Macro Vision

July 2, 2025

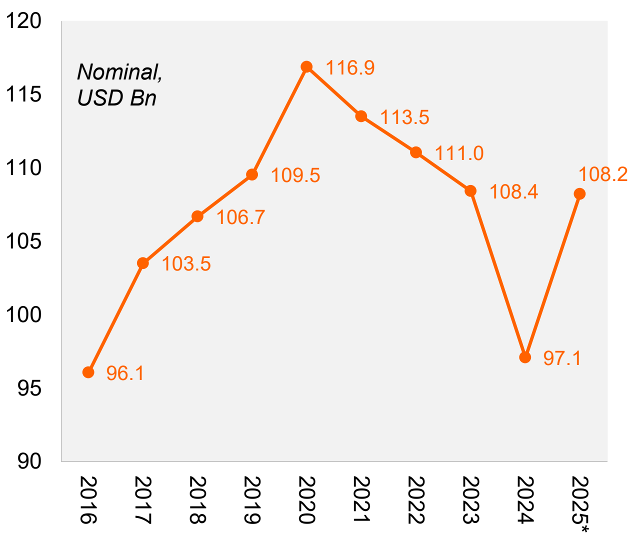
MEXICO – Pemex and sovereign risk: takes two to zapatear

- Pemex has faced persistent financing and operational challenges, in the context of inefficiencies, lack of profitability, high labor liabilities, rising debt with suppliers, and falling oil production. Efforts over the past decade to stabilize Pemex's financial woes have had limited success, so far. It is still unclear whether the recent energy sector reform may finally contain the corporation's financial deterioration.
- Credit agencies have expressed concern at the pace of the ongoing fiscal consolidation and on the impact of continuing support for Pemex. If recent government measures fail to materially improve the company's financial position and additional support is required, we may see some spillover effects on the sovereign's credit rating.

This study analyzes Pemex's performance over the last decade, with a focus on its implications for the sovereign. Rising financial needs of the state-owned oil company have become a source of risk to the fiscal accounts. In fact, Pemex's financial deterioration has become more evident by increased reliance on short-term debt and the widening spread with respect to the sovereign's debt.

As of the first quarter of 2025, Pemex's total debt balance has increased by 21.3% compared to the same period last year, breaking a four-year downward trend. Within this, short-term debt rose by 32.1%, driven primarily by obligations to suppliers. It is worth noting that short-term Pemex's debt is recently explicitly backed by the government (see Government support's section), a step up from the longstanding implicit support. As of the first quarter of this year, Pemex had already received nearly 60% of the total budget allocation of MXN 136 billion (0.4% of GDP) designated for debt support in 2025.

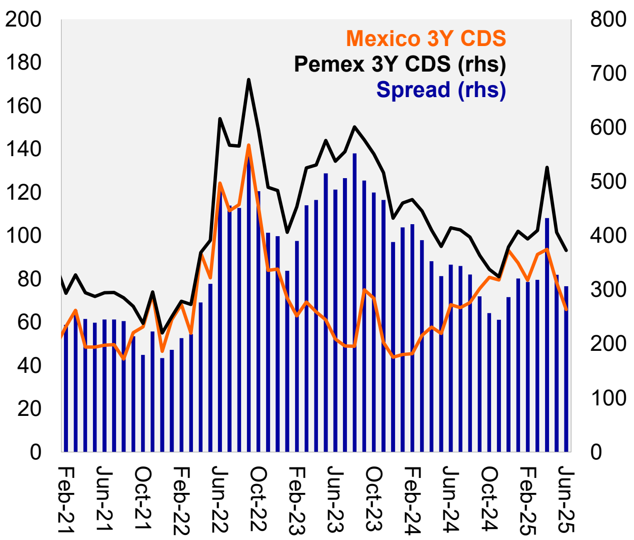
Pemex debt broke a four-year downward trend in 2025



*as of the 1Q.

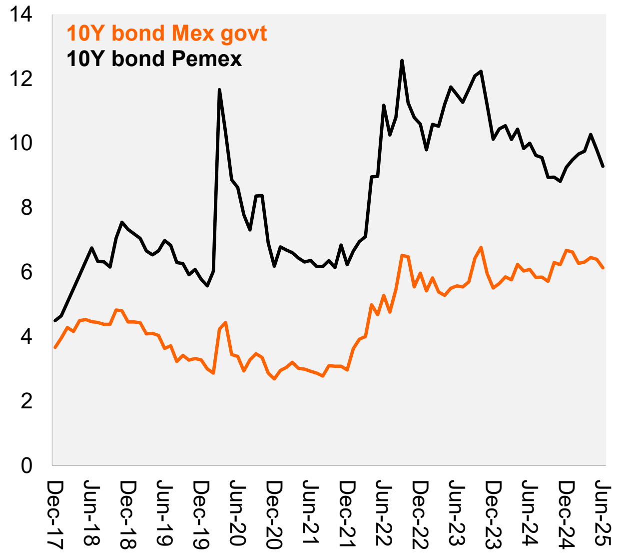
Source: Pemex, Bloomberg, Itaú

Pemex as a source of risk showed in 3 years credit default swap…



Source: Bloomberg, Itaú

… and 10 years rate bond in USD



Source: Bloomberg, Itaú

Shifting strategies unable to arrest the fall

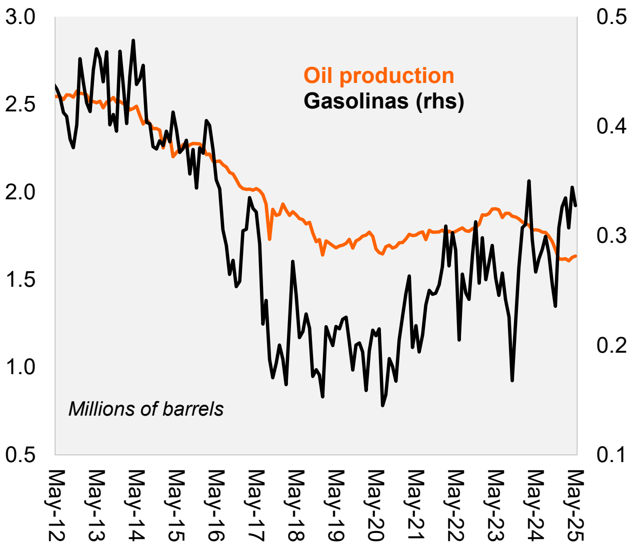
Pemex has faced persistent financing and operational challenges over many years. The firm operates inefficiently and unprofitably, is burdened by high labor liabilities, debt with suppliers, and low oil production[1]. This situation has reduced its ability to generate cash flow and increase CAPEX, in the context of natural depletion of oil fields. Meanwhile, debt has increased without sufficient revenue to cover it, particularly short-term financial debt and low liquidity, forcing the institution to rely on periodic capital injections from the government.

In this context, the Mexican government has shifted strategies to address the structural challenges. In 2013, during President Peña Nieto's term, an energy reform aimed to open the sector to private investment, modernize Pemex's administration, and optimize resource exploitation to increase government revenues. However, the firm's debt continued to rise, public investment remained low, and oil production continued its downward trend. Although private investment increased, it mainly occurred in deepwater regions, and administrative changes in 2018 generated uncertainty about reaffirming Mexico's ownership of hydrocarbons.

In 2019, under President López Obrador, the government implemented administrative measures to halt certain procedures of the 2013 reform, including the cancellation of bidding rounds for exploration, which led operators to abandon several blocks. However, both Congress and the Supreme Court blocked the rollback of the 2013 energy reform. In 2024, with President Sheinbaum's administration and stronger political backing, a new reform was enacted, aiming to restore public control of the energy sector and increase state intervention.

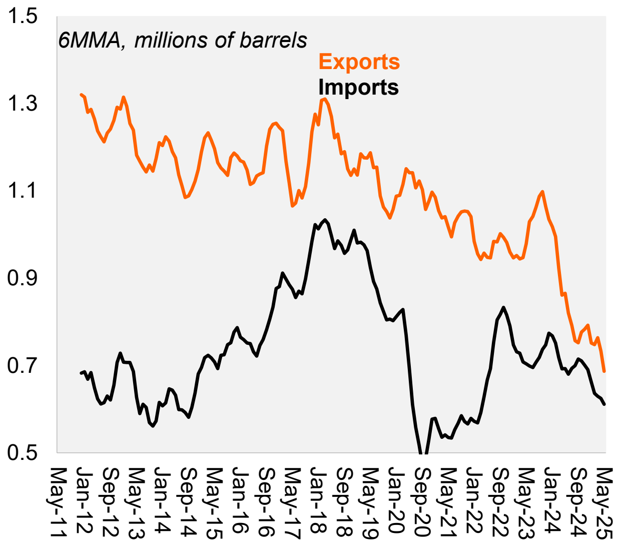
[1] For comparison, Pemex produces approximately 1.6 mmb/d and has a payroll of around 140,000 employes, while Petrobras in Brazil produces 2.2 mmb/d and has around 49,000 employees, including some subsidiaries.

Pemex oil and gasoline production with a downward trend…



Source: Pemex, Itaú

Which made the country reduce its exports.



Source: Pemex, Itaú

Pemex in the context of the fiscal accounts

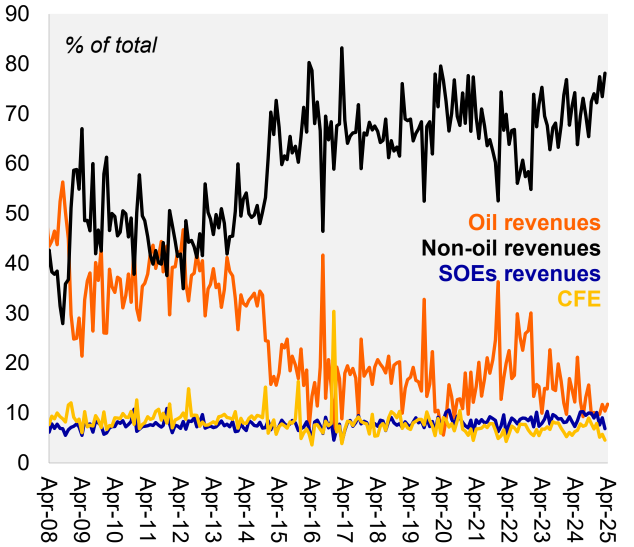
The share of oil revenues within Mexico's budgetary revenues has decreased from its historical peak of an average of 44.1% in 2008 to 10.9% in the period from January to April 2025[2]. Instead, tax revenues have increased their share of total revenues following the 2014 Tax Reform, reaching 76.1% in 2025. This shift is due to falling oil production and periods of low oil prices, along with Mexico's efforts to diversify its economy, and rely more on a manufacturing-led economy.

During AMLO's administration, the government increased efforts to reduce tax evasion and elusion using technology and enhanced tax oversight, along with more customs inspections and higher taxes on products from countries without a trade agreement with Mexico. This has resulted in an increase in real non-oil real tax revenues, which grew by 11.0% YoY as of April.

Oil production has decreased over the past decade, reaching record lows this year. This fall is due to declining production in operating fields that was not matched by greater production in new ones, along with a lack of investment and widespread inefficiencies. The government aims to reach a production target of 2.0 MMb/d, above the average of 1.6 MMb/d in the year through May, representing an annual shortfall of 10.2%. In this context, real oil revenues have decreased by 12.9% YoY as of April.

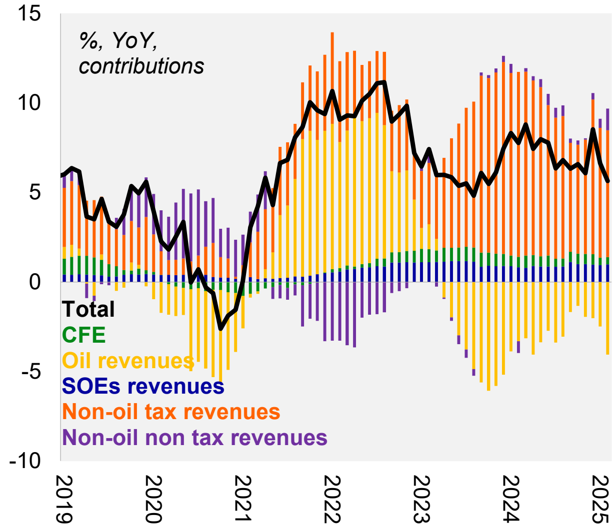
[2] The government collects oil revenues through taxes, fees, and dividends (see next section).

Government is less dependent on oil revenues…



Source: MoF, Itaú

Recent measures of tax avoidance and evasion have increased non-oil tax revenues.



Source: MoF, Itaú

Government's support to Pemex

Behind the government's support for Pemex is the political and historical importance of the oil sector, along with Pemex's relevance in certain states of the country - mainly in the southeast - due to the high number of employees and economic dependence. A powerful union has also strengthened the company´s political standing. In terms of public finance, oil revenues have decreased in relevance (see previous section).

Since the 2013 reform, two types of government support have been implemented: fiscal and financing. The first included the reduction of shared utility rights or taxes (DUC, its acronym in Spanish) from 65% in 2019 to 30% in 2024, with a fiscal cost of around 2.0% of GDP during that period. Another tax incentive started in 2016, except for 2022, and reached a fiscal cost of around 1.0% of GDP.[3] Both instruments generated income that was not received by the treasury, implying a cost to public finances from foregone revenues.

Financing support included direct capital increases, and injections to the National Infrastructure Fund (FONADIN), among others. The first refers to capital contributions from the treasury that have been made since 2013, with exceptions in 2017 and 2018, totaling 4.2% of GDP.[4] Initially, the funds were used as a budget control measure and to pay pensions and retirement benefits for Pemex staff. Between 2019 and 2024, the funds were directed towards paying off Pemex debt and infrastructure projects, including the construction of the Olmeca refinery and the rehabilitation of the National Refining System.

Regarding FONADIN contributions, these were made as non-recoverable financial contributions of around 0.1% of GDP to purchase Deer Park and its subsidiaries, aiming to strengthen energy sovereignty. Additionally, other financial support was provided in the form of promissory notes and interest, amounting to approximately 0.3% of GDP from 2019 to 2023, to cover obligations related to pensions and retirement plans.[5]

The most recent measures include simplifying taxation with the creation of the Oil Law for Welfare, which consists of a single payment to the government of 30% royalties (replacing three different payments, including DUC). Additionally, there is a budgetary line for amortizing short-term debt of around 0.4% of GDP, increased communication between the Ministry of Finance and Pemex staff, and transfers to reduce suppliers' debt. This

[3] *Pemex, apoyos fiscales y patrimoniales: actores y mecanismos*, CIEP, 2025.
[4] *Pemex, apoyos fiscales y patrimoniales: actores y mecanismos*, CIEP, 2025.
[5] *Pemex, apoyos fiscales y patrimoniales: actores y mecanismos*, CIEP, 2025.

support is conditional on the oil corporation improving its financial balance by the same amount, aiming for a neutral impact on the public deficit and reducing its debt compared to the previous year.

Market talks about a partial sovereign bailout for Pemex's debt, named "Pemexproa," have been increasing over the last month. This policy could include national budget amendments explicitly incorporating Pemex debt guarantees or transfers. However, a partial liability absorption by the sovereign to reduce interest payments is the most likely scenario, which could be incorporated into the 2026 budget to be presented in September, before the 2027 midterms.

New energy reform to address Pemex challenges

The current administration introduced an energy reform in 2024 to ensure the financial stability of the company while improving its operational performance and profitability. This reform increases state control over the oil sector and ensures energy sovereignty by reversing Pemex's previous status as a productive state company.

While establishing a strictly regulated industry, the reform includes private sector collaboration, mainly in upstream activities, through various investment schemes, including mixed participation contracts. Pemex will retain majority ownership of the area but will not provide any capital. This includes participation in renewable projects, considering the government's initiatives to increase clean energy sources.

Additionally, the reform eliminates the autonomous regulatory bodies, integrating them into the Ministry of Energy, which will now control the issuance and revocation of permits, supervise and enforce sanctions, and issue new regulations.

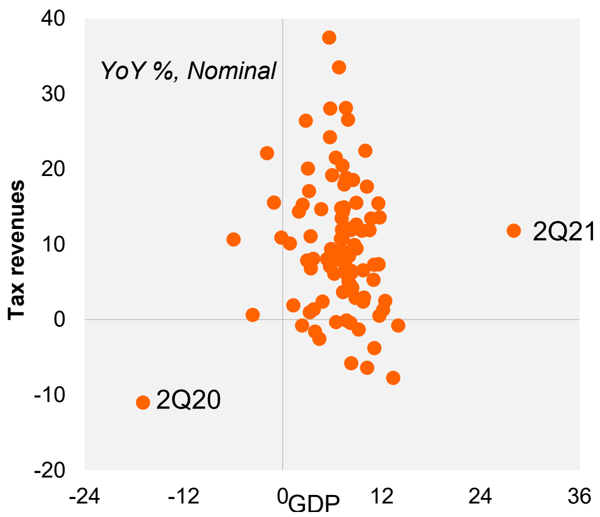
Following the announcement of the reform and secondary laws, Pemex unveiled a restructuring and savings plan. This plan includes vertical integration through the elimination of certain subsidiaries and a reduction of approximately 3,000 jobs. The estimated savings from these measures are around USD 540 million between 2025 and 2026, which represents about 30% of the operational budget for tenured personnel in 2025.

Credit Rating Agencies: all eyes on Pemex

In this context, Pemex's debt is classified as non-investment grade by Moody's at B3 with a negative outlook, Fitch at B+ with a stable outlook, and investment grade by S&P at BBB with a stable outlook. Pemex's ratings are well below Mexico's rating, which is Moody's at Baa2 (negative), Fitch at BBB- (stable), and S&P at BBB (stable). Both ratings are interconnected; government support to Pemex reduces its risk of default, while Pemex's deterioration further stresses the sovereign's fiscal accounts.

Credit rating agencies' concerns stem from the fact that government support for Pemex could be jeopardized by a deterioration of the sovereign's fiscal accounts. This follows a fiscal consolidation this year, with increasing expenditure pressures from social programs and doubts about income growth amid an economic slowdown and uncertainty about measures other than tax reform. At the same time, Pemex's deterioration is affecting public finances because the government is spending a significant amount trying to rescue the institution, using resources that could be allocated to long-term economic development. Consequently, Pemex's current debt situation could have repercussions on Mexico's credit rating in the near term.

Low correlation between tax revenues and GDP. Recently evasion and avoidance efforts have benefited tax revenues.



Sample period: 2001-2025.
Source: MoF, Inegi, Itau

Conclusion: intentions are clear, outcomes less so

Pemex's challenging operational backdrop and deteriorating financial performance heighten spillover risks to the sovereign's balance sheet. Efforts over the past decade to stabilize Pemex's financial woes have had limited success, so far. It remains unclear whether the recent energy sector reform will finally contain the corporation's financial deterioration.

In our view, the current administration is focused on addressing short-term issues. The implementation of a credible, medium-term strategy with concrete actions could stabilize Pemex's finances, over time. Greater private sector participation could provide some relief to address Pemex's operational challenges. In the short term, the main risk is a potential impact on the sovereign credit rating if recent measures - such as the extension of payment terms with suppliers - fail to materially improve the company's financial position, particularly if this requires additional support from the sovereign.

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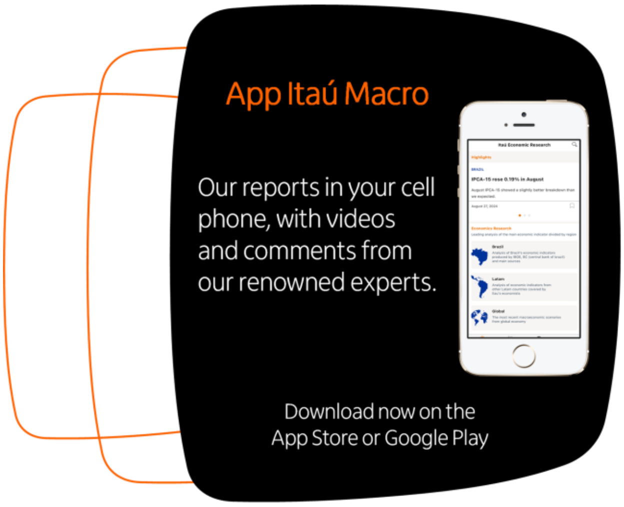

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