

BY DANIEL BASES
Reuters

NEW YORK - Standard & Poor's revised up its outlook for Mexico's sovereign debt on Tuesday, pointing to good prospects for deep economic reforms in Latin America's No. 2 economy.

The upgrade in the outlook on Mexico's long-term foreign currency credit rating to positive from stable means the agency could upgrade Mexico from its current BBB rating within the next 18 months, S&P said in a statement.

"The positive outlook reflects a greater than one-in-three chance that the government will successfully advance policies to further strengthen Mexico's fiscal room for maneuver and medium-term growth prospects — two key rating constraints," said Lisa Schineller, sovereign credit analyst at S&P.

Mexico is rated BBB by Fitch and one notch higher at Baa1 by Moody's, which both have stable outlooks on the country. Mexico has not had a ratings upgrade since 2007.

"Good news. It motivates us to keep working," Finance Minister Luis Videgaray said via Twitter.

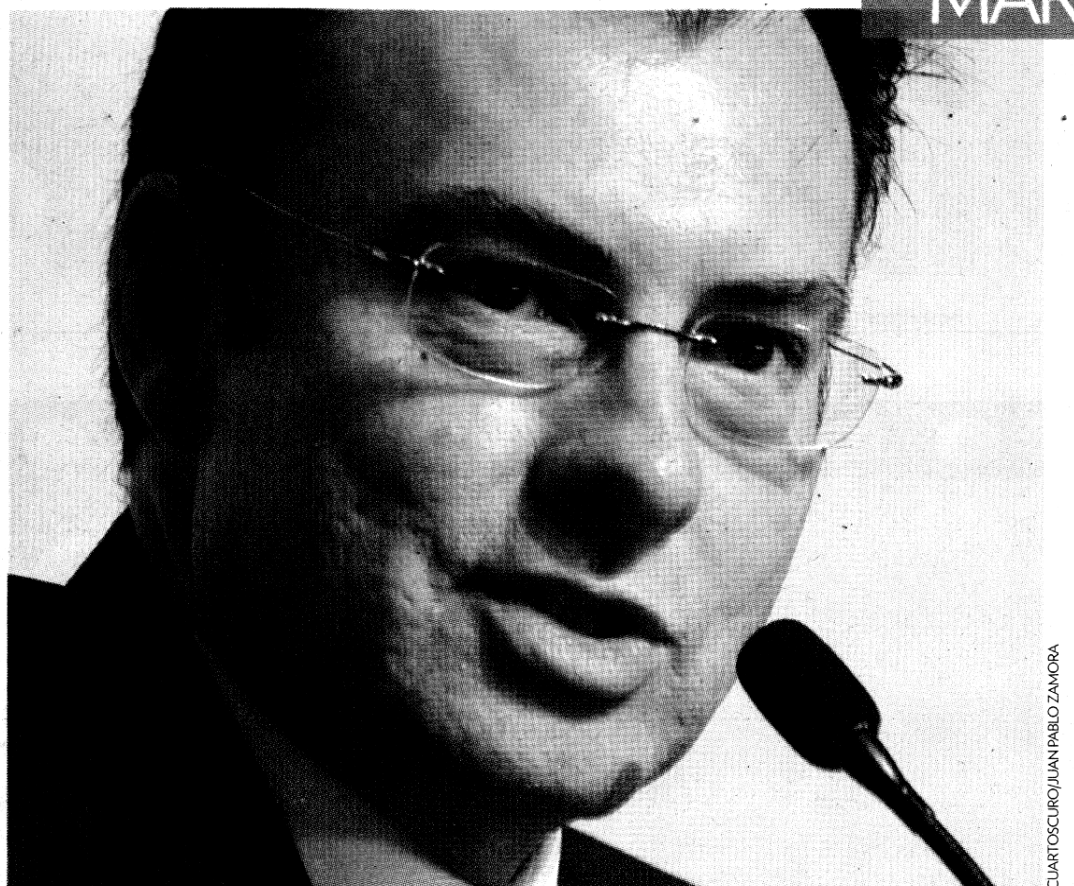
But S&P said the upgrade was not assured and reforms still must pass a divided Congress.

"We believe that the administration's ability to capitalize on its recent political momentum during its first 12 to 18 months will be crucial for the credit rating on Mexico," Schineller said.

Although a shift to make the budget less reliant on oil revenue might prompt an upgrade, S&P said it could also revise the outlook back to stable if changes fall short.

Mexico's peso hit an 18-month high on Tuesday as investors grew optimistic that structural reforms are gaining traction after the government presented plans to allow more competition in the telecommunications sector.

President Enrique Peña Nieto, who took office in December,



CUARTOSCURO/JUAN PABLO ZAMORA

Mexico's Treasury Secretary Luis Videgaray called S&P's revision of Mexico's outlook "good news."

S&P revises up Mexico outlook

Agency may upgrade country's rating soon

has also promised changes to the country's tax system and its state-run energy sector in a bid to attract more investment and boost growth to 6 percent a year.

S&P said the ratings on Mexico reflect a cautious fiscal and monetary policy track record, which have contributed to low government deficits and inflation, while

also bolstering the economy's resiliency.

The fact that 35 percent of Mexico's total budget revenue comes from the oil sector, which makes revenue vulnerable to price fluctuations, is one factor constraining the rating and keeping it at the low end of investment grade.

"The president and his team

suggest that their reforms will be far-reaching, though details on the much-anticipated fiscal and energy measures will only be tabled in the second half of 2013," S&P said.

Mexico has attracted investor attention over the last year on optimism about the promised reforms and as the country's economic growth has outpaced that of Brazil.