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June 20, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Kuwait - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Kuwait, which has been tentatively scheduled for discussion on Friday, July 22, 1983.

If Executive Directors have technical or factual questions relating to this subject prior to the Board discussion, they should contact Mr. Tomasson, ext. 73392.

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INTERNATIONAL MONETARY FUND

KUWAIT

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Consultation with Kuwait

Approved by A.K. El Selehdar and Subimal Mookerjee

June 17, 1983

I. Introduction

The 1983 Article IV consultation discussions with Kuwait were held in Kuwait City during the period April 16-21, 1983. The Kuwaiti representatives included the Governor and other senior officials of the Central Bank, and senior officials of the Ministries of Finance, Oil, Commerce and Industry, and Planning. The staff mission was composed of Messrs. A.K. El Selehdar (Head), A.H. Kayoumy, G. Tomasson, and L. Wolfe, and Miss M. Pirret (Secretary), all of MED.

Kuwait accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund Articles of Agreement on April 5, 1963. The last consultation discussions were held in November 1981 and the Staff Report (SM/82/14, January 19, 1982) was discussed by the Executive Board on February 17, 1982.

II. Background

Kuwait's economy is heavily dependent on the country's large oil reserves, which can sustain oil production at current levels for several generations. Accordingly, maximization of the oil sector's long-term contribution to national development is the principal task of economic management. In recent years, this has entailed substantial curtailment of oil production in support of conservation and other policies and the pursuit of domestic and foreign investment policies aimed at securing long-term market outlets for crude oil and products. A major expansion of domestic refining capacity is in progress, and Kuwait's acquisition of the Santa Fe Corporation in October 1981 (at a cost of US\$2.5 billion) marked a significant step in the development of a fully integrated oil sector under national ownership and control. 1/

1/ In describing oil sector developments, the staff has relied on information provided by the Kuwait Ministry of Oil as well as by outside economic and trade publications.

The oil sector has contributed about two thirds of Kuwait's GDP in recent years. A sharp increase in official foreign investment earnings and declining oil exports have reduced the share of oil receipts in total government revenue from an average of about 80 per cent during 1977-80 to an estimated 65 per cent in 1981/82 (fiscal year ended June 30). Oil export receipts accounted for an average of about 70 per cent of total current receipts on external account during 1977-80, while the share of investment income averaged about 18 per cent; in 1981 the corresponding shares were about 54 per cent and 33 per cent, respectively. Crude oil production rose by 27 per cent between 1977 and 1979, to 2.5 million barrels per day (mbd), and fell thereafter to 1.1 mbd in 1981, compared with estimated current oil production capacity of about 4.0 mbd. Domestic consumption of petroleum products has been rising sharply in recent years, increasing by about 70 per cent between 1978 and 1981. Real non-oil GDP growth averaged about 7 per cent per annum during 1977-81, while the total labor force increased by about 60 per cent between 1975 and 1980, due mainly to a substantial inflow of foreign workers.

Total budget expenditures increased at an average annual rate of about 18 per cent between 1977/78 and 1981/82, with current and development expenditures recording increases of 19 per cent and 16 per cent, respectively. Total budget revenues more than doubled between 1977/78 and 1979/80, reflecting sharp increases in oil and gas revenues and investment income, but declined by about 40 per cent between 1979/80 and 1981/82, as a sharp fall in oil and gas revenues was only partly offset by higher investment income. The overall surplus on government financial operations increased from the equivalent of approximately 27 per cent of GDP in 1977/78 to 64 per cent in 1979/80; the corresponding ratios for 1980/81 and 1981/82 were approximately 49 per cent and 9 per cent, respectively.

Monetary developments in the Kuwaiti economy are largely determined by the use of budget revenues for the financing of the Government's domestic currency expenditures, and the extent to which such use is offset by the private sector's deficit on external account. During the four-year period 1977-80, domestic liquidity increased at an average annual rate of about 24 per cent, but rose by about 36 per cent in 1981. A highly speculative stock market boom developed during the latter year, sustained in part by a rapid expansion of an unofficial system of credit creation in the form of postdated checks used in the settlement of share transactions. The consumer price index recorded increases of 7-10 per cent each year during 1977-81.

In the external sector, oil export earnings more than doubled between 1977 and 1980 to KD 5,153 million, reflecting an increase of about 146 per cent in average oil export prices during the period, offset partly by a decrease of about 17 per cent in export volume. In 1981, oil export earnings declined to KD 3,888 million, with a decrease of 33 per cent in export volume being partly offset by an increase of 13 per cent in oil export prices from the 1980 level. Total imports remained largely unchanged between 1977 and 1979, amounting to KD 1,346 million in the

latter year; in 1980, however, imports rose by 36 per cent and further by 3 per cent in 1981, to KD 1,879 million. In the services account, investment income rose from KD 563 million in 1977 to KD 2,343 million in 1981, reflecting the rise in international interest rates between the two years and the accumulation of foreign assets. Kuwait's surplus on external current account rose from KD 1,558 million in 1977 to KD 4,368 million in 1980, but declined to KD 4,090 million in 1981. Official development assistance averaged about KD 320 million per annum between 1977 and 1981, or the equivalent of about 5 per cent of GDP; about 75 per cent of the total was in the form of grants. The Central Bank's exchange reserves rose by the equivalent of US\$2.4 billion during 1977-81 to US\$4.1 billion; other official foreign exchange holdings were placed at about US\$50-billion at the end of 1981.

Kuwait does not maintain restrictions on payments or transfers for international transactions, and its trade system is virtually free from restrictions. Since March 1975, the Kuwaiti dinar's exchange rate has been set on the basis of a basket of major currencies. While the composition of the basket has not been revealed, the U.S. dollar is believed to have a large weight therein. Between 1977 and 1981, the Kuwaiti dinar appreciated by 2.7 per cent and 1.7 per cent against the U.S. dollar and the SDR, respectively.

III. Report on the Discussions

1. Production, income, and prices

Oil production declined by about 27 per cent in 1982, to about 825,000 barrels per day (b/d), reflecting reduced world demand for oil, as well as difficulties encountered by Kuwait in maintaining exports at official OPEC prices; for example, Kuwait's exports to Japan declined by about 58 per cent during the first half of 1982, while total OPEC oil exports to Japan declined by about 14 per cent. Kuwait's production quota under the OPEC agreement reached in March 1983 was set at 1.05 mbd, but actual production is not expected to attain this level in 1983. Any significant increase in oil production, the Kuwaiti representatives stated, would have to await economic recovery in the industrial countries and a resulting increase in world demand for oil. They observed also that the national medium-term production ceiling of 1.25 mbd established in 1981 remained unchanged.

The Kuwaiti representatives noted that important steps had been taken in 1982 to implement a medium- and long-term market strategy based on the acquisition of marketing outlets for refined products in major consumer markets. Thus, the Kuwait Petroleum Corporation (KPC) had purchased during the year the Gulf Oil retail distribution network in the Benelux countries and in Denmark and Sweden, as well as Gulf Oil refineries in Holland and Denmark with a combined capacity of 160,000 b/d. Domestic refining capacity, they added, would increase from 500,000 b/d at present to 750,000 b/d by 1986. In 1982, KPC had also acquired

a 24 per cent share in the German Hoechst Chemical Company as well as a 49 per cent equity interest in a Tunisian fertilizer company, and had moved to expand its foreign oil and gas exploration activities, partly through the acquisition by the Santa Fe Corporation of the American Andover Petroleum Company. During 1982, it was decided to increase KPC's capital from KD 1 billion to KD 2.5 billion. With respect to other foreign investments, the Kuwait International Petroleum Investment Company had agreed on a joint-exploration venture in Pakistan, and an US\$80 million program for developing hydrocarbon resources in seven developing countries had been prepared during the year by the International Energy Development Corporation (partly Kuwaiti owned).

With respect to other oil sector operations in 1982, the Kuwaiti representatives noted that output of associated gas had declined by 27 per cent due to reduced oil production during the year. This had contributed to a sharp decline in LPG production from the equivalent of 22.0 million barrels in 1981 to an estimated 9.6 million barrels in 1982, a level which represented less than one fifth of present maximum production capacity. The Kuwaiti representatives confirmed that construction of a US\$1.3 billion petrochemical complex had been deferred indefinitely in view of current and prospective world market conditions. However, work was continuing on the construction of a fourth ammonia line of 1,000 tons per day at the Shuaiba complex, with completion scheduled for the second half of 1984. They noted also that KPC continued to purchase crude oil from the Government at official prices, and that domestic retail prices of refined products had been increased significantly in April 1982; after the increase, domestic gasoline prices averaged approximately 65-70 per cent of international c.i.f. prices. As for oil export prices, the staff representatives noted a recent statement by the Minister of Oil to the effect that stability of nominal prices through 1985 and of prices in real terms thereafter might be in the mutual interest of oil producers and energy consumers.

The review of developments in the economy's non-oil sectors in 1982 was hampered by incomplete data. However, the Kuwaiti representatives noted that preliminary information suggested that non-oil GDP might have grown in real terms by 5-6 per cent during the year, compared to the previous year's rate of about 10 per cent, reflecting primarily reduced government expenditure growth and the collapse of the unofficial stock market (Souk al-Manakh) after mid-year. Value added in the non-oil manufacturing sector was estimated to have increased by 9 per cent in 1982 compared with increases of 12-13 per cent recorded in each of the two preceding years. In the manufacturing sector, it was stated, the Government sought to encourage diversification of domestic production provided that unit costs were not significantly above those of competing imports. In view of manpower constraints, the development of capital-intensive industrial projects would continue to be favored. Although agriculture and fisheries were minor contributors to Kuwait's GDP, their further development and expansion was to be encouraged. In this connection, the Government had formed an Agricultural Projects Company in August 1982 to promote agricultural and fishing production and improve related processing, storage, and marketing facilities.

The Kuwaiti representatives noted that private sector wages had increased sharply in 1982, partly due to a continuing high level of activity and manpower shortages in the construction sector. In the public sector, civil service salaries had been increased effective July 1, 1982 at an estimated annual cost of KD 75-80 million (19 per cent of the wage bill); in response to a question, it was stated that further increases in civil service salaries were not currently envisaged. With respect to price data, the staff representatives welcomed the recent publication of a revised consumer price index and noted the proposed revision of the wholesale price index later in the year. The revised consumer price index showed an increase of 7.8 per cent for 1982 compared with one of 7.3 per cent recorded in 1981; the Kuwaiti representatives suggested that the increase in consumer prices in 1983 might also be limited to 7-8 per cent.

2. Financial policies

The discussions on fiscal and monetary developments and policies were conducted against the background of the sharp decline in total budget revenues in the period after 1980/81, and the rapid rate of domestic liquidity expansion in both 1980 and 1981, which contributed to the speculative price boom in the unofficial stock market preceding the market's collapse after mid-1982. In these circumstances, the Kuwaiti representatives stated, the principal financial policy objectives since end-1981 had been the further rationalization of resource utilization within the public sector and the continued pursuit of monetary and credit policies aimed at the financing of nonspeculative activities.

The Kuwaiti representatives noted that total government revenues in 1982/83 were likely to be approximately unchanged from the 1981/82 level, with oil and gas revenue declining by 10 per cent and investment income increasing by 17 per cent between the two years (Table 1). Total expenditures, having increased by 29 per cent in 1981/82, were expected to decline by 4 per cent in 1982/83, reflecting the Government's shift toward a more restrained fiscal policy stance in response to the decline by one third in total budget revenues in 1981/82. The overall surplus of KD 695 million projected for 1982/83, it was noted, would be the equivalent of approximately 12 per cent of Kuwait's GDP during the year.

Table 1. Kuwait: Summary of Government Financial Operations, 1980/81-1983/84 ^{1/}

(In millions of Kuwaiti dinars)

	Actuals		Original	Revised	Estimate
	1980/81	1981/82	Estimate	Estimate	Estimate
			1982/83		1983/84
Revenue	<u>6,351</u>	<u>4,280</u>	<u>4,731</u>	<u>4,265</u>	<u>4,637</u>
Oil and gas	<u>4,450</u>	<u>2,786</u>	<u>2,967</u>	<u>2,500</u>	<u>2,788</u>
Investment income	1,744	1,364	1,600	1,600	(1,849)
Other	157	130	164	165	(
Expenditure	<u>2,877</u>	<u>3,714</u>	<u>3,439</u>	<u>3,570</u>	<u>3,984</u>
Current	<u>1,434</u>	<u>1,670</u>	<u>1,887</u>	<u>1,966</u>	(
Development	489	663	698	600	(
Transfers abroad	262	245	304	304	(3,584)
Land purchases	392	450	150	300	(
Loans and equity	300	686	400	400	400
Surplus	<u>3,474</u>	<u>566</u>	<u>1,292</u>	<u>695</u>	<u>653</u>

Sources: Ministry of Finance and staff estimates.

^{1/} Includes budgetary and extra-budgetary transactions.

With respect to 1983/84, the Kuwaiti representatives stated that a provisional draft budget for the year had just been approved by the Council of Ministers. While the details of the budget were customarily made public only after its consideration and approval by the National Assembly, the continued pursuit of a policy of expenditure restraint and rationalization, together with a moderate increase in budget oil revenue, were expected to result in an overall surplus on government financial operations similar to that presently projected for 1982/83.

The staff representatives commented that the change in the Government's fiscal policy stance in 1982/83 had been appropriate in the face of declining budget oil revenues and in light of the need to ensure the efficient utilization of resources in the public sector. While the general thrust of fiscal policy was to remain unchanged in 1983/84, consideration might be given to the curtailment of certain direct and indirect subsidies, whose cost to the budget was substantial. In this connection, the staff representatives noted the use of natural gas and crude oil by power stations and desalinization plants, whose output prices had in some cases remained unchanged for many years. The Kuwaiti

representatives replied that the question of direct and indirect subsidies was under consideration by the Government, noting that its policy was to rationalize domestic energy use and consumption through the progressive adjustment of energy and energy-related sale prices toward nonsubsidized levels.

With respect to monetary developments, the Kuwaiti representatives observed that domestic liquidity expansion had decelerated from a rate of 36 per cent in 1981 to only 8 per cent in 1982, reflecting partly the restrained stance of fiscal policy in the current fiscal year. During 1982, there had also been a moderate decline in private sector credit expansion while other unclassified liabilities of the banking system had shown a large net contractionary impact. Nevertheless, the credit needs of the productive sectors had been adequately met during the year. The staff representatives commented that the marked deceleration in domestic liquidity expansion in 1982 seemed appropriate in light of the slowdown in non-oil GDP growth and the high rate of such expansion in 1981.

In early 1982, the Central Bank took further measures to moderate the pace of stock market speculation and protect the domestic financial system from possible adverse effects arising therefrom. Thus, banks were advised not to discount postdated checks nor to accept them as loan collateral, and to reduce from 45 per cent to 40 per cent by the end of the year the share of total credit extended in the form of overdraft facilities. Also, commercial papers submitted to the Central Bank for rediscounting were subjected to stricter scrutiny, and supervision of commercial bank operations was strengthened. Moral suasion was applied to limit stock purchases by commercial banks, although under existing law banks can invest up to 50 per cent of their capital resources in private stocks. Banks were also instructed not to invest in the stocks of non-Kuwaiti companies traded in the unofficial market and to accept as loan collateral only stocks issued by Kuwaiti companies.

While these precautionary measures had helped safeguard the domestic banking system, the Kuwaiti representatives emphasized that the stock market speculation itself had been fed largely by credit creation outside and beyond the banking system's control. The use of postdated checks by private individuals was not predicated on any bank involvement in the transactions concerned, but reflected the relative ease with which claims on private parties in such form could be legally enforced. Accordingly, recent stock market developments seemed to call for improved regulatory provisions relating to all aspects of stock market transactions, including measures aimed at limiting the scope for destabilizing credit operations. A high level committee, it was noted, was already at work on these and related reform measures. At the same time, formal clearance procedures had been established under official auspices to facilitate the settlement of private claims and counterclaims in the form of postdated checks, and arrangements had been made for safeguarding the interests of investors holding relatively small claims. An amendment to existing commercial laws had also been made in order to limit possible adverse effects of bankruptcy proceedings on economic activity in general.

3. External sector

In the current account of the balance of payments, export and investment income receipts in 1982, at KD 4,980 million, were about 27 per cent below the level recorded in 1981, reflecting decreases of 38 per cent and 19 per cent in oil exports and investment income, respectively (Table 2). Having declined by one third in 1981, oil export volume fell further by 35 per cent in 1982, while average oil export prices fell by 3 per cent compared with the 1981 increase of 13 per cent. The decline in investment income in 1982, the Kuwaiti representatives explained, could be ascribed to lower interest rates in international financial markets and to a decrease in the share of official foreign assets held in interest-yielding form. Allowing also for an increase of 17 per cent in net current payments in 1982, including one of 10 per cent in import payments, the current account surplus fell by 55 per cent during the year to KD 1,831 million. In the capital account, official assistance in 1982 remained approximately unchanged from the 1981 level, while the outflow for government investments declined 59 per cent to KD 912 million. Other items, including private sector capital flows and errors and omissions, were sharply less negative in 1982 than in 1981. As measured by the increase in the Central Bank's reserves, the balance of payments was in overall surplus by KD 565 million (US\$2.0 billion) in 1982 compared with the surplus of KD 77 million (US\$0.3 billion) recorded in the preceding year.

Commenting on recent balance of payments developments, the staff representatives observed that the adverse effects of declining oil export earnings on the current account position in 1981 had been offset to a large extent by increased investment income, with the current account surplus attaining a level of about KD 4,000 million (US\$14.3 billion) for the third year in a row. While export earnings had declined further by about one third in 1982, Kuwait had remained in the comfortable position of earning investment income on its stock of foreign assets which was only a little lower than the value of imports during the year. Accordingly, the principal impact of the decline in oil export earnings had been a roughly matching curtailment of outflows on account of government investments in 1982, while the reserves of the Central Bank had increased by about 48 per cent to the equivalent of about ten months' imports (KD 1,738 million, or US\$6.0 billion). The staff representatives also noted available information which indicated that other official foreign assets had amounted to the equivalent of approximately US\$53 billion at the end of 1982.

The Kuwaiti representatives stated that tentative balance of payments projections for 1983 showed a surplus on current account during the year of KD 1,490 million (US\$5.1 billion) compared with the surplus of KD 1,831 million (US\$6.4 billion) estimated for 1982. Total exports would remain approximately unchanged from the 1982 level, with oil export volume assumed to increase by 13 per cent and oil export prices remaining constant at their mid-March 1983 levels, while imports were projected to increase by 1 per cent. In the services account, investment income would decline by about 18 per cent due to an expected decline in international interest rates.

Table 2. Kuwait: Balance of Payments Summary, 1979-83

(In millions of Kuwaiti dinars)

	Actuals			Prov. Actuals	Proj.
	1979	1980	1981	1982	1983
Current receipts	5,993	7,052	6,789	4,980	4,630
Exports	5,005	5,569	4,446	3,072	3,060
Oil	(4,702)	(5,153)	(3,888)	(2,428)	(2,442)
Other	(303)	(416)	(558)	(644)	(618)
Investment income	988	1,483	2,343	1,908	1,570
Current payments	-1,906	-2,684	-2,699	-3,149	-3,140
Imports	-1,346	-1,826	-1,879	-2,064	-2,080
Other (net)	-560	-858	-820	-1,085	-1,060
Current surplus	4,087	4,368	4,090	1,831	1,490
Capital account	-3,974	-4,087	-4,013	-1,266	...
Official assistance	-265	-366	-335	-334	...
Government investment	-2,585	-2,805	-2,214	-912	...
Other (net) 1/	-1,124	-916	-1,464	-20	...
Overall surplus	113	281	77	565	...

Source: Central Bank of Kuwait.

1/ Includes errors and omissions.

Kuwait continues to follow liberal trade policies and the exchange system remains free of restrictions. Also, the Kuwaiti dinar remains pegged to a basket of currencies, with its real effective exchange rate (import-weighted) appreciating by about 8 per cent during 1982. Against the U.S. dollar, the dinar depreciated by about 3 per cent while appreciating by about 3 per cent in terms of the SDR. Concerning the dinar's depreciation of 2-3 per cent against the currencies of other Arab states along the Persian Gulf in 1982, the Kuwaiti representatives observed that trade with these countries was limited and parallelism with them in exchange rate management was not a priority objective of policy. However, discussions were expected to take place in the period ahead within the framework of the Gulf Cooperation Council (GCC) on the possible advantages of exchange rate policy coordination among the member countries.

There had been no changes in reserve management policies since the last consultation discussions. The Central Bank continued to be guided by liquidity considerations, aiming also at diversification of reserves among currencies in order to minimize the risk of losses due to exchange

rate fluctuations. For the Ministry of Finance, attainment of real rates of return and asset diversification, particularly among long-term investments, remained principal objectives of asset management. The Ministry's policy was to avoid major changes in the composition and geographical distribution of its assets in response to exchange rate fluctuations and short-term changes in interest rates.

Finally, the Kuwaiti representatives outlined briefly the principal activities so far of the GCC which had been formed in 1981 to promote regional economic cooperation. A permanent oil committee had been established at the ministerial level to coordinate oil sector policies, and consideration was being given to possible joint ventures in the energy sector between GCC members. In March 1983, it had been agreed that citizens of GCC countries could invest in Kuwaiti enterprises in certain fields; at present, foreign participation in domestic enterprises was limited to 49 per cent, but this ratio would be raised to 75 per cent for GCC nationals. Also, products from GCC countries containing at least 40 per cent of local value added were to be exempted from import duty.

IV. Staff Appraisal

In recent years, Kuwait has recorded large surpluses on external current account, as oil export proceeds and foreign investment income have exceeded import and services payments by substantial margins. The authorities have been guided by the trend of oil revenue and by the need to rationalize use of resources in the public sector in determining the growth path of government current and development expenditures. Thus, expenditures were increased substantially through 1981/82 followed by a moderate decline in 1982/83 as oil revenue first rose sharply in 1979/80 and then declined by more than 50 per cent over the next two fiscal years. The changing stance of fiscal policy was reflected in an increase of 36 per cent in import payments in 1980, followed by increases of only 3 per cent and 10 per cent in 1981 and 1982, respectively. Reflecting also the large increase in investment income on Kuwait's external assets, the surplus on current account in the balance of payments averaged US\$15.4 billion in 1980-81, declining to US\$6.4 billion in 1982 as oil export proceeds fell by US\$5.6 billion to US\$8.4 billion. In the foreseeable future, the high level of its foreign asset holdings is likely to provide Kuwait with ample room for maneuver with respect to domestic and external adjustment.

The staff is of the view that the Kuwaiti authorities have generally pursued prudent fiscal policies in recent years, and that monetary and credit management has been largely appropriate and responsive to the economy's requirements. In this connection, special mention should be made of the various supplementary measures taken in early 1982 to safeguard the financial system from potential adverse effects of the speculative boom in the unofficial stock market. Although domestic liquidity expansion was excessive in 1980 and 1981, it is apparent that stock market speculation in the period before mid-1982 was financed

largely through unofficial credit creation in the form of postdated checks. Accordingly, the staff believes that action should be taken to reform organizational and regulatory provisions relating to stock market transactions. Apart from preventing a recurrence of past speculative excesses, such reform would serve to enhance the future contribution of the domestic capital market to the financing of private sector investment and economic diversification.

In the external sector, the maintenance of an open exchange and trade system has served the Kuwaiti economy well, as have established exchange rate policies. The management of Kuwait's foreign reserve assets continues to be guided by medium- and long-term security and yield considerations; in view of the large size of Kuwait's official reserves, it is appropriate that asset management guidelines minimize the scope for portfolio adjustments in response to short-term fluctuations in asset prices and interest rates. In view of the underlying strength of its external finances, the staff hopes that Kuwait will continue to provide financial assistance to developing countries on a generous scale.

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

Kuwait: Fund Relations (as of May 31, 1983)

Date of membership: September 13, 1962.

Status: Article VIII.

Quota: SDR 393.3 million (proposed quota of SDR 635.3 million under the Eighth General Review of Quotas).

Fund holdings of Kuwaiti dinars: SDR 142.7 million or 36.3 per cent of quota.

SDR Department: Holdings were SDR 89.9 million or 336.3 per cent of net cumulative allocation of SDR 26.7 million.

Lending to the Fund: Kuwait lent the Fund the equivalent of SDR 685 million for the 1975 oil facility; this amount has been repaid. Kuwait has also agreed to lend the Fund up to SDR 400 million for the supplementary financing facility, of which SDR 325.1 million has been drawn.

Direct distribution of profits from gold sales: Kuwait has ceded to the Trust Fund its share of profits from gold sales. Total contribution amounted to US\$10.3 million.

Gold distribution: Kuwait acquired 55,628.986 fine ounces (four distributions).

Exchange rate system: Effective March 18, 1975 Kuwait ceased pegging the dinar to the U.S. dollar and linked its currency to a weighted basket of currencies of its major trading partners. The Central Bank's buying and selling rates for the U.S. dollar have normally been maintained at one sixteenth of 1 per cent either side of the currency basket derived exchange rate which was KD 1 = US\$3.4357 on April 30, 1983 or 0.8 per cent above the rate prevailing on March 17, 1975.

Technical assistance: Three experts are currently on assignment to the Central Bank of Kuwait under the Central Banking Department Program.

Last Article IV consultation: November 1981; the Staff Report (SM/82/14) was discussed by the Executive Board on February 17, 1982.

Kuwait - Basic Data

Area	17,900 square kilometers					
Population (1980 census)	1.36 million					
GDP per capita (1980 estimate)	US\$20,312					

Year ended December 31	1977	1978	1979	1980	1981	Prov. 1982
	(In per cent)					
Origin of GDP at current prices						
Oil sector	64.0	62.1	71.2	70.9	62.9	51.3
Non-oil sector	36.0	37.9	28.8	29.1	37.1	48.7
						<u>Est.</u> <u>1982</u>
Annual changes in output and prices						
Non-oil GDP at constant (1972) prices	12.1	4.7	6.9	5.2	9.6	5.5
Implicit non-oil GDP deflator	7.6	5.9	12.2	6.0	5.7	5.5
Consumer price index	9.7	8.9	7.1	6.9	7.3	7.8 <u>1/</u>
Crude oil production (million barrels/day)	1.97	2.13	2.50	1.66	1.13	0.83
Average oil export price (US\$ per barrel)	12.16	11.97	18.54	31.66	34.65	32.63

Year ending June 30	Actuals						Budget
	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 <u>2/</u>	1983/84
	(In millions of Kuwaiti dinars)						
Government finance							
Revenue	3,050	3,647	6,923	6,351	4,280	4,265	4,637
Oil revenue	(2,576)	(3,038)	(5,942)	(4,450)	(2,786)	(2,500)	(2,788)
Investment revenue	(384)	(522)	(880)	(1,744)	(1,364)	(1,600)	(1,849) <u>3/</u>
Other revenue	(90)	(87)	(101)	(157)	(130)	(165)	(...)
Expenditure	1,612	1,632	2,147	2,577	3,028	3,170	3,584
Current expenditure	(831)	(923)	(1,247)	(1,434)	(1,670)	(1,966)	(...)
Development expenditure	(378)	(408)	(423)	(489)	(663)	(600)	(...)
Transfers abroad	(214)	(194)	(213)	(262)	(245)	(304)	(...)
Land purchases	(189)	(107)	(264)	(392)	(450)	(300)	(...)
Net domestic lending	304	262	231	300	686	400	...
Overall surplus	1,134	1,753	4,545	3,474	566	695	...
Memorandum item:							
Government net domestic expenditure (change in per cent)	(40.0) <u>4/</u>	(0.6)	(26.4)	(21.0)	(42.8)	(...)	(...)
Budget surplus/GDP ratio	(27.3)	(31.8)	(64.0)	(48.9)	(9.1)	(12.0)	(...)

Kuwait - Basic Data (continued)

Year ended December 31	1977	1978	1979	1980	1981	1982			
	(In millions of Kuwaiti dinars)								
Changes in money and credit									
A. Foreign assets (net)	321.8	91.9	104.1	423.4	314.8	305.6			
B. Domestic assets (net)	41.6	275.1	235.3	144.4	710.9	-6.0			
Claims on									
nongovernment sector	(304.2)	(320.9)	(559.9)	(552.1)	(787.7)	(833.4)			
Government deposits	(-115.9)	(68.8)	(-214.4)	(-293.3)	(57.1)	(-307.6)			
Other items (net)									
(increase-)	(-146.7)	(-114.6)	(-110.2)	(-114.4)	(-133.9)	(-531.8)			
C. Money and quasi-money									
(A+B=D+E+F)	363.4	367.0	339.4	567.8	1,025.7	299.6			
D. Government net domestic)									
expenditure)	510.6	481.6	1,614.8	1,943.4	2,333.8	2,461.9			
E. Monetary impact of)									
nongovernment sector)			-1,165.2	-1,261.2	-1,174.2	-1,630.5			
F. Other items (net)									
(increase-)	-146.7	-114.6	-110.2	-114.4	-133.9	-531.8			
Rate of change (in per cent)									
Money and quasi-money	(30)	(23)	(17)	(25)	(36)	(8)			
Money	(25)	(22)	(5)	(7)	(81)	(-3)			
Claims on nongovernment									
sector	(33)	(26)	(36)	(26)	(29)	(24)			
							Prov.	Proj.	
							1982	1983	
Trade balance, f.o.b.	<u>1,383</u>	<u>1,626</u>	<u>3,659</u>	<u>3,743</u>	<u>2,567</u>	<u>1,008</u>	<u>980</u>		
Exports and re-exports	<u>2,740</u>	<u>2,815</u>	<u>5,005</u>	<u>5,569</u>	<u>4,446</u>	<u>3,072</u>	<u>3,060</u>		
Petroleum	(2,504)	(2,584)	(4,702)	(5,153)	(3,888)	(2,428)	(2,442)		
Other 5/	(236)	(231)	(303)	(416)	(558)	(644)	(618)		
Imports 5/	-1,357	-1,189	-1,346	-1,826	-1,879	-2,064	-2,080		
Service and private									
transfers	<u>175</u>	<u>281</u>	<u>428</u>	<u>625</u>	<u>1,523</u>	<u>823</u>	<u>510</u>		
Receipts	<u>741</u>	<u>991</u>	<u>1,315</u>	<u>1,814</u>	<u>2,731</u>	<u>2,216</u>	<u>1,900</u>		
Investment income	(563)	(798)	(988)	(1,483)	(2,343)	(1,908)	(1,570)		
Other	(178)	(193)	(327)	(331)	(388)	(308)	(330)		
Payments	-566	-710	-887	-1,189	-1,208	-1,393	1,390		
Current account surplus	<u>1,558</u>	<u>1,907</u>	<u>4,087</u>	<u>4,368</u>	<u>4,090</u>	<u>1,831</u>	<u>1,490</u>		
Capital (net) and grants									
Official assistance	-1,408	-1,635	-2,942	-3,306	-2,598	-622	...		
Government investment	-355	-274	-265	-366	-335	-334	...		
Other recorded capital	-1,008	-1,131	-2,585	-2,805	-2,214	-912	...		
Other recorded capital	-45	-230	-92	-135	-49	624	...		
Errors and omissions									
(net) 6/	<u>119</u>	<u>-389</u>	<u>-1,032</u>	<u>-781</u>	<u>-1,415</u>	<u>-644</u>	<u>...</u>		
Central Bank reserves									
(increase-)	<u>-269</u>	<u>117</u>	<u>-113</u>	<u>-281</u>	<u>-77</u>	<u>-565</u>	<u>...</u>		

Kuwait - Basic Data (concluded)

	1977	1978	1979	1980	1981	1982
(In billions of Kuwaiti dinars)						
Central Bank reserves and government foreign assets (end of period)						
Central Bank	0.9	0.7	0.8	1.1	1.1	1.7
Government foreign assets <u>7/</u>	5.2	5.9	9.4	12.0	13.9	15.2
(In billions of U.S. dollars)						
Petroleum exports	8.7	9.4	17.0	19.1	14.0	8.4
Imports	-4.7	-4.3	-4.9	-6.8	-6.7	-7.2
Investment income	2.0	2.9	3.6	5.5	8.4	6.6
Current account surplus	5.4	6.9	14.8	16.2	14.7	6.4
Official assistance	-1.2	-1.0	-1.0	-1.4	-1.2	-1.2
Government investment	-3.5	-4.1	-9.4	-10.4	-7.9	-3.2
Central Bank reserves (increase-)	-0.9	0.4	-0.4	-1.0	-0.3	-2.0
(In U.S. dollars per Kuwaiti dinar)						
Exchange rate (period average)	3.490	3.636	3.620	3.699	3.588	3.474

1/ Actual data.

2/ Ministry of Finance and staff estimates based on nine months' actual data and three months' estimates.

3/ Partly estimated.

4/ Annual average growth during 1974/75-1977/78.

5/ Includes nonmonetary gold.

6/ Includes most private capital movements, plus SDR allocations (KD 9 million) in 1981.

7/ Estimated on the basis of balance of payments movements.

