

Balance of payments – The current account deficit stands at 2.7% of GDP in 1Q16

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- Current account deficit in 1Q16 stands at US\$7bn, equivalent to 2.7% of GDP
- The current account deficit, as percentage of GDP, fell regarding 4Q15
- Trade balance deficit amounted to US\$5.1bn, while the income balance posted a US\$8bn deficit
- FDI flows amounted to US\$7.9bn in 1Q16 vs. US\$9.3bn in 1Q15
- Finally, net portfolio investments totaled US\$12.2 bn

According to Banxico, the current account deficit amounted to US\$7bn in 1Q16. This number was explained by a US\$5.1bn trade deficit, in addition to the shortfall observed in the income account (-US\$8bn). With these figures, the current account balance showed a deficit equivalent to 2.7% of GDP, marginally lower than the 2.8% deficit registered in 4Q15. Taking a look at the breakdown, we highlight that remittances amounted to US\$6.2bn, which implies an 8.3% yoy expansion.

Current account

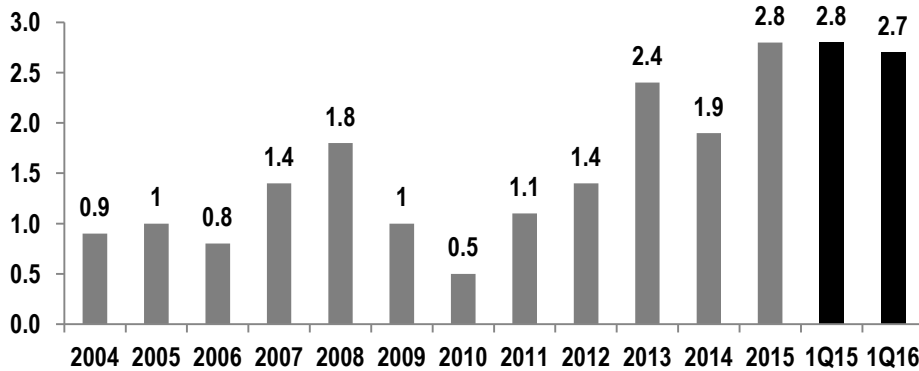
US\$mn

	1Q16	4Q15	3Q15	2015
Current account	-6,991	-7,266	-7,880	-31,874
Good and services balance	-5,102	-5,691	-10,059	-23,972
Goods	-3,972	-3,772	-6,658	-14,524
Merchandise	-3,985	-3,785	-6,671	-14,609
Exports	85,148	96,295	95,891	380,623
Imports	89,133	100,080	102,562	395,232
Procured in ports by carriers	14	12	13	85
Services	-1,130	-1,919	-3,401	-9,448
Primary balance	-8,016	-7,631	-4,217	-32,209
Net transfers	6,126	6,057	6,396	24,307
Oil balance	-2,525	-2,997	-3,834	-10,115
Non-oil balance	-1,460	-788	-2,837	-4,495

Source: Banxico

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Current account
US\$m



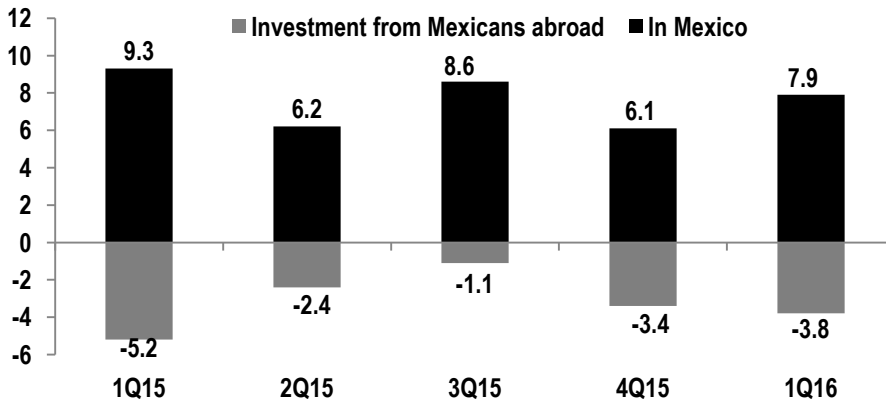
Source: Banxico

Significant fall in oil exports. According to Banxico, exports fell 5.9% in 1Q16 driven by the 45.1% yoy drop in oil exports and the 2.9% reduction in non-oil. In the first case, the reduction was explained by the decline in oil prices and export volumes. Moreover, the decline in non-oil exports was explained by a 1.1% yoy fall in auto exports and a 3.8% reduction in the non-auto exports.

The financial account showed a US\$8.6bn surplus in 2015. This was mainly explained by net US\$4.1bn FDI inflows along with a net portfolio inflow investments of US\$12.2bn, while other investments decreased US\$7.7bn.

The FDI flow amounted to US\$7.9bn in 1Q16. Meanwhile, direct investment by Mexicans companies abroad amounted US\$3.8bn. However, FDI flows in 1Q16 are compared unfavorably with the US\$9.3bn flows observed in 1Q15, and are explained, among others, by investment flows that have entered to the automotive sector.

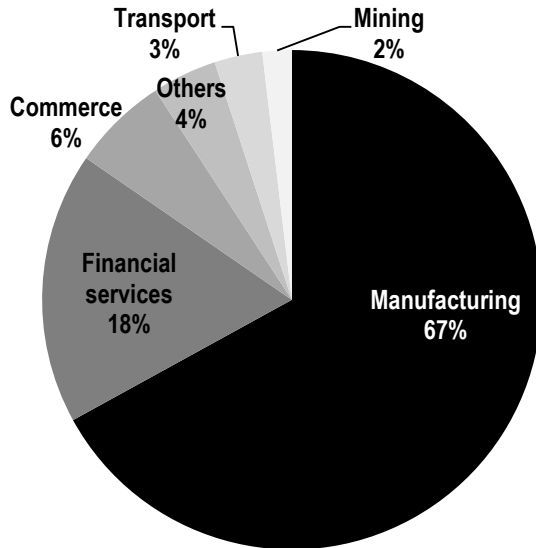
Foreign direct investment
US\$bn



Source: Banorte Ixe with data from Banxico

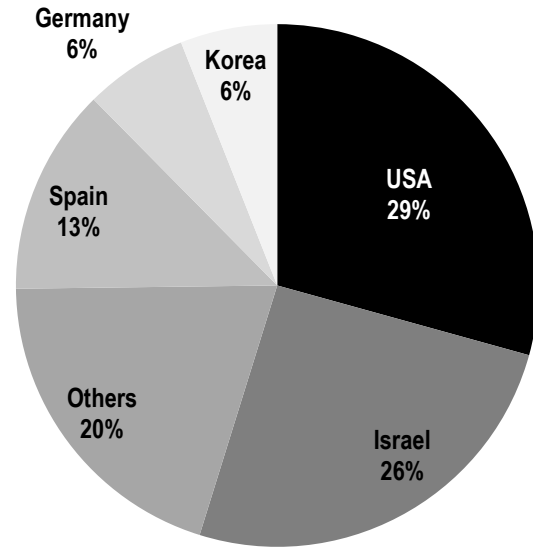
The manufacturing sector remains the main recipient of FDI flows. This sector received 67% of the total followed by the financial services sector (18%), and commerce (6%), as shown in the chart below. By country, the greatest flow of FDI came from US (29%), Israel (26%), and Spain (13%), among others (refer to the 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

Total portfolio investment peaked. Total portfolio investment amounted to US\$12.2bn in 1Q16, US\$3.8 billion higher than the investments observed throughout 2015. In this regard, we highlight that US\$14.3 billion derived from investments in instruments issued abroad (both public and private), together with investments in assets in the amount of US\$178 million.

In our view, Mexico's current account deficit is at contained levels. The current account deficit has deteriorated in the last three quarters as a result of lower exports of both oil and manufactured goods. However, as a share of GDP, the current account deficit is moderate, and does not imply a deterioration in the macroeconomic fundamentals of the Mexican economy. Moreover, FDI continues to flow given Mexico's economic recovery and the implementation of structural reforms, which we believe will be a trend that will continue throughout the year.

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