

Kuwait's trade rebounded in 3Q20 driven by higher oil prices

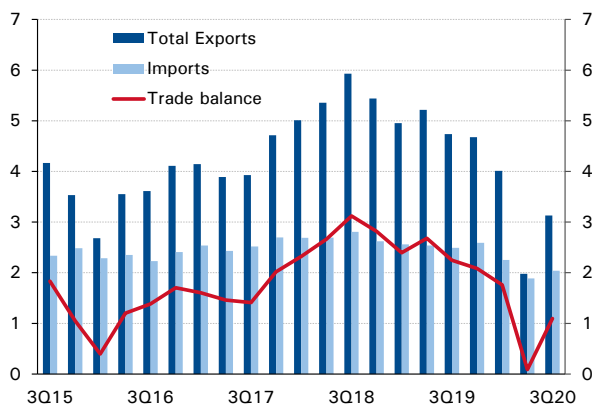
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Highlights

- Trade volumes rebounded sharply in 3Q20, but remained 29% below pre-pandemic (4Q19) levels.
- Oil exports started to regain momentum on a higher KEC price though were still 35% below pre-pandemic levels.
- The decline in imports eased in 3Q20 to -18% y/y on the resumption of economic activities, following earlier lockdowns.
- GCC countries were the main trading partners for Kuwait in 3Q20, constituting 22% of total non-oil trade.

Kuwait's international goods trade rebounded sharply in 3Q20 (exports up 58% q/q and imports up 7.9%), according to Central Statistical Bureau (CSB) data, having fallen in 2Q20 as oil prices fell and lockdown measures reduced purchases across the globe. (Chart 1.) However, trade flows remained well below pre-pandemic levels. The notable rise in exports was mainly driven by a higher Kuwait Export Crude (KEC) oil price, which increased by 69% q/q to \$44/bbl in 3Q20.

► **Chart 1: Kuwait foreign trade**
(KD billion)



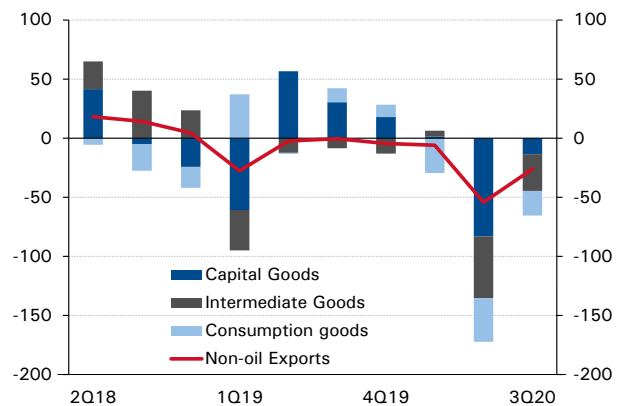
Source: CSB

Higher oil prices boost oil exports

The impact of higher oil prices on exports more than offset lower oil production, which declined by 9.3% q/q to 2.24 mb/d due to OPEC+ production cuts. On the other hand, non-oil exports (domestic exports plus re-exports, constitute 11% of total exports) witnessed a notable rise of 59% q/q, though were still down significantly year-on-year. In terms of economic categories, intermediate and consumption goods saw a steep decline of 31% and 21% y/y, respectively, while capital goods registered a softer decline of 13.6% y/y. (Chart 2.) The fall in these categories could be a reflection of trade disruptions and

the decline in external demand due to the impact of the pandemic. It's worth noting that the Ministry of Industry and Trade lifted the ban on local companies' exports of certain items in August 2020, which will help in boosting non-oil exports in the following quarters.

► **Chart 2: Non-oil exports**
(%, y/y)



Source: CSB

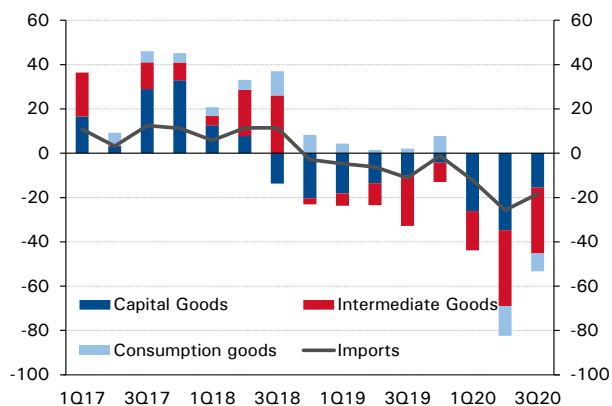
Imports start to recover from Q2 lows

Trade disruptions continued to weigh on Kuwaiti imports, though the year-on-year decline in imports eased in 3Q20 to 18.3% compared with 26% in the previous quarter. (Chart 3.) The ease was driven by a softer decline in consumption goods (nearly half of all imports) as growth in food & beverages, transport equipment and durable goods all picked up, however car imports (10% of consumption goods) witnessed a steep decline of 55% y/y following a 28% fall in 2Q20. Meanwhile, the fall in capital goods (around one-fifth of imports) eased to 15.5% y/y.

The quarter-on-quarter rise in imports could be explained by the resumption of economic activities following the pandemic-related lockdowns in 2Q20. As a result of the above movements

and the increase in the price of oil, the trade surplus in goods increased to KD 1.1 billion (12% of estimated pro-rated GDP) compared with around KD 0.1 billion (2% of GDP) in 2Q20.

Chart 3: Imports
(%, y/y)

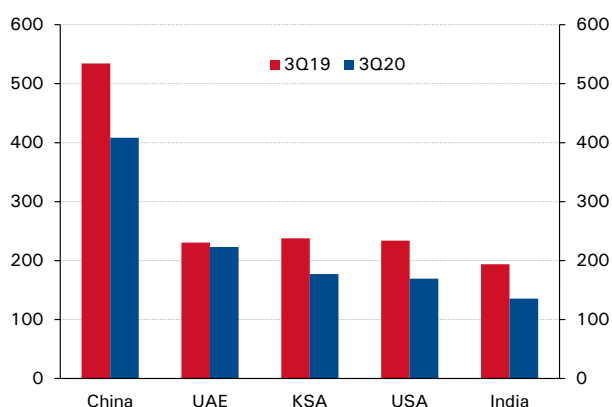


Source: CSB

GCC countries were Kuwait's main trading partner

The top five destinations for non-oil exports (including re-exports) remained relatively the same compared to 2Q20. Sales to these countries (UAE, Saudi Arabia, China, India, and Qatar, 63% of all non-oil exports) declined by 17.8% y/y. On the other hand, the top five source countries for Kuwait's imports (China, UAE, Saudi Arabia, USA, and India, 45% of total imports) witnessed a decline of 22% y/y in 3Q20. GCC countries were the main non-oil trading partner for Kuwait (22% of total trade), followed by China.

Chart 4: Kuwait top 5 trading partners*
(KD million)



Source: CSB, NBK estimates

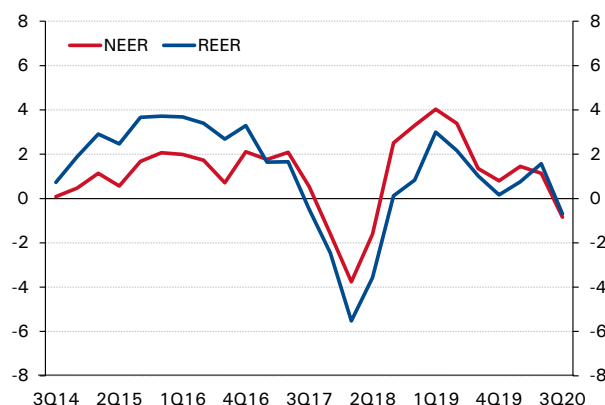
* Total trade is equal to imports plus total non-oil exports

A stable Kuwaiti dinar

The Kuwaiti dinar nominal effective exchange rate (NEER) remained relatively stable against the currencies of major trading partners, depreciating by 0.8% y/y in 3Q20. (Chart 5.) The performance of other main currencies against the dinar were mixed: the Indian rupee and the Turkish lira depreciated by 4.8% and 26%, respectively, while the euro, GBP, yen, and the yuan

appreciated against the dinar by 5.5%, 5.3%, 1.9%, and 2.2%, respectively. Similarly, the real effective exchange rate (REER), which takes into account relative inflation movements between countries, depreciated mildly by 0.7% y/y compared with a 1.6% y/y appreciation in the previous quarter. The depreciation in the REER after strengthening in the last couple of years.

Chart 5: Nominal and real effective exchange rate
(%, y/y)



Source: IMF, CSB, NBK estimates

International trading activity is forecast to recover in following quarters with the rise in oil prices (KEC remained at \$44/bbl in 4Q20 but broke through \$60/bbl in mid-February) as well as the lift of the exporting ban. Re-opening the Kuwaiti economy could also give a boost to imports. While there remains considerable uncertainty over the evolution of the pandemic, an effective vaccine rollout (which has already begun in Kuwait and the authorities aim to complete by 3Q21) should help a return to more normal trade conditions by the end of the year.

► **Table 1: Kuwait External Trade, KD billion unless otherwise indicated**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	q/q			y/y		
								1Q20	2Q20	3Q20	1Q20	2Q20	3Q20
Total Exports	5.0	5.2	4.7	4.7	4.0	2.0	3.1	-14.2	-50.7	58.3	-19.0	-62.1	-33.9
Domestic Exports	4.8	5.0	4.6	4.5	3.9	1.9	3.0	-14.4	-50.8	58.0	-19.1	-62.1	-33.9
Oil exports	4.5	4.7	4.3	4.3	3.6	1.8	2.8	-15.4	-51.2	58.2	-20.3	-62.8	-34.8
Non-oil exports	0.3	0.3	0.3	0.2	0.3	0.1	0.2	3.8	-45.3	56.4	2.9	-50.4	-21.0
Re-exports	0.2	0.2	0.2	0.2	0.1	0.1	0.1	-10.1	-47.5	64.2	-16.5	-60.1	-33.8
Imports	2.6	2.5	2.5	2.6	2.3	1.9	2.0	-13.2	-16.1	7.9	-12.1	-25.6	-18.3
Total Trade	7.5	7.8	7.2	7.3	6.3	3.9	5.2	-13.9	-38.2	33.7	-16.7	-50.1	-28.5
Trade Balance	2.4	2.7	2.2	2.1	1.8	0.1	1.1	-15.6	-94.9	---	-26.5	-96.6	-51.3

► **Trade by Standard International Trade Classification**

Total Exports	5.0	5.2	4.7	4.7	4.0	2.0	3.1	-14.2	-50.7	58.3	-19.0	-62.1	-33.9
Capital Goods	0.0	0.1	0.1	0.0	0.0	0.0	0.0	4.1	-69.5	237.2	1.4	-83.0	-13.6
Intermediate goods	4.8	5.0	4.6	4.5	3.9	1.9	3.0	-14.3	-51.0	57.6	-18.8	-62.3	-34.5
Consumption goods	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-18.7	-26.8	36.4	-29.5	-37.0	-20.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.7	96.6	---	27.9	120.2	35.1
Imports	2.6	2.5	2.5	2.6	2.3	1.9	2.0	-13.2	-16.1	7.9	-12.1	-25.6	-18.3
Capital Goods	0.5	0.4	0.4	0.5	0.4	0.3	0.4	-23.2	-19.9	25.7	-26.1	-34.7	-15.5
Intermediate goods	1.0	1.0	1.0	1.0	0.8	0.7	0.7	-12.5	-18.6	2.9	-17.7	-34.3	-29.7
Consumption goods	1.0	1.1	1.0	1.2	1.0	0.9	1.0	-9.6	-12.5	5.6	-0.2	-13.4	-8.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	58.5	67.1	-42.1	56.1	107.9	71.5

Source: CSB

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