Economic Update

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Public Finance

Kuwait: Budget deficit at KD2.3bn in 10M FY19/20 as oil prices fall

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Highlights

- **The fiscal deficit in 10M FY2019/20 stood at KD 2.3 billion after transfers to the sovereign wealth fund.**
- **Oil revenues declined 18% y/y due to low oil prices, while spending rose strongly.**
- **Capital spending stood at 42% of the full-year spending outlined in the general budget.**

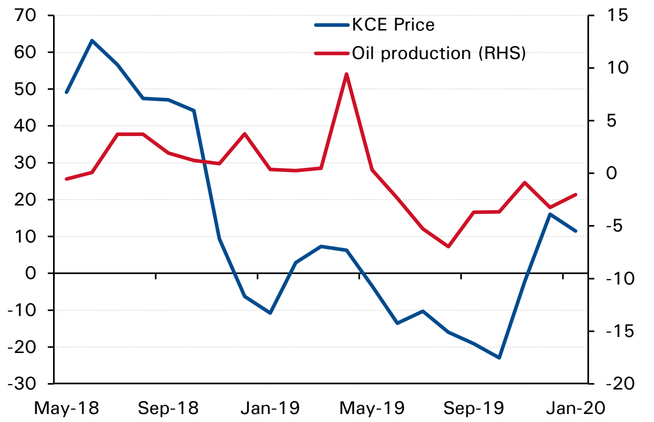
The budget registered a deficit of KD 0.8 billion in the first 10 months of FY2019/20 (to January), according to the latest data from the Ministry of Finance. This equates to around 2% of 2019 GDP. After the mandatory transfers to the Future Generations Fund (FGF), the deficit widens to KD 2.3 billion, or 5.5% of GDP. The decline in oil prices over worries of excess supply and weak global demand as well as continued rises in current spending were the main factors contributing to the widening deficit.

Oil revenues dip on lower oil prices

The price of Kuwait Export Crude (KEC) declined by 6.5% y/y during 10M FY2019/20, while oil production edged down 1.9% to 2.7 mb/d due to quota limits under the OPEC+ agreement – imposed by the group in attempt to shore up oil prices (Chart 1). Oil revenues declined by a considerable 18%. Meanwhile, non-oil revenues increased by 7.1%. However, due to the small size of non-oil revenues (less than 10% of total revenues), overall government revenues declined by 16.0% during the first ten months of FY2019/20.

Chart 1: Oil Production and Prices

(% y/y)



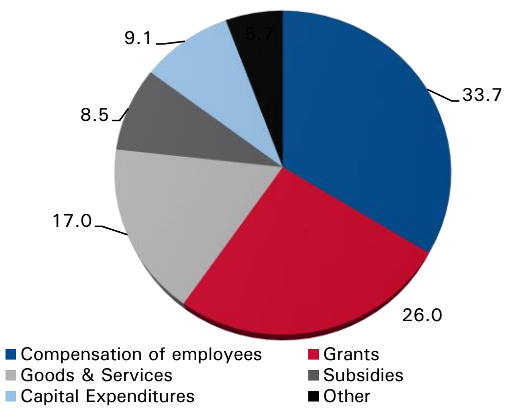
Source: OPEC

Spending rises strongly

On the other hand, total spending continued to rise, reaching KD 15.1 billion in the year to January, up 10% y/y. This was driven by current spending, which increased 14%. The elevated levels of current spending came on the back of the rise in compensation of employees, the use of goods & services, subsidies, and grants. These items constituted around 85% of total spending (Chart 2). Current spending stood at 72% of the full year budget – above the 66% recorded this time last year, which had looked unusually low.

Chart 2: Relative importance of spending categories

(% of total for 10M FY 2019/20)



Source: Ministry of Finance

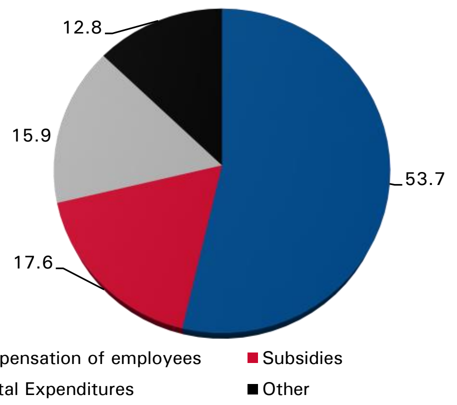
In contrast, capital spending fell 16% to KD 1.4 billion, and stood at only 42% of the full-year spending outlined in the budget. This share typically rises sharply towards the end of the year so it is too early to draw firm conclusions – although even accounting for this, the latest spending rate looks low. For comparison, capex had reached 50% of the full-year budget at the same stage last year and 59% a year earlier. Delays in implementation and legal constraints have held back capital spending, and this could continue to weigh on project awards in the medium term and amid the scheduled launch of the government's next five-year development plan.

New budget draft for FY 2020/2021

The government's draft budget for FY 2020/21 – which still has to be approved by parliament – estimates a budget deficit of KD 7.7 billion, or 19% of (NBK's forecast for) GDP, before transfers. Revenue projections are based on an oil price of $55/bbl and oil production of 2.7 mb/d. Under these assumptions, oil revenues will decrease to KD 12.9 billion, 6.9% below revenues in the FY 2019/20 budget. Non-oil revenues are projected to decline 3.8% to KD 1.9 billion, and bringing total revenues to KD 14.8 billion, or a 6.5% decline (Chart 3).

Chart 3: Spending categories in the budget draft

(% of total)



Source: Ministry of Finance

On the other side, total spending is projected unchanged at KD 22.5 billion, implying a tighter budgetary stance to limit the size of the projected deficit. Wages and subsidies are worth 71% of total spending, while the share of capex is 15.8%, down from 16.6% in the FY 2018/19 budget. The rigidity in current spending coupled with lower revenues have set the breakeven oil price at $81 per barrel, according to the Ministry of Finance, which may be difficult to achieve given the current oil market climate. However, the budget may be revised as it undergoes scrutiny in Parliament. Nevertheless, we expect that the deficit will be lower than in the official projection, based upon a higher oil price assumption of $60 on average in 2020.

The government has also pledged to go back to the National Assembly and ask for the passage of the public debt law, without which the government will have to rely solely on drawing down GRF assets to finance the deficit. Assets in the GRF have already declined from KD 32.5 billion in FY 2015/16, according to the Audit Bureau, to around 20.6 billion in September 2019. These developments highlight the need to expedite fiscal reforms to boost and diversify government revenues, and rationalize public spending.

Table 1: Public finances, KD million unless otherwise stated

	10M FY2017/18	10M FY2018/19	10M FY2019/20	% y/y
Revenues	12,722.4	17,013.0	14,293.3	-16.0
Non-oil	1,182.5	1,145.9	1,227.6	7.1
Oil	11,539.9	15,867.1	13,065.7	-17.7
Total Expenditures	14,185.8	13,718.7	15,126.6	10.3
Current Expenditures	12,482.8	12,079.9	13,749.4	13.8
Compensation of Employees	5,030.3	4,050.8	5,101.9	26.0
Goods & Services	2,054.0	2,208.6	2,577.7	16.7
Subsidies	219.3	433.6	526.1	21.3
Grants	3,507.2	3,796.3	3,930.7	3.5
Social Subsidies	882.2	558.3	753.3	34.9
Miscellaneous & Transfers	789.8	1,032.3	859.6	-16.7
Capital Expenditures	1,703.0	1,638.8	1,377.2	-16.0
Budget Balance	(1,463.5)	3,294.3	(833.3)	...
RFFG transfers	1,272.2	1,701.3	1,429.3	...
Budget Balance after RFFG transfers	(2,735.7)	1,593.0	(2,262.7)	...

Source: Ministry of Finance

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