

Malaysia 1Q23 International Investment Position

Net asset surplus highest since end 2021 as sentiment improves

- Malaysia's International Investment Position (IIP) recorded higher net surplus at the end of 1Q23 (RM84.5b; 4Q22: RM54.2b), the highest since 4Q21**

- Attributable to a record high international reserve asset and smaller deficit in portfolio investment. This reflects somewhat improved investor confidence post General Election and the end of COVID-19 pandemic while providing a bigger safety buffer for Malaysia in the event of external shocks.
- Net Assets (RM2.28t; 4Q22: RM2.22t): expanded due to increase in portfolio investment assets (RM34.0b QoQ; 4Q22: RM17.1b), followed by direct investment assets (RM11.8b QoQ; 4Q22: -RM0.8b), and reserves assets (RM6.5b QoQ; 4Q22: 11.4b) but was capped by the enlarged deficit in financial derivatives assets (-RM3.8b QoQ; 4Q22: -RM2.3b).
- Net Liabilities (RM2.19t; 4Q22: RM2.17t): expanded (RM24.0b QoQ; 4Q22: -RM8.2b) due to expansion led by other investment liabilities (RM29.7b QoQ; 4Q22: -RM5.9b) followed by direct investment liabilities (RM16.4b QoQ; 4Q22: RM12.9b) amid higher FDI inflows. This, however, was capped by larger portfolio investment liabilities (-RM19.5b QoQ; 4Q22: -RM7.8b).

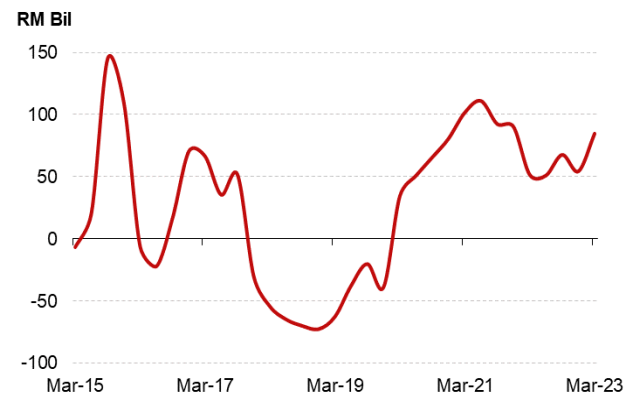
- Direct investment recorded higher net liabilities (-RM276.2b; 4Q22: -RM271.6b) as the expansion of Foreign Direct Investment (FDI) position outpaced Direct Investment Abroad (DIA)**

- FDI (RM893.2b; 4Q22: RM879.1b): FDI into Malaysia increased at a softer pace (RM14.1b QoQ; 4Q22: RM21.3b), the slowest pace since 4Q20. The expansion was attributable to a higher FDI in the services sector (RM7.3b QoQ; 4Q22: -RM42.6b). The manufacturing sector remained the largest recipient (RM385.3b; 43.1%), though its share fell slightly from 43.5% in the previous quarter. This was followed by the services subsector led by financial activities (RM212.2b; 23.8%) and wholesale & retail trade (RM52.3b; 5.9%). The sources for FDI during the quarter were mainly from Singapore (RM183.2b; 20.5%), the US (RM102.4b; 11.5%), and Hong Kong (RM94.6b; 10.6%).
- DIA (RM617.0b; 4Q22: RM607.5b): DIA position expanded slightly (RM9.5b; 4Q22: RM7.6b), leading to a deeper deficit in net direct investment. The investment was primarily channelled towards financial activities (RM261.8b; 42.4%), followed by mining & quarrying (RM72.7b; 11.8%) and manufacturing (RM60.6b; 9.8%) sectors. Top destinations for investment abroad were Singapore (RM134.9b; 21.9%), followed by Indonesia (RM67.6b; 11.0%), and the Netherlands (RM37.8b; 6.1%).

- Net portfolio investment (-RM9.2b; 4Q22: -RM62.7b) recorded a lower deficit as total portfolio investment assets increased sharply, while portfolio investment liabilities declined for the fourth straight quarters**

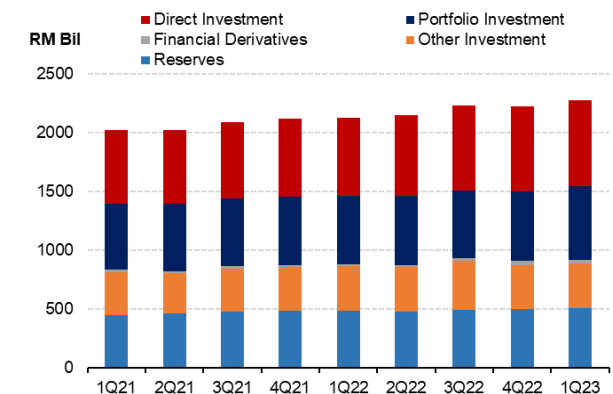
- Debt Securities (-RM314.1b; 4Q22: -RM328.6b): net liabilities position narrowed due to the second consecutive quarter of QoQ increase (RM14.6b QoQ; 4Q22: RM21.1b) driven by higher portfolio investment debt assets (RM6.8b QoQ; 4Q22: -RM1.5b) while portfolio investment debt liabilities continued to fall (-RM7.7b; 4Q22: -RM22.6b).

Graph 1: Net International Investment Position



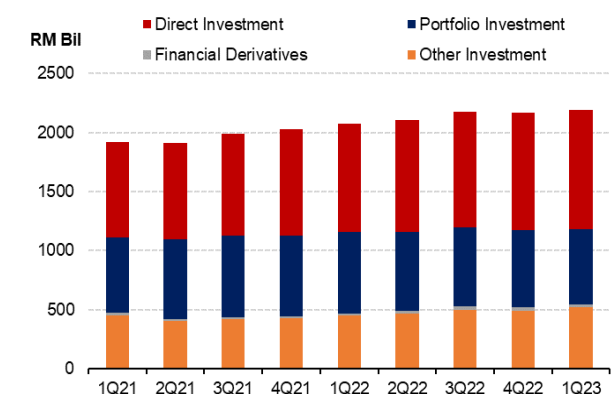
Source: Department of Statistics, Macrobond, Kenanga Research

Graph 2: IIP Assets by Broad Components



Source: Department of Statistics, Macrobond, Kenanga Research

Graph 3: IIP Liabilities by Broad Components



Source: Department of Statistics, Macrobond, Kenanga Research

15 May 2023

- Equity & Investment Fund Shares (RM304.8b; 4Q22: RM265.9b): recorded a sharp increase (RM38.9b QoQ; 4Q22: RM3.8b) as portfolio investment equity assets rose (RM27.2b QoQ; 4Q22: RM18.6b) outpacing a fall in portfolio investment equity liabilities (-RM11.8b QoQ; 4Q22: RM14.9b).
- **Other investments posted significantly higher net liabilities of RM140.7b (4Q22: RM116.8b)**
 - Attributable to a higher increase in other investment liabilities (RM29.7b QoQ; 4Q22: -RM5.9b), which outpaced the expansion in other investment assets (RM5.7b QoQ; 4Q22: -RM46.8b).
- **International reserve assets increased to RM509.8b (4Q22: RM 491.9b), a new record high**
 - Apart from the improved capital inflows during and prior to 1Q23, this could have been due to the impact of quarterly adjustment on the international reserves holdings as the bulk is held (about 60-70%) in USD. Fed Chairman Powell's hawkish testimony and rising US-China tensions triggered risk off and safe haven trade boosting USD value. This also explained the depreciation of other regional currencies against the USD in March.
- **IIP may sustain a net surplus in 2Q23 and onwards due to a potential rise in FDI and foreign portfolio inflows driven by a positive domestic economic outlook**
 - We expect net liabilities to increase further this quarter, backed mainly by higher direct investment, particularly the FDI, amid improved domestic political stability and government effort to attract quality investment into the country via various trade and investment visits. This will also be further boosted by the potential return of foreign investors to domestic capital markets due to a sound and resilient domestic economic outlook, with Malaysia recording the second fastest 1Q23 GDP growth in the region at 5.6% (4Q22: 7.1%).
 - Nevertheless, the IIP's net assets may also increase and outpace the net liabilities as DIA growth is expected to rise further, taking into account the prospect of development in the top three DIA destinations led by Singapore, Indonesia and the Netherlands. This will also be supported by the prospect of higher international reserves and portfolio investment.

Table 1: International Investment Position & Direct Investment

RM Billion	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Net International Investment Position	80.5	101.4	110.7	92.2	89.9	51.5	50.8	67.5	54.2	84.5
Direct Investment	-169.8	-178.9	-195.7	-216.7	-235.4	-253.4	-260.5	-257.9	-271.6	-276.2
Equity & Investment Fund Shares	-261.1	-271.7	-287.5	-317.8	-334.9	-333.9	-351.6	-364.2	-357.2	-358.6
Debt Instruments	91.3	92.8	91.7	101.1	99.4	80.5	91.1	106.3	85.6	82.4
Portfolio Investment	-109.7	-82.5	-97.7	-116.2	-110.8	-107.8	-79.1	-87.6	-62.7	-9.2
Equity & Investment Fund Shares	186.5	233.3	248.5	239.0	248.2	245.9	266.4	262.2	265.9	304.8
Debt Securities	-296.2	-315.8	-346.2	-355.2	-359.0	-353.7	-345.5	-349.8	-328.6	-314.1
Financial Derivatives	1.4	-0.2	1.9	-0.2	1.6	-0.3	-2.7	-3.0	2.1	0.8
Other Investment	-73.7	-87.8	-59.2	-57.2	-52.2	-72.8	-86.8	-75.9	-116.8	-140.7
Reserve Assets	432.3	450.8	461.5	482.5	486.8	485.8	480.0	491.9	503.3	509.8
Net Direct Investment	-169.8	-178.9	-195.7	-216.7	-235.4	-253.4	-260.5	-257.9	-271.6	-276.2
Direct Investment Abroad	515.1	535.6	533.1	540.9	546.5	553.8	576.9	599.9	607.5	617.0
Foreign Direct Investment in Malaysia	684.9	714.6	728.9	757.6	782.0	807.2	837.4	857.8	879.1	893.2

Source: Department of Statistics, Macrobond, Kenanga Research

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