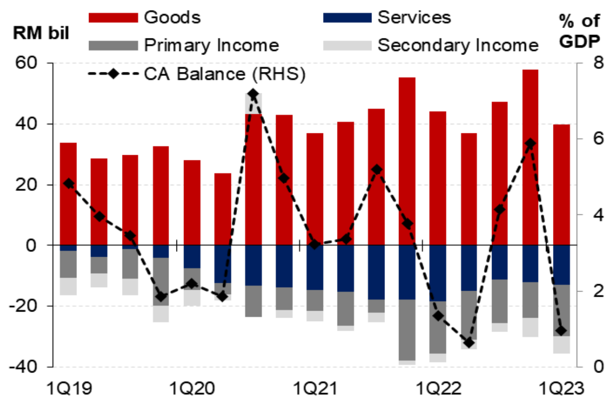
Malaysia 1Q23 Balance of Payments

CA surplus narrowed to its lowest level since 2Q22 on weaker external demand

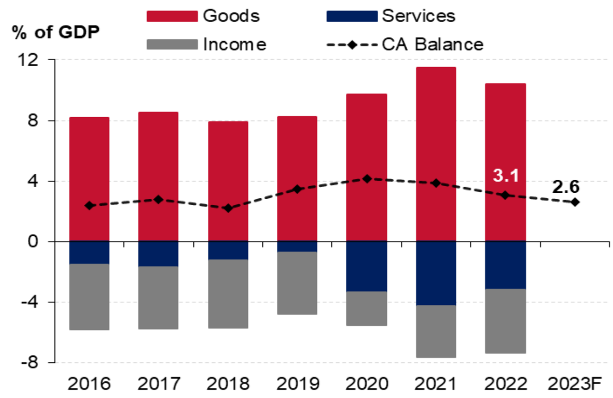
- **The current account (CA) surplus of the balance of payments narrowed considerably to RM4.3b (1.0% of GDP) in 1Q23 (4Q22: RM27.5b or 5.9% of GDP), reaching its lowest level in three quarters**
  - The significant decline in the CA surplus was primarily due to a smaller goods surplus, amid weaker external demand, as well as larger deficits in the primary income and services accounts.
    - **Goods (RM39.9; 4Q22: RM57.7b): moderated to a three-quarter low due to weaker exports**
      - The lower goods surplus was mainly attributable to a sharp slowdown in merchandise exports (RM261.5b; 4Q22: RM317.3b), which remained underpinned by exports of electrical & electronics (E&E) and petroleum & chemical products, especially to Singapore, China, and the US. Nonetheless, merchandise imports also eased (RM221.6b; 4Q22: RM259.6b), albeit to a lesser extent, with major imports being intermediate, capital & consumption goods particularly from China, Singapore, and Taiwan.
    - **Services (-RM12.8b; 4Q22: -RM12.1b): higher deficit recorded due to a lower surplus in travel**
      - Travel remained the primary driver of services exports at RM12.3b (4Q22: 12.2b), but this was also followed by higher travel services imports of RM11.0b. Overall, exports of services fell (RM41.0b; 4Q22: 43.8b) at a faster pace than imports of services (RM53.8b; 4Q22: RM56.0b).
    - **Primary income (-RM16.9b; 4Q22: -RM11.6b): deficit widened to a four-quarter high**
      - Mainly due to lower receipts of RM16.7b (4Q22: RM25.0b), especially in direct investment income. Meanwhile, payments fell at a slower rate (RM33.6b; 4Q22: RM36.5b).
    - **Secondary income (-RM5.9b; 4Q22: -RM6.5b): recorded a lower deficit**
      - Attributable to higher foreign receipts (RM10.2b; 4Q22: RM5.8b), although outward remittances (RM16.0b; 4Q22: RM12.3b) continued to rise.
- **The financial account posted a higher deficit in 1Q23 (-RM2.4b; 4Q22: -RM1.1b), mostly due to greater portfolio investment outflows, which outweighed a rebound in direct investment**
  - **Portfolio investment (-RM33.3b; 4Q22: -RM26.7b):** largest outflow in three years amid greater investment liabilities (-RM17.0b; 4Q22: -RM11.7b) as foreigners purchased more domestic debt securities, and lower investment assets (-RM16.3b; 4Q22: -RM15.0b) as locals reduced their portfolio investment abroad.
  - **Direct investment (RM10.9b; 4Q22: -RM9.3b):** registered a strong positive turnaround as direct investment abroad posted a much smaller net outflow of RM1.1b (4Q22: -RM28.5b), even as FDI slowed to RM12.0b (4Q22: RM19.2b); services were the largest benefactor, predominantly in financial activities, mining & quarrying, and manufacturing.

Graph 1: Current Account Trend



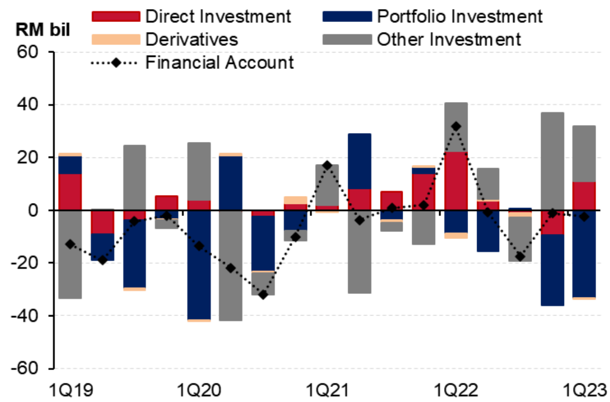
Source: Department of Statistics, Macrobond, Kenanga Research

Graph 2: Current Account Annual Trend & Forecast



Source: Department of Statistics, Macrobond, Kenanga Research

Graph 3: Financial Account Trend



Source: Department of Statistics, Macrobond, Kenanga Research

- **Other investment (RM20.9b; 4Q22: RM36.8b):** recorded a lower net inflow overall, as other investment assets saw a net outflow (-RM4.9b; 4Q22: RM25.6b) even as liabilities registered a higher inflow (RM25.9b; 4Q22: RM11.0b).

- **2023 CA forecast maintained at 2.6% of GDP (2022: 3.1%) as weaker exports and robust domestic demand will likely outweigh a solid recovery in tourism and stronger return of capital inflows**

  - Broad weakness in external activities, driven by a tepid global economic outlook and rising risk of recession in some developed economies, will likely lead to a narrower CA surplus in 2023 overall. However, the downturn should be cushioned by a sustained recovery in tourism, a better-than-expected recovery and demand from China, and a stronger return of foreign capital inflows in 2H23.

  - **USDMYR:** The ringgit is expected to strengthen to around the 4.35 level by end-2Q23, likely driven by the potential end of the Federal Reserve's (Fed) tightening cycle as the US labour market and inflation continues to cool. Furthermore, we anticipate continued appreciation for the ringgit this year, supported by an increasingly solid domestic growth outlook and a projected resurgence of risk-on sentiment in 2H23, coinciding with market expectations of Fed rate cuts by the end of the year. In light of this, we maintain our year-end USDMYR forecast at 4.11 (2022: 4.40).

  - **Bank Negara Malaysia (BNM) policy rate:** Following the central bank's surprise 25 bps rate hike at its recent meeting, we believe BNM's monetary policy normalisation is complete. The overnight policy rate should remain at the neutral level of 3.00% at least for the rest of the year and we do not expect rate cuts for the foreseeable future.

Table 1: Balance of Payments

RM billion	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Current Account	**60.2**	**55.1**	**12.0**	**12.5**	**19.7**	**16.1**	**5.7**	**2.9**	**19.0**	**27.5**	**4.3**
% of GDP	*3.9*	*3.1*	*3.2*	*3.4*	*5.2*	*3.8*	*1.4*	*0.6*	*4.2*	*5.9*	*1.0*
Merchandise Balance	177.6	186.0	37.0	40.5	44.9	55.2	44.2	36.9	47.3	57.7	39.9
Exports fob	1005.8	1238.2	*225.4*	*243.2*	*253.2*	*284.0*	*280.7*	*311.5*	*328.8*	*317.3*	*261.5*
Imports fob	828.2	1052.2	*188.4*	*202.7*	*208.3*	*228.8*	*236.5*	*274.6*	*281.5*	*259.6*	*221.6*
Services Balance	-65.7	-56.4	-14.8	-15.2	-17.9	-17.8	-18.3	-14.8	-11.2	-12.1	-12.8
Primary Income	-42.2	-59.4	-6.6	-11.3	-4.2	-20.0	-17.3	-16.2	-14.3	-11.6	-16.9
Transfers/Secondary Income	-9.6	-15.1	-3.6	-1.5	-3.2	-1.4	-2.9	-2.9	-2.8	-6.5	-5.9
Capital Account	-0.5	-0.5	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	-0.2	-0.1	-0.1
Financial Account	16.2	12.4	17.1	-3.7	0.9	2.0	31.8	-0.8	-17.5	-1.1	-2.4
Direct Investment	31.1	15.9	1.9	8.4	6.8	13.9	22.54	3.6	-0.9	-9.3	10.9
Abroad	-19.4	-58.6	*-6.7*	*-3.5*	*-1.5*	*-7.7*	*-5.2*	*-14.4*	*-10.6*	*-28.5*	*-1.1*
In Malaysia	50.4	74.6	*8.6*	*12.0*	*8.3*	*21.5*	*27.7*	*18.0*	*9.6*	*19.2*	*12.0*
Portfolio Investment	18.8	-50.6	-0.1	20.2	-3.9	2.6	-8.9	-15.4	0.5	-26.7	-33.3
Financial Derivative	-1.8	-2.3	-0.6	-0.5	-0.9	0.3	-1.5	0.7	-1.8	0.2	-0.2
Other Investment	-31.4	49.2	15.0	-30.9	-2.8	-12.7	18.0	11.2	-16.5	36.8	20.9
Reserve Assets	-45.7	-53.4	-17.1	-4.7	-21.3	-2.6	-12.8	-4.9	-13.2	-22.5	5.7
Errors & Omissions	-30.3	-13.6	-11.8	-4.0	0.8	-15.2	-24.6	2.9	11.9	-3.8	-7.6

Source: Department of Statistics, Macrobond, Kenanga Research

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