

Economic Update

NBK Economic Research Department | 24 February 2022



Public Finance

Kuwait: 10-month deficit shrinks on higher oil revenues; draft budget for FY22/23 sees spending cuts

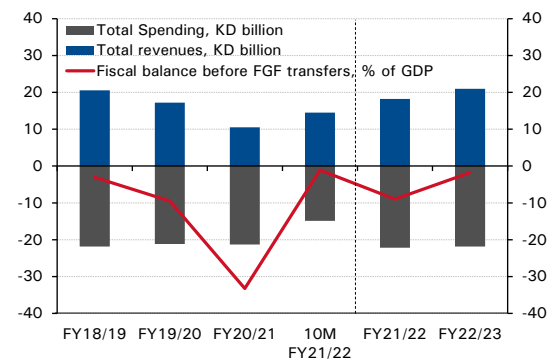
> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

Summary

Kuwait's public finances for the first ten months of FY21/22 registered a relatively small deficit of KD406 million. This came on the back of higher oil revenues while current expenditures trended upwards. The increase in oil prices has helped ease liquidity and financing pressures, but the depletion of the GRF, the slow pace of reforms, and the lack of a comprehensive financing strategy need to be resolved for medium-term progress.

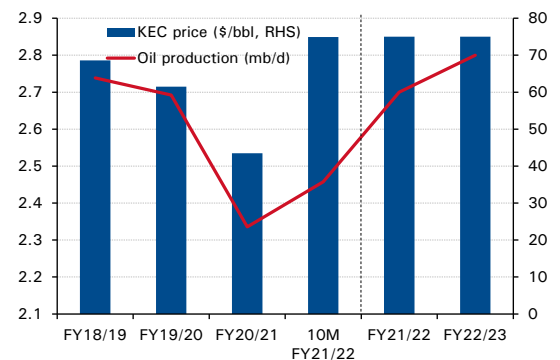
- The government recorded a fiscal deficit of KD406 million, or 1.1% of GDP, during the first ten months of FY21/22 (April-January), according to the latest Ministry of Finance data. The deficit narrowed considerably from the KD5.4 billion recorded over the same period in FY20/21 and came on the back of significantly higher oil revenues. Expenditures also increased year-on-year due to low base effects and current spending rigidities. (Chart 1.)
- Revenues jumped 85% y/y to KD14.5 billion, exceeding the FY21/22 budget estimate for the full year. This was almost exclusively due to oil revenues, which increased by 91% to KD 12.8 billion on the back of surging oil prices, with Kuwait Export Crude (KEC) rising by 89% to average \$75/bbl. In addition, crude oil production rose by 5.2% (averaging 2.46 mb/d) during the same period as Kuwait increased its quota in line with OPEC+ policy. (Chart 2.)
- Non-oil revenues rose by 44% to KD1.6 billion due to the increase in "other revenues" by 76% y/y to KD1.2 billion. This could be related to the rise in war reparation payouts from the UN Compensation Commission at more than KD600 million, which have now been completed. (The final payment was made on 13 January for \$629 million, bringing the total compensation figure for the Iraqi invasion to \$52.4 billion). On the other hand, taxes and fees declined by 3.1% to KD372 million during this period, which probably reflects sub-optimal corporate activity linked to the pandemic.
- Meanwhile, expenditures increased by 12.3% y/y to KD14.9 billion. Current spending, which represents 92% of total expenditures, increased by 11.5% with compensation of employees, subsidies, and social benefits registering double-digit growth rates. However, the unusually strong rise in the compensation segment was likely driven by a change in timing or reporting practices, overstating the underlying trend. On the other hand, grants (22% of current spending), which represent transfers to independent entities, declined by 27% y/y during the same period.
- Capital spending, while up on last year's pandemic-affected, multi-year low of KD946 million (10M), came in significantly below budget at KD1.2 billion (45% of the full-year budget allocation). Probably this category has endured most of the authorities' cost rationalizations. Capital spending is expected to remain soft for the remainder of FY21/22, possibly climbing to only about 70-75% of the budget allocation. (Chart 3.)
- The increase in oil prices has helped narrow the fiscal deficit to less than half a billion dinars in the first 10M of FY21/22 and eased liquidity pressures facing the government. Still, we expect a backlog of accrued expenditures to be realized in the final month of the fiscal year as per the historical trend. This

▶ Chart 1: Fiscal balance



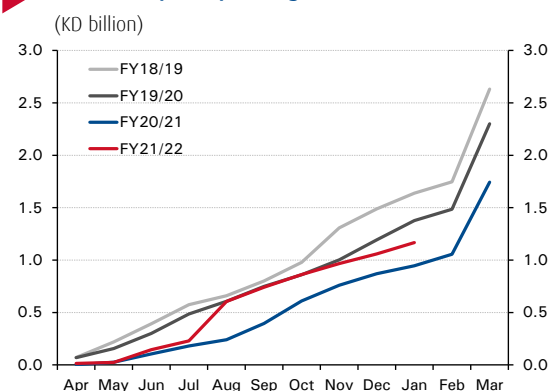
Source: Ministry of Finance (MOF)

▶ Chart 2: Oil price and crude oil production



Source: OPEC

▶ Chart 3: Capital spending

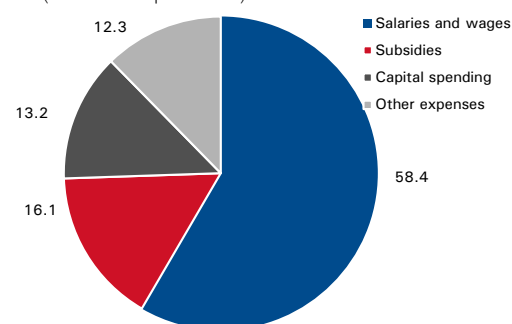


Source: MOF

could see the deficit widen to KD3.9 billion (8.9% of GDP) for the full year – but potentially lower.

- The Ministry of Finance recently released its draft budget for FY22/23 in which it estimates the deficit shrinking to KD3.1 billion, or around 6.4% of GDP. These estimates are based on an average oil price of \$65/bbl and average crude production of 2.7 mb/d. In addition, the budget pencils in a cut in expenditure allocations of 4.8% based on reductions in current and capital spending of 2.8% and 16.4%, respectively. Around 58% of total spending is allocated towards wages and salaries, while almost half of subsidies allocations are directed toward energy subsidies. (Chart 4.). In contrast, we think the deficit for FY22/23 could be much smaller at KD0.9 billion (1.6% of GDP) based upon our oil price projection of \$75/bbl, higher than the budget estimate.
- The government fiscal position is improving, but remains sensitive to oil price movements. The increase in oil prices has reduced the deficit and eased liquidity constraints. However, net assets in the General Reserve Fund – the state’s treasury account – are still at historically low levels (KD5.6 billion in March 2021) and will need to be rebuilt to provide a comfortable buffer to absorb future shocks. Kuwait needs an oil price of \$75/bbl to balance its budget in 2022/23 based on the projections in the draft budget. A new debt law would provide some breathing room for the authorities, but is not a solution in itself. Structural fiscal and economic reforms are necessary, and critical if Kuwait is to maintain its current sovereign credit rating, which has already been lowered during the course of the pandemic.

▶ **Chart 4: FY22/23 budget draft main components**
(% of total expenditures)



Source: MOF

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

	First 10M			% y/y		% of GDP	
	FY2019/20	FY2020/21	FY2021/22	FY2019/20	FY2020/21	FY2019/20	FY2020/21
Revenues	14.3	7.9	14.5	-45.1	84.5	22.8	39.4
Oil Revenues	13.1	6.7	12.8	-48.6	91.3	19.5	35.0
Non-oil Revenues	1.2	1.1	1.6	-7.1	44.4	3.3	4.5
Total Expenditures	15.1	13.3	14.9	-12.3	12.3	38.5	40.5
Current Expenditures	13.7	12.3	13.7	-10.4	11.5	35.8	37.4
Compensation of Employees	5.1	4.5	6.6	-11.9	47.4	13.1	18.0
Goods & Services	2.6	2.1	2.2	-19.1	6.1	6.1	6.0
Subsidies	0.5	0.4	0.5	-18.3	18.3	1.2	1.4
Grants	3.9	4.2	3.0	6.1	-27.2	12.1	8.3
Social Subsidies	0.8	0.5	0.6	-30.4	19.1	1.5	1.7
Miscellaneous & Transfers	0.9	0.6	0.7	-28.5	17.7	1.8	2.0
Capital Expenditures	1.4	0.9	1.2	-31.3	23.4	2.7	3.2
Budget Balance (Surplus/ Deficit)	-0.8	-5.4	-0.4	-----	-92.5	-15.7	-1.1

Source: MOF

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
34th 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