

# Kuwait: Spending solid amid vaccination progress and economy reopening

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## Highlights

- Consumer spending growth slowed in June-July, but remained solid amid further reopening of the economy, vaccination progress and improving confidence.
- Spending has also been supported by renewed debt repayment deferrals and a recent pick-up in consumer loans.
- The spending outlook is contingent on employment in the private sector and on containing the virus in the coming months.

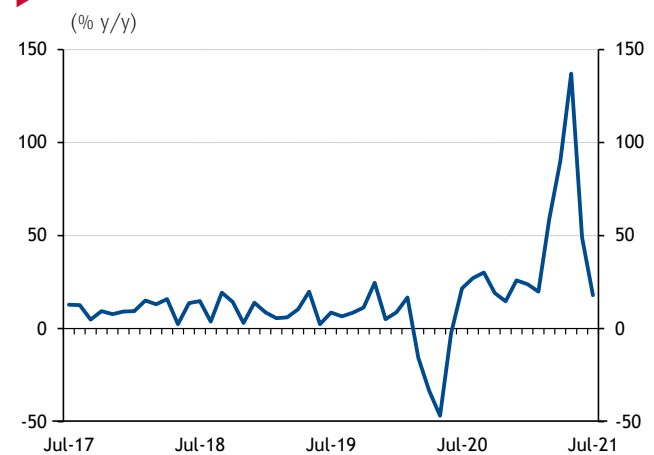
Rising consumer spending continues to be one of the main drivers of Kuwait's economic recovery, supported by renewed debt repayment deferrals (April-September) for Kuwaiti borrowers and a recent pick-up in consumer loans. Spending remained strong, although slowed recently, given the good progress on vaccinations and the recent sharp drop in the infection rate and the easing of Covid restrictions. However, a possible drop in public spending (to contain budgetary pressures), further weakening in the labor market particularly among expatriates, and possibly another virus wave could weigh on spending in the period ahead.

## Spending growth slows as the base effect fades

Despite a monthly increase of 4% m/m, spending growth decelerated to 18% y/y in July, its lowest rate since last November and well down from the 137% recorded in May. (Chart 1.) It is also worth noting that year-to-date, spending was up more than 12% in July, which is decent by historical standards. The recent slowdown reflects mostly the fading of y/y base effects that had pushed up growth earlier this year on the anniversary of the start of the pandemic. With this base effect now in the past, spending growth should be more stable going forward, with less fluctuations in mobility restrictions, in the absence of another surge of the Covid cases.

As for consumers' method of payment, growth in ATM cash withdrawals fell back into negative territory after being positive for four months in a row, decreasing by 3.9% y/y in July following average growth of 17% in 1H21. Growth in point-of-sale transactions declined 12.8% y/y in July after reaching a record high of 302% in May, as May last year saw closures and movement restrictions due to Covid. Online spending growth, however, remained strong at 42.8%, pushing the amount of online transactions to a record KDO.92 billion, or 38.3% of total spending.

▶ Chart 1: Knet IPOS, POS, ATM & Online transactions

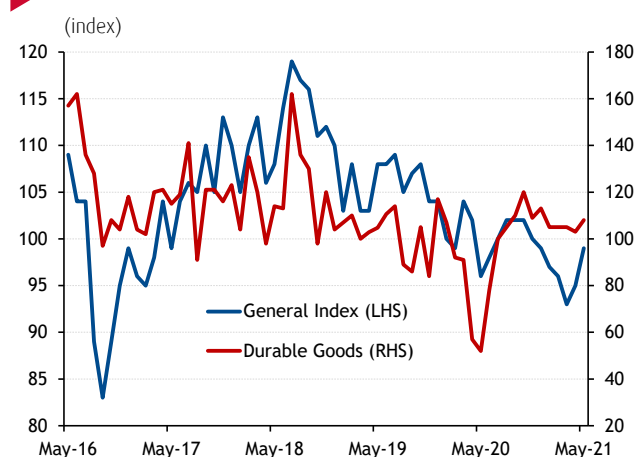


Source: Knet

## Consumer confidence improved on economic reopening

With the reopening of the economy and rising oil prices, confidence about jobs and the economic outlook improved, boosting household expenditure on durables purchases. Ara's consumer confidence index continued its upward trend from 93 in March to 99 in May, the highest level since December 2020. (Chart 2.) This reflects mainly consumers' hopes that the worst of the pandemic's impact may have passed. Most index subcomponents, including current employment (132) and durable goods (108), remained robust, though the current economic situation (87) and current personal income (85) segments remained lower.

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

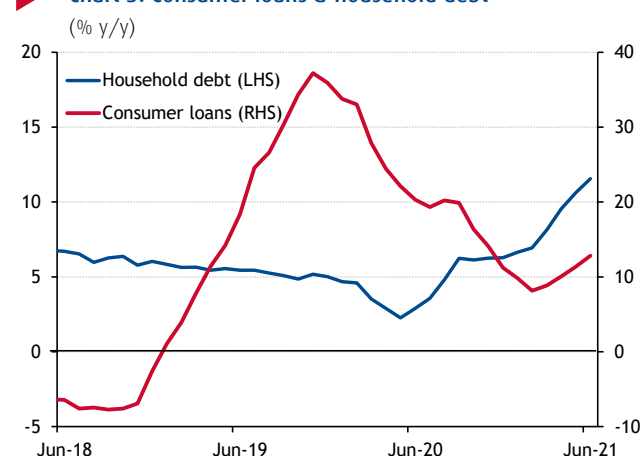


Source: Ara Research and Consultancy

### Strong consumer lending is supporting spending

Consumer spending was also supported by a pick-up in borrowing coming in the wake of a sharp drop in 2020 due to the pandemic. In fact, overall household credit growth accelerated in 2Q21, with the y/y increase at 11.6% through June, the highest annual expansion since early 2016. This robust increase was driven in part by personal consumption loans (+12.8%), which picked up in 2Q21 following two weak quarters. Moreover, spending is in part supported by accumulated savings, thanks to the renewed six-month repayment deferral for Kuwaiti borrowers, which is expected to temporarily free up about KD1 billion for possible spending, equivalent to around 5% of estimated household spending in 2020.

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



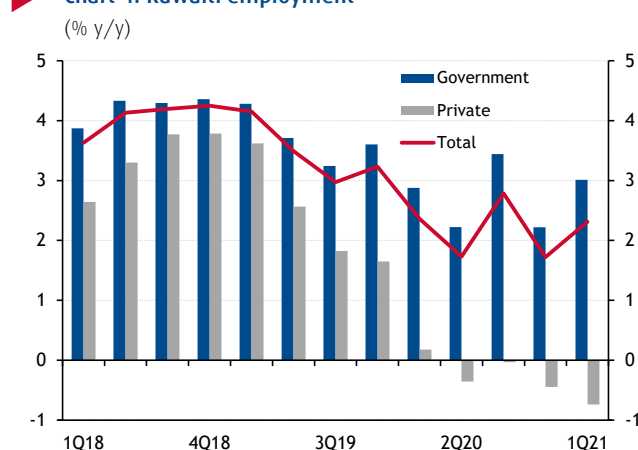
Source: Central Bank of Kuwait (CBK). \* Includes loans for home purchases.

### Public sector hiring trends supportive of spending

Rising spending levels continue to come against the backdrop of solid employment growth among the Kuwait national segment. According to the recently released data by the Public Institution for Social Security (PIFSS), employment growth among Kuwaitis increased by 2.3% y/y in 1Q21 from 1.7% in 4Q20. This reflects an improvement in hiring activity growth in the public sector

from an over three-year low of 2.2% y/y in 4Q20 to 3% in 1Q21, while the private sector recorded a drop of 0.7% y/y. (Chart 4.) Thus, softness in the private labor market is likely to weigh on the consumer-spending outlook in the near-to-medium term. The public sector has fared quite well in comparison to the private sector, but this could mostly be attributed to the effects of Kuwaitization efforts.

▶ **Chart 4: Kuwaiti employment**



Source: PIFSS

### Spending outlook depends on jobs and vaccination progress

With the continued successful rollout of the vaccination program and the further reopening of the economy and businesses, consumer spending is expected to remain solid. However, the outlook will remain contingent on the recovery of the labor market especially in the private sector, as well as worries about another virus wave in the coming months. Also, the easing of travel restrictions is encouraging Kuwaitis and non-Kuwaitis to spend their summer holiday outside Kuwait, diverting more spending overseas.

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