

## Current account – Deficit in 2024 due to higher imports and increased foreign payments

- Banxico published the 4Q24 Balance of Payments, and thus the flows and balances for full-year 2024
- In the year, the current account recorded US\$6.0 billion deficit (0.3% of GDP). We highlight the negative balance in 'goods and services' (-US\$16.3 billion). The primary income balance posted a modest deficit (-US\$54.0 billion), while the surplus in secondary income (US\$64.3 billion) remained as an anchor to finance the other deficits
- The financial account showed net inflows of US\$3.5 billion (net borrowing), with direct investment driving inflows, while the portfolio account concentrated the outflows
- For 2025, our baseline scenario contemplates some current trends from 2024 prevailing, although the cooling of domestic demand and trade uncertainty will also be key drivers

**Modest current account deficit in 2024, slightly larger than in the previous year.** The balance in the year was a US\$6.0 billion deficit, which represents 0.3% of GDP, in line with the 2023 print. The current account position reflects: (1) A more limited deficit in 'goods and services' (at -US\$16.3 billion); (2) a higher level of outflows in the primary income (-US\$54.0 billion); and (3) some stability in secondary income (US\$64.3 billion). By quarters, seasonal factors prevailed, with no major surprises regarding the sign of each balance. However, a more thorough analysis reveals that cyclical and idiosyncratic factors did skew some flows, mainly evidenced by the behavior of the MXN throughout the year –which in turn also drove other results.

Delving deeper into each account, in 'goods and services' we identified mixed trends which helped limit its negative balance. Regarding goods (-US\$8.2 billion), the deficit was influenced by a lower volume of oil exports and an increase in imports of refined products. In the non-oil component, exports posted a moderate but consistent growth –driven by nearshoring and the relative resilience of US demand. Meanwhile, imports of consumption and capital goods benefited early from MXN strength, albeit moderating in 2H24. On services (-US\$8.0 billion), tourism was the driver for growth, supported by a higher number of visitors and increased average spending, maintaining its positive trend seen since 2022. On the other hand, various disruptions that previously exerted pressure on logistics costs decreased, leading to a normalization in some categories such as freight. The lower deficit in financial services and consulting was determined by a sharp drop in their expenditures in 1Q24.

### Balance of payments

US\$ billion

	1Q24	2Q24	3Q24	4Q24	2024	2023
<b>Current account</b>	<b>-22.2</b>	<b>2.5</b>	<b>1.1</b>	<b>12.6</b>	<b>-6.0</b>	<b>-5.6</b>
Balance on goods and services	-3.6	-4.7	-9.5	1.6	-16.3	-25.0
Balance on goods	-2.7	-2.8	-5.5	2.8	-8.2	-5.5
Balance on services	-0.9	-1.9	-4.0	-1.2	-8.0	-19.4
Balance on primary income	-32.5	-9.9	-6.3	-5.3	-54.0	-43.7
Balance on secondary income	14.0	17.1	16.9	16.3	64.3	63.0
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>
<b>Financial account</b>	<b>-28.0</b>	<b>1.5</b>	<b>7.9</b>	<b>15.1</b>	<b>-3.5</b>	<b>-7.9</b>
Financial account ex. reserve assets	-32.7	-3.7	6.4	12.7	-17.4	-15.5

Source: Banxico



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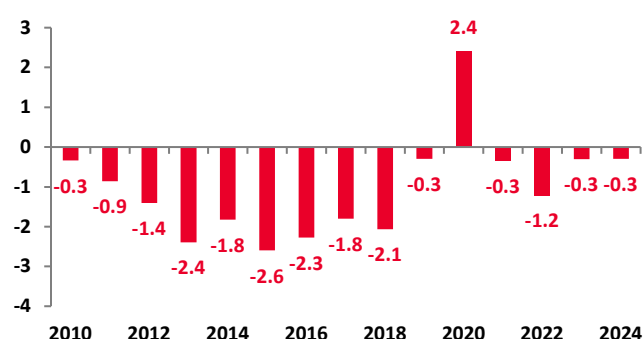
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On primary income, the increase in net outflows can be attributed to two key factors: (1) Foreign companies operating in the country repatriated higher amounts of profits and dividends –this both due to more companies operating along with stronger earnings from them; and (2) global interest rates remaining high, exerting upward pressures on interest payments on debt. However, one factor that partially offset these net outflows was the growth in reinvested profits in our country. In the context of nearshoring, tax incentives introduced to encourage profit reinvestment by foreign-owned companies –such as accelerated depreciation on fixed assets– had a positive impact throughout 2024. As an example, reinvested profits in 1Q24 alone increased by 27.7% y/y when compared to 1Q23.

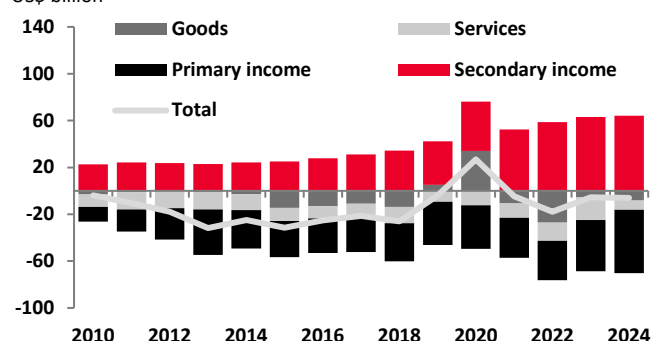
Secondary income remained a key source of financing for the current account deficit. The strength in the US labor market supported a steady inflow of remittances. However, the 2.3% y/y growth in remittances in 2024 was the lowest rate recorded since 2013. The trajectory of remittances weakened in the second half of the year, with some alterations in seasonal patterns, but also with idiosyncratic factors linked to the US election result at play. Finally, the capital account registered a deficit of US\$68.4 million.

**Current account**  
% of GDP



Source: Banxico

**Current account composition (sum of balances)**  
US\$ billion



Source: Banxico


**Net borrowing in the financial account, with direct investment driving inflows.** The financial account resulted in net borrowing (*i.e.* inflows) of US\$3.5 billion. The most relevant facts included: (1) Inflows US\$31.1 billion of direct investment –mainly driven by reinvestments; and (2) increased risk aversion through most of the period, impacting remaining accounts. As such, net outflows were seen in portfolio (-US\$7.6 billion) and ‘other investments’ (-US\$5.5 billion). Lastly, ‘errors and omissions’ came in at -US\$2.6 billion.

**Financial account**  
US\$ billion

	1Q24	2Q24	3Q24	4Q24	2024	2023
<b>Financial account</b>	<b>-28.0</b>	<b>1.5</b>	<b>7.9</b>	<b>15.1</b>	<b>-3.5</b>	<b>-7.9</b>
Direct investment	-26.4	-4.2	-1.1	0.5	-31.1	-29.9
Portfolio investment	-8.6	8.9	0.8	6.5	7.6	11.3
Financial derivatives	2.1	0.8	-0.3	-1.9	0.1	5.6
Other investment	0.1	-9.2	7.1	7.6	5.5	-2.5
Reserve assets	4.7	5.3	1.5	2.4	13.9	7.6

Source: Banxico

**For 2025 we expect some trends to continue, although trade uncertainty will remain a dominant issue throughout the period.** Our baseline scenario for [Mexico's economic activity](#) points to a slowdown (+1.0% y/y), driven by: (1) A moderation in domestic demand –at least during the first half of the year– with stronger momentum in consumption vs. investment; (2) resilience in external demand, with modest distortions from tensions regarding US trade policy; and (3) [some easing regarding monetary policy](#), albeit with the rate remaining high both in terms of the neutral stance and vs. other emerging markets.



In this context, uncertainty will be the prevailing issue, caused mainly by the protectionist stance of the US government on trade, but also by the reassessment of key policies including immigration and security. As outlined in other publications, trade flows during 2025 will largely depend on the potential implementation of tariffs on Mexican exports to US and the review (or possible renegotiation) of USMCA, which could be brought forward to this year. The latter in the context in which more than 80% of Mexico's exports go to the US. On the other hand, and to a lesser extent, the Mexican government's strategy to reduce the trade deficit with China must also be considered. On a positive note, a scenario of exchange rate depreciation could help mitigate the loss of competitiveness in exports and drive higher inflows through tourism.

Beyond the impact on trade flows, our expectation for primary income is that it will remain in deficit, with a risk of deepening net outflows given a decline in the reinvestment of profits. Regarding secondary income, we anticipate some volatility in remittances, which may lead to small deviations from their seasonal patterns. Nonetheless, we maintain a view of stability on the total inflow, key for the overall result.

Finally, regarding the financial account, we believe that it will continue to be determined by changes in the appetite for risk, but also by the differential in interest rates. Also relevant, foreign direct investment will continue showing resilience, focused on sectors such as the automotive, electronics, commerce, tourism, pharmaceutical, etc.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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