Euler Hermes Economic Research

Country Report

# Kuwait

## Low oil price and OPEC production cuts curtail growth

### General Information

| | |
|---|---|
| **GDP** | USD114.0bn (World ranking 57, World Bank 2015) |
| **Population** | 3.9mn (World ranking 130, World Bank 2015) |
| **Form of state** | Constitutional Emirate |
| **Head of state** | Emir SABAH al-Ahmad al-Jabir al-Sabah |
| **Next elections** | 2020, legislative |

### Strengths

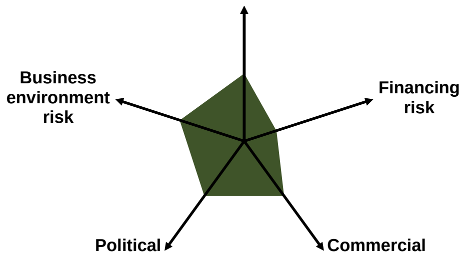
- World's seventh largest proven oil reserves
- Strategic importance in troubled region and major non-NATO ally of the U.S.
- High income economy and net creditor status
- Strong oil and gas revenues generate large fiscal and current account surpluses during times of high oil prices and "excess" earnings are invested in foreign assets and/or used to supplement an oil account that is for the use of future generations
- Low external obligations
- Generally supportive business environment

### Weaknesses

- Combative political system that can slow reforms and policy implementation
- Exposure to oil price and output cycles contributes to growth volatility
- Industry is capital intensive and job creation is weak for a growing population, with social repercussions as the unemployed seek alternative means to vent their frustrations
- High degree of public ownership and control of oil and gas sectors results in a generally weak private sector
- Vulnerability of oil installations and foreign personnel to attacks by extremists and terrorists
- Regional volatility and uncertainty

### Country Rating

BB1




*Source: Euler Hermes*

### Trade Structure

By destination/origin (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Russia | 46% | 1 | 60% | Russia |
| Ukraine | 13% | 2 | 6% | Germany |
| Latvia | 8% | 3 | 5% | China |
| Lithuania | 3% | 4 | 5% | Ukraine |
| Poland | 2% | 5 | 4% | Poland |

By product (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Petroleum and products thereof | 76% | 1 | 15% | Road vehicles |
| Organic chemicals | 6% | 2 | 6% | Other industrial machinery & parts |
| Gas, natural and manufactured | 4% | 3 | 6% | Telecomm. & recording apparatus |
| Plastics in primary forms | 3% | 4 | 5% | Electrical machinery, appliances, ... |
| Road vehicles | 2% | 5 | 4% | Iron and steel |

*Source: Unctad (2015)*

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# Economic Overview

## Oil price dictates growth

Kuwait possesses the world's seventh largest proven oil reserves (6% of global resources) and, at current rates of extraction, its oil will last for another 88 years. Gas reserves have a life time of over 100 years. The oil sector dominates the economy (over 60% of GDP and over 80% of export revenues).

Such a high dependence on oil (prices) has resulted in volatile GDP growth, even relative to the Middle East region (see Figure 2). Due to low oil prices in recent years, annual average growth dropped to +1.4% in 2013-2016 from +6.1% in the preceding decade, though it surprised by a better-than-expected +3.5% in 2016. In 2017, we forecast GDP growth to fall to +0.5% as a result of OPEC-agreed oil production cuts, before it should pick up again to around +2% in 2018.

A period of relatively low GDP growth will be sustained by significant financial resources accumulated during times of higher oil prices. Foreign exchange (FX) reserves provide around seven months of import cover and the country's Sovereign Wealth Fund (SWF) is estimated at around USD592bn.

## Large fiscal deficits will be manageable thanks to huge financial assets

The sharp drop in oil prices has turned the fiscal balance from years of huge surpluses (annual average +28% of GDP in 2000-2013) to large deficits (-17% of GDP in 2015-2016; see Figure 3). However, the SWF (see above) will provide adequate support.

Public debt has risen from 6% of GDP in 2013 to 19% in 2016 and is forecast to increase further to 25% in 2018, but this is still low as compared to peers and its management is unlikely to be a problem.

## External accounts have deteriorated but will remain in surplus

As with the fiscal accounts, current account surpluses become magnified in times of high oil prices. In 2000-2014, the current account surplus was equivalent to an annual average +33% of GDP. With current weak oil prices, the current account has deteriorated but reportedly remained in surplus. We expect it to gradually widen from +3% of GDP in 2016 to +4% in 2017 and +5% 2018.

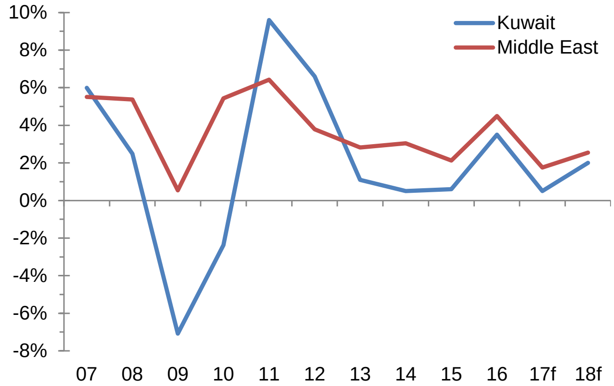
External debt has risen in relation to GDP (42% in 2016) and export earnings (87%) but these ratios are still comparatively low and debt servicing will not be a problem. The SWF includes large foreign assets and Kuwait's net foreign assets are estimated at over USD400bn.

**Figure 1: Key economic forecasts**

| | 2015 | 2016 | 2017f | 2018f |
|---|---|---|---|---|
| GDP growth (% change) | 0.6 | 3.5 | 0.5 | 2.0 |
| Inflation (%, annual avg.) | 3.2 | 3.2 | 3.0 | 3.0 |
| Fiscal balance (% of GDP) | -17.5 | -17.0 | -12.0 | -8.0 |
| Public debt (% of GDP) | 11.2 | 18.6 | 23.0 | 25.0 |
| Current account (% of GDP) | 5.2 | 2.7 | 4.0 | 5.0 |
| External debt (% of GDP) | 37.2 | 41.7 | 43.0 | 44.0 |

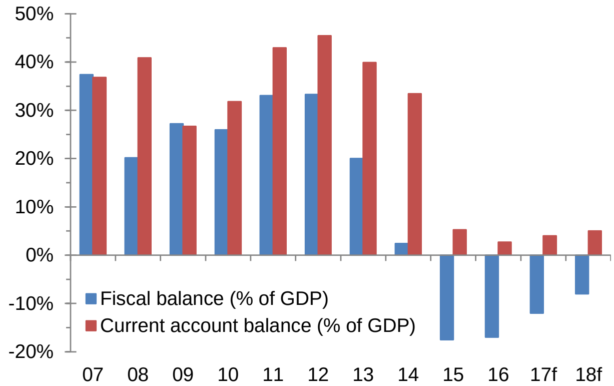
*Sources: National statistics, IHS, Euler Hermes*

**Figure 2: Real GDP growth**




*Sources: National statistics, IMF, IHS, Euler Hermes*

**Figure 3: Fiscal and current account balances**




*Note: Fiscal balance is after mandatory transfers to the Future Generations Fund (part of Kuwait's SWF) and excluding investment income.*

*Sources: IMF, Euler Hermes*



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