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Price Stabilisation and Green Industrial Policies in Mexico

Insights from Guillermo Matamoros

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Interview and report by Cindy Gianella Tutiven Desintonio[3]

Abstract

The inflationary crisis of 2021–2022 posed a challenge for Mexico: to contain rising prices without sacrificing economic stability or social welfare. In an international context marked by supply disruptions, higher energy costs and geopolitical tensions, the government adopted a heterodox strategy that prioritised the stabilisation of basic prices and energy subsidies as pillars of social legitimacy. Although these measures entailed a significant fiscal cost —comparable to that of other countries in the region (Villarreal et al., 2024))— they helped moderate inflation and reinforced the perception that the State could intervene in favour of the population.

This document examines how these anti-inflationary measures not only mitigated the immediate effects of the crisis but also offer lessons on linking price stability with green industrial policy. The Mexican experience, analysed in the light of international comparisons, illustrates that affordability and price security are necessary conditions for sustaining a just and politically viable energy transition.

1. Mexico's post-pandemic anti-inflation policy

Following the 2021–2022 inflationary surge, the government of Andrés Manuel López Obrador adopted a heterodox strategy that departed from the conventional prescription centred on monetary policy. According to the government's assessment, inflation was driven primarily by supply shocks (for example, food, energy and logistical disruptions), which led to the implementation of a multi-pronged price-stabilisation policy, while monetary policy played a secondary role (Matamoros, 2022).

The actions were structured around the Package Against Inflation and High Prices (PACIC I and II), launched in mid-2022 and renewed in November 2024, which combined:

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[1] The views expressed are those of the interviewee and do not necessarily reflect i3T's position.

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[3] Interview conducted between August and September 2025.

- **Voluntary agreements with firms and retail chains** to freeze the prices of 24 basic products (the PACIC basket; including rice, beans, tortillas, milk, chicken, eggs, cooking oil, etc.) at 1,039 pesos (≈ USD 55.75), representative of an average household's consumption.
- **Temporary suspension of import tariffs** on 21 of the 24 products in the PACIC basket and on five inputs for food processing (maize flour, wheat, wheat flour, white maize and sorghum).
- **Across-the-board subsidies for fuels and electricity**, introduced in March 2022, to contain the pass-through of energy prices to the wider economy.
- **Strengthening of productive programmes** such as *Sembrando Vida (PSV)* and *Precios de Garantía (PPG)* to promote agricultural production by small subsistence farmers.
- **Creation of maize buffer stocks to guarantee supply**: between 800,000 and 1 million tonnes of maize financed with SEGALMEX funds.
- **Public communication tools**: the "Who's Who in Prices" programme, presented on Mondays during the presidential press conference (*La Mañanera*), showed price comparisons for food and fuels across chains and petrol stations. The media visibility exerted reputational pressure on firms and provided guidance to consumers.

The results were visible: headline inflation reached 8.7% in September 2022, but would have exceeded 10% without the energy subsidies and price agreements, according to official estimates (see SinEmbargo, 2022). The PACIC basket—which represents around 13% of the CPI and nearly half of the increase in food inflation—helped to moderate food inflation. Likewise, the CPI showed a downward trend in late 2022 and early 2023, stabilising at around 5% in 2024.

2. The political economy of inflation control and industrial policy under AMLO and Sheinbaum: internal and external constraints

Mexico's recent experience in price management takes place in a context of structural domestic constraints and external conditions that continue to narrow policy options. Under the government of Andrés Manuel López Obrador, social legitimacy was prioritised through across-the-board subsidies and strategic price controls. The administration of Claudia Sheinbaum inherits this framework and faces the challenge of articulating price stabilisation with a green industrial policy that simultaneously ensures a just energy transition and transforms the productive base. Both AMLO and Claudia recognise that green industrial policy and the energy transition are not sustainable or successful without first achieving production sovereignty in essential areas, such as energy and basic foodstuffs. This is crucial for price stabilisation, reducing external vulnerabilities, and expanding the domestic market, enabling the government to undertake more ambitious green industrialization policies. In this line, Sheinbaum's administration has unveiled Plan México, a comprehensive multi-year plan aimed at promoting import substitution industrialization. Furthermore, they have committed to achieving a 35 percent renewable energy production target by the year 2030 (Sheinbaum, 2025).

Nonetheless, the current administration faces some challenges in advancing green industrial policy. In the domestic sphere, the obstacles are multiple:

- **Mexico maintains low tax revenue:** in 2023 it reached 17.7% of GDP—the lowest level in the OECD (OECD, 2024) —which significantly reduces the State's capacity to sustain both across-the-board subsidies and long-term investments in clean energy. Although this structural weakness was not corrected, public revenues grew moderately during López Obrador's administration thanks to charges on large taxpayers and the elimination of tax amnesties. These resources were accompanied by a reorientation of expenditure towards poorer sectors, which contributed to significantly reducing inequality and poverty (INEGI, 2025).
- **Absence of tax reform.** During López Obrador's six-year term, no comprehensive fiscal reform was undertaken, which reduced room for manoeuvre and left extraordinary oil revenues and administrative austerity as temporary sources (Moreno-Brid et al., 2019; Oxfam México, 2022; Villalobos Lopez, 2023). Nonetheless, as previously noted, despite not introducing new taxes, the government made progress in reducing poverty, inequality, and improving infrastructure, thereby strengthening its social legitimacy. Looking ahead, any tax reform should be accompanied by a green transition plan that clearly defines how the new revenue will be allocated.
- **Legislative gridlock.** Although AMLO held a simple majority in Congress, he lacked the supermajority required to reform the Constitution or enact far-reaching fiscal laws, limiting his capacity to introduce progressive taxes (for example, higher corporate income tax rates, wealth taxes or inheritance taxes). The 2022 electricity reform as precedent. The most visible case was the rejection of the 2022 electricity reform, which sought to strengthen the Federal Electricity Commission (CFE) (establishing that 54% of electricity generation would be under the CFE and 46% under the private sector) and protect consumers but was blocked for not securing the necessary votes.

  Conditions inherited by Sheinbaum. The government of Claudia Sheinbaum thus faces a scenario in which any reallocation of subsidies will require negotiation with business sectors, trade unions and state governments, conditioning the feasibility of redistributive measures and green industrial policy.

In addition to these domestic limits, international constraints amplify the tensions of economic policy:

- **High global interest rates.** The restrictive policy of the Federal Reserve led the Bank of Mexico to maintain its benchmark rate at 11.25% in 2023 (Banco de México, 2023). This measure reinforced macroeconomic credibility and supported the appreciation of the peso—the so-called "super peso", which gained about 11% against the dollar in 2022–2023—but at the same time increased the cost of credit, limiting the financing of long-term industrial projects (including green infrastructure).
- **Limitations of the United States–Mexico–Canada Agreement (USMCA).** Policies favouring Pemex and CFE have already triggered disputes with the United States and Canada, showing that any scheme of differentiated subsidies could be challenged as a breach of international commitments. At the same time, the USMCA opens opportunities: nearshoring could boost clean manufacturing in Mexico—such as electric vehicles, batteries or green hydrogen—provided that incentives comply with the treaty's rules.

- **International environmental agenda.** The persistence of fossil fuel subsidies contradicts multilateral climate commitments, while a reorientation towards green subsidies could facilitate Mexico's integration into global decarbonisation value chains.

In this framework, electricity and fuel subsidies in Mexico perform a dual function: during periods of high international prices —as occurred in the post-pandemic— they ease inflationary pressures, while in periods of low prices they turn into a tax, which can even be interpreted as a levy with environmental effects. In this context, the strengthening of PEMEX and its conversion towards clean energies acquire a strategic role. In fact, the current government has announced a comprehensive plan to support PEMEX aimed at promoting a green industrial policy that combines short-term price stability with medium-term structural benefits, such as specialised employment, productive diversification, and emissions reduction.

3. Price stabilisation as a pillar of green industrial policy

International experience confirms that no energy transition can be sustained without a social contract that provides legitimacy (see Sareen & Haarstad, 2020; Ó Maonaigh et al., 2025). Within this framework, the stabilisation of basic prices becomes a key instrument: it gives households certainty that the transition will not entail higher living costs, while at the same time creating political space for deep reforms.

In Mexico, recent anti-inflationary policy reinforced that social legitimacy by showing that the State could intervene directly in favour of the population. Freezing the prices of essential foodstuffs or containing energy tariffs generated confidence that it is possible to advance towards clean energy and new industries without transferring the costs to ordinary citizens. This political capital is now a strategic resource to anchor a green industrial policy.

International comparisons reinforce this lesson:

- **In Spain**, gas price caps and the reduction of VAT[4] on electricity lowered inflation by 2.3 percentage points in 2022, although they later had to evolve towards more targeted schemes to sustain public finances.
- **Germany.** In 2022 it launched a €200 billion "protective umbrella" (~USD 194 billion, equivalent to 5% of GDP) to contain the energy crisis: it capped gas prices (12 euro cents/kWh for households and SMEs) and covered the December 2022 bill. These measures, financed through public debt, prevented industrial bankruptcies and social unrest, in a context where many firms had threatened to shut down or relocate due to high costs.
- **India.** An emerging economy with challenges similar to Mexico, in 2022 it relied on price controls and subsidies to guarantee food and energy security: it banned and taxed exports of staple grains—ensuring domestic supply and price containment—, reduced fuel taxes, and expanded the fertiliser subsidy. As a result, inflation remained around 6–7% and massive programmes of low-cost food distribution were sustained for hundreds of millions of people.

[4] A historic reduction from 21% to 10% in 2021 and, subsequently, to 5% in June 2022 (Ministerio de Hacienda y Función Pública, 2022).

This social legitimacy enabled the government to advance its industrial agenda *("Make in India"*), now also oriented towards solar panels, batteries and electric vehicles. The message from India is that food and energy price security and industrial development go hand in hand: one provides the foundation for the other. Mexico shares with India the need to protect a large vulnerable population; learning from this balance between consumption subsidies and productive promotion will be key.

From these experiences a clear conclusion emerges: an *"energy welfare state"* is a condition for just transitions. Mexico has already moved in that direction with PACIC and energy subsidies. The challenge now is to explicitly link them to the climate agenda, transforming stabilisation measures into instruments of green industrial policy. This implies, for example, conditioning electricity subsidies on clean generation, or redirecting fuel support towards electric public transport. In this way, price stabilisation would cease to be only a temporary anti-inflationary mechanism and would consolidate as a structural pillar of a new green social contract, capable of combining growth, equity and decarbonisation.

4. Fiscal space and international comparisons: financing green policy without losing stability

A fundamental aspect for realising this vision is fiscal space. As noted, Mexico faces limitations in public revenue, which implies that financing a large-scale green industrial policy will require creativity and lessons from international experiences in mobilising resources for the transition without destabilising the economy. The following section examines some comparisons:

- **Brazil and development banks.** The BNDES channels low-cost credit to strategic sectors and combines temporary relief with structural programmes such as *Luz para Todos*. Mexico could strengthen NAFIN and Banobras or create green funds with public guarantees to attract private capital.
- **Chile and fiscal resilience.** Its Fuel Price Stabilisation Mechanism (MEPCO) cushions shocks through variable taxes, while taxes on extraordinary mining rents generate additional resources. One option for Mexico is for the IEPS to assume a more substantial and flexible role in stabilizing energy prices, similar to the MEPCO in Chile. This could involve other sectors like mining to finance green investments without exerting pressure on consumer prices.
- **Efficiency of expenditure.** Universal subsidies channel resources to higher-income deciles. Spain confirmed this in 2022 with its fuel rebate, later replaced by targeted support for transport and vulnerable households. Mexico could follow a similar strategy.
- **International cooperation.** Multilateral funds (World Bank, IDB, CAF, Green Climate Fund) and the USMCA open opportunities to co-finance projects in electric mobility, coal region reconversion and green supply chains.
- **Social innovation and philanthropy.** Foundations can fill financing gaps in just transition pilots (electromobility, community energy), which can later be scaled up with public resources.

In sum, Mexico must gradually shift from fossil to green subsidies, relying on better-targeted domestic resources, progressive taxation and external financing. The macroeconomic stability

achieved is an asset to be preserved, but also the foundation for building a long-term green industrial policy.

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