

A Road to Efficiency in Emerging Local Debt Markets: The Mexican Experience

Ministry of Finance

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HACIENDA

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

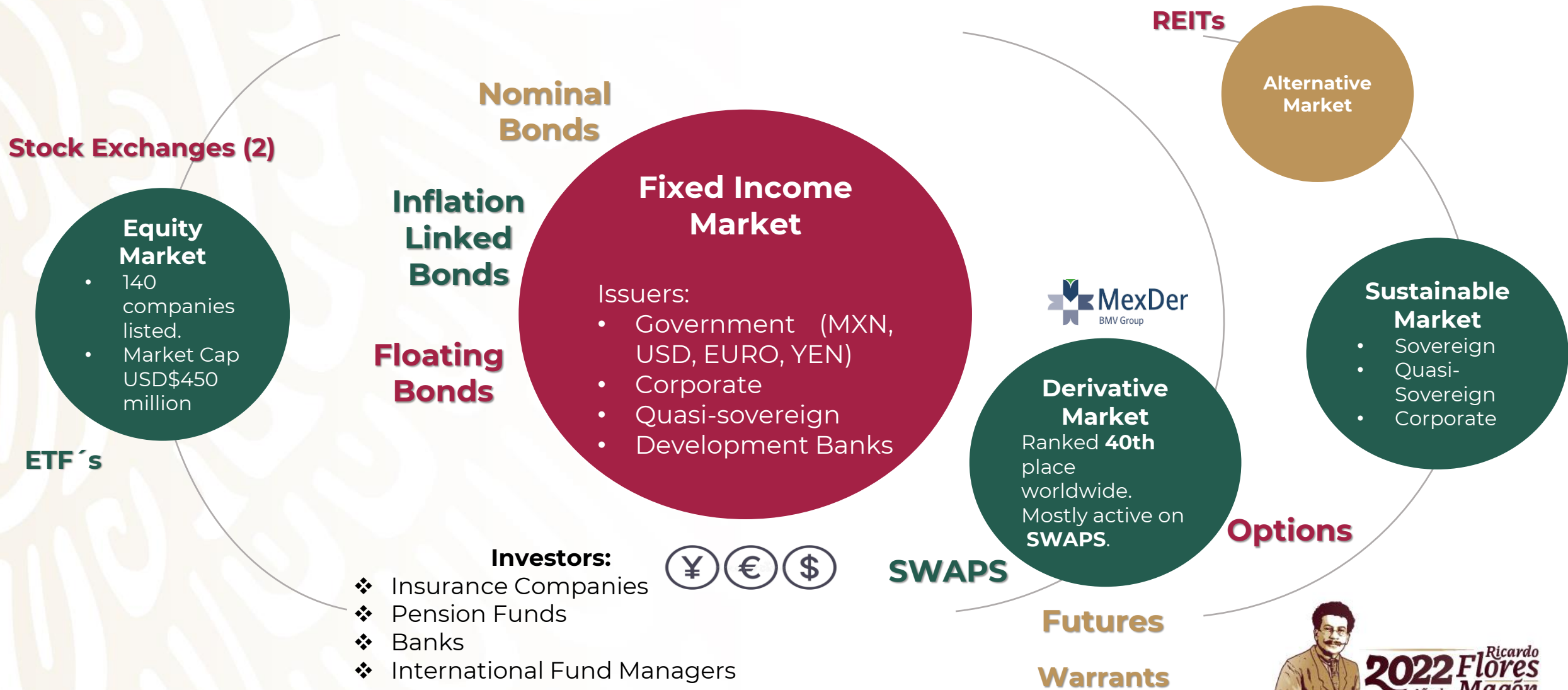


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PRECURSOR DE LA REVOLUCIÓN MEXICANA

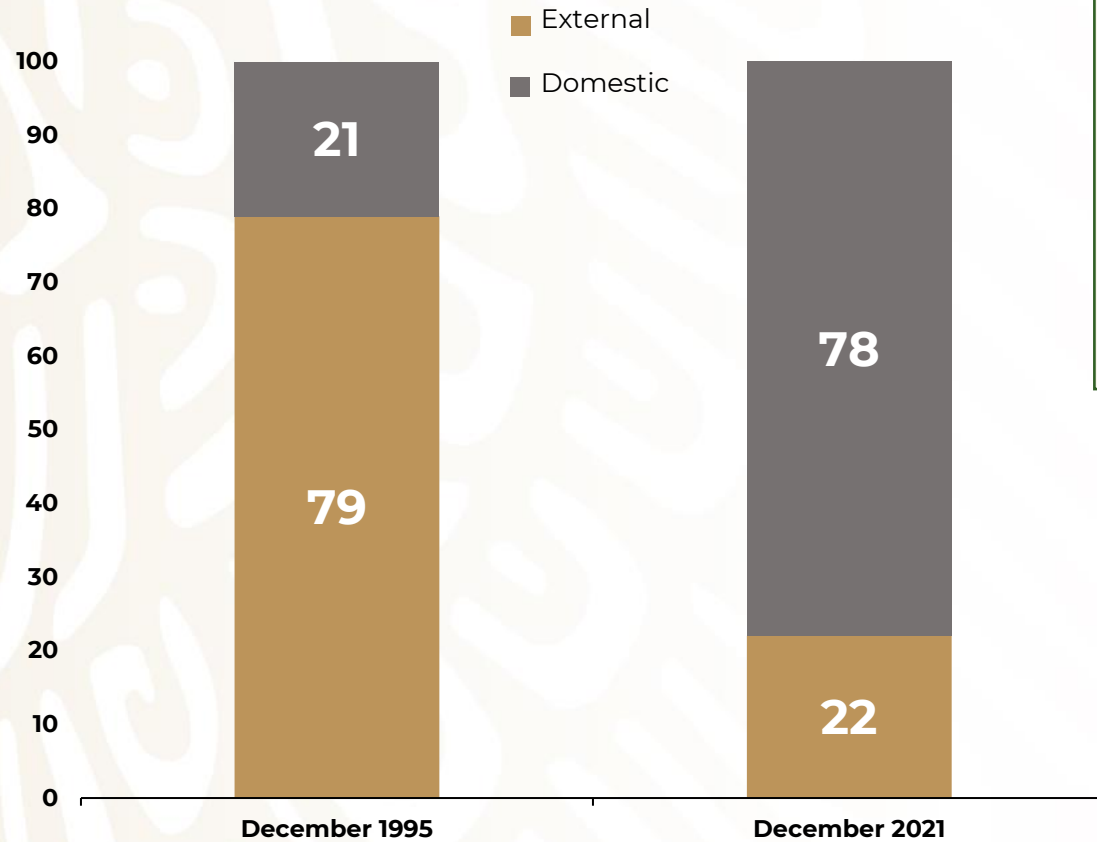
Mexico has a long history of consolidating its local markets yield curves. The recent action is the development of a new cornerstone instrument, based on improving efficiency through the development of a new Overnight Index Swap (OIS) curve and the local sustainable debt market, by using a threefold strategy: (i) Adopting international standards for a Mexican new Risk-Free Rate (RFR) and issuance a new floating sovereign bond, (ii) issuing floating instruments with sustainable criteria and, (iii) promoting contracts in order to derive a fixed rate sustainable curve.

Mexican Financial Market



Federal Government Gross Debt at a Glance

Debt Breakdown
(Dec 1995 vs Dec 2021, % of Total)



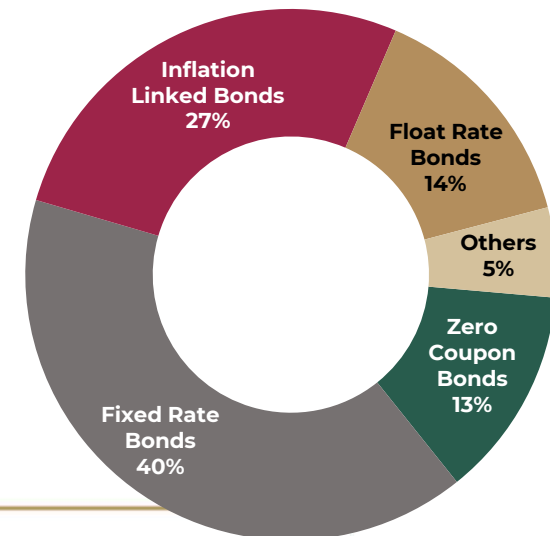
Source: Ministry of Finance and Public Credit.

Debt Statistics

DOMESTIC DEBT		EXTERNAL DEBT	
US\$ 415 bn	7.3 years	US\$ 117 bn	21 years
as of Dec-2021	average life	as of Dec-2021	average life
4.5 years	duration	11.7 years	duration

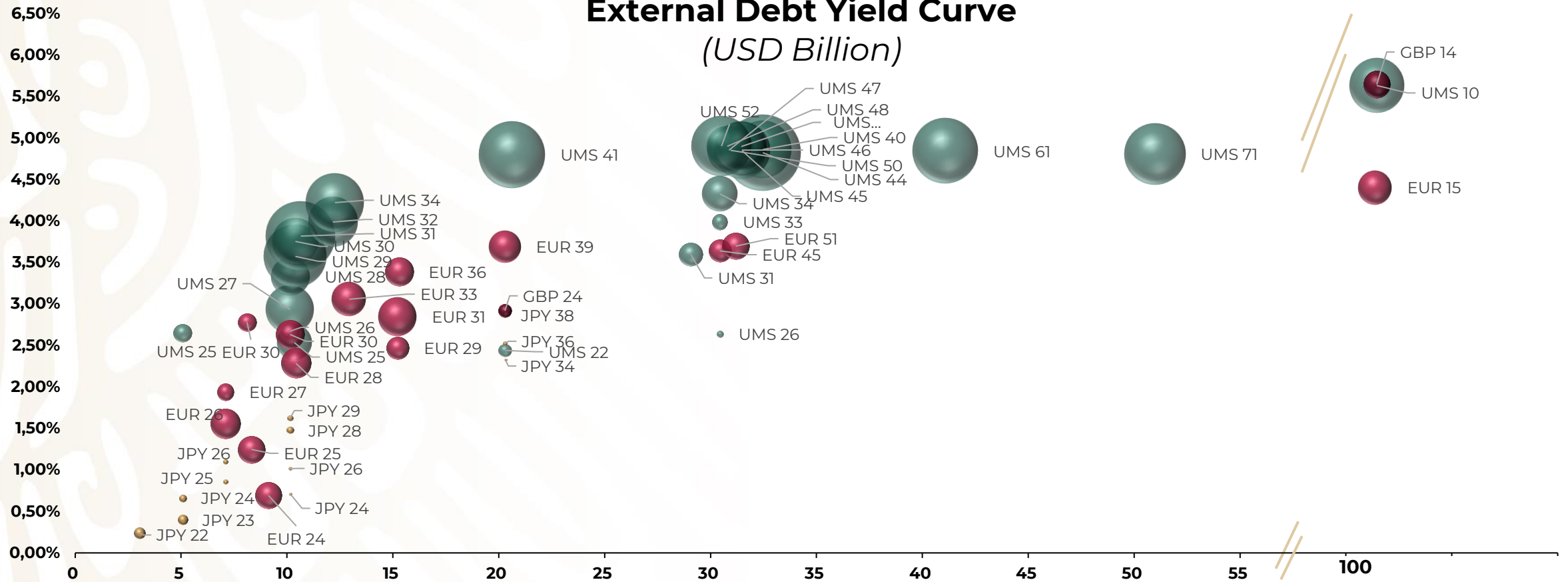
Internal Debt Composition (%)

Fixed rate long-term debt accounts for nearly 80%



Federal Government External Debt

External Debt Yield Curve (USD Billion)



Source: Bloomberg.

The Threefold Strategy



First Step: Issuance of new Floating Bond - Accelerate the adoption of TIEF, the Mexican RFR

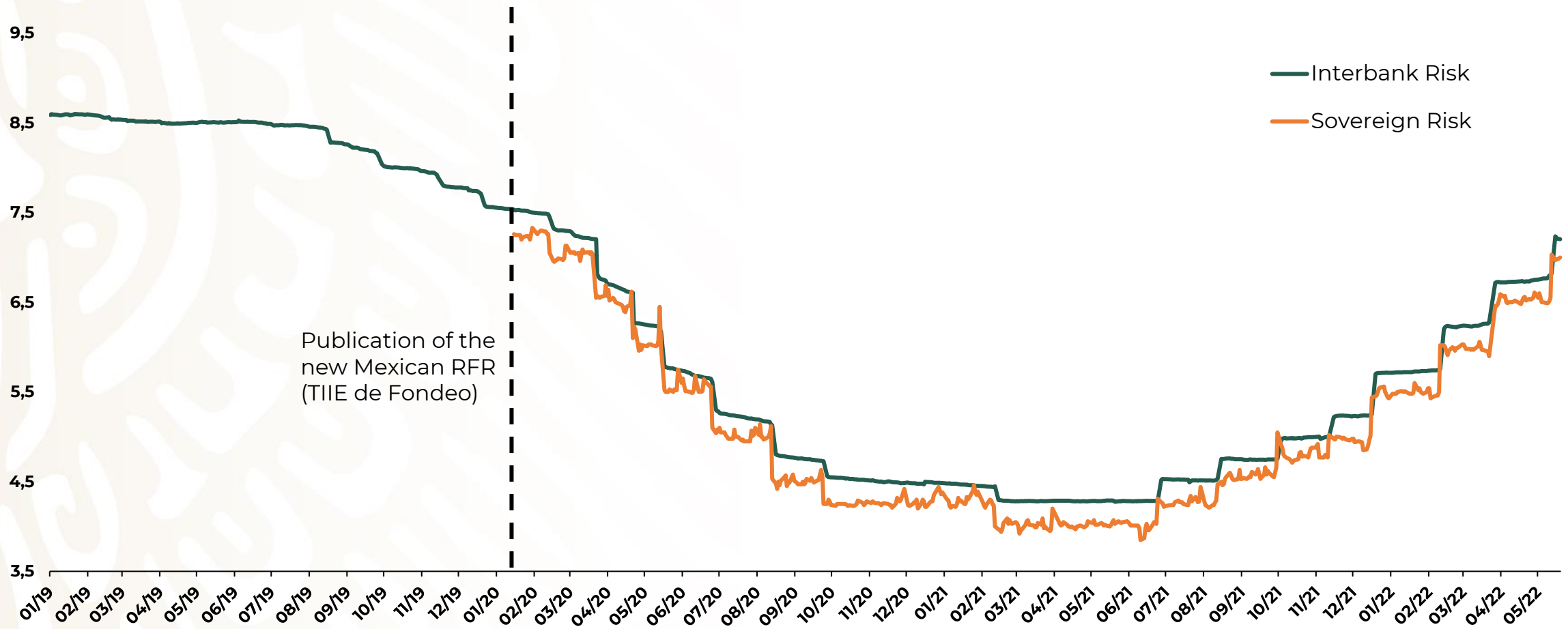


Second Step: Issuance of New Sustainable Sovereign Bonds in Local Currency



Third Step: Building the OIS and Sustainable Curves to Gain Efficiency

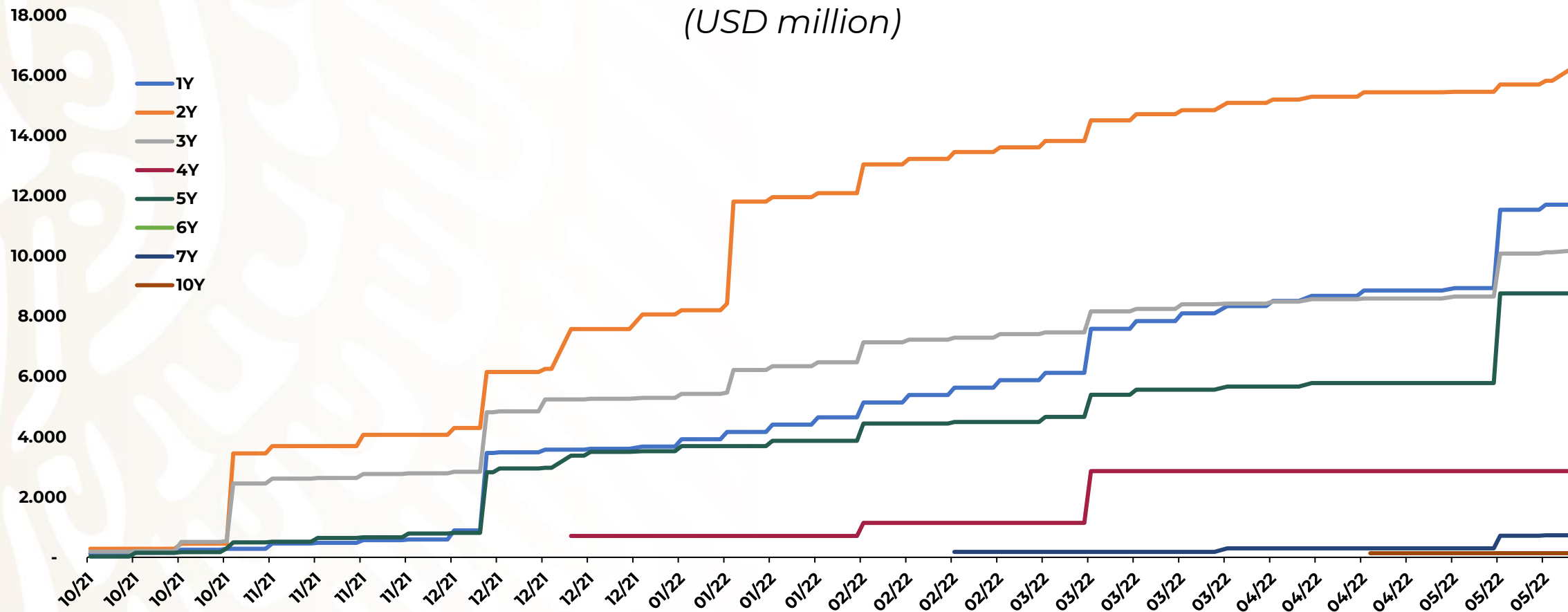
Transition from Interbank to Sovereign Risk



Source: Central Bank of Mexico

Adopting New RFR via the new Sovereign Floater

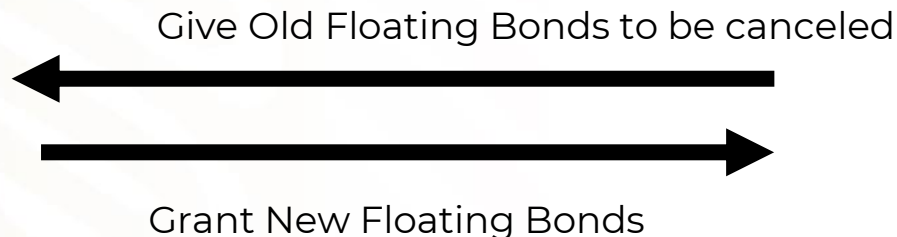
Evolution of Outstanding of new Floating Bonds by Tenor (USD million)



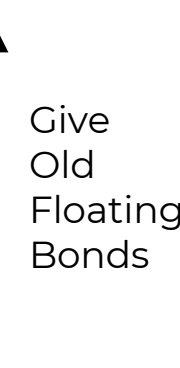
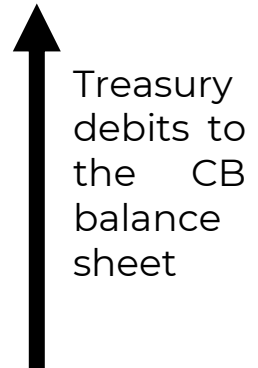
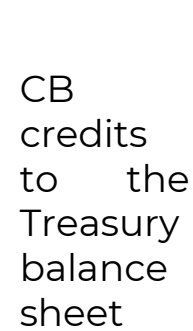
Source: Central Bank of Mexico

Rebalancing the Public Sector Balance Sheet

Exchange Operations
in order to maintain
Money Supply

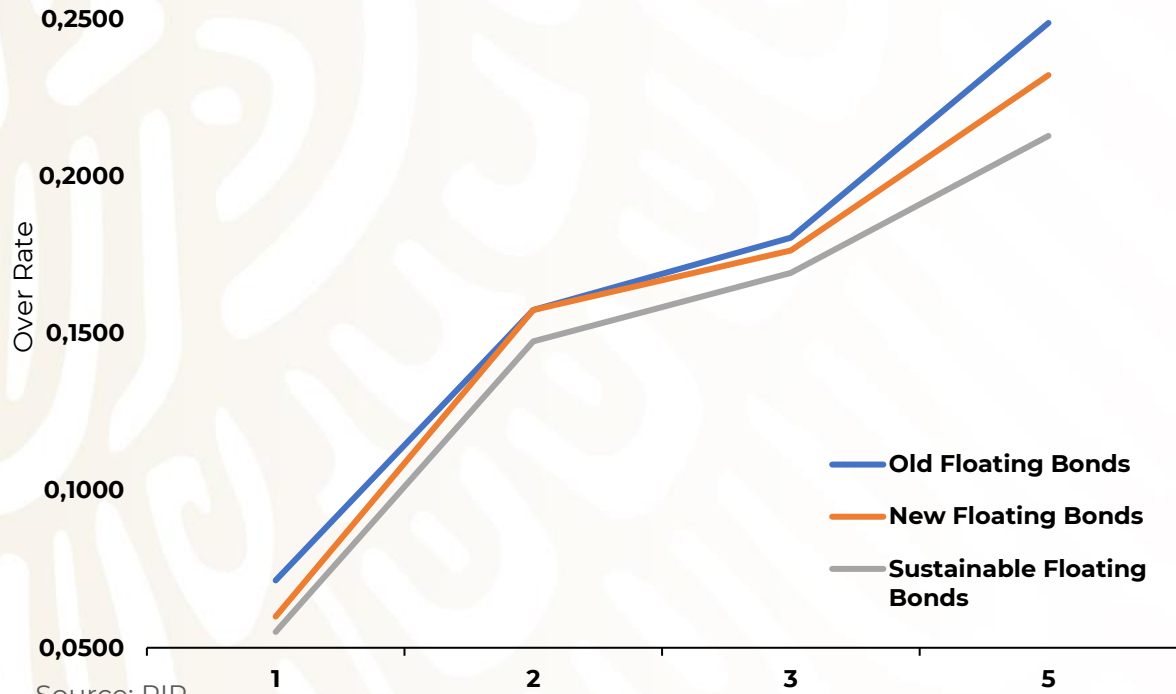


The Public Debt Office decides on the allocation of Exchange Operations to maintain a healthy Treasury balance sheet.



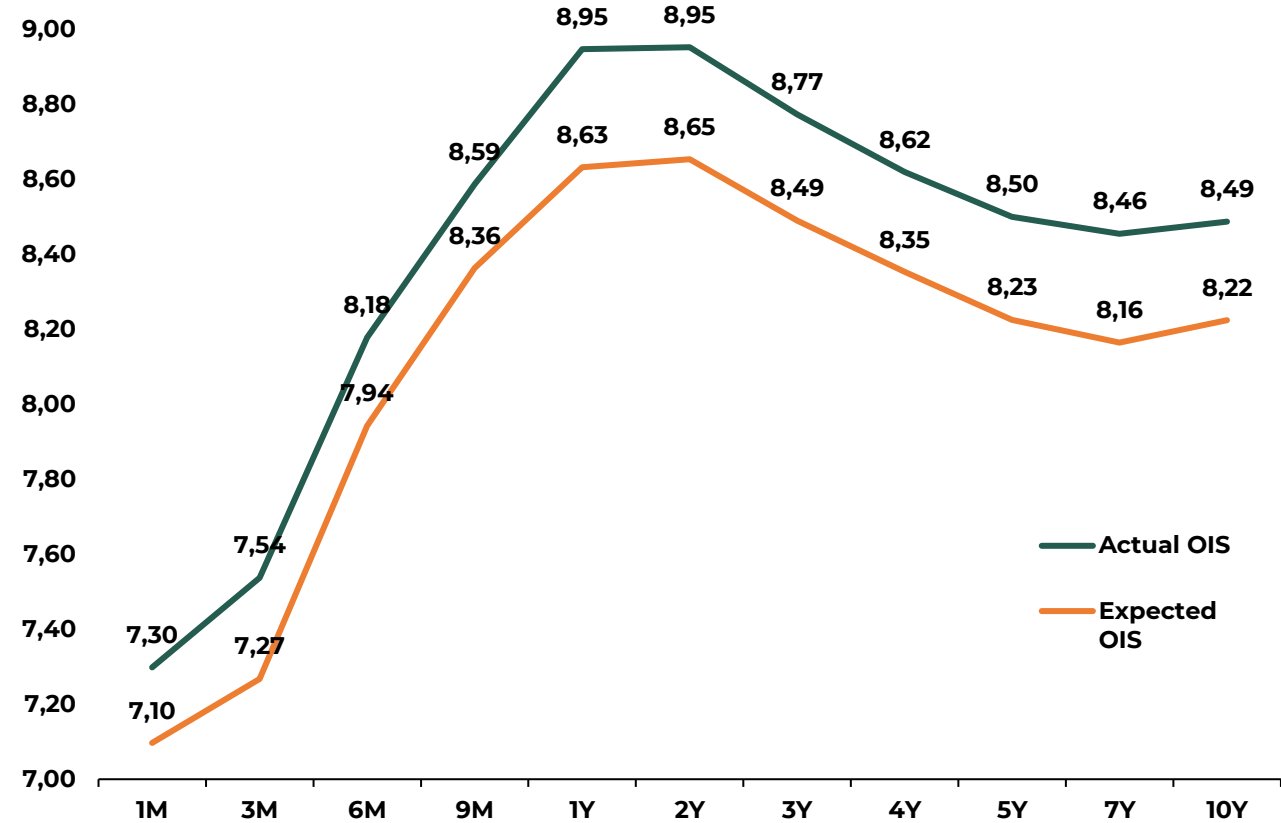
Building the OIS and Sustainable Curves to Gain Efficiency

Sovereign Floating Curves



Source: PIP
 Note: 1 and 5 tenors for Old Floating Bonds are theoretical, as well 1,3 and 5 for Sustainable Floating Bonds

Actual OIS vs Expected OIS



Final Remarks

With this strategy, the MoF looks to benefit local investors and institutions by:

Local Banks Balance sheet efficiency

Lower local investor Capital Cost



Integration of local sustainable market with the TIEF derivatives market will:

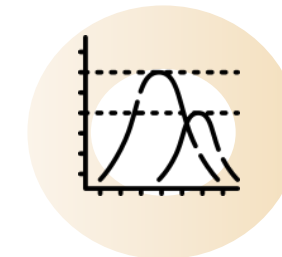
Give volume to the local derivative market

Attend increasing demand for sustainable bonds



Creation of the local OIS curve will:

Ensure efficient pricing in Mexican pesos, under international best market practices



Thank you



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