

Economic Update

NBK Economic Research Department | 10 January 2023

Balance of Payments



Kuwait: 2022 current account balance on track for largest surplus since 2014

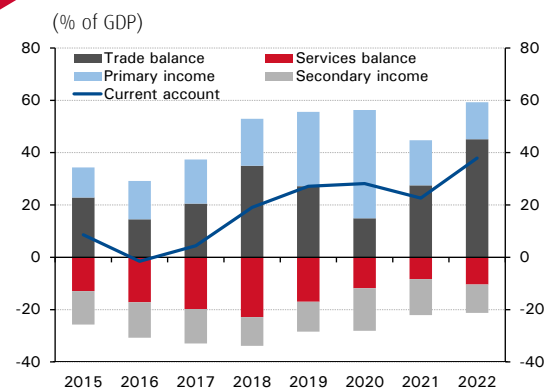
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Summary

Following the recent release of third quarter Balance of Payments (BOP) data by the CBK, Kuwait's current account is on track to register in 2022 its largest surplus in nearly a decade. Higher oil prices and production as well as stable income from Kuwait's overseas investments were the primary drivers. Looking ahead to the medium term, with oil prices softening and oil production lower amid an anticipated global economic slowdown, the external surplus is expected to narrow. Downside risks remain elevated due to global economic uncertainties, including the path of inflation, monetary tightening and the Russia-Ukraine crisis.

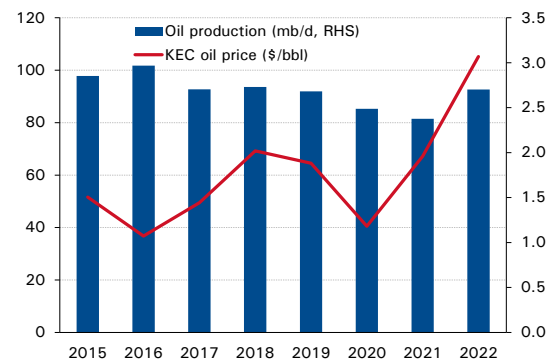
- Kuwait's current account registered a sizable surplus of KD15.0 billion (37.9% of pro-rated GDP) during the first three quarters of 2022, more than double the surplus from the same period in 2021. This was mainly due to a significant increase in oil export revenues and investment income receipts. (Chart 1.) The financial account, meanwhile, recorded large outflows (KD14.5 billion) on higher direct and portfolio investment outflows. The current account surplus could reach in 2022 (once Q4 BOP data is published) its highest level since 2014 at KD18.1 billion (33.4% of GDP)—even with oil prices softening in 4Q22.
- The goods trading balance saw a robust performance 1Q-3Q22 (KD17.8 billion), boosted by the rise in the oil price (the average annual price of Kuwait Export Crude increased by 56.6% y/y to \$105.2/bbl) and higher oil production (+13.7% y/y to 2.7 mb/d) as Kuwait steadily increased its crude output in line with OPEC+ policy. (Chart 2.) In addition, non-oil exports (7.2% of total exports) increased by 48.1% y/y, finally surpassing pre-pandemic levels (2019). On the other hand, imports also increased (+4.6% y/y), but to a smaller extent than in the corresponding period in 2021 (+10.6% y/y), as the boost from post-pandemic pent-up demand faded. Meanwhile, the services account deficit nearly doubled to KD4.1 billion, with residents spending significantly more overseas as tourists after the removal of pandemic-related restrictions in May. In addition, transportation spending increased by 34% y/y, which could be related to higher freight and fuel costs.
- The primary income surplus, which includes income flows from capital and labor, remained relatively stable during 1Q-3Q22 (+6% y/y to KD5.6 billion). (Chart 3.) Investment income from direct and 'other investments' increased significantly, by 51.6% and 104.4%, respectively. This could reflect returns from both equities and fixed income, following the increase in interest rates across the globe. On the other hand, foreign investments in Kuwait also performed very well, more than tripling (to KD0.8 billion) on the back of the Kuwaiti Bourse's gain of 23.3%, higher deposit rates following the CBK's interest rate hikes (+1.5% cumulative during January-September 2022) and the recovery in the Kuwaiti economy more generally.
- The secondary income deficit, which includes current transfers between Kuwaiti residents and the rest of the world, widened to KD4.3 billion on increased workers' remittances, though growth was moderate compared to previous years (+2.4 y/y). (Chart 4.) Meanwhile, government transfers, at KD29.2 million, remained relatively low, a possible legacy of the pandemic.
- On the other side of the BOP account, the financial account recorded a near-doubling of outflows over 1Q-3Q22 (KD14.5 billion). (Chart 5.) Direct investments reversed course from their pattern in 2021, registering a net

▶ Chart 1: Current account components (1Q-3Q)



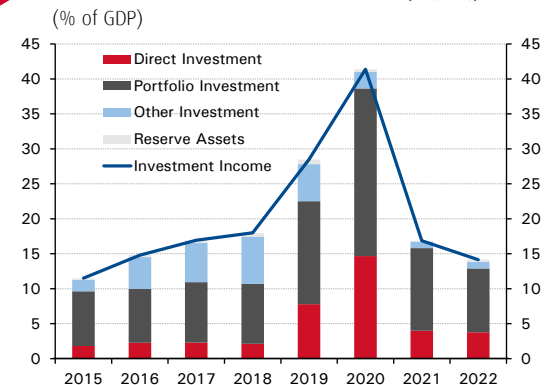
Source: Central bank of Kuwait, CSB

▶ Chart 2: KEC price and production*



Source: OPEC, * average prices and production (1Q-3Q).

▶ Chart 3: Investment income credits (1Q-3Q)

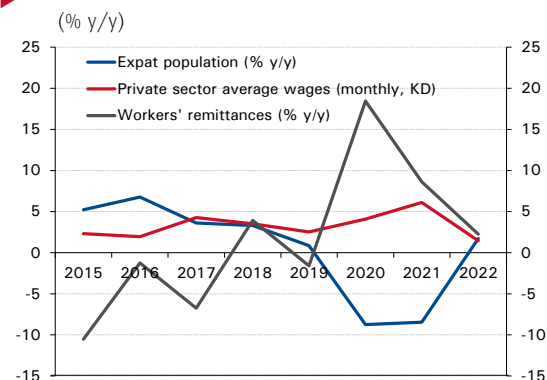


Source: CBK, CSB, NBK estimates

outflow of KD4.1 billion, while portfolio investment outflows rose to KD12.6 billion. The destination shifted towards debt instruments rather than equity securities, the trend in previous years. Moreover, other investments saw a net inflow as general government deposits abroad declined by a net KD1.4 billion (mainly in 1Q22), which could be related to Kuwait's repayment of the KD1.1 billion 5-yr Eurobond in March 2022.

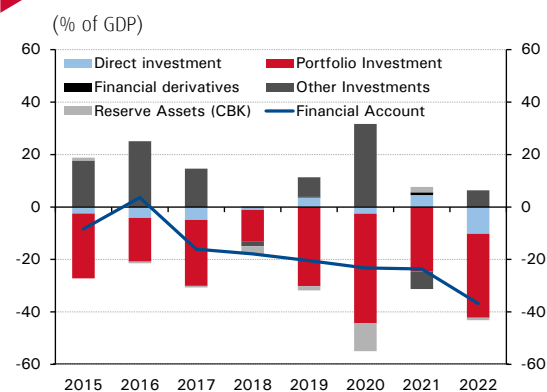
- Central Bank of Kuwait (CBK) reserve assets increased by KD0.4 billion to KD14.1 billion, which covered more than 10 months of goods & services imports. Over the same period in 2021, CBK assets had fallen by KD0.6 billion.
- Overall, Kuwait's external position improved markedly with the recovery in oil prices. Once the fourth quarter data is published, which is anticipated to show a narrower current account surplus (KD3.1 billion) on lower oil export revenues (both oil prices and oil production were lower in 4Q22, the latter in line with OPEC+ production policy), Kuwait should record its highest full year current account surplus in nearly a decade, at KD18.1 billion (33.4% of 2022 GDP).
- Over the medium term, however, the surplus is expected to narrow on lower projected oil prices and a weaker global economy. The balance of risks is also tilted to the downside. Economic and geopolitical risks are high and include high inflation, tighter global monetary policy, a rampaging pandemic in post-lockdown China and of course further fallout from the Russia-Ukraine crisis. Kuwait's external position will, nevertheless, continue to remain strong, supported by large fiscal buffers in the Future Generations Fund, estimated at more than \$700 billion.

▶ **Chart 4: Workers' remittances (1Q-3Q)**



Source: CBK, LMIS, NBK estimates

▶ **Chart 5: Financial account (1Q-3Q)**



Source: CBK, CSB, NBK estimates

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

	KD billion					% q/q change				% of GDP			
	9M18	9M19	9M20	9M21	9M22	9M19	9M20	9M21	9M22	9M19	9M20	9M21	9M22
Current account	5.9	8.3	6.7	6.9	15.0	40.4	-19.1	2.5	117.0	27.1	28.1	22.6	37.9
Trade Balance (net)	10.9	8.3	3.6	8.4	17.8	-23.5	-57.1	135.2	112.2	27.2	14.9	27.5	58.4
Exports	17.8	15.0	9.2	14.6	24.3	-16.0	-38.9	59.1	66.6	48.9	38.3	47.8	79.5
Oil Exports	14.8	13.5	8.2	13.4	22.5	-8.7	-39.7	63.9	68.2	44.2	34.2	43.9	73.8
Imports (FOB)	7.0	6.7	5.6	6.2	6.5	-4.4	-16.1	10.6	4.6	21.7	23.4	20.3	21.2
Services (Net)	-7.1	-5.2	-2.8	-2.5	-4.1	-26.9	-45.6	-10.1	61.4	-17.0	-11.8	-8.3	-13.5
Primary Income (Net)	5.6	8.7	9.9	5.3	5.6	56.1	13.4	-46.8	6.0	28.4	41.4	17.2	18.3
Investment Income (Net)	5.6	8.7	9.9	5.1	5.6	56.0	13.4	-48.0	8.6	28.5	41.4	16.9	18.3
Secondary Income (Net)	-3.4	-3.5	-3.9	-4.2	-4.3	3.0	10.8	7.9	2.2	-11.5	-16.3	-13.8	-14.1
Workers remittances	3.3	3.2	3.8	4.1	4.2	-1.6	18.4	8.6	2.3	10.5	16.0	13.6	13.9
Capital Account	-0.1	0.2	0.1	0.5	0.2	----	-39.7	----	-66.2	0.6	0.5	1.6	0.6
Financial Account	-5.6	-6.3	-5.6	-7.2	-14.5	12.9	-11.3	29.6	101.5	-20.5	-23.3	-23.6	-47.6
Direct Investment (Net)	-0.4	1.1	-0.6	1.4	-4.0	-418.2	-155.0	-327.7	-389.3	3.6	-2.6	4.6	-13.2
Portfolio Investment (Net)	-3.8	-9.3	-10.0	-7.5	-12.6	145.1	7.8	-24.9	68.5	-30.2	-41.7	-24.5	-41.4
Financial Derivatives (Net)	0.0	0.1	0.0	0.3	0.0	275.6	-68.4	703.9	-100.2	0.4	0.2	1.0	0.0
Other Investments (Net)	-0.5	2.2	7.5	-2.1	2.5	----	237.7	-127.2	-222.3	7.3	31.5	-6.7	8.2
Reserve Assets	-0.9	-0.5	-2.6	0.6	-0.4	-47.6	422.7	-124.4	-161.6	-1.6	-10.7	2.0	-1.3
Errors & Omissions	-0.3	-2.2	-1.3	-0.2	-0.6	----	-42.8	-85.2	----	-7.3	-5.4	-0.6	-2.0

Source: CBK, CSB, NBK estimates

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