

Malaysia 3Q23 Balance of Payments

CA surplus stable at RM9.1b amid an improvement in goods exports

- **The current account (CA) surplus of the balance of payments remained unchanged at RM9.1b (2.0% of GDP; 2Q23: 2.1% of GDP) despite a RM3.2b increase in goods account surplus**

- The upturn in the goods account surplus was offset by a significant decrease in primary income. Meanwhile, deficits in both services and secondary income experienced only marginal changes. As a percentage of GDP, the CA surplus decreased marginally as GDP grew higher in 3Q23 (3.3% YoY; 2Q23: 2.9%).

- o **Goods (RM32.7b; 2Q23: RM29.5b): surplus expanded to a two-quarter high due to an improvement in exports backed by a weaker ringgit**

- Exports recorded a robust expansion, increasing by RM5.5b or 2.2% QoQ (2Q23: -RM6.6b or -2.5%). This growth outpaced the rise in imports, which saw a moderate increase of RM2.3b or 2.3% QoQ (2Q23: RM3.8b or 1.7b%). Consequently, there was a substantial rebound in the goods surplus during the quarter, surging by 10.9% QoQ, a stark improvement from the preceding quarter's decline of -26.1%. The surge in export receipts was attributed to the nascent recovery of external demand for electrical and electronics (E&E) goods, a devalued ringgit (average 3Q23: 4.63/USD; 2Q23: 4.53), and increased values of petroleum and chemical products amid elevated commodity prices.

- o **Services (-RM10.3b; 2Q23: -RM11.3b): smaller net deficit due to higher surplus in travel**

- Supported by an increased surplus in travel services (RM5.4b; 2Q23: RM3.8b), reflecting a continued recovery in tourism activities, and a rebound in construction services (RM0.5b; 2Q23: -RM0.1b), propelled by the ongoing momentum in large-scale infrastructure projects.

- o **Primary income (-RM11.0b; 2Q23: -RM6.3b): deficit almost doubled**

- Primarily attributed to foreign companies in Malaysia generating a greater investment income of RM31.0b (2Q23: RM27.0b), while Malaysian companies abroad experienced a slight dip in investment income, recording RM21.9b (2Q23: RM22.8b).

- o **Secondary income (-RM2.2b; 2Q23: -RM2.8b): deficit narrowed to a seven-quarter low**

- Attributable to an increase in foreign receipts (RM7.0b; 2Q23: RM6.7b) and a decline in foreign remittance (RM9.2b; 2Q23: RM9.5b).

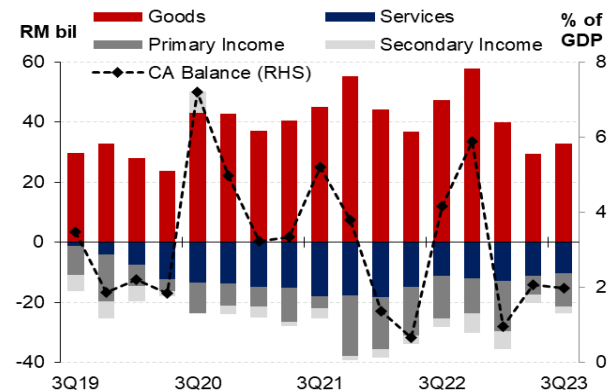
- **The financial account rebounded to a net inflow of RM14.9b in 3Q23 (2Q23: -RM11.6b), due to greater inflows in other investment and financial derivatives**

- **Other investment (RM34.6b; 2Q23: -RM15.1b):** reverted to a net inflow, driven by increased interbank borrowing by resident banks, resulting in liabilities shifting to a net inflow of RM30.7b (2Q23: -RM26.1b).

- **Portfolio investment (-RM14.1b; 2Q23: RM8.1b):** registered the largest outflow in three quarters, attributed to increased investments by residents in equity and debt securities abroad, driven by a heightened expectation of returns.

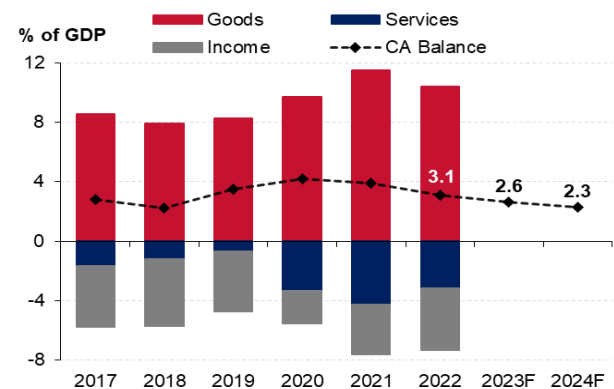
- **Direct investment (-RM6.1b; 2Q23: -RM4.9b):** recorded a higher net outflow due to rising direct investment abroad by residents (-RM13.4b; 2Q23: -RM8.0b). This trend offset an increase in foreign direct investment inflows (RM7.2b; 2Q23: RM3.1b).

Graph 1: Current Account Trend



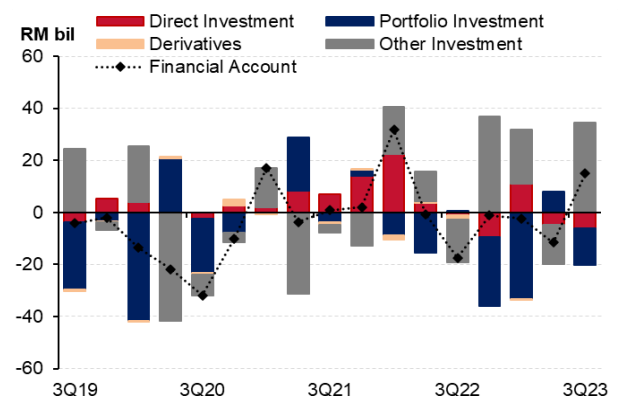
Source: Department of Statistics, Macrobond, Kenanga Research

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

20 November 2023

- **2023 CA forecast maintained at 2.6% of GDP (2022: 3.1%) on the back of expected improvement in external demand and tourism activity**
 - The anticipation of a potential upturn in the global technology cycle is set to propel Malaysia's exports of semiconductors and E&E products. This, coupled with an improvement in China's economic growth, is likely to contribute to a broader CA surplus in 4Q23. Furthermore, the CA surplus is expected to gain support from a continued recovery in tourist arrivals and travel receipts, along with the expected return of foreign capital flows amid an improving risk-on sentiment.
 - **USDMYR year-end forecast (4.44; 2022: 4.40):** Despite early indicators pointing towards a reduction in inflationary pressures and a softening labour market in the US, the market remains in anticipation of more substantial evidence confirming an incoming economic slowdown. Leading up to the December FOMC meeting, we foresee more signs of labour market weakness and an increasing disinflationary momentum, compelling the Fed to shift into a dovish gear and consequently weakening the USD index to below the 103.0 level. This, coupled with the USD seasonal weakness, expected improvement in investors' risk appetite, and robust domestic macroeconomic fundamentals, is expected to underpin the ringgit's strength, potentially driving it below the 4.50/USD level by end-2023.
 - **Bank Negara Malaysia (BNM) policy rate:** To maintain the overnight policy rate at 3.00%, while preserving a neutral policy tone throughout 2024. This projection is based on the central bank's conservative inflation outlook, and its optimistic view of the economic trajectory, supported by ongoing expansion in domestic demand. Nevertheless, it is crucial to recognise the potential ramifications of escalating geopolitical tensions, as they have the capacity to elevate macroeconomic uncertainty and present a risk to overall economic growth.

Table 1: Balance of Payments

RM billion	2021	2022	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Current Account	60.2	55.1	19.7	16.1	5.7	2.9	19.0	27.5	4.3	9.1	9.1
% of GDP	3.9	3.1	5.2	3.8	1.4	0.6	4.2	5.9	1.0	2.1	2.0
Merchandise Balance	177.6	186.0	44.9	55.2	44.2	36.9	47.3	57.7	39.9	29.5	32.7
Exports fob	1005.8	1238.2	253.2	284.0	280.7	311.5	328.8	317.3	261.5	254.9	260.4
Imports fob	828.2	1052.2	208.3	228.8	236.5	274.6	281.5	259.6	221.6	225.4	227.7
Services Balance	-65.7	-56.4	-17.9	-17.8	-18.3	-14.8	-11.2	-12.1	-12.8	-11.3	-10.3
Primary Income	-42.2	-59.4	-4.2	-20.0	-17.3	-16.2	-14.3	-11.6	-16.9	-6.3	-11.0
Transfers/Secondary Income	-9.6	-15.1	-3.2	-1.4	-2.9	-2.9	-2.8	-6.5	-5.9	-2.8	-2.2
Capital Account	-0.5	-0.5	-0.1	-0.3	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	0.0
Financial Account	16.2	12.4	0.9	2.0	31.8	-0.8	-17.5	-1.1	-2.4	-11.6	14.9
Direct Investment	31.1	15.9	6.8	13.9	22.54	3.6	-0.9	-9.3	10.9	-4.9	-6.1
Abroad	-19.4	-58.6	-1.5	-7.7	-5.2	-14.4	-10.6	-28.5	-1.1	-8.0	-13.4
In Malaysia	50.4	74.6	8.3	21.5	27.7	18.0	9.6	19.2	12.0	3.1	7.2
Portfolio Investment	18.8	-50.6	-3.9	2.6	-8.9	-15.4	0.5	-26.7	-33.3	8.1	-14.1
Financial Derivative	-1.8	-2.3	-0.9	0.3	-1.5	0.7	-1.8	0.2	-0.2	-0.4	-1.7
Other Investment	-31.4	49.2	-2.8	-12.7	18.0	11.2	-16.5	36.6	20.9	-15.1	34.6
Reserve Assets	-45.7	-53.4	-21.3	-2.6	-12.8	-4.9	-13.2	-22.5	5.7	12.4	-7.7
Errors & Omissions	-30.3	-13.6	0.8	-15.2	-24.6	2.9	11.9	-3.8	-7.6	-9.9	-16.3

Source: Department of Statistics, Macrobond, Kenanga Research

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