Venezuelan bond – potential restructuring path

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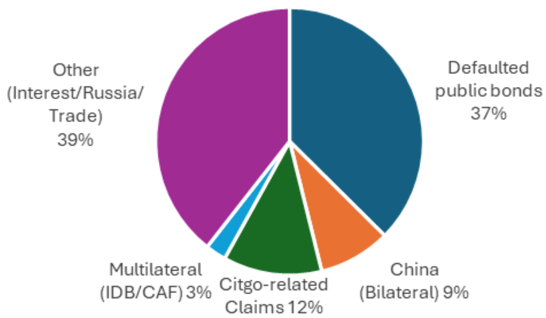
PRIVATE BANKING

Following Maduro's capture by US armed forces over the weekend, Venezuelan government bonds rallied sharply on Monday and are stabilising at the time of writing. Some market participants are speculating about the possibility of a debt restructuring as early as 2026. That said, any restructuring process is likely to be lengthy and complex, and a favourable outcome for creditors cannot be taken for granted. Early signals from the US administration, including its approach to outstanding commercial claims held by Eni and Repsol, suggest that creditor interests may remain secondary to political objectives.

Who holds Venezuela's debt?

Venezuela and state-owned oil company PDVSA have roughly $60 billion of defaulted public bonds, while their total external debt including bilateral loans and legal awards amounts to $150–170 billion.

Venezuela Total External Debt Breakdown (estimated $160 billion)



Citgo: CITGO Petroleum Corporation operates US-based oil refineries and is 51% owned by PDVSA. This equity stake serves as collateral for PDVSA 2020 secured bond
IDB: Inter-American Development Bank
CAF: Corporación Andina de Fomento, a development bank
Source: Syz Bank

Venezuelan sovereign bonds are predominantly held by institutional emerging market and distressed-debt investors (e.g. BlackRock, Fidelity, Invesco). PDVSA bonds have a more fragmented holder base, including large asset managers, hedge funds, and retail investors.

Cash flows from potential higher oil production

Despite stated interest from the Trump administration in Venezuela's oil reserves, international oil majors have not signalled any intention to increase investment in the country yet. Venezuela's reserves are predominantly made of heavy and extra-heavy crude, which entails an elevated cost of production. The full cycle breakeven price including capex is estimated at around $40 per barrel. Venezuela produced about one million barrels a day in 2025. With oil price at $50-$60 per barrel, Venezuela would unlikely be able to repay its defaulted bonds giving its high debt-to-GDP nearing 200%.

In fact, in recent years, Venezuela relied on imported gas and naphtha from Repsol and Eni to dilute its heavy crude for easier transport and export. However, since March 2025, the US government revoked special licences that allowed foreign firms to operate in Venezuela, effectively cutting off access to these critical inputs.

Absent the support of foreign partners, some capital injections and supply of diluent gas, PDVSA would not be able to sustain higher production in the near term, despite the country's large geological reserves.

Risk of prioritising reconstruction over creditors

If history is any guide, a parallel could be drawn with Iraq following the 2003 invasion. At this time, the US government froze creditor claims, granted legal immunity to Iraqi oil revenues and state assets, and pushed creditors to accept an 80% haircut to prioritise reconstruction.

Specifically, President George W. Bush used executive orders to grant legal immunity to Iraqi oil revenues and state assets. That effectively paused creditors' enforcement rights and prevented creditors from claiming assets while Iraq was under reconstruction.

Moreover, the US led negotiations for an 80% debt haircut on creditors, delivered in three stages: structured as 30% immediate cancellation, an additional 30% after an IMF programme, and the remaining 20% upon further compliance.

Iraq did not publicly issue bonds at the time, but had bilateral obligations to foreign governments, international banks, funds, and suppliers. The largest Paris Club creditors were Russia (approximately $10 billion loans being cancelled), France ($6 billion, primarily export-credit related), and Germany ($5 billion, also export-credit related). In total, the Paris Club's $39 billion of nominal claims was restructured with an 80% haircut. Exposure of international banks through export-credit facilities was largely absorbed by sovereign guarantors. Uninsured supplier claims, including exposures held by Siemens, ABB, and Alstom not covered by export credit guarantees, suffered even steeper haircuts.

The path for normalisation

Any meaningful restructuring of Venezuela's debt ultimately hinges on the normalisation of relations with the US, as the current ban on primary market transactions would need to be lifted. Recent remarks from the US Secretary of State, Marco Rubio, emphasising that Washington intends to retain "leverage" over any interim authority, point to a gradual and conditional normalisation process under the US influence and oversight.

María Corina Machado, the most prominent opposition figure to Maduro exiled overseas, has stated her intention to return to Venezuela. She has recently won Nobel Peace Prize for her tireless work in promoting democratic rights. However, President Trump stated that Machado "doesn't have the support or the respect within the country" to govern.

Meanwhile, Trump has also criticised Delcy Rodríguez, Maduro's former Vice-President just sworn in interim President, as a senior architect and enforcer of the Chavez/Maduro regime. He accused the leadership circle around Rodríguez of mismanaging Venezuela's oil wealth and engaging in systemic corruption.

In this context, the outlook for political leadership in Venezuela remains highly uncertain. The path to normalisation, and ultimately a potential debt restructuring, are likely to be conditional and highly political. The existing power structure remains a clear obstacle to sanctions relief and diplomatic normalisation.

Our conclusion

Recent developments in Venezuela have reopened the prospect of a resolution for holders of Venezuelan government and PDVSA bonds, which have been subject to US sanctions since 2017.

However, the situation remains highly uncertain, both in terms of Venezuela's political trajectory and the eventual treatment of legacy bonds and commercial claims.

While a favourable outcome for bondholders cannot be ruled out, it would require a favourable combination of political will and economic conditions, including a constructive oil price environment.

At this stage, Venezuelan government and PDVSA bonds should be viewed as highly speculative, with valuations depending more on political and market dynamics.

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