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MEXICO OUTLOOK

TEN **POLITICAL RISKS** FOR **2025**

EXECUTIVE SUMMARY

This report analyzes the ten key risks that could impact the business environment and democratic governance in Mexico in 2025. The analysis is based on Integralia's methodology, which evaluates each risk's potential impact and likelihood using quantitative and qualitative indicators. Each risk has a distinct probability of occurrence, which may shift throughout the year.

Most of the risk scenarios are linked to the growing concentration and centralization of power within the federal Executive Branch, as well as the erosion of the system of checks and balances.

2025 is expected to bring heightened political risk, as the lack of effective oversight and accountability mechanisms for government authorities could encourage opacity and arbitrary decision-making.

It is worth noting that President Sheinbaum enjoys high approval ratings, and there is considerable optimism among Mexicans regarding the country's direction. In this context, the government is likely to prioritize policies that sustain its popularity at the expense of initiatives aimed at fostering long-term economic growth and social development.

In the short term, this undermines the Mexican state's capacity to capitalize on nearshoring opportunities. In the medium to long term, it erodes the competitiveness of the national economy and its productive potential.

Nine of the ten political risks identified by Integralia in January 2024 materialized. For instance, Morena's electoral victory that allowed it to approve a constitutional amendment enabling the election of Supreme Court justices by popular vote. Additionally, that Donald Trump's victory in the U.S. would place Mexico in a vulnerable position.

Throughout the year, Integralia closely collaborates with its clients to monitor each risk scenario, aiming to jointly develop targeted mitigation strategies while identifying and leveraging growth opportunities.

For 2025, Integralia has identified the following ten risk scenarios as having the greatest potential impact on the business environment.

TEN POLITICAL RISKS FOR 2025


Very high
High
Medium
Low

Economic uncertainty, trade disruptions, diplomatic tensions, and an intensification of the migration crisis emerge as immediate consequences for Mexico of Donald Trump's return to the White House.

Impact Level:  **Likelihood:** 

A deepening concentration of power undermines certainty for the private sector and the overall business climate, driven by a lack of political balance, the erosion of institutional checks and balances, and the opposition's weakness.

Impact Level:  **Likelihood:** 

The spirit of North American economic integration weakens, raising doubts about the viability of the current USMCA framework.

Impact Level:  **Likelihood:** 

Companies face increasing legal vulnerability due to the flawed implementation of the judicial reform and the growing bias and incapacity of judicial authorities to solve legal disputes.

Impact Level:  **Likelihood:** 

The current climate of economic uncertainty persists due to the approval of new reforms pushed forward by President Claudia Sheinbaum that give little consideration to the business sector and other stakeholders. These reforms prioritize political criteria over technical or economic ones in areas such as labor, environmental policy, and bureaucratic matters.

Impact Level:  **Likelihood:** 

Very high
High
Medium
Low

6

Electoral reforms that eliminate guarantees for free and fair political competition, and which limit the representation of opposition parties, are approved by the ruling coalition.

Impact Level:  **Likelihood:** 

7

Investment projects in key sectors such as energy and telecommunications, among others, are put on hold due to the uncertainty created by recently approved constitutional reforms —particularly those on strategic sectors and companies, the judiciary, and the dissolution of autonomous agencies— as well as the stalemate in implementing their corresponding secondary laws.

Impact Level:  **Likelihood:** 

8

Violent confrontations increase as a result of internal fractures in organized crime groups and a strategy to capture high ranking criminals, which hampers the transport of goods on highways and small businesses' operations in regions with high criminal presence.

Impact Level:  **Likelihood:** 

9

A (bad) tax reform is introduced to boost public revenue —either through a comprehensive overhaul or sector-specific adjustments— as a result of fiscal constraints and the government's need to fund its priority programs and projects.

Impact Level:  **Likelihood:** 

10

The operational and planning capabilities of local governments continue to decline, impairing their ability to address local issues and needs (i.e. infrastructure and basic services). This decline stems from corruption, insufficient public resources, unqualified personnel, and increasing centralization of power that discourages local responsibility.

Impact Level:  **Likelihood:** 

OTHER RELEVANT ISSUES FOR 2025

1 

The risk of a credit downgrade increases in 2025

2 

Pressure intensifies against water-intensive companies

3 

Decline in Pemex production compromises oil revenue and weakens the national industrial sector

4 

The National Housing Institute (Infonavit) invests workers' resources in low-yield projects

5 

Insufficient electrical supply and blackouts

1

Economic uncertainty, trade disruptions, diplomatic tensions, and an intensification of the migration crisis emerge as immediate consequences for Mexico of Donald Trump's return to the White House.

Risk Level **Likelihood**

Trump's second presidential term will officially begin on January 20th with an ambitious agenda of political change. He has stated that in his first days he will: end birthright citizenship for children born on U.S. soil, order mass deportations of undocumented migrants, lay off thousands of federal employees, deregulate and provide tax incentives to several economic sectors, and impose tariffs on imports from countries like China, Canada, and Mexico.

For Mexico, these measures could lead to the following risks:

Table 1. Risks of Trump's Agenda for Mexico

	Potemtial implications for Mexico and the business sector
	Tariffs
Risk Scenario	• Economic uncertainty associated with the lack of clarity regarding the type, scope, and duration of tariff measures • Financial volatility and depreciation of the peso • Declining investor interest in nearshoring opportunities • Challenges to business planning, productivity, and profitability for companies involved in bilateral trade • Potential retaliatory tariffs from Mexico's government, paving the way for escalating trade disputes

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Risk Scenario

Potential implications for Mexico and the business sector

Mass deportations and 'tough' migration policies[1]

- Economic and social challenges in the northern-border states
- Less remittances and challenges for Mexican labor market
- Mexican government will be forced to use valuable human and monetary resources to address migration challenges, instead of more urgent priorities

Potential covert operations or targeted drone strikes on drug plantations or production facilities in Mexican territory, triggered by the designation of cartels as terrorist organizations

- Tensed relations between Mexico and U.S. security agencies
- Violent conflicts between different criminal organizations, with focalized impacts in transportation routes

Diplomatic conflicts

- Trump's actions and rhetoric could trigger nationalist positions in Mexico that may hinder economic and commercial relations between the two countries

[1] Trump's approach to migration could include: (1) Further restrictions on asylum applications at the border, such as suspending the use of the CBP One app for scheduling port-of-entry appointments; (2) increasing the number of expedited removals at the border, bypassing immigration court hearings; (3) reinstating the Migrant Protection Protocols (MPP), or "Remain in Mexico" policy, requiring asylum seekers from Spanish-speaking nations to wait in Mexico for their cases to be resolved; and (4) expanding deportations from the U.S. interior via Immigration and Customs Enforcement (ICE) and ending programs like Deferred Action for Childhood Arrivals (DACA), humanitarian permits, and Temporary Protected Status.

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2 A deepening concentration of power undermines certainty for the private sector and the overall business climate, driven by a lack of political balance, the erosion of institutional checks and balances, and the weakness of the opposition.

Risk Level **Likelihood**

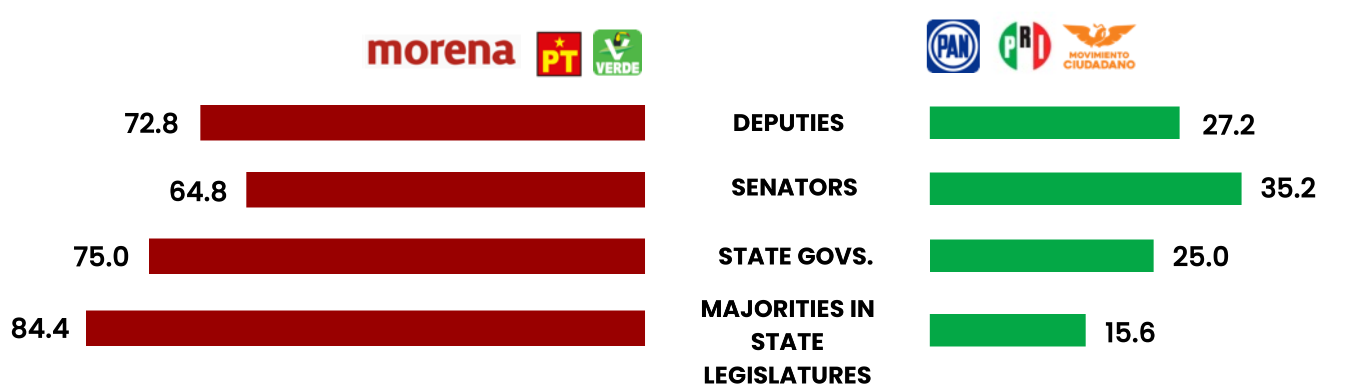
The electoral victory of Morena and its allies in the 2024 elections relegated the opposition to a near-symbolic presence in the federal Congress and left it significantly weakened at the regional level, including in governorships and local legislatures. Morena and its allies have established strong political dominance at both the federal and local levels.

This hegemony is bolstered by the partial capture of institutions such as the Federal Electoral Tribunal (TEPJF) and the progressive weakening of the National Electoral Institute (INE), alongside the dismantling or absorption of regulatory agencies such as the National Transparency Institute (INAI) and the Federal Economic Competition Commission (Cofece).

These changes undermine independent oversight of public resources and government operations. Additionally, public media outlets face self-censorship or intimidation to curtail criticism of the government.

For the business sector, this concentration of power poses several challenges. The government can act unilaterally with little input from business, social, or political stakeholders, leading to decisions driven by electoral priorities rather than technical or economic considerations. Furthermore, discretionary awarding of contracts or permits to benefit the government's allies, hampers investment and economic competition.

Graph 1. Distribution of Political Power After the 2024 Elections (%)



Source: INE and Federal Congress.

Moreover, the government can lose capabilities or willingness to correct mistakes or to include alternative perspectives in decision-making processes.

This dynamic directly impacts companies' long-term planning, forcing them to operate within a volatile legal and regulatory framework. Abruptly implemented reforms with little prior consultation exacerbate this uncertainty.

Table 2. Autonomy of the Checks on Presidential Power (2018, 2021, and 2024)

High 🟢 Medium 🟡 Low 🔴

Institution	2018	2021	2024
Federal Legislative Branch	🟡	🟡	🔴
Local Legislatures	🟡	🟡	🔴
National Supreme Court (SCJN)	🟢	🟢	🟡
State Governments	🟢	🟡	🔴
National Comission of Human Rights (CNDH)	🟡	🔴	🔴
Federal Electoral Tribunal (TEPJF)	🟢	🟢	🔴
National Electoral Institute (INE)	🟢	🟢	🟡
Bank of Mexico	🟢	🟢	🟡
Other Autonomous Institutions (such as Inai, IFT, Cofece)	🟢	🟡	🔴
Media and the press	🟡	🟡	🟡

Source: Own methodology
Note Green indicates high autonomy; yellow, medium, and red, low autonomy.

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3 The spirit of North American economic integration weakens, raising doubts about the viability of the current USMCA framework.

Risk Level

Likelihood

Beyond the immediate risks associated with Donald Trump's return to the White House (discussed in the first scenario), another risk is expected to develop over the course of 2025 as the USMCA's review approaches in 2026: the ongoing questioning of North American trade integration and the viability of the current structure of the trilateral agreement.

Firstly, if the U.S. imposes tariffs on its North American trading partners, retaliatory measures from Mexico and Canada could trigger a cycle of escalating tariffs across the region. Trump's tendency to intertwine economic and political issues will further heighten diplomatic tensions and politicize trade relations among the three countries.

Secondly, Canada's elections this year add complexity to the equation. Following Justin Trudeau's resignation, the likelihood of a Conservative Party victory has increased. The Conservatives have gained traction with a nationalist platform that questions the economic benefits of the USMCA and advocates for a bilateral agreement with the U.S., excluding Mexico.

This rhetoric has placed the USMCA at the center of Canada's electoral debate. If the Conservatives win (a highly probable scenario), they are likely to adopt an agenda unfavorable to the agreement.

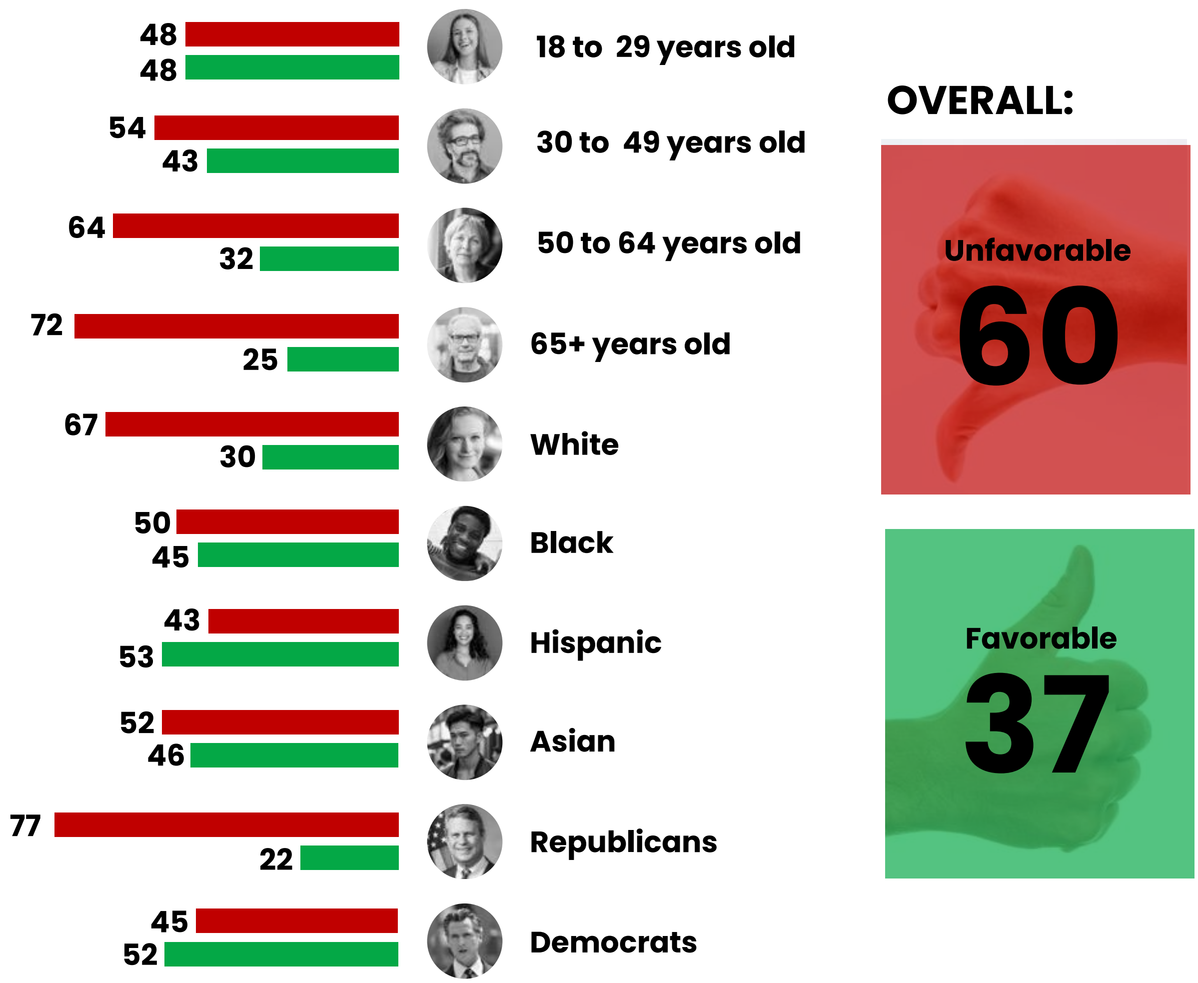
Thirdly, rhetorical attacks from both the U.S. and Canada against Mexico could prompt a nationalist reaction from Sheinbaum's administration. If this narrative gains traction domestically, supported by the Morena coalition, the Mexican government may pursue a more protectionist agenda, less committed to North American integration.

While Mexico remains publicly committed to the North American project, these dynamics risk weakening its position within the trilateral agreement. Continued pressures from its partners could push Mexico toward a reactive and nationalist stance.

These strained relations could further complicate the 2026 USMCA review and undermine the benefits of nearshoring.

A key element of Mexico's attractiveness to foreign investors lies in North American integration, which may be jeopardized by ongoing trilateral tensions.

Graph 2. Perception of Mexico Among Various U.S. Demographic Groups (%)



Source: Pew Research Center Survey, August 2024.

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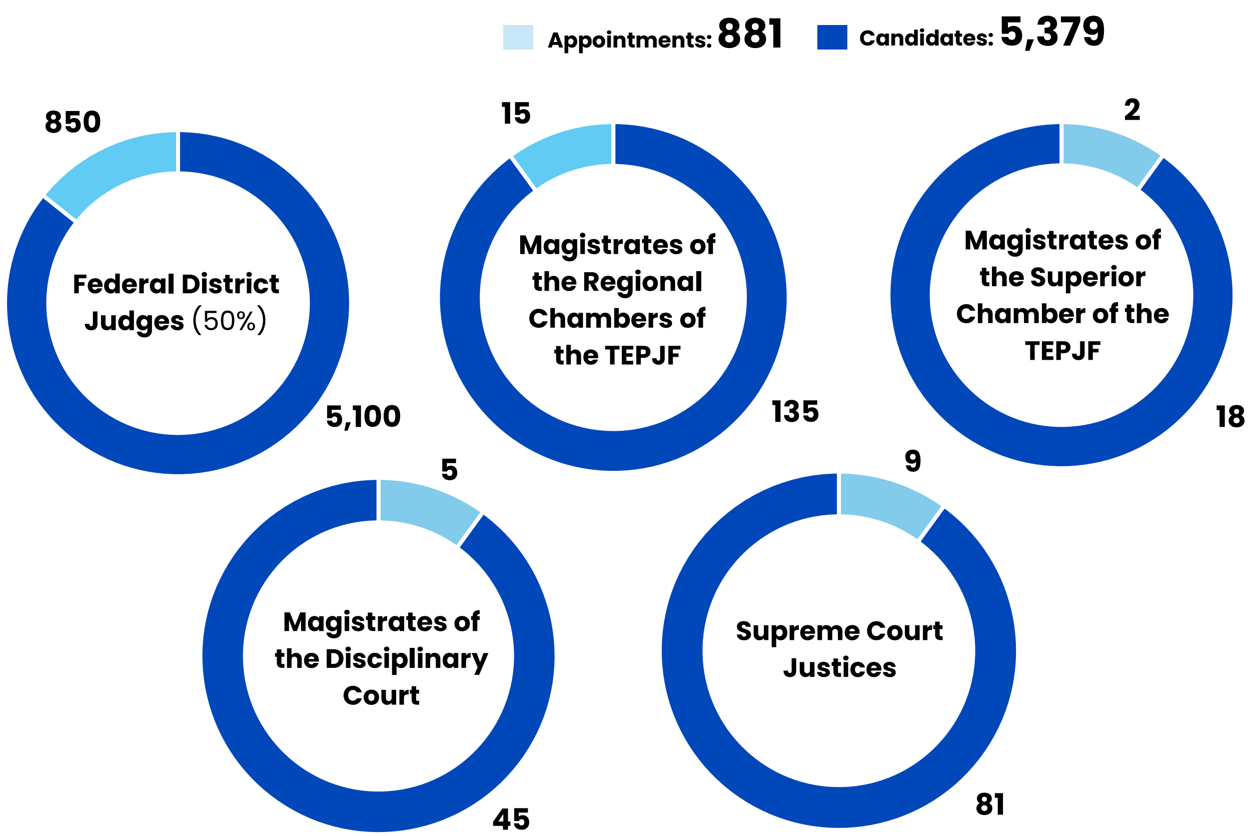
4 Companies face increasing legal vulnerability due to the flawed implementation of the judicial reform and the growing bias and incapacity of judicial authorities to solve legal disputes.

Risk Level

Likelihood

This year marks a radical transformation in the composition of the judiciary, with elections for half of the federal judges (see Graph 3) and judicial appointments in 15 states, including Aguascalientes, Baja California, Chihuahua, Mexico City, Coahuila, Durango, Mexico State, Michoacán, San Luis Potosí, Sonora, Tabasco, Tamaulipas, Tlaxcala, Veracruz, and Zacatecas.[2]

Graph 3. Judicial Appointments Scheduled for the 2025 Elections



Source: Own methodology.

[2] Information updated on January 3, 2025.

Table 3. Riks in the Implementation of the Judicial Reform

Stage	
Selection of Candidates	• Selection of politicized, low-quality profiles
Campaigns	• Illegal campaign financing • Unregulated debates • Illegal propaganda favoring candidates aligned with the ruling coalition • Lack of public interest
Election Day	• Low voter turnout • Poor poll-station organization and integration • Irregular voter mobilization by political clientelism • Uninformed voting
Results	• Uncertainty in vote counting • Post-electoral judicial challenges • Inability to reach gender-parity criteria
Transition	• Operational inefficiencies due to workload increases and learning curves • Unclear roles of new judicial bodies • Budgetary constraints for reform implementation • Radical changes in judicial criteria, further complicating rulings

A significant number of the candidates for judicial positions lack the independence or technical expertise necessary to administer justice impartially. Although final candidate lists are not yet available, preliminary evaluations indicate that many of those selected are closely aligned with the ruling coalition.

Moreover, both elected judges and those who remain in their positions (at least until 2027) will operate under a new legal framework. This framework contains omissions, and the short transition period will make proper implementation difficult.

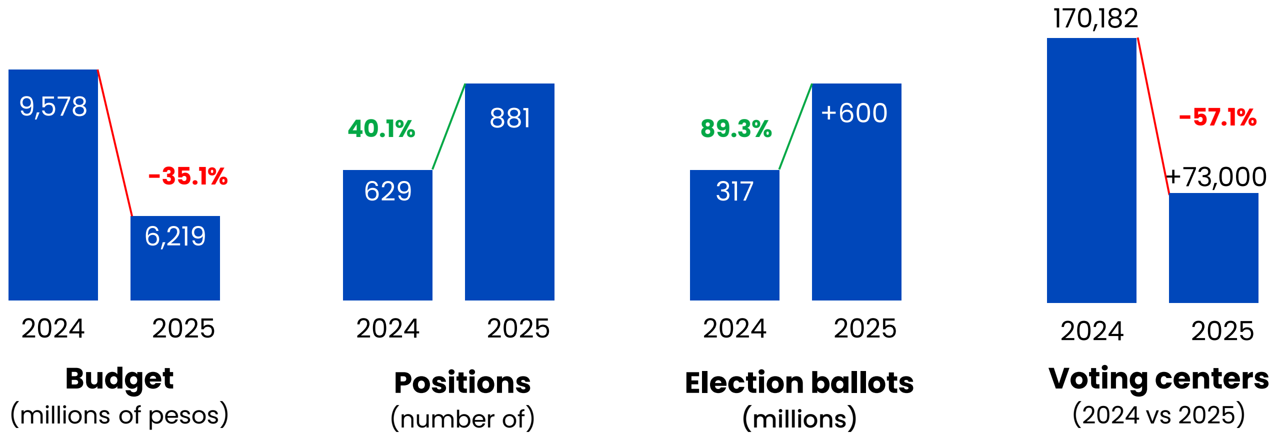
The lack of clarity in the new judicial rules also impacts private parties, generating uncertainty regarding the mechanisms for solving legal disputes.

Specifically, for the private sector, the judicial reform could lead to: (1) higher operating costs; (2) increased reliance on alternative dispute resolution mechanisms, such as arbitration; (3) delays in certain business operations; and (4) reduced, delayed, or withdrawn investments.

The anticipated interference of the new Judicial Disciplinary Court, with broad authority to sanction judges for "administrative offenses," further adds to the potential politicization and partiality of justice.

Ultimately, this scenario could lead to a legal environment where private parties lack reliable mechanisms to challenge arbitrary government actions, resulting in unprecedented levels of legal conflict.

Graph 4. Budget, positions in dispute, and electoral ballots: federal election 2024 vs estimate for extraordinary 2025 election



Source: Own methodology with INE's figures. Last update: December 31, 2024.

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5

The current climate of economic uncertainty persists due to approval of new reforms pushed forward by President Claudia Sheinbaum that give little consideration to the business sector and other stakeholders. These reforms prioritize political criteria over technical or economic ones in areas such as labor, environmental policy, and bureaucratic matters.

Risk Level

Likelihood

As of December 2024, 12 of the 18 constitutional reforms proposed under López Obrador's "Plan C" had been approved. The pending bills include reforms on pensions, healthcare, water, environmental protection, and mining.

President Sheinbaum has declared her intention to present additional bills during the upcoming congressional period, which include changes to secondary laws tied to López Obrador's "Plan C" and further constitutional amendments.

These reforms could heighten uncertainty for the private sector by prioritizing political criteria over technical and economic considerations in areas such as labor, environmental policies, and administrative procedures.

In addition, Sheinbaum has signaled her support for new water regulations, which may introduce measures adverse to private concessionaires. These bills are expected to prioritize human water consumption, potentially limiting industrial and commercial usage.

Furthermore, it is likely that other bills will emerge from within the ruling coalition's parliamentary groups to advance specific agendas, personal goals, or gain media visibility.

Some of these bills could harm the business environment —for instance, revisiting the proposed reform to the Federal Labor Law to reduce the workweek to an average of 40 hours, or introducing regulations on bank service fees.

The legal uncertainty caused by these bills makes long-term planning for businesses in strategic sectors, such as energy and telecommunications, increasingly challenging.

Table 4. Risk Level for Different Economic Sectors

Very High	High	Medium
Mining	Electronic industry	Tourism
Energy	Automotive industry	Pharmaceuticals
Telecom	Food industry	Chemistry and textile
Water-intensive industries		Construction
		Manufacture
		Banking and finance

Source: Own methodology.

6 Electoral reforms that eliminate guarantees for free and fair political competition, and which limit the representation of opposition parties, are approved by the ruling coalition.

 **Risk Level**

 **Likelihood**

The electoral reform was excluded from the "Plan C" reform package proposed by López Obrador. However, President Sheinbaum has announced plans to introduce electoral reforms in two phases: first, during the next congressional period (February-April); and second, after the judicial elections in June.

The proposed reforms aim to: ban nepotism in candidacies and public positions; ban legislative and public office reelection; reduce public funding for political parties; lower election-organization costs; and modify proportional-representation-candidate lists for deputies, senators, mayors, and city councillors.

While some of these changes could be beneficial, these reforms pose risks to free and fair elections, political plurality, and power transition. Under the guise of austerity, they could lower professional standards for electoral staff and INE operations.

The modification or elimination of proportional representation would particularly impact opposition parties, potentially leading to power concentration and the weakening of the democratic system.

Although not yet proposed by Sheinbaum, there's concern the reforms might include the popular election of INE council members (using similar arguments as for judicial elections), which would compromise the electoral body's independence.

Moreover, the INE faces significant challenges with the judicial election: budget constraints, tight timelines, incomplete electoral framework, and expected low voter turnout. The federal government may use these issues to criticize the INE, potentially blaming it for low turnout and shortcomings in the organization process.

These criticisms would complement the existing rhetoric from the ruling coalition portraying INE as an expensive institution created by "neoliberal" governments and disconnected from popular needs, building justification for electoral reforms.

7

Investment projects in key sectors such as energy and telecommunications, among others, are put on hold due to the uncertainty created by recently approved constitutional reforms —particularly those on strategic sectors and companies, the judiciary, and the dissolution of autonomous agencies— as well as the stalemate in implementing their corresponding secondary laws.

Risk Level

Likelihood

The enactment of constitutional amendments regarding judicial matters, strategic sectors and companies, and bureaucratic simplification —which dissolves seven autonomous and/or regulatory bodies— concentrates power in the federal Executive Branch without guaranteeing greater governmental efficiency. It also increases legal uncertainty, negatively impacting the business environment.

In 2025, secondary reforms in energy, telecommunications, and competition derived from the previously mentioned constitutional amendments, must be discussed by Congress.

Uncertainty regarding their content and the long transition period to implement them will create an investment impasse in key sectors, such as energy and telecommunications.

For instance, secondary laws related to the reform on strategic sectors and companies are expected to reinforce the monopolistic vocation of Pemex and CFE (both in electricity and telecommunications).

Specifically, the reform of strategic sectors and companies will impact the following sectors:

(i) It eliminates the possibility of the State entering into contracts with private parties for power transmission and distribution activities; (ii) under no circumstances will private activities in the electricity industry take precedence over the state's public company; (iii) it reaffirms that planning and control of the national electrical system corresponds to the State, in order to preserve energy security and self-sufficiency; (iv) it stipulates that lithium exploitation will be considered a strategic area and no concessions will be granted.

Internet service provided by the State will be considered strategic and not monopolistic, granting the State-owned company CFE TEIT advantages over its private competitors.

Passenger and cargo transportation will be considered as strategic areas for national development.

The main risk of these reforms for the business sector lies in returning to a model that privileges State-owned companies and their activities (now designated as "strategic") over private companies.

These constitutional amendments aggravate the uncertainty generated by the judicial reform and raise doubts about the scope of the federal government's agenda to intervene in the economy.

Table 5. Risks Related to the Elimination of Autonomous Bodies

Institution	Risks	Transition Period
	• Lack of guarantees for access to information and personal data protection • Dismantling of the national transparency system • Risks for private companies derived from inappropriate use of confidential information • Increases uncertainty and reduces checks and balances to verify the objectivity of government decisions	• INAI commissioners and local guarantor bodies will conclude their functions upon the enactment of secondary legislation (to be issued within 90 days)

Institution	Risks	Transition Period
COFECE (Competition)	• It eliminates guarantees of impartiality and free competition in markets, potentially giving advantage to predominant players in each sector • Greater economic participation by the State	• Uncertainty about the timing of its disappearance: (i) either upon decree enforcement (day after publication), potentially leaving no competition authorities between enforcement and 180 days after the secondary laws' publication, or (ii) until the secondary legislation takes effect (no clear deadline)
IFT (Telecom)	• Lack of guarantees of impartiality and competition due to discretionary regulation in areas like radio spectrum access, telecommunication networks, and satellite networks, potentially disadvantaging private companies and favoring the State company CFE-Telecommunications • Unclear if new laws must follow transitional articles from the 2013 telecommunications reform regarding issues like predominance	
CRE (Energy regulation)	• Lack of autonomy or impartiality to regulate the energy sector, potentially benefiting Pemex and CFE • Uncertainty about handling permits and their issuance, modification, and updates during transition	• Congress has 90 days for adjustments. Commissioners conclude functions when secondary legislation takes effect
CNH (Oil and gas)	• Lack of autonomy or impartiality in regulating the energy sector, potentially benefiting Pemex • Unclear situation for staff during the transition period. Current and potential dismissals diminish the regulator's capabilities	
CONEVAL (Welfare policies)	• Potential conflict of interest as the body collecting information (INEGI) would also design the poverty measurement methodology	• Congress has 90 days for necessary adjustments
MEJOREDU (Education policies)	• Potential decline in the development of high-level talent that drives productivity and private sector growth	

Source: Own methodology.

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8 Violent confrontations increase as a result of internal fractures in organized crime groups and a strategy to capture high ranking criminals, which hampers the transport of goods on highways and small businesses' operations in regions with high criminal presence.

Risk Level

Likelihood

Sheinbaum's administration has shown positive signs in terms of its public security policies. For instance, it has outlined a more technical and operational strategy aimed at addressing structural issues, such as the weakness of local police forces, and the collusion of authorities with organized crime groups.

However, despite the strategy's emphasis on the need to invest in technological tools to monitor organized criminal activities, the budget for the Ministry of Security and Citizen Protection (in Spanish, SSPC) will be reduced by more than 36% in 2025.

With a limited budget, it will be challenging to fully implement the initiatives set forth by Secretary Omar García Harfuch. It is highly likely that there will not be enough resources to strengthen and professionalize local police forces, thereby weakening the Mexican state's ability to effectively combat organized crime activities.

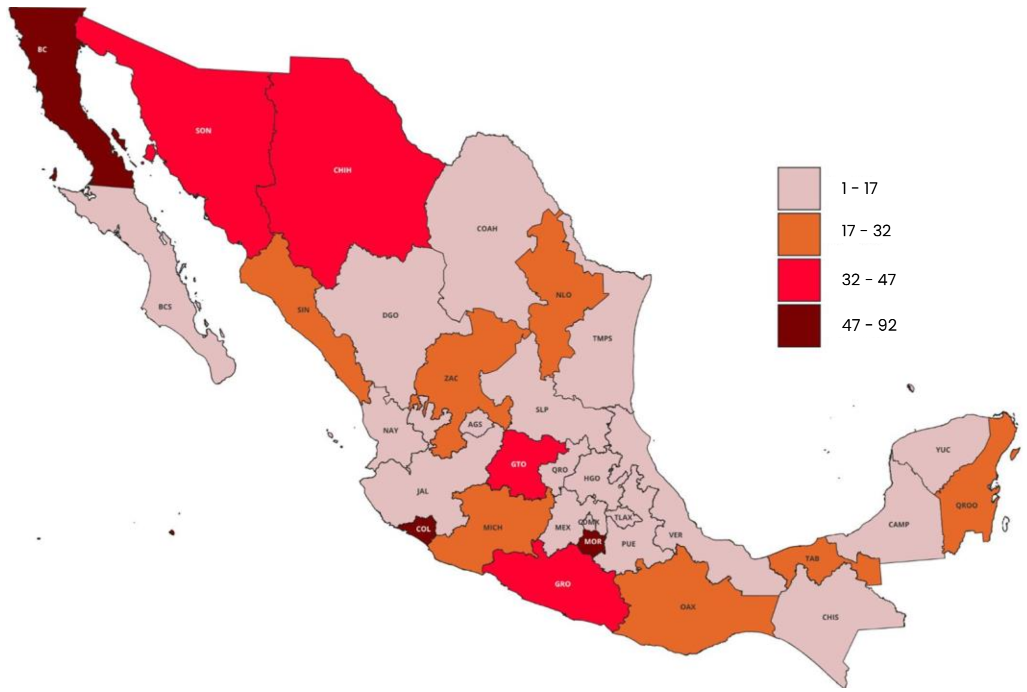
Moreover, the new government has distanced itself from the "hugs, not bullets" policy of the previous administration, granting the Armed Forces greater autonomy in carrying out operations to capture criminal leaders. This includes, for example, an operation in October in Sinaloa to apprehend Edwin Antonio Rubio López, an associate of Ismael "El Mayo" Zambada, who was described by the Ministry of National Defense as one of the "major generators of violence in the state."

The policy of prosecuting high-profile criminal leaders could increase following Donald Trump's return to the U.S. presidency, as a way to mitigate pressures or unilateral actions by U.S. security agencies.

However, this policy could trigger new splits or reorganizations within certain criminal organizations, potentially leading to a surge in violent clashes in specific states —particularly those currently experiencing episodes of homicidal violence or high criminal activity.

This could also occur if rival factions within the Sinaloa Cartel extend their confrontations to other states or if one faction —possibly “Los Chapitos”— consolidates an alliance with the Jalisco New Generation Cartel.

Map 1. State-level homicide rate per 100,000 inhabitants



Source: Secretariado Ejecutivo del Sistema Nacional de Seguridad Pública, and Conapo (January-November 2024).

Ultimately, public security in Mexico is likely to worsen before it improves. As a result, there is a high risk of growing internal pressure within Morena to abandon the initially announced strategy and revert to a policy resembling that of the previous administration, which avoided directly targeting organized crime operations. Such a scenario would further exacerbate the insecurity crisis in the country.

It is likely that disruptions will occur along specific transportation routes, as well as declines in sales in some cities (as has been the case in Culiacán in recent months). But the greatest impact of insecurity will continue to fall on micro, small, and medium-sized businesses.

[4] This risk could escalate if Ismael "El Mayo" Zambada's U.S. trial reveals collusion schemes between the Sinaloa Cartel and Mexican government or political authorities, potentially leading to increased violence and political instability.

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9

A (bad) tax reform is introduced to boost public revenue —either through a comprehensive overhaul or sector-specific adjustments— as a result of fiscal constraints and the government's need to fund its priority programs and projects.

Risk Level

Likelihood

Given the government's challenges in meeting growing spending needs while revenues lag behind, public finances are becoming increasingly strained.

Due to resource insufficiency and the need to moderate the fiscal deficit, the government will implement spending cuts across virtually all activities in 2025 (see Table 6).

Table 6. Government Spending in Administrative Branches (millions of pesos, 2025 value)

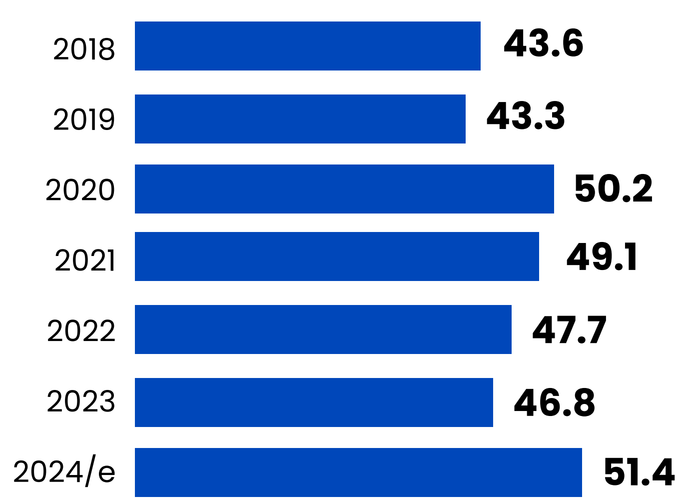
Administrative Branch	2018	2024	2025	Real Value 2025 vs 2024
National Defense	114,762	270,465	158,288	**-41.5%**
Environment and Natural Resources	53,230	73,232	44,371	**-39.4%**
Security	-	110,339	70,422	**-36.2%**
Health	173,594	101,114	66,693	**-34.0%**
National Comision for Oil and Gas	421	258	173	**-32.8%**
National Comision of Energy Regulation	491	298	200	**-32.8%**
Energy	3,499	174,868	138,307	**-20.9%**
Ministry of the Interior	91,060	11,331	9,178	**-19.0%**
Office of the President	2,546	963	824	**-14.5%**
Economy	13,567	4,129	3,533	**-14.4%**
Tourism	5,547	2,058	1,775	**-13.7%**
Culture	18,295	17,467	15,081	**-13.7%**
Legal Counsel Office of the Executive Branch	186	171	150	**-12.8%**
Naval Forces	44,342	74,945	65,889	**-12.1%**
Foreign Affairs	12,752	10,419	9,294	**-10.8%**
Agrarian Courts	1,389	1,000	892	**-10.8%**
Finance and Public Credit	37,476	29,525	26,733	**-9.5%**
Labor Affairs	5,718	29,819	27,830	**-6.7%**

Administrative Branch	2018	2024	2025	Real Value 2025 vs 2024
Agriculture	102,161	77,261	74,515	-3.5%
Anti-Corruption	1,688	1,706	1,699	-0.4%
Education	397,974	457,685	465,872	1.8%
Welfare	151,056	567,060	579,884	2.3%
Non-Sectorial Institutions	13,138	143,864	173,656	20.7%
Infrastructure	119,757	81,837	147,511	80.2%
Urban Development	23,748	13,428	38,048	183.3%
Women*	-	-	2,094	NA
New Digital Agency*	-	-	3,010	NA

Source: Budget Proposal by the House of Deputies.
*New institutions created in 2025.

As a result, both the primary balance and the broad balance (Public Sector Borrowing Requirements) have deteriorated, resulting in an increase in the debt-to-GDP ratio from 43.6% in 2018 to 51.4% in 2024 (see Graph 5).

Graph 5. Historical Balance of Public Sector Financial Requirements (% of GDP)



Source: Ministry of Finance.

This is compounded by significant uncertainty regarding 2025 economic growth, combining a complex international environment (including the start of Donald Trump's administration in the U.S.) with domestic concerns stemming from approved constitutional reforms and restrictive fiscal policy. Moreover, slower growth is expected during the first year of the new administration.

Ultimately, these factors could jeopardize 2025 fiscal goals and increase the likelihood of a sovereign debt rating downgrade (see "other topics" section).

Consequently, we anticipate that the 2026 Economic Package (to be released in September 2025) will propose fiscal measures with significant implications for the business climate, in order to balance federal government accounts and secure resources for implementing its political agenda.

Since raising VAT or eliminating VAT exemptions on food and medicine is politically unpalatable for the current administration, the focus is expected to be on income taxes for both individuals and corporations, as well as sector-specific or other "progressive" taxes (see Table 7).

The necessity and likelihood of a tax reform will become evident in the first half of the year, depending on fiscal performance and spending pressures.

Table 7. Components of a Potential Tax Reform

Low 🟢 Medium 🟡 High 🔴

Type of Tax	Political Viability	Collection Capabilities	Impact for the Business Sector
VAT	🟢	🔴	**Neutral**
VAT on food and medicines	🟢	🔴	**Neutral**
Income tax for individuals	🟡	🔴	**Neutral**
Income tax for companies	🔴	🔴	**Negative**
Gas	🟢	🔴	**Negative**
Alcohol, 'junk food', and other special taxes	🟡	🔴	**Negative**
Property Tax (local)	🟡	🟢	**Neutral**
Wealth and inheritance taxes	🔴	🟢	**Neutral**
Sectorial taxes (i.e. banking and finance)	🔴	🟢	**Negative**

Source: Own methodology.

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10

The operational and planning capabilities of local governments continue to decline, impairing their ability to address local issues and needs (i.e. infrastructure and basic services). This decline stems from corruption, insufficient public resources, unqualified personnel, and increasing centralization of power that discourages local responsibility.

Risk Level

Likelihood

In recent years, the centralization of power within the federal government has intensified through two key mechanisms. On one hand, Morena's dominance of municipal and state governments, as well as local legislatures, has encouraged these entities to align their actions with the political agenda set by the federal executive branch. On the other hand, the federal government has gained powers previously held by the states through various legislative and budgetary tools.

Since the administration of Enrique Peña Nieto (2012–2018), there has been a trend —accelerated since 2019— toward centralizing functions in areas such as elections, transparency, fiscal authority, education policy, security, and public health.

The dissolution of dozens of public trust funds (*fideicomisos*)[5] under AMLO's administration accelerated the centralization process, as the resources were put under control of the federal Executive branch.

These dynamics of subordination affect the business environment in three primary ways:

State authorities allocate fewer resources and efforts toward developing projects aimed at fostering local growth and development.

State and municipal governments are becoming less effective intermediaries in resolving issues that impact business operations within their jurisdictions.

[5] Among the dissolved funds, one of particular significance was the Natural Disaster Fund (Fonden), which had served as an effective mechanism for promptly responding to natural disasters and climate emergencies —events that often have significant repercussions for local economies. Since Fonden's elimination in 2021, the federal government announced that emergencies would be addressed through the general budget, direct transfers, and resources from the General Branch 23, supplemented by Catastrophic Insurance and Bonds. However, these measures have proven insufficient.

Local authorities are increasingly unwilling or unable to assume responsibility or spend political capital in addressing problems that directly affect the private sector, such as insecurity, low-quality public services, or infrastructure deficits.

Furthermore, budget cuts to local governments may further incentivize the persistence of corruption schemes as an informal means of generating additional resources.

Other Relevant Issues for 2025

The risk of a credit downgrade increases in 2025

The three major credit rating agencies evaluating Mexico's credit profile (Fitch Ratings, Standard & Poor's, and Moody's) have warned that "Plan C" reforms and low-growth conditions, coupled with a compromised fiscal situation, could lead to (1) a shift in outlook from "stable" to "negative" for Mexico's sovereign debt rating, and eventually (2) a rating downgrade. Mexico's sovereign debt rating currently stands two notches above "speculative" grade. Notably, in November 2024, Moody's changed its outlook to "negative," while Standard & Poor's maintained its "stable" outlook, and Fitch Ratings has yet to announce its position. A credit downgrade would increase international financing costs, affecting both public and private sectors.

Pressure intensifies against water-intensive companies

The 2024-2030 National Water Plan prioritizes human water consumption, potentially limiting availability for industrial and agricultural use. It includes reviewing concessions, alongside creating the National Water Registry for Welfare. Simultaneously, discussion has resumed on the General Water Law, stalled in Congress for over a decade due to lack of political consensus. While Sheinbaum's administration might push through a reform given Morena's legislative majority, success isn't guaranteed. Even if negotiation hurdles are overcome and approval secured, questions persist about the effectiveness, scope, coherence, and economic impacts of the new legislation. This creates a complex scenario for water concession companies, whose operations and/or returns could be affected. Finally, pressures and demands on the private sector could intensify if prolonged droughts or atypical rainfall patterns affect water availability in states already experiencing water stress.

Decline in Pemex production compromises oil revenue and weakens the national industrial sector

Pemex's hydrocarbon production continues declining due to natural depletion of important fields and recent operational problems. Additionally, condensate production is expected to fall, which in recent years significantly helped stabilize liquid hydrocarbon production. According to the Energy Ministry, volume is projected to drop from 266 million barrels daily (mbd) in 2025 to just 19 mbd by 2030. Meanwhile, new production projects (Kayab, Pit, Trion, Zama) won't sufficiently offset mature field decline. Although President Sheinbaum's energy policy aims to limit Pemex production to 1.8 million barrels daily, achieving this target appears challenging given exploration and production budget cuts, along with the supplier debt crisis impacting company operations.

The National Housing Institute (Infonavit) invests workers' resources in low-yield projects

The Infonavit reform to build and lease-to-purchase housing risks the real value of millions of workers' savings in this fund. The low profitability of building 500,000 homes between 2024 and 2030 for social leasing will impact the Institute's income and expenses, potentially reducing annual returns paid to all savers. These savings are crucial because, if not used for an Infonavit housing loan, they complement retirement savings to achieve higher lifetime payments. If Infonavit pays annual returns below inflation, these savings will lose value over time, affecting all workers who would use these resources to strengthen their retirement.

Insufficient electrical supply and blackouts

The lack of transmission and distribution infrastructure, combined with increasing electricity demand and interconnection limitations, will likely create electrical power scarcity, restricting the implementation of new investment projects, while risking new blackout episodes in certain regions of the country.

Mexico’s Political Risk Evolution 2018–2024

With its self-developed analytical model, Integralia closely tracks the evolution of political risk in Mexico.

Political risk is defined as government actions, decisions, or omissions that could adversely impact investment return expectations, business profitability, and/or democratic stability. Integralia’s analytical model is based on six risk factors: government inefficiency, power concentration, legal uncertainty, public insecurity, social conflicts, and economic deterioration.

Integralia's risk measurements since 2018 show increased risk levels across almost all dimensions, particularly in power concentration, legal uncertainty, government inefficiency, and economic deterioration, while social conflicts and public insecurity levels have remained constant.

🔴 Very high
🟠 High
🟡 Medium
🟢 Low

Risk Factor	2018	2019	2020	2021	2022	2023	2024	Tendency
Concentration of power	🟢	🟡	🟠	🟠	🟠	🟠	🔴	⬆
Government inefficiency	🟡	🟠	🟠	🟠	🟠	🟠	🟠	➡
Legal uncertainty	🟢	🟡	🟠	🟠	🟠	🟠	🔴	⬆
Public insecurity	🟠	🟠	🟠	🟠	🟠	🟠	🟠	➡
Social conflicts	🟡	🟡	🟡	🟡	🟡	🟡	🟡	⬆
Economic deterioration	🟢	🟡	🟠	🟡	🟡	🟡	🟡	⬆

integralia

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