

Kuwait: Spending solid despite lingering pandemic uncertainty and restrictions

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Highlights

- Consumer spending growth remained very solid in the first few months of 2021 helped by earlier reopening steps, continued overseas travel curbs and base effects from pandemic restrictions implemented a year ago.
- Household borrowing has also picked up, though the pandemic continues to weigh on consumer confidence.
- Good vaccination progress and a gradual further reopening should underpin consumer spending in the period ahead.

Consumer spending was strong in 1Q21, helped by a combination of generally looser virus restrictions from late last year but still strict travel curbs during the February holiday, which boosted domestic outlays. The outlook for 2Q21 looks solid, especially with the lifting in mid-May of the partial curfew that had been re-imposed in March as well as the encouraging progress of the vaccination program. Indeed, this positive view was supported by a surge in spending growth in April, albeit benefiting from a large favorable base effect but also the deferral of loan repayments for Kuwaiti borrowers. On the other side, risks to the outlook include a further weakening in the labor market and an ongoing increase in inflation (due to global factors), which could weigh on spending in the period ahead.

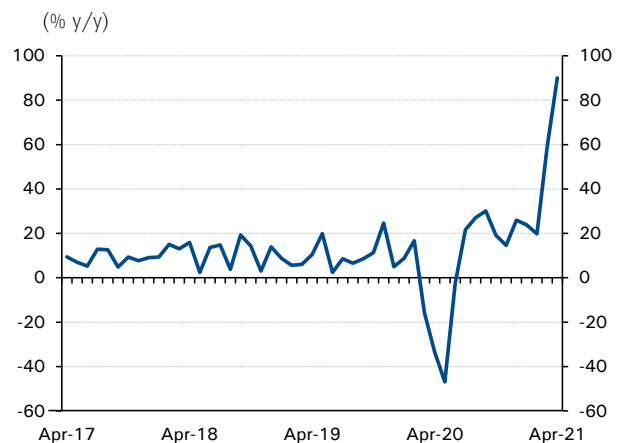
Spending growth jumps amid Covid anniversary effects

Amid hopes that the worst of the pandemic's impact may have passed, the start of the vaccine rollout and the earlier lifting of most restrictions, consumer demand started 2021 strong. In fact, spending growth accelerated to 33% y/y in 1Q21 from 20% in the previous quarter, even with the imposition of a partial curfew in early March. Moreover, despite a slight month-on-month drop, spending growth surged in April to a record 90% y/y, reaching KD2.1 billion. (Chart 1.) However, this jump was due mainly to a base effect following weak spending a year ago due to pandemic restrictions (a similar effect should be seen in May, too). The solid underlying trend in spending seems well placed to continue, especially with the recent lifting of the partial curfew and potentially further loosening measures given good progress in vaccinations and a trend decline in new Covid case numbers from mid-May.

On a more detailed level, growth in ATM cash withdrawals reversed its one-year contraction trend, increasing for the second month in a row by 24% y/y in April following a drop of 8.2% in 1Q21. Growth in point-of-sale transactions reached a record high of 162% in April, thanks mainly to a favorable base

effect. Growth in online spending remained very strong at 93%, pushing the amount of online transactions to a record KD0.81 billion, which accounts for 38% of total spending.

Chart 1: Knet IPOS, POS, ATM & Kpay transactions

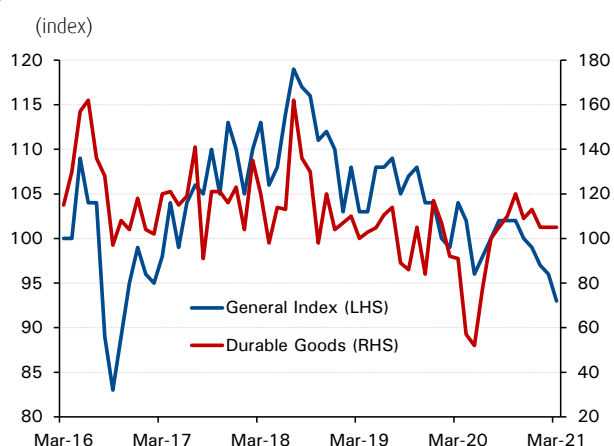


Source: Knet

Economic uncertainty weighs on consumer confidence

Although spending remains solid, uncertainty surrounding the pandemic and more difficult labor market conditions have dented consumer confidence. Ara's consumer confidence index continued its slide from 96 in February to 93 in March, the lowest level since November 2016. (Chart 2.) Most index subcomponents, including current employment (108) and durable goods (105), remained robust, though the current economic situation (82) and current personal income (74) segments trended lower.

▶ **Chart 2: ARA Consumer confidence index**

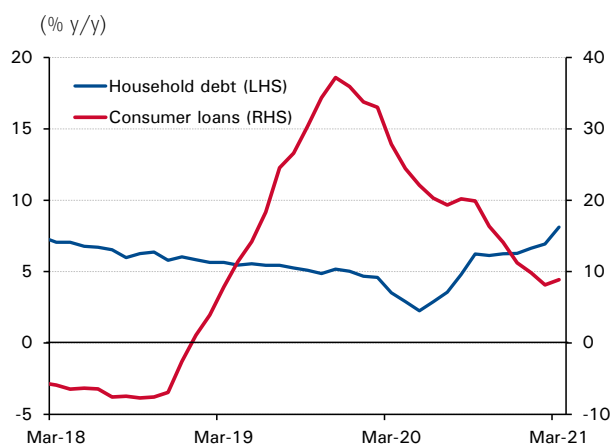


Source: Ara Research and Consultancy

Strong consumer lending is supporting spending

After decelerating in 2020 from very high levels due to the pandemic and the fading of an earlier boost from regulatory changes, personal consumer loan growth stabilized at around 9% in 1Q21. (Chart 3.) This strong growth in loans for consumption purposes has supported the rebound in consumer spending, underpinned also by pent-up demand. Meanwhile, total household debt (which includes loans for home purchases) continued to grow strongly, reaching 8.1% y/y by end-March, driven mainly by housing loans (+8.7%). Looking ahead, the six-month deferral of household credit installments for Kuwaiti borrowers should provide continued support for consumer spending, by freeing up households' disposable incomes. All else equal, it will also mean that consumer loans remain on banks' books for longer, supporting credit growth.

▶ **Chart 3: Consumer loans & household debt***



Source: Central Bank of Kuwait (CBK). * Includes loans for home purchases.

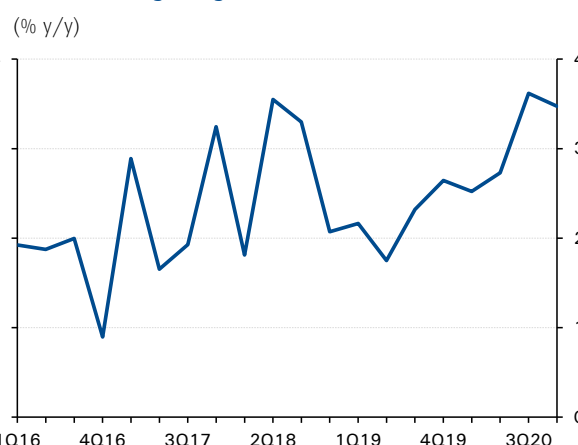
Employment falls amid expat departures

According to the Public Authority for Civil Information, more than 130,000 expatriates left the country in 2020 (mainly low-paid and low-skilled expatriate workers), as the pandemic hit economic activity, saw firms cut jobs and as lockdowns and

travel restrictions reduced international mobility. This resulted in a drop of 2.2% in Kuwait's population and 4.2% in employment. More expat workers are expected to leave in the coming quarters, on the back of proposed changes to the residency law, continued enforcement of Kuwaitization policies, and as companies are forced to shed workers amid the sluggish economic climate. Ongoing weakness in the jobs market could weigh on consumer spending in the near-to-medium term, although the low-income profile of most of the departing workers would limit the overall impact.

Meanwhile, total wage growth decelerated slightly to 3.5% y/y in 4Q20 from 3.6% in the previous quarter, according to LMIS data. (Chart 4.) However, this was still higher than the growth of 2.2% recorded in 2019, reflecting perhaps the departure of thousands of low income expatriate workers over the past year which may have boosted 'average' wage levels. The slowdown in wage growth in 4Q20 was seen among both expatriates and Kuwaiti workers, amid low oil prices and a weaker economic climate.

▶ **Chart 4: Average wages**



Source: LMIS

Spending outlook should be solid as economy reopens

With the continued successful progress of the vaccine rollout – which should also support an improvement in consumer confidence – as well as a potential gradual further reopening of the economy and businesses, consumer spending is expected to remain solid as suggested by signs so far this year. Indeed, spending growth could accelerate further in May on the anniversary of last year's very weak number when restrictions were at their most severe (these base effects should start to fade from July). However, the outlook will also remain contingent on workers' incomes and job security, worries about which could linger if another virus wave materializes or the economic rebound disappoints, especially if for example oil prices fall back. Also, the easing of travel restrictions coupled with a gradual reopening of borders will encourage Kuwaitis and non-Kuwaitis to spend their summer holiday outside Kuwait, diverting more spending overseas.

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