

Analysis of the 2026 Budget Proposal

- The Minister of Finance, Edgar Amador Zamora, delivered yesterday the Budget Proposal for fiscal year 2026 to Congress, which includes three documents: (1) *General Economic Policy Criteria* (GEPC); (2) *Revenue Law*; and (3) *Spending Budget*. Some changes within the fiscal code are contemplated in the second one, which we expand further ahead
- On GDP growth, expectations for 2025 were set in a range between 0.5% and 1.5%. The forecast for 2026 stands between 1.8% and 2.8%. Other estimates like inflation, the exchange rate, and interest rates were also adjusted, reflecting figures and events already known, as well as changes on expectations since their last update in April
- On the oil sector, price estimates for the Mexican oil mix this year and next were revised down modestly, albeit with more optimism about production in 2026
- The MoF expects a primary balance surplus in 2025 of 0.2% of GDP, with the fiscal deficit (PSBRs) at -4.3%. Both are less optimistic relative to previous estimates. Next year, they expect these at +0.5% and -4.1%, respectively, maintaining a path of sustainability for public accounts
- Revenues would rise 6.3% in real terms in 2026. Oil-related income would grow 20.3% y/y, with non-oil revenues up 4.4%—noting tax collections (5.7%). In this latter category adjustments to excise taxes on several items are penciled in, along with changes in deductibility of IPAB contributions and other modifications in the *Federal Rights Law*
- Spending would climb 5.9% in real terms next year. The focus on social programs and key projects will expand with a total of \$1,524.0 billion allocated to them (+43.3% y/y)
- Resources to federal entities would expand 3.1% y/y relative to the approved amount in 2025. Inside, transfers from taxes collected at the federal level (known as '*participaciones*') would pick up 5.0%, albeit with 'other concepts' falling by the same magnitude
- The government is penciling in a \$263.5 billion contribution to PEMEX for debt payments, which is on top of other actions announced in recent months
- With this, the total debt (Historical Balance of the PSBR) would reach 52.3% of GDP by year-end, remaining at the same level throughout the forecast period (until 2031), fulfilling the guidelines set in the *Fiscal Responsibility Law*

Macroeconomic framework and main fiscal variables

	2025		2026	
	Current	Previous	Current	Previous
GDP (% y/y)	0.5 to 1.5	1.5 to 2.3	1.8 to 2.8	1.5 to 2.5
Exchange Rate (USD/MXN, period average)	19.6	20.2	19.3	19.9
Inflation (% y/y, end of period)	3.8	3.5	3.0	3.0
Interest rate (28-day CETES) (%, end of period)	7.3	8.0	6.0	7.0
Oil price (US\$/bbl, period average)	62.0	62.4	54.9	55.3
Oil production (kbpd, average of period)	1,713.9	1,761.8	1,794.0	1,775.4
Fiscal deficit (PSBR) (% of GDP)	-4.3	-4.0 to -3.9	-4.1	-3.5 to -3.2
Total debt (HBPSBR) (% of GDP)	52.3	52.3	52.3	52.3
Public Balance (% of GDP)	0.2	0.6	0.5	0.5

Note: Previous figures for 2025 correspond to the revisions made in the 2Q24 quarterly report and the Preliminary Policy Criteria. For 2026, previous figures were outlined in the Preliminary Policy Criteria. Source: MoF



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Document for distribution among the general public

The MoF submitted to Congress its budget proposal for fiscal year 2026. Yesterday, the Minister of Finance, Edgar Amador Zamora, delivered the documents to Congress, including: (1) *General Economic Policy Criteria* (GEPC), which states macroeconomic projections used to estimate the budget; (2) *Revenue Law*; and (3) *Spending Budget*. The first two must be approved by both the Lower House (October 20th) and the Senate (October 31st), while the Spending Budget should be approved only by the Lower House no later than November 15th.

Updated macro assumptions, with greater optimism on several fronts for 2026. On GDP, the MoF set an estimated range for growth this year between 0.5% and 1.5% (point estimate: 1.0%), which implies a revision lower relative to previous expectations. Meanwhile, for 2026 the range was revised higher, to 1.8% and 2.8% (point estimate: 2.3%). Specifically, they expect next year's favorable performance to be boosted by sustained strength of domestic demand along a more favorable international backdrop, with lower trade uncertainty. Regarding other estimates, the exchange rate was adjusted to reflect its recent moves, with the average for this year at USD/MXN 19.6 (previous: 20.2) and in 2026 at 19.3 (previous: 19.9)¹. Inflation stood at 3.8% and 3.0% y/y for the same periods, broadly in line with the [latest central bank forecasts](#). On rates, they expect lower levels for this year and next, with year-end 28-day CETES adjusted to 7.3% for the current year and 6.0% by YE26. On oil, prices were marginally lower relative to the last updates. For 2025 and 2026 estimates stand at 62.0 and 54.9 US\$/bbl, in the same order. Oil production posted mixed revisions, lower in the current year to 1,713.9kbpd, but climbing the next to 1,794.0kbpd.

Deadlines for the 2026 Budget

Date	Documents
Sep-8	Delivery of the 2026 Budget Proposal
Oct-20	Lower House approval of the Revenue Law
Oct-31	Senate approval of the Revenue Law
Nov-15	Lower House approval of the Spending Budget

Source: GEPC 2026, MoF

General Economic Policy Criteria (GEPC) – 2025-2026

	2025					2026		
	GEPC (Sep-25)	Quarterly Report (Jun-25)	Pre-GEPC (Apr-25)	Approved (Dec-24)	Consensus*	GEPC (Sep-25)	Pre-GEPC (Apr-25)	Consensus*
GDP (% y/y)								
Range	0.5 to 1.5	1.5 to 2.3	1.5 to 2.3	2.0 to 3.0	--	1.8 to 2.8	1.5 to 2.5	--
Mid-point	1.0	--	--	--	0.4	2.3	--	1.4
Inflation (%)								
December / December	3.8	3.5	3.5	3.5	4.0	3.0	3.0	3.7
Nominal exchange rate								
End of period	19.9	--	20.0	18.5	19.5	18.9	19.7	20.0
Average	19.6	20.2	20.2	18.7	--	19.3	19.9	--
Interest rate (28-day CETES)								
% nominal, end of period	7.3	--	8.0	8.0	7.3	6.0	7.0	6.8
% nominal, average	8.4	--	8.8	8.9	--	6.6	7.4	--
Current Account Balance								
% of GDP	-0.3	--	-0.1	-0.4	--	-0.6	-0.4	--
Fiscal Accounts (% of GDP)								
Primary balance	0.2	0.6	0.6	0.6	--	0.5	0.5	--
PSBR	-4.3	-4.0 to -3.9	-4.0 to -3.9	-3.9	-4.3	-4.1	-3.5 a -3.2	-3.8
HBPSBR	52.3	52.3	52.3	51.4	--	52.3	52.3	--
Mexican oil mix								
Price (average, US\$/bbl)	62.0	62.4	62.4	57.8	--	54.9	55.3	--
Production (average, kbpd)	1,713.9	1,761.8	1,761.8	1,891.2	--	1,794.0	1,775.4	--
Exports (average, kbpd)	616.0	--	765.4	892.0	--	521.0	767.0	--

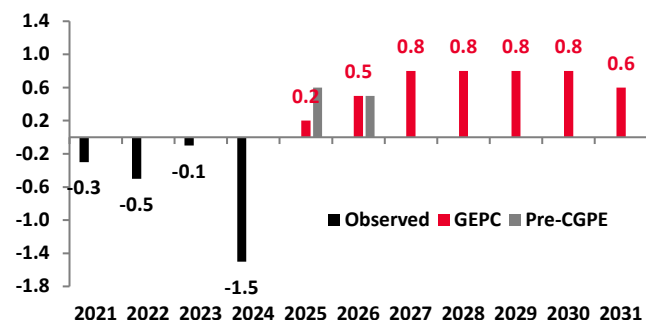
Note: Previously reported figures correspond to the values originally published and do not account for the revisions made by the MoF as a result of changes to the GDP base year. *According to the latest Banxico survey. Source: MoF, Banxico

¹ The MoF points out that "...an appreciation of the peso against the dollar reduces oil revenues due to the fact that a high proportion of such income is associated with crude oil exports. On the other hand, it reduces the financial cost due to the decrease in the peso value of foreign currency denominated debt...". On this occasion, the effect of an appreciation of 20 cents in the average exchange rate on oil revenues implies a reduction of \$8.3 billion, while financial costs decline by \$3.4 billion. Thus, the net effect is a \$4.9 billion loss.

Wider deficits, both this year and the next one. *Public Sector Borrowing Requirements (PSBR)* –the broadest measure of the fiscal deficit– are expected to post a deficit of 4.3% of GDP in 2025, with a 0.2% surplus in the primary balance. The MoF attributes this to lower revenues –centered in the oil component–, with spending more stable. In 2026, the primary balance would post a 0.5% surplus on higher revenues, albeit with spending also to the upside (described further ahead in the document), leading to a negative balance in the PSBR of -4.1% of GDP, as shown in the chart below.

Primary balance

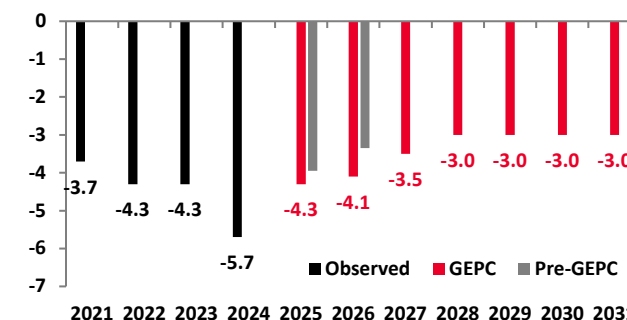
% GDP



Source: GEPC 2026

Public Sector Borrowing Requirements

% GDP



Source: GEPC 2026

Lower revenues this year... For 2025, total revenues are estimated at \$7.9 trillion, \$130.7 billion less than originally approved in the 2025 *Revenue Law*. Inside, oil revenues would mark the difference (-\$175.2 billion), with a push from non-oil (+\$44.5 billion). In the latter, the boost would mainly come from tax collections, but with the non-oil non-tax component also higher. However, those from government-controlled entities (IMSS, ISSSTE, and CFE) would be lower.

...but higher in 2026. For next year, revenues are estimated at \$8.7 trillion, up 6.3% y/y in real terms relative to this year's updated estimates (see table below). In real terms, this is an expansion of \$519.2 billion. They expect 20.3% growth in the oil component, explained by higher output. Non-oil would pick up 4.4%, with +5.7% in tax collections –noting +2.5% in income tax, +3.6% in VAT, +40.7% in imports, and +10.0% in excise taxes. In the following paragraph we break down some of the changes in the tax code that explain several of the increases. Finally, non-oil non-tax would fall 6.8%, while government-controlled entities would rise 2.3%.

2026 Budget Proposal

\$ billion in nominal terms; % of GDP; % y/y in real terms

	\$ billion		% of GDP		% y/y in real terms
	2026	2025*	2026	2025*	
PSBR	-1,587.3	-1,559.9	-4.1	-4.3	-1.7
Financial resources outside of the budget	-193.6	-257.8	-0.5	-0.7	-27.4
Budget Balance	-1,393.8	-1,302.1	-3.6	-3.6	3.4
<i>Revenues</i>	8,721.1	7,925.0	22.5	21.9	6.3
Oil revenues	1,204.3	966.9	3.1	2.7	20.3
Non-oil revenues	7,516.8	6,958.1	19.4	19.3	4.4
Federal Government	6,215.7	5,728.9	16.1	15.9	4.8
Tax collection	5,838.6	5,337.7	15.1	14.8	5.7
Non-tax revenues	377.1	391.2	1.0	1.1	-6.8
Government-controlled entities (IMSS, ISSSTE and CFE)	1,301.1	1,229.2	3.4	3.4	2.3
<i>Spending</i>	10,114.8	9,227.1	26.1	25.5	5.9
Programmable	7,015.9	6,465.2	18.1	17.9	4.9
Non-programmable	3,099.0	2,761.9	8.0	7.6	8.4
Financial costs	1,572.1	1,375.9	4.1	3.8	10.4
Transfers to states of federal tax revenues	1,456.0	1,350.1	3.8	3.7	4.2
Accrued spending of previous fiscal years	70.9	35.8	0.2	0.1	91.2
Primary balance	178.8	74.3	0.5	0.2	--

*Note: Estimated values for year-end 2025. Source: GEPC 2026

Changes in tax policy... The MoF proposes tax adjustments under four lines of action: (1) 'Health taxes'; (2) updates and administrative measures; (3) competitiveness and development; and (4) other measures. Starting with the first, the changes focus on excise taxes. Specifically, increases are contemplated in the quotas for flavored beverages (to \$3.0818 per liter), higher rates for tobacco products (which vary depending on whether they are machine-rolled, hand-rolled, or nicotine pouches), a special tax on violent video games (8%), and higher taxes on gambling (from 30% to 50%). Regarding the second point, the measures focus on seven areas, which are detailed in the following table:

Updates and administrative measures within the tax code

Measure	Details
Savings Protection Bank Fund's (IPAB) contribution will be non-deductible for Income Tax purposes	Establishes that three-quarters of the IPAB's fees paid by commercial banks are non-deductible
Deduction of NPLs for credit institutions	Standardize the treatment of deductions for this type of debt, eliminating the special regime existing in Article 27 of the Income Tax Law
Digital intermediation platforms	Unify the withholding rate for taxpayers of digital platforms for the intermediation of goods, including <i>RESICO</i> regimen, VAT, etc.
Fintech	Require Collective Funding Institutions to withhold and remit income tax and VAT on the transactions they mediate
Tax regularization program	Continue the tax regularization program for individuals and companies
Provisional withholding rate for interest	Adjust the fixed provisional withholding rate to 0.90% (0.50% in 2025)
Surcharge rate for tax credits' payments	Establish different surcharge rates applicable to the payment of tax credits depending on their maturity

Source: GEPC 2026

Point three proposes actions related to: (1) The revision of the General Import Tax with the aim of boosting strategic sectors within Plan Mexico; (2) adjustments to the provisional withholding tax on interest in securities lending transactions; (3) regulatory changes to the tax incentive aimed at foreign legal entities that manage private capital investments; (4) the possibility for individuals and legal entities to repatriate funds by paying a reduced income tax rate of 15.0%, subject to the funds being invested in productive activities for at least three years; and (5) continuity of tax incentives under Articles 189, 190 (related to the film industry), and 203 (sports facilities). The last line of action only contemplates the donation of books as part of its deduction and the introduction of provisions related to the World Cup, proposing to exempt individuals and legal entities participating in the organization, development, and implementation of activities related to the event from tax and administrative burdens.

...and prices and rates. Other tax changes are contemplated for immigration issues –including documents such as proof of stay for visitors without permission to engage in remunerated activities, along with temporary and permanent residence documents–, simplified registration of securities, admission to archaeological sites and museums, as well as the collection of telecommunications and broadcasting fees –also adapting certain figures to the new supervisory bodies.

Spending practically unchanged in 2025. Total spending this year is projected at \$9.2 trillion, only \$875.4 million higher relative to the approved budget. Resources at the programmable component would pick up by \$13.4 billion, which the Ministry of Finance will allocate to priority categories, including spending on social protections. On the contrary, non-programmable spending would be lower by \$12.5 billion, with generalized adjustments lower in its categories.

Recovery in spending for 2026, with the focus again on social programs and infrastructure projects gaining speed. For next year, the Ministry of Finance proposes total outlays of \$10.1 trillion, 5.9% higher than the updated projections for this year in real terms (see table above). Doing the same comparison as the one for revenues, it translates into an expansion of around \$537.1 billion in real terms. The administration continues to pay special attention to social programs and priority projects. In this backdrop, the total amount for both is \$1.5 trillion, representing close to 43.3% y/y in real terms (see table below).

Priority programs and projects for the federal government

\$ billion; % of GDP

Program	\$ billion	% of GDP	Program	\$ billion	% of GDP
<i>Priority programs</i>	835.7	2.550	<i>Priority projects</i>	536.8	1.387
Pensions for the elderly	526.5	1.360	PEMEX	247.2	0.639
Benito Juárez scholarships	184.6	0.477	New trains	104.6	0.270
Rita Cetina scholarship	129.4	0.334	Mexico - Querétaro train	10.5	0.027
Middle-high Scholarship	42.6	0.110	AlFA - Pachuca train	3.1	0.008
Higher level Scholarship	12.7	0.033	Saltillo - Nuevo Laredo train	14.4	0.037
Pensions for Welfare for Women	57.0	0.147	Querétaro - Irapuato train	9.3	0.024
Sowing life (reforestation)	40.7	0.105	Rolling stock	14.9	0.038
Pensions for people with disabilities	36.3	0.094	Right of way	21.4	0.055
Social housing	33.3	0.086	Querétaro - San Luis Potosí train	9.1	0.023
The School is Ours	26.0	0.067	Irapuato - Guadalajara train	12.5	0.032
Apprenticeship program	25.2	0.065	San Luis Potosí - Saltillo train	9.4	0.024
Fertilizers	18.2	0.047	CFE	61.1	0.158
Production for welfare	17.5	0.045	Maya Train (trains, maint., and Campeche train)	30.0	0.077
Guarantee prices	13.0	0.034	Highways and roads	27.7	0.072
Door-to-door healthcare visits	4.0	0.010	Tehuantepec Isthmus	25.0	0.065
Girls and boys	3.3	0.009	Hydraulic works by CONAGUA	20.8	0.054
Fishing	1.7	0.004	Mexico-Toluca train	7.4	0.019
			National Defense	7.0	0.018
			Investment	2.2	0.006
			Navy	2.0	0.005
			Ixtapaluca trolley	1.3	0.003
			AlFA interconnection works (Lechería Train)	0.6	0.002

Source: GEPC 2026

Adjustments to programmable spending... This category would rise 4.9% y/y in real terms when compared to 2025's estimated close. Relative to the approved amount in the Spending Budget for the current year, it is 5.1% higher. Taking into account this latter base of comparison, spending in autonomous branches would increase 4.1%. We highlight growth of 17.0% in resources for the Judicial Branch. On the contrary, resources for the National Electoral Institute would be 18.3% lower. Other relevant adjustments include the elimination of several autonomous bodies, such as Federal Competition Commission, the Federal Telecommunications Institute, and the National Institute of Transparency and Access to Information. Spending on administrative branches would rise 9.5%, with 8 out of 29 categories higher. Within this group, we note the 86.8% expansion in Energy and 12.4% in Welfare. On the other hand, we highlight a 17.5% decline in Public Security and -7.8% in Agrarian and Urban Development. Spending in 'general branches' would climb 1.4%, with those in directly controlled entities (IMSS and ISSSTE) picking up 3.1%, and with public companies (PEMEX and CFE) advancing 2.6%.

...and an expansion in non-programmable spending. The category would increase 8.4% relative to the figures estimated for 2025. However, it would be just 7.9% higher when compared to the approved budget. Using this last reference, the financial cost would expand by 9.4% (+10.4% vs. the update). Transfers to states resulting from taxes collected at the federal level (also known as '*participaciones*') would grow by 5.0%, a topic discussed in greater detail in the following section.

Increased resources for states. Total resources for the states in 2025 would be \$2.8 trillion, 3.1% more than the amount approved in the previous year. As we already mentioned, '*participaciones*' would grow due to the increase in total revenues. In addition, contributions (known as '*aportaciones*') would expand 2.6%, albeit with 'other concepts' falling by 5.0% (see table below).

Federal allocations to states

\$ billion, % y/y in real terms

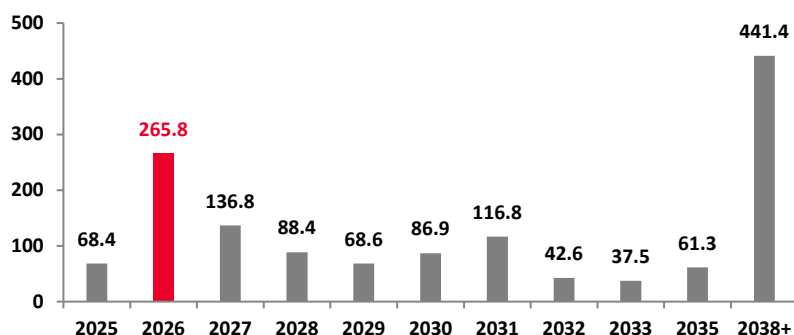
	2026	2025 Budget	% y/y in real terms
Total	2,810.8	2,633.3	3.1
Transfers from taxes collected at the federal level	1,456.0	1,340.2	5.0
Contributions	1,127.1	1,061.6	2.6
Other concepts	227.7	231.5	-5.0

Source: CGPE 2026

Direct transfers added to previously announced support for PEMEX. For the oil company, the budget includes transfers from the federal government of \$263.5 billion (around US\$14.1 billion at the current exchange rate of 18.64 per dollar), 93.7% higher than approved for 2025 (\$136.0 billion). These resources will be used to pay off market debt and bank loans contracted in previous years. It is important to mention that this practically covers all principal maturities for 2026 (\$265.8 billion), which remains the year with the heaviest burden for PEMEX. The transfer will add to recent efforts to support the oil company, including: (1) The issuance of Pre-Capitalized Notes (US\$12.0 billion); (2) an investment vehicle through Banobras (\$250.0 billion or approximately US\$13.4 billion); and (3) a bond repurchase (US\$9.9 billion or \$184.5 billion). Taking all these measures into account, the total support would amount to around \$921.7 billion (US\$49.5 billion).

PEMEX: Debt profile*

\$ billion

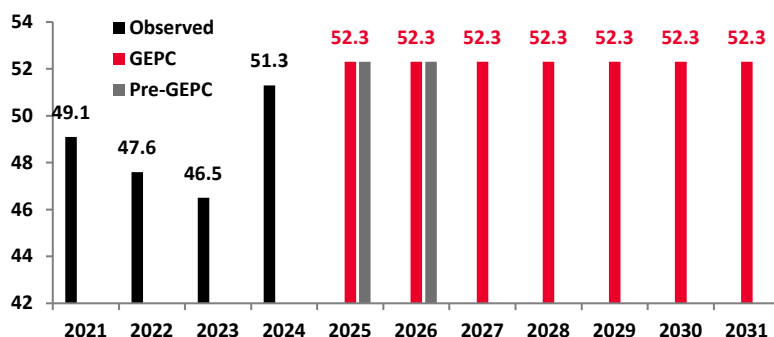


*Principal payments only. Source: Banorte with data from Bloomberg

Stability in the HBPSBR along the forecast horizon. For this year, the *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) will remain at 52.3% of GDP. This is a result of the offsetting effects of a higher deficit in the PSBR, but increased peso strength reducing the external debt component. For 2026 and the rest of the estimated period (2031), the debt would remain at the same level, complying with the *Fiscal Responsibility Law*. Lastly, we highlight that [S&P Global reaffirmed the country's credit ratings](#) before the release of the *Budget Proposal*, consistent with the planned path for public debt.

Historical Balance of the Public Sector Borrowing Requirements

% of GDP



Source: GEPC 2026

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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