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## HR Ratings comments on the impact that foreign direct investment and local public investment have had on the economic growth of the Mexican Southeast

On April 30, 2025, INEGI reported that the Mexican economy grew 0.2% during the first quarter of this year (1Q25) compared to the previous quarter (4Q24). Real GDP growth was mainly driven by the manufacturing sector, in a context of weakening other sectors of the Mexican economy and uncertainty about trade policies at the international level. Given this panorama, where foreign trade could have less impetus on national and state economic growth, it is interesting to identify what other factors can promote the economic growth of Mexican states in the coming years.

Among the elements that are usually associated with sustained economic growth for any entity, investment stands out. This can be categorized into Foreign Direct Investment (FDI) and Public Investment (IP). On May 22, 2025, the Ministry of Economy (SE) reported that FDI in 1Q25 was 5.2% higher than that observed during the same quarter of the previous year (1Q24). The growth in FDI for the quarter was mainly the result of a policy of reinvestment of profits by foreign companies already located in Mexico (HR BBB+ (G)).<sup>1</sup> This dynamic is not new, since the growth of just over 4.0% of total annual FDI in 2024 was almost entirely explained by the reinvestment of profits.

In the case of PI, it is possible to distinguish between Federal Public Investment (FPI) and Local Public Investment (LPI). The FPI is the one that originates within the framework of the Federal Expenditure Budget (FEB) of each year and the LPI is the one that local governments (states and municipalities) execute based on their local budgets approved annually. In this sense, the LPI represents an important way to promote the development of state and municipal infrastructure, as well as to promote regional development. Certainly, the size and impact of LPI depends on the income available to each state, in particular, freely available income.

Theoretically, investment is a means by which economic growth can be promoted. This paper analyzes how FDI attraction by region and the continuity of public policies that promote LPI (considering only that carried out by the states) contribute to

<sup>1</sup> All the ratings mentioned in this document correspond to ratings in force at the time of publication of this report and available on the HR Ratings website.



explaining, to a certain extent, the disparities in economic growth between regions<sup>2</sup> of the country, an aspect that, in turn, allows us to understand a couple of issues: the lack of regional economic integration and the lag in economic growth in southeastern Mexico.

Among the findings found was that the economic growth of the Mexican Southeast was higher than the national one between 2018 and 2024 with an Compound Annual Growth Rate (CAGR, in real terms) of 1.2% (vs. 0.8% nationally), largely due to the FPI in strategic projects such as the Mayan Train, the Dos Bocas Refinery and the Interoceanic Train. In the region, there are states that had differentiated growth such as Tabasco (4.3%), Oaxaca (3.4%), Guerrero (0.2%) and Quintana Roo (0.4%). Finally, it was also found that the contribution of the State of Campeche to the regional GDP decreased from 2005 to 2023, as it went from 25.9% to 11.4%, due to its relationship with the oil sector.

## Economic Performance of the Southeast and its States

In the last 40 years, the Mexican economy has gone through different political and economic changes that have led to periods of economic growth and others of economic contraction. As a result, the Mexican economy has grown at a CAGR of 2.0% between 1980 and 2024. This represents a growth rate similar to that of countries such as Argentina (1.7%), Brazil (2.1%) and Uruguay (2.1%), but lower than that of other Latin American countries such as Costa Rica (3.8%), Chile (3.9%) and Peru (2.9%).<sup>3</sup> The difference in Mexico's economic growth compared to its peers in Latin America could, in part, be rooted in the economic disparities between the different regions of our country.

When talking about growth and economic development in Mexico, the distinction is usually made between "two or more Mexicos". In some way, this term tries to point out the existence of several economic realities within our country; specifically, it describes a situation where some states register growth rates above 3.0%, while others show lower growth.

Figure 1 shows the CAGRs for four different periods of time, to contrast key moments within the recent economic dynamics of our country. First, the CAGR 2018-2024 of the national GDP showed a fall compared to the long-term economic growth CAGR<sub>1980-2024</sub> (0.8% vs. 2.0% of the national GDP). In addition, it is observed that throughout the periods 1980-1993 and 1993-2018, years when Mexico's trade liberalization began and consolidated, national growth was sustained.

<sup>2</sup> The states that make up the regions analyzed are: 1) Bajío: Aguascalientes, Guanajuato, Querétaro, San Luis Potosí and Zacatecas; 2) Downtown: Mexico City, Hidalgo, State of Mexico, Morelos, Puebla and Tlaxcala; 3) West: Colima, Durango, Jalisco, Michoacán de Ocampo, Nayarit and Sinaloa; 4) North: Baja California, Baja California Sur, Coahuila de Zaragoza, Chihuahua, Nuevo León, Sonora and Tamaulipas; and 5) Southeast: Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.

<sup>3</sup> Figures calculated with data from the World Bank.



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**Figure 1. Mexico's Real Economic Growth and by Region in the Long Run, 1980-2024**

Concept	CAGR <sub>1980-2024</sub>	CAGR <sub>1980-1993</sub>	CAGR <sub>1993-2018</sub>	CAGR <sub>2018-2024</sub>
		GATT <sup>1</sup>	NAFTA <sup>2</sup>	Pandemic
National GDP	2.0%	2.2%	2.2%	0.8%
Bajío	<b>2.8%</b>	<b>2.5%</b>	<b>3.5%</b>	0.6%
Center	1.9%	2.0%	2.1%	0.7%
West	1.9%	2.1%	2.2%	0.6%
North	<b>2.4%</b>	2.2%	2.8%	1.0%
Southeast	1.4%	2.2%	1.0%	<b>1.2%</b>
Campeche	<b>-0.2%</b>	2.3%	<b>-0.9%</b>	<b>-3.0%</b>
Chiapas	1.5%	2.4%	1.0%	1.5%
Guerrero	1.2%	1.4%	1.2%	0.2%
Oaxaca	1.5%	1.9%	0.6%	<b>3.4%</b>
Quintana Roo	<b>3.3%</b>	<b>3.1%</b>	<b>4.0%</b>	0.4%
Tabasco	1.9%	<b>2.6%</b>	0.7%	<b>4.3%</b>
Veracruz	1.4%	2.2%	1.1%	1.1%
Yucatán	<b>2.6%</b>	2.4%	2.9%	2.9%

Source: Own elaboration with data from INEGI and own estimates.

Notes: 1) Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986; 2) Mexico joined the North American Free Trade Agreement (NAFTA) in 1993; and 3) The figures considered for 2024 correspond to HR Ratings' own estimates based on the preliminary real GDP for 2023 published on December 17, 2024 and the ITAEE for the 4 quarters of 2024.

Additionally, the dynamics of regional economic growth are shown. Particularly in the Southeast, prior to the entry into force of NAFTA, its growth was like the national economic dynamism (CAGR<sub>1980-1993</sub> of 2.2%). However, in the years following the signing of the trade agreement, there was a period of lower growth (1.0% compared to 2.2% nationally). This behavior persisted until before the previous Federal Administration, where the Southeast region registered a CAGR<sub>2018-2024</sub> of 1.2% against 0.8% nationally. This boost was probably due to the investment programs by the Federal Government, focused on infrastructure works.<sup>4</sup>

However, if the long-term economic dynamics of each of the states that make up the Southeast region are analyzed, interesting differences can also be found. A clear example of these differences is observed in the states of the Yucatan Peninsula (Campeche, Quintana Roo and Yucatan). Specifically, the states of Quintana Roo and Yucatán seem to have benefited from the signing of NAFTA (CAGR<sub>1993-2018</sub> of 4.0% and 2.9% respectively), growing even above the national CAGR<sub>1993-2018</sub> (2.2%); while, in the case of Campeche, the historical dependence on oil activity within its State Gross Domestic Product (SGDP) surely explains part of the economic contraction shown (-0.9%)<sup>5</sup>.

<sup>4</sup> The long-term CAGR<sub>2018-2024</sub> of the Southeast (1.4%) contrasts with that recorded in the Bajío and North regions (2.8% and 2.4% respectively).

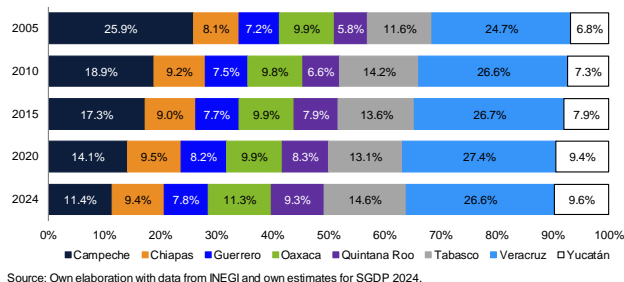
<sup>5</sup> In 2014, 77.9% of Campeche's real GDP was represented by the oil sector. For 2019, this figure was 74.4%. According to the Economic Censuses in 2014 and 2019, Campeche originated 61.8% and 30.8% of total gross oil production respectively, which shows that the state has a high dependence on national oil production.



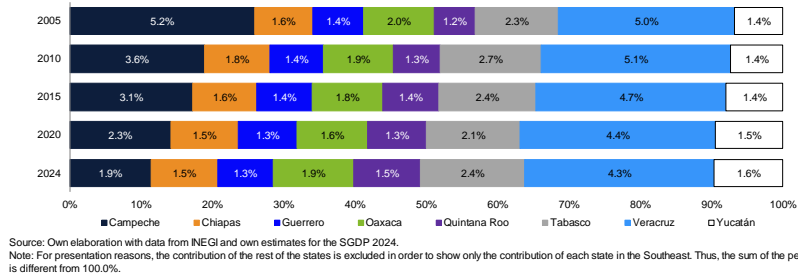
Comparing the growth trends (in real terms) between states such as Campeche and Quintana Roo, it can be observed that the contribution of the states of the Southeast region to the national GDP, as well as to the GDP of the Southeast itself, has undergone changes over the years. As can be seen in Figure 2, the states of Quintana Roo, Tabasco and Yucatán are the ones that have increased their contribution to regional GDP the most (between 2005 and 2024). However, the state that has remained with the largest contribution is Veracruz, which has historically contributed about a quarter of the regional GDP.

**Figure 2. Contribution of southeastern states to regional and national GDP, 2005-2024**

**a) Southeastern GDP**



**b) National GDP**



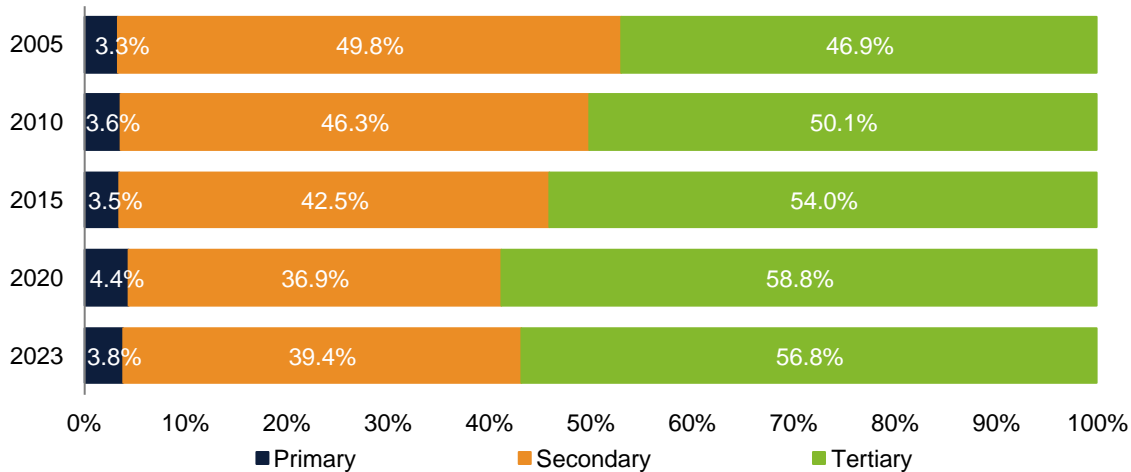
In the case of Tabasco, the entity went from a slight contraction trend (between 2015 and 2020), in terms of contribution to both regional GDP and national GDP, to a recovery in 2024. The reason for this change was probably due to the execution of FPI projects such as the Dos Bocas Refinery. This can be concluded by seeing that its CAGR<sub>2018-2024</sub> is 4.3% (Figure 1), which is higher than the growth rate observed at the national level for that same period (0.8%).

Another state that stands out for its expansion between 2020 and 2024 is Oaxaca. Between 2005 and 2020, the entity maintained a contribution of around 10.0% of the regional GDP, but by 2024 this represented 11.3%. The same is the case in the state of Tabasco, where the execution of FPI projects, associated in this case with the development of the Interoceanic Train, gave an additional boost to the state's economy. This could be confirmed by a comparison of the construction sector's CAGR<sub>2018-2024</sub> with that of its GDP. Specifically, the construction sector registered a growth of 14.9% from 2018 to 2023, while GDP only registered a CAGR<sub>2018-2024</sub> of 3.4%.

Given that public investment in federal projects led to economic growth in the Southeast (1.2% Figure 1) between 2018 and 2024 above the rest of the regions, the recovery of the secondary sector in the composition of regional GDP is not surprising (Figure 3).<sup>6</sup> Based on information from INEGI, but with calculations by HR Ratings, from 2005 to 2020 the secondary sector of the Southeast presented a relevant contraction in its contribution to the regional GDP, going from just under 50.0% in 2005 to 36.9% by 2020. Part of the contraction between these years is probably due to the weakening observed in oil and gas production, which is consistent with the decrease in Campeche's contribution to the GDP of the Southeast (Figure 2.a). Finally, for 2023, the secondary sector had an increase in the contribution of regional GDP (39.4%).

<sup>6</sup> The construction sector is counted in the secondary sector by INEGI.

**Figure 3. Composition of South-East GDP by sector, 2005-2024**



Source: Own elaboration with data from INEGI and own estimates.

Considering the evidence of the impact of the FPI on regional growth dynamics (especially in infrastructure projects); information on FDI and/or LPI will now be reviewed to understand their effect on economic growth by region and its integration.

## Foreign Direct Investment and State Growth

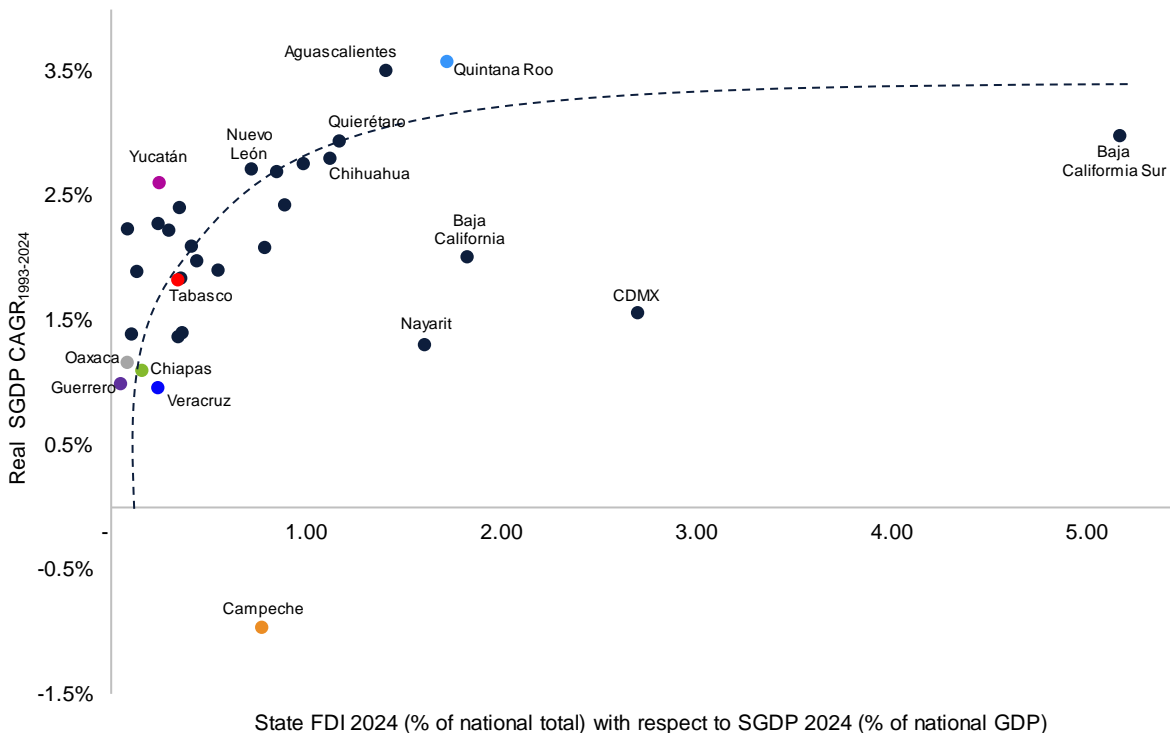
In Mexico, most FDI comes from the US. In 2024, 44.9% of FDI in Mexico came from companies located in that country. The integration and economic dynamics between Mexico and the U.S. are mainly due to geographical proximity and the boost of flows (human, technological, material, and monetary) after the signing of the trilateral trade agreement. The entry into force of the treaty favored the transfer of different companies to Mexico to take advantage of the lower cost of labor and the logistical facilities offered by Mexico to market goods in the United States. This migration of companies promoted the development of trade and economic growth in some states of the country, particularly in the northern region and the Bajío (Figure 1).

Under the framework of NAFTA/USMCA, the weight of trade in national and regional economic activity has been growing from 1993 to the present. In this regard, FDI is expected to be a key factor in promoting economic growth. However, the greater attractiveness of certain states as opposed to others may help to explain the disparity in regional and state economic growth. Figure 4 shows the relationship between FDI (as a proportion of each state GDP in 2024)<sup>7</sup> and the long-term economic growth rate by state (CAGR]<sub>1993-2024</sub>).

<sup>7</sup> Proportion of FDI received in 2024 by state divided by contribution to national GDP by state in 2024.



**Figure 4. FDI Attraction (as a Share of GDP 2024) and Long-Term Economic Growth**



Source: Own elaboration with information from INEGI and the Ministry of Economy.

Note: The dotted line is intended to illustrate the positive, but decreasing, relationship of the effects of FDI inflows on real SGDP growth in the Long Term.

Figure 4 shows a positive (although not linear) relationship between both variables. In other words, an increase in FDI attraction does not imply growth in the same proportion; however, it is a factor that promotes it. Another important element to consider is the sector (and/or industry) where the investment falls<sup>8</sup>. The effects of an investment in the secondary sector (manufacturing) will not necessarily be the same as an investment in the tertiary sector such as the hotel sector. For example, in the states of Baja California Sur<sup>9</sup> and Quintana Roo, where the tourism sector is one of the most important components of their GDP, a significant part of the FDI received is allocated to this sector.

In the case of Mexico City, the explanation could be that the FDI of companies is accounted for in this entity since their tax domiciles are in this entity; but it is not necessarily reflected in its economic dynamics. Finally, in the case of Campeche, the economic contraction could be attributed to lower oil production than to a drop in FDI uptake.

## Local Public Investment and State Growth

At the state level, the country's states can carry out their public investment programs via freely available income (Ramo 28 and own collection) or, failing that, through structured long-term public debt, contracted under the Financial Discipline Act of the States and Municipalities (LDF). This law indicates that the long-term public debt contracted by public-local entities must be

<sup>8</sup> According to official information, in recent years, the inflow of FDI to Mexico has originated mainly from the reinvestment of profits from foreign companies that are already located in Mexico and not so much in new investment.

<sup>9</sup> The contribution to the GDP associated with the tourism sector in the state of Baja California Sur is around 18.0% according to figures from the Ministry of Tourism. Available in [https://www.datatur.sectur.gob.mx/Documentos%20compartidos/Aproximacion\\_al\\_PIB\\_Turistico\\_Estatal\\_y\\_Municipal.pdf\\_2018-2022.pdf](https://www.datatur.sectur.gob.mx/Documentos%20compartidos/Aproximacion_al_PIB_Turistico_Estatal_y_Municipal.pdf_2018-2022.pdf)



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used for productive public investment (IPP) or for the refinancing of pre-existing debt whose original purpose was IPP. This condition suggests that one of the objectives of the LDF is to promote state economic growth, through the contracting of debt. In such a way, a positive relationship between public investment in states (LPI) and their economic growth could be expected.

Figure 5 shows the relationship between the  $CAGR_{2000-2023}$  of the LPI<sup>10</sup> and the GDP by state. For this analysis, LPI is considered to be the expenditure made by state governments under chapters 5000 (Movable, Real Estate and Intangible Property) and 6000 (Public Investment) of the Classifier by Object of Expenditure (COG) proposed by CONAC.<sup>11</sup> Chapter 5000 is considered an account that improves the productivity of the government and, therefore, the state's productivity through the purchase of real estate or the acquisition of technological licenses.

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<sup>10</sup> The LPI is calculated based on the Survey of State and Municipal Public Finances (EFIPEM) of the INEGI, which has information available from the year 2000 onwards. The information is in real terms considering the same deflator as the national GDP based on 2018.

<sup>11</sup> National Council for Accounting Harmonization (CONAC).



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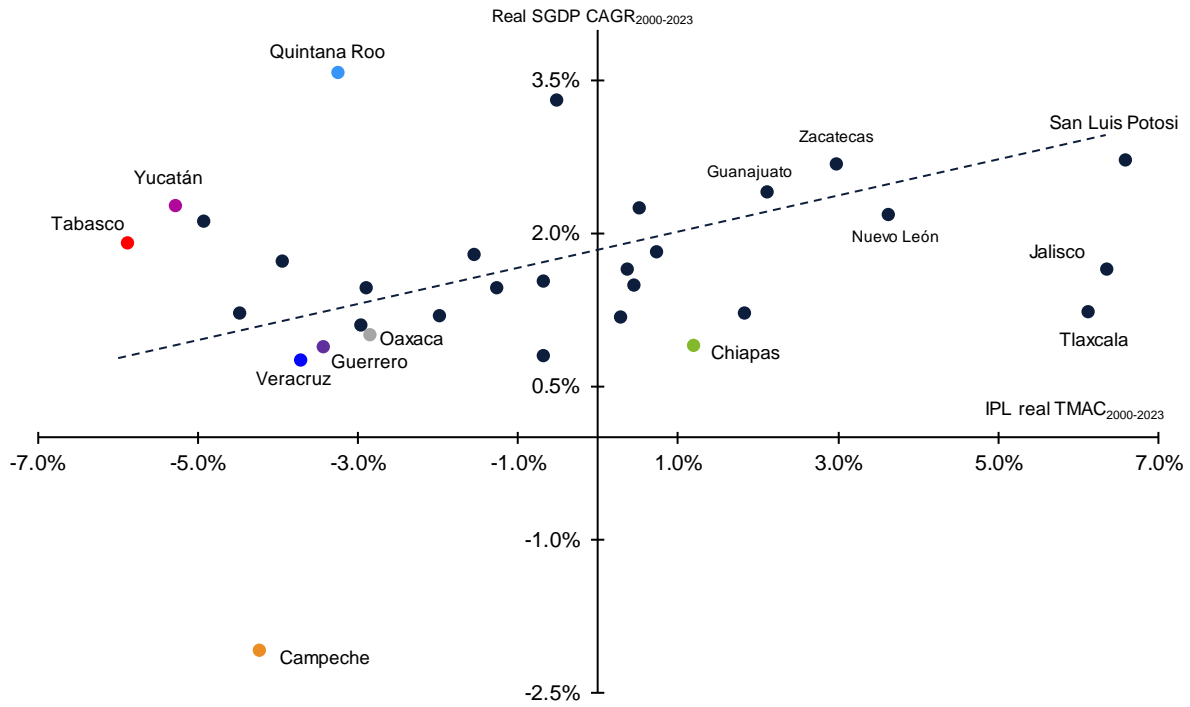


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**Figure 5. LPI growth and long-term economic growth**



Source: Own elaboration with information from INEGI.

Note: Local Public Investment considers Chapters by Object of Expenditure (COG) 5000 (Property & Equipment) and 6000 (Public Investment).

The figure shows the existence of a relatively positive relationship between LPI and economic activity (excludes the state of Campeche). In any case, it is possible to associate higher levels of LPI with higher economic growth. However, this result does not necessarily imply causation, since it is also recognized that the growth of the LPI may be a consequence of higher economic growth.



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## FDI, local public investment and regional economic growth

In conclusion, this section contrasts the share of FDI, LPI, and economic growth for the Southeast region in contrast to the other regions of Mexico. Figure 6 shows a comparison between 5 regions of Mexico proposed by HR Ratings, considering: 1) cumulative contribution to the national GDP of the states of each region; 2) FDI attraction by region<sup>12</sup>; and 3) the contribution of LPI to the national total.

The first thing that can be observed is that the Southeast has lost participation in the national GDP from 2006 to 2023 (19.7% against 16.6%). In fact, until 2023, it is the only region that has lost share in relation to the rest. The remaining four regions maintained or increased their participation. This reconfiguration, in terms of contribution to national GDP, would be in some way related to the level of FDI and LPI attraction. In the case of the Bajío, the percentage of FDI attraction went from 8.7% in 2006 to 13.8% in 2023; while the LPI went from 9.9% in 2006 to 17.3% in 2023. For the Southeast region, FDI remained relatively constant (from 5.6% in 2006 to 6.6% in 2023); however, the LPI fell considerably (it went from 29.2% to 13.7% in 2023). In addition, it should not be forgotten that some states in this region maintain a close link with the oil and gas sector.

The reconfiguration in the contribution to GDP between regions also reflects the redesign in FDI attraction. In 2006, the Bajío and North attracted 43.8% of FDI; while by 2023 this figure went to 45.4%. This undoubtedly leads us to think that, although the level of FDI is important, the geographical destination of the FDI is equally important. Hence, the levels of investment (foreign direct or local public) can explain the differences in regional economic growth.

**Figure 6. Comparison of share of GDP, FDI and LPI by region**

Region	2006			2023		
	Contribution to national GDP	FDI uptake (% of national total)	Contribution to total IPL	Contribution to national GDP	FDI uptake (% of national total)	Contribution to total IPL
Bajío	9.7%	8.7%	9.9%	11.5%	13.8%	17.3%
Center	31.2%	43.5%	16.8%	31.1%	39.1%	28.5%
West	13.8%	7.1%	15.6%	14.6%	8.9%	21.4%
North	25.5%	35.1%	28.6%	26.2%	31.6%	19.1%
Southeast	19.7%	5.6%	29.2%	16.6%	6.6%	13.7%

Source: Own elaboration with data from INEGI and own estimates.

Note: FDI, being a flow variable, can suffer negative variations, i.e., a reduction in its share of the total. The southeastern region is made up of the states of Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.

<sup>12</sup> The FDI received by each state since 2006 is considered because the Ministry of Economy (ME) has its most up-to-date record as of this year. Figures have existed since 1989, however, these figures are not entirely comparable with the latest database published by the ME. In addition, the Ministry of Commerce reserves information associated with FDI flows in various years, states and countries of origin.



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