

# Kuwait Business Forecast Report Q4 2014

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## Abstracts

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### Core Views

We expect the Kuwaiti economy to perform relatively well over 2014 and 2015, and retain our forecast for real GDP growth of 2.9% and 2.7% respectively, 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 3.8% and 4.0% for 2014 and 2015 respectively, up from 3.3% in 2013. 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.

### Key Risks To Outlook

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.

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Key Risks To Outlook

### CHAPTER 1: POLITICAL OUTLOOK

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Minimal Risks From ISIS Advance, For Now  
The rapid gains by the Islamic State of Iraq and the Levant (ISIS) across Iraq and Syria pose a significant threat to stability in neighbouring countries. However, despite government proclamations, we believe Kuwait faces less significant risks given the country's military capabilities and buffer of southern Iraq. That said, returning Kuwaiti fighters from ISIS's ranks present a longer-term risk.

Table: Political Overview  
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Democracy: No Turning Back  
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.

### CHAPTER 2: ECONOMIC OUTLOOK

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Kuwait's economy will perform relatively well over H214 and 2015, and we retain our forecast for real GDP growth of 2.9% and 2.7 %in 2014 and 2015 respectively, from an estimated 3.0% in 2013. Growth will increasingly be driven by investment and consumption; however, economic activity in Kuwait will lag the rest of the Gulf States, and risks are weighted to the downside due to the country's

ever-volatile political situation.

Table: Economic Activity

#### Fiscal Policy

##### Subsidy Reform For Nationals Highly Unlikely

Kuwait's generous subsidy system is not set for substantial reform despite increasing calls for a review of the scheme. Kuwait's political structure and the need for parliamentary approval are likely to prevent the passage of any subsidy reforms affecting nationals.

By contrast, we expect the provision of subsidies to Kuwait's vast expatriate population to be gradually reduced over the coming year.

Table: Fiscal Policy

#### Banking Sector

##### Brightening Outlook

We hold a moderately bullish outlook for Kuwaiti commercial banks over 2014 due to improvements in the operating environment and a slight pick-up in government investment spending and construction activity. We forecast credit growth of 7.5% by the end of 2014, from 7.3% in 2013 and just 3.1% in 2012. As ever, the country's political situation remains a key downside risk.

#### Monetary Policy

##### Housing To Push Inflation Higher

Kuwait's consumer price inflation will average 3.4% and 4.0% in 2014 and 2015 respectively, from 3.0% in 2013. We anticipate the trend of global lower food prices to be coming to an end, and see some risks of a food price spike. However, it is the housing market which will have the largest impact as a tight supply picture sees price gains in the real estate sector - a trend seen across the GCC.

Table: Monetary Policy

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##### Growth To Slow, But New Markets To Surface

Islamic finance is set for continued growth as several countries vie to become global centres, although expansion rates have peaked. At present, we expect Malaysia to remain the global leader in Islamic banking, although there will be concerted competition from Dubai. In addition, there is huge growth potential in India, Nigeria and Thailand.

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