

Mexico

Economic Watch

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Balance of Payments

Current-account deficit down in 1Q10

- **The current account deficit in the first quarter of 2010 was US\$765m, equivalent to 0.3% of GDP**
- **This balance was the result of surpluses in the balance of trade (US\$149m) and transfers (US\$4,841m) and deficits in the balance of non-factor services (-US\$1,426m) and factor services (-US\$4,239m)**
- **The capital account had a surplus of US\$7,611m, equivalent to 3.2% of GDP, which easily financed the small current-account deficit**

In the first quarter of the year the current account had a deficit of US\$765m, equivalent to 0.3% of GDP. This was the result of a surplus in the balance of trade resulting from the asymmetrical reactivation of demand in Mexico, which has been stronger in exporting sectors than in sectors linked to domestic demand.

Among the notable items in the balance of trade are the growth in manufacturing sales to the U.S., increased oil revenues (70%) thanks to an average price per barrel in the quarter of US\$71.3 (vs. US\$39.3 in 2Q09, and the stabilization of the export platform.

The balance of non-factor services was in deficit by -US\$1,426m, with a surplus in international travelers of US\$2,027m and a deficit in other services (fleets, insurance, etc.) of US\$3,453m. It is notable that although there has been an upturn in income from international travelers, who are closely related to the tourism sector, there is still room to recover the levels seen before the crisis. The balance of factor services registered a deficit of -US\$4,329m, which was made up of a net payment of interests abroad for US\$1,195m, 14.8% below that in 1Q09, and a deficit in other items of US\$2,414m, largely made up of US\$1,698m corresponding to payments for goods reinvested inside the country and which by accounting standards must be registered in the capital account as an income from foreign direct investment.

The transfer account had a surplus of US\$4,841m, 12.3% below the figure for 1Q09. This is due to a fall in remittances from abroad, particularly the U.S., which were down by 12% as a result of the economic crisis and in particular the situation of the construction sector in the U.S., which has made employment difficult for Mexican immigrants. However, in quarterly terms the fall in remittances can already be seen to be slowing.

Thanks to the less restrictive conditions in international financial markets, the capital account had a surplus of US\$7,611m (3.16%) as a result of increases in asset flows of US\$11,322m and outflows for (-) US\$3,711m. The outflows are made up of a net loans and deposits of -US\$2,810m, mainly due to the liquidation of the swap line with the Federal Reserve by Banxico, and a net entry of foreign investment (US\$4,333m direct and US\$9,799m portfolio). Asset outflows of US\$3,711m are made up mainly of deposits by Mexicans in foreign banks for US\$729m and by direct investment in other countries for US\$2,545m. The surplus registered in the capital account easily financed the current account deficit (in fact, the current account could be financed 9.9 times). Although we estimate that the current account will increase starting in 3Q10, the structural conditions of the Mexican economy prevent the financing of the foreign sector from being an additional burden to the country. For the whole of 2010 we estimate a current account balance of 0.7% of GDP.

Table 1

Current account balance (US\$m)

	2009			2009		
	Annual	1Q09	2Q09	2Q09	4Q09	1Q10
Current Account	-5,580	-1,329	265	-3,860	-657	-765
Trade Balance	-4,677	-1,960	776	-3,145	-348	149
Non-Factorial Balance	-8,025	-1,074	-1,755	-2,685	-2,512	-1,426
Factorial Balance	-14,345	-3,814	-4,435	-3,463	-2,633	-4,329
Transfers	21,468	5,521	5,679	5,432	4,836	4,842
Oil Trade Balance	10,418	1,695	2,742	2,115	3,866	2,570
Trade Balance w/o Oil	-15,095	-3,655	-1,966	-5,260	-4,214	-2,422

Source: BBVA Research with INEGI data

Table 2

Capital account balance (US\$m)

	2009			2009		
	Annual	1Q09	2Q09	3Q09	4Q09	1Q10
Capital Account	15,630	-2,669	-2,745	6,588	14,456	7,611
Liabilities	34,193	2,877	6,631	12,853	11,832	11,322
Loans and Deposits	6,417	34	198	3,382	2,804	-2,810
Development Banks	1,194	507	-342	-34	1,064	-344
Commercial Banks	-192	-835	-527	-195	1,365	1,475
Banco de México	7,229	0	3,221	4,008	0	-3,221
Non-Banking Public Sector	3,402	989	-371	971	1,814	427
Non-Banking Private Sector	-5,216	-627	-1,783	-1,368	-1,438	-1,147
Pidiriegas	0	0	0	0	0	0
Foreing Investment	27,775	2,843	6,433	9,471	9,028	14,132
Direct	12,522	3,992	5,422	1,715	1,393	4,333
Portfolio Investments	15,253	-1,149	1,011	7,756	7,635	9,799
Stock Market	4,169	1,297	147	2,098	628	-740
Money Market	3,516	-498	-52	2,238	1,829	5,398
Bonds Issued Abroad	7,568	-1,947	916	3,420	5,179	5,141
Assets	-18,562	-5,546	-9,375	-6,265	2,624	-3,711
In Foreign Banks	-4,789	1,652	-7,133	-2,158	2,851	-729
Direct Investment of Residents	-7,598	-2,846	-1,022	-1,373	-2,357	-2,545
Loans to Foreign Entities	0	0	0	0	0	0
External Debt Guarantees	0	0	0	0	0	0
Others	-6,176	-4,352	-1,220	-2,734	2,130	-437
Errors	-4,717	-2,599	-2,198	-807	888	-2,006
Chg. In Net reserves	5,397	-6,585	-4,675	1,941	14,716	4,845
Valuation Ajustments	-63	-12	-2	-21	-28	-5

Source: BBVA Research with INEGI data

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