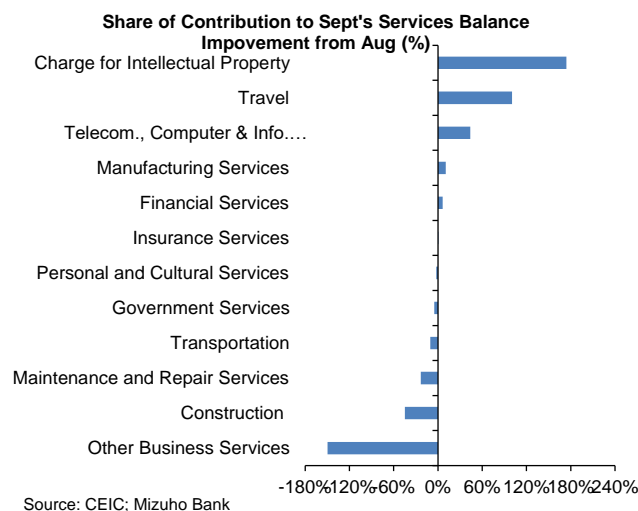
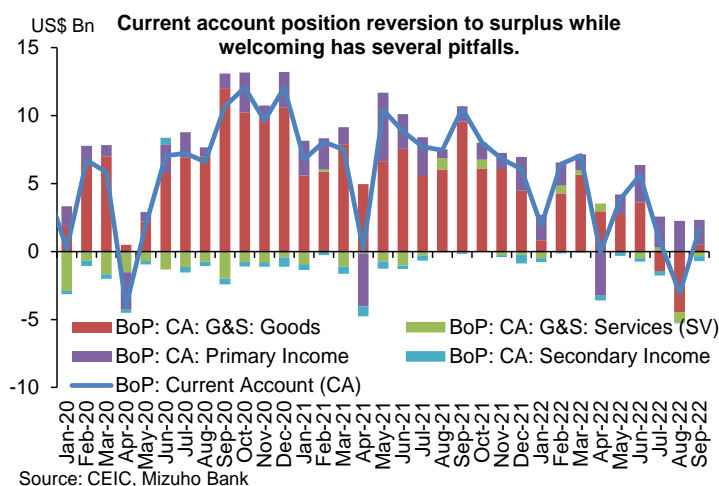


## Korea: Current Account Oscillation Not Reversion



- Korea's current account returned back to a surplus position of US\$1.6bn in September from August's deficit of US\$3bn. While this surplus position is a much welcomed development for the KRW, a **peek under the hood ought to dampen over exuberance**.
- First, the goods balance achieved a slight surplus largely on account of a decline in import spending (by US\$5.1bn) as **export revenues stayed rather flat**.
- In fact, the restrained export demand from worsening sentiments surrounding slowing global growth is also reflected in the various drivers behind the lower import expenditure. While a lower fuel import bill contributed 20% of the decline, falling **import demand of machinery, electrical equipment** and vehicles drove 40% of the lower import spending.
- Second, a deeper examination<sup>1</sup> reveals that these imports are largely investment spending on **capital goods such as machines for semiconductor and integrated circuit production** which *hints* at possible **caution surrounding the strength of downstream consumer demand**.
- Thirdly, higher inflows of charges for intellectual property usage and **improvement in tourism receipts** help **narrow the services deficit in September**. With foreign arrivals in September still at 23% of 2019 monthly levels, ample room is available for further recovery. Nonetheless, we see that **falling freight rates may begin to weigh on transportation receipts** which have already been declining in recent months.
- All in, rather than a sustained reversion to a surplus position, the current account position in Q4 will **continue oscillating between surplus and deficit**. This comes as a confluence of factors from the resurgence of energy prices tussle with lower import demand as corporates hold back investment spending due to elevated global uncertainty and higher borrowing cost.

<sup>1</sup> Using 4-digit HS code from Korea Customs Database

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