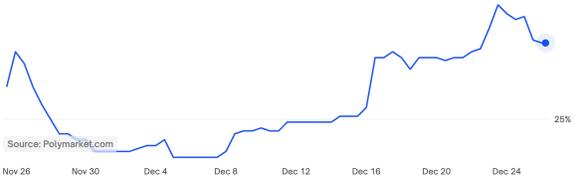


Mexico's economy faces a range of risks that can impact its stability and growth. Among the most significant are vulnerabilities tied to its heavy reliance on exports, particularly to the United States, making it susceptible to shifts in global trade dynamics and/or policy changes such as tariffs and trade agreements. Additionally, the country grapples with structural issues, including income inequality, corruption, and public safety.

Furthermore, Mexico's economic outlook is influenced by broader global factors, including inflationary pressures, supply chain disruptions, and the potential for changes in the U.S. economic policies. While efforts to diversify the economy, such as expanding manufacturing in the automotive and technology sectors, have shown promise, external shocks and internal challenges remain key risks. The country's resilience will depend on its ability to adapt to changing global conditions while addressing long-standing domestic hurdles.

Monarch has analyzed the likely global, regional, and national risks for 2025 with the greatest potential impact on businesses operating in Mexico. These risks include:

I. Global Risks

Global and Regional Risks	Description	Impact for Business
Global Technology Decoupling	Technology decoupling between the U.S. and China could significantly accelerate in scale and scope.	The U.S. has been pursuing targeted decoupling, focusing on advanced technologies like AI, semiconductors, and quantum computing, which have military applications. China is likely to retaliate against U.S. measures, potentially imposing export controls on critical minerals and dual-use technologies. This could impact industries in Mexico (and throughout North America) that rely on these inputs for export and/or domestic consumption.
Global Trade Protectionism	Tariffs may dramatically increase on goods entering the U.S., negatively affecting the macroeconomic outlook. There is substantial risk of global contagion in the use and deployment of tariffs, which could affect Mexican exports globally.	Trade and geopolitical tensions could disrupt global value chains and reduce global growth, leading to adverse effects on production, exports, and inflation in Mexico. On the other side, some of the benefits of global protectionism are safeguards of domestic industries that may promote job creation & protect employment (both at a cost for final consumers). Markets currently estimate a 38% chance that President Trump will impose 25% tariffs on Canada and Mexico  <p>Source: Polymarket.com</p>

¹ Facts represented are drawn from the latest available data from the WEF, Banxico, IMF, SHCP, Ministry of the Economy and other industry sources researched by Monarch.

Global and Regional Risks	Description	Impact for Business
Major Cyber Attacks	Cyber-attacks could cause sustained disruption to critical physical and digital infrastructure.	Market attention to cyber-attacks has reached all-time highs. Escalating geopolitical competition is driving an increase in the scope, scale, and sophistication of these attacks. A potential attack on U.S. telecommunications and infrastructure could seriously affect the operations of all businesses.
Extreme Weather Events	Extreme weather events, exacerbated by climate change, can result in loss of life, damage to ecosystems, destruction of property, and financial losses. These events encompass land-based incidents (e.g. wildfires), water-based events (e.g. floods), and atmospheric or temperature-related phenomena (e.g. heatwaves).	<p>Extreme weather events can significantly impact businesses in several ways, including:</p> <ul style="list-style-type: none"> • Supply Chain Disruptions: Extreme weather can damage transportation networks, hindering the delivery of goods and raw materials. This could result in shortages, increased costs, and delays in manufacturing schedules. • Operational Downtime: Extreme weather can cause facility damage, resulting in prolonged downtime, with power outages further compounding these disruptions. • Financial Strain: Businesses may experience financial pressure due to repair costs, higher insurance premiums, and expenses associated with implementing contingency plans. Revenue losses can also occur due to reduced customer foot traffic and operational downtime. • Increased Costs: Extreme weather can contribute to inflation by driving up prices and disrupting the balance between supply and demand.
Societal Polarization	Ideological and cultural divisions within and across communities can lead to declining social stability, decision-making gridlocks, economic disruption, and heightened political polarization.	According to Global Survey of Corporate Affairs Professionals, nearly seven in ten corporate professionals view social polarization as a significant risk to business. The potential risks of a polarized society are numerous, with three main areas being closely linked to polarization: instability, increased economic inequality and slowdown, and the erosion of trust. Several countries have shifted political leadership based on platforms promoting social polarization.
Involuntary Migration	Forced movement or displacement across or within borders. Drivers include but are not limited to: persistent discrimination and persecution; lack of economic opportunities; human-made disasters; natural disasters and extreme weather events (including the impacts of climate change); and internal or interstate conflict.	Should the U.S. expel undocumented migrants to Mexico, this would expand the local labor supply, potentially putting pressure on local workers. However, having been exposed to a more advanced U.S. economy, these returnees may also bring valuable skills and human capital that benefit non-migrants.
Misinformation and Disinformation	Persistent false information—whether deliberate or unintentional—widely spread through media networks can significantly shift public opinion, fostering distrust in facts and authority. This includes, but is not limited to, false, deceptive, manipulated, and fabricated content.	Businesses targeted by misinformation and disinformation face risks such as financial losses, erosion of market confidence, and the loss of trust from customers, clients, and employees. It might also lead to delays in rolling out new technologies or products.

II. Risks and Other Factors Specifically Related to the U.S.-Mexico Binational Relationship and North America

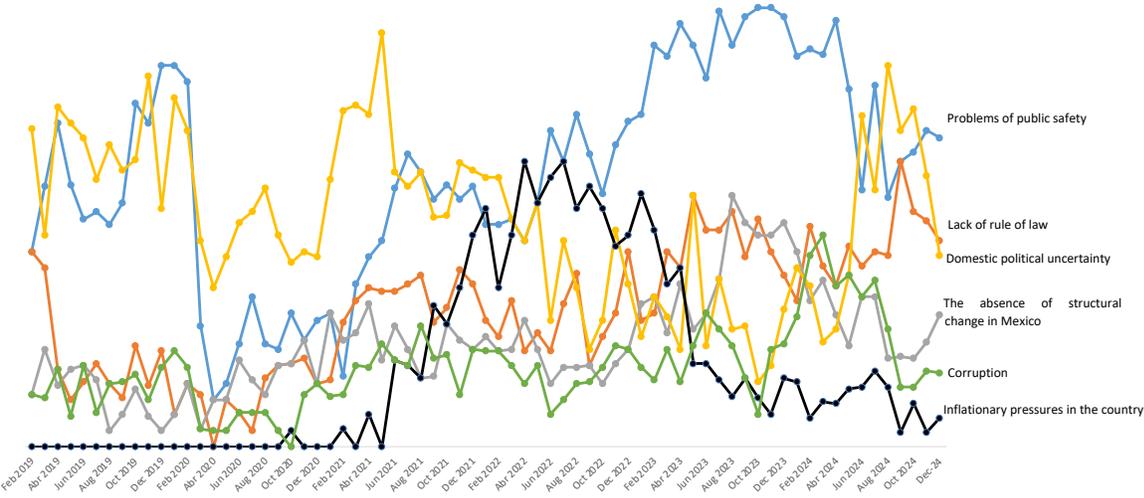
Risk	Description	Impact for Business in Mexico
USMCA 2026 Review	<ul style="list-style-type: none"> The timing of the USMCA review is an open question and could be dramatically accelerated if the parties deem it necessary to address concerns and actions taken by the Trump Administration. The dramatic acceleration of the review, and potential renegotiation, is itself a significant risk that could result in less than careful or ideal outcomes for business. Article 34.7 of the United States-Mexico-Canada Agreement (USMCA) requires the parties to conduct a “joint review” of the agreement six years after its entry into force, scheduled for July 1, 2026. The three USMCA parties are beginning domestic consultations in preparation for the 2026 joint review, which could lead to changes in the agreement. The United States will conduct an internal policy review in 2025, the year before the USMCA review, to help formulate and articulate its position. As per USMCA implementing law, the United States Trade Representative (USTR) must initiate public consultations at least 270 days before the review, which would be around October 2025. USTR will publish a Federal Register notice to invite public comments and hold hearings, allowing businesses and stakeholders to provide input. Subsequently, at least 180 days before the review (around January 2026), USTR must report to Congress detailing its plans. Mexico plans to begin formal bilateral talks with the United States in January 2025, once President-elect Trump assumes office. Throughout 2025, the Mexican government will seek to form coalitions with U.S. and Canadian importers of Mexican products who wish to preserve USMCA benefits for all three countries. Canada is scheduled to hold federal elections on or before October 20, 2025, which may result in a change in the ruling party. Canada’s specific policy agenda for the USMCA negotiations may not be fully finalized until after the new government is seated (though all leading parties support maintaining the USMCA), after initial consultations have already begun. A possible, though unlikely, risk is that one of the parties withdraws altogether from the agreement or seeks its termination. 	<p>US. Mexico and Canada need to address how to increase regional content for a tariff free treatment, especially in the automobile sector.</p> <p>Not having the USMCA could significantly impact businesses in the following ways:</p> <ul style="list-style-type: none"> Market Access: The USMCA provides Mexico with access to the markets of its two largest trading partners, the United States and Canada. Political Certainty: The agreement offers political and social certainty for all three countries. Trade Opportunities: The USMCA establishes rules for trade between the three countries, which can create trade opportunities. Economic Integration: The agreement aims to enhance economic integration across North America. Competitiveness: The USMCA can strengthen the competitiveness of the North American region. <p>In summary, the absence of the USMCA could fundamentally alter the way business is conducted between the three countries.</p>
Nearshoring	<p>Mexico is a top choice for relocating value chains under the “nearshoring” model. The country offers several advantages, including proximity to the world’s largest market, skilled labor at lower costs than in the U.S., and a network of trade agreements that make it the leading option for the full or partial localization of companies. Mexico’s inability to capitalize on this opportunity could</p>	<p>According to the Global Business Council, if Mexico capitalizes on the nearshoring phenomenon, it could generate between 2 and 4 million new jobs and lead to an additional 1.5 to 2.5% increase in GDP.</p> <p>The nearshoring phenomenon could have a threefold impact on business:</p>

Risk	Description	Impact for Business in Mexico
	<p>create significant economic challenges for long-term growth for the country.</p> <p>One of the four incentives of Plan Mexico (published on January 13, 2025 and described further below) is the “Nearshoring Decree” that generates incentives for companies to invest in Mexico.</p>	<ul style="list-style-type: none"> • Negative in the short-term: The labor force may not be immediately available, increasing the cost of attracting and retaining talent, which could result in higher production costs. • Positive in the medium-term: Companies that produce inputs for businesses could relocate to Mexico, potentially reducing production costs. • Positive in the long-term: As the Mexican domestic market expands, it could drive an increase in sales within the country.
Energy Supply Shortage	<p>To fully capitalize on nearshoring, Mexico must add more than 37.8 gigawatts of electric capacity over the next five years, which requires an investment of approximately US\$41.5 billion, according to the Mexican Energy Association (AME).</p> <p>This would involve an average annual generation of 7.6 gigawatts, with an average cost of US\$1.1 billion per gigawatt of electricity.</p>	<p>Both public and private sector investments are crucial to meet Mexico’s growing electricity demand. It is anticipated that secondary reforms to the Energy Law will provide the foundation for these essential investments in the country.</p> <ul style="list-style-type: none"> • An annual public and/or private investment of US\$8.4 billion is needed to meet Mexico’s energy demand. In 2022, public investment was approximately US\$1.7 billion. • Private sector participation is highly likely since the public sector does not have the resources to make the necessary investments. • The absence of private sector involvement could lead to blackouts and higher energy costs for businesses, affecting their short- and medium-term profitability as well as making Mexico overall a less competitive destination for FDI.
2025 Canadian Federal Election	<p>The 2025 Canadian federal election will take place on or before October 20, 2025, to elect members of the House of Commons for the 45th Canadian Parliament. At this moment, based on the poll numbers, the conservatives are very likely to win.</p> <p>Various sources suggest that the election will be held before the scheduled date (exact date to be defined).</p> <p>On January 6, 2025, Prime Minister Justin Trudeau announced his decision to resign as both Canada’s prime minister and leader of the Liberal Party of Canada. He will remain in office until a new Liberal leader is selected. Given that Parliament will be suspended until March 24, 2025, it is unlikely the election will occur before May 2025. Trudeau will remain prime minister when President-elect Donald Trump takes office on January 20, 2025.</p> <p>Key points regarding Canada’s stance on the USMCA:</p> <ul style="list-style-type: none"> • All parties in Canada supported the passage of the USMCA implementation bill, and the agreement was 	<p>Canadian elections can change the dynamics of USMCA in several ways, particularly through shifts in trade policies, dispute resolution preferences, and sector-specific priorities. Since the agreement is built on the cooperation of three countries with different political landscapes, the outcome of Canadian elections can influence how the USMCA evolves and is implemented, impacting everything from agricultural policy to environmental and labor standards.</p>

Risk	Description	Impact for Business in Mexico
	<p>widely backed by the business community, major labor organizations, and the majority of Canadians.</p> <ul style="list-style-type: none"> • Regardless of whether the Liberal Party or the Conservative Party (currently leading in the polls) leads the government, it is widely expected that Canada will continue to support the agreement's continuation. • The Canadian government has made few public comments on the review to date, but the business community has stressed the importance of a successful review. The Business Council of Canada has stated that "our number one priority must be the renewal of the Canada-U.S.-Mexico Agreement (CUSMA) when the time comes for its review in 2026." 	

III. Risk Factors Associated with the Mexican Domestic Market and Mexican Domestic Politics

Based on the percentage of responses from analysts in Banxico's latest specialist survey, **the following factors could hinder Mexico's economic growth over the next six months:**



Projected Macroeconomic Variables for Mexico in 2025

Variable	Government Estimate	Banxico Specialist Survey
GDP Growth	2.0% - 3.0%	1.17%
Exchange Rate (Pesos/USD)	18.50	20.69
Inflation	3.5%	3.86%
Interest Rate	8.0%	N/A

Note: The estimates are for the end of 2025.

Other economic and political considerations that could pose risks within Mexico

Mexican Budget Deficit	<p>In 2018, the budget deficit was 2.0% of GDP, and in 2025, it is projected to reach 3.2% of GDP.</p>	<p>Although not mentioned during the campaign, a reduction in spending, an increase in tax collection and other revenues, and a marginal rise in debt are expected to alleviate pressure on current public finances. However, no substantial changes to the tax system are anticipated (i.e., no new taxes or substantial increases in existing ones).</p> <p>The government is expected to focus on maximizing tax collection, with additional revenue likely to come from more aggressive audits of companies.</p>
Inequality (Wealth and Income)	<p>Economic and social inequality is a significant issue in Mexico, despite having pulled 9.5 million out of poverty since 2018. Mexico still ranks among the top 25% of countries with the highest levels of inequality.</p> <p>While poverty alleviation is essential, it is not enough to significantly reduce inequality. Mexico requires a comprehensive package of reforms focused on fiscal inclusion, education, social protection, women's economic empowerment, competition, and digital inclusion.</p>	<p>Social and economic inequality can significantly impact security, as it may contribute to criminal, political, and social violence. This, in turn, affects the business climate both broadly and specifically.</p>
Illicit Economic Activity	<p>According to the latest data from Banxico's survey of specialists, the top two factors that could impact Mexico's economic activity in the next six months are related to illicit economic activity. These factors are issues of public safety and the lack of rule of law.</p>	<p>On November 25, President-elect Donald Trump pledged to impose a 25 percent tariff on all goods from Mexico and Canada until these countries "solve" the issues of undocumented migration and illicit fentanyl trafficking into the United States.</p>

President Sheinbaum's "Plan Mexico"

At the beginning of 2025 (January 13th), the President of Mexico launched the "Plan Mexico." This initiative aims to boost national and regional content in strategic sectors, create well-paying jobs, increase value-added in local supply and global chains, and promote regional integration across the continent. Plan Mexico outlines specific economic goals for the country by 2030. This plan covers five major sectors of Mexico's economy: consumer goods; automotive industry; information technology; tourism and energy. Achieving these objectives will be a significant challenge for the current administration, with some of the key goals being:

Objectives for 2030	Current Situation
Mexico as the world's 10 th largest economy	Mexico's economy is currently ranked 13th in the world, behind Canada (#10), which is 20% larger than Mexico, Russia (#11), which is 12% larger, and South Korea (#12), which is 3% larger.
100 billion USD in FDI annually	35.75 billion USD in FDI (latest available data)
1.5 million jobs generated in one year	213,993 jobs generated (latest available data)

The goals of the “Plan Mexico” are without any other factors, a bit aggressive to meet, in addition to Mexico's delicate fiscal situation and the challenge posed by the new administration of President Trump. From 2000 to 2024, the average annual number of formal jobs generated in the economy is 399.2K, far short of the target of 1.5 million jobs by 2030. In terms of foreign direct investment, since records have been kept to date, the annual average is 31.3 billion USD, far from the proposed 100 billion USD by 2030.

Mexico’s Legislative Agenda for 2025 (Key Issues to Watch)

The Morena-controlled Congress is proposing several significant reforms affecting workers’ pay and benefits that could significantly increase the cost of doing business for employers in Mexico.

Agenda (Description)	Possible Impact for Business
<p>Reduce the workday in Mexico. <i>Probability of approval: high</i></p>	<p>The proposed reform aims to reduce Mexico's working week from 48 hours to 40 hours. It is estimated that this could impact labor costs for businesses by approximately 16%. The private sector in Mexico is advocating for the following:</p> <ul style="list-style-type: none"> • Postponement of the reform for as long as possible. • A gradual implementation of the reform, ensuring that the reduction from 48 to 40 hours per week occurs over a defined period of years, rather than within one year. • Sector-specific adjustments, recognizing that the impact of the reform will vary by industry. Sectors such as agriculture could face significant economic and employment challenges due to this reform. <p>The approval of this reform could have negative repercussions for Mexican businesses and may further strain the Mexican federal government's tax collection, which is already under pressure given the country's delicate budget situation.</p>
<p>Proposal to eliminate the three-month limit on profit sharing (PTU) <i>Probability of approval: medium</i></p>	<p>Profit sharing (PTU) is a constitutional right in Mexico that workers have and is established in Article 123, section A, of the Political Constitution of the United Mexican States, which states that "all workers have the right to participate in the profits of the companies where they work". Profit sharing is the retribution for the worker's productive effort.</p> <p>PTU is the Employees' Profit Sharing, and it is a benefit that all employers are obliged to provide to their employees. If the company has not obtained profits during the previous fiscal year, there is no distribution. Based on the current law, the amount of PTU cannot exceed three months of the employee's salary or the average of the participation received in the last three years.</p> <p>Legislators propose removing the three-month cap on profit sharing and establishing a minimum floor so that profit sharing will never be less than the average amount received in the last five years. The initiative seeks to ensure that “the amount that is most favorable to the worker will always be applied.”</p>
<p>Increase of Christmas bonus from 15 to 30 days <i>Probability of approval: medium</i></p>	<p>This initiative aims to double the Christmas bonus for workers from 15 to 30 days. While some companies already pay a 30-day Christmas bonus, this could impose an additional cost for businesses.</p>
<p>Proposed reform to increase workers' vacation premiums. <i>Probability of approval: medium</i></p>	<p>The proposal seeks to amend Article 80 of the Federal Labor Law to increase vacation premiums from 25% to 50% of workers' wages during their vacation period.</p>
<p>Energy Reform Secondary Laws <i>Probability of approval: high</i></p>	<p>The secondary reforms to the Energy Law will lay the groundwork for necessary energy investments in Mexico.</p>

We hope this information proves valuable to your company as you:

- Develop plans to mitigate, transfer, and/or assume these risks.
- Integrate this information into your internal strategic planning processes for the short and medium term.

We will continue to monitor these risks and factors throughout the year and will keep you informed of any relevant developments that could assist in your decision-making processes for doing business in Mexico. Should you require additional or more detailed information, please do not hesitate to contact us.

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