

Sector Analysis



María Ortiz

maria.ortiz@hrratings.com

Public Finance and
Sovereign Debt Sr. Analyst



Víctor Castro

victor.castro@hrratings.com

Public Finance and Sovereign
Debt Sr. Analyst



Ramón Villa

ramon.villa@hrratings.com

Public Finance and Sovereign
Debt Sr. Associate



Álvaro Rodríguez

alvaro.rodriguez@hrratings.com

Public Finance and Sovereign Debt
Director



Ricardo Gallegos

ricardo.gallegos@hrratings.com

Deputy Chief Economic Analysis
Officer

HR Ratings comments on the performance of subnational ratings in 2024, highlighting positive performance driven by sustained growth in Entities' Unrestricted Revenue.

Unrestricted Revenue (UR) of Subnational Entities rated by HR Ratings rose in 2024, driven by the ongoing growth of the General Revenue-Sharing Fund (FGP), and increased own income revenue. This, together with an indebtedness position of local governments, has resulted in lower relative debt of these Entities and, therefore, positive performance of the sector's ratings. In this period, HR Ratings reviewed 110 subnational sector ratings, 24 of which were from States and 86 from Municipalities. The ratings of 13 States were ratified (54.2%), while 11 (45.8%) were upgraded. No downgraded ratings were reported. The ratings of 42 Municipalities were upgraded (48.8%), while 40 (46.5%) were ratified of the 86 municipalities. Only four ratings were downgraded.

Municipalities reported UR with a Compound Annual Growth Rate from 2020 to 2023 (AAGR₂₀₋₂₃) of 13.4% while States reported a net UR of 12.9%. On one hand, due to increased Federal Revenue Sharing (FRS), especially as of 2021 when the economy reopened after COVID-19, the States' net Revenue Sharing was an AAGR₂₀₋₂₃ of 9.7%, while the Revenue Sharing of the Municipalities rated by HR Ratings had an AAGR₂₀₋₂₃ of 4.2%. On the other hand, the sector's Entities' Own Income Collections have continued to grow, with an AAGR₂₀₋₂₃ of 18.2% for Municipalities and 21.3% for States.

Regarding 2020 to 2023 Own Income Collections, the sector's Taxes, Fees and Income by Services Provided has risen, driven by auditing actions undertaken by the Entities to reduce backlogs, as well as the adoption of new technologies for timely follow-up and digital collection. Some examples of the above are the remote payment of Taxes and Fees, the use of photogrammetric flights to update land registry values, and persuasive collection and tax adjustment incentives for large debtors. In recent years, States have increased their Payroll Tax (ISN) rates, signed collaboration agreements to cross-check information with federal agencies to identify evasion and search into new taxes such as ecological and other local taxes.



Given the influence municipal and state administrations have on performance, the weight the above has on rising ratings depends on the tax space of local tax collection. As well as the weight this type of revenue has on UR - 30.3% of UR for States and 38.8% for Municipalities - with the UR being the most used denominator of metrics to determine relative sector indebtedness, since it represents the flows that could be used to pay financial obligations. It also highlights an improvement in fiscal balances that has been noted in recent years with positive UR performance resulting in improved subnational entity liquidity. This has a direct impact on the Adjusted Net Debt (AND) to UR, which has an AAGR₂₀₋₂₃ of -13.4% for States and -29.6% for the Net Debt (ND) to UR for Municipalities.

HR Ratings expects more moderate growth of Federal Revenue Sharing over the next few years, so the subnational sector faces an important challenge in Own Income collection to avoid fiscal deficits that would compromise its liquidity, without reducing its investments in infrastructure and public goods and services. In addition, 2025 will see first-time administrations in 81 municipalities and 9 states rated by HR Ratings, resulting from elections held in 2024, which could lead to several challenges and opportunities for infrastructure plans and financing sources, which HR Ratings will monitor to identify deviations in their projections, as well as repercussions on subnational public finances.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM

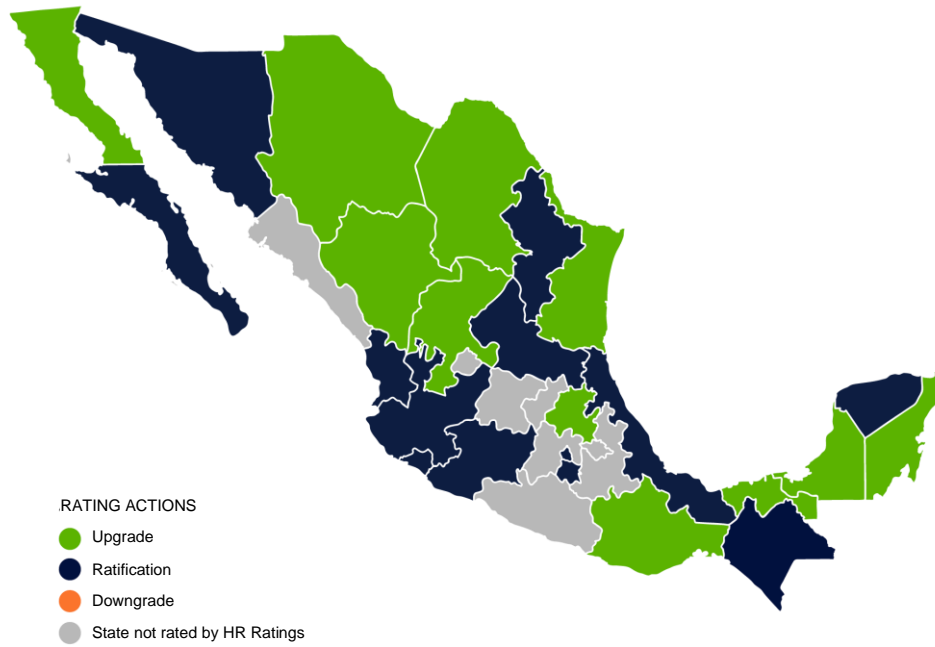


HR RATINGS

States

In 2024, HR Ratings reviewed the ratings of 24 states, of which 13 had their ratings ratified, while 11 were upgraded. All 2024 rating changes are provided below:

Figure 1. 2024 State rating actions



Source: HR Ratings

State Rating Changes

By the end of 2024, HR Ratings had upgraded the ratings of eleven States. Two of these states were Campeche and Hidalgo, which are in the HR AA range, both going up a notch (HR AA to HR AA+). A Primary Balance (PB) average surplus of 10.7% of Total Revenue (TR) stands out, arising from an average UR increase of 16.5%, in accordance with the growth in funds received through Federal Revenue Sharing, as well as collected Taxes and Fees. This result allowed them to increase their liquidity level and keep their AND to UR ratio low, while reporting no short-term financing. It should be noted that the environmental factor label for Campeche was changed from *limited* to *average*, due to information provided by the State on actions implemented to mitigate the impact on state finances due to possible damages caused by natural disasters.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

Two other states that had rating changes are Oaxaca, from HR A+ to HR AA- and Quintana Roo, from HR BBB to HR A-. Accord to the rest of the states rated by HR Ratings, both States had UR growth, however, Quintana Roo had the most notable year-over-year increase (38.3%), due to the implementation of a Tax Reform which, among other provisions, updated Payroll and Lodging Tax rates, as well as they had created new taxes. As a result, as well as the zero additional short-term financing, its AND to UR ratio dropped from 108.1% to 64.7% (vs. 97.6% projected).

In 2024, 13 ratings were ratified, seven of them maintained a Stable outlook and four ratings changed from Stable to Positive. Due to similar balance and relative debt metrics estimated by HR Ratings during its previous review to those observed during the 2023 tax year, as well as the expectation of maintaining similar performance over the next few years, the ratings for Chiapas (HR AA-), Mexico City (HR AAA), Jalisco (HR AA+), Morelos (HR A+), Nayarit (HR BBB-), San Luis Potosí (HR A+) and Sonora (HR A) were confirmed and maintained a Stable Outlook. States with confirmed and improved outlooks from Stable to Positive included Colima (HR BBB), Michoacán (HR BBB+), Veracruz (HR A-) and Yucatán (HR AA).

HR Ratings confirmed the State of Baja California Sur's rating of HR A and modified its Negative Outlook to Stable, based on information provided by the State which confirmed that delayed unsecured debt obligation payments in January and March 2023 were due to breakdowns in internal coordination procedures and not a lack of liquidity. Different actions were also implemented to mitigate the associated risk, including the development of a digital payment automation platform and the creation of an alert system.

HR Ratings certified Nuevo León's rating of HR A+ and maintained its Positive Outlook, according to the expectation that its UR will continue to grow over the next few years, mainly due to an estimated increase in Own Income Collections, related to the expected positive performance of the state's economy. It should be noted that Nuevo León reduced its AND to UR ratio, as well as its Unsecured Debt (UD) to Total Debt (TD) in 2023.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

Figure 2. States rated by HR Ratings in 2024



Source: HR Ratings.

Based on the above changes, most states continue within a rating range of HR A, with a slightly higher concentration from 48.0% to 50.0%, due to a boost in Quintana Roo's rating. Due to a change in the State's rating, there were less states in the HR BBB range, falling from 20.0% to 16.7%. Furthermore, the proportion of states with an HR AA rating was similar in 2023 and 2024, going from 24.0% to 25.0%, while the State of Durango remains as the only state with a rating equal to or lower than HR BB, as it is still recovering from a default in previous years.

In terms of scale, most states, six in total, were within the rating of HR A+, followed by four states with a rating of HR A. HR AA+ was third with three states, followed by HR AA-, HR A- and HR BBB+, with two states each. The remaining ratings, HR AAA, HR AA, HR BBB, HR BBB- and HR BB+, each had a single State.



@HRRATINGS



HR RATINGS

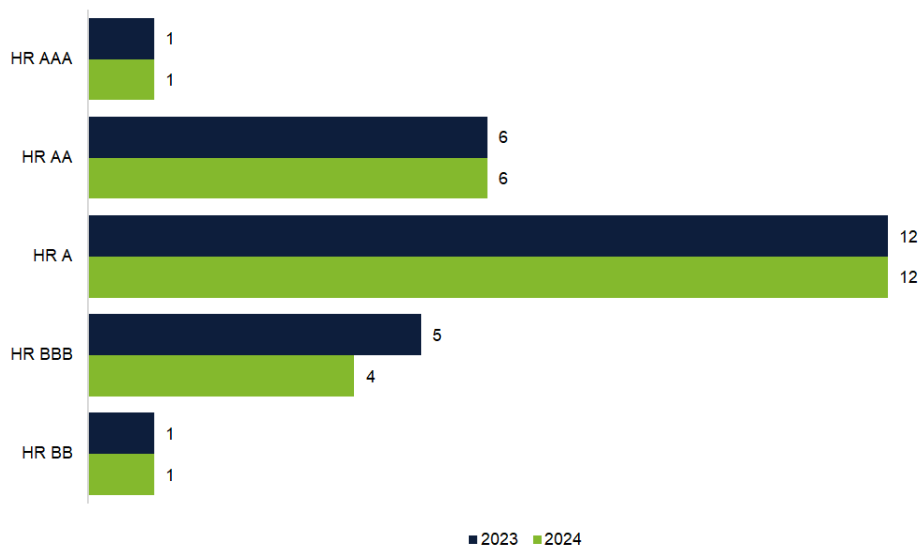


WWW.HRRATINGS.COM



HR RATINGS

Figure 3. Distribution of State ratings assigned by HR Ratings, 2023 and 2024



Source: HR Ratings.

The following is a description of some of the items that make up the States in each rating range in 2024:

States rated at HR AAA levels. The only State with this rating continues to be Mexico City, accord to the assistance to its public debt it receives from the Federal Government. Similarly, the State had adequate fiscal performance, which allowed it to sustain an Own Income Collections to Total Revenue ratio of 44.0% for the last four years, above the 12.7% State average of all States rated by HR Ratings. Finally, although additional long-term debt is found within the projection horizon for financing Public Investment projects, the use of short-term debt is not considered, which, together with adequate UR performance, is expected to allow it to continue reducing its relative debt level.

States rated at HR AA levels. The States with this rating maintain robust debt metrics by lowering their average AND to UR ratio from 23.0% to 18.6%, strengthening their UR, related in turn to increases in Federal Revenue Sharing and in Own Income Collections. Similarly, Yucatán is the only State in this group that continues to use unsecured debt, with a UD to TD ratio of 3.8% (vs. 6.8% in the previous year). Additionally, Current Liabilities (CL) to UR showed an average of 7.4%, which is considered low when compared to the total sample of states rated by HR Ratings. Finally, the impact that adjustments for ESG factors have on these States is of note. Yucatán stands out with three *superior* labels. Jalisco maintains two positive adjustments due to social and governance factors.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

States rated at HR A levels. The 12 States in this rating range had an AND to UR ratio of 49.1%, which has continued to fall in recent years. Similarly, in accordance with the decreasing debt observed in all the municipalities rated by HR Ratings, the proportion of UD went from 11.0% to 6.1% of the TD. Regarding the payment of non-cost financial obligations, this group maintained a similar UR value from 2022 to 2023, while the Debt Service (DS) to UR ratio rose from 10.9% to 11.4% due to high interest rates.

States rated at HR BBB levels. Four states are in this rating range and their average AND to UR ratio is 47.3%, similar to States with an HR A rating. However, this group is characterized by a greater use of short-term loans, with an average UD to TD of 15.3%. Finally, its CP to UR ratio was similar from 2022 to 2023, falling from 31.4% to 30.7%.

States rated at levels of HR BB and lower. Durango is the only state that remains below investment grade (at or below HR BB+), which is currently recovering from a 2021 default on short-term debt payments. It should be noted that, as part of this process, the State's rating changed from HR BB to HR BB+ in 2024, based on improved relative debt levels and the expectation it will maintain a similar performance in coming years.

Figure 4. Average metrics by rating range in 2024 – States rated by HR Ratings

Range	Primary Balance to TR		DS to UR		Net Debt to UR		Unsecured Debt to Total Debt		Current Liabilities to UR		% of assigned ratings in 2024
	2023	2024p	2023	2024p	2023	2024p	2023	2024p	2023	2024p	
HR AAA	6.0%	2.4%	8.0%	7.5%	35.8%	34.9%	0.0%	0.0%	12.7%	11.5%	4.2%
HR AA	6.2%	-1.1%	4.9%	4.7%	18.6%	21.6%	0.6%	0.5%	7.4%	7.4%	25.0%
HR A	5.3%	1.3%	11.4%	9.2%	49.1%	49.9%	6.1%	7.2%	17.4%	16.7%	50.0%
HR BBB	3.5%	0.5%	14.7%	14.1%	47.3%	48.2%	15.3%	15.6%	30.7%	30.3%	16.7%
HR BB and lower	6.0%	-0.5%	17.8%	21.1%	51.4%	61.2%	20.4%	17.8%	33.2%	36.7%	4.2%

Source: HR Ratings

p: Projected by HR Ratings

State Revenue as a factor for improving credit quality

As previously mentioned, fiscal results of the 24 States rated by HR Ratings in 2024 continued to improve, which directly correlates to the positive behavior of federal funds obtained, as well as the Own Income Collections of each state. As a result, UR continued to grow, which made it possible to cover Productive Public Investment projects needs and the payment of Current Expenditure, without having to resort to the use of additional financing in most states. This resulted in improved balance and relative indebtedness metrics.

Although the Revenue the States obtained from the Federal Government accounted for the largest percentage of their Total Revenue (TR), in 2023, their Own Income Collections to TR ratio was up slightly compared to the average of the four previous years (12.7% vs. 11.8%). It should be noted that most of these state funds come from collected Taxes, essentially Payroll Tax (ISN), with a rate that has been updated several times in recent years. In 2023, the most important change in this rate occurred in the State of Quintana Roo (HR A-), up from 3.0% to 4.0% (the highest Payroll Tax rate in Mexico), which, as mentioned before, greatly benefited the State's UR. Meanwhile, only the State of Chihuahua's (HR A) rate fell in 2024, down from 3.5% to 3.0%. Finally, Mexico City (HR AAA) is the only State with plans thus far to update its Payroll Tax rate in 2025, from 3.0% to



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM

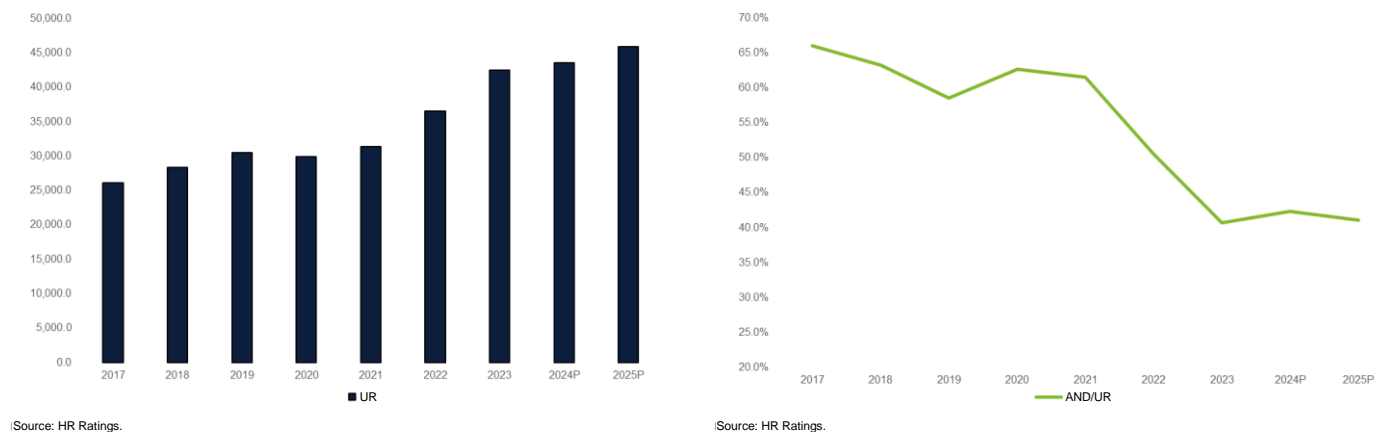


HR RATINGS

4.0%, the same as Quintana Roo. HR Ratings will monitor payroll tax rate changes, however, it is very important to point out that, by decree, this rate can only vary between a minimum of 2.0% and a maximum of 4.0%.

Regarding the importance of Tax collection over total Own Income Collections, it should be noted that in addition to payroll tax, a large portion of the States' revenue comes from the Lodging Tax (ISH), levied on hotels and other establishments that provide lodging services. This rate also varies among states. The ISH benefits states who mainly provide tourist services, such as Quintana Roo (HR A-), Baja California (HR BBB+) and Baja California Sur (HR A). In addition, in recent years HR Ratings has followed up on other types of taxes collected, which are imposed at each State's discretion, intended to tax specific activities. In view of the above, other local taxes were created, which grants states the power to establish rates of 2.0% to 5.0% on revenue from taxpayers providing professional services, granting the temporary use of real estate or carrying out certain business activities. Nayarit (HR BBB-) is among the States rated by HR Ratings that has most decided to collect this type of tax, by charging 3.0% for providing Personal Services and for the lease or sale of Real Estate, as well as Yucatán (HR AA), Chihuahua (HR A) and Quintana Roo (HR A-), which charge the maximum of (5.0%) on Real Estate sales.

Figure 5. Evolution of State UR vs. Adjusted Net Debt



In line with the above, as well as with different auditing actions each State carries out individually and increased Federal Revenue Sharing Revenue, the net UR of the rated States grew by an average of 16.2% in 2024, with an AAGR₂₀₋₂₃ of 12.9%. With this, an average surplus PB of 5.3% was reported in the last tax year observed, which resulted in positive liquidity and moderated the use of additional financing, which positively affected the rating assigned in 2024. As a result, the average ND to UR ratio fell from 50.5% to 40.7%, with the average UD ratio down from 9.4% to 6.6%.

For subsequent years, States are expected to continue having improved UR based on performance at the end of 3Q24; however, Federal Revenue Sharing growth is expected to slow down, especially in 2025. With this, as well as the estimated performance of local tax collection, the States are expected to maintain the moderate use of additional financing, since, when comparing the end of 3Q23 with 3Q24, contracting of short and long-term obligations rose. Finally, the revenue laws of States such as Mexico City (HR AAA), Durango (HR BB+) and Colima (HR BBB) project taking on additional debt to finance Investment Works in their respective Expenditure Budgets for 2025.

Municipalities

HR Ratings performed 86 Municipal rating reviews in 2024, of which 42 were upgrades (6 more than in 2023), which is equivalent to 48.8% of the total ratings reviewed. This result was characterized by a higher amount of UR driven by a rise in Federal Revenue Sharing received due to an increase in the FPC, as well as a growth in Own Income Collections associated with various auditing actions implemented by the Entities, which allowed them to strengthen their liquidity levels, reducing their relative debt levels. In addition, the ratings of 40 municipalities were ratified, while 4 were downgraded, and no new ratings were assigned. Finally, on December 18, 2024, the municipality of Toluca with a rating of HR BBB- with Stable Outlook was withdrawn, due to the fact that the Municipality decided not to continue with the rating process.

Of the total number of municipalities rated in 2024, 78 were in a rating scale within the investment grade; that is, 90.7% of the total have a rating equal to or higher than HR BBB-. This is higher than in 2023, when 87.4% of municipalities were above investment grade.



@HRRATINGS



HR RATINGS

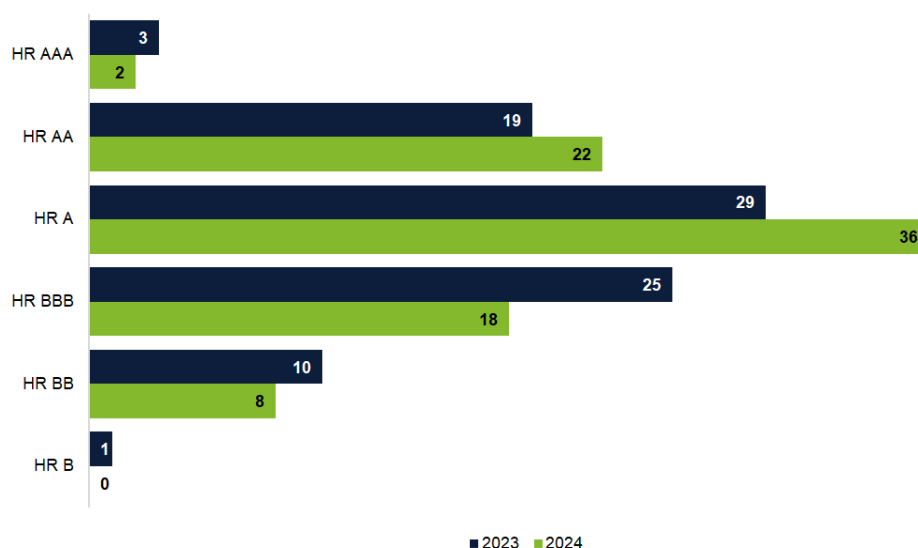


WWW.HRRATINGS.COM



HR RATINGS

Figure 6. Distribution of ratings assigned by HR Ratings to municipalities, 2023 and 2024



Source: HR Ratings.

Changes in Municipal Ratings

Axapusco, Capulhuac and Tepic were among the municipalities with increased ratings, obtaining investment grade ratings, upgrading from HR BB+ in 2023 to HR BBB- in 2024. It should be noted that the municipality of Naucalpan, in addition to achieving investment grade had its rating upgraded by 2 positions, from HR BB to HR BBB- as a result of a rise in its UR, which reduced the ND to UR level from 11.3% to 8.8%, as well as a lower use of short-term debt than estimated. The municipalities of Chapa de Mota, San Luis Potosí and Tlajomulco had positive outlooks in their 2023 reviews, there for they reported upgrades of 2 *notches* from HR A- to HR A+ (the first two) and from HR AA- to HR AA+ for the municipality of Tlajomulco in 2024.

It should be noted that in 2024 there were 4 downgrades in the municipalities of Valle de Bravo (HR A+), Valle de Chalco (HR BB+), Metepec (HR AA-) and Aguascalientes (HR AA+). Each of them showed particular characteristics, especially in the downgrades of 2 rating ranges in the municipalities of Valle de Bravo and Metepec. The first, with a change in its rating from HR AA to HR A+, is the result of a pressure on Current Expenditure resulting from response to environmental contingencies, which resulted in financial deficits and a change in the Environmental factor label from *average* to *limited*. Metepec's change in rating was associated with the sustained deterioration of its liquidity position and the continued use of unsecured financing, so the rating fell from HR AA+ to HR AA-. It was also assigned a Negative Observation as its Current Liabilities (CL) level is expected to rise. Finally, Valle de Chalco Solidaridad's rating fell below investment grade from HR BBB- to HR BB+ as a result of a higher-than-expected amount of short-term financing, along with an increase in its CL to UR.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

The following is a description of some of the items that make up the Municipalities in each rating range in 2024:

Municipalities rated HR AAA. The municipalities within this rating range are characterized by maintaining high efficiency in Own Income Collections, which has helped them to maintain a high level of liquidity and thus, a negative average ND. In addition, adequate fiscal results have allowed them to remain free of short-term financing. They also have an average CL of 6.0%, which is considered the lowest among all rating ranges. In 2023, three municipalities were reported in this rating range; however, following the municipality of Aguascalientes' rating downgrade in 2024 due to a PB to TR deficit and the use of short-term financing of P\$260.0m (which was not considered), currently only the municipalities of San Pedro Garza García and Chihuahua remain in this range. Finally, the characteristics shared by these Municipalities related to the qualitative factors associated with ESG, is that they have 2 of the 3 factors labeled as *superior*, one *average* and none as *limited*, which positively impacts the rating.

Municipalities rated at HR AA levels. Due to the upgrades in 2024, this rating range had the second highest concentration, up from 21.8% to 25.6%. Unlike the previous range, municipalities such as Aguascalientes (HR AA+), Boca del Río (HR AA-), Colón (HR AA), Durango (HR AA-), and Metepec (HR AA-) report the use of unsecured financing; however, the level of ND to average UR of the municipalities that make up this rating group remains negative, due to the high level of liquidity they maintain. The CL to UR metric averaged 9.0%, similar to the reported 7.5% from the previous review. Finally, an average PB to UR surplus of 4.3% of Total Revenue (TR) is observed, higher than the 1.0% average recorded in 2023; this increase was associated with a higher amount of UR. In addition, the average Own Income Collections is 34.5%, higher than the 27.7% average of the municipalities rated by HR Ratings. This is considered a high rating range, the ESG Factor labels were usually assigned *Average* in the Environmental and Social Factors, while most Municipalities maintain the Governance factor at *superior*.

Municipalities rated at HR A levels. This is the largest group of ratings maintained by HR Ratings, with 36 in 2024, equivalent to 41.6% (vs. 33.3% reported in 2023). The main characteristics of Municipalities at this level is an average ND to UR of 5.6% which is considered low and an average in the DS of 3.2%. However, the Unsecured Debt to Total Debt ratio amounts to 6.1%, while municipalities such as Delicias (HR A+) and Ramos Arizpe (HR A+) only have short-term debt. Finally, we can see that the proportion of Own Income Collections fell below the average at 26.5% of TR. Contrary to our observations in the two previous rating ranges, in this group the Governance factor is labeled as *average* in 19 of the 36 municipalities and 16 as *limited*, so the Municipality of Valle de Bravo (HR A+) is the only one that maintains this label at *superior*.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

HR BBB rating ranges. This group of ratings fluctuated the most, because in 2024 10 of the 25 ratings reported in 2023 moved to a different range. A moderate credit risk is reported in the group of municipalities that make up this rating range. In the above, an average Net Debt of 14.5% of UR is notable. However, their greater use of short-term financing is observed due to the fact that 22.2% of the municipalities in this rating range maintain a constant use of this resource. Similarly, the CL level rose to 44.0%, above the average of 26.0%. The dependence on federal funds is greater, since the average amount of Own Income Collections is 18.2% of TR. Additionally, within the ESG Factors, most of the Labels are listed as *Limited*, which negatively affects the rating. Social and Governance factor labels changed the most due to the fact that 55.6% and 88.9% of the municipalities reported a *Limited* label in these factors.

Municipalities with ratings of HR BB and below. A high CL level is the main characteristic across the municipalities at this rating level, with an average level of 80.1% of the UR. The ND to UR ratio recorded an average of 22.8%, which is considered high. However, the UD remains as a means to solve temporary liquidity needs, since 37.5% of the Municipalities used this resource in 2024; however, this percentage is lower than the 45.5% reported in 2023. In addition, these municipalities maintained a high DS of 8.1% of UR on average, the same level as reported in 2023. It should be noted that these rating ranges have municipalities that historically faced default issues regarding DS payment, so they are currently recovering.

Figure 7. Average metrics by rating range – Municipalities rated by HR Ratings

Range	Net Debt to UR		DS to UR		Primary Balance to TR		Unsecured Debt to Total Debt		Current Liabilities to UR		% of assigned ratings in 2024
	2023	2024p	2023	2024p	2023	2024p	2023	2024p	2023	2024p	
HR AAA	-32.9%	-25.2%	2.3%	1.9%	5.7%	-7.6%	0.0%	0.0%	6.0%	5.8%	2.3%
HR AA	-4.6%	-2.8%	2.4%	3.5%	4.3%	-2.3%	11.3%	4.5%	9.0%	8.5%	25.6%
HR A	5.6%	5.6%	3.2%	3.1%	3.1%	-2.0%	6.2%	0.6%	15.9%	16.9%	41.9%
HR BBB	14.5%	14.2%	4.8%	4.1%	3.4%	-0.6%	5.2%	1.0%	44.0%	43.5%	20.9%
HR BB and lower	22.8%	22.1%	8.1%	7.0%	6.5%	-0.4%	10.0%	11.0%	80.1%	83.0%	9.3%

Source: HR Ratings

p: Projected by HR Ratings

Municipal Revenue as a factor for improving credit quality

The positive momentum reported in the ratings assigned in 2024 is due to UR growth, which resulted in lower debt levels. This was due to Mexico's economic slowdown in 2020 as a result of COVID-19. This negatively impacted on the Municipalities, with an 8.6% drop in their Own Income Collections. Subsequently, the economy began to recover when economic activities gradually reopened; and with this, a consistent improvement in Municipal Total Revenue was observed. According to annual data as of 2023 for the Municipalities rated by HR Ratings, an AAGR₂₀₋₂₃ of 13.4% in UR was reported, composed of an AAGR₂₀₋₂₃ of 9.7% in Federal Revenue Sharing and an AAGR₂₀₋₂₃ of 18.2% in Own Income Collections.



@HRRATINGS



HR RATINGS



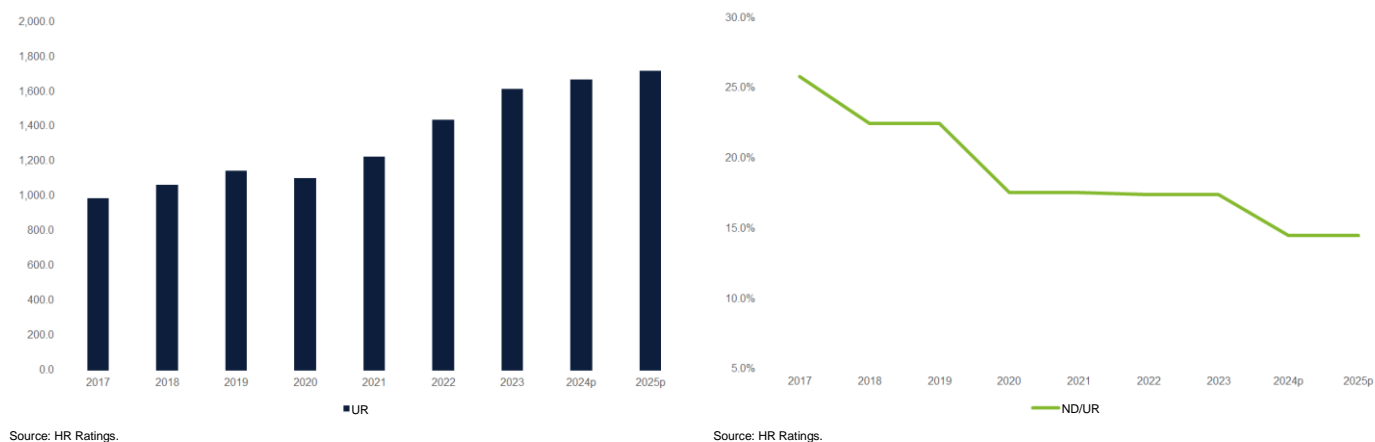
WWW.HRRATINGS.COM



HR RATINGS

The strengthening of the UR is associated with the reported increase in Own Income Collections, since in 2023 fiscal strategies were implemented to promote the collection of Property Tax (40.0% average of Collections) and Real Estate Acquisition Tax (ISAI), since these are the main sources of Municipal income. Among the most relevant actions are discount campaigns, remission of previous surcharges, opening of new collection points (self-service stores and Internet portals), as well as land registry revaluation programs, allocation of progressive rates and photogrammetric flights. Fee enforcement actions were associated with the regularization of operating licenses through visits to businesses, updating of operating permits in local markets and street stalls. However, Revenue Sharing allocated to Municipalities also grew as a result of the increase in the FPC.

Figure 8. Evolution of Municipal UR vs. Net Debt



Based on the annual data of 2023 for the Municipalities rated by HR Ratings in 2024, we can observe that on average Own Income Collections to Total Revenues is 27.7%. It should be noted that from a sample of these municipalities, 15 are notable because they have particular characteristics, reporting an average Collections to TR of over 50.0%, a low level of ND to average UR of 3.3% and a CL to UR of 17.3% (vs. the 26.0% average observed). In terms of geographic location, 12 municipalities are in the Central, North-Central and Northern regions and only 3 are in the Southern region. Similarly, 10 of the 15 municipalities are state capitals or tourist destinations. In addition, the rest of the municipalities are important due to their location, economic activity or number of inhabitants within their State. However, most of the municipalities still report an important margin of action to increase Own Income Collections, since they still report that over 40.0% of their current collection of property taxes are due, so dependence on Federal funds can be further reduced.

Finally, the results in the UR and Current Expenditure contention policies not only resulted in a surplus Primary Balance, improved liquidity position and a reduced relative debt level; but increased UR allowed the Municipalities to increase their Public Investment expenditure level, as this rose 45.2% from 2022 to 2023. However, Investment Expenditure rose more than 100.0% in 14 Municipalities, 10 of which are in the Central and Southern regions of the country, 2 in the North-Western region, 1 in the North-Central region and 1 in the Northern region; 5 of them are tourist destinations.

The ratings and/or opinions of HR Ratings are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on www.hrratings.com. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on this website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to \$1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between \$5,000 and US\$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

Media Contact

comunicaciones@hrratings.com



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS