

**Economic Analysis**

# How's Foreign Direct Investment Looking?

El Financiero (Mexico)

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Foreign Direct Investment (FDI) is a very important variable for the performance of the economy. It is investment that generates jobs and, according to most academic studies, stimulates greater economic growth. It is also a stable source of financing for a country's current account deficits, and is much more stable than portfolio investment, which, as we know, is more volatile. It is also a good barometer for measuring the long-term confidence that foreign investors have in a country. Another positive effect of this type of investment is that it tends to foster the adoption of more efficient technologies, which can contribute to higher productivity.

In recent weeks, there have been different opinions about the performance of this indicator. Many news reports have stated that FDI increased during the first quarter of this year, compared to the same period last year, but others have suggested that performance was worse.

How to analyze FDI performance in the first three months of 2019? According to data from the Ministry of Economy (Secretaría de Economía), Mexico received USD 10.162 billion in FDI during the first quarter of this year. For the same period last year, the figure was USD 12.644 billion. A drop by 20%.

It seems that part of the confusion that I mentioned came be traced to the fact that some people compare the figure for the first quarter of this year with the preliminary figure for the previous year, which was USD 9.502 billion. This would mean an increase of 6.9%. But that is not correct. The comparison should be made with the definitive figure. The figure for the first quarter of this year may be revised, but it is impossible to predict the magnitude and direction of the revision in advance. Therefore, the best thing to do is to compare the figure announced for this quarter with the definitive figure for the first quarter of the previous year.

Now, the FDI reported by the Ministry of Economy is made up of three items: new investment, reinvestment of profit, and intercompany balances. They are all important from a macroeconomic perspective because, as I mentioned, they represent currencies that help finance current account deficits and can generate employment and growth. However, it is important to analyze the new investment component, since this is where new investment projects or fresh fund inflows are found.

The new FDI investment component in the first quarter of last year amounted to USD 1.884 billion, while the figure for the same period this year was MXN 2.280 billion. In other words, there was an increase of 21%. However, it should be noted that the first quarter of 2018 was a period of low new FDI: this indicator had fallen by 30% compared to the same period of the previous year.

The Bank of Mexico also publishes FDI figures when reporting the performance of the balance of payments. These data also show that when compared to the same period of the previous year, FDI fell by 20% during the first quarter of 2019. It is still too early to tell if this drop in FDI will be short-lived or if it will be long-lasting.

There is reason to believe that domestic uncertainty, coupled with the uncertainty generated by Trump's tariff threats, is affecting investment levels, both at the local and foreign levels. The government could implement measures to counteract these declines in the short term. These might include: reviving the Texcoco airport, resuming Pemex's private partnerships and canceling construction of the refinery.

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