

Economic Update

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Consumer sector

Kuwait: Consumer spending robust in 4Q22 but growth eases from previous quarters

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Highlights

- Consumer spending growth remained strong in 4Q22 at 16% y/y, though slightly down on 17% in Q3, as the effect of pent-up demand and government support measures faded.
- The overall environment for consumer spending remains favorable, underpinned by rising employment, growing wages, moderating inflationary pressures, healthy consumer confidence and strong levels of household lending.
- The spending outlook in 2023 remains strong, supported by the government's recently announced expansionary draft budget for FY23/24, though growth is unlikely to match previous high rates amid softer global macro-economic conditions.

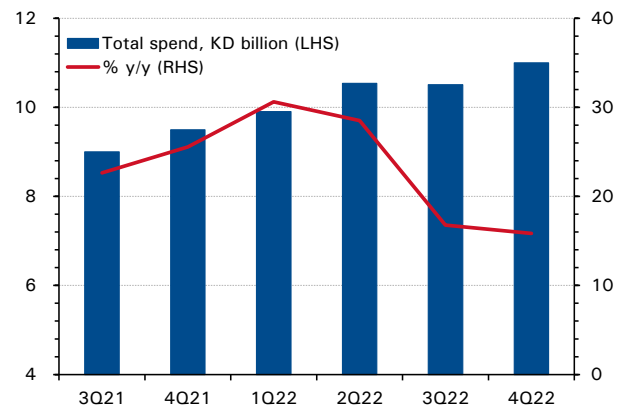
Consumer spending in Kuwait since the pandemic has been strong and, along with the oil sector, remains a major contributor to the country's economic growth. Favorable demographics, rising employment and wages, and state-provided welfare measures have supported consumer spending, which clocked in at a robust, though slowing, 16% y/y in the final quarter of 2022 (4Q22). The moderating trend reflects the normalization of activity, three years after the pandemic, with employment gains, overall wage growth, and consumer confidence returning to steady-state levels. For the year ahead, we believe spending will continue to remain relatively strong amid firm demand drivers and government expansionary policies. The recently announced draft state budget for FY23/24, for example, pencils in increases in both salaries and subsidies, which if implemented, should support household spending this year. Growth is likely to slow, though, especially in 1H23, given last year's high base and tighter monetary conditions relative to last year.

Overall spending remains resilient, but growth moderating

According to Central Bank of Kuwait (CBK) statistics, consumer spending, as measured by total credit and debit card transactions including cash withdrawals from ATMs, grew by 16% y/y in 4Q22 from 17% in 3Q22. This brought the full-year growth to 22% y/y. (Chart 1.) On a q/q basis, card spending rose by 5% after a slight drop (-0.3%) in the previous quarter. Consumer spending was especially strong in 2022, benefitting from the government's relief measures for Kuwaiti households during the first half of 2022. With the positive effect of these measures fading, though, and with a flattening post-Covid demand recovery, growth in spending is now normalizing.

In terms of channel usage, payment gateway (i.e. online) transactions have been steadily increasing and taking the place of cash (declining ATM withdrawals), with their share in overall spending increasing to 37% from 24% in 4Q20. In contrast, the share of point-of-sale (POS) transactions has remained largely flat.

▶ **Chart 1: Total card spending (POS, payment gateway & ATM withdrawals)**
(% y/y)



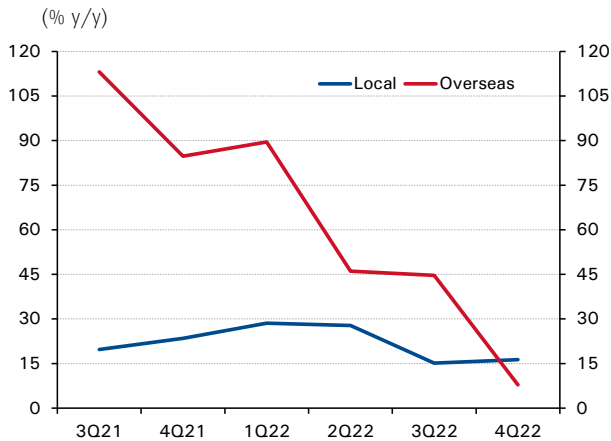
Source: Central Bank of Kuwait

In 4Q22, for the first time since pandemic-related restrictions on international travel were lifted, local spending has grown at a faster rate than overseas spending: 16% y/y vs. 8% y/y. (Chart 2.) For the full-year 2022, international spending grew 41% y/y. We believe that as the Covid reopening-related uplift to pent-up demand for overseas travel stabilizes, overall growth in overseas spending is likely to moderate further, influenced also by the higher base of last year, especially in 1H23.

Household lending healthy despite softening growth in Q4

Overall, household lending (excluding loans for the purchase of securities) has been fairly robust. Growth, though, eased to 9% y/y in 4Q22, compared to an average 13% y/y rise in the previous seven quarters. (Chart 3.) In fact, strong household lending had been among the key drivers of overall credit performance for the banking industry, with the household sector's (excluding loans for the purchase of securities) share in total credit increasing to 39.4% from 36.9% in 4Q20. Such high levels of household credit should continue to bode well for consumer spending.

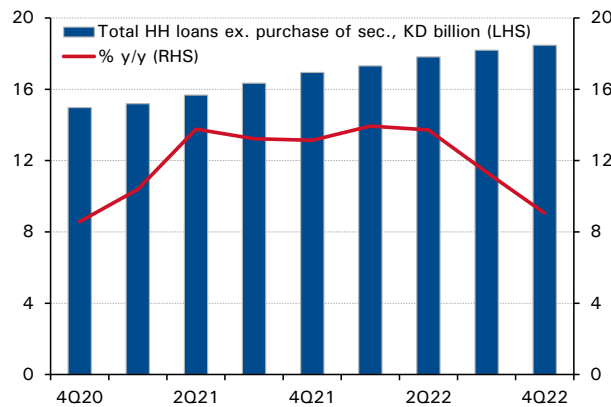
Chart 2: Growth in card spending



Source: Central Bank of Kuwait

Although global central banks have been raising interest rates rather aggressively since 1Q22, the Central Bank of Kuwait (CBK) has opted for a more gradual pace of rate hikes as it looked to balance supporting the local economy with the need to align with globally tightened monetary policy and keep inflation in check. Moreover, existing household borrowers are somewhat cushioned from rate hikes by the predominance of fixed-rate lending, limiting the immediate impact on their disposable incomes and spending habits. Nevertheless, costlier loans could become a consideration for potential borrowers.

Chart 3: Kuwait household loans*



Source: Central Bank of Kuwait; * excluding loans for purchase of securities

Employment recovering; Kuwaiti public sector wages up

After the Covid-19 shock, there are signs of a recovery in the labor market, with both population and employment rising again. Wages are also increasing. These developments provide some underlying support for the spending outlook.

According to data from Kuwait Central Statistical Bureau (CSB) and Labor Market Information System (LMIS), overall employment (excluding domestic workers) rose 3.8% y/y in 3Q22, as expatriate workers have begun returning to the country after their pandemic-forced departure. (Table 1.) Meanwhile,

employment amongst Kuwaiti nationals grew by 3.4% y/y to 439K, predominantly driven by the public sector.

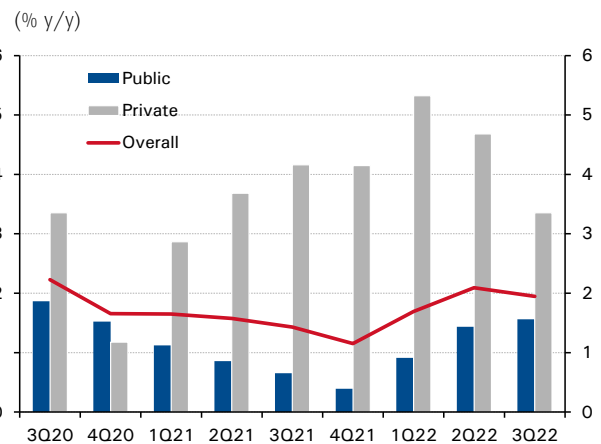
Table 1: Employment ex. domestic workers (period-end)

	Employment ('000)			% y/y		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
3Q21	424	1,480	1,904	5.8	-9.5	-6.5
4Q21	430	1,452	1,882	5.8	-8.5	-5.6
1Q22	435	1,450	1,885	5.7	-5.6	-3.2
2Q22	439	1,477	1,916	4.5	-2.2	-0.7
3Q22	439	1,538	1,977	3.4	4.0	3.8

Source: LMIS/ CSB

Wage growth among Kuwaitis picked up last year, driven by both the public and the private sectors. In 3Q22, average Kuwaiti salary levels increased by 1.9% y/y. This followed an increase of 2.1% y/y in 2Q22. (Chart 4.) Wage growth in the public sector accelerated to 1.6% y/y in 3Q22, the highest annual rise in two years. At the same time, the growth in private sector wages moderated to 3.4% y/y in 3Q22 from 4.7% in 2Q22.

Chart 4: Average wages among Kuwaiti nationals

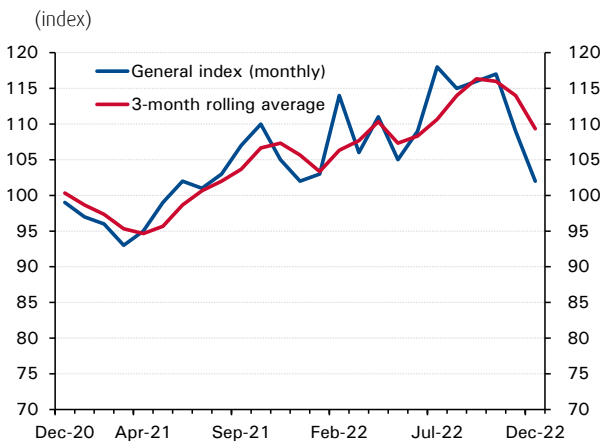


Source: LMIS/ CSB

Consumer sentiment elevated but moderating

Meanwhile, consumer sentiment, as measured by ARA Research and Consultancy's Consumer Confidence Index, continued to range at healthy levels in 4Q22 despite a drop in the average monthly reading to 109 from 116 in the previous quarter. (Chart 5.) The drop in sentiment could be due to a softer macroclimate, possibly related to the decline in oil prices in 2H22. That said, rising employment and wages as well as tempering inflationary pressures should continue to support consumer confidence and spending going forward.

▶ **Chart 5: ARA Consumer Confidence Index**

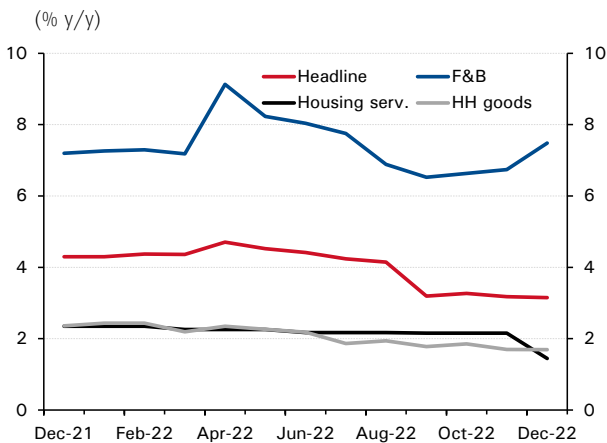


Source: ARA Research and Consultancy

Inflation is broadly flat despite rising food prices

Inflation in Kuwait, 3.2% y/y in December, has generally been on a downward trajectory since peaking at 4.7% in April 2022—and far less severe than in advanced economies, such as the US (6-7%) and Europe (8-9%). (Chart 6.) State price controls and subsidies, respectively on some foods and energy products, have helped to insulate consumers from the kind of steep price rises experienced in other countries. Looking ahead, we expect inflation to soften further in 2023 as global supply-chain pressures ease and global economic activity moderates amid tighter monetary policy. This should lessen the squeeze on households’ real (i.e., after inflation) incomes.

▶ **Chart 6: Consumer price inflation for main categories**



Source: Central Statistical Bureau (CSB)

Expansionary draft budget supportive of consumer demand

The Kuwait government recently announced a draft budget, which proposes a 12% y/y increase in public expenditures for FY23/24, driven by a 13% rise in salaries and 34% growth in subsidies. The proposed expansionary budget, if implemented, will boost households’ total disposable income through higher income and reduced expenses and as such, it should be a key growth driver of consumer spending in the later part of 2023.

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