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Mexican Government Issues Bonds on Japanese, European Markets

by LADB Staff
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Despite a recent surge in Mexico's foreign debt, in the first 10 weeks of 1996 the Mexican government announced the issue of a total of US$2.3 billion in bonds on foreign markets. President Ernesto Zedillo's administration announced the two latest issues in mid-March, one on the Tokyo market and the other in Rome. The largest of the two recent issues involved the placement of 30 billion yen (US$284 million) in six-year Samurai bonds on the Japanese market. The bonds will pay an annual interest rate of 6%, which is 3.83 percentage points higher than similar US Treasury instruments for the same time period. Daiwa Securities acted as the principal agent for the Mexican government in the placement of the bonds.

According to a statement by the Finance Secretariat (SHCP), the bond issue allows the Mexican government to convert its short-term debt to longer-term instruments while reducing financing costs. "This issue coincides with the favorable conditions in the Japanese market at this time," the SHCP said. This was the fifth time the Mexican government has issued bonds on Tokyo financial markets. The first Mexican government agency to issue bonds in Tokyo was the financial lender Nacional Financiera (NAFINSA), which placed the equivalent of US$95 million in Samurai bonds in Tokyo in October 1993 (see SourceMex, 10/13/93).

Meanwhile, two days before the bond issue in Japan, Mexico's state-run oil company PEMEX announced the issue of 300 billion lira (US$192.6 million) in bonds on Italian financial markets. With this issue, PEMEX became the first Mexican government agency ever to issue bonds on the Eurolira market. The lead issuers were the US-based J.P. Morgan bank and Banca Commerciale Italiana. Other participating banks include Germany's Deutsche Bank and the French-based Banque Paribas. The Mexican government's recent bond issues have raised some concerns about the country's rapidly growing public debt.

In a report released in February, the SHCP estimated Mexico's total public debt had surged to US$90.3 billion as of year-end 1995, an increase of 16% compared with 1994. This increase in the foreign debt was caused in large measure by the financial crisis that followed the devaluation of the peso in late 1994. The crisis forced the government to increase borrowing to pay off maturing financial instruments. At the same time, the assistance package provided by the US and multilateral institutions gave Mexico enough maneuvering room to return to the global financial markets in August to convert short-term debts into longer-term instruments.

Still, a report from the Banco de Mexico (Central Bank) in early March indicated that Mexico spent US$13.3 billion in interest payments during 1995, an increase of 8% over the US$12.3 billion spent on interest payments in 1994. Indeed, a recent report from the World Bank said Mexico surpassed Brazil in 1995 as the developing country with the largest overall foreign debt. According to the report, Mexico's total foreign debt reached US$158 billion in 1995, an increase of 16% compared with 1994,
while Brazil's 1995 debt was US$157 billion. (Sources: El Financiero, 02/16/96; Inter Press Service, 03/14/96; Reforma, 02/16/96, 03/14/96, 03/15/96; Excelsior, 02/16/96, 03/14/96, 03/15/96; El Financiero International, 03/18/96)

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