

Mexico

Economic Watch

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Balance of Payments 2010: moderate Current Account deficit and strong portfolio investment inflows

Economic Analysis

Balance of Payments 2010

- In 2010, the current account deficit was moderate, 5,690 MD (0.5% of GDP)
- This was the result of deficits in the trade balance (-\$3,121m), non-factor¹ (-\$9,610m) and factor² (-\$14,773m) services, and a surplus in the balance of transfers (\$21,504m).
- The capital account had a surplus of \$36,017m (3.5% of GDP), which makes it easy to finance the small current account deficit.

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The foreign sector was very dynamic in 2010. The exchange of goods and services picked up thanks to the recovery of a large part of the world economy, particularly the US, which resulted in a revival of the sectors linked to Mexico's manufacturing industry. Moreover, the continuity of expansive monetary policies like the second round of quantitative easing in the US generated significant portfolio investment flows in emerging countries, and Mexico was no exception.

The current account closed 2010 with a deficit of -0.5% of GDP, which was lower than the one recorded in 2009 (-0.6%). Although similar, both figures are a result of different dynamics. In 2009 there was a strong decline in world trade, causing in our country a reduction in imports (-23.2% y/y) which was sharper than the fall in exports (-19.5% y/y), thus reducing the deficit. By contrast, in 2010 the recovery of exports (29.8% y/y), primarily manufacturing (29.1% y/y) and oil (34.8% y/y), was stronger than the upturn in imports (28.6% y/y), where those linked to domestic demand, consumer goods imports (26.2% y/y) and capital (-1.3% y/y) took longer to recover, which kept the deficit in check.

The capital account recorded net inflows of €36,017m, 91% more than in 2009. Direct foreign investment grew by 16.6%, but failed to recover the pre-crisis levels. Portfolio investment recorded spectacular growth, reaching record inflows of €23,769m. This is the result of money flowing into the market thanks to the expansive monetary policies implemented in developed countries, which encouraged investors to seek higher yields out of those countries, and which in Mexico was boosted by the inclusion of the Federal Government's long-term bonds in the WGBI index, increasing investor confidence. Finally, the Bank of Mexico accumulated reserves of €22,759m, thanks to the increase in exports –primarily oil– and the activation of the option sale mechanism for selling dollars to the Central Bank.

Conclusion: the performance of the balance of payments in 2010 was a result of many temporary factors which reveal a yet incomplete normalization of the world economy. However, insofar as such normalization materializes, the current account deficit will tend to increase, a result which is more consistent with Mexico's production structure during expansion phases.

¹ Non-factor services are those related to travelers, tourists and transport.

² Factor services are those related to payment of interest for debts incurred abroad.

Table 1

Balance of payments current account (in US\$m)

	2009	2009	2010			Annual
	Annual	2Q09	2Q10	3Q10	4Q10	
Current Account	-6,289	-3,615	-682	-1,913	-3,626	-5,690
Trade Balance	-4,602	-2,786	-59	-2,296	-1,138	-3,121
*Non-Factorial Balance	-8,405	-2,756	-2,611	-3,031	-2,801	-9,611
*Factorial Balance	-14,814	-3,521	-3,909	-2,200	-4,825	-14,463
Transfers	21,531	5,448	5,897	5,614	5,137	21,504
Oil Trade Balance	10,448	2,137	2,249	2,500	4,049	11,471
Trade Balance w/o Oil	-15,050	-4,923	-2,308	-4,796	-5,187	-14,592

Source: BBVA Research with Banxico data (Figures may not match up due to rounding)

* Non-factor services are those related to travelers, tourists and transport. Factor services are those related to payment of interest for debts incurred abroad.

Table 2

Balance of payments capital account (in US\$m)

	2009	2010		
	Annual	1Q10	4Q10	Annual
Capital Account	18,853	8,147	12,258	36,017
Liabilities	36,836	12,128	26,825	67,129
Loans and Deposits	13,982	2,594	13,013	25,636
Development Banks	794	-344	1,184	648
Commercial Banks	-28	1,490	3,622	9,583
Banco de México	7,229	-3,221	0	-3,221
Non-Banking Public Sector	9,638	1,207	8,471	13,021
Non-Banking Private Sector	-3,651	3,462	-264	5,604
Foreign Investment	22,853	9,534	13,812	41,494
Direct	15,206	4,876	2,760	17,726
Portfolio Investments	7,648	4,659	11,053	23,769
Stock Market	4,169	-740	153	641
Money Market	3,479	5,398	10,900	23,127
Bonds Issued Abroad	7,568	5,141	491	13,369
Assets	-17,983	-3,982	-14,566	-31,112
In Foreign Banks	-14,849	-1,570	-13,869	-20,758
Direct Investment of Residents	-7,019	-2,816	-1,411	-12,694
Others	3,885	405	713	2,340
Errors	-7,229	-3,837	-3,375	-7,647
Chg. In Net reserves	5,397	4,845	5,284	22,759
Valuation Adjustments	-63	-5	-27	-79

Source: BBVA Research with Banxico data (Figures may not match up due to rounding)

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