

# Mexican economy and investment plans founder amid war against Iran

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Amid its deepening global impact, the war against Iran has shaken the fragile economic stability of Latin America. This is a shift from a stronger-than-anticipated 2025 throughout the region, which saw upward revisions to growth and a favorable financial environment, supported by a weak dollar and renewed investor appetite for risk.

In the first quarter of 2026, debt issuances in the region had reached record figures—more than \$56 billion. Prior to the conflict, headline inflation likewise appeared to be heading towards moderate rates. That momentum came to an abrupt halt with the start of hostilities in the Middle East.

The abrupt global rise in energy prices has resulted in a generalized depreciation of currencies in major economies of the region, including Mexico. While Mexico has substantial petroleum resources, its petroleum advantage remains small in the face of tightening external financial conditions. As a result, inflation forecasts for Mexico have been revised upwards, while investors are moving their money into safer assets.

According to the Latin American Economic Report published on Wednesday by the Bank of Spain, long-term interest rates in the region are rising, increasing the cost of financing what was already precarious debt.

Per the Bank's sustainability models, "the tightening of global financial conditions, combined with growth already expected to be moderate, has reduced to a minimum the fiscal space available to absorb the shock of the war and the consequent increase in energy and food prices."

It projects that Mexico is less than 20 percent likely to stabilize its debt at current levels. Moreover, expectations of rate cuts at the beginning of the year, it says, have given way to a threat of further hikes, "to avoid a de-anchoring of inflationary expectations."

Mexico "could improve its trade balance between 0.5 and 2 percentage points of GDP thanks to the increase in oil and gas prices." However, "the real effect on the current account will be smaller due to the repatriation of dividends from foreign companies in the balance of income."

On the fiscal front, the conflict would be leaving more

revenue than expected for 2026, an "additional margin with 1.4 points of GDP." But "the health of the public accounts will depend on how the aid is directed and how much [the government is willing] to cushion the rise in energy prices to prevent inflation from hitting households harder."

According to a Bloomberg report on April 30, Mexico's economy shrank in the first quarter, despite Sheinbaum's efforts to boost investment to stimulate growth.

"Gross domestic product fell 0.8 percent in the January-to-March period compared to the prior three months, the largest fall in a quarter since late 2024." This was "down from the 0.9 percent growth the previous quarter." From a year ago, GDP was nearly flat, up only 0.1 percent, landing under the 0.7 percent estimate and down from the prior revised print of 1.6 percent growth."

The quarterly data showed that the three-month dip was led by falling economic activity in agriculture and manufacturing. Activity in services was also down.

"It's concerning to see all three types of activities show a quarterly contraction," said Gabriela Siller, director of economic analysis at Grupo Financiero Base. "It opens the door for the possibility Mexico could be going through a recession."

According to Bloomberg Economics:

The weakness in first-quarter GDP growth indicates Mexico's economy is operating below potential, with a negative output gap wider than policymakers expected. It also highlights the drag from US tariffs and trade uncertainty, and suggests household consumption—an important driver of growth last year—is losing momentum. ... Activity and domestic demand are likely to remain weak, but enough to avoid a technical recession.

Mexico's central bank Governor Victoria Rodríguez Ceja told lawmakers last week during a Senate hearing that

Mexico's 2026 economy was "again showing signs of weakness," although the central bank did not yet forecast a recession.

The lackluster economy also hurt government revenue, which fell 0.6 percent in real terms in the first quarter. Oil revenue fell more sharply, down 9.4 percent during the first three months of the year, according to Finance Minister Edgar Amador's quarterly report. Amador attributed the economic slowdown to ongoing uncertainty as to renewal of Mexico's trade pact with the US, and the Iran war oil spike and its hit on manufacturing supply chains.

On May 12, S&P Global Ratings revised Mexico's credit outlook to negative from stable, citing persistently weak fiscal results, rising debt levels and weak economic growth. The company changed the outlook while affirming Mexico's rating at BBB, two notches above junk, and on par with Indonesia and Greece.

Mexico is inching closer to losing its coveted investment-grade rating. S&P's score is in line with Moody's Ratings, which also assigns the nation a negative outlook. Meantime, Fitch Ratings has the country just one level above junk with a stable outlook. A cut to junk by two of the three major firms would force many money managers to sell Mexico government bonds.

"The negative outlook reflects the risk of very slow fiscal consolidation largely due to low economic growth resulting in a faster-than-expected buildup in government debt levels and higher interest burden," S&P said in its Tuesday report.

## **Bailout for PEMEX**

Mexico's President Claudia Sheinbaum has engineered a bailout package for the nation's state-owned driller, Petroleos Mexicanos (PEMEX). Expected continued support for the company "would continue to aggravate Mexico's fiscal rigidities," S&P said.

On April 8, 2026, seven weeks into the Iran war, Sheinbaum presented a "Strategy to Strengthen Energy Sovereignty," which she termed a "comprehensive strategy to strengthen the nation's energy sovereignty, placing at its core the country's development, environmental future, and long-term sustainability for coming generations." She said it included "a clear path to reduce Mexico's dependence on imported natural gas while ensuring responsible and sustainable growth." The plan anticipates investment on the order of billions of dollars.

The time frame that created this plan substantially preceded the war's outbreak. Its initial premises are

therefore now in very substantial question, as is the entire program.

On May 5, Mexican infrastructure investment manager Mexico Investment Partners (MIP) Real Assets announced it was seeking to invest more than \$12 billion for projects involving renewable energy and highways in Mexico (\$8 billion to renewable power generation, \$2.5 billion to highways, \$1 billion to "midstream opportunities" and \$500 million to digital infrastructure). The success of investment on this scale is also dubious at this time, if not wishful thinking.

On top of these enormous planned financial layouts, on May 7 Energy Minister Luz Elena Gonzalez said Mexico's state utility Comision Federal de Electricidad, or CFE, is planning to invest \$8.1 billion in new gas pipelines over the next four years. It plans to build nine new pipelines, and its pipeline network operator Cenagas three.

This reflects growing demand for electricity, which is expected to surge by as much as 65 gigawatts by 2030. Sheinbaum has promised to invest a total of \$23.4 billion over the course of her term to bolster the grid, which regularly suffers from seasonal blackouts.

Mexico is aiming to add 6 gigawatts of power generation capacity this year and recently published new rules governing how private partners can sell electricity to the national grid.

Sheinbaum also wants state driller Petroleos Mexicanos to produce more gas domestically to ease the country's longstanding dependence on US supplies. This includes plans to boost fracking. More than 60 percent of Mexico's energy generation is powered by natural gas, and around 70 percent of that gas is imported from the US.



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