

Gross domestic product

Kuwait: Nonoil growth at 2.1% in 2014, to pick up in 2015 on project execution

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Growth in Kuwait's nonoil economy slowed to 2.1% in real terms in 2014, according to preliminary data recently published by the Central Statistical Bureau (CSB). Real growth in overall GDP declined by 1.6%, pulled down by the oil sector (Chart 1). Growth in domestic demand also slowed during the year, though to a still very decent 4.4%. There was a notable slowdown in investment expenditures, though this is likely to be temporary. Private consumption growth also slowed for a second consecutive year, as the sector has been moderating.

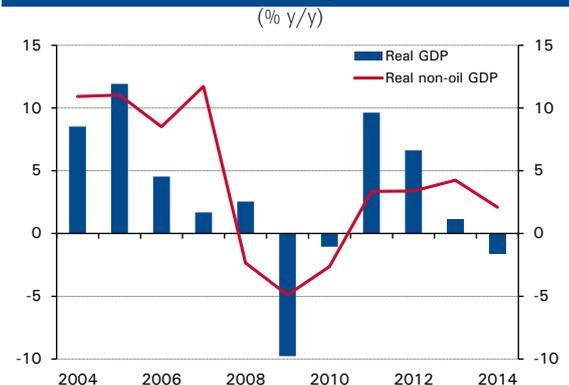
The oil sector, which includes crude and oil refining, shrank by 1.7% during 2014. The decline, which follows a similar decrease the year before, was due in part to a similar drop in crude oil production, which fell to an average of 2.88 million barrels per day (Chart 2). Oil output has been declining gradually since 2012, after seeing a large increase in 2011. Meanwhile, a larger 16% decline was recorded in refining activity during 2014. While 2014 saw oil prices plunge, this is not reflected in the real GDP figures, which are computed at constant 2010 prices. Oil GDP in nominal terms was down by 10.6% during 2014, most of it a result of the decline in the price of oil.

The surprise was in the nonoil sector, where growth slowed to 2.1% from 4.2% the year before. The largest decline was in the government-dominated "public administration and defense" sector, whose growth slowed to 3.2% from double digit growth the year before (Table 1). Weakness also came from "transport, storage and communication", education, "wholesale and retail trade", and "health and social work", all of which saw growth slow notably. By contrast, "financial institutions and insurance" and "real estate and business services" were among the few sectors to see an acceleration in growth, with the former seeing real growth accelerate to 5.3%.

Growth in domestic demand moderated for a second consecutive year in 2014, but maintained a healthy pace. Domestic demand, which includes final consumption by households and government as well as investment, grew by 4.4% compared to 6.4% the year before. The slowdown was largely due to slower growth in investment spending (Chart 5). Gross investment grew by only 2.1% in real terms during the year; this compares to growth of 8.9% the year before. There was also a deceleration in consumer spending growth, which eased to 2.8% from 4.9% the year before.

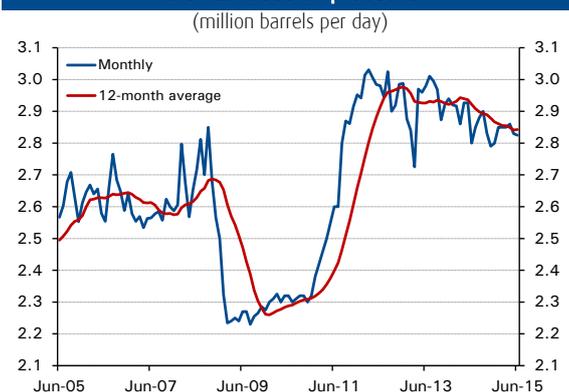
The cooling off in investment spending growth during 2014 appears to be temporary and should turn around in 2015. The preliminary data, which contradicts indications that implementation of the government's Development Plan projects is picking up pace, appears to reflect a lull in capital spending during late 2013 and early 2014. This is particularly visible in quarterly capital goods imports, which saw growth slow to 2.3% y/y in 1Q14 from 23% y/y a year before. Growth has since picked up pace rising to 20% y/y in 1Q15 (Chart 3).

Chart 1: GDP growth



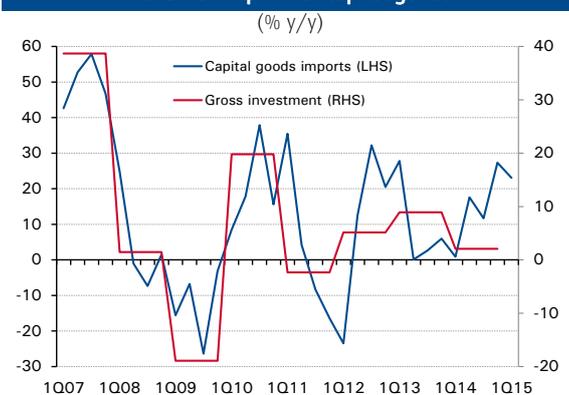
Source: Central Statistical Bureau

Chart 2: Crude oil production



Source: Joint Organizations Data Initiative

Chart 3: Imports of capital goods



Source: Central Statistical Bureau, Central Bank of Kuwait

Slower nonoil growth in 2014 also coincided with a slowdown in credit during that year. After ending 2013 with growth of 8.1%, growth slipped to 6.1% by the end of 2014 (Chart 4). Growth has shown signs of recovery in recent months, with annualized growth in 2Q15 rising to 8.9% q/q following three quarters of weaker growth.

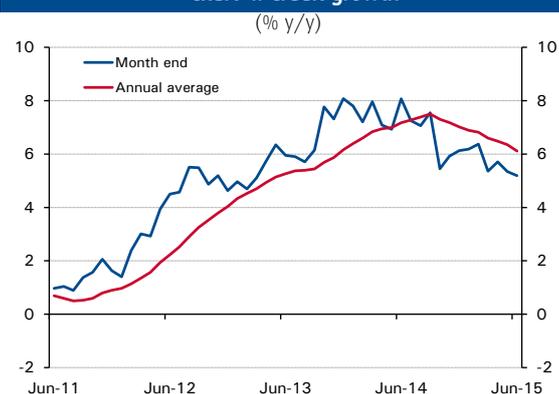
Nonoil activity growth is expected to pick up once again towards 4-5% in 2015 and 2016. Growth should receive a boost from increasing investment spending with the government's Development Plan implementation continuing to improve. Capital investment activity has been picking up pace, as reflected in the progress in government project awards. Kuwait's authorities are expected to continue to push ahead with strategic projects worth upwards of KD 30 billion over 5 years despite concerns that oil prices could remain low in the coming year or two, especially since the country has very comfortable fiscal buffers.

Table 1: Gross domestic product

	2014	Real growth		
		2012	2013	2014
	KD bn	% y/y	% y/y	% y/y
	nominal	real	real	real
Oil sector	29.22	10.3	-1.8	-1.7
Crude oil & gas extraction	28.06	10.0	-1.8	-0.9
Refining	1.16	16.0	-1.7	-15.8
Nonoil sector	23.82	3.4	4.2	2.1
Public administration and defense	3.56	1.0	12.5	3.2
Financial institutions and insurance	3.08	0.0	1.7	5.3
Real estate and business services	2.97	0.7	0.0	1.6
Transport, storage and communication	2.47	7.8	2.7	-1.2
Education	1.62	3.4	5.0	2.5
Wholesale and retail trade	1.40	-0.2	4.0	1.6
Manufacturing (excl. refining)	1.40	23.2	-0.9	0.9
Health and social work	0.87	2.5	4.1	2.3
Construction	0.81	3.4	2.0	2.7
Electricity, gas and water	0.80	-5.2	11.5	2.3
Other sectors	1.57	6.3	5.3	0.5
GDP at producer prices	53.04	7.2	0.8	0.0
minus: imputed bank service	1.98			
plus: taxes less subsidies on products	-4.50			
GDP at market prices	46.56	6.6	1.1	-1.6
By type of expenditure:				
Private consumption (C)	13.15	8.3	4.9	2.8
Government consumption (G)	9.01	13.6	6.6	8.8
Gross investment (I)	7.36	5.1	8.9	2.1
Domestic demand (C + G + I)	29.52	9.0	6.4	4.4
Exports	31.60	7.7	-4.0	-3.1
Imports	14.56	14.0	-0.1	7.7

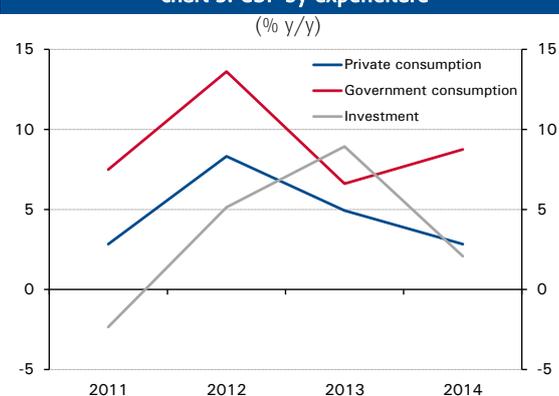
Source: Central Statistical Bureau, NBK estimates

Chart 4: Credit growth



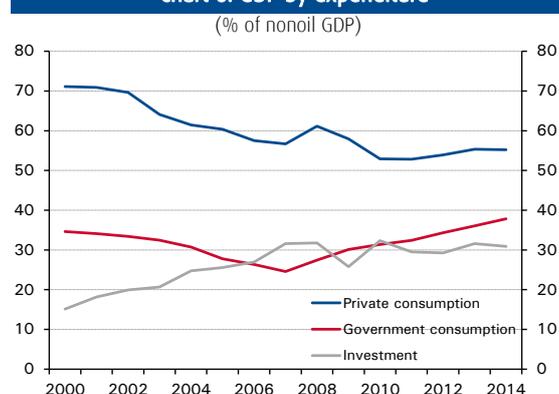
Source: Central Bank of Kuwait

Chart 5: GDP by expenditure



Source: Central Statistical Bureau

Chart 6: GDP by expenditure



Source: Central Statistical Bureau

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