NBK economic report

Kuwait's fiscal deficit reaches all-time high of KD 10.8 billion

Oil revenues fell to KD 8.8bn due to low oil prices, OPEC+ cuts

KUWAIT: Similar to its GCC peers, Kuwait's fiscal position was heavily affected by the COVID-19 pandemic and the oil price shock that ensued. The deficit swelled from KD 3.9 billion in the previous fiscal year to KD 10.8 billion, or 33 percent of GDP, in FY20/21. The fall in the price of Kuwait Export Crude (KEC) was one of the main drivers of the deficit. The government tried to limit the increase in the deficit through compressing capital expenditures to compensate for the increase in the hard-to-reverse current expenditures. Total government spending rose at a mild rate of 0.7 percent to reach KD 21.3 billion as capex was pared back while current spending rose by 4.7 percent due in part to COVID-19-related emergency measures. Budget financing needs remained large in the absence of parliamentary approval to issue new debt (the last issuance was in October 2017) or the ability to tap into the Future Generations Fund (FGF). The General Reserve Fund (GRF) remained the only source of financing, with its liquid assets almost exhausted.

Significant fall in revenues

The sharp decline in oil prices and lower non-oil revenues on account of slower economic activity led to a much higher budget deficit. Total revenues declined in FY20/21 by 38.9 percent to reach KD 10.5 billion. Oil and gas revenues, which constituted 83.6 percent of total revenues, fell by 42.8 percent, driven mainly by the collapse in oil prices (KEC fell by 29.3 percent y/y to an average of $43.5/bbl) and the decline in oil production (-13.7 percent to 2.34 mb/d) due to the OPEC+ production cuts.

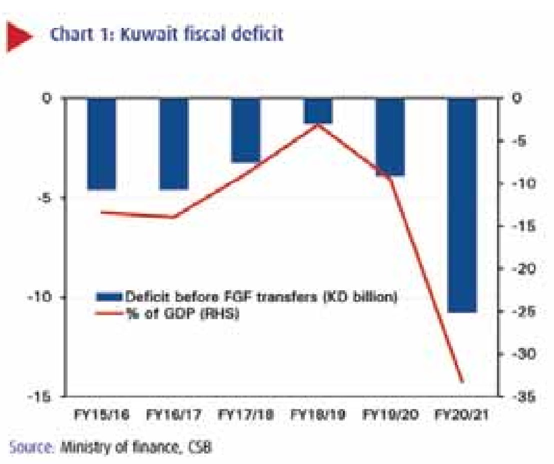
The pandemic took a toll on non-oil revenues, which fell by 6.5 percent to KD 1.7 billion. Taxes and fees were hit hard (down 10.6 percent y/y), following the weak performance of local and foreign companies amid the pandemic and the steep decline in revenues from import duties due to much lower imports (-15.8 percent in 2020). Other non-oil revenues followed the same trend, declining by 2.6 percent, with receipts from electricity and water down 14.1 percent and 8.0 percent y/y, respectively. Moreover, paid compensations for the Iraqi invasion remained relatively stable at $ 1 billion in FY20/21 (approximately $ 2.1 billion in war reparations remains outstanding as of end-January 2021).

Total expenditures rise

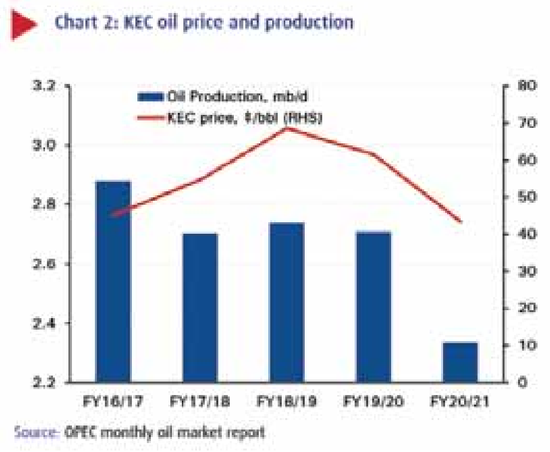
Current spending increased at a solid pace while capex spending fell sharply as it bore the brunt of the government's cutbacks amid short-term liquidity constraints. Yet, the increase in current spending (by 3.8 percent to KD 19.4 billion), which represents the bulk of total spending (about 91 percent), pushed the latter up 0.7 percent y/y (to KD21.3 billion) though came in below its budgetary provision.

The rise in current spending during FY20/21 was due to COVID-19-related spending as the government allocated KD 0.5 billion in emergency funds to support pandemic containment measures and a budgetary supplement of KD 0.6 billion to pay bonuses for frontline workers. By excluding these two items, current spending actually declined last year by around 4.8 percent to KD 20 billion.

The government made an effort to reduce the non-wage current spending. Purchases of goods & services plummeted by 10 percent to KD 2.9 billion, while the cost of electricity generation and water distillation declined by 11.3 percent to KD 1.4 billion, reflecting partly the decline in oil and gas prices as well as electricity generation by 0.4 percent in 2020. Excluding this item, government purchases of goods and services declined by 8.8 percent y/y.



Source: Ministry of finance, CSB



Source: OPEC monthly oil market report

Compensation of employees (38.1 percent of current spending) declined by 1.8 percent to KD 7.4 billion, lower than the three-year average of around 4.1 percent. The decline is likely a reflection of a lower wages for employees under contracts, which fell by -18.7 percent y/y to KD 0.6 billion, perhaps due to the departure of expatriates. In addition, bonuses and allowances (constitute 57.6 percent of compensation of employees' category) fell by 0.4 percent to KD 4.3 billion.

Moreover, fuel subsidies fell largely on the back of both lower oil prices and domestic consumption, the latter on pandemic- related restriction measures including the closure of the airport. In addition, social benefits declined 11.7 percent, with overseas healthcare services falling 18.9 percent to reach KD 0.4 billion. In contrast, grants (including transfers to public authorities and independent entities), which represents 25.5 percent of total spending increased by 3.8 percent, while other current spending shot up in FY20/21 due to COVID-19 related spending (KD 0.5 billion of emergency funds and the supplementary budget for front line workers' bonuses of KD 0.6 billion).

Capital spending was hard hit by the government's rationalization of spending amid tighter liquidity and mobility restrictions, which resulted in the delay, reappraisal or cancellation of some projects. Capital spending declined 24.3 percent to KD 1.7 billion, about 75 percent short of the full-year budget provisions.

The accumulated deficit for the last 7 years has resulted in the near depletion of the General Reserve Fund (GRF), with total withdrawals reaching KD 41 billion from FY15/16. The audit bureau recently reported that the GRF's net assets fell to KD 9.6 billion at the end of 2020, and by the end of March 2021 that figure had fallen further to around KD 1.6 billion in available in liquidity. However, the government has taken several measures during FY20/21 to reduce the rate of depletion and ensure the availability of cash. These include halting transfers to the FGF and assets swaps with the GRF (of around KD 7.5 billion). The rise in oil prices since the beginning of 2021 has, however, helped in alleviating some of the pressures on the GRF.

FY21/22 budget relatively expansionary

The FY21/22 budget, which was approved by the national assembly last June, will result in a financing gap that will be hard to fill without incurring debt or tapping into the Future Generations Fund. Total spending is expected to reach KD 23.0 billion, or 6.9 percent higher than last year's budget, with a 20 percent increase in capex provision to KD 3.5 billion and an increase in current spending by 4.9 percent. Revenues on the other side are expected to increase slightly based on an oil price assumption of $45/bbl (avg.) and an oil production assumption of 2.4 mb/d (avg.). As such, oil revenues would increase to KD 9.1 billion while non-oil revenue should remain insignificant (KD 1.8 billion). The official budget deficit is estimated at KD 12.0 billion, but with the recent cabinet decision to cut spending by at least 10 percent, the deficit should come out lower at KD 9.7 billion. However, we believe that the oil price process could end up higher than the one assumed in the budget leading to an even lower deficit of KD 5.2 billion (13.1 percent of GDP).

Although this fiscal year deficit will likely be markedly lower than last year's, still financing this deficit remains a challenge in the absence of parliamentary approval for a new debt law or lack of access to alternative sources of financing. In addition, the government has to repay some KD 1.1 billion in maturing bonds next March. With GRF assets nearly depleted, passing the debt law is necessary if FGF resources are not to be tapped. In our view, using the FGF resources should be the last resort and will need to be temporary and linked to a clear and sustainable financing strategy. This will surely requires, in a longer-term perspective, substantial fiscal reforms involving both the revenues and expenditures fronts.

Whether the General Assembly will approve the debt law or critical fiscal reforms, including those that would make the budget less vulnerable to oil prices, remains an open question. However, the recent S&P downgrade of Kuwait's sovereign credit rating for the second time in less than two years may provide the needed incentive for undertaking such reforms. Further delays in passing the debt law or coming up with alternative financing measures could lead to further downgrade in the future. A closer coordination between the government and the national assembly is essential to hasten the reform process and put the public finances on a more sustainable path.

Table 1: Kuwait's fiscal balance (KD billion, unless otherwise indicated)

	FY2018/19	FY2019/20	FY2020/21	% y/y FY2019/20	% y/y FY2020/21
Revenues	20.6	17.2	10.5	-16.2	-38.9
Non-oil	2.1	1.9	1.7	-13.1	-6.5
Oil	18.4	15.4	8.8	-16.6	-42.8
Total Expenditures	21.8	21.1	21.3	-3.2	0.7
Current Expenditures	19.2	18.8	19.6	-2.1	3.8
Compensation of Employees	7.2	7.6	7.4	5.6	-1.8
Goods & Services	3.0	3.2	2.9	6.4	-10.0
Subsidies	1.4	0.6	0.6	-56.6	-10.1
Grants	5.2	5.3	5.4	0.2	3.4
Social Subsidies	1.0	1.0	0.8	-2.2	-11.7
Miscellaneous & Transfers	1.4	1.2	2.4	-12.0	94.7
Capital Expenditures	2.6	2.3	1.7	-12.0	-24.3
Budget Balance (Surplus/ Deficit)	-1.3	-3.9	-10.8	-----	-----

AUB appoints Zaghloul as senior deputy CEO, Banking Group

KUWAIT: Ahli United Bank (AUB) has announced the appointment of Hisham Zaghloul as Senior Deputy Chief Executive Officer - Banking Group as of September 1st, 2021, after obtaining the approval of the Central Bank of Kuwait. Zaghloul was Senior Deputy CEO (Acting).

Hisham Zaghloul has over 20 years of extensive experience in corporate banking, treasury and trade finance following working in several banks and financial institutions, including BNP Paribas Bank (Egypt), Commercial International Bank (Egypt) and United Bank for Commerce & Investment (Libya).

Zaghloul is a member of the boards of directors of a number of banks and financial institutions in the Middle East: Commercial Bank of Iraq PSC (CBIQ) in Iraq, United Bank for Commerce & Investment in Libya and Middle East Financial Investment Company (MEFIC) in the Kingdom of Saudi Arabia.


Hisham Zaghloul

It is worth mentioning that Zaghloul, since joining Ahli United Bank in 2007, has succeeded in developing the banking services business, which has been reflected in the growth of the credit portfolios and the expansion of the customers' base, in addition to the continuous development in the products & services provided to the bank's customers, within AUB's vision as a leading bank in the Islamic banking business. Furthermore, the notable efforts made by Zaghloul has contributed in obtaining several prestigious awards as the best bank in Kuwait within several banking sectors and services over the past years.

Zaghloul holds a Bachelor's degree in Economics from the Faculty of Economics and Political Science, Cairo University. On this occasion, Jehad Saud Al-Humaidhi, CEO at AUB, said, "Since joining Ahli United Bank team, Hisham Zaghloul has proven solid leadership capabilities and has been able to attain tangible achievements in the Bank's success journey, with his outstanding professional record, which makes him a wealth of banking experience that we are proud of among the group of our executive leaders. Moreover, he has a future vision for the mechanism of developing the banking business group in line with the Bank's strategy to enhance innovation in the new solutions we provide to the market.

For his part, Hisham Zaghloul commented on the decision of his appointment to the new position, saying, "I would like to thank AUB Board of Directors, headed by Dr Anwar Ali Al-Mudhaf, the Board chairman and the Bank Executive Management led by Jehad Al-Humaidhi, CEO of the Bank. I also extend special thanks to all my colleagues in the Banking Group, who have spared no effort during the last period to provide all support to our customers, to provide banking services based on international standards and criteria that live up to the aspirations of our valued customers.

Gulf Bank adopts sustainable approach to office printing

KUWAIT: As part of its ongoing efforts to support sustainability, Gulf Bank is spearheading a new initiative to more effectively address internal printing requirements, consolidating printers to support the existing print volume and current business needs. Gulf Bank's Information Technology (IT) Department is leading this initiative, consolidating and replacing the Bank's printers with the latest multifunction printers available in the market.

Gulf Bank launched this initiative with the aim of using the latest technology to instigate positive change in the Bank's work culture and enhance Gulf Bank's customer service by increasing printer mobility, allowing staff to print necessary documents from any location. The latest initiative also aims to reduce wasteful printing by encouraging users to shift to digital practices whenever possible. The new initiative also enables Gulf Bank employees to complete printing operations on any printer by using only their staff IDs. In addition, Gulf Bank employees can now print from their mobile phones directly from email, and are encouraged to switch to electronic documentation.

On this initiative, Deputy General Manager-Information Technology at Gulf Bank, Osamah Al-Abdullah, said: "The initiative to replace and consolidate office printers falls within Gulf Bank's integrated strategic plan, and paves the way for a complete digital transformation. Through this initiative, all office printers will be replaced and consolidated into a more effective amount of multifunction printers, which will not only increase work efficiency and speed, but also encourage digital transformation at the employee level. The printer consolidation initiative is one of many currently underway at Gulf Bank's IT Department, and we are looking forward to announcing new and exciting developments very soon."


Osamah Al-Abdullah

To learn more about Gulf Bank's various initiatives, customers can visit one of the Bank's branches, or visit the Gulf Bank website at www.e-gulfbank.com. Customers can also use the WhatsApp service on 1805805 for round-the-clock assistance from Gulf Bank representatives, or call the Customer Contact Center on the same number.

Tycoon JD.com founder steps back as scrutiny deepens

BEIJING: The billionaire founder of Chinese e-commerce giant JD.com is to step back from daily operations, his company announced, making him the latest A-list CEO to retreat from the limelight as Beijing squeezes the tech industry. Richard Liu, who founded the firm in 1998, will "devote more time to formulating the company's long-term strategies", JD.com said in a statement late Monday.


Richard Liu

Liu follows a number of Chinese tech leaders in stepping away from more prominent public roles as some of the country's largest firms come under intensifying official scrutiny.

China has launched antitrust probes and rolled out tighter rules on everything from video games to protections for gig economy workers in a wide-ranging effort to curb what the government calls "disorderly" expansion in the tech sector. JD.com is an e-commerce juggernaut in China and an aggressive competitor of industry leader Alibaba.

Liu, also known by his Chinese name Liu Qiangdong, was arrested in the United States in 2018 over allegations of criminal sexual conduct, before being allowed to return to China. JD.com did not give a specific reason for the management shift, and said Liu would remain chairman and CEO of the company. Shares in the firm were flat at the break in Hong Kong yesterday. His main rival Jack Ma, the founder of Alibaba, has kept a low public profile since affiliate Ant Group's Hong Kong and Shanghai initial public offering was cancelled just days before its planned launch in November 2020. Alibaba was hit with a record antitrust fine around about the same time. —AFP