

Current account surplus highest in three years thanks to stronger oil prices

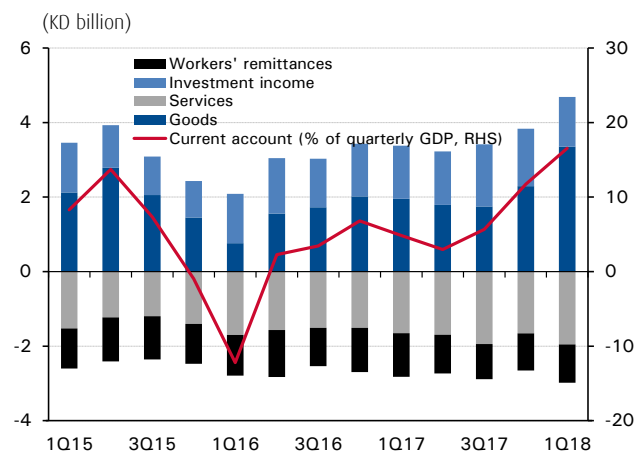
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Highlights

- Higher exports offset widening services deficit and higher remittances, pushing the current account surplus to its largest level in three years.
- Rising global energy prices drove the increase in the trade balance, supporting both oil and non-oil exports.
- Services deficit widened reflecting an improving economic backdrop fuelling strong demand.
- Investment income softened during the quarter due to market jitters, while uncertainty in expat employment may have prompted increased remittance outflows.
- The financial account deficit shrunk due to domestic investor caution.

Kuwait's current account registered its highest surplus in three years in 1Q18 at KD 1.7 billion (17% of quarterly GDP), up from KD1.2 billion in 4Q17. A rise in the trade surplus, supported by higher oil prices, more than offset a widening services deficit, lower investment income, and higher remittances. (Chart 1.)

► **Chart 1: Current account by component**



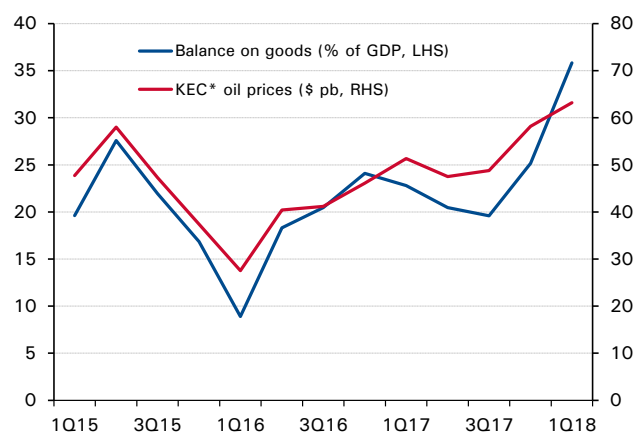
Source: Central Bank of Kuwait

The trade surplus in 1Q18 rose to KD 3.4 billion from KD2.3 billion in 4Q17, lifted primarily by higher oil receipts and non-oil exports, while imports held steady. (Chart 2.) The price of Kuwait Export Crude averaged \$63 per barrel in 1Q18, a 9% q/q increase, helping oil receipts add KD 193 million during the quarter despite the OPEC+ production cap, to reach KD 4.4 billion. Higher petrochemical prices, which move closely with

oil prices, and strong demand from Asia also helped support non-oil exports.

Goods imports were little changed on the quarter, with modest growth relative to last year (+4% y/y), but still hinting at healthy domestic demand. Implementation of government development projects and the improving business environment kept the import of intermediate goods robust. Meanwhile, stronger consumer spending was reflected in higher vehicle and food imports.

► **Chart 2: Trade balance and oil prices**



Source: Central Bank of Kuwait * Kuwait Export Crude

The deficit in the services balance widened to KD 1.9 billion against a backdrop of improving economic prospects. An expansionary fiscal plan, in addition to higher oil prices, helped

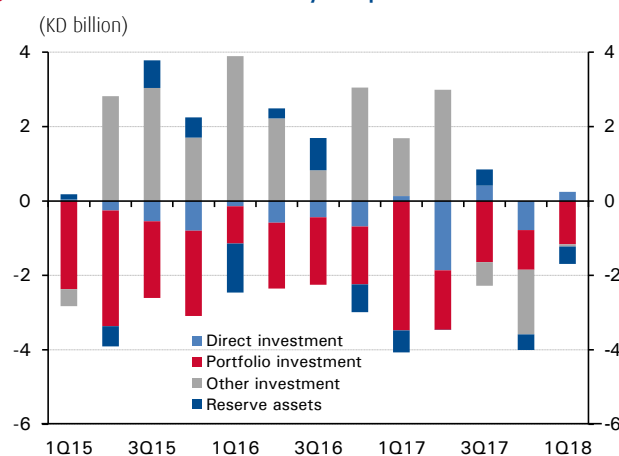
support domestic confidence. Growth in travel services was also robust, while the ongoing execution of development projects (infrastructure and administrative) fed into higher demand for construction and governmental services.

Investment income eased for a second consecutive quarter, weighed down by a wobbly global equity market. 1Q18 witnessed higher financial volatility that negatively impacted the return on foreign financial holdings by domestic investors.

Remittances, on the other hand, increased following two quarters of declines, topping once again KD 1 billion, as the effect of fuel subsidy cuts and various fee increases on income seem to have faded. Growing uncertainty over the outlook of expat employment and living costs, in light of intensified Kuwaitization efforts and a proposed tax on remittance outflows, which never materialized, may have also contributed to the increase in outflows.

Meanwhile, the financial account deficit eased to KD 1.4 billion in 1Q18, from KD 4 billion in 4Q17. Large net portfolio outflows were slightly offset by a positive FDI balance due to divestments by residents from controlling interests abroad. Other investment outflows, however, were minimal in 1Q18, after totaling KD 1.7 billion the previous quarter, as a significant repatriation of currency and deposits by the government (KD 1.1 billion) had offset outflows used for foreign asset accumulation and the settlement of foreign debt by local corporates. (Chart 3.)

► Chart 3: Financial account by component



Source: Central Bank of Kuwait

► Table 1: Summary of Kuwait's balance of payments

(KD million)	Level							y/y change	
	2016	2017	1Q17	2Q17	3Q17	4Q17	1Q18	KD mn	%
Current account	-1,528	2,152	442	262	488	1,158	1,680	1,238	280
As a % of GDP	-4.6	5.9	4.8	3.0	5.7	11.7	16.6
Goods (net)	5,898	7,769	1,951	1,789	1,748	2,291	3,351	1,400	72
Exports	14,052	16,726	4,182	3,929	3,965	4,660	5,663	1,481	35
Oil exports	12,527	14,951	3,715	3,486	3,533	4,217	4,410	695	19
Non-oil exports	1,525	1,775	467	443	432	443	1,253	786	168
Imports	-8,154	-8,957	-2,231	-2,140	-2,217	-2,369	-2,312	-81	4
Services (net)	-6,049	-6,925	-1,653	-1,696	-1,944	-1,659	-1,954	-301	18
Investment income	3,917	5,792	1,426	1,438	1,665	1,543	1,337	-89	-6
Workers' remittances	-4,566	-4,142	-1,169	-1,037	-943	-995	-1,029	140	-12
Other investment	-728	-342	-113	-232	-38	-22	-25	88	-78
Current + capital account	-1,675	2,025	408	230	462	1,114	1,642	1,234	302
Financial account	1,780	-6,522	-2,383	-478	-1,432	-4,003	-1,448	935	-39
Direct investment (net)	-1,368	-2,461	132	-1,865	411	-781	244	112	85
Portfolio investment (net)	-5,672	-8,132	-3,480	-1,596	-1,642	-1,068	-1,165	2,315	-67
Other investment (net)	9,780	4,640	1,554	2,990	-637	-1,739	-56	1,238	280
Reserve assets	-960	-569	-589	-7	436	-415	-471	118	-20
Net errors & omissions	-104	4,497	1,975	248	971	2,889	-194	-2,169	-110
Overall balance	960	569	589	7	-436	415	471	-118	-20

Source: Central Bank of Kuwait

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