

Balance of payments

Kuwait: Current account surplus shrinks in 2015 on weaker oil prices

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Kuwait's current account surplus narrowed to a 13-year low in 2015, as oil export earnings declined. The surplus in Kuwait's current account fell from 33% of GDP in 2014 to 5.1% in 2015. The surplus came in notably lower mainly due to a deterioration in the goods balance, as oil export receipts fell amid a weaker oil price environment. Robust growth in imports and net services outflows, as well as a drop in net investment income, also weighed on the current account balance. Meanwhile, a decline in worker remittances helped provide some relief to the current account.

We expect the surplus in Kuwait's current account to shrink further in 2016, before improving in 2017 as oil prices recover. Kuwait's current account is projected to log in a small deficit of around 1% of GDP in 2016, against a backdrop of still softer oil prices and healthy import growth. Indeed, Kuwait's external position remains relatively strong in comparison to its GCC peers thanks to its high level of overseas assets and more resilient current account.

The goods balance shrank by more than half to an 11-year low of KD 8.4 billion in 2015 (Chart 1), mainly due to a 47% drop in oil exports. Oil exports were dragged lower by a steep 51% decline in oil prices (Chart 2). A modest acceleration in import growth and a wider deficit in net services also drove the goods balance lower. Import growth remained firm at 7.1% as sizeable increases in spending on capital projects, on the back of sustained strength in the economy, boosted capital goods imports. Net services outflows continued to rise in 2015, boosted by solid growth in net travel expenditures of 10%.

A decline in net investment income also added downward pressure on the current account balance. Net investment income fell by 7.8% in 2015 (Chart 3), largely as a result of a rise in investment income outflows (income on foreign investment in Kuwait). Meanwhile, investment income inflows from Kuwaiti overseas investment continued to see healthy growth of 8.2%. Income from portfolio investment was particularly robust, growing by 10% during 2015.

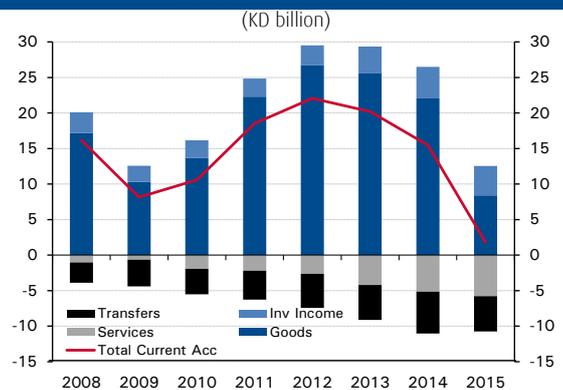
Lower worker remittances helped offset some of the decline in inflows to the current account. Outflows from current transfers fell by 16% in 2015 (Chart 1), on the back of a 12% decline in worker remittances. The drop comes on the heels of a strong 14% rise in remittances in 2014.

Capital and financial account

The shrinking current account resulted in a commensurate drop in Kuwait's financial outflows. Nonetheless, Kuwait remained a net creditor to the rest of the world, with a financial outflow of KD 2.1 billion compared to KD 16.4 billion in 2014. Most of the drop came from a drawdown of liquid assets. Currency and deposits held by the government declined by KD 8.1 billion.

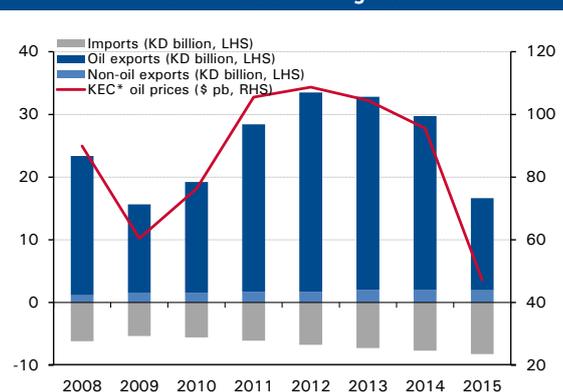
Portfolio outflows also retreated but remained positive and relatively healthy, reflecting continued investment in the Future

Chart 1: Current account



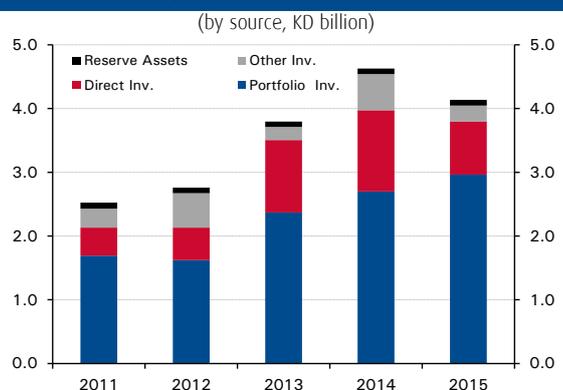
Source: Central Bank of Kuwait, NBK estimates

Chart 2: Balance on goods



Source: Central Bank of Kuwait, NBK estimates; *Kuwait Export Crude

Chart 3: Net investment income



Source: Central Bank of Kuwait, NBK estimates

Generations Fund. Portfolio outflows, which reflect investment in equities and debt securities, declined by 44% to KD 9.9 billion. Kuwait also increased its direct investments overseas during 2015 by KD 1.5 billion.

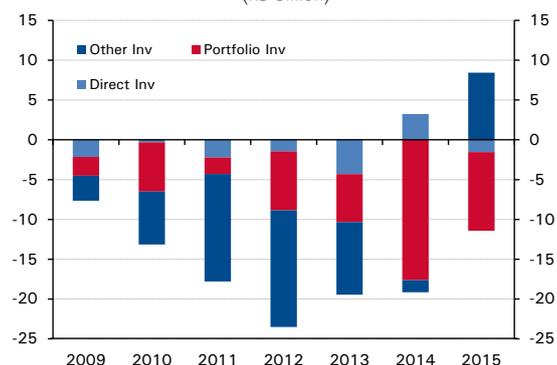
The smaller capital account witnessed deterioration in 2015, largely due to the absence of any compensation payments for damages sustained during Iraq's 1990-91 invasion and occupation. In a gesture of good will, Kuwait agreed to suspend the payment schedule in an effort to show support to Iraq's government in the current lower oil price environment.

Balance of payments surplus and foreign reserves

Kuwait's broader BOP balance narrowed sharply, though it remained in surplus. The balance, which reflects the accumulation of foreign assets by key government entities and the Central Bank of Kuwait (CBK), dropped from KD 16.4 billion in 2014 to KD 1.6 billion in 2015. Though the government as a whole continued to see a net accumulation of foreign assets, the CBK saw foreign assets decline, as reflected by the simple BOP balance. Indeed, by this measure, Kuwait witnessed a small deficit. Nonetheless, the CBK continued to hold substantial reserves of KD 7.8 billion at the end of 2015, or an estimated 9.9 months of imports. Meanwhile, the foreign assets of the state as a whole, the bulk of which are held by Kuwait Investment Authority (KIA), are thought to be in excess of KD 170 billion.

Chart 4: Financial account

(KD billion)



Source: Central Bank of Kuwait, NBK estimates

Table 1: Summary of Kuwait's balance of payments

(KD million)	Level				Change	
	2012	2013	2014	2015	KD mn	% y/y
Current account	22,063	20,210	15,479	1,797	-13,682	-88.4
Goods (net)	26,762	25,571	22,059	8,419	-13,640	-61.8
Exports	33,491	32,824	29,737	16,644	-13,093	-44.0
Oil exports	31,813	30,790	27,753	14,683	-13,070	-47.1
Non-oil exports	1,678	2,034	1,984	1,961	-23	-1.2
Imports	-6,729	-7,253	-7,678	-8,225	-547	7.1
Services (net)	-2,623	-4,204	-5,149	-5,774	-625	12.1
Primary income (net) ¹	2,729	3,759	4,451	4,122	-329	-7.4
Direct investment	512	1,138	1,274	833	-441	-34.6
Portfolio investment	1,621	2,369	2,700	2,965	265	9.8
Other investment	539	206	568	249	-319	-56.2
Reserve assets	86	83	85	88	3	3.5
Secondary income (net) ²	-4,806	-4,915	-5,883	-4,971	912	-15.5
Workers' remittances	-4,405	-4,482	-5,108	-4,492	616	-12.1
Capital account	1,192	1,265	1,095	-123	-1,218	...
Financial account	-24,483	-20,433	-16,354	-2,066	14,288	-87.4
Direct Investment (net)	-1,453	-4,315	3,250	-1,538	-4,788	-147.3
Investment abroad	-1,970	-4,721	2,979	-1,627	-4,606	-154.6
Foreign direct Investment	517	407	271	88	-183	-67.5
Portfolio Investment (net)	-7,400	-6,022	-17,633	-9,890	7,743	-43.9
Financial Derivatives (net)	-34	-16	-80	46	126	...
Other Investment (net)	-14,679	-9,124	-1,528	8,430	9,958	651.7
Net errors & omissions	1,229	-1,043	-220	393	613	278.6
Overall balance	918	957	363	-886	-1,294	...
Broad BOP balance³	20,683	16,609	16,429	1,619	-14,810	-90.1

Source: Central Bank of Kuwait, NBK estimates

¹ Consists mainly of investment income. Also includes compensation of employees.

² Previously referred to as current transfers.

³ Includes net investment accounts of KIA, KPC, KAC and CBK.

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