

## Balance of payments – Lower energy prices and volatility affect external accounts in 2Q15

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- **Current account balance (2Q15): -US\$8bn (Banorte-Ixe: -US\$7.6bn; consensus: -US\$8.5bn; previous: -US\$8.6bn)**
- **Trade balance amounted to -US\$1.9bn, while services balance was -US\$2.6bn**
- **Meanwhile, remittances amounted to US\$6.4bn in the period in question, as already reported**
- **FDI flows amounted to US\$8.3bn year to date (US\$5.42bn in 2Q15)**
- **Finally, net portfolio investments have totaled US\$8.3bn year-to-date, US\$11.1bn in 2Q15**

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According to Banxico, the current account deficit amounted to US\$8bn in 2Q15. This number is equivalent to 2.8% of GDP, and it was explained by a US\$1.9bn trade deficit in addition to the shortfalls observed in the services (-US\$2.6bn) and the income accounts (-US\$9.7bn). Meanwhile, remittances amounted to US\$6.4bn as it was already reported, 3.2% yoy above the same period last year. Year-to-date, remittances amount to US\$12.1bn, 4% yoy higher than in Jan-Jun, '14.

**Current account**

US\$mn

|                          | Jun-15           | Mar-14           | Jan-Jun,'14      | Jan-Jun,'13      |
|--------------------------|------------------|------------------|------------------|------------------|
| <b>Current account</b>   | <b>-7,980.1</b>  | <b>-8,586.9</b>  | <b>-8,586.9</b>  | <b>-8,159.7</b>  |
| <b>Revenues</b>          | <b>112,456.1</b> | <b>104,669.9</b> | <b>104,669.9</b> | <b>106,432.4</b> |
| Exports                  | 98,133.7         | 90,404.2         | 90,404.2         | 90,758.8         |
| Services (non-factorial) | 6,228.3          | 5,787.4          | 5,787.4          | 5,317.4          |
| Primary income           | 1,493.6          | 2,523.1          | 2,523.1          | 4,587.0          |
| Transfers                | 6,476.7          | 5,839.1          | 5,839.1          | 5,552.2          |
| Remittances              | 6,365.2          | 5,723.7          | 5,723.7          | 5,459.7          |
| Other                    | 111.5            | 115.5            | 115.5            | 92.4             |
| <b>Spending</b>          | <b>120,436.2</b> | <b>113,256.8</b> | <b>113,256.8</b> | <b>114,592.1</b> |
| Imports                  | 99,985.5         | 92,604.7         | 92,604.7         | 92,064.4         |
| Services (non-factor)    | 6,032.3          | 5,562.9          | 8,353.1          | 8,164.7          |
| Services (factor)        | 2,808.3          | 2,790.1          | 2,790.1          | 2,568.5          |
| Primary spending         | 11,208.3         | 12,009.6         | 12,009.6         | 14,032.8         |
| Transfers                | 244.1            | 204.2            | 204.2            | 218.3            |
| <b>Trade balance</b>     | <b>-1,851.8</b>  | <b>-2,200.5</b>  | <b>-2,200.5</b>  | <b>-1,305.5</b>  |
| <b>Services balance</b>  | <b>-2,612.3</b>  | <b>-2,565.7</b>  | <b>-5,355.8</b>  | <b>-5,415.9</b>  |
| <b>Primary balance</b>   | <b>-9,714.7</b>  | <b>-9,486.5</b>  | <b>-9,486.5</b>  | <b>-9,445.8</b>  |
| <b>Net transfers</b>     | <b>6,232.7</b>   | <b>5,634.9</b>   | <b>5,634.9</b>   | <b>5,333.8</b>   |

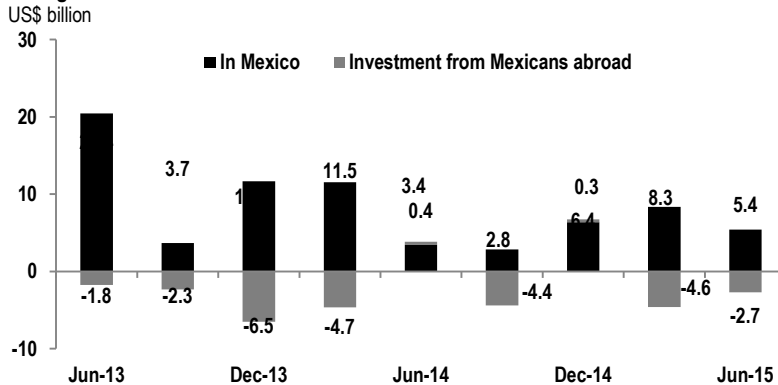
Source: Banco de México

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**Exports in the second quarter of the year were supported by car-industry exports.** Although auto exports maintained a positive trajectory, the rest of manufacturing exports showed an unfavorable performance. Total exports declined 3.7% yoy on the back of a 42.8% yoy drop in oil exports while non-oil increased 1.3% yoy. In particular, car industry exports increased 8.4% yoy, while the rest of non-oil exports decreased 1.8% yoy. Meanwhile, non-oil imports showed a 0.9% yoy reduction, as a result of a 5.7% yoy fall in non-oil consumption imports; a 1.1% drop in intermediate imports (ex. oil), and an 8.5% expansion in capital imports.

**The financial account showed a US\$17bn surplus.** This was mainly explained by net inflows of US\$2.7bn in direct investment along with a net inflow of portfolio investments amounting to US\$11.1bn, while other investments added US\$3.2bn (refer to table below). FDI flows to Mexico amounted to US\$5.4bn in the second quarter of the year, while investments of Mexican companies abroad totaled US\$2.7mn in the same period.

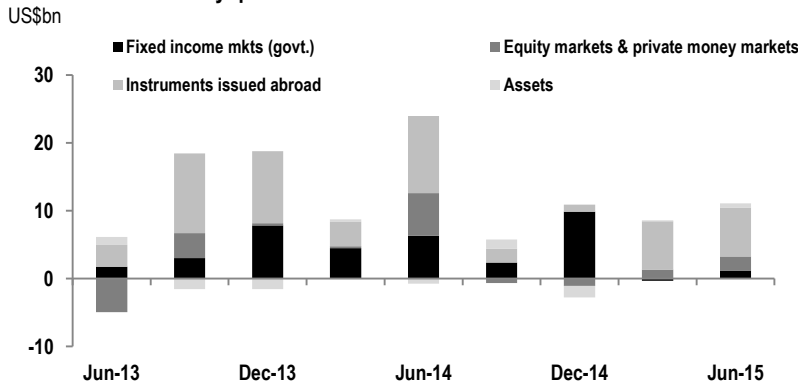
**Foreign direct investment**



Source: Banco de México

**In the meantime, portfolio investment resented volatility in global financial markets.** Total portfolio investment amounted to US\$11.1bn in 2Q15, US\$12.1 million less than in the same quarter last year. Flows to government bond markets amounted to US\$1.2bn (vs. US\$6.3bn in 2Q15) while US\$2bn went to equity markets and private money markets. Investments in instruments issued abroad totaled US\$7.2bn (US\$3.8bn in public instruments and another US\$3.4 in private instruments). Finally, assets totaled US\$595.9mn in the period in question.

**Portfolio investment by quarter**



Source: Banxico

**In our view, Mexico's external accounts resented an unfavorable global backdrop in 2Q15.** Current account deficit has deteriorated as a result of lower levels of oil export, but that have been offset by the dynamism of the car industry, which has translated in higher manufacturing exports. In terms of flows, money markets are resenting the volatility of global financial markets, international reserves decreased US\$3.5bn 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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