



MEXICO

October 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MEXICO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Mexico, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 23, 2025, consideration of the staff report that concluded the Article IV consultation with Mexico.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 23, 2025, following discussions that ended on September 12, with the officials of Mexico on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 8, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Mexico.

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IMF Executive Board Concludes 2025 Article IV Consultation with Mexico

FOR IMMEDIATE RELEASE

- *The IMF Executive Board concluded the 2025 Article IV consultation.*
- *Economic activity remains soft with the economy projected to grow by 1.0 percent this year, accelerating somewhat in 2026. Headline inflation is moderating and expected to converge to Banxico's 3-percent target in the second half of 2026.*
- *More ambitious and front-loaded fiscal consolidation, with policy measures to support it, is needed to prevent further upward drifts in public debt and create fiscal space to respond to possible shocks. Monetary easing should continue once it becomes clearer that inflation is on a path to the 3 percent target. Mexico's potential growth hinges on closing infrastructure gaps, strengthening the rule of law, and deepening integration with global trading partners.*

Washington, DC – October 27, 2025: On October 23, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Mexico.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.²

After expanding by 1.5 percent in 2024, the economy is projected to grow 1.0 percent in 2025, as activity is constrained by needed fiscal consolidation and restrictive monetary policy, as well as the dampening effect of trade uncertainty on consumption and investment. Activity is expected to pick up to 1.5 percent in 2026 as domestic policies ease, although the effect of tariffs and trade uncertainty will continue constraining growth. Soft activity, normalizing food prices, and the recent appreciation of the peso are all expected to support the convergence of inflation to Banxico's 3-percent target by the second half of 2026.

While the fiscal expansion of 2024 is expected to be reversed this year, gross public sector debt is projected to reach 58.9 percent of GDP at end-year. The authorities' fiscal targets for 2026-30 entail additional deficit reduction, although the debt-to-GDP ratio would rise steadily over the medium term. Banxico has cut interest rates by 375 basis points since early-2024, in tandem with the decline in inflation, although monetary policy remains moderately contractionary.

The financial system remains sound and resilient to shocks, amid effective financial supervision. Mexico maintains adequate external buffers and an external position in line with fundamentals. A near-term strengthening of the current account—due to weak domestic demand—is expected to unwind going forward, accompanied by a mild deterioration of the trade balance and a gradual decline in remittances

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Mexico page.

Executive Board Assessment³

Executive Directors highlighted that Mexico's strong fundamentals and track record of very strong policies and policy frameworks have been instrumental to the resilience of the economy in the face of heightened global uncertainty. In light of the deceleration in economic activity and remaining risks, Directors underscored the importance of maintaining sound macroeconomic policies while advancing supply side reforms to bolster potential growth.

Directors welcomed the reversal of the 2024 fiscal expansion, and generally encouraged the authorities to consider a more ambitious fiscal consolidation to help prevent further upward drifts in public debt and create fiscal space to respond to future shocks. However, a number of Directors highlighted the need to stabilize debt while preserving growth momentum, which could be achieved through a more gradual fiscal consolidation path. Directors underscored that, given the need to protect social spending and growth enhancing public investment, consolidation efforts should focus on mobilizing tax revenues through improvements in tax administration and tax policy changes. Strengthening the financial health and profitability of state-owned enterprises, especially Pemex, will also be essential. Directors stressed that strengthening the medium-term fiscal framework would enhance the credibility of fiscal plans.

Directors commended Banxico for successfully bringing inflation back to the tolerance range. They considered that further monetary easing should follow clear signs that inflation is on a sustained path to the target. Directors concurred that further refinements to Banxico's communication toolkit could be considered to strengthen monetary policy transmission and better anchor inflation expectations, while safeguarding flexibility and maintaining credibility. They agreed that maintaining a flexible exchange rate is critical to absorb shocks, especially in the current external backdrop.

Directors highlighted the soundness of the financial system, supported by strong capital and liquidity positions. They encouraged the authorities to continue implementing the recommendations of the 2022 Financial Sector Assessment Program. Directors emphasized that efforts to foster financial inclusion and expand credit should focus on addressing market failures and promoting competition. While acknowledging progress in the AML/CFT framework, Directors stressed the need to further strengthen interagency coordination and risk-based supervision to combat financial crimes and money laundering.

Directors underscored that unlocking stronger growth requires addressing long-standing supply-side constraints. This includes closing infrastructure gaps, improving the business climate, strengthening judicial independence, and tackling corruption and crime. Directors stressed the importance of open trade as an engine of growth. They underscored that policy support for strategic sectors should be narrowly targeted to address market failures and avoid introducing barriers to trade and investment.

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Mexico: Selected Economic Indicators, 2024–26

Population (millions, 2024):	132.3	GDP per capita (U.S. dollars, 2024)	14,034
Quota (SDR, millions):	8,912.7	Poverty headcount ratio (% of population, 2024)	29.6
Main export products: cars and car parts, electronics, crude oil			
Main import products: cars and car parts, electronics, refined petroleum			
Key export markets: United States, EU and Canada			
Key import markets: United States, China, EU			
	2024	Proj.	
		2025	2026
Output			
Real GDP (% change)	1.4	1.0	1.5
Employment			
Unemployment rate, period average (%)	2.7	2.9	3.1
Prices			
Consumer prices, end of period (%)	4.2	3.7	3.0
Consumer prices, period average (%)	4.7	3.9	3.3
General government finances 1/			
Revenue and grants (% GDP)	24.6	24.2	24.2
Expenditure (% GDP)	30.3	28.5	28.3
Overall fiscal balance (% GDP)	-5.7	-4.3	-4.1
Gross public sector debt (% GDP) 3/	58.3	58.9	59.9
Monetary and credit			
Broad money (% change)	13.8	5.5	5.8
Credit to non-financial private sector (% change) 2/	11.3	4.0	5.0
1-month Treasury bill yield (in percent)	10.7	...	...
Balance of payments			
Current account balance (% GDP)	-0.9	-0.2	-0.3
Foreign direct investment (% GDP)	1.7	1.0	1.1
Gross international reserves (US\$ billions)	232.1	249.7	259.0
In months of next year's imports of goods and services	3.9	4.1	4.1
Total external debt (% GDP)	24.5	25.6	24.8
Exchange rate			
REER (% change)	0.2	...	...

Sources: World Bank Development Indicators, ENIGH, National Institute of Statistics and Geography, National Council of Population, Bank of Mexico, Secretariat of Finance and Public Credit, and Fund staff estimates.

1/ Data exclude state and local governments and include state-owned enterprises and public development banks.

2/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.



MEXICO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

October 8, 2025

KEY ISSUES

Context. Economic activity has been soft since mid-2024 as the economy confronted capacity constraints, fiscal consolidation, and restrictive monetary policy. U.S. tariffs added to these headwinds, primarily through uncertainty eroding consumption and investment. This has all resulted in subdued growth in 2025. Inflation has moderated but underlying pressures have not been fully resolved.

Outlook and risks. Activity is expected to accelerate somewhat in 2026 as the restraint from fiscal and monetary policies diminishes but the effect of tariffs and trade uncertainty will continue to weigh on growth. Inflation is projected to converge to target by the second half of 2026 assuming a gradual decline in the policy rate. The main near-term risks emanate from the trade relationship with the U.S. and the potential for tighter global financial conditions.

Fiscal policy. The 2024 fiscal expansion is expected to be reversed in 2025, and further deficit reduction is planned. However, a more front-loaded and ambitious consolidation is needed to put debt-to-GDP on a downward trajectory. Given social spending and public investment needs, reducing the deficit requires mobilizing revenues through administrative improvements and tax policy changes. Strengthening the fiscal framework would increase the credibility of fiscal plans.

Monetary policy. Further monetary easing should be conditioned on clear evidence that inflation is on a path back to the central bank's inflation target. Enhancing central bank communications would help strengthen the transmission of policy and more firmly anchor inflation expectations at the center of the tolerance range.

Financial sector. Mexico's financial sector is sound and systemic risks are contained. Banks' exposure to the export sector appears limited, and corporate and household balance sheets are healthy. Insufficiently broad access to financial services is an obstacle to economic growth. Progress in initiatives to foster competition is needed. Plans to increase public bank credit should proceed cautiously, mindful of the fiscal costs and the potential to distort resource allocation.

Supply side reforms. Strengthening governance and tackling crime will be key to foster growth. Open trade is essential to ensure Mexico remains an attractive destination for investment and a core part of global supply chains. Targeted infrastructure investments and reducing barriers to private investment will improve labor productivity.

Approved By
Nigel Chalk (WHD)
and Geremia Palomba (SPR)

Discussions were held in Mexico City during August 18–29, 2025, and virtually during September 2–12, 2025. The mission met with Finance Secretary Amador, Governor Rodríguez Ceja, other officials, and representatives of the financial and private sectors. The team was led by Gustavo Adler and comprised Francisco Arizala, Christina Kolerus, Nils Lehr, and Johanna Schauer (all WHD), Fah Jirasavetakul (SPR), Yao Deng, Camilo Enciso, Robin Sykes and Miho Tanaka (LEG), and Corrado Macchiarelli (MCM). Gerardo Zuniga and Maria José Posadas Bolanos (OED) participated in the discussions. Anahit Aghababayan and Hugo Tuesta (both WHD) provided editorial support and research analysis, respectively.

CONTENTS

RECENT DEVELOPMENTS	4
OUTLOOK AND RISKS	8
POLICY DISCUSSIONS	11
A. Putting Public Finances on a Stronger Footing	11
B. Guiding Inflation Durably Back to Target	16
C. Increasing Access to Financial Services While Safeguarding Stability	17
D. Securing High and Sustained Growth	20
STAFF APPRAISAL	23
BOXES	
1. Near-Term Impact of Tariffs and Trade Policy Uncertainty on Mexico	5
2. Plan Mexico	10
3. Mexico's Fiscal Framework	15
4. Energy Reform: Institutional Changes and Objectives	23
FIGURES	
1a. Real Sector (High-Frequency) Indicators	26
1b. Real Sector Indicators	27
2. Labor Market Indicators	28
3. Prices and Inflation	29
4. External Sector	30
5. Fiscal Sector	31
6. Financial Markets	32
7. Banking System	33
8. Nonfinancial Corporate Sector	34
9. Social Indicators in a Regional Context	35

TABLES

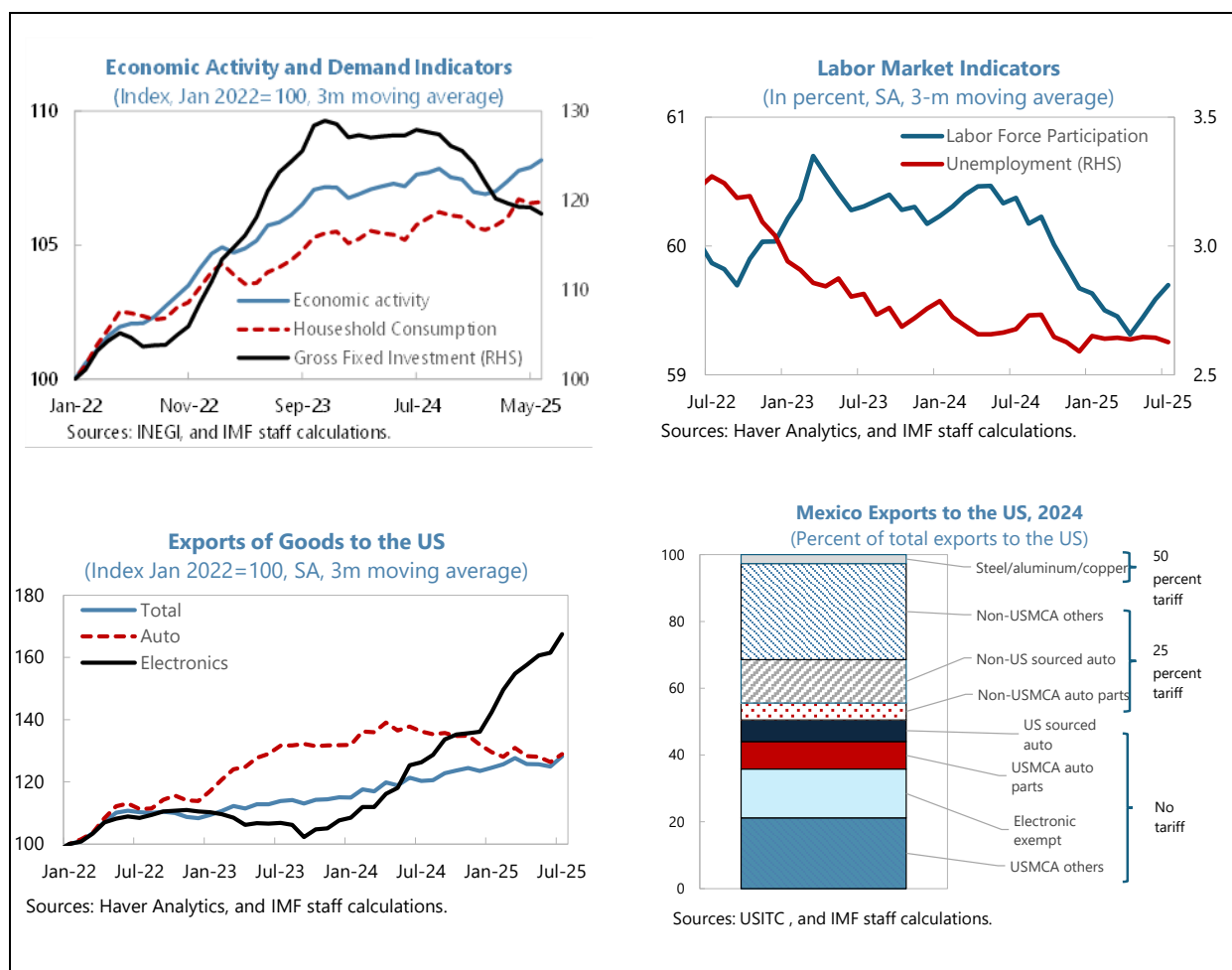
1. Selected Economic, Financial, and Social Indicators _____	36
2. Statement of Operations of the Public Sector, Authorities' Presentation _____	37
3. Statement of Operations of the Public Sector, GFSM 2014 Presentation _____	38
4a. Summary Balance of Payments (In billions of U.S. dollars) _____	39
4b. Summary Balance of Payments _____	40
5. Financial Soundness Indicators _____	41
6. Financial Indicators and Measures of External Vulnerabilities _____	42
7. Monetary Indicators _____	43

ANNEXES

I. External Sector Assessment _____	44
II. Risk Assessment Matrix _____	45
III. Key FSAP Recommendations _____	48
IV. Debt Sustainability Analysis _____	53
V. Data Issues _____	64
VI. Mexico's Trade Landscape and the USMCA Review _____	66
VII. Going Back Home: Implications of US Immigration Policies for Migration and Remittances _____	76
VIII. Revenue Administration Efforts: Scope for More? _____	80
IX. Barriers to Competition and Fintech Penetration in Mexico's Banking Sector _____	84
X. Trade Linkages and Productivity Growth in Mexico _____	89
XI. Rising Minimum Wages and Labor Market Outcomes in Mexico _____	93
XII. The Macro-Financial Impact of Natural Disasters in Mexico _____	99
XIII. Transnational Aspects of Corruption: Updates _____	103

RECENT DEVELOPMENTS

1. Economic activity has been soft since mid-2024. Binding capacity constraints, restrictive monetary policy, the unwinding of the 2024 fiscal expansion, and rising trade uncertainty all contributed to the slowdown. Specifically, the completion of large public investment projects and a deterioration in business sentiment compressed investment. Faltering confidence and moderating real wage growth slowed consumption. Weaker oil and mining activity led to a contraction in industrial output and services growth slowed. Agriculture, however, rebounded as the effects of the 2024 drought dissipated. Employment growth fell but lower labor force participation kept unemployment broadly unchanged.



2. The abrupt shift in U.S. trade policies added to growth headwinds, albeit less than initially feared. With trade with the U.S. representing 80 percent of total exports and 27 percent of GDP, Mexico was especially vulnerable to changes in U.S. trade policy. The introduction of tariffs—especially the 25 percent rate on non-USMCA exports, the 50 percent on steel, aluminum, and copper, and the 25 percent on non-U.S. content in autos—would have raised the average tariff rate from 0.2 to about 13 percent. Moreover, if sustained, the initial tightening of global financial

conditions would have been an important additional drag on growth. However, as of July, the applied effective tariff rate stood closer to 5 percent, reflecting the increasing use of USMCA preferences and, potentially, implementation delays. Lower-than-expected effective tariffs allowed exports to continue growing, while easing global financial conditions helped sustain broader economic activity. However, trade tensions are still weighing on sentiment, discouraging new investment and suppressing consumption.

3. A long-established track record of very strong macroeconomic fundamentals, institutional policy frameworks, and policy implementation has underpinned the resilience of Mexico's economy in the face of this uncertainty. A reversal of the 2024 fiscal expansion has helped keep sovereign spreads at relatively low levels and the central bank's prioritization of lower inflation has resulted in an appreciation of the currency. Meanwhile, a history of effective financial oversight has ensured that financial system vulnerabilities remain contained.

Box 1. Near-Term Impact of Tariffs and Trade Policy Uncertainty on Mexico

GIMF Model Simulations. The baseline scenario assumes that U.S. tariffs on imports from other countries, as of end-August, are made permanent. It also factors in the recent increase in the use of USMCA preferences by Mexican exporters, which partially offsets the impact of the new tariffs. Reflecting this, the effective average tariff on Mexican exports to the U.S. is assumed to reach around 9 percent going forward. Monetary policy is assumed to respond endogenously to inflation and the output gap while exchange rates adjust flexibly (except for the RMB which is assumed to be managed with respect to the U.S. dollar). The near-term direct effect of the tariff is to reduce GDP by about 0.6 percent in the first three years.

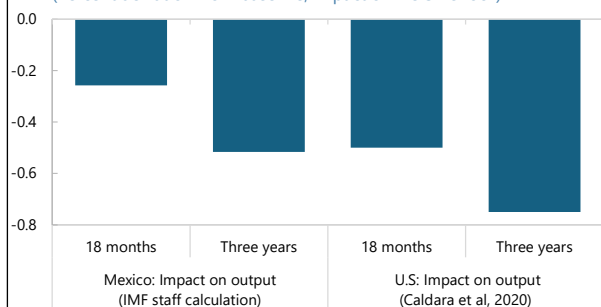
Trade policy uncertainty (TPU). In addition to the model simulated effects described above, the increase in uncertainty could hinder new investment and create additional effects. A vector autoregressive model—that links economic activity in Mexico (IGAE) with TPU in the U.S. ([Baker et al., 2016](#))—suggests that the additional drag on output from uncertainty could further reduce GDP by 0.4 percent over three years.

The combined effect points to a cumulative output loss of about 1 percent. Quantitative trade models—that allow for greater country and sectoral granularity—point to similar sized long-run effects as a result of resource misallocation and lower productivity (see Annex VI).

GIMF: Estimated Impact on Output for Mexico.
(Percent level deviations from baseline)

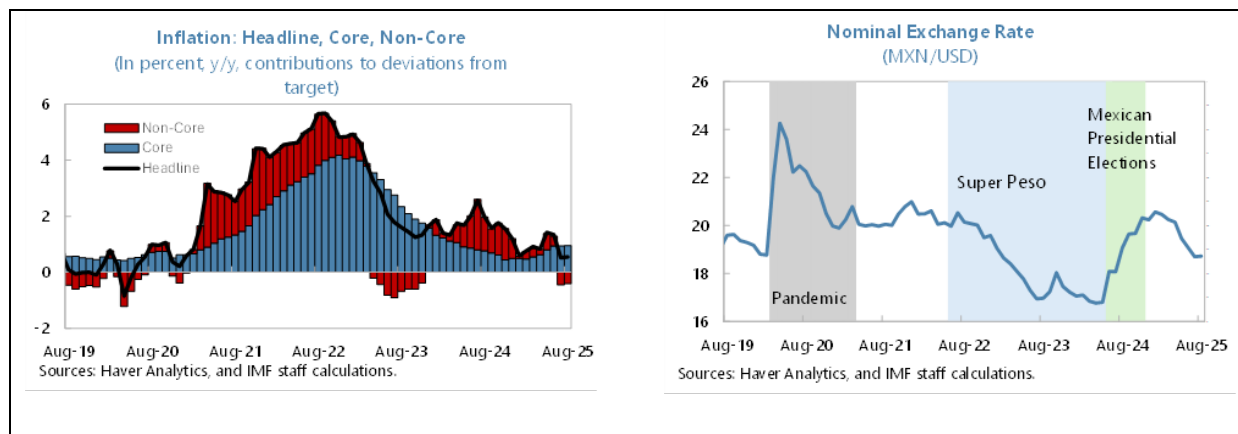
	Year 1	Year 2	Year 3
Tariffs impact	-0.2	-0.6	-0.6
Trade uncertainty	-0.2	-0.3	-0.4
Total impact	-0.4	-0.9	-1.0

Estimated Impact of Trade Policy Uncertainty Shocks on Output
(Percent deviation from baseline, Impact of five SD shock)

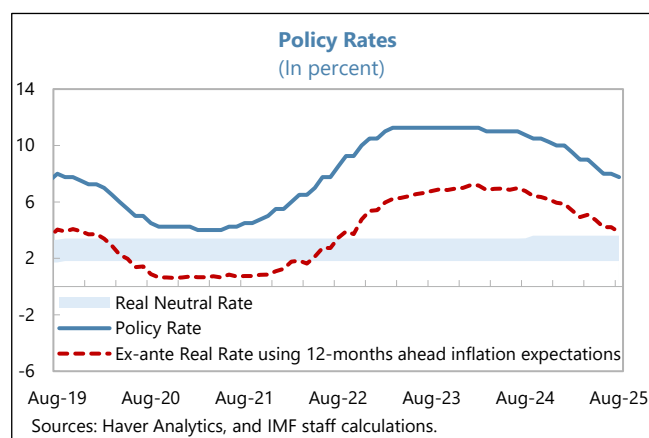


4. Core inflation has remained elevated in recent months although the dissipating effects of the drought on agricultural products have contributed to a decline in headline inflation. The gradual easing of core services prices in recent months has been more-than-offset by rising core goods inflation, boosted by the lagged effects of the 2024 weakening of the exchange rate and the

spillover of food prices shocks to core food items. As a result, core inflation has remained above the tolerance range.



5. The central bank has been steadily lowering the policy rate as inflationary pressures wane. After pursuing a contractionary monetary stance in 2022–23, the policy rate has been cut by 375 bps since early-2024. This has brought the ex-ante real rate to 3.6 percent, the upper bound of the estimated range for the neutral rate. Inflation expectations have fallen but end-2025 inflation expectations remain modestly above the central bank's tolerance range. Longer-term expectations are about 60 bps above target.



6. Despite restrictive monetary conditions, consumer and corporate credit have been expanding at a healthy pace since 2023. Credit growth was supported by a structural broadening of financial services to previously underbanked populations, including via fintechs, as well as some rebalancing from external to domestic borrowing by corporates. Notwithstanding this credit expansion, access to financial services remains limited and Mexico's financial sector is small compared to peers.

7. Fiscal consolidation is underway, albeit more gradually than anticipated. In 2024, the government relied on an escape clause¹ to their fiscal rule and increased the deficit to 5.7 percent of GDP (from 4.3 percent in 2023). This allowed for a 1½ percent of GDP increase in spending, particularly for infrastructure projects, subsidies and transfers. Non-oil revenues were boosted by increases in formal employment and wages, while hydrocarbon revenues declined sharply due to

¹ The escape clause was triggered by a forecasted drop in the price of oil greater than 10 percent relative to the forecast in the previous year's budget.

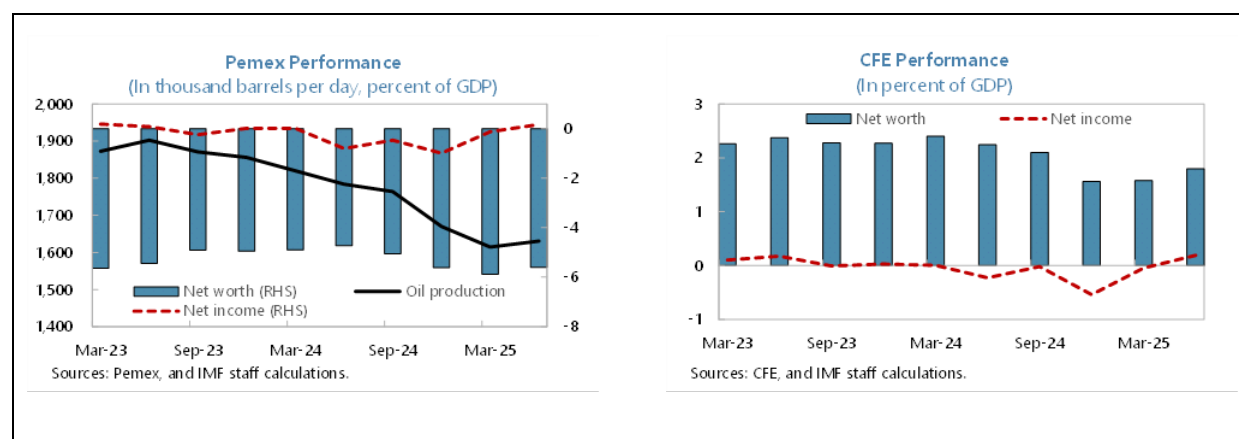
lower oil production and falling natural gas prices. Gross public debt rose to around 58 percent of GDP at end-2024. The new administration responded by targeting a deficit of 3.9 percent of GDP for 2025, achieving significant consolidation as of July by compressing capital spending and further strengthening revenue administration. However, the draft 2026 budget projects the 2025 deficit will reach 4.3 percent of GDP, reflecting a shortfall in oil revenues. Sovereign financing costs have generally fallen since 2024, and the government issued new benchmark (5–30 year) bonds in early- and mid-2025 which helped meet the bulk of its annual foreign-currency financing needs.

8. The finances of state-owned

enterprises remain weak. Pemex's declining production and inefficient refineries have resulted in losses and a significant accumulation of debt with suppliers (part of which is in arrears). Large debt amortizations are due in 2026. The authorities have changed the company's legal status,² simplified its tax regime, consolidated its subsidiaries and launched a business plan aimed at turning Pemex self-sufficient by 2027. Key measures include ramping up hydrocarbon and petrochemical output (including through private sector partnerships), enhancing refining efficiency, lowering personnel and current expenditures, improving procurement processes, and reducing financial costs and short-term financing pressures. As part of the latter, support has been granted through the issuance of pre-capitalized notes by a nonresident special purpose vehicle to allow Pemex to retire more expensive debt. The state-owned electricity company

Fiscal Performance 1/ (In percent)				
	2023	2024		y/y real
		Budget 2/	Outturn	growth
Budgetary Revenue	22.0	21.6	22.1	1.6
Oil revenue	3.4	3.1	2.8	-15.1
Non-oil tax revenue	14.1	14.5	14.6	4.7
Non-oil non-tax revenue	4.5	3.9	4.7	4.6
Budgetary Expenditure	25.4	26.6	27.0	7.7
Current	14.9	15.7	15.9	8.4
Capital	3.6	3.3	3.9	10.7
Non-programmable	3.7	3.8	3.8	4.4
Interest	3.3	3.7	3.4	5.1
Traditional Balance	-3.4	-5.0	-4.9	
Adjustments 3/	-1.0	-0.5	-0.8	
Public Sector Borrowing Requirement	4.3	5.5	5.7	
Gross Public Sector Debt	52.6	n.a.	58.3	

Sources: SHCP, INEGI, and IMF staff calculations.
 1/ Using authorities' presentation.
 2/ Uses actual 2024 nominal GDP as denominator.
 3/ Include financing requirements for different programs (e.g., the national infrastructure trust fund), development banks and adjustments for inflation-linked debt and issuance below par.



² The reclassification from 'productive state-owned company' to 'public state-owned company' puts Pemex under jurisdiction of the Ministry of Energy, emphasizing its social function of providing strategic public services.

(CFE) has been similarly reclassified as a public state-owned company. New secondary legislation mandates that CFE generates at least 54 percent of all electricity provided to the grid.

9. Economic policies are broadly aligned with past Fund recommendations. Monetary policy has responded appropriately to evolving inflation dynamics, with a decisive tightening to fight off price pressures and a cautious unwinding as inflation receded. The authorities have reversed the 2024 fiscal expansion and intend to further lower the deficit over the medium-term. Financial supervision and regulation remain robust, and efforts are underway to strengthen governance and address physical infrastructure gaps. Some key reforms remain pending, particularly those focused on mobilizing additional revenue to support public spending and strengthening the supply side (e.g. by broadening access to financial services and raising female labor force participation).

OUTLOOK AND RISKS

10. Growth is projected to slow to 1 percent this year as a result of domestic policy restraint, shifting trade policies in the U.S., and weakening U.S. demand. Activity is expected to accelerate somewhat in 2026 as domestic policies provide less of a headwind, offset in part by tariffs and the effects of lingering trade uncertainty. The economy is expected to return to its long-term average growth by 2027. A medium-term output loss of about 1 percent (in level terms) from higher U.S. tariffs and trade uncertainty is embedded into staff projections, although the size of the efficiency losses will depend critically on the upcoming review of the USMCA trade agreement (Annex VI).

11. Inflation is expected to converge to the central bank's target in the second half of 2026. Weaker activity is expected to ease price pressures, especially for services, and the recent appreciation of the peso should help lower core goods inflation. Food prices should continue to help with the disinflation as the effects of drought conditions further subside. Monetary easing is expected to continue with the policy rate returning to the middle of the estimated range for neutral during 2026.

12. Mexico's current account balance is expected to weaken over the medium term. The 2024 external position was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex I). A near-term strengthening of the current account—due to weak domestic demand—is expected to unwind, accompanied by a mild deterioration of the trade balance and a gradual decline in remittances owing to changes in migration policies in the U.S. (Annex VII). Nonetheless, the current account will remain slightly above its assessed norm due to lower-than-desirable investment. Reserve buffers rose to about US\$ 232 billion (or 135 percent of ARA metric) by end-2024 and are expected to remain adequate in the medium term.

13. Risks to the outlook for activity are broadly balanced but there are upside risks to inflation (Annex II).

- Downside risks to activity include a more pronounced slowdown in the U.S., and a larger-than-expected impact of U.S. tariffs (including from possible further increases in tariffs or tighter conditions for trading under the USMCA). Drastic changes in migration flows due to US policies could further weaken remittance flows, affecting domestic consumption. Rising global risk aversion could trigger capital outflows and higher financing costs. Over the medium term, insufficient fiscal consolidation could result in higher financing costs which, in turn, would dissuade investment.
- On the other hand, stronger growth in the U.S. or an agreement to lower tariffs (via a favorable review of the USMCA) represent upside risks. Greater-than-expected adaptability of firms to operate under the USMCA framework and enter new markets could also represent an upside. Plan Mexico (Box 2) could also have a larger-than-expected effect on private investment and in tackling infrastructure gaps.
- On inflation, service prices could prove unresponsive to the demand slowdown and the disinflationary effects of food prices could reverse. Global uncertainties could put downward pressure on the peso which would boost goods prices. An inability of inflation expectations to return to 3 percent could also weigh against the disinflation process.

14. Pressures on Mexico's economy would intensify under a plausible downside scenario.

In line with the October 2025 WEO downside scenario (Box 1.2, Scenario A), a plausible adverse scenario would comprise four layers: (i) higher U.S. tariffs and supply chain disruptions; (ii) higher inflation expectations in the U.S. and in emerging markets (excluding China); (iii) tighter global financial conditions and higher sovereign yields; and (iv) a decline in global demand for U.S. assets. Together, these factors would weaken external demand and reduce investor risk appetite, leading to a contraction in Mexico's net exports and more constrained financing conditions, thereby weighing on output, raising public debt, and widening the current account deficit. Elevated uncertainty and tighter global conditions would weigh on capital inflows, increase the costs of external financing, and heighten macroeconomic vulnerabilities. In such scenario, and given that Mexico has some fiscal space, automatic stabilizers could be allowed to operate, supported by limited and temporary fiscal loosening, which should be accompanied by a credible medium-term consolidation plan. In this global environment with inflationary pressures, a reduction in the policy rate to support activity would need to be carefully weighed against the risk of de-anchoring inflation expectations and undermining price stability.

15. Authorities' views. Authorities agreed that activity is expected to remain subdued in the second half of 2025, followed by a recovery in 2026. They noted that the economic impact of U.S. tariffs has been milder than initially anticipated. They emphasized that the current slowdown is being driven by temporary uncertainty, particularly around trade policy. Authorities anticipate a gradual rebound in household consumption and private investment as uncertainty fades. They also noted that the labor market has softened, but nevertheless should help sustain consumption going

forward, along with the government's labor and social policies. The authorities underscored the economy's resilience in the face of external shocks, underpinned by strong buffers and a robust policy framework.

Box 2. Plan Mexico

Plan México is the current administration's blueprint for reforms until 2030. These aim at boosting growth by:

1. Facilitating private investment.

- Reducing regulatory burdens. A national digital platform will allow users to access public services and streamline administrative procedures for business creation and tax registration leading to reduced documentation and faster review.
- Faster expensing for certain fixed capital investments in high-tech sectors and for R&D. Firms may also deduct 25 percent of incremental workforce training costs that are undertaken in partnership with academic and research institutions.
- Increasing SMEs access to credit by 30 percent by 2030 including through greater competition and direct provision or guarantees by development banks.
- Improving domestic supply chains through training and marketing programs.

2. Addressing infrastructure gaps.

- Transport. Increased road infrastructure and better maintenance of existing roads, including through public-private partnerships, completion of four new airports and upgrades to eleven ports, and completion of several commuter lines and the interoceanic rail corridor on the Isthmus of Tehuantepec.
- Energy and water. Increasing the domestic production of gasoline, diesel, and jet fuel by 30 percent and adding 22GW in electricity generation capacity by 2030. Over 1 percent of GDP is to be spent on investment in new power plants, transmission upgrades, and distribution systems and almost 6 percent of GDP is earmarked for investment in PEMEX. Sanitation and water projects are to be accelerated, especially in water-stressed areas.
- Digital infrastructure. Investments in data centers, high-speed internet coverage, and digitalization of bureaucracy through Mexico's new digital transformation agency.

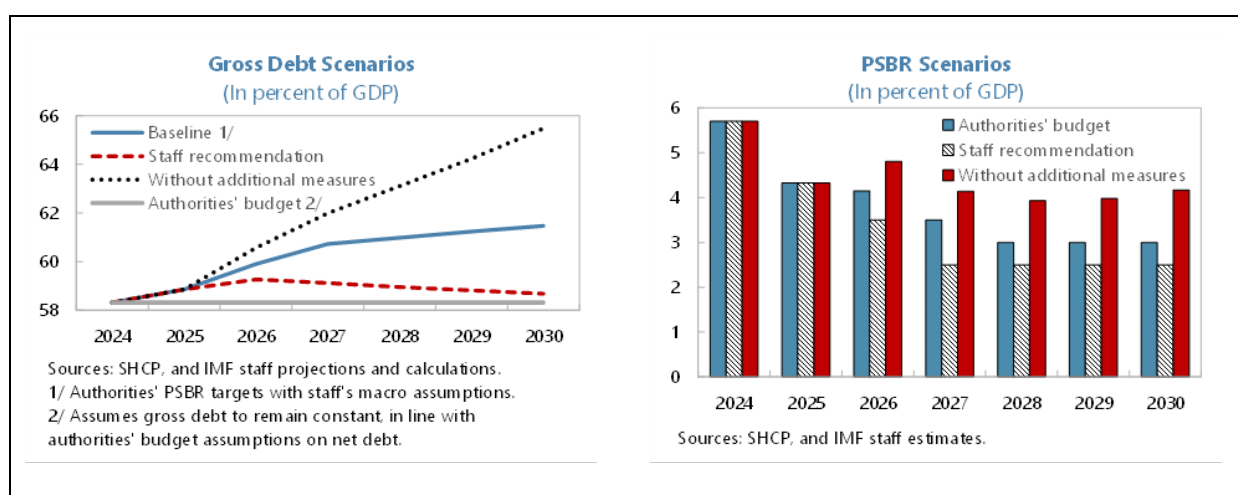
3. Supporting strategic sectors.

- Increasing the domestic content of textiles, footwear, furniture, clothing, toys, steel, and aluminum. Tariffs have been introduced on low-value shipments of related products that are imported from countries without trade agreements with Mexico.
- Increasing vehicle production and auto domestic value added by 10 and 15 percent, respectively. A draft bill under consideration includes raising tariffs on a wide range of products across multiple sectors, including on car imports to 50 percent, for countries without a trade agreement with Mexico.
- Pharmaceuticals firms will be required to operate a domestic plant to qualify for public procurement.
- Public procurement contracts will require at least 65 percent of domestic content.

POLICY DISCUSSIONS

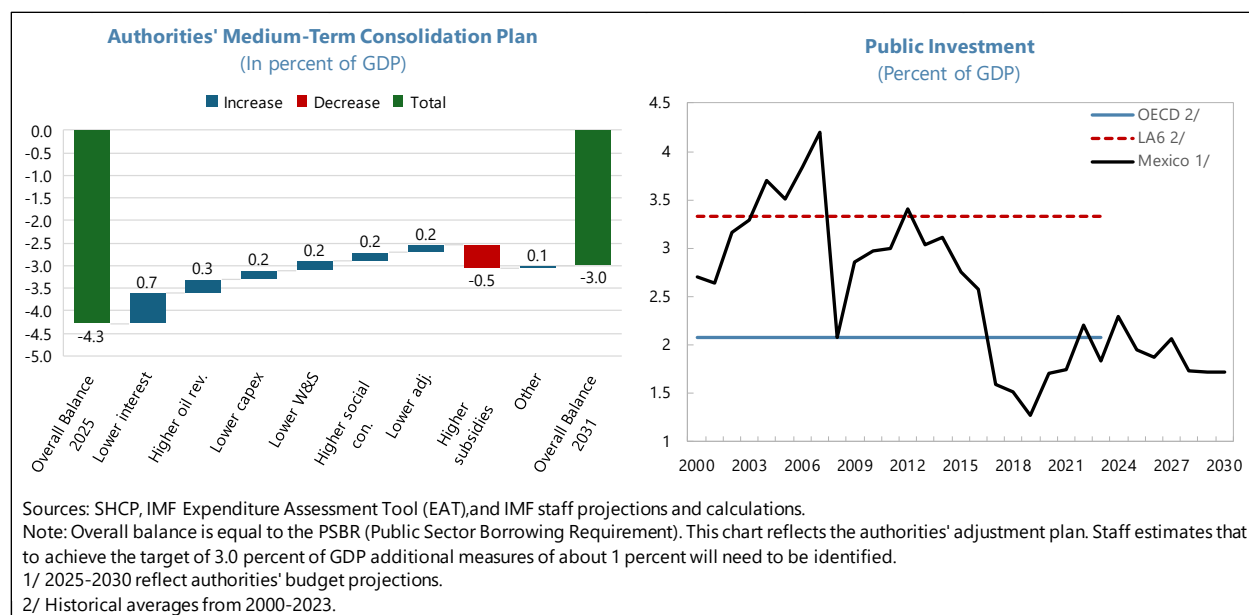
A. Putting Public Finances on a Stronger Footing

16. A more ambitious and front-loaded consolidation path is needed to put debt-to-GDP on a declining path. The authorities' consolidation plan targets a PSBR of 4.1 percent of GDP for 2026, 3.5 percent of GDP for 2027, and 3 percent of GDP thereafter, a loosening relative to previous targets. While the *Sovereign Risk and Debt Sustainability Analysis* (Annex IV) continues to indicate a moderate overall risk of sovereign stress, the authorities' path would lead to a steady rise of debt over time, reaching 61.5 percent of GDP by 2030.³ Moreover, given the projected decline in interest expenses going forward, the authorities' fiscal plans imply limited additional policy effort. A more ambitious and front-loaded consolidation—targeting a PSBR of 2.5 percent of GDP by 2027 and thereafter—would give greater credibility to fiscal plans, put debt on a declining path and create additional fiscal space for countercyclical policies. This room for maneuver would prove valuable if downside risks materialize.



17. Fiscal measures would need to be identified to support such an adjustment while protecting social and capital spending. Going forward, permanent measures of about 1½ percent of GDP would be needed to reach staff's preferred deficit path. Moreover, the authorities' plan relies heavily on a reduction in interest cost and keeping capital investments low, which should be avoided given Mexico's need for growth-enhancing investment.

³ This is based on staff's macroeconomic framework whereas the medium-term budget assumes a more optimistic path for output, the exchange rate and the GDP deflator.



18. The composition of adjustment should, therefore, rely more on mobilizing revenues. Given Mexico's comparatively low spending levels, the room for further savings on the spending side is limited without weakening growth-enhancing capital outlays and needed social spending. Revenue measures included in the 2026 draft budget—including to reduce certain deductions, expand withholdings and raise excise taxes—are welcome but additional efforts will be needed both on revenue administration and tax policy. These could include:

- Revenue administration improvements focused on reducing the current high levels of informality and leakages from the VAT (Annex VIII). The authorities' current focus on customs administration and improving inter-agency coordination are steps in the right direction. In addition, there is a need for a clearer framework for addressing compliance shortfalls based on a detailed analysis of tax gaps, with concrete objectives for improving compliance through time. Given Mexico's already-sophisticated revenue administration system, further gains from better tax administration are likely to be relatively modest.

Summary of Tax Expenditures Estimates, 2023-25 (Percent of GDP)				
Tax Expenditures	2023	2024	2025	
CIT	0.45	0.40	0.40	
PIT	0.88	0.93	0.94	
Including:				
Deductions for medical, social assistance, savings and education expenses	0.12	0.13	0.13	
Exempt income	0.75	0.78	0.79	
of which: retirement, pensions, or retirement assets	0.25	0.28	0.28	
Special or sectoral regimes	0.02	0.01	0.01	
VAT	1.87	1.82	1.82	
Including:				
Exemptions	0.23	0.25	0.25	
of which:				
Teaching services	0.12	0.14	0.14	
Zero rate	1.63	1.57	1.57	
of which:				
Food	1.38	1.33	1.33	
Medicine	0.12	0.11	0.11	
Drinking Water	0.08	0.07	0.07	
Books, Newspapers, and Magazines	0.02	0.02	0.02	
Feminine Hygiene Products	0.02	0.02	0.02	
Other	0.01	0.01	0.01	
Special Taxes	0.03	0.04	0.04	
Including:				
Excises exemption for telephony services	0.01	0.01	0.01	
Fiscal Incentives	1.44	1.00	0.92	
Including:				
Fuel subsidy	0.88	0.08	0.03	
Credit for Gas excise	0.06	0.28	0.29	
Tax Stimulus for Contribution of Real Estate to Trusts	0.10	0.11	0.11	
Northern Border Tax Regime	0.33	0.38	0.38	
Southern Border Tax Regime	0.01	0.02	0.02	
Total	4.66	4.18	4.11	

Sources: SHCP, and IMF staff calculations.
Note: Only those exemptions deemed by SHCP to be 'waivers of collection' are labelled and estimated as tax expenditures. Exemptions due to technical difficulties in collection are not deemed tax expenditures and so are not estimated.

- Tax policy changes to increase the progressivity of the personal income tax (by lowering the threshold for the top personal income tax brackets, raising the highest marginal rate and tightening limits for personal deductions); gradually increase the carbon tax⁴; broaden the carbon tax to include natural gas; expand the mining royalty to all minerals and raising its rate; and eliminate fiscal incentives at the northern and southern border (including the reduced tax rates for VAT and income taxes and additional subsidies on fuels).

Yield Estimates of Potential Reforms	
Potential reform	Estimated yield (percent of GDP)
PIT	
Lowering threshold of top bracket(s) and/or raising highest marginal rate	0.1-0.5
Tightening limits for deductions	up to 0.13
Carbon tax	
Gradually increasing floor to US\$50 per ton by 2030; Include natural gas	around 1.5
Mining royalty	
Expand to all minerals/raise rates	0.2
Eliminate fiscal incentives at the borders	0.4
Property tax	0.75-1.2
Vehicle tax	0.3
Sources: Black et al. (2021), CIEP Fiscal Simulator, IMF Country Report No. 21/240 and No. 22/334, OECD Country Report (2024), Shah (2021), SHCP Tax Expenditure Report (2024).	

- Subnational tax changes to increase property tax collections (by updating the cadaster, strengthening coordination among municipality, state and national levels, and setting a minimum tax rate) and to establish a minimum rate for local vehicle taxes. Higher subnational revenues could free up fiscal space at the federal level.

19. Durably strengthening PEMEX's finances is key to reducing the government's financial support. Plans to partner with private investors—particularly in deep-water production and exploration—will bring needed capital and technological know-how, better positioning PEMEX to tap existing reserves and explore new fields. Steps to reduce operational costs and to smooth the debt maturity profile will also help strengthen the company's finances. Transparent and judicious implementation of these plans will be key for public finances as financial operations to support Pemex are creating contingent liabilities for the sovereign. In addition, a strong commitment to commercial objectives will be critical, including selling non-core assets and scaling back investments in unprofitable activities. Strengthening transparency and accountability—through the clear reporting of the various forms of government support and aligning the company's corporate governance with international best practice—remain crucial to strengthening investors and public trust.

20. The institutional framework for fiscal policy should be strengthened. The current framework has supported prudent fiscal policy but has also allowed for an upward drift in public debt, as there is flexibility in setting fiscal targets and escape clauses have been invoked often (Box 3). The framework should be refocused to target a medium-term level of debt, which would provide a clearer anchor for debt sustainability. Such a debt target would need to be combined with an operational limit (i.e., a path for the PSBR), that is consistent with the anchor and under the government's direct control. Moreover, a transparent description of the framework, corrective

⁴ See IMF Country Report No. 23/356.

mechanisms to offset deviations from the targeted debt path and more narrowly defined escape clauses would be needed to support such fiscal framework. The existing spending rule could be expanded to provide more comprehensive coverage of general government spending, while the need for the balanced budget rule could be reconsidered in conjunction with a tightening of other aspects of the framework. The proposed exclusion of spending in human capital from the calculation of the balanced budget rule will require cautious implementation to avoid blurring the difference between current spending and investment and risks of weakening the link between the rule's target and debt dynamics. Creating an independent fiscal council would provide a valuable, independent, public assessment of macro-fiscal forecasts, the application of the fiscal rules' methodology, and the ex-post compliance with those rules. This proposed set of reforms would create a transparent and binding anchor for fiscal policy, guiding market expectations and providing greater clarity and accountability for when these restrictions are exceeded. This, in turn, would help bolster credibility of the government's medium-term targets and, in doing so, lower sovereign financing costs. Plans to move government accounting to an accrual basis are welcome.

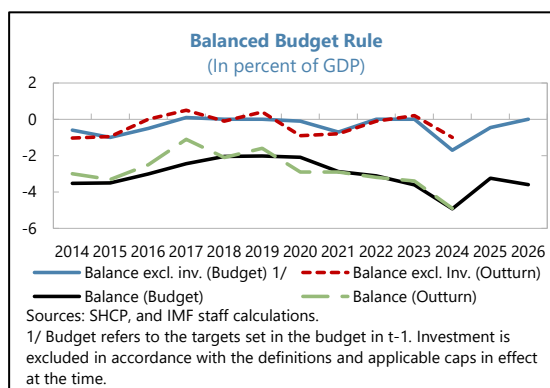
21. Authorities' views. The authorities reaffirmed their commitment to fiscal consolidation, including meeting the revised deficit targets for 2025 and 2026 and maintaining public debt at stable levels over the medium term. They explained that the revisions reflect a temporary and prudent adjustment to accommodate external shocks and support domestic demand, while protecting investment and social priorities. To scale up investment without compromising consolidation efforts, they emphasized the importance of mobilizing private sector participation and encouraging subnational investment. They highlighted recent gains in revenue administration and spending efficiency and further improvements are planned. A broader tax reform remains a medium-term option should additional revenues be needed. They also indicated that Pemex's new strategic plan—focused on efficiency, operational stability, and greater private participation—should place the company on a sustainable path toward self-sufficiency, while reducing financial costs for the overall public sector. Finally, the authorities noted that Mexico's fiscal framework has supported a track record of prudence. Proposed amendments would strengthen it by introducing accrual recognition of committed expenditures—particularly in SOEs—to capture obligations incurred within the fiscal year; and extending the golden rule to encompass investment in human capital, with specific budget lines defined in secondary legislation and strictly limited to outlays with long-run economic returns and positive effects on future budget revenues. These reforms will improve transparency, better align the rule with debt dynamics, and enhance its stabilizing role.

Box 3. Mexico's Fiscal Framework

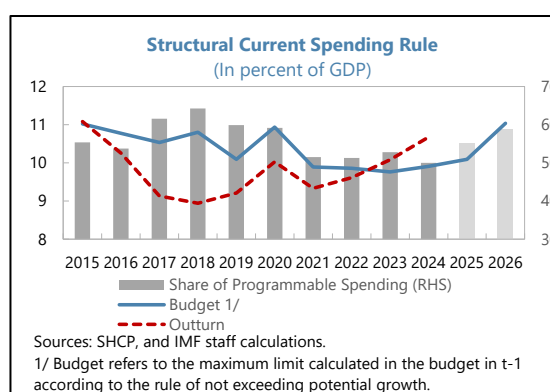
Mexico's fiscal framework encompasses three fiscal rules:

The *Balanced Budget Rule* requires that the deficit, excluding specific investments, is zero.

The set of excluded investments has expanded over time (from only Pemex capital spending to all physical and financial investments) reaching 3.2 percent of GDP in 2024. The draft 2026 budget includes a proposal to also exclude spending on human capital development, with an overall cap of 3.6 percent of GDP for all exclusions. Slippages from the target have been generally small, suggesting good control of this aggregate by the authorities.

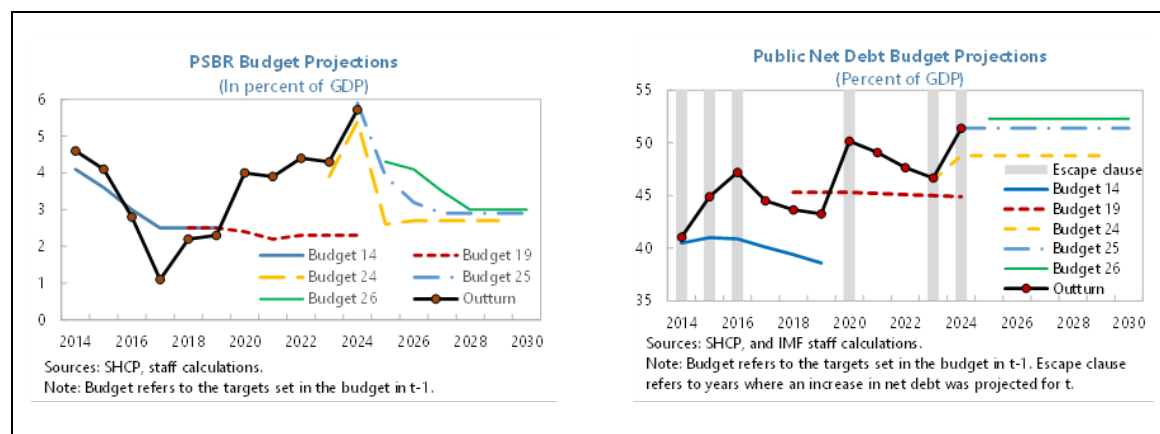


The Structural Current Spending rule requires the real growth of structural current spending not to exceed potential output growth. This rule applies to programmable spending excluding interest payments, the cost of fuels for electricity generation, physical and financial investment of the federal government, pensions, and the expenditures of both Pemex and CFE. These exclusions reduce coverage to about 50 percent of programmable spending as of 2024. The rule was not binding up to 2022 but has been exceeded more recently.



The Public Sector Borrowing Requirement (PSBR)

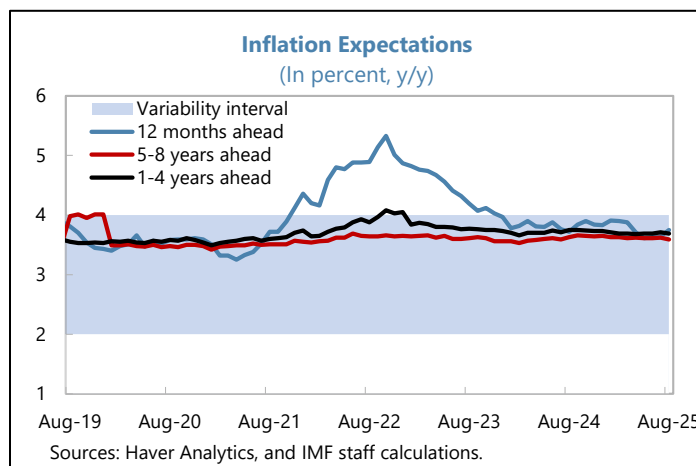
rule requires that the PSBR achieves a non-increasing path of net public debt as percent of GDP. The PSBR target for the forthcoming year is binding, while targets for subsequent years are indicative. Moreover, the key condition of non-increasing debt critically depends on underlying macro projections. The use of ex-ante escape clauses has allowed repeated deviations from the rule in the last decade, primarily in response to large economic shocks. Ex-post, the PSBRs have exceeded their one-year ahead target since 2020, although remaining mostly within the tolerance limit of 2 percent of the total annual net spending. Correction of debt increases due to shocks or slippage has only been partial, leading to an upward drift over time.



B. Guiding Inflation Durably Back to Target

22. Further monetary easing should be conditioned on clearer evidence that inflation is heading back to the central bank's target.

After 375bps in rate reductions, monetary policy remains moderately contractionary. This is appropriate given the still-elevated core inflation and that inflation expectations remain above target. The ongoing slowdown in aggregate demand and recent strengthening of the peso should support a lower inflation in the coming months. However, Banxico should consider pausing rate cuts in the near term until inflation demonstrates a sustained downward trajectory. This would also help anchor inflation expectations closer to the 3 percent target. Once it is clearer that the upside risks to inflation have dissipated, rate reductions could resume. Staff's baseline projection envisions an additional 150 basis points of rate cuts by the second half of 2026, which would ensure that policy is broadly neutral at the point when inflation reaches the 3 percent target.



23. There is scope to enhance Banxico's communication tools, which would improve monetary policy transmission and more firmly anchor inflation expectations at the target.

Options include:

- Providing economic agents with a clearer understanding of Banxico's policy reaction function by publishing both baseline and alternative scenarios that include information on key macroeconomic variables and the associated path for the policy rate. Framing the discussion of ongoing uncertainties through scenarios would reinforce the idea that the published rate path is not a policy commitment but, rather, is an assessment of appropriate policies given a set of macroeconomic circumstances.
- Offering more information on the assumptions that underpin Banxico's baseline projections, including by specifying the expected timeframe when the policy rate will return to neutral, explicitly stating the central bank's assessment of the terminal policy rate, and clarifying how inflation expectations are incorporated into policy decisions.
- Tailoring messages to different audiences (e.g., market analysts, the general public) through engagement and education to help guide the broader formation of expectations. Advancing plans to expand household surveys would provide insights into the broader population's understanding of monetary policy and inflation.

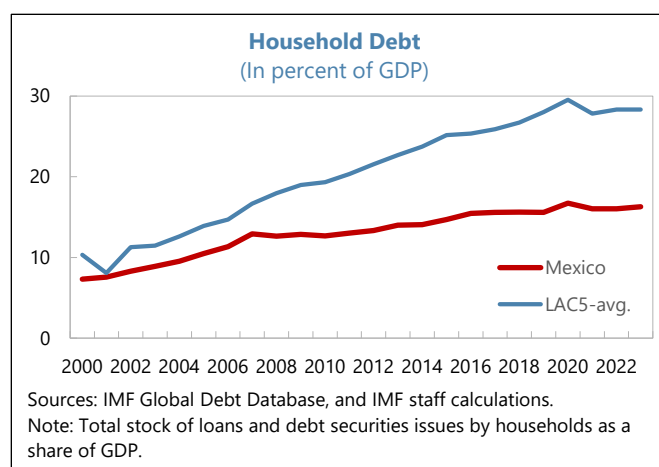
24. The exchange rate should continue to be a shock absorber. Mexico has a deep and liquid FX market, limited balance sheet currency mismatches (with natural and financial hedges), and sound

macroprudential policies. Also, the exchange rate passthrough to inflation is empirically relatively low. Guided by the Integrated Policy Framework,⁵ FX interventions should, therefore, continue to be used only sparingly, in cases where there are disruptions in market liquidity or clear problems in the functioning of the FX market.

25. Authorities' views. The authorities see inflation on a downward path—supported by softening economic activity, declining services inflation, the expected fading of price pressures on core goods, and subdued pressures on non-core inflation—although the balance of risks remains tilted to the upside. They recognized that inflation expectations remain above the target, but stressed that they are stable and reaffirmed their commitment to policy rate decisions that are consistent with achieving the inflation target during the forecast period. They agreed on the importance of continuing to develop their communication strategy, while cautioning that publishing alternative scenarios or more explicit guidance on the policy rate path could be detrimental to flexibility and credibility of monetary policy when responding to shocks. They reiterated that the flexible exchange rate continues to serve as a key shock absorber.

C. Increasing Access to Financial Services While Safeguarding Stability

26. The banking system remains sound amidst low leverage. Recent assessments support the conclusions of the 2022 FSAP that systemic risks are contained and there are sizable margins to absorb shocks.⁶ Banks maintain high levels of capital and liquidity (well above regulatory thresholds), delinquencies are low, provisioning and profitability are high, and stress tests show that financial institutions are resilient to a pronounced economic slowdown.⁷ At the same time, both



corporate and household leverage are low and there are no signs of stretched asset price valuations (including for housing).⁸ Bank exposure to the export sector appears low on average, although a small number of institutions faces higher concentration (which the regulator is closely monitoring), and indirect exposures, in particular in border regions, could represent pockets of vulnerabilities. Banks' exposure to the public sector accounts for about one quarter of system assets, highlighting

⁵ See Annex VII of 2023 Article IV Consultation.

⁶ Commercial banks remain the most significant intermediary (44 percent of assets), followed by pension funds (20 percent), investment funds (13 percent), and insurance companies (8 percent). Banks' exposure to non-bank financial institutions remains low relative to their regulatory capital.

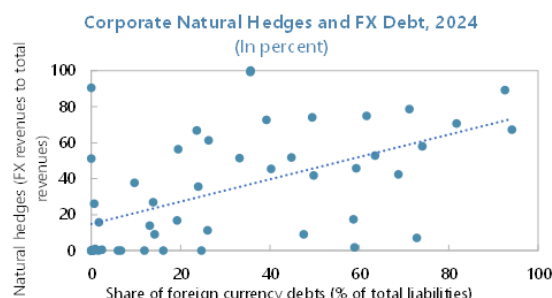
⁷ Banxico's stress tests show that all banks would maintain capital adequacy ratios above the regulatory minima. Scenarios include (i) lower domestic consumption and investment; (ii) a slowdown in global economic activity; and (iii) an adjustment in sovereign and Pemex credit ratings.

⁸ See Annex VI of 2024 Article IV Consultation.

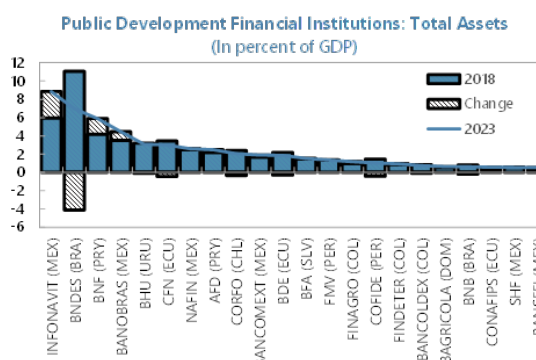
their sensitivity to sovereign risk, including those related to Pemex. Corporate balance sheets are characterized by relatively low levels of debt and limited FX mismatches although a sustained decline in the receipts of exporters would represent a material credit risk.

27. Public development institutions should remain focused on addressing market failures.

The authorities aim to increase credit to SMEs and mortgage loans by expanding the role of public financial institutions in the provision of loans and guarantees. In addition, INFONAVIT—which specializes in affordable mortgages—has been tasked with building 400,000 social housing units. To ensure appropriate risk taking and avoid crowding out of the private sector, public banks' focus should be on providing partial guarantees and 'second floor' lending to commercial banks. Also, operations should be limited to market segments and products currently underserved by commercial banks. In parallel, lending conditions for private banks could be improved, including by enhancing the insolvency law, and strengthening creditor rights. Capital risk weights should continue to be calibrated to ensure financial stability while preserving room for credit expansion. INFONAVIT's plans for real estate development projects would be better served by public tenders to private construction companies. The new, joint supervision of INFONAVIT (by the Ministry of Finance and the financial regulator) should ensure that lending standards are not diluted and the institution's balance sheet remains healthy.⁹



Sources: National Authorities, and IMF staff calculations.
Note: Dots represent listed firms, as December of 2024.



Sources: Xu et al. (2021), and IMF staff calculations.

28. Recent efforts have helped expand access to financial services but a significant share of the population remains unbanked and underinsured. Efforts to support fintech and promote the entry of new institutions have shown some early results.¹⁰ Regulatory frameworks for fintechs and digital payments companies could be further strengthened, and initiatives to foster competition and equal access to financial information—like open banking—could help drive faster and more cohesive progress (Annex IX). In addition, clear guidance on, and unified oversight of, the management of

⁹ INFONAVIT's liquidity position is strong thanks to the strong labor markets in recent years, and operating margins are positive, although NPL ratios have remained elevated after the pandemic.

¹⁰ Mexico's regulatory and financial inclusion policies have supported digital payment development, aided by interoperable systems such as SPEI and *Cobro Digital* (CoDi). However, widespread adoption remains limited because of underdeveloped technological infrastructure and low competition.

cyber risks would strengthen confidence in digital payments providers. Promoting financial literacy and access to financial services could also help advance insurance penetration (Annex XII).

29. Implementing some of the pending 2022 FSAP recommendations would enhance the macroprudential framework and strengthen financial oversight (Annex III):

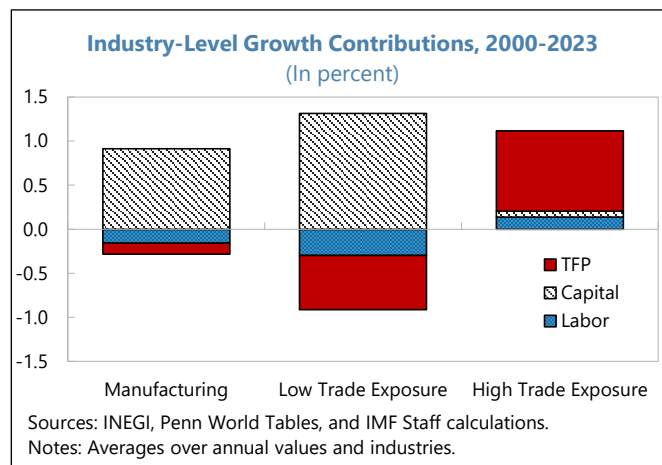
- The Countercyclical Capital Buffer (CCyB) has remained at 0 percent supported by a persistently negative credit gap in recent years. An enhanced framework could include establishing guiding principles for activating the CCyB (see Annex III).
- Setting limits on and monitoring household debt-service-to-income and loan-to-value ratios—which would not be binding at the current juncture—would allow for the timely identification of credit risks over time and promote credit extension by guiding financial institutions.
- Refining legal definitions and supervisory powers, enhancing inter-agency coordination, and updating disclosure requirements to support effective consolidated supervision of financial conglomerates.
- Ensuring adequate staffing and funding for regulators and improving legal protections for supervisors.
- Advancing risk-based and consolidated supervision, bolstering recovery and resolution planning, and refining the emergency liquidity assistance framework to better address evolving risks like cyber threats and climate-related vulnerabilities.
- Improving the bank resolution framework by (i) removing legal and operational barriers to the use of purchase and assumption (P&A) and bridge bank tools; (ii) broadening the resolution regime to explicitly include financial holding companies to ensure comprehensive oversight and effective crisis management across financial groups; (iii) granting the institutional framework for macroprudential policy full operational independence through improved resourcing of regulatory agencies and legal protection of supervisors.

30. Authorities' views. The authorities shared staff's assessment of Mexico's financial system's resilience and its limited exposure to the export sector. They reaffirmed their commitment to strengthening financial oversight in line with FSAP 2022 recommendations, noting progress on managing cyber risks and implementing enhanced sustainability disclosure requirements, and highlighted continued efforts to strengthen the supervision of financial conglomerates. Given strong capital buffers and low leverage, as well as market practices with large down payments, the authorities do not see setting guidelines for the countercyclical capital buffer or thresholds for DSTI and LTV ratios as a near-term priority. They concurred with the importance of promoting financial deepening and emphasized progress on simplifying capital market issuance procedures and advancing financial literacy. They also outlined plans to promote open banking and facilitate credit expansion—particularly for SMEs and mortgage borrowers—with support from public development

banks. The authorities are committed to continue calibrating macro-prudential policies to ensure financial stability while promoting credit extension.

D. Securing High and Sustained Growth

31. Increasing trade openness and ensuring a stable and predictable trade environment remains critical to sustaining growth. Trade has served as an important engine of growth for Mexico, with export-oriented sectors registering significantly stronger productivity gains (which has helped offset weak performance elsewhere, see Annex X). A broad strategy to deepen the impact of trade on the broader economy should include:



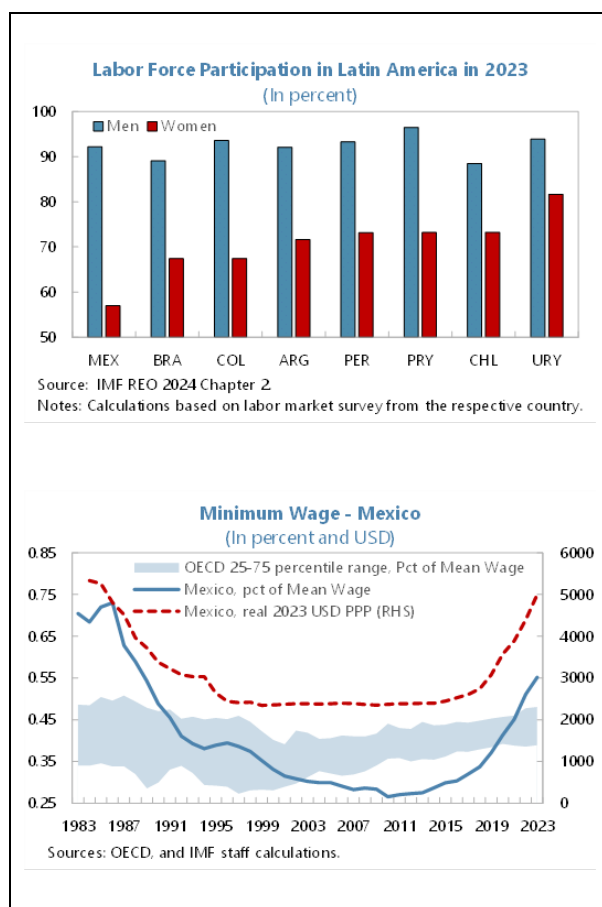
- Addressing trade tensions. Mexico should continue to resolve trade tensions with the U.S., which should help stabilize investor confidence and maintain supply chain continuity.
- Strengthening trade integration. Mexico should approach the upcoming USMCA review as an opportunity to deepen integration with the United States, aiming to enhance the benefits of regional trade while limiting potential negative spillovers.
- Avoiding trade-distorting policies—like recently introduced and planned product-specific import duties—that are likely to be detrimental to the domestic economy. These can weaken productivity, distort resource allocation, and create negative spillovers to trading partners.
- Advancing the diversification of trading partners including by capitalizing on the updated EU-Mexico trade agreement and exploring expanding trade with regional partners (e.g., Brazil).

32. Boosting potential growth requires prioritizing key structural reforms. Addressing long-standing supply-side bottlenecks would help reverse the pattern of low productivity growth of the last two decades. Key priorities include:

- **Improve the environment for private investment.** This should include enhancing governance, streamlining regulations, and addressing critical infrastructure gaps (especially in transport, water, energy, and digitalization). Some of the investments under Plan México would address these gaps while helping to tackle regional disparities. Policies to support strategic sectors, however, should be focused on addressing market failures, temporary, cost-effective, transparent and should not discriminate against trading partners.
- **Boost energy supply.** Mexico's energy reform includes welcome steps to enhance grid reliability and expand renewable generation through greater private sector participation (Box 4). However,

other elements raise concerns, including the replacement of independent regulators with a body under the Ministry of Energy, and assigning CFE a social mandate to provide electricity in possibly unprofitable areas. While equity goals are important, it would be more transparent to support them through direct government transfers rather than through the company's balance sheet. Similarly, despite the planned consolidation of CFE subsidiaries, maintaining separate financial reports for different business streams (i.e., generation, transmission, distribution) would be critical to ensure accountability and monitor efficiency.

- Close skills gaps and reduce labor market informality.** Greater investments in education, a lower administrative burden for those in the formal economy, increased enforcement of tax and labor laws, and greater access to affordable childcare (to boost female labor force participation) would all support higher growth. Plans to further large increases of the minimum wage (12 percent annually until 2030) should be reconsidered. While they may help raise some wages at the lower end of the distribution, they could entail adverse negative effects on employment and increasingly push workers into the informal sector (Annex XI).
- Tackle crime and insecurity.** Crime significantly raises business operating costs and hinders growth, with about a ¼ of firms and nearly 1/3 of households reporting being affected (IMF, 2024). Organized crime—particularly related to international drug trade—is prominently linked to rising violence and challenges to the rule of law (Dell, 2015; Felbab-Brown, 2020; Murphy and Rossi, 2020). Given their macro-critical implications, efforts to address these issues should be intensified through stronger international cooperation, enhanced intelligence sharing, and more effective efforts to combat drug trafficking.



33. Recent steps taken by anticorruption institutions need to be deepened. While the impact of the recent transformation of the Secretariat of Public Administration into the Secretariat of Anticorruption and Good Governance (SESNA) is yet to be seen, the verification of asset declarations by government officials remains hampered by data protection provisions affecting the possibility to conduct risk-based audits. Access to information has been affected by the fragmentation of institutions authorized to interpret relevant provisions and by the elimination of the National Institute for Transparency, Access to Information and Personal Data Protection (INAI) and the

absorption of part of its powers by the SESNA and the Secretariat of Digital Transformation, two executive agencies under presidential authority. The institutional change represents a significant step backwards that raises concerns about autonomy and accountability, as the coordination capacity of the SESNA remains limited. There is significant scope to move forward legal reforms, including adopting the whistleblower protection law which remains stalled in Congress, increasing funding and capacity for enforcement, and establishing robust guarantees of institutional independence. Mexico's efforts to address transnational aspects of corruption continue (see Annex XIII).

34. Mexico continues to face money laundering threats associated with organized crime.

Following the U.S. designation of three financial institutions as being of primary concern for money laundering, Mexico's financial regulator promptly assumed control of these entities to preserve market confidence, and facilitate investigations and a controlled winding down of their assets. There is, however, a need to further strengthen domestic and international interagency coordination, operationalize the new beneficial ownership framework, enhance supervisory effectiveness across all sectors and ensure consistent parallel financial investigations. The relatively low number of suspicious transaction reports, limited supervisory resources to address the expanding Fintech sector, weaknesses in sanctioning mechanisms for the banking sector, and insufficient resources for risk-based supervision are key vulnerabilities. Emerging typologies also highlight infiltration of proceeds generated by organized crime in the non-financial sector, underscoring the need for dissemination of targeted operational and strategic intelligence and prompt supervisory and investigative responses.

35. Mexico's ongoing judicial reform should prioritize the promotion of professionalism, independence, and accountability of the judiciary.

The June 2025 elections for federal and local judges marked a significant institutional shift intended to broaden democratic participation in the judicial system. However, the process raised questions about voter turnout, ballot validity, and the transparency of candidate selections. Moreover, the transition from a career-based appointment system to popular elections has introduced significant uncertainty about judicial independence and the professional capabilities of newly elected judges, fueling private sector concerns about investor protection and contract enforcement. It will be important, therefore, to strengthen efforts to ensure transparency in judicial decisions, reinforce integrity safeguards, and uphold core principles of judicial professionalism and accountability. A well-functioning judiciary system will be essential to ensure the rule of law, foster investment, and sustain economic and financial stability.

36. Authorities' views. The authorities emphasized the importance of maintaining a stable and rules-based trade environment and reiterated their efforts to ease tensions and reduce uncertainty. They viewed the recent product-specific import duties as a targeted measure aimed at addressing distortions, fostering domestic production of intermediate goods, and increasing domestic value added in exports. They also highlighted actions to improve the business climate, expand infrastructure, and strengthen public safety as central to enhancing long-term growth prospects. In addition, the authorities reiterated their commitment to reinforcing the AML/CFT framework, including through closer cross-border cooperation and improved enforcement—particularly in light of the upcoming FATF mutual evaluation.

Box 4. Energy Reform: Institutional Changes and Objectives

The 2024 Energy Reform prioritizes energy security, sovereign control over the energy system, public ownership, and social responsibility (including equitable access). As such, it reverses some of the 2013 reform by reasserting the state's role in energy markets. The reform also creates a new National Energy Commission under the Ministry of Energy to replace the existing model of independent regulators.

The National Strategy for the Electricity Sector aims to increase electricity supply and reliability through investments in capacity generation and the introduction of regulation enhancing consistency in power supply. These efforts are supported by an investment plan to add close to 30 GW of generation capacity by 2030 (about 8 percent increase), with 22GW provided by the state-owned electricity company (CFE) and 8 GW by private investments in renewable energy. CFE will also invest US\$ 8.2bn in building transmission lines and substations across the country. New regulations establish stricter reliability and backup requirements for private providers. Changes to rules for self-generation offer greater flexibility for private projects, including those serving industrial parks.

The National Strategy for the Hydrocarbons Sector is centered around Pemex, prioritizing production for domestic consumption and requiring its participation in all oil and gas exploration and extraction projects. Key reforms include the reclassification of the company from a "productive" to a "public" state-owned enterprise—reaffirming its role in energy security and delivering public services. Plans envisage a vertical and horizontal integration of Pemex's subsidiaries, and an increase in hydrocarbon extraction, including by leveraging offshore developments (e.g. Trion and Zama projects), with a target of 1.8 million barrels per day of oil by 2027 (compared to 1.7 million barrels per day in 2024). The strategy also seeks to increase investment in refining to increase production of gasoline, diesel, and jet fuel (with a 1.3 million barrels per day target), and expand production capacity of petrochemicals for agriculture and other domestic industries. Pemex is also expected to raise gas production to 5 billion cubic feet per day by 2028 (compared to 3.7 billion cubic feet per day in 2024) to reduce Mexico's dependence on external sources for electricity generation. As part of a sustainability and energy transition strategy, Pemex also plans to pursue projects in cogeneration, green hydrogen, as well as alternative fuels and renewables.

STAFF APPRAISAL

37. Growth is expected to accelerate somewhat in 2026 as restraint from fiscal and monetary policies diminishes. Activity slowed in 2025 amid restrictive domestic policies and trade tensions. However, the economy has weathered the trade uncertainty well, supported by continued preferential access to the U.S. market and a sustained track record of very strong macroeconomic fundamentals, institutional policy frameworks, and policy implementation. Together with a commitment to maintaining prudent policies going forward, external buffers are expected to remain solid, public debt is sustainable with a high probability, and the external position is in line with the level implied by medium-term fundamentals and desirable policies.

38. Further efforts are needed to place public debt on a declining path. The authorities' fiscal plans imply a gradual increase in the debt-to-GDP ratio—reaching 61.5 percent of GDP by 2030—and carry the risk of further increases in debt if the fiscal position is hit by slippages and adverse shocks. A more front-loaded and ambitious consolidation path is needed to enhance the credibility of fiscal plans, prevent a further upward drift in public debt, and create valuable fiscal space for a counter-cyclical response in the event that external risks are realized. Concrete measures of around 1½ percent of GDP are needed to underpin this consolidation. Given the need to protect social

spending and growth-enhancing public investment, consolidation efforts will require the mobilization of tax revenues through both further improvements in tax administration and tax policy changes.

39. Strengthening the financial health and profitability of state-owned enterprises is essential to lowering the public debt-to-GDP ratio. Plans to put Pemex on a stronger footing—through private partnerships, cost reductions, and stronger debt management—are welcome. Transparent and judicious implementation, including by showing a firm commitment to commercial objectives and scaling back unprofitable activities, will be key.

40. The design of the medium-term fiscal framework should be strengthened. Especially important would be to adopt a binding medium-term debt anchor and corrective mechanisms in the event of deviations from the targeted debt path. A tightening of escape clauses and the creation of an independent fiscal council would help further strengthen the framework. These changes would improve credibility, anchor expectations regarding debt and deficit trajectories, and reduce financing costs. Proposed reforms to specific aspects of the fiscal framework, such as the exclusion of spending in human capital from the calculation of the balance budget rule, should be approached carefully to ensure that fiscal discipline and a strong link between the fiscal framework and debt sustainability are preserved.

41. Further monetary easing should be conditioned on clearer evidence that inflation is decisively moving toward the 3 percent target. With inflationary pressures declining, weakening economic activity and the strengthening of the peso, the monetary easing of recent months has been appropriate. However, with core inflation still elevated and expectations above target, further interest rate cuts should be deferred until there is clear evidence that core inflation and inflation expectations are on a sustained downward path to the 3 percent inflation target.

42. There is scope for improving monetary policy communications. The current framework has helped manage post-pandemic inflation and incorporates elements of forward guidance. Providing greater clarity on Banxico's policy reaction function—by publishing scenarios and associated policy rate paths—would help strengthen policy transmission and better anchor inflation expectations. Tailoring messages to different audiences would enrich Banxico's communication toolkit and help guide the formation of expectations.

43. The exchange rate should continue to be a shock absorber. The peso is supported by healthy external buffers and an external position that is broadly in line with fundamentals. With a deep and liquid FX market, limited balance sheet currency mismatches, sound macroprudential policies, and low exchange rate passthrough, continued exchange rate flexibility remains key to facilitate external adjustment especially in the context of heightened risks.

44. The banking system remains sound amidst low leverage, and efforts to foster financial inclusion and expand lending should focus on addressing market failures and promoting competition. There is a need to boost the role of Mexico's financial system in the economy. Initiatives to promote competition, including through the entry of new private institutions, are

welcome and should focus on establishing a level playing field between new and traditional financial institutions. Strengthening credit rights and reducing informality will also be key to foster financial inclusion. Plans to boost SME and mortgage lending via increased loans and guarantees from public financial institutions should be transparent, mindful of the fiscal implications of such lending, and ensure space for private sector participation.

45. Enhancements in financial sector supervision should continue. The financial system remains sound and resilient to shocks. Continued implementation of the 2022 FSAP recommendations would further strengthen the macroprudential and supervisory frameworks. Despite progress, there is scope to strengthen interagency coordination and risk-based supervision, especially to ensure the effective investigation and prosecution of financial crimes and associated money laundering.

46. Preserving trade openness is key for sustaining growth. Addressing trade tensions with the U.S.—including through a favorable review of the USMCA—would support investor confidence and supply chain continuity. Trade-distorting measures, such as recent product-specific import duties, are likely to be detrimental to the domestic economy and impose negative spillovers on trading partners, and should be avoided. Expanding and diversifying trade partnerships would further strengthen Mexico's position in global supply chains.

47. Unlocking stronger growth requires addressing long-standing supply-side constraints. Priority should be given to closing infrastructure gaps—especially in energy, transport, telecommunications and water. Given fiscal constraints, private sector participation will be key, which will require improving the business climate by streamlining procedures and clarifying regulations. Support to strategic sectors, including under Plan Mexico, should be narrowly targeted, focused on addressing market failures, time-bound, and should avoid introducing barriers to trade and investment. Raising human capital and addressing low female labor force participation and informality remain essential. Plans to further increase the minimum wage and shorten the working week should carefully consider the potential impacts on employment and informality, particularly for low-income workers.

48. Strengthening the rule of law is essential. Crime needs to be tackled through stronger international cooperation and more effective action against drug trafficking. Recent changes in regulatory bodies, the anti-corruption system, and the judiciary all call for additional steps to dispel concerns about transparency, effectiveness, and autonomy of these institutions, all of which are critical for investor confidence.

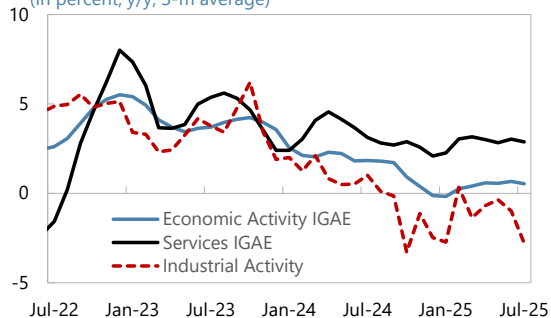
49. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1a. Mexico: Real Sector (High-Frequency) Indicators

Economic activity has been decelerating, driven primarily by the industrial sector...

Economic Activity Indicators

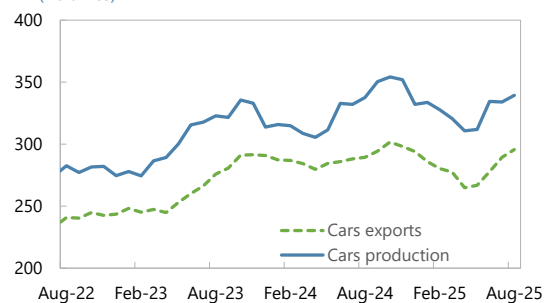
(In percent, y/y, 3-m average)



... amid slowing car production.

Cars Production

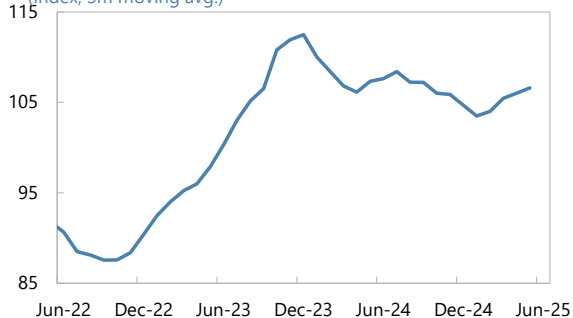
(Volumes)



Construction has also weakened ...

IGAE Construction Activity

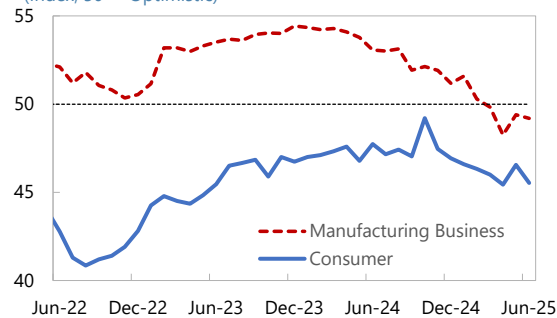
(Index, 3m moving avg.)



... amid a general weakening of confidence.

Confidence Indicators

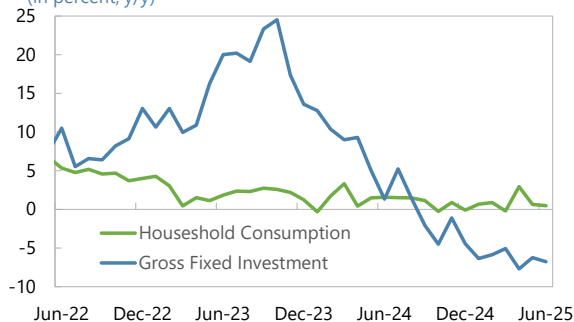
(Index, 50+ = Optimistic)



Consumption has softened while investment decelerated sharply....

Consumption and Investment Indicators

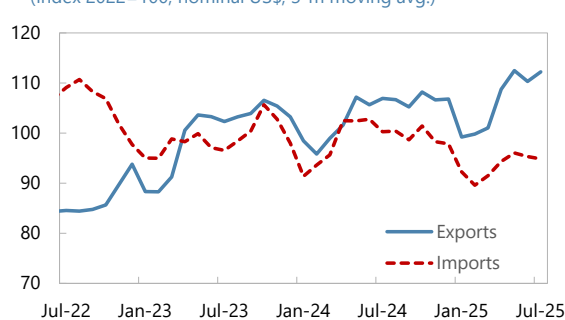
(In percent, y/y)



... amid growing exports.

Exports and Imports to the U.S.

(Index 2022=100, nominal US\$, 3-m moving avg.)

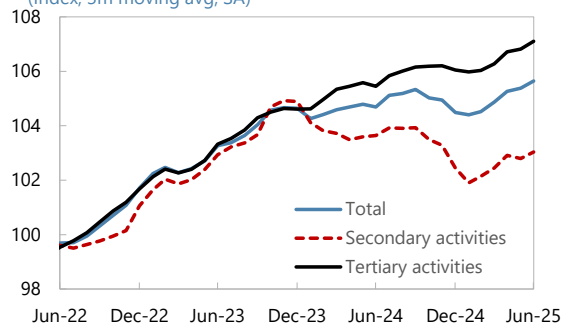


Sources: National authorities, INEGI, Haver Analytics and IMF staff calculations.

Figure 1b. Mexico: Real Sector Indicators

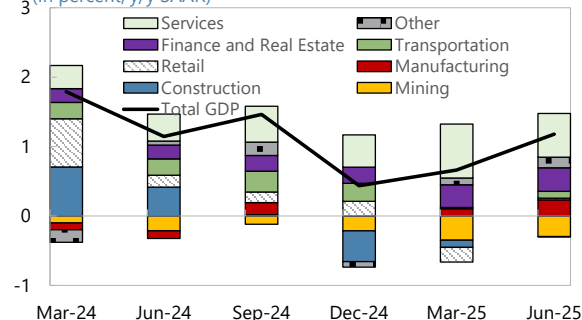
Secondary activity has contracted, while services has shown more resilience...

Global Indicator of Economic Activity (IGAE)
(Index, 3m moving avg, SA)



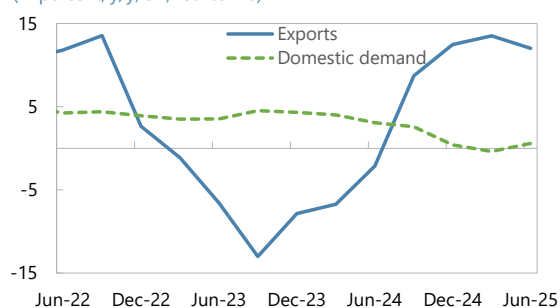
... helping to sustain overall growth.

Supply Contributions to Growth
(In percent, y/y SAAR)



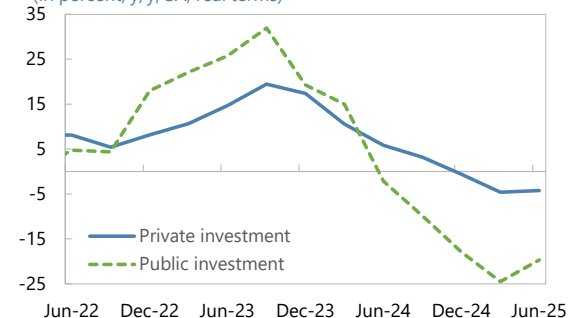
Amid sustained external demand, domestic demand has softened...

Domestic and External Demand
(In percent, y/y, SA, real terms)



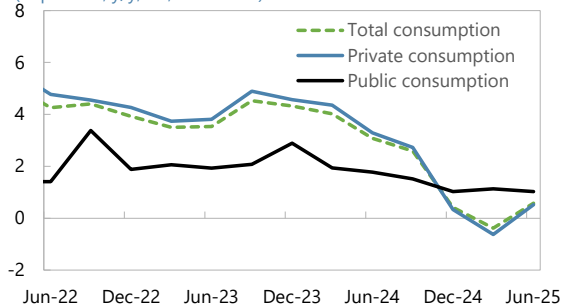
...reflecting weaker investment...

Investment
(In percent, y/y, SA, real terms)



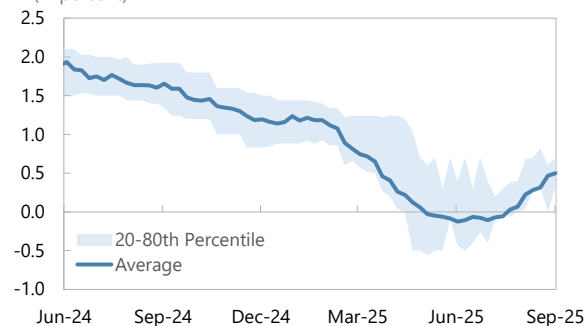
... and decelerating consumption.

Consumption
(In percent, y/y, SA, real terms)



However, growth expectations for 2025 have been recently revised upwards.

2025 GDP Growth Forecasts
(In percent)



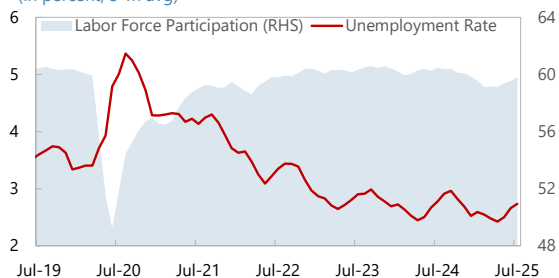
Sources: National authorities, INEGI, Haver Analytics and IMF staff calculations.

Figure 2. Mexico: Labor Market Indicators

Unemployment remains at historically low levels although labor participation has weakened...

Labor Force Participation and Unemployment Rates

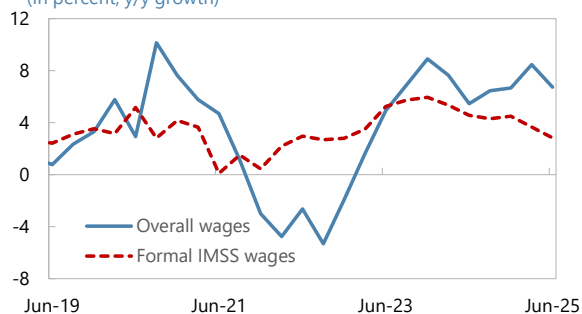
(In percent, 3-m avg)



... as real wages show some signs of slowing but are still expanding at a robust pace ...

Average Real Wages

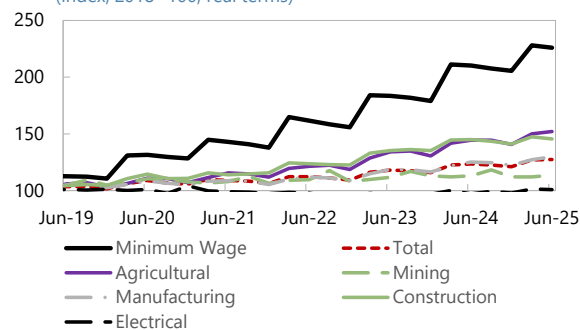
(In percent, y/y growth)



... partly driven by sizable minimum wage increases.

Minimum Wage and Formal Sector Salaries

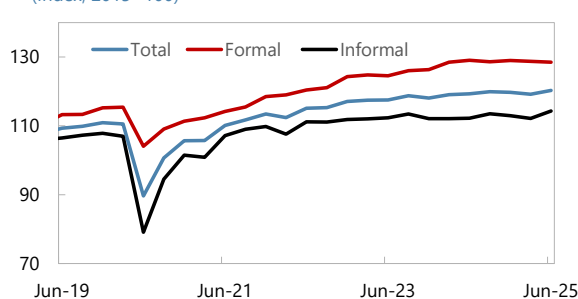
(Index, 2018=100, real terms)



Formal employment creation has softened more markedly...

Total, Formal and Informal Employment

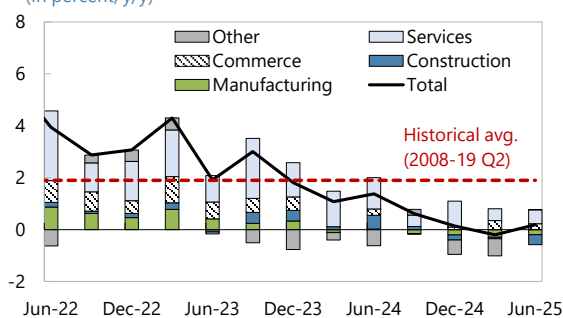
(Index, 2015=100)



...across most sectors ...

Contributions to Employment Growth by Sector

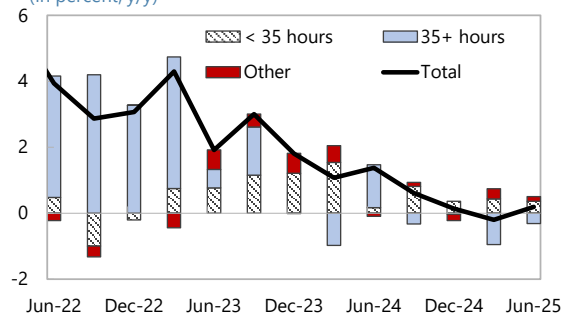
(In percent, y/y)



...and especially in full-time job.

Contributions to Employment Growth by Hours

(In percent, y/y)

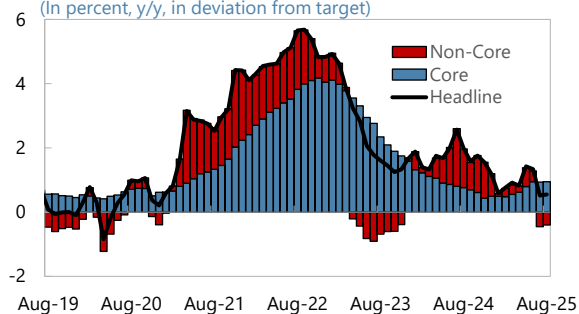


Sources: National Authorities, INEGI, Haver Analytics, and IMF staff calculations.

Figure 3. Mexico: Prices and Inflation

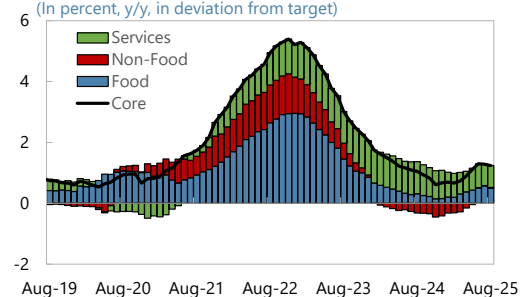
Disinflation has mostly stalled in recent months....

Contributions to Headline Inflation
(In percent, y/y, in deviation from target)



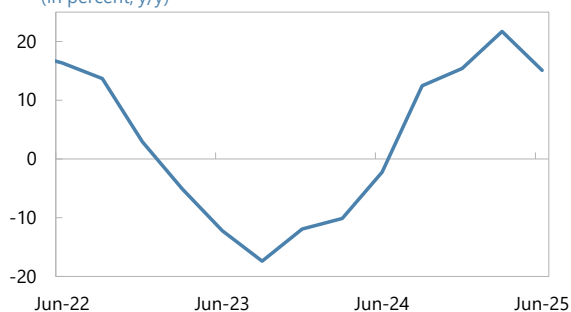
... as core services inflation remains elevated and core goods inflation ticked up...

Contributions to Core Inflation
(In percent, y/y, in deviation from target)



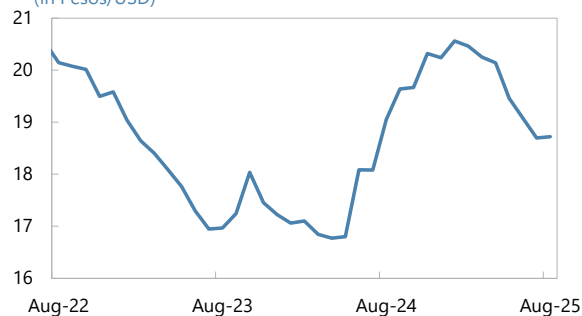
... amid a pickup in imported inflation...

Imported Goods Inflation
(In percent, y/y)



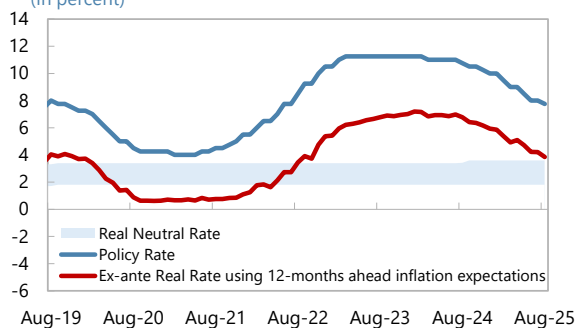
... and large currency movements

Nominal Exchange Rate
(In Pesos/USD)



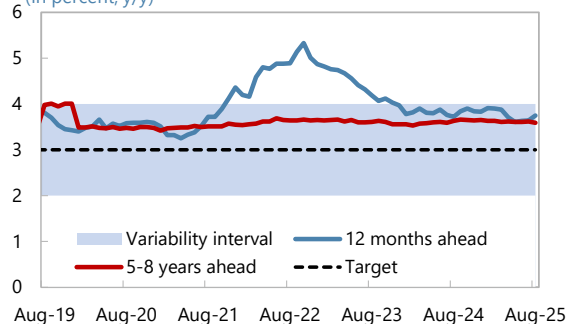
Monetary policy remains contractionary despite recent cuts ...

Policy Rates
(In percent)



... while inflation expectations remain above the inflation target.

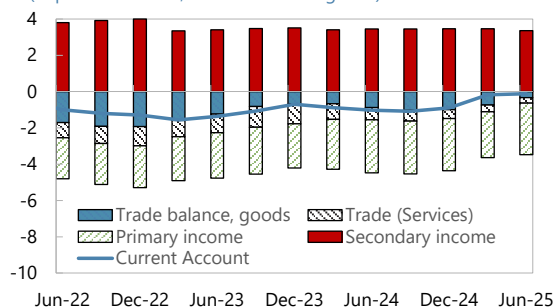
Inflation Expectations
(In percent, y/y)



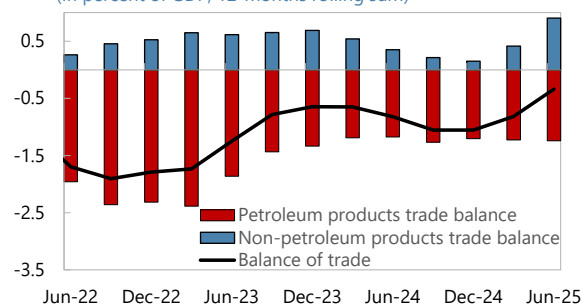
Sources: National Authorities, Haver Analytics, Banxico, and IMF staff calculations.

Figure 4. Mexico: External Sector*The current account is broadly balanced....***Current Account Balance**

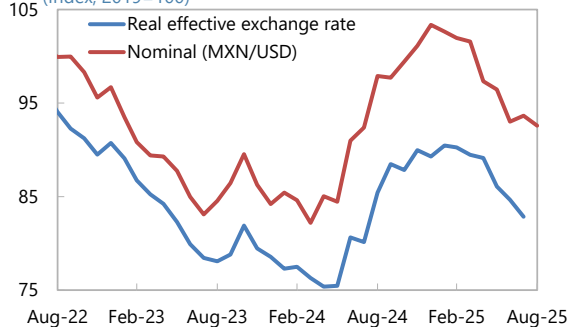
(In percent of GDP, 12-months rolling sum)

*... as the trade deficit has faded...***Trade Balance**

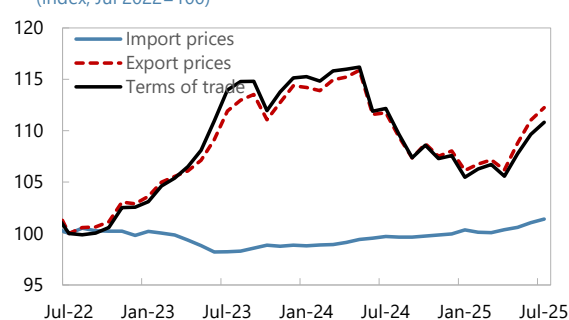
(In percent of GDP, 12-months rolling sum)

*...helped by a somewhat weaker currency...***Exchange Rate**

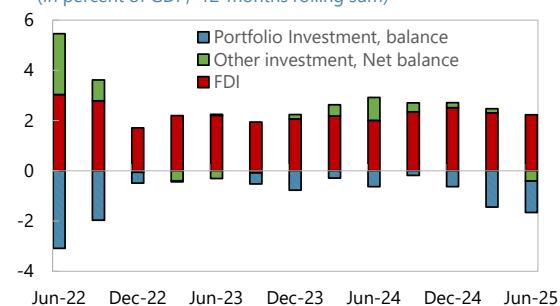
(Index, 2019=100)

*... and stronger terms of trade.***Terms of Trade**

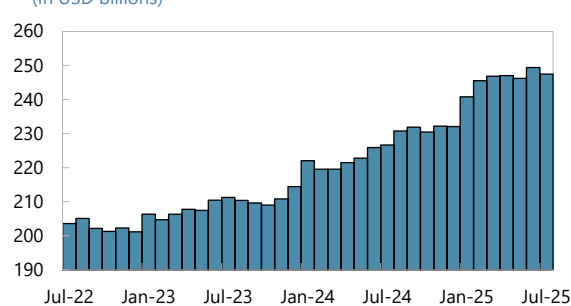
(Index, Jul 2022=100)

*FDI remains healthy...***Investment Flows**

(In percent of GDP, 12-months rolling sum)

*... while gross international reserves have risen since last year.***Gross International Reserves**

(In USD billions)

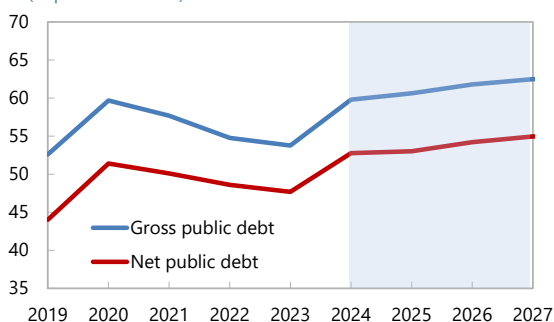


Sources: National Authorities, Haver Analytics, and IMF staff calculations.

Figure 5. Mexico: Fiscal Sector

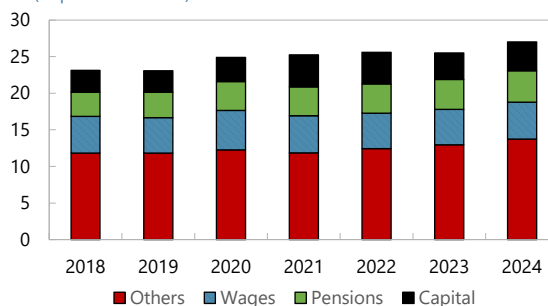
Public debt rose sharply in 2024, ...

Public Sector Debt
(In percent of GDP)



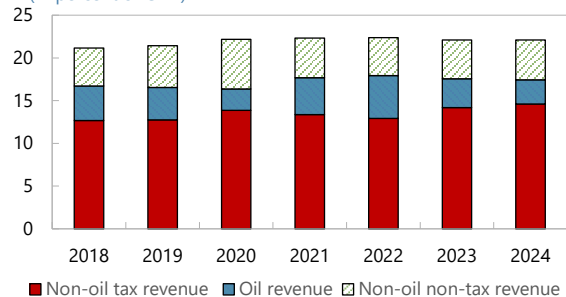
...as expenditures increased across most categories...

Expenditures
(In percent of GDP)



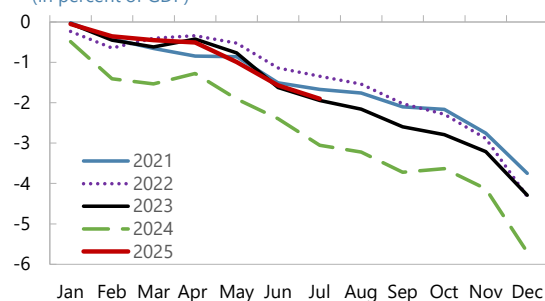
...and revenues remained flat, although with a compositional shift.

Revenues
(In percent of GDP)



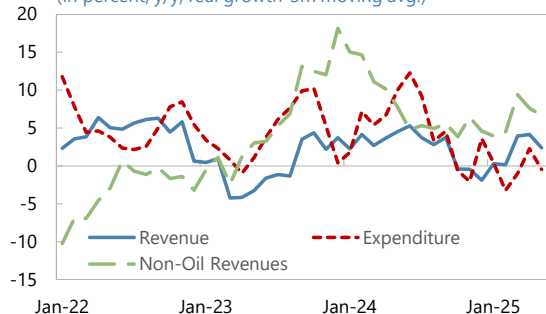
The 2025 consolidation is underway...

Cumulative Overall Balance
(In percent of GDP)



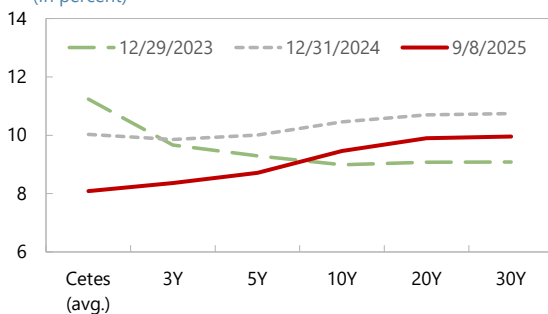
...reflecting strong contraction in expenditure and robust growth in non-oil revenues...

Revenues and Expenditure
(In percent, y/y, real growth-3m moving avg.)



... while financial conditions have improved.

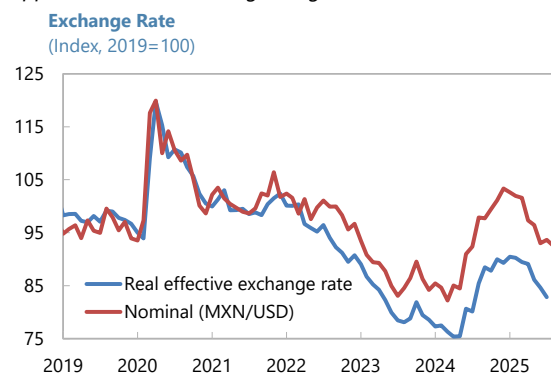
Sovereign Local Currency Yield Curve
(In percent)



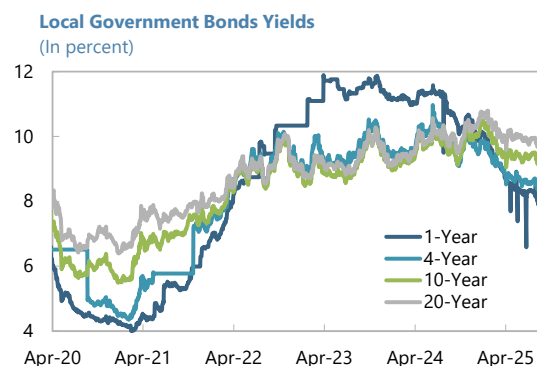
Sources: National authorities, Haver, Banxico, Tullet Prebon, World Economic Outlook, and IMF staff calculations.

Figure 6. Mexico: Financial Markets

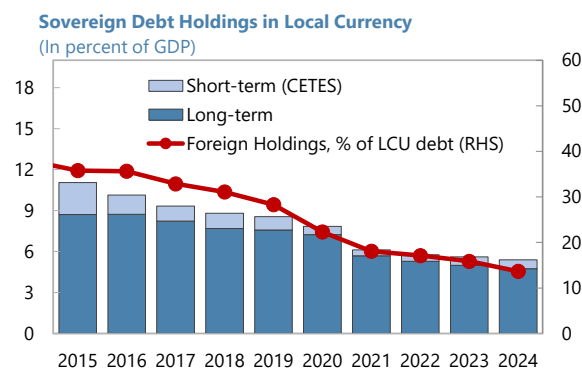
Following a sustained depreciation last year, the peso has appreciated since the beginning of 2025



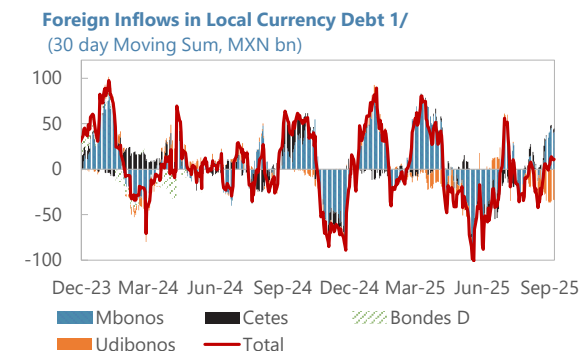
Shorter-dated yields have fallen following policy cuts, leading to a steepening of the yield curve



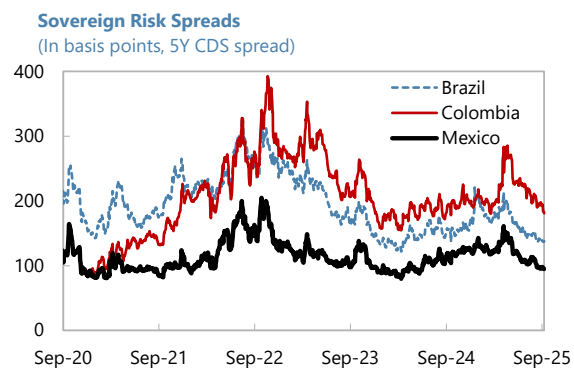
Foreign participation in local bonds markets has continued to decline...



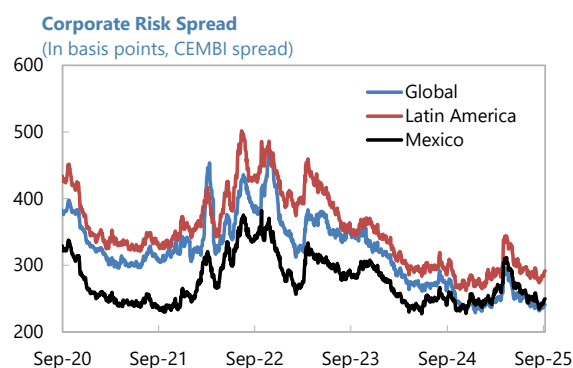
...amid tepid portfolio inflows



Mexico's sovereign spreads remain below peers...



...and so do corporate spreads



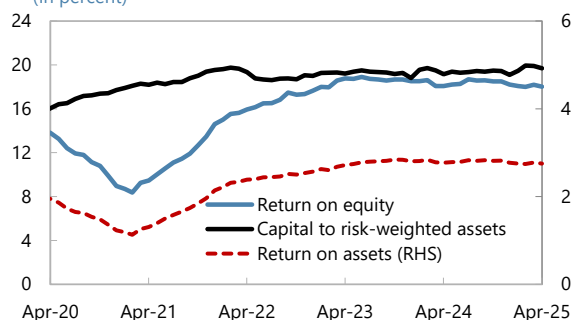
Sources: Bloomberg, Haver Analytics, Banxico, National authorities, and IMF staff calculations.

Figure 7. Mexico: Banking System

Bank capital and profitability remains solid

Commercial and Development Banking Sector

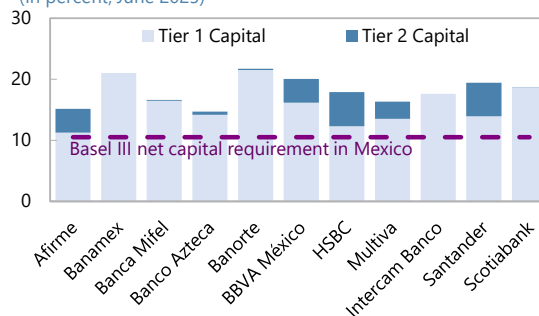
(In percent)



...with all major banks exceeding capital requirements.

Capital to Risk-Weighted Assets

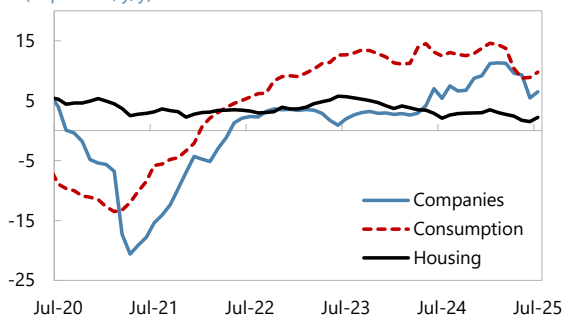
(In percent, June 2025)



Consumer and corporate credit remained strong, although showing some signs of deceleration ...

Commercial Bank Real Credit Growth by Sector

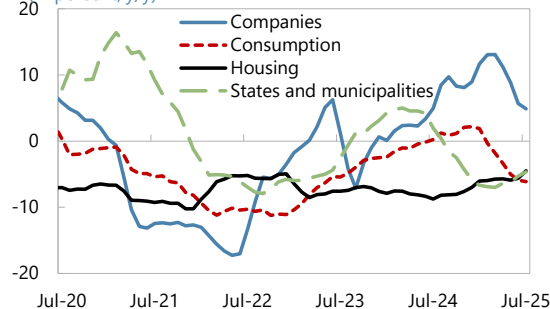
(In percent, y/y)



Development banks have been expanding corporate credit.

Development Bank Real Credit Growth by Sector

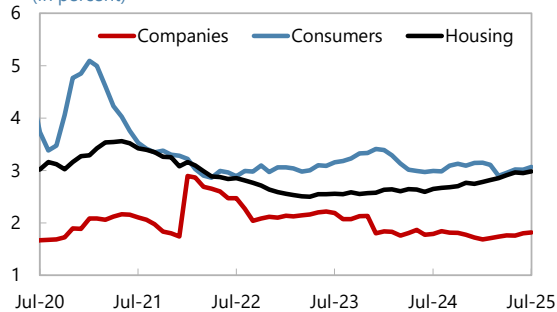
(In percent, y/y)



Non-performing loans remain low among commercial banks ...

Commercial Bank NPLs

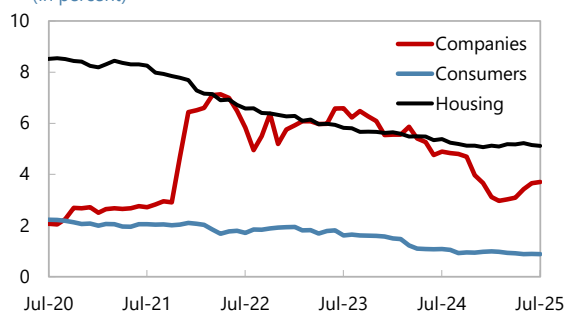
(In percent)



...as well as among development banks.

Development Bank NPLs 1/

(In percent)



Sources: Bloomberg, Haver Analytics, Banxico, National authorities, and IMF staff calculations.

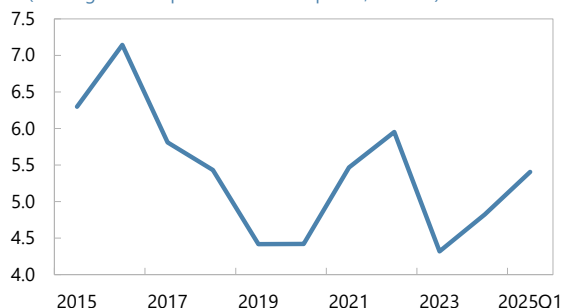
1/ According to Banxico, the increase in Development Bank's NPLs reflects changes in accounting criteria to adopt the international IFRS 9 standard, which allows credit institutions to make adjustments to the loan portfolios without implying a higher level of default.

Figure 8. Mexico: Nonfinancial Corporate Sector

Corporate creditworthiness and capacity to generate earnings remains healthy...

Interest Coverage Ratio

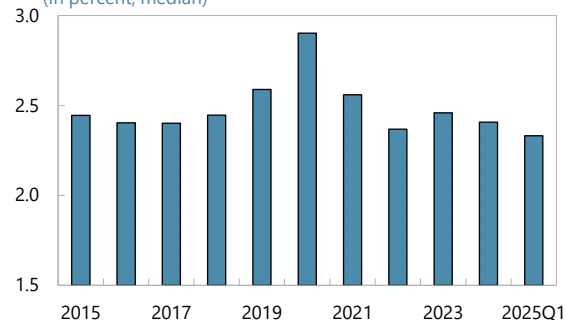
(Earnings in multiples of Interest Expense, median)



... and leverage broadly unchanged.

Total Debt to Total EBITDA

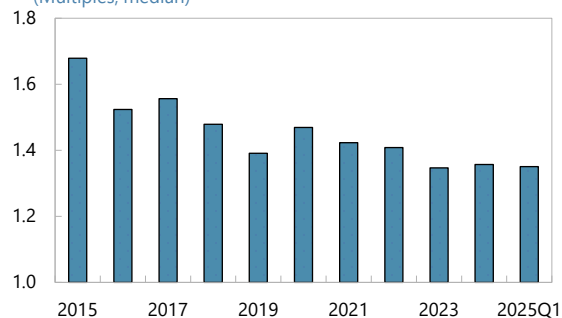
(In percent, median)



Corporate liquidity remains comfortable ...

Current Ratio: Current Assets to Current Liabilities

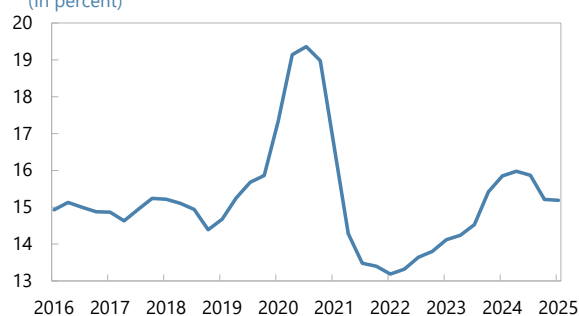
(Multiples, median)



...and debt servicing capacity remains solid.

Debt Service to EBITDA

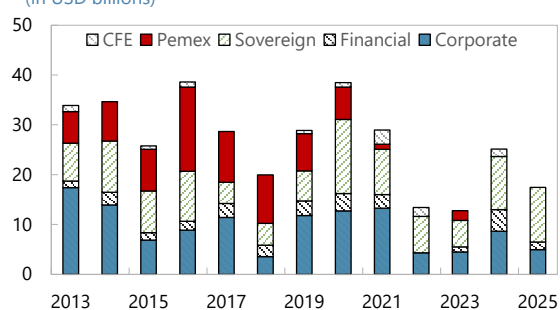
(In percent)



Debt issuance remains subdued...

Hard Currency Issuance 1/

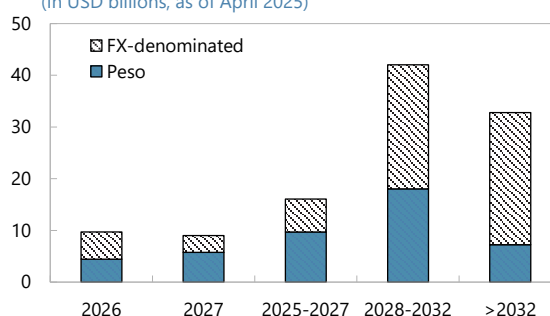
(In USD billions)



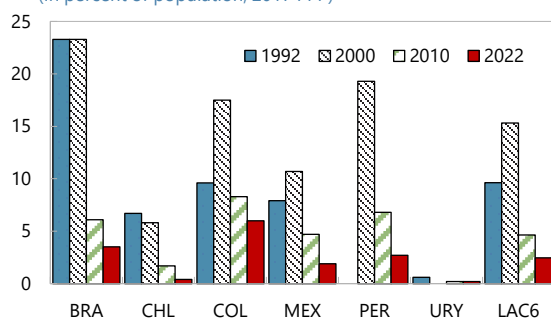
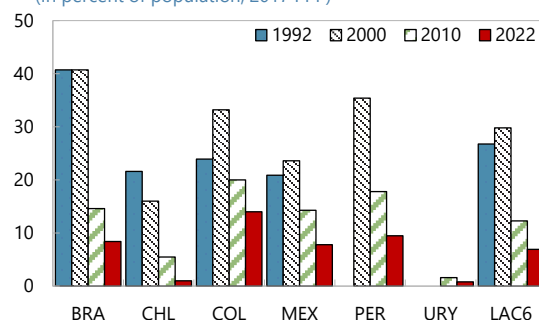
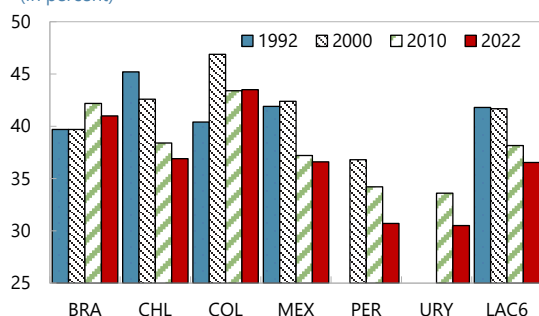
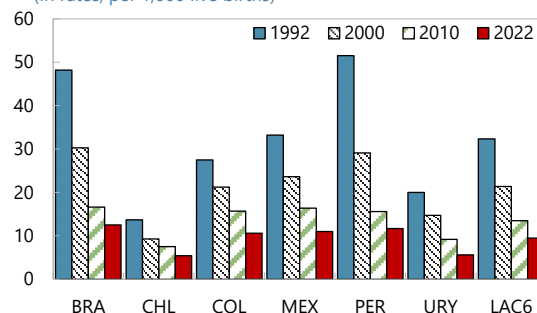
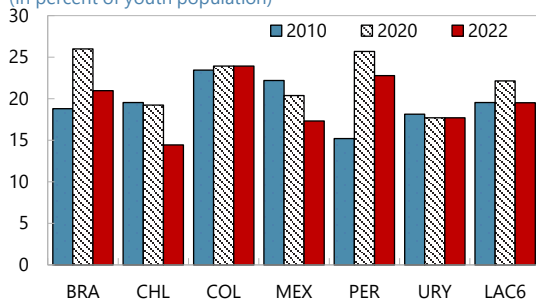
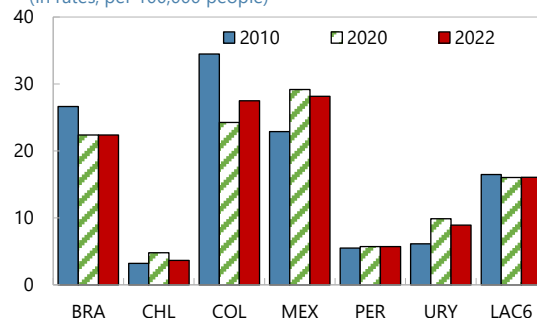
including because most existing corporate debt comes due on or after 2028.

Nonfinancial Corporate Bond Maturity Profile

(In USD billions, as of April 2025)



1/ 2025 refers to issuances up until May.

Figure 9. Mexico: Social Indicators in a Regional Context*Extreme poverty has declined over the past 25 years...***Poverty Headcount Ratio at \$2.15**
(In percent of population, 2017 PPP)*... and so has poverty.***Poverty Headcount Ratio at \$3.65**
(In percent of population, 2017 PPP)*Income inequality has improved.***Income Share Held by Highest 10 Percent**
(In percent)*...and infant mortality rates have declined.***Infant Mortality Rate**
(In rates, per 1,000 live births)*The share of youth not employed or attending school has fallen...***Share of Youth not in Education, Employment or Training**
(In percent of youth population)*...but homicide rates remain high.***Intentional Homicides**
(In rates, per 100,000 people)

Sources: World Development Indicators, and IMF staff calculations.

Table 1. Mexico: Selected Economic, Financial, and Social Indicators

GDP per capita (U.S. dollars, 2024)	14,034.2	Poverty headcount ratio (% of population, 2023) 1/	29.6
Population (millions, 2024)	132.3	Income share of highest 20 perc. / lowest 20 perc. (2022)	8.4
Life expectancy at birth (years, 2024)	75.5	Adult literacy rate (2020)	95.0
Infant mortality rate (per thousand, 2023)	13.6	Gross primary education enrollment rate (2022) 2/	102.0

II. Economic Indicators										
	2021	2022	2023	2024	Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
(Annual percentage change, unless otherwise indicated)										
National accounts (in real terms)										
GDP	6.0	3.7	3.4	1.4	1.0	1.5	2.0	2.1	2.1	2.1
Consumption	7.1	4.4	4.0	2.6	0.5	1.8	2.1	2.0	2.0	2.0
Private	8.4	4.8	4.3	2.8	0.4	1.7	2.1	2.0	2.0	2.0
Public	-0.5	2.0	2.3	1.6	1.1	2.4	2.4	2.4	2.4	2.4
Investment	11.4	7.3	15.7	3.3	-5.1	1.2	3.1	2.8	2.8	2.8
Fixed	10.5	7.5	16.7	3.4	-5.0	1.2	3.2	2.8	2.8	2.8
Private	12.6	7.5	15.7	4.5	-3.6	1.1	3.2	2.8	2.9	2.9
Public	-3.5	7.2	24.5	-5.1	-16.6	1.4	2.6	2.4	2.1	2.0
Inventories 3/	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	7.1	9.5	-7.2	3.3	6.6	1.0	2.7	3.9	4.0	4.0
Imports of goods and services	15.7	8.6	3.7	2.8	1.6	2.6	3.3	3.8	4.0	4.0
GDP per capita	5.4	2.9	2.4	0.6	0.2	0.8	1.3	1.4	1.4	1.5
External sector										
External current account balance (in percent of GDP)	-0.3	-1.3	-0.7	-0.9	-0.2	-0.3	-0.5	-0.5	-0.6	-0.6
Exports of goods, f.o.b. 4/	18.6	16.7	2.6	4.2	3.5	0.8	3.0	4.7	4.7	4.8
Imports of goods, f.o.b. 4/	32.0	19.8	-0.1	5.1	1.6	1.4	3.5	4.8	4.7	4.7
Net capital flows (in percent of GDP) 5/	-1.1	-0.9	-0.9	-1.4	-1.2	-0.8	-1.0	-0.9	-1.0	-0.9
Terms of trade (goods, improvement +) 6/	-1.0	-3.3	14.2	-0.5	-3.0	1.0	0.1	-0.2	0.0	0.1
Gross international reserves (in billions of U.S. dollars)	207.7	201.1	214.4	232.1	249.7	259.0	268.1	276.4	284.9	293.0
Exchange rates										
Real effective exchange rate (avg, appreciation +) 6/	5.9	5.4	16.3	0.2	...	...	...	...	...	...
Nominal exchange rate (MXN/USD) (eop, appreciation +)	-3.2	5.7	12.8	-19.8	...	...	...	...	...	...
Inflation and employment										
Consumer prices (end-of-period)	7.4	7.8	4.7	4.2	3.7	3.0	3.0	3.0	3.0	3.0
Core consumer prices (end-of-period)	5.9	8.3	5.1	3.7	3.6	3.0	3.0	3.0	3.0	3.0
National unemployment rate (annual average)	4.1	3.3	2.8	2.7	2.9	3.1	3.0	3.0	3.0	3.0
Money and credit										
Financial system credit to non-financial private sector 7/	4.2	10.9	8.7	11.3	4.0	5.0	5.5	5.6	5.6	5.6
Broad money	9.5	7.3	11.0	13.8	5.5	5.8	5.5	5.6	5.6	5.6
Monetary policy rate	5.50	10.50	11.25	10.00	7.50	6.00	6.00	6.00	6.00	6.00
Public sector finances (in percent of GDP) 8/										
General government revenue	22.9	24.2	24.2	24.6	24.2	24.2	24.2	24.3	24.3	24.3
General government expenditure	26.7	28.5	28.5	30.3	28.5	28.3	27.7	27.3	27.3	27.3
Overall fiscal balance	-3.7	-4.3	-4.3	-5.7	-4.3	-4.1	-3.5	-3.0	-3.0	-3.0
Primary fiscal balance	0.6	0.7	1.5	0.2	1.5	1.6	1.8	1.9	1.8	1.8
Structural primary balance	1.1	1.0	1.3	-0.1	1.4	1.5	1.8	1.9	1.8	1.8
Fiscal impulse 9/	0.3	0.0	-0.3	1.4	-1.5	-0.1	-0.2	-0.1	0.1	0.0
Gross public sector debt 10/	56.7	53.8	52.6	58.3	58.9	59.9	60.7	61.0	61.2	61.5
Memorandum items										
Nominal GDP (billions of pesos)	26,690	29,526	31,936	33,981	36,085	38,299	40,423	42,684	45,054	47,558
Output gap (in percent of potential GDP)	-2.0	0.0	1.4	0.7	-0.2	-0.1	0.0	0.0	0.0	0.0

Sources: World Bank Development Indicators, ENIGH, National Institute of Statistics and Geography, National Council of Population, Bank of Mexico, Secretariat of Finance and Public Credit, and Fund staff estimates.

1/ ENIGH.

2/ Percent of population enrolled in primary school regardless of age as a share of the population of official primary education age.

3/ Contribution to growth. Excludes statistical discrepancy.

4/ Excludes goods procured in ports by carriers.

5/ Excludes reserve assets

6/ Based on IMF staff calculations.

7/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.

8/ Data exclude state and local governments and include state-owned enterprises and public development banks.

9/ Negative of the change in the structural primary fiscal balance.

10/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of borrowing requirements as published by the authorities plus public sector financial assets. It does not include arrears on Pemex's supplier debt, which stood at 0.6 percent of GDP at end-2024 and 0.1 percent of GDP as of September 12, 2025.

Table 2. Mexico: Statement of Operations of the Public Sector, Authorities' Presentation 1/
(In percent of GDP)

	2021	2022	2023	2024	2025	2026	Proj.		2029	2030
							2027	2028		
Budgetary Revenue, By Type	22.3	22.4	22.0	22.1	21.9	21.9	22.2	22.2	22.2	22.2
Oil revenue	4.3	5.0	3.4	2.8	2.7	2.7	2.8	2.8	2.8	2.8
Non-oil tax revenue	13.4	12.9	14.1	14.6	14.7	14.8	14.8	14.8	14.8	14.8
Non-oil non-tax revenue	4.6	4.4	4.5	4.7	4.5	4.4	4.6	4.6	4.6	4.6
Budgetary Revenue, By Entity	22.3	22.4	22.0	22.1	21.9	21.9	22.2	22.2	22.2	22.2
Federal government revenue	16.2	16.2	16.3	16.3	16.4	16.3	16.5	16.5	16.5	16.5
Tax revenue, of which:	13.4	12.9	14.1	14.6	14.7	14.8	14.8	14.8	14.8	14.8
Excises (including fuel)	1.5	0.4	1.4	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Nontax revenue	2.8	3.3	2.2	1.7	1.7	1.6	1.7	1.7	1.8	1.8
Public enterprises	6.2	6.1	5.7	5.8	5.5	5.5	5.6	5.6	5.6	5.6
PEMEX	3.0	2.8	2.3	2.2	2.1	2.1	2.2	2.2	2.2	2.2
Other	3.2	3.3	3.4	3.6	3.4	3.4	3.5	3.5	3.5	3.5
Budgetary Expenditure	25.2	25.6	25.4	27.0	25.5	25.5	25.1	24.6	24.7	24.6
Primary	22.7	22.8	22.2	23.6	22.0	22.7	22.5	22.5	22.6	22.8
Programmable	19.2	19.2	18.5	19.8	18.2	18.9	18.8	18.8	18.9	19.1
Current	14.8	14.9	14.9	15.9	15.4	15.6	15.9	16.0	16.2	16.4
Wages	5.1	4.8	4.8	5.0	4.9	4.9	4.9	4.9	4.9	4.9
Pensions 2/	3.9	4.0	4.1	4.3	4.5	4.4	4.6	4.6	4.7	4.8
Subsidies and transfers	3.1	3.2	3.5	3.8	3.5	3.9	4.0	4.1	4.2	4.3
Other	2.7	2.8	2.5	2.8	2.4	2.4	2.4	2.4	2.4	2.4
Capital	4.4	4.3	3.6	3.9	2.8	3.3	3.0	2.8	2.7	2.7
Physical capital	2.6	3.2	2.8	3.0	2.4	2.5	2.6	2.4	2.4	2.4
Financial capital 3/	1.8	1.2	0.8	0.9	0.4	0.7	0.3	0.3	0.3	0.3
Nonprogrammable	3.5	3.6	3.7	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Of which: revenue sharing	3.4	3.6	3.6	3.7	3.7	3.6	3.5	3.5	3.5	3.5
Interest Payments	2.6	2.8	3.3	3.4	3.5	3.5	3.2	3.0	3.0	2.9
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.9	-0.9	-1.0
Traditional Balance	-2.9	-3.2	-3.4	-4.9	-3.6	-3.7	-3.0	-2.5	-2.5	-2.5
Adjustments To The Traditional Balance	-0.9	-1.1	-1.0	-0.8	-0.7	-0.5	-0.5	-0.5	-0.5	-0.5
Public Sector Borrowing Requirements	3.7	4.3	4.3	5.7	4.3	4.1	3.5	3.0	3.0	3.0
Memorandum Items										
Structural current spending	9.8	9.9	10.0	10.8						
Structural current spending real growth (y/y, in percent)	-0.3	4.1	4.6	9.7						

Sources: Ministry of Finance and Public Credit; and IMF staff estimates.

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks.

2/ Includes social assistance benefits.

3/ Due to lack of disaggregated data this item includes both financing and capital transfers.

Table 3. Mexico: Statement of Operations of the Public Sector, GFSM 2014 Presentation 1/
(In percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
							Proj.			
Revenue	22.9	24.2	24.2	24.6	24.2	24.2	24.2	24.3	24.3	24.3
Taxes	13.4	13.3	14.1	14.6	14.7	14.8	14.8	14.8	14.8	14.8
Taxes on income, profits and capital gains	7.1	7.7	7.8	7.9	7.9	8.0	8.0	8.0	8.0	8.0
Taxes on goods and services	5.7	5.0	5.7	6.0	6.1	6.0	6.1	6.1	6.1	6.1
Value added tax	4.2	4.1	4.3	4.1	4.2	4.2	4.2	4.2	4.2	4.2
Excises	1.5	0.8	1.4	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Taxes on international trade and transactions	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other taxes	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social Contributions	2.3	2.3	2.4	2.5	2.4	2.4	2.5	2.5	2.5	2.5
Other Revenue	7.3	8.6	7.7	7.6	7.1	7.0	6.9	7.0	7.0	7.0
Property income	2.1	2.8	1.8	1.5	1.4	1.3	1.4	1.4	1.4	1.4
Other	5.2	5.8	5.9	6.0	5.7	5.7	5.6	5.6	5.6	5.6
Total Expenditure	26.7	28.5	28.5	30.3	28.5	28.3	27.7	27.3	27.3	27.3
Expense	24.9	26.3	26.7	28.0	26.8	27.1	26.4	26.4	26.5	26.7
Compensation of employees	3.4	3.3	3.2	3.4	3.2	3.2	3.2	3.2	3.2	3.2
Purchases of goods and services	2.9	3.0	2.7	2.9	2.4	2.4	2.4	2.4	2.4	2.4
Interest 2/	4.6	5.4	6.2	6.5	6.3	6.1	5.7	5.3	5.1	5.1
Subsidies and transfers	2.4	2.9	2.9	3.4	3.0	3.4	3.5	3.6	3.7	3.7
Grants 3/	7.6	7.6	7.6	7.6	7.5	7.3	7.2	7.2	7.2	7.2
Social benefits	3.9	4.0	4.1	4.3	4.5	4.4	4.6	4.6	4.7	4.8
Other expense	0.2	0.2	0.0	-0.1	-0.1	0.2	-0.2	0.1	0.1	0.2
Net Acquisition of Nonfinancial Assets 4/	1.7	2.2	1.8	2.3	1.7	1.9	2.0	1.8	1.7	1.7
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.9	-0.9	-1.0
Gross Operating Balance	-2.0	-2.1	-2.5	-3.4	-2.6	-2.9	-2.2	-2.1	-2.2	-2.3
Overall Fiscal Balance (Net lending/borrowing)	-3.7	-4.3	-4.3	-5.7	-4.3	-4.1	-3.5	-3.0	-3.0	-3.0
Primary Net Lending/Borrowing	0.6	0.7	1.5	0.2	1.5	1.6	1.8	1.9	1.8	1.8
Memorandum Items										
Primary expenditure	22.1	23.2	22.3	23.8	22.2	22.2	22.0	22.0	22.2	22.2
Current expenditure	24.9	26.3	26.7	28.0	26.8	26.5	25.8	25.5	25.6	25.6
Structural fiscal balance	-3.3	-4.0	-4.5	-6.0	-4.4	-4.2	-3.5	-3.0	-3.0	-3.0
Structural primary balance 5/	1.1	1.0	1.3	-0.1	1.4	1.5	1.8	1.9	1.8	1.8
Fiscal impulse 6/	0.3	0.0	-0.3	1.4	-1.5	-0.1	-0.2	-0.1	0.1	0.0
Gross public sector debt 7/	56.7	53.8	52.6	58.3	58.9	59.9	60.7	61.0	61.2	61.5
In domestic currency (percentage of total debt)	69.2	72.9	77.9	77.0	78.3	78.6	79.2	80.0	80.4	80.9
In foreign currency (percentage of total debt)	30.8	27.1	22.1	23.0	21.7	21.4	20.8	20.0	19.6	19.1
Net public sector debt 8/	49.1	47.6	46.5	51.3	51.6	52.9	53.7	54.0	54.2	54.4

Sources: Ministry of Finance and Public Credit; and Fund staff estimates and projections.

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks.

2/ Interest payments differ from official data due to adjustments to account for changes in valuation and interest rates.

3/ Includes transfers to state and local governments under revenue-sharing agreements with the federal government.

4/ This category differs from official data on physical capital spending due to adjustments to account for Pidiregas amortizations included in budget figures and the reclassification of earmarked transfers to sub-national governments.

5/ Adjusting revenues for the economic and oil-price cycles and excluding one-off items (e.g. oil hedge income and Bank of Mexico transfers), in percent of potential.

6/ Negative of the change in the structural primary fiscal balance.

7/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of public sector borrowing requirements as published by the authorities plus public sector financial assets. It does not include arrears on Pemex's supplier debt, which stood at 0.6 percent of GDP at end-2024 and 0.1 percent of GDP as of September 12, 2025.

8/ Corresponds to the net stock of public sector borrowing requirements (i.e., net of public sector financial assets) as published by the authorities. It does not include arrears on Pemex's supplier debt, which stood at 0.6 percent of GDP at end-2024 and 0.1 percent of GDP as of September 12, 2025.

Table 4a. Mexico: Summary Balance of Payments
(In billions of U.S. dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Proj.					
Current account	-4.6	-18.9	-12.6	-16.7	-4.6	-7.0	-11.0	-11.9	-13.8	-14.5
Merchandise goods trade balance	-10.8	-28.1	-12.3	-18.5	-6.7	-10.6	-14.2	-15.6	-16.4	-17.0
Exports, f.o.b. 2/	494.9	577.7	593.0	617.7	639.6	644.9	664.1	695.5	728.4	763.1
o/w Manufactures	436.1	508.4	528.8	554.4	576.0	588.3	620.8	654.3	685.6	718.0
o/w Petroleum and derivatives 1/	29.4	38.9	33.2	28.9	24.0	22.8	22.5	22.4	22.1	21.8
Imports, f.o.b. 2/	505.7	605.8	605.3	636.2	646.3	655.5	678.3	711.0	744.7	780.1
o/w Petroleum and derivatives 1/	53.9	75.3	58.6	50.1	37.2	37.1	38.5	39.3	40.8	41.9
Services, net	-12.4	-15.5	-19.6	-9.1	-13.0	-14.6	-17.2	-18.2	-19.4	-20.3
Primary income, net	-33.9	-33.8	-43.7	-53.4	-46.9	-46.3	-47.0	-48.9	-50.7	-52.5
Secondary income (mostly remittances), net	52.5	58.7	63.0	64.3	61.9	64.5	67.4	70.7	72.7	75.3
Capital Account, net	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Account (Net lending (+)/Net borrowing (-))	-3.6	-14.3	-8.2	-12.1	-4.7	-7.1	-11.1	-12.0	-13.8	-14.6
Foreign direct investment, net	-35.8	-21.7	-30.2	-32.3	-18.6	-22.2	-25.8	-30.8	-36.5	-37.9
Net acquisition of financial assets	-0.3	17.3	0.8	13.0	9.3	9.8	11.5	12.7	13.5	14.1
Net incurrence of liabilities	35.5	39.1	31.0	45.3	27.9	32.1	37.2	43.5	50.0	52.0
Portfolio investment, net	41.6	5.5	11.3	8.1	5.3	8.3	7.7	11.4	12.6	13.2
Net acquisition of financial assets	22.7	0.1	4.9	14.3	9.9	16.0	18.0	21.4	22.9	25.2
Net incurrence of liabilities	-18.9	-5.4	-6.4	6.2	4.6	7.7	10.2	10.1	10.3	12.0
Public Sector 3/	-15.7	1.6	2.9	8.3	6.7	5.5	6.8	5.4	4.5	5.9
o/w Local currency domestic-issued bonds	-14.8	1.9	2.1	-1.3	3.2	2.7	4.9	4.3	2.2	3.7
Private sector 4/	-3.2	-7.0	-9.3	-2.1	-2.1	2.2	3.5	4.6	5.8	6.0
Securities	0.0	-2.4	-4.1	3.2	2.2	5.5	5.8	5.9	6.1	6.3
Equity	-3.2	-4.7	-5.2	-5.3	-4.3	-3.3	-2.3	-1.3	-0.3	-0.3
Financial derivatives, net	2.1	2.9	5.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other investments, net	-21.7	0.7	-2.5	-2.5	-9.7	-3.2	-2.8	-1.5	0.9	1.2
Net acquisition of financial assets	-9.5	4.9	-8.0	1.1	-5.9	0.8	1.4	2.9	5.6	6.1
Net incurrence of liabilities	12.3	4.2	-5.6	3.6	3.8	4.0	4.2	4.4	4.7	5.0
Change in Reserves Assets	10.3	-1.7	7.6	13.9	17.6	9.3	9.1	8.3	8.4	8.2
Total change in gross reserves assets	8.7	-6.6	13.3	17.6	17.6	9.3	9.1	8.3	8.4	8.2
Valuation change	-1.6	-4.9	5.7	3.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	1.0	4.7	4.4	4.7	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, net	-552.2	-613.8	-758.1	-592.1	-582.2	-588.8	-599.0	-609.7	-621.8	-634.2
Memorandum items										
Hydrocarbons exports volume growth (in percent)	-6.2	-3.6	6.4	-16.0	1.3	-0.7	-1.2	-1.0	-1.7	-1.4
Non-hydrocarbons exports volume growth (in percent)	5.8	8.6	-7.4	3.2	6.7	1.0	2.8	4.0	4.1	4.1
Hydrocarbons imports volume growth (in percent)	-4.5	27.6	1.3	-7.7	-5.0	3.0	2.3	1.7	2.6	2.2
Non-hydrocarbons imports volume growth (in percent)	16.7	7.2	3.3	3.5	1.5	2.6	3.4	3.8	4.1	4.1
Crude oil export volume (in millions of bbl/day) 5/	1.02	0.95	1.03	0.81	0.84	0.83	0.82	0.81	0.79	0.78
Gross international reserves (in billions of U.S. dollars)	207.7	201.1	214.4	232.1	249.7	259.0	268.1	276.4	284.9	293.0
Gross domestic product (in billions of U.S. dollars)	1,316.6	1,466.9	1,798.3	1,856.4	1,862.7	2,031.0	2,126.0	2,227.0	2,332.1	2,442.3

Sources: Bank of Mexico, National Institute of Statistics and Geography, PEMEX, and Fund staff estimates.

1/ Crude oil, derivatives, petrochemicals, and natural gas.

2/ Excludes goods procured in ports by carriers.

3/ Public sector is the sum of central bank, general government, and development banks, and SOEs.

4/ Private sector is the sum of commercial banks, other financial corporations, households, NPISHs, and pidiregas.

5/ Crude oil export volumes reported by PEMEX.

Table 4b. Mexico: Summary Balance of Payments
(In percent of GDP)

	2021	2022	2023	2024	2025	2026	Proj.			
							2027	2028	2029	2030
Current account	-0.3	-1.3	-0.7	-0.9	-0.2	-0.3	-0.5	-0.5	-0.6	-0.6
Merchandise goods trade balance	-0.8	-1.9	-0.7	-1.0	-0.4	-0.5	-0.7	-0.7	-0.7	-0.7
Exports, f.o.b. 2/	37.6	39.4	33.0	33.3	34.3	31.8	31.2	31.2	31.2	31.2
o/w Manufactures	33.1	34.7	29.4	29.9	30.9	29.0	29.2	29.4	29.4	29.4
o/w Petroleum and derivatives 1/	2.2	2.7	1.8	1.6	1.3	1.1	1.1	1.0	0.9	0.9
Imports, f.o.b. 2/	38.4	41.3	33.7	34.3	34.7	32.3	31.9	31.9	31.9	31.9
o/w Petroleum and derivatives 1/	4.1	5.1	3.3	2.7	2.0	1.8	1.8	1.8	1.8	1.7
Services, net	-0.9	-1.1	-1.1	-0.5	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Primary income, net	-2.6	-2.3	-2.4	-2.9	-2.5	-2.3	-2.2	-2.2	-2.2	-2.2
Secondary income (mostly remittances), net	4.0	4.0	3.5	3.5	3.3	3.2	3.2	3.2	3.1	3.1
Capital Account, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account (Net lending (+)/Net borrowing (-))	-0.3	-1.0	-0.5	-0.7	-0.3	-0.3	-0.5	-0.5	-0.6	-0.6
Foreign direct investment, net	-2.7	-1.5	-1.7	-1.7	-1.0	-1.1	-1.2	-1.4	-1.6	-1.6
Net acquisition of financial assets	0.0	1.2	0.0	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Net incurrence of liabilities	2.7	2.7	1.7	2.4	1.5	1.6	1.8	2.0	2.1	2.1
Portfolio investment, net	3.2	0.4	0.6	0.4	0.3	0.4	0.4	0.5	0.5	0.5
Net acquisition of financial assets	1.7	0.0	0.3	0.8	0.5	0.8	0.8	1.0	1.0	1.0
Net incurrence of liabilities	-1.4	-0.4	-0.4	0.3	0.2	0.4	0.5	0.5	0.4	0.5
Public Sector 3/	-1.2	0.1	0.2	0.4	0.4	0.3	0.3	0.2	0.2	0.2
o/w Local currency domestic-issued bonds	-1.1	0.1	0.1	-0.1	0.2	0.1	0.2	0.2	0.1	0.2
Private sector 4/	-0.2	-0.5	-0.5	-0.1	-0.1	0.1	0.2	0.2	0.2	0.2
Securities	0.0	-0.2	-0.2	0.2	0.1	0.3	0.3	0.3	0.3	0.3
Equity	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Financial derivatives, net	0.2	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	-1.7	0.0	-0.1	-0.1	-0.5	-0.2	-0.1	-0.1	0.0	0.0
Net acquisition of financial assets	-0.7	0.3	-0.4	0.1	-0.3	0.0	0.1	0.1	0.2	0.3
Net incurrence of liabilities	0.9	0.3	-0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Change in Reserves Assets	0.8	-0.1	0.4	0.7	0.9	0.5	0.4	0.4	0.4	0.3
Total change in gross reserves assets	0.7	-0.5	0.7	1.0	0.9	0.5	0.4	0.4	0.4	0.3
Valuation change	-0.1	-0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.1	0.3	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, net	-41.9	-41.8	-42.2	-31.9	-31.3	-29.0	-28.2	-27.4	-26.7	-26.0

Sources: Bank of Mexico, National Institute of Statistics and Geography, and Fund staff estimates.

1/ Crude oil, derivatives, petrochemicals, and natural gas.

2/ Excludes goods procured in ports by carriers.

3/ Public sector is the sum of central bank, general government, and development banks, and SOEs.

4/ Private sector is the sum of commercial banks, other financial corporations, households, NPISHs, and Pidiregas.

Table 5. Mexico: Financial Soundness Indicators
(In percent)

	2019	2020	2021	2022	2023	2024	2025	Latest data available 1/
Capital Adequacy								
Regulatory capital to risk-weighted assets	16.0	17.7	19.5	19.0	18.8	19.1	20.0	June
Regulatory Tier 1 capital to risk-weighted assets	14.4	16.1	18.1	17.6	17.5	17.2	17.9	June
Capital to assets	9.8	9.7	10.9	9.8	10.2	9.9	10.4	June
Gross asset position in financial derivatives to capital	52.1	82.7	49.4	62.8	44.5	35.6	30.3	June
Gross liability position in financial derivatives to capital	53.3	84.8	50.0	63.0	41.4	37.6	32.1	June
Asset Quality								
Nonperforming loans to total gross loans	2.2	2.6	2.0	2.1	2.1	2.0	2.1	June
Provisions to Nonperforming loans	146.2	160.1	160.7	158.1	154.3	156.6	152.3	June
Earnings And Profitability								
Return on assets	2.3	1.2	2.1	2.6	2.8	2.8	2.7	June
Return on equity	15.5	9.0	14.6	17.6	18.5	18.2	17.7	June
Liquidity								
Liquid assets to short-term liabilities	119.2	136.8	152.9	124.3	121.8	108.0	114.8	June
Liquid assets to total assets	29.6	33.1	34.5	30.1	29.7	30.4	32.0	June
Customer deposits to total (non-interbank) loans	93.2	105.8	109.3	106.3	105.6	102.4	101.9	June
Trading income to gross income	5.8	5.5	6.7	9.5	9.7	7.4	8.5	June

Source: Financial Soundness Indicators.

1/ End of period.

Table 6. Mexico: Financial Indicators and Measures of External Vulnerabilities

	2022	2023	2024	2025	Latest data available
Financial Market Indicators					
Exchange rate (per U.S. dollar, period average)	20.1	17.8	18.3	19.7	Aug-25
(year-to-date percent change, + appreciation)	0.7	11.8	-3.1	-12.6	Aug-25
28-day treasury auction rate (percent; period average)	7.6	11.1	10.7	8.6	Aug-25
EMBIG Mexico spread (basis points; period average)	404.5	377.7	319.2	304.7	Aug-25
Sovereign 10-year local currency bond yield (period average)	8.8	9.1	9.7	9.5	Aug-25
Stock exchange index (period average, year on year percent change)	1.4	6.2	1.3	-0.5	Aug-25
Financial System					
Bank of Mexico net international reserves (US\$ billion)	199.1	212.8	229.0	229.0	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	10.9	8.7	11.3	11.3	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.1	2.1	2.0	2.0	Apr-25
External Vulnerability Indicators					
Gross financing needs (billions of US\$) 2/	67.3	85.5	95.7	87.6	Proj.
Gross international reserves (end-year, billions of US\$) 3/	201.1	214.4	232.1	247.5	Jul-25
Change (billions of US\$)	-6.6	13.3	17.6	0.3	Jul-25
Months of imports of goods and services	3.6	3.8	3.9	4.1	Proj.
Months of imports plus interest payments	3.5	3.6	3.7	4.0	Proj.
Percent of broad money	31.8	26.5	31.0	28.5	Proj.
Percent of portfolio liabilities	41.9	39.8	49.6	53.0	Proj.
Percent of short-term debt (by residual maturity)	292.5	303.5	309.6	297.7	Proj.
Percent of ARA Metric 4/	122.8	117.9	135.3	139.9	Proj.
Percent of GDP	13.7	11.9	12.5	13.5	Jun-25
Gross total external debt (in percent of GDP)	31.0	26.0	24.5	25.6	Proj.
Of which: In local currency	0.0	0.0	0.0	0.0	Proj.
Of which: Public debt	20.6	17.6	16.2	16.6	Proj.
Of which: Private debt	10.4	8.4	8.3	9.0	Proj.
Financial sector	3.4	2.9			
Nonfinancial sector	7.0	5.5			
Gross total external debt (billions of US\$)	454.7	468.0	454.0	477.3	Proj.
Of which: In local currency	0.0	0.0	0.0	0.0	Proj.
Of which: Public debt	302.4	316.6	300.7	309.8	Proj.
Of which: Private debt	152.4	151.3	153.3	167.6	Proj.
Financial sector	49.7	52.7			
Nonfinancial sector	102.7	98.6			
External debt service (in percent of GDP)	5.8	5.5	5.6	5.5	Proj.

Sources: Bank of Mexico, National Banking and Securities Commission, National Institute of Statistics and Geography, Ministry of Finance and Public Credit, and Fund staff estimates.

1/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.

2/ Corresponds to the sum of the current account deficit, amortization payments, and the change in gross international reserves.

3/ Excludes balances under bilateral payments accounts. Includes SDR2.337 billion of the general SDR allocation and SDR 0.224 billion of the special SDR allocation in 2009, and SDR 8.542 billion in the general SDR allocation in 2021.

4/ The ARA metric was developed by the Strategy and Policy Review Department at the IMF to assess reserve adequacy. Weights to individual components were revised in December 2014 for the whole time series.

Table 7. Mexico: Monetary Indicators 1/
(In billions of Pesos)

	2020	2021	2022	2023	2024	Proj. 2025
Banco De México						
Net foreign assets	3,876	3,945	3,640	3,383	4,536	4,504
Net international reserves	3,966	4,257	3,923	3,632	4,832	4,796
Gross international reserves 2/	3,966	4,257	3,923	3,632	4,832	4,796
Reserve liabilities	0	0	0	0	0	0
Other net foreign assets	-90	-312	-282	-248	-296	-292
Net domestic assets	-1,709	-1,496	-932	-417	-1,223	-1,031
Net domestic credit	-1,640	-1,376	-1,143	-1,054	-993	-1,121
Net credit to non-financial public sector	-1,778	-1,400	-1,045	-1,034	-1,035	-1,108
Credit to non-financial private sector	0	0	0	0	0	0
Net credit to financial corporations	138	24	-98	-20	42	-13
Net claims on other depository corporations	138	24	-98	-20	42	-13
Net claims on other financial corporations	0	0	0	0	0	0
Capital account	53	52	-288	-729	109	-181
Other items net	-15	-68	-77	-91	-121	-90
Monetary base	2,118	2,441	2,700	2,960	3,293	3,473
Other Depository Corporations						
Net foreign assets	142	340	287	331	470	495
Foreign assets	940	1,013	1,104	1,133	1,713	1,806
Foreign liabilities	798	672	817	802	1,243	1,311
Net domestic assets	9,230	9,863	10,592	11,671	13,328	14,344
Net credit to the public sector	4,239	4,437	4,588	5,123	6,037	6,576
Claims on non-financial public sector	4,644	4,880	5,096	5,621	6,638	7,233
in pesos	4,442	4,701	4,893	5,435	6,415	6,994
in FX	202	178	204	186	223	239
Liabilities to the nonfinancial public sector	405	442	508	498	601	657
Credit to the private sector	6,665	6,971	7,675	8,073	9,026	9,387
Local Currency	5,941	6,198	6,823	7,188	7,798	8,482
Foreign Currency	724	773	852	884	1,228	905
Net credit to the financial system	690	806	1,094	1,044	1,079	1,006
Other	-2,364	-2,351	-2,765	-2,569	-2,814	-2,625
Liabilities to the private sector	9,372	10,204	10,879	12,002	13,797	14,839
Liquid liabilities	8,572	9,248	9,840	10,963	12,534	13,471
Local currency	7,905	8,481	9,068	10,245	11,690	12,618
Foreign currency	667	766	772	718	844	853
Non liquid liabilities	800	956	1,039	1,039	1,263	1,368
Local currency	762	915	981	980	1,190	1,294
Foreign currency	38	41	57	59	73	74
Total Banking System						
Net foreign assets	4,018	4,285	3,927	3,714	5,006	4,999
Net domestic assets	7,522	8,367	9,659	11,254	12,104	13,313
Liquid liabilities	10,691	11,688	12,540	13,923	15,828	16,944
Non-liquid liabilities	800	956	1,039	1,039	1,263	1,368
Memorandum Items						
Monetary base (percent change)	21.6	15.2	10.6	9.6	11.2	5.5
Currency in circulation (percent change)	23.3	16.8	11.1	9.5	11.7	5.5
Broad money (percent change)	13.4	9.5	7.3	11.0	13.8	5.5
Bank credit to the non-financial private sector (growth rate)	-4.5	4.6	10.1	5.2	11.8	4.0
Bank credit to the non-financial private sector (as percent of GDP)	27.7	26.1	26.0	25.3	26.6	26.0

Sources: Bank of Mexico, National Institute of Statistics and Geography and Fund staff estimates.

1/ Data of the monetary sector are prepared based on the IMF's methodological criteria and do not necessarily coincide with the definitions published by Bank of Mexico.

2/ Excludes balances under bilateral payments accounts. Includes SDR 8.542 billion in the general SDR allocation in 2021.

Annex I. External Sector Assessment

Overall Assessment: <i>The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.</i> Mexico's current account (CA) deficit widened slightly to 0.9 percent of GDP in 2024, reflecting a modest increase in the trade deficit. The CA balance is expected to improve in 2025, mainly reflecting weak domestic demand. Over the medium term, the CA balance is projected to stabilize at around -0.6 percent of GDP. Potential Policy Responses: Structural reforms are critical to boost investment in the medium to long term, and to maintain external balance. Reforms should include tackling infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector. In the current uncertain environment, trade policies should continue seeking to address trade tensions, promote clarity and transparency, and deepen economic integration. The floating exchange rate should continue to serve as a shock absorber, with FX interventions employed only in exceptional circumstances to counter disorderly market conditions. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks. Ensuring fiscal sustainability is also vital to buttress external stability.						
Foreign Asset and Liability Position and Trajectory	Background. The NIIP stood at -32 percent of GDP in 2024, improving from -42 percent in 2023, and compared to the -45 percent average during 2019-23. While net transactions have decreased slightly, the main driver of change was valuation adjustments stemming from the depreciation of the peso which led to a decline in the market value of Mexico's liabilities in US dollar terms. Foreign assets in 2024 were mostly direct investment (14 percent of GDP) and international reserves (12½ percent). Foreign liabilities primarily consist of direct investment (42 percent of GDP) and portfolio investment (25¼ percent). IMF staff projects the NIIP to slightly improve over the medium term to about -30 percent of GDP. Assessment. The NIIP remains sustainable, with the relatively high share of local-currency denomination in its foreign public liabilities limiting FX risks. Gross foreign portfolio liabilities could be a source of vulnerability at times of global financial distress, although the share of foreign holdings in local debt markets has fallen considerably in recent years. Vulnerabilities from exchange rate volatility are moderate, as most Mexican firms with FX debt have natural hedges and actively manage their FX exposures.					
2024 (% GDP)	NIIP: -32	Gross Assets: 43	Debt Assets: 13	Gross Liab.: 75	Debt Liab.: 32	
Current Account	Background. The CA deficit widened slightly to 0.9 percent of GDP in 2024, compared to the level observed in 2023, primarily reflecting a modest increase in the trade deficit. The secondary income surplus remain robust, driven by remittances. At the same time, the expansion of the primary income deficit (owing to increased retained earnings paid to foreign firms) was offset by improvements in the service balance (owing to lower service imports). The CA balance is expected to improve in 2025. Over the medium term, the CA balance is projected to stabilize at around -0.6 percent of GDP. Assessment. The EBA model estimates a cyclically-adjusted CA balance of -0.5 percent of GDP and a cyclically-adjusted CA norm of -1.3 percent of GDP. Based on the CA model, IMF staff estimates the 2024 CA gap midpoint at 0.8 percent of GDP, with a range of 0.4 to 1.2 percent of GDP. The overall contribution from identified policy gaps is assessed to be -0.1 percent of GDP, with the negative contribution from the credit gap (as Mexico's negative credit gap is narrower than those abroad) largely offset by positive contributions from other policy gaps, primarily from health expenditure. Despite a notable domestic fiscal policy gap from loose fiscal policy, the contribution from the fiscal policy gap is zero, as Mexico's fiscal policy gap is similar to the rest of the world. The large residual may reflect country-specific or policy distortions not included in the model.					
2024 (% GDP)	CA: -0.9	Cycl. Adj. CA: -0.5	EBA Norm: -1.3	EBA Gap: 0.8	Staff Adj.: 0	Staff Gap: 0.8
Real Exchange Rate	Background. The peso displayed a modest average depreciation of 3 percent against the US dollar in 2024 compared to 2023, although the end-of-period change was significantly larger (at nearly 20 percent) due to a sharper depreciation in the second half of 2024 (following the appreciating trend in 2023 and early 2024). As of July 2025, the REER stood about 1½ percent lower than its 2024 average. Assessment. The IMF staff CA gap implies a REER that was undervalued by 2.3 percent in 2024 (applying an estimated semi-elasticity of 0.33). The EBA REER index and level models, however, point to overvaluations of 5.7 percent and 24.3 percent. Staff's overall assessment for 2024, based on the CA gap approach, is a REER undervaluation in the range of 1.1 to 3.5 percent, with a midpoint of 2.3 percent.					
Capital and Financial Accounts: Flows and Policy Measures	Background. In 2024, Mexico recorded net financial account inflows of 0.2 percent of GDP, slightly lower than the level observed in 2023 (0.3 percent of GDP). Net inflows of FDI remained stable at about 1.7 percent of GDP, partially offset by net portfolio outflows (0.4 percent of GDP) and other investment outflows (0.7 percent), as well as reserve accumulation. Assessment. The long maturity of sovereign debt and the relatively high share of local-currency-denominated debt reduce the exposure of government finances to FX depreciation and refinancing risks. The banking sector is resilient, and FX risks of nonfinancial corporate debt are generally covered by natural and financial hedges.					
FX Intervention and Reserves Level	Background. The authorities remain committed to a free-floating exchange rate and have used FX intervention in limited occasions on extreme volatility, in line with their policy framework. At the end of 2024, gross international reserves were \$232 billion (12½ percent of GDP), up from \$214 billion at the end of 2023. No FX intervention was conducted. Assessment. Mexico's foreign reserves, at 135 percent of the ARA metric and 309½ percent of short-term debt (at remaining maturity), remains adequate at the end of 2024. The Flexible Credit Line arrangement continues to provide an additional buffer.					

Annex II. Risk Assessment Matrix¹

Risks	Likelihood	Impact	Policy Response
Global Risks			
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	High. Global trade disruptions affect Mexico's exports and investment in Mexico, weakening economic activity.	Continue taking advantage of its proximity and GVC integration with the U.S. Foster compliance with USMCA requirements and certifications by firms who traditionally traded outside the USMCA. Promote trade diversification to increase Mexico's resilience.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Medium. Energy and food price shocks contribute to inflation.	Monetary policy should respond if shocks feed into core inflation or inflation expectations become de-anchored.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	High. Spillovers to financial markets affect Mexico through tighter financial conditions and capital outflows.	Let exchange rate act as a shock absorber. Tighten monetary policy, consistent with Banxico's price-stability mandate, if inflation in Mexico is affected by additional price pressures. Frontload fiscal consolidation plans.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Risks	Likelihood	Impact	Policy Response
Global Risks			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Low. While geopolitical tensions, on average, adversely affects the global economy, a reshaping of global supply chains could have a net positive impact for Mexico.	Fully taking advantage of these dynamics requires strengthening governance, tackling corruption and crime, improving physical infrastructure, and mobilizing private saving to fund private investments by expanding coverage of financial intermediations.
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	Medium. High financial integration exposes Mexico to global threats. Cyberattacks can also be of domestic origin.	Cyber response and recovery capabilities have been enhanced. In the face of cyberattacks, authorities would deploy the established protocols.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	Low. Climate risks could disrupt the energy and food systems, as well as accelerating asset stranding if global decarbonization speed up.	If lower oil prices create stranded assets, restrict Pemex projects to the most efficient fields and accelerate the transition to green energy, including the production of electrical vehicles.
New Trade Agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	High. Greater trade policy certainty could boost Mexico's exports and investment, strengthening economic activity.	Continue to promote clear, transparent, and non-discriminatory trade policies to reduce uncertainty and attract investment; avoid distorting measures; and take this opportunity to diversify its trade partnerships.
Rising Social Discontent. High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	Medium	Medium. A global wave of social discontent is likely to fall more lightly on Mexico	Increase and better target social transfers to alleviate stress of vulnerable households while offsetting the fiscal impact through savings in other areas. Accelerate

Risks	Likelihood	Impact	Policy Response
		in the current political context.	investment plans in low-income regions.
Domestic Risks			
Slower-than-anticipated fiscal consolidation , leading to steady increase in public debt and an increase in country risk premiums.	Medium	Medium. A moderate risk of debt distress and the strength of the fiscal framework would dampen market stress.	Tighten monetary policy if price pressures are observed. Resume the consolidation effort, especially if country risk premiums rise. Strengthen fiscal framework to enhance credibility of future plans.

Annex III. Key FSAP Recommendations

FSAP Recommendations	Development
Cross-Cutting Themes	
Enhance the autonomy of regulatory government agencies and legal protection of supervisors.	CNBV maintains a trust fund to support legal defense for its supervisory staff.
Assess and enhance the organizational structure and resource needs of individual agencies.	Efforts are underway to address fragmented supervision, particularly in the context of open finance, where coordination across agencies remains a challenge. Authorities are advancing reforms under the principle of “same risk, same regulation”, aiming to harmonize regulatory treatment across financial entities.
Enhance the oversight of the Interbank Electronic Payment System (SPEI) relative to the PFMI and cybersecurity.	Banxico is evaluating the creation of an independent oversight unit within the Directorate General of Payment Systems and Market Infrastructures. In December 2024, Banxico published its 2024–27 Cybersecurity Strategy (<i>Estrategia de Ciberseguridad 2024–27</i>). Full alignment with PFMI remains work in progress.
Systemic Risk Analysis	
Monitor the dynamics of contingent credit lines and portfolio concentration closely and use Pillar 2 requirements to address relevant risks, as needed.	Authorities are monitoring contingent credit lines and working to improve their regulatory reporting. Laws and initiatives such as LEX, the Total Loss-Absorbing Capacity (TLAC) and the capital supplement for local systemic institutions allow for differentiation of Systemically Important (SI) institutions. - Basel Pillar 2 is not yet in place for a few smaller banks with high concentration and reliance on large corporate clients. The possibility for CNBV/Banxico to supervise financial conglomerates on a consolidated basis remains work in progress as it requires legal changes and no draft legislation is currently in place.
Expand the liquidity stress test framework; incorporate in the Supervisory Review Process to inform Pillar 2 requirements for banks.	Banxico and CNBV require annual stress tests to assess resilience against systemic and idiosyncratic shocks. In 2022Q4 Banxico implemented a liquidity stress test based on cashflows and maturity ladder, and the distance to liquidity stress indicator. In 2023, the stress test was expanded to include concentration risks. Since 2024, Banxico is actively working on a system-wide credit and liquidity stress tests.
Financial Sector Oversight	
Develop and publish a macroprudential policy strategy.	Authorities continue to work on a review of macroprudential strategies. The development or publication of a macroprudential policy strategy remains pending.
Consider expanding the macroprudential toolkit with limits on loan-to-value and debt-service-to-income ratios.	LTV and DSTA ratios are not in place. The CCyB has remained at 0%, as authorities judge its activation as low priority, supported by a persistently negative financing gap in recent years (FSAP Technical Note).

FSAP Recommendations	Development
Ensure effective consolidated supervision of financial holding companies.	CNBV monitors indirect risks from non-regulated financial entities by overseeing ownership links and all related-party transactions, even if these are excluded from net capital calculations. Large Exposures Framework (LEX) facilitates the exposures' diversification in common risk groups, including those that correspond to non-regulated financial entities belonging to the same control group. CNBV and other supervisory commissions use both the Financial Groups Law and the Financial System Stability Council (CESF) mandating consolidated supervision for financial groups, their member entities, and affiliated companies. Authorities have further established information-sharing mechanisms among them. Safeguards include exposure limits and minimum requirements for related-party transactions. CNBV can request relevant data and take precautionary actions—such as imposing additional capital requirements—if any group entity faces insolvency, illiquidity, or is subject to financial intervention.
Refine the risk-based supervisory methodology (CEFER) to effectively assess banks' adherence to adequate risk management practices.	Efforts are underway to streamline risk indicators and place greater emphasis on expert judgment in evaluating mitigants. CNBV is analyzing the suitability of using the CEFER under the existing supervisory framework. The annual Capital Adequacy Assessment (ICAAP, SRP) is part of the additional capital requirements set by banks and CNBV. CNBV has been working to incorporate Capital Recovery Action Plans into its supervisory process, and since 2014, 81 preventive action plans have been issued based on supervisory assessments.
Continue developing the cybersecurity strategy for the financial system; improve cybersecurity regulatory and supervisory practices.	The implementation of the FSAP 2022 recommendation on cyber risk roles and responsibilities is in progress. Authorities have enhanced the structures and procedures to exchange information in the Information Security Sensitive Incident Response Group (GRI). Cybersecurity regulation is being strengthened through updated strategies, clearer roles, and new requirements for Financial Market Infrastructures (FMIs) like DALI, CCV, and Asigna. CNBV has revised DALI's internal rules to secure connections with INDEVAL, while Banco de México updated CCV regulations based on international standards. In December 2024, Banxico published its 2024–27 Cybersecurity Strategy; CNBV is working with Banxico to update their Memorandum of Understanding on cyber and tech risk. CNBV is strengthening financial system resilience through sector-specific cyber risk regulation; risk-based entity ratings and prioritized supervision; use of third-party compliance reports to guide oversight; intrusive on-site and focused off-site supervision; enhanced cyber intelligence sharing; regular incident response drills and playbooks; cybersecurity promotion through industry associations.

FSAP Recommendations	Development
	CNBV is developing a new cybersecurity framework to set minimum standards across all financial sectors, aligned with international best practices (Basel, NIST, IMF). Using a proportional approach, baseline requirements will apply to all entities, with additional measures based on risk. A draft is expected in Q1 2026, following a review of current regulations to identify gaps. The IMF has assisted the Mexican authorities in conducting two exercises, in 2023 and 2024. A third exercise is scheduled for October 2025.
Improve cyber response and recovery capabilities; conduct market-wide cyber crisis simulation exercises.	The implementation of the FSAP 2022 recommendation on cyber resilience is underway. Key progress include: - Cyber crisis and red team exercises on Banxico's IT systems; - Development of a cyber-map to assess risk transmission channels for systemically important FMI's; - Adoption of incident response protocols and playbooks for off-site supervision; - Launch of the GRI Collaboration Site and Cyber Intelligence Exchange Platform (MISP) to support secure information sharing among financial authorities; - Publication of a forensic evidence guide (May 2022) to strengthen cyber deterrence; - Inclusion of cybersecurity clauses in all new MoUs signed by CNBV with foreign financial authorities. Mexico has not yet formally adopted ISO/IEC 27001 or the NIST Cybersecurity Framework at the national level.
Issue supervisory guidance on climate-related risk management, governance, and business strategies; introduce disclosure requirements of climate and ESG information.	In August of 2023, Banxico submitted amendments to Provisions 4/2012 (in relation to derivatives) to incorporate the identification, measurement, assessment, and track-keeping of climate and environmental risks stemming from derivative products under the functions of the Risk Management Unit. In early 2025, the Consejo Mexicano de Normas de Información Financiera y Sostenibilidad (CINIF) issued the first two Sustainability Information Standards (NIS A-1 and B-1), requiring private companies reporting under Mexican Financial Reporting Standards to include sustainability information in their statement. The issuance of supervision expectations and guidelines will be part of an institutional project of Mexican Financial Authorities for 2024/2025. CNBV included in its 2025 work program the development of disclosure requirements for banks to report both qualitative and quantitative information on climate risks affecting them and their borrowers. In January 2025, CNBV amended the General Provisions for securities market participants (CUE), requiring issuers to disclose sustainability information aligned with IFRS Sustainability Disclosure Standards.

FSAP Recommendations	Development
Financial Integrity	
Implement the remaining 2018 Mutual Evaluation Report recommendations.	Authorities have adopted several high-level actions for the mitigation of the risks identified in the Mutual Evaluation Report of 2018, implementing reforms in 2019, 2020, 2021, 2022 and 2024 to its General Provisions with the aim of: - Adding criteria to differentiate the risks of Terrorist Financing from Money Laundering. - Adopting new technologies and alert systems for the mitigation of ML/TF risks. - Requiring banks to submit to CNBV an annual report regarding their individual exposure to ML/TF risks. - Developing best practices for banks operating in high-risk jurisdictions or with low ML/TF risks mitigation regimes, including an alert system for operations involving people on the List of Blocked People, Politically Exposed People or sanctioned jurisdictions. In 2024, CNBV advanced its risk-based supervision by updating operational questionnaires to improve data quality for its AML/CFT Risk Matrix (CEFER). It published two key guidelines—one on illicit financing during elections and another on proliferation financing. The AML/CFT Risk Matrix was also expanded to cover additional sectors, including fintech and unregulated entities. Supervision was further supported by updated inspection guidelines tailored to risk levels.
Systemic Liquidity and Crisis Management	
Review the liquidity risk mitigation framework for development banks.	The 2022 FSAP identified a group of banks whose liquidity remained low, given regulatory standards, and with high reliance on wholesale fundings. Authorities note that although development banks are not subject to minimum regulatory liquidity ratios, they report liquidity indicators monthly to Banxico, and CNBV monitors this data continuously. In case of potential liquidity shortfall, development banks remain backed by federal guarantees and can issue debt or use credit lines. Liquidity metrics are also regularly reviewed by each bank's risk committee.
Explore options to enhance the ELA framework.	In 2024, Banxico replaced the Ordinary Additional Liquidity Facility (FLAO) with the Permanent Liquidity Facility (FPL) to better meet temporary liquidity needs
Further strengthen mechanisms to ensure the credibility and feasibility of banks' financial contingency arrangements while preserving resolvability and cost-effective resolutions.	CNBV does not mandate a fixed sequence for activating recovery, capital conservation, restoration, or resolution measures.
Introduce statutory bail-in powers and eliminate barriers to the effective use of the P&A and bridge bank tools.	Authorities are currently working on a legislative proposal to introduce bail-in as a complementary resolution tool. The Instituto para la Protección al Ahorro Bancario (IPAB) has developed a specific proposal to adjust relevant regulation to allow for the effective operational use of the P&A and bridge bank tools. This proposal has been shared among authorities.

FSAP Recommendations	Development
Shorten the resolution planning cycle for D-SIBs and midsize banks, and eliminate impediments to banks' resolvability.	In the 2Q23, IPAB reformed its rules to shorten the resolution planning cycle for DSIBs and midsize banks, reducing the time intervals for updating their resolution plans. This proposal has been shared among the authorities. Supplementary capital requirement for SIBs is expected to be phased in by end-2025.
Financial Development Issues	
Broaden the scope of regulated fintech activities; finalize the implementation of open finance (¶61–62).	The implementation of the FSAP 2022 recommendation on Fintech activities, including their competition regulation, the implementation of article 76 the Financial Technological Institutions Law, as well as open finance digital lending platforms, its governance structure, APIs implementation and consent-based architecture, is in progress. As part of the activities of the National Council for Financial Inclusion (CONAIF), in 2023 CNBV and Banco de México launched several working groups aimed at discussing consumers' consent and personal data protections, authentication methods, the architecture for data exchange through APIs and cybersecurity considerations. In 2023, CNBV presented to the CONAIF a roadmap to implement open banking in the context of art. 76 of the Financial Technological Institutions Law. CNBV continues to monitor compliance with data-sharing requirements through APIs, as mandated by the 2020 regulation concerning ATMs. It is also developing a regulation to set a minimum capital adequacy ratio for fintech institutions, factoring in their risk exposure. This includes defining Tier 1 capital and calculating operational risk using the business indicator approach. A draft is expected by end-2025.
Establish a national climate finance strategy; set ambitious climate finance targets for development financial institutions (¶64).	In March 2023, the Ministry of Finance published the "Sustainable Taxonomy" to help identify activities, assets or investment projects with positive environmental and social impacts. In September 2023, the Ministry published the Sustainable Finance Mobilization Strategy, which seeks to redirect capital flows toward sustainable projects, with the Taxonomy as a central tool. Amendments made in November 2023 to the Securities Market Law and the Mutual Funds Law authorized the Ministry of Finance to establish regulations for tracking progress on sustainable development and gender equality within securities markets. In May 2024, the Mexican Council for Financial Information and Sustainability Standards introduced NIS A-1 and B-1 standards ensuring Mexico's alignment with global practices. In particular, NIS A-1 – establishes a conceptual framework for sustainability disclosures, providing quality and consistency standards. NIS B-1 – requires disclosure of Basic Sustainability Indicators (IBSO), promoting transparency on entities' sustainability performance. In January 2025, CNBV amended regulations to require non-financial issuers to disclose sustainability-related information in line with ISSB Standards S1 and S2.

Annex IV. Debt Sustainability Analysis

A. Sovereign Risk and Debt Sustainability Analysis

Annex IV. Figure 1. Mexico: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is judged to be moderate. After a procyclical policy stance in 2024, fiscal consolidation is underway, albeit more gradually than anticipated. The unwinding of debt servicing costs, a return to trend growth and higher primary balances will serve to stabilize debt-to-GDP and support fiscal sustainability over the extended horizon.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate. Fanchart analysis suggests that baseline projections are reasonable but the probability of debt non-stabilization is elevated. GFN analysis indicates that financing needs have increased under the baseline and standardized stress tests suggest that they could reach close to 20 percent of GDP in a stress scenario. However, the domestic banking and non-depository sectors could pick up slack. Undertaking the contingent liability stress test to account for subnational government borrowing suggests that deteriorations relative to the baseline would be minor in the case of a stress event.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Cont. Liabty.	...	
Long term	...	Moderate	The large amortization module indicates that GFN and public debt-to-GDP ratios could be large in some scenarios, absent proactive government policy. Nonetheless, staff's central scenario indicates declining ratios over time and staff judge the likelihood of preemptory policy action to be high enough to avert most worst case scenarios. Given the importance of oil revenues to Mexico's revenue base, the natural resources module indicates that oil depletion in the long-term could have large impacts on GFN and debt ratios. This analysis underscores staff's advice to widen the revenue base and better mobilize other sources of domestic revenue.
Sustainability assessment 2/		Sustainable with high probability	Debt is projected to increase over the main projection period and stabilize over the extended 10-year period. Debt is judged to be sustainable with high probability, although notable risks from further shocks remain, particularly given the external macroeconomic context and the required fiscal consolidation underpinning debt dynamics.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Under baseline policies, which include a fiscal consolidation, the risk of Mexico experiencing sovereign stress is moderate overall and its public debt is assessed to be sustainable with high probability over the extended time horizon. Fan chart analysis suggests that public debt ratios could increase materially in the medium-term, possibly constraining policy options and leading to a moderate risk of sovereign stress. Thus, a more front-loaded and ambitious consolidation path is needed to bring debt on a declining path in the medium-term and create valuable fiscal space for a counter-cyclical response in the event that external risks are realized. Over the long-term, a run down in oil reserves is the most palpable risk to debt levels, as highlighted by the long-term analysis. This underscores staff advice to widen the revenue base and better mobilize domestic revenues.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex IV. Figure 2. Mexico: Debt Coverage and Disclosures

										Comments						
1. Debt coverage in the DSA: 1/																
										CG	GG	NFPS	CPS	Other		
1a. If central government, are non-central government entities insignificant?															n.a.	
2. Subsectors included in the chosen coverage in (1) above:																
Subsectors captured in the baseline															Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes					
				2	Extra budgetary funds (EBFs)						Yes					
				3	Social security funds (SSFs)						Yes					
				4	State governments						No	See commentary below.				
				5	Local governments						No	See commentary below.				
				6	Public nonfinancial corporations						Yes					
				7	Central bank						No					
				8	Other public financial corporations						Yes					
3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	See commentary below.	
4. Accounting principles:										Basis of recording		Valuation of debt stock				
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/		
5. Debt consolidation across sectors:										Consolidated		Non-consolidated				
Color code:										chosen coverage	Missing from recommended coverage	Not applicable				

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-Government Debt Holdings

				Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
Issuer													
CPS	NFPS	GG, expected	CG	1	Budget. central govt					490.3	749.1	720.4	1959.8
				2	Extra-budget. funds							0	
		GG, expected	CG	3	Social security funds							0	
				4	State govt.				1.2	0	1.4	2.6	
	NFPS	GG, expected	CG	5	Local govt.							0	
				6	Nonfin pub. corp.					1.1	17.1	18.2	
				7	Central bank			0		0	0		
				8	Oth. pub. fin. corp			43.9	0.1		44		
Total					0	0	0	0	0	535.4	750.3	738.9	2024.6

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

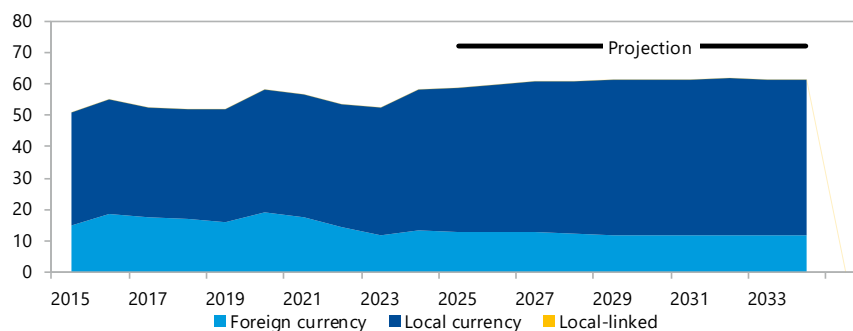
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Data on debt of sub-national governments are not readily available. Regulatory limits on state and local government's debt burden limits risks. Debt is consolidated across the Federal government and Non-Financial Public Sector. The perimeter does not include other accounts payable, such as Pemex's debt with suppliers. Arrears on Pemex's debt with suppliers, which stood at 0.6 percent of GDP at end-2024 and 0.1 percent of GDP as of September 12, 2025, are also excluded. Staff is evaluating the statistical treatment of recently issued pre-capitalized notes by a non-resident SPV for the purpose of supporting Pemex, which are currently not included in gross public debt. Including the pre-capitalized notes would not change the current overall assessments of risks and debt sustainability.

Annex IV. Figure 3. Mexico: Public Debt Structure Indicators

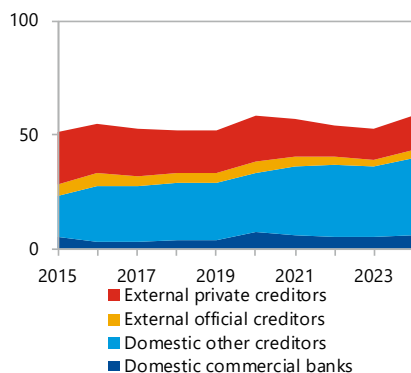
Debt by Currency

(Percent of GDP)



Public Debt by Holder

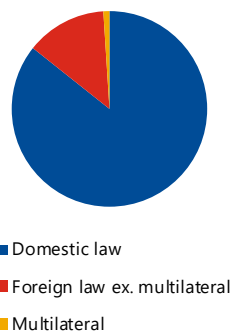
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Governing Law, 2024

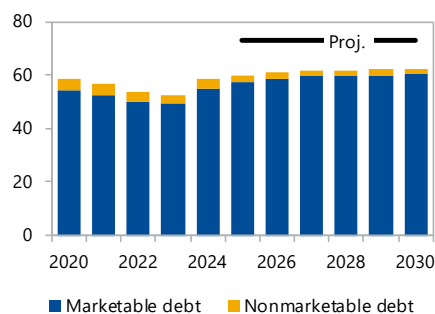
(In percent)



Note: The perimeter shown is consolidated public sector.

Debt by Instruments

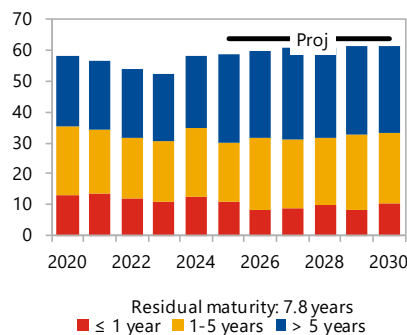
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Maturity

(Percent of GDP)



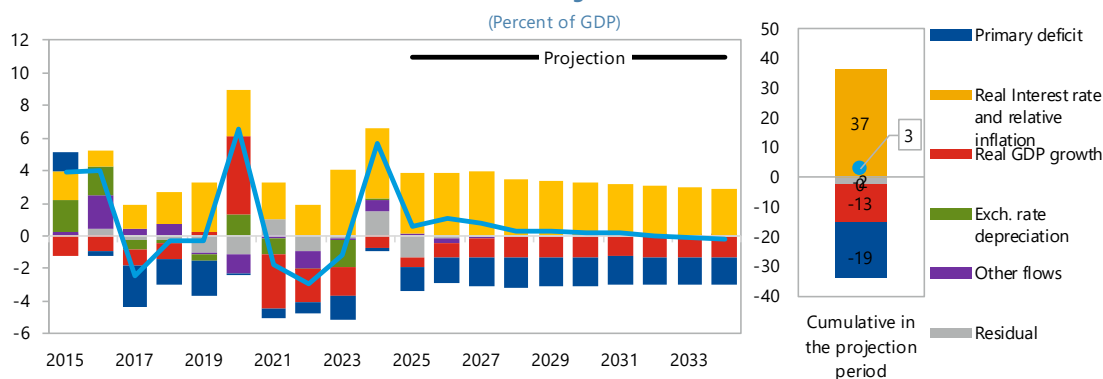
Note: The perimeter shown is consolidated public sector.

Commentary: The increased share of 'domestic other creditors' reflects the increased holdings of public debt liabilities by domestic pension funds following pension reforms. Small amounts of non-marketable debt principally relate to external official lending. The share of local currency debt and liabilities with longer maturities is expected to increase relative to the pre-projection period, in-line with the government's debt management strategy.

Annex IV. Figure 4. Mexico: Baseline Scenario
(Percent of GDP, unless indicated otherwise)

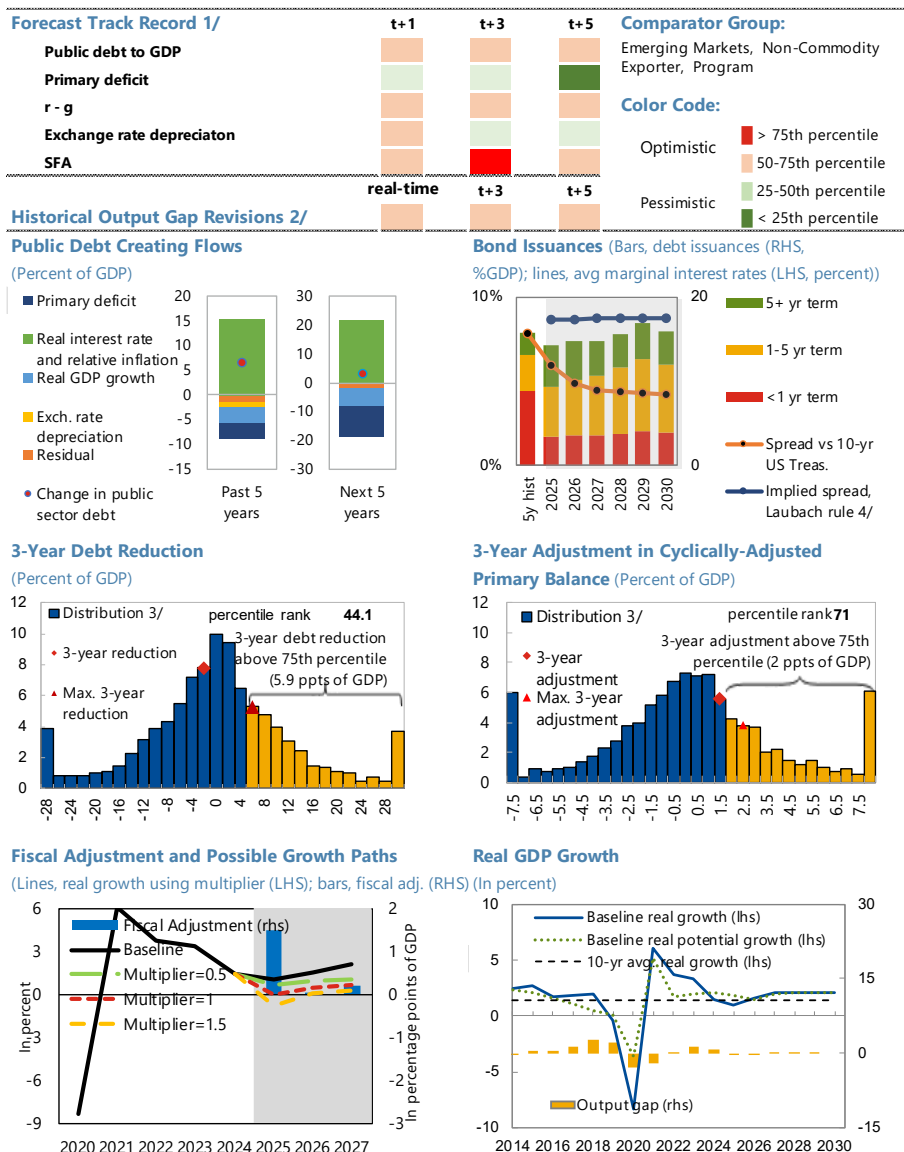
	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Public debt	58.3	58.9	59.9	60.7	61.0	61.2	61.5	61.6	61.7	61.6	61.5	
Change in public debt	5.7	0.5	1.1	0.8	0.3	0.3	0.2	0.2	0.0	-0.1	-0.2	
Contribution of identified flows	4.2	1.8	1.2	0.9	0.3	0.3	0.3	0.2	0.0	0.0	-0.1	
Primary deficit	-0.2	-1.5	-1.6	-1.8	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	
Noninterest revenues	24.0	23.7	23.8	23.8	23.9	23.9	24.0	24.0	24.0	24.0	24.0	
Noninterest expenditures	23.8	22.2	22.2	22.0	22.0	22.2	22.2	22.2	22.2	22.2	22.2	
Automatic debt dynamics	3.6	3.2	3.0	2.7	2.2	2.1	2.1	1.9	1.8	1.7	1.6	
Real interest rate and relative inflation	4.3	3.8	3.9	3.9	3.5	3.3	3.3	3.2	3.0	3.0	2.9	
Real interest rate	4.0	3.4	3.6	3.7	3.3	3.2	3.1	3.0	2.9	2.8	2.7	
Relative inflation	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Real growth rate	-0.7	-0.6	-0.9	-1.2	-1.3	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	
Real exchange rate	0.1	...	...	...	...	...	...	...	...	...	...	
Other identified flows	0.7	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	
Other transactions	1.3	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Contribution of residual	1.5	-1.3	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	
Gross financing needs	14.5	13.6	14.5	14.4	15.1	16.4	15.6	17.9	16.5	17.1	17.5	
of which: debt service	15.2	15.6	16.5	16.6	17.4	18.6	17.7	20.0	18.6	19.2	19.6	
Local currency	10.1	14.2	15.0	14.8	15.5	16.8	15.9	18.3	17.1	17.7	18.2	
Foreign currency	5.1	1.4	1.5	1.9	1.9	1.7	1.8	1.7	1.5	1.6	1.5	
Memo:												
Real GDP growth (percent)	1.4	1.0	1.5	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	
Inflation (GDP deflator; percent)	4.9	5.2	4.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	
Nominal GDP growth (percent)	6.4	6.2	6.1	5.5	5.6	5.6	5.6	5.6	5.6	5.6	5.6	
Effective interest rate (percent)	13.1	11.4	11.1	10.0	9.1	8.9	8.8	8.6	8.3	8.2	8.0	

Contribution to Change in Public Debt



Commentary: After the fiscal expansion and weakening of the exchange rate in 2024 exerted strong upwards pressure on debt ratios, debt is projected to continue to increase over the medium-term. High real interest rates (reflecting structural and conjunctural factors) and looser budget targets explain these dynamics. A tight fiscal stance and trend growth are expected to dominate other debt drivers and serve to stabilize debt ratios over the extended projection horizon. The pace of fiscal tightening and sustained tight fiscal stance, is consistent with Mexico's track record of fiscal prudence and the new administration's emphasis on maintaining this record. The contribution of growth to the reduction in debt levels is expected to be slightly larger compared to the pre-pandemic period due to higher potential growth following increased investment in recent years.

Annex IV. Figure 5. Mexico: Realism of Baseline Assumptions



Commentary: The forecast track record is generally within bounds for optimism, excepting the SFA projections. Larger debt-reducing contributions of GDP growth and primary balance, compared to the last 5 years, are expected to keep the increase in the debt ratio limited. The higher contribution of GDP growth over the next 5 years is substantiated by potential output growth above the previous 10-year average real growth rate. The higher contribution of the primary balance is predicated on the ongoing adjustment, which appears feasible given the three-year debt and CAPB adjustment are well below Mexico's past maximum adjustment. Spreads are expected to contract relative to the Laubach rule given sensitivity to monetary policy and tighter fiscal policy geared towards preserving fiscal sustainability. The effect of fiscal adjustments on growth reflects the pace and size of fiscal consolidation efforts. Real projected potential growth is expected to outstrip the average of the preceding ten years given increases in investment in recent years, including government infrastructure spending.

Source: IMF staff calculations.

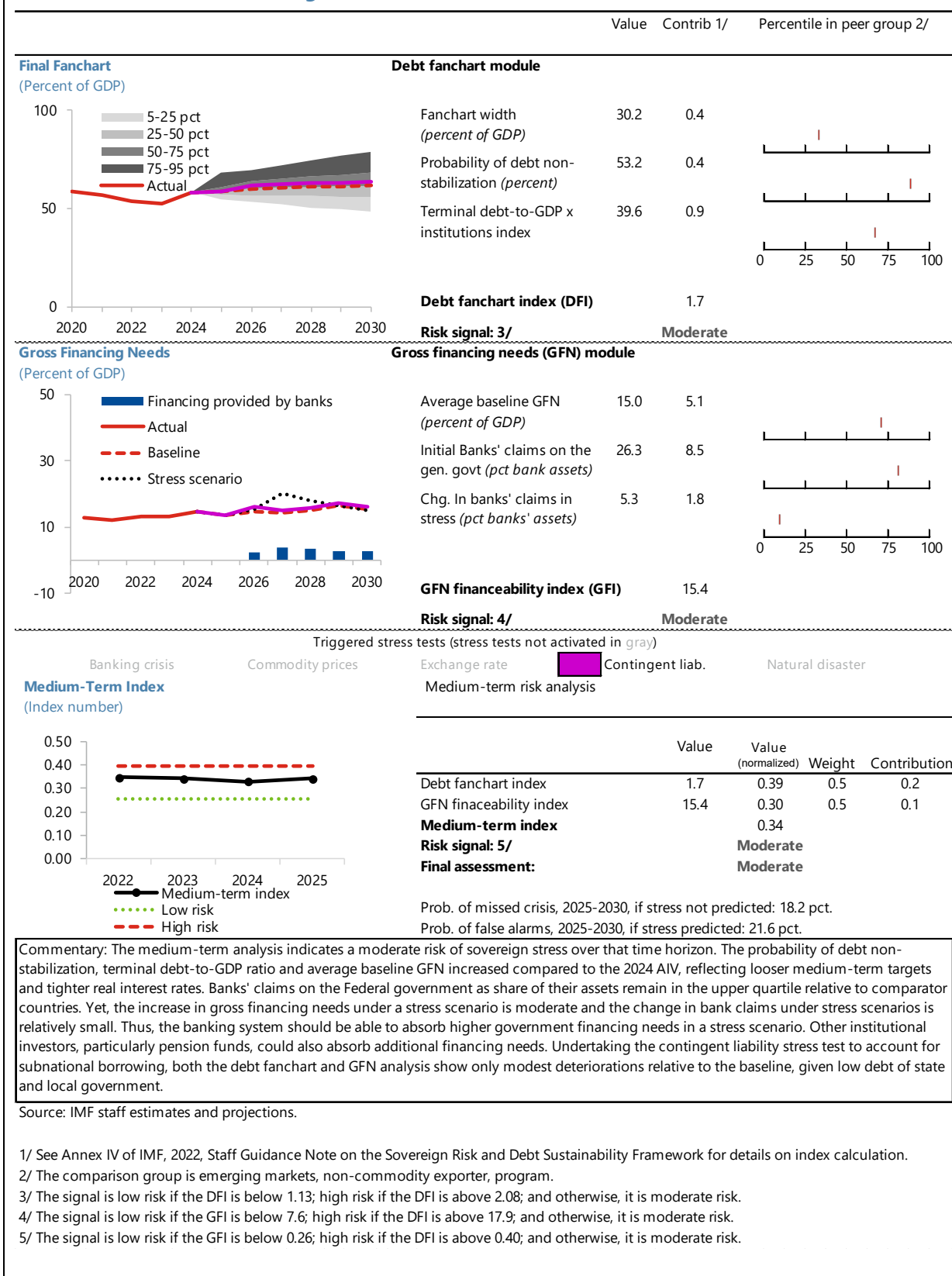
1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

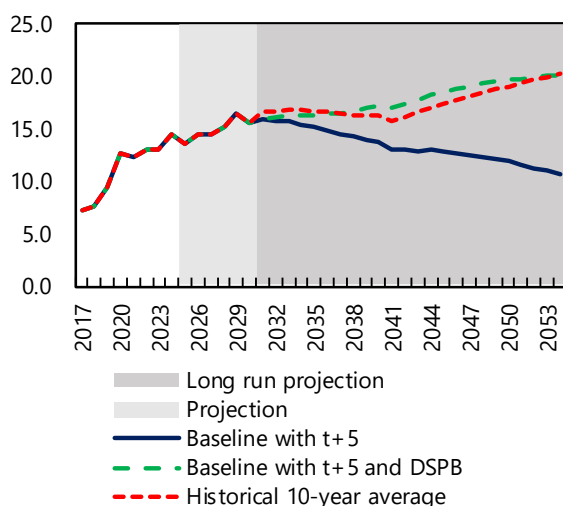
Annex IV. Figure 6. Mexico: Medium-Term Risk Assessment



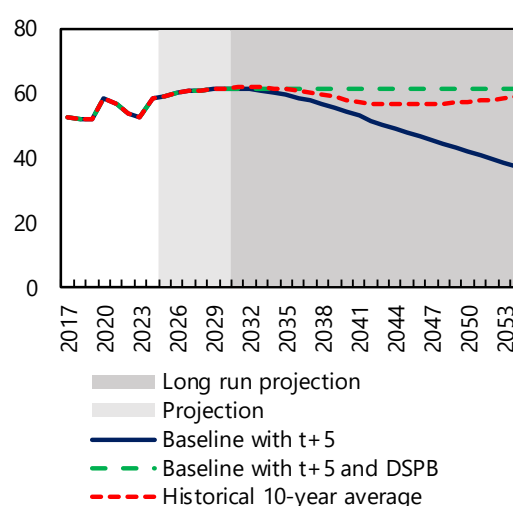
Annex IV. Figure 7. Mexico: Long-Term Analysis: Large Amortization Module

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Overall Risk Indication		■

GFN-to-GDP Ratio



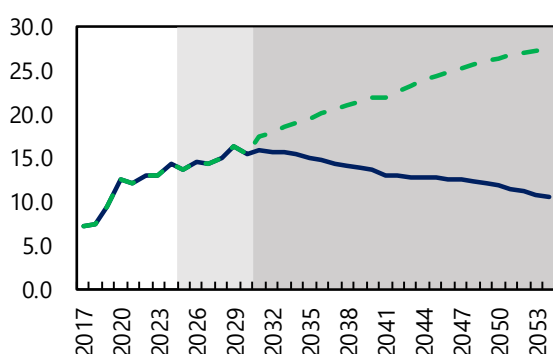
Total Public Debt-to-GDP Ratio



Commentary: Staff's baseline scenario, Baseline with t+5, shows both GFN- and public debt-to-GDP ratios declining over the long-term as Mexico converges to steady-state growth and a concomitant fiscal stance. In all scenarios, government policy is assumed to be passive and while this analysis provides some illustration of risks, staff judge the likelihood of preemptory action averting worst case scenarios to be high given Mexico's track record of fiscal prudence and proactive debt management policies.

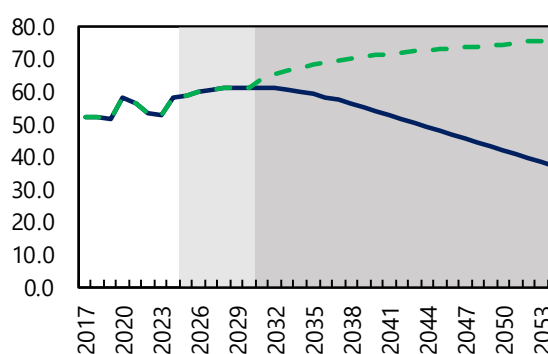
Annex IV. Figure 8. Mexico: Long-Term Analysis: Natural Resource Module

GFN-to-GDP Ratio



— Baseline: Custom — • Natural Resources

Total Public Debt-to-GDP Ratio



— Baseline: Custom — • Natural Resources

Commentary: Given the importance of oil revenues to the government's revenue base and its contribution to the Mexican economy, depletion of oil reserves would result in rapid and large increases in GFN- and public debt-to-GDP ratios. The illustration provided by the long-term module underscores staff advice to increase domestic non-oil revenue mobilization and widen the revenue base.

B. External Debt Sustainability

Mexico's external debt has fallen from 44.4 percent in 2020 to 24.5 percent in 2024, driven by sustained growth, robust remittances and FDI inflows. It is projected to stabilize at around 26 percent in the medium term, still well below the pre-pandemic baseline. The main risks to the external debt trajectory relate to deterioration of the current account and growth underperformance and large currency depreciation. However, their potential impact is mitigated by several factors, especially favorable maturity and currency structures of public and private external debt.

1. The baseline projections: Gross external debt is expected to increase slightly to about 25½ percent in 2025. Debt creating flows continue to contribute to a decline, albeit smaller, in the external debt to GDP ratio, mainly driven by robust remittances and FDI inflows, whereas the recent depreciation mechanically raised the ratio. In the medium-term, the external debt ratio is expected to remain broadly stable at around 26 percent of GDP.

2. Risk and mitigating factors: The major downside risks to the external debt trajectory are weaker-than-expected growth, including a decline in exports amid higher global trade tensions, global policy uncertainty, climate-change related risks, and a sharp tightening of global financial conditions, which could lead to a spike in risk premia on Mexico's external debt liabilities, a weaker peso, and more capital flow volatility. Currency depreciation is a noticeable risk; for example, a 30 percent depreciation of the peso in real effective terms could raise the external debt to about 41 percent of GDP—roughly the level observed during the pandemic. However, several factors

mitigate the impact of potential shocks on Mexico's external debt position. Rollover risks for the public sector external debt, which constitute around two-thirds of Mexico's external debt, are mitigated by a favorable maturity structure (more than 90 percent of debt has a residual maturity of more than one year), currency composition (around 30 percent of external public debt is denominated in peso), prudent debt management by the government, and the growing capacity of domestic institutional investors, particularly pension funds, to absorb public debt. Private sector external debt, which is concentrated in the non-financial corporate sector, consists of mostly medium- and long-term maturities, while foreign exchange risks are well covered by natural and financial hedges. The banking sector is well capitalized and liquid and assessed to be resilient to large shocks under prudent macroprudential policies.

Annex IV. Table 1. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -1.2
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
1 Baseline: External debt	44.4	36.0	31.0	26.0	24.5	25.6	24.8	25.2	25.4	25.7	26.0	
2 Change in external debt	7.0	-8.4	-5.0	-5.0	-1.6	1.2	-0.8	0.3	0.3	0.3	0.3	
3 Identified external debt-creating flows (4+8+9)	1.7	-8.2	-4.4	-6.5	-1.4	-0.7	-0.8	-1.0	-1.2	-1.3	-1.2	
4 Current account deficit, excluding interest payments	-4.6	-1.4	-0.4	-1.0	-0.9	-1.2	-1.1	-0.9	-0.8	-0.7	-0.6	
5 Deficit in balance of goods and services	1.9	-1.8	-3.0	-1.8	-1.5	-1.1	-1.2	-1.5	-1.5	-1.5	-1.5	
6 Exports	39.8	40.8	43.0	36.1	36.7	37.8	35.0	34.5	34.5	34.5	34.6	
7 Imports	-37.8	-42.6	-46.0	-37.9	-38.2	-38.8	-36.3	-35.9	-36.0	-36.1	-36.1	
8 Net non-debt creating capital inflows (negative)	-2.1	-1.9	-2.0	-1.5	-1.5	-0.7	-0.8	-1.0	-1.2	-1.4	-1.3	
9 Automatic debt dynamics 1/	8.3	-4.9	-2.0	-4.0	1.0	1.2	1.1	0.9	0.9	0.8	0.7	
10 Contribution from nominal interest rate	2.2	1.7	1.7	1.7	1.8	1.5	1.4	1.4	1.4	1.3	1.2	
11 Contribution from real GDP growth	3.6	-2.3	-1.2	-0.8	-0.4	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5	
12 Contribution from price and exchange rate changes 2/	2.5	-4.3	-2.5	-4.9	-0.5	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	5.3	-0.3	-0.6	1.5	-0.2	1.9	0.0	1.3	1.4	1.6	1.6	
External debt-to-exports ratio (in percent)	111.7	88.1	72.1	72.0	66.6	67.9	70.9	73.0	73.7	74.4	75.2	
Gross external financing needs (in billions of US dollars) 4/	39.2	70.3	73.9	72.2	78.1	70.0	85.6	105.0	111.9	125.9	139.0	
in percent of GDP	3.5	5.3	5.0	4.0	4.2	3.8	4.2	4.9	5.0	5.4	5.7	
Scenario with key variables at their historical averages 5/						25.6	25.0	24.4	24.1	23.9	23.7	-1.8
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation					
Real GDP growth (in percent)	-8.4	6.0	3.7	3.4	1.4	1.4	3.8	1.0	1.5	2.0	2.1	2.1
GDP deflator in US dollars (change in percent)	-6.2	10.7	7.4	18.6	1.8	2.2	9.7	-0.6	7.4	2.6	2.6	2.6
Nominal external interest rate (in percent)	5.0	4.5	5.1	6.8	7.2	5.4	1.0	6.0	6.1	6.0	5.7	5.0
Growth of exports (US dollar terms, in percent)	-11.7	20.6	17.2	3.1	4.9	5.1	9.6	3.2	1.1	3.0	4.9	4.9
Growth of imports (US dollar terms, in percent)	-16.7	32.2	20.2	1.1	4.0	5.5	13.5	2.0	1.9	3.7	5.0	4.9
Current account balance, excluding interest payments	4.6	1.4	0.4	1.0	0.9	0.8	1.6	1.2	1.1	0.9	0.8	0.7
Net non-debt creating capital inflows	2.1	1.9	2.0	1.5	1.5	2.2	0.5	0.7	0.8	1.0	1.2	1.3

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.

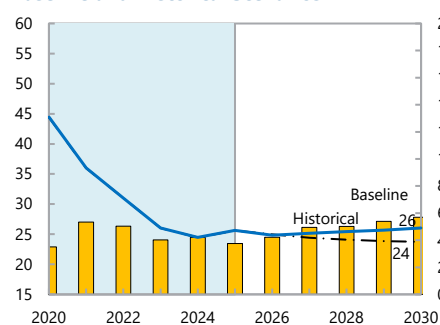
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period, excluding reserve accumulation.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

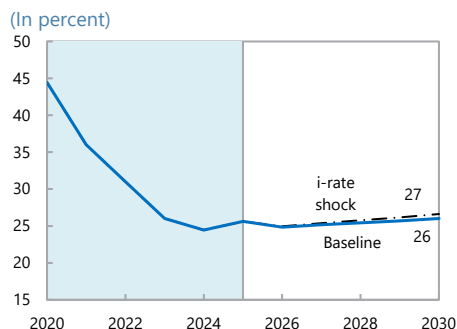
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Figure 9. Mexico: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)

Baseline and Historical Scenarios

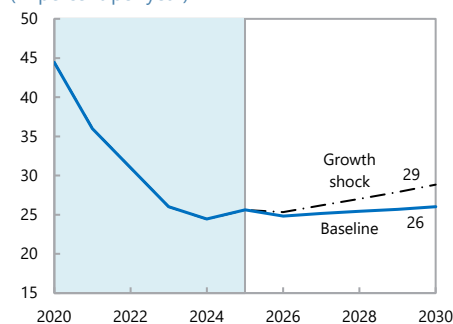


Interest Rate Shock



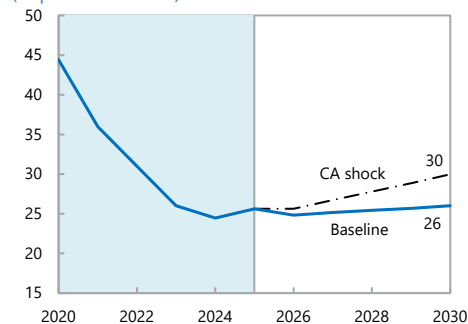
Growth Shock

(In percent per year)

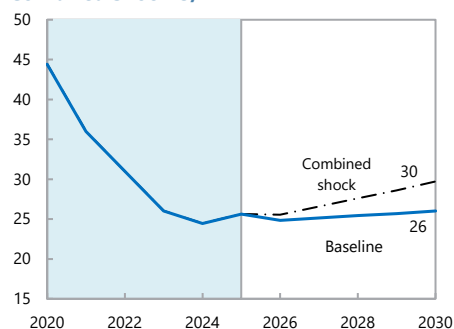


Non-Interest Current Account Shock

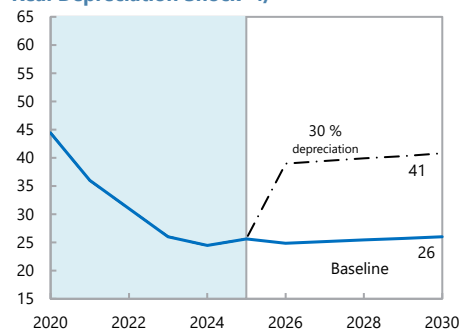
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent.

Annex V. Data Issues

Annex V. Table 1. Mexico: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank. 1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics. 2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I). 3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. Data is generally timely, comprehensive, and accurate for surveillance. Fiscal statistics are comprehensive and timely, except for the subnational sector, which is not included in the coverage. In addition, the 2021 Data ROSC mission pointed out that, while source data used for the national and international (GFSM2014) presentations are the same, differences in the classifications of transactions and coverage of institutional units make it difficult for users to reconcile the different presentations. INEGI's updated of the CPI basket and weights in the 2024 is welcome.							
Changes since the last Article IV consultation. No changes since the last Article IV consultation.							
Corrective actions and capacity development priorities. It is recommended to publish a table of all institutional units in the public sector and its subsectors, clearly grouping them according to: (i) the coverage of units used in the national presentation; (ii) the coverage used in the international presentation; and (iii) the subsectors of the public sector as described in the GFSM2014. A full adoption of uniform accounting standards at the sub-national level would help obtain an improved measure of public fixed investment in the national accounts.							
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.							
Other data gaps. No data gaps are envisaged.							

Annex V. Table 2. Mexico: Data Standard Initiatives

Mexico subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex V. Table 3. Mexico: Table of Common Indicators Required for Surveillance

(As of September 23, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Mexico ⁸	Expected Timeliness ^{6,7}	Mexico ⁸
Exchange Rates	Sep, 2025	Sep, 2025	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jul, 2025	Sep, 2025	M	M	M	30	1W	30
Reserve/Base Money	Jul, 2025	Sep, 2024	M	M	M	7	2W	2
Broad Money	Jul, 2025	Sep, 2024	M	M	M	30	1M	30
Central Bank Balance Sheet	Jul, 2025	Sep, 2024	M	M	M	7	2W	2
Consolidated Balance Sheet of the Banking System	Jul, 2025	Sep, 2024	M	M	M	30	1M	30
Interest Rates ²	Aug, 2025	Sep, 2025	M	M	D	D	...	D
Consumer Price Index	Aug, 2025	Sep, 2025	M	M	M	M	1M	10
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Jul, 2025	Sep, 2025	M	M	A	30	2Q	30
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Jul, 2025	Sep, 2025	M	M	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jul, 2025	Sep, 2025	M	M	Q	30	1Q	30
External Current Account Balance	Jun, 2025	Aug, 2025	Q	Q	Q	90	1Q	70
Exports and Imports of Goods and Services	Jul, 2025	Sep, 2025	M	M	M	30	8W	25
GDP/GNP	Jun, 2025	Sep, 2025	Q	Q	Q	90	1Q	75
Gross External Debt	Jul, 2025	Sep, 2025	Q	Q	Q	90	1Q	90
International Investment Position	Jun, 2025	Aug, 2025	Q	Q	Q	90	1Q	90

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VI. Mexico's Trade Landscape and the USMCA Review¹

With trade being a key engine of growth (see Annex X), Mexico's growth prospects hinge on the future of the United States-Mexico-Canada Trade Agreement (USMCA). This Annex provides an overview of the agreement, key features and issues that are likely to emerge during the upcoming review, along with estimates of the potential impact of different tariff scenarios that could arise from the USMCA review.

The Current Trade and Tariff Landscape

1. Mexico's trade relationship with the United States has undergone significant changes over time. The North American Free Trade Agreement (NAFTA) was established in 1994, setting a comprehensive free trade zone, and evolved to the United States-Mexico-Canada Agreement (USMCA) in 2020, maintaining zero tariffs on most goods but introducing stricter rules of origin (ROOs) to incentivize North American production—a key example was the tightening to 75 percent Regional Value Content (RVC) for passenger vehicles and light trucks (Box 1).

2. Mexico's exports have become heavily concentrated on the U.S. although the use of USMCA preferences fell over time, up to the recent introduction of U.S. tariffs. Since the introduction of NAFTA in 1994, Mexico benefited from its favorable access to the U.S. market, steadily increasing also its share of U.S. imports. However, the proportion of exports to the U.S. utilizing USMCA preferences declined to 50 percent compared to about 60 percent a decade earlier under NAFTA, arguably reflecting the relatively high costs of complying with USMCA requirements compared to alternative tariff schemes such as MFN (in the 2.5-3.5 percent range).² Following the introduction of U.S. tariffs on non-USMCA imports from Mexico, the share of products exported through USMCA has recently increased to about 85 percent in July.

3. The use of USMCA has varied significantly across sectors and appears to be linked to the share of USMCA-origin content. As of end-2024, 80–100 percent of exports in motor vehicles and food products utilized USMCA, compared to less than 20 percent of exports in electrical and machinery. This pattern aligns with the underlying content composition as the share of USMCA-origin value added is high at about 75 percent in motor vehicles and above 90 percent in food products, but much lower at around 50 percent in electrical and machinery. ROO vary across sectors, with agriculture, transportation, metals, and electrical facing the highest requirements, above 60 percent. Other products need to contain at least 50 percent of regional value to benefit from the agreement.

¹ Prepared by Francisco Arizala, Fah Jirasavetakul, and Diego Rodriguez.

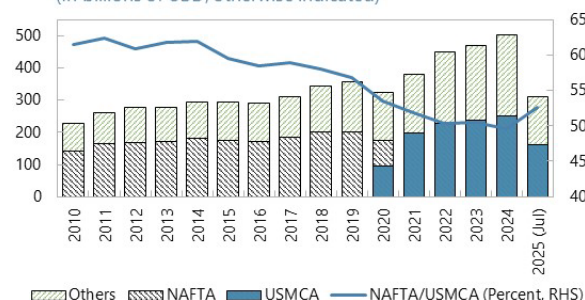
² ROOs require a minimum share of the product's content to be of USMCA origin (e.g., 65 percent in the case of the auto sector and 60 percent for electronics and computing equipment), while certification requirements are associated with labor, environmental, and intellectual property issues.

Annex VI. Figure 1. Mexico's Exports and USMCA

Mexico's exports to the U.S. remain substantial though the share covered by NAFTA/USMCA has declined steadily over time...

Exports to the US

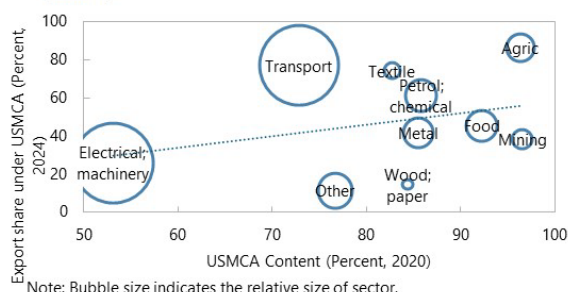
(In billions of USD, otherwise indicated)



... and the use of USMCA varies significantly across sectors...

USMCA Content and Exports under USMCA

(Percent)



Sources: USITC; OECD TiVA; Haver; and IMF staff calculations.

4. With recent U.S. trade measures, a wide range of Mexican exports to the US are facing higher tariffs (Figure 2). As a result, the dutiable share of U.S. imports from Mexico almost doubled, from 8.6 percent to 18 percent. Correspondingly, the effective tariff (based on collected tariffs) rose from 0.3 percent in January to approximately 5 percent in July, compared to an estimated statutory tariff rate of 13 percent when assuming no additional shift toward greater utilization of USMCA preferences. The effective tariff paid on dutiable exports has increased from the MFN level of about 2½ percent in February to nearly 25 percent in July, in line with the announced 25 percent tariff on most products. In parallel, U.S. data indicates a rising use of USMCA preferences in recent months (to about 85 percent of total exports to the U.S. in July), reflecting firms' efforts to benefit from the agreement. However, there is substantial variation across sectors, with higher effective tariffs observed in sectors that are subject to stricter exemption rules such as transportation and metal.

5. The upcoming USMCA review introduces a layer of uncertainty. Scheduled for 2026, the review is a built-in feature of the agreement that requires the three member countries to assess its performance and determine whether to extend it beyond 2036. Possible outcomes include unanimous renewal of the agreement for an additional 16-year period, termination in 2036 if all parties do not agree, or an annual joint review cycle until the consensus is reached or the current agreement expires in 2036 in case one party dissents. In the context of evolving trade dynamics and heightened sensitivity around regional production and supply chain resilience, there is a growing discussion around revisiting certain provisions of the agreement. Proposals under discussion include tightening ROO for specific sectors, new requirements for minimum U.S. content, and the possibility of imposing external tariffs on imports from non-USMCA countries.

Annex VI. Box 1. Mexico: Key Features of Current USMCA and Potential Revisions

The USMCA entered into force on July 1, 2020, replacing the NAFTA. It aimed at modernizing the trade relationship between the three North American economies, incorporating new provisions on digital trade, labor, and environmental standards, alongside updated rules for traditional sectors.

Key features:

- **Tariff eliminations:** Maintains zero tariffs on most goods traded between the United States, Mexico, and Canada, ensuring continued free trade for a wide range of products.
- **Rules of origin (ROOs):** Significantly updated and generally stricter than under NAFTA, aiming to incentivize North American production.
 - *Automotive:* Requires a higher Regional Value Content (RVC) of 75 percent for passenger vehicles, light trucks, and core auto parts (with 65-70 percent for other vehicles/auto parts). Additionally, a Labor Value Content (LVC) requirement mandates that 40-45 percent of a vehicle's production value must be made by workers earning at least US\$16 per hour. A new provision also requires 70 percent of steel and aluminum value to originate in North America.
 - *Textiles and Apparel:* Imposes stricter "yarn forward" rules, establishing that yarn and fiber must be produced in the USMCA region, and all subsequent processing must also occur within the USMCA territory to qualify for preferential treatment.
 - *Other Sectors:* Specific ROOs are also defined for other sectors to ensure that goods largely originate from within the USMCA region.
- **Agricultural goods:** Includes provisions primarily aimed at expanding U.S. agricultural exports to Canada, addressing previous market access concerns.
- **Digital trade:** Established comprehensive rules to ensure no customs duties or other discriminatory measures are applied to digital products transmitted electronically, promoting cross-border digital services and e-commerce.
- **Labor, environment, and intellectual property:** Incorporates new and strengthened provisions designed to improve labor rights and environmental standards across the member countries, alongside enhanced protections for patents, trademarks, and other intellectual property rights.

Potential revisions/areas of focus in the upcoming review:

- **Tighter ROOs:** Future discussions could explore further tightening of ROOs across various sectors, potentially increasing the regional content requirements.
- **Requirements on U.S. content:** The U.S. content requirements could be imposed in sectors, such as automobiles—especially in light of current tariffs on non-U.S. sourced auto imports from Mexico and Canada.

Annex VI. Figure 2. Mexico: U.S. Tariffs on Imports from Mexico

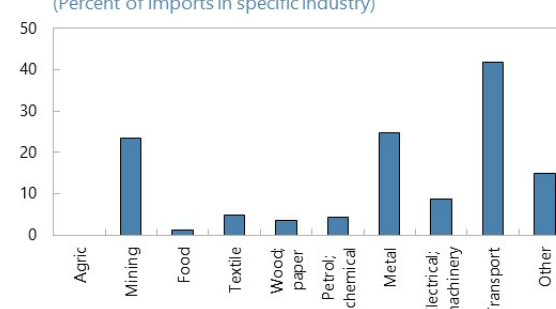
The share of dutiable imports has nearly doubled since December...

Dutiable U.S. Imports from Mexico
(Percent of total imports)



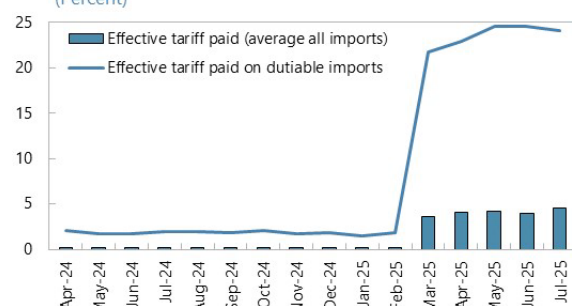
... with relatively high share of imports in transportation, metal, and mining being subject to tariffs...

Dutiable U.S. Imports from Mexico by Industry
(Percent of imports in specific industry)



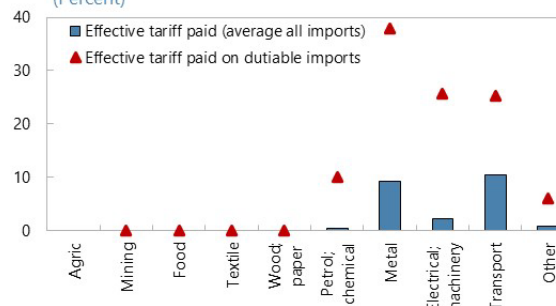
At the same time, effective tariffs increased to about 5 percent...

Effective Tariffs on U.S. Imports from Mexico
(Percent)



... with relatively higher rates observed for transport and metal.

Effective Tariffs on U.S. Imports from Mexico by Industry
(Percent)



Sources: USITC data; IMF staff calculations.

Tariff Scenarios and Potential Changes to USMCA

Tariff and USMCA Scenarios

6. Recent changes to the tariff landscape and potential modifications to the USMCA framework, could have significant implications on Mexico. To analyze these effects, a static general equilibrium trade model with detailed sectoral structures and input-output linkages—developed by [Caliendo, Feenstra, Romalis, and Taylor \(CFRT, 2023\)](#)—is employed. The model features heterogeneous firms operating under increasing returns to scale, and detailed sectoral linkages, input-output structures, and trade elasticities.³ By capturing inter-dependencies across sectors and

³ The model version used in this annex covers 60 countries and 19 sectors, with detailed input-output linkages.

countries, the model enables analysis of both direct and indirect effects of trade policy shifts, including potential long-term impacts related to sectoral reallocation and trade diversion.⁴

The following scenarios are considered:

7. Universal tariffs. The U.S. imposes a general 10 percent tariff on imports from all non-USMCA trading partners and a higher 30 percent rate on imports from China. Certain sectors face higher tariffs (namely 25 percent on autos and auto parts and 50 percent on steel, aluminum, and copper), while specific electronic products benefit from exemptions. Within North America, non-U.S. sourced autos, as well as other imports that do not qualify under USMCA provisions are subject to a 25 percent tariff. Tariffs on steel, aluminum, and copper, as well as exemption on electronics remain broadly consistent with those applied to imports from other countries. For Mexico, the average effective tariff rate on its exports reaches about 13 percent, assuming no change in the share of exports utilizing USMCA preferences (relative to end-2024).⁵

Scenarios affecting regional content requirements or content origin

- **Tighter rules of origin.** Tariffs remain consistent with those in the universal tariffs scenario, but ROO thresholds are increased by 10 percentage points for all sectors.
- **U.S. tariffs on all non-U.S. content.** Tariffs are imposed on all non-U.S. content imported from Mexico, regardless of existing USMCA ROO compliance (akin to current treatment of automobiles).
- **U.S. tariffs on all non-USMCA content.** Tariffs are imposed on all non-USMCA content imported from Mexico, regardless of existing USMCA ROO compliance.

Scenarios further trade diversion

- **Higher universal tariffs.** Tariffs follow the universal tariffs scenario, but with increased general tariff rates (from 10) to 20 percent for non-USMCA trading partners, and (from 30) to 60 percent for China.
- **Increased USMCA utilization by Mexico.** Tariffs mirror those of the universal scenario; however Mexican exports are assumed to adapt by significantly increasing the share of exports that qualify for tariff-free treatment within USMCA framework, reaching 85 percent.

⁴ Given its static nature, the CFRT model is best suited for assessing the medium- to long-term effects, under the assumption of permanent tariff changes. As such, the results should be interpreted as steady-state outcomes after the global economy has fully adjusted to the new trade regime.

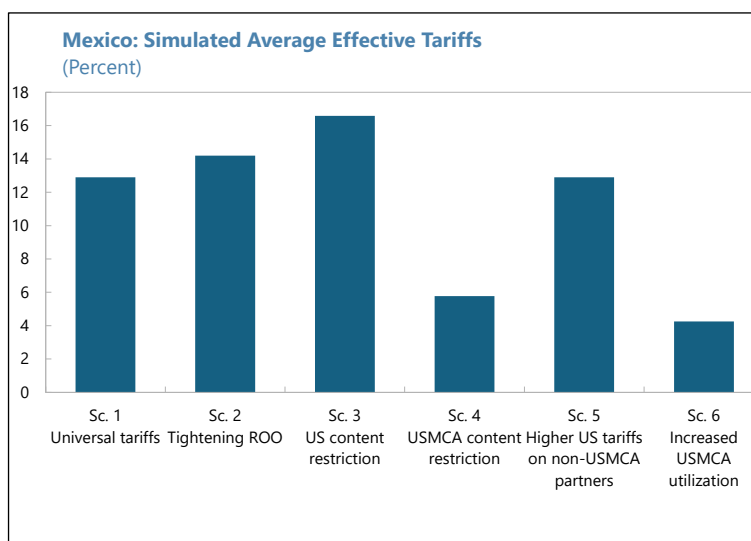
⁵ The difference between this scenario and staff's baseline projections (Box 1) stems from the assumed response of Mexican exporters to USMCA preferences. The universal tariffs scenario abstracts from behavioral adjustments, whereas the baseline incorporates adaptation through increased use of USMCA preferences, in line with patterns observed in the available data.

Effective Tariffs Implications

8. While the CFRT model does not allow for direct parameterization of specific trade policy features—such as ROO thresholds or content-based tariff triggered—as specified above, these scenarios are implemented through their implications on effective tariff rates. For each scenario, the resulting effective tariffs for Mexico are calculated and used as inputs to the model simulation. More specifically,

- **Stricter content requirements.**

Tighter ROOs would raise compliance costs for Mexican firms seeking preferential access under USMCA. If firms can adjust by increasing domestic value-added or sourcing more inputs regionally, the impact would be limited. Otherwise, the loss of preferential access would lead to higher tariffs and reduced competitiveness. The simulations show that a 10-percentage point increase in ROO thresholds across all sectors is estimated to translate into a rise in the effective tariff rate to 14 percent.⁶



- **Tariffs based on content origin.** Following the USMCA renegotiation, tariffs could be set based on the U.S. or regional content of products. If tariffs are applied based on the share on non-U.S. content, the effective tariff rate would rise significantly to around 16.6 percent. On the other hand, if tariffs are levied exclusively on the non-USMCA content, the effective tariff rate would decline to 5.8 percent, reflecting the relatively higher share of USMCA-content in Mexico's exports to the U.S.
- **Trade diversion from higher U.S. tariffs.** In a scenario where the U.S. doubles tariff rates on all non-USMCA partners, Mexico would benefit from a widening tariff differential. Additionally, if firms based in Mexico manage to shift a significantly larger share of their products to be exported through the USMCA, Mexico would benefit from trade diversion. With an increase in the share of products exported through the USMCA to about 85 percent, the effective tariff rate would decline to 4.3 percent.

⁶ This scenario assumes that no additional adaptation by firms on their sourcing or value chain strategies in response to the higher thresholds. As such, it represents an upper-bound effect.

Model Simulation Results

9. U.S. tariffs on Mexico would lead to a decline in Mexico's exports, with the magnitude of the impact depending on the application of regional content requirements. The negative impact of U.S. tariffs on Mexican exports would be particularly pronounced (a 6 percent decline) in Scenario 1, where tariffs imposed on Mexico's exports (13 percent on average) exceed those applied to other trading partners (Figure 3, upper section).

10. Stricter ROO requirements or new U.S. content restrictions could have significant negative impact on Mexico. A 10-percentage point increase in ROO thresholds (Scenario 2) would entail export and output losses twice as large as those under the universal tariffs scenario. Similarly, tariffs on non-U.S. content (Scenario 3) would lead to output losses nearly three times greater than those under the universal tariffs scenario. In fact, raising ROO thresholds by approximately 18 percentage points would yield effects comparable to applying universal tariffs scenario on all non-U.S. content. By contrast, eliminating ROO requirements while maintaining tariff-free treatment for USMCA content, paired with U.S. universal tariffs on the rest of the world, (Scenario 4) would boost trade and output in Mexico.

11. Trade diversion could be significant. The level of U.S. tariffs on non-USMCA partners could have significant implications for Mexico. For instance, doubling U.S. tariffs on the rest of the world (relative to the universal tariffs scenario) would more than fully offset the negative direct impact of U.S. tariffs on Mexico (Scenario 5) (Figure 3, middle section). Moreover, imposing U.S. tariffs of 45 percent on imports from China and 15 percent on imports from other countries would roughly offset the adverse impact of current tariffs on Mexico. Meanwhile, under Scenario 6, Mexico's ability to shift a larger share of exports to qualify for USMCA preferences (up to 85 percent of exports to the U.S.) or maintain the currently low actual effective tariff rate would have a large positive impact for Mexico's exports and output.

12. Some sectors are particularly vulnerable to trade policy changes. For example, the automotive and electronics sectors, which are the most important sectors in terms of size in Mexico's trade, exhibit very different content profiles, with the automotive sector having a substantially higher share of USMCA content than the electronics sector, which in turn relies more heavily on content from outside the region, particularly Asia. As a result, stricter ROO and U.S. content restrictions (Scenarios 2 and 3) would negatively affect both sectors, but the impact would be especially pronounced for electronics, where U.S. and USMCA contents are low. In contrast, a tariff regime based on USMCA content (Scenario 4) would be largely beneficial to transportation (given its high USMCA content) while continuing to weigh on electronics. Finally, scenarios leading to higher trade diversion (Scenarios 5 and 6) would boost exports of both transport and electronics sectors.

13. In sum, Mexico's ability to benefit from the USMCA is shaped by sector-specific dynamics and implementation challenges. Reliance on the USMCA agreement varies widely across industries, depending on regional content and value chain structures. Notwithstanding the imposition of tariffs, Mexico could benefit if its effective tariff rates remain lower than those applied to other U.S. trading partners. However, tighter U.S. or regional content requirements could

significantly constrain export growth, particularly in sectors with limited U.S. and/or USMCA contents. Conversely, eliminating requirements on minimum regional content would yield substantial gains for Mexico, including through trade diversion.

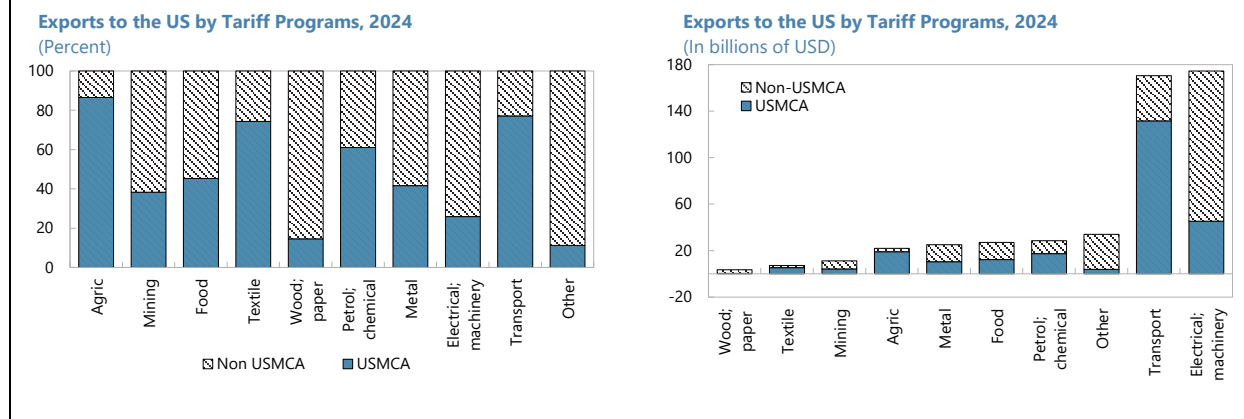
Annex VI. Figure 3. Mexico: Impacts of Tariff Across Scenarios



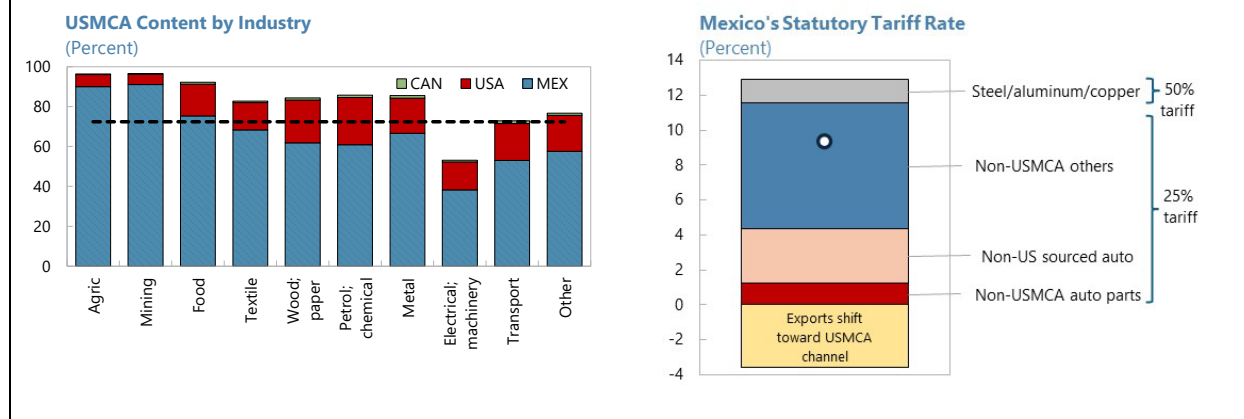
Source: IMF staff estimates.

Annex VI. Appendix 1.

Annex VI. Figure A1. Mexico Exports to the U.S. by Tariff Program



Annex VI. Figure A2. Mexico Exports to the U.S: USMCA Content and Statutory Effective Tariffs



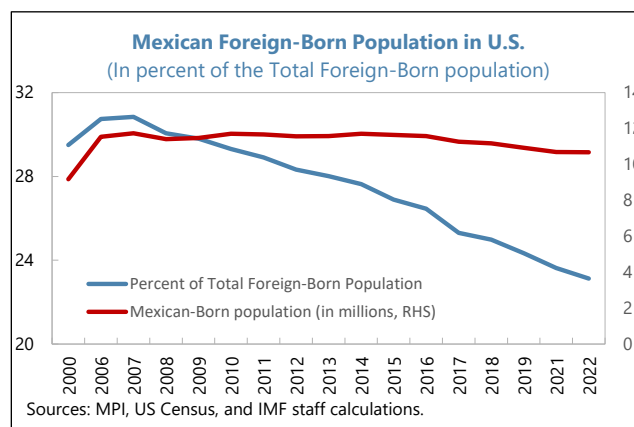
Annex VII. Going Back Home: Implications of U.S. Immigration Policies for Migration and Remittances¹

This annex analyzes potential implications of recent changes in U.S. immigration policies on US-Mexico migration and remittance flows building on key trends in the Mexican-born population residing in the United States and a detailed breakdown of migrant/remittances data by both Mexican states of origin and U.S. states of destination.

The Current Migration Landscape

1. The Mexican-born population in the US has remained largely unchanged and concentrated in a few states over the last two decades.

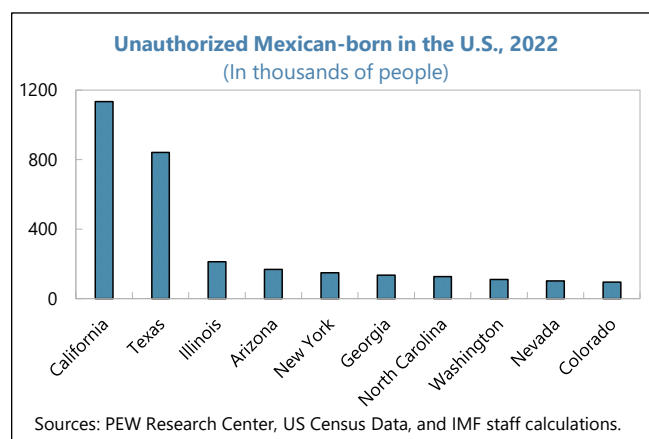
The number of Mexican-born individuals living in the U.S. has hovered around 11 million since 2000. While this group constitutes the largest foreign-born population in the U.S. its share has fallen over time as a stable Mexican-born population has been accompanied by rapidly growing foreign-born populations from other countries (Figure A1).



Most Mexicans living in the US reside in a few states, namely California, Texas, Arizona, Illinois, and Florida—states that also have the highest estimated numbers of undocumented Mexican migrants (particularly California, Texas, Illinois, Arizona, and New York).

2. Remittances from the U.S. to Mexico represent a substantial source of income for many households in Mexico.

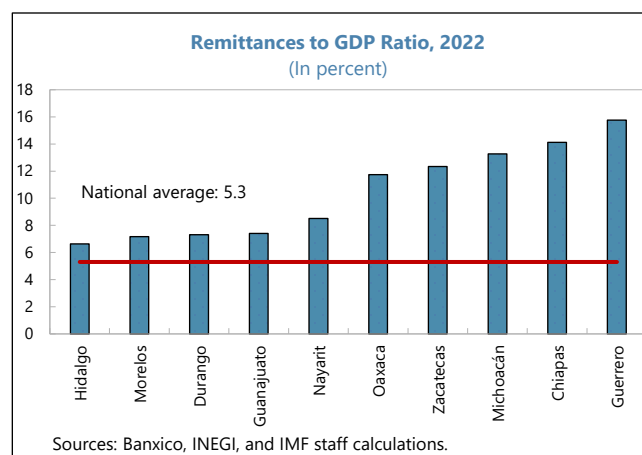
They represented about 4 percent of GDP in 2024, with most of them originating in the US and, in particular, states with the highest Mexican-born population—remittances from California, Texas, Arizona, and Florida accounted for about 50 percent of total flows in 2022 (Figure A2). Over the past ten years, remittances by Mexican-born living in the U.S. have increased by an average of 10 percent per year in real terms, averaging about US\$5,600 among Mexican-born population, annually, in 2023.



¹ Prepared by Francisco Arizala and Hugo Tuesta.

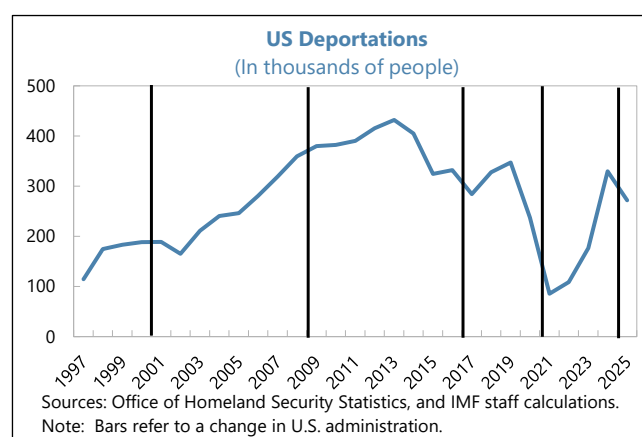
3. Mexican migrants to the US often originate from the poorest Mexican states.

Migration to the U.S. originates largely from a few Mexican states, notably Veracruz, Oaxaca, Jalisco, and Chiapas. These states tend to have higher poverty rates and have become increasingly reliant on remittances—which account for more than 10 percent of GDP in states such as Guerrero, Chiapas, Michoacán, Zacatecas, and Oaxaca (see also Figure A3).



4. U.S. administration plans to curb illegal immigration could have material impact on the Mexican-born population.

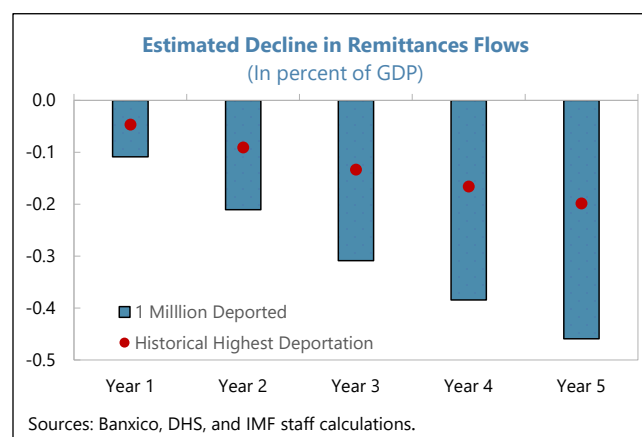
Over the past 20 years, the number of annual deportations has fluctuated, averaging approximately 300 thousand per year. The historical peak occurred in the early 2010s, when deportations reached 432 thousand in 2014. The Trump administration has announced a goal of carrying out 1 million deportations per year, with a medium-term objective of removing a total of approximately 10 million undocumented immigrants. As of



mid-2025, the number of deportations has reached approximately 300 thousand. However, the recently enacted “Big Beautiful Bill” has significantly expanded the resources available to ICE and the broader immigration enforcement apparatus, including by increasing the number of agents and detention centers. As a result, deportation numbers are likely to rise in the coming months.

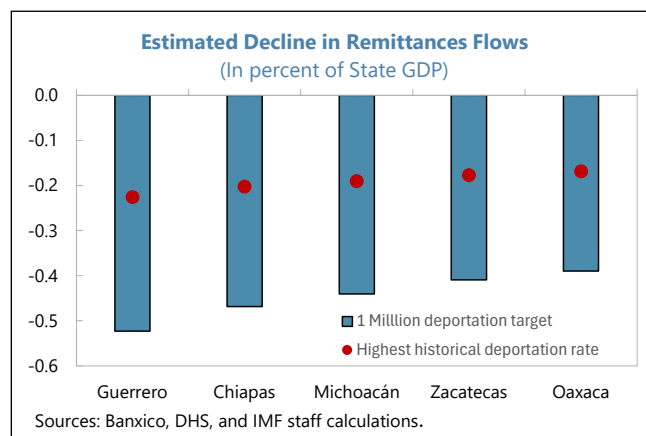
5. Scenario analysis suggests that remittances to Mexico could decline meaningfully. Two scenarios are considered:

- Scenario 1 assumes that deportations occur at the historical peak rate of 432 thousand per year.
- Scenario 2 assumes the administration reaches its stated target of one million deportations annually.



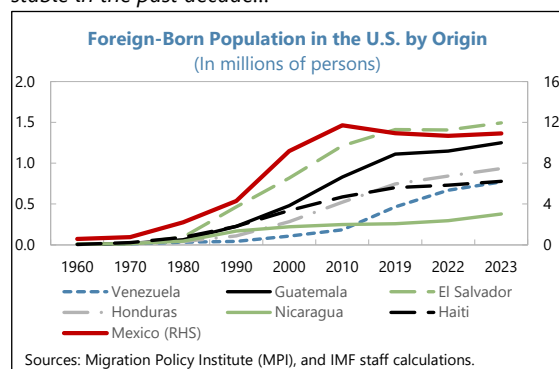
6. In both cases, it is assumed that new arrivals remain negligible, consistent with the limited inflows observed since January 2025. Considering that the Mexican-born population accounts for 37 percent of the undocumented population in the U.S., the simulations suggest that deportations in line with the historical maximum could lead to a fall in remittance flows of 0.05-0.2 percent of Mexico's GDP over a five-year horizon.

Ratchetting up deportations to a million per year, on the other hand, could lead to a fall in remittances of 0.1-0.4 percent of GDP. Furthermore, a disaggregated analysis at the Mexican state level indicates that the simulated decline in remittances would be considerably larger for some Mexican states. For instance, in the second scenario, remittances to Guerrero and Chiapas could fall four times as much as the country average, with flows declining by more than 0.4 percent of GDP the first year and 2 percent of GDP after five years. The analysis suggests that a ratcheting up of deportations to meet the U.S. administration goals could have non-negligible effects on remittances flows, especially in some Mexican states. In addition, a return in migration flows could temporarily strain the domestic labor market and lead to a rise in unemployment. However, the overall impact is expected to be limited due to the relatively small scale of reverse migration compared to the labor force, and because some of these workers may be absorbed by industries in northern Mexico, where demand for labor has remained strong.

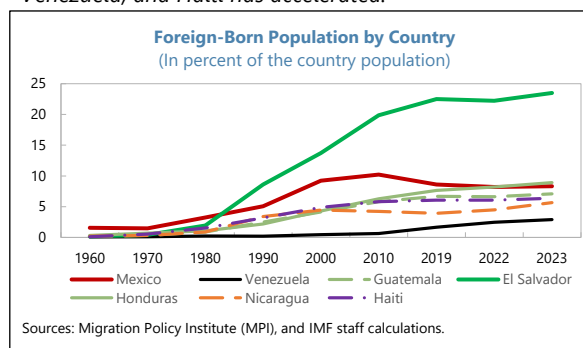


Annex VII. Figure 1. Mexico: Selected Countries Foreign-Born Population in the US

Mexican foreign-born population has remained broadly stable in the past decade...



... while migration from other Central American countries, Venezuela, and Haiti has accelerated.

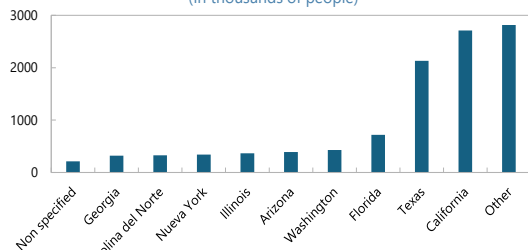


Annex VII. Figure 2. Mexico: Mexican-Born Population and Remittances Flows from the US to Mexico

Most Mexican migration flows are directed to California, Texas, and Florida...

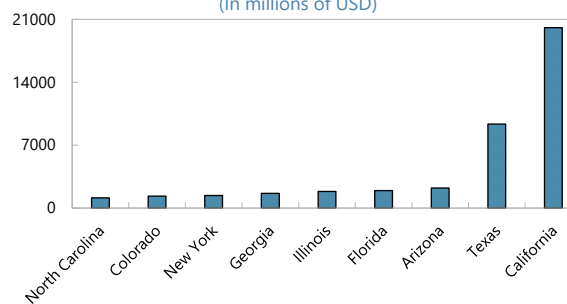
... the largest share of remittances from the US to Mexico originate from California, Texas, and Arizona.

Mexican Migrant in US, 2018-2023
(In thousands of people)



Sources: ENADID, Migration Policy Index (MPI), and IMF staff calculations. The totals were calculated using 2023 Mexican immigration population estimated by MPI, with data from U.S. Census Bureau's 2006 to 2023 American Community Survey (ACS)

Remittances to Mexico, 2022
(In millions of USD)



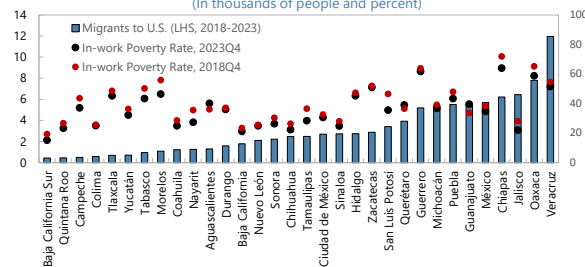
Sources: Banxico, US Census, BEA, and IMF staff calculations.

Annex VII. Figure 3. Mexico: Remittances and State-Level GDP

States with the highest migration rates also exhibit high poverty rates (e.g. Veracruz, Oaxaca, Chiapas) ...

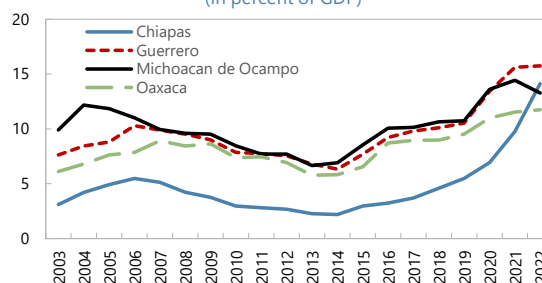
... and some of them have become increasingly reliant on remittances...

Migrants to U.S. and Poverty, 2018-2023
(In thousands of people and percent)



Sources: Banxico, INEGI, Coneval, CONAPO, and IMF staff calculations.

Remittances GDP Ratio for Bottom 5% States
(In percent of GDP)

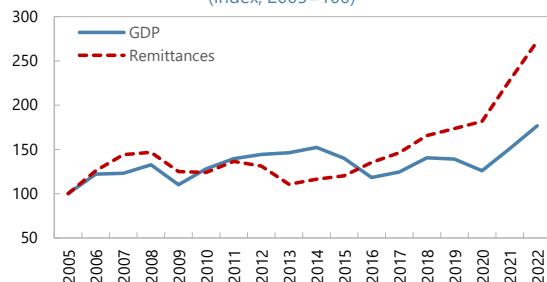


Sources: Banxico, INEGI, and IMF staff calculations.

... as these flows have outpaced growth in average state income, for example in Oaxaca...

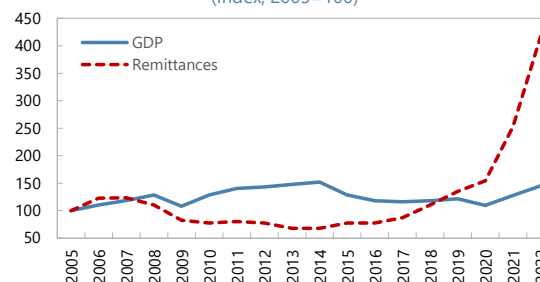
... and Chiapas.

Oaxaca
(Index, 2005=100)



Sources: Banxico, and IMF staff calculations.

Chiapas
(Index, 2005=100)



Sources: Banxico, and IMF staff calculations.

Annex VIII. Revenue Administration Efforts: Scope for More? ¹

1. Tax revenues grew significantly in the past five years, without tax reform. Between 2019 and 2024 tax revenues increased by 1.9 percentage points of GDP, more than offsetting declining oil and non-tax revenues. This strong performance was driven by income and value added tax collection, especially from manufacturing, finance and wholesale/retail trade sectors (see chart). Notably, domestic sources led the revenue increase, while foreign trade (VAT and excises) revenues fell.

2. A comprehensive strategy to enhance tax collection has contributed to recent revenue gains. The Tax Administration Service (SAT) has focused on (i) improving collection efficiency by strengthening oversight of processes and promoting timely compliance, (ii) reducing tax evasion and avoidance using dynamic risk models, (iii) combating corruption by strengthening human capital and legal enforcement, and (iv) enhancing taxpayer services through expanded digital tools and service channels. These efforts have been accompanied by some regulatory changes, including the removal of the right to offset tax credits against other taxes, the introduction of tax withholding by digital commerce platforms, and the introduction of a simplified tax regime (RESICO) for individuals and corporations with relatively low income. ² The authorities estimate that revenues increased by close to 2 percent of GDP between 2018 and 2024 due to these efforts, with audits of large taxpayers accounting for about half of the increase (see chart).

3. Mexico's current revenue administration system compares favorably to peers and advanced OECD countries across a range of metrics. Areas of comparative strength include cost efficiency (operating budget as percent of revenue collected), on-time payments, returns filed electronically and the share of payments made electronically (see chart). It also scores comparatively well across issues such as taxpayer services, HR management and development, and governance.

4. Mexico compares less favorably on public trust, informality and VAT efficiency aspects. A relatively low score for public trust—a measure of the extent that information is placed in the public domain as part of a visible commitment to accountability and transparency—mostly reflects a lack of publication of documents such as strategic and annual operations plans, service delivery standards, key compliance risks, and tax gap estimates. Furthermore, although slightly declining over the past five years, informal employment remains high at 46 percent of total employment and informal output at around 30 percent of formal GDP. Additionally, Mexico's VAT revenue ratio (VRR) continues to be strikingly low at 33 percent in 2022 (the lowest in the OECD and significantly lower than the average of 55 percent among advanced economies in the OECD), due to a combination of exemptions, application of a zero rate and low compliance levels. ³ Similarly, arrears and audit hit

¹ Prepared by Johanna Schauer and Enrique Rojas (FAD).

² See also Annex XII of IMF Country Report No. 22/334.

³ The VRR provides an indicator that combines the effect of loss of VAT revenues as a consequence of exemptions and reduced rates, fraud, evasion, and tax planning. See OECD (2024).

rates are comparatively high.⁴ These metrics suggest potential for further gains from addressing non-compliance, informality and arrears.

5. More recent efforts have focused on enhancing taxpayer services, supporting compliant taxpayers and strengthening enforcement against evasion and smuggling.

Key actions include simplifying and digitizing procedures, enhancing taxpayer education and expanding the simplified RESICO tax regime. To support compliance, the authorities introduced pre-filled tax returns and a fiscal regularization program for small taxpayers. On the enforcement side, the authorities are intensifying the use of data analytics and AI to detect tax fraud, improving coordination and tightening custom controls. Finally, the authorities have also proposed adjusting certain deductions in the draft 2026 budget.

Annex VIII. Table 1. Mexico: Authorities' Revenue Administration Priorities for 2025-26

Enhancing Tax Payer Services

Simplifying and digitizing tax procedures
Promoting mobile and online services
Enhancing tax payer education
Expansion of simplified RESICO tax regime
Tax exemptions for primary sector incomes up to 900 thousand pesos

Supporting Compliant Taxpayers

Introduction of pre-filled tax returns
Introduction of fiscal regularization regime for small taxpayers

Strengthening Enforcement against Evasion and Smuggling

Intensification of use of data analytics and AI to detect tax fraud
Stronger coordination among federal authorities
Review of high-risk sectors
Abolition of de-minimis threshold of US\$50 for imports
Establishment of global tax rate of 33.5 percent for all shipments below US\$ 2500
Tightening of labeling and documentation guidelines for imports
Broadening coverage of reference prices for imports
Strengthening audits of foreign trade operations
Legal custom reform to increase penalties for smuggling and customs violations

Other measures under consideration

Adjustment of tax deductions

6. To further enhance tax administration, Mexico would benefit from implementing a solid Compliance Risk Management (CRM) framework to optimize revenue collection by identifying and focusing resources on the highest risks to the tax base, measuring the tax gap for main taxes (VAT, CIT, PIT) annually, and establishing a strategic objective in its annual plan to reduce the tax gap by a percentage to be determined. Reducing tax expenditures is also welcome and could support tax administration efforts by reducing complexity.

⁴ Arrears refers to the stock of overdue tax debts, and audit hit rates to the percentage of audits that result in an adjustment or additional assessment of taxes due.

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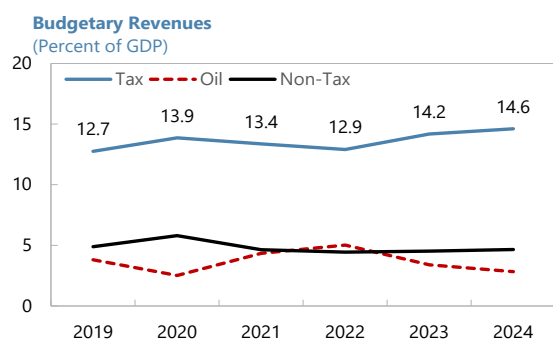
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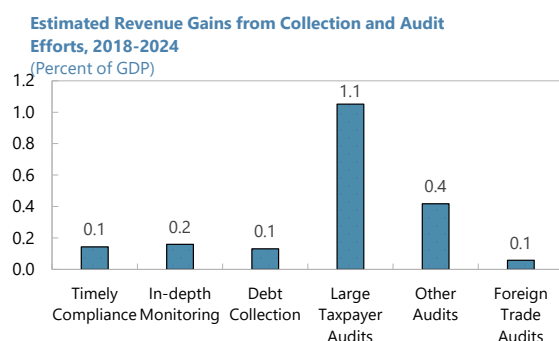
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Annex VIII. Figure 1. Mexico: Revenue Administration Efforts

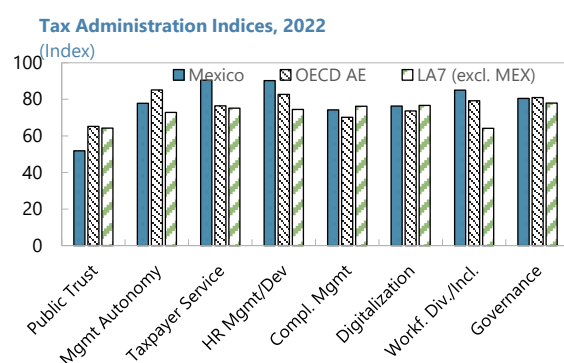
Tax revenues have grown significantly over the last five years, ...



Efforts focused on enhancing collection efficiency and reducing tax avoidance, especially of large taxpayers.



...with strong performance across many aspects of tax administration.

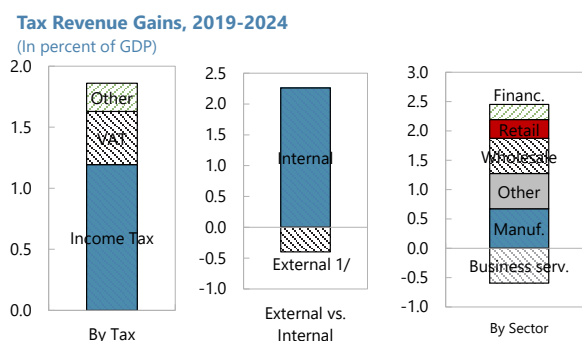


Sources: SHCP, SAT, INEGI, OECD, ISORA, ILO, and IMF staff calculations.

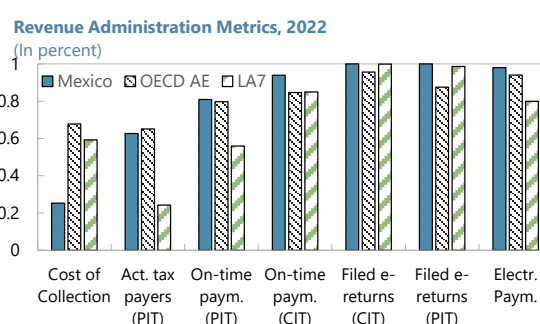
1/ External tax revenues include revenues reported by the customs office (including VAT and IEPS) and revenues from foreign trade taxes.

2/ Collectable arrears: Portion of overdue tax debts that are realistically expected to be recovered. Audit hit rate: percentage of audits that result in an adjustment or additional assessment of taxes due; Audit rev: Additional assessments raised through all audits and verification actions as percentage of tax collections; VAT Rev Ratio: Ratio of actual VAT revenues to the potential VAT revenue.

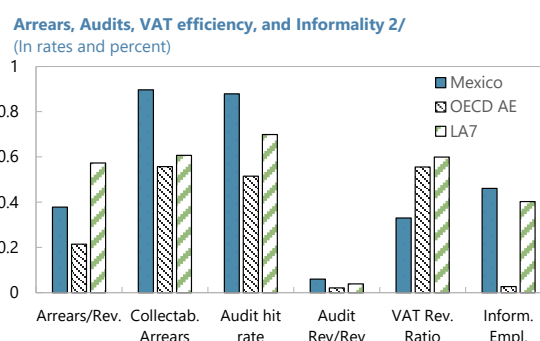
... driven by income taxes, primarily from the manufacturing and wholesale trade sectors.



Mexico's revenue administration appears efficient and highly digitalized, ...



However, arrears and informality remain high and VAT efficiency low.

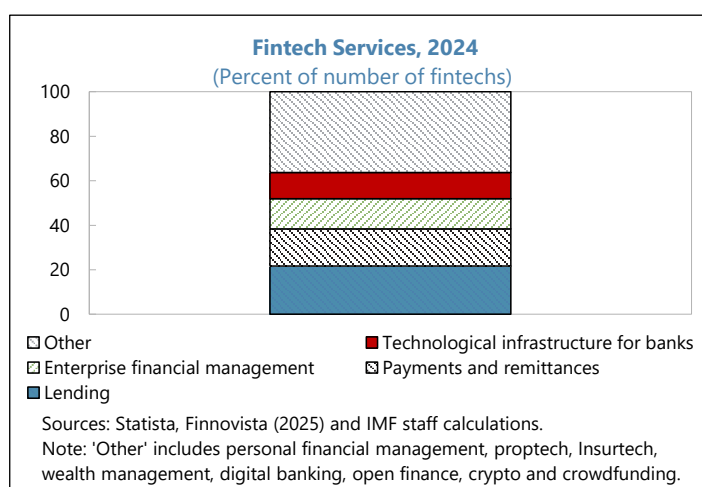
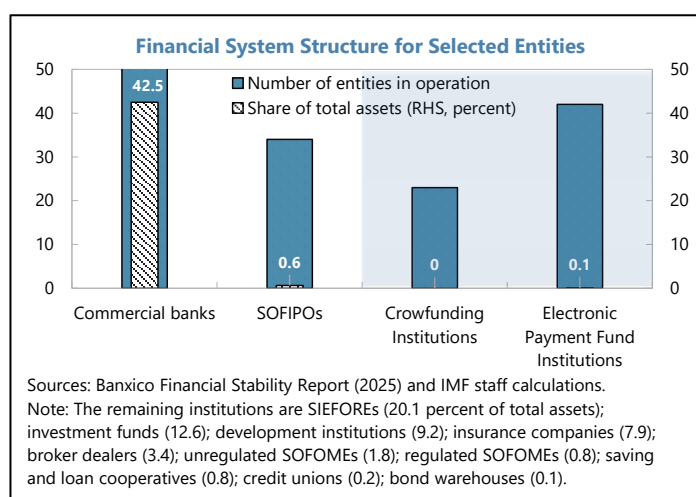


Annex IX. Barriers to Competition and Fintech Penetration in Mexico's Banking Sector¹

A long-standing feature of Mexico's banking sector is its high concentration which, coupled with structural and regulatory barriers, has limited competition, innovation, and financial inclusion.²

The entry of fintech firms is reshaping the financial landscape, including by increasing competition and broadening access to financial services, although also introducing new challenges.

1. Fintechs have grown across several financial services, increasingly interacting with traditional banks. The 2018 Fintech Law established their legal framework creating a formal licensing regime for *Financial Technology Institutions* (FTIs), including authorized *Electronic Payment Fund Institutions* (EPFIs), and *Crowdfunding Institutions* (CFIs) (Banco de México, 2024). However, many fintechs operating in Mexico remain unregulated. A second category of fintech not defined in regulation is *digital banks*, which include institutions operating without physical infrastructure that hold some form of financial license (see Figure 1).³ As fintechs continue to scale, their interaction with traditional banks is evolving: some fintechs (Nu México, Mercado Pago, etc.) are pursuing banking licenses, while others are entering strategic partnerships with



¹ Prepared by Corrado Macchiarelli.

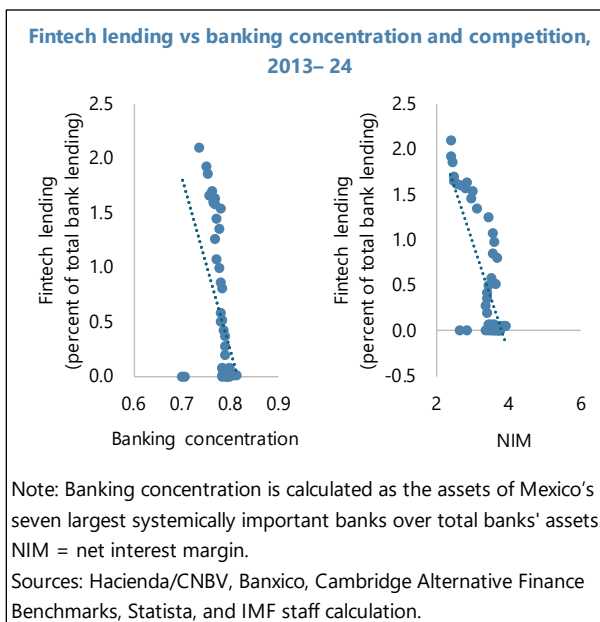
² See also 2024 Mexico Article IV Report – Annex XV.

³ SOFIPOs (Sociedades Financieras Populares) which are licensed microcredit institutions, occupy a distinctive position with Mexico's fintech landscape. While increasingly considered part of the digital banking segment, they are regulated under the *Ley de Ahorro y Crédito Popular* and supervised by the CNBV.

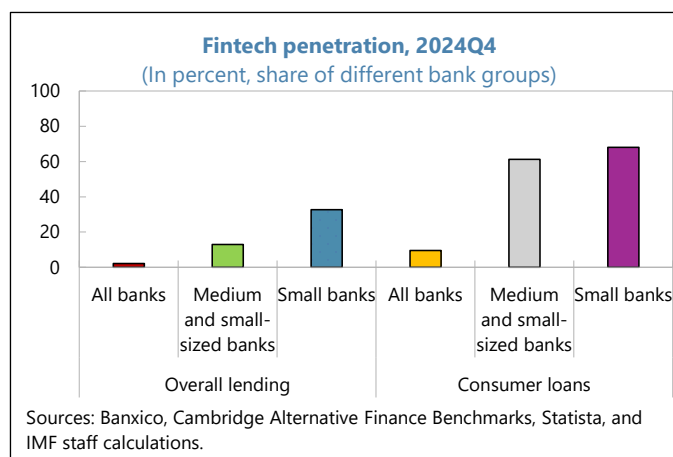
traditional banks.⁴ Since 2012, 21 licenses have been granted to new banks. Only about 20 percent of regulated fintech institutions engage in lending activities (Figure 2). Some traditional banks have launched digital banking counterparts to remain competitive (examples include Santander, Banregio, Afirme and Invex which have introduced Openbank, Hey Banco, Kapital Bank, respectively), while others are investing in technology such as mobile banking, artificial intelligence for credit scoring, and blockchain for transaction processing.

2. Fintech expansion has contributed to advancing financial inclusion in some areas.

Fintechs have leveraged the Interbank Electronic Payment System (SPEI) to expand access to electronic transfers. Platforms such as Mercado Pago and Cobro-Digital (CoDi) broadened access to electronic payments, particularly among SMEs and informal workers—electronic transactions increased markedly (with CoDi surpassing 20 million users by end-2024 and Mercado Pago 12 million). In the area of consumer credit, Nu, Kueski, and Klar have introduced alternative credit scoring methodologies and Buy Now, Pay Later (BNPL) products. Similarly, in the remittances market, digital platforms have leveraged technology to offer faster and lower-cost cross-border transfers.



3. Fintech adoption has also intensified competition with traditional banks. Previous evidence points to broad evidence on this in Latin America (IMF, 2023). For Mexico, staff calculations indicate a negative correlation between fintech entry and both bank concentration and net interest margins (Figure 3), suggesting that fintech entry have reduced concentration and increased competition in the banking sector.



4. However, regulation is a remaining constraint to further fintech entry. Capital requirements/lower deposit protection and stringent compliance obligations—such as anti-money laundering (AML) and countering the financing of terrorism (CFT) domains, including know-your-

⁴ Collaboration between banks and fintechs through partnerships and acquisitions has become more common, allowing banks to harness fintech agility and technological expertise, while fintechs have benefited from banks' regulatory experience and extensive customer networks (see Finnovista, 2025).

customer (KYC) requirements—can disproportionately affect smaller institutions and potential fintech entrants due to their costs (OECD, 2020) if not applied proportionately in line with the risks. At the same time, where risks remain significant, using simplified due diligence measures would not be justified. In the domain of savings and investment products, regulated Mexican fintechs still see relatively lower market penetration particularly when compared to the broader banking sector (Figure 4).

5. Fintechs in Mexico also face structural barriers in SME credit provision. This includes lack of access to reliable data or advanced analytics infrastructure, limits to the use of collateral due to informality, asset registration systems, and legal frameworks for secured lending, and costly access to credit bureau data. Asymmetric information, uneven Application Programming Interface (API) implementation, and low financial inclusion restrict access to reliable user data therefore limiting the effectiveness of the open banking framework, particularly in the absence of finalized open finance regulation.⁵ In rural and low-income areas, adoption of fintech solutions remains impeded by infrastructure deficits, limited digital literacy, and trust concerns.⁶

6. At the same time, fintechs can have implications for financial stability. Their entry has the potential to disrupt traditional banking and enhance competition, although their growth can also introduce new sources of risk-taking for financial institutions (FSB, 2019). While a few large regulated fintechs may warrant closer monitoring, the sector in Mexico remains small. Staff estimates show that fintech entry is not associated with a significant change in bank risk-taking.⁷ However, when the analysis is restricted to SOFIPOs specialized in digital lending, the results point to banks risk taking decreasing and lower banks' net interest rate margins, consistent with the notion of increased competition and reduced systemic risk. While the evidence for Mexico aligns with broader international findings (Elekdag, Emrullahu and Naceur, 2024), the interaction between fintech entry and banks' risk-taking behavior is nuanced. The relationship may vary across contexts and over time, indicating that the impact of fintech on financial stability is not uniform and may depend on specific market conditions and institutional frameworks.⁸

7. Authorities should work on modernizing regulatory frameworks to support innovation while safeguarding financial stability and consumer protection. Regulatory proportionality remains critical to enable policy makers to mitigate risks without stifling innovation (FSB, 2020).⁹ At the same time, consistent application of open banking through secure and standardized data-sharing frameworks can foster interoperability between banks and fintechs, thereby enhancing

⁵ Data from FinTech México indicates that about 45 percent of fintech companies in the country are actively implementing or planning to integrate open banking services.

⁶ See also 2024 Mexico Article IV Report – Annex XIV and XV.

⁷ When applying the methodology developed by Jia (2024) and Bätz-Zuk and Lara-Sánchez (2021), fintech entry is associated with no significant bank risk taking (measured by the z-score). However, the significance of the results varies depending on whether the z-score is considered in levels or first difference, suggesting a more nuanced effect.

⁸ In jurisdictions with robust institutional frameworks, fintech entry may mitigate bank risk-taking, indicating that regulatory quality and effective market discipline might serve as key moderating factors (Elekdag, Emrullahu and Naceur, 2024). For an extended discussion see also Bätz-Zuk, E. and J. L. Lara-Sánchez (2021).

⁹ Under proportionality, players with larger reach or transaction volumes are subject to stricter oversight in some areas.

competition and expanding consumer choice (BIS, 2022). Investment in digital infrastructure also remains key to overcoming the urban-rural digital divide, which is a significant barrier to inclusive financial adoption and competition (Cantú and Ulloa, 2020; World Bank, 2022). Finally, ensuring a level playing field by applying consistent regulatory standards related to consumer protection, cybersecurity, the effective application of a risk-based approach to AML/CFT compliance across all financial service providers, and addressing currently unregulated entities,¹⁰ would help to continue strengthening trust and stability of the financial system.

¹⁰ Under Mexico 2018 Fintech Law, the regulatory thresholds that determine whether a fintech is regulated or not depend on the type of financial service. Grey areas exist for fintech which only provide technology infrastructure without handling funds and/or offer financial education, analytics, or scoring tools; fintechs operating under a regulatory sandbox approved by CNBV for testing innovative models, or which are below transaction or user thresholds defined in secondary regulations.

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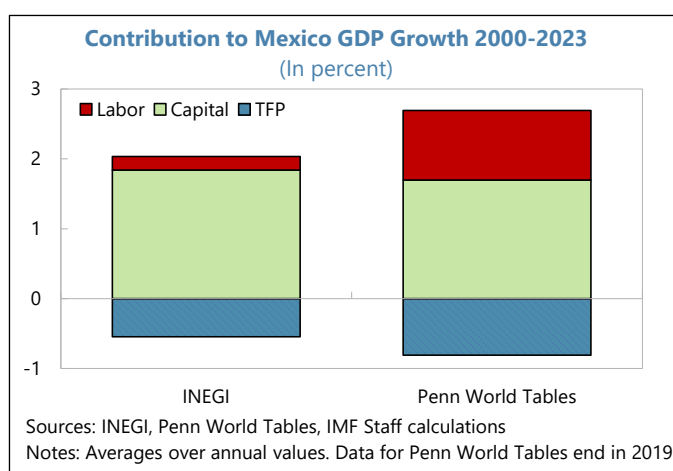
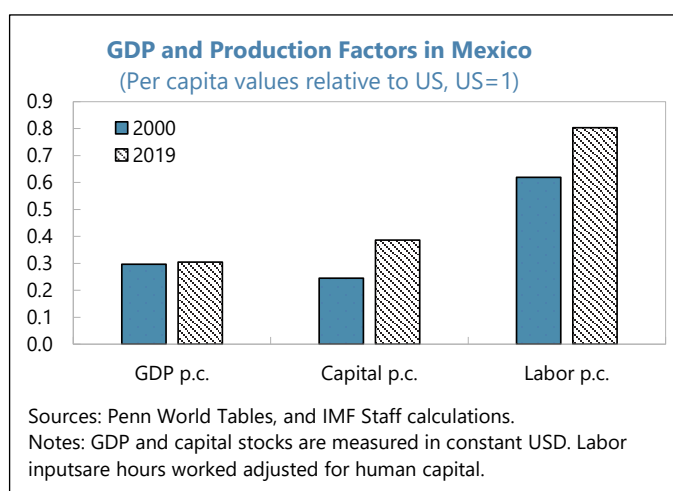
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Annex X. Trade Linkages and Productivity Growth in Mexico ¹

The gap in per capita output between Mexico and the United States remained broadly unchanged between 2000 and 2019, despite progress in narrowing gaps in capital and labor per capita. This persistent divergence reflects a widening total factor productivity (TFP) gap, amid a 0.5 percent annual decline in TFP in Mexico that offset the gains from factor accumulation. Sectoral data point to stark differences in productivity performance across sectors, with export-oriented manufacturing significantly outperforming domestically-focused sectors. Econometric analysis confirms that industries with greater access to export markets experienced stronger TFP growth, while exposure to foreign direct investment does not appear to have significant effect on productivity. These findings underscore the importance of strengthening trade linkages to support sustained productivity growth.

1. Mexico's income gap with the United States has remained broadly unchanged over two decades despite significant convergence in production factors. In 2019, Mexico's GDP per capita remained approximately 70 percent below the U.S. level—unchanged from 2000 despite two decades of deepening economic integration through NAFTA and its successor agreement. This stagnation occurred even as Mexico meaningfully reduced its capital stock gap with the United States from 75 to 61 percent, reflecting faster capital accumulation in Mexico, and its labor input gap from 38 to 20 percent, reflecting Mexico's demographic dividend.

2. This persistent income gap indicates that total factor productivity deteriorated relative to the United States. Standard growth theory suggests that countries with lower initial income levels should converge toward richer countries as they accumulate capital and improve labor quality. Mexico's experience appears to have been different—suggesting that productivity constraints rather than factor shortages are the primary obstacle to convergence—as growth accounting analysis reveals that declining TFP offset the gains from strong factor



¹ Prepared by Nils Lehr.

accumulation, constraining Mexico's overall growth performance. Real GDP grew by an average of 1.5 percent per year during 2000-23, with factor accumulation contributing 2.0 percentage points while TFP subtracted 0.5 percentage points.² Analysis using Penn World Tables data (for 2000-19) confirms this pattern: annual real GDP growth averaged 1.9 percent, with 2.7 percentage points explained by factor accumulation and -0.8 percentage points by TFP decline.

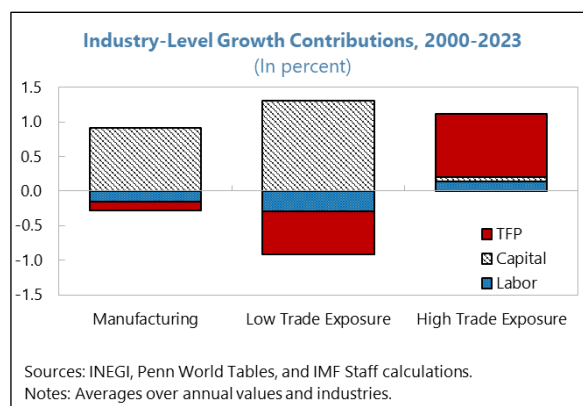
3. A similar growth accounting methodology at the sectoral level using data from INEGI reveals marked variation in productivity performance across sectors, with export-oriented activities outperforming domestically focused ones. While the aggregate TFP declined, this masks significant heterogeneity across sectors. The primary sector displayed robust TFP growth of 3.3 percent annually, contrasting sharply with declines of 0.9 percent in the secondary sector and 0.4 percent in the tertiary sector.

4. Within manufacturing, the divergence between export-oriented and domestic industries was particularly pronounced. Export-focused industries such as automobiles and electronics registered positive TFP growth, while domestically oriented industries including petroleum refining and chemical manufacturing (excluding pharmaceuticals) experienced declining productivity. Productivity also varied markedly within the tertiary sector, with gains concentrated in tradable services (particularly in information technology services that are increasingly integrated into global value chains). This pattern suggests that exposure to international competition and markets may be a key driver of productivity improvements.

5. Empirical analysis confirms that external demand is a key driver of productivity growth at the industry level. To quantify this relationship, regression analysis on industry-level productivity growth and its connection to export intensity was conducted, focusing on the manufacturing sector and the period 2011-23. Using a shift-share identification strategy that address endogeneity concerns, the analysis finds that a 10 percent increase in Mexican exports

Annual TFP Growth from 2000-2023 (In percent)			
Sector	Total	Minimum	Maximum
Primary sector	3.3	-3.0	6.1
Secondary sector	-0.9	-6.7	4.8
Mining	-3.0	...	...
Utilities	0.7	...	...
Construction	0.7	...	...
Manufacturing	-0.7	-6.7	4.8
Tertiary sector	-0.4	-8.0	7.2

Sources: INEGI, and IMF staff calculations.
Notes: Annual TFP growth calculated via growth accounting and aggregated across years using simple average. Minima and maxima are calculated across industries within a sector and not reported for sectors missing detailed industry-level data.



² The growth accounting analysis follows standard methodology, assuming constant returns to scale in labor and capital, with factor elasticities estimated using the ratio of labor remunerations to value-added. Data sources include INEGI for aggregate, sectoral and industry-level analysis and Penn World Tables for country-level analysis and cross-country comparisons.

driven by external demand is associated with a 0.5 percent increase in annual industry-level productivity growth.³

6. The export-productivity relationship operates through efficiency gains rather than factor accumulation.

The positive effect of export exposure on productivity fully accounts for its impact on value-added growth, while showing no significant relationship with factor accumulation. This suggests that access to external markets fosters domestic productivity improvement through channels such as technology adoption, scale economies, or knowledge spillovers rather than simply leading to rising input utilization.

7. In contrast to trade linkages, exposure to foreign direct investment shows no significant relationship with productivity growth. A similar empirical approach shows no significant relationship between FDI intensity and productivity growth. While FDI does foster industry growth, this occurs primarily through faster factor accumulation rather than productivity improvements. These findings suggest that FDI may alleviate financial constraints without necessarily generating technology spillovers or productivity gains, which could reflect limited knowledge spillovers or technology adoption. The structural reforms outlined in the main text could unlock these potential gains.

8. The analysis underscores the value of maintaining Mexico's integration with international markets. Given that export exposure is a key driver of productivity growth, a deterioration in Mexico's access to U.S. markets could have significant adverse effects on already weak productivity performance. This highlights the importance of stable trade relations and continued efforts to deepen economic integration where feasible. Conversely, reduced access to

External Exposure and Productivity Growth (IV regression estimates)			
5-Year Productivity Growth			
Export Intensity	0.053*** (0.016)		0.063*** (0.016)
FDI Intensity		-0.131 (0.12)	-0.105 (0.109)
Observations	189	189	189
Sources: INEGI, Secretaria de Economía, and IMF staff calculations. Notes: IV regression estimates controlling for year fixed effects using data for the manufacturing industry. Export and FDI intensity instrumented for with shift-share instrument using initial values from 2003-4 and 2006-7. Productivity growth calculated using growth accounting methods. Standard errors in parenthesis.			

External Exposure and Value Added Growth (IV regression estimates)			
5-Year Value Added Growth			
Export Intensity	0.04*** (0.012)		0.022* (0.013)
FDI Intensity		0.176* (0.09)	0.186** (0.088)
Observations	189	189	189
Sources: INEGI, Secretaria de Economía, and IMF staff calculations. Notes: IV regression estimates controlling for year fixed effects using data for the manufacturing industry. Export and FDI intensity instrumented for with shift-share instrument using initial values from 2003-4 and 2006-7. Standard errors in parenthesis.			

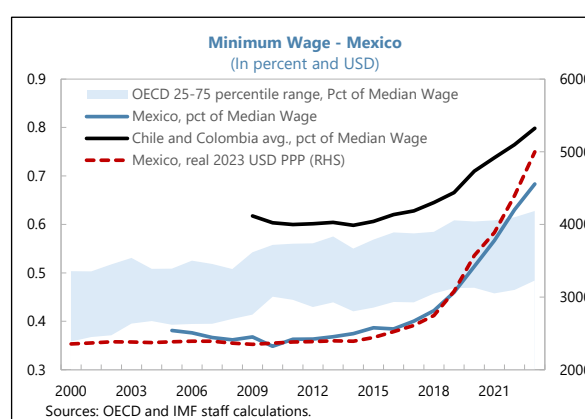
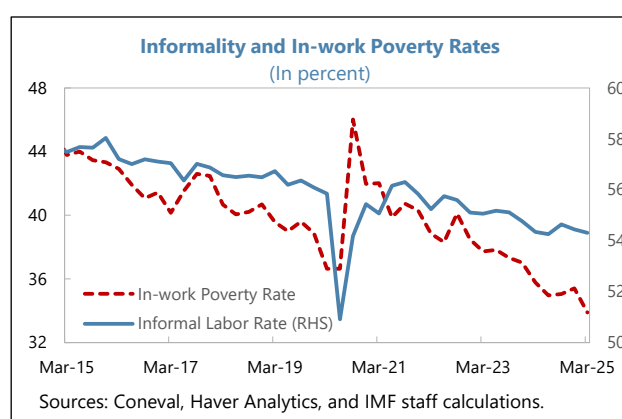
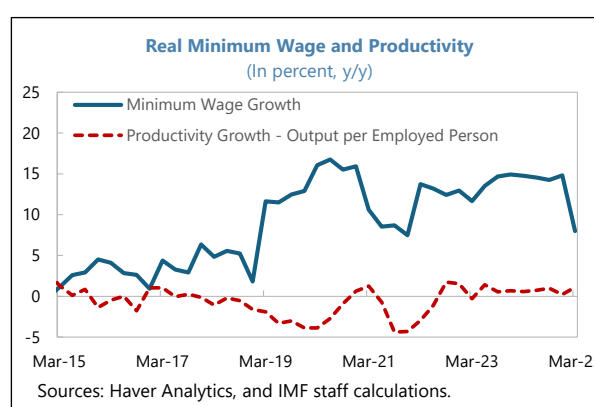
³ The shift-share instrument addresses potential reverse causality (i.e., that domestic factors, including productivity growth, may have led to rising export intensity). The instrument is constructed in three steps. First, initial export intensity in 2003–4 (the first available years) is calculated at the industry level. Second, for each industry, a leave-one out aggregate export intensity is calculated as total exports over total value added, excluding the industry itself. Finally, the initial export intensity is projected forward using the evolution of the aggregate export intensity.

foreign capital would likely have more limited productivity impact, though it could still constrain growth through reduced factor accumulation.

Annex XI. Rising Minimum Wages and Labor Market Outcomes in Mexico ¹

Mexico's minimum wage has increased by 125 percent in real terms since 2018 and now stands among the highest minimum-to-median wage ratios of OECD countries. Econometric analysis based on microdata suggests that these minimum wage hikes have avoided negative labor market consequences on employment and informality, while also having limited impact on wages. Model results also suggest a limited impact of the minimum wage at current levels, although pointing to potentially large and adverse labor market consequences for planned increases over the next few years. This points to the need to carefully monitor labor market developments before implementing future hikes.

1. Mexico's minimum wage has increased significantly since 2018, while labor markets have remained healthy. After falling by about 54 percent in real terms throughout the 1980s and 90s, in the context of aggressive anti-inflationary stabilization programs—and remaining unchanged for nearly two decades—the minimum wage has risen by 215 (125) percent in nominal (real) terms since 2018.² As a result, the minimum-to-median wage ratio has climbed from around 0.42 (well below the 25th percentile of OECD countries) in 2018 to above 0.68 (above the 75th percentile of the OECD) by 2023. Despite these substantial increases, which outpaced labor productivity, informality and poverty declined during this period, and the unemployment rate reached a historic low in 2025.

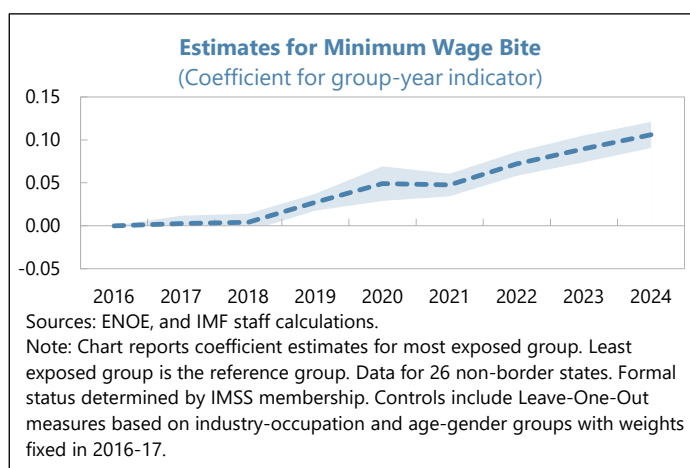


¹ Prepared by Nils Lehr, Johanna Schauer and Hugo Tuesta.

² Since 2018, Mexico has a higher minimum wage level for the so-called Northern Border Zone, which - after an initial hike of 100 percent - has increased at the same pace of the nation-wide minimum wage.

2. Further increases in the minimum wage are an important pillar of the policy of the new administration. In October 2024, congress approved a constitutional reform that stipulates that annual increases to Mexico’s minimum wage at least as high as the prevailing inflation rate, preventing any future erosion in real terms. Additionally, the administration announced plans to increase the nominal minimum wage by close to 12 percent per year until 2030 to ensure it reaches 2.5 times the basic consumption basket (currently about 10,000 pesos or US\$500 per month). These increases are projected to lead to a rise in the share of workers working at or below the minimum wage from 19 percent of the workforce in 2024 to about 35 percent by 2030, compared to less than 5 percent in 2018.³

3. To assess the labor market effects of minimum wage increases, an empirical analysis using micro data is undertaken. In order to properly identify the impact of the minimum wage, the analysis—conducted at sub-national level using individual-level data from the labor market survey ENOE—controls for factors other than the minimum wage that may have driven the strong labor market performance. The empirical strategy leverages the variation in exposure to the minimum wage across states in Mexico, measured by the share of formal workers earning up to the minimum wage in 2016-17—referred to as “bite” (see Dube and Lindner, 2025).⁴ The impact on labor force participation, employment, hours worked, informality, and wages is examined by comparing states with high and low ‘bite’ over the 2016-2024 period.⁵ To control for concurrent developments (e.g., differential performance of the export sector), state-level controls were constructed based on the long-run state-level industry and age structure of workers and national trends in labor market outcomes across industries and age groups.⁶



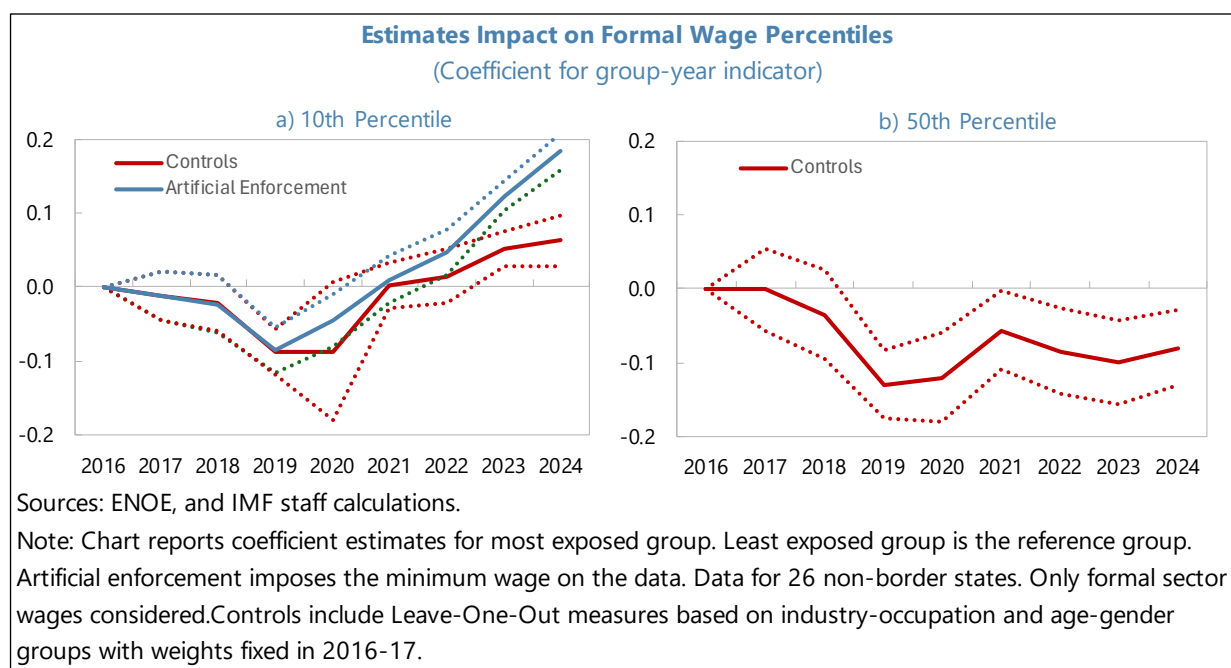
³ Projections based on data from ENOE for 2024 and an assumed growth rate of wage of 7 percent in absence of the minimum wage hike. Formal and informal sector workers included. For workers in the formal sector, coverage in 2024 was 10 percent and is projected to rise to close to 25 percent or above by 2030.

⁴ We construct the bite based on the 2016-17 wage distribution and the 2019 minimum wage to median wage rate as the minimum wage was too low to have meaningful variation in the minimum wage bite in 2016-17 (See Lehr, Schauer, and Tuesta, 2025).

⁵ Data from the ENOE labor market survey for the period 2016Q1-2024Q4 and respondents aged 16 to 55 are used for the 26 Mexican states that do not overlap with the Northern Border Free Zone. State is determined based on the individual response. States were grouped into groups of 3 based on their exposure level and the main analysis compares the most and least exposed state.

⁶ The analysis proceeds in three steps. First, for each group of interest, e.g., a particular industry, we determine its average share of respondents belonging to that group. Second, for each state, we calculate aggregate labor market outcomes including wages, employment, and formalization rates, for the group using data from all other states as

(continued)



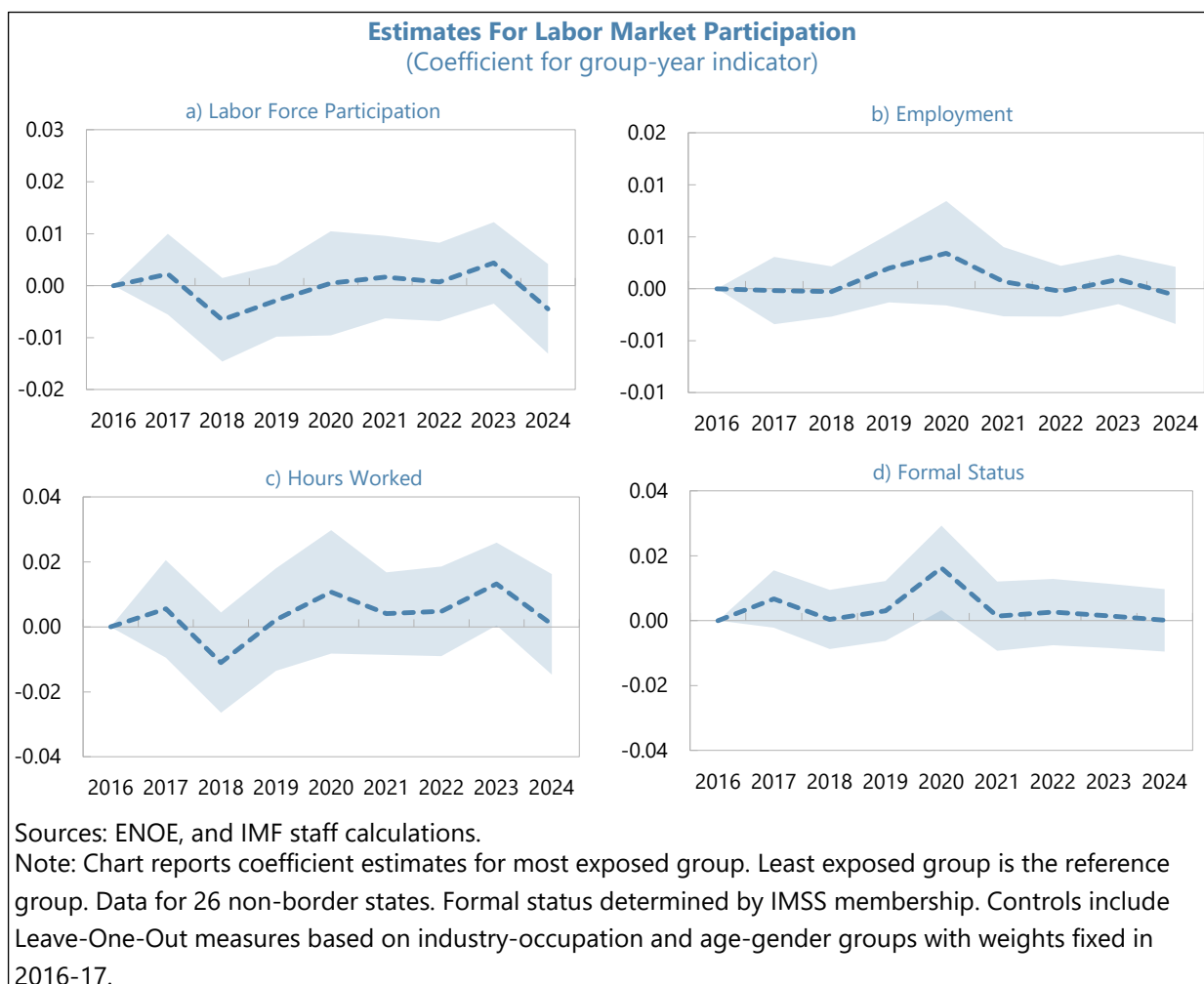
Furthermore, long-run differences across states and aggregate shocks were absorbed by state and quarter fixed effects.

4. Estimates suggest that rising minimum wages did not have material adverse effects on labor market indicators. Labor force participation, employment, hours worked, and formalization evolved similarly in most and least exposed state groups even though the realized minimum wage bite diverged significantly. This suggests that the minimum wage did not have adverse labor market effects until 2024.

5. However, the analysis also suggests that reported wages in the formal sector did not respond strongly to the minimum wage. This result is surprising as diverging minimum wage bites would suggest significantly rising relative wages at the bottom of the formal income distribution in the most exposed states. Indeed, an increasing share of formal workers in ENOE are reporting a wage below the minimum wage – from close to percent in 2018 to 10 percent as of 2024. This finding raises questions on the degree of enforcement of the minimum wage or whether the ENOE survey capturing wages accurate at the bottom of the wage distribution.⁷

our leave-one out aggregates. Finally, we combine the two measures and aggregate across groups to get state-level trends in aggregate labor market outcomes based on average local labor market composition.

⁷ Research on the minimum wage hikes in Brazil using similar survey design finds wage data in line with strong minimum wage enforcement (Machado Parente, 2024). Kumler, Verhoogen, and Frias (2020) find evidence for significant wage underreporting in the IMSS survey for higher income individuals, while Campos-Vázquez (2013) evaluates alternative methods for wage non-responses in ENOE.



6. Model results confirm that existing levels may not entail significant adverse effects, although planned increases are likely to have significant side effects. Two quantitative labor market models, in the spirit of Machado Parente (2024) and Amodio and others (2025), were calibrated to the Mexican context to evaluate the impact of rising minimum wages on the economy. The models confirm that the current levels of the minimum wage may have limited, if any, impact on the economy due to the limited number

Modelled Impact of Minimum Wage in Mexico

Measure	Current MW		MW + 20 percent	
	Model 1	Model 2	Model 1	Model 2
Output	-0.1	0.0	-2.0	-1.7
Employment	-0.2	0.0	-2.1	-2.1
Wages	0.1	0.1	-0.3	0.1
formal sector	1.4	0.2	20.9	7.5
informal sector	0.0	0.0	-1.0	-2.0
90-10 gap in log wages	0.0	0.0	4.3	1.6
90-50 gap	0.0	-0.2	4.2	1.1
50-10 gap	0.0	0.2	0.1	0.5
Informal employment share	1.4	-0.1	15.9	3.9
Welfare (consumption equivalent)	-0.1	0.0	-2.1	-1.6

Source: IMF staff calculations

Notes: Model 1 is similar to Machado Parente (2024), while model 2 allows for direct wage spillovers across the formal and informal sector. The second scenario imposes a 20 percent larger real minimum wage holding constant all other parameters.

of workers in the formal sector affected at current minimum wage levels. However, an increase in the minimum wage along the lines of the authorities' medium-term plans, if not accompanied by an equivalent increase in productivity, would likely have material side effects on output, employment and informality, also raising overall inequality.

7. The analysis suggests it will be key to carefully monitor labor market developments before implementing future hikes. Authorities should continue to monitor the impact of the minimum wage on labor markets and adjust their strategy if undesirable effects on employment and informality emerge. Furthermore, the degree to which a lack of rising formal wages at the bottom of the income distribution in ENOE data is driven by mismeasurement and survey design or a lack of minimum wage enforcement should be investigated.

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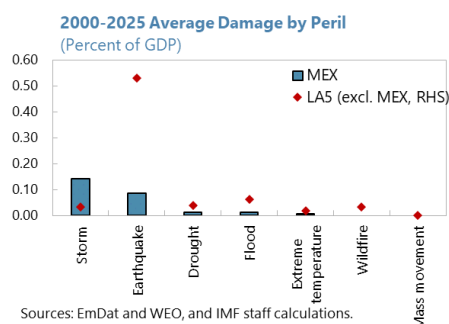
Annex XII. The Macro-Financial Impact of Natural Disasters in Mexico ¹

Exposure to Natural Disasters (NDs) and Insurance Layers

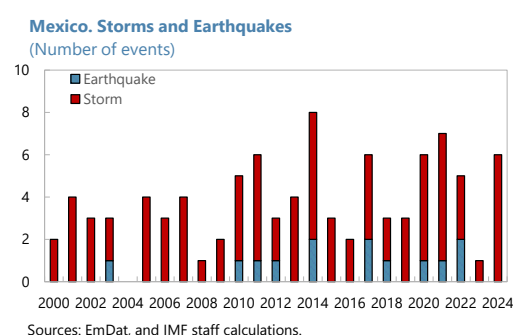
1. Mexico's exposure to storms, in particular hurricanes, is significant. Annual ND damages averaged 0.3 percent of GDP over the past 25 years. Around four major storms materialized annually in recent years, representing an uptick relative to pre-2010. This exposure to storms is significantly higher than in peers, while droughts, floods, and wildfires seem to cause fewer damages than in other LA5 economies. Hurricanes have been almost as costly for Mexico's insurance companies as the COVID-19 pandemic, closely followed by earthquakes. Mexico's Southern states suffer greater ND losses, followed by the Baja Californias.

Annex XII. Figure 1. Mexico: Exposure to NDs

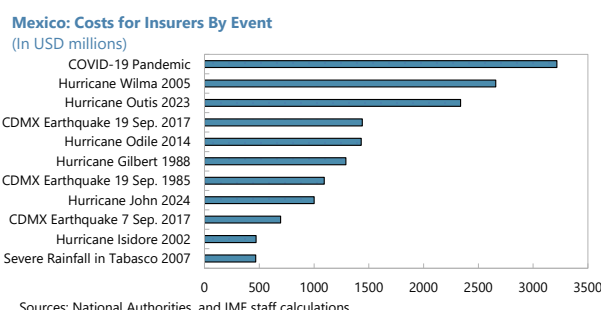
Mexico is significantly more exposed to storms than peers.



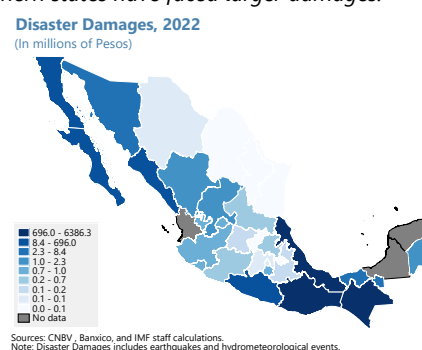
Storms are occurring somewhat more frequently.



Some hurricanes have been almost as costly as the pandemic.



Southern states have faced larger damages.



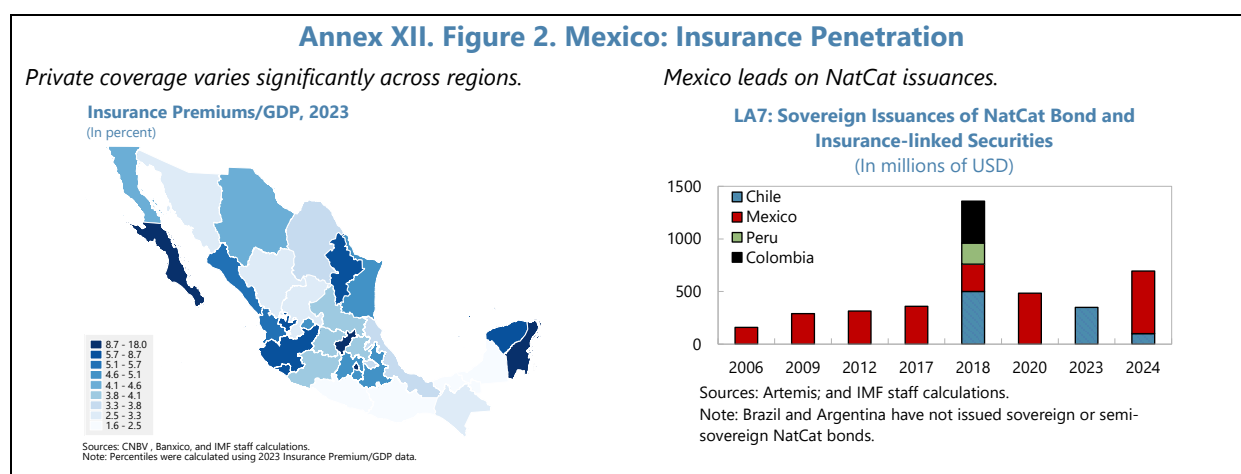
2. Private insurance penetration, however, remains low. Despite elevated exposure, private insurance coverage remains low, with total insurance premiums reaching around 2 percent of GDP—significantly lower than peers. The catastrophic risk gap ² is estimated to be five times the current insurance coverage (CNSF 2024). Regional variation is sizable, with highest penetration rates in

¹ Prepared by Christina Kolerus and Koen van den Bosch.

² The catastrophic risk gap measures the difference between expected and insured damages from a catastrophic risk event.

Mexico City and Baja California Sur, implying substantial protection gaps notably for Southern states, despite their high ND exposure. Real estate and agricultural sectors are most exposed, with the latter being a significant source of employment but facing a catastrophic risk gap that is 25 times the actual insurance coverage (CNSF 2024). This makes Mexico prone to fiscalizing damages in the event of a substantial disaster.

3. Public insurance mechanisms are well-developed. Mexico's risk management strategy for natural disasters aims to protect livelihoods and reduce fiscal exposure. Mexico leads in issuances of NatCat bonds, with an outstanding amount close to ½ percent of GDP covering earthquakes and, more recently, hurricanes.³ Public infrastructure is further insured with primary insurance providers, including public buildings, roads, as well as state-owned enterprises, albeit subnational coverage varies markedly. In addition, the yearly government budget reserves 0.4 percent of GDP for disaster-related damages, last tapped in 2024 for hurricane Otis.



ND Impact on Insurer Financials

4. The propagation of risks from NDs to the financial sector remains poorly understood. The insurance sector has maintained stable solvency ratios over the past decade, around 2.5 times the country's regulatory minima, although climate stress tests suggest some insurers could become insolvent under extreme disaster scenarios (CNSF 2024). To better understand the propagation of risks from NDs, their impact on insurers' financial positions is tested empirically,⁴ leveraging on quarterly data from 98 insurance companies operating in Mexico.

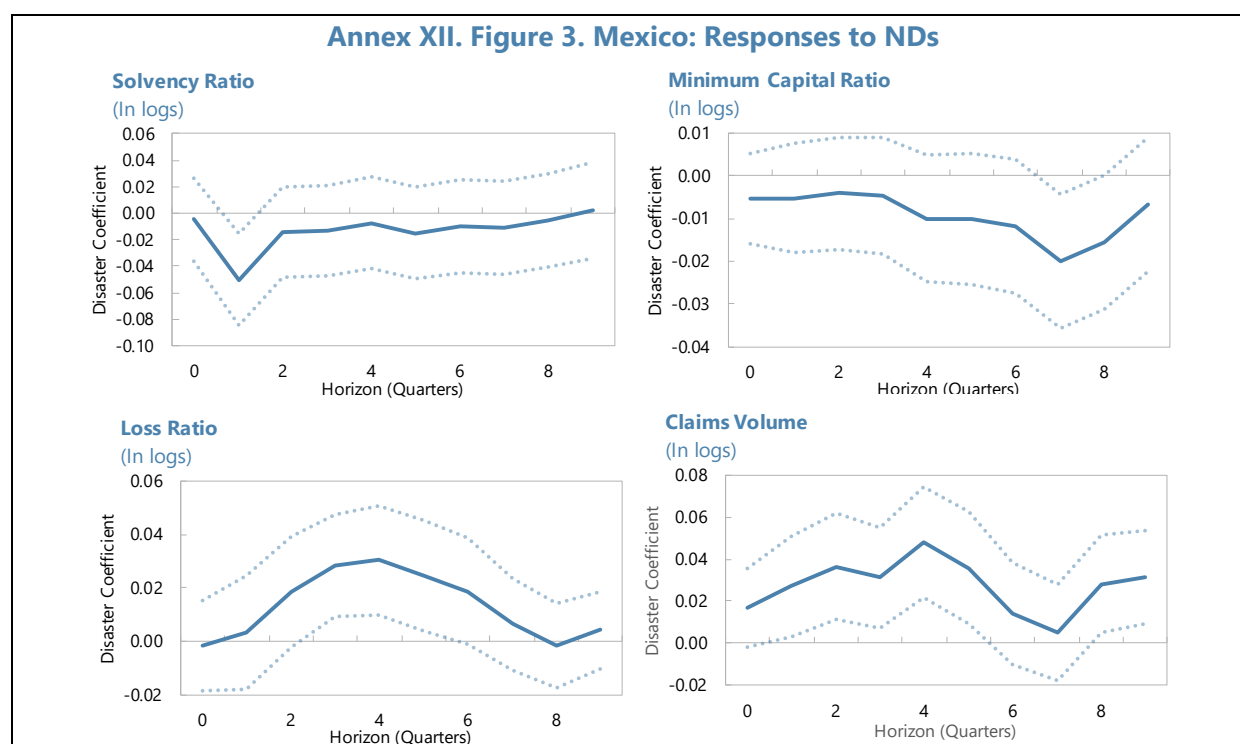
5. A local projection analysis is performed to estimate the dynamic effect of natural disasters on financial indicators of Mexican insurers. Building on Jung et al (2024), the following regression for each horizon (quarter) h in $[0,9]$ is estimated. Insurers are denoted by i .

³ 2024 issuance extended coverage to named Pacific storms (World Bank, 2024)

⁴ Recent literature, mainly leveraging US data, highlights that disaster-driven insurer insolvencies have been increasing (Sastri et al 2023) and that NDs can spillovers to the broader financial sector via insurer fire sales (Massa and Zhang, 2021).

$$\Delta^{\{h+1\}} \log(Y)_{\{i,t-1\}} = \beta_{\{h\}} \log(ClimateExposure)_{\{i,t\}} + \alpha_{\{i\}}^h + \tau_{\{t\}}^h + \sum_{\{l=1\}}^L \gamma_{\{j\}}^h X_{\{i,t-j\}} + \theta^h \log(Y)_{\{i,t-2\}} + \varepsilon_{\{i,t\}}^h$$

The dependent variable is a vector of financial indicators, including solvency ratio, minimum capital ratio, loss ratio, and claims (in pesos). ⁵ $\Delta^{\{h+1\}} \log(Y)_{\{i,t-1\}}$ is the change between h-quarters ahead and 1-quarter lagged log(Y). The key independent variable, ClimateExposure, is an insurer-specific measure constructed by multiplying nominal damages from NDs in each state by the weight of the insurer in the respective state (based on its premiums distribution), aggregated across all regions. Following the literature, controls $X_{\{i,t-j\}}$ include lagged reinsurance ratio and lagged log size, lagged dependent variable, as well as insurer- and quarter-fixed effects ($\alpha_{\{i\}}^h, \tau_{\{t\}}^h$). Data on collected premiums across Mexican states are obtained from the CNSF for the period 2022-25, focusing on property and casualty insurance premiums and assuming that the portfolio is representative for all years between 2016 and 2025. Regional disaster data on economic losses per event are taken from CENAPRED (2016-22) focusing on events categorized as ‘Geológico’ or ‘Hidrometeorológico’. Quarterly financial ratios (2016-25) are from CNSF.



6. Past NDs negatively impacted insurer financial health, but the effect was temporary and independent of insurers’ size (Figure 3). A standard deviation shock is estimated to lower solvency ratios by approximately 17 percent. This would leave insurers above regulatory floors for solvency and capital ratios but the effect is larger than the one estimated for US insurers. Furthermore, NDs increase the loss ratio and claims by affected households for up to 1½ years after

⁵ The solvency ratio is computed by dividing net assets by net premiums written. The minimum capital ratio is the ratio of the insurer’s paid-in capital to the minimum capital requirement. The loss ratio depicts incurred losses divided by earned premiums.

the disaster. All effects fade after this period and indicators return to their pre-disaster values, as insurers typically respond by increasing insurance premia in the year after the ND. As expected, more severe disasters affect insurer capital ratios more strongly for each standard deviation, but no significant differences in response to ND shocks could be found when splitting the sample according to insurer size. This contrasts with estimates for other countries which typically point to a larger ND impact on smaller financial institutions and insurers given their less diversified portfolios. In the case of Mexico, however, disaster exposure data shows that larger insurers seem to be more active in regions with higher disaster damages, possibly offsetting stabilizing factors from size and diversification.

Annex XIII. Transnational Aspects of Corruption: Updates ¹

Previous Recommendations	Significant Updates
Supply Side of Corruption – Criminalization and Prosecution of Foreign Bribery	
Ensuring Whistleblower Protection	In March 2025, Mexico presented an action plan to the OECD Working Group on Bribery (WGB) for implementing the key Phase 4 recommendations, including adopting mechanisms to protect whistleblowers in corruption cases, as well as measures related to corporate liability and internal controls. Implementation of this action plan is in progress.
Clarifying Corporate Liability for Foreign Bribery	
Enhancing Enforcement against Foreign Bribery	
Facilitation – Preventing the Concealment of Foreign Corruption Proceeds	
Improving reporting of suspicious activities in relation to PEPs by the non-financial sector (e.g., real estate agents, lawyers, accountants)	Recent revisions to the Law for the Prevention and Identification of Transactions involving Illicitly Sourced Funds and amending articles of the Federal Criminal Code dated July 16, 2025 (the “July Decree”) provides that the Ministry of Finance and Public Credit (MFPC) should compile listings of Politically Exposed Persons (PEPs). Persons engaged in vulnerable activities (designated non-financial businesses and professions) are obliged to have mechanisms to carry out enhanced monitoring of transactions relating to PEPs. They are also required to develop internal procedures to deal with PEPs and will have access to the PEP listings to be developed by the MFPC.
Supervising compliance by the financial sector of enhanced due diligence measures for PEPs	Financial institutions and individuals involved in vulnerable activities may consult with the MFPC when they are unable to identify or verify if a person is a PEP. It is, therefore, critical that the authorities move to implement this database as soon as possible as well as consistently monitor and enforce compliance with requirements relating to PEPs.
Improving the availability, accuracy, and access to beneficial ownership information of companies	To prevent misuse of legal entities for criminal purposes, Mexico has recently amended its legal framework to strengthen obligations on beneficial ownership (BO) transparency. Enhancing BO transparency remains a critical policy priority. The reforms include aligning the definition of BO with FATF Standards (i.e., natural persons only, reducing the ownership threshold from 50 to 25 percent), extending AML/CFT obligations to legal arrangements, and requiring all reporting entities to identify and report their BOs through the government’s Mercantile Companies Portal (PSM). The authorities should ensure that appropriate resources are dedicated to the effective implementation and enforcement of this upgraded framework.

¹ Under the 2018 Enhanced Framework on Governance, Mexico volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption. Information relating to supply-side corruption in this annex draws on the OECD Working Group on Bribery (WGB)’s Phase 4 Follow-up Report of Mexico (2021). Mexico has provided additional information which accuracy has not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB’s monitoring of the implementation of the OECD Anti-Bribery Convention.



MEXICO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

October 8, 2025

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS _____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____ 4

FUND RELATIONS

(As of August 31, 2025)

Membership Status: Joined December 31, 1945

General Resources Account:

	SDR Million	Percent of Quota
Quota	8,912.70	100.00
Fund holdings of currency	6,571.32	73.73
Reserve position in Fund	2,341.41	26.27

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	11,393.62	100.00
Holdings	12,095.73	106.16

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Arrangement Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	Nov. 15, 2023	Nov. 14, 2025	26,738.10	0.00
FCL	Nov. 19, 2021	Nov. 18, 2023	35,650.80	0.00
FCL	Nov. 22, 2019	Nov. 18, 2021	44,563.50	0.00
FCL	Nov. 29, 2017	Nov. 21, 2019	53,476.20 ¹	0.00
FCL	May 27, 2016	Nov. 28, 2017	62,388.90	0.00
FCL	Nov 26, 2014	May 26, 2016	47,292.00	0.00
FCL	Nov. 30, 2012	Nov. 25, 2014	47,292.00	0.00
FCL	Jan. 10, 2011	Nov. 29, 2012	47,292.00	0.00
FCL	Mar. 25, 2010	Jan. 09, 2011	31,528.00	0.00
FCL	Apr 17, 2009	Mar. 24, 2010	31,528.00	0.00

Projected Payments to the Fund (SDR million):

	2025	2026	Forthcoming 2027	2028	2029
Principal					
Charges / Interest		0.05	0.05	0.05	0.05
Total		0.05	0.05	0.05	0.05

Exchange Arrangements: The currency of Mexico is the Mexican peso. Mexico's de-jure and de-facto exchange rate arrangements are free-floating. Mexico has accepted the obligations under Article VIII, Section 2, 3, and 4, and maintains an exchange system that is free of multiple currency

¹ Access was reduced from 62,388.90 to 53,476.20 SDR million on November 26, 2018.

practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on October 30, 2024. The staff report was published as IMF Country Report No. 24/317.

Technical Assistance

Year	Dept.	Purpose
2025	MCM	Quantitative Integrated Policy Framework
2025	MCM	Cyber Crisis Exercise III
2024	MCM	Cyber Crisis Exercise II
2023	MCM	Cyber Crisis Exercise I
2022	STA	Government Finance Statistics
2022	STA	National Accounts
2021	FAD	Public Assets and Liabilities Management
2020	FAD	Fiscal Framework and Council
2018	FAD	Public Investment Management Assessment
2018	FAD	Tax policy and Compliance
2018	FAD	Fiscal Transparency Evaluation
2017	STA	Government Finance Statistics
2017	FAD	Tax policy
2017	MCM	Central Securities Depositories
2017	FAD	Revenue Administration
2016	FAD	Revenue Administration
2016	FAD	Workshop on Supervision of Subnational Finances
2015	STA	Balance of Payments
2015	FAD	Supervision of Subnational Finances

Resident Representative: None

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <https://www.worldbank.org/en/country/mexico>

Inter-American Development Bank: <https://www.iadb.org/en/who-we-are/country-offices/mexico>

**Statement by Mr. Zuniga Villasenor, Alternate Executive Director for Mexico
and Ms. Posadas Bolanos, Advisor to Executive Director
October 23, 2025**

Economic Outlook

The Mexican economy is expected to grow faster than initially projected in 2025, despite a challenging global environment. The authorities' central estimate of 1.0 percent for the year aligns with the IMF's October forecast. For 2026, the budget submitted to Congress projects growth between 1.8 and 2.8 percent, with a central scenario of 2.3 percent, consistent with Mexico's long-term average as uncertainty fades and private investment normalizes. Growth will be driven by a gradual recovery in private consumption, supported by strong labor market dynamics, healthy household balance sheets, and the continued impact of government social programs.

Reducing policy uncertainty will help unlock private investment. Recent signs of partial tariff easing in the United States, along with constructive progress in the U.S.–Mexico agenda ahead of the USMCA review, have reduced downside risks and improved investor confidence. At the same time, public investment is set to increase significantly. Following fiscal consolidation efforts, capital expenditure is projected to grow by 9.6 percent in real terms, focusing on passenger rail lines, highway expansion, modernization of agricultural land, and strategic water infrastructure.

The administration's Plan Mexico seeks to boost domestic production, value added, and regional development through industrial clusters and sustainable infrastructure. Priority sectors include electromobility, semiconductors, pharmaceuticals, renewable energy, and agroindustry. The 2026 Budget allocates 2.5 percent of GDP to infrastructure, with 15 development poles designed to attract private capital. Incentives include accelerated depreciation, tax deductions for training and innovation, and temporary VAT and corporate tax relief in designated corridor zones.

External competitiveness remains robust. As of July 2025, exports to the United States grew 6.5 percent year-on-year, led by electronics and computer equipment (up 49 percent), reflecting Mexico's growing role in high-tech supply chains linked to U.S. investment in artificial intelligence. The USMCA framework, together with Mexico's diversified manufacturing base and a flexible exchange rate, continues to anchor macroeconomic resilience and investor confidence.

Under these conditions, the authorities reaffirm their commitment to prudent macroeconomic policies. In an increasingly shock-prone world, policy calibration remains essential to safeguard economic stability and social welfare. The government welcomes the IMF's continued engagement and technical support to strengthen and adapt Mexico's policy framework.

Public Finances

Mexico will narrow its fiscal deficit in 2025 amid stronger-than-expected revenue performance, with consolidation continuing into 2026. Total revenues are projected at 21.9 percent of GDP, including record tax revenues of 14.8 percent of GDP. Expenditure is expected at 25.5 percent of GDP, focused on social protection and well-being. The overall public sector borrowing requirement (PSBR) is projected at 4.3 percent of GDP, 1.4 percentage points lower than in 2024. A primary surplus of 0.2 percent of GDP and a stable public debt ratio of 52.3 percent of GDP underscore fiscal prudence.

The 2026 Economic Program deepens consolidation consistent with debt sustainability. Revenue growth will continue to be driven by stronger tax administration, while expenditure execution will adhere to principles of austerity, efficiency, transparency, and anti-corruption. Revenues are projected to grow 6.3 percent in real terms, led by a 5.7 percent real increase in tax collection. Additional measures will promote voluntary compliance, enhance supervision of banks, fintechs, and digital platforms, and incentivize capital repatriation. A new Customs Law currently before Congress seeks to professionalize customs administration, improve revenue collection, and reduce tax evasion and smuggling. The reform focuses on digitalization to enhance traceability and efficiency.

On the expenditure side, spending will increase 5.9 percent in real terms, prioritizing social development and investment. Public investment will reach 2.5 percent of GDP, concentrated in transport, energy, water, and digital infrastructure to ease bottlenecks and boost productivity.

State-owned enterprises (SOEs) remain central to Mexico's development agenda. Pemex is expected to maintain a balanced financial position and reduce debt with federal support, while CFE is projected to post a surplus. Pemex's new business plan provides a roadmap aligned with energy security and sustainability goals, supported by a new tax regime and greater private participation. Credit rating agencies have already recognized these improvements, with recent upgrades reflecting better financial and operational management.

Looking ahead, the authorities aim to reduce the fiscal deficit to 4.1 percent of GDP in 2026 and to 3.0 percent over the medium term, ensuring a stable debt-to-GDP ratio and reinforcing market confidence in Mexico's fiscal sustainability.

Authorities acknowledge that IMF staff recommendations for a faster fiscal adjustment stem from more conservative growth assumptions. Nonetheless, fiscal consolidation will proceed gradually and prudently, balancing debt sustainability with the protection of social programs and investment.

Reforms to the fiscal framework are underway to enhance transparency, data coverage, and statistical comparability with international standards, supported by IMF technical assistance.

Monetary Policy

Mexico's monetary policy continues to be underpinned by our highly credible inflation-targeting regime, which has effectively anchored inflation expectations. The shocks caused by the pandemic are already behind, marking the beginning of a new phase in the inflationary outlook. After peaking at 8.70% in August 2022, headline inflation has been on a clear path towards the Central Bank's 3% target. Since July 2025, headline inflation has been within the variability interval of plus/minus one percentage point around the 3% target, standing at 3.76% in September. Core inflation declined during 2024, reaching a level of 3.65% in December.

In its latest monetary policy decision, Banco de México's forecasts suggest that headline inflation is still expected to converge to the target in the third quarter of 2026. While the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, the bias is less pronounced than that faced between 2021 and 2024. Given the behavior of the exchange rate, the slack of economic activity, the inflationary outlook, and the level of monetary restriction implemented to date, the Governing Board of Banco de México deemed it appropriate to continue the rate-cutting cycle, decreasing the policy rate to 7.50%.

Regarding staff's recommendations to improve monetary policy communications, the authorities note that this is a permanent effort. Banco de México has made significant progress towards this goal, including publishing specific projections for both headline and core inflation in its quarterly reports since 2018. Starting with the August 2021 meeting, these updates began appearing in the press releases that accompany monetary policy decisions. The goal was to provide the public with more insight into the inflation forecasts considered in those decisions. Since December 2021, this information has been supplemented with the publication of seasonally adjusted annualized quarterly changes in both headline and core price indices for the same forecast horizon. In addition, the Central Bank has used forward guidance successfully in its communications, indicating possible future actions while preserving a high level of flexibility.

On publishing scenarios and policy rate paths, the authorities believe the risks outweigh the benefits for an emerging market economy. At the current juncture, the Central Bank has acknowledged the pronounced level of uncertainty and conveyed it to the public, but without using scenario analysis in the communication of monetary policy. Such communications might be interpreted as the Central Bank assigning a high probability to specific outcomes, which could be misleading for economic agents. Nevertheless, without publishing alternative scenarios, the Central Bank has acknowledged that possible changes to economic policy increase the uncertainty around its projections and has explained, qualitatively, that such policies could have implications for both sides of the balance of risks for inflation. It is important for Banco de México to retain flexibility to respond to new shocks while safeguarding hard-won credibility.

Financial Sector

Mexico's financial system remains sound, supported by strong regulation and supervision. Banks are profitable, well-capitalized, liquid, and fully compliant with Basel III standards. Stress tests by Banco de Mexico confirm that capital and liquidity buffers are sufficient to absorb severe shocks.

Given the significant participation of foreign banks, authorities closely monitor cross-border exposures and have made progress on the 2022 FSAP recommendations, especially regarding cyber risk management and sustainability disclosures. With a stable, well-capitalized banking system, authorities see no immediate need to introduce countercyclical buffers or new borrower-based limits. The Basel Committee has assessed Mexico's framework as fully compliant, and banks maintain capital ratios well above regulatory minima. Authorities continue to emphasize interagency coordination and advances in risk-based supervision to preserve financial stability.