9-18-1996

Mexico Issues Medium, Long-Term Debt on International Markets

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 Issues Medium, Long-Term Debt on International Markets

by LADB Staff
Category/Department: Mexico
Published: 1996-09-18

During September, the Finance Secretariat (SHCP) announced two separate bond issues on international markets, designed to raise more than US$1.6 billion to refinance the country's public debt. The first debt issue, offered on the Japanese financial markets, involved the equivalent of 70 billion yen (US$640 million) in medium-term bonds maturing in the year 2002. The second debt issue involved US$1 billion in 20-year bonds and was conducted on several financial markets around the world. The medium-term debt issue was the third offer of Samurai bonds made by Mexico so far this year on Japan's financial markets. In March, the Mexican government sold 30 billion yen worth of six-year Samurai bonds that paid 6% interest, and in June it sold 100 billion yen worth of ten-year debt with a 6.75% annual interest. The funds obtained from the bond issue in March were used to pay US$1 billion in debt owed by the Mexican government to the International Monetary Fund (IMF). With that payment, Mexico reduced its debt to the IMF to US$14 billion (see SourceMex, 07/31/96).

The SHCP said the funds obtained from the latest issue of Samurai bonds will be combined with an issue placed on German markets earlier this year to refinance a US$1.5 billion issue of Treasury certificates and other financial instruments, which are due to mature in November of this year. According to the SHCP, the latest issue of Samurai bonds will cover the government's short-term funding needs for the rest of 1996. The Samurai bonds were underwritten by a consortium of 23 financial institutions headed by Tokyo-based Daiwa Securities. According to the SHCP, the government obtained more favorable terms for the bonds than in the previous two issues since the technical costs incurred when selling the certificates in Japan are much lower this time.

The SHCP says that the improved terms reflect growing confidence among Japanese investors in the Mexican economy. In fact, the US-based rating agency Standard & Poor's (S&P) announced a generally favorable "BB" rating for the new Samurai bonds. In an interview with the daily newspaper The News, S&P specialist Lacey Gallagher said the rating reflects the credit agency's belief that "Mexico's vulnerability to potential shocks is lower than it used to be." Earlier in the month, S&P revised the outlook for Mexican debt obligations from "negative" to "stable." According to Gallagher, the rating was changed because the government has adhered to a tight monetary policy, which the company considers a prerequisite for credit stability.

Separately, in mid-September the SHCP announced plans to issue 20-year global bonds valued at about US$1 billion. This debt issue was originally set at US$750 million, but was increased by US$250 million the following day because of strong demand in the global markets. "The bond's acceptance rate was obviously good," said Sergio Garcia, an analyst with Value Brokerage. "Because buyers solicited more bonds, the government raised the issued amount and offered more." The Mexican government will pay annual interest on the new 20-year bonds at a rate about 4.45 percentage points above the rate paid on US Treasury bonds with the same maturity. This is the
Mexican government's second issue of long-term bonds for 1996. In May, the SHCP issued US $1.75 billion in 30-year bonds at a rate about 5.5 percentage points above US Treasury bonds (see SourceMex, 05/22/96). According to the SHCP, both issues of long-term bonds are part of an overall strategy to transfer the country's public debt into more liquid investments. The long-term bonds will be denominated in US dollars.

Unlike the yen-denominated Samurai bonds, this latest debt sale was not made to pay back rollover debt. "The government had no real need to issue more debt," said Enrique Ramirez, an analyst with Santander Brokerage. Instead, the issue was driven by favorable market conditions and economic stability in Mexico, according to Ramirez. Ramirez said a total of US$1.5 billion of the Mexican government's debt is scheduled to mature in 1997. By selling bonds worth US$1 billion now, the government has virtually ensured funds to refinance next year's debt. According to the daily business newspaper El Financiero, the reduction in debt obligations for 1997 will reduce interest payments by about US$125 million next year. Still, despite the government's recent success in refinancing debt, the newspaper pointed out that Mexico remains vulnerable to the cyclical nature of global capital markets, which include the possibility of unfavorable changes in foreign interest rates. (Sources: Novedades, Excelsior, Notimex, 09/05/96; El Financiero, La Jornada, 09/17/96; The News, 09/05/96, 09/18/96; El Universal, 09/05/96, 09/06/96, 09/17/96, 09/18/96)