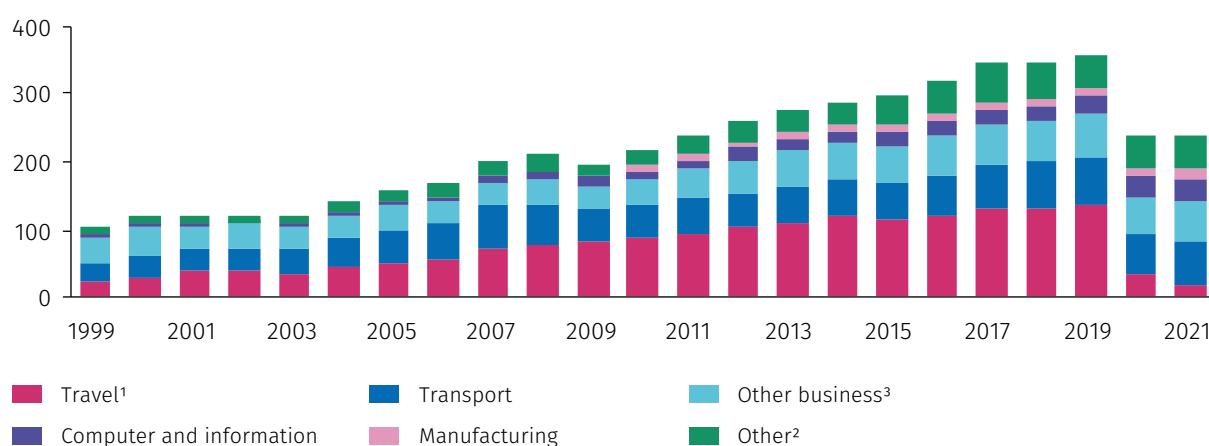


Expansion of the Measure on Reserve Coverage of Imports – from Retained Imports to Imports of Goods and Services

One of the indicators used by the Bank to measure international reserve adequacy is the reserve coverage of retained imports,¹ which is communicated on a fortnightly basis. As the economy grew and evolved with higher share of the services sector, this has raised the prominence of services imports in the measure of reserve adequacy. Given this consideration and in line with the international best practice, future fortnightly reporting of Malaysia's international reserves will include the indicator on reserve coverage of imports of goods and services, effective from 22 February 2022.²

C1 Services trade

RM billion



Note: Data prior to 2005 are based on the guideline in the Fifth Edition of the Balance of Payments and International Investment Position Manual (BPM5) of the IMF. Data for 2005 and beyond are based on BPM6.

¹ Includes travel spending for tourism activity.

² Includes construction, charges for intellectual property use, personal, culture & recreational services.

³ Other business services comprise research and development, professional, technical, trade-related and other business services.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The Bank's reporting of the reserve coverage of retained imports was published as early as in the 1990s. Data on retained imports are available on monthly basis and thereby closely match the fortnightly release of the international reserves data. However, retained imports do not include payment for services, which has grown over the past two decades. From 1999 to 2019, services trade³ has increased by 246.9%⁴ (Chart 1). This was mainly due to higher tourism activity as well as payments for foreign transport services for goods trade. In addition, there was also an expansion in goods import, largely in support of domestic investment activities and production of manufactured goods.

Malaysia's performance on this indicator is in line with regional and peer⁵ economies. On historical basis, reserve coverage of imports of goods and services indicator has been in the range of between 5 and 8 months since 2008 – well above the generally-accepted 'rule of thumb' adequacy threshold of 3-months, and demonstrates the ability of the Malaysian economy to withstand against external shocks.

¹ Defined as gross imports subtracted with re-exports. The 12-month average retained imports can be derived from the Monthly Highlight and Statistics Table 3.6.8 (Imports by End-Use; see Appendix 1).

² For the international reserves position as at 15 February 2022.

³ Defined as imports plus exports.

⁴ From RM101.3 billion to RM351.3 billion, or a compound annual growth rate (CAGR) of 6.4%.

⁵ Based on JP Morgan's Government Bond Index for Emerging Markets.

It is also important to emphasize that the assessment of reserve adequacy should not be solely based on the face value of these indicators. This needs to be complemented with deeper understanding about the country's external position, financial system and broad economic policies. In particular, international reserves is not the only means to meet external obligations.⁶ Prevailing assessment indicates that the country's external position⁷ is underpinned by its strong economic fundamentals including healthy current account surplus, large foreign currency external assets held by domestic entities⁸ and the flexible ringgit exchange rate.

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Appendix 1: Calculation of international reserves coverage of retained imports

$$12 \text{ month average retained imports} = \frac{\sum_{i=1}^{12 \text{ months}} \text{Monthly retained imports}^a}{12 \text{ months}}$$

^aFor example, to calculate monthly retained imports for December 2019, the retained imports for the months of January to December 2019 is summed up (i.e. rolling 12-months of retained imports). This number is then divided by 12, to obtain a monthly average. The figures can be obtained from BNM's MHS Table 3.6.8, column S.

⁶ Further information can be found in the box article "Malaysia's Resilience in Managing External Debt Obligations and the Adequacy of International Reserves" in BNM's Annual Report 2018.

⁷ In addition, it has also been emphasized that Malaysia's external debt position, including short-term external debt, remains manageable. This is supported by the favourable currency and maturity profile on its external debt as well as domestic entities' resilient repayment capacity. Foreign-currency external debt of corporates are also mainly subject to prudential and hedging requirements (refer to the latest assessment on external debt developments on page 25)

⁸ Amounting to RM1.1 trillion as at end-2021.