

Economic Update

NBK Economic Research Department | 15 March 2022

Balance of Payments



Kuwait: Current account surplus declines in 3Q21 on lower investment income

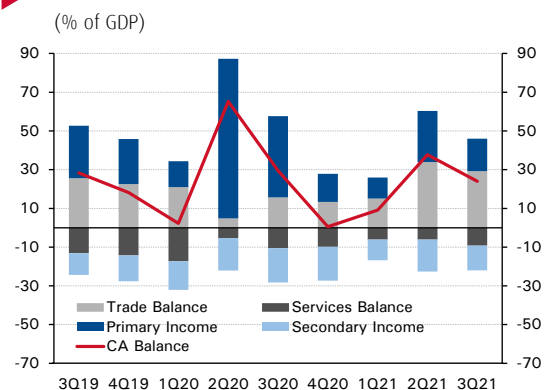
> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

Summary

Kuwait's current account surplus declined in 3Q21 mainly on lower investment earnings from abroad and higher imports, despite the rise in oil price and production levels. However, by the end of 2021, the external position should show a higher surplus thanks to the marked increase in oil prices and the performance of the international financial markets. In 2022, the positive oil price repercussions stemming from the Russia-Ukraine conflict could substantially boost the current account surplus, offsetting even potential negative effects on investment income.

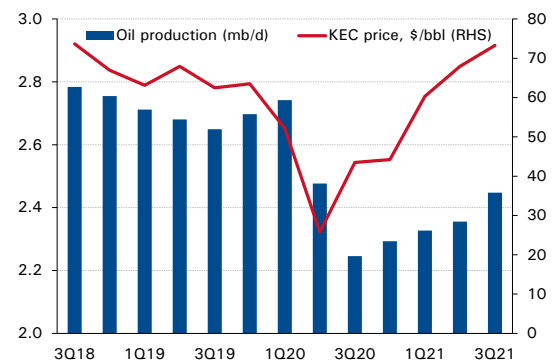
- Preliminary data released by the Central Bank of Kuwait shows that the current account surplus narrowed in 3Q21 to reach KD2.6 billion (24% of GDP), down from KD3.3 billion in the previous quarter. (Chart 1.) The decline was driven by a combination of lower investment income and higher imports of goods and services. On the other hand, net outflows from the financial account eased to KD2.2 billion due to a reduction in equity portfolio investments outside of Kuwait. Therefore, the overall surplus of the balance of payments (broad definition) shrank to KD1.9 billion (18% of GDP) from KD3.5 billion in 2Q21.
- The goods trade balance surplus increased to KD3.2 billion (+8.3% q/q) in 3Q21, boosted by higher oil exports on the back of increases in both oil prices (Kuwait Export Crude +7.8% q/q to \$73.3/bbl) and oil production (+3.9% to 2.45 mb/d). (Chart 2.) In addition, non-oil exports (including re-exports) rose by 7.8% q/q. On the other hand, imports continued to recover, rising by 7.5% q/q to KD2.2 billion, on higher imports of base metals, mineral and chemical products, mechanical appliances, and transport equipment.
- The deficit in services nearly doubled to KD1.0 billion, largely on account of increases in outbound travel (26% of total services' payments) and other services payments. These payments offset the increase in services receipts, again largely the travel (inbound), construction, and 'other services' categories. Accordingly, the balance of goods and services continued to improve during the first three quarters of 2021, which could be positively reflected on 2021 real GDP growth.
- The surplus in the primary income account, which mainly consists of investment earnings on Kuwaiti assets abroad, fell 20% q/q to KD1.8 billion. This was largely due to a fall in investment income receipts by (-13.3% q/q), which comes in line with the loss of momentum in the US and European markets during that quarter. On the other hand, investment income debits (including dividend, reinvested earnings, interest, and rents) increased to KD0.2 billion, which could be linked to firms' improved performance and the quarterly gains in Kuwait's All Share index (+7.5% q/q). (Chart 3.)
- The secondary income balance, which is almost always negative on account of expatriate remittances abroad, fell slightly to KD1.4 billion as workers' remittances declined by 1.7% q/q. However, workers' remittances increased during the first three quarters by 8.6% y/y.
- The capital account, which mainly includes capital transfers receivable and payable between Kuwait and the rest of the world, registered a net capital inflow of KD0.5 billion in 3Q21 (this includes KD0.2 billion in war reparations payments owed to Kuwait by Iraq for the 1990 invasion).

▶ Chart 1: Current account



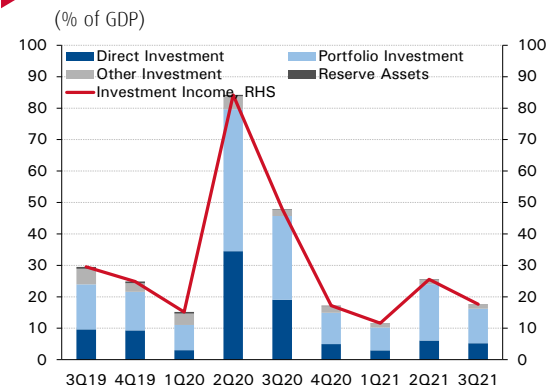
Source: Central bank of Kuwait, CSB

▶ Chart 2: KEC price and production



Source: OPEC

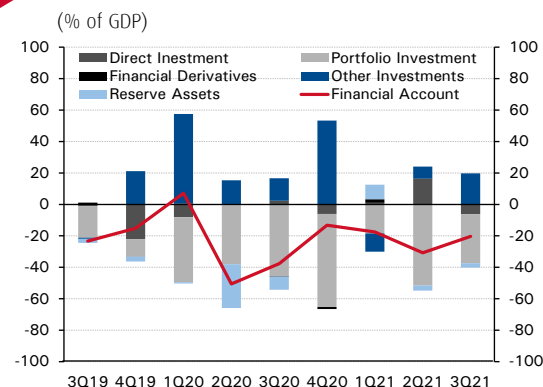
▶ Chart 3: Investment income credits



Source: Central bank of Kuwait, NBK estimates

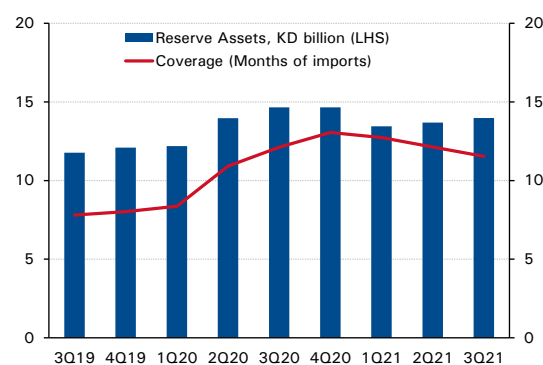
- The financial account, which deals with the net acquisition of financial assets and liabilities, registered a net outflow of KD2.2 billion, down from KD2.6 billion in the previous quarter. (Chart 4.) This means that Kuwait accumulated more overseas assets. Direct investments registered a net outflow of KD0.7 billion due to increased overseas investments (equities) by Kuwaitis, while FDI in Kuwait remained below historical averages at KD28 million. In addition, portfolio investments in equities abroad continued to ease, reaching KD3.7 billion, down from the peak of KD6.8 billion in 4Q20. Moreover, 'other investments' net inflows rose to KD2.2 billion due to a decline in government assets (loans and deposits) abroad.
- Central bank reserves increased by KD296 million in 3Q21 to reach KD14.0 billion, a second consecutive quarter of gains. These reserves covered around 11.5 months of imports. However, by the end of 4Q21, official reserves edged back down to KD13.7 billion. The fall in the last quarter resulted from the decline in the CBK's FX deposits at banks abroad. (Chart 5.)
- Overall, the above figures highlight that Kuwait's external position remains extremely strong. The current account is estimated to register a sizable surplus overall in 2021, benefiting from the improvement in oil prices (+70% to an average of \$70.5/bbl). In 2022, the external position is expected to benefit further from the surge in oil prices and production, with the trade balance potentially posting one of its largest surpluses in more than a decade. On the flip side, however, financial market volatility in emerging and advanced economies could adversely affect Kuwaiti investment earnings, offsetting some of the positive impact of higher oil prices.

▶ Chart 4: Financial account



Source: Central Bank of Kuwait, NBK estimates

▶ Chart 5: CBK reserve assets



Source: Central bank of Kuwait, NBK estimates

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

	KD billion					% q/q change				% of GDP			
	3Q20	4Q20	1Q21	2Q21	3Q21	4Q20	1Q21	2Q21	3Q21	4Q20	1Q21	2Q21	3Q21
Current account	2.4	0.0	1.2	3.3	2.6	-98.1	----	174.7	-20.1	0.5	9.2	37.7	24.0
Trade Balance (net)	1.3	1.1	2.0	2.9	3.2	-9.0	70.7	50.3	8.3	13.4	15.1	33.9	29.2
Exports	3.1	3.2	4.1	5.0	5.4	0.6	29.9	21.3	8.0	37.0	31.7	57.5	49.4
Oil Exports	2.8	2.8	3.8	4.5	4.9	0.2	34.4	21.1	8.0	32.7	29.0	52.5	45.2
Imports (FOB)	1.9	2.0	2.2	2.0	2.2	7.0	6.7	-5.1	7.5	23.6	16.6	23.6	20.2
Services (Net)	-0.8	-0.8	-0.8	-0.5	-1.0	0.0	-5.6	-33.2	88.9	-9.9	-6.1	-6.1	-9.2
Primary Income (Net)	3.4	1.2	1.4	2.3	1.8	-63.2	14.2	61.9	-20.2	14.5	10.9	26.4	16.8
Investment Income (Net)	3.4	1.2	1.4	2.2	1.7	-63.0	14.1	51.6	-21.9	14.6	11.0	24.9	15.4
Secondary Income (Net)	-1.4	-1.5	-1.4	-1.4	-1.4	5.1	-7.4	3.3	-2.4	-17.5	-10.7	-16.5	-12.8
Workers remittances	1.4	1.5	1.4	1.4	1.4	5.1	-7.3	2.4	-1.7	17.3	10.6	16.2	12.6
Capital Account	0.2	0.2	0.2	0.3	0.5	5.4	20.4	37.9	68.1	2.2	1.8	3.7	4.9
Financial Account	-3.0	-1.1	-2.3	-2.7	-2.2	-62.6	----	17.1	-16.8	-13.2	-17.5	-30.8	-20.4
Direct Investment (Net)	0.2	-0.5	0.1	1.4	-0.7	----	----	----	----	-6.1	1.0	16.4	-6.3
Portfolio Investment (Net)	-3.6	-5.1	-2.4	-4.5	-3.4	38.6	-52.6	86.7	-24.2	-59.2	-18.5	-51.7	-31.1
Financial Derivatives (Net)	0.0	-0.1	0.3	0.0	0.0	----	----	-99.7	-22.2	-1.3	2.3	0.0	0.0
Other Investments (Net)	1.1	4.6	-1.5	0.7	2.2	----	----	----	----	53.3	-11.6	7.7	19.8
Reserve Assets	-0.7	0.0	1.2	-0.3	-0.3	----	----	----	6.4	0.0	9.2	-3.2	-2.7
Errors & Omissions	0.5	0.9	0.9	-0.9	-0.9	85.2	-4.2	----	0.8	10.5	6.6	-10.6	-8.5

Source: CSB, NBK estimates

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France

National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
34th Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0352