

# Kuwait's current account surplus increases in 1Q19 on higher investment income

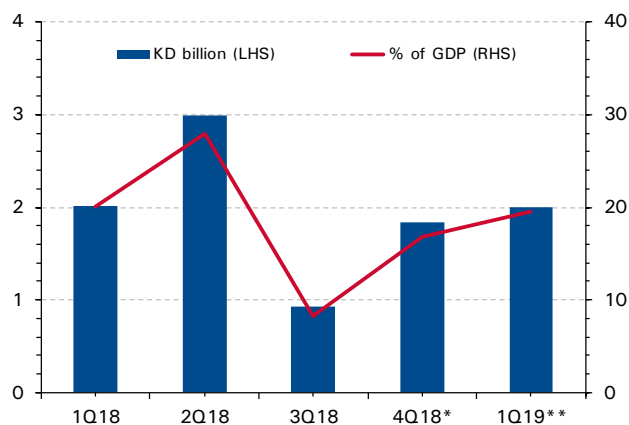
### Highlights

- The current account surplus widens in 1Q19 to KD2 billion (19.5% of GDP) on the back of higher investment income.
- Net outflows from the financial account receded in 1Q19, falling to KD831 million from KD2.4 billion in 4Q18.
- Resident direct investment abroad reversed in 1Q19, with Kuwaitis repatriating KD1.66 billion of overseas assets back to the country; KD33.5 million worth of equity portfolio investments were made by foreigners in 1Q19.
- Central bank official reserves reached \$37.9 billion in June 2019, equivalent to just under 8 months of imports.

### Current account improves on higher investment income

Recently published preliminary estimates of Kuwait's current account (CA) balance in the first quarter of the year show the country's surplus widening slightly by KD167 million to almost KD2 billion (KD1.998 billion, or 19.5% of GDP) compared to KD1.8 billion (16.9% of GDP) in 4Q18. (Chart 1.)

▶ Chart 1: Current account (CA) balance



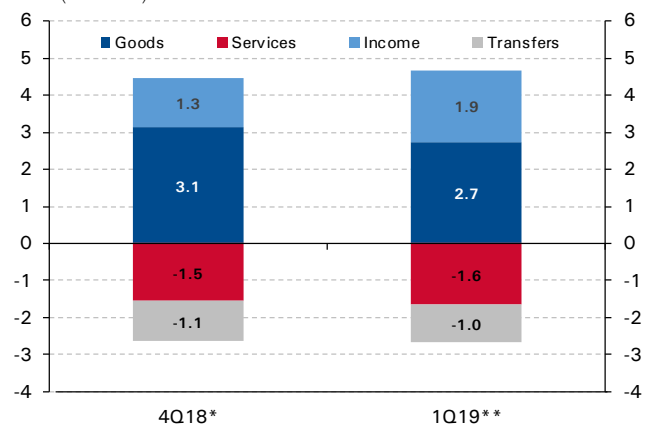
Source: Central Bank of Kuwait (CBK); \*revised data; \*\*preliminary estimates

The improvement in 1Q19 was driven by an increase in the income balance, which rose 48% q/q to KD1.9 billion, mainly due to higher returns (KD818 million vs. KD482 million in 4Q18) on overseas investments. (Chart 2.) Direct and other investment income also increased, helping total investment income rise to KD2.1 billion (+41.5% q/q).

Kuwait's trade balance, the difference between exports and imports of goods, fell to KD2.7bn (-13% q/q), or 26.7% of GDP, which is the lowest since 4Q17 and the third consecutive quarterly decrease. 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 downward movement in oil export revenues q/q in 1Q19 roughly tracked the downward trajectory in oil prices (KEC) (avg. of \$62.9 in 1Q19 vs. \$67.1/bbl in 4Q18). However, the drop in oil exports (-9.3% q/q) to KD4.5 billion was steeper than the drop in oil prices (-6.2% q/q) owing to the fact that crude oil exports were down due to the OPEC+ production cuts. Oil exports as a share of GDP was 44.2% in 1Q19. The value of non-oil exports was almost the same quarter-on-quarter at around KD449 million; as a share of total exports, they did rise slightly to 9% from 8.2% in the previous quarter.

▶ Chart 2: Contributions to the current account (net) (KD billion)



Source: CBK; \*revised data; \*\*preliminary estimates

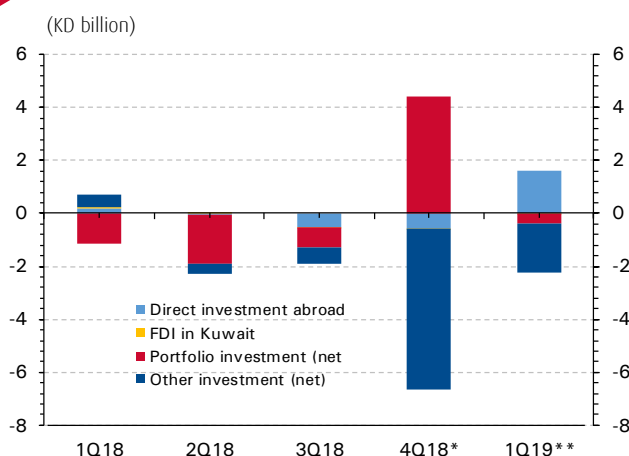
Imports, meanwhile, fell for the second consecutive quarter, by 2.4% q/q, to KD2.2bn. The fact that imports declined in the first quarter of the year when they may have been expected to rise given that economic growth looked to have picked up (according to preliminary official data) could perhaps be explained by the appreciation of the Kuwaiti Dinar (KD) against the currencies of Kuwait's main trading partners.

## Net outflows from the financial account decrease

Regarding the financial account (usually aggregated with the capital account), net outflows decreased in 1Q19 to KD831 million from KD2.4 billion in the previous quarter (and KD992 million in 1Q18). This was due to a sizeable reversal in resident direct investment abroad; Kuwait traditionally records a debit (outflow) in this category, but in 1Q19 this figure turned to a positive KD1.64 billion, indicating a repatriation of resident capital from overseas. (Chart 3.) This drawdown could be due to the sale of some direct investments abroad by the private sector, perhaps with a view to searching out more lucrative domestic investment opportunities, such as in the local stock market following upgrades of Boursa Kuwait to emerging market status by FTSE, S&P and, in 2020, by MSCI. More likely, however, is the inflow a result of drawdowns in the overseas General Reserve Fund (GRF) for the purpose of financing domestic spending.

There was also, for the third quarter in a row, a repatriation of foreign-held assets, with overseas residents liquidating about KD23 million of domestic foreign direct investments (FDI) in Kuwait in 1Q19.

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



Source: CBK

Net portfolio investment by Kuwaitis overseas resumed in 1Q19 (KD360 million), following the previous quarter's substantial decline of KD4.4 billion. That divestment by Kuwaitis overseas was in both foreign equities and bonds.

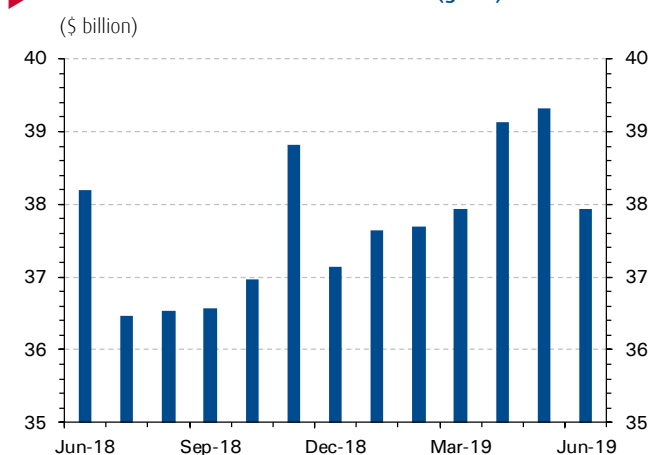
KD33.5 million worth of Kuwaiti equity portfolio investments were purchased by foreigners in 1Q19, compared to just KD4 million in the previous quarter. This was offset by KD19 million worth of debt securities offloaded by foreigners, so Kuwait's foreign liabilities increased by KD14 million net.

## Official reserves

Official reserves of the Central Bank of Kuwait (CBK) were

about \$37.9 billion in June (-0.3% y/y), falling noticeably from the previous month. (Chart 4.) Excluding KIA's foreign holdings, estimated at about \$600 billion, CBK's official reserves covered just under 8 months of Kuwait's goods and services imports.

**Chart 4: Central Bank official reserves (gross)**



Source: CBK

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

	KD million			Change (%)	
	1Q18	4Q18	1Q19	q/q	y/y
<b>Current account</b>	<b>2,017</b>	<b>1,831</b>	<b>1,998</b>	<b>9.1</b>	<b>-0.9</b>
Goods (net)	3,378	3,140	2,730	-13.0	-19.2
Exports	5,738	5,435	4,970	-8.6	-13.4
Oil exports	4,410	4,987	4,521	-9.3	2.5
Non-oil exports	1,328	448	449	0.2	-66.2
Imports	-2,360	-2,295	-2,240	-2.4	-5.1
Services (net)	-2,188	-1,548	-1,649	6.5	-24.6
Primary income (net) <sup>1</sup>	1,877	1,313	1,943	48.0	3.5
Direct investment	566	98	320	225.2	-43.5
Portfolio investment	749	482	818	69.8	9.2
Other investment	671	857	913	6.6	36.1
Reserve assets	47	63	70	12.0	48.9
Secondary income (net) <sup>2</sup>	-1,050	-1,074	-1,027	-4.4	-2.2
Worker remittances	-1,029	-1,034	-948	-8.3	-7.9
<b>Capital account</b>	<b>-41</b>	<b>-20</b>	<b>-1</b>	<b>-94.9</b>	<b>-97.6</b>
<b>Financial account</b>	<b>-992</b>	<b>-2,443</b>	<b>-831</b>	<b>-66.0</b>	<b>-16.2</b>
Direct Investment (net)	187	-559	1,637	-393.1	775.4
Investment abroad	156	-530	1,660	-413.4	964.1
Foreign Dir. Investment	31	-29	-23	-21.0	-174.2
Portfolio Investment (net)	-1,164	4,407	-360	-108.2	-69.1
Financial Derivatives (net)	-6	-3	-2	-32.0	-71.7
Other Investment (net)	516	-6,074	-1,872	-69.2	-462.8
Reserve assets (CBK)	-525	-215	-235	9.3	-55.2
<b>Net errors &amp; omissions</b>	<b>-985</b>	<b>632</b>	<b>-1,167</b>	<b>-284.6</b>	<b>18.5</b>
<b>Overall balance</b>	<b>525</b>	<b>215</b>	<b>235</b>	<b>9.3</b>	<b>-55.2</b>
CBK reserves (end-quart.)	10,661	11,283	11,518	-32.0	-71.7

Source: CBK; quarterly absolute figures rounded up

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

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

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