

SUR/09/37

April 13, 2009

**The Acting Chair's Summing Up  
Kuwait—2009 Article IV Consultation  
Executive Board Meeting 09/35  
April 10, 2009**

Executive Directors agreed with the thrust of the staff appraisal. They commended the Kuwaiti authorities' prudent macroeconomic policies, which have contributed to robust economic growth and strong fiscal and external positions. Directors considered the Kuwaiti economy to be in a favorable position to withstand the current global economic and financial crisis, noting, in particular, the resilience of the financial system.

Directors stressed, nevertheless, that downside risks to growth and financial stability have increased as a result of the global crisis. The sharp decline in oil prices will adversely affect the fiscal and external balances, large oil production cuts and weaker activity in the non-oil sector are expected to slow real GDP growth, and the credit squeeze and asset price deflation could pose significant risks to the financial system. The key near-term challenge faced by the authorities is to preserve financial stability and support economic activity. In the medium term, the main challenge is to use the oil wealth to diversify the economy and boost non-oil GDP growth through private investment.

Against this background, Directors commended the Kuwaiti authorities' proactive measures to safeguard financial stability and sustain economic growth, including through the injection of liquidity into the financial system and the adoption of a financial stability law. They stressed that financial sector policies should continue to encourage consolidation and restructuring of financial institutions, upfront recognition of losses, and participation of private investors in the recapitalization of financial institutions.

Directors also called for strengthening oversight of risk management practices by ensuring adequate policies and procedures for identifying, monitoring, and controlling systemic risk in the financial system. They emphasized the importance of restructuring the investment companies sector, and welcomed the authorities' interest in undertaking an FSAP update. Directors urged the authorities to speed up reform of money laundering and terrorism financing legislation to make it conform to international standards.

Directors commended the authorities' commitment to fiscal prudence and medium-term fiscal sustainability. A number of Directors encouraged a fiscal stimulus to

complement the financial stability package, given the expected slowdown in economic activity, Kuwait's strong fiscal position, and the positive effect of a stimulus on investor confidence and private investment. A number of Directors, however, saw merit in the authorities' concerns regarding a fiscal stimulus, including Kuwait's limited absorptive capacity, uncertainty regarding future oil prices, and the possible limited effectiveness of a stimulus due to significant leakages through remittances and imports.

Directors saw a continued need for medium-term fiscal reform aimed at reducing dependence on oil revenue and rationalizing fiscal spending. They encouraged accelerated introduction of a value added tax in coordination with other Gulf Cooperation Council (GCC) countries. They supported the staff's recommendation to maintain capital spending while containing current spending, including by curbing large subsidies and transfers, reforming the pension system, and moving to merit-based public sector salaries and benefits.

Directors stressed the importance of expediting the structural reforms that are vital to boosting private-sector investment and non-oil GDP growth. These include enactment of key legislation—the capital markets, companies, competition, public-private partnership, and privatization laws; streamlining of business registration and other administrative barriers to investment; and enhancement of access to land by private businesses and individuals. At the same time, Directors welcomed Kuwait's plans to increase oil production and refinery capacity, which would help support global oil market stability.

Directors concurred that the pegged exchange rate regime remains appropriate for Kuwait in the run up to the GCC monetary union, and that the recent move to a basket peg may have been helpful in containing inflation. They noted the staff's finding that the Kuwaiti dinar is broadly in line with economic fundamentals. In light of weakening inflationary pressures and the downside risks to economic growth, Directors supported the recent easing of monetary policy.

Directors welcomed the authorities' intention to improve economic statistics. To address some data weaknesses, Directors advised conducting a comprehensive review of the role and resources of the General Statistical Office.

Directors commended the authorities for their substantial development assistance to low-income countries in and outside the region, and for their active support of the HIPC initiative. They urged the authorities to continue providing HIPC debt relief to all eligible countries.

The next Article IV consultation with Kuwait is expected to be held on the standard 12-month cycle.