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In early March, the Mexican government returned to the international bond market with the issue of US$1 billion in 10-year government obligations. The proceeds will pay off most of the US$1.5 billion in government debt scheduled to mature this year. Marco Provencio, a spokesman for the Secretaria de Hacienda y Credito Publico (SHCP), said the issue coincided with a recent decline in global interest rates, which allowed the Mexican government to lock in very favorable financing terms.

The 10-year bonds, placed primarily on the Luxembourg financial market, carry an 8.63% interest rate. "This was the least-costly issue since our return to the capital markets at the beginning of the decade," the SHCP said in a prepared statement. The issue is being handled by an international consortium of banks and investment companies headed by US-based Morgan Stanley Dean Witter.

Sources for the consortium said initial demand was very strong, even though some investors considered the yield too low. The 8.63% interest rate was only 2.88 percentage points above the rate for US Treasury notes. Some financial analysts said perception of a stable Mexican economy more than compensated for the low yields.

In an interview with the Reuter news service, one banking source said he could have easily sold US$2 billion in bonds if the Mexican government had increased the offering beyond the original US$1 billion. "Mexico still has a safe-haven status, which is not necessarily the case in other Latin American and European economies," said analyst Peter Harvey of Foreign & Colonial Emerging Markets Ltd. in London. The bond issue probably does not signal a major return of Mexico to the bond market.

The SHCP said the government is planning another issue of US$500 million later this year to cover the remainder of the US$1.5 billion due to mature this year, but no other issues are anticipated. In 1997, the government issued about US$5.7 billion in bonds, a sharp contrast to the US$26.7 billion placed on European, Asian, and US markets the previous year. Last year's issues, however, were close to the US$4.7 billion placed during 1995. (Sources: Notimex, Bloomberg News service, 03/04/98; El Universal, Reuter, 03/05/98; Excelsior, 02/24/98, 03/06/98; El Economista, The News, 03/05/98; 03/06/98; El Financiero International, 03/09/98)

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