

Balance of payments

Kuwait: Current account surplus rises slightly in 3Q16 on higher oil prices

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Kuwait's current account surplus expanded slightly in 3Q16, thanks to an improvement in the goods balance. The goods balance widened for the second straight quarter as better oil prices pushed export earnings higher. A decline in remittances and imports also helped prop up the surplus. Despite the improvement, the current account surplus was down 24% year-on-year (y/y) to KD 0.5 billion and remains historically low at an annualized 5.6% of GDP.

We expect the surplus in Kuwait's current account to gradually widen as oil prices continue to improve. The current account is projected to log in a mere surplus of 1% of GDP in 2016, before improving to 5-6% in 2017 and 2018 mostly on higher oil prices.

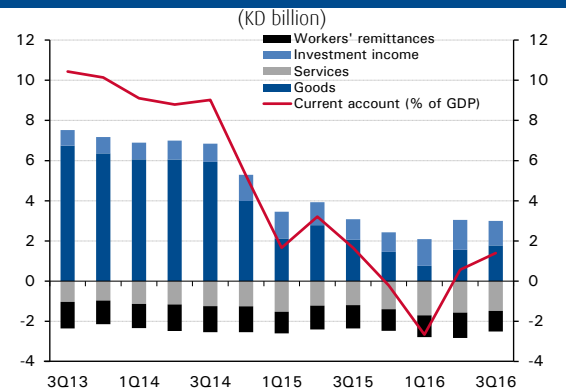
The goods balance surplus expanded for the second straight quarter in 3Q16. The surplus rose from KD 1.6 billion in 2Q16 to KD 1.8 billion (Chart 1), mainly thanks to a 4.1% increase in oil exports. Oil exports were led higher after oil prices rose 2% on the quarter (Chart 2). A healthy 12.7% quarter-on-quarter (q/q) pick up in non-oil exports and a 2% q/q decline in imports also helped push the surplus in the goods balance higher.

Declines in worker remittances and net service outflows also offered the current account balance some reprieve. After surging 16% q/q in 2Q16, remittances fell by a significant 19% on the quarter in 3Q16. Net services outflows also fell for the second straight quarter, albeit at a slower pace of 5% q/q.

A larger current account surplus helped raise Kuwait's net financial outflows, with portfolio investment outflows holding strong. After two straight quarters of surpluses, the financial account logged in a deficit of KD 0.9 billion in 3Q16 as financial inflows fell and portfolio outflows remained firm at KD 1.5 billion (Chart 4), reflecting continued investment in the Future Generations Fund (FGF). Direct investments overseas also held fairly strong at KD 0.3 billion.

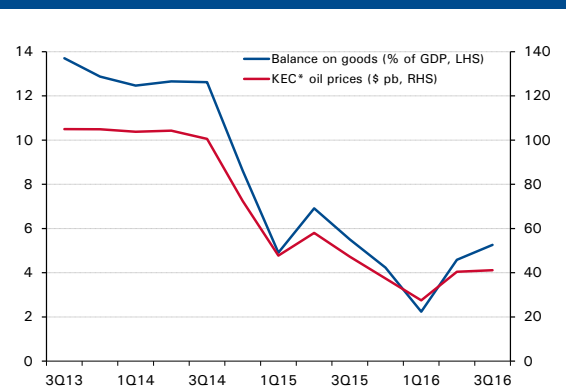
With the broad balance of payments balance in deficit for the second straight quarter in 3Q16, foreign reserves declined but remained relatively high. The balance of payments saw its deficit widen from KD 0.3 billion in 2Q16 to KD 0.5 billion in 3Q16, with equivalent foreign reserve drawdowns in those quarters. CBK reserves declined from KD 9.0 billion to KD 8.1 billion during the same period, but at an estimated 11 months of imports, they remained quite high. (Chart 5.)

Chart 1: Current account



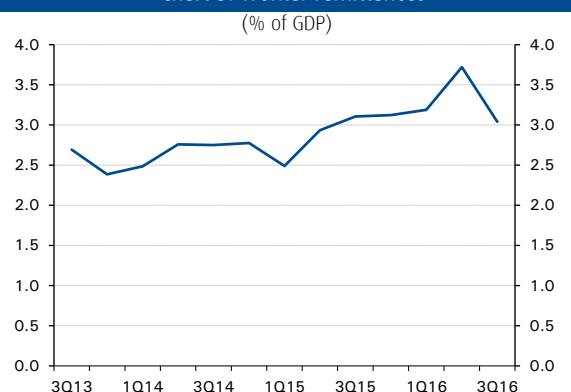
Source: Central Bank of Kuwait

Chart 2: Trade balance



Source: Central Bank of Kuwait, *Kuwait Export Crude

Chart 3: Worker remittances

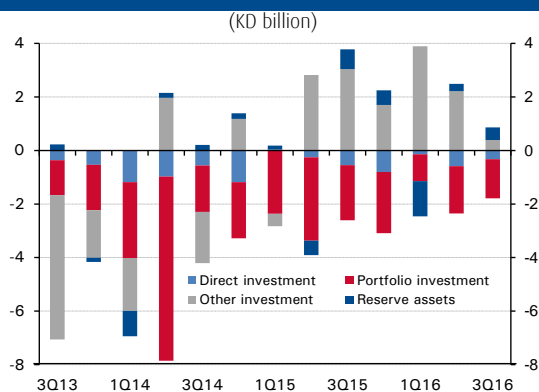


Source: Central Bank of Kuwait, NBK estimates

Table 1: Summary of Kuwait's balance of payments

(KD million)	Level				Change	
	4Q15	1Q16	2Q16	3Q16	KD mn	% y/y
Current account	-75	-908	191	471	280	...
Goods (net)	1453	762	1556	1774	218	-13.6
Exports	3574	2725	3576	3757	181	-7.4
Oil exports	3096	2350	3191	3323	132	-7.9
Non-oil exports	478	375	385	434	49	-3.3
Imports	-2121	-1963	-2020	-1983	37	-1.0
Services (net)	-1404	-1702	-1567	-1489	78	24.2
Investment income	977	1325	1490	1225	-265	18.8
Workers' remittances	-1072	-1088	-1263	-1026	237	-11.5
Other investment	-29	-205	-25	-13	12	-87.9
Current + capital account	-133	-934	105	389	284	...
Financial account	-841	1433	133	-923	-1056	...
Direct investment (net)	-800	-140	-584	-322	262	-41.0
Portfolio investment (net)	-2288	-1002	-1771	-1465	306	-28.9
Other investment (net)	1702	3895	2219	395	-1824	-87.0
Reserve assets	545	-1320	269	469	200	-36.7
Net errors & omissions	975	-499	-237	534	771	...
Overall balance	-545	1320	-269	-469	-200	...

Source: Central Bank of Kuwait

Chart 4: Financial account


Source: Central Bank of Kuwait

Chart 5: Central bank reserves


Source: Central Bank of Kuwait, NBK estimates

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