4-24-1996

Mexico to Swap Existing Brady Bonds for New 30-Year Bonds

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Mexico to Swap Existing Brady Bonds for New 30-Year Bonds

by LADB Staff
Category/Department: Mexico
Published: 1996-04-24

In mid-April, the Mexican government announced plans to issue between US$1 billion and US$2.5 billion worth of new 30-year, dollar-denominated bonds. The bonds, which mature in the year 2026, are to be swapped for US-backed Brady bonds, which mature in the year 2019. Through this maneuver, the Mexican government hopes to reduce borrowing costs and extend the repayment period on bonds. According to the Finance Secretariat (SHCP), the swap of the Brady bonds for the new "global bonds" will allow Mexico to reduce its foreign debt by as much as US$1.5 billion.

According to financial analysts, Brady bonds issued by Mexico have lost much of their value during the past 16 months because of the economic crisis that followed the devaluation of the peso in late 1994. To address this problem, President Ernesto Zedillo's administration has decided to "swap" the Brady bonds for the global bonds. The Brady bonds were created by former US president George Bush's administration as a means to overhaul debt in Latin America. The bonds are named after Bush's treasury secretary, Nicholas Brady, who was primarily responsible for developing the debt overhaul program. Repayment of the principal on bonds is backed by US Treasury bonds owned by the issuing country and held by the Federal Reserve Bank in New York. Mexico's debt in Brady bonds currently rests at more than US$23 billion.

Speaking to reporters, Finance Secretary Guillermo Ortiz said the new bonds will probably carry an interest rate of between 10.3% and 11.5%, which is lower than the interest paid on Brady bonds. In addition, he said, the bond swap frees up collateral for the Mexican government to use toward payment of other high-interest, short-term loans, as well as for repayment of the debt owed to the US for the economic rescue package engineered by US President Bill Clinton in January 1995 (see SourceMex, 02/01/95). Some financial analysts noted that the swap could also free up money in the Mexican Treasury for expenditures on programs that benefit the population.

According to SHCP officials, the Zedillo administration made the decision to conduct the bond swap only after determining that there was sufficient demand. "We conducted market surveys through intermediaries and were certain the bonds have acceptance," the SHCP said. The Mexican government expects to initially issue a total of US$1 billion in bonds, but it could increase the amount to US$1.5 billion if demand is greater than expected. The first bond issue will be conducted in financial markets in the Netherlands on May 1. The issuing agents will be Goldman Sachs & Co; Chase Securities, Inc; Deutsche Morgan Grenfell; and Salomon Brothers. "Because of the high risk, the main purchasers will be institutional investors," the SHCP said. "The bonds will be acquired principally by banks, brokerage houses, and businesses."

The swap appears to reflect growing confidence by the Mexican government in the economy. Indeed, the new global bonds will be guaranteed entirely by the Mexican government. In contrast, the Brady bonds are backed by the US Treasury and are subject to fluctuations in US interest rates.
"Even though these new bonds carry a higher risk, they are also more profitable," the SHCP said. Some fund managers told Dow Jones-Associated Press that the Mexican government had very little to lose and much to gain from the bond swap. "The maneuver is positive for Mexico, since this demonstrates a new level of confidence in the economy just one and a half years after the country's economic crisis erupted," said Larry Daly, an executive with John Hancock Funds in Boston.

Meantime, David Rolley, administrator of Loomis Sayles & Co., acknowledged that investors would be exchanging bonds that are guaranteed by the US government for more volatile Mexican-backed 30-year bonds. On the other hand, he said the yield provided by the new 30-year bonds would be enough to attract investors. Simon Nocera of GT Global's High Income Fund in Los Angeles agreed, predicting that many investors will be attracted by the higher yields despite the increased risk. "Definitely, I am very interested," said Nocera.

But other fund managers such as Ashwin Vassan, director of Oppenheimer International Bond Fund in New York, said they did not see any incentives for exchanging their Brady bonds for the new global bonds. "Mexico is merely attempting to test the market to see if Brady bonds can be exchanged for Eurobonds," said Vassan. "There just doesn't appear to be enough incentive for investors to enter into this transaction." (Sources: Deutsche Press Agentur, 04/11/96; Associated Press-Dow Jones, 04/17/96; El Financiero, 04/11/96, 04/18/96; Notimex, New York Times, 04/18/96, 04/20/96; Reforma, 04/18-20; El Financiero International, 04/22/96; La Jornada, Excelsior, 04/18/96, 04/19/96, 04/23/96)

-- End --