Economic Update

NBK Economic Research Department I 15 December 2022

Public Finance

Kuwait: Deficit narrows in FY21/22; first surplus since 2014 expected this year

> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

Summary

Kuwait posted a much-reduced fiscal deficit of KD3 billion in FY21/22, on higher oil prices and production and restrained expenditure growth amid tighter liquidity. In FY22/23, a surplus of 9.6% of GDP is expected, the first in eight years, on the back of elevated oil prices. This will enable the government to re-strengthen fiscal buffers, including the General Reserve Fund. The delayed FY22/23 budget projects a modest spending rise and a drop in capex, potentially reflecting weak outturns so far this year. We look for higher investment spending next year albeit from a low base, with the government seeking to press on with its four-year 'plan of action'.

- Recently finalized closing accounts published by the Ministry of Finance (MoF) for the fiscal year FY21/22 show that Kuwait's public finances improved significantly. The government registered a deficit of KD3.0 billion (7.2% of GDP), much smaller than the record deficit of KD10.8 billion (33.3% of GDP) posted a year earlier in pandemic-affected FY20/21. (Chart 1.)

- The improvement was mainly attributed to higher oil prices, which nearly doubled compared to FY20/21. In addition, expenditure growth was more restrained, as the government prioritized spending on 'necessary items', especially salaries and subsidies, over capital investments given that liquidity was tight due to the near-depletion of the General Reserve Fund (GRF) and limited alternative financing options (the debt law is still to be approved).

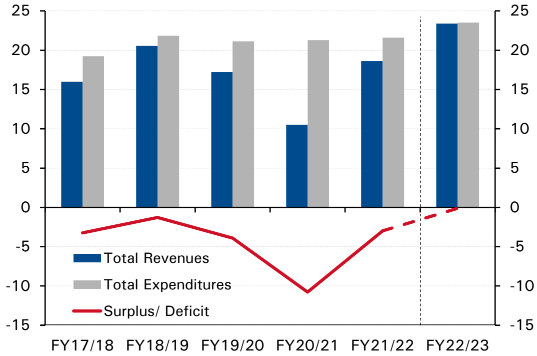
- Total revenues increased by almost 77% to reach KD18.6 billion, exceeding by some margin the official FY21/22 budget estimate (KD10.9 billion). This was largely due to increased oil revenues (+85% to KD16.2 billion) thanks to markedly higher oil prices, which averaged $80.7/bbl (almost double the budget estimate of $45/bbl) and higher oil production (+6.4% to an average of 2.5 mb/d). (Chart 2.) Oil revenues accounted for 87% of all revenues. Non-oil revenues also came in higher, increasing by more than a third to KD2.4 billion. This was largely due to the 'other revenues' component, which includes the final payment of Gulf War reparations to Kuwait from Iraq through the UN Compensation Commission. This totaled $2.1 billion (KD638 million). Excluding this item, non-oil revenues rose by around 28%.

- Total expenditures came in at KD21.6 billion, up 1.5% on the previous year, with current spending declining 2.6% to KD19.0 billion and capital expenditures rising 16% to KD2.6 billion. The fall in current spending was largely due to a notable drop in 'other expenses' (-17.5% to KD2.6 billion). In contrast, the salaries & wages and subsidies components rose by 3.5% and 2%, respectively, accounting for 76% of total expenditures. The double-digit increase in capex partly reflected a rebound from a very soft, pandemic-affected FY20/21; in absolute and share-of-GDP terms, spending on this component is at historically low levels. Capex outlays came in more than 26% under-budget, as the authorities looked for savings in this sector amid spiraling costs owing to shortages in labor and materials. Bureaucratic delays were also a factor given the political gridlock seen in 2021-2022.

- In November, the FY22/23 budget was finally ratified by the new parliament, more than six months into the fiscal year. Expenditure allocations were raised by 2.1% from the previous year's budget (FY21/22) to KD23.5 billion and revenue projections increased by 114% to KD23.4 billion on a higher oil price

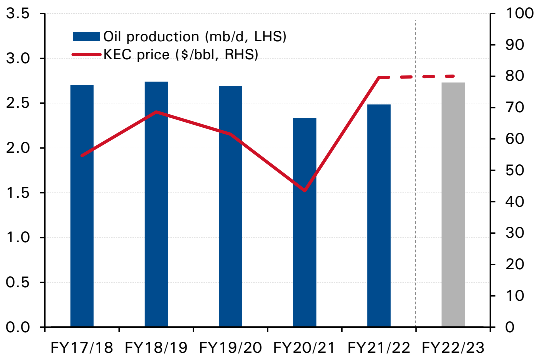
Chart 1: Fiscal balance*

(KD billion)



Source: MOF, * FY22/23 data are budget estimates.

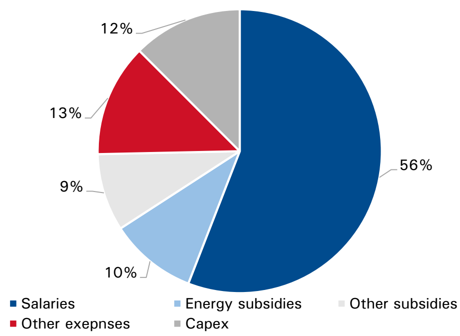
Chart 2: Oil price and production*



Source: OPEC, * FY22/23 data are budget estimates.

Chart 3: FY22/23 budget main components

(% of total expenditures)



Source: MOF, NBK estimates

($80/bbl). This produced a small deficit of KD124 million. (Chart 1.) This incorporated the late addition of KD423 million of extraordinary payments to public sector employees and front line workers for pandemic-era remuneration—cashing out of accrued salary leave and compensation for services rendered, respectively.

- More broadly, the budget sees more spending directed at the current expenditures component (+5.1% budget-on-budget to KD20.6 billion) in order to cover the increase in the prices of subsidized items, higher allowances, and transfers to the Public Institute for Social Security. (Chart 3.) Capex allocations, on the other hand, were lowered (-15.3% to KD2.9 billion), perhaps as an acknowledgment of recent challenges facing implementation.

- In actuality, the fiscal outcome in FY22/23 is likely to be much better than envisaged in the budget, with the price of Kuwait Export Crude (KEC) averaging $104.8/bbl in the April-November period—far higher than the budget's base case of $80/bbl. A surplus as high as KD5.2 billion, or 9.6% of GDP, is likely, which would be Kuwait's first surplus since 2014.

- The expected surplus should have a positive impact on GRF net assets, especially with the government announcing that in FY22/23 transfers to the Future Generations Fund (FGF), which would normally proceed at 10% of revenues in surplus years, would be re-directed to the GRF instead. GRF net assets were reportedly back up to KD9.1 billion by the end of June 2022 (KD8.2 billion at end-March 2022), following their near-depletion during the pandemic. A recent report by the State Audit Bureau also stated that the government did not make any withdrawals in the first half of the current fiscal year. (Chart 4.) Furthermore, total debt continued to decline, following the payment of KD1.1 billion in maturing sovereign Eurobonds last March. With outstanding debt at only 4.5% of GDP by the end of FY21/22—mostly the final, 10-year tranche of Kuwait's 2017 Eurobond—Kuwait is one of the least indebted countries in the world.

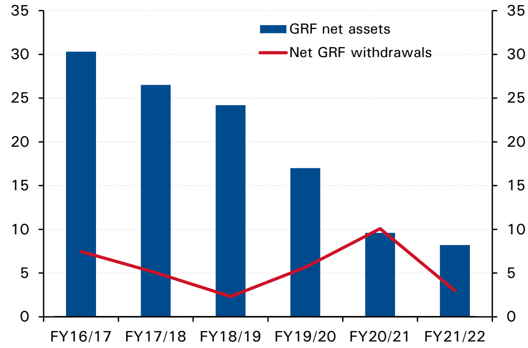
- The follow-up report on the status of development plan projects at the end of the first half of FY22/23 (April-September) shows that government spending in this area amounted to just KD166 million, or 13.1% of the KD1.3 billion that was allocated. This is a still further decline on the already low 21% recorded in FY21/22. The report concluded that around 68% of projects were behind schedule, with around half of the 129 projects either still on the drawing table or in the preparatory stage. Capex outturns in this fiscal year could therefore be especially low by historical standards. (Chart 5.)

- Looking ahead to FY23/24, another fiscal surplus could be on the cards, though lower at a possible KD2.3 billion (+4.3% of GDP), in line with projections of softer oil prices. Although this is still a positive position by international standards (and the government also has enormous reserves in the FGF to fall back on in an emergency), the sensitivity of Kuwait's fiscal position to volatile oil prices remains acute and presents a significant medium-term challenge for the government. We estimate a budget break-even oil price of around $80/bbl for FY22/23, and this could rise if pressure to raise spending on welfare persists.

- Still, helped by renewed fiscal space and with a new parliament now in place, the government is looking to ramp-up spending on development projects, following the approval by ministers of its proposed plan of action for 2022-26. The plan aims to expedite the implementation of economic, fiscal and socio-political reforms, including stimulating the private sector, augmenting and expanding non-oil income streams (through higher corporate taxes, for example), expanding the stock of housing, and developing the northern area of Kuwait into an economic zone. Restructuring public sector wages and

Chart 4: GRF net assets

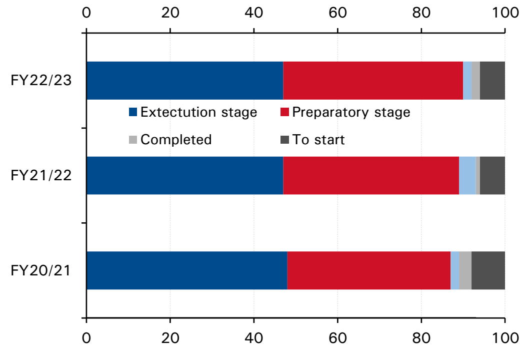
(KD billion)



Source: MOF, State Audit Bureau (SAB)

Chart 5: Development plan progress

(% of projects, as of end-September 2022)



Source: Supreme Council for Planning and Development (SCPD) tapping new sources of financing, including through debt issuance, are also notable objectives. While most of these elements were included in previous plans, some, such as development and housing projects, are costly and require eventual outlays in excess of KD17 billion, which may prove difficult to achieve without a significant ramp up in capex spending and execution rates.

Table 1: Kuwait's closing accounts and approved budget (KD billion, unless otherwise indicated)

	Closing accounts			% y/y		% of budget		Approved Budget			% y/y	
	FY19/20	FY20/21	FY21/22	FY20/21	FY21/22	FY20/21	FY21/22	FY20/21	FY21/22	FY22/23	FY21/22	FY22/23
Revenues	17.2	10.5	18.6	-38.9	76.9	140.2	170.3	7.5	10.9	23.4	45.7	114.1
Oil Revenues	15.4	8.8	16.2	-42.8	84.5	156.2	177.7	5.6	9.1	21.3	62.2	133.6
Non-oil Revenues	1.9	1.7	2.4	-6.5	38.5	92.3	133.0	1.9	1.8	2.1	-3.8	15.3
Total Expenditures	21.1	21.3	21.6	0.7	1.5	98.8	93.7	21.6	23.0	23.5	6.9	2.1
Current Expenditures	18.5	19.1	19.0	3.1	-0.2	102.2	97.3	18.7	19.6	20.6	4.9	5.1
Salaries	12.0	12.2	12.6	1.9	3.5	100.9	100.2	12.1	12.6	13.1	4.2	4.4
Subsidies	4.0	3.7	3.8	-7.2	2.0	104.5	94.0	3.6	4.1	4.4	13.4	8.8
Other expenditures	2.5	3.2	2.6	25.5	-17.5	105.0	89.0	3.0	2.9	3.0	-2.6	3.3
Capital Expenditures	2.6	2.2	2.6	-16.2	16.0	76.4	73.9	2.9	3.5	2.9	20.0	-15.3
Budget Balance (Surplus/ Deficit)	-3.9	-10.8	-3.0	174.8	-72.2	76.7	24.7	-14.1	-12.1	-0.1	-13.8	-99.0
KEC oil price ($/bbl.)	61.5	43.5	79.7	-29.3	83.2	----	-----	30.0	45.0	80.0	50.0	77.8
Oil production (mb/d)	2.69	2.34	2.49	-13.0	6.4	-----	-----	2.5	2.43	2.73	-3.0	12.6

Source: MOF

Head Office

Kuwait
National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
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 SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
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 SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
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

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad 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

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

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

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

France
National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

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

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353