CBK Publishes the Economic Report for 2020

His Excellency the Governor of the Central Bank of Kuwait, Dr. Mohammad Y. Al-Hashel, announced the publication of the 49th issue of the Economic Report, published annually by the Central Bank of Kuwait (CBK). The 2020 Economic Report covers key economic developments, including the most recent data and statistics available on various aspects of economic performance in the State of Kuwait during said year. The report addresses these developments in six parts, each covering a major topic in detail.

The global economy suffered an exceptionally tough year due to the COVID-19 pandemic that caused the worst economic shock in a century. Precautionary and preventative measures went as far as total shut down of many economic activities in the first and second waves of the pandemic, putting a hard stop to a considerable portion of economic activity locally and abroad, shocking supply and demand. Due to the pandemic and its serious ramifications, the International Monetary Fund (IMF) estimates that the global economy had retracted by 3.3% in 2020 compared to a growth of 2.8% in 2019. As global and regional economies suffered recessions, a retraction in both global demand for oil and in oil prices, directly or indirectly affected aspects of economic activity in the State of Kuwait.

The initial quarterly data published by the Central Statistical Bureau and CBK estimates indicate that Gross Domestic Product (GDP) at constant prices for the Sate of Kuwait has dropped by 8.9%-9.9% % in 2020 compared to an average growth of 0.4% in 2019. GDP at current prices also dropped by 21.5%-23.2%, mainly driven by a drop in the average price of Kuwait's Export Crude (KEC) per barrel to USD 41.5 in 2020, slipping 35.2%. The inflation rate measured by the Consumer Price Index (CPI) came up to 2.1% in 2020 compared to an increase of 1.1% in 2019. Available data also indicate a drop in the total population by end of 2020 by 2.2% compared to a growth of 3.3% at end of 2019.

In terms of monetary and banking developments in 2020, Central Bank of Kuwait (CBK) swiftly and decisively responded through monetary and prudential policies since the onset of the pandemic. The Bank dedicated its efforts and resources to counteract the negative effects of the pandemic, and did not hesitate to utilize all tools at its disposal to achieve its goals aimed at maintaining the atmosphere of monetary stability and financial stability. The CBK adopted extraordinary accommodative policies to support sectors of the economy and help them weather the storm, focusing on the need to provide an environment that builds confidence in the national economy and its ability to recover. The Bank took a swift pre-emptive monetary decision in March 2020 lowering the Discount Rate to a historical low of 1.5%, followed with a reduction in the Repo Rate as well as monetary market intervention price. This resulted in a drop in all indicators of local interest rates for 2020 compared to the year before.

On the supervision and banking regulation front, in support of the individuals and the small and medium enterprises and companies negatively affected by the crisis, and to help the banking sector counter shocks experienced in 2020, the CBK adjusted its instructions and its macro-prudential instruments by reducing regulatory ratio requirements in terms of liquidity, capital adequacy, and lending ratios. This policy relaxation as well as the banks' resilience, strong capitalization and ample liquidity, thanks to prudent CBK monetary and supervisory policies, enabled them to fulfill their vital role in the economy and encouraged them to extend more loans and financing.

As for the exchange rate, the Kuwaiti Dinar remained relatively stable against main currencies within its peg to a special weighted basket of currencies of Kuwait's main trade and finance partners. Stimulatory monetary policy interventions and CBK prudential polices boosted confidence and warded off credit crises, and also provided sufficient liquidity to support economic recovery. Indicators reflected the banking sector's performance, most especially for the second half of 2020, with the credit awarded to the private sector growing by end of year. The growth tempo in local liquidity levels for said year increased. Money Supply in the broad sense (M2) went up 3.8% compared to its drop of 1.2% the year before. Residents' deposits with local banks continued to make faster growth, going up 3.8% compared to 0.3% the year before. And despite slower growth in the balance of local credit in 2020, growth remained positive reaching 3.5% despite the lockdown. The continued positive growth rate of credit facilities is undoubtedly indicative of the efficacy of the CBK accommodative monetary policy measures.

Looking at the Current Account of the State of Kuwait's Balance of Payments, the figures show a realized surplus of KD 6,849.9 million for the first three quarters of 2020, at a drop of KD 390.6 million or 5.4% against the corresponding period of the previous year.

The Governor also noted that despite the strong indicators of banks' financial soundness and their ability to withstand shocks, evidenced by stress tests conducted by the CBK in view of the pandemic, the Bank shall maintain its diligent supervision and regulation of the banking and finance sector while maintaining a prudent and flexible approach allowing banks to remain able to provide high-efficiency and uninterrupted services to all sectors of the national economy. CBK will keep a vigilant eye on developments in economic and banking conditions until the current crisis is overcome safely. The Bank would continue to bolster monetary and financial stability, which are two vital conditions for realizing sustainable economic stability, though not sufficient on their own.

In this respect, the CBK constantly stresses the importance of speeding up implementation of overall reform of the structural imbalances in the economy. Most specifically, balance sheet imbalances with on-going expenditures (including workers remunerations, transfers, and different types of state subsidies) which take up the biggest portion of public spending within the State budget. The budget is also heavily reliant on oil revenues, which make up almost 90% of revenues, with oil exports also accounting for almost 90% of exports of goods. The oil sector's contribution stands at about 45% of GDP, which indicates its continued dominance and influence over all facets of the Kuwaiti economy and augments the risk of over-reliance on oil through its fluctuating price. Additionally, long-term threat to lowering demand for oil as world leaders are more seriously addressing climate change through several measures including the issuance of new legislation regarding CO_2 emissions, denoting compounded damage. On the one hand, such global trends threaten the oil sector which contributes significantly to the GDP, and on the other, they pose a threat to financial stability since Kuwaiti banks extend immense facilities to oil sector projects and would be negatively affected by any slump in the sector. Therefore, the CBK's credit and regulatory policies continue to aim at bolstering social and economic development while, at the same time, directing the banking sector to set up buffers and reserves to offset exposure to the oil sector.

Second among imbalances is the dominance of the government sector over economic activity and limited contribution by the private sector in stimulating economic growth. Over the past decades, public spending remained at high levels and accelerated further in recent years with marked leaps in current expenditures that went all the way up to 88% of overall actual expenditures in the 2019/2020 budget. Government spending to GDP ratio came to 52%, which is the highest within the GCC region and among the highest in the world as the global average is 30-38%. However, this generous spending does not come with excellence or efficiency in services and the quality public services still lags behind that seen in countries of comparable financial and economic conditions and level of public spending.

A third imbalance is seen in the employment market where the majority of national staff is employed with the government. This poses challenges for the government to create job opportunities for the ever-increasing numbers of nationals, which is in turn a result of the government sector's dominance over economic activity. The government sector alone employs 81% of the Kuwaiti workforce, clearly causing budgetary inflation and further spreading bureaucracy, poor performance, low productivity and disguised unemployment. Estimates suggest that for the next five years, 100,000 more Kuwaiti nationals shall enter the job market, therefore the government sector would be unable to accommodate the majority of them. It is accordingly necessary to address the salaries item as part of medium-term financial reform. The private sector has to play a bigger role with enhanced public-private sector partnerships, as well as increased competitiveness and ability to create jobs. Privatization needs to be pushed ahead with to enable the sector to become the main employer for nationals. The government sector meanwhile should simplify the salaries and pay structure and ensure its fairness and its compatibility among all State entities in a manner that does not cause nationals to shy away from seeking private sector employment.

Confronting all these immense challenges, we all have to counter them through strongly founded consolidated and harmonious efforts to bolster financial and economic stability and realize sustainable growth and prosperity for all. Unless serious and impactful financial and economic reform measures are taken, economic stability and sustainability would be unattainable, and we would see the further lowering of sovereign credit ratings and deterioration of the State's economic and financial conditions. This would further lead to higher cost to public finances, should borrowing from external markets be opted for, and serious damage to a financial reputation that had been renowned for years. The lower rating would also have an impact on the banking sector in the country, which had long maintained high credit ratings supported by the State's sovereign credit rating.

The Governor finally noted that the Economic Report for 2020 can be accessed through the CBK website www.cbk.gov.kw.

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