Balance of payments 2016 – Financial account resents the effects of global uncertainty

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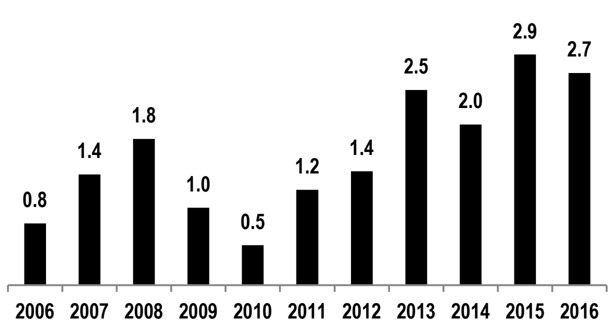
- **Current account balance (4Q16): -US$3.4bn (Banorte-Ixe: -US$5.3bn; consensus: -US$5.3bn; previous: -US$7.6bn)**
- **With these figures, the current account balance showed a -US$27.9bn deficit in 2015, equivalent to 2.7% of GDP**
- **In 2016, trade balance amounted to -US$13bn, while services balance was -US$7.8bn**
- **Meanwhile, remittances amounted to US$26.9bn in the period in question, as previously reported**
- **FDI flows amounted to US$26.7bn year to date (US$5.73bn in 4Q16)**
- **Finally, net portfolio investments amounted to US$30.7bn in 2016, US$16.3bn in 4Q16**

According to Banxico, the current account deficit amounted to US$3.4bn in 4Q16, US$27.9bn in 2016. This last number is equivalent to 2.7% of GDP, and it was explained by a US$27.9bn trade deficit, in addition to the shortfalls observed in the services (-US$7.8bn) and the income accounts (-US$33.6bn). Meanwhile, remittances amounted to US$26.9bn as previously reported, 8.8% yoy above 2015.

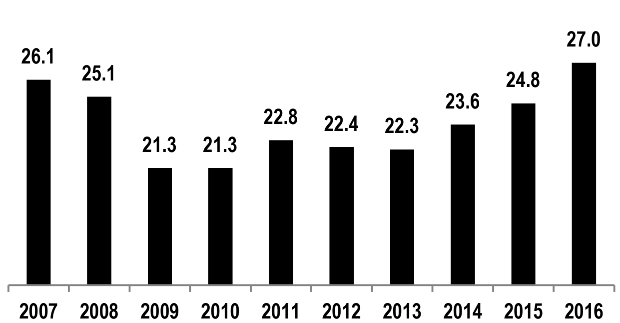
Weak exports growth last year. Total exports in 2016 edged down 1.8% yoy on the back of a 19.1% fall in oil exports, while non-oil expanded a scant 0.6% y/y. Within this last category, car industry exports came down 1% while other non-oil exports decreased 0.45%. Nevertheless, numbers for 4Q16 suggest a change of trend with car exports expanding 4.6% while other exports increased 2.99% y/y.

Current account deficit
% of GDP



Source: Banorte with data from Banxico

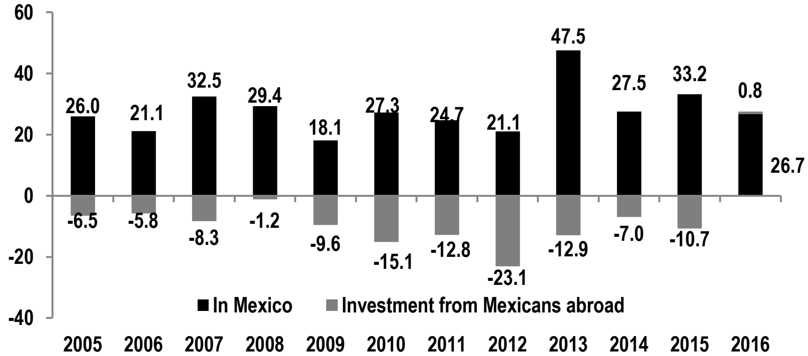
Flow of remittances
US$bn



Source: Banorte with data from Banxico

The financial account showed a US$35.9bn surplus in 2016. This was mainly explained by net inflows of US$27.5bn in direct investment, along with net inflow of portfolio investments amounting to US$30.7bn, while other investments subtracted US$22.4bn. FDI flows to Mexico amounted to US$26.7bn in 2016, while investments of Mexican companies abroad came down to US$787mn in the same period.

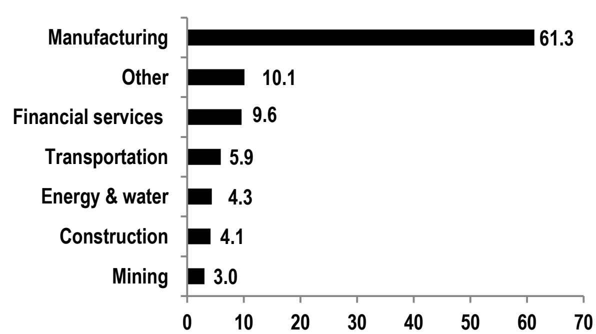
Foreign direct investment
US$bn



Source: Banorte Ixe with data from Banxico

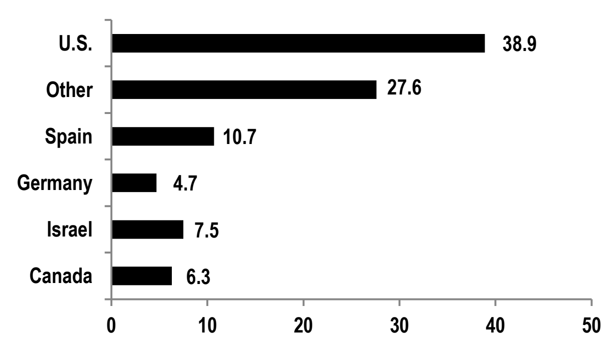
The manufacturing sector remains the main recipient of FDI flows. This sector received 61.3% of the total followed by “Other sectors” (10.1%), financial services (9.6%) and transportation (6%), as shown in the chart below. By country, the greatest flow of FDI came from US (38.9%); Spain (10.7%) and Germany (9%), among others (see charts below).

Foreign direct investment by sector
US$bn



Source: Banorte Ixe with data from Banxico

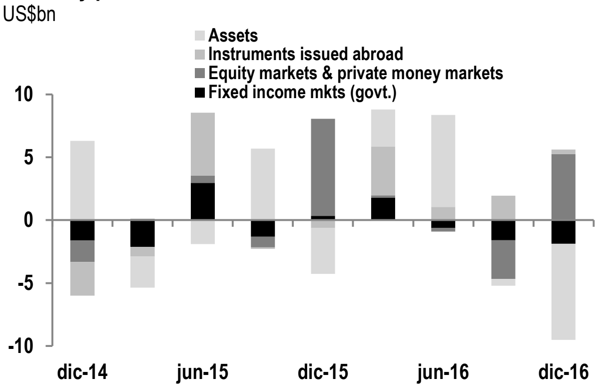
Foreign direct investment by country
US$bn



Source: Banorte Ixe with data from Banxico

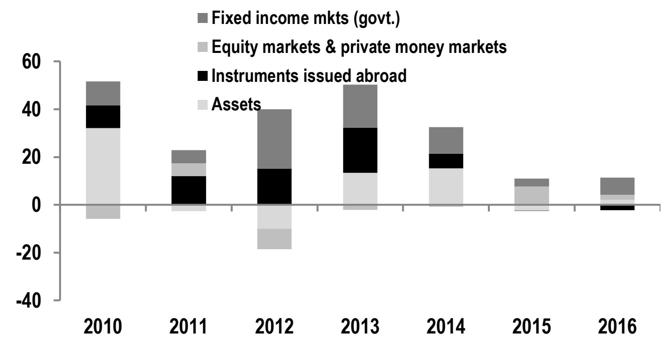
Portfolio investment resented the volatility in global financial markets. Total portfolio investment amounted to US$30.7bn in 2016, US$2.7 million more than last year. There was an outflow amounting to US$1.5bn from government money markets (vs. a US$1.3bn inflow in 2015), while US$9.5bn went to equity markets and private money markets. Investments in instruments issued abroad totaled US$20.6bn (US$22.9bn in public instruments while private sector securities were reduced by US$2.3 in private instruments). Finally, assets totaled US$2 in the period in question.

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

In our view, Mexico's external accounts resented an unfavorable global backdrop in 2016. Current account deficit has deteriorated as a result of lower levels of oil exports. In terms of flows, money markets are resenting the volatility in global financial markets. Nevertheless, FDI was enough to finance the current account. Moreover, international reserves increased by US$428mn during the period in question. Looking ahead we expect the financial account to continue resenting higher levels of uncertainty on the back of geopolitical factors as well as a result of the possible backlash against trade policies from Trump's administration.

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