusion, even as all the other bonds are re-weighted.

Bond Overview | Summary (Continued)

We see seven key drivers when it comes to differentiating between the bonds – whether it's VENZ/PDVSA, the size of the claim, potential statute of limitation issue, CAC strength, collateral, real money holdings and the potential size in the index.

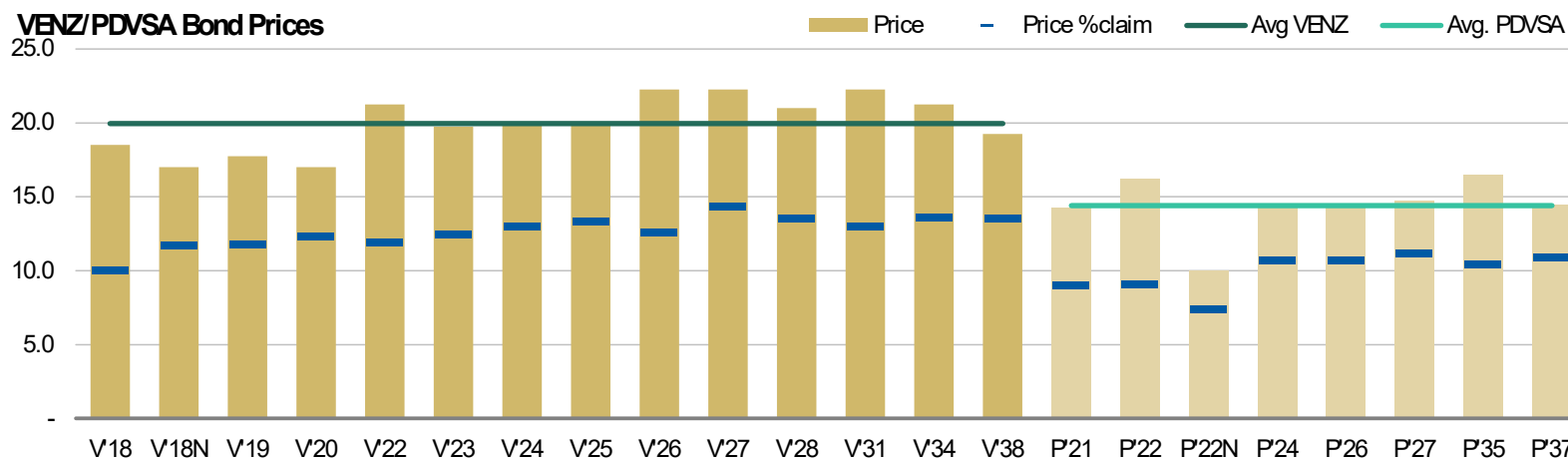
Bond	Security	Quoted Price	Price % Claim	Final claim with original coupon	Potential Maturity Statute of Limitation Issue	CAC strength	Collateralised	Real money holdings as % outstanding	Potential index share (bp)
VENZ'18	VENZ 13 5/8 08/15/18	18.3	9.9	185	3	1		0%	0.0
VENZ'18N	VENZ 7 12/01/18	16.5	11.4	145	2	2		3%	0.0
VENZ'19	VENZ 7 3/4 10/13/19	17.3	11.4	151	2	3		21%	3.2
VENZ'20	VENZ 6 12/09/20	16.5	11.9	138	2	3		8%	1.8
VENZ'22	VENZ 12 3/4 08/23/22	20.8	11.6	179	1	3		6%	3.9
VENZ'23	VENZ 9 05/07/23	19.3	12.2	158	1	3		15%	2.6
VENZ'24	VENZ 8 1/4 10/13/24	19.5	12.7	154		3		20%	3.5
VENZ'25	VENZ 7.65 04/21/25	19.8	13.2	150		3		19%	2.2
VENZ'26	VENZ 11 3/4 10/21/26	21.8	12.3	176		3		9%	4.2
VENZ'27	VENZ 9 1/4 09/15/27	21.8	14.0	156		1		17%	5.5
VENZ'28	VENZ 9 1/4 05/07/28	20.5	13.2	156		3		22%	2.8
VENZ'31	VENZ 11.95 08/05/31	21.8	12.7	172		3		13%	5.8
VENZ'34	VENZ 9 3/8 01/13/34	20.8	13.3	156		2		6%	2.1
VENZ'38	VENZ 7 03/31/38	18.8	13.2	142		3		29%	1.8
PdVSA'20	PDVSA 8 1/2 10/27/20	85.7	61.9	138		1	1	69%	11.4
PdVSA'21	PDVSA 9 11/17/21	14.8	9.3	158	2	1		32%	2.4
PdVSA'22	PDVSA 12 3/4 02/17/22	16.5	9.2	179	1	1		11%	3.1
PdVSA'22N	PDVSA 6 10/28/22	10.0	7.4	136	1	1		38%	0.0
PdVSA'24	PDVSA 6 05/16/24	14.8	10.8	136		1		35%	4.9
PdVSA'26	PDVSA 6 11/15/26	14.8	10.8	136		1		35%	4.5
PdVSA'27	PDVSA 5 3/8 04/12/27	15.0	11.3	132		1		34%	3.0
PdVSA'35	PDVSA 9 3/4 05/17/35	16.5	10.4	159		1		29%	3.0
PdVSA'37	PDVSA 5 1/2 04/12/37	14.8	11.1	133		1		40%	1.5

Source: Bloomberg, Morgan Stanley Research

Bond Overview | Bond Price Differentiations Today

Multiple factors matter for bond valuations today, including claims, CACs, maturities and index inclusion.

- **Market preferring VENZ over PDVSA:** VENZ trades on average five points higher than PDVSA. Without our eventual recovery value estimates it's hard to assess what difference is warranted yet we think it can easily narrow from here given there is a scenario where they recover at similar values, even if restructured differently.
- **Within VENZ, claims, CACs, maturities and index inclusion matter to markets:** VENZ 27 is preferred due to not having CACs and a relatively high coupon, with VENZ 26 and 31 also highest in price due to the very high coupons. VENZ 22 should be higher due to its high coupon as well yet seems to suffer due to having matured already and thus being at higher risk of being prescribed. Overall, most of the matured bonds appear to suffer when looking at the price relative to claims. VENZ 18 is the lowest-priced bond likely due to even higher statute of limitation risks and a low chance of being added to the index in a re-weighting.
- **In PDVSA, claims and index inclusion matter to markets:** Most claims appear fairly priced on a relative basis, with PDVSA 12.75% 22 and PDVSA 35 higher in cash due to higher claims – indeed, both could be a bit higher without looking rich. PDVSA 6% 22 clearly suffers from the lack of index inclusion and potential OID issue (which may not be unique to this bond). Matured bonds again trade cheaper, just as with the sovereign.



Source: Bloomberg, Morgan Stanley Research

Bond Overview | A Simple Near-Term Valuation Framework

Positioning for near-term strength as technicals stay strong leaves us favouring PDVSA over VENZ, with PDVSA 12.75% 22, VENZ 2022 and VENZ 2026 preferred.

- **Prices can be higher than normal defaulted bonds due to the high accrued:** Given the significant amount of accrued, it's important to work with the price as a share of the total claim. We make an arbitrary assumption of 15 for VENZ and a lower 13 for PDVSA to gauge near-term trading levels. This thus fully accounts for the different claims.
- **Adding idiosyncratic factor adjustments:** We add individual bond adjustments such as index exclusions, higher-than-average prescription risk (defined as original maturity+6y being ahead of the agreed 2028 tolling agreement), CACs and other reasons. The PDVSA 6% 2022 is hard to assess its historical discount.
- **Overall this leaves an average cash price for VENZ of 24 (18% upside) and 18.5 for PDVSA (30% upside).**

Bond	Security	Quoted Price	Price % Claim	Average claim of 15 for VENZ, 13 for PDVSA	Adjustment due to specific bond	Adjustment reason	Implied price	%change from today
VENZ'18	VENZ 13 5/8 08/15/18	18.5	10.0	15	-1.5	Not in index, highest prescription risk	24.9	35%
VENZ'18N	VENZ 7 12/01/18	17.0	11.7	15	-1.0	Not in index, medium prescription risk	20.3	19%
VENZ'19	VENZ 7 3/4 10/13/19	17.8	11.8	15	-0.5	Medium prescription risk	21.9	23%
VENZ'20	VENZ 6 12/09/20	17.0	12.3	15	-0.5	Medium prescription risk	20.1	18%
VENZ'22	VENZ 12 3/4 08/23/22	21.3	11.9	15	0.0	-	26.8	26%
VENZ'23	VENZ 9 05/07/23	19.8	12.5	15	0.0	-	23.8	20%
VENZ'24	VENZ 8 1/4 10/13/24	20.0	13.0	15	0.0	-	23.0	15%
VENZ'25	VENZ 7.65 04/21/25	20.0	13.4	15	0.0	-	22.5	12%
VENZ'26	VENZ 11 3/4 10/21/26	22.3	12.6	15	0.0	-	26.5	19%
VENZ'27	VENZ 9 1/4 09/15/27	22.3	14.3	15	1.0	No CACs	24.9	12%
VENZ'28	VENZ 9 1/4 05/07/28	21.0	13.5	15	0.0	-	23.3	11%
VENZ'31	VENZ 11.95 08/05/31	22.3	13.0	15	0.0	-	25.8	16%
VENZ'34	VENZ 9 3/8 01/13/34	21.3	13.6	15	0.5	Slightly better CACs	24.2	14%
VENZ'38	VENZ 7 03/31/38	19.3	13.6	15	0.0	-	21.3	11%
PdVSA'20	PdVSA 8 1/2 10/27/20	85.5	61.8					
PdVSA'21	PdVSA 9 11/17/21	14.3	9.0	13	-0.5	Medium prescription risk	19.8	39%
PdVSA'22	PdVSA 12 3/4 02/17/22	16.3	9.1	13	0.0	-	23.3	43%
PdVSA'22N	PdVSA 6 10/28/22	10.0	7.4	13	-1.5	Not in index, highest OID/validity issue	15.6	56%
PdVSA'24	PdVSA 6 05/16/24	14.5	10.7	13	0.0	-	17.7	22%
PdVSA'26	PdVSA 6 11/15/26	14.5	10.7	13	0.0	-	17.7	22%
PdVSA'27	PdVSA 5 3/8 04/12/27	14.8	11.2	13	0.0	-	17.2	17%
PdVSA'35	PdVSA 9 3/4 05/17/35	16.5	10.4	13	0.0	-	20.6	25%
PdVSA'37	PdVSA 5 1/2 04/12/37	14.5	10.9	13	0.0	-	17.3	19%

Source: Bloomberg, Morgan Stanley Research

Bond Details | Past Due Interest (PDI) and Claims

With most bonds in default since 2017, there is a significant amount of PDI that has built up. While an eventual restructuring can deal with it on an ad hoc basis, we see some basic criteria for calculating claims as of today.

- **Contracts tend to state that the current coupon continues until claims are settled:** Some bond contracts specify how interest should be accounted for beyond a missed payment (at least the prospectus does, given that we often don't have access to the indenture or fiscal agency agreement).
- For instance, VENZ 7% 2018, 2019, 2022, 2023 all have the following:
 - If the Issuer shall fail to redeem the Notes when due, *interest shall continue to accrue beyond the due date until actual redemption of the Notes* but not beyond the fourteenth day after notice has been given by the Fiscal Agent that the funds required for redemption have been provided to the Fiscal Agent.
- This suggests that the original coupon should be used to calculate the claim, even if it is not 100% clear what actual interest rate should be used.
- For some bonds like VENZ 13.625% 2018 and all PDVSA bonds there appears to be no mention of the interest due post a missed payment. While this could mean nothing is due, it could just be that it was not specified in the prospectus but is elsewhere. For now, our assumption is that interest continues to accrue at the original coupon rate for all bonds.
- **An actual restructuring can deal with claims in a variety of ways:** Once restructuring talks actually begin between the debtor and the creditors, the PDI can be dealt with in various ways. For example, it can be included as simply additional face value, it can be paid off in the form of a separate bond or it can simply be ignored (unlikely in this case given the amounts). Note that in this case, there are some VENZ bonds that have already gone through this process to establish claims and did account for the coupon continuing post maturity.
- **NY statutory interest only comes into play once judgements established:** The alternative approach is to use the NY Statutory interest rate of 9% on all missed claims. However, our understanding is that this only applies once a final judgement has been established. At that point, pre- and post-judgement interest of 9% is applied to all missed payments, including interest on coupons from the original maturity date up until the final judgement date.

Bond Details | Past Due Interest (PDI) and Claims (Continued)

From an outstanding amount of US\$58.2 billion today, the total claim could be up to US\$89 billion once accounting for past due interest (including claims already being litigated). At a bond level, claims vary from 132 to as high as 184.

Bond	Quoted Price	cpn	Last Paid Coupon Date	Claims (points)		Claims (US\$ millions)			Price %claims
				Actual PDI (missed coupons)	Final claim with original coupon	Amt. Out.	PDI	Final claim with original coupon	Final claim with original coupon
VENZ'18	18.5	13.625	15-Aug-2017	14	185	1,053	890	1,943	10.0
VENZ'18N	17.0	7.000	01-Jun-2017	11	145	1,000	449	1,449	11.7
VENZ'19	17.8	7.750	13-Apr-2017	19	151	2,496	1,266	3,762	11.8
VENZ'20	17.0	6.000	09-Jun-2017	21	138	1,500	575	2,075	12.3
VENZ'22	21.3	12.750	23-Aug-2017	64	179	3,000	2,365	5,365	11.9
VENZ'23	19.8	9.000	07-May-2017	54	158	2,000	1,166	3,166	12.5
VENZ'24	20.0	8.250	13-Apr-2017	54	154	2,496	1,339	3,835	13.0
VENZ'25	20.0	7.650	21-Apr-2017	50	150	1,600	796	2,396	13.4
VENZ'26	22.3	11.750	21-Apr-2017	76	176	3,000	2,293	5,293	12.6
VENZ'27	22.3	9.250	15-Sep-2017	56	156	4,000	2,221	6,221	14.3
VENZ'28	21.0	9.250	07-May-2017	56	156	2,000	1,111	3,111	13.5
VENZ'31	22.3	11.950	05-Aug-2017	72	172	4,200	3,013	7,213	13.0
VENZ'34	21.3	9.375	13-Jul-2017	56	156	1,500	844	2,344	13.6
VENZ'38	19.3	7.000	30-Sep-2017	42	142	1,250	525	1,775	13.6
PdVSA'20	85.5	8.500	27-Apr-2019	13	138	1,684	645	2,329	61.8
PdVSA'21	14.3	9.000	17-May-2017	41	158	2,394	1,390	3,785	9.0
PdVSA'22	16.3	12.750	17-Aug-2017	57	179	3,000	2,372	5,372	9.1
PdVSA'22N	10.0	6.000	28-Oct-2017	30	136	3,000	1,080	4,080	7.4
PdVSA'24	14.5	6.000	16-May-2017	36	136	5,000	1,801	6,801	10.7
PdVSA'26	14.5	6.000	15-May-2017	36	136	4,500	1,621	6,121	10.7
PdVSA'27	14.8	5.375	12-Oct-2017	32	132	3,000	968	3,968	11.2
PdVSA'35	16.5	9.750	17-May-2017	59	159	3,000	1,756	4,756	10.4
PdVSA'37	14.5	5.500	12-Oct-2017	33	133	1,500	495	1,995	10.9
VENZ	20.5	9.7		52.0	160.6	31,095	18,853	49,948	12.8
PDVSA	18.8	7.5		38.6	144.8	27,078	12,128	39,206	13.2
PDVSA ex-20	14.4	7.4		40.3	145.2	25,394	11,483	36,877	10.0
TOTAL	19.7	8.7		45.8	153.3	58,173	30,981	89,154	13.0

Source: Bloomberg, Morgan Stanley Research

Bond Details | Legal Summary

There are broadly four group of legal clauses across the VENZ/PDVSA complex, varying from no collective action clauses (CACs) to lower thresholds. Yet the details matter as there are specific thresholds for major amendments within each group.

- **All VENZ/PDVSA bonds are issued under NY law.**
- **Secondary trading now allowed for all bonds apart from VENZ 2036:** All bonds are currently covered under the General Licenses 3I (for VENZ) and 9H (for PDVSA) that allow secondary trading. The exception is for VENZ 2036 that was issued domestically and has not been sold outside of Venezuela as far as we know.
- **Statute of limitation/prescription should in theory not be an issue until 2028:** Some bonds list their own prescription periods and there is the NY state standard six-year prescription period. The risk is that claims on principal or interest payments due more than six years ago could be at risk of no longer being valid. However, a group of creditors and their legal representatives have achieved a tolling agreement until 2028 with Venezuela, both the opposition-controlled National Assembly and the Maduro government, and have had it recognised by US courts.
- **PDVSA bonds issued under a trust indenture.**
 - Unmatured but accelerated bonds (which require 25% of holders to accelerate) will need to litigate via the trustee, which in turns means offering the trustee security or indemnity and that proceeds would also be shared.
 - Only in order to enforce actual missed principal or interest payments can the individual holder litigate.
- **VENZ bonds issued under a fiscal agency agreement.**
 - Individual bondholders can litigate more freely and do not have to share proceeds either.
 - However, a bond still needs to be accelerated (25%) before non-matured principal amounts can be litigated for.
- **Collective actions clauses differ significantly (see following two slides).**
- **Original issue discounts (OID):** Some bonds were initially issued at par domestically, for instance from PDVSA to the central bank, but then sold abroad with significant discounts. It's not clear how this will be treated in a restructuring. However, there is a chance the OID amounts could be treated as unmatured interest, resulting in a much smaller claim.
- **Validity of claims:** Another issue is whether some of the bonds issued had the necessary authorisations at the time of issuance, for instance from the National Assembly. Again, it's unclear how this will be resolved.
- **Latest on legal moves:** VENZ 2025 and 2034 are the only bonds to have been accelerated to our knowledge. However, every other VENZ bond has also seen a small subset of holders litigate and has made it as far as having claims established and will likely participate in the Citgo auction.

Bond Details | Collective Action Clauses

There are broadly four groups of legal clauses across the VENZ/PDVSA complex, varying from no collective action clauses to lower thresholds. Yet the details matter as there are specific thresholds for major amendments within each group.

- **Bonds can be split into four broad groups depending on their legal clauses:**
 1. **PDVSA bonds:** These all have no collective action clauses. However, it's also worth bearing in mind that in case PDVSA was to eventually go through a reorganisation process, claims could still be resolved via majority voting across classes that would be specified at the time.
 2. **VENZ Group A:** These are the oldest bonds and were issued from 1997. At a headline level it appears they have no collective action clauses, requiring all holders to agree to major amendments such as the due date and principal/interest reductions. However, there are major amendments typically included here that are not explicitly listed (see slide 13). This includes having a lower level of 50.1% of outstanding to change the governing law or sovereign immunity definition. This would appear to open up these bonds to more aggressive exit consents, perhaps reducing the effectiveness of some other clauses having no CACs.
 3. **VENZ Group B:** These were issued from 2003. 85% required for major amendments across all typical amendments. 67% for all others.
 4. **VENZ Group C:** These were issued from 2005. 75% required for major amendments across all typical amendments. 67% for all others.
- **CACs important to know but end difference in recovery unlikely to be significant:** The fact that there are no aggregate CACs is a negative for a restructuring, making holdouts more likely. However, we see several reasons for the individual CAC levels not being as important to an eventual deal. First, even just getting 75% is high, meaning a significant majority of creditors have to agree to it. Second, the VENZ bonds without CACs appear to be open to exit consents. Third, the PDVSA bonds are likely to undergo a reorganisation process where majority voting thresholds can come in under newly created classes of claims (e.g., all bonds).

Bond Details | Legal Characteristics Summary

Venezuela	General license inclusion	Issue Date	Notional	Governing Law	Legal framework	Details	CACS	Res. Matter	Exceptions category	Non-Res. Matter	Amt Needed to block CACS	Amt Needed to accelerate	Accelerated?	Some claims established?	Bond Prescription Interest	Bond Prescription Principal
VEN Aug-2018 (old)	3I	8/6/1998	753	NY	FAA	Aug 6, 1998 - Chase Manhattan Bank	N	-	A	67	-	188		Y	-	5
VEN Aug-2018 (new)	3I	9/27/2001	300	NY	FAA	Aug 6, 1998 - Chase Manhattan Bank	N	-	A	67	-	75		Y	-	5
VEN Dec-2018	3I	12/1/2003	1,000	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	85	B	67	150	250		Y	3	10
VEN 2019	3I	10/13/2009	2,496	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	624	624		Y	3	10
VEN Dec-2020	3I	12/9/2005	1,500	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	375	375		Y	3	10
VEN 2022	3I	8/23/2010	3,000	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	750	750		Y	3	10
VEN 2023	3I	5/7/2008	2,000	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	500	500		Y	3	10
VEN 2024	3I	10/13/2009	2,496	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	624	624		Y	3	10
VEN 2025	3I	4/21/2005	1,600	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	400	400	Y	Y	3	10
VEN 2026	3I	10/21/2011	3,000	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	750	750		Y	3	10
VEN 2027	3I	9/18/1997	4,000	NY	FAA	Sep 3, 1997 - Chase Manhattan Bank	N	-	A	67	-	1,000		Y	-	5
VEN 2028	3I	5/7/2008	2,000	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	500	500		Y	3	10
VEN 2031	3I	8/5/2011	4,200	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	1,050	1,050		Y	3	10
VEN 2034	3I	1/14/2004	1,500	NY	FAA	Aug 6, 1998 - Chase Manhattan Bank	Y	85	B	67	225	375	Y	Y	?	?
VEN 2038	3I	11/15/2007	1,250	NY	FAA	Jul 25, 2001 - Deutsche Bank Trust Co	Y	75	C	67	313	313		Y	3	10

PDVSA	General license inclusion	Issue Date	Notional	Governing Law	Legal framework	Legal framework	CACS	Res. Matter	Exceptions category	Non-Res. Matter	Amt Needed to block CACS	Amt Needed to accelerate	Accelerated?	Accelerated?	Prescription Interest	Prescription Principal
PDVSA 2020 (Secured)	9H	10/28/2016	1,684	NY	Trust indenture	MUFG Union Bank	N	-	-	-	-	421			?	?
PDVSA 2021	9H	11/17/2011	2,394	NY	Trust indenture	Wilmington Trust	N	-	-	-	-	599			?	?
PDVSA Feb-2022	9H	2/17/2011	3,000	NY	Trust indenture	Wilmington Trust	N	-	-	-	-	750			6	6
PDVSA Oct-2022	9H	10/28/2014	3,000	NY	Trust indenture	Law Debenture Trust Co	N	-	-	-	-	750			?	?
PDVSA 2024	9H	5/16/2014	5,000	NY	Trust indenture	Law Debenture Trust Co	N	-	-	-	-	1,250			?	?
PDVSA 2026	9H	11/15/2013	4,500	NY	Trust indenture	Law Debenture Trust Co	N	-	-	-	-	1,125			6	6
PDVSA 2027	9H	4/12/2007	3,000	NY	Trust indenture	The Bank of New York	N	-	-	-	-	750			6	6
PDVSA 2035	9H	5/17/2012	3,000	NY	Trust indenture	Wilmington Trust	N	-	-	-	-	750			?	?
PDVSA 2037	9H	4/12/2007	1,500	NY	Trust indenture	The Bank of New York	N	-	-	-	-	375			6	6

Source: Bloomberg, Morgan Stanley Research

Bond Details | Legal Characteristics Summary (Continued)

Thresholds needed to apply major amendments to all bonds	Short Description	Exceptions category		
		A Issued from 1997 e.g. VENZ 2027	B Issued from 2003 e.g. VENZ 2034	C Issued from 2005 e.g. VENZ 2026
Due date	Change the due date for the payment of the principal of (or premium, if any) or any installment of interest on any Bond	100%	85%O	75%O
Principal/interest reduction	Reduce the principal amount of any Bond, the portion of such principal amount that is payable upon acceleration of the maturity of such Bond, the interest rate thereon or the premium payable upon redemption thereof	100%	85%O	75%O
Currency	Change the coin or currency in which or the required place or places at which payment with respect to interest, premium or principal in respect of the Bonds is payable	100%	85%O	75%O
Early redemption	Shorten the period during which the Republic is not permitted to redeem the Bonds, or permit the Republic to redeem the Bonds if, prior to such action, the Republic is not permitted to do so	50.1%O, 66.7%Q	85%O	75%O
Edit voting shares	Reduce the proportion of the principal amount of the Bonds the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Bonds or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided thereby or hereby to be made, taken or given	100%	85%O	75%O
Tax payments	Change the obligation of the Republic to pay Additional Amounts, if any, pursuant hereto	100%	85%O	75%O
"Outstanding" debt definition	Amend the definition of "Outstanding" with respect to the Bonds	50.1%O, 66.7%Q	85%O	75%O
Governing Law	Change the governing law provisions of the Bonds	50.1%O, 66.7%Q	85%O	75%O
Immunity	Change the Republic's appointment of an agent for the service of process or the Republic's agreement not to claim and to waive irrevocably any immunity in respect of any Related Proceeding	50.1%O, 66.7%Q	85%O	75%O
Ranking of bonds	Change the ranking of the Bonds as set forth in the Bonds	50.1%O, 66.7%Q	85%O	75%O
Amend events of default	In connection with an offer to acquire all or any portion of the Bonds where the consideration consists of either cash, new securities to be issued by the Republic, Banco Central or any Governmental Agency, or any combination of the foregoing, amend any Event of Default	50.1%O, 66.7%Q	85%O	75%O
All others		66.7%	66.7%	66.7%

O = outstanding amount, Q = share of bonds represented at quorate meeting

Bond Details | EM Benchmark Re-weighting

We estimate that a potential index re-weighting could result in up to US\$1.5bn market value or US\$8.6bn notional demand for VENZ/PDVSA bonds. While there are EM-dedicated funds with existing large exposures, holdings are very concentrated.

- **All VENZ/PDVSA bonds were excluded from the EMBI indices over a five-month period from July-November 2019** as a result of sanctions that prevented any US investor, inter alia, from buying bonds. It was not a result of default.
- **It was a unique exclusion in that while weights were put to zero, the bonds remained in the index.**
- **There is a reversal event in case of easing of trading restrictions and liquidity improving:** It's hard to say when this could occur. Yet the clear liquidity pick-up following sanctions easing and the fact that the secondary trading sanctions do not have a six-month expiry like the oil sanctions do suggest that it could happen in the next few months.
- Once included, the weight of **the combined complex will be around 0.73% in the EMBI Diversified and 0.86% in the EMBIG.** This is similar to the weights when the bonds were excluded (0.6% and 1%).
- **In terms of potential buying, we estimate an upper end of US\$2.7 billion market value or US\$14.2 billion:** This brings index holdings to around 27% of outstanding bonds on average yet also assumes existing exposures are zero.
- **A more reasonable assumption of potential buying would be closer to US\$1.5 billion market value or US\$8.6 billion notional:** A subset of EM-dedicated real money funds (60 funds, US\$66 billion AUM) suggests that 33% of funds have zero exposure and another 40% have some exposure but below the potential new benchmark weight. Assuming all the funds that are underweight to various extents bring their exposure to market-weight, and extrapolating to the broader EMBI universe, it suggests potential buying of around US\$1.5 billion in market value, or US\$8.6 billion notional. Of course even this is an estimate, as not all funds may want to add, either due to a negative view of the bonds or potential ESG reasons.
- **Important bond-level exclusions**
 - **VENZ 2036** never entered the index. Given that it has never traded externally, it's unlikely to be included.
 - **VENZ 13% 2018 and 7% 2018** as they fell below the required outstanding maturity and were thus excluded from the index before the default. There is an argument that these could be included again as today there is no difference between these and the other bonds that are past their initial maturity.
 - **PDVSA 2022** was issued in a private placement and was never included in index. It is unclear whether this will be included in the future, yet it will likely depend on liquidity and the inclusion of previously matured bonds.

Bond Details | EM Benchmark Re-weighting (Continued)

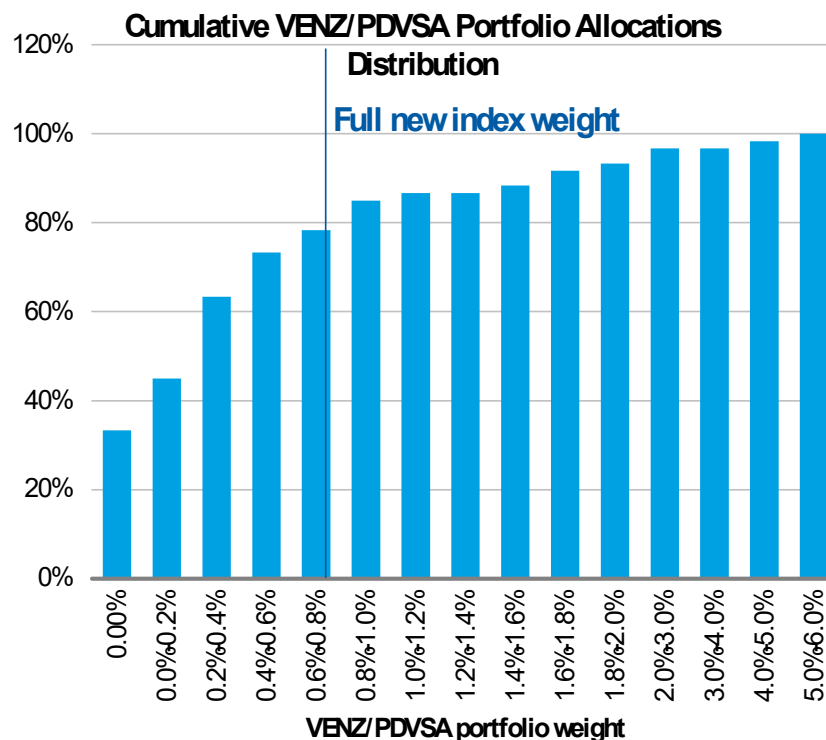
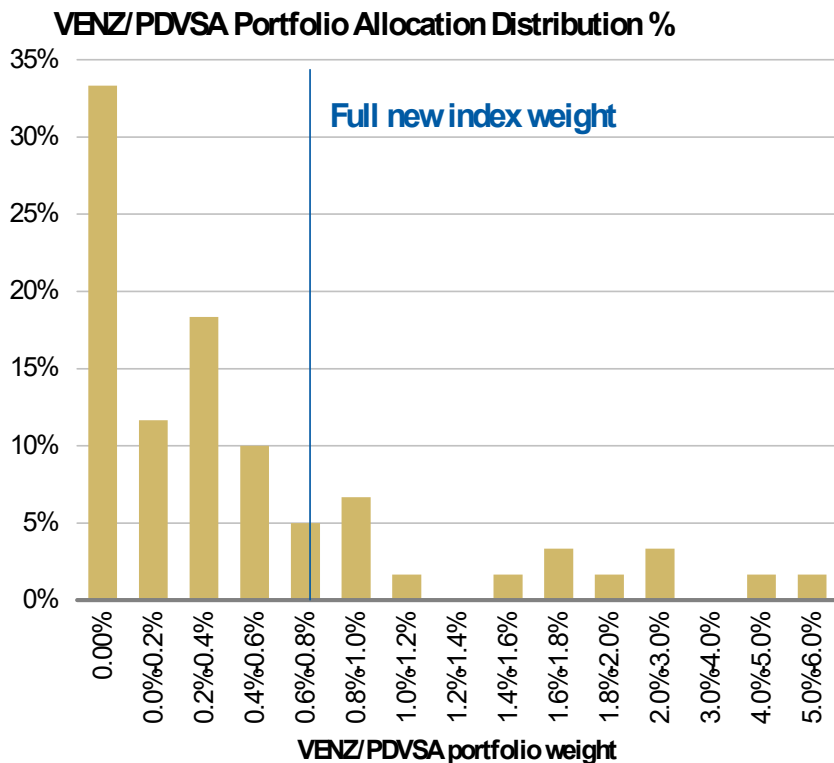
Once re-weighted, we estimate the weight of VENZ/PDVSA would be 0.73% in the EMBI Diversified and 0.86% in the EMBIG. On average, the index would be holding around 26% of the outstanding of each bond if every fund was market-weight.

ISIN	Security	Price	EMBI	EMBI Div	Mkt value	Notional	Outstg.	%
			Global wgt.	wgt.				Outstg.
USP7807HAV70	PDVSA 8 1/2 10/ 27/ 20	84.0	0.14	0.11	0.38	0.45	1.68	27%
USP7807HAP03	PDVSA 9 11/ 17/ 21	12.4	0.03	0.02	0.08	0.66	2.39	28%
USP7807HAM71	PDVSA 12 3/ 4 02/ 17/ 22	13.2	0.04	0.03	0.10	0.78	3.00	26%
USP7807HAT25	PDVSA 6 05/ 16/ 24	12.3	0.06	0.05	0.17	1.34	5.00	27%
USP7807HAR68	PDVSA 6 11/ 15/ 26	12.4	0.05	0.04	0.15	1.20	4.50	27%
XS0294364954	PDVSA 5 3/ 8 04/ 12/ 27	12.2	0.03	0.03	0.10	0.81	3.00	27%
USP7807HAQ85	PDVSA 9 3/ 4 05/ 17/ 35	12.6	0.04	0.03	0.10	0.80	3.00	27%
XS0294367205	PDVSA 5 1/ 2 04/ 12/ 37	12.2	0.02	0.01	0.05	0.40	1.50	27%
USP97475AN08	VENZ 7 3/ 4 10/ 13/ 19	15.8	0.04	0.03	0.11	0.67	2.50	27%
USP97475AG56	VENZ 6 12/ 09/ 20	15.5	0.02	0.02	0.06	0.39	1.50	26%
USP17625AC16	VENZ 12 3/ 4 08/ 23/ 22	17.4	0.05	0.04	0.13	0.76	3.00	25%
USP17625AA59	VENZ 9 05/ 07/ 23	17.0	0.03	0.03	0.09	0.51	2.00	25%
USP97475AP55	VENZ 8 1/ 4 10/ 13/ 24	18.0	0.04	0.03	0.12	0.64	2.50	26%
XS0217249126	VENZ 7.65 04/ 21/ 25	18.0	0.03	0.02	0.07	0.40	1.60	25%
USP17625AE71	VENZ 11 3/ 4 10/ 21/ 26	19.0	0.05	0.04	0.14	0.73	3.00	24%
US922646AS37	VENZ 9 1/ 4 09/ 15/ 27	19.1	0.07	0.06	0.19	0.97	4.00	24%
USP17625AB33	VENZ 9 1/ 4 05/ 07/ 28	18.5	0.03	0.03	0.09	0.50	2.00	25%
USP17625AD98	VENZ 11.95 08/ 05/ 31	19.0	0.07	0.06	0.20	1.03	4.20	24%
US922646BL74	VENZ 9 3/ 8 01/ 13/ 34	18.6	0.02	0.02	0.07	0.37	1.50	25%
USP97475AJ95	VENZ 7 03/ 31/ 38	17.8	0.02	0.02	0.06	0.33	1.25	26%
US922646AT10	VENZ 13 5/ 8 08/ 15/ 18	16.6	0.00	0.00	0.00	0.00	0.75	0%
USP97475AD26	VENZ 7 12/ 01/ 18	15.8	0.00	0.00	0.00	0.00	1.00	0%
XS1126891685	PDVSA 6 10/ 28/ 22	10.8	0.00	0.00	0.00	0.00	3.00	0%
USP97475AQ39	VENZ 6 1/ 2 12/ 29/ 36		0.00	0.00	0.00	0.00	5.00	0%
Total			0.86	0.73	2.44	13.76	62.87	26%

Source: Bloomberg, Morgan Stanley Research forecasts; Note: EMBI Global and EMBI Div. are our estimated weights in % of the benchmark. Market value is the amount in billions held by benchmarked funds if all are market-weight, which is then translated into notional amounts in the following column. Finally we show this as a share of the bonds outstanding.

Bond Details | Bond Ownership Data

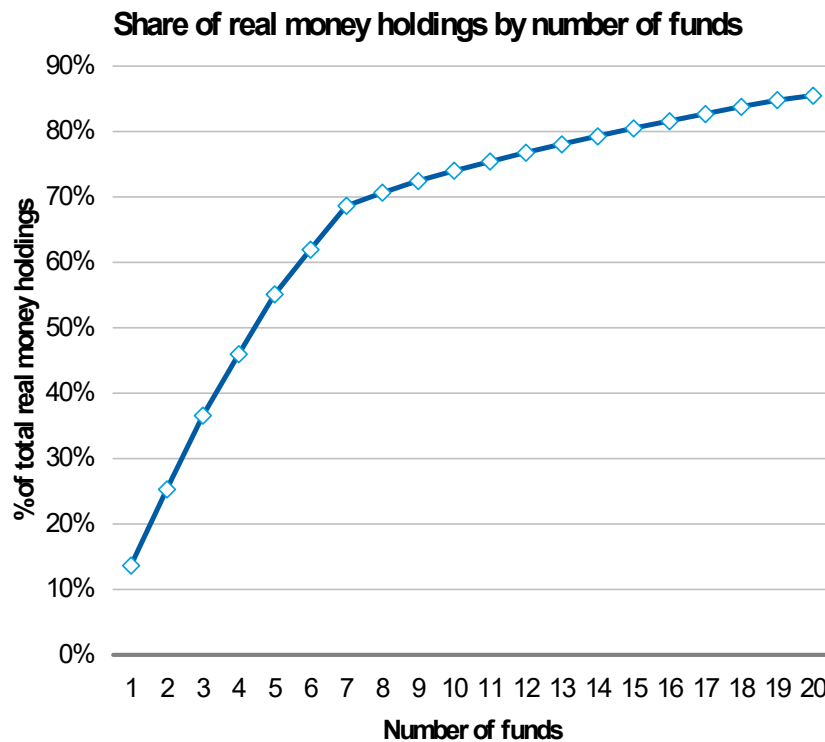
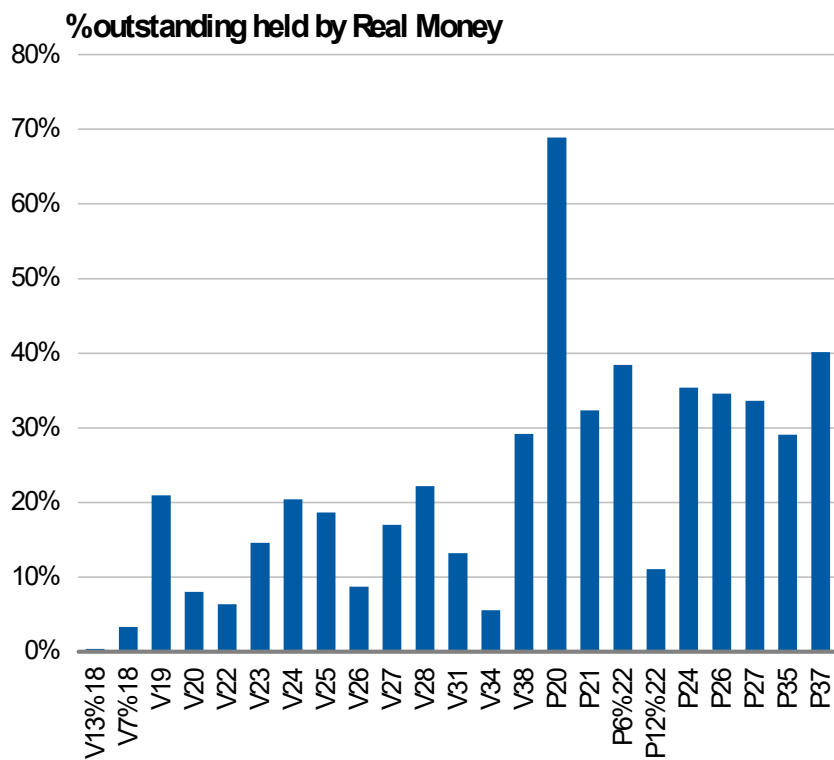
A subset of EM-dedicated real money funds (60 funds, US\$66 billion AUM) suggests that 33% of funds have zero VENZA/PDVSA exposure and another 40% have some exposure but below the potential new benchmark weight.



Source: Bloomberg, Morgan Stanley Research forecasts

Bond Details | Bond Ownership Data (Continued)

Looking at total real money exposures as visible by their current holdings, they hold around US\$15 billion in notional already. However, it's extremely concentrated. For instance, just seven funds hold nearly 70% of the entire real money exposure. Also, there is a clear preference for PDVSA over VENZ.



Source: Bloomberg, Morgan Stanley Research forecasts

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(as of September 30, 2023)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1350	37%	281	43%	21%	608	39%
Equal-weight/Hold	1673	46%	303	46%	18%	709	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	608	17%	68	10%	11%	225	15%
Total	3,634		652			1543	

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