

GREEN/20/11

March 19, 2020

**Green Statement from Mr. Mouminah, Mr. Alkhareif and Ms. Al Saud on
Kuwait—Staff Report for the 2020 Article IV Consultation (SM/20/62)**

At the outset, we commend the Kuwaiti authorities for their proactive role in dealing with the COVID-19 outbreak, including through global cooperation. We appreciate the authorities' recent donation of \$40 million to the WHO to support the global efforts to contain the spread of COVID-19. We thank staff for the well-written report and supplementary information. **We broadly concur with the staff appraisal and would like to make the following remarks for emphasis.**

- 1. We welcome the authorities' swift policy action in response to the COVID-19 outbreak.** Indeed, efforts should continue to protect people and mitigate the economic impact, including through focusing on social spending. In light of ample assets, substantial borrowing space, and the soundness of the banking sector, Kuwait is in a strong position to deal with the external shocks and unfavorable health environment.
- 2. We underscore the importance of fiscal adjustment to ensure long-term fiscal sustainability.** Here, we take positive note of the fiscal measures envisaged by the authorities in the near-term and fully share their view regarding the need to build strong consensus around the fiscal adjustment package. That said, to put the fiscal position on a sound path, deeper reforms, supported by effective communication with all relevant stakeholders, should be pursued. In this context, staff presents useful discussion on fiscal adjustment measures that encompass a combination of revenue mobilization and spending rationalization. We note that VAT and excises tax implementation has not progressed much since the last Article IV. Therefore, we echo staff's view on the need to continue the technical work and consultations with relevant stakeholders. On public spending, we encourage the authorities to accelerate the implementation of the procurement law as well as to gradually streamline current spending, including through aligning the public wage bill with those in the private sector to incentivize nationals to seek private sector opportunities and support competitiveness.
- 3. A credible rules-based fiscal framework should help in balancing the objectives of promoting near-term economic stabilization and enhancing intergenerational savings.** In this connection, we welcome discussion between staff and the authorities on a menu of fiscal rule options and underscore the importance of considering reforms that are growth friendly, stimulate more job opportunities, and provide sufficient protection to the most vulnerable, supported by clear communication with the public at every stage.

4. Kuwait's strong financial position should help cushion the country against external shocks. We welcome the CBK's proactive approach to regulation and supervision to maintain the resilience of the banking sector and encourage the CBK's to continue its efforts in recalibrating macroprudential tools to maintain financial stability. Further efforts should aim at strengthening crisis management and resolution frameworks, enhancing liquidity management, deepening capital markets, and promoting financial inclusion. We also encourage further efforts to strengthen the AML/CFT framework and look forward to the issuance of the new AML/CFT regulations. We welcome Kuwait's inclusion in EM indices, which would help in further attracting capital inflows.

5. We agree that the exchange rate regime remains appropriate. Indeed, we welcome the authorities' full commitment to the peg, which has served the economy well.

6. Structural reforms are critical to unlock private sector's potential and boost economic diversification. Indeed, structural reforms to further improve the business environment, incentivize private sector development, including through privatization and PPPs, encouraging market competition, creating more job opportunities and increasing access to finance are key to strong, sustainable, and inclusive growth. In this regard, we commend the authorities for the sustained progress in improving the business environment, as evident from the Ease of Doing Business 2020 ranking and look forward to the issuance of the insolvency law that would help improve the business environment. We also welcome the authorities' efforts to identify ways to create a more enabling environment for SMEs given their key role in supporting growth as well as job creation.

With these remarks, we fully support Kuwait's ongoing measures to contain the COVID-19 risks and wish the authorities further success.