2-17-1999

Mexico Active in Bond Market Despite Uncertain Latin American Economy

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 Active in Bond Market Despite Uncertain Latin American Economy

by LADB Staff
Category/Department: Mexico
Published: 1999-02-17

The Mexican government announced two major bond issues during February despite the uncertain economic outlook for Latin America as a result of the financial crisis in Brazil.

In early February, the Secretaria de Hacienda y Credito Publico (SHCP) successfully placed US$1 billion in 10-year bonds on international financial markets to help refinance part of the debt owed multilateral institutions that is due to mature this year. About US$13 billion in debt to multilateral institutions matures in 1999 and 2000, with about US$8 billion of that owed to the International Monetary Fund (IMF).

Mexican officials are scheduled to meet with IMF officers during February to discuss renegotiating some of this debt. The state-run oil company PEMEX followed the SHCP issue by placing its own US $1.5 billion bond on financial markets in mid-February to finance ongoing capital projects.

The latest PEMEX issue followed a similar issue of US$1.5 billion in December 1998, also to finance capital projects. The oil company, hit hard by the government's budget cuts during 1998, is using bond issues to raise capital to continue projects like the modernization of the Cadereyta refinery in Nuevo Leon state (see SourceMex, 12/09/98).

Mexican bonds offer reduced risks for investors Economists said the government has attracted strong investor interest in recent bond issues through creative financing that allows investors to minimize their risks. For example, a Mexico City-based financial specialist said the SHCP issue offered investors the option to exchange Mexican Brady bonds for plain Mexican securities within a one-year period. "I don't think a private issuer could be as creative as the government in giving an option within a bond, something that makes the issue more attractive," the financial specialist told Reuters.

Meantime, PEMEX used expected petroleum production to back the bond issues announced in December and February. "Guaranteed emissions allow the issuers to obtain inexpensive financing by using their earnings from their resources as collateral," said a London-based financial analyst.

Some economists attributed the Mexican government's recent success in placing new bonds to perceptions among investors that the Mexican economy is in relatively good shape compared with other Latin American countries.

"The placement of the [global bond] showed that the Mexican economy's structural risks are being somewhat separated from those of the rest of the region," said Francisco Chavez, an economist with Mexico City's Interacciones brokerage.
Government and private economists are projecting Mexico's GDP growth at 2.5% during 1999. While this rate is lower than the estimated GDP growth of about 4% in 1998, economists said the outlook for Mexico is much brighter than for Brazil, whose GDP could decline by as much as 7%. (Sources: Notimex, 02/15/99; La Jornada, 02/03/99, 02/16/99; Reuters, 02/04/99, 02/15/99, 02/16/99; Associated Press-Dow Jones news service, 02/04/99, 02/16/99; Novedades, El Economista, 02/05/99, 02/16/99; Bloomberg news service, El Universal, 02/16/99; Excelsior, 02/05/99, 02/16/99, 02/17/99 The News, 02/17/99)

-- End --