

**LAPSE OF
TIME**

SM/20/62

Correction 2

March 25, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached corrections to SM/20/62 (3/10/20) have been provided by the staff:

Evident Ambiguity

Pages 1 and 63 (first para.)

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

Page 63 (second para.)

Additional Information:

Page numbers have shifted owing to the correction on page 1.

Questions:

Mr. Sadikov, MCD (ext. 37984)

Ms. Guscina, MCD (ext. 34836)



KUWAIT

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

March 6, 2020

KEY ISSUES

Disclaimer: This Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on March 24. The staff report reflects discussions with the Kuwaiti authorities in January 2020 and is based on the information available as of March 2. It focuses on Kuwait's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The Supplementary Information is based on the information available as of March 12. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Kuwait and globally.

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.

Appendix I. Draft Press Release

IMF Executive Board Concludes 2020 Article IV Consultation with Kuwait

FOR IMMEDIATE RELEASE

Disclaimer: This Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on March 24. The staff report reflects discussions with the Kuwaiti authorities in January 2020 and is based on the information available as of March 2. It focuses on Kuwait's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The Supplementary Information is based on the information available as of March 12. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Kuwait and globally.

WASHINGTON, DC – March 23~~24~~, 2020 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ 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—

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.