3-17-1999

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Mexico Refinances US$1.88 Billion in Private Debt Due in 2000

by LADB Staff

Category/Department: Mexico
Published: 1999-03-17

The Mexican government has refinanced about US$1.88 billion in debt that was due to mature in 2000. The debt, which was converted into medium- and long-term obligations, was part of a US $2.67 billion line of credit Mexico obtained in October 1998 to help cope with the impact of financial instability in global markets.

Finance Secretary Jose Angel Gurria Trevino, who announced the debt restructuring at a meeting of the Inter-American Development Bank (IDB) in Paris in mid-March, said Mexico will still have to make a US$785 million payment on the original debt sometime in April 2000. The debt is owed to a consortium of 33 commercial banks, including US-based giants J.P. Morgan & Co. and Chase Manhattan Corp. Gurria did not disclose the interest rates for the renegotiated debt but said the debt conversion would have very little impact on Mexico's foreign reserves.

Renegotiation of IMF debt also possible

The agreement to restructure debt owed to private commercial banks coincides with a possible renegotiation deal with the International Monetary Fund (IMF). The visit of several IMF officials to Mexico City in early March set off speculation that Mexico could soon announce an accord to change the expiration dates for part of the US$8-billion debt owed the multilateral institution in 1999 and 2000.

President Ernesto Zedillo's administration incurred the IMF debt in 1995 as part of the US$50-billion rescue following the 1994 devaluation of the peso. The IMF portion of the package was US$17 billion, of which US$9 billion has been repaid (see SourceMex, 1995-04-19)

The visit by the IMF team to Mexico City also precipitated rumors that Mexico was the first country under consideration for a new contingency credit mechanism designed to prevent financial crises before they happen. But an IMF spokesperson denied the rumors, which were reported by the Wall Street Journal. "In our regular talks with Mexico, we have discussed the possibility of future IMF support for another Mexican program, but no decision has been taken and figures were not discussed," the IMF spokesperson said.

Some financial analysts said Mexico's move to renegotiate private and multilateral debt due in 2000 is part of an effort to help the governing Partido Revolucionario Institucional (PRI) in presidential elections that year. "[The debt renegotiation] is very supportive," said analyst Felipe Garcia of IDEA consultants in New York.

"Election years in Mexico are usually pretty rocky." Gurria acknowledged that the deals with commercial banks and possibly the IMF could help stabilize the Mexican economy. But he denied they were an effort to influence the 2000 elections. "Independent of the electoral process, we are
going to have an economically stable situation, a peaceful transition, and economic growth," said Gurria. (Sources: Excelsior, 02/18/99; The News, 03/10/99; Associated Press, Notimex, 03/14/99; Reuters, 03/05/99, 03/09/99, 03/10/99, 03/14/99, 03/15/99; La Jornada, 03/09/99, 03/15/99; Novedades, 03/10/99, 03/11/99, 03/15/99; El Economista, 03/15/99)