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

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

The Response to the COVID-19 Pandemic

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

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

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

Recent Developments and Outlook

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

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

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

In discussions with staff, the authorities reiterated their commitment to strengthen the fiscal accounts, safeguard financial stability, and further develop the non-oil economy and private sector job creation. They are guided in their efforts by the government's reform program, which is underpinned by Kuwait Vision 2035. The program aims at supporting macroeconomic stability, addressing structural and fiscal imbalances in the economy, and promoting sustainable and inclusive growth. The program encompasses multiple pillars including enhancing economic growth, fostering private sector development,

reinforcing fiscal sustainability, promoting social and human capital development via education and healthcare reforms, and infrastructure and renewable energy development. The program includes an ambitious legislative agenda which requires parliamentary approval for implementation.

Fiscal Policy

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

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

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

The government is pressing forward with efforts to pass the debt law, which will allow Kuwait to utilize its indebtedness capacity in line with their financing plans and to support orderly fiscal operations. They view the passing of the debt law as a near-term priority as this

would contribute to a balanced financing mix and reduce drawdowns from the General Reserves Fund. Debt management is being further strengthened, and the authorities expressed appreciation for Fund support on enhancing the institutional framework for debt management. Kuwait's asset-liability management committee continues to strengthen coordination and help form a more systematic view of asset-liability management.

Monetary and Financial Sector Policies

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

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

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

The CBK continues to carefully take into account all relevant internal and external factors in determining the course of its monetary policy. These include domestic and global economic, monetary and banking conditions, economic indicators, oil sector performance, developments in credit and deposits growth, and domestic interest rate ceilings and trends. The monetary policy stance will also be adjusted, in a forward-looking manner, to mitigate imported inflationary pressures and external spillovers.

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

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

Structural Reforms

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

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

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

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

Conclusion

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