

Economic Update

NBK Economic Research Department | 29 November 2021

Public Finance



Kuwait: Fiscal deficit narrows as higher oil prices boost revenues

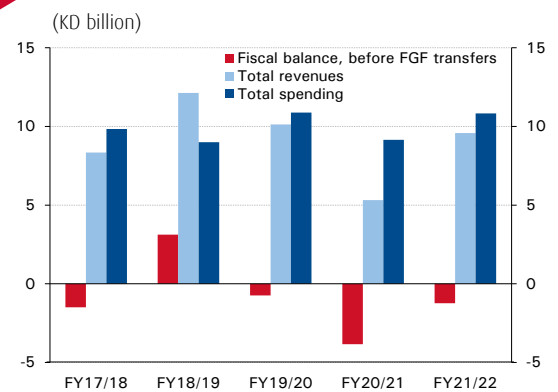
> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

Summary

Kuwait's budget deficit for the seven months of FY21/22 was lower than expected at KD1.2 billion. The reduction in the deficit came on the back of higher oil revenues thanks to the surge in oil prices. With oil prices at higher than previously anticipated levels and government spending relatively restrained, the full-year deficit could shrink to below our earlier forecast of 10.5% of GDP. Reforms to diversify the economy and improve the sustainability of the public finances should remain a priority, however.

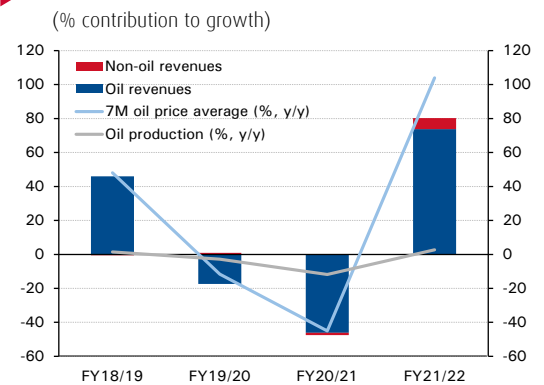
- The government registered a cumulative fiscal deficit of KD1.2 billion by the end of the first seven months of FY21/22 (April to October), an improvement on the KD3.8 billion recorded by the end of the corresponding period in FY20/21, according to preliminary Ministry of Finance data. (Chart 1.)
- Total revenues increased by a huge 80% y/y on higher oil revenues, already achieving 88% of full-year budget estimates. This was primarily due to higher oil prices, with the price of Kuwait Export Crude (KEC) rising 104% y/y to an average of \$72.3/bbl during this period. (Chart 2.) Crude oil output increased only marginally (+2.8% y/y, to an average of 2.41 mb/d).
- Non-oil revenues increased by 47% y/y to KD1.1 billion (60% of full-year budget estimates). This is largely related to the increase in "other revenues" (+74% y/y)—revenues from electricity and water as well as from other governmental services. UNCC compensation payments (a legacy from the 1990 Iraqi invasion) worth \$1.47 billion (KD0.4 billion) were received in April, July, and October, with \$629 million in reparations still outstanding. Furthermore, taxes and fees (29% of non-oil revenues) rose by 3.7% y/y to KD0.3 billion, helped mainly by the recovery of imports from the pandemic.
- On the other side, total seven-month expenditures reached KD10.8 billion, a sizeable increase of 18.2% over the corresponding 2020 figure that is partly a reflection of delays in recording financial transactions last year due to the pandemic. Current spending (92% of total spending) increased by 16.6% y/y to almost KD10 billion, with the compensation of employees component increasing the most to KD4.6 billion. (Chart 3.) In addition, spending on goods and services (which include the purchases of fuel for electricity generation) increased 22% y/y to KD1.8 billion, while grants (transfers to independent entities) declined to KD2.2 billion (-27% y/y). On the whole, government efforts to pare back spending this fiscal year—which, among other moves, includes targeting a 10% reduction in ministerial spending—appear to be bearing fruit, although the provisional nature of the interim data mean this is difficult to say for sure.
- Capital spending, which was weak during the first two months of FY21/22, appears to have gained some momentum since June, increasing by 41% y/y to average KD0.2 billion per month over June-October (Chart 4.). However, capex is still well below full-year budget allocations at 33%. Capex spending is expected to pick up in the coming months with the government having increased its budgetary allocations by 13.4% for this year to KD2.6 billion. According to the budget documentation, these funds will be directed towards enhancing key infrastructure (airport development: KD0.4 billion and healthcare: KD 0.14 billion). Still, based upon historical experience, capex may

▶ **Chart 1: Fiscal balance after 7 months (end-Oct)**



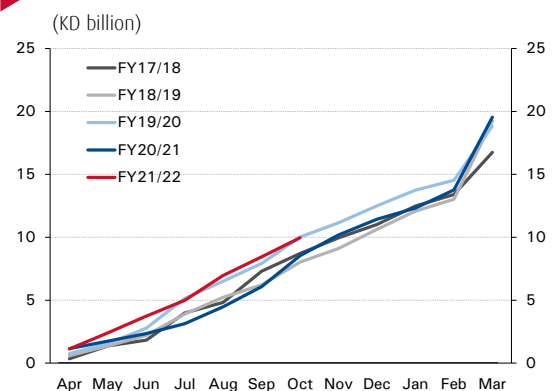
Source: Ministry of Finance (MOF)

▶ **Chart 2: Oil & non-oil revenues (7-months)**



Source: MOF, OPEC

▶ **Chart 3: Current spending**

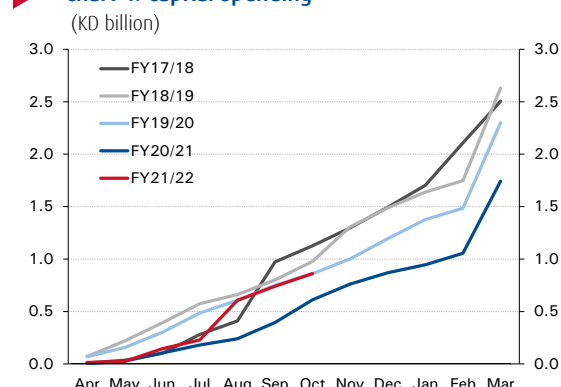


Source: MOF

only reach around 80% (KD2.0 billion) of its budgeted allocation, so this will help total expenditures come in below budget for this fiscal year.

- Overall, Kuwait's public finances have clearly benefitted from the increase in oil prices in recent months, with the fiscal deficit shrinking by more than anticipated in the first 7M of FY21/22. The full year outcome is likely to be some way below our earlier estimate of 10.5% of GDP, also taking into consideration the efforts the government is making to cut budgeted ministry spending. The success of the national dialogue and the formation of a new government shortly should, hopefully, result in some concrete initiatives. Tighter liquidity that has resulted from the near-depletion of the General Reserve Fund has highlighted the imperative of passing the debt law or allowing the government to withdraw from the Future Generations Fund to meet its short-to-medium-term financing needs. More broadly, economic diversification and private sector reforms to boost non-oil revenues and reduce the government's exposure to oil price volatility will need to be prioritized.

► **Chart 4: Capital Spending**



► **Table 1: Kuwait's fiscal balance (KD billion, unless otherwise indicated)**

	First 7M			% y/y	
	FY2019/20	FY2020/21	FY2021/22	FY2019/20	FY2020/21
Revenues	10.1	5.3	9.6	-47.5	80.3
Non-oil	0.9	0.7	1.1	-16.1	46.7
Oil	9.3	4.6	8.5	-50.5	85.7
Total Expenditures	10.9	9.2	10.8	-15.8	18.2
Current Expenditures	10.0	8.5	10.0	-14.7	16.6
Compensation of Employees	3.6	2.9	4.6	-21.0	60.3
Goods & Services	1.8	1.5	1.8	-19.4	21.9
Subsidies	0.4	0.4	0.4	-14.2	15.6
Grants	2.9	3.1	2.2	4.3	-26.5
Social Subsidies	0.7	0.3	0.4	-50.3	28.2
Miscellaneous & Transfers	0.6	0.5	0.5	-17.4	7.6
Capital Expenditures	0.9	0.6	0.9	-29.0	41.0
Budget Balance	-0.7	-3.8	-1.2	-----	-67.7
Budget Balance, % of GDP*	-3.1	-20.3	-5.2	-----	-----

Source: MOF, * Pro-rated GDP is estimated based on the monthly average for 7-month GDP.

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France

National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0352