



IFN Forum Kuwait

Macroeconomic Outlook for Kuwait and the GCC

By Tariq Alrifai

Overview



- Review and update on Global economy
- Oil market trends and outlook
- Kuwait and GCC economic outlook

Recent News Headlines

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South Korea exports plunge 14.7%

September 1, 2015



China imports collapse in September, exports remain weak

October 12, 2015



India's exports fall 24.3%, imports 25.2% YTD, 10th straight monthly decline

October 15, 2015



Japanese Economy shrank 1.2% in second quarter as weak consumption, exports hit GDP

September 8, 2015



Brazil hurtles towards its worst recession in 25 years

August 17, 2015



Singapore is about to enter technical recession

October 12, 2015



Dubai Property Prices Fall Most in the World

September 1, 2015



Saudi Arabia to cut spending after oil price decline

September 6, 2015

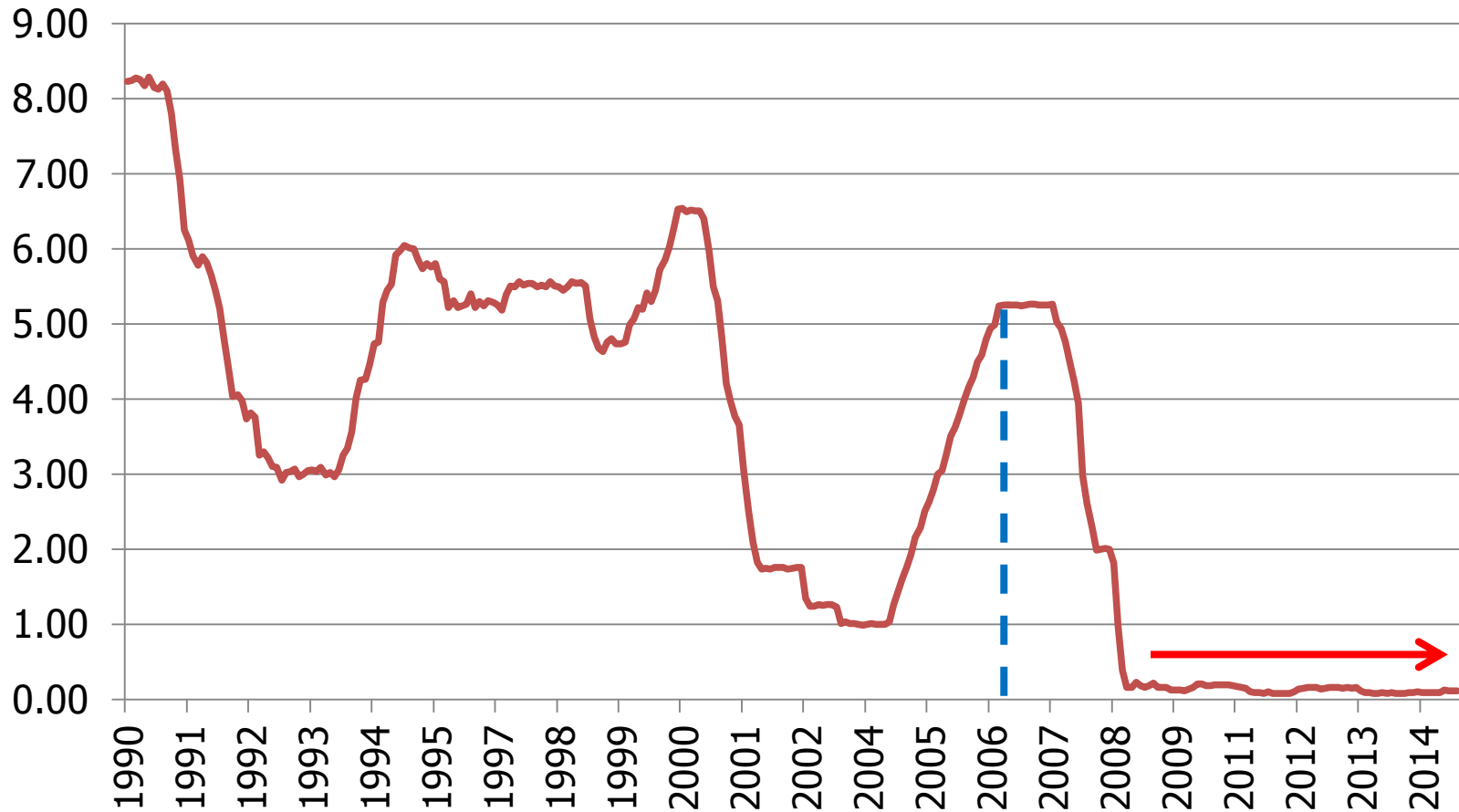
Countries that have cut interest rates this year



Albania, Australia, Botswana, Canada, China, Denmark, Egypt, EU, India, Indonesia, Israel, Pakistan, Peru, Poland, Romania, Russia, Singapore, South Korea, Switzerland, Thailand, Turkey, Uzbekistan.

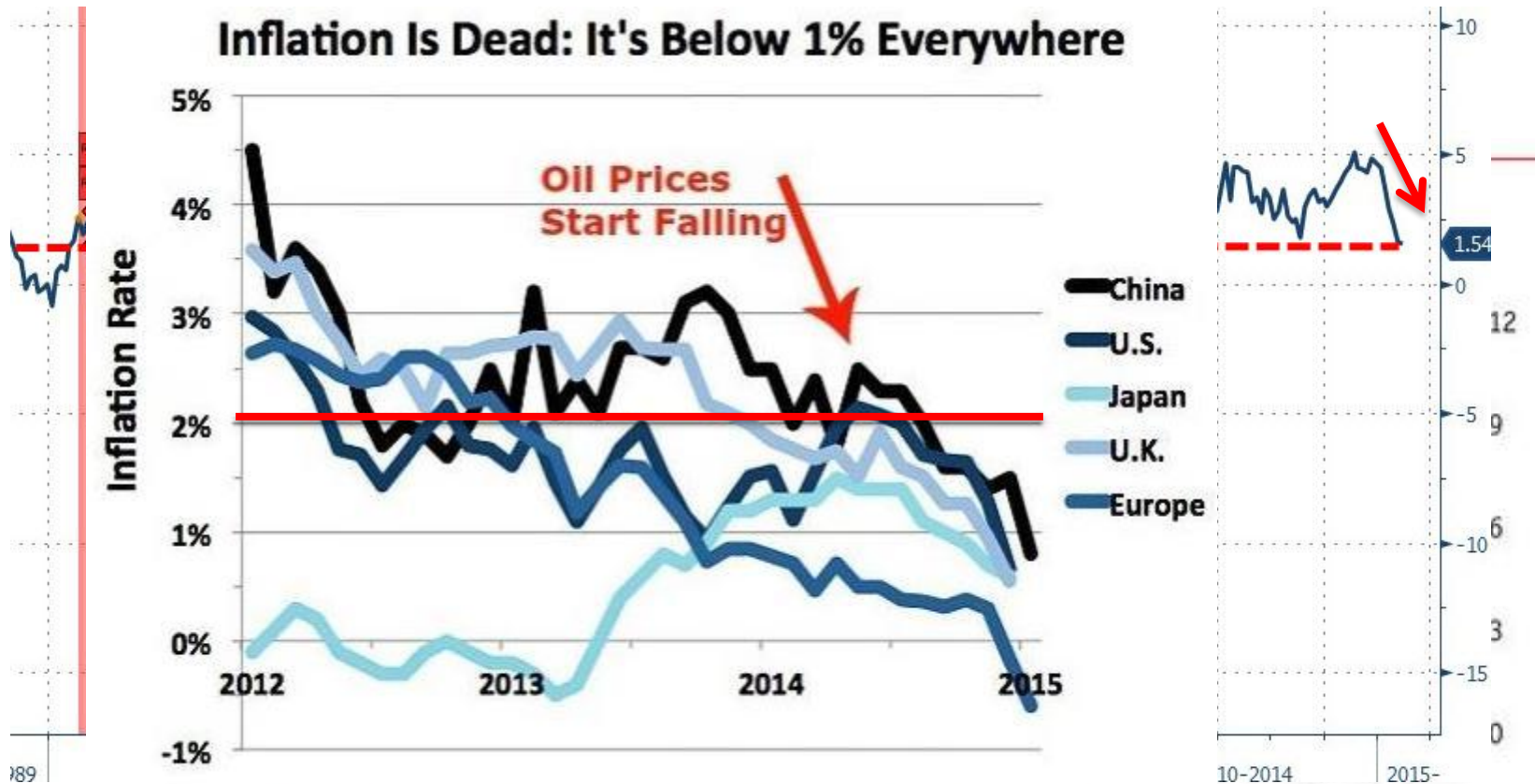


U.S. Federal Funds Rate



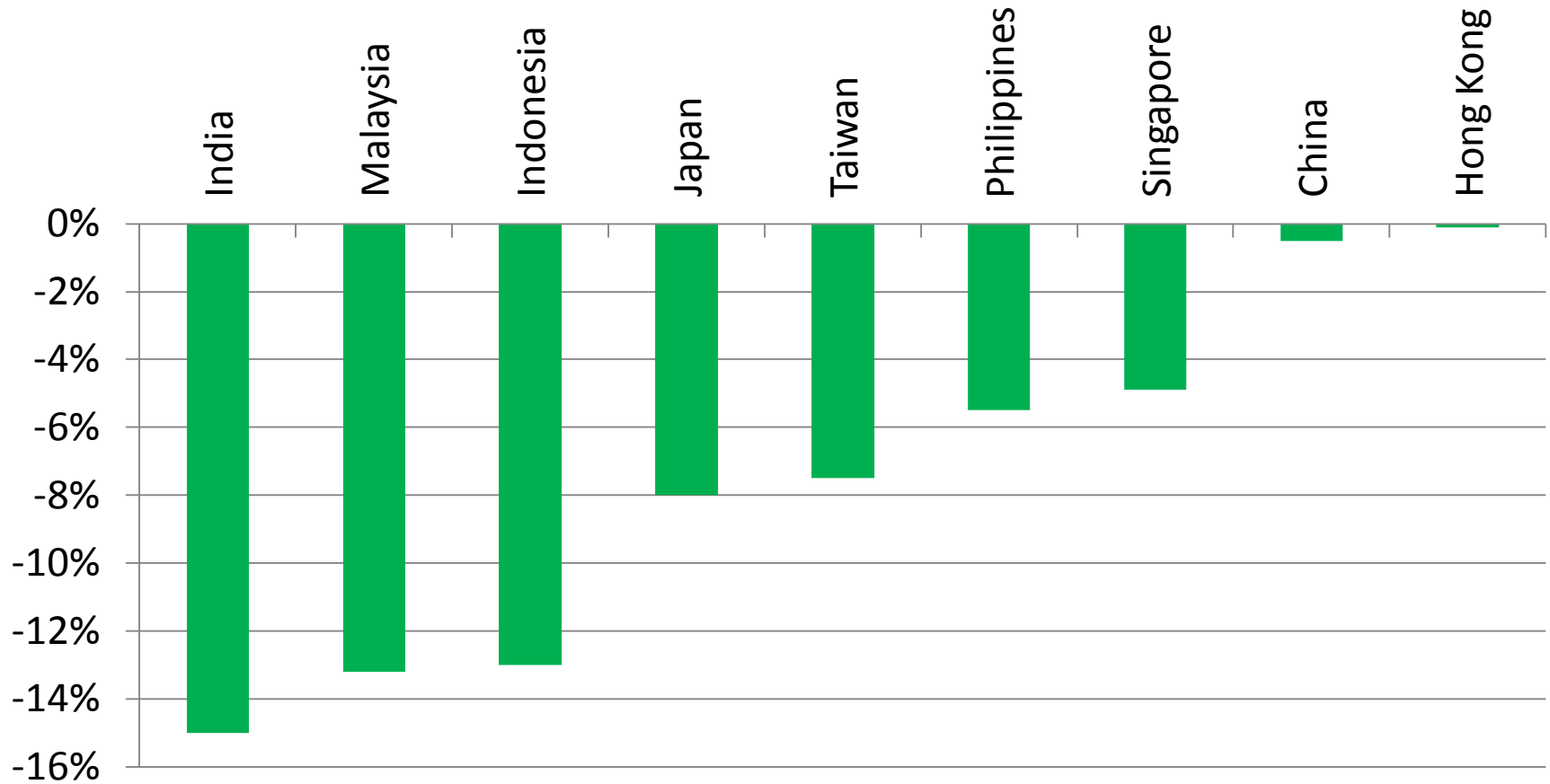
Source: Federal Reserve Bank of St. Louis

Improving economics?



YTD Export Growth

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Source: Deutsche Bank

Quantitative Easing

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Current Federal Reserve Policy Under the Lens of Economic History: A Review Essay

Stephen D. Williamson

Working Paper 2015-015A
<http://research.stlouisfed.org/wp/2015/2015-015.pdf>

July 2015



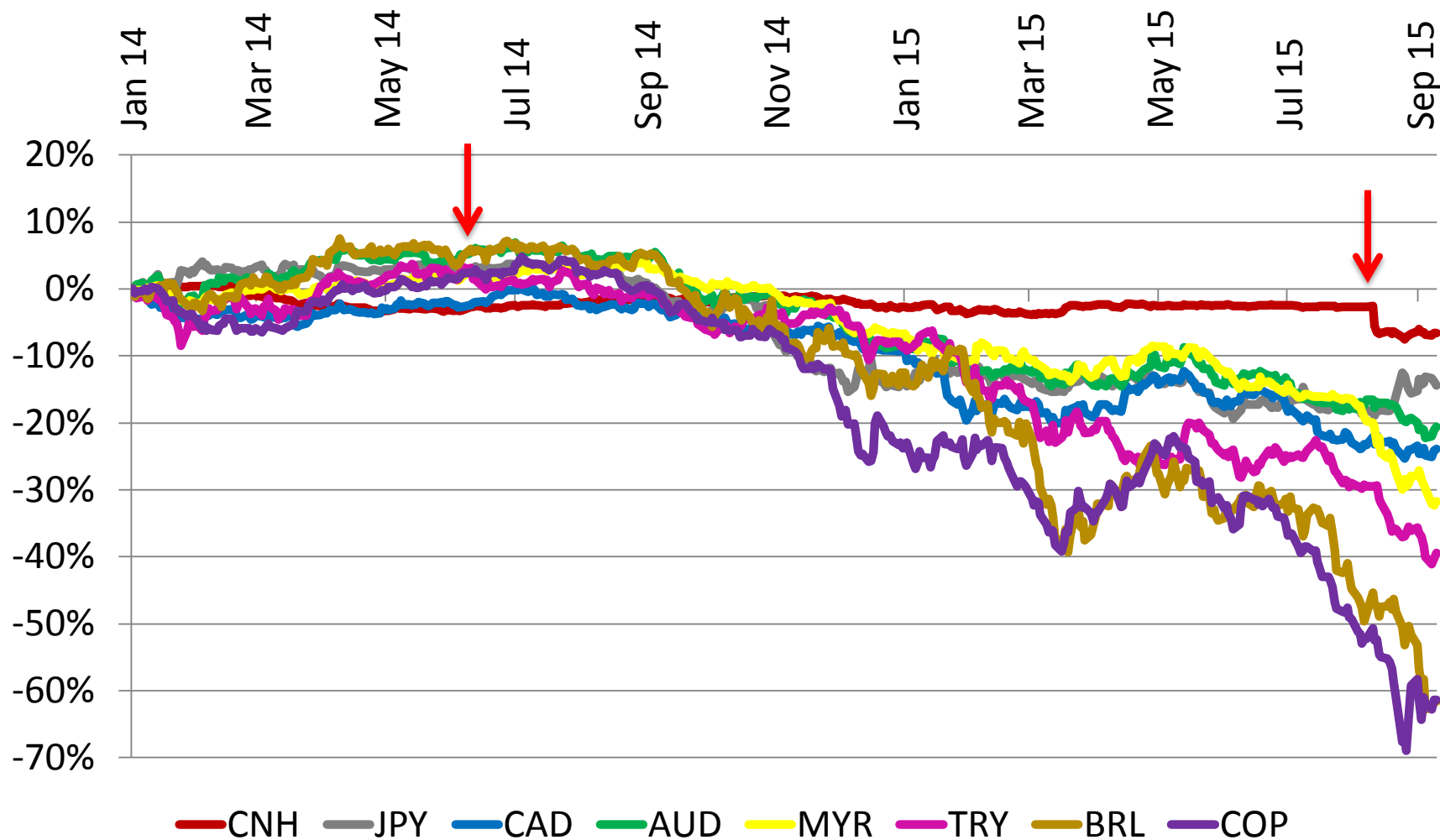
with monetary accommodation working through reductions in long-term bond yields rather than short-term yields.

Evidence in support of Bernanke's view of the channels through which QE works is at best mixed. For a review of the empirical work on QE, see Williams (2014) and Neely (2015). Much of the work on the quantitative effects of QE consists of event studies, whereby researchers look for effects on asset prices close to the date of an announced QE intervention. There is also some astructural regression evidence. All of this research is problematic, as it is atheoretical.

There is no way, for example, to determine whether asset prices move in response to a QE announcement simply because of a signalling effect, whereby QE matters not because of the direct effects of the asset swaps, but because it provides information about future central bank actions with respect to the policy interest rate. Further there is no work, to my knowledge, that establishes a link from QE to the ultimate goals of the Fed – inflation and real economic activity. Indeed, casual evidence suggests that QE has been ineffective in increasing inflation. For example, in spite of massive central bank asset purchases in the U.S., the Fed is currently falling short of its 2% inflation target. Further, Switzerland and Japan, which have balance sheets that are much larger than that of the U.S., relative to GDP, have been experiencing very low inflation or deflation.

Blame China?

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Data source: Thomson Reuters

Commodities

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TR/CRB Index

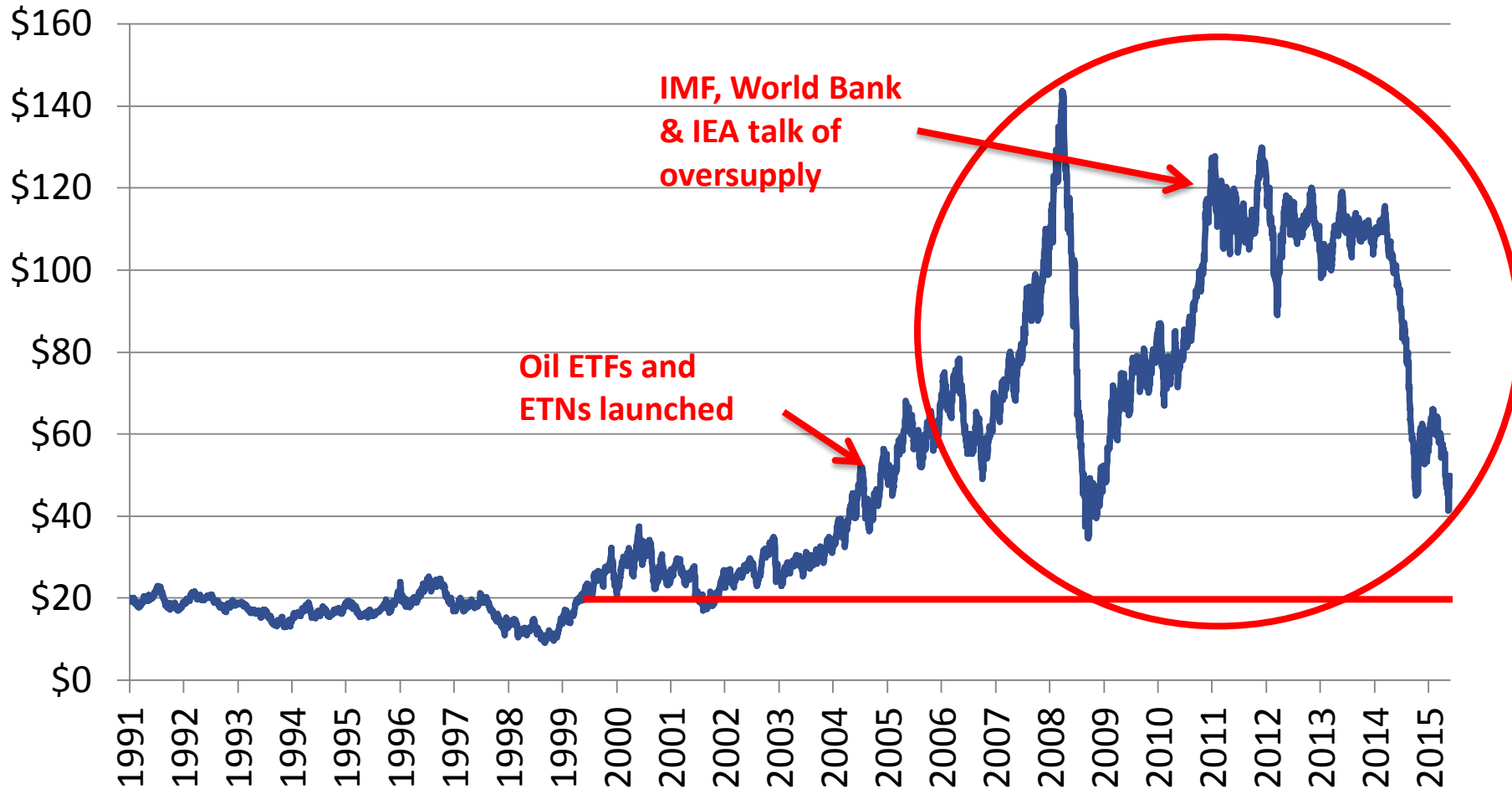


Data source: Thomson Reuters

Oil



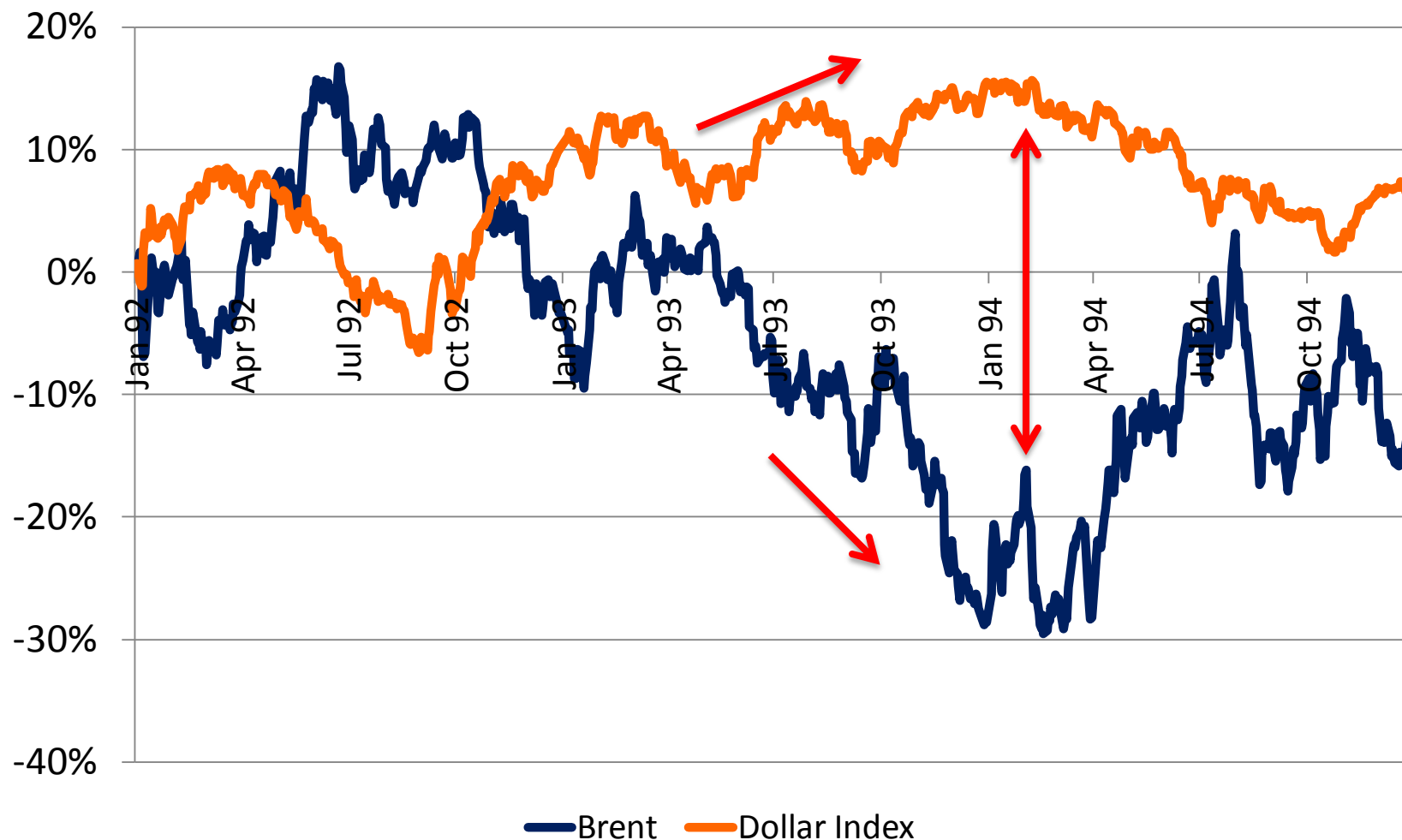
Price of Brent Crude from 1991 to 2015 (Sep.)



Data source: Thomson Reuters

Oil vs. US Dollar (1992-1995)

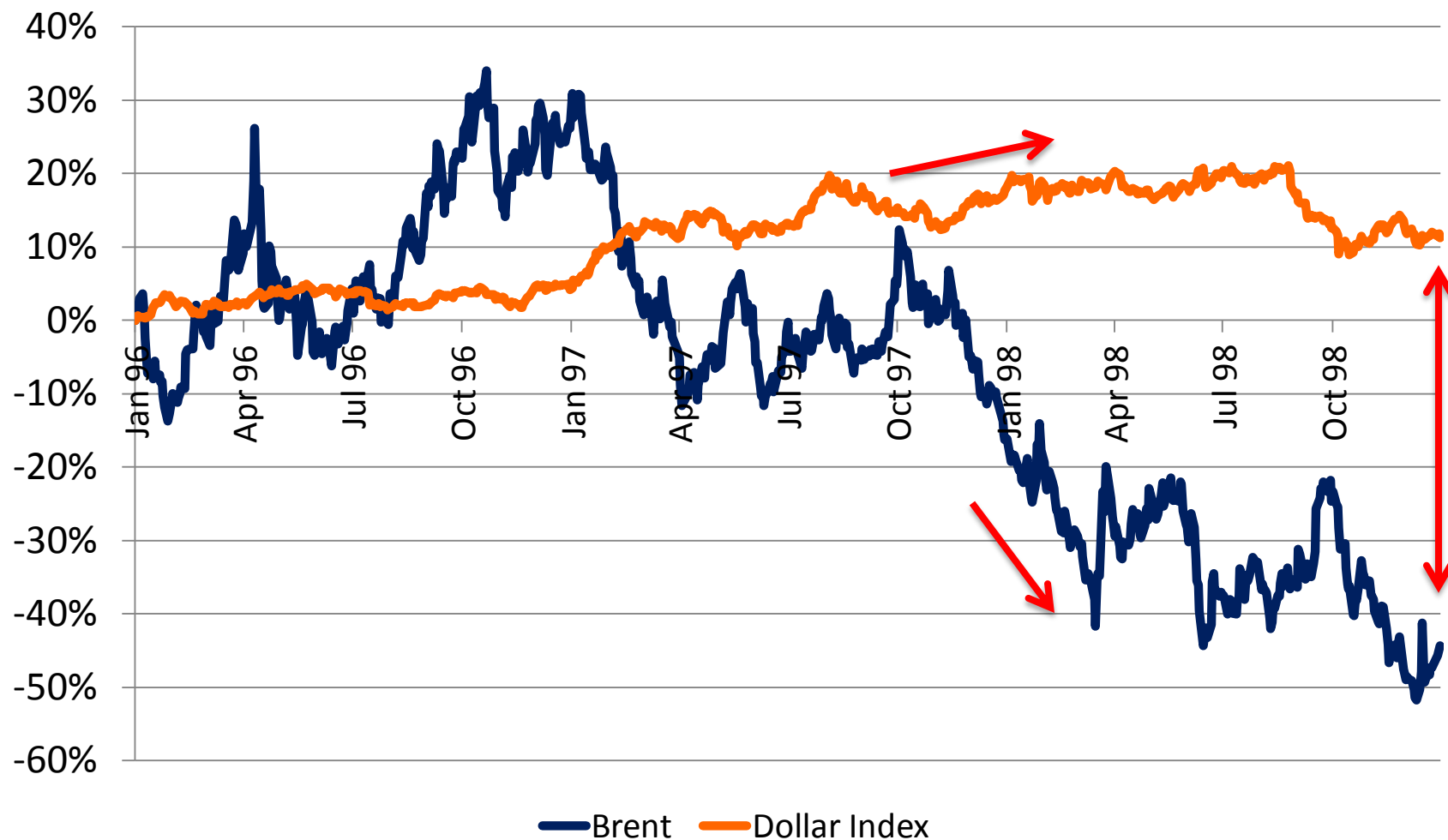
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Data source: Thomson Reuters

Oil vs. US Dollar (1996-1999)

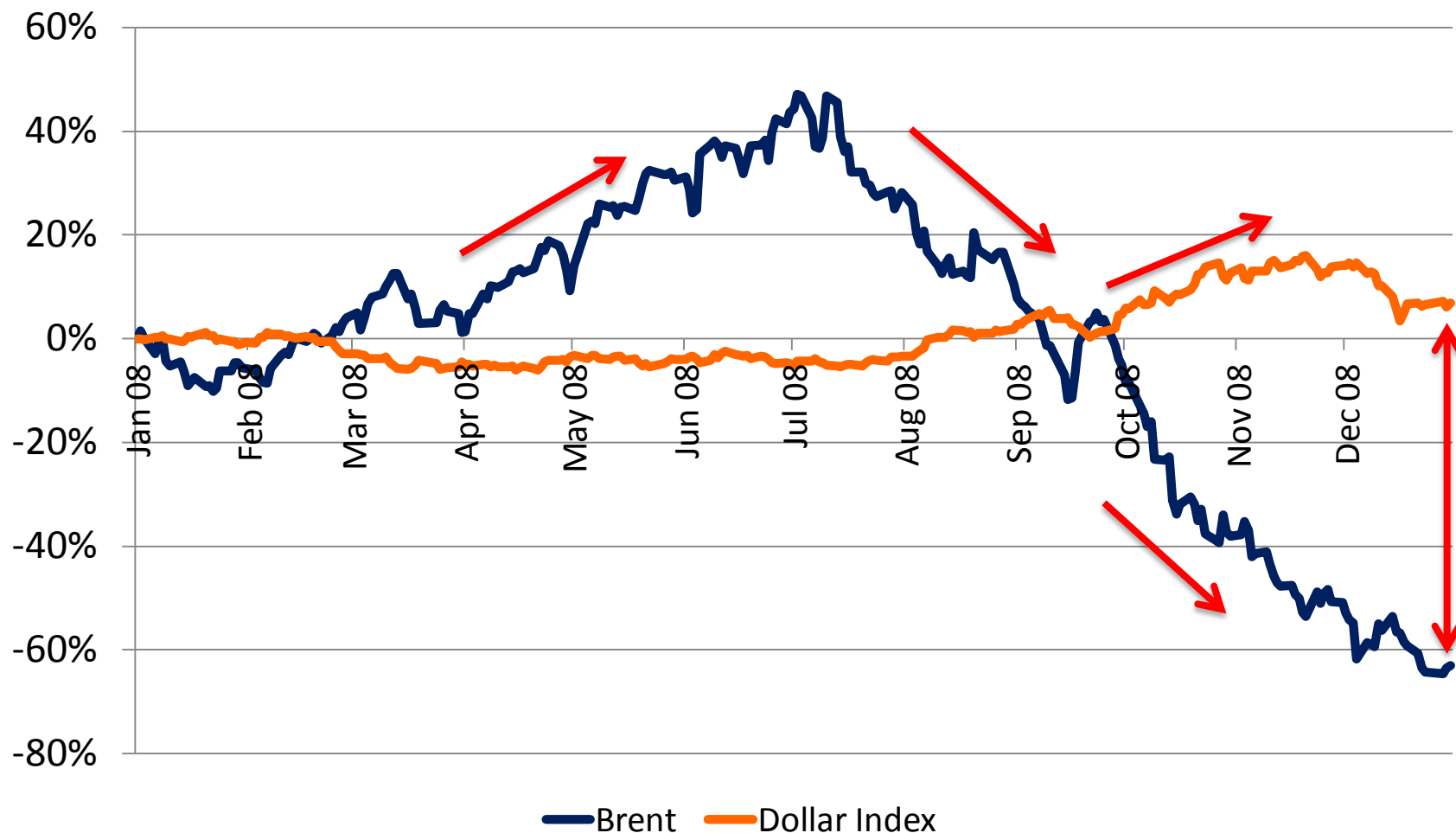
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Data source: Thomson Reuters

Oil vs. US Dollar (2008-2009)

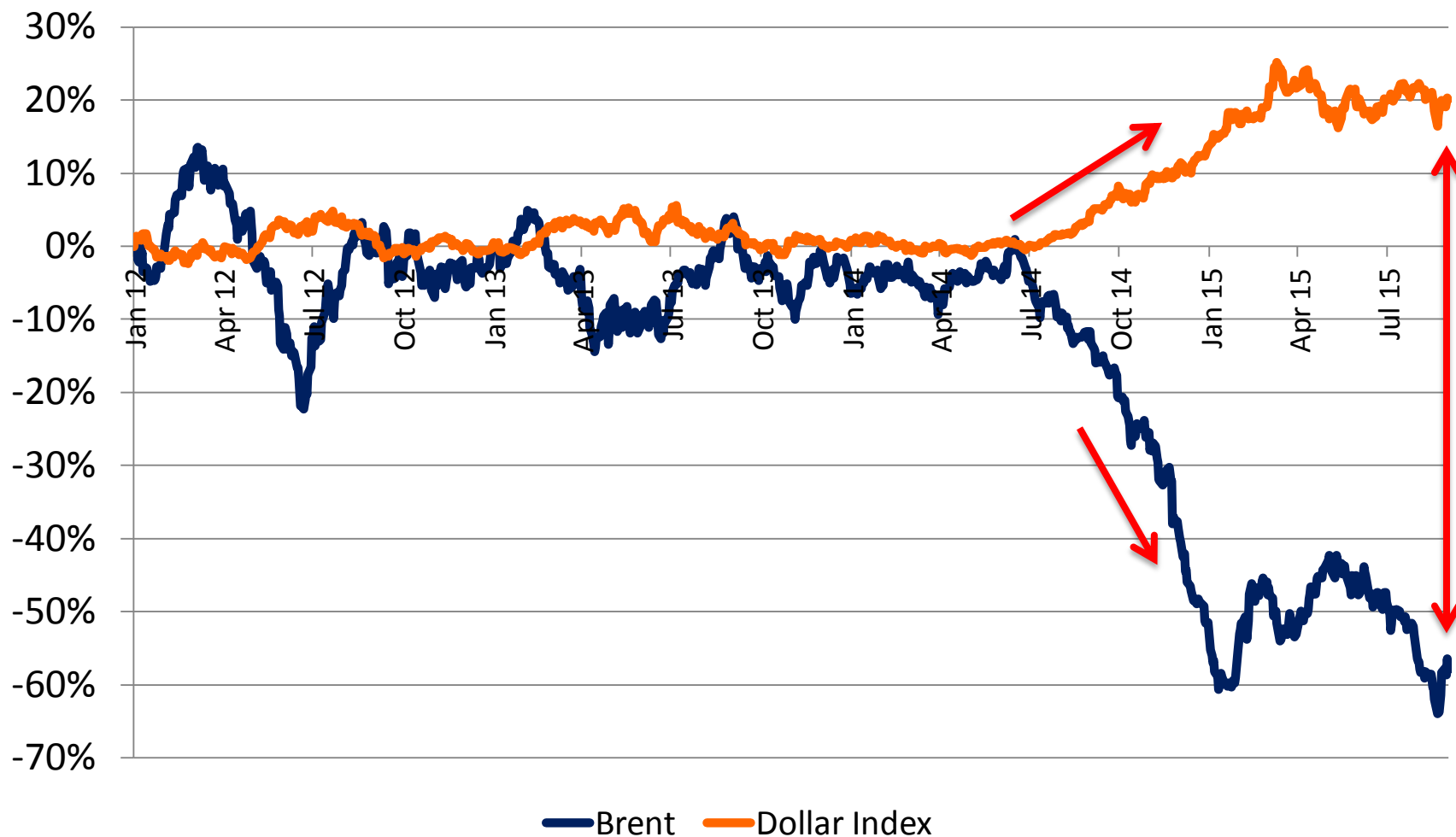
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Data source: Thomson Reuters

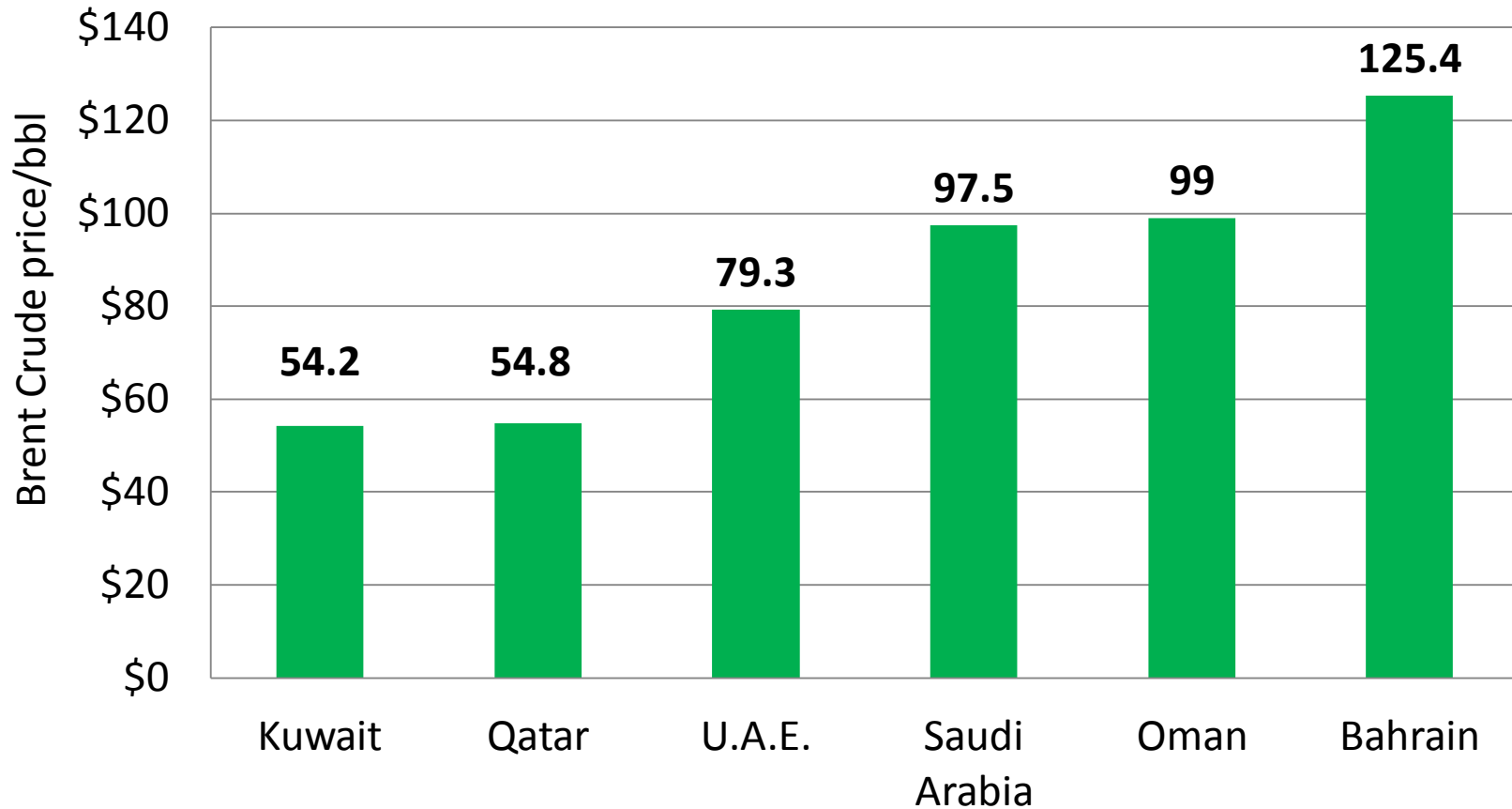
Oil vs. US Dollar (2012-2015)

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Data source: Thomson Reuters

GCC countries' breakeven oil price to meet budget needs



Data source: International Monetary Fund

Outlook for GCC economies and the banking sector



- Budgetary cuts across the board will lead to slower economic growth for the rest of 2015 and 2016
- Look at the low oil price environment of the 80s and 90s to see what is next (spending cuts, infrastructure cuts, introduction of taxes?, reduction in subsidies?)
- Liquidity is being removed from the global financial system as a result of a drop in the petrodollar
- GCC governments are drawing down on their foreign investments, currency reserves and GCC bank deposits
- The GCC banking sector outlook is weak, interest margins have been under pressure in 2015 and will drop further going into 2016
- Bank deposit growth to slow
- Asset quality is expected to deteriorate
- Bank earnings to slow through 2016



Kuwait's Key Macroeconomic Indicators

Key Indicators	2012	2013	2014	2015F
GDP Growth %	6.6	0.8	0.1	1.2
Inflation %	4.4	2.7	2.9	3.3
Kuwait interbank Discount Rate%	2.0	2.0	2.0	2.0
Government Expenditure, KWD bln	18.5	18.8	20.8	19.6
Current account Balance USD bln	78.7	72.5	53.5	11.4
Current account Balance % of GDP	45.2	41.2	31.0	9.3

• **Economic Updates:** Kuwaiti constant price GDP growth went down to 0.8% y-o-y in 2013 from 6.6% in 2012 according to latest data released by the International Monetary Fund (IMF). The GDP growth in 2014 rose by 0.1%. The weaker growth in 2014 was largely due to Kuwait oil price, which retreated by 45% when reached USD58.5, its average lowest price on December 2014, compared to USD106.3 its average highest price on June 2014. The estimated GDP growth in 2015 is 1.2%

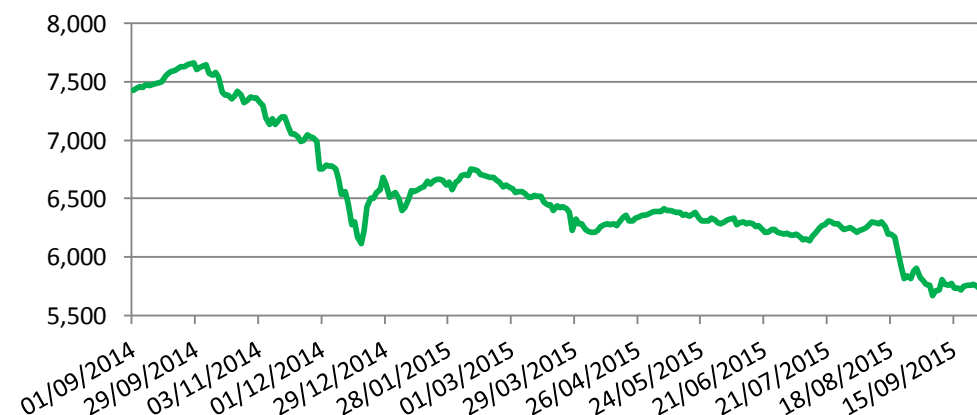
• **Inflation Updates and Outlook:** Consumer prices eased to 2.7% y-o-y at the end of 2013, down from 4.4% y-o-y. The inflation increased by 2.9% at the end of 2014. The estimated inflation for the year end 2015 is 3.3%.

• **Monetary Policy Updates:** We predict that Kuwait's interest rates to stay unchanged at 2% until the Federal Reserve starts to tighten policy in mid-2016.

• **Currency Updates:** The Kuwaiti dinar (KWD) traded in a narrow range at an average of 0.3017 against the USD during the period September 2014 - September 2015, with a high of 0.3020 and a low of 0.3009.

• **Stock Market Performance:** KSE Price Index closed at 5,725.96 points as at 30 September 2015, with a decline of 12.4% year-to-date.

Kuwait: KSE Index (September 2014-September 2015)



Kuwait Banking Sector



Kuwait's Key Banking Indicators (Islamic & Conventional)

** Key Indicators	2012	2013	2014	2015*
Total Assets, KWD mln	47,145	51,485	55,462	56,876
Total Financing, KWD mln	29,021	31,149	32,720	33,615
Total Deposits, KWD mln	33,504	36,442	37,625	38,783
Financing Growth %	3.1	7.3	5.0	2.7
Deposit Growth %	9.0	8.8	3.2	3.1

*July 2015

**These balances differ from the corresponding balances in the table presented in the first slide, due to discrepancy in the timing of transaction recording between local banks and the CBK.

- ✓ According to the Central Bank, total assets of Kuwaiti banks reached KWD56.88bln, the equivalent of USD187.99bln at the end of July 2015, an increase of 2.5% y-t-d compared to KWD55.5bln at the end of 2014. However, the total assets retreated by 1.2% m-o-m compared to the previous month when registered KWD57.58bln in June 2015.
- ✓ July 2015 loan growth reached 2.7% y-t-d. Total loans in July 2015 stood at KWD33.8bln, compared to KWD32.7bln at the end of 2014. Total bank loans marginally decreased m-o-m by 0.4%, compared to KWD33.75bln in June 2015.
- ✓ Total deposits increase by 3.1% y-t-d in July 2015 to KWD38.78bln, compared to KWD37.63bln at the end of 2014. Total bank Deposits decreased m-o-m by 1.5%, compared to KWD39.36bln in June 2015.
- ✓ The banking sector in Kuwait faces some negative factors such as exposure heavily on the real estate markets, the non-performing loans and the lack of funding for small and medium enterprises in the country.
- ✓ We expect total banking assets and liabilities will gradually increase in the upcoming years. Bank assets are expected to increase due to the expected government financing increase. This comes after assurance from the Minister of Finance that any budget deficit will be covered by the local banks and/or Kuwait government entities such as the KIA.



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