Economic Analysis

The Federal Government's support allows Pemex to improve its financial situation in 2016

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The Federal Government's support of Pemex amounts to a total of 123.5 billion pesos and comes from three sources: an equity contribution; the conversion of Pemex's pension bond into negotiable instruments of the Federal Government; and a reduction in the duties payable by the Company deriving from the changes to its tax regime.

- The SHCP (Secretary of the Treasury and Public Credit) announced financial support measures for Pemex. There is 73.5 billion pesos in financial support plus the support deriving from tax changes involving a reduction of 50 billion pesos in the amount of duties payable by Pemex. Thus the total support granted by the Federal Government to the oil company amounts to 123.5 billion pesos

- The financial support portion, amounting to 73.5 billion pesos, comes from two contributions of resources. The first consists of an equity contribution by the Federal Government worth 26.5 billion pesos. The second one amounts to 47 billion pesos and is the result of providing the 50-billion-peso bond that the Federal Government granted to this state-owned enterprise in 2015 for payment of pensions in 2016 in exchange for Federal Government debt securities.

- The SHCP communiqué mentions that this support is conditional upon Pemex reducing its current liabilities by the same amount and improving the management of its liabilities. That is to say, the 73.5 billion pesos imply a mandatory reduction in current liabilities. We should point out that the SHCP communiqué implies that the financial support granted by the Federal Government to Pemex is to help it resolve its short-term liquidity problems.

- Apart from this, the SHCP communiqué indicates that the equity contribution of 26.5 billion pesos comes from the budget reduction which the Federal Government announced on 17 February, when it made cuts of 32.3 billion pesos. The SHCP also indicates that this transaction will have no financial impact on the public sector because it is a set-off transaction. Additionally, Pemex's pension bond for 50 billion pesos was already considered, as at the end of 2015, as part of the so-called "Historical Balance of Public Sector Financial Requirements" (SHRFSP per its Spanish initials). In this sense, this portion of the Federal Government's support to Pemex does not involve going further into debt, but rather the exchange of one debt instrument for another. In other words, support that was not liquid is made liquid.

- The foregoing points mean that the total amount of support granted to Pemex, 123.5 billion pesos, will be absorbed as follows: i) 26.5 billion pesos offset by the 32.3-billion-peso adjustment to the budget announced in February; ii) 47 billion pesos corresponding to the exchange of the Pemex pension fund existing at year-end 2015 for negotiable securities of the Federal Government, so this does not involve going further into debt, and iii) the remaining 50 billion pesos deriving from the reduced payment of duties by the oil company, representing a decrease in revenues for the Federal Government. Nonetheless, according to the SHCP, Pemex's financial balance sheet will be strengthened in the same amount, which in turn will be reflected by an increase in the State's assets. Consequently, these transactions will not involve any deterioration in the financial position of the public sector.

- **Assessment**. The support announced by the Federal Government is positive because it helps Pemex to face its liquidity difficulties and gives it more room to improve its short-term financial situation. Nevertheless, it will be important for Pemex to comply with the conditions on which these resources were granted and for these conditions to be complemented by provisions supporting the improvement of its financial situation in the medium and long terms. As regards the public sector, insofar as the various support measures are actually offset as announced, there should be no effect on its financial position. Thus 70% of the remainder of the Central Bank transaction could be entirely used to reduce the SHRFPS pubic borrowing requirement by approximately 0.8% of GDP.