

Business

NBK Economic Report

# Private consumption in Kuwait has led the economic rebound

## OPEC+ cuts unwinding, refining gains to boost growth

**KUWAIT:** Kuwait's economy is slowly recovering from last year's pandemic, a year that was characterized by severe curtailments in private consumption and government investment spending, business closures, expatriate layoffs and a sharp fall in oil prices. GDP contracted by 8.9 percent, the steepest decline since 2009, with the oil and non-oil sectors both shrinking by about 8.9 percent amid deep OPEC+ oil output cuts, curfews and limited fiscal policy support.

Growth prospects have improved, however, underpinned by higher oil prices and a successful vaccine rollout. Domestic demand has led the recovery, with the most recent data releases showing robust growth in consumer spending (Knet: +23 percent y/y) and household credit (+11 percent y/y). Project activity is also slated to accelerate as the government prioritizes major road, hospital and airport infrastructure projects.

### Private sector business activity

Table 1: Key economic indicators

	2020e	2021f	2022f	2023f	2024f	
Nominal GDP	\$ bn	106	129	134	140	145
Real GDP	% y/y	-8.9	1.0	5.1	3.8	2.6
- Oil sector	% y/y	-8.9	-1.0	7.2	4.2	1.9
- Non-oil sector*	% y/y	-8.8	3.2	2.8	3.3	3.5
Budget balance (FY)	% of GDP	-33.2	-10.3	-14.2	-11.4	-9.5
Current acc. balance	% of GDP	21.1	26.3	23.4	22.5	23.1
Inflation	% y/y	2.1	2.6	2.1	3.8	1.9

Corporate activity has lagged, though, weighed down by the uncertain business, regulatory and political environment. Reflecting the challenging landscape, credit growth to businesses in 2021 has been lackluster (+0.3 percent y/y in August). The labor market has also been in flux, following the departure of thousands of mainly low-skilled expatriates during the pandemic, while the employment of nationals in the private sector has retreated from 2019 levels (-2.7 percent to 62,296 in IH21). The authorities will be keen to reverse this trend; they also envisage greater business participation in the development plan.

## NBK has the largest NFC-enabled POS network in Kuwait

**KUWAIT:** National Bank of Kuwait (NBK) is keen to provide the latest and most advanced payment solutions to ensure quicker and easier banking experience for its customers. In this context, the bank provides the largest NFC-enabled POS network in Kuwait.

NBK increased its market share of the advanced NFC-enabled POS terminals to more than 15,000 POS terminals, representing the largest market share among banks in Kuwait. NFC services rely on executing payments by enabling the bank card to communicate with POS terminals or ATMs by waving the card, without inserting it into the device.

The NFC-enabled POS support advanced contactless payments in which customers do not use credit cards, such as smartwatch and smartphone payments, the service that NBK was the first to introduce in Kuwait. NBK had launched Fitbit Pay and Garmin Pay last year, using Fitbit and Garmin smartwatches, as well as Samsung Pay, which link NBK Credit Cards with compatible Samsung smartphones.

On this occasion, Prasad Srinivasa, Head of Payment Acceptance and Customer Loyalty, Consumer Banking Group, National Bank of Kuwait, said: "We strive to provide advanced payment methods that offer customers and merchants quick and convenient service. To this end, we seek to increase the coverage of our POS network, which is the largest NFC-enabled network in Kuwait, given its many advantages, as well as our commitment to ensure its security as a payment solution."

"We are always in touch with our customers to identify their needs, which we seek to meet by providing the latest technology in the banking industry that are on par with most advanced international levels. This comes in line with our digital transformation strategy and within our efforts to maintain our leadership in providing top-notch digital banking services in Kuwait and the region," he added. Srinivasa stressed that advanced payment solutions are a key part in our endeavors to enrich customers' banking experience, noting that NBK seeks to introduce more advanced services and continuous improvements for all the distinguished digital banking services provided to our customers.

NBK continues to enhance its leading position in the banking sector through the largest domestic banking network in Kuwait, with 68 branches all over the Country, as well as a large POS network exceeding 15,000 terminals, all NFC-enabled. In addition, NBK has the largest owned ATM network all over Kuwait.

Furthermore, NBK Customers can choose from a wide range of NBK Credit Cards providing them with the first and largest rewards program in Kuwait with up to 900 participating outlets. In addition to the bank's widespread branch network all over Kuwait and across 15 countries worldwide, and its large ATM/GDM network, as the bank always provides customers with the best, highly advanced and secure banking experience.

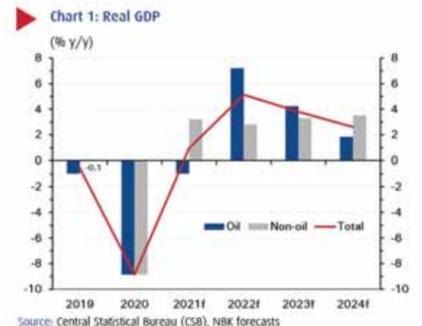


Prasad Srinivasa

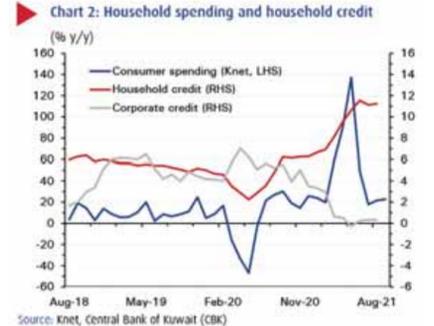
**OPEC+ cuts**  
The OPEC+ decision to ease output cuts to satisfy rising global oil demand will allow Kuwait to lift crude production and boost oil sector GDP, probably by about 4.4 percent y/y on average in 2022-24. Oil producers will be mindful of oversupplying the market, so output gains will be moderate. The full commissioning of the Clean Fuels and Al-Zour refinery projects, which will have effectively doubled Kuwait's refining capacity, will lead to incrementally higher output of more valuable refined products over the forecast period-boosting non-oil GDP (under which they are recorded in the national accounts) by about 0.9 percent pts to 3.2 percent on average. Headline GDP growth should average 3.9 percent.

**Inflation up on supply chain woes**  
Inflation nearly doubled to 2.1 percent in 2020 on the back of supply-chain pressures, higher international food prices and pent-up consumer demand. Inflation could average 2.6 percent this year before slowing in 2022. A VAT of 5 percent could be introduced in 2023, which will lead to a spike in prices that year. Monetary policy will remain accommodative but tighten slightly over the forecast period as the US Fed slowly lifts interest rates.

**A record fiscal deficit**  
The twin shocks of COVID-19 and low oil prices caused Kuwait's fiscal deficit, its 6th in a row, to swell to a record KD10.8 billion (33 percent of GDP) in FY20/21. Revenues declined sharply (-39 percent to KD10.5 billion), while expenditures grew marginally (+0.7 percent to KD21.2 billion). Cutbacks in capital spending helped offset some other outlay increases-mainly COVID-related. Looking ahead, while the FY21/22 budget is expansionary, we see spending restraint as more probable. The government appears serious in looking for cost-efficiencies, with a flurry of reports on deliberations over ministry budget cuts, fee increases, and even subsidy cuts. A large restructuring of the public sector was also recently proposed. Our base case view sees the most politically sensitive reforms taking time to materialize, but some non-oil revenue augmentation, limited initially to excise duties and VAT (worth up to 1.5 percent of GDP), is project-



Source: Central Statistical Bureau (CSB), NBK forecasts



Source: Knet, Central Bank of Kuwait (CBK)

ed by 2023. We expect the fiscal deficit to halve this year to around KD 4.2bn (10.3 percent of GDP), before narrowing further to 9.5 percent of GDP by 2024.

**Higher liquidity risk**  
In an era of fiscal deficits, financing has become the critical issue for policymakers, especially given the near depletion of the General Reserve Fund (GRF) and the absence of debt issuance (due to legislative impasse). Near-term liquidity risks have risen and so has the imperative of a comprehensive deficit-financing strategy, as cited by S&P in its July downgrade of Kuwait's credit rating to A+ (still solid investment grade). Asset swaps with the massive Future

Generations Fund and accrued dividends restructuring with KPC have, along with higher oil prices, helped inject liquidity to the GRF. These are only stop-gaps, though. Kuwait also has a \$3.5bn Eurobond maturing in early 2022. Ultimately, we do expect a new debt law to be approved over the coming months.

With around \$700bn in SWF assets (KIA) and very low public debt (12 percent of GDP), Kuwait easily has the financial resources needed to meet its obligations, but also, it is hoped, the space to gradually phase-in the structural reforms needed to reconfigure the economy, boost the role of the private sector and navigate the global energy transition away from fossil fuels.

**Kuwait's economy is gradually emerging from the pandemic, with consumption leading the rebound amid markedly higher oil prices. Oil production is increasing steadily as per the OPEC+ schedule, providing a welcome boost to oil GDP. Corporate activity and employment growth is a notable soft spot, though. Following a succession of fiscal deficits, the near-depletion of liquid assets in the GRF has heightened liquidity risks, but also focused policymakers' minds on fiscal sustainability and macroeconomic reforms.**



## ABK inks strategic partnership with IUK

**KUWAIT:** Following its efforts to foster education and provide cutting-edge digital financial solutions, Al-Ahli Bank of Kuwait (ABK), announced its strategic partnership with The International University of Science & Technology (IUK). The signing ceremony took place on the university's new campus, and was attended by Dr Barakat Al-Hudaiban, Chairman of the Board of Trustees, at IUK and Loai Mukames, CEO-Kuwait of ABK, Yasmine Salamah, General Manager - Corporate Banking at ABK, Johair Marafi, General Manager - Retail Banking and their respective teams.

The collaboration unites the two institutions' shared values of excellence, leadership, service and trust to drive impact for IUK's students, faculty and staff. ABK will support IUK students with a suite of services, including on-campus services during the registration period, exclusive salary transfers through ABK, an ATM on campus, and multiple other services.

Loai Mukames, Chief Executive Officer at ABK-Kuwait, said, "We are very pleased to sign this agreement with The International University of Science & Technology (IUK). The symbiotic relationship between ABK and IUK is significant in fostering the economic development of Kuwait. This is also the perfect opportunity for us to enhance the diffusion of knowledge, share innovative ideas, and ultimately employ from a wonderful pool of talent in the future. By supporting students leaning towards a career in the financial industry, we want to provide them with the required information so that they can make an informed decision about the direction they want to take once they graduate. Our teams are excited to be able to support the University with their corporate banking needs, as well as guide the students with their personal banking requirements."

Dr Barakat Al-Hudaiban, Chairman of the Board of Trustees at IUK said, "We are extremely happy to partner with a steadfast financial institution such as ABK. We are also very confident that this collaboration will reaffirm our commitment to offering students an innovative learning opportunity to enhance their finance knowledge while also supporting them with their banking needs. Together, we look forward to building a strong pipeline of talent who will lead the transformation of the country into an economic and trade hub, in line with Kuwait's 2035 vision."

## Etoile eyes overseas expansion with top skincare and cosmetics brands

**We are looking to access new markets in Europe, N America: Boresli**

**KUWAIT:** Etoile is a Kuwaiti company, established in 2016 with its own line of perfumes as well as partnering with international suppliers to include high end skincare, cosmetics and haircare products from countries such as South Korea, Italy, France, Singapore and Spain.

In an interview, Etoile founder & CEO Nasser Boresli said: "Our recent meetings with many commercial offices at embassies in Kuwait focused on establishing new partnerships with distinguished brands in cosmetics from those countries."

He added: "The meetings discussed ways to expand the scale of cooperation based on a regional business expansion plan to cover more areas." "Etoile has taken great strides to expand its business beyond the Gulf and to introduce new distinguished brands to their clients," Boresli added. Excerpts from the interview:

**Question: Can you tell us about your company, how did you start it?**

**Boresli:** We are a Kuwaiti-based company established in 2016 focused on the beauty sector (cosmetics, skincare, perfumes, etc). In light of our successful strategy, we are working towards expanding our partnership with new brands and suppliers to satisfy our trusting customer base in the GCC.

**Q: What products are you focusing on selling, and who are your customers?**

**Boresli:** Since the beauty market is increasingly growing, we are working to expand our portfolio of products in skincare, haircare, makeup and perfume brands from many countries. Also we are planning to acquire more brands from North America and Australia alongside our current partners.

**Q: What is the Kuwaiti market's appetite and potential growth in your sector?**

**Boresli:** Etoile had a strategy to work in all the GCC countries (Kuwait, KSA, UAE, Bahrain, Qatar and Oman) as a one entity and our operations are focused on reaching many clients there since we are the exclusive distributors for many of the international brands we represent. Since we started back in 2016 and with the help of e-commerce, we saw a

steady but gradual increase in sales. However, after the COVID-19 hit the globe, and with lockdowns effecting physical store sales, we took a huge and unprecedented leap in sales that continue till today.



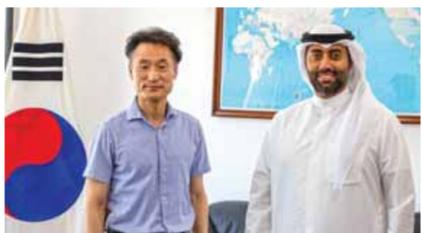
Etoile Founder and CEO Nasser Boresli

**Q: Many have faced issues during the COVID-19 lockdown. How did that effect your business?**

**Boresli:** As the COVID had many negative impacts on many industries, we in Etoile have had as I mentioned a positive effect since more customers started shifting to e-commerce platforms which generate a higher revenue per sale than usual physical stores. Also the abundance of cash at people's disposal due to the lack of travel, shopping malls and other venues, made more people buy more than before, and if they liked the product as well as the service they will continue. I do believe that you have to have a great product and a great quality customer service to match. You need them both to continue your success.

Nasser Boresli has more than 12 years of experience in supervision, auditing, compliance and governance with CBK & CMA. They include:

- Founder & CEO Etoile Kuwait
- Governance and Audit researcher at Reconnaissance Research.
- Master of Business Administration (MBA) (Concentration: Finance)
- Gulf University for Science and Technology (GUST)
- Higher diploma in Islamic Finance
- Bachelor's degree in Finance from Kuwait University's College of Business and Administration.



Nasser Boresli with Hong Chang Seok, Director General at Korea Trade Investment Promotion Agency



Nasser Boresli with Antonio Candela Royo, International Trade Advisor at the Spanish Embassy