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ECONOMIC REPORT | Balance of Payment

1H19 Current Account Surplus Has Exceeded 2018's Full Year Figure Due to Robust Trade Surplus

- *Current account surplus increased 5-times higher. Malaysia's current account surplus recorded a surplus of RM14.3b in the 2Q19 or 3.8% to the GDP which is about 5-times higher than RM2.8b in the same quarter of last year. However, the surplus went down compared to RM16.4b in 1Q19. The annual surge was mainly attributable to higher increase in goods surplus due to a solid trade surplus of RM30.1b in 2Q19 (2Q18: RM27.1b) resulting from still growing exports but declining imports.*
- *FDI from China is relatively small. After the announcement of Belt and Road Initiative (BRI) in late 2013, share of China in total net inflows of FDI into Malaysia showed some increasing trend. The share jumped to 6.3% in 2017 compared to 2.1% in 2014. However, the share reduced sharply to 2.8% in 2018 amid cancellation of some projects following the change in administration. Based on the latest data as in 1Q19, China is only accounted for 2.1% of the total FDI in Malaysia.*
- *We forecast current account surplus to register RM42.3b in 2019. We expect Malaysia's economy to continue expanding in 2019 amid solid domestic demand. Via the channel of moderating imports demand partly due to Ringgit deprecation on top of optimistic tourism activity, we opine a continuous surplus in current account this year at RM42.3b, higher than 2018's RM 30.6b amid of lower base effects. For the 1H19, current account surplus recorded at RM30.6b.*

Current account surplus increased 5-times higher. Malaysia's current account surplus recorded a surplus of RM14.3b in the 2Q19 or 3.8% to the GDP which is about 5-times higher than RM2.8b in the same quarter of last year. However, the surplus went down compared to RM16.4b in 1Q19. The annual surge was mainly attributable to higher increase in goods surplus due to a solid trade surplus of RM30.1b in 2Q19 (2Q18: RM27.1b) resulting from still growing exports but declining imports. Exports recorded a tepid growth of 0.1%yoy while imports contracted by -1.1%yoy during the quarter. In addition, significant decline in services deficit and primary income compared to the same period last year also contributed to the higher surplus. Meanwhile, secondary income deficit widened marginally to RM 4.9b (2Q18: RM4.8b). Nevertheless, Malaysia still positioned as a net domestic saver built up from a record of current-account surpluses.

Construction drives improvement in services account. Lower outflow in construction sector at RM 0.9b (2Q18: RM 3.2b) contributed to better performance in services account. However, we anticipate this phenomenon to be temporary as moving forward we foresee construction activities to increase gradually due to resumption of mega projects such as ECRL. Hence, it could widen construction deficit as it involved substantial usage of foreign-owned construction services. Besides that, narrowing deficit in transportation sector and further increase in manufacturing services contributed to the improvement in overall services account. Meanwhile, we observed some decline in tourism activities as reflected in travel which recorded a marginally lower surplus of RM 7.1b compared to RM 7.5b in 2Q18. Nevertheless, we foresee that tourism activities will increase in the future 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.

Table 1: Summary of Current Account (RM Billion)

	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Current Account	12.2	10.9	13.6	2.8	3.3	10.8	16.4	14.3
Goods	31.6	32.8	34.2	25.9	26.4	32.7	33.8	28.1
Services	(5.0)	(7.1)	(5.5)	(5.6)	(2.9)	(3.8)	(1.8)	(3.4)
Manufacturing Services	2.6	2.8	2.7	2.6	2.9	2.9	2.6	2.9
Maintenance & Repair	(0.0)	0.0	0.0	0.0	0.1	(0.0)	(0.0)	(0.0)
Transportation	(7.4)	(7.4)	(6.4)	(6.8)	(7.1)	(7.2)	(6.0)	(6.6)
Travel	9.0	7.5	6.7	7.3	8.4	7.7	7.9	7.1
Construction	(3.3)	(4.3)	(2.8)	(3.2)	(1.3)	(0.9)	(0.8)	(0.9)
Insurance & Pension	(2.1)	(2.3)	(2.0)	(2.2)	(2.2)	(2.2)	(2.0)	(2.2)
Financial	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
Charges of Intellectual's use	(1.7)	(1.7)	(1.5)	(1.7)	(1.8)	(2.0)	(1.7)	(1.9)
Telecom, Computer & Info	(0.4)	(0.4)	(0.5)	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)
Cultural & Recreational	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(1.1)	(0.8)	(0.9)
Government Goods & Services	(0.5)	(0.2)	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)
Other Business Services	(0.4)	(0.5)	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
Primary Income	(10.1)	(10.2)	(10.4)	(12.8)	(15.5)	(12.9)	(10.1)	(5.5)
Compensation of Employees	(1.2)	(1.3)	(1.6)	(1.7)	(2.0)	(2.4)	(2.4)	(2.1)
Direct Investment	(2.1)	(2.2)	(2.0)	(2.2)	(2.2)	(2.1)	(2.0)	(2.2)
Portfolio Investment	(1.4)	(1.3)	(1.0)	(1.4)	(1.3)	(1.6)	(1.2)	(1.4)
Other Investment	(0.4)	(0.6)	(0.6)	(0.6)	(0.5)	(0.8)	(0.5)	(0.6)
Secondary Income	(4.3)	(4.6)	(4.6)	(4.8)	(4.6)	(5.2)	(5.5)	(4.9)

Source: CIEC, MIDFR

Direct and other investment dragged financial account down. For 2Q19, financial account posted a net outflow of RM 18.6b, in contrast to the inflow of RM 10.5b in 2Q18. It was largely due to sharp decline in net inflow of other investments amounted to RM 0.3b compared to RM 48.2b in the same quarter last year. In addition, direct investment posted higher net outflow of RM 8.2b (2Q18: RM 0.5b), largest outflow since 1Q14. Meanwhile, portfolio investment recorded a lower net outflow of RM 10.2b (2Q18: RM 37.9b).

FDI from China is relatively small. After the announcement of Belt and Road Initiative (BRI) in late 2013, share of China in total net inflows of FDI into Malaysia showed some increasing trend. The share jumped to 6.3% in 2017 compared to 2.1% in 2014. However, the share reduced sharply to 2.8% in 2018 amid cancellation of some projects following the change in administration. Based on the latest data as in 1Q19, China is only accounted for 2.1% of the total FDI in Malaysia. The largest FDI came from Japan at circa 25%. The US is also one of the biggest contributors to FDI in the country at 8.6%. Meanwhile, ASEAN countries contributed about 16% to the total FDI inflows. In term of growth, FDI inflow from China has been in negative territory since 3Q17. In contrast, FDI from Japan has been trending upwards since 3Q18 with the latest growth of 263% in 1Q19. Besides that, based on data from MIDA, Malaysia's approved FDI from China in 1Q19 recorded at RM 4.4b, far below 2018's figure of RM 19.7b. In contrast, FDI from the US in the 1Q19 which is at RM 11.5b has already exceeded RM 3.2b of full 2018.

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

	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Capital Account	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)
Financial Account	(6.3)	0.9	11.9	10.5	2.3	(6.1)	(13.8)	(18.6)
Direct Investment	9.1	5.0	9.2	(0.5)	0.5	2.1	16.3	(8.2)
Portfolio Investment	(9.9)	9.4	(1.5)	(37.9)	0.8	(5.8)	2.1	(10.2)
Financial Derivatives	0.6	(1.1)	0.8	0.8	0.0	(0.7)	(0.2)	(0.5)
Other Investment	(6.1)	(12.3)	3.3	48.2	1.0	(1.8)	(31.9)	0.3
Net Errors & Omissions	0.3	(9.6)	(7.3)	(14.2)	(9.1)	(10.8)	2.9	2.9

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

Current account surpluses are losing momentum. Based on the latest available data, current account surplus for most of the key countries are weakening. Japan's current account balance decreased to JPY 4.6t or 3.3% to GDP in 2Q19 (1Q19: JPY 6t or 4.3% to GDP). Similarly, Singapore's current account balance decreased marginally to SGD 21.5b or 17.5% of GDP. In regards to China, the country quickly recovered from a current account deficit in 1Q18 and has been trending upwards since then. However, in the recent quarters, it seemed like China has lost its momentum. The share of current account surplus to GDP had been quite stagnant, inched up to 1.6% in 2Q19 after maintaining at 1.5% for two consecutive quarters. The weakening performances are within expectation amid US-China trade discord. Moving forward, we foresee the performance of current account balance in the key economies to deteriorate as many recent occurrence including US-China and Japan-South Korea trade tensions are likely to impact global trade performances. Worsening trade performance on top of weakening currency are downside risks to current account balance.

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

	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Malaysia	3.5	3.0	3.9	0.8	0.9	2.9	4.5	3.8
Indonesia	(1.6)	(2.2)	(2.0)	(3.0)	(3.3)	(3.6)	(2.6)	(3.0)
Singapore	18.2	13.5	17.1	20.2	20.2	14.2	17.6	17.5
Australia	(3.3)	(3.3)	(2.0)	(2.2)	(2.6)	(1.3)	(0.2)	
China	1.5	2.0	(1.1)	0.2	0.7	1.5	1.5	1.6
EU	2.0	2.1	1.1	0.8	1.4	1.6	0.6	
US	(2.3)	(2.3)	(1.7)	(2.3)	(2.7)	(2.9)	(1.9)	
Korea	5.4	4.5	3.6	4.4	5.8	3.9	2.8	
Japan	5.4	3.0	4.3	3.7	4.3	1.8	4.3	3.3

Source: CEIC, MIDFR

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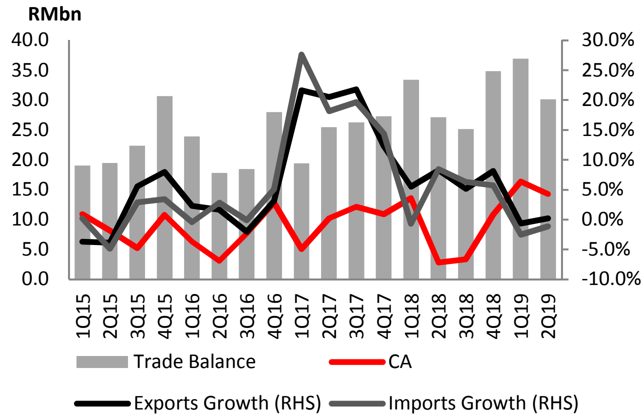
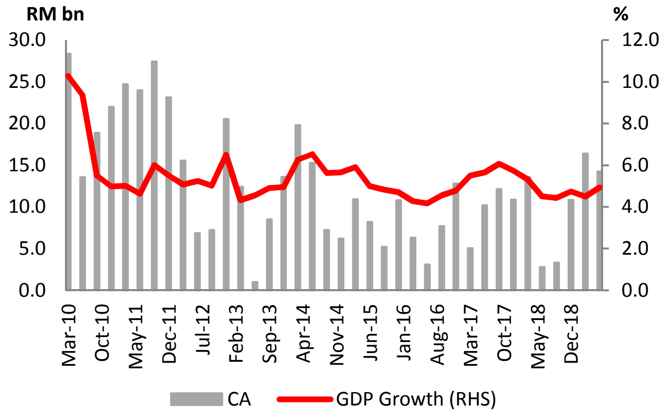
Chart 1: Current Account Balance vs External Trade



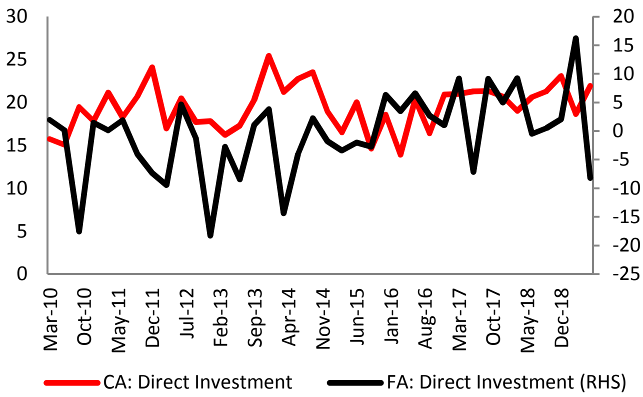
Source: CIEC, MIDFR

Chart 2: Current Account vs GDP Growth



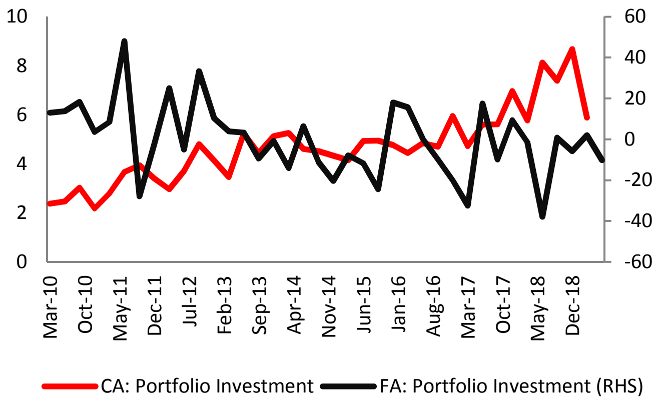
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



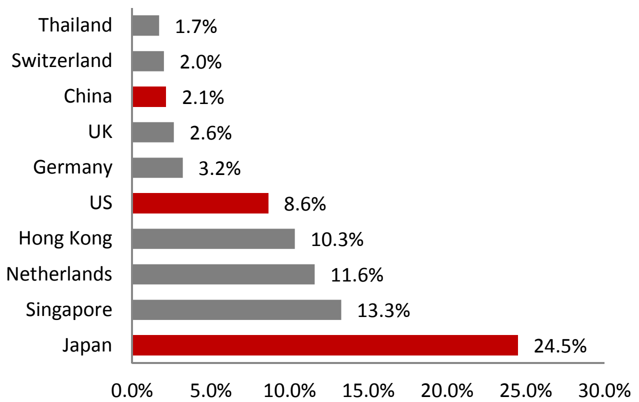
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



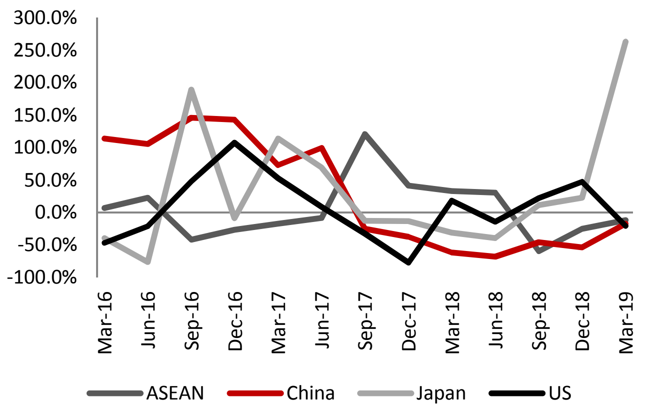
Source: CIEC, MIDFR

Chart 5: FDI Inflow by Country in 2Q19 (Share %)



Source: CIEC, MIDFR

Chart 6: FDI Inflow by Country (YoY %)



Source: CIEC, MIDFR

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