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**Joint Statement by Mr. Buissé, Ms. Riach, Mr. Albisson, and Ms. Rogers on Kuwait  
(Preliminary)  
Executive Board Meeting  
March 14, 2022**

**We thank staff for a clear and comprehensive report, as well as Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany for their insightful buff statement.** We broadly agree with the report's analysis and recommendations and wish to note the following points regarding fiscal and external sustainability, the diversification of the economy, and spillover effects of the Ukraine crisis on Kuwait's economy.

**We commend the Kuwaiti authorities for their response to the Covid-19 pandemic, supporting the economy to withstand the negative impacts of the crisis through fiscal, monetary and financial measures, and the high vaccination rates.** We agree with staff's assessment that policy should become more targeted, focusing on the most vulnerable and limiting economic scarring.

**We note the fiscal challenges Kuwait has faced, made more difficult by the pandemic and political impasse. We encourage the authorities to pass the debt law - noting the priority placed on this in the Buff Statement, and to establish a medium-term fiscal framework, with a clear fiscal anchor drawn from the non-oil sector.** Notwithstanding the recent increase in oil revenues, we agree with staff that now is the right time to focus on fiscal consolidation to ensure long run sustainability and intergenerational equity. It is encouraging to see these included in the reform plan but we urge the authorities to set out time bound targets. We especially encourage the authorities to strengthen tax revenue, particularly through expanding corporate tax and VAT. Targeted sales of public assets could also contribute to easing fiscal pressure and increasing economic efficiency. In terms of spending, fiscal reforms should aim to improve prioritization of mandatory spending, mostly by reforming the public wage bill, strengthening the efficiency of infrastructure spending, and improving the social safety net. A phasing out of subsidies, especially for fuel, would also be relevant. *The report does not discuss the dynamics of implicit commitments linked to the generous retirement system. What is the impact of this system and how do staff assess the adequacy of the Public Institution for Social Security provisioning? Please could staff set out*

*the methodology used to determine the level of the oil price needed to balance the Kuwaiti budget.*

**On the monetary front, we agree that the peg to a basket of currencies remains an effective anchor for the economy and the possible negative impact on competitiveness is currently marginal.** In the medium term, a more flexible exchange rate could support the development of the nonhydrocarbon tradable sectors. It might be useful in future Article IV reports to deepen the analysis on the benefits, risks and possible mitigating measures of more flexibility.

**We note the overall health of the financial sector, including low non-performing loans and significant steps to improve the management of AML/CTF risks. However private sector credit, which drives diversified economic growth is low.** We agree with staff that SMEs are a driver of jobs and innovation and encourage the authorities to assess whether SME interest rate caps are having the intended impact.

**We thank staff for the insightful Selected Issues report which clearly sets out the structural challenges within the economy and the dichotomy between the public and private sectors in Kuwait. On this basis, we strongly encourage the authorities to strengthen their strategy for economic diversification.** Kuwait's Vision 2035 notes the importance of reforming the labor market, improving the business environment and diversifying the economy to revitalize the private sector so that it can boost productivity and job creation. This will be essential in the medium to long run as the scale and contribution from carbon sectors reduce. We agree action is needed now to ensure the building blocks are put in place for Kuwait's long term economic growth. The reform of the labor market should be the cornerstone of the structural reform agenda. We support staff's recommendation to disconnect public employment and redistribution mechanisms. As a large part of the pandemic-related labor market adjustment was borne by the reduction of expatriate employment, staff's recommendation to enhance expatriate labor mobility and attract higher skilled labor is interesting but appears challenging. In addition, if the adoption of a lighter and more efficient bankruptcy legal framework is an important step forward, some major hindrances to the development of economic activity and FDI inflows remain, such as the shortage of land for development and the restrictions on foreign ownerships of companies. *Could staff expand on the authorities' response to these recommendations, in particular the rebalancing of private and public employment, and to the options presented to reform the current system for oil wealth redistribution to citizens.*

**While Article IV discussions were held prior to the Ukraine crisis, the economic impact is likely to be significant.** *Could staff outline the channels through which the economy of Kuwait is likely to be affected, and what the possible impact may be on the reform and diversification agenda.*