Kuwait

Economic growth will spike this year, spearheaded by robust consumer spending and, in particular, recovering oil production. High oil prices will provide substantial support for the economy given its oil dependency. A large fiscal surplus – the first since 2014 – is expected this year, helping to alleviate recent government liquidity constraints. Risks to the outlook include acute sensitivity to volatile oil prices, rising global economic headwinds and persistent legislative impasse that has impeded reforms critical to fiscal sustainability, economic diversification and the post-fossil fuel energy transition.

Growth to spike in 2022, erasing pandemic losses

Economic growth continues to gain traction amid a post-pandemic rebound of buoyant private consumption, strong real estate activity, surging oil prices and increasing oil production. GDP should be almost back at pre-pandemic levels in real terms by the end of the year, growing by 8.5%. (Chart 1.) Proceeds from high oil prices should help sustain Kuwait's growth amid a more challenging global economic backdrop due to war, high inflation, tighter monetary policy and persistent Covid-19 pressures in some countries, notably China.

In the non-oil sector, consumer spending (+36% in 2021 in Knet data) and real estate sales (+65% to a seven-year high) are expected to remain strong. (Chart 2.) Consumption has also been facilitated by expanding domestic credit (+6.3% in 2021), which has continued to increase beyond the expiry of the loan repayment holiday for nationals in 4Q21. Corporate lending, having lagged household credit growth, is finally accelerating, which bodes well for stronger investment over the forecast period, even while government-sponsored project activity has been slow to take off. The authorities are believed to be working on a new strategic plan to drive medium-to-long-term non-oil growth, with a special focus on an expanded role for the private sector. But political disputes between the government and parliament continue to impede effective implementation of reforms and the Vision 2035 development program for now.

Non-oil activity will also be boosted by refining sector gains, as KNPC begins to utilize the 1.4 mb/d of refining capacity from the Clean Fuels and Al-Zour New Refinery projects. We expect non-oil GDP growth to average 3.6% in 2022-23, slightly above estimated 2021 levels. Oil production, meanwhile, is gradually increasing as per the OPEC+ schedule. For Kuwait, output should rise by 300 kb/d to 2.72 mb/d (average) in 2022. Oil GDP growth should reach 12.8% before slowing to 3.1% in 2023.

Strong demand, supply shortages drive inflation higher

Pandemic-era supply chain disruptions and robust consumer demand continue to drive consumer prices higher in Kuwait. Inflation reached a 10-year high of 3.4% in 2021 and is likely to exceed 4% this year on the extreme inflationary impact of the Russia-Ukraine crisis. (Chart 3.) Moreover, after five years of deflation, rental costs are ticking up as landlords look to recoup higher construction costs and as demand in the mid-level expatriate rental market stabilizes.

Tighter monetary policy, borrowing costs on the rise

The Central Bank of Kuwait (CBK), following the US Fed, tightened its main policy rate, the discount rate, by 25 bps to 1.75% in March. Further hikes are expected, but the flexibility offered by the currency basket peg means that the CBK need not follow the Fed one-for-one. Borrowing costs will therefore rise, though credit demand is unlikely to weaken dramatically.

A first fiscal surplus in 8 years, easing liquidity constraints

The government should post its first budget surplus since 2014 this year (FY22/23), at 8.6% of GDP (before FGF transfers), on the back of significantly greater oil revenues and restrained spending growth—up from a similar sized deficit in FY21/22. (Chart 4.) The fiscal turnaround offers in principle space for policy loosening. But while spending may rise rather than fall as per the 5% cut outlined in the draft budget, the government is likely to prefer relative spending control going forward, not least to mitigate risks in case oil prices fall back. Meanwhile, the surge in oil prices to far above the budget break-even level ($79/bbl in FY22/23) has improved liquidity, and future surpluses will help recapitalize the near-depleted General Reserve Fund. We still expect the debt law to be approved this year, which will enable the government to return to the funding market, further improving its own financing position, while keeping public debt (below 5% of GDP) extremely low by global standards. External buffers are very strong, with $46bn in CBK reserves and around $700bn in assets held by the Kuwait Investment Authority.

Rising global headwinds, reform absence risks

In the near term, Kuwait should benefit strongly from the oil windfall. But key risks include a deterioration in the global economic outlook, which could send oil prices lower and result in weaker trade and fiscal balances, and economic growth. More critically, continued legislative impasse and government resignations will further delay much-needed economic reforms, constraining growth prospects and potentially affecting the country's credit rating even if oil prices remain high. Reforms must address deficit financing capabilities, unsustainable expenditure growth, untapped non-oil revenue streams, limited private sector development and employment of nationals, skilled labor shortages and housing supply bottlenecks. (Chart 5.) Tackling these would lessen the economy's oil-dependence and leave Kuwait in a better position to thrive in a post-fossil fuel, carbon-neutral energy world.

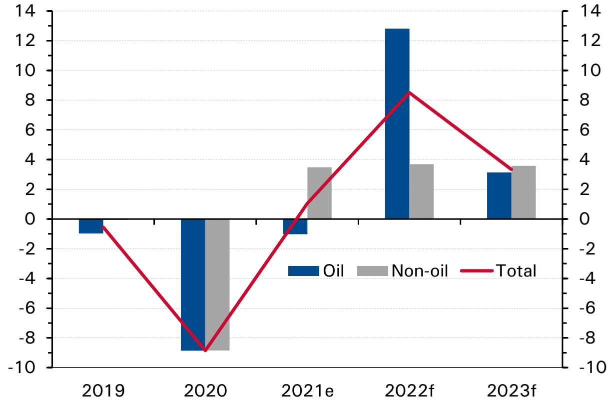
Table 1: Key economic indicators

		2019	2020	2021e	2022f	2023f
Nominal GDP	$ bn	136	106	136	176	170
Real GDP	% y/y	-0.6	-8.9	1.1	8.5	3.3
- Oil sector	% y/y	-1.0	-8.9	-1.0	12.8	3.1
- Non-oil sector*	% y/y	-0.1	-8.8	3.5	3.7	3.6
Budget balance (FY)	% of GDP	-9.5	-33.9	-8.5	8.8	2.3
Current act. balance	% of GDP	24.5	21.1	18.6	32.1	25.4
Inflation (avg.)	% y/y	1.1	2.1	3.4	4.3	3.1

Source: Official sources, NBK forecasts; * Includes refining

Chart 1: Real GDP

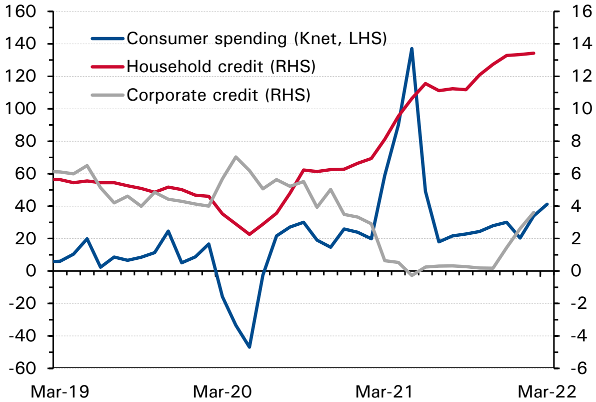
(% y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

Chart 2: Consumer spending and private credit growth

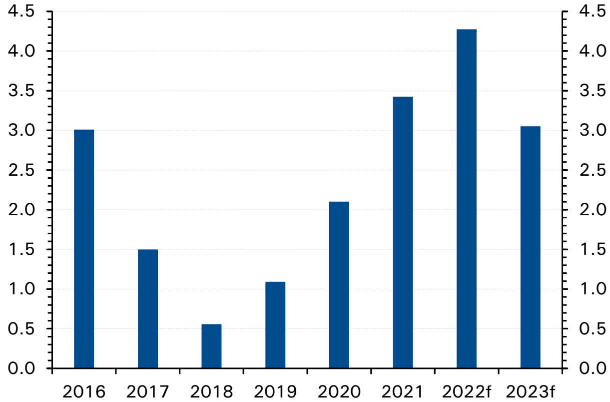
(% y/y)



Source: Knet, Central Bank of Kuwait (CBK)

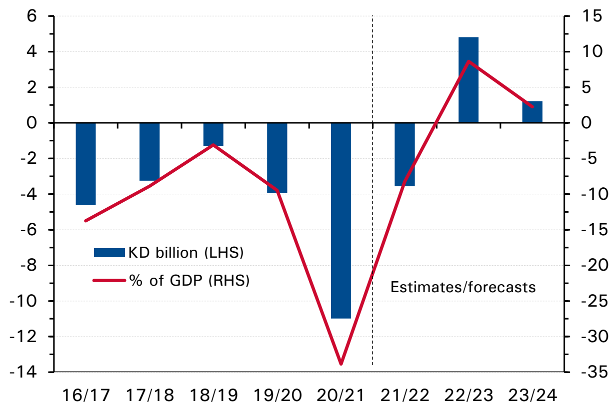
Chart 3: Inflation

(% y/y, avg.)



Source: CSB, NBK forecasts

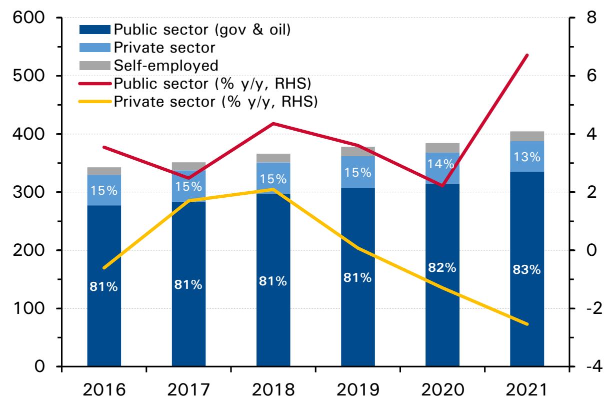
Chart 4: Fiscal balance



Source: Kuwait Ministry of Finance (MOF), NBK forecasts; fiscal year basis

Chart 5: Kuwaiti employment trends

('000', share of Kuwaiti employment labelled within chart)



Source: Public Institute for Social Security (PIFSS); end-Dec data