IMF commends Kuwait's swift and well-coordinated COVID response

Banking sector benefits from skillful regulatory oversight by Central Bank of Kuwait

WASHINGTON/KUWAIT: A staff team from the International Monetary Fund (IMF), led by Daniel Kanda, held virtual discussions with the Kuwaiti authorities from April 4-8, 2021. At the conclusion of the mission, Kanda issued the following statement: "The Kuwaiti authorities acted quickly and decisively to address the health and economic effects of the COVID-19 pandemic, although the challenges posed by the pandemic remain significant.

"As in other GCC countries, the COVID-19 pandemic, together with oil price shock and cuts to oil production under the OPEC+ agreement, weighed heavily on economic activity and fiscal balances in 2020. Growth in 2020 is estimated at -8 percent with a contraction of non-oil growth of -6 percent. The overall fiscal balance significantly deteriorated compared to the previous year.

"Going forward, a gradual recovery is expected in 2021, supported by the rebound of domestic and external demand as vaccinations proceed. However, considerable uncertainty surrounds the outlook, including from the persistence of the pandemic and related global and domestic containment measures.

"We commend the central bank's sustained proactive monitoring of credit risks and efforts to strengthen the regulatory and supervisory frameworks aimed at bolstering financial stability. The banking sector remains resilient, well-capitalized, and liquid notwithstanding the shocks in 2020.

"Combating the pandemic and mitigating its effects, particularly those on the most vulnerable, should remain a priority until the recovery is firmly underway. As the recovery firms up, strong fiscal consolidation and structural reforms would be needed to preserve fiscal buffers and strengthen growth. The IMF team would like to express its appreciation to the Kuwaiti authorities for the open and productive discussions."

Meanwhile, the Central Bank of Kuwait (CBK) issued a press statement on the conclusion of the International Monetary Fund's Article IV Consultation to the State of Kuwait. CBK, in coordination with IMF and the relevant national authorities, made the necessary arrangements including information and data compilation, and scheduling meetings with the senior officials of the government and non-government entities to discuss the economic, financial and monetary conditions and the resilience of the banking and financial sector. The concluding statement of the IMF mission commended CBK's efforts in reinforcing the soundness and resilience of the banking and financial sector.

Commenting on the findings of the report, Mohammad Y Al-Hashel, the Governor of the Central Bank of Kuwait, briefly stated that the IMF mission commended CBK's sustained proactive monitoring of credit risks and efforts to strengthen the regulatory and supervisory frameworks aimed at bolstering financial stability. The report also stated that the banking sector remains resilient, well-capitalized, and liquid benefiting from the skillful regulatory oversight by the Central Bank of Kuwait, notwithstanding the shocks in 2020.

Hashel added that the IMF's concluding statement highlighted the structural challenges faced by the Kuwaiti economy and the ways to address them. It also mentioned Kuwaiti authorities' swift and well-coordinated policy responses to protect public health and limit the economic impacts of the COVID-19 crisis, although the challenges posed by the pandemic remain significant. As in other GCC countries, the COVID-19 pandemic, together with oil price shock and cuts to oil production under the OPEC+ agreement, weighed heavily on economic activity and fiscal balances in 2020.

At the 2020 economic performance, the real GDP, as per the IMF mission report, is estimated at -8 percent with a contraction of non-oil growth of -6 percent. The overall fiscal balance significantly deteriorated compared to the previous year. Going forward, a gradual recovery is expected in 2021, supported by the rebound of domestic and external demand as vaccinations proceed. However, considerable uncertainty surrounds the outlook, including from the persistence of the pandemic and related global and domestic containment measures.

The mission concluded that combating the pandemic and mitigating its effects, particularly those on the most vulnerable, should remain a priority until the recovery is firmly underway. As the recovery firms up, strong fiscal consolidation and structural reforms would be needed to preserve fiscal buffers and strengthen growth.

KIPCO looks to 2021 as pandemic's impact continues to unfold

KUWAIT: At its Annual Shafafiyah 'Transparency' Investors' Forum, KIPCO - the Kuwait Projects Company (Holding) - said that it would remain guarded about 2021, as it closely monitors the impact of the ongoing COVID-19 pandemic on business.

At the company's investors' forum, KIPCO presented a review of its activities in 2020 and its outlook for 2021. In line with the health authorities' guidelines regarding social distancing, the event was broadcast live to an audience of shareholders, financial analysts and institutional investors.

Annual General Assembly

The forum followed the company's General Assembly meeting where KIPCO's shareholders approved a cash dividend of 5 percent (5 fils per share). An Extraordinary General Assembly was also held, during which the shareholders agreed to raise the company's authorized capital from KD 200 million to KD 300 million.

Highlights of 2020

As part of its review of 2020, KIPCO highlighted a growth in revenue to KD 753 million ($2.5 billion) in 2020, compared to KD 698 million ($2.3 billion) in 2019. The company's 2019 financials were restated during 2020 due to a change in the classification of OSN after an increase in ownership.

Despite the challenges that came with the COVID-19 pandemic, in July 2020, KIPCO successfully repaid bonds worth US$ 500 million (KD 153.9 million) under its EMTN Program, using existing resources. The transaction has left KIPCO with no debt maturity until 2023 and is a reflection of the soundness of the company's financial strategy and its proactive management of liabilities.

Performance of Group companies

KIPCO highlighted the performance of its main operating companies in 2020. Burgan Bank reported a net income of KD 34 million (US$ 112 million). The bank's capital adequacy ratio was at 18 percent, and it enjoyed stable asset quality with non-performing assets at 3.5 percent.

Gulf Insurance Group's (GIG) net profit was up 22 percent and gross written premiums (GWP) increased 13 percent. During the year, the company announced the acquisition of AXA's operations in the Gulf region which, when complete, will place GIG as one of the top three insurance companies in the region.

United Gulf Holding (UGH) completed a rights issue of US$ 70 million in 2020. It's subsidiary, Kamco Invest, launched its new identity following the completion of its integration with Global Investment House.

KIPCO's real estate arm, United Real Estate (URC), was affected by the closure of hospitality and retail activities due to the pandemic and gave exemptions and lower leasing rates to its tenants. Despite this, the company reported a revenue of KD 97 million (US$ 320 million). URC also began the construction of Byout Hessah, a residential component in Hessah Al Mubarak District.

Qurain Petrochemical Industries (QPIC), meanwhile, registered a 12 percent growth in revenue to KD 240 million (US$ 791 million) for the 12 months of 2020 (its financial year starts in April). Despite lower oil prices, QPIC reported a net profit of KD 22 million (US$ 72.5 million) for the 12 months of 2020.

Meanwhile, the Saudia Dairy and Foodstuff Company (SADAFCO) registered a 10 percent growth in revenue and 11 percent increase in net profit for the 12 months of 2020 (its financial year starts in April). The company maintains a healthy cash balance of SAR 691 million (US$ 184 million) with zero leverage.

United Education Company (UEC) reported a revenue of KD 27 million (US$ 89 million) and a net income of KD 1.8 million (US$ 6 million) for the financial year ended August 31, 2020. To ensure that its students continued to receive quality education online, the company launched several digital platforms and study aids.

As for OSN, KIPCO said that the hard and long journey of transformation was in progress. The pay-TV and on-demand video operator ranks among the top three streaming players, with OTT subscribers up from 80,000 in April 2020 to 450,000 in February 2021. A best-in-class technology platform is set to be launched in the second quarter of 2021 to further enhance subscriber experience.

OSN's strong content lineup now includes Paramount+, with Discovery+ to be added soon. Three original Arabic content series were released in 2020, with plans to double investments in Arabic content in 2021. Partnerships with all major telecommunication companies are now in place, and OSN has begun engaging non-telecom vendors to strengthen its positioning.

During 2020, OSN registered improved financial performance, following the completion of its operational turnaround. It also downsized costs after negotiating contracts with major studios and controlling operational expenses. A financial turnaround is expected in the second half of 2021.

Focus in 2021

KIPCO highlighted the focus areas of its main operating companies in 2021. Burgan Bank will be enhancing the operations of its Turkey franchise, while fine-tuning its business model overall. The bank will launch and monetize its digital products during the year.

GIG, meanwhile, will focus on the AXA integration, thereby reinforcing GIG's position in key markets. As for OSN, it will continue to grow its customer base and revenue from the OTT platform, in addition to launching products that meet premium customer needs. The pay-tv and on-demand video company will continue to reduce costs and diversify content supply.

In 2021, URC will focus on returning revenue to pre-COVID levels, as progress continues in its residential projects in Hessah Al Mubarak District. QPIC is expected to benefit from the recovery of oil prices and will continue to evaluate inorganic growth through acquisitions. As for UGH, the company will look to exit non-core assets in 2021 and re-invent its operating model. UEC, which has delivered its learning and programs effectively during the pandemic, will continue its digital transformation journey in 2021.

Outlook for 2021

In its outlook for 2021, KIPCO said that it remained guarded about this year, as it closely monitors the business impact of the pandemic. Whilst there is hope that the vaccine rollout will curb the spread of the virus, the second wave of the pandemic continues to pose a challenge despite efforts to bring economic activities back up to pre-COVID levels. Oil prices, however, are forecast to average US$ 20 higher than last year, promising a more positive impact on the market at large.

KIPCO said it would continue to monitor the global impact of the pandemic as the year unfolds. Faisal Al-Ayyar, KIPCO's Vice Chairman (Executive) said: "Throughout 2020, our companies worked hard to mitigate the impact of the COVID-19 pandemic. The rewards of these efforts are reflected in the results of the past year. Despite the highly conservative requirements of the Central Bank of Kuwait, Burgan Bank fared well in 2020. GIG continues to perform well, and successfully acquired AXA's operations in the Gulf. While the impact of closures on retail and hospitality was significant, URC's projects in Hessah Al Mubarak District continued uninterrupted. Both QPIC and its subsidiary, SADAFCO, recorded growth in revenue during the past year."

He added: "It is evident that the virus will remain with us for some time to come, and though people have begun to adjust their way of life to take precautions against an invisible disease, we remain guarded about 2021. As we face a second wave of the pandemic, we hope that the rollout of the vaccine will bring us closer to the end of the pandemic."

Brexit sparks £1tn UK assets switch to EU

LONDON: UK banks and insurers have shifted more than £1.0 trillion to the European Union in response to Brexit, a study published Friday found. More than 440 firms operating in the UK banking and finance sector have relocated parts of their business, moved staff or established new EU entities in response to Brexit, according to the study from think-tank New Financial. The total £1.0 trillion is equivalent to $1.4 trillion or euro 1.2 trillion.

"While this is the most comprehensive analysis yet of the impact of Brexit on the City, we think it is an underestimate: we are only at the end of the beginning of Brexit," New Financial warned in a report published almost four months after Britain left the EU. British-based banks have shunted in excess of £900 billion in assets into the bloc, or ten percent of total UK bank assets, according to its analysis. And insurers have shifted more than £100 billion.

The nation's departure from the single market ended access to the so-called financial passport, which had allowed UK firms to offer their services across Europe. London and Brussels signed a memorandum of understanding on financial services last month but have yet to address the topic of equivalence, which allows UK-based firms to operate on the European continent.

Britain finalized its divorce from the European Union on Dec 31, after clinching a last-gasp trade deal that did not include the powerhouse financial services sector. "Getting Brexit done is only the end of the beginning of the process: Given the limited equivalence arrangements in place, over time we expect there to be a drip-feed of business and activity from the UK to the EU," the London-based think-tank added on Friday. "As the EU takes a tougher line on the location of activity and individuals we expect these headline numbers to increase in future." Following Brexit, Amsterdam has also overtaken the British capital in European equity trading. —AFP

Potential Boeing MAX issue affects more of plane

NEW YORK: The potential electrical problem that prompted airlines to remove some 737 MAX planes from service has been found in more areas of the plane than initially known, a report said Friday. Boeing said on April 9 that the issue, discovered during the manufacturing process, requires "verification that a sufficient ground path exists for a component of the electrical power system".

But The Wall Street Journal, citing Boeing, reported Friday that the manufacturing issue affects "more areas of the flight deck than previously known". Boeing did not directly comment on The Wall Street Journal report, but said it plans to develop guidelines with Federal Aviation Administration oversight. "Boeing is working with customers on service bulletins that will be submitted to the FAA for approval," a Boeing spokesman said. "The bulletins focus on ensuring a sufficient ground path in the flight deck of affected airplanes," he added.

Southwest Airlines, United Airlines and American Airlines all said last week that they were removing some of their MAX planes from service following the Boeing announcement. Boeing said it notified 16 carriers in all of the issue. Shares of Boeing fell 1.2 percent to $248.18, losing ground following reports of the problem.

The electrical issue is a setback after the MAX was cleared in November 2020 to return to service after a 20-month grounding following two fatal crashes. "Specific details regarding investigators' latest findings are scare at the moment, but it's troubling to learn that the electrical defect is being found in other parts of the plane," said Briefing.com. —AFP

Global trade rules can help fight climate change: US trade chief

WASHINGTON: International commerce creates incentives for countries to erode environmental protections to attract investment, and global trade rules are needed to counter that "race to the bottom," US Trade Representative Katherine Tai said on Thursday. "The view that environmental issues are not an inherent part of trade ignores the reality that the existing rules of globalization incentivize downward pressure on environmental protection," Tai said in her first public speech.

"This puts countries with higher environmental standards at a competitive disadvantage," she said in the address to the Center for American Progress, a progressive Washington think tank. Speaking ahead of President Joe Biden's virtual climate summit this week, Tai said she was committed to strengthening rules in the World Trade Organization (WTO) to combat issues like illegal logging and overfishing.

"The forests are our planet's lungs, and we should use trade policies and trade enforcement actions to protect them," she said, however, the rules are ineffective if they are not enforced. "Going forward, trade has a role to play in discouraging the race to the bottom and incentivizing a race to the top," Tai said. "But we have to be mindful that we will only truly address the global scale of this problem through global rules." Biden has made reversing the climate-sceptic policy of his predecessor Donald Trump a priority, and is hosting a virtual summit of world leaders next week.

With the world badly off track on meeting goals on curbing global warming that most nations signed up to in the 2015 Paris climate accords, Biden hopes the summit will result in stronger pledges in advance of UN-led talks in Glasgow at the end of the year. Just days after taking office in January, the US leader signed executive orders he said would "supercharge our administration's ambitious plan to confront the existential threat of climate change."

Katherine Tai

He announced Washington would rejoin the Paris Agreement and is expected to unveil an ambitious 2030 emissions target. Biden recently announced a massive $2 trillion infrastructure and jobs plan that focuses on creating employment through expansion of renewable energy and other environmental projects "to reimagine and rebuild a new economy," Tai noted.

But domestic policies are not sufficient, and environmental standards must be a factored into all US policy areas and throughout international supply chains, to ensure reliable access to key technologies, which "will be essential for our transition to net zero by 2050". —AFP