# Fitch: Mexican Electoral Result Positive for Maintaining Macroeconomic Stability

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Fitch Ratings-New York-07 July 2006: According to Fitch Ratings, Mexico's credit fundamentals - ample foreign exchange reserves, a credible policy regime, and its civil and democratic institutions - are sufficiently strong to weather any uncertainty and volatility that could arise in the event that the narrow election victory of Mr. Felipe Calderon is contested by Mr. Lopez Obrador. Fitch expects any challenge to the election outcome to be resolved constitutionally and without threatening governability, despite heightening social tensions. The Federal Electoral Tribunal (TRIFE) will have till early September to declare the final winner and could nullify the elections, though in Fitch's judgment this is unlikely. While Fitch expects President-elect Calderon's administration to maintain the fiscal and monetary policies that have secured macroeconomic stability, it is still too early to judge whether his administration would be able to carry forward the much-needed structural reforms in the areas of fiscal, energy and labor sectors, important for enhancing the economy's growth potential and sovereign creditworthiness. 'President-elect Calderon has run on the platform of improving job creation, enhancing Mexico's competitiveness and further boosting economic growth. However, achieving these laudable goals will depend critically on his ability to negotiate and pass reforms in a divided Congress,' said Shelly Shetty, a Senior Director in Fitch's Sovereign Group. On the positive side, the PAN, president-elect Calderon's party, has won the largest number of seats in both houses of Congress, which could make it easier for him to negotiate and advance on reforms than was the case under the Fox administration. 'In the coming months, Fitch will be closely monitoring Calderon's political strategy to determine whether the new Congressional makeup lends itself to greater legislative success', added Shetty. President Calderon's economic program envisions a simplification of the tax system and a reduction in the corporate tax rates to promote competitiveness. In Fitch's view, sovereign creditworthiness would be enhanced by measures taken to boost non-oil tax intake, which would allow the government to maintain spending when oil prices drop. In the medium term, the new administration would also have to develop a strategy to prevent deterioration of public finances under spending pressures arising from higher costs related to the servicing of the Pidiregas projects and those related to the public sector pension system. Overall, Fitch believes that the Calderon administration is likely to adhere to a balanced fiscal position, and the recent passage of the Fiscal Responsibility Law should further enhance the credibility of fiscal policy. Similar to the Fox administration, it can be expected that the government would stand ready to cut spending if oil prices drop, although a severe oil price drop could test their resolve to maintain a balanced fiscal position. Fitch continues to emphasize that for Mexico to regain its competitiveness and improve its growth potential, it will need to make progress on labor and energy sector reforms. President-elect Calderon's energy sector proposal of improving corporate governance in the state-owned energy companies and allowing for strategic private sector partnerships would help in promoting greater investment in this sector, thereby boosting supply of energy at cheaper tariffs. At the same time, his goal of allowing complementary private investment in gasoline and petrochemicals would also reduce Mexico's oil-related imports. However, a constitutional amendment would be required to allow for private investment in the energy sector, which would require the new administration to negotiate aggressively with other parties to pass such reforms. President-elect Calderon also seeks to enhance the business environment by improving public security and liberalizing the labor laws to allow for part-time workers with a greater focus on promoting training and apprenticeship programs. Fitch currently rates Mexico's foreign and local currency Issuer Default Ratings 'BBB' and 'BBB+', with a Stable Rating Outlook. Contact: Shelly Shetty +1-212-908-0324 or Theresa Paiz Fredel +1-212-908-0534, New York. Media Relations: Christopher

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