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In early May, the Finance Secretariat (SHCP) announced the successful placement of US$3 billion worth of 30-year bonds, which were swapped for US$1.75 billion of US-backed Brady bonds. According to Finance Secretary Guillermo Ortiz Martinez, the new bonds, which mature in the year 2026, will enable the Mexican government to retire US$1.25 billion in debt. He said the savings will be used to pay off short-term debt obligations and also will be applied toward government social programs. Ortiz reported strong demand for the new bonds during the May 2 auction, with investors at first seeking to swap close to US$3 billion in Brady bonds for the new 30-year bonds. However, many of the bids fell short of the government's target, and, as a result, only US$1.75 billion was accepted for swap. The government had hoped to retire between US$1.5 billion and US$2.5 billion in Brady-bond debt when the issue of the new global bonds was first announced in mid-April (see SourceMex, 04/24/96).

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 decided to carry out the bond-swap scheme. The government will pay a rate of about 5 percentage points above similar US Treasuries for the new 30-year bonds, which analysts said is fair value for the paper. The new bonds will yield 12.40%. SHCP officials say Mexico may conduct another issue of global bonds at the end of this year or in early 1997. Any subsequent issues, however, will involve only 10-year or 20- year bonds.

"This operation was a sign of confidence by international investors in the long-term prospects of the Mexican economy," the SHCP said in a prepared statement. "We are certainly very pleased," Zedillo's economic spokesman, Alejandro Valenzuela, told reporters. "It is a very encouraging sign to be able to place 30-year bonds." Notwithstanding the positive statements by Mexican government officials, reaction to the issue was mixed in the investment community. For example, Robert Kowit, fund manager at the New York-based investment house Federated Global Research Corporation, said the issue probably fell short of the government's expectations. "It was not a disaster," he said. "But it wasn't the spectacular success the Mexican government was expecting."

Still, even though the actual amount of Brady bonds swapped fell below the government's target, analysts said the maneuver clearly demonstrated that enough demand exists to viably transfer high-cost debt to lower-cost debt. "It is an improvement on their debt program, and there will be savings on debt servicing," analyst Jim Sullivan of Technical Data told Reuter news service. According to statistics provided by the investment houses that handled the bond issue, institutional investors in the US acquired about US$1 billion of the total bond issue, while Mexican banks took US$600 million, of which Mexico's domestic development bank Nacional Financiera (NAFINSA) accounted for US$200 million. While demand was strong in the US markets, there was little interest for the new bonds in Europe, except for some participation by banks in Germany, Britain, and France.

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International economists were impressed by the success of Mexico's debt-swap program, which they said serves as a model for other Latin American countries, such as Argentina.

On a related matter, the SHCP announced plans to conduct a new issue of yen-denominated Samurai bonds in the Japanese financial markets. The bonds, which will mature in 10 years, will be similar to those issued in March of this year (see SourceMex, 03/20/96). The SHCP expects to issue about 100,000 yen (US$945 million) of the Samurai bonds. The new Samurai bond will pay a fixed coupon rate of 6.75%, which, in dollar terms, would be 4.10 percentage points above US Treasury bonds of the same maturity. Mexican government agencies have thus far conducted eight separate issues of yen-denominated bonds since 1973. Three of those have been placed in the past year in European markets and one in the Japanese financial markets. (Sources: Reuter, Associated Press-Dow Jones, 05/01/96; La Jornada, 05/03/96; El Financiero International, 05/06/96; Excelsior, 05/02/96, 05/03/96, 05/16/96; Agence France-Presse, 05/15/96)

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