

Kuwait: External surplus falls in 2020 on lower oil exports; reserves at record high

> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

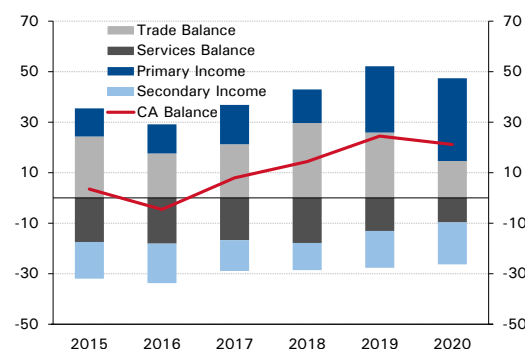
Summary

Kuwait's current account surplus declined in 2020 mainly due to the fall in oil prices and OPEC+ production cuts. However, this has been partially offset by a drop in imports, outbound tourism spending and remittances. The current account is expected to improve in 2021 with the recovery in oil demand and thus oil prices, but downside risks could arise from further resurgence of COVID-19 outbreaks and larger oil production that could have an adverse impact on the price unless OPEC+ manages supply to maintain balance in the oil market.

- Kuwait's current account surplus narrowed in 2020 to KD6.9 billion (21.1% of GDP) from KD10.1 billion (24.5% of GDP) in the previous year. (Chart 1.) The decline in the surplus came on the back of reduced oil exports, and despite a fall in imports, outbound tourism and workers' remittances. As for the financial account, it registered a decline in net outflows as the reduction in government deposits abroad (repatriation of deposits) outweighed the rise in direct and portfolio investment outflows from the country. Therefore, the surplus in the overall balance of payments declined to KD3.3 billion in 2020.
- Trade balance of goods surplus witnessed a steep fall in 2020, from KD10.7 billion in 2019 to KD4.7 billion. This was largely on the back of the decline in oil exports (-38.5% y/y) due to a combination of low oil production (-9.1% y/y to avg. 2.4 mb/d) and sharply lower oil prices (KEC: -35.6% y/y to avg. \$41.4/bbl). (Chart 2.) In addition, non-oil exports declined by 27.3% which could be a reflection of trade disruptions and the decline in external demand due to the impact of the pandemic. Meanwhile, imports dropped by 15.5%, which helped to offset part of the fall in the goods surplus.
- Moreover, the services account deficit narrowed to KD3.1 billion from KD5.4 billion in the previous year as the government's imposition of mobility and travel restrictions to combat the spread of the coronavirus limited Kuwaitis' overseas travel and spending opportunities (-52.9% y/y to KD1.8 billion).
- The primary income account, which includes Kuwaiti investment returns from abroad, remained relatively stable at KD10.6 billion (32.9% of GDP). Direct and portfolio investment returns increased by 7.5% y/y and 4% y/y, respectively, on the improvement in the performance of financial markets in the 2H20, which was supported by loose monetary policies and positive investor sentiment especially after the rollout of the anti-coronavirus vaccines in late 2020.
- The secondary income deficit narrowed to KD5.4 billion on lower workers' remittances. These declined by 7.3%, partly due to a reduction in the expatriate population in Kuwait by 4% in 2020.
- Financial account net outflows declined to KD6.5 billion compared to a net outflow of KD10.2 billion last year. (Chart 3.) This came despite the rise in direct and portfolio investment outflows and the increase in the central bank's reserve assets due to the notable fall of government deposits abroad.
- Kuwait's investment outflows remained higher than its historical averages, with direct investments abroad increasing by KD2.3 billion and portfolio investments rising significantly by KD17.2 billion. Most of these investments were directed toward equity investments (75.3% of flows).

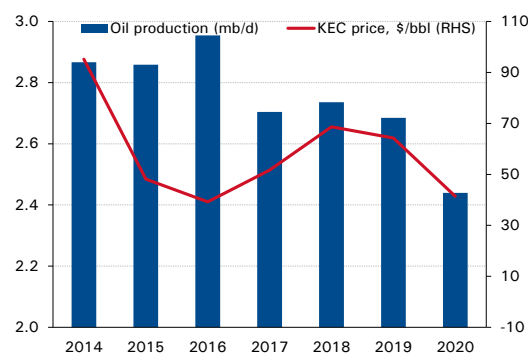
▶ Chart 1: Kuwait current account

(% of GDP)



Source: Central bank of Kuwait, CSB

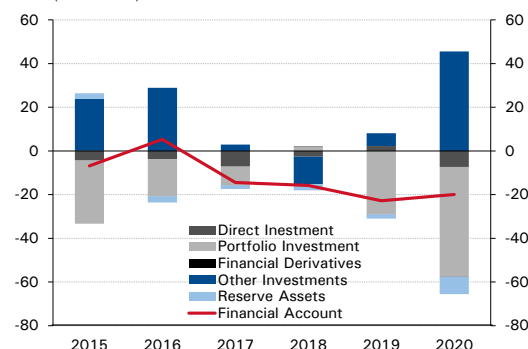
▶ Chart 2: KEC price and production



Source: OPEC monthly bulletin

▶ Chart 3: Financial account

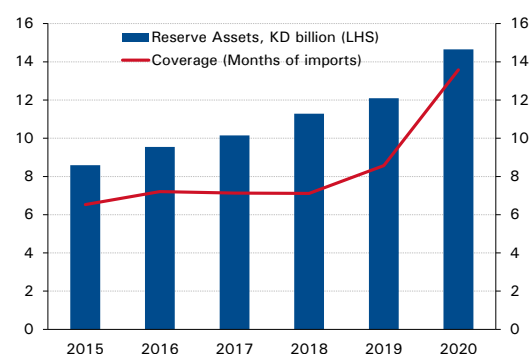
(% of GDP)



Source: Central bank of Kuwait, CSB

- Moreover, general government and local banks' deposits abroad decreased in 2020 by KD14.5 billion and KD0.6 billion, respectively, while non-resident deposits at local banks fell slightly by KD0.3 billion, compared to an increase of KD1.6 billion the year before.
- Despite the impact of the pandemic on oil prices, the CBK reserve assets increased in 2020 by KD2.6 billion, helping Kuwait's gross international reserves to reach KD14.7 billion (45.2% of GDP) by the end of the year. (Chart 4.) This level equates to around 13.6 months goods and services import cover.
- Following a year of economic distress, the current account surplus is expected to increase in 2021 in line with the anticipated recovery in global economic activity and energy demand growth. Kuwait's oil exports revenues should benefit from higher average oil prices in 2021, markedly improving Kuwait's external position (OPEC's decision in the second half of the year to unwind the May 2020 production cuts will result in higher real exports for Kuwait, but this will only positively affect year avg. outcomes in 2022). However, downside risks remain and could arise from further resurgence of COVID-19 outbreaks and possibly lower oil prices.

▶ Chart 4: CBK reserve assets



Source: Central Bank of Kuwait, NBK estimates

▶ Table 1: Summary of Kuwait's Balance of Payments

	KD billion					% change				% of GDP			
	2016	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Current account	-1.5	2.9	6.0	10.1	6.9	-290.7	106.2	68.5	-32.3	8.0	14.4	24.5	21.1
Trade Balance (net)	5.9	7.8	12.4	10.7	4.7	32.2	58.9	-13.4	-55.8	21.3	29.7	25.9	14.6
Exports	14.1	16.7	21.8	19.6	12.3	19.2	30.0	-9.8	-37.5	45.7	52.2	47.5	37.8
Oil Exports	12.5	15.0	19.7	17.8	11.0	20.0	31.2	-9.6	-38.5	41.1	47.3	43.1	33.8
Imports (FOB)	8.2	9.0	9.4	8.9	7.5	9.8	4.9	-5.0	-15.5	24.4	22.5	21.6	23.2
Services (Net)	-6.0	-6.1	-7.4	-5.4	-3.1	1.3	21.2	-27.3	-41.9	-16.7	-17.8	-13.1	-9.7
Primary Income (Net)	3.9	5.7	5.5	10.8	10.6	47.5	-2.8	95.7	-1.7	15.6	13.3	26.2	32.8
Investment Income (Net)	3.9	5.7	5.6	10.9	10.7	46.3	-2.8	95.0	-1.7	15.7	13.3	26.3	32.9
Secondary Income (Net)	-5.2	-4.4	-4.5	-6.0	-5.4	-15.1	0.8	34.4	-10.6	-12.2	-10.7	-14.6	-16.6
Workers remittances	4.6	4.1	4.3	5.7	5.3	-9.3	4.0	32.5	-7.3	11.3	10.3	13.8	16.3
Capital Account	-0.1	-0.1	-0.1	0.1	0.9	-11.5	-50.4	-----	-----	-0.4	-0.2	0.2	2.8
Financial Account	1.8	-5.3	-6.6	-9.4	-6.5	-----	24.9	42.9	-31.4	-14.4	-15.8	-22.8	-19.9
Direct Investment (Net)	-1.2	-2.6	-1.1	0.9	-2.4	111.7	-59.7	-187.3	-----	-7.2	-2.5	2.2	-7.3
Portfolio Investment (Net)	-5.7	-3.1	0.8	-12.0	-16.3	-44.7	-126.6	-----	36.1	-8.6	2.0	-29.0	-50.3
Financial Derivatives (Net)	0.0	0.0	0.1	0.0	0.0	-72.1	-----	-119.4	133.9	0.0	0.2	0.0	-0.1
Other Investments (Net)	9.7	1.1	-5.3	2.4	14.8	-88.8	-----	-146.1	-----	3.0	-12.7	5.9	45.6
Reserve Assets	-1.0	-0.6	-1.1	-0.8	-2.6	-37.8	90.9	-28.5	-----	-1.6	-2.7	-2.0	-7.9
Errors & Omissions	-0.1	2.5	0.7	-0.8	-1.3	-----	-73.7	-----	65.6	6.8	1.6	-1.9	-4.0

Source: CSB, NBK estimates

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
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 France SA
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 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
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
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