S&P Global Ratings

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Credit FAQ:

What Could Affect The Mexico Sovereign Rating In 2026?

January 8, 2026

This report does not constitute a rating action.

S&P Global Ratings forecasts Mexico's economy to expand just above 1% in 2026 after less than 1% growth last year, a comparatively low growth rate reflecting structural weakness. The consequences of prolonged poor economic performance could spill over into weaker public finances and affect our ratings on the sovereign, absent corrective measures.

Here, S&P Global Ratings presents frequently asked questions from investors regarding our sovereign ratings on Mexico (foreign currency: BBB/Stable/A-2; local currency: BBB+/Stable/A-2).

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Frequently Asked Questions

What are the rating strengths and weaknesses of Mexico?

The rating strengths are its external and monetary flexibility, thanks to many years of reform that have reduced the country's vulnerability to external shocks and created a flexible exchange rate and a credible monetary policy that could stabilize the economy.

The main rating weaknesses are domestic, not external. They include poor long-term economic growth, operational and financial shortcomings in state-owned enterprises (especially Petroleos Mexicanos, or Pemex) that pose contingent liabilities for the government, and a gradually rising sovereign debt burden.

What could change the sovereign ratings?

We could raise the ratings if effective political and economic management boosts investment and raises Mexico's low rate of per capita economic growth. Similarly, steps to bolster budgetary flexibility, rebuild fiscal buffers, and broaden the non-oil tax base to mitigate the potential contingent liability posed by state-owned companies in the energy sector would improve creditworthiness.

Failure to reduce and contain fiscal deficits in a timely manner could lead to higher-than-expected general government debt burden and interest burden. Weaker public finances, combined with the risk of further extraordinary support to state-owned companies Pemex and Comision Federal de Electricidad (CFE), could lead to a downgrade.

How has your assessment of Mexico changed in recent years?

Our foreign currency sovereign rating on Mexico had been 'BBB+' for many years prior to March 2020, when we lowered the rating to its current level of 'BBB' and assigned a negative outlook. The downgrade in 2020 reflected a worsened economic assessment of the sovereign, one of the six credit assessments that comprise our rating analysis. In July 2022, we revised the outlook to stable.

We assess sovereigns based on their institutional, economic, external, fiscal, debt burden, and monetary assessments, assigning a numerical score to each of them (from '1', the strongest, to '6', the weakest). Since the 2020 downgrade, our fiscal assessment of Mexico has worsened, and our monetary assessment has improved. These two changes had no net impact on the 'BBB' rating. Our institutional, debt, and external assessments have not changed in the last six years (see table 1).

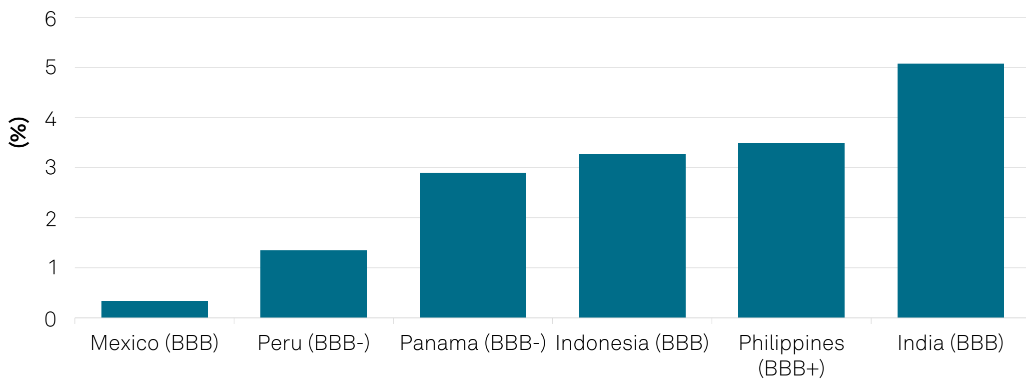
Mexico sovereign rating scores

	Year-end 2019	Year-end 2020*	As of January 2026
Institutional	3	3	3
Economic	4	5	5
External	2	2	2
Fiscal	3	3	4
Debt burden	4	4	4
Monetary	3	3	2
Foreign currency rating	BBB+/Negative	BBB/Negative	BBB/Stable

We changed our economic assessment of Mexico to a weaker category in 2020 because of revised expectations that real per capita GDP growth would remain below that of peers at a similar level of economic development. We base our assessment on long-term performance and not on a cyclical decline or the recent imposition of trade barriers on Mexican exports by the U.S. GDP growth averaged only about 1.8% during 2000-2019, before the pandemic. We estimate growth was likely below 1% in 2025 and is likely to be just above 1% in 2026. Chart 1 shows Mexico’s historically lower per capita GDP growth rate compared with other sovereigns at a similar rating level.

Chart 1

Real GDP per capita growth rates (average 2015-2025)



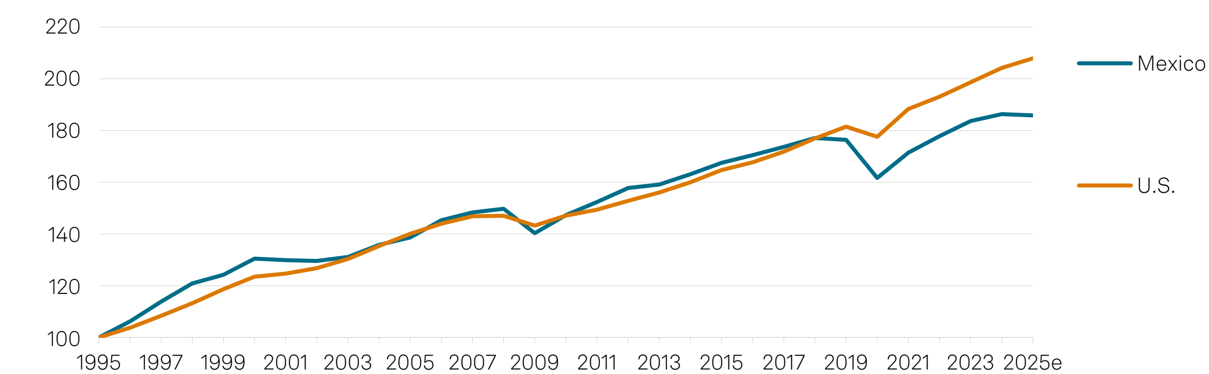
Source: S&P Global Ratings.

What explains Mexico's low GDP growth rates?

Chart 2 shows Mexico's long-term growth compared with that of the U.S. since the two countries entered into a free trade agreement (North American Free Trade Agreement, or NAFTA, which was replaced with the United States-Mexico-Canada Agreement in 2020) more than 30 years ago. Contrary to most expectations when the trade agreement was signed, Mexico's economic growth has been weaker over the long term than that of the U.S., despite the opportunities created by gaining favorable access to the world's largest economy. Instead of economic convergence, the gap in per capita GDP widened steadily between the U.S. and Mexico during 2005-2025.

Chart 2

Indexed GDP growth (1995=100)



Source: S&P Global Ratings. IMF WEO.

There are many reasons for this disappointing performance, including domestic security problems, inadequate investment in physical infrastructure, competition from China as it became a manufacturing superpower in the last three decades, and shortcomings in domestic economic policies. In recent years, low private-sector investment has constrained growth, partly reflecting a strained relationship between the government and the private sector.

Consumption has largely driven GDP growth in recent years. Fixed asset investment by the private sector declined in 2024 and likely fell again in 2025. The consequences of low investment show up in poor overall productivity. Investment is unlikely to pick up significantly because a recent judicial reform has increased legal uncertainty in Mexico.

Data indicates that export-oriented manufacturing firms have typically seen good growth in productivity in recent years, while smaller firms, usually catering to the local market and often working in the informal sector, have had productivity decline.

Do you expect trend economic growth to increase in the next couple of years?

Mexico's political leadership understands the need to boost private investment, especially in the energy sector, given the financial and operational weaknesses of the public sector. However, it has failed thus far to create an effective industrial strategy in conjunction with the private sector that could unleash more investment. Recently, the government has modified various laws and regulations affecting the oil, gas, and electricity sectors to boost investment and production. It is also seeking private-sector investment in projects across different sectors, complementing public-sector investment.

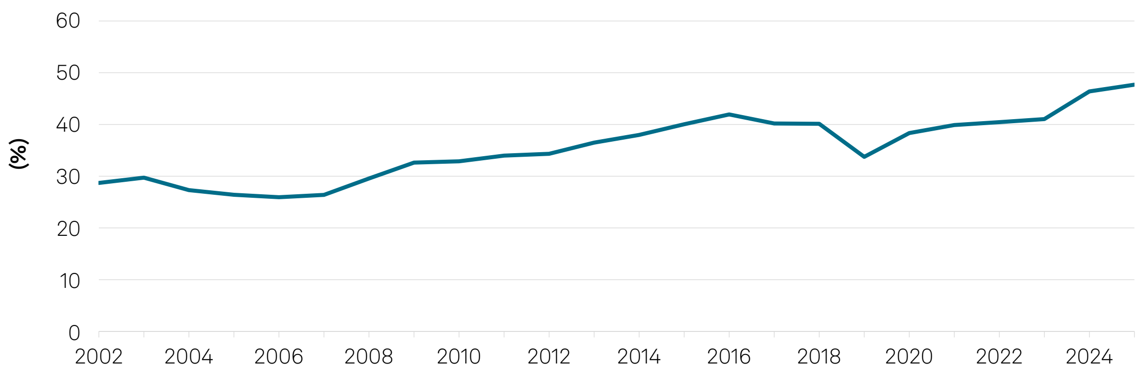
However, the initial response from the private sector has been subdued. In addition, the challenge is compounded by wider uncertainty about the fate of Mexico's free trade agreement with the U.S. and Canada and persistent uncertainty about global trade and investment patterns. It remains to be seen if investment rises according to the government's plans.

Why has your fiscal assessment of Mexico deteriorated over the long term?

Mexico's public finances have gradually eroded over many years, as seen in its net general government debt burden (see chart 3). Tax revenues have increased to compensate for the marked drop in oil revenues, but spending has also increased rapidly. The government has typically reduced its already low capital spending to avoid larger fiscal deficits. Spending on social programs is slated to rise in coming years, especially on universal pensions (which are linked to inflation). That increase, absent steps to boost government revenues, could keep the fiscal deficit at levels that result in a rising debt burden.

Chart 3

Mexico's net general government debt (% of GDP)

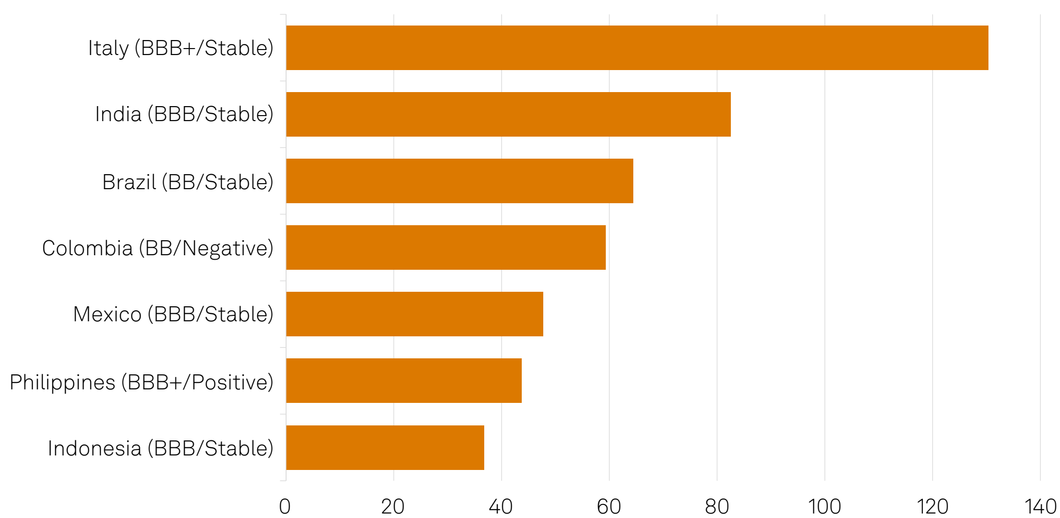


Source: S&P Global Ratings.

Chart 4

Net general government debt compared to peers

(% of GDP)



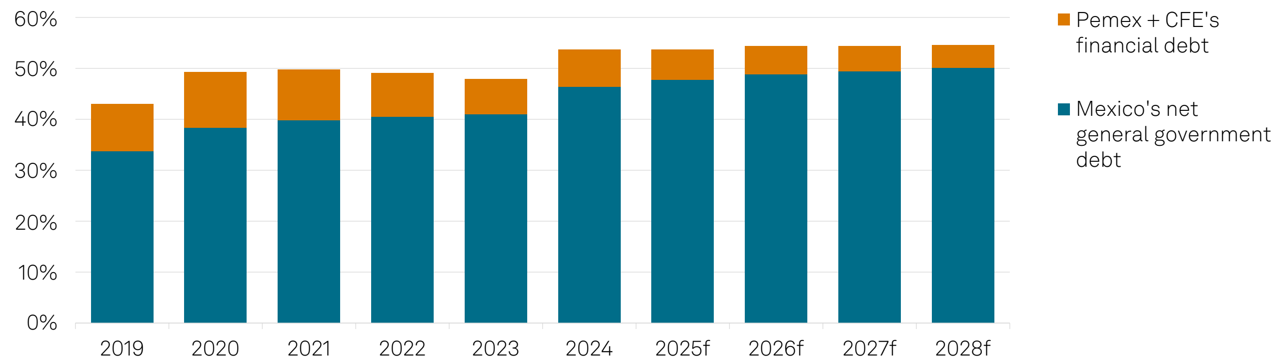
Source: S&P Global Ratings.

The sovereign's fiscal and debt performance is vulnerable to the weak financial profiles of government-owned energy companies, although the sovereign does not directly guarantee their debt. We continue to view the likelihood of the sovereign providing extraordinary support to Pemex and CFE as almost certain, reinforced by the recent support provided.

Chart 5

Mexico's net general government debt plus contingent liabilities

(% of GDP)



Source: S&P Global Ratings.

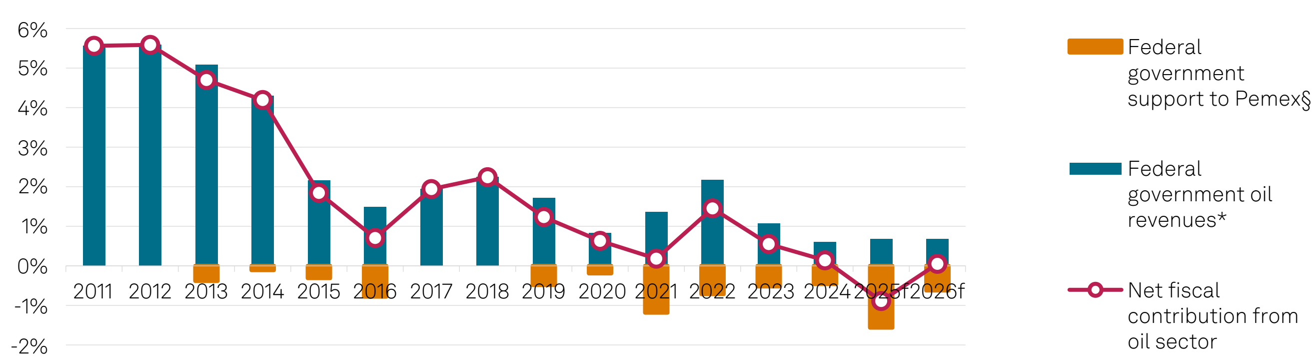
Pemex received around $7 billion in budgetary allocation from the government in 2025 and is slated to receive around $13 billion in 2026 to cover all its external debt service. In 2025, the company also received around $12 billion in support to refinance short-term financial obligations, $9.9 billion to buy back external bonds maturing in 2026-2029, and sovereign support to finance suppliers for up to Mexican peso (MXN) 250 billion (US$14 billion). Operational shortfalls--oil output has remained below target in recent months--could compel the government to offer additional extraordinary support to Pemex in 2026 and 2027.

The oil sector used to make a significant contribution to the government's own revenues (see chart 6). Now, it has become dependent on financial support from the sovereign. In many ways, we believe the real fiscal reform in Mexico would be Pemex reform.

Chart 6

Balance of oil revenues and contributions to Pemex

(% of GDP)



Source: ESTOPOR, F-19 (Pemex). *Only direct revenues, does not include IEPS and IVA. §Certificates of contribution "A" and FONADIN.

What explains the recent improvement in S&P's monetary assessment of Mexico?

The improved assessment is due to growing domestic capital markets and the central bank's track record of proactive policies that have contributed to long-standing credibility, backed by a constitutional mandate to maintain stable and low rates of inflation. We assume the legal independence of the central bank and public support for the institution will result in continuity in prudent monetary policy. Mexico operates a free-floating currency that is actively traded, and the central bank has not intervened in the foreign exchange market since the pandemic.

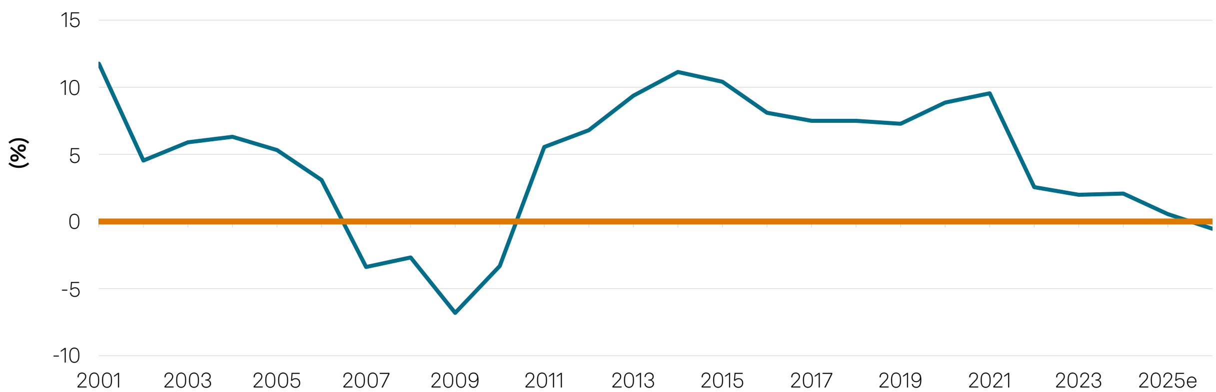
What underpins Mexico's solid external assessment?

Mexico's external position is a rating strength. The country as a whole (including the private and financial sectors) has little or no external debt on a net basis (see chart 7).

Chart 7

Mexico's net external debt

(% of GDP)



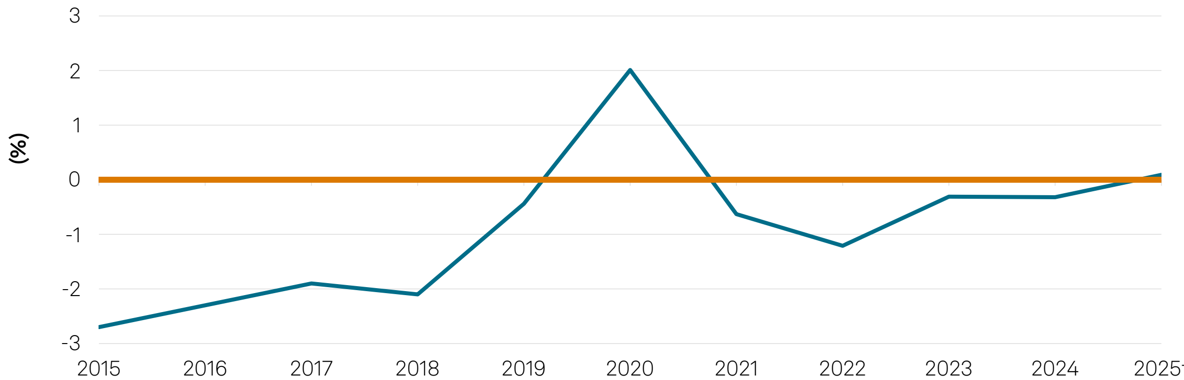
Orange line marks zero % of GDP. e--Estimated. Source: S&P Global Ratings.

An increasingly sophisticated export sector has made Mexico's current account results less vulnerable to external shocks, including swings in oil prices and global economic activity. Moreover, the current account deficit is moderate and is typically fully funded by foreign direct investment, not debt (see chart 8). The Mexican peso is an actively traded currency in global financial markets, accounting for around 1.5%-2.0% of global market turnover. Despite uncertainty about trade policy, we expect that Mexico will retain favorable access to the U.S. market. Currently, over 80% of Mexican exports to the U.S. pay zero tariffs, and the rest pay a relatively low rate, resulting in an effective tariff rate at around 6%.

Chart 8

Mexico's current account balance

(% of GDP)



Orange line marks zero % of GDP. Source: S&P Global Ratings.

Why has S&P Global Ratings' institutional assessment of Mexico remained stable over the years despite many political developments?

The assessment reflects a stable and predictable macroeconomic policy track record, balanced with internal security challenges and controversial recent steps to centralize political power that could weaken checks and balances within the government.

Mexican governments of various political parties over the past two and a half decades have largely pursued moderate fiscal and monetary policies and supported the free trade agreements with the U.S. and Canada. The country's formally independent central bank enjoys broad political support. Democracy has brought stability and regular changes of government but has not created economic dynamism or improved public security.

President Claudia Sheinbaum's political party, the left-wing Morena, has enough seats in both houses of Congress to pass constitutional amendments and enjoys a dominant position at the state and local level. President Sheinbaum enjoys high popularity, according to polls, helped by a decline in poverty in recent years due to job growth, higher minimum wages, and wider social programs. The number of beneficiaries of social programs has risen by more than 50% since 2019.

These aspects of institutionality are balanced with greater centralization of decision-making across the executive branch of government in recent years, with the abolition of various regulatory agencies and the shift of their work to government ministries. The government also undertook a controversial judicial reform in 2025. More than half of Mexico's judiciary, including the Supreme Court and a new Judicial Discipline Tribunal, were elected in mid-2025 after passage of a constitutional amendment that moves Mexico toward a fully elected judiciary.

We could revise our institutional assessment of Mexico to a lower category if higher political polarization or weaker checks and balances result in less predictability in key policies and in lower investor confidence, or if negative economic fallout from controversial political developments undermines economic stability.

Related Research

- Mexico 'BBB' Foreign Currency And 'BBB+' Local Currency Long-Term Ratings Affirmed; Outlook Remains Stable, Sept. 8, 2025
- Mexico 'BBB' Foreign Currency And 'BBB+' Local Currency Long-Term Ratings Affirmed; Outlook Remains Stable, Dec. 13, 2024
- Credit FAQ: Sheinbaum's Agenda And Looming Changes In U.S. And Mexico Relations, Dec. 11, 2024