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Analysis of the 2025 Preliminary Budget Criteria

- **On Wednesday, the Ministry of Finance (MoF) published their preliminary macroeconomic forecasts for 2025 and updates for 2024**
- **Growth estimates for both years were unchanged, with the range for 2024 between 2.5% and 3.5% and the interval for 2025 between 2.0% and 3.0%**
- **Remaining estimates were changed. We highlight a slightly more depreciated MXN, higher inflation, and lower interest rates in 2025. Oil prices were adjusted higher –especially for 2024–, albeit with production lower**
- **Fiscal revenues and spending were adjusted higher for this year. For the next one, income would increase slightly in real terms, with outlays reduced in a relevant manner**
- **With this, the estimate of the PSBR deficit for the end of the year would increase to 5.9% of GDP (previous: 5.4%). As a result, the Historical Balance of the PSBR (HBPSBR) would come in at 50.2% of GDP (previous: 48.8%). For 2025, these same variables would stand at -3.0% and 50.2% of GDP, in the same order**

Updates to macroeconomic and fiscal estimates. The Ministry of Finance (MoF) published the *2025 Preliminary Economic Policy Criteria* (PCGPE in Spanish), also updating its macroeconomic framework for 2024. This complies with Article 42 of the *Federal Budget and Fiscal Responsibility Law*. We highlight stability in GDP growth forecasts in both years, on top of modest revisions in exchange rate, inflation, and interest rate estimates. On the oil front, changes were more mixed, as detailed below. With this, the MoF expects higher revenues and spending this year, albeit with the latter adjustment larger in magnitude. This partially explains a wider projected deficit and debt as a percentage of GDP. For 2025, they forecast a marginal increase in income and a strong reduction in outlays, stabilizing the debt-to-GDP ratio.

Macroeconomic framework and fiscal variables
Selection

	2024		2025	
	Actual	Previous	Actual	Previous
GDP* (% y/y)	2.5 to 3.5	2.5 to 3.5	2.0 to 3.0	2.0 to 3.0
Exchange rate (USD/MXN, average of period)	17.6	17.1	17.9	17.8
Inflation (% y/y, end of period)	3.8	3.3	3.8	3.0
Interest rate (28-day CETES) (%, end of period)	9.5	9.5	7.0	7.5
Oil price (US$/bbl, average of period)	71.3	56.7	58.4	53.2
Oil production (average, kbpd)	1,852	1,983	1,863	1,995
PSRB (% of GDP)	-5.9	-5.4	-3.0	-2.6
HBPSBR (% of GDP)	50.2	48.8	50.2	48.8
Primary balance (% del GDP)	-1.4	-1.2	0.9	0.9

Note: Estimates refer to the ones included in the 2024 Economic Policy Criteria. *Current point forecasts correspond to 2.6% in 2024 (previous: 2.6%) and 2.5% (previous: NA). Source: MoF

Updated macro assumptions. As seen in the previous table, growth forecasts were unchanged, with the document specifying that point-estimates used in the estimations presented stand at 2.6% for 2024 and 2.5% for 2025. It is relevant that the former is broadly in line with analysts' projections, although with higher optimism for 2025.


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On other estimates, the MXN would depreciate slightly despite its recent strength, with the average for this year at USD/MXN 17.6 (previous: 17.1), For 2025, it was revised to 17.9 (previous: 17.8). It is worth mentioning that a weaker peso has a positive aggregate effect on the balance as gains from oil exports in local currency outweigh losses from higher expenditures on servicing foreign debt. Inflation came in at 3.8% and 3.3% in the same periods, slightly above the latest estimates from the central bank. On interest rates, the level for this year was unchanged, albeit with YE25 lower by 50bps vs the previous estimate, at 7.0% (28-day CETES). Regarding oil, expected prices are higher. Specifically, for 2024 the estimate stands at 71.3 US$/bbl (previous: 56.7), with 2025 at 58.4 US$/bbl (previous: 53.2). Nevertheless, output would be lower in both years relative to the *General Economic Policy Criteria*, with the average this year at 1,852kbpd (previous: 1,983) and the next one at 1,863kbpd (previous: 1,995).

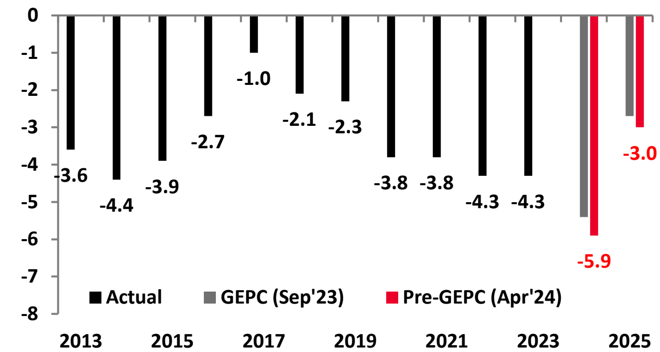
Higher revenues and outlays in 2024. Considering adjustments to the abovementioned variables, along with other changes, the MoF now expects revenues of $7.4 trillion this year. This figure is $114.1 billion higher than approved and equivalent to 21.9% of GDP. This is explained in large part by the oil component –adding $55.0 billion–, in turn influenced by the higher USD price and exchange rate. Nevertheless, they also expect increases in tax revenues (+$14.6 billion), non-oil non-tax (+$41.3 billion) and in government-controlled entities and CFE (+$3.3 billion). Meanwhile, spending would be higher at $121.4 billion, reaching a total of $9.1 trillion in the period (equivalent to 26.9% of GDP). The increase would be centered in the programmable component (+$164.9 billion), albeit with few details on its distribution by category. The latter would be partially offset by non-programable spending, noting declines in financial costs (-$35.1 billion) and ADEFAS (-$12.0 billion). Lastly, participations would post a modest increase of +$3.6 billion due to the uptick in revenues.

Marginal expansion in income in 2025 in real terms… The document considers revenues of $7.8 trillion next year (21.5% of GDP), +0.6% y/y in real terms vs. updated figures for 2024. Oil income would fall 13.5% given expectations of lower prices. Tax revenues would climb 3.0%, with the MoF arguing some boost from "*…higher economic activity and the effects from permanent gains due to increased collection efficiency…*". Those corresponding to government-controlled entities and CFE would grow 7.4%. Nevertheless, non-oil non-tax would fall by 12.3%.

…with an important reduction in spending. Outlays would moderate to $8.7 trillion (24.0% of GDP), an 8.8% y/y decline in real terms relative to the new estimates for 2024. The MoF mentions that this is mainly explained by the elimination of non-recurring spending that will be executed in 2024, although they did highlight that "*…these lower expenditures will not affect social spending commitments nor will it impact the provision of public services, payments of legal or contractual obligations…*". As a result, most of the reduction would be seen in the programmable item (-12.1%), although financial costs are also lower at -3.6%. However, they expect expansions in participations (+2.7%) and ADEFAS (+37.4%).

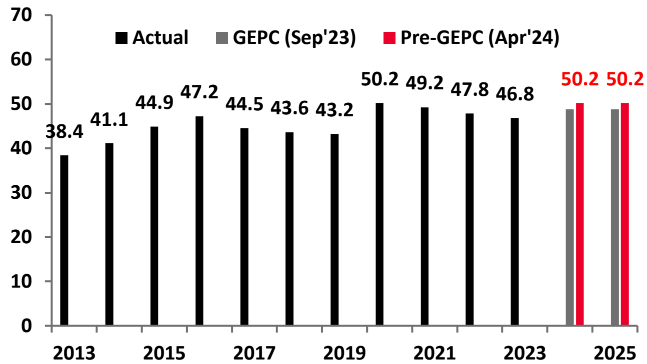
Wider deficits, with the *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) higher than previously anticipated. Considering the moves outlined above –as well as a higher deficit in extra-budgetary financial resources–, the total amount of *Public Sector Financial Requirements* (PSBR) –the broadest measure of the public balance– in 2024 incorporates a deficit of $2.0 trillion, equivalent to 5.9% of GDP (previous: 5.4%). The deficit for 2025 would come in at $1.1 trillion, equivalent to 3.0% of GDP (previous: 2.8%). On debt, the *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) would stand at 50.2% of GDP at the end of the current year, increasing vs the previous estimate of 48.8%. The latter would be explained by a larger deficit as well as the depreciation of the MXN. For 2025, it would remain stable at the same level, as seen in the chart below on the right.

Public Sector Borrowing Requirements
% GDP



Source: PGEPC 2024, MoF

Historical Balance of Public Sector Borrowing Requirements
% of GDP



Source: PGEPC 2024, MoF

Additional comments on the conference call. The call was carried out by MoF Chief Economist, Rodrigo Mariscal Paredes. On the global outlook, the expect some disruptions to continue weighing on trade, while rates will likely remain higher for longer –despite monetary easing that has already started in some countries. Locally, they continue seeing strength in domestic demand, with the gap in investment relative to the pre-pandemic trend already erased (albeit with some progress still necessary in consumption). On the fiscal front, they elaborated that programmable spending was adjusted higher this year –due to higher revenues–, but these resources have not been earmarked yet. Hence, the possibility exists that the additional windfall could be used to narrow the deficit. They were also emphatic in stating that 2025 figures follow a 'trend scenario' as the actual budget will be up to the next administration. However, they do recognize spending cuts are possible due to the elimination of non-recurring outlays. Among them, spending in priority projects, the cost of organizing the federal election, and the economic census, to name a few. Lastly, they also stated that part of the increase in the HBPSBR is due to a revision in nominal GDP, which increased the Debt/GDP ratio.

The next step will be the presentation of the *2025 Budget Proposal*. We recall that this year the federal administration rolls-over, so delivery and approval times of the Revenue Law and the Spending Budget are different. With the presidential inauguration now on October 1st, the deadline for the MoF to deliver the *2025 Budget Proposal* to Congress will be in November 15th, bringing the deadline forward by a month relative to previous presidential changes.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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