Economic Update

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Balance of Payments

Kuwait: Current account surplus up in 4Q20 on higher investment income

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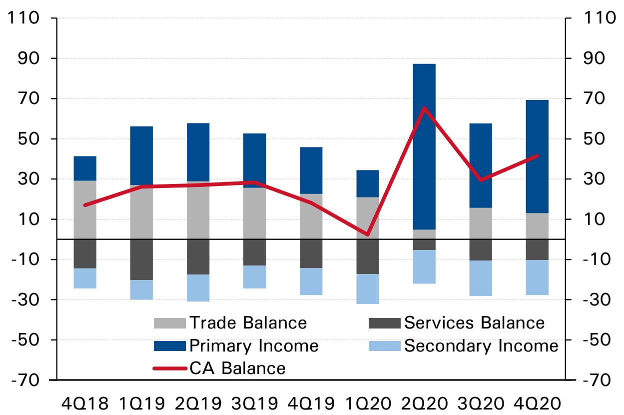
Highlights

- **The current account surplus increased in 4Q20 to KD3.5 billion on the back of a significant rise in investment income.**
- **Imports regained some momentum, increasing by 8.6% q/q, but remained below pre-pandemic levels.**
- **The overall balance of payments registered a surplus of KD1 billion, down from KD2.5 billion in 3Q20.**
- **Further improvement in the current account surplus could be seen in 2021 mainly on higher oil exports.**

The current account surplus increased in 4Q20 to reach KD3.5 billion (41.5% of GDP) from a revised surplus of KD2.4 billion (29.4% of GDP) in the previous quarter, according to the Kuwaiti central bank latest data (Chart 1). While exports remained relatively stable, imports bounced back leading to a decline in the trade balance. Investment income on the other hand improved due better financial markets performance in the fourth quarter, supported by positive investor sentiment about economic recovery including on account of additional fiscal stimulus in the US. On the other side, the financial account continued to register net outflows, of KD2.9 billion, though slightly lower compared to the previous quarter. As a result, the overall balance of payments registered a surplus of KD1 billion, down from a KD2.5 billion surplus n 3Q20.

Chart 1: Current account main components

(% of GDP)



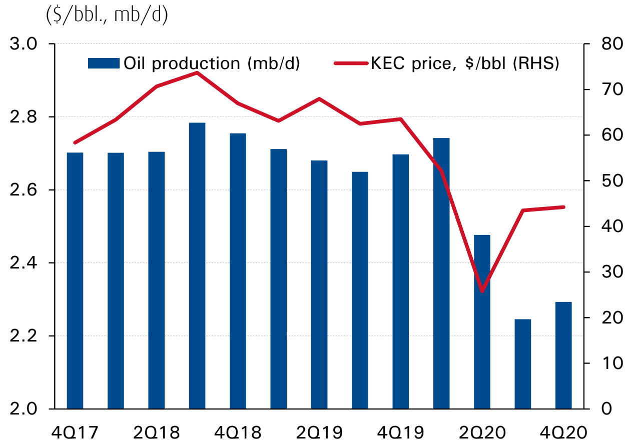
Source: Central Bank of Kuwait, CSB, NBK estimates

Trade balance surplus dropped on higher imports

The worsening of trade balance came on the back of higher imports, which increased by 8.6% q/q driven mainly by imports of Vehicles & parts & accessories (72.3% q/q in 4Q20), electrical machinery (18.4% q/q), and iron & steel (46.2% q/q). On the other hand, total exports increase only by 0.6% q/q to reach KD3.2 billion. Oil exports (88.4% of total exports) remained stable at KD2.8 billion despite the increase in Kuwait oil price and oil production compared to the previous quarter by 1.7% and 2.1% q/q to reach $44.2/bbl. and 2.29 mb/d, respectively, probably due to higher production cost (Chart 2). Meanwhile, non-oil exports increased by 3.9% q/q in the form of re-exports which increased by 16.3% q/q. However, on a year-on-year basis, total trade remain well below its pre-pandemic level (4Q19) by around 25% y/y as both exports and imports were lower by 32.6% and 10.3% y/y, respectively.

Chart 2: KEC price and production

($/bbl., mb/d)



Source: OPEC

The services account continued to register a deficit of KD0.8 billion (10.3% of GDP), relatively similar to that in 3Q20, despite the notable decline in travel payments to KD0.3 billion from around KD0.5 billion. However, the deficit in transportation and construction services worsened, which could be attributed to the opening up of trade among GCC countries as well as the rise in construction activities by around 35% q/q in 4Q20.

Investment income improved significantly

The primary income, which registers the returns on investments abroad, rose significantly (by KD1.4 billon q/q), leading to a surplus of KD4.8 billion (56.3% of GDP). This rise could be solely attributed to the gains on Kuwaiti's direct and portfolio investments abroad, which increased to reach KD2.2 billion and KD2.6 billion, respectively. Investment income was supported by signs of economic recovery and stimulus optimism, which helped major financial markets to rally in 4Q20.

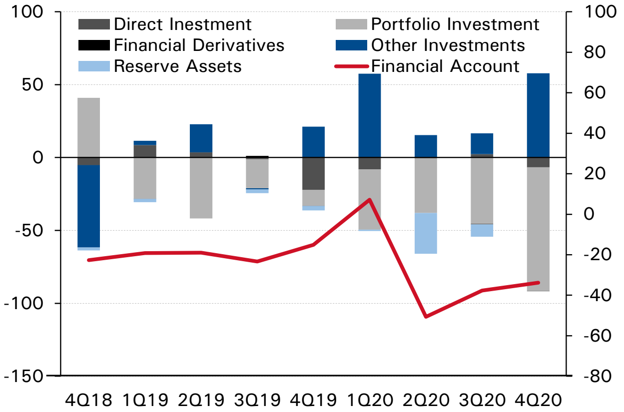
As for the secondary income, consisting of government transfers and workers' remittances, it had a deficit of KD1.5 billion in 4Q20 as workers' remittances increased by 5.1% q/q, higher than its historical average.

Financial account net outflows remained sizable

The financial account, which covers the net acquisition and disposal of financial assets and liabilities, showed an outflow of KD2.9 billion in 4Q20 (Chart 3), slightly lower than 3Q20 net outflows of KD3.0 billion, but remaining above its historical averages during the last three years.

Chart 3: Financial account

(% of GDP)



Source: Central Bank of Kuwait, CSB, NBK estimates

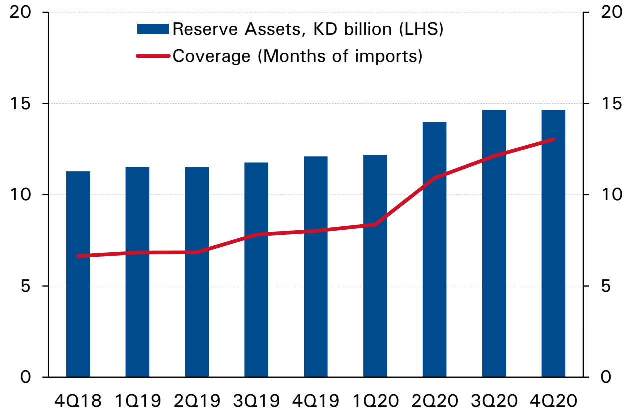
The slight decline in financial account net outflows came on the back of a notable fall in government deposits abroad by KD6 billion, which partly offset increases in net direct and portfolio equity investments and debt instruments. In addition, non-resident portfolio equity investments witnessed an increase of KD1.7 billion in 4Q20 despite the end of market classification upgrades' series.

CBK reserve assets remained stable

The Central Bank of Kuwait's (CBK) gross international reserves remained at KD14.7 billion by the end of December following an increase of KD0.7 billion in the previous quarter. These reserves represented around 45.2% of GDP or 13 months of imports of goods and services. (Chart 4.)

Chart 4: CBK Reserve assets

(KD billion)



Source: CBK, NBK estimates

The current account surplus could improve in 2021

The trade balance should recover in 2021 as oil exports increase on the back of higher oil prices and possibly an increase in oil production as OPEC+ could release more output into the market over the coming months as per the agreed production schedule, and to prevent an "overshooting" of oil prices. The suspension of all commercial flights and border closure by the end of 4Q20 could help in curbing the services account deficit in 1H21. However, the recent decisions to reopen the economy and the easing of restrictions on travel could see more people traveling abroad and this would have an adverse impact on the services account. As for workers' remittances, they will likely decline somewhat in the upcoming quarters following the fall in number of expats by around 4.0% in 2020. While it is not clear how investment income will turn out in 2021, we believe that overall, the surplus in trade balance resulting from higher oil exports could offset any worsening in the other components, leading to a larger surplus in the current account.

Table 1: Summary of Kuwait's Balance of Payments

	KD billion				% q/q	% y/y		% GDP	
	3Q19	4Q19	3Q20	4Q20	4Q20	3Q20	4Q20	3Q20	4Q20
Current account	2.8	1.9	2.4	3.5	50.6	-17.4	82.3	29.4	41.5
Goods (net)	2.6	2.4	1.3	1.1	-11.4	-51.2	-53.9	15.7	13.0
Exports	4.8	4.7	3.1	3.2	0.6	-34.1	-32.7	39.3	37.0
Oil Exports	4.3	4.3	2.8	2.8	0.2	-34.8	-34.6	34.9	32.7
Imports (FOB)	2.2	2.3	1.9	2.0	8.6	-14.0	-10.3	23.6	24.0
Services (Net)	-1.3	-1.5	-0.8	-0.9	4.5	-36.2	-42.5	-10.5	-10.3
Primary Income (Net)	2.7	2.5	3.4	4.8	43.0	23.4	92.8	42.0	56.3
Investment Income (Net)	2.7	2.5	3.4	4.8	43.1	23.4	92.9	42.0	56.3
Secondary Income (Net)	-1.1	-1.4	-1.4	-1.5	5.1	25.7	4.3	-17.7	-17.5
Workers remittances	1.1	1.4	1.4	1.5	5.1	31.1	5.1	17.5	17.3
Capital Account	0.1	0.1	0.2	0.2	4.8	24.3	34.6	2.3	2.2
Financial Account	-2.3	-1.6	-3.0	-2.9	-4.2	28.6	78.8	-37.7	-33.8
Direct Investment (Net)	-0.1	-2.4	0.2	-0.6	...	...	-76.0	2.4	-6.7
Portfolio Investment (Net)	-2.0	-1.2	-3.6	-7.2	98.8	82.0	...	-45.6	-84.9
Financial Derivatives (Net)	0.1	0.0	0.0	0.0	-59.1	...	-16.4	-0.3	-0.1
Other Investments (Net)	-0.1	2.3	1.1	4.9	...	...	...	14.3	57.8
Reserve Assets	-0.3	-0.3	-0.7	0.0	...	...	...	-8.5	0.0
Errors & Omissions	-0.6	-0.5	0.5	-0.8	...	...	...	6.0	-9.9

Source: Central Bank of Kuwait, CSB, NBK estimates

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