

ECONOMIC REPORT | Balance of Payment**Lowest Current Account Surplus So Far This Year amid Widening Deficit in Primary & Secondary Income**

- *Current account surplus at three-month low. Malaysia's current account surplus dropped to RM 11.5b (or 3% of the GDP) in 3Q19, the lowest so far this year. However, the figure was significantly higher than RM 3.3b surplus recorded in the same quarter last year. The quarterly sequential moderation was mainly due to higher deficit in primary and secondary income which increased to RM 12.2b and RM 5.5b compared to RM 5.5b and RM 4.9b respectively in 2Q19. In contrast, goods and services account improved in 3Q19. Goods surplus increased to RM 30.8b due to solid trade surplus of RM 33.5b (2Q19: RM 30.4b) resulting from harder fall in imports compared to exports.*
- *Financial account improves as most of the components recover. Significant improvement could be seen in the financial account as it posted far lower net outflow of RM 1.3b compared to RM 18.6b in 2Q19. It was largely due to sharp increase in net inflow of other investments amounted to RM 25.3b (2Q19: RM 0.3b) and sharp decrease in net outflow of direct investment amounted to RM 0.8b (2Q19: RM8.2b). The recovery in direct investment was mainly due to lower outflow of Direct Investment Abroad (DIA) at RM 3.7b (2Q19: RM 12.6b) while Foreign Direct Investment (FDI) continued to received smaller net inflow of RM 2.9b. Moving forward, we foresee continuous inflow of FDI probably at a higher amount on the back of approved FDI in 1H19 which increased by 97.2% to RM 49.5b.*
- *We forecast current account surplus to register RM52b 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 depreciation, we opine a continuous surplus in current account this year at RM52b, higher than RM30.6b registered in 2018. For the first three quarters of 2019, current account surplus was recorded at RM42.1b.*

Current account surplus at three-month low. Malaysia's current account surplus dropped to RM 11.5b (or 3% of the GDP) in 3Q19, the lowest so far this year. However, the figure was significantly higher than RM 3.3b surplus recorded in the same quarter last year. The quarterly sequential moderation was mainly due to higher deficit in primary and secondary income which increased to RM 12.2b and RM 5.5b compared to RM 5.5b and RM 4.9b respectively in 2Q19. In contrast, goods and services account improved in 3Q19. Goods surplus increased to RM 30.8b due to solid trade surplus of RM 33.5b (2Q19: RM 30.4b) resulting from harder fall in imports compared to exports. Exports and imports contracted by -1.9%yoy and -5.8%yoy respectively during the quarter. Meanwhile, services account continued to be in deficit but improved to RM 1.6b (2Q19: RM 3.4b). Nevertheless, Malaysia is still positioned as a net domestic saver built up from a record of current account surpluses.

Tourism drives improvement in services account. We observed some increase in tourism activities as reflected in travel account which recorded higher surplus of RM 9.5b, the highest level recorded since 3Q14. In line, airport passenger movement growth recorded at 8%yoy in 3Q19, the fastest rate in nine quarters. Moving forward, we foresee that tourism activities will continue to increase particularly next year buoyed by tax exemptions and incentives for the tourism sector announced in Budget 2020 in an effort to promote Visit Malaysia 2020. In addition, reduced fee of Visa on Arrival (VOA) would be constructive to our tourism industry. Besides that, narrowing deficit in transportation and insurance & pension sector also contributed to the improvement in overall services account.

Table 1: Summary of Current Account (RM Billion)

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Current Account	10.9	13.6	2.8	3.3	10.8	16.4	14.3	11.5
Goods	32.8	34.2	25.9	26.4	32.7	33.8	28.1	30.8
Services	(7.1)	(5.5)	(5.6)	(2.9)	(3.8)	(1.8)	(3.4)	(1.6)
<i>Manufacturing Services</i>	2.8	2.7	2.6	2.9	2.9	2.6	2.9	2.9
<i>Maintenance & Repair</i>	0.0	0.0	0.0	0.1	(0.0)	(0.0)	(0.0)	(0.1)
<i>Transportation</i>	(7.4)	(6.4)	(6.8)	(7.1)	(7.2)	(6.0)	(6.6)	(6.5)
<i>Travel</i>	7.5	6.7	7.3	8.4	7.7	7.9	7.1	9.5
<i>Construction</i>	(4.3)	(2.8)	(3.2)	(1.3)	(0.9)	(0.8)	(0.9)	(0.9)
<i>Insurance & Pension</i>	(2.3)	(2.0)	(2.2)	(2.2)	(2.2)	(2.0)	(2.2)	(2.1)
<i>Financial</i>	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
<i>Charges of Intellectual's use</i>	(1.7)	(1.5)	(1.7)	(1.8)	(2.0)	(1.7)	(1.9)	(2.3)
<i>Telecom, Computer & Info</i>	(0.4)	(0.5)	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)
<i>Cultural & Recreational</i>	(0.8)	(0.9)	(0.9)	(0.9)	(1.1)	(0.8)	(0.9)	(1.1)
<i>Government Goods & Services</i>	(0.2)	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
<i>Other Business Services</i>	(0.5)	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Primary Income	(10.2)	(10.4)	(12.8)	(15.5)	(12.9)	(10.1)	(5.5)	(12.2)
<i>Compensation of Employees</i>	(1.3)	(1.6)	(1.7)	(2.0)	(2.4)	(2.4)	(2.1)	(2.2)
<i>Direct Investment</i>	(6.8)	(8.0)	(9.2)	(11.4)	(7.2)	(7.6)	(4.6)	(10.3)
<i>Portfolio Investment</i>	(4.5)	(4.0)	(5.1)	(4.1)	(6.0)	(3.4)	(1.9)	(3.4)
<i>Other Investment</i>	2.4	3.2	3.3	2.0	2.7	3.3	3.1	3.7
Secondary Income	(4.6)	(4.6)	(4.8)	(4.6)	(5.2)	(5.5)	(4.9)	(5.5)

Source: CIEC, MIDFR

Financial account improves as most of the components recover. Significant improvement could be seen in the financial account as it posted far lower net outflow of RM 1.3b compared to RM 18.6b in 2Q19. It was largely due to sharp increase in net inflow of other investments amounted to RM 25.3b (2Q19: RM 0.3b) and sharp decrease in net outflow of direct investment amounted to RM 0.8b (2Q19: RM8.2b). The recovery in direct investment was mainly due to lower outflow of Direct Investment Abroad (DIA) at RM 3.7b (2Q19: RM 12.6b) while Foreign Direct Investment (FDI) continued to received smaller net inflow of RM 2.9b. Moving forward, we foresee continuous inflow of FDI probably at a higher amount on the back of approved FDI in 1H19 which increased by 97.2% to RM 49.5b. Meanwhile, portfolio investment continued to record net outflow at RM26.8b mainly driven by deteriorating investors' confidence over US-China trade tensions and slowing global economy. Looking ahead, we anticipate a revival in capital flow driven by three rate cuts in a row by the US Fed this year with the latest one in Oct-19 which could potentially boost capital inflows to the emerging markets.

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

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Capital Account	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)
Financial Account	0.9	11.9	10.5	2.3	(6.1)	(13.8)	(18.6)	(1.3)
<i>Direct Investment</i>	5.0	9.2	(0.5)	0.5	2.1	16.3	(8.2)	(0.8)
<i>Portfolio Investment</i>	9.4	(1.5)	(37.9)	0.8	(5.8)	2.1	(10.2)	(26.8)
<i>Financial Derivatives</i>	(1.1)	0.8	0.8	0.0	(0.7)	(0.2)	(0.5)	0.9
<i>Other Investment</i>	(12.3)	3.3	48.2	1.0	(1.8)	(31.9)	0.3	25.3
Net Errors & Omissions	(9.6)	(7.3)	(14.2)	(9.1)	(10.8)	2.9	2.9	(3.7)

Source: CIEC, MIDFR

*Capital Account; 0.0=Less than RM50 million

Current account surpluses are gaining momentum. Based on the latest available data, current account surplus for most of the key countries are strengthening. Japan's current account balance increased to JPY 5.8t or 4.2% to GDP in 3Q19 (2Q19: JPY 4.6t or 3.3% of GDP). Similarly, China's current account surplus continued trending upwards to USD 54.9b with share of its surplus to GDP recorded higher at 1.6%, the highest in seven quarters. Moving forward, we foresee the performance of current account balance in the key economies to improve gradually on the back of partial agreement between the US and China which are likely to influence global trade performances.

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

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Malaysia	3.0	3.9	0.8	0.9	2.9	4.5	3.8	3.0
Indonesia	(2.2)	(1.9)	(3.0)	(3.2)	(3.6)	(2.5)	(2.9)	(2.7)
Singapore	13.5	17.1	20.2	20.2	14.2	17.6	17.5	
Australia	(3.4)	(2.1)	(2.3)	(2.7)	(1.3)	(0.0)	1.5	
China	2.0	(1.1)	0.2	0.7	1.5	1.3	1.3	1.6
EU	2.1	1.2	1.0	1.4	1.7	0.8	0.2	
US	(2.3)	(1.7)	(2.3)	(2.7)	(2.9)	(2.0)	(2.6)	
Korea	4.5	3.6	4.4	5.8	3.9	2.8	2.8	
Japan	3.0	4.3	3.7	4.3	1.8	4.3	3.3	4.2

Source: CEIC, MIDFR


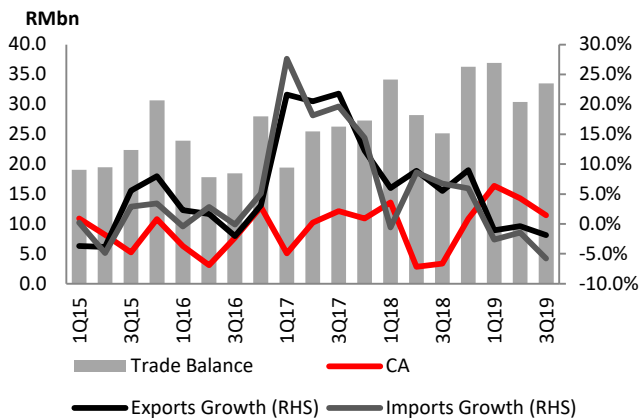
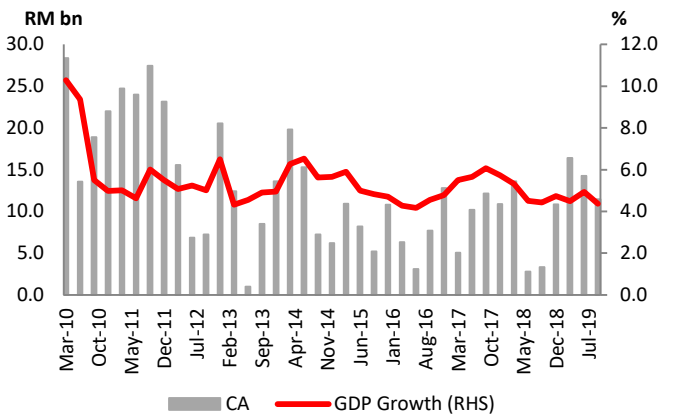
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Chart 1: Current Account Balance vs External Trade



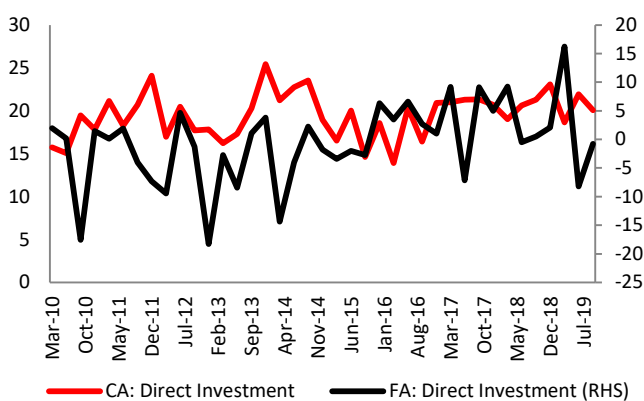
Source: CIEC, MIDFR

Chart 2: Current Account vs GDP Growth



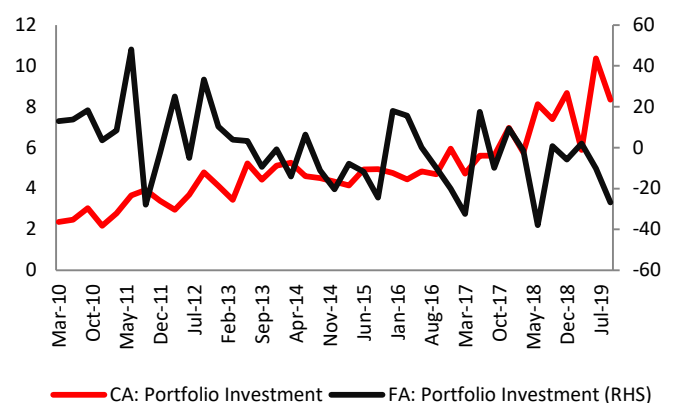
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



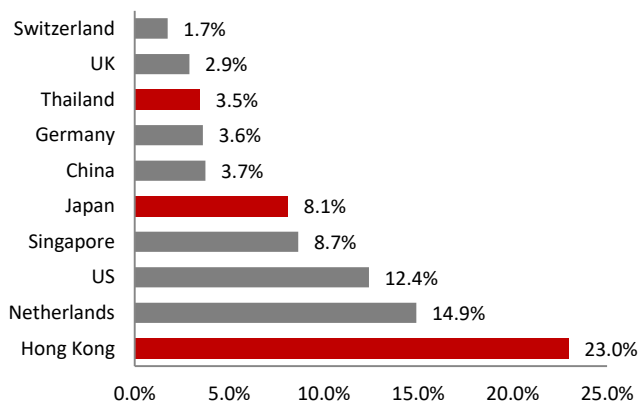
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



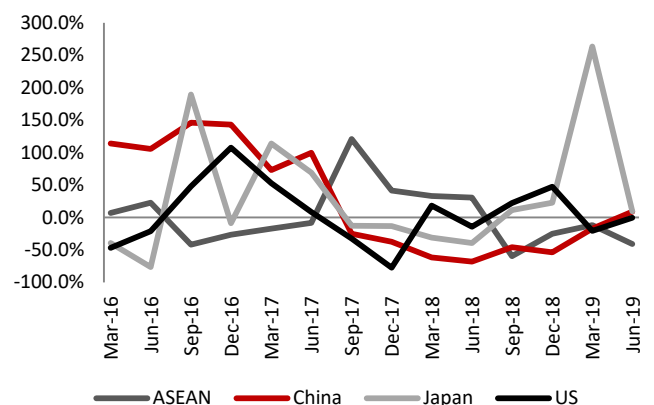
Source: CIEC, MIDFR

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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