By Jason Mitchell

The Venezuelan bolivar remains almost 40% overvalued despite a 32% devaluation in February and another devaluation this year or next is on the cards, according to analysts.

On 8 February, the Central Bank devalued the official rate - which operates through a system called Cadivi - to 6.3 bolivars per dollar from 4.3. Before the move the currency was overvalued by 53% and today remains overvalued by 38%, according to RBS.

The authorities also decided to scrap the Sitme system, a tightly regulated trading platform allowing individual and corporate investors to buy Venezuelan public debt with local currency and then sell that debt on for US dollars. It was a kind of foreign exchange market that works through bonds but was not a market for bonds.

It was a third market overseen - but never publicly acknowledged by - the Central Bank and it operated alongside the official and black markets. It had an implied exchange rate of 5.3 bolivars per dollar (on the current black market, the dollar is fetching up to 25 bolivars). Analysts expect another third market to emerge at some stage and the government has not totally ruled out the Central Bank overseeing this.

“The devaluation was not supposed to be transformational,” says Alberto Ramos, Venezuela analyst at Goldman Sachs. “It does nothing to fix the underlying imbalances of a dysfunctional economy. It was long overdue but does not go far enough.

“A devaluation of 70% might have started to put matters right. The truth is that fiscal profligacy is inconsistent with the fixtures of a fixed exchange rate regime. I think there will be another large devaluation towards the end of this year or at the start of next.”

A devaluation of February’s magnitude should remove up to 4 per cent off the central government budget deficit, which ended the year at around 8 to 9 per cent of GDP, according to Barclays. However, the total public deficit - including PDVSA, the state-owned oil giant and Fonden, the national development fund, and other government agencies - added up to 19.6 per cent of GDP last year, says Barclays.

The devaluation is also good news for PDVSA, a major oil exporter, as it will have more bolivars to pay its bills and to invest, without having to increase its debt issuance.

PDVSA last tapped the markets in May last year when it issued a USD3bn bond, maturing in 2035. Its coupon was comparatively high for an oil and gas company at 8%. PDVSA says it has no current plan to issue a bond in the international markets and that it would prefer to issue in the domestic market first. The local market remains highly liquid following the government spending spree in the run-up to the presidential elections last October.

The devaluation had little impact on the yield on Venezuela's bonds, as the markets had largely factored it in. The country's bonds have been among the best performing in the world over the past eighteen months, says Capital Economics. According to the EMBI, yields on the government's foreign currency debt have fallen by about 600 basis points since October 2011 and now stand at around 9%. Capital Economics believes that the country's bond yields could return to double digits because of on-going political uncertainty and the expectation that oil prices will fall below USD100 per barrel over the next year or so.

However, Victor Rodriguez, president and chief executive of LatAm Alternatives, a hedge fund consultancy, says: "I am very bullish about Venezuela. I think we are seeing a much more pragmatic leadership emerging in the country."