



## **Fitch Affirms the State of Aguascalientes LC IDR at 'BBB+'; Outlook Stable**

Fitch Ratings-Monterrey-16 May 2018: Fitch Ratings has affirmed the Long-Term, Local Currency Issuer Default Rating (IDR) of the State of Aguascalientes at 'BBB+'. The Rating Outlook is Stable.

### **KEY RATING DRIVERS**

The 'BBB+' rating reflects solid fiscal performance resulting in adequate operating margins, strong liquidity, low debt metrics, and the dynamic economic base compared with 'BBB'-rated peers.

The rating is capped by the sovereign's 'BBB+' IDR with a Stable Outlook and Fitch's opinion that a subnational in Mexico cannot be rated above the sovereign.

**Debt:** Fitch views Aguascalientes's debt, liabilities and liquidity as a strong rating factor. Indebtedness has fallen in the last three years and the trend continues. In 2017, Debt to current revenue was only 8.8% and Fitch expects payback (debt to current balance) to be less than two years in 2018 and 2019.

Most of the state's capex needs are funded using national capital transfers and the state's own resources, thus substantial debt has not been required. Liquidity is sound given adequate policies for cash management. Also its accounts payables present a controlled evolution, with no use of short-term credit lines.

The state's contingent liabilities are very low. The state does not present off-balance-sheet debt or indirect debt (state decentralized agencies do not take on debt).

Based on the last actuarial valuation results carried out by an external specialist at December 2017, the pension system, a defined benefit pension plan, has financial sufficiency for the next 100 years, ensuring sustainability in the long term.

**Fiscal Performance:** this factor is assessed as strong. Since 2011, operating margins

oscillate around 4% to 9%. For 2018 and 2019, Fitch expects margins around 5% and 7%, given strong policies of tax collection, efficient allocations of operating costs and a booming economy.

Tax revenue contribution to operating revenue at 4.6% is the lowest among rating category peers due to a substantial reliance on national transfers, an institutional framework feature for subnationals in Mexico.

**Economy:** Fitch views the State's economy as neutral. Within Mexico, Aguascalientes stands in good position, GDP growth is the highest within Mexican sub nationals (9.5% in 2016), due to low population of 1.3 million and a dynamic manufacturing base. Also, formal employment is high and poverty rates have decreased from 2010 to 2016. However, compared with international peers, GDP per capita is located lower than average (USD10,700 compared with USD19,000).

**Institutional Framework:** Fitch classifies Aguascalientes in the neutral category for subnational entities in Mexico. It is located in an intermediate position in relation to the classification of the institutional framework on a global level. Some of the characteristics the institutional framework presents are a positive evolution in the fiscal equalization system and regulations favoring the development of subnational debt markets. However, there is a need to modernize regulation, limited financial autonomy, and a limited degree of transparency and access to information.

**Management and Administration** Fitch views Aguascalientes's management and administration as a strong rating factor. The entity presents satisfactory financial transparency and information is externally audited. The entity has adopted policies for the establishment of funds for contingencies and revenue stabilization. Also, debt, liquidity and administration policies have been stable over time, helping financial stability.

## RATING SENSITIVITIES

Any movement in the sovereign rating would lead to likewise movement in the rating of the State of Aguascalientes, whose rating is capped by the sovereign.

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### **Applicable Criteria**

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

### **Additional Disclosures**

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