Fitch Downgrades Mexico's Foreign Currency Rating to 'BBB'; Outlook Stable

24 de noviembre de 2009

Fitch Downgrades Mexico's Foreign Currency Rating to 'BBB'; Outlook Stable Ratings 23 Nov 2009 12:17 PM (EST) Fitch Ratings-New York-23 November 2009: Fitch Ratings today downgraded Mexico's foreign currency Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and local currency IDR to 'BBB+' from 'A-'. The Rating Outlook is Stable. In addition, the country ceiling was downgraded to 'A-' from 'A'. The short-term rating was affirmed at 'F2'. Fitch downgraded Mexico's ratings as the global economic and financial crisis and falling oil production have accentuated weaknesses in the sovereign's fiscal profile, including the high oil dependence of public sector revenues, a narrow non-oil tax base and a limited fiscal cushion. These weaknesses limit Mexico's fiscal maneuverability in the face of future oil income shocks. Mexico's limited ability to implement a credible counter-cyclical fiscal policy this year (in contrast to that observed in some of its rating peers) also highlights the underlying structural fiscal weaknesses. Mexico's general government debt is expected to reach 37% of GDP in 2009, which is above the 'BBB' median, while the debt to revenue ratio is significantly above the peer median highlighting the narrowness of its revenue base. Mexico's less dynamic growth performance and outlook relative to similarly rated peers (sovereigns rated 'BBB+', 'BBB' and 'BBB-') suggest fiscal income pressures could continue, especially if oil production continues its secular decline. Finally, Mexico's external buffers are also limited compared with peers to deal with potential external shocks in the future. Oil income, which constitutes over 35% of the public sector revenues, has been adversely impacted by the fall in oil prices from their peak and oil production. Oil production declined from a peak of 3.4 million b/d in 2004 to 2.6 million currently, with the rate of the decline accelerating to 9% in 2008 representing a structural shock to public finances. In Fitch's view, the 2008 energy reform does not provide sufficient confidence that oil production will not continue to decline over the medium term. While Pemex could announce incentive-based contracts to attract private investment next year, it is difficult to ascertain the timing and pace of such investments. 'Recently approved tax measures are a step in the right direction, but more is required to materially address structural weaknesses of public finances especially in the context of continued uncertainty over the outlook for oil production. Prospects for future revenue-enhancing tax reforms are not bright as the opposition party controls the Lower House of Congress and going forward political dynamics will be heavily influenced by the 2012 presidential elections,' said Shelly Shetty, Senior Director in Fitch's Sovereign group. Despite the recent tax increase measures, oil related revenues will still account for over 30% of total revenues, while the non-oil tax/GDP ratio will rise only modestly to 11% by 2012, and the federal government's Oil Stabilization Fund will be almost depleted this year. In contrast, the 'BBB' median general government revenue/GDP ratio stood at 36% in 2008 (compared with Mexico's 18%), while investment-grade sovereigns with significant oil dependence have lower debt burdens and larger fiscal cushions to deal with shocks to oil income. Mexico's economic performance has been less dynamic than its rating peers, with its five-year average GDP growth of 3.4% compared with 5.5% for the 'BBB' median. The Mexican economy is likely to contract by close to 7% this year, a larger contraction than the 'BBB' median of 3%, and grow by 3% in 2010. 'Further progress on structural reforms is needed to enhance Mexico's growth potential, which in turn would also be favorable for expanding the non-oil tax base and improving public debt dynamics' added Shetty. The liquidation of the Luz y Fuerza de Centro (one of the state-owned electricity companies), the potential auctioning of fiber-optic networks and greater infrastructure spending could help support growth but deeper structural reforms may still be needed to materially enhance medium-term growth prospects. Mexico's relatively healthy banking sector, resilient external accounts, the sovereign's manageable external debt amortization profile, as well as its ability to tap the IMF Flexible Credit Line (FCL) in case of a significant worsening of external financial conditions support Mexico's 'BBB' rating and Stable Outlook. However, the scale of foreign exchange intervention by the Central Bank of Mexico in response to distress in the corporate sector in the months following the intensification of the global financial crisis underscored the necessity of increasing international reserve assets. Going forward, Fitch would view positively increases in non-oil income and fiscal buffers as well as faster-than-expected improvement in public debt dynamics. Structural reforms that enhance competitiveness and evidence of higher growth prospects would support creditworthiness, as would improvement in the international liquidity position that strengthens Mexico's external resilience. On the other hand, significant fiscal deterioration or sustained economic weakness that undermine debt dynamics would be viewed negatively. Contact: Shelly Shetty +1-212-908-0324 or Theresa Paiz-Fredel +1-212-908-0534, New York. Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com. Additional information is available at www.fitchratings.com.