Macro Vision

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# MEXICO – The infrastructure plan: from investment boost to fiscal trade-offs

- Investment in Mexico entered a post-boom phase, with momentum fading after a rare synchronized expansion driven by nearshoring and public projects.
- The new infrastructure plan aims to restart the cycle, targeting a rise of the investment to GDP ratio to 25% of GDP by 2026 and 28% by 2030 through a more flexible, but still state-led framework.
- Policy shifts increase execution flexibility but weaken fiscal anchors, with greater reliance on off-budget mechanisms and less transparency.
- Growth upside is limited, with impacts likely gradual and dependent on execution and private sector participation. We estimate that a 50% execution rate over the 2026–2030 period—broadly in line with historical averages—would add around 1pp to cumulative GDP growth.
- Implications for monetary policy are modest, as we see no clear trigger for a meaningful upward shift in Banxico's neutral rate (r*).

Mexico's renewed infrastructure push comes at a time when the investment cycle has failed to gain traction after a post-pandemic boom. Following two years of nearshoring-driven expansion and large public projects, gross fixed investment has slowed, raising questions about how to sustain capital formation going forward. In this report, we assess the government's new infrastructure plan and its broader implications for growth, fiscal dynamics, and financial conditions.

## Investment cycle: from nearshoring-driven boom to loss of momentum

Following the sharp contraction during the pandemic, investment in Mexico began to recover strongly in 2022, initially led by the private sector. The rebound was largely driven by the nearshoring boom, which boosted manufacturing and logistics-related investment—particularly in northern and central regions—supported by strong U.S. demand and supply chain reconfiguration.

Subsequently, public investment also gained traction, supported by the federal government's flagship infrastructure projects, most notably the Maya Train and the Dos Bocas refinery, which contributed to a synchronized expansion in total investment.

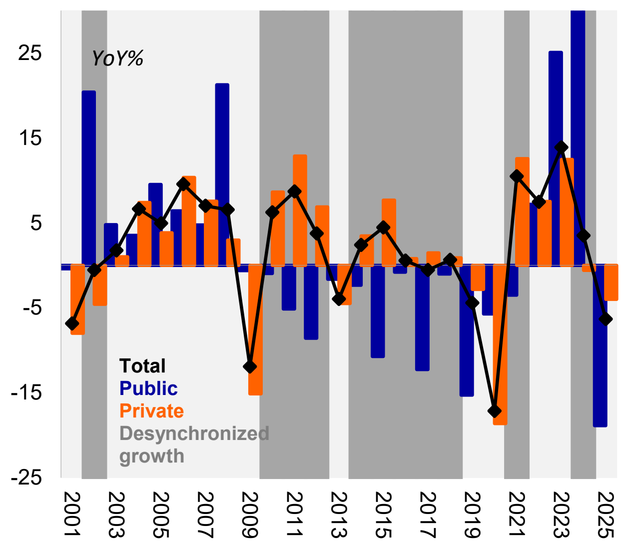
As a result, between early 2022 and mid-2024, gross fixed investment grew by 24.4%, posting double-digit annual growth rates for two consecutive years—a pace not observed following another recent crisis. Importantly, in the Great Recession, once the post-2008 recovery was completed, investment had failed to accelerate further, making the recent episode particularly noteworthy.

This period was also characterized by a rare alignment between private and public investment cycles, with both expanding simultaneously—something not seen in at least two decades, when typically one component offset weakness in the other.

However, by mid-2024, investment began to lose momentum. While levels remain slightly above their pre-pandemic baseline, the marginal contribution of investment to economic activity has declined, reflecting both the fading of nearshoring tailwinds and the completion of large public projects. As a share of GDP, investment declined to 21.9% in 1Q26, the lowest since 1Q22.

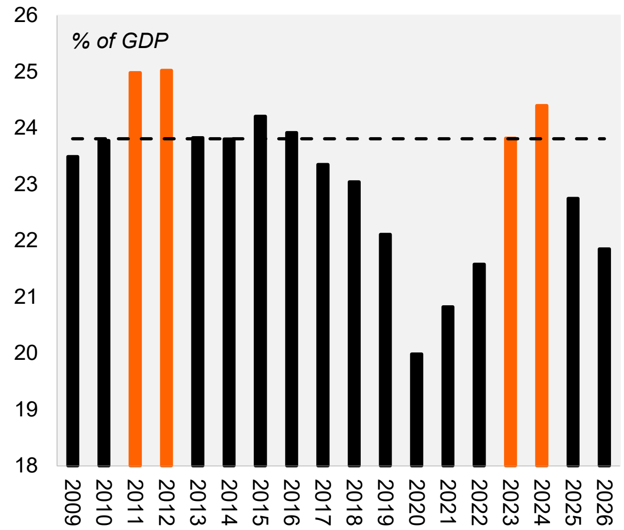
Investment has exerted a smaller impulse on growth, contributing to an environment of sub-potential GDP expansion and weaker domestic demand dynamics, reinforcing the view that Mexico has entered a post-boom phase where sustaining investment growth will require new drivers—particularly improved execution, regulatory certainty, and renewed private sector participation.

**A rare synchronized investment boom in 2022-23**




Source: INEGI, Itau.

**From above-trend to fading momentum in investment**




*2026 corresponds to 1Q

Source: INEGI, Itau.

## Policy shift toward state-led and off-budget investment

In February 2026, President Claudia Sheinbaum unveiled a USD 325 bn[1] Infrastructure Plan from 2026 to 2030 under the broader Plan México framework, which seeks to rebuild a sustained investment engine through a more flexible, albeit still state-coordinated model that combines public, private, and mixed financing schemes, while addressing long-standing execution bottlenecks. A central objective is to raise gross fixed investment from current levels slightly above 22% of GDP to 25% by 2026 and further to 28% by 2030, bringing Mexico closer to peer economies and supporting higher potential growth. The strategy prioritizes key sectors- mainly energy, railroads and highways - broader use of financial vehicles such as specialized infrastructure investment trust (Fibras), and stronger public sector involvement to crowd in private capital.

To secure its execution, a reform to Mexico's Fiscal Responsibility Law (LFPRH) was implemented. The initiative reflects a clear policy shift: away from the traditional PPP framework toward a more flexible model with stronger state participation and greater reliance on hybrid financing structures. The government's diagnosis is that the current PPP scheme is too rigid—characterized by lengthy approval processes, strict recognition of long-term liabilities, and legal requirements that have limited its use. In response, the new framework aims to accelerate investment execution by loosening these constraints.

[1] While sizable at ~17% of GDP, the plan's effective macro impulse is more modest once spread over time (3-4% of GDP per year) and adjusted for execution risks.

**The reform to LFPRH introduces four types of mixed investment schemes:**

- Public-led projects, where the government retains control and provides most of the financing
- Private-led projects, with the state acting as facilitator or guarantor
- Co-investment structures, sharing risks and returns between sectors
- Financial vehicles, including trusts and off-balance-sheet mechanisms to channel resources
- Crucially, these changes expand the use of off-budget financing and reduce contract standardization, increasing operational flexibility but also diluting fiscal transparency.

## Fiscal framework erosion raises medium-term concerns

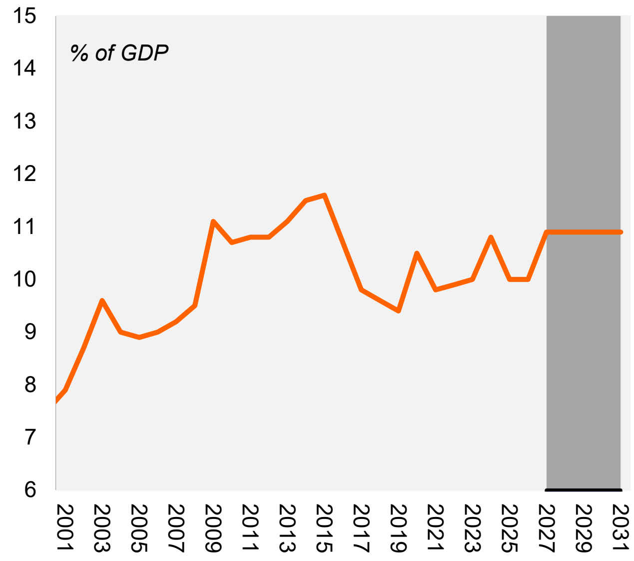
The reform builds on recent changes to the fiscal framework—notably the July 2025 amendment to the LFPRH, which excluded social spending from key fiscal indicators. While the government argues that the change improves the accuracy of fiscal metrics, the combined effect of these changes points to a gradual weakening of fiscal anchors.

**The new infrastructure push introduces several fiscal risks:**

- **Higher contingent liabilities**: Allowing procurement and multi-year commitments without full funding increases the risk of future obligations not captured in headline debt.
- **Lower fiscal transparency**: The expanded use of off-balance-sheet vehicles complicates the assessment of the true fiscal stance.
- **De facto spending rigidities**: Even without formal debt recognition, projects may require future budget adjustments.
- **Reduced credibility of fiscal rules**: Repeated modifications weaken the signaling power of fiscal discipline.
- **Lower adjustment capacity**: Greater rigidity may limit the government's ability to respond to shocks.

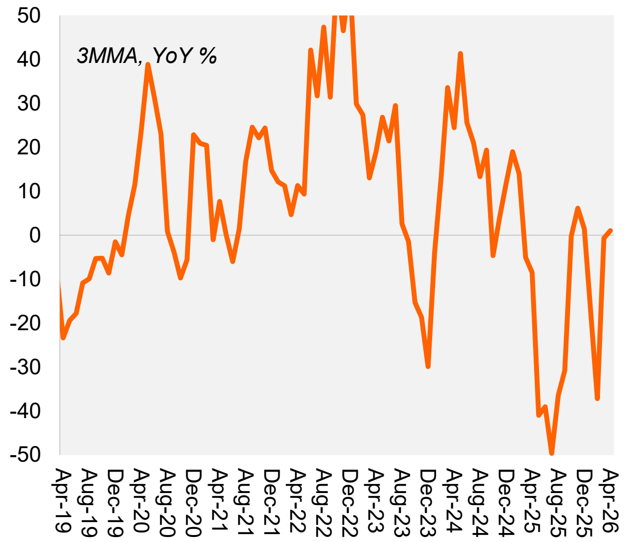
Overall, changes to the fiscal framework increase uncertainty around debt sustainability, making fiscal dynamics more relevant for spreads, ratings, and investor confidence.

**Structural current expenditure metric changes weaken fiscal rule credibility**




Source: MoF, Itau.

**Consolidation relies on public investment compression**




Source: MoF, Itau.

## Execution remains the key constraint

Mexico's historical experience suggests that infrastructure announcements alone have not translated into sustained growth gains. The binding constraint has been execution.

Public investment in Mexico has typically faced execution rates closer to 50%, below the ~80% threshold associated with stronger growth outcomes, as seen in several Asian economies like China, South Korea, and Singapore, where high and sustained execution has translated into stronger and more persistent growth gains. In addition, the issue goes beyond low execution rates. The quality of execution itself is also a constrain— spending tends to be front-loaded, uneven over time, and concentrated across sectors, limiting its growth impact.

Moreover, with a fiscal multiplier estimated at 0.3–0.6, the growth impact of public investment remains modest unless accompanied by high and sustained execution, strong project selection and composition, and crowding-in of private investment, which accounts for roughly 86% of total investment. In this context, the success of the infrastructure plan will hinge less on its size and more on its implementation quality and its ability to mobilize private capital.

Beyond domestic policy factors, external demand dynamics could also play a role in shaping the investment outlook. In particular, sustained demand for AI-related inputs in the U.S. could provide an additional tailwind for Mexico's manufacturing sector. In fact, recent data suggests that AI-linked imports already account for a growing share of U.S. trade, with Mexico emerging as a key supplier in segments such as machinery, electrical equipment, and electronic products. In this context, continued expansion in AI infrastructure—including data centers and computing capacity—could support higher private investment in these sectors, partially offsetting the recent loss of momentum. However, the extent to which this translates into a sustained investment cycle will depend on Mexico's ability to capture a larger share of these value chains and complement external demand with adequate domestic conditions.

## Limited growth upside in the near term

According to official estimates, the infrastructure plan could add around 0.5pp to GDP growth in 2026 and 0.4pp in 2027. However, these figures should be interpreted with caution. In our view, the plan is better understood as a tool to smooth spending over time rather than front-load growth impulses. Banxico's analyst survey maintained 2026 and 2027 median growth forecasts after the Infrastructure Investment plan was announced.

In addition, full execution of the 2026 allocation within a single year appears unlikely, suggesting that growth effects will be gradual and spread over multiple years. As a result, we see limited upside to our baseline growth outlook, with activity gains likely to remain modest and highly dependent on execution.

Still, we estimate that a 50% execution rate over the 2026–2030 period—broadly in line with historical averages—would add around 1pp to cumulative GDP growth. Stronger private sector participation could increase this impact, if it eventually gains traction. As of June, the main policy initiatives have focused on simplifying and digitalizing regulatory processes, which, although positive, are insufficient on their own to trigger a meaningful investment impulse, in our view.

## Can investment lift Mexico's neutral rate?

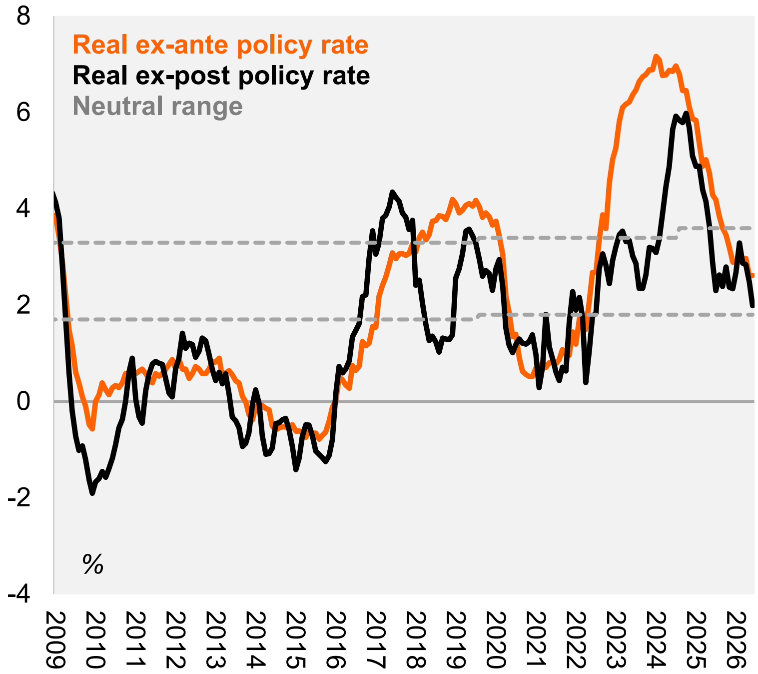
A sustained increase in investment under the new infrastructure framework could have upward implications for Banxico's estimate of the neutral real rate (r*), currently at a range of 1.8-3.6%, although the magnitude would depend critically on execution and private sector participation. In principle, stronger and more efficient capital accumulation—particularly if it succeeds in crowding in private investment and alleviating supply constraints with energy infrastructure—would support higher potential growth, which is typically associated with a higher neutral rate.

However, historical experience suggests that changes in the investment cycle have not led to explicit revisions in Banxico's estimate of r*. In practice, the central bank treats the neutral rate as a slow-moving structural parameter, anchored by long-term fundamentals rather than policy-driven investment initiatives. Even during the recent investment boom, there was no clear adjustment to the estimated neutral range, reinforcing the view that any impact from the current plan would likely be gradual and conditional.

Moreover, given modest fiscal multipliers, execution uncertainty, and the reliance on off-budget mechanisms, any effect is unlikely to materialize in the near term. If the framework leads to weaker fiscal anchors or higher risk premia, part of the increase in observed interest rates could reflect risk compensation rather than a true shift in the neutral rate.

Overall, the plan could bias Banxico's r* estimate modestly higher over time, but only to the extent that it delivers sustained, productivity-enhancing gains rather than short-lived investment cycles.

**Neutral rate remains broadly unchanged—for now**




Source: Banxico, INEGI, Itaú.

## Conclusion

Mexico's infrastructure strategy marks a clear shift toward a more flexible, albeit still state-coordinated investment model aimed at reviving a fading investment cycle. While the framework could improve execution at the margin and help sustain capital formation, it is unlikely to materially lift growth in the near term given modest multipliers, execution constraints, and limited private sector traction so far.

More importantly, the policy shift may trigger deterioration in investor's perception about Mexican policy, even if deficits do not increase much, as greater reliance on off-budget mechanisms and frequent adjustments to control metrics weaken transparency and the credibility of fiscal anchors.

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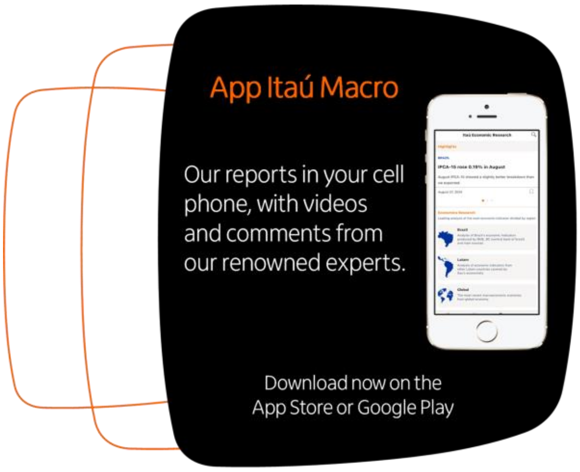


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