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GLOBAL ECONOMICS

LATAM INSIGHTS

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Mexico's Economic Package Contained No Surprises

KEY POINTS

- **The 2027 Economic Package maintains the strategy of gradual fiscal consolidation**, with a reduction in Public Sector Borrowing Requirements (PSBR) from 4.1% of GDP in 2026 to 3.9% in 2027, although public debt-to-GDP would continue to increase.
- **The Ministry of Finance's macroeconomic scenario is more optimistic than the market consensus,** particularly in terms of economic growth, inflation, and interest rates, which represents one of the main risks to meeting fiscal targets. **However, it could be argued that this "optimism gap" relative to analysts' consensus for the 2027 package is slightly narrower than the one observed for 2026.**
- **Tax revenues remain the main driver of public finances**, representing nearly seven out of every ten pesos of budgetary revenues and reaching a new historical high as a percentage of GDP.
- **Public spending continues to face significant structural pressures**, particularly due to the growth of pensions and the financial cost of debt, limiting fiscal space to increase public investment.
- **The absence of a comprehensive fiscal reform—or at least a tax reform—requires the government to rely on administrative improvements,** efforts to combat evasion, and a broader tax base to strengthen revenue collection in the coming years.

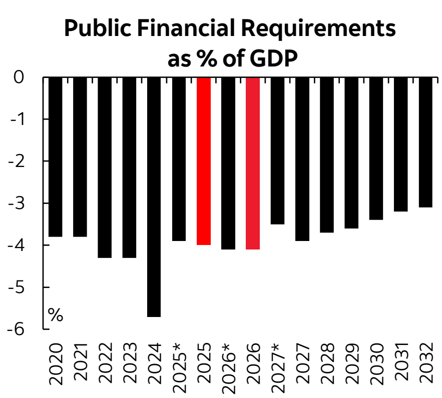
BUDGET APPROVAL TIMELINE

On September 8th, 2026, the Minister of Finance and Public Credit, Edgar Amador, submitted the 2027 Economic Package to Congress, which includes the following documents:

- General Economic Policy Guidelines (CGPE).
- Federal Revenue Law Bill (ILIF).
- Federal Expenditure Budget Proposal (PPEF).
- Miscellaneous Tax Resolution.

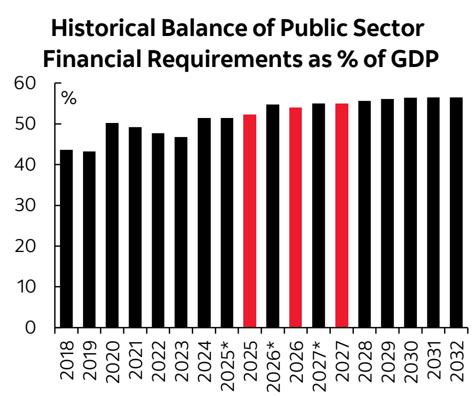
The next steps will be for the Chamber of Deputies to approve the Revenue Law by October 20th and for the Senate to ratify it by October 31st. Meanwhile, the Expenditure Budget must be approved exclusively by the Chamber of Deputies no later than November 15th.

Chart 1



Years after 2024 are Represented with FinMin Estimates.
*Correspond to the Data Estimated by FinMin's Pre-Criterias
Sources: Scotiabank Economics, Finance Ministry.

Chart 2



Years After 2024 are Represented with FinMin Estimates.
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Sources: Scotiabank Economics, Finance Ministry.

Details of each document are presented below:

1. General Economic Policy Guidelines (CGPE):

This document presents the economic and fiscal policy guidelines for 2027 (to consult the document, click **here**), whose macroeconomic projections serve as the basis for estimating government revenues and expenditures. The main takeaway is that these projections are more optimistic than market consensus. Table 1 presents a summary of the main variables.

Table 1: Mexico — Macroeconomic Projections 2026-2027

Macro Variables	2026 CGPE 2027	2027 CGPE 2027	2026 Consensus	2027 Consensus
GDP	1.0-2.0	1.5-2.5	1.3	1.8
Inflation	3.5	3	3.9	3.84
End of Period Interest Rate (CETES 28d)	6.5	6	6.5	6.5
End of Period Exchange Rate (MXN/USD)	17.8	18	17.5	18.05
Price of the Mexican Mix ($/b)	78.4	61.8	94.27**	-
Oil Production (Barrels of Oil, Mn)	1714	1794	1706.3***	-
Public Sector Financial Requirements as % of GDP (RFSP)	-4.1	-3.9	-	-
RFSP Historical Balance as % of GDP	54	55	-	-
Primary Balance	0.1	0.5	-	-
Budget Revenues	23	23.2	-	-
Expenditure	26.6	26.7	-	-

Sources: Scotiabank Economics, Banxico, SHCP.
* Estimated by Banxico
**Current Price
***Figures as of July 2025

The macroeconomic scenario for 2027 and the remainder of 2026 is more optimistic than private-sector analysts' estimates, although within a range that we consider prudent. For 2027, it anticipates GDP growth in a range of 1.5%–2.5%, which is more optimistic than the analysts consensus of 1.8% for the same period. For 2026, although the 1.3% consensus is within the 1.0%–2.0% range projected by the Ministry of Finance, it remains subject to a downside-skewed balance of risks. In this context, the 1.8% expected by the Ministry of Finance for the second half of 2026 may not materialize, which would have relevant implications for the fiscal balance.

Regarding inflation, the Package anticipates year-end inflation of 3.5% in 2026 and 3.0% in 2027, below the consensus estimates of 3.90% and 3.84%, respectively. Accordingly, the expected year-end target rate was estimated at 6.5% and 6.0% for this and the next fiscal year, implying rate cuts by Banxico next year, compared with the consensus scenario, which expects the rate to remain unchanged. Thus, a tighter monetary policy rate than 6.0% estimate could result in a higher cost of debt than estimated in the Package. Nevertheless, we consider the USMXN estimates of MXN 17.8 and MXN 18.0 for 2026 and 2027 to be in line with consensus, although the high degree of international uncertainty keeps risks on both sides of the balance.

On the debt side, Public Sector Borrowing Requirements (PSBR), the broad measure of the public balance, are estimated at 4.1% of GDP by the end of the current year (chart 1). For 2027, the PSBR estimate is placed at 3.9% of GDP, along with a projected downward trajectory in subsequent years, reaching 3.4% by the end of the administration in 2030 and 3.1% in 2032. Thus, the Ministry of Finance estimates a slower fiscal consolidation than anticipated in the Preliminary Criteria published in April, where although the PSBR estimate for the current year was 4.1%, the 2027 estimate stood at 2.7%, implying a revision of 0.4% for 2027. Meanwhile, the estimate for the Historical Balance of Public Sector Borrowing Requirements is 54.0% for 2026 and 55.0% in 2027, stabilizing at 56.5% by 2030 (chart 2). In this regard, we believe that a GDP estimate more positive than consensus implies that the balance for the current fiscal year could be higher than estimated. Therefore, we consider there is a strong possibility of closing 2026 with PSBR close to 4.5%, and that the balance of risks for subsequent fiscal balances remains skewed upward amid pressures on current spending and limitations on the ability to increase revenues in the absence of a tax reform.

2. Federal Revenue Law Bill (ILIF)

This document presents expected government revenues for 2027 (to consult the document, click **here**). According to the 2027 General Economic Policy Guidelines, total budgetary revenues are estimated at MXN 9,156.5 billion, of which MXN 984.5 billion correspond to oil revenues and MXN 6,263.9 billion to tax revenues (table 2). This implies a real increase of 3.9% in budgetary revenues compared with the estimated 2026 year-end level. This growth would be driven mainly by a 6.6% real increase in non-oil revenues, particularly due to stronger tax collection and measures aimed at broadening the tax base and reducing tax evasion Budgetary revenues would represent 23.2% of GDP in 2027, compared with an estimated 23.0% for 2026. Likewise, tax collection would increase from 15.4% to 15.9% of GDP, consolidating its position as the main source of public-sector financing.

In contrast, the 2027 Revenue Law bill estimates a 14.4% real decline in oil revenues compared with the estimated 2026 year-end level, mainly due to lower expected oil and natural gas prices, a lower exchange rate, and a virtually stable production platform. This outlook contrasts with the optimistic scenario observed in the 2026 Revenue Law, which projected a significant increase in oil production.

Table 2: Mexico — Tax Revenues, Revenue Law Initiative 2027 (MXN bn)

	2026 [3]	2027	% Change
Total	5,915.8	6,263.9	5.9
ISR	3,069.5	3,289.0	7.2
IVA	1,723.9	1,768.0	2.6
IEPS	749.7	828.3	10.5
Gasoline	463.5	538.5	16.2
Rest[1]	286.2	289.7	1.2
Imports	226.3	232.5	2.8
New Light Vehicles	17.0	17.4	2.8
IAEEH[2]	7.3	7.5	2.8
Accessiories	122.0	121.0	-0.8
Others	0.2	0.2	2.8

1/ Corresponds to Non-Oil IEPS.
2/ IAEEH: Tax for the Activity of Exploration and Extraction of Hydrocarbons.
3/ Corresponds to Non-Oil IEPS.
Sources: Scotiabank Economics, FinMin, Banxico.

Tax revenues, meanwhile, would reach MXN 6,263.9 billion, representing real growth of 5.9% compared with the estimated 2026 year-end level. This increase is mainly explained by:

- A 7.2% real increase in income tax (ISR) collection, driven by measures to limit excessive deductions, restrict the offsetting of tax losses, and strengthen oversight of related-party transactions and payments abroad.
- A 10.5% real increase in excise tax (IEPS) collection, associated with stronger enforcement and measures to combat evasion and smuggling practices.
- A 2.6% real increase in VAT collection, supported by the expected expansion of economic activity, improved control mechanisms, and new withholding and tax-compliance rules.

The proposal also incorporates several tax changes aimed at strengthening revenue collection and broadening the tax base, including:

- Limiting authorized deductions based on accrued income.
- Restricting tax losses so they can only reduce up to 50% of taxable profit in each fiscal year.
- Reducing the deductibility limit for net interest from 30% to 20% of adjusted taxable profit.
- Eliminating the Optional Regime for Corporate Groups.
- Permanently incorporating tax incentives linked to Plan México and regional development hubs.

On the other hand, the proposal also includes measures that could reduce or defer tax collection, including:

- A capital repatriation program with a preferential income tax rate of 7.5%.
- A reduction in the annual withholding tax rate on interest from 0.90% to 0.68%.
- A tax incentive consisting of applying a 0% VAT rate to books, newspapers, and magazines under certain assumptions.
- A preferential 10% rate for gains derived from Initial Public Offerings (IPOs).

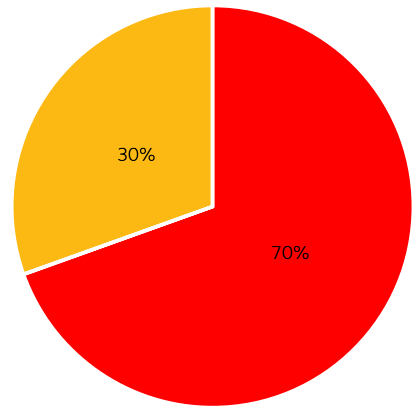
Finally, the 2027 Revenue Law budgets non-tax revenues of MXN 521.8 billion, representing a real increase of 24.6% compared with the estimated 2026 year-end level. This growth is mainly due to the digitalization of procedures, the modernization of customs systems, the updating of fees and tariffs, and greater administrative efficiency. Meanwhile, revenues from agencies and companies other than Pemex are estimated at MXN 1,386.3 billion, a real increase of 4.4%, consistent with expected wage growth and the own-source revenues of IMSS and ISSSTE.

3. Federal Expenditure Budget Proposal (PPEF)

This document presents the allocation of government expenditures for 2027, together with estimates for the 2026 year-end. For fiscal year 2027, the Ministry of Finance proposes total net spending of MXN 10,515.1 billion, corresponding to a real increase of 0.7% compared with the amount approved for the current fiscal year and representing 26.7% of GDP. Of the proposed total, 70% corresponds to programmable spending, while the remaining 30% is non-programmable spending, which includes the financial cost (chart 3 and table 3).

Chart 3

Distribution of Public Spending



Sources: Scotiabank Economics, FinMin.

Table 3: Mexico — Programmable Expense in Functional Classification (MXN bn)

Concept	2026 [1]	2027 [1]	% Variation
Powers, Autonomous Organs. INEGI and TFJFA	**142**	**166**	**12.9**
General Public Administration	**6,952**	**7,267**	**1.3**
Government	321	357	7.9
Social Development	4,929	5,385	5.8
Economic Development	1,696	1,519	-13.2
Stabilization Funds	7	6	-12.2
Total	**7,095**	**7,433**	**1.5**

[1/] Approved.
Sources: Scotiabank Economics, FinMin.

Regarding spending allocation by economic classification, programmable spending includes a 4.4% increase in current spending, to MXN 4,458.2 billion; a 4.6% increase in pensions and retirement payments, to MXN 1,840 billion; and a 3.5% increase in public physical investment, to MXN 1,026.5 billion. However, the budget contemplates a 67.7% decline in financial investment, derived from the expectation of strengthening Pemex's fiscal position through debt reduction.

Within non-programmable spending, the budget includes a financial cost of MXN 1,548 billion, equivalent to an 11.8% increase compared with the 2026 estimate. Thus, the estimated financial cost for 2027 would represent 3.7% and 4.0% of GDP in 2026 and 2027, respectively. Similarly, measured as a percentage of budgetary revenues, the financial cost estimate for 2027 would amount to 17.0%, compared with an estimated 16% for 2026.

Regarding priority social programs, nearly half of the proposed MXN 1,025.3 billion is allocated to the Pension for Older Adults program (table 4), while MXN 190 billion will be allocated to the Benito Juárez Scholarship program and MXN 34 billion to the social housing program. In terms of priority investment projects (table 5), which total MXN 560 billion, the amounts allocated to train projects stand out at MXN 150 billion.

Table 4: Mexico — Priority Social Programs (MXN bn)

Program	PPEF 2027
Pension for Older Adults	543.5
Wellbeing Women's Pension	59.4
Pension for Persons with Disabilities	37.4
Girls and Boys Program	3.4
Sowing Life	40.5
House-to-House Health Program	5.0
Youth Building the Future	26.0
Benito Juárez Scholarship Programs	190.6
Rita Cetina Universal Basic Education Scholarship	133.6
Benito Juárez Universal Upper Secondary Education Scholarship	43.9
Higher Education Scholarship	13.1
Our School Program	20.0
Production for Welfare	17.0
Stockpiling for Welfare	8.4
Milk for Welfare	6.9
Fair Trade	9.0
Fair Trade (Incentives)	2.9
Corn is the Root	2.0
Fertilizers Program	17.0
Fishing Program	2.1
Social Housing Program	34.4
Total	**987.2**

Sources: Scotiabank Economics, SHCP.

Table 5: Mexico — Investment Priorities (MXN bn)

Concept	PPEF
New Trains	150.9
CONAGUA Hydraulic Works	22.8
Roads and Paths	24.1
Bridges and Distributors	3.6
Toluca-Zihuatanejo	7.7
National Defense	12.8
Marina	10.0
Sargassum Project	1.9
SSPC Investment	8.4
PPPs, PPSs	1.5
Pemex	255.5
CFE (Federal Electricity Commission)	61.0
Total	**560.2**

Sources: Scotiabank Economics, FinMin.

In our view, the 2027 Economic Package represents an effort to preserve fiscal discipline and move toward a gradual consolidation of public finances. The projected reduction in PSBR and the recovery of the primary balance are positive signals for markets and rating agencies (table 6).

However, meeting fiscal targets depends on a macroeconomic scenario that is more favourable than market consensus anticipates, particularly in terms of economic growth, inflation, and interest rates. Structural challenges also remain, associated with the growth of pensions, the increase in financial costs, and the absence of a comprehensive tax reform that would permanently expand the State's revenue-raising capacity.

Therefore, although the proposed measures could help stabilize the sovereign's credit outlook in the short term, the sustainability of public finances will continue to depend on the performance of economic activity, the evolution of tax revenues, and the government's ability to maintain a spending path compatible with the planned fiscal consolidation.

Table 6: Mexico — Public Finance Estimates 2026-2027

	MXN bn			% of GDP			% Real Difference 2026 vs 2027	
	2026 Approved	2026 Estimate	2027 Estimate	2026 Approved	2026 Estimate	2027 Estimate	vs Approved	vs Estimate
Public Sector Financial Requirements (PSFR)	-1,587	-1,523	-1,556	-4.1	-4.1	-3.9	-5.1	-1.1
Budget Balance	-1,394	-1,337	-1,359	-3.6	-3.6	-3.4	-5.6	-1.6
Extra-Budgetary Financial Requirements	-194	-186	-197	-0.5	-0.5	-0.5	-1.4	2.8
Budget Revenue	8,721	8,537	9,157	22.5	23.0	23.2	1.7	3.9
Oil Revenues	1,204	1,114	985	3.1	3.0	2.5	-20.8	-14.4
Non-Oil Revenues	7,517	7,423	8,172	19.4	20.0	20.7	5.3	6.6
Federal Government	6,216	6,136	6,786	16.1	16.5	17.2	5.8	7.1
Tax	5,839	5,731	6,264	15.1	15.4	15.9	3.9	5.9
Non-Tax	377	406	522	1.0	1.1	1.3	34.0	24.6
Organizations and Companies	1,301	1,287	1,386	3.4	3.5	3.5	3.2	4.4
Net Paid Expenses	10,115	9,875	10,515	26.1	26.6	26.7	0.7	3.2
Programmable Paid	7,016	7,006	7,311	18.1	18.9	18.5	1.0	1.1
Deferral of Payments	-79	-79	-121	-0.2	-0.2	-0.3	49.1	49.1
Accured Programmable	7,095	7,085	7,433	18.3	19.1	18.9	1.5	1.6
Non-Programmable	3,099	2,869	3,204	8.0	7.7	8.1	0.2	8.2
Financial Cost	1,572	1,364	1,575	4.1	3.7	4.0	-2.9	11.8
Participations	1,456	1,436	1,548	3.8	3.9	3.9	3.0	4.4
Debts from Previous Fiscal Years	71	69	81	0.2	0.2	0.2	11.3	14.3
Primary Economic Surplus	179	28	217	0.5	0.1	0.6	N.A.	N.A.
Historical Balance Public Sector Financial Requirements (HBPSFR)	20,260	20,062	21,666	52.3	54.0	55.0	3.6	4.6

Note: Partial Sums May Not Match Due to Rounding.
Sources: Scotiabank Economics, SHCP, Banxico.