The Balance of Payments

Balance of Payments Statistics Division,
Department of Statistics Malaysia

Presented to:
Foreign Policy Strategy Agency of the Ministry of
Foreign Affairs of the Republic of Indonesia

20 March 2023
Outline

❖ Malaysia’s Balance of Payments Statistics and Uses
❖ Definition, Concept and Methodology
❖ Current Account: Goods & Services
❖ Current Account: Primary & Secondary Income
❖ Financial Account
Malaysia’s Balance of Payments Statistics and Uses
USE OF BALANCE OF PAYMENTS (BOP)

To see movement of our trading between resident and non-resident

To gauge investment in the country.

To understand the movements in the exchange rate.

To understand the trend and link between a change in interest rate condition and the amount, direction, and structure of external financial flows.
BOP Product

Inter-relation between BOP and SITS
- SITS is one of the sub-account under Current Account.
- SITS publication is an extension of BOP publication with further breakdown on major component of services as well as their trading partner country.
Definition, Concept and Methodology
DEFINITIONS & CONCEPTS

BALANCE OF PAYMENTS

The balance of payments is a statistical statement in double entry format;

01. that summarizes transactions
02. in goods, services, primary and secondary income, capital account, and financial items
03. between residents and nonresidents
04. during a specific time period

CONCEPT OF RESIDENCE

Resident

- Economic connections of a unit to an economic territory
- Not based on nationality, legal criteria, or currency used
- Expressed as an economic unit’s center of predominant economic interest

Enterprises

- is engaged in a significant amount of production and plans to do so over an indefinite or long period of time (Center of economic interest)
  - e.g. Foreign MNCs operate in Malaysia

Households & Individuals

- Intention to be present for a period of 1 year or more

Malaysian Resident:
- a. Foreign workers (> 1 year in Malaysia)
- b. Malaysian working in Singapore who commute daily

Non-Resident (Foreign):
- Diplomatic representatives
- Military personal
- Students
- Medical patients
- Ship’s crew
- Seasonal/Cross-worker
- Refugees, guest workers, expatriate experts
- International Bodies

DOUBLE-ENTRY ACCOUNTING

- Internationally accepted accounting principle of recording two equal entries for each transactions.
- Credit (CR.)—exports of goods and services, income receivable, reduction in assets, or increase in liabilities
- Debit (DR.)—imports of goods and services, income payable, increase in assets, or reduction in liabilities

Statistics that measure the international economic transactions between Malaysia and the rest of the world in terms of transactions in current, capital and financial accounts.
Economic connections of a units to an economics category

Not based on nationality, legal criteria, or currency used

Expressed as an economic unit's center of predominant economic interest

Flexible, one year rule

Principal residence – presence or the intention to be present for a period of one year or more

Exceptions: students, medical patients, border workers, commuters, guest workers, etc

Residence where the enterprises is engaged in a significant amount of production and plans to do so over and indefinite or long period of time

Special cases: operators of mobile equipment

Also: special purpose entities, processing zones, offshore banking zones, site offices for large construction projects

Concepts of residence

Households and individuals

Enterprises
BOP FRAMEWORK

01 CURRENT ACCOUNT
1 Goods
2 Services
3 Primary Income
4 Secondary Income

02 CAPITAL ACCOUNT
1 Acquisitions/ disposals of non produced non financial assets
2 Capital Transfers

03 FINANCIAL ACCOUNT
1 Direct Investment
2 Portfolio Investment
3 Other Investment
4 Financial Derivative

04 RESERVE ASSET

ERRORS AND OMISSIONS
MAIN DATA SOURCES

CURRENT ACCOUNT

• External trade statistics
• International Trade in Services Survey
• International Transaction Reporting System
• Administrative Data
• Other economic indicators

FINANCIAL AND CAPITAL ACCOUNT

• Joint-survey IIP - DOSM & BNM
• International Transaction Reporting System
• Administrative Data
• Other economic indicators
INDICATORS

Indicator for compilation of BOP

✓ Gross Domestic Products
✓ Foreign Exchange
✓ Commodity Prices Crude Oil
✓ Commodity Prices LNG
✓ Commodity Prices Palm Oil
✓ Commodity Prices Rubber
✓ Equity Market FBMKLCI
✓ Consumer Price Index
✓ Producer Price Index
✓ Services Producer Price Index (SPPI)
✓ Volume Index of Services

✓ Revenue (Current prices)
✓ Volume Index- Industrial Production Index
✓ Value of Sales - Manufacturing Industries
✓ Exports Volume Index
✓ Import Volume Index
✓ Goods (ETS)
✓ Transport
✓ Tourism data
✓ Money Supply (M1, M2, M3)
✓ Approved Investment MIDA
✓ Others
“In 2022, Current Account Balance recorded a **surplus** of **RM47.2 billion** mainly contributed by net exports of Goods”

Financial Account, 2015-2022

“Financial account recorded a **net outflow** of **RM14.8 billion** in 2022 mainly owing to net outflow in Other Investment and Direct Investment”
### BALANCE OF PAYMENTS - at a glance cont’d.

#### Component

<table>
<thead>
<tr>
<th>Component</th>
<th>RM billion</th>
<th>2021</th>
<th>2022</th>
<th>Q4-21</th>
<th>Q1-22</th>
<th>Q2-22</th>
<th>Q3-22</th>
<th>Q4-22</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td></td>
<td>170.6</td>
<td>169.3</td>
<td>51.8</td>
<td>40.5</td>
<td>34.0</td>
<td>43.0</td>
<td>51.7</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>-60.7</td>
<td>-45.4</td>
<td>-15.4</td>
<td>-15.0</td>
<td>-12.3</td>
<td>-9.6</td>
<td>-8.6</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td></td>
<td>109.8</td>
<td>123.9</td>
<td>36.3</td>
<td>25.6</td>
<td>21.8</td>
<td>33.4</td>
<td>43.2</td>
</tr>
<tr>
<td>Primary Income</td>
<td></td>
<td>-41.6</td>
<td>-63.6</td>
<td>-19.6</td>
<td>-20.1</td>
<td>-14.7</td>
<td>-17.2</td>
<td>-11.5</td>
</tr>
<tr>
<td>Secondary Income</td>
<td></td>
<td>-9.6</td>
<td>-13.1</td>
<td>-1.4</td>
<td>-2.5</td>
<td>-2.6</td>
<td>-2.1</td>
<td>-6.0</td>
</tr>
<tr>
<td><strong>CAPITAL ACCOUNT</strong></td>
<td></td>
<td>-0.6</td>
<td>-0.5</td>
<td>-0.3</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

**Note:** *Less than RM50 million

#### Highlights

"Current Account Balance recorded a _surplus_ of _RM25.7 billion_ mainly contributed by net exports of _Goods_ and lower deficits in _Primary Income_"
BALANCE OF PAYMENTS - at a glance cont’d.

<table>
<thead>
<tr>
<th>Component</th>
<th>RM billion</th>
<th>2021</th>
<th>2022</th>
<th>Q4-21</th>
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<th>Q2-22</th>
<th>Q3-22</th>
<th>Q4-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL ACCOUNT</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Investment</td>
<td>13.0</td>
<td>14.8</td>
<td></td>
<td>0.7</td>
<td>30.4</td>
<td>0.2</td>
<td>-14.9</td>
<td>-1.0</td>
</tr>
<tr>
<td>Portfolio Investment</td>
<td>28.5</td>
<td>16.0</td>
<td></td>
<td>10.5</td>
<td>20.8</td>
<td>2.6</td>
<td>2.0</td>
<td>-9.4</td>
</tr>
<tr>
<td>Financial Derivative</td>
<td>18.8</td>
<td>-51.3</td>
<td></td>
<td>2.6</td>
<td>-10.1</td>
<td>-14.7</td>
<td>0.1</td>
<td>-26.7</td>
</tr>
<tr>
<td>Other Investment</td>
<td>-2.3</td>
<td>-2.2</td>
<td></td>
<td>-1.8</td>
<td>0.2</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-1.7</td>
</tr>
<tr>
<td>RESERVE ASSETS</td>
<td>-32.0</td>
<td>52.3</td>
<td></td>
<td>-10.6</td>
<td>19.6</td>
<td>12.5</td>
<td>-16.6</td>
<td>36.8</td>
</tr>
<tr>
<td>ERRORS &amp; OMISSIONS</td>
<td>-45.7</td>
<td>-53.3</td>
<td></td>
<td>-2.6</td>
<td>-12.8</td>
<td>-4.9</td>
<td>-13.2</td>
<td>-22.4</td>
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<tr>
<td></td>
<td>-25.5</td>
<td>-8.3</td>
<td></td>
<td>-13.1</td>
<td>-20.6</td>
<td>0.3</td>
<td>14.1</td>
<td>-2.1</td>
</tr>
</tbody>
</table>

“Financial account recorded a net outflow of RM1.0 billion mainly owing to net outflow in Portfolio Investment and Direct Investment”

Note: * Less than RM50 million
Current Account
GOODS ACCOUNT

Goods
✓ Covers exports and imports of goods which economic ownership is change between resident and non-resident.
✓ Both exports and imports are valued at f.o.b.

Goods Components in BPM6
- General merchandise
- Nonmonetary gold

 Merchanting

GENERAL MERCHANDISE

SPECIAL CASES...

a) GOODS FOR PROCESSING

Malaysia as PROCESSOR
- INWARD PROCESSING
  - Goods received from abroad for processing (GFP imports) and sent back to the owner (GFP export)
  - Fees received consider MS credit (exports)

Malaysia as PRINCIPAL
- OUTWARD PROCESSING
  - Goods sent abroad for processing (GFP exports) and return to Malaysia (GFP imports)
  - Fees paid consider MS debit (imports)

Goods temporarily exported or imported without a change of ownership.

Exclusion from goods
- Goods for processing
- Goods for Storage
- Transit trade
- Migrants’ personal effects
- Goods consigned to embassies, military bases etc. from their home authorities, and vice versa
- Returned goods

“Because there is no change of ownership of goods between a resident and nonresident, or because the goods have no value, the following cases are excluded from general merchandise: ...(f) Goods for assembly, packing, labeling, or processing by an entity that does not own the goods concerned...”
c) **TRANSIT**

Goods in transit are admitted under special customs procedures that allow the goods to pass through the territory. They are excluded from the general merchandise of the territory of transit.

d) **MIGRANT EFFECTS**

The personal property that accompanies people changing residence is not classified as a transaction because there is no change in ownership.

e) **RETURNED GOODS**

The goods were not accepted, or a change of ownership occurred but the parties later agreed to annul the change of ownership.
The production may take several months or years to complete. The transaction should be recorded at the time that economic ownership is conveyed from the seller to the buyer.

**g) ILLEGAL GOODS**

Items that are deemed illegal. Legality of items differs between each system, but is generally constant depending on jurisdiction and security level.
ECONOMIC TERRITORY VS. STATISTICAL
AND CUSTOMS TERRITORY

Economic Territory (Residence)
• Area under the effective **economic control of a single government**
• **Included**: special zones (e.g., free trade zones, offshore financial centers), even though different regulatory and tax regimes may apply
• **Excluded**: embassies, foreign military bases

Statistical Territory
• Territory of a country with respect to which **trade data** are being compiled, that is goods which enter or leave the statistical territory.
• May differ from the economic territory in data coverage

Customs Territory
• Territory in which the **customs law** of a country applies, but…
  For **Customs Unions**, cross-country flows of goods need of additional non-customs information
  **Free trade zones or other special zones** may have different laws & tax policies, but national totals still needed, inclusions for bilateral comparisons
The **FOB valuation point** means:

- Export taxes are treated as payable by the exporter
- Import duties and other taxes of the importing economy are payable by the importer

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of commodities at place of production in the exporting country A</td>
<td>2,000</td>
</tr>
<tr>
<td>(factory gate price)</td>
<td></td>
</tr>
<tr>
<td>Cost of transportation to border of country A (domestic services provided</td>
<td>100</td>
</tr>
<tr>
<td>by resident of country A)</td>
<td></td>
</tr>
<tr>
<td>Cost of transportation from border of country A to border of country B</td>
<td>200</td>
</tr>
<tr>
<td>(services provided by resident of country C)</td>
<td></td>
</tr>
<tr>
<td>Value of commodities at place of delivery at border of country B (CIF</td>
<td>2,300</td>
</tr>
<tr>
<td>value)</td>
<td></td>
</tr>
<tr>
<td><strong>FOB Value</strong></td>
<td><strong>2,100</strong></td>
</tr>
</tbody>
</table>
Case Study for Malaysia

GFP in Malaysia e.g Inwards Processing

Principal
Country A

Processor
Country B

Third Country

Processing fees (credits)

raw materials

Export goods

Malaysia as PRINCIPAL
OUTWARD PROCESSING

• Goods sent abroad (export) for processing and return to Malaysia (import)
• Fees paid consider MS debit (import)

Malaysia as PROCESSOR
INWARD PROCESSING

• Goods received from abroad (import) for processing and sent back to the owner (export)
• Fees received consider MS credit (export)
GOODS FOR PROCESSING

part of activity involves in goods for processing

Include

- oil refining
- liquefaction of natural gas
- assembly of clothing and electronics, cars
- labeling
- packing

Exclude

- assembly of prefabricated constructions = construction services; and
- labelling and packing incidental to transport = transport services.
Merchanting: Definition and Coverage

**Merchanting** - purchase of goods by a resident from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy.

The same goods are those exported with no substantial transformation from the state in which they were previously imported.

**Arrangements** for:
- Wholesaling and retailing
- Commodity dealing
- Management and financing of global manufacturing processes

**physical possession** of the goods by the owner is unnecessary for the process to occur.
## Summary of conceptual differences
### SNA / BPM6 vs. IMTS

<table>
<thead>
<tr>
<th></th>
<th>BOP - SNA / BPM6</th>
<th>TRADE - IMTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principle of recording</strong></td>
<td>Change of ownership</td>
<td>Cross border movement of goods</td>
</tr>
<tr>
<td><strong>Definition of territory</strong></td>
<td>Economic territory</td>
<td>Customs territory</td>
</tr>
<tr>
<td><strong>Time of recording</strong></td>
<td>When the change of ownership occurs</td>
<td>When goods enter/leave the customs territory</td>
</tr>
<tr>
<td><strong>Valuation</strong></td>
<td>FOB / invoice price</td>
<td>Different measures... <em>WTO Customs Valuation Agreement</em>; FOB, CIF, etc</td>
</tr>
</tbody>
</table>

**Notes:**
- BPM- Balance of Payments Statistics
- IMTS- International Merchandise Trade Statistics
- FOB- Free on Board
- CIF- Cost, insurance, and freight
"In 2022, Goods account recorded a surplus of RM169.3 billion"
GOODS

MAJOR EXPORT PRODUCTS

E&E products  Petroleum products  Palm oil & palm oil based products

MAJOR IMPORT PRODUCTS

E&E products  Petroleum products  Chemicals & Chemical products

Major export markets

1. China
2. Singapore
3. United States

Major import sources

1. China
2. Singapore
3. Taiwan
<table>
<thead>
<tr>
<th>Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of <strong>products</strong> or financial assets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services are not generally separate items over which ownership rights can be established and cannot generally be separated from their production.</td>
</tr>
<tr>
<td>MSITS: covers trade in services between residents and non-residents, but also Foreign Affiliates Trade in Services (FATS) and Modes of Supply (MOS)</td>
</tr>
</tbody>
</table>
EBOPS- product-based classification of services that consistent with BPM6, but including more detail to services Components

1. Manufacturing Services on Physical Inputs Owned by Others
2. Maintenance and Repair Services
3. Transport
   3.1 Sea Transport
      3.1.1 Freight
      3.1.2 Passenger and others
   3.2 Air Transport
      3.2.1 Freight
      3.2.2 Passenger and others
   3.3 Other Transport
      3.3.1 Postal and Courier Services
      3.3.2 Others
4. Travel
   4.1 Business
   4.2 Personal
      4.2.1 Health-related
      4.2.2 Education-related
      4.2.3 Others
5. Construction
6. Insurance and Pension Services
7. Financial Services
8. Charges for the Use of Intellectual Property
9. Telecommunication, Computer & Information Services
   9.1 Telecommunications
   9.2 Computer
   9.3 Information
10. Other Business Services
    10.1 Research and Development Services
    10.2 Professional and Management Consulting Services
       10.2.1 Legal
       10.2.2 Accounting
       10.2.3 Business and Management Consulting
    10.3 Technical, Trade-Related and Other Business Services
       10.3.1 Architectural, Engineering and Other Technical
       10.3.2 Operating Leasing
       10.3.3 Trade-Related and Other Business Services
11. Personal, Cultural and Recreational Services
12. Government Goods and Services n.i.e.
In 2022, exports of services recorded RM 138.9 billion, while imports registered RM184.4 billion.
Trade in Services with Indonesia, 2015-2021

MAJOR EXPORT COMPONENTS
- Other Business Services
- Telecommunication, Computer and Information
- Construction

MAJOR IMPORT COMPONENTS
- Transport
- Travel
- Other Business Services
PRIMARY INCOME ACCOUNT

Covers to type of transaction namely compensation of employee and investment income between residents and non-residents.

Return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units - BPM6

- Compensation of Employees
- Investment Income
- Other Primary Income (new category)

Investment income: linked to the financial instrument (DI, PI, OI or Reserve assets)
Remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise – BPM6

**Compensation of Employee includes:**
- ✓ Wages and salaries in cash or in kind;
- ✓ Employers’ social contribution; and
- ✓ Taxes paid to nonresident government

Which earned by resident workers working abroad or paid to non-resident workers working in Malaysia.

Data Sources – Central Bank of Malaysia
PRIMARY INCOME ACCOUNT: Investment Income

**Definition**: Income accruing to an investor from the ownership of a financial asset

**Included**
- Dividends
- Reinvested earnings
- Interest

**Recording**: Investment income should be recorded on an accrual basis

**Investment Income-classification**
- Direct Investment
- Portfolio Investment
- Other Investment
- Reserves (new)

**Structure**: Structure is consistent with corresponding financial flows (financial account) and positions (IIP).
SECONDARY INCOME ACCOUNT

Secondary income shows current transfers between residents and nonresidents.

A transfer is an entry that corresponds to the provision of a good, service, financial asset or other non-produced asset by an institutional unit to another institutional unit where there is no corresponding return of an item of economic value. (BPM 6; paragraph 12.7)

All transfers irrespective of...

What is Current transfers?
- all transfers that are not capital transfers
- all current transfers in cash or in kind made or received by resident households to or from nonresident households (without quid pro quo)
- Cash transfer – payment of currency or transferable deposit
- Transfer In kind – either transfer of ownership of a good or asset, other than cash, or provision of a service

Why defined as transfer?
- The international accounting system requires each party to a transaction record double entries.
- So, when economic value is provided without corresponding return of an item of economic value, the corresponding entry is made as transfer.

Note - BPM6 : Personal Transfers replaces “workers remittances”
## SECONDARY INCOME ACCOUNT (cont’)

<table>
<thead>
<tr>
<th>CREDIT</th>
<th>DEBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General government</strong></td>
<td><strong>General government</strong></td>
</tr>
<tr>
<td>Grants, Aid &amp; Donations and Unclaimed Monies</td>
<td>Pensions paid abroad</td>
</tr>
<tr>
<td>Compensation/defaults</td>
<td>Taxes, fines &amp; fees</td>
</tr>
<tr>
<td>Current Taxes on Income, Wealth, etc.</td>
<td>Compensation/defaults</td>
</tr>
<tr>
<td>Miscellaneous current transfers</td>
<td>Contribution to world bodies (Grants/aids)</td>
</tr>
<tr>
<td>Private sectors</td>
<td>Technical aids by Government</td>
</tr>
<tr>
<td>Workers' remittances</td>
<td>Miscellaneous current transfers</td>
</tr>
<tr>
<td>Miscellaneous current transfers*</td>
<td>Private sectors</td>
</tr>
<tr>
<td>Notes: Miscellaneous current transfers*</td>
<td>Workers' remittances</td>
</tr>
<tr>
<td>Grants and Gifts, Legacies, Compensations and Prizes, Net premiums/claims on non-life Insurance &amp; etc</td>
<td>Miscellaneous current transfers*</td>
</tr>
</tbody>
</table>
FINANCIAL ACCOUNT (FA)

DEFINITION

Transactions that involve financial assets and liabilities and that take place between residents and nonresidents

FA CLASSIFICATION

FUNCTIONAL BREAKDOWN:

Direct Investment (DI)

Portfolio Investment (PI)

Financial Derivatives (FD)

Other Investment (OI)

Reserve Assets

INSTRUMENT BREAKDOWN:

✓ Equity and investment fund shares
✓ Debt instruments
✓ Equity and investment fund shares
✓ Debt Securities
e.g: Financial risks, futures, forward contracts
Other equity; Currency and deposits; Loans; Trade credit and advances
BNM holdings of gold and foreign exchange, holding of SDR and reserve position with the IMF

In the financial accounts:

➢ Entries can be corresponding entries to goods, services, income, capital account, or other financial accounts entries.
➢ Alternatively, a transaction may involve two financial account entries.
## FA : BPM6 Standard Components

### FINANCIAL ACCOUNT

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Investment</td>
<td></td>
</tr>
<tr>
<td>Equity and Investment Fund Shares</td>
<td></td>
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<tr>
<td>Debt Instruments</td>
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<tr>
<td>Portfolio Investment</td>
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<td>Debt Securities</td>
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<tr>
<td>Financial Derivatives</td>
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<tr>
<td>Other Investment</td>
<td></td>
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<tr>
<td>Other equity</td>
<td></td>
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<tr>
<td>Currency and deposits</td>
<td></td>
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<tr>
<td>Loans</td>
<td></td>
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<tr>
<td>Insurance and pension</td>
<td></td>
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<tr>
<td>Trade credit and advances</td>
<td></td>
</tr>
<tr>
<td>Other account receiveable/payable</td>
<td></td>
</tr>
<tr>
<td><strong>RESERVE ASSETS</strong></td>
<td></td>
</tr>
</tbody>
</table>
Classification of Financial Instruments

Three (3) broad categories of financial instruments are used to classify financial assets and liabilities:

- Equity and investment fund shares;
- Debt instruments; and
- Other financial assets/liabilities.
Financial Assets and Liabilities

Equity and investment fund shares
- Equity
- Investment fund shares/units

Debt instruments
- Special Drawing Rights
- Currency and deposits
- Debt securities
- Loans
- Insurance, pension, and standardized guarantee schemes
- Trade credit and advances
- Other accounts payable/receivable – other

Other financial assets and liabilities
- Monetary gold
- Financial derivatives and employee stock options
Financial Instruments

Retained Earnings of Investment Funds

- Investment income attributable to the owners of investment shares comprises both dividends payable and retained earnings.

- **Retained earnings of investment funds** shares below 10% are separately shown under portfolio income and accrue on the outstanding position.

- This is a change from BPM5, where reinvested earnings were for direct investment only.
  - Holding gains and losses are never considered as income transactions (recorded as other flows).
Equity and Investment Fund Shares

- **Equity** comprises all instruments and records that acknowledge claims on the residual value of a corporation or quasicorporation, after the claims of all creditors have been met. Equity is treated as a liability of the issuing institutional unit.

- **Investment funds** are collective investment undertakings through which investors pool funds for investment in financial and/or nonfinancial assets. These funds raise funds by issuing shares (or units/participations). Investment funds include money market funds (MMF) and non-MMF.
Debt Instruments

- **Debt instruments** are those instruments that require the payment of principal and/or interest at some point(s) in the future

- Debt instruments comprises:
  - $ Special Drawing Rights
  - Currency and deposits
  - Debt securities
  - Loans
  - Insurance technical reserves and provision for calls under standardized guarantees
  - Other accounts receivable/payable
Financial Instruments (cont’d.)

Special Drawing Rights (SDRs)

- **SDRs** are international reserve assets. They represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members.

- SDRs are held only by the monetary authorities of IMF members and a limited number of international financial institutions that are authorized holders (ex., The Arab Monetary Fund).

- Holdings of SDRs by an IMF member are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a liability of the member receiving them (change from BPM5).

- The holdings and allocations should be shown gross, rather than netted.
Currency and Deposits

- **Currency** consists of notes and coins that are of fixed nominal values and are issued or authorized by central banks or governments.

- **Deposits** include all claims that are on the central bank, deposit-taking corporations other than the central bank, and, in some cases, other institutional units.

- Three categories of deposits can be distinguished:
  - transferable deposits
  - interbank deposits
  - other deposits
Debt Securities

- **Debt securities** are negotiable instruments serving as evidence of a debt
- They include bills, bonds, certificates of deposit, commercial paper, debentures, asset-backed securities, and similar instruments normally traded in the financial markets
- Debt securities include some specific instruments such as asset backed securities, index-linked securities
Loan

- **Loans** are financial assets that
  i. are created when a creditor lends funds directly to a debtor; and
  ii. are evidenced by documents that are not negotiable

- Loans that have become debt securities are excluded from loans
  (evidence of secondary market trading, and frequent quotations of
  the instrument)

- Loans include some specific transactions:
  • Securities repurchase agreement and gold swaps
  • Financial leases
Other Accounts Receivable/Payable

This category comprises two components:

- **Trade credit and advances** comprises
  
  i. trade credit extended directly by the suppliers of goods and services to their customers; and
  
  ii. advances for work that is in progress (or is yet to be undertaken) and prepayment by customers for goods and services not yet provided

- **The other** category includes:
  
  - liabilities for taxes, purchase and sale of securities, wages and salaries, dividends, and social contributions that have accrued but not yet paid
  
  - prepayments of those items
Financial Account

DIRECT INVESTMENT

- Cross-border investment associated with a resident in one economy having **control** (>50% of equity) or a **significant degree of influence** (10-50% of equity) on the management of an enterprise that is resident in another economy.

- Para 6.12 (a) BPM6 page 101: identified immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to **10 per cent or more** of the voting power in the direct investment enterprise.

- 10 percent of Equity ownership

COMPONENTS

01 Equity
(value of the shares issued by a company)

02 Reinvested Earnings
(income generated from equity used to reinvest)

03 Debt instruments
(e.g: Debt Securities (bonds/notes/money market instruments), Trade Credit, Loans, Insurance & pension, Currency & deposits, Other account receivable/payable)
**CONCEPT & DEFINITION**

**Direct Investor**
- Is the entity or group of related entities that is able to exercise control or influence over another entity resident in another economy.

**Direct Investment Enterprise (DIE)**
- Is the entity subject to control or influence.

In some cases, an entity may be both a direct investor and a DIE.

DIEs can be either *directly* or *indirectly* owned by the direct investor, and comprise:

<table>
<thead>
<tr>
<th>Branches</th>
<th>Subsidiaries</th>
<th>Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td>(100 % ownership)</td>
<td>(Over 50% ownership)</td>
<td>(10-50% ownership)</td>
</tr>
<tr>
<td>the direct investor is able to exercise <strong>control</strong></td>
<td>the direct investor is able to exercise <strong>control</strong></td>
<td>the direct investor is able to exercise a <strong>significant degree of influence</strong>, but not control</td>
</tr>
</tbody>
</table>
Direct Investment: Definition & Concept

**Transaction (Flows)**
- **Credit** refers to inflow
- **Debit** refers to outflow

**Assets:** outflow  
**Liabilities:** inflow

**Presentation Basis of Direct Investment**

<table>
<thead>
<tr>
<th>Component/Year &amp; Quarter</th>
<th>Financial Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q215</td>
<td></td>
</tr>
<tr>
<td>2,273</td>
<td></td>
</tr>
<tr>
<td>-3,941</td>
<td></td>
</tr>
<tr>
<td>-17,812</td>
<td></td>
</tr>
<tr>
<td>13,871</td>
<td></td>
</tr>
<tr>
<td>1. Direct investment</td>
<td></td>
</tr>
<tr>
<td>1.1 Assets</td>
<td></td>
</tr>
<tr>
<td>1.2 Liabilities</td>
<td></td>
</tr>
</tbody>
</table>

**Directional Principle**

DI statistics are compiled according to the direction of the investment for the reporting economy- either DIA or FDI

**Types of Direct Investment**

- **Flows**
  - Total investment during particular period and recorded under Financial Accounts in Balance of Payments Statistics

- **Stock**
  - Refers to the position of investments as at end of period, and involved transaction and non-transaction investment

- **Income**
  - Refers to return of the investment in the form of dividends, interests and reinvested earnings
Direct Investment: Definition & Concept

**DIRECTIONAL BASIS (BPM5)**

**DIRECT INVESTMENT ABROAD (DIA)**

Refers to investment of Malaysian parent company that owns at least 10 per cent of equity in subsidiaries abroad.

- **CLAIMS/ASSETS ON AFFILIATE** (investment by Direct Investor (reporting country) in Direct investor Enterprise (abroad))
- **LIABILITIES TO AFFILIATE** (investment by affiliate in abroad to reporting country)

**FOREIGN DIRECT INVESTMENT (FDI)**

Refers to investment from foreign direct investors that owns at least 10 per cent of equity in Malaysia’s Company.

- **LIABILITIES TO DIRECT INVESTOR** (investment by Direct Investor (reporting country) in Direct investor Enterprise (M’sia))
- **CLAIMS/ASSETS ON DIRECT INVESTOR** (investment by affiliate in M’sia to reporting country)

**ASSETS and LIABILITIES BASIS (BPM6)**

- Based on record in the balanced sheet.
- Assets and liabilities consists of Residents and Non-Residents.

**ASSETS**

1. Claims/Assets on Affiliate by Residents*

2. Claims/Assets on Direct Investor by Non-residents

**LIABILITIES**

1. Liabilities to Affiliate by Non-residents**

2. Liabilities to Direct Investor by Residents

* Higher investment by Residents
** Higher investment by Non-Residents

*AFFILIATE refers to a company whose parent acquire a minority stake in the ownership of the company.*
✓ Cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets

✓ Equity securities included in portfolio investment cover listed and unlisted shares when the investor owns less than 10% of the total equity in a unit

PORTFOLIO INVESTMENT

COMPONENTS

01 Equity Securities

02 Investment Fund Shares
Issued by investment funds and unit trusts to raise funds

03 Debt Securities
e.g.: Debt Securities - bonds/ notes/ money market instruments
Other Investment

OTHER INVESTMENT

- Comprises all transactions/positions not included under direct investment, portfolio investment, financial derivatives, and reserve assets
- Transaction between resident with nonrelated parties of non resident
- Functional category - is a residual category in the financial account and IIP
- Comprises:
  - currency and deposits
  - loans
  - insurance, pension, and standardized guarantee schemes
  - trade credit and advances
  - other accounts receivable/payable
A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset.

Derivatives can be used to either mitigate risk (hedging) or assume risk with the expectation of commensurate reward (speculation).

Futures contracts, forward contracts, options, swaps, and warrants are commonly used derivatives.
Reserve Assets

RESERVE ASSETS

- Reserve assets are those external assets that are readily available to; and
- Controlled by monetary authorities

Components:

**BOP: Reserve assets**

1. Monetary gold
   - Gold bullion
   - Unallocated gold accounts
2. Special drawing rights
3. Reserve position in the IMF
Malaysia’s Reserve Asset, 2015 - 2022

Malaysia Reserve Assets recorded a higher net outflow of RM53.3 billion in 2022 from RM45.7 billion in previous year.
FOREIGN DIRECT INVESTMENT (FDI)
WHAT IS FOREIGN DIRECT INVESTMENT (FDI)?

(i) Investment from foreign direct investment (abroad) in Malaysia’s companies

(ii) In the form of financial instruments

(iii) FDI components:
- Financial instrument
  - 01 Equity & Investment fund shares (consists of equity capital and reinvestment of earnings)
  - 02 Debt instruments (e.g: Debt Securities, Trade Credit, Loans, Insurance & pension, Currency & deposits, Other account receivable/payable)

“.... Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power... “

Page 48; OECD Benchmark Definition of Foreign Direct Investment BDM4
FOREIGN DIRECT INVESTMENT (FDI)

**FDI FLOW**

✓ Refer to acquisition and disposal of financial instrument (Equity & Investment fund shares)
✓ During a reference period

**STOCK OF FDI**

✓ Total stock of FDI in Malaysia as at end of reference period.
✓ Also known as FDI Position
✓ Derived from Opening stock, financial transaction FDI and Non-Transactional Items (non-transaction as price changes, exchange rate changes and other changes)

**RETURN OF FDI**

**INVESTMENT INCOME OF FDI**

✓ Returns on **Equity & investment shares** and **debt instruments** from FDI companies
✓ Comprises of:
  i. **Dividends** – Distribution of profit to direct investor (FDI)
  ii. **Reinvestment of earnings** – Earnings that are not distributed as dividends/reinvested back,
  iii. **Interests** – Income payable/receivable arising from debt instrument, debt securities etc.

![Diagram showing FDI Flow, FDI Income, FDI Stock (Position), and FDI in Malaysia]
# Negative Sign – FDI Flows

<table>
<thead>
<tr>
<th>Reason net FDI -ve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Repayment of inter-company loans/trade credit exceed the withdrawal.</td>
</tr>
<tr>
<td>2. FDI companies in Malaysia incurred loses. (net reinvestment of earnings - negative value)</td>
</tr>
<tr>
<td>3. Repatriate of dividends more than current profit (net reinvestment of earnings - negative value)</td>
</tr>
<tr>
<td>4. Equity divestment to parent</td>
</tr>
</tbody>
</table>
FDI flows registered at RM73.3 billion in 2022 (2021: RM48.1 billion), while FDI position at RM875.1 billion (2021: RM788.8 billion)
DIRECT INVESTMENT ABROAD (DIA)
DIRECT INVESTMENT ABROAD (DIA)

(i) Refers to investment of Malaysian parent company that owned at least 10 per cent of equity in subsidiaries abroad.

(ii) In the form of financial instruments

(iii) FDI components:

01 Equity & Investment fund shares (consists of equity capital and reinvestment of earnings)

02 Debt instruments (e.g: Debt Securities, Trade Credit, Loans, Insurance & pension, Currency & deposits, Other account receivable/payable)
## Positive Sign – DIA Flows

<table>
<thead>
<tr>
<th>Reason net DIA +ve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Repayment of inter-company loans/trade credit exceed the extension.</td>
</tr>
<tr>
<td>3. Repatriate of dividends to parent in Malaysia more than subsidiary current profit (net reinvestment of earnings - positive value)</td>
</tr>
<tr>
<td>4. Equity divestment form abroad</td>
</tr>
</tbody>
</table>
**Direct Investment Abroad (DIA)**

**Investment Flow**
- Malaysia: RM -57.3 bil.
- Foreign Countries: Investment Income: RM49.1 bil.

**Investment Position**
- RM 602.1 bil.

**Flow**
- 2021: RM -19.7 bil.
- 2022: RM -57.3 bil.
- Q4-21: RM -7.9 bil.
- Q1-22: RM -3.6 bil.
- Q2-22: RM -14.7 bil.
- Q3-22: RM -10.3 bil.
- Q4-22: RM -28.7 bil.

**IIP**
- 2021: RM 547.0 bil.
- 2022: RM 602.1 bil.
- Q1-21: RM 547.0 bil.
- Q2-21: RM 551.7 bil.
- Q3-21: RM 577.4 bil.
- Q4-21: RM 601.9 bil.
- Q1-22: RM 602.1 bil.

**Income**
- 2021: RM 59.3 bil.
- 2022: RM 49.1 bil.
- Q1-21: RM 28.9 bil.
- Q2-21: RM 7.4 bil.
- Q3-21: RM 14.3 bil.
- Q4-21: RM 12.2 bil.
- Q1-22: RM 15.1 bil.

DIA flows recorded a higher net outflow of RM57.3 billion in 2022 from RM19.7 billion in previous year, while accumulated DIA registered at RM602.1 billion (2021: RM547.0 billion)
INTERNATIONAL INVESTMENT POSITION (IIP)
International Investment Position (IIP)

INTERNATIONAL INVESTMENT POSITION (IIP)

A statistical statement that shows **stock of external financial assets and liabilities at one point in time** (usually at the end of year)

**Net IIP**

Difference between external financial assets and external liabilities.

**IIP Transactions**

- **Beginning of period IIP**
- **Financial Account**
- **Other Changes in Financial Assets and Liabilities Account**
- **End of period IIP**

**BOP Transactions**

1. Other changes in volume
2. Revaluations
   - Exchange rate changes
   - Other price changes
INTERNATIONAL INVESTMENT POSITION (IIP)

Why is it Important?
- Assess economic relations with the rest of the world
- Monitor developments in external relations between countries
- Monitor external debt
- Indicator of external debt sustainability
- Indicator of financial stability
- Facilitates international comparison of countries’ IIP
- Explain the economic reality

IIP Conceptual

The difference between an economy’s external financial assets and liabilities is the economy’s net IIP, which may be positive or negative.

- **Negative Net IIP figure**
  A foreign nations own more of the domestic nation’s assets than the domestic nation does of foreign assets, thus making it a **debtor nation**

- **Positive Net IIP figure**
  The domestic nation's ownership of foreign assets is greater than foreign nation's ownership of that domestic nation's assets, thus making it a **creditor nation**
## Integrated IIP Statement/Reporting

### Integrated IIP Statement

<table>
<thead>
<tr>
<th></th>
<th>Beginning of period IIP</th>
<th>Financial Account Transactions</th>
<th>Other changes in financial assets and liabilities account</th>
<th>End of period IIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other Changes in volume</td>
<td>Exchange Rate Changes</td>
</tr>
</tbody>
</table>

#### ASSETS
- Direct Investment
- Portfolio investment
- Financial derivatives and ESOs
- Other investment
- Reserve assets

#### LIABILITIES
- Direct Investment
- Portfolio investment
- Financial derivatives and ESOs
- Other investment
### IIP : MALAYSIA (END DECEMBER 2022)

<table>
<thead>
<tr>
<th>(RM billion)</th>
<th>Opening</th>
<th>Net transaction</th>
<th>Price Changes</th>
<th>Exchange Rate Changes</th>
<th>Other Adjustment</th>
<th>Closing</th>
<th>diff</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Direct Investment</td>
<td>2,254.7</td>
<td>35.8</td>
<td>24.3</td>
<td>-71.3</td>
<td>-16.8</td>
<td>2,226.7</td>
<td>-28.0</td>
</tr>
<tr>
<td>2. Portfolio Investment</td>
<td>726.1</td>
<td>24.8</td>
<td>1.4</td>
<td>-22.7</td>
<td>-11.2</td>
<td>718.4</td>
<td>-7.7</td>
</tr>
<tr>
<td>3. Financial Derivatives</td>
<td>573.9</td>
<td>15.0</td>
<td>16.2</td>
<td>-13.8</td>
<td>-0.22</td>
<td>591.1</td>
<td>17.1</td>
</tr>
<tr>
<td>4. Other Investment</td>
<td>31.5</td>
<td>-0.4</td>
<td>-0.8</td>
<td>-1.3</td>
<td>0.3</td>
<td>29.3</td>
<td>-2.3</td>
</tr>
<tr>
<td>5. Reserves Assets</td>
<td>431.2</td>
<td>-26.0</td>
<td>-0.0</td>
<td>-14.9</td>
<td>-5.7</td>
<td>384.7</td>
<td>-46.5</td>
</tr>
<tr>
<td><strong>B. LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Direct Investment</td>
<td>2,178.4</td>
<td>12.4</td>
<td>13.2</td>
<td>-42.5</td>
<td>2.2</td>
<td>2,163.6</td>
<td>-14.7</td>
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<tr>
<td>2. Portfolio Investment</td>
<td>985.0</td>
<td>15.4</td>
<td>4.3</td>
<td>-15.4</td>
<td>2.2</td>
<td>991.5</td>
<td>6.5</td>
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<tr>
<td>3. Financial Derivatives</td>
<td>661.5</td>
<td>-11.7</td>
<td>12.9</td>
<td>-8.7</td>
<td>-0.2</td>
<td>653.8</td>
<td>-7.7</td>
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<tr>
<td>4. Other Investment</td>
<td>34.6</td>
<td>-2.1</td>
<td>-4.0</td>
<td>-1.3</td>
<td>0.0</td>
<td>27.2</td>
<td>-7.4</td>
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<tr>
<td><strong>C. NET IIP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1. Direct Investment</td>
<td>76.3</td>
<td>23.5</td>
<td>11.1</td>
<td>-28.9</td>
<td>-19.0</td>
<td>63.0</td>
<td>-13.3</td>
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<tr>
<td>2. Portfolio Investment</td>
<td>-258.9</td>
<td>9.4</td>
<td>-2.8</td>
<td>-7.4</td>
<td>-13.4</td>
<td>-273.1</td>
<td>-14.2</td>
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<tr>
<td>3. Financial Derivatives</td>
<td>-87.6</td>
<td>26.7</td>
<td>3.3</td>
<td>-5.1</td>
<td>-0.0</td>
<td>-62.7</td>
<td>24.8</td>
</tr>
<tr>
<td>4. Other Investment</td>
<td>-3.0</td>
<td>1.7</td>
<td>3.2</td>
<td>-0.0</td>
<td>0.3</td>
<td>2.1</td>
<td>5.1</td>
</tr>
<tr>
<td>5. Reserves Assets</td>
<td>-66.1</td>
<td>-36.8</td>
<td>-0.0</td>
<td>2.2</td>
<td>-5.8</td>
<td>-106.5</td>
<td>-40.4</td>
</tr>
</tbody>
</table>

**Highlights**

As at end of 2022, Malaysia’s IIP Recorded lower net assets of RM 63.0 billion
THANK YOU

“STATISTICS BLOOM IN HARMONY”

Doesn’t matter far or near
Strength in numbers
we don’t live in fear

Birds of feather flock together
Statistics our form of adour
We, will always live it up

So let us live in solidarity
And in the world arena we’ll succeed
It is statistics that will come to be
The reason we will bloom in harmony

Everybody undivided
Data’s where our hearts reside in
There will always be a bind

Just like fire that ignites
That’s how brightly lit our dreams are
We’ll reach higher than the stars

Sending love to one another
Leaving no one in a slumber
We will stand with unity

Mustering our courage while
Embracing our disparities
We’ll achieve our victory

One dream with unity
One love with harmony


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