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ECONOMIC REPORT | Balance of Payment

Lowest Current Account Surplus in Five Quarters Due to Widening Deficit in Primary Income & Services Account

- *Current account surplus at five-quarter low. Malaysia's current account surplus dropped further to RM7.6b (or 1.9% of the GDP) in 4Q19, the lowest since 3Q18. The quarterly sequential moderation was mainly due to higher deficit in primary income and services account which increased to RM15.7b and RM4b compared to RM12.2b and RM1.6b in 3Q19. In contrast, goods account continued improving to RM32.8b due to solid trade surplus of RM36.5b (3Q19: RM 33.5b) resulting from harder fall in imports compared to exports. Exports and imports contracted by -3.3%yoy and -4%yoy respectively during the quarter.*
- *Tourism dragged down services account. We observed significant decrease in tourism activities as reflected in travel account which recorded lower surplus of RM6.4b, the lowest level recorded since 3Q15. In line, airport passenger movement growth recorded at 6.7%yoy in 4Q19 lower than 8%yoy in the preceding quarter. Moving forward, we foresee that tourism activities will continue to decrease as tourist arrivals expected for Visit Malaysia 2020 will be attenuated by covid-19 epidemic depending on its severity and duration.*
- *End-2020 Ringgit target at RM4.20 against the USD. The decision of FTSE Russell to retain Malaysia on its FTSE World Government Bond Index (WGBI) watch list until further update after the interim review in Mar-20 would pose some pressure on Ringgit as it raises the risk of capital flight. Besides that, lower interest rates resulting from OPR cut tend to be unattractive for foreign investments, reducing the demand for and relative value of the currency. In addition, the latest threat of covid-19 epidemic could be a downside risk if it prolongs and resulting in global supply chain disruption.*
- *We forecast current account surplus at 2.7% of GDP in 2020. Via the channel of better exports demand, we opine a continuous surplus in current account for 2020. However, we foresee a lower current account surplus of 2.7% of the GDP compared to 3.3% in 2019 as imports are expected to recover along with exports and tourism and manufacturing activities are likely to be affected by the covid-19 outbreak.*

Current account surplus at five-quarter low. Malaysia's current account surplus dropped further to RM7.6b (or 1.9% of the GDP) in 4Q19, the lowest since 3Q18. The quarterly sequential moderation was mainly due to higher deficit in primary income and services account which increased to RM15.7b and RM4b compared to RM12.2b and RM1.6b in 3Q19. In contrast, goods account continued improving to RM32.8b due to solid trade surplus of RM36.5b (3Q19: RM 33.5b) resulting from harder fall in imports compared to exports. Exports and imports contracted by -3.3%yoy and -4%yoy respectively during the quarter. Meanwhile, secondary income continued to be in deficit but unchanged at RM5.5b compared to 3Q19. For full year 2019, current account surplus recorded at seven-year high of RM49.7b (or 3.3% of the GDP). Hence, Malaysia is still positioned as a net domestic saver built up from a record of current account surpluses.

Tourism dragged down services account. We observed significant decrease in tourism activities as reflected in travel account which recorded lower surplus of RM6.4b, the lowest level recorded since 3Q15. In line, airport passenger movement growth recorded at 6.7%yoy in 4Q19 lower than 8%yoy in the preceding quarter. Moving forward, we foresee that tourism activities will continue to decrease as tourist arrivals expected for Visit Malaysia 2020 will be attenuated by covid-19 epidemic depending on its severity and duration. Besides that, increasing deficit in transportation also contributed to the deterioration in overall services account.

Table 1: Summary of Current Account (RM Billion)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2019
Current Account	13.6	2.8	3.3	10.8	16.4	14.3	11.5	7.6	49.7
Goods	34.2	25.9	26.4	32.7	33.8	28.1	30.8	32.8	125.5
Services	(5.5)	(5.6)	(2.9)	(3.8)	(1.8)	(3.4)	(1.6)	(4.0)	(10.9)
Manufacturing Services	2.7	2.6	2.9	2.9	2.6	2.9	2.9	3.0	11.3
Maintenance & Repair	0.0	0.0	0.1	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.2)
Transportation	(6.4)	(6.8)	(7.1)	(7.2)	(6.0)	(6.6)	(6.5)	(6.6)	(25.8)
Travel	6.7	7.3	8.4	7.7	7.9	7.1	9.5	6.4	30.9
Construction	(2.8)	(3.2)	(1.3)	(0.9)	(0.8)	(0.9)	(0.9)	(0.4)	(3.0)
Insurance & Pension	(2.0)	(2.2)	(2.2)	(2.2)	(2.0)	(2.2)	(2.1)	(2.0)	(8.3)
Financial	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
Charges of Intellectual's use	(1.5)	(1.7)	(1.8)	(2.0)	(1.7)	(1.9)	(2.3)	(2.3)	(8.3)
Telecom, Computer & Info	(0.5)	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(2.2)
Cultural & Recreational	(0.9)	(0.9)	(0.9)	(1.1)	(0.8)	(0.9)	(1.1)	(0.8)	(3.6)
Government Goods & Services	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(1.0)
Other Business Services	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)
Primary Income	(10.4)	(12.8)	(15.5)	(12.9)	(10.1)	(5.5)	(12.2)	(15.7)	(43.5)
Compensation of Employees	(1.6)	(1.7)	(2.0)	(2.4)	(2.4)	(2.1)	(2.2)	(2.4)	(9.1)
Direct Investment	(8.0)	(9.2)	(11.4)	(7.2)	(7.6)	(4.6)	(10.3)	(10.8)	(33.3)
Portfolio Investment	(4.0)	(5.1)	(4.1)	(6.0)	(3.4)	(1.9)	(3.4)	(4.1)	(12.9)
Other Investment	3.2	3.3	2.0	2.7	3.3	3.1	3.7	1.6	11.8
Secondary Income	(4.6)	(4.8)	(4.6)	(5.2)	(5.5)	(4.9)	(5.5)	(5.5)	(21.4)

Source: CIEC, MIDFR

Financial account improves as most of the components recover. Continuous improvement could be seen in the financial account as it posted lower net outflow of RM 0.6b compared to RM1.3b in 3Q19. It was largely due to inflow of direct investment amounted to RM2.2b, reversing the outflow of RM0.8b in 3Q19 and sharp decrease in net outflow of portfolio investment amounted to RM2.8b (3Q19: RM26.8b). The recovery in direct investment was mainly due to lower outflow of Direct Investment Abroad (DIA) at RM1.5b (3Q19: RM3.7b) and higher net inflow of Foreign Direct Investment (FDI) at RM3.7b (3Q19: RM2.9b). Meanwhile, improvement in portfolio investment reflects increasing investors' confidence following the US-China Phase One trade deal. Looking ahead, we anticipate a revival in capital flow on the expectation of two rate cuts by the US Fed this year which could potentially boost capital inflows to the emerging markets.

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

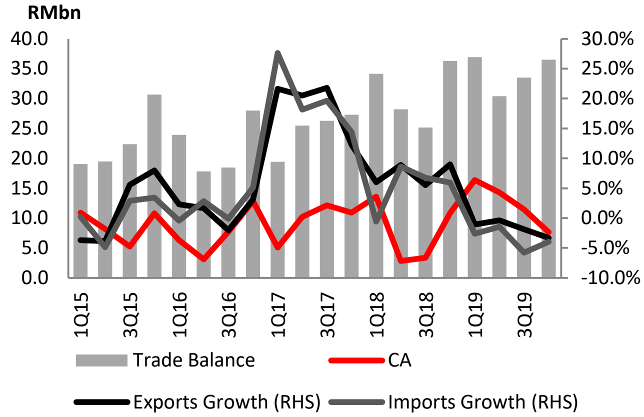
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2019
Capital Account	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.3	0.3
Financial Account	11.9	10.5	2.3	(6.1)	(13.8)	(18.6)	(1.3)	(0.6)	(34.3)
Direct Investment	9.2	(0.5)	0.5	2.1	16.3	(8.2)	(0.8)	2.2	9.4
Portfolio Investment	(1.5)	(37.9)	0.8	(5.8)	2.1	(10.2)	(26.8)	(2.8)	(37.7)
Financial Derivatives	0.8	0.8	0.0	(0.7)	(0.2)	(0.5)	0.9	(0.6)	(0.4)
Other Investment	3.3	48.2	1.0	(1.8)	(31.9)	0.3	25.3	0.6	(5.7)
Net Errors & Omissions	(7.3)	(14.2)	(9.1)	(10.8)	2.9	2.9	(3.7)	(9.4)	(7.2)

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

End-2020 Ringgit target at RM4.20 against the USD. The decision of FTSE Russell to retain Malaysia on its FTSE World Government Bond Index (WGBI) watch list until further update after the interim review in Mar-20 would pose some pressure on Ringgit as it raises the risk of capital flight. Besides that, lower interest rates resulting from OPR cut tend to be unattractive for foreign investments, reducing the demand for and relative value of the currency. In addition, the latest threat of covid-19 epidemic could be a downside risk if it prolongs and resulting in global supply chain disruption. Moving towards the end of this year, the US presidential election scheduled in Nov-20 would boost the greenback and expected to appreciate further assuming Trump's victory in the election. In turn, Ringgit would depreciate. Factoring all that, we foresee Ringgit at USD/RM4.20 (2019: USD/RM4.09) by year-end of 2020 and average at USD/RM4.18 (2019: USD/MYR4.14).

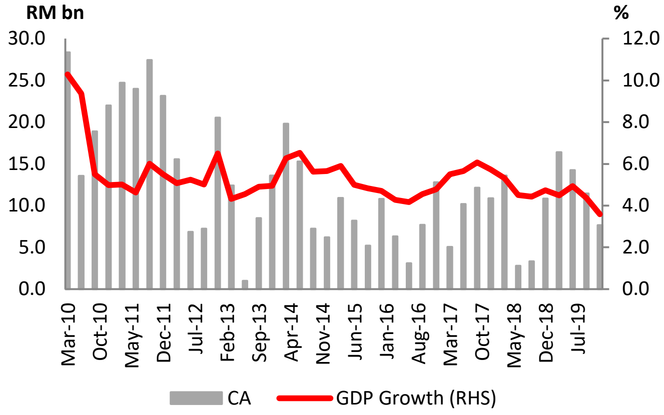
We forecast current account surplus at 2.7% of GDP in 2020. Via the channel of better exports demand, we opine a continuous surplus in current account for 2020. However, we foresee a lower current account surplus of 2.7% of the GDP compared to 3.3% in 2019 as imports are expected to recover along with exports and tourism and manufacturing activities are likely to be affected by the covid-19 outbreak.

Chart 1: Current Account Balance vs External Trade



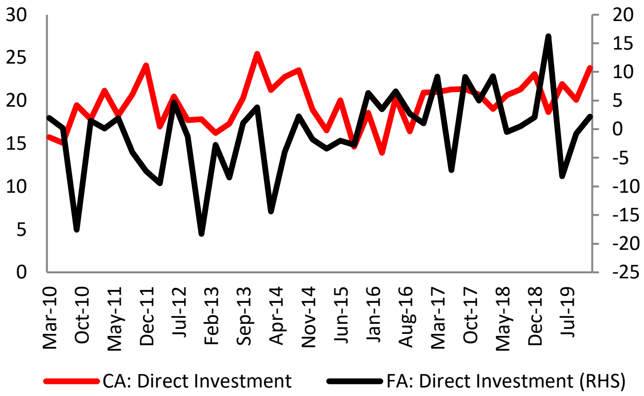
Source: CIEC, MIDFR

Chart 2: Current Account vs GDP Growth



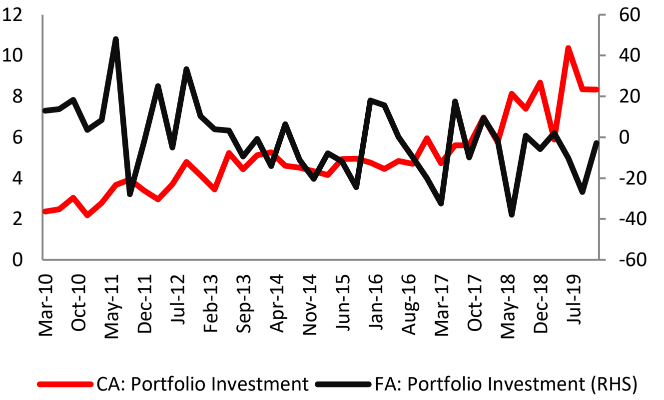
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



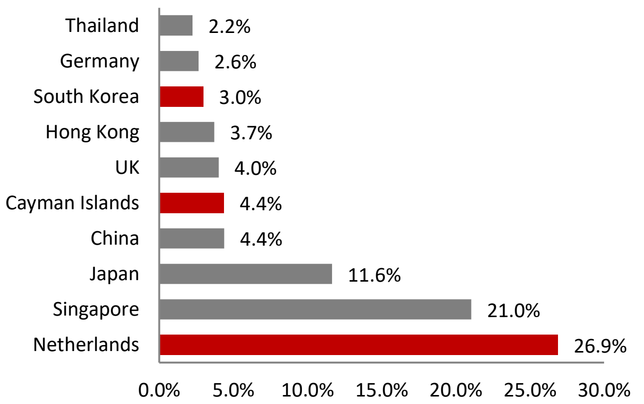
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



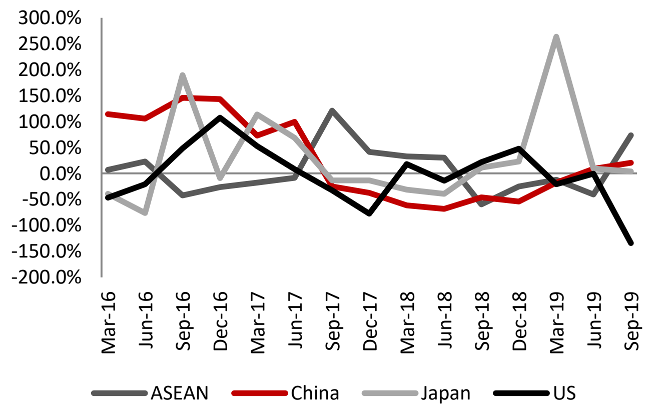
Source: CIEC, MIDFR

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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