



Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

April 2026

Executive Summary

Mexico President Claudia Sheinbaum suffered a political defeat at the hands of an erstwhile ally, raising questions about the cohesion of her two-thirds majority in Congress needed to make constitutional changes. The failure of her electoral reform proposals further undermined the confidence of a private sector concerned that she is distracted from more important matters such as security, energy, and growth. Sheinbaum also faces a current challenge from protesters blocking major highways and border crossings who are also threatening to disrupt the World Cup, yet she is unable to meet their demands given the fiscal reality in Mexico.

On the economy, the most recent Bank of Mexico interest rate decision made clear its shift away from pure inflation targeting toward a dual mandate that also includes promoting growth. Simultaneously, President Sheinbaum's growing concern about growth and investment produced legislation to regulate and promote public-private partnerships in

infrastructure. Although imperfect, the creation of a presidential-led planning committee to coordinate infrastructure investment and the establishment of new rules to govern mixed investments represents an important advance on the status quo.

In U.S.-Mexico relations, intense cooperation persisted on the security front as Sheinbaum promoted Roberto Velasco, the former undersecretary for North America, to lead the foreign ministry following the resignation of Juan Ramón de la Fuente for health reasons. In trade, the two countries began formal bilateral negotiations leading up to the July 1 start of the USMCA review, albeit without a parallel U.S.-Canada negotiation. Meanwhile, the U.S. International Trade Commission began to investigate the potential dumping of Mexican strawberries in the U.S. market, and the U.S. Trade Representative initiated Section 301 investigations into dozens of countries, including Mexico, to build a new foundation for a U.S. tariff wall to promote reshoring.

A Political Defeat for Sheinbaum

After the March 11 rejection of her initial electoral reform legislation, President Sheinbaum introduced a second bill dubbed “Plan B.” It would reduce political spending in state legislatures and municipal governments and, controversially, called for a constitutional reform allowing her to move up the presidential recall election from 2028 to 2027. The objective was to hold the recall election together with the June mid-terms to exploit the president’s high approval rating to benefit the candidates of her Morena party.

Sheinbaum and her advisors failed to discuss this proposal in advance with her small party allies. Although the Green Party (PVEM) supported the measure, the Labor Party (PT) did not, denying the president the requisite two-thirds majority vote. Labor Party leaders worried that Sheinbaum would campaign only for Morena candidates, harming the PT’s electoral chances and threatening its political survival. It may be that President Sheinbaum’s team believed Morena political operators in Congress could pass this measure. They either could

not or would not, resulting in a strategic blunder that produced the second legislative loss for the president in less than two weeks.

President Sheinbaum unsuccessfully tried to limit the damage. She argued the approval of the local government austerity measures was a big win, fulfilling a campaign promise. She also restated her belief that the people will (with an implied “should”) punish politicians voting against her electoral reforms, driving a deeper wedge between Morena and the PT. It is possible the PT will continue to vote with the president in Congress, especially since their political platforms overlap, but these decisions are expected to come at a price.

The electoral reform effort also damaged business confidence in the government. Just as Sheinbaum struggles to convince businesses to invest, she pursued a reform that private sector leaders consider both unnecessary and a distraction from much more important challenges. As a March 23 public statement from the business confederation COPARMEX emphasized, the president should be focusing on security, energy and growth, arguing that “the best electoral reform at this moment is no electoral reform.”

Protests Persist

While dealing with the rebellion in her legislative coalition, President Sheinbaum is also dealing with continued protests from teachers, small farmers, and independent truckers. The radical teachers’ union that is strong in Southern Mexico, the National Coordinator of Education Workers (CNTE), organized another protest lasting three days and including blockades of major roadways in central Mexico City. They are demanding legislation to significantly increase their pensions. As President Sheinbaum repeatedly insists, despite sympathy for their cause, their request is fiscally impossible. This ensures that these kinds of protests will persist, including a stated threat to disrupt the World Cup in June and July.

At the same time, small northern farmers demanding increased credits, an end to food imports, and the distribution of water to agriculture before other uses, have again joined forces with small, independent truckers calling for credits for new trucks, lower diesel prices, and more highway security. To pressure the government, they called their second national strike beginning April 6, including blockades of major highways and border crossings designed to disrupt commerce and exports. In the absence of fiscal flexibility, ongoing negotiations have failed to avoid this disruption and risk further protests during the World Cup.

More Mixed Signals on the Economy

On March 26, the Bank of Mexico, somewhat controversially, cut interest rates by 25 basis points, bringing the reference rate to 6.75%. This came on the back of the worst January performance for the Mexican economy in 25 years, and despite early March inflation at 4.63%, well above the Bank's target range of $3\% \pm 1\%$, and a peso that has weakened to 17.8 per U.S. dollar due to market disruptions caused by the Iran War. The decision passed on a 3-2 vote, with the majority arguing that inflation is transitory and the peso largely stable while economic growth is weak. Put differently, despite its constitutional mandate to focus exclusively on inflation, the board is operating as if it has a dual mandate, to control inflation and promote growth. This approach, potentially problematic, clearly benefits the economic objectives of the Sheinbaum administration.

Government revenues, meanwhile, were up only 2.6% in the first two months of the year, marking their worst performance since 2022. Although high oil prices associated with the Iran War should help improve the picture, the government has also promised to control the associated upward pressure on gasoline prices, which rely in part on cutting the gasoline tax, thereby reducing government revenues. Concern about increasing revenue is likely behind the tax agency's decision to end tax deductions for donations to Mexican non-governmental organizations. Its negative implications for some of the loudest critics of the Fourth

Transformation and the Sheinbaum administration, however, raised questions about politics influencing tax collection.

Meanwhile, the administration's infrastructure bill is working its way through Congress. This legislation will create a government-led strategic planning committee for public infrastructure, chaired by President Sheinbaum. The committee will assess the feasibility and social criteria of potential projects and coordinate the actions of different federal ministries as well as state and local governments. It also establishes a framework for "mixed investments," the term now used for public-private partnerships.

The bill has been criticized for allowing significant executive discretion, for failing to bind the next administration to these new rules, and for not providing sufficient detail about the rules of operation for the jointly owned firms. Most analysts conclude, however, that this new investment framework will be better than the status quo. The president's associated promise to spend half of her time "promoting investment in the country" is designed to reinforce this effort to increase investment and growth.

Bilateral Tension Still Coupled with Cooperation

In early March, President Trump again criticized President Sheinbaum for continuing to refuse his offer for military assistance to aid in the fight against drug trafficking in Mexico. Unusually, this time the Mexican president shot back, saying it was a good thing that Trump realizes that Mexico does not want military assistance, and that Mexico "proudly" says no to this eventuality. A series of comments by both supporters and critics of the administration reinforced Sheinbaum's position, noting the inevitably high costs to bilateral cooperation associated with any unilateral U.S. military action. One Sheinbaum critic concluded: "An intervention on Mexican soil would be catastrophically counterproductive."

A week later the U.S. intelligence community issued its 2026 Annual Threat Assessment, putting Mexico at the center of its apprehensions. The report portrays the Homeland as the number one U.S. concern, and within it, it deems Southern border security and foreign illicit drug actors as the most important threats. But it also notes the success achieved recently in reducing fentanyl deaths and seizures, albeit without mentioning the Mexican role in this achievement.

In testimony before Congress, the general leading the U.S. Northern Command lauded military cooperation with the Mexican Army and Navy. Additionally, Mexican Security Minister Omar García Harfuch held successful meetings in Washington, D.C., with the heads of the DEA and FBI, reinforcing current bilateral security cooperation.

Finally, Mexico has a new foreign minister. Juan Ramón de la Fuente resigned for health reasons, and President Sheinbaum elevated her undersecretary for North American affairs, Roberto Velasco, to replace him. Velasco, a close confidant of the president, is known for effective communication and diplomatic skills, knowledge of and experience with the United States, and a close relationship with Economy Minister Marcelo Ebrard. This change should bring increased energy and coordination to Mexican foreign policy, especially regarding its relations with the United States.

The U.S. and Mexico Launch Review Process for the USMCA

On March 17, the United States and Mexico kicked off bilateral talks leading to the formal start of the USMCA review on July 1. The U.S.-Canada side of the equation remains stalled.

Mexico's goal is to retain its position as the lowest tariff-rate exporter to the United States. To this end, it is demanding the elimination of U.S. tariffs on steel, aluminum, and autos while strengthening rules of origin and supply chain security. Mexico has further expressed a willingness to shift supply chains from Asia to North America and to establish a joint external

tariff. Indeed, Mexico seems unmoved by China's decision that the December tariff increase on imports from countries lacking a free trade agreement with Mexico constitutes an illegal trade and investment barrier, and that China thus has the right to retaliate. Finally, a week after the initiation of formal bilateral talks, Economy Minister Marcelo Ebrard made an additional proposal to jointly address the two countries' common reliance on medicine and semiconductor imports.

On the sidelines of the USMCA, the U.S. Trade Representative announced two investigations into trade violations under Section 301 of the Trade Act of 1974. Last month we [noted](#) the first investigation into excess manufacturing capacity in 16 countries, including Mexico. On March 12, the USTR announced an additional investigation into 60 countries, including Mexico, for their failure to enforce the ban on trade in goods produced with forced labor. Although Economy Minister Ebrard insisted that these actions would not impact the 85% of Mexican products that are exported under USMCA rules, they once again demonstrate the Trump administration's preference for raising tariffs rather than keeping them low.

Also on March 12, the U.S. International Trade Commission issued a preliminary ruling that Mexican berry imports were damaging the interests of U.S. producers. The Commission will now investigate a suit brought by Florida strawberry producers accusing Mexican winter strawberries of being sold in the U.S. market below their "reasonable value." A ruling is scheduled for early 2027.

CFE's Mixed Investment Tender Shows Promise

The mixed investment process, as presented by Mexico's Ministry of Energy (*Secretaría de Energía* or SENER), has quickly evolved from a "Binding Planning" policy concept into a highly competitive pipeline with clear signals of market appetite. The response from developers was substantial, with 394 project registrations totaling nearly 38 GW of capacity, of which 255 projects advanced to the next stage of qualification. According to our sources, 83 of

these projects, representing approximately 13 GW, have been approved to enter the final negotiation phase. That said, neither SENER nor we expect all projects to reach financial close due to commercial constraints, financing conditions, and risk allocation.

Importantly, a meaningful share of projects has already advanced through environmental permitting, social impact assessments, and interconnection studies, although many remain at an early stage. This combination of scale and partial readiness suggests that the process is not only attracting interest but also mobilizing capital and development resources at a pace not seen since President Peña Nieto's Energy Reform. From a system perspective, the level of oversubscription is particularly notable. Across all regions, registered capacity significantly exceeds the Federal Electricity Commission (CFE)'s identified needs, in some cases by several multiples, confirming that the bottleneck was never project origination, but rather a political misunderstanding of the role private developers play in the power sector and well-known grid constraints.

The process confirms that private capital is willing to participate under a framework where the state retains a central role, provided there is a clear path to monetization. The mixed investment model effectively positions CFE as the anchor offtaker (70%) and counterparty, which reduces certain market risks while concentrating commercial negotiations into a bilateral dynamic. The data shows that while only a small subset of projects is directly structured around specific CFE-led opportunities, the broader pool of capacity is implicitly competing for future allocation within that same framework. This creates a competitive funnel, where developers must differentiate not only on cost, but also on readiness, location, and alignment with system needs.

At a 30,000-foot level, the most important implication lies in how this process is likely to reshape power purchase agreement (PPA) negotiations. The significant oversupply of proposed capacity relative to CFE's requirements introduces a clear shift in negotiating leverage toward the offtaker. Developers are effectively competing for a limited number of

bankable contracts, which places downward pressure on pricing and tightens expectations around performance, flexibility, and risk allocation. In practical terms, this could lead to more disciplined bid structures, thinner margins, and increased emphasis on financing competitiveness. At the same time, the presence of a large and active pipeline provides CFE with optionality, allowing it to select projects that best fit its operational and financial objectives, while maintaining control over system expansion.

Overall, the mixed investment process can be interpreted as a qualified success in its initial phase. It has demonstrated that there is no shortage of private interest in Mexico's power sector, even under a more state-centric model. Its ultimate success, however, will depend less on the volume of registered projects and more on the conversion rate into executed contracts and operating assets. Our key takeaway is that the next phase will be defined by financial competitiveness and the ability to navigate a negotiation environment where CFE holds a stronger position, especially regarding risk-sharing.

Pemex Under Pressure, Slowly Shifting Course

The series of oil spills reported along the Gulf coast during March has quickly become one of the most visible operational and environmental issues for Mexico's energy sector this year. Authorities have yet to establish a single cause, pointing instead to a combination of factors that include tanker discharges, natural seepage, and potential leaks from existing infrastructure. The lack of clarity has complicated the acknowledgement of liability and delayed a coordinated response, while affected coastal communities and fisheries have increased pressure on regulators to act.

Furthermore, the fire at the Dos Bocas refinery adds to a growing pattern of operational setbacks at Mexico's flagship downstream project. The incident, which resulted in fatalities and temporary disruptions, underscores persistent challenges around safety protocols, maintenance standards, and commissioning processes. It also feeds into broader concerns

about the refinery's ability to operate consistently at planned capacity. For the government, Dos Bocas remains central to the goal of reducing fuel imports, but repeated incidents increase the risk of additional capital requirements and reinforce doubts among investors about the efficiency and reliability of the country's refining strategy.

Against this backdrop, Pemex appears to be recalibrating its commercial approach in response to firmer crude prices. While the company has maintained its policy of prioritizing domestic refining, recent signals suggest a more flexible stance toward exports, particularly if international prices remain strong. This introduces a more opportunistic element into its trading strategy, balancing fiscal needs with policy objectives. At the same time, higher prices offer temporary relief to cash flow, but they do not fundamentally resolve structural issues related to declining production, high leverage, and operational inefficiencies.

In parallel, the administration is showing a more pragmatic posture toward upstream development. Discussions around a potential partnership with Brazil's Petrobras in deepwater exploration point to a recognition of Pemex's technical and financial limitations in complex projects. Such a partnership could accelerate development timelines and bring in much-needed expertise, while still preserving state control. Similarly, the renewed consideration of hydraulic fracturing reflects mounting pressure to reduce Mexico's dependence on imported natural gas. Together, these signals suggest a gradual shift toward selective openness, where private participation is leveraged to address specific gaps in capability, even as the broader model of state leadership in the sector remains intact.

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