Economic Analysis

Economic stagnation affects current account and net foreign direct investment

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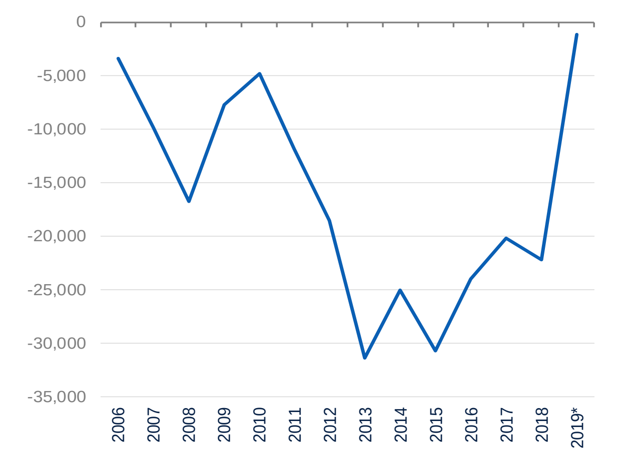
- **Annual drop of 11.9% in net foreign direct investment during the January–September period of 2019**
- **The current account deficit decreased by USD 17.2 billion in January–September 2019 vs. the same nine-month period of the previous year, mainly due to the trade balance on non-oil goods posting a higher surplus**

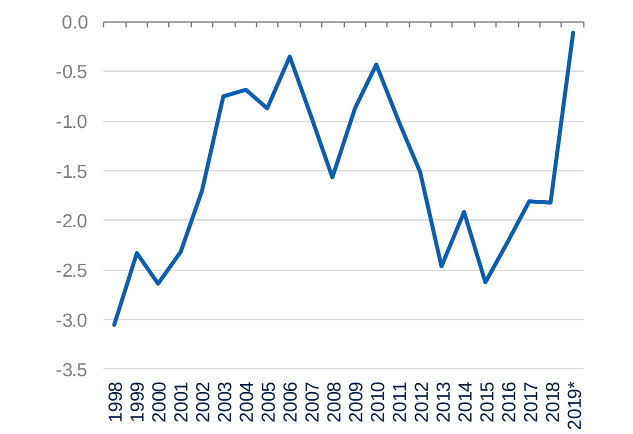
After having stood at USD 20.2 billion in 2017, the current account deficit increased to USD 22.2 billion in 2018 (Figure 1). In terms of GDP, the current account deficit stood steady at 1.8% (Figure 2). The information for the third quarter of 2019 indicates that the current account surplus was USD 2.0 billion, the annualized figure for which equates to 0.7% of GDP. For 2019, we predict that the current account deficit will be roughly USD 1.2 billion (0.1% 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

Analysis of the behavior of the current account in the third quarter of 2019 shows that a lower surplus was registered when compared to the second quarter of 2019 (Table 1). This can mainly be attributed to the lower surplus posted in the non-oil goods trade balance, which was partially offset by the lower deficit in the primary income balance. When we compare how the current account deficit performed in January–September 2019 vs. the same period of the previous year, we can see that its USD 17.2 billion decrease is mainly due to the trade balance on non-oil goods posting a higher surplus and, to a lesser extent, to the lower deficit in the balance on services (Table 2).

Table 1. **The current account and its components in the second and third quarters of 2019** (USD millions)

	Apr–Jun 19 (A)	Jul–Sep 19 (B)	Difference (B-A)
Current account	4.521	2.013	-2.507
Bal. on goods and services	3.250	-2.482	-5.733
Balance on goods	4.916	-518	-5.433
Bal. on oil products	-5.849	-5.294	555
Bal. on non-oil goods	10.811	4.836	-5.975
Bal. on goods procured in ports by carriers	-46	-60	-13
Balance on services	-1.665	-1.965	-299
Bal. on primary income	-7.944	-4.984	2.960
Bal. on secondary income	9.214	9.480	266

Source: BBVA Research based on data from Banxico

Table 2. **The current account and its components in January–September 2018 and 2019** (USD millions)

	Jan–Sep 18 (A)	Jan–Sep 19 (B)	Difference (B-A)
Current account	-19.427	-2.187	17.240
Bal. on goods and services	-17.332	-1.588	15.744
Balance on goods	-10.349	2.539	12.888
Bal. on oil products	-16.197	-15.880	317
Bal. on non-oil goods	5.974	18.567	12.593
Bal. on goods procured in ports by carriers	-126	-148	-22
Balance on services	-6.983	-4.127	2.856
Bal. on primary income	-26.210	-26.973	-763
Bal. on secondary income	24.115	26.374	2.259

Source: BBVA Research based on data from Banxico

In terms of Net Foreign Direct Investment (NFDI), this indicator posted USD 17.5 billion in January–September 2019 vs. USD 19.9 billion during the same period of the previous year. In other words, NFDI showed a year-on-year contraction of 11.9%. Based on analysis of historical NFDI information (from 2006 onwards) for January–September, it is important to note that this is the smallest contraction out of the five that have occurred since 2006. Last year, the NFDI showed a negative annual change of 23.7% during the January–September period.

The much lower current account deficit in January–September 2019 compared to the same period in 2018, as well as the double-digit annual contraction in Net Foreign Direct Investment, are indicative of the economic stagnation observed in the first nine months of the year. A particular cause for concern is the relatively low level of capital goods imports, which suggests that this lackluster dynamism will persist.

Concluding remarks

Our forecast that the current account deficit will be 0.1% of GDP in 2019 suggests that the country is not vulnerable to external shocks and that even such deficit could be comfortably financed with NFDI and remittances. It is important, however, to recognize that this much smaller deficit forecast for 2019 is mainly due to the countercyclical behavior of the trade balance. Regarding the relatively poor performance in terms of NFDI in the first nine months of the year, this could be due both to internal factors associated with mistrust of the public policy decision-making process and to lower global economic growth, which has been reflected on the deceleration of global manufacturing growth. We consider it imperative that the government sends signals of more certainty to investors through public policies that bolster private investment without changing game rules. Finally, the ratification of USMCA is a factor that would contribute to an increase of FDI flows into Mexico for the following years.