

Balance of payments

Kuwait: Current account surplus improves in 3Q17 as oil price recovers

> Fatema Akashah

Economist

+965 2259 5352, fatemahakashah@nbk.com

> Nembr Kanafani

Head of Research

+965 2259 5365, nemrkanafani@nbk.com

Kuwait's current account surplus improved in 3Q17, as easing remittances and resilient exports countered a larger deficit in services. The surplus rose to KD 0.42 billion, versus KD 0.26 billion in 2Q17 (Chart 1), reaching an annualized of 4.8% of GDP. Overall, the preliminary current account figures for the quarter had vastly improved from 2016 levels as the oil price rose from lows in 1Q16 (Chart 2).

The current account is likely to have continued to rise in 4Q17, given the pickup in oil prices. The current account balance advanced to a KD 1.13 billion surplus during the first three quarters of 2017, compared to a KD 0.43 billion deficit during the same period in 2016, boosted by a rally in oil prices. Kuwait's export crude price averaged \$58.2 during the period, up 36% from the same period in 2016. Still, higher oil prices in 4Q17 should further benefit the current account with the balance for 2017 as a whole expected to be around 4-5% of GDP.

The trade surplus improved in 3Q17 from the prior thanks to a rally in oil prices, with the surplus rising to KD 1.9 billion. Oil export receipts grew by 12.2% year-on-year (y/y) to KD 3.7 billion in 3Q17, despite the restrained production mandated by the OPEC/non-OPEC agreement. The same trend helped push non-oil exports higher by 15.7% y/y to KD 0.4 billion, largely on the back of higher petrochemicals prices.

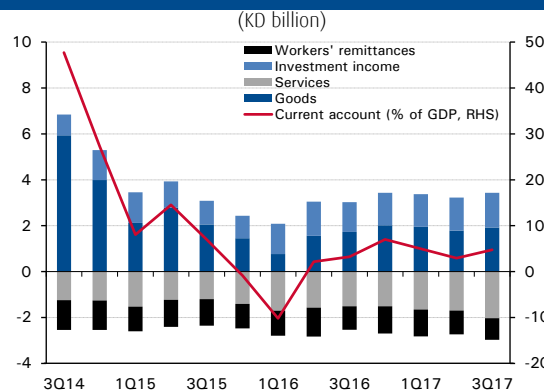
Strong import growth, on the back of strengthening domestic demand, weighed on the trade balance. Imports grew 13.7% y/y in 3Q17, as higher construction activity increased demand for building materials such as base metal products. Demand for machinery and mechanical equipment also strengthened, as consumer demand for appliances picked up. The rise in imports offset some of the gains made in exports, but the trade balance still managed to improve by 11.2% y/y to KD 1.9 billion in 3Q17.

The robust economy also saw the services deficit widen further in 3Q17, on rising travel and transportation expenditure. The net services balance stood at a deficit of KD 2.0 billion in the quarter, up 34% y/y. Given the recovering consumer sentiment, the strong momentum in travel spending came as no surprise, and remained buoyant at 8.2% y/y in 3Q17.

Rising investment income and shrinking remittances further bolstered the current account surplus in 3Q17. Investment income showed healthy growth growing by 16% y/y to KD 1.5 billion in 3Q17. Investment income has been resilient in the past several quarters, bouncing back after some weakness in 1Q15. Meanwhile, Kuwait continued to accumulate financial assets overseas, supported by the recovery in oil income.

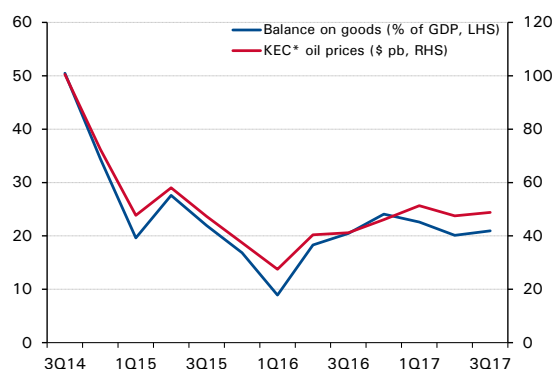
Declining worker remittances has also lent support to the current account surplus. Worker remittances fell by 8.1% to KD 0.94 billion in 3Q17, falling below KD 1 billion for the first time since 1Q12. Cuts in subsidies and increases in various fees have increased the cost of living for expatriate workers. At the same time, an increased emphasis on Kuwaitization has reduced demand for foreign labor.

Chart 1: Current account



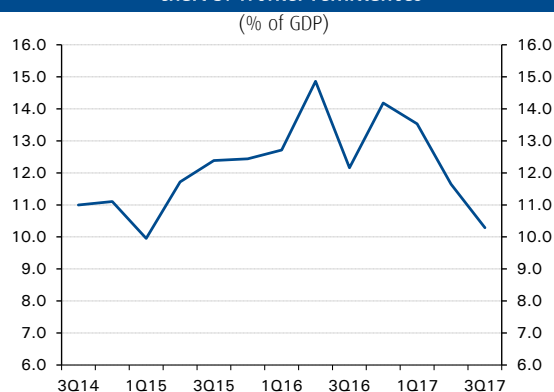
Source: Central Bank of Kuwait

Chart 2: Trade balance



Source: Central Bank of Kuwait, *Kuwait Export Crude

Chart 3: Worker remittances

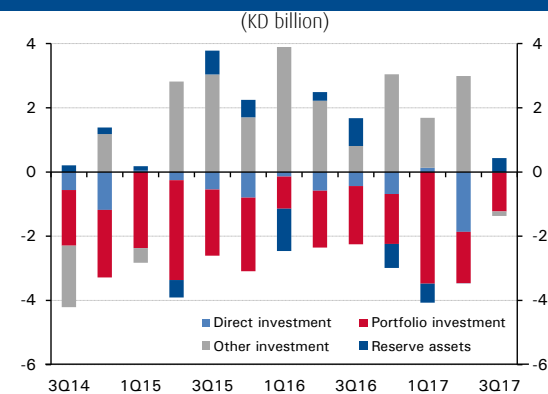


Source: Central Bank of Kuwait, NBK estimates

Table 1: Summary of Kuwait's balance of payments

(KD million)	Level				y/y change	
	4Q16	1Q17	2Q17	3Q17	KD mn	%
Current account	626	442	261	424	135	46.7
Goods (net)	2,018	1,951	1,789	1,920	194	11.2
Exports	4,143	4,182	3,929	4,102	457	12.5
Oil exports	3,724	3,715	3,486	3,660	397	12.2
Non-oil exports	419	467	443	442	60	15.7
Imports	-2,125	-2,231	-2,140	-2,182	-263	13.7
Services (net)	-1,510	-1,653	-1,696	-2,029	-519	34.4
Investment income	1,413	1,426	1,438	1,514	211	16.2
Workers' remittances	-1,188	-1,169	-1,037	-943	83	-8.1
Other investment	-107	-115	-233	-38	166	-81.4
Current + capital account	579	408	230	398	145	57.3
Financial account	63	-2,383	-478	-933	-372	66.3
Direct investment (net)	-687	132	-1,865	-23	414	-94.7
Portfolio investment (net)	-1,555	-3,480	-1,596	-1,208	608	-33.5
Other investment (net)	3,051	1,554	2,990	-138	-950	-117
Reserve assets	-746	-589	-7	436	-429	-49.6
Net errors & omissions	-642	1,975	249	535	227	73.7
Overall balance	746	589	7	-436	429	-49.6

Source: Central Bank of Kuwait

Chart 4: Financial account


Source: Central Bank of Kuwait

Chart 5: Central bank reserves


Source: Central Bank of Kuwait, NBK estimates

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0352