November 2021

Kuwait Quarterly Economic Brief

Consumption driving the economic rebound as higher oil prices ease public finance and liquidity pressures

National Bank of Kuwait
Economic Research Department

Consumption driving the economic rebound as higher oil prices ease public finance and liquidity pressures

Highlights

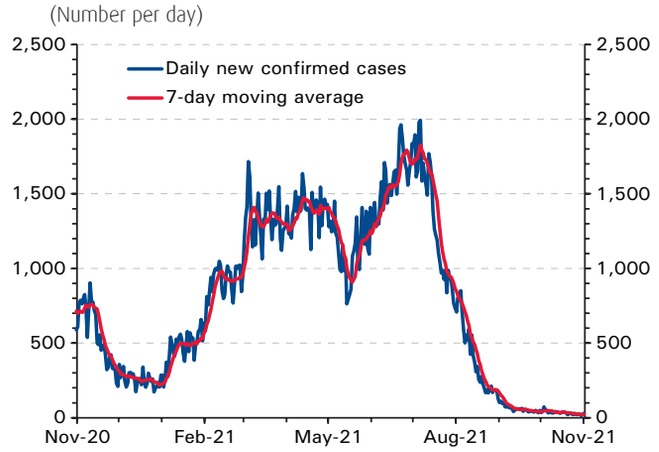
- **Economic growth is gaining momentum, supported by private consumption and oil sector gains amid higher oil prices.**
- **Parliament has reconvened and economic reform prospects appear more positive after the National Dialogue.**
- **Consumer, real estate and stock market activity have all been buoyant, as daily Covid-19 cases fall to March-2020 levels.**
- **Higher oil prices have helped ease some of the pressure on the public finances, but the imperative of reform remains strong.**
- **The population fell 0.9% to 4.63mn in the first half of 2021, with expatriate numbers continuing to decline.**

Kuwait's post-pandemic recovery is proceeding apace, facilitated by a relatively high vaccination rate that has helped push daily new coronavirus cases down to the low double digits. (Chart 1.) Keen for the economy to return to a pre-pandemic normal as quickly as possible, the government moved in recent weeks to lift all mobility restrictions for vaccinated people and permitted the airport to open to full capacity. The list of countries eligible for commercial and tourist visit visas was also widened.

Consumer activity has driven the non-oil economic recovery, accelerating to record highs on pent-up demand and support from the government's loan repayment holiday for nationals. Real estate activity has also rebounded, with residential property sales seeing good growth partly as investor preferences shift towards that sector. Household credit growth also remained in double digits in the third quarter, while the local equity market built on momentum from the second quarter to notch up further gains and put in one of the best performances among emerging markets so far this year.

Chart 1: Confirmed Covid-19 cases in Kuwait

(Number per day)



Source: Ministry of Health

Of course, the annual growth rebound across various metrics appears more impressive given the low base of a very weak 2020, and weak spots do remain, notably in the business sector, which has been hamstrung by pandemic-linked job losses and weak projects activity, and reflected in lackluster corporate credit. Moreover, public finances remain under pressure, even if liquidity has improved with the increase in oil prices. There is little to suggest that recent spikes in energy and commodity prices more generally are due to structural rather than cyclical factors, so the imperative for fiscal consolidation and reform remains. But the prospects for an improvement in the country's political economy look markedly better now than they did even three months ago following a relatively successful National Dialogue. Discussions appear to have been conducted and resolved in a spirit of executive-legislative compromise.

Oil prices surge, but OPEC+ sticks to production plan

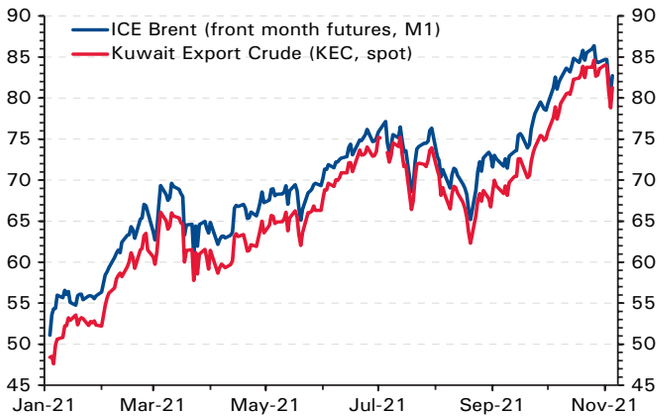
Oil prices have spiked to levels not seen since 2014, driven by robust post-pandemic oil demand and lagging oil supply, which have combined to leave the market increasingly tight. International benchmark Brent crude topped $86/bbl in late October, closing the month at $84.4/bbl having ended the third quarter up 4.5% q/q at $78.5/bbl. (Chart 2.) Local crude marker, Kuwait Export Crude (KEC), settled up 5.2% m/m in October at $83/bbl, having gained 6.4% in 3Q21.

While global oil demand surged in 3Q21 (+2.6 mb/d q/q to 97.8 mb/d), global oil supply did not keep pace (+2.1 mb/d q/q to 96.3 mb/d), leading to a market deficit and stock drawdown of almost 1.5 mb/d. OPEC+ production was constrained both by supply outages in some members and its cautious overall view that market uncertainty remains high and oil demand fickle. The Saudis especially did not want to bring more crude to the market only to have to cut back should demand turn out weaker than expected. The US, India and Japan have,

nevertheless, kept up the pressure on OPEC+ to increase supply by more than the 400 kb/d per month the group committed to.

Chart 2: Oil prices

($/bbl)

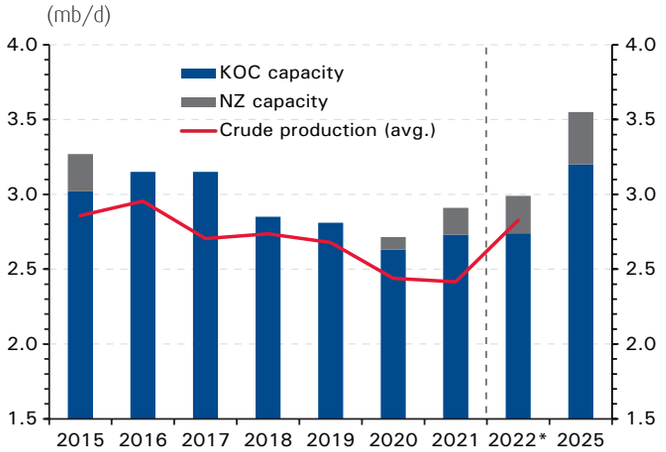


Source: Refinitiv, KPC

Kuwait's crude production averaged 2.47 mb/d in September, according to official sources. As per the OPEC+ schedule, Kuwait's output is projected to increase by 27 kb/d every month to May 2022, after which the country's reference baseline will increase by 150 kb/d to 2.96 mb/d. Meanwhile, according to Kuwait Oil Company's (KOC) latest annual report, its production capacity fell to 2.63 mb/d at the end of FY20/21. Kuwait's total production capacity (including the Neutral Zone) is not expected to top 3.0 mb/d until 2023 on current plans. Kuwait Petroleum Corporation is targeting 3.5 mb/d by 2025, of which 3.2 mb/d will originate from KOC and the remainder from the shared Neutral Zone. (Chart 3.)

Chart 3: Kuwait production capacity

(mb/d)



Source: Ministry of Justice (MOJ)

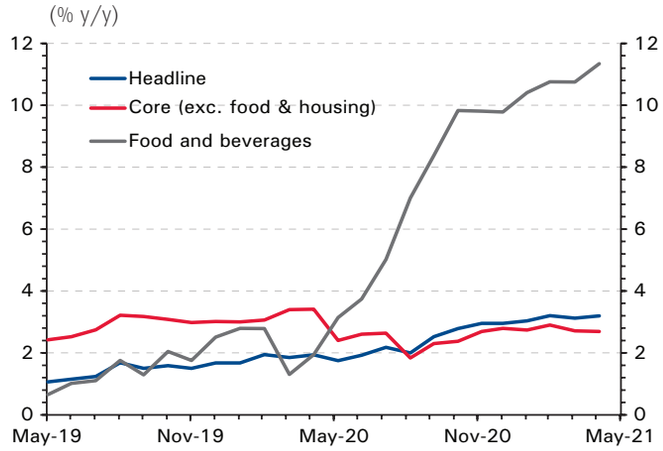
Inflation up in May, driven by demand and supply factors

The (much delayed) release of consumer price index figures for May figures show that inflation ticked up to 3.2% y/y (+0.3% m/m) from 3.1% in April, driven by a combination of pent-up demand and supply chain constraints. (Chart 4.)

While increases were recorded in many of the index sub-components, they were most acute in the food (+11.3% y/y), recreation (+7.8%) and clothing (+5.9%) categories. Indeed, the double-digit price increase in the food and beverages category was the highest in the available data record (the prices of fruits and meat were up more than 20% y/y), and a reflection of markedly higher international food prices. On the other hand, housing services inflation was steady (+0.1% y/y). Core inflation, which excludes both food and housing, held at 2.7% y/y.

Chart 4: Consumer price inflation

(% y/y)

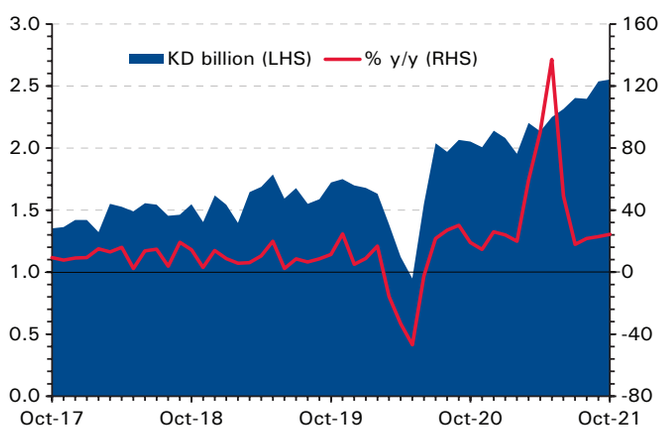


Source: CSB

Consumer activity continues to drive the recovery

Consumer activity has been buoyant ever since the public emerged from lockdown in June 2021, driving the broader economic recovery with double-digit gains. It has also been supported by the six-month loan repayment holiday for Kuwaitis, which ends this quarter. Total (Knet) consumer spending growth accelerated again in October, to 24.4% y/y (+21% y/y in 3Q21) to another record monthly high, of KD2.55 billion. (Chart 5.) The uptick in activity in 3Q21 came even while more spending will have been diverted abroad, following the loosening of travel restrictions in the summer.

Chart 5: Consumer spending



Source: Ministry of Justice (MOJ)

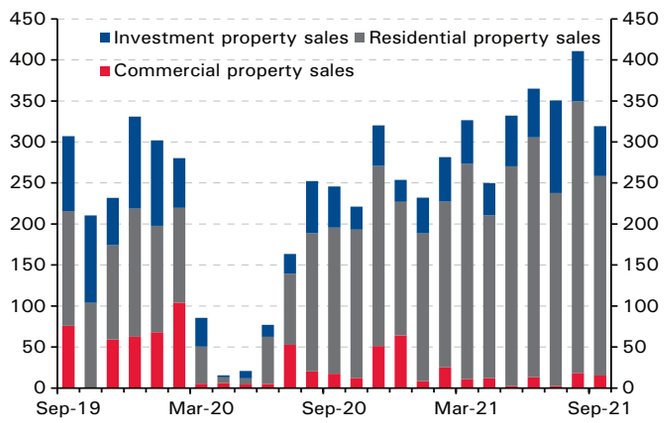
In terms of payment channels, the trend of consumers preferring to pay online and through point-of sale facilities rather than via cash continued. Online and POS spending grew by 48% y/y and 16.2% y/y, respectively, in 3Q21, while ATM withdrawals fell by 4.7% y/y over the same period.

Real estate sales strong

Real estate activity has been robust in recent months. Sales in 3Q21 totaled KD1.1 billion (+16% q/q; +63% y/y), driven in large part by strong activity in the residential sector and a general increase in home and land prices. (Chart 6.)

Chart 6: Real estate sales

(KD billion)



Source: Ministry of Justice

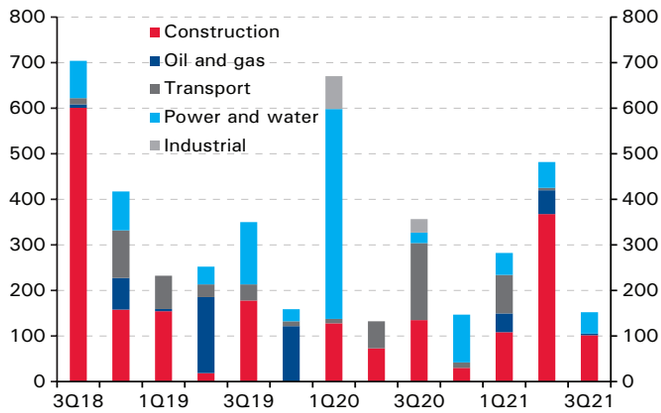
Commercial and investment (i.e. apartment) sector sales also improved, but remain below pre-pandemic levels. The investment sector continues to suffer from low demand and substantial vacancies. Part of the reason for the divergence in performance between the residential and investment sector is a shift in purchasers' preference towards residential properties, which gained further momentum in 2017 after utilities tariffs on investment properties were raised. The coronavirus pandemic was also a factor, pressuring the incomes and employment of expatriates, who are major drivers of the apartment rental market. Looking ahead, residential activity should benefit from healthy demand and a still-limited supply of new units. Economic growth is returning and business activity is gradually recovering, which should be positive for both the commercial and investment sectors. But barring a sudden increase in the preference of Kuwaitis for apartment rentals, the investment sector would probably still need to be supported by expatriate demand.

Project awards ease in 3Q21

Major project activity slowed in 3Q21, with the value of awarded contracts dropping markedly to KD152 million from KD482 million in Q2, and -57% y/y, according to MEED Projects. (Chart 7.) By the end of the third quarter, awards had totaled KD916 million year-to-date. While this is an improvement on the pandemic-affected final three quarters of 2020, it is still soft from an historical perspective. MEED Projects had estimated total awards of KD2.4 billion this year, with KD1.5 billion scheduled for 4Q21 (including KOC's JPF 4 & 5 Production Facilities and the MPW's Northern Regional Road projects, worth KD294 million and KD189 million, respectively). However, this seems unlikely.

Chart 7: Kuwait projects activity

(KD million)



Source: MEED Projects; as of 24-October

While recent softness decline is largely a reflection of delays in government tendering and approvals as the government takes closer control of its capital expenditures amid tighter liquidity, a post-pandemic shortage of labor and materials is also playing a part. Among the contracts awarded in 3Q21, the largest was on the South Kuwait Excavation Transportation & Remediation Project: Zone 3 for KD75 million.

Population declines following expatriate departures

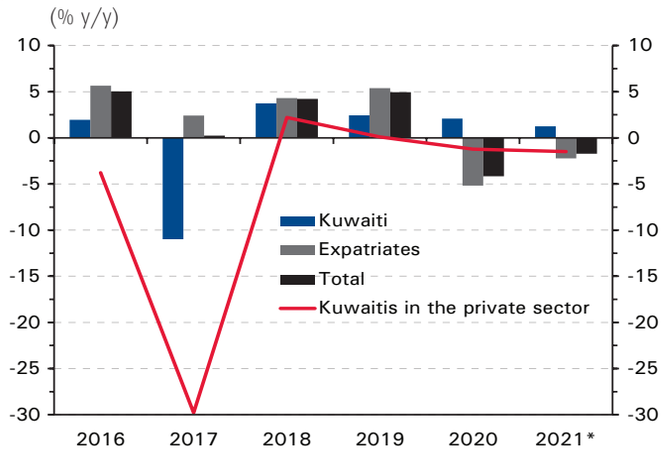
Data from the Public Authority for Civil Information (PACI) show that Kuwait's population fell by a further 0.9% to 4.63 million in the first 6 months of 2021. This followed a decline of 2.2% in 2020—the largest in almost 30 years—due to the departure of some 134,000 resident expatriates amid the pandemic. Another 56,330 expatriates left the country in 1H21 (-1.8%), bringing the expatriate population down to a 2017 level of 3.15 million. The Kuwaiti population, on the other hand, grew by 0.9% to 1.47 million in the first 6 months of the year. In terms of the demographic balance, the share of Kuwaitis in the population, at 31.8%, is at its highest since 2011.

Employment looks on course for a second consecutive year of declines, with the mid-year figure of 2.76 million a reduction of 1.7% from the end-2020 level. (Chart 8.) This is exclusively due to a decline in expatriate employment (-2.2% to 2.34 million) in the first half of the year amid pandemic-linked job shedding and ongoing Kuwaitization policies, especially in the public sector. Here, expatriate numbers have dropped by more than 20% since end-2016.

Meanwhile, Kuwaiti employment growth was up 1.3% in the first six months of the year to 422,891. Employment gains were public sector-driven (+1.8%), with the number of Kuwaitis working in the private sector declining 1.5% to 62,296. As

a result, the share of all employed Kuwaitis working in the private sector declined to a multi-year low of 14.7% – a trend that should be reversed if the government is to address the long-term challenge of trimming its rising wage bill.

Chart 8: Employment growth



Source: PACI; *growth in 6 months to end-June 2021

National Dialogue augurs well for fiscal reforms

The government announced in 3Q21 its intention to institute spending cuts of 10% across all the ministries in the current fiscal year. This would bring budgeted spending down to KD20.7 billion and, if coupled to higher-than-anticipated oil revenues thanks to the surge in oil prices, could result in the fiscal deficit falling significantly from 33% of GDP to around 5% of GDP. According to just-published public finance figures by the Ministry of Finance (MOF) covering the first fourth months of the current fiscal year (April-July), the overall improvement in the public finances was quite marked: the cumulative fiscal deficit narrowed to KD49.9 million by end-July on revenues of KD5.16 billion and expenditures of KD5.21 billion. A greater than 100% increase in oil revenues compared to the same period last year was a major factor, as was a significant reduction in capital spending, to a mere KD127 million. It should be noted that these figures are preliminary and spending, especially on infrastructure projects, will undoubtedly increase further into the fiscal year. It does look increasingly likely, though, that the fiscal deficit could come in substantially below the previous forecast of around 10.5% of GDP, especially if oil prices stay at current levels.

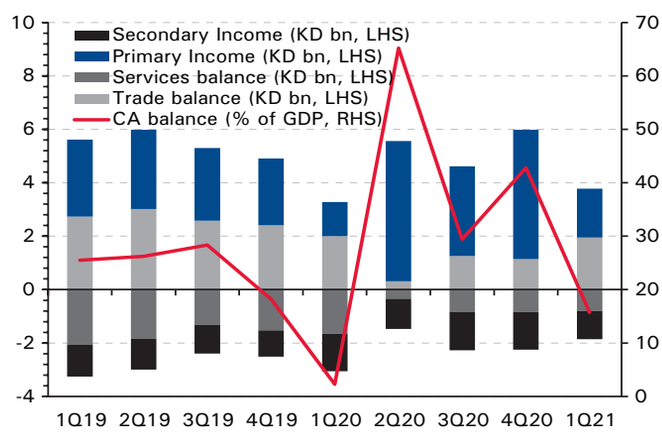
Fiscal reforms could also be on the agenda following the conclusion of the Emiri-sponsored National Dialogue and the commencement of the second session of the sixteenth legislative term. It was reported that a whole raft of economic reforms will be submitted by the cabinet for parliamentary approval. The delayed debt law and other proposals such as implementing the VAT, repricing of government services, sanctioning withdrawals from the Future Generations Fund and establishing economic zones are expected to be voted on.

External surplus in 1Q21 falls on reduced investment income

The external current account surplus narrowed in the first quarter of 2021 to KD1.6 billion (estimated 15.7% of GDP) from KD3.7 billion (43% of GDP) in 4Q20. (Chart 9.) This decline was largely due to a sizeable reduction in investment income (-62% q/q to KD1.8 billion) that offset increases in the trade balance resulting from higher oil exports.

On the other hand, net outflows from the capital and financial account declined on lower portfolio investment outflows. Central bank reserve assets fell by KD1.2 billion to KD13.4 billion at the end of 1Q21 (41% of GDP), which is sufficient to cover almost 13 months of goods & services imports.

Chart 9: Current account balance



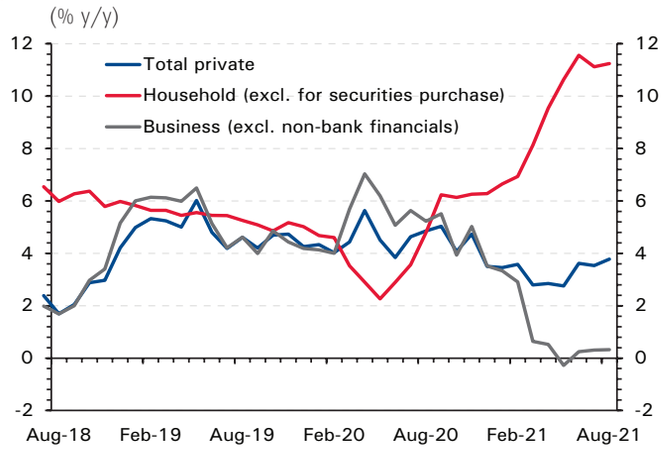
Source: CBK

Consumer lending robust but business credit weak

Domestic credit growth accelerated to a year-high of 3.8% y/y in August, driven by robust gains in household borrowing. This has been at multi-year highs of more than 11.0% y/y in recent months, and supported in large part by the six-month deferral of loan repayments for Kuwaiti borrowers. (Chart 10.) The repayment holiday will expire in October, after which household credit growth is expected to soften.

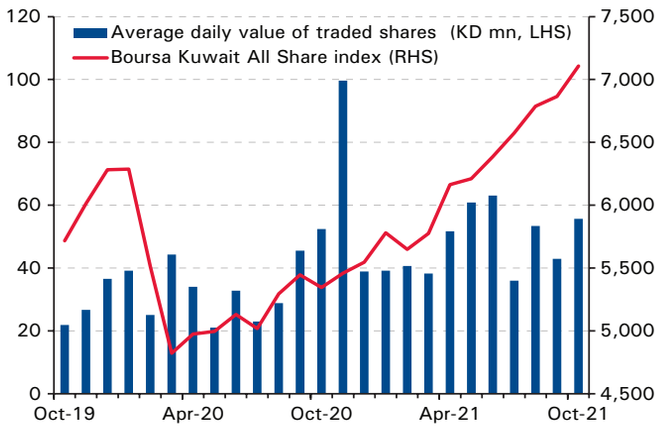
Robust consumer borrowing has helped offset some of the weakness in business lending, which continues to be muted, with growth of only 0.3% y/y in August. Lending to the trade (-12.6%) and construction (-8.2%) sectors has been in negative territory. This is most likely due to a combination of weak project activity amid government capex cutbacks and ongoing pandemic-linked uncertainty. In contrast, lending to the oil & gas and industrial sectors, 13.8% and 8.9%, respectively, has been accelerating. Looking ahead, business credit growth may be supported by the further normalization of economic activities (given the pick-up in vaccination rates and the easing of pandemic-related restrictions), although we note that historically, business credit expansion in the second half of the year is usually softer than in the first half.

Chart 10: Private credit to residents



Source: CBK /Refinitiv

Chart 11: Boursa Kuwait All-Share index



Source: Refinitiv

In August, resident deposits were down on the corresponding month last year for a fifth consecutive month (-2.4% y/y), as 2020's pandemic-linked higher savings rate—helped by the loan repayment holiday—made way for an increased spending rate this year. Private-sector deposits, which account for almost 84% of total bank deposits, were down by 2.3% y/y in August, while government deposits declined by 2.6% amid tighter liquidity. While deposit growth has slowed, the increasing share of current and savings deposits in relation to the more expensive time deposits is a positive trend as far as banks are concerned. With the final quarter of the year underway, deposit growth should benefit from the increase in oil prices.

Equities remain bullish on good sentiment

Local equities continued to trend upwards in 3Q21, with the Kuwait All-Share Index building on the previous quarter's gains to settle 7.5% q/q higher at 6,864 by end-3Q21. The index extended those gains in October, closing at 7,108 (+3.5% m/m) by the end of the month. (Chart 11.) The index is also among the top performing emerging market indices in 2021, with a year-to-date gain of 26% (as of 22 October). Premier market equities have been the driving force (+8.1% q/q), especially consumer and financial services stocks. Market capitalization reached a near 12-year high of over KD40 billion and turnover averaged KD50 million/day in October. Sentiment has been markedly more bullish amid elevated oil prices and sharply lower coronavirus cases. The market outlook is supported by the progress made in vaccinating the public, the surge in oil prices, strong consumer activity and, over the last few weeks especially, the generally upbeat mood that has permeated executive-legislative relations following a relatively positive National Dialogue. However, a fall back in oil prices and negative global sentiment caused by the likely start of Fed policy tightening are downside risks.

Table 1: Key economic data

	2014	2015	2016	2017	2018	2019	Forecast/estimate 2020	Forecast/estimate 2021
				(KD billion)				
Nominal GDP	46.3	34.5	33.5	36.6	41.7	41.3	32.4	40.6
Oil	28.2	14.9	12.8	15.4	19.8	18.9	11.2	18.1
Non-oil	18.1	19.6	20.7	21.2	21.9	22.4	21.3	22.5
				(percent change)				
Real GDP	0.5	0.6	3.5	-5.3	2.4	-0.6	-8.9	1.0
Oil	-1.3	-0.7	3.3	-10.4	2.4	-1.0	-8.9	-1.0
Non-oil	3.1	2.4	3.8	1.5	2.5	-0.1	-8.8	3.2
Private credit	6.1	8.5	2.9	3.1	4.2	4.3	3.5	3.9
Money supply (M2)	3.4	1.7	3.6	3.8	3.9	-1.2	2.7	0.4
Inflation (% y/y, average)	3.2	3.7	3.5	1.5	0.6	1.1	2.1	2.6
Inflation (% y/y, e.o.p)	3.0	3.1	2.4	1.1	0.4	1.5	3.0	1.5
				(percent of GDP)				
Fiscal balance (before FGF transfers)	7.6	-13.3	-13.8	-8.9	-3.1	-9.5	-33.2	-10.5
Revenues	53.8	39.6	39.1	43.7	49.3	41.6	32.4	43.3
Oil	48.6	35.1	34.9	39.0	44.2	37.2	27.1	39.1
Non-oil	5.2	4.5	4.2	4.7	5.1	4.5	5.3	4.3
Expenditure	46.3	52.9	52.8	52.6	52.4	51.1	65.6	53.6
Transfers to Future Generations Fund	13.5	4.0	4.0	4.4	0.0	0.0	0.0	0.0
Fiscal balance (after transfers to FGF)	-5.9	-17.3	-17.7	-13.2	-3.1	-9.5	-33.2	-10.5
Investment income*	8.5	12.4	13.4	12.9	11.3	11.8	32.9	20.9
Public debt	3.4	4.6	18.6	19.0	13.9	9.9	10.7	14.1
Current account balance	33.4	3.5	-4.6	8.0	14.4	24.5	21.1	26.4
Goods balance	47.7	24.4	17.6	21.3	29.7	25.9	14.6	26.9
Export	64.2	47.5	41.9	45.7	52.2	47.5	37.8	48.0
Imports	16.6	23.2	24.3	24.4	22.5	21.6	23.2	21.2
Services (net)	-11.1	-17.4	-18.1	-16.7	-17.8	-13.1	-9.7	-7.8
Investment income (net)	9.6	11.1	11.5	15.6	13.3	26.2	32.8	20.9
Worker remittances	-12.7	-14.5	-15.6	-12.2	-10.7	-14.6	-16.6	-13.6
Exchange rate (KD per 1 USD)	0.285	0.301	0.302	0.303	0.302	0.304	0.307	0.302
CBK discount rate	2.00	2.25	2.50	2.75	3.00	2.75	1.50	1.50
Kuwait export crude price (USD per barrel)	95	48	39	51	69	64	41	64
Oil production (million barrels per day)**	2.87	2.86	2.95	2.70	2.74	2.68	2.44	2.42

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates.

*Based on estimated figures by CSB and NBK. ** Uses JODI/OPEC direct communication figures.

Table 2: Monthly economic data

(KD billion, unless otherwise indicated)

	Dec-19	Dec-20	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Credit	38.4	39.8	40.3	40.8	40.9	41.2	...	...
Growth (% y/y)	4.3	3.5	2.8	3.6	3.5	3.8	...	...
Money supply (M2)	38.1	39.1	38.5	39.1	38.8	38.9	38.9	...
Growth (% y/y)	-1.2	2.7	-1.6	-1.5	-1.4	-2.5	-2.9	...
Inflation (% y/y)	1.5	3.0	3.2	...	...	...	...	...
ex food and housing (% y/y)	3.0	2.7	2.7	...	...	...	...	...
Consumer spending (Knet, % y/y)	5.0	25.9	137.1	49.1	17.9	21.7	22.8	24.4
Consumer confidence (Ara, index)	105	99	99	102	101	103	107	...
Kuwait export crude price (USD per barrel)	66	49	68	73	74	71	75	83
Stock market - All Share index (e.o.p)	6,282	5,546	6,211	6,387	6,548	6,787	6,865	7,108
Growth (% y/y)	4.5	1.6	0.8	2.8	3.0	3.2	1.1	3.5

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, ARA, NBK estimates

Table 3: Quarterly economic data

(KD billion, unless otherwise indicated)

	4Q17	4Q18	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
GDP growth (% y/y)	-4.9	3.3	-0.9	-2.3	-11.8	-10.3	-11.2	...
Oil*	-9.3	4.0	-2.1	1.5	-7.6	-14.8	-14.5	...
Non-oil*	0.7	2.4	0.6	-6.6	-16.8	-4.8	-7.4	...
Current account balance	1.2	1.8	1.9	0.2	4.2	2.4	3.5	1.6
Goods Exports	4.7	5.4	4.7	4.0	2.0	3.1	3.2	4.1
Goods Imports	2.4	2.3	2.3	2.0	1.7	1.9	2.0	2.2

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates * Series break: due to classification changes, growth rates in the oil and non-oil sectors before 1Q18 are not comparable with those thereafter.

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