Fitch Ratings Upgrades Mexico to 'BBB+'

19 de septiembre de 2007

Fitch Ratings-New York-19 September 2007: Fitch Ratings today upgraded Mexico's following sovereign ratings: --Long-term foreign currency IDR to 'BBB+' from 'BBB' ; --Long-term local currency IDR to 'A-' from 'BBB+'; --Short-term IDR to 'F2' from 'F3' --Country ceiling to 'A' from 'A-'. The Rating Outlook is Stable. The upgrades reflect the passage of the fiscal reform last week in Mexican Congress, which Fitch believes will be signed into law by President Calderon in the near future. Additional factors underpinning the upgrade include Mexico's strengthening policy framework, its continued resilience in the current unfavorable external environment, as well as its prudent public debt liability management that has strengthened the depth of the local capital markets. 'The tax reform that could increase the non-oil tax revenues by 2% of GDP during President Calderon's term is a step in the right direction to address one of Mexico's key credit weaknesses related to its narrow tax base,' said Shelly Shetty, Senior Director in Sovereigns at Fitch Ratings. Fitch expects the fiscal reform to increase the government's flexibility to deal with an oil price shock and other spending pressures, allowing the authorities to boost infrastructure spending, which could have a positive spillover for growth. The passage of the fiscal package is a significant victory for the new administration, as this is the second important structural reform that has passed following the approval of the public sector pension reform earlier this year. 'The relatively swift approval of these reforms bolster confidence in the Calderon administration's ability to form a working coalition in Congress to pass its legislative agenda, and raises hope of further progress on structural reforms,' said Shetty. More importantly, it also highlights the ability of the Mexican policymakers and politicians to meaningfully respond to mounting fiscal pressures in a timely fashion and reinforces the view that the country is more decisive about running a balanced fiscal position. The approved tax reform is expected to simplify the tax regime substantially by eliminating most 'special regimes' that previously plagued the Mexican tax system. The flat minimum corporate tax -- the so-called 'IETU' -- is the cornerstone of the tax reform and is likely to raise 1.2% of GDP in additional revenue, with the remainder emanating from tax administration efforts. This represents a significant qualitative improvement, as a higher portion of tax collection will be derived from a growing and an increasingly diverse economy rather than from oil, thereby increasing the stability of fiscal resources. The reform has also granted greater tax relief to Pemex, which should boost the company's much-needed investment spending and allow it to finance them through internal resources. While Fitch expects the additional resources from the tax reform to be largely spent, certain fiscal solvency ratios such as the government debt-to-revenues ratio would decline modestly due to the increase in the non-oil revenue base. Similarly, the reform is likely to promote infrastructure spending and private investment, possibly leading to higher growth, which would be beneficial for debt dynamics in the medium-term. Mexico appears quite exposed to the US slowdown due to the increased trade and financial links between the two countries. A slowdown in the US combined with lower oil prices and a sharp deceleration in overseas workers' remittances growth would increase the country's current account deficit in the coming two years, although Fitch believes most of it could be financed through FDI flows. In addition, Mexico's 2.5% of GDP current account deficit estimated for 2008 is in line with its rating peers. Moreover, Mexico's robust policy framework, flexible exchange rate, modest external financing needs, favorable external liquidity position and a healthy domestic demand should enable the country to withstand tough external conditions. Mexico's creditworthiness could strengthen if the country's economic performance improved on a sustained basis, leading to a convergence of its per capita income with that of higher-rated sovereigns. In this regard, energy and labor reforms that improve Mexico's competitiveness and attract further foreign direct investment would be positive. Similarly, improved fiscal performance, leading to a significant reduction in public indebtedness, would be viewed positively. On the other hand, persistent fiscal slippage leading to an

increase in the public debt burden would be viewed negatively by Fitch. Contact: Shelly Shetty +1-212-908-0324, or Theresa Paiz Fredel +1-212-908-0534, 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.