

## Balance of payments – The current account deficit surged to 2.8% of GDP in 2015

February 25, 2016

- **Current account balance (4Q15): -US\$7.7bn; Banorte-Ixe: -US\$4.2bn; consensus: -US\$7.8bn; previous: -US\$8.2bn**
- **With these figures, the current account balance showed a -US\$32.4bn deficit in 2015, equivalent to 2.8% of GDP**
- **The current account deficit as percentage of GDP reached its highest level since 1998**
- **Trade balance amounted to -US\$5.8bn, while the income balance posted a US\$7.9bn deficit**
- **FDI flows amounted to US\$20.3bn in 2015 vs. US\$17.3bn observed in 2014**
- **Finally, net portfolio investments totaled US\$28 bn in 2015**

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According to Banxico, the current account deficit amounted to US\$7.7bn in 4Q15. This number was explained by a US\$5.8bn trade deficit, in addition to the shortfall observed in the income account (-US\$7.9bn). With these figures, the current account balance showed a -US\$32.4bn deficit in 2015, equivalent to 2.8% of GDP, its highest level since 1998. Taking a look at the breakdown, we highlight that remittances amounted to US\$24.8bn, which implies a 4.8% yoy expansion.

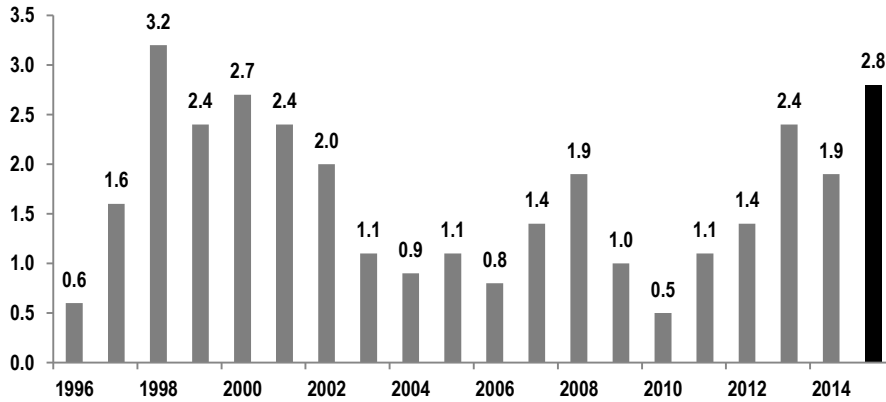
**Current account**

US\$mn

	4Q15	3Q15	2015	2014
Current account	-7,698	-8,179	-32,381	-24,846
Good and services balance	-5,845	-9,857	-23,823	-15,024
Goods	-3,927	-6,456	-14,375	-2,573
Merchandise	-3,939	-6,469	-14,460	-2,849
Exports	96,141	96,094	380,772	397,129
Imports	100,080	102,562	395,232	399,977
Procured in ports by carriers	12	13	85	275
Services	-1,919	-3,401	-9,448	-12,451
Primary balance	-7,888	-4,718	-32,844	-32,736
Net transfers	6,036	6,396	24,287	22,915
Oil balance	-2,907	-3,686	-9,855	1,097
Non-oil balance	-1,032	-2,783	-4,605	-3,945

Source: Banxico

**Current account**  
% GDP



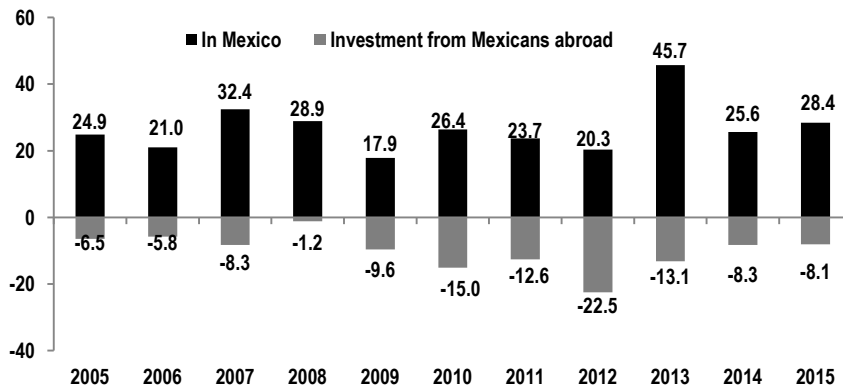
Source: Banxico

**Significant fall in oil exports.** According to Banxico, exports fell 4.5% in 2015 driven by the 45% yoy drop in oil exports and the 0.8% increase in non-oil. In the first case, the reduction was explained by the decline in oil prices and a marginal increase in export volumes. Moreover, the increase in non-oil exports was explained by a 4.7% yoy hike in auto exports and a 0.9% reduction in the non-auto exports.

**The financial account showed a US\$33.8bn surplus in 2015.** This was mainly explained by net US\$20.3bn FDI inflows along with a net portfolio inflow investments of US\$28bn, while other investments decreased US\$14.5bn.

**The FDI flow amounted to US\$4.8bn in 4Q15, getting a total FDI flow in 2015 of US\$28.4bn.** Meanwhile, direct investment by Mexican companies abroad amounted US\$8bn. FDI flows in 2015 are compared favorably with the US\$25.6bn flow observed in 2014 and are explained, among others, by investment flows that have entered to the automotive sector, as well as the telecommunications and energy given the structural reforms.

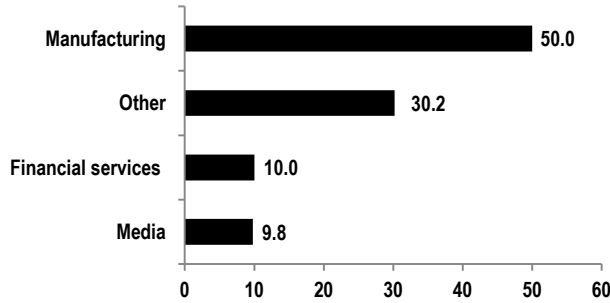
**Foreign direct investment**  
US\$bn



Source: Banorte Ixe with data from Banxico

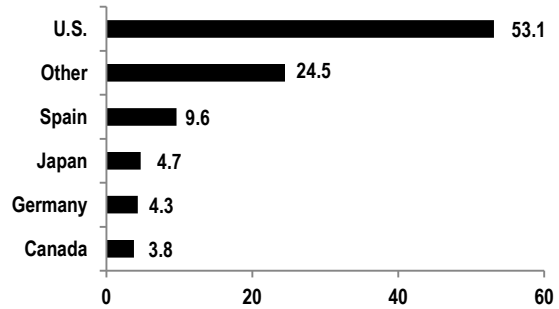
**The manufacturing sector remains the main recipient of FDI flows.** This sector received 50% of the total followed by other sectors (13.9%), the financial services sector (10%) and the mass media information (9.8%), as shown in the chart below. By country, the greatest flow of FDI came from US (53.1%); Spain (9.6%) and Japan (4.7%), among others (see charts below).

**Foreign direct investment by sector**  
US\$bn



Source: Banorte Ixe with data from Banxico

**Foreign direct investment by country**  
US\$bn

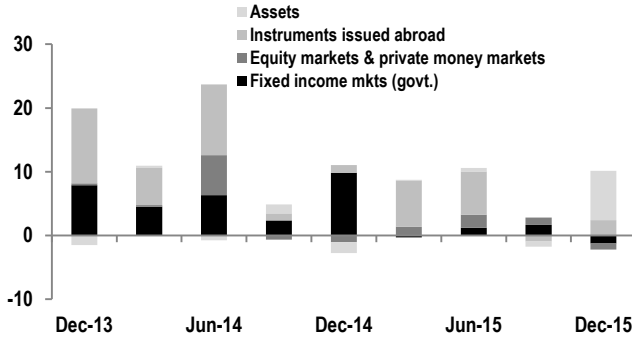


Source: Banorte Ixe with data from Banxico

**Portfolio investment resented the volatility in global financial markets.**

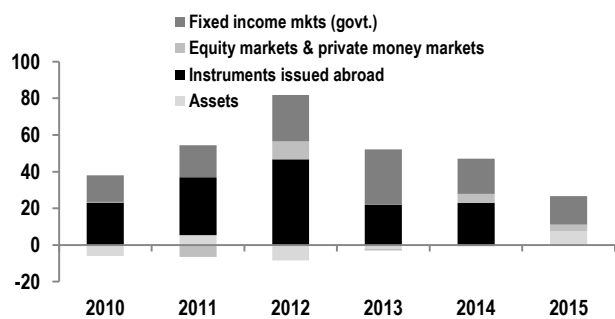
Total portfolio investment amounted to US\$28bn in 2015, US\$18.4 billion less than in 2014. Flows to government bond markets amounted to US\$1.3bn (vs. US\$23.1bn in 2014), while US\$3.5bn were taken from the equity and private money markets.

**Quarterly portfolio investment flows**  
US\$bn



Source: Banorte Ixe with data from Banxico

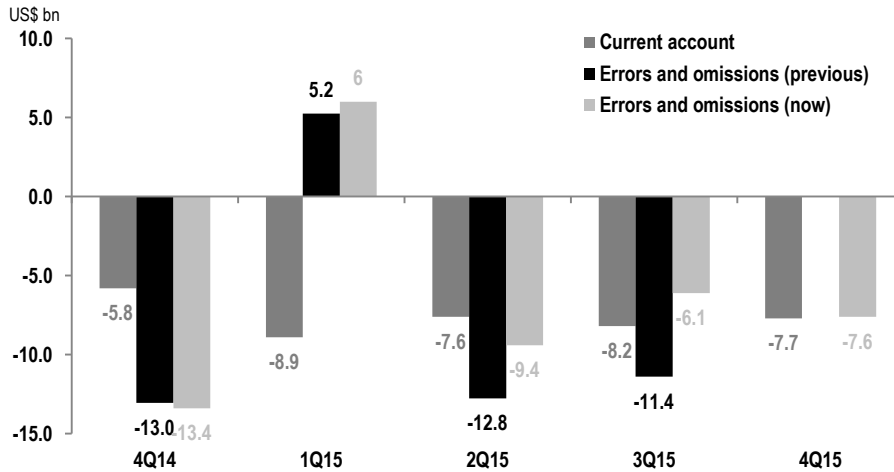
**Annual portfolio investment flows**  
US\$bn



Source: Banorte Ixe with data from Banxico

**Errors and omissions showed a strong downward revision.** Within Banxico's report, we highlight the revision to the *errors and omissions*. While in the previous report, *errors and omissions* represented an amount greater than the balance of the current account, now they were strongly revised downward with the new review made by Banxico to their previous figures. Recall that within the *Balance of Payments* reports the *errors and omissions* entry is labeled as a balancing item or statistical discrepancy. In this context, the majority of this account now is recorded in the assets of "other investments". Although Banxico significantly improved the measurement of the *errors and omissions* account, we believe that Banxico can improve the measurement of the accounts included in the balance of payments, given that *errors and omissions* account is still very high and now represents about 53% of the balance current account.

**Current account balance vs. errors and omissions**



Source: Banorte-Ixe; Banxico

**In our view, Mexico's external accounts resented an unfavorable global backdrop in 2015.** Current account deficit has deteriorated as a result of lower levels of oil export. In terms of flows, money markets are resenting the volatility of global financial markets, international reserves decreased US\$18.1bn during the period in question, while foreign direct investment continues flowing amid the recovery of economic activity and the implementation of structural reforms.

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