GCC and global sentiments affected by virus outbreak in China

U.S Fed keeps rates unchanged; U.K. officially leaves the EU

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GCC markets ended the month in negative territory weighed down by losses in Saudi Arabian markets. Other GCC markets posted mild gains. Gloom over the outbreak of coronavirus in China, its subsequent impact on global growth and geopolitical tensions in early January have contributed to weak investor sentiments.

We see the following issues as key developments during the month of January:

1. **Neutral Outlook for GCC Markets in 2020 -** The Outlook for GCC Equity market for 2020 is neutral amidst expectation of oil prices remaining around 2019 levels, and moderate improvement in corporate earnings and non-oil sector growth supported by government spending.

2. **GCC country-wise Performance Analysis 2019 -** Kuwait has emerged as a top performer gaining 23.7% while other GCCs markets remained neutral. Capital market reforms, inclusions in MSCI and other indices etc. have had a positive influence on market performance during the year.

3. **GCC Capital Market Reforms in 2019 -** 2019 saw some important capital market reforms across GCC countries that were received well by the market. Relaxation of foreign ownership limits, market development initiatives etc. are expected to strengthen the market.

4. **Kuwait releases budget 2020/21 with record fiscal deficit-** Lower projected revenues and unchanged levels of expenditure are expected to yield a high budgeted fiscal deficit for Kuwait. The government has planned to fund the deficit by drawing on the state reserves.

GCC Market Commentary

GCC Market Trends –January 2020

Index	M. Cap (USD Bn)	Last close	2019 %	Jan'20	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	893.6	115	8.3	-0.9	-0.9	0.132	N.A	14.8	2.0	3.4
Saudi Arabia	2,332.3	8,247	7.2	-1.7	-1.7	0.068	1,035.6	18.2	2.1	N.A
Qatar	145.4	10,442	1.2	0.2	0.2	0.109	60.3	14.3	1.4	4.2
Abu Dhabi	145.8	5,156	3.3	1.6	1.6	0.092	31.3	13.2	1.4	4.8
Kuwait (All Share PR)	120.2	6,325	23.7	0.7	0.7	0.013	158.9	15.3	1.4	3.4
Dubai	81.4	2,790	9.3	0.9	0.9	0.124	47.7	6.9	0.9	4.3
Bahrain	27.3	1,658	20.4	2.9	2.9	0.043	2.1	11.4	1.0	4.2
Oman	13.2	4,079	-7.9	2.5	2.5	-0.010	4.8	8.5	0.7	6.8

Source: Reuters, Zawya, Note: * Average Daily Value Traded ** - 3-year daily return correlation with S&P 500 index

S&P GCC composite index declined by 0.9% for the month with losses in Saudi Arabian markets offsetting mild gains in others. Saudi Arabia ended the month in negative territory, losing 1.7%. Declining oil prices have affected Saudi markets, with Saudi Aramco falling by 3.1% for the month. Bahrain was the top performer in January, gaining 2.9%, followed by Oman and Abu Dhabi which gained 2.5% and 1.6%.

Monthly returns heat-map of S&P GCC Composite index

S&P GCC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	3.4%	3.7%	2.7%	2.8%	3.2%	-7.4%	8.1%	6.4%	-1.4%	-6.8%	-10.9%	-4.4%	-2.6%
2015	2.8%	4.4%	-6.9%	10.1%	-2.3%	-3.5%	0.1%	-13.2%	-1.1%	-2.7%	-2.3%	-2.4%	-17.3%
2016	-10.7%	3.7%	1.9%	5.7%	-5.1%	1.1%	-0.1%	-1.2%	-3.9%	2.2%	7.9%	4.2%	4.3%
2017	1.6%	-0.8%	-1.5%	-0.4%	-1.4%	3.2%	-0.4%	0.9%	-0.6%	-2.7%	-1.5%	3.4%	-0.4%
2018	5.3%	-2.5%	3.4%	2.9%	-0.4%	1.1%	2.2%	-2.5%	0.2%	0.1%	-2.0%	0.7%	8.4%
2019	6.8%	-1.0%	2.8%	4.4%	-5.6%	2.5%	1.1%	-5.8%	-0.7%	-2.6%	1.3%	5.9%	8.3%
2020	-0.9%												-0.9%

Source: Reuters

Kuwait All Share index registered mild gains, increasing by 0.7% in January. Among Kuwait's Blue Chip companies, Agility Public Warehousing and Kuwait Finance House (KFH) were the top gainers with monthly gains of 3.9% and 3.2% respectively. KFH has come out with strong earnings numbers, reporting 10.4% year-on-year increase in profit for the full year 2019. Kuwait's oil and gas sector was the best performer in January, with the sector index rising by 4.4% while the Technology sector was the top loser, falling by 3.8%.

Among the GCC Blue Chip companies, Qatar Islamic Bank was the top gainer for the month with its stock price rising by 8.9%, supported by strong earnings, with its net profit for 2019 up by 11% on 2018. DP World ranked second among gainers posting a 6.9% increase.

Global Market Trends – January 2020

Equity	Last close	January change (%)	2020 change (%)
S&P GCC	115	-0.9	-0.9
MSCI World	2,342	-0.7	-0.7
S&P 500	3,226	-0.2	-0.2
MSCI EM	1,062	-4.7	-4.7
MSCI FM	991	0.1	0.1
Commodities			
IPE Brent($)	58.2	-11.9	-11.9
Gold($)	1,590	4.8	4.8

Source: Reuters

The performance of Global equity markets was mildly negative with the MSCI World Index losing 0.7% for the month. U.S. equities (S&P 500) fell by 0.2% in January. Though increase in non-farm payrolls, sealing of U.S-China trade deal, revival in U.S housing market and good corporate earnings numbers were positives for the month, the gains were reversed by worries over the spread of coronavirus and the now de-escalated U.S-Iran tensions. The UK market (FTSE 100 index) closed 3.4% lower during January. With the ratification of the Brexit Bill, Britain has formally left the European Union (EU) on 31st January 2020 and would be in transition period for the following 11 months, after which it would completely exit EU. Though the markets reacted positively to the development, weak U.K retail sales numbers and virus outbreak have contributed to the decline. Emerging markets ended the month in negative, with the MSCI EM posting monthly loss of 4.7%. China, being the epicentre of the coronavirus breakout that is rattling global markets, lost 2.4% in January.

Oil prices closed at USD 58.2 per barrel at the end of January 2020, which is 11.9% lower than December 2019. The coronavirus outbreak in China has raised concerns over oil demand from the second largest importer of Oil, leading to a freefall in oil prices close to the end of January. Oil markets have remained volatile throughout the month, with the U.S - Iran confrontation in early January driving the prices up to USD 68.7 per barrel. De-escalation of the issue and weak Chinese economic growth numbers dragged down oil price during the month, in spite of optimism that emerged from the signing of an interim trade deal between the U.S. and China. These uncertainties have led to investors moving towards safer assets, due to which gold prices increased by 4.8% for the month.

Neutral Outlook for GCC Markets in 2020 – Mostly Stable

GCC Stock Markets

Marmore's outlook for GCC Equity market for 2020 is neutral amidst expectation of oil prices remaining around 2019 levels, in the range of USD 61-65 per barrel and moderate improvement in corporate earnings and non-oil sector growth supported by government spending. The outlook is based on evaluation of the countries across four key parameters – economic factors, valuation attraction, corporate earnings growth potential and market liquidity.

Summary - GCC Stock Markets Outlook 2020

	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
Economic Factors	Neutral	Positive	Positive		Positive	Neutral	Negative
Valuation Attraction	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive
Earnings Growth Potential	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Neutral
Market Liquidity	Positive	Neutral	Negative	Negative	Negative	Negative	Negative
Overall Market View	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Negative

Source: Marmore Research; Economic factors have been considered for UAE as a whole

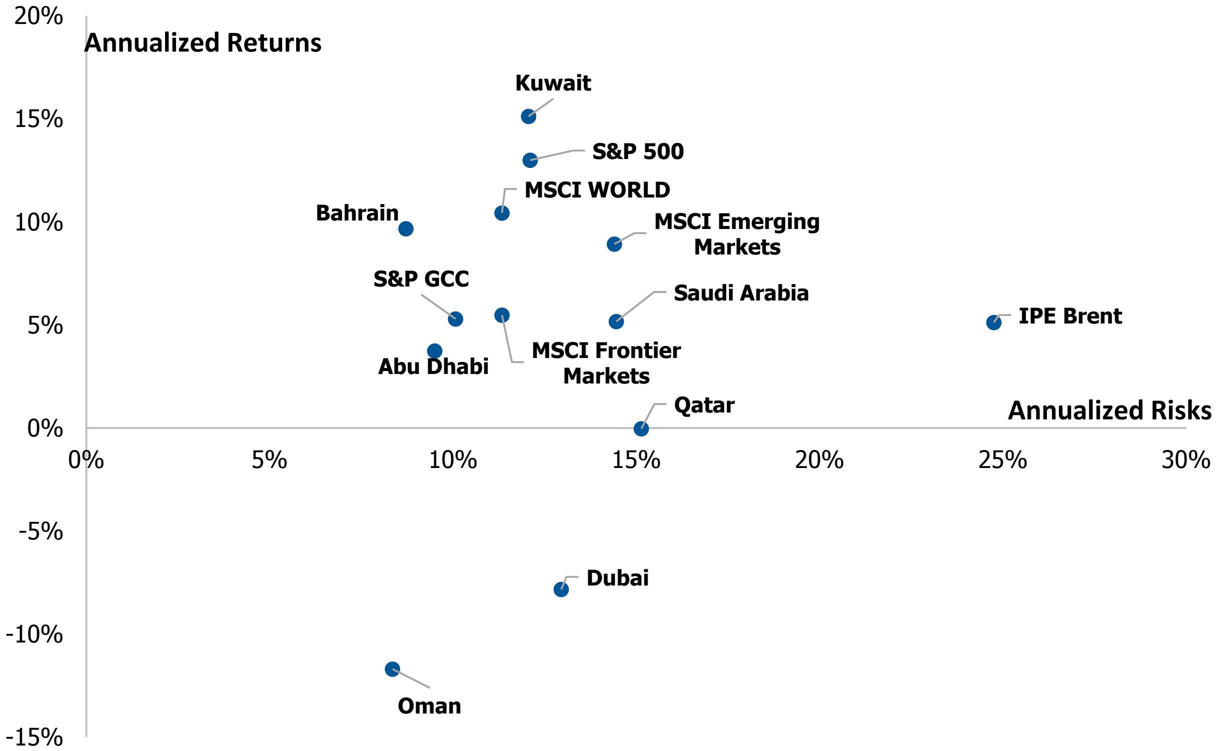
Economic conditions in the Gulf region are expected to moderately improve in 2020. As muted oil price outlook indicates lower oil GDP growth, GCC governments' expansionary spending is expected to aid non-oil economic growth while global economic conditions also seem conducive. Government finances are expected to be strained given the lower oil price outlook and proposed government spending plans. Fiscal position has weighed on the economic outlook for Saudi Arabia, Oman and Bahrain.

Growth in the overall corporate earnings for GCC countries is expected to be modest for 2020. Banking sector is well placed to support corporate earnings growth. While expectations of profit realization and credit growth remain, profitability might be under slight pressure because of lower interest rates. Real estate and construction could perform slightly better in 2020 given the measures taken by different stakeholders and the proposed government spending. Commodities are expected to perform moderately better with phase one of U.S-China trade deal agreed upon and decisive U.K elections supporting quicker resolution of Brexit issue.

From a valuation perspective, apart from Saudi Arabia, Kuwait and Qatar, rest of the GCC markets seem attractive. For Saudi Arabia, with earnings growth tending towards negative in 2019, higher P/E seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite. Following Kuwait's MSCI upgrade scheduled for May 2020, it is also expected to post a higher P/E with increased fund inflows. Liquidity levels in Kuwait have increased while Saudi Arabia, which boasts of higher liquidity levels compared to its GCC peers, was able to maintain its liquidity at 2018 levels. Liquidity in other markets are low, and almost flat from 2018 values.

At the start of 2019, we were positive on Kuwait and UAE and neutral on Saudi Arabia and Qatar. Except UAE, other markets had moved in line with our expectations. Kuwait markets have gained 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and expectation of inclusion in the MSCI Emerging Markets Index. UAE's performance has been neutral with Dubai posting higher gains than Abu Dhabi. Banking sector has supported gains in Dubai markets. Despite the government's stimulus package of USD 13.61 billion, Abu Dhabi markets have realized modest gains at 3.3% and an earnings growth of 1.7% for the first nine months of 2019. Saudi Arabia has gained 7.2%. This seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite weaker earnings. Qatar has gained modestly in line with our expectation on the back of weak earnings growth. This low growth has followed gains of 20.7% in 2018.

Short-term Risk-Return performance of GCC Equity Indices (2016 - 2019)



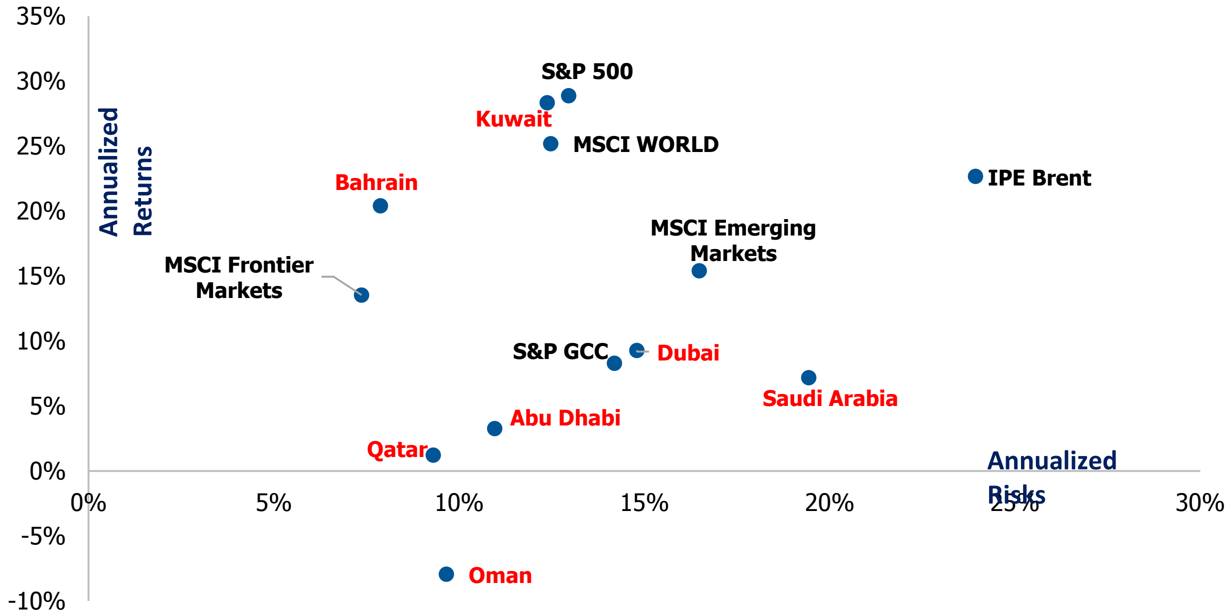
Source: Reuters Eikon, Markaz Research

GCC Fixed Income Market

As we step into 2020, the outlook for GCC fixed income asset class looks promising. High positive yields, better risk-adjusted returns, currencies that are pegged to USD and improving credit quality on back of rising oil prices augur well for their improving stance. On the other hand, investors are wary if the increasing oil prices could lead to a sense of complacency on the reforms front. Alternatively, prudent fiscal management measures for Oman and Bahrain would be watched keenly. The region is geopolitically volatile and continues to witness attacks and counterattacks, on key targets including oil infrastructure and facilities. The recent air strikes by U.S has further escalated the prevailing tensions in the region and has ratcheted up geopolitical premiums.

GCC country-wise Performance Analysis - 2019

Asset Classes: Risk-Return Profile 2019



Source: Reuters Eikon, Marmore Research

Saudi Arabia

The Saudi Tadawul index has gained 7.2% in 2019. Consumer services sector index gained most at 34%. Listing of Saudi Aramco has been the event of the year in the Saudi Arabian stock market. The company garnered a valuation of USD 1.71 trillion, lesser than the USD 2 trillion expected by the Saudi government. The lower valuation was against the backdrop of lower average oil price levels compared to 2018 and investor concerns over drone attacks on Saudi oil facilities. However, the stock briefly reached the sought after USD 2 trillion valuation on its second trading day.

Corporate earnings for first nine months of 2019 registered a drop of about 24.1%. Telecommunication and banks posted modest gains. Earnings growth in telecommunication has been supported by increase in volume. Strong loan growth had helped the banks post profits amidst declining interest rates. Construction has bounced back after registering a dip in 2018. Commodities, Utilities and Real Estate have reported weak earnings. Weakness in the commodities sector is attributed to slower global growth and weaker oil prices. Utilities earnings have dipped because of decrease in volume. Real estate has been hit by drop in property prices.

United Arab Emirates

Dubai stock index has gained 9.3% in 2019. Banking and Insurance sector indices have performed well in the year gaining around 27% and 22% respectively on the back of better profit numbers. Plagued by increasing supply, falling prices and shrinking profits, real estate sector index ended the year in negative territory, with a decline of 9.8%. Of the blue chips, Emirates NBD Bank has posted an annual stock return of 52% supported by strong earnings over the first nine months of 2019.

Abu Dhabi index gained modestly with 3.3% in 2019. Increase in foreign ownership limits seems to have aided stock gains. Amongst blue chips, First Abu Dhabi Bank's stock gained by 7.5% supported by increase in foreign ownership limits and good earnings growth. But the gain had been stunted as its representation had not been increased in the MSCI Emerging Markets Index after relaxation of its ownership limits.

In the corporate earnings front, for the first nine months of 2019, UAE Banking sector has posted healthy gains at 16%. Non-interest income has contributed to the earnings growth.[1] Construction sector posted a decline of 75% in earnings for the same period. Decrease in revenue, delay in project handovers, weakness in real estate have contributed to the decline.

Qatar

Qatar Stock Index saw modest growth of 1.23% in 2019. Top gainer for the year was Consumer Goods and Services at 26.6%. Banks and Financial Services sector gained 9.3% supported by good earnings growth. Real Estate has decreased the most with a decline of 30% with the sector experiencing falling prices and increasing supply.

Corporate profits dropped by 6.6% on for the nine month period ending September 2019. Telecommunications posted highest earnings growth at 18%. This was driven by cost efficiency and slight increase in revenue. Industrial Conglomerates sector reported about 47% decline in earnings citing weak demand for petrochemicals and steel. Banking sector has posted a 6% growth in profits.

Kuwait

Kuwait emerged as the top performer amongst its GCC peers in 2019, with a return of 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and expectation of inclusion in the MSCI Emerging Markets Index. Relaxation of foreign ownership restrictions in banks has also aided in fund inflow.

Market liquidity has increased significantly to almost twice the levels of 2018. In addition to fund inflows following index inclusions and reforms, major IPOs like that of Boursa Kuwait and Al Zour have aided this increase.

Corporate earnings have seen a growth of 1.0% for the first nine months of 2019 when compared to the same period last year dragged down by the financial services. The dip in financial services has been attributed to higher provisioning. Banking and telecommunications have been relatively strong performers. Of the large cap companies, Boubyan bank continues to be the leading performer registering a growth of 11% for the first nine months in 2019, with its assets growing at 18%.
In terms of stock return, amongst blue chips, Kuwait Finance House (KFH) has the highest return at 46%. Progress in its ongoing merger with Ahli United Bank, which is expected to increase KFH's profit considerably and strong earnings growth, which was at 12.7%[2] for the nine month ending September 2019, have helped it in its strong performance.

[1] Moody's Investors Service Middle East Limited.
[2] KFH Analysts Conference

GCC – 2019 Snapshot

Index Name	KSA	UAE		Qatar	Kuwait
		Dubai	Abu Dhabi		
Last Close (Dec 31, 2019)	8,389	2,765	5,076	10,426	7,255
2019 Change (%)	7.2%	9.3%	3.3%	1.2%	23.7%
P/E TTM	17.9	6.8	12.8	14.5	15.1
Dividend Yield	3.95%	4.3%	4.9%	4.10%	3.38%
Listed Companies	200	130		47	163
No of Large Cap Companies	17	10		8	10
No of Mid Cap Companies	34	16		10	25
No of Small Cap Companies	149	104		29	128
Market Capitalization (Dec-2019) (USD Bn)	2,406	221		146	120
Turnover Ratio (Dec-2019)	45%	11%		12%	22%

Source: Reuters Note: Turnover is a measure of stock liquidity calculated by dividing the value of shares traded over a period by the average market cap for the period.

GCC Capital Market Reforms in 2019

United Arab Emirates

100% foreign ownership
In July of 2019 state news agency WAM reported the UAE cabinet has approved 122 economic activities across 13 sectors eligible for up to 100% foreign ownership. The federal government will leave it up to individual sheikdoms to decide the ownership percentage in each activity according to their circumstances. The new rules essentially lift a federal requirement that has long capped foreign ownership in local companies at 49%. The change frees the country's seven emirates to open up their industries to foreign investors, many of whom demand full control over their operations.

Abu Dhabi

Dual Listings in UAE and Saudi Arabia
In February of 2019, Abu Dhabi Securities Exchange (ADX), agreed to be the sole entity responsible for clearing UAE securities traded in Saudi Arabia, as part of efforts to strengthen bilateral cooperation in the dual listing of securities in Saudi and UAE financial markets. ADX signed a memorandum of understanding with the Securities Depository Center Company in Saudi Arabia, which wholly owns the Tadawul stock exchange in the kingdom. Under the deal, ADX will exclusively provide custody, registration, clearing and settlement services for UAE securities traded on the Tadawul. Dual listings can help attract capital from a broader range of markets and increase a publicly traded company's visibility to a greater number of investors.

Dubai

Multiple Investors Number Service
On October 2019, Dubai Financial Market started issuing Multiple Investors Number (NINs) for its investors as of October 2019, provided they meet eligibility criteria set by DFM. The new service will enable investors to better manage their ownership and investment portfolios by segregating ownerships between their main NIN and additional NIN with the same or different custodians. The new initiative also allows investors to transfer ownership amongst their multiple investor numbers.

Launch of Sharia index
On October 2019, Dubai Financial Market launched the Dubai Financial Market Sharia Index. The index is the first index of its kind in the UAE and highlights the DFM's efforts to attract more Islamic investments, and is seen as a step forward by providing market participants with a benchmark to measure the performance of Sharia-compliant listed securities.

Loss making firms
On October 2019, new measures were introduced to improve oversight of loss-making companies. Companies reporting losses of 20% or more of their issued share capital will be more closely monitored by the Dubai Financial Market exchange and will be classified and color-coded on the exchange's website, making them easier to identify. Companies incurring losses of 50 per cent or more of their capital need to submit a detailed plan to handle the situation with a definite period, apart from listing the main causes of their poor performance.

Saudi Arabia

Updated index methodology

On December 2019, the Saudi Stock Exchange announced that it updated its index methodology for the development and management of Tadawul equity indices. According to the updates,

- "Free Float Shares Calculation Methodology" has been revised concerning Non-Free Float Shares owned by a Government Entity (ownership is >=5%), restricted shares, companies share buy-back, controlling ownerships, and shares held by members of the board of directors.
- New rule for "Fast Entry", whereby shares of significantly large IPOs are included in TASI at the close of the 5th trading day.
- Index capping for TASI with a 15% threshold to reduce dominance of larger companies on the index performance.

Listing of foreign companies
On October 2019, the Tadawul Exchange announced allowing the listing of foreign companies upon the Capital Market Authority approval of amended Listing Rules, including provisions related to foreign listing. Foreign companies will be subject to the same listing, disclosure and governance requirements as Saudi listed companies, and foreign shares will be traded on the Saudi Exchange.

Relaxation of ownership limits for foreign investors
In June of 2019, Saudi Arabia relaxed a 49% limit for foreign strategic investors in shares of listed companies, aiming to attract higher foreign funds. There will now be no minimum or maximum ownership limit, although the owners must hold the shares for two years before they can sell. While the CMA has removed the cap, limits by other regulators or a company's own rules still apply.

Nomu Parallel Market for Small-and Medium-sized Enterprises
In February of 2019, the Saudi Stock Exchange (Tadawul) announced a series of structural changes to Nomu, a parallel equity market with lighter listing requirements that serves as an alternative platform for companies to go public, and the investment in this market is restricted to Qualified Investors. The changes are aimed at supporting the growth, development and sustainability of the market, increasing the number of listed companies on Nomu and enhancing the market liquidity

Kuwait

Market Development Project - Phase III Implementation
Kuwait's market development project aims for the implementation of regulatory and operational enhancements in the Kuwaiti equity market. Phase III of Market Development was initiated in 2019 in a two-phase implementation process. First installment deals with products such as short sale, off-market trading and improving the fund-trading platform. The second installment includes changes in cash settlement through Delivery Versus Payment (DvP)-2 system, applying Central Counter Party (CCP), qualifying brokers, trading on margin by qualified brokers, repurchase agreement (repo), and dividing client's accounts into subaccounts and numbering them.

Omnibus account structures and same NIN cross trades
Morgan Stanley Capital International (MSCI), a leading provider of global capital market indices, announced on June 25, 2019 that it would reclassify Kuwait as an emerging market, subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors. By December of 2019, market accessibility enhancements were introduced by the Kuwaiti authorities that allowed international institutional investor to benefit from omnibus account structures and same National Investor Number cross trade capabilities. With the fulfilment of these prerequisites, MSCI Inc. decided to reclassify the MSCI Kuwait Indexes to Emerging Markets status as part of the May 2020 Semi-Annual Index Review in one step.

Oman

Takaful Regulation

In December of 2019, the legislative framework for Takaful products and the companies operating in this sector was finalised with the issuance of the Takaful Regulation by Oman's Capital Market Authority. The issuance specified six months for the companies to adjust their position from the date the regulation, which came into force on December 23, 2019.

Takeover and Acquisition Regulations

In May of 2019, Capital Market Authority issued an Administrative Decision protecting Takeover and Acquisition Regulations for public joint stock companies listed on the Muscat Securities Market (MSM). The regulation aims to regulate takeover and acquisition processes limited to no more than 25% of the shares of pubic joint stock companies and controlling percentages in the company. The guidelines are aimed at providing protection for shareholders and in the interest of fair, transparent and equitable treatment of all the parties. It also provides for an exit in cases of acquisition.

New Commercial Companies Law

The new law came into effect from April 1, 2019, and the old Commercial Companies Law, enacted in 1974, will now cease to exist. Limited liability companies can now be incorporated with a single natural person or corporate shareholder. The new law conferred on CMA the whole powers to regulate the public joint stock companies since establishment, and supervise their work to ensure they conduct business in accordance with sound administrative rules to protect the shareholders. It copes with the recent developments in financial industry including providing Islamic finance products such as sukuk and Islamic investment funds. Holding company will take the form of a joint stock company unlike the previous situation where the holding company had the options to be a limited liability company or a joint stock company. With regard to professional firms, the law includes a new Article on the professional firms such as accounting and law firms. It also organizes all the procedures for establishment of public joint stock companies and reduces the terms required for this.

Qatar

Centralized Shariah board

In December of 2019, Qatar, which is poised to become a leading Islamic finance hub in the GCC region, initiated plans to establish a centralised Shariah board with an aim to enhance consistency and integrity in the sector. Plans are also afoot in strengthening the regulations in Islamic finance to support Chinese Renminbi-denominated Islamic capital market products such as sukuk.

Investment Promotion Agency

On July of 2019, Qatar formed a high-level committee to attract more investments from different parts of the world. The Investment Promotion Agency (IPA) will work to further attracting foreign direct investment (FDI) in line with objectives set out in the Qatar National Vision 2030. As part of its mandate, the Agency will aim to be a single and complete source for investment solutions in Qatar by attracting FDI in all of the country's priority sectors. The entity will also pursue targeted, sector-specific investment promotion agendas and coordinate investment promotion and marketing activities with key stakeholders, as well as develop policy advisory.

Bahrain

Electronic Fund Transfer System

In May of 2019, Bahrain Clear, a fully owned subsidiary of Bahrain Bourse and a clearinghouse licensed by Central Bank of Bahrain, signed a cooperation agreement with BENEFIT, the leading electronic transactions company, under which Bahrain Clear will join the Electronic Fund Transfer System (EFTS). The agreement allows investors, brokers, custodians and issuers to pay fees and commissions of all services provided by Bahrain Clear, efficiently and in a secure manner. Throughout the agreement, BENEFIT seeks to provide ancillary services for the financial sector in the Kingdom of Bahrain.

Short Selling and Securities on Loan

In March of 2019, as part of the efforts to develop the financial sector in the Kingdom of Bahrain and in line with international best practices, the Central Bank of Bahrain issued regulations with respect to short selling and giving securities on loan. The Resolution encompasses controls and procedures pertaining to lending, borrowing and short selling of eligible securities, the obligations of the related parties, and refers to guidelines and instructions necessary to implement the requirements of this Resolution.

Kuwait releases budget 2020/21 with record fiscal deficit

Kuwait has announced a state budget proposal for the fiscal year 2021 (period starting in April 01, 2020 and ending on March 31, 2021) that projects spending at KD 22.5billion and revenues at KD 14.8billion. For the fiscal year 2021, spending is budgeted to remain at the same level as last year (KD 22.5billion, 2019/20); while, revenues are expected to be lower by 9.8 per cent than the last year budget (KD 16.4billion, 2019/20) on expectations of lower oil production. Oil revenues represent 87 per cent of total revenues. The budget assumes the same average oil price of USD 55 per barrel as the previous year. However, the daily production of oil is expected to be lower at 2.7 million barrels for the period 2021/20 as against 2.8mbpd in 2019/20. Kuwait has now posted a budget deficit for a record sixth year since the oil prices began to slide in mid-2014 in contrast to healthy surpluses for 16 successive years prior to that.

Kuwait Budget 2020/21, Key Numbers

Values in KD billion	2019-20 (Budget)	2019-20 (Current estimate)	2020-21 (Budget)
Oil Revenues	14.5	13.9	12.9
Non- Oil Revenues	1.9	1.9	1.9
Total Revenues	16.4	15.8	14.8
Salary & Wages	12.0	12.0	12.1
Subsidies	3.97	3.7	3.97
Capital Expenditure	3.83	3.7	3.57
Other	2.7	3.0	2.9
Total Expenditures	22.5	22.5	22.5
Transfer to Future Generation Fund (FGF)	1.6	1.58	1.48
Fiscal Balance (Pre-FGF)	-6.1	-6.7	-7.7
% of GDP	-13.3%		
Fiscal Balance (Post-FGF)	-7.7	-8.3	-9.2
% of GDP	-16.7%		

Source: Ministry of Finance, Reuters

Out of the total revenues generated, 10 percent or KD 1.48billion of the revenues would be transferred to Kuwait's sovereign wealth fund. The budget deficit is expected to be around KD 9.2billion following the allocations for 'Future Generations Fund' (FGF), representing an increase by 19.5 per cent compared to previous year budgeted number. The budget also highlighted the breakeven oil price (price of oil required to balance the budget excluding investment income) of USD 81 per barrel before FGF deduction and USD 86 per barrel after FGF deduction. The increase in breakeven oil price from prior year is attributed to expectations of increased production costs of 8.8 per cent from last fiscal year and lower production value.

Break even oil price and deficit calculation in the budget drafts do not include investment income, whose value typically ranges from 13 to 15 per cent of GDP or KD 5 to 6billion (IMF). Moreover, the average oil price for the coming year is typically assumed on a conservative basis, for instance in 2018/19 the average oil price for the period was assumed at USD 50/bbl while it turned out to USD 68.6/bbl. Similarly for the year ending March 2020, budget assumption stands at USD 55/bbl as against the average price of USD 64.3/bbl (April 01 2019 to Jan 13, 2019). Wages and salaries (including subsidies) is set to account for 71 per cent of the total expenditure. Capital expenditure will comprise 16 per cent of the budgeted expenditure and will be used to stimulate economic growth. Other expense accounts for remaining 13 per cent, which takes effect on April 1, 2020.

Of the subsidies that are projected at KD 3.97billion, 50.6 per cent is for energy and fuels, 19.9 per cent for educational support, 9.9 per cent for housing support and 9.3 per cent is for social support programmes. The government said that it would draw on the state reserves to meet the budgeted deficit. Unlike other GCC countries that have been actively, raising capital from the international debt markets Kuwait has not tapped the international market except for the inaugural USD 8billion issue in 2017. Kuwait Parliament is yet to pass on a law that would raise the debt ceiling and allow it to issue debt with longer maturities.

Disclaimer

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