

CHART OF THE WEEK

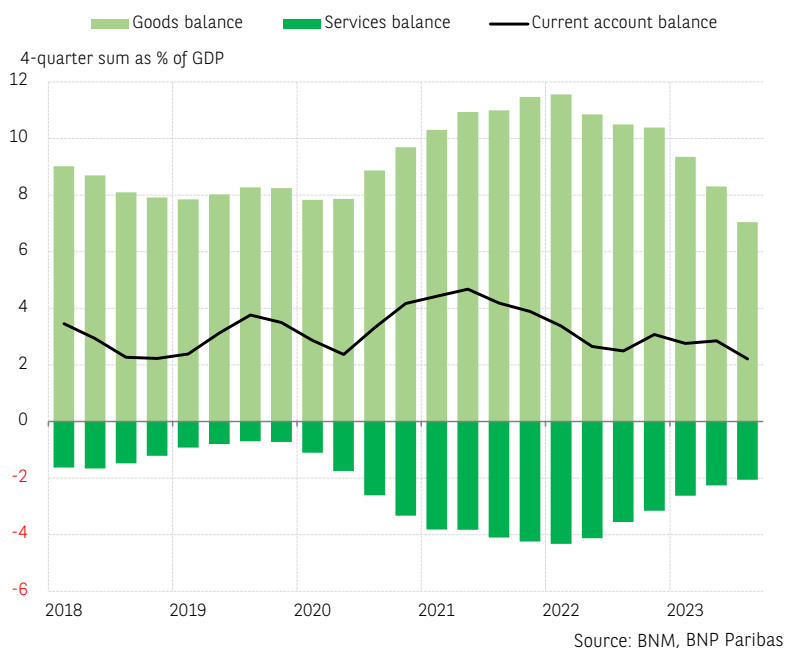


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MALAYSIA: EXTERNAL ACCOUNTS ARE STILL UNDER PRESSURE

Johanna Melka

Malaysia: decline in the current account surplus



In 2023, for the second consecutive year, Malaysia's external accounts have deteriorated slightly, but are still strong. Over the first nine months of the year, the current account surplus decreased by 18.3% compared to the same period last year. The strong rebound in tourism has not been enough to offset the decline in the trade surplus caused by the global economic slowdown and the sharp contraction in demand for semiconductors and electronic products, which account for 36.3% of the country's exports.

At the same time, Malaysia has recorded a major decline in net capital inflows. Foreign direct investments (FDI) and portfolio investments have decreased considerably, while resident investments abroad have risen sharply due to a widening spread between yields on US and domestic sovereign bonds.

Despite the decline in the current account surplus and net capital outflows, the depreciation of the ringgit has remained modest (-5.7% against the US dollar since the beginning of the year). However, at the same time, it has also remained larger than the depreciation of other Southeast Asian currencies (Malaysia's real effective exchange rate has depreciated by 4.5%).

In 2024, Malaysia's external accounts are expected to stabilise or even recover slightly. As a matter of fact, although the pace of economic growth among its main trading partners is set to slow (exports to China and the United States account for 13.6% and 10.8% of its exports respectively), the cycle of rate rises in the United States and the euro zone seems to be at an end and demand for semiconductors is expected to rebound. As a result, downward pressures on the ringgit are expected to ease. Although foreign exchange reserves have been falling since July, they are still sufficient to allow the central bank to intervene to support the currency. They still covered 4.3 months of goods and services imports in October 2023.

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