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KUWAIT

December 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE

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 2014 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on September 25, 2014, 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 November 5, 2014.
- **Informational Annex** prepared by the IMF.
- **Press Release**

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

KUWAIT

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

November 5, 2014

KEY ISSUES

Context. High oil prices and production have contributed to sizable fiscal and external surpluses. Non-oil growth has picked up, mainly driven by consumption and investment. Political developments in the last few years have had an adverse impact on the implementation of public investment program. A new five-year Development Plan for 2015–19 has been proposed to the Parliament. The authorities are initiating subsidy and public wage reforms, as well as fiscal and financial institutional and regulatory reforms. Kuwait is at an inflection point as economic diversification, a key policy priority, has to start now to generate a higher and sustainable growth path.

Recent oil price developments. The recent decline in oil prices further highlights current challenges. While the consultation with the authorities took place when oil prices were projected to decline from $105 per barrel in 2014 to $96 per barrel in 2019, since then they have fallen by about 20–25 percent. Staff's policy recommendations on the pace of fiscal and structural reforms remain valid if the current drop in oil prices is temporary. Staff also developed with the authorities a downside scenario, with oil prices lower by $20 over the five year period. Under this scenario, with substantial buffers that have been built-up, a decline in oil prices should not trigger immediate spending cuts, especially in capital expenditure, but it places more urgency on implementing the government's medium-term consolidation plans to contain current spending consistent with intergenerational equity.

Political setting. Since the formation of the last Parliament after elections in July 2013, some tensions resurfaced in early 2014 (six parliamentary elections were held during 2006–13). It is vital for the government and the parliament to agree on an agenda to place the public investment program on track and continue structural reforms.

Outlook and risks. Kuwait's near- and medium-term economic outlook is favorable. Non-oil GDP growth in Kuwait is expected to pick up to 4.0–5.0 percent in the medium term, supported by government investment in infrastructure and the oil sector, and by consumption. The main downside risk to the outlook arises from lower global oil demand and prices.

Macroeconomic policies. The current strong fiscal position notwithstanding, spending rigidities and reliance on oil revenues have highlighted fiscal risks. Containing current spending growth by restraining the wage bill and reforming subsidies (combined with targeted mitigating measures and a well-designed communication strategy) is important for ensuring fiscal sustainability. Developing a supportive fiscal policy framework underpinned by medium-term macroeconomic and expenditure frameworks, while preparing for an adoption of fiscal rules, would strengthen the reform process. In the context of the exchange rate basket peg, the central bank should continue to be proactive in liquidity management.

Enhancing financial stability. Prudent regulation and supervision by the central bank has ensured banking system stability. Risks to the financial system from investment companies are contained, although a few companies continue to make losses and deleverage and restructure their balance sheets and operations. Enhancing the macroprudential policy framework would further strengthen systemic stability.

Economic Diversification. Reforms are needed for improving the business environment, public investment efficiency, and education and skills. In addition, measures to realign incentives for firms and national workers to promote entrepreneurship and private sector employment are required. These would include increasing private sector competition, reducing wage gaps between the public and private sector, and containing public employment.

Approved By
Alfred Kammer
Taline Koranchelian

Discussions were held in Kuwait City during September 14–25, 2014 The staff team comprised Ananthakrishnan Prasad (head), Fuad Hasanov, Sergio Rodriguez, Inutu Lukonga and Mariana Colacelli (HQ support) (all MCD), and Carine Chartouni (LEG). The team met with the Minister of Finance Al-Saleh and his economic advisory team, Governor of the Central Bank of Kuwait Al-Hashel, the Acting Undersecretary of the Ministry of Finance, Advisor to the Amir, and other senior government and central bank officials and representatives from the financial community.

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CONTEXT

1. **Kuwait's economic activity has picked up, supported by high oil prices and production, but challenges remain.** Non-oil sector growth has been driven mainly by consumption growth, reflecting an increase in public wages and subsidies. The execution of the government's Five Year Development Plan (DP) (2010–14) has been below target and public investment has stalled. Public investment remains lower than in other emerging market economies.[1] Frequent changes in governments since 2006 partly delayed the implementation of some mega projects. Spending rigidities and increased reliance on oil revenues have highlighted fiscal risks. The authorities are preparing a new Development Plan (2015–19) that focuses on economic reform and the implementation of some long-stalled strategic mega projects.

2. **The government has taken measures to address some of the challenges, broadly in line with staff advice (Annex I).** The cabinet has decided to eliminate diesel subsidies, reduced allowances for Kuwaitis travelling abroad for medical aid, and passed a law to cap end-of-service compensation. A departmental group in the Ministry of Finance is studying the rationalization of kerosene and electricity subsidies. The government has initiated public finance management reform with the help of the World Bank, and is working on an ambitious time schedule for its implementation. Parliament has recently passed a number of important laws, including on anti-corruption, promoting foreign investment, public-private partnerships, and privatization. The central bank is proactively maintaining banking system stability.

3. **Economic diversification is a policy priority.** The growth model has so far relied on oil revenues to invest in public employment, health, education and infrastructure, and achieved rapid economic development. Transitioning to a more balanced private sector driven model that encourages firms to export requires significant progress in implementing structural reforms to improve the business environment, governance, and institutional and policy making frameworks; enhancing the skills of workers; encouraging entrepreneurship by developing the small and medium-sized enterprises (SMEs) sector; and changing the incentive structure of firms to focus on the tradable sector by reviewing the competition policy law, government procurement procedures, reviewing barriers for entry of firms, fostering forward and backward linkages of private sector firms with state-owned enterprises. In addition, strengthening the incentives for employment of nationals in the private non-oil sectors would entail containing growth in public sector wages and jobs.

4. **Positive external spillovers from Kuwait are expected to continue.** Kuwait has played an important role in maintaining stability of the global oil market and is embarking on an investment program to increase its capacity in crude oil. Kuwait is an important source of outward remittances,

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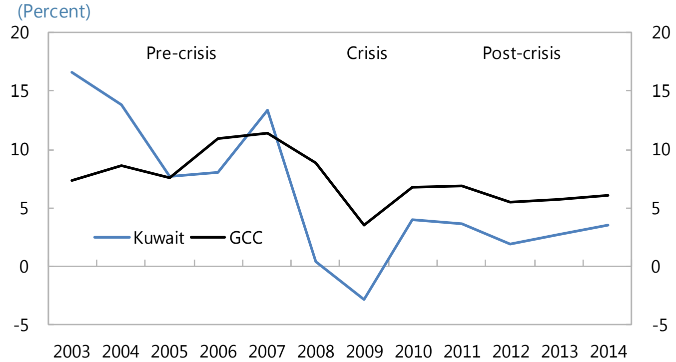
[1] The objective of the Plan was to increase private sectors' contribution to the economy, creating jobs and providing long-term investment opportunities. About $130 billion was to be implemented with private sector participation, including a variety of public-private partnerships in projects in oil, utilities, infrastructure and healthcare and education services sectors.

about $15 billion in 2013, and has provided important financial and humanitarian assistance to the Arab countries in transition and to Africa.

RECENT ECONOMIC DEVELOPMENTS

5. Economic activity picked up in 2014. Non-oil growth is projected to increase to 3.5 percent in 2014 from an estimated 2.8 percent in 2013, driven by a combination of continued increase in domestic consumption and some pick-up in government capital spending and private investment. Flat oil production in 2014 would keep the overall real GDP growth positive at 1.3 percent. The average inflation rate is forecast to remain at about 3 percent in 2014. The current account surplus is expected to remain high at about 38 percent of GDP in 2014 (Figure 5).

Real Non-oil GDP Growth, 2003–14
(Percent)

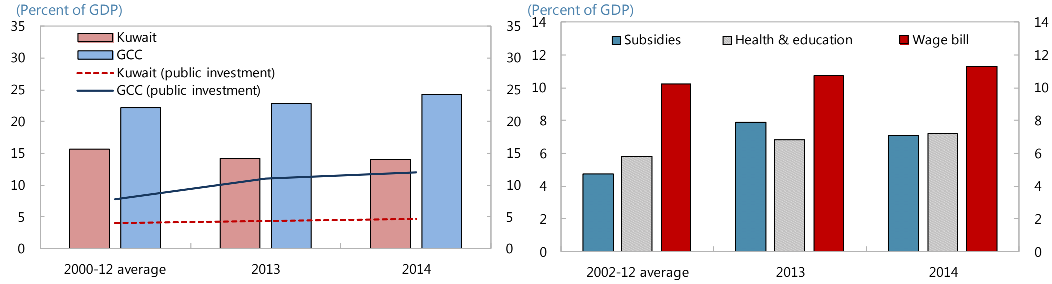


Source: Country authorities; and IMF staff calculations.

6. A fiscal surplus of 26 percent of GDP is projected in 2014 supported by high oil prices, but with increases in salaries and subsidies it will be down from about 35 percent in 2013. Wages and salaries constitute 50 percent of total expenditure in the FY 2014/15 budget. Total spending is projected to rise by 25 percent in the budget, reflecting both increased current (22 percent) and capital expenditures (45 percent) (Figures 1 and 6).

Figure 1. Fiscal Indicators

Total and Public Investment, 2000–14 (Percent of GDP) | **Fiscal Expenditure on Subsidies, Health and Education, 2002–14** (Percent of GDP)



Sources: Country authorities; and IMF staff calculations.

7. Monetary conditions have been accommodative.[2] The Central Bank of Kuwait (CBK) benchmark discount rate remained unchanged since October 2012 at 2 percent. The weighted-average deposit and lending rates fell to 1.49 percent and 4.35 percent, respectively, at

[2] Kuwait's exchange rate regime is a conventional peg to a basket.

end-June 2014 (from 1.60 percent and 4.86 percent, respectively at end-October 2012). As total deposits increased by 6.5 percent y-o-y in June 2014, excess liquidity of the banking system—bank reserves at the central bank—has been rising as well. Bank credit to private sector grew y-o-y by 7 percent in June 2014, driven mainly by personal loans (Figure 7). Bank lending to non-bank financial institutions further contracted to 5 percent of banks' total credit portfolio in June 2014, compared to 6.3 percent a year ago and the pre-crisis boom of 12.7 percent in mid-2008.

OUTLOOK AND RISKS

8. Kuwait's current near-term economic outlook is positive, but there are downside risks, from slow implementation of public investment priority projects. Non-oil GDP growth in Kuwait is expected to accelerate to 4.0 percent in 2015, and is projected to further increase gradually to 4.5–5.0 percent in the medium term in the baseline scenario, on the strength of public spending in infrastructure and the oil sector, private investment, and consumption. Inflation is projected to increase to 3.5 percent in 2015. A moderate increase in oil production is expected to further support overall growth. The external current account and fiscal surpluses are projected to remain high over the medium term, but on a declining trajectory, amid rising government spending and a gradual decline in projected oil prices.

9. The authorities acknowledged that an enduring political agreement on the reform agenda is required to implement the DP and improve investment climate to achieve the projected baseline non-oil growth rates. They, however, noted that the relationship between government and parliament had improved, and legislations passed by the current parliament so far have exceeded any previous parliament's performance over a full term. The government is moving forward in implementing major projects in the oil sector such as refineries and clean fuel, roads, port, and airport. However, there is continuing pressure from members of parliament to increase subsidies and wages and other benefits to Kuwaitis. Staff have lowered non-oil growth projections compared to last year, mainly reflecting the underexecution of projects under the DP, and any further shortfall in implementation of major projects would result in non-oil growth lower than currently forecast.

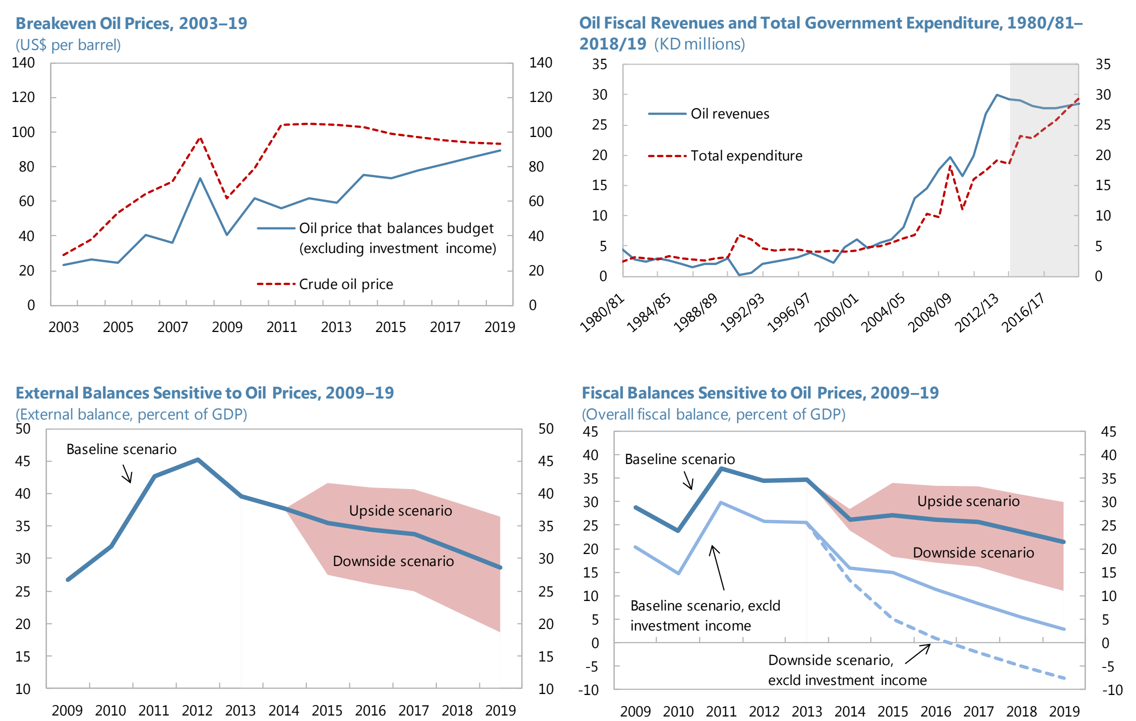
10. A sustained decline in oil prices presents a major downside risk to the medium-term outlook (Risk Assessment Matrix below). Given the recent trends in current spending as well as the projected decline in oil prices in the baseline, government expenditure would exceed revenues, excluding investment income, by 2020, although the overall fiscal position will remain in surplus. The breakeven oil price—the price needed to balance the budget at current expenditure levels—has risen over the past few years and is estimated at $75 in 2014/15 (excluding investment income).[3] Staff's analysis, however, shows that a $20 decline in oil prices relative to the baseline would result in bringing the fiscal position (excluding investment income) to a sizable deficit in the medium term

[3] The production level is assumed at 2.925 million barrels a day in 2014. Transfers to the Futures Generations Fund are not considered in the calculations as they are treated as below-the-line transactions in fiscal accounts.

(Figure 2). While large fiscal buffers would allow the government to smooth public spending in the medium term in the event of a sustained oil price drop, this would come at the cost of lower savings for future generations. All these factors would adversely affect long-term fiscal sustainability. Capital spending plans in the near term should continue as envisaged, but it would require further consolidation in the medium-term, which would lead to slower growth. On the other hand, geopolitical risks and unrest in key oil exporting countries pose upside risks to Kuwait's hydrocarbon production and prices. The government has recognized the importance of using the period of high surpluses to save more by containing current spending growth and increasing non-oil revenues.

11. **The authorities have embarked on a large investment program in the oil sector to increase production capacity for crude oil from 3 mbd to 4 mbd by 2020.** They are also expanding the capacity of their refineries and the petrochemicals complex. Staff noted potential risks to this strategy in view of global developments regarding shale oil supply. The authorities did not anticipate any reduction in their market share arising from global shale supplies in the near-term because of supply outages in Iraq, Libya and Nigeria. In the medium- to long-term, according to the authorities, environmental concerns, the quality of crude, uncertainty regarding changes in US policy to permit crude shale oil exports, high depletion rate of shale, cost differential between new production and that in Kuwait, and improved global demand outlook, could constrain shale supplies and create space for Kuwait to increase its market share.

Figure 2. Fiscal Outlook



Sources: Country authorities; and IMF staff estimates.
Note: Upside/downside scenarios shows external/fiscal balance for the oil price up/down to $20 higher/lower than the forecasted oil price and upside/downside scenario is up to $20 higher/lower.

12. Surges in global financial market volatility would likely have limited effects on the banking system. Banks fund their assets mainly from domestic deposits. Banks have direct exposures to the cyclical real estate sector and equity (24 percent of total assets) in addition to collaterals, thus exposing them to a downturn in real estate and equity prices. The feedback effects among banks, nonbank financial institutions, the real estate sector, and the stock market may exacerbate the impact. The high capitalization and provisioning levels, however, provide substantial loss absorption capacity that has been validated by the central bank's and credit rating agencies' stress test results.[4] The central bank is also proactively monitoring and mitigating concentration and other risks through the use of macroprudential tools, including limits on loan-to-value ratios, and mandating less well capitalized banks to raise capital. An abrupt change in global financial market conditions could however increase market and funding risks for investment companies (ICs), forcing further deleveraging of proprietary positions for some of them, as well as adversely affecting fiduciary assets.

RISK ASSESSMENT MATRIX[1]

Nature/source of main threats	Likelihood of Risk	Expected impact on the economy if risk is realized	Recommended Policy Response
Sustained decline in energy prices, triggered by deceleration of global demand and coming-on-stream of excess capacity (medium-term)	**Medium**	**High** Fiscal and external revenues would fall, and private sector confidence is likely to decline.	Even though the government has significant buffers, it should contain current expenditures and continue to increase buffers while oil prices are still high. If the risk of a sustained drop in oil prices materializes, some further consolidation in expenditure in the medium term, beyond that already suggested, would be required, which would affect non-oil economic activity. Develop a medium-term fiscal policy framework that is underpinned by a medium-term macroeconomic framework and a medium-term expenditure framework. Undertake substantial economic reforms in support of diversification to reduce oil dependence.

[4] The central bank's stress tests based on a variety of micro and macro shocks show that the lowest after-shock capital adequacy ratio of an individual bank was 11 percent.

Risk Assessment Matrix[1]			
Nature/source of main threats	**Likelihood of Risk**	**Expected impact on the economy if risk is realized**	**Recommended Policy Response**
Slow implementation of the Development Plan (DP)	**Medium**	**Medium** Protracted political uncertainty could affect overall business confidence and the investment climate, and result in lower non-oil growth than projected. Delays in implementation of projects due to unrealistic plans or bureaucratic hurdles would result in cost overruns and further decline in efficiency of public investment.	Resolve the political gridlock. Integrate the DP into a medium-term fiscal framework to ensure continued implementation. Monitor the implementation of capital expenditure. Implement measures to improve the efficiency of public investment, and strengthen anti-corruption efforts.
An abrupt change in global financial market volatility	**High**	**Medium** Surges in market volatility and increased financial market distortions could pose funding, market and credit risks for ICs and banks. ICs have large exposures to global and regional financial and real estate markets, and continue to be dependent on foreign financing. Banks have limited wholesale funding and limited foreign assets in the form of bank deposits and investments. The Kuwait Investment Authority (KIA) also has substantial foreign investments.	The banking system would likely remain sound as it is amply capitalized and well provisioned. Banks' specific provisions would, however, need to increase, which might tighten domestic lending to riskier borrowers, particularly in view of high real estate exposure of banks. Monitor the health of ICs and complete the restructuring of loss-making ICs. The impact on KIA's assets is expected to be manageable. Establish a macroprudential framework and a coordinating mechanism to assess incipient systemic risks and adjust macroprudential policies as needed to limit risks to the financial system.
Protracted period of slower growth in advanced and emerging economies (reflecting lower-	**High**	**Medium** Could lead to a decline in oil demand and prices. The economy remains highly dependent on oil for its fiscal and external revenues as well as	Same as (i) above

RISK ASSESSMENT MATRIX[1]			
Nature/source of main threats	**Likelihood of Risk**	**Expected impact on the economy if risk is realized**	**Recommended Policy Response**
than-anticipated potential growth)		government spending.	
Geopolitical fragmentation that erodes the globalization process and fosters inefficiency, including sustained tensions surrounding Russia/Ukraine and heightened risk of fragmentation/state failure in the Middle East	**Medium (Russia/ Ukraine)** **Medium (Middle East)**	**Low** Could lead to higher oil prices and production. Some effect on trade due to the situation in Iraq could materialize and some Kuwaiti-owned commercial projects in Iraq may stall. The disruptions in global financial markets could lead to temporary liquidity tightening in banks, force further deleveraging of ICs, and reduce credit growth of banks. But, banks have adequate buffers to withstand shocks.	Complete the restructuring process of loss-making ICs. Establish a macroprudential framework and a coordinating mechanism to assess incipient risks and adjust macroprudential policies as needed to limit risks to the financial system. Prepare an action plan in case the impact from spillovers from Iraq, especially security disruptions and population displacement, materializes.

[1] 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 of risks listed 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.

POLICY DISCUSSIONS

The main policy issues include restraining current spending growth, developing medium-term macroeconomic and fiscal frameworks, sustaining long-term growth through diversification, and maintaining financial stability.

A. Macroeconomic Policy Mix

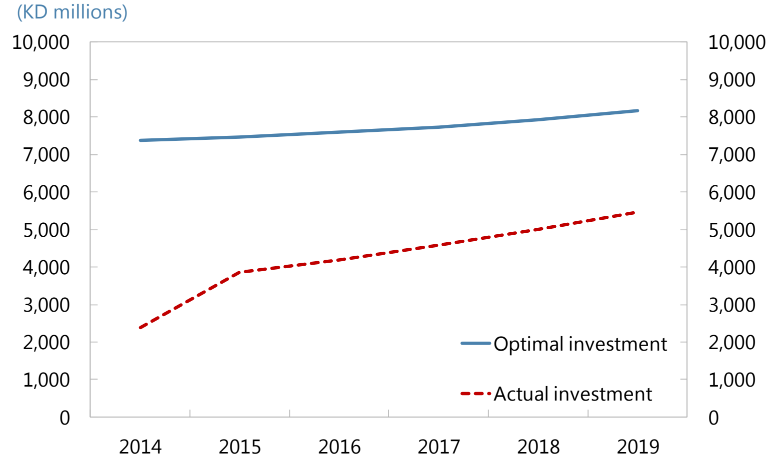
13. The accommodative monetary policy stance remains conducive to credit growth. Bank credit continues to grow, supported by deposit growth. The central bank is ensuring that current liquidity conditions are supportive of credit demand, and monetary operations continue to focus primarily on absorption of surplus liquidity through conventional and Islamic instruments. With low inflation and gradually increasing non-oil growth, the policy mix is growth-supportive and remains appropriate. Monetary policy in coming years is expected to tighten under the basket peg. Macroprudential policy tools are available to the central bank to mitigate potential financial stability risks, and they are currently on a neutral setting.

14. The peg to a basket provides a credible monetary anchor, while the overall external sector assessment points to stability. Staff share the authorities' view that the peg to the basket is appropriate given the current structure of the Kuwaiti economy. Estimates from the macrobalance and equilibrium real exchange rate assessment methodologies show that the real exchange rate is broadly in line with fundamentals, while estimates from the external sustainability approach give inconclusive results (Appendix II). On balance, staff believe there is no compelling evidence that the exchange rate is misaligned. Various external indicators reinforce the stability of the external sector. Central bank reserves have remained stable in the range of about 6.5–8 months of imports over the past few years while the sovereign wealth fund (Kuwait Investment Authority) has an estimated $550 billion at end-2013. The availability of cheap migrant labor keeps labor costs down and inflation moderate. The real effective exchange rate has been stable.

15. The overall fiscal stance is expansionary until FY 2015/16 as some expenditures (e.g. foreign aid and subsidies) were shifted from the last year to the current year.[5] However, some consolidation is envisaged thereafter, and this is appropriate in the context of fiscal sustainability. Staff's model-based analysis suggests that the government has the space to undertake more capital spending, while underlining the need to contain current spending growth (Selected Issues Paper I). This is in line with the authorities' view, and staff projections incorporate higher capital spending.[6] The draft new Development Plan (DP) (2015–19) envisages an annual average public investment of KD 6.3 billion ($22 billion) in water, power, transportation and oil sectors.

Optimal vs. Projected Investment Spending, 2014–19

(KD millions)



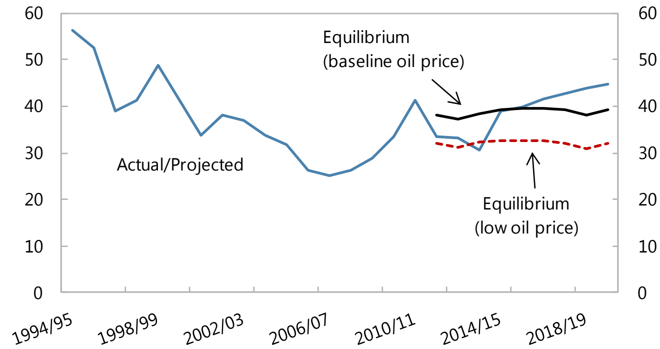
Source: IMF staff calculations.

[5] This is based on the non-oil balance as percent of non-oil GDP, excluding pension recapitalization.

[6] The estimates are based on a finite-horizon precautionary saving-investment model, in which oil income uncertainty is taken into account and investment affects the growth path. If the Development Plan is implemented fully, public capital spending would probably be close to the model estimate. However, according to the model, investment should contribute to export growth, requiring initiatives to support the tradable sector development.

16. Staff and the authorities agreed that the implementation of the proposed measures to contain the non-oil deficit should commence in the near term, since delays would result in the widening of this deficit and require larger adjustment in the future. Staff's calculations show that the non-oil primary deficit is projected to exceed the long-term sustainable level indicated by intergenerational equity considerations by about 5 percent of GDP by 2019 (12 percent of GDP if oil prices are 20 percent lower). The authorities agreed with staff that containing current spending growth and prioritizing capital spending would further strengthen the fiscal position and ensure fiscal sustainability. The need for medium-term fiscal restraint would be larger and more urgent in a scenario of lower oil prices.

Government Non-oil Primary Deficit, 1994/95–2018/19 1/
(Percent of GDP)



Sources: Country authorities; World Economic Forum; and IMF staff calculations.
1/ The baseline calculations assume long-term values of the real rate of return of assets, inflation, and population growth of Kuwaiti nationals of 4 percent, 2 percent, and 1.4 percent, respectively. Oil reserves are assumed to be depleted by 2075 and the oil price to be at $93 per barrel in 2019 and remain constant in real terms thereafter. The lower oil price scenario assumes oil prices are 20 percent lower than in the baseline scenario (which leaves the 2014 average at around $82 and the 2019 price at around $75).

17. Staff and the authorities agreed that reduction in the non-oil fiscal deficit over the medium term can be obtained with a number of options:

- A gradual phasing-out of subsidies (9 percent of GDP), with a social safety net in place and other mitigating measures (e.g. cash transfers) and a well-designed communication strategy to get the buy-in of the middle class, would generate substantial savings. This would have to be implemented in a manner that would not increase inflationary pressures.
- Curtailing the increase in government jobs and keeping the growth in compensation constant in real terms would result in saving of 0.8 percent of GDP in 2015 and an average of about 1.5 percent of GDP per year in the medium term.
- A review of various transfers to enterprises and households, goods and services spending, and other current expenditures, about 15 percent of GDP, is warranted to rationalize spending and explore potential savings. Pension reform is a potential candidate for spending rationalization.
- Subjecting Kuwaiti companies to corporate tax and lowering the rate to 10 percent from 15 percent, abolishing the National Labor Support Tax and the tax for the Kuwait Foundation for the Advancement of Sciences, and making Zakat creditable against the corporate tax, has the potential to increase revenues by 1.8 percent of GDP. Implementation of the value added tax (VAT) could yield an additional 2.3 percent of non-oil GDP. Thus, the combined revenue-increasing potential of these taxes is 2.9 percent of GDP. Revising fees for public services would constitute an additional source of non-oil revenues.

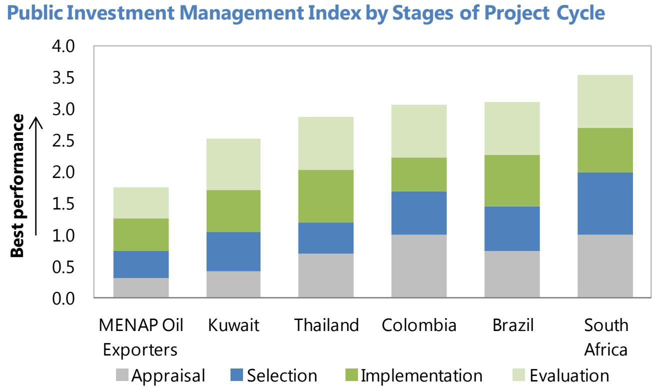
18. The government has started implementing reforms to contain current spending. The cabinet has decided to increase diesel and kerosene prices from 55 fils per liter to 170 fils per liter (with potential saving of 0.5 percent of GDP). Some allowances for Kuwaitis travelling for healthcare abroad have been rationalized. The government is in advanced stages of sending a proposal to the cabinet for reducing subsidies for electricity. The government's proposal on a tariff structure for electricity based on a sliding scale of usage would generate revenues of about 1 percent of GDP each year and a reduction in usage by 20 percent. Staff suggested that over the medium term, policies need to be implemented to eliminate the gap between the reference price (domestic production cost with some remuneration for capital in the sector) and the current tariffs.

19. Staff and the authorities were of the view that to generate broad public support, a successful subsidy reform entailed (i) a comprehensive reform plan with impact assessment studies, (ii) appropriate phasing of price increases, (iii) a far-reaching communication strategy raising awareness about the cost of subsidies and the benefits of reform, and (iv) targeted mitigating measures, especially to protect the vulnerable segment of the population. The government is actively engaged on these fronts.

20. The government is also considering a public sector wage reform, on which staff made suggestions. The objectives of the reform include revamping the current payroll system, linking performance management with promotions, standardizing salaries across public sector jobs, and moving to a system of salary indexation with periodic rebasing. Staff welcomed this development as it would simplify the wage structure, but suggested design changes since the proposal left room for arbitrary increases in salaries during the rebasing year and did not address the issue of containing employment growth. Staff suggested the Ministry of Finance be given powers to set wage bill ceilings or overall expenditure limits as part of the medium-term fiscal framework to contain arbitrary wage increases during the rebasing. Moreover, staff also emphasized that reducing the wage gap between public and private sector jobs to create incentives for nationals to take up private sector jobs, and restraining the increase in public sector employment should be part of the reform. Introducing skills testing for new and existing staff is a possibility. Wage subsidies need to be reviewed to retain the original intention of it being temporary. The authorities agreed that the development of the private sector and focusing on diversification should reduce the need to absorb new entrants into the public sector.

21. There was consensus between staff and the authorities on the need for prioritizing capital expenditure towards social and physical infrastructure projects, accompanied by measures to improve efficiency, to support growth.[7] Staff highlighted that the higher capital spending should be accompanied by improved efficiency of public investment, consistent

Public Investment Management Index by Stages of Project Cycle



Source: Dabla-Norris et al, IMIF 2011, Country Authorities, Fund staff estimates.

[7] Containing current spending while maintaining capital spending would mitigate the negative impact on growth, as the multiplier for capital spending is estimated to be above 1 while that on current spending is estimated to be below 1.

with the broader diversification goals, and integrated with the budget formulation process. Although Kuwait compares better than oil exporters in the MENA region in terms of public investment management, it falls behind when compared to other emerging market economies. In the near term, staff and the authorities identified actions needed to improve efficiency that would include adopting a general strategy to modernize the procurement system, raising the oversight of public investment projects by increasing the transparency on decisions related to such projects, preparing an infrastructure needs assessment and effectively implementing the anti-corruption framework, and assessing the state of the public investment management system. Over the medium term, the framework for managing public investment should be revamped, particularly by developing the medium-term expenditure framework, the appraisal of investment projects, and by introducing a systematic ex-post evaluation of projects (Selected Issues Paper II).

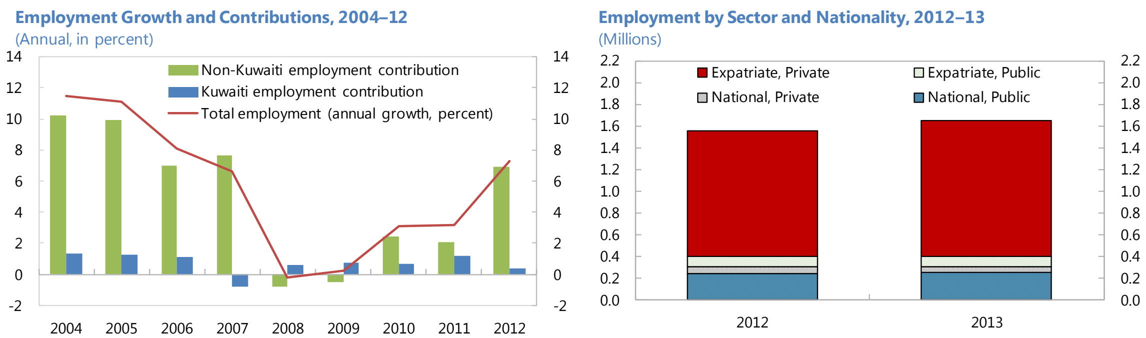
22. The government recognizes the importance of making more rapid progress in establishing a fiscal policy framework to lessen fiscal policy uncertainty. It would entail developing a medium-term macroeconomic framework to provide multiyear projections of key economic variables, a medium-term fiscal framework (MTFF) to provide multiyear targets or ceilings on aggregate fiscal variables; and a medium-term expenditure framework to translate the overall budget envelope into a set of multiyear expenditure ceilings and policies for the main spending ministries (Selected Issues Paper I). These elements will lay a strong foundation for the public finance management reform underway with the help of the World Bank. The macro-fiscal unit can play an important role in this process.

B. Fostering Sustainable Growth

23. The main challenge facing the country is to strengthen growth potential. Action would be needed, including boosting on infrastructure investment, improving the business environment and the functioning of product markets, and labor market reforms. The government's new five-year Development Plan (DP, 2015–19) is scheduled to be placed before parliament shortly. Given underexecution of spending and delays in initiating and completing priority projects in the previous plan, the new plan attempts to set realistic targets that are consistent with the overall economic objectives and improve execution of the projects. Staff underscored the importance of monitoring and ensuring implementation of the DP to sustain investment and support non-oil growth over the medium term. The authorities explained that the new plan has indentified impediments to execution and is focusing on reforms to support governance in the private sector, long-term investment reform strategy, improve efficiency of public investment by eliminating procedural obstacles and improving public procedures services, improve business environment by fighting corruption and improving transparency and accountability in the public sector.

24. Efforts by the government to diversify the economy are paramount to reduce Kuwait's dependence on oil and to generate private sector jobs for nationals. Although removing impediments in physical, legal, and business infrastructure is important, aligning incentives of firms and workers is the missing link in the diversification strategy (Figures 8–10). Improvements in the quality of education, and skill development; reducing distortions that lead to reliance on foreign labor, thereby increasing private sector employment opportunities for nationals (Figure 3); and implementing reforms that encourage tradable goods and services production are essential (Box 1). Developing SMEs, with the support of the KD 2 billion National Fund for SME Development, is important as a source of job creation for nationals, economic diversification, including promoting non-oil exports, and sustainable growth (Selected Issues Paper III).

Figure 3. Labor Market Indicators



Sources: Country authorities; and IMF staff calculations.

25. As Kuwait advances its diversification agenda, banks will need to reorient business strategies towards maintaining a more diversified asset portfolio. They will also need to improve their capacity to assess credit risk. The lack of diversification contributes to sectoral concentrations in loan portfolios of both conventional and Islamic banks, particularly in real estate. Greater focus on improving the risk management of the growing Islamic banks' segment becomes especially important as their business model is based on risk-sharing with clients.

Developing domestic debt markets would bring important benefits, such as raising funding for the large infrastructure investment programs. Expediting the legal framework for the issuance of sukuk would help deepen this market. The Capital Markets Authority (CMA) is currently reviewing the draft law for sukuk issuance.

Box 1. Kuwait–Diversification Efforts Have to Start Now

Achieving a diversified export base and high export sophistication, which are major ingredients of sustainable growth, takes decades, and Kuwait with more than 95 percent of goods exports in oil, has to start this process now. The government should play a key role in skill development of nationals and actively increase incentives of firms to move into tradable production.[1]

Skill development should start at an early stage. The quality of early childhood education determines long-lasting outcomes and mainly works through positive effects on non-cognitive skills. More positive social behavior and improved academic motivation rather than higher IQs helped children obtain higher test scores later in life. Kuwait has a high gross pre-school enrollment rate, but lags behind in quality. Improving teacher quality, which is highly correlated with young students' achievements, is paramount.

Fostering a spirit of self-reliance and creativity is another element in the development strategy. Korea's "Saemaul Undong" provides an example of a social program that succeeded in changing attitudes of citizens to support development. The main elements were first, to encourage communities to undertake small-scale projects to improve their surrounding environment, followed by the investment in income-generating projects and infrastructure. The government helped with funding and provided support in type of projects, leadership, accountability, regional/national coordination, and technical assistance. For Kuwait this means that they need to have a dialogue with the population on moving to a less distributive model of sharing the oil wealth, and which encourages private initiative.

Successful diversification strategies in Indonesia, Malaysia, and Mexico have relied on policies to create linkages in the existing industries and foster new industries with an emphasis on competing in international markets and technological upgrade to climb the "quality ladder." As was done in Korea, the key element in providing state support is a strong governance and accountability framework in which the top management is responsible for the funds they receive. Cross-country experience shows that subsidies to support exporters and taxes on firms in the non-tradables, access to financing and business support services through development banks and export promotion agencies, and the creation of special economic zones, industry clusters, research and development centers, and start-up incubators have been used to promote one goal to develop tradable sectors and encourage firms to export. "System integrators" in the form of large firms have been created or encouraged to spearhead the development of large tradable sectors such as automotive or shipbuilding.

Taiwanese and Norwegian experiences provide interesting case studies in developing local firms and clusters. In 1980, a Taiwanese Venture Capital (VC) initiative provided financial incentives and tax credits to encourage firms to set up business in the newly created Science Park after failing to attract multinationals. Two funds were established and run by U.S.-educated Chinese, who were invited to relocate there. The venture proved successful and large banks, corporates, and even conservative family conglomerates started creating their own VC funds in information technology businesses. In Norway, in the 1970s, the government intervened directly in the procurements of oil operators to develop oil suppliers' cluster and required foreign operators to develop the competencies of local suppliers. The government also imposed a minimum of 50 percent of research and development spending to develop an oil field to take place in Norwegian entities. The government continued to support the suppliers over the years to encourage firms to internationalize their activity. Eventually, the suppliers' cluster became successful, spanning a large array of high value added industries.

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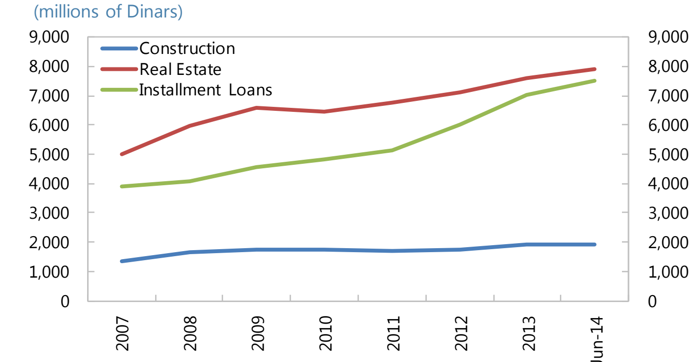
[1] For more details, see the presentations at the high-level conference on "Economic Development, Diversification, and the Role of the State", held in Kuwait City on April 30-May 1, 2014 (http://www.imf.org/external/np/seminars/eng/2014/mcd/), and Reda Cherif and Fuad Hasanov, 2014, "Soaring of the Gulf Falcons: Diversification in the GCC Oil Exporters in Seven Propositions," IMF Working Paper 14/177.

C. Strengthening Financial Stability and Intermediation

26. Banks are amply capitalized and liquid with stable profits, reflecting prudent regulations by the Central Bank of Kuwait (CBK). Banks have a combined capital adequacy ratio of 18.3 percent, falling gross non-performing loans (NPLs) of 3.5 percent (driven by a combination of lower NPLS in real estate and equity, a pick-up in loan growth and continued write-offs of loans), and a growing provisioning ratio (general plus specific provisions) of 139 percent at end-June 2014 (Figure 11). The CBK has introduced Basel III capital regulations for conventional and the growing Islamic bank segments, including a framework for domestic systemically important banks, which will increase the regulatory capital of banks significantly, as well as regulations on leverage ratio. Regulations on short-term liquidity are in advanced stages of preparation. Banks are highly liquid with 30 percent of total assets in the form of liquid assets at end-June 2014, and the central bank does not envisage any problems with banks being able to comply with liquidity and leverage ratios when the regulation comes into effect. The Islamic banking sector has grown rapidly and now constitutes a major component of Kuwait's national banking and the overall financial system.[8] CBK regulations are designed to ensure a level playing field between conventional and Islamic banks, while taking into account the unique features of Islamic banking (Selected Issues Paper IV).

27. The CBK has been proactive in introducing macroprudential regulations in line with international practices to mitigate potential financial stability risks.[9] The main source of vulnerability to the banking system comes from credit concentration to the corporate sector and real estate, given the structure of Kuwait's domestic market, which the central bank regulates through concentration limits. The main sectoral exposures of banks are in real estate, equity and household lending, the latter two regulated through ceilings on equity investments and debt-to-income limits, respectively. Having tracked increased activity in real estate, the central bank introduced a loan-to-value ratio for residential real estate for investment purposes of individuals in November 2013, to limit financial stability risks, which staff welcomes. Staff has also observed that activity has been recently increasing in investment properties and commercial real estate segments of the real estate market, which the central bank is closely watching and ready to use macroprudential tools to limit potential stability risks to the banking system arising from this sector.

Utilized Cash Credit Facilities, 2007–14
(millions of Dinars)



[8] The market share of the local Islamic banks has increased from 23 percent of banking system assets at end-2005 to 39 percent by end-June 2014.

[9] The status of compliance with FSAP recommendations are given in Annex II.

28. The systemic risk from ICs is contained due to a combination of ring-fencing of banks exposures to ICs and strengthening of the regulatory oversight, but the sector is vulnerable to swings in real estate and financial markets. ICs in Kuwait are mainly investment vehicles, and do not perform a major role in credit intermediation. Although the sector as a whole is making profits, a few ICs continue to make losses and some of them are under protracted restructuring (Figure 12). Staff was of the view that stronger regulatory oversight by the CMA is needed to strengthen this sector and engender consolidation in view of its interconnectedness to the rest of the financial system. The completion of the new draft corporate bankruptcy law could help expedite the restructuring of some loss-making ICs, and implementation of the corporate governance code would help strengthen the sector, on which the CMA is planning a communication campaign to ensure that companies adopt it by the extended deadline of June 2016. The CMA expalined that it conducts onsite and offsite supervision of ICs and funds under its supervision, and imposes minimum capital requirements, and regulations on liquidity and leverage, which are constantly under review. The CMA is also conducting a major review of its by-laws, and working toward harmonizing listing and disclosure requirements for funds.

Kuwait Investment Sector 1/
(in Billions of US Dollars)

	Q1 2014	2013	2012	2011	2010	2008
Total assets	48.23	47.33	44.70	39.96	42.04	45.62
Cash	3.93	3.40	2.79	1.55	1.56	1.82
Equity (Paid up +reserves)	9.82	10.01	9.61	10.71	12.16	13.56
SH Equity	9.51	9.59	8.68	9.37	10.26	11.52
Total Liabilities	35.40	34.36	32.69	27.93	29.31	31.86
Net Profit Before Tax	0.14	0.29	-0.40	-0.51	-0.75	-2.60

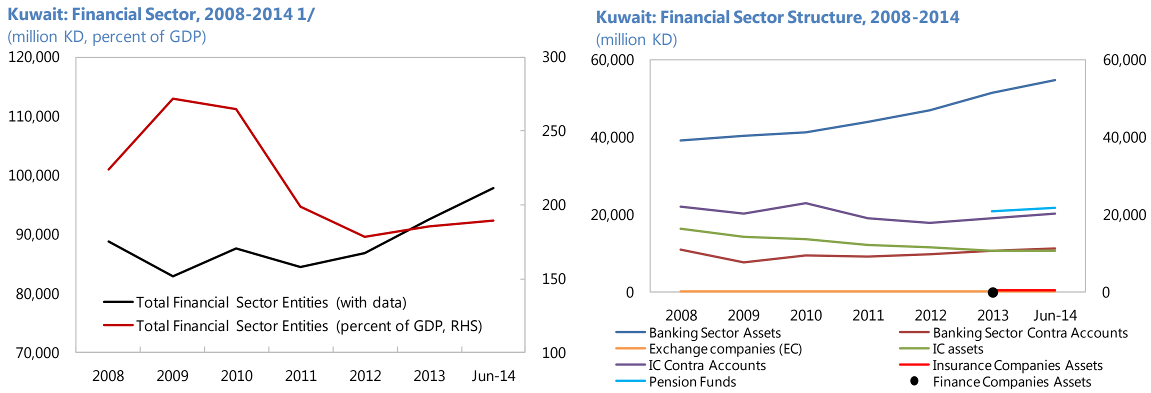
Source: Staff calculations based on Zawya balance sheets

1/ Based on 39 out of 51 listed investment companies that have published their 2013 Q4 financials as of end-March 2014.

29. Measures of shadow banking vary widely for Kuwait depending on the definition used (Selected Issues Paper V).[10] Staff and the authorities shared the view that shadow banking provides important complementarities to the banking system, and regulation and supervision should focus on strengthening the monitoring of shadow banking institutions and activities with an emphasis on those that pose systemic risks to financial stability (Figure 4). Increased monitoring of shadow banking (activities and entities), including expanding data coverage for Other Financial Corporations operating in Kuwait as well as data sharing among regulators, together with a formal macroprudential policy framework, would allow for an early, reliable and comprehensive identification, assessment and containment of systemic risks.

[10] Staff's assessment shows that measures of shadow banking for Kuwait vary between 2 percent of GDP (activity-based) and 60 percent of GDP (institution-based) depending on the definition used, and are subject to important data limitations. The ICs, which account for a major share of the institution-based measure of shadow banking is regulated by the CMA.

Figure 4. Financial Sector Structure



Sources: Country authorities; June 2014 Fitch Report (for Public Sector Pension Funds assets); and IMF staff calculations.
1/ Assets for Insurance Companies only included starting in 2013. Pension Funds' Assets not included.

30. **Continued coordination between the regulatory and supervisory bodies and enhanced surveillance tools will facilitate effective monitoring and management of potential systemic risks.** Such a framework should include (i) strengthening the macroprudential arrangements for policymaking and coordination through a formal mandate (ii) further strengthening the Early Warning System (EWS) for identifying and monitoring systemic risks, including expanding early warning indicators for the corporate and real estate sectors, and making macro stress testing an integral part of systemic surveillance; (iii) enhancing the existing macroprudential toolkit; and (iv) implementing structural measures over the medium term, including further developing domestic interbank money and debt markets to support liquidity management, modernizing the insolvency regimes and supporting judiciary framework, and strengthening crisis management and resolution systems. The CBK should be provided with enhanced powers in this regard (Selected Issues Paper VI).

31. **The authorities continue to strengthen the Anti Money Laundering/Combating of Financing of Terrorism (AML/CFT) framework, and looks forward to their continuing work with the Financial Action Task Force.** A Fund technical assistance project supported the authorities in developing and adopting an AML/CFT law and regulations in line with international standards, establishing a high level AML/CFT National Strategic Committee, setting up the Financial Intelligence Unit (FIU) under the oversight of the Minister of Finance that became recently operational, and establishing comprehensive mechanisms to freeze terrorist assets. Going forward, Kuwait is expected to continue improving the effectiveness of the AML/CFT regime, and strengthening the role of the FIU.

D. Other Issues

32. Staff acknowledges the progress made in improving Kuwait's statistical system, particularly in the area of national income, trade and labor data, and encourages the authorities to further their efforts in improving all areas of economic data, including through cooperation with GCCStat.

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33. The economic outlook for Kuwait remains favorable. Non-oil GDP growth in Kuwait is expected to further accelerate to 4.0 percent in 2015, and is projected to increase to 4.5–5.0 percent in the medium term in the baseline scenario. It is vital for the government and the parliament to agree on an agenda to place the public investment program on track, and continue with economic reforms to achieve this growth.

34. The fiscal position is currently strong but restraint in current spending is needed to preserve buffers and increase saving for future generations. A medium-term fiscal strategy is required to drive reforms, the elements of which would include containing current expenditure growth, particularly subsidies and wages, prioritizing capital expenditure, and increasing non-oil revenue. Subsidy reform needs to be supported by an effective communication strategy raising awareness about the cost of subsidies and the benefits of reform, and accompanied by targeted mitigating measures, especially to protect the vulnerable segment of the population. The proposed wage reform would be more effective if it operates within overall expenditure limits, aligns incentives for reducing the wage gap between public and private sector jobs and contains public employment.

35. Prioritizing capital expenditure towards social and physical infrastructure projects would help strengthen growth. Higher capital spending should be accompanied by improved efficiency of public investment, and integrated with the budget formulation process. Drawing lessons from experience with the current DP (2010–14), which fell short of targets, the new plan (2015–19) should set realistic targets that are consistent with the overall economic objectives and increase safeguards to ensure better implementation. A cost-benefit analysis of mega projects is warranted.

36. A key challenge will be to strengthen the fiscal policy framework to support fiscal reforms. Medium-term fiscal framework would support implementation of the desirable fiscal measures. Strengthening the macro-fiscal unit would facilitate preparation of macroeconomic forecasts and improve revenue and expenditure projections. Other elements would include the combining medium-term frameworks with the annual budget process, while preparing for an adoption of fiscal rules. The implementation of a public investment management system would help increase the efficiency of public investment.

37. While the current regulatory framework has effectively contained financial risks, enhancing the macroprudential policy framework would further strengthen systemic stability. Effective and prudent regulation by the central bank has ensured high capitalization and provisioning and maintained banking system stability. Developing a formal macroprudential framework that gives the CBK a formal mandate for ensuring financial stability and enhanced coordination across regulators would further contribute to financial stability. The macroprudential policy framework should consider further strengthening the central bank's early warning system for identifying and monitoring systemic risks, with macro stress testing being an integral part of systemic surveillance, and the use of macroprudential policies in a countercyclical manner.

38. The systemic risk from ICs is contained, but strengthened oversight and governance, and some consolidation is required to prevent potential financial stability risks. The completion of the new draft of corporate bankruptcy law, with support from an effective oversight and communication campaign by the Capital Markets Authority, could help expedite the restructuring of some loss-making ICs, engender consolidation, and ensure implementation of the corporate governance code by June 2016.

39. Economic diversification into areas with potential for national employment should constitute a key policy priority. Improving the business environment, infusing stronger governance in public administration, and providing a greater role for small and medium-sized enterprises, are needed to take this agenda forward. In addition a number of policy measures such as strengthening private sector competition, implementing labor market reforms, and limiting government employment could help realign incentives for firms and national workers to promote entrepreneurship and pursue private sector jobs. For instance, a review of competition policy law and its implementation and of policies related to procurement procedures and barriers to entry of new firms could help increase competition. Diversification could benefit from integrating the private sector through backward and forward linkages in upstream and downstream input industries.

40. Further developing domestic financial markets will help the diversification process and reduce concentration risks. Developing domestic debt markets would bring important benefits, such as providing alternatives to funding large infrastructure investment projects. Expediting the legal framework for the issuance of sukuk would help deepen this market.

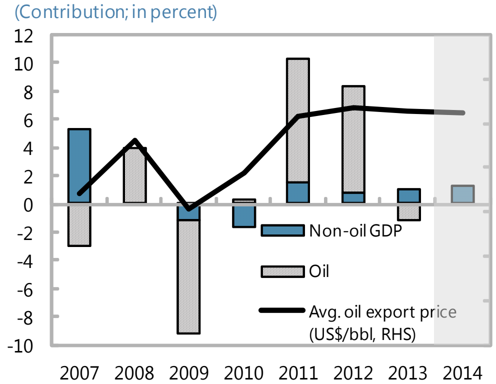
41. Considerable progress has been made in improving the quality and availability of key economic data. Staff encourages the authorities to further their efforts in improving all areas of economic data, particularly in the areas of government finance, national accounts and real estate market statistics, including through cooperation with GCCStat.

42. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

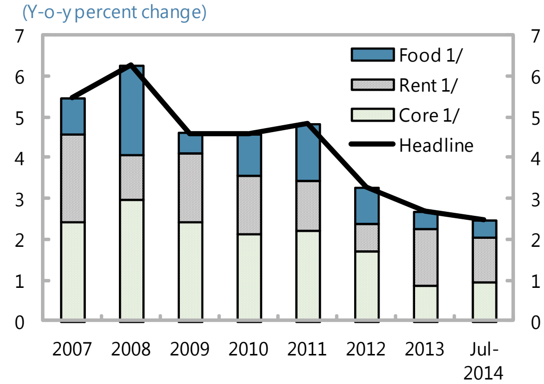
Figure 5. Recent Macroeconomic Developments

Non-oil growth picks up as spending increases, inflation is stable, and current account and fiscal surpluses are large

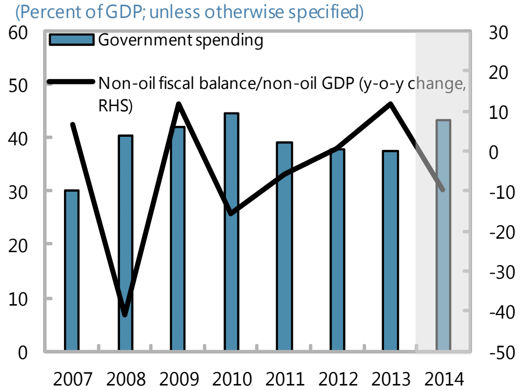
Real GDP Growth, 2007–14
(Contribution; in percent)



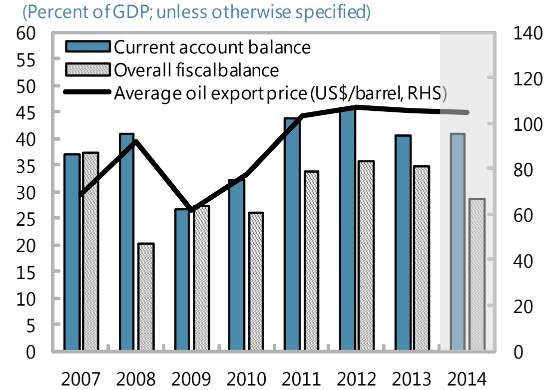
Headline and Core Inflation, 2007–14
(Y-o-y percent change)



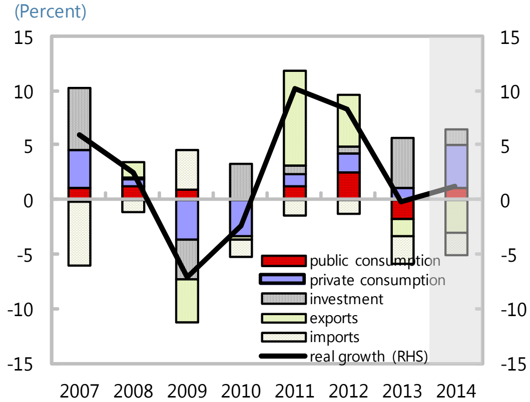
Government Spending, 2007–14
(Percent of GDP; unless otherwise specified)



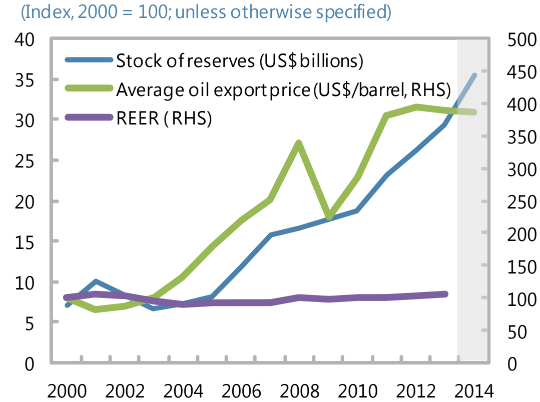
Fiscal and Current Account Balances, 2007–14
(Percent of GDP; unless otherwise specified)



Contributions to real GDP growth, 2007–14
(Percent)



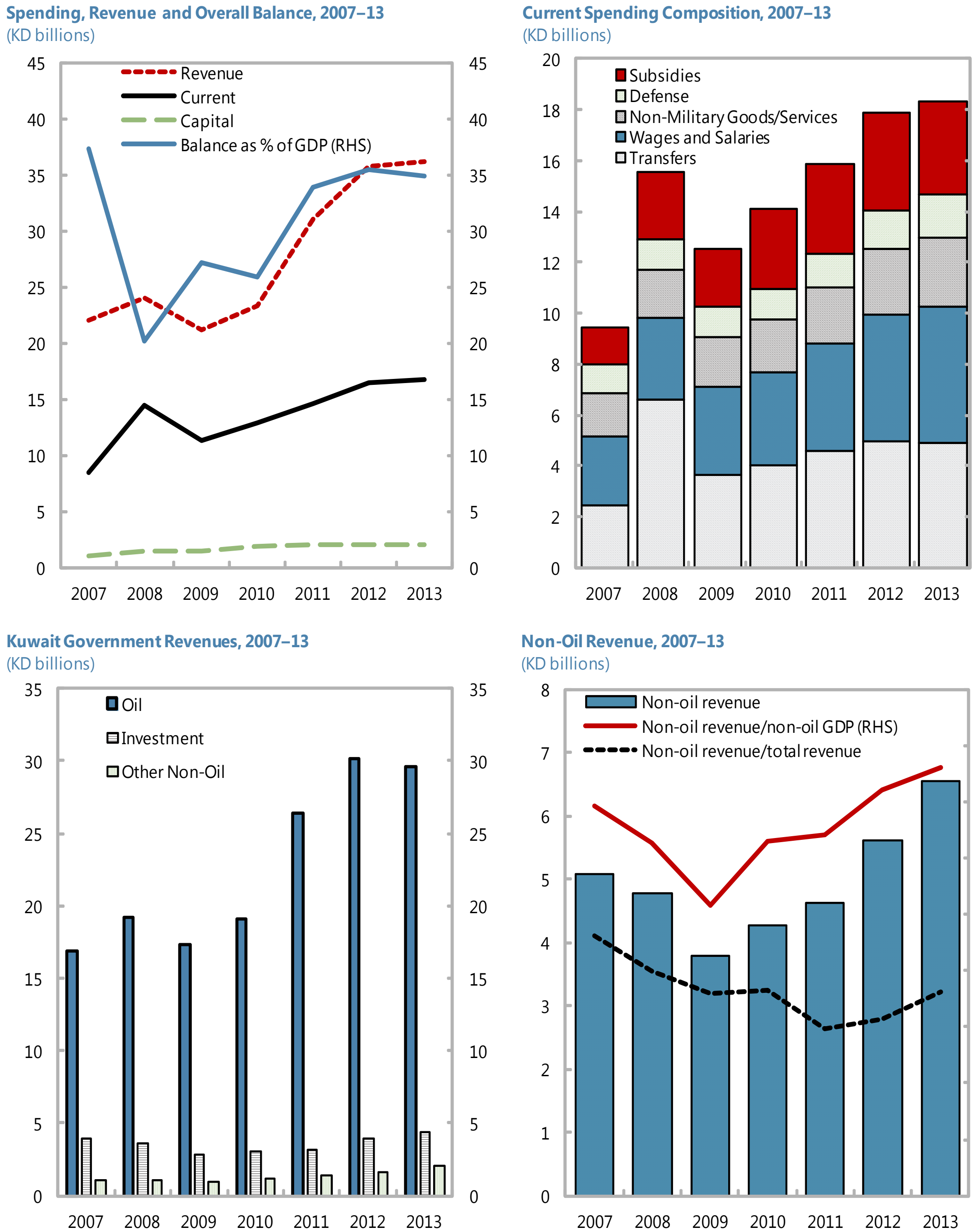
Total International Reserves, Oil Prices, and REER 2000–2014
(Index, 2000 = 100; unless otherwise specified)



Sources: Country authorities; EDSS; Haver; and IMF staff calculations.
1/ Contribution to headline CPI inflation.

Figure 6. Fiscal Developments

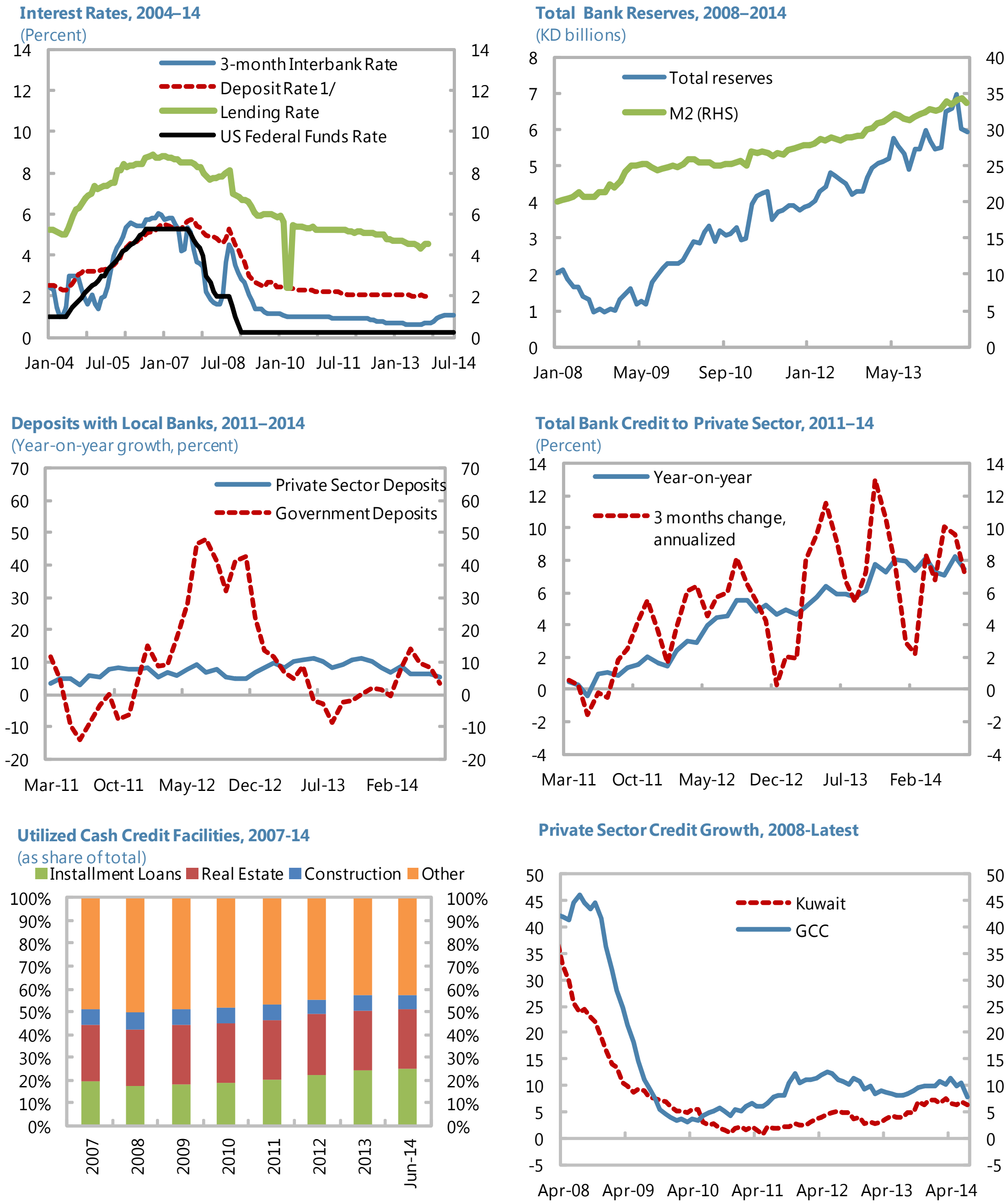
Despite an increase in current spending, fiscal surpluses are high due to high oil prices



Sources: Country authorities; and IMF staff calculations.

Figure 7. Monetary Developments

Deposits, liquidity, and bank credit are growing as interest rates are stable

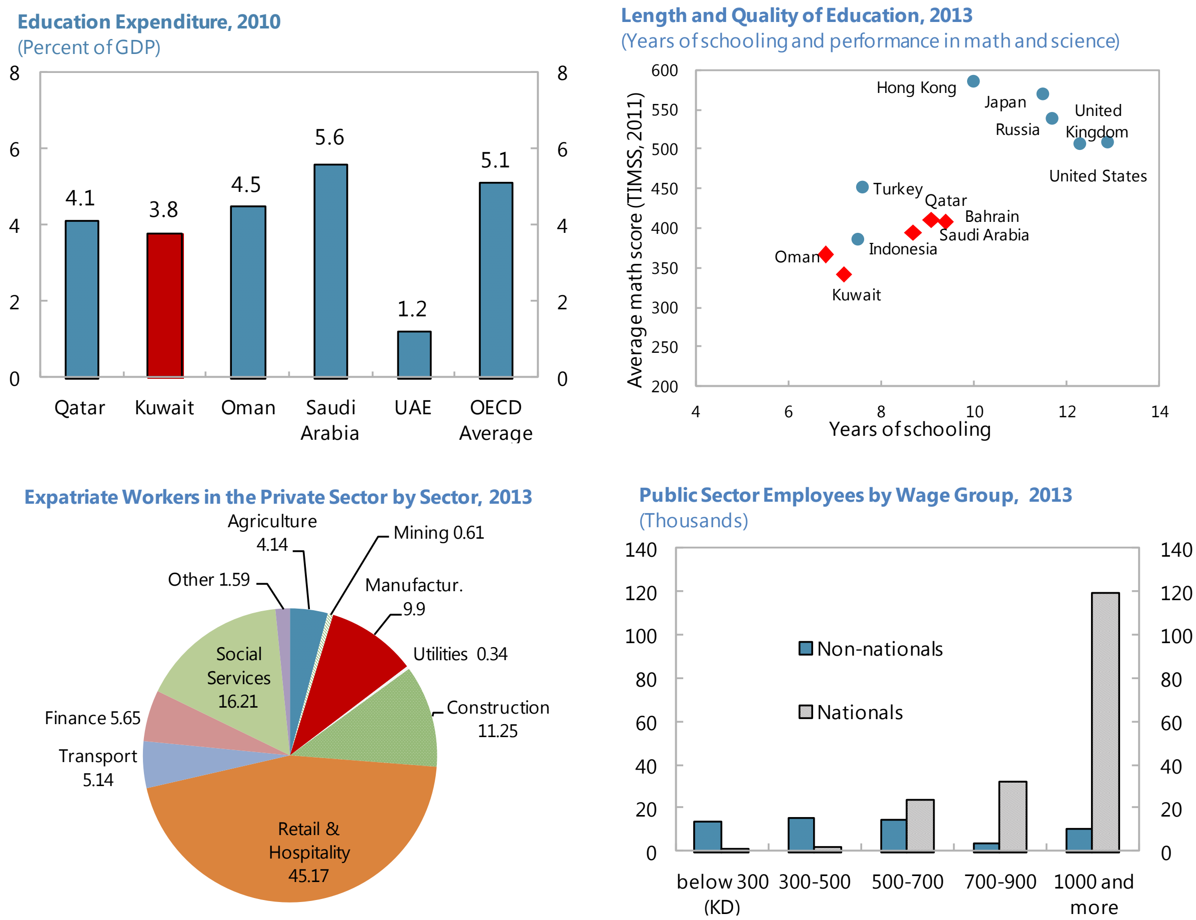


Sources: Country authorities; EDSS; Haver; and IMF staff calculations.

1/ Weighted average.

Figure 8. Education and Labor Market Indicators

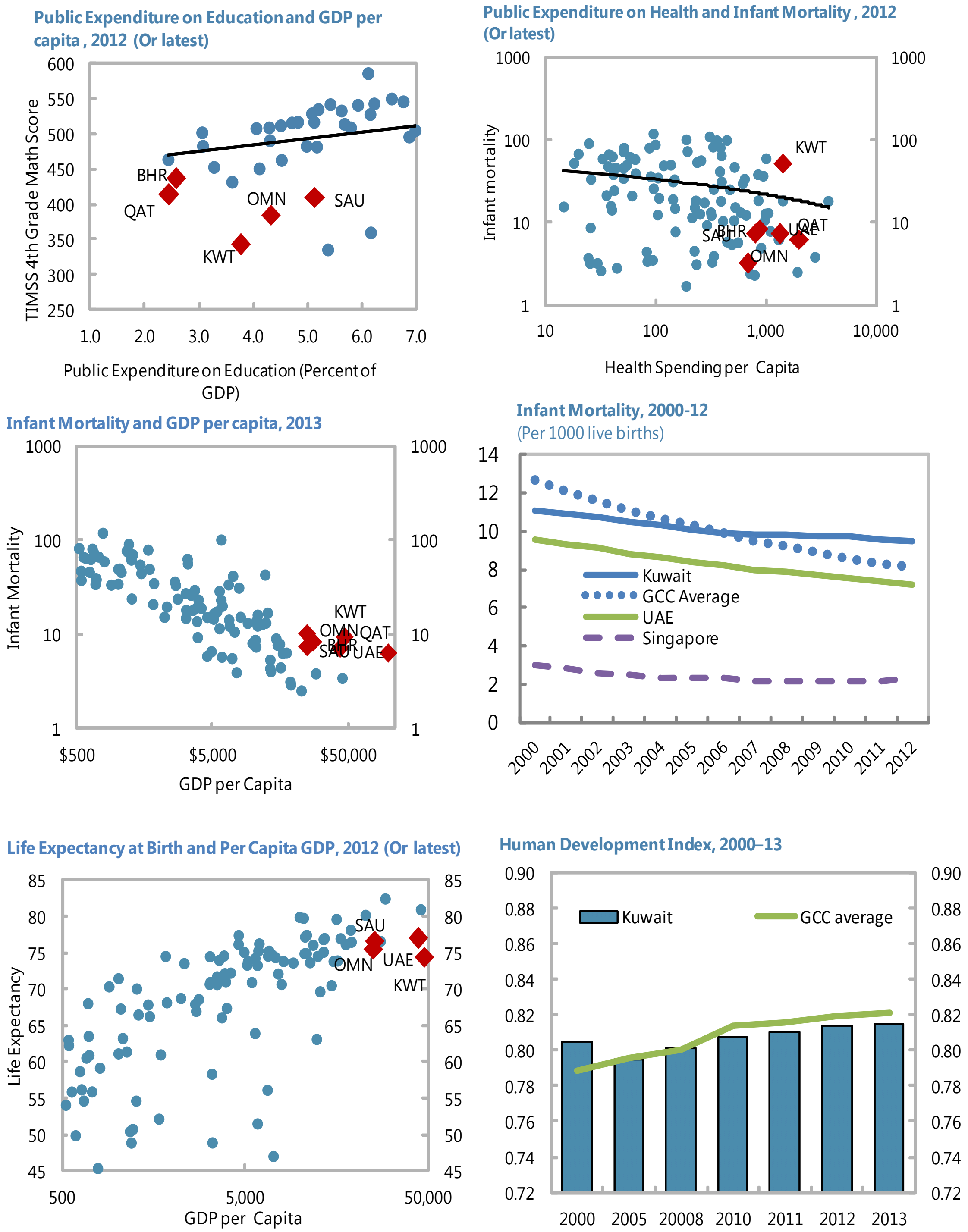
Kuwaitis are employed mostly in high-earning public-sector jobs while education is lagging behind



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

Figure 9. Social Indicators

Kuwait has improved in social indicators but is lagging behind given its high income



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

Figure 10. Institutions and Governance Indicators

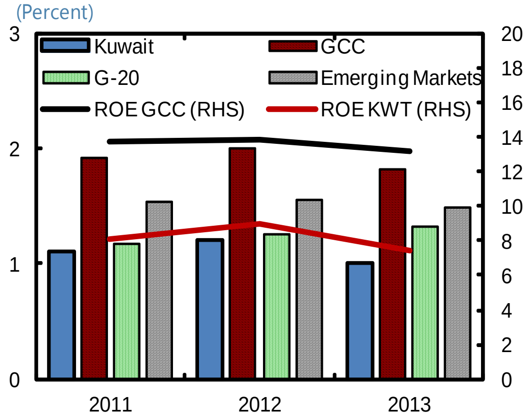
Improvements in regulations, business climate, and infrastructure are needed

Sources: World Bank: *World Governance Indicators*; Fraser Institute: *Economic Freedom in the World*; UNDP: Human Development Index, TIMSS.

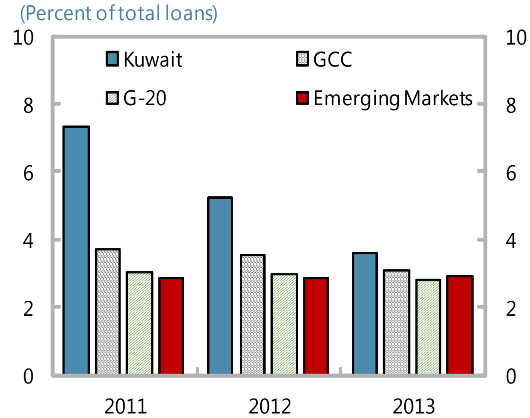
Figure 11. Financial Developments

Banking sector is sound while real estate markets have been improving

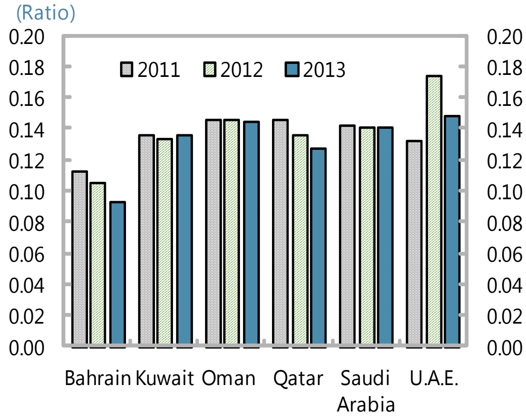
Return on Assets
(Percent)



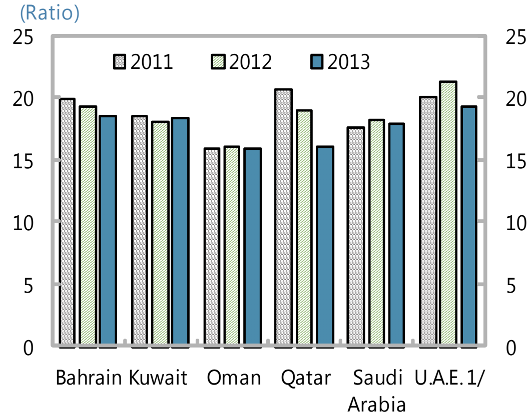
Nonperforming Loans
(Percent of total loans)



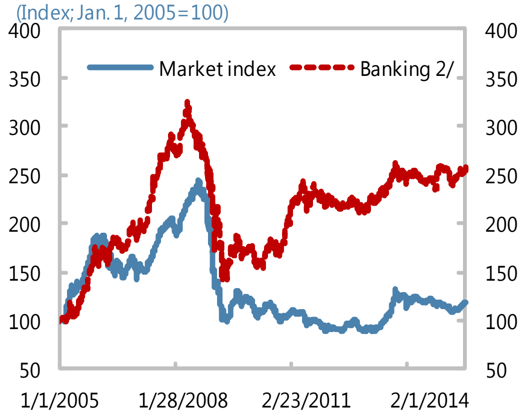
Leverage ratio
(Ratio)



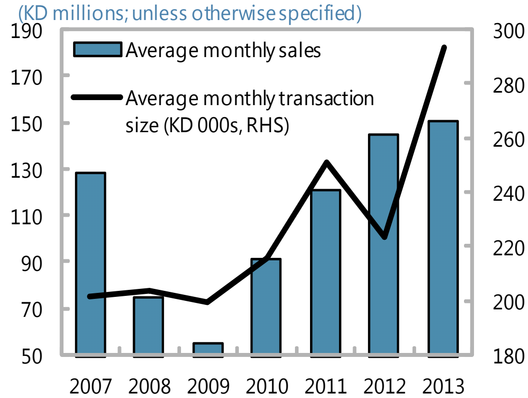
Capital Adequacy Ratio
(Ratio)



Equity Prices, 2005–14
(Index; Jan. 1, 2005=100)



Real Estate Statistics, 2007–13
(KD millions; unless otherwise specified)



Sources: Country authorities; Kuwait Stock Exchange; NBK reports; and IMF staff estimates.
1/ Local banks only.
2/ Previous banking index has been discontinued and the new index starts from May 12, 2012.

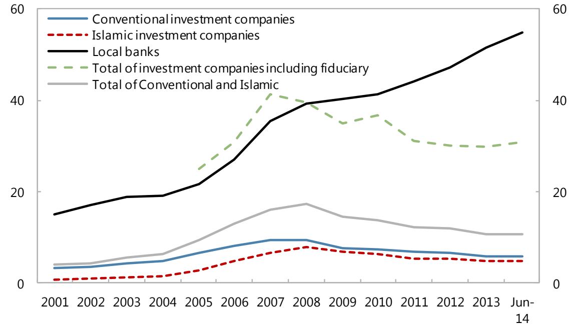
Figure 12. Investment Companies' Operations

Investment companies are deleveraging, but market risks remain

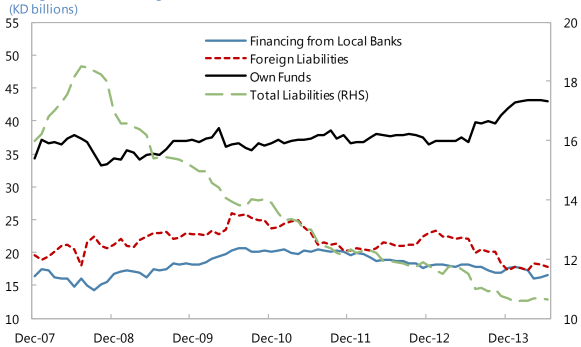
Investment Companies' Operations
(KD billions)

		2002	2005	2007	2008	2009	2010	2011	2012	2013	June 2014
Investment companies											
Conventional											
	Number	27	33	40	46	46	46	44	43	42	41
	Assets	3.5	6.7	9.2	10.3	7.6	7.3	6.9	6.6	5.9	5.8
Islamic											
	Number	11	23	38	53	54	54	51	50	50	50
	Assets	4.3	9.4	6.6	7.8	7.0	6.5	5.4	5.2	4.8	4.8
Total		7.8	16.1	15.8	18.1	14.6	13.7	12.3	11.9	10.7	10.6
Off-balance sheet											
	Assets		15.5	24.6	22.2	20.4	23.1	19.0	18.2	19.1	20.2
Total											
	Number	38	56	78	99	100	100	95	93	92	91
	Assets	7.8	31.7	40.4	40.3	35.0	36.8	31.3	30.1	29.8	30.8
Percent of GDP			105.9	132.4	99.8	114.9	103.4	70.3	62.5	59.7	59.7
Percent of banking assets			115.6	116.5	100.9	86.9	88.9	70.8	63.8	57.9	56.2

Assets
(KD billions)



Foreign Liabilities (through June 2014)
(KD billions)



Foreign Assets (through June 2014)
(KD billions)

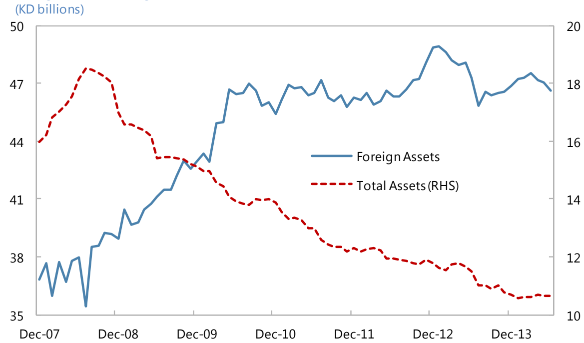


Table 1. Kuwait: Selected Economic Indicators, 2007–15

(Quota: SDR 1,381.1 million)
(Population: 3.97 million; Dec. 2013)
(Per capita GDP: $44,700; 2013 estimate)
(Poverty rate: n.a.)
Main export: oil

						Prel.	Proj.		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Oil and gas sector									
Total oil and gas exports (billions of U.S. dollars)	59.1	82.6	48.9	61.8	96.7	112.9	108.5	106.0	102.7
Average oil export price (U.S. dollars/barrel)	68.4	92.2	61.5	77.7	103.3	107.1	105.5	104.7	101.4
Crude oil production (millions of barrels/day)	2.57	2.68	2.26	2.31	2.66	2.98	2.93	2.93	2.94
	(Annual percentage change, unless otherwise indicated)								
National accounts and prices									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	32.6	39.6	30.5	33.1	42.5	48.7	49.9	50.7	51.1
Nominal GDP (market prices, in billions of U.S. dollars)	114.7	147.4	106.0	115.4	154.1	174.1	175.8	179.6	181.1
Real GDP (at factor cost)	6.0	2.5	-7.1	-2.4	10.2	8.3	-0.2	1.3	1.7
Real oil GDP	-4.7	6.5	-12.9	0.5	14.6	12.2	-1.8	0.0	0.3
Real non-oil GDP	14.0	0.0	-3.2	-4.1	3.6	1.9	2.8	3.5	4.0
CPI inflation (average)	5.5	6.3	4.6	4.5	4.9	3.2	2.7	3.0	3.5
Unemployment rate (Kuwaiti nationals)	6.1	4.9	3.6	2.9	3.4	…	…	…	…
	(Percent of GDP at market prices)								
Investment and savings									
Investment	20.5	17.6	18.0	17.9	13.5	12.8	14.1	15.9	17.3
Public	3.3	3.5	4.8	5.7	4.7	4.0	4.0	5.3	6.2
Private[1]	17.1	14.1	13.2	12.2	8.8	8.8	10.1	10.7	11.1
Gross national savings	57.2	58.5	42.3	51.1	57.1	58.7	56.6	53.6	52.8
Public	53.5	47.2	50.9	53.5	58.0	58.3	55.7	54.5	52.3
Private [1]	3.8	11.3	-8.6	-2.4	-0.9	0.3	0.8	-0.9	0.6
	(Percent of GDP at market prices)								
Budgetary operations[2]									
Revenue	67.1	65.1	64.6	69.0	75.3	73.3	71.9	71.9	71.5
Oil	51.6	52.8	53.3	56.3	64.8	61.2	58.5	57.0	54.8
Non-oil, *of which:*	15.5	12.3	11.3	12.8	10.5	12.1	13.4	14.9	16.7
Investment income	12.3	9.4	8.4	9.0	7.3	8.6	9.1	10.4	12.1
Expenditures	28.1	48.5	35.7	45.3	38.2	38.8	37.2	45.6	44.4
Expense [3]	24.0	44.1	31.0	39.5	33.6	34.6	33.1	39.9	37.9
Capital	4.1	4.4	4.7	5.8	4.6	4.3	4.1	5.7	6.5
Balance	39.0	16.5	28.9	23.8	37.2	34.5	34.8	26.3	27.1
Domestic financing	-3.1	-4.5	-1.8	1.1	-0.2	-1.9	-3.3	-1.8	-1.8
External financing	-35.9	-12.0	-27.1	-24.9	-37.0	-32.6	-31.5	-24.5	-25.3
Non-oil balance (percent of non-oil GDP) [4]	-50.2	-56.4	-79.2	-98.8	-97.3	-101.6	-87.8	-106.7	-101.7
Total gross debt (calendar year-end)[5]	7.0	5.4	6.7	6.2	4.6	3.6	3.2	3.3	3.3
	(Percent change; unless otherwise indicated)								
Money and credit									
Net foreign assets[6]	3.1	33.0	24.1	-0.5	22.0	20.6	11.1	11.1	8.4
Claims on nongovernment sector	35.1	16.6	6.2	1.8	2.3	3.1	7.3	6.9	7.3
Kuwaiti dinar 3-month deposit rate (year average; in percent)	5.0	3.4	1.7	1.3	1.1	1.0	0.8	0.9	…
Stock market unweighted index (annual percent change)[7]	24.7	-38.0	-10.0	-0.7	-16.4	2.1	27.2	…	…
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods	62.6	87.0	54.4	67.1	102.9	119.7	115.7	113.4	110.5
Of which: non-oil exports	3.5	4.4	5.5	5.3	6.2	6.7	7.1	7.4	7.8
Annual percentage change	6.4	25.1	26.5	-3.4	15.3	9.5	5.9	3.7	5.9
Imports of goods	-19.1	-22.9	-18.5	-19.6	-22.6	-24.2	-25.9	-27.7	-29.6
Current account	42.2	60.2	28.3	36.7	65.8	78.7	69.6	67.7	64.3
Percent of GDP	36.8	40.9	26.7	31.8	42.7	45.2	39.6	37.7	35.5
International reserve assets[8]	16.7	17.2	20.4	21.4	26.0	29.0	32.2	38.5	40.6
In months of imports of goods and services	6.2	5.4	7.6	7.2	7.5	7.7	8.2	9.1	9.0
Memorandum items:									
Exchange rate (U.S. dollar per KD, period average)	3.52	3.72	3.48	3.49	3.63	3.57	3.53	…	…
Nominal effective exchange rate (NEER, period average)	-2.0	2.9	-3.6	-0.3	0.5	1.6	1.0	…	…
Real effective exchange rate (REER, period average)	-0.4	8.1	-1.0	1.1	1.7	3.2	0.8	…	…
Sovereign rating (S&P)	AA-	AA-	AA-	AA-	AA	AA	AA	…	…

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

[1] Also includes government entities.

[2] Kuwaiti fiscal year ending March 31, e.g. 2007 refers to fiscal year 2007/08.

[3] In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund. In 2008/09, KD 5.5 billion was transferred. KD 1.1 billion is budgeted for each year from 2010/11 to 2014/15.

[4] Excludes investment income and pension recapitalization, and after transfers for FGF (fiscal year).

[5] Excludes debt of Kuwait's SWF related to asset management operations.

[6] Excludes SDRs and IMF reserve position.

[7] Change in the KSE as of May 9 2012 for 2012.

[8] Does not include external assets held by Kuwait Investment Authority.

Table 2. Kuwait: Summary of Government Finance, 2007/08–2014/15

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Proj. 2013/14	Proj. 2014/15
	(Billions of Kuwaiti Dinars)							
Revenue (includes grants) (A)	**23.1**	**24.3**	**20.1**	**24.5**	**33.2**	**35.9**	**36.0**	**36.5**
Taxes	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Other revenue	22.7	24.0	19.8	24.2	32.9	35.6	35.6	36.1
Oil and gas	17.7	19.7	16.6	19.9	28.6	30.0	29.3	29.0
Investment income and transfer of profits of public entities[1]	4.2	3.5	2.6	3.2	3.2	4.2	4.5	5.3
Other [2]	0.8	0.7	0.6	1.0	1.1	1.4	1.8	1.9
Total expenditure (B=C+D)	**9.7**	**18.1**	**11.1**	**16.0**	**16.8**	**19.0**	**18.6**	**23.2**
Expense (C)	8.2	16.5	9.7	14.0	14.8	17.0	16.6	20.3
Compensation of employees	2.8	3.4	3.5	3.7	4.4	5.1	5.4	6.0
Purchases/use of goods & services [3]	1.8	1.9	1.9	2.1	2.3	2.7	2.7	3.2
Interest [4]	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Subsidies and social benefits [5, 6]	2.4	9.7	3.1	5.7	6.6	7.1	6.8	8.3
Subsidies	1.5	2.6	1.8	2.5	2.4	3.2	2.8	3.2
Oil-related subsidies	1.4	2.6	1.8	2.5	2.4	3.2	2.8	3.2
Other subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	1.0	7.1	1.3	3.2	4.2	3.9	4.0	5.0
Payments to social security fund	0.7	6.4	0.8	1.8	2.7	2.7	2.8	2.9
Transfers to social security fund	0.7	0.8	0.8	0.7	1.7	1.7	1.7	1.8
Fund recapitalization	0.0	5.6	0.0	1.1	1.1	1.1	1.1	1.1
Other social benefits	0.3	0.7	0.5	1.4	1.5	1.1	1.2	2.2
Oil-related	0.0	0.3	0.1	0.9	0.9	0.6	0.6	1.3
Others	0.3	0.4	0.4	0.4	0.6	0.5	0.6	0.9
Expense not elsewhere classified	1.1	1.5	1.0	2.5	1.5	2.0	1.6	2.8
Net acquisition of nonfinancial assets (D)	1.4	1.6	1.5	2.0	2.0	2.1	2.0	2.9
Purchases of nonfinancial assets	1.4	1.6	1.5	2.0	2.0	2.1	2.0	2.9
Sales of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance [=A-C]	**14.8**	**7.8**	**10.4**	**10.5**	**18.4**	**18.9**	**19.4**	**16.3**
Net lending / borrowing [=A-B]	**13.4**	**6.2**	**9.0**	**8.4**	**16.4**	**16.9**	**17.4**	**13.3**
Non-oil balance	-4.3	-13.5	-7.6	-11.5	-12.2	-13.1	-11.9	-15.6
excluding investment income	-8.5	-17.1	-10.2	-14.7	-15.4	-17.3	-16.4	-20.9
excluding recapitalization of pension	-8.5	-11.4	-10.2	-13.6	-14.3	-16.2	-15.3	-19.8
excluding oil-related subsidies and benefits	-7.1	-8.6	-8.3	-10.2	-11.0	-12.4	-11.9	-15.3
Financing	-13.4	-6.2	-9.0	-8.4	-16.4	-16.9	-17.4	-13.3

Table 2. Kuwait: Summary of Government Finance, 2007/08–2014/15 (concluded)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Proj. 2013/14	Proj. 2014/15
				(Percent of GDP)				
Revenue (includes grants)	67.1	65.1	64.6	69.0	75.3	73.3	71.9	71.9
Taxes	1.0	0.9	0.9	0.9	0.7	0.7	0.8	0.8
Other revenue	66.1	64.2	63.6	68.2	74.6	72.6	71.2	71.1
Oil and gas	51.6	52.8	53.3	56.3	64.8	61.2	58.5	57.0
Investment income and transfer of profits of public entities	12.3	9.4	8.4	9.0	7.3	8.6	9.1	10.4
Other	2.2	1.9	2.0	2.8	2.5	2.8	3.6	3.7
Total expenditure	28.1	48.5	35.7	45.3	38.2	38.8	37.2	45.6
Expense	24.0	44.1	31.0	39.5	33.6	34.6	33.1	39.9
Compensation of employees	8.1	9.0	11.3	10.5	9.9	10.4	10.9	11.8
Purchases/use of goods & services	5.2	5.1	6.3	5.8	5.2	5.6	5.4	6.3
Interest	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Subsidies and social benefits	7.1	25.9	10.1	15.9	15.1	14.4	13.6	16.2
Subsidies	4.2	7.0	5.9	7.0	5.5	6.5	5.6	6.3
Oil-related subsidies	4.2	6.9	5.8	6.9	5.5	6.5	5.6	6.3
Other subsidies	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Social benefits	2.9	18.9	4.2	9.0	9.6	7.9	8.0	9.9
Payments to Social Security Fund	1.9	17.1	2.5	5.2	6.2	5.6	5.6	5.7
Transfers to Social Security Fund	1.9	2.0	2.5	2.1	3.7	3.4	3.4	3.6
Fund recapitalization	0.0	15.1	0.0	3.1	2.5	2.2	2.2	2.1
Other social benefits	0.9	1.8	1.6	3.8	3.4	2.3	2.4	4.2
Oil-related	0.1	0.7	0.4	2.6	2.0	1.3	1.3	2.5
Others	0.8	1.1	1.2	1.2	1.4	1.0	1.1	1.7
Expense not elsewhere classified	3.2	3.9	3.3	7.1	3.3	4.0	3.2	5.5
Net acquisition of nonfinancial assets	4.1	4.4	4.7	5.8	4.5	4.2	4.0	5.7
Gross operating balance	43.1	20.9	33.6	29.5	41.7	38.7	38.8	32.0
Net lending / borrowing	39.0	16.5	28.9	23.8	37.2	34.5	34.8	26.3
Non-oil balance	-12.6	-36.3	-24.4	-32.5	-27.7	-26.7	-23.7	-30.8
excluding investment income	-24.8	-45.7	-32.8	-41.5	-34.9	-35.3	-32.8	-41.2
excluding recapitalization of pension	-24.8	-30.6	-32.8	-38.4	-32.4	-33.1	-30.6	-39.0
excluding oil-related subsidies and benefits	-20.5	-23.0	-26.5	-28.9	-25.0	-25.3	-23.7	-30.2
				(Percent of nonoil GDP)				
Revenue (includes grants)	155.9	160.6	139.5	177.5	225.9	225.0	206.3	196.5
Total expenditure	65.3	119.8	77.1	116.3	114.4	119.2	106.6	124.7
Gross operating balance	100.2	51.7	72.5	76.0	125.1	118.7	111.3	87.4
Net lending / borrowing	90.6	40.8	62.4	61.2	111.4	105.8	99.7	71.8
Non-oil balance	-29.2	-89.5	-52.6	-83.5	-83.0	-82.0	-68.1	-84.1
excluding investment income	-57.7	-112.8	-70.8	-106.7	-104.7	-108.5	-94.1	-112.5
excluding recapitalization of pension	-57.7	-75.5	-70.8	-98.8	-97.3	-101.6	-87.8	-106.7
excluding oil-related subsidies and benefits	-47.7	-56.8	-57.3	-74.2	-74.9	-77.7	-68.1	-82.5
Memorandum items:								
Expenses excl. recapitalization of pension fund (percent of nonoil GDP)	55.7	71.7	67.0	93.6	93.4	99.4	88.8	103.2
Oil-related subsidies and benefits (percent of nonoil GDP)	10.0	18.7	13.5	24.6	22.4	24.0	19.8	24.1
Kuwait Crude oil price, USD per barrel	74.4	84.5	65.5	84.1	104.3	106.7	105.3	103.9

Sources: Ministry of Finance; Central Bank of Kuwait; and IMF staff estimates and projections.

[1] Excluded from the national budget presentation. Estimated by Fund staff.

[2] Includes UN (Iraq) compensations

[3] Includes other miscellaneous expenditures in FY 07/08 and 08/09.

[4] Covers interest payments on the treasury bills and bonds, and on the DCP bonds. Only the latter is included in the national budget presentation.

[5] In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the social security fund. In 2008/09, KD 5.5 billion was transferred. KD 1.1 billion is budgeted for each year from 2010/11 to 2014/15.

[6] The 2006/07 budget reflects KD 195 million on account of a KD 200 one-off grant transfer to each Kuwaiti citizen. The 2010/11 budget reflects KD 1,120 million on account of a KD 1,000 one-off grant transfer to each Kuwaiti citizen.

Table 3. Kuwait: Summary Balance of Payments, 2007–15

	2007	2008	2009	2010	2011	2012	Prel. 2013	Proj. 2014	2015
	(Billions of U.S. dollars, unless otherwise indicated)								
Current account	**42.2**	**60.2**	**28.3**	**36.7**	**65.8**	**78.7**	**69.6**	**67.7**	**64.3**
Goods (trade balance)	43.4	64.0	35.9	47.6	80.3	95.4	89.8	85.7	80.9
Exports	62.6	87.0	54.4	67.1	102.9	119.7	115.7	113.4	110.5
Oil exports	59.1	82.6	48.9	61.8	96.7	112.9	108.5	106.0	102.7
Non-oil exports including re-exports[1]	3.5	4.4	5.5	5.3	6.2	6.7	7.1	7.4	7.8
Of which: re-exports	1.2	1.7	1.6	1.0	1.0	1.3	1.3	1.3	1.3
Imports	-19.1	-22.9	-18.5	-19.6	-22.6	-24.2	-25.9	-27.7	-29.6
Services	-3.2	-3.8	-2.3	-6.8	-8.9	-12.3	-15.8	-16.8	-17.9
Transportation	-0.1	-0.6	-1.4	0.1	-1.1	-2.6	-4.1	-4.4	-4.7
Insurance	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	-6.4	-7.3	-5.8	-6.1	-7.7	-8.8	-11.3	-12.0	-12.9
Other services	3.4	4.3	4.9	-0.8	-0.1	-0.8	-0.4	-0.4	-0.4
Investment income	12.4	10.7	7.7	8.5	9.2	12.7	12.2	15.5	19.2
Receipts	16.3	14.0	8.9	9.7	10.6	14.0	13.8	16.1	19.8
General government[2]	8.5	8.8	6.1	7.4	7.5	9.1	10.1	14.8	17.9
Other sectors[3]	7.8	5.1	2.7	2.3	3.1	4.9	3.7	1.3	1.9
Payments	-3.9	-3.2	-1.2	-1.3	-1.4	-1.3	-1.6	-0.6	-0.7
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Other	-3.9	-3.2	-1.2	-1.3	-1.4	-1.3	-1.6	-0.6	-0.6
Current transfers[4]	-10.5	-10.7	-13.0	-12.5	-14.8	-17.1	-16.6	-16.7	-17.9
Capital and financial account	**-33.4**	**-49.6**	**-25.6**	**-43.3**	**-57.3**	**-76.5**	**-64.4**	**-61.5**	**-62.1**
Capital account[5]	1.5	1.7	1.0	2.1	3.4	4.2	4.5	5.7	5.8
Financial account	-34.9	-51.3	-26.6	-45.4	-60.7	-80.8	-68.9	-67.2	-67.9
Direct investment	-9.7	-9.1	-7.5	-4.6	-7.5	-3.9	-6.8	-6.7	-6.3
Abroad[6]	-9.8	-9.1	-8.6	-5.9	-10.8	-6.7	-8.7	-8.7	-8.5
In Kuwait	0.1	0.0	1.1	1.3	3.3	2.9	1.8	2.0	2.2
Portfolio investment	-34.9	-28.1	-8.2	-20.5	-7.7	-23.9	-29.3	-32.8	-35.7
Other investment (net)	9.7	-14.1	-10.9	-20.3	-45.5	-53.0	-32.8	-27.7	-25.9
Net errors and omissions[7]	-5.5	-10.0	-1.0	7.2	-4.0	1.1	-1.9	0.0	0.0
Overall balance	**3.3**	**0.7**	**1.7**	**0.6**	**4.5**	**3.3**	**3.3**	**6.2**	**2.2**
Memorandum items									
Current account/GDP (in percent)	36.8	40.9	26.7	31.8	42.7	45.2	39.6	37.7	35.5
Current account (excl. oil)/GDP (in percent)	-14.7	-15.2	-19.5	-21.7	-20.1	-19.7	-22.1	-21.3	-21.2
Investment income/GDP (in percent)	10.8	7.3	7.3	7.3	6.0	7.3	6.9	8.6	10.6
WEO oil price (dollars per barrel)	71.1	97.0	61.8	79.0	104.0	105.0	104.1	102.8	99.4
Import growth (in percent)	17.7	20.0	-19.2	5.6	15.5	7.3	6.6	7.0	6.9
International reserve assets (billions of U.S. dollars)[8]	16.7	17.2	20.4	21.4	26.0	29.0	32.2	38.5	40.6
In months of imports of goods and services	6.2	5.4	7.6	7.2	7.5	7.7	8.2	9.1	9.0

Sources: Central Bank of Kuwait; and IMF staff estimates.

[1] Also includes unrecorded oil exports.

[2] Kuwait Investment Authority, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.

[3] CBK, local banks, investment companies, exchange companies, insurance companies, and the nonfinancial private sector.

[4] From 2007, based on a new, more comprehensive methodology to estimate outward workers' remittances.

[5] Includes UN war compensation.

[6] For 2010, includes a projection of the net inflow from the sale for $10.6 billion of a foreign asset owned by a Kuwaiti company.

[7] Includes other unclassified private-sector flows.

[8] Includes SDRs and IMF reserve position.

Table 4. Kuwait: Monetary Survey, 2007–15

End of period	2007	2008	2009	2010	2011	2012	2013	Proj. 2014	Proj. 2015
				(Millions of KD)					
Foreign assets (net) [1]	5,718	7,607	9,441	9,395	11,465	13,822	15,354	17,061	18,487
Central bank	4,327	4,510	5,009	5,183	6,397	7,317	8,245	9,999	10,616
Local banks	1,392	3,097	4,432	4,212	5,067	6,505	7,109	7,062	7,871
Domestic assets (net)	13,269	14,343	15,455	15,785	16,283	15,847	17,205	16,913	17,976
Claims on government (net)	-968	-2,663	-3,227	-2,830	-2,904	-3,814	-4,189	-4,681	-4,877
Central bank (net)	-920	-1,124	-1,165	-533	-682	-543	-635	-530	-500
Claims	0	0	0	0	0	0	0	0	0
Deposits	920	1,124	1,165	533	682	543	635	530	500
Local banks (net)	-47	-1,539	-2,063	-2,297	-2,222	-3,271	-3,554	-4,152	-4,377
Claims	1,912	1,996	1,922	1,910	1,887	1,684	1,502	1,600	1,600
Government debt bonds	0	0	0	0	0	0	0	0	0
Public debt instruments	1,912	1,996	1,922	1,910	1,887	1,684	1,502	1,600	1,600
Other claims	0	0	0	0	0	0	0	0	0
Deposits	1,959	3,535	3,984	4,207	4,009	4,955	5,057	5,752	5,977
Claims on nongovernment sector	21,822	25,450	27,019	27,514	28,144	29,021	31,149	33,309	35,749
Credit facilities	20,139	23,666	25,108	25,201	25,612	26,797	28,961	30,985	33,256
Local investments	1,683	1,785	1,911	2,313	2,533	2,224	2,188	2,323	2,493
Other items (net)	-7,585	-8,445	-8,337	-8,900	-8,957	-9,360	-9,755	-11,714	-12,895
Broad money [2]	18,987	21,950	24,896	25,179	27,747	29,669	32,558	33,974	36,463
Money	4,147	4,370	4,714	5,152	6,366	7,654	8,677	9,014	9,674
Quasi money	14,841	17,580	20,182	20,027	21,381	22,015	23,882	24,960	26,789
Of which: Foreign currency deposits	1,710	1,899	2,753	2,081	2,078	2,272	3,122	3,115	3,343
				(Annual percentage change)					
Foreign assets (net)	3.1	33.0	24.1	-0.5	22.0	20.6	11.1	11.1	8.4
Central Bank	26.6	4.2	11.1	3.5	23.4	14.4	12.7	21.3	6.2
Local banks	-34.6	122.6	43.1	-5.0	20.3	28.4	9.3	-0.7	11.5
Domestic assets (net)	27.9	8.1	7.8	2.1	3.2	-2.7	8.6	-1.7	6.3
Claims on government (net)	-953.4	175.2	-21.2	12.3	-2.6	-31.3	-9.8	-11.7	-4.2
Claims on nongovernment sector	35.1	16.6	6.2	1.8	2.3	3.1	7.3	6.9	7.3
Other items (net)	28.9	11.3	-1.3	6.8	0.6	4.5	4.2	20.1	10.1
Broad money	19.3	15.6	13.4	1.1	10.2	6.9	9.7	4.3	7.3
Money	16.8	5.4	7.9	9.3	23.6	20.2	13.4	3.9	7.3
Quasi money	20.0	18.5	14.8	-0.8	6.8	3.0	8.5	4.5	7.3
Of which: f oreign currency deposits	-23.8	11.1	45.0	-24.4	-0.1	9.3	37.4	-0.2	7.3
				(Change in percent of beginning of period broad money stock)					
Foreign assets (net)	1.1	9.9	8.4	-0.2	8.2	8.5	5.2	5.2	4.2
Central bank	5.7	1.0	2.3	0.7	4.8	3.3	3.1	5.4	1.8
Local banks	-4.6	9.0	6.1	-0.9	3.4	5.2	2.0	-0.1	2.4
Domestic assets (net)	18.2	5.7	5.1	1.3	2.0	-1.6	4.6	-0.9	3.1
Claims on government (net)	-6.8	-8.9	-2.6	1.6	-0.3	-3.3	-1.3	-1.5	-0.6
Claims on nongovernment sector	35.6	19.1	7.1	2.0	2.5	3.2	7.2	6.6	7.2
Other items (net)	-10.7	-4.5	0.5	-2.3	-0.2	-1.4	-1.3	-6.0	-3.5
Broad money	19.3	15.6	13.4	1.1	10.2	6.9	9.7	4.3	7.3
Money	3.7	1.2	1.6	1.8	4.8	4.6	3.4	1.0	1.9
Quasi money	15.5	14.4	11.9	-0.6	5.4	2.3	6.3	3.3	5.4
Of which: Foreign currency deposits	-3.4	1.0	3.9	-2.7	0.0	0.7	2.9	0.0	0.7
Memorandum items:									
Non-oil GDP/M2	77.0	69.6	59.0	53.9	51.9	52.4	52.8	53.7	53.7
Foreign currency deposits/M2	9.0	8.7	11.1	8.3	7.5	7.7	9.6	9.2	9.2
Private credit/non-oil GDP	135.5	151.1	166.6	152.0	144.0	135.5	132.2	141.4	142.8

Sources: Central Bank of Kuwait; and IMF staff estimates.

[1] Excludes SDRs and IMF reserve position.

[2] Excludes deposits with financial institutions which are marginal.

Table 5. Kuwait: Illustrative Macroeconomic Baseline Scenario, 2007–19

							Prel.			Projections			
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
							(Percentage change, unless otherwise specified)						
Production and prices													
Nominal GDP (KD billions)	32.6	39.6	30.5	33.1	42.5	48.7	49.9	50.7	51.1	52.1	54.1	56.5	59.2
Nominal GDP	10.6	21.6	-23.0	8.5	28.5	14.6	2.3	1.7	0.8	2.0	3.7	4.5	4.8
Nominal non-oil GDP	20.3	4.4	-3.8	-7.6	6.1	7.9	10.6	6.2	7.3	8.0	8.7	9.3	9.3
Real GDP	6.0	2.5	-7.1	-2.4	10.2	8.3	-0.2	1.3	1.7	1.8	3.1	3.3	3.3
Real oil GDP	-4.7	6.5	-12.9	0.5	14.6	12.2	-1.8	0.0	0.3	0.2	2.2	2.2	2.2
Real non-oil GDP	14.0	0.0	-3.2	-4.1	3.6	1.9	2.8	3.5	4.0	4.5	4.5	5.0	5.0
Kuwait crude export price (U.S. dollars per barrel)	68.4	92.2	61.5	77.7	103.3	107.1	105.5	104.7	101.4	99.5	97.6	96.4	95.5
Crude oil output (millions of barrels per day)	2.57	2.68	2.26	2.31	2.66	2.98	2.93	2.93	2.94	2.94	3.00	3.07	3.14
Consumer price index	5.5	6.3	4.6	4.5	4.9	3.2	2.7	3.0	3.5	3.5	4.0	4.0	4.0
							(Percent of GDP, unless otherwise specified)						
Public finance [1]													
Revenue, *of which*:	67.1	65.1	64.6	69.0	75.3	73.3	71.9	71.9	71.5	72.2	72.8	71.6	70.4
Oil and gas	51.6	52.8	53.3	56.3	64.8	61.2	58.5	57.0	54.8	52.8	50.9	49.1	47.5
Investment income [2]	12.3	9.4	8.4	9.0	7.3	8.6	9.1	10.4	12.1	14.9	17.4	18.0	18.5
Expenditure	28.1	48.5	35.7	45.3	38.2	38.8	37.2	45.6	44.4	46.0	47.2	48.0	48.9
Expense [3]	24.0	44.1	31.0	39.5	33.6	34.6	33.1	39.9	37.9	39.2	40.0	40.5	41.1
Capital	4.1	4.4	4.7	5.8	4.6	4.3	4.1	5.7	6.5	6.9	7.2	7.6	7.9
Fiscal balance (deficit -)	39.0	16.5	28.9	23.8	37.2	34.5	34.8	26.3	27.1	26.2	25.7	23.5	21.5
Exchange rates													
Exchange rates (U.S. dollar per KD, period average)	3.52	3.72	3.48	3.49	3.63	3.57	3.53	...	...	...	...	...	...
Nominal effective exchange rate	-2.0	2.9	-3.6	-0.3	0.5	1.6	...	...	...	...	...	...	...
Real effective exchange rate	-0.4	8.1	-1.0	1.1	1.7	3.2	...	...	...	...	...	...	...
							(Percent of GDP, unless otherwise specified)						
Balance of payments													
Exports of goods and services excl. re-exports	59.8	62.7	56.8	63.0	71.1	71.3	66.6	64.1	62.2	60.3	58.6	57.0	55.5
Of which: oil and refined products	51.5	56.0	46.1	53.5	62.8	64.9	61.7	59.0	56.7	54.5	52.6	50.7	48.9
Imports of goods and services excl. re-exports	-24.7	-21.9	-25.1	-27.6	-24.8	-23.5	-24.4	-25.7	-27.4	-28.9	-30.0	-31.1	-32.1
Investment income (net) [4]	10.8	7.3	7.3	7.3	6.0	7.3	6.9	8.6	10.6	13.5	16.2	16.8	17.2
Current account	36.8	40.9	26.7	31.8	42.7	45.2	39.6	37.7	35.5	34.5	33.8	31.2	28.6
Current account (excluding oil exports)	-14.7	-15.2	-19.5	-21.7	-20.1	-19.7	-22.1	-21.3	-21.2	-20.0	-18.8	-19.5	-20.3
							(Percent of GDP, unless otherwise specified)						
Saving-investment balance													
Final consumption	44.4	41.5	52.0	45.7	39.2	38.7	40.9	45.7	47.9	51.8	54.6	57.0	58.8
Government	14.0	13.4	18.5	17.2	15.0	15.1	16.7	17.6	19.3	20.5	21.3	22.0	22.6
Private	30.4	28.1	33.5	28.5	24.2	23.6	24.2	28.1	28.5	31.3	33.3	35.0	36.2
Gross domestic investment	20.5	17.6	18.0	17.9	13.5	12.8	14.1	15.9	17.3	16.8	16.8	17.1	17.8
Government	3.6	3.5	4.8	5.7	4.7	4.0	4.0	5.3	6.2	6.7	7.0	7.4	7.7
Private	16.9	14.1	13.2	12.2	8.8	8.8	10.1	10.7	11.1	10.1	9.7	9.7	10.2
Savings	57.2	58.5	42.3	51.1	57.1	58.7	56.6	53.6	52.8	51.3	50.6	48.3	46.5
Government saving	53.5	47.2	50.9	53.5	58.0	58.3	55.7	54.5	52.3	51.5	51.4	49.9	48.0
Private savings	3.8	11.3	-8.6	-2.4	-0.9	0.3	0.8	-0.9	0.6	-0.3	-0.9	-1.6	-1.6

Sources: Kuwait authorities; IMF World Economic Outlook; and IMF staff estimates and projections.

[1] Fiscal year ending March 31.

[2] Includes profits of public enterprises.

[3] In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund.
In 2008/09, KD 5.5 were transferred. KD 1.1 billions are budgeted for each year from 2010/11 to 2014/15.

[4] Assuming return on foreign assets close to the LIBOR.

Table 6. Kuwait: Financial Soundness Indicators of the Banking Sector, 2006–14
(Percent unless specified otherwise[1])

	2006	2007	2008	2009	2010	2011	2012	2013	Jun-14
Capital adequacy									
Regulatory capital to risk-weighted assets	20.2	19.3	15.6	16.7	18.9	18.5	18.0	18.9	18.3
Regulatory Tier I capital to risk-weighted assets	17.7	17.2	14.3	14.9	17.3	16.9	16.0	17.1	16.6
Capital to assets	12.6	12.3	10.9	11.4	12.6	12.4	12.6	12.2	11.3
Loan composition and quality									
Oil/gas	0.7	0.8	0.9	1.2	1.2	1.1	1.6	1.5	1.7
Trade	11.8	10.4	10.2	10.6	10.0	10.5	12.1	13.0	12.7
Industry	5.0	5.9	6.8	6.5	7.0	7.1	7.9	7.8	7.4
Construction	13.4	12.6	11.9	11.4	12.7	12.1	12.6	12.2	12.0
Real estate	17.5	19.2	18.1	20.6	20.0	19.6	19.2	18.9	18.7
Equity purchase loans (corporate)	5.4	4.5	5.8	5.9	5.7	5.8	3.5	3.4	3.5
Agriculture/fishing	0.2	0.1	0.7	0.3	0.4	0.2	0.3	0.3	0.4
Financial Institutions	14.6	15.9	12.8	12.7	14.1	13.1	11.2	10.4	12.7
Of which: investment companies	5.3	7.9	7.5	8.0	8.7	6.1	4.3	4.0	3.6
Of which: banks	0.0	0.0	0.0	0.0	4.6	3.7	6.7	5.7	8.3
Public services	1.6	2.2	1.9	1.6	1.6	1.7	2.6	1.8	1.9
Households	20.3	19.1	16.0	16.1	16.3	17.0	19.4	20.0	19.4
Of which: credit card advances	1.0	0.8	0.6	0.5	0.5	0.5	…	…	…
Of which: installment loans	13.7	12.1	10.9	12.7	12.1	12.9	13.2	14.4	14.4
Of which: consumer loans	3.7	4.1	2.5	1.0	2.2	2.2	2.9	3.0	2.6
Of which: equity purchase loans (individuals)	1.8	2.1	2.0	1.9	1.4	1.4	2.9	2.6	2.4
Other	9.6	9.2	14.8	13.3	11.1	11.8	9.5	10.7	9.5
Gross non-performing loans to total loans	4.6	3.8	6.8	11.5	8.9	7.3	5.2	3.6	3.5
NPLs net of specific provisions to total loans net of specific provisions	2.5	2.1	4.9	7.4	6.1	5.3	3.8	2.5	2.4
Total provisions to gross NPLs	…	…	…	…	…	…	95.1	134.6	139.4
Specific provisions to gross NPLs	47.4	47.2	29.0	38.3	33.9	29.5	26.9	31.7	…
NPLs net of specific provisions to Tier I capital	12.6	10.8	31.5	46.2	33.8	28.7	22.4	13.9	14.3
Loans to shareholders, parent companies, & directors to total loans	4.9	4.2	4.9	6.4	2.0	2.3	2.6	6.3	4.7
Large exposures to Tier I capital	147.6	141.6	212.4	165.1	124.3	105.3	100.4	87.2	106.7
Specific provisions to gross loans	2.2	1.8	2.0	4.4	3.0	2.1	1.4	1.2	1.2
Profitability									
Return on Average Assets (ROAA) [2]	2.7	3.3	0.8	0.7	1.2	1.1	1.2	1.0	1.0
Return on Average Equity (ROAE) [2]	20.1	24.3	6.5	6.1	9.1	8.1	9.0	7.4	8.0
Net interest income to gross income	33.9	29.0	36.6	44.5	49.9	47.6	48.1	49.9	51.0
Non-interest income to gross income	29.0	29.0	21.6	25.3	24.6	33.1	33.4	32.8	29.9
Trading and foreign exchange income to gross income	13.7	15.1	6.7	6.0	4.1	10.0	14.9	10.4	9.6
Non-interest expenses to gross income	27.6	23.9	26.4	36.9	37.7	36.1	34.0	37.2	37.4
Non-interest expenses to average assets [2]	1.4	1.5	1.6	1.9	1.6	2.1	1.9	1.9	1.8
Personnel expenses to non-interest expenses	50.7	49.6	48.0	42.9	48.7	36.8	39.0	41.7	45.1
Liquidity									
Core liquid assets to total assets [3]	29.3	26.9	20.8	20.4	17.7	22.1	21.0	22.5	25.2
Core liquid assets to short-term liabilities	38.6	34.1	28.0	28.6	27.8	36.3	34.8	30.3	33.7
Liquid assets to total assets	34.5	32.9	28.4	27.9	22.8	26.5	27.3	25.4	29.5
Liquid assets to short term liabilities	45.3	41.7	38.4	39.2	35.7	43.7	45.2	34.1	39.5
FX- loans to total loans	19.7	23.3	24.9	25.8	25.5	25.8	28.1	28.2	39.2
FX- deposits to total deposits	28.8	34.9	35.1	32.7	30.7	33.8	34.6	30.7	35.8
FX- liabilities to total liabilities	23.2	27.8	24.2	22.6	11.2	11.4	14.5	…	…
Deposits to assets	59.3	56.4	59.2	58.8	56.7	58.3	63.3	62.2	60.9
Loans to deposits	96.1	103.1	109.0	113.0	116.5	110.9	100.5	99.5	101.9
FX- loans to FX-deposits	65.5	68.9	77.3	89.1	96.8	84.6	81.5	91.4	83.1
Sensitivity to market risk									
Net open FX position (overall) as percent of Tier I capital	0.0	0.0	11.2	10.7	8.7	…	…	…	…
Off-balance sheet operations as percent of assets	32.1	34.7	32.5	25.3	26.2	25.4	26.3	27.8	27.0
Gross asset position in derivatives as a percentage of tier I capital	77.9	90.9	71.1	46.9	33.6	…	…	…	…
Gross liability position in derivatives as a percentage of tier I capital	77.9	91.0	71.1	46.8	39.4	…	…	…	…
Equity exposure to capital	40.6	42.4	47.1	45.4	39.1	43.7	37.5	35.3	32.9

Source: Central Bank of Kuwait

[1] Data are on consolidated basis.

[2] Averaging was not applied in 2006 indicators.

[3] 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. The data were extracted from CBK prudential report.

Appendix I. Public Sector Debt Sustainability Analysis

Kuwait: Public Sector Debt Sustainability Analysis (DSA)–Baseline Scenario

(in percent of GDP unless otherwise indicated)

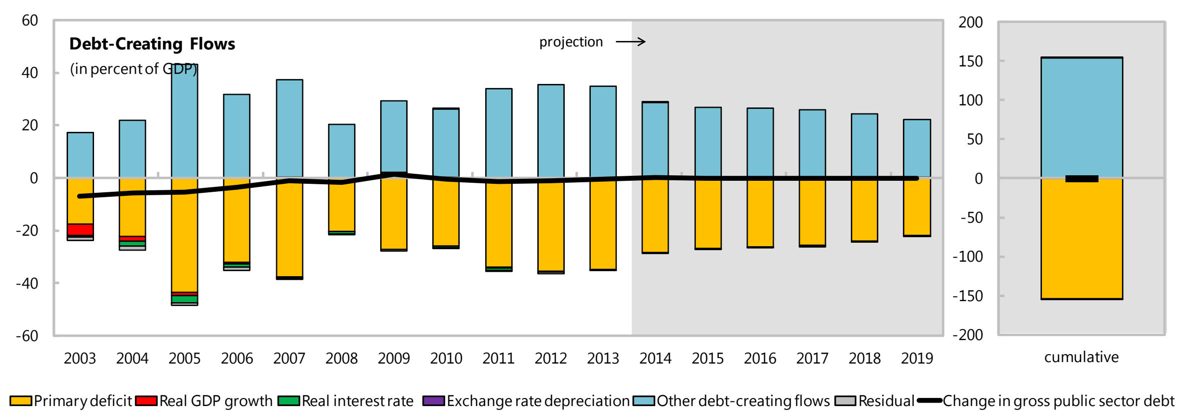
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2003-2011 2/	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	10.0	3.6	3.2	3.3	3.3	3.2	3.1	3.0	2.8
Public gross financing needs	-28.2	-35.3	-34.6	-28.4	-26.6	-26.0	-25.6	-23.8	-21.3
Real GDP growth (in percent)	6.1	8.3	-0.2	1.3	1.7	1.8	3.1	3.3	3.3
Inflation (GDP deflator, in percent)	9.8	5.8	2.5	0.4	-0.9	0.2	0.6	1.1	1.4
Nominal GDP growth (in percent)	16.8	14.6	2.3	1.7	0.8	2.0	3.7	4.5	4.8
Effective interest rate (in percent) 4/	3.4	2.3	2.2	2.6	3.4	4.5	5.8	6.3	6.5

As of August 13, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		na
5Y CDS (bp)		na
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	-2.8	-1.0	-0.4	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.3	0.05
Identified debt-creating flows	-2.1	-0.6	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.4	
Primary deficit	-29.1	-35.6	-34.9	-28.7	-26.9	-26.4	-25.9	-24.2	-22.0	-154.0	
Primary (noninterest) revenue and grants	65.2	73.5	72.4	72.1	71.6	72.1	72.8	71.9	70.6	431.0	
Primary (noninterest) expenditure	36.2	37.9	37.5	43.4	44.7	45.7	46.8	47.7	48.6	277.0	
Automatic debt dynamics 5/	-1.8	-0.5	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.4	
Interest rate/growth differential 6/	-1.8	-0.5	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.4	
Of which: real interest rate	-0.8	-0.2	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.8	
Of which: real GDP growth	-1.0	-0.3	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	28.7	35.5	34.9	28.6	26.8	26.2	25.8	24.0	21.9	153.2	
Privatization (negative)	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	28.7	35.5	34.9	28.6	26.8	26.2	25.8	24.0	21.9	153.2	
Residual, including asset changes 8/	-0.7	-0.5	-0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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 - π (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.

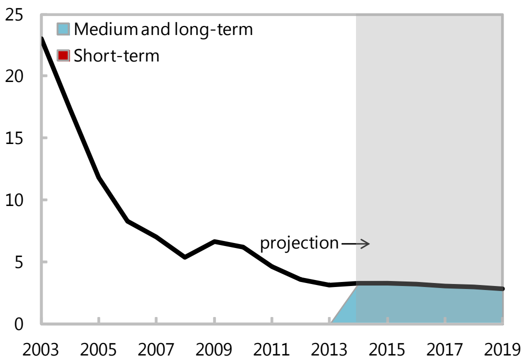
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

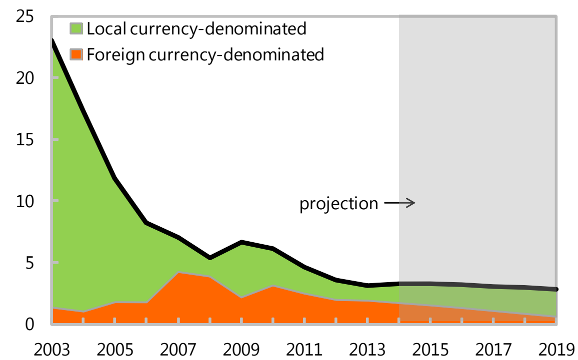
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

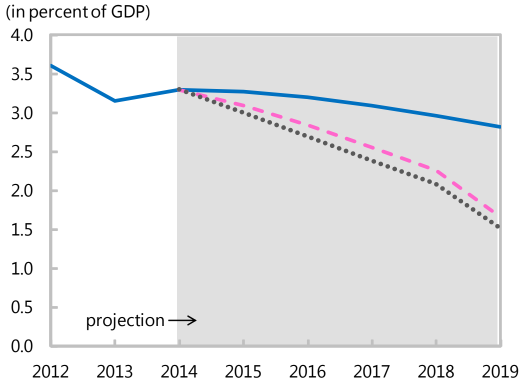


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

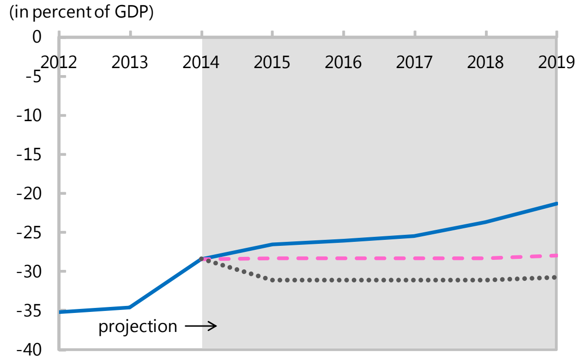
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.3	1.7	1.8	3.1	3.3	3.3
Inflation (GDP deflator)	0.4	-0.9	0.2	0.6	1.1	1.4
Primary Balance	28.7	26.9	26.4	25.9	24.2	22.0
Effective interest rate	2.6	3.4	4.5	5.8	6.3	6.5
Constant Primary Balance Scenario						
Real GDP growth	1.3	1.7	1.8	3.1	3.3	3.3
Inflation (GDP deflator)	0.4	-0.9	0.2	0.6	1.1	1.4
Primary Balance	28.7	28.7	28.7	28.7	28.7	28.7
Effective interest rate	2.6	3.4	4.6	6.1	6.8	7.3

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.3	4.6	4.6	4.6	4.6	4.6
Inflation (GDP deflator)	0.4	-0.9	0.2	0.6	1.1	1.4
Primary Balance	28.7	31.4	31.4	31.4	31.4	31.4
Effective interest rate	2.6	3.4	4.6	6.1	6.8	7.3

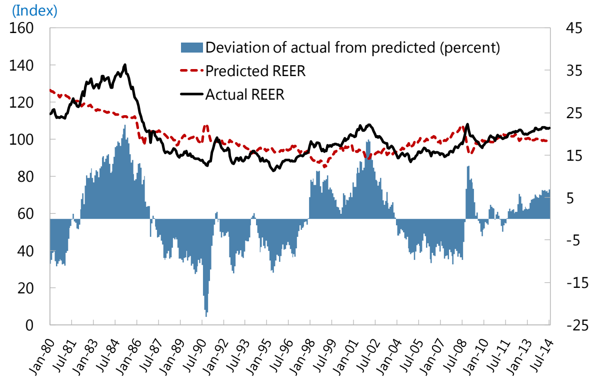
Source: IMF staff.

Appendix II. Kuwait: External Sector Assessment

Staff believes that the peg to the basket is appropriate given the current structure of the Kuwaiti economy, and that the overall assessment points to external stability. Estimates from the macrobalance and equilibrium real exchange rate assessment methodologies show that the real exchange rate is broadly in line with fundamentals; estimates from the external sustainability approach give inconclusive results. On balance staff believes there is no compelling evidence that the exchange rate is misaligned.

The equilibrium real effective exchange rate (EREER) approach suggests that the real exchange rate is broadly in line with its estimated long-run equilibrium. Computations of the equilibrium real effective exchange rate are based on the estimation of a long-term relationship between the real effective exchange rate (REER) and real oil prices. Under/over valuation is calculated as the deviation of the actual value of the REER from the fitted value using the estimated cointegration relationship based on monthly historical data for 1980–2014. The REER has been declining and rising in the past few decades and is currently at the level seen in the early 2000s. The long-run equilibrium path (predicted REER) was declining until the late 1990s and has been increasing slowly since. In mid-2014, the real exchange rate was slightly above its estimated equilibrium value (overvaluation of about 6 percent), but is close to the equilibrium value if using an estimate based on the vector-error correction model. Thus it is assessed as broadly in line with fundamentals.

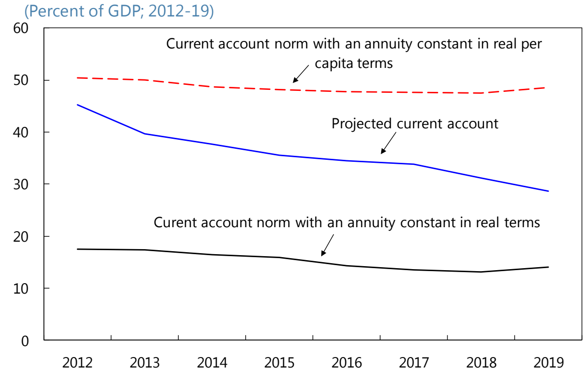
High Frequency Equilibrium Real Exchange Rate, 1980–2014
(Index)



Source: IMF staff calculations.

The macroeconomic balance (MB) approach suggests that the current account is within the range of the medium-term norms from several specifications, but the external sustainability approach shows mixed results. The macroeconomic balance approach indicates that the medium-term current account norm, based on medium-term fundamentals (and an estimated historical relationship between the current account and fundamentals), is about 35 percent of GDP (see Beidas-Strom and Cashin, IMF WP/11/195, Table 2.A, specification IV), close to the surplus of 29 percent of GDP in 2019. Two other specifications result in somewhat similar current account norms (30–32 percent), and one specification shows a lower estimate (20 percent). The MB estimate based on the most comprehensive specification in staff's views (specification IV) shows slight overvaluation but taken together with two other estimates of 30–32 percent suggest no large misalignment. The external sustainability approach shows a wide range of current account benchmarks, at about 14 percent of GDP and 49 percent of GDP, implying both overvaluation and undervaluation, making it difficult to draw any definitive conclusions. The benchmark based on real per capita annuity implies an overvaluation of about 31 percent, while that based on real annuity indicates that REER is undervalued by about 23 percent. The more stringent rule (real per capita) would suggest less spending in the medium term (in line with the PIH fiscal sustainability benchmark), and staff's medium term framework points to a tightening fiscal stance over the medium-term.

Kuwait: External Sustainability's Current Account Norms vs. Projections
(Percent of GDP; 2012-19)



Sources: Country authorities; and IMF staff estimates and projections.

Various external indicators reinforce the stability of the external sector. Central bank reserves have remained stable in the range of about 6.5–8 months of imports over the past few years while the international investment position has decreased to about 51 percent of GDP in 2012, below its 2005–11 average of about 70 percent, which in part reflects the deleveraging of external assets of financial and nonfinancial corporates after the global crisis. The sovereign wealth fund (Kuwait Investment Authority) has an estimated $550 billion at end-2013. The availability of cheap migrant labor keeps labor costs down and inflation moderate.

Annex I. Status of Staff Recommendations Made in the 2013 Article IV Consultation

Containing fiscal spending, in particular public wage bill, and reallocating spending toward capital	**Public wage bill increased in 2013, but a public wage reform is under study. Capital spending was almost flat in 2013/14 from the previous year, and the 2014/15 budget has envisaged a large increase.**
Revisiting energy subsidies	The government eliminated diesel subsidies (about 0.5 percent of GDP) and is studying proposals for kerosene and electricity subsidy reforms.
Building institutional capacity to improve tax system and introduce VAT and strengthen budget framework	In line with the recommendations of the Fund and the World Bank TA, modernization of the tax administration system continues. The macro-fiscal unit is operational with the support of the Fund resident advisor. The working group was set up on medium-term fiscal and expenditure frameworks.
Establish a more formal macroprudential framework and a coordinating mechanism to assess incipient risks	Financial sector regulators meet periodically to exchange information on the financial sector. The CBK and other government agencies are working on establishing a framework to deal with crisis management.
Expanding and refining macroprudential toolkit	The CBK introduced a value-to-loan ratio for residential housing used for investment purposes. A Fund TA has been initiated to help the authorities strengthen their macroprudential policy framework.
Enhancing ICs' resolution, developing needed tools to do it, and coordinating between CBK and CMA on ICs' supervision	Restructuring of some ICs is protracted. Coordination exists between CBK and CMA, but there is no formal committee.
Improving governance and auditing/reporting standards for investment companies	The implementation of the new corporate governance guidelines for ICs has been postponed until June 2016.
Improving a liquidity management framework and developing debt markets	A draft law on sukuk is being reviewed by the CMA.
Developing the non-oil tradable sector and supporting employment of nationals in the private sector	The by-laws for the National Fund for SMEs Development, established last year, and on the new Direct Investment Promotion Law are being finalized. The offset clause (that required foreign firms bidding for government contracts to invest domestically) has been suspended to encourage foreign investment. The quota system for Kuwaitis in the private sector has been updated.
Modernizing restructuring resolution	Bankruptcy law is still under preparation.
Improving AML/CFT framework	The Financial Intelligence Unit was set up.

Annex II. Status of Implementation of FSAP 2010 Recommendations

No	Recommendation	Status	Update
1	Clarify regulatory and supervisory responsibilities for financial institutions between the CBK, CMA and MOCI and initiate coordination for transition process to new oversight architecture.	Completed	A Memorandum of Understanding (MOU) was signed with CMA. Amendments to be made to the MOU in respect of the joint issues between Ministry of Commerce and Industry and CBK, are under consideration.
2	Perform periodic stress tests of real estate and other major sectoral credit risk concentrations and review existing assessment of the way banks consider these risk concentrations in their Internal Capital Adequacy Assessment Process (ICAAP).		The Financial Stability Office performs regular stress tests on all Kuwaiti banks. The Supervision Sector reviews and suggests revisions for stress tests and ICAAPs prepared by banks.
3	Extend viability assessment to all systemically important ICs.	Completed	The CMA conducts onsite and offsite supervision and is preparing risk assessments of ICs.
4	Complete integration of ICAAP in an on-site manual and start on-site examination on ICAAP in one bank as a pilot project.	Completed	The On-site Supervision Department prepared a manual for the work procedures to include the ICAAP. A professional team was formed to undertake an inspection program with the specific purpose to focus on the local banks for examining the ICAAP.
5	Finalized qualitative and quantitative staffing enhancement program for the banking supervision department.	Completed	The qualitative and quantitative capabilities of all staff working in the supervision department shall be developed on regular basis.
6	Enhance framework for macroprudential surveillance by establishing the FSU and initiate integrated supervision of systematically important sectors.	Completed	Financial Stability Office was established and supervision has been integrated. The first Financial Stability Report was published in 2013.
7	Strengthen corporate governance rules by applying "fit and proper" test on board and management of new conventional banks.	Completed	Article (68) of Law NO. (32) of 1968 refers to the conditions to be met by a person who becomes a board member of a bank or executive authority, in addition to the resolution passed by the CBK Board of directors in this respect.

No	Recommendation	Status	Update
8	Issue directive on conflict of interest requiring board members and senior management and staff to abstain from participating in decisions on credit granting in their favor and reduce the individual and aggregate limit for credit to related parties.	Partially Completed	CBK in June 2013 issued the revised principles of Corporate Governance. The implementation of individual and aggregate limits is yet to take place since the authorities find it unsuitable in the current situation.
9	Continue the migration process from compliance-based supervision to risk-based supervision.	Completed	Risk-based supervision system has been implemented in the supervision sector, where, on-site inspections, in accordance with this method, have started. The study of banks' data, using the Off-site Surveillance System (OSS), has started as well.
10	Introduce quantitative and qualitative regulation to better monitor ICs' financial soundness and improve corporate governance. Develop new licensing regime for ICs.	In progress	A comprehensive study was prepared about the evaluation and classification of ICs according to the level of risk on the basis of six qualitative factors (Stage One). Since ICs are no longer subject to the supervision of CBK, the application of (Stage Two); preparing corporate governance instructions, will be limited to finance companies.
11	Establish funding and operational arrangements for deposit insurance and cap coverage.	Not implemented	This recommendation has not been implemented because it is not suitable for the present circumstances and will be considered at a future date.
12	Establish an MOU on financial crisis management between key agencies such as the CBK, MOF, CMA, and KIA.	In progress	A Memorandum of Understanding (MOU) for financial crisis management was prepared by CBK with all related authorities (MOF, CMA, and KIA) and a work team from CBK was formed that includes the Financial Stability Office, Supervision Department, Research Department, Foreign Operations Department and the Legal Office.
13	Consider widening collateral acceptance for ELA operations.	Completed	Collateral acceptance was widened for Emergency Lending Assistance operations for banks, under the CBK Board Resolution No. (91/377/2011) in its session held on 18/12/2011. The list of guarantees, issued under CBK Board Resolution dated 17/02/1979, was annulled.
14	Establish a special resolution regime that sets out a set of distinct bankruptcy.	In progress	Ministry of Commerce and Industry (MOCI) assigned the World Bank to revamp the insolvency and creditor/debtor laws in Kuwait. The draft law is being discussed with relevant stakeholders.

INTERNATIONAL MONETARY FUND

KUWAIT

November 5, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Middle East and Central Asia Department

CONTENTS

FUND RELATIONS

(As of October 14, 2014)

Membership Status: Joined September 13, 1962
Article VIII on April 5, 1963

General Resources Account:	**SDR Million**	**% Quota**
Quota 1,381.10	100.00	
Fund holdings of currency	967.41	70.05
Reserve position in Fund	413.95	29.97

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	1,315.57	100.00
Holdings	1,445.56	109.78

Outstanding Purchases and Loans: None

Financial Arrangements: None

Lending to the Fund and Grants: SDR million 26.3 (New Arrangements to Borrow)

Kuwait has made a contribution to the PRGF-HIPC Trust in support of Fund's concessional assistance to low-income countries. These include an interest-free deposit of SDR 4.2 million with a maturity at end-2018, and a grant contribution of SDR 0.1 million to the PRGF-HIPC Trust.

Exchange Rate Arrangement:

Since May 2007, the Kuwaiti dinar has been pegged to an undisclosed currency basket, reverting to the exchange system before January 2003. Between January 1, 2003 and May 2007, the Kuwaiti dinar had been pegged to the U.S. dollar with a margin of 3.5 percent on either side around the parity exchange rate of 299.63 fils/U.S. dollar. Kuwait has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4, and maintains an exchange system free of restrictions on 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 November 25, 2013 (SM/13/336—Published December 2, 2013). The staff report is available at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=41076.0

FSAP Participation

An FSAP Update was conducted in March 2010. It included an updated assessment of a selected number of Basel Core Principles. An FSSA report was discussed by the Executive Board along with the staff report for the 2010 Article IV consultation and it is available at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=24096.0

Technical Assistance:

STA	Seminar on GDDS	February 2000
STA	National Accounts and Price Statistics	June 2001–June 2002
FAD	Restructuring Budget Processes	January/February 2002
FAD	A Program for Tax Reform	December 2002
MFD/LEG	Bank Insolvency	October 2004
FAD	Macro Fiscal Unit	February 2009
STA	External Sector Statistics	February 2009
STA	External Sector Statistics	December 2009
FAD	Value-Added Tax	October 2011
FAD	Macro-Fiscal Unit	September 2012
FAD	Tax Policy and Administration	April 2013
LEG	Central Bank Law	April 2013
LEG	Central Bank Law	September 2013
FAD	Macro-Fiscal Unit (resident advisor)	October 2013
LEG	Central Bank Law	January 2014
FAD	Tax Policy and Administration	February 2014
MCM	Macroprudential Policy	March 2014

Resident Representative: None

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

RELATIONS WITH THE WORLD BANK

(As of October 15, 2014)

The World Bank and the Government of Kuwait developed a rolling four-year Country Partnership Strategy (CPS), which leverages the setup of a World Bank Country Office in Kuwait (inaugurated in January 2009).

The Kuwait CPS and program emphasize implementation of reforms. Hence all programs are grounded in the Government five-year plan, and are developed closely with the line ministry/agency as well as with the Ministry of Finance, which plays the coordinator role and the Bank's central counterpart.

The CPS focuses on Fee-Based Services laying the ground for Bank provision of advisory and analytical support to Kuwait. Program priorities are driven and guided by CPS and revolve around the following three pillars:

- ***Improving public sector performance*** – By making the State a more efficient one, so that public services are delivered transparently and effectively, with activities in the areas of reforming public finance and governance including: setting up an anti-corruption agency; tax modernization, strengthening state property institutions and management, streamlining outdated procurement and project cycle regulations and practices, capacity building efforts in the area of public finance management and financial accountability, and support for several environmental initiatives.

- ***Economic diversification*** – Aiming to support reform efforts geared towards transforming Kuwait into a commercial and financial sector with diversified economic activities and the creation of a more conducive business environment for private sector development and foreign direct investment. Bank activities under this theme include supporting the implementation of Kuwait's privatization law, support Kuwait Direct Investment Promotion Authority (KDIPA) with feasibility for establishing three economic zones to attract FDI; help set up the newly established Competition Protection Authority, support the design and implementation of an Insolvency and Creditors Rights framework and support the establishment of the National SME Fund.

- ***Human development*** - with a major program to support the quality of education, including having an international expert based in Kuwait. Bank support in this area also includes social protection, labor and youth issues.'

Activities for the FY 2014–15

I – Improving public sector performance

- **Medium Term Policy Directions.** At the request of the Minister of Finance the Bank is exploring ways to support the Government of Kuwait in analyzing the fiscal and economic risks facing Kuwait in the medium term and provide advice on policies to mitigate such risks. The Bank team is reviewing a wealth of studies and reports undertook over the last several years analyzing Kuwait's development objectives and recommending reform priorities. The team is to distill from such a review lessons on obstacles for reform implementation and engage key stakeholders with the aim of building a consensus around a suggested reform path.

- **Environmental Compliance Fund (ECF)**. This activity responds to a request from the Kuwait Supreme Council for the Environment, and subsequently from the Ministry of Finance, for World Bank support in promoting improved environmental performance from point-source/industrial polluters in Kuwait through the establishment of an ECF. Bank support is consisting of helping the EPA design an environment compliance system to assist the polluting enterprises reduce pollution to the level required by the national standards and guidelines. Such system would consist of the design of the following activities: (i) A Compliance Action Plan (CAP) to be prepared by each of the polluting enterprises to reduce pollution; and (ii) A Financing Window to be established in selected commercial banks to provide a combination of loans and grants to the polluting enterprises in order to implement part or all the activities in the compliance action plans (CAPs).

- **Project Cycle.** At the request of the Ministry of Finance, the World Bank has conducted a review of the government project cycle. Bank work helped explore ways to shorten the project cycle and improve project management practices in Kuwait. As part of this activity, the Bank team has reviewed and analyzed a selection of projects in government entities at three stages: concept, implementation and evaluation. This review is helping identify bottlenecks and areas that need amendments in procedures or regulation/legislation. The Bank is also making recommendations to strengthen the capacity of the Government agencies to implement projects through adequate training.

- **Tax Modernization Support.** The World Bank is supporting efforts by the Kuwaiti Government to modernize tax administration. The project evolved from a technical assistance activity originally designed to help implement a Value Added Tax system in Kuwait as part of its GCC trade union obligations. The activity aims to build capacity, which is where the involvement of the World Bank is critical. This is being achieved through intensive training in tax operations and modern techniques of tax administration, as well as through on-the-job training by the experts hired by the project. This focus on strengthening a critical public sector function – tax administration –in the context of fiscal reform makes the Bank a natural partner for the government. A team of international resident advisor has been placed in Kuwait to work on this activity under the supervision of the World Bank.

- **Solid Waste Management II**. This activity is a follow-up to a first phase solid Waste Management program, which aimed at improving Kuwaiti authorities understanding of the current challenges of the solid waste sector and incited them to promote reforms to enhance cost effectiveness of private sector participation, particularly in collection, sorting and recycling of waste. At the request of the Municipality of Kuwait City, the Bank is engaged through this second phase of the program to help implement the main recommendations of the first phase, namely: (i) preparation & implementation of a national priority project for the closure and rehabilitation of existing dumpsites, (ii) elaboration and adoption of a solid waste master plan consistent with Kuwait Land-Use Master plan, to identify national policy & investment priorities for the solid waste sector, (iii) completion & harmonization of existing legal instruments, starting with a Solid Waste Law, and (iv) establishment of a municipal solid waste agency under the municipality's authority.

- **Reorganization of State Property**. The objective of the activity is to assist the State of Kuwait in the strategic understanding of the institutional and regulatory issues related to state land policy management in Kuwait. Bank work helped develop a clear understanding of the roles and responsibilities of various entities involved in state land management and identifying the barriers and constraints to effective land management. Bank work is gaining prominence among key decision makers and a presentation for the Ministerial Cabinet is planned for November 2013.

- **Assessment of 'Digital Oasis' project idea and support to the preparation of ICT-SME and Outsourcing Framework**. The Bank is supporting Kuwait's Central Agency for Information Technology (CAIT) with: (i) the assessment of the feasibility of a 'Digital Oasis' project; and, (ii) the preparation of a framework for IT Outsourcing; and (iii) the promotion of SME's in ICT.

- **Public Expenditure and Financial Accountability (PEFA – Phase II) –** In follow up to the PEFA exercise conducted in FY11, MoF requested Bank support to help build capacity and improve Ministry teams understanding of the PEFA framework and help them play a more active role in the preparation of future PEFA assessments. The Project also aims at improving the comprehension of the PEFA framework at the senior leadership level to help them better utilize the framework and make informed and strategic PFM reform policies that will serve the interest of the State of Kuwait.

- **Support to Kuwait Anti-Corruption Agency (KAA).** Bank support to the recently established KAA includes support for the drafting of executive regulation and bylaws for the high anti-corruption commission as well as the sharing of best practice examples of administrative and financial functions. The Bank team is advising the KAA on organizational structure and providing ToRs and job profiles for KAA administrative and financial functions.

- **Subsidies Incidence Analysis**. At the request of the Ministry of Finance the Bank is analyzing the impact of the potential removal of certain subsidies (fuel, electricity and water). The Bank is providing MoF with a note simulating the incidence of removal of these subsidies on Households, the national establishments and the budget.

II – Economic diversification through increased private sector development

- **Kuwait Foreign Investment Bureau (KFIB) Support**. The World Bank is supporting KFIB in developing feasibility studies and master plan(s) for three new economic zones for foreign investors (Wafra, Abdali, and Shegaya). KFIB has contracted a private consulting firm to conduct the feasibility study and a World Bank team is supporting KFIB during the implementation of the study, through review of the consultant's outputs and providing comments to ensure quality output:

- **Privatization Support**. At the request of the Minster of Finance the World Bank has been supporting the implementation of a recently passed Privatization Law. Bank support included helping draft By-Laws for the law and a policy (vision) statement to provide additional rationale and explanation for the draft By-Laws. Bank support also included Portfolio development through sector assessments. Further Bank assistance may include transaction support, public education, and support to enhance corporate governance and post-privatization reforms.

- **ROSC Insolvency & Creditor Rights.** Ministry for Commerce and Industry (MoCI) requested Bank's support in moving forward with a number of reforms to help improve Kuwait's investment climate starting with a review of Insolvency and Creditors Rights in Kuwait (ICR). Bank work led to a recommendation for the need for new laws regulating Enterprise Rehabilitation and Liquidation in Kuwait. Subsequently, a World Bank TA program has been agreed with MoCI for the Bank to support: (i) the development of a functional workout framework to stabilize and help recovery of Investment Companies and the enterprise sector; (ii) reforms to improve liquidation and rehabilitation procedures, including the promotion of more reliable access to credit information for credit providers, wider access to credit based on security interests in movable assets, and a registry governing security interests in movable assets; and (iii) enhancing professional development of commercial judicial specialization.

- **Kuwait Competition Protection Agency Support**. The World Bank is supporting the successful implementation of the competition law and policy in Kuwait. The Bank is effectively providing a comprehensive technical assistance program for setting up the Competition Protection Authority and tackling key challenges at the beginning of CPA's operation. Bank support will be delivered in three consecutive phases: Phase I - Institutional development; Phase II - Capacity building/training; Phase III - Advocacy and Cooperation.

- **Support to the National Fund for Small and Medium Enterprise Development**. At the request of the government the World Bank is providing support to the SME Fund in: (i) helping develop the Executive Regulations of the SME Fund – as a Phase I of the activity, and; (ii) support in the development of Fund's strategy and business plan; and organizational governance and service lines. This activity aligns with the Country Partnership Strategy (CPS), and the World Bank's Finance and Private Sector regional strategy (2012) to: (i) Support private sector development and economic diversification; (ii) Unleash innovation and competitive industries; and (iii) Enhance access to finance.

III – Human development

- **Education Sector Technical Assistance Program.** Building on the success of the *School Education Quality Improvement* (SEQI) Program - designed to support the Ministry of Education (MoE) to implement selected critical elements of its own 4-year Government Program, the World

Bank is partnering with MoE in expanding the cooperation program to improve the output of the education process, including through work on curriculum, and developing a school leadership framework. The World Bank work in the education sector has further expanded to include support the work of the National Center for Assessment and Evaluation (NCAE) as well as support for the development of a strong higher education sector strategy, which will include a sector review and benchmarking to regional and more global standards.

- **Development of Social Safety Net Strategic Framework.** Kuwait's Ministry of Social Affairs and Labor (MOSAL) requested World Bank support to develop a more coherent Social Safety Net Strategic Framework. Under this activity the Bank is supporting the Government of Kuwait in undertaking an assessment of existing social policies and programs in Kuwait, and developing a Social Safety Net Strategic Framework that is consistent with international practices, and grounded within the socio-economic context of Kuwait.

- **Labor Market Information System (LMIS).** Under this activity the World Bank is supporting the GoK with the establishment of an LMIS through the set-up of institutional arrangements, processes, and tools for the collection, integration, analysis, policy formulation, and dissemination of labor market information.

STATISTICAL ISSUES

(As of October 14, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Despite further improvements in the current year, there is scope for improved compilation of the national accounts and balance of payments statistics through better coordination among statistical agencies. Timeliness, particularly for the national and fiscal accounts, is an area of concern.
National Accounts and Production: Past improvements of national accounts include: change of the base year for the constant price data to 2010 and the estimates of value added for subsidized goods and services of the public utilities sector through the use of input costs (the household expenditure survey was used previously). Continued progress, especially in the estimation of value added for the oil sector, requires the dedication of adequate resources and improved coordination between the Ministries of Planning, Oil, and Finance. The IMF's statistics department (STA) has provided technical assistance to the Ministry of Planning to improve national accounts and price data. It would be useful if the Central Bank of Kuwait (CBK) would publish oil sector information in the *Quarterly Statistical Bulletin* pertaining to output, refining, domestic consumption, export price for crude and refined products and the domestic price of petroleum products. These data are available from the Ministry of Oil. Timeliness of the data needs to be improved. In the last few years, delays in the production of price indexes caused long lags in the production of real GDP data. Recent improvements in the compilation of statistics are expected to reduce publication lags and produce quarterly data. **Price statistics** CPI weights are based on the 2007 household expenditure survey and were introduced into the index for a reference year of 2007. An improved monthly CPI based on a revised basket has been published in monthly CPI bulletins with about a one-month lag. The wholesale price index (WPI) needs to be developed into a producer price index (PPI) which is consistent with the national accounts and includes all domestically produced goods, ex-factory, for the export and the domestic market. The PPI development has been ongoing, and the PPI is expected to be published by end-2014.
Government finance statistics: Annual GFS data are reported for publication in the *Government Finance Statistics Yearbook (GFSY)*. The major components of extrabudgetary revenues (investment income and transfers of profits of public institutions), extrabudgetary expenditures (interest on foreign debt and treasury paper), and financing operations conducted by two reserve funds are not reported. Data on interest on foreign debt and treasury paper are usually provided to Article IV consultation missions, but the regular provision of data on investment income is lacking. The authorities have made some progress in fiscal data presentation, but the lack of a suitable classification of data on the execution of the budget remains a constraint on monitoring effectively fiscal developments during the year. The authorities' presentation is not yet fully compliant with the GFSM 2001 guidance, but progress is

being made in terms of creating a new chart of accounts and moving reporting to an accrual basis.

Data on the operations of the Public Institute for Social Security are not made available. Sharing of information between various government agencies could be improved. STA has indicated to the authorities that operations of the two reserve funds should be classified as part of government, as they perform activities for public policy purposes (management of debt and assets, and financing of the budget). An additional extension of coverage would be to report GFS in the form of the Statement of Sources and Uses of Cash for the consolidated central government. The authorities have also been briefed on the IMF's ongoing work to enhance the transparency of fiscal accounts and presentations detailed in the "Code of Good Practices on Fiscal Transparency" and were encouraged to adopt some of the practices recommended in the Code.

Monetary and financial statistics

The CBK reports monetary data to STA on a regular and timely basis based on the Standardized Report Forms (SRFs). CBK needs to work further to distinguish a number of investment companies that accept deposits from other investment companies that do not accept deposits. Investment companies that accept deposits should appropriately be classified as part of the depository corporations sector. In the current SRFs, all investment companies (including those that accept deposits) are classified as other financial corporations. However, the amount of deposits accepted by investment companies is considered as not significant. The Capital Markets Authority needs to collate and disseminate information related to investment companies.

Balance of Payments Statistics: The CBK compiles and disseminates detailed annual data in accordance with the methodology of the *BPM6*, while trade data estimates are disseminated monthly. However, data on capital flows of the nonfinancial private sector are limited. To improve coverage for inward foreign direct investment, the CBK is making efforts to obtain more data by surveying direct investment enterprises. The Central Statistical Office (CSO), working with the CBK, implemented the IMF's Coordinated Direct Investment Survey in 2010-12. This initiative should improve foreign direct investment statistics. Enhancements have been made in the estimation of travel services and communication services, but further improvements are needed in compilation practices and in the estimation of data on several service items and private transfers.

A major step forward in 2007 was the dissemination of IIP data for 2001 onwards in STA publications. However, the information on IIP data made available to staff is incomplete as it excludes the external assets held by the general government due to domestic legal constraints on dissemination (however, loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits are included).

The CBK also participates in the Coordinated Portfolio Investment Survey (CPIS) with data reported for 2003 onwards, and in the recently introduced Coordinated Direct Investment Survey. 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.

In 2009, STA provided TA on improving external accounts data. The CBK has made good progress since then, particularly in the substantial revisions to report forms, including the separate reporting of financial transactions in the BOP and other changes in volume in the international investment position. It has also made progress in the estimation of remittances data. Yet, delays and data gaps remain. In particular, coordination among major government entities is needed to provide quarterly data to the CBK in time to compile timely quarterly statistics. Trade data are compiled by the CSO annually and from 2013, on a quarterly basis.

Furthermore, the response rate for the private nonfinancial sector is low.	
II. Data Standards and Quality	
Kuwait is one of the first GDDS participants. However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since October 2002. The CBK maintains its own webpage where it provides the following data to the public: money and banking statistics; balance of payments statistics; trade balance statistics; exchange rate; GDP by sector and expenditure at current and constant prices; public finance statistics; CPI and WPI; and security market indicators. Similarly, the Ministry of Planning has a webpage where the CSO publishes data on national accounts, prices, and other related statistics. The Ministry of Finance webpage includes detailed data for actual and estimated budget operations. In addition, the Kuwait Stock Exchange webpage provides data on stock market indices, volume and value of securities traded, as well as privatization schedules and other related information.	No data ROSC is available.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of October 14, 2014)

	Date of latest observation (For all dates in table, please use format (dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality Methodological soundness[9]	Data Quality Accuracy and reliability[10]
Exchange rates	13/10/2014	13/10/2014	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	30/06/2014	10/09/2014	M	M	M		
Reserve/base money	30/06/2014	10/09/2014	M	M	M		
Broad money	30/06/2014	10/09/2014	M	M	M		
Central bank balance sheet	30/06/2014	10/09/2014	M	M	M		
Consolidated balance sheet of the banking system	30/06/2014	10/09/2014	M	M	M		
Interest rates[2]	30/06/2014	10/09/2014	M	M	M		
Consumer price index	31/08/2014	01/10/2014	M	M	Q		
Revenue, expenditure, balance and composition of financing[3]—general government[4]	31/03/2014	10/09/2014	Q	Q	Q	Not published on Fund standards	Not published on Fund standards
Stocks of central government and central government-guaranteed debt[5]	31/12/2013	10/09/2014	M	M	M		
External current account balance	31/12/2013	09/04/2014	A	A	A		
Exports and imports of goods and services	31/12/2013	09/04/2014	A	A	A		
GDP/GNP	31/12/2012	31/12/2013	A	A	A		
Gross external debt	31/12/2013	09/04/2014	A	A	A		
International investment position[6]	31/12/2013	10/09/2014	A	A	A		

[1] 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.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] Reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) 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).

[10] 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.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Kuwait

On December 5, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Kuwait and considered and endorsed the staff appraisal without a meeting.[2]

Economic activity picked up in 2014. Non-oil growth is projected at 3.5 percent driven by a combination of continued increase in domestic consumption and some pick-up in government capital spending and private investment. Flat oil production would keep the overall real GDP growth positive at 1.3 percent. The average inflation rate is forecast to remain at about 3 percent. The current account and fiscal surpluses are expected to remain high.

Banks are amply capitalized and liquid with stable profits. Banks have a combined capital adequacy ratio of 18.3 percent, falling gross non-performing loans (NPLs) of 3.5 percent (driven by a combination of lower NPLs in real estate and equity, a pick-up in loan growth and continued write-offs of loans), and a growing provisioning ratio (general plus specific provisions) of 139 percent. Risks to the financial system from investment companies are contained, although a few companies continue to make losses and deleverage and restructure their balance sheets and operations.

The medium-term economic outlook is favorable. Non-oil GDP growth is expected to pick up to 4.0–5.0 percent in the medium term, supported by government investment in infrastructure and the oil sector, and by consumption. The fiscal and current account surpluses are projected to be significantly lower in the baseline scenario. The main downside risk to the outlook arises from a sustained decrease in oil prices as well as slow implementation of the Development Plan (public investment program).

[1] 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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

In concluding the 2014 Article IV Consultation with Kuwait, Executive Directors endorsed staff's appraisal, as follows:

The economic outlook for Kuwait remains favorable. Non-oil GDP growth in Kuwait is expected to further accelerate to 4.0 percent in 2015, and is projected to increase to 4.5–5.0 percent in the medium term in the baseline scenario. It is vital for the government and the parliament to agree on an agenda to place the public investment program on track, and continue with economic reforms to achieve this growth.

The fiscal position is currently strong but restraint in current spending is needed to preserve buffers and increase saving for future generations. A medium-term fiscal strategy is required to drive reforms, the elements of which would include containing current expenditure growth, particularly subsidies and wages, prioritizing capital expenditure, and increasing non-oil revenue. Subsidy reform needs to be supported by an effective communication strategy raising awareness about the cost of subsidies and the benefits of reform, and accompanied by targeted mitigating measures, especially to protect the vulnerable segment of the population. The proposed wage reform would be more effective if it operates within overall expenditure limits, aligns incentives for reducing the wage gap between public and private sector jobs and contains public employment.

Prioritizing capital expenditure towards social and physical infrastructure projects would help strengthen growth. Higher capital spending should be accompanied by improved efficiency of public investment, and integrated with the budget formulation process. Drawing lessons from experience with the current Development Plan (2010–14), which fell short of targets, the new plan (2015–19) should set realistic targets that are consistent with the overall economic objectives and increase safeguards to ensure better implementation. A cost-benefit analysis of mega projects is warranted.

A key challenge will be to strengthen the fiscal policy framework to support fiscal reforms. Medium-term fiscal framework would support implementation of the desirable fiscal measures. Strengthening the macro-fiscal unit would facilitate preparation of macroeconomic forecasts and improve revenue and expenditure projections. Other elements would include combining the medium-term frameworks with the annual budget process, while preparing for an adoption of fiscal rules. The implementation of a public investment management system would help increase the efficiency of public investment.

While the current regulatory framework has effectively contained financial risks, enhancing the macroprudential policy framework would further strengthen systemic stability. Effective and prudent regulation by the central bank has ensured high capitalization and provisioning and maintained banking system stability. Developing a formal macroprudential framework that gives the CBK a formal mandate for ensuring financial stability and enhanced coordination across regulators would further contribute to financial stability. The macroprudential policy framework should consider further strengthening the central bank's early warning system for identifying and monitoring systemic risks, with macro stress testing being an integral part of systemic surveillance, and the use of macroprudential policies in a countercyclical manner.

The systemic risk from investment companies (ICs) is contained, but strengthened oversight and governance, and some consolidation is required to prevent potential financial stability risks. The completion of the new draft of corporate bankruptcy law, with support from an effective oversight and communication campaign by the Capital Markets Authority, could help expedite the restructuring of some loss-making ICs, engender consolidation, and ensure implementation of the corporate governance code by June 2016.

Economic diversification into areas with potential for national employment should constitute a key policy priority. Improving the business environment, infusing stronger governance in public administration, and providing a greater role for small and medium-sized enterprises, are needed to take this agenda forward. In addition a number of policy measures such as strengthening private sector competition, implementing labor market reforms, and limiting government employment could help realign incentives for firms and national workers to promote entrepreneurship and pursue private sector jobs. For instance, a review of competition policy law and its implementation and of policies related to procurement procedures and barriers to entry of new firms could help increase competition. Diversification could benefit from integrating the private sector through backward and forward linkages in upstream and downstream input industries.

Further developing domestic financial markets will help the diversification process and reduce concentration risks. Developing domestic debt markets would bring important benefits, such as providing alternatives to funding large infrastructure investment projects. Expediting the legal framework for the issuance of sukuk would help deepen this market.

Considerable progress has been made in improving the quality and availability of key economic data. Staff encourages the authorities to further their efforts in improving all areas of economic data, particularly in the areas of government finance, national accounts and real estate market statistics, including through cooperation with GCCStat.

Kuwait: Selected Economic Indicators, 2007–15

(Quota: SDR 1,381.1 million)
(Population: 3.97 million; Dec. 2013)
(Per capita GDP: $44,700; 2013 estimate)
(Poverty rate: n.a.)
Main export: oil

						Prel.	Proj.		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Oil and gas sector									
Total oil and gas exports (billions of U.S. dollars)	59.1	82.6	48.9	61.8	96.7	112.9	108.5	106.0	102.7
Average oil export price (U.S. dollars/barrel)	68.4	92.2	61.5	77.7	103.3	107.1	105.5	104.7	101.4
Crude oil production (millions of barrels/day)	2.57	2.68	2.26	2.31	2.66	2.98	2.93	2.93	2.94
	(Annual percentage change, unless otherwise indicated)								
National accounts and prices									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	32.6	39.6	30.5	33.1	42.5	48.7	49.9	50.7	51.1
Nominal GDP (market prices, in billions of U.S. dollars)	114.7	147.4	106.0	115.4	154.1	174.1	175.8	179.6	181.1
Real GDP (at factor cost)	6.0	2.5	-7.1	-2.4	10.2	8.3	-0.2	1.3	1.7
Real oil GDP	-4.7	6.5	-12.9	0.5	14.6	12.2	-1.8	0.0	0.3
Real non-oil GDP	14.0	0.0	-3.2	-4.1	3.6	1.9	2.8	3.5	4.0
CPI inflation (average)	5.5	6.3	4.6	4.5	4.9	3.2	2.7	3.0	3.5
Unemployment rate (Kuwaiti nationals)	6.1	4.9	3.6	2.9	3.4	...	...	...	...
	(Percent of GDP at market prices)								
Investment and savings									
Investment	20.5	17.6	18.0	17.9	13.5	12.8	14.1	15.9	17.3
Public	3.3	3.5	4.8	5.7	4.7	4.0	4.0	5.3	6.2
Private[1]	17.1	14.1	13.2	12.2	8.8	8.8	10.1	10.7	11.1
Gross national savings	57.2	58.5	42.3	51.1	57.1	58.7	56.6	53.6	52.8
Public	53.5	47.2	50.9	53.5	58.0	58.3	55.7	54.5	52.3
Private [1]	3.8	11.3	-8.6	-2.4	-0.9	0.3	0.8	-0.9	0.6
	(Percent of GDP at market prices)								
Budgetary operations[2]									
Revenue	67.1	65.1	64.6	69.0	75.3	73.3	71.9	71.9	71.5
Oil	51.6	52.8	53.3	56.3	64.8	61.2	58.5	57.0	54.8
Non-oil, *of which:*	15.5	12.3	11.3	12.8	10.5	12.1	13.4	14.9	16.7
Investment income	12.3	9.4	8.4	9.0	7.3	8.6	9.1	10.4	12.1
Expenditures	28.1	48.5	35.7	45.3	38.2	38.8	37.2	45.6	44.4
Expense [3]	24.0	44.1	31.0	39.5	33.6	34.6	33.1	39.9	37.9
Capital	4.1	4.4	4.7	5.8	4.6	4.3	4.1	5.7	6.5
Balance	39.0	16.5	28.9	23.8	37.2	34.5	34.8	26.3	27.1
Domestic financing	-3.1	-4.5	-1.8	1.1	-0.2	-1.9	-3.3	-1.8	-1.8
External financing	-35.9	-12.0	-27.1	-24.9	-37.0	-32.6	-31.5	-24.5	-25.3
Non-oil balance (percent of non-oil GDP) [4]	-50.2	-56.4	-79.2	-98.8	-97.3	-101.6	-87.8	-106.7	-101.7
Total gross debt (calendar year-end)[5]	7.0	5.4	6.7	6.2	4.6	3.6	3.2	3.3	3.3
	(Percent change; unless otherwise indicated)								
Money and credit									
Net foreign assets[6]	3.1	33.0	24.1	-0.5	22.0	20.6	11.1	11.1	8.4
Claims on nongovernment sector	35.1	16.6	6.2	1.8	2.3	3.1	7.3	6.9	7.3
Kuwaiti dinar 3-month deposit rate (year average; in percent)	5.0	3.4	1.7	1.3	1.1	1.0	0.8	0.9	...
Stock market unweighted index (annual percent change)[7]	24.7	-38.0	-10.0	-0.7	-16.4	2.1	27.2	...	...

Kuwait: Selected Economic Indicators, 2007–15 (concluded)

(Quota: SDR 1,381.1 million)
(Population: 3.97 million; Dec. 2013)
(Per capita GDP: $44,700; 2013 estimate)
(Poverty rate: n.a.)
Main export: oil

						Prel.		Proj.	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods	62.6	87.0	54.4	67.1	102.9	119.7	115.7	113.4	110.5
Of which: non-oil exports	3.5	4.4	5.5	5.3	6.2	6.7	7.1	7.4	7.8
Annual percentage change	6.4	25.1	26.5	-3.4	15.3	9.5	5.9	3.7	5.9
Imports of goods	-19.1	-22.9	-18.5	-19.6	-22.6	-24.2	-25.9	-27.7	-29.6
Current account	42.2	60.2	28.3	36.7	65.8	78.7	69.6	67.7	64.3
Percent of GDP	36.8	40.9	26.7	31.8	42.7	45.2	39.6	37.7	35.5
International reserve assets[8]	16.7	17.2	20.4	21.4	26.0	29.0	32.2	38.5	40.6
In months of imports of goods and services	6.2	5.4	7.6	7.2	7.5	7.7	8.2	9.1	9.0
Memorandum items:									
Exchange rate (U.S. dollar per KD, period average)	3.52	3.72	3.48	3.49	3.63	3.57	3.53	...	...
Nominal effective exchange rate (NEER, period average)	-2.0	2.9	-3.6	-0.3	0.5	1.6	1.0	...	...
Real effective exchange rate (REER, period average)	-0.4	8.1	-1.0	1.1	1.7	3.2	0.8	...	...
Sovereign rating (S&P)	AA-	AA-	AA-	AA-	AA	AA	AA	...	...

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

[1] Also includes government entities.
[2] Kuwaiti fiscal year ending March 31, e.g. 2007 refers to fiscal year 2007/08.
[3] In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund.
In 2008/09, KD 5.5 billion was transferred. KD 1.1 billion is budgeted for each year from 2010/11 to 2014/15.
[4] Excludes investment income and pension recapitalization, and after transfers for FGF (fiscal year).
[5] Excludes debt of Kuwait's SWF related to asset management operations.
[6] Excludes SDRs and IMF reserve position.
[7] Change in the KSE as of May 9 2012 for 2012.
[8] Does not include external assets held by Kuwait Investment Authority.