Fitch Affs Mexico's Investment Grade Ratings at 'BBB-'

23 de septiembre de 2003

Fitch Ratings-New York-September 23, 2003: Fitch Ratings, the international rating agency today affirmed Mexico's foreign currency rating of 'BBB-' and local currency (Mexican Peso) rating of 'BBB'. The Rating Outlook remains Stable. Mexico's investment grade ratings are supported by the country's robust macroeconomic policy framework, a modest external debt burden, and the continued economic integration with the U.S. On the other hand, the ratings are constrained by structural weaknesses in public finances, slow progress on economic reforms, continued below-par export performance partly resulting from increased competition from other countries, and a relatively high income and regional inequality. Fitch believes that some of Mexico's external strengths, which had partly offset its domestic fiscal weaknesses, have begun to erode since 2001. As a result, it is important for Mexico to implement structural reforms to improve its competitiveness and sovereign creditworthiness. The government's prudent policy stance has allowed fiscal deficits to remain at manageable levels. Deviations from fiscal targets have been prevented by automatic spending adjustors. The inflation rate, after a deviation of over 1% last year, is expected to fall within the central bank's target of 3% +/-1%. Moreover, the government's active liability management strategy has allowed the government to retire this year all of its outstanding Brady bonds, which has yielded positive net present value gains to the sovereign. External debt ratios have declined in recent years due to liability management as well as growth in exports and a build-up in international reserves. Net external debt at 53% of current external receipts is in line with Fitch's 'BBB' median. However, the net public external debt at 25% of current external receipts remains higher than the 'BBB' median. Yet structural weaknesses in public finances persist in Mexico, with a low non-oil tax intake, as well as high dependence on oil revenues. Without further tax reform, fiscal pressures are also likely to intensify in the coming years, with the expected fall in oil prices, a decline in non-recurrent revenue stream, and rising public sector pension costs. Political gridlock has so far prevented a comprehensive tax reform. Since the July 6th elections, a window of opportunity exists for the PRI-dominated Congress to cooperate with the Fox government on tax and other reforms. Lackluster export performance since 2001 is a credit concern. This has been manifested particularly in the maquiladora industry, which had expanded rapidly after the NAFTA agreement and comprises 50% of the export base. Although the U.S. economic slowdown has affected Mexico's exports, other structural factors may also be playing a role. These include growing competition from other countries (especially China), and bureaucratic impediments to trade. A number of maquila firms have left Mexico especially in the textile and electronics sector, negatively affecting employment. In order to counteract competitive pressures and move up the value-added chain, Mexico needs to implement electricity, labor and fiscal reforms. Extensive structural reforms could underpin an improvement in Mexico's economic performance in the medium term, which would support improved sovereign creditworthiness. Furthermore, as long as the macroeconomic policy framework remains robust, credit deterioration will likely be avoided. Contact: Shelly Shetty +1-212-908-0324 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York.