

Fitch Revises Mexico's Outlook to Positive; Affirms IDR at 'BBB'

29 de marzo de 2007

Fitch Ratings today revised the Rating Outlook on Mexico's long-term foreign and local currency sovereign Issuer Default Ratings (IDRs) to Positive from Stable, and affirmed the following ratings: -- Long-term foreign currency Issuer Default Rating (IDR) 'BBB'; --Long-term local currency Issuer Default Rating (IDR) 'BBB+'; --Short-term Issuer Default Rating (IDR) 'F3'; --Country Ceiling 'A-'. The rating revision reflects further improvement in Mexico's external solvency ratios, the passage of the Fiscal Responsibility Law (FRL), which buttresses the credibility of the country's fiscal policy, and the recent passage of the civil servants' pension reform - the so-called ISSSTE reform. Fitch also notes the maturity of Mexico's democratic and political institutions, as reflected by the smooth transition to the new administration under difficult political circumstances. 'The recent passage of the ISSSTE reform sends a positive signal regarding the ability of the new administration to make headway in a divided Congress. Continued reform momentum, including the passage of a revenue-enhancing fiscal reform would be positive for creditworthiness,' said Shelly Shetty, Senior Director for Sovereigns at Fitch Ratings. The ISSSTE reform lessens the medium-term pressure on public finances, and reduces the net present value of the actuarial deficit of the ISSSTE, estimated at 60% of GDP. The reform would provide greater certainty regarding pension benefits and could encourage greater labor mobility between the public and private sectors. Fitch believes Mexico's passage of the FRL in 2006, which calls for the public sector to run a balanced fiscal position, has further institutionalized the credibility of fiscal policy. The FRL is likely to act as an important deterrent against the mismanagement of public finances even if spending pressures rise. Other important elements of the FRL that boost fiscal credibility are the transparency of setting oil prices in the budget, and the inclusion of a provision that gives the government the flexibility to cut spending if revenues fall short of budgetary expectations in any given year. Finally, on the economic front, the Positive Outlook takes into account Mexico's healthier external finances and the government's prudent debt liability management. External solvency ratios are comfortably in the 'BBB' range: while gross external debt as a percentage of current external receipts (CXR) is below the 'BBB' median, net external debt as a percentage of CXR is at the 'BBB' median. The government's prudent liability management has reduced the foreign currency exposure of the federal government debt: the share of foreign currency in total federal government debt has fallen to 20%. Fitch believes that the two nagging credit weaknesses of Mexico continue to be its relatively low gross domestic product growth in comparison to its rating peers, and structural weaknesses in its public finances. On the positive side, the maquila sector has been restructuring in recent years, yielding double-digit export growth. Still, further structural reforms in the areas of labor and energy sectors may be required to increase the country's growth potential. On public finances, softening oil prices, and possibly falling oil production, in conjunction with other spending pressures, highlight the need for the government to raise additional revenues. In Fitch's opinion, Mexico's ratings could be upgraded if the new administration implements measures that reduce the reliance of public finances on oil income, takes positive actions that boost the prospects of higher oil production and/or improve competitiveness of Mexico. Tangible improvements in fiscal and external solvency and liquidity ratios would also be viewed positively. Contact: Shelly Shetty +1-212-908-0324 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.