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Reforms pushed by President Peña Nieto were cited as factors in the new Moody's rating.

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Moody's gives Mexico an 'A'

Coveted top rating may lower borrowing costs

MEXICO CITY – Mexico became only the second country in Latin America to earn a coveted "A" grade sovereign rating as Moody's upgraded it on Wednesday, citing a raft of economic reforms that President Enrique Peña Nieto has pushed through Congress.

Mexico's peso and leading share index both turned positive after the upgrade, which should help lower the country's borrowing costs.

Moody's upgraded Mexico's sovereign rating to A3 from Baa1 with a stable outlook. Until now, Chile was the only country in Latin America with an A rating.

Moody's said it expects the economic reforms approved in Mexico last year "will strengthen the country's potential growth prospects and fiscal fundamentals."

Mauro Leos, the firm's senior credit analyst, told Reuters the rating agency sees no further significant changes to Mexico's sovereign rating for two to three years following the upgrade.

Fellow ratings agencies Standard & Poor's and Fitch Ratings are expected to eventually follow suit and upgrade Mexico.

"Confidence in Mexico in the world is growing," President Enrique Peña Nieto said after the upgrade. He is hoping that sweeping overhauls to the telecoms and energy sectors in Mexico will help boost competition and economic growth – which has long lagged that of regional peers.

"I think it's very well deserved and to a large extent reflects the recognition of the major structural reform drive that was undertaken by the authorities last year," said Alberto Ramos, senior Latin America economist at Goldman Sachs in New York.

The upgrade comes after Standard & Poor's raised its own sovereign long-term foreign currency credit rating for Mexico by one notch to BBB-plus in December. However, that upgrade only brought S&P in line with both Moody's and Fitch at the time.

Brazil, by comparison, has the second-lowest investment grade level according to the three ratings agencies.

The upgrade could not come at a better time for Mexico, which has suffered alongside other emerging nations as investor jitters over a winding down of U.S. monetary stimulus and a deceleration of the Chinese economy inspired a massive sell-off in emerging market assets.

The peso is down nearly 2 percent this year, while the IPC stock index is down more than 6 percent in 2014.

Benito Berber, a senior Latin America strategist at Nomura Securities in New York, said the upgrade would help Mexico distinguish itself from other emerging markets, and that it would positively affect prices of Mexican bonds and its peso.

However, he also delivered a word of warning.

"This is a stamp of approval but the reforms have to deliver growth and they have to deliver investment," he said. "A rating does not make you more productive, nor make Mexico more important as a country."

"It will remain a country that is invited to the G-20 and that's it. I don't think it will be invited to the G-7," he added, noting that he now expected "S&P and Fitch to upgrade Mexico in the last quarter of the year or first quarter of 2015."

As of now, both Standard & Poor's and Fitch rate Mexico just a notch below the top grade of "A," where Moody's has Mexico now. When Standard & Poor's upgraded Mexico to BBB-plus in December, it matched Fitch's rating.