

**IMMEDIATE
ATTENTION**

SM/10/171
Supplement 1

July 1, 2010

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Kuwait—Staff Report for the 2010 Article IV Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2010 Article IV consultation with Kuwait (SM/10/171, 7/1/10), which is being considered on a lapse of time basis. The Secretary's Department has been notified by the authorities of Kuwait that their explicit consent is required prior to the publication of Board documents on Kuwait. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities indicating that they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Ms. Khamis (ext. 36702) and Mr. Rodriguez (ext. 36590) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, July 12, 2010.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

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INTERNATIONAL MONETARY FUND

KUWAIT

2010 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department

June 30, 2010

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ANNEX I. KUWAIT—FUND RELATIONS
(As of April 30, 2010)

- I. **Membership Status:** Joined September 13, 1962
Article VIII on April 5, 1963
- II. **General Resources Account:**
- | | SDR Million | % Quota |
|---------------------------|--------------------|----------------|
| Quota | 1,381.10 | 100.00 |
| Fund holdings of currency | 1,207.35 | 87.42 |
| Reserve position in Fund | 173.77 | 12.58 |
- III. **SDR Department:**
- | | SDR Million | % Allocation |
|---------------------------|--------------------|---------------------|
| Net cumulative allocation | 1315.57 | 100.00 |
| Holdings | 1442.63 | 109.66 |
- IV. **Outstanding Purchases and Loans:** None
- V. **Financial Arrangements:** None
- VI. **Lending to the Fund and Grants:**

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.

VII. **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. 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).

VIII. **Article IV Consultations:**

The last Article IV consultation was completed by the Executive Board on April 10, 2009. The authorities decided to publish the report.

IX. 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.

X. 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

XI. Resident Representative: None

XII. Kuwait has consented to the quota increase under the Eleventh General Review of Quotas; it has accepted the Fourth Amendment of the Articles of Agreement.

ANNEX II. KUWAIT—RELATIONS WITH THE WORLD BANK GROUP

(As of June 7, 2010)

The World Bank and the Government of Kuwait are currently developing a new Country Partnership Strategy (CPS), to build on the previous CPS agreed on in 2007. The current CPS has already received a strong support from the government; it will address specific sector areas for which the Government needs Bank's support within a multi-year strategic framework.

Ongoing Activities—FY2010/11

- **Governance TA – Phase II.** This is a continuation of the Governance program that began in FY08 (Phase I completed in FY09.) The scope of the project included review and/or assistance in drafting legislation pertaining to conflict of interest, and asset and income disclosure by public officials; advice and guidance on the creation of a well-functioning anticorruption agency including legal and institutional framework; development of the agency's strategic plan, operational manual and guidelines; and public awareness campaign. The project is currently close to completion.
- **Economic Zones Development.** The World Bank has been assisting the Foreign Direct Investment Bureau (KFIB) and the Public Authorities for Industry (PAI) in conducting assessment of the development opportunities for several economic and industrial zones in Kuwait. The Bank has procured consulting services for this purpose and is supervising consultants' work. Master plans for a PAI site (Shadadiyah) have been delivered, along with engineering drawings for Shadadiya. KFIB has also asked for assistance with feasibility study for several other Economic Zones, as well as with the capacity building. The Bank is currently developing a proposal to accommodate the request.
- **Public Expenditure and Financial Accountability Assessment (PEFA).** The PEFA framework provided for a careful examination of a country's public financial management practices by monitoring the quality of Public Finance Management work. This project also supported a significant capacity building effort so that future exercises can be conducted by Kuwaiti consultants, academics and NGOs. The project has been completed in FY10.
- **Corporate Governance Banking Sector Review.** The Government requested the ROSC – Corporate Governance, which entailed an evaluation of the corporate governance practices in the Kuwait banking sector. The Bank team had also been asked to evaluate a number of investment banks. The draft report has already been discussed with the Government, and the project is close to completion.
- **Review of Spending Allocations.** The Bank undertook an analytical desk review of the major components of public spending in Kuwait. The review used as inputs (1) the budget final accounts for the last six years (FY2003-2008 inclusive); (2) IMF staff reports and selected issues papers; (3) previous Bank technical assistance reports on

spending effectiveness in the education and health sectors in Kuwait; (4) the World Development Indicators database; and (5) the Bank's report on education in the Middle East North Africa region. The full report was presented to and discussed with the MoF in March 2010.

- **Assessment of the Financial Crisis Impact.** Kuwait's Ministry of Finance (MOF) has expressed interest in a World Bank assessment of the financial crisis' impact on the following sectors: (i) financial; (ii) real estate; (iii) industrial; (iv) commercial; (v) construction; and (vi) services. After consulting with Central Bank of Kuwait on the scope of the work, the MOF officially requested the Crisis Work be done in two stages; starting with a quick analysis of the impact of the crisis on the above mentioned sectors, and leading to a deeper analysis of those sectors that are impacted the most.
- **Education Sector TA.** This technical assistance program in general education sector supports the Ministry of Education in the following three: improving the output of the education process, diversifying secondary education (Grades 10-12) and developing an education system for special needs and gifted students. This program builds on the Education Indicators and Assessment Project successfully completed in FY10, which over six years of its implementation involved publication of the annual Kuwait Education Indicators report, capacity building in policy relevant data analysis, implementation of the TIMSS and PIRLS, and other activities aimed at raising the awareness regarding the quality of education in Kuwait.
- **Health Sector TA.** To improve the performance of the Kuwaiti health system and to ensure that the health sector contributes to the ongoing restructuring of the Kuwaiti economy, the Ministry of Health (MOH) proposed work program covers a number of areas in the short & medium term, including: health finance, health service quality & standards (in partnership with UK NICE), communications within and outside the MOH, drug & medical supplies, and Health Management Information Systems (HMIS).
- **Solid Waste Management.** The objective of this activity was to assist Industrial Bank of Kuwait (IBK) in identifying market opportunities in the solid waste sector while proposing a country program for the upgrade of the existing solid waste management systems in Kuwait. More specifically, the Bank helped IBK to (i) better understand the current situation of the solid waste sector in Kuwait; (ii) identify/evaluate untapped business opportunities for the private sector in the solid waste area; and (iii) promote reforms in the solid waste sector that would lead to enhanced cost effectiveness of private sector participation, particularly in collection, sorting and recycling of waste. This project was completed in February 2010.
- **Solid Waste Management II.** Based on the reports delivered by the Bank team for the first Solid Waste Management project and the recommendations proposed, the Municipality of Kuwait City requested the Bank's assistance in implementing four main recommendations: (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.

- **Public-Private Partnerships (PPP): Partnership Technical Bureau (PTB) Capacity Building.** The objective of this activity was to assist the PTB in the implementation of the BOT (build-operate-transfer) Law 7, 2008. More specifically, the task team (i) prepared operating BOT guidelines in line with the new Kuwait law and international best practice; and (ii) assisted the PTB in becoming a fully operational body by recommending a suitable organizational structure as well as provided ad hoc support in preparing and finalizing documents, including: procurement documents for recruiting transaction advisors, Requests for Proposals. The first phase was completed in March 2010, and currently the project team has begun implementation of the second phase that will focus on the formal launch of the Kuwait PPP program (and the dissemination of the PPP guidebook), including preparation of a PPP policy note, the organization of a regional launch event; institutional and capacity development for PTB; and assistance in establishing a project development fund.
- **Technical Assistance to the Central Agency for Information Technology (CAIT).** In March 2009, CAIT asked the Bank's assistance in three areas: establishing a monitoring and evaluating framework to monitor and evaluate Kuwait's e-government strategies; putting in place a policy framework to help CAIT identify and promote SMEs in the IT field; and producing a regulatory framework that would help guide CAIT in their outsourcing efforts through PPPs.

ANNEX III. KUWAIT—STATISTICAL ISSUES (As of May 28, 2010)

Data provision has some shortcomings, but is broadly adequate for surveillance. There is scope for improved compilation of the national accounts and balance of payments statistics through better coordination among statistical agencies. Timelines, particularly for the national accounts, is an area of concern.

National Accounts and Production

Recent improvements of national accounts include: change of the base year for the constant price data to 2000 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. 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. Recent delays in the production of price indexes have caused long delays in the production of real GDP data.

Price Statistics

CPI weights are based on the 1999–2000 household expenditure survey and were introduced into the index for a reference year of 2002. An improved monthly CPI based on a revised basket has been published in monthly CPI bulletins with about 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. Timely and comprehensive labor force data are not available.

Government Finance Statistics

Annual GFS data are reported for publication in the *Government Finance Statistics Yearbook (GFSY)*. The major components of its 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 investment income, and on interest on foreign debt and treasury paper, however, are usually provided to Article IV consultation missions.

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 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). To this end, reporting subannual GFS in the form of the Statement of Sources and Uses of Cash for the consolidated central government could be encouraged. 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. The Public Expenditure Management (PEM) system could usefully be strengthened.

Monetary and Financial Statistics

The CBK reports monetary data to STA on a regular and timely basis. Monetary and financial statistics based on the Standardized Report Forms (SRFs) have been finalized and will be published in the April 2008 issue of the *International Financial Statistics Supplement*. 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. CBK staff attended a workshop on harmonizing monetary and financial statistics in the GCC region that was conducted by STA staff in Riyadh in July 2006.

Balance of Payments Statistics

The CBK compiles and disseminates detailed annual data in accordance with the methodology of the *BPM5*—quarterly data are provided to Article IV consultation missions. However, data on capital flows of the nonfinancial private sector are limited, which has likely contributed to the "errors and omissions" item. 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, plans to implement the IMF's Coordinated Direct Investment Survey in 2010-2011. 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. 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, major delays and data gaps remain. In particular, major government entities do not report quarterly data to the CBK in time to compile timely quarterly statistics. Trade data are compiled by the CSO annually and provided to the CBK with a time lag of well over one year. Furthermore, the response rate for the private nonfinancial sector is low.

Data dissemination

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.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	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	28/05/2010	28/05/2010	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	31/01/2010	30/04/2010	M	M	M		
Reserve/Base Money	28/02/2010	30/04/2010	M	M	M		
Broad Money	28/02/2010	30/04/2010	M	M	M		
Central Bank Balance Sheet	28/02/2010	30/04/2010	M	M	M		
Consolidated Balance Sheet of the Banking System	28/02/2010	30/04/2010	M	M	M		
Interest Rates ²	31/12/2009	30/04/2010	M	M	M		
Consumer Price Index	31/01/2008	28/05/2010	M	M	Q		
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	31/12/2008	31/06/2009	Q	Q	Q	Not published on Fund standards	Not published on Fund standards
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	31/03/2010	28/05/2010	Q	Q	Q		
External Current Account Balance	31/12/2009	07/04/2010	Q	Q	Q		
Exports and Imports of Goods and Services	31/12/2009	07/04/2010	Q	Q	Q		
GDP/GNP	31/12/2008	07/04/2010	A	A	A		
Gross External Debt	31/12/2008	07/04/2010	A	A	A		
International Investment Position ⁶	31/12/2008	12/02/2009	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.