

Kuwait Business Forecast Report Q1 2015

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Abstracts

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Core Views

We expect the Kuwaiti economy to perform relatively well over 2015 and 2016, and retain our forecast for real GDP growth of 2.7% and 2.5% respectively, from an estimated 2.9% in 2014. After a long period of stagnation, the Kuwaiti investment outlook appears to be improving, while the prospects for consumption remain bright. However, we again highlight Kuwait's ever-volatile political situation as the key downside risk to economic activity.

Kuwait has seen a flurry of populist legislation recently, including several measures specifically targeting expatriate workers. This runs the risk of increasing uncertainty within the private sector, as well as cementing perceptions of the country as a hub of policy instability. We expect tensions to remain between the government and the legislative branch, even with the election of a renewed 'loyalist' parliament.

We forecast consumer price inflation in Kuwait to average 3.8% and 4.0% in 2015 and 2016 respectively, up from 3.0% in 2014. While we expect a slight fall in Kuwaiti food inflation over the near term on the back of lower global prices, a tight supply picture in the real estate market will fuel housing inflation over the coming quarters, in a trend seen across the Gulf Cooperation Council.

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BMI Political Risk Index

Domestic Politics

Political Risk: One Step Forward, Two Steps Back

Political risks will remain the key threat to Kuwait's economic growth over the coming years, particularly for fixed investment. While the government has a more loyalist National Assembly than in any time in its recent history, rumours of an attempted coup and corruption allegations will ensure that political intransigence remains a key block to reform.

Table: POLITICAL OVERVIEW

Long-Term Political Outlook

Democracy: No Turning Back

Kuwait's political backdrop is complicated by labour and population imbalances, as well as a parliament that has consistently blocked the government's reform efforts. Meanwhile, with six dissolutions of the National Assembly and subsequent elections since 2006, the prospect of new polls and policy instability is always on the horizon.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Lagging The Rest Of The GCC

Kuwait's economy will grow at a modest pace over the coming quarters as the dominant oil sector weighs on headline growth. While net exports will see only marginal growth, private consumption and investment activity will pick up, partly on the back of low base effects.

We forecast real GDP growth of 2.9% in 2014 and 2.7% in 2015, from an estimated 3.1% in 2013.

Table: GDP By Expenditure

Fiscal Policy

Huge Surpluses Mask Longer-Term Problems

Kuwait will continue to record huge budget surpluses over the coming years as oil revenues remain elevated and capital spending is hamstrung by political paralysis. We forecast the budget surplus to come in at 20.6% of GDP in FY2014/15 and 17.4% in FY2015/16.

We do not expect any significant reform of subsidies for nationals, and current spending will therefore continue to grow strongly.

Table: Fiscal Policy

Banking Sector

Promising Outlook Starting To Materialise

We expect the recovery in Kuwait's banking sector to continue over H214 and into 2015, and forecast credit growth to reach 7.5% by the end of the year, up from 6.3% in 2013. Commercial banks will benefit from resilient domestic consumption, while the government's relative control of parliament is likely to ensure further progress in capital expenditure.

Monetary Policy

Housing Costs To Push Inflation Higher

Kuwait's consumer price inflation will average 3.0% and 3.8% in 2014 and 2015 respectively, from 2.5% in 2013. We expect the housing market to increasingly account for inflationary pressure as food prices remain in deflation for the rest of the year.

Islamic Banking

New Markets To Emerge, But Impediments To Restrain Growth

We maintain our bullish outlook on the global Islamic banking sector over the coming years. However, we believe that growth rates have peaked and highlight numerous obstacles to the sector gaining global precedence.

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GCC: A Decade Of Diversification Ahead

Economic growth in the Gulf Cooperation Council will slow over the coming decade as weaker oil prices and marginal gains in oil output weigh on the all-important hydrocarbons sector. Further gains will be driven by the non-oil private sector, and we expect a shift in the shape of growth towards private consumption and away from the export-driven model that has been in place since 2000. In addition, we expect diversification efforts to gather pace, partly due to fiscal pressure. Saudi Arabia and Oman are best placed in this regard, while Kuwait will remain behind.

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