Euler Hermes Economic Research

Country Risk Analysis

Kuwait

Large fiscal and external surpluses

General Information

GDP	USD176,6bn (World ranking 52, World Bank 2011)
Population	2.82 million (World ranking 138, World Bank 2011)
Form of state	Constitutional Emirate
Head of government	JABIR AL-MUBARAK al-Hamad al-Sabah
Next elections	2016, legislative

Strengths

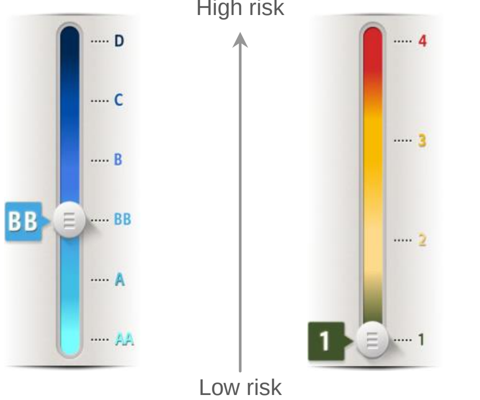
- World's sixth largest proven oil reserves.
- Strategic importance in troubled region and major non-NATO ally of the US.
- High income. Net creditor status.
- Strong oil and gas revenues generate large fiscal and current account surpluses and "excess" earnings are invested in foreign assets and/or used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

Weaknesses

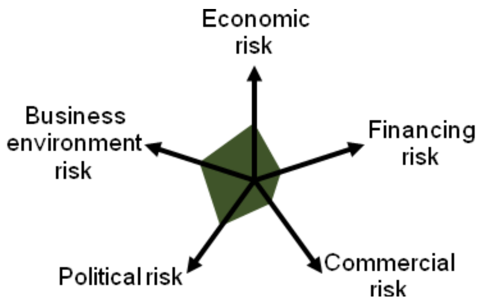
- Combative political system that can slow reforms and policy implementation.
- Exposure to oil price and output cycles contributes to growth volatility.
- Industry is capital intensive and job creation is weak for a growing population, with social repercussions as the unemployed seek alternative means 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

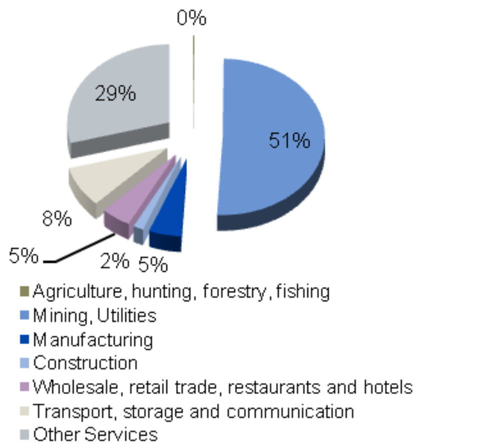


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
Korea, Republic of	18%	1	12%	United States
India	15%	2	9%	China
Japan	14%	3	9%	Saudi Arabia
China	10%	4	6%	Germany
United States	8%	5	6%	Korea, Republic of

By product

Exports (% of total)		Rank		Imports (% of total)
Petroleum, petroleum products and related materials	89%	1	13%	Road vehicles
Gas, natural and manufactured	3%	2	10%	Iron and steel
Plastics in primary forms	3%	3	7%	Industrial machinery and parts

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	6.9	-7.1	-2.4	6.3	5.0	4.0	3.0
Inflation (%, end-year)	3.5	2.1	6.0	3.1	2.7	3.3	3.9
Fiscal balance (% of GDP)	28.5	26.8	29.1	29.1	26.7	20.2	16.6
Public debt (% of GDP)	21.5	11.3	10.9	8.1	9.5	10.0	9.9
Current account (% of GDP)	30.9	26.7	30.8	41.7	46.5	40.5	38.4
External debt (% of GDP)	31.2	38.6	26.0	20.8	19.7	18.8	17.8

Source: IHS Global Insight, National sources, Euler Hermes

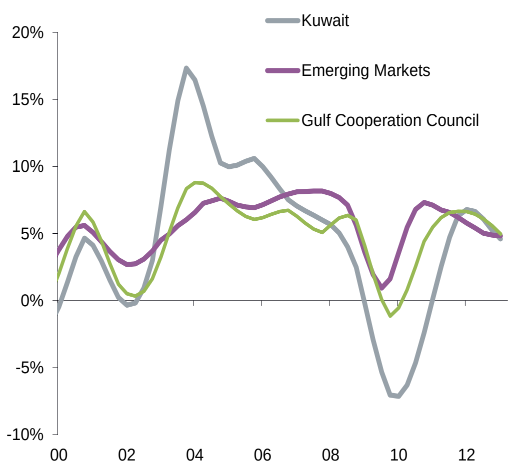
Economic Growth

Oil sector leads growth

The oil sector dominates the economy as is revealed by the data for 2011. In that year, GDP growth was +6.3% and 5.5 percentage points of that were accounted for by expansion in the oil sector. The non-oil part of the economy is small and utilities, services, public administration and defence provide the main impetus to non-oil sector growth. In expenditure terms, net exports regularly provide a positive stimulus to overall growth. In 2012, with oil prices remaining high and output increasing further (averaging 2.8 million barrels per day, compared with 2.56 mbpd in 2011) growth remained strong, with GDP growth at +5%.

In 2013-14, growth in the oil sector is likely to slow, with Kuwaiti production stable but some forecast easing in international oil prices. OPEC production targets were left unchanged in June 2013 but some producers may lower output to provide price support during 2013-14. Nevertheless, as with most GCC states, Kuwait will be able to draw on its substantial financial resources to stimulate the non-oil economy, with government spending maintaining positive private consumption growth. Accordingly, while GDP growth will decline, EH expects expansion of +4% in 2013 and +3% in 2014.

GDP profile (y/y, 4 quarters cumulated)



Sources: IHS Global Insight, Euler Hermes

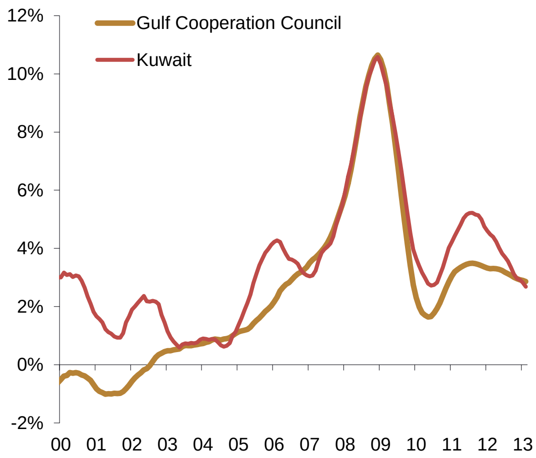
Inflationary pressures to remain subdued

The rate of inflation fell to 3.1% at the end of 2011 and 2.7% in the corresponding period of 2012. At the end of last year, core inflation (excluding food) was above headline inflation for the first time since November 2009, suggesting limited inflationary pressures stemming from the price of foodstuffs.

Headline inflation is likely to edge upwards in H2 2013. Food prices are forecast to remain subdued but base effects will push up food inflation. EH expects inflation to end 2013 at just over 3% and average 2.7% for the year as a whole. Upside risks to the inflation outlook derive from potential disruptions to oil supplies pushing up global energy prices and/or weather-related harvest shortfalls leading to higher imported food prices. Overall, though, the inflationary environment is expected to remain subdued.

Unlike most exchange rate regimes of GCC countries, which are pegged to the USD, the Kuwaiti dinar (KWD) is pegged to a basket of currencies. Nominally, this provides Kuwait with more flexibility in monetary policy. In practice, with the basket weighted heavily towards the USD, the KWD follows closely the movements of the former and the exchange rate is relatively stable.

Inflation rate (%)



Sources: IHS Global Insight, Euler Hermes

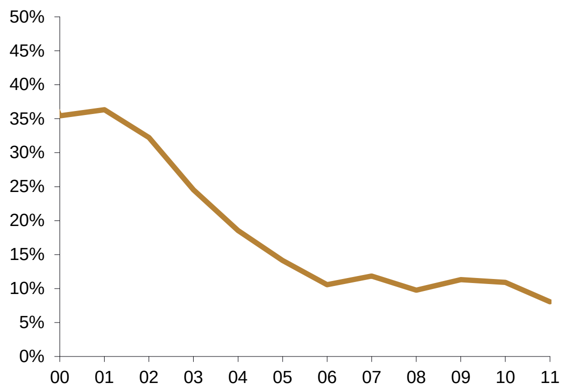
Large fiscal surpluses

The state budget is usually projected on the basis of a very conservative oil price, so revenues almost invariably exceed official forecasts. Moreover, the political system whereby the government and parliament cannot agree on policy implementation limits spending on capital projects. As a result official budget projections are not a reliable indicator of fiscal outcomes. In periods of high oil prices, Kuwait's large annual fiscal surpluses climb significantly upwards. Accordingly, a fiscal surplus equivalent to over 15% of GDP was recorded in 2010 but in 2011 and 2012, with benchmark oil prices 38% higher than in 2010, fiscal surpluses were almost 30% and 27% of GDP, respectively.

EH expects international oil prices to weaken in 2013-14, reflecting lacklustre demand in some key global markets and availability of increased energy supplies from shale operations, particularly in North America. Even so, Kuwait is expected to register fiscal surpluses of 20% and over 16% of GDP in 2013 and 2014, respectively.

Public debt is low, at around 10% of GDP, and its management is unlikely to be a problem.

General government gross debt (% GDP)



Sources: IHS Global Insight, Euler Hermes

External Sector

Current account surpluses are among the highest in the world

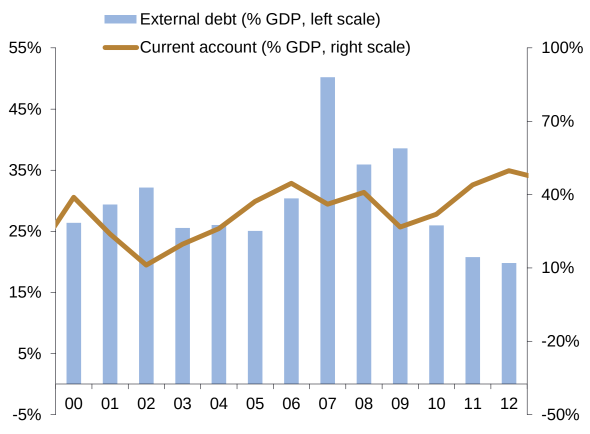
As with the fiscal accounts, surpluses in the current account of the balance of payments become magnified in times of high oil prices (oil and gas account for over 90% of export receipts). In 2012, the current account surplus was equivalent to over 46% of GDP, following almost 42% the year before. The surplus in merchandise trade in 2012 was over USD92 billion, which was 54% of GDP and the largest on record.

The outlook for 2013 and 2014 is for continuing large current account surpluses, although these are likely to decline from recent highs as a result of generally weaker international oil prices and a stable level of oil output at a national level. Even if OPEC implements a cut in its production targets later in the year, perhaps reflecting weak prices as a result of oil and gas from shale deposits in North America, surpluses will continue to be recorded in Kuwait's external accounts. EH expects current account surpluses of 40% and 38% of GDP in 2013 and 2014, respectively.

FX reserves ended 2012 at almost USD29 billion and provided an import cover of over eight months. However, large hard currency inflows are used to supplement sovereign wealth funds and buy foreign assets, so the nominal level of FX reserves indicates only a small part of the overall asset base of the country. Net foreign assets are estimated at over USD400 billion. Meeting trade payments is unlikely to be a problem over the forecast period.

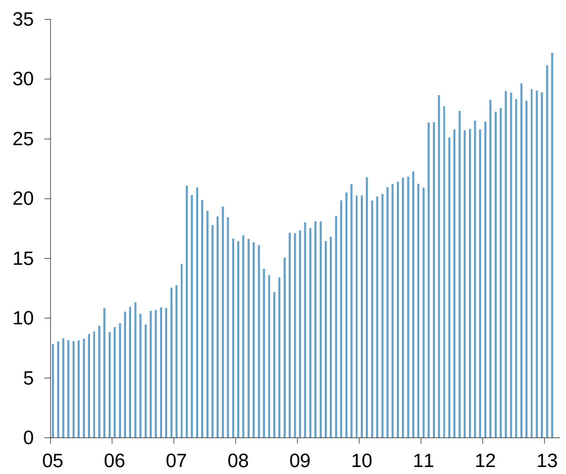
External debt is low, at around 20% of GDP and 23% of export earnings. Moreover, servicing on current external obligations is very comfortable, with a ratio of debt servicing/export earnings below 2%.

External debt and current account (% GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com