Five IMF recommendations for Mexico on fiscal consolidation

"Ensuring everyone is included while maintaining the stability of public finances is not an easy task" - Kristalina Georgieva, Managing Director, IMF

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1. Propose reducing the public deficit through a multi-year strategy with a viable approach that aligns with fiscal goals.
2. Maintain public finances in order to prevent countries from being vulnerable to external shocks, like pandemics, and to support sustained economic growth.
3. Promote public spending that fosters sustained and inclusive economic growth, incorporating vulnerable groups into the formal economy.
4. Implement transparency measures in tax collection so that everyone pays their fair share.
5. Review public spending priorities in line with the country's capacity to maintain sound public finances.

What is fiscal consolidation?

According to the International Monetary Fund (IMF), fiscal consolidation refers to the measures implemented by a government to reduce the deficit and public debt through spending adjustments or revenue increases (Fiscal Monitor, October 2024).

What did MoF's 2025 Pre-Budget let us know?

Timeline

Within one year.

Revenues

In 2025, an increase in revenues is expected compared to 2024, driven by a dynamic economy—even though it only grew 1.4% through Q3 2024 according to preliminary data—and greater tax collection efficiency. No tax reform is expected to increase rates on existing taxes or broaden the tax base.

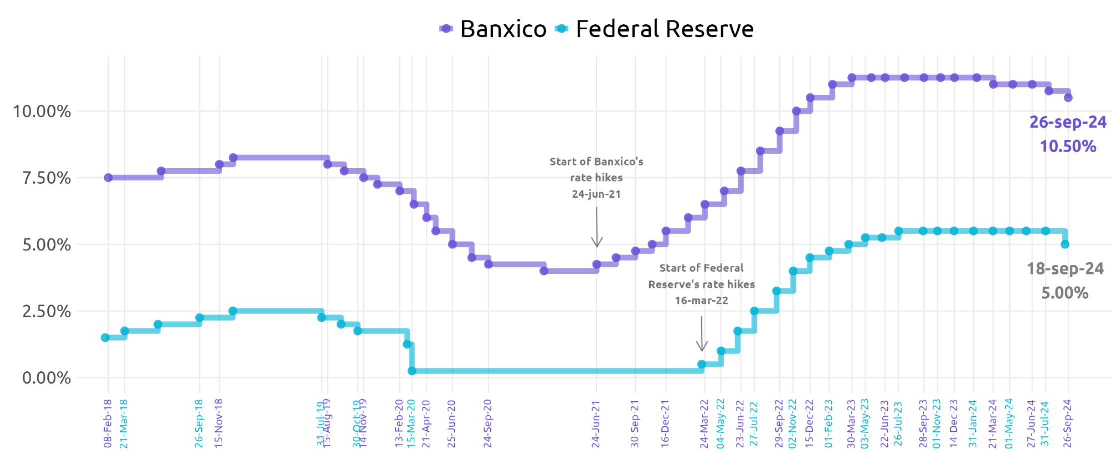
Expenditures

In 2024, major infrastructure projects like the Maya Train will be completed, and they will not require subsidies for future operations, allowing the continued provision of existing public programs. At *México, ¿cómo vamos?*, we emphasize that the Trans-Isthmic Corridor of the Isthmus of Tehuantepec has yet to be fully inaugurated; connecting the south-southeast region with North America's value chains should be a priority of the new administration to boost shared prosperity.

In 2025, non-programmable spending will decrease due to lower interest rates compared to 2024, although still at levels much higher than in the pre-pandemic period.

Benchmark interest rate

Monetary policy decisions of the Bank of Mexico (Banxico) and the Federal Reserve*



*For the Federal Reserve, this series represents upper limit of the federal funds target rate

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Meanwhile, programmable spending will decrease as infrastructure projects will have been completed.

The fiscal consolidation strategy is focused on cuts to programmable spending (health, education, security).

% GDP	2024	2025	Difference
Public Sector Borrowing Requirements (PSBR)	-5.9	-3.0	-2.9
Budgetary Revenues	21.9	21.5	-0.4
Oil Revenues	3.3	2.7	-0.5
Non oil Revenues	18.7	18.8	0.1
Public Net Paid Expenditure	26.9	24.0	-2.9
Programmable Expenditure	19.5	16.7	-2.8
Non-Programmable Expenditure	7.4	7.3	-0.1

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Fiscal Targets

- For 2025, a fiscal consolidation scenario is anticipated, with a positive primary balance and a stable debt-to-GDP ratio.
- The Public Sector Borrowing Requirements (PSBR) are expected to decrease from 5.9% of GDP in 2024 to 3.0% of GDP in 2025.
- The Historical Balance of the Public Sector Borrowing Requirements (HBPSBR) is projected to remain stable at 50.2% of GDP.

Public Debt Indicators

Reports on the Economic Situation, Public Finances, and Public Debt, Q2 2024.

Federal Government's Debt	Public Sector´s Debt	HBPSBR
Liabilities contracted by the Federal Government	Debt liabilities of the Federal Government, State-Owned Enterprises, and Development Banking Institutions.	Includes all public policiy instruments that have resulted in liabilities of the Public Sector excluding financial assets.

It consists of:
• Bank Loans
• Issued Goverment Securities
• Debt with International Financial Organizations
• ISSSTE Bonds (for the implementation of the new ISSSTE Law) and Social Security-related Accounts
• CFE Pension Bonds
• Others
	It consists of debt contracted by:
	• Federal Government
	• State-Owned Enterprises
	  o Pemex
	  o CFE
	• National Development Banks
	  o Banobras
	  o Sociedad Hipotecaria Federal (SHF)
	  o Bancomext
	  o Nafin
		It consists of:
		• Adjustments to budgetary entries
		• Institute for the Protection of Bank Savings (Instituto para la Protección al Ahorro Bancario or IPAB, for its acronym in Spanish)
		• Debtor Support Programs
		• National Infrastructure Fund (highways)
		• Development Banks and Public Funds' Borrowing (net of assets or recovery value)
		• Pidiregas from CFE

*Historical Balance of the Public Sector Borrowing Requirements (HBPSBR)

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IMF Recommendation: establish a multi-year path to reduce the fiscal deficit without compromising economic dynamism.

Fiscal consolidation should aim to strengthen the stability of public finances, whether through increased revenue or greater efficiency in public spending, fostering macroeconomic strength as a necessary condition for dynamic economic growth and shared prosperity.

Takeaway: High public debt and low economic growth lead to increased inequality.

Staff conclusions at the end of the Article IV mission (2024)

What did the International Monetary Fund say about Mexico?

Some conclusions from the technical staff statement at the end of the 2024 Article IV mission.

Economic activity is decelerating

Despite an expansionary fiscal policy, economic growth is slowing and will hover around 1.5% this year. Factors that could hinder GDP growth include weaker-than-expected U.S. growth, increased global risk aversion, and unforeseen effects from recent institutional reforms.

Mexico needs to put in place a credible medium-term fiscal consolidation

A medium-term fiscal strategy is needed to reduce deficits and debt, raise tax revenues, and create fiscal space for investments in human and physical capital. This will require the identification and implementation of additional fiscal measures, preferably including an overarching tax reform, a reduction in the deficit with clear spending priorities, and correcting inequalities in the pension system. It is also a priority to address the imbalances between the federal budget and Pemex.

Recent judicial reforms create important uncertainties about the predictability of the rule of law

The replacement of judges at various levels of the judiciary in the coming year creates a new source of uncertainty that may impinge upon private investment decisions. It is critical that this reform be implemented in a clear and predictable way that ensures the independence and professionalism of the judiciary and strengthens the rule of law.

We are facing a great opportunity to deepen economic links with the United States

Regulatory reforms are needed to enhance workers' skills and increase women's labor force participation, better-targeted public investment that further relieves infrastructure bottlenecks, broader access to financial services, and a reliable supply of energy and water. Other priority measures include governance reforms that address corruption and tackle organized crime.

The disinflation process is well advanced

Banxico's timely response has kept medium-term inflation expectations anchored and facilitated a smooth process of disinflation. Nonetheless, services inflation has been slow to respond and increases in the price of gas and agricultural products—reflecting global developments and weather shocks, respectively—have added to headline inflation. There is room to enhance the effectiveness of monetary policy by strengthening Banxico's communication tools.

Further deepening of financial intermediation would make growth more inclusive

The recent development of fintech products and digital payments have expanded access to financial products. It is suggested to promote the expansion of digital payment systems and eliminating institutional barriers to entry for new products and entities that are deemed to be financially sound.

For more information visit mexicocomovamos.mx

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