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ECONOMIC REPORT | Balance of Payment

Current Account Surplus at 5-Year High, Driven By Robust Trade Surplus Performance

- *Current account surplus at 5-year high. Malaysia's current account surplus recorded a surplus of RM16.4b in the 1Q19, the largest reading since 1Q14. The surge was mainly attributable to higher increase in goods surplus due to a remarkable trade surplus of RM36.9b in 1Q19 resulting from bigger decline in imports compared to those of exports..*
- *Primary income improves; secondary worsen. The higher current account surplus was also contributed by further recovery in primary income (-RM10.1b vs -RM12.9b in 4Q18). The smaller deficit in primary income was mainly due to lower dividend payments to foreign investment as reflected in the portfolio investments (-RM3.4b vs –RM6b in 4Q18).*
- *We forecast current account surplus to register RM31.5b in 2019. We expect Malaysia's economy to continue expanding in 2019 amid solid domestic demand and recovery in commodity prices. Via the channel of moderating imports demand particularly on capital and intermediate goods and optimistic tourism activity, we opine a continuous surplus in current account this year at RM31.5b, slightly higher than 2018's RM 30.6b amid of lower base effects.*

Current account surplus at 5-year high. Malaysia's current account surplus recorded a surplus of RM16.4b in the 1Q19, the largest reading since 1Q14. The surge was mainly attributable to higher increase in goods surplus due to a remarkable trade surplus of RM36.9b in 1Q19 resulting from bigger decline in imports compared to those of exports. Imports contracted -2.5%yoy in the 1Q19, exceeding -0.7%yoy drop in exports. Lower purchases of both intermediate and capital goods dragged overall imports down. In addition, significant decline in services deficit and primary income compared to previous quarter also contributed to the higher current account surplus. Hence, Malaysia strengthened its position as a net domestic saver built up from a record of current-account surpluses.

Transportation drives improvement in services account. Lower outflow in transportation at RM6b compared to RM7.2b in the preceding quarter contributed to better performance in services account. In addition, deficit narrowed for construction and insurance & pension, among others. Besides that, tourism activities demonstrated positive momentum in 1Q19 as reflected in travel which recorded a higher surplus of RM7.9b compared to RM7.7b in the previous quarter. Moving forward, we foresee that tourism activities will continue to be in upbeat momentum throughout the year in conjunction to government initiatives to promote domestic tourism via relaxing Visa On Arrival (VOA) requirements and introducing departure levy which are already on the cards. Meanwhile, we also anticipate that construction deficit to widen in upcoming quarters due to gradual recommencement of mega projects such as ECRL which involved high usage of foreign-owned construction services compared to domestic-owned.

Primary income improves; secondary worsen. The higher current account surplus was also contributed by further recovery in primary income (-RM10.1b vs -RM12.9b in 4Q18). The smaller deficit in primary income was mainly due to lower dividend payments to foreign investment as reflected in the portfolio investments (-RM3.4b vs –RM6b in 4Q18). In addition, other investment posted larger surplus of RM3.3b compared to RM2.7b in the prior quarter, further supporting the improvement. In contrast, secondary income deficit continued trending upwards, the latest at –RM5.5b.

Table 1: Summary of Current Account (RM Billion)

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Current Account	10.2	12.2	10.9	13.6	2.8	3.3	10.8	16.4
Goods	27.4	31.6	32.8	34.2	25.9	26.4	32.7	33.8
Services	(4.7)	(5.0)	(7.1)	(5.5)	(5.6)	(2.9)	(3.8)	(1.8)
Manufacturing Services	2.5	2.6	2.8	2.7	2.6	2.9	2.9	2.6
Maintenance & Repair	(0.0)	(0.0)	0.0	0.0	0.0	0.1	(0.0)	(0.0)
Transportation	(7.5)	(7.4)	(7.4)	(6.4)	(6.8)	(7.1)	(7.2)	(6.0)
Travel	8.4	9.0	7.5	6.7	7.3	8.4	7.7	7.9
Construction	(2.5)	(3.3)	(4.3)	(2.8)	(3.2)	(1.3)	(0.9)	(0.8)
Insurance & Pension	(2.0)	(2.1)	(2.3)	(2.0)	(2.2)	(2.2)	(2.2)	(2.0)
Financial	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)
Charges of Intellectual's use	(1.7)	(1.7)	(1.7)	(1.5)	(1.7)	(1.8)	(2.0)	(1.7)
Telecom, Computer & Info	(0.5)	(0.4)	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)
Cultural & Recreational	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(1.1)	(0.8)
Government Goods & Services	(0.3)	(0.5)	(0.2)	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)
Other Business Services	(0.3)	(0.4)	(0.5)	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)
Primary Income	(8.2)	(10.1)	(10.2)	(10.4)	(12.8)	(15.5)	(12.9)	(10.1)
Compensation of Employees	(1.2)	(1.2)	(1.3)	(1.6)	(1.7)	(2.0)	(2.4)	(2.4)
Direct Investment	(6.6)	(8.9)	(6.8)	(8.0)	(9.2)	(11.4)	(7.2)	(7.6)
Portfolio Investment	(3.9)	(2.7)	(4.5)	(4.0)	(5.1)	(4.1)	(6.0)	(3.4)
Other Investment	3.6	2.7	2.4	3.2	3.3	2.0	2.7	3.3
Secondary Income	(4.3)	(4.3)	(4.6)	(4.6)	(4.8)	(4.6)	(5.2)	(5.5)

Source: CIEC, MIDFR

Other investments dragged financial account down. For 1Q19, financial account posted a net outflow of -RM13.8b, doubled the outflow in 4Q18. It was largely due to higher net outflow in other investments amounted to -RM31.9b, largest outflow since 3Q12. In contrast, portfolio and direct investment strengthened in 1Q19. Foreign direct investments into Malaysia soared to RM21.7b, highest value ever recorded, contributing to net inflow of RM16.3b in the 1Q19. Similarly, portfolio investment rebounded from net outflow of RM5.8b in 4Q18 to net inflow of RM2.1b in 1Q19.

Table 2: Summary of Capital and Financial Account (RM Billion)

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Capital Account	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Financial Account	9.0	(6.3)	0.9	11.9	10.5	2.3	(6.1)	(13.8)
Direct Investment	(7.1)	9.1	5.0	9.2	(0.5)	0.5	2.1	16.3
Portfolio Investment	17.5	(9.9)	9.4	(1.5)	(37.9)	0.8	(5.8)	2.1
Financial Derivatives	(0.3)	0.6	(1.1)	0.8	0.8	0.0	(0.7)	(0.2)
Other Investment	(1.1)	(6.1)	(12.3)	3.3	48.2	1.0	(1.8)	(31.9)
Net Errors & Omissions	(8.9)	0.3	(9.6)	(7.3)	(14.2)	(9.1)	(10.8)	2.9

Source: CIEC, MIDFR
*Capital Account; 0.0=Less than RM50 million

China's current account surplus is on the rise. China's current account balance plunged into deficit of USD34.1b or -1.1% of GDP in 1Q18 amid trade war. However, it quickly recovered in the following quarter and trending upwards since then. As in 1Q19, China's current account surplus increased further to USD58.6b or 1.9% of GDP. Meanwhile, Indonesia's current account balance remained in deficit for the 1Q19 but improved slightly to -2.6% of GDP from -3.6% in the previous quarter. However, moving forward, we foresee the performance of current account balance in the key economies to deteriorate as resumed trade wars are likely to impact global trade performances. Based on the latest external trade performances in Apr-19, China's trade surplus fell to USD13.8b from USD26.2b in the same month last year and far below market expectations of a surplus of USD35b. Similarly, Indonesia's trade deficit widened to USD2.5b, the first trade deficit in year 2019 and the largest gap ever recorded. Worsening trade performance on top of weakening currency are downside risks to current account balance.

Table 3: Current Account to GDP by Selected Economies (%)

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Malaysia	3.0	3.5	3.0	3.9	0.8	0.9	2.9	4.5
Indonesia	(1.7)	(1.6)	(2.2)	(2.0)	(3.0)	(3.3)	(3.6)	(2.6)
Singapore	16.6	17.9	13.1	16.6	19.8	20.3	14.1	
Australia	(2.1)	(3.4)	(3.3)	(2.0)	(2.3)	(2.8)	(1.6)	
China	2.0	1.5	2.0	(1.1)	0.2	0.7	1.5	1.9
EU	0.6	2.0	2.0	1.1	0.7	1.3	1.5	
US	(2.8)	(2.3)	(2.3)	(1.9)	(2.3)	(2.7)	(2.7)	
Korea	4.1	5.7	4.8	3.8	4.7	6.2	4.1	
Japan	3.5	5.4	3.0	4.3	3.7	4.3	1.8	

Source: CEIC, MIDFR

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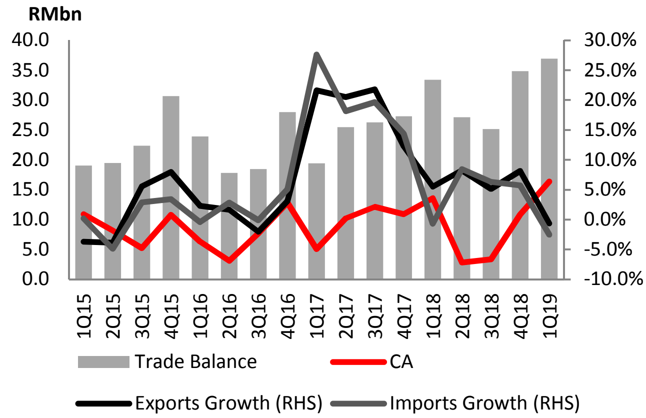
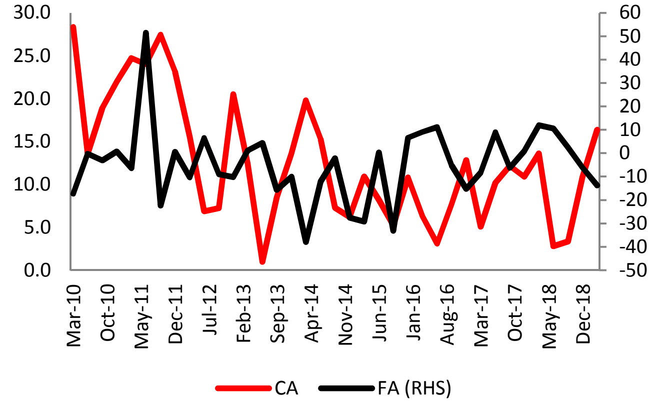
Chart 1: Current Account Balance vs External Trade



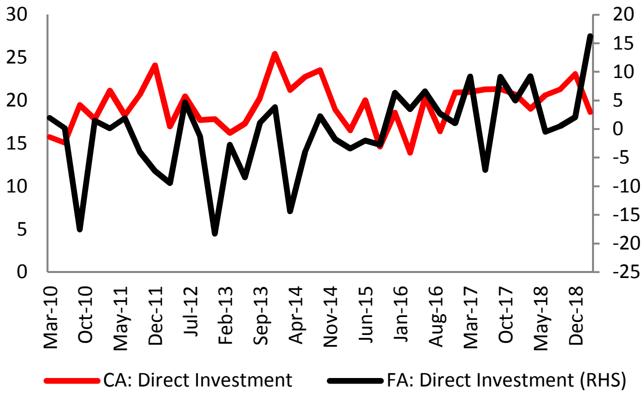
Source: CIEC, MIDFR

Chart 2: CA vs FA (RM Billion)



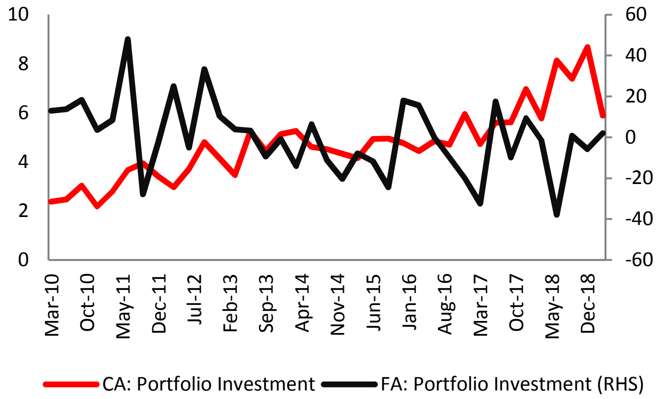
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



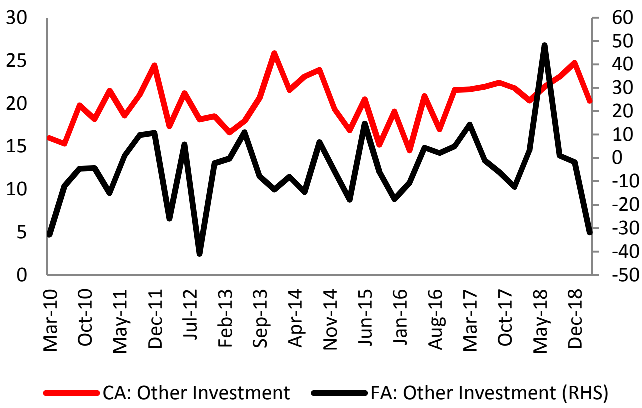
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



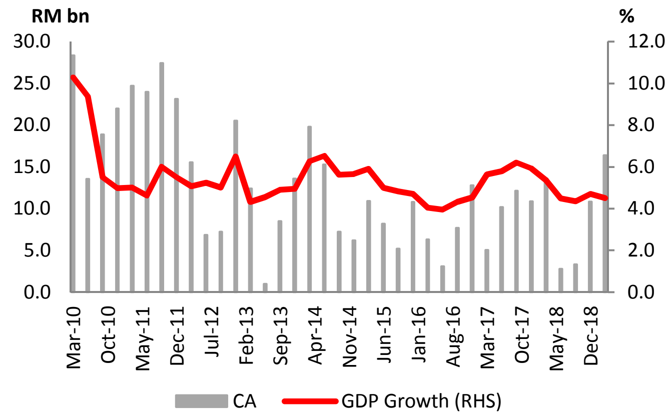
Source: CIEC, MIDFR

Chart 5: Other Investment (RM Billion)



Source: CIEC, MIDFR

Chart 6: Current Account vs GDP Growth



Source: CIEC, MIDFR

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