Current account – Surplus in 4Q22 on strong remittances and a more modest trade deficit

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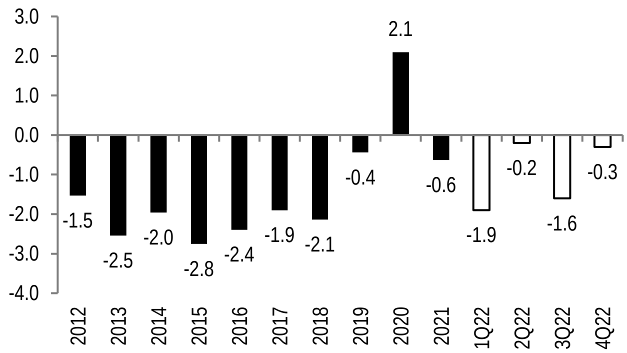
- **Current account (4Q22): US$4.6 billion (0.3% of GDP); Banorte: US$6.2bn; consensus: US$3.6bn (range: -US$3.1bn to US$6.2bn); previous: -US$5.5bn**
- **Thus, the current account closes 2022 with a deficit of US$13.4 billion, equivalent to 0.9% of GDP**
- **In the quarter, goods and services posted a US$4.3 billion deficit, in line with their historical performance, although moderating vs. figures seen in 2022. Primary income posted a larger deficit (-US$6.5 billion) while secondary income came in with a US$15.4 billion surplus**
- **The capital account had a US$11.7 million deficit. Hence, the total between the latter and the current account came in at +US$4.6bn**
- **The financial account showed net lending (*i.e.* outflows) of US$4.5 billion, albeit with inflows in portfolio investment and FDI**
- **In 4Q22, a moderation in external demand, added to decline in oil prices, impacted oil-related flows. On the contrary, we highlight a moderate expansion in non-oil exports, which could be explained by the better conditions in supply chains and lower input costs**
- **Considering a seasonal effect both on primary and secondary income, we expect a current account deficit in 1Q23. However, other factors which could impact results include: (1) A stronger Mexican peso; (2) a mild recovery in oil exports due to higher dynamism of external demand; and (3) better international trade conditions**

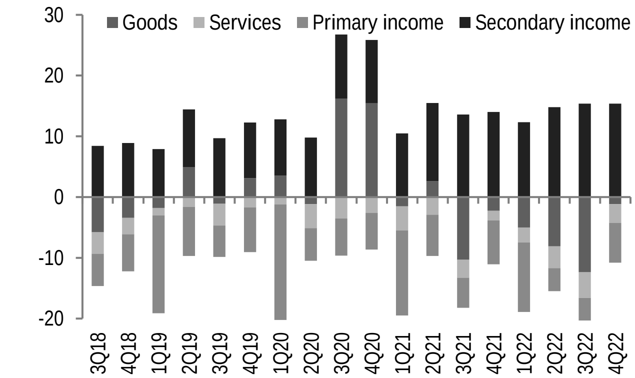
Surplus in the last quarter of 2022 on strong remittances and a modest deficit in goods and services. The balance of the current account was +US$4,576.0 million (0.3% of GDP), exceeding in magnitude of the last surplus in 4Q21 (US$1.1 billion). In the quarter, the outlook for global activity remained uncertain, still with some fears of a recession and additional monetary tightening. Nevertheless, the reopening in China provided some optimism. On the other hand, oil prices kept declining, with the European energy crisis under control and with the impact of the conflict in Ukraine fading to some extent. In turn, the MXN appreciated through the period, with relatively contained volatility. Finally, on international trade, some factors that characterized the last month of the year were: (1) A price increase in maritime goods freight, breaking with its downward trend of the previous months; and (2) the reopening of the Chinese economy. However, it is important to highlight that the distortions caused by these movements were focused and in a smaller magnitude than expected. In this context, the current account balance reflected a substantially lower deficit within the trade balance, as well as other seasonal effects in other balances (*e.g.* primary income and secondary income). With this result, the current account posted a US$13.4 billion deficit in 2022, equivalent to 0.9% of GDP.

Current account
% of GDP



Source: Banxico

Current account composition (sum of balances)
US$ billion



Source: Banxico

Generalized decline in oil flows, driven by lower prices. According to this quarter's results, both the goods and services balance, as well as primary income, reported once again deficits. On the contrary, and as usual, secondary income had a surplus. While the results are consistent with performance in 2022, the magnitude of the balances was quite different. Goods and services had a negative balance of US$4.3 billion. Goods posted a US$1.2 billion deficit, noting: (1) A notable contraction in exports relative to the previous quarter –especially due to a decrease in oil-related exports given lower prices; and (2) lower imports, despite an appreciation of the MXN, also impacted by the oil sector. On the other hand, services posted a large US$3.1 billion deficit, with inflows from travel (US$5.3 billion) almost offset by payments related to transportation services (-US$5.2 billion). Lastly, this account closed its deficit thanks to 'other corporate services' (-US$1.5 billion), 'financial services' (-US$933 million) and 'insurance and pensions' (-US$336 million), among others.

Primary income had larger deficit at -US$6.5 billion. The main drivers were outflows in 'dividends' (-US$4.0 billion) and 'interest' (-US$3.6 billion), which can be explained by the differential between domestic interest rates and their counterparts in non-emerging economies. In addition, within the balance we saw that 'earnings and dividends' continued to increase their share within the overall balance, which is not consistent with its seasonal behavior –remembering that the first quarter of the year is when the greatest movement of this account occurs. The secondary income surplus was slightly higher than in the previous quarter at US$15.4 billion. Remittances inflows continue to show signs of expansion, despite uncertainty about activity in the US. Thus, and in line with performance throughout the year, the strength of US labor market allowed Mexican migrants to find a job. Lastly, the capital account had a US$11.7 million deficit, which added to the current account results in a US$4.6 billion surplus.

Balance of payments
US$ billion

	4Q22	3Q22	4Q21	3Q21	Jan-Dec'22	Jan-Dec'21
Current account	4.6	-5.2	1.1	-4.4	-13.4	-8.2
Balance on goods and services	-4.3	-16.4	-5.8	-13.2	-41.5	-25.9
Balance on goods	-1.2	-12.4	-2.3	-10.0	-26.6	-10.9
Balance on services	-3.1	-4.0	-3.5	-3.1	-14.8	-15.0
Balance on primary income	-6.5	-4.1	-7.3	-4.9	-30.0	-33.6
Balance on secondary income	15.4	15.4	14.2	13.6	58.1	51.3
Capital account	-0.1	-0.5	-0.1	-0.2	-0.7	-0.5
Financial account	4.5	-5.4	0.7	-2.6	-12.8	0.9
Financial account excluding reserve assets	7.4	-6.1	4.8	-15.5	-11.1	-11.2

Source: Banxico

Net outflows in the financial account despite increases in portfolio investments and FDI. The financial account resulted in net lending (*i.e.* outflows) of US$4.5 billion in the period. As context for these results, it is worth noting: (1) Announcements about new productive investments in the country, which translates into inflows via direct investment; (2) an increase in demand for Mexican financial assets; and (3) uncertainty about activity and inflation in the US which translated into higher volatility in financial markets.

By accounts, we highlight that direct investment is benefited by nearshoring efforts –with capital inflows destined as productive investments. The net balance of this account was +US$243 million, with inflows of US$2.7 billion and outflows of US$2.4 billion. Portfolio investment had a net inflow of US$3.2 billion. On the contrary, 'financial derivatives' and 'other investment' accounts remained as net lenders, with the first posting a net outflow of US$932 million and the second at US$9.9 billion. Finally, the errors and omissions account closes the balance of payments with a net balance of US$14 million.

Financial account
US$ billion

	4Q22	3Q22	4Q21	3Q21	Jan-Dec'22	Jan-Dec'21
Financial account	4.5	-5.4	0.6	-2.6	-12.8	-0.9
Direct investment	-0.2	-2.0	-7.7	-5.3	-22.4	-33.1
Portfolio investment	-3.2	0.9	14.5	14.6	5.6	41.6
Financial derivatives	0.9	-0.2	0.8	0.2	2.9	2.1
Other investment	9.9	-4.9	-2.7	-25.0	2.8	-21.8
Reserve assets	-2.9	0.7	-4.1	12.9	-1.7	10.3

Source: Banxico

Seasonality of primary and secondary income to be key in determining the magnitude of the deficit in 1Q23. Global economic activity so far in 1Q23 –particularly in the US– and higher demand for commodities from China suggests some resilience. However, the monetary policy outlook is for additional tightening to fight inflationary pressures. As such, the performance of external demand could continue, while domestic conditions remain supported by healthy fundamentals. In addition, despite signs of improvements in international trade, we believe some disruptions could remain in play in the short-term. In this context, in 1Q23 we anticipate a deficit the balance of goods and services consistent with performance early in the year. However, and more important to the overall result, primary and secondary income balances will be key. In particular, the former tends to post a large deficit as companies send dividends back, while the latter suffers from a deceleration in remittances at the turn of the year.

Regarding the financial account and based on our estimates on the monetary cycle of both the Fed and Banxico, it is highly likely that the current rate differential will remain for the remainder the year. With this, it is possible that the composition of portfolios that influence the 'portfolio investment', 'financial derivatives' and 'other investment' accounts may be impacted. Therefore, we will continue to be attentive to possible episodes of further risk aversion and/or uncertainty in the financial markets. Finally, regarding FDI, we expect that broad of announcements of new productive investments in the country will increase the dynamism of inflows in the period.

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