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Non-oil activity metrics still sluggish, but oil production set to rise

- **Non-oil sector GDP growth weakened in Q4 2023 amid further falls in manufacturing and services activity.**
- **POS/ATM card spending growth defied multi-quarter slowdown trend to tick up in Q1 2024.**
- **Real estate activity finds support from commercial sector sales amid ongoing residential sector weakness.**
- **Credit growth gained in April on recovering business lending but household credit remained subdued.**
- **Project awards jumped in Q2 from a weak Q1, boosted by infrastructure and electricity projects.**
- **Inflation was unchanged in May, despite a pick up in the food category.**
- **The political developments of recent months should herald an improvement in medium-term economic performance, but cautious optimism is warranted given the complexity of the challenges.**

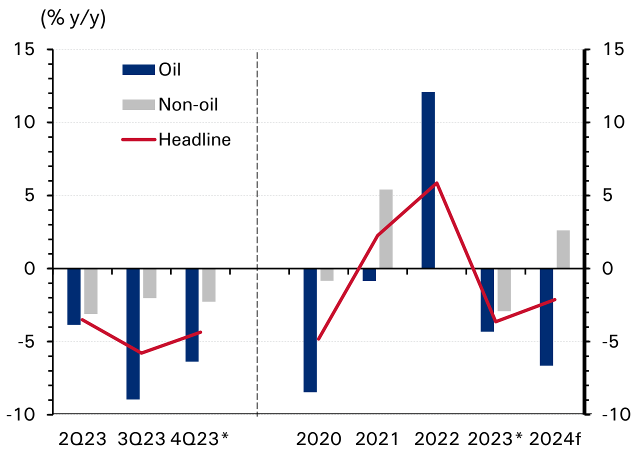
Non-oil indicators in Q2 2024 came in mixed but overall suggestive of a still-sluggish economy, which, according to recent GDP figures for 2023 is operating at subpar levels. Nevertheless, improvements so far this year in consumer spending, business credit, real estate and project activity, provide some grounds for optimism ahead. PMI readings have also remained in expansion territory in recent months, with business confidence running at historically high levels. Moreover, the outlook for overall economic growth was boosted in early June by the news that OPEC+ would begin unwinding its voluntary crude oil production cuts from October 2024 onwards. Kuwait will see its oil GDP rise, alongside exports. Oil prices have also held up, despite concerns the OPEC+ decision could lead to a supply glut at some point over the next few quarters.

Meanwhile, developments on the domestic political front—the Emir's suspension of the National Assembly in early May for up to four years and his call for a new government to accelerate economic reforms and development—could herald a significant improvement in the country's economic prospects. Properly tackling legacy issues such as bureaucracy and low investment levels may take time, but a combination of faster decision making, strong executive support, more stable government, accelerated project approvals and broad buy-in on key policy reform areas provide clear potential upside to the medium-term growth outlook.

Non-oil activity weakens further in final quarter of 2023

Preliminary GDP figures for Q4 2023 published by the Central Statistical Bureau show that despite a quarter-on-quarter improvement (+11.2% q/q) in line with the seasonal trend, non-oil output contracted further year-on-year (-2.3% y/y from -2.0% in Q3). This extends the run of declines to five consecutive quarters. (Chart 1.)

Chart 1: Real GDP growth

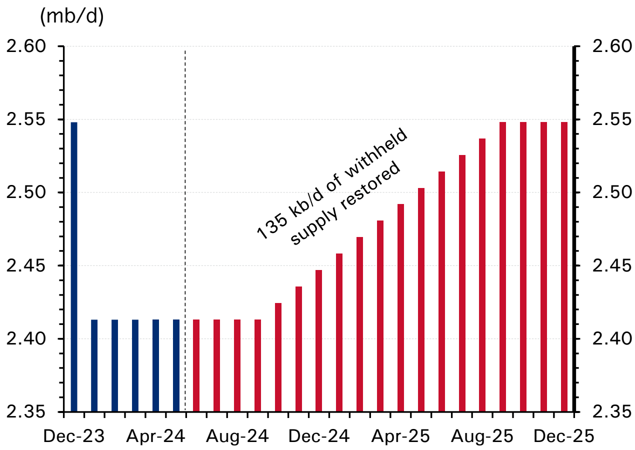


Source: Central Statistical Bureau (CSB); *preliminary estimates

Manufacturing (-8.8% y/y), other services including real estate (-4.3%) and wholesale & retail trade (-6.3%) were especially weak. Oil sector GDP growth was also negative again in Q4 (-6.4% y/y), reflecting Kuwait's participation in OPEC+ crude oil production cuts. Overall growth came in at -4.4% y/y. For 2023 overall, non-oil GDP declined by 2.9%, a second consecutive contraction after a downwardly revised -0.1% in 2022. These figures are preliminary and subject to revision (output in the manufacturing sector has been significantly revised over several quarters, for example). Nevertheless, taken at face value, achieving our forecast of +2% non-oil growth in 2024 would require a big improvement.

For oil GDP, we have adjusted our forecasts slightly upwards after the OPEC+ decision in early June to gradually unwind members' 2024 voluntary production cuts. For Kuwait, this would translate into the restoration of 135 kb/d of withheld crude gradually at a rate of 11 kb/d every month from October 2024 to September 2025, leaving output at about 2.55 mb/d by the close of next year. (Chart 2.) These gains will be a boon for exports of both crude oil and higher value refined products, such as gasoil and LSFO.

Chart 2: Crude oil production schedule



Source: JODI, OPEC

Oil prices gain in Q2 amid supply cuts, geopolitical risk

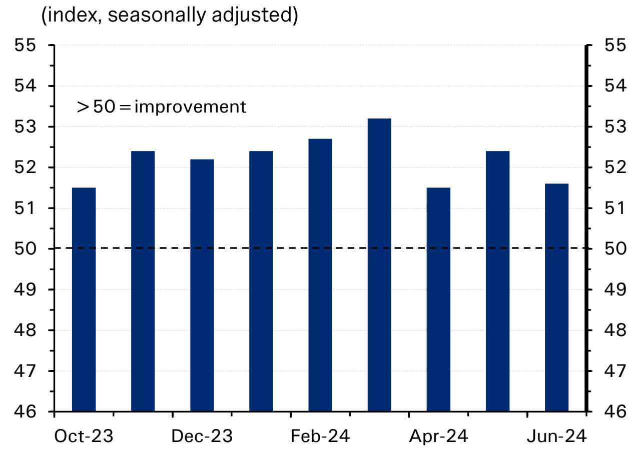
Oil prices closed slightly higher in Q2 2024, supported by ongoing OPEC+ voluntary supply cuts, resurfacing regional geopolitical risk, a fairly resilient global economy and improving prospects for US Fed monetary policy easing in H2. Local marker Kuwait Export Crude ended June at $87.9/bbl, up 1.9% q/q (+10.5% ytd).

Prices were volatile in June, especially after OPEC+ surprised markets with its decision to gradually unwind 2024's voluntary supply cuts from October onwards, a move that caused prices to drop by around 5%. Prices eventually recovered once OPEC+ made it clear that it could reverse its decision if oil demand weakened and as tensions in the Levant and the Red Sea intensified.

PMI shows non-oil expansion easing in Q2

Non-oil private sector activity slowed in Q2, with the June PMI reading coming in at 51.6, down from March's post-pandemic series high of 53.2. (Chart 3.) Nevertheless, June was the seventeenth month of expansion for local firms, supported by ongoing gains in output and new orders as well as in employment. Staffing and purchase costs were major drivers of higher input prices for businesses, many of which had to raise selling prices to maintain profit margins. Overall business optimism about the year ahead remained strong.

Chart 3: Purchasing Managers' Index

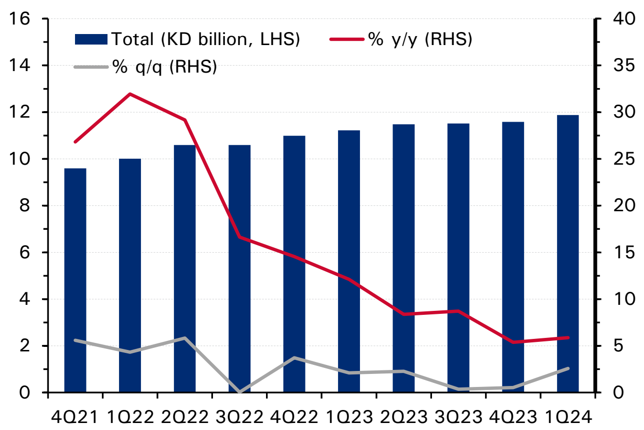


Source: S&P Global

Card spending growth defies trend to tick up in Q1

Consumer spending growth surprised in Q1 2024, edging up slightly to 5.9% y/y (from +5.4% y/y in Q4 2023), according to Central Bank of Kuwait cards data. (Chart 4.)

Chart 4: POS/ATM card spending



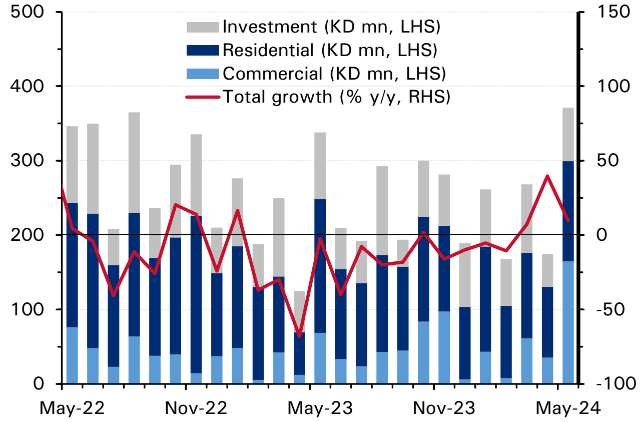
Source: Central Bank of Kuwait (CBK)

This lends some support to the view that the phase of slowing spending growth witnessed since 2022 has abated, with the potential for steadier or even improving growth ahead. Other factors in such a trend could be a fading adjustment to previous interest rate increases, possibly lower interest rates ahead (with the Fed expected to start cutting interest rates from H2 2024), a moderating inflation picture, and ongoing support for households from elevated public spending and hiring.

Real estate sales rose on sizeable commercial deals

Real estate activity increased in May, with total sales of KD371 million (+9.8% y/y) recorded. (Chart 5.) This was thanks to several sizable commercial deals in the Hawalli (KD77mn) and Al-Ahmadi (KD58mn) governorates. Residential and investment sales declined, however, to KD135mn (-25%) and KD72mn (-20%), respectively, though May's residential sales were above the 2023 monthly average and the reading for investment sales is a significant improvement on April's 7-month low.

Chart 5: Real estate sales



Source: Ministry of Justice (MoJ)

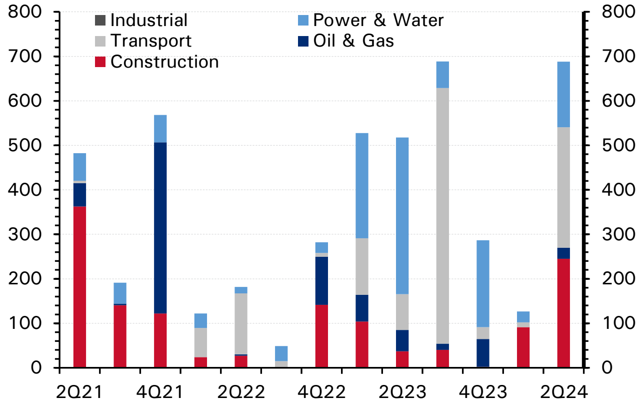
In the first five months of 2024, sales were up 5.6% y/y thanks to higher commercial sales (+77%), while residential and investment sales fell by 2.9% and 13.0%, respectively. Higher financing costs and affordability issues continues to weigh on residential demand while stricter enforcement of residency laws and rising living costs may have pressured investment sales (CPI data show rental growth easing to 1.6% y/y in May from 3.6% in September 2023). Lower expected interest rates in 2024-25 should provide some support for the sector.

Project activity picks up in Q2

Following a lackluster Q1, project awards jumped 444% in Q2 to KD688 million, according to MEED Projects. (Chart 6.) Awarded projects included infrastructure in the South Sabah Al-Ahmad and affordable housing (Al-Nayeem area) cities. The outlook for H2 2024 is positive, with MEED Projects highlighting KD7 billion worth of mostly power-related potential projects including the Al-Zour Independent Water and Power Plant (IWPP) phases 2&3 project (KD1.2bn), the Al-Khairan IWPP project (KD800mn) and the Al-Shagaya Renewable Energy Complex project (KD100mn).

Chart 6: Project awards

(KD million)



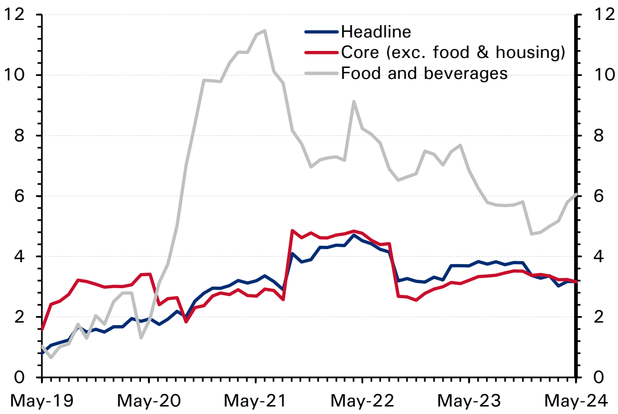
Source: MEED Projects

Inflation steady but food price rises accelerate in Q2

Consumer price inflation was steady at 3.2% y/y in May, unchanged for a second month in row but up on March's rate of 3.0%. (Chart 7.) Core inflation was 3.2% for the third month running in May. Price growth has broadly softened in categories ranging from housing services to clothing and transportation, but food price inflation has accelerated, from 5.2% y/y at end-March to 6.1% in May, spurred by increases in the prices of meat and poultry. We still expect inflation to moderate as we move through the year with consumer demand overall subdued, though ongoing stubbornness in some price areas suggests a modest deceleration to 3.0% on average.

Chart 7: Consumer price inflation

(% y/y)

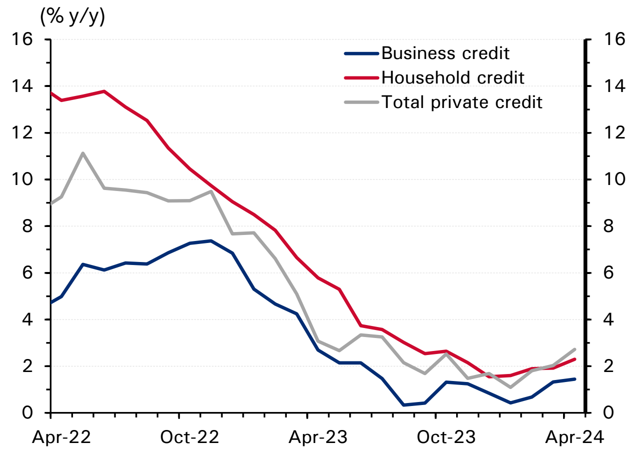


Source: CSB

Domestic credit boosted by recovery in business lending

Domestic credit growth picked up from the muted levels seen last year, standing at a relatively decent 1% YTD and 2.7% y/y through April. (Chart 8.) Business credit drove most of that growth, expanding by 1.5% YTD (+1.4% y/y), nearly double the increase recorded in all of 2023, and supported by lending to the construction, real estate and trade sectors especially. Household credit growth, however, was modest, inching up in April by only 0.4% YTD and 2.3% y/y. Looking ahead, the demand for credit would get a boost from potential cuts in interest rates and a pick-up in project activity as the new government accelerates implementation of its development plan.

Chart 8: Credit growth



Source: CBK

Meanwhile, resident deposit growth decelerated in April (+0.5% ytd; +2.1% y/y).

The slowdown was largely a reflection of a sharp drop in public institutions' deposits and a marginal decline in government deposits. Private sector deposits, though, continued to increase (+2.0% y/y), following a weak 2023.

Equities fell in Q2 amid global economic uncertainty

After solid gains in Q1, the Boursa Kuwait All-Share Index reversed course in Q2, falling 5.3% q/q (+1.8% ytd), in line with the decline in the broader regional and global markets amid expectations that interest rates would remain higher for longer. A challenging global economic climate and escalating geopolitical tensions were additional factors leading to weaker investor sentiment. Softer foreign demand was evident in the net foreign capital outflows observed in each month of the quarter (net KD54 million in total). The equity market will continue to depend on cues from global markets, which in turn will depend on monetary policy and growth prospects. Reduced geopolitical tensions, improvements in key project activity or economic reform momentum could provide a much-needed catalyst, while continued delays would be detrimental to sentiment.

Table 1: Key economic data

	2017	2018	2019	2020	2021	2022	Estimates/forecasts 2023*	2024f
				(KD billion)				
Nominal GDP	36.6	41.7	42.9	33.6	43.0	55.8	50.3	49.7
				(percent change)				
Real GDP	-4.7	2.4	2.6	-4.8	2.3	5.9	-3.6	-2.1
Oil	-9.2	2.4	-1.0	-8.5	-0.9	12.1	-4.3	-6.6
Non-oil (including refining)	1.3	2.5	6.8	-0.8	5.4	-0.1	-2.9	2.6
Inflation (% y/y, average)	1.6	0.6	1.1	2.1	3.4	4.0	3.6	3.0
				(percent of GDP)				
Fiscal balance (before FGF transfers)	-8.7	-3.1	-9.2	-31.6	-5.9	11.6	-5.3	-3.9
Revenues	43.7	49.3	40.1	31.3	43.3	51.7	44.1	43.6
Oil	39.0	44.2	35.8	26.2	37.7	47.9	39.5	38.7
Non-oil	4.6	5.1	4.3	5.2	5.6	3.7	4.6	4.9
Expenditures	51.6	52.4	49.2	63.4	50.3	40.0	50.0	47.5
Public debt	19.0	13.9	9.7	10.6	4.4	2.9	3.0	2.8
Current account balance	8.0	14.4	12.6	4.4	26.2	34.7	31.4	24.3
Exchange rate (KD per US$1, average)	0.303	0.302	0.304	0.307	0.302	0.307	0.307	...
CBK discount rate (percent, end-year)	2.75	3.00	2.75	1.50	1.50	3.50	4.25	...
Kuwait export crude price ($/bbl, avg)	51	69	64	41	70	101	84	85
Oil production (million b/d, average)**	2.70	2.74	2.68	2.44	2.41	2.71	2.59	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.

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