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BUSINESS

Mexico Government to Support Pemex With $4.2 Billion

Government support for Petroleos Mexicanos includes capital, credit for pension payments

Customers purchase fuel at a Pemex gas station in Mexico City, Mexico. *PHOTO: SUSANA GONZALEZ/BLOOMBERG NEWS*

By **JUAN MONTES**
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MEXICO CITY—Mexico's government said Wednesday it will support troubled state-oil firm Petróleos Mexicanos, or Pemex, with $4.2 billion in fresh capital and money to make this year's pension payments, a step some analysts saw as insufficient if oil prices remain low.

Depressed oil prices and declining oil production have led to a liquidity crunch in recent months for Pemex, Mexico's largest company by sales and the world's eighth-largest oil producer. The move was widely expected after the government repeatedly said it would provide financial support to Pemex, which contributes nearly 20% of the federal budget.

But some observers were expecting a bolder recapitalization, given that Pemex owes about $6.9 billion in overdue payments to suppliers and the firm's total unfunded pension-liabilities amount to $86 billion.

"This is not a long-term solution, but rather a bandage to ease Pemex's short-term cash problem," said Antonio Juárez, an energy consultant and former Energy Ministry official. He said more support could come if oil prices don't rebound significantly or if Pemex fails to deliver on spending cuts to which it has committed.

The Finance Ministry said that on Friday it will inject $1.5 billion into Pemex, taking advantage of the savings resulting from federal government budget cuts announced earlier this year. Additionally, the government will provide Pemex funds of around $2.7 billion to pay workers' pensions during 2016.

The government will also raise the tax-deductibility ceiling for projects assigned to Pemex, as the rate at which production costs have fallen has been slower than the drop in the price of oil, causing liquidity problems for the company.

The changes are expected to lower Pemex's tax bill by about $2.9 billion in 2016, which will be reflected in an improvement for that amount in Pemex's balance sheet.

The ministry said the support for Pemex doesn't threaten goals to reduce the public deficit this year to 3.5% of gross domestic product from 4.1% last a year, as the government will receive from the central bank around $13.6 billion in excess funds that will be used to lower the public debt.

Government support for Pemex, which last year had a record after-tax loss of $30 billion, is contingent upon the implementation of an austerity plan to stem wasteful spending and operational inefficiencies. Pemex has committed to cut spending by around $5.7 billion this year.

Last year, Pemex eliminated around 12,000 positions of retired workers, and that process, including early retirement, is expected to continue in 2016.