

## Current Account Surplus at 3-Years High Driven by Robust Exports Performance

- *Malaysia's current account balance hit 3-years high. Current account balance jumped to RM40.3 billion in 2017 from RM29.0 billion in prior year.*
- *First net inflow of financial account since 2012. For full year 2017, the financial accounts posted a net inflow of RM2.3 billion from a net outflow of RM1.1 billion in the preceding year, Malaysia's first net inflow since 2012.*
- *We forecast current account surplus to register RM39.6 billion in 2018. Due to favourable global demand and modest recovery in commodity prices, we expect Malaysia's economy to grow stronger this year as compared to 2017.*

**Malaysia's current account balance hit 3-years high.** Current account balance jumped to RM40.3 billion in 2017 from RM29.0 billion in prior year. In the last quarter of 2017, Malaysia's current account performed well recording RM12.9 billion worth of balance of payment compared to RM12.5 billion recorded in the previous quarter which helped in reinforcing Malaysia's position as a net lender. It is also the largest current account balance since the 3Q14. The upsurge was driven by surplus in net goods at RM34.1 billion, far above the RM31.7 billion registered in the preceding quarter making it the largest surplus since the 4Q11. Robust trade surplus for 2017 with 18.9% exports growth has contributed significantly towards our current account surplus.

**Transportation and construction blew higher deficit in services account.** Higher services account deficit in 2017 was driven by bigger outflow in transportation and construction at RM29.7 billion and RM12.7 billion respectively. On top of that, insurance and pension services declined further to -RM8.9 billion in 2017, added to the deficit. Similar trend was observed on quarterly basis as transportation, construction and insurance & pension continued to demonstrate negative value. Usage of more foreign-owned construction services compared to domestic-owned, particularly for mega projects including MRT and skyscrapers contributed to construction deficit. In contrast, tourism activities continued to record a surplus in the fourth quarter and full year of 2017 at RM7.9 billion and RM33.0 billion respectively however not significant enough to offset deficit occurred in other services. We foresee continuous upbeat tourism activity in 2018 in conjunction to events such as PATA Travel Mart 2018 which will be held in Langkawi Island.

**Primary income account continued to deteriorate.** Primary income account continued to display higher deficit at RM9.5 billion compared to previous quarter. Similarly, annual data also demonstrated higher deficit in primary income account. Higher deficit of primary income was attributed to weaker performances of both compensation of employees and investments. Meanwhile, secondary income deficit in 2017 maintained at RM18.6 billion fortifying the fact that Malaysia is still home to sizeable number of foreign workers. Moving ahead, we anticipate Malaysia to maintain its position as a net lender in 2018 however with narrowing current account surplus due to high base effect.

**Table 1: Summary of Current Account (RM Billion)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Current Account	6.2	3.1	7.3	12.5	5.3	9.6	12.5	12.9
Goods	17.6	16.3	22.6	25.8	19.0	22.0	26.8	27.1
Services	(5.7)	(3.8)	(4.2)	(5.4)	(6.2)	(5.0)	(4.9)	(6.9)
<i>Manufacturing Services</i>	2.1	2.2	2.4	2.4	2.4	2.5	2.6	2.7
<i>Maintenance &amp; Repair</i>	0.0	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	0.0
<i>Transportation</i>	(5.2)	(5.7)	(5.8)	(6.7)	(7.4)	(7.6)	(7.4)	(7.3)
<i>Travel</i>	7.4	8.3	8.2	7.6	7.6	8.3	9.2	7.9
<i>Construction</i>	(2.5)	(1.3)	(2.0)	(2.3)	(2.7)	(2.4)	(3.3)	(4.3)
<i>Insurance &amp; Pension</i>	(1.9)	(2.1)	(2.0)	(2.1)	(2.3)	(2.1)	(2.2)	(2.3)
<i>Financial</i>	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<i>Charges of Intellectual's use</i>	(1.3)	(1.2)	(1.3)	(1.3)	(1.6)	(1.7)	(1.7)	(1.7)
<i>Telecom, Computer &amp; Info</i>	(1.2)	(0.8)	(0.6)	(0.2)	(0.3)	(0.5)	(0.4)	(0.4)
<i>Cultural &amp; Recreational</i>	(0.5)	(0.1)	(0.7)	(0.3)	(0.4)	(0.3)	(0.5)	(0.2)
<i>Government Goods &amp; Services</i>	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
<i>Other Business Services</i>	(2.4)	(2.8)	(2.3)	(2.2)	(1.4)	(0.8)	(0.9)	(0.7)
Primary Income	(6.4)	(8.3)	(10.7)	(9.2)	(9.9)	(8.2)	(8.6)	(9.5)
<i>Compensation of Employees</i>	(1.6)	(1.3)	(1.3)	(1.3)	(1.3)	(1.2)	(1.1)	(1.2)
<i>Direct Investment</i>	(5.2)	(7.9)	(10.2)	(6.9)	(10.5)	(6.7)	(8.1)	(7.8)
<i>Portfolio Investment</i>	(3.2)	(3.2)	(3.2)	(3.8)	(2.5)	(3.9)	(1.9)	(3.1)
<i>Other Investment</i>	3.6	4.1	4.0	2.8	4.3	3.6	2.5	2.6
Secondary Income	(4.9)	(5.0)	(4.6)	(4.1)	(3.9)	(4.2)	(5.7)	(4.8)

Source: DOSM, MIDFR

**First net inflow of financial account since 2012.** For full year 2017, the financial accounts posted a net inflow of RM2.3 billion from a net outflow of RM1.1 billion in the preceding year, Malaysia's first net inflow since 2012. In the last quarter of 2017, the financial account experienced a turnaround from a net outflow of RM1.2 billion in 3Q17 to a net inflow of up to RM5.0 billion. This huge reversal of investment flow was largely due to the portfolio investment recording an impressive net inflow of RM11.7 billion. The turnaround elevated BOP overall performances, owing to sentiment improvement in the equity market.

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Capital Account	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	7.8	11.1	-5.8	-14.2	-8.8	7.3	-1.2	5.0
<i>Direct Investment</i>	3.8	6.6	2.7	1.0	8.3	-7.1	6.2	5.1
<i>Portfolio Investment</i>	14.1	0.1	-10.6	-19.1	-31.9	16.0	-5.1	11.7
<i>Financial Derivatives</i>	0.5	0.0	-0.1	-1.2	0.6	-0.3	1.0	-0.9
<i>Other Investment</i>	-10.7	4.5	2.1	5.0	14.2	-1.3	-3.3	-10.9
Net Errors & Omissions	-41.6	-5.5	13.2	20.7	1.7	-14.3	-8.5	-31.0

Source: DOSM, MIDFR

\*Capital Account; 0.0=Less than RM50 million

**Singapore and China posted better results in 4Q17.** Same wave with Malaysia, current account to GDP ratio of Singapore and China recorded at 15.1% and 1.8%, highest since 4Q16. We notice the overall performance in the second half of 2017 has been on upward trends, supported by optimistic business and consumer sentiments globally which translate into greater movements of goods and capitals. Looking ahead, however, we view global trade activities will moderate as protectionist threat, geopolitical tension and policy uncertainties in developed countries remains.

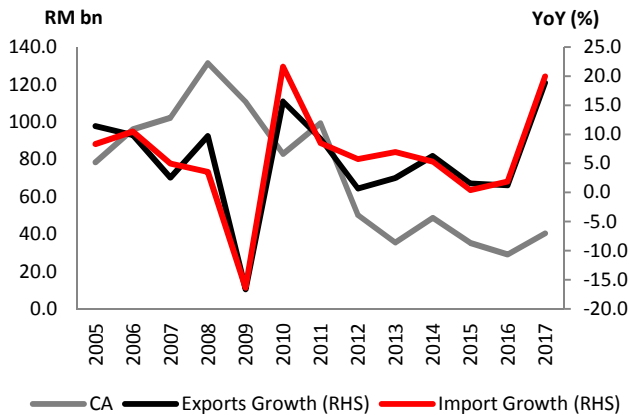
**Table 3: Current Account to GDP by Selected Economies (%)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Malaysia	2.1	1.0	2.3	3.8	1.6	2.9	3.7	3.6
Indonesia	(2.1)	(2.4)	(2.0)	(0.7)	(0.9)	(1.9)	(1.7)	(2.2)
Singapore	15.3	21.4	23.0	16.4	19.2	18.7	22.5	15.1
Australia	(3.4)	(3.5)	(3.7)	(0.9)	(1.0)	(1.9)	(2.6)	
South Korea	9.3	7.2	6.0	5.8	6.5	4.1	6.1	
Japan	3.9	3.5	3.6	3.8	4.0	3.5	4.5	4.1
China	1.8	2.4	2.6	0.4	0.7	1.7	1.3	1.8
EU	1.0	1.2	1.5	2.2	0.9	0.8	2.1	
United States	(2.2)	(2.5)	(2.7)	(2.4)	(1.9)	(2.8)	(2.3)	

Source: CEIC, MIDFR

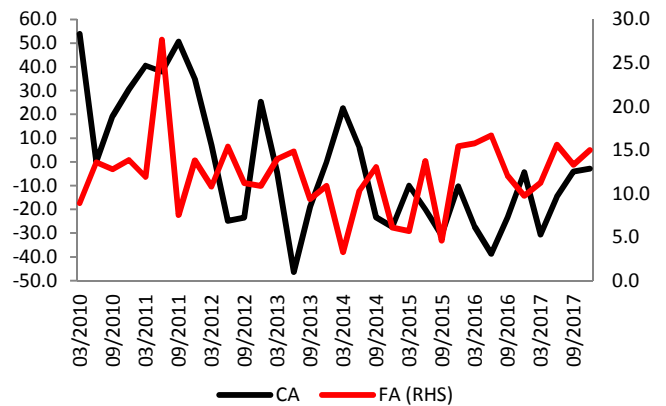
**We forecast current account surplus to register RM39.6 billion in 2018.** Due to positive global demand and modest recovery in commodity prices, we expect Malaysia's economy to continue expanding in 2018. Via the channel of strong exports demand, improving market confidences and optimistic tourism activity, we opine a continuous surplus in current account this year at RM39.6 billion, slightly below 2017's RM 40.3 billion amid of unfavourable base effects. 

**Chart 1: Current Account Balance vs External Trade**



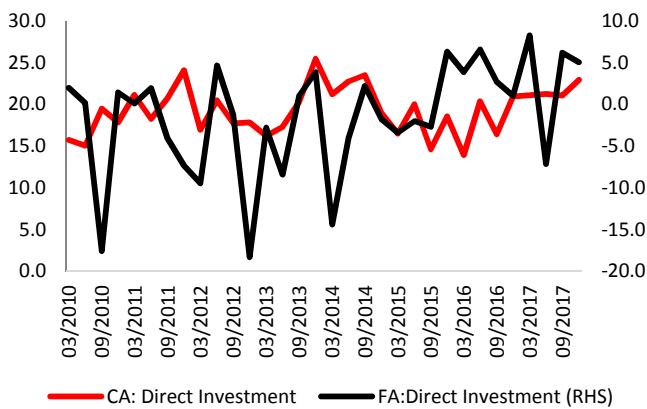
Source: CIEC, MIDFR

**Chart 2: CA vs FA (RM Billion)**



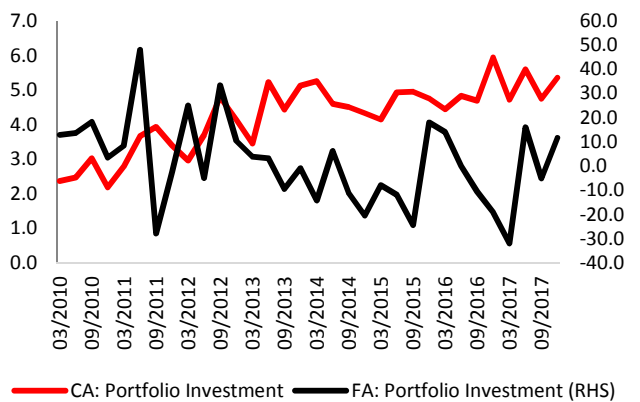
Source: CIEC, MIDFR

**Chart 3: Direct Investment (RM Billion)**



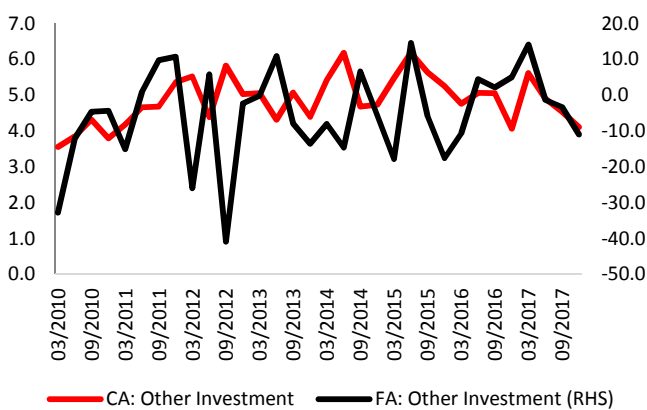
Source: CIEC, MIDFR

**Chart 4: Portfolio Investment (RM Billion)**



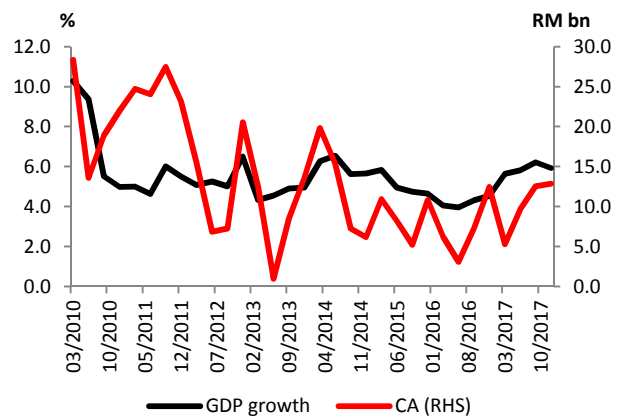
Source: CIEC, MIDFR

**Chart 5: Other Investment (RM Billion)**



Source: CIEC, MIDFR

**Chart 6: Current Account vs GDP Growth**



Source: CIEC, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.