Evolution of subnational debt as of 3Q25

Sector Analysis

Public Finance and Sovereign Debt
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HR Ratings comments on the evolution of the debt of subnational entities as of the third quarter of 2025, as well as its expectations for 2026

At the end of the third quarter of 2025 (3Q25), subnational debt in Mexico, composed of the obligations of states, municipalities and their public entities, fell to P$689,370 million (m), an amount 3.1% lower in real terms compared to what was recorded in the same quarter of 2024 and 6.8% compared to what was observed at the end of the previous year. Since the entry into force of the Financial Discipline Act (LDF) of the States and Municipalities in 2016, when there was a change in the behavior patterns of subnational entities – primarily in the conduct of finances and public policy decisions – the reduction of public debt has become more prevalent among participants in the sector.

In addition, most of the entities and municipalities have benefited from a positive performance in the Federal Tax Collection (RFP), which feeds the Participations funds that represent a considerable percentage of public revenues, especially the General Revenue-Sharing Fund (FGP). Despite the low economic growth experienced in the country during the previous year, in 3Q25 the RFP registered a real growth of 7.4% compared to what was observed in 3Q24, since the Federal Government implemented strategies to increase the control of large taxpayers, combat evasion and digitization. With this, the subnational sector in general did not have and decided not to resort to financing.

However, there is an opportunity cost or lost benefit of the deleveraging process, and it is mainly related to the lack of major investments in infrastructure, security and public services, among others. On the one hand, the states allocate a significant proportion of their income to the payroll of the education and health sectors, while most municipalities in the country have little fiscal flexibility after the payment of payroll and basic services. With the latest data available from INEGI, public investment spending by municipalities represents only 22.7% of their total expenditure. The absence of sufficient public infrastructure projects is a limitation for the long-term economic growth of states and municipalities and directly affects the quality of life of their inhabitants.

Most of the information used for the preparation of this sectoral report comes from the quarterly statistics of the Debt Public Registry of the Ministry of Finance and Public Credit (SHCP), while for the calculation of the per capita data the reconstruction and projections of the population of the municipalities of Mexico were used. prepared by the National Population Council (CONAPO). According to the SHCP, the amount of active financing observed as of 3Q25, 90.0% corresponds to obligations contracted by state governments, 5.9% to decentralized public entities and 4.1% to municipal governments. It is relevant to mention that the previous composition has undergone changes over the last decade: while the preponderance of state government debt within the subnational sector has increased (83.8% as of 4Q15), that of public entities (7.2% as of 4Q15) and especially municipal governments (9.0% as of 4Q15) has decreased. Therefore, the process of deleveraging has been more pronounced in the municipalities than in the states.

In addition to the borrowing figures presented, subnational debt as a proportion of total Federal Holdings decreased from 54.1% in 3Q24 to 51.4% in 3Q25. This is due to the dynamism of federal revenue and a greater decrease in the amount of debt in real terms than the previous year. In this sense, it is also important to emphasize that 83.1% and 86.7% of the financing of states and municipalities (including public entities) are supported by Branch 28, respectively, which maintains this source of payment as the main one within the sector. In relation to sources of financing, commercial banks maintained their leadership by absorbing 50.7% of total state debt (vs 50.9% in 3Q24), while development banks accounted for 40.4% of debt (vs 39.9% in 3Q24). Finally, stock market issuances and other sources of financing accounted for the remaining 8.9%.

Although the behavior of subnational debt has been declining in recent years, there are reasons why there could be an upturn in the taking of financing by entities and municipalities. To begin with, the evolution of the FGP and the Federal Participations will have a major impact on the ability of subnational entities to comply with their budgets and public policy plans. Despite factors that would put upward pressure on revenue, such as stricter taxation or the imposition of tax adjustments, economic behavior could influence subnational indebtedness, especially if it is below what HR Ratings projected in its latest update of macroeconomic scenarios (1.5% for 2026 and 1.85%, on average, for later years).

In addition, public policy decision-making regarding the main investment needs for states and municipalities, such as mobility, public safety, water infrastructure, and strengthening of public services, could imply an increase in long-term subnational financing, especially if the expectation of a reduction in HR Ratings for the target interest rate (6.25% by the end of 2026) materializes. Finally, it will be of great importance to follow up on any effect that occurs from deviations in terms of trade policy and particularly, the revision of the agreement between Mexico, the United States and Canada (USMCA) on the conduct and financial decisions of the entities most dependent on trade with the United States.

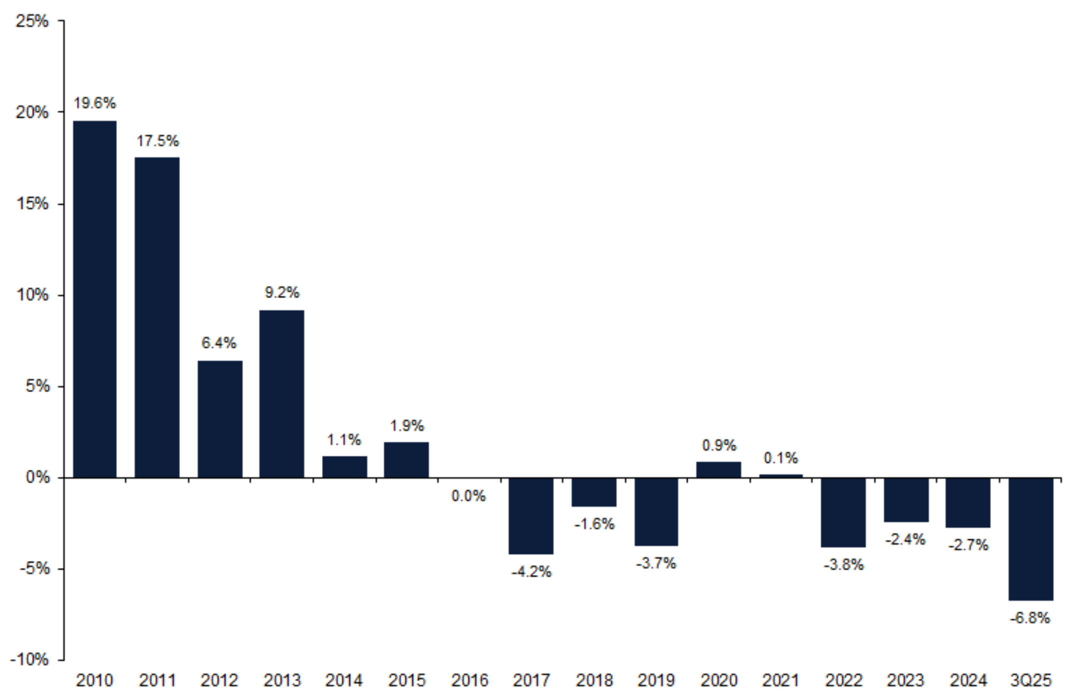
Evolution of financing and obligations of states, municipalities and their public entities

Overview of subnational indebtedness as of the third quarter of 2025

Subnational debt in Mexico totaled P$689,370 million (m) as of the third quarter of 2025 (3Q25), which represented a reduction of 3.1% compared to 3Q24 and 6.8% compared to what was observed at the end of the previous year, according to information from the Debt Public Registry (RPU, its initials in Spanish) of the Ministry of Finance. It is relevant to emphasize that the data collected by the SHCP includes not only the current obligations contracted by both the states and municipalities, but also that of their public agencies. Therefore, the values presented may differ from those considered by HR Ratings for the calculation of debt and debt service metrics, since the latter exclude the obligations of public entities, highway trusts or obligations backed by zero-coupon bonds.

The use of financing sustained the downward trend reported since 2022, as can be seen in Figure 1. In line with the entry into force of the Financial Discipline Act (LDF) for fiscal year 2016, the average real annual growth rate between 3Q17 and 3Q25 (3Q17-3Q25 CAGR) was negative. On the other hand, prior to the event, subnational debt advanced to a CAGR3Q08-3Q16 of 8.9%. Therefore, it is evident that states and municipalities modified their behavior in the face of a stricter framework for the management of their debt. Additionally, the average increase in Federal Holdings after the pandemic (between 2021 and 2025) was 5.1%, which contrasts with the 3.3% observed from 2015 to 2019.

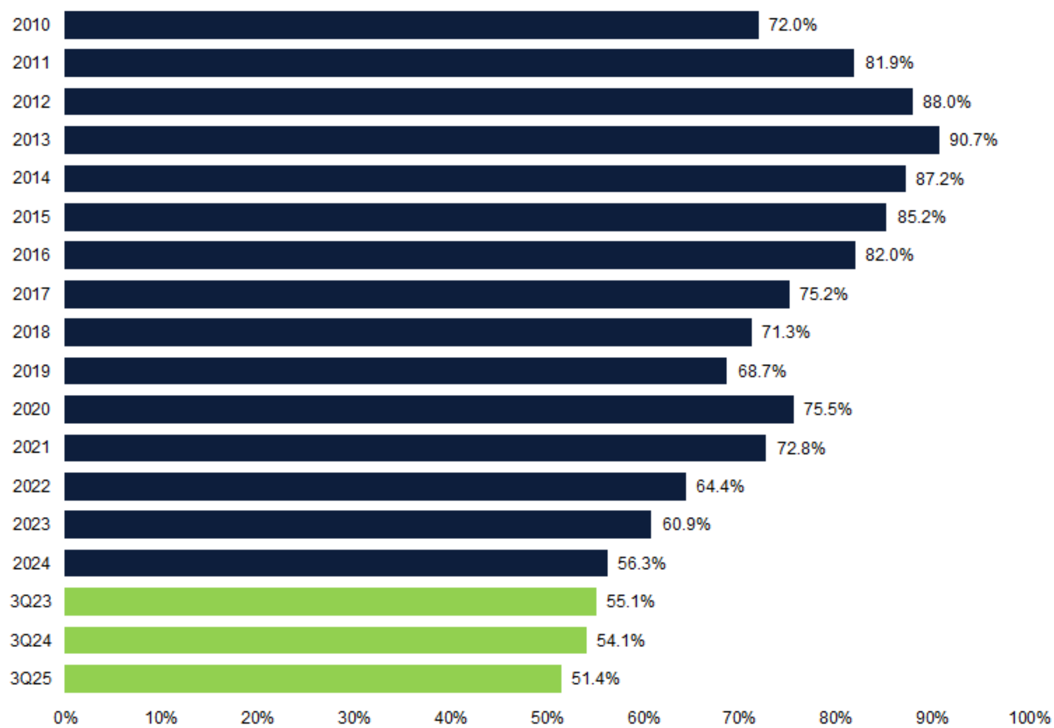
Figure 1. Real annual growth in the debt of states, municipalities and their public entities, from 2010 to 3Q25



Source: HR Ratings with information from the SHCP.

In accordance with the provisions of the Tax Coordination Act (LCF), the General Revenue-Sharing Fund (GRSF), a fund that concentrates most of the resources of subnational entities, is fed by 20.0% of the Federal Tax Collection (RFP), a "purse" composed of the collection of various taxes and oil revenues. The RFP totaled P$3.88 billion from January to September 2025, which constitutes an increase in real terms of 7.4% compared to the same quarter of the previous year. Therefore, although the Shares received by some states moderated their growth rate during the last months, their increase in real terms contributed to a more pronounced reduction in the level of indebtedness relative to income. Figure 2 shows the balance of the subnational debt as a proportion of the Federal Shares; as can be seen, it decreased from 54.1% in 3Q24 to 51.4% in 3Q25.

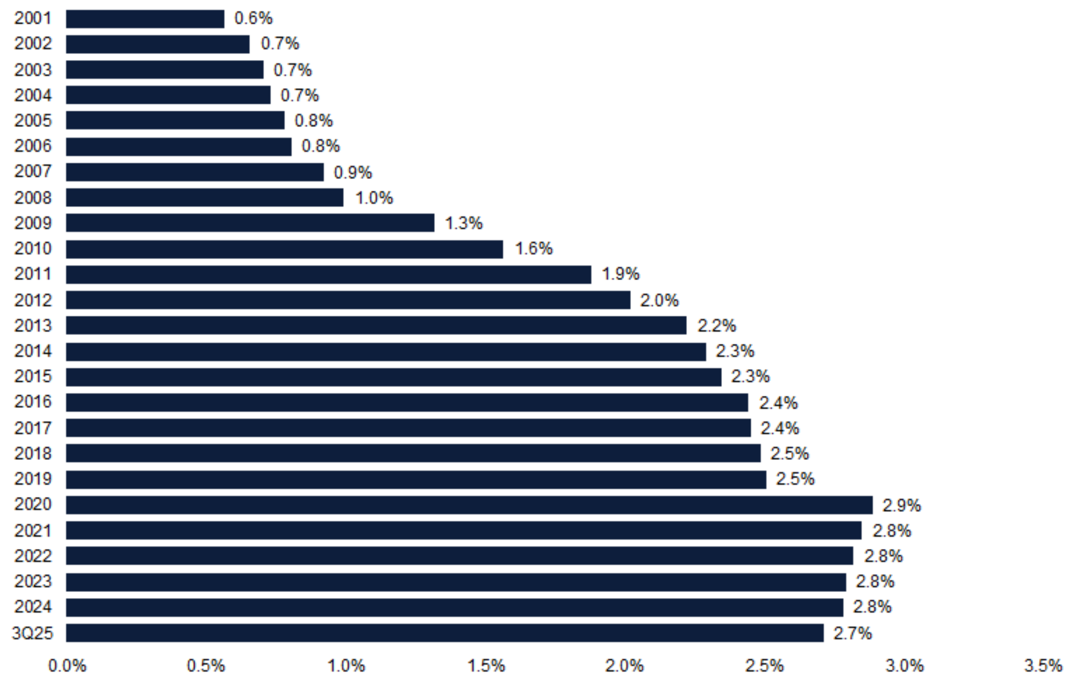
Figure 2. Total subnational debt balance as a percentage of federal holdings, 2010 to 3Q25



Source: HR Ratings with information from the SHCP.

Finally, it is instructive to represent the debt of states, municipalities, and public entities as a percentage of Mexico's Gross Domestic Product (GDP). As shown in Figure 3, this indicator showed a progressive growth trend between 2010 and 2019, when it averaged 2.2%, and subsequently increased to 2.9% in 2020, because of the budgetary requirements of multiple subnationals to address the health crisis. As of 2021, subnational debt as a proportion of GDP contracted slightly, reaching 2.7% by 3Q25. As a reference, with the latest information available from the Organization for Economic Cooperation and Development (OECD), this places Mexico below countries such as Canada, the United States, Brazil and Colombia, which have subnational debts that constitute 75.8%, 39.8%, 18.6% and 13.2% respectively.

Figure 3. Total debt balance of states, municipalities, and their public entities as a percentage of GDP, from 2010 to 3Q25



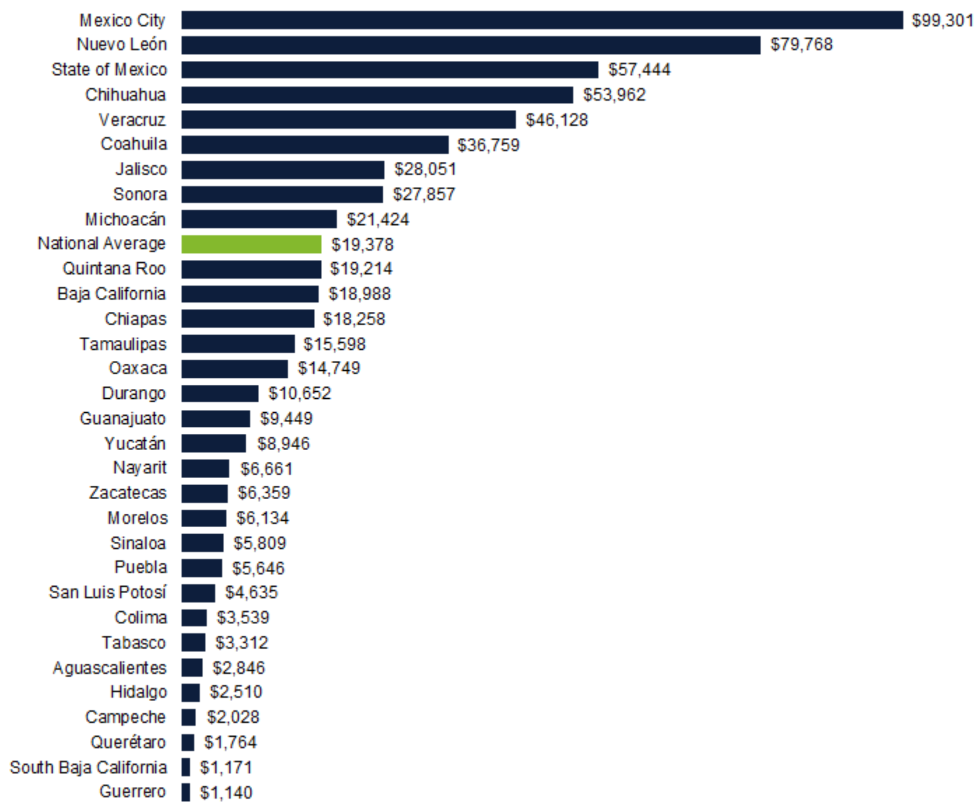
Balance as a percentage of Mexico's GDP.
Source: HR Ratings with information from the SHCP and INEGI.

Evolution of state debt

The debt of the governments of the states amounted to P$659,638m as of 3Q25, which represented a decrease of 2.5% compared to the amount recorded in 3Q24. It also accounted for 90.0% of total subnational debt, slightly higher than the 89.4% reported in 3Q24. Regarding the debt of state public enterprises, this was P$1,236m (a reduction of 9.1% vs 3Q24) and constituted 5.7% of the total indebtedness. In addition, municipal governments and their public entities presented obligations totaling P$28,296m and P$1,436m, so their percentage of total subnational debt was placed at 4.1% and 0.2%.

As shown in Figure 4, Mexico City (HR AAA), Nuevo León (HR A+), the State of Mexico, Chihuahua (HR A+) and Veracruz (HR A-) remain the entities with the highest debt amounts in the country in absolute terms. With figures as of 3Q25, the sum of the debt of the governments of these entities made up 54.3% of the total state debt, an increase of 51.9% vs. observed in 3Q24, which responds to the use of debt by Nuevo León, Mexico City and Chihuahua. For its part, Tlaxcala remained the only state that does not have active bank debt, after Querétaro had resources available through this means during 2023. Likewise, the average debt of the governments of the states decreased to P$19,077m, decreasing 8.8% in real terms compared to the average of 3Q24. In this regard, it is important to mention that the figures presented in Figure 4, as well as those reported in this section, do not consider the debt of state public entities.

Figure 4. Debt of the states as of 3Q25 (Balance in millions of pesos)

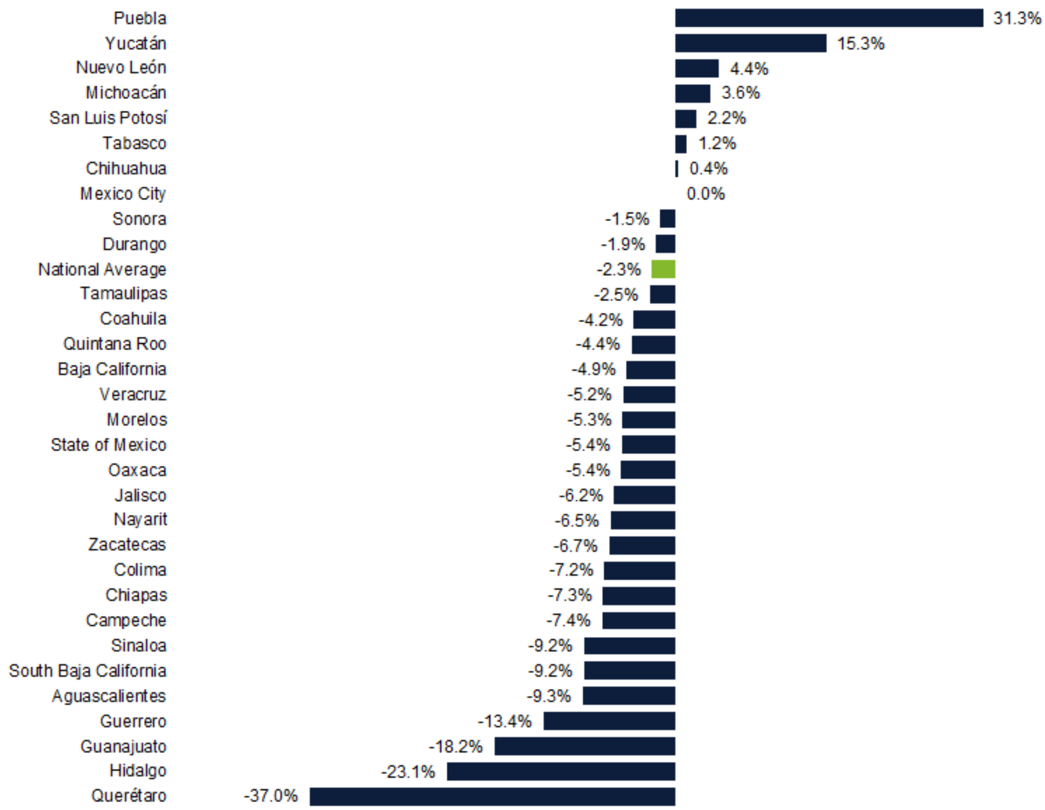


Source: HR Ratings with information from the SHCP.
Note: Tlaxcala is omitted because, as of Q3 2025, it had no public debt.

Seven states increased their debt between 3Q24 and 3Q25: Puebla, Yucatán (HR AA+), Nuevo León (HR A+), Michoacán (HR A-), San Luis Potosí (HR A), Tabasco (HR AA-) and Chihuahua (HR A+). In absolute terms, the debt of the government of Nuevo León was the one that presented the greatest increase, as it went from P$76,380m to P$79,768m, in line with the intention of increasing Investment Expenditure for the conclusion of priority infrastructure projects in terms of mobility and public safety. However, as can be seen in Figure 5, the highest real percentage variation corresponded to the states of Puebla and Yucatán (31.3% and 15.3% respectively). In the case of the second, a provision of resources through structured financing was observed for the expansion and equipment of the *Puerto de Altura* of Progreso.

In relation to the most pronounced contractions in the level of indebtedness of their governments, Querétaro, Hidalgo (HR AA+), Guanajuato and Guerrero stand out. First, it is important to consider that Querétaro acquired P$3,300m through two long-term loans in October 2023 for the execution of mobility, energy, and infrastructure projects. These loans must be paid before the end of 2027, which means a high annual capital payment. In the same vein, the amortization profile of some of the obligations that make up the Direct Debt of the state of Hidalgo is also considered accelerated.

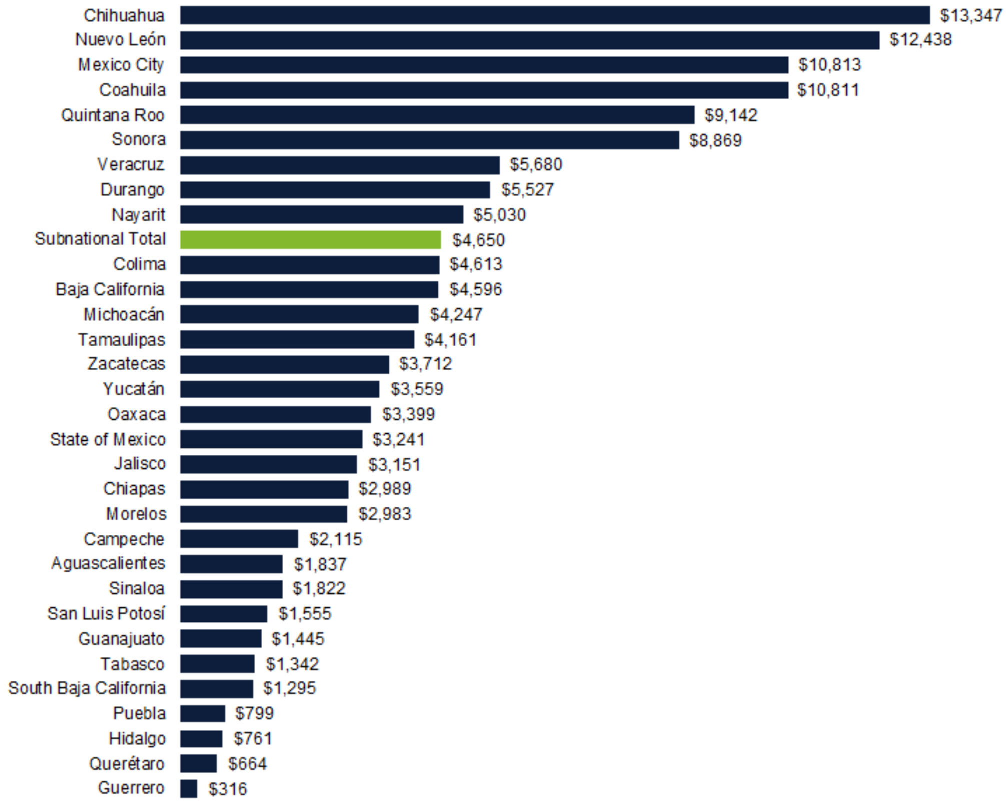
Figure 5. Real annual growth in the debt of the states as of 3Q25



Source: HR Ratings with information from the SHCP.
Note: Tlaxcala is omitted because, as of Q3 2025, it had no public debt.

Figure 6 shows the subnational debt per capita of the states that have active financing, ordered from highest to lowest. One of the most important advantages of using per capita figures is that it allows for a more equitable comparison, since the least populated entities are not necessarily the ones that are in the last places in terms of level of indebtedness and vice versa. Chihuahua (HR A+), Nuevo León (HR A+), Mexico City (HR AAA) and Coahuila (HR A) are among the top six places in state debt both per capita and absolute debt, as shown in Figure 3. However, there are cases such as those of Colima and the State of Mexico: the first of these states is located in twenty-fourth place in total debt and tenth in debt per inhabitant, while the second occupies third place in absolute values, but seventeenth when considering per capita figures. Finally, the entities with the lowest debt per inhabitant are Puebla, Hidalgo, Querétaro and Guerrero, all with figures below one thousand pesos.

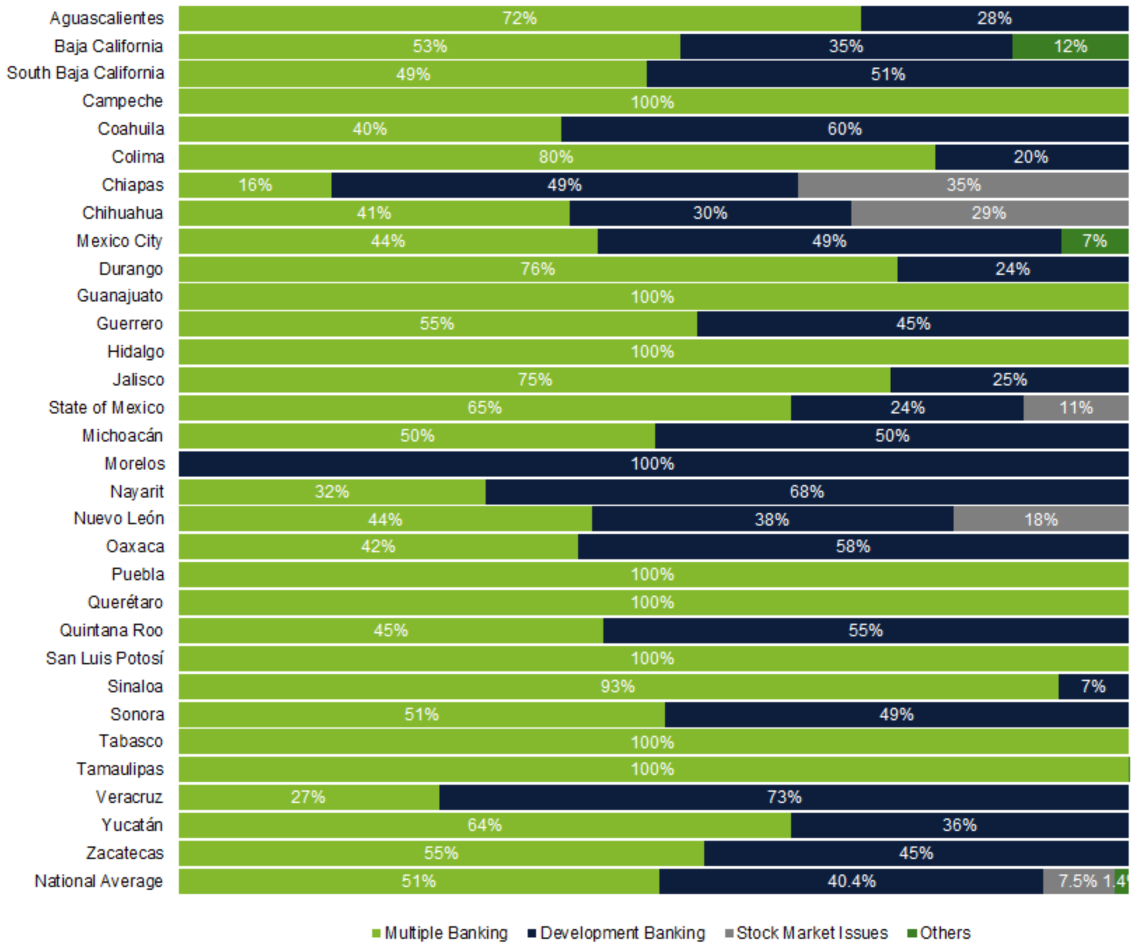
Figure 6. Per capita debt of the states as of 3Q25 (Balance in pesos per capita)



Source: HR Ratings with information from SHCP and CONAPO.
Note: Tlaxcala is omitted because, as of Q3 2025, it had no public debt.

As of 3Q25, multiple banks continued to be the most important source of financing for states and their decentralized agencies, with a participation in the sector equivalent to 50.7% of total debt as of 3Q24, which can be seen in Figure 7. Development banking accounted for 40.4% of the subnational sector's obligations, while stock market issues accounted for 7.5% and the rest of the sources for 1.4%. Therefore, the percentage of participation of each source of financing remained without significant variations during the last year; However, it is relevant to underline that five years ago, multiple banks accounted for 55.6% of state debt and development banks for 36.2%, which shows a slight increase in the market share of development banks in the same period. In the above, this actor has benefited from some debt refinancing and restructuring operations carried out during the last few years in entities such as Michoacán (HR A-), Tamaulipas (HR A+) and Colima (HR BBB+).

Figure 7. Source of financing as a percentage of the total debt of states and their public entities as of 3Q25



Source: HR Ratings with information from the SHCP.
Note: Tlaxcala is omitted because it had no public debt as of Q3 2025.

Evolution of municipal debt

Like the states, municipal governments have made less use of financing in recent years, especially as a result of the entry into force of the LDF. However, the contraction has been more pronounced than that of states and public entities since, in addition to the decrease in the debt balance, municipalities have reduced their participation in the subnational sector. With data at the end of 2015, municipal debt stood at P$48,081m and constituted 9.0% of the total subnational debt; while as of 3Q25, municipal government debt was P$28,296m and represented only 4.1% of the total. Therefore, the obligations of the municipalities presented a 15-25 CAGR of -5.2% and a decrease of 6.8% compared to what was recorded in 3Q24.

The number of municipalities with active loans went from 528 in 3Q24 to 531 in 3Q25, which contrasts with the year-on-year variation previously reported, as 662 municipal governments had active debt as of 3Q23. This was primarily due to the liquidation of multiple short-term loans before the end of the municipal administrations, which concluded between September 2024 and January 2025. In this regard, the LDF stipulates that all short-term obligations must be amortized in full three months before the end of the municipalities' terms of government. When analyzing the behavior by state, it stands out that 201 of the 212 municipalities of Veracruz had active financing, because most participated in the issuance of stock certificates 08 and 08U, which mature in July 2036. Other states with a high participation of their municipalities in the use of bank debt are Baja California Sur (HR A+), with a proportion of 100.0%; Colima, with 80.0% and Sinaloa, with 80.0%

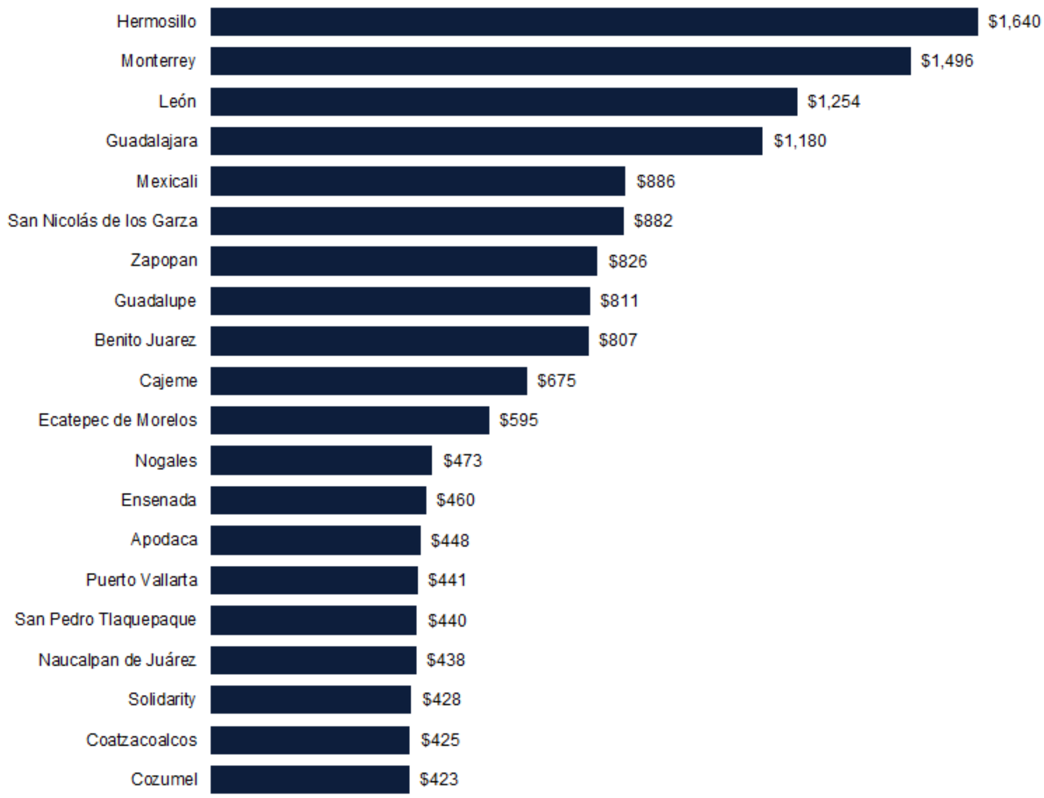
Figure 8 shows the concentration of municipal debt by state as of 3Q25, where Jalisco (HR AA+) stands out, whose municipalities represent 16.2% of the total debt; Nuevo León (HR A+), with a proportion of 15.8%; Sonora (HR A), with 13.6% and the State of Mexico with 12.4%. Together, the municipalities of these states account for 58.1% of the total debt. They are followed by Quintana Roo (HR A+), Veracruz (HR A) and Guanajuato, with shares of 6.6%, 6.3% and 6.2% respectively. Finally, the total municipal debt of the remaining entities is less than 2.0%. In this group, the municipalities of Tlaxcala stand out since, like the state government, they did not register current bank debt as of 3Q25.

Figure 8. Concentration of municipal debt by state as of 3Q25

Source: HR Ratings with information from the SHCP.

Figure 9 shows the twenty municipalities that reported the highest unpaid debt balance as of 3Q25. The first four places on the list continue to be the same as in 3Q24: Hermosillo (HR BBB+), with a debt of P$1,640m; Monterrey (HR AA), with obligations totaling P$1,496m; León, with P$1,396 and Guadalajara (HR AA), with P$1,093m. As for the rest of the list, most municipalities remained at a similar level compared to what was observed in 3Q24. Among the most relevant changes are the exit of Culiacán, which in 3Q24 was in ninth place with a debt of P$504m; however, as of 3Q25 the total of its obligations decreased to P$412m. For its part, the municipality of Guadalupe, Nuevo León climbed ten places, from eighteenth to eighth place, as its indebtedness went from P$459m to P$811m, after the availability of resources through obligations contracted with multiple and development banks. Additionally, Puerto Vallarta (HR A-) replaced Culiacán, which was due to the contracting of unsecured debt during the first half of 2025. Together, the obligations of the municipalities listed in Figure 9 accounted for 53.1% of the total debt of the municipal governments, so the leverage of the remaining 2,456 municipalities represented 46.9%.

Figure 9. Debt of the municipalities as of 3Q25 (Balance in millions of pesos)

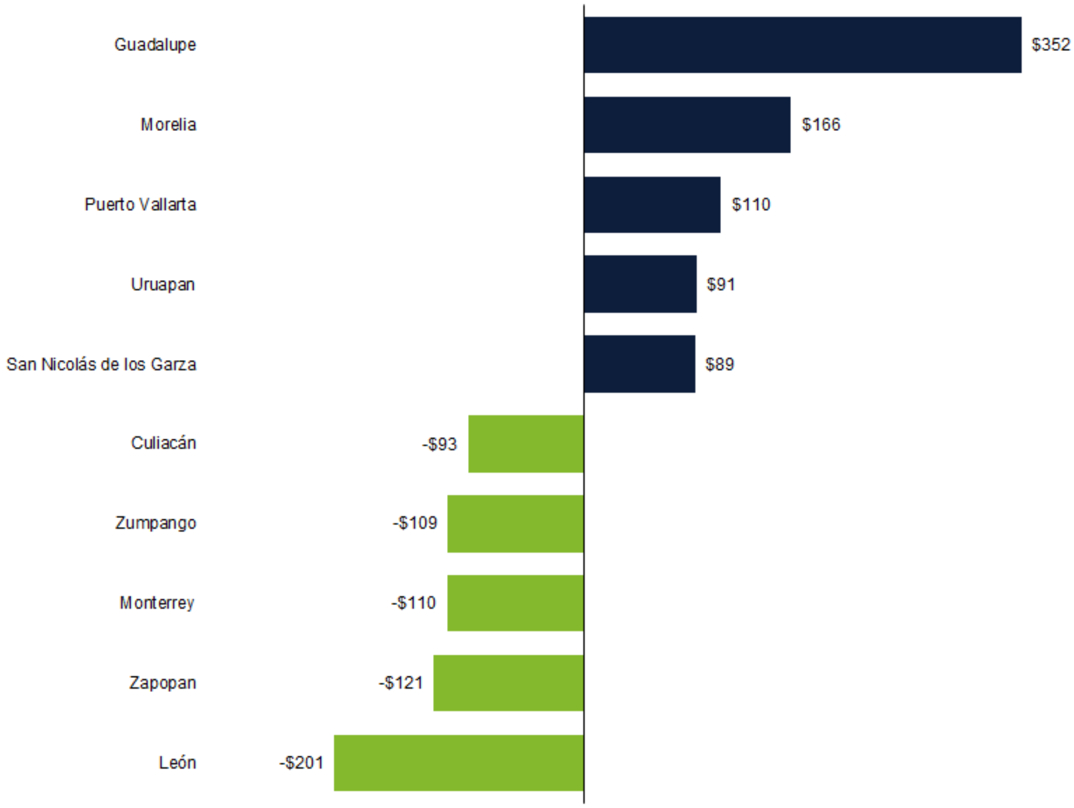


Source: HR Ratings with information from the SHCP.

*Only the top 20 municipalities are shown in order of debt amount.

On the other hand, Figure 10 lists the ten most important variations in municipal debt from 3Q24 to 3Q25. The most notable movement was that of the municipality of Guadalupe, Nuevo León, whose debt increased annually by P$352m, due to the contracting of a long-term loan with Banobras for productive investments in public works. Added to this increase are those of Morelia, of P$166m; Puerto Vallarta (HR A-), de P$110m; Uruapan for P$91m and San Nicolás de los Garza, for P$89m. With regard to the most pronounced reductions, the municipalities of León stand out with a decrease of P$201m; Zapopan, P$121m; Monterrey, P$110m; Zumpango; P$109m and Culiacán, with a reduction of P$93m. It is also relevant to mention that 84.9% of the municipalities with outstanding bank debt reported a reduction in the outstanding balance of their debt between 3Q24 and 3Q25, so only 15.1% registered an increase.

Figure 10. Municipalities with the highest growth and debt reduction, 3Q25 vs 3Q24 (Balance in millions of pesos in 2025)



Source: HR Ratings with information from the SHCP.

As with the states, Figure 11 shows the municipalities with the highest per capita debt in Mexico (filtered with a population of more than 15,000 inhabitants). As shown, Cozumel (HR A-) and Puerto Peñasco (HR BB) rank first and second in terms of indebtedness per inhabitant, with obligations that as of 3Q25 amounted to 4,432 and 4,309 pesos per inhabitant respectively. These municipalities share an important tourist vocation, so they are subject to constant needs for maintenance and renovation of infrastructure, despite the fact that they have less than 100,000 inhabitants. The first five places are completed by San Nicolás de los Garza, with a debt of 2,080 pesos per person; Guaymas, with 1,822 pesos and Tequila, with 1,733 pesos. Regarding the states to which the municipalities with the highest per capita indebtedness belong, it is worth noting that 46.7% of the municipalities listed in Figure 6 are in Sonora, while Jalisco has a participation of 20.0%.

Figure 11. Per capita debt of municipalities as of 3Q25*

Municipalities	State	Debt balance as of Q3 2025 (balance in thousands of pesos)	Mid-year population	Per capita debt (in pesos)
Cozumel	Quintana Roo	423,247	95,498	4,432
Puerto Peñasco	Sonora	282,010	65,454	4,309
San Nicolás de los Garza	Nuevo León	882,473	424,177	2,080
Guaymas	Sonora	293,414	161,039	1,822
Tequila	Jalisco	81,648	47,127	1,733
Nogales	Sonora	472,556	291,698	1,620
Hermosillo	Sonora	1,639,705	1,028,894	1,594
Ahualulco de Mercado	Jalisco	37,261	24,676	1,510
Cajeme	Sonora	675,226	453,062	1,490
Agua Prieta	Sonora	141,580	99,702	1,420
Puerto Vallarta	Jalisco	441,155	311,018	1,418
Bácum	Sonora	33,519	24,071	1,393
Coatzacoalcos	Veracruz	424,884	310,767	1,367
Huixquilucan	México	386,709	300,919	1,285
Monterrey	Nuevo León	1,496,031	1,172,018	1,276

Source: HR Ratings with information from the SHCP and CONAPO.
Only municipalities with a population exceeding 15,000 inhabitants were included in the list.

Perspective on Subnational Financing

Despite the trend observed in recent years, the behavior of subnational financing during the short and medium term will be marked by the evolution of various factors. The first of these is the performance of the Federal Participations, which depend directly on federal revenue. There are reasons to think that it will continue to rise, mainly due to the actions to strengthen the inspection process implemented in recent years and the adjustments approved on the Special Tax on Production and Services (IEPS). However, the behavior of the Participations and therefore, of the subnational debt, will also depend on the dynamism of the Mexican economy. According to the most recent quarterly update of macroeconomic scenarios, HR Ratings estimates economic growth of 1.5% for 2026 and an average of 1.85% for the period 2027-2030. In the event that Mexico's GDP shows less dynamism than anticipated by the SHCP, and this ends up affecting the fiscal flexibility of states and municipalities, a rebound could be observed in the contracting of bank obligations, especially unsecured obligations.

In addition to the above, there are multiple infrastructure needs that must be met by states and municipalities. In the case of the former, their long-term economic growth prospects are affected by the deterioration and lack of maintenance and connectivity of the road network, in addition to the fact that there are important budgetary requirements for the strengthening of public security and the education and health systems. For their part, municipalities are obliged to strengthen the main public services they provide, in addition to contributing to the development of projects that may represent a considerable social impact for their population. However, local revenues only represent 26.5% of its total income, which could generate an incentive for the contracting of long-term debt that seeks to address deficiencies in the productive public infrastructure.

The generalized reduction in interest rates could also stimulate the taking of debt by subnational entities or the implementation of public debt refinancing processes. In addition to the 300 basis point reduction recorded during 2025, HR Ratings projects that the target nominal reference rate will close 2026 at 6.25%, which would imply an additional decrease of 75 basis points. In addition, it will be important to continue monitoring the use of schemes for the realization of infrastructure projects that involve a financial cost, such as factoring or multi-year public works. Finally, HR Ratings will monitor the evolution of trade policy and eventual revision of the free trade agreement between the United States, Mexico and Canada (USMCA) to identify the potential impact of any impact on public policy decision-making by the states and municipalities most dependent on trade with the United States.

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