Economic analysis

Global economic recession affects external accounts

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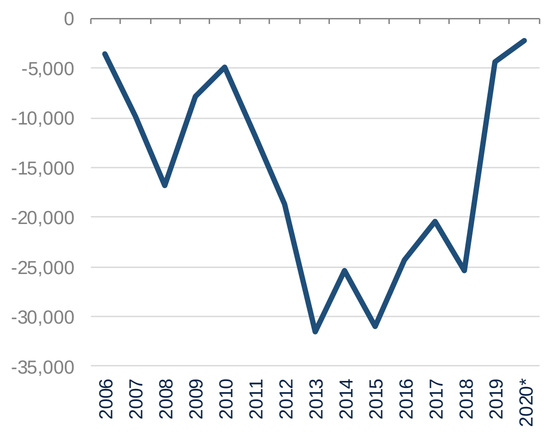
August 25, 2020

- **Net foreign direct investment falls 29.6% year on year in the first half of 2020**
- **Current account surplus fell by USD 4.38 billion in the second quarter of 2020 compared to the same period of the previous year, mainly due to a much lower surplus in the trade balance on non-oil goods**
- **Our forecasts indicate that the current account deficit will stabilize around 1.5% of GDP in the medium term and that there will be no structural problem with its financing**

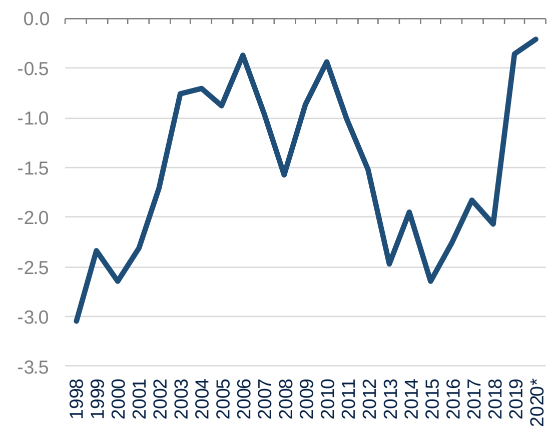
After reaching USD 25.4 billion in 2018, the current account deficit fell significantly to USD 4.4 billion in 2019 (Figure 1). The current account deficit stood at 0.4% of GDP (Figure 2). Information for the second quarter of 2020 indicates that the current account surplus was USD 5 million, which equates to 0.0% of GDP on an annualized basis. We predict that the 2020 current account deficit will be approximately USD 2.2 billion (0.2% 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 current account behavior for the second quarter of 2020 shows a surplus, in contrast to the deficit recorded in the first quarter of 2020 (Table 1). This is mainly due to the much lower primary income deficit. Comparing the performance of the current account surplus for the second quarter of 2020 to the same period in the previous year shows that the USD 4.38 billion decrease is mainly due to a much lower surplus in the trade balance on non-oil goods and, to a lesser extent, to the higher deficit in the balance on services (Table 2).

Table 1. **Current account and its components in 2Q20 and 1Q20**
(USD millions)

	Jan–Mar 20 (A)	Apr–Jun 20 (B)	Difference (B–A)
Current account	-2297	5	2302
Bal. on goods and services	2425	-4772	-7196
Balance on goods	3689	-1067	-4757
Bal. on oil goods	-5483	-2198	3285
Bal. on non-oil goods	9205	1135	-8071
Bal. on goods procured in ports by carriers	-33	-4	29
Balance on services	-1265	-3705	-2440
Bal. on primary income	-14,002	-5016	8986
Bal. on secondary income	9280	9792	512

Source: BBVA Research based on data from Banxico

Table 2 **Current account and its components in 2Q20 and 2Q19**
(USD millions)

	Apr–Jun 19 (A)	Apr–Jun 20 (B)	Difference (B–A)
Current account	4385	5	-4380
Bal. on goods and services	3316	-4772	-8087
Balance on goods	4963	-1067	-6030
Bal. on oil goods	-5947	-2198	3749
Bal. on non-oil goods	10,955	1135	-9821
Bal. on goods procured in ports by carriers	-46	-4	42
Balance on services	-1647	-3705	-2058
Bal. on primary income	-8248	-5016	3232
Bal. on secondary income	9318	9792	475

Source: BBVA Research based on data from Banxico

In relation to Net Foreign Direct Investment (NFDI), this indicator recorded USD 11.958 billion in the first half of 2020 vs. USD 16.985 billion in the same period of the previous year. In other words, NFDI contracted 29.6% year on year. This first-half NFDI contraction is the fourth largest recorded in data analyzed back to 2006. The previous higher first-half contraction occurred in 2014 when NFDI fell 43.8% year on year.

The lower current account deficit (USD 2.292 billion) in the first half of 2020 compared to the deficit (USD 7.092 billion) in the same period in 2019, as well as the significant fall in NFDI year on year, reflects the global economic recession resulting from the COVID-19 pandemic. The uncertainty associated with both global economic recovery and public domestic policies will make it difficult for the NFDI to recover despite the boost it can receive from the United States–Mexico–Canada Agreement (USMCA) and the potential restructuring of global value chains.

Conclusions

Our forecast for a current account deficit of 0.2% of GDP for 2020 suggests that there will be no vulnerability due to external shocks caused by the global economic recession resulting from the COVID-19 pandemic. For the medium term, we expect the current account deficit to stabilize around 1.5% of GDP as local economic activity gradually returns to pre-pandemic levels.

Going forward, we do not anticipate a structural problem with the financing of the current account deficit for the following reasons: i) higher levels of foreign direct and portfolio investment will accompany the global economic recovery in the following years; ii) USMCA, nearshoring and the recovery of global manufacturing growth will underpin NFDI flows in the medium term; and iii) international remittances will continue to be a relevant source of income.