



# KUWAIT

March 2022

## 2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KUWAIT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 14, 2022 consideration of the staff report that concluded the Article IV consultation with Kuwait.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 14, 2022, following discussions that ended on October 10, 2021, with the officials of Kuwait on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Kuwait.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**Washington, D.C.**



## IMF Executive Board Concludes 2021 Article IV Consultation with Kuwait

FOR IMMEDIATE RELEASE

**WASHINGTON, DC – March 14, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kuwait.<sup>1</sup>

The authorities responded swiftly and decisively to the COVID-19 crisis with social distancing restrictions and fiscal, monetary and financial policy support measures. In 2021, a high rate of vaccination was achieved. An economic recovery is underway, supported by higher oil prices and relaxation of mobility restrictions. Non-oil GDP growth is estimated at 3.4 percent in 2021 and is projected to rise slightly to 3.5 percent in 2022, as domestic activity gradually recovers along with the global environment. Oil production is projected to rebound as OPEC+ quotas are relaxed. Overall, GDP is projected to grow around 2.7 percent over the medium term. Inflation is estimated at 3.4 percent in 2021 given increases in food prices and costs of travel-related services and is projected to rise to 4.4 percent in 2022, reflecting the impact of the global supply chain disruptions before declining to 2.4 percent over the medium term.

The fiscal deficit increased to an estimated 16.6 percent of GDP in FY 2020/21. In addition to fiscal stimulus in the wake of the COVID-19 crisis, the wider deficit reflects a 13.9 percent of GDP decline in oil revenues and a slump in economic activity. In the absence of a public debt law to permit borrowing, or legal authority to draw from the Future Generations Fund (FGF), financing was based on drawdown of the liquid assets of the much smaller General Reserve Fund (GRF). In FY 2021/22, the headline fiscal balance is expected to improve to a surplus of 3.7 percent of GDP, boosted by the rebound in oil revenues, together with spending cuts announced in August 2021 and significantly higher nominal GDP reflecting the impact of higher oil prices on the GDP deflator. Supported by higher oil exports, the 2021 current account surplus is projected to increase to 16.1 percent of GDP.

Kuwait's financial sector has weathered the crisis well. Banks are well-capitalized and highly liquid. As of 2021Q3, bank capital adequacy ratio stood at 18.6 percent, well above the required minimum level. Nonperforming loans net of specific provisions remain low, while loan-loss provisioning is high.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Substantial uncertainties surround the outlook, with the balance of risks tilted to the downside. The rapid spread of the new Omicron variant points to renewed global challenges in controlling the pandemic. Delays in fiscal and structural reforms could amplify the risk of procyclical fiscal policies, undermine investor confidence, hinder the progress toward more economic diversification and higher competitiveness, and foster social pressures. Volatility in oil prices would have a significant impact on the outlook and macroeconomic balances. Upside risks to the outlook would come from a stronger rebound in global activity than anticipated, which could also boost oil revenues. A resolution to political gridlock and strong fiscal consolidation could considerably improve investor sentiment.

## **Executive Board Assessment<sup>2</sup>**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their swift and decisive policy actions and strong vaccination efforts, that helped alleviate the economic and social impacts of the pandemic and laid groundwork for a gradual recovery. Notwithstanding higher oil prices, which are expected to boost fiscal revenues and growth, risks to the outlook remain elevated. Directors emphasized that going forward the authorities will need to focus their efforts on challenges related to heavy reliance on the oil sector and fiscal sustainability.

Directors called for comprehensive fiscal consolidation to reinforce fiscal sustainability and support intergenerational equity. They encouraged the authorities to consider introducing a VAT and excises duties, expanding corporate tax to domestic firms, and implementing a property tax to boost revenues. On the spending side, curtailing the wage bill and consolidating subsidies and social benefits will be of the essence. Directors stressed the importance of passing the new public debt law and establishing a robust medium-term fiscal framework with a clear fiscal anchor to limit procyclicality of policies, enhance fiscal credibility, reduce fiscal risks, and improve the capacity to manage adverse shocks. Strengthening fiscal governance and transparency would significantly improve public financial management.

Directors agreed that the pegged exchange rate regime remains an effective anchor for the economy. They welcomed the banking system's sound position and commended the Central Bank of Kuwait for prudent regulation and supervision. Given the uncertainties to the outlook, they encouraged continued forward-looking assessment of bank asset quality and accompanying measures to support strong capital and liquidity buffers to safeguard the resilience of the financial system. Directors emphasized that relaxing interest ceilings on commercial loans and enhancing the credit information infrastructure would help improve access to finance, including for SMEs. They encouraged further efforts to strengthen the AML/CFT framework.

Directors emphasized that a comprehensive set of well-sequenced structural reforms, including to the social safety net, labor market, regulatory framework, and business environment, are needed to diversify away from hydrocarbon and promote private sector-led growth. Addressing climate challenges, including through supporting green infrastructure while strengthening energy efficiency standards, would further support these efforts. Forceful implementation of the anti-corruption strategy and action plan will be critical to strengthen governance and improve the business environment.

It is expected that the next Article IV consultation with Kuwait will be held on the standard 12-month cycle.

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

**Table 1. Kuwait: Selected Economic Indicators, 2016–27**

	2016	2017	2018	2019	Prel. 2020	Est. 2021	2022	2023	Projections			
									2024	2025	2026	2027
<b>Oil and gas sector</b>												
Total oil and gas exports (billions of U.S. dollars)	41.5	49.6	65.3	58.7	35.8	59.1	78.9	74.6	71.4	70.5	71.5	71.9
Average crude oil export price (U.S. dollars/barrel)	39.5	51.6	68.7	64.0	41.5	69.1	82.4	75.3	70.9	68.1	66.3	65.5
Crude oil production (millions of barrels/day)	2.95	2.70	2.74	2.68	2.44	2.43	2.72	2.77	2.83	2.88	2.94	3.00
(Annual percentage change, unless otherwise indicated)												
<b>National accounts and prices</b>												
Nominal GDP (market prices, in billions of Kuwaiti dinar)	33	37	42	41	32	41	49	49	49	50	51	53
Nominal GDP (market prices, in billions of U.S. dollars)	109	121	138	136	106	135	163	161	161	164	169	174
Real GDP <sup>1</sup>	2.9	-4.7	2.4	-0.6	-8.9	1.3	8.2	2.6	2.6	2.6	2.6	2.7
Real oil GDP (including refineries)	3.9	-9.0	2.1	-0.1	-9.8	-0.3	12.0	2.0	2.0	2.0	2.0	2.0
Real nonoil GDP <sup>1</sup>	1.4	1.7	2.9	-1.1	-7.5	3.4	3.5	3.5	3.5	3.5	3.5	3.5
CPI inflation (average)	3.5	1.5	0.6	1.1	2.1	3.4	4.4	2.3	2.3	2.4	2.4	2.4
CPI inflation (eop)	2.6	1.1	0.4	1.2	3.0	4.1	3.0	2.8	2.4	2.4	2.4	2.4
(Percent of GDP at market prices)												
<b>Budgetary operations<sup>2</sup></b>												
Revenue	53.6	53.3	61.7	55.9	44.9	53.8	56.9	55.1	53.7	52.5	50.4	48.6
Oil	34.4	38.0	44.3	39.3	25.4	36.0	40.0	37.8	36.0	34.7	32.6	30.9
Nonoil, of which:	19.2	15.3	17.4	16.7	19.5	17.8	16.8	17.3	17.7	17.8	17.8	17.7
Investment income	15.5	11.0	12.3	11.9	14.5	13.6	12.6	12.9	13.2	13.3	13.2	13.2
Expenditures <sup>3</sup>	52.2	51.0	53.2	55.1	61.5	50.1	44.5	46.6	48.1	48.7	49.3	49.8
Expense	45.6	44.4	46.9	49.3	56.5	44.6	38.7	40.5	41.8	42.5	43.1	43.5
Capital	6.5	6.6	6.3	5.9	5.0	5.5	5.9	6.1	6.2	6.3	6.3	6.2
Balance	1.5	2.3	8.5	0.8	-16.6	3.7	12.3	8.5	5.6	3.8	1.1	-1.2
Balance (after transfer to FGF and excl. investment income)	-17.9	-12.9	-8.8	-15.5	-31.1	-9.9	-0.3	-4.4	-7.6	-9.5	-12.2	-14.4
Domestic financing (net)	6.5	1.8	-2.8	-4.4	-1.8	3.4	-0.3	1.5	1.8	2.6	3.7	3.4
External borrowing and drawdown on GRF (net)	11.4	11.1	11.5	19.9	32.9	6.6	0.6	2.9	5.8	6.9	8.5	11.0
Nonoil balance excl. investment income (percent of non-oil GDP) <sup>4</sup>	-83.6	-86.6	-95.5	-94.2	-98.7	-95.3	-90.1	-88.9	-87.5	-86.0	-85.2	-84.5
Excluding oil-related subsidies and benefits (percent of non-oil GDP)	-74.6	-77.6	-85.6	-86.8	-90.4	-85.1	-81.1	-80.7	-80.0	-78.9	-78.3	-77.8
Total gross debt (calendar year) <sup>5</sup>	10.0	20.5	15.1	11.6	11.7	8.8	13.2	13.6	17.9	25.0	33.7	42.2
Estimated KIA assets	476.6	460.4	405.3	431.0	597.6	544.8	472.1	497.4	517.7	530.0	534.4	535.7
Net government financial assets	466.6	439.9	390.2	419.4	585.9	535.9	458.9	483.8	499.8	505.0	500.7	493.5
(Percent change; unless otherwise indicated)												
<b>Money and credit</b>												
Net foreign assets <sup>6</sup>	8.7	-3.1	10.0	6.2	8.7	-13.7	7.6	2.9	3.0	3.0	2.0	0.5
Claims on nongovernment sector	2.5	2.8	3.9	4.4	3.6	6.2	6.8	5.7	5.8	5.9	5.5	5.5
Kuwaiti dinar 3-month deposit rate (year average; in percent)	1.1	1.5	2.3	2.8	1.4	1.1	...	...	...	...	...	...
Stock market unweighted index (annual percent change)	-0.2	12.8	11.8	23.7	-11.7	27.0	...	...	...	...	...	...
(Billions of U.S. dollars, unless otherwise indicated)												
<b>External sector</b>												
Exports of goods	46.5	55.2	72.1	64.7	40.1	64.5	85.4	81.5	78.7	78.2	79.6	80.6
Of which: nonoil exports	5.0	5.6	6.8	6.0	4.3	5.4	6.5	6.8	7.2	7.7	8.1	8.6
Annual percentage change	-15.7	11.7	19.9	-11.9	-28.0	25.9	19.5	6.0	6.0	6.0	6.0	6.0
Imports of goods	-27.0	-29.5	-31.1	-29.4	-24.6	-30.1	-33.4	-35.5	-37.4	-39.4	-41.3	-43.4
Terms of Trade (ratio, annual percent change)	-12.5	27.1	17.0	3.8	-19.2	51.3	11.4	-8.3	-6.4	-4.0	-2.5	-2.6
Current account	-5.1	9.6	19.9	17.1	3.4	21.8	37.3	31.5	26.9	24.8	24.8	24.9
Percent of GDP	-4.6	8.0	14.4	12.5	3.2	16.1	22.9	19.6	16.7	15.1	14.7	14.3
International reserve assets <sup>7</sup>	31.2	33.6	37.2	39.9	48.3	45.1	50.5	54.0	57.9	61.8	65.2	67.8
In months of next year's imports of goods and services	6.6	6.4	8.0	11.5	11.3	9.0	9.6	9.9	10.1	10.4	10.5	10.5
<b>Memorandum items:</b>												
Exchange rate (U.S. dollar per KD, period average)	3.31	3.30	3.31	3.29	3.27	3.29	...	...	...	...	...	...
Nominal effective exchange rate (Percentage change)	1.8	0.4	0.2	2.6	-0.3	-0.5	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	3.2	0.5	-1.9	1.7	0.1	-0.1	...	...	...	...	...	...

Sources: Data provided by the authorities; and IMF staff estimates and projections.

<sup>1</sup> Calculated at market prices.

<sup>2</sup> Based on fiscal year cycle, which starts on April 1 and ends on March 31.

<sup>3</sup> Starting FY2016/17, there has been a reclassification of expenditure items.

<sup>4</sup> Excludes pension fund recapitalization.

<sup>5</sup> Excludes debt of Kuwait's SWF related to asset management operations.

<sup>6</sup> Excludes SDR holdings and IMF reserve position.

<sup>7</sup> Does not include external assets held by KIA.



# KUWAIT

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 18, 2022

### KEY ISSUES

**Context:** Sustained political gridlock has hobbled reforms and increased macroeconomic vulnerabilities, but a new high-level effort offers hope for resolving the impasse. The authorities have been preparing a comprehensive reform plan which, if adopted by parliament, would pave the way to address the structural and fiscal imbalances in the economy and promote sustainable and inclusive growth. The authorities responded swiftly and decisively to the COVID-19 crisis with social distancing restrictions and fiscal, monetary, and financial policy support measures. In 2021, a high rate of vaccination was achieved, although there has been a major surge in infections with the recent arrival of the Omicron variant. A nascent economic recovery is underway, supported by higher oil prices and some relaxation of mobility restrictions. However, substantial uncertainties to the economic outlook underscore the importance of phasing out COVID-19 relief measures at a measured pace as the economy recovers, and of accelerating the reform momentum to limit risks and rebuild buffers. Banks entered the crisis from a position of strength and have remained well capitalized and highly liquid.

**Focus of the discussions:** The policy discussions focused on: (i) limiting risks associated with the pandemic and supporting the recovery; (ii) reinforcing fiscal and external sustainability; (iii) safeguarding financial stability; and (iv) enhancing non-hydrocarbon growth and employment.

#### Key Policy Recommendations:

**Near-term policies:** Continue to closely monitor the health and economic effects of COVID-19 while carefully withdrawing the remaining support measures. Additional temporary supportive measures can be deployed if the situation warrants but these should increasingly target those hard-hit but viable firms and the most vulnerable. Near-term fiscal adjustment should be implemented with careful consideration to safeguarding the nascent recovery.

**Fiscal policy:** Passing the new debt law is essential to support orderly fiscal operations. Strong medium-term fiscal consolidation is needed to reinforce fiscal sustainability and rebuild buffers. Establishing a sound medium-term fiscal framework and clear fiscal anchor would support sound policymaking and rigorous evaluation of reform options. Developing a sovereign asset-liability management framework and enhancing fiscal governance would also strengthen public finances.

**Monetary and financial policies:** The exchange rate peg to an undisclosed basket of currencies continues to serve Kuwait well. The central bank should continue to have a forward-looking assessment of banks' asset quality and ensure banks' buffers are adequate to withstand future materialization of credit risks.

**Structural policy:** Comprehensive structural reforms, including to social benefits, the labor market, land allocation, and the business environment, are needed to promote strong, job-rich, non-oil private sector growth and alleviate fiscal strains. Forceful implementation of the anti-corruption strategy and action plan would demonstrate the authorities' determination to fight corruption.

Approved By  
**Zeine Zeidane (MCD)**  
**and Uma**  
**Ramakrishnan (SPR)**

Discussions were initially held virtually during September 26–October 10, 2021. Following a change in government, additional discussions were held with new Minister of Finance Alrasheed on January 26, 2022. The team comprised Daniel Kanda (head), Fei Liu, Nooman Rebei (all MCD), and Yousef Nazer (RES). Esther George, Hatim Bukhari, and Dalia Aita (all MCD) provided support and contributed to the report. Zeine Zeidane (MCD) attended the concluding meetings. Executive Director, Mr. Mahmoud Mohieldin, joined the opening and concluding meetings. Advisors to the Executive Director Ms. Wafa Abdelati and Mr. Fouad Al-Kohlany accompanied the mission. In addition to Minister of Finance Alrasheed, the mission met with former Minister of Finance Hamada, Governor of the Central Bank of Kuwait Al-Hashel, Managing Director of Kuwait Investment Authority Al-Ghenaiman, Chairman of Parliament’s Committee for Economic and Financial affairs Al-Hamad, other public officials, representatives of the private sector, and members of the civil society.

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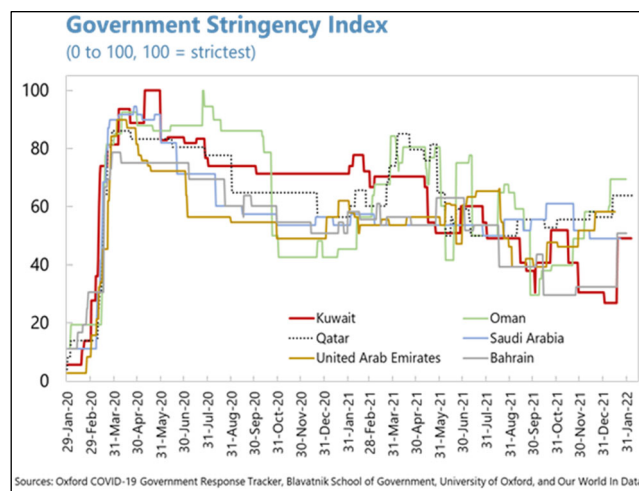
## ANNEXES

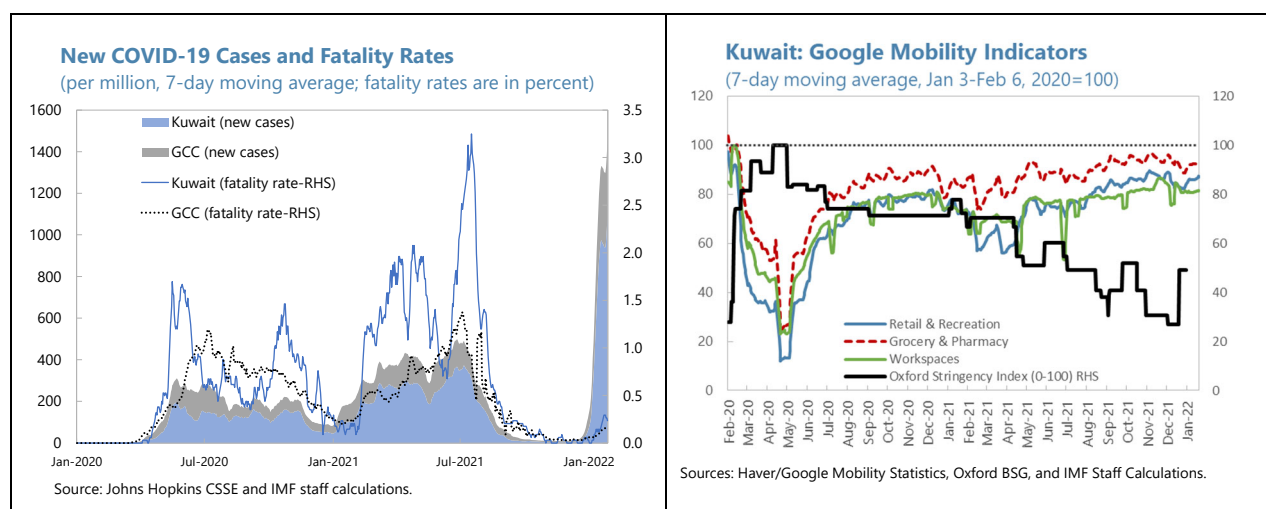
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## CONTEXT

**1. Political gridlock has impeded progress in addressing fiscal risks and implementing growth enhancing structural reforms.** Several important reform bills, including a new debt law needed to ensure orderly financing of fiscal operations, await parliamentary approval with no clear timeline for approval. However, high-level efforts led by the Amir appear to be helping to alleviate the political impasse between government and parliament, which could pave the way for accelerating the reform momentum. In late 2021, a new cabinet was formed with three opposition legislators included and the former Prime Minister reappointed. The new cabinet has continued to prepare a comprehensive reform plan—the Program of Action for the Sixteenth Legislative Term (2021/2022 – 2024/2025)—which aims to address the structural and fiscal imbalances in the economy and promote sustainable and inclusive growth, and requires parliamentary approval for implementation. The program encompasses multiple pillars including enhancing economic growth, fostering private sector development, reinforcing fiscal sustainability, promoting social and human capital development via education and healthcare reforms, and infrastructure and renewable energy development.

**2. The authorities responded swiftly and decisively to the COVID-19 crisis.** Measures to contain the spread of the virus have included suspending inbound commercial flights, closing schools and universities, banning public gatherings, suspending nonessential work in governmental entities, and curfews, with the stringency of measures adapting to the intensity of the pandemic over time. Thanks to strong vaccination efforts, about 80 percent of the target population had been at least partially vaccinated and about 75 percent fully vaccinated as of mid-January 2022. In late 2021, the authorities started vaccinating children and giving booster shots to adults. As the Omicron variant drove cases to new record highs in early 2022, the authorities moderately tightened public health measures including prohibiting large indoor gatherings and are monitoring COVID-19 developments closely. As a result, mobility indicators have declined slightly but remain above the levels in 2020 and 2021.

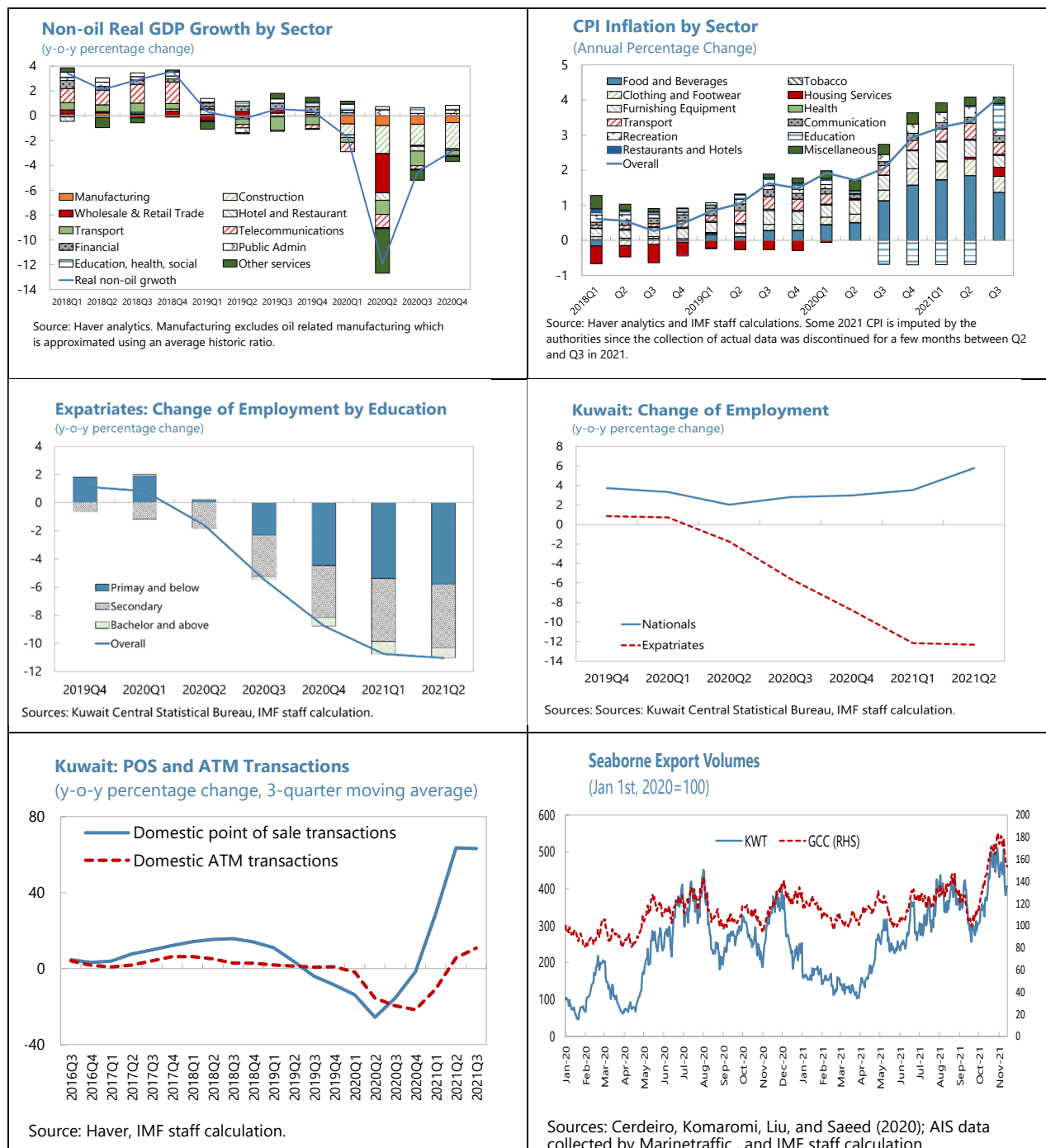




**3. Monetary, fiscal, and financial support measures eased the burden on households, firms, and the financial sector (Annex I).** From March 2020, the Central Bank of Kuwait (CBK) lowered its discount rate from 2.75 to a historic low of 1.5 percent and deployed measures to support liquidity in the financial system and ease pressure on borrowers. These measures included permitting a six-month deferral of loan repayments, lowering the minimum capital adequacy ratio from 13 to 10.5 percent, lowering the liquidity ratio and liquidity coverage ratio from 18 to 15 percent, and from 100 to 80 percent, respectively, and raising loan to value (LTV) ratios by 10 percentage points for real estate and construction. Direct fiscal support in FY 2020/21 is estimated at almost 1.5 percent of GDP and includes spending on healthcare and support for firms and households through wage subsidies and cash transfers. In FY 2021/22, the authorities also offered another six-month loan deferral for Kuwaiti citizens financed by government, tax deferrals, loan guarantees to SMEs affected by the pandemic shock (80 percent of loans) amounting to KD 500 million (1.3 percent of GDP), and KD 600 million (1.6 percent of GDP) of bonuses for a broad array of public sector workers involved in the COVID-19 response.

## RECENT DEVELOPMENTS

**4. The economic toll of the pandemic has been significant.** Besides the direct impact of COVID-19 on economic activity, sharp declines in oil prices, and cuts to oil production under the OPEC+ agreement, weighed on the oil sector in 2020. Moreover, social distancing affected non-tradable sectors severely—notably construction, hospitality, and wholesale and retail trade sectors. Real GDP is estimated to have contracted 8.9 percent in 2020, with non-oil growth at -7.5 percent and oil growth at -9.8 percent. While quarterly GDP data are not yet available for 2021, available data on private credit growth, imports and exports of goods, and point of sale transactions, point to gradual recovery in the second half of 2021 with the rise of oil prices and vaccination rates and relaxation of social distancing measures. The brunt of labor market adjustment has been borne by a 12.3 percent reduction in the employment of expatriates by 2021Q2 (y/y). CPI inflation has trended up since 2020H2, mostly due to higher food prices resulting from supply chain disruptions.

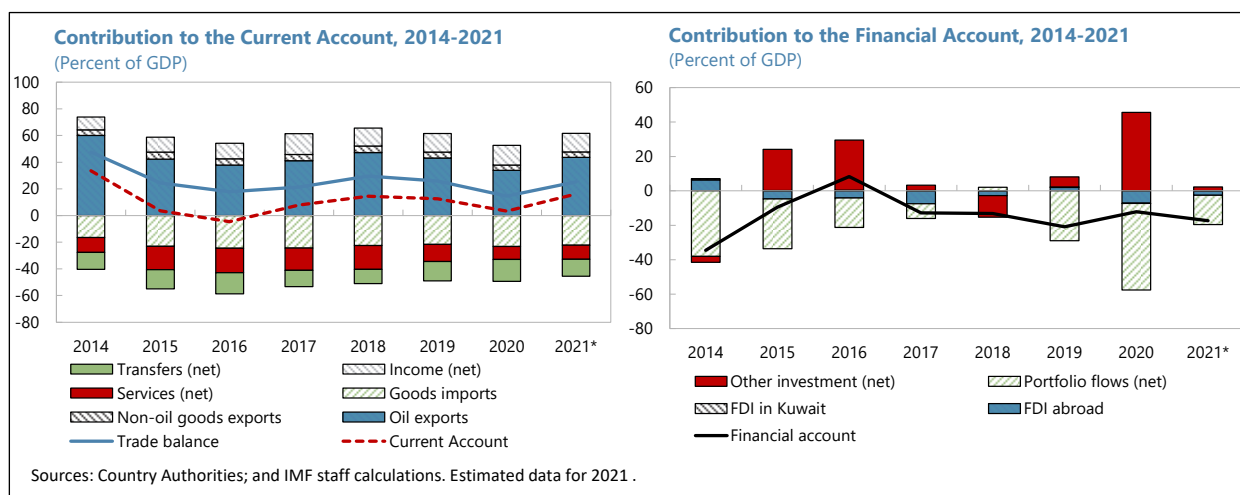


**5. The fiscal deficit increased to an estimated 16.6 percent of GDP in FY 2020/21 but is expected to turn into a surplus in FY 2021/22.**<sup>1</sup> In addition to fiscal stimulus in the wake of the COVID-19 crisis, the wider deficit reflects a 13.9 percent of GDP decline in oil revenues and a slump in economic activity. Financing need rose to 31.1 percent of GDP despite the suspension of the

<sup>1</sup> The fiscal year is from April 1 to March 31.

compulsory 10 percent of revenue transfer to the Future Generations Fund (FGF) with the emergence of a fiscal deficit.<sup>2</sup> In the absence of a public debt law to permit borrowing, or legal authority to draw from the enormous FGF, financing has relied on drawdown of the liquid assets of the much smaller General Reserve Fund (GRF), which neared depletion, pushing the authorities to swap illiquid GRF assets for liquid assets from the FGF (Annex II). In FY 2021/22, the rebound in oil revenues, together with spending cuts announced in August 2021 and significantly higher nominal GDP reflecting the impact of higher oil prices on the GDP deflator, are expected to imply a 20.3 percentage point improvement in the headline fiscal balance to a surplus of 3.7 percent of GDP.

**6. The current account however has remained in surplus.** The current account surplus is estimated to have declined by 9.3 percentage points to 3.2 percent of GDP in 2020, mainly due to a 40 percent fall in oil exports partially offset by import compression. In H1 2021, non-oil goods exports grew by 18 percent while imports of goods rose by 16 percent. Supported by higher oil exports, the 2021 current account surplus is projected to increase to 16.1 percent of GDP. Official international reserves increased by about US\$8.4 billion to US\$48.3 billion in 2020 (11.4 months of imports and 130 percent of ARA metric), but declined by about US\$3.2 billion to US\$45.1 billion in 2021 (9.0 months of prospective imports) due to net outflows of portfolio and other investments, offset partially by the new SDR allocation of about US\$2.6 billion.<sup>3</sup> The external sector assessment indicates an external position in 2021 weaker than the level implied by fundamentals and desirable policies (Annex VI).

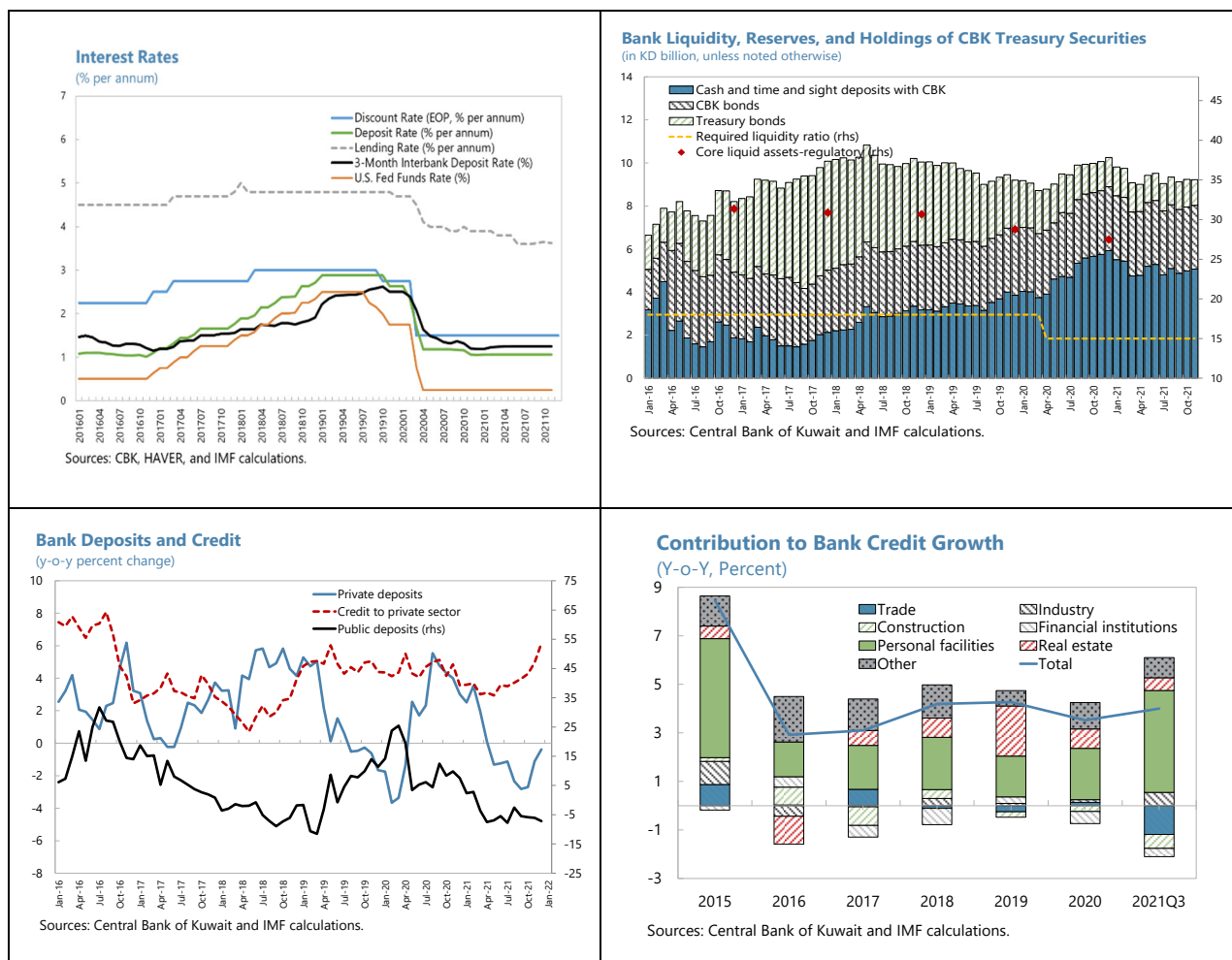


**7. Credit is recovering, benefiting from the accommodative monetary conditions.** As the pandemic emerged and the U.S. Federal Reserve lowered the Federal Funds rate, the CBK slashed the discount rate by 125 bps in March 2020, resulting in a steady downward trend in lending rates. Coupled with ample liquidity, deferral of loan repayments, and relaxation of other prudential measures, the accommodative monetary conditions supported a rebound in credit growth to

<sup>2</sup> In August 2020, the parliament passed legislation to mandate the transfer of 10 percent of revenues (net of investment income) to the FGF, only in the case of a budget surplus during the same fiscal year.

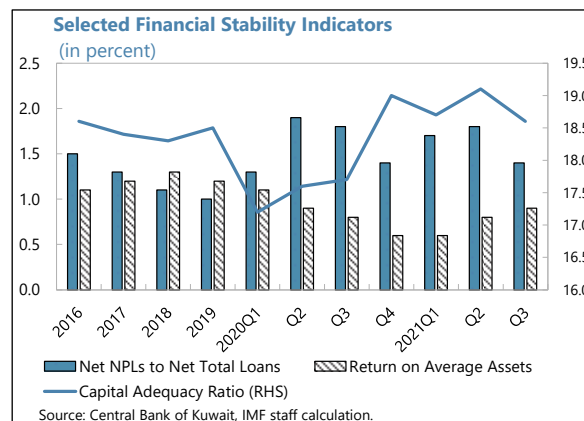
<sup>3</sup> The authorities intend to save the new SDR allocation of about US\$2.6 billion as international reserves.

3.6 percent (y/y) in 2020, and further strengthening to 6.2 percent y/y in December 2021, driven mostly by household borrowing. Lending to business (excluding non-bank financial institutions) has however been muted.



**8. Kuwait’s financial sector has weathered the crisis well. Banks are well-capitalized and**

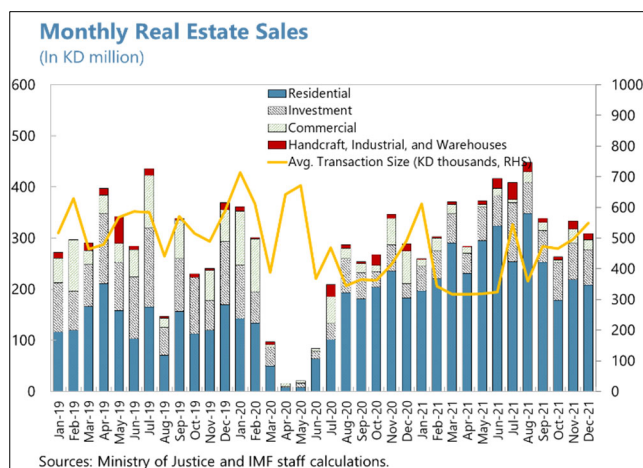
highly liquid. As of 2021Q3, bank capital adequacy ratio stood at 18.6 percent, well above the required minimum level. Nonperforming loans (NPLs) net of specific provisions stood at 1.4 percent, and total provisions to gross NPL was high, at over 200 percent. Bank profitability has declined relative to 2019 but has been improving in 2021. Banks’ return on average assets fell from 1.2 percent in 2019 to 0.6 percent in 2020Q4, reflecting weaker economic activity, lower oil prices, and loan deferment. However, it has recovered to 0.9 percent as of 2021Q3 as economic activity recovers. The Net Stable Funding Ratio and Liquidity Coverage Ratio





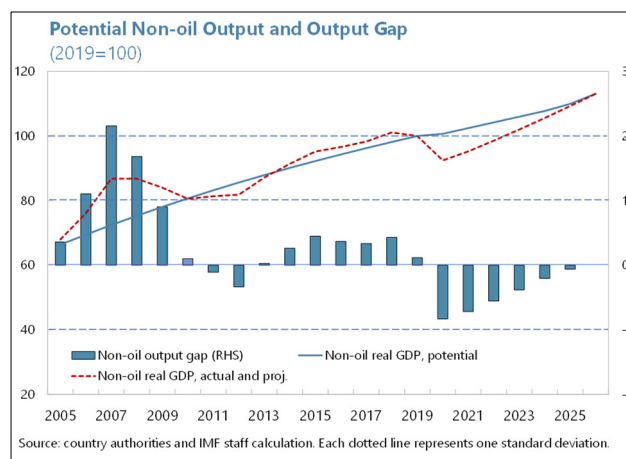
Funding Ratio and Liquidity Coverage Ratio stood at 110% and 174.5%, respectively, as of 2021Q1. The CBK has calibrated three severe stress testing scenarios, which showed that the banking system remains resilient under challenging adverse shocks.<sup>4</sup>

**9. The residential real estate market quickly recovered, but investment and commercial real estate continue to lag.** The value of real estate transactions stalled at the onset of the pandemic but strongly recovered thereafter, driven by favorable financing conditions. Residential sales recovered faster than investment and commercial components, which lag in the volume and value of transactions. Average transaction value has been volatile but trending up in recent months.



## OUTLOOK AND RISKS

**10. The economy is expected to stabilize over the medium term.** Non-oil GDP growth is estimated at 3.4 percent in 2021 and is projected to rise slightly to 3.5 percent in 2022, as domestic economic activity gradually recovers along with the global environment. Despite the recent Omicron case surge, economic activities have broadly continued thus far due to less stringent mobility restrictions. Oil production is projected to rebound as OPEC+ quotas are relaxed and return to the pre-pandemic level in 2022. Overall, GDP is projected to grow around 2.7 percent over the medium term. Inflation is expected to average 3.4 percent in 2021 given increases in food prices and costs of travel-related services and is projected at 4.4 percent in 2022, reflecting the impact of the global supply chain disruptions. Over the medium term, it is projected to decline to about 2.4 percent.



**11. Stronger oil revenues and steps to contain spending below KD 22 billion are expected to significantly improve the fiscal balance in FY 2022/23.** On the spending side, the FY 2022/23 draft budget indicates a moderate nominal increase in the public wage bill (1.7 percent compared to previous year's budget, which would require concrete measures to limit hiring and wage increases)

<sup>4</sup> Based on 2021Q2 stress tests results. The three scenarios are: (i) a sectoral shock in the form of a real estate market collapse; (ii) a country-wide shock in the form of extreme fiscal contraction affecting multiple sectors; (iii) a global shock represented by a prolonged COVID-19 crisis.

along with 12.4 percent lower subsidies and 16.4 percent lower public investment. On the revenue side, the budget assumes a US\$65 per barrel oil price, which appears conservative, while non-oil revenues are expected to increase by about 15 percent following the expected economic recovery. Overall, the budget projects the fiscal deficit (excluding investment income and transfers of profits of public entities) to narrow to KD 3.1 billion (6.6 percent of GDP). On this basis, staff projects a surplus of 12.3 percent of GDP (including investment income and transfers of profits of public entities and assuming an average oil price of US\$78.9). Subsequently, however, continued expenditure pressures and an expected decline in oil prices reduce the fiscal balance to a deficit of 1.2 percent of GDP over the medium term, leaving a sizable fiscal sustainability gap, with the current account surplus declining to 14.3 percent of GDP.

**12. Substantial uncertainties surround the outlook, with the balance of risks tilted to the downside (Annex IV).** A prolonged COVID-19 pandemic could weigh on the nascent economic recovery. Notably, the rapid spread of the new Omicron variant points to renewed global challenges in controlling the pandemic. Delays in fiscal and structural reforms could amplify the risk of procyclical fiscal policies, undermine investor confidence, hinder the progress toward more economic diversification and higher competitiveness, and foster social pressures. Volatility in oil prices would have a significant impact on the outlook and macroeconomic balances (Figure 6). Upside risks to the outlook would come a stronger rebound in global activity than anticipated, which could also boost oil revenues. A resolution to political gridlock and strong fiscal consolidation could considerably improve investor sentiment.

**13. Authorities' views.** The authorities broadly agreed with staff's assessment of the outlook and risks and the external sector assessment. They saw significant upside potential for rebounding oil prices to help boost oil revenues and alleviate the short-run budget pressures. They emphasized that Kuwait's strong financial position would allow Kuwait to weather external shocks and cover financing needs in the case of delayed approval of the amended public debt law. They will continue to closely monitor the development of COVID-19 pandemic and its impact on the economy, while maintaining macroeconomic sustainability and supporting the nascent recovery.

## POLICY DISCUSSIONS

*The policy discussions focused on: (i) supporting economic recovery in the short run; (ii) reinforcing fiscal and external sustainability; (iii) safeguarding financial stability; and (iv) comprehensive structural reforms to reinvigorate non-hydrocarbon GDP and employment growth.*

### A. Near-Term Policies

**14. Economic scarring appears modest so far, though this could change if the pandemic is prolonged.** The oil sector has been resilient, and information available suggests that the policy support measures have contained bankruptcies in hard-hit sectors and supported the most vulnerable. While the policy support measures were generally well-targeted and well-calibrated, bonuses to public sector workers involved in COVID-19 response could have been better targeted. Exit of expatriates also



appears reversible as COVID-19 containment measures are gradually relaxed. With the recovery strengthening, the fiscal, monetary, and financial sector support measures are being gradually phased out. Notably loan moratoria have expired, and the FY 2022/23 budget appropriately focuses on streamlining expenditures. Given the uncertainties of the pandemic, closely monitoring the health and economic situation while planning for coordinated withdrawal of the remaining support measures would help ensure a smooth return to normalcy. Additional supportive measures can be deployed if the situation warrants but these could increasingly target those hard-hit but viable firms and the most vulnerable, while being temporary to avoid permanently increasing the fiscal deficit.

**15. Passing the public debt law is essential for the issuance of government debt and to support orderly fiscal operations.** The draft debt law currently before parliament envisages a debt ceiling of 60 percent of GDP, which allows for room for additional borrowing as the size of the economy expands and appears appropriate. Staff emphasized that the debt law should provide sufficient flexibility for adequate debt management and avoid legislating restrictions such as on debt maturities, sizes or uses of financing, which are best managed at the operational level. The law should also clarify the borrowing authorities of public entities other than the central government—e.g., State Owned Enterprises (SOEs)—referencing their statutory authority if it exists, and their relationship to the debt ceiling calculation.

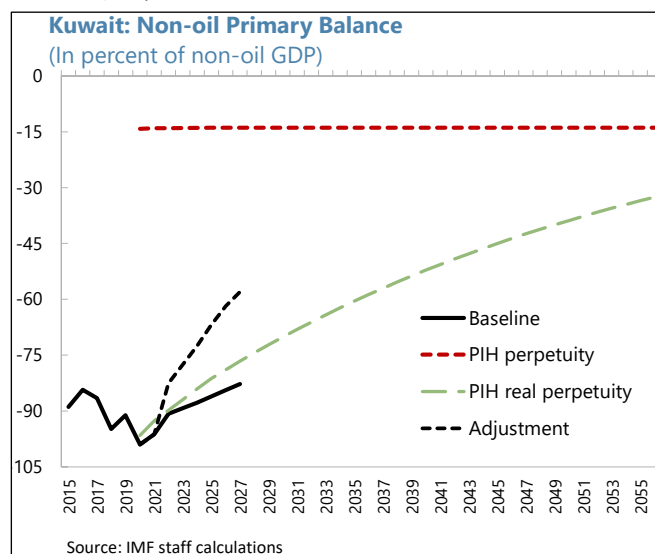
**16. The CBK continues to focus monetary and financial policy responses on supporting the economy while containing risks to financial stability.** Given expected tightening of U.S. monetary policy in 2022, Kuwaiti monetary policy may need to be tightened somewhat to mitigate capital outflows. However, the peg to an undisclosed basket of currencies provides an additional margin of monetary policy autonomy relative to single-currency pegs and therefore the CBK could take a more accommodative position to support activity. The two 6-month loan moratoria granted in 2020 and 2021 both expired with minimal impact as most beneficiaries are public employees who have been receiving their salaries normally throughout the pandemic. Nonetheless, a prolonged pandemic could further intensify vulnerabilities in the corporate sector. The CBK continues to monitor credit risk closely with a forward-looking assessment of bank asset quality and continues to ensure adequate capital buffers to withstand credit risks if they materialize.

**17. Authorities' views.** The authorities are pressing forward with efforts to pass the debt law. They concurred with the need to continue supporting vulnerable households and affected sectors as needed and to keep such support temporary to avoid permanently increasing the fiscal deficit. The CBK will remain vigilant and agile in calibrating its policies, detecting early signs of potential deterioration in asset quality, and ensuring adequate buffers.

## B. Reinforcing Fiscal and External Sustainability

**18. The baseline fiscal path is inconsistent with long run sustainability and intergenerational equity, and buffers decline significantly over the medium term.** Absent additional consolidation

efforts the non-oil primary balance (NOPB) is projected to improve from –98.7 percent of non-oil GDP in FY2020/21 to –84.5 percent of non-oil GDP in FY2027/28, well below the levels estimated under various permanent income hypothesis (PIH) scenarios, showing that Kuwait is not saving sufficiently for future generations with a gap averaging at least 5 percent of non-oil GDP between 2021 and 2027.<sup>5</sup> Moreover, government debt is projected to rise to 42.2 percent of GDP by 2027, from 8.8 percent currently, though net financial assets will remain high (Annex V). Substantial fiscal consolidation is needed to strengthen sustainability and reduce vulnerabilities to future shocks, notably considering the dimming long run outlook for oil markets given climate change.



**19. Both expenditure and revenue measures would be needed to deliver the required fiscal consolidation.** On the spending side, phasing out subsidies, reforming public wage bills, strengthening efficiency of infrastructure spending, and reforming the social safety net will be critical. In addition, non-hydrocarbon revenue measures will be needed to reduce vulnerability to oil price volatility and prepare for the global energy transition. Plans to introduce a value-added tax (VAT) and excise taxes need to be reinvented. There is also scope for raising revenues from the corporate income tax by its extension to domestic companies. Fiscal measures envisaged in the government's Program of Action are consistent with the above-mentioned reforms, though detailed time-bound measures are still lacking.

**20. Fundamentally addressing fiscal expenditure pressures—while supporting sustained improvements in private sector led growth—would require reform of oil wealth redistribution mechanisms.**

- Oil wealth redistribution to citizens—the return to citizenship—is currently achieved via guaranteed public sector jobs with above-market salaries, wage subsidies to Kuwaitis working in the private sector, other general subsidies on food, petroleum products, electricity, water etc., and generous social benefits. As a result, about 80 percent of Kuwaiti workers have jobs in the public sector, far above international norms, while private sector employment is largely based on low-skilled expatriates. This represents a major misallocation of human resources where well-

<sup>5</sup> Permanent Income Hypothesis (PIH) perpetuity method assumes that the transfer to the budget equals the revenues stemming from interest receipts on the stock of assets. PIH real perpetuity method allows current generation to spend a higher share of oil wealth (i.e., run higher deficits) as non-oil GDP grows while future generations are expected to be better off.

educated nationals queue for jobs in the already bloated public sector, intensifying fiscal strains while leaving the private sector under-developed.

- There was broad agreement that addressing these impediments would require clearly separating the return to citizenship from the return to labor (wages). The return to citizenship could be sustainably and equitably administered via a reformed social benefit system, allowing labor market policies to be fully market based and alleviating pressure on public spending. Possible options for reforming the return to citizenship which would also facilitate social support for deeper fiscal (including wages, subsidies, and social spending) and structural reforms include a Universal Basic Income (UBI) scheme or a Norwegian style social safety net based on open access by citizens rather than need (or wage) based targeting. Broad public consultations would be required to settle on the right scheme for Kuwait.

**21. Staff discussed an illustrative adjustment scenario with the authorities** (Text Table 1).

Under the scenario, revenue measures incorporated over the medium term include a 5-percent VAT, excises on tobacco, expansion of corporate tax to cover domestic corporates, and adoption of property tax. On the expenditure side, social benefit reform based on implementing a UBI is assumed to be implemented, facilitating the steady reduction of public wages; subsidies to fuel, electricity, and water; and wage subsidies to nationals working in the private sector; while streamlining existing social schemes. These measures would yield an estimated 6.4 percent of GDP in additional revenues and 4.1 percent of GDP in expenditure savings by 2027/28. The adjustment would exceed the 5-percent non-oil primary balance gap with respect to the PIH-real perpetuity case in the medium run and converges toward a more ambitious PIH-perpetuity balance target. In addition, structural reforms are assumed to be implemented to strengthen labor and product markets, which raises growth toward the end of the medium term. The authorities broadly concurred with the analysis.

**22. A robust medium-term fiscal framework, with a clear fiscal anchor, is needed to support fiscal consolidation.**

As fiscal reforms will likely take several years to implement, a medium-term fiscal framework is needed to support sound policymaking and rigorous evaluation of reform options. Moreover, given the sensitivity of the headline fiscal balance to oil prices and the need to prepare for climate transition, a target for the non-oil structural primary balance could be an appropriate fiscal anchor to support consolidation and avoid pro-cyclicality. Operationalizing such a framework would require rejuvenating the staffing, resources, technical capacity, and high-level support of the Macro-Fiscal Unit in the Ministry of Finance.

## Text Table 1. Illustrative Adjustment Scenarios

Percent of GDP unless otherwise indicated

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Real GDP growth (calendar year)	-0.6	-8.9	1.3	8.2	2.6	2.8	3.0	3.3	3.6
<i>Oil GDP growth</i>	-0.1	-9.8	-0.3	12.0	2.0	2.0	2.0	2.0	2.0
<i>Nonoil GDP growth</i>	-1.1	-7.5	3.4	3.5	3.5	3.8	4.4	5.0	5.5
Nominal GDP (in billions of KD)	39.1	34.6	42.8	47.7	48.0	48.8	50.4	52.7	55.6
Nominal potential GDP (in billions of KD)	42.1	41.0	43.8	48.3	48.4	49.1	50.5	52.7	55.6
Output gap (in percent of potential GDP)	-7.1	-15.7	-2.4	-1.1	-0.8	-0.6	0.0	0.1	0.1
Overall fiscal balance	0.8	-16.6	3.8	16.1	13.5	12.0	11.8	10.7	9.4
Gross financing needs	15.5	31.1	10.0	1.8	4.3	1.3	1.4	2.3	3.4
Total gross debt (calendar year)	11.6	11.7	8.8	13.2	13.0	13.4	13.6	13.8	13.7
Net government financial assets (calendar year)	419.4	585.9	535.9	461.8	484.5	500.6	507.1	505.6	501.5
Non-hydrocarbon primary fiscal balance 1/	-49.7	-56.0	-45.9	-37.3	-36.7	-35.6	-33.7	-31.7	-30.3
Non-hydrocarbon structural primary balance 2/	-45.8	-46.5	-44.7	-36.9	-36.4	-35.4	-33.6	-31.8	-30.3
<i>Structural non-hydrocarbon primary revenue 3/ 4/</i>	4.7	5.0	4.2	7.2	7.9	8.7	9.7	10.6	10.8
Value added tax	0.0	0.0	0.0	1.6	2.0	2.0	2.0	2.0	2.0
Corporate tax	0.0	0.0	0.0	0.7	0.7	1.2	1.7	2.3	2.3
Property Tax and/or PIT on wealthy	0.0	0.0	0.0	0.4	0.5	0.6	0.7	0.7	0.7
Excises	0.0	0.0	0.0	0.2	0.2	0.3	0.5	0.7	0.7
Others 5/	4.7	5.0	4.2	4.3	4.5	4.6	4.8	4.9	5.1
<i>Structural primary expenditure 3/ 6/</i>	50.5	51.5	48.9	44.0	44.3	44.1	43.3	42.3	41.1
Compensation of employees	20.6	21.9	20.1	17.6	16.9	16.1	15.1	14.0	12.7
Purchases/use of goods & services	8.4	7.7	6.7	5.6	5.9	6.0	6.1	6.1	6.1
Subsidies and social benefits	11.1	11.9	12.4	7.3	7.1	6.8	6.6	6.3	6.1
<i>of which oil related subsidies</i>	3.7	4.0	4.8	2.1	2.0	2.0	1.9	1.9	1.8
Capital expenditure	5.5	4.3	5.4	6.0	6.2	6.4	6.5	6.6	6.7
Expense not elsewhere classified	5.0	5.8	4.4	7.6	8.2	8.8	9.0	9.3	9.5
<i>of which additional cost from safety net reform</i>	0.0	0.0	0.0	4.2	5.0	5.8	6.5	7.0	7.2
<i>Fiscal adjustment with respect to the baseline 3/</i>	0.0	0.0	0.0	3.3	4.7	6.3	8.0	9.7	10.5
Revenue adjustment	0.0	0.0	0.0	2.8	3.4	4.1	5.1	6.1	6.4
Spending adjustment	0.0	0.0	0.0	-0.5	-1.4	-2.2	-2.9	-3.5	-4.1

Sources: MoF; and IMF staff estimates.

1/ Excluding investment income and transfer of profits of public entities.

2/ Structural balance, structural revenue, and structural expenditure refer to adjustment based on the economic cycle, assuming revenue elasticity of one and expenditure elasticity of zero.

3/ Percent of nominal potential GDP.

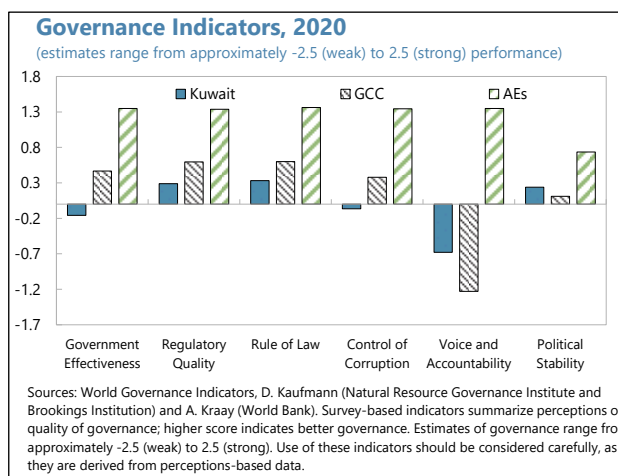
4/ Assumptions on revenue measures include: 5-percent VAT, excises on sugary drinks and tobacco in FY2022/23, and expansion of the coverage of the profit tax to domestic companies starting from FY2022/23.

5/ Includes UN (Iraq) compensations, non-tax revenue, CIT on foreign companies, and taxes on international trade and transactions.

6/ Assumptions on expenditure measures include: wage bill restraint (a gradual reduction of the number of public sector employees to the level comparable to Advanced Economies within 15 years); gradual elimination of the wage subsidies to Kuwaitis working in the private sectors over the medium term; reduction of water and electricity subsidies; gradual consolidation of various social spending items; additional cost from safety net reform.

**23. Enhancing public financial management and fiscal governance would improve accountability and effectiveness of policy and strengthen consolidation efforts.** Kuwait is persistently perceived to have weaker government effectiveness and regulatory quality.

- More disclosures in quarterly fiscal reports and publication of the balance sheet of KIA, are needed to improve fiscal transparency. Lack of accurate information about sovereign assets notably contributed to raising concerns about fiscal financing risks. Greater transparency would also help facilitate public consensus about reforms, strengthening prospects for implementation.



- Strengthening the implementation of the public procurement law adopted in 2017. To that end, the government is planning to review procurement practices and enhance processes with World Bank assistance, including in eProcurement, framework contracts, performance-based service contracts, needs identification, and cost estimation.
- Developing a sovereign asset and liability management framework would strengthen management of assets and liabilities in a consolidated manner, by helping to detect sovereign risk exposures early and to design appropriate mitigation measures.

**24. Authorities' views.** The authorities generally agreed on the need for fiscal consolidation and stronger public financial management and fiscal governance. The government's Program of Action (2021-25), which is consistent with staff recommendations, will guide the main reforms to address the structural imbalances in the economy and public finances once approved by parliament.

## C. Monetary and Financial Policies

**25. The current exchange rate peg to an undisclosed basket of currencies remains an appropriate policy anchor, delivering low and stable inflation while providing significant monetary policy autonomy.** While a more flexible exchange rate could potentially support the development of the non-oil tradable sectors over time, a move away from the peg would have limited benefits for competitiveness in the near term and remove an effective nominal anchor. External adjustment would be facilitated by fiscal consolidation and structural reforms. In the meantime, reforms should continue to further improve the conduct of monetary policy and deepen money and capital markets.

**26. Staff welcomed recent establishment of the Monetary Stability Committee by the central bank.** The Monetary Stability Committee (MSC) was established in June 2021 to strengthen monetary policy management, including revising and upgrading the monetary policy toolkit and

improving data quality and granularity. MSC is also tasked to ensure proper digitization to improve the speed and depth of analysis and forecasting capabilities and activate internal interactions with other CBK committees (e.g., Financial Stability Committee) to achieve smoother coordination and synchronization of intervention actions. The CBK continues to improve its liquidity management framework by extending the forecasting horizon beyond the immediate future to up to six months to better anticipate potential systemwide pressures.

**27. The central bank continues to strengthen macroprudential tools, the regulatory framework, and financial safety nets.<sup>6</sup>**

- The macroprudential and regulatory toolkits appear adequate. Regular reviews of the regulatory perimeter and macroprudential tools would ensure these policy tools continue to balance financial stability and recovery. Finalizing the Countercyclical Capital Buffer and Domestic Systemically Important Banks frameworks would further strengthen oversight and management of systemic risks. The CBK strengthened its stress testing techniques recently by supplementing the existing bottom-up approach with a top-down exercise. The establishment of the Financial Stability Committee by the central bank, which aims to improve supervision efficiency and guide macroprudential policy decisions, is welcome.
- The CBK established a centralized Shariah Board in late 2020, which is a welcome and important step in ensuring consistent interpretation of Shariah law in Islamic banks at the national level. A draft bank resolution law has been submitted to the government for review, while work is ongoing on the legal framework to introduce a deposit insurance scheme. The central bank continues its efforts to promote financing for green projects and Fintech for greater financial inclusion while containing risks.

**28. Gradually relaxing the interest rate ceiling on commercial loans could contribute to expanding access to credit to a wider segment of the corporate sector and SMEs.** While the interest rate ceiling does not apply to Islamic banks, in practice they closely follow prevailing market lending rates charged by conventional banks. The interest rate ceiling therefore limits banks' ability to properly price risks in lending to SMEs. The timing and pace of relaxation should take into consideration factors including the enhancement of the credit information database as well as expansion of loans provided to qualified SMEs from the National Fund for SME Development.

**29. Staff welcomed the progress in strengthening the regulations on information disclosure, transparency, and corporate governance in the capital market.** Kuwait's Capital Market Authority (CMA) issued several resolutions in 2020 and 2021 which amended the existing executive bylaws to create a more transparent and robust corporate governance system by imposing and clarifying the rules on shareholders and boards of directors. Further actions could

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<sup>6</sup> See Annex III, Implementation of 2019 FSAP Recommendations.

focus on deepening the local currency bond market after the approval and enactment of the debt law.

**30. Effective implementation of the AML/CFT legal and regulatory frameworks is critical to strengthen Kuwait's AML/CFT regime.** Following the issuance of the new AML/CFT regulation to banks, the updated regulations to exchange companies were published in June 2020. In collaboration with Kuwait Financial Investigations Unit, CBK organized training sessions and workshops to employees in the financial sector. Further implementation efforts should focus on ensuring compliance by financial institutions with the new regulations. The National Committee for AML/CFT, in coordination with CBK and other institutions, is currently conducting the national risk assessment in relation to money laundering and terrorist financing. Kuwait is expected to undergo the AML/CFT mutual evaluation in 2022.

**31. Authorities' views.** The authorities are of the view that the current exchange rate peg to a basket of undisclosed currencies remains an appropriate policy anchor given the oil dependent structure of the economy. They concurred with the need for continued efforts to further improve the conduct of monetary policy and deepen monetary and capital markets, and underscored that the recent establishment of the Monetary Stability and Financial Stability Committees by the central bank is a step in this direction.

## D. Strengthening Non-Oil Growth and Employment

**32. A well-sequenced comprehensive set of reforms is needed to tackle the deep-rooted structural impediments to growth.** Given Kuwait's demographics, over 100,000 young persons will enter the labor force over the medium term. Taking account of retirements, about 64,000 new jobs would need to be created. With fiscal strains limiting public employment, non-oil GDP growth would need to double to offer sufficient private sector opportunities to job seekers. Social benefit reforms, augmented by harmonizing labor market policies across all sectors in line with market conditions, would be needed to support competitiveness, attract private investment, and reduce pressure on public sector employment. Also, expatriate labor mobility should be enhanced, including by tackling the practical difficulties faced by expatriates in changing employment and extending residency limits, to attract higher skilled labor and increase productivity. The government's Program of Action lays out an ambitious structural and fiscal reform agenda to address the fiscal and structural imbalances in the economy and promote sustainable and inclusive growth. Measures being contemplated are consistent with staff advice. The authorities concurred that going forward, concrete and well-sequenced reform measures and steadfast implementation, accompanied by public broad consultation, are of the essence.

**33. Measures to improve the business environment would add to the positive feedbacks from labor market and social benefit reforms.**

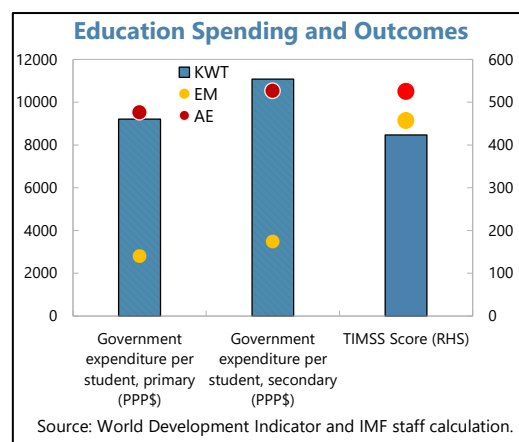
- The enactment of the new Bankruptcy Law in 2020 strengthens the bankruptcy procedures for corporates, including by emphasizing early debt restructuring for distressed companies. It would facilitate resource reallocation by allowing nonviable firms to exit more efficiently.



- The recent establishment of the Disciplinary Board under the Competition Protection Agency to handle business complaints regarding fair competition is welcome. Going forward, it is important to enhance public awareness of this board and build a strong track record in ensuring a level playing field for businesses.
- Recent improvements to the business environment, notably in streamlining procedures and promoting the use of electronic platforms, are welcome.
- To address the critical issue of land shortage for development, a road map for land reform, including introducing market-based and transparent mechanisms for land allocation and providing public information on land allocation, would be needed.
- Further business incubation support could be considered to help startup companies and foster innovation by providing services such as training on business management and marketing.
- The authorities have established the Kuwait Direct Investment Promotion Authority to help address the challenges facing foreign investors, including relaxation of the restrictions on foreign ownership of companies and access to land.

**34. Vigorously addressing corruption and improving government efficiency would be critical in sustaining public support for reforms.** Addressing corruption would require not only tackling corruption cases in a transparent, timely manner, but also establishing and implementing a strong anti-corruption framework. The authorities' 2019-24 Integrity and Anti-Corruption Strategy aims to address different forms of corruption by enhancing the rule of law, strengthening institutional transparency and accountability, and improving the role of the private sector and civil society in promoting integrity and fighting corruption. As part of the efforts to implement the strategy, an executive regulation on access to information under Law No.12 was issued in January 2021, which is key to enhancing transparency and reducing opportunities for corruption. Draft bills related to tackling conflict of interest, incrimination of bribery in the private sector, and protection of whistleblowers were issued and submitted to the parliament. An implementation plan following the anti-corruption strategy is being prepared by the Kuwait Anti-Corruption Agency (Nazaha). A high-level committee has been established to oversee the implementation progress. Going forward, forceful implementation of the anti-corruption strategy and its action plan would be needed to send a clear public signal of the authorities' determination to fight corruption.

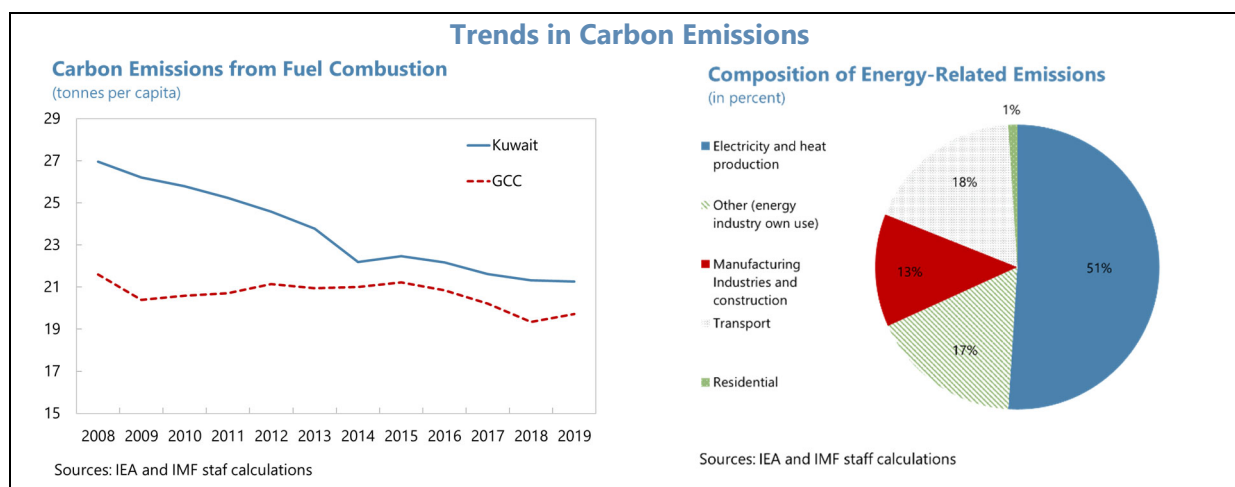
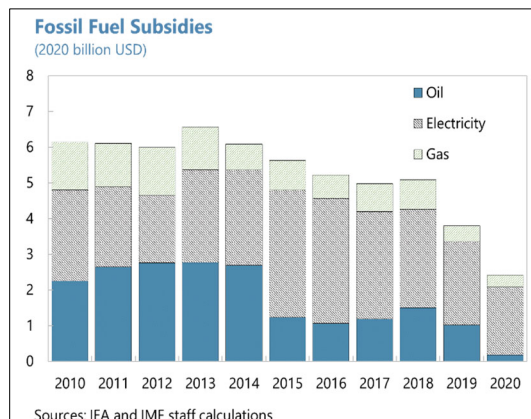
**35. There is scope to improve the quality of education and expand vocational training.** Kuwait made big strides in raising educational attainment in past decades, but there is scope to improve the efficiency of public spending on education and enhance quality and relevance. While public spending on education is, on average, similar to the level in advanced economies, the outcomes proxied by TIMSS scores are lower than averages in advanced economies. There is scope to enhance the quality of education and the jobs skills match, including through





expansion of vocational training. The education reforms envisaged under the government’s Program of Action rightly focus on these issues.

**36. Climate change calls for persistent adaptation and mitigation efforts.** The government expressed its commitment to harmonize economic growth with a low-carbon and climate-resilient development in the National Adaption Plan 2019-30. To reduce electricity related emissions, the authorities have shifted most power generation plants from the use of oil to natural gas. Accelerating fossil fuel subsidy reforms would help reduce carbon emissions. Supporting green infrastructure and strengthening energy efficiency standards would also help address climate change and has the potential to attract private investors and contribute to growth and economic diversification. The adverse long run implications of climate change for the hydrocarbon sector also provide strong incentives for Kuwait to accelerate reforms to strengthen non-oil private sector growth.



**37. Authorities’ views.** The authorities emphasized their determination to tackle the structural imbalances in the economy and public finance. They recognized the challenges posed by the political impasse but remained optimistic that the renewed high-level efforts would facilitate a consensus on reforms. Several important reform bills have been submitted to Parliament, and would be ready for implementation soon once approved. While pursuing low-carbon and climate-resilient development, the authorities also emphasized that the transition would need to proceed at a measured pace given Kuwait economy’s heavy reliance on oil production.

## E. Statistics

**38. Timely and high-quality macroeconomic data, including inflation and national accounts, are critical inputs to analyzing economic conditions and steering economic policies.** Thus, the staffing, resources, and mandate of the Central Statistics Bureau could be strengthened. Notably, collection of inflation data ceased from May-August 2021 due to various technical challenges; Q1 2021 GDP data had not been published by end-2021; there are long lags in the publication of annual GDP by expenditure; and GDP by income has reportedly been discontinued.

## STAFF APPRAISAL

**39. Sustained political gridlock has hobbled reforms and increased macroeconomic vulnerabilities, but a new high-level effort offers hope for resolving the impasse.** Several important reform bills, including a new debt law and other key legislation identified in the new government program await parliamentary approval with no clear timeline for approval. However, efforts led by the Amir to resolve the political impasse between government and parliament could pave the way for accelerating the reform momentum.

**40. The authorities responded swiftly and decisively to the COVID-19 crisis, containing infections and limiting economic scarring, thus facilitating a gradual recovery from the pandemic.** Stringent containment measures and health support to combat the COVID-19 crisis have limited cases and fatalities despite waves of infections. Fiscal, monetary, and financial support measures introduced by the government and CBK eased the burden on households, firms, and the financial sector. As a result, economic scarring appears modest overall despite the sharp GDP contraction in 2020, and gradual recovery is underway.

**41. Notwithstanding higher oil prices, comprehensive fiscal consolidation is needed to reinforce fiscal sustainability and support intergenerational equity.** An adjustment path that would close the intergenerational savings' gap and reduce financing needs requires both revenue and spending reforms. Revenue measures could include the introduction of a 5 percent VAT, excises on tobacco, expanding corporate tax to cover domestic corporates, and implementing a property tax or personal income tax on the wealthy. On the spending side, curtailing the wage bill and consolidating subsidies and social benefits are of the essence. Sustained outreach and broader consultation with stakeholders are necessary to ensure public support for the reforms.

**42. Efforts are needed to establish a robust medium-term fiscal framework with a clear fiscal anchor and to enhance fiscal governance and transparency.** A robust medium-term fiscal framework would limit procyclicality of policies, enhance fiscal credibility, reduce fiscal risks, and improve the capacity to manage adverse shocks. Given the sensitivity of the headline fiscal balance to oil prices, a target for the non-oil structural primary balance could be an appropriate fiscal anchor to support consolidation. Strengthening fiscal governance and transparency would significantly improve public financial management.

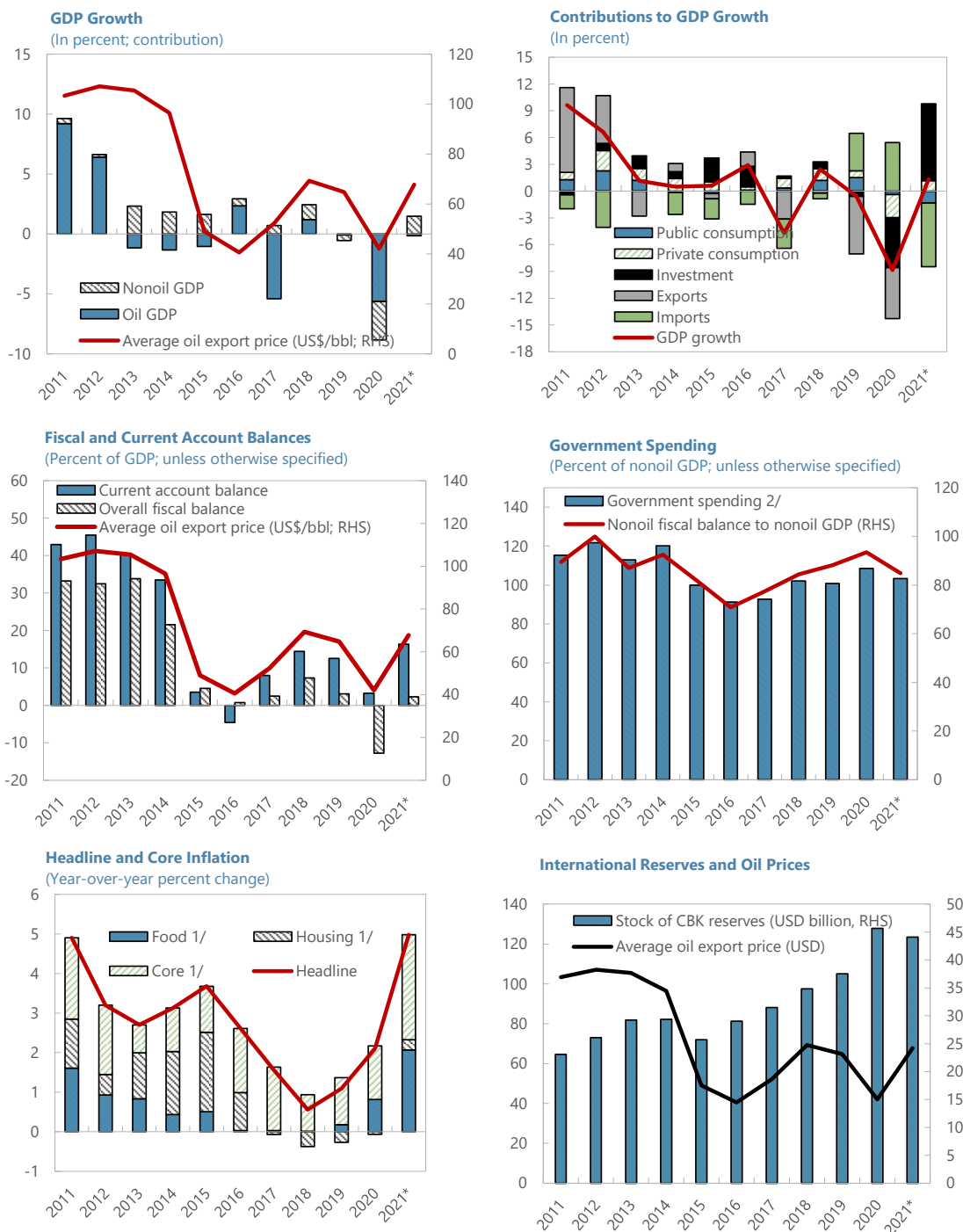
**43. The exchange rate peg to an undisclosed basket of currencies remains an appropriate policy anchor.** It has delivered low stable inflation while also allowing for a degree of monetary autonomy. Reforms to further improve the conduct of monetary policy and deepen money and capital markets should continue. The external position in 2021 is weaker than the level implied by fundamentals and desirable policies. External adjustment would be facilitated by fiscal consolidation and structural reforms.

**44. The CBK's sustained prudent supervisory approach helped strengthen banking system resilience significantly prior to the pandemic.** Banking system capital and liquidity buffers have remained ample throughout the crisis and stress tests point to strong resilience to adverse shocks. Looking forward, the CBK's continued forward-looking assessment of bank asset quality and accompanying measures to support strong capital and liquidity buffers would be important to safeguard the resilience of the financial system. The interest rate ceiling on commercial loans should be removed or significantly relaxed while efforts continue to enhance credit information infrastructure and government support to SMEs access to finance.

**45. Reinvigorating the structural reform agenda is vital to enhancing inclusive economic growth.** With fiscal strains limiting public employment, growth of the non-oil economy would need to double to offer sufficient private sector opportunities to job seekers. A comprehensive set of well-sequenced reforms, including to the social safety net, labor market, regulatory framework, and business environment, are needed to address the deep-rooted structural challenges preventing the private sector from taking off. Implementing a broad-based reform that tackles challenges from multiple areas within a coherent framework would be more effective than a piecemeal approach. Sustained consultation is needed to secure broad public support for reform. Improving the quality of education and expanding vocational training would enhance the human capital and help nurture entrepreneurship to spur sustained and more inclusive growth. Forceful implementation of the anti-corruption strategy and action plan would demonstrate the authorities' determination to fight corruption. Addressing climate challenges (e.g., shifting preferences from fossil fuels), including through supporting green infrastructure while strengthening energy efficiency standards, has the potential to contribute to non-oil growth and economic diversification.

**46. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 1. Recent Economic Developments



Sources: Country authorities; INS; Haver; and IMF staff calculations.

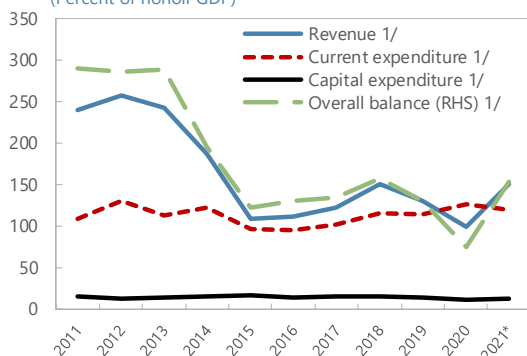
\* Projected.

1/ Contribution to headline CPI inflation.

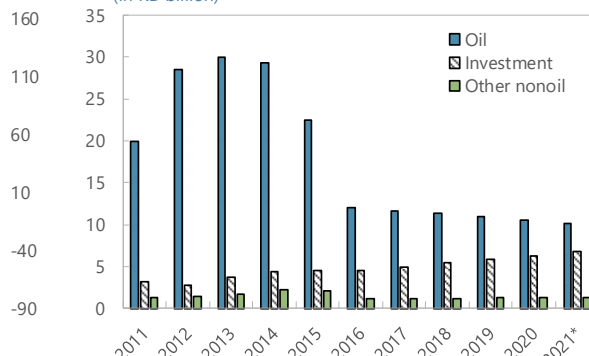
2/ Calendar year.

**Figure 2. Fiscal Developments**

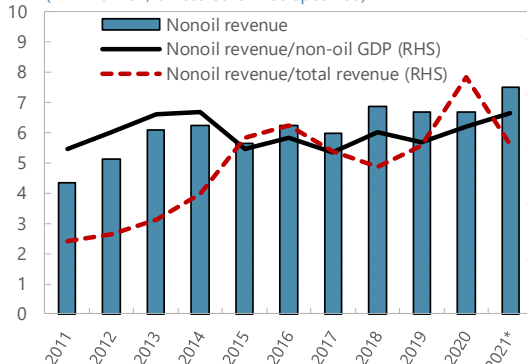
**Spending, Revenue, and Overall Balance**  
(Percent of nonoil GDP)



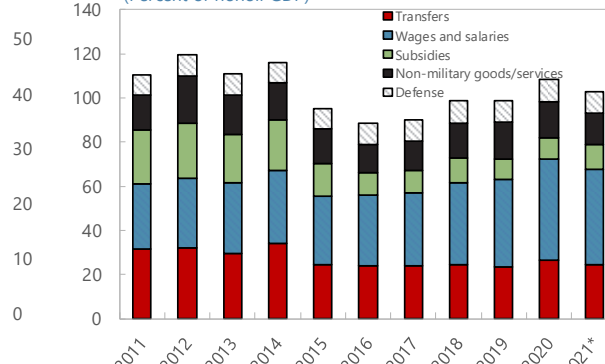
**Government Revenues**  
(In KD billion)



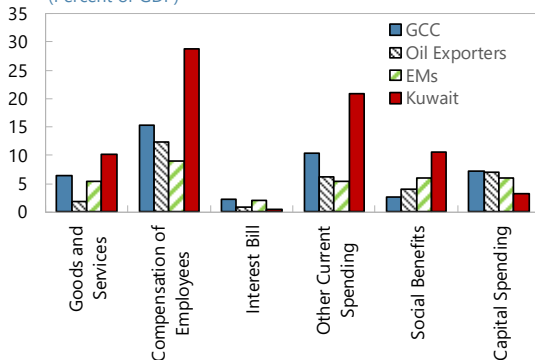
**Nonoil Revenue**  
(In KD billion; unless otherwise specified)



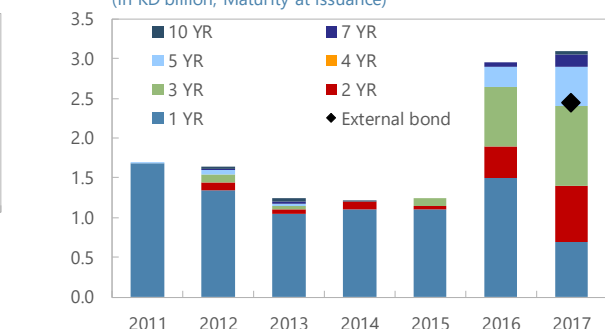
**Current Spending Composition**  
(Percent of nonoil GDP)



**Comparison of Spending, 2020**  
(Percent of GDP)



**Domestic and External Bond Issuance, 2011-17 2/**  
(In KD billion; Maturity at issuance)



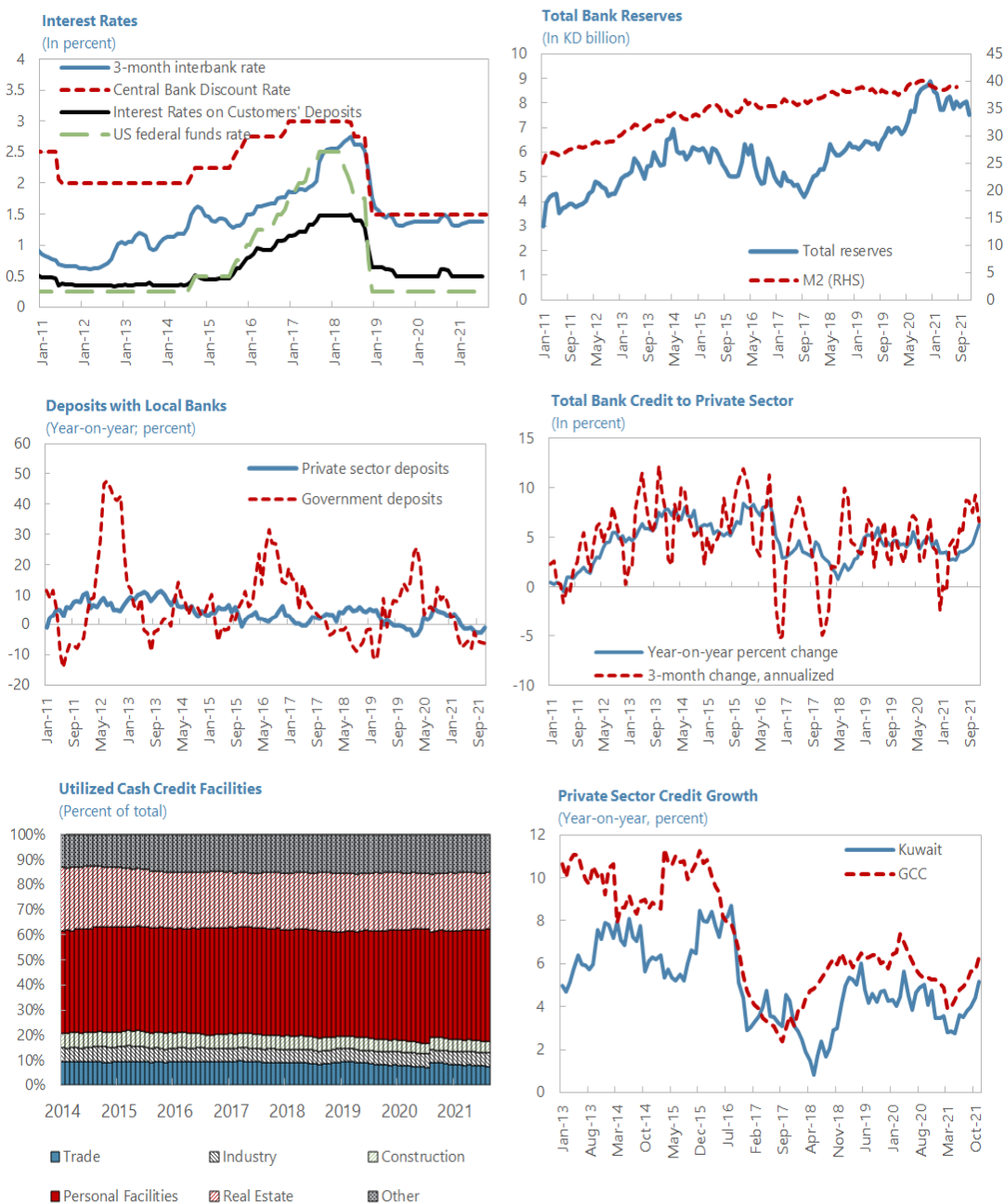
Sources: WEO; Country authorities; CBK; MOF; and IMF staff calculations.

\* Projected.

1/ Calendar year for nonoil GDP; fiscal year for revenue; current expenditure, capital expenditure, and the overall balance.

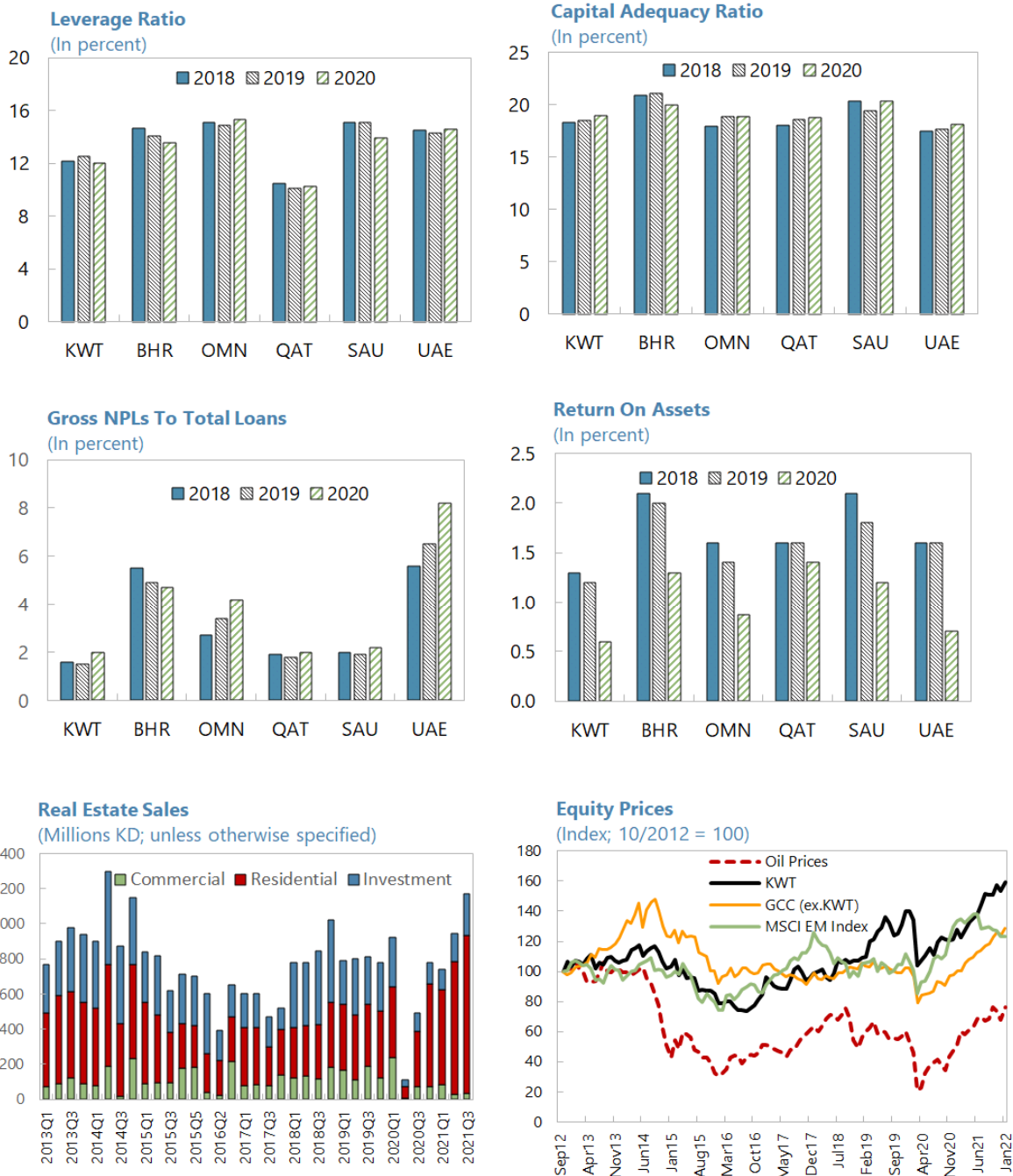
2/ There has been no government debt issuance since October 2017.

Figure 3. Monetary Developments



Sources: Country authorities; Haver; and IMF staff calculations.

**Figure 4. Financial Sector and Asset Developments**

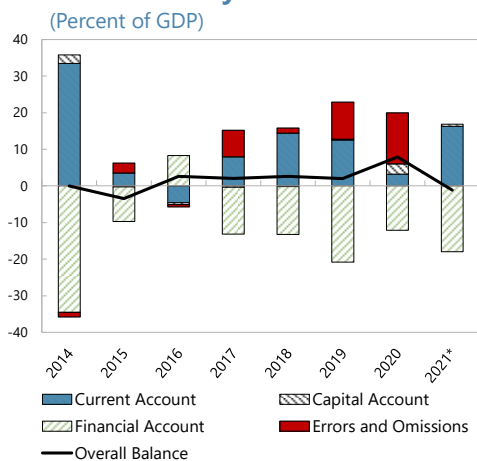


Sources: Country authorities; Bloomberg; NBK; Haver; and IMF staff estimates.

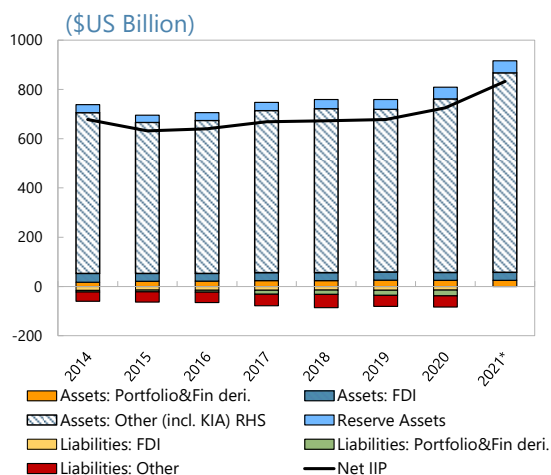


Figure 5. External Sector Developments

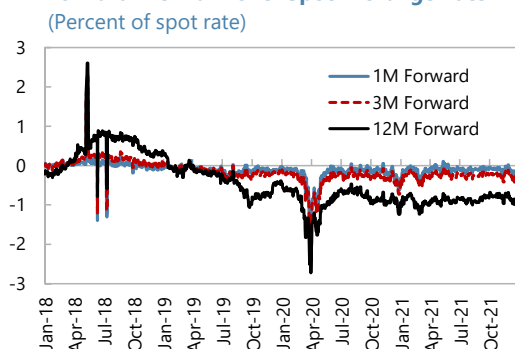
Balance of Payments



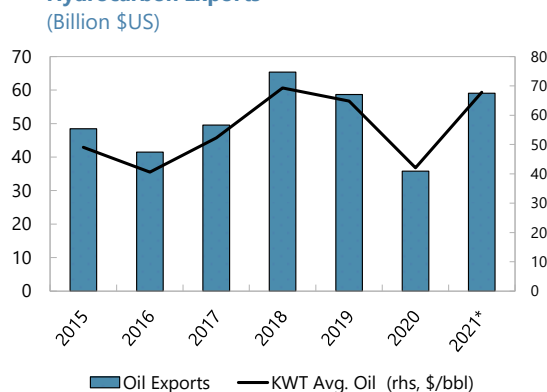
International Investment Positions



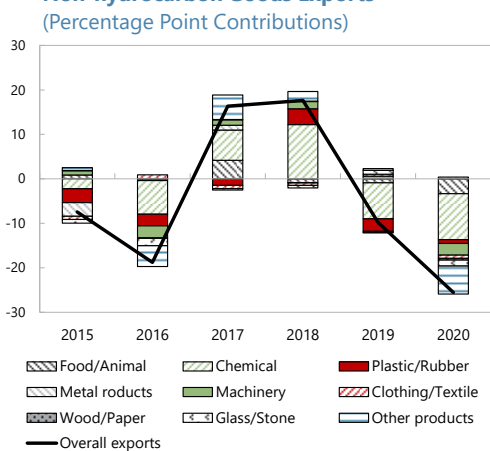
Forward Premium Over Spot Exchange Rate



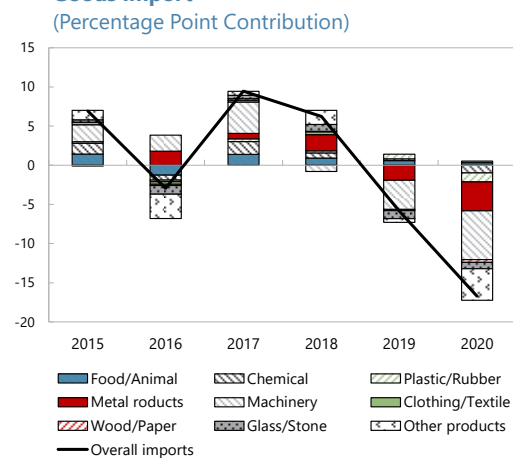
Hydrocarbon Exports



Non-hydrocarbon Goods Exports



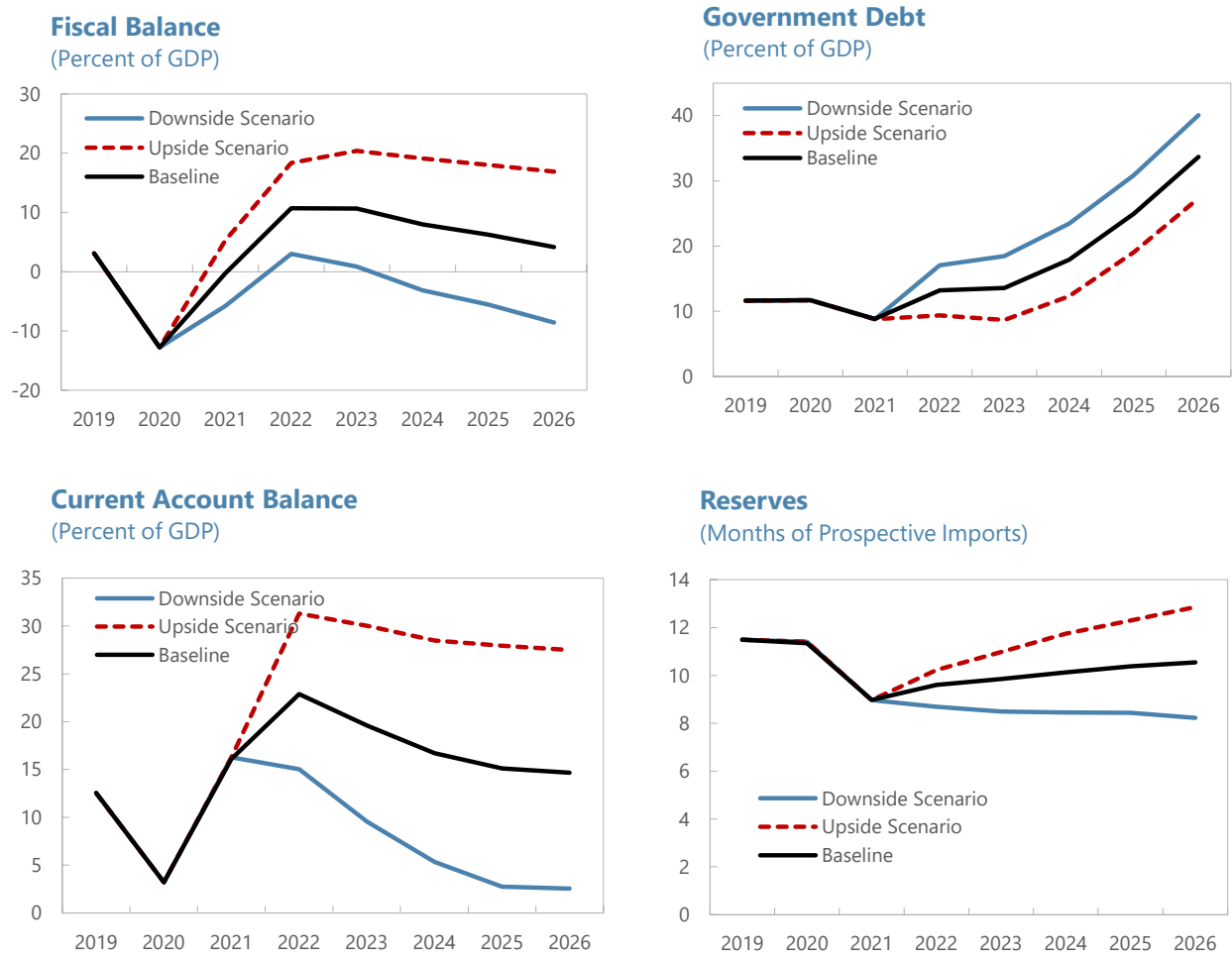
Goods Import



\* Estimates.



**Figure 6. Upside/Downside Oil Price Scenarios 1/**  
(Percent of GDP)

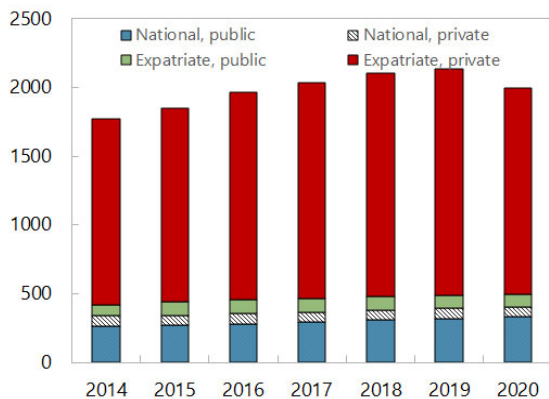


Source: IMF staff calculations.

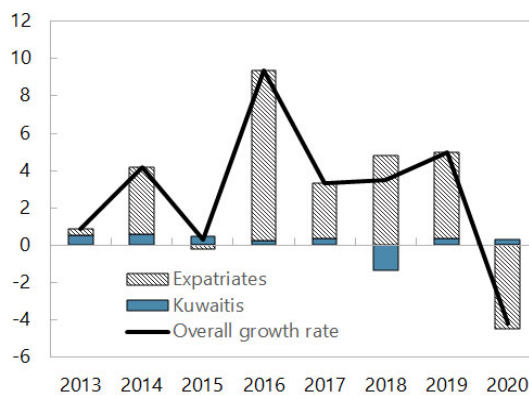
1/ The low oil price scenario assumes the oil price is one standard deviation below the WEO oil price from 2022 to 2026. The high oil price scenario assumes the oil price is one standard deviation above the WEO oil price for that same time period. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline. An oil price of US\$39.4 and US\$93.2 is assumed for downside and upside scenarios, respectively, compared to US\$66.3 in the baseline scenario in 2026.

**Figure 7. Labor Market Indicators**

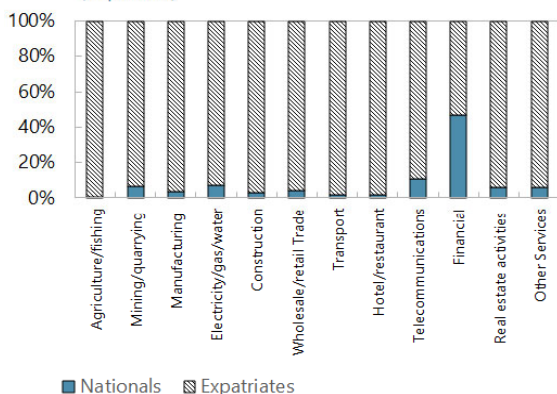
**Employment by Sector and Nationality**  
(in thousands)



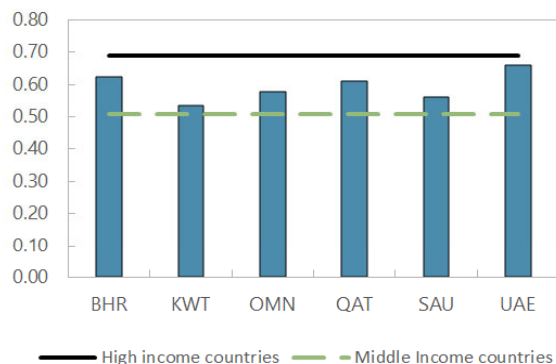
**Employment Growth and Contribution**  
(In percent)



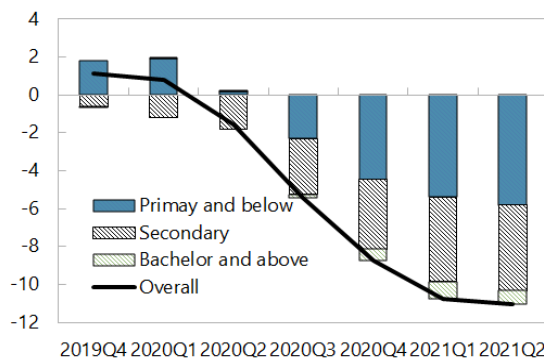
**Distribution of Employees in Private Sector by Economic Activity and Nationality, 2020**  
(In percent)



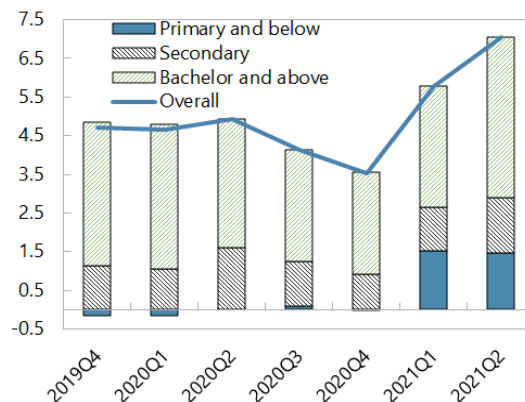
**Human Capital Index, 2020 1/**



**Expatriates: change of employment by education**  
(y-o-y percentage change)



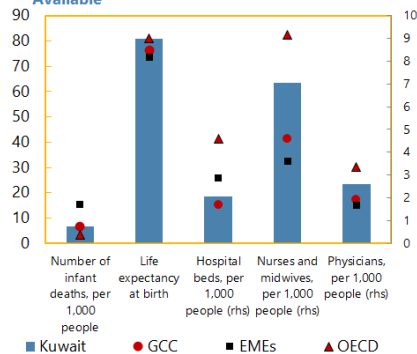
**Nationals: change of employment by education**  
(y-o-y percentage change)



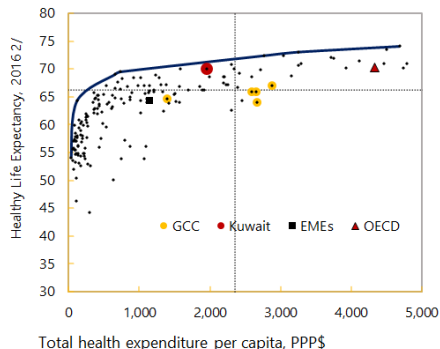
Sources: Country authorities; WEF Global Competitiveness Report, UNDP; World Bank, and IMF staff calculations.  
1/The World Bank's Human Capital Index is defined as the amount of human capital a child born today can expect to achieve by age 18 given health and education standards currently prevailing in the country of birth.

**Figure 8. Institutions, Governance, and Business Environment Indicators**

**Health Indicators and Health System Characteristics Indicators, Latest Value Available**



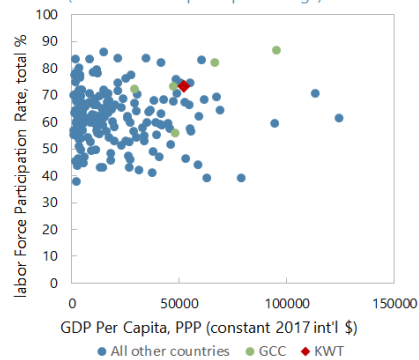
**Health Efficiency Frontier, Latest Value Available (0 - 5,000 PPP\$) 1/**



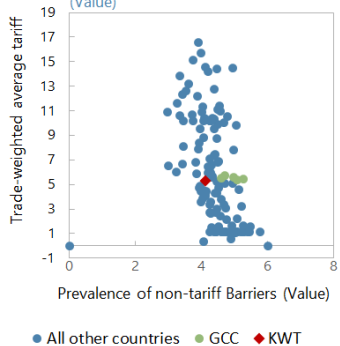
**Worldwide Governance Indicators, 2020**



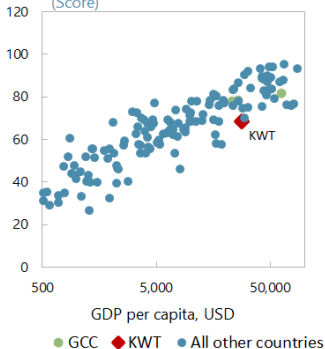
**Labor Force Participation Rate (2015-2019 GDP per Capita average)**



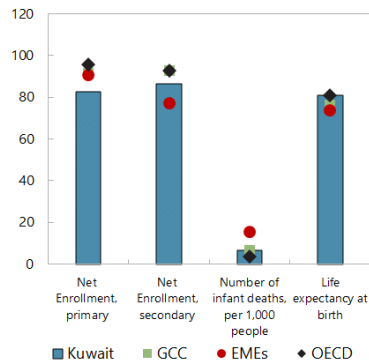
**Trade Restrictions, 2019 2/ (Value)**



**Quality of Infrastructure, 2019 (Score)**



**Health and Education Indicators (Latest Available)**



Sources: World Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); World Economic Outlook; IMF FAD Expenditure Assessment Tool (EAT), World Health Organization.

Survey-based indicators summarize perceptions of quality of governance; higher score indicates better governance. Estimates of governance range from approximately -2.5 (weak) to 2.5 (strong). Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

1/ Dashes are the averages of the GCC.

2/ Indices on the prevalence of trade barriers ranking and subcomponents are based on WEF's quantitative and qualitative assessment of the trade environment. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints, and information availability. For "Prevalence of non-tariff barriers", 1 = strongly limit; 7 = do not limit at all.

Table 1. Kuwait: Selected Economic Indicators, 2016–27

	2016	2017	2018	2019	Prel. 2020	Est. 2021	2022	2023	2024	2025	2026	2027
	Projections											
<b>Oil and gas sector</b>												
Total oil and gas exports (billions of U.S. dollars)	41.5	49.6	65.3	58.7	35.8	59.1	78.9	74.6	71.4	70.5	71.5	71.9
Average crude oil export price (U.S. dollars/barrel)	39.5	51.6	68.7	64.0	41.5	69.1	82.4	75.3	70.9	68.1	66.3	65.5
Crude oil production (millions of barrels/day)	2.95	2.70	2.74	2.68	2.44	2.43	2.72	2.77	2.83	2.88	2.94	3.00
(Annual percentage change, unless otherwise indicated)												
<b>National accounts and prices</b>												
Nominal GDP (market prices, in billions of Kuwaiti dinar)	33	37	42	41	32	41	49	49	49	50	51	53
Nominal GDP (market prices, in billions of U.S. dollars)	109	121	138	136	106	135	163	161	161	164	169	174
Real GDP <sup>1</sup>	2.9	-4.7	2.4	-0.6	-8.9	1.3	8.2	2.6	2.6	2.6	2.6	2.7
Real oil GDP (including refineries)	3.9	-9.0	2.1	-0.1	-9.8	-0.3	12.0	2.0	2.0	2.0	2.0	2.0
Real nonoil GDP <sup>1</sup>	1.4	1.7	2.9	-1.1	-7.5	3.4	3.5	3.5	3.5	3.5	3.5	3.5
CPI inflation (average)	3.5	1.5	0.6	1.1	2.1	3.4	4.4	2.3	2.3	2.4	2.4	2.4
CPI inflation (eop)	2.6	1.1	0.4	1.2	3.0	4.1	3.0	2.8	2.4	2.4	2.4	2.4
(Percent of GDP at market prices)												
<b>Budgetary operations<sup>2</sup></b>												
Revenue	53.6	53.3	61.7	55.9	44.9	53.8	56.9	55.1	53.7	52.5	50.4	48.6
Oil	34.4	38.0	44.3	39.3	25.4	36.0	40.0	37.8	36.0	34.7	32.6	30.9
Nonoil, of which:	19.2	15.3	17.4	16.7	19.5	17.8	16.8	17.3	17.7	17.8	17.8	17.7
Investment income	15.5	11.0	12.3	11.9	14.5	13.6	12.6	12.9	13.2	13.3	13.2	13.2
Expenditures <sup>3</sup>	52.2	51.0	53.2	55.1	61.5	50.1	44.5	46.6	48.1	48.7	49.3	49.8
Expense	45.6	44.4	46.9	49.3	56.5	44.6	38.7	40.5	41.8	42.5	43.1	43.5
Capital	6.5	6.6	6.3	5.9	5.0	5.5	5.9	6.1	6.2	6.3	6.3	6.2
Balance	1.5	2.3	8.5	0.8	-16.6	3.7	12.3	8.5	5.6	3.8	1.1	-1.2
Balance (after transfer to FGF and excl. investment income)	-17.9	-12.9	-8.8	-15.5	-31.1	-9.9	-0.3	-4.4	-7.6	-9.5	-12.2	-14.4
Domestic financing (net)	6.5	1.8	-2.8	-4.4	-1.8	3.4	-0.3	1.5	1.8	2.6	3.7	3.4
External borrowing and drawdown on GRF (net)	11.4	11.1	11.5	19.9	32.9	6.6	0.6	2.9	5.8	6.9	8.5	11.0
Nonoil balance excl. investment income (percent of non-oil GDP) <sup>4</sup>	-83.6	-86.6	-95.5	-94.2	-98.7	-95.3	-90.1	-88.9	-87.5	-86.0	-85.2	-84.5
Excluding oil-related subsidies and benefits (percent of non-oil GDP)	-74.6	-77.6	-85.6	-86.8	-90.4	-85.1	-81.1	-80.7	-80.0	-78.9	-78.3	-77.8
Total gross debt (calendar year) <sup>5</sup>	10.0	20.5	15.1	11.6	11.7	8.8	13.2	13.6	17.9	25.0	33.7	42.2
Estimated KIA assets	476.6	460.4	405.3	431.0	597.6	544.8	472.1	497.4	517.7	530.0	534.4	535.7
Net government financial assets	466.6	439.9	390.2	419.4	585.9	535.9	458.9	483.8	499.8	505.0	500.7	493.5
(Percent change; unless otherwise indicated)												
<b>Money and credit</b>												
Net foreign assets <sup>6</sup>	8.7	-3.1	10.0	6.2	8.7	-13.7	7.6	2.9	3.0	3.0	2.0	0.5
Claims on nongovernment sector	2.5	2.8	3.9	4.4	3.6	6.2	6.8	5.7	5.8	5.9	5.5	5.5
Kuwaiti dinar 3-month deposit rate (year average; in percent)	1.1	1.5	2.3	2.8	1.4	1.1	...	...	...	...	...	...
Stock market unweighted index (annual percent change)	-0.2	12.8	11.8	23.7	-11.7	27.0	...	...	...	...	...	...
(Billions of U.S. dollars, unless otherwise indicated)												
<b>External sector</b>												
Exports of goods	46.5	55.2	72.1	64.7	40.1	64.5	85.4	81.5	78.7	78.2	79.6	80.6
Of which: nonoil exports	5.0	5.6	6.8	6.0	4.3	5.4	6.5	6.8	7.2	7.7	8.1	8.6
Annual percentage change	-15.7	11.7	19.9	-11.9	-28.0	25.9	19.5	6.0	6.0	6.0	6.0	6.0
Imports of goods	-27.0	-29.5	-31.1	-29.4	-24.6	-30.1	-33.4	-35.5	-37.4	-39.4	-41.3	-43.4
Terms of Trade (ratio, annual percent change)	-12.5	27.1	17.0	3.8	-19.2	51.3	11.4	-8.3	-6.4	-4.0	-2.5	-2.6
Current account	-5.1	9.6	19.9	17.1	3.4	21.8	37.3	31.5	26.9	24.8	24.8	24.9
Percent of GDP	-4.6	8.0	14.4	12.5	3.2	16.1	22.9	19.6	16.7	15.1	14.7	14.3
International reserve assets <sup>7</sup>	31.2	33.6	37.2	39.9	48.3	45.1	50.5	54.0	57.9	61.8	65.2	67.8
In months of next year's imports of goods and services	6.6	6.4	8.0	11.5	11.3	9.0	9.6	9.9	10.1	10.4	10.5	10.5
<b>Memorandum items:</b>												
Exchange rate (U.S. dollar per KD, period average)	3.31	3.30	3.31	3.29	3.27	3.29	...	...	...	...	...	...
Nominal effective exchange rate (Percentage change)	1.8	0.4	0.2	2.6	-0.3	-0.5	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	3.2	0.5	-1.9	1.7	0.1	-0.1	...	...	...	...	...	...

Sources: Data provided by the authorities; and IMF staff estimates and projections.

<sup>1</sup> Calculated at market prices.<sup>2</sup> Based on fiscal year cycle, which starts on April 1 and ends on March 31.<sup>3</sup> Starting FY2016/17, there has been a reclassification of expenditure items.<sup>4</sup> Excludes pension fund recapitalization.<sup>5</sup> Excludes debt of Kuwait's SWF related to asset management operations.<sup>6</sup> Excludes SDR holdings and IMF reserve position.<sup>7</sup> Does not include external assets held by KIA.

Table 2a. Kuwait: Summary of Government Finance, 2016/17–2027/28

	Est.										Projections				
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28			
	(Billions of Kuwaiti Dinars)														
<b>Revenue (includes grants) (A)</b>	<b>18.2</b>	<b>20.2</b>	<b>25.7</b>	<b>21.9</b>	<b>15.5</b>	<b>23.2</b>	<b>28.0</b>	<b>27.0</b>	<b>26.4</b>	<b>26.4</b>	<b>26.1</b>	<b>26.0</b>			
Taxes	0.6	0.6	0.7	0.7	0.6	0.6	0.7	0.8	0.8	0.9	0.9	1.0			
Other revenue	17.7	19.6	25.0	21.2	15.0	22.7	27.3	26.2	25.6	25.5	25.1	25.1			
Oil and gas	11.7	14.4	18.4	15.4	8.8	15.5	19.7	18.5	17.7	17.4	16.9	16.5			
Investment income and transfer of profits of public entities 1/	5.3	4.2	5.1	4.7	5.0	5.9	6.2	6.3	6.5	6.7	6.8	7.1			
Other 2/	0.7	1.1	1.4	1.2	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4			
<b>Total expenditure (B=C+D) 3/</b>	<b>17.7</b>	<b>19.3</b>	<b>22.2</b>	<b>21.6</b>	<b>21.3</b>	<b>21.6</b>	<b>21.9</b>	<b>22.8</b>	<b>23.6</b>	<b>24.5</b>	<b>25.5</b>	<b>26.7</b>			
Expense (C)	15.5	16.8	19.5	19.3	19.5	19.3	19.1	19.8	20.6	21.3	22.3	23.3			
Compensation of employees	6.4	6.7	8.1	8.7	9.0	8.8	9.1	9.5	9.9	10.3	10.7	11.1			
Purchases/use of goods & services	2.3	2.8	3.6	3.5	3.1	3.0	2.7	2.8	2.9	2.9	3.0	3.1			
Interest	0.0	0.2	0.4	0.3	0.2	0.2	0.4	0.7	0.9	1.2	1.5	1.8			
Subsidies and social benefits	4.5	4.8	5.1	4.7	4.9	5.4	5.1	5.1	5.1	5.2	5.4	5.6			
Subsidies	1.6	1.5	1.6	1.2	1.2	1.6	1.4	1.4	1.4	1.4	1.4	1.5			
Oil-related subsidies	1.6	1.5	1.6	1.2	1.2	1.6	1.4	1.4	1.4	1.4	1.4	1.5			
Other subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Social benefits	2.9	3.3	3.5	3.4	3.6	3.8	3.6	3.7	3.7	3.8	4.0	4.1			
Payments to social security fund	2.1	2.2	2.2	2.3	2.3	2.4	2.2	2.2	2.3	2.4	2.5	2.6			
Transfers to social security fund	2.1	2.2	2.2	2.3	2.3	2.4	2.2	2.2	2.3	2.4	2.5	2.6			
Fund recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Other social benefits	0.8	1.1	1.3	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.5	1.5			
Oil-related	0.2	0.3	0.5	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5			
Others	0.6	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0			
Expense not elsewhere classified	2.3	2.2	2.4	2.1	2.4	1.9	1.7	1.8	1.8	1.7	1.8	1.8			
<b>Net acquisition of nonfinancial assets (D)</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>	<b>1.7</b>	<b>2.4</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>			
<b>Net lending / borrowing [=A-B]</b>	<b>0.5</b>	<b>0.9</b>	<b>3.5</b>	<b>0.3</b>	<b>-5.8</b>	<b>1.6</b>	<b>6.1</b>	<b>4.2</b>	<b>2.8</b>	<b>1.9</b>	<b>0.5</b>	<b>-0.6</b>			
Transfers to FGF	1.3	1.6	2.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Investment income	5.3	4.2	5.1	4.7	5.0	5.9	6.2	6.3	6.5	6.7	6.8	7.1			
Overall balance (after transfers to FGF and excl. investment income) 4/	-6.1	-4.9	-3.7	-6.1	-10.8	-4.3	-0.1	-2.1	-3.7	-4.8	-6.3	-7.7			
Non-oil balance	-11.2	-13.5	-14.9	-15.1	-14.5	-13.9	-13.7	-14.3	-14.9	-15.5	-16.3	-17.2			
excluding investment income	-16.5	-17.7	-20.0	-19.7	-19.6	-19.8	-19.9	-20.6	-21.4	-22.2	-23.2	-24.3			
excluding recapitalization of pension	-16.5	-17.7	-20.0	-19.7	-19.6	-19.8	-19.9	-20.6	-21.4	-22.2	-23.2	-24.3			
excluding oil-related subsidies and benefits	-14.7	-15.8	-17.9	-18.2	-17.9	-17.7	-17.9	-18.7	-19.6	-20.3	-21.3	-22.3			
<b>Financing (net)</b>	<b>6.1</b>	<b>4.9</b>	<b>3.7</b>	<b>6.1</b>	<b>10.8</b>	<b>4.3</b>	<b>0.1</b>	<b>2.1</b>	<b>3.7</b>	<b>4.8</b>	<b>6.3</b>	<b>7.7</b>			
Domestic	2.2	0.7	-1.2	-1.7	-0.6	1.5	-0.1	0.7	0.9	1.3	1.9	1.8			
External	<b>3.9</b>	<b>4.2</b>	<b>4.8</b>	<b>7.8</b>	<b>11.4</b>	<b>2.8</b>	<b>0.3</b>	<b>1.4</b>	<b>2.8</b>	<b>3.4</b>	<b>4.4</b>	<b>5.9</b>			
External bonds	2.4	0.0	0.0	0.0	0.0	1.4	0.3	1.4	2.8	3.5	3.1	3.9			
Reserve funds	1.5	4.2	4.8	7.8	11.4	1.4	0.0	0.0	0.0	-0.1	1.2	2.0			

Sources: MOF; CBK; and IMF staff estimates and projections.

1/ Excluded from the national budget presentation. Estimated by IMF staff.

2/ Includes UN (Iraq) compensations.

3/ Starting FY2016/17, there has been a reclassification of expenditure items.

4/ Excludes 10 percent of total revenue transferred to the Future Generation Fund and investment income.

Table 2b. Kuwait: Summary of Government Finance, 2016/17–2027/28

	Est. Projections											
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	(Percent of GDP)											
<b>Revenue (includes grants)</b>	<b>53.6</b>	<b>53.3</b>	<b>61.7</b>	<b>55.9</b>	<b>44.9</b>	<b>53.8</b>	<b>56.9</b>	<b>55.1</b>	<b>53.7</b>	<b>52.5</b>	<b>50.4</b>	<b>48.6</b>
Taxes	1.6	1.5	1.6	1.7	1.6	1.3	1.5	1.6	1.7	1.8	1.8	1.8
Other revenue	52.0	51.8	60.0	54.3	43.3	52.5	55.4	53.5	52.0	50.7	48.6	46.8
Oil and gas	34.4	38.0	44.3	39.3	25.4	36.0	40.0	37.8	36.0	34.7	32.6	30.9
Investment income and transfer of profits of public entities 1/	15.5	11.0	12.3	11.9	14.5	13.6	12.6	12.9	13.2	13.3	13.2	13.2
Other 2/	2.0	2.8	3.5	3.1	3.4	2.8	2.7	2.8	2.8	2.8	2.7	2.7
<b>Total expenditure 3/</b>	<b>52.2</b>	<b>51.0</b>	<b>53.2</b>	<b>55.1</b>	<b>61.5</b>	<b>50.1</b>	<b>44.5</b>	<b>46.6</b>	<b>48.1</b>	<b>48.7</b>	<b>49.3</b>	<b>49.8</b>
Expense	45.6	44.4	46.9	49.3	56.5	44.6	38.7	40.5	41.8	42.5	43.1	43.5
Compensation of employees	18.7	17.8	19.5	22.1	26.0	20.4	18.5	19.4	20.0	20.4	20.7	20.8
Purchases/use of goods & services	6.7	7.4	8.6	9.1	9.1	6.8	5.5	5.7	5.8	5.8	5.8	5.8
Interest	0.1	0.6	1.0	0.7	0.5	0.5	0.9	1.4	1.9	2.3	2.8	3.3
Subsidies and social benefits	13.2	12.8	12.2	11.9	14.1	12.5	10.3	10.3	10.4	10.4	10.4	10.4
Subsidies	4.7	4.1	3.8	3.1	3.6	3.8	2.9	2.8	2.8	2.7	2.7	2.7
Social benefits	8.5	8.7	8.4	8.8	10.5	8.7	7.3	7.5	7.6	7.7	7.7	7.7
Payments to Social Security Fund	6.2	5.8	5.3	5.8	6.8	5.6	4.4	4.6	4.7	4.8	4.8	4.9
Transfers to Social Security Fund	6.2	5.8	5.3	5.8	6.8	5.6	4.4	4.6	4.7	4.8	4.8	4.9
Fund recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	2.3	2.9	3.1	3.0	3.7	3.1	2.9	2.9	2.9	2.9	2.8	2.8
Oil-related	0.6	0.8	1.2	0.9	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.9
Others	1.7	2.1	1.9	2.1	2.6	2.0	1.8	1.9	1.9	1.9	1.9	1.9
Expense not elsewhere classified	6.9	5.7	5.7	5.4	6.8	4.4	3.5	3.6	3.7	3.5	3.4	3.3
Net acquisition of nonfinancial assets	6.5	6.6	6.3	5.9	5.0	5.5	5.9	6.1	6.2	6.3	6.3	6.2
<i>Net lending / borrowing</i>	1.5	2.3	8.5	0.8	-16.6	3.7	12.3	8.5	5.6	3.8	1.1	-1.2
Transfers to FGF	3.8	4.2	4.9	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	15.5	11.0	12.3	11.9	14.5	13.6	12.6	12.9	13.2	13.3	13.2	13.2
Overall balance (after transfers to FGF and excl. investment income) 4/	-17.9	-12.9	-8.8	-15.5	-31.1	-9.9	-0.3	-4.4	-7.6	-9.5	-12.2	-14.4
<i>Non-oil balance</i>	-33.0	-35.7	-35.8	-38.5	-42.0	-32.3	-27.7	-29.3	-30.3	-30.9	-31.6	-32.0
excluding investment income	-48.5	-46.7	-48.1	-50.4	-56.5	-45.9	-40.3	-42.2	-43.5	-44.2	-44.8	-45.3
excluding recapitalization of pension	-48.5	-46.7	-48.1	-50.4	-56.5	-45.9	-40.3	-42.2	-43.5	-44.2	-44.8	-45.3
excluding oil-related subsidies and benefits	-43.3	-41.8	-43.1	-46.4	-51.8	-41.0	-36.3	-38.3	-39.8	-40.5	-41.2	-41.7
Financing (net)	17.9	12.9	8.8	15.5	31.1	9.9	0.3	4.4	7.6	9.5	12.2	14.4
Domestic	6.5	1.8	-2.8	-4.4	-1.8	3.4	-0.3	1.5	1.8	2.6	3.7	3.4
External	11.4	11.1	11.5	19.9	32.9	6.6	0.6	2.9	5.8	6.9	8.5	11.0
External bonds	7.1	0.0	0.0	0.0	0.0	3.3	0.5	2.9	5.7	7.0	6.1	7.3
Reserve funds	4.3	11.1	11.5	19.9	32.9	3.2	0.1	0.0	0.1	-0.1	2.4	3.7
	(Percent of nonoil GDP)											
<b>Revenue (includes grants)</b>	<b>92.5</b>	<b>98.9</b>	<b>122.4</b>	<b>104.5</b>	<b>78.4</b>	<b>111.7</b>	<b>127.1</b>	<b>116.2</b>	<b>108.0</b>	<b>102.2</b>	<b>95.8</b>	<b>90.7</b>
<b>Total expenditure</b>	<b>89.9</b>	<b>94.6</b>	<b>105.6</b>	<b>103.0</b>	<b>107.4</b>	<b>104.0</b>	<b>99.6</b>	<b>98.2</b>	<b>96.7</b>	<b>94.9</b>	<b>93.8</b>	<b>92.9</b>
<i>Net lending / borrowing</i>	2.5	4.3	16.8	1.5	-29.0	7.7	27.5	18.0	11.3	7.3	2.0	-2.2
<i>Non-oil balance</i>	-56.8	-66.2	-71.1	-71.9	-73.4	-67.0	-62.0	-61.7	-61.0	-60.2	-60.0	-59.8
excluding investment income	-83.6	-86.6	-95.5	-94.2	-98.7	-95.3	-90.1	-88.9	-87.5	-86.0	-85.2	-84.5
excluding recapitalization of pension	-83.6	-86.6	-95.5	-94.2	-98.7	-95.3	-90.1	-88.9	-87.5	-86.0	-85.2	-84.5
excluding oil-related subsidies and benefits	-74.6	-77.6	-85.6	-86.8	-90.4	-85.1	-81.1	-80.7	-80.0	-78.9	-78.3	-77.8
Memorandum items:												
Expenses (percent of nonoil GDP)	78.7	82.3	93.2	92.0	98.6	92.7	86.4	85.4	84.1	82.7	81.8	81.2
Expenses excl. recapitalization of pension fund (percent of nonoil GDP)	78.7	82.3	93.2	92.0	98.6	92.7	86.4	85.4	84.1	82.7	81.8	81.2
Oil-related subsidies and benefits (percent of nonoil GDP)	9.0	9.0	9.9	7.5	8.3	10.2	9.0	8.1	7.5	7.1	6.8	6.7
Kuwait Crude oil price, USD per barrel	43.5	56.6	68.2	59.1	48.5	71.1	79.5	73.6	69.4	67.2	66.1	66.0
Total gross debt (percent of GDP)	10.0	20.5	15.1	11.6	11.7	8.8	13.2	13.6	17.9	25.0	33.7	42.2

Sources: MOF; CBK; and IMF staff estimates and projections.

1/ Excluded from the national budget presentation. Estimated by IMF staff.

2/ Includes UN (Iraq) compensations.

3/ Starting FY2016/17, there has been a reclassification of expenditure items.

4/ Excludes 10 percent of total revenue transferred to the FGF and investment income.

Table 3a. Kuwait: Balance of Payments, 2016-27

	2016	2017	2018	2019	Prel.	Est.	Projections					
					2020	2021	2022	2023	2024	2025	2026	2027
(Billions of U.S. dollars, unless otherwise indicated)												
<b>Current account</b>	<b>-5.1</b>	<b>9.6</b>	<b>19.9</b>	<b>17.1</b>	<b>3.4</b>	<b>21.8</b>	<b>37.3</b>	<b>31.5</b>	<b>26.9</b>	<b>24.8</b>	<b>24.8</b>	<b>24.9</b>
Goods (trade balance)	19.5	25.7	41.0	35.3	15.5	34.3	52.0	46.0	41.3	38.8	38.3	37.2
Exports	46.5	55.2	72.1	64.7	40.1	64.5	85.4	81.5	78.7	78.2	79.6	80.6
Oil exports	41.5	49.6	65.3	58.7	35.8	59.1	78.9	74.6	71.4	70.5	71.5	71.9
Nonoil exports including re-exports	5.0	5.6	6.8	6.0	4.3	5.4	6.5	6.8	7.2	7.7	8.1	8.6
Of which: re-exports	1.1	1.2	1.5	1.4	1.1	1.3	1.6	1.7	1.8	1.9	2.0	2.1
Imports	-27.0	-29.5	-31.1	-29.4	-24.6	-30.1	-33.4	-35.5	-37.4	-39.4	-41.3	-43.4
Services	-20.0	-20.2	-24.6	-17.8	-10.2	-14.2	-18.4	-19.0	-19.5	-20.1	-20.6	-21.2
Transportation	-3.6	-4.2	-3.1	-2.7	-2.3	-3.6	-3.1	-3.2	-3.3	-3.4	-3.5	-3.6
Travel	-11.9	-9.9	-12.1	-11.0	-5.0	-7.2	-11.5	-11.9	-12.2	-12.5	-12.9	-13.3
Other services	-4.6	-6.1	-9.4	-4.1	-2.9	-3.3	-3.8	-3.9	-4.0	-4.1	-4.3	-4.3
Investment income	12.8	18.8	18.3	19.2	15.7	18.9	21.2	22.1	22.9	23.9	25.2	27.0
Receipts	18.0	21.1	21.3	22.7	18.6	21.6	24.0	25.1	25.9	27.0	28.5	30.5
General government <sup>1</sup>	14.2	17.7	13.8	16.3	15.3	17.7	20.4	21.4	22.4	23.3	24.3	25.3
Other sectors <sup>2</sup>	3.8	3.4	7.5	6.4	3.3	3.9	3.6	3.6	3.5	3.6	4.2	5.3
Payments	-5.2	-2.3	-3.0	-3.5	-2.9	-2.7	-2.8	-2.9	-3.0	-3.1	-3.3	-3.5
General government	0.0	0.0	0.0	-0.3	-0.3	-0.2	-0.3	-0.4	-0.4	-0.5	-0.8	-0.9
Other	-5.2	-2.3	-2.9	-3.2	-2.7	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6
Current transfers	-17.3	-14.7	-14.9	-19.6	-17.5	-17.3	-17.6	-17.6	-17.7	-17.8	-18.1	-18.2
<b>Capital and financial account</b>	<b>8.6</b>	<b>-15.9</b>	<b>-18.3</b>	<b>-28.1</b>	<b>-9.8</b>	<b>-25.0</b>	<b>-31.8</b>	<b>-28.0</b>	<b>-23.1</b>	<b>-20.9</b>	<b>-21.3</b>	<b>-22.3</b>
Capital account <sup>3</sup>	-0.5	-0.4	-0.2	0.3	3.0	0.8	0.5	0.7	0.7	0.7	0.8	0.8
Financial account	9.1	-15.5	-18.1	-28.4	-12.8	-25.7	-32.3	-28.7	-23.9	-21.6	-22.1	-23.1
Direct investment	-4.1	-8.7	-3.5	3.0	-7.8	-3.4	-3.4	-3.4	-3.3	-3.3	-3.3	-3.3
Abroad	-4.5	-9.0	-3.7	2.7	-7.6	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
In Kuwait	0.4	0.3	0.2	0.3	-0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Portfolio investment (net)	-18.8	-10.3	2.8	-39.4	-53.2	-25.0	-31.3	-27.2	-21.8	-19.0	-19.0	-19.6
Other investment (net)	32.1	3.6	-17.6	8.0	48.3	2.6	2.4	1.8	1.3	0.7	0.2	-0.2
Net errors and omissions <sup>4</sup>	-0.7	8.7	2.0	13.8	14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>2.8</b>	<b>2.4</b>	<b>3.6</b>	<b>2.7</b>	<b>8.3</b>	<b>-3.2</b>	<b>5.4</b>	<b>3.5</b>	<b>3.8</b>	<b>3.9</b>	<b>3.5</b>	<b>2.6</b>
<i>Memorandum items</i>												
Current account/GDP (in percent)	-4.6	8.0	14.4	12.5	3.2	16.1	22.9	19.6	16.7	15.1	14.7	14.3
Current account (excl. oil)/GDP (in percent)	-42.5	-33.1	-32.9	-30.6	-30.6	-27.5	-25.6	-26.8	-27.6	-27.8	-27.6	-27.0
Investment income/GDP (in percent)	11.7	15.6	13.3	14.1	14.8	14.0	13.1	13.7	14.2	14.5	14.9	15.5
International reserve assets (billions of U.S. dollars) <sup>5</sup>	31.2	33.6	37.2	39.9	48.3	45.1	50.5	54.0	57.9	61.8	65.2	67.8
In months of imports of goods and services	6.6	6.4	8.0	11.5	11.3	9.0	9.6	9.9	10.1	10.4	10.5	10.5
Oil exports growth (in percent)	-14.5	19.6	31.8	-10.1	-39.1	65.0	33.7	-5.4	-4.3	-1.3	1.4	0.6
Non-oil export growth (in percent)	-15.7	11.7	19.9	-11.9	-28.0	25.9	19.5	6.0	6.0	6.0	6.0	6.0
Import growth (in percent)	1.6	9.3	5.4	-5.5	-16.2	22.4	10.7	6.3	5.5	5.3	5.0	5.0

Sources: CBK; and IMF staff estimates.

<sup>1</sup> KIA, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.<sup>2</sup> CBK, local banks, investment companies, exchange companies, insurance companies, and the nonfinancial private sector.<sup>3</sup> Includes UN war compensation.<sup>4</sup> Includes other unclassified private-sector flows.<sup>5</sup> Includes SDR holdings and IMF reserve position.

Table 3b. Kuwait: Balance of Payments, 2016-27

	2016	2017	2018	2019	Prel. 2020	Est. 2021	Projections					
							2022	2023	2024	2025	2026	2027
(Percent of GDP at market prices)												
<b>Current account</b>	<b>-4.6</b>	<b>8.0</b>	<b>14.4</b>	<b>12.5</b>	<b>3.2</b>	<b>16.1</b>	<b>22.9</b>	<b>19.6</b>	<b>16.7</b>	<b>15.1</b>	<b>14.7</b>	<b>14.3</b>
Goods (trade balance)	17.8	21.3	29.7	25.9	14.6	25.4	32.0	28.6	25.6	23.7	22.7	21.3
Exports	42.5	45.7	52.2	47.5	37.8	47.6	52.5	50.6	48.8	47.6	47.2	46.2
Oil exports	37.9	41.1	47.3	43.1	33.8	43.6	48.5	46.4	44.3	42.9	42.3	41.3
Nonoil exports including re-exports	4.6	4.7	4.9	4.4	4.0	4.0	4.0	4.2	4.5	4.7	4.8	5.0
Of which: re-exports	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.2	1.2	1.2
Imports	-24.7	-24.4	-22.5	-21.6	-23.2	-22.3	-20.5	-22.0	-23.2	-24.0	-24.5	-24.9
Services	-18.3	-16.7	-17.8	-13.1	-9.7	-10.5	-11.3	-11.8	-12.1	-12.2	-12.2	-12.1
Transportation	-3.3	-3.5	-2.3	-2.0	-2.2	-2.7	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1
Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	-10.9	-8.2	-8.7	-8.1	-4.7	-5.3	-7.1	-7.4	-7.6	-7.6	-7.6	-7.6
Other services	-4.2	-5.1	-6.8	-3.0	-2.8	-2.5	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5
Investment income	11.7	15.6	13.3	14.1	14.8	14.0	13.1	13.7	14.2	14.5	14.9	15.5
Receipts	16.5	17.5	15.4	16.7	17.5	16.0	14.8	15.6	16.1	16.4	16.9	17.5
General government <sup>1</sup>	13.0	14.7	10.0	12.0	14.4	13.1	12.5	13.3	13.9	14.2	14.4	14.5
Other sectors <sup>2</sup>	3.5	2.8	5.4	4.7	3.1	2.9	2.2	2.3	2.2	2.2	2.5	3.0
Payments	-4.8	-1.9	-2.1	-2.6	-2.8	-2.0	-1.7	-1.8	-1.9	-1.9	-2.0	-2.0
General government	0.0	0.0	0.0	-0.2	-0.3	-0.1	-0.2	-0.3	-0.3	-0.3	-0.4	-0.5
Other	-4.7	-1.9	-2.1	-2.4	-2.5	-1.8	-1.5	-1.6	-1.6	-1.6	-1.5	-1.5
Current transfers	-15.8	-12.2	-10.7	-14.4	-16.5	-12.8	-10.8	-10.9	-11.0	-10.8	-10.7	-10.4
<b>Capital and financial account</b>	<b>7.8</b>	<b>-13.2</b>	<b>-13.2</b>	<b>-20.6</b>	<b>-9.3</b>	<b>-18.5</b>	<b>-19.5</b>	<b>-17.4</b>	<b>-14.4</b>	<b>-12.7</b>	<b>-12.6</b>	<b>-12.8</b>
Capital account <sup>3</sup>	-0.4	-0.4	-0.2	0.2	2.8	0.6	0.3	0.4	0.5	0.5	0.4	0.4
Financial account	8.3	-12.8	-13.1	-20.8	-12.1	-19.0	-19.8	-17.8	-14.8	-13.2	-13.1	-13.2
Direct investment	-3.8	-7.2	-2.5	2.2	-7.3	-2.5	-2.1	-2.1	-2.1	-2.0	-2.0	-1.9
Abroad	-4.1	-7.5	-2.7	2.0	-7.2	-2.6	-2.1	-2.2	-2.2	-2.1	-2.1	-2.0
In Kuwait	0.4	0.3	0.1	0.3	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Portfolio investment (net)	-17.2	-8.6	2.0	-29.0	-50.3	-18.5	-19.3	-16.9	-13.5	-11.6	-11.3	-11.2
Other investment (net)	29.3	3.0	-12.7	5.9	45.6	1.9	1.5	1.1	0.8	0.4	0.1	-0.1
Net errors and omissions <sup>4</sup>	-0.6	7.2	1.4	10.1	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>2.6</b>	<b>2.0</b>	<b>2.6</b>	<b>2.0</b>	<b>7.9</b>	<b>-2.4</b>	<b>3.3</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.0</b>	<b>1.5</b>

Sources: CBK; and IMF staff estimates.

<sup>1</sup> KIA, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.<sup>2</sup> CBK, local banks, investment companies, exchange companies, insurance companies, and the nonfinancial private sector.<sup>3</sup> Includes UN war compensation.<sup>4</sup> Includes other unclassified private-sector flows.



Table 4. Kuwait: Monetary Survey, 2016–27

End of period	2016	2017	2018	2019	2020	Est.	Projections					
						2021	2022	2023	2024	2025	2026	2027
	(Millions of KD)											
Foreign assets (net) <sup>1</sup>	16,998	16,473	18,121	19,242	20,908	18,044	19,422	19,981	20,581	21,194	21,619	21,723
Central bank	8,693	9,330	10,408	11,267	13,813	12,034	13,688	14,762	15,917	17,108	18,159	18,939
Local banks	8,305	7,143	7,713	7,976	7,094	6,010	5,734	5,219	4,663	4,085	3,460	2,785
Domestic assets (net)	18,760	20,659	20,485	18,887	18,659	21,217	22,439	24,216	26,132	28,206	30,450	33,160
Claims on government (net)	-4,392	-3,451	-4,355	-6,768	-8,343	-7,635	-6,833	-8,123	-8,547	-8,813	-8,643	-7,881
Central bank (net)	-978	-1,755	-1,584	-1,751	-1,757	-1,400	-1,900	-2,900	-3,900	-4,900	-5,900	-6,900
Claims	0	0	0	0	0	0	0	0	0	0	0	0
Deposits	978	1,755	1,584	1,751	1,757	1,400	1,900	2,900	3,900	4,900	5,900	6,900
Local banks (net)	-3,414	-1,696	-2,771	-5,017	-6,586	-6,235	-4,932	-5,223	-4,646	-3,913	-2,742	-980
Claims	3,287	5,059	3,862	2,371	1,357	1,138	2,588	2,448	3,178	4,068	5,398	7,323
Public debt instruments	3,287	5,059	3,862	2,371	1,357	1,138	2,588	2,448	3,178	4,068	5,398	7,323
Deposits	6,701	6,755	6,633	7,388	7,943	7,373	7,520	7,670	7,824	7,980	8,140	8,303
Claims on nongovernment sector	36,169	37,199	38,664	40,358	41,797	44,370	47,388	50,094	53,011	56,127	59,220	62,484
Credit facilities	34,307	35,372	36,855	38,428	39,767	42,287	45,163	47,742	50,522	53,491	56,440	59,550
Local investments	1,862	1,827	1,809	1,930	2,031	2,083	2,225	2,352	2,489	2,635	2,781	2,934
Other items (net)	-13,018	-13,088	-13,824	-14,703	-14,795	-15,518	-18,116	-17,755	-18,332	-19,108	-20,128	-21,444
Broad money <sup>2</sup>	35,758	37,132	38,606	38,129	39,567	39,261	41,861	44,197	46,713	49,399	52,068	54,883
Money	9,749	10,164	10,379	10,489	12,774	12,827	13,694	14,474	15,314	16,211	17,103	18,043
Quasi money	26,009	26,968	28,227	27,640	26,792	26,434	28,166	29,723	31,399	33,188	34,965	36,839
Of which: Foreign currency deposits	2,922	2,734	2,617	2,532	2,059	1,371	1,398	1,426	1,455	1,484	1,513	1,544
	(Annual percentage change)											
Foreign assets (net)	8.7	-3.1	10.0	6.2	8.7	-13.7	7.6	2.9	3.0	3.0	2.0	0.5
Central Bank	11.8	7.3	11.6	8.2	22.6	-12.9	13.7	7.9	7.8	7.5	6.1	4.3
Local banks	5.7	-14.0	8.0	3.4	-11.1	-15.3	-4.6	-9.0	-10.6	-12.4	-15.3	-19.5
Domestic assets (net)	-0.8	10.1	-0.8	-7.8	-1.2	13.7	5.8	7.9	7.9	7.9	8.0	8.9
Claims on government (net)	14.8	21.4	-26.2	-55.4	23.3	-8.5	-10.5	18.9	5.2	3.1	-1.9	-8.8
Claims on nongovernment sector	2.5	2.8	3.9	4.4	3.6	6.2	6.8	5.7	5.8	5.9	5.5	5.5
Other items (net)	15.8	0.5	5.6	6.4	0.6	4.9	16.7	-2.0	3.2	4.2	5.3	6.5
Broad money	3.5	3.8	4.0	-1.2	3.8	-0.8	6.6	5.6	5.7	5.8	5.4	5.4
Money	3.8	4.3	2.1	1.1	21.8	0.4	6.8	5.7	5.8	5.9	5.5	5.5
Quasi money	3.4	3.7	4.7	-2.1	-3.1	-1.3	6.6	5.5	5.6	5.7	5.4	5.4
Of which: Foreign currency deposits	-18.6	-6.5	-4.3	-3.2	-18.7	-33.4	2.0	2.0	2.0	2.0	2.0	2.0
	(Change in percent of beginning of period broad money stock)											
Foreign assets (net)	4.0	-1.5	4.4	2.9	4.4	-7.2	3.5	1.3	1.4	1.3	0.9	0.2
Central bank	2.7	1.8	2.9	2.2	6.7	-4.5	4.2	2.6	2.6	2.5	2.1	1.5
Local banks	1.3	-3.2	1.5	0.7	-2.3	-2.7	-0.7	-1.2	-1.3	-1.2	-1.3	-1.3
Domestic assets (net)	-0.4	5.3	-0.5	-4.1	-0.6	6.5	3.1	4.2	4.3	4.4	4.5	5.2
Claims on government (net)	2.2	2.6	-2.4	-6.3	-4.1	1.8	2.0	-3.1	-1.0	-0.6	0.3	1.5
Claims on nongovernment sector	2.5	2.9	3.9	4.4	3.8	6.5	7.7	6.5	6.6	6.7	6.3	6.3
Other items (net)	-5.1	-0.2	-2.0	-2.3	-0.2	-1.8	-6.6	0.9	-1.3	-1.7	-2.1	-2.5
Broad money	3.5	3.8	4.0	-1.2	3.8	-0.8	6.6	5.6	5.7	5.8	5.4	5.4
Money	1.0	1.2	0.6	0.3	6.0	0.1	2.2	1.9	1.9	1.9	1.8	1.8
Quasi money	2.5	2.7	3.4	-1.5	-2.2	-0.9	4.4	3.7	3.8	3.8	3.6	3.6
Of which: Foreign currency deposits	-1.9	-0.5	-0.3	-0.2	-1.2	-1.7	0.1	0.1	0.1	0.1	0.1	0.1
<i>Memorandum items:</i>												
Non-oil GDP/M2 (in percent)	54.5	54.6	54.0	56.1	49.5	52.1	52.0	51.8	51.6	51.5	51.5	51.6
Foreign currency deposits/M2 (in percent)	8.2	7.4	6.8	6.6	5.2	3.5	3.3	3.2	3.1	3.0	2.9	2.8
Private credit/non-oil GDP (in percent)	185.6	183.3	185.6	188.7	213.3	216.7	217.8	218.8	219.8	220.7	220.7	220.7

Sources: CBK; and IMF staff estimates.

<sup>1</sup> Excludes SDRs and IMF reserve position.<sup>2</sup> Excludes deposits with financial institutions, which are marginal.

**Table 5. Financial Soundness Indicators of the Banking Sector, 2011–2021**  
(Percent unless specified otherwise) 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021Q1
<b>Capital adequacy</b>											
Regulatory capital to risk-weighted assets	18.5	18.5	18.9	16.9	17.5	18.6	18.4	18.3	18.5	19.0	18.7
Regulatory Tier I capital to risk-weighted assets	16.9	16.4	17.1	15.6	16.1	16.7	16.5	16.5	16.7	16.6	16.5
Capital to assets	12.4	12.4	12.2	11.1	11.8	12.8	12.8	12.9	13.3	13.5	13.0
<b>Loan composition and quality</b>											
Oil/gas	1.1	1.6	1.5	2.2	2.4	3.4	4.3	5.1	4.9	4.8	5.1
Trade	10.5	12.1	13.0	12.8	11.7	11.8	11.9	11.0	10.7	10.5	10.2
Industry	7.1	7.9	7.8	7.3	6.9	6.7	6.5	6.4	6.6	6.9	7.0
Construction	12.1	12.6	12.2	11.9	12.0	12.3	11.6	11.2	10.7	9.9	10.0
Real estate	19.6	19.2	18.9	18.5	17.5	16.6	16.6	15.8	17.0	17.7	17.4
Equity purchase loans (corporate)	5.8	3.5	3.4	3.0	3.0	2.9	2.6	2.8	2.7	2.8	2.9
Agriculture/fishing	0.2	0.3	0.3	0.4	0.3	0.3	0.2	0.4	0.3	0.4	0.4
Financial Institutions	13.1	11.2	10.4	11.9	14.0	13.3	11.8	12.2	11.8	12.1	10.9
<i>Of which</i> : investment companies	6.1	4.3	4.0	3.1	2.9	2.6	2.0	1.9	2.1	2.0	2.0
<i>Of which</i> : banks	3.7	6.7	5.7	8.0	10.5	9.8	8.8	9.4	9.7	9.2	8.9
Public services	1.7	2.6	1.8	2.2	2.2	1.8	1.8	1.8	1.7	1.8	1.6
Households	17.0	19.4	20.0	20.2	20.5	20.7	20.9	21.7	19.6	20.6	21.7
<i>Of which</i> : installment loans	12.9	13.2	14.4	14.8	15.5	16.1	16.8	17.7	16.5	17.2	17.4
<i>Of which</i> : consumer loans	2.2	2.9	3.0	2.9	2.5	2.4	2.3	2.3	2.7	3.0	3.0
<i>Of which</i> : equity purchase loans (individuals)	1.4	2.9	2.6	2.6	2.5	2.2	1.8	1.7	1.5	1.4	1.4
Other	11.8	9.5	10.7	9.7	9.6	10.3	11.7	11.5	11.5	11.5	11.9
Gross non-performing loans to total loans	7.3	5.2	3.6	2.9	2.4	2.2	1.9	1.6	1.5	2.0	2.3
NPLs net of specific provisions to total loans net of specific provisions	5.3	3.8	2.5	1.9	1.6	1.5	1.3	1.1	1.0	1.4	1.7
Total provisions to gross NPLs	...	95.1	134.6	163.9	204.8	236.9	230.2	253.1	270.6	222.1	195.4
NPLs net of specific provisions to Tier I capital	28.7	21.9	13.9	11.2	9.5	8.3	7.2	6.2	5.4	9.6	9.4
Loans to shareholders, parent companies, & directors to total loans	2.3	3.1	6.3	3.6	3.7	3.8	3.7	2.9	2.4	2.5	2.2
Large exposures to Tier I capital	105.3	97.8	87.2	97.1	101.1	94.7	105.5	104.6	85.7	124.5	104.5
Specific provisions to gross loans	2.1	1.4	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.6	0.6
<b>Profitability</b>											
Return on Average Assets (ROAA)	1.1	1.2	1.0	1.1	1.1	1.1	1.2	1.3	1.2	0.6	0.6
Return on Average Equity (ROAE)	8.1	9.1	7.4	8.7	8.8	8.5	9.5	10.7	9.6	4.8	5.1
Net interest income to gross income	47.6	48.1	49.9	47.1	47.6	49.9	49.5	48.8	44.3	49.6	52.0
Non-interest income to gross income	33.1	33.4	32.8	30.8	30.5	22.1	21.9	18.9	19.6	19.6	22.9
Trading and foreign exchange income to gross income	10.0	14.9	10.4	12.5	12.1	6.8	6.0	4.4	5.9	5.1	8.3
Non-interest expenses to gross income	36.1	34.0	37.2	33.4	31.8	29.6	27.7	25.1	24.3	27.5	29.7
Non-interest expenses to average assets	2.1	1.9	1.9	1.6	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Personnel expenses to non-interest expenses	36.8	39.9	41.7	47.3	49.3	53.4	56.0	54.4	54.5	53.3	55.9
<b>Liquidity</b>											
Core liquid assets to total assets <sup>2</sup>	22.1	20.9	22.5	24.7	24.3	24.1	23.7	23.6	22.5	21.3	22.4
Core liquid assets to short-term liabilities	36.3	34.6	30.3	32.7	31.7	31.4	30.9	30.7	28.8	27.5	28.7
Liquid assets to total assets	26.5	27.5	25.4	30.7	29.8	30.1	31.0	31.2	30.3	29.7	29.5
Liquid assets to short term liabilities	43.7	45.6	34.1	40.6	38.9	39.1	40.5	40.6	38.8	38.2	37.9
FX- loans to total loans	25.8	28.1	28.2	26.0	30.5	29.1	30.6	30.1	31.3	31.7	31.5
FX- deposits to total deposits	33.8	34.6	30.7	37.0	38.8	33.2	37.8	37.2	39.6	41.8	40.9
Deposits to assets	58.3	63.3	62.2	59.4	59.2	58.4	59.1	57.8	59.3	63.1	62.1
Loans to deposits	110.9	100.5	99.5	103.6	108.3	108.9	106.5	109.0	105.3	100.7	102.2
FX- loans to FX-deposits	84.6	81.5	91.4	72.8	85.3	95.7	86.3	88.1	83.1	76.4	78.6
<b>Sensitivity to market risk</b>											
Off-balance sheet operations as percent of assets	25.4	27.8	27.8	28.5	28.2	32.1	32.2	31.4	32.1	31.3	31.0
Equity exposure to capital	43.7	37.5	35.3	29.6	28.1	24.8	21.9	20.9	20.7	20.5	19.8

Source: CBK.

<sup>1</sup> Data are on consolidated basis.

<sup>2</sup> Core liquid assets include: cash and cash equivalents, deposits with CBK, government securities, CBK bills, deposits with banks, certificates of deposit with other banks which mature within three months.

## Annex I. Key Policy Responses to COVID-19 Crisis

Date	Expiration Date	Description
<b>Fiscal Measures</b>		
Mar-20	March/21	Allocation of KD 500 million (or 1.5 percent of GDP) additional funds to support efforts in fighting the spread of COVID-19.
Mar-20	October/20	Increasing the Manpower Budget by KD240.5 million to cover the support for national workers for 6 months.
Mar-20	October/20	Postponing social security contributions for 6 months for private sector companies
Mar-20	March/21	Removing government fees on selected sectors provided that savings are passed on to customers.
Mar-21	March/21	Allocation of KD600 million bonus to frontline staff battling against Covid-19 in recognition of their efforts.
<b>Monetary Measures</b>		
Mar-20	TBD	Discount rate reduced two times from 2.75% to 1.5% (a historic low).
Mar-20	TBD	Repo rates, overnight, one-week and one-month reduced to 1 percent, 1.25 percent, and 1.75 percent respectively.
Oct-20	TBD	The Central Bank of Kuwait lowered the prices of other monetary policy instruments, by 0.125% for the entire interest rate yield curve up to the ten-year period. This includes repurchase operations (REPO), CBK bonds, term deposit system, direct intervention instruments and debt instruments.
<b>Financial and Prudential Measures</b>		
Mar-20	June/20	CBK issued a circular to all banks to postpone data submission for Q1 2020, instead to only provide the regular supervisory reports.
Apr-20	TBD	Capital adequacy ratio lowered from 13% to 10.5% (by allowing banks to utilize the capital conservation buffer).
Apr-20	TBD	Risk weight for SMEs lowered from 75% to 25% with a new definition matching KNF definition.
Apr-20	TBD	Maximum lending limit increased from 90% to 100%.
Apr-20	TBD	LCR reduced from 100% to 80%.
Apr-20	TBD	NSFR reduced from 100% to 80%.
Apr-20	TBD	Regulatory liquidity ratio (RLR) reduced from 18% to 15%.
Apr-20	TBD	Maturity Ladder Limits Increased by 10% for all buckets as follows: From 10% to 20% for 7 days; From 20% to 30% for 1 month; From 30% to 40% for 3 months; From 40% to 50% for 6 months.
Apr-20	June/21	Loan to Value (LTV) ratio to be increased for properties as follows: Financing the Purchase of Land: from 50% to 60%; Financing Real Estate Purchase: from 60% to 70%; Financing Construction of RE: from 70% to 80%.
Apr-20	TBD	A circular was sent to banks to relax the financing concentration limits of clients in assessing a credit proposal that includes economically important projects, which add value to the local economy.
May-20	n.a.	A circular was issued to all banks to organize the repurchase, and sale of banks' stocks. As banks are required to provide CBK of a detailed description of each transaction on a weekly basis.
Jul-20	2024	A circular was issued to all banks based on IFRS-9 guidelines to account for losses incurred due to household loans moratorium period of six months. As losses would be held against banks retained earnings, and for the purpose of calculating capital base (Basel III) banks may gradually account for losses (25% per year during 2021 to 2024).
Jul-20	October/20	A circular was issued to banks regarding the postponement of scheduled payments of clients impacted by the pandemic, as it stipulates not to charge interest on the accrued/unpaid interest during the moratorium period.
Feb-21	TBD	Extend the period whereby banks adhere to the relaxed regulatory requirements in terms of liquidity and capital adequacy (which includes: LCR, NSFR, RLR, maturity ladder, and the capital conservation buffer) that were eased during April 2020 for a period of 6 months ending in June 2021.
Apr-21	Dependent on the full settlements of loans	In light of article (20) of law(2) 2021, which stipulates a relief package directed to small and medium enterprises (SMEs) that endured an adverse impact due to Covid-19 crisis, CBK issued the guidelines and terms concerning the implementation of the law.
Apr-21	October/21	In accordance to article (2) of law (3) 2021, CBK issued the respective guidelines and terms concerning the implementation of the law which stipulates the postponement of financial obligations on Kuwaiti citizens such as loans (consumer and installment), in addition to obligations to investment and financing companies for a period of six months based on their request.
Jun-21	TBD	CBK issued a circular to all banks to extend the period whereby banks adhere to the relaxed regulatory requirements in terms of liquidity and capital adequacy (which includes: LCR, NSFR, RLR, maturity ladder, and the capital conservation buffer) until the end of December 2021 with the exception of the LTV ratio which reverts to the limits set prior to April 2020.
<b>Financial Stability</b>		
Mar-20	June/20	The Central Bank of Kuwait continues to perform its tasks related to the main operations, security procedures, payment and settlement systems and electronic clearing of checks during the leave period approved by the distinguished cabinet.
Mar-20	TBD	Increasing limit on contactless payments from KD10 to KD25.
Mar-20	October/20	No charges or fees for Point of Sale transactions, ATM withdrawals and Online banking for 6 months.
Mar-20	October/20	Kuwait Banking Association announced a moratorium period up to 6 months on bank loans including waiver of interest and charges (if any for postponement) for retail clients (citizens and expats) and SMEs.
Apr-20	July/20	Banks were instructed to adequately review the portfolio of each client, and all investment portfolios in addition to performing stress tests to assess their viability.
Jul-20	TBD	A circular was provided to banks requiring a quarterly audited reporting of the cost of financing corporates and SMEs impacted by the pandemic. The report should audited by external auditors and signed by the CEO.

## Annex II. Implementation of 2020 Article IV Recommendations

Recommendations	Current Status
<b>Fiscal Policy</b>	
Passing the debt law is a priority as this would contribute to a balanced financing mix.	Not passed. Risks surrounding financing the budget have risen as the GRF liquid assets have declined. Unconventional financing measures, including asset swaps between GRF and FGF, have been deployed amid delays in the adoption of the new debt law.
Undertaking fiscal adjustment through curtailing the public wage bill and phasing out generalized subsidies.	Little adjustment thus far. However, the 2021-22 wage bill reflected a 4.2 percent increase (excluding the one-off increase) which is slower than the previous year growth.
Diversifying the sources of revenues of the government through launching VAT and additional excises.	Not done thus far.
<b>Fiscal Frameworks and Governance, AML/CFT, Statistics</b>	
Adopting a rules-based fiscal framework that imposes a price-based structural balance target.	Not done thus far as the Macro-Fiscal Unit and staff capacity at the Ministry of Finance need to be reinforced.
Enhancing fiscal transparency and modernizing public procurement.	Limited progress thus far.
Strengthen AML/CFT and anticorruption frameworks.	Kuwait Anticorruption Authority (Nazaha) published the 2019-24 country's strategy. Important cases of corruption involving former high-level officials are being processed in the courts. The authorities have issued new AML/CFT regulations for banks and exchange companies. Effective implementation of the frameworks is critical to strengthen Kuwait's overall AML/CFT regime.
<b>Monetary/Financial Sector Policies</b>	
Bolstering CBK inspections of banks' foreign-owned branches.	CBK is currently reviewing the existing measures and methodology to be in par with the best practices implemented by regulators. Various measures were implemented to ensure that group level divisions at Kuwaiti banks are maintaining a close monitoring of subsidiaries and foreign branches' (on/off balance sheet) activities. On-Site Supervision Department at CBK required that the scope of internal control report (ICR) presented by independent auditors to be on a group level while focusing on each foreign branch internal control effectiveness.
Gradual relaxation of lending rate caps.	CBK kept the caps unchanged and regulated bank lending rates at 2.5 percent for SMEs affected by the COVID-19 crisis.
Further deepening of the local currency bond market.	This remains conditional on passing the new debt law. The ministry of finance, central bank, and the Capital Market Authority received an IMF MCM/LEG TA mission to deepen the domestic debt market
<b>Structural Reforms</b>	
Further improve the business environment especially concerning the efficiency of courts in business conflicts and contract enforcement.	Kuwait's overall business environment has been improving. The new insolvency law aiming at modernizing bankruptcy proceeding was passed; but the executive regulations are not yet published in the Kuwait official gazette.

## Annex III. Implementation of 2019 FSAP Recommendations

Kuwait: Key FSAP Recommendations	
Recommendations	Authorities' Actions
<b>Banking Supervision</b>	
Strengthen the CBK powers and capacity to exercise consolidated supervision	Regarding that some Islamic banks operate under complex groups, the CBK have requested divested investments and simplified their group structures, and this issue is continuously monitored by the CBK.
Establish supervisory colleges, conclude the MOUs with relevant authorities, resume the inspection program and increase the frequency and depth of on-site inspections of foreign-owned branches of Kuwaiti banks	The CBK has updated its MOU with the Ministry of Commerce and Industry on July 2, 2019, to cooperate and coordinate in supervision areas. The entire inspection program, including onsite inspections of foreign owned branches of Kuwaiti banks is currently being revamped with CBK's engagement of internationally recognized consultants.
Proceed in setting up the centralized Shariah board at the CBK	Implemented. In view of Law No. (3) of the year 2020 concerning the formation of a higher Shari'ah supervision authority, the CBK Board of Directors approved the establishment, on 1-9-2020, of the Higher Committee of Shari'ah Supervision at the CBK and the guidelines organizing its business, within provisions of relevant laws.
<b>Capital Markets Supervision</b>	
Adopt a risk-based approach to supervision; identify and manage emerging and systemic risks; periodically review regulatory perimeter	In progress.
<b>Systemic Risk Oversight</b>	
Create a financial stability committee with a clear mandate and powers to collect and share information, and make recommendations, and assign the CBK as a macroprudential authority, providing it with a clear financial stability mandate	Implemented. Based on the "financial stability & local banks restructuring & resolution" law, a Financial Stability Committee has been established (June 2021), chaired by CBK, and includes the following representatives: Capital Markets Authority (CMA), MOF, Ministry of Commerce and Industry, and Kuwait Investment Authority.
Fill data gaps in household debt and develop a real estate price index	The CBK has developed a real estate price index, however this index is for internal use and not publicly shared. Household debt data gaps have now been filled with data from CINET (credit reporting agency).
<b>Managing Systemic Liquidity</b>	
Extend and develop the liquidity forecasting framework	The CBK has developed and implemented "Liquidity Management and Forecasting Dashboard" in November 2019, which enhances the ability to forecast liquidity conditions more accurately and at an earlier point in time, in turn leading to more efficient utilization of monetary policy instruments. The CBK is in process of applying artificial intelligence and machine learning to the forecasting liquidity model in order to build on the accuracy and efficiency allowing the CBK to generate forecasts up to 6 months.
Ensure bank are resilient to sudden variations in excess liquidity and consider developing other tools	The CBK has sufficient tools for banks to use in case of variations in excess liquidity and is flexible in implementing new tools as required.

Recommendations	Authorities' Actions
Extend the collateral universe for reserve-supplying operations and periodically test facilities with banks	The CBK is working on providing periodic practice tests in order for banks to test the various facilities available to them.
<b>Financial Safety Nets</b>	
Formally designate the CBK as a banking sector resolution authority, with a mandate to preserve financial stability	Addressed in the Bank Bankruptcy law that has been drafted and submitted to the Government for review.
Pass and implement the special resolution regime for banks	Bank Bankruptcy law has been drafted and submitted to the Government for review.
Develop proposals to remove the blanket guarantee on deposits and establish a DIS, including Shariah-compliant component, after preconditions are met	Deposit insurance law has been drafted by the CBK, approved by the Higher Shariah Committee and takes into account a transition period. It is presently undergoing a final revision before presentation to the Government.
<b>Capital Markets Deepening and Development</b>	
Broaden the governance of the market development program to include other authorities and entities	In progress.
<b>SME Access to Finance</b>	
Strengthen credit infrastructure by adopting the secured transaction law and insolvency law, establishing an electronic movable collateral registry and improving credit reporting on commercial lending	The bankruptcy law no. 71/2020 has been issued in October 2020. Credit reporting on commercial lending has been transferred to the private credit reporting agency (CINET) and has been improved.
Introduce a gradual relaxation of interest rate caps for SMEs	At present, interest rate ceilings only apply to conventional banks and not to Islamic banks. The CBK remains concerned over potential implications for financial stability and consumer protection. However, relaxing interest rates on SMEs can be considered.

## Annex IV. Risk Assessment Matrix<sup>1</sup>

Source of Risk and Relative Likelihood	Expected Impact	Policy Responses
<p><b>Medium</b></p> <p><b>Outbreaks of lethal and highly contagious COVID-19 variants lead to subpar/volatile growth, with increased divergence across countries.</b> Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic.</p>	<p><b>Global risks</b></p> <p><b>High</b></p> <p>Global resurgence could affect Kuwait through the oil demand and the effects on domestic economic/health outcomes. Lower oil demand would negatively affect fiscal and external balances. Interruptions to the global supply chain through a resumption of lockdowns would delay economic recovery, and would likely affect expatriate employment.</p>	<p>Vaccination and the support to the health system should continue as needed. Additional targeted policy support should be provided as situation warrants, with due attention to financial stability risks. Withdrawal of fiscal, monetary, and financial sector support measures should be carefully coordinated and calibrated until the recovery is firmly underway.</p>
<p><b>Medium</b></p> <p><b>Rising and volatile food and energy prices.</b> Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.</p>	<p><b>High</b></p> <p>A higher oil price would lead to strong fiscal and external positions, but fiscal stance could turn procyclical if fiscal policy is not anchored properly. A substantial decline in oil prices would affect fiscal and external balances, increasing gross financing needs. Lower oil prices may affect liquidity within the banking system and, over time, have a negative impact on credit growth and asset quality. Lower oil prices may also affect non-oil sector growth via reduced consumption and investment.</p>	<p>Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Continued supervisory vigilance is needed to identify emerging financial stability risks. Structural reforms could be accelerated to enhance competitiveness, diversify the economy, and reduce the impact of oil price fluctuations.</p>
<p><b>Medium</b></p> <p><b>De-anchoring of inflation expectations in the U.S. and/or advanced European economies.</b> A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten</p>	<p><b>Medium</b></p> <p>Corporates could face higher borrowing costs and liquidity problems may translate into insolvencies, leading to deterioration in banks' asset quality and further adverse implication to economic growth. Repricing of risk could trigger capital outflows,</p>	<p>CBK's policy support measures should be increasingly targeted to the vulnerable but viable firms. Continued proactive and preemptive monitoring of financial</p>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.



Source of Risk and Relative Likelihood	Expected Impact	Policy Responses
<p>policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects.</p>	<p>weighing on equity markets which became more exposed to global markets with Kuwait's inclusion in global indices. Sharp increases in interest rates could affect real estate markets, posing risks to financial stability.</p>	<p>stability risks is needed, which would also help ensure banks provisions reflect promptly changes in borrowers' risk level.</p>
<p style="text-align: center;"><b>Medium</b></p>	<p style="text-align: center;"><b>Medium</b></p>	
<p><b>Widespread social discontent and political instability.</b> Social tensions erupt as the imposition of vaccine mandates and mobility restrictions and/or a withdrawal of pandemic-related policy support—amid increasing prices of essentials, slower growth, and rising inequality—result in higher unemployment and heavier household debt burdens. Political instability triggers capital outflows.</p>	<p>Social discontent could cause economic disruptions, erode trusts in policy makers, and affect consumer and investor sentiment, thus depressing private sector development.</p>	<p>Improving the efficiency of the social safety nets while ensuring adequate coverage, especially on the most vulnerable, is needed. Withdrawal of the policy support should be carefully calibrated, coordinated, and communicated.</p>
<p style="text-align: center;"><b>High</b></p>	<p style="text-align: center;"><b>Medium</b></p>	
<p><b>Geopolitical tensions and de-globalization.</b> Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.</p>	<p>The shock would mainly operate through oil prices, which would likely increase, and regional contagion. It could trigger capital outflows, which would weigh on asset prices. Prolonged supply chain disruptions could exert inflationary pressures.</p>	<p>See the recommended response to rising and volatile food and energy prices above. Enhanced surveillance of financial system would help spot systemic risks or liquidity pressures early on. Monetary and prudential measures can be deployed to address capital outflows if they occur.</p>
<b>Domestic risks</b>		
<p style="text-align: center;"><b>Medium</b></p>	<p style="text-align: center;"><b>High</b></p>	
<p><b>Slower and less effective implementation of fiscal and structural reforms.</b></p>	<p>Delays in fiscal and structural reforms would amplify the risk of procyclical fiscal policies, undermine investor confidence, and hinder the progress toward more economic diversification and higher competitiveness.</p>	<p>Sustained efforts on consultation and communication with private stakeholders and Parliament is needed to secure public buy-in. Social safety net reforms to ensure adequate protection could strengthen social support. Enhancing fiscal framework for higher transparency, accountability, and efficiency would be instrumental.</p>

## Annex V. Public Debt Sustainability Analysis

**Table 1. Kuwait Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario**

(in percent of GDP unless otherwise indicated; on a calendar-year basis)

Debt, Economic and Market Indicators <sup>1/</sup>												
	Actual			Projections						As of January 27, 2022		
	2011-2019 <sup>2/</sup>	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads		
Nominal gross public debt	8.5	11.7	8.8	13.2	13.6	17.9	25.0	33.7	42.2	EMBIG (bp) <sup>3/</sup>	179	
Public gross financing needs	-15.1	13.0	0.6	-7.4	-9.8	-7.0	-3.6	-0.3	6.9	5Y CDS (bp)	52	
Real GDP growth (in percent)	2.1	-8.9	1.3	8.2	2.6	2.6	2.6	2.6	2.7	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.4	-13.9	25.1	11.1	-3.6	-2.5	-0.8	0.2	0.6	Moody's	A1	A1
Nominal GDP growth (in percent)	3.6	-21.5	26.7	20.2	-1.1	0.1	1.8	2.9	3.3	S&P's	A+	A+
Effective interest rate (in percent) <sup>4/</sup>	2.7	3.4	3.2	3.1	4.1	4.5	4.6	4.9	6.7	Fitch	AA-	AA

Contribution to Changes in Public Debt											
	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027		
Change in gross public sector debt	0.6	0.1	-2.9	4.4	0.4	4.3	7.1	8.7	8.5	33.4	
Identified debt-creating flows	-0.4	3.2	-2.5	-2.3	1.1	4.0	5.8	6.6	8.3	23.4	
Primary deficit	-15.7	12.3	0.0	-10.9	-11.0	-8.4	-6.8	-4.9	-3.2	-45.2	11.5
Primary (noninterest) revenue and grants	62.5	52.8	51.8	54.3	55.7	54.2	52.9	51.0	49.2	317.3	
Primary (noninterest) expenditure	46.8	65.0	51.8	43.4	44.7	45.8	46.1	46.1	46.0	272.1	
Automatic debt dynamics <sup>5/</sup>	-0.2	3.7	-2.2	-1.3	0.7	0.6	0.5	0.5	1.1	2.1	
Interest rate/growth differential <sup>6/</sup>	-0.2	3.7	-2.2	-1.3	0.7	0.6	0.5	0.5	1.1	2.1	
Of which: real interest rate	-0.1	2.4	-2.0	-0.7	1.0	1.0	1.0	1.1	2.0	5.4	
Of which: real GDP growth	-0.1	1.3	-0.1	-0.6	-0.3	-0.4	-0.5	-0.6	-0.9	-3.3	
Exchange rate depreciation <sup>7/</sup>	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	15.5	-12.8	-0.2	9.9	11.4	11.8	12.0	11.0	10.4	66.4	
Privatization/Drawdown of deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Asset accumulation requirement	15.5	-12.8	-0.2	9.9	11.4	11.8	12.0	11.0	10.4	66.4	
Residual, including asset changes <sup>8/</sup>	1.0	-3.1	-0.4	6.7	-0.7	0.4	1.3	2.1	0.2	10.0	

Sources: CBK, MOF, and IMF staff estimates.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

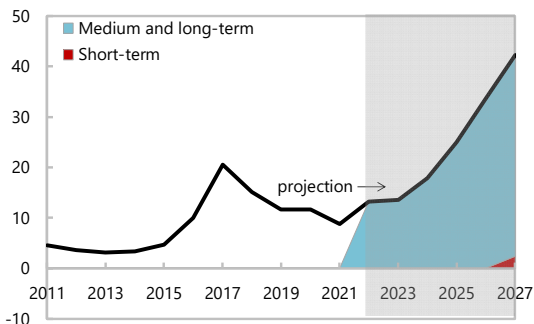
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year. The debt stabilizing primary balance under the assumed asset accumulation of 10.4 percent of GDP in 2027 is equal to 11.5 percent. Under no asset accumulation, the debt-stabilizing primary balance would have been 1.1 percent of GDP.

**Figure 1. Kuwait Public DSA - Composition of Public Debt and Alternative Scenarios**

**Composition of Public Debt**

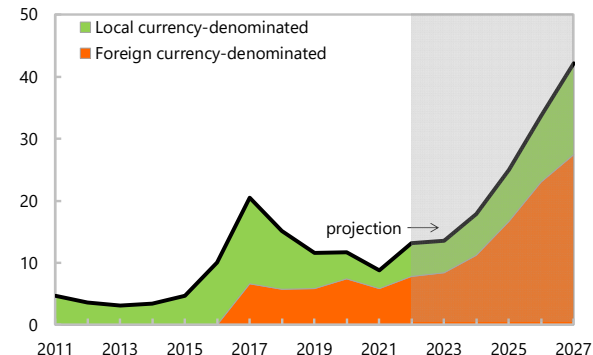
**By Maturity**

(in percent of GDP)



**By Currency**

(in percent of GDP)



**Alternative Scenarios**

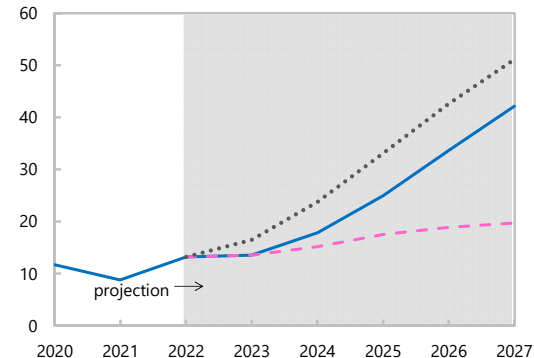
— Baseline

..... Historical

- - - Constant Primary Balance

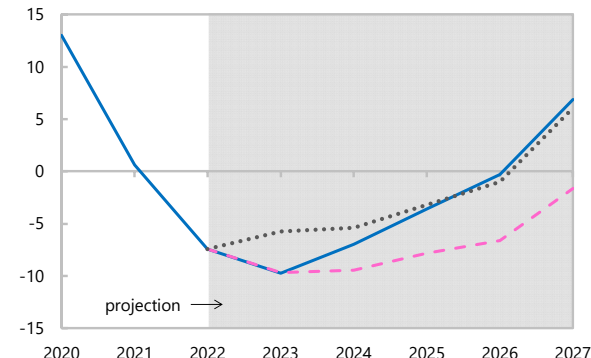
**Gross Nominal Public Debt**

(in percent of GDP)



**Public Gross Financing Needs**

(in percent of GDP)



**Underlying Assumptions**

(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.2	2.6	2.6	2.6	2.6	2.7
Inflation	11.1	-3.6	-2.5	-0.8	0.2	0.6
Primary Balance	10.9	11.0	8.4	6.8	4.9	3.2
Effective interest rate	3.1	4.1	4.5	4.6	4.9	6.7

Constant Primary Balance Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.2	2.6	2.6	2.6	2.6	2.7
Inflation	11.1	-3.6	-2.5	-0.8	0.2	0.6
Primary Balance	10.9	10.9	10.9	10.9	10.9	10.9
Effective interest rate	3.1	4.1	4.5	5.1	6.0	10.1

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.2	-0.6	-0.6	-0.6	-0.6	-0.6
Inflation	11.1	-3.6	-2.5	-0.8	0.2	0.6
Primary Balance	10.9	7.0	7.0	7.0	7.0	7.0
Effective interest rate	3.1	4.1	4.4	2.0	5.3	7.3

Source: IMF staff.

## Annex VI. External Sector Assessment

**Overall Assessment:** The external position of Kuwait in 2021 was weaker than the level implied by fundamentals and desirable policies. This assessment is somewhat uncertain given the lack of full-year actual data for 2021 and the effects of the COVID-19 crisis. An updated analysis will be provided in the next Article IV Consultation staff report. The exchange rate peg remains an appropriate policy anchor and provides stability to monetary policy, given the limited role for the exchange rate in adjusting the external imbalance, as oil exports play a dominant role in Kuwait's exports and domestic production has a high import content including labor input, and the use of dollar invoicing. With strong oil exports and strong positions of official reserves and sovereign assets, Kuwait's external balance remains strong.

**Potential Policy Responses:** Implementing staff's recommended fiscal adjustment to achieve intergenerational equity would bring the current account to a level consistent with fundamentals. Structural reforms that help diversify the economy and boost the non-hydrocarbon tradeable sector would support a stronger external position over the long term.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** By the end of 2020, Kuwait's total gross external assets are estimated to be at US\$816 billion (770.1 percent of GDP). External liabilities increased from US\$80.9 billion to US\$84.0 billion, reflecting mainly increase in portfolio investment liability. The NIIP increase by US\$52.6 billion in 2020, reflecting mostly increase of government assets, notably sovereign assets under the management of KIA (Kuwait Investment Authority). As a share of GDP, the NIIP increased from 498.8 to 690.8 percent in 2020, reflecting the increase of NIIP and also the large decline in nominal GDP in 2020. Though 2021 IIP data is not yet available, preliminary estimate shows the size of sovereign assets under the management of KIA increased to US\$737.5 billion (544.4 percent of GDP), suggesting a possible improvement of IIP position in 2021.

**Assessment.** Kuwait's NIIP is projected to improve, which reflects factors including recovery in hydrocarbon exports and some fiscal adjustments that would reduce external debt liabilities.

2020 (% GDP)	NIIP: 690.8	Gross Assets: 770.1	Res. Assets: 45.5	Gross Liab.: 79.3	Debt Liab.: 50.5
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### Current Account

**Background.** The current account surplus is projected to increase from 3.2 percent of GDP in 2020 to 16.1 percent of GDP in 2021 as the oil price increases and then gradually declines mostly reflecting public spending pressures. Investment income is estimated at about US\$15.7 billion (14.8 percent of GDP) in 2020 and projected at about US\$18.9 billion (14.0 percent of GDP) in 2021.

**Assessment.** Given the exhaustible nature of oil revenues, external sector sustainability in Kuwait requires adequate savings to ensure that future generations can enjoy broadly similar living standards (i.e., consumption) as the current generation. The consumption-based external sustainability model suggests a current account gap of -11.9 percent under the constant real per capita annuity approach, suggesting the current account balance is insufficient to reach the level needed to ensure constant real annuity per capita, and a current account gap of -2.3 percent under the constant real annuity approach. The negative CA gap implies that the CA surplus is too small to provide equitable consumption for future generations on per capita basis and suggests the need for larger fiscal savings of hydrocarbon revenues. The EBA-lite

current account approach estimates a current account gap of about -25.4 percent of GDP in 2021. The policy gap explains 0.4 percentage points of the estimated gap, while the remaining is residual. As discussed, the consumption-based model is better suited to capture the features of a commodity exporter such as Kuwait, and the CA approach suffers from a very large residual. As the constant real annuity per capita allocation rule is affected by the growth rate of population, which is subject to the impact of expatriates flows, staff therefore gives the most weight to the constant real annuity rule and assesses the external position to be weaker than the level implied by fundamentals and desirable policies.

**Kuwait: Model Estimates for 2021**  
(In percent of GDP)

	CA model	Constant annuity	Constant annuity per capita
<b>CA-Actual</b>	<b>16.1</b>	<b>16.1</b>	<b>16.1</b>
Cyclical contributions (from model) (-)	2.2		
COVID-19 adjustor (+) 1/	-1.2		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	-0.1		
<b>Adjusted CA</b>	<b>12.8</b>	<b>12.8</b>	<b>12.8</b>
<b>CA Norm</b> (from model) 2/	<b>38.2</b>	<b>15.1</b>	<b>24.7</b>
<b>CA Gap</b>	<b>-25.4</b>	<b>-2.3</b>	<b>-11.9</b>
o/w Relative policy gap	0.4		
Elasticity	-0.35	-0.35	-0.35
<b>REER Gap (in percent)</b>	<b>72.6</b>	<b>6.6</b>	<b>34.0</b>

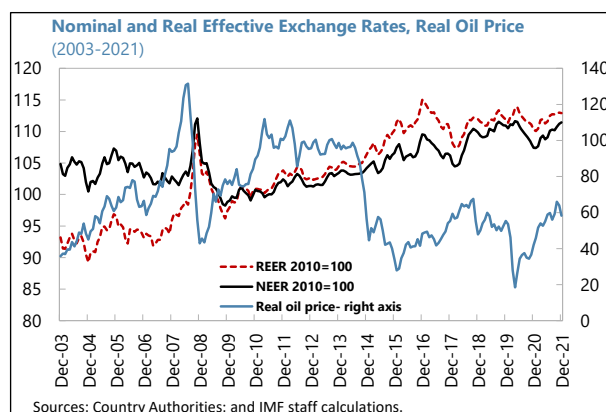
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (-1.16 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

### Real Exchange Rate

**Background.** The exchange rate is pegged to an undisclosed basket of currencies. The REER has experienced a trend appreciation for more than a decade until the pandemic hit in 2020, when the REER depreciated 3.2 percent from May to December in 2020 and appreciated 2.4 percent in 2021, broadly following the movement of US dollar. The nominal effective exchange rate (NEER) depreciated by 3.2 percent in 2020 and appreciated by 3.7 percent as of end-2021.

**Assessment.** Staff assesses the 2021 REER gap to be about 6.6 percent. The current exchange rate arrangement, in place since May 2007, has provided an effective nominal anchor as well as limited exchange rate volatility. In the short term, exchange rate movement has limited impact on competitiveness given the large share of



hydrocarbon exports and limited substitutability between imports and domestically produced products, which have significant imported labor and intermediate material.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** Net financial outflows continued in 2020-2021 as the KIA invested abroad. The equity market experienced some outflows in early 2020 as oil prices declined and COVID-19 struck global financial markets but has rebounded later in the year.

**Assessment.** Analysis of the financial account is complicated by the lack of detailed information on the nature of the financial flows. The strong reserves position limits risks and vulnerabilities to capital flows.

### FX Intervention and Reserves Level

#### Kuwait: Foreign Reserve Adequacy Assessment

	2019	Prel. 2020	Est. 2021	2022	2023	Projection			
	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(in billions of USD)								
External short-term debt	21.2	21.4	21.5	22.1	22.6	24.6	28.5	31.4	35.6
Other liabilities (portfolio and other investment liabilities less short-term debt) 1/	61.0	64.9	62.4	67.8	66.1	68.2	74.9	79.2	86.6
Broad Money	125.6	129.2	127.6	136.1	143.7	151.8	160.6	169.2	178.4
Exports of goods and services	73.3	46.9	71.2	93.8	90.1	87.6	87.3	89.1	90.3
CBK Gross International Reserves	39.9	48.3	45.1	50.5	54.0	57.9	61.8	65.2	67.8
KIA Assets (staff estimates)	587.0	633.1	737.5	768.5	800.9	834.6	870.0	902.7	934.3
ARA metric	38	37	39	43	43	45	48	51	55
Foreign Reserves as a % of the ARA metric (in percent) 2/	104	130	116	117	125	129	128	128	124
Foreign Reserves (including KIA) as a % of the ARA metric (in percent) 2/	1631	1841	2016	1896	1970	1985	1929	1894	1827
Foreign Reserves in percent of broad money	32	37	35	37	38	38	38	39	38
Foreign Reserves in months of next year's imports of goods and services	11.5	11.3	9.0	9.6	9.9	10.1	10.4	10.5	10.5

1/ Based on the IMF's calculation of reserves recommended for fixed exchange rate regimes.

2/ As a rule of thumb, reserves within 100-150 percent of the new ARA metric are considered adequate.

**Background.** The CBK's gross reserves stood at US\$45.1 billion (9.0 months of imports, 37 percent of broad money) at end-2021. These reserves correspond to 116 percent of the Fund's Assessing Reserve Adequacy (ARA) metric and above the suggested adequate range of 100-150 percent.

**Assessment.** Foreign reserves are adequate for covering prospective imports and adequate in terms of IMF's ARA metric. Reserves are expected to remain broadly stable in terms of import coverage ratio. CBK's reserves are complemented by government's large foreign assets, which are held by the KIA and estimated to have reached over 500 percent of GDP at end-2021.



# KUWAIT

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 18, 2022

Prepared By

Middle East and Central Asia Department with inputs from  
other departments and the World Bank

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## FUND RELATIONS

(As of January 31, 2022)

### Financial Position in the Fund

<https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=560&date1key=2099-12-31>

Kuwait contributed to the PRGF-HIPC Trust in support of Fund's concessional assistance to low-income countries. This includes an interest-free deposit of SDR 4.2 million maturing in January 2024 and a grant contribution of SDR 0.1 million to the PRGF-HIPC Trust.

### Exchange Rate Arrangement

Kuwait's de facto exchange rate arrangement is classified as other managed arrangement. Since May 2007, Kuwait's de jure exchange rate arrangement has been a conventional peg against an undisclosed currency basket. Kuwait has accepted the obligations under Article VIII, Sections 2 (a), 3, and 4, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than those notified to the Fund pursuant to Decision 144-(52/51). On April 2, 2002, Kuwait notified the Fund, under Decision 144-(52/51), of exchange restrictions it introduced in order to implement UN Security Council resolutions 1373 (2001), 1333 (2000) and 1267 (1999).

### Article IV Consultations

The last Article IV consultation was completed on March 24, 2020 (Country report 20/89—Published March 30, 2020). The staff report is available at

<https://www.imf.org/en/Publications/CR/Issues/2020/03/27/Kuwait-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-Staff-Supplement-49294>

### FSAP Participation

FSAP mission took place in 2018. The FSAP focused on banking supervision, financial safety nets, and managing systemic risk and liquidity. It also covered capital markets development and supervision and SME access to finance. An FSSA report was discussed by the Executive Board along with the staff report for the 2019 Article IV consultation and is available at:

<https://www.imf.org/en/Publications/CR/Issues/2019/04/02/Kuwait-Financial-System-Stability-Assessment-46730>

**Technical Assistance since 2014:**

<b>LEG</b>	Central Bank Law	January 2014
<b>FAD</b>	Tax Policy and Administration	February 2014
<b>MCM</b>	Macroprudential Policy	March 2014
<b>FAD</b>	Fiscal Rule	February 2015
<b>STA</b>	National Accounts Statistics	March 2015
<b>MCM</b>	Deposit Insurance System	September 2015
<b>FAD</b>	Tax Policy and Administration	September 2015
<b>LEG</b>	AML/CFT ongoing TA project	May 2012–16
<b>FAD</b>	Establishing a Debt Management Office	November 2015
<b>FAD</b>	Debt Management Strategy	January 2016
<b>MCM</b>	Bank Stress Testing	May-June 2016
<b>FAD</b>	Macro-Fiscal Unit	November 2016
<b>MCM</b>	Crisis Management and Resolution	April-May 2017
<b>FAD</b>	Macro-Fiscal Unit	May 2017
<b>STA</b>	Government Finance Statistics	April-May 2018
<b>STA</b>	Government Finance Statistics	September-October 2018
<b>LEG</b>	AML/CFT Diagnostic	October 2018
<b>FAD</b>	Tax Policy and Administration	October-November 2018
<b>STA</b>	National Accounts Statistics	January 2019
<b>MCM</b>	Monetary Policy Operations	February 2019
<b>STA</b>	Government Finance Statistics	October 2019
<b>STA</b>	EGDDS	January-February 2021
<b>MCM</b>	Developing Local Debt Markets	October 2021
<b>STA</b>	External Sector Statistics	January-February 2022

**Resident Representative:** None

Kuwait has consented to the quota increase under the Fourteenth General Review of Quotas.

## RELATIONS WITH THE WORLD BANK

(As of January 31, 2022)

**World Bank Country Page:**

<https://www.worldbank.org/en/country/gcc/brief/kuwait-country-program>

## STATISTICAL ISSUES

(As of January 31, 2022)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data provision has shortcomings but is broadly adequate for surveillance, though COVID-19 has affected the timely compilation and dissemination of national accounts and price statistics in 2021. There is scope to enhance the compilation of the national accounts and balance of payments statistics, including through better coordination among agencies. Timeliness, particularly for the national and fiscal accounts, remains an area of concern.</p>
<p><b>National Accounts and Production:</b> Kuwait's national accounts are compiled by the Central Statistical Bureau (CSB). Measurable progress has been made in recent years in improving the quality, coverage, and timeliness of the data. The CSB started disseminating quarterly GDP series from the production side in 2018, and the estimates of national accounts by institutional sectors were completed for 2015–17. The CSB also improved the methodology to construct volume changes for subsidies on products.</p> <p>While annual GDP estimates are broadly adequate for surveillance, they are derived from a benchmark year of 2010. An IMF technical assistance mission in January 2019 recommended conducting a survey of household income and expenditure and a new establishment census. This would allow to update the benchmark year and rebase the GDP series to ensure that structural changes in the economy are reflected in GDP estimates. To that end, the CSB has embarked on two initiatives, currently under implementation: (i) Household Consumption and Expenditure Survey which is ongoing, and (ii) Establishment Census. Due to the impact of the COVID-19 pandemic, the compilation and dissemination of national accounts and price statistics have been delayed for the year 2021. The CSB stopped compilation and publication of CPI after the April 2021 CPI was released and then resumed publication of the CPI from September 2021. There are long lags in the publication of annual GDP by expenditure, and there has been delay in publishing 2021 quarterly GDP data. GDP by income has reportedly been discontinued.</p> <p>Three other areas discussed between CSB and IMF staff include: (i) the methodology used to aggregate financial services indirectly measured (FISIM) into GDP, and how it is distributed to economic activities and sectors; (ii) improving and developing the coverage of GDP to capture informal sector activities (the authorities were encouraged to conduct a small-scale survey to measure the non-observed economy in services); and (iii) disclosing the sources and methods used to estimate individual GDP components to identify areas requiring improvement.</p>
<p><b>Price Statistics:</b> The Consumer Price Index (CPI) is published monthly. CPI basket weights, revised in June 2017, are based on the 2013 Household Income and Expenditure Survey (HIES). The Producer Price Index (PPI) covers selected mining and quarrying and manufacturing industries as well as utilities. The PPI should be enhanced by updating the weights from the 2010 base year, extending coverage to include services and construction, and compiling separate indexes for the domestic and export markets. Improvements in these dimensions are under consideration in coordination with other GCC countries.</p>
<p><b>Government Finance Statistics:</b> Kuwait reclassified the budget according to the <i>Government Finance Statistics Manual 2001</i> (GFSM 2001) starting fiscal year 2016–17. STA TA missions assisted</p>

the Ministry of Finance (MoF) in updating the classification to the GFSM 2014 and compiling annual GFS data for Central Government according to international standards. TA missions stressed the need to increase the frequency of published data, reduce the release lag, and expand the coverage to better support surveillance and budget monitoring. Data on the operations of the Public Institute for Social Security are not made available. Sharing of information between various government agencies could be further improved. Going forward, the authorities are encouraged to expand the coverage of GFS to all general government units, including the Future Generations Fund (FGF) and the General Reserve Fund (GRF) managed by the Kuwait Investment Authority. The authorities have also been briefed on the IMF's ongoing work to enhance the transparency of fiscal accounts. TA missions presented the "Code of Good Practices on Fiscal Transparency" and encouraged the authorities to adopt some of the practices recommended in the Code.

**Monetary and Financial Statistics:** The Central Bank of Kuwait (CBK) reports sectoral balance sheet data for the central bank, other depository corporations, and other financial corporations to the Fund based on the Standardized Report Forms (SRFs), although with some lag.

Kuwait reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

**Financial Surveillance:** Kuwait started to report Financial Soundness Indicators (FSIs) to the IMF for public dissemination in 2017. The CBK reports 11 of the 12 core FSIs and 8 encouraged FSIs which are available through the IMF website, although with some lag.

**External Sector Statistics:** The CBK compiles and disseminates quarterly balance of payments (BOP) and international investment position (IIP) data, following the BPM6 methodology. Enhancements are needed in compilation practices and in the estimation of data on primary income, several service items and private transfers.

The published IIP data are incomplete. They exclude the external assets held by the general government (except for the loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits) as external assets of the FGF and GRF are not reported. Data on total KIA assets are reported to the Fund by the Executive Director for Kuwait at the time of the Article IV Board meeting.

The CBK participates in the Coordinated Portfolio Investment Survey (CPIS) with data reported for 2003 onwards and the Coordinated Direct Investment Survey. Kuwait reports inward and outward direct investment data. As for CPIS data, these data are for the financial sector acting as end-investors or as intermediaries on behalf of residents and do not include holdings of foreign securities held by government agencies, which comprise the bulk of Kuwait's cross-border holdings.

The CBK made good progress in recent years in revising reporting forms, including the separate reporting of financial transactions in the BOP and on changes in the IIP volume. It has also made progress in the estimation of remittances. Further improvements in coordination among government entities is needed to ensure timely provision of data to the CBK. Merchandise trade data estimates are compiled and disseminated on a monthly/quarterly/annual basis by the CSB.

**II. Data Standards and Quality**

In September 2021, Kuwait fully implemented the e-GDDS by launching a National Summary Data Page. Metadata for most data categories were updated in 2021.

**Kuwait: Table of Common Indicators Required for Surveillance**  
(Last updated January 31, 2022)

	Date of latest observation (For all dates in table, please use format (mm/yy))	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>	Memo Items: <sup>8</sup>	
						Data Quality Methodological soundness <sup>9</sup>	Data Quality Accuracy and reliability <sup>10</sup>
Exchange rates	Real time	Real time	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>	11/21	01/22	M	M	M		
Reserve/base money	11/21	01/22	M	M	M		
Broad money	11/21	01/22	M	M	M		
Central bank balance sheet	11/21	01/22	M	M	M		
Consolidated balance sheet of the banking system	11/21	01/22	M	M	M		
Interest rates <sup>2</sup>	11/21	01/22	M	M	M		
Consumer price index	09/21	01/22	M	M	M		
Revenue, expenditure, balance and composition of financing <sup>3</sup> —general government <sup>4</sup>	10/21	11/21	M	M	M	Not published on Fund standards	Not published on Fund standards
Stocks of central government and central government-guaranteed debt <sup>5</sup>	12/20	08/21	M	M	M		
External current account balance	06/21	12/21	Q	Q	Q		
Exports and imports of goods and services	06/21	12/21	Q	Q	Q		
GDP/GNP	2020	2021	A	A	A		
Gross external debt	2020	2021	A	A	A		
International investment position <sup>6</sup>	03/21	09/21	Q	Q	Q		

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data made available to staff is incomplete as it excludes the external assets held by the general government (except for loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits). Data on total KIA assets are reported to the Fund by the Executive Director for Kuwait at the time of the Article IV Board meeting.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

<sup>8</sup> These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

<sup>9</sup> Reflects the assessment provided in the data ROSC or the Substantive Update for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

<sup>10</sup> Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



**Statement by Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany on Kuwait Executive Board Meeting March 14, 2022**

On behalf of the Kuwaiti authorities, we would like to thank staff for their continued constructive engagement with Kuwait. The authorities appreciate the helpful discussions which focused on policies to support the post-covid economic recovery and on further strengthening macroeconomic and financial stability, as well as reinvigorate non-hydrocarbon GDP and employment growth.

**The Response to the COVID-19 Pandemic**

**Kuwait undertook early measures to contain the COVID-19 virus and mitigate its impact.**

The government's swift response to contain the spread of the virus included instituting masks, testing, lockdown measures, and border closures when needed, and the utilization of information and communications technology, along with other innovative measures. Kuwait also moved decisively to contain the impact of the COVID-19 crisis on the economy. A set of fiscal, monetary, and financial support measures were deployed since the onset of the global health crisis to ease the burden on individuals, business entities, and the financial sector.

**The rapid support measures provided to the population have contributed to limiting the human and economic costs of the health crisis.** Direct fiscal support under the economic response package included spending on healthcare and support for firms and households through wage subsidies and cash transfers, in addition to loan guarantees to small and medium sized enterprises affected by the pandemic shock. The Central Bank of Kuwait (CBK) eased financial conditions by lowering interest rates and maintained adequate liquidity in the banking system. The CBK allowed deferment of loan repayments for affected borrowers and worked with commercial banks to ensure uninterrupted access to financial services. These measures helped mitigate income losses and sustain economic activity.

**Kuwait is among the top-ranked countries in COVID-19 vaccination,** as more than 80 percent of the targeted population have been fully or partially inoculated. Vaccines are readily available to both Kuwaiti nationals and expatriates, and vaccinations centers are open across the country. The high rate of vaccination has facilitated the progressive normalization of economic activity.

## **Recent Developments and Outlook**

**The medium-term outlook remains positive.** Growth resumed in 2021, following the 2020 contraction of output precipitated by the COVID-19 pandemic and by the 2020 downturn in oil prices. The government expects the recovery to gain momentum in 2022, and inflation to remain contained over the medium term. Growth is projected to expand by 8.2 percent in 2022 and to grow around 3 percent over the medium term, supported by an increase in both oil and non-oil activity, the latter owing to a rebound in confidence, rapid vaccine deployment, and continuation of the government's reform measures. Growth will also be supported by the continued sound banking sector indicators and recovery of credit, benefiting from accommodative monetary conditions.

**A supportive macroeconomic stance will remain in place until the recovery is firmly entrenched.** Building on the successful vaccination and health measures to date, the authorities' top priorities continue to be safeguarding public health and the economic recovery. The ample financial buffers accumulated from prudent policies in the past years, as well as low-debt levels enables Kuwait to confront challenges to its economy from a position of strength.

**In keeping with Kuwait's strong and deep-rooted democratic traditions, His Highness the Amir led an open national dialogue in late 2021,** which resulted in enhancing effective cooperation between the executive and legislative bodies. A new cabinet was formed in late December, and the government presented its comprehensive program of reforms to the parliament.

**In discussions with staff, the authorities reiterated their commitment to strengthen the fiscal accounts, safeguard financial stability, and further develop the non-oil economy and private sector job creation.** They are guided in their efforts by the government's reform program, which is underpinned by Kuwait Vision 2035. The program aims at supporting macroeconomic stability, addressing structural and fiscal imbalances in the economy, and promoting sustainable and inclusive growth. The program encompasses multiple pillars including enhancing economic growth, fostering private sector development, reinforcing fiscal sustainability, promoting social and human capital development via education and healthcare reforms, and infrastructure and renewable energy development. The program includes an ambitious legislative agenda which requires parliamentary approval for implementation.

## **Fiscal Policy**

**Fiscal balances are projected to improve in FY22/23, reflecting the rebound in oil revenues and the authorities' implementation of fiscal reforms.** Staff projects the headline fiscal balance to register a budget surplus of about 12 percent in FY 22/23, up from 3.7 percent of GDP in FY 21/22. The fiscal budget deficit - after excluding investment income - is expected to narrow to 0.3 percent of GDP in FY 22/23 from about 10 percent of GDP in FY21/22. The authorities FY22/23 budget projections are based on a conservative assumption of an oil price of \$65, with a significant upside potential in the case of higher oil prices. The authorities will continue to use additional revenue windfall to further shore up their buffers. Over the medium term, they acknowledge the need for a structural fiscal adjustment to fundamentally address fiscal expenditure pressures while boosting non-oil revenues and supporting private sector-led growth.

**The government is committed to increasing non-oil revenues, enhancing diversification of revenue sources, and reducing reliance on volatile oil revenues.** Their plans include repricing services, modernizing tax policy and administration systems, and improving revenue collection. Several additional fiscal measures are under consideration that require legislative approval. These include the value-added tax law, excise tax law, and the harmonized taxation measures law which are all an integral part of the government's Program of Action for the Sixteenth Legislative Term (2021/2022 – 2024/2025).

**The Kuwaiti authorities are also taking important steps to strengthen their fiscal policy frameworks,** including the introduction of budget expenditure ceilings in FY22/23. They are implementing top-down budgeting and plan to introduce 3-year rolling expenditure ceilings, both of which will help improve the budget planning horizon and limit spending procyclicality. Their plans also include implementing reforms to rationalize non-priority expenditure and improve the efficiency of public spending across wages, subsidies, and infrastructure spending.

**The government is pressing forward with efforts to pass the debt law,** which will allow Kuwait to utilize its indebtedness capacity in line with their financing plans and to support orderly fiscal operations. They view the passing of the debt law as a near-term priority as this would contribute to a balanced financing mix and reduce drawdowns from the General Reserves Fund. Debt management is being further strengthened, and the authorities expressed appreciation for Fund support on enhancing the institutional framework for debt management.

Kuwait's asset-liability management committee continues to strengthen coordination and help form a more systematic view of asset-liability management.

### **Monetary and Financial Sector Policies**

**The Central Bank of Kuwait continued its strong track record of skillful management of the monetary and financial policies.** The financial system withstood the impact of the global health and oil shocks and remained sound, liquid, and well-capitalized. Bank capital adequacy ratio is well above the required minimum level. Nonperforming loans (NPLs) are among the lowest in the region. The CBK's severe stress testing scenarios showed that the banking system remains resilient under challenging adverse shocks.

**The macroprudential and regulatory toolkits have worked well, and the CBK is taking further steps to improve supervision efficiency, and to strengthen the macroprudential tools and regulatory framework.** The authorities recently established the Monetary and Financial Stability Committee to oversee and coordinate proactive measures and to help further improve the conduct of monetary policy and deepen monetary and capital markets. The draft bank resolution law was submitted to the cabinet for review and plans to establish the legal framework for a deposit insurance scheme are underway. CBK also established a centralized Shariah Board, an important measure that aims to ensure a consistent interpretation of Shariah law in Islamic banks at the national level.

**The focus of monetary and financial policy is on maintaining financial and monetary stability and enabling the further development of the financial sector,** in support of Kuwait's national plan objectives of achieving an inclusive and sustainable private sector-led growth. To this end, CBK has embarked on a number of important initiatives including efforts to promote financing for green projects and Fintech for greater financial inclusion while also containing risks to financial stability. The CBK prepared a framework for digital banking aimed at encouraging innovation and providing a frictionless experience to customers and issued a framework for cybersecurity requirements. The Credit Information Network is working to develop an integrated and advanced credit bureau under the supervision of the CBK. There were also upgrades and enhancements to the payments system' infrastructure.

**The CBK continues to carefully take into account all relevant internal and external factors in determining the course of its monetary policy.** These include domestic and global economic, monetary and banking conditions, economic indicators, oil sector performance,

developments in credit and deposits growth, and domestic interest rate ceilings and trends. The monetary policy stance will also be adjusted, in a forward-looking manner, to mitigate imported inflationary pressures and external spillovers.

**We concur with the staff assessment that the exchange rate peg continues to serve the Kuwaiti economy well.** The peg remains an appropriate policy anchor given the structure of the Kuwaiti economy. The authorities also agree that the peg to a basket of currency allows the CBK a margin of flexibility relative to single currency pegs.

**The authorities remain committed to strengthening the AML/CFT framework.** Kuwait issued new AML/CFT regulations to banks and updated regulations to exchange companies. They organized related training sessions and workshops to the financial sector. They are working closely with other relevant bodies to ensure compliance with the new regulations. Several measures have also been introduced, including supervisory, regulatory and law enforcement to further strengthen the effectiveness of the AML/CFT system. The authorities are conducting a national risk assessment in line with FATF standards, while the preparation for the mutual evaluation this year is progressing as planned.

## **Structural Reforms**

**Kuwait's Vision 2035 and the government's reform program places promoting private sector development, diversification, and job creation as their guiding objectives.** The authorities agree with staff's view that with increasingly limited prospects for public employment going forward, stronger growth of the non-oil economy is needed in order to offer sufficient private sector opportunities to the growing number of Kuwaiti youths entering the labor force. The government's plans aim at creating employment for Kuwaitis through private sector-led economic diversification, improving human capital development, and strengthening institutions. The authorities reform plan also includes containing future public employment and wage growth and reducing the public-private sector wage gap with the aim of incentivizing Kuwaitis to seek opportunities in the private sector.

**The authorities are building the capacity of the Anti-Corruption Agency and strengthening its independence to further enhance governance and improve spending efficiency.** They are accelerating the implementation of the procurement law, including by introducing e-procurement, to help promote competition and generate budget savings. They

are also working to improve the efficiency of courts in commercial cases, expedite contract enforcement, and streamline customs clearance

**The authorities are making progress in improving the business environment.** The Parliament recently passed the insolvency law which revamps insolvency regulations and modernizes bankruptcy proceedings, removing an important obstacle to doing business in Kuwait. They streamlined the processes required to obtain a commercial license, utilizing an online registration system. Digitalization of other services has also improved service delivery and shortened the time needed for getting electricity and registering properties. They also implemented reforms aimed at improving access to credit and promoting cross-border trading. The authorities continue to support SMEs and develop startups given their job creating potential.

## **Conclusion**

The Kuwaiti authorities are committed to maintaining macroeconomic stability, protecting the health and employment of the citizens, as well as supporting a robust economic recovery. The authorities remain firmly committed to continuing their reform agenda aimed at bolstering medium-term economic outlook. To this end, they will continue implementing appropriate fiscal, monetary, and structural policies. They very much value the policy discussions with the Fund and look forward to further close engagement with the institution.