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MEXICO

November 2026

2026 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, AND REQUEST FOR REDUCTION OF ACCESS—PRESS RELEASE AND STAFF REPORT

In the context of the 2026 Article IV Consultation, Review Under the Flexible Credit Line Arrangement, and Request for Reduction of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its November 11, 2026 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 11, 2026, following discussions that ended on September 15, 2026, 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 26, 2026.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR26/359

IMF Executive Board Concludes 2026 Article IV Consultation and Mid-Term Review and Request for Reduction of Access under Flexible Credit Line Arrangement with Mexico

FOR IMMEDIATE RELEASE

- *The IMF Executive Board concluded the 2026 Article IV consultation and approved the review of Mexico's qualification under the Flexible Credit Line (FCL).*
- *Despite a complex global backdrop, economic activity has strengthened, supported by less restrictive domestic policies and strong exports, while inflation has fallen close to target, although some underlying price pressures persist.*
- *A more ambitious fiscal consolidation is needed to put public debt on a declining path and rebuild policy space, against a backdrop of heightened global risks and rising interest rates, while monetary policy should remain moderately restrictive until disinflation is firmly established. Raising growth will require reforms to unlock private investment.*
- *Mexico continues to qualify for the FCL by virtue of its very strong fundamentals and institutional policy frameworks and track record of economic performance and policy implementation. Against the backdrop of this resilience and staff's assessment of moderating tail risks, the authorities requested to reduce access under the arrangement (to 150 percent of quota), which they intend to continue treating as precautionary.*

Washington, DC – November 12, 2026: On November 11, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] and the mid-term review under the Flexible Credit Line (FCL) Arrangement with Mexico. The Board approved the authorities' request to reduce access from 200 to 150 percent of quota, equivalent to SDR 13.36905 billion (about US$18 billion[2]).[3] The Mexican authorities stated their intention to continue to treat the arrangement as precautionary.

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[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] Amount based on the Special Drawing Rights (SDR) quote as of November 11, 2026, of 1 USD = SDR 0.739958.

[3] The current two-year FCL arrangement for Mexico was approved by the IMF's Executive Board on November 13, 2025 (see Press Release No. 25/374).

Economic activity has strengthened during 2026 despite elevated uncertainty. Supported by less restrictive domestic policies and strong exports, real GDP growth is projected to accelerate from 0.5 in 2025 to 1.5 percent in 2026, and strengthen further to 1.8 percent in 2027 as uncertainties ease and investment recovers. Headline inflation has declined and is near Banxico's target but underlying price pressures persist and above-target inflation expectations are delaying convergence to the 3 percent target.

The fiscal deficit narrowed markedly in 2025 and is expected to decline further in 2026. However, the gradual consolidation envisaged for the coming years is expected to leave public debt on a moderate upward trajectory, before broadly stabilizing by 2031. After easing earlier in the year, Banxico has appropriately maintained the policy rate at a moderately restrictive level.

The financial system remains sound, supported by effective financial oversight, strong capital and liquidity, solid profitability and low nonperforming loans. Mexico maintains adequate international reserve buffers and a sustainable external position, with a current account deficit that is expected to narrow to near balance this year, supported by strong exports, before widening gradually as domestic demand recovers.

At the conclusion of the Executive Board's discussion, Mr. Okamura, Deputy Managing Director and Chair stated:

Despite heightened external uncertainty, the Mexican economy has gained strength and headline inflation has moved close to Banxico's target, supported by prudent macroeconomic policies. Fiscal consolidation has continued, and the 2027 budget proposal aims at further lowering the deficit over the medium term. The moderately restrictive monetary policy stance continues to support disinflation, given lingering price pressures. However, a faster pace of fiscal consolidation could be considered to put public debt on a downward path and rebuild policy space, while steps are taken to strengthen the fiscal framework and its credibility. Reforms to encourage private investment, reduce labor informality, and enhance productivity remain central to boost living standards.

Overall, Mexico's macroeconomic policies and institutional policy frameworks remain very strong, with a flexible exchange rate regime supported by adequate external buffers, a credible inflation-targeting framework, and a well-regulated financial sector. Nonetheless, Mexico continues to be exposed to sizable external risks amid elevated uncertainty, although these risks have moderated owing to Mexico's stronger buffers, resilient exports, and proven ability to adjust to global shocks. In this context, the authorities' request to reduce access from 200 to 150 percent of quota under the Flexible Credit Line arrangement is appropriate and consistent with the intention to continue reducing access as external risks recede and domestic buffers further strengthen.

The authorities intend to continue treating the arrangement as precautionary and are firmly committed to maintaining their sustained track record of very strong macroeconomic policies and institutional policy frameworks. They consider that the arrangement will continue to provide valuable protection against external risks should they materialize.

Executive Board Assessment[4]

Executive Directors welcomed Mexico's resilience amid elevated external uncertainty, underpinned by very strong macroeconomic policies and policy frameworks. Directors noted the recent strengthening in economic activity and headline inflation near target, notwithstanding lingering underlying pressures. They underscored the importance of maintaining prudent policies and advancing growth-enhancing reforms.

Directors welcomed the authorities' commitment to fiscal prudence. Most Directors called for a credible, more ambitious, front-loaded adjustment to put public debt on a declining path and rebuild policy space, centered on revenue mobilization, better-targeted transfers, and stronger Pemex performance, while protecting priority social and infrastructure spending. Some Directors, however, saw merit in a more gradual adjustment to safeguard growth. Directors stressed the need to strengthen the fiscal framework to enhance credibility. They welcomed plans to boost infrastructure investment, while calling for transparent treatment of associated fiscal risks and liabilities.

Noting elevated core inflation, above-target inflation expectations, and the recent reduction in the policy rate, Directors encouraged maintaining a data-dependent, moderately restrictive stance until underlying pressures abate. Most Directors encouraged clear communication of the monetary policy objective and reaction function, while some cautioned against explicit guidance on the policy rate path to preserve flexibility. Directors agreed that the flexible exchange rate should remain the key shock absorber.

Directors concurred that the financial system remains sound, while emphasizing the need for monitoring the sovereign-bank nexus, and effectively implementing the AML/CFT framework. They encouraged advancing financial deepening and inclusion by fostering competition and prudently taking advantage of growing pension system's assets.

Directors underscored the need to unlock private investment and boost productivity. They encouraged preserving a rules-based trade and investment framework, enhancing regulatory predictability, closing infrastructure gaps, and ensuring reliable energy supply.

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[4] At the conclusion of the discussion, the Managing Director, as Chair 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.

Directors also urged progress in strengthening security, governance and the rule of law, combating corruption, and reducing informality.

Directors agreed that Mexico continues to meet the FCL qualification criteria and supported reducing access from 200 to 150 percent of quota, consistent with very strong policies and policy frameworks, adequate reserves, and some moderation in external risks. Directors welcomed the authorities' intention to continue treating the arrangement as precautionary. Some Directors stressed that future access and exit strategy should remain state contingent.

Mexico: Selected Economic Indicators, 2025-27

Population (millions, 2025):	130.9	GDP per capita (U.S. dollars, 2025):	13,759
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, and EU.

		Proj.	
	2025	2026	2027
Output			
Real GDP (% change)	0.5	1.5	1.8
Employment			
Unemployment rate, period average (%)	2.6	2.8	2.8
Prices			
Consumer prices, end of period (%)	3.7	3.6	3.3
Consumer prices, period average (%)	3.8	3.8	3.6
General government finances 1/			
Revenue and grants (% GDP)	25.0	24.9	25.0
Expenditure (% GDP)	29.8	29.1	28.8
Overall fiscal balance (% GDP) 2/	-4.9	-4.2	-3.9
Gross public sector debt (% GDP) 3/	61.7	62.1	62.9
Monetary and credit			
Broad money (% change)	8.8	6.2	6.2
Credit to non-financial private sector (% change) 4/	6.8	6.2	6.2
1-month Treasury bill yield (in percent)	8.1	...	...
Balance of payments			
Current account balance (% GDP)	-0.5	-0.3	-0.5
Foreign direct investment (% GDP)	1.7	1.5	1.5
Gross international reserves (US$ billions)	256.2	265.7	276.7
In months of next year's imports of goods and services	3.6	3.6	3.5
Total external debt (% GDP)	27.3	24.4	24.4
Exchange rate			
REER (% change)	-4.1	...	...

Sources: World Bank Development Indicators, National Institute of Statistics and Geography, Office of the President of Mexico, 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/ Staff estimates include Pemex's Fondo de Pago a Proveedores (FPP) in accordance with GFSM guidelines.
3/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of borrowing requirements published by the authorities plus public sector financial assets. Staff estimates include the SPV that issued pre-capitalized notes (P-Caps) to support Pemex and the FPP, in accordance with GFSM guidelines. Other accounts payable, including those of state-owned enterprises, are not included.
4/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.

INTERNATIONAL MONETARY FUND

MEXICO

October 26, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, AND REQUEST FOR REDUCTION OF ACCESS

KEY ISSUES

Context, Outlook and Risks. Economic growth has gained some strength, supported by less restrictive domestic policies and surging IT-related exports, although uncertainties on the USMCA review and domestic reforms continue to weigh on activity. Headline inflation has declined, but sustained pressures in core prices and above-target expectations are delaying the convergence to Banxico's target. The main risks to growth relate to heightened trade and geopolitical tensions, which together with rising global public debt could trigger tighter global financial conditions, as well as domestic challenges in strengthening public finances.

Fiscal policy. Fiscal policy should be anchored in a credible consolidation path that puts debt on a declining trajectory while protecting key social spending and growth-enhancing investment. This requires upfront, well-specified measures, with efforts centered on revenue mobilization, better-targeted transfers, and stronger Pemex performance. Transparent treatment of fiscal risks and liabilities and a revamping of the fiscal framework would enhance the credibility of targets.

Monetary and FX policy. Monetary policy should focus on locking in disinflation. Lingering price pressures warrant maintaining a somewhat tight policy stance until there is clear evidence that inflation is moving durably toward the target, including expectations anchoring closer to 3 percent. Communication should reinforce Banxico's commitment to the 3 percent target and its readiness to adjust the policy stance if inflation pressures persist. The exchange rate should remain the main shock absorber.

Financial sector. The financial system remains sound, but deeper intermediation is needed to support growth and inclusion, with development banks focusing on underserved areas. Rising pension assets represents an opportunity to deepen markets and finance longer-term investment, while safeguarding private pensions. The sovereign-bank nexus and AML/CFT risks warrant vigilance.

Structural reforms. Raising growth requires reforms that unlock private investment, including reducing regulatory burdens and uncertainty, ensuring reliable energy supply and strengthening trade integration. Continued progress on security, anti-corruption and AML/CFT frameworks, and in tackling informality would further support productivity and investor confidence.

Review and Access under the Flexible Credit Line (FCL). The authorities request a reduction in access under the FCL arrangement from 200 to 150 percent of quota (equivalent to SDR 13.36905 billion), reflecting Mexico's continued economic resilience, very strong policy frameworks, adequate reserve buffers, and some moderation in external downside risks. They intend to continue treating the arrangement as precautionary and reducing access as external risks recede and domestic buffers further strengthen. Staff supports the requested reduction in access, assesses that Mexico continues to meet the qualification criteria for access under the FCL arrangement, and recommends completion of the review.

Approved By
Luis Cubeddu (WHD) and Geremia Palomba (SPR)

Discussions were held virtually during September 2–4 and in Mexico City during September 7–15, 2026. The mission met with Finance Secretary Amador, Governor Rodríguez Ceja, other officials, and private sector stakeholders. The team was led by Gustavo Adler and comprised Francisco Arizala, Christina Kolerus, Johanna Schauer and Monica Tran-Xuan (all WHD), Fah Jirasavetakul (SPR), Haruko Sakai (STA), and Yao Deng and Ivana Rossi (LEG). Gerardo Zuniga and Maria José Posadas Bolanos (OED) participated in the discussions. Anahit Aghababyan and Joaquin Marandino (both WHD) provided editorial support and research analysis, respectively. The report also benefited from contributions from Jose Garrido and Karla Vasquez Suarez (both LEG), Tsendsuren Batsuuri, Jean-Marc Fournier, Sneha Thube, Simon Voigt (all RES), Lisa Kolovich, Vivian Malta, Usama Zafar (all SPR), and Mariana Sabates Cuadrado (STA).

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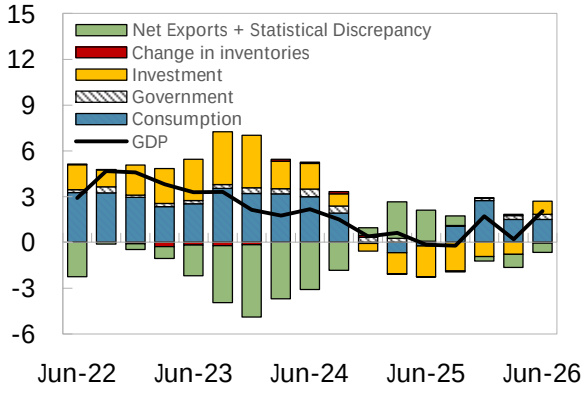
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RECENT DEVELOPMENTS

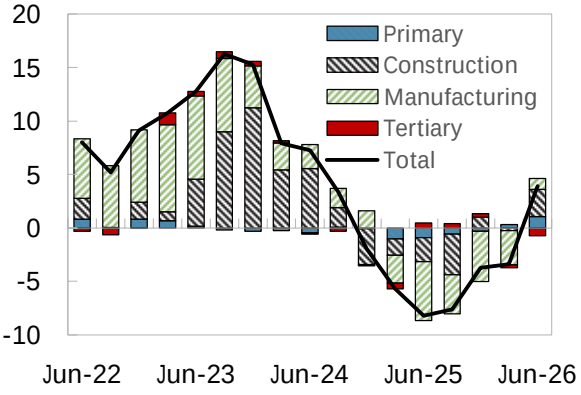
1. Economic growth has gained strength. Following lackluster performance in 2024/25, activity accelerated in 2026 supported by less restrictive domestic policies and surging IT-related exports, leading to a pick-up in manufacturing and construction. On the demand side, investment recovered slightly more recently, yet remains tepid amid heightened USMCA and domestic reform uncertainties, while consumption has generally held up, supported by social programs and sizable minimum wage increases amid a softening labor market.[1] Despite heightened trade uncertainty, exports have performed strongly, driven mainly by a surge in electronics exports, a sector in which Mexico is well integrated into global value chains, although their contribution to domestic growth has been limited due to their generally low domestic value added.

Demand-Side Contributions to Real GDP Growth
(Percent, y/y)



Source: INEGI.

Sectoral Contributions to Real Investment Growth
(Percent, y/y)



Source: INEGI.

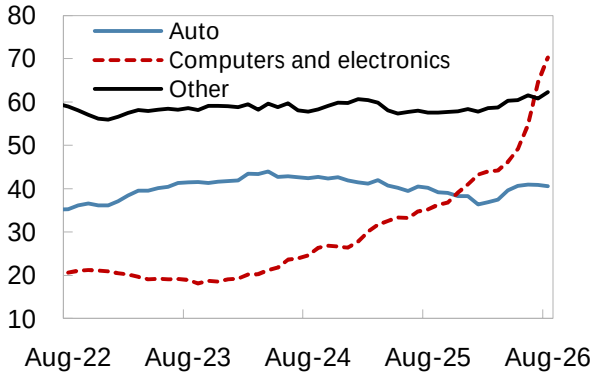
2. The external sector remains strong, supported by the U.S. IT boom and resilient FDI. Notwithstanding the difficult external environment, the current account deficit continued narrowing during 2026, following an end-2025 external position that was assessed to be broadly in line with medium-term fundamentals and desirable policies (Annex I). Despite the rise in U.S. tariffs, Mexico continues to benefit from preferential access to the U.S. market relative to competitors (Annex VI). While auto exports have weakened—owing to sluggish U.S. heavy truck demand—overall exports have remained strong, reflecting IT-related demand for electronics from the United States and lower tariff rates than competitor countries in other sectors. Meanwhile, imports remained robust, supported by strong purchases of inputs for AI-related exports and some recovery in domestic demand, despite new import tariffs on nearly 1,400 products from countries without a Free Trade Agreement (FTA) with Mexico.[2] Net remittances, after declining in 2025 and breaking a multi-year upward trend, have modestly rebounded this year, reflecting generally stable U.S. labor market

[1] Formal employment and wage growth have moderated. While unemployment rates remain low, they mask declining labor force participation and rising informality.

[2] The estimated effective tariff rate on imports remains low at 1.3 percent as of July 2026.

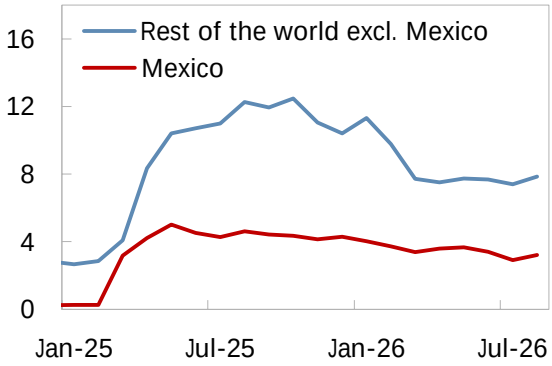
conditions. FDI inflows remain resilient despite a moderation in new investment, and discussions on reforming the Foreign Investment Law to tighten screening mechanisms. Reserves continued rising gradually and now represent about 130 percent of the ARA metric.

Exports of Goods to the U.S.
(Billions of USD; SA; 3-month moving average)



Sources: Haver Analytics; IMF staff calculations.

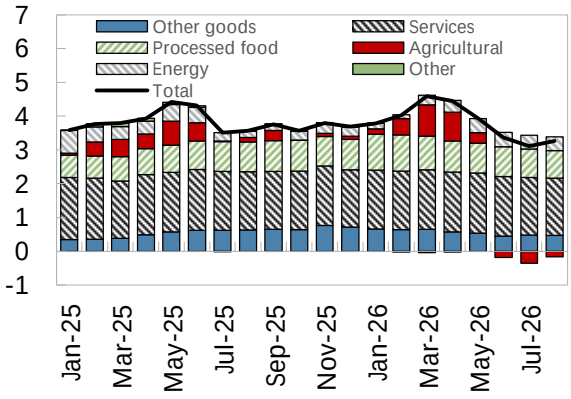
Effective Tariff Rate in the U.S. Market
(Percent)



Source: IMF staff estimates.

3. The disinflation process has continued, although some underlying price pressures persist. Weather-related disruptions to agricultural supply and fiscal measures (excise tax increases on sugary drinks and cigarettes, and higher import tariffs) pushed headline inflation outside the variability range in early 2026, although these pressures have receded more recently, and is now close to the target. This partly reflects the limited impact of the global energy price shock due to low dependence on imported fuels, stable regional natural gas prices and fiscal measures and price agreements with fuel suppliers to insulate domestic gasoline prices (¶6). That said, core inflation has continued to hover around 4 percent, on account of persistent services inflation and the spillover from agricultural prices into core good prices. Twelve-month inflation expectations have drifted above the central bank's variability range, while end-2027 expectations remain above (80-90 basis points) the inflation target.

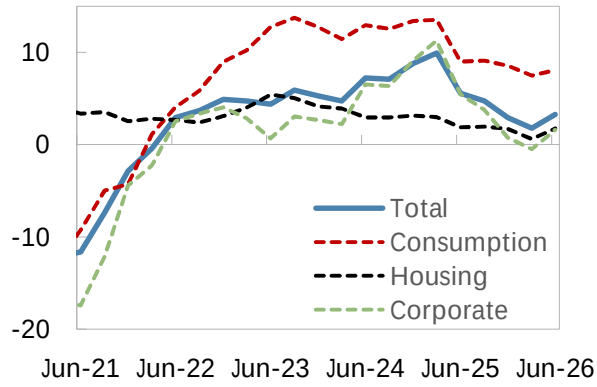
Contributions to y-o-y Inflation
(Percent)



Source: INEGI.

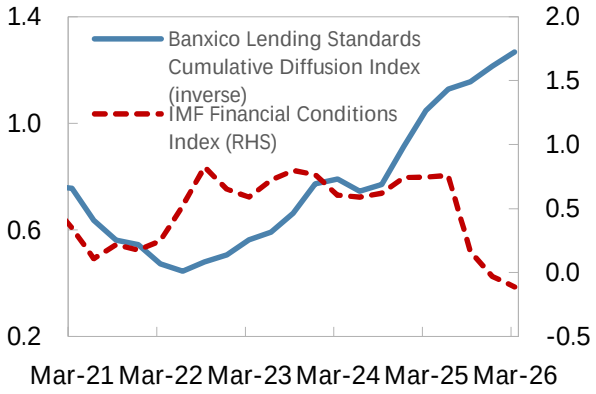
4. Credit growth has moderated amid tightening lending standards. After expanding strongly in 2024 and early 2025, growth in commercial bank credit to the private sector has slowed especially for corporates in the industrial sector. These developments reflect a tightening of lending standards as well as weak investment demand in the context of elevated uncertainties, despite favorable financial conditions in Mexico. In line with policy objectives, INFONAVIT's mortgages and development banks' second-tier activities have continued to expand.

Domestic Credit to Private Sector
(Percent, y/y real growth)



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

Financial Conditions and Lending Standards[1/]
(LHS: Q1 2020=0; RHS: standard deviation from mean)

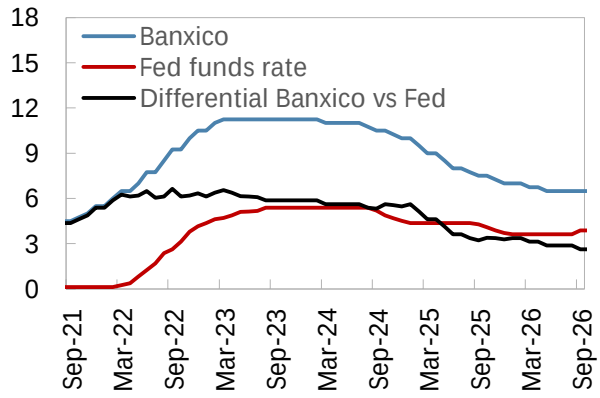


Source: Banxico, IMF.

1/ Lending standards is a simple average of eight credit market segments (large corporations, SMEs, non-bank financial intermediaries, credit cards, auto loans, payroll loans, personal loans, and mortgages). An increase in the cumulative index indicates tighter lending standards.

5. Against this backdrop, Banxico has appropriately held the policy rate unchanged after easing earlier in the year. Following 300 basis points of cuts in 2025, the policy rate was lowered by an additional 50 basis points between March and May 2026. Banxico, however, has remained on hold since then, indicating that the current somewhat restrictive stance—amid a negative output gap—is appropriate in the context of persistent core inflation and risks from supply-side shocks. Notwithstanding some volatility at the outbreak of the Iran conflict, the peso strengthened throughout August, although these gains unwound in recent weeks amid rising global interest rates.

Policy Rates: Banxico and Fed
(Percent)



Source: Haver Analytics.

6. The earlier fiscal expansion was partially reversed during 2025, although challenges remain in sustaining the adjustment. The overall deficit (PSBR, public sector borrowing

requirement) declined from 5.8 percent of GDP in 2024 to 4.9 in 2025 (Box 1), and has narrowed further this year despite sluggish revenues.[3] Data through July suggest that revenues have underperformed, as corporate income taxes fell short of target, while measures to dampen the impact of the energy shock have raised tax expenditures and affected oil revenues (Box 2). The authorities have thus far offset the revenue shortfalls through expenditure restraint, especially under-execution of infrastructure projects, although spending pressures could build during the remainder of the year putting the authorities' end-2026 target at risk.

Box 1. 2025 Fiscal Outturn

The 2025 fiscal consolidation represented a significant effort to reverse the previous year's expansion. The overall balance, based on the authorities' definition, fell from 5.8 percent of GDP in 2024 to 4.3 percent of GDP last year, on account of cuts in capital spending and gains in tax administration, which more than offset lower oil revenues and higher interest spending. The overall *underlying* adjustment, however, was somewhat lower after considering the recognition of Pemex's supplier liabilities (the state-owned oil company) under the new *Fondo de Pago a Proveedores* (0.5 percent of GDP).

Recent fiscal developments highlight the challenges of unwinding the 2024 current spending expansion, which remained unchanged last year, amid increasing spending rigidities. Importantly, gross public debt rose further last year, reaching 61.7 percent of GDP (compared to 52.7 percent in 2023), after considering the new financing vehicles to support Pemex (Annex VII).

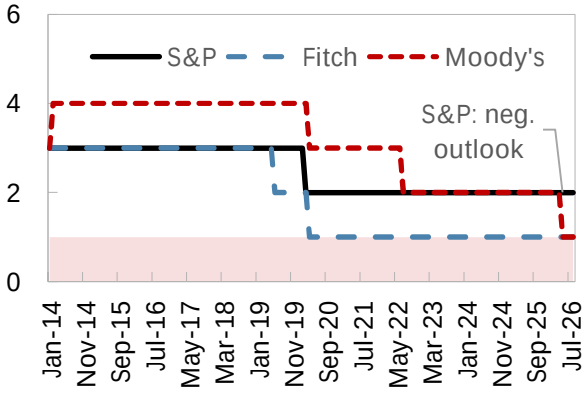
Fiscal Performance 1/
(In percent)

	2023	2024	2025	
			Budget 2/	Outturn 3/
Budgetary Revenue	**22.1**	**22.3**	**22.8**	**22.6**
Oil revenue	3.4	2.9	3.2	2.7
Non-oil tax revenue	14.2	14.7	15.0	15.2
Non-oil non-tax revenue	4.5	4.7	4.6	4.7
Budgetary Expenditure	**25.5**	**27.3**	**26.1**	**26.5**
Current	14.9	16.1	15.4	16.0
Capital	3.6	4.0	2.9	2.9
Non-programmable	3.7	3.8	3.9	3.9
Interest	3.3	3.4	3.9	3.7
Traditional Overall Balance	**-3.3**	**-5.0**	**-3.3**	**-3.8**
Adjustments 4/	-1.0	-0.8	-0.7	-0.5
Public Sector Borrowing Requirement (Authorities' def.)	**4.3**	**5.8**	**4.0**	**4.3**
Public Sector Borrowing Requirement (Fund def.) 5/	**4.3**	**5.8**	**4.0**	**4.9**
Gross Public Sector Debt (Authorities' def.)	52.7	59.0	n.a.	60.7
Gross Public Sector Debt (IMF def.) 6/	52.7	59.0	n.a.	61.7
Net Public Sector Debt (Authorities' def.)	46.6	51.9	52.7	52.6
Net Public Sector Debt (IMF def.)	46.6	51.9	52.7	53.2

Source: SHCP, INEGI, staff calculations.
1/ Using authorities' presentation.
2/ Uses actual 2025 nominal GDP as denominator.
3/ Oil revenue and capital expenditure exclude support to Pemex for debt purchases of 253.8bn
4/ 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.
5/ Includes Pemex's Fondo de Pago a Proveedores (FPP) in acccordance with GFSM guidelines.
6/ Includes the SPV that issued pre-capitalized notes (P-Caps) to support Pemex and the FPP, in accordance with GFSM guidelines.

[3] Under IMF staff's presentation, the PSBR in 2025 reached 4.9 percent of GDP, reflecting the inclusion of Pemex's Fondo de Pago a Proveedores (FPP) in accordance with the IMF's Government Finance Statistics Manual 2014 (GFSM 2014) (see Annex VII). The PSBR, according to the authorities' definition, reached 4.3 percent of GDP (see Box 1).

7. Market access remains favorable despite increased scrutiny. The authorities have implemented their 2026 financing program smoothly, tapping markets opportunistically to meet funding needs while improving the debt maturity profile. Generally favorable conditions supported sizeable international sovereign issuances, early repurchases that reduced upcoming external amortizations, and a Pemex domestic debt issuance in early 2026. More recently, similar to regional peers, Mexico's external yields have risen in line with global ones, while the domestic yield curve has shifted upwards moderately. Rating agencies expressed concerns over fiscal developments, with Moody's downgrading the sovereign rating and S&P revising its outlook to negative earlier in the year, although the market impact has been muted.

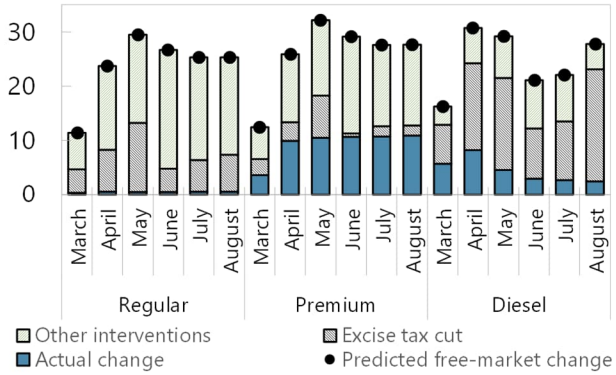


Source: Rating agencies.

Box 2. Policy Response to the Global Energy Price Shock

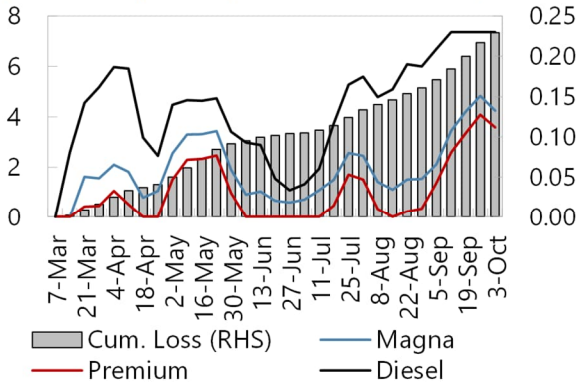
Mexico's policy response has focused on voluntary fuel price caps and tax credits that reduce fuel excise taxes. A voluntary agreement with 96 percent of service stations to cap regular gasoline prices at MXN 24 per liter had been in place since February 2025 and was renewed in March and August 2026 (for six months each time). A similar voluntary agreement for diesel was introduced in April 2026 and extended in August, setting a maximum price of MXN 27 per liter. Agreements are supported with reductions in fuel excise taxes (IEPS) and through Pemex and private importers, which committed to maintain wholesale prices low. These policies have kept regular gasoline prices broadly unchanged and contained the rise in diesel prices, while premium gasoline prices have seen a larger pass-through. The loss of IEPS collection is estimated at close to 0.2 percent of GDP through mid-September.

Retail Fuel Price Changes[1/]
(Percent change since February)



Source: Staff calculations based on methodology by Fournier.

Reduction in Fuel Excises since March[2/]
(LHS: Pesos per liter; RHS: Percent of GDP)



Sources: Authorities, IMF staff estimates.

1/ Compares actual change in retail fuel prices with counterfactual estimates of free-market price changes estimated based on a subset of countries with flexible retail fuel prices. Gap is attributed to excise tax cuts and other interventions.
2/ Reflects weekly adjustments to the legal fuel excise quota, which is set annually.

8. Implementation of past policy advice has advanced, albeit unevenly. Banxico paused its easing cycle, although somewhat later than advised by staff. Fiscal consolidation has continued but at a slower pace than advised, while the fiscal framework has been weakened further and the transition to comprehensive accrual accounting has been put on hold. Financial supervision remains strong, supported by progress on FSAP recommendations and efforts have been made to expand financial inclusion and address risks from illicit financial flows. The exchange rate continues to act as a shock absorber. On the supply side, the authorities have also sought to stimulate private investment by streamlining regulations, improving security conditions, and announcing a plan to address infrastructure gaps (Box 3).

OUTLOOK AND RISKS

9. Under baseline policies, investment and growth are expected to further recover, supported by some easing of uncertainties. With the move to the annual review process and the indication by the U.S. administration that the agreement may not be renewed on current terms, the USMCA review is expected to entail substantive and somewhat longer negotiations. While the U.S. tariff landscape remains uncertain and some rules of the USMCA provisions may be adjusted, Mexico is expected to retain its favorable access to the U.S. market relative to its competitors and exports to the United States to remain an important growth engine (Annex VIII). Domestic uncertainty should also ease gradually, with greater clarity on recent institutional and regulatory changes. The near-term impact of the Middle East conflict on growth and inflation is expected to remain limited, as fiscal measures and stable regional natural gas prices largely insulate the economy from global energy price fluctuations, while *El Niño* is also expected to have limited impact on inflation and growth, in line with previous episodes.

- Growth. Activity is expected to accelerate in 2026-27 amid less restrictive domestic policies, and the start of new infrastructure projects, with the projected easing of trade and geopolitical tensions and domestic uncertainties allowing growth to return to its long-term average by 2028.

- Inflation. Dissipating supply shocks and a moderately restrictive monetary policy stance are expected to help moderate underlying price pressures and inflation expectations going forward, allowing inflation to converge to the central bank's 3 percent target by early-2028.

- Current account. Mexico’s current account balance is expected to narrow further in 2026 before weakening again over the medium term—as domestic demand recovers and remittances inflows moderate—although remaining broadly in line with fundamentals. International reserve buffers are expected to remain adequate over the medium term, supported by continued exchange rate flexibility and solid FDI.

10. Risks to growth are broadly balanced, while inflation risks are tilted to the upside (Annex II).

- Downside risks to growth stem from both external and domestic factors. External risks include a more protracted USMCA renegotiation and lingering uncertainties over U.S. tariffs, tighter global

financing conditions (including from rising global public debt), weaker remittances from softer U.S. growth, and a disorderly correction in AI-related sectors. Domestic risks include further delays in fiscal consolidation that sour investor sentiment, prolonged regulatory and institutional uncertainty that deters private investment, and climate-related shocks (including from a stronger-than-expected El Niño). Upside risks to growth include a prompt and favorable USMCA agreement, stronger-than-expected U.S. growth and AI-related demand for exports, and larger-than-anticipated impact from the public investment plan and rising pension fund assets.

- Upside risks to inflation stem from the intensification of geopolitical tensions (that raise global energy and fertilizer prices), reduced effectiveness of fuel price arrangements, stronger labor cost pressures, and climate-related shocks. That said, inflation could decline faster than expected in the event of weaker activity, a stronger peso, and a faster easing of commodity price pressures.

11. Under an adverse scenario, headwinds to Mexico's economy would intensify. The global impact of the conditions outlined in the October 2026 WEO downside scenario—a prolonged Middle East conflict, combined with rising concerns about inflation persistence and fiscal sustainability in major economies--would involve: (i) 17 (40) percent higher oil prices than in the baseline in 2026 (2027); (ii) a moderate de-anchoring of inflation expectations, with medium-term inflation expectations rising by around 30 (20) basis points in advanced economies (emerging markets excluding China); and (iii) a persistent increase in sovereign term premiums of roughly 60 basis points across advanced economies and emerging markets excluding China. The impact of such a scenario on Mexico—which would entail slower activity, a weaker currency and some inflationary pressures—would be transmitted mostly through tighter financing conditions and the impact on the U.S. economy, given Mexico's limited exposure to global energy prices and the buffering role of fiscal measures. That said, the impact would be greater if combined with an adverse USMCA review outcome, curtailing exports and investment, and significantly weakening economic activity. In that case, automatic stabilizers could be allowed to operate, while any additional support should be timely, explicitly temporary, and narrowly targeted at the most vulnerable, with clear sunset clauses and coupled with identified offsets in non-priority spending or revenue measures. Monetary policy should remain focused on safeguarding price stability and attuned to second-round effects on inflation expectations, proceeding cautiously to allow time to assess the likely duration and impact of the shock.

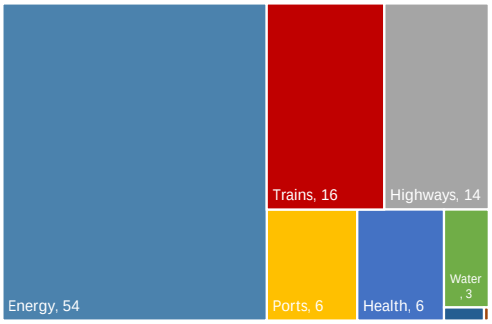
12. Authorities' views. The authorities concurred that growth would gain strength in 2026 and 2027, supported by domestic consumption and external demand. They noted that, while public and residential construction are recovering, private investment would remain subdued, reflecting continued trade policy uncertainty. They highlighted Mexico's preferential access to the U.S. market, together with the surge in AI-related electronics exports, as key factors underpinning the unprecedented export surge. The authorities noted some moderation in labor market conditions after recent years of strong performance, as reflected in slightly lower labor force participation and a slower pace of formal job creation, while emphasizing that low unemployment, continued employment gains, and rising real wages should continue to support private consumption. Overall,

they emphasized the economy's strength despite a challenging external environment, underpinned by robust financial and external buffers, while concurring that persistent external risks would continue to weigh on activity.

Box 3. The *Infrastructure Investment Plan for Development with Wellbeing*

The authorities unveiled an ambitious infrastructure plan to support growth and regional development. It envisages investments of MXN 5.6 trillion over 2026–30 (about 2½ percent of GDP annually if fully implemented) for more than 1,500 projects, primarily in energy, rail, and highways.

Planned Investment by Sector
(Percent of total)



Source: Authorities.

A new framework for project selection supports this initiative. Built on the *Law for the Promotion of Investment in Strategic Infrastructure for Development with Wellbeing* and accompanying regulation, the new framework operates in parallel to the existing public-private partnerships (PPP) law. Projects are selected by a Strategic Planning Council coordinated by the President, with the Ministry of Finance providing non-binding technical opinions and implementing regulation that sets a limit on the stock of total investment commitments, which can be changed by presidential decree. Approved projects have future budget priority and protection from expenditure cuts. The law also strengthens the reporting of multiyear commitments and creates a National Infrastructure Database.

The plan aims to employ diverse public, private, and mixed financing instruments. It leverages Mexico's diverse financing vehicles and contract structures, including government guarantees and mixed projects, that can be tailored to project characteristics. The new framework also allows deferring the recording of capital expenditures and associated debt until the associated infrastructure assets are paid for and/or acquired by the government, which may not align with GFSM principles.

The plan's macroeconomic impact will depend on the scale, execution, and financing mix. Implementation is at an early stage, and it remains uncertain whether projects can be mobilized at the planned scale and executed efficiently. Fiscal implications will critically depend on the extent of implementation, efficiency in execution, the public-private financing mix, and impact on output.

POLICY DISCUSSIONS

A. Safeguarding Fiscal Credibility

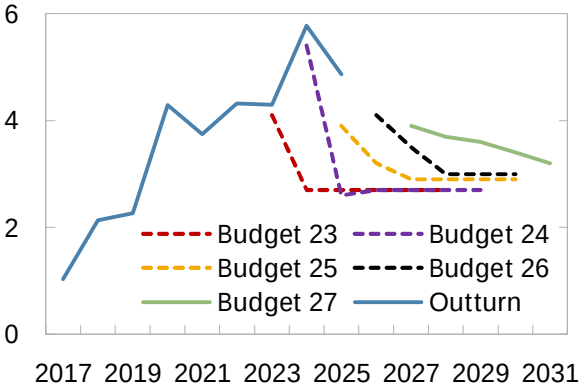
13. Consolidation has continued but reduced prospects for further fiscal efforts, increased spending rigidities, and changes to the fiscal framework are eroding fiscal credibility. After significant consolidation in 2025, efforts to strengthen public finances continued this year, although sustained expenditure restraint will be necessary to safeguard the authorities' overall deficit target of 4.1 percent of GDP for this year.[4] Going forward, the 2027 budget proposal envisages further deficit

[4] Under IMF staff's presentation, the PSBR in 2026 is projected to reach 4.2 percent of GDP, reflecting the inclusion of Pemex's FPP (0.16 percent of GDP) in accordance with GFSM 2014 principles.

reduction, although it entails a less ambitious pace of adjustment and limited fiscal effort—with the deficit expected to reach 3.9 percent of GDP in 2027, compared to 3.5 percent in previous plans—and a very gradual consolidation path in subsequent years. Gross public debt is projected to remain on a gradual upward trajectory over the medium term, with the *Sovereign Risk and Debt Sustainability Analysis* (Annex IV) indicating a moderate overall risk of sovereign stress. That said, despite the planned gradual deficit reduction over the medium term, the repeated easing of near-term targets, increasing budget rigidities (related to the expansion of social spending), the weakening of the fiscal framework and growing operations outside of the regular budget process (¶16) weaken the credibility of the authorities' consolidation plans and add to debt risks. In addition, the debt trajectory could be impacted by infrastructure plans, depending on the extent of their implementation and financing form.

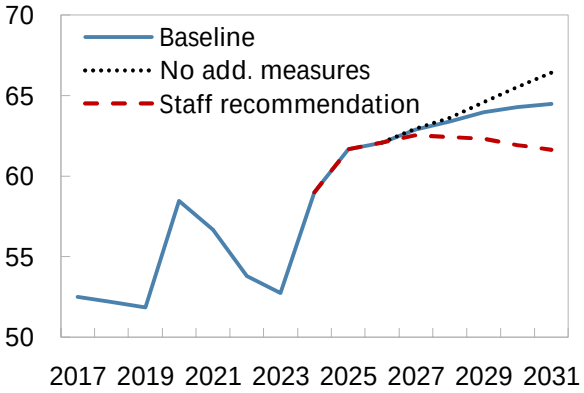
14. A more ambitious consolidation, underpinned by concrete measures, is needed to place debt on a declining trajectory. Specifically, a reduction of the PSBR to 3.0 percent of GDP by 2028 and 2.5 percent of GDP in the medium-term should be considered to put debt on a declining path and rebuild policy space, against the backdrop of rising global risks and interest rates. Credibility of the adjustment would be strengthened by early identification of measures, worth around 1¼ percent of GDP (in addition to measures included in the 2027 budget) under staff's recommended medium-term path.[5] Rather than relying on large capital spending cuts over the medium term (as envisaged in the 2027 budget proposal), consolidation should be anchored in broad tax reforms, better-targeted social programs and improved Pemex performance.

PSBR Budget[1/] Projections and Outturns
(In percent of GDP)



Sources: SHCP, IMF staff calculations.
1/ Budget refers to targets set in budget in t-1.

Gross Debt Scenarios
(In percent of GDP)



Source: IMF staff projections.

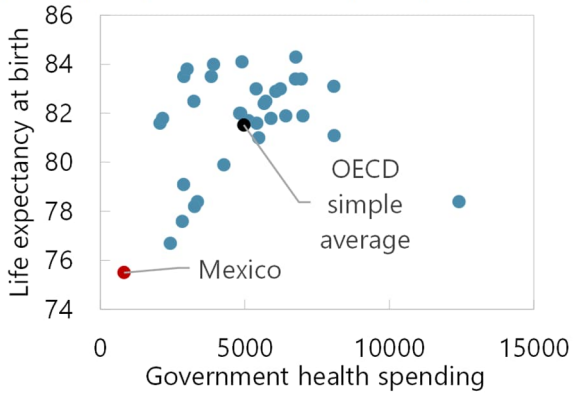
[5] Staff estimates that achieving a PSBR of 3.1 percent of GDP by 2031 would require identifying additional measures amounting to about 0.7 percent of GDP (see table 2). Reaching staff's preferred overall deficit target of 2.5 percent of GDP would require a further adjustment of 0.6 percent of GDP.

- Revenue mobilization can yield considerable gains.[6] Consideration could be given to increasing and broadening the carbon tax, eliminating fiscal incentives at the northern and southern border, and increasing subnational property and vehicle tax collection, which could free up resources at the federal level. In addition, a reform of the personal income tax—by rationalizing tax expenditures and recalibrating rates—could support revenue mobilization, although changes should be designed carefully and accompanied by measures to support formalization, given that higher tax burdens could encourage informality (see SIP).

- Better targeting social programs would preserve support to vulnerable households while strengthening fiscal sustainability. Universal programs and untargeted fuel subsidies entail sizable fiscal costs, with a disproportionate share of benefits accruing to middle- and high-income households. Improving their targeting and ensuring that fuel subsidies remain temporary would generate savings, part of which could be redirected to much-needed public investment in infrastructure (Box 3) and health care.

OECD: Life Expectancy and Public Health Spending

(Y-axis: years; X-axis: PPP USD per capita)



Source: OECD (2025).

- Improving Pemex's operational performance remains key to durably reduce its drag on public finances (Box 4). Increasing recovery from existing oil fields requires enhancing reservoir characterization and field maintenance, avoiding overexploitation, and bringing external expertise and financial resources. Attracting private investment in new fields hinges on contract frameworks that ensure regulatory and legal certainty. Rationalizing refining capacity—by phasing out the most problematic plants, doing proper maintenance, and outsourcing non-core activities—will also be key. Meanwhile, aligning governance with international best practices and enhancing transparency, including on transfer pricing between production and refineries, would strengthen oversight and accountability. Efforts to support labor reallocation could soften possible opposition.

[6] See IMF Country Report No. 25/286 for estimated yields.

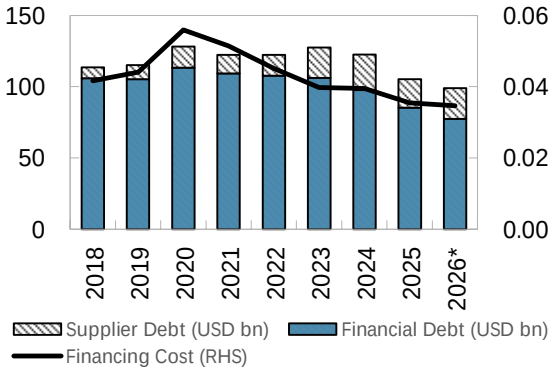
Box 4. Pemex's Finances

Recent financial operations have reduced Pemex's debt, but the need for sovereign support remains. Pemex's financial obligations declined from about US$98 billion in 2024 to around US$78 billion in June 2026, including through a US$10 billion government-financed buyback. Supplier debt also fell, from about US$25 billion to US$21 billion over the same period, supported by government assistance and Pemex's *Fondo de Pago a Proveedores*. This resulted in rating upgrades for Pemex's debt, lower spreads relative to the sovereign, and new debt issuance by the company. Nevertheless, government support to cover amortization has continued, with budgeted transfers at MXN 195 billion this year.

Crude production has stabilized but sustaining it requires greater investment. After declining through 2024, liquid hydrocarbon production has broadly stabilized. However, proved, probable, and possible (3P) reserves continued declining—from 20.4 billion barrels in 2019 to 17.3 billion in 2025— and output from major fields has fallen further, while only about one-third of the annual exploration and extraction investment budget was executed in 2026H1. Pemex is working to boost production through ten new mixed-investment projects—four have made operational progress—and a collaboration agreement with Petrobras.

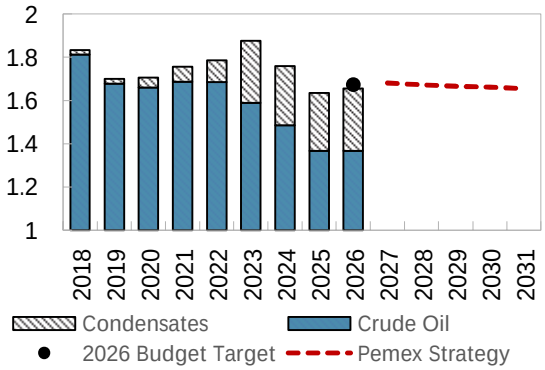
Improvements in Pemex's finances continue to be constrained by its increased reliance on domestic refining and measures to buffer the global energy price shock. Crude oil exports have continued declining, as reliance on low-efficiency domestic refineries has risen further. The voluntary agreement on gasoline prices continues to weigh on profitability by preventing imported fuel costs from being fully passed through. As a result, oil revenues have again fallen short of target (by about 0.3 percent of GDP through July 2026).

Pemex Debt and Financing Costs
(LHS: Billion USD; RHS: Percent of GDP)



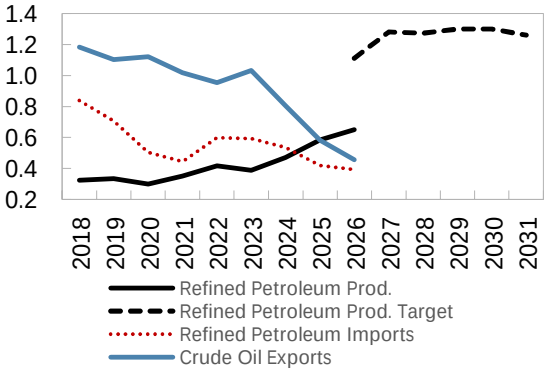
Source: Pemex, IMF staff calculation.
*2026 as of June. Financing costs normalized to monthly value to allow comparison.

Liquid Hydrocarbon Production
(Million barrels per day)



Sources: Pemex, SHCP.

Refined Petroleum Production[1/]
(Million barrels per day)



Source: Pemex.
1/ Includes gasoline and diesel.

15. The infrastructure investment plan is welcome, although efforts will be required to ensure its effectiveness and consistency with the budget envelope. Mexico needs to scale up growth-enhancing infrastructure investment, but its expansion requires careful alignment with its absorptive capacity and assessment of its medium-term fiscal impact (Box 3). Appraisal controls are generally strong, and the enhanced disclosure of multi-year commitments is welcome. However, the new and more discretionary investment framework (which runs in parallel to the existing Public-Private Partnerships Law, LAPP), the increased scope for deferred expenditure recording and the multiple implementation and financing vehicles raise governance and arbitrage risks and could complicate fiscal planning. To mitigate these risks, efforts will be required to: (i) strengthen safeguards for unsolicited project proposals by aligning them with those of the LAPP[7]; (ii) elevate the Ministry of Finance from an advisory role to a binding gatekeeper; (iii) avoid further deferred expenditure recognition and require Congress approval for the overall exposure ceiling; (iv) limit the accumulation of contingent liabilities that could arise from mixed projects; and (v) establish a formal ex post evaluation system.

16. The fiscal framework has been further weakened and requires strengthening. Recent reforms effectively eliminate the balanced budget rule and further dilute the structural current spending rule, turning the PSBR rule—which requires a non-increasing net-debt-to-GDP ratio—into the framework's main operational anchor (Text Table 1). Yet the 2027 draft budget projects an increase in net public debt in coming years, stabilizing at a higher level over the medium term, further weakening the framework's credibility.[8] The use of off-budget vehicles and deferred spending recording also heightens fiscal risks. These developments highlight the lack of sufficiently binding rules and a clear debt sustainability anchor, underscoring the need for revamping the framework. Reform priorities include: (i) introducing a medium-term debt anchor combined with an operational limit (i.e., a path for the PSBR) under the government's direct control, and well-defined correction mechanisms and escape clauses; (ii) having a more effective fiscal oversight, such as an independent fiscal council, to reinforce compliance and accountability; and (iii) compiling and publishing fiscal statistics in line with GFSM principles to ensure statistics adhere to international standards that are easy to interpret. Delaying these reforms risks further fiscal slippages, putting debt sustainability and fiscal credibility at risk. In the interim, adherence to the current framework should be ensured and the nature and expected duration of any deviation should be clearly explained.

17. Authorities' views. The authorities reaffirmed their commitment to fiscal prudence, in particular delivering a sizable and credible fiscal consolidation, helped by revenue mobilization while preserving support for economic activity amid a challenging external environment. Looking ahead, their priority is safeguarding social spending and boosting investment while pursuing a gradual

[7] Safeguards should include irrevocable cession of intellectual property and study rights, mandatory competitive tender with no direct adjudication, and a capped originator premium.
[8] The 2027 draft budget projects a rise in net public debt (authorities' definition) from 54 to 55 percent of GDP, partly reflecting more realistic macroeconomic assumptions than in previous budgets.

consolidation that protects output and employment and stabilizes public debt by 2031. They noted ongoing efforts to mobilize revenues and progress in strengthening Pemex's financial position and operational performance. They also underscored their commitment to fiscal transparency and highlighted the safeguards embedded in the new infrastructure law, including fiscal risk assessments, appropriate risk allocation, and strengthened oversight and accountability. They reiterated their commitment to fiscal prudence, and to continue ensuring sound stewardship, reporting, and accountability for all financial and off-balance operations that are reflected in the fiscal balance, while preserving space for priority spending and avoiding an overly procyclical fiscal stance.

Text Table 1. Mexico: Recent revisions to Fiscal Rules

Fiscal Rule	Previous Definition	Revisions
Balanced Budget Rule	Traditional balance (excluding specified investments) set to be non-negative. While the *Fiscal Responsibility Law* only explicitly exempted Pemex capital spending, *Annual Revenue Laws* gradually expanded exemptions to include all physical and financial investments and, by 2026, spending on human capital development.	Eliminated. 1/
Structural Current Spending Rule	Real structural current spending growth capped at potential GDP growth. Exemptions included interest, fuel costs for electricity, federal investment, pensions, and Pemex/CFE spending.	Expands exemptions to (i) universal social programs established in the constitution and (ii) personnel spending in education, health, and public security, reducing coverage from about 55 percent to 28 percent of total programmable expenditure. 1/
PSBR Rule	Requires a non-increasing path of net public debt in percent of GDP.	Unchanged. However, the 2027 budget proposal projects net public debt to increase by 1 percent of GDP in 2027 and stabilize at a higher level over the medium term. Growing operations outside the regular budget process also risk further weakening the rule.

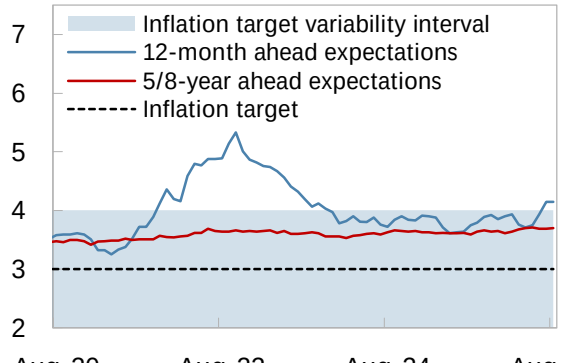
1/ Reflects amendments made to the Fiscal Responsibility Law, approved by Congress in April 2026.

B. Securing Disinflation while Managing Shocks

18. Still elevated core inflation and above-target inflation expectations warrant maintaining a moderately tight policy stance. With the real policy rate near 2.7 percent and a negative output gap, near-term monetary conditions remain moderately restrictive. While the easing of the commodity price shocks is expected to support disinflation, reducing underlying price pressures and bringing inflation expectations closer to the target will require keeping a moderately tight policy stance for some time. Absent clear evidence of further disinflation and anchoring of inflation expectations closer to the target, rate hikes could become necessary, especially if global commodity prices rise further and lead to second round effects. Banxico's liquidity management facility, recently extended to include outright bond purchases alongside sales, should continue to be confined to short-duration government securities to prevent price distortions in longer-term government bonds and mitigate risks to the central bank balance sheet.

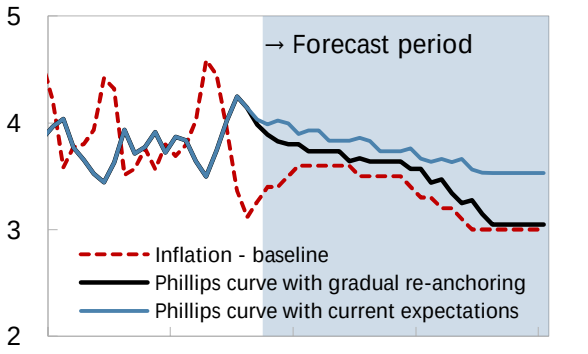
19. Communication could be further strengthened by providing greater clarity on the policy objective and reaction function. Mindful that prolonged above-target inflation can erode central bank credibility, Banxico could articulate more clearly its commitment to the 3 percent target while further stressing that the variability range is not a tolerance range. Describing the role of inflation expectations and economic slack in price formation and how monetary policy considers these variables—e.g., by explaining how the policy rate would be adjusted under different paths of these variables—would provide greater clarity on Banxico's reaction function. This would help improve predictability and accountability.

Inflation Expectations
(In percent, y/y)



Source: Haver Analytics, IMF staff calculations.

Inflation: Phillips Curve vs Baseline
(In percent)



Source: IMF staff estimates.

20. The exchange rate should continue to be a shock absorber. Mexico's FX market is deep and liquid, balance sheet currency mismatches are limited—supported by natural and financial hedges—and macroprudential policies are sound, including limits on the net FX open position relative to capital and FX liquidity requirements. Thus, consistent with the Integrated Policy Framework, FX interventions should continue to be limited to episodes of market liquidity disruptions or clear disorderly market conditions.

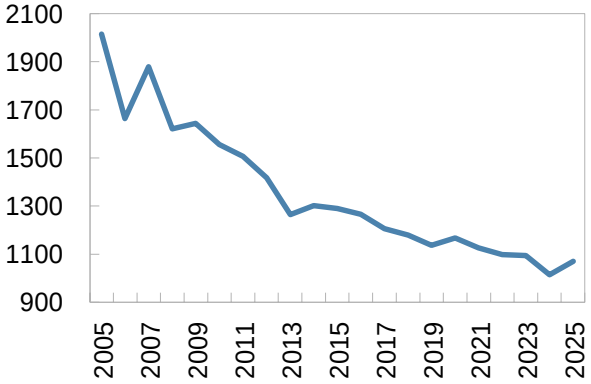
21. Authorities' views. The authorities view the disinflation process to be on track—aided by the effects of current and lagged monetary restriction, economic slack, moderating services prices, the expected easing of core good inflation, and favorable non-core inflation dynamics—though the balance of risks remains tilted to the upside. While concurring that inflation expectations exceed the target, they emphasized their stability despite recurrent shocks. The authorities also reiterated their commitment to setting the policy rate in a manner consistent with meeting the inflation target over the projection horizon. They noted that Banxico has been clear that the variability range only accommodates temporary deviations from the target but is not a tolerance range, as the target remains unequivocally 3 percent. They caution against publishing alternative scenarios or providing more explicit signals on the future policy rate path, as this could reduce flexibility to respond effectively to shocks and undermine credibility. They reaffirmed that the flexible exchange rate remains an essential buffer against shocks.

C. Fostering Financial Deepening while Preserving Financial Stability

22. The financial system remains sound although some risks warrant close monitoring. Banks maintain strong capital and liquidity buffers, supported by low NPLs, adequate provisioning, and solid profitability, while systemic risks remain contained. Against the backdrop of rising global interest rates and public debt, main vulnerabilities relate to the sovereign-bank nexus, with public sector exposure accounting for about ¼ of system assets. While the narrower interest rate differential vis-à-vis the U.S. may amplify currency volatility, bank external funding is modest and corporate balance sheets have relatively low levels of debt and limited FX mismatches. Stress tests by Banxico confirm the banking sector's ability to withstand a pronounced economic slowdown, including a reduction in trade, or sovereign debt repricing with no material solvency concerns or recapitalization needs. Pockets of vulnerability could emerge, warranting continued monitoring. Risk from non-bank financial institutions (NBFIs) remained contained—the rise in their market share has been driven by the expansion of AFORES, and non-pension Fund NBFIs continue to hold ¼ of the financial system assets—and private credit is relatively small. Efforts to continue to address significant ML/FT risks will be necessary (see ¶25). The authorities' swift wind-down of three financial institutions upon their designation by the U.S. as being of ML concern in 2025 prevented spillovers to the wider financial sector.

23. Financial deepening should continue. Several full banking licenses have been granted to digital banks, mostly focused on consumer lending, and further institutions, also serving SMEs, have applied recently. These, together with the expansion of NBFIs have the potential to reshape Mexico's relatively concentrated financial sector and reduce the economy's reliance on cash. With the Digital Economy Law, further legislation is under way to reduce the use of cash in the economy and incentivize electronic payments. Improving data exchange via Open Finance and interoperability of systems would further level the playing field between incumbents and new entrants, helping foster innovation and competition. Lending could be further facilitated by broadening acceptance and use of the registry of movable assets as collateral, strengthening insolvency frameworks (Annex IX), and removing obstacles to collateral recovery. Continued efforts to close gender gaps in access to credit would advance financial inclusion.

Commercial Bank Concentration
(Herfindahl-Hirschman Index of bank assets, 0–10,000 scale)



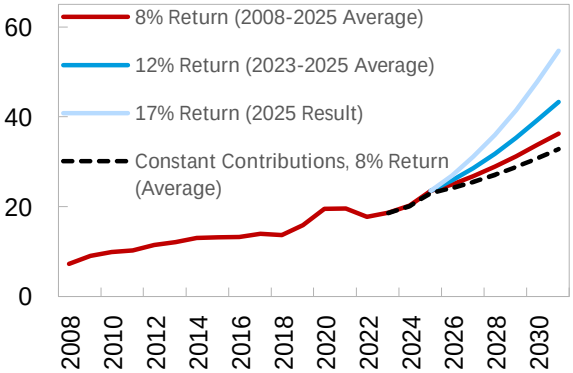
Source: IMF staff estimates.
Note: A Herfindahl index from 1,000 to 1,800 indicates moderate market concentration.

24. Public development banks should prioritize areas underserved by private finance. Assets of public development banks (excluding INFONAVIT) remain small (around 5 percent of GDP)

and have been declining mainly driven by lower first-tier (direct) lending.[9] Provision of guarantees, however, has risen somewhat (in line with Fund advice to focus on second-tier (indirect) credit and partial guarantees to ensure appropriate risk-taking and avoid crowding out of the private sector). Going forward, development bank operations should remain limited to market segments and products currently underserved by commercial banks—e.g., SME and infrastructure financing—, guided by commercial principles and strong governance frameworks, and supervised accordingly. Once private market participants have successfully established SME lending practices and more clients have built up credit histories, a gradual unwinding of guarantees should be envisaged.

25. Growing pension fund assets offer an opportunity to boost investment and deepen capital markets. The projected increase in pension contributions—resulting from the 2020 pension reform—will significantly boost assets under management of private pension funds (AFORES), from 24 percent of GDP in 2025 to around 40 percent by 2031 (Annex X). Pension funds are already becoming an important source of financing, particularly for government securities and infrastructure projects, while competing for other investment opportunities. The reform could have a significant positive macroeconomic impact if it leads to additional private savings, as this would support investment and growth, although the implications for formal employment and voluntary saving will need to be assessed once the reform is fully implemented. General guardrails are in place to protect long-term interests of AFORES pensioners, including independent and competitive portfolio management, issuer and issue concentration limits, thresholds on funds' operational costs, and reporting requirements on returns. Legal limits on AFORES' foreign investments (currently at 20 percent) as well as other exposure thresholds may require close monitoring and recalibration depending on the evolution of domestic (and international) interest rates and asset prices, notably to ensure appropriate risk signals.

AFORES: Net Assets Under Management
(Percent of GDP, Nominal returns)



Source: CONSAR; IMF staff calculations.

26. Progress in implementing FSAP recommendations is welcome, and work should continue in addressing remaining gaps (Annex III). The authorities have shown commitment to addressing remaining recommendations from the 2022 FSAP, including through the publication of a macroprudential strategy in early 2026, albeit without specifying quantitative thresholds.[10] Further

[9] Direct lending to both public and private sector declined in 2025, albeit the share of development banks in subnational government financing has increased from around 10 percent in 2016 to around 20 percent in 2025, underscoring the role of development banks for regional governments borrowing.

[10] The strategy did not include an activation threshold for the Countercyclical Capital Buffer (CCyB) or limits to household debt-service-to-income and loan-to-value ratios. While these thresholds and limits would not be binding at the current juncture, they should be specified going forward to allow for the timely identification of credit risks and to shape expectations on policy intervention.

work is needed in some areas, including enhancing inter-agency coordination and disclosure requirements to support effective consolidated supervision of financial conglomerates, ensuring adequate staffing and funding for regulators, and improving legal protections for supervisors. In addition, efforts should continue in addressing evolving risks from climate and cyber-related threats, building on recent simulation exercises that have significantly advanced Mexico's cyber security preparedness. Consideration could also be given to further strengthen the bank resolution framework by (i) removing legal and operational barriers to the use of purchase and assumption (P&A) and bridge bank tools; and (ii) broadening the resolution regime to explicitly include financial holding companies to ensure comprehensive oversight and effective crisis management across financial groups. In addition, ensuring adequate resourcing of regulatory agencies and legal protection of supervisors and granting the institutional framework for macroprudential policy full operational independence are elements where additional progress is needed. These issues are expected to be further discussed in the context of the planned 2027 FSAP.

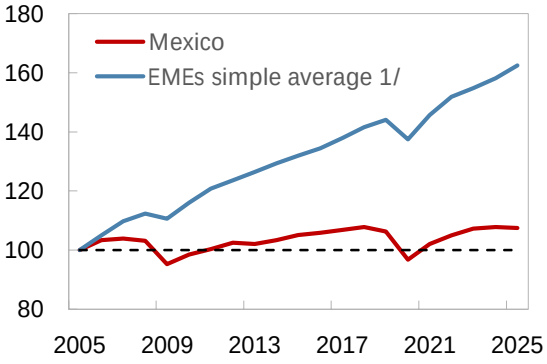
27. Given Mexico's risks and exposure to illicit financial flows, more effective implementation of the AML/CFT framework is a key priority. The significant informal economy and predominant use of cash compound Mexico's money-laundering risks, particularly from drug trafficking, with negative implications for growth and investment. The United States' designation of certain Mexican drug cartels as Foreign Terrorist Organizations further highlights these risks and the need for a strong AML/CFT framework. Recent reforms, such as the new AML/CFT Law (LFPIORPI, enacted in July 2025) and associated regulations, are steps in the right direction, although the staggered entry of the beneficial ownership transparency framework delayed implementation. As such, going forward, efforts must shift towards effectively implementing the new framework, including by monitoring shifting risks, operationalizing the beneficial ownership register, strengthening AML/CFT supervision, and stepping up coordination between AML/CFT and prudential supervisors to preserve financial stability. Moreover, it will be important to enhance the effectiveness in investigations, prosecutions, and confiscations, while also strengthening domestic and international cooperation. In this regard, it will be critical to draw on the FATF mutual evaluation which is underway and expected to be completed by end 2026.

28. Authorities' views. The authorities emphasized the banking sector's exceptionally strong capital buffers and profitability, reflecting the resilience of Mexico's financial system. They also highlighted the increasing dynamism of the financial sector, as digitalization and the entry of new participants are fostering greater competition. However, as significant market segments remain under-banked, they noted that their focus is on improving financial inclusion and deepening while safeguarding financial stability, and reiterated that additional macroprudential thresholds are not needed at this juncture. They welcomed the growing role of AFORES in the domestic capital markets and viewed the current regulatory and supervisory framework as appropriate, while concurring with staff on the benefits of a diversified investor base across asset classes. They continue monitoring banks' exposure to the sovereign, including through regular stress testing, and assessed risks as contained given ample capital and liquidity buffers. The authorities highlighted their ongoing efforts to proactively monitor and address emerging financial risks, including cyber, climate-related, and AI-related risks, through ongoing monitoring, supervision, regulation, and crisis preparedness. They

also noted their intention to address any gaps in the AML/CFT framework identified through the FATF mutual evaluation and to continue strengthening cross-agency coordination.

D. Strengthening Growth Engines

29. Raising potential growth hinges on sustaining international trade and creating conditions for stronger private investment. Income growth in Mexico has significantly lagged Emerging Market peers, reflecting long-standing structural obstacles that constrain investment, in particular weak infrastructure, persistent informality and high levels of crime. Uncertainties about USMCA prospects and the domestic business environment (amid recent institutional reforms) are further clouding Mexico's growth outlook. Fostering growth requires:



Source: IMF WEO.
1/ Argentina, Brazil, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Iran, Malaysia, Philippines, Poland, Russia, Saudi Arabia, South Africa, Thailand, Türkiye, and United Arab Emirates.

- *Deepening the gains from trade.* Mexico should seek to steer the USMCA review towards reducing uncertainty about its access to the U.S. market, and preserving a predictable, transparent, and rule-based framework for regional trade and investment, while avoiding discriminatory provisions and limiting adverse spillovers. The proposed reform of the Foreign Investment Law should be carefully calibrated to ensure that investment screening is transparent, predictable, and preserves a level playing field and an environment conducive to investment. Efforts should also continue to diversify trading partners and avoid trade distorting policies, including tariff increases on imports from non-FTA partners, that are detrimental to the domestic economy. Tariff increases should be applied in line with international obligations and carefully weigh efficiency costs and resilience considerations as well as potential spillovers to third countries.

- *Improving the business environment.* The recent simplification of investment processes and the plan to address infrastructure gaps with private sector participation are welcome. However, greater regulatory and judiciary predictability will be key to bolster private investment. Policies in support of strategic sectors should be anchored in addressing market failures, while remaining temporary, cost-effective, transparent, and supported by proper governance (Baquie and others, 2025).

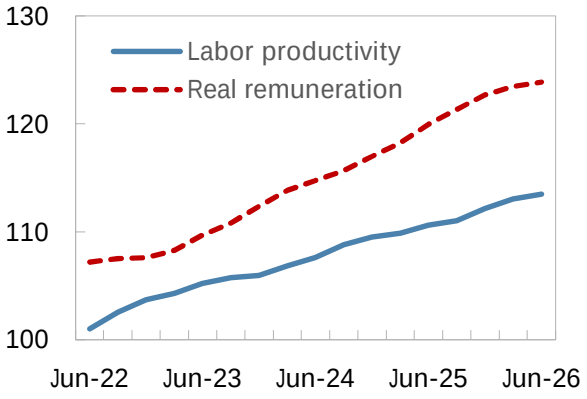
- *Scaling up energy generation.* Announced electricity generation projects with private sector participation are an important step toward increasing generation capacity and improving grid reliability, both essential to boost growth (Annex XI). Further opening of the electricity market to private participation, including by revisiting the 54 percent minimum public participation requirement, should be considered.

- *Recalibrating supply-side labor market policies and tackling informality.* Labor market policies, including minimum wage increases and the shorter working week, are raising labor costs and weighing on competitiveness (see Figure 2). Further measures should take into account labor market conditions as they pose risks to employment and informality. A multipronged approach, including lowering the administrative burden (registration and licensing costs) for formal firms, broadening access to affordable childcare, and increasing investment in education would help tackle informality and increase productivity.

- *Bolstering security.* Progress in reducing homicides—which have fallen from 87 per day in September 2024 to 44 in May 2026—and efforts to combat extortion are welcome. Building on these gains through stronger international cooperation, enhanced intelligence sharing, and more effective action against drug trafficking remains key to foster growth.

Manufacturing Labor: Earnings and Productivity

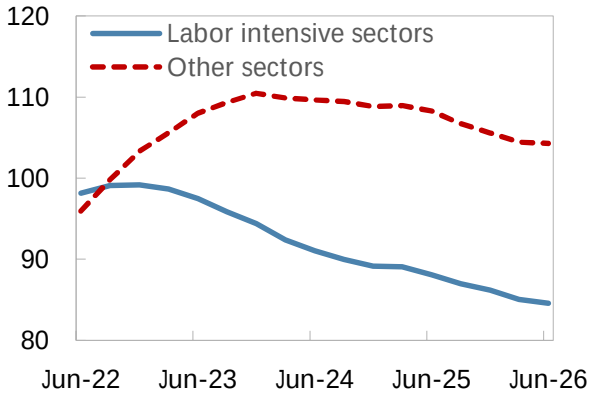
(Hours based; 4-quarter MA; Index 2018=100)



Source: INEGI.

Real Manufacturing Outputs

(SA; 4-quarter MA; Index 2018=100)



Source: INEGI.

30. Mexico can advance its energy security and climate objectives by expanding the supply of renewable energy. In 2024, only 22 percent of electricity came from renewables—well below the Latin American average of 62 percent—with the remainder largely dependent on imported natural gas. Mexico also remains among the world's largest producers of crude oil, and contributes 1.5 percent to annual global emissions. The macro-criticality of climate change[11] has been recognized by President Sheinbaum's administration, who raised the target for renewable electricity generation to at least 38 percent by 2030, a key pillar of Mexico's NDC 3.0 commitment to net zero by 2050 and 60 percent reduction in *business-as-usual* emissions by 2035 (Panel Figure 7).[12] To advance towards these targets, the National Electricity Strategy opened the electricity market to private participation, conditional on a 54 percent minimum stake of the state utility company CFE.

[11] Including through the impact of natural disaster (see 2025 Article IV Staff Report).

[12] Mexico is a member of REDD+, the Global Methane Pledge, the Climate Investment Fund and Clean Technology Fund, among others, and a leader in energy efficiency programs in Latin America (Annex XI).

Meeting the authorities' renewables target would reduce energy dependence and lower emissions, but would fall short of meeting the NDCs (Annex XI). To close the remaining emissions gap additional measures would be needed, including allowing further private investments in renewables, avoiding prolonged fuel excise reductions, establishing appropriate pricing at the recently established ETS[13] and raising overall carbon taxes.

31. Meanwhile, greater focus is needed on strengthening governance, anti-corruption frameworks, and the rule of law. Addressing the links between organized crime, corruption, and weak rule of law is critical for strengthening investor confidence and supporting long-term growth. The adoption of the *Sectoral Program for Anti-Corruption and Good Governance (2025–30)* represents an important step forward. Nevertheless, risk-based verification of government officials' asset declarations needs to be strengthened, and the draft whistleblower protection law is still pending. Several laws on access to information were enacted in 2025[14] but the limited autonomy and capacity of relevant agencies to oversee access to information and inconsistent implementation remain key challenges.[15] Pending steps in the judicial reform should prioritize the promotion of professionalism, independence and accountability of the judiciary to support the rule of law and ensure a reliable system for dispute resolution.

32. Authorities' views. The authorities emphasized their continued engagement toward a constructive outcome of the USMCA review and underscored the importance of preserving Mexico's integration into North American supply chains. They highlighted efforts to expand domestic productive capacity, including through infrastructure development, to strengthen regional supply chains. They stressed that the proposed reform of the foreign investment law is intended to strengthen screening in strategic sectors and support supply-chain resilience while preserving an open investment environment. The authorities also concurred with the need to boost investment to durably raise growth and pointed to efforts to scale up infrastructure projects, including through public-private arrangements. They highlighted initiatives to foster formalization and expand childcare services to support labor force participation, as well as recent progress in reducing crime, all of which would support growth. The authorities reiterated their commitment to strengthening governance and anti-corruption frameworks. Finally, they affirmed their commitment to their energy targets and emphasized progress in recent project bidding rounds, notably for solar generation, while acknowledging that meeting emissions targets would require additional action.

[13] The ETS covers direct CO_2 emissions from large industrial and energy sector installations emitting more than 100,000 tCO_2 per year. Permits are freely allocated, and a price discovery is not yet in place, but fines for non-complying firms correspond to US$ 50 per tCO_2.

[14] These include (i) General Law on Transparency and Access to Public Information, (ii) General Law on the Protection of Personal Data Held by Obligated Entities, and (iii) the Federal Law on the Protection of Personal Data Held by Private Parties.

[15] Mexico is a voluntary country for the assessment of transnational aspects of corruption (see Annex XIII of 2025 AIV Staff Report). The authorities should continue their efforts to address relevant risks.

REVIEW OF FCL

A. Review of Qualification

33. Mexico continues to meet the qualification criteria for an FCL arrangement. Notwithstanding rising policy risks—related to delays in fiscal adjustment, growing financing arrangements outside of the normal budget process and the weakening of the fiscal framework—Mexico has a sustained track record of implementing strong macroeconomic policies and continues to have very strong economic fundamentals and institutional policy frameworks. These strengths underpinned Mexico's resilience during the recent period of elevated external uncertainty, when Mexico maintained orderly market conditions and market confidence without the need for foreign exchange intervention or use of contingent liquidity backstops. Changes in qualification since the approval of the 2025 FCL arrangement pertain mainly to fiscal policy although staff assesses that, notwithstanding rising risks, public finances remain sound (Text Table 2).

Text Table 2. Mexico: Summary of Qualification Assessments

	2024 Mid-Term Review 1/	2025 FCL Request 1/	2026 Mid-Term Review
1. A sustainable external position (EBA assessment at least "moderately weaker").	Moderately stronger	Broadly in line	Broadly in line
2. A capital account dominated by private flows (share of private flows in total capital flows>50 percent, on average over the last three years).	75 percent	78 percent	70 percent
3. A track record of steady sovereign access to sovereign markets at favorable terms (public sector bonds issued or loans disbursed in international markets in at least 3 of the last 5 years; cumulative amount during the last 5 years>50 percent of the country's quota at the Fund).	570 percent of quota	826 percent of quota	980 percent of quota
4. A comfortable reserve position (reserves>100 percent of ARA metric, on average over three (the current and the two previous years)).	121 percent	131 percent	131.5 percent
5. Sound public finances (debt sustainable with high probability).	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability
6. Low and stable inflation (inflation in single digits in the last 5 years preceding qualification).	5.2 percent[2]	5.4 percent[2]	5.5 percent[2]
7. Sound financial system (the average capital adequacy ratio for the banking sector>regulatory thresholds;[3] no significant solvency risks or recapitalization needs).	Tier 1 capital ratio stood at 18.8 percent. No significant solvency risks or recapitalization needs.	Tier 1 capital ratio stood at 17.9 percent. No significant solvency risk or recapitalization needs.	Tier 1 capital ratio stood at 18.4 percent. No significant solvency risk or recapitalization needs.

Text Table 2. Mexico: Summary of Qualification Assessments (concluded)			
	2024 Mid-Term Review 1/	2025 FCL Request 1/	2026 Mid-Term Review
8. Effective financial sector supervision (no substantial concerns regarding the supervisory framework).	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework
9. Data transparency and integrity (an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements).	SDDS subscriber	SDDS subscriber	SDDS subscriber
1/ Reported indicators are those available at the time of the request and mid-term review, respectively. 2/ Headline and core inflation, as well as inflation expectations, are in single digits in each of the five years. 3/ The regulatory threshold for Tier 1 capital ratio is 6 percent.			

- *Sustainable external position*. The 2025 external position was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex I). The narrowing of the current account deficit in 2026 reflected temporary factors and expected to gradually reverse over the medium term as investment recovers. External debt—which is projected to stabilize at around 25½ percent of GDP—is well below its pre-pandemic level and has a favorable maturity and currency profile. In particular, public external debt displays long maturities and modest refinancing risks, and exchange rate risks are mitigated by the fact that 30 percent is denominated in pesos. Private sector exposures are mitigated by natural and financial hedges.

- *A capital account position dominated by private flows.* Private flows, underpinned by relatively stable FDI, remain dominant. Public flows account for only 30 percent of total flows on average over the last three years, lower than the FCL's ceiling of 50 percent.[16] The NIIP remains sustainable, with a relatively high share of foreign public liabilities denominated in local currency, limiting FX risks.

- *A track record of steady sovereign access to capital markets at favorable terms*. Mexico retains investment grade with major rating agencies, albeit Moody's recent downgrade and S&P's recent negative outlook (see ¶7). Market conditions were only marginally and temporarily affected by the Middle East conflict earlier in the year and Mexico's sovereign spread, which includes PEMEX bonds, remains low (close to 210 basis points as of early-October) and below its pre-pandemic levels. The cumulative public sector issued or guaranteed external bonds or disbursements of public and publicly guaranteed external commercial loans in international markets during the last five years is close to 980 percent of Mexico's IMF quota (1,070 percent including state-owned enterprises), well above the FCL threshold of 50 percent. The FCL's requirement of continued access to international markets during at least three of the last five years is also satisfied.

[16] Public flows are calculated as the sum of the absolute values of reserve assets flows, and portfolio and other asset and liability flows by general government and central bank. Total flows are calculated as the sum of the absolute values of direct, portfolio, and other asset and liability flows as well as the absolute value of net reserve asset flows. Private flows are the difference between total and public flows.

- *A reserve position that remains relatively comfortable, notwithstanding potential BOP pressures that justify Fund assistance.* Gross international reserves stood at US$266 billion (12.4 percent of GDP) at end-August 2026. Over three (current and two previous) years, Mexico's reserves are projected to average to 131.5 percent of the ARA metric, exceeding the FCL threshold of 100 percent. The metric does not fall below 100 percent in any of these three years. In addition, Mexico retains its swap lines of US$3 billion with the U.S. Federal Reserve under the North American Framework Agreement and US$9 billion with the U.S. Treasury under the Exchange Stabilization Fund.

- *Sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis.* Notwithstanding the delays in consolidation and the weakening of the fiscal framework, Mexico has a sustained track record of sound public finances, exemplified in the prudent fiscal management during the pandemic, the ongoing unwinding of the 2024 expansion and the plan to further reduce the overall deficit over the medium term, laid out in the 2027 budget proposal. Under these plans and staff's macroeconomic assumptions, gross public debt would rise gradually over the medium term to about 64½ percent of GDP by 2031 (from 61.7 percent in 2025). Although staff advises a more ambitious consolidation path to rebuild policy space, public debt is assessed to be sustainable with high probability under the authorities' plan.[17] The recent weakening of the fiscal framework—including the elimination of the balanced budget rule, and the narrowing of the coverage of the structural current spending rule (see ¶16)—and the higher projected net debt level over the medium-term under the 2027 budget proposal point to fiscal risks and the desirability of revamping the framework. The growing reliance on financing arrangements outside of the regular budget process also poses risks to debt dynamics and the credibility of fiscal targets. Strengthening the fiscal framework—by adopting a medium-term debt anchor, tightening escape clauses, introducing correction mechanisms and establishing an independent fiscal council—as well as adhering to international accounting standards for fiscal statistics would further support the consolidation plans and enhance their credibility.

- *Low and stable inflation, in the context of a sound monetary and exchange rate policy framework*. The independent central bank has remained focused on anchoring inflation around the target, delivering single-digit inflation over the past two decades. Following the post-pandemic inflation episode, Banxico successfully guided inflation back to target and, while core inflation is still elevated and inflation expectations remain somewhat above target, the current moderately restrictive monetary policy stance should allow inflation to reach Banxico's target by early-2028. The authorities have reaffirmed their commitment to a flexible exchange rate.

- *A sound financial system and the absence of solvency problems that may threaten systemic stability*. Mexico's financial system remains healthy, supported by high capital and liquidity buffers, low and adequately provisioned delinquencies, and high profitability. The capital adequacy ratio (18.4 percent) is comfortably above the regulatory minimum of

[17] Mexico's public debt has been assessed to be sustainable with high probability in the past five years.

10.5 percent and return on equity for the overall banking system stands at 17.2 percent. The liquid-to-total assets ratio stands at 30.3 percent, and liquid assets to short-term liabilities ratio at 111.5 percent. A low non-performing loan ratio of about 2 percent indicates sound underwriting standards. Corporate and household leverage are low, while asset valuations do not appear stretched. Main vulnerabilities relate to the sovereign-bank nexus, with public sector exposure accounting for about ¼ of system assets. While the narrower interest rate differential vis-à-vis the U.S. may amplify currency volatility, bank external funding is modest as a share of total liabilities and corporate balance sheets have relatively low levels of debt and limited FX mismatches. Stress tests by Banxico confirm the banking sector's ability to withstand a pronounced economic slowdown or sovereign debt repricing with no material solvency concerns or recapitalization needs.

- *Effective financial sector supervision*. The 2022 FSAP assessed Mexico's financial system to be robust, and authorities have demonstrated a strong commitment to advancing the implementation of the FSAP recommendations. The macroprudential framework has been further strengthened through the newly published macroprudential strategy, improvements in inter-agency coordination, systemic risk monitoring, and regulatory updates, while the authorities are leading efforts towards cybersecurity resilience. Banxico has updated its standing liquidity facility, and efforts to align frameworks with international best practices to ensure timely support for distressed institutions continue. Efforts to bolster digital infrastructure and incident response capabilities are also ongoing to further reinforce the system's capacity to safeguard financial stability. Supervision has proven effective amid recent shocks and the regulator (CNBV), together with Banxico and other relevant agencies, has ably addressed the winding-down of three financial institutions designated by the U.S. as being of primary money laundering concern, preempting spillovers to the system. Systemic risk analysis has advanced significantly with Banxico's implementation of liquidity stress tests and close monitoring of contingent liquidity lines, while supervision frameworks are being further strengthened with respect to compliance shortcomings and preventive measures, as well as ensuring consistent parallel financial investigations. The authorities are also cooperating with the Financial Action Task Force (FATF) for the ongoing mutual evaluation.

- *Data transparency and integrity*. Mexican data continues to be of high quality and adequate for surveillance and are disseminated on a timely basis. Mexico subscribes to the IMF's Special Data Dissemination Standard (SDDS). However, further improvements in the coverage and recording of public sector operations, in line with the Government Finance Statistic Manual (GFSM 2014), remain necessary to strengthen fiscal transparency and the assessment of underlying fiscal risks.

- *Track record.* Mexico continues to demonstrate a sustained track record of very strong policy implementation, as reflected in the prudent fiscal response during the pandemic and timely monetary tightening to address the subsequent surge in inflation. The sizable fiscal consolidation last year—despite facing significant external shocks—and the further deficit reduction in train this year also underpin this track record, although these will need to be

sustained and accompanied by the identification of measures, especially considering Mexico's large infrastructure needs, and enhancements to the fiscal framework. Staff assesses that all relevant core indicators have been met in each of the five most recent years.

34. The quality of institutions relevant to FCL qualification remains very strong, although vulnerabilities persist in AML/CFT, anti-corruption and the rule of law. While staff's baseline remains that the current AML/CFT framework is sufficiently robust to allow the authorities to respond to emergent issues, the on-going mutual evaluation by the FATF, expected to be finalized by end-2026, will identify additional efforts to address outstanding AML/CFT gaps. Mexico has continued to advance its governance framework, including through the adoption of the Sectoral Program for Anti-Corruption and Good Governance (2025–30), but challenges remain in preserving autonomy and accountability in the framework for access to information regime, ensuring effective verification of asset declarations and whistleblower protection, and strengthening operational independence and capacity of oversight institutions. The impact of judicial reforms on judicial independence and accountability should also continue to be monitored, while further efforts are warranted to address the nexus between organized crime, corruption, and weak rule of law. However, these vulnerabilities do not hamper Mexico's ability to respond to shocks.

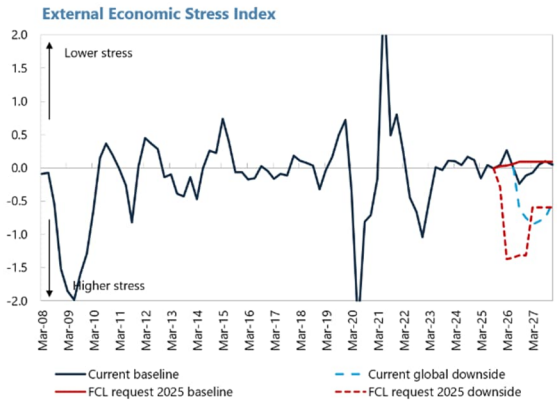
35. Staff completed the safeguards procedures for Mexico's 2025 FCL arrangement. KPMG Cárdenas Dosal (the external auditor) issued an unmodified (clean) audit opinion on the Banco de Mexico's FY 2024 financial statements prepared in accordance with internal regulations and Banxico's financial reporting standards. The statements were published on Banxico's website within four months of year-end. No significant issues emerged from the conduct of these procedures or the subsequent review of the FY 2025 financial statements.

B. Access Consideration

36. Reflecting continued resilience and some moderation in external downside risks, the authorities are requesting a reduction in access under the FCL arrangement from 200 to 150 percent of quota (equivalent to SDR 13.36905 billion). At the approval of the FCL arrangement last year, access was reduced from 300 to 200 percent of quota on account of stronger reserve buffers. Reserve buffers remain adequate, with international reserves increasing in nominal terms and remaining broadly stable relative to reserve adequacy metrics. While the external environment remains uncertain, downside risks have eased somewhat compared with those prevailing at the time of the arrangement's approval, as indicated by the external stress index (Box 5). Under a downside scenario in which these risks materialize, an overall financing gap of close to US$60 billion would arise, smaller than under the 2025 FCL request (Box 6). Mexico would cover about US$42 billion through a drawdown of international reserves, while maintaining reserve coverage above 100 percent of the ARA metric. The residual financing gap, equivalent to 150 percent of quota, would be covered by the FCL arrangement. This lower level of access is consistent with the authorities' intention to continue reducing access as external risks recede and domestic buffers further strengthen.

37. Mexico's capacity to repay the Fund remains strong. The authorities intend to continue treating the arrangement as precautionary. Even under a full drawing, risks to Fund exposure would remain contained, supported by Mexico's strong policy frameworks, adequate buffers, and excellent track record of meeting its obligations to the Fund. Under a full disbursement in 2026 and the downside scenario described in Box 6, public external debt would peak at 28.4 percent of GDP in 2029, while outstanding use of GRA resources would account for 3.5 percent of external public debt in 2026. External debt service would peak at 6.3 percent of GDP in 2026 and decline to about 5 percent over the medium term (Table 8).

Box 5. External Economic Stress Indicator



Background. The External Economic Stress Index (EESI), a composite indicator of vulnerability related to external shocks, is constructed by (i) identifying key external risks facing Mexico, (ii) selecting proxy variables to capture these risks, and (iii) assigning weights based on their relative importance in Mexico's external accounts. The methodology follows the Flexible Credit Line Operational Guidance Note and is in line with that for past FCL arrangements.

Risks. Two external risk factors are particularly relevant for the Mexican economy. First, Mexico's exports, remittances, and inward FDI are closely related to economic developments in the United States and U.S. trade policy. Second, Mexico's open capital account and portfolio securities held by foreigners expose Mexico to changes in global financial conditions, including changes in investor sentiments towards emerging market economies.

Variables. Risks to exports, remittances, and inward FDI are all proxied by U.S. growth. Risks to portfolio flows are proxied by the change in the U.S. Treasury 10-year yield and the emerging markets volatility index (VXEEM), which capture debt and equity flows respectively.

Weights. The weights are data-based using balance of payments and international investment position data in 2025. The weight on U.S. growth (0.63) corresponds to the sum of exports, FDI, and remittances; the weights on the change in the U.S. long-term yield (0.27) and the VXEEM (0.10) correspond to the stocks of foreign debt and equity, respectively. The weights are calculated as shares in the sum of these variables.

Baseline scenario. This scenario corresponds to the October 2026 WEO projections for U.S. growth and the U.S. 10-year bond yield. The VXEEM is assumed to remain constant over the projection period. The EESI indicates that the level of risks under the baseline scenario is higher than that assessed at the time of the 2025 FCL request.

Global downside scenario. This scenario is based on the October 2026 WEO downside scenario, which assumes a more prolonged war in the Middle East (¶11). Compared to the 2025 FCL request, this scenario features a milder shock to U.S. growth (with the trough reaching ¾ of standard deviations below the baseline, compared with 1½ standard deviations previously). At the same time, it incorporates a somewhat larger increase in the U.S. Treasury yield (1½ standard deviations versus one standard deviation previously), while the rise in the VXEEM index remains unchanged (at three standard deviations). Overall, these shocks lead to a deterioration in the external stress index through early 2027. However, downside risks at the trough are significantly lower than those prevailing at the time of the 2025 FCL request (at roughly one-half of previous levels), reflecting the more moderate U.S. growth shock.

Country-specific external downside scenario. Mexico could also be affected by a negative USMCA review outcome, a more complex U.S. trade policy landscape, and new disruptions to global value chains. Such developments could weigh on FDI and capital inflows, while remittance inflows could be adversely impacted by tighter U.S. migration policies. However, developments since the 2025 FCL request point to somewhat reduced risks, as Mexico has maintained favorable access to the U.S. market vis-à-vis key competitors.

Box 6. Illustrative Downside Scenario

Access of about US$18 billion (150 percent of quota) can be justified under an illustrative downside scenario, incorporating the external risks outlined in Box 5. Under this scenario, capital inflows would weaken and the current account would deteriorate, although relative to the 2025 FCL request, the impact would be smaller mainly reflecting a milder U.S. growth shock.

Current account. The scenario assumes a deterioration of the current account balance of about 0.23 percentage points of GDP (compared to 0.45 percent at the time of the FCL request). Mexico's flexible exchange rate regime would help cushion the impact of slower global growth, particularly in the U.S., resulting in a temporary widening of the current account deficit before the exchange rate adjustment supports an improvement in the external balance.

Net foreign direct investment (FDI) inflows. While weaker U.S. demand, heightened global uncertainty, and a negative USMCA review outcome are assumed to reduce net FDI inflows to about 70 percent of the preceding three years' average, this is a less severe shock than in the 2025 FCL request, reflecting the recent resilience of FDI inflows.

Assumptions Underlying the Downside Scenarios

Assumptions	2026 FCL mid-term review	2025 FCL request	2023 FCL request	2021 FCL request	2019 FCL request
Current Account Deficit	0.23% of GDP shock	0.45%	0.23%	0.45%	0.23%
Net FDI Inflows	70% of preceeding 3-year average	40%	60%	40%	60%
Equity Portfolio Inflows	1.6 std dev shock	1.6 std dev shock	1.6 std dev	2.0 std dev	1.6 std dev
Financing Through Bonds and Loans					
Public sector MLT financing					
FX denominated bonds	80%	80%	80%	80%	80%
Local currency bonds	71%	71%	71%	71%	71%
Private sector MLT financing					
FX denominated bonds	80%	80%	80%	80%	80%
FX Bank Financing	80%	80%	80%	80%	80%
Short-term financing					
Public sector local currency bonds	71%	71%	71%	71%	71%
Private sector	80%	80%	80%	80%	80%
Trade credit	80%	80%	80%	80%	80%
Other Flows					
Residents' foreign portfolio & other investment	1.6 std dev shock	1.6 std dev shock	1.6 std dev shock	2.5 std dev	1.6 std dev

Source: IMF staff calculations.

Key Contributions to Financing Gap under the Downside Scenarios 1/
(In billions of U.S. dollars, +: financing requirements)

	2026 FCL mid-term review	2025 FCL request	2023 FCL request	2021 FCL request	2019 FCL request
Current Account Deficit	5.0	11.2	4.6	6.2	3.0
Net FDI Inflows	10.8	7.4	11.3	15.7	11.8
Equity Portfolio Inflows	5.4	5.6	7.8	13.5	11.3
Financing Through Bonds and Loans	15.6	19.9	25.8	27.1	32.9
Other Flows	22.9	23.8	21.4	26.9	17.2
Change In International Reserves	-41.6	-43.4	-35.7	-39.0	-14.8
Residual Financing Gap	18.1	24.4	35.1	50.4	61.4
in percent of quota	150	200	300	400	500

Source: IMF staff calculations.

1/ Financing gap in the year of the approval (e.g., 2025 for the 2025 FCL request), otherwise indicated.

Net equity portfolio inflows. Similar to the 2025 FCL request, the scenario assumes a shock to net equity portfolio inflows equivalent to 1.6 standard deviations of historical fluctuations.

External debt rollover. Similar to the 2025 FCL request, rollover rates of 80 and 71 percent for foreign currency- and peso-denominated debt, respectively, are assumed.

Resident portfolio outflows. Similar to the 2025 FCL request, the scenario assumes temporary resident capital flight equivalent to 1.6 standard deviations of historical fluctuations.

Use of reserves. The scenario assumes a reserve drawdown of about US$41.6 billion. Following the drawdown, reserve coverage under the ARA metric would decline to about 111 percent, remaining within the generally adequate range.

STAFF APPRAISAL

38. Growth is projected to strengthen in 2026-27, although remaining constrained by uncertainty. Activity accelerated in 2026, supported by less restrictive domestic policies, dynamic exports, and a limited impact from global energy prices. Activity will gain further strength in 2027 as investment continues recovering, although trade uncertainty will continue to weigh on growth. Supported by continued commitment to prudent policies, financial and external buffers are robust, public debt remains sustainable with high probability, and the external position is in line with the level implied by medium-term fundamentals and desirable policies.

39. More ambitious fiscal consolidation is needed. After substantial deficit reduction of 2025-26, fiscal consolidation is expected to proceed more gradually, leaving public debt on a moderate upward path. A more ambitious and front-loaded adjustment should be considered to put debt on a firm downward trajectory and rebuild policy space, against the backdrop of rising global risks and interest rates. A balanced package of about 1¼ percent of GDP in measures should be identified to secure the medium-term fiscal objectives while accommodating priority spending on infrastructure and health. Expenditure savings should come from improved targeting of social programs, a gradual phase-out of fuel subsidies and strengthening Pemex's finances. Options for revenue mobilization include raising subnational property and vehicle taxes, phasing out border tax incentives, increasing carbon taxation, reforming the personal income tax, and fostering formalization.

40. Plans to scale up infrastructure investment are welcome, but stronger safeguards are needed to ensure investments raise growth and do not undermine public finances. Investment should stay within the limits of absorptive capacity and medium-term fiscal sustainability. Greater efforts will be required to refrain from further deferred expenditure recognition, contain contingent liabilities that could arise from mixed projects, and align the new framework's safeguards with those of the Public Private Partnership law.

41. A stronger fiscal framework would enhance credibility and underpin consolidation. Recent changes to the fiscal framework, the higher projected net debt level over the medium term, and growing reliance on operations outside the normal budget process are eroding fiscal credibility. These actions may also erode transparency, oversight, and consolidation objectives, including by severing the link between the fiscal rules and debt dynamics. As such, priority should be given to: (i) revamping the framework by introducing a medium-term debt anchor combined with an operational limit, well-defined correction mechanisms and binding escape clauses; (ii) creating an independent fiscal council; (iii) implementing stronger mechanisms to ensure compliance with the rules; and (iv) compiling and publishing fiscal statistics in line with GFSM 2014 principles.

42. Persistent price pressures and elevated inflation expectations call for a cautious monetary policy stance and strengthening communications. With headline inflation close to the target but still elevated core inflation and above-target inflation expectations, a moderately tight stance should be maintained until these underlying pressures clearly abate. Further tightening may

be warranted if disinflation stalls, or if new energy and food price shocks threaten to spread to broader price increases. Communication could be strengthened by clarifying Banxico's policy objective and reaction function, especially stressing that the variability range is not a tolerance range, and explaining the role of inflation expectations and economic slack in price formation, and how monetary policy responds to these variables. These steps would enhance predictability and accountability.

43. Amid a sound financial system, initiatives to broaden financial inclusion should focus on promoting competition and addressing market failures. The entry of new players is welcome and further gains could be made by strengthening open finance, improving interoperability and collateral registries, and making insolvency and collateral recovery frameworks more effective. The rapid growth of AFORES provides an opportunity to finance needed investment and deepen capital markets but also requires close monitoring to ensure continued proper safeguards. Public development banks should focus on segments underserved by private lenders, concentrating in guarantees and second-tier lending, while upholding strong governance and prudential standards. The sovereign-bank nexus warrants continued vigilance given sizable public-sector exposures.

44. Enhancements in financial sector supervision should continue, building on welcome progress with implementing past FSAP recommendations. The publication of a macroprudential strategy in early 2026 marks an important step, and it should be complemented by setting activation thresholds for key tools, such as the countercyclical capital buffer and borrower-based measures. Other priorities include stronger inter-agency coordination, more effective consolidated and risk-based supervision, and adequate resources and legal protection for supervisors. Effective implementation of Mexico's AML/CFT framework is needed to guard against high exposure to illicit financial flows. Addressing gaps identified by the ongoing FATF mutual evaluation will be key.

45. Lifting potential growth requires preserving the gains from trade and unlocking private investment. The USMCA review should safeguard a predictable, rules-based framework for regional trade and investment, while avoiding trade-distorting policies and escalatory measures that would harm the domestic economy. Addressing infrastructure bottlenecks remains key and recent measures to streamline investment procedures and expand private participation should help although greater regulatory and judicial predictability will be needed to scale up investments. Policies to support strategic sectors should target market failures and remain temporary, cost-effective, and underpinned by sound governance. Labor market policies should be calibrated with attention to their effects on competitiveness and informality. Broader reforms to reduce firms' administrative burden, expand childcare, strengthen education, and improve security would help raise productivity and support durable income growth.

46. Stronger governance and rule of law are essential to support growth. Further efforts are needed to combat organized crime and corruption, reinforce the rule of law and provide a predictable environment for economic activity and dispute resolution. These should include strengthening risk-based verification of officials' asset declarations, advancing whistleblower protection legislation, and enhancing oversight of access to information. Also, the remaining stages of the judicial reform should prioritize professionalism, independence, and accountability.

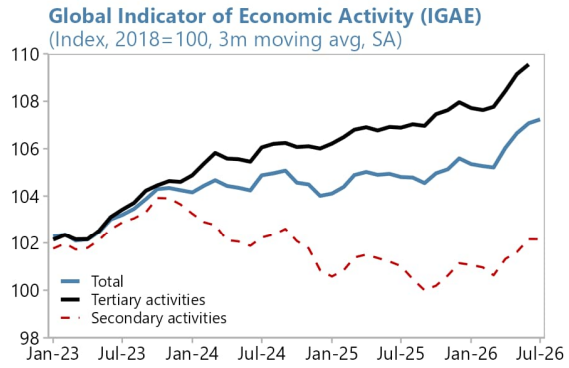
47. Expanding renewable energy would enhance Mexico's energy security and advance its climate goals. Mexico's electricity mix remains highly dependent on imported natural gas, although there is ample potential for renewables. The authorities' higher 2030 target for renewable electricity and policies to encourage private participation should help move towards lower energy dependence and emissions. However, further measures would be needed to narrow the remaining gap with Mexico's climate commitments, such as avoiding prolonged fuel excise reductions, establishing an effective carbon price under the new ETS, and strengthening carbon taxation.

48. Mexico continues to meet the qualification criteria for access to FCL resources. The authorities remain committed to maintaining very strong macroeconomic policies and institutional policy frameworks. Adequate international reserve buffers and the FCL arrangement continue to provide valuable protection against external risks. Staff supports the authorities' request to reduce access under the arrangement from 200 to 150 percent of quota and considers the proposed level of access appropriate in light of Mexico's very strong fundamentals, policy frameworks, and reserve buffers, its demonstrated resilience during this period of elevated external uncertainty, and some moderation in external downside risks. Staff therefore recommends completion of the review under the FCL arrangement for Mexico at the reduced access level.

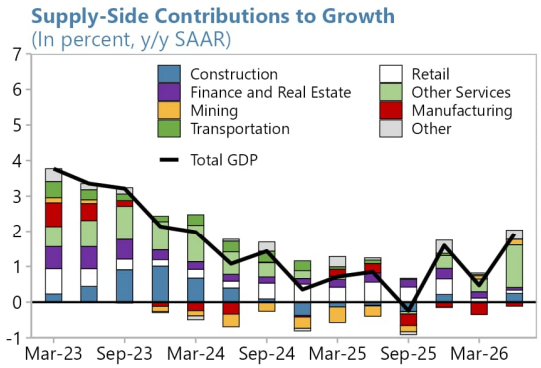
49. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Mexico: Real Sector Developments

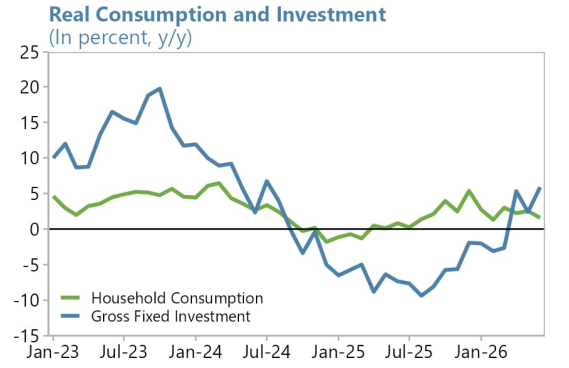
Activity has recently gained some strength, ...



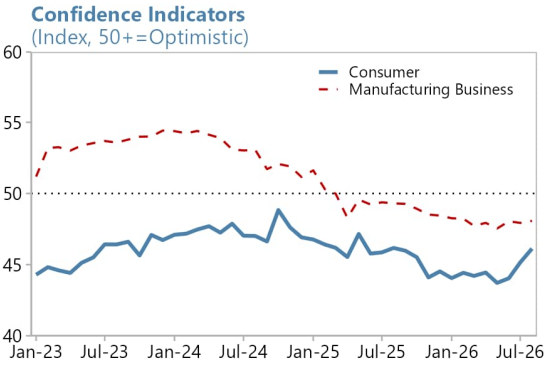
... supported by strong growth in services.



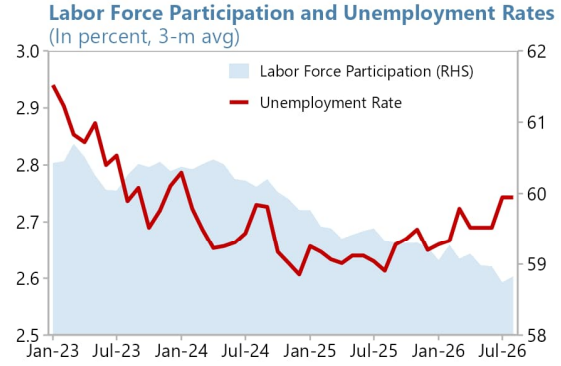
Investment appears to be turning the corner ...



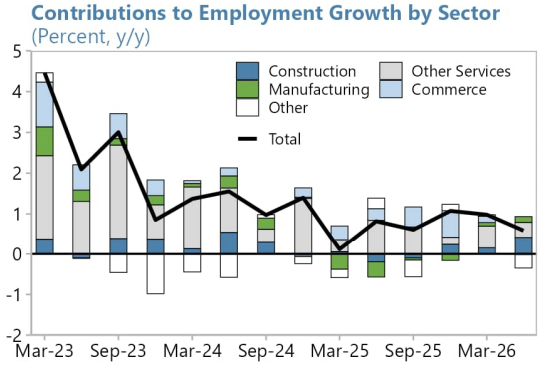
...although business confidence remains weak.



The labor market has shown signs of cooling ...



... as employment growth has moderated

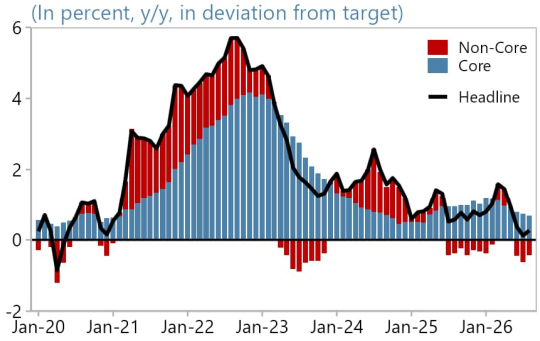


Sources: INEGI; IMSS; Haver Analytics; IMF staff calculations.

Figure 2. Mexico: Inflation and Monetary Policy

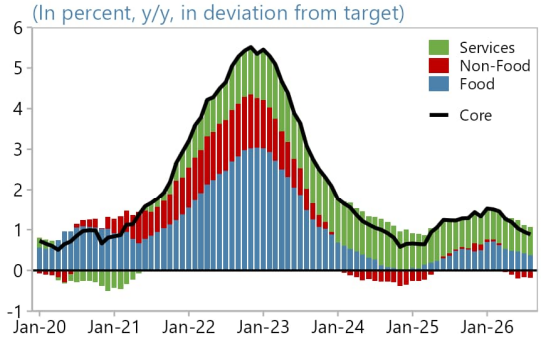
Weather-related price pressures from early 2026 have receded rapidly ...

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



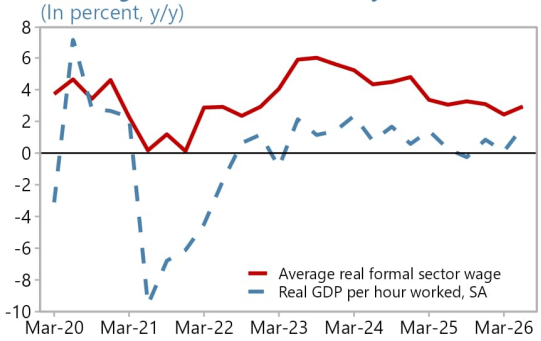
...while core inflation has remained elevated, owing mainly to services inflation.

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



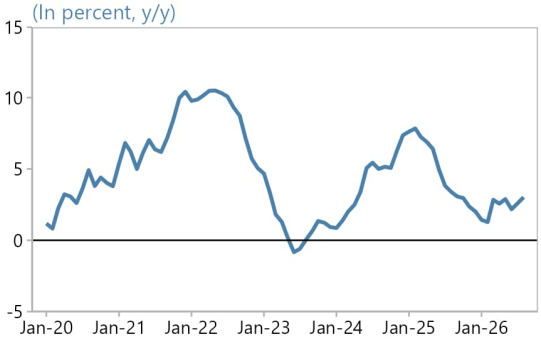
Wages have outpaced productivity, although moderating more recently...

Real Wages and Labor Productivity
(In percent, y/y)



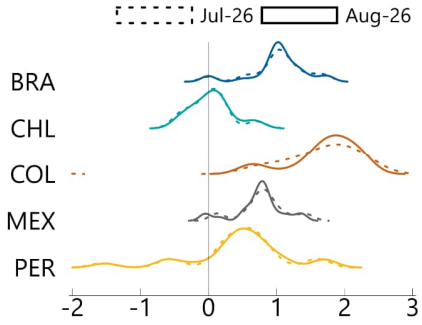
...contributing to producer price inflation.

Producer Price Inflation
(In percent, y/y)



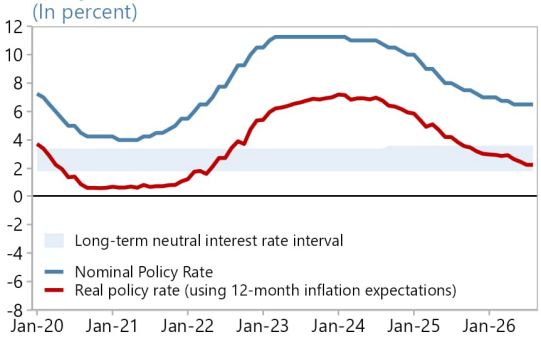
Expectations are anchored above the target...

Distribution of Inflation Expectations by Country
(One-year ahead; percentage points; deviation from target)



...while the policy rate is near its long-term neutral level.

Policy Rates
(In percent)

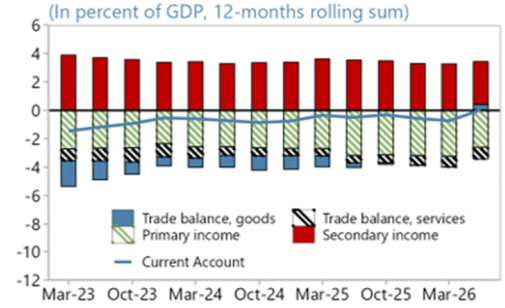


Sources: INEGI; Banxico; Haver Analytics; IMF staff calculations.

Figure 3. Mexico: External Developments

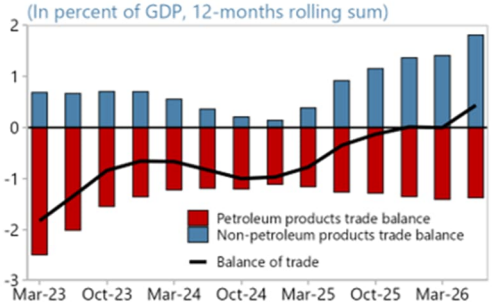
The current account has strengthened recently, ...

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



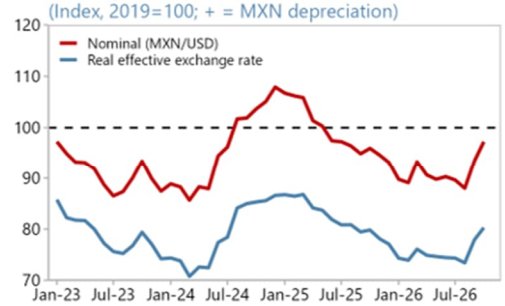
... amid improvements in the trade balance...

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



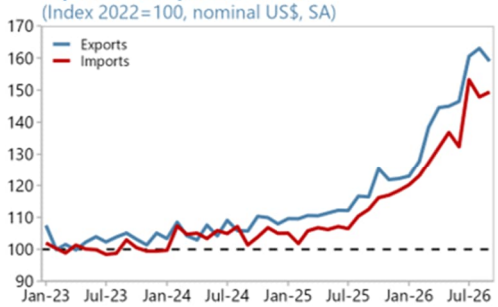
... despite the strengthening of the peso until recently ...

Exchange Rate
(Index, 2019=100; + = MXN depreciation)



... on account of solid exports.

Exports and Imports of Goods
(Index 2022=100, nominal US$, SA)



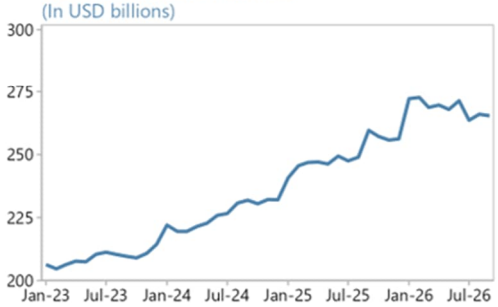
FDI has remained broadly stable, ...

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



... while international reserves have risen gradually over time.

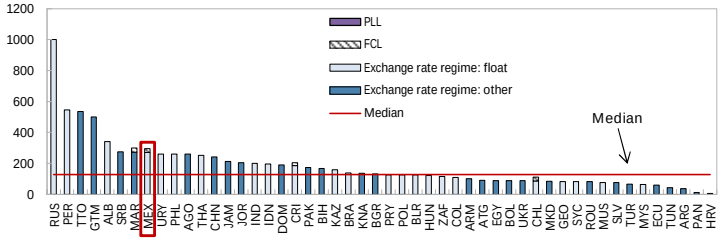
Gross International Reserves
(In USD billions)



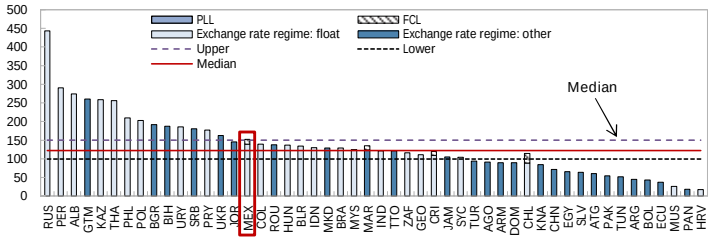
Sources: Banxico; BIS; Haver Analytics; IMF staff calculations.

Figure 4. Mexico: Reserve Coverage and FCLs in an International Perspective 1/

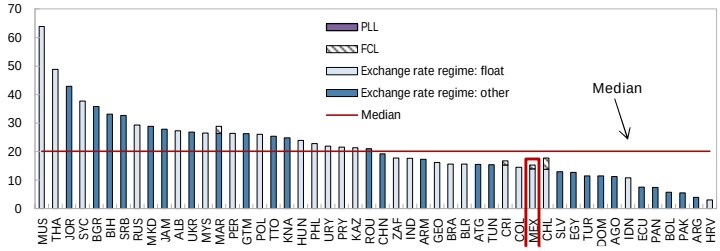
GIR to Short-term External Debt at Remaining Maturity plus Current Account Deficit (end-2025) 5/
(In percent)



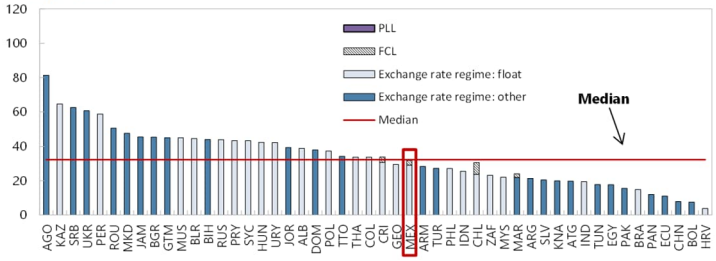
GIR to ARA Metric, end-2025 2/3/4/
(In percent)



GIR to GDP, end-2025
(In percent)



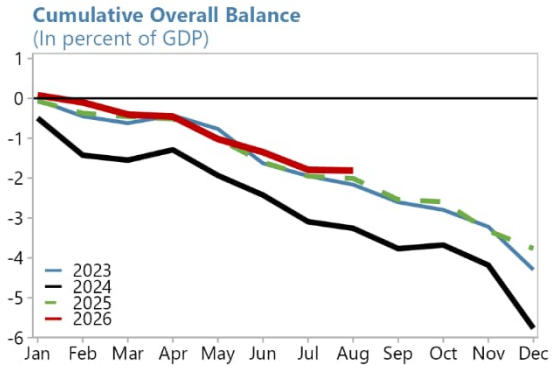
GIR to Broad Money, end-2025
(In percent)



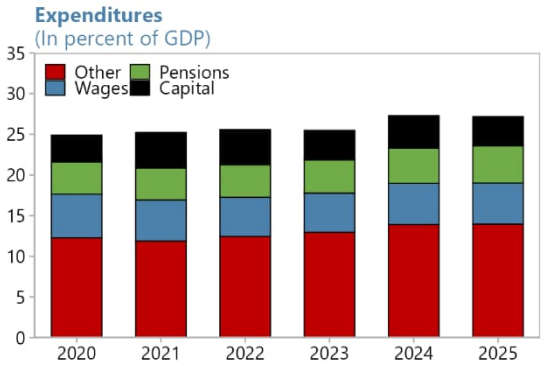
Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample includes all EMEs for which data is available.
2/ The ARA metric helps inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016.
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.
5/ The current account balance is set to zero if it is in surplus.

Figure 5. Mexico: Fiscal Development

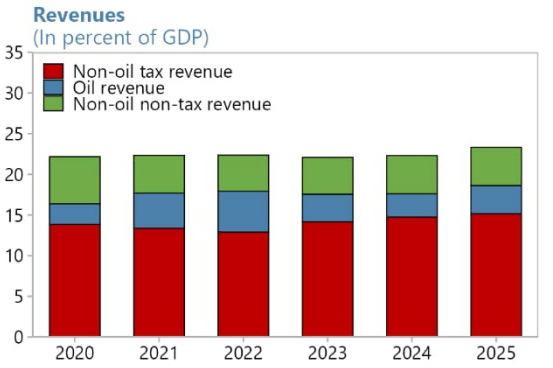
Fiscal consolidation has continued...



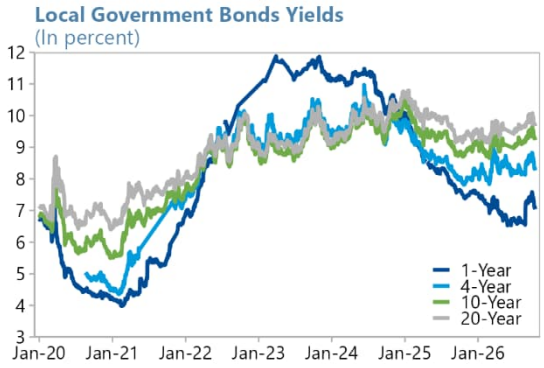
...led by cuts to capital spending...



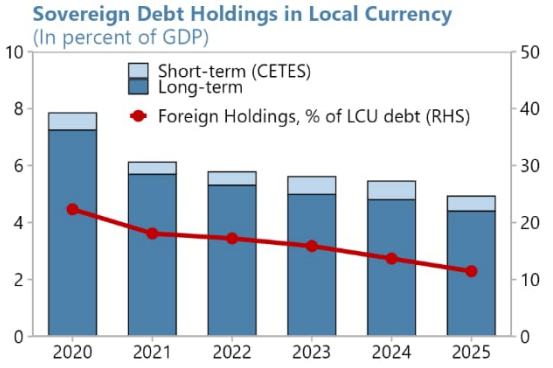
...and revenue gains from tax administration.



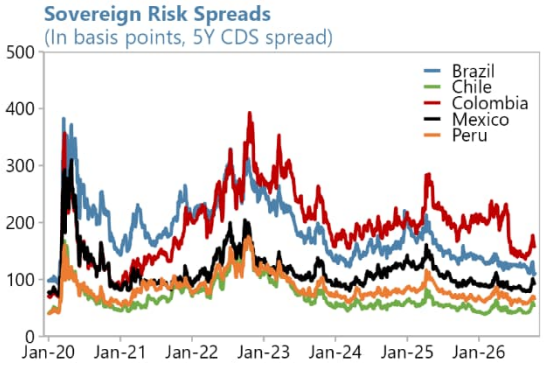
The yield curve has steepened as short-term yields have declined.



Foreign participation in sovereign debt holdings continue declining,...



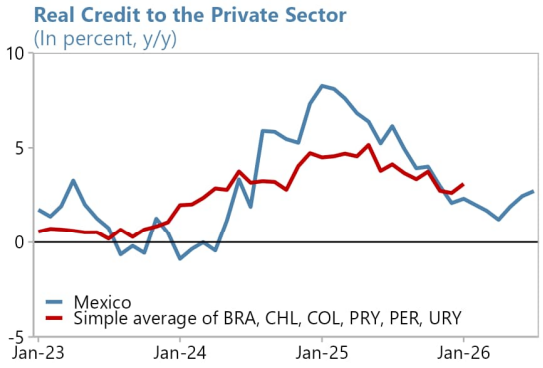
... while spreads have remained low.



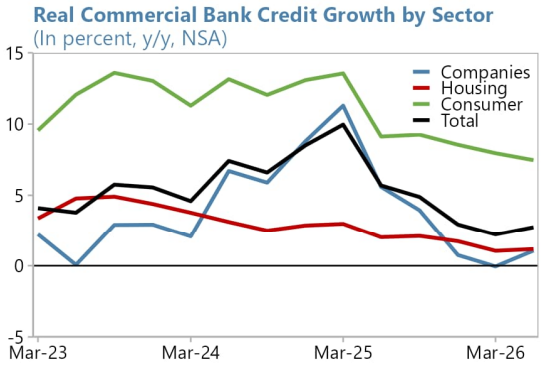
Sources: SHCP; Banxico; IMF WEO; Bloomberg; Haver Analytics; IMF staff calculations.

Figure 6. Mexico: Financial Development

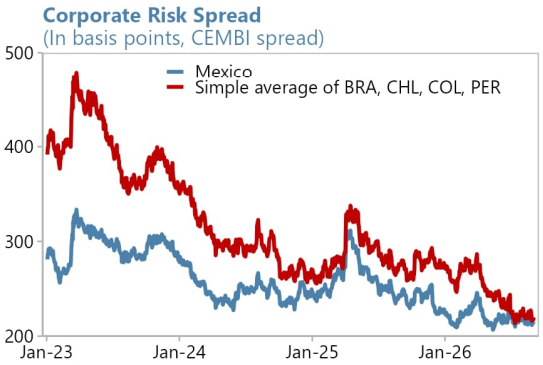
Credit growth has decelerated markedly after a welcome expansion in 2025.



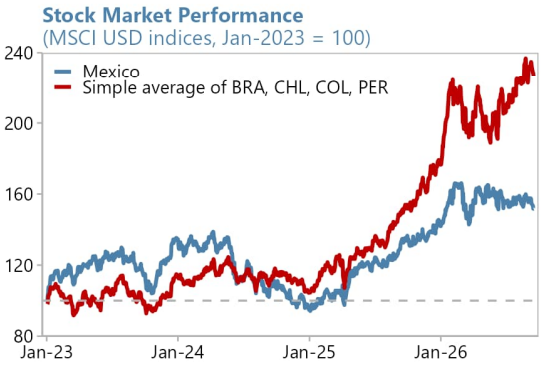
The slowdown is driven by corporate credit, in particular in the manufacturing sector...



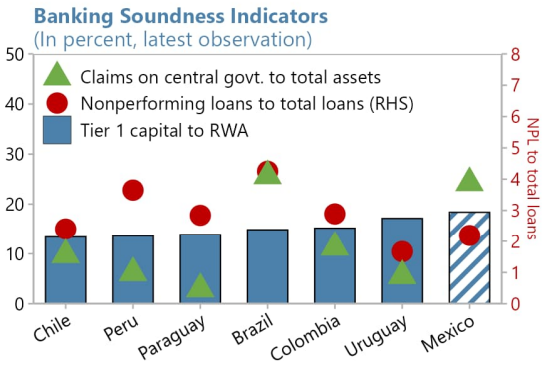
...despite favorable financial conditions.



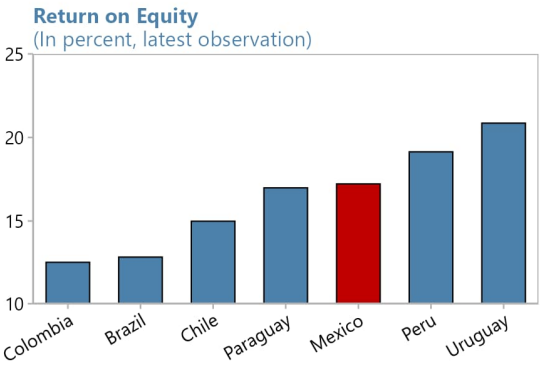
The Mexican stock market has performed well but lags those of peers.



Mexico's banks have strong balance sheets, but high exposure to the sovereign.



Profitability remains robust.

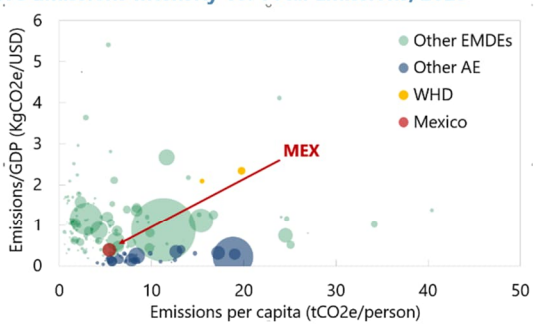


Sources: Haver Analytics; Banxico; Bloomberg; IMF MFS; IMF FSI; IMF staff calculations.

Figure 7. Mexico: Climate Exposure, Energy, and Emissions

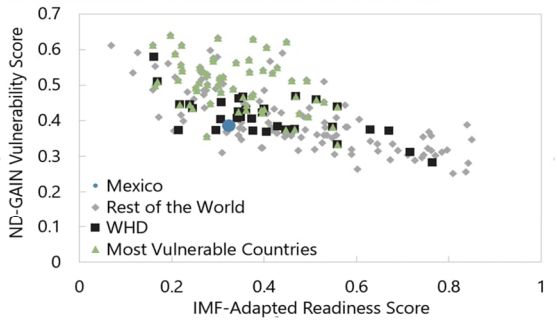
Mexico's emissions intensity is relatively low, compared to the region and other EMDEs.

GHG Emissions Intensity Vs. Total Emissions, 2023 [1/]



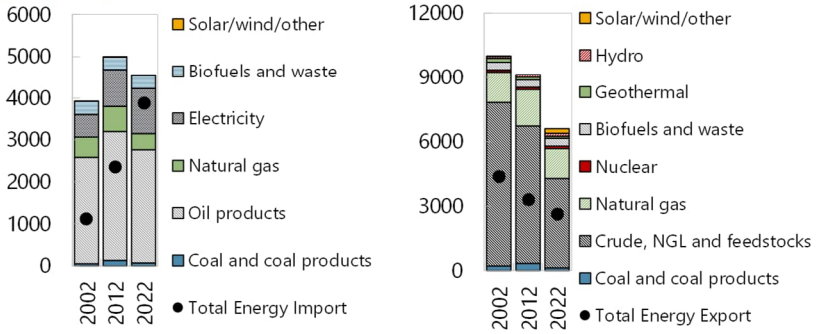
The country is vulnerable to climate risks and its readiness to address these risks lags other countries.

Climate Risks and Readiness (ND-GAIN, 2023) [2/]



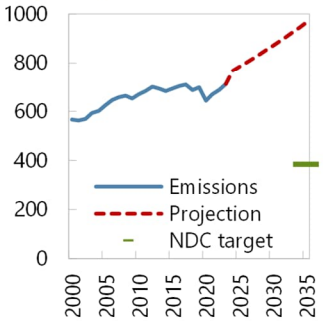
Mexico is a net crude oil exporter, more than compensated by gasoline imports, and a net gas importer, with renewables at 22 percent of the energy mix.

Energy Mix: Consumption (Left) and Production (Right)
(Petajoules)



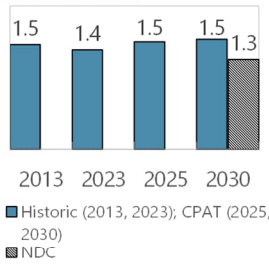
Mexico's deviation from NDC target remains significant.

GHG Emissions and NDC Targets [3/]
(Megatons)



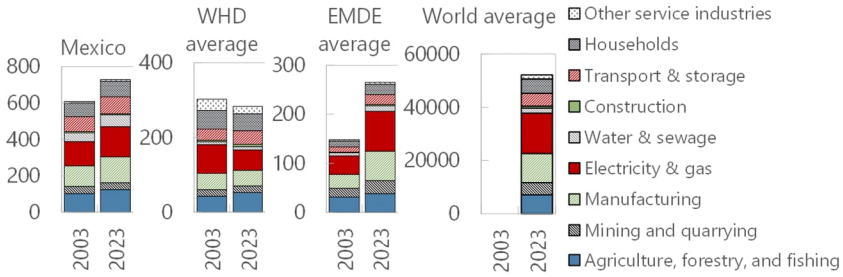
Mexico contributes with 1.5% of global emissions.

Contribution to Global Emissions
(Percent of total)



Emissions are spread across sectors, with electricity and gas emitting the most.

GHG Emissions by Sector [4/]
(MtCO2e)



Sources: IMF Macroeconomic Climate Indicators Dashboard (2023); WEO (2023); UNFCCC; EDGAR; FAO; IMF staff calculations; EMDAT; Pondi and others (2025); IEA World Energy Balances; OECD Air Emission Accounts.
1/ Bubble size = total GHG emissions excluding land-use and land-use change and forestry. Palau is excluded.
2/ Vulnerability Score assesses current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. Readiness Score assesses readiness to leverage public and private sector investment for adaptative actions.
3/ GHG emissions exclude land use, land-use change and forestry.
4/ GHG emissions exclude land-use and land-use change and forestry. Rather than presenting the air emission by UNFCCC sector, the chart classifies emissions by economic activity.

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

	2022	2023	2024	2025	Proj. 2026	2027	2028	2029	2030	2031
Annual percentage change, unless otherwise indicated										
National accounts (in real terms)										
GDP	3.7	3.1	1.5	0.5	1.5	1.8	2.2	2.1	2.1	2.1
Consumption	4.4	3.9	3.0	1.1	1.2	1.8	2.2	2.1	2.0	2.0
Private	4.8	4.2	2.8	1.0	1.0	1.7	2.2	2.0	1.9	1.9
Public	2.0	2.4	3.7	1.3	2.6	2.0	2.4	2.4	2.4	2.4
Investment	7.3	12.7	4.4	-6.3	0.3	4.0	4.0	4.0	4.0	4.0
Fixed	7.5	13.8	3.9	-6.3	0.2	4.0	4.0	4.1	4.1	4.1
Private	7.5	12.4	0.2	-3.3	-0.9	4.3	4.3	4.4	4.4	4.4
Public	7.2	25.2	30.2	-22.7	7.7	2.0	2.2	2.1	2.0	2.0
Inventories 1/	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	9.5	-7.1	3.5	6.9	8.6	4.7	4.3	4.0	4.0	4.1
Imports of goods and services	8.6	4.8	3.8	3.7	10.6	4.7	4.8	4.4	4.4	4.4
GDP per capita	2.9	2.2	0.6	-0.3	0.7	1.0	1.5	1.5	1.5	1.5
External sector										
External current account balance (in percent of GDP)	-1.0	-0.6	-0.9	-0.5	-0.3	-0.5	-0.7	-0.7	-0.8	-0.8
Exports of goods, f.o.b. 2/	16.7	2.6	4.2	7.5	14.0	3.9	4.3	4.7	4.7	4.7
Imports of goods, f.o.b. 2/	19.8	-0.1	5.1	4.4	14.7	4.8	4.6	4.6	4.8	4.8
Net capital flows (in percent of GDP) 3/	-0.9	-0.9	-1.4	-0.9	-0.8	-1.0	-1.1	-1.1	-1.2	-1.2
Terms of trade (goods, improvement +) 4/	-3.3	15.4	0.3	-0.3	1.3	-1.0	0.2	0.4	0.3	0.3
Gross international reserves (in billions of U.S. dollars)	201.1	214.4	232.1	256.2	265.7	276.7	288.1	299.7	310.5	321.0
Exchange rates										
Real effective exchange rate (avg, appreciation +) 4/	5.0	16.3	0.1	-4.1	...	...	...	...	...	...
Nominal exchange rate (MXN/USD) (eop, depreciation +)	-5.7	-12.8	19.8	-11.4	...	...	...	...	...	...
Inflation and employment										
Consumer prices (end-of-period)	7.8	4.7	4.2	3.7	3.6	3.3	3.0	3.0	3.0	3.0
Core consumer prices (end-of-period)	8.3	5.1	3.7	4.3	3.7	3.3	3.0	3.0	3.0	3.0
National unemployment rate (annual average)	3.3	2.8	2.7	2.6	2.8	2.8	2.8	2.8	2.8	2.8
Money and credit										
Financial system credit to non-financial private sector 5/	10.9	8.7	11.3	6.8	6.2	6.2	5.9	5.8	5.7	5.7
Broad money	7.3	11.0	13.8	8.8	6.2	6.2	5.9	5.7	5.6	5.7
Monetary policy rate	10.50	11.25	10.00	7.00	6.50	6.50	6.00	6.00	6.00	6.00
Public sector finances (in percent of GDP) 6/										
General government revenue	24.2	24.3	24.9	25.0	24.9	25.0	24.6	24.5	24.5	24.4
General government expenditure 7/	28.5	28.6	30.7	29.8	29.1	28.8	28.2	28.0	27.8	27.5
Overall fiscal balance (IMF definition) 7/	-4.3	-4.3	-5.8	-4.9	-4.2	-3.9	-3.6	-3.5	-3.3	-3.1
Overall fiscal balance (Authorities' definition)	-4.3	-4.3	-5.8	-4.3	-4.1	-3.9	-3.7	-3.6	-3.4	-3.2
Primary fiscal balance	0.7	1.5	0.2	1.2	1.7	1.8	1.9	1.9	2.0	2.2
Structural primary balance	0.8	1.5	0.1	1.6	1.8	2.0	2.0	1.9	2.0	2.2
Fiscal impulse 8/	0.3	-0.6	1.3	-1.5	-0.2	-0.2	-0.1	0.1	-0.1	-0.2
Gross public sector debt (IMF definition) 9/	53.8	52.7	59.0	61.7	62.1	62.9	63.4	64.0	64.3	64.5
Gross public sector debt (Authorities' definition)	53.8	52.7	59.0	60.7	61.1	62.1	62.8	63.6	64.1	64.4
Memorandum items										
Nominal GDP (billions of pesos)	29,526	31,871	33,583	35,302	37,475	39,803	42,160	44,575	47,081	49,750
Output gap (in percent of potential GDP)	0.0	1.0	0.4	-0.6	-0.6	-0.4	-0.1	0.0	0.0	0.0

Sources: World Bank Development Indicators, National Institute of Statistics and Geography, Office of the President of Mexico, Bank of Mexico, Secretariat of Finance and Public Credit, and Fund staff estimates.
1/ Contribution to growth. Excludes statistical discrepancy.
2/ Excludes goods procured in ports by carriers.
3/ Excludes reserve assets.
4/ Based on IMF staff calculations.
5/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.
6/ Data exclude state and local governments and include state-owned enterprises and public development banks.
7/ Includes Pemex's Fondo de Pago a Proveedores (FPP), in accordance with GFSM guidelines.
8/ Negative of the change in the structural primary fiscal balance.
9/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of borrowing requirements published by the authorities plus public sector financial assets. Includes the SPV that issued pre-capitalized notes (P-Caps) to support Pemex and the FPP, in accordance with GFSM guidelines. Other accounts payable, including those of state-owned enterprises, are not included.

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

					Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Budgetary Revenue, By Type	22.4	22.1	22.3	23.3	22.7	22.9	22.6	22.5	22.5	22.5
Oil revenue 2/	5.0	3.4	2.9	3.5	3.1	2.6	2.4	2.4	2.4	2.4
Non-oil tax revenue	12.9	14.2	14.7	15.2	15.1	15.5	15.6	15.6	15.5	15.5
Non-oil non-tax revenue	4.4	4.5	4.7	4.7	4.5	4.8	4.6	4.6	4.6	4.6
Budgetary Revenue, By Entity	22.4	22.1	22.3	23.3	22.7	22.9	22.6	22.5	22.5	22.5
Federal government revenue	16.2	16.4	16.5	17.1	17.0	17.3	17.2	17.2	17.1	17.1
Tax revenue, *of which:*	12.9	14.2	14.8	15.2	15.1	15.5	15.6	15.6	15.5	15.5
Excises (including fuel)	0.4	1.4	1.9	1.9	1.8	1.9	2.0	2.0	2.0	2.0
Nontax revenue	3.3	2.2	1.7	1.9	1.9	1.8	1.6	1.6	1.6	1.6
Public enterprises	6.1	5.7	5.8	6.3	5.7	5.6	5.4	5.4	5.4	5.4
PEMEX	2.8	2.3	2.2	2.8	2.2	2.1	1.9	1.9	1.9	1.9
Other	3.3	3.4	3.6	3.5	3.4	3.5	3.5	3.5	3.5	3.5
Budgetary Expenditure	25.6	25.5	27.3	27.2	26.3	26.3	25.8	25.6	25.4	25.2
Primary	22.8	22.2	23.9	23.5	22.7	22.8	22.4	22.5	22.5	22.4
Programmable	19.2	18.5	20.0	19.6	18.7	18.8	18.4	18.6	18.7	18.5
Current	14.9	14.9	16.1	16.0	16.0	15.9	15.9	16.0	16.2	16.3
Wages	4.8	4.8	5.1	5.1	5.1	5.1	5.1	5.2	5.2	5.3
Pensions 3/	4.0	4.1	4.3	4.6	4.6	4.6	4.7	4.8	4.9	5.0
Subsidies and transfers	3.2	3.5	3.9	3.8	4.0	4.0	3.9	3.9	3.9	3.9
Other	2.8	2.5	2.8	2.6	2.3	2.2	2.1	2.2	2.2	2.1
Capital	4.3	3.6	4.0	3.6	2.7	2.8	2.6	2.6	2.5	2.2
Physical capital	3.2	2.8	3.1	2.2	2.2	2.6	2.4	2.4	2.3	2.0
Financial capital 2/ 4/	1.2	0.8	0.9	1.4	0.5	0.2	0.2	0.2	0.2	0.2
Nonprogrammable	3.6	3.7	3.8	3.9	4.0	4.1	4.0	3.9	3.9	3.9
Of which: revenue sharing	3.6	3.6	3.7	3.8	3.8	3.9	3.7	3.7	3.7	3.7
Interest Payments	2.8	3.3	3.4	3.7	3.6	3.6	3.5	3.5	3.5	3.5
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.4	-0.6	-0.7
Traditional Balance	-3.2	-3.3	-5.0	-3.8	-3.6	-3.4	-3.2	-3.1	-2.9	-2.7
Adjustments To The Traditional Balance	-1.1	-1.0	-0.8	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Public Sector Borrowing Requirements (Authorities' definition)	4.3	4.3	5.8	4.3	4.1	3.9	3.7	3.6	3.4	3.2
Public Sector Borrowing Requirements (IMF definition) 5/	4.3	4.3	5.8	4.9	4.2	3.9	3.6	3.5	3.3	3.1
Memorandum Items										
Structural current spending	9.9	10.0	11.0	10.8						
Structural current spending real growth (y/y, in percent)	4.1	4.6	10.9	-1.3						

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 support for Pemex for debt buybacks amounting to 253.8 billion pesos (0.7 percent of GDP) in 2025.
3/ Includes social assistance benefits.
4/ Due to lack of disaggregated data this item includes both financing and capital transfers.
5/ Includes Pemex's Fondo de Pago a Proveedores (FPP) in accordance with GFSM guidelines.

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

					Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	24.2	24.3	24.9	25.0	24.9	25.0	24.6	24.5	24.5	24.4
Taxes	13.3	14.2	14.8	15.2	15.1	15.5	15.6	15.6	15.5	15.5
Taxes on income, profits and capital gains	7.7	7.9	8.0	8.2	7.9	8.2	8.2	8.2	8.2	8.2
Taxes on goods and services	5.0	5.7	6.1	6.2	6.3	6.3	6.4	6.4	6.3	6.3
Value added tax	4.1	4.3	4.2	4.2	4.4	4.4	4.4	4.3	4.3	4.3
Excises	0.8	1.4	1.9	1.9	1.8	1.9	2.0	2.0	2.0	2.0
Taxes on international trade and transactions	0.3	0.3	0.4	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Other taxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social Contributions	2.3	2.4	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Other Revenue	8.6	7.8	7.7	7.3	7.3	6.8	6.3	6.3	6.3	6.2
Property income	2.8	1.8	1.5	1.6	1.7	1.6	1.4	1.4	1.4	1.4
Other	5.8	5.9	6.1	5.7	5.6	5.3	4.9	4.9	4.9	4.8
Total Expenditure	28.5	28.6	30.7	29.8	29.1	28.8	28.2	28.0	27.8	27.5
Expense	26.3	26.7	28.5	27.9	27.3	27.0	26.8	26.7	26.9	27.0
Compensation of employees	3.3	3.2	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Purchases of goods and services	3.0	2.7	3.0	2.7	2.4	2.2	2.2	2.2	2.2	2.2
Interest 2/	5.4	6.2	6.5	6.6	6.3	6.1	6.0	5.8	5.7	5.7
Subsidies and transfers	2.9	2.9	3.5	3.0	3.2	3.2	3.1	3.1	3.1	3.1
Grants 3/	7.6	7.6	7.7	7.6	7.6	7.7	7.5	7.5	7.5	7.5
Social benefits	4.0	4.1	4.3	4.6	4.6	4.6	4.7	4.8	4.9	5.0
Other expense	0.2	0.0	0.0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.1	0.0
Net Acquisition of Nonfinancial Assets 4/	2.2	1.8	2.2	1.9	1.8	1.9	1.6	1.7	1.5	1.3
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.4	-0.6	-0.7
Gross Operating Balance	-2.1	-2.5	-3.6	-2.9	-2.5	-2.0	-2.2	-2.3	-2.4	-2.6
Overall Fiscal Balance (Net lending/borrowing, IMF definition) 5/	-4.3	-4.3	-5.8	-4.9	-4.2	-3.9	-3.6	-3.5	-3.3	-3.1
Primary Net Lending/Borrowing	0.7	1.5	0.2	1.2	1.7	1.8	1.9	1.9	2.0	2.2
Memorandum Items										
Primary expenditure	23.2	22.4	24.2	23.2	22.8	22.8	22.2	22.2	22.1	21.9
Current expenditure	26.3	26.7	28.5	27.9	27.3	26.9	26.6	26.4	26.3	26.3
Structural fiscal balance	-4.2	-4.3	-5.8	-4.5	-4.1	-3.7	-3.6	-3.5	-3.3	-3.0
Structural primary balance 6/	0.8	1.5	0.1	1.6	1.8	2.0	2.0	1.9	2.0	2.2
Fiscal impulse 7/	0.3	-0.6	1.3	-1.5	-0.2	-0.2	-0.1	0.1	-0.1	-0.2
Gross public sector debt (IMF definition) 8/	53.8	52.7	59.0	61.7	62.1	62.9	63.4	64.0	64.3	64.5
In domestic currency (percentage of total debt)	72.9	77.9	77.0	78.8	80.0	80.2	81.2	81.7	82.4	82.5
In foreign currency (percentage of total debt)	27.1	22.1	23.0	21.2	20.0	19.8	18.8	18.3	17.6	17.5
Gross public sector debt (Authorities' definition)	53.8	52.7	59.0	60.7	61.1	62.1	62.8	63.6	64.1	64.4
Net public sector debt (IMF definition) 9/	47.6	46.6	51.9	53.2	53.6	54.5	55.2	55.8	56.3	56.5
Net public sector debt (Authorities' definition)	47.6	46.6	51.9	52.6	52.9	53.9	54.7	55.5	56.0	56.3

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/ Includes Pemex's Fondo de Pago a Proveedores (FPP), in accordance with GFSM guidelines.

6/ 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.

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

8/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of borrowing requirements published by the authorities plus public sector financial assets. Includes the SPV that issued pre-capitalized notes (P-Caps) to support Pemex and the FPP, in accordance with GFSM guidelines. Other accounts payable, including those of state-owned enterprises, are not included.

9/ Corresponds to the net stock of public sector borrowing requirements (i.e., net of public sector financial assets) as published by the authorities. Includes the SPV that issued pre-capitalized notes (P-Caps) to support Pemex and the FPP, in accordance with GFSM guidelines. Other accounts payable, including those of state-owned enterprises, are not included.

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

					Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current account	-15.0	-10.2	-16.8	-9.4	-6.9	-11.5	-16.4	-17.3	-20.2	-22.0
Merchandise goods trade balance	-28.1	-12.3	-18.4	0.2	-4.4	-11.6	-14.7	-14.4	-15.5	-16.5
Exports, f.o.b. 1/	577.7	593.0	617.8	664.3	757.0	786.1	820.1	859.0	899.5	942.0
o/w Manufactures	508.4	528.8	554.4	608.6	626.2	661.7	694.0	728.8	763.2	799.3
o/w Petroleum and derivatives 2/	38.9	33.2	29.0	21.2	31.1	28.0	25.7	26.1	26.5	26.9
Imports, f.o.b. 1/	605.8	605.3	636.2	664.1	761.4	797.8	834.8	873.4	915.0	958.6
o/w Petroleum and derivatives 2/	75.3	58.6	50.1	46.8	68.9	64.0	58.7	60.1	61.5	63.0
Services, net	-11.8	-17.3	-9.5	-13.0	-14.5	-17.5	-20.1	-22.1	-24.1	-25.9
Primary income, net	-33.8	-43.7	-53.4	-58.8	-53.3	-51.5	-54.1	-56.5	-59.5	-62.2
Secondary income (mostly remittances), net	58.9	63.1	64.6	62.2	65.3	69.1	72.4	75.6	78.9	82.6
Capital Account, net	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Account (Net lending (+)/Net borrowing (-))	-14.3	-7.9	-12.2	-4.4	-7.0	-11.6	-16.5	-17.4	-20.2	-22.0
Foreign direct investment, net	-21.8	-29.9	-32.5	-31.6	-32.7	-34.0	-38.0	-41.7	-44.0	-46.8
Net acquisition of financial assets	17.4	0.8	13.0	13.0	13.2	14.2	15.2	16.2	17.0	17.7
Net incurrence of liabilities	39.2	30.7	45.5	44.6	45.9	48.2	53.2	57.9	61.0	64.4
Portfolio investment, net	5.5	11.3	8.1	15.1	14.1	13.2	17.6	12.5	13.2	15.2
Net acquisition of financial assets	0.1	4.9	14.3	21.0	24.6	25.8	26.3	26.9	27.9	29.3
Net incurrence of liabilities	-5.4	-6.4	6.2	5.9	10.5	12.6	8.8	14.4	14.8	14.1
Public Sector 3/	1.6	2.9	8.3	4.6	19.4	15.0	9.7	15.2	15.7	14.9
Private sector 4/	-7.0	-9.3	-2.1	1.3	-8.9	-2.4	-0.9	-0.9	-0.9	-0.9
Securities	-2.4	-4.1	3.2	6.0	-9.3	1.5	1.5	1.5	1.5	1.5
Equity	-4.7	-5.2	-5.3	-4.7	-4.6	-3.9	-2.4	-2.4	-2.4	-2.4
Financial derivatives, net	2.9	5.6	0.7	3.9	0.4	0.4	0.4	0.4	0.4	0.4
Other investments, net	0.8	-2.5	-2.4	-3.1	1.7	-2.1	-7.8	-0.2	-0.6	-1.3
Net acquisition of financial assets	4.9	-8.0	1.1	1.7	6.9	3.4	-2.0	6.1	5.9	5.5
Net incurrence of liabilities	4.2	-5.6	3.5	4.8	5.1	5.5	5.9	6.3	6.5	6.8
Change in Reserves Assets	-1.7	7.6	13.9	11.4	9.5	11.0	11.4	11.6	10.8	10.5
Total change in gross reserves assets	-6.6	13.3	17.6	24.1	9.5	11.0	11.4	11.6	10.8	10.5
Valuation change	-4.9	5.7	3.8	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.7	2.3	4.6	5.0	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, net	-613.4	-757.8	-571.1	-620.2	-610.8	-613.9	-621.6	-629.7	-640.4	-652.7
Memorandum items										
Hydrocarbons exports volume growth (in percent)	-2.0	6.5	-12.2	-14.8	0.9	1.0	1.5	1.5	1.5	1.5
Non-hydrocarbons exports volume growth (in percent)	8.5	-7.3	3.3	7.6	8.8	4.8	4.3	4.1	4.1	4.1
Hydrocarbons imports volume growth (in percent)	-8.3	-6.3	-1.3	6.9	1.0	1.2	2.3	2.3	2.4	2.4
Non-hydrocarbons imports volume growth (in percent)	8.2	4.8	4.4	3.6	10.9	4.7	4.8	4.4	4.4	4.4
Crude oil export volume (in millions of bbl/day) 5/	0.97	1.06	0.87	0.66	0.65	0.66	0.69	0.71	0.74	0.76
Gross international reserves (in billions of U.S. dollars)	201.1	214.4	232.1	256.2	265.7	276.7	288.1	299.7	310.5	321.0

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

1/ Excludes goods procured in ports by carriers.

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

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 1/
(In percent of GDP)

					Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current account	-1.0	-0.6	-0.9	-0.5	-0.3	-0.5	-0.7	-0.7	-0.8	-0.8
Merchandise goods trade balance	-1.9	-0.7	-1.0	0.0	-0.2	-0.5	-0.6	-0.6	-0.6	-0.6
Exports, f.o.b. 2/	39.4	33.0	33.7	36.2	34.8	34.0	33.8	33.8	33.9	33.9
o/w Manufactures	34.7	29.5	30.2	33.2	28.8	28.6	28.6	28.7	28.8	28.8
o/w Petroleum and derivatives 3/	2.7	1.8	1.6	1.2	1.4	1.2	1.1	1.0	1.0	1.0
Imports, f.o.b. 2/	41.3	33.7	34.7	36.2	35.0	34.5	34.4	34.4	34.5	34.5
o/w Petroleum and derivatives 3/	5.1	3.3	2.7	2.6	3.2	2.8	2.4	2.4	2.3	2.3
Services, net	-0.8	-1.0	-0.5	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9
Primary income, net	-2.3	-2.4	-2.9	-3.2	-2.5	-2.2	-2.2	-2.2	-2.2	-2.2
Secondary income (mostly remittances), net	4.0	3.5	3.5	3.4	3.0	3.0	3.0	3.0	3.0	3.0
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 (-))	-1.0	-0.4	-0.7	-0.2	-0.3	-0.5	-0.7	-0.7	-0.8	-0.8
Foreign direct investment, net	-1.5	-1.7	-1.8	-1.7	-1.5	-1.5	-1.6	-1.6	-1.7	-1.7
Net acquisition of financial assets	1.2	0.0	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Net incurrence of liabilities	2.7	1.7	2.5	2.4	2.1	2.1	2.2	2.3	2.3	2.3
Portfolio investment, net	0.4	0.6	0.4	0.8	0.6	0.6	0.7	0.5	0.5	0.5
Net acquisition of financial assets	0.0	0.3	0.8	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Net incurrence of liabilities	-0.4	-0.4	0.3	0.3	0.5	0.5	0.4	0.6	0.6	0.5
Public Sector 4/	0.1	0.2	0.5	0.3	0.9	0.6	0.4	0.6	0.6	0.5
Private sector 5/	-0.5	-0.5	-0.1	0.1	-0.4	-0.1	0.0	0.0	0.0	0.0
Securities	-0.2	-0.2	0.2	0.3	-0.4	0.1	0.1	0.1	0.1	0.1
Equity	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Financial derivatives, net	0.2	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	0.1	-0.1	-0.1	-0.2	0.1	-0.1	-0.3	0.0	0.0	0.0
Net acquisition of financial assets	0.3	-0.4	0.1	0.1	0.3	0.1	-0.1	0.2	0.2	0.2
Net incurrence of liabilities	0.3	-0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Change in Reserves Assets	-0.1	0.4	0.8	0.6	0.4	0.5	0.5	0.5	0.4	0.4
Total change in gross reserves assets	-0.5	0.7	1.0	1.3	0.4	0.5	0.5	0.5	0.4	0.4
Valuation change	-0.3	0.3	0.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.1	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, net	-41.8	-42.2	-31.1	-33.8	-28.1	-26.5	-25.6	-24.8	-24.1	-23.5

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

1/ Ratios to GDP are based on IMF staff calculations.

2/ Excludes goods procured in ports by carriers.

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

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

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

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

	2022	2023	2024	2025	2026	Latest data available 1/
Capital Adequacy						
Regulatory capital to risk-weighted assets	19.0	18.8	19.1	20.2	20.3	March
Regulatory Tier 1 capital to risk-weighted assets	17.6	17.5	17.2	18.2	18.4	March
Capital to assets	9.8	10.2	9.9	10.5	10.9	March
Gross asset position in financial derivatives to capital	62.8	44.5	35.6	27.1	26.6	March
Gross liability position in financial derivatives to capital	63.0	41.4	37.6	28.2	28.1	March
Asset Quality						
Nonperforming loans to total gross loans	2.1	2.1	2.0	2.2	2.2	March
Provisions to Nonperforming loans	158.1	154.3	156.6	148.4	n.a.	December
Earnings And Profitability						
Return on assets	2.6	2.8	2.8	2.7	2.8	March
Return on equity	17.6	18.5	18.2	17.3	17.2	March
Liquidity						
Liquid assets to short-term liabilities	124.3	121.8	108.0	120.2	111.5	March
Liquid assets to total assets	30.1	29.7	30.4	31.3	30.3	March
Customer deposits to total (non-interbank) loans	106.3	105.6	102.4	101.9	101.7	March
Trading income to gross income	9.5	9.7	7.4	7.3	5.4	March

Source: Financial Soundness Indicators.
1/ End of period.

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

	2022	2023	2024	2025	2026	Latest data available
Financial Market Indicators						
Exchange rate (per U.S. dollar, period average)	20.1	17.8	18.3	19.2	17.4	Aug-26
(year-to-date percent change, + appreciation)	0.7	11.7	-3.0	-5.0	11.4	Aug-26
28-day treasury auction rate (percent; period average)	7.6	11.1	10.7	8.1	6.6	Aug-26
EMBIG Mexico spread (basis points; period average)	404.5	377.7	319.2	277.2	210.4	Aug-26
Sovereign 10-year local currency bond yield (period average)	8.8	9.1	9.7	9.3	9.1	Aug-26
Stock exchange index (period average, year on year percent change)	1.3	6.3	1.3	6.6	23.3	Aug-26
Financial System						
Bank of Mexico net international reserves (US$ billion)	199.1	212.8	229.0	251.9	261.4	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	10.9	8.7	11.3	6.8	6.2	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.1	2.1	2.0	2.2	n.a.	Dec-25
External Vulnerability Indicators						
Gross financing needs (billions of US$) 2/	63.4	83.1	95.8	98.8	81.0	Proj.
Gross international reserves (end-year, billions of US$) 3/	201.1	214.4	232.1	256.2	266.0	Aug-26
Change (billions of US$)	-6.6	13.3	17.6	24.1	17.0	Aug-26
Months of imports of goods and services	3.6	3.8	3.9	4.1	3.8	Proj.
Months of imports plus interest payments	3.5	3.6	3.7	4.0	3.6	Proj.
Percent of broad money	31.8	26.5	31.0	27.3	25.2	Proj.
Percent of portfolio liabilities	41.9	39.8	49.6	46.3	46.2	Proj.
Percent of short-term debt (by residual maturity)	292.5	303.5	293.6	303.5	288.6	Proj.
Percent of ARA Metric 4/	122.7	117.8	135.2	130.5	128.9	Proj.
Percent of GDP	13.7	11.9	12.6	14.0	12.4	Aug-26
Gross total external debt (in percent of GDP)	31.0	26.1	24.7	27.3	24.4	Proj.
Of which: Public debt	20.6	17.6	16.4	18.2	16.6	Proj.
Of which: Private debt	10.4	8.4	8.4	9.1	7.8	Proj.
Gross total external debt (billions of US$)	454.7	468.0	454.0	501.1	531.5	Proj.
Of which: Public debt	302.4	316.6	300.7	333.7	361.5	Proj.
Of which: Private debt	152.4	151.3	153.3	167.4	170.0	Proj.
External debt service (in percent of GDP)	5.8	5.6	5.7	6.0	4.9	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 SDR 2.337 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)

	2022	2023	2024	2025	Proj. 2026
Banco De México					
Net foreign assets	3,640	3,383	4,536	4,629	4,539
Net international reserves	3,923	3,632	4,832	4,617	4,526
Gross international reserves 2/	3,923	3,632	4,832	4,617	4,526
Reserve liabilities	0	0	0	0	0
Other net foreign assets	-282	-248	-296	11	13
Net domestic assets	-932	-417	-1,223	-793	-775
Net domestic credit	-1,143	-1,054	-993	-1,002	-1,205
Net credit to non-financial public sector	-1,045	-1,034	-1,035	-1,149	-1,222
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-98	-20	42	147	18
Net claims on other depository corporations	-98	-20	42	147	18
Net claims on other financial corporations	0	0	0	0	0
Capital account	-288	-729	109	-320	-532
Other items net	-77	-91	-121	-111	-102
Monetary base	2,700	2,960	3,293	3,545	3,764
Other Depository Corporations					
Net foreign assets	287	331	470	428	454
Foreign assets	1,104	1,133	1,713	1,478	1,569
Foreign liabilities	817	802	1,243	1,050	1,115
Net domestic assets	10,592	11,671	13,328	14,337	15,825
Net credit to the public sector	4,588	5,123	6,037	6,680	7,386
Claims on non-financial public sector	5,096	5,621	6,638	7,413	8,160
in pesos	4,893	5,435	6,415	7,235	7,969
in FX	204	186	223	178	191
Liabilities to the nonfinancial public sector	508	498	601	734	774
Credit to the private sector	7,675	8,073	9,026	9,554	10,146
Local Currency	6,823	7,188	7,798	8,438	9,236
Foreign Currency	852	884	1,228	1,116	911
Net credit to the financial system	1,094	1,044	1,079	925	1,036
Other	-2,765	-2,569	-2,814	-2,822	-2,743
Liabilities to the private sector	10,879	12,002	13,797	14,765	16,279
Liquid liabilities	9,840	10,963	12,534	13,660	15,076
Local currency	9,068	10,245	11,690	12,842	14,246
Foreign currency	772	718	844	818	830
Non liquid liabilities	1,039	1,039	1,263	1,104	1,204
Local currency	981	980	1,190	1,042	1,141
Foreign currency	57	59	73	62	63
Depository Corporations					
Net foreign assets	3,922	3,711	4,999	4,771	4,993
Net domestic assets	9,656	11,250	12,091	13,538	15,050
Liquid liabilities	12,540	13,923	15,828	17,205	18,839
Non-liquid liabilities	1,039	1,039	1,263	1,104	1,204
Memorandum Items					
Monetary base (percent change)	10.6	9.6	11.2	7.6	6.2
Currency in circulation (percent change)	11.1	9.5	11.7	7.8	6.2
Broad money (percent change)	7.3	11.0	13.8	8.8	6.2
Bank credit to the non-financial private sector (growth rate)	10.1	5.2	11.8	5.8	6.2
Bank credit to the non-financial private sector (as percent of GDP)	26.0	25.3	26.9	27.1	27.1

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.

Table 8. Mexico: Capacity to Repay Indicators under FCL Drawing Scenario 1/

	2026	2027	2028	2029	2030	2031
Exposure and Repayments in SDR millions						
GRA credit to Mexico	13,369.1	13,369.1	13,369.1	13,369.1	6,684.5	0.0
(In percent of quota)	150.0	150.0	150.0	150.0	75.0	0.0
Charges due on GRA credit 2/	66.9	483.1	496.9	496.5	407.9	161.5
Debt service due on GRA credit 2/	66.9	483.1	496.9	496.5	7,092.5	6,846.0
Debt and Debt Service Ratios 3/						
In percent of GDP						
Total external debt	28.3	28.1	28.1	28.4	28.3	28.2
Public external debt	19.6	18.9	18.3	18.0	17.3	16.6
GRA credit to Mexico	1.0	0.9	0.8	0.8	0.4	0.0
Total external debt service	6.3	5.9	5.2	4.9	5.3	5.0
Public external debt service	2.4	3.1	2.5	2.3	2.7	2.6
Debt service due on GRA credit	0.0	0.0	0.0	0.0	0.4	0.4
In percent of Gross International Reserves						
Total external debt	230.1	239.4	235.6	234.6	235.8	237.4
Public external debt	159.2	160.9	153.2	148.3	143.7	139.5
GRA credit to Mexico	8.1	7.6	7.1	6.7	3.2	0.0
In percent of Exports of Goods and Services						
Total external debt service	14.2	14.5	12.7	12.0	12.8	12.2
Public external debt service	5.4	7.7	6.1	5.7	6.7	6.3
Debt service due on GRA credit	0.0	0.1	0.1	0.1	1.0	0.9
In percent of Government Fiscal Revenue						
Total external debt service	25.1	23.5	21.0	20.0	21.3	20.5
Public external debt service	9.5	12.5	10.1	9.5	11.1	10.5
Debt service due on GRA credit	0.0	0.1	0.1	0.1	1.7	1.5
In percent of Total External Debt						
GRA credit to Mexico	3.5	3.2	3.0	2.8	1.4	0.0
In percent of Public External Debt						
GRA credit to Mexico	5.1	4.7	4.6	4.5	2.2	0.0

Sources: Mexican authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings under the FCL upon the mid-term review (at the proposed access level of 150 percent of quota). The Mexican authorities have expressed their intention to treat the arrangement as precautionary.
2/ Includes surcharges under the system currently in force, service charges and interest on SDRs.
3/ Based on the downside scenario. External debt ratios (to GDP, gross international reserves, and exports of goods and services) are adjusted for the impact of the assumed FCL drawing.

Annex I. External Sector Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account (CA) deficit is expected to narrow slightly to 0.3 percent of GDP in 2026, from 0.5 percent in 2025, yet stabilize at around ¾ percent of GDP over the medium term. Potential Policy Responses: Structural reforms are critical to boost investment in the medium to long term. In addition to boosting growth, this would offset the effect of needed fiscal consolidation and, thus, help maintain external balance. Priorities include addressing infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector. 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 that are likely to be detrimental to the domestic economy. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks, including deeper integration through trade agreements. 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 essential to support external stability.					
Foreign Asset and Liability Position and Trajectory	Background. The NIIP stood at −33.8 percent of GDP at end-2025, compared to −31 percent at end-2024 and −45 percent average during 2019-23. Net flows have increased slightly, but the main driver of change was valuation adjustments stemming from the appreciation of the peso (which led to an increase in the US dollar value of Mexico's external liabilities). In 2025, foreign assets were mostly direct investment (19½ percent of GDP) and international reserves (14 percent of GDP). Foreign liabilities primarily consist of direct investment (47 percent of GDP) and portfolio investment (30¼ percent). Despite the current account remaining in deficit, staff projects the NIIP to gradually improve over the medium term to about -24 percent of GDP due to growth and valuation gains. The latter reflects a positive inflation differential with the US and an external balance sheet with most foreign assets denominated in foreign currency and a sizeable share of foreign liabilities denominated in local currency. 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 vulnerabilities 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.				
2025 (% GDP)	NIIP: −33.8	Gross Assets: 52	Debt Assets: 13	Gross Liab.: 86	Debt Liab.: 35
Current Account	Background. The CA deficit narrowed to about 0.5 percent of GDP in 2025, compared to 0.9 percent of GDP in 2024, primarily reflecting an improvement in the trade balance amid strong manufacturing exports and a weak domestic cyclical position. From a saving–investment perspective, the change was driven by weak domestic investment amid cyclical softness and heightened uncertainty, alongside stable national saving. The stronger trade balance was partly offset by slightly lower secondary income, driven by weaker remittances, and a larger primary income deficit, reflecting higher foreign firms' retained earnings. The CA balance is projected to remain broadly at this level in 2026 and to stabilize at around −¾ percent of GDP over the medium term as uncertainties ease and investment picks up. Assessment. The EBA model estimates a cyclically adjusted CA balance of -0.7 percent of GDP and a CA norm of −0.7 percent of GDP. Based on the CA model, staff estimates the 2025 CA gap at a midpoint of 0.1 percent of GDP, with a range of −0.3 to 0.5 percent of GDP. The overall contribution from identified policy gaps is assessed to be zero, as the negative contribution from the credit gap (reflecting that Mexico's negative credit gap is narrower than those abroad) is offset by positive contributions from other policy gaps, including fiscal policy. While the contribution of Mexico's domestic fiscal policy gap to the CA gap is negative (−0.6 percent of GDP), its overall contribution is positive as Mexico's fiscal policy gap is narrower than the rest of the world.					
2025 (% GDP)	CA: −0.5	Cycl. Adj. CA: −0.7	EBA Norm: −0.7	EBA Gap: 0.1	Staff Adj.: 0	Staff Gap: 0.1
Real Exchange Rate	Background. The REER depreciated by 4.1 percent on average in 2025, broadly mirroring nominal exchange rate movements, partly reflecting trade policy uncertainties. These trends have changed since 2025, amid improving trade prospects for Mexico vis-à-vis competitor countries. As of August 2026, the REER has appreciated by around 12 percent compared to its average 2025 level. Assessment. Consistent with the staff CA gap, staff assesses the REER gap in 2025 to be in the range of -0.9 to 1.7 percent, with a midpoint of 0.4 percent (applying an estimated semi-elasticity of 0.31).					
Capital and Financial Accounts: Flows and Policy Measures	Background. In 2025, Mexico recorded net financial account inflows of 0.2 percent of GDP (lower than the 0.7 percent of GDP registered in 2024), as stable net FDI inflows (1.7 percent of GDP) were offset by higher net portfolio investment outflows (0.8 percent of GDP) and net financial derivatives outflows (0.2 percent of GDP). 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 non-financial 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 regime, with the use of FX intervention only in limited occasions of extreme volatility, in line with their policy framework. At the end of 2025, gross international reserves were $256 billion (14 percent of GDP), up from $232 billion at the end of 2024, mainly reflecting the returns on reserves holdings and valuation changes. Reserves rose further during 2026, reaching $266 billion through August. Assessment. Mexico's foreign currency reserves—at 130.5 percent of the ARA metric and 303.5 percent of short-term debt (at remaining maturity)—remained adequate through end-2025 and into 2026. The Flexible Credit Line arrangement continues to provide an additional buffer, even under the new proposed access of 150 percent of quota.					

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Global Risks			
Intensification of Conflicts and Geopolitical Tensions. Intensified geopolitical tensions, weaker multilateralism, and other factors raise risks of military escalation and renewed or prolonged conflict, including in the Middle East. Further damage to infrastructure, disruptions to trade routes and supply chains, refugee flows, financial frictions, and commodity and financial market volatility weigh on growth and fuel inflation.	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 intermediation.
Protectionism and Trade Disruptions. Tariff increases and nontariff restrictions weigh on growth, and measures targeting upstream sectors or critical inputs generate supply bottlenecks impacting output and prices. Retaliatory measures amplify costs and disrupt global supply chains.	Medium	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. Promote trade diversification to increase Mexico's resilience.
New International Agreements. Trade pacts reduce barriers and uncertainty, supporting investment and growth. Cooperation on services, FDI, and taxation enhances gains and strengthens public finances.	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; take opportunity to diversify trade partnerships.
Renewed Energy Price Pressures. A re-escalation of geopolitical tensions and tighter inventories increase energy prices and volatility, with potential nonlinearities.	High	Medium. Energy and food price shocks contribute to inflation.	Let exchange rate act as a shock absorber. Monetary policy should respond if shocks feed into core inflation

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment of the risks surrounding the baseline: "low" (below 10 percent), "medium" (10-30 percent), and "high" (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Risks	Likelihood	Impact	Policy Response
			or inflation expectations become de-anchored.
Easing geopolitical disruptions, stronger-than-expected energy supply, and slower inventory rebuilding reduce price pressures, supporting growth and lowering inflation.	Medium	Medium. Lower global energy prices and reduced supply-side pressures would reduce price pressures.	Allow lower energy prices to reduce fuel-price support and rebuild fiscal buffers, while adjusting monetary policy only as disinflation becomes firmly established.
Disorderly AI Correction. Elevated market exuberance and concentration around AI unwind abruptly, triggering a sharp market correction, suppressing demand, and tightening financial conditions.	High	Medium. Tighter financial markets affect Mexico through tighter financial conditions and capital outflows. Decline in AI-related investment affects Mexican exports.	Let exchange rate act as a shock absorber.
AI-driven Demand. An accelerated upswing in capital spending and strong demand for AI-related hardware further fuel the global tech cycle and financial market valuation, supporting investment, output, and cross-border trade, while also exerting additional upward pressure on prices.	Medium	Medium. Stronger AI-related demand could boost exports in technology-intensive manufacturing sectors, supporting activity and investment.	Addressing key supply-side bottlenecks, strengthening the investment climate and skills to foster greater domestic value addition, while ensuring monetary policy keeps inflation in check if demand-driven inflationary pressures emerge.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficits drive long-term rates higher, tightening financial conditions, amplifying currency volatility, worsening debt dynamics and lifting inflation. These pressures are amplified by leveraged NBFIs and price-sensitive investors in sovereign markets, concentrated rollover needs, and strong sovereign-financial linkages. Concurrently, tighter external conditions trigger capital outflows from EMDEs, pushing short-term rates sharply higher.	High	Medium. Tighter global financial markets affect Mexico through tighter financial conditions and capital outflows, worsening Mexico's own public debt dynamics	Accelerate fiscal consolidation to place debt on a firm downward path, maintain exchange-rate flexibility, and closely monitor liquidity and sovereign-bank risks.
Inflation, Policy Credibility, and De-anchoring Risks. Under renewed inflationary pressures, including second-round effects, perceptions of political	Medium.	Low. Track record of strong central bank inflation targeting framework limits the	Maintain a tight monetary stance and strengthen policy communication to preserve credibility and anchor inflation

Risks	Likelihood	Impact	Policy Response
pressure on independent institutions weaken policy credibility and de-anchor expectations.		impact of a de-anchoring of inflation expectations.	expectations close to the central bank target.
Social Discontent. Persistently high living costs, food and fuel inflation, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms.	Medium	Low. A global wave of social discontent is likely to fall more lightly on Mexico in the current political context.	Increase and improve targeting of social transfers to alleviate stress of vulnerable households while offsetting the fiscal impact through savings in other areas. Accelerate investment plans in low-income regions.
Cyberthreats. Cyberattacks, technical failures, or AI-driven technologies amplify risks to digital infrastructure, disrupting financial intermediation and payment system and undermining confidence.	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	Medium. Climate risks could disrupt energy and food systems, and accelerate asset stranding if global decarbonization speeds up.	Investing in agricultural infrastructure and renewable energy to increase resilience to climate shocks. If lower oil prices create stranded assets, restrict Pemex projects to the most efficient fields.
AI Productivity Gains. Rapid AI adoption boosts productivity and growth, with gains larger and more persistent if policies ease energy and infrastructure constraints, improve access to critical inputs, and facilitate labor reallocation, but with risks of greater market and wealth concentration and inequality.	Medium	Medium. Faster AI adoption could support Mexico's growth and exports, particularly in sectors linked to technology supply chains.	Addressing key supply-side bottlenecks, strengthening the investment climate and skills to foster greater domestic value addition.
Domestic Risks			
Erosion of past fiscal consolidation efforts, leading to a steady increase in public debt and rising sovereign risk premia.	Medium	Medium. The increasing size of AFORES would dampen potential market stress.	Frontload fiscal consolidation efforts and strengthen fiscal framework to enhance credibility of fiscal plans.

Annex III. Key 2022 FSAP Recommendations[1]

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. Banxico published its 2024–27 Cybersecurity Strategy. 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.	Banxico is continuously monitoring contingent credit lines as well as concentration of funding, and conducts liquidity stress tests on both. 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.
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. Banxico implemented liquidity stress tests based on cashflows and maturity ladder, liquidity stress indicators, and 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.	In 2026, the Financial System Stability Council (CESF) published the Macroprudential Policy Strategy for Mexico to foster a better understanding of the country's macroprudential policy governance and framework, which is designed to mitigate systemic risk.

[1] The table complements earlier publications, including FSAP Recommendations listed in the 2025 Article IV Staff Report.

FSAP Recommendations	Development
Financial Sector Oversight	
Consider expanding the macroprudential toolkit with limits on loan-to-value and debt-service-to-income ratios.	The new Macroprudential Policy Strategy defines a set of measures aimed at mitigating the risks, vulnerabilities, and impact of external shocks that can cause a profound and widespread disruption for the financial system. The strategy also determines the macroprudential policy measures available to each financial authority. However, limits to LTV and DSTA ratios are not in place.
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. 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. 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. Banxico conducted a study on the regulatory framework of the Financial Groups Regulation Law (LRAF) and its interaction with other sectoral laws that enable financial entities to operate jointly without forming a formal Financial Group (FG). The study evaluates the existing incentives for adopting FG structures versus "Super Holding Companies" (Super Cs).
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 risk-based rating methodology (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 identified opportunities to enhance its risk-based supervisory framework to incorporate developments in financial innovation, digitalization, interconnectedness, and emerging ML/TF risks. Accordingly, the CNBV intends to design and implement an integrated risk assessment system grounded in standardized scoring methodologies, and quantitative and qualitative indicators.
Continue developing the cybersecurity strategy for the financial system; improve cybersecurity regulatory and supervisory practices.	The 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.

FSAP Recommendations	Development
Financial Sector Oversight	
	In 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 the development of sector-specific cyber risk regulation; risk-based entity ratings and prioritized supervision; intrusive on-site and focused off-site supervision; enhanced cyber intelligence sharing; regular incident response drills; cybersecurity promotion through industry associations. CNBV is developing a new cybersecurity framework to set minimum standards across all financial sectors, aligned with international best practices. Banxico is drafting regulations to address cybersecurity requirements for the software (SIBUC, AUDI, SAM) that financial institutions use to operate with the Central Bank. Banxico drafted a regulatory policy for CCV, which incorporates the CPMI-IOSCO "Guidance on Cyber Resilience for Financial Market Infrastructures". This regulatory draft is currently under review, and will serve as a reference for future policy and regulatory analysis for other FMIs. In 2025, Banxico conducted a comprehensive assessment of SPEI and SPID payment systems leveraging the CPMI-IOSCO Guidance on cyber resilience for FMIs. Based on the findings, in 2026 Banxico is developing a roadmap to implement the resulting recommendations. Regarding the Trade Repository (TR), Banxico has been implementing measures to strengthen its cyber resilience. In the second half of 2026 it will conduct an assessment against the Guidance on cyber resilience for FMIs, to identify if additional measures need to be taken. Banxico is implementing measures to strengthen the cyber resilience of Asigna, CCV, and Indeval. Banxico is assessing current and emerging operational, technological, and cybersecurity risks, as well as the mitigation measures planned by the FMIs to address the changes in their risk profile, particularly regarding third-party dependency and business continuity arrangements.
Improve cyber response and recovery capabilities; conduct market-wide cyber crisis simulation exercises.	Mexico has made significant progress on cyber response and recovery capabilities, including the adoption of incident response protocols and playbooks and the inclusion of cybersecurity clauses in all new MoUs signed by CNBV with foreign financial authorities. The authorities have not yet formally adopted ISO/IEC 27001 or the NIST Cybersecurity Framework at the national level. Banxico is developing a cyber-map to assess transmission channels. and completed the detailed maps for the following FMIs: DALI, SIAC, SPEI and SPID. In 2026, Banxico developed maps for two auxiliary services: intraday liquidity provision through repo operations, and

FSAP Recommendations	Development
Financial Sector Oversight	
	collateral management. CSE have been conducted in 2023, 2024 and 2025, with the support of the IMF. In 2025, Banxico and the IMF organized a table-top cybersecurity simulation exercise involving several Financial Market Infrastructures to test crisis coordination arrangements and clarify the respective roles of Banxico, CNBV, SHCP, and IPAB in managing the financial stability implications of a cyber incident affecting a systemically important FMI.
Issue supervisory guidance on climate-related risk management, governance, and business strategies; introduce disclosure requirements of climate and ESG information.	Corporates. In 2025, the Consejo Mexicano de Normas de Información Financiera y Sostenibilidad (CINIF) issued 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. Securities Markets Participants. Since 2025, CNBV requires issuers to disclose sustainability information aligned with IFRS Sustainability Disclosure Standards. All issuers, other than financial institutions, states and municipalities, must present sustainability-related financial information for the first time in 2026. NBFIs. Since 2024, CONSAR requires Afores to report non-financial sustainability information following recognized disclosure frameworks, embed ESG policies in selection questionnaires for alternative instruments, and calculate/report taxonomy-alignment metrics to Risk and Investment Committees; and the CNSF requires insurers and mutuals to incorporate ESG criteria into governance, investment policies and underwriting/financial risk management, and to disclose ESG/climate information in their annual solvency and financial condition reports. Derivatives. Banco de México is collaborating with the World Bank to develop guidelines for climate-related financial risk management and voluntary disclosure for institutions that provide derivative services.
Financial Integrity	
Implement the remaining 2018 Mutual Evaluation Report recommendations.	The authorities have adopted several high-level actions for mitigation of the risks identified in the Mutual Evaluation Report of 2018, implementing reforms in 2019, 2020, 2021, 2022 and 2024. In 2026, the Financial Intelligence Unit (UIF) and the CNBV signed a collaboration agreement to strengthen mechanisms for information exchange, institutional coordination, and joint analysis to more efficiently prevent and combat operations involving resources of illicit origin.

FSAP Recommendations	Development
Systemic Liquidity and Crisis Management	
Review the liquidity risk mitigation framework for development banks.	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.
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.	Banxico has undertaken access tests for their liquidity facilities and, to strengthen Banks' knowledge about the access and characteristics of the Permanent Liquidity Facility and the Emergency Liquidity Assistance of Banco de México, a workshop was held in July, 2026. The Mexican Financial Authorities are working on amendments to clarify when authorities may require modifications to banks' recovery plans. CNBV does not mandate a fixed sequence for activating recovery, capital conservation, restoration, or resolution measures. The CNBV has strengthened its supervisory approach to ensure that contingency plans are feasible, credible and operationally executable under stressed conditions. CNBV continues to coordinate closely with IPAB regarding developments related to bank resolution.
Introduce statutory bail-in powers and eliminate barriers to the effective use of the P&A and bridge bank tools.	Authorities are 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.
Shorten the resolution planning cycle for D-SIBs and midsize banks, and eliminate impediments to banks' resolvability.	In 2023, IPAB reformed its rules to shorten the resolution planning cycle for DSIBs and midsize banks, reducing the time intervals for updating their resolution plans. Since end-2025, SIBs must maintain an additional capital buffer.
Financial Development Issues	
Broaden the scope of regulated fintech activities; finalize the implementation of open finance (¶66–67).	Implementation, including 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. CNBV continues its verification process among financial institutions to assess their compliance with regulations and track their progress. In 2026, work resumed to regulate a minimum capital adequacy ratio for fintech institutions.

FSAP Recommendations	Development
Financial Development Issues	
	This includes defining Tier 1 capital and calculating operational risk using the business indicator approach.
Establish a national climate finance strategy; set ambitious climate finance targets for development financial institutions (¶69).	In 2023, the Ministry of Finance published the “Sustainable Taxonomy" and the “Sustainable Finance Mobilization Strategy”, which seek to redirect capital flows toward sustainable projects, and established regulations for tracking progress on sustainable development and gender equality within securities markets. In 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. Mexico’s third Nationally Determined Contribution (NDC 3.0) established more ambitious mitigation and adaptation targets including a dedicated strategic axis (Axis B) for planning and financing, ensuring that development financial institutions are directed toward meeting these enhanced national commitments. In 2026, the SHCP updated the Sovereign Sustainable Financing Framework to report annually on the alignment of Eligible Sustainable Expenditures (GSE)—budgetary programs approved in the Federal Budget of Expenditures (PEF)—with the Sustainable Taxonomy. In 2026, the CNBV launched the “Ruta de la Sostenibilidad” platform, a public digital hub that provides guidance, tools and reference materials to support supervised entities in the implementation of sustainability-related disclosures and the integration of ESG considerations into their governance and risk management frameworks.

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. Following a sizable deficit reduction in 2025, efforts to strengthen public finances continued this year, although at a slower pace. Looking forward, the draft 2027 budget entails a more gradual consolidation than previously announced. While debt-to-GDP would gradually rise during the projection period, the overall balance would reach the level needed to broadly stabilize debt by 2031.
Near term 1/			
Medium term	Moderate	Moderate	Fanchart analysis suggests that baseline projections are reasonable but the probability of debt non-stabilization is elevated. GFN analysis indicates that financing needs remain high 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 the slack. A contingent liability stress test incorporating subnational borrowing results in only modest deterioration relative to the baseline, reflecting the low debt levels of state and local governments.
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 preemptive 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 rise until 2031 and stabilize over the extended projection horizon. 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			Yes

DSA Summary Assessment

Commentary: Under baseline policies, including continued fiscal consolidation, Mexico's public debt is assessed to be sustainable with high probability, while the overall risk of sovereign stress remains moderate. Fan chart analysis suggests that debt could rise materially over the medium term, potentially constraining policy space and increasing vulnerabilities. This underscores the need for well-specified adjustment measures to ensure implementation of the authorities' fiscal plans and, ultimately, a more ambitious consolidation in the medium-term to place debt on a downward trajectory and rebuild fiscal buffers. Over the longer term, declining oil reserves pose a key risk to debt sustainability, reinforcing the case for broadening the tax base and further mobilize domestic revenue.

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.

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	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

Reporting on Intra-Government Debt Holdings

		Issuer \ 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
CPS / NFPS / GG: expected / CG	1	Budget. central govt						448.5	572.2	765	1785.7
	2	Extra-budget. funds									0
	3	Social security funds									0
	4	State govt.						0.5	0	1.2	1.7
	5	Local govt.									0
	6	Nonfin pub. corp.	0						0	18.7	18.7
	7	Central bank						0		0	0
	8	Oth. pub. fin. corp	18.6					41.3	0		59.9
		Total	18.6	0	0	0	0	490.3	572.2	784.9	1866

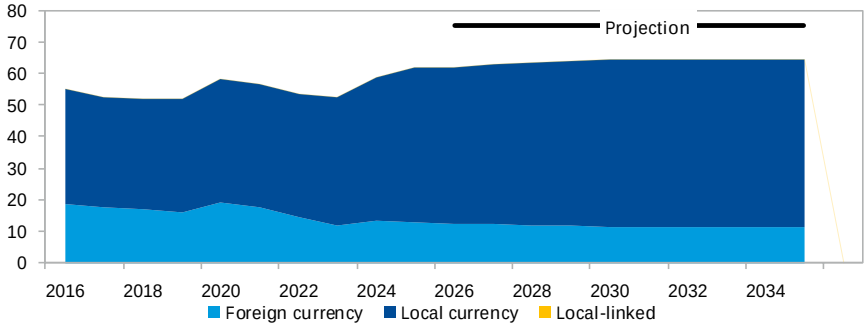
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee 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. Official debt statistics are adjusted in accordance with the GFSM to include operations of the SPV that issued *Pre-Capitalized Notes* in 2025 (for the purpose of supporting Pemex) as well as the *Fondo de Pago a Proveedores* (FPP) which issued debt to repay Pemex suppliers in 2025-26. The former raises gross public debt and assets by broadly the same amount, leaving net debt largely unchanged. Staff is still evaluating the statistical treatment of projected deferred investment spending under the Law for the Promotion of Investment in Strategic Infrastructure for Development with Well-Being (LFIIEDB) under GFSM. Changing the timing of recording of these expenditures would not change the current overall assessments of risks and debt sustainability.

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

Debt by Currency

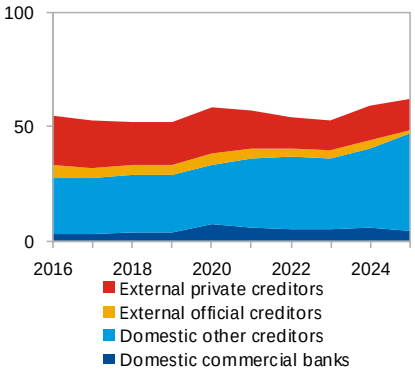
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Holder

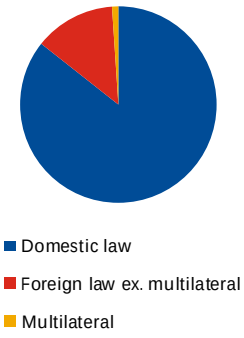
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Governing Law, 2025

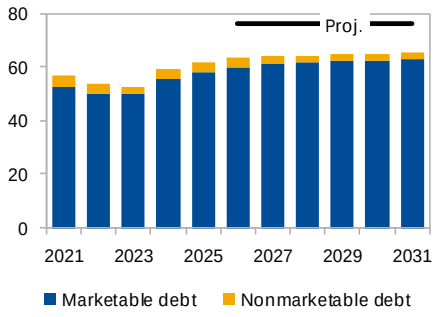
(In percent)



Note: The perimeter shown is consolidated public sector.

Debt by Instruments

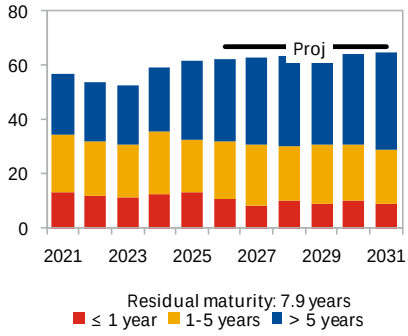
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Maturity

(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

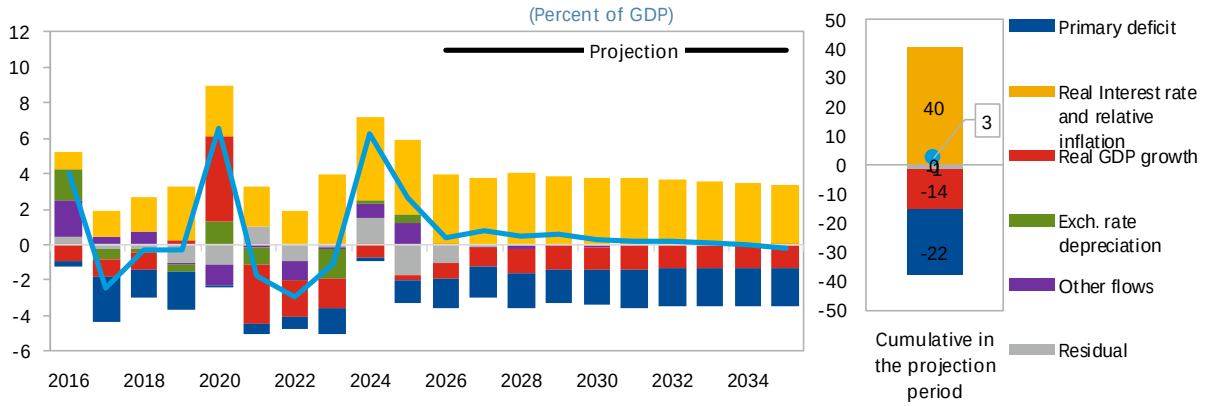
Commentary: The rising share of 'domestic other creditors' reflects the increased holdings of public debt liabilities by domestic pension funds following the 2020 pension reform. Small amounts of non-marketable debt principally relate to external official lending. The shares of local currency debt and debt with longer maturities are 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)

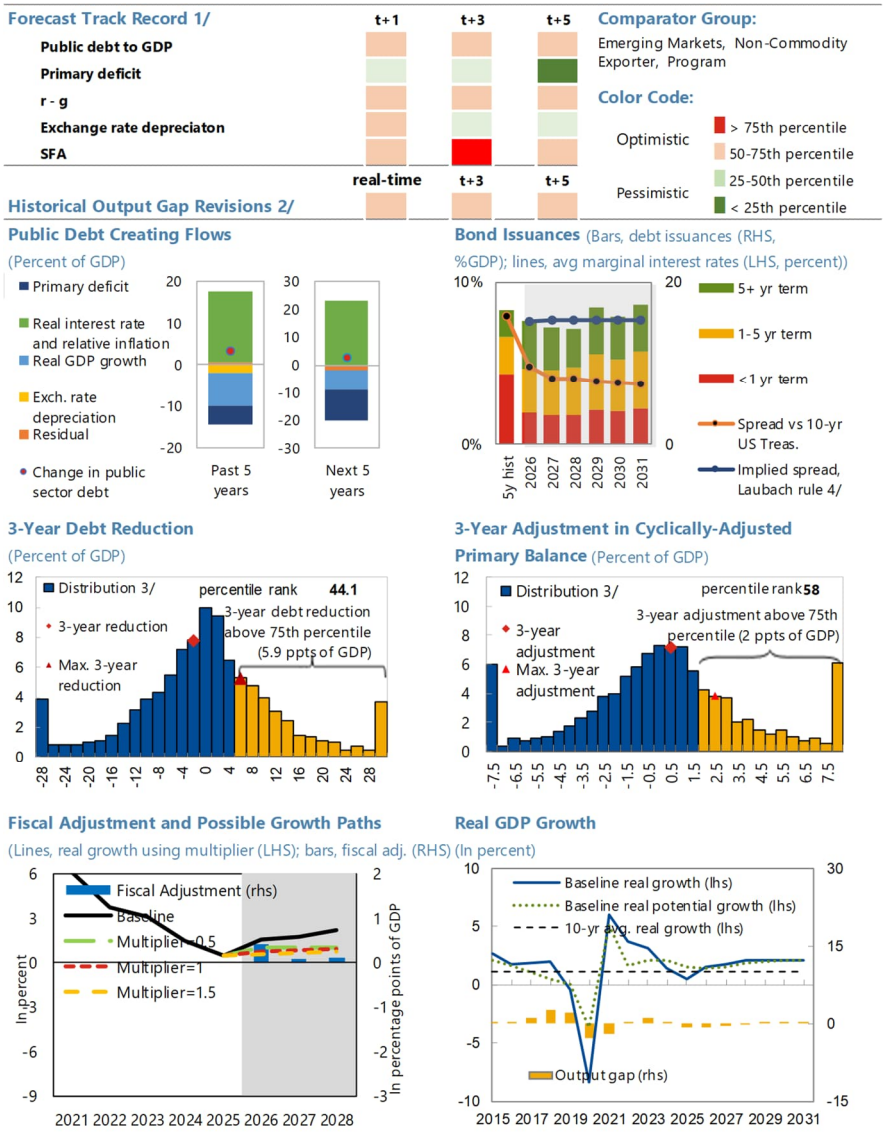
	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	61.7	62.1	62.9	63.4	64.0	64.3	64.5	64.6	64.7	64.7	64.5
Change in public debt	2.7	0.4	0.8	0.5	0.6	0.3	0.2	0.1	0.1	0.0	-0.2
Contribution of identified flows	4.4	1.4	1.0	0.6	0.6	0.4	0.3	0.2	0.1	0.0	-0.1
Primary deficit	-1.2	-1.7	-1.8	-1.9	-1.9	-2.0	-2.2	-2.2	-2.2	-2.2	-2.2
Noninterest revenues	24.5	24.5	24.5	24.1	24.1	24.1	24.0	24.0	24.0	24.0	24.0
Noninterest expenditures	23.2	22.8	22.8	22.2	22.2	22.1	21.9	21.9	21.9	21.9	21.9
Automatic debt dynamics	4.4	3.1	2.7	2.7	2.6	2.4	2.4	2.3	2.2	2.1	2.0
Real interest rate and relative inflation	4.3	4.0	3.8	4.0	3.9	3.7	3.7	3.6	3.5	3.4	3.3
Real interest rate	4.0	3.7	3.5	3.8	3.7	3.6	3.5	3.4	3.4	3.3	3.1
Relative inflation	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-0.3	-0.9	-1.1	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Real exchange rate	0.4	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.2	0.0	0.0	-0.2	0.0	-0.1	0.1	0.1	0.1	0.1	0.1
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	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other transactions	1.7	0.4	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Contribution of residual	-1.7	-1.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Gross financing needs	14.8	14.8	13.9	14.0	16.5	15.4	16.9	15.6	16.0	16.7	16.3
of which: debt service	16.5	16.9	16.2	16.4	18.8	17.7	19.4	18.2	18.5	19.3	18.9
Local currency	14.6	15.4	14.6	14.5	17.0	15.9	17.8	16.6	16.9	17.9	17.4
Foreign currency	1.9	1.5	1.6	1.9	1.8	1.8	1.6	1.6	1.6	1.4	1.5
Memo:											
Real GDP growth (percent)	0.5	1.5	1.8	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Inflation (GDP deflator; percent)	4.6	4.6	4.4	3.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Nominal GDP growth (percent)	5.1	6.2	6.2	5.9	5.7	5.6	5.7	5.7	5.7	5.7	5.7
Effective interest rate (percent)	11.8	10.9	10.4	10.1	9.7	9.4	9.3	9.1	9.0	8.8	8.6

Contribution to Change in Public Debt



Commentary: Debt is projected to rise over the medium-term, reflecting the authorities' gradual consolidation path. Once the medium-term PSBR target of close to 3 percent of GDP is reached in 2031, debt broadly stabilizes as high real interest rates are offset by sustained fiscal restraint and GDP growth at potential. The projected adjustment is consistent with Mexico's track record of fiscal prudence.

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



Commentary: The forecast track record is generally within acceptable bounds for optimism, except for SFA projections. A stronger contribution from the primary balance than in the previous five years is expected to contain the increase in debt. This assumes an ongoing fiscal adjustment that appears feasible, with projected debt and CAPB adjustments over the next three years remaining well below Mexico's historical maximum. Spreads are projected to narrow relative to the Laubach benchmark, reflecting tighter fiscal policy and less restrictive monetary conditions. The effect of consolidation on growth in 2027 is expected to be offset by dissipating uncertainty and a closing output gap. Potential growth is projected to exceed the average of the previous decade, supported by higher investment.

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.

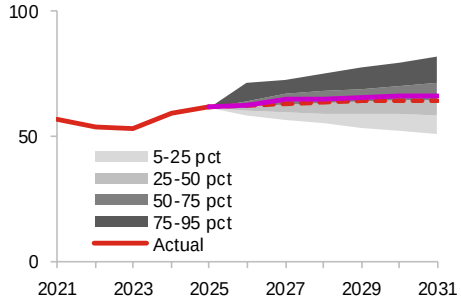
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual obervations 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

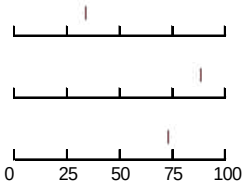
Final Fanchart
(Percent of GDP)



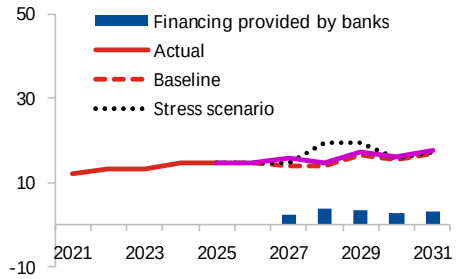
Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	30.6	0.4
Probability of debt non-stabilization *(percent)*	50.8	0.4
Terminal debt-to-GDP x institutions index	41.5	0.9
Debt fanchart index (DFI)		1.8
Risk signal: 3/		Moderate

Percentile in peer group 2/

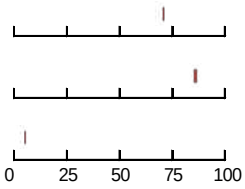


Gross Financing Needs
(Percent of GDP)



Gross financing needs (GFN) module

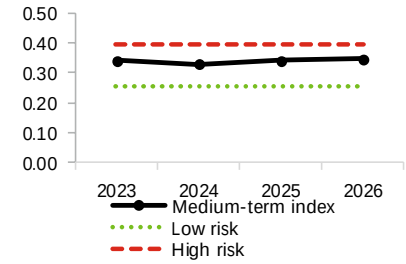
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	15.2	5.2
Initial Banks' claims on the gen. govt *(pct bank assets)*	28.0	9.1
Chg. In banks' claims in stress *(pct banks' assets)*	4.3	1.4
GFN financeability index (GFI)		15.7
Risk signal: 4/		Moderate



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index
(Index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.8	0.4	0.5	0.2
GFN finaceability index	15.7	0.3	0.5	0.2
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2026-2031, if stress not predicted: 27.3 pct.
Prob. of false alarms, 2026-2031, if stress predicted: 21.6 pct.

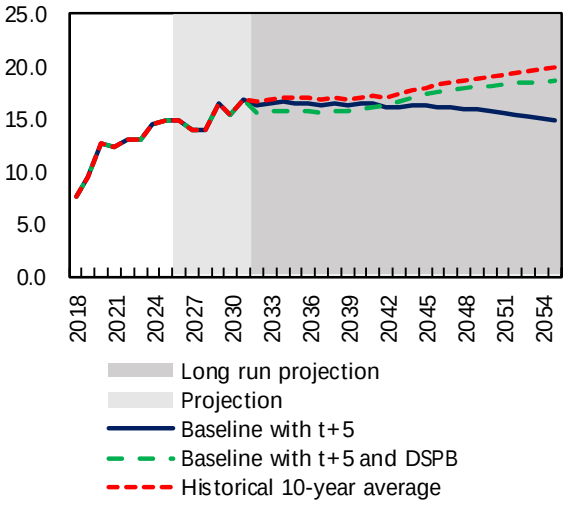
Commentary: The medium-term analysis indicates a moderate risk of sovereign stress. Relative to peers, the probability of debt non-stabilization and banks' claims on the general government remain elevated. At the same time, stress tests suggest limited vulnerabilities. Gross financing needs rise only moderately under adverse scenarios, and the increase in banks' holdings of government debt is small, indicating sufficient capacity to absorb additional financing needs. Other institutional investors, particularly pension funds, can provide a further source of demand for government securities. Accounting for contingent liabilities from subnational governments leads to only a modest deterioration in the debt fan chart and gross financing needs, reflecting the low debt levels of state and local governments.

Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

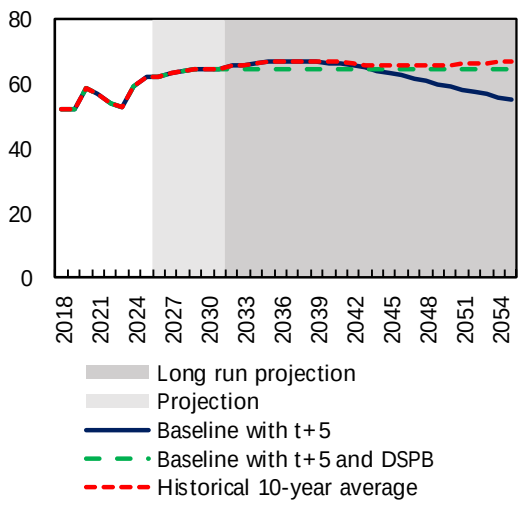
Annex IV. Figure 7. Mexico: Long-Term Analysis: Large Amortization Module

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

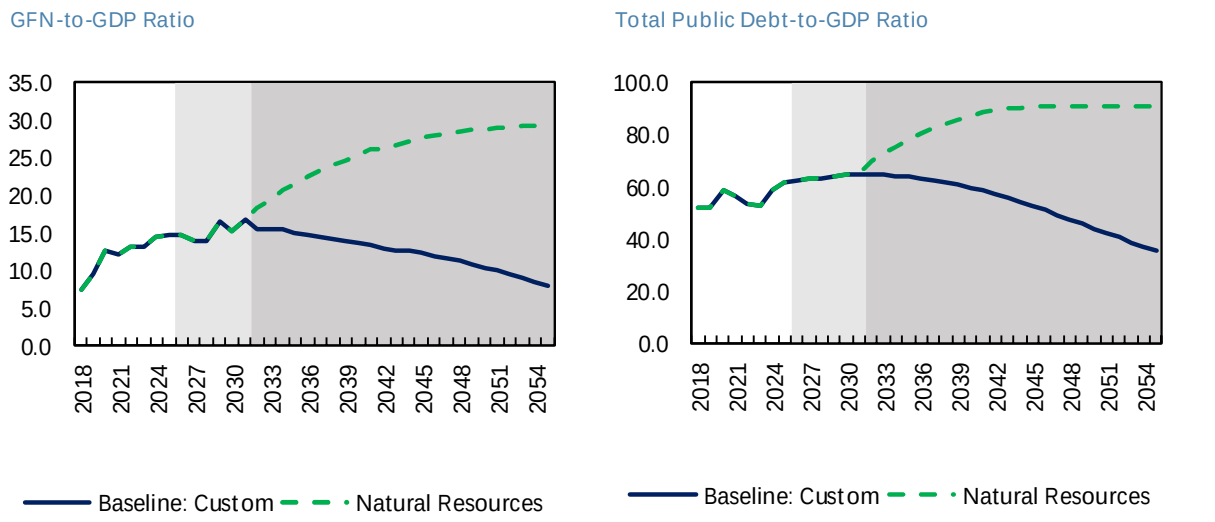


Total Public Debt-to-GDP Ratio



Commentary: The large amortization module indicates that GFN and public debt-to-GDP ratios could be large in some scenarios, absent proactive government policy, while 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. While this analysis provides some illustration of risks, staff judge the likelihood of preemptive 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



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 of GDP in 2020 to 27¼ percent in 2025, and it is projected to stabilize at around 25½ percent in the medium term, well below the pre-pandemic baseline. The main risks to the external debt trajectory relate to deterioration of the current account, 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. Baseline projections: Gross external debt is expected to decline to about 24½ percent in 2026. Debt-creating flows continue to support a reduction in the external debt-to-GDP ratio, mainly reflecting still-solid remittances and FDI inflows, while the recent appreciation provides an additional mechanical tailwind. In the medium-term, the external debt ratio is expected to remain broadly stable at around 25½ percent of GDP.

2. Risk and mitigating factors: Downside risks to the external debt trajectory stem mainly from weaker-than-expected growth, including due to a decline in exports amid heightened global trade tensions, global policy uncertainty, climate related shocks, and a sharp tightening of global financial conditions (which could trigger higher risk premia on Mexico's external liabilities), peso depreciation, and increased capital flow volatility. Currency depreciation remains a key risk: for

instance, a 30 percent real effective exchange rate depreciation could raise external debt to about 39 percent of GDP—close to levels observed in the immediate aftermath of the pandemic. These risks are mitigated by several factors: Rollover risks on public external debt—about two thirds of the total—are contained by a favorable maturity profile (over 90 percent of debt has residual maturity above one year), a relatively diversified currency composition (with around 30 percent peso denominated), prudent debt management, and growing absorption capacity of domestic institutional investors, particularly pension funds. Private external debt, concentrated in the nonfinancial corporate sector, is predominantly medium to long term and largely hedged through natural and financial instruments, while the banking sector remains well capitalized and liquid and is assessed to be resilient to large shocks under the current macroprudential framework.

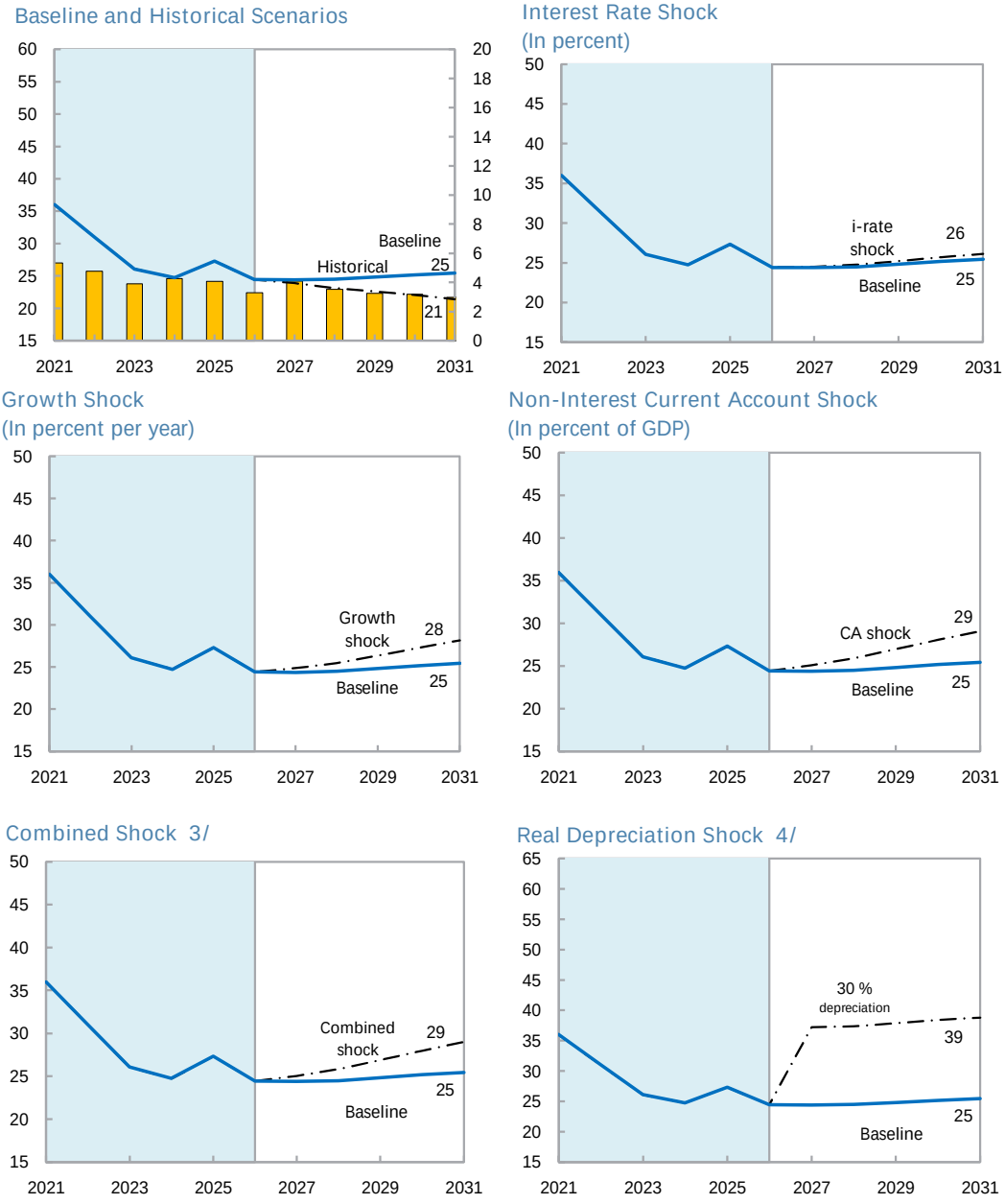
Annex IV. Table 1. Mexico: External Debt Sustainability Framework
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2021	2022	2023	2024	2025			2026	2027	2028	2029	2030	2031	Debt-stabilizing non-interest current account 6/
1 Baseline: External debt	36.0	31.0	26.1	24.7	27.3			24.4	24.4	24.5	24.8	25.2	25.4	-1.4
2 Change in external debt	-8.4	-5.0	-4.9	-1.3	2.6			-2.9	0.0	0.1	0.3	0.3	0.3	
3 Identified external debt-creating flows (4+8+9)	-8.2	-4.7	-6.6	-1.2	-1.1			-1.5	-1.4	-1.4	-1.5	-1.4	-1.4	
4 Current account deficit, excluding interest payments	-1.4	-0.6	-1.2	-0.9	-1.4			-1.2	-1.0	-0.8	-0.8	-0.7	-0.6	
5 Deficit in balance of goods and services	-1.8	-2.7	-1.7	-1.5	-0.7			-0.9	-1.3	-1.4	-1.4	-1.5	-1.5	
6 Exports	40.8	43.0	36.3	37.2	39.8			38.2	37.3	37.2	37.3	37.4	37.4	
7 Imports	-42.6	-45.8	-37.9	-38.7	-40.5			-39.0	-38.6	-38.7	-38.7	-38.9	-39.0	
8 Net non-debt creating capital inflows (negative)	-1.9	-2.0	-1.5	-1.5	-1.6			-1.4	-1.5	-1.6	-1.7	-1.7	-1.7	
9 Automatic debt dynamics 1/	-4.9	-2.0	-3.9	1.3	1.9			1.1	1.1	1.0	1.0	0.9	0.9	
10 Contribution from nominal interest rate	1.7	1.7	1.7	1.8	1.9			1.5	1.5	1.5	1.5	1.4	1.4	
11 Contribution from real GDP growth	-2.3	-1.2	-0.8	-0.4	-0.1			-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	
12 Contribution from price and exchange rate changes 2/	-4.3	-2.5	-4.9	-0.2	0.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	-0.3	1.7	-0.2	3.7			-1.4	1.3	1.5	1.8	1.8	1.7	
External debt-to-exports ratio (in percent)	88.1	72.0	71.9	66.5	68.6			64.0	65.3	65.8	66.6	67.3	67.9	
Gross external financing needs (in billions of US dollars) 4/	70.3	70.0	69.8	78.1	74.7			71.5	94.8	85.5	82.2	84.5	82.6	
in percent of GDP	5.3	4.8	3.9	4.3	4.1	10-Year	10-Year	3.3	4.1	3.5	3.2	3.2	3.0	
Scenario with key variables at their historical averages 5/								24.4	23.9	23.1	22.6	22.1	21.4	-1.9
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	6.0	3.7	3.1	1.5	0.5	1.2	3.8	1.5	1.8	2.2	2.1	2.1	2.1	
GDP deflator in US dollars (change in percent)	10.7	7.4	18.6	0.8	-0.5	3.4	8.1	16.8	4.5	2.6	2.5	2.4	2.5	
Nominal external interest rate (in percent)	4.5	5.1	6.8	7.2	7.6	5.7	1.1	6.4	6.6	6.5	6.3	6.1	5.8	
Growth of exports (US dollar terms, in percent)	20.6	17.4	3.1	4.8	7.1	6.2	9.2	13.7	4.0	4.4	4.8	4.8	4.9	
Growth of imports (US dollar terms, in percent)	32.2	19.7	1.4	4.4	4.6	6.1	13.2	14.3	5.2	4.9	4.8	5.0	4.9	
Current account balance, excluding interest payments	1.4	0.6	1.2	0.9	1.4	1.1	1.4	1.2	1.0	0.8	0.8	0.7	0.6	
Net non-debt creating capital inflows	1.9	2.0	1.5	1.5	1.6	2.1	0.5	1.4	1.5	1.6	1.7	1.7	1.7	

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 10. Mexico: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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	Intersectoral 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 IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, 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 are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data are generally timely, comprehensive, and accurate for surveillance. Fiscal statistics are broadly comprehensive and timely, although the official fiscal presentation does not include the subnational sector and certain fiscal-purpose vehicles. These gaps affect the comprehensiveness of the fiscal accounts and may complicate the assessment of fiscal developments and public sector debt. For surveillance purposes, staff makes adjustments to fiscal data where appropriate (see Annex VII). The 2021 Reports on the Observance of Standards and Codes (ROSC) mission pointed out that, while source data used for the national and GFSM 2014 presentations are the same, differences in the classifications of transactions and coverage of institutional units make it difficult for users to reconcile the two presentations.

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 list 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 GFSM 2014. Full adoption of uniform accounting standards at the subnational 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 make some adjustments to the official fiscal statistics for surveillance purposes, to incorporate certain vehicles introduced for fiscal purposes within the public sector perimeter in line with international statistical standards.

Other data gaps. No data gaps are envisaged

Annex V. Table 2. Mexico: Data Standards 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

	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[9]	Frequency of Reporting[9]	Expected Frequency[9,10]	Announced Frequency[11]	Expected Timeliness[9,10]	Announced Timeliness[11]
Exchange Rates	2026-09-25	2026-09-25	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2026-08	2026-09	M	M	M	M	1M (1W encouraged)	NLT 1M
Reserve/Base Money	2026-08	2026-09	M	M	M (W encouraged)	W	2W (1W encouraged)	2WD
Broad Money	2026-07	2026-08	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-08	2026-09	M	M	M (W encouraged)	W	2W (1W encouraged)	2WD
Foreign exchange intervention by the Monetary Authorities in the spot market[2]			Q	Q	...	...	...	...
Foreign exchange intervention by the Monetary Authorities undertaken with derivative instruments[2]			Q	Q	...	...	...	...
Swap and repurchase agreements entered into by the Monetary Authorities with other central banks, which may be used for maintaining the stability of financial markets and the financial system[3]			Q	Q	...	...	...	...
Consolidated Balance Sheet of the Banking System	2026-07	2026-08	M	M	M	M	1M	1M
Total assets of other depository corporations[4]	2026-07	2026-08	Q	Q	...	...	...	...
Total credit from other depository corporations[4]	2026-07	2026-08	Q	Q	...	...	...	...
Interest Rates[5]	2026-09-25	2026-09-25	D	D	D	D	...	D
Consumer Price Index	2026-08	2026-09	M	M	M	F	1M	10D
Revenue, Expenditure, Balance and Composition of Financing[6]-General Government[7]	2026-07	2026-08	Q	Q	A	M	2Q	1M

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

	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[9]	Frequency of Reporting[9]	Expected Frequency[9,10]	Announced Frequency[11]	Expected Timeliness[9,10]	Announced Timeliness[11]
Revenue, Expenditure, Balance and Composition of Financing[6]-Central Government	2026-07	2026-08	Q	Q	M	M	1M	30D
Stocks of Central Government and Central Government-Guaranteed Debt[8]	2026-07	2026-08	Q	Q	Q	M	1Q	30D
Total stock of General Government Debt[7]	2026-06	2026-08	Q	Q	...	...	...	...
External Current Account Balance	2026-06	2026-08	Q	Q	Q	Q	1Q	10W
Exports and Imports of Goods and Services	2026-06	2026-08	Q	Q	M	M	8W (4-6W encouraged)	25D
GDP/GNP	2026-06	2026-08	Q	Q	Q	Q	1Q	53D
Gross External Debt	2026-06	2026-08	Q	Q	Q	Q	1Q	1Q
International Investment Position	2026-06	2026-08	Q	Q	Q	Q	1Q	3M

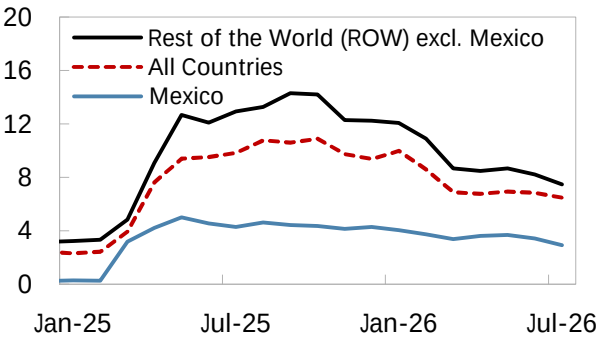
[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Only net amounts are required.
[3] The data should cover the total amounts available under the swap or repurchase agreements, in an aggregated form, independently of their use.
[4] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.
[5] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[6] Foreign, domestic bank, and domestic non-bank financing.
[7] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.
[8] Including currency and maturity composition.
[9] 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") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[10] 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. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".
[11] 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 and Competitors in US Market: Relative Tariffs and Exports Performance[1]

This annex develops a measure of Mexico's relative tariffs vis-a-vis competitors in the U.S. market and assesses its evolution since early 2025 as well as its impact on Mexico's exports, distinguishing by main economic sectors. Mexico faces higher tariffs on its products, but also a greater advantage relative to competitors. Econometric results indicate that the impact of tariffs on Mexico's competitors more than offset the effect of the tariffs on Mexico.

1. The recent wave of tariffs has reshaped different countries' relative competitiveness in the US market. U.S. tariffs have generally increased the cost of exporting to the U.S. In Mexico's case, the effective tariff rate (tariff paid) rose from nearly zero to about 4½ percent in early 2025 and stabilized at around 4 percent afterwards. Meanwhile, effective tariffs on other countries rose from about 3 percent to about 15 percent, before declining to around 8 percent in early 2026. Assessing Mexico's relative competitiveness, however, requires measuring its product-level tariffs relative to relevant competitors.

Effective Tariff Rate Paid in U.S. Market
(Percent)

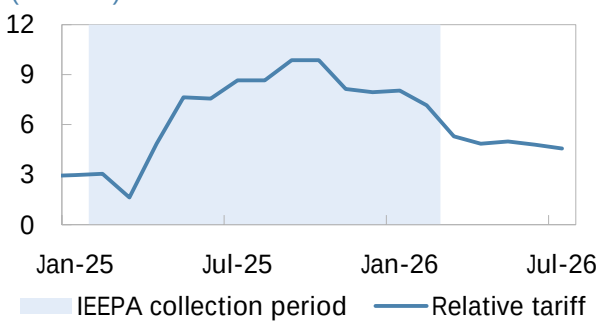


Source: IMF staff estimates.

Measuring Relative Effective Tariffs

2. An Effective Relative Tariff (ERT)—that measures the average tariff faced by Mexico's competitors relative to Mexico's own tariff—indicates that Mexico's advantage in the U.S. market has strengthened. An ERT can be defined as an export-weighted average of product-level differences between U.S. tariffs applied to the rest of the world (ROW) and those applied to the same products from Mexico, with weights reflecting each product's share in Mexico's exports to the U.S. A positive (negative) ERT indicates a relative tariff advantage (disadvantage) for Mexico. Specifically,

ROW Effective Relative Tariff Rate vis a vis Mexico
(Percent)



Source: IMF staff estimates.

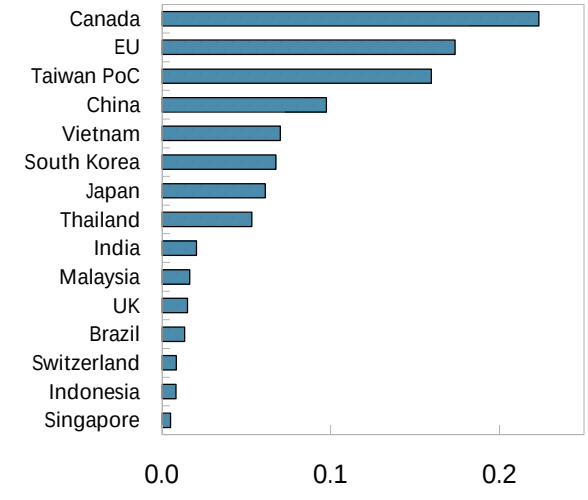
[1] Prepared by Francisco Arizala, Fah Jirasavetakul and Joaquin Marandino.

$$ERT^{ROW,MEX} = \sum_s \left(\tau_s^{US,RoW} - \tau_s^{US,MEX}\right) * w_s^{US,MEX}$$

where $ERT^{ROW,MEX}$ is the ROW effective tariff paid by the rest of the world in the U.S. market relative to Mexico; $w_s^{US,MEX}$ denotes the importance of product s in Mexico's exports to the U.S.; $\tau_s^{US,RoW}$ is the average U.S. tariff on product s from rest of the world, and $\tau_s^{US,MEX}$ is the corresponding tariff on imports from Mexico. This metric shows that, following the broad-based increase in U.S. tariffs, Mexico's ERT widened from 3 percent at end-2024 to around 8 percent for most of 2025, before declining to around 5 percent in early 2026, after the U.S. Supreme Court ruling on the IEEPA tariffs affected Mexico's competitors disproportionately more than Mexico, as the latter was relatively insulated from these tariffs owing to a significant share of exports entering the U.S. through the USMCA tariff exceptions.

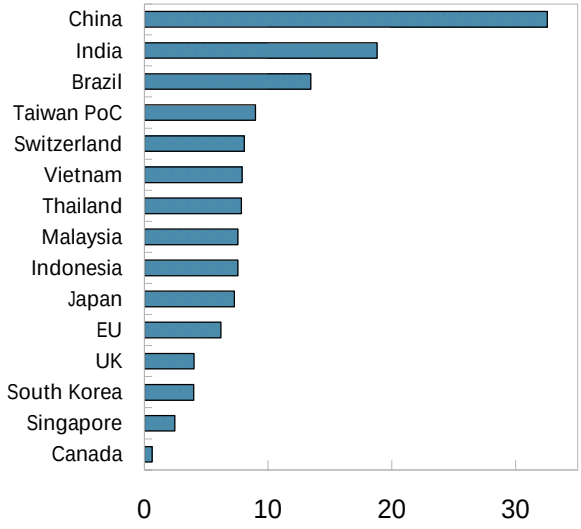
3. Mexico's relative advantage vis-à-vis specific competitors varies given diverse tariffs schemes and export structures. A product-level analysis shows that Canada, the EU, and China are Mexico's most relevant competitors in the U.S. market, as their exports overlap significantly in automobiles, auto parts, and high-end electronics. Mexico's effective tariff of 4 percent remains well below that of some of its most important competitors, such as China (32 percent), but the differential is narrower with others, such as the EU (about 7 percentage points).

Competitor Country Index[1/]
(2025 annual data)



Source: IMF staff calculations.

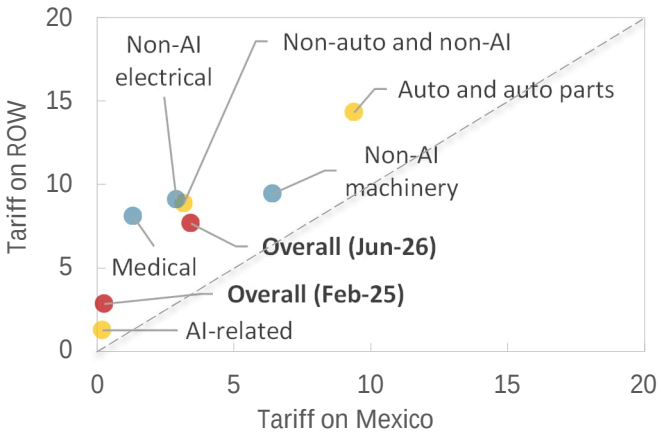
Competitors' Effective Relative Tariff vis a vis Mexico[2/]
(Percent; As of December 2025)



Source: IMF staff calculations.

1/ The Competitor Country Index is defined as $CCI_C = \sum_s w_s^{US,C} * w_s^{US,MEX}$, where $w_s^{US,C}$ is the share of country c exports of product s to the US, and $w_s^{US,MEX}$ is the share of product s in Mexico's exports to the US.
2/ For each competitor country, the ERT is computed as $ERT_C^{US,MEX} = \sum_s \left(\tau_s^{US,C} - \tau_s^{US,MEX}\right) \times w_s^{US,MEX}$, where $\tau_s^{US,MEX}$ and $\tau_s^{US,C}$ are the effective tariff rates faced by Mexico and competitor C in HS6 product s (calculated duties over customs value), and $w_s^{US,MEX}$ is product s share in Mexico's exports to the U.S.

Impact of Tariffs



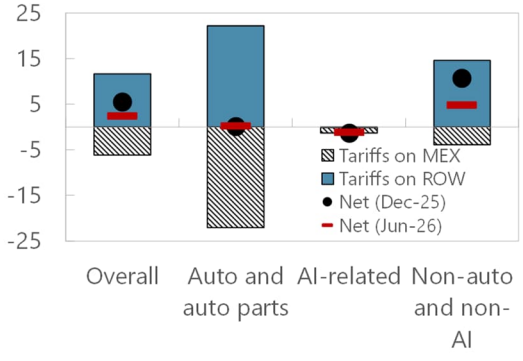
Source: IMF staff estimates.
Note: Yellow dots represent the 3 main sectors in Mexico's exports. Blue dots are sub-components of the *Non-auto-non-AI sector*.

4. Despite a recent moderation in its aggregate relative advantage, Mexico retains tariff advantage in sectors of significant economic importance. Mexico's exports can be split in three large groups: a) auto and auto parts, b) AI-related products, and c) all other sectors, which include economically important categories such as machinery, electrical equipment, and medical equipment. This last group has gained a significant tariff advantage since early 2025, notably in electrical and medical equipment. The auto and auto-parts sector benefits from some tariff advantage, as Mexico's exports of auto parts to the US, and the U.S. content of vehicles, benefit from certain exceptions. Tariff differentials in AI-related products are negligible, as this sector is largely exempt from tariffs across all U.S. trading partners.

5. Econometric analysis points to a positive net effect from the new tariffs, as gains from greater tariff advantages more than offset the negative impact from higher tariffs on Mexican products. To assess this, the following product-level panel specification—including about 3,000 products—is estimated using monthly data for the sample period 2015-25:

$$ln(X_{s,t}) = \alpha + \beta_1 ETR_{s,t}^{MEX} + \beta_2 ETR_{s,t}^{ROW} + \gamma_1 ln(RER_t^{US}) + \gamma_2 ln(REER_{s,t}^{Comp}) + \gamma_3 ln(M_{s,t}^{US}) + \delta_s + \varepsilon_{s,t}$$

where $X_{s,t}$ denotes Mexico's exports to the U.S. of product s at month t; $ETR_{s,t}^{MEX}$ is the U.S. effective tariff rate paid by Mexico on product s ; $ETR_{s,t}^{ROW}$ captures the effective tariff rate paid by Rest of World (ROW) on product s; RER_t^{US} and $REER_{s,t}^{Comp}$ denote the real bilateral exchange rate between Mexico and the U.S., and Mexico's product-weighted real effective exchange rate vis-à-vis competitor countries in the U.S., which are introduced to control for broader price competitiveness. Additional controls include total U.S. imports of product s at month t , and product-specific fixed-effects. Our interest lies in the coefficients β_1 and β_2 which capture the direct impact of tariffs on Mexican products and the impact of the tariffs faced by competitor countries,



Source: IMF staff estimates.
Note: The dot and red line correspond to the estimated net impact of tariffs on the ROW and Mexico, with the level tariffs as of Dec-2025 and Jun-2026, respectively.

respectively. Results indicate that the new U.S. tariff configuration would raise Mexico's exports to the U.S. by about 3-6 percentage points (permanent level effect). Sector-specific regressions reveal that the estimated impact of relative tariffs is larger for sectors outside the auto and AI-related industries (a permanent level effect between 5 to 10 percent), with machinery and medical equipment expected to benefit the most (a permanent level effect between 10-15 percent). The auto and AI related products are not expected to see a sizeable impact from tariff differentials, however AI-related products are likely to continue to perform well, driven by strong U.S. demand in this sector and Mexico's deep integration into technology global value chains.

Annex VII. Statistical Coverage and Recording of Recent Financial Vehicles Used by Mexico's Public Sector[1]

Mexico has recently made use of new financial vehicles to support Pemex. This annex discusses their treatment in national fiscal accounts and under the Government Finance Statistics Manual 2014 (GFSM 2014).[2]

Pre-Capitalized Notes (P-Caps)

1. P-Caps were introduced to support Pemex's finances. They were issued in August 2025 through Eagle Funding LuxCo S.à r.l. (EFL I), a Luxembourg-registered Special Purpose Vehicle (SPV), totaling US$12 billion and amortizing during 2027-30. Proceeds were used to purchase U.S. Treasury securities ("eligible assets"), which were subsequently lent to Pemex under a standard Global Master Securities Lending Agreement (GMSLA)[3] and used in repo operations to refinance existing obligations on improved terms. EFL I services investors using returns on these assets, supplemented by contractual payments and related arrangements involving Mexico and Pemex that underpin the transaction. The transaction includes an automatic provision requiring the Mexican federal government to issue sovereign bonds if specified obligations are not met, including failure to return eligible assets or to make required payments.

- Under *national fiscal reporting*, EFL I is treated as a non-public, non-resident entity outside the public sector perimeter. P-Caps are thus not recorded as public debt when issued.

- Under *GFSM 2014 principles*, however, EFL I is assessed as a special-purpose entity created for fiscal purposes, with pre-programmed activities limited to implementing the P-Caps structure and related contractual arrangements. Its activities therefore need to be attributed to general government.[4] Accordingly, EFL I's assets and liabilities need to be imputed in general government accounts in staff's presentation for surveillance purposes, with P-Caps recorded as

[1] Prepared by Mariana Sabates Cuadrado, Haruko Sakai, Johanna Schauer and Karla Vasquez Suarez.

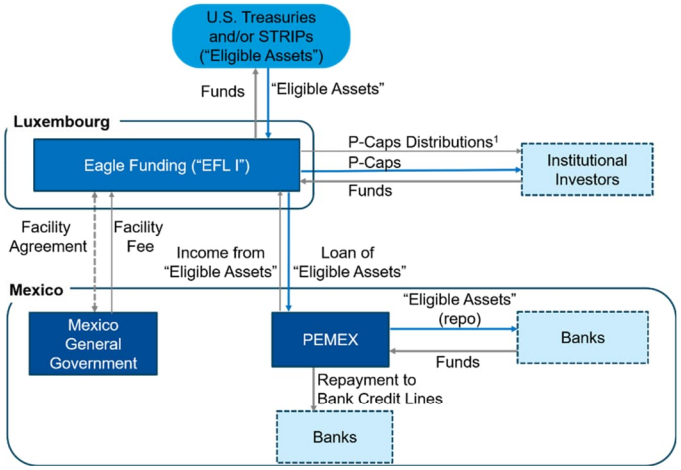
[2] The assessments reflect the application of GFSM 2014 principles, which seek to record transactions and positions according to their economic substance in a consistent and internationally comparable manner across sectors and economies. Differences with national statistics described in this note generally reflect the application of different concepts, definitions, and/or classification criteria.

[3] GMSLA is a standard framework for securities lending transactions under which securities are temporarily transferred against collateral, with an obligation to return equivalent securities.

[4] Under the Government Finance Statistics Manual 2014 (GFSM 2014), special-purpose entities established to carry out fiscal activities on behalf of the government should be treated as part of the general government sector (see paragraphs 2.136–2.139). Although structured as a nonresident SPV, EFL I was established to undertake a fiscal operation in support of a government policy objective and operates pursuant to a pre-arranged set of contractual arrangements. Its activities are limited to implementing the P-Cap structure and related arrangements, including the issuance of P-Caps, acquisition of U.S. Treasury securities, and their transfer to Pemex pursuant to arrangements established at Mexico's direction. Consistent with GFSM principles, its assets and liabilities are therefore attributed to the general government sector.

government borrowing and the acquired treasury bills reflecting a corresponding acquisition of eligible assets.

Transactions Related to P-Caps and Statistical Treatment



Authorities' Statistical Treatment

Mexico Public Sector

Assets	Liabilities

(Entries appear only if assets or cash are not delivered as required and sovereign bond issuance is triggered.)

Statistical Treatment aligned with GFSM

Mexico Public Sector

Assets	Liabilities
+ U.S. Treasuries/STRIPS (Eligible Assets)	**+ P-Caps**

Notes: Adapted by staff based on authorities' presentation.
1/ EFL I distributes cash flows to P-Caps investors using (i) returns on the "eligible assets" and (ii) the facility fee.

Fondo de Pago a Proveedores (FPP)

2. The FPP, introduced in 2025 to settle and restructure Pemex's supplier debt, is financed by commercial and development bank loans and backed by an explicit government guarantee. The facility has an authorized size of MXN 250 billion, of which about MXN 195 billion was disbursed in 2025 and the remainder in early 2026. The FPP pays suppliers directly, replacing Pemex's short-term obligations with longer-term liabilities, involving amortization over periods of up to about eight years.

- Under *national fiscal reporting*, the FPP is excluded from the public sector perimeter, and its borrowing is not recorded as public sector debt. While Pemex is generally included in the public sector perimeter, its supplier debt is excluded.[5] The transformation of supplier debt to longer-

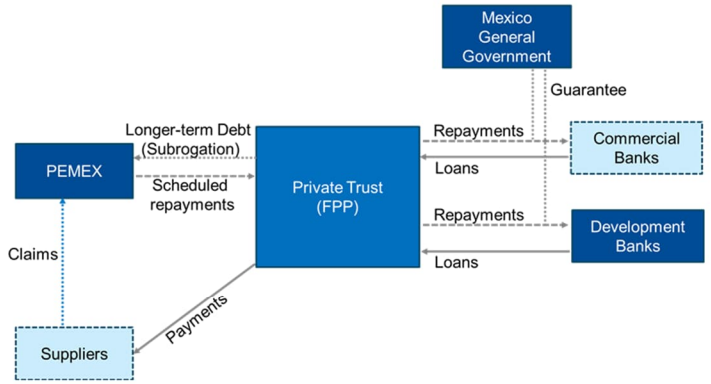
[5] Supplier debt is not included in the national and IMF staff's presentation of public debt, whereas GFSM 2014 recommends its inclusion within debt measures. GFSM 2014 defines debt as liabilities that require future payments of

(continued)

term liabilities is not recorded at inception in the fiscal accounts but is deferred to the time when payment falls due.

- Under *GFSM 2014 principles*, the FPP is classified within the public sector given its government guarantee and fiscal role.[6] Accordingly, in staff's presentation for surveillance purposes, its borrowings from commercial banks are recorded as public debt, while borrowing from development bank transactions are consolidated.[7] The transformation of supplier debt into

Transactions Related to FPP and Statistical Treatment



: cancelled out by public sector consolidation

Authorities' statistical treatment

PEMEX				Development banks			
Assets		Liabilities		Assets		Liabilities	
				Long term loan (to FPP)	70.3	(Loan)[1]	70.3

Statistical treatment aligned with GFSM

PEMEX				FPP				Development banks			
Assets		Liabilities		Assets		Liabilities		Assets		Liabilities	
		Long term debt (to FPP)	194.7	Long term loan (to PEMEX)	194.7	Long term loan (to commercial banks)	124.4	Long term loan (to FPP)	70.3	(Loan)[1]	70.3
						Long term loan (to development banks)	70.3				

Note: Adapted by staff based on the authorities' presentation. Figures in the charts refer to end-2025 positions.
1/ Assumes that development banks raised funds through borrowing to finance the FPP.

principal and/or interest. Under this framework, "other accounts payable" are included among the set of debt instruments (see paragraphs 7.236).

[6] Under GFSM 2014, entities that are controlled by government or another public corporation, or assume government-related risks should be included in the public sector perimeter (see para.2.63; paras. 2.136-2.139). Based on available information, it cannot be established that the FPP operates with sufficient autonomy as an institutional unit. Given its role in carrying out specific fiscal functions, staff considers that it should be included within the public sector.

[7] Development banks are part of Mexico's public sector perimeter.

longer-term liabilities is recognized in fiscal expenditures at the time of the transaction, reflecting the recognition of underlying obligations.

Implications for Fiscal Statistics and Public Debt

3. Recording P-Caps and the FPP in line with GFSM 2014 principles affects measured public debt and deficits relative to national reporting. Recording P-Caps adds about US$12 billion (0.6 percent of GDP) to gross public debt in 2025, while leaving net public debt broadly unchanged as the purchased U.S. treasury securities are recorded as public sector financial assets at market value. Recording the FPP as part of the public sector raises fiscal deficits compared to the authorities' recording by about MXN 195 billion (0.5 percent of GDP) in 2025 and MXN 60 billion (0.2 percent of GDP) in 2026 but lowers fiscal deficits in 2027-31. Under the accrual-based treatment recommended by GFSM 2014, expenditure is recognized when the underlying obligation is incurred rather than when payments fall due. Consequently, fiscal deficits are higher in the near term under the GFSM treatment, but lower in later years when the associated payments are recorded in the national fiscal reporting, reflecting differences in the timing of recognition. Gross public debt increases relative to the authorities' recording in 2025 and 2026, though only adding the liabilities of the FPP with private banks (peaking at 0.5 percent of GDP in 2026). These increases in gross debt gradually unwind as the associated liabilities are amortized. The table below reconciles the authorities' recordings with IMF staff's presentation consistent with GFSM principles. It shows the effects of P-Caps, and FPP on the PSBR, gross debt, and net debt over 2025-31.

Reconciliation of Fiscal Balances and Public Debt

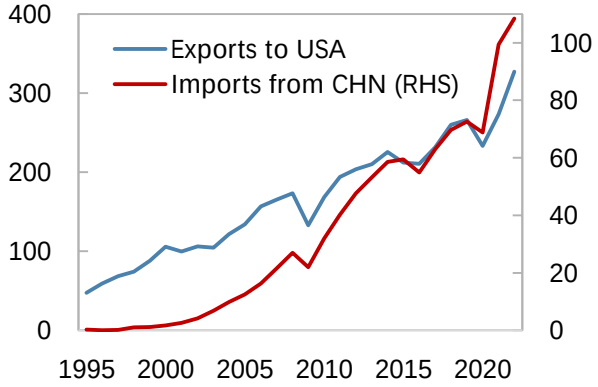
	2025	2026	2027	2028	2029	2030	2031
PSBR - Authorities' recording	-4.3	-4.1	-3.9	-3.7	-3.6	-3.4	-3.2
FPP adjustment	-0.5	-0.2	0.1	0.1	0.1	0.1	0.1
PSBR - adjusted to align with GFSM	-4.9	-4.2	-3.9	-3.6	-3.5	-3.3	-3.1
Gross Debt - Authorites' recording	60.7	61.1	62.1	62.8	63.6	64.1	64.4
PCAP adjustment	0.6	0.5	0.4	0.2	0.1	0.0	0.0
FPP adjustment 1/	0.4	0.5	0.4	0.3	0.3	0.2	0.1
Gross Debt - adjusted to align with GFSM	61.7	62.1	62.9	63.4	64.0	64.3	64.5
Net Debt - Authorities' recording	52.6	52.9	53.9	54.7	55.5	56.0	56.3
PCAP adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FPP adjustment	0.5	0.7	0.6	0.5	0.4	0.3	0.2
Net Debt - adjusted to align with GFSM	53.2	53.6	54.5	55.2	55.8	56.3	56.5

Note: Percent of GDP.
1/ Difference from the authorities' recording reflects only liabilities to commercial banks.

Annex VIII. Mexico's Trade Patterns amid Global Trade Tensions: Lessons from the 2018–19 Tariff Episode[1]

Drawing on lessons from 2018–19 episode of U.S. tariffs on China, this annex assesses the impact of these trade tensions on Mexican exports to the U.S and Mexican imports from China. It finds that the share of domestic value added (VA) in Mexico's exports to the U.S. remained broadly stable following the imposition of tariffs. This, coupled with a surge in exports to the U.S. over the 2018-22 period, indicate a significant contribution of exports to domestic economic activity. It also finds limited evidence of a shift in the drivers of Chinese exports to Mexico following the 2018-19 tariff measures.

1. The parallel increase in Mexico's exports to the U.S. and imports from China to Mexico after 2018 raises questions about the impact of U.S.–China tariffs. A first question relates to the evolution of VA in Mexico's exports to the U.S., specifically whether the observed expansion relied on imported intermediates or reflected a deepening of domestic production. A second question centers on the drivers of rising imports from China, specifically whether they reflected China's global supply expansion, the reallocation of Chinese exports away from the U.S. toward other destinations, or Mexico's own demand expansion. Drawing on OECD ICIO data for the period 2010-22, this annex examines these questions to shed light on potential implications of the current wave of tariffs.



Domestic Value-Added in Exports to the U.S.

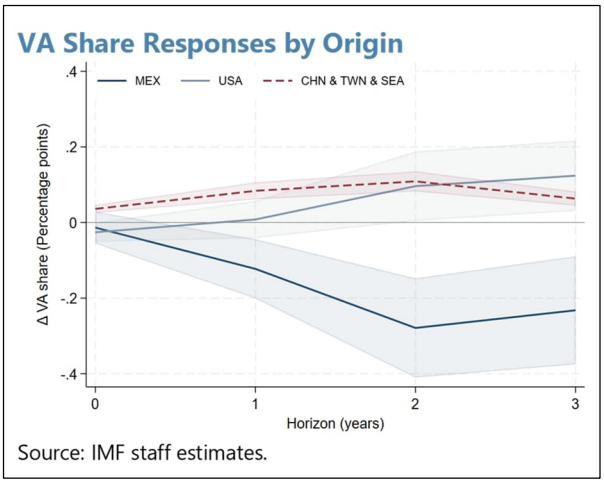
2. The 2018 episode appears to have had limited impact on the domestic value added of Mexican exports. A local projections framework is used to assess whether the post-2018 expansion of Mexico's exports to the U.S. was associated with higher domestic and regional value content, or greater reliance on imported intermediates. The baseline specification traces the dynamic response of the value-added share to the 2018 U.S.-China tariff tension over horizons $h = 0, 1, \ldots, H$:

$$\Delta S_{c,s,t+h} = \alpha_s^h + \delta_t^h + \beta_c^h \cdot (Post_t \times Exposure_s) + \Gamma^h \cdot Z_{s.t}$$

where $\Delta S_{c,j,t+h}$ denotes the cumulative change between $t-1$ and $t+h$ in the share of VA originating in country c embodied in Mexico's exports of sector s to the U.S. at time t; $Post_t$ is an

[1] Prepared by Francisco Arizala and Fah Jirasavetakul.

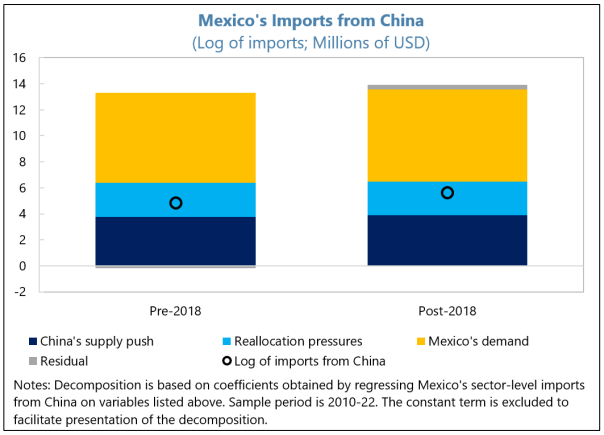
indicator equal to one in the post–U.S.–China tariff period and zero otherwise; and $Exposure_s$ measures sector-level exposure to U.S. tariffs on Chinese imports.[2] The sequence $\{\beta_c^h\}_0^H$ traces the impulse response of the country-c VA share to the tariff shock. The results indicate that, over the three years following the shock, the domestic VA share declined by only 0.2 percentage points, while the shares sourced from China and several other Asian intermediate suppliers rose by roughly 0.05 percentage points combined—a pattern consistent with limited near-term scope for Mexico to change the structure of existing GVCs. The U.S. VA share also edged up slightly by about 0.15 percentage point over the same horizon. Given the strong growth in exports to the U.S. seen after 2018, the broadly stable domestic VA share implies a sizeable increase in domestic VA and export contributions to economic activity.[3]



Source: IMF staff estimates.

Imports from China

3. The rise in Mexico's imports from China appears to have been primarily driven by domestic demand. A sector-level bilateral panel regression is used to assess the drivers of Mexico's import growth from China. Specifically, Mexico's imports from China are regressed on: (i) China's exports to the rest of the world, capturing China's global supply expansion; (ii) China's exports to the U.S. and Mexico's exports to the U.S., proxying reallocation pressures following China's reduced access to the U.S. market; and (iii) Mexico's imports from the rest of the world, capturing common domestic demand across origins.



Notes: Decomposition is based on coefficients obtained by regressing Mexico's sector-level imports from China on variables listed above. Sample period is 2010-22. The constant term is excluded to facilitate presentation of the decomposition.

$$\ln M_{j,t}^{MEX\leftarrow CHN} = \alpha_j + \underbrace{\beta \cdot \ln X_{j,t}^{CHN\rightarrow RoW}}_{CHN\ supply\ push} + \underbrace{\theta \cdot \ln X_{j,t}^{CHN\rightarrow USA} + \pi \cdot \ln X_{j,t}^{MEX\rightarrow USA}}_{CHN\ reallocation} + \underbrace{\rho \cdot \ln M_{j,t}^{MEX\leftarrow ROW}}_{MEX\ demand}$$

where $M_{j,t}^{c\leftarrow k}$ denote country c imports of sector j at time t from country k and $X_{j,t}^{c\rightarrow k}$ denote country c exports of sector j at time t to country k. The results attribute about one-half of the increase in

[2] Following Arizala and others (2025), sector-level exposure to U.S. tariffs on Chinese imports is constructed as an import-value-weighted average of product-level changes in U.S. tariffs on Chinese goods.

[3] The post-2018 export surge was driven more by automotive exports, which have a higher domestic VA share than electronics. However, if the domestic VA share remains broadly stable during the current electronics-driven export boom, sustained export growth in this sector could also contribute to economic activity over time.

Mexico's imports from China to Mexico's own demand conditions, nearly one-third to China's broad export dynamism, and the remainder to imports of intermediary goods used in Mexico's exports.[4] These contributions are broadly unchanged before and after the escalation of U.S.–China trade tensions in 2018.

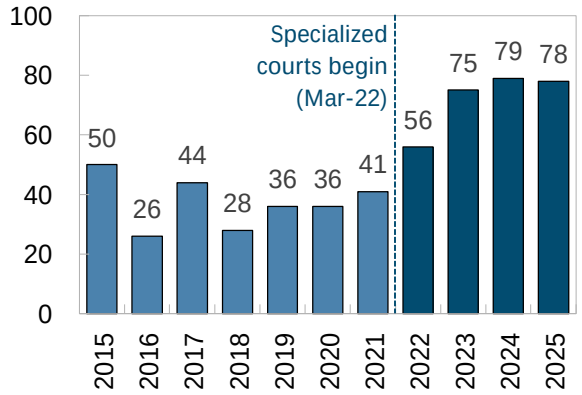
[4] Mexico's imports from the rest of the world may also capture common sectoral shocks, sourcing changes, and imported inputs used in exports. Accordingly, the results suggest an important role for domestic demand but do not fully disentangle it from broader supply-chain adjustments. Lessons from the 2018-19 episode should therefore be interpreted with caution.

Annex IX. The Underutilization of Mexico's Enterprise Insolvency Regime[1]

This annex analyzes the causes for the low rate of use of enterprise insolvency procedures in Mexico. Their scarce use does not appear to be related to the health of the corporate sector but to reflect unresolved issues in the legal and institutional framework that weaken trust of economic operators in the mechanism for debt resolution. A set of reforms would be instrumental in enabling the insolvency regime to play an important role in the Mexican economy.

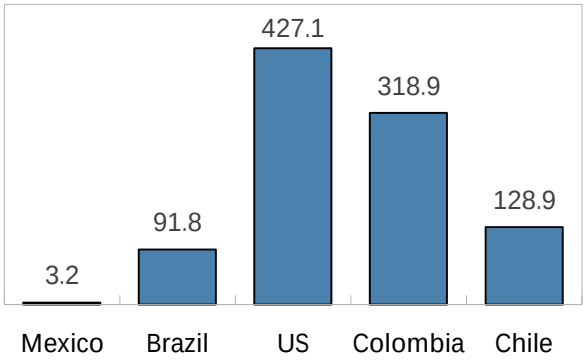
1. The use of Mexico's enterprise insolvency procedure is very low. Insolvency cases under the Mexican insolvency law, Ley de Concursos Mercantiles (LCM), have remained at low levels since its enactment in 2000. From 2000 to 2010, only 444 proceedings were filed in total, and by late 2021 only 889 filings had been made over the two decades since the law was adopted. The number of cases increased after two specialized insolvency courts began operating in early 2022, rising from 41 in 2021 to 56 in 2022 and to 75–79 per year in 2023–25. However, the number of cases remains negligible for an economy with more than two million formal firms. In fact, Mexico records around three insolvency cases per 100,000 firms each year, compared to roughly 90 in Brazil, over 400 in the United States, more than 300 in Colombia, and around 130 in Chile.

Insolvency Cases Admitted per Year
(Number of cases)



Sources: IFECOM and other publicly available sources.

Insolvency Cases[1/], 2023
(Employer firms; Per 100,000 companies)



Sources: IFECOM and other publicly available sources.
1/ Denominator is employer/registered firms (excludes sole proprietors); the exact firm base varies slightly by country, so cross-country levels are approximate.

2. The underutilization of insolvency goes beyond legal considerations and can have a significant economic impact. Effective insolvency frameworks perform key functions in credit intermediation, resource reallocation, and financial stability (IMF 1999). The low use of insolvency procedures carries costs for competitiveness and productivity and reflects deeper distortions in credit markets and resource allocation. Cross-country evidence shows that use of insolvency reduces

[1] Prepared by Jose M. Garrido (LEG).

the share of capital sunk in "zombie" firms (Adalet McGowan, Andrews, and Millot 2017; Abbas and others 2025). The low use of insolvency could also be connected with issues such as the low private-credit-to-GDP ratio, the SME financing gap, and high collateral requirements to compensate for the legal risks.

3. Demand for enterprise debt resolution exists in Mexico, but it has been diverted into out-of-court workouts and other functional alternatives. Alternatives include not only a wide practice in out-of-court restructuring negotiations between financial institutions and large corporate debtors, but also the use of U.S. insolvency proceedings by large corporations—e.g., SatMex (2005), Aeroméxico (2020), or Grupo Posadas (2021), which benefit from recognition in Mexico—and ad hoc government rescues.[2]

4. There is a close relation between the low use of insolvency procedures and access restrictions. The law restricts access to insolvency procedures, possibly due to concerns based on the historical abuse of insolvency. For this reason, access to the procedure is complex and requires a specific phase (visita) in which a specialist verifies independently that the insolvency standard is met. As a result, there are frequent dismissals of insolvency petitions, particularly creditors' petitions. This restrictive approach runs counter to comparative practice and delays commencement at times in which insolvency measures are urgently needed. Access is also restricted because it requires proper accounting documents, effectively excluding informal firms.

5. The low use of the insolvency regime is also a consequence of legal, institutional, and cultural factors. The limited insolvency practice reflects technical defects in the law and lack of confidence in the system: debtors avoid insolvency for fear that filing can lead to liquidation and a lasting loss of access to credit, preventing viable firms from filing while restructuring is still feasible. Creditors refrain from using insolvency procedures mainly because of low expectations of recovery. Creditors face competing tax and labor claims that are protected by strong priorities and reduce recoveries for other claimants. In the case of labor claims for the last year before insolvency, the protection is directly granted by the Constitution (art. 123) and the intervention of the labor courts to protect those claims often results in litigation and value destruction. Procedural complications, including frequent appeals (amparos) result in lengthy processes that average 3 to 6 years. Both debtors and creditors also indicate that there is strong stigma attached to insolvency procedures and strong cultural resistance to their use.

6. There are institutional aspects that aggravate the low usage of insolvency. The specialization of insolvency courts after 2022 represented a positive step and showed an increase in the number of insolvency cases. However, there are only two courts with federal jurisdiction that appear to be insufficient to handle the current case burden. Furthermore, the 2024 judiciary reform

[2] FICORCA in the 1980s and UCABE in the 1990s functioned as official rescue programs that offered an alternative to formal insolvency, with risks ultimately borne by the federal treasury. FOBAPROA/IPAB operated as a rescue program for the banks that benefited indirectly the corporate sector.

resulted in the replacement of specialized judges and staff as well as increased doubts about expertise, consistency, and independence of insolvency adjudication.

7. Targeted reforms to the insolvency regime are needed to increase its use and effectiveness. Reforms to the framework should include facilitating access to the procedure by eliminating the "visita", setting a straight accelerated path for pre-negotiated restructuring plans, reducing tax priorities (see Aw and others 2025), reducing the disruptive effects of labor priorities through procedural coordination and eventual introduction of wage guarantee funds, and minimizing appeals, for instance by accumulating challenges and appeals at specific moments of the procedure and avoiding any suspensive effects. It would be necessary to streamline all processes, with strict time limits, and introduce simplified procedures for micro and small enterprises.[3]

8. Changes to the institutional framework would support legislative reforms and help strengthen the insolvency regime. In particular, the establishment of specialized courts or benches across the country, subject to appropriate safeguards, would help reduce bottlenecks and improve efficiency. This would need to be accompanied by stronger coordination arrangements, and more reliable public data and transparency on case outcomes (see Garrido and others 2019). In this context, IFECOM could play a more prominent coordinating role. Given that specialized courts would operate nationwide while enterprises and insolvency professionals may be located in different states, IFECOM could serve as an important link between the courts and insolvency practitioners, while fully respecting the respective responsibilities of each institution. As an organ of the federal judiciary, IFECOM already selects, monitors, and regulates insolvency specialists and issues general rules for proceedings. Its advisory function could also be leveraged to provide support to courts and practitioners. In parallel, the sanctioning regime should be strengthened to ensure effective enforcement.

[3] Many of these measures were included in the *Emergency Bankruptcy Regime* introduced in the Mexican Congress in 2020 and stalled in the Senate. This projected reform could be taken as the starting point for the necessary reforms.

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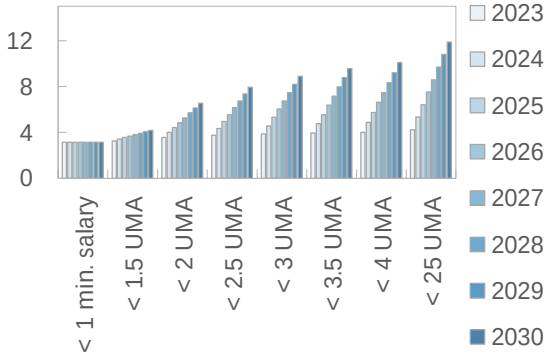
Annex X. A Domestic Savings Glut? Implications of Mexico's 2020 Pension Reform[1]

Mexico's 2020 pension reform is expected to substantially expand pension assets administered by AFORES/SIEFORES by raising contributions and allowing more flexible lifecycle investment strategies, potentially lifting pension savings to about 40 percent of GDP by 2031 from 24 percent of GDP currently. This rise could deepen domestic capital markets, lower real interest rates, and support investment and growth, although the magnitude will critically depend on three aspects: whether mandatory saving crowds out voluntary saving, whether higher employer contributions distort labor decisions, and how much pension saving can be invested abroad. The IMF's GIMF model is used to study how these aspects are likely to shape the impact of the 2020 pension reform on the economy.

1. Mexico's 2020 pension reform paved the way for a significant increase in pension system assets. It introduced a gradual increase in mandatory employer contributions (cesantía y vejez) from 3.2 percent in 2020 to 11.9 percent by 2030, staggered by income groups. In parallel, the shift to a generational (or target-date) fund system enabled Mexico's 10 private pension administrators (AFORES) to rebalance their portfolios allowing, in particular, for higher equity holdings of funds serving younger cohorts. These reforms, together with still favorable demographics, are boosting assets under management (AUM), which are projected to reach near 40 percent of GDP by 2031, from 24 percent in 2025 (and 7 percent in 2008).

Employer Contribution Schedule by Wage Bracket, 2023-30

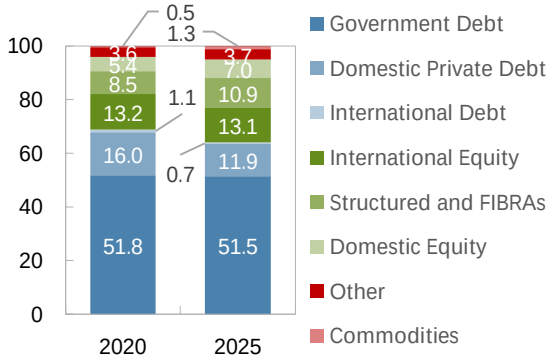
(Percent of gross earnings)



Source: OECD, *Pensions at a Glance 2023*, Mexico Country Profile.

SIEFORES Portfolio Allocation by Asset Class

(Percent of net assets)



Source: CONSAR

Note: UMA is an inflation-indexed unit of account used to denominate social security contributions, legal thresholds, and regulatory fees.

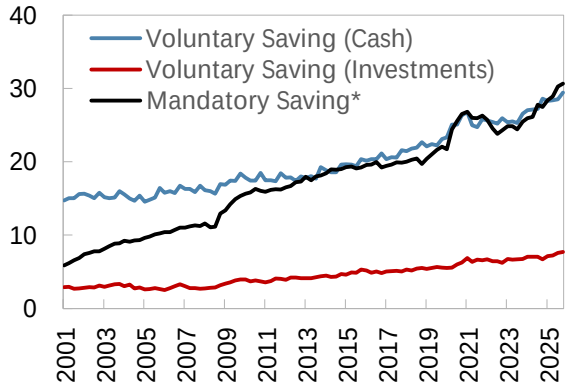
[1] Prepared by Christina Kolerus (WHD), Simon Voigts and Tsendsuren Batsuuri (RES).

2. Fast rising pension assets could trigger a rise in aggregate saving with macro-financial impact. Mexico's AFORES are already playing an important role on domestic markets—holding about 29 percent of domestically issued bonds (up from about 24 percent pre-reform) and 10 percent of domestic equity—and are set to become a significant source of financing, in particular for planned infrastructure projects. The macro impact of increased mandatory savings will hinge on three key aspects:

- Saving crowding out. Additional mandatory saving may partially replace voluntary saving by households and corporates, as suggested by cross-country evidence (*Scenario Less Saving*).[2] The stock of voluntary household saving – either invested in equity and debt instruments or kept at checking and saving accounts – has grown in parallel to mandatory saving, suggesting limited crowding out of intra household savings, partly reflecting limited access to credit (*Reference Scenario*). At the same time, Mexico's aggregate saving rate has been relatively stable around 22 percent of GDP per year and increasing household saving have been broadly offset by declining corporate saving. While this could suggest some substitutability, it could also reflect a slowing economy and rising labor costs in recent years.

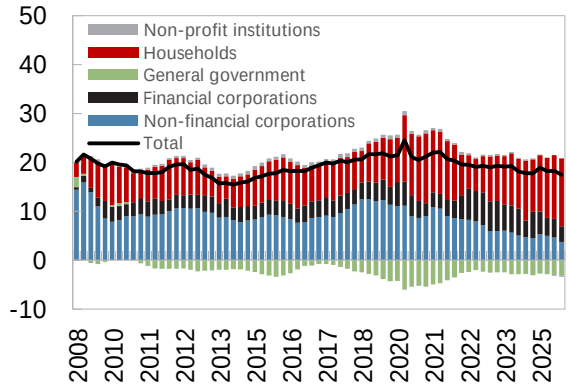
- Labor costs. Higher employer pension contributions imply higher labor costs and, if passed on to workers, could distort

Household Assets
(Percent of GDP)



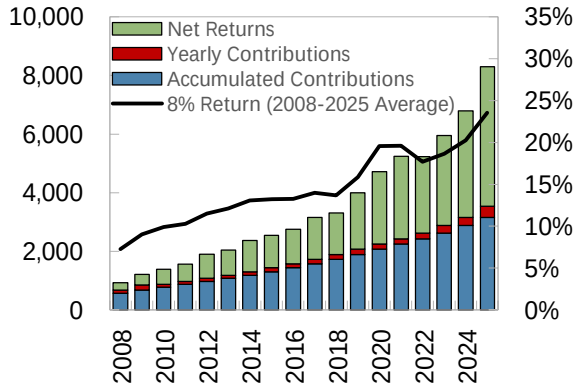
Source: CONSAR.

Gross Savings by Institutional Sector
(Percent of GDP, 12-month rolling sum)



Source: CONSAR.

AFORES Contributions and Returns
(LHS: Billions of pesos; RHS: Percent of GDP)



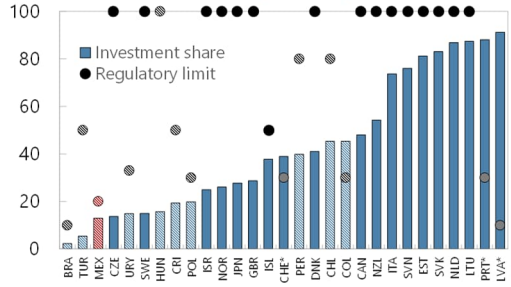
Source: CONSAR.

[2] Seminal theoretical work showing substitutability between social security and private saving was developed by Feldstein (1974). Most ensuing empirical work focused on reductions in generosity and their impact on savings, e.g. Attanasio and Burgiavini (2003) for Italy's 1992 pension reform, and Halvorsen et al (2024) for Norway's 2011 reform,

(continued)

household labor decisions[3] (*Scenario Less Labor*). However, in line with Summers (1989), households could perceive the additional contributions as deferred consumption and absorb the rate hike (*Reference Scenario*). Drawing conclusions from employer responses thus far might be too early, as rate increases have been relatively small since 2023 and the overwhelming share of future pension claims stem from returns rather than contributions.

Foreign Investments by Pension Providers[1/]
(Percent of total investment; simple average across AFORES)



Source: OECD.
1/ Emerging market economies denoted by diagonal stripes. All data for 2023 except for Sweden (2022) and Brazil (2021). Brazil data refer to closed pension funds only. *Limit applies to unhedged foreign currency exposure only.

- Limit on foreign investments. This limit is key to determining the extent of savings that will be invested domestically. Mexico's current limit is 20 percent of AUMs (*Reference Scenario*), derivatives and certain investment vehicles (CERPIs) grant additional space to those AFORES cleared to invest in such products. Current foreign holdings amount to only 14 percent of AUM although AFORES have plans to expand their exposure (*Scenario More NFA*).[4]

3. The rise in pension contributions should boost private investment and growth, to varying degrees across scenarios. The IMF's GIMF model—a large-scale model featuring Blanchard-Yaari type OLG households —is calibrated to Mexico's economy and shocked with an

GIMF Core Assumptions and Magnitude by Scenario

Scenario	Core Assumptions and Magnitude
Reference	Firm-side contribution rate (+1% GDP by 2030), 15% of incremental revenue invested in infrastructure, Full labor offset, Zero private savings crowd-out, Limited NFA increase (~25%)
Scenario 1: Less savings	Identical to *Reference*, except with partial private savings crowd-out.
Scenario 2: Less labor	Identical to *Reference*, except with partial labor offset.
Scenario 3: More NFA	Identical to *Reference*, except with more NFA growth (~double by Year 10).

Note: As scenario 1 and 2 are calibrated with exogenously determined frictions, the outcome variables cannot be compared quantitatively.

showing a 50 percent crowding-out effect. Cross-country studies, such as Attanasio and Rowedder (2003) or Amaglobeli et al (2019) show that public pensions tend to crowd out private savings between 30 to 60 percent.

[3] The progressive contribution rate schedule mitigates incentives to become informal at the extensive margin, while higher income households could consider lowering their labor supply at the intensive margin.

[4] In general, developing and emerging markets tend to impose restrictions on NBFIs for investments abroad, while advanced economies typically regulate foreign investment via risk weights (in combined defined-benefits-systems), limits on investments in non-OECD countries, and conditions on foreign investment and hedging. Thresholds range from 10 percent (Brazil) up to 100 percent (for some funds in Chile), while India and Nigeria, for instance, impose a full restriction to invest abroad. In the EU and US, NBFI investments are regulated via solvency capital (Solvency II).

increase in pension contributions that gradually rises over five years to 1 percent of GDP, in line with the authorities' plans. Importantly, consistent with the fiscal rule, a constant public debt-to-GDP ratio is assumed which grants space to invest into high-multiplier assets.

4. The rise in savings translates into lower interest rates and higher investment, generating higher growth despite lower household consumption. In the *Reference Scenario*, with no crowding out and labor supply inelastic to pension contributions, output increases by 1 percent after ten years, driven by lower interest rates and higher investment.[5] In a *Less Saving Scenario* (with half of the additional saving crowded out) or in *Less Labor Scenario* (where higher contributions lower incentives to work by around half of the distortion of a regular labor tax, corresponding to a decline in labor supply of 0.3 percent), the output increase is smaller. Consumption falls across scenarios during the displayed horizon given households' saving behavior.

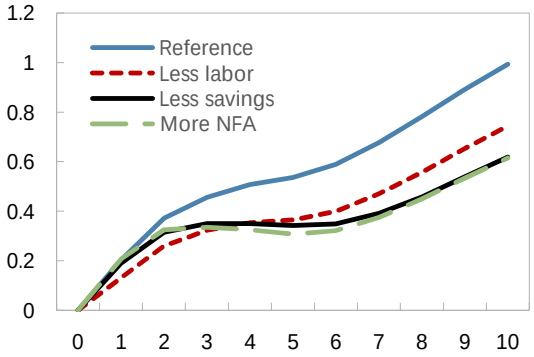
5. Channeling more saving into domestic investment would also benefit liquidity constrained households, while pensioner income would depend on outside options. In a *More NFA Scenario*, the accumulation of net foreign assets is substantially larger, and a smaller portion of the additional savings is available domestically. Accordingly, the decline in domestic real interest rates is milder, domestic investment increases by less, and the expansion of output is dampened. Consumption declines relatively more under this scenario, mainly driven by lower output. Pensioners' household income is broadly similar to the reference scenario, given a slightly milder decline in domestic rates, a higher portfolio share abroad, and thus broadly equal GNI – but crucially depends on the remuneration abroad.[6] Household income by liquidity constrained households, however, is significantly lower for higher NFA limits.

[5] On average over 10 years, additional savings of 0.8 percent of GDP enable higher domestic corporate investment (0.5 percent of GDP), followed by foreign investments (0.2 percent of GDP in line with regulations), and (TFP-enhancing) infrastructure investment (0.15 percent of GDP). Following the fiscal rule, public debt is non-increasing, and lower interest rates and higher GDP mildly reduce debt to GDP ratio temporarily.

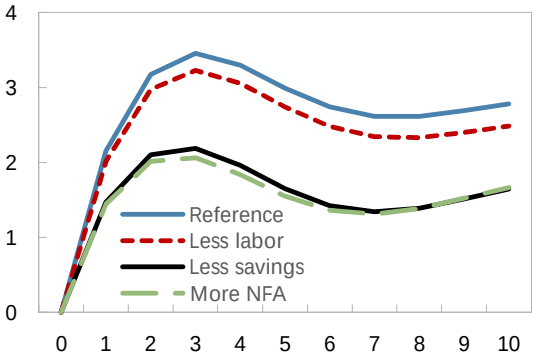
[6] The GIMF model features only one asset class for NFA investment which is remunerated at the risk free rate. The GNI would increase more if investment strategies achieve higher returns.

Annex X. Figure 1. **Mexico:** Simulation Results

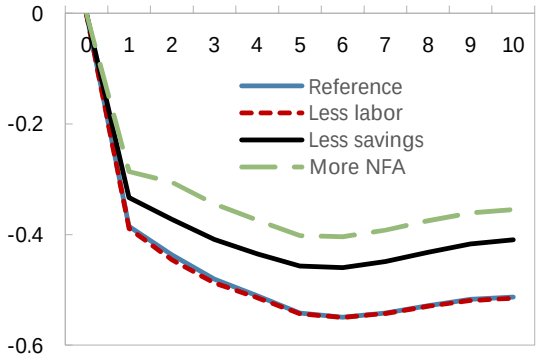
Real GDP
(Percent deviation)



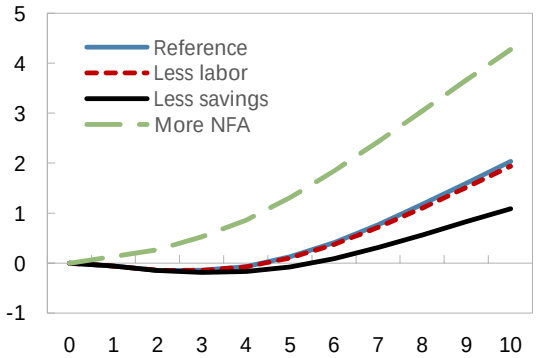
Real Private Investment
(Percent deviation)



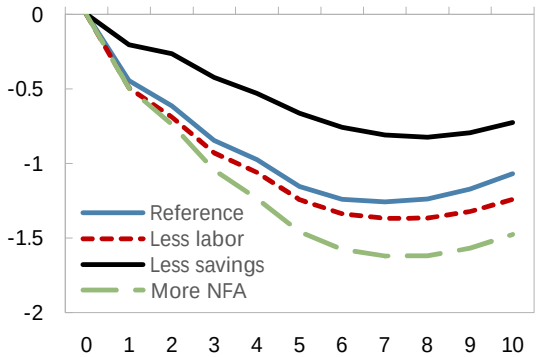
Real Headline Interest Rate
(Percentage point deviation)



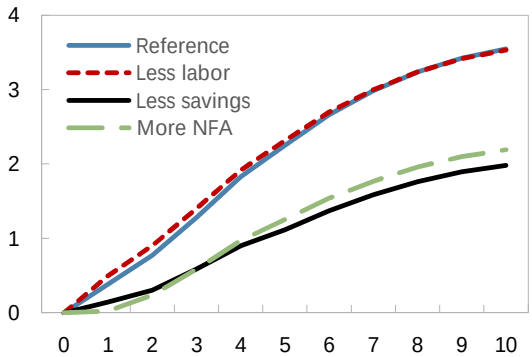
NFA / GDP
(Absolute deviation)



Real Household Consumption
(Absolute deviation)



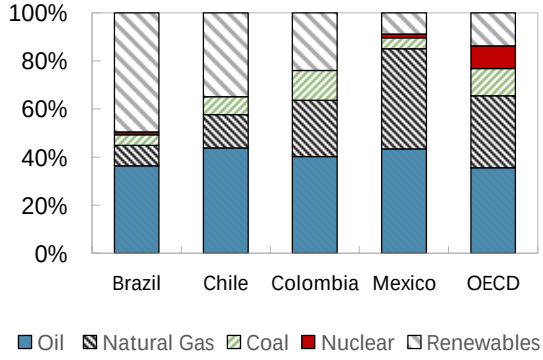
Corporate Bonds & Equity / GDP
(Absolute deviation)



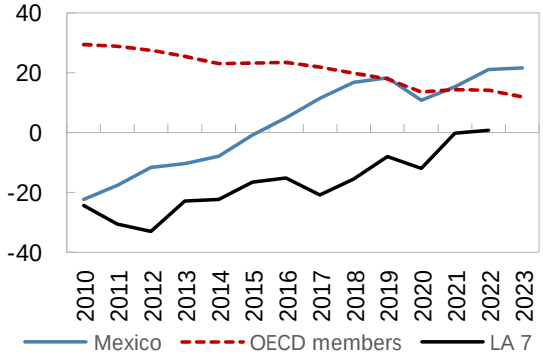
Annex XI. Mexico's Energy Transition and Pathways to Energy Security[1]

The Mexican economy faces the challenge of expanding energy capacity to boost growth, reducing emissions, and strengthening energy sovereignty. Model analysis suggests that reaching the authorities' target for renewable sources in electricity generation would improve energy security and moderately lower emissions. A more ambitious decarbonization effort, via higher fossil-fuel prices, would allow meeting the authorities' NDC target and further lower dependence on energy imports, albeit with a modest GDP cost. At the same time, boosting growth through energy reforms requires improving distribution and transmission efficiency to ensure reliability and access to the electricity grid.

1. Mexico faces a fossil-heavy energy mix, rising import dependence, and low electricity reserve margins. Energy sources remain concentrated in fossil fuels, with renewables accounting for a considerably smaller share than in peer economies. Also, Mexico is now a net energy importer, reflecting declining domestic production, rising demand, and a transition toward natural-gas electricity generation supported by low-cost imports from the U.S. Electricity reserve margins—i.e., available generation capacity above peak demand—are low at around 7 percent.



Source: IEA, World Energy Balances (2026)



Source: World Bank.

2. The authorities aim at increasing energy supply, reducing energy dependence, and lowering emissions by tapping Mexico's vast potential for renewables. Key pillars include raising electricity generation to 500 TWh by 2035 (about 3.2 percent annual growth), increasing the renewable share from 22 percent in 2024 to 43 percent in 2035,[2] and strengthening transmission and distribution (through near-term investments amounting to 1.3 percent of GDP). Mexico's NDC 3.0 strategy introduces a 2035 economy-wide emissions cap, targeting a reduction of around 60 percent relative to *business as usual*. The 2025 electricity reform supports these goals by opening electricity generation to the private sector, including through schemes with up to 46 percent private

[1] Prepared by Francisco Arizala, Christina Kolerus, Johanna Schauer (all WHD) and Sneha Thube (RES).

[2] Mexico has 17.7 TW of utility-scale PV technical potential and 411 GW of distributed-scale PV (NREL), among the largest solar endowments globally.

participation in joint projects with CFE. Moreover, despite access to exceptionally low-cost gas supply, solar and wind turned cost-competitive relative to fossil fuels around 2020, and the latest tenders for private and mixed projects confirmed higher CAPEX costs for combined cycle plants – despite a 30 percent battery storage requirement for renewables, which will further help overcome intermittency constraints and extend supply times at low cost. In addition, the authorities are also assessing the potential for unconventional shale gas.[3] Additional measures include further enhancing energy efficiency via incentives – where Mexico has been advancing relative to peers – and the newly established Emissions Trading System (ETS).

3. Model simulations compare a *business-as-usual* scenario with policy scenarios that reflect the authorities' electricity sector plans and NDC target. The IMF ENV model (Chateau et al., 2025) is calibrated to Mexico's macroeconomic and energy structure, including current policies until 2035. The business-as-usual scenario assumes the continuation of the existing energy mix, with electricity generation growing at 2.1 percent and the existing carbon tax increasing with inflation from $4/tCO2 to $5.4/tCO2 by 2035, while maintaining the exemption for natural gas. A first alternative scenario considers the authorities' plans to boost energy generation (at 3.2 percent growth per year), assuming the current mix of energy sources is maintained, and simulates a reduction in distribution losses from 15 percent to 5 percent of output, in line with the OECD average. A second alternative scenario considers the authorities' planned shift in the energy mix towards renewables together with the faster expansion in electricity generation (at 3.2 percent growth per year) and reduction in distribution losses. To achieve the targeted generation shares, the simulations assume new regulation (modelled as a renewable mandate) is introduced to induce the shift to production using renewable generation. A third scenario additionally implements an economy-wide carbon tax of US$68 per tCO2 by 2035, compared to US$4 now,[4] to induce a further shift to renewables and broader decarbonization of the economy to reach Mexico's NDC target.[5]

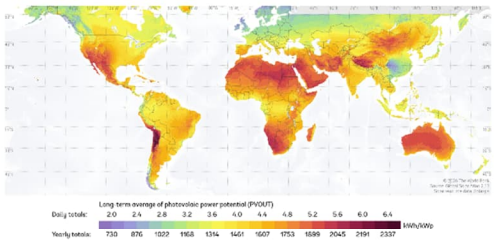
[3] Pemex estimates Mexico's unconventional shale gas resources at about 141.5 trillion cubic feet, which is sizeable compared to a current annual consumption of roughly 3.3 trillion cubic feet. While these resources could help reduce reliance on imported gas, their development faces important challenges, including relatively high production costs, water scarcity in prospective regions, and considerable uncertainty over the actual volume of recoverable reserves given limited exploration to date.

[4] A carbon tax is the most cost-effective way to reduce emissions because it directly prices the externality. However, by raising fossil energy prices, it reduces energy demand, with some degree of substitution to other production factors, and lowers output modestly. By contrast, feebates and feed-in tariffs in the electricity sector place less upward pressure or even reduce energy prices depending on the policy but require greater fiscal support and can impose higher GDP costs for a given level of emissions reduction. See Chateau et al. (2022) for further discussion on policy options. Technology uncertainty is another key factor that could affect the cost estimates.

[5] We model the midpoint of the authorities' unconditional 2035 emissions target range of 364-404 MtCO2e and assume it is achieved through an economy-wide carbon tax that reduces emissions by 60 percent relative to the baseline by 2035. Assumptions on energy efficiency and factor productivity are unchanged from the baseline across all policy scenarios. The carbon tax policy is simulated to be budget-neutral and the carbon revenues – increasing by 13.5 percent – are used to reduce labor taxes – with direct tax revenues declining by 12 percent and the remainder reflecting lower tax revenues due to reallocation across sectors. Because the model includes a transmission and distribution sector, the costs of expanding and operating the electricity grid are accounted for when scaling up power generation.

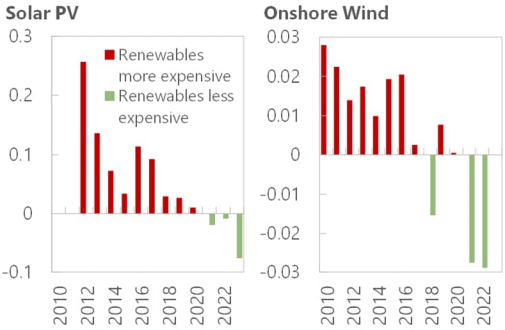
Annex XI. Figure 1. Mexico: Energy Landscape

Photovoltaic Power Potential
(kWh/kWp)



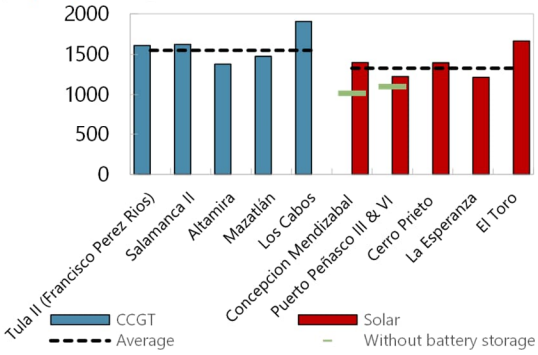
Source: World Bank

Solar and Wind Competitiveness[1/] vis-a-vis Fossil Fuels
(U.S. dollars per kWh, 2023 prices)



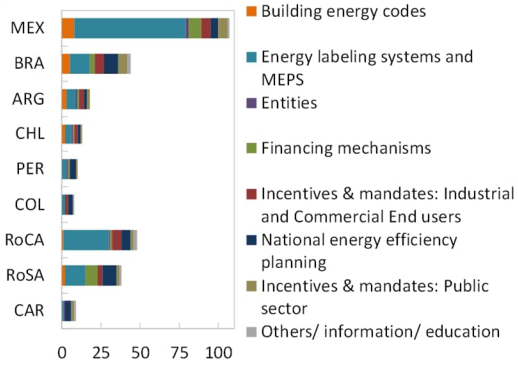
Sources: IRENA, Renewable Power Generation Costs in 2023.
1/ Weighted-average LCOE of utility-scale solar PV or onshore wind minus weighted average LCOE of fossil fuel fired generation.

New Combined-Cyle and Solar Power Plants
(Capex per kW)



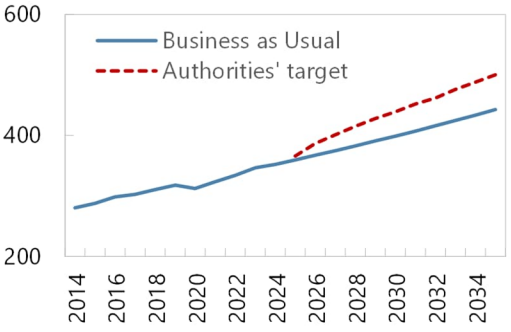
Source: Comisión Federal de Electricidad.

Energy Efficiency Measures
(Number of measures)



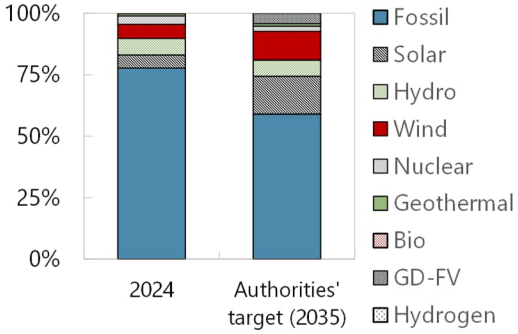
Source: World Bank
Note: CA = Central America, SA = South America.

Electricity Generation
(Terawatt-hour)



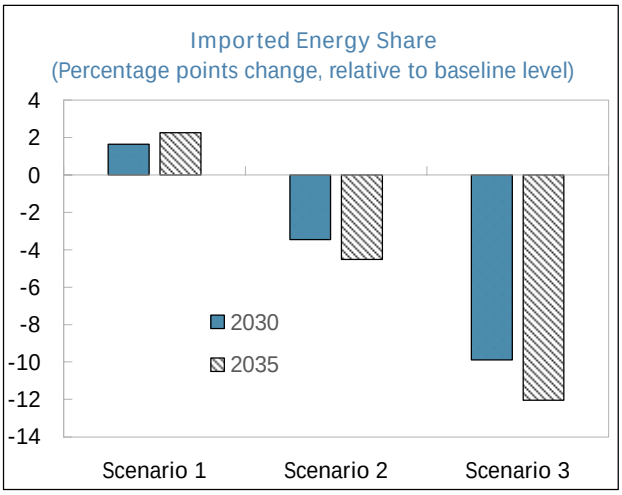
Source: SENER, IMF staff projections.

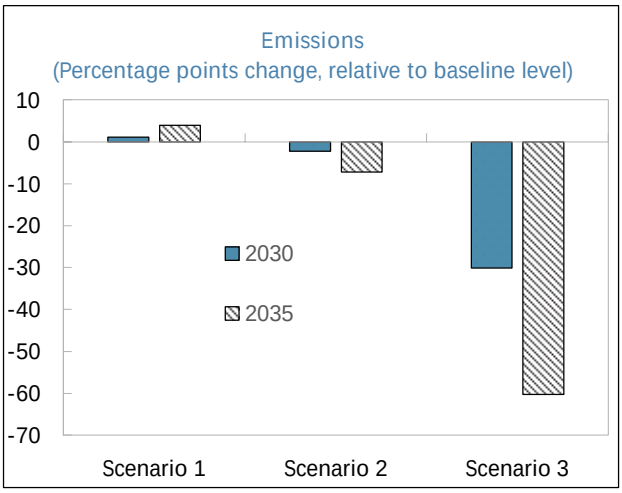
Generation by Source
(Percent of total)



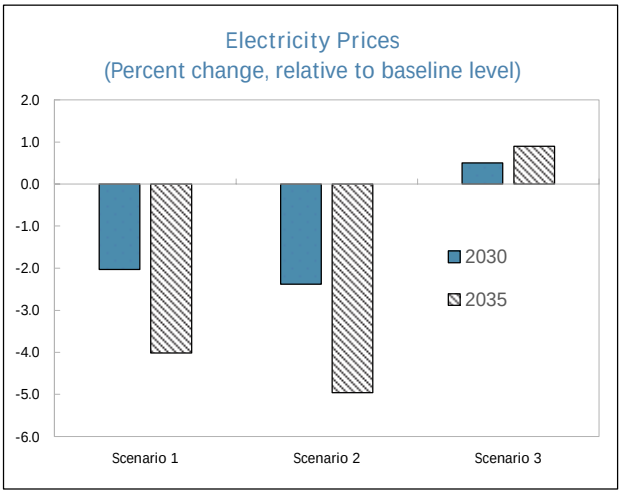
Source: SENER, IMF staff projections.

4. Plans to expand electricity by shifting to renewables would support the authorities' energy security goals. A boost in energy supply under the existing energy matrix would lead to an increase in the share of imported energy, exacerbating energy dependency (Scenario 1). However, the planned shift to renewables would enhance energy independence leading to a reduction in the share of imported energy by 5 percentage points by 2035 (Scenario 2). Further tapping Mexico's still-underutilized renewable energy potential aided by a carbon tax (Scenario 3) would reduce the share of imported energy to 21 percent while raising renewables to 60 percent of electricity generation.[1]





5. Current energy targets would fall short of achieving the envisaged emissions reduction. While emissions increase under the pure energy expansion Scenario 1, reaching the renewables target under Scenario 2 would lead CO2 emissions to fall by 5 percent relative to the baseline by 2035. However, closing the remaining emissions gap of about 570 MtCO2e would involve broader decarbonization and raising fossil energy prices.

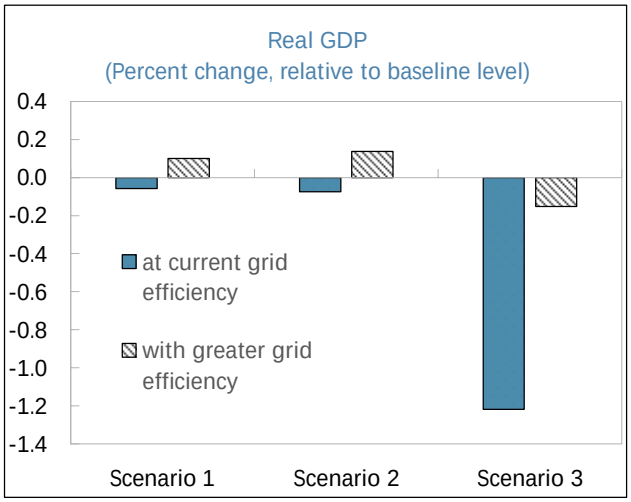


6. The increase in energy generation, coupled with addressing energy transmission losses, would lead to a reduction in electricity prices. Compared to the scenario with higher reliance on fossil sources of energy (Scenario 1), the decline in electricity prices would be more pronounced in Scenario 2 as a higher share of renewables would further lower the cost of electricity production.[2] Inducing a further reduction in emissions through the

[1] Investment in renewables increases by 0.07-0.08 percent of GDP per annum over 10 years.

[2] This reflects higher initial investment costs for renewable technologies, between 0.03-0.04 percent of GDP per annum over a period of 10 years, compared to fossil-fuel-based generation, which incurs a larger share of costs through ongoing fuel and operating expenditures. Moreover, supply expansion without renewables would lead to further increases in electricity prices.

introduction of higher carbon taxes would allow reaching the NDC targets, however it would also exert moderate upward price pressures (Scenario 3).



7. Pairing the increase in energy supply with improvements in energy transmission and distribution will be key to support growth. Unlocking stronger growth will require additional measures, as the transition and expansion of energy supply alone (i.e., building new structures while winding down old ones) is costly in terms of output. The expansion of electricity generation would support higher output in manufacturing, especially energy-intensive and trade-exposed sectors, although at the expense of agriculture and selected services. The GDP impact in the model simulations is broadly neutral despite significant resource implications, mainly thanks to the positive impact from improved transmission and opening the sector to private and foreign investments.[3,4] In this regard, the requirement for battery storage alongside new renewable energy investments is a welcome step to support grid reliability and integration. Policy certainty will also be key to ensure continued investments in renewable energy projects (Jaumotte and others, 2024).

[3] IMF-ENV does not differentiate between public and private sector investments. To capture the role of private sector financing, we model an increase in electricity sector investment sufficient to reach the targeted 500 TWh of generation by 2035. The additional investment is financed without constraining the government's budget constraint and is reflected in higher aggregate investment by the same amount. This limits the impact on price of capital and crowding out of investments from other economic activities and mitigates the impact on GDP and emissions.

[4] These results do not account for the domestic environmental co-benefits associated with lower emissions whose economic value can be substantial (Black et al. 2021).

Appendix I. Written Communication

Mexico City, October 22, 2026

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431

Dear Ms. Georgieva,

The Mexican economy has demonstrated resilience, underpinned by robust fundamentals, strong policy frameworks and preferential access to the U.S. market relative to competitors. We expect growth to moderately accelerate in 2026 and further in 2027, supported by domestic consumption and external demand, while inflation is already close to target and will continue its disinflation process. However, external tail risks, including those arising from trade and geopolitical tensions and tighter global financial conditions, are still significant.

The IMF's Flexible Credit Line (FCL) arrangement continues to provide valuable insurance against external risks and to serve as a signal of confidence in the strength of Mexico's institutions and policies. Consistent with our exit strategy, and reflecting the continued resilience of the Mexican economy, reduced vulnerability to capital flow reversals in the event of external shocks, and the strength of its policy and reserve buffers, we consider that a lower level of access would be appropriate while preserving adequate insurance against external risks. Accordingly, we request a reduction in access under the current 24-month FCL arrangement from 200 percent to 150 percent of quota, equivalent to SDR 13.36905 billion, effective upon completion of the mid-point review. We reaffirm our intention to continue treating the arrangement as precautionary.

Mexico remains firmly committed to maintaining strong macroeconomic policies and institutional frameworks that underpin economic stability and confidence in the country's outlook. Fiscal policy will remain focused on safeguarding sound public finances and ensuring that public debt remains on a sustainable trajectory. Monetary policy will continue to be oriented toward achieving low and stable inflation consistent with Banco de Mexico's target. The flexible exchange rate will remain a key shock absorber, supported by adequate external and financial buffers.

Strong financial regulation and supervision will continue to underpin a sound and resilient financial system. At the same time, policies to foster public and private investment in infrastructure, including renewable energy, will contribute to raising potential growth, strengthening energy security, and reinforcing the resilience of the Mexican economy.

Sincerely yours,

/s/
Édgar Abraham Amador Zamora
Minister of Finance and Public Credit

/s/
Victoria Rodríguez Ceja
Governor of Banco de México

INTERNATIONAL MONETARY FUND

MEXICO

October 26, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION, REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT, AND REQUEST FOR REDUCTION OF ACCESS—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

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FUND RELATIONS

(As of August 31, 2026)

Membership Status: Joined December 31, 1945

General Resources Account:

	SDR Million	Percent of Quota
Quota	8,912.70	100.00
Fund holdings of currency	6,489.69	72.81
Reserve position in Fund	2,423.04	27.19

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	11,393.62	100.00
Holdings	12,192.07	107.01

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Arrangement Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	Nov. 13, 2025	Nov. 12, 2027	17,825.40	0.00
FCL	Nov. 15, 2023	Nov. 12, 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):

		Forthcoming			
	2026	2027	2028	2029	2030
Principal					
Charges / Interest		0.05	0.05	0.05	0.05
Total		0.05	0.05	0.05	0.05

Exchange Rate 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

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

Article VIII, Section 2, 3, and 4, of the IMF's Articles of Agreement and maintains an exchange system that is free of multiple currency 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 23, 2025. The staff report was published as IMF Country Report No. 25/286.

Technical Assistance

Year	Dept.	Purpose
2026	MCM	Monetary Policy Modeling
2026	MCM	Cyber Crisis Exercise IV
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