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## Mexico's Finance Ministry projects a more realistic trajectory for the Debt/GDP metric and accepts an upward trend toward 2027

On Wednesday, April 1st, the Ministry of Finance and Public Credit (SHCP for its initials in Spanish) published the Pre-General Economic Policy Guidelines 2027 (PreGEPG27) with the update to the SHCP's macroeconomic framework and public accounts for 2026 and 2027. In contrast with the data published in General Economic Policy Guidelines of 2025 (GEPG25) and GEPG26, this document projects increases in debt as measured by the important Historical Balance to GDP<sup>1</sup> ratio. The SHCP now assumes that the Historical Balance (HB) will reach 54.7% and 55.0% of GDP for 2026 and 2027 vs. 53.2% for 2025. The GEPG26 projected that debt would represent 52.3% in 2026 and that this level would be maintained indefinitely over the long term.

Our sovereign debt rating for Mexico, HR BBB+ (G), does not assume an unchanged HB/GDP metric; rather, we project increasing debt levels<sup>2</sup>. Given the new estimates from the Ministry of Finance, an important question is whether the current administration is downplaying the importance of fiscal stability or simply setting more realistic targets. So far, the evidence points to the latter. A more definitive answer will come with the presentation of the GEPG27 in September. As stated above, the new document assumes an upward trend with an HB/GDP target reaching 55.0% in 2027, which is slightly higher than the 54.5% assumed by HR Ratings in our latest rating report.

Regarding other important metrics such as the Public Sector Borrowing Requirements (PSBR) deficit, this metric remains unchanged from the GEPG26 forecast of 4.1% and 3.5% for 2026 and 2027, respectively. These values are below our projections of 4.2% and 3.8% included in our most recent sovereign debt report. Our conclusion for now is that the increases in the debt metrics largely reflect a more realistic evaluation of the exchange rate effect on foreign currency denominated debt rather than fiscal loosening.

In GEPG26, the Ministry of Finance assumed an appreciation of peso vs. the US dollar, which would produce a reduction in the HB as determined by the PSBR. The GEPG26 estimated that the USD/MXN exchange rate would close 2025, 2026, and 2027 at P\$19.9, P\$18.9, and P\$18.2, respectively. In contrast, PreGEPG27 assumes the following USD/MXN levels: P\$18.0, P\$18.4, and P\$18.6. These year-end levels would have the effect of increasing the HB above the levels determined by the PSBR deficit. It's important to consider that the increase in the new HB/GDP metrics, as well as the same PSBR/GDP metrics also reflects downward adjustments in nominal GDP levels as a result of the expectation of a lower GDP deflator.

<sup>1</sup> The Historical Balance of Public Sector Financial Requirements (HB) is the broadest measure of federal public sector debt used by HR Ratings to calculate the debt-to-GDP ratio. The HB represents the cumulative effect of fiscal deficits, as measured based on PSBR's, and other factors, primarily the exchange rate effect on foreign-currency-denominated debt.

<sup>2</sup> Mexico's sovereign rating is HR BBB+ (G) with a Stable outlook. See our report at [https://www.hrratings.com/pdf/Reporte\\_Soberana\\_MAxico\\_2025.pdf](https://www.hrratings.com/pdf/Reporte_Soberana_MAxico_2025.pdf)



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For 2026 and 2027, the Ministry of Finance implicitly assumes average real growth of 2.16%, practically the same as the 2.18% incorporated in the GEPG26. In contrast, in terms of the GDP deflator, the Ministry of Finance assumes an average annual increase of 3.9% vs. 4.5% previously. We estimate that despite lower nominal GDP for these two years, the PreGEPG27 assumes an average PSBR deficit of 3.8%, similar to what was established in the GEPG26, which maintains the assumptions of continuing fiscal consolidation.

HR Ratings believes that despite the updates in the main macroeconomic variables for fiscal year 2026 (See Figure 1), the Ministry of Finance maintains optimism regarding real GDP growth (2.0%) vs. what was estimated in the GEPG26 (2.4%). This contrasts with HR Ratings' projection in its latest macroeconomic scenario update<sup>3</sup> of 1.5% for 2026 and the economic analyst consensus estimate of 1.4%. On the other hand, the expected real growth of 2.33% for 2027 represents an increase vs. the GEPG26 (2.0%), such that the average growth for the two years stands at 2.17%, nearly identical to what was expected in the GEPG26.

From our perspective, the Mexican economy will continue relying on domestic demand and the export sector, which despite the uncertainty surrounding U.S. trade policy showed a 7.3% annual advance in 2025. This increase in exports, combined with the much smaller rise in imports of 3.5% meant that the external sector was by far the main driver of the limited 0.8% GDP growth reported in 2025. In contrast, we expect that the secondary sector will continue showing weakness in automobile manufacturing, which could be partially offset by greater dynamism in electronic equipment and computers, while we anticipate weakness in construction investment, at least during the first half of the year.

It is important to mention that HR Ratings' estimates do not consider any effect associated with the renegotiation of the free trade agreement (USMCA), which is underway and is planned to conclude this same year. The critical question is whether the outcome of the USMCA talks will have a positive effect on private sector capital formation which during 2025 fell 4%. For its part, public sector capital formation declined an even stronger 19% as part of the fiscal consolidation effort. The SHCP has to hope that private sector investment, through mixed public-private associations will make up for the limited ability of the public sector to fund its investment projects while a positive renewal of the US-Mexico trade agreement will also spur private sector investment.

In terms of inflation (based on the CPI), the Ministry of Finance anticipates greater upward pressures, projecting it to reach 3.7% at year-end 2026 vs. the GEPG26 estimate (3.0%). HR Ratings projects inflation to reach 4.0% at the end of the current year as a consequence of an increase in the non-core component following the rise in prices of the main energy indices, as well as greater base effects on agricultural products inflation. On the core component side, we consider that despite showing less pressure in services, it will remain above 4.0%, which would delay inflationary convergence toward the target set by the Bank of Mexico (3.0%).

Regarding the exchange rate and interest rate, these were revised from what was approved in the GEPG26 and are now estimated at P\$18.4/USD and 6.25% at period-end. This indicates that the peso will show a depreciation relative to the P\$18.0/USD 2025 close, which would impact foreign currency-denominated debt and, consequently, the debt level measured by the Historical Balance to GDP. Interest rate closing assumptions indicate that the Ministry of Finance expects additional cuts of 50 basis points (bps) during the year from the current level of 6.75%. This would be despite continued high levels of inflation. These reductions would help contain the financial costs and decrease pressures on the fiscal deficit.

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<sup>3</sup> See our Macroeconomic Report at [https://www.hrratings.com/pdf/Escenarios\\_MacroeconAmicos\\_1T26.pdf](https://www.hrratings.com/pdf/Escenarios_MacroeconAmicos_1T26.pdf)



**Figure 1. Comparison of the Main Metrics of the Pre-GEPG 2027**

	2025 (Observed)	GEPG 2026	Estimated PreGPEG27 for 2026	PreGPEG27 for 2027
Real GDP Growth (%)	0.8%	2.4%	2.2%	2.1%
Nominal GDP (billions of pesos)	35,255	38,716	38,131	37,325
GDP deflator	4.4%	4.8%	4.0%	3.8%
Inflation at the end of the period	3.7%	3.0%	3.0%	3.7%
Exchange rate (end of period)	18.0	18.9	19.7	18.4
Interest rate at the end of the period	7.0%	6.0%	7.0%	6.25%
Average production platform (kbd)*	1,440	1,794	1,775	1,794
Average export volume (kbd)	581	521	767	521
Average price per barrel of oil	61.1	59.6	55.3	77.3
Budget Revenue (billions of pesos)**	8,228.8	8,711.1	8,274.6	8,661.7
Net Expenditures (billions of pesos)**	9,594.3	10,104.8	9,304.9	10,014.7
Primary Balance (billions of pesos)**	-54.8	193.6	189.9	171.8
Financial Cost (billions of pesos)	1,310.8	1,587.4	1,219.7	1,524.2
Budget Revenue (% of GDP)	23.3%	22.5%	21.7%	23.2%
Net Expenditure (% of GDP)	27.2%	26.1%	24.4%	26.8%
Primary Balance (% of GDP)	-0.2%	0.5%	0.5%	0.5%
Financial Cost (% of GDP)	3.7%	4.1%	3.2%	4.1%
PSBR**	-1,713.0	-1,587.4	-1,220.9	-1,539.6
Historical Balance (HB)***	18,769	20,248.4	19,958.5	20,419.8
PSBR (% of GDP)	-4.9%	-4.1%	-3.2%	-4.1%
HB (% of GDP)	53.2%	52.3%	52.3%	54.7%

Source: HR Ratings, based on data from the SHCP.

\*The Treasury's figures include partners and condensed financial statements. The 2025 figure is an estimate by HR Ratings that excludes condensed financial statements.

\*\*The 2025 projection includes the Treasury's support for Pemex in the amount of P\$253.754 billion, covering both revenue and net expenditures, PSBR, and HB.

\*\*\*Figures for 2025 include the impact of transfers. The amount is similar to that published by the Ministry of Finance and Public Credit (SHCP).

Regarding the budgetary accounts, the Ministry of Finance revised the main variables in a context of high volatility in the international and domestic geopolitical environment. With respect to budgetary revenues, these are expected to reach P\$8,659 billion (bn), equivalent to 23.2% of GDP. This amount is P\$59.3bn lower than what was budgeted in the 2026 Revenue Law. On the one hand, Pemex revenues are estimated to be P\$59.3bn lower as the result of a lower exchange rate relative to what was approved which would have a negative effect on export revenues [4]. On the other hand, Federal Government oil revenues are projected to be P\$12bn higher vs. the approved amount due to the expectation of a higher annual average oil price of US\$77.3 per barrel vs. the approved US\$59.6. According to HR Ratings, this will depend on fluctuations in the volume of petroleum product imports and crude exports.

Non-oil revenues would decrease by P\$12bn, affected by lower tax revenues of P\$15.8bn due to lower IEPS (Special Tax on Production and Services) fuel revenues resulting from the tax cut aimed at reducing the impact of higher crude prices. Despite the above, tax revenues would reach 15.6% of GDP vs. 15.1% observed in 2025, reaching a historic high, which assumes they would continue to be supported by strong performance in VAT and ISR (Income Tax) collection. While HR Ratings expects domestic demand to continue being a main driver of economic activity, we consider that the greatest efforts will focus on strengthening tax enforcement and the Customs Law, the General Import and Export Tax Law, as well as revenue from IEPS other than fuels. In the last review of Mexico's sovereign rating in November 2025, HR Ratings estimated that tax revenues would reach 15.3% of GDP.



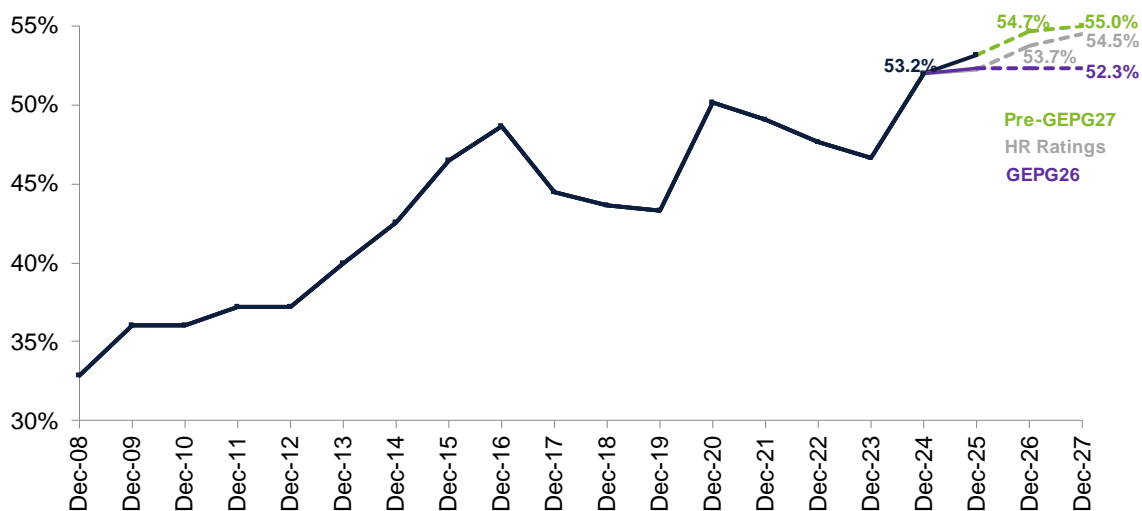
To contain the lower levels of budgetary revenues, the Ministry of Finance estimates that net spending will be P\$10,014bn, implying a net cut of P\$100.1bn relative to what was approved, directed at both programmable and non-programmable spending. On the programmable expenditure side, the Finance Ministry projects that in 2026, P\$59.4bn will be saved through the reduction of the transfer to Pemex for debt amortization. The second important item is the reduction in interest payments on debt (financial cost), which is estimated to be P\$47.8bn lower, providing room for a slight increase in revenue sharing to states and municipalities (+P\$7.1bn vs. approved). As a result, non-programmable spending will decrease by p\$40.8 billion pesos. The reduction in financial cost is facilitated by the expected reductions in the reference rate by Banxico.

In this regard, the Ministry of Finance estimates a primary surplus balance of 0.5% of GDP, higher than our estimate of 0.35% included in the 2025 sovereign rating, which can partly be explained by an improvement in the Federal Government's balance. This result would be the first primary surplus since fiscal year 2015, essentially after the impact of the pandemic, and implies a significant fiscal consolidation challenge. The overall budgetary balance would show a P\$40.8bn smaller deficit. Regarding the PSBR, the deficit is estimated to amount to P\$1,539.6bn, a figure similar to what was approved, representing 4.1% of GDP and being slightly below the 4.15% deficit estimated by HR Ratings in the sovereign review. It is important to consider that the deficit could be larger given the conditions of uncertainty and volatility affecting economic activity performance, as well as the duration of lower IEPS fuel tax collection, which could create pressures by failing to collect the programmed level for the current fiscal year.

Finally, the Ministry of Finance estimates that the HB will reach P\$20,420bn, equivalent to 54.7% of GDP in 2026 and 2.4 percentage points above the GEPG26 estimate of 52.3% of GDP, which includes the impact of a lower than previously expected 2026 nominal GDP, as well as adjustments in the exchange rate level. In our latest sovereign rating review, HR Ratings considered that debt would reach 53.7% of GDP in 2026, which is partly the result of a larger GDP base before the revision carried out by INEGI in 2026.

Going forward, it will be important to consider whether the Ministry of Finance is truly opting to abandon its target of containing the increase in the debt level over the medium and long term and prioritize social transfers with the objective of promoting greater social welfare. Despite still having some fiscal space, this adds pressures on the sovereign debt rating, limiting the rating margin in upcoming reviews. The performance of the Historical Balance as a percentage of GDP and the estimates for 2026 and 2027 set out in the PreGEPG 2027 document can be observed in Figure 2.

**Figure 2. Public Debt: Historical Balance to GDP**



Source: HR Ratings, based on information from the SHCP

\*Figures for 2026 and 2027 are estimates.



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