

Kuwait: External surplus falls in 1Q21 on lower investment income, oil exports up

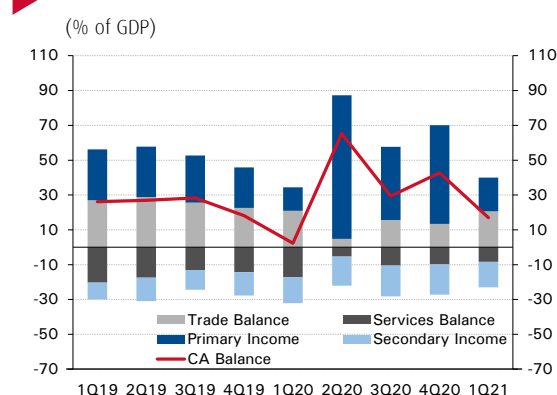
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Summary

The current account surplus remained large in 1Q21 but narrowed on a fall in investment income. An increase in oil exports, slower imports growth and the decline in workers' remittances helped offset part of this fall. Net outflows from the financial account declined due to lower portfolio investments in debt instruments. The recovery in oil prices in 2021 is expected to boost the current account surplus. A resurgence in Covid-19 could, however, weigh on economic growth and financial markets' performance, and negatively affect investment income.

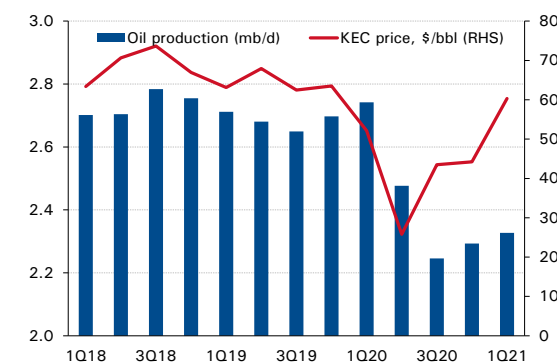
- Kuwait's current account surplus narrowed in 1Q21 to KD1.6 billion (16.9% of GDP) from KD3.7 billion (42.8% of GDP) in 4Q20. (Chart 1.) The quarterly decline in the surplus came mainly due to a sizeable fall in investment income, which more than offset the fourfold increase in the goods and services trade surplus due to higher oil exports. On the other hand, net outflows from the capital and financial account declined on lower portfolio investment outflows. Therefore, the surplus in the overall balance of payments (including the changes in general government and central bank foreign assets) increased to KD5.0 billion in 1Q21 compared with a surplus of KD1 billion in the previous quarter.
- The goods trade surplus increased substantially in 1Q21 (+70.7% q/q), with oil exports (91.4% of total exports) rising by 34.4% q/q to KD3.8 billion. The increase in oil exports mirrored the surge in the price of Kuwait Export Crude (KEC), which rose 36.4% q/q to an average of \$60.3/bbl. during 1Q21. Crude oil output also gained, albeit modestly (+1.5% q/q to 2.33 mb/d). (Chart 2.)
- On the other hand, non-oil exports fell by 4.6% q/q, reflecting a decline in foreign demand due to the impact of the pandemic and supply chain disruptions. Moreover, merchandise imports continued their slow post-pandemic recovery (+6.8% q/q versus 7.0% q/q in 4Q20).
- The services deficit shrank slightly (-4.9% q/q to KD0.8 billion), despite the increase in travel debits by 66% q/q with the relaxation of travel restrictions. Construction services payments showed a significant decline to KD0.1 billion that could be related to payment schedules.
- The surplus in the primary income account, influenced by Kuwait's income from overseas investments, fell substantially to KD1.8 billion (19.4% of GDP) in 1Q21 from KD4.8 billion in the previous quarter. Direct and portfolio investment returns (credits) declined by more than half to KD0.6 billion and KD1.2 billion, respectively, though the performance of international markets improved in 1Q21 with S&P500, Dow Jones industrials, and Stoxx Europe 600 each increasing by between 5-8% q/q. Moreover, on a year-on-year basis, investment income credits increased by 32.5%.
- The secondary income deficit, which includes personal transfers between households, narrowed to KD1.4 billion as the largest component in this item, workers' remittances, declined by 7.3% q/q, partly due to a reduction in the expatriate population during the pandemic.
- On the other side of the balance of payments accounts, financial account net outflows – which measure the change in net financial claims on non-residents – fell to KD2.7 billion compared to KD3.4 billion in the previous quarter. (Chart

▶ Chart 1: Kuwait current account



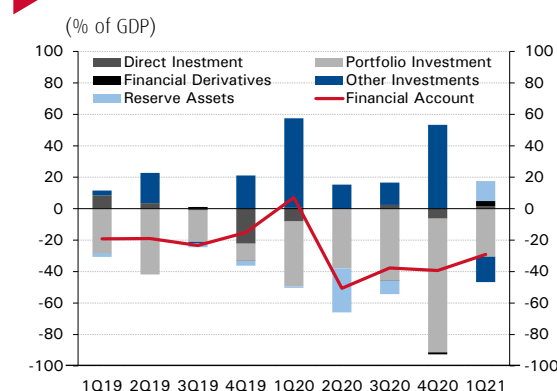
Source: Central bank of Kuwait, CSB

▶ Chart 2: KEC price and production



Source: OPEC monthly bulletin

▶ Chart 3: Financial account

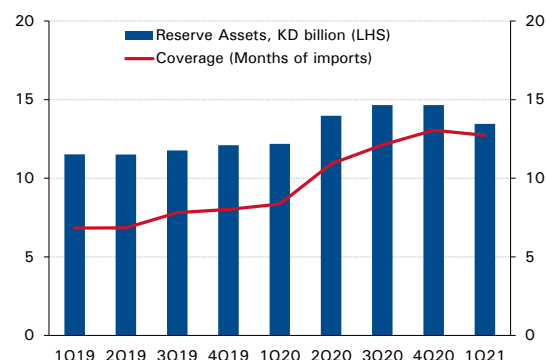


Source: Central bank of Kuwait, CSB

3.) The decline in net outflows was a result of the notable drop in portfolio investment outflows as well as the reserve assets at the central bank.

- Portfolio investment outflows eased to KD3.0 billion compared with KD9.2 billion in 4Q20 as investments in debt instruments declined by KD2.9 billion, while investments in equity securities declined mildly to KD5.9 billion. In addition, 'other investments' registered a net outflow, for the first time in more than a year, as government deposits abroad increased by KD3.5 billion.
- Central bank reserve assets declined by KD1.2 billion, reaching KD13.4 billion at the end of 1Q21 (41% of GDP). However, international reserves remained at an adequate level, covering 12.7 months of imports of goods & services.
- Overall, these numbers confirm that Kuwait's external position remains very strong, with a current account surplus maintained even last year when oil prices were at their pandemic lows. The surplus is also set to increase in the following quarters: the pickup in oil prices and higher crude production will increase oil export revenues, while income investment could also increase in line with the global economic recovery if this is reflected in international financial markets. Moreover, with official data showing the expatriate population declining, workers remittances in the medium term may continue to fall. The rebound in imports is likely to be gradual, as domestic demand slowly recovers. Low oil prices and the impact of the pandemic on financial markets could be the main downside risks to Kuwait's external position.

Chart 4: CBK reserve assets



Source: Central Bank of Kuwait, NBK estimates

Table 1: Summary of Kuwait's Balance of Payments

	KD billion					% , q/q				% of GDP			
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q20	3Q20	4Q20	1Q21	2Q20	3Q20	4Q20	1Q21
Current account	0.2	4.2	2.4	3.7	1.6	----	-43.3	55.1	-56.2	65.2	29.4	42.8	16.9
Trade Balance (net)	2.0	0.3	1.3	1.1	2.0	-84.5	----	-9.0	70.7	4.9	15.7	13.4	20.7
Exports	4.0	2.0	3.1	3.2	4.1	-50.7	58.3	0.6	29.9	31.2	39.3	37.0	43.5
Oil Exports	3.6	1.8	2.8	2.8	3.8	-51.2	58.2	0.2	34.4	27.7	34.9	32.7	39.8
Imports (FOB)	2.0	1.7	1.9	2.0	2.2	-17.3	12.5	7.0	6.8	26.3	23.6	23.6	22.8
Services (Net)	-1.6	-0.3	-0.8	-0.8	-0.8	-79.3	147.1	-0.5	-5.1	-5.3	-10.5	-9.8	-8.4
Primary Income (Net)	1.3	5.2	3.4	4.8	1.8	----	-36.0	44.1	-62.3	82.4	42.0	56.7	19.3
Investment Income (Net)	1.3	5.3	3.4	4.8	1.8	----	-36.0	44.2	-62.2	82.4	42.0	56.8	19.4
Secondary Income (Net)	-1.4	-1.1	-1.4	-1.5	-1.4	-24.5	33.4	5.1	-7.4	-16.7	-17.7	-17.5	-14.6
Workers remittances	1.4	1.1	1.4	1.5	1.4	-22.0	32.9	5.1	-7.3	16.6	17.5	17.3	14.5
Capital Account	-0.1	0.0	0.2	0.2	0.2	-79.0	----	5.4	20.4	-0.2	2.3	2.2	2.4
Financial Account	0.7	-3.2	-3.0	-3.4	-2.7	----	-6.4	11.3	-18.3	-50.6	-37.7	-39.3	-29.1
Direct Investment (Net)	-0.8	0.0	0.2	-0.5	0.2	-96.4	----	----	-129.6	-0.4	2.4	-6.3	1.7
Portfolio Investment (Net)	-3.9	-2.4	-3.6	-7.3	-2.9	-39.2	52.5	99.1	-60.3	-37.6	-45.6	-85.0	-30.5
Financial Derivatives (Net)	0.1	0.0	0.0	-0.1	0.3	-79.7	----	----	----	0.2	-0.3	-1.3	3.2
Other Investments (Net)	5.4	1.0	1.1	4.6	-1.5	-82.2	18.1	----	-133.5	15.2	14.3	53.3	-16.2
Reserve Assets	-0.1	-1.8	-0.7	0.0	1.2	----	-61.8	-100.1	----	-28.0	-8.5	0.0	12.7
Errors & Omissions	-0.8	-0.9	0.5	-0.5	0.9	8.8	-152.5	----	----	-14.4	6.0	-5.7	9.7

Source: CSB, NBK estimates

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