

MEXICO

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WAITING FOR THE USMCA

Strong exports helped the Mexican economy to avoid recession in 2025, despite geopolitical tensions. Sluggish investment is a structural weakness in the country, and the outlook is not favourable. However, driven by household consumption, activity is expected to rebound in 2026, and Mexican growth could reach its potential. Nevertheless, the short- and medium-term outlook hinges largely on the outcome of the USMCA negotiations. The same is true in the AI sector, as the sharp increase in exports of AI-related products to the United States masks a structural weakness in the local industry, which is still primarily a low value-added assembly platform. Here again, the outlook hinges on future USMCA negotiations, which could introduce new regulatory requirements.

ECONOMIC RECOVERY, WITH GROWTH APPROACHING ITS POTENTIAL

In the end, the Mexican economy held up slightly better than expected in 2025. Exports remained buoyant and GDP grew by 0.5%. However, new US tariffs, growing political uncertainty, geopolitical tensions and fiscal consolidation weighed heavily on investment, while private consumption stalled. In real terms, private investment fell by nearly 5% during the first three quarters of 2025 compared to the first three quarters of 2024, and public investment decreased by more than 20% (Chart 1).

Uncertainty around bilateral relations with the United States, as well as planned or ongoing far-reaching constitutional reforms, will continue to weigh on the outlook for investment (both domestic and foreign). In terms of reforms to the judicial system (and the abolition of seven autonomous agencies, including the national antitrust commission) or the energy sector, regulatory uncertainty is increasing and becoming more dependent on political will. Some private projects could be renegotiated or more tightly regulated, and the organisation of the electricity market could be changed.

That being said, activity is expected to rebound, leading to real GDP growth of 1.5% in 2026, in line with the growth potential estimated by the IMF. Private consumption will be supported by a less restrictive fiscal policy than in 2025 (as the mid-term elections scheduled for June 2027 approach) and a 13% increase in the minimum wage (in place since 1 January). This increase is part of the "purchasing power catch-up" policy initiated by the previous government in 2018 and continued by president Sheinbaum. Since then, the minimum wage has increased by nearly 150%.

However, risks to growth remain on the downside. The renewal of the trade agreement with the United States and Canada (the USMCA) is scheduled for July. Negotiations have begun and the Mexican government is sending out signals of appeasement towards the United States, announcing protectionist trade measures (imposing customs duties on imports from countries with which Mexico has no trade agreement, including China) and non-trade measures (stepping up the fight against drug trafficking). Our base-case scenario is that the USMCA agreement will be renewed, but negotiations will undoubtedly prove difficult.

Provisions on rules of origin (a minimum proportion of a good's value must be produced in one of the three countries to be exempt from customs duties) and wage requirements¹ could be tightened. Trade and investment links between China and Mexico could be reviewed, reduced and strictly monitored.

¹ In the automotive sector in particular, for a vehicle to be exempt from customs duties, 40 to 45% of its value must be produced by workers paid at least USD 16 per hour.

FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	3.2	1.5	0.5	1.5	1.8
Inflation, CPI, year average, %	5.6	4.2	3.8	4.0	3.6
Budget balance / GDP, %	-3.3	-5.1	-3.9	-3.8	-3.5
Public debt / GDP, %	46.5	49.1	51.5	53.1	54.0
Current account balance / GDP, %	-0.3	-0.9	-0.4	-0.5	-0.5
External debt / GDP, %	33.3	31.0	32.0	33.0	33.1
Forex reserves, USD bn	207.0	221.0	239.0	245.0	258.0
Forex reserves, in months of imports	4.1	4.3	4.5	4.2	4.1

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MEXICO : CONTRACTION IN PRIVATE AND PUBLIC INVESTMENT

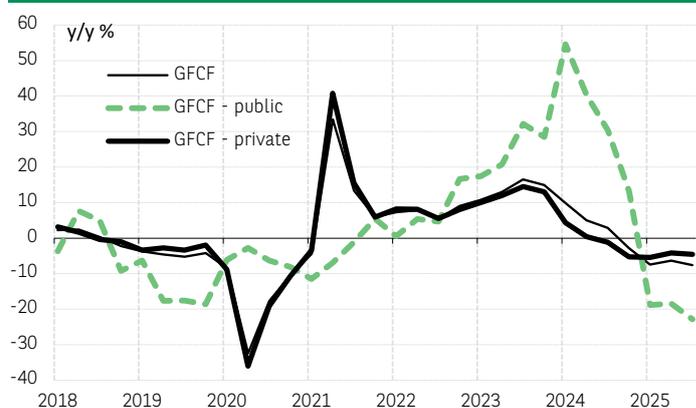


CHART 1

SOURCE: INEGI, BNP PARIBAS

PAUSE IN THE MONETARY EASING CYCLE

After a pause in December, inflation accelerated again in January (to 3.8%, after 3.7% y/y). Core inflation also rose (4.5% y/y, after 4.3% in December), moving away from the central bank's 4% target. Inflationary pressures remain moderate and targeted, due to new excise taxes (on sugary drinks and cigarettes), as well as new customs duties entering into force and the minimum wage increasing.


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Against this backdrop, the central bank left its key rate unchanged (at 7%) at its February meeting, marking a pause after 11 consecutive cuts. Geopolitical tensions, the “potential escalation” of trade tensions and persistent inflationary pressures were its main grounds for doing so. The central bank also revised its inflation forecasts upwards (3.7% and 3.8%, respectively, for the total and core indices, compared with 3.2% and 3.3% previously). The target date for convergence towards the inflation target (3%) has been pushed back from Q3 2026 to Q2 2027. Against this backdrop, although the central bank has not signalled its intention to end its easing cycle, we believe that a prolonged pause is likely.

EXTERNAL ACCOUNTS: INCREASED VULNERABILITY TO THE RELATIONSHIP WITH THE UNITED STATES

Total exports grew by nearly 8% in value terms in 2025, after 3.5% in 2024, partly thanks to advance purchases by US companies (which brought forward their orders due to concerns about a possible escalation in US customs duties and the future of the USMCA). In addition, tariff exemptions under the USMCA also enabled Mexican exports to benefit from more favourable tariffs than other US trading partners, including China. Strong exports helped to reduce the current account deficit to 0.4% of GDP (after 0.9% in 2024).

Capital flows are more sensitive to political and geopolitical pressures. FDI stood at 2.5% of GDP, close to the 2024 level, but up from 1.7% of GDP in 2023. Net FDI strengthened slightly between January and September 2025, but investment in greenfield projects remains disappointing, with prospects hampered by the government’s strategy of prioritising domestic investment (particularly in the oil and gas, electricity and mining sectors).

AI: HUGE POTENTIAL, BUT MANY OBSTACLES

The level of AI adoption is still very low in Latin America, and Mexico is no exception. According to ECLAC estimates, public spending on AI² in Mexico accounted for only 0.04% of GDP in 2023 (the leading countries, Brazil and Chile, spent 0.05% of GDP). This figure underestimates the actual amounts committed to the technology sector (only expenditure directly identified as AI is counted, not the entire digital transformation or IT investments). However, it is still low and illustrates both the lack of structural investment in the Mexican economy and the technological backwardness of the region as a whole.

From a foreign trade perspective, the outlook is different. Mexican exports accounted for only 3.3% of total global exports related to artificial intelligence in 2024 (Oxford Economics estimates). However, if we focus on trade with the United States, we see that exports of Mexican AI-related products to the United States have tripled since the beginning of 2024. According to US-ITC data, these products now account for around 15% of total US imports from Mexico (around 5% at the beginning of 2024). At the end of 2025, the level was close to imports of automotive parts, one of the main products imported by the United States from Mexico.

The surge in US imports of AI-related products coincides with an increase in the construction of data centres in the United States (Chart 2). The outlook appears favourable, but there is one caveat.

AI: AN ASSEMBLY SECTOR FOR MEXICO

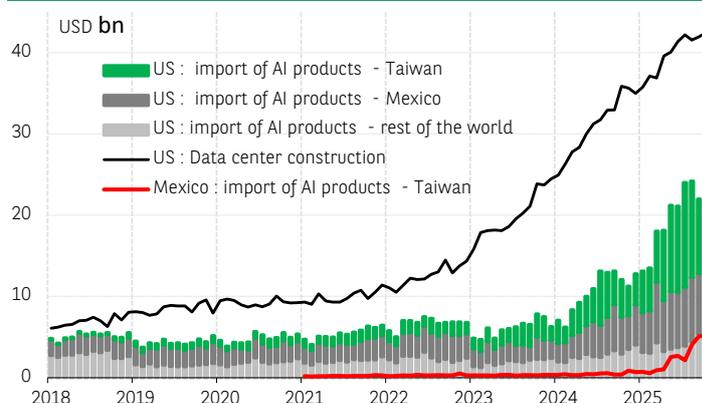


CHART 2

SOURCE: US-ITC, INEGI, BNP PARIBAS

Mexico is the second largest source of imports of these products to the United States, behind Taiwan, but it was the leading supplier until early 2024. Over the same period, Mexican imports from Taiwan increased significantly.

This example perfectly illustrates the structural weakness of Mexican industry (which also applies to other sectors), as, partly due to a lack of investment and innovation, Mexico tends to be at the lower end of the value chain. AI and associated servers depend on sophisticated semiconductors, mainly manufactured in Taiwan, while Mexico is still an assembly platform. The added value of the AI sector in the Mexican economy has not increased as much as recent export figures suggest.

Moving up into higher value-added segments of the semiconductor industry is viewed a priority by the Mexican government. However, here again, there are several obstacles to consider, including access to electricity, water and skilled labour. Furthermore, AI products have so far been exempted from US customs duties (as they are automatically treated as compliant under the USMCA and covered by general exemptions for imports of electronic products). However, the threat of new tariff barriers remains, and the issue will be part of the negotiations for renewing the USMCA. To date, the USMCA does not contain any specific AI clause. The review scheduled for this year provides an opportunity to do so, particularly by addressing the facilitation of cross-border flows, the modernisation of the digital services framework and regulatory coordination.

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Hélène Drouot

helene.drouot@bnpparibas.com

² The AI expenditures included in the study are investments in servers used to host AI models, applications, and platforms; payments for the acquisition of AI tools from IT service providers; and “other software tools.”

