Do you know why the price of gasoline went down? An expert explains

International oil prices have fallen since **March 9** of this year, leading to a devaluation in **the price of gasoline in Mexico.**

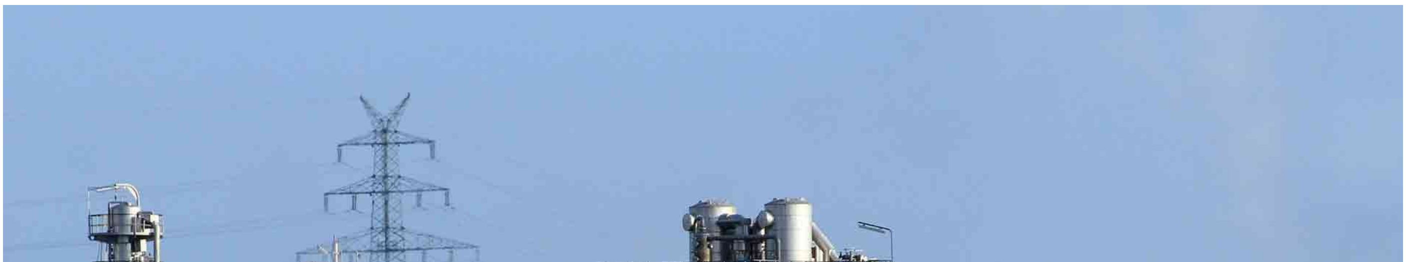
In an interview with CONECTA, Héctor Magaña, who teaches Accounting and Finance at the **Tecnológico de Monterrey Business School on its State of Mexico campus,** explains what happened.

The price of fuel went down due to an international meeting held between the member countries of the **Organization of the Petroleum Exporting Countries** (OPEC) and Russia.

Magaña explains that the objective of this meeting was to reduce oil production and thus deal with reduced demand for oil due to the effects of **COVID-19.**

*"However, **Russia** thought that **this reduction in production would work against its interests and favor private oil companies,** mainly American ones, so it decided to increase production.*

*"This in turn caused **Saudi Arabia** to react by increasing its production. Therefore, **by increasing the supply of oil, its price has tended to go down, along with that of all its derivate products, particularly that of gasoline,"*** he explained.



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This turn of events has affected Mexico to such an extent that some gas stations in certain states have begun selling liters for **under 20 pesos.**

*"Those continuing to sell at **unadjusted prices** argue that they haven't considered reducing prices because their tanks still contain gasoline that was bought at a "regular" price.*

*"Once they need to resupply, they may negotiate with the **new prices** and thus offer cheaper liters of gasoline to the public,"* said Magaña.

As to **whether gas prices will fall even further in Mexico,** the professor said that this drop will be gradual, as everything depends on international oil prices.

*"It's important to note that this **drop** in prices **will be gradual** and may be adjusted depending on the level reached by international oil prices.*

*"If the dispute between **Russia and Saudi Arabia** can be resolved in the short term, **it's likely that oil prices will go up again.** However, if the conflict continues without resolution, we could see **low prices for gasoline for the next few months at least,"*** he explained*.*

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Regarding the **current situation in Mexico due to the COVID-19 pandemic**, the **Business**

School professor explains that there’s likely to be reduced demand for gasoline despite the low prices.

*“The **demand** for gasoline could be **lower** as it’s necessary to take more severe measures to deal with the health problem caused by **COVID-19.** More people could be encouraged to work from home or avoid moving around on crowded means of transportation.*

*“This not only **reduces** the **demand** for **fuel** of those who have private automobiles, but also of public transport and taxi services,” he said.*

In order to stabilize the country’s economy, the Mexican government has decided to increase **collection** of the Special Tax on Production and Services (***Impuesto Especial sobre Producción y Servicios*****, IEPS**).

*“What was reduced was the **fiscal incentive** on that tax so that the government could increase its income through the sale of fuel.*

*“This was because 25 to 30% of federal income comes from the sale of hydrocarbons. **If oil prices continued to go down, the government’s resources would be reduced,”*** he explained.

Finally, the professor shared some advice on what we should do in this type of situation.

*“Regarding the consumption of gasoline, I believe that **it would be best to consume as normal and take advantage of the savings obtained from consuming cheaper gasoline** by investing them or using them for emergencies.*

*“We should remember that **gas prices aren’t fixed,** but the oil war between Russia and Saudi Arabia will keep oil prices low, **making gas prices cheaper in the short term,”*** he concluded.

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