

# Fitch Expects to Rate Mexico's Benchmark Global Bond 'BBB'

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Fitch Ratings-New York-02 March 2006: Fitch Ratings expects to assign a 'BBB' rating to Mexico's soon to be issued benchmark global bond denominated in U.S. dollars. The issue size is not to exceed US\$5 billion and the funds will be used to buyback a similar amount of outstanding bonds that are eligible for buyback by the Mexican government. Mexico has offered to repurchase bonds from 25 separate issues with maturities ranging from 2007 to 2033. The operation is in line with the steady liability management that the Mexican government has pursued over the past few years. This transaction is designed to improve the efficiency of the government's yield curve and diversify its investor base. The new bond will serve as an important benchmark for Mexico and will also enjoy a higher liquidity. In December 2005, Fitch upgraded Mexico's foreign currency issuer default rating to 'BBB'. Mexico's rating reflects the consolidation of macroeconomic stability in the country, the continued improvement in its external accounts and international liquidity, and a further decline in its external debt burden. These factors make Mexico more resilient to external shocks. The country's current account deficit (% GDP) is lower than the 'BBB' median and is fully covered by foreign direct investment (FDI). Thanks to the government's prudent liability management, the refinancing of external debt in local markets by the private sector, as well as strong growth in current external receipts over the past two years, Mexico's external debt ratios have improved and are in line with that of the 'BBB' median. Fitch also expects net public sector external debt (% CXR) to decline steadily in 2006 and 2007 on the back of prudent liability management efforts of the federal government and greater local financing of Pemex's PIDIREGAS projects. Overall economic policy management remains a relative strength for Mexico. The central bank's credibility has improved further as it was able to meet its inflation target last year after missing it in 2004. Mexico's consistent compliance with fiscal targets, combined with its lower inflation rate has reinforced investor confidence in the country. Consequently, the government has been able to fully finance its fiscal deficit in the domestic markets and extend the average maturity of its domestic debt. Owing to asset and liability management efforts, Fitch believes that the federal government's foreign currency denominated debt is likely to decline further over the next two years, thereby reducing the vulnerability of its debt to foreign exchange movements. Mexico's ratings are constrained by structural weaknesses in public finances, such as a heavy dependence on oil revenue and a low tax intake. While the government has built some resources in the Oil Stabilization Fund, the build-up has been less than that of some of Mexico's rating peers. A revenue-enhancing reform will be required to cope with medium-term pressures emanating from higher pension costs and PIDIREGAS debt service and lower non-recurrent revenues. However, the current high oil price environment accords some additional flexibility to the Mexican government. Finally, Mexico needs to implement structural reforms in the areas of energy and labor sectors to improve its competitiveness, growth potential, and the flexibility of its factor markets. 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](http://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.