

Event Update - Kuwait Budget 2021/22

January-2021

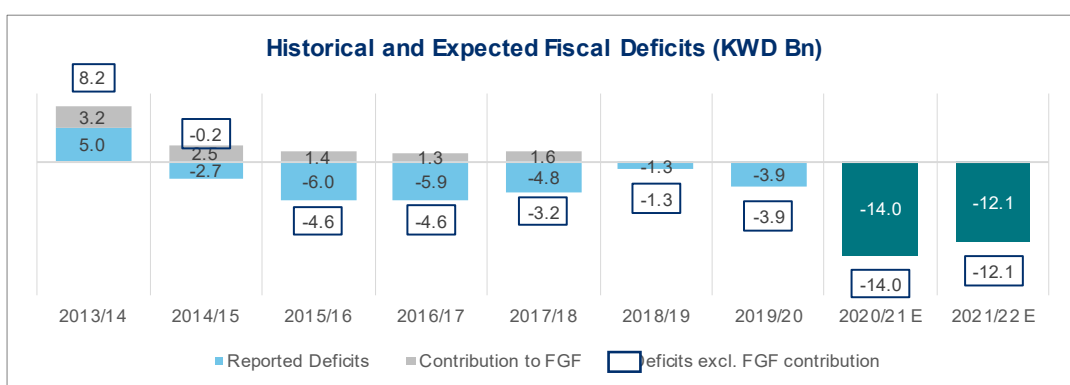
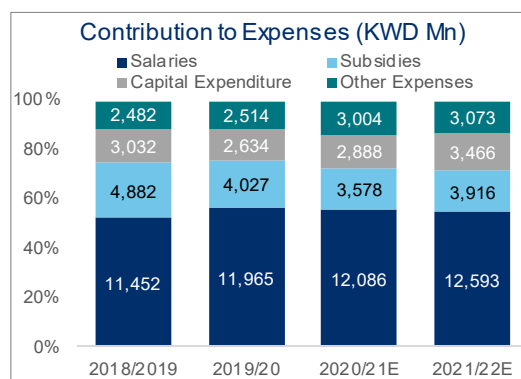
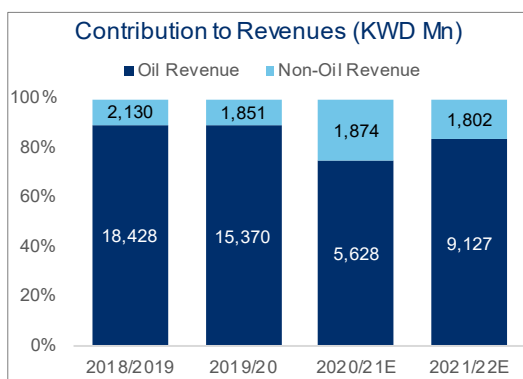
Deficit expected to shrink next fiscal year on higher expected oil prices...

Kuwait's Ministry of Finance unveiled the draft budget for 2021/2022 with a 13.8% decline in forecasted deficits of KWD 12.1 Bn (USD 40.0 Bn) as compared to an expected deficit of KWD 14.0 Bn (USD 46.2 Bn) for the current year 2020/2021. The budget assumes no transfers to the Future Generation Fund (FGF) for the current year and for 2021/2022 after the law introduced last year which said that would be no transfers to the FGF in years of deficits. **Both revenues and expenditures are expected to increase next year with a revenue target of KWD 10.9 Bn vs. expenditure of KWD 23.0 Bn.**

In terms of revenues, oil would continue to account for the bulk of state revenues next year. Total oil revenue is expected to reach KWD 9.1 Bn next year as compared to KWD 5.6 Bn estimated for the current fiscal year. The share of oil revenues is expected to increase from 75% in the current fiscal year to 83.5% in 2021/22. On the other hand, non oil revenues are expected to decline by 3.8% next fiscal year to KWD 1.8 Bn as compared to KWD 1.87 Bn expected in 2020/21 resulting in a decline in its share from 25.0% in the current fiscal year to 16.5% in 2021/22.

On the expenditure side, planned spending is expected to increase for the second consecutive year. Total expenses in 2021/22 is expected to reach KWD 23.0 Bn led by higher spending in all off the expense components. Capital expenditure is expected to see a big boost next year with planned spending of KWD 3.5 Bn as compared to KWD 2.9 Bn in 2020/21, a y-o-y increase of 20%. This compares to an increase of 9.6% expected in 2020/21 as compared to final accounts published for the year 2019/20. Salaries are also expected to increase next year by 4.2% as compared to an increase of 1.0% expected in the current fiscal year.

The estimates for 2020/21 clearly shows the impact of Covid-19 on states finances. Total revenues during 2020/21 is expected to have plunged 56.4% solely led by 63.4% expected decline in oil revenues, whereas non-oil revenues are expected to increase marginally by 1.3% to KWD 1.87 Bn from KWD 1.85 Bn during the last fiscal year. Oil revenues are expected to come in at KWD 5.6 Bn vs. KWD 15.4 Bn in 2019/20 mainly due to the decline in oil prices during the year coupled with curbs on production as part of the OPEC+ agreement.



Sources : Kuwait Ministry of Finance, Kamco Invest Research

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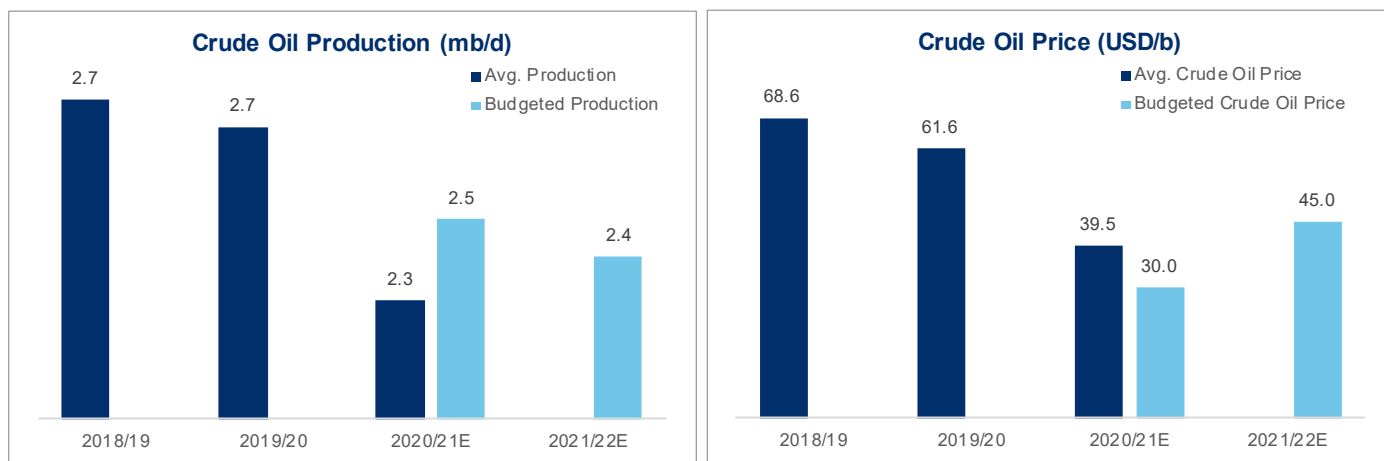
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Higher oil price to offset lower projected production

The budget for 2021/22 is based on an oil price of USD 45/b while the budget for the current fiscal year is based on an oil price of USD 30/b. Based on the expected revenues and expenditure, the state would require a breakeven oil price of USD 90/b to balance the budget, according to S&P Global Platts. Kuwait crude grade averaged at USD 39.5/b during the current fiscal year (Apr-2020 - Jan-2021), significantly above the budget price of crude for the year. As a result, oil revenue for the current year is expected to be higher than the budgeted revenues and deficits are expected to be lower than the USD 14.0 Bn forecasted in the budget document. For 2021/22, Brent crude is expected to average at USD 54.1/b, according to Bloomberg estimates, that we believe would once again leave significant room for higher actual revenues and lower deficits in the next fiscal year.



Sources : Kuwait Ministry of Finance, OPEC, IMF REO Oct-2020, Kamco Invest Research

In terms of crude oil production, the 2021/22 budget is based on an oil production of 2.425 mb/d as against current production level of 2.295 mb/d, based on direct communication data in OPEC's monthly oil market report. The current production is in line with the additional OPEC+ cuts announced since May-2020 resulting in a spare capacity of 0.81 mb/d. For the 2020/21 budget, oil production is assumed to be at 2.5 mb/d vs. an average production of 2.339 mb/d during the first nine months of fiscal year 2020/21. The lower-than-budgeted oil production is expected to result in a smaller-than-expected oil revenue for the current and the next fiscal years. As a result, this would offset some of the gains expected on account of higher-than-budgeted oil prices.

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