

Balance of payments

Kuwait: Current account surplus narrows in first quarter of 2017

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Kuwait's current account surplus fell for the first time in three quarters at the start of 2017. The surplus narrowed from KD 0.6 billion in 4Q16 to KD 0.3 billion in 1Q17, on the back of a deterioration in the goods balance, a decline in investment income and a rebound in net service outflows. Despite the fall, the current account balance, at an annualized 0.8% of GDP, was still up significantly compared to the same period last year when it recorded its largest deficit in years of 2.7% of GDP.

We expect the current account to see a further rebound in 2017 as oil prices firm up. After recording its first deficit in over two decades in 2016, the current account is forecast to witness a rebound and log in a surplus of around 3-4% of GDP in 2017. This improvement is largely due to the expectations that oil prices will continue to recover and prop up export receipts.

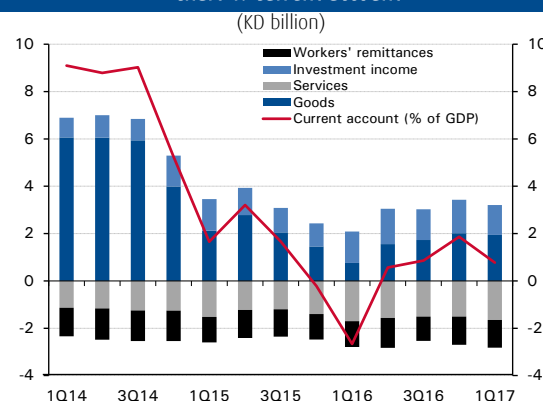
The goods surplus retreated for the first time in a year in 1Q17. The surplus fell from KD 2.0 billion in 4Q16 to KD 1.9 billion in 1Q17 (Chart 1), mainly due to a strong rebound in import growth. Although both oil exports and non-oil exports witnessed healthy gains in 1Q17, growing by 60% y/y and 17% y/y, respectively, a strong jump in imports put some downward pressure on the goods balance. (Chart 2). Imports grew 14% y/y to KD 2.2 billion, thanks to higher demand for capital and industrial goods. Strong demand in these segments is indicative of the healthy progress being made on government development projects.

A decline in investment income, a jump in net service outflows and relatively solid growth in worker remittances, also weighed on the current account balance. Investment income fell to its lowest level in just over a year in 1Q17, while net services outflows climbed to a multi-quarter high of KD 1.6 billion during the same period. Worker remittances continued to rise at a relatively solid pace of 7.4% y/y.

Kuwait's net financial outflows swelled as portfolio investment outflows held strong, though they were partly offset by inflows from other overseas investments. The financial account logged in an almost two-year high deficit of KD 1.1 billion, mainly on strong growth in portfolio outflows, which rose to KD 2.6 billion (Chart 4). These outflows reflect Kuwait's policy to channel investments to the Future Generations Fund (FGF). At the same time, other overseas investments have been liquidated to help finance the fiscal deficit.

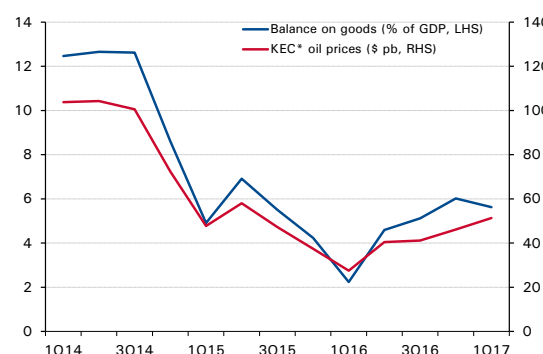
The broad balance of payments balance recorded a surplus, albeit a smaller one, for the second straight quarter in 1Q17. The surplus on the balance of payments fell from KD 0.7 billion in 4Q16 to KD 0.6 billion in 1Q17. As a result, foreign reserves increased only slightly from KD 9.3 billion to KD 9.5 billion during the same period. However, at an estimated 11.5 months of imports, foreign reserves remain substantial. (Chart 5.)

Chart 1: Current account



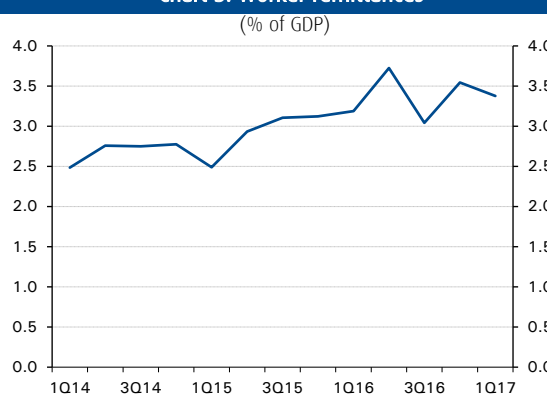
Source: Central Bank of Kuwait

Chart 2: Trade balance



Source: Central Bank of Kuwait, *Kuwait Export Crude

Chart 3: Worker remittances

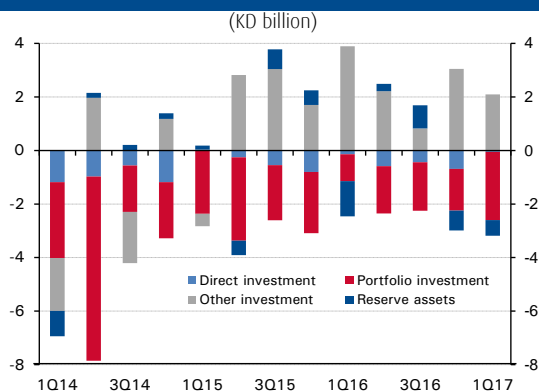


Source: Central Bank of Kuwait, NBK estimates

Table 1: Summary of Kuwait's balance of payments

(KD million)	Level				Change	
	2Q16	3Q16	4Q16	1Q17	KD mn	% y/y
Current account	191	289	626	269	-357	...
Goods (net)	1556	1726	2018	1947	-71	155.5
Exports	3576	3645	4143	4178	35	53.3
Oil exports	3191	3263	3724	3741	17	59.2
Non-oil exports	385	382	419	437	18	16.5
Imports	-2020	-1919	-2125	-2231	-106	13.7
Services (net)	-1567	-1510	-1510	-1649	-139	-3.1
Investment income	1490	1303	1413	1260	-153	-4.9
Workers' remittances	-1263	-1026	-1188	-1169	19	7.4
Other investment	-25	-204	-107	-120	-13	-41.5
Current + capital account	105	253	579	221	-358	...
Financial account	133	-561	63	-1087	-1150	...
Direct investment (net)	-584	-437	-687	-51	636	-63.6
Portfolio investment (net)	-1771	-1816	-1555	-2551	-996	154.6
Other investment (net)	2219	827	3051	2095	-1824	-87.0
Reserve assets	269	865	-746	-580	166	-56.1
Net errors & omissions	-237	308	-642	866	1508	...
Overall balance	-269	-865	746	580	-166	...

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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