Current Account – Surplus in 4Q21, driven by strength in remittances

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- **Current Account (4Q21): US$3.0 billion surplus (0.2% of GDP); consensus: -US$1.9bn (range: -US$4.1bn to US$3.6bn); previous: -US$4.1bn**
- **In 2021, the current account accumulated a US$4.9bn deficit, equivalent to -0.4% of GDP**
- **The current account surplus in 4Q21 stems from mixed results. The balances with a deficit were: goods (-US$2.2bn), services (-US$1.6bn) and primary income (-US$7.2bn). On the contrary, the secondary income balance (which includes remittances) had a US$14.0bn surplus**
- **Higher dynamism in both exports and imports reflect a partial recovery of global activity, albeit possibly skewed higher because of global inflationary pressures**
- **The capital account posted a deficit again, standing at -US$12.9 million. The sum of the latter and the current account accumulated a surplus of US$2.9bn**
- **As a counterpart, the financial account showed net lending to the rest of the world of US$2.9bn. This was mainly explained by an extension in 'portfolio investment' outflows, albeit partially offset by direct investment**
- **We expect the current account to show a deficit of around 1.0% of GDP in 2022, larger relative to 2021. The economic recovery will probably lead to a larger trade deficit than in the previous year. On the other hand, uncertainty, geopolitical tensions and global monetary policy normalization could result in relatively difficult external financing conditions**

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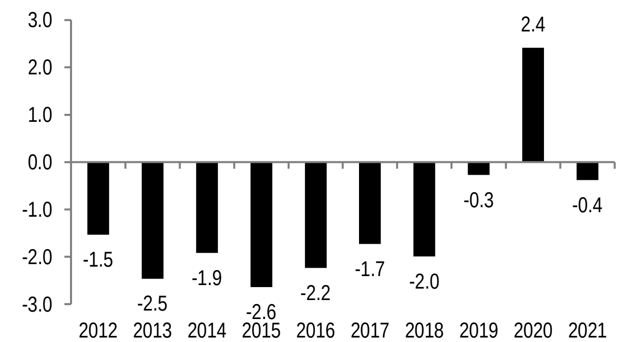
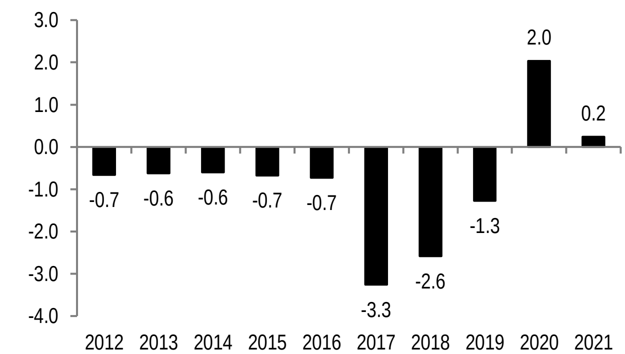
Current account with a surplus in 4Q21, but full-year 2021 with a deficit. The quarterly balance came in at US$3.0bn (0.2% of GDP). With this, the current account accumulated a total deficit of US$4.9bn in 2021 (-0.4% of GDP). This compares with a surplus of 2.4% of GDP in 2020. At the margin, the evolution of the current account still shows strong pandemic distortions, although moderating vs. the previous year as the economy recovered gradually.

Current account
% of GDP



Source: Banxico and INEGI

Financial account
% of GDP



Source: Banxico and INEGI

Despite the surplus, deficits prevail across the different subcategories of the current account. The current account surplus comes from mixed results in its different components, with most showing a modest and gradual recovery of domestic spending. By order of magnitude, we highlight the following moves. Primary income had a US$7.2bn deficit, reflecting greater outflows from profits and interest payments, boosted by a decline in the income side. The goods' balance posted a US$2.2bn deficit, with imports still outpacing exports given an uneven recovery of economic activity, still impacted by several bottlenecks. As such, although pre-pandemic levels of flows have been reached, we believe part of the acceleration obeys to an extension in global inflationary pressures. Meanwhile, the services balance managed a deficit of US$1.6bn, where the main responsible –by flows– corresponds to the 'travel' category, with tourism from foreigners in the country reaching pre-pandemic levels and with six quarters to the upside. Meanwhile, the amount from Mexicans traveling abroad was more modest. Also important, we saw increases in transportation, reflecting both higher activity as well as price increase in this kind of services. Finally, the secondary income balance had a US$14.0bn surplus, with remittances reinforcing its historically positive position. At the margin, different balances inside the current account seem to suggest higher dynamism of activity and international trade. Nevertheless, it is likely that there is an upward bias due to price pressures, which would not be reflected in 'real' indicators.

Balance of payments
US$ bilion

	4Q21	3Q21	4Q20	3Q20	2021	2020
Current account	2.96	-4.65	17.21	17.12	-4.87	26.21
Balance on goods and services	-3.84	-13.30	12.86	12.70	-22.88	22.75
Balance on goods	-2.24	-10.34	15.42	16.21	-11.47	33.98
Balance on services	-1.60	-2.96	-2.56	-3.51	-11.41	-11.23
Balance on primary income	-7.23	-4.92	-6.10	-6.13	-32.91	-36.62
Balance on secundary income	14.02	13.56	10.45	10.55	50.93	40.07
Capital account	-0.01	0.00	-0.01	-0.01	-0.05	-0.01
Financial account	2.91	-2.55	9.28	14.20	3.09	22.09
Financial account excluding reserve assets	7.07	-15.46	10.46	11.88	-7.20	10.10

Fuente: Banxico

The capital account maintained a deficit in 4Q21. This account came in at -US$12.9 million, stringing six quarters in a row with higher net outflows. The result of this account complements the current account balance, with the sum giving as a result the country' excess savings, reaching US$2.9bn.

Net lending mainly due to portfolio investment. The financial account reported a balance of -US$2.9bn in 4Q21. Looking at the breakdown, portfolio investment showed that residents are acquiring more financial assets abroad compared to what non-residents are acquiring in Mexico –a trend that accumulates 6 consecutive quarters–. This is likely explained by a lower demand for domestic financial assets due to a portfolio reconfiguration by global investment funds, driven by increased risk aversion and changes to benchmarks –that now include China–, among other factors. By contrast, most of the flows to our country came from direct investment with a deficit of US$8.5bn, which is still low relative to previous years.

Lastly, although financial account balance seems favorable and manages to cover the current and capital account deficits, caution is heeded due to: (1) A slower evolution of real investment flows; and (2) the trajectory of portfolio investments, albeit at the margin more positive considering an increase in holdings of Mexican financial assets in hands of foreigners at the start of 2022.

Financial account
US$ billion

	4Q21	3Q21	4Q20	3Q20	2021	2020
Financial account	2.91	-2.55	8.75	-6.03	3.09	22.09
Direct investment	-8.53	-5.22	-5.11	-13.48	-32.34	-25.22
Portfolio investment	14.46	14.57	6.89	5.64	41.56	10.34
Financial derivatives	0.79	0.23	0.33	0.74	2.08	-1.80
Other investment	0.35	-25.04	6.92	-0.74	-18.50	26.78
Reserve assets	-4.16	12.91	-0.28	1.81	10.29	11.99

Source: Banxico e INEGI

Data for 2021 is consistent with prevailing challenges and the post-pandemic recovery. The year-end balance of payments, specifically the current account, is consistent with the reactivation of economic activity, both domestic as well as globally. Throughout 2021, distortions caused by COVID-19 remained, including new variants, increases in cases, and reimposition of restrictions. However, access to vaccinations, stimulus and population fatigue allowed for the reactivation of consumer goods' demand, and, to a lesser extent, services such as international tourism. In particular, Mexico benefited from stimulus in the US, both at the fiscal and monetary levels. Despite of the latter, global economic indicators showed that the last quarter was characterized by renewed slowdowns in the growth trend. In that sense, the Trade Barometer of the *World Trade Organization* estimated that in August 2021, trade levels reached pre-pandemic figures. On a more negative note, since October of last year a new fall was observed due to problems regarding ports closures and bottlenecks in production chains.

On the other hand, the performance of the financial account reflects international market trends, especially the behavior of portfolio investment. According to the IMF's *Global Financial Stability Notes*, global risk sentiment since 2020 has significantly impacted all types of portfolio flows. Nevertheless, recovery signs in 2021 were accompanied by a recovery in demand of debt bonds issued by emerging markets, although with a broad preference for hard currency bonds, and not so in equity and local currency bonds. According to this, financing through portfolio investment will probably continue to be highly concentrated in the non-financial public sector, in addition to registering higher support in terms of direct investment.

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