

# Mexico Sovereign Dashboard: High Oil Prices Benefit PEMEX but Pose Risks to Budget

**High Oil Prices Benefit Public Sector:** Mexico's non-financial public sector (including Petroleos Mexicanos (PEMEX)) will benefit from higher oil prices. However, high oil prices pose risks to federal government revenues, since the government has committed to prevent gasoline prices from increasing above the rate of inflation. Gasoline prices are managed by reducing gasoline excise tax IEPS (now at 0%) and tax credits to suppliers.

**PEMEX Income Rises, Reduces Transfer Needs:** High oil prices will benefit PEMEX and reduce the need for government support in 2022. We expect positive free cash flow of USD10 billion if the oil price (WTI) averages USD95 a barrel (bbl) from a negative USD11 billion in 2021. PEMEX's 2022 debt amortization payments are USD7.5 billion, 0.6% of GDP. While the government paid 1Q22 amortizations, appetite for further support may diminish as current oil prices benefit PEMEX.

Raising its oil production will prove challenging given PEMEX's financial constraints and high capital spending needs. PEMEX stabilized oil production in 2021 after a decade of continuous decline. We expect the government will delay the goal to reduce oil exports (aiming for self-sufficiency in refined products) to benefit from high oil prices. Mexico's oil production ranks 11th in the world although it was a net oil importer from 2015-2019.

**Oil Above USD100/bbl Negative for Federal Budget:** We expect higher federal government oil-related revenue to compensate for lower gasoline-related tax collection if the Mexican oil price mix remains below USD100/bbl (annual average). Above this threshold, higher subsidies needed to maintain gas prices in line with inflation will more rapidly outweigh oil-related revenue increases. We expect a 0.1%-of-GDP reduction of government revenue if prices reach USD105/bbl.

Fitch's current Brent projection is USD100/bbl for 2022, above Mexico's 2022 budget estimate of USD55/bbl. The government will likely resort to spending cuts to avoid a widening of the fiscal deficit in the coming preliminary budget report "pre-criterios" if gasoline tax reductions result in lower-than-expected revenue coupled with a likely downward revision of growth projections.

**Federal Government Oil Income:** PEMEX continues to be an important source of income for the government, averaging 1.7% of GDP in the five years to end-2021 (1.4% of GDP). Since 2018, the government has cut the effective tax rate on PEMEX, injected more capital into the company, and devoted a greater share of the public investment budget towards PEMEX projects. PEMEX debt is a contingent liability to the government, amounting to more than USD100 billion (8.6% of GDP).

The government supported PEMEX with USD13.5 billion (1.1% of GDP) in 2021 by reducing the profit-sharing tax on the company and capital injections for debt amortizations. We expect annual capital injections as PEMEX's financial improvement will be temporary given structural financial weakness and our expectation of lower oil prices in 2023 (averaging USD80/bbl) and in 2024.

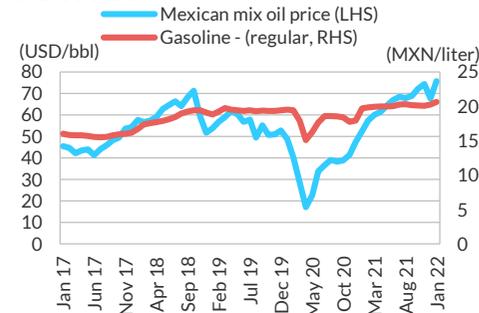


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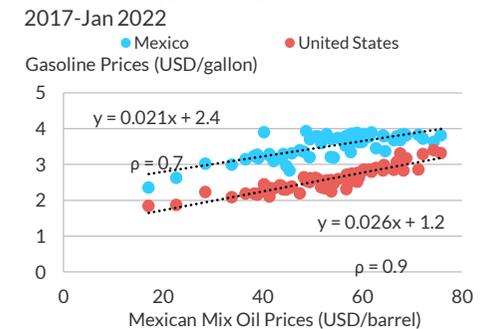
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## Fuel Prices



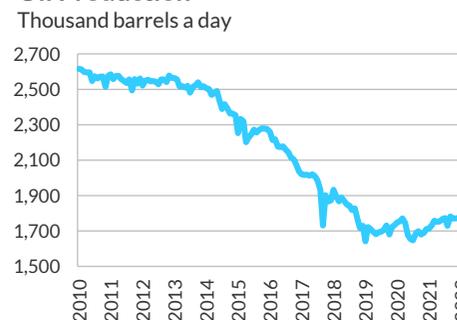
Source: Fitch Ratings, PEMEX, CRE

## Oil-Gas Prices Correlation



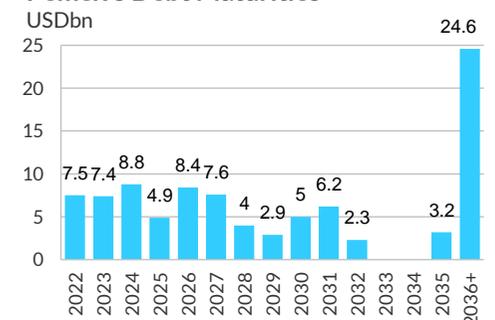
Source: Fitch Ratings

## Oil Production



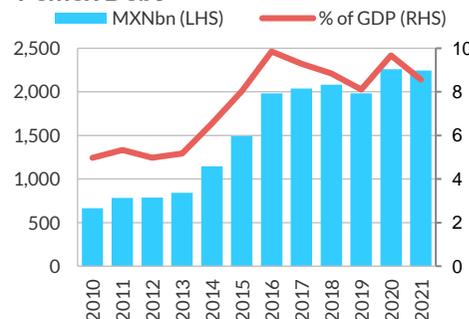
Source: Fitch Ratings, Pemex

## Pemex's Debt Maturities



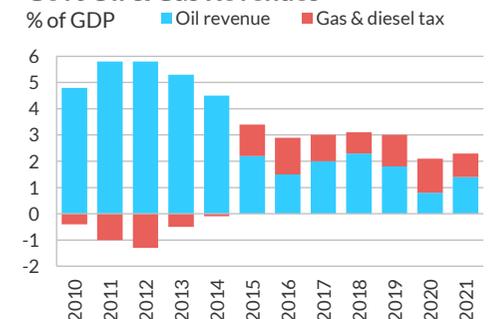
Source: Fitch Ratings, Pemex

## Pemex Debt



Source: Fitch Ratings, Pemex

## Govt Oil & Gas Revenues



Source: Fitch Ratings, SHCP

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