Economic Analysis

Global crisis leads to current account reversal

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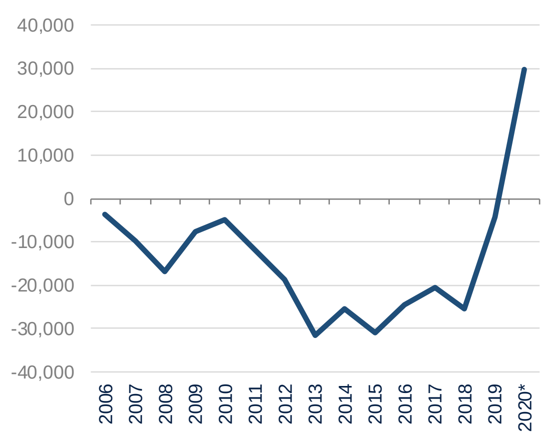
- **Net Foreign Direct Investment falls by 18.3% year on year in the January–September period of 2020**
- **In contrast to the current account deficit recorded in the third quarter of 2019, this indicator showed a surplus of USD 17.498 billion in the third quarter of 2020, mainly due to the much higher positive balance on non-oil goods**
- **Our forecasts indicate that the current account deficit will stabilize at about 1.2% of GDP in the medium term and that there will be no structural problem with its financing**

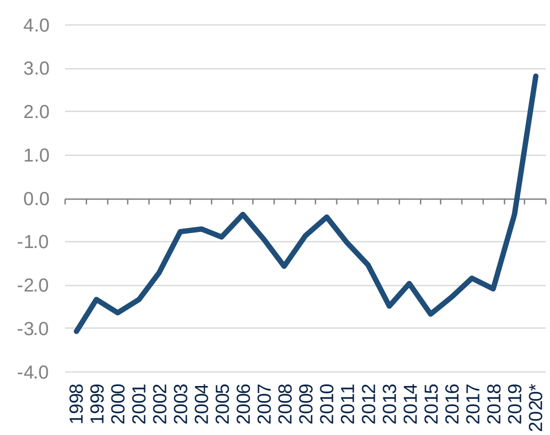
After reaching USD 25.3 billion in 2018, the current account deficit fell significantly to USD 4.4 billion in 2019 (Figure 1). The current account deficit stood at 0.4% of GDP (Figure 2). Information for the third quarter of 2020 indicates that the current account surplus was USD 17.498 billion, which equates to 6.6% of GDP on an annualized basis. We predict that the 2020 current account surplus will be approximately USD 29.7 billion (2.8% of GDP).

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



*/Forecast
Source: BBVA Research with Banxico data

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



*/Forecast
Source: BBVA Research with Banxico data

Analysis of current account behavior for the third quarter of 2020 shows a surplus, in contrast to the deficit recorded in the second quarter of 2020 (Table 1). This is mainly due to the much higher surplus in the non-oil goods balance. Comparing the performance of the current account surplus for the third quarter of 2020 to the same period in the previous year shows that the USD 17.932 billion increase in the current account balance is mainly due to a much greater surplus in the trade balance on non-oil goods and, to a lesser extent, to the lower deficit in the balance on oil goods (Table 2).

Table 1. **Current account and its components in 3Q20 and 2Q20**
(USD millions)

	Apr–Jun 20 (A)	Jul–Sep 20 (B)	Difference (B-A)
Current account	-116	17,498	17,614
Bal. on goods and services	-4773	12,897	17,670
Balance on goods	-1067	16,300	17,367
Bal. on oil goods	-2198	-2624	-426
Bal. on non-oil goods	1135	18,923	17,789
Bal. on goods procured in ports by carriers	-4	1	5
Balance on services	-3706	-3403	303
Bal. on primary income	-5135	-5942	-807
Bal. on secondary income	9792	10,543	750

Source: BBVA Research with Banxico data

Table 2. **Current account and its components in 3Q20 and 3Q19**
(USD millions)

	Jul–Sep 19 (A)	Jul–Sep 20 (B)	Difference (B-A)
Current account	-435	17,498	17,932
Bal. on goods and services	-4707	12,897	17,604
Balance on goods	-1099	16,300	17,399
Bal. on oil goods	-5412	-2624	2787
Bal. on non-oil goods	4372	18,923	14,552
Bal. on goods procured in ports by carriers	-59	1	60
Balance on services	-3608	-3403	205
Bal. on primary income	-5309	-5942	-633
Bal. on secondary income	9581	10,543	961

Source: BBVA Research with Banxico data

In relation to Net Foreign Direct Investment (NFDI), this indicator recorded USD 17.478 billion in the first nine months of the year compared to USD 21.383 billion in the same period of the previous year. In other words, NFDI contracted by 18.3% year on year. This NFDI contraction is the fifth largest recorded, over the first nine months of a year, in data analyzed back to 2006. The previous largest contraction in the January–September period occurred in 2018 when NFDI fell by 27.1% year on year.

The reversal of the current account, noteworthy for the unusual surplus (USD 12.909 billion) for the first nine months of 2020, and the significant year-on-year contraction in Net Foreign Direct Investment reflect the global economic downturn brought about by the COVID-19 pandemic. The behavior of NFDI in the short and medium term will primarily depend on the global economic recovery and, to a lesser extent, on the uncertainty for foreign investors arising from domestic public policies. Nevertheless, more uncertainty over such policies would hinder the recovery of NFDI despite the boost that might be provided by the USMCA and the potential reconfiguration of global value chains.

Conclusions

Our forecast of a current account surplus of 2.8% of GDP for 2020 suggests that this indicator has shown a reversal in the face of the external shocks caused by the global economic downturn resulting from the pandemic. For the medium term, we expect the current account deficit to stabilize at about 1.2% of GDP as the local economy gradually returns to pre-pandemic activity levels.

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