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Summary: President Claudia Sheinbaum, inaugurated in October 2024, is facing a number of major internal and external challenges. Tensions with the United States (trade, migration, drug trafficking) have added another layer of complexity to the balancing act between economic growth, oil, public finances, development, and the energy transition, drawing attention to the contradictions between stated ambitions (presidential campaign promises, Plan México, National Adaptation Plan for climate change) and political, ideological, and financial constraints.

Nevertheless, despite a series of exogenous shocks since 2020, the mantra of macroeconomic stability has helped to mitigate liquidity and public and external solvency risk in a flexible, resilient economy with a robust financial system and a solid external position (moderate current account deficit covered by FDI, comfortable foreign exchange reserves, moderate external debt) supported by a floating exchange rate regime that can absorb external shocks. Mexico could come out of a generalized trade war as a "relative winner," maintaining its geoeconomic rent, as long as its privileged partnerships within the North American economic area (the USMCA is scheduled for renegotiation by July 2026) remain unquestioned. The worst-case scenario, of course, would be a total rejection of the USMCA by the Trump administration.

Mexico's economic model and growth regime are at the heart of its country risk profile. This reflects economic policy choices that prioritize macroeconomic stability at the expense of growth and development, with previous crises still engraved in the collective memory. Thirty years after it joined NAFTA (USMCA since 2020) and the OECD, Mexico remains stuck in the middle-income trap. At issue is the fact that an economic model based on the three pillars of a rigorous policy mix, economic liberalism, and alignment with the United States has failed to bring about convergence with advanced economies. Mexico's socioeconomic development is hampered by institutional weaknesses (rule of law, justice, corruption, violence, insecurity), an inadequate welfare state, the conservatism of the banking sector that provides little financing to the real economy (particularly SMEs), and a lack of reforms (tax, energy). Its narrow tax base and the decline of the state-owned oil company PEMEX, a contingent liability for the sovereign, weigh heavily on public finances and public policy in general.

Thematic area: **Macroeconomics**

Geographical area: **Mexico**

1. The time for (forced) choices in response to internal and external challenges

The representative, democratic, secular, and federal republic of Mexico has been sociopolitically stable over the last three decades, since the PRI's seven hegemonic decades as the country's sole ruling party came to an end. Nevertheless, Andrés Manuel López Obrador's presidency (2018–2024) saw an erosion of democracy and public governance, although this did not mar his popularity. His social policies seem to have had some positive results in a country caught in the middle-income trap and facing persistent socioeconomic development challenges. López Obrador's successor, Claudia Sheinbaum, will have to make important choices regarding strategy, public policy, and reform in the face of major internal and external challenges, including a strained relationship with the United States and the defense of Mexican economic interests.

1.1. Political change amid continuity

The first female president of Mexico, former member of the Intergovernmental Panel on Climate Change (IPCC), an engineer specializing in energy efficiency, and former head of government of Mexico City (2018–2023), Claudia Sheinbaum is ideologically close to her mentor. However, her approach to government seems less populist, less direct, and more technocratic and attentive to experts. She plans to continue the "Fourth Transformation,"[1], which she defines as "the separation of economic and political power [...] with a president who governs for the people, and not for the privileged few." The central pillars of her program are social policy, support for the state-owned companies Petróleos Mexicanos (PEMEX) and Comisión Federal de Electricidad (CFE), improvements to infrastructure, particularly transport, and budgetary discipline, which was distinctly lax during the 2024 election year. She is expected to address the environment and the low-carbon transition, issues that were neglected by her predecessor, who prioritized energy security and squandered the leadership shown by Mexico during the Paris Agreement negotiations in 2015. Plan México, a roadmap for 2025–2030 that was published in January[2] was bolstered by the National Development Plan (PND), released in April, which focuses on three key areas: quality of life, social justice, and sustainable resource management. These stated ambitions are likely to come up against technical, administrative, and especially financial constraints, raising the possibility of increased reliance on donors (technical assistance and financing) and openness to the private sector. This will require improvement in the business environment and the investment climate, which both deteriorated under López Obrador (AMLO).

In response to Donald Trump's invectives on migration, drug trafficking (particularly fentanyl), and the Trojan horse of Chinese imports, the Sheinbaum administration is defending Mexican interests pragmatically, making goodwill gestures (deploying 10,000 troops to the border, "anti-China" measures) and choosing not to retaliate, unlike Canada. An economic strategy for strengthening Mexico's economy and dealing with the Trump administration's tariffs was announced in March 2025.[3] The security cooperation deal signed on September 4

[1] Referring to the three "transformations" of Mexican history: independence (1821), secularization (1857), and agrarian reform during the revolution (1910–1917).

[2] Thirteen objectives: become the world's 10th-largest economy (currently 12th); increase investment to 28% of GDP by 2030; create 1.5 million additional jobs, particularly in the manufacturing sector; ensure that 50% of consumption in certain sectors is "Hecho en México"; increase national content in global value chains by 15% (particularly in the automotive, aerospace, and pharmaceutical industries); ensure that 50% of public procurement is of national products; develop the production of vaccines in Mexico; reduce the length of the investment process from 2.6 years to 1 year using a digital platform; train 150,000 additional professionals and technicians every year; promote environmentally sustainable investment based on ESG criteria; ensure that 30% of SMEs have access to financing; position Mexico among the top five most visited international tourist destinations; reduce poverty and inequality.

[3] Five pillars: reduce dependence on imports by stimulating national production; increase the share of local content in public procurement; encourage the substitution of imports in manufactured goods; support internal demand via social programs (target of 2.5% of GDP and an increase in the minimum wage to 2.5 basic food baskets); protect jobs and investment, particularly in industry.

by Mexico and the United States, agreeing "respect for sovereignty and territorial integrity, shared and differentiated responsibility, as well as mutual trust," has been seen as a triumph of the Mexican president's negotiating skills. Extraditions of drug traffickers to the United States have accelerated in 2025 (55 in eight months).

Finally, the kind of sociopolitical instability seen in other Latin American countries or elsewhere in the world seems to be unlikely in the short and medium term. Social demands tend to be moderate in Mexico, largely due to a positive (albeit overestimated) perception of social mobility. According to the OECD (2024 survey conducted in 30 countries), Mexico has the third-highest share of citizens with high or moderately high trust in their government. Nevertheless, the Trump administration's closure of the social pressure valve provided by emigration to the United States for students, young graduates, or unskilled and often illegal workers (farming and construction sectors) will have consequences that must be monitored. According to the Pew Research Center[4], over 11 million people born in Mexico live in the United States, representing almost a quarter of the country's immigrants. Mexicans are still the largest contingent of unauthorized immigrants in the United States, but their number and relative share have significantly reduced since 2007 (down from 7 million to 4 million, and from 57% to a third of the total), as unauthorized immigration has increased from other Central or South American countries, via Mexico, or from Asia. Managing the return of extradited Mexicans and the assimilation of the millions of foreign migrants "trapped" on Mexican soil following the tightening of US migration policy represents a major political, social, economic, and security challenge.

[4] Pew Research Center, "What the Data Says About Immigrants in the U.S.," September 2024.

1.2. Going beyond "never-ending emergence"

In the upper-middle-income country (UMIC) category since 1990, Mexico seems to be caught in the middle-income trap,[5] stuck in its role as workshop and rear base for the North American market. Economic development is hampered by insufficient productivity gains, a lack of endogenous growth drivers, high rates of informal activity, underfinancing of the productive sector (bank credit), and underdevelopment of the welfare/redistributive state, due particularly to weak mobilization of government revenue and low levels of tax consent. The Mexican economy is characterized by four dichotomies: i) between the export and domestic sectors; ii) between formal and informal work; iii) between the north (the more developed industrial heartland) and the south (more rural, agricultural, and poorer); and iv) between economic liberalism (*maquiladoras*, trade agreements) and protectionism/statism. Additional issues include the reproduction of elites and a lack of challenge to the established order, rent-seeking, and barriers to entry in strategic sectors dominated by public or private monopolies or oligopolies (energy, finance). Faltering economic growth, moderate inflation, and the exchange rate effect (partly adjusted/smoothed out by the World Bank) all contributed to a decline in GNI per capita[6] in current USD between 2014 and 2022, although it rebounded in 2023–2024. Sitting at USD 12,800 per capita in 2024, Mexico remains 9% below the World Bank's threshold for high-income countries (HICs) (USD 13,935 on July 1, 2025, for the 2025–2026

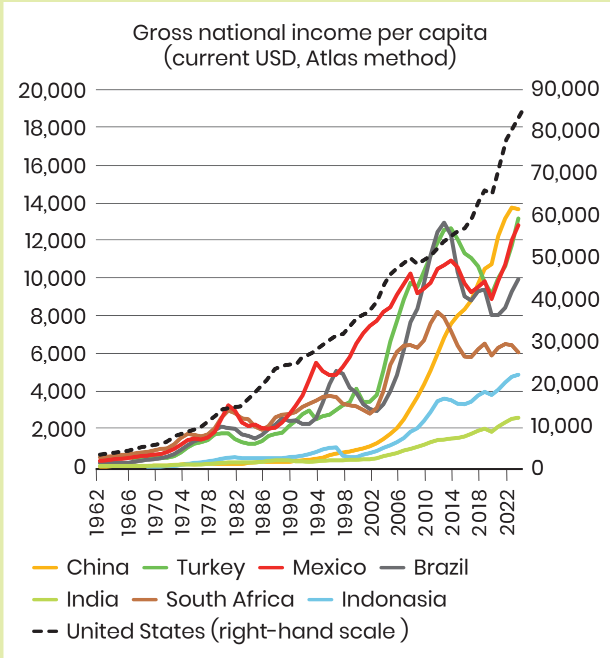
[5] A concept introduced by the World Bank in 2007 thanks to Gill and Kharas ("An East Asian Renaissance: Ideas for Economic Growth," 2007). Since 1990, only 34 economies have successfully passed from the UMIC category to the HIC category. Strategies based on the accumulation of factors of production eventually falter due to the law of diminishing returns affecting the marginal productivity of capital. Latin America and the Middle East are examples of middle-income regions that have been stuck in this trap for decades. To reach HIC status, a middle-income country must make its economic structure more sophisticated.

[6] Gross national income (GNI) is defined according to the Atlas method and corresponds to the total amount of primary income earned by residents of an economy in a given period. It is equal to GDP, minus primary income payable by resident units to non-resident units, plus primary income receivable from the rest of the world (in other words, net income paid abroad for salaries, property, and net taxes and subsidies on production). The World Bank's Atlas method is designed to make international comparisons of national income less sensitive to fluctuating exchange rates.

fiscal period, FY26) (see Graph 1). On this measure, Mexico is behind China, Argentina, Turkey, and Mauritius, all contenders for joining the HICs, which have an average GNI per capita of 49,301 USD.

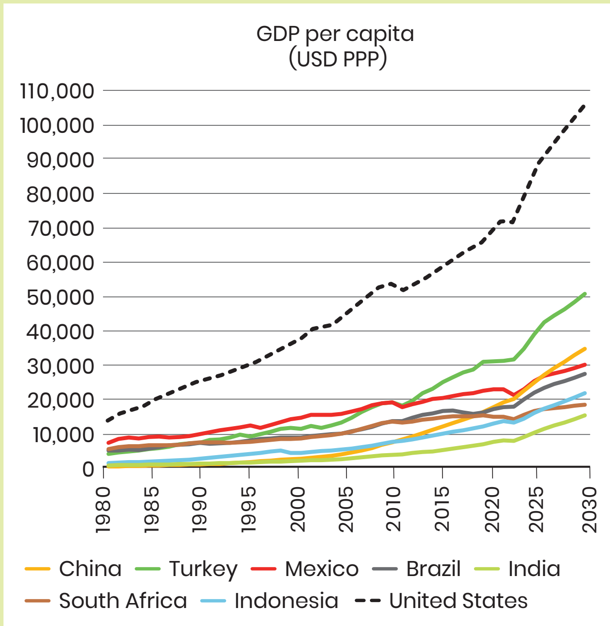
GDP per capita in terms of purchasing power parity (PPP), which is a more suitable metric for international comparisons of real standards of living, reveals that Mexico is lagging behind most emerging economies, far outpaced by Turkey and now China. The USMCA has not generated the expected gains from economic convergence with the United States (and by extension Canada). GDP per capita (PPP) was 3.4 times as high in the United States as in Mexico in 2024 (see Graph 2). This failure to catch up is due to several factors: economic growth has been on average slightly below that of the United States for two decades; productivity gains have been limited (see below), correlated with a minor increase in real salaries (3% per year on average for 20 years); and population growth has been higher (26% in two decades, compared to 16% in the United States) despite emigration (negative migratory balance) and the accelerating demographic transition, with fertility rates decreasing from 2.5 to 1.9 children per woman during this period. According to the World Bank (WDR 2024), if current conditions continue, the relative gap in the standard of living between Mexico and the United States could deepen between now and the end of the century, despite the United Nations predicting that Mexico's population will peak in 2060 (150 million inhabitants, up from 131 million in 2024), whereas the United States will experience continuous population growth.

Graph 1 - Slow and uneven progress of GNI per capita since the 2008 financial crisis



Source: World Bank

Graph 2 – Even sharper relative slowdown in real standards of living



Source: IMF

1.3. Serious constraints on stated ambitions regarding environmental policy

In light of the risks associated with climate change, the energy transition, and biodiversity, the new administration considers policies for adaptation, mitigation, and conservation to be more of a priority than the previous government, which saw energy security as more important than environmental matters. President Sheinbaum's intentions are a source of reasonable hope regarding the decarbonization of the economy. A National Adaptation Plan is currently being discussed, and a National Climate Strategy entered into force in May 2025, with a focus on vulnerable areas, infrastructure, biodiversity, and climate governance. The Sheinbaum administration is apparently planning to strengthen the Fund for Disaster Prevention (FOPREDEN) in order to support climate adaptation, and to thoroughly reform the structure of the Natural Disaster Fund (FONDEN), making it faster and more transparent and incorporating parametric financial instruments such as catastrophe bonds, which the Mexican state was the first to issue in 2006, covering earthquake and hurricane risks. The Secretariat of Environment and Natural Resources (Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT) presented its National Environmental Restoration Program (PNRA 2025–2030) in May 2025. It is based on the principles of an integrated territory-population approach, environmental justice and the use of indigenous knowledge, community-based monitoring, sustainability, and respect for natural and cultural heritage. Nonetheless, SEMARNAT's budget was cut by 37% in 2025, including a drastic reduction in the budget of the National Water Commission (Comisión Nacional del Agua, CONAGUA).

There are political, ideological, technical, and above all financial obstacles to the implementation and effectiveness of this program. There seems to be an emerging political consensus that the energy laws of March 2025 are a step in the right direction, even though the government does not want to admit that they will open the sector up to private investors and despite the opposition voting against them for political reasons. A gap remains between stated ambitions (presidential campaign promises, Plan México, National Adaptation Plan for climate change) and constraints.

2. Taking control of its economic destiny without disavowing the North American bond

Mexico's economic model is at the heart of its country risk profile. Its relatively weak and volatile economic growth reveals the limitations of its dependence on the North American market in the absence of powerful endogenous growth drivers. Its connection to the United States through industrial integration previously seemed sacrosanct and natural, but Donald Trump's second term has prompted questions and concerns around growth, exports, investment, employment, energy independence, and public finances. The principal challenges for Mexico in the coming years will be to maintain its geoeconomic rent, diversify its export markets, and make its growth more autonomous by strengthening internal demand.

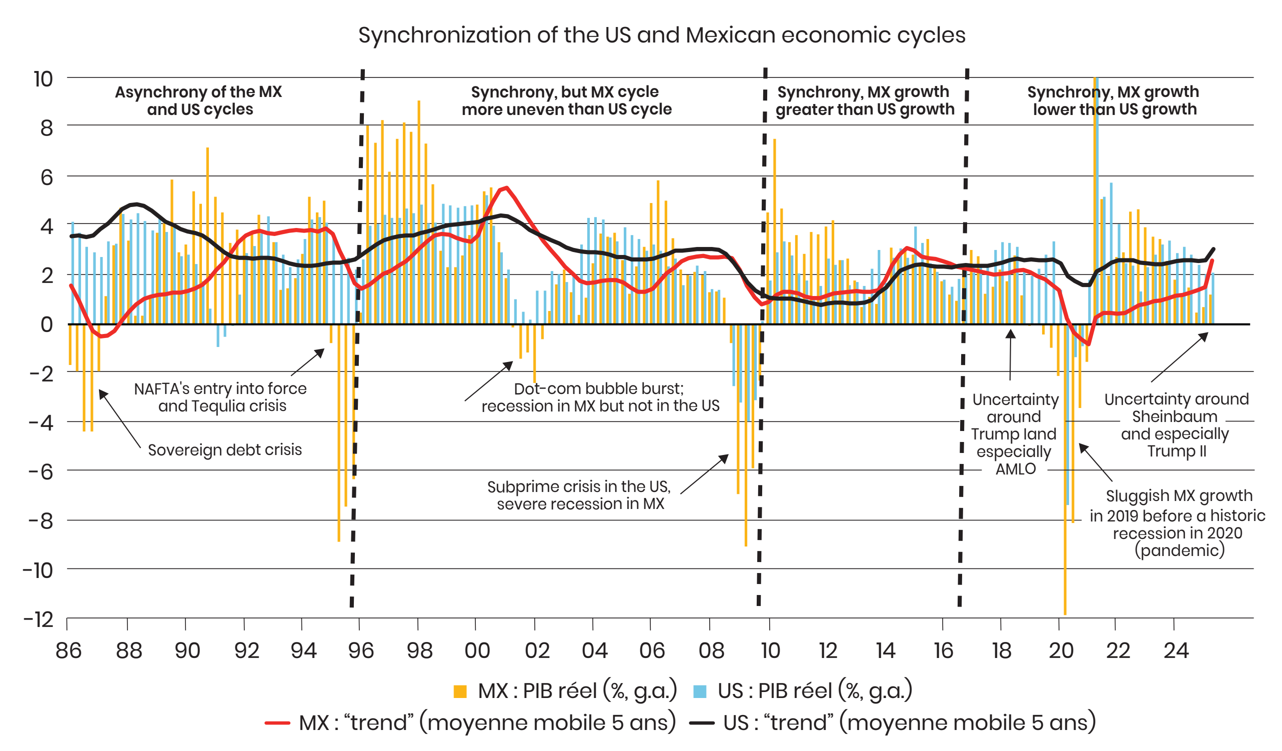
2.1. Overcoming the economic model's dependence on the United States

At the forefront of emerging crises (the 1983 debt crisis, the 1995 balance of payments and banking crisis), Mexico entered the 2000s as a Latin American leader thanks to the structural economic reforms (public finances, monetary policy, financial sector) implemented after the so-called "Tequila" crisis in 1995. Membership of NAFTA since 1994 (USMCA since 2020[7]) has been instrumental in shaping the Mexican economy, encouraging industrialization and playing a key role in direct and indirect job creation. The manufacturing sector, benefiting from "natural" outlets to the US market, represented 19.2% of GDP and 89.2% of exports in 2024. In the last two decades, 42% of foreign direct investment (FDI) flows "originated" in the United States (in some cases from foreign companies). The free trade zone allows Mexico to import natural gas and refined products at lower cost. Remittances (*remesas*) from the Mexican diaspora living in the United States irrigate the Mexican economy and support consumption, while American tourists generate significant revenue.

Both a strength and a weakness of the Mexican economic model, its proximity to and dependence on the world's leading economic power reveal the need to strengthen endogenous drivers and factors of economic growth. Currently positive due to the spillover effects of the first Trump administration's trade war with China, the externalities generated by the United States are strongly negative during periods of economic downturn or financial crisis (see Graph 3). The Trump administration's trade and migration policies represent a major challenge for Mexico, but also an opportunity to be-come more autonomous by reorienting the productive sector toward the internal market and becoming less dependent on imports. This was one of the priorities of the government's economic strategy for strengthening the national economy announced in March 2025.

[7] The USMCA, known as T-MEC in Spanish and ACEUM in French, largely continues along the same lines as NAFTA. The principal changes are to strengthen rules of origin and local content requirements in the automotive sector, the minimum wage, the protection of workers, and the environment. It is subject to review every six years.

Graph 3 – An economic cycle correlated to that of the United States, but more uneven



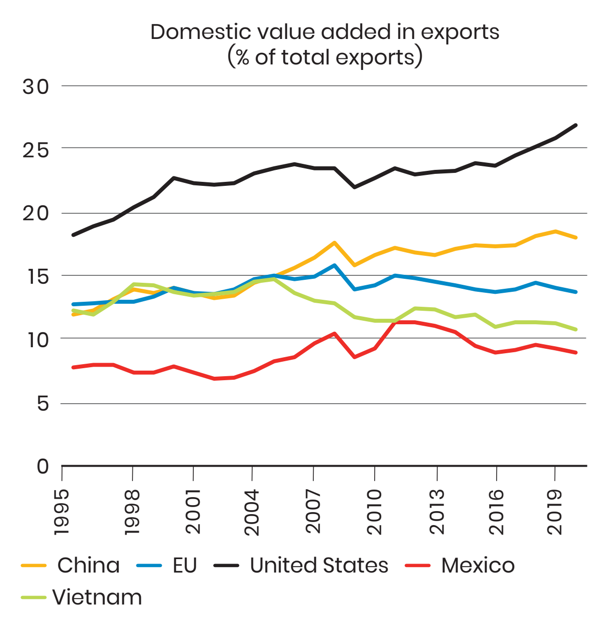
Source: INEGI, BEA, AFD calculations

At a time when the global economic order is undergoing profound change, it is essential for Mexico to preserve the geoeconomic rent gained by integration with the North American area. The model of *maquiladoras*, in place since the 1960s, has shaped a cross-border ecosystem that employs around 3 million Mexicans and benefits thousands of US companies. Mexico has made the most of the comparative advantages offered by its privileged geographical position, its cheap labor, and free trade agreements.[8] Economies of scale have been possible in certain sectors, including the automotive, electronics, and aviation industries. In 2023, Mexico was the ninth-largest contributor to global manufacturing value added (1.8%), a position that it also held in 1995, although with a greater share of global VA (2.5%) (UNIDO 2024). Almost 80% of Mexico's manufactured exports are medium- and high-tech products, the fourth-highest percentage in the world after Taiwan, the Philippines, and Japan (UNIDO). But local production is essentially confined to assembly chains for finished or semi-finished products. This downstream position in the value chain is reflected in the fact that domestic value added in exports was estimated at just 9% of total Mexican exports in 2020 (see Graph 4). The nearshoring opportunities created by the reconfiguration of global value chains and Joe Biden's Inflation Reduction Act (IRA) of August 2022 have helped to sustain the momentum of FDI into Mexico in recent years (see below). Whether this will continue will depend on the outcome of the global and bilateral trade war started by Donald Trump. Mexico's

[8] Since 2018, the government has implemented several IMF and ILO recommendations, as well as USMCA obligations regarding the labor market and labor law: labor reform (2019), ban/restriction on subcontracting (2021), several increases in the minimum wage (2019–), protection of domestic workers (2019–2022), extension of social security to self-employed workers (2022), tighter standards regarding health and safety at work (2020–2023), reform of paid leave (2022–2023), launch of the Jóvenes Construyendo el Futuro program (since 2019), plans to reduce the working week to 40 hours (announced 2025).

ability to attract sectors with high local value added will be key for supporting growth, employment, and external accounts in the medium to long term. par Donald Trump au niveau mondial et bilatéral. La capacité d'attractivité du Mexique pour les secteurs à forte valeur ajoutée locale sera primordiale pour soutenir la croissance, l'emploi et les comptes externes à moyen-long terme.

Graph 4 –
Low domestic value added in exports

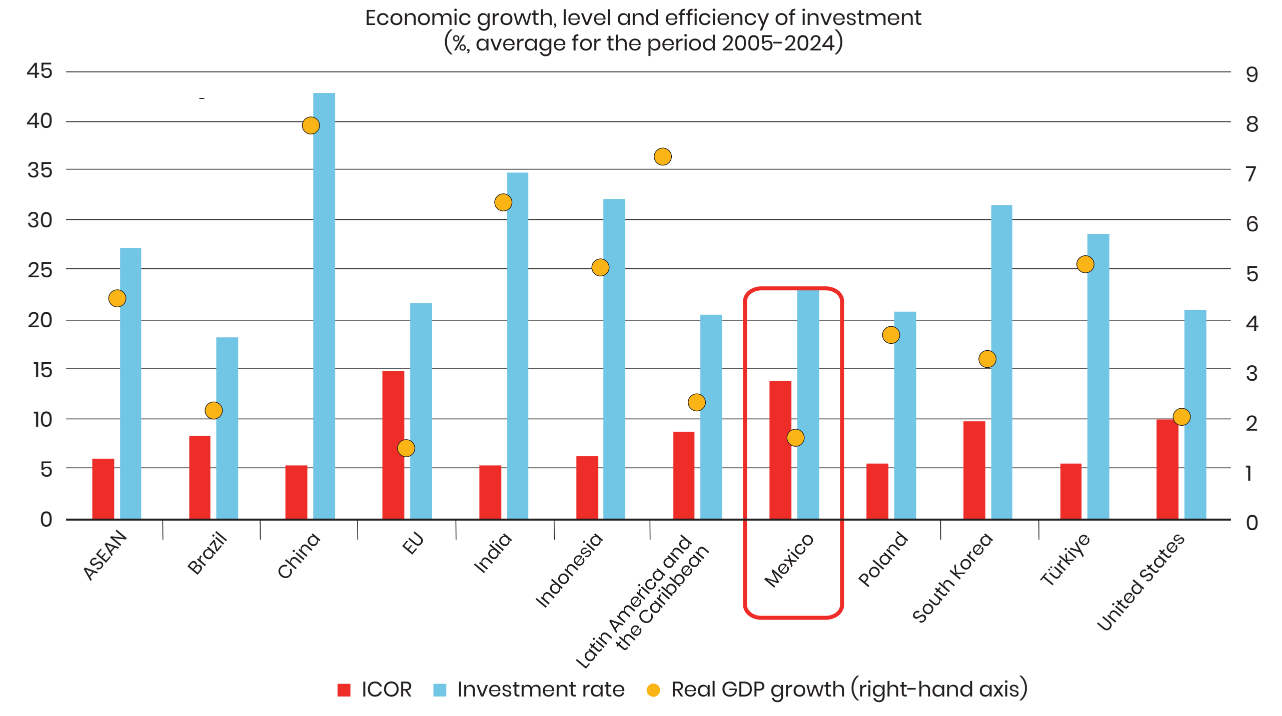


Source: OECD (TiVA 2020)

Relatively low investment efficiency, as well as productivity levels and gains, are crucial factors determining the competitiveness of the Mexican economy and its attractiveness to investors. According to the World Bank's "3i strategy" (WDR 2024), the first phase of economic development, based on the accumulation of capital (investment), must be supplemented by tech-nology transfers and workforce upskilling (infusion). Mexico seems to be struggling with the final phase, innovation, which is essential if it is to break the middle-income glass ceiling like the Asian countries. Plan México stipulates that the investment rate should be 28% of GDP by 2030, compared to just 22% from 2019 to 2023 (23% in advanced economies and 33% in emerging market and developing economies [EMDEs]). But it is not just the volume of investment that is low; its efficiency in relation to economic growth (incremental capital–output ratio, ICOR) also compares unfavorably at the international level, except with the EU (see Graph 5). Moreover, according to Conference Board data, average hourly productivity in Mexico has stagnated over the last two decades, while growing by 26% in the United States, bringing the gap between the two countries to a multiple of 2.7 in 2023. According to the OECD, hourly labor productivity was as much as 3.8 times as high in the United States as in Mexico in 2023 (see Graph 6). The gap in productivity per worker is lower because average working hours are 20% higher in Mexico. This raises the question of whether there is adequate training and human capital [9] and highlights the shortage of skilled labor in certain industrial sectors. It is also essential to remove obstacles to private domestic investment by improving the operational environment (infrastructure, security, informality, competitiveness) and boosting financial inclusion, particularly in terms of access to finance for SMEs, which are poorly integrated into value chains despite providing numerous jobs. Finally, promoting innovation remains a challenge given that national research and development spending is just 0.3% of GDP, compared to an average of 2.1% in UMICs, 3.6% in the United States, and 5.2% in South Korea.

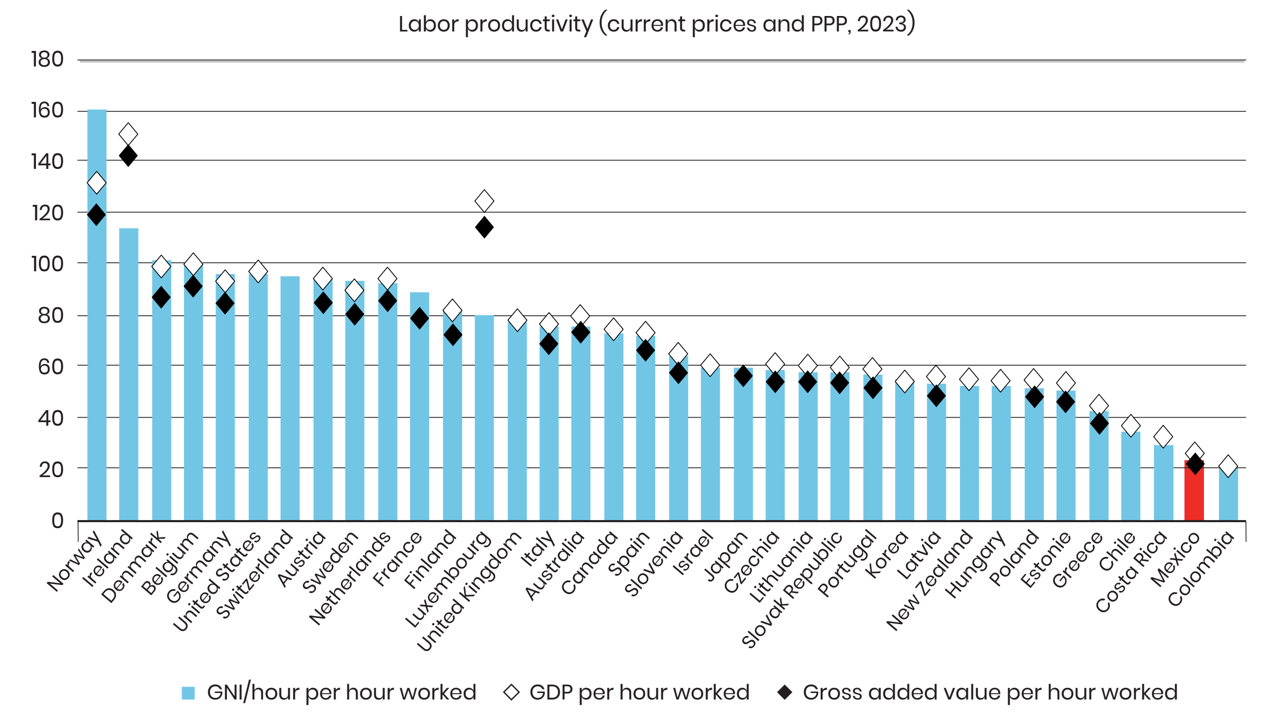
[9] Mexico is currently 61st out of 174 countries in the World Bank's Human Capital Index. It came second to last out of 38 member countries in the OECD's most recent PISA survey in 2022 (Programme for International Student Assessment, which monitors the progress of 15-year-old students) and last in terms of the proportion of higher education graduates (21% in 2022).

Graph 5 - Weak economic growth, investment volume/efficiency...



Source: IMF, AFD calculations

Graph 6 - ... and average labor productivity



Source: OECD

Energy independence and efficiency, as well as decarbonization, are also (geo)political economic issues that determine competitiveness and attractiveness. AMLO's nationalism/sovereigntism regarding the energy and mining sector impacted the investment climate.[10] The energy laws passed in March 2025[11], are a signal of the new administration's desire to open the electricity sector up to private investors, particularly via public-private partnerships (PPPs) and for renewable energy deployment. To be fully effective, this reform will need to be accompanied by a new legal and financial framework giving investors the predictability they need as well as a fair distribution of risk. Moreover, the strong presence of Chinese companies in the Mexican renewable energy sector needs to be monitored with respect to questions of sovereignty, strategic autonomy, and competition, as well as easing relations with the United States. In parallel, how to reform and revitalize the oil sector without undermining PEMEX's monopoly is a politically and financially complex topic. Begun by the Peña Nieto administration in 2013, the move to open up the oil sector was hampered by the fall in global prices in 2014 and then completely reversed by the AMLO administration. With PEMEX facing technical and financial difficulties, oil production has fallen by half since its peak in 2004, to just 1.8 million b/d in 2024. Despite being the world's fifth-largest oil producer two decades ago, Mexico has been a net importer of hydrocarbons (oil products and natural gas) since 2015, exacerbating its dependence on the United States.[12] If the latter cuts off the supply of natural gas, Mexico would only be able to operate independently for three days, because its energy mix depends heavily on gas.

2.2. A faltering and volatile economic growth regime

Mexico's real GDP growth has plateaued at the average level of advanced economies over the last twenty years, at 1.7%, compared to 5.2% for EMDEs, placing it among the 10 least dynamic EMDEs. Nevertheless, the historic recession in 2020 (-8.5%) did not lead to major macroeconomic instability, testifying to a flexible and resilient economy. After the rebound in 2021 (+6.3%), real GDP returned to its pre-pandemic level in 2022 (+3.7%). Activity remained strong in 2023 (+3.2%) thanks to good performance in consumption, the labor market, remittances, tourism revenue, construction, and investment (infrastructure and nearshoring). Bearing out the IMF and Banxico's autumn forecasts, growth slowed substantially in 2024 to 1.5%, with a contraction of real GDP in Q4 (consumption, investment, construction), sluggish industrial activity, and exports buoyed in the short term by the expectation of US trade restrictions.

Technical recession has been avoided so far in 2025, with positive economic growth in the first half of the year. Nevertheless, the risk of sluggishness, or even of a contraction in average annual real GDP, is still present in this first year of Claudia Sheinbaum's six-year term, recalling the situation in 2019 when her predecessor arrived in power in a partially comparable context (see graphs 7 and 8). Externally, the uncertainty and concern around the Trump administration seems more pronounced in 2025 than it was in 2019. Internally, by contrast, the political shift in 2019 caused more turmoil and procrastination in business circles than the Left's continuation in power at the end of 2024. Real GDP grew by 0.8% year-on-year (YoY) in Q1 2025, and by 0.2% quarter-on-quarter (QoQ sa). Further falls in consumption (-0.4% QoQ sa) and investment (-4.0% QoQ sa) were compensated by the positive contribution of foreign trade (exports +1.1% and imports -4.3%). Preliminary estimates for Q2 currently suggest +0.1% YoY and +0.7% QoQ. The monthly indicator of

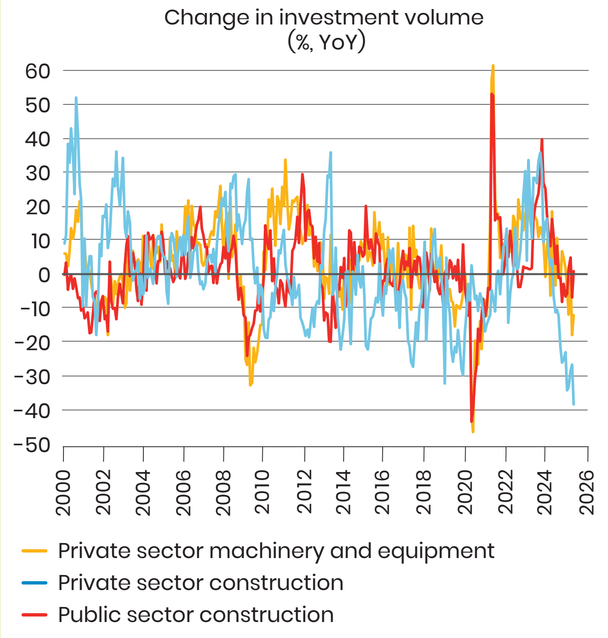
[10] The 2023 Mining Code reform imposed a statist, sovereigntist, and environmental approach, reducing the length of concessions from 50 years (renewable once for another 50 years) to 30 years (renewable once for another 25 years). In February 2024, the Spanish company Iberdrola was forced to sell 55% of its assets in the electricity sector, allowing the state-owned company CFE to increase its market share from 39% to 55%.

[11] The reform's stated objective was energy justice, defined as public policy measures to reduce energy poverty and social and gender inequalities in energy use. The legislative package passed by a very large majority (332 votes in favor, 83 against). Its eight constituent laws are: Law on the state-owned company Comisión Federal de Electricidad; Law on the stateowned company Petróleos Mexicanos; Law on the electricity sector; Law on the hydrocarbons sector; Law on the National Energy Commission (the regulator); Law on energy planning and transition; Law on biofuels; Law on geothermal energy.

[12] The Olmeca refinery in Dos Bocas, in operation since 2024, has a production capacity of 340,000 b/d but only processed 114,900 b/d in May 2025. At full capacity, it would only cover around 20% of domestic demand, with PEMEX's other refineries operating at less than half capacity on average. PEMEX has bought a refinery in Texas, which will export a small portion of its output to Mexico.

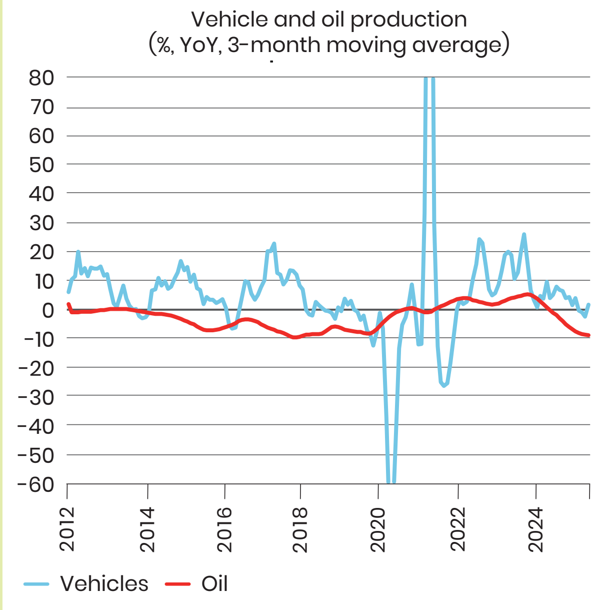
economic activity (IGAE, Indicador Global de la Actividad Económica) remained low but positive in H1 2025 (+0.6% YoY sa) thanks to strong performance in the agricultural sector (+4.1%) and the aggregated services sector (+1.2%). Manufacturing activity grew by a small amount (+0.4%), while construction (-1%) and the extractive sector (-8.2%) contracted. As a result, although total employment grew by 2.1% in June 2025 compared to June 2024, it declined by 6.1% in the manufacturing sector, with 608,813 jobs lost, in a context of widespread uncertainty. In the April 2025 World Economic Outlook (WEO), the IMF anticipated a GDP contraction of -0.3% in 2025 and a return to +1.4% in 2026. Its prediction for 2025 was revised upward to +0.2% in July in a central scenario of global growth being more "resistant to the Trump effect" than expected in the spring. Banxico is now predicting +0.6% in 2025 and +1.1% in 2026.

Graph 7 -
Contraction of investment (GFCF)...



Source: INEGI, AFD caluculations

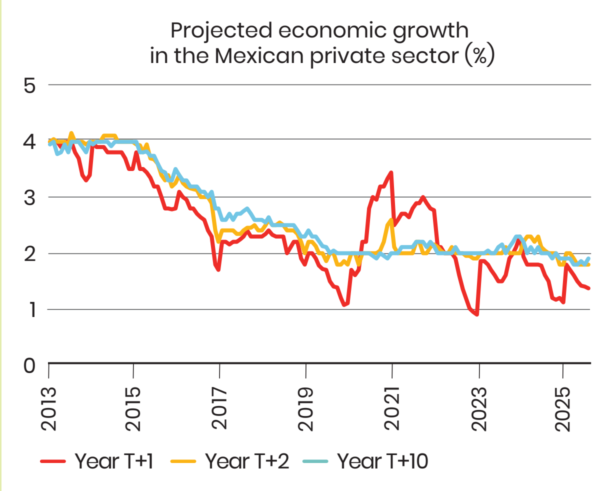
Graphique 8 -
... and automobile and oil production



Source: INEGI, PEMEX, AFD calculations

In the medium term, potential growth is likely to remain around 2% from now until 2030, in line with trend growth, according to the IMF (2.2%) and Oxford Economics (1.8%), which base their estimates on classic models using hypotheses regarding factors of production (capital and labor) and total factor productivity (TFP). The Banxico survey also predicts average growth of 2% over the next ten years. Comparison with past releases of this monthly survey shows how economic growth expectations in the Mexican private sector have faded since the hopes aroused by the Peña Nieto administration's liberalization reforms in 2013–2014, at which time growth was projected to be 4% (see Graph 9). Geo-economic uncertainty makes predicting future scenarios even more difficult. In a scenario of US protectionist measures being "strengthened" against China, applied "universally" (Europe, Asia), and met with retaliation, Mexico could emerge as one of the big winners of the reconfiguration of international trade, increasing its competitive advantage for access to the US market and boosting Mexican economic growth. On the other hand, in an alternative scenario where the North American economic area is undermined by a repeal of the USMCA, or where the United States imposes higher tariffs on Mexican products, Mexico could end up as the main "relative loser" (or even absolute loser) of the trade war.[13]

Graph 9 - Reduced growth expectations in the Mexican private sector over the last decade



Source: Banxico

3. Let the dust settle from Trump's reelection before panicking

Unlike in the 1980s and 1990s, Mexico no longer has the kind of macroeconomic weaknesses liable to provoke a balance of payments crisis. Nevertheless, Donald Trump's reelection has cast serious doubt on the positive prospects for trade and investment raised by the Biden administration's measures (Inflation Reduction Act) and by nearshoring associated with value chain reconfiguration. In the medium term, whether this will harm or benefit the Mexican economy will depend on the intensity and duration of the global trade war and the asymmetry of the measures taken. The worst-case scenario, of course, would be a total repudiation of the USMCA by the Trump administration.

3.1. Defend the USMCA, diversify exports, and remain attractive to investors

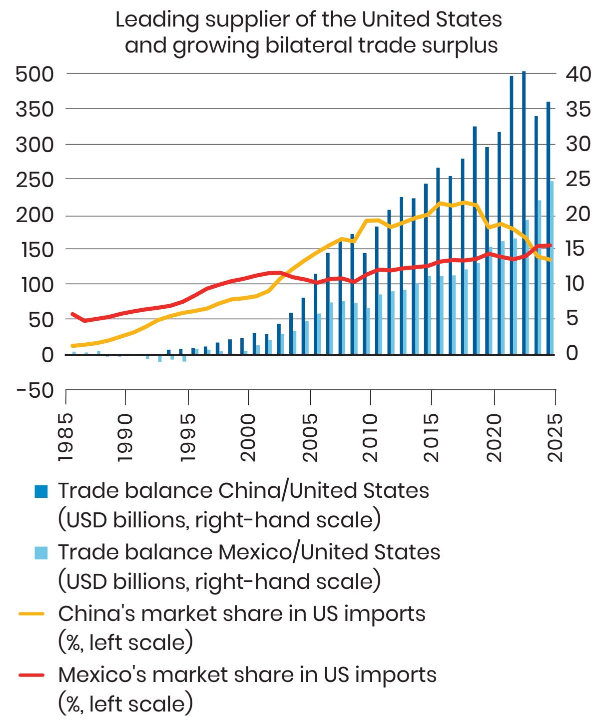
Profiting from Sino-American trade tensions since 2018,[14], Mexico has become the United States' leading supplier (see Graph 10). So far, Mexican export revenues have remained resilient to the upheaval of global trade since the beginning of 2025. Mexico's market share peaked at 15.5% in 2024, against 13.5% for China (a decline from 21.6% in 2017). The share of Mexican exports destined for the United States grew from 79.5% in 2018 to 83.1% in 2024, essentially comprising manufactured or semi-fini-

[13] CEPII, "Towards a Trade War in 2025: Real Threats for the World Economy, False Promises for the US," *Working Paper*, February 2025;
CEPII, "Protectionnisme américain: Les enjeux du 9 juillet 2025," *La lettre du CEPII*, June 2025;
PIEE, "The Global Economic Effects of Trump's 2025 Tariffs," *Working Paper*, June 2025.

[14] Like the EU, Canada and Mexico were also subjected to higher US tariffs in 2018 (+25% for steel and +10% for aluminum), an early hint toward the renegotiation of NAFTA. In direct competition with Mexico for access to the US market, China started investing in Mexico as a way to circumvent tariff barriers. The United States responded in July 2024 by imposing tariffs on Chinese steel and aluminum transiting through Mexico. By encouraging local production in the United States and integrating the US's regional partners, the Biden administration's Inflation Reduction Act (IRA) of August 2022 strengthened demand for Mexican manufactured goods, particularly in the green technology sector (electric vehicles and renewable energies, especially solar panels).

shed goods, which account for 89.2% of total Mexican exports (otherwise 5.6% oil, 3.7% agricultural products, and 1.5% mining products). The target of particular virulence from Trump, Mexico's bilateral trade surplus on goods with the United States has increased steadily since 2009, reaching USD 247 billion in 2024, the second highest in the world behind China (USD 360 billion) and ahead of the European Union (USD 214 billion), Canada (USD 144 billion), and Vietnam (USD 107 billion). In the first seven months of 2025, Mexican export revenues grew by 4.3% compared to 2024. This figure was 6.1% for manufactured products. However, hydrocarbon exports fell by 24.5%, due primarily to a reduction in volume but also to a reduction in price (the average price of the export mix fell from USD 74 per barrel in 2024 to USD 62 per barrel in 2025).

Graph 10 – Leading supplier of the United States and growing bilateral trade surplus



Source: US Census Bureau, IMF, AFD calculations

The Mexican authorities want to hold the six-yearly review of the USMCA ahead of its scheduled date in July 2026, banking on a less radical and more pragmatic stance from the Trump administration. The 90-day extension (from July 31) of the suspension of "reciprocal tariffs" on non-USMCA-compliant Mexican products has opened the way to negotiations on the trade agreement.[15] Mexico also plans to impose customs duties and tariff barriers on countries with which it does not have a free trade agreement, including China. To date, the average effective rate paid by Mexico is estimated at 4% (compared to 0.2% in 2024), while the average effective rate imposed by the United States is estimated at 9% globally (compared to 2% in 2024) and 40% on Chinese imports (compared to 10% in 2024).[16]

According to US trade data, 80% of Mexican exports to the United States entered American territory duty-free in May 2025, compared to just 50% in 2024, thanks in particular to efforts to improve traceability. Mexico is also a signatory to 14 other free trade agreements with around fifty different countries, not including the new Modernised Global Agreement with the EU,[17] which was signed on January 17, 2025, after a decade of negotiations. The ratification process could be lengthy, but so far it does not seem to be as controversial within the EU as the agreement with Mercosur. Mexico's new government is also looking to strengthen trade relations with neighboring countries. One example is the agreement with Brazil, which was renewed last August for the agricultural and biofuels sector. Meanwhile, the Mexican administration contemplates tariffs of 10% to 50% on certain products imported to Mexico.

[15] The official base tariff of 25% imposed by the United States on products imported from Mexico excludes goods that comply with the USMCA. In the automotive and auto parts sector, which represents around a quarter of Mexican exports and fell by more than 6% in the first five months of 2025 compared to 2024, a minimum of 20% US content is required to qualify for exemption; the tariff on aluminum and steel was raised from 25% to 50% on June 4; the energy, mining, and textile sectors are subject to a 25% tariff.

[16] https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c?shareType=nongift

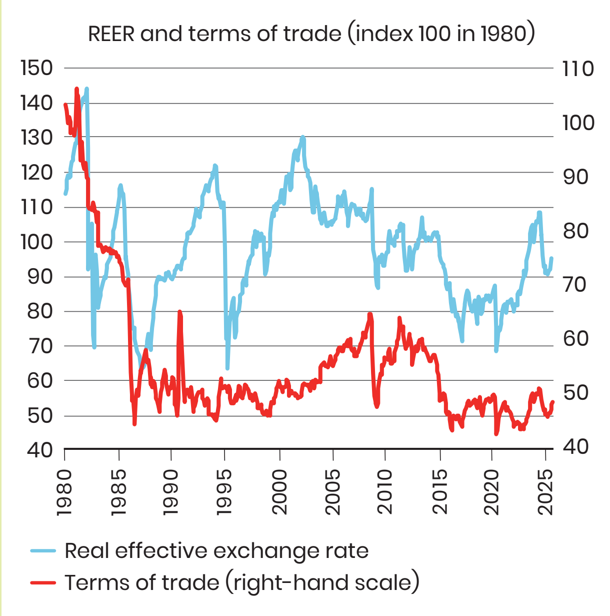
[16] The key areas covered by the agreement are: extended coverage (industrial goods, but also services, investments, public procurement, agrifood, digital, and the green economy), elimination of tariffs, recognition of geographical indications, reciprocal access to public contracts, increased protections (labor rights, environment, climate, supply chains, corruption, human rights, and intellectual property), and a permanent Investment Court System for settling investor-state disputes.

Products from China and other countries without free trade agreements will be taxed up to 50% in order to protect jobs in sensitive sectors. China has responded by considering retaliatory measures against Mexico, which has become an important trade partner in the last ten years, particularly in the automotive industry.

The international situation is not currently a cause for major concern regarding the risk of a deterioration in Mexico's external accounts in the short to medium term. Structurally moderate and covered by net FDI flows (2.1% of GDP on average over 10 years), the current account deficit (-0.9% of GDP on average over 10 years and -0.3% of GDP in 2024) can be explained by Mexico's struggle to generate sustainable trade surpluses (-6.5% of GDP over 10 years), itself due to the structure of its foreign trade. As a result of North American industrial integration, Mexican imports of intermediate goods have accounted for no less than 77% of total imports on average since 2010, creating a strong correlation between import and export dynamics and limiting local net value added. This is corroborated by the evolution of the terms of trade (relative price of exports/imports), which has been unfavorable over the long term (see Graph 11). Mexico has also had an energy trade deficit since 2015 (-1.2% of GDP). Its by 6% in H1 2025 compared to H1 2024 and will be subject to a tax of 1% from January 2026 (excluding bank transfers and transfers funded with a US bank card).

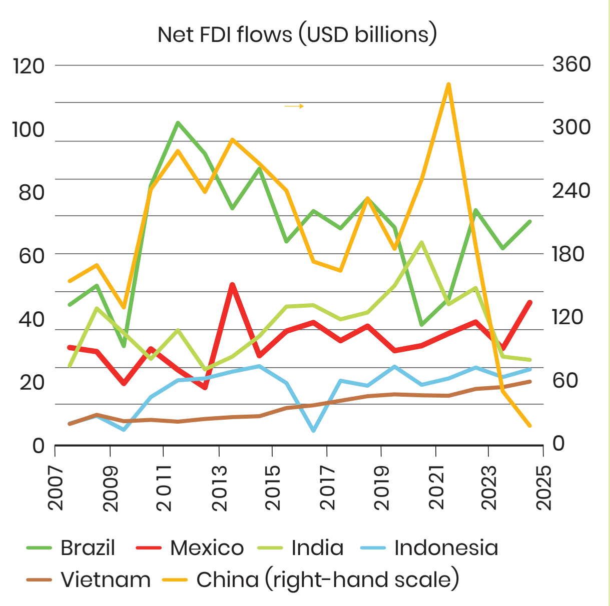
International uncertainty has not yet had a tangible impact on total FDI flows in 2025, while portfolio flows have continued their downward trend. As the corollary in the financial account to the primary income deficit in the current account, the attractiveness of post-pandemic FDI inflows could be threatened by the Trump administration's protectionism, which has prompted some firms to adopt a wait-and-see approach and consider shifting their nearshoring strategy to the United States or other countries. In 2024, Mexico received its highest level of FDI since 2013 (USD 44 billion, or 2.4% of GDP), becoming the ninth-largest recipient in the world and the second-largest among emerging economies, behind Brazil and ahead of India, Indonesia, Vietnam, and above all China, whose FDI inflows have collapsed (see Graph 12). Since 2018, 40% of FDI entering Mexico has been from the United States, 29% from Europe, and 1% from China, although total FDI stock remains dominated by European companies (54%), ahead of US companies or companies that invested from the United States (32%). The share of new investments (known as "greenfield") has fallen sharply, with reinvestments constituting three-quarters of flows in 2023–2024. Although total FDI flows remained dynamic in H1 2025 (+2% compared to 2024), they declined in the manufacturing sector. Investment projects were canceled, suspended, or postponed after Trump's reelection and the adoption of Mexico's judicial reform. According to the Consejo Coordinador Empresarial, an independent body representing Mexican companies, more than USD 60 billion of investments are currently frozen. For example, the Chinese authorities have apparently refused permission for the manufacturing firm BYD to build an automobile plant in Mexico, which would have generated 10,000 jobs. Negative since 2020, net portfolio investment flows fell to USD -9 billion in H1 2025 due to capital outflows by both non-residents and residents.

Graph 11 – Generally favorable price competitiveness conditions



Source: Banxico, IMF

Graph 12 – Second-largest recipient of FDI among emerging economies in 2023–2024



Source: IMF

3.2. Maintaining a robust liquidity/ external solvency position

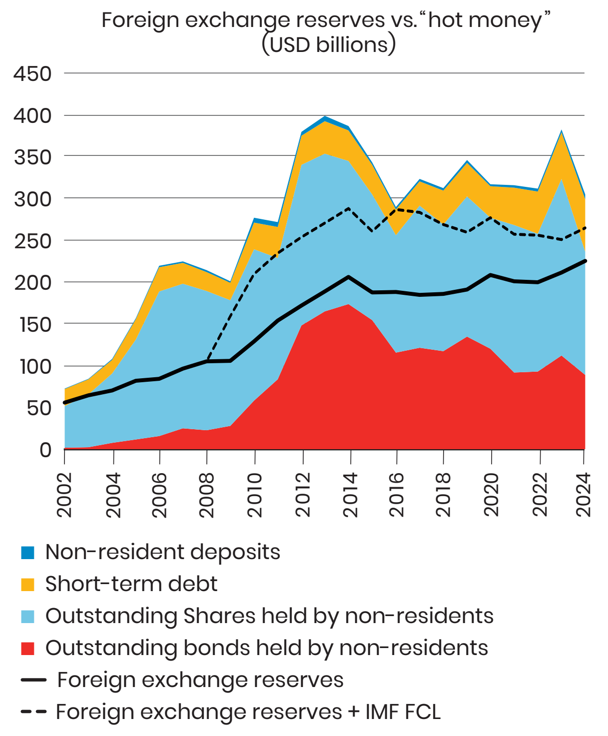
Mexico's financial account is largely open, capital controls are limited, and the peso (MXN) is one of the rare emerging currencies to be completely convertible and flexible. The MXN is one of the most highly traded emerging currencies on the foreign exchange market—80% of transactions involving the MXN are offshore—giving it the status of an "emerging risk proxy" and exposing it to bouts of volatility, sometimes with no objective connection to the country's macrofinancial fundamentals. Nevertheless, it serves as an effective macroeconomic adjustment variable, an asset when dealing with exogenous shocks and financial turbulence. After depreciating by 15% against the dollar (USD) in 2024 in the wake of both countries' elections, it appreciated by 11% in the first eight months of 2025 as the dollar weakened overall.[18] On average over the last eight months, however, the MXN has been 11% lower than during the same period in 2024. The real effective exchange rate has depreciated after a considerable appreciation in 2022–2023, which seems to disprove the idea that the MXN is overvalued and could run into a price competitiveness problem.

External liquidity ratios remain adequate for an economy operating with a flexible exchange rate regime. Foreign exchange reserves reached historic levels in 2025 (USD 214 billion in July), equivalent to 3.6 months of goods and services imports and 130% of the IMF's ARA metric (for 2024). Granted to a limited number of countries with healthy macroeconomic fundamentals, the IMF's Flexible Credit Line (FCL) was renewed in November 2023 (for two years and USD 35 billion). It has never been used by the Mexican authorities since its establishment in 2009 and is seen as a precautionary instrument. Mexico's foreign exchange reserves and FCL combined are sufficient to cover almost all its "hot money" in the broad sense, including outstanding bonds and shares held by non-residents, short-term external debt, and non-resident deposits (see Graph 13).

External debt and external financing needs are both moderate. Mexico's net external position (sum of external assets minus sum of external liabilities), which is heavily negative (-32% of GDP in 2024), is due primarily to the FDI stock (42% of GDP), while debt-generating external commitments remain limited. The external debt ratio was just 36% of GDP in March 2025, and as low as 28% of GDP when excluding intra-group loans treated as FDI. Based on the broader definition of external debt, half of commitments fall on the public sector, the federal state, and state-owned companies, with federated states and municipalities unable to borrow foreign currency or on the

[18] No involvement in the spot market since 2017, but involvement, according to predefined and therefore non-discretionary rules, in the derivatives market via NDFs (non-deliverable forwards) (USD 2 billion during the pandemic).

Graph 13 - A comfortable foreign currency liquidity cushion for honoring external commitments



Source: Banxico, IMF, AFD calculations

international markets. Low external debt servicing obligations (15% of export revenue from goods and services) combined with a moderate current account deficit ensure similarly moderate external financing needs (around 7% of GDP).

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List of acronyms and abbreviations

CFE	Comisión Federal de Electricidad
CONAGUA	Comisión Nacional del Agua (National Water Commission)
EMDE	Emerging market and developing economies
FCL	Flexible Credit Line
FONDEN	Natural Disasters Fund
FOPREDEN	Fund for Disaster Prevention
GDP	Gross domestic product
GNI	Gross national income
HIC	High-income country
ICOR	Incremental capital–output ratio
IGAE	Monthly indicator of economic activity
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IRA	Inflation Reduction Act
MXN	Mexican peso
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
PEMEX	Petróleos Mexicanos
PND	National Development Plan
PPP	Purchasing power parity/public-private partnership
PRI	Institutional Revolutionary Party
SEMARNAT	Secretaría de Medio Ambiente y Recursos Naturales (Secretariat of Environment and Natural Resources)
SME	Small and medium-sized enterprises
TFP	Total factor productivity
UMIC	Upper-middle-income country
USD	United States dollar
USMCA	United States–Mexico–Canada Agreement (T-MEC in Spanish and ACEUM in French)
VA	Value added
WDR	World Development Report
WEO	World Economic Outlook

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