

# Kuwait: Current account surplus in 2019 reaches highest level since 2014

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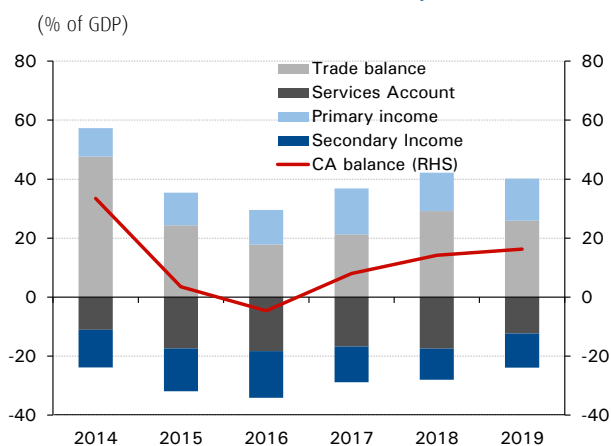
## Highlights

- The current account surplus rose to KD 6.7 billion in 2019 due to a smaller services deficit.
- Imports of goods declined by 4.8% in 2019, offsetting some of the 9.7% fall in oil exports.
- Returns on investments abroad rose amid the strong performance of international equity and debt markets.
- Official reserves of the CBK increased by KD 0.8 billion in 2019 to KD 12.1 billion.
- The real effective exchange rate appreciated in 2019 on the back of the US dollar appreciation against major currencies.

Kuwait's current account registered a surplus of KD 6.7 billion, or 16% of GDP in 2019, the highest in the last five years, according to the Central Bank of Kuwait (CBK), compared to a surplus of KD 6.0 billion in 2018. This was despite the decline in Kuwait Export Crude price in 2019 by 6.7% to \$64.3/bbl. A narrowing of the services deficit by KD 2.3 billion to KD 5.1 billion was an important factor that boosted the current account surplus (Chart 1). On the other side, the financial account showed an increase in net outflows to the rest of the world to KD 7.4 billion as portfolio investments in equities abroad increased significantly.

reflecting sluggish economic activity in recent years. Imports of electrical machinery and equipment as well as machinery and mechanical appliances, which decreased by 11.4% and 17.4%, respectively, were the main driver of the fall in imports. Moreover, services balance main components showed that the decline in the construction services as well as outbound tourism debits by KD 1.5 billion and KD 0.3 billion, respectively, was the main reason for lowering the services account deficit in 2019.

▶ **Chart 1: The Current account main components**



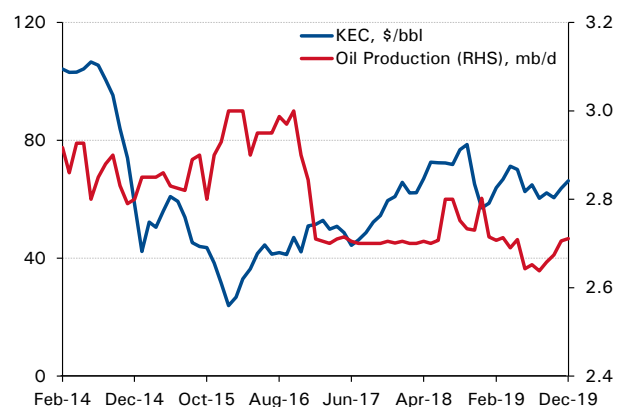
Source: Central Bank of Kuwait

## Smaller services deficit helps offset drop in oil exports

A combination of lower oil prices and a fall oil production (Chart 2) of 1.9% to around 2.68 mb/d (due to OPEC+ policy) generated a decline in oil exports of 9.7%. However, oil exports still constituted around 91% of total goods exports. Meanwhile, a decline in imports of 4.8% helped partially offset this fall,

▶ **Chart 2: KEC price and production**

(\$/bbl, mb/d)



Source: OPEC

The primary income balance, which records the net income of capital and labor, witnessed an increase in its surplus as investment returns from Kuwait's investment abroad rose by KD 0.4 billion to KD 5.9 billion. Income on direct investments made up KD 0.2 billion of this increase. Similarly, portfolio investment income (dividends and interest on traded financial instruments) increased by around KD 0.1 billion to KD 3.3 billion. On the other hand, foreign direct investments in Kuwait generated a return of around KD 0.7 billion, slightly up compared to 2018. This was

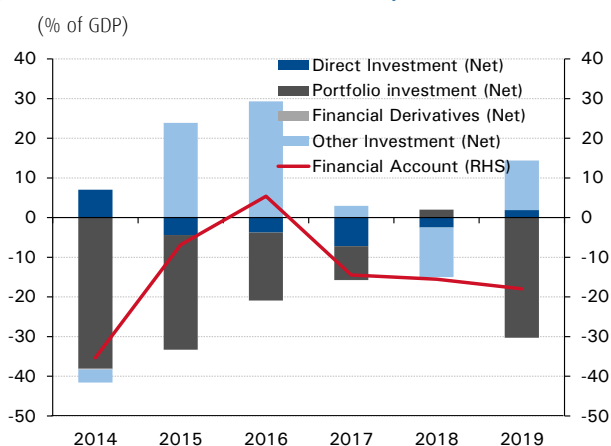
driven by a rise in direct investment income of KD 0.1 billion.

The secondary income deficit, which measures transfers (mainly foreign aid and workers' remittances), widened KD 0.3 billion to KD 4.8 billion in 2019. This rise in outflows can be attributed to a foreign aid increase of KD 0.2 billion, while remittances remained relatively stable, increasing by 3.7% in 2019.

### A rise in financial account net outflows

The financial account of the balance of payments, which measures changes in residents and non-residents' net overseas assets holdings, witnessed a net outflow of KD 7.4 billion in 2019 compared with a smaller outflow of KD 6.6 billion in the previous year (Chart 3). The rise in outflows was influenced by a significant increase of portfolio investments in equities abroad.

▶ **Chart 3: Financial account main components**



Source: Central Bank of Kuwait

Portfolio equity investments registered a net outflow of KD 10.5 billion compared with a much smaller outflow of KD 1.7 billion in 2018. In contrast, portfolio debt investments abroad reversed its trend from decreasing by KD 2.2 billion in 2018 to increasing at KD 2.6 billion in 2019. These came amid the strong performance of international equity and debt markets, the Aramco IPO, and the positive performance of GCC stock markets. On the other hand, direct Investments registered a net inflow of KD 0.8 billion as equity investments abroad declined by KD 0.7 billion, reversing its trend for the first time since 2014.

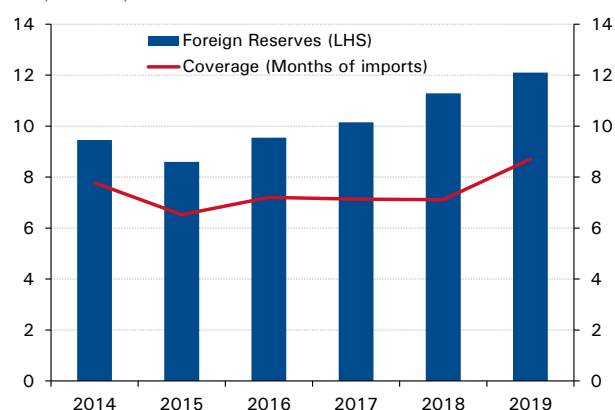
Furthermore, the announcements of upgrades of Bursa Kuwait to Emerging Market status by FTSE, S&P, and MSCI triggered a decline in assets held by residents abroad (the government and the private sector) by KD 4.4 billion, while banking system deposits abroad increased by KD 2.0 billion. Moreover, liabilities to non-residents increased by KD 3.8 billion due to the rise of non-resident deposits at local banks by KD 1.6 billion as well as the increase in the private sector loans extended from non-resident entities by KD 1.7 billion.

### Reserve assets rise further

The CBK's gross international reserves rose by KD 0.8 billion to KD 12.1 billion (29.2% of GDP, around 8.7 months of imports, and 32% of broad money (M2)) at the end of 2019 (Chart 4). These reserves are complimented by the large buffers held by the Kuwait Investment Authority, that are estimated at least 400% of GDP, providing monetary policy with an effective and clear nominal anchor as well as a degree of exchange rate flexibility given the dinar's peg to a basket of currencies.

▶ **Chart 4: Central Bank foreign reserves**

(KD billion)

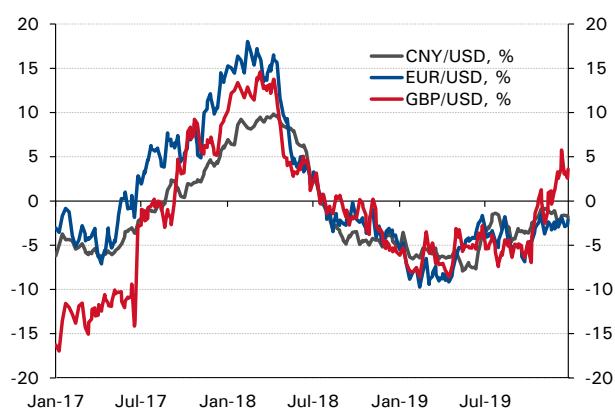


Source: Central Bank of Kuwait, NBK estimation

Moreover, the nominal effective exchange rate for the Kuwaiti dinar versus key trading partners appreciated in 2019 by 2.4% compared with a slight appreciation of 0.1% in the previous year. These movements came as a result of the appreciation of the US dollar against major currencies in 2019 (Chart 5). Inflationary pressures in Kuwait remained relatively low at 1.1% versus 1.9% for its trading counterparts. Accordingly, the real effective exchange rate appreciated by 1.6% in 2019 compared with a depreciation of 2.1% in the previous year.

▶ **Chart 5: US dollar against major currencies**

(%, y/y)



Source: Refinitiv

## Looking forward

Despite the sizable current account surplus and adequacy of foreign assets registered in 2019, the government should continue to focus on saving for future generations adequately to ensure the sustainability of Kuwait's long-term external position. Lower oil prices in the medium term are expected to decrease oil exports and narrow current account surpluses (a deficit is expected this year), reducing or reversing the rate of accumulation of foreign reserves and reducing somewhat the buffer against any external shocks. One way to address this is to focus on increasing the role of the private sector in the economy through expediting the implementation of Kuwait vision 2035, which will help the non-oil economy in increasing its share in GDP and total exports.

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

	KD million		% Change	% GDP	
	2018	2019	2019	2018	2019
Current account	6,008	6,722.5	11.9	14.1	16.2
Goods (net)	12,382	10,731.6	-13.3	29.2	25.9
Exports	21,771.1	19,673.9	-9.6	51.3	47.5
Oil Exports	19,731	17,814.4	-9.7	46.5	43.0
Imports (FOB)	-9,389.1	-8,942.3	-4.8	-22.1	-21.6
Services (Net)	-7,426.2	-5,112.9	-31.2	-17.5	-12.4
Primary Income (Net)	5,537	5,894.6	6.5	13.0	14.2
Investment Income (Net)	5,567.5	5,913.7	6.2	13.1	14.3
Secondary Income (Net)	-4,484.8	-4,790.7	6.8	-10.6	-11.6
Workers remittances	-4,306.3	-4,467.2	3.7	-10.1	-10.8
Capital Account	-64.8	41.6	-164.2	-0.2	0.1
Financial Account	-6,602.5	-7,427.5	12.5	-15.5	-17.9
Direct Investment (Net)	-1,060.2	789.3	-----	-2.5	1.9
Portfolio Investment (Net)	835.8	12,548.4	-----	2.0	-30.3
Financial Derivatives (Net)	63.9	-12.4	-----	0.2	0.0
Other Investments (Net)	-5,302.2	5,165.2	-----	-12.5	12.5
Reserve Assets	-1,139.8	-821.2	-28.0	-2.7	-2.0
Errors & Omissions	659.3	663.4	0.6	1.6	1.6

Source: Central Bank of Kuwait

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