SU/18/5

January 16, 2018

The Acting Chair's Summing Up
Kuwait—2017 Article IV Consultation
Executive Board Meeting 18/2
January 12, 2018

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the fact that Kuwait faces persistent lower oil prices from a position of strength, given its large financial buffers, low debt, and sound financial sector. Directors noted that the prospects for non-oil growth are favorable, with the fiscal and external positions remaining broadly balanced. However, the risks to the outlook include large financing needs, a further drop in oil prices over the medium term, tighter global financial conditions, and delays in project and reform implementation. Directors welcomed the authorities' efforts to streamline current spending, diversify revenue, and improve the business climate. They emphasized that sustained commitment to strong reforms will be key to fostering intergenerational equity, encouraging private investment, and promoting job creation.

Directors encouraged the authorities to proceed with the planned introduction of excises and the VAT and to further curtail current expenditure. They also highlighted the need for deeper reforms to reduce financing requirements more rapidly, create space for growth-enhancing capital outlays, and achieve intergenerational equity. In this context, they recommended further steps to contain the wage bill. Directors underscored that better alignment of public and private sector compensation would enhance nationals' incentive to consider private sector jobs and support competitiveness. Limiting public sector employment growth as more private sector jobs are created will also be helpful. Directors also recommended reducing the large subsidy and transfer bills while protecting the most vulnerable.

Directors commended the introduction of medium-term expenditure ceilings and encouraged the authorities to further strengthen the medium-term fiscal framework to help underpin consolidation. They welcomed the government's balanced financing approach and noted that further strengthening of the related institutional and legal frameworks would make debt management more effective and support the development of capital markets.

Directors agreed that Kuwait's pegged exchange rate regime remains appropriate as it continues to provide an effective nominal anchor. They welcomed the banking system's sound position and the prudent regulation and supervision. Directors commended ongoing initiatives to identify and address emerging pressures from asset quality, high loan concentrations, common exposures, and interconnectedness of the financial sector. To further enhance financial sector resilience, they saw scope to strengthen the crisis management and preparedness and the liquidity forecasting frameworks. Continued strengthening of the AML/CFT framework will also be helpful.

Directors agreed that comprehensive reforms are needed to bolster economic diversification, boost growth, and create jobs for nationals in the private sector. They emphasized the importance of education reform to equip new graduates with the skills relevant for private sector jobs and saw merit in greater use of privatization and partnerships with the private sector to boost productivity, investment, and job creation. Further efforts are also needed to improve the business environment, including reforms to facilitate access to land, reduce the burden of administrative procedures and excessive regulations, and foster competition. Directors welcomed the authorities' focus on SMEs, given their potential for job creation.

It is expected that the next Article IV consultation with Kuwait will take place on the standard 12-month cycle.