

## Mexico Watch

# 2024 budget: notable fiscal deterioration on higher expenditure

### Mexico presented the 2024 budget

The Ministry of Finance (MoF) presented the 2024 budget to Congress on September 8. Congress has until the end of October to approve the revenue portion and the Lower House has until November 15 to approve the expenditure part. We expect the budget to be approved without significant changes given AMLO's majority in Congress (+allies).

### Looser fiscal policy

The widest measure of deficit (the Public Sector Borrowing Requirements (PSBR)) is set to -5.4% of GDP in 2024, up from -3.9% in 2023. The public sector includes the federal government as well as State Owned Enterprises (SOE) such as Pemex. This would be the largest deficit in more than twenty years. The primary balance for the public sector is expected to deteriorate to -1.2% of GDP in 2024 from an almost flat primary balance in 2023 (0.1%). This is a large "structural" primary deficit given the economy is booming (we estimate the output gap at +3.8%). The debt to GDP ratio increases by 2.3pp of GDP to 48.8% for 2024. The level of the debt remains below 50% of GDP but in part it is due to a large nominal GDP and a strong MXN (Exhibit 1, Exhibit 2, Exhibit 3, and Exhibit 4).

### Higher expenditure

The main driver of the fiscal deterioration is a 1.2pp of GDP increase in expenditure with respect to 2023: the MoF expects expenditure to increase to 26.2% of GDP in 2024 from 25.0% in 2023, mostly to pay for social programs, the government's main infrastructure projects (such as the Maya train), support Pemex and to pay interests (3.7% of GDP). Revenues are expected to fall to 21.3% of GDP in 2024 from 21.7%.

### Support to Pemex is now more explicit

The administration is supporting Pemex at least in two explicit ways in the 2024 budget. First, through a MX\$145,000mn (~US\$8.25bn) capitalization from the Federal Government. The capitalization is different to previous ones in that this is part of the budget now. Second, through a reduction in the DUC (royalty) to 35% from 40%.

### Risks are skewed to the downside

Risks are skewed to further fiscal deterioration, in our view. In contrast to previous years, ex-ante the 2024 budget is based on less optimistic macroeconomic expectations (Exhibit 5, Exhibit 6). However, a deceleration in GDP is a downside risk for revenues. And we see upside risks for expenditure: higher for longer interest rates, further Pemex support and potentially a tight federal election (June 2024).

### Looser fiscal policy puts pressure on interest rates

A larger fiscal deficit puts upside pressure on interest rates. It means more issuance than previously expected. It would bring back to the table the possibility of eventual rating downgrades. And larger expenditure would provide more impulse to an already overheated economy which will fuel more inflation. Banxico would have to keep [rates higher for longer](#) (see report): we have Banxico on hold with the first cut in June 2024, but at the margin this budget puts further upside pressure on inflation and Banxico.

11 September 2023

GEM Economics  
LatAm | Mexico

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## Exhibit 1: Fiscal Outlook in 2024 Budget

The 2024 budget shows a noticeable fiscal deterioration

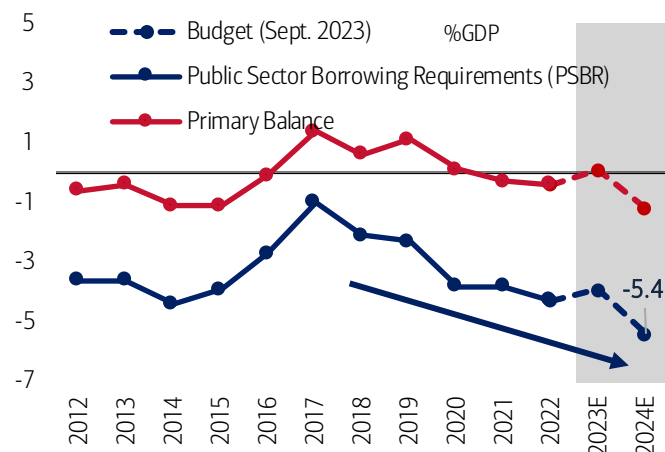
Fiscal outlook, % of GDP	2022 Observed	2023			2024		
		Budget (September 2023)	Guidelines (Pre- Criterios, April 2023)	BofA	Budget (September 2023)	Guidelines (Pre- Criterios, April 2023)	BofA
Public sector revenues	22.4	21.7	22.8	21.5	21.3	22.9	21.0
Public sector expenditure	25.6	25.0	26.4	25.2	26.2	25.6	26.5
Primary balance	-0.5	0.1	-0.1	-0.1	-1.2	0.7	-1.5
Public sector balance	-3.2	-3.3	-3.7	-3.7	-4.9	-2.7	-5.1
Public sector borrowing requirements (PSBR) balance	-4.7	-3.9	-4.2	-4.1	-5.4	-3.2	-5.5
Historical balance of PSBR	47.7	46.5	49.9	46.9	48.8	49.9	50.0

Source: BofA Global Research estimates, MoF

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## Exhibit 2: Measures of public sector balance

The 2024 Budget has the widest deficits in more than 20 years

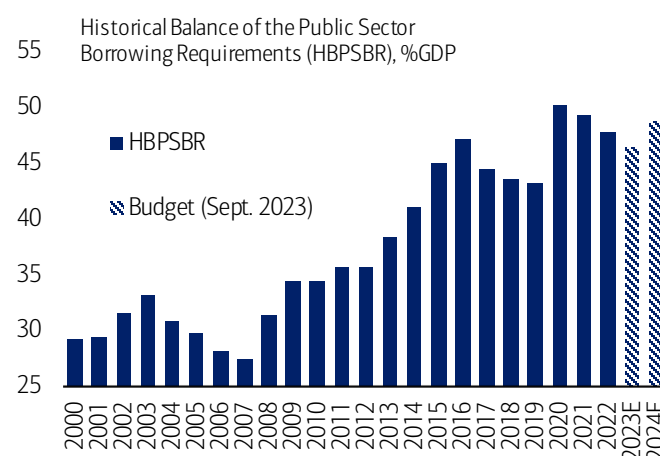


Source: BofA Global Research estimates, MoF

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## Exhibit 3: Widest measure of debt for the public sector (incl. Pemex)

Debt to GDP looks good thanks to strong MXN and high nominal GDP

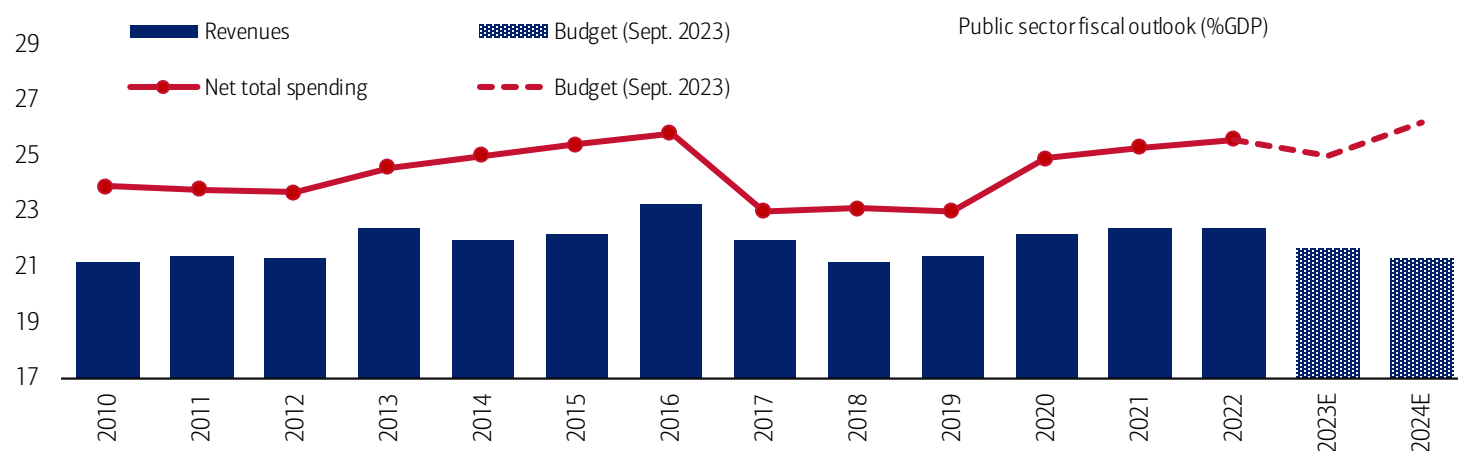


Source: BofA Global Research estimates, MoF

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## Exhibit 4: Public revenues and expenditure

Fiscal deficit is set to widen considerably in 2024



Source: BofA Global Research estimates, MoF

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**Exhibit 5: Economic Outlook 2023**

The economic outlook in the budget is not so different than our estimates or consensus for 2023

	<b>Budget (September 2023)</b>	<b>Guidelines (Pre- Criterios, April 2023)</b>	<b>BofA</b>	<b>Consensus (Banxico survey)</b>
GDP growth (% avg)	3.0	3.0	3.2	3.0
CPI inflation (% eop)	4.5	5.0	4.6	4.7
Overnight interest rate (% eop)	11.3 (Cetes 28 days)	11.3 (Cetes 28 days)	11.3	11.0
MXN (vs USD, eop)	17.3	19.1	18.0	17.8
Mexican crude price (\$USD/bbl, avg)	67.0	66.6	76.8	--
Oil production (mn bpd)	1955	1877	--	--
US growth (%)	2.0	1.5	2.1	1.9
Fed funds rate (avg for SHCP, BofA eop)	5.2	4.6	5.8	--

**Source:** BofA Global Research estimates, MoF, Banxico's survey of professional forecasters

Note: '2024' Guidelines (Pre-Criterios) were published in April 2023, and the 2024 Budget (Criterios) in September 2023

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**Exhibit 6: Economic Outlook 2024**

The economic outlook in the budget looks somewhat optimistic for 2024

	<b>Budget (September 2023)</b>	<b>Guidelines (Pre-Criterios, April 2023)</b>	<b>BofA</b>	<b>Consensus (Banxico survey)</b>
GDP growth (% avg)	2.6	3.0	1.4	1.6
CPI inflation (% eop)	3.8	4.0	4.6	4.0
Overnight interest rate (% eop)	9.5 (Cetes 28 days)	8.5 (Cetes 28 days)	8.8	8.5
MXN (vs USD, eop)	17.6	19.3	19.5	18.8
Mexican crude price (\$USD/bbl, avg)	56.7	56.3	86.8	--
Oil production (mn bpd)	1983	1914	--	--
US growth (%)	1.8	1.2	1.1	1.1
Fed funds rate (avg for SHCP, BofA eop)	4.5	3.8	5.0	--

**Source:** BofA Global Research estimates, MoF, Banxico's survey of professional forecasters

Note: '2024' Guidelines (Pre-Criterios) were published in April 2023, and the 2024 Budget (Criterios) in September 2023

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