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Latam Daily: Weak Mexican Industrial Production; Colombia's Financing Plan Review

- **Colombia: Financing Plan 2025—The MoF posted the second-highest fiscal deficit in 30 years in 2024; ahead of 2025, a significant adjustment will be needed**
- **Mexico: Another weak month for industrial activity to close out 2024**

It's a mixed mood in global markets today following Trump's decree on 25% tariffs on aluminum and steel imports that kick in in early-March on all countries, including Mexico and Canada (with the start date for the metals tariffs roughly coinciding with the one month all-goods tariff pause). The decision is weighing on equities sentiment with about 0.5% declines at the open in the US (though European indices sit mixed) where rising global yields may also be acting as a headwind with curves bear steepening on the day, while markets parse comments by Fed Chairman Powell in Congress this morning. Though the equities mood is negative, currencies are broadly stronger or flat against the USD (where the JPY and CHF underperform on US yield moves). Commodities sit mixed with oil 1.5% higher on supply angst, copper sheds 3% on China's government issuing a domestic copper push, while iron ore, aluminum, and gold sit little changed.

It's a very quiet day ahead in Latam, while global markets are eyeing Powell's comments and whatever may come out of the White House. This morning's release of the BCCh's economists survey saw the median shift its expectation 25bps higher for Chile's year-end policy rate forecast, to 4.75%—i.e., only one more cut from the current 4.75% level—alongside a higher year-end inflation projection (4.1% from 3.8% previously). Mexico's INEGI also released industrial production figures for December this morning (see below). The data heavily undershot economists' expectations, with an industrial production decline of -2.7%, well below the Bloomberg median's forecast of -1.1%. With that, Mexico's industrial sector closed an annus horribilis, with 2024 growth of only 0.2% marking a sharp slowdown from 3.4% in 2023.

—Juan Manuel Herrera

COLOMBIA: FINANCING PLAN 2025—THE MOF POSTED THE SECOND-HIGHEST FISCAL DEFICIT IN 30 YEARS IN 2024; AHEAD OF 2025, A SIGNIFICANT ADJUSTMENT WILL BE NEEDED

On February 7th, the Ministry of Finance (MoF) released the Financing Plan 2025 and preliminary financial results for 2024. The Government announced compliance with the fiscal rule in 2024, but with a significant increase in fiscal deficit from 4.2% of GDP in 2023 to 6.8% of GDP in 2024 (compared to 5.6% of GDP expected in the Medium-Term Fiscal Framework 2024), which represents the highest fiscal deficit in 30 years excluding the pandemic episode. This result implies a primary deficit increase from 0.3% of GDP in 2023 to 2.4% in 2024 and a higher public debt level, increasing from 53.8% of GDP in 2023 to 60.0% of GDP in 2024 (compared with 55.3% of GDP projected in MTFF-2024). Ahead of 2025, the MoF projects a fiscal deficit of 5.1% of GDP, which implies a huge effort to take the primary deficit from 2.4% of GDP in 2024 to 0.2% of GDP projected for 2025.

Minister Guevara explained that in 2025, the fiscal revenue will be higher by 1.8 ppts of GDP compared with MTFF-2024 but lower by 0.9 ppts of GDP compared with 2025 general budget law projections. The government plan involves an adjustment of primary spending for about 0.7% of GDP compared with 2025 general budget projections; however, compared with 2024, the total expenditure increased by 0.1 ppts of GDP explained by higher interest payments in 0.4 ppts of GDP. Our take is that it will be challenging to make the adjustments towards this primary balance target, and the cost of this strategy could end up with the increase of the total debt from 60.0% of GDP in 2024 to something above the 60.6% of GDP projected in 2025. It will also reflect the fact that the Government will use a huge fiscal buffer that could reduce manoeuvrability in 2026 and 2027, time in which a new Government will take office.

Given the previous context, the Government is also trying to act within the fiscal rule limit as a commitment to improve budget implementation in 2025. That said, we don't expect the Government to deliver a lower fiscal deficit if there are additional fiscal revenues, even more so when, in addition to the fiscal adjustments that must be made, due to the under-execution of the 2024 general budget, which was 81.9% excluding debt services (the lowest in the last 25 years), the national Government left close to COP 61 tn (3.4% of GDP) pending to be paid in 2024 and which must be settled during 2025.

COLTES 2025 auctions will be COP 45.0 tn. The supply impact would be an additional issuance in the context of a moderation of the easing cycle in the monetary policy. In this context, in the medium term, a high debt burden and ongoing debt swaps could lead to a structurally steeper yield curve. Some preliminary information from the market makers meeting suggests that the issuance scheme will remain the same during February with on-the-run references in the nominals space COLTES 2036, COLTES 2046, and COLTES 2050, while in linkers COLTES UVR 2029, COLTES UVR 2041 and COLTES UVR 2055. The government has noted their willingness to execute liability management operations with COLTES UVR 2025 through a coordinated operation with markets.

In the context of international markets, the Ministry of Finance showed its willingness to issue around USD 8.1 bn in external debt. In this projection, external debt needs are lower than expected in the MTFF-2024 due to the pre-financing management in 2024 of close to USD 1.8 bn, which is offset by an increase in multilateral credits since there were pending operations that are expected to be confirmed during the first quarter of 2025. Thus, the timing for this operation will depend on the market's environment and will be used to pay interest and amortizations in the international markets, which contain potential impacts from FX volatility in their accounts.

Further details about the Financing Plan of 2025

- **Preliminary Fiscal Results in 2024**

As expected, the Government announced compliance with the fiscal rule in 2024, but with a significant increase in fiscal deficit from 4.2% of GDP in 2023 to 6.8% of GDP in 2024, one of the highest fiscal deficits in 30 years excluding the pandemic. This result left a primary deficit increase from 0.3% of GDP in 2023 to 2.4% in 2024 and implied a higher public debt level since 53.8% of GDP in 2023 to 60.0% of GDP in 2024, which is still within the range approved by the fiscal rule.

2024's economic performance was better than expected, however, tax revenue registered an unprecedented drop of COP 13.9 tn below expectations in MTFF-2024, mainly in taxes derived from corporate income, especially from the coal sector, advances on income tax and external VAT. This context forced the national government to execute a cut of COP 28.4 tn in the 2024 general budget and to record more than COP 31.9 tn (1.9% of GDP) in temporary transactions that did not deteriorate the structural net primary balance, among which are: 1) Non-structural component of the Fuel Price Stabilization Fund (FEPC) for about COP 1.3 tn, 2) Deductibility of coal royalties for about COP 2.3 tn, 3) State lawsuits for COP 0.6 tn, 4) Winter emergency for COP 1.9 tn and 5) Unanticipated drop in tax revenue for COP 25.7 tn.

Table 1: Colombia—Macroeconomic Forecast for 2025 (% of GDP)

Variable	2023	2024		2025 (Forecast)	
		MTFF 2024	Financing Plan 2025	Budget Law	Financing Plan 2025
Real GDP (%)	0.6	1.7	1.8	3.0	2.6
Nominal GDP (%)	7.0	7.1	7.2	5.7	5.8
Inflation eop (%)	9.3	5.3	5.2	3.2	3.6
Exchange rate avg. (USDCOP)	4328.0	3997.0	4073.0	4179.0	4360.0
Brent avg.(USD per barrel)	82.4	83.0	80.6	80.0	74.3
Oil Production (KBPD)	777.0	745.0	775.0	763.5	765.0
Imports , USD (%)	-17.1	-0.6	2.4	2.5	3.6
Current account balance (%GDP)	-2.4	-2.6	-1.90	-2.5	-2.00

Sources: Scotia Economics, Financial Plan 2025.

There is some concern about the inclusion of the unanticipated drop in tax revenue and the possible consequences derived from negative incentives to governments to use temporary transactions and comply with fiscal metrics. Although these temporary transactions were endorsed by the Higher Council for Fiscal Policy (CONFIS) with a prior non-binding opinion from the Autonomous Committee on Fiscal Rule (CARF), there is nevertheless some doubt regarding the unanticipated drop in revenues because it was the result of the tax advances that were implemented in 2023 and that forced the national government to make large refunds to taxpayers in 2024, in addition to an overestimation of tax revenues by the national government which was warned by the CARF a few months ago. In our opinion, the macroeconomic authorities should be more explicit in specifying the cases in which the government is allowed to include temporary transactions in their fiscal balance.

- **Macroeconomic Assumptions for 2025**

Macroeconomic projections for 2025 were adjusted downwards in economic growth from the 3.0% expected in the MTFF-2024 to 2.6%, with additional inflationary pressures but within the central bank's range, something that is far from our expectations for this year. For now, the Government expects an adjustment in the current account deficit due to the improvement in the non-traditional export sector (table 1). The FX projection is in line with ours and might not represent a game-changer for the 2025 projection, unless external conditions and risk premiums continue to rise, which would mean higher borrowing costs for the Government and increases in the public debt to GDP ratio. It is important to note that the Government expects lower external oil prices compared to the Budget Law estimates, which could have negative impacts on tax revenues.

Table 2: Colombia—Fiscal Scenario (% of GDP)

	2024		2025	
	MTFF 2024 (Projection)	Preliminary 2024	Projected in the Budget Law	Financial Plan 2025 (Current projection)
Fiscal Income	17.1	16.6	19.3	18.4
Fiscal Expenditures	22.8	23.4	24.0	23.5
Interest	4.7	4.4	4.7	4.8
Primary spending	18.0	19.0	19.3	18.6
Primary balance	-0.9	-2.4	-0.1	-0.2
Total balance	-5.6	-6.8	-4.7	-5.1

Sources: Scotia Economics, Financial Plan 2025.

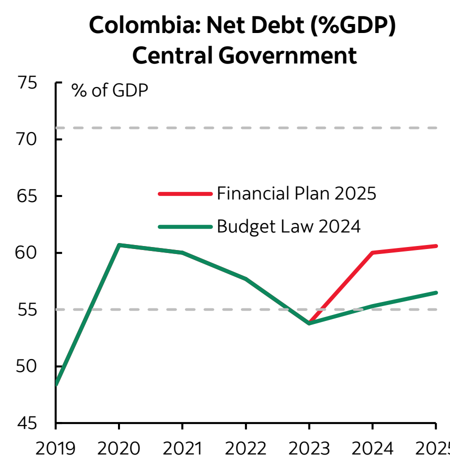
- **Fiscal Plan for 2025**

The deficit is set to decline due to improved tax revenue performance and the 0.4 ppts of GDP adjustment in primary spending heading into 2024 (table 2). For now, the MoF expects a still-challenging macroeconomic environment in 2025 with tax revenues revised downwards compared to what was expected in the 2025 general budget law, where, despite evidencing a cut in primary spending, additional spending pressures from financial interests would be reflected in an increase of 0.1 ppts of GDP in public spending compared to 2024, which already amounts to 23.5% of GDP in 2025.

It is interesting to note that the fiscal adjustment expected for 2025, where the deficit is expected to adjust from 6.8% of GDP to 5.1% of GDP, is due to higher tax revenues estimated at COP 48.7 tn (1.8% of GDP) compared to what was recorded in 2024. The national government continues to expect additional revenues from greater efficiency at the National Tax and Customs Department (DIAN), which, in the opinion of CARF, are highly contingent revenues and could lead to greater adjustment needs in the future, in addition to the COP 12 tn already deferred from the 2025 general budget.

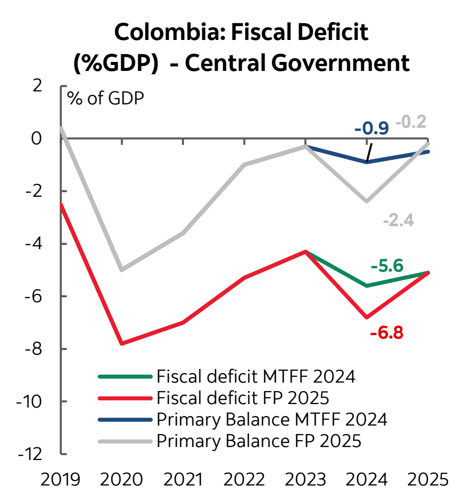
An additional ingredient in this publication was that given an expected weak economic activity and a weak cycle in oil prices, the fiscal rule allows the space for a higher fiscal deficit. The fiscal deficit will decrease from 6.8% of GDP in 2023 to 5.1% of GDP (chart 1), which involves having a 0.2% primary deficit. Our take on that is that the Government will act within the limit of the fiscal rule, and in that sense, fine-tuning, if fiscal revenue doesn't evolve as expected, is critical. The main concerns in terms of revenues are around the possible overestimation of revenues for 2025 in terms of higher tax revenue due to the efficiency of DIAN. In terms of net debt, net debt will jump again during 2025 to 60.6% of GDP, although it remains within the anchor and limit stipulated by the fiscal rule, it is a volume of debt close to that seen during the pandemic where public debt stood at 60.7% of GDP (chart 2).

Chart 1



Sources: Scotiabank Economics, Financing Plan 2024, MTFF 2023.

Chart 2



Sources: Scotiabank Economics, Financing Plan 2024, MTFF 2023.

Financing Plan 2025

As the Government maintained its fiscal deficit projections for 2025 with an expected deficit of 5.1% GDP, the financing plan doesn't change much versus the previous release of the Medium-Term Fiscal Framework (June 2024).

- **External sources are estimated at USD 8.2 bn, accounting the prefinancing operations by USD 1.8 bn made in 2024.** In the market maker meeting, the Treasury and Public Credit Director, José Roberto Acosta said that all the proceedings from the external indebtedness will be used to pay interest and amortizations in the international markets, which reduces the expectations for having strong FX inflows due to this operation.

- **Regarding local markets, estimated local sources are COP 8.5 tn above projections in the MTFF-2024.** Auctions will stand at COP 45 tn, and COP 1.5 tn of green bonds, while other operations (convened and forced with other public entities and pension bonds) will stand at COP 22.3 tn. On that front, we highlight that local debt amortizations are of COP 14.14 tn, which points to an increase of the debt outstanding of ~ COP 31 tn (1.8% of GDP). This tells us that the supply of COLTES will continue increasing at a relatively high pace and supports our expectation of a steep curve.

- **In terms of issuance strategy, the government has noted their willingness to execute liability management operations with COLTES UVR 2025 through a coordinated operation with markets.** Current outstanding of COLTES UVR 2025 is at COP 8tn and matures in July. In the case of nominals, we have observed that the Government is not yet pursuing a liability management of the COLTES 2026, however this reference still has 18 months to mature.

- **The MoF also mentions an intention to maintain a higher cash disposability at the end of the year in the BanRep account (DTN).** Initial disposability in 2025 was COP 16.1 tn. However, the DNT holdings in BanRep's account closed closer to COP 3 tn. The MoF said they would pursue a better cash position for the end of 2025, however in the Sources and Uses table (table 3); the balance will show a reduction in the final disposability of cash of COP 9.19 tn. On the cash front, Minister Guevara had something interesting to say, that the Government would use cash in fiduciary if public entities don't use this money two years after receiving it. According to our estimates, the cash relief for the Government could come in October if we maintain our current under-execution.

Table 3: Colombia—Uses and Sources 2025

		MTFF (June 2024 projection)		Current Projection (Financing Plan 2025)		MTFF-2024 (June 2024 projection)		Current Projection (Financing Plan 2025)	
Sources (COP tn)		**147.3**		**137.3**	**Uses (COP tn)**		**147.3**		**137.3**
Disbursements		**98.2**		**104.7**	**Fiscal Deficit**		**91.5**		**90.8**
Foreign Sources	(USD 9,00 bn)	37.9	(USD 8.18 bn)	35.9	Local interests		63.1		65.1
					External interests	(US$ 4.74 bn)	19.8	(US$ 4.88 bn)	21.3
Local Sources		60.2		68.8	**Amortizations**		48.6		**34.9**
COLTES Auctions				45.0	External	(US$ 5.37bn)	21.7	(US$ 4.38 bn)	**20.7**
Green bonds				1.5	Local		26.8		**14.1**
Treasury managment		**4.4**		**2.1**	**Payment of obligations**		**1.2**		**2.4**
Accrual Adjustments		**22.7**		**18.6**					
Initial availability		**21.8**		**16.1**	**Final availability**		**5.9**		**9.2**

Sources: Scotia Economics, Financial Plan 2025, MTFF 2024.

What are the next milestones on the fiscal front?

- After Friday's publication we must be aware of the CARF concept around the previous information. It is possible CARF will continue delivering alerts around the necessity to continue doing cuts in the budget, something similar to that expressed in the previous announcements.

- In the case of numbers, the tracking around tax revenue is in the spotlight, however we emphasize that the shortfall in revenue versus expectation will have better signals in the February and April reports after it passes the main temporary payments for the corporate sector.

- On the monetary policy front, we still think that fiscal scenario is a constraint for the central bank to be more supportive with the economy. In that regard it is also important to monitor how local bank's demand for COLTES evolves and if it continues signaling to a potential scenario of crowding out.

—Jackeline Piraján & Valentina Guio

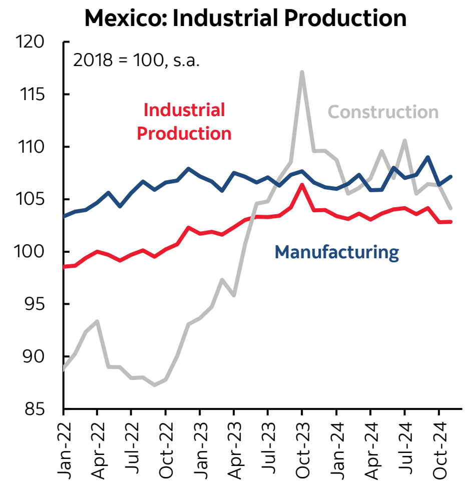
MEXICO: ANOTHER WEAK MONTH FOR INDUSTRIAL ACTIVITY TO CLOSE OUT 2024

In December, industrial activity deepened its annual decline to -2.7% y/y from -1.4% previously, marking five consecutive months of declines. Within this, construction fell for the fifth time, to -7.5% (-4.5% previously). Mining decreased by -6.3% (-4.4% previously), remaining in negative territory since July 2023, and manufacturing fell by -0.6% (-0.1% previously). On the other hand, utilities grew by 1.7% (3.0% previously). Thus, in all of 2024, production rose by just 0.2% compared to the previous year (chart 3).

On a monthly comparison, the index fell by -1.4% m/m from 0.0% previously, with seasonally adjusted monthly figures. Manufacturing fell by -1.2%, while construction dropped by -2.1%. Uncertainty in the economic environment will continue to undermine the development of the industry, particularly construction and manufacturing. Although manufacturing could see a slight rebound in January, in the following months it most likely will be affected by the announcements of tariff policies from the United States.

—Rodolfo Mitchell & Miguel Saldaña

Chart 3



Sources: Scotiabank Economics, INEGI.