FMO prints Boliviano debut to develop frontier markets

By Frank Jackman

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The Netherlands Development Finance Company (FMO) sold the first offshore Bolivian boliviano bond last Friday. The currency-linked bond was structured by the Currency Exchange Fund (TCX), of which FMO is a part owner, and is part of a wider push to develop frontier capital markets.

“We wanted to attract interested investors and set a benchmark for the currency cost of funds,” said Othman Boukrami, head of trading at TCX. “Any investors looking to invest in Bolivia would be interested to see the risk-free cost of funds in bolivianos. Currently, they can look at local government bonds, but with capital controls and over liquidity in the local banking sector, government bonds are not necessary a good indication of the real cost of funds. Therefore, having a triple-A issuer issuing offshore helps define the real cost of the currency.”

FMO placed the $5m 5.75% September 2021 synthetic boliviano-linked note last Friday. The note pays and redeems in dollars, and is linked to the dollar/boliviano exchange rate. **Citi** priced the deal at par. “The investor likely had an interest in buying an exotic currency as it looks to benefit from the exposure it can’t easily get otherwise,” said one MTN banker. “Issuers benefit from issuing in a range of currencies, but with all proceeds in dollars, there is no convertibility or regulatory risk when issuing synthetic local currency offshore,” said Boukrami.

FMO has been a regular issuer of synthetic currency-linked notes this year, having sold paper linked to the Myanmar kyat and Tajikistani somoni in the past month. The trade was not run “from an arbitrage or profit perspective”, said Boukrami. TCX is looking into extending its hedging facilities into longer tenors. “Now that we have done quite a sizeable amount, we want to move into longer tenors,” said Boukrami. “We have created a benchmark, and we want to lengthen the yield curves from three to five years to 10 years or longer, where we have prospective exposure from the infrastructure and clean energy sector.”

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