

# Kuwait's current account surplus rises in 2018 on higher oil prices

### Highlights

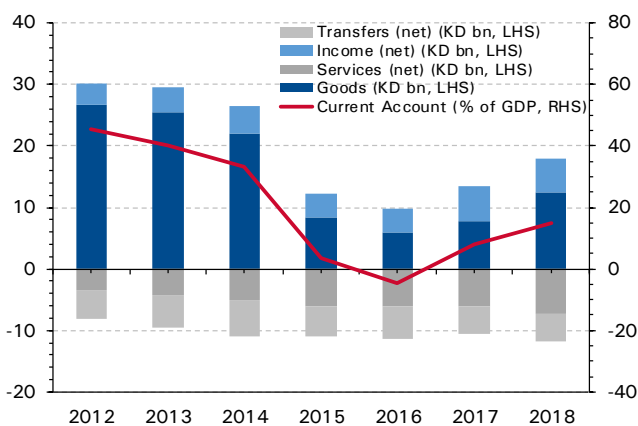
- The current account surplus strengthened in 2018, reaching KD6.2bn (14.8% of GDP) thanks to higher oil prices.
- The capital & financial account recorded net outflows of KD7.4bn in 2018; FDI inflows remain weak.
- Net portfolio investment turned positive in 2018 as Kuwaiti residents repatriated overseas portfolio holdings and as foreigners bought Kuwaiti bonds and equities, helped in part by Boursa Kuwait's inclusion in the FTSE Russell EM index.
- Central bank gross reserves reached \$38.5 billion in March 2019, equivalent to 6.8 months of imports.

### Current account improves on higher oil export revenues

Kuwait's current account (CA) continued to strengthen in 2018, recording a surplus for the second consecutive year since 2016, when the country posted its first deficit (-4.6% of GDP) in more than twenty five years. The current account surplus in 2018 increased to KD6.2 billion (14.8% of GDP), more than double 2017's figure of KD2.9 billion (8% of GDP). (Chart 1.)

This was primarily due to higher oil export revenues (KD19.7bn; +31% y/y)—on the back of a 34% increase in the price of Kuwait Export Crude (KEC)—and record foreign investment income, of KD6.4 billion (\$21.3bn). The latter is mainly a reflection of higher returns on the overseas investments of the Kuwait Investment Authority (KIA), the country's sovereign wealth fund.

▶ Chart 1: Current account balance

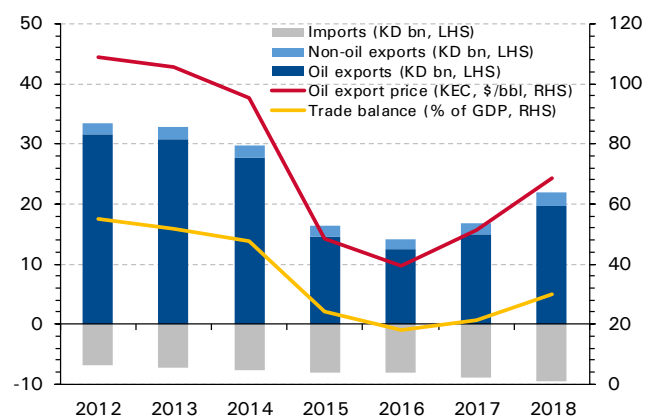


Source: Central Bank of Kuwait (CBK), NBK estimates

Kuwait's trade balance, the difference between exports and imports of goods, reached KD12.4bn (29.8% of GDP), the highest since 2014. (Chart 2.) Movements in the trade balance

are largely a function of movements in the oil price, given that oil exports account for almost 91% of total exports. The increase in oil export revenues last year mirrored the increase in oil prices, roughly around 30%. The combined volume of crude and refined product exports actually declined 0.3% on an annual average basis, from 2.65 mb/d in 2017 to 2.64 mb/d in 2018. This was mainly due to lower refined products exports rather than crude, and most likely a result of the decommissioning of the 200 kb/d Mina Shuaba refinery in 2017. Oil exports as a share of GDP reached 47.6% in 2018.

▶ Chart 2: Trade balance (goods)



Source: Central Bank of Kuwait (CBK), NBK estimates

Non-oil export revenues increased in 2018 by 22%, albeit from a small base to KD2.1 billion. These exports are mainly chemicals and machinery equipment. But non-oil exports as a share of total exports have actually declined, falling over three consecutive years to 9% in 2018 from 10.2% in 2015. This is still quite high by historic standards though.

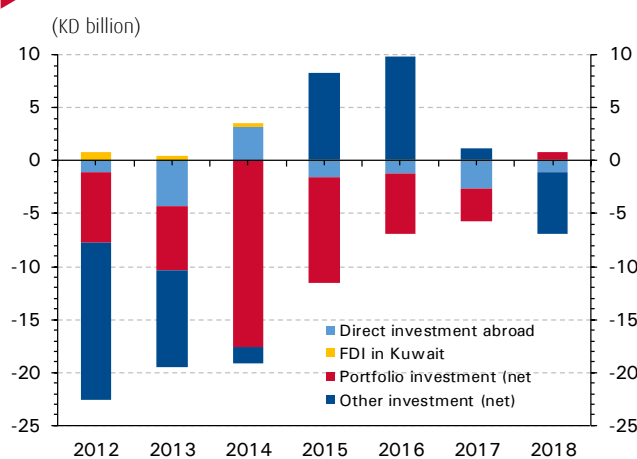
Imports, meanwhile, continued their steady increase, rising by 5.7% in 2018 to KD9.4 billion. The last time that imports

declined was at the height of the financial crisis in 2009; since then they have been rising at an annual average rate of 6.6%.

### Capital & financial account surplus as Kuwait continues to accumulate foreign assets

The balance on the capital and financial accounts is the mirror of the current account, reflecting movements of capital into and out of the country from overseas. Outflows (debit) from the capital and financial accounts increased for the second year in a row in 2018, reaching KD7.4 billion from KD5.4 billion in 2017 when Kuwait resumed its historical net creditor status. In contrast, in 2016, the combined capital and financial account recorded a net surplus (or inflow), of KD1.9 billion, for the first time in over twenty years; the government, facing a current account (and fiscal account) deficit caused by low oil prices, liquidated some of its overseas assets to finance the budget and restore liquidity.

#### Chart 3: Contributions to the Financial Account



Source: Central Bank of Kuwait (CBK)

After peaking in 2011 at KD899 million, foreign direct investment in Kuwait (FDI) has been declining. FDI inflows reached KD104 million in 2018 (0.3% of GDP), which is the second lowest level in ten years. Kuwait's FDI continues to lag its regional peers. However, net portfolio investment turned positive in 2018, reaching KD726 million, as Kuwaiti residents sold their foreign bond holdings and as foreign investors bought Kuwaiti bonds and equities, the latter stimulated by the country's inclusion in the FTSE Russell Emerging Markets Index. (Chart 3.)

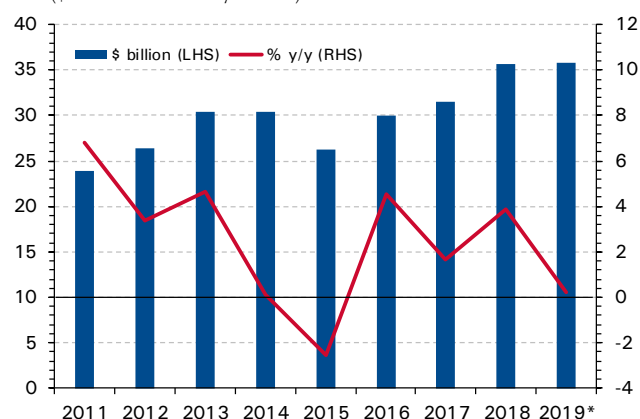
### Central bank reserves rise

With Kuwait's current account and broad balance of payments surplus increasing, the Central Bank of Kuwait's gross international reserves continue to accumulate, reaching \$38.5 billion (KD10.8 billion; 26.2% of GDP), or 6.8 months of imports

at end-March 2019. (Chart 4.) Of course, these figures do not take into account the foreign investment assets of the KIA, which are estimated at around \$548 billion.

#### Chart 4: Central Bank of Kuwait foreign reserves (gross)

(\$ billion reserves at year-end)



Source: Central Bank of Kuwait (CBK)\* as of end-March 2019

#### Table 1: Summary of Kuwait's balance of payments (BOP)

	KD million			Change (y/y)	
	2016	2017	2018	KD mn	%
<b>Current account</b>	<b>-1,529</b>	<b>2,913</b>	<b>6,158</b>	<b>3,245</b>	<b>111.4</b>
Goods (net)	5,898	7,794	12,363	4,569	58.6
Exports	14,052	16,744	21,826	5,082	30.4
Oil exports	12,527	15,034	19,745	4,711	31.4
Non-oil exports	1,525	1,710	2,081	371	21.7
Imports	-8,154	-8,950	-9,462	-512	5.7
Services (net)	-6,050	-6,127	-7,341	-1,214	16.5
Primary income (net) <sup>1</sup>	3,861	5,696	5,620	-76	-1.3
Direct investment	-329	850	612	-238	-28
Portfolio investment	3,137	3,586	3,245	-341	-9.5
Other investment (net)	1,007	1,153	1,563	410	35.6
Reserve assets	103	142	230	88	62
Secondary income (net) <sup>2</sup>	-5,238	-4,449	-4,484	-35	0.8
Worker remittances	-4,566	-4,142	-4,306	-164	4.0
<b>Capital account</b>	<b>-147</b>	<b>-130</b>	<b>-64</b>	<b>66</b>	<b>-50.8</b>
<b>Financial account</b>	<b>-1,780</b>	<b>-5,288</b>	<b>-7,325</b>	<b>-2,037</b>	<b>38.5</b>
Direct Investment (net)	-1,241	-2,630	-1,028	1,602	-60.9
Investment abroad	-1,368	-2,734	-1,133	1,601	-58.6
Foreign Dir. Investment	127	105	104	-1	-1.0
Portfolio Investment (net)	-5,671	-3,137	726	3,863	-123
Financial Derivatives (net)	-36	-10	2	12	-120
Other Investment (net)	9,689	1,085	-5,885	-6,970	-642.4
<b>Net errors &amp; omissions</b>	<b>-104</b>	<b>2,505</b>	<b>1,231</b>	<b>-668</b>	<b>-668</b>
<b>Overall balance</b>	<b>957</b>	<b>363</b>	<b>-886</b>	<b>-1,249</b>	<b>-344.1</b>
<b>Broad BOP balance<sup>3</sup></b>	<b>960</b>	<b>597</b>	<b>1,140</b>	<b>543</b>	<b>91</b>

Source: Central Bank of Kuwait (CBK), NBK estimates

<sup>1</sup> Consists mainly of investment income; also includes compensation of employees

<sup>2</sup> Previously referred to as current transfers

<sup>3</sup> Includes net investment accounts of KIA, KPC, KAC, and CBK

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