MIRANDA INTELLIGENCE

Mexico Energy Chatter

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Why a Middle East Oil Shock Could Become Mexico's Next Fiscal Test

The widening conflict between the United States, Israel and Iran represents a significant risk factor for global energy markets. For Mexico, the near-term direct impact is likely to be a small negative for trade and fiscal accounts, a stunning turnaround from years back when Mexico was a net winner from higher oil prices. And the margins of Mexico's energy-intensive industrial companies might be affected in the short-term. But the biggest issue will be indirect: how will higher oil prices and geo-political affect global growth and risk appetite?

Mexico's federal government structured its 2026 budget on an oil price assumption of roughly US $55 per barrel, a conservative benchmark intended to shield public finances from excessive volatility in international oil markets. Sustained prices above that level could, in principle, boost public revenues through higher oil export income for Pemex.

However, Mexico captures far less export upside from oil price rallies than it once did. Crude production has declined steadily over the past decade to roughly 1.6 million barrels per day including condensates, while domestic refining capacity has expanded with the addition of the Dos Bocas refinery and upgrades to several existing plants. Hende exports have fallen sharply. Full-year crude exports averaged about 800,000 b/d in 2024, then fell to around 580,000 b/d in 2025 – a 28% year-on-year drop.

In addition, the positive royalty tax revenue impact from higher crude prices is smaller than in previous years. Mexico reduced the oil royalty paid by Pemex — known as the Derecho por la Utilidad Compartida (DUC) — from nearly 65% in 2019 to around 30% today. This policy has helped strengthen Pemex's balance sheet but has also reduced the government's share of incremental oil revenue.

Due to the declining total production and rising domestic energy needs, Mexico today operates with a small structural energy trade deficit. In other words, higher oil prices increase the value of crude exports, but the benefit is offset by the higher cost of imported gasoline and natural gas. Estimates suggest that a sustained 10% increase in international oil prices could worsen Mexico's current account balance by roughly 0.1% of GDP, reflecting the country's reliance on imported refined products.

Natural gas represents an additional channel through which global energy price shocks can negatively affect Mexico. The country imports a large majority of its natural gas consumption from the United States through cross-border pipelines, making domestic energy costs closely linked to conditions in North American gas markets. Natural gas is the primary fuel used in Mexico's electricity generation system, particularly in combined-cycle power plants operated by the Federal Electricity Commission (CFE).

If higher global energy prices spill over into North American gas markets and push up spot prices, the impact could extend to Mexico's electricity sector. Although many of CFE's gas purchases are structured under long-term supply agreements, sustained increases in spot prices can eventually

affect contracted prices or the cost of incremental purchases required to meet electricity demand. In such scenarios, CFE's fuel costs could rise, potentially placing pressure on the utility's operating costs and financial position.

The effects would not be limited to the public sector. Natural gas is also a critical input for large segments of Mexico's industrial base, including manufacturing, petrochemicals, cement, steel, glass and other energy-intensive sectors. Higher gas prices can therefore translate into increased production costs for private companies, potentially affecting operating margins if firms are unable to fully pass those costs on to customers.

The political variable that matters most domestically and fiscally is retail gasoline prices. Mexico manages pump prices through adjustments to the IEPS fuel tax, a mechanism that allows the government to reduce the tax burden when international oil prices rise sharply. The system was used especially aggressively following the global energy shock triggered by Russia's invasion of Ukraine in 2022, when authorities lowered the tax to cushion consumers from surging fuel costs.

The mechanism remains in place today, reinforced by an informal price cap policy that seeks to keep gasoline prices near MXN 24 per liter. Current retail prices already average around MXN 23.6 per liter, meaning that even a significant increase in global oil prices would translate into only modest direct increases at the pump if authorities actively adjust the IEPS tax.

Yet the policy response that protects consumers carries fiscal consequences. The IEPS fuel tax represents roughly 8% of federal tax revenues, making it a meaningful component of government income. While reducing IPES as global prices rise helps stabilize retail gasoline prices and contain inflationary pressures, it simultaneously reduces fiscal revenue.

As a result, the fiscal balance may actually deteriorate during periods of rising oil prices. Under a scenario in which oil prices increase by roughly 10%, additional oil revenues could reach approximately MXN 85 billion, equivalent to about 0.2% of 2026 GDP, according to Morgan Stanley. However, this gain would likely be more than offset by the decline in IEPS tax revenues required to maintain stable gasoline prices. Estimates by Morgan Stanley economists suggest the fiscal cost of the tax adjustment could reach MXN 132 billion, or roughly 0.35% of GDP, leaving a net negative small fiscal impact of around -0.13% of GDP. But if oil prices were to rise 20% or 30%, as is possible, then the fiscal impact starts to be meaningful.

Not all sectors of Mexico's energy economy would necessarily face the same pressures. Petrochemical producers such as Orbia and Braskem-Idesa could potentially benefit if disruptions in the Persian Gulf persist. Petrochemical production in North America relies heavily on ethane derived from natural gas, which tends to be less sensitive to crude oil price movements than petrochemicals produced from naphtha. In an environment of elevated crude prices, this feedstock advantage could improve the competitiveness of North American petrochemical producers relative to producers in Europe or Asia.

In terms of overall economic activity, the direct macroeconomic impact of higher oil prices is expected to be limited, reflecting the relatively small direct weight of energy in domestic production structures. But if higher oil prices affect global economic growth, Mexico would be hurt hard, given its economy is very sensitive to trade.

The Bank of Mexico has been gradually moving toward an easing cycle following the tightening period that began in 2021. With the government using IPES to cushion inflationary impacts of higher gasoline prices, the direct inflationary impact on gasoline prices in Mexico would likely be limited. Indeed lower growth may even make Banxico keener to cut rates.

These dynamics remain highly uncertain and depend heavily on the duration and scale of the geopolitical conflict. Energy markets have historically demonstrated a significant capacity to absorb temporary disruptions. Strategic petroleum reserves, global inventories and spare production capacity exist precisely to cushion supply shocks and stabilize markets during periods of geopolitical stress.

In other energy news…

— Energy tensions are also spilling into trade relations with the United States. The Office of the United States Trade Representative (USTR) has reiterated concerns about Mexico's energy policy framework, particularly the preferential treatment granted to state-owned companies Pemex and the Federal Electricity Commission (CFE). In recent assessments tied to the upcoming USMCA review, U.S. officials and industry groups argue that regulatory decisions in Mexico — including permitting delays, fuel import restrictions and electricity dispatch rules — have tilted the playing field against private and foreign operators. Mexican authorities maintain that the policy aims to strengthen energy sovereignty and stabilize the sector after years of declining state capacity, but the issue is likely to remain a central point of friction as Washington evaluates whether recent reforms comply with the spirit of the trade agreement.

— Mexico also continues to lag behind most advanced economies in renewable energy deployment, according to recent OECD assessments. While the country possesses significant solar and wind resources, renewables still account for a relatively modest share of the overall energy mix compared with many OECD peers. Much of Mexico's power generation remains anchored in natural gas and legacy thermal plants, reflecting both the rapid expansion of gas-fired generation over the past two decades and the slower pace of investment in new renewable capacity in recent years. Expanding renewable generation and transmission infrastructure is therefore expected to remain a central challenge for the electricity system as demand continues to grow.

— Supplier liabilities remain a structural challenge despite recent progress. Pemex paid MXN 582bn to suppliers in 2025 under a financing scheme designed by the Finance and Energy ministries and implemented through Banobras, reducing outstanding supplier debt 14% to MXN 434.47bn by year-end. In Q4 2025, payables declined 16% from the previous quarter, largely due to a Banobras-backed factoring program worth roughly MXN 250bn, according to CFO Juan Carlos Carpio. Of that facility, MXN 192bn was disbursed in 2025, with roughly MXN 60bn remaining available for 2026 to continue settling obligations. Pemex also relies on additional financing vehicles, including the Fondo Ónix, a private-bank funded mechanism that settles supplier claims and is repaid by the company over eight years.

— Payment delays nevertheless remain widespread, according to Mexico's Auditoría Superior de la Federación. The watchdog found cases where suppliers waited up to 454 days after invoice authorization to receive payment. The report highlighted several contracts, including four invoices totalling MXN 937.7mn for medical supplies, paid between two and 302 days past the contractual 20-

day deadline, as well as persistent delays in projects linked to the Olmeca refinery in Dos Bocas, where 122 of 125 contracts reviewed —worth MXN 28.8bn— experienced payment lags.

— Pemex is also moving ahead with a new generation of mixed contracts aimed at attracting private investment into upstream operations. The company expects to finalize 10 mixed contracts this year, mobilizing roughly MXN 122bn in third-party investment as part of a broader MXN 425bn exploration and production spending plan. According to upstream chief Octavio Barrera, Pemex's 2025 E&P budget increased to MXN 303bn from MXN 250bn, reflecting lower financing costs after liability-management operations in 2025. CEO Víctor Rodríguez said six contracts have already been signed —Tamaulipas-Constituciones, Cuervito, Agua Fría, Sini-Caparroso, Madrefil-Bellota and Macavil— with one additional contract awarded and three others (Rabasa, San Ramón and Cinco Presidentes-Rodador) in competitive process. Under this model, Pemex retains at least a 40% stake while private partners fund 100% of the initial and operating capital, with revenues administered through a trust structure designed to accelerate incremental production and ensure payment flows to suppliers.

— Beyond oil production, Pemex is also attempting to revive Mexico's fertilizer and petrochemical industries. The company plans to invest MXN 21bn this year alongside private partners, targeting ammonia output of 558,000 tonnes annually by 2026, a key input for nitrogen-based fertilizers. The program includes MXN 8bn in investment at the Escolín petrochemical complex in Poza Rica, MXN 2bn at Cosoleacaque, and MXN 8bn for projects in the ethane-ethylene chain, aimed at producing roughly 357,000 tonnes of ethylene derivatives. Another MXN 3bn will support aromatic chemicals production, as Pemex seeks to restore activity across the Cangrejera, Morelos, Pajaritos, Cosoleacaque and Independencia complexes.

— President Claudia Sheinbaum said the government is exploring alternatives to hydraulic fracturing (or fracking) as part of efforts to reduce Mexico's dependence on imported natural gas. The country currently imports around 70% of the gas it consumes from Texas, and a government working group is evaluating whether unconventional gas resources could be developed using technologies that reduce water consumption and chemical contamination. Sheinbaum stressed that no decision has yet been made, framing the review as part of a broader strategy to strengthen energy sovereignty while expanding renewable generation.

— Authorities arrested Jorge Yáñez Polo, former financial operator and personal accountant to Emilio Lozoya, the former Pemex CEO, on charges of aggravated tax fraud totalling MXN 28.15mn. Prosecutors allege Yáñez underreported income between 2014 and 2018 and played a role in the financial network linked to corruption cases involving Odebrecht bribes and the acquisition of a fertilizer plant from AHMSA.