Kuwait

The short-term macroeconomic outlook is positive thanks to higher oil production and robust private consumption, the latter seen in the strong consumer spending, real estate sales and household credit figures. High oil prices have bolstered the fiscal position—with the government expected to post its first fiscal surplus this year since 2014—as well as substantially easing previous liquidity constraints. Negative risks to the outlook are more acute in the medium-to-long term and center on limited progress on a comprehensive, reform-focused fiscal and economic diversification agenda to lessen dependence on the oil sector.

Oil production, consumer gains boost growth

Economic activity continues to recover post-pandemic, driven by output gains in both the oil and non-oil sectors and supported by firm government spending amid markedly higher oil prices. GDP growth is expected at 7.8% this year, largely due to double-digit increases in oil production (+12.1% y/y), before slowing in 2023 (+0.8%) on the back of OPEC+ output cuts. Kuwait's output quota for 2023 is 2.68 mb/d (-30 kb/d from the 2022 average), which would result in oil GDP falling by 1.1% y/y. Still, there is scope for a reversal in OPEC+ policy in 2023 if, as expected, the global oil market tightens significantly. In real terms, GDP should finally be back at pre-pandemic levels next year.

Buoyant consumer spending and relatively strong real estate activity have been major contributors to the expansion in non-oil output, estimated at an average of 3.1% in 2022-23. Demand for household (+12.8% y/y in August) and corporate credit (+6.4%) have also been supportive, the latter taking longer to recover due to still soft investment and pandemic-linked shortages in materials and labor. We expect the robust consumer activity to ease in 2023 as the post-pandemic bounce fades and interest rates rise. However, non-oil GDP could see a further boost next year as the 615 kb/d Al-Zour oil refinery – one of the world's largest refineries – begins ramping up output.

A notable weak spot is the projects market, where new awards have fallen to multi-year lows. This is a legacy of the pandemic, cost rationalization and bureaucratic impasse. Government tenders have been sparse, with adverse effects for a private sector still dependent on them for business. The authorities are preparing a new reform plan ('Program of Action') under the umbrella of Kuwait's Vision 2035 strategy to empower the private sector and spearhead economic diversification. A draft could be presented to the new parliament in the current legislative session, though swift progress will depend upon government-parliament relations being substantially improved.

Inflation slows as pandemic, Ukraine pressures lessen

Inflation appears to be moderating, as pandemic-era supply chain disruptions and pent-up demand slowly unwind. Inflation slowed to 4.1% y/y in August, having been as high as 4.7% in April on food, transportation and education price rises. Favorable base effects, tighter monetary policy, the strong dinar and easing global commodity prices and pressures should help trim inflation further, to 2.7% in 2023 from 3.9% in 2022.

Further monetary tightening ahead

The Central Bank of Kuwait (CBK) has loosely tracked the US Fed in tightening monetary policy this year, raising its discount rate by a cumulative 150 bps since March to 3.0%. The CBK has been more measured than GCC peers in responding to US rate rises, balancing the need for alignment with Fed policy, control of inflation and continued support for the non-oil economy. We expect further tightening ahead, with the now narrowed spread between Kuwaiti and US policy rates providing a higher chance of the CBK aligning more closely with Fed hikes going forward.

A first fiscal surplus in 8 years, easing liquidity constraints

The increase in oil prices since 2021 has dramatically improved the public finances. We forecast a budget surplus of KD5.3bn (9.6% of GDP) this year (FY22/23), the first surplus since 2014, and also next year (4.3% of GDP). The government is committed to fiscal restraint, even as it may reverse spending cuts penciled-in to the still-to-be approved draft budget from January, given that oil prices have exceeded the budget's oil price assumption of $65. We project modest, though positive, expenditure growth of 4.5% on average in 2022-23, with capex spending likely to be restrained, though development plan goals will necessitate this rising from current lows. Successive fiscal surpluses will help recapitalize the General Reserve Fund, which had been close to depletion. External buffers remain extremely strong, with $46bn in CBK reserves and around $700bn in assets held by the Kuwait Investment Authority. Public debt is also extremely low at 3.5% of GDP. An improvement in executive-legislative relations could see the long-delayed debt law passed in 2023, which would expand the available financing options.

Outlook positive, longer-term success hinges on reforms

Kuwait's near-term outlook is generally positive, thanks to the expectation of elevated oil prices and continued gains in private consumption, which should help see the country through the challenging external economic environment. Nevertheless, medium-to-longer term growth prospects hinge on the capacity to deliver structural reforms to lessen reliance on oil prices and shift the locus of economic growth to the private sector. These will need to encompass doing business, the labor market, education and fiscal sustainability among others. Measures to raise nationals' private sector participation rates are also essential, as are incentives to stimulate both domestic and foreign investment.

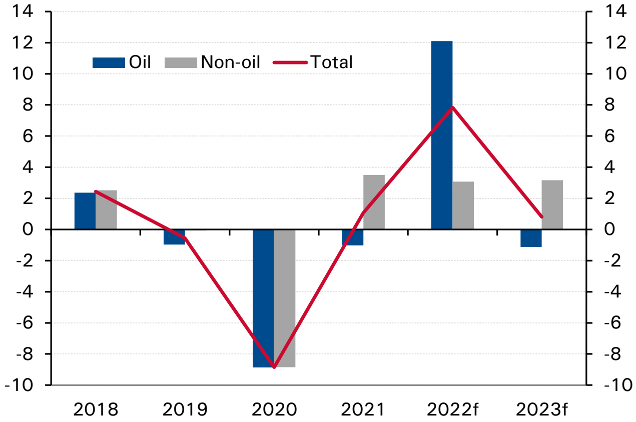
Table 1: Key economic indicators

		2019	2020	2021e	2022f	2023f
Nominal GDP	$ bn	136	106	136	175	169
Real GDP	% y/y	-0.6	-8.9	1.1	7.8	0.8
- Oil sector	% y/y	-1.0	-8.9	-1.0	12.1	-1.1
- Non-oil sector*	% y/y	-0.1	-8.8	3.5	3.1	3.2
Budget balance (FY)	% of GDP	-9.5	-33.2	-7.0	9.6	4.3
Current act. balance	% of GDP	10.1	1.4	27.0	33.3	27.5
Inflation (avg.)	% y/y	1.1	2.1	3.4	3.9	2.7

Source: Official sources, NBK forecasts; *Includes refining

Chart 1: Real GDP

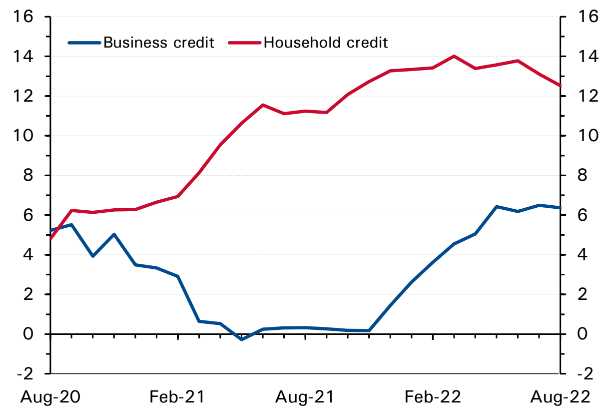
(% y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

Chart 2: Credit growth

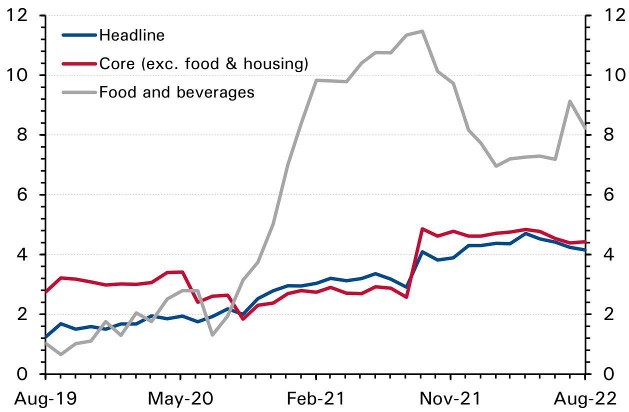
(% y/y)



Source: Central Bank of Kuwait (CBK)

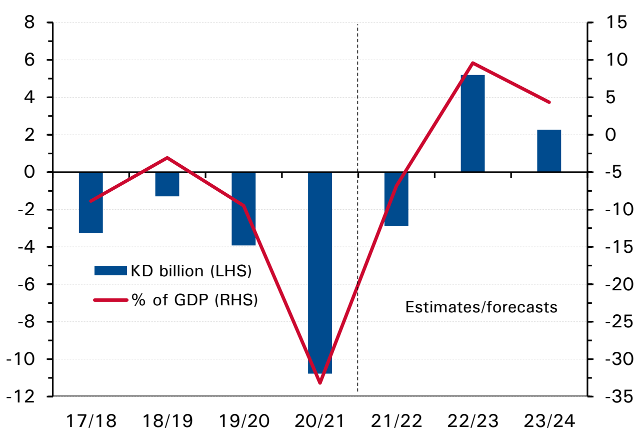
Chart 3: Inflation

(% y/y, avg.)



Source: CSB, NBK forecasts

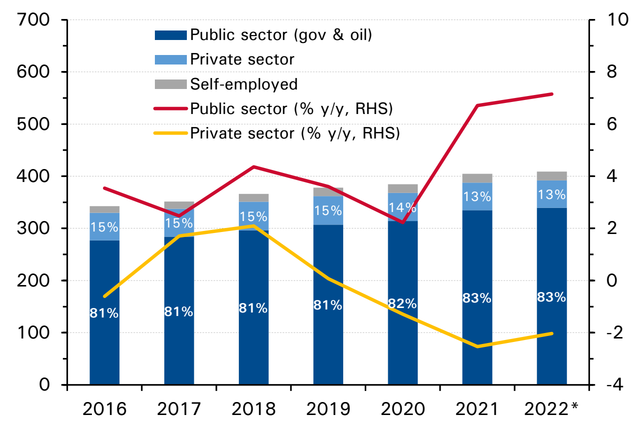
Chart 4: Fiscal balance



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

Chart 5: Kuwaiti employment trends

('000' at year-end; % share of employed Kuwaitis labelled in chart)



Source: Public Institute for Social Security (PIFSS);* as of end-March