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MEXICO

Table 1	2023
Population, million	128.5
GDP, current US$ billion	1791.6
GDP per capita, current US$	13947.4
International poverty rate ($2.15)[a]	1.2
Upper middle-income poverty rate ($6.85)[a]	21.8
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	74.8
Total GHG emissions (mtCO2e)	659.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Mexico's real GDP growth is expected to moderate to 1.7 percent in 2024 and 1.5 in 2025 before converging to its potential by 2026. Poverty is projected to decline slowly through 2026. The country needs structural reforms to boost productivity, competitiveness, and inclusion. Persistent inflation and sharp deceleration in the US economy are downside risks to growth. Slower than anticipated fiscal consolidation and uncertainty around the ongoing constitutional reforms may weigh on investment.

Key conditions and challenges

Mexico is one of the most open economies in the world, thanks to its macroeconomic policy framework, proximity to major consumer markets, a network of free trade agreements (particularly the United States-Mexico-Canada Agreement, USMCA), and its diversified economy. Mexico's growth during 2021-2023 exceeded its regional peers, but after years of growing above potential, the economy started adjusting, explaining the recent deceleration. The nearshoring trend has provided opportunities, particularly in manufacturing and related services such as logistics, utilities, and finance.

Despite these strengths, Mexico faces significant challenges, including decreasing productivity, crime and violence, and pervasive informality. To reach its full potential, Mexico must boost its infrastructure, improve the business environment, facilitate access to finance, especially to small and medium enterprises, address insecurity and regulatory uncertainty, improve public services provision, and strengthen the competition framework. Addressing these issues is imperative to bolster competitiveness, revitalize stagnant productivity, and foster inclusive growth.

The official multidimensional poverty rate in Mexico, which measures income poverty and six indicators of social deprivation, decreased from 43.2 percent in 2016 to 36.3 percent in 2022, lifting 5.4 million Mexicans out of poverty. However, over the same period, two social deprivations worsened: access to health, and to a lesser extent, educational gap.

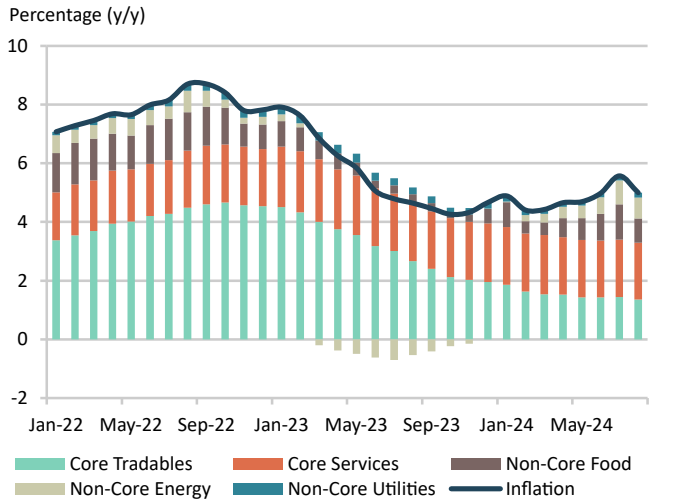
Mexico has a strong track record of macroeconomic stability, supported by an independent central bank and a sound financial sector, even though credit depth remains low. However, there are challenges for public finances, including: the shift towards higher state participation in growth; the expansion of social programs; efforts to enhance access and quality of public services and meet infrastructure investment needs; and fiscal support to PEMEX. Addressing these spending needs will require medium-term revenue-boosting reforms to preserve debt sustainability.

Recent developments

Real GDP grew 3.2 percent in 2023 and 1.8 percent y-o-y during the first half of 2024. The economy started to weaken in 2023Q4 and continued its slowdown in 2024, reflecting weaker demand. Consumption and investment contributed to the deceleration, going from growing 5.4 and 15.5 percent y-o-y, respectively, in 2023H1 to growing 3.5 and 7.7 percent in 2024H1. On the supply side, growth was driven by the construction, wholesale, retail, transport, and manufacturing sectors.

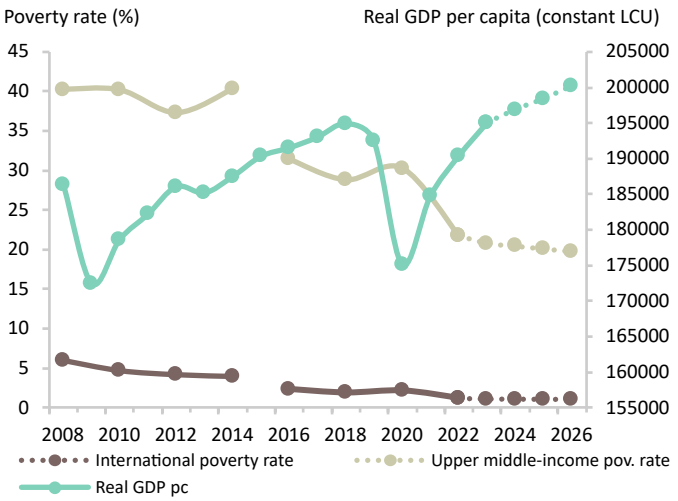
The current account deficit was 1.8 percent of GDP in the first half of 2024, primarily financed by net foreign direct investment (FDI), which reached 1.5 percent of GDP during the same period. Net exports

FIGURE 1 Mexico / Headline inflation, and contributions to headline inflation



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

FIGURE 2 Mexico / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

reached -1.2 percent of GDP in 2023 and -0.9 percent in the first half of 2024. The peso depreciated 12.8 percent (y-o-y) in August 2024, driven by domestic uncertainty. During the first half of 2024, remittances grew by 3.7 percent y-o-y, while reserves reached 11.4 percent of GDP.

Inflation spiked in 2024 due to non-core food components, such as fruits and vegetables. Core inflation has continued to decrease since early 2022. Since late March, the Central Bank has reduced the policy rate by 75 bps but remains at a historical level of 10.5 percent.

The share of the population with family labor earnings per capita below the food poverty line, known as labor poverty, decreased from 37.8 to 35.0 percent between 2023Q2 and 2024Q2, driven by an 8.9 percent increase in real labor incomes per capita (deflated by the official food basket), and the addition of more than 800,000 jobs mostly in large firms. The labor force participation rate remained stable at 60.2 percent, while unemployment and informality rates declined from 2.8 to 2.7 and from 55.2 to 54.3, respectively, in the same period.

In the first half of 2024, the overall fiscal deficit was 5.1 percent of GDP. Public sector revenues rose 5.3 percent in real terms y-o-y, due to higher fuel tax and oil revenues. Expenditures increased by 12.1 percent in real terms, explained by the rise in investment expenditure and financial costs. Mexico maintains its investment grade. However, rating agencies closely monitor fiscal pressures and the political risk due to the judicial reform.

Outlook

Mexico's economic growth is projected to moderate to 1.7 percent in 2024 and 1.5 percent in 2025. The primary growth drivers will be services and, to a lesser extent, manufacturing. This slowdown stems from a tight monetary policy, the deceleration of the US economy, and reduced domestic demand slack due to years of growth above its potential. As private and public investment projects are finalized, Mexico is anticipated to return to its potential growth rate of 2 percent over the medium term. Inflation is expected to reach Banxico's target range of 3±1 percent in 2025H1.

An overall fiscal deficit of 6.0 percent of GDP is expected for 2024. This reflects higher financial costs, increased social program spending, sizeable public investment projects, and worse-than-expected growth. As these projects are completed and interest rates normalize, the fiscal deficit is expected to decrease to 2.8 percent of GDP by 2026.

The monetary poverty rate at the upper-middle-income threshold ($6.85/day, 2017 PPP) is expected to decrease from 20.5 percent in 2024 to 20.1 in 2025 and 19.8 percent in 2026, driven by decelerating GDP growth.

Mexico's macroeconomic risks are tilted to the downside as the global economy, particularly the US, slows down. Factors such as persistent high interest rates and high volatility in financial markets could dampen investment and consumption, add fiscal pressures, and diminish exports and FDI. The revision of the USMCA in 2026 and the constitutional reforms in Mexico may introduce policy uncertainty, potentially slowing down investment and financial flows. A solid macroeconomic framework and a nearshoring expansion could mitigate these risks. Improvements in the business climate, strategic investments in human capital and infrastructure, and policy stability are essential for attracting high levels of FDI.

TABLE 2 **Mexico** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	6.0	3.7	3.2	1.7	1.5	1.6
Private consumption	8.4	4.9	5.0	1.9	1.6	1.8
Government consumption	-0.5	1.7	2.1	2.3	-0.4	-0.1
Gross fixed capital investment	10.5	7.5	18.0	2.4	1.1	2.5
Exports, goods and services	7.1	8.9	-7.4	0.0	2.1	2.9
Imports, goods and services	15.7	7.6	5.0	0.9	1.5	3.0
Real GDP growth, at constant factor prices	5.8	3.5	3.1	1.7	1.5	1.6
Agriculture	2.3	1.6	-1.5	-2.0	1.2	1.6
Industry	6.4	4.7	3.5	1.8	1.3	1.7
Services	5.6	3.1	3.2	1.9	1.6	1.5
Inflation (consumer price index)	5.7	7.9	5.5	4.8	3.8	3.5
Current account balance (% of GDP)	-0.3	-1.2	-0.3	-0.4	-0.6	-0.7
Net foreign direct investment inflow (% of GDP)	-2.7	-1.5	-1.7	-1.5	-1.2	-1.2
Fiscal balance (% of GDP)	-3.7	-4.3	-4.3	-6.0	-3.5	-2.8
Revenues (% of GDP)	22.3	22.4	22.2	21.8	21.5	21.4
Debt (% of GDP)	49.1	47.7	46.8	50.2	50.2	50.2
Primary balance (% of GDP)	-1.2	-1.6	-1.0	-2.1	-0.1	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	1.2	1.1	1.1	1.1	1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	21.8	20.8	20.5	20.1	19.8
GHG emissions growth (mtCO2e)	3.7	2.8	0.5	0.3	-0.5	-0.2
Energy related GHG emissions (% of total)	59.8	60.2	59.9	59.7	59.1	58.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2022-ENIGHNS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2022) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.