

# Kuwait: Current account surplus remained large in 3Q20 helped by oil exports and investment income

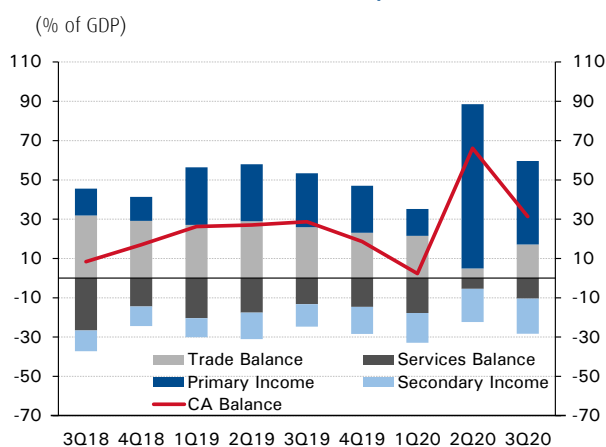
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### Highlights

- The current account surplus fell somewhat in 3Q20 but remained large at KD 2.5 billion, around 31% of GDP.
- The surplus was supported by a rebound of oil exports and strong investment income on improved market conditions.
- The full-year current account surplus should be larger than previously expected, with further improvement seen in 2021.

Kuwait's current account recorded another large surplus in 3Q20, though the surplus fell to KD 2.5 billion (31% of GDP) from a revised KD 4.2 billion (66% of GDP) in the previous quarter. (Chart 1.). While the trade balance improved from Q2 helped by higher oil prices, this was more than offset by a drop in net investment income that nevertheless remained very high by historical standards. The reasons for higher investment income in recent quarters are not entirely clear, though we note that this covers a period of large reported returns from the Public Institution for Social Security (PIFSS) following a revamp of its operations to reduce its cash holdings. In addition, the FGF investment income is estimated to improve in 3Q20 as the financial markets started to regain some of their momentum from March. Meanwhile, the financial account registered a net outflow of KD 3.4 billion, relatively similar to the previous quarter.

▶ **Chart 1: Current account main components**



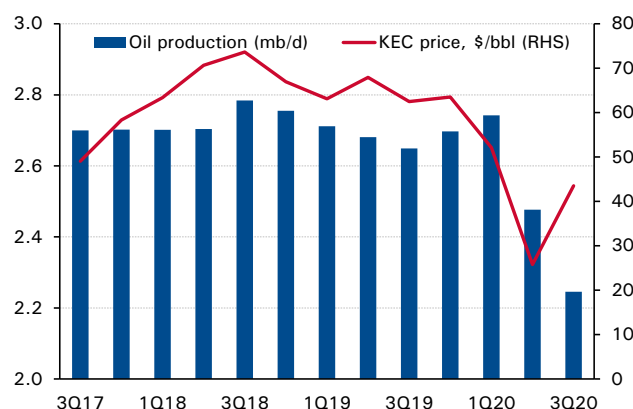
Source: Central Bank of Kuwait, CSB, NBK estimates

### Oil price rebound boosts goods exports

The surplus in goods trade increased in 3Q20 reaching KD 1.4 billion, up from KD 0.3 billion in the previous quarter. Oil exports, which constituted around 89% of total exports increased to KD 2.8 billion due to the jump in the Kuwait Export Crude price (KEC) by 69% q/q to \$43.5/bbl, while oil production fell 9.3% to a multi-year low of 2.2mb/d due to OPEC supply cuts, but on a year-on-year basis, oil exports remain far below its level in 3Q19. On the other hand, non-oil exports (worth 11% of total exports) witnessed a notable rise of 59%, though were still well down year-on-year (-28% y/y).

▶ **Chart 2: KEC price and production**

(\$/bbl., mb/d)



Source: OPEC

On the other side, imports recovered by 6.5% q/q following a 17.3% decline in 2Q20, though still down by 19% y/y. This improvement can be attributed to the ease of pandemic-related trade and business disruptions through the quarter. The rise in imports came due to the ease in consumption goods decline (around half of all imports).

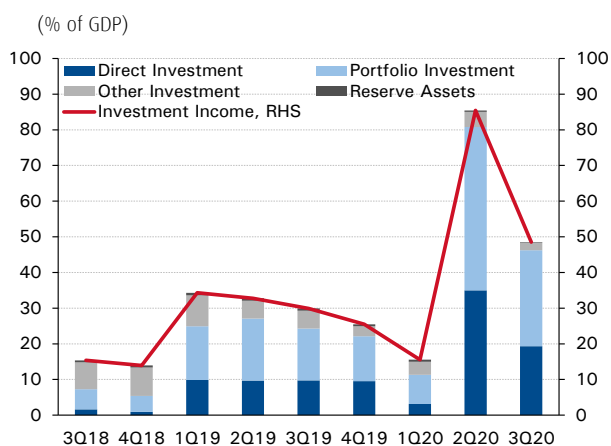
Moreover, the services account registered a higher deficit in 3Q20 at KD 0.8 billion (10% of GDP) due to a significant rise in travel payments to KD 0.5 billion from KD 0.1 billion in Q2, but remain far below their historical trends due to the pandemic and inability and unwillingness for people to travel during that period. The services deficit as whole remained also well below its historic norms.

### Investment income dipped, but remained very large

Meanwhile, the primary income surplus, which includes investment returns on Kuwait's huge stock of financial assets abroad, remained very large and well above earlier quarters but witnessed a drop to KD3.3 billion (42.5% of GDP), down from KD5.3 billion in the previous quarter. (Chart 3.)

The fall was partially attributed to a decline in direct and portfolio investment income, the reasons for which are not clear but may have to do with the change investment strategy by PIFSS which has reportedly (according to media reports) resulted in higher returns during the last two quarters of \$4.7 billion (+611% y/y) in 3Q20 and \$7.3 billion in 2Q20. In addition, FGF investments returns are likely to have improved during 2Q20 and 3Q20 as the stock market bounced back from the March-2020 plunge when pandemic-related lockdowns and restrictions virtually shut down the economy.

### Chart 3: Investment Income



Source: Central Bank of Kuwait, CSB, NBK estimates

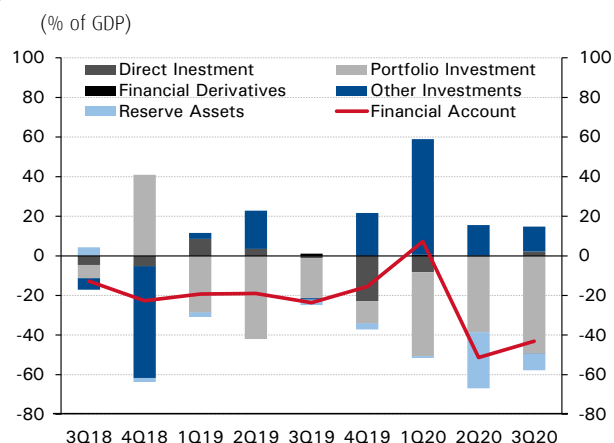
The secondary income deficit, which reflects flows of foreign aid and workers' remittances, increased KD 0.3 billion to KD1.4 billion as workers' remittances rose 33% q/q.

### Declining financial flows

The financial account, which covers financial claims on or liabilities to non-residents, registered net outflows of KD 3.4 (43% of GDP) billion, slightly higher than in the previous quarter. (Chart 4.) The small rise in net outflows was due to several factors, including the increase in portfolio equity investment abroad by KD 3.0 billion in 3Q20 compared with a much smaller rise of KD 0.7 billion in 2Q20. In addition, Kuwaiti direct investments abroad rose to KD 0.2 billion, up from less than KD

0.1 billion in 2Q20. Moreover, the ease in non-resident deposits at Kuwaiti banks (by KD 0.3 billion in 3Q20, down from KD 1.3 billion in the previous quarter), lowered net inflows.

### Chart 4: Financial account



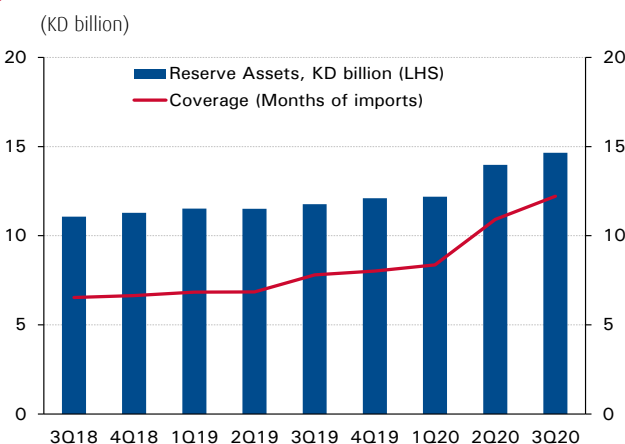
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### Adequate level of reserve assets

The Central Bank of Kuwait's (CBK) gross international reserves increased by KD0.7 billion in 3Q20 to KD14.7 billion by the end of September, which constituted around 42% of GDP or more than 12 months of imports of goods and services. (Chart 5.) CBK data for December 2020 showed that reserves were relatively stable at KD14.6 billion.

### Chart 5: Reserve assets



Source: CBK, NBK estimates

## Larger than expected surplus seen for 2020 as a whole

The preliminary data for the first three quarters of 2020 shows that the current account surplus declined to KD 6.8 billion compared with KD 8.3 billion in the same period of 2019. Despite the decline, this is a stronger performance than we had initially expected, mostly reflecting a larger surplus on investment income. Assuming no revisions or major surprises in the fourth quarter, the full-year surplus is likely to come in much larger than our previous forecast of a KD 1.3 billion surplus. This showcases the resilience of Kuwait's external sector even in the face of the dramatic drop in oil prices seen early last year. For 2021 we would expect the surplus to rise still further based on the recent climb in oil prices back to pre-pandemic levels of above \$60/bbl – though the improvement will be tempered by a rise in imports as the economy recovers.

► **Table 1: Summary of Kuwait's Balance of Payments**

	KD billion				% q/q 3Q20	% y/y		% GDP	
	2Q19	3Q19	2Q20	3Q20		2Q20	3Q20	2Q20	3Q20
Current account	2.8	2.8	4.2	2.5	-40.4	47.5	-13.1	66.2	31.3
Goods (net)	3.0	2.6	0.3	1.4	339.2	-89.8	-47.3	4.9	17.2
Exports	5.2	4.8	2.0	3.1	58.3	-62.1	-34.1	31.6	39.7
Oil Exports	4.7	4.3	1.8	2.8	58.2	-62.8	-34.8	28.1	35.3
Imports (FOB)	2.2	2.2	1.8	1.8	6.5	-24.7	-18.6	26.7	22.6
Services (Net)	-1.8	-1.3	-0.3	-0.8	141.2	-81.4	-37.7	-5.4	-10.4
Primary Income (Net)	3.0	2.7	5.2	3.4	-36.0	73.0	23.3	83.6	42.5
Investment Income (Net)	3.0	2.7	5.3	3.4	-36.0	72.8	23.3	83.6	42.5
Secondary Income (Net)	-1.4	-1.1	-1.1	-1.4	33.3	-24.2	25.6	-17.0	-17.9
Workers remittances	1.2	1.1	1.1	1.4	32.9	-12.1	31.1	16.8	17.8
Capital Account	0.0	0.1	0.0	0.0	...	...	...	-0.2	-0.4
Financial Account	-2.3	0.7	-3.2	-3.4	5.6	62.5	45.1	-51.4	-43.1
Direct Investment (Net)	-0.1	-0.8	0.0	0.2	...	...	...	-0.4	2.2
Portfolio Investment (Net)	-2.0	-3.9	-2.4	-3.9	62.2	-45.3	93.6	-38.1	-49.1
Financial Derivatives (Net)	0.1	0.1	0.0	0.0	...	36.0	...	0.2	-0.2
Other Investments (Net)	-0.1	5.4	1.0	1.0	2.9	-51.9	...	15.4	12.6
Reserve Assets	-0.3	-0.1	-1.8	0.7	-61.8	...	...	-28.4	-8.6
Errors & Omissions	-0.6	-0.8	-0.9	1.0	...	5.3	...	-14.6	12.1

Source: Central Bank of Kuwait, NBK estimates

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