

Mexico Flash

Standard and Poor's raised Mexico's credit rating to BBB+ from BBB; outlook is stable

- Standard & Poor's Ratings Services (S&P) raised its long-term local currency rating on Mexico to 'A' from 'A-' and its long-term foreign currency rating to 'BBB+' from 'BBB'.
- The rationale behind the move is that “the passage of a landmark energy reform, supported by some changes in the fiscal framework, bolsters Mexico's growth prospects [...]” because it has the potential to attract significant investment across the entire energy sector.
- In S&P's opinion the rating also reflects Mexico's track record of cautious fiscal and monetary policies which have contributed to low fiscal deficits, inflation and debt levels.
- In addition S&P stresses that the energy reform along with the fiscal one (which could raise non-oil revenues by almost 2.5% of GDP by 2018) could also bolster Mexico's fiscal flexibility.
- Regarding vulnerabilities S&P argues that the external one has increased as non-resident holdings of government securities have soared to USD 140 billion, up from USD 69 billion in 2011.
- The credit rating outlook is stable as it “balances the challenges of effectively implementing the numerous reforms in 2014 and 2015 with their benefits--increased fiscal flexibility and more dynamism in the economy--that are likely to begin in subsequent years.”
- In the future the key will be the effective implementation of reforms as the rating could be raised “should faster-than-expected and effective implementation of the recent reforms strengthen Mexico's growth and fiscal profile rapidly while keeping external vulnerabilities in check.” However, failure to do so could erode Mexico's economic and financial profile, and thus eventually lead to a downgrade.
- Bottom-line: In a diminishing liquidity background this rating upgrade could help Mexican assets differentiate from those of its peers in the short term. However, for this differentiation to be long lasting the challenge will be to effectively implement the reforms.

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