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Economic Analysis

Higher probability of stabilizing production with greater fiscal incentives for Pemex

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Today Pemex signed a letter of commitment with three financial institutions to refinance USD 2.5 billion of its debt. It also renewed two lines of credit worth USD 5.5 billion, extending the repayment period from three to five years. This renewal and refinancing correspond to committed lines of credit that mature at the end of 2019 and the beginning of 2020. According to a press release from Pemex, the agreement is the largest banking operation of any energy company in Latin America, and the largest banking operation in the oil company's history. It is important to note that Pemex's previous administration had signed the aforementioned credit lines—worth USD 8 billion—and that the renewal aims to extend the deadline and reduce the financial cost.

In other announcement made by the Ministry of Finance, Pemex's tax burden will be lightened by allowing it to increase its production ceiling from an average of 150,000 to 400,000 barrels per day for which the company will no longer pay the DUC (*Derecho por Utilidad Compartida*) in relation to migrations of Round Zero fields to O&G contracts. The new ceiling will reactivate operations at some oil fields after the DUC had previously made it impossible for them to be profitable. Pemex will therefore be entitled to better fiscal conditions for the fields it decides to migrate, something that is now possible due to the Energy Reform.

The Pemex's press release also notes that this fiscal incentive will represent a reduction of at least MXN 30,000 million by the end of the current tax year. This reduced fiscal burden will allow Pemex to allocate more resources to crude oil exploration and production activities, as well as improving its financial balance.

We believe that the measures announced today are positive since they will help to reduce the short-term pressure on Pemex's finances. Furthermore, the possibility of a higher allocation to crude oil exploration and production of the resources freed-up from the lower tax burden will contribute to stabilizing crude oil output. Nevertheless, solving the structural problem of Pemex's relatively low investment levels in crude oil exploration and production activities will require the reactivation of the farm-outs' business model as soon as possible.