Economic Analysis

Current account deficit in the first quarter confirms lower economic dynamism

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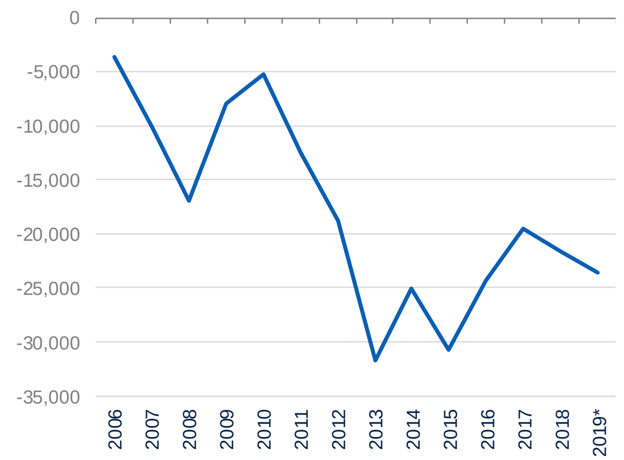
- **Significant year-over-year fall in net direct foreign investment in January–March 2019**
- **Considerable decrease in the current account deficit in the first quarter of 2019 compared to the same period of the previous year, mainly due to lower deficits in primary income and service balances**

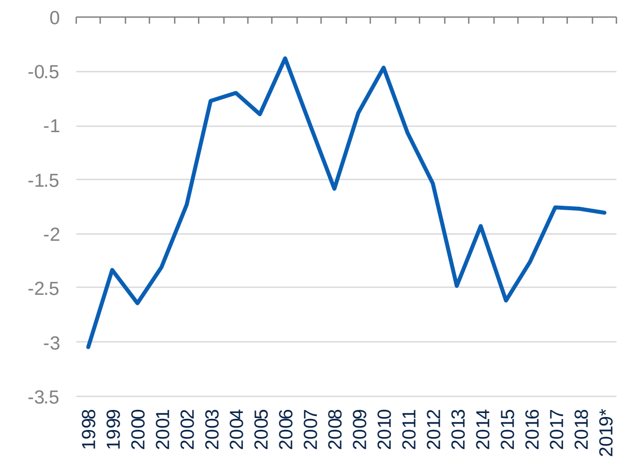
Having posted USD 19.6 billion in 2017, the current account deficit increased to USD 21.6 billion in 2018 (Figure 1). In terms of GDP, the current account deficit remained steady at 1.8% (Figure 2). The information for the first quarter of 2019 indicates that the current account deficit was USD 5.6 billion, whose annualized figure would be equal to 1.8% of GDP. For 2019, we forecast that the current account deficit will be roughly USD 23.6 billion (1.8% of GDP).

Figure 1: Current Account
(USD millions)



*/ Forecast
Source: BBVA Research based on data from Banxico

Figure 2: Current Account
(% GDP)



*/ Forecast
Source: BBVA Research based on data from Banxico

By analyzing the behavior of the current account deficit in the first quarter of 2019, we see that it grew relative to the figure from the fourth quarter of 2018 (Table 1). This is mainly due to a higher primary income deficit.

When we compare how the current account deficit performed in January–March 2019 vs. the same period of the previous year, we can see that its USD 4.2 billion decrease is mainly due to the smaller primary income and services deficits (Table 2).

Table 1: Current Account and Its Components in 4Q 2018 and 1Q 2019
(USD millions)

	Oct-Dec 18 (A)	Jan-Mar 19 (B)	Difference (B-A)
Current account	-2,937	-5,634	-2,697
Balance on goods and services	-5,429	-2,048	3,381
Balance on goods	-3,447	-1,859	1,588
Balance on oil-related products	-6,963	-4,737	2,226
Balance on non-oil-related products	3,568	2,920	-648
Balance on goods procured in ports by carriers	-52	-42	10
Balance on services	-1,982	-189	1,793
Balance on primary income	-6,072	-11,075	-5,003
Balance on secondary income	8,563	7,489	-1,074

Source: BBVA Research based on data from Banxico

Table 2: Current Account and Its Components in January–March 2018 and 2019
(USD millions)

	Jan-Mar 18 (A)	Jan-Mar 19 (B)	Difference (B-A)
Current account	-9,799	-5,634	4,165
Balance on goods and services	-3,395	-2,048	1,347
Balance on goods	-1,765	-1,859	-94
Balance on oil-related products	-4,706	-4,737	-31
Balance on non-oil-related products	2,978	2,920	-58
Balance on goods procured in ports by carriers	-37	-42	-5
Balance on services	-1,630	-189	1,441
Balance on primary income	-13,412	-11,075	2,338
Balance on secondary income	7,008	7,489	481

Source: BBVA Research based on data from Banxico

In relation to Net Foreign Direct Investment (NFDI), this indicator posted USD 8.3 billion in the first quarter of 2019 vs. USD 10.5 billion in the same period of the previous year. In other words, NFDI showed a year-over-year contraction of 20.8%. By analyzing the historical information (as of 2006) of the NFDI for the first quarter, it is important to mention that no annual fall of a similar magnitude had been observed since the first quarter of 2015. In that quarter, the NFDI showed a negative year-over-year change of 23.1%.

The relatively low level of the current account deficit as a share of GDP confirms that Mexico has a low level of external vulnerabilities; not only is this a relatively small deficit, but it can be fully financed by NFDI, which is the most stable source of financing. Therefore, the country does not require (more volatile) investment flows to finance the current account deficit. That is, the composition of external financing flows is healthy and stable. In this sense, the probability of a balance of payments crisis is very low.

The reasons behind the much lower current account deficit in the first quarter of 2019 vs. the same period of 2018 as well as the significant year-over-year contraction in Net Foreign Direct Investment during the first three months of the year confirm a reduced level of economic dynamism at the beginning of 2019. In our view, the relatively low NFDI is due both to lower external manufacturing demand and to the greater economic uncertainty associated with the country sparked by the decision to cancel the construction of the Mexico City's New International Airport.