

October 2019



# Kuwait Economic Brief

Third Quarter



Oil prices soften on global worries; Kuwait moves up competitiveness and Doing Business ranking

# Oil prices soften on global worries; Kuwait moves up competitiveness and Doing Business ranking

## Highlights

- Kuwait's oil production fell further below its OPEC+ quota at 2.66 mb/d at the end of 3Q19, while oil prices softened in Q3 overall.
- Provisional figures show non-oil growth averaging 0.8% y/y in 1H19, suggesting risks to our whole-year forecast of 2.5%.
- Kuwait improved its competitiveness ranking, and jumped up 14 places in the Ease of Doing Business ranking.
- Employment growth remained at a solid 3.7% y/y in 1H19, supporting the outlook for consumer sector.
- Inflation hit a 21-month high but remained soft at 1.2% y/y in August, while the core rate rose to 2.8%.
- Credit growth stood at 4.6% y/y in August, amid strong growth in personal consumption loans; interest rates were left on hold.

The past quarter has seen rising pessimism about the global growth outlook, in particular driven by the unresolved US-China trade war, which culminated in the IMF revising down its forecast for global growth this year to a post-financial crisis low of 3.0%. The direct impact on Kuwait has so far been mostly felt through the price of oil, which fell in 3Q19, although remains volatile. Lower-than-expected oil production and a downward revision to our oil price forecast led us reduce our 2019-20 growth forecasts. Growth concerns also saw key central banks pivot towards policy loosening, but rates in Kuwait were left on hold as the central bank looked to balance supporting growth with maintaining the attractiveness of the dinar.

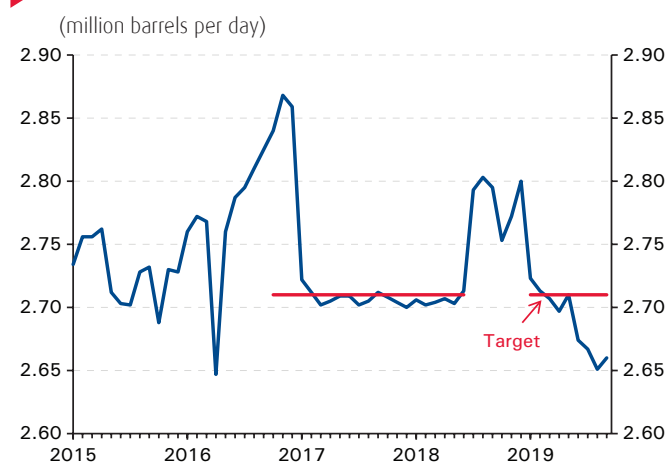
## Oil prices fall in Q3 despite attacks on Saudi infrastructure

Oil prices saw a volatile quarter, with initial weakness on a combination of trade war and oversupply concerns pushing the price of Kuwait Export Crude (KEC) down to \$58/bbl in mid-August. This gave way to a spike above \$68 in mid-September after the drone attacks on Saudi oil infrastructure. Prices had subsequently fallen back to around \$60 in early October on the rapid restoration of Saudi output and also a refocus on global growth concerns, including slow growth in China. On average, prices were 8% lower in 3Q19 than in Q2.

Meanwhile the OPEC+ group continues to over-comply with output cuts aimed at supporting prices, and which are due to be reviewed by end-March 2020. This is only partly the result of the temporary drop in Saudi output in September. Kuwait's crude production stood at 2.66 million b/d in September, leaving it 175% compliant with its share of targeted cuts (of 85,000 b/d), and more so than earlier in the year. (Chart 1.) In our baseline projections, we assume that Kuwait's oil output edges up only gradually next year, returning to 2.71 million

b/d in 2H20 and back in line with quota targets which by then have already been extended amid continued concerns over demand weakness and a slowing global economy. The price of Brent crude averages \$60/bbl next year (\$58 for KEC) from \$64 (KEC \$63) in 2019.

▶ Chart 1: Crude oil output\*



Source: OPEC / \* Uses OPEC secondary sources data

## Lower oil production leads to GDP forecast revision

This soft oil production climate has a bearing on our broader economic growth forecasts. We now expect oil sector GDP growth of -2.5% in 2019, a larger fall than the 0.5% decline projected before. Next year oil GDP is projected to grow 2.0%, potentially given a small lift by rising gas and refined oil output – the latter the result of the coming onstream of the new Al Zour refinery. Meanwhile, provisional quarterly data shows non-oil growth averaged 0.8% y/y in 1H19. This data is subject to heavy revision but if unchanged would make our forecast for non-oil growth of 2.5% in 2019 as a whole

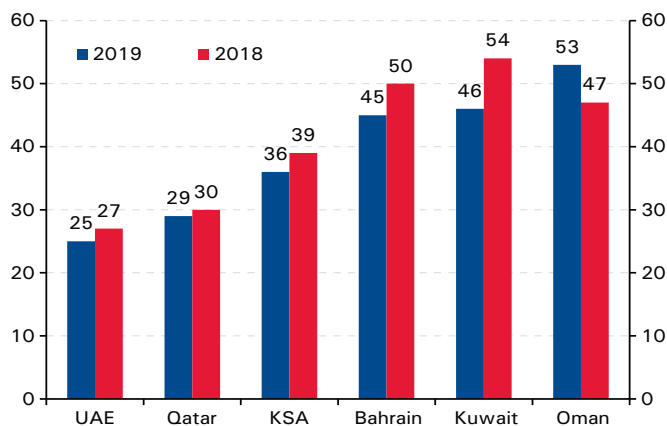
difficult to achieve. Underlying the moderate growth outlook is a combination of expansionary fiscal policy, a strong consumer sector supported by solid employment growth, but also softer oil prices and the sluggish performance of investment including project awards. (See below.) A continuation of these trends as well as cooling world growth has led us to downgrade our non-oil growth forecast for next year to 2.5% from 2.75% before. These changes generate overall GDP growth of 0% this year and 2.3% in 2020.

### Kuwait moves up global rankings

While the near-term growth outlook remains modest, there was some better news on structural reforms with the latest release of two influential global reports on business conditions. Kuwait jumped eight places to 46 (out of 141 countries) in the competitiveness rankings compiled by the World Economic Forum, thanks to significant improvements in sub-categories of ICT adoption, health, product and labor markets. (Chart 2.) The move sees Kuwait surpass Oman and stand just behind Bahrain in the GCC rankings. Kuwait ranked joint first in the world for ‘macro stability’ thanks to low inflation and good debt dynamics.

**Chart 2: WEF Competitiveness rankings**

(rank out of 141 countries; 1=best)



Source: World Economic Forum 2019 Competitiveness report

Meanwhile, the World Bank named Kuwait among the top 10 ‘improvers’ amongst 190 economies in the recently released annual Doing Business report 2020. Kuwait’s ranking jumped from 97 in 2019 to 83 in 2020, reflecting reforms in areas including starting a business, getting electricity and trading across borders. The developments provide a welcome boost to the investment climate and signify some progress towards the Vision 2035 development aims.

### Small headline fiscal surplus recorded in 5M FY19/20

The government recorded a small surplus of KD0.2 billion, equivalent to around 1% of GDP, in the first five months of FY2019/20 (to August). After transfers to the Reserve Fund for Future Generations, it translates into a deficit of KD0.5 billion. The small headline surplus came despite a 13% y/y fall in revenues to KD7.4 billion – mostly oil revenues – amid a drop in both oil prices and oil production over the same period.

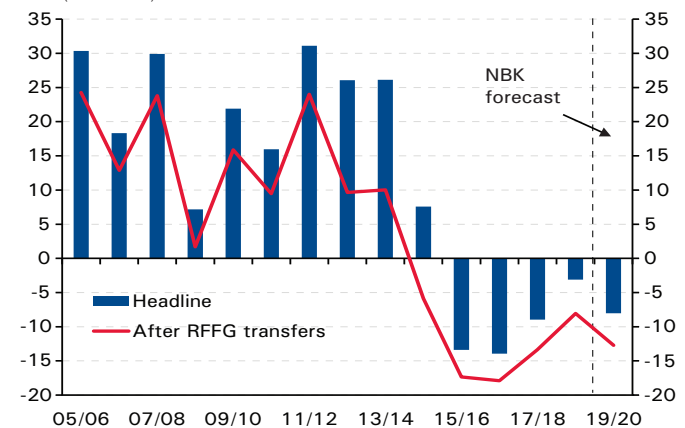
Spending, by contrast, rose by a very robust 21% to KD7.1 billion, pushed up by a 25% rise in current spending including wages, subsidies and transfers to the social security fund.

These provisional figures however are at best a loose guide to what will happen over the full year, due to both uncertainty over oil prices and the tendency for spending to accelerate strongly in later months. Moreover, spending growth in FY19/20 so far may be being skewed upwards by an unusually weak start to last year, which was subsequently made up at year-end. The outlook is further complicated by the potential for additional government arrears payments, which added a reported KD1.8 billion to spending last year and are likely to be repeated this fiscal year.

Based upon our assumptions, which include a KEC oil price of \$62/bbl for the fiscal year as a whole, and spending maintained at an elevated level due to further arrears payments, we expect the deficit to end up at around 8% of GDP in FY19/20, from a deficit of 3.1% last year. (Chart 3.) This translates into a post-transfers deficit of around KD5 billion or nearly 13% of GDP, which will be financed from the General Reserves Fund in the absence of a new debt law. These figures exclude returns on the government’s investments abroad, worth more than 10% of GDP per year.

**Chart 3: Fiscal balance**

(% of GDP)



Source: Ministry of Finance / NBK

### Project awards edge up in 3Q19, could rise in 2019

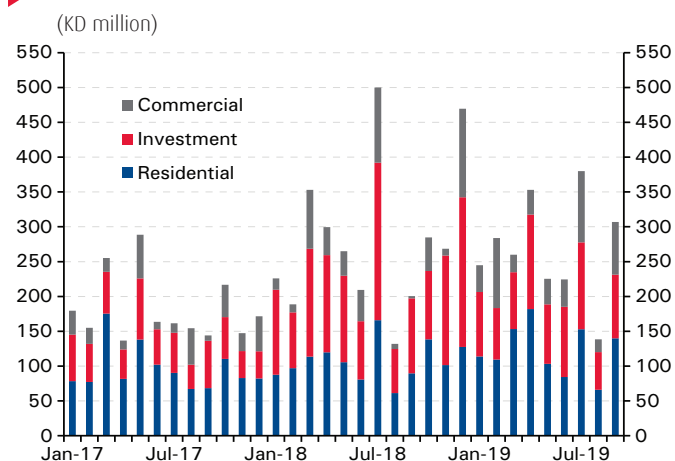
According to MEED, project awards edged up to KD330 million in 3Q19 from KD270 million in Q2, mostly stemming from the power and water (KD200 million) sectors. Awards so far this year have totaled KD770 million, short of expectations, with major projects being repeatedly shifted into future quarters. Some KD1.5 billion – including the Kabd Solid Waste Project (KD264 million) – is provisionally scheduled for 4Q19. But based upon trends in previous quarters, we conservatively expect around KD2 billion in awards this year, a modest improvement over 2018’s KD1.7 billion, given further potential rollovers and delays.

For next year, large awards are expected in the power, chemical and construction sectors. Major planned projects include the Dibdibah Solar Power Plant (KD360 million) and the Khiran Power & Desalination Plant (KD225 million) planned for 1Q20 and 2Q20 respectively. Further, the much-anticipated KD3 billion Al-Zour petrochemical complex will expectedly be tendered 4Q20. MEED's total planned project estimate for 2020 currently stands above KD6 billion, though we believe this figure to be optimistic and unlikely to materialize.

### Real estate sales strong in 3Q19

Real estate sales rebounded in September to a solid KD307 million, up 53% y/y and more than double the sales recorded in August, which suffered from seasonal weakness. (Chart 4.) Stronger sales were driven by the residential and investment sectors, where transactions rose 85% and 75% m/m respectively. Looking back at the third quarter overall, sales totaled a solid KD825 million, down slightly from the same quarter last year (KD832 million) despite a rise in transaction volumes, likely due to lower investment sector prices.

**Chart 4: Real estate sales**



Source: Ministry of Justice

Meanwhile trends in prices are mixed. Residential sector prices were stable in August and maintained strong yearly gains (19% land, 9% homes), while investment sector prices reverted to negative year-on year territory (-3% for buildings, -1% for apartments), despite a solid 7% rise in the apartment sub-sector in the three months to August. Investment building prices however have been on a clear downtrend, down 10% since May, possibly a lagged reaction to the same market pressures that previously weighed down on apartment prices, namely oversupply, persisting vacancies and declining rents.

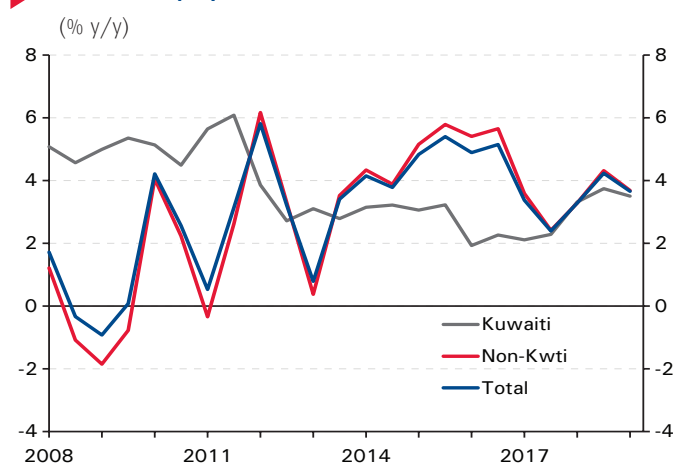
### Employment growth remained solid in 1H19

According to the latest biannual release of demographic data, Kuwait's population rose 2.1% y/y in June 2019 to 4.7 million. The growth rate was lower than the 2.7% seen in 2018, mainly due to a decrease in expat growth to 2.1% in June versus 2.8% in 2018. Meanwhile, growth in the population of Kuwaiti

nationals was broadly steady at 2.3% in June versus 2.4% in 2018, holding at 1.4 million.

Growth in total employment eased from 4.2% y/y in 2018 to 3.7% in June 2019, far below the rates seen in 2015-16. (Chart 5.) The decline was mainly on the back of continued declines in expat numbers in the public sector (-3.1%), driven by Kuwaitization efforts. While Kuwaiti jobs growth held at a firm 3.5%, expat employment growth slowed from 4.3% to 3.7%. Private jobs growth among expats also weakened slightly from 4.6% in 2018 to 4.1%. After factoring out domestic workers, the June 2019 figure is even softer at 2.7% y/y versus 5.1% in December. Softer private sector expat jobs growth was led by slower hiring in the construction sector.

**Chart 5: Employment**



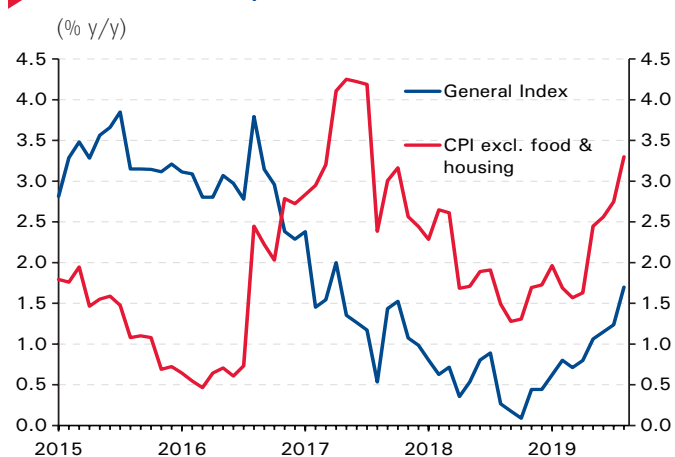
Source: PACI

### September inflation hits 22-month high at 1.7%

Consumer price inflation reached a 22-month high of 1.7% y/y in September, from 1.2% in August, with rates having risen gradually since April. (Chart 6.) The rise was broad-based driven mostly by a sizeable pick-up in food (1.8% versus 1.1% in August), furnishings/household maintenance (3.3% from 2.6%), clothing and footwear (2.3% vs 1.7%) inflation, which together comprise a hefty 36% of the CPI basket. Meanwhile, housing rent inflation was unchanged at -0.8%. Core inflation (which excludes food and housing) rose sharply to 3.3% from 2.8% in August, consistent with good consumer loan growth and employment conditions.

Average inflation currently stands at 0.9% y/y so far this year, on track to reach our year-average forecast of 1.0% (with an end-year figure of around 1.5%). Next year, we expect inflation to edge up but remain low at around 1.5%, with housing rents more stable but still weighing on the headline rate. Although core inflation has risen recently, a sustained spell of much greater underlying price pressure still seems unlikely: economic growth rates are modest, credit growth moderate, the dinar is stable at a relatively strong level, and prices at the wholesale level show few inflationary pressures in the supply pipeline. Core inflation should hold at around 2-2.5% next year.

▶ **Chart 6: Consumer price inflation**



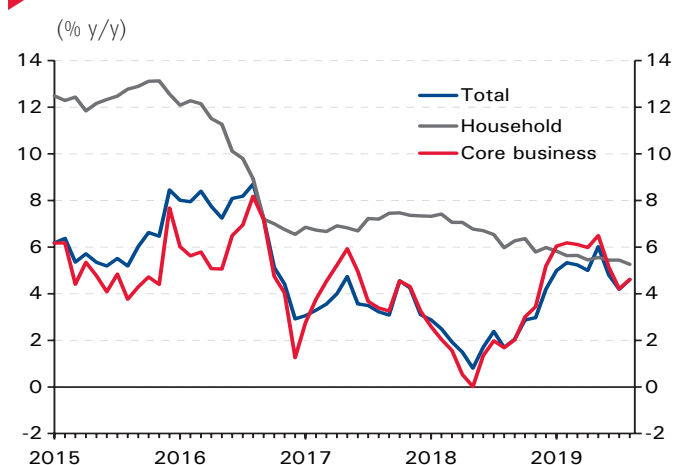
Source: Refinitiv / NBK

### Credit growth still 4-5%; CBK leaves rates on hold

After an increase of 4.8% y/y in 2Q19, domestic credit growth had edged down to 4.6% in August, but remained higher than July's reading of 4.2%. (Chart 7.) This slight slowdown was driven by a deceleration in lending to both businesses and households. Business credit grew 4.6% in August, while household credit (excluding securities lending) growth stood at 5.3% amid softer growth in housing loans. But growth in personal consumption loans (i.e. non-housing) – worth less than 10% of all household loans – recorded a very robust 31% in August, still benefiting from the impact of the Central Bank of Kuwait's (CBK) loosening of lending restrictions late last year. Overall credit growth should end 2019 still in the 4-5% range, supported by the stable macro climate, a slight pick-up in project awards and further solid employment growth.

Meanwhile, total deposit growth slowed from 1.2% y/y in July to 0.8% in August. This reflected a drop in private deposits by 0.5%, while government deposit growth accelerated to 8.3%.

▶ **Chart 7: Bank credit**



Source: Refinitiv / CBK / NBK

### Equity market loses some steam in 3Q19

Kuwait equity price performance lost momentum in 3Q19, despite reaching peak year-to-date gains of 21% in the All-share index in early August. The subsequent escalation of trade and geopolitical tensions and volatile oil prices likely weighed on sentiment, leading to profit-taking and reduced net foreign inflows in August and September compared to earlier in the year. Quarter-on-quarter, the All-Share index was down 2.6%. Market capitalization also declined, to KD33 billion as of the end of September from a peak of KD35 billion in August. The S&P-Dow Jones EM index inclusion on September 23rd lent some support in the last week of the month, partly offsetting previous losses. Year-to-date gains (as of October 15th) however remain solid, at 13%, outperforming the MSCI-GCC by far (-2.4%). Market liquidity was solid in September, with an average daily turnover of KD35 million, above the monthly average this year.

Looking forward, the market is expected to remain liquid and fairly stable in the near-to-medium term, supported by improved sentiment after the recent dip, two large upcoming IPOs in Q4 (Boursa Kuwait and North Al-Zour IWPP) and large expected passive and active inflows from the MSCI EM inclusion scheduled for May 2020. But downside risk is also present in the form of geopolitical and trade tensions, oil price volatility and sluggish global growth.

 Table 1: Key economic data

	2013	2014	2015	2016	2017	2018	Forecast/estimate	
							2019	2020
	(KD billion)							
Nominal GDP	49.4	46.3	34.5	33.1	36.3	41.5	39.8	40.1
Oil	32.7	29.2	15.7	13.6	16.2	21.3	18.5	17.7
Non-oil	22.4	23.2	23.9	23.9	24.6	25.4	26.3	27.3
	(percent change)							
Real GDP	1.1	0.5	0.6	2.9	-3.5	1.8	0.0	2.3
Oil	-1.8	-2.1	-1.7	3.9	-7.2	1.2	-2.5	2.0
Non-oil	4.2	4.8	0.4	1.6	2.2	2.5	2.5	2.5
Private credit	8.1	6.1	8.5	2.9	3.1	4.2	...	...
Money supply (M2)	10	3.4	1.7	3.6	3.8	3.9	...	...
Inflation (% y/y, average)	2.7	3.2	3.7	3.5	1.5	0.6	1.0	1.5
Inflation (% y/y, e.o.p)	2.6	3.0	3.1	2.4	1.1	0.4	1.5	1.5
	(percent of GDP)							
Fiscal balance (before FGF transfers)	26.1	7.6	-13.4	-13.9	-9.0	-3.1	-8.0	-8.0
Revenues	64.4	53.9	39.5	39.6	44.1	49.5	46.8	46.5
Oil	59.3	48.6	35.0	35.4	39.4	44.4	41.1	39.8
Non-oil	5.1	5.2	4.5	4.3	4.7	5.1	5.8	6.7
Expenditure	38.3	46.3	52.9	53.6	53.1	52.6	54.9	54.5
Transfers to Future Generations Fund	16.1	13.5	4.0	4.0	4.4	5.0	4.7	4.7
Fiscal balance (after transfers to FGF)	10.0	-5.9	-17.3	-17.9	-13.4	-8.1	-12.7	-12.7
Investment income*	7.0	8.5	12.4	13.4	13.0	11.5	11.9	11.7
Public debt	3.1	3.4	4.6	19.6	20.0	14.8	12.9	16.0
Current account balance	40.3	33.4	3.5	-4.6	8.0	14.8	6.0	3.0
Goods balance	51.8	47.7	24.4	17.8	21.5	29.8	22.9	19.9
Export	66.5	64.2	47.5	42.5	46.2	52.6	48.4	46.7
Imports	14.7	16.6	23.2	24.7	24.7	22.8	25.4	26.8
Services (net)	-8.5	-11.1	-17.4	-18.3	-16.9	-17.7	-20.3	-21.4
Investment income (net)	8.0	9.6	11.1	11.7	15.7	13.5	15.0	16.1
Worker remittances	-11.0	-12.7	-14.5	-15.8	-12.3	-10.8	-11.6	-11.5
Exchange rate (KD per 1 USD)	0.284	0.285	0.301	0.302	0.303	0.302	...	...
CBK discount rate	2.00	2.00	2.25	2.50	2.75	3.00	...	...
Kuwait export crude price (USD per barrel)	105	95	48	39	51	69	63	58
Oil production (million barrels per day)**	2.92	2.87	2.86	2.95	2.70	2.74	2.67	2.68

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates.

\*Based on estimated figures by CSB and NBK. \*\* Uses JODI/OPEC direct communication figures.

**Table 2: Monthly economic data**

(KD billion, unless otherwise indicated)

	Dec-17	Dec-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Credit	35.4	36.9	37.2	37.6	37.9	37.8	37.9	...
Growth (% y/y)	3.1	4.3	5.0	6.0	4.8	4.2	4.6	...
Money supply (M2)	37.1	38.6	38.8	38.2	39.0	38.4	37.8	...
Growth (% y/y)	3.8	4.0	2.6	0.6	1.6	1.1	-0.3	...
Inflation (% y/y)	1.1	0.4	0.7	0.8	1.1	1.2	1.2	...
ex food and housing (% y/y)	2.6	1.7	1.6	1.6	2.5	2.6	2.8	...
Real estate sales (KD million)	171	470	353	225	225	380	139	307
Growth (12-month average, % y/y)	-6.9	56.1	37.9	37.7	35.8	15.6	16.8	18.2
Real estate price indices:								
Residential homes	152	156	160	159	159	158	159	...
Residential plots	174	176	176	180	187	192	192	...
Investment buildings	181	194	195	197	193	177	178	...
Consumer confidence (index)	110	110	...	...	...	109	105	...
Kuwait export crude price (USD per barrel)	61	57	71	70	63	65	60	62
Stock market - All Share index (e.o.p)	4,830	5,080	5,630	5,726	5,832	6,117	5,971	5,679
Growth (% y/y)	...	-0.6	0.2	1.7	1.9	4.9	-2.4	-4.9

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates

**Table 3: Quarterly economic data**

(KD billion, unless otherwise indicated)

	4Q15	4Q16	4Q17	2Q18	3Q18	4Q18	1Q19	2Q19
GDP growth (% y/y)	1.7	4.0	-4.3	0.6	2.7	2.0	0.9	0.4
Oil	0.9	2.2	-5.8	-0.3	3.6	2.4	1.6	-0.4
Non-oil	0.3	2.7	1.6	1.6	1.5	1.6	0.2	1.4
Point-of-sale card spending	2.1	2.3	2.6	3.0	3.0	2.9	2.9	3.2
Growth (% y/y)	10.0	9.1	11.4	16.6	14.1	10.9	7.8	6.8
Current account balance	-0.1	0.6	1.2	2.7	0.9	1.8	2.0	...
Exports	3.6	4.1	4.7	6.2	6.0	5.4	5.0	...
Imports	2.1	2.1	2.4	2.4	2.5	2.3	2.2	...

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates \* Series break: due to classification changes, growth rates in the oil and non-oil sectors before 1Q18 are not comparable with those thereafter.

## Head Office

### Kuwait

National Bank of Kuwait SAKP  
Abdullah Al-Ahmed Street  
P.O. Box 95, Safat 13001  
Kuwait City, Kuwait  
Tel: +965 2242 2011  
Fax: +965 2259 5804  
Telex: 22043-22451 NATBANK  
www.nbk.com

## International Network

### Bahrain

National Bank of Kuwait SAK  
Bahrain Branch  
GB Corp Tower, Block 346  
Road 4626, Building 1411  
P.O.Box 5290  
Manama, Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

### United Arab Emirates

National Bank of Kuwait SAK  
Dubai Branch,  
Latifa Tower  
Sheikh Zayed Road  
P.O. Box. 9293  
Dubai UAE  
Tel: +971 4 3161600  
Fax: +971 4 3888588

### United Kingdom

National Bank of Kuwait  
(International) Plc  
Head Office, 13 George Street  
London W1U 3QJ  
United Kingdom  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

## NBK Capital

### Kuwait

NBK Capital  
38th Floor, Arraya II Building,  
Block 6, Shuhada'a Street, Sharq  
P.O. Box 4950, Safat 13050  
Kuwait  
Tel: +965 2224 6900  
Fax: +965 2224 6904 / 5

### Jordan

National Bank of Kuwait SAK  
Head Office, Al Hajj Mohd Abdul  
Rahim Street, Hijazi Plaza,  
Building # 70, P.O Box 941297  
Amman 11194  
Jordan  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

National Bank of Kuwait SAK  
Abu Dhabi Branch  
Sheikh Rashed Bin Saeed  
Al Maktoom Road (Old Airport  
Road), P.O. Box 113567  
Abu Dhabi, U.A.E  
Tel: +971 2 4199555  
Fax: +971 2 2222477

National Bank of Kuwait  
(International) Plc  
Portman Square Branch  
7 Portman Square  
London W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

### United Arab Emirates

NBK Capital Limited - UAE  
Precinct Building 3, Office 404  
Dubai International Financial  
Center, Sheikh Zayed Road  
P.O. Box 506506, Dubai, UAE  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805

### Saudi Arabia

National Bank of Kuwait SAK  
Jeddah Branch  
Al Khalidiah District,  
Al Mukmal Tower, Jeddah  
P.O Box: 15385 Jeddah 21444  
Kingdom of Saudi Arabia  
Tel: +966 2 603 6300  
Fax: +966 2 603 6318

### United States of America

National Bank of Kuwait SAK  
New York Branch  
299 Park Avenue  
New York 10171  
USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

### China

National Bank of Kuwait SAKP  
Suite 1501-1502,  
AZIA Center 1233  
Lujiazui Ring Road  
Shanghai 200120, China  
Tel: +86 21 8036 0800  
Fax: +86 21 8036 0801

### Lebanon

National Bank of Kuwait  
(Lebanon) SAL  
BAC Building  
Justinien Street  
P.O. Box 11-5727, Riyad El Solh  
Beirut 1107 2200, Lebanon  
Tel: +961 1 759700  
Fax: +961 1 747866

### Iraq

Credit Bank of Iraq  
Street 9, Building 187  
Sadoon Street, District 102  
P.O. Box 3420, Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+964 1 7188406/7171673  
Fax: +964 1 7170156

### Singapore

National Bank of Kuwait SAK  
Singapore Branch  
9 Raffles Place # 24-02  
Republic Plaza,  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

### Egypt

National Bank of Kuwait - Egypt  
Plot 155, City Center  
First Sector 5th Settlement  
New Cairo  
Egypt  
P.O Box 229 Cairo 11835  
Tel: + 20 2 26149300  
Fax: + 20 2 26133978

### France

National Bank of Kuwait  
(International) Plc  
Paris Branch  
90 Avenue des Champs-Élysée  
75008 Paris, France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

### Associates

**Turkey**  
Turkish Bank  
Valikonagi Avenue No. 1  
P.O. Box 34371  
Nisantasi, Istanbul, Turkey  
Tel: +90 212 373 6373  
Fax: +90 212 225 0353

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. Kuwait Economic Brief is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and previous issues can be found in the "Reports" section of the National Bank of Kuwait's web site. Please visit our web site, [www.nbk.com](http://www.nbk.com), for other bank publications. For further information please contact NBK Economic Research at: Tel: (965) 2259 5500, Email: [econ@nbk.com](mailto:econ@nbk.com)

© Copyright Notice. Kuwait Economic Brief is a publication of National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.