NBK Economic Report

Kuwait economy slowly emerging from pandemic-linked contraction

Fiscal sustainability in focus amid record deficit in FY20/21

KUWAIT: Kuwait's economy is slowly emerging from the economic dislocation caused by the coronavirus pandemic in 2020. GDP fell by an estimated 8 percent last year-the steepest decline in output since the 2009 financial crisis-as businesses were shuttered, staffing levels cut, projects halted and incomes pressured amid a precipitous drop in oil prices. Pandemic-related policy support, especially for SMEs, was also limited and centered mainly on debt repayment.

Growth prospects have improved with the lifting (until recently) of most restrictions. Consumer sentiment is more upbeat, and pent-up demand has boosted consumer spending growth, which stood at 20 percent y/y in February (KNet data). Bank credit to households is increasing at the fastest pace since mid-2018. After a lackluster 2020, the projects market should gain a little more traction over the forecast period, helped by greater private-sector buy-in. Though the re-imposition of a partial curfew in March and the uncertain pace of vaccinations will be worth watching, non-oil growth should recover to about 4 percent this year before normalizing at 2.5 percent in 2022.

Oil GDP (in its broadest definition) should rise by 1 percent this year and by 7 percent in 2022 as crude oil production increases in line with the easing of OPEC+ cuts and the full commissioning of the Clean Fuels and New Refinery Projects, which should double Kuwait's refining capacity. Gains in both Jurassic light and Lower Fars heavy crude output will help offset some of the decline in production capacity due to the ageing Burgan field.

Fiscal sustainability

Last year's twin COVID-19 and oil price shocks led to a record and sixth consecutive fiscal deficit of KD 8.9 billion (28 percent of GDP). Financing the deficit and achieving fiscal sustainability has taken on greater urgency following the near depletion of the General Reserve Fund (GRF), the inaccessibility of the Reserve Fund for Future Generations (RFFG), Kuwait's sovereign wealth fund (SWF), and the absence of parliamentary approval for a new debt law. While the authorities have been able to buy themselves some time through cuts in Capex, asset swaps between the GRF and the RFFG and moves to reschedule more than $20 billion in accrued dividends with state oil company KPC, systemic fiscal reforms are imperative.

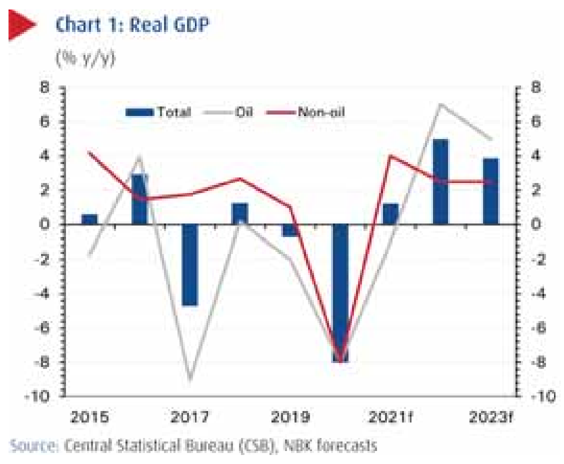
Table 1: Key economic indicators

		2019	2020e	2021f	2022f	2023f
Nominal GDP	$ bn	136	104	124	132	140
Real GDP	% y/y	-0.7	-8.0	1.2	5.0	3.9
- Oil sector*	% y/y	-2.0	-8.0	1.0	7.0	5.0
- Non-oil sector	% y/y	1.0	-8.0	4.0	2.5	2.5
Budget balance (FY)	% of GDP	-9.5	-28.0	-17.0	-12.0	-10.0
Current act. balance	% of GDP	16.3	4.0	13.0	13.0	13.0
Inflation	% y/y	1.1	2.1	2.5	3.0	3.0

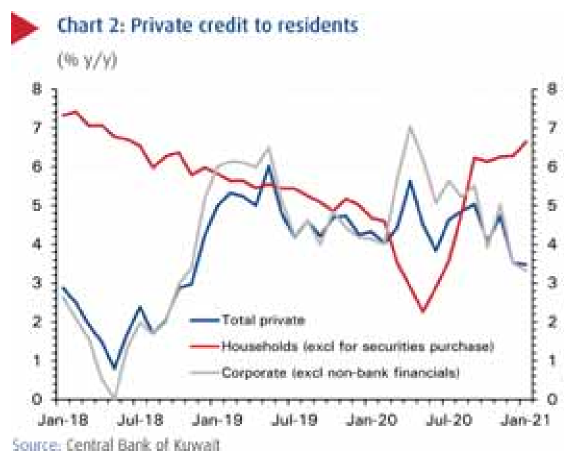
Source: Official sources, NBK estimates * Includes refining

The government unveiled an expansionary budget for FY2021-22 that sees spending rising by 7 percent y/y (budget-on-budget), revenues by 45 percent and the deficit widening to KD 12.1 billion. We see the deficit narrowing, however, to KD 6-7 billion (17 percent of GDP) this year and further to 10 percent of GDP by 2023 due to a combination of spending restraint and greater oil revenues thanks to higher oil prices. Tapping new non-oil revenue sources, however, appears limited to possible excise duties and the VAT.

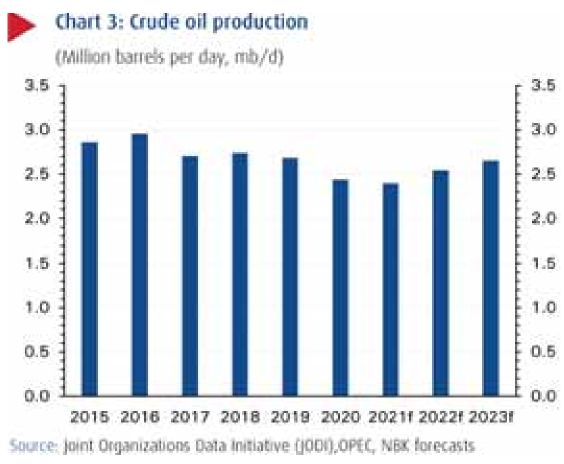
We do believe that the debt law will pass this year, which should alleviate some of the liquidity pressures. There is also an economic case for deficit financing via debt issuance rather than reserve drawdowns in the current low interest rate environment. Moreover, public debt, at KD 3.8 billion (12 percent of GDP) at end-2020, is the lowest in the region so there is ample scope.



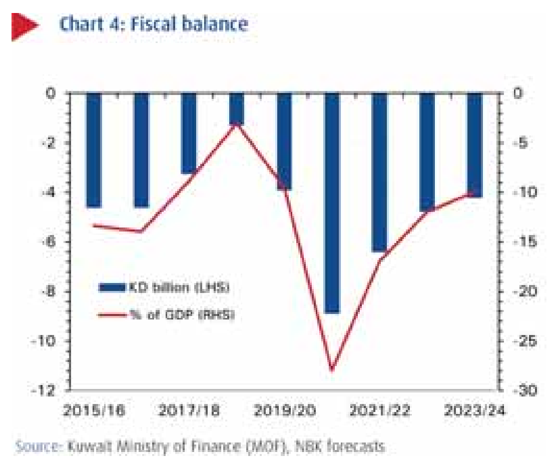
Source: Central Statistical Bureau (CSB), NBK forecasts



Source: Central Bank of Kuwait



Source: Joint Organizations Data Initiative (JODI), OPEC, NBK forecasts



Source: Kuwait Ministry of Finance (MOF), NBK forecasts

The current account looks to have performed better than expected in 2020, benefitting from higher investment income and a rebound in oil export revenues to register a surplus of 4 percent of GDP. Foreign reserve assets at CBK were stable at $47.5 billion (42 percent of GDP) at end-2020, providing more than 12 months of import cover. Financial buffers are substantial with more than $550bn of assets held by the aforementioned SWF.

Inflation rising

Inflation almost doubled in 2020 to 2.1 percent due to pandemic-linked supply-chain issues, higher international food prices and pent-up consumer demand after lockdown measures were eased last summer. Expatriate departures and income impairments during the pandemic have not materially affected residential rents in the CPI index. Inflation will remain low, but could reach 3 percent in 2022 as the economy recovers and assuming a possible rollout of a 5 percent VAT in 2022-23. Monetary policy is likely to remain accommodative over the forecast period (the discount rate was cut by 1.25 percent, to 1.5 percent last year in March) in line with a dovish US Fed policy stance.

Oil dependence

Acute sensitivity to oil prices (almost 90 percent of export and fiscal revenues are oil-derived) and the absence of systemic economic reforms due to legislative impasse are the primary risks weighing on the outlook. A medium-term fiscal framework in the context of a comprehensive economic plan is needed to attain fiscal sustainability and maintain Kuwait's good standing with credit rating agencies and investors. While relations between the new parliament and the government are currently strained, stronger collaboration can expedite Kuwait's diversification agenda.

Economic growth is slowly returning following last year's pandemic-linked contraction, with private and government consumption as well a higher oil prices driving the rebound. Fiscal sustainability is in the spotlight amid a sixth consecutive and record fiscal deficit in FY20/21 and liquidity constraints made more acute by the absence of a debt law. Higher oil prices could provide fiscal space with which to enact macroeconomic and structural reforms, though this will require closer executive-legislative cooperation.

H&M to lay off more than 1,000 staff in Spain

MADRID: Swedish fashion giant H&M is to lay off more than 1,000 staff in Spain who are currently on furlough due to the pandemic, the Workers' Commission (CCOO) union said yesterday.

The fashion chain was not immediately available to confirm the information. A CCOO statement said the fashion brand had indicated it was "going to begin redundancy proceedings which would affect more than 1,000 people and involve the closure of 30 shops." It called the shop closures "absolutely disproportionate" and the layoffs of furloughed staff unjustified.

"While it is true there may have been a change in consumer habits which could justify a change in the workforce, this in no way justifies such a large number of redundancies, especially considering that H&M has benefitted from the government's furlough scheme during the pandemic." The funding of such temporary unemployment schemes was one of the key measures put in place by Socialist Prime Minister Pedro Sanchez's government to bolster an economy battered by months of lockdown.

That and other emergency measures to ease the crisis have cost the Spanish treasury a dizzying 40 billion euros (more than $47 billion) since the start of the pandemic. In return, companies are banned from laying off staff for six months after the end of the scheme which is currently set to run until May 31, but is likely to be extended. H&M's net profit tumbled tenfold in 2020 as a result of the pandemic, with the fashion retailer saying it would shutter 350 of its 5,000 shops across the globe while opening another 100. Despite the drop, the firm saw its online sales leap in 2020, up more than 40 percent on the figures for a year earlier, and accounting for almost a third of its overall turnover. —AFP

BEIJING: People walk past an H&M store in Beijing. —AFP

KFH announces winners of 'Win with Hesabi' draw

KUWAIT: Kuwait Finance House (KFH) announced the winners of the 3rd and 4th draws of "Win with Hesabi" campaign that offers 3 Jeep Wrangler Sport cars and cash prizes worth KD250 for 10 winners each month. KFH has also announced Rawan Al-Shubaiki as the winner of the Jeep Wrangler Sport, which is the first car of the 3 cars offered in the campaign.

The draw was held at KFH Headquarters under the supervision of the Ministry of Commerce and Industry. The winners are: Yousif Al-Rashidi, Mariam Al-Jemaz, Mohammed Al-Mutairi, Rawan Yousif, Noor Al-Hashash, Abdulrahman Al-Mutairi, Noorah Al-Enzi, Mariam Al-Azmi, Nawal Hussain, Abdullah Al-Sahli, Hessa Al-Otaibi, Sumew Al-Saeedi, Najat Al-Saqer, Sarah Al-Azmi, Farah Al-Hussaini, Yousif Al-Onaizi, Fatima Al-Bannaw, Hoor Al-Fawaz, Dhai Al-Hajri and Manar Al-Dhefiri.

This campaign comes as part of KFH continuing efforts to add value to Hesabi customers including advantages, discounts, prizes, and exclusive rewards. Once the social allowance is transferred to Hesabi program, customers enter the monthly draw on 10 prizes of KD 250 each, in addition to three special draws on Jeep Wrangler Sport cars.

KFH offers "Hesabi for Youth" with a variety of privileges as part of its continued endeavor to provide adequate customer care, innovate new products and services and fulfill the needs of all customers of various age categories and interests. Services and products are tailored to suit customers' needs and provide distinguished service as per global standards regarding quality, accuracy and speed.

Hesabi" program has been designed to meet the needs of youth and aspire for their active lifestyle. This program presents for youth many exclusive offers and a wide range of privileges including Hesabi ATM card with a unique design, eligibility to issue Hesabi prepaid card (as per credit regulations of KFH), distinguished offers and discounts etc. KFH continues to launch marketing campaigns to reward youth customers. Hesabi for Youth represents the ambitions and expectations of youth category and copes with KFH aspirations to attract the largest portion of youth who represents the major part of Kuwaiti society. Also, the account represents KFH initiative to diversify banking services and products.

European markets rally in Wall Street catch-up

LONDON: European equities rallied yesterday as investors played catch-up with record Wall Street gains, cheering strong US data showing the world's top economy was well on the recovery track.

Frankfurt, London and Paris fizzed higher as dealers returned to their desks following a long four-day Easter holiday weekend, and after a mixed performance in Asia.

"Today is the first chance for European markets to react to this fresh wave of optimism after an extended weekend, and indeed to the possibility that global economies will be lifted by a recovery which is expected to be led by the US in the first instance," said Interactive Investor analyst Richard Hunter. Wall Street nailed record gains after pre-weekend data showed far more US jobs than expected were created last month, reinforcing the view of a strong recovery.

The S&P 500 and Dow scaled new heights, while the Nasdaq also saw big gains, after data Friday showed the US economy regained 916,000 jobs in March. And the good news kept coming on Monday with figures showing activity in the crucial services sector hit an all-time high in March, as orders surged thanks to a jolt of pent-up demand. That came after a gauge of manufacturing came in at a 37-year high.

"Taking their cues from the Dow Jones (index), the European markets had a proverbial spring in their step as they returned from the Easter break," said Spreadex analyst Connor Campbell."In the peace and quiet of a Europe-free Good Friday and Easter Monday, the Dow made strides, climbing above 33,500 (points) for the first time in history following a blockbuster 916,000 non-farm employment change reading.

"This has helped the European indices bound out of the gates this Tuesday." The strong economic readings came as traders take heart from good progress in vaccination rollouts in the United States and Britain, which are allowing governments to ease containment measures. In Asia, Sydney, Seoul, Mumbai, Jakarta, Taipei and Manila stock markets all rose.

On the downside, Tokyo sank more than one percent on profit-taking after recent gains, while Singapore and Wellington also fell. Oil prices rallied as observers said the chances of a breakthrough in Iran nuclear talks were slim. Both contracts tumbled last week on the prospects that the country's crude could return to markets if negotiations on the accord progressed smoothly and sanctions on the country were eased. —AFP

Germany hails US move on corp tax as 'great step forward'

BERLIN: German Finance Minister Olaf Scholz yesterday welcomed Washington's backing for a global minimum corporate tax, calling it a "great step forward" in the battle to stem the erosion of government revenues. "The support of the USA gives this initiative a strong tailwind," Scholz told reporters, saying he hoped a deal could be reached this year. The optimism comes a day after US Treasury Secretary Janet Yellen said Washington was pushing in the G20 for a global minimum corporate tax, saying the world's interconnected economy had led to "a 30-year race to the bottom on corporate tax rates."

"Together we can use a global minimum tax to make sure the global economy thrives based on a more level playing field in the taxation of multinational corporations," she said in a speech to the Chicago Council on Global Affairs. Finance ministers of the G20 club of large economies are expected to discuss the proposal during a virtual meeting on Wednesday, hosted by Italy.—AFP