

# Economic Update

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## Consumer sector

# Kuwait: Consumer spending strong in Q1, but growth could moderate ahead

> Ashish Jain  
Senior Economist  
+965 2229 5365  
ashishjain@nbk.com

### Highlights

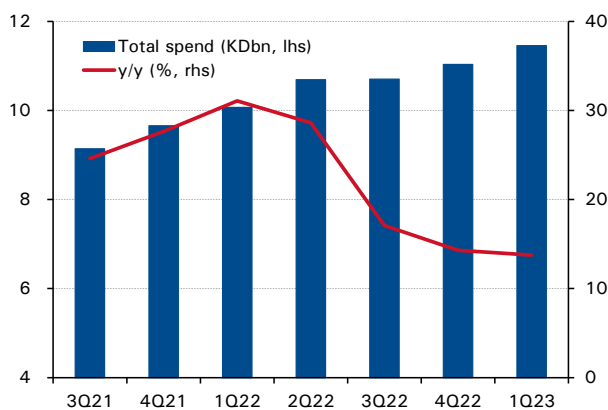
- Consumer spending growth remained robust in 1Q23 at 14% y/y, the same as 4Q22, but lower than its peak in 2022.
- Support for spending from strong household lending appears to be declining, with credit growth slowing in Q1.
- The labor market has partially recovered from the pandemic slump, with continued job growth among Kuwaiti nationals seen providing underlying support for spending growth going forward.
- Still, spending growth could slightly ease over coming quarters, amid a further normalization from Covid-era patterns, moderate economic growth and the tighter monetary policy environment.

The underlying drivers of consumer activity in Kuwait remain solid, including sustained job gains, government measures, and favorable demographics, with spending registering another firm rise in 1Q23. Nevertheless, growth has eased from previous quarters, as the effects of previous government stimulus and the post-pandemic demand rebound fade. Overall consumer spending is likely to continue to benefit from the government's intention to maintain an expansionary fiscal stance, supported by high oil revenues. That said, in the near term, spending growth could moderate further amid the volatile and overall weaker global macroeconomic environment and tighter monetary policy, which could weigh on consumer sentiment.

### Spending robust despite easing growth, signaling resilience

Consumer spending, measured by total credit and debit card transactions (including ATM cash withdrawals), grew by 14% y/y in 1Q23, the same rate as the previous quarter and by 3.8% q/q. (Chart 1.) While growth has slowed from its peak of more than 30% early last year, it remains solid compared to pre-2019 levels, where growth averaged 7% y/y during 2014-19.

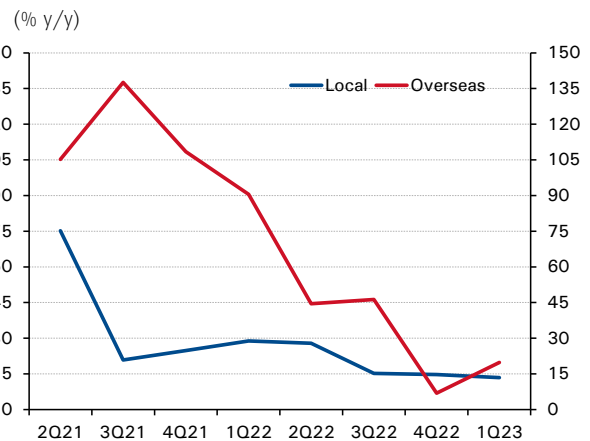
▶ Chart 1: Total card spending\*



Source: Central Bank of Kuwait; \*POS, payment gateway and ATM withdrawals

The initial trend of particularly strong overseas spending in the wake of the lifting of pandemic restrictions has now settled at more 'normal' levels. (Chart 2.) Card transactions outside of Kuwait did jump 20% y/y in 1Q23 (compared to a 7% rise in 4Q22), a quarter marked by a strong uptick in National Day overseas travel; although overseas spending still represents less than 6% of total consumer spending. As for local spending, growth further softened to 13% y/y.

▶ Chart 2: Growth in card spending

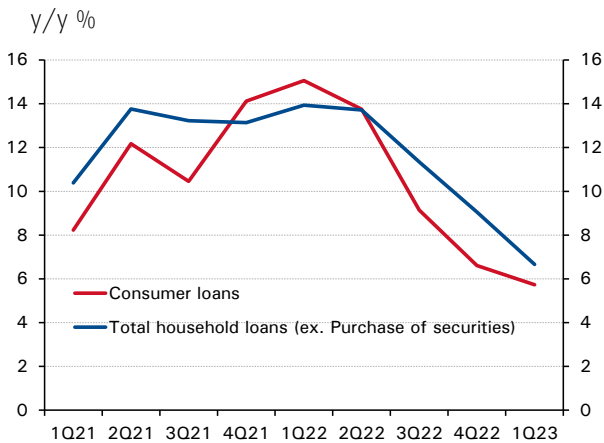


Source: Central Bank of Kuwait

### Household credit softening amid higher interest rates

Household lending (excluding loans for the purchase of securities) has been providing solid support to consumer spending. The rate of increase in household credit has weakened in recent quarters, however, to 7% y/y at the end of 1Q23 (from 14% y/y in 1Q22), amid tighter monetary conditions. Lending growth in the 'consumer loans' sub-segment – which strips out housing loans and may be most closely related to the purchase of consumer durables – had slowed to 5.7% at the end of Q1 from a peak of 15.1% early last year.

► **Chart 3: Kuwait household loans**



Source: Central Bank of Kuwait

### Population and employment recovering

Population and labor markets both recorded a sharp recovery in 2022, following the return of some expats after their Covid-linked departures. The boost to private consumption from an expansion in the labor force and population growth, while undoubtedly positive, may not be so pronounced, given that most of the recent additions to the expat population and jobs are concentrated in labor-intensive and possibly lower-end jobs. Sustained job gains among Kuwaitis continue to be a solid driver of consumption growth, though.

According to data from the Kuwait Public Authority for Civil Information (PACI), the total population of Kuwait reached 4.74mn in 2022, increasing by 8% y/y. The number of non-Kuwaitis rose by 11.1% y/y, outpacing the increase in Kuwaitis (+1.9%). Overall employment grew by 8.1% during the last six months of 2022, predominantly driven by the return of some expatriate jobs following the resumption of economic activity post-Covid. (Table 1.) Still, expat employment levels across many sectors are some way below their peak in 2019, suggesting a full recovery is yet to happen. Meanwhile, employment among Kuwaiti nationals inched up by 1.4% in the six months to December 2022 to 455K on mainly public sector job gains.

► **Table 1: Employment in Kuwait (period-end)**

	Employment ('000)			% y/y		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
2018	399	2,393	2,793	3.7	4.3	4.2
2019	409	2,522	2,931	2.4	5.4	5.0
2020	418	2,391	2,809	2.1	(5.2)	(4.2)
Jun-21*	423	2,338	2,761	1.3	(2.2)	(1.7)
Jun-22	449	2,167	2,616	6.1	(7.3)	(5.2)
Dec-22*	455	2,374	2,829	1.4	9.5	8.1

Source: PACI Note \* % change is for six months due to data unavailability

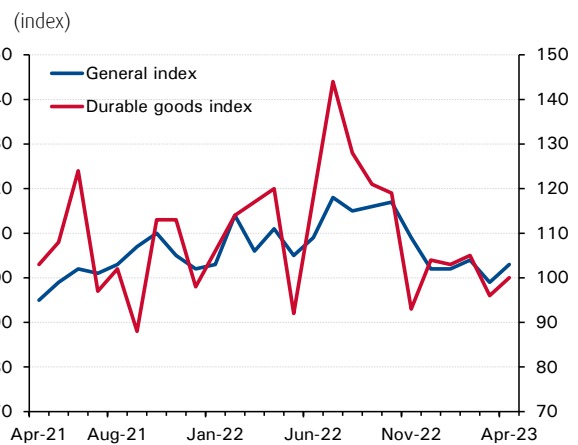
Average wages of Kuwaiti public sector workers rose by 1.8% y/y in 4Q22, the fastest growth rate in over two years, according to Kuwait Central Statistical Bureau and Labor Market Information System data. Broadly, increasing employment and growing

wages (based on the data for the public sector) should support consumer spending in the country.

### Consumer sentiment ebbing on unclear global outlook

As measured by ARA Research and Consultancy's Consumer Confidence Index, consumer sentiment has also been trending lower. (Chart 4.) Growing worries about the global economic outlook and moderating oil prices have contributed to the recently softer readings of the broad consumer sentiment index. The index for durable goods (consumer discretionary category) has been more volatile but is also broadly softening. The overall moderating trend in consumer confidence outlines some easing in growth in consumer activity.

► **Chart 4: ARA Consumer Confidence Index**

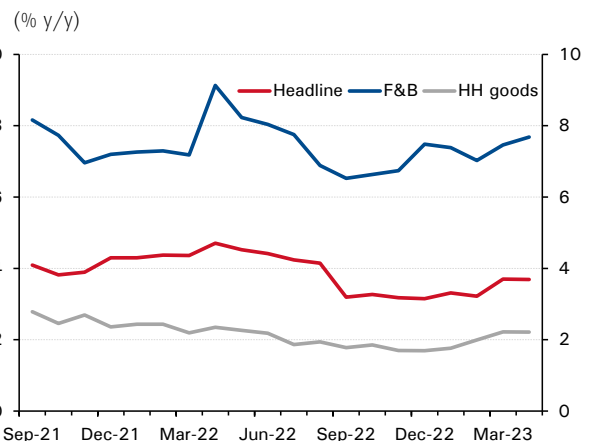


Source: ARA Research and Consultancy

### Inflation elevated, with food prices a main driver

Inflation in Kuwait in April stood at 3.7% y/y, unchanged from March but up from 3.2% at the end of 2022. Consumer prices have seen some renewed upward pressures this year across several key categories including food & beverages, clothing and housing services. (Chart 5.) Ramadan-related seasonality could explain some of this increase. Nevertheless, the overall inflation trend we see for the remainder of the year is one of moderation on easing consumer activity.

► **Chart 5: Consumer price inflation for main categories**



Source: Haver

### **Fiscal stimulus could boost income and spending**

We also expect fiscal policy to provide ongoing support for the consumer sector going forward. The election of a new parliament in June could be followed by the approval of the draft budget for FY23/24 proposed earlier this year. The draft outlined a 12% y/y increase in budgeted public expenditures, driven by a 13% rise in salaries and a 34% rise in subsidies. A part of this spending, however, consists of accrual payments to ministries for previous years' outlays so the positive impact on demand this year may be somewhat less. The government also aims to hire around 20K additional Kuwaiti employees in the public sector this fiscal year, which should support rising consumer demand.

## 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 2222 2011  
Fax: +965 2229 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