Mexico Country Outlook 2025

Baker Institute | Center for the U.S. and Mexico

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Mexico Country Outlook 2025

Each year, the Center for the U.S. and Mexico at Rice University's Baker Institute for Public Policy surveys experts affiliated with the Baker Institute to generate a Mexico Country Outlook. Experts anticipate the opportunities and challenges in Mexico's political, regulatory, economic, and social environments. The report is available to policymakers, business leaders, and the public to assist in their decision-making processes.

This report is the forecast for Mexico in 2025. It addresses themes as varied as the political and diplomatic relationship between Washington, D.C. and Mexico City, the state of politics and democracy in Mexico, shifts in the regulatory environment, pending issues in the legislative and regulatory agenda, the expected performance of the country's economy, trends related to human mobility as well as public safety and security, and the state of education, health care, and other relevant social issues.

I. Executive Summary

In 2025, Mexico's current challenges are likely to worsen, as the recently inaugurated Claudia Sheinbaum Pardo administration (2024–30) has shown an unwillingness to depart from the policy playbook of the Andrés Manuel López Obrador administration (2018–24) — a playbook that has already proven unable to resolve many of the country's problems.

Political and diplomatic relations are headed for a rocky year, as Mexico drifts further away from a strategic ally position with the United States on several items.

First, Mexico refuses to consider U.S. concerns about China's economic activities in Mexico. Chinese investment in Mexico — often hidden by layers of companies affiliated in third countries, and likely a strategy by China to secure access to the American market through the United States-Mexico-Canada Agreement (USMCA) — is not well-received in Washington. Additionally, this economic dynamic may become a major irritant in 2025, especially as the review and revision of the USMCA agreement gets underway.

Second, Mexico's realignment of its foreign policy with Cuba, Venezuela, and Nicaragua will not benefit its relationship with the U.S. Mexico's friendly ties with these authoritarian governments mean that the U.S. cannot rely on Mexico as a strategic ally in an increasingly uncertain world. This situation could worsen if current Florida Sen. Marco Rubio is confirmed by the Senate as secretary of state during the Trump administration, as he is likely to focus more on Latin America — a region that the Biden administration has consistently overlooked.[1]

Third, the election of President-elect Donald Trump is likely to bring much attention to two items he values — immigration and drug trafficking. While he is not expected to mind any democratic backsliding happening in Mexico, he may threaten tariffs on Mexican goods if President Sheinbaum does not comply with his demand that Mexico control its borders.

Politically, the National Regeneration Movement (MORENA) and its populist political project known as Fourth Transformation (4T) will likely continue to dominate and pursue their nationalist, one-party-rule agenda as well as the continuous destruction of institutions that guarantee both checks and balances and democracy in general. As the opposition is anticipated to be very weak through the year, any real check on MORENA's power will come from within the governing coalition. However, the coalition is likely to remain stable through 2025 as they push their legislative and regulatory agenda and power concentration in the executive branch. Consequently, Mexico in 2025 is likely to consolidate into a more authoritarian, one-party system and move into a more radical populism position.

In 2025, growth rates between U.S.' and Mexico's economies will continue to diverge. Mexico's economic performance may slow down to a crawl, while the U.S. economy may experience fairly healthy growth. The U.S. economy will be boosted by additional tax cuts proposed by Trump, but Mexico may not necessarily capture the dividends of this turbocharge to the American economy. Mexico may well be one of the lowest-performing economies in Latin America.

Key issues affecting the Mexican economy in 2025:

- **Pressure to cut government spending to close a gaping budget deficit.** However, given the overall liabilities the Mexican government has undertaken, such cuts are unlikely to happen. Although domestic consumption will be propped up by cash transfer programs and remittances, it will not substitute strong internal growth. In fact, consumption is likely to remain weak over the year as well.
- **Slow down of foreign direct investment.** Constitutional changes to the judicial branch and the purposeful weakening of the regulatory environment have caused an erosion of trust and introduced uncertainty for foreign investment.

The greatest danger to Mexico in 2025 is a large downgrade in its credit rating. This can occur if analysts view a significant deterioration in the country's institutions, including the loss of independence of the judicial branch after the elections of June 2025, and the elimination of the independent regulatory agencies slated for the end of 2024. This downgrade will make Mexico less attractive to capital and investment in general and increase interest on debt and expenditures in debt servicing in the future. This will worsen if Brazil regains its credit rating and if Mexico becomes the object of an investment downgrade. The year 2025 is also the year when most of the activity to review and revise the USMCA will shape up. If there is no consensus on the trade agreement early on, uncertainty may further discourage foreign direct investment through 2025.

The Mexican economy itself will face some additional challenges. Private investment is expected to decrease, and public investment is also likely to shrink in 2025. The peso will continue to slide downward slowly over 2025, due to capital flight — large and small — and the relative attractiveness of the dollar under the new Trump administration. Also, as the economy slows down and revenue becomes tight, the government may be unable to meet its now constitutionally sanctioned liabilities in the form of cash transfer programs, which entail:

- Heavy subsidies to the parastatal enterprises, including Pemex, Federal Electricity Commission (Comisión Federal de Electricidad, CFE), the Felipe Ángeles International Airport (AIFA), the Mayan Train (Tren Maya), Mexican State Airline (Mexicana de Aviación), etc.
- Expensive organization of judge, magistrate, and Supreme Court justice elections.
- Costs of other public services and demands, which are expenses that will likely prevent the budget deficit from being closed in 2025.
- Growing cash transfer programs and skyrocketing pension commitments.

Inflation will likely continue at higher levels than that of most Organisation for Economic Co-operation and Development (OECD) economies. Given Sheinbaum's commitment not to raise taxes, the Mexican government will both place additional debt in the international markets and try to raise revenue through intimidation tactics by the national revenue collection agency, Tax Administration Service (Servicio de Administración Tributaria, SAT), on industry and businesses. These tactics are likely to discourage further investment and even encourage additional capital flight. Finally, the review and revision of the USMCA will put enormous pressure on Mexico, as the negotiations may involve legislative changes at home that Sheinbaum may not be able to push through Congress.

The 2025 budget establishes a 3.9% deficit, which together with fixed spending, leaves little room for additional investment in four rubrics that will set Mexico back in competitiveness over time.[2]

1. **Health care:** The Mexican health care system is underfunded, understaffed, and increasingly strapped for supplies and drugs.
2. **Education:** Mexico's investment in education, including fostering skilled labor, will continue to be below what the country needs for its workforce to be competitive.
3. **Research and development:** This is well below the OECD average and falling further behind when compared with its competitors, such as Brazil. No additional funding should be expected in 2025.
4. **Infrastructure:** The year 2025 will be a critical year, as delayed maintenance will accelerate the deterioration of roads, bridges, seaports, airports, land ports, and other strategic infrastructure.

Additionally, Mexico has now completed a counterreform in the energy sector. It has reinstated a model that, while not completely excluding private and foreign investment, favors the national companies. Few energy companies, whether in hydrocarbons or power, are likely to venture into Mexico in 2025 and possibly beyond, if the environment is perceived to be hostile to private and foreign investment. This in turn will discourage larger corporations from considering Mexico as a place to conduct business, especially if they have their own commitments to consume cleaner energy, while Mexico continues to recarbonize its power sector.

Lastly, Sheinbaum has promised to follow former President López Obrador's strategy on security and public safety. Furthermore, the strategy she has proposed is underwhelming, given Mexico's declining security and the dismal results between 2018 and 2024, the previous administration's period. The country will therefore continue to be racked by organized crime and violence, inflicting additional costs on businesses and families and potentially reaching the point of discouraging additional investment if public safety and security is not guaranteed.

II. Political Landscape

Mexico's political landscape in 2025 will be dominated by the MORENA political party, founded by López Obrador in 2014, andthe policy preferences of his populist political project known as the 4T. The governing coalition holds the executive branch, a supermajority in both houses of Congress, and a majority of the state governorships and legislatures. This full control allows MORENA to reform the Constitution without reaching consensus with the opposition. Moreover, Sheinbaum is not likely to deviate from the policy playbook that López Obrador handed to her. She is, in fact, more ideological and potentially less pragmatic than him. This combination may accelerate the degradation of Mexico's rule of law and hasten its drift into autocracy in 2025.

With near full political control of all branches and levels of government, the MORENA-led coalition will likely push through any confirmation and legislation they wish to approve. Nearly all legislative activity, however, may be designed to weaken checks and balances, eliminate or co-opt all independent regulatory agencies, and rig the electoral system to secure their place in power for the long term. They may push for a reconcentration of power in the presidency, a weakening of opposition parties and dissenting voices, and the expansion of state control over the economy, particularly within certain strategic sectors, such as energy and minerals. They may also push prolabor legislation, such as higher salaries and the 40-hour week, which are likely to make Mexico less competitive in investment markets.

MORENA's coalition has clearly indicated its approach to Senate confirmations and its agenda concerning independent bodies, as evidenced by the reelection of Rosario Piedra Ibarra as the head of the National Human Rights Commission (Comisión Nacional de Derechos Humanos, CNDH). Despite her disappointing performance during her first term and the widespread criticism from civic organizations and non-governmental organizations (NGOs), the MORENA coalition chose to reelect her for another five-year term. The votes of opposition parties against this reelection were largely inconsequential, given MORENA's supermajority in Congress.[3]

The one political uncertainty is whether the MORENA party, the executive branch, and the legislative branch will truly work together. Sheinbaum does not have the charisma or the assurance of party leadership, as López Obrador left his son, Andrés Manuel López Beltrán, in charge of the party, and two figures loyal to López Obrador will continue to oversee legislative activity in the House and Senate with a legislative program handed to them by López Obrador in February 2024.

The opposition will continue to be weak and largely irrelevant in 2025. It may take a few years, and possibly a major crisis, for the opposition parties to rearticulate themselves into a plausible political and electoral alternative. The National Action Party (Partido Acción Nacional, PAN) and Citizens' Movement Party (Movimiento Ciudadano, MC) will continue to be the only opposition, but they will not have the numbers to stop any legislative projects. The Revolutionary Institutional Party (Partido Revolucionario Institucional, PRI) will continue to fade as an alternative altogether in 2025.

III. Legislative and Regulatory Environment

After MORENA's victory in the June 2 presidential election and some political maneuvering that took the ruling party and its allies above the two-thirds supermajority in both the House of Representatives and Senate, the 4T became unstoppable. In fact, although they did not initially have control of the Senate, it took them only a couple of weeks to flip opposition senators to the ruling coalition and gain full control in both chambers.[4] The opposition parties challenged the ruling bloc's supermajority, but the electoral authorities confirmed the distribution of the seats in Congress.[5]

Now, with a new Congress that was sworn in on Sept. 1, and in his last month in power, López Obrador — at that time a lame duck — took full advantage of MORENA's coalition supermajority and pushed through several crucial constitutional reforms through Congress. These reforms were part of a package of bills that López Obrador introduced to Congress on Feb. 5, 2024.[6] These bills are important because they are the legislative playbook Congress will follow, a legislative package that Sheinbaum inherited from López Obrador and has shown no signs of deviating from it.[7] The following sections describe the core elements and implications of important pieces of legislation that are expected to radically transform the country in 2025.

2024 Regulations' Impacts in 2025 and Beyond

Judicial Reform

From 2020 to 2024, the Mexico Country Outlook report chronicled different attempts from López Obrador to dismantle the judicial power.[8] On Sept. 16, 2024, he finally achieved his goal. Congress passed a constitutional reform that radically transformed the judicial branch. Core elements of the judicial reform include:

- Replacing all judges, magistrates, and Supreme Court justices with new individuals elected by popular vote.
- Establishing a popularly elected disciplinary court to oversee judges.
- Reducing the number of Supreme Court justices from 11 to 9.
- Shortening Supreme Court justices' term from 15 to 12 years.

Another important element is the elimination of the Supreme Court's two chambers. Currently, the Supreme Court rules cases acting en banc or through two chambers, depending on the matter of the case. The new legislation eliminates the chambers, which will impact in the number of cases the Supreme Court resolves each year.

One of the most controversial issues within the reform is the popular election of the judiciary. This issue will bring substantial economic, political, and social impacts that the Sheinbaum administration must deal with in 2025 and beyond. Economic implications are expected in the short term because the constitutional amendment requires the election of more than 6,500 judges, magistrates, and justices at the federal and local levels. The National Electoral Institute (Instituto Nacional Electoral, INE) will organize two elections. The first election, where 50% of the federal judiciary will be elected, will take place in June 2025, and the second election, where the other half will be chosen, will be in June 2027. The election dates are currently uncertain. Guadalupe Taddei, the head of INE, formally requested a 90-day delay from the Senate due to the ongoing legal challenges against the reform that have hindered its implementation process.[9] INE estimates that both elections will cost around $650 million U.S. dollars. [10] This amount is likely to have a substantial and unnecessary economic impact on a country already struggling with its public finances.

Second, this reform could be considered a self-inflicted wound. Although a judicial reform may have been necessary, the constitutional amendment passed by Congress will not bring a more independent, professional, and fair judiciary. On the contrary, the election process will expose the judiciary to outside influence from organized crime, corrupt political parties, and economic groups. The opposition parties and the Supreme Court have offered different legal and political solutions to avoid a constitutional crisis, but the ruling coalition has consistently refused to make any changes. The political climate is at boiling temperature. The ruling coalition has continued implementing the reform even though there are judicial mandates to stop it. Federal courts went on strike over the reform implementation, disrupting ongoing legal proceedings.

Finally, protests against the judicial reform are expected to continue, and it is uncertain when judicial proceedings will return to normal. The courts' backlog will be felt for years to come. Many current judges, magistrates, and justices have resigned to run for election and prepare their campaigns. The loss of talent is immeasurable. The reform's outcome will replace experts with loyalists. Unfortunately, the country is potentially heading into a constitutional crisis that would bring more uncertainty, erode the country's rule of law, and degrade Mexico's democracy.

National Guard Under Military Command

Since the Calderón administration, Mexico's presidents have attempted to enhance the military's role in public safety and security duties. The Supreme Court blocked numerous pieces of legislation aimed at placing the military in charge of these responsibilities, citing that the Constitution mandated public safety and security to remain under civilian control.

However, on Oct. 1, 2024, new constitutional legislation regarding the National Guard came into effect. This legislation incorporated the National Guard as a military entity alongside the Army, the Air Force, and the Navy. Approximately 120,000 members will now be responsible for various public safety and security tasks.[11] This reform was also part of the package of 20 constitutional initiatives introduced by López Obrador in February 2024.

The militarization of the country is expected to continue, with the military receiving significant budget increases at the expense of local police and civilian agencies. There will still be a pressing need for increased investment in state and local policies. One consequence of this reform is that state and local governments will become entirely reliant on military organizations for handling public safety and security issues. Mexico is also expected to experience an increase in due process and human rights violations, as the military have shown little concern for such issues.

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Elimination of Independent Regulatory Agencies

In November 2024, Congress passed legislation that eliminated seven autonomous institutions and energy regulatory agencies that operated independently from other branches of the government. MORENA's coalition argued that these agencies were inefficient and expensive. Supporters of the bill stated that for years these agencies and institutions have protected the interests of rich and powerful people, lacking popular support and acting as a refuge for costly bureaucracies.

Opponents of the bill claimed that these agencies' independence and autonomy shielded these entities from outside pressures, such as political and economic influences. This reform was also part of the package of 20 constitutional initiatives mentioned above. Now, the functions of the eliminated institutions and agencies will be transferred to different ministries of the executive branch and to the National Institute of Statistics and Geography (Instituto Nacional de Estadística y Geografía, INEGI) (Table 1).

Table 1 — Changes to Mexico's Regulatory Agencies

INDEPENDENT, REGULATORY AGENCIES	TRANSFERRED TO GOVERNMENT AGENCIES
National Institute for Transparency, Access to Information, and Personal Data Protection (Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales, INAI)	Transparency and access of information transferred to the Ministry of Civil Service Access of information related to political parties transferred to the National Electoral Institute (INE) Access of information related to unions transferred to the Federal Center for Conciliation and Labor Registration Protection of personal data transferred to the Ministry of Civil Service
Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones, IFT)	Ministry of Infrastructure, Communications, and Transportation
Federal Economic Competency Commission (Comisión Federal de Competencia Económica, COFECE)	Ministry of Economy
National Council for the Evaluation of Social Development Policy (Consejo Nacional de Evaluación de la Política de Desarrollo Social, CONEVA)	National Institute of Statistics and Geography (INEGI)
National Hydrocarbons Commission (Comisión Nacional de Hidrocarburos, CNH)	Ministry of Energy
Energy Regulatory Commission (Comisión Reguladora de Energía, CRE)	Ministry of Energy
National Commission for the Continuous Improvement of Education (Comisión para la Mejora Continua de la Educación, MEJOREDU)	Ministry of Education

Source: Authors.
Note: As of the date this report was printed, Congress discussed creating a new agency that would take over some the responsibilities of COFECE and IFT.

The elimination of these entities will likely lead to greater opacity and a lack of accountability in the government. These reforms, rather than saving money for public finance, aim to concentrate more power in the executive branch and undermine the checks and balances on the president's authority. Moreover, MORENA and its allies have realized that these reforms violate certain principles that underpin the USMCA and have subsequently scrambled to create a catch-all regulatory agency. Canada and the United States may not necessarily accept that solution in the renegotiations of the USMCA in 2025–26.

Legislative Initiatives Under Discussion

Labor Reform

Congress continues to consider a constitutional amendment to Article 123 that would reduce the workweek from 48 to 40 hours.[12] This reform was previously discussed in the House of Representatives, but it has not received the votes to move forward. Supporters of the bill argue that the change would bring Mexico in line with most OECD member countries. The bill's opponents assert that the amendment would negatively impact employers, who would be required to choose between hiring more workers or paying more overtime. Both options would raise the cost of goods and services and cause Mexico's labor market to become less attractive to investors.

Congress is likely to attempt to pass this bill again in 2025. It has already been very receptive to legislation to expand worker's rights, such as raising the country's minimum wage. This time, the two-thirds majority requirement to amend the Constitution will not be an obstacle due to MORENA's coalition supermajority.

IV. Headwinds for the Mexican Economy

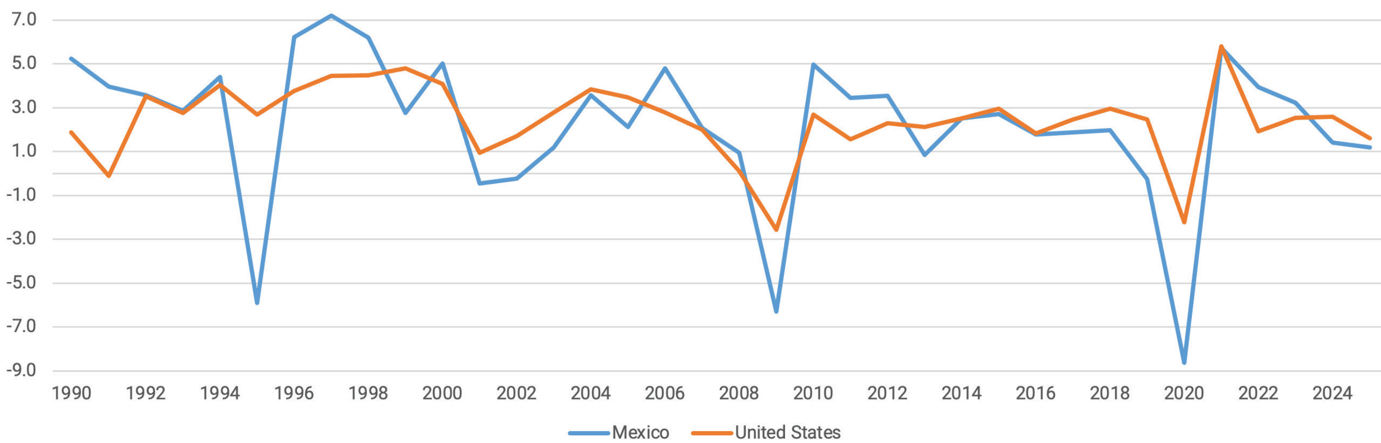
Since 2000, Mexico's gross domestic product (GDP) has grown at an average rate of 1.7% per year.[13] Under the López Obrador administration, that growth rate was only around 0.9% annually, the lowest since the mid-1980s.[14] Mexico's economic performance will remain weak in 2025, growing approximately 1.0% (Figure 1). Domestic demand, due to the loss of momentum in the services sector, caused this fall in Mexico's GDP in 2024.[15] It will remain so in 2025. The labor market was resilient in 2024 but started to weaken at the end of 2024, which is likely to continue in 2025.[16] In contrast, the U.S. economy grew 2.2% per year on average during the period of López Obrador's presidency.[17] For the first time in the era of the North American Free Trade Agreement (NAFTA) — now the USMCA — U.S. and Mexican economies are beginning to diverge.[18]

The weakness in Mexico's economy is puzzling, given that the government ran a budget deficit of almost 6% of GDP and placed debt in international markets, and that remittances — money sent by Mexicans abroad, particularly from the U.S. — were a boost for the Mexican economy.[19] All this points to structural problems in the Mexican economy, which will not be turned around in 2025. Some economic policies will in fact only entrench these structural problems even more, such as the energy counterreform of 2024. This scenario is already raising concerns among investors.[20] And if the U.S. economy, Mexico's main trading partner, slows down considerably in 2025, this could take the Mexican economy into a recession.[21]

Moreover, the constitutional change of late 2024 to dismantle the judicial branch in Mexico — to be implemented beginning in mid-2025 — will have discouraging effects on foreign direct investment (FDI). The uncertainty caused by changes in the judicial system is already making investors think twice about Mexico. This will only worsen if Congress eliminates nearly all independent regulatory agencies, as it intends to do at the end of 2024, with the sole exception of the country's central bank, Banxico.[22]

Also, the USMCA is up for review and revision in late 2025 and early 2026. The anti-trade rhetoric in the U.S., from both Democrats and Republicans, could cause the agreement not to be ratified, or they may choose to do so at a later year. The agreement does not expire until 2036 in any event. The USMCA review will add more uncertainty to Mexico's economic landscape in 2025, seriously affecting investment flows, which would nearly evaporate all hope that Mexico can take advantage of nearshoring activity driven by U.S. industrial policy.

Figure 1 — GDP Growth Rates in the US and Mexico, 1990–2025



Source: World Bank.
Note: Rates for 2024 and 2025 are authors' estimates.

Factors Influencing Mexico's Economic Performance in 2025

Mexico's economic performance in 2025 will be affected by the following factors:

1. **Fiscal deficit:** The government of Mexico (GOM) plans to decrease its budget deficit from almost 6% of GDP in 2024 to 3.9% in 2025. However, given the expenditure required on social programs and pensions, subsidies to the oil company Pemex and the electric utility CFE, and the cost of new reforms placed in Mexico, it will be difficult to meet that number or lower it substantially in 2025.[23] One way to lower the fiscal deficit to 3% of GDP is by increasing taxes, but this is unlikely in 2025, as Sheinbaum said she would not do so.
2. **Judicial branch reform:** The constitutional changes to completely redo Mexico's judicial branch weaken judicial independence, affecting the legal certainty that national and international investors need to resolve disputes fairly. This uncertainty will negatively impact Mexico's economic growth and competitiveness in 2025.[24]
3. **Security and safety:** Weakness in Mexico's rule of law and democracy, including rising levels of corruption and impunity, will affect the economy by reducing public investment or building poor and inefficient infrastructure, for example. Costs on security and safety by companies and families will also be a factor that can depress growth in 2025.
4. **Investment grade:** The loss of Mexico's investment grade is a real possibility in 2025. If the country were to lose its investment grade — and Brazil regains it — Mexico's ability to attract capital will be seriously curtailed.

5. **Economic strategy:** The GOM's political and electoral calculations, even if the next elections are not until 2027, will continue to drive economic decisions in 2025. This will likely have negative effects on Mexico's ability to fulfill its commitments to international trade and investment agreements, putting additional pressure on Mexico's fiscal health.

6. **Federal subsidies:** Pemex and CFE will continue their streak of losses in 2025. The GOM will, however, continue to subsidize these parastatal companies, which are now government agencies. The new energy landscape will discourage private and foreign investment — even if the GOM says it is welcome — and the energy supply in Mexico will continue to fall behind demand. Mexico will not meet its stated goals on renewable energy either.

7. **Organized crime:** Mexico's security and public safety strategy cannot guarantee normal functioning for entire sectors of the U.S. economy. The announced security and public safety strategy is disconnected from a real diagnostic. This will add to investors' worries in 2025, possibly discouraging investment.

8. **Independent regulatory agencies:** The Mexican Congress will eliminate most independent regulatory agencies in 2025, except for Banxico, which is safe for now. Many regulatory functions will be absorbed by various executive departments, which cannot guarantee regulatory protection or an even playing field. This will also deter some companies from going into Mexico. The U.S. government is likely to draw some attention to this leading up to the USMCA review, with an uncertain outcome.

9. **Chinese investment and U.S. relations:** For companies already established in Mexico, reinvesting profits will be easier in 2025, but greenfield investment will continue to be low. China's investments will also draw the attention of Washington, which will likely demand that Mexico curtail Chinese investments in Mexico as part of the USMCA review and revisions. This may raise tensions between Washington and Mexico City, putting the very ratification of the USMCA at risk. However, Sheinbaum is likely to yield to U.S. pressure.

10. **Infrastructural investment:** Severe underinvestment in infrastructure and maintenance, including the electric grid and water system, will also place Mexico at a disadvantage among investors. These issues are unlikely to improve in 2025. This may also affect the productivity of companies already doing business in Mexico.

11. **USMCA review:** Although some doubt that Trump will insist on revisions to the USMCA in 2025 and 2026, he is likely to ask for revisions, instead of a mere review of the agreement. These revisions might introduce additional uncertainty, slowing investment in Mexico through 2025.

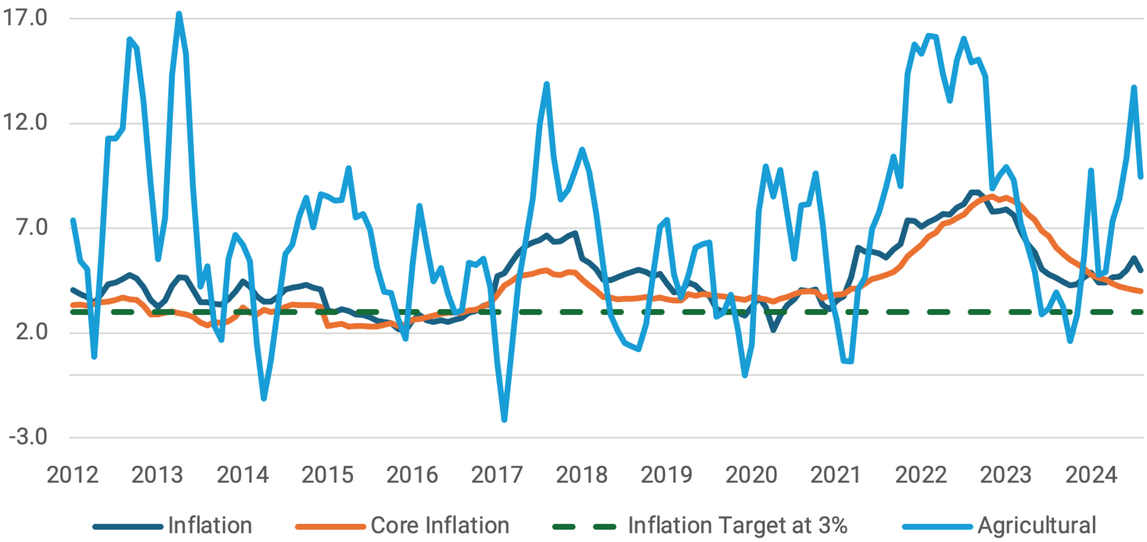
Key Economic Health Indicators in 2025

Mexico's Inflation Will Slow but Remain High Next Year

Headline inflation declined in early 2024 but increased again after the first quarter of the year because of a sharp rise in agricultural prices that arose from widespread droughts in Mexico (Figure 2).[25] Core inflation, which excludes food and energy commodities, decreased in 2024. Inflation remained high and above Banxico's target of 3% in 2024, hovering around 4.8% by year-end 2024. Although inflation will continue to come down slowly in 2025, headline inflation will be around 3.9%, with core inflation being around 3.7%.

Banxico will likely ease its monetary policy in 2025, if inflation declines and remains low and if agricultural prices can be controlled. However, if inflation increases in consecutive months in 2025, Banxico may reconsider tightening its monetary policy again.

Figure 2 — Mexico's Inflation Rate by Percentage, January 2008–August 2024



Source: National Institute of Statistics and Geography (INEGI).

Will the Peso Withstand Uncertainty in 2025?

In 2023 and the beginning of 2024, the strength of the peso can be attributed to high-interest rate differentials relative to the U.S., exports, and remittances. However, following Mexico's elections on June 2, 2024, MORENA's supermajority in both chambers of Congress, and the approval of the judicial reform in September 2024, the peso depreciated against the U.S. dollar. For example, after the election of Sheinbaum, the peso depreciated by around 8.6%, and prior to the approval of the reform by the Mexican Senate, the peso reached a level of 20.09 (Figure 3).[26] Still, the peso averaged 18.3 pesos per U.S. dollar in 2024, a 3.2% depreciation relative to 2023. The election of Trump, along with his tariff threats and other facets of his economic program, will continue to put pressure on the peso, which is likely to reach 21 pesos per dollar at the end of 2024. Further weakening of the peso is possible in 2025.

Figure 3 — The Monthly Average of the Peso Exchange Rate, 2008–24

Source: Banxico data through September 2024.
Note: The inverted axis indicates the annual average exchange rate of pesos per U.S. dollar.

Will Banxico Reach Its Long-Term Target?

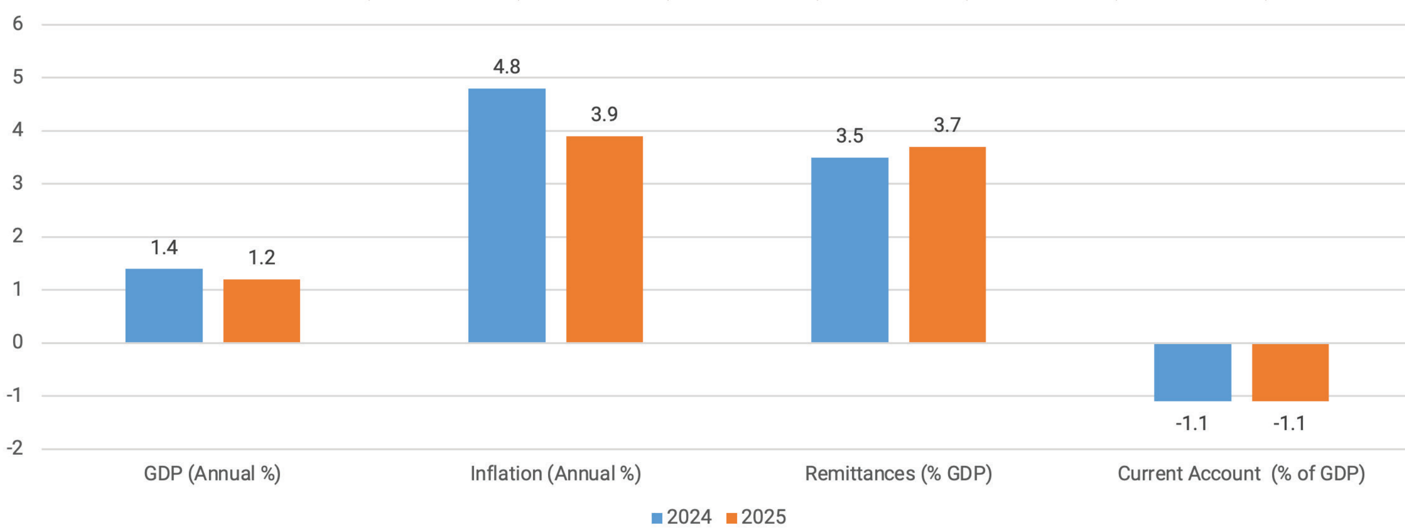
Banxico has generally followed the U.S. Federal Reserve's (Fed) interest rate changes. However, in 2024, Banxico began to reduce its benchmark rate before the Fed did so due to an interest rate of 11.25% in early 2024, and a decrease in core inflation. This expansionary monetary policy aimed to boost economic activity in Mexico, and it is plausible that Banxico will continue to decrease its rate in 2025.[27] The level of this rate at the end of 2024 was 10.25%, and in 2025, it could reach 8.5%. Rate cuts will be intended to help and stimulate investment and thereby foster economic growth, especially as price hikes are expected to be more limited in volatile sectors, such as agriculture and energy.

Remittances as a Key Economic Driver

The current account balance as a percentage of GDP indicates a country's level of international competitiveness since it is a record of a country's international transactions with the rest of the world. In Mexico, this figure is likely to be a deficit of 1.1% by the end of 2024; this report estimates that Mexico's current account will be at the same general level in 2025. Thus, the deficit could be higher, but the capital flows from remittances and exports may help achieve a lower deficit in 2025.

Notably, remittances will continue to be a critical driver of Mexico's economy. This resource has again reached a new record high in 2024, reaching US$67 billion, and could hit US$69 billion in 2025. In 2024, remittances represented approximately 3.5% of the national GDP (Figure 4).[28] But if the U.S. economy slows in growth or enters a recession, the capacity of Mexican workers to send money back home could diminish. In addition, this situation may worsen with the mass deportation plans announced by Trump.[29]

Figure 4 — Mexico's Primary Economic Indicators for 2024 and 2025



Source: Banxico and BBVA Research, 2024.
Note: The rates for 2025 are authors' estimates.

V. Deficits, Revenue Gaps, and Spending Commitments

In 2025, Mexico will face a challenging fiscal scenario characterized by the need to:

- Reduce the deficit.
- Improve tax collection.
- Address social program spending.
- Evaluate subsidies to parastatal companies.

Low economic growth will also limit tax revenue. Additionally, constitutional reforms being pushed through Congress threaten the effectiveness of the rule of law, which will increase uncertainty for investors and likely cause many of them to pause investment.

The Challenge of Deficit Control

Managing the budget deficit will be a major challenge for the government in 2025. Mexico has historically had low tax collection as a percentage of GDP. Although the Mexican government had not faced a significant deficit escalation since the late 1980s, López Obrador took the deficit from 2.1% of GDP to 5.9% by the end of 2024. The López Obrador administration had deficits larger than those approved by Congress. Annual projections for Financial Requirements of the Public Sector (FRPS) as a percentage of GDP consistently exceeded the budget from 2020 to 2024 and are likely to be surpassed in 2025.[30] This highlights Congress's limited role in the budget process — an issue that must be addressed to strengthen fiscal oversight and ensure stability in Mexico's fiscal management.

The Ministry of Finance's projections indicate that the historic 2024 deficit will raise the debt-to-GDP ratio to 51.2%.[31] Initially, the government had estimated this ratio at 48.8% in 2024, but slower-than-expected economic growth, the peso depreciation, and the record deficit forced an adjustment in debt projections. This represents an increase of 3.4% points compared to 2023. The government claims that this indicator remains low compared to other countries. While this is the case, this indicator should be taken cautiously as the Mexican government also collects a low proportion of tax from the economy. Likely, the debt will continue to grow in 2025, and the interest burden will grow further.

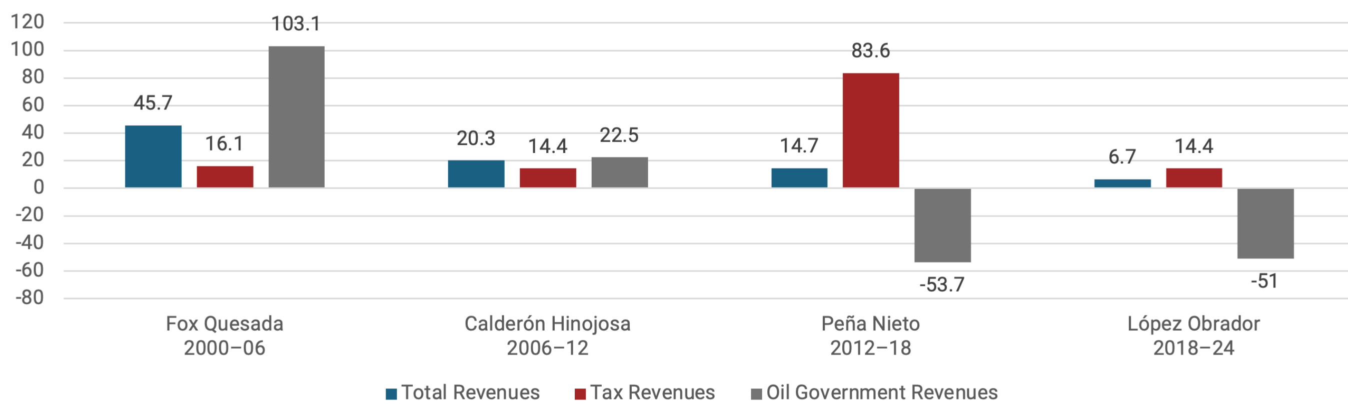
Image by Javier Ghesi via Getty Images.

Deterioration of Public Revenue Growth

Mexico lags behind other Latin American countries in terms of public revenue. For example, in 2022, public revenue accounted for 24.5% of GDP, compared to a regional average of 31.5%. If only tax revenues are considered, Mexico's collection was 16.7% of GDP, while the Latin American average was 21.7%.[32] This gap indicates a significant structural weakness in financing public goods and services and a need to increase tax collection.

Historically, oil revenues have compensated for the weakness of Mexico's tax collection. But during the López Obrador administration, total public sector revenues showed very limited growth due to low oil revenues and mediocre growth in tax revenue. By the end of 2024, total revenue will have increased by only 8.2% over 2018, well below those of the past three administrations: Fox Quesada at 45.7%, Calderón Hinojosa at 20.3%, and Peña Nieto at 14.7% (Figure 5).[33]

Figure 5 — Rate of Change in Total Revenues During the Last Year of the Past Four Administrations



Source: México Evalúa, "Dos de Cal por Tres de Arena: Análisis Anual 2023."
Note: The López Obrador administration ended on Sept. 30, 2024, and revenue data is available until 2023.

If only the income of the federal government is analyzed — without oil income — the deterioration of oil revenues is worrying for 2025, especially because during the last two administrations, the federal government's oil revenues plummeted by around 50%, and López Obrador did not raise taxes to compensate for losses in oil revenue. Instead, he empowered the SAT to increase tax collections, which grew by 20% during his term. In 2019, SAT collection measures represented less than 6% of tax revenue; currently, the figure exceeds 25%.[34] Sheinbaum is likely to force SAT to be aggressive, and even punitive, in tax collection activities in 2025.

Defining Moment for Pemex

Pemex's losses are a challenge that can trigger a fiscal crisis if not addressed. The company's financial struggles have persisted for years, and liabilities have outpaced assets for a decade. In 2024, Pemex had more government subsidies than it paid into federal coffers. Worse, during the López Obrador administration, Pemex received subsidies totaling US$117.9 billion (around $2.1 trillion pesos) through financial transfers and tax burden reduction.[35] These transfers were a missed opportunity to allocate resources to health, education, and security areas. Sheinbaum should address the company's debt, improve efficiency, and implement an energy transition strategy to reduce fiscal pressure. However, progress on this will not likely transpire in 2025.

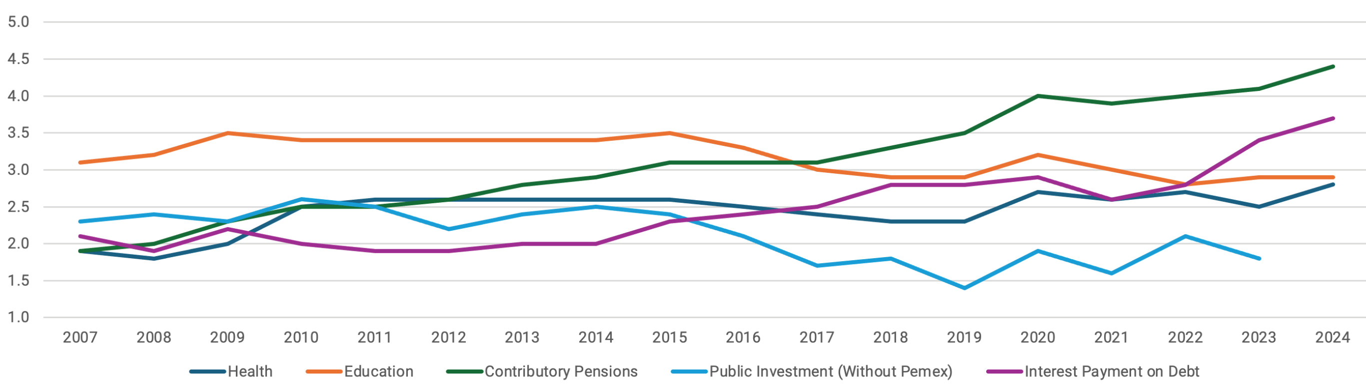
Additionally, Pemex can make profits if the government makes strategic alternations to the company's business model and governance. It can allow private investment and participation, but the new energy legal framework limits such involvement. Pemex has the same production and income as the super-profitable Norwegian firm Equinor.[36] However, while Equinor is profitable, Pemex is making losses.[37] Investors are not likely to show interest in partnerships with Pemex in 2025, though they may over time.

Evolution of Payment Pressures and the Crowding Out of Investment

While revenue growth has been too low, spending has grown considerably in Mexico. Mexico had the second largest increase in public spending among Latin American and Caribbean countries from 2019 to 2022. During this period, public spending rose from 25.2% of GDP to 28.5%, an additional 3.3% points, while the regional increase was only 0.86%.[38]

New cash transfer programs, pensions, subsidies to parastatal companies, investment in projects that have yet to yield benefits, etc., will intensify the costs of public spending in 2025, as pension payments alone — including contributory and social-universal pensions — represented 3.4% of GDP in 2018 and are expected to reach around 5.7% by 2024 (Figure 6). Similarly, interest payments on debt may grow from 2.8% in 2018 to 3.7% by 2024, reaching historic levels in 2025. Spending on education and infrastructure has remained low during this period, and health spending approved by Congress is set to reach 2.9% of GDP in 2024 and higher in 2025, although the government often allocates less than the approved budget to health and redirects funds to the Secretariat of the Treasury and Public Credit (Secretaría de Hacienda y Crédito Público, SHCP).

Figure 6 — Evolution of Public Spending Across Major Categories by Percentage of GDP, 2007–24



Source: México Evalúa.
Note: The 2024 figure refers to the amount approved by Congress.

Sheinbaum cannot reduce social spending, however, as she inherited the budget from López Obrador's package in the form of constitutionally mandated programs. At the same time, she does not appear to seek to change these inherited programs.

Risks to Follow

While Sheinbaum has not proposed tax reform — and has insisted that taxes will not be raised — she has outlined new social programs and investment projects for the coming years. She has also increased social spending in the 2025 budget. At the same time, she has pledged to reduce the deficit to 3.9% of GDP by 2025, bringing the public debt to 51% of GDP, a historic high for Mexico. By comparison, former President Peña Nieto left a debt-to-GDP ratio of 43.6% at the end of his term, and López Obrador will leave a debt-to-GDP ratio of around 51.2%.[39] Credit rating agencies have raised concerns about Mexico's high public deficit levels, additional spending priorities, while new governance after constitutional reforms jeopardize the country's credit rating and financial stability. Therefore, addressing this issue will be a priority for her administration to avoid negative economic effects.

Given that the expected economic growth is low, meeting the 3.9% deficit target will require significant cuts to public spending, which pose a challenge due to the limited flexibility of the budget. The government faces unavoidable expenses, such as debt payments, transfers to subnational governments, and pensions. Additionally, in recent years, some social transfers have been made universal and established as constitutional rights, creating additional obligations for the government.

Under these circumstances, public investment could bear the brunt of the spending cuts needed to reduce debt levels significantly, but social spending in priority sectors, such as health and education, could also face reductions.

Proposals to Improve Fiscal Outlook

Mexican legislation should include mechanisms to prevent the public deficit from exceeding the budgeted amount or set a debt threshold to avoid unjustified increases. The government should overhaul Pemex's business model by prioritizing profitable activities while reducing operations that are driving loss. To boost competitiveness, opening the energy sector to greater private participation is essential. Strengthening corporate governance is also crucial to ensure that strategic decisions are made based on technical and financial criteria, free of political influence. Pemex's structure needs a reduction in its operative expenses, and its fiscal framework needs a revision to allow the company to make more deductions, such as investments in research and development.

Debt can be a tool to stimulate wealth in different regions of the country, but it must be used responsibly and transparently to ensure sustainability. The president has committed to maintaining a reasonable balance between debt and GDP. To do so, the government should stop using debt to finance current expenses. Even though the Constitution mandates this restriction, it is necessary to establish new enforcement mechanisms in the law to ensure it is not left to the government's discretion.

Sheinbaum should promote a tax reform to finance public spending commitments responsibly. There is an opportunity to implement personal income tax or boost property tax collection at the municipal level, as both areas show low levels of tax collection. Any fiscal reform should not overlook a reform of Pemex's institutional and regulatory landscape.

Mexico needs a more robust infrastructure planning and spending framework with mechanisms to improve the efficiency and effectiveness of public expenditures. Public resources are scarce and should be allocated to programs or projects that improve public goods and services. Therefore, this administration should promote public-private partnerships under a better institutional framework; while this already exists in legislation, it has been forgotten in recent years.

VI. Challenges for US-Mexico Trade

The USMCA, despite some flaws, is vital to the economic well-being of the North American region. The ability of U.S. manufacturing to compete with the European Union (EU) and China depends on an integrated North American economy, which amounted to more than US$1.8 trillion in annual goods and services trade in 2022, through automobiles, auto parts, electric vehicles (EV) batteries, steel, or other products.[40] Under such circumstances, all parties involved should approach the mandatory 2026 review of the USMCA with advance preparation, carefully and in good faith, reflecting a commitment to preserving and expanding North American competitiveness.

In the acrimony that is likely to dominate U.S.-Mexico trade and political relations in 2025, both parties should remember the key objective of the USMCA: Keep North America competitive with the EU and China in production, inter alia, of cutting-edge chips, EVs and EV batteries, steel, agricultural products, e-commerce, and artificial intelligence (AI). Such cooperation is essential if the U.S., Mexico, and Canada are to effectively counter the threat of Chinese economic dominance across the Americas and the developing world, despite increasing signs that Mexico seems to have neglected this concern.[41]

With Sheinbaum having taken office on Oct. 1, 2024, and with America electing Trump on Nov. 5, it is difficult to predict with certainty how U.S.-Mexican trade relations will evolve. Despite the uncertainty around the new U.S. administration, it is likely that the economic and political relationship between Mexico and the United States will deteriorate.

Sheinbaum's Relationship With the US and Foreign Investors

Friction between Mexico and the United States is likely to increase as a result of Mexico's effective return to a single-party system, where the presidency, Congress, the judiciary, and what remains of independent administrative entities are all dominated by MORENA and its allies. The legislative and constitutional changes of 2024 requiring the dismissal of more than 1,500 federal judges and their replacements in 2025 and 2027 with elected candidates are particularly troubling for Mexico's already shaky rule of law.[42]

In August 2024, American and Canadian ambassadors strongly criticized these actions. While López Obrador dismissed these reprovals, Mexico's constitutional reforms will continue to shape both U.S. and Canadian policies' approaches to the country, regardless of who is president or prime minister. These criticisms are likely to reflect not only views of business interests in both the United States and Mexico but also — ominously for Mexico — economic policy by many members of the U.S. Congress across party lines. Given Mexico's recent decisions and choices, Canada may be open to renegotiating a bilateral trade agreement with the United States to replace the USMCA. That should get resolved in 2025.

Sheinbaum's early efforts that sought to take a more moderate and nuanced line with foreign and domestic investors may be useless due to:

- Enacting extensive judicial reforms.
- Weakening administrative agencies.
- Increasing arbitrary administrative power.

Sheinbaum's hands will be tied almost from the outset. Here, as elsewhere, actions speak louder than words. López Obrador's presidential-congressional-judicial actions, endorsed by Sheinbaum, directly undermine her purported moderate statements on foreign investment.

Violations of the USMCA regarding expropriation and Mexico's ban on genetically modified (GMO) corn imports are likely to be addressed during the review, along with continuing U.S.-Mexico friction over immigration and illegal drugs. Additionally, new investment is highly likely to decrease dramatically. The U.S. will incentivize new investment in U.S. manufacturing, rather than in Mexico, which may result in an economic downturn in Mexico. More aggressive U.S. policies regarding undocumented immigration will also become important for U.S.-Mexico trade and the USMCA review, although they may hinder North America's ability to compete with the EU and China.

US-Mexico Trade Relations

The Trump administration's trade policies will continue to include maintaining the now six-year-old "Phase One" tariffs, which entail a 7–25% tariffs on approximately US$350 billion worth of Chinese-source imports — to which the Biden administration added 100% tariffs on any imports of Chinese-sourced EV autos — and tariffs or quotas restricting steel and aluminum imports, 25% and 10%, respectively.[43] Trump, like President Joe Biden, advocates strong industrial policies that promote America-centric buying, investing, and employment, distrusts new trade agreements, and is committed to preserving or enhancing the U.S. auto industry and its worker.

Investment in Mexico by Chinese enterprises will be viewed with deep suspicion, particularly in the EV sector. Trade relations with Mexico are likely to be overshadowed to a significant extent by Mexico's cooperation or noncooperation in reducing the flow of undocumented immigrants and fentanyl to the U.S. Additionally, imports of EVs produced in Mexico by Chinese automakers are expected to be blocked.

Trump could even target potential U.S. automotive imports from Mexico. He promised to impose tariffs on all automobiles from Mexico, although this may be a negotiating tactic, and it is doubtful whether such action could survive a court challenge. [44] Trump seems unaware of the devastating impact that such tariffs would have on U.S. auto prices, U.S. automotive competitiveness globally, inflation, and the future health of the USMCA.

The Trump Administration's Policies

Based on somewhat conflicting campaign promises, a second Trump term could bring an across-the-board 10–20% tariff on all imports — including those from Canada and Mexico — a new 60% tariff on imports from China, and at least an attempt to impose 200% tariffs on U.S. auto imports from Mexico.[45] What the impact of these new taxes on the U.S. economy as well as its agricultural and other exports and potential retaliation by other trading partners seems to have not been fully considered.

Whether the Biden administration's subsidies for computer chips, EVs and EV batteries, which also benefit EV production in Mexico, would be maintained by Trump is uncertain. Trump generally appears to oppose EV subsidies and other initiatives to address climate change. However, the benefits that have accrued to states, such as Kentucky, Ohio, Tennessee, Georgia, Alabama, and the Carolinas, from the subsidies may make it politically difficult to eliminate them.[46] His recent friendship with Elon Musk also has mollified his opposition to EVs.

Trump has said that he would welcome Chinese investment in auto production in the U.S.[47] Based on his first term as president, negotiations of trade and trade-related issues with U.S. allies and adversaries would be less diplomatic and more combative in comparison to the Biden administration. Preparations for the mandatory 2026 USMCA review could turn into a renegotiation with Canada and Mexico amid threats of U.S. withdrawal. U.S. threats to withdraw from the World Trade Organization (WTO), of which Canada and Mexico are also members, seem likely.

Immigration will likely continue to be the key issue in U.S.-Mexico relations, particularly if Trump seeks, as promised, to expel millions of undocumented immigrants, many of whom are Mexicans. If enacted, this deportation policy would be doomed to fail for many reasons, including a lack of cooperation from Mexico and the fact that it would be an economic disaster for both the U.S. and Mexico.

Mandatory 2026 USMCA Review

The USMCA mandates in Article 34.7, "Review and Term Extension," that the parties conduct a "joint review" of the agreement with "review any recommendations for action submitted by a Party, and decide on any appropriate actions." If the parties agree, the agreement will be renewed for another 16 years. If they do not agree, another review will take place each year until 2035.[48] Although the initial review will be in July 2026, all governments will begin their preparations for the review in 2025. It seems likely that the United States will demand multiple changes, minimally relating to EV automotive rules of origin and auto imports from Mexico, GMO corn, and exports to the U.S. of goods produced by Chinese-owned enterprises. With Mexico dependent on the U.S. for 80% of its exports, such demands will be difficult to resist, although, in the auto sector, Mexico and Canada have mostly common interests.[49]

For Mexico, any U.S.-mandated changes relating to automotive rules of origin and auto trade more generally could be devastating to Mexico's most important manufacturing sector. Ironically, the auto sector is more likely than most to be willing to ignore Mexico's movement back to single-party governance. After all, the sector thrived under the PRI's control of the Mexican government until 2000. Of course, the Mexican government controlled by the Sheinbaum administration and MORENA could be much less favorable to manufacturing in Mexico than PRI's control of Mexico.
The U.S. is unlikely to agree to extend the agreement in 2026 unless Mexico and Canada agree to major changes favorable to the U.S., in part because 2026 is a congressional election year. With reviews continuing annually until 2036 if the parties fail to agree on changes before then, the U.S. has the

advantage over Mexico and Canada. Uncertainties generated by ongoing annual USMCA reviews could give enterprises considering investment in Mexico pause toward producing goods for the U.S. market and encourage factory relocation within the U.S., particularly in Texas.

VII. Budget Constraints and Weak Governance in Mexico's Health Care System

The Mexican public health care system will face enormous challenges in 2025. The legacy of the previous administration in this area is bleak: millions of Mexicans lost access to health care services. Households, especially those most impoverished, have to allocate more resources for medical care, and public spending in the sector has been affected by budget cuts and risks of mismanagement.

Fiscal Restrictions

Mexico records the highest rates of preventable and treatable mortality among the countries of the OECD, which highlights the weaknesses of its health care system and public policies. Several indicators demonstrate the urgent need for preventive and treatment measures. The country has the highest adult overweight and obesity rates in the OECD, the lowest rate of mammograms for women aged 50 to 69, and the lowest vaccination coverage for one-year-olds against diphtheria, tetanus, and pertussis.[50]

As part of López Obrador's reform package, a constitutional amendment may be approved in the coming months, underlining the universality of the right to health and explicitly defining its scope as access to diagnostic tests, surgeries, and medications.[51] Although well-intentioned, this reform would not automatically translate into tangible benefits for the population. The resources to implement this are simply not there, especially in 2025.

Thus, public funding for health will remain low. In 2022, it accounted for just 2.9% of GDP, well below the 6% recommended by the World Health Organization (WHO) and below other Latin American countries, such as Colombia (6.1%), Chile (5.6%), or Brazil (4.5%).[52] This forces Mexicans to have more out-of-pocket on health care expenses and has positioned the country as the OECD member with the highest out-of-pocket expenses with these costs accounting for 41% of total health expenditure, which is far above the average at 18%.[53]

These low levels of public spending are especially critical in the health care system for the most vulnerable groups. In 2023, the per capita spending of the Mexican Social Security Institute (Instituto Mexicano del Seguro Social, IMSS) was MX$5,533 (around US$284), more than three times higher than the MX$1,581 (around US$81) allocated to IMSS Bienestar, the health institute for those without social security.[54]

Unlike IMSS, IMSS Bienestar does not receive a fixed fee per member, leaving its budget insufficient and discretionary. This funding disparity has significant consequences. In 2023, the number of medical consultations for the uninsured population was 36% lower than in 2018, while the decline for those with social security was only 9%.[55] That will continue in 2025. Sheinbaum has pledged to strengthen IMSS Bienestar for the uninsured, with the aim of bringing its standards of care, capacity, and procedural protocols closer to those of health institutions for people with social security. Budget constraints and the trends left by the López Obrador administration will complicate the fulfillment of this promise. Moreover, the government has committed to reducing the public deficit to 3.9% of GDP by 2025, from about 6% in 2024. This goal will require significant spending cuts, with limited options for adjustment, potentially impacting the public health care system. The 2025 proposed federal budget already reflects a 12% cut in health care, and this trend could potentially continue beyond 2025.

Governance in Health Care

Governance is also an issue. There is no plan to address the functioning of Fonsabi, a public fund used in the past by Seguro Popular, Mexico's flagship public insurance program to provide catastrophic illness coverage to the uninsured. However, this fund has been used primarily to transfer resources to the federal treasury, with no clear accountability. It is unlikely that the government will rectify this bad practice next year, which will continue to impact the treatment of catastrophic illnesses for the uninsured. Fonsabi previously funded care for major types of cancer in Mexico. However, compared to the spending during the Peña Nieto administration, funding for cancer treatment has plummeted. According to the latest available data, in 2021, spending on childhood cancer care fell by 95%, breast and cervical cancer by 90%, and prostate cancer by 34%.[56]

New Public Health Structure

The public health sector's new structure and centralized governance under MORENA is not expected to overcome these challenges. The legal framework governing the sector poses risks for the management of the IMSS Bienestar due to weak governance and exacerbated centralization of health policy with a lack of a solid operational model, especially for solving the shortage of medications.

This new and powerful health service body will oversee all procurement and financial operations for at least 23 state health care systems. As a non-sectorized organization, it will operate these huge tasks with technical, operational, and management autonomy, but with reduced oversight from the Ministry of Health. IMSS Bienestar will still lack transparency and accountability frameworks regarding its operations and budget, despite receiving state funding. This limits the chances of a successful improvement of coverage and health care services for the uninsured population in 2025.

In 2025, the National Survey of Household Income and Expenditure (ENIGH) 2024 report will be published, providing insights into the evolution of health coverage in Mexico. This data is highly anticipated, as the previous ENIGH 2022 report revealed that almost 30 million more — with 50 million in total — Mexicans lack access to health care.[57]

In sum, there are no clear signs of budgetary and institutional factors that could lead to a robust improvement in public health in 2025. Budget constraints, weak governance of the sector, and nonpractical centralization measures will continue to hinder progress, making favorable outcomes unlikely. The inertia and rhetoric from the previous administration on health matters will likely persist, with largely negative consequences.

VIII. Educational Outcomes and the Labor Markets

The 2025 challenges to Mexico's education sector remain daunting, as issues regarding educational access, gender equality, technology, and others persist. Addressing these challenges would diminish social and income inequalities and promote a peaceful and inclusive Mexican society.[58] Indeed, education levels matter, as does education distribution between women and men. Education affects private returns from the labor market and positively affects individuals' health status.[59] Clearly, education is fundamental for a country's development, given that there is a positive correlation between a country's education and development level.[60] Yet, the 2025 federal budget shows that education is not a priority in the coming year.

Violence in Schools

On this score, Mexico is in trouble — with no clear exit in 2025. One issue is violence in and around schools. Evidence suggests that violence has a significant negative impact on children's development and health.[61] Homicide levels in Mexico have dramatically increased since 2007. These phenomena have a negative impact on educational outcomes due to students' exposure to crime in Mexico. To wit, a one-unit increase in the homicide rate per 10,000 inhabitants is associated with a reduction in school test scores between 0.0035 and 0.0142 standard deviations.[62] Moreover, a rise in the homicide rate is also associated with an increase in the grade failure rate.[63]

Also, violence in school through bullying, intimidation, harassment, or abuse among peers is detrimental to school attainment. The evidence from a 2013 report shows that if there is violence at school, there is a probability of 0.67 that students will drop out. In terms of gender, there is little statistical difference between victims of violence who are men at 27.1% and who are women at 24.1%, but there is a substantial difference by gender in aggressors: 25.4% of aggressors are men versus 13.6% of women.[64] More research should be conducted in this area to provide further updated and comprehensive findings.

Access to Technology

Moreover, the lack of technology remains a challenge in Mexico's educational system, with a large technology access gap between high- and low-income households and different types of schools. For example, a 2023 study found that around 95% of students in private schools — which mostly consist of children from high-income households — had access to the internet and have essential infrastructure and services in their homes. In contrast, only 55% of students attending public school had access to these services.[65]

Although 50.5% of students enrolled in 2023–24 in the educational system in Mexico are women, only 40.4% are part of the economically active population in 2023.[66] Gender norms and roles, social networks, inheritance of assets, time, violence, and lack of access to technology are factors that prevent an increase in women's participation in the labor market.[67]

Gender Dynamics in the Workforce

In 2023, women were the majority in the service sector in Mexico, comprising 50.2% of this sector.[68] The agricultural and manufacturing sectors were significantly dominated by men who make up more than 70% of this workforce.[69] These sectors have higher private returns than the service sector. Comparing educational outcomes with labor markets helps to disentangle this puzzle.

In 2024, the professional areas where women represented more than half of the total number of employed professionals were education, health sciences, social sciences and law, and arts and humanities.[70] The highest percentages of employed women were in the service sector, with preschool teachers and beauty services at the top of the list at 97.2% and 94.7%, respectively.[71] Regarding earnings, a preschool teacher earns, on average, MX$86,880 annually (US$4,455). In contrast, an industrial engineer earns, on average, around MX$110,760 annually (US$5,680), which is 27.5% more than a preschool teacher.[72]

There are no plans for change in the education system, at least not in 2025. Thus, Mexico's education system will continue to be deficient, and largely divided into a crumbling public system that puts lower-income groups at a disadvantage, and a private system that provides unique advantages to the well-off. This division will also further accentuate class divisions and the distribution of opportunities.

The New Mexican School (Nueva Escuela Mexicana, NEM) emphasizes the comprehensive training of students, with a focus on learning values, such as ethics, civility, social responsibility, and honesty. This new curriculum attends to these values at the expense of science, technology, engineering, and math, which is likely to prevent Mexican workers from competing in the labor market.

Without substantial change in curricula, new pedagogies on STEM, and additional investment in education infrastructure — all of which are not yet forthcoming — the country and its workforce will not be prepared to receive high value-added firms and integrate easily into global value chains.

In general, Mexico is expected to underinvest in its education system, fail to solve most of the issues outlined above. In doing so, the country will likely decrease its competitiveness vis-à-vis competing economies, such as Brazil and Vietnam, among others.

IX. Public Safety and Security

Mexico's public safety and security under the 4T is based on the strategy known as "abrazos, no balazos," translated as "hugs, not bullets."[73] The consequence of this strategy was a growth of criminal activity and violence in the country. Unfortunately, Sheinbaum has vowed to continue this approach. Even though she designated Omar García Harfuch, a disciple of Genaro García Luna, as the secretary of citizen security, his hands are tied. The National Guard is now fully under the military's control, and they are unlikely to coordinate well with García Harfuch. Worse, he only has a small force and an insufficient budget. Even if he manages to grow that secretariat of citizen security, that will take years. Currently, Congress is discussing a constitutional amendment to strengthen the Ministry of Security and Secretariat of Security and Citizen Protection (Secretaría de Seguridad y Protección Ciudadana, SSPC).[74] Consequently, through 2025, García Harfuch may be a secretary with few powers and even fewer resources. Thus, the 2025 outlook for increased public safety appears to be quite grim. This will be worsened by the 4T moves to dismantle the judicial branch and eliminate mechanisms for accountability on public safety and security. The contentious landscape that has come to define Mexico will continue to degrade national security.

Judicial Reform

The judicial reform, widely discussed in this report, carries enormous security and public safety implications and will likely be exploited by the Mexican cartels, as they work to retain political connectivity and influence over Mexico's government at all levels.

The actions of the cartels during the latest round of state and federal elections are demonstrative of the continuous impact that organized crime has on the electoral process in Mexico. Political violence will also continue with opposition candidates being threatened, intimidated, or killed. The expected impacts from the judiciary reform suggests that organized crime can extend its reach into another branch of government more easily. The more muddled the judicial landscape, the easier it will be for criminals to continue victimizing Mexicans with near impunity, and this is unlikely to change in 2025.

Sheinbaum and the Cartels

Sheinbaum has thus far continued the populist policies of her predecessor, including a nonconfrontational approach to criminals. Meanwhile, internecine violence is increasing due to the transnational criminal organization (TCO) fracturing after the arrest of Ismael "El Mayo" Zambada and Joaquín Guzmán López. The winner of the latest intercartel war will be well-positioned and should be expected to develop relationships with the Sheinbaum administration.

To be clear, in July 2024, Joaquín Guzmán López, son of imprisoned cartel leader Joaquín "El Chapo" Guzmán Loera, turned himself in to U.S. authorities with the likely aim of receiving a better plea deal.

Joaquín Guzmán López kidnapped El Mayo, one of the founders of the Sinaloa cartel, and turned himself in with him. When this story was confirmed by El Mayo's lawyer in the United States, it triggered a civil war in the Sinaloa cartel between the Mayos and the Chapitos in September of this year.[75]

The attacks launched by the Mayo faction centered on attacking the city of Culiacán, Sinaloa, which is the Chapitos' stronghold. Dozens have been killed, while more than a hundred are either missing or killed, and the city is suffering economically and psychologically under the anxiety of cartel violence.[76] This criminal civil war is extending to surrounding states beyond Sinaloa.

Sheinbaum and her security chief, Omar García Harfuch, stated that they will focus on complex investigations of organized crime and intelligence, utilizing the model that they claim reduced violence in Mexico City.[77] However, it is questionable if this strategy can be scaled nationally, particularly in her first year in office. In Mexico City, they were able to implement this approach in part because the federal police were absorbed into the National Guard upon its establishment.[78] That federal police force was well trained but was not respected by the new National Guard, which has primarily military lines of communication and command. As a result, many federal police officers quit the force and were hired as municipal officers in Mexico City. Assuming that new investigators and improved closed-circuit television camera coverage in Mexico City led to a reduction in violence there, it would be difficult to replicate these practices at the national level. Replicating them would require a significant increase in the number of investigators and the implementation of extensive surveillance camera coverage throughout the country.

Sheinbaum and García Harfuch have also discussed focusing on a smaller number of cities with very high homicide rates. This is reminiscent of policies addressed in the Calderón Hinojosa administration (2006–12). If they take this approach, similar results with limited impact on violence are expected, especially given the flexible nature of Mexican illicit networks, which continue to diversify operations. Additionally, this may even allow the reigning TCO to control most of the lucrative criminal markets that now account for more than the unitary former revenue stream of drug trafficking.

A new constitutional amendment discussed at the end of 2024 would grant additional powers to García Harfuch's office. However, when it comes to intelligence gathering, he is not likely to gain much traction with the military. Because of the absorption of prosecutorial powers, he will likely face deep corruption in the political class, which may obstruct efforts to fight organized crime. Finally, the 2025 budget has not allocated additional resources for his office. The government's current fiscal position makes it unlikely that more resources will be provided in the coming year or soon after.

US-Mexico Security Cooperation

Bilateral cooperation on security has been eroding for years, and it will likely continue as Sheinbaum has pledged to continue López Obrador's "abrazos, no balazos" strategy. In 2025, as in Bolivia, Mexico will likely further restrict bilateral federal law enforcement cooperation with U.S. federal law enforcement agencies and may even declare the Drug Enforcement Administration (DEA) non grata in Mexico, further eroding the nations' relationship.

If Mexico does so, some U.S. agencies are expected to relocate operations within Mexico to domestic offices along the U.S.-Mexico border. This is even more likely because in the past, Trump has threatened that if Mexico does not engage in a framework for U.S.-Mexico cooperation on drug trafficking, human trafficking, and human smuggling, he would declare Mexican TCOs to be terrorist organizations, and the U.S. government would act alone.[79] This would further deteriorate the binational relationship.

Moreover, Trump may also threaten tariffs on Mexican exports to the U.S. if the Mexican government refuses to cooperate. He should be taken seriously, as going after criminal groups unilaterally is politically profitable for his administration, and having a cordial relationship with Mexico does not appear to be one of his priorities.

Organized Crime

Various confrontations among criminal groups will continue in 2025 across multiple states. Mexican cartels are likely to worsen security in the country, as the Sinaloa cartel faces internal fragmentation due to the Chapito's betrayal of El Mayo. Furthermore, the Jalisco Nueva Generación cartel (CJNG) are likely to take advantage of internal fighting within the Sinaloa cartel to expand. This may include attempting to ally with one of the factions or invading territory they view as poorly defended.

Political leadership seems to want to continue a doctrine of nonconfrontation, which has not reaped many benefits. Worse, in many cases, the government silently cedes control over territory, providing cartels the freedom and license to carry out domestic and international criminal activities. Sheinbaum has stated that she will not engage the cartels openly but will do so through intelligence and targeted law enforcement operations. This may not yield results for years. In the meantime, criminal organizations will continue their illicit businesses, including drug production, transportation and distribution, human trafficking and smuggling, as well as kidnapping and extortion, etc., which are often accompanied with extreme violence.

The control of the National Guard by Ministry of National Defense (Secretaría de la Defensa Nacional, SEDENA), or the Army, is more for political insurance and survivability than it is for public safety. At the same time, the National Guard has not made a perceivable difference in tackling crime, and more importantly, may place the military under enormous pressure to engage in corruption by organized crime. This possibility became clear when former Defense Minister Salvador Cienfuegos Zepeda was arrested in Los Angeles and then released through a political agreement. This release by the U.S. to Mexico was unprecedented, given the judicial evidence to support the detention.[80]

As a result, a mutual form of immunity has evolved and is now in operation between the U.S. and Mexico in relation to high-level officials and their alleged crimes. The release of Cienfuegos Zepeda and the dismissal of the U.S. Department of Justice evidence translates into the Mexican government being emboldened by their quasi-military posture. This political and military strength enables the performance of corrupt acts and deference to the rule of law. This dynamic will likely prevail in 2025, and perhaps even worsen, as Trump takes office in January and has already warned that Mexico must cooperate against organized crime or face certain consequences.

X. Tradition or Transition? Sheinbaum's Energy Dilemma

Sheinbaum's presidential victory has ignited expectations of change in Mexico's energy mix, as she is the first head of state to be an energy and climate expert. However, those who believe her expertise will make a difference will likely be disappointed. The industry will continue to be at the core of MORENA's policymaking agenda, albeit with an important modification in the component of the country's energy mix as Sheinbaum's energy plan notes that 45% of Mexico's electricity will come from renewables.[81]

Should Sheinbaum's discourse materializes into reality, the new energy policy should make a slow shift from fossil fuels to renewable energy sources. Yet, this is much easier said than done in Mexico, despite the country having significant renewable resources.

For example, in his sixth and final "Informe de Gobierno," or government report, López Obrador claimed there was growth in renewable energy generation, especially in solar power.[82] According to Mexico's former president, between September 2023 and June 2024, solar generation grew by 84 gigawatt hours (GWh) compared with the same period of the previous year. During that time from 2023–24, he said that CFE generated 26,422 GWh with clean energy, which amounts to 42.11% of Mexico's total green generation, which is relatively low.[83]

While this percentage of green power generation may sound promising, the metrics used to determine this number require context. The increase in clean energy touted by López Obrador is deceiving as the methodology for calculating clean energy was changed from the previous system used by the government.[84] The new system currently accounts for clean energy as any amount of energy that is fuel-free, meaning that it is generated by the residual heat in a system that used natural gas or another fossil fuel. Simply put, although indirectly, natural gas is considered a clean energy source in this new calculation system.

This greenwashing may have been an audacious tactic in the López Obrador era, but it would be reprehensible during the presidency of Sheinbaum, especially given her environmental credentials, including being part of the U.N. Intergovernmental Panel on Climate Change that won the 2007 Nobel Peace Prize. The international community will be watching every step she takes in energy matters and whether she complies with Mexico's greenhouse gas reduction commitments.

The ideology of the current administration is an energy policy aimed at establishing a sovereign, self-sufficient, and sustainable energy system, prioritizing national energy production through Pemex and CFE. In general, for 2025, ideology is expected to prevail over pragmatism, at least until the energy sector faces a major crisis.

While López Obrador is no longer in office, his legacy of constitutional reforms that are currently in process may be Sheinbaum's first — and rather high — hurdle toward decarbonization. As of the end of 2024, the Chamber of Deputies had approved an energy and strategic company reform that, by amending Articles 25, 27, and 28 of the Constitution, returns Mexico's energy industry to a model dominated by the duopoly of Pemex and CFE. The reform is bound toward the Senate and, if approved by two-thirds of the same, will complete its approval cycle in the local legislatures in which MORENA possesses the required majority.

The salient points of this reform are:

- Pemex and CFE are no longer "state productive companies" but "national energy companies." This change is intended to exempt Pemex and CFE from having to be profitable companies, as they will no longer follow a commercial model. Instead, they will be deemed to provide public goods by offering Mexicans abundant energy at the cheapest price possible — even at a loss. Thus, both companies are expected to continue reporting losses with no accountability in 2025.
- Pemex and CFE will have preference before and above any other companies throughout the energy value chain, whether oil, gas, or power. These companies are now deemed "strategic," even though this violates Mexico's trade agreements on preferences toward national companies over other companies investing in Mexico's power sector. This may become a major item of dispute under the USMCA review and revision in late 2025 and early 2026.
- The private sector will be limited to participating up to 46% in power generation, while the remaining 54% will be exclusive to the state through CFE. Companies will likely abstain from such investment in Mexico's power sector through 2025, and Mexico's power generation — and certainly its power distribution grid — will experience important setbacks in the year.
- Public and private companies participating in the energy transition will likely take their capital to other friendlier investment markets, especially following their dissatisfaction with the last six years.[85]

In sum, while Sheinbaum faces several dilemmas in the energy sector, there are two main issues:

1. **Sustainability by decarbonizing the energy sector.** This is currently an unachievable goal. Energy supply security, meaning ensuring the security and reliability of energy supplies, is difficult to achieve, not because private and foreign companies cannot invest, but because they are not likely to trust that their investment is safe.
2. **Affordability by minimizing the cost of energy to consumers.** This is also unlikely to be achieved without enormous subsidies from the public treasury — given enormous costs of opportunity for other public goods and services, such as health care, education, and infrastructure. In other words, with limited or no participation of private companies and scarce public resources, there does not seem to be a feasible way that Pemex and CFE offer decarbonized energy security at a low cost.

The energy sector will also be an enormous public burden to Mexico in 2025–as it has been for years. In April 2024, Pemex's debt reached US$101.5 billion, partially paid with subsidies from the federal budget; however, its debt may be much higher, since many of its providers are told to delay sending their invoices.[86] By the end of June 2024, CFE's losses amounted to US$4.2 billion.[87] This debt and losses leave little room for Sheinbaum's aspirations to transform Mexico into a greener, more self-sufficient country. As energy is a sector that moves very slowly and Mexico is taking some steps that do not encourage investment in it, little change is expected for 2025.

XI. Mexico's Transportation Infrastructure

Mexico faces significant challenges in transportation infrastructure. Historically, investment in this sector has been low, with maintenance also lacking. While investment has increased recently, most is concentrated in projects that would likely benefit only a few. In recent years, much of the focus has been on the southern and southeastern regions, particularly on rail projects. However, these projects' benefits will likely not materialize soon and certainly not in 2025, as the government has already allocated additional subsidies to unfinished and unproductive infrastructure projects. Additionally, because of investments in rail projects in south and southeastern Mexico, the maintenance of many other road corridors throughout the country have been neglected. Consequently, infrastructure quality has deteriorated, and congestion is worsening. This affects not only roads but also air and maritime transport.

As the economy grows, demand for improved infrastructure will intensify, making this sector a critical bottleneck for future growth. Moreover, the existing infrastructure is poorly equipped to address sustainability demands and the transition to a low-carbon economy. Given Mexico's fiscal position, any serious investment in additional projects or general infrastructure maintenance is not expected. Private investment is generally not welcome in this sector, making it harder to build new infrastructure as well as maintain existing structures.

Recent Trends in Infrastructure Investment

As a proportion of GDP, public investment in transportation infrastructure has historically been low. This figure decreased from an average of 0.5% of GDP in 2014 to current levels close to 0.2% of GDP over the last decade.[88] This decline closely follows fiscal consolidation goals set in the mid-2010s, as infrastructure has been one of the few sectors where the federal government has been able to cut spending.

As of 2020, the most recent year offering comprehensive cross-country benchmarks, Mexico ranked as having one of the lowest levels of public investment in infrastructure across Latin America. Public infrastructure investment in 2020 was just 0.21% of GDP, compared to the Latin American average of 0.97%.[89] This trend is consistent throughout road, port, and airport infrastructure. Rail investment is the only subsector where Mexico outperforms its Latin American peers.[90]

Mexico does not publish official data specifically on investment in transportation infrastructure, making it difficult to obtain a comprehensive view of total investment, both public and private. However, data on civil engineering construction, which serves as a useful proxy for infrastructure investment, provides some insight. This data shows that civil engineering activity skyrocketed after the COVID-19 pandemic, increasing by nearly 60% between 2020 — its lowest point — and 2024. While this figure covers all types of civil engineering works and not just transportation, it still reflects a significant and dynamic shift in infrastructure development in Mexico in recent years.[91] Yet, the infrastructure investment remains far from sufficient to make Mexico more competitive.

Moreover, the federal budget provides insights on where infrastructure activity is concentrated. In 2023, public infrastructure investment amounted to MX$114.7 billion or around US$6.4 billion. Approximately 72% of this investment was allocated to rail infrastructure, 25% to roads, and the remaining 3% was distributed between ports and airports. Geographically, Quintana Roo, Chiapas, Campeche, Yucatán, Oaxaca, and Tabasco absorbed over 80% of all federal infrastructure investment in 2023. This pattern strongly suggests that a large portion of federally transported infrastructure funds were to the Mayan Train, a rail project encircling the states of Yucatán, Quintana Roo, and Campeche, as well as the Interoceanic Corridor of the Isthmus of Tehuantepec (Corredor Interoceánico del Istmo de Tehuantepec, CIIT), a corridor designed to connect the Gulf of Mexico and the Pacific Ocean through the narrow Isthmus of Tehuantepec.[92] Neither of these projects has reaped benefits as of yet and will likely not do so in 2025.

Thus, while investment has been heavily concentrated on rail infrastructure in the southern and southeastern regions of the country, other areas have been neglected. For example, northern border states received less than 2% of total federal transport infrastructure investment in 2023, which was mainly applied to maintenance on brownfield projects. In fact, at the sector level, nearly 65% of total federal road investment went toward maintenance rather than investment in greenfield projects.[93] The Sheinbaum administration is expected to continue this pattern, with the northern states confined to severe underinvestment in infrastructure.

Quality of Transportation Services and Security

Regional and sectoral asymmetry in investment is reflected in key performance indicators, such as quality and level of service. According to data from the World Bank, Mexico's infrastructure quality has declined in recent years. An index that measures the quality of trade and transport-related infrastructure decreased by 1.8% between 2018 and 2022.[94]

The low quality of transport infrastructure is also reflected in poor service levels. Thus, road safety has deteriorated, with increased deaths and accidents due to poor road conditions.[95] In 2023, approximately 32% of all flights from Mexico City's Benito Juárez International Airport were delayed.[96] This issue is not exclusive to Mexico City. Monterrey, Tijuana, and Cancún international airports are among the top 10 airports with the highest number of delays and cancellations in Latin America. No Mexican airport ranks among the top 10 best in Latin America.[97] Regarding ports, Manzanillo, Lázaro Cárdenas, and Altamira, which are some of the most important in the country, have experienced significant disruptions due to equipment shortages.[98] These issues are likely to remain in the short term, as Sheinbaum is expected to face severe capital shortages and infrastructure allocations will likely to go to the southeast.

Another pressing concern is the deteriorating security situation. In 2023, the Executive Secretariat of the National System of Public Security (Secretariado Ejecutivo del Sistema Nacional de Seguridad Pública) recorded 9,179 freight truck robberies, a 3.8% increase from the previous year.[99] The central states of Mexico and Puebla accounted for nearly 75% of these crimes. Alarmingly, 85% of the robberies involved violence. Security threats extend beyond the roads. In April 2024 alone, there were 446 reported robberies on the rail network, highlighting the growing vulnerabilities across Mexico's transport infrastructure.[100]

As security deteriorates, rising insurance costs are adding to the challenges faced by Mexico's transport infrastructure and logistics sector. High risks from freight theft and other criminal activities are increasing premiums. This escalating financial burden threatens to slow growth and investment in critical infrastructure, compounding the difficulties faced by businesses that rely on efficient transportation networks.[101] This is also a challenge unlikely to be resolved in 2025.

Rail Projects and Urban Congestion

Sheinbaum, like her predecessor, has made rail investment a central priority of her administration. In her inaugural speech, she announced additional funding for the Mayan Train and CIIT in Yucatán and Chiapas. The administration's flagship initiatives, however, are two new passenger rail corridors connecting Mexico City to the border cities of Laredo in Tamaulipas and Nogales in Sonora. Additionally, there are plans to introduce passenger services between Mexico City, Pachuca in Hidalgo, and the port of Veracruz. These new rail projects are estimated to cost US$26 billion.[102]

Given the government's fiscal constraints, it will be at least a decade before any of these projects can be built. However, the administration has some financial tools at its disposal. One option is the securitization of Fondo Nacional de Infraestructura's (Fonadin) assets — an infrastructure development fund backed by toll road revenues. This could partially finance the rail projects, though private investment will almost certainly be necessary. As there is much hostility to these financing mechanisms, these will not likely be deployed.

Attracting private capital for projects of this scale will require strong guarantees from the federal government. At the same time, they are mostly not welcome. Multilateral development banks could play a crucial role by providing timely payment guarantees, reducing risks, and drawing domestic and international investment. This approach would allow the federal government to fund infrastructure projects using off-budget resources without compromising fiscal targets. This will not likely happen in 2025 because much diplomatic work would have to be done to obtain these guarantees.

Still, road, bridges, seaports, airports, land ports, etc., urgently need new, additional capacity to ease worsening congestion. Road congestion, particularly in metropolitan areas, requires new bypasses to divert vehicles from urban centers. Expanding port capacity is equally crucial; for example, without the expansion of Puerto Progreso in Yucatán, any rail or road logistics investment in the region will face severe limitations. In air transport, congestion in the Mexico City region is unsustainable. A functional airport system integrating Toluca, Felipe Ángeles, and Mexico City international airports is essential. This will require better ground connectivity, additional infrastructure, and a strategic plan supported by airlines operating in the region. However, no such plans are forthcoming.

Infrastructure Maintenance

Maintenance is also a critical issue that cannot be overlooked. The deteriorating condition of roads, bridges, seaports, airports, land ports and other critical infrastructure are no longer able to meet necessary service levels, carrying significant implications for Mexico's overall economic competitiveness. Poor maintenance exacerbates congestion, increases operational costs, and diminishes the efficiency of transport networks, all of which further strains the country's infrastructure. Without consistent upkeep, these assets will continue to degrade, resulting in higher long-term repair costs and reducing the return on new investments. Neglecting maintenance also risks undermining the benefits of new projects, as existing deteriorating infrastructure will struggle to support growing demand.

Mexico's infrastructure is also vulnerable to natural disasters. While insurance mechanisms such as catastrophic bonds and parametric insurance provide protection, faster response systems are needed. A financial facility to replace the now defunct Natural Disasters Fund (FONDEN) is urgently required.

Additionally, Mexico lags in adopting low-carbon logistics solutions. For instance, electric charging infrastructure is virtually nonexistent, and plans for the electrification of new rail projects, which could strengthen the economic rationale for these investments, are currently lacking. Without a clear commitment to rail electrification, these projects' long-term sustainability and cost effectiveness are in question, limiting their potential to contribute to Mexico's low-carbon transition and undermining the broader need for infrastructure modernization.

If the new administration prioritizes rail investment and relies on Fonadin for financing, investment in other sectors and regions risks being overshadowed. While private capital can support profitable projects, investors are likely to seek federal guarantees, especially given the recent uncertainties in the business environment. This could further limit the availability of funds for broader infrastructure needs, exacerbating regional disparities and sectoral imbalances.

State governments could be key in financing strategic infrastructure through public-private partnerships. However, even in these cases, federal guarantees will likely be required to mitigate risks. Balancing national priorities while ensuring that underfunded regions and sectors are not left behind will be a major challenge for the Sheinbaum administration as it navigates fiscal constraints and a complex investment landscape.

The current focus on rail investment in the southern and southeastern regions is unsustainable. Northern and central Mexico urgently requires more and better quality transport infrastructure to avoid a cycle of asset depreciation, deteriorating service levels, and increasing bottlenecks that could further undermine economic growth and competitiveness. In the context of the relocation of global supply chains and the rise of nearshoring, transport infrastructure remains one of the key strategic constrictions on economic growth that should be addressed. Without significant improvements, Mexico risks failing to fully capitalize on these global trends, as efficient and reliable infrastructure are crucial for attracting and retaining investment.

XII. Climate, Politics, and Water Security

Sheinbaum declared her commitment to addressing environmental challenges in her inaugural speech, affirming "Water belongs to the nation."[103] Mexico's new leadership will have to prioritize numerous demands that have been postponed over a decade on issues related to conservation, availability, quality, and supply of water in the era of climate change.

Mexico's water security and sustainability will be under scrutiny as different sources suggest that an overall budget between MX$80–120 billion (around US$4–6.1 billion) is necessary to improve access to water nationwide, while also acknowledging the long overdue reform to an outdated, unsustainable General Water Law as well as the national water infrastructure's needed maintenance and modernization.[104] It is essential to ensure access to drinking water service for the almost 15 million Mexicans who continue to live without it. In addition, securing an increasing demand for water in the productive sector is also paramount, especially given the potential growth of industrial activity, particularly in the northern states that are already experiencing great water stress.[105]

Mexico is also facing pressure to resolve a water debt that is currently escalating into an international conflict with the U.S. due to unmet water quotas stipulated in the 1944 Water Treaty.[106] This pressure is increasing, as a current regional drought obstructs full compliance with this binational agreement and affects the livelihoods of border communities.

Sheinbaum's interest in water issues suggests that access to water for human consumption will be a priority in her administration. She has announced a National Water Program, encompassing huge efforts to address water sanitation and supply and resolve the water pollution problem nationwide.[107]

Other key features epitomizing an unattended severe water crisis include:

- Population growth.
- Expansion of manufacturing industry.
- Limited government capacity to regulate water consumption.
- Climate change.

The country's water resources require comprehensive management schemes through a cross-sectoral, long-term approach, allowing the integration of public policies in the three levels of government, as well as greater coordination among agencies involved directly and indirectly in water administration and climate adaptation.

Unfortunately, this issue, despite Sheinbaum's credentials as an environmentalist, is absent from the national agenda. Mexico is certainly headed for a water crisis, the effects of which will be felt in 2025.

The National Context

Under the framework of the U.N. 2030 Agenda, Mexico's national strategy to address the U.N Sustainable Development Goals notes that the country has not yet been able to fully guarantee the human right of access to safe drinking water, even though this right is enshrined in the Mexican Constitution.[108] A large portion of the population, around 12 to 15 million people, still lacks basic access to clean water, which particularly affects marginalized groups, low-income populations, and women.[109] The issue's complexity lies in the fact that several different crises have caused Mexico's water crisis. These layered crises can be best understood as either environmental or governmental derived.

Environmentally derived crises relate to:

- Extreme drought caused by climate phenomena upsetting rainfall patterns.
- Precipitation changes impacting underground aquifers and upstream water availability.
- Contamination and toxic pollution washing into main water streams due to agricultural runoff, deforestation, and unchecked industrial waste disposal.

Governmentally derived crises refer to:

- Ongoing stalemate over the General Water Law's delayed approval.
- Dated water regulations associated with concessions and property titles that are not only unlawfully assigned but also allow unrestricted use without considering the maximum renewal capacity of aquifers and surface waters.[110]
- Absence of systems to detect corruption and illegal water extraction, claim fair tariffs for water overuse, and develop an efficient water monitoring network.
- Lack of irrigation and treatment technology to address agricultural needs and water standards.
- Insufficient financial means required to undertake Mexico's hydric pressure, despite the increased budget to the National Water Commission (Comisión Nacional del Agua, CONAGUA) approved for 2024 with a total of MX$62.67 billion (around US$3.21 billion).[111]

Verisk Maplecroft's Water Stress Index shows that Mexico already ranks among the 50 most water-stressed nations in the world. Cities, such as Monterrey, Chihuahua, and Tijuana, fall within the highest risk category, and this stress could grow further by 2040.[112] The scale of Mexico's potential exposure to high water stress could influence long-term economic growth in the country over the next 30 years. Currently, 11 of Mexico's 32 states face high water stress. Those with the highest exposure to increased risk are the Baja Californias, Aguascalientes, and Mexico City, followed by Morelos, Sonora, Chihuahua, Sinaloa, Zacatecas, and Guanajuato. However, by 2050, under an increased temperature scenario of two degrees Celsius, nine more states would be added: Nuevo León, Tamaulipas, Coahuila, San Luis Potosí, Querétaro, Tlaxcala, Hidalgo, Colima and Jalisco.[113] Only six states — Chiapas, Oaxaca, Guerrero, Campeche, Veracruz, and Tabasco — demonstrate low water stress risk due to the low industrial activity and water-rich ecosystems, if social and economic dynamics remain unchanged.

The agriculture and livestock sectors are currently the largest consumers of water, accounting for 76%, followed by public water supply with 14%, and then 10% for industrial use.[114] Some water-sensitive industries will face higher costs to ensure their sector's growth and will potentially require larger investments or even relocation of these industries to less water-stressed states. Agribusiness, beverage and textile production and manufacturing, chemicals, construction material, auto industry, power generation, and tourism are some of the most impactful sectors that require intensive wateruse.[115]

Lastly, the water quality of surface water in the country is in a much depreciated state. According to data from the National Water Quality Measurement Network (Red Nacional de Medición de la Calidad del Agua, Renameca), 59.1% of the rivers, streams, lakes, lagoons, dams, and coastal areas monitored in 2022 were highly contaminated, and treating pollution of surface water bodies will be a priority of the incoming administration.[116] Together with 200,000 hectares of new irrigation technology in the country, Sheinbaum's new National Water Program aims to treat water for industry and efficient irrigation and has promised to develop a series of strategic actions to secure a cleaner water supply.

The Binational Issue

Environmental and governmental burdens are not the only issues that have pushed Mexico's water access into a complex state. Water sharing in transboundary spaces along the basin of the Rio Grande River, extreme drought, and over-allocation of water rights in the U.S-Mexico region have made compliance with the 1944 Water Agreement a very problematic international affair.

Protracted drought has prevented Mexico from delivering the annual commitment of 350,000 acre-feet as a five-year delivery cycle average and has led to the compromised livelihoods of farmers, ranchers, and producers throughout South Texas, Arizona, and northern Mexican states, such as Chihuahua, Tamaulipas and Baja California.[117] The five-year cycle is to be completed in 2025. That could become an important political predicament between Washington and Mexico City, if Mexico is unable to deliver its water commitment by October 2025. In November 2024, the U.S. and Mexico concluded an amendment to the 1944 water treaty to implement a more reliable water delivery system between Mexico and Texas on the Rio Grande watershed.[118] Even so, as water becomes more scarce, future water exchanges may become more difficult. It is unclear, however, whether this amendment will solve the issue of the water debt to be paid in full by October 2025.

Political will between the two countries, particularly between the border states, has become challenging, as the agricultural industry in the region has reported economic losses of about US$1 billion only in the Rio Grande Valley area, where citrus and other vegetable crops and sugar cane have lost significant yields in recent years.[119]

Water infrastructure development in the border region is currently taking place thanks to significant investment projects from international agencies, such as NADBank, in novel sustainable payment-for-performance financing schemes, reducing leaks, desalination of seawater in remote areas where there are no other supply sources, and the rehabilitation of several wastewater treatment plants that will lay the foundation for subsequent reuse projects.[120]

As nearshoring activities will demand additional water resources, the needs to consolidate a binational water plan, consider integrated management protocols, standardize data collection and usage become imperative for effective transboundary water governance. Several efforts to reduce transboundary water pollution and increase water conservation and collection are anticipated to take place along the border region under the U.S. Environmental Protection Agency's (EPA) and Mexico's Secretariat for Environment and Natural Resources' (SEMARNAT) 2025 Border framework.[121] Overall, the challenges are financial as the investment required to face them is estimated beyond MX$15 billion (US$770 million) in the six border states.[122]

XIII. Binational Relationship

Political and diplomatic relations are headed for a turbulent year in 2025, as Mexico is increasingly viewed less as a strategic partner of the United States. Several issues stand in the way of this perspective.

First, there are emerging concerns about Chinese economic activities in the country. The acceleration of Chinese investment in Mexico — often hidden by layers of companies affiliated in third countries, and likely a strategy by China to secure access to the American market through the USMCA — is drawing more attention in Washington and may become a major irritant in 2025.

Second, the Trump administration is likely to bring much attention to two specific items that he values — immigration and drug trafficking. While he is not expected to mind any democratic backsliding happening in Mexico, Trump has threatened tariffs on Mexican goods if the Sheinbaum administration does not comply with his demand that Mexico close the border. That may become another irritant in the binational relationship in 2025.

Third, review and revisions to the USMCA, mandated by the agreement itself, will begin toward the second half of the year. The Trump administration is likely to ask for specific changes to the agreement. Since there are serious trade concerns on both sides of the aisle in the U.S. Congress, the accord is not likely to be ratified without changes. Those changes will bring an added layer of uncertainty to the U.S.-Mexico relationship.

Fourth, although less significant, aligning Mexico's foreign policy with Cuba, Venezuela, and Nicaragua will not benefit a strategic relationship with the U.S. The Trump administration is unlikely to focus on those issues.

XIV. US-Mexico Border

The U.S.-Mexico border will likely be an important policy focus for the Trump administration. It may serve as a focal point for the White House to draw upon for sporadic attention if the Trump administration believes that Mexico is allowing too many migrants or drugs to come through the border. One of Trump's major promises is to control immigration and deport millions of undocumented workers — as many as five million Mexican unauthorized migrants live in the United States — and to stop the flow of drugs, particularly fentanyl.[123] Because both problems are intimately related to the U.S.-Mexico border, it will be an important focus of Trump's attention in 2025.

Trade between the two countries will likely continue to grow, especially as nearshoring continues, albeit slowly, and many of its manufacturing plants crowd into border cities, such as Tijuana, Ciudad Juárez, Laredo, Reynosa, and Matamoros. This will continue to overwhelm all cross-border infrastructure, with no plans for added capacity in 2025.

Trump has also promised to continue building the wall between Mexico and the United States. Because the border fence has had no real effect on either migration flows or drug trafficking, any added miles are unlikely to make a difference, but the border has been a major focal point of all three of Trump's campaigns, and the border is an important part of his rhetoric. This is expected to continue in 2025.

While unpredictable, a major issue is whether the Trump administration can shut down the border if demands on Mexico are made over immigration and drug trafficking, and if the country is deemed noncompliant. Trump has promised tariffs on Mexican imports, but he has been vague about whether all products would be taxed at the border or only certain strategic products. If the latter takes place, this will likely have no real impact on the deeply integrated manufacturing chains between the two countries. At the same time, a crisis related to binational supply chains and trade cannot be predicted, but given Trump's use of tariffs and tariff threats, the possibility exists.

XV. Conclusion

The year 2025 will be a defining time in the U.S.-Mexico binational relationship. Mexico's recently inaugurated administration has vowed to pursue the playbook it inherited from the previous one. Unfortunately, the advantages that the López Obrador administration assumed no longer exist. Fiscal policy is tight and becoming more unsustainable — unless the new administration seeks to pursue a major tax hike or place additional debt in the international markets. Sheinbaum also faces a more unwieldy government, with both moderates and radicals vying for power.

Moreover, in terms of public policy, Sheinbaum inherits a number of unproductive projects including: 1) the Mayan Train, 2) the AIFA airport outside Mexico City, 3) enormous subsidies to heavily indebted government-owned companies such as Pemex and CFE, and 4) increased cash transfer programs now mandated by the constitution.

It is unlikely that the government will be able to meet all these commitments. Moreover, the country's health care sector, education system, and infrastructure are all in dire need of investment, which the government will not be able to meet. The number of challenges Sheinbaum inherits from her predecessor are daunting, and the country is inadequately equipped to address them.

To complicate matters, Trump's election is likely to bring new challenges, several of which could create irritants in the binational relationship. He is likely to call for revisions to the USMCA in 2025 and 2026, and Mexico appears unprepared to meet the extreme demands the White House is likely to make. The Trump administration is also expected to pressure Mexico to limit or terminate Chinese investment in the country altogether, which would likely be seen as a U.S. imposition. If Mexico complies, the country would be even more dependent on American investment and access to U.S. markets — an antithetical premise to Mexico's growing nationalist policies. Trump is also expected to demand that immigration and drug trafficking be brought under control, with his demands possibly accompanied by threats of tariffs or, worse, unilateral action by the United States against Mexican drug cartels.

What Trump is unlikely to focus on is Mexico's authoritarian drift. Although much of the legislative and regulatory agenda — or the elimination thereof — may harm many citizens in Mexico and lower its standing in the international community, this is not expected to be a concern for the incoming Trump administration. Such neglect is a poor diplomatic and economic strategy for both countries, as it could drive a deeper wedge between Mexico and the United States.

Another important issue that cannot be overlooked is the relationship between Mexico and Texas. A deep interdependence between the two exists, as their economic and commercial relationship is mutually beneficial and Mexican entrepreneurs are earning an important space in Texas as they continue to increase their investment. However, the political environment in Texas dictates that its politicians continue to treat Mexico, especially the Mexico-Texas border, as an issue. Considerably more attention should be paid by the United States and particularly Texas to find a more balanced rhetorical stance toward their connections with Mexico. Otherwise, what could be an enormously beneficial relationship between Mexico and Texas could continue to produce less for both.

Overall, 2025 will be extremely challenging year for Mexico, and, if inadequately managed, could create a long-term divide between Mexico and the U.S., leading to enormous losses to both countries. A solid, strategic, and close partnership would be far more beneficial for both Mexico and the U.S. This is especially true because many Americans, particularly those within the investment community, continue to be bullish on Mexico. There is hope that the country will settle its historical grievances and return to sensible policies that can comprehensively provide a more stable political, legislative, and regulatory environment at the benefit of both the U.S. and Mexico. The year 2025 will test those hopes.

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