Economic Analysis

Low economic growth impacts the current account during the first half of the year

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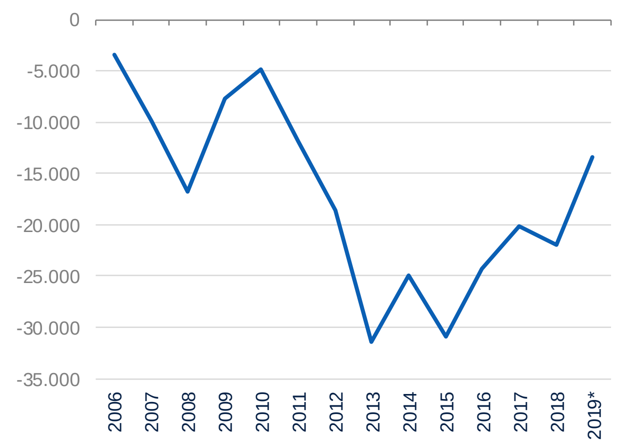
- **Significant year-on-year fall in net foreign direct investment in January–June 2019**
- **Current account deficit fell considerably during the first half of 2019 in comparison with the same period of the previous year. This was mainly due to the bigger surplus in the non-oil goods balance**

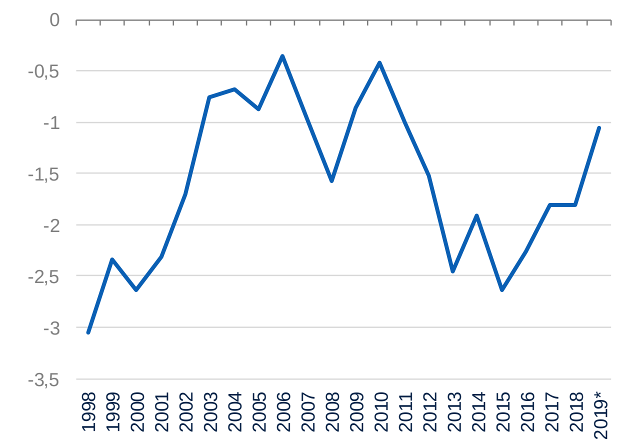
Having stood at USD 20.1 billion in 2017, the current account deficit increased to USD 22.0 billion in 2018 (Figure 1). In terms of GDP, the current account balance remained stable at 1.8% (Figure 2). The information corresponding to the second quarter of 2019 indicates that the current account had a surplus of USD 5.1 billion, whose annualized figure is 1.6% of GDP. For 2019, we predict that the current account deficit will be roughly USD 13.5 billion (1.1% of GDP).

Figure 1. **Current account**
(USD millions)



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

Figure 2. **Current account**
(% of GDP)



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

The analysis of the performance of the current account in the second quarter of 2019 shows a surplus compared to the deficit observed in the first quarter of 2019 (Figure 1). This is mainly due to both the surplus in the trade balance of goods and the reduced deficit in the primary income balance. When we compare the behavior of the current account balance in the period January-June 2019 vs. the same period in the previous year, we can see that the USD 10.4 billion decrease in the deficit is mainly explained by the greater surplus in the balance of non-oil goods (Figure 2).

Table 1. **Current account and its components in the first two quarters of 2019**
(USD millions)

	Jan-Mar 19 (A)	Apr-Jun 19 (B)	Difference (B-A)
Current account	-8,508	5,143	13,651
Balance on goods & services	-2,356	3,670	6,026
Balance on goods	-1,859	4,916	6,774
Balance on oil-related products	-4,737	-5,849	-1,112
Balance on non-oil-related products	2,920	10,811	7,890
Balance on goods procured in ports by carriers	-42	-46	-4
Balance on services	-497	-1,245	-749
Balance on primary income	-13,833	-7,741	6,091
Balance on secondary income	7,680	9,214	1,534

Source: BBVA Research based on data from Banxico

Table 2. **Current account and its components in the first half of 2018 and 2019**
(USD millions)

	Jan-Jun 18 (A)	Jan-Jun 19 (B)	Difference (B-A)
Current account	-13,752	-3,366	10,386
Balance on goods & services	-8,606	1,314	9,920
Balance on goods	-4,547	3,057	7,604
Balance on oil-related products	-10,173	-10,586	-413
Balance on non-oil-related products	5,704	13,731	8,027
Balance on goods procured in ports by carriers	-78	-89	-11
Balance on services	-4,060	-1,742	2,318
Balance on primary income	-20,992	-21,574	-582
Balance on secondary income	15,846	16,894	1,048

Source: BBVA Research based on data from Banxico

In relation to Net Foreign Direct Investment (NFDI), this indicator recorded USD 14.6 billion in the first half of 2019 vs. USD 18.4 billion in the same period of the previous year. In other words, NDFI showed a year-on-year contraction of 20.8%. In analyzing the historical information (as of 2006) of the NDFI for the first half of the year, it is important to mention that no year-on-year fall of similar magnitude had been observed since the first half of 2015. In that half, the NDFI showed a negative annual variation of 25.3%.

The much lower current account deficit in the first half of 2019 compared to the same period in 2018, as well as the significant annual reduction in Net Foreign Direct Investment, reflect the low annual economic growth rate of 0.2% observed in the first half of the year.

Concluding remarks

Our current account deficit forecast of 1.1% of GDP for 2019 suggests that the country does not face external vulnerabilities and that, in fact, this deficit could be financed by NFDI and remittances. However, ensuring that the NFDI does not continue to fall will be a key factor. We believe that the relatively low performance of the NFDI could be due to both domestic factors related to the uncertainty regarding public policies and the slowdown in the growth of global manufacturing, which has been affected by the war trade between the US and China. In the meantime, the federal government could send signals to bolster business confidence such as the withdrawal of the legal controversy around some gas pipelines. Finally, the ratification of the USMCA by the United States Congress would have a positive effect on the FDI flows towards Mexico.