LAPSE OF TIME

SM/20/62

March 10, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Kuwait—Staff Report for the 2020 Article IV Consultation**

Board Action:	Executive Directors' **consideration** on a lapse of time basis as management has determined it meets the established criteria as set out in Board Decision No. 15207-(12/74); (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term.
Deadline to Request Board meeting:	**Friday, March 20, 2020** **12:00 (noon)**
Proposed Decision Deemed Approved:	Tuesday, March 24, 2020
Provisional Board Meeting Date: (if requested)	Tuesday, March 24, 2020
Proposed Decision:	Page 23
Publication:	Not yet decided* Press Release will be based on the staff appraisal if there is no request for a Board discussion, as attached.
Questions:	Mr. Sadikov, MCD (ext. 37984) Ms. Guscina, MCD (ext. 34836)

***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. 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.**

Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Arab Monetary Fund, Food and Agriculture Organization, United Nations Development Programme, World Trade Organization

KUWAIT

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

March 6, 2020

KEY ISSUES

Context. While Kuwait can lean on large financial assets and low debt to underpin its economic transformation, the window of opportunity to proceed at a measured pace is narrowing. The subdued outlook for oil revenues has added urgency to reduce dependence on oil and boost savings for future generations. Without a course correction, Kuwait's fiscal and financing challenges will intensify over time, depleting readily available financial assets and causing a substantial debt buildup over the medium term. The key challenge is to build consensus for fiscal adjustment embedded in a reform package that promotes private sector development, improves the quality of public services, and strengthens governance and accountability.

Outlook and risks. Nonoil growth is expected to strengthen in the near term, supported by government spending, employment, and credit growth. Oil sector prospects are clouded by lower oil prices, which are weighing on fiscal and external positions. As a result, the fiscal surplus is expected to turn into a deficit, which would elevate the already large financing needs over the medium term. The economic impact of the COVID-19 outbreak, including through lower oil revenues, and heightened regional tensions are the main sources of near-term risk, while delays in reforms and a sustained oil price drop present a risk to the medium-term outlook.

Fiscal policy. Ambitious reforms are needed to reduce financing needs and close the intergenerational savings' gap. The adjustment should focus on curtailing the public wage bill, phasing out generalized subsidies, reforming transfers, and raising nonoil revenues. Adopting a rules-based fiscal framework with a well-calibrated rule would help anchor fiscal policy on the long-term objective of intergenerational equity and reduce fiscal procyclicality with respect to oil prices.

Financial sector and monetary policies. Prudent regulation and supervision have helped keep banks resilient. Further efforts should aim to strengthen crisis management and resolution frameworks, enhance liquidity management, deepen capital markets, and promote financial inclusion.

Structural reforms. Weaning the economy off oil hinges on the emergence of a vibrant nonoil private sector that creates jobs for the growing labor force. This requires reducing the role of state, including through privatization and public-private partnerships (PPPs), promoting competition, lowering the high public-private wage premia, and creating a more conducive business environment.

Approved By
Subir Lall and Ashvin Ahuja

Discussions were held in Kuwait during January 7–20, 2020. The team comprised Moayad Al-Rasasi, Botir Baltabaev, Imen Ben Mohamed, Anastasia Guscina, and Azim Sadikov (all MCD). Subir Lall (MCD) joined the end-mission discussions. Fouad Al-Kohlany (OED) joined most of the meetings.

The mission met with Minister of Finance and Acting State Minister for Economic Affairs Al-Aqeel, Governor of the Central Bank of Kuwait Al-Hashel, Chairwoman of Parliament's Committee for Economic and Financial affairs Al Hashem, Amir's Economic Advisor Al-Ibrahim, other senior officials, and private sector representatives. Hatim Bukhari provided research assistance and Esther George editorial support.

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CONTEXT

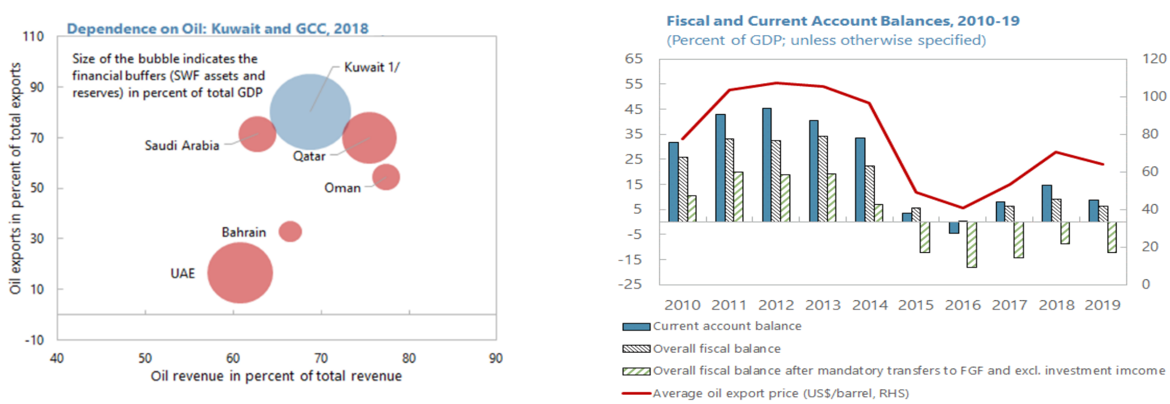
1. The subdued outlook for oil revenues and their exhaustible nature pose a challenge for Kuwait's economy. Expected to persist over the medium term, the fall in oil prices since the start of the year will weigh on growth and external and fiscal balances. To lift economic prospects and preserve resilience, Kuwait needs to accelerate reforms to create a vibrant private sector, reduce the economy's dependence on oil, and build adequate savings for future generations.

2. Kuwait can undertake the needed reforms from the position of strength. Ample assets of the Kuwait Investment Authority (KIA, see Annex VII, ¶2) and reserves of the Central Bank of Kuwait (CBK), which combined amount to about 435 percent of GDP, and substantial borrowing space underpin Kuwait's resilience to shocks.

3. The window of opportunity to proceed gradually is narrowing. At current policies, the overall fiscal balance will soon shift into deficit, and the government's financing needs will rise, depleting liquid financial assets and causing a rapid build-up of debt over the medium term. The imperative to wean the economy off oil will continue to intensify as technological advances in renewable energy and climate change action bring forward peak oil demand.

4. The top priority is to build broad support for fiscal adjustment. In the aftermath of the oil-price shock of 2014, the government launched structural reforms, took steps to rationalize employment benefits, and reduced energy and water subsidies. However, the fiscal reform momentum faltered as oil prices recovered in 2017–18. Government spending rose significantly, and approval of the long-awaited Gulf Cooperation Council (GCC)-wide value-added tax (VAT) and excises was put on hold. With parliamentary elections in November, securing legislative approval for fiscal reforms this year could prove difficult. Tensions with parliament led to a change in government in late 2019.

Oil Dependence, Financial Buffers, and Balances

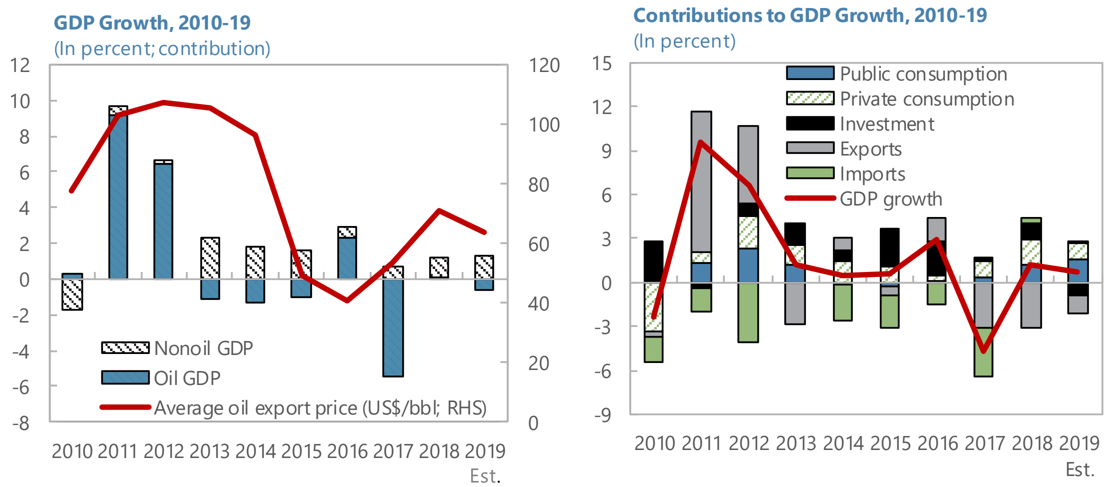


Sources: CBK, Ministry of Finance (MOF), and IMF staff estimates.
1/ For Kuwait, the size of the bubble indicates KIA assets and CBK reserves.

RECENT DEVELOPMENTS

5. Nonoil growth strengthened in 2019, but falling oil prices and output weakened fiscal and external balances. Nonoil growth was propelled by strong government and consumer spending, the latter on the back of a credit recovery. Oil output however contracted by 1 percent, broadly in line with the OPEC+ agreement. Taken together, this would bring overall growth to about 0.7 percent in 2019 from 1.2 percent in 2018. Fiscal and current account surpluses narrowed on account of lower oil revenues. Inflation rose to 1.1 percent as food and transport prices recovered.

Real Sector Developments



Sources: MoF, CBK, Haver; and IMF staff calculations.

6. Staff's measure of the underlying fiscal position weakened in FY2018/19[1]. The nonoil balance excluding investment income fell by 5 percentage points of nonoil GDP as government spending rose sharply. Spending increased by almost 25 percent in dinar terms from FY2016/17 to FY2018/19, mostly in hard-to-reverse expenditure categories. The public wage bill has grown by about 6 percent annually (despite low inflation) over the same period, as the government was compelled to absorb new labor market entrants into the already oversized public sector. To make room for hiring, the early retirement age for civil servants was lowered by 5 years, widening the state pension fund's actuarial gap to an estimated 45 percent of GDP.

7. Large financing needs continued to erode readily available buffers. Financing needs—the overall balance after mandatory transfers to the FGF and excluding investment income—amounted to 7.7 percent of GDP in FY2018/19. With the new debt law awaiting parliamentary

[1] The fiscal year runs from April through March.

approval[2], the government has been unable to issue debt since October 2017. Instead, it had to draw solely on the General Reserves Fund (GRF) for financing, which brought its total and liquid balances down to 56 and 24 percent of GDP by June 2019. Combined GRF and Future Generations Fund (FGF) assets continued to grow, to an estimated 410 percent of GDP by end–2019, as the FGF generated strong returns and received mandatory transfers from the government.

Fiscal Developments, FY2016/17–19/20

(In percent, on a fiscal year basis, unless otherwise noted)

	2016/17	2017/18	2018/19	2019/20 Proj.	2016/17	2017/18	2018/19	2019/20 Proj.
	Percent of GDP				Percent of Nonoil GDP			
Revenue	52.7	58.3	60.9	59.3	90.7	107.2	118.0	106.5
Oil	34.4	37.8	43.7	39.8	59.3	69.6	84.7	71.5
Nonoil	18.2	20.5	17.2	19.5	31.4	37.7	33.4	35.0
Expenditure	52.2	50.7	51.6	54.5	89.8	93.4	100.0	98.0
Current	45.6	44.2	45.4	47.8	78.6	81.3	88.0	86.0
Capital	6.5	6.6	6.2	6.7	11.2	12.1	12.0	12.0
Overall balance	0.5	7.5	9.3	4.7	0.9	13.8	18.0	8.5
Excluding oil and investment income	-48.5	-46.5	-46.5	-49.2	-83.5	-85.5	-90.2	-88.4
Excluding fuel subsidies	-43.3	-41.6	-42.1	-44.9	-74.5	-76.6	-81.6	-80.8
Overall balance (after transfers to FGF and excl. investment income) 1/	-17.9	-12.9	-7.7	-13.9	-30.8	-23.7	-15.0	-25.0
Memo items:								
Nominal GDP (KD billion)	33.9	37.8	42.0	41.6				
Nominal nonoil GDP (KD billions)	19.7	20.7	21.8	22.9				
Fiscal break-even oil price (U.S. $/barrel)	43.4	45.7	53.6	54.4				
Break-even oil price (after transfers to FGF and excl. investment income)	69.5	79.0	81.8	86.1				
Stock of KIA assets (GRF and FGF, calendar-year basis) 2/	477	460	398	408				

Sources: CBK, MoF; and IMF staff estimates.

1/ Revenue transferred to the FGF and investment income are projected at 4.5 percent and 14.2 percent of GDP respectively in FY2019/20.

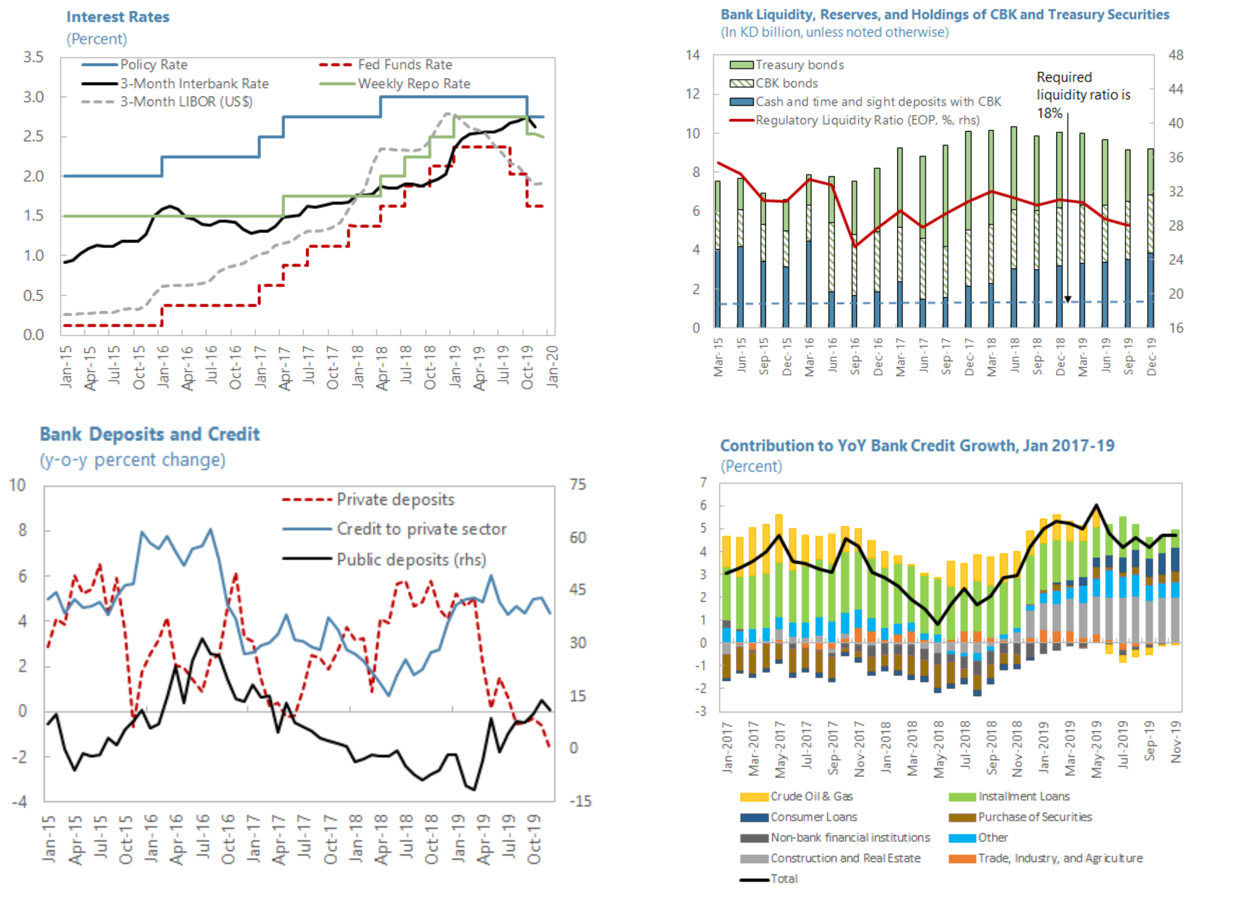
2/ Estimates based on inflows into FGF (10 percent of revenues excluding investment income), outflows from GRF to close the financing gap, and assumptions on KIA assets' return.

8. Credit rebounded thanks to supportive conditions. Credit growth accelerated, spurred by the CBK's decision in late 2018 to increase macroprudential ceilings on personal loans[3] and its skillful management of monetary conditions. As the U.S. Fed Funds rate rose through 2018, the CBK hiked its lending policy rate only once, in March, leaving it unchanged at 3 percent for the rest of the year. To maintain the attractiveness of the dinar, the CBK raised the repo rate, a benchmark for deposits. In 2019, it stayed on hold for the first two U.S. Federal Reserve interest rate cuts before following suit after the October reduction. As a result, lending rates have remained broadly unchanged since 2018, supporting credit.

[2] The new debt law would raise the debt ceiling from KD10 to KD20 billion or 60 percent of GDP (whichever is smaller) and the maximum bond tenor from 10 to 30 years.

[3] Borrowers can now borrow up to 25 times their net monthly salary or a maximum of KD 25,000, up from 15 times or a maximum of 15,000 KD previously.

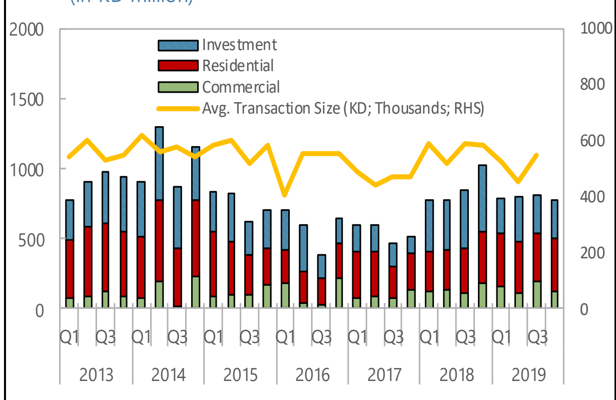
Monetary Conditions



Sources: CBK; Haver; and IMF staff calculations.

9. The banking system is sound. The systemwide capital adequacy ratio reached 17.6 percent in September 2019, and banks have plentiful short-term liquidity. Nonperforming loans net of specific provisions stood at 1.2 percent, and, at 229 percent, loan-loss provisioning is high. Net interest income declined due to a narrowing spread between bank lending rates and cost of funds.

Real Estate Sales
(In KD million)



Source: National Bank of Kuwait.

10. The real estate market has stabilized, and equity markets outperformed (Annex VI). The value of real estate transactions has recovered since 2017. Equity markets performed strongly, in part thanks to the inclusion in the Financial Times

Stock Exchange (FTSE) Russell and Morgan Stanley Capital International (MSCI) EM indices, the latter expected in May 2020.

OUTLOOK AND RISKS

11. Lower oil prices and subdued output are weighing on near-term prospects.

- *Growth could strengthen, but the outlook is clouded by subdued oil prices and output.* Staff's projections are built on oil prices declining from about US$62 per barrel in 2019 to US$54 in 2022, with a small uptick thereafter. Staff has assumed the extension of the OPEC+ agreement through end-2020. Supported by government spending, employment, and credit growth, nonoil GDP could expand by 3 percent in 2020 and accelerate to 3½ percent over the medium term. With oil exports subdued and imports rising, the current account surplus is projected to dissipate. Inflation is expected to edge up as housing rents start to recover.

- *Credit is expected to accelerate, and further capital inflows are likely.* As capital projects come on stream, credit growth could pick up, supported by ample bank liquidity. The MSCI inclusion in May is expected to attract about US$3.5 billion inflows (2.3 percent of GDP).

12. Risks to the outlook are to the downside, mainly from a sustained drop in oil prices and delays in reforms (Annex II). Weaker-than-expected global growth, including due to escalating trade tensions and disruptions caused by the COVID-19 outbreak, could drive oil prices lower for longer. If so, OPEC+ countries could agree on deeper and more extended production cuts, which would threaten the output recovery projected after 2020. A sustained drop in oil revenues would generate unfavorable macro-financial dynamics, with growing twin deficits, rising financing needs, and tightening credit conditions. Heightened geopolitical and security tensions in the region could weigh on confidence, investment, and growth. Delays in fiscal adjustment would amplify financing needs and lead to a faster-than-expected depletion of readily available assets, while slow progress on the structural front would dampen growth.

13. The authorities broadly shared staff's views on the outlook and risks. The discussions took place before concerns about the COVID-19 outbreak weighed on global investor sentiment and further depressed oil prices. Some counterparts observed that the limited and short-lived increase in oil prices following the Aramco incident last September and the escalation of geopolitical tensions in early January pointed to a fundamental change in the oil market. The authorities built their FY20/21 budget on a US$55 per barrel oil price assumption, which appeared conservative at the time, but now is broadly in line with the baseline scenario. They were optimistic about the growth impact of large-scale investment projects, including in downstream industries. They were also hopeful that the increased interest from portfolio investors thanks to the FTSE and MSCI inclusion could over time spur FDI inflows, which would boost productivity and diversification. They emphasized that the country's strong financial position will allow Kuwait to weather external shocks.

POLICY DISCUSSIONS

A. Averting Growing Financing Challenges

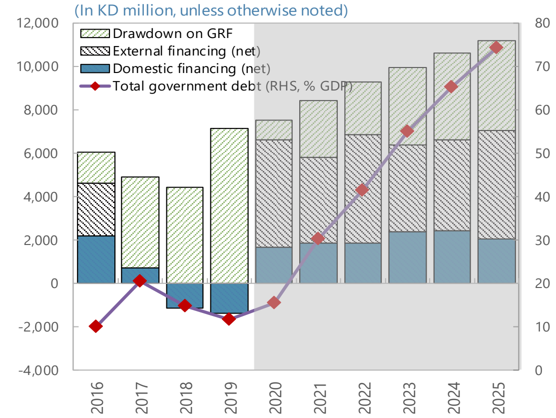
14. Fiscal measures envisaged by the government in the near term are modest. Given the challenging context, the government is focusing on measures that are under its control and do not require legislative changes. It has identified a menu of streamlining options, which include: (i) closing loopholes in various social transfer programs, (ii) reprioritizing capital expenditure, and (iii) reducing waste, including through better procurement. On the revenue front, it plans to reprice government services and boost revenue collection, especially utility payments. The government also intends to seek parliament's approval for the excises on tobacco and sugary drinks. Staff welcomed these efforts but cautioned that considerably more is needed to preserve fiscal sustainability.

15. Against this backdrop, the overall fiscal surplus would turn into a growing deficit. The planned measures would help gradually improve the nonoil fiscal balance excluding investment income by FY2025/26. However, this would be dwarfed by the projected drop in oil revenues over the same period. As a result, the overall fiscal surplus of about 5 percent of GDP in FY2019/20 is expected to turn into a small deficit in FY2020/21 and widen to 5.6 percent of GDP over the medium term.

16. Staff raised concerns about large fiscal financing needs. After compulsory transfers to the FGF and excluding investment income, financing needs would average 21 percent of GDP annually or, cumulatively, add to some KD57 billion (US$189 billion) over the next 6 years. Under the current arrangement with respect to the FGF and without recourse to other financing sources, GRF's liquid assets would be exhausted in well under two years. The authorities are aware that meeting the projected financing needs will present a challenge. They noted that KIA assets in dinar terms would continue to increase.

17. The authorities hope to meet financing needs through borrowing. They are working to secure parliament's approval of the new debt law in coming months. This should pave the way to resume domestic borrowing almost immediately and tap international markets next year, which staff reflected in the baseline. Staff agreed with the authorities that passing the debt law should be a near-term priority as this would contribute to a balanced financing mix, help refinance maturing obligations, and reduce drawdowns from the GRF, allowing it to last longer.

Government Financing Needs and Debt Accumulation
(In KD million, unless otherwise noted)



Sources: MoF and IMF staff estimates.

18. Borrowing should be treated as a temporary solution. While Kuwait's strong credit rating can underpin external borrowing and ample bank liquidity can be tapped domestically, staff noted that projected borrowing would be unprecedented. To close financing needs over the medium term, government debt would rise to over 74 percent of GDP by 2025 from about 12 percent currently, with net financial assets falling precipitously. This underscores the urgency of fiscal adjustment.

Financing Needs, FY 2019/20–25/26

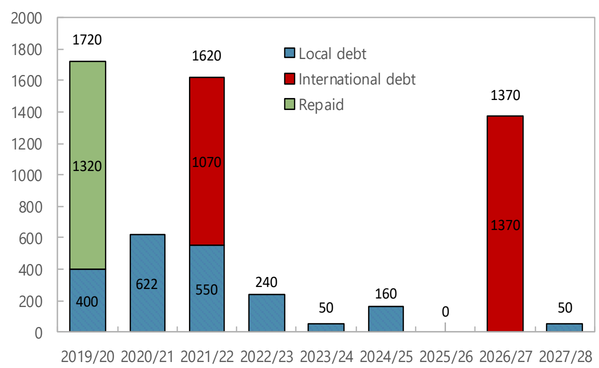
(In percent of GDP, unless otherwise noted)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Cumulative 2020/21-25/26
Overall balance	4.7	-0.8	-2.6	-3.7	-4.4	-5.2	-5.6	
Overall Balance (after transfer to FGF and excl. inv. income) 1/	-13.9	-18.3	-19.8	-20.9	-21.4	-21.8	-21.9	
Nonoil balance excl. investment income (percent of nonoil GDP)	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1	
Net financing needs (in KD billion)	5.7	7.5	8.5	9.3	10.0	10.6	11.2	57.1
Domestic (net issuance)	-1.4	1.6	1.9	1.9	2.4	2.4	2.1	12.3
External (net issuance)	0.0	5.0	3.9	5.0	4.0	4.2	5.0	27.1
Drawdown of GRF	7.1	0.9	2.7	2.4	3.6	4.0	4.2	17.7
Public debt 2/	11.6	15.5	30.4	41.6	55.1	65.2	74.4	
Stock of KIA assets 2/ 3/	408	427	422	415	405	394	381	
Stock of GRF assets 2/ 3/	40	39	32	26	18	9	0	
Stock of FGF assets 2/ 3/	368	387	389	389	387	385	380	
Current account balance 2/	8.8	3.1	2.1	1.6	1.3	0.9	0.9	

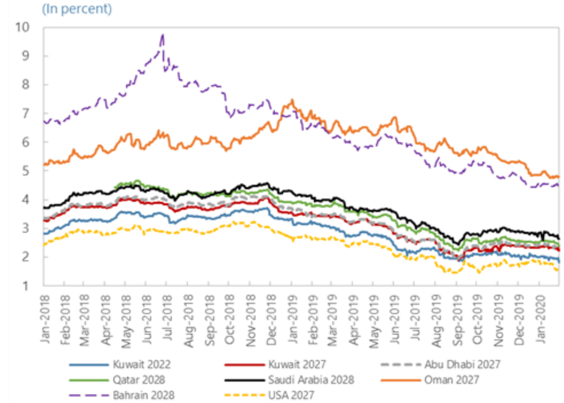
Source: Ministry of Finance and IMF staff estimates.
1/ Excludes 10 percent of total revenue transferred to the FGF and investment income.
2/ On a calendar-year basis.
3/ The stock of KIA assets are staff estimates and projections.

Debt Amortization and Bond Yields

Kuwait Government Debt Repayment Schedule
(In KD million, as of December 31, 2019)



GCC: Sovereign bond yields
(In percent)

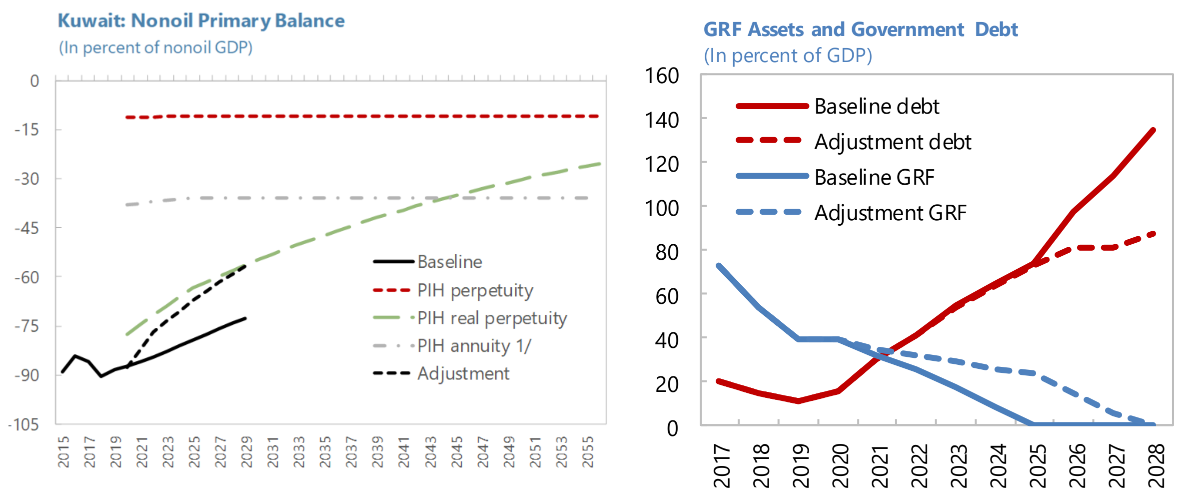


Sources: CBK, MoF, Bloomberg.

B. Ensuring Long-Term Fiscal Sustainability

19. Kuwait needs deep reforms to put the fiscal position on a sound path. The looming depletion of liquid GRF assets is a symptom of fiscal balances being too low to meet savings obligations with respect to the FGF. Staff noted that larger savings than currently set aside in the FGF would be needed to ensure equally high living standards for future generations. Even under an estimation approach that allows the current generation to consume a higher share of oil wealth (i.e., run a higher deficit), the projected nonoil primary balance in FY2025/26 would fall about 16 percentage points of nonoil GDP short of the level needed to ensure adequate savings for future generations.[4] An ambitious fiscal adjustment will be critical to close this intergenerational savings' gap, reduce financing needs, and ensure long-term debt sustainability (Annex III).

Nonoil Primary Balances, GRF Assets, and Government Debt



Source: IMF staff calculations.
1/ Assumes 74-year annuity through 2094, the year when proven oil reserves are depleted.

20. Staff presented an adjustment path that would close the intergenerational savings' gap in 10 years (Annex IV, Figure 6). It aims to gradually reduce spending, mainly by tackling spending rigidities, and boost nonoil revenues which are low even by regional standards. Spending would fall to about 75 percent of nonoil GDP—the level sustained in 2000–10. The proposed adjustment would weigh on growth, but its effects would dissipate over time as higher investment and structural reforms to unlock the private sector's potential bear dividends.

- *Curtailing the public wage bill.* With public wages and benefits accounting for one third of the budget, the authorities concurred that wage bill reform should be an essential component of fiscal adjustment. Staff encouraged a holistic approach that centralizes compensation policy, more closely aligns public sector wages with those in the private sector, and contains future

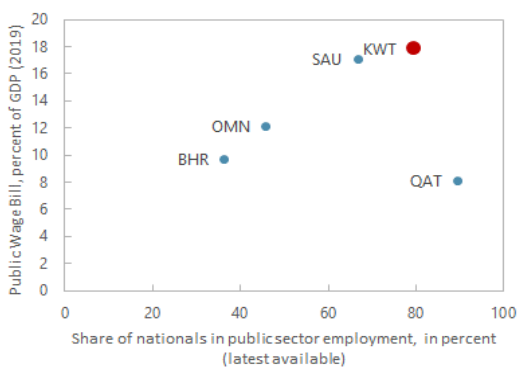
[4] Permanent Income Hypothesis (PIH) real perpetuity method allows current generation to spend a higher share of oil wealth (i.e., run higher deficits) because as nonoil GDP grows, future generations are expected to be better off.

public employment and wage growth. This would make public sector jobs less attractive over time and incentivize Kuwaitis to seek opportunities in the private sector. Staff agreed with the authorities that scaling down the government's role as the employer of choice should be accompanied by efforts to boost private sector opportunities.

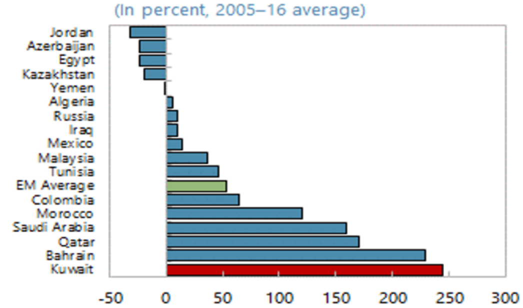
- *Phasing out generalized subsidies and reforming transfers.* At almost 7½ percent of GDP, fuel, electricity, and water subsidies and transfers are large. In addition to being costly to the budget, subsidies encourage wasteful consumption and disproportionately benefit the well-off. Utility prices should therefore be raised to cost recovery levels and various transfers consolidated and rationalized, with targeted compensation introduced in parallel to offset the adverse impact on lower-income households. Staff emphasized that raising awareness about the budgetary costs, distortions, and distributional impact of subsidies and transfers would help build consensus for reforms.

Rationalizing Current Expenditures

Public Wage Bill and Employment of Nationals

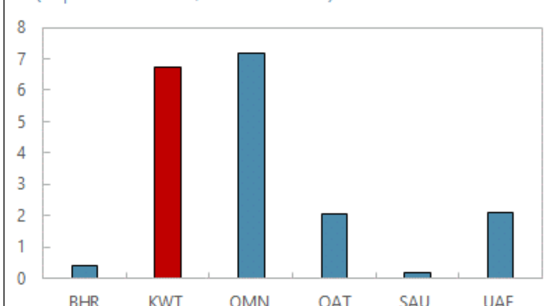


Public Wage Premium 1/
(In percent, 2005–16 average)



1/Average public sector wage over average private sector wage for all employess, including expats.

Government Subsidies Expense
(In percent of GDP, latest available)



Prices for Energy Products: GCC and the United States
(2018 or latest available)

	Gasoline	Diesel	Electricity
	(U.S. dollars per liter)		*(U.S. dollars per KWh)*
Bahrain	0.37	0.43	0.08
Kuwait 1/	0.28	0.38	0.02
Oman	0.58	0.65	0.04
Qatar 2/	0.44	0.44	0.04
Saudi Arabia	0.37	0.13	0.05
UAE	0.62	0.74	0.08
GCC average (excl. Kuwait)	0.48	0.48	0.06
U.S. Prices	0.68	0.81	0.11

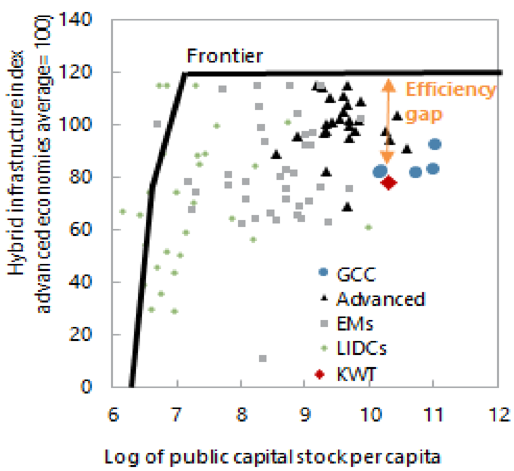
Sources: Prices for GCC countries come from country authorities. U.S. gasoline, diesel, and electricity prices come from the U.S. Energy Information Agency (EIA).
1/ For Kuwait, nationals were exempt from the August 2017 electricty price increases. The overall price is a weighted average of differentiated prices across different segments.
2/ For Qatar, Gasoline and Diesel prices are from 2017

Sources: Country authorities, UNDP, IMF staff calculations.

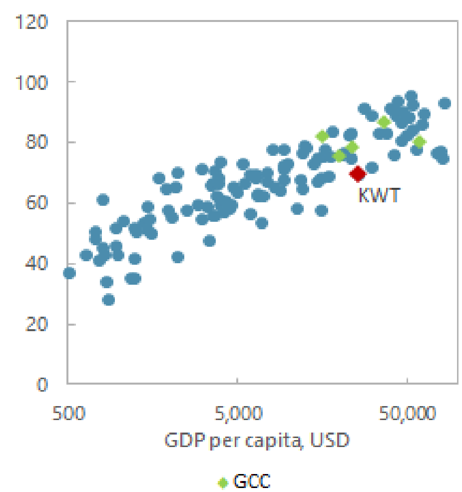
- *Increasing public investment and improving its efficiency.* Higher capital spending would help counteract the drag on growth from fiscal consolidation, close infrastructure gaps with GCC peers, and raise potential growth. Given delays and cost overruns, the authorities agreed that improving the efficiency of infrastructure spending through better project selection, planning, and implementation should be a priority. To that end, staff encouraged the authorities to perform a comprehensive diagnostic of Kuwait's public investment management system.

Boosting Infrastructure Spending and Efficiency

Public Investment Efficiency Frontier 1/



Quality of Infrastructure, 2019

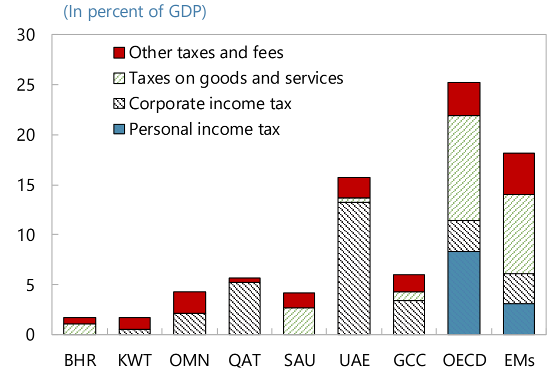


Sources: IMF FAD Expenditure Assessment Tool (EAT), World Economic Outlook, World Development Indicators, IMF Investment and Capital Stock Dataset, and World Economic Forum, and World Bank Doing Business Indicators (DBIs).

1/ The frontier is defined by the countries with the highest infrastructure quality and access (output indicator based on a hybrid index made of physical and survey-based measures) for a given level of public capital stock (input). The greater the distance from the frontier, the less efficient is public investment.

- *Introducing a 5-percent VAT would broaden the tax base, yield stable revenue, help upgrade tax administration capacity, and contribute to a deeper understanding of the structure of the economy.* It would also bring Kuwait in line with Bahrain, Saudi Arabia, and the United Arab Emirates which have implemented the tax as part of the GCC-wide agreement. While approval is not expected this year, staff recommended continuing the technical work and consultations with stakeholders given the VAT's complexity and scope.

Selected Revenue Items, 2019
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

- *Broadening the coverage of the profit tax and introducing excises on luxury goods.* In addition to yielding revenue, extending the business profit tax coverage to domestic companies would level the playing field and encourage FDI. Excises on luxury goods or an income tax on high earners would contribute to a more socially-balanced adjustment mix. The authorities agreed that the wealthy should shoulder a higher burden of adjustment.

21. The key challenge is to build consensus for fiscal adjustment. Staff emphasized that, to gain broad support, the proposed fiscal measures should be embedded in a comprehensive reform package that fosters private sector growth and jobs, improves the quality and efficiency of public services, and strengthens government accountability and transparency. Experience in other countries shows the need for proactive communication to explain the rationale for adjustment, proposed measures, their expected costs and benefits, including distributional impact.

Fiscal Savings Under the Baseline and Adjustment Scenarios 1/

(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Baseline reforms						
Strengthen social transfers administration	0.0	0.0	0.3	0.5	0.6	0.7
Excises on sugary drinks and tobacco	0.0	0.2	0.2	0.2	0.2	0.2
Total	**0.0**	**0.2**	**0.5**	**0.7**	**0.9**	**0.9**
Additional reforms under the adjustment scenario						
Fuel price reform	0.0	0.2	0.3	0.5	0.6	0.6
Electricity and water subsidy	0.3	0.7	1.2	1.7	2.2	2.6
Value-added tax	0.0	1.6	2.2	2.2	2.2	2.2
Corporate tax and/or PIT on wealthy	0.0	0.0	0.7	0.7	0.7	0.7
Fees on government services, green taxes	0.0	0.1	0.1	0.1	0.1	0.1
Wage and benefits control	0.1	0.3	0.5	0.6	0.8	0.9
Goods and services spending savings	0.1	0.2	0.3	0.5	0.6	0.8
Household compensation	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Capital expenditure	-0.1	-0.3	-0.4	-0.5	-0.5	-0.6
Other 2/	0.0	-0.2	-0.2	-0.2	-0.1	0.1
Total	**0.4**	**2.4**	**4.5**	**5.4**	**6.3**	**7.2**

Source: MoF, Kuwait's Vision, and IMF staff estimates.

1/ See Annex IV for details on the baseline and adjustment scenario assumptions used to derive these estimates.

2/ Other includes changes in interest payments, investment income and fees, and automatic changes associated with changes in inflation and growth.

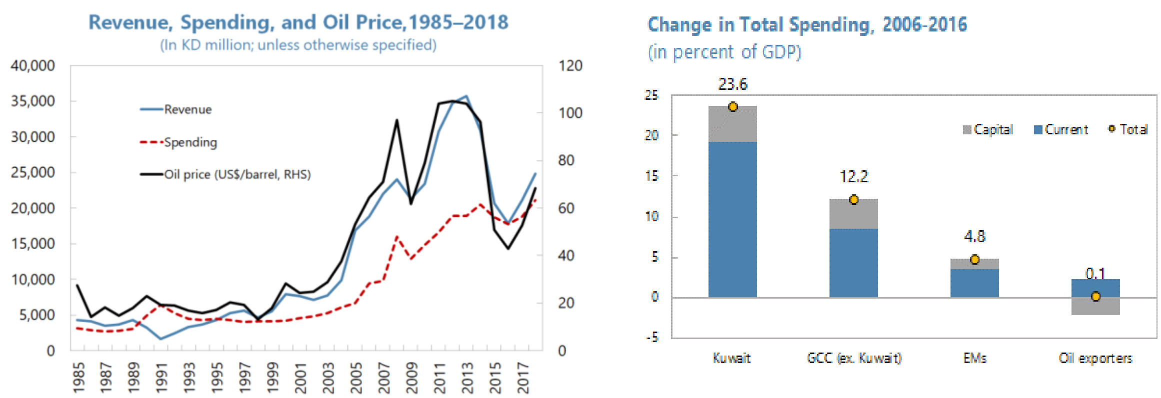
22. The authorities concurred on the need for fiscal reforms. They noted that the size and speed of adjustment would depend on the outcome of the 2020 parliamentary elections. While Kuwait has ample buffers to implement the needed reforms gradually, staff warned that proceeding too slowly risks making the inevitable adjustment more abrupt and costly. Far-reaching reforms would require a new social contract, where the current generation foregoes some of its benefits for the economic well-being of future ones, oil wealth is distributed more efficiently, and the state is no longer a provider but an enabler of economic activity.

C. Putting Robust Policy Frameworks in Place

Fiscal Framework

23. Staff recommended adopting a rules-based fiscal framework. The volatile and exhaustible nature of oil revenues poses a challenge to fiscal policy due to the inherent tension between long-term savings and near-term stabilization objectives. The current institutional arrangement for managing oil revenues allowed Kuwait to accumulate substantial savings. However, the arrangement does not ensure adequate savings for future generations nor does it impose any constraint on "above the line" fiscal policy, with available financing acting as the only check.

Spending Procyclicality



Sources: World Economic Outlook and IMF staff estimates.

24. Staff discussed a menu of fiscal rule options with the authorities (Annex VII). A well-calibrated rule would ensure that future generations can enjoy a broadly similar standard of living as the current one. It would also insulate the economy from oil price shocks by preventing spending runups when oil prices are high and could reduce political interference in spending decisions. Staff's analysis suggests that an operational rule that imposes a price-based structural balance target and a constraint on the annual real expenditure growth could work well for Kuwait. The authorities expressed interest in a fiscal rule and emphasized that its design should be tailored to Kuwait's circumstances, including societal preferences. Staff concurred, noting that for any rule to be effective, it should be enshrined in a sound institutional framework that includes political commitment, sound public financial management, comprehensive budget reporting, and transparent accounting.

25. The current arrangement with respect to the FGF should be maintained until a properly calibrated fiscal rule is in place. Staff argued that FGF assets should not be tapped until a new rule is implemented. This is crucial for preserving the nation's oil wealth for future generations. While the FGF was tapped for the reconstruction after the Iraq war, doing so in normal times would set an unfortunate precedent and postpone fiscal adjustment. The authorities agreed that using FGF assets to meet budgetary needs would not be desirable.

26. Addressing governance weaknesses will be critical to reduce vulnerabilities to corruption and improve spending efficiency. The authorities are strengthening the independence and building capacity of the Anti-Corruption Agency (ACA). With a high rate of submission compliance, the asset declaration regime administered by the ACA seems to enjoy strong support. Staff called for renewed efforts to accelerate the implementation of the procurement law adopted in 2017, including introducing e-procurement.[5] The authorities agreed that this would help promote competition and generate budget savings. To that end, the government plans to review procurement practices with the World Bank's assistance. It is also considering conducting a public health expenditure review given the potential for large efficiency gains.

27. Greater fiscal transparency can underpin accountability and support for fiscal reforms. A more comprehensive and timelier picture of public finances would enhance fiscal policy and its credibility. Staff encouraged the Ministry of Finance (MoF) to advance the GFSM2014 adoption and include in its periodic reports a more in-depth overview of fiscal developments, assessment of policy stance, and reconciliation of outturns and budgets. Staff saw scope to further improve transparency of oil wealth management, by disclosing information on the value chain from the point of extraction to how revenues make their way through the government and KIA's financials.

28. The government should strengthen the management of fiscal risks. These primarily stem from public pension funds, state-owned enterprises (SOEs), and PPPs. As a first step toward enhanced oversight of SOEs, staff advised the MoF to systematically analyze fiscal risks from their activities, including borrowing. Likewise, as PPPs gather momentum, they should be subjected to value for money checks and careful appraisal, including for related contingent liabilities, with the MoF playing a central role. The authorities agreed that sound public financial management requires prudent management of fiscal risks. To that end, they plan to develop a contingent liabilities framework and build analytical capacity at the MoF so that it can form a comprehensive view of fiscal risks facing the public sector.

Monetary and Financial Sector Frameworks

29. The authorities remain fully committed to the peg. The peg to an undisclosed basket of currencies has provided an effective nominal anchor and limited exchange rate flexibility during a period of dollar strength. While a more flexible exchange rate regime in the context of a developed nonoil tradable sector could help absorb shocks, it is unlikely to be effective in facilitating external adjustment in the current structure of the economy with the dominant role of oil in exports, high

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[5] The law aims to promote competition, transparency, and equal treatment, and lays the ground for establishing dedicated procurement bodies in public organizations, adopting modern approaches to bid evaluation, introducing life-cycle-costing and other non-price criteria, instituting an enhanced complaint mechanism, and facilitating small and medium enterprise (SME) participation in public tenders.

share of imported labor in domestic value-added, and use of dollar invoicing. Staff emphasized that the pegged exchange rate puts a greater onus on fiscal policy and structural reforms to support competitiveness and facilitate external adjustment. Staff's external sector assessment suggests a 10 percent of GDP current account gap, which would close as fiscal policy moves to the desirable setting under the proposed fiscal adjustment (Annex V). Staff encouraged publication of intervention data. The authorities noted that, given small valuation effects, changes in reserves would be sufficient to estimate interventions.

30. Staff commended the CBK for proactive approach to regulation and supervision. To maintain the resilience of the banking sector, where vulnerabilities stem from high concentration of loans and deposits, common exposures (particularly in the real estate sector), and interconnectedness, the CBK regularly conducts stress tests and uses their results to recalibrate its macroprudential tools. Staff supported the CBK's decision to remove preferential (zero) risk weights for exposures to GCC sovereigns in the calculation of risk-weighted assets. Staff welcomed CBK's efforts to upgrade its stress-testing and early warning techniques and plans to review macroprudential tools to ensure that they continue to balance financial stability and growth.

31. Staff supported efforts to strengthen supervisory and regulatory frameworks. To enhance risk-based supervision, the CBK is working to better integrate on- and off-site supervision functions. Staff welcomed progress towards establishing a centralized Shariah Board at the CBK, as this would reduce risks from inconsistent interpretation of Shariah law in Islamic banks. To improve cross-border supervision, the CBK should bolster inspections of banks' foreign-owned branches.

32. The authorities are revamping crisis management and resolution framework. The CBK agreed with staff that reforms should focus on promoting orderly resolution of banks, reducing moral hazard, and safeguarding fiscal resources. A draft law on banking resolution is ready to be submitted to the cabinet, and the authorities initiated internal deliberations on the design for a deposit insurance scheme. The CBK has prepared a draft law that would create a more structured framework for supervision and crisis resolution by assigning the CBK an explicit financial stability mandate and establishing a Financial Stability Committee (FSC). Given the bank-centric financial system, staff advised that the CBK play a leading role in the FSC.

33. The CBK is enhancing its liquidity management framework. With IMF assistance, the CBK has operationalized its liquidity forecasting tool, including by formalizing information sharing with relevant entities. Extending the forecasting horizon beyond the short run now allows the CBK to better anticipate potential systemwide pressures. To further refine the liquidity management framework, staff encouraged letting market forces play a bigger role in the pricing and allocation of liquidity.

34. Staff recommended a gradual relaxation of lending rate caps (Box 1). While established corporations already borrow at below the applicable lending rate cap, gradually relaxing the cap could expand access to credit to a wider segment of the corporate sector and SMEs. It would also reduce loan concentration and promote lending at longer maturities, encouraging investment. Staff welcomed recent amendments to the credit information law enabling the credit bureau to start gathering credit information on businesses and to enhance data collection on retail borrowers. As a nationwide rating system is established and banks are better able to price risk, the CBK could gradually relax the interest rate cap on consumer loans as well. Though seeing some merit in relaxing the caps on loans to SMEs, the authorities expressed reservations over potential implications for financial stability and consumer protection. Staff noted that the CBK has a wide menu of prudential tools to arrest potential risks to financial stability, while its commendable efforts in consumer protection, including by enhancing financial literacy, mitigate risk to individual borrowers.

35. Staff welcomed progress in upgrading capital market infrastructure. Further actions could focus on deepening the local currency bond market, diversifying the investor base, and enhancing secondary market liquidity.

36. The authorities are preparing for an AML/CFT mutual evaluation in 2022. New AML/CFT regulations are expected to be published soon. To strengthen national coordination, the Financial Intelligence Unit intends to sign a memorandum of understanding with the ACA. The authorities indicated that Kuwaiti banks have not experienced any withdrawals of correspondent banking relationships (CBRs). Further strengthening the AML/CFT framework, including risk-based supervision and the mechanism for the freezing of assets related to proliferation financing, would help ensure that risks to CBRs remain contained.

Statistics

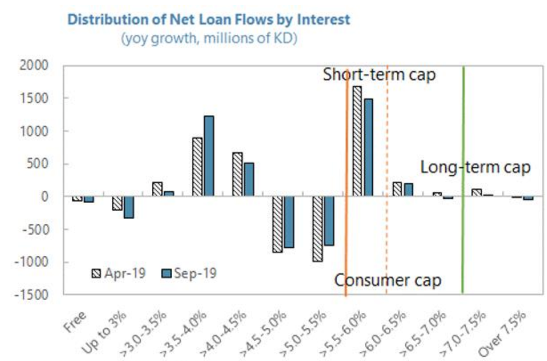
37. Staff welcomed efforts to enhance statistics. The Central Statistical Bureau is conducting a household consumption and expenditure survey and laying the groundwork for the 2020 establishment census, which will help update the base year of the national accounts. With IMF assistance, the authorities are building a National Summary Data Page for the e-GDDS.

Box 1. Lending Rate Ceilings in Kuwait

Bank lending rates in Kuwait are capped at a fixed spread over the policy rate. The CBK imposes limits on conventional bank lending rates on loans in Kuwaiti Dinars at specific spreads over its discount rate. The spreads for consumer, short-term commercial (up to one year), and long-term commercial (over one year) loans are 300, 250 and 400 bps, respectively. Banks are allowed to charge up to 50 bps in non-refundable commitment fees on short-term commercial loans, bringing the relevant spread to 300 bps. While the regulation does not apply to Islamic banks, in practice, they closely follow prevailing market lending rate charged by conventional banks.

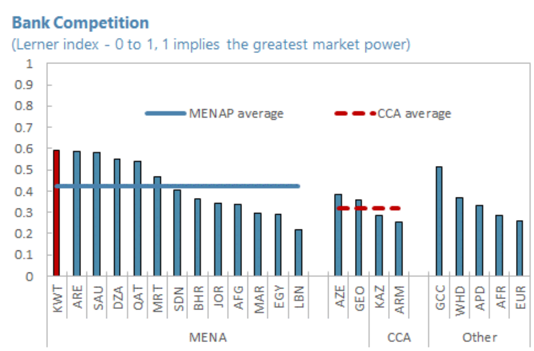
Source: CBK, and IMF staff estimates.

There is evidence of interest rate clustering for new loans. The distribution of interest rates on net loan flows, a proxy for new loans, generates a two humped-distribution, with one at the 3.5–4.0 percent bracket and the other at 5.5–6.0 percent. The lower bracket likely reflects loans to prime borrowers, such as large corporates, which suggests that competition in this segment is bringing the market rate below the applicable cap. However, the bunching of loans for consumers and riskier corporate borrowers at maximum allowable rates implies that the relevant caps are binding and points to potentially unobserved demand from borrowers willing to pay higher rates (those to the right of the cap in the chart). This could help explain, to an extent, why SMEs—borrowers with a typically riskier profile—account for only 2.8 percent of total credit in Kuwait compared to 4.2 percent on average in the rest of the GCC.



Source: CBK; and IMF staff estimates.

Interest rate caps could be preventing banks from exercising market power. Kuwait's banking system is concentrated, with the largest three banks accounting for two-thirds of total sector assets. Evidence points to limited mobility in the consumer loan segment, where borrowers, predominantly public sector employees, have a similar low risk profile. In such an environment, banks would have fewer incentives to compete and, in the absence of an effective lending rate cap, could exercise pricing power by overcharging for credit. Indeed, bank markups are high in Kuwait. Furthermore, the policy of capping interest rates appears to prevent highly risky borrowers from getting bank credit in the first place. Interest rate caps could therefore help, as a second-best tool, protect consumers and financial stability given the peculiarities of Kuwait's banking sector.

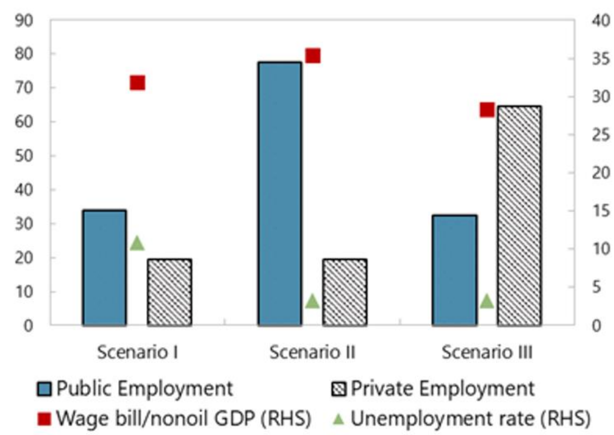


Source: World Bank Global Financial Development database; and IMF staff calculations.

D. Promoting Private Sector-Led Growth and Economic Diversification

38. Weaning the economy off oil hinges on the emergence of a vibrant private sector. Given the fiscal challenges, scope for public sector employment growth will be limited. This makes the private sector crucial in absorbing most of 100 thousand Kuwaiti nationals (22 percent of the current Kuwaiti labor force) expected to enter the job market in the next 5 years. The authorities made reforms to promote entrepreneurship, encourage private initiative, and foster competitiveness a central pillar of their development strategy. To tip the balance toward greater private sector employment of Kuwaitis, the high public-private wage premium should be reduced and accompanied by education reforms to address skill mismatches. Staff advised reforming wage subsidies to nationals working in the private sector to make them time-bound and targeted toward younger Kuwaitis.

Labor Market Absorption of Nationals Under Hyphotethical Scenarios 1/
(In percent of total new entrants)



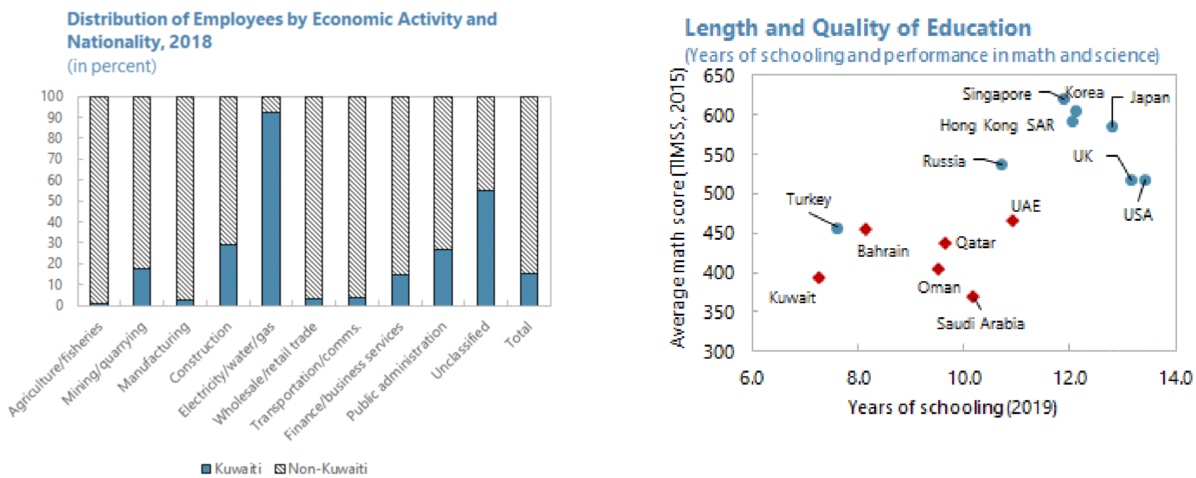
Sources: Kuwaiti authorities; and IMF staff calculations.
1/ The three scenarios illustrate the absorption of 100 thousand new labor force entrants by 2024. Under Scenario I, public sector absorbs only a small fraction of the new entrants to keep the wage bill lower, but unemployment rate rises; In Scenario II, the government absorbs most of the new entrants to keep unemployment low at the expense of higher wage bill; and in Scenario III, the government undertakes fiscal and structural reforms to boost higher private sector absorption of new entrants.

39. Reducing the role of the state in the economy and strengthening competition would encourage private sector growth. The government is considering privatization and PPPs to boost dynamism and economic efficiency. Staff emphasized that PPPs must be implemented transparently and competitively to ensure that they provide value for money. Staff encouraged the authorities to more effectively fight anti-competitive practices and promote competition, including by strengthening the operational independence of the Competition Promotion Agency. The competition framework should aim for a "competitive neutrality" to even the playing field between private firms and state-owned commercial companies which are currently exempt from the competition law.

40. The authorities are making sustained progress in improving the business environment. Kuwait's position jumped in the 2020 Ease of Doing Business ranking thanks to improvements in starting a business, getting electricity, accessing credit, and trading across borders. The authorities shared plans to further streamline registration, expedite the issuance of business and import licenses, and remove regulatory barriers to FDI. More efforts will be needed to improve the efficiency of courts in commercial cases, expedite contract enforcement, and streamline customs clearance. When passed, the draft insolvency law that aims to revamp insolvency regulations and modernize bankruptcy proceedings would remove an important obstacle to doing business in Kuwait.

41. Staff welcomed the authorities' efforts to promote SMEs given their job creating potential. The authorities are undertaking a diagnostic to identify ways to create a more conducive environment for SME development. The Kuwait Stock Exchange is setting up a venture capital platform to help startups raise funds.

Labor Market Indicators



Sources: Country authorities; WEF Global Competitiveness Report; and IMF staff calculations.

STAFF APPRAISAL

42. The challenge to reduce dependence on oil and boost savings has become more urgent. The subdued forecast for oil revenues is weighing on near-term growth and fiscal and external balances. This has heightened the need for reforms to create a vibrant private sector and ensure adequate savings of the exhaustible oil wealth for future generations. Kuwait has large financial buffers and low debt, but the window of opportunity to tackle its challenges from the position of strength is narrowing.

43. Without a course correction, fiscal and financing challenges will intensify. The recent runup in hard-to-reverse spending weakened the underlying fiscal position. At current policies, the overall fiscal balance would turn into a growing deficit, which, after mandatory savings in the FGF, would give rise to large financing needs over the medium term. Borrowing should be viewed as a temporary solution—while slowing the depletion of liquid financial assets, it would lead to a rapid debt buildup.

44. Kuwait needs ambitious, growth-friendly, and socially-equitable fiscal adjustment. Staff's proposed adjustment would cut current expenditure, by tackling spending rigidities, boost nonoil revenue, and create space for growth-enhancing investment. The large public wage bill should be reformed, and generalized subsidies and transfers phased out in favor of targeted compensation schemes. As for revenue, the government should initiate broad consultations, redouble efforts to engage parliament, and continue the technical work on the GCC-wide excises and VAT. Taxes on corporate income, luxury items, and personal income of the wealthy could be also considered for a more socially-balanced adjustment mix. Embedding fiscal measures in a comprehensive reform package that promotes private sector growth, strengthens governance and accountability, and improves public services would help build broad support for reforms.

45. A rules-based fiscal framework would improve management of oil revenues. A rules-based framework would help anchor fiscal policy on a long-term objective of intergenerational equity. It should include a well-calibrated operational rule that helps reconcile long-term savings and near-term economic stabilization objectives. Such a rule would help establish policy predictability, prevent procyclicality, and ensure durable gains from adjustment. To be effective, a fiscal rule would need to be enshrined in a sound institutional framework. Until a properly calibrated fiscal rule is in place, the current arrangement with respect to the FGF should be maintained.

46. Fiscal governance reforms should be an integral part of the overall fiscal strategy. Reforms should aim to enhance fiscal transparency, modernize public procurement, and boost spending efficiency. These steps would reduce vulnerabilities to corruption and strengthen support for fiscal adjustment.

47. The exchange rate regime remains appropriate. The peg has provided an effective nominal anchor. The proposed fiscal adjustment would close the current account gap over the medium term. As the economy becomes diversified, the arrangement should be periodically reviewed to ensure that it continues to serve Kuwait well.

48. Financial sector reforms should focus on bolstering resilience and deepening inclusion. To reduce moral hazard, the authorities should enhance the corrective action framework, establish a special resolution regime for banks, and unwind the blanket deposit guarantee. CBK's continued efforts to recalibrate macroprudential tools to balance stability and growth considerations are welcome. Gradually relaxing the interest rate ceiling on commercial loans would expand lending to new market segments, including SMEs. Market forces should be allowed to play a greater role in the allocation and pricing of liquidity to promote interbank market development.

49. Sustaining reforms to foster private sector-led and diversified growth will be critical. With limited scope for public employment going forward, a vibrant private sector must emerge to absorb the large number of Kuwaitis entering the labor market in coming years. Enabling the private sector to thrive requires reducing the economic footprint of the state, promoting market competition, and improving the business environment. To that end, further efforts are needed to revamp insolvency framework, reduce excessive regulations, and ease trading across borders. To incentivize Kuwaitis to seek private sector opportunities, public sector wages should be aligned with those in the private sector, accompanied with improvements in education and training programs to nurture entrepreneurship and equip graduates with skills for in-demand jobs.

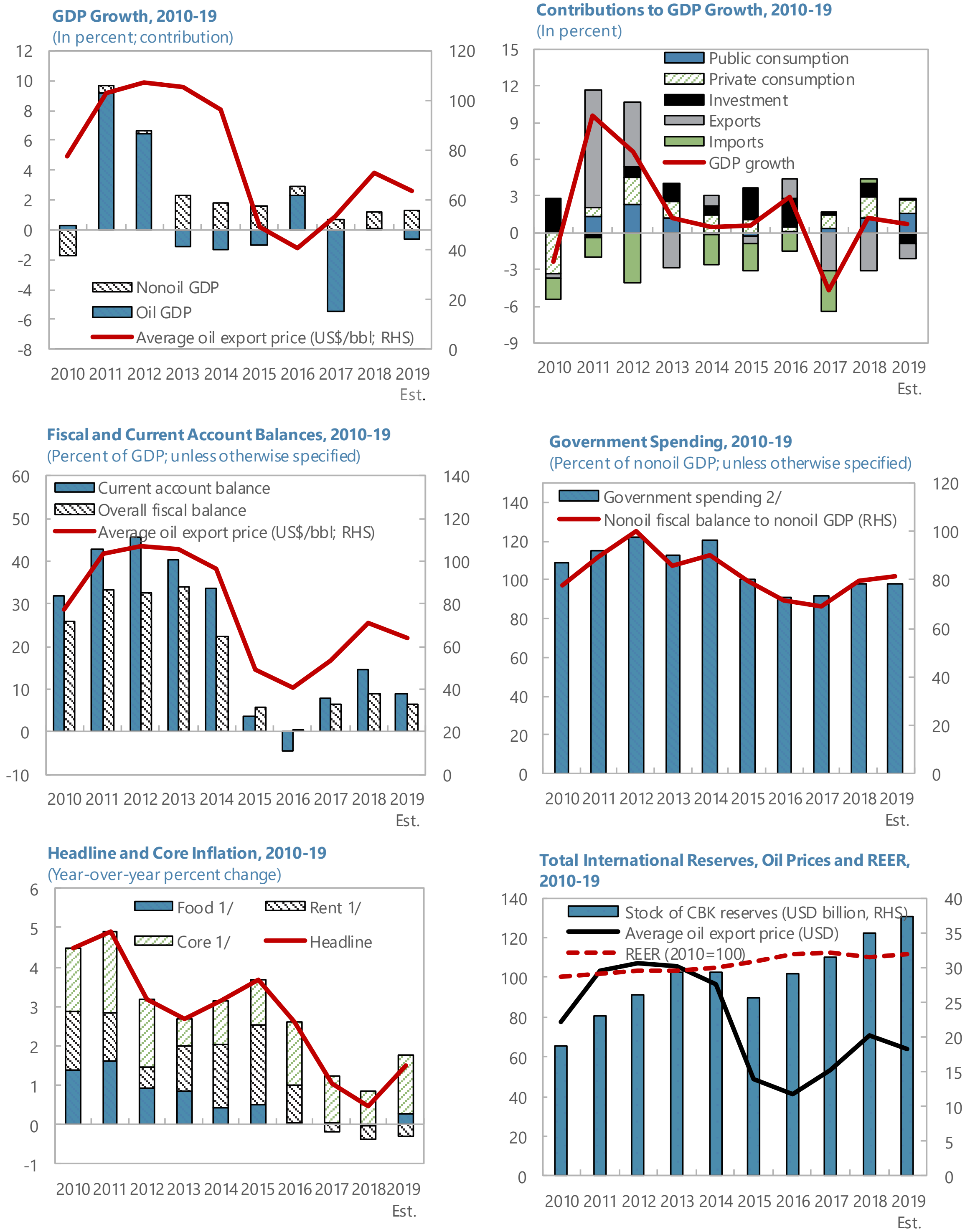
50. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle

Proposed Decision

The Executive Board endorses the thrust of the staff appraisal in the report for the 2020 Article IV consultation with Kuwait (SM/20/62, 03/10/2020).

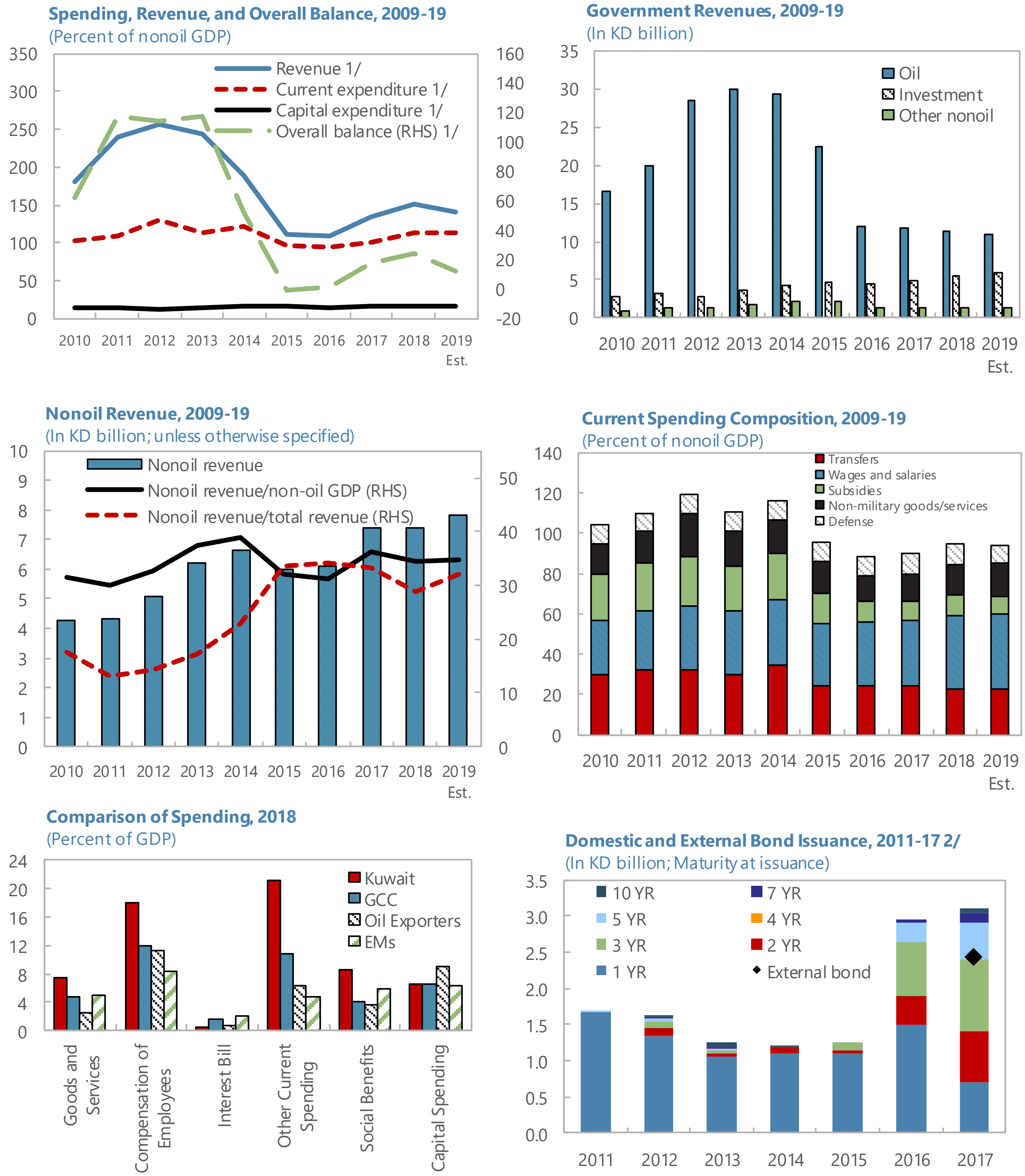
It is expected that the next Article IV consultation with Kuwait will take place on the standard 12-month cycle.

Figure 1. Kuwait: Macroeconomic Developments



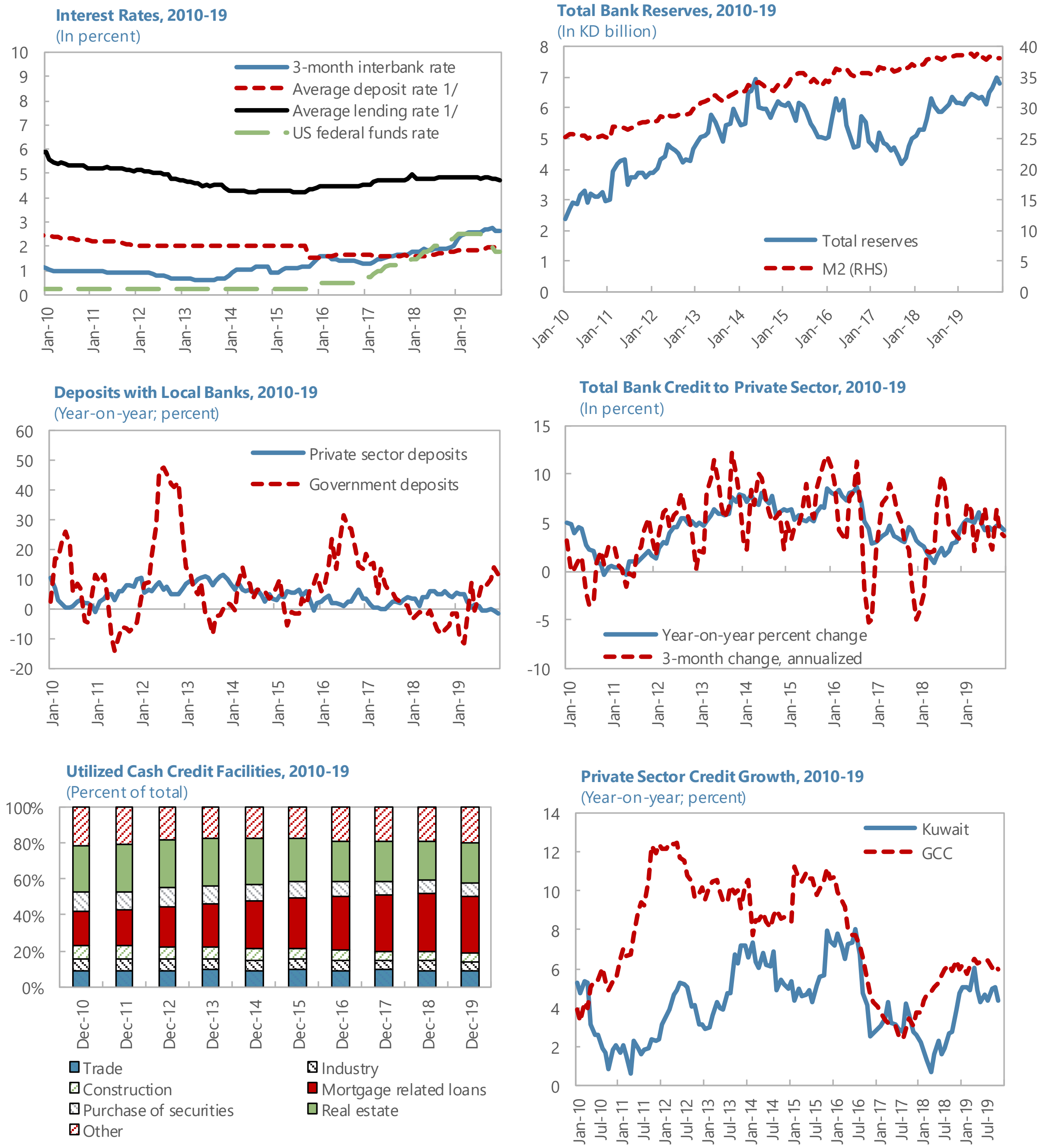
Sources: Country authorities; INS; Haver; and IMF staff calculations.
1/ Contribution to headline CPI inflation.
2/ Calendar year.

Figure 2. Kuwait: Fiscal Developments



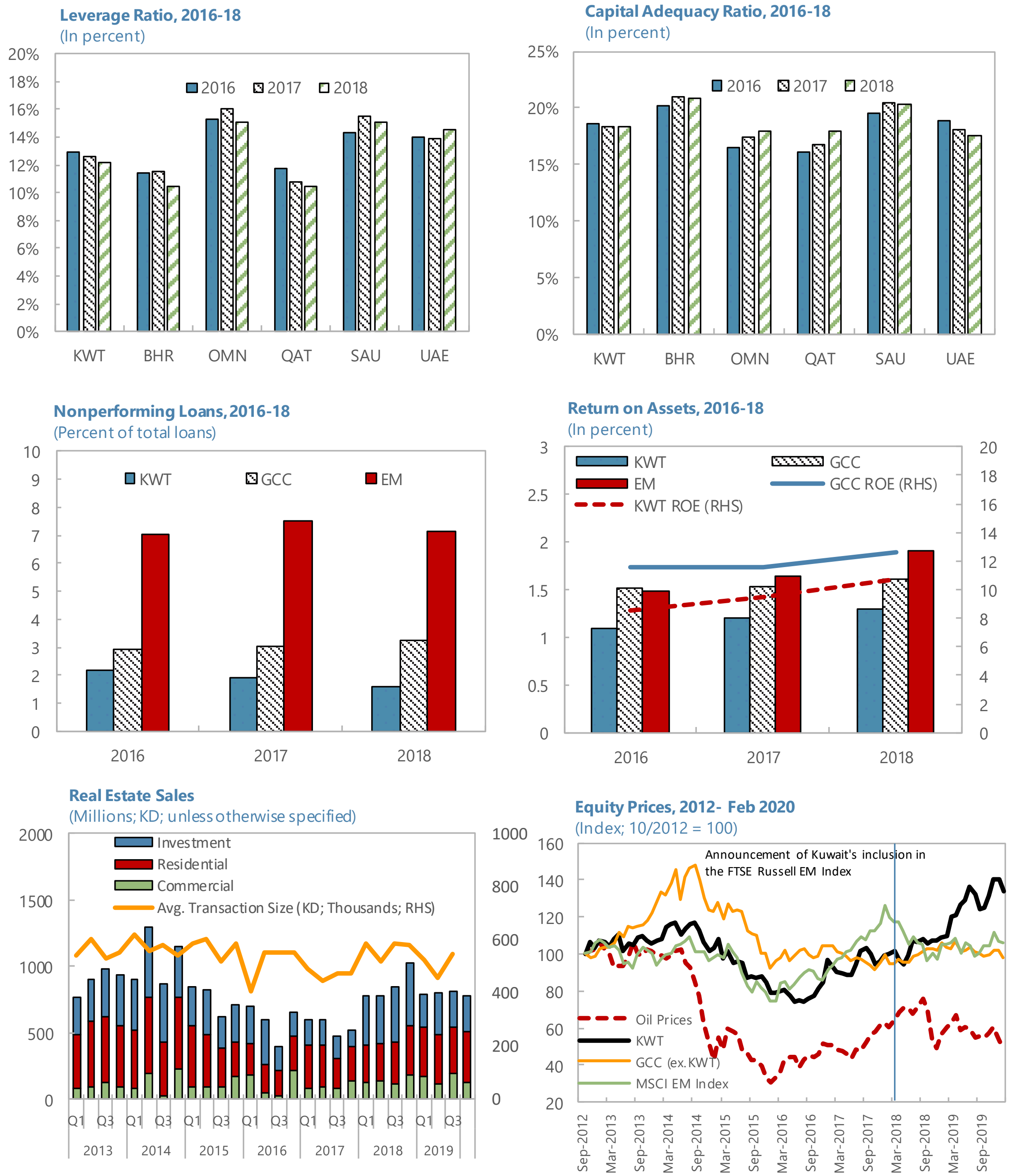
Sources: WEO; Country authorities; CBK; MOF; and IMF staff calculations.
1/ Calendar year for nonoil GDP; fiscal year for revenue; current expenditure, capital expenditure, and the overall balance.
2/ There has been no government debt issuance since October 2017.

Figure 3. Kuwait: Monetary Developments



Sources: Country authorities; Haver; and IMF staff calculations.
1/ Weighted average.

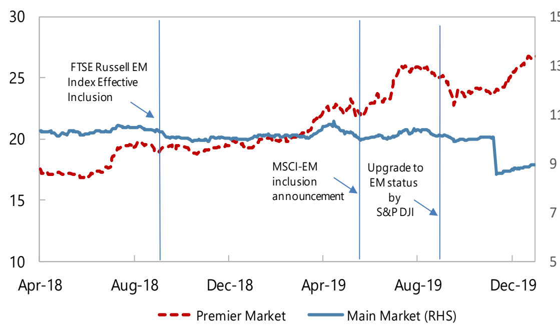
Figure 4. Kuwait: Financial Sector and Asset Developments 1/



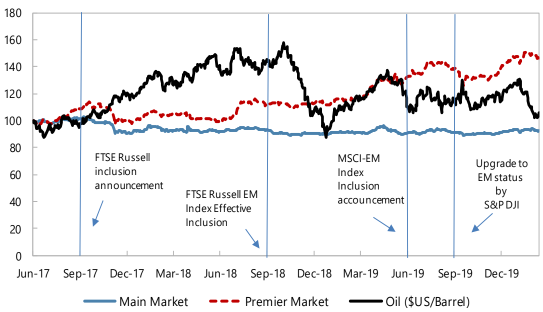
Sources: Country authorities; Bloomberg; NBK; Haver; and IMF staff estimates.
1/ Local banks only. Includes interbank loans.

Figure 5. Kuwait: Inclusion in Emerging Market Indices and Equity Markets

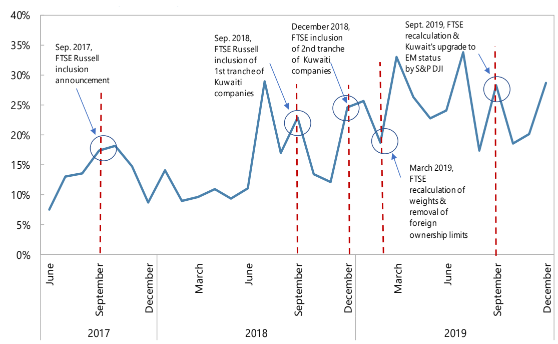
Kuwait Premier and Main Market Capitalization
(In KD Billion)



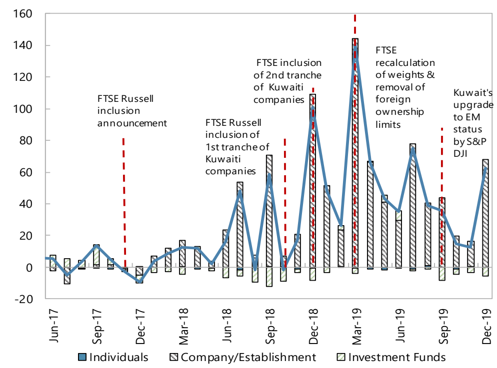
Kuwait Premier and Main Market Indices
(Index, June 2017 = 100)



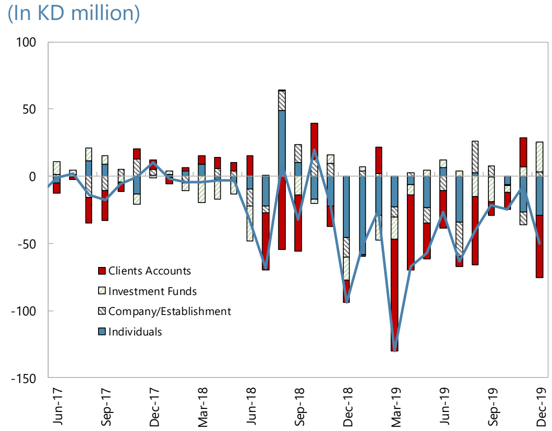
Annualized Monthly Turnover Velocity
(In percent)



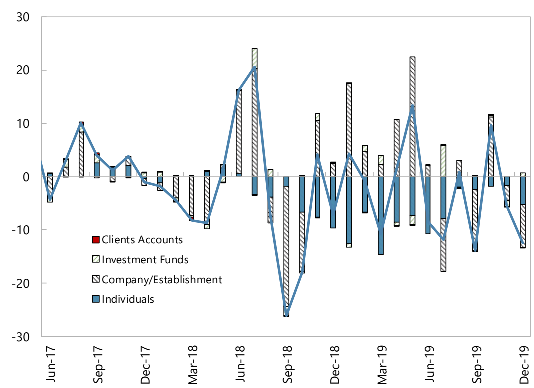
Net Monthly Trading by Foreigners
(Total Value Traded, in KD Million)



Net Monthly Trading by Kuwaitis
(In KD million)



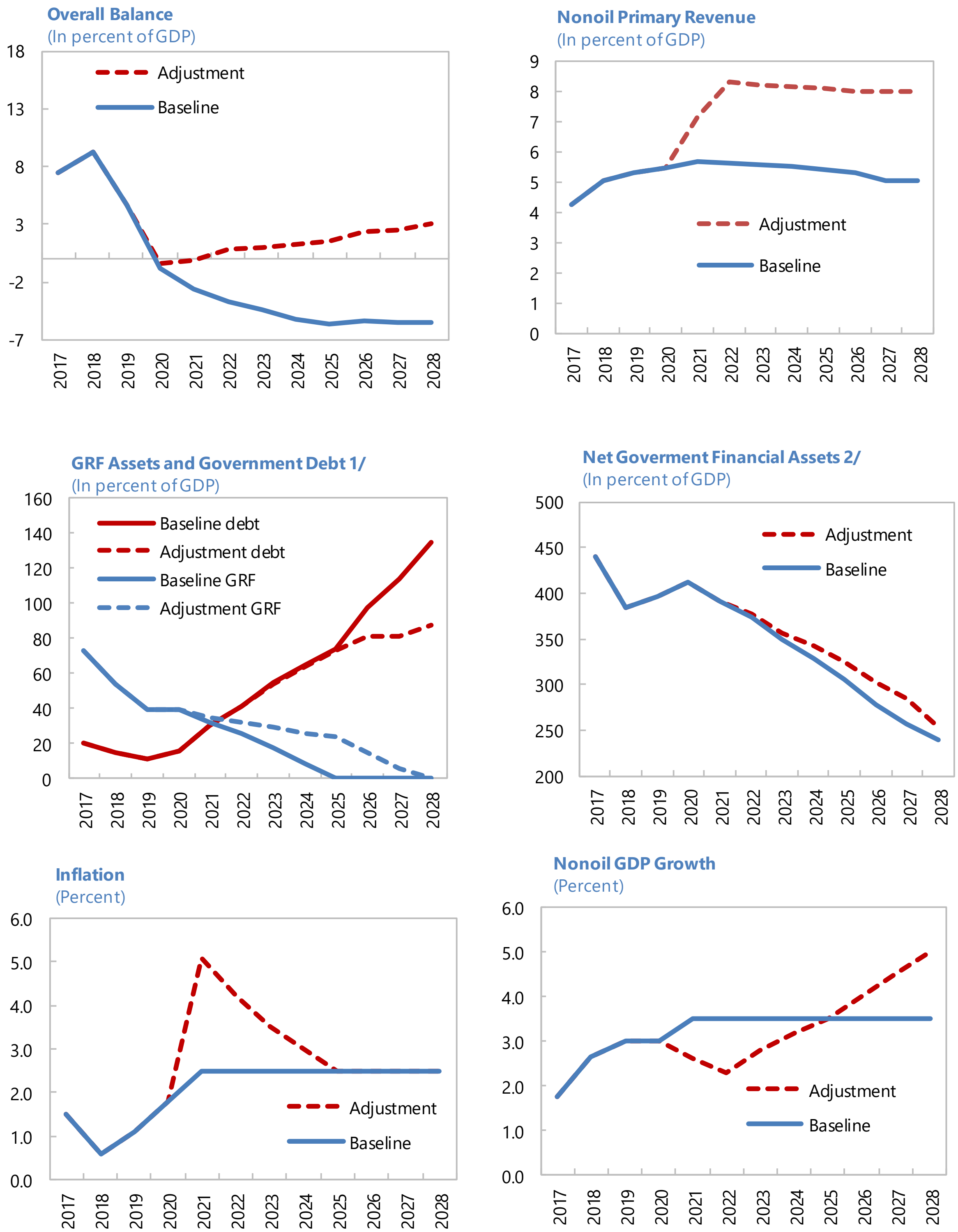
Net Monthly Trading by GCC Nationals
(In KD million)



Sources: Bloomberg, Boursa Kuwait; Capital Market Authority (CMA); and IMF Staff calculations.

Note: Net = Purchasing - Selling

Figure 6. Kuwait: Economic Outcomes Under Baseline and Reform Scenarios

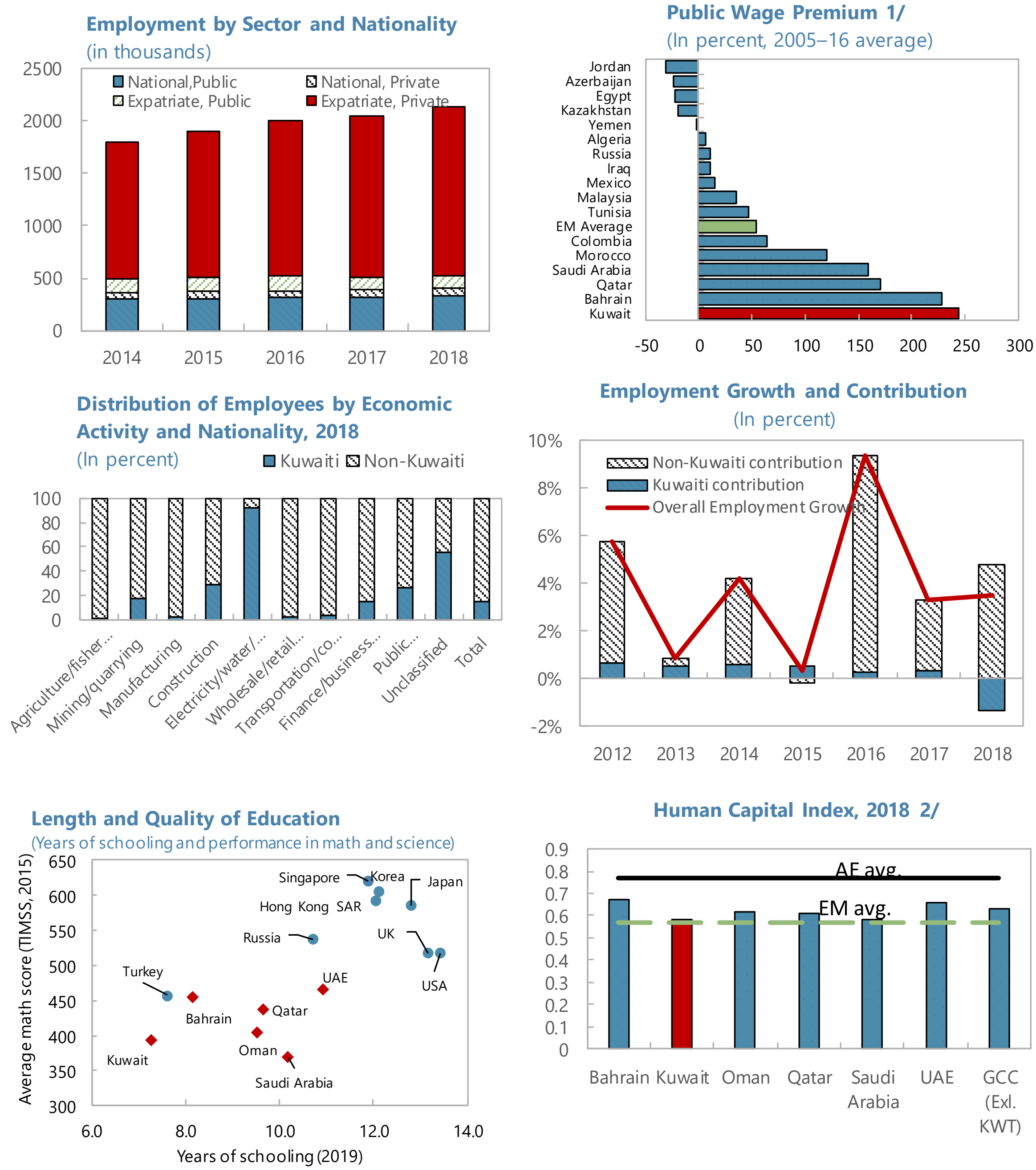


Source: IMF staff calculations.

1/ GRF assets are based on staff estimates and projections.

2/ Defined as staff estimated KIA assets minus government debt. Debt financing under the adjustment scenario is assumed to be lower than the baseline.

Figure 7. Kuwait: Labor Market Trends



Sources: Country authorities; WEF Global Competitiveness Report, UNDP; World Bank, and IMF staff calculations.

1/Average public sector wage over average private sector wage for all employess, including expats. Due to data limitations, these measures fail to control for employee characteristics, such as higher education levels of nationals predominantly working for the public sector. On the other hand, the estimated public wages in Kuwait do not include all public sector employee benefits.

2/The World Banks Human Capital Index is defined as the amount of human capital a child born today can expect to achieve by age 18 given health and education standards currently prevailing in the country of birth.

Figure 8. Kuwait: Institutions and Governance

Sources: World Bank *Doing Business Indicators*; *Worldwide Governance Indicators*, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); World Economic Forum Global Competitiveness Report; World Economic Outlook.

1/ Survey-based indicators reflect experts' analysis of the business environment indicators.

2/ Survey-based indicators summarize perceptions of quality of governance; higher score indicates better governance. Estimates of governance range from approximately -2.5 (weak) to 2.5 (strong). Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible.

3/ Uses both official data and survey responses from executives on areas of competitiveness; higher is better.

4/ Indices on the prevalence of trade barriers ranking and subcomponents are based on WEF's quantitative and qualitative assessment of the trade environment. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints, and information availability.

Table 1. Kuwait: Selected Economic Indicators, 2014–25

						Est.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Oil and gas sector												
Total oil and gas exports (billions of U.S. dollars)	97.6	48.5	41.5	49.6	65.4	58.2	52.9	52.8	53.4	54.6	56.0	57.5
Average crude oil export price (U.S. dollars/barrel)	95.2	47.8	39.5	51.6	68.8	61.8	55.9	54.6	54.2	54.3	54.7	55.2
Crude oil production (millions of barrels/day)	2.87	2.86	2.95	2.70	2.74	2.70	2.70	2.76	2.81	2.87	2.93	2.99
	(Annual percentage change, unless otherwise indicated)											
National accounts and prices												
Nominal GDP (market prices, in billions of Kuwaiti dinar)	46	34	33	37	42	41	41	42	44	46	48	51
Nominal GDP (market prices, in billions of U.S. dollars)	163	115	109	121	141	137	135	140	146	152	159	168
Real GDP [1]	0.5	0.6	2.9	-4.7	1.2	0.7	1.5	2.7	2.7	2.7	2.7	2.7
Real oil GDP (including refineries)	-2.1	-1.7	3.9	-9.0	0.2	-1.0	0.3	2.0	2.0	2.0	2.0	2.0
Real nonoil GDP [1]	4.9	4.2	1.4	1.8	2.7	3.0	3.0	3.5	3.5	3.5	3.5	3.5
CPI inflation (average)	3.1	3.7	3.5	1.5	0.6	1.1	1.8	2.5	2.5	2.5	2.5	2.5
CPI inflation (eop)	3.0	3.0	2.6	1.1	0.4	1.5	2.2	2.5	2.5	2.5	2.5	2.5
Unemployment rate (Kuwaiti nationals)	5.0	4.7	3.3	3.3	…	…	…	…	…	…	…	…
	(Percent of GDP at market prices)											
Budgetary operations [2]												
Revenue	67.4	52.3	52.7	58.3	60.9	59.3	55.5	54.2	53.4	52.6	51.6	50.6
Oil	51.9	35.4	34.4	37.8	43.7	39.8	36.7	35.5	34.6	33.9	33.3	32.8
Nonoil, *of which:*	15.4	16.9	18.2	20.5	17.2	19.5	18.7	18.8	18.8	18.7	18.3	17.9
Investment income	10.6	13.3	14.6	16.2	12.2	14.2	13.3	13.1	13.2	13.1	12.8	12.4
Expenditures [3]	48.8	52.7	52.2	50.7	51.6	54.5	56.3	56.9	57.1	57.0	56.8	56.3
Expense	43.3	45.0	45.6	44.2	45.4	47.8	49.3	49.7	50.0	49.9	49.8	49.4
Capital	5.4	7.7	6.5	6.6	6.2	6.7	7.0	7.2	7.1	7.1	7.0	6.8
Balance	18.6	-0.3	0.5	7.5	9.3	4.7	-0.8	-2.6	-3.7	-4.4	-5.2	-5.6
Balance (after transfer to FGF and excl. investment income)	2.3	-17.5	-17.9	-12.9	-7.7	-13.9	-18.3	-19.8	-20.9	-21.4	-21.8	-21.9
Domestic financing (net)	-0.7	-1.2	6.5	1.8	-2.7	-3.4	4.0	4.4	4.2	5.2	5.0	4.0
External financing (net)	-1.6	18.8	11.4	11.0	10.5	17.3	14.3	15.5	16.7	16.3	16.8	17.9
Nonoil balance excl. investment income (percent of nonoil GDP) [4]	-102.5	-88.3	-83.5	-85.5	-90.2	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1
Excluding oil-related subsidies and benefits (percent of nonoil GDP)	-81.2	-77.5	-74.5	-76.6	-81.6	-80.8	-79.8	-78.8	-78.1	-77.1	-76.2	-75.0
Total gross debt (calendar year) [5]	3.4	4.7	10.0	20.5	14.8	11.6	15.5	30.4	41.6	55.1	65.2	74.4
Estimated KIA assets	345.6	456.3	476.6	460.4	398.2	407.9	426.8	421.7	415.2	405.0	393.6	380.7
Net government financial assets	342.1	451.7	466.6	439.9	383.3	396.2	411.3	391.4	373.7	349.8	328.3	306.3
	(Percent change; unless otherwise indicated)											
Money and credit												
Net foreign assets [6]	3.7	-2.1	8.7	-3.1	10.0	6.2	0.2	0.5	0.8	1.1	0.7	0.3
Claims on nongovernment sector	5.2	7.9	2.5	2.8	3.9	4.4	5.4	6.4	6.4	6.4	6.4	6.3
Kuwaiti dinar 3-month deposit rate (year average; in percent)	0.8	0.8	1.1	1.5	2.3	2.8	…	…	…	…	…	…
Stock market unweighted index (annual percent change)	-3.8	-16.5	-0.2	12.8	11.8	23.2	…	…	…	…	…	…
	(Billions of U.S. dollars, unless otherwise indicated)											
External sector												
Exports of goods	104.5	54.5	46.5	55.2	72.3	64.6	59.0	59.2	60.2	61.7	63.6	65.6
Of which: nonoil exports	7.0	6.0	5.0	5.6	6.9	6.3	6.1	6.4	6.7	7.2	7.6	8.1
Annual percentage change	-2.8	-14.1	-15.7	11.7	22.3	-8.1	-3.8	5.0	5.5	6.3	6.3	6.5
Imports of goods	-27.0	-26.5	-27.0	-29.5	-31.3	-32.0	-33.1	-34.2	-35.6	-37.1	-38.8	-40.1
Terms of Trade (ratio, annual percent change)	-12.2	-42.5	-12.5	27.1	19.9	-11.1	-7.1	-1.0	0.3	-0.1	0.1	0.7
Current account	54.4	4.0	-5.1	9.6	20.4	12.1	4.2	3.0	2.3	2.0	1.5	1.4
Percent of GDP	33.4	3.5	-4.6	8.0	14.5	8.8	3.1	2.1	1.6	1.3	0.9	0.9
International reserve assets [7]	32.3	28.3	31.2	33.6	37.2	39.6	40.8	42.2	43.8	45.6	47.2	48.7
In months of next year's imports of goods and services	7.4	6.5	6.6	6.4	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Memorandum items:												
Exchange rate (U.S. dollar per KD, period average)	3.52	3.32	3.31	3.29	3.29	3.29	…	…	…	…	…	…
Nominal effective exchange rate (Percentage change)	1.1	1.5	1.8	0.4	0.2	2.6	…	…	…	…	…	…
Real effective exchange rate (Percentage change)	1.5	2.9	3.2	0.5	-1.9	1.4	…	…	…	…	…	…

Sources: Data provided by the authorities; and IMF staff estimates and projections.

[1] Calculated at market prices.

[2] Based on fiscal year cycle, which starts on April 1 and ends on March 31.

[3] Starting FY2016/17, there has been a reclassification of expenditure items.

[4] Excludes pension fund recapitalization.

[5] Excludes debt of Kuwait's SWF related to asset management operations.

[6] Excludes SDR holdings and IMF reserve position.

[7] Does not include external assets held by KIA.

Table 2a. Kuwait: Summary of Government Finance, 2014/15–2025/26
(Billions of Kuwaiti Dinars)

						Est.	Projections					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
						(Billions of Kuwaiti Dinars)						
Revenue (includes grants) (A)	**29.2**	**17.8**	**17.9**	**22.2**	**25.7**	**24.4**	**22.8**	**23.1**	**23.7**	**24.4**	**25.1**	**25.9**
Taxes	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.9	0.9	0.9	1.0	1.0
Other revenue	28.8	17.4	17.3	21.6	25.0	23.7	22.1	22.3	22.8	23.5	24.2	24.9
Oil and gas	22.5	12.1	11.7	14.4	18.4	16.4	15.1	15.1	15.4	15.8	16.2	16.8
Investment income and transfer of profits of public entities 1/	4.6	4.5	4.9	6.2	5.1	5.8	5.5	5.6	5.9	6.1	6.2	6.4
Other 2/	1.7	0.8	0.7	1.1	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Total expenditure (B=C+D) 3/	**21.1**	**18.0**	**17.7**	**19.3**	**21.8**	**22.5**	**23.2**	**24.3**	**25.4**	**26.5**	**27.7**	**28.8**
Expense (C)	18.8	15.4	15.5	16.8	19.2	19.7	20.3	21.2	22.2	23.2	24.3	25.3
Compensation of employees	5.7	5.8	6.4	6.7	8.1	8.6	9.0	9.4	9.9	10.5	11.0	11.6
Purchases/use of goods & services	2.9	3.1	2.3	2.8	3.6	3.8	3.9	4.1	4.2	4.3	4.4	4.4
Interest	0.0	0.0	0.0	0.2	0.4	0.3	0.2	0.3	0.6	0.9	1.3	1.6
Subsidies and social benefits	7.6	4.8	4.5	4.8	4.9	4.9	4.9	5.0	5.1	5.2	5.3	5.4
Subsidies	2.4	1.7	1.6	1.5	1.6	1.5	1.4	1.4	1.5	1.5	1.6	1.6
Oil-related subsidies	2.4	1.7	1.6	1.5	1.6	1.5	1.4	1.4	1.5	1.5	1.6	1.6
Other subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	5.2	3.1	2.9	3.3	3.3	3.4	3.5	3.6	3.6	3.7	3.7	3.7
Payments to social security fund	3.1	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Transfers to social security fund	2.0	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Fund recapitalization	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	2.1	1.2	0.8	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Oil-related	1.3	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Others	0.8	0.8	0.6	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0
Expense not elsewhere classified	2.5	1.7	2.3	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Net acquisition of nonfinancial assets (D)	2.4	2.6	2.2	2.5	2.6	2.8	2.9	3.1	3.2	3.3	3.4	3.5
Net lending / borrowing [=A-B]	**8.1**	**-0.1**	**0.2**	**2.9**	**3.9**	**2.0**	**-0.3**	**-1.1**	**-1.6**	**-2.1**	**-2.5**	**-2.9**
Transfers to FGF	2.5	1.3	1.3	1.6	2.1	1.9	1.7	1.8	1.8	1.8	1.9	2.0
Investment income	4.6	4.5	4.9	6.2	5.1	5.8	5.5	5.6	5.9	6.1	6.2	6.4
Overall balance (after transfers to FGF and excl. investment income) 4/	1.0	-6.0	-6.1	-4.9	-3.3	-5.7	-7.5	-8.5	-9.3	-10.0	-10.6	-11.2
Non-oil balance	-14.4	-12.2	-11.5	-11.5	-14.5	-14.4	-15.5	-16.2	-17.0	-17.8	-18.8	-19.7
excluding investment income	-19.0	-16.7	-16.5	-17.7	-19.6	-20.3	-20.9	-21.8	-22.9	-23.9	-25.0	-26.1
excluding recapitalization of pension	-17.9	-16.7	-16.5	-17.7	-19.6	-20.3	-20.9	-21.8	-22.9	-23.9	-25.0	-26.1
excluding oil-related subsidies and benefits	-14.2	-14.7	-14.7	-15.8	-17.8	-18.5	-19.3	-20.1	-21.1	-22.1	-23.1	-24.1
Financing (net)	**-1.0**	**6.0**	**6.1**	**4.9**	**3.3**	**5.7**	**7.5**	**8.5**	**9.3**	**10.0**	**10.6**	**11.2**
Domestic	-0.3	-0.4	2.2	0.7	-1.2	-1.4	1.6	1.9	1.9	2.4	2.4	2.1
External	-0.7	6.4	3.9	4.2	4.4	7.1	5.9	6.6	7.4	7.6	8.2	9.2
External bonds	0.0	0.0	2.4	0.0	0.0	0.0	5.0	3.9	5.0	4.0	4.2	5.0
Reserve funds	-0.7	6.4	1.5	4.2	4.4	7.1	0.9	2.7	2.4	3.6	4.0	4.2

Sources: MOF; CBK; and IMF staff estimates and projections.

1/ Excluded from the national budget presentation. Estimated by IMF staff.

2/ Includes UN (Iraq) compensations.

3/ Starting FY2016/17, there has been a reclassification of expenditure items.

4/ Excludes 10 percent of total revenue transferred to the Future Generation Fund and investment income.

Table 2b. Kuwait: Summary of Government Finance, 2014/15–2025/26
(Percent of GDP, unless otherwise noted)

						Est.	Projections					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
						(Percent of GDP)						
Revenue (includes grants)	**67.4**	**52.3**	**52.7**	**58.3**	**60.9**	**59.3**	**55.5**	**54.2**	**53.4**	**52.6**	**51.6**	**50.6**
Taxes	1.0	1.4	1.6	1.5	1.6	1.7	1.8	2.0	2.0	2.0	2.0	2.0
Other revenue	66.4	50.9	51.0	56.8	59.3	57.5	53.7	52.2	51.4	50.6	49.6	48.6
Oil and gas	51.9	35.4	34.4	37.8	43.7	39.8	36.7	35.5	34.6	33.9	33.3	32.8
Investment income and transfer of profits of public entities 1/	10.6	13.3	14.6	16.2	12.2	14.2	13.3	13.1	13.2	13.1	12.8	12.4
Other 2/	3.9	2.2	2.0	2.8	3.4	3.6	3.7	3.7	3.6	3.6	3.5	3.4
Total expenditure 3/	**48.8**	**52.7**	**52.2**	**50.7**	**51.6**	**54.5**	**56.3**	**56.9**	**57.1**	**57.0**	**56.8**	**56.3**
Expense	43.3	45.0	45.6	44.2	45.4	47.8	49.3	49.7	50.0	49.9	49.8	49.4
Compensation of employees	13.1	17.1	18.7	17.7	19.2	20.8	21.8	22.1	22.4	22.5	22.6	22.7
Purchases/use of goods & services	6.7	9.0	6.7	7.4	8.5	9.1	9.6	9.7	9.5	9.3	9.0	8.6
Interest	0.1	0.1	0.1	0.6	0.9	0.7	0.5	0.6	1.4	2.0	2.7	3.2
Subsidies and social benefits	17.6	14.0	13.2	12.7	11.6	11.8	11.8	11.7	11.4	11.1	10.8	10.5
Subsidies	5.7	5.0	4.7	4.1	3.8	3.6	3.4	3.3	3.3	3.3	3.2	3.2
Social benefits	11.9	9.0	8.5	8.7	7.8	8.2	8.4	8.4	8.1	7.9	7.6	7.3
Payments to Social Security Fund	7.1	5.6	6.2	5.8	5.2	5.5	5.7	5.7	5.4	5.2	5.0	4.7
Transfers to Social Security Fund	4.6	5.6	6.2	5.8	5.2	5.5	5.7	5.7	5.4	5.2	5.0	4.7
Fund recapitalization	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	4.8	3.4	2.3	2.9	2.6	2.7	2.7	2.7	2.7	2.7	2.6	2.6
Oil-related	3.0	1.1	0.6	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Others	1.8	2.3	1.7	2.1	1.9	2.0	2.1	2.1	2.0	2.0	2.0	2.0
Expense not elsewhere classified	5.9	4.8	6.9	5.7	5.1	5.4	5.5	5.5	5.2	5.0	4.7	4.5
Net acquisition of nonfinancial assets	5.4	7.7	6.5	6.6	6.2	6.7	7.0	7.2	7.1	7.1	7.0	6.8
Net lending / borrowing	18.6	-0.3	0.5	7.5	9.3	4.7	-0.8	-2.6	-3.7	-4.4	-5.2	-5.6
Transfers to FGF	5.7	3.9	3.8	4.2	4.9	4.5	4.2	4.1	4.0	4.0	3.9	3.8
Investment income	10.6	13.3	14.6	16.2	12.2	14.2	13.3	13.1	13.2	13.1	12.8	12.4
Overall balance (after transfers to FGF and excl. investment income) 4/	2.3	-17.5	-17.9	-12.9	-7.7	-13.9	-18.3	-19.8	-20.9	-21.4	-21.8	-21.9
Non-oil balance	-33.3	-35.7	-33.9	-30.3	-34.4	-35.0	-37.6	-38.1	-38.3	-38.3	-38.5	-38.4
excluding investment income	-43.9	-49.0	-48.5	-46.5	-46.5	-49.2	-50.8	-51.2	-51.5	-51.4	-51.3	-50.8
excluding recapitalization of pension	-41.4	-49.0	-48.5	-46.5	-46.5	-49.2	-50.8	-51.2	-51.5	-51.4	-51.3	-50.8
excluding oil-related subsidies and benefits	-32.8	-43.0	-43.3	-41.6	-42.1	-44.9	-46.7	-47.2	-47.5	-47.5	-47.4	-47.0
Financing (net)	-2.3	17.5	17.9	12.9	7.7	13.9	18.3	19.8	20.9	21.4	21.8	21.9
Domestic	-0.7	-1.2	6.5	1.9	-2.7	-3.3	3.7	4.0	3.8	4.7	4.5	3.6
External	-1.6	18.8	11.4	11.1	10.5	17.2	13.4	14.2	15.1	14.6	15.1	15.9
External bonds	0.0	0.0	7.1	0.0	0.0	0.0	11.4	8.5	10.2	7.7	7.7	8.7
Reserve funds	-1.6	18.8	4.3	11.1	10.5	17.2	2.0	5.7	5.0	6.9	7.3	7.2
						(Percent of nonoil GDP)						
Revenue (includes grants)	**166.9**	**94.2**	**90.7**	**107.2**	**118.0**	**106.5**	**94.7**	**90.5**	**87.7**	**85.3**	**82.9**	**80.7**
Total expenditure	**120.8**	**94.8**	**89.8**	**93.4**	**100.0**	**98.0**	**96.1**	**94.9**	**93.8**	**92.4**	**91.2**	**89.7**
Net lending / borrowing	46.1	-0.6	0.9	13.8	18.0	8.5	-1.4	-4.4	-6.1	-7.2	-8.3	-9.0
Non-oil balance	-82.6	-64.3	-58.4	-55.7	-66.6	-63.0	-64.1	-63.6	-62.8	-62.2	-61.8	-61.2
excluding investment income	-108.8	-88.3	-83.5	-85.5	-90.2	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1
excluding recapitalization of pension	-102.5	-88.3	-83.5	-85.5	-90.2	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1
excluding oil-related subsidies and benefits	-81.2	-77.5	-74.5	-76.6	-81.6	-80.8	-79.8	-78.8	-78.1	-77.1	-76.2	-75.0
Memorandum items:												
Expenses (percent of nonoil GDP)	107.4	81.0	78.6	81.3	88.8	86.6	84.5	83.1	82.1	81.0	80.0	78.8
Expenses excl. recapitalization of pension fund (percent of nonoil GDP)	101.1	81.0	78.6	81.3	88.0	86.0	84.1	82.9	82.1	81.0	80.0	78.8
Oil-related subsidies and benefits (percent of nonoil GDP)	21.3	10.8	9.0	8.9	8.7	7.7	6.9	6.6	6.4	6.3	6.2	6.1
Kuwait Crude oil price, USD per barrel	84.6	47.0	44.1	57.7	69.0	62.5	57.8	56.8	56.6	56.9	57.4	58.1
Total gross debt (percent of GDP)	3.4	4.7	10.0	20.5	14.8	11.6	15.5	30.4	41.6	55.1	65.2	74.4

Sources: MOF; CBK; and IMF staff estimates and projections.

1/ Excluded from the national budget presentation. Estimated by IMF staff.
2/ Includes UN (Iraq) compensations.
3/ Starting FY2016/17, there has been a reclassification of expenditure items.
4/ Excludes 10 percent of total revenue transferred to the FGF and investment income.

Table 3. Kuwait: Summary Balance of Payments, 2014–25

						Est.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Billions of U.S. dollars, unless otherwise indicated)											
Current account	**54.4**	**4.0**	**-5.1**	**9.6**	**20.4**	**12.1**	**4.2**	**3.0**	**2.3**	**2.0**	**1.5**	**1.4**
Goods (trade balance)	77.5	27.9	19.5	25.7	41.0	32.6	25.9	24.9	24.5	24.6	24.8	25.5
Exports	104.5	54.5	46.5	55.2	72.3	64.6	59.0	59.2	60.2	61.7	63.6	65.6
Oil exports	97.6	48.5	41.5	49.6	65.4	58.2	52.9	52.8	53.4	54.6	56.0	57.5
Nonoil exports including re-exports	7.0	6.0	5.0	5.6	6.9	6.3	6.1	6.4	6.7	7.2	7.6	8.1
Of which: re-exports	1.5	1.3	1.1	1.2	1.5	1.4	1.4	1.4	1.5	1.6	1.7	1.8
Imports	-27.0	-26.5	-27.0	-29.5	-31.3	-32.0	-33.1	-34.2	-35.6	-37.1	-38.8	-40.1
Services	-18.1	-20.0	-20.0	-20.2	-24.3	-25.5	-26.2	-27.1	-28.0	-29.0	-29.9	-30.9
Transportation	-3.9	-3.8	-3.6	-4.2	-3.4	-3.6	-3.7	-3.8	-3.9	-4.1	-4.2	-4.4
Travel	-11.4	-12.6	-11.9	-9.9	-12.1	-12.8	-13.2	-13.6	-14.1	-14.6	-15.1	-15.6
Other services	-2.7	-3.6	-4.6	-6.1	-8.8	-9.2	-9.4	-9.7	-10.0	-10.3	-10.6	-10.9
Investment income	15.7	12.7	12.8	18.8	18.6	19.6	18.6	18.7	18.9	19.0	18.7	18.5
Receipts	16.3	16.5	18.0	21.1	21.3	21.4	20.4	20.5	21.3	21.7	21.9	22.1
General government[1]	13.0	13.1	14.2	17.7	13.8	16.4	15.4	15.8	16.6	17.3	17.7	18.2
Other sectors[2]	3.3	3.4	3.8	3.4	7.6	5.0	5.0	4.8	4.6	4.4	4.1	3.9
Payments	-0.7	-3.8	-5.2	-2.3	-2.7	-1.8	-1.8	-1.8	-2.4	-2.7	-3.2	-3.6
General government	0.0	0.0	0.0	0.0	0.0	-0.5	-0.4	-0.4	-0.9	-1.2	-1.6	-2.0
Other	-0.7	-3.8	-5.2	-2.3	-2.7	-1.3	-1.4	-1.4	-1.5	-1.5	-1.6	-1.7
Current transfers	-20.7	-16.6	-17.3	-14.7	-14.9	-14.6	-14.0	-13.6	-13.1	-12.6	-12.1	-11.6
Capital and financial account	**-52.4**	**-11.1**	**8.6**	**-15.9**	**-20.7**	**-9.7**	**-3.0**	**-1.6**	**-0.7**	**-0.2**	**0.1**	**0.1**
Capital account[3]	3.8	-0.3	-0.5	-0.4	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account	-56.2	-10.8	9.1	-15.5	-20.5	-9.4	-2.7	-1.4	-0.4	0.0	0.4	0.4
Direct investment	11.4	-5.1	-4.1	-8.7	-3.4	-3.2	-3.2	-3.1	-3.0	-2.8	-2.7	-2.6
Abroad	10.5	-5.4	-4.5	-9.0	-3.8	-3.6	-3.6	-3.5	-3.4	-3.4	-3.3	-3.2
In Kuwait	1.0	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Portfolio investment (net)	-62.0	-33.1	-18.8	-10.3	2.4	-9.0	-1.6	0.5	2.1	3.2	4.5	5.4
Other investment (net)	-5.4	27.2	32.1	3.6	-19.5	2.8	2.0	1.2	0.5	-0.3	-1.3	-2.4
Net errors and omissions[4]	-2.0	3.1	-0.7	8.7	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**0.0**	**-3.9**	**2.8**	**2.4**	**3.6**	**2.4**	**1.3**	**1.3**	**1.6**	**1.8**	**1.6**	**1.5**
Memorandum items												
Current account/GDP (in percent)	33.4	3.5	-4.6	8.0	14.5	8.8	3.1	2.1	1.6	1.3	0.9	0.9
Current account (excl. oil)/GDP (in percent)	-26.5	-38.8	-42.5	-33.1	-32.0	-33.7	-36.0	-35.6	-35.1	-34.5	-34.2	-33.4
Investment income/GDP (in percent)	9.6	11.1	11.7	15.6	13.2	14.3	13.7	13.4	13.0	12.5	11.7	11.0
WEO oil price (dollars per barrel)	96.2	50.8	42.8	52.8	68.3	61.4	55.5	54.2	53.8	53.9	54.3	54.8
International reserve assets (billions of U.S. dollars)[5]	32.3	28.3	31.2	33.6	37.2	39.6	40.8	42.2	43.8	45.6	47.2	48.7
In months of imports of goods and services	7.4	6.5	6.6	6.4	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0

Sources: CBK; and IMF staff estimates.

[1] KIA, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.

[2] CBK, local banks, investment companies, exchange companies, insurance companies, and the nonfinancial private sector.

[3] Includes UN war compensation.

[4] Includes other unclassified private-sector flows.

[5] Includes SDR holdings and IMF reserve position.

Table 4. Kuwait: Monetary Survey, 2014–25

						Est.	Projections					
End of period	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						(Millions of KD)						
Foreign assets (net) [1]	15,972	15,633	16,998	16,473	18,121	19,242	19,275	19,371	19,525	19,734	19,864	19,920
Central bank	8,588	7,774	8,693	9,330	10,408	11,267	11,655	12,059	12,553	13,089	13,577	14,026
Local banks	7,384	7,859	8,305	7,143	7,713	7,976	7,621	7,313	6,971	6,645	6,287	5,895
Domestic assets (net)	17,649	18,606	18,419	20,289	20,132	18,449	20,364	22,710	25,133	27,648	30,410	33,420
Claims on government (net)	-4,340	-5,153	-4,392	-3,451	-4,355	-6,768	-5,911	-5,057	-4,205	-3,309	-2,416	-1,526
Central bank (net)	-616	-854	-978	-1,755	-1,584	-1,751	-2,251	-2,751	-3,251	-4,251	-5,251	-6,251
Claims	0	0	0	0	0	0	0	0	0	0	0	0
Deposits	616	854	978	1,755	1,584	1,751	2,251	2,751	3,251	4,251	5,251	6,251
Local banks (net)	-3,723	-4,299	-3,414	-1,696	-2,771	-5,017	-3,660	-2,306	-955	942	2,835	4,725
Claims	1,563	1,580	3,287	5,059	3,862	2,371	3,876	5,381	6,886	8,939	10,992	13,045
Public debt instruments	1,563	1,580	3,287	5,059	3,862	2,371	3,876	5,381	6,886	8,939	10,992	13,045
Deposits	5,286	5,879	6,701	6,755	6,633	7,388	7,536	7,686	7,840	7,997	8,157	8,320
Claims on nongovernment sector	32,706	35,302	36,169	37,199	38,664	40,358	42,537	45,280	48,177	51,243	54,499	57,955
Credit facilities	30,737	33,335	34,307	35,372	36,855	38,428	40,503	43,114	45,874	48,793	51,893	55,184
Local investments	1,969	1,967	1,862	1,827	1,809	1,930	2,034	2,165	2,304	2,451	2,606	2,772
Other items (net)	-10,718	-11,543	-13,359	-13,459	-14,177	-15,141	-16,262	-17,514	-18,839	-20,286	-21,673	-23,008
Broad money [2]	33,620	34,239	35,417	36,761	38,253	37,691	39,640	42,081	44,658	47,383	50,274	53,341
Money	9,253	9,091	9,408	9,793	10,025	10,051	10,594	11,277	11,999	12,762	13,573	14,434
Quasi money	24,367	25,148	26,009	26,968	28,227	27,640	29,046	30,804	32,659	34,620	36,701	38,907
Of which: Foreign currency deposits	2,891	3,591	2,922	2,734	2,617	2,532	2,582	2,634	2,687	2,740	2,795	2,851
						(Annual percentage change)						
Foreign assets (net)	3.7	-2.1	8.7	-3.1	10.0	6.2	0.2	0.5	0.8	1.1	0.7	0.3
Central Bank	4.1	-9.5	11.8	7.3	11.6	8.2	3.4	3.5	4.1	4.3	3.7	3.3
Local banks	3.1	6.4	5.7	-14.0	8.0	3.4	-4.5	-4.0	-4.7	-4.7	-5.4	-6.2
Domestic assets (net)	2.9	5.4	-1.0	10.1	-0.8	-8.4	10.4	11.5	10.7	10.0	10.0	9.9
Claims on government (net)	-3.6	-18.7	14.8	21.4	-26.2	-55.4	-12.7	-14.5	-16.8	-21.3	-27.0	-36.8
Claims on nongovernment sector	5.2	7.9	2.5	2.8	3.9	4.4	5.4	6.4	6.4	6.4	6.4	6.3
Other items (net)	9.8	7.7	15.7	0.8	5.3	6.8	7.4	7.7	7.6	7.7	6.8	6.2
Broad money	3.3	1.8	3.4	3.8	4.1	-1.5	5.2	6.2	6.1	6.1	6.1	6.1
Money	6.6	-1.7	3.5	4.1	2.4	0.3	5.4	6.4	6.4	6.4	6.4	6.3
Quasi money	2.0	3.2	3.4	3.7	4.7	-2.1	5.1	6.1	6.0	6.0	6.0	6.0
Of which: foreign currency deposits	-7.4	24.2	-18.6	-6.5	-4.3	-3.2	2.0	2.0	2.0	2.0	2.0	2.0
						(Change in percent of beginning of period broad money stock)						
Foreign assets (net)	1.7	-1.0	4.0	-1.5	4.5	2.9	0.1	0.2	0.4	0.5	0.3	0.1
Central bank	1.0	-2.4	2.7	1.8	2.9	2.2	1.0	1.0	1.2	1.2	1.0	0.9
Local banks	0.7	1.4	1.3	-3.3	1.6	0.7	-0.9	-0.8	-0.8	-0.7	-0.8	-0.8
Domestic assets (net)	1.5	2.8	-0.5	5.3	-0.4	-4.4	5.1	5.9	5.8	5.6	5.8	6.0
Claims on government (net)	-0.5	-2.4	2.2	2.7	-2.5	-6.3	2.3	2.2	2.0	2.0	1.9	1.8
Claims on nongovernment sector	4.9	7.7	2.5	2.9	4.0	4.4	5.8	6.9	6.9	6.9	6.9	6.9
Other items (net)	-2.9	-2.5	-5.3	-0.3	-2.0	-2.5	-3.0	-3.2	-3.1	-3.2	-2.9	-2.7
Broad money	3.3	1.8	3.4	3.8	4.1	-1.5	5.2	6.2	6.1	6.1	6.1	6.1
Money	1.8	-0.5	0.9	1.1	0.6	0.1	1.4	1.7	1.7	1.7	1.7	1.7
Quasi money	1.5	2.3	2.5	2.7	3.4	-1.5	3.7	4.4	4.4	4.4	4.4	4.4
Of which: Foreign currency deposits	-0.7	2.1	-2.0	-0.5	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Memorandum items:												
Non-oil GDP/M2 (in percent)	50.7	54.8	55.0	55.6	56.1	60.1	60.0	59.9	59.7	59.6	59.5	59.4
Foreign currency deposits/M2 (in percent)	8.6	10.5	8.3	7.4	6.8	6.7	6.5	6.3	6.0	5.8	5.6	5.3
Private credit/non-oil GDP (in percent)	191.7	188.1	185.6	182.1	180.1	178.1	178.9	179.8	180.6	181.5	182.3	183.0

Sources: CBK; and IMF staff estimates.

[1] Excludes SDRs and IMF reserve position.

[2] Excludes deposits with financial institutions, which are marginal.

Table 5. Kuwait: Financial Soundness Indicators of the Banking Sector, 2008–19
(In percent unless specified otherwise)[1]

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q3
Capital adequacy												
Regulatory capital to risk-weighted assets	15.6	16.7	18.9	18.5	18.5	18.9	16.9	17.5	18.6	18.4	18.3	17.6
Regulatory Tier I capital to risk-weighted assets	14.3	14.9	17.3	16.9	16.0	17.1	15.6	16.1	16.7	16.5	16.5	15.7
Capital to assets	10.9	11.4	12.6	12.4	12.6	12.2	11.1	11.8	12.8	12.8	12.9	12.7
Loan composition and quality												
Oil/gas	0.9	1.2	1.2	1.1	1.6	1.5	2.2	2.4	3.4	4.3	5.1	4.8
Trade	10.2	10.6	10.0	10.5	12.1	13.0	12.8	11.7	11.8	11.9	11.0	11.0
Industry	6.8	6.5	7.0	7.1	7.9	7.8	7.3	6.9	6.7	6.5	6.4	6.7
Construction	11.9	11.4	12.7	12.1	12.6	12.2	11.9	12.0	12.3	11.6	11.2	10.7
Real estate	18.1	20.6	20.0	19.6	19.2	18.9	18.5	17.5	16.6	16.6	15.8	16.6
Equity purchase loans (corporate)	5.8	5.9	5.7	5.8	3.5	3.4	3.0	3.0	2.9	2.6	2.8	2.9
Agriculture/fishing	0.7	0.3	0.4	0.2	0.3	0.3	0.4	0.3	0.3	0.2	0.4	0.4
Financial Institutions	12.8	12.7	14.1	13.1	11.2	10.4	11.9	14.0	13.3	11.8	12.2	12.9
Of which: investment companies	7.5	8.0	8.7	6.1	4.3	4.0	3.1	2.9	2.6	2.0	1.9	2.0
Of which: banks	0.0	0.0	4.6	3.7	6.7	5.7	8.0	10.5	9.8	8.8	9.4	9.8
Public services	1.9	1.6	1.6	1.7	2.6	1.8	2.2	2.2	1.8	1.8	1.8	1.8
Households	16.0	16.1	16.3	17.0	19.4	20.0	20.2	20.5	20.7	20.9	21.7	20.8
Of which: credit card advances	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	…	…	…
Of which: installment loans	10.9	12.7	12.1	12.9	13.2	14.4	14.8	15.5	16.1	16.8	17.7	16.6
Of which: consumer loans	2.5	1.0	2.2	2.2	2.9	3.0	2.9	2.5	2.4	2.3	2.3	2.6
Of which: equity purchase loans (individuals)	2.0	1.9	1.4	1.4	2.9	2.6	2.6	2.5	2.2	1.8	1.7	1.6
Other	14.8	13.3	11.1	11.8	9.5	10.7	9.7	9.6	10.3	11.7	11.5	11.3
Gross non-performing loans to total loans	6.8	11.5	8.9	7.3	5.2	3.6	2.9	2.4	2.2	1.9	1.6	1.8
NPLs net of specific provisions to total loans net of specific provisions	4.9	7.4	6.1	5.3	3.8	2.5	1.9	1.6	1.5	1.3	1.1	1.2
Total provisions to gross NPLs	…	…	…	…	95.1	134.6	163.9	204.8	236.9	230.2	253.1	229.3
NPLs net of specific provisions to Tier I capital	31.5	46.2	33.8	28.7	51.6	34.0	11.2	9.5	8.3	7.2	6.2	6.8
Loans to shareholders, parent companies, & directors to total loans	4.9	6.4	2.0	2.3	2.6	6.3	3.6	3.7	3.8	3.7	2.9	2.5
Large exposures to Tier I capital	212.4	165.1	124.3	105.3	100.4	87.2	97.1	101.1	94.7	105.5	104.6	96.7
Specific provisions to gross loans	2.0	4.4	3.0	2.1	1.4	1.2	1.0	0.8	0.7	0.6	0.5	0.6
Profitability												
Return on Average Assets (ROAA)	0.8	0.7	1.2	1.1	1.2	1.0	1.1	1.1	1.1	1.2	1.3	1.3
Return on Average Equity (ROAE)	6.5	6.1	9.1	8.1	9.1	7.4	8.7	8.8	8.5	9.5	10.7	10.5
Net interest income to gross income	36.6	44.5	49.9	47.6	48.1	49.9	47.1	47.6	49.9	49.5	48.8	44.1
Non-interest income to gross income	21.6	25.3	24.6	33.1	33.4	32.8	30.8	30.5	22.1	21.9	18.9	19.6
Trading and foreign exchange income to gross income	6.7	6.0	4.1	10.0	14.9	10.4	12.5	12.1	6.8	6.0	4.4	6.2
Non-interest expenses to gross income	26.4	36.9	37.7	36.1	34.0	37.2	33.4	31.8	29.6	27.7	25.1	23.9
Non-interest expenses to average assets	1.6	1.9	1.6	2.1	1.9	1.9	1.6	1.5	1.4	1.4	1.3	1.4
Personnel expenses to non-interest expenses	48.0	42.9	48.7	36.8	39.0	41.7	41.1	49.3	53.4	56.0	54.4	55.2
Liquidity												
Core liquid assets to total assets [2]	20.8	20.4	17.7	22.1	21.0	22.5	24.7	24.3	24.1	23.7	23.6	23.3
Core liquid assets to short-term liabilities	28.0	28.6	27.8	36.3	34.8	30.3	32.7	31.7	31.4	30.9	30.7	30.0
Liquid assets to total assets	28.4	27.9	22.8	26.5	27.3	25.4	30.7	29.8	30.1	31.0	31.2	31.3
Liquid assets to short term liabilities	38.4	39.2	35.7	43.7	45.2	34.1	40.6	38.9	39.1	40.5	40.6	40.3
FX- loans to total loans	24.9	25.8	25.5	25.8	28.1	28.2	26.0	30.5	29.1	30.6	30.1	30.4
FX- deposits to total deposits	35.1	32.7	30.7	33.8	34.6	30.7	37.0	38.8	33.2	37.8	37.2	39.2
FX- liabilities to total liabilities	24.2	22.6	11.2	11.4	14.5	18.9	18.8	30.2	…	…	…	…
Deposits to assets	59.2	58.8	56.7	58.3	63.3	62.2	59.4	59.2	58.4	59.1	57.8	59.4
Loans to deposits	109.0	113.0	116.5	110.9	100.5	99.5	103.6	108.3	108.9	106.5	109.0	106.0
FX- loans to FX-deposits	77.3	89.1	96.8	84.6	81.5	91.4	72.8	85.3	95.7	86.3	88.1	82.0
Sensitivity to market risk												
Net open FX position (overall) as percent of Tier I capital	11.2	10.7	8.7	…	10.2	8.1	7.7	18.0	…	…	…	…
Off-balance sheet operations as percent of assets	32.5	25.3	26.2	25.4	26.3	27.8	28.5	28.2	32.1	32.2	31.4	31.5
Gross asset position in derivatives as a percentage of tier I capital	71.1	46.9	33.6	…	41.1	65.3	75.0	139.7	…	…	…	…
Gross liability position in derivatives as a percentage of tier I capital	71.1	46.8	39.4	…	40.9	65.1	75.0	139.7	…	…	…	…
Equity exposure to capital	47.1	45.4	39.1	43.7	37.5	35.3	29.6	28.1	24.8	21.9	20.9	21.0

Source: CBK.

[1] Data are on consolidated basis.

[2] Core liquid assets include: cash and cash equivalents, deposits with CBK, government securities, CBK bills, deposits with banks, certificates of deposit with other banks which mature within three months.

Annex I. Implementation of 2019 Article IV Recommendations

Recommendations	Current Status
Fiscal Policy	
Embark on fiscal consolidation to ensure adequate savings of the oil wealth for future generations	Spending rose significantly, weakening the staff's measure of the underlying fiscal position (nonoil balance less investment income in percent of nonoil GDP). Most of the spending growth was in hard-to-reverse categories: wages, subsidies, and social transfers.
Curtail public wage bill growth and gradually reform subsidies and transfers	The public wage bill grew by 6.5 percent and subsidies and transfers by 18 percent in FY18/19. The government strengthened utility collections, but there has been no policy change.
Introduce the VAT and the excises on tobacco and sugary drinks and broaden the coverage of the profit tax	Parliament's support for tax reforms is lacking. The authorities remain hopeful to secure parliamentary approval for the excises on tobacco and sugary drinks. Meanwhile, the government is raising fees for some services, including work permits and health care fees for expatriates.
Fiscal Frameworks and Governance, AML/CFT, Statistics	
Introduce medium-term expenditure ceiling to anchor fiscal policy	The government discontinued the 3-year rolling expenditure ceilings introduced in 2017. Staff discussed with the authorities various fiscal rule options, and the authorities expressed interest in further work in this area.
Strengthen fiscal governance: transparency, procurement, and spending efficiency	The Ministry of Finance (MoF) made progress in adopting the GFSM2014. While the authorities are gradually implementing the 2017 procurement law, they have not introduced e-procurement. The MoF has engaged the World Bank on a possible public health expenditure review.
Further strengthen AML/CFT and anticorruption frameworks	The authorities are preparing for an AML/CFT mutual evaluation in 2022. They are improving coordination between members of the National AML/CFT Committee. Referrals of corruption cases to the prosecution are increasing.
Publish quarterly GDP and strengthen data provision arrangements	The Central Statistical Bureau started disseminating quarterly GDP series.
Monetary/Financial Sector Policies	
Establish a special resolution regime for banks and unwind the blanket deposit guarantee	Draft law introducing a special resolution regime for banks has been submitted to cabinet. The authorities have initiated internal deliberations on a deposit insurance scheme.
Gradually relax the interest rate ceiling	The CBK remains concerned over potential implications for financial stability and consumer protection. It sees some merit in relaxing the interest rate ceilings on loans to SMEs.
Further improve the liquidity management and forecasting framework	The CBK has operationalized the liquidity forecasting tool, extending its forecasting horizon beyond the short run.
Strengthen the debt management framework and capital market development	The draft new debt law is still pending parliament's approval, which has heightened financing pressures. Once passed, the government should be able to borrow at up to 30-year maturity and issue sovereign Sukuk.
Structural Reforms	
Further improve the regulatory framework and business climate to foster nonoil growth	Kuwait's position jumped in the 2020 Ease of Doing Business ranking thanks to improvements in starting a business, getting electricity, accessing credit, and trading across borders.

Annex II. Risk Assessment Matrix[1]

Nature/source of main threats	Likelihood of Risk/Time Horizon	Expected impact on the economy if risk materializes	Recommended Policy Response
		External risks	
Large swings in energy prices, especially their decline due to weaker than expected global growth	**High/Short to Medium Term**	**High** A large drop in oil prices, especially if sustained, would generate unfavorable macro-financial dynamics, with a significant worsening in fiscal and external balances. Government financing needs would rise, and, if seen as sustained, could trigger a repricing of debt. With domestic liquidity likely tight, domestic borrowing by the government could crowd out private sector credit. Confidence would take a hit, precipitating slowdown or even contraction in investment and nonoil output. Drop in real estate and equity prices could impair banks' assets. Higher oil prices would generate opposite effects, boosting growth and strengthening fiscal and external positions.	A sustained drop in oil prices will necessitate more ambitious fiscal adjustment than currently proposed by staff. The size and pace of the adjustment would have to be calibrated to balance intergenerational equity and short-term economic stabilization objectives. Contractionary effect on economic activity should be mitigated by rebalancing spending toward growth-enhancing investment. Government should accelerate reforms to encourage private investment and boost nonoil activity, including improving governance, the regulatory framework, and the ease of doing business. Financing strategy should consider the need to maintain adequate liquidity in banks. CBK liquidity management capabilities should be enhanced, and continued supervisory vigilance is needed to identify emerging financial stability risks to facilitate a timely response. If oil prices rise, the government should save the revenue windfall. Should nonoil growth accelerate and overheating pressures arise, the government could consider cutting spending to lean against the wind.
Sharp rise in risk premia that exposes financial vulnerabilities	**Medium/Short to Medium Term**	**Medium** Given Kuwait's strong credit rating, the government will likely maintain favorable access to capital markets, though its cost of borrowing may slightly increase. Banks, investment companies (IC), and corporates dependent on foreign funding could however face considerably higher costs. Repricing of risk could trigger capital outflows, weighing on equity markets which became more exposed to global markets with Kuwait's inclusion in global indices. Sharp	Kuwait's large financial assets could be deployed to finance the fiscal deficit and mitigate impact on the financial system. The CBK should continue to enhance the surveillance of banking stability risks.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

		increases in interest rates could trigger corrections in GCC equity and real estate markets, and, with many banks and ICs invested there, pose risks to financial stability.	
		External risks	
Rising protectionism and retreat from multilateralism	**High/Short to Medium Term**	**Medium** Direct impact is limited, but there could be large indirect effects through lower oil prices and confidence shocks.	See the recommended response to a drop in oil prices above.
Intensified geopolitical tensions and security risks	**High/Short Term**	**Medium** The shock would mainly operate through oil prices, which would likely increase, and regional contagion. The rise in oil prices is likely to be short-lived though. Confidence shock could trigger capital outflows, which would weigh on asset prices.	See the recommended response to large swings in energy prices above. The authorities could lean on Kuwait's financial buffers to moderate the impact of the shock. Enhanced surveillance of financial system would help spot systemic risks early on. The CBK should stand ready to inject liquidity in the system and respond through monetary and prudential measures to capital outflows.
		Domestic risks	
Slower and less effective implementation of the planned reforms.	**Medium/Medium to Long Term**	**High** Delays in fiscal and structural reforms would amplify fiscal financing needs, undermine investor confidence, and slow growth. Lower investment would in turn hinder diversification and private sector job prospects. Ensuing concerns about higher unemployment could prompt the government to speed up public sector hiring, further worsening its fiscal position.	The government should revitalize efforts to build national consensus for fiscal adjustment and structural reforms to promote the private sector and diversify the economy. To secure broad buy-in for reforms, the government should strengthen anticorruption efforts, promote fiscal transparency and accountability, improve the quality of public spending, and enhance the delivery of public services.
Severe property price correction	**Low/Medium Term**	**Medium** Though banks have substantial buffers, the losses could be significant given high exposures to the real estate sector, both directly and indirectly through collateral and common exposures.	Macro-prudential tools to limit exposures to real estate should be supported by improved real estate statistics. This will support monitoring of developments in the sector and enhanced techniques to capture banks' direct and indirect exposures to the real estate sector to facilitate timely supervisory response. The CBK should continue its efforts to upgrade crisis preparedness and management framework.

Annex III. Public Sector Debt Sustainability Analysis

Table 1. Kuwait: Public Debt Sustainability Analysis (DSA)-Baseline Scenario

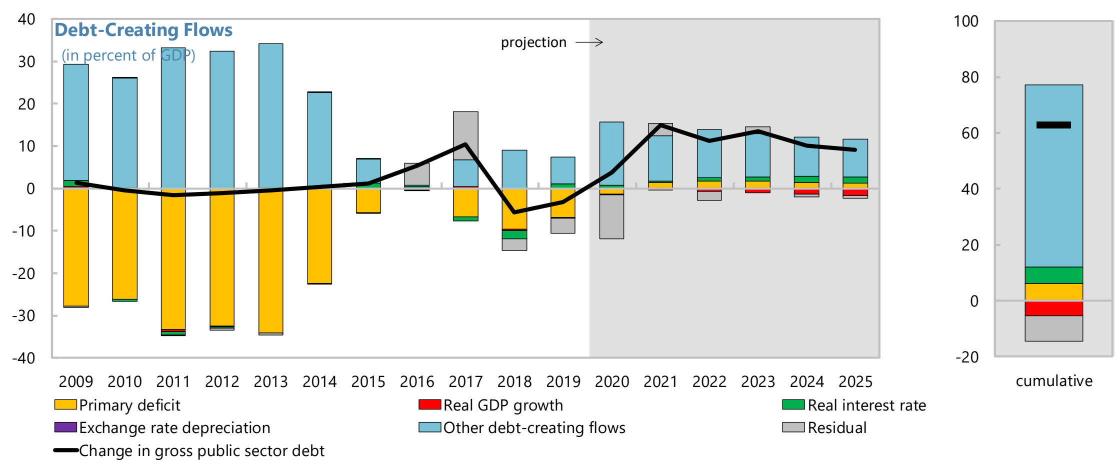
(In percent of GDP unless otherwise indicated on a calendar-year basis)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of January 30, 2020		
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	7.0	14.8	11.6	15.5	30.4	41.6	55.1	65.2	74.4	EMBIG (bp) 3/		279
Public gross financing needs	-20.1	-9.0	-6.0	-0.4	3.4	8.0	5.7	6.7	8.8	5Y CDS (bp)		na
Real GDP growth (in percent)	0.8	1.2	0.7	1.5	2.7	2.7	2.7	2.7	2.7	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	-0.5	14.6	-3.3	-2.8	0.7	1.3	1.8	1.9	2.4	Moody's	Aa2	Aa2
Nominal GDP growth (in percent)	0.5	16.0	-2.6	-1.3	3.4	4.1	4.5	4.7	5.2	S&Ps	AA	AA
Effective interest rate (in percent) [4/]	2.5	3.5	3.9	3.5	3.4	4.0	4.5	4.6	4.9	Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	-5.6	-3.2	3.8	14.9	11.2	13.6	10.1	9.2	62.8	
Identified debt-creating flows	0.0	-2.8	0.4	14.2	12.1	13.2	11.8	10.6	9.9	71.8	
Primary deficit	-21.0	-9.7	-6.9	-1.3	1.4	1.8	1.7	1.5	1.3	6.2	8.6
Primary (noninterest) revenue and grants	66.1	58.4	59.8	56.9	54.6	53.7	52.8	51.9	50.9	320.9	
Primary (noninterest) expenditure	45.1	48.8	52.9	55.6	56.0	55.4	54.5	53.4	52.2	327.0	
Automatic debt dynamics [5/]	0.1	-2.2	1.0	0.6	0.0	0.0	0.0	0.0	-0.2	0.3	
Interest rate/growth differential [6/]	0.1	-2.2	1.0	0.6	0.0	0.0	0.0	0.0	-0.2	0.3	
Of which: real interest rate	0.1	-2.0	1.1	0.7	0.4	0.8	1.1	1.4	1.5	5.9	
Of which: real GDP growth	0.0	-0.2	-0.1	-0.2	-0.4	-0.8	-1.1	-1.4	-1.7	-5.5	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	20.8	9.0	6.3	15.0	10.7	11.4	10.1	9.2	8.8	65.3	
Privatization/Drawdown of deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Asset accumulation requirement	20.8	9.0	6.3	15.0	10.7	11.4	10.1	9.2	8.8	65.3	
Residual, including asset changes [8/]	1.7	-2.8	-3.6	-10.4	2.8	-2.0	1.8	-0.5	-0.7	-9.0	



Sources: CBK, MOF, and IMF staff estimates.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

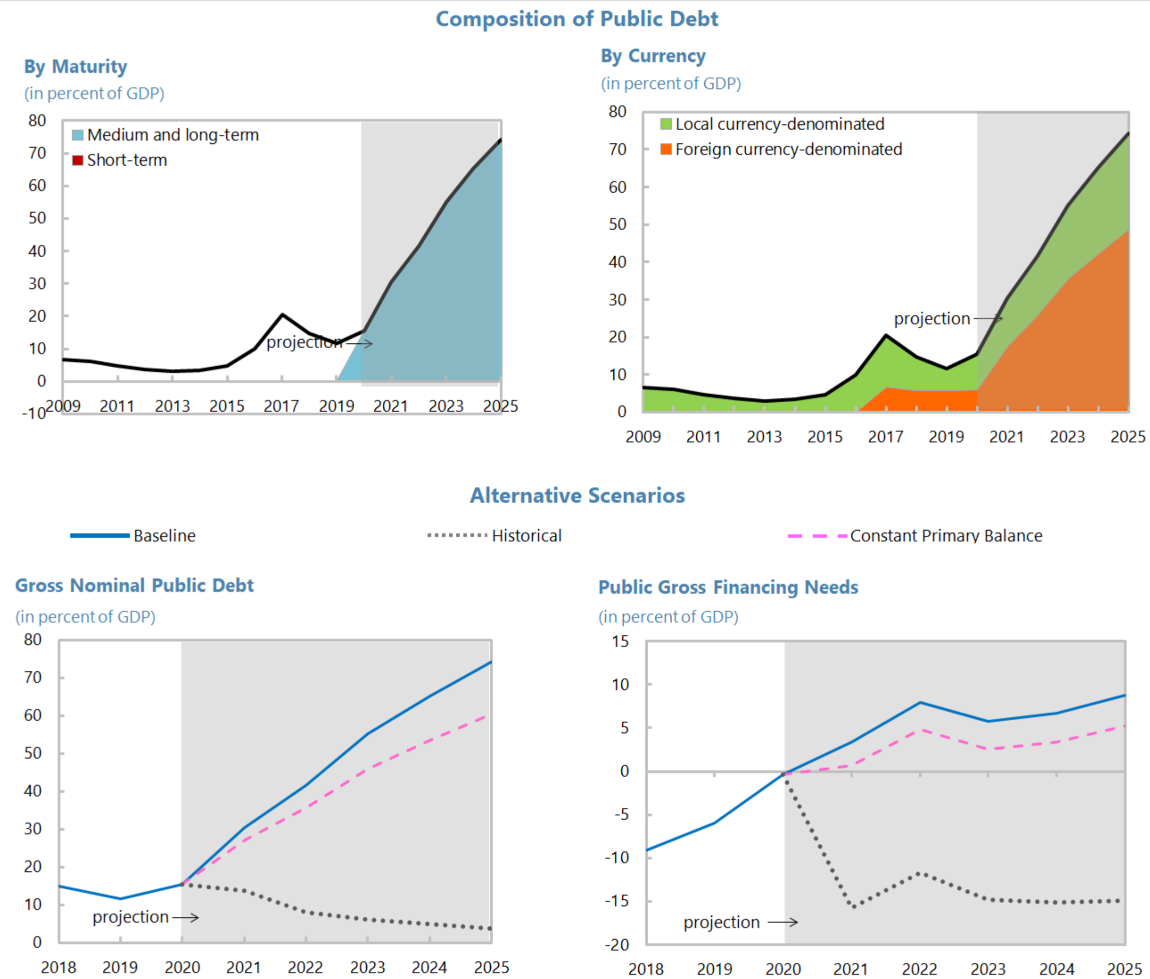
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year. The debt stabilizing primary balance under the assumed asset accumulation of 8.8 percent of GDP in 2025 is equal to 8.7 percent. Under no asset accumulation, the debt-stablizing primary balance would have been -0.16 percent of GDP.

Figure 1. Kuwait: Composition of Public Debt and Alternative Scenarios



Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	1.5	2.7	2.7	2.7	2.7	2.7
Inflation	-2.8	0.7	1.3	1.8	1.9	2.4
Primary Balance	1.3	-1.4	-1.8	-1.7	-1.5	-1.3
Effective interest rate	3.5	3.4	4.0	4.5	4.6	4.9
Constant Primary Balance Scenario						
Real GDP growth	1.5	2.7	2.7	2.7	2.7	2.7
Inflation	-2.8	0.7	1.3	1.8	1.9	2.4
Primary Balance	1.3	1.3	1.3	1.3	1.3	1.3
Effective interest rate	3.5	3.4	4.3	4.9	5.2	5.5

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	1.5	1.6	1.6	1.6	1.6	1.6
Inflation	-2.8	0.7	1.3	1.8	1.9	2.4
Primary Balance	1.3	17.8	17.8	17.8	17.8	17.8
Effective interest rate	3.5	3.4	6.9	16.0	28.1	42.9

Source: IMF staff.

Annex IV. Baseline and Adjustment Scenarios

A. Assumptions

Baseline Scenario is based on enacted and announced policies and reforms and assumes a modest expenditure restraint.

- Introduction of excises on sugary drinks and tobacco in FY2021/22, which are estimated to yield revenue of about 0.2 percent of GDP by FY2025/26.
- Strengthening the administration of various social transfers and closing existing loopholes should generate savings of 0.7 percent of GDP by FY2025/26.
- Spending restraint: public wages are assumed to grow with inflation, while employment expands at 2.8 percent annually; spending on goods and services grows with nominal nonoil GDP.
- Capital expenditure is assumed to grow with nominal nonoil GDP.

Adjustment Scenario assumes a gradual reduction of expenditure to about 75 percent of nonoil GDP by FY2028/29. The scenario will close the real perpetuity-based PIH gap in 10 years.

- Fuel prices are assumed to gradually increase starting from FY2020/21 to reach cost recovery levels (thus eliminating fuel subsidy), saving 0.6 percent of GDP by FY2025/26.
- Water and electricity tariffs are assumed to increase gradually to cut the subsidy in half by 2024, resulting in savings of 2.6 percent of GDP by the end of the forecast period.
- The expected savings from the wage bill restraint (through a combination of slower hiring and wage growth below inflation) amount to 0.9 percent of GDP by FY2025/26.
- Better procurement and waste reduction would generate savings of 0.8 percent of GDP in spending on goods and services by FY2025/26.
- Introducing the 5-percent VAT in FY2021/22 should yield estimated revenue of 2.2 percent of GDP by FY2025/26.
- Expanding the coverage of the profit tax to domestic companies and/or introducing excises on luxury goods (or a tax on high-income individuals) starting FY2022/23 with an estimated revenue yield of 0.7 percent of GDP by FY2025/26.
- Introducing compensatory schemes to mitigate the adverse effects of reforms on vulnerable households amounting to 0.2 percent of GDP by FY2025/26.
- Boosting capital spending by allowing it to rise 1 percentage point faster than nominal nonoil GDP would cost about 0.6 percent of GDP by FY2025/26.
- For simplicity, debt issuance is assumed unchanged compared to the baseline, with fiscal savings leading to an improvement in net financial assets.

Table 1. Kuwait: Baseline and Adjustment Scenarios, 2015–25

(In percent of GDP, unless otherwise noted)

					Projections							Cumulative
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2020-25
Baseline Scenario												
Overall balance	-0.3	0.5	7.5	9.3	4.7	-0.8	-2.6	-3.7	-4.4	-5.2	-5.6	
Overall balance after transfers to FGF and excl. investment income	-17.5	-17.9	-12.9	-7.7	-13.9	-18.3	-19.8	-20.9	-21.4	-21.8	-21.9	
Nonoil balance excl. investment income												
(Percent of nonoil GDP)	-88.3	-83.5	-85.5	-90.2	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1	
Nonoil revenue	3.6	3.7	4.3	5.0	5.3	5.5	5.7	5.7	5.6	5.5	5.4	
Primary spending	52.6	52.0	50.1	50.6	53.8	55.8	56.2	55.7	55.0	54.1	53.1	
(1) Total government debt	4.7	10.0	20.5	14.8	11.6	15.5	30.4	41.6	55.1	65.2	74.4	
(2) Total buffer by the KIA [1/]	456.3	476.6	460.4	398.2	407.9	426.8	421.7	415.2	405.0	393.6	380.7	
Net government financial assets (2-1)	451.7	466.6	439.9	383.3	396.2	411.3	391.4	373.7	349.8	328.3	306.3	
Current account balance	3.5	-4.6	8.0	14.5	8.8	3.1	2.1	1.6	1.3	0.9	0.9	
International reserves (in months of next year's imports)	6.5	6.6	6.4	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	
Credit to the private sector (percentage change)	7.9	2.5	2.8	3.9	4.4	5.4	6.4	6.4	6.4	6.4	6.3	
Real GDP growth (percent,yoy)	0.6	2.9	-4.7	1.2	0.7	1.5	2.7	2.7	2.7	2.7	2.7	
Real oil GDP growth (percent, yoy)	-1.7	3.9	-9.0	0.2	-1.0	0.3	2.0	2.0	2.0	2.0	2.0	
Real nonoil GDP growth (percent, yoy)	4.2	1.4	1.8	2.7	3.0	3.0	3.5	3.5	3.5	3.5	3.5	
Inflation (percent)	3.7	3.5	1.5	0.6	1.1	1.8	2.5	2.5	2.5	2.5	2.5	
Fiscal Adjustment Under the Baseline:												
Annual change in overall balance to GDP	-18.9	0.8	7.0	1.8	-4.6	-5.6	-1.8	-1.1	-0.7	-0.8	-0.5	-10.4
Annual change in nonoil primary balance to nonoil GDP	14.3	4.8	-2.0	-4.7	1.8	1.7	1.3	0.9	1.1	1.0	1.3	7.4
Fiscal Anchor:												
Distance of projected NOPB from PIH (% nonoil GDP)					8.5	9.8	11.4	12.8	13.9	15.0	15.8	
Fiscal Adjustment Scenario												
Overall balance	-0.3	0.5	7.5	9.3	4.7	-0.5	-0.1	0.8	1.0	1.2	1.6	
Overall balance after transfers to FGF and excl. investment income	-17.5	-17.9	-12.9	-7.7	-13.9	-17.9	-17.3	-16.5	-16.2	-15.7	-15.0	
Nonoil balance excl. investment income												
(Percent of nonoil GDP)	-88.3	-83.5	-85.5	-90.2	-88.5	-85.7	-79.9	-75.6	-73.0	-70.7	-68.0	
Nonoil primary revenue	3.6	3.7	4.3	5.0	5.3	5.5	7.2	8.3	8.2	8.2	8.1	
Primary spending	52.6	52.0	50.1	50.6	53.8	55.3	54.7	53.3	51.7	49.9	48.1	
(1) Total government debt	4.7	10.0	20.5	14.8	11.6	15.5	30.1	41.1	54.3	64.3	73.1	
(2) Total buffer by the KIA	456.3	476.6	460.4	398.2	407.9	427.1	420.7	417.6	411.4	406.0	398.7	
Net government financial assets (2-1)	451.7	466.6	439.9	383.3	396.2	411.7	390.6	376.6	357.1	341.7	325.5	
Current account balance	3.5	-4.6	8.0	14.5	8.8	3.3	3.6	4.5	5.6	6.6	7.6	
International reserves (in months of next year's imports)	6.5	6.6	6.4	6.8	7.1	7.0	7.0	7.0	7.0	7.0	7.0	
Credit to the private sector (percentage change)	7.9	2.5	2.8	3.9	4.4	5.4	8.1	6.8	6.8	6.3	6.7	
Real GDP growth (percent)	0.6	2.9	-4.7	1.2	0.7	1.5	2.3	2.1	2.4	2.5	2.7	
Real oil GDP growth (percent, yoy)	-1.7	3.9	-9.0	0.2	-1.0	0.3	2.0	2.0	2.0	2.0	2.0	
Real nonoil GDP growth (percent, yoy)	4.2	1.4	1.8	2.7	3.0	3.0	2.6	2.3	2.8	3.2	3.5	
Inflation (percent)	3.7	3.5	1.5	0.6	1.1	1.8	5.1	4.2	3.5	3.0	2.5	
Fiscal Adjustment Under the adjustment Scenario												
Annual change in overall balance to GDP	-18.9	0.8	7.0	1.8	-4.6	-5.2	0.3	0.9	0.2	0.2	0.4	-3.1
Annual change in nonoil primary balance to nonoil GDP	14.3	4.8	-2.0	-4.7	1.8	2.7	5.8	4.3	2.5	2.3	2.7	20.5
Fiscal Anchor:												
Distance of projected NOPB from PIH (% nonoil GDP)					8.5	9.1	7.0	5.2	5.0	4.7	4.4	

Sources: IMF staff estimates.

1/ Staff estimates and projections.

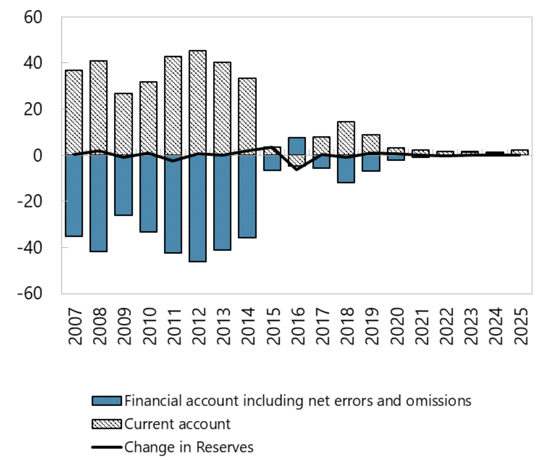
Annex V. External Sector Assessment

Staff assesses Kuwait's external position in 2019 to be weaker than implied by medium-term fundamentals and desirable policies. Implementing staff's recommended fiscal adjustment to achieve intergenerational equity would bring the current account to a level consistent with fundamentals.

1. The current account (CA) position weakened in 2019. Staff estimate that the CA surplus eased to 8.8 percent of GDP last year as oil exports declined due to lower oil prices and output. Investment income in 2019 is estimated to be broadly unchanged, at about US$20 billion (14 percent of GDP), thanks to continued solid performance of KIA investments. With oil exports subdued and imports rising, the CA surplus is projected to dissipate over the medium term.

Current and Financial Account Balances

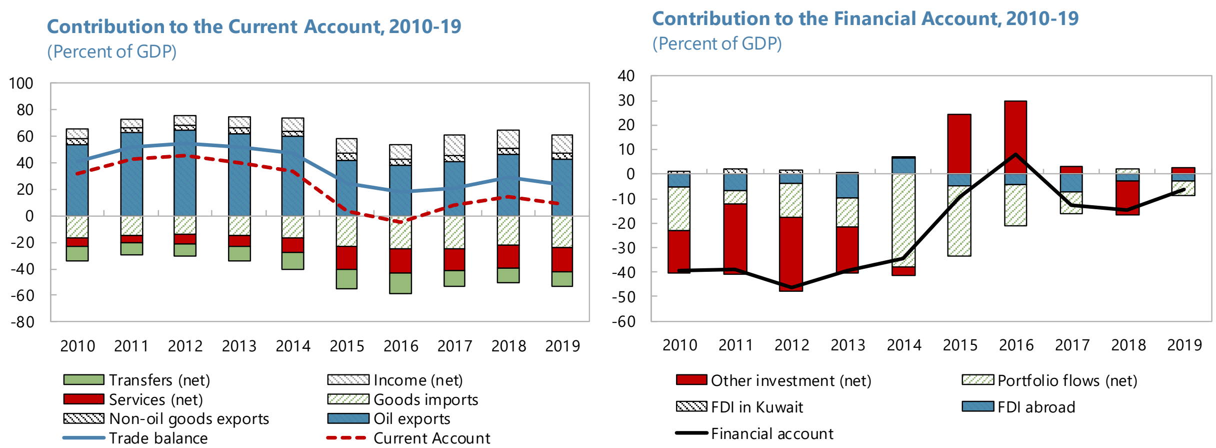
(In percent of GDP)



Sources: Country Authorities; and IMF staff calculations.

2. Mirroring the reduced CA surplus, capital outflows declined last year. Prevented from borrowing, including from external sources, the government drew on GRF assets to cover its financing needs— the overall fiscal balance after compulsory transfers to the FGF and excluding investment income. The net impact of the drawdown from the GRF and asset accumulation in the FGF on the Financial Account (FA) in the balance of payments was much smaller net capital outflows.

Contributions to Current and Financial Accounts



Sources: Country authorities; and IMF staff calculations.

3. Kuwait's international asset position remains strong. CBK's foreign reserves reached US$39.6 billion (29 percent of GDP, 7 months of imports, 32 percent of broad money) at end–2019 or equivalent to estimated 110 percent of the IMF's reserve adequacy metric.[1] CBK's reserves are complemented by government's large foreign assets, which are held by the KIA and estimated to have reached 410 percent of GDP at end–2019. Roughly 90 percent of these assets are in the FGF, which accumulates savings for future generations, with the remainder held in the GRF and available for government financing and replenishing CBK reserves.

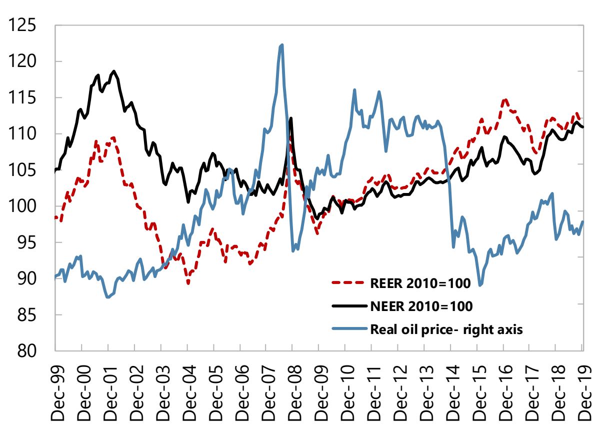
Foreign Reserve Adequacy

	2015	2016	2017	2018	Est. 2019
			(in millions of USD)		
External short-term debt	19797	20333	21799	24662	26432
Other liabilities (portfolio and other investment liabilities less short-term debt) 1/	25219	25540	37093	42086	41861
Broad Money	113829	117195	121183	126706	124846
Exports of goods and services	60476	52100	61790	79800	72503
CBK Gross International Reserves	28334	31173	33618	37171	39559
KIA Assets (staff estimates)	522967	521366	555595	560201	559115
ARA metric	28413	28137	32256	36466	36037
Foreign Reserves as a % of the ARA metric (in percent) 2/	**100**	**111**	**104**	**102**	**110**
Foreign Reserves (including KIA) as a % of the ARA metric (in percent) 2/	**1940**	**1964**	**1827**	**1638**	**1661**
Foreign Reserves in percent of GDP	**25**	**28**	**28**	**26**	**29**
Foreign Reserves in percent of broad money	**25**	**27**	**28**	**29**	**32**
Foreign Reserves in months of next year's imports of goods and services	**6.5**	**6.6**	**6.4**	**6.8**	**7.0**

1/ Based on the IMF's calculation of reserves recommended for fixed exchange rate regimes.
2/ As a rule of thumb, reserves within 100-150 percent of the new ARA metric are considered adequate.

4. The exchange rate peg to an undisclosed basket of currencies has served Kuwait well. The current arrangement, in place since May 2007, has provided an effective nominal anchor as well as limited exchange rate flexibility. While the REER remained broadly unchanged over the past year or so, it has experienced a trend appreciation for more than a decade. Since the 2014 oil price shock, the dinar's appreciation has generally been less pronounced than that of other GCC currencies.

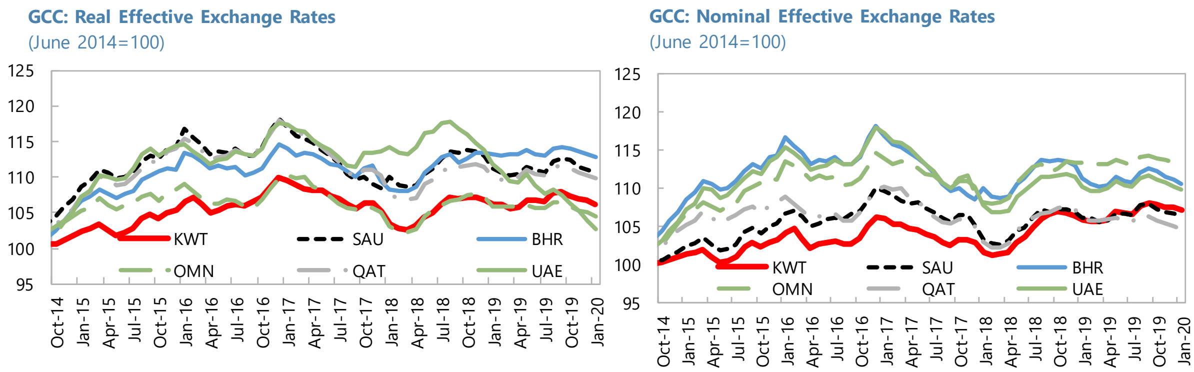
NEER and REER, and Real Oil Prices, 1999–2019



Sources: Country Authorities; and IMF staff calculations.

[1] The Fund's composite metric that measures the adequacy of precautionary reserves in emerging markets. It is based on the relative risk weights for each source of foreign exchange drain drawing on the 10th percentile of observed outflows from Emerging Markets (EMs) during exchange market pressure episodes. Reserves in the range of 100-150 percent of the composite metric are considered broadly adequate for precautionary purposes.

GCC: Nominal and Real Effective Exchange Rates



Source: IMF staff calculations.

5. **The CA surplus falls short of the level needed for intergenerational equity.** Given the exhaustible nature of oil revenues, external sector sustainability in Kuwait requires adequate savings to ensure that future generations can enjoy broadly similar living standards (i.e., consumption) as the current generation. The distance between the actual current account balance and the level needed to adequately save for future generations—the current account norm—thus reflects suboptimal savings of oil and investment revenues rather than traditional competitiveness issues. Using the consumption-based external sustainability model, staff estimate the CA norm implied by a constant real per-capita annuity (under the baseline) at a surplus of 18.9 percent of GDP in 2019, resulting in a CA gap of 10.1 percent of GDP.[2, 3] The CA gap is largely driven by suboptimal (i.e., lack of) savings by the public sector. In fact, the same model estimates the fiscal balance norm at a surplus of 19.5 percent of GDP in 2019[4], with a corresponding fiscal gap estimate of 14.8 percent of GDP. Closing this fiscal gap over the long term would eliminate the CA gap.

6. **The revised External Balance Assessment-lite (EBA-lite 2.0) methodology is not well suited for an undiversified exporter such as Kuwait**. Under the assumption of a fiscal surplus consistent with intergenerational equity (19.5 percent of GDP), the EBA-lite CA regression model suggests a current account norm of about 32.1 percent of GDP for 2019. The corresponding current account gap would be 23.3 percent of GDP, of which only 5.1 percent of GDP is explained by the policy gap. Yet, in the case of Kuwait, the EBA-lite model suffers from an unusually large residual

[2] The approach calculates a constant real annuity per capita that countries consume out of their resource wealth (below and above the ground hydrocarbon revenues and investment income), yielding a norm for consumption from which a saving norm is derived. This latter corresponds to the current account norm required to ensure intergenerational equity. As with any analytical tool, results are sensitive to the choice of assumptions implying a significant degree of uncertainty around staff's estimate of the current account gap.

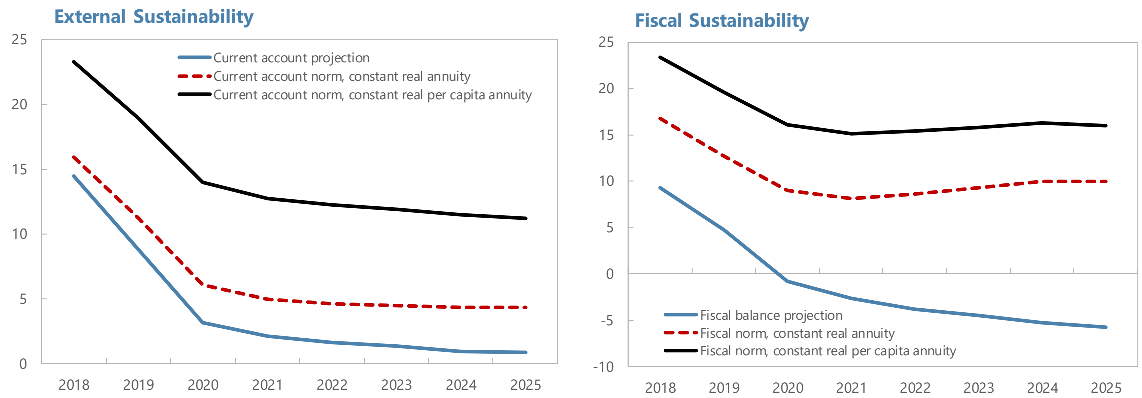
[3] For the current exercise, staff assumed that: (i) proven oil reserves were 93 billion barrels at end-2018, (ii) oil production is projected to grow at a constant rate of 0.3 percent along with domestic consumption, (iii) oil prices and GDP deflator are projected to grow by 2 percent, (iv) return on net foreign assets is 5 percent, and (v) population grows at 0.5 percent.

[4] Implied by a constant real per-capita annuity that is defined as an annuity for fiscal expenditures that draws from the government's resource wealth. This latter is the sum of the present value of resource-related revenues and government's net financial assets.

(18.1 percent of GDP out of the 23.3 percent of GDP CA gap)[5], reflecting a poor statistical fit of the regressions.

Projected and Actual Current Account vs Norms: Consumption-based Rules

(In percent of GDP)



Source: IMF staff estimates.

7. Staff assesses the external position to be weaker than warranted by fundamentals and desirable policies. The REER regression model based on EBA-lite 2.0-like fundamentals suggests a small undervaluation of 2.4 percent. However, as discussed above, the consumption-based model is better suited to capture the salient features of a large undiversified commodity exporter such as Kuwait. Staff therefore gives most weight to the consumption-based model's finding of the current account gap of about 10 percent of GDP. This gap would be closed under staff's recommended fiscal adjustment over the long term.

[5] The macro-balance approach based on the revised EBA-lite methodology employs a regression analysis for a large cross-section of countries to predict the current account consistent with a range of structural and policy factors and estimates the impact of changes in these factors on the norm. While the EBA-lite model has the advantage of multilateral consistency, it is however estimated on a wide group of countries and does not fully capture all features of undiversified commodity exporters such as Kuwait.

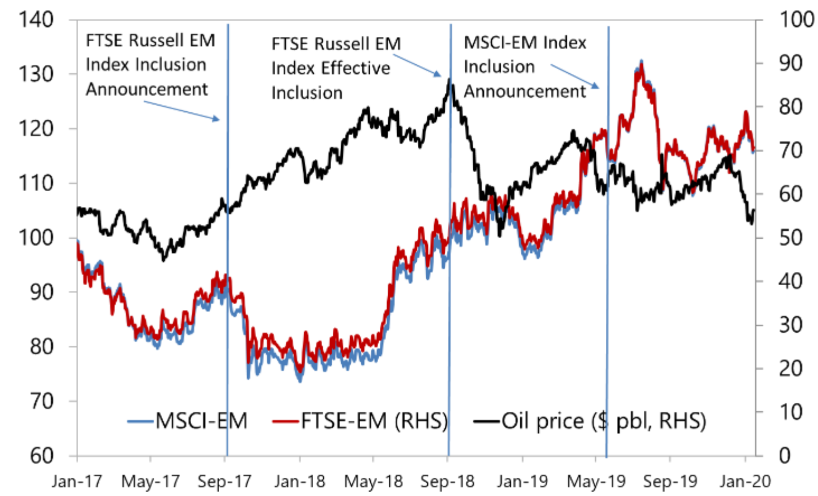
Current and Fiscal Account Actuals and Norms [1/] (In percent of GDP, unless otherwise specified)	
External sustainability model (ES): consumption-based non-regression approach [2/]	
	Annuity real per capita
Current account (2019)	8.8
Current account norm	18.9
Current account gap	-10.1
Fiscal balance (2019)	4.7
Fiscal balance norm	19.5
Fiscal balance gap	-14.8
Current Account regression approach	
	Model-based CA gap
Current account (2019)	8.8
Current account norm	32.1
Policy gap	-5.1
CA-Fitted	26.9
Current account gap	-23.3
Residual	-18.1
Real effective exchange rate (percent)	
	REER Gap (+overvaluation)
REER model (regression approach)	-2.4

Source: IMF Staff calculations
[1/] Based on the Revised EBA-lite methodology (May 2019)
[2/] Based on the new Commodity Module for Large Exporters of Exhaustible Commodities

Annex VI. Inclusion of Kuwait in EM Indices and Portfolio Inflows[1]

MSCI Kuwait Index

(As a ratio to global EM indices, Index, Dec. 2015 = 100)



Sources: Bloomberg, Boursa Kuwait, and staff calculations

1. **Kuwait equities rallied on expectation of inclusion in EM indices.** The MSCI Kuwait index, which is dominated by financial companies (73 percent), rose strongly prior to the announcement and subsequent inclusion into FTSE in September 2018 (this period coincided with the oil price rally). Similarly, the June 2019 announcement of Kuwait's MSCI upgrade from a frontier to an emerging market, expected in May 2020, buoyed equities. MSCI Kuwait surged 21 percent in 2019, compared to 4 percent for MSCI GCC and a 5 percent decline for MSCI EM, with market capitalization reaching all-time high of US$35 billion in December. While inclusion-driven favorable factors could continue well into 2020, previous inclusion episodes in other EMs suggest that a brief period of underperformance may follow the effective inclusion.

2. **The inclusion in global indices is fueling portfolio inflows.** According to market trackers, the FTSE EM upgrade generated about US$1 billion inflows and the MSCI upgrade could bring in additional US$3–3½ billion (2.3 percent of GDP). Kuwait's weight in the MSCI EM index is expected at roughly 0.69 percent. Total assets under management that track MSCI EM amount to about US$1.54 trillion, of which US$0.36 trillion are passive and US$1.18 trillion active (as of end-June 2019). Kuwait's inclusion could thus generate passive inflows of US$2.6 billion, or 7.3 percent of the MSCI Kuwait market capitalization (as of end-June 2019). The size of active inflows would depend on the extent to which active investors rebalance their positions to include Kuwaiti stocks.

3. **Kuwait's upgrade to EM status is a testament to capital market reforms.** Starting from 2017, the authorities accelerated reforms to revitalize capital markets and meet inclusion requirements in EM indices. They upgraded the regulatory environment, limited the market to publicly tradable stocks, removed limits on foreign ownership, and took steps to boost market liquidity. More recently, the authorities created the omnibus accounts and implemented the national investor number, the two remaining prerequisites for the inclusion in MSCI EM.

4. **The reforms bode well for long-term investment and diversification.** Portfolio inflows by themselves are not expected to be a 'game changer' given their modest size relative to Kuwait's economy

[1] Prepared by Imen Ben Mohamed.

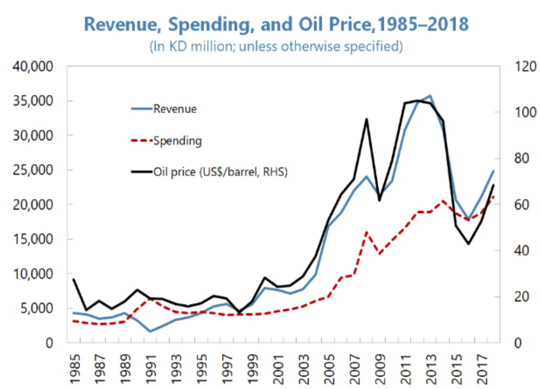
which is already capital-rich. However, accompanying reforms, including those to bring accounting and reporting practices in line with international standards, strengthen corporate governance and transparency, and enhance investor protection should support capital market development and deepening (market integration and efficient price discovery), greater access to capital, and private sector growth. While the inclusion in indices increases Kuwait's exposure to global capital markets, potential risks are mitigated by large financial buffers, including CBK reserves. To further strengthen resilience to shocks, the Capital Markets Authority (CMA) and CBK should continue to enhance prudential regulation and liquidity management tools.

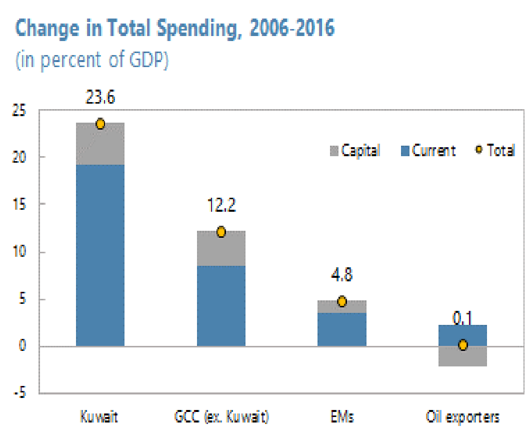
Annex VII. Fiscal Rule Options for Kuwait[1]

A. Introduction

1. The volatile and exhaustible nature of oil revenues poses a challenge to fiscal policy in Kuwait. With oil revenues accounting for 72 percent of government revenues, fiscal accounts are extremely sensitive to oil price fluctuations. As a result, spending tends to be procyclical with respect to oil price, thus propagating the impact of oil price volatility through the domestic economy. This is especially true in good times when pressures to distribute the oil windfall become significant. For example, Kuwait has experienced a sharp increase—the highest in the GCC—in spending (especially, current spending) during a decade of high oil prices. At the same time, the exhaustible nature of oil resources requires saving adequately for the future, so as to ensure intergenerational equity. The inherent tension between economic stabilization and saving objectives requires careful calibration of fiscal policy.

Fiscal Procyclicality





Sources: World Economic Outlook and IMF staff estimates.

2. Recognizing these challenges, Kuwait has set up a sovereign wealth fund (SWF). Established as Kuwait Investment Board in 1953, eight years before the country's independence, Kuwait's SWF is the oldest SWF in the world. The SWF consists of two funds: the GRF and the FGF. The GRF, which acts as the state's treasury account and a stabilization fund, is the main repository of all the state's oil revenues and income earned from GRF investments. The GRF retains budget surpluses in excess of mandatory savings (see below) and serves as a recourse to cover financing deficits. In contrast, the FGF is an intergenerational savings' vehicle. Under the current rule, at least 10 percent of government revenues, including GRF's investment income, and all investment income generated by FGF assets are transferred to the FGF and reinvested. No withdrawal is allowed from the

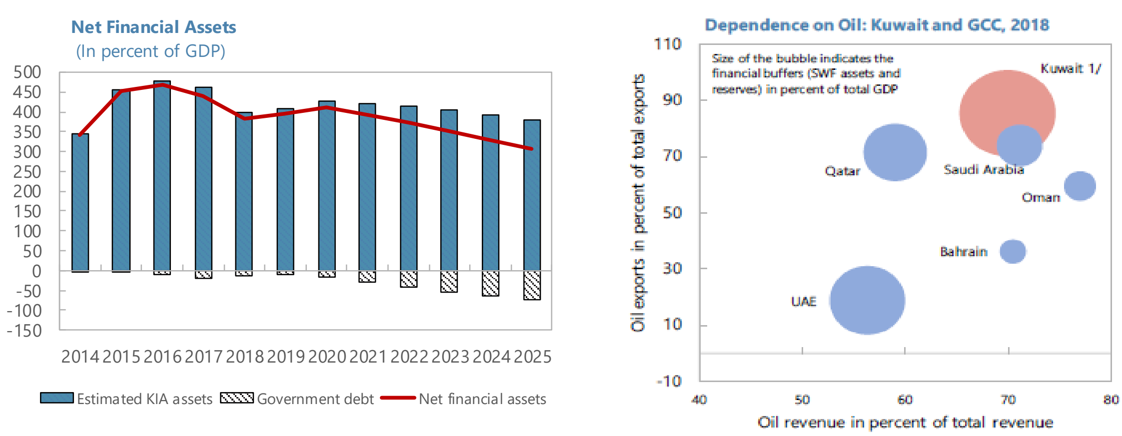
[1] Prepared by Anastasia Guscina.

FGF unless sanctioned by law as it was done to pay for the post-Gulf War reconstruction of Kuwait. Both Funds are managed by the KIA which also handles government's external borrowing.

3. The fiscal arrangement has allowed Kuwait to build substantial assets. It helped set aside large savings during periods of high oil prices and diversify oil proceeds into a wide range of financial investments. The SWF's large size underwrites Kuwait's creditworthiness, bringing down borrowing costs for the sovereign, which sets a benchmark for private borrowing.

4. However, the arrangement does not insulate the economy from oil price fluctuations or ensure sufficient savings for future generations. It imposes no constraint on fiscal policy in good times, allowing government to spend the windfall from high oil prices. Spending rose by nearly 25 percent in dinar terms in two years starting FY2017/18 as oil prices recovered. When oil prices are low, the government can run large deficits and still make mandatory transfers to FGF by drawing on the GRF and/or accumulating debt, as it did in the aftermath of the 2014–2015 oil price shock that opened up large financing needs. While this ability to support the economy provides economic stabilization, there is no mechanism to guide fiscal policy back towards a path consistent with long-term sustainability. The current arrangement also does not have an anchor or long-term objective on how much savings to accumulate for the future on average (or over the oil price cycle). With no binding constraint on "above the line" fiscal policy, net financial assets – the difference between KIA assets and government debt – are projected to decline by almost 66 percent of GDP over the next 5 years.

Oil Dependency and Sovereign Wealth Fund



Sources: World Economic Outlook and IMF staff estimates.

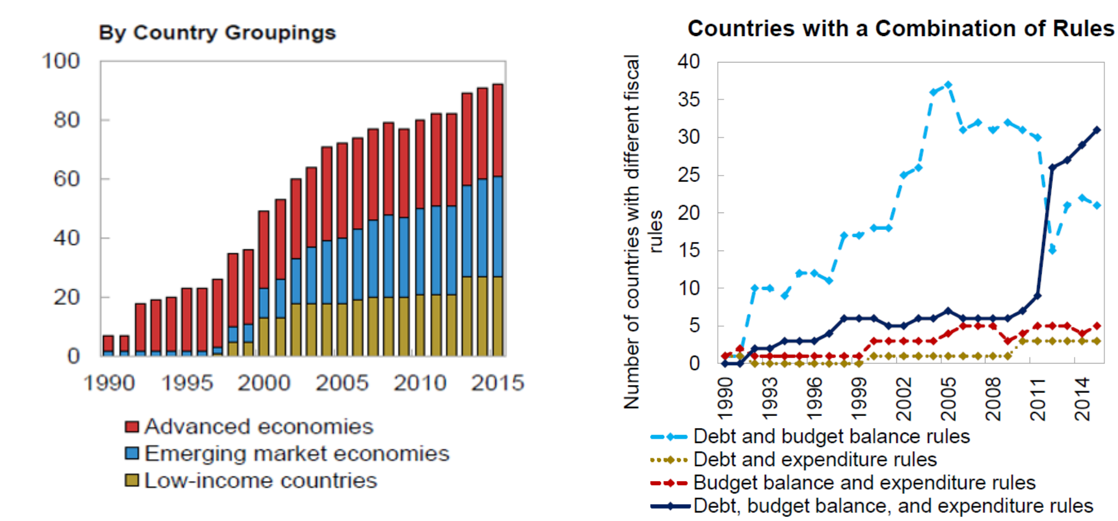
1/ For Kuwait, the size of the bubble indicates KIA assets and CBK reserves.

5. A well-designed fiscal rule could help anchor fiscal policy in Kuwait. It could preserve intergenerational equity by underpinning savings for future generations. By providing medium-term fiscal targets or ceilings, it would better insulate the economy from oil price shocks, help protect government spending decisions from political pressures, and reinforce multiyear budget frameworks.

6. There are various types of fiscal rules. The most common ones are debt, budget balance, revenue, and expenditure rules. Debt rules involve certain debt ceilings (e.g., 60 percent of GDP in the European Union), while budget rules use balanced budget in structural or cyclically-adjusted terms (that is, adjusting for economic cycles). Expenditure rules usually involve restraints on the growth rate of spending, for instance, in line with nominal GDP growth. Many countries use a combination of rules, usually debt and balance rules, which could mitigate some of the shortcomings of each rule used separately. Different fiscal rules inevitably entail tradeoffs between accumulation of buffers, economic stabilization, and simplicity.[2]

7. Fiscal rules are becoming more common. The number of emerging and developing countries with fiscal rules increased substantially in the last two decades. Most countries use a combination of rules, such as "debt and budget balance," or "debt, budget balance, and expenditure rules." IMF (2018) finds that well-designed rules can reduce tendency to run excessive deficits. The use of fiscal rules also affects market perceptions of fiscal sustainability, thereby lowering spreads.[3]

Evolution of Fiscal Rules: 1990–2015



Sources: IMF fiscal rule dataset.

8. This note considers various options for an optimal fiscal framework in Kuwait. It starts by proposing a long-term anchor based on the Permanent Income Hypothesis (PIH) to gauge how much should be saved for future generations. It then considers various price-based fiscal rules to guide medium-term fiscal policy and discusses inherent tradeoffs, focusing on implications for economic

[2] See Schaechter et. al. (2012).

[3] See Bayoumi, Goldstein, and Woglom (1995); Poterba and Rueben (1999)

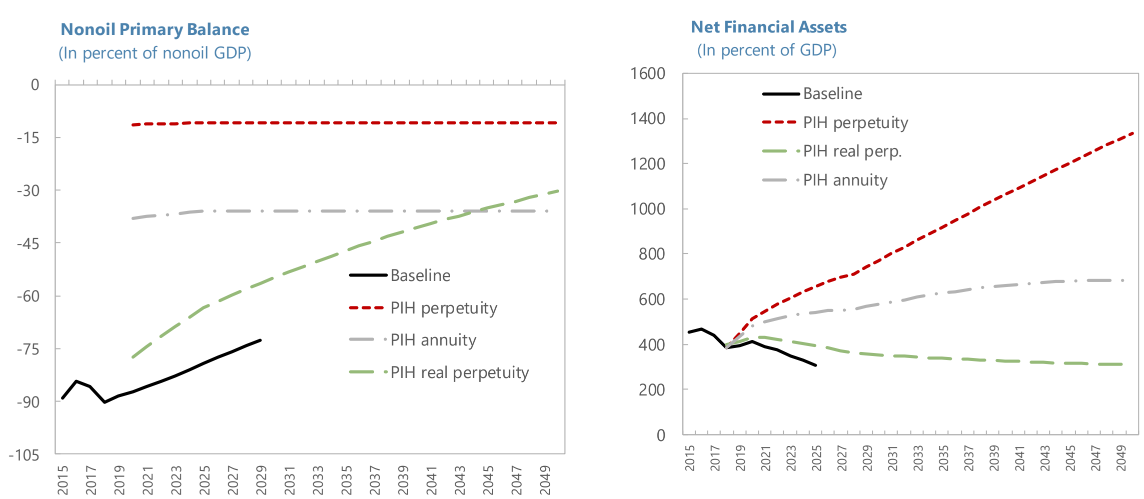
stabilization and accumulation of savings. The note concludes with the discussion of the prerequisites for successful functioning of fiscal rules.

B. Long-Term Fiscal Anchor

9. We employ the Permanent Income Hypothesis (PIH) to gauge how much Kuwait should save for future generations. The PIH is a commonly used approach in countries with substantial exhaustible natural resource to derive long-term fiscal sustainability benchmarks. It starts with estimating a country's net wealth – the sum of the initial stock of the net financial assets and the present value to the government of oil assets in the ground. The latter depends on assumptions regarding available oil reserves, their rate of extraction, future oil prices, the exchange rate, and the government's share of oil revenue. The next step is to consider the period over which to spend oil wealth, which depends on assumptions regarding long-term growth, real interest rate, inflation. As the projection horizon is long, estimates are sensitive to changes in parameter assumptions.

10. We derive PIH-based fiscal balance benchmarks under various scenarios. We consider three cases: (i) a perpetuity-nonoil primary deficit (NOPD) constant in percent of nonoil GDP (PIH perpetuity); (ii) a real perpetuity-NOPD (PIH real perpetuity); and (iii) a 74-year[4] annuity-NOPD constant in percent of nonoil GDP (PIH annuity) whereby oil wealth is fully exhausted at the end of the annuity. Figures below present the NOPD paths and the government's net financial assets under the various cases. These benchmarks are compared to staff's latest medium-term baseline projections.

NOPB and Net Financial Assets Under Various PIH Calculations



Sources: IMF staff estimates.

[4] Based on available proven reserves and staff's assumptions on the rate of oil extraction, oil reserves will be exhausted in 74 years.

11. Regardless of the PIH scenario, results show that Kuwait is not saving sufficiently for future generations. Under staff's baseline, the nonoil fiscal balance falls well short of estimated levels needed to ensure equally high living standards for future generations. In particular:

- A constant perpetuity-NOPD as a share of nonoil GDP of 11.4 percent would maximize Kuwait's net wealth at the end of our forecasting period. However, this approach implies a large upfront adjustment and may not be feasible for an economy with sizeable infrastructure and human capital development needs such as Kuwait.

- As nonoil GDP grows, future generations are expected to be better off. It may therefore be optimal to allow earlier generations to consume a larger share of oil resources. One way to achieve this is to assume a perpetuity-NOPD in real terms. Under this approach, the NOPD would start from the level much closer to the actual NOPD, but continually (and gradually) tighten, averaging 68 percent of nonoil GDP over the first decade of the projection. Kuwait's net financial wealth would decline but would remain substantial, e.g., at 324 percent of GDP in 2094 when oil reserves are projected to run out.

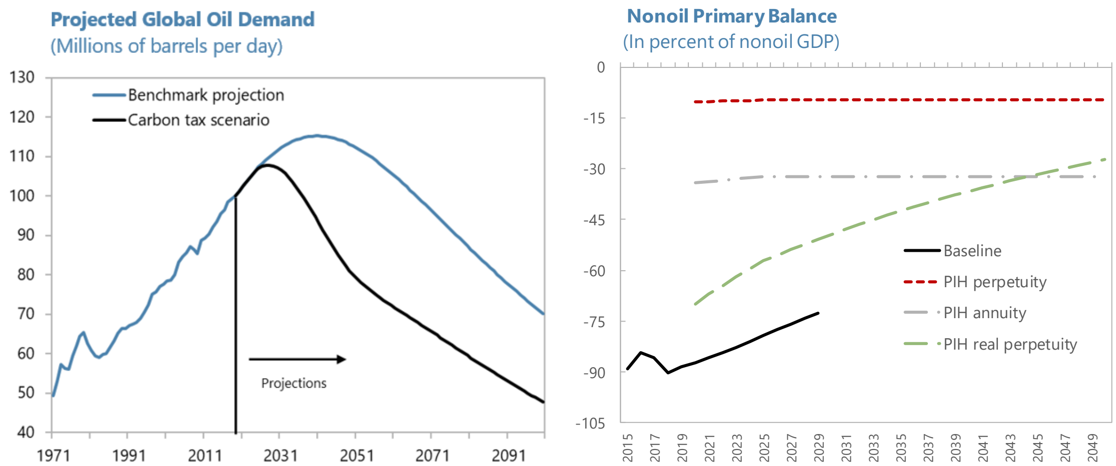
- Targeting a constant annuity-NOPD of 38 percent of nonoil GDP over 74 years is also not optimal. While it allows for a higher NOPD than the perpetuity option, it would still imply a very sizeable upfront fiscal consolidation, which is not politically and socially feasible and may be overly contractionary. It would also imply that the future generations will not benefit from natural resources, as these would run out.

12. The risk of lower living standards for all generations would be more severe should oil lose its relevance before the oil reserves run out. Staff assumes that current rates of oil extraction will continue until 2094 when proven reserves run out. However, these assumptions do not account for the fundamental changes that are occurring in the oil market. A recent IMF working paper argues that new technologies increasing the supply of oil from old and new sources and the climate change action pushing the world toward alternative energy sources will change the oil market landscape over the coming decades.[5] Should these factors reduce the economic relevance of oil a lot sooner than assumed in earlier calculations, Kuwait's oil reserves may turn into stranded assets.[6] Under a hypothetical assumption that oil production will seize in 2065, higher savings would be required to ensure intergenerational equity.

[5] See "The Future of Oil and Fiscal Sustainability in the GCC Region".

[6] As a low-cost producer, Kuwait would be among the last countries to produce oil. However, even if production continues, Kuwait will still be affected through lower prices.

NOPB Under Stranded Assets Scenario



Sources: "The Future of Oil and Fiscal Sustainability in the GCC Region" and IMF staff estimates.

C. Near-Term Anchor for Fiscal Policy

13. Price-based rules can provide a medium-term anchor for fiscal policy. Such rules are an extension of cyclically-adjusted rules (Bornhorst and others, 2011). Structural balance rules target a certain level of the structural primary balance, defined as the primary balance calculated at a predetermined benchmark oil price. The benchmark price is usually based on long-term historical and projected future prices or their combination. This approach helps delink primary spending from the price-cyclical component of oil revenue, thus helping ensure that oil price volatility does not contribute to large swings in fiscal spending. For instance, they prevent countries from spending revenues related to an asset price boom (in case of Kuwait, high oil prices), reducing the volatility of spending.

14. Three different oil price benchmarks are considered. In the first rule (5.0.0), the benchmark oil price is set to a 5-year historical moving average.[7] In the second rule (5.1.5 rule), the benchmark oil price is set to an 11-year average of the oil price that includes the past 5 years, the current year, and 5 years of the futures price. The moving average of past and futures prices is the price formula followed by Mexico and Trinidad and Tobago. In the third rule (10.3), the benchmark is set to the lower of a 10-year historical average and a 3-year historical average of the oil price. This was the formula followed by Russia.[8] Figure below shows how the benchmark oil prices would have evolved over time.

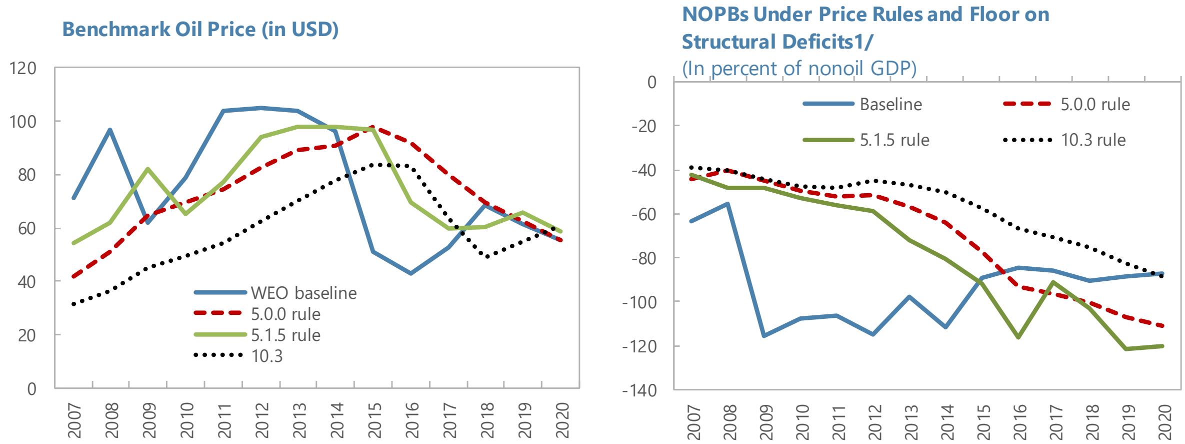
[7] Ghana uses a 7-year moving average for the benchmark price. In Chile, the government uses an independent panel of experts to determine the benchmark price.

[8] Russia suspended this rule in 2015 in response to low oil prices and declining reserves at that time. Under the new rule revenue from oil prices higher than US$40 per barrel goes into the SWF.

15. The choice of the benchmark price involves trade-offs between economic stabilization and savings. Using a long moving average of historical oil prices achieves the greatest degree of expenditure smoothing but may lead to insufficient savings or even dissaving if the oil price drops sharply. A shorter moving average, on the other hand would generate greater spending volatility, but also higher savings, due to faster adjustment of the benchmark price to the price drop. Had Kuwait had one of the price-based fiscal rules in place, it would have to run much lower NOPDs during 2007–15 under structural balance floor of minus 8 percent of nonoil GDP (see below).

Counterfactual Analysis

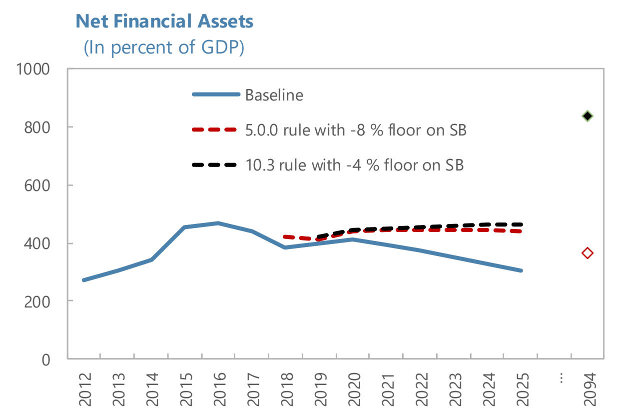
(Price-Based Rule and Floor on SB Imposed in 2007)



1/ Structural deficit should not exceed 8 percent of nonoil GDP

Sources: IMF staff estimates.

16. The target for the structural balance rule could be calibrated based on the savings generated by the PIH benchmarks. Under the real perpetuity PIH, net financial assets would drop to 324 percent of GDP by the end of the projection period. Putting a floor on structural deficit of minus 8 percent of nonoil GDP would help ensure at minimum equivalent level of net financial assets in 2094 when the oil reserves run out. The choice of the benchmark price rule makes little difference as the term structure of long-term futures prices tends to be flat.



Sources: IMF staff estimates.

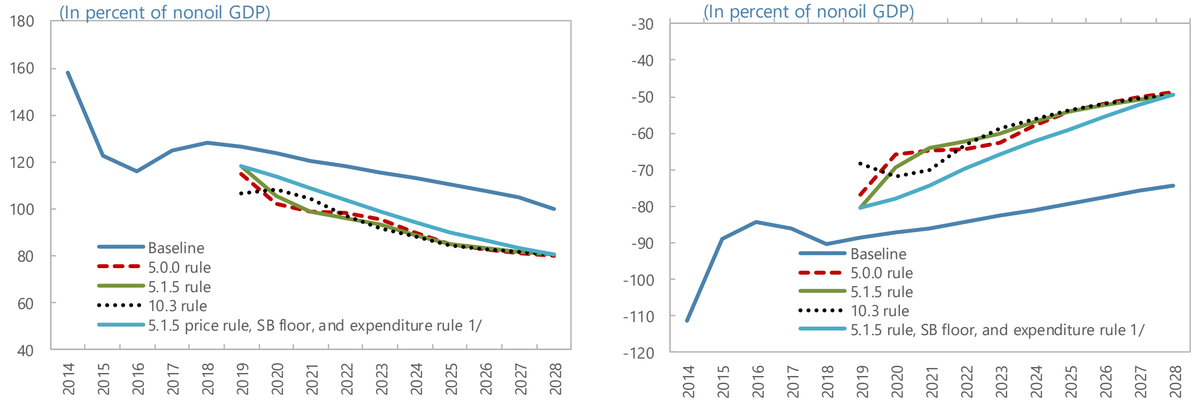
17. A price-based structural balance rule can be usefully combined with an expenditure rule. Expenditure rules may set limits on total, primary, or current spending. They can be set in absolute terms (levels) or growth rates (nominal or real). Expenditure rules are generally easier to understand, monitor, and enforce than most other rules, because they target a part of the budget the government controls most directly. They have stabilization properties by limiting spending procyclicality during upturns and severe downturns. In the case of Kuwait, we consider a rule that caps annual real growth in expenditure at 2.2 percent[9] and ensures that it does not contract by more than 0.75 percent in any given year.[10]

18. Imposing the expenditure rule above to the price-based structural balance rule discussed earlier would allow for a smoother path of fiscal consolidation over the medium-term. Compared to price-based structural balance rules by themselves, adding a floor and a ceiling on real expenditure growth would imply more gradual fiscal consolidation over the medium term, and more ambitious consolidation over the longer term.

Primary Expenditure and NOPBs Under SB and Expenditure Rules

Primary Expenditures Under Price-Based Structural Balance and Expenditure Rules
(In percent of nonoil GDP)

NOPBs Under Price-Based Structural Balance and Expenditure Rules
(In percent of nonoil GDP)



1/ Structural deficit should not exceed 8 percent of non-oil GDP and real expenditure growth should not exceed potential real growth of 3 percent.

1/ Structural deficit should not exceed 5 percent of non-oil GDP and real expenditure growth should not exceed potential real growth of 2.5 percent.

Sources: IMF staff estimates.

19. Counterfactual analysis underscores the benefits of a combined fiscal rule. Had a combined fiscal rule (5.1.5 price rule with a minus 8 percent of nonoil GDP floor on SB and a real expenditure growth constraint) been put in place in 2007, Kuwait would have avoided a run-up in NOPDs experienced over the last decade. The analysis does not take into account the potential impact of tighter fiscal stance on nonoil growth.

[9] This is broadly in line with estimated potential growth of Kuwait.

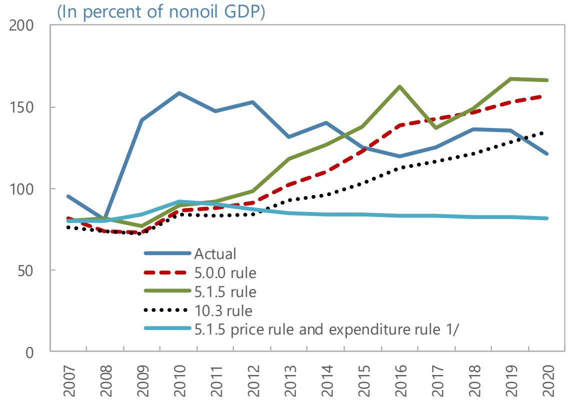
[10] Calibrated to ensure that the combined rule results in the same level of NFA by 2094 as a price-based 5.1.5 SB rule.

Counterfactual Analysis of Combined Rule

(Assumes imposition of the combined rule starting in 2007)

Primary Expenditures Under Price-Based Structural Balance and Expenditure Rules

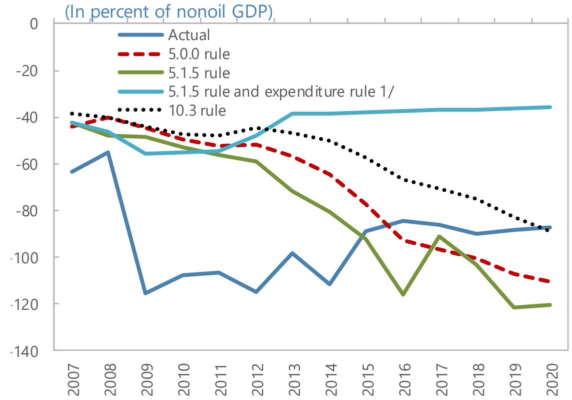
(In percent of nonoil GDP)



1/ Structural deficit should not exceed 8 percent of nonoil GDP and real expenditure growth should be above -0.75 and below 2.2 percent.

NOPBs Under Price-Based Structural Balance and Expenditure Rules

(In percent of nonoil GDP)



1/ Structural deficit should not exceed 8 percent of nonoil GDP and real expenditure growth should be above -0.75 and below 2.2 percent.

Sources: IMF staff estimates.

D. Concluding Remarks

20. Kuwait would benefit from a transparent, rules-based fiscal framework to guide its fiscal policy. The increased volatility of oil prices calls for smoothing of government spending to buttress economic stabilization while the eventual depletion of oil reserves requires accumulating adequate savings for future generations. A well-designed and credible fiscal rule can help address these challenges. The choice of the long-term anchor involves intertemporal tradeoffs between consumption of current and future generations. Likewise, the choice of a fiscal rule involves tradeoffs between economic stabilization, savings, and simplicity. Hence, the ultimate design of the fiscal framework rests with the authorities and should reflect societal preferences. For the fiscal rule to be effective, it should be enshrined in a sound institutional framework that includes political commitment, sound public financial management, comprehensive budget reporting, and transparent accounting practices. The fiscal rule should be incorporated into the medium-term expenditure framework and the annual budget process.

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PRESS RELEASE

Appendix I. Draft Press Release

IMF Executive Board Concludes 2020 Article IV Consultation with Kuwait

FOR IMMEDIATE RELEASE

WASHINGTON, DC – **March 23, 2020** the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Kuwait and considered and supported the staff appraisal without a meeting.[2]

Nonoil growth strengthened to estimated 3 percent in 2019, propelled by government and consumer spending. With oil output contracting by 1 percent, broadly in line with the OPEC+ agreement, overall growth slowed to estimated 0.7 percent in 2019 from 1.2 percent in 2018. Fiscal and current account surpluses narrowed on account of lower oil prices and output. Inflation rebounded to 1.1 percent as food and transport prices recovered. Credit growth accelerated to 4.4 percent in 2019, spurred by relaxation of macroprudential ceilings on personal loans and supportive monetary conditions.

The underlying fiscal stance loosened in FY2018/19. The nonoil balance excluding investment income in percent of nonoil GDP deteriorated as government spending continued to rise. Fiscal financing needs—the overall balance after compulsory transfers to the Future Generations Fund (FGF) and excluding investment income—remained large at 7.7 percent of GDP. Lacking borrowing authorization since October 2017, the government had to continue drawing solely on General Reserve Fund (GRF) assets for financing, which brought its total and liquid balances down to 56 and 24 percent of GDP by June 2019. Combined FGF and GRF assets continued to grow however, as the FGF generated strong returns and received mandatory transfers from the government.

The banking system remains sound. The systemwide capital adequacy ratio reached 17.6 percent in September 2019, and banks have plentiful short-term liquidity. Nonperforming loans net of specific

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

provisions remain low, while loan-loss provisioning is high. Net interest income declined due to a narrowing spread between bank lending rates and cost of funds.

The real estate market has stabilized, and equity markets outperformed in 2019, in part thanks to the inclusion in emerging market indices.

Executive Board Assessment[3]

The challenge to reduce dependence on oil and boost savings has become more urgent. The subdued forecast for oil revenues is weighing on near-term growth and fiscal and external balances. This has heightened the need for reforms to create a vibrant private sector and ensure adequate savings of the exhaustible oil wealth for future generations. Kuwait has large financial buffers and low debt, but the window of opportunity to tackle its challenges from the position of strength is narrowing.

Without a course correction, fiscal and financing challenges will intensify. The recent runup in hard-to-reverse spending weakened the underlying fiscal position. At current policies, the overall fiscal balance would turn into a growing deficit, which, after mandatory savings in the FGF, would give rise to large financing needs over the medium term. Borrowing should be viewed as a temporary solution—while slowing the depletion of liquid financial assets, it would lead to a rapid debt buildup.

Kuwait needs ambitious, growth-friendly, and socially-equitable fiscal adjustment. Staff's proposed adjustment would cut current expenditure, by tackling spending rigidities, boost nonoil revenue, and create space for growth-enhancing investment. The large public wage bill should be reformed, and generalized subsidies and transfers phased out in favor of targeted compensation schemes. As for revenue, the government should initiate broad consultations, redouble efforts to engage parliament, and continue the technical work on the GCC-wide excises and VAT. Taxes on corporate income, luxury items, and personal income of the wealthy could be also considered for a more socially-balanced adjustment mix. Embedding fiscal measures in a comprehensive reform package that promotes private sector growth, strengthens governance and accountability, and improves public services would help build broad support for reforms.

A rules-based fiscal framework would improve management of oil revenues. A rules-based framework would help anchor fiscal policy on a long-term objective of intergenerational equity. It should include a well-calibrated operational rule that helps reconcile long-term savings and near-term economic stabilization objectives. Such a rule would help establish policy predictability, prevent procyclicality, and ensure durable gains from adjustment. To be effective, a fiscal rule would need to be enshrined in a

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

sound institutional framework. Until a properly calibrated fiscal rule is in place, the current arrangement with respect to the FGF should be maintained.

Fiscal governance reforms should be an integral part of the overall fiscal strategy. Reforms should aim to enhance fiscal transparency, modernize public procurement, and boost spending efficiency. These steps would reduce vulnerabilities to corruption and strengthen support for fiscal adjustment.

The exchange rate regime remains appropriate. The peg has provided an effective nominal anchor. The proposed fiscal adjustment would close the current account gap over the medium term. As the economy becomes diversified, the arrangement should be periodically reviewed to ensure that it continues to serve Kuwait well.

Financial sector reforms should focus on bolstering resilience and deepening inclusion. To reduce moral hazard, the authorities should enhance the corrective action framework, establish a special resolution regime for banks, and unwind the blanket deposit guarantee. CBK's continued efforts to recalibrate macroprudential tools to balance stability and growth considerations are welcome. Gradually relaxing the interest rate ceiling on commercial loans would expand lending to new market segments, including SMEs. Market forces should be allowed to play a greater role in the allocation and pricing of liquidity to promote interbank market development.

Sustaining reforms to foster private sector-led and diversified growth will be critical. With limited scope for public employment going forward, a vibrant private sector must emerge to absorb the large number of Kuwaitis entering the labor market in coming years. Enabling the private sector to thrive requires reducing the economic footprint of the state, promoting market competition, and improving the business environment. To that end, further efforts are needed to revamp insolvency framework, reduce excessive regulations, and ease trading across borders. To incentivize Kuwaitis to seek private sector opportunities, public sector wages should be aligned with those in the private sector, accompanied with improvements in education and training programs to nurture entrepreneurship and equip graduates with skills for in-demand jobs.

Kuwait: Selected Economic Indicators, 2014–25

	2014	2015	2016	2017	2018	Est. 2019	Projections 2020	2021	2022	2023	2024	2025
Oil and gas sector												
Total oil and gas exports (billions of U.S. dollars)	97.6	48.5	41.5	49.6	65.4	58.2	52.9	52.8	53.4	54.6	56.0	57.5
Average crude oil export price (U.S. dollars/barrel)	95.2	47.8	39.5	51.6	68.8	61.8	55.9	54.6	54.2	54.3	54.7	55.2
Crude oil production (millions of barrels/day)	2.87	2.86	2.95	2.70	2.74	2.70	2.70	2.76	2.81	2.87	2.93	2.99
	(Annual percentage change, unless otherwise indicated)											
National accounts and prices												
Nominal GDP (market prices, in billions of Kuwaiti dinar)	46	34	33	37	42	41	41	42	44	46	48	51
Nominal GDP (market prices, in billions of U.S. dollars)	163	115	109	121	141	137	135	140	146	152	159	168
Real GDP [1]	0.5	0.6	2.9	-4.7	1.2	0.7	1.5	2.7	2.7	2.7	2.7	2.7
Real oil GDP (including refineries)	-2.1	-1.7	3.9	-9.0	0.2	-1.0	0.3	2.0	2.0	2.0	2.0	2.0
Real nonoil GDP [1]	4.9	4.2	1.4	1.8	2.7	3.0	3.0	3.5	3.5	3.5	3.5	3.5
CPI inflation (average)	3.1	3.7	3.5	1.5	0.6	1.1	1.8	2.5	2.5	2.5	2.5	2.5
CPI inflation (eop)	3.0	3.0	2.6	1.1	0.4	1.5	2.2	2.5	2.5	2.5	2.5	2.5
Unemployment rate (Kuwaiti nationals)	5.0	4.7	3.3	3.3	…	…	…	…	…	…	…	…
	(Percent of GDP at market prices)											
Budgetary operations [2]												
Revenue	67.4	52.3	52.7	58.3	60.9	59.3	55.5	54.2	53.4	52.6	51.6	50.6
Oil	51.9	35.4	34.4	37.8	43.7	39.8	36.7	35.5	34.6	33.9	33.3	32.8
Nonoil, *of which:*	15.4	16.9	18.2	20.5	17.2	19.5	18.7	18.8	18.8	18.7	18.3	17.9
Investment income	10.6	13.3	14.6	16.2	12.2	14.2	13.3	13.1	13.2	13.1	12.8	12.4
Expenditures [3]	48.8	52.7	52.2	50.7	51.6	54.5	56.3	56.9	57.1	57.0	56.8	56.3
Expense	43.3	45.0	45.6	44.2	45.4	47.8	49.3	49.7	50.0	49.9	49.8	49.4
Capital	5.4	7.7	6.5	6.6	6.2	6.7	7.0	7.2	7.1	7.1	7.0	6.8
Balance	18.6	-0.3	0.5	7.5	9.3	4.7	-0.8	-2.6	-3.7	-4.4	-5.2	-5.6
Balance (after transfer to FGF and excl. investment income)	2.3	-17.5	-17.9	-12.9	-7.7	-13.9	-18.3	-19.8	-20.9	-21.4	-21.8	-21.9
Domestic financing (net)	-0.7	-1.2	6.5	1.8	-2.7	-3.4	4.0	4.4	4.2	5.2	5.0	4.0
External financing (net)	-1.6	18.8	11.4	11.0	10.5	17.3	14.3	15.5	16.7	16.3	16.8	17.9
Nonoil balance excl. investment income (percent of nonoil GDP) [4]	-102.5	-88.3	-83.5	-85.5	-90.2	-88.4	-86.7	-85.4	-84.5	-83.4	-82.3	-81.1
Excluding oil-related subsidies and benefits (percent of nonoil GDP)	-81.2	-77.5	-74.5	-76.6	-81.6	-80.8	-79.8	-78.8	-78.1	-77.1	-76.2	-75.0
Total gross debt (calendar year) [5]	3.4	4.7	10.0	20.5	14.8	11.6	15.5	30.4	41.6	55.1	65.2	74.4
Estimated KIA assets	345.6	456.3	476.6	460.4	398.2	407.9	426.8	421.7	415.2	405.0	393.6	380.7
Net government financial assets	342.1	451.7	466.6	439.9	383.3	396.2	411.3	391.4	373.7	349.8	328.3	306.3
	(Percent change; unless otherwise indicated)											
Money and credit												
Net foreign assets [6]	3.7	-2.1	8.7	-3.1	10.0	6.2	0.2	0.5	0.8	1.1	0.7	0.3
Claims on nongovernment sector	5.2	7.9	2.5	2.8	3.9	4.4	5.4	6.4	6.4	6.4	6.4	6.3
Kuwaiti dinar 3-month deposit rate (year average; in percent)	0.8	0.8	1.1	1.5	2.3	2.8	…	…	…	…	…	…
Stock market unweighted index (annual percent change)	-3.8	-16.5	-0.2	12.8	11.8	23.2	…	…	…	…	…	…
	(Billions of U.S. dollars, unless otherwise indicated)											
External sector												
Exports of goods	104.5	54.5	46.5	55.2	72.3	64.6	59.0	59.2	60.2	61.7	63.6	65.6
Of which: nonoil exports	7.0	6.0	5.0	5.6	6.9	6.3	6.1	6.4	6.7	7.2	7.6	8.1
Annual percentage change	-2.8	-14.1	-15.7	11.7	22.3	-8.1	-3.8	5.0	5.5	6.3	6.3	6.5
Imports of goods	-27.0	-26.5	-27.0	-29.5	-31.3	-32.0	-33.1	-34.2	-35.6	-37.1	-38.8	-40.1
Terms of Trade (ratio, annual percent change)	-12.2	-42.5	-12.5	27.1	19.9	-11.1	-7.1	-1.0	0.3	-0.1	0.1	0.7
Current account	54.4	4.0	-5.1	9.6	20.4	12.1	4.2	3.0	2.3	2.0	1.5	1.4
Percent of GDP	33.4	3.5	-4.6	8.0	14.5	8.8	3.1	2.1	1.6	1.3	0.9	0.9
International reserve assets [7]	32.3	28.3	31.2	33.6	37.2	39.6	40.8	42.2	43.8	45.6	47.2	48.7
In months of next year's imports of goods and services	7.4	6.5	6.6	6.4	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Memorandum items:												
Exchange rate (U.S. dollar per KD, period average)	3.52	3.32	3.31	3.29	3.29	3.29	…	…	…	…	…	…
Nominal effective exchange rate (Percentage change)	1.1	1.5	1.8	0.4	0.2	2.6	…	…	…	…	…	…
Real effective exchange rate (Percentage change)	1.5	2.9	3.2	0.5	-1.9	1.4	…	…	…	…	…	…

Sources: Data provided by the authorities; and IMF staff estimates and projections.

[1] Calculated at market prices.

[2] Based on fiscal year cycle, which starts on April 1 and ends on March 31.

[3] Starting FY2016/17, there has been a reclassification of expenditure items.

[4] Excludes pension fund recapitalization.

[5] Excludes debt of Kuwait's SWF related to asset management operations.

[6] Excludes SDR holdings and IMF reserve position.

[7] Does not include external assets held by KIA.