Event Update - Kuwait Budget 2024/2025

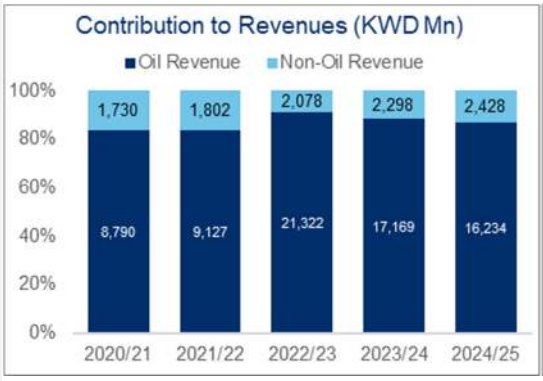
February-2024

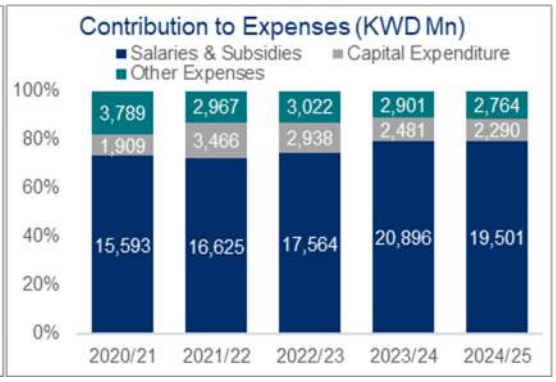
Kuwait parliament approves 2024-2025 draft budget with a deficit…

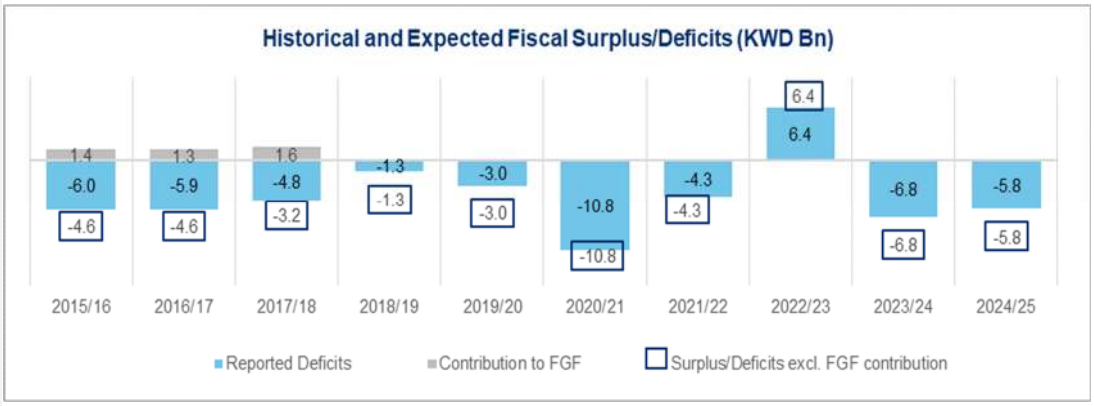
Kuwait's Ministry of Finance unveiled the draft budget for 2024/2025 with a 13.5% decline in forecasted deficits at KWD 5.8 Bn (USD 19.1 Bn) as compared to an estimated deficit of KWD 6.8 Bn (USD 22.0 Bn) for the ongoing fiscal year 2023/2024. The budget snapshot came in line with the bulk of the GCC economies that are also expected to report deficit.

According to the budget document, revenue is expected to reach KWD 18.7 Bn (USD 60.8 Bn) during the fiscal year 2024/2025 as compared to KWD 19.5 Bn estimated for the fiscal year 2023/2024, down by 4.1%. The revenues are calculated with a budgeted crude oil price of USD 70/b. This could mean that the actual revenues could be significantly higher as oil prices continues to remain elevated this year. Brent crude averaged at USD 82.6 per barrel since the start of the current fiscal year (2023/2024), while Kuwait crude oil and OPEC crude basket averaged at USD 84.7 per barrel and USD 83.3 per barrel, respectively, according to EIA and Bloomberg. The budget assumes no transfers to the Future Generation Fund (FGF) for the current year and for 2024/2025 after the law introduced few years back which said that would be no transfers to the FGF in years of deficits.

In terms of revenues, crude oil will continue to account for the bulk of the budgeted revenues in the fiscal year 2024/2025. However, the share of oil revenues to total revenues is expected to decline marginally from 88.2% estimated for fiscal year 2023/2024 to 87.0% budgeted for the fiscal year 2024/2025, according to data from Kuwait's Ministry of Finance. This would imply non-oil revenue share of 13.0% for the fiscal year 2024/2025 as compared to 11.8% estimated for the previous fiscal year. The estimates for 2023/24 clearly shows the impact of oil prices on states finances. Total revenues during 2023/2024 is expected to have plunged 16.8% to KWD 19.5 Bn solely led by 19.5% expected decline in oil revenues, whereas non-oil revenues are estimated to increase by 10.6% to KWD 2.3 Bn from KWD 2.1 Bn during the previous fiscal year. Oil revenues are expected to come in at KWD 17.2 Bn vs. KWD 21.3 Bn in 2022/23 mainly due to the decline in oil prices during the year coupled with curbs on production as part of the OPEC+ agreement.







Source : Kuwait Ministry of Finance, Kamco Invest Research

Junaid Ansari
Head of Investment Strategy & Research
+(965) 2233 6912
jansari@kamcoinvest.com

Vineetha K. Yeluri
Analyst
+(965) 2233 6913
vyeluri@kamcoinvest.com

Non-Oil Revenue is expected to be at 11-year high in 2024/2025

Total budgeted revenues for 2024/2025 is expected to reach KWD 18.7 Bn mainly led by record non-oil revenues partially offset by a drop in oil revenues. Oil Revenues is expected to reach KWD 16.2 Bn for 2024/2025 as compares to a revenue of KWD 17.2 Bn estimated for the 2023/2024, resulting in a expected decline of 5.4%.

On the other hand, Kuwait's non-oil revenues are budgeted to reach the highest level in eleven years and highest since fiscal 2013/2014. In terms of y-o-y performance, non-oil revenues are expected to increase by 5.7% during the fiscal year 2024/2025 to reach KWD 2.4 Bn.

Budgeted expenditure expected to decline

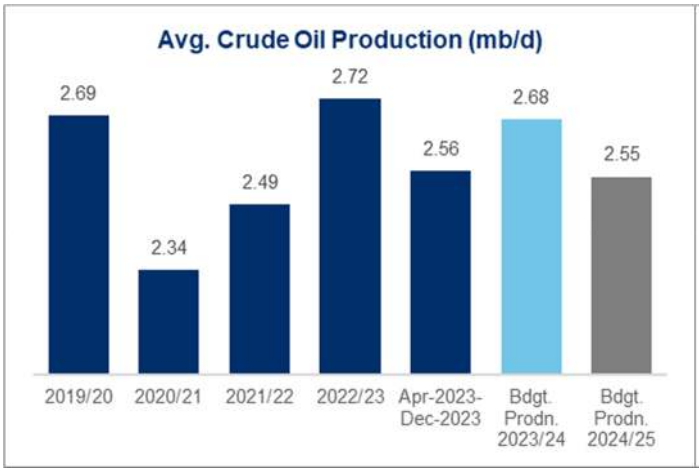
On the expenditure side, planned spending is expected to decline in the next fiscal year. Total expenses in 2024/2025 is budgeted to reach KWD 24.6 Bn led by a decrease in budgeted expenditure in all the three groups i.e. salaries and subsidies, Capex and other entities. The share of salaries and subsidies in total expenditure is expected to decrease from 79.5% of total expenditure in the fiscal year 2023/2024 to 79.4% of total expenditure in the fiscal year 2024/2025. In terms of y-o-y change, the component is expected to drop by 6.6%. Capital expenditure is also budgeted to decline in the fiscal year 2024/2025 with planned spending of KWD 2.3 Bn as compared to KWD 2.5 Bn in 2023/2024, a y-o-y decline of 7.7%.

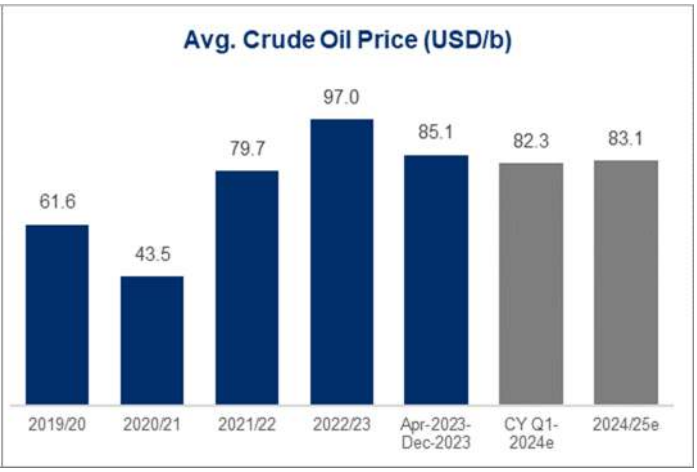
Main drivers for the decrease in Expenditure in 2024/2025 were 1.Ministry of Electricity and Water (KWD -1.2 Bn) related to types of fuel used to operate stations. 2. Ministry of Health (KWD -192.2 Mn) related to reducing costs medicines and drugs based on the actual spending and need. 3. Ministry of Oil (KWD – 100 Mn) relating to reduction in Subsidies. 4. Ministry of Commerce and Industry (KWD – 59.3 Mn) relating to reduction in Subsidies. 5. Other Ministries totalled to (KWD -231.7 Mn). The declines were partially offset by higher allocation to 1. Ministry of Interior (KWD + 159.5 Mn) related to fixed salaries and allowances. 2. Ministry of Health (KWD +102.2 Mn) related to the allocation for comprehensive health insurance for retirees and housewives.

Higher oil price is required to offset lower projected production

The budget for 2024/2025 is based on an oil price of USD 70/b which is similar to the oil price in the budget for fiscal year 2023/2024. Based on the expected revenues and expenditure, the state would require a breakeven oil price of USD 90.7/b to balance the budget, according to Ministry of Finance. Kuwait crude grade averaged at USD 84.7/b so far during this fiscal year (Apr-2023-Jan 2024) which is 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 final accounts for the year could see a surplus for the fiscal year 2023/2024. Moreover, Brent crude is expected to average at USD 82.3/b in calendar quarters Q1-2024, according to Bloomberg estimates. This, we believe, would once again leave significant room for higher actual revenues and surplus in the fiscal year 2023/2024.

In terms of crude oil production, the 2024/25 budget is based on an oil production of 2.5 mb/d as against current production level of 2.56 mb/d, based on direct communication data in OPEC's monthly oil market report. The current year budget oil production is also at 2.7 mb/d. According to reports, Kuwait has pledged to voluntarily curb crude oil output by 135 tb/d barrels for three months starting January 1, 2024 which is an additional reduction to the previously announced in April 2023 which was estimated at 128 tb/d. The production cut decision was taken in coordination with other producers of the OPEC+ group.





Source : Kuwait Ministry of Finance, OPEC, Kamco Invest Research, Bloomberg.

Inflation

The Kuwaiti Consumer Price Index's latest inflation reading for December-2023 showed a y-o-y increase of 3.4% according to official government data. The increase was led by a 6.7% growth in the Clothing & Footwear index followed by the Food & Beverages price index which registered 4.7% y-o-y growth. in terms of m-o-m performance, Kuwait's Consumer Price Index (CPI) remained stable recording only a marginal 0.3% m-o-m growth during December-2023 due to mixed movement of price increases in some major groups balanced by price decreases in other major groups.

According to the IMF, Growth in the MENA region was lowered by 50 bps to 2.9% for 2024 and revised upward by 30 bps to 4.2% for 2025. The downward revision for 2024 is mainly due to Saudi Arabia which reflects temporarily lower oil production in 2024, including unilateral cuts in accordance with an agreement reached through OPEC+ (the Organization of Petroleum Exporting Countries, which includes Russia and other non-OPEC oil exporters), while non-oil growth is expected to remain resilient. This was also reflected in the forecast for Saudi Arabia which is now expected to grow by 2.7% in 2024, a downward revision of 130 bps, followed by 5.5% in 2025 with an upward revision of 130 bps.

Disclaimer & Important Disclosures

Kamco Invest *is authorized and fully regulated by the Capital Markets Authority ("**CMA, Kuwait**") and partially regulated by the Central Bank of Kuwait **("CBK")***

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest , legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification

Each of the analysts identified in this report, if any and where applicable, certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Kamco Invest Ratings

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

* ***Outperform:*** *Target Price represents expected returns >= 10% in the next 12 months*
* ***Neutral:*** *Target Price represents expected returns between -10% and +10% in the next 12 months*
* ***Underperform:*** *Target Price represents an expected return of <-10% in the next 12 months*

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/ information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

Kamco Investment Company (DIFC) Limited ("Kamco Invest DIFC") is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.'

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.



Kamco Investment Company - K.S.C. (Public)
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 2233 6600 Fax: (+965) 2249 2395
Email : kamcoird@kamcoinvest.com
Website : www.kamcoinvest.com