

Kuwait Business Forecast Report Q2 2014

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Abstracts

Core Views

We expect the Kuwaiti economy to perform relatively well over 2014, and retain our forecast for real GDP growth of 2.9%, from an estimated 3.0% in 2013. 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 some tensions to remain between the government and the legislative branch, even with the election of a renewed 'loyalist' parliament.

We forecast average consumer price inflation for Kuwait of 3.0% and 3.5% for 2013 and 2014 respectively, up from 2.9% in 2012. 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 GCC.

Major Forecast Changes

As ever, given the economy's heavy dependence on oil, any sustained downturn in global energy prices would prove disastrous.

That said, Kuwait has the financial wherewithal to cope with any short-term volatility in oil prices, and therefore the underlying risks in this regard are minimal.

Our forecasts assume the implementation of the government's development plans will be slow owing to the impact of bureaucratic gridlock. However, the state certainly has the firepower to move forward with its capital spending plans if political compromises can be reached. Further, a renewed loyalist parliament, following legislative elections in July 2013, offers the prospect of an acceleration of long-delayed economic reforms and infrastructure projects. Any improvement on this front would pose upside risks to our growth forecasts, as well as downside risks to our budget surplus projections.

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Kuwait's political backdrop is complicated by labour and population imbalances, as well as a parliament which 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.

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We expect the Kuwaiti economy to perform relatively well over 2014, and retain our forecast for real GDP growth of 2.9%, from an estimated 3.0% in 2013. 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.

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