

Malaysia Balance of Payments

2Q09 CA surplus narrows to RM28.8b amid falling exports

Wan Suhaimie
Economist
wansuhaimi@kenanga.com.my
Tel: 603-2161 9657

HIGHLIGHTS

- The current account (CA) balance of payment shrank to RM28.8b in 2Q09 from RM31.4b in 1Q09 on continued sharp decline in exports. The merchandise balance was reduced to RM33.1b, the lowest in two years, as exports fall (-26.3%) outpaced imports (-24.4%) in 2Q09. Meanwhile, deficit in current transfer (-RM3.7b) and declines in net payment in income (-RM1.5b) contributed to the narrower CA balance. Meanwhile, the services account registered a surplus of RM1.0b (1Q09: RM2.5b).
- It appears that the outflows of portfolio capital have subsided in 1H09 on the back of faster-than-expected recovery in the global equity market. Net portfolio investment fell RM22.1b in 1H09 compared with RM88.5b in 2H08. As a result, the overall balance chalked up gains of RM5.4b in 1H09, a small rebound from the RM93.4b deficit in 2H08, reflecting a gradual pick up in global recovery and stabilizing financial markets.
- Going forward, on the back of global economic recovery along with stabilizing financial markets in 2H09, we project the CA balance to narrow to RM109.2b or 15.5% of GNP in 2009 from a record surplus of RM129.5b or 18.1% of GNP for 2008.

CA surplus narrows. Malaysia's 2Q09 current account (CA) balance of payment shrank to RM28.8b or 18.0% of GNP from RM31.4b or 20.7% of GNP in 1Q09 on continued sharp decline in exports. The merchandise balance was reduced to RM33.1b, the lowest in two years, as exports fall (-26.3%) outpaced imports (-24.4%) in 2Q09. Meanwhile, deficit in current transfer (-RM3.7b) and declines in net payment in income (-RM1.5b) contributed to the narrower CA balance. Meanwhile, the services account was a surplus of RM1.0b (1Q09: RM2.5b).

Capital outflows tapering off in 1H09. Various measures to calm the global financial markets have been fruitful thus far. Following the faster-than-expected recovery in the global equity market the outflows of portfolio capital have substantially subsided in 1H09. The short term funds taken out by foreign investors as reflected in the deficit in net

Table 1: Current Account Balance of Payment (RMb)

	2005	2006	2007	2008	2009F
Goods	125.6	134.6	127.7	170.6	135.5
Exports	537.0	589.7	605.9	664.3	554.7
Imports	411.4	455.2	478.2	493.8	419.2
Services	-9.0	-6.9	2.4	0.2	1.2
Income	-23.9	-17.4	-13.9	-23.7	-11.7
Current transfers	-17.0	-16.9	-15.7	-17.5	-15.9
Balance on current account	75.7	93.4	100.4	129.5	109.2
% of GNP	15.3	16.8	16.0	18.1	15.5

Source: Dept. of Statistics Malaysia, Kenanga Research, F=Forecast

portfolio capital was even smaller in 2Q09 at RM9.9b compared to RM12.2b in 1Q09. Hence, the total deficit in net portfolio investment in 1H09 (RM22.1b) is just one fourth of the RM88.5b deficit in 2H08. As a result, the overall balance chalked up gains of RM5.4b in 1H09, a small rebound from the RM93.4b deficit in 2H08, reflecting a gradual pick up in global economic recovery and stabilizing financial markets. Total net outflows of portfolio funds after five consecutive quarters of decline reached a staggering RM132.5b. Given the huge foreign selldown, the worst since the Asian Financial crisis, it would invariably suggest that the downside for the domestic financial market should be relatively limited in the near term.

FDI reduced sharply in 1H09. Meanwhile, net foreign direct investment (FDI) shrank substantially to RM3.6b in 1H09 from RM19.7b in 1H08. Even with the ongoing recovery, we believe that foreign FDIs for 2009 may not even achieve the target set by the Ministry of Finance of reducing by half of 2008 total. For the whole of 2008, the total net FDI was RM26.6b compared to RM29.1b in 2007. The slowdown in FDI in 1H09 was reflective of the average GDP contraction of 5.1% in the same period. It may also weigh on the overall GDP growth for the whole of 2009 which is projected to contract by 1.3%.


CA surplus to narrow in 2009. Going forward, on the back of global economic recovery along with stabilizing financial markets in 2H09, we project the CA balance to narrow to RM109.2b or 15.5% of GNP in 2009 from a record surplus of RM129.5b or 18.1% of GNP for 2008. In spite of the narrowing CA surplus, it remains relatively large and would provide support for the underlying strength of the ringgit. We maintain our ringgit/US\$ target of 3.52 by year end. 

Table 2: Current & Capital Account of the Balance of Payment

	2004	2005	2006	2007	2008	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Current Account (RMb)																	
Merchandise Balance	104.5	125.6	134.6	127.7	170.6	36.6	36.8	27.3	29.2	35.3	35.9	33.8	48.2	49.7	38.8	37.0	33.1
Exports fob	481.2	537	589.7	605.9	664.3	157.3	152.2	138.5	145.1	158.7	163.6	152.0	175.4	185.4	151.5	121.7	129.3
Imports fob	376.8	411.4	455.2	478.2	494.8	120.7	115.5	111.2	115.9	123.4	127.7	118.2	127.2	135.7	112.7	84.7	96.2
Services Balance	-8.8	-9	-6.9	2.4	0.2	-0.2	-1.3	-0.8	2.2	1.5	-0.5	-0.1	1.0	-1.1	0.4	25	10
Transportation	-17.8	-16.4	-19.6	-13.2	-14.6	-3.7	-4.7	-2.8	-3.2	-3.4	-3.8	-3.6	-3.8	-4.4	-3.6	-29	-40
Travel	19.4	19.4	23.5	29.1	28.5	5.6	5.9	7.8	7.9	6.7	6.7	7.3	8.0	6.5	6.6	75	81
Govt. Transaction	-0.7	-0.4	-0.4	-0.4	-0.6	-0.1	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
Other services	-9.7	-11.7	-10.4	-13.2	-12.4	-2	-2.3	-5.8	-2.5	-1.8	-3.1	-3.7	-3.1	-3.2	-2.4	-1.9	-2.9
Income	-24.5	-23.9	-17.4	-13.9	-23.7	-4.9	-3.6	-3.2	-2.5	-3.2	-5.0	-6.1	-6.6	-5.4	-5.6	-3.9	-1.5
Employees Compensation	-1.1	-0.5	-0.3	-0.6	-0.7	-0.1	-0.1	-0.2	-0.1	-0.1	-0.3	-0.2	-0.1	-0.2	-0.2	-0.3	-0.4
Investment Income	-23.4	-23.4	-17.1	-13.3	-23.0	-4.8	-3.5	-3.0	-2.4	-3.1	-4.8	-5.9	-6.5	-5.3	-5.3	-3.6	-1.1
Direct Investment	-25.2	-27.4	-20.8	-19.0	-30.3	-5.9	-4.7	-3.8	-3.5	-5.0	-6.7	-7.8	-7.4	-8.0	-7.1	-5.9	-2.8
Portfolio Investment	-1.1	-1.6	-3	-5.8	-9.8	-0.9	-0.9	-1.1	-1.7	-1.4	-1.7	-3.0	-2.8	-2.1	-1.9	-2.5	-1.7
Other Investment	2.8	5.6	6.8	11.5	17.2	2	2.1	1.8	2.8	3.3	3.6	5.0	3.8	4.8	3.7	4.7	3.4
Transfers (Net)	-14.9	-17	-16.9	-15.7	-17.5	-4.3	-3.8	-3.7	-3.8	-4.2	-4.1	-4.7	-4.3	-4.5	-4.0	-4.2	-3.9
Current Account	56.5	75.7	93.4	100.4	129.5	27.1	27.9	19.6	25.1	29.4	26.3	23.0	38.3	38.6	29.6	31.4	28.8
% of GNP	12.7	16.3	16.8	16.0	18.7	18.8	19.2	13.9	16.6	18.1	15.4	13.6	21.1	20.1	17.3	20.7	18.0
Capital Account (RMb)																	
Direct Investment	9.7	3.8	0.02	-9.1	-26.1	-1.3	2.8	0.7	0.1	-5.0	-5.0	-5.2	0.2	-19.6	-1.5	32	-81
Abroad	-7.8	-11.3	-22.1	-38.2	-50.2	-6.4	-5.1	-4.9	-11.4	-12.3	-9.6	-8.9	-15.7	-20.0	-5.6	0.4	-9.0
In Malaysia	17.6	15	-22.2	29.1	24.1	5.1	7.8	5.7	11.5	7.3	4.6	3.8	15.9	0.3	4.1	28	0.9
Portfolio Investment	32	-14.2	12.9	18.4	-84.4	0.2	5.4	25.6	15.9	-28.7	5.6	26.1	-22.0	-55.3	-33.2	-12.2	-9.9
Other Investment	-24.9	-26.6	-56.4	-46.9	-8.1	-16.8	-28.2	-23.6	-8.3	2.8	-17.8	5.5	10.7	12.9	-31.2	-20.8	-6.2
Official	2.4	-3.2	-8	-5.8	-0.9	-2.5	-4.0	-0.3	-1.2	-3.4	-0.9	-0.7	1.6	-2.7	2.7	-1.0	-0.6
Credit	10.8	7	3.9	3.0	6.7	0.5	1.4	1.1	0.3	0.9	0.7	0.2	2.2	0.3	4.0	0.2	0.0
Debit	8.4	10.2	11.9	8.7	5.8	3.1	5.5	1.4	1.5	4.3	1.6	0.9	0.6	3.0	1.3	1.2	0.7
Other/Private Sector	-27.3	-23.5	-48.4	-41.1	-8.9	-14.3	-24.1	-23.3	-7.1	6.2	-16.9	6.2	9.1	15.6	-39.9	-19.8	-5.5
Financial Account	16.8	-37	-43.5	-37.7	-118.5	-17.9	-20.0	2.7	7.7	-30.9	-17.3	26.5	-11.1	-62.0	-71.8	-29.8	-24.2
Errors & Omissions	10.5	-25.1	-24.8	-17.3	-29.9	-5.4	-10.5	-6.9	1.1	-2.8	-8.7	-1.3	-1.0	-8.0	-19.6	1.7	-2.4
Overall Balance	83.8	13.6	25.2	45.3	-18.3	3.8	-2.7	15.5	33.8	-4.4	0.3	48.9	26.2	-31.5	-61.9	3.3	2.1

Source: Department of Statistics Malaysia, Kenanga Research

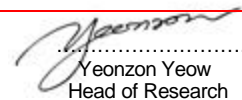
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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Yeonzon Yeow
Head of Research