IMF Country Report No. 17/15

KUWAIT

January 2017

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- A **Press Release** summarizing the staff report that concluded the Article IV consultation with Kuwait.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 14, 2016 with the officials of Kuwait on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 16, 2016.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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January 17, 2017

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IMF Executive Board Concludes 2016 Article IV Consultation with Kuwait

On January 6, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Kuwait and considered and endorsed the staff appraisal without a meeting.[2]

Economic activity in the nonoil sector has continued to expand, albeit at a slower pace, reflecting the impact of lower oil prices. Nonhydrocarbon growth slowed from 5 percent to an estimated 3½ percent in 2015, as higher uncertainty weighed on consumption. Notwithstanding an improvement in project implementation under the five-year Development Plan (DP), available indicators point to a further modest softening in nonoil growth this year. Inflation, which has been hovering at around 3 percent, is set for an uptick to about 3½ this year, reflecting the recent gasoline price increases.

Notwithstanding efforts to contain government spending, the fiscal and external accounts have deteriorated markedly and budget financing needs have emerged. The authorities' principal measure of the fiscal balance—which excludes mandatory transfers to the Future Generations Fund (FGF) and investment income and better reflects the government's gross financing challenge—has swung into a large deficit (17½ percent of GDP in 2016/17). Even when including investment income and before transfers to the FGF, fiscal surpluses have vanished.

The financial sector has remained sound and credit conditions favorable. As of June 2016, banks featured high capitalization (capital adequacy ratio of 17.9 percent), robust profitability (return on assets of 1 percent), low nonperforming loans (ratio of 2.4 percent), and high loan-loss provisioning (206 percent coverage). Bank liquidity has been comfortable. Credit to the private sector has been increasing at a solid pace, driven mainly by installment loans.

[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.

Executive Board Assessment

In concluding the 2016 Article IV Consultation with Kuwait, Executive Directors endorsed staff's appraisal, as follows:

Kuwait is well positioned to mitigate the impact of lower oil prices on the economy. The fiscal and external positions have deteriorated significantly and nonhydrocarbon growth has moderated—from 5 percent in 2014 to about 3¼ percent this year—as a result of the drop in oil prices. However, large financial buffers and low debt provide policy space to implement the necessary fiscal consolidation gradually while increasing public investment to support growth. Against this backdrop, the fiscal and external positions are projected to improve as adjustment proceeds and oil prices recover somewhat, and nonoil growth is projected to regain momentum to about 4 percent over the medium term supported by a continued improvement in project implementation under the five-year Development Plan. The main risk to the outlook stems from a further sustained decline in oil prices. Slow project implementation, more volatile global financial conditions and spillovers from heightened regional security risks could also affect economic prospects.

Nonetheless, "lower-for-longer" oil prices call for steadfast implementation of reforms. The government's six-pillar reform strategy is rightly focused on reforming public finances and promoting a greater role for the private sector in generating growth and jobs for nationals. Efforts to streamline current spending, including the recent gasoline and utility price reforms, and measures to facilitate business licensing are steps in the right direction. Maintaining consensus in favor of economic transformation and sustaining the reform momentum is paramount for the success of the strategy.

Fiscal reforms should focus on addressing underlying fiscal vulnerabilities and be designed so as to minimize any dampening impact on growth. Gradual removal of fuel and electricity subsidies and control of the wage bill through a well-designed reform that avoids significant upfront costs would help reduce budget rigidities, while the introduction of the VAT and business profit tax and the repricing of government services would go a long way in diversifying revenue away from oil. These fiscal reforms should be designed and sequenced with a view to striking a balance between generating fiscal savings in line with intergenerational equity levels and mitigating the drawbacks of fiscal consolidation on economic activity. A comprehensive medium-term fiscal framework based on a top-down approach and articulated around clearly-specified medium-term fiscal objectives would help guide the consolidation plans and reduce implementation risks.

Fiscal financing options should be assessed within a comprehensive asset/liability management framework with due consideration to macro-financial linkages. Consistent with the government's current approach, a balanced financing mix that combines continued drawdown of assets in the GRF, measured amounts of domestic bond issuance and some external borrowing would mitigate potential crowding out of private sector credit while maintaining a high level of liquid buffers.

Continued progress toward strengthening the institutional and legal frameworks, including to support a more comprehensive and longer-term view on asset and liability management, improving debt issuance processes, and fostering increased transparency would ensure effective debt management and support the development of domestic fixed income markets.

Steps can be taken to further strengthen financial sector resilience. In light of the potential risks from a sustained further decline in oil prices and given the financial sector risks inherent to a largely undiversified economy, the CBK initiatives to enhance financial sector surveillance are welcome. A formal framework for operationalizing macro-prudential measures, reforms to facilitate debt recovery, developing a liquidity forecasting framework, and strengthening the crisis management framework, including by introducing a special resolution regime for banks and a deposit insurance mechanism, would help further enhance financial sector resilience and ensure orderly resolution of banks in the event of stress.

The peg to an undisclosed basket of currencies is appropriate and can be further underpinned by fiscal adjustment. The peg has provided an effective nominal anchor. A moderate current account gap can be largely closed by increasing fiscal savings as recommended over the medium term.

Labor market reforms and efforts to promote the role of the private sector are important to foster diversification and boost job creation for nationals. Better aligning labor market incentives is necessary to encourage nationals to take on private sector jobs and private firms to create opportunities for them. Greater use of privatization and partnerships with the private sector will help boost productivity, private sector investment and job creation for nationals. Relying on stronger legal and institutional frameworks that foster competition and reduce hidden costs and contingent liabilities for the government is important for the success of this strategy. This should be combined with further steps to improve the business environment, including reforms to facilitate access to land and finance, reduce the burden of administrative procedures and excessive regulations, foster competition, and facilitate SMEs’ access to finance

Table 1. Kuwait: Selected Economic Indicators, 2013–21

			Est.	Proj.					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Oil and gas sector									
Total oil and gas exports (billions of U.S. dollars)	108.6	97.6	48.8	45.0	54.0	57.8	60.4	63.7	66.5
Average oil export price (U.S. dollars/barrel)	105.4	98.0	51.9	44.0	51.9	54.4	55.9	57.8	59.3
Crude oil production (millions of barrels/day)	2.93	2.87	2.86	2.97	3.03	3.09	3.15	3.22	3.28
	(Annual percentage change, unless otherwise indicated)								
National accounts and prices									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	49.4	46.3	34.3	33.8	38.2	41.1	43.9	47.1	50.4
Nominal GDP (market prices, in billions of U.S. dollars)	174.2	162.7	114.1	111.3	125.8	135.3	144.6	155.2	166.0
Real GDP [1]	0.4	0.6	1.2	3.6	2.6	2.6	2.8	2.8	2.9
Real oil GDP	-1.8	-2.1	-0.3	3.9	2.0	2.0	2.0	2.0	2.0
Real non-oil GDP	4.0	5.0	3.5	3.2	3.5	3.5	4.0	4.0	4.0
CPI inflation (average)	2.7	2.9	3.2	3.4	4.5	3.6	3.4	3.4	3.4
Unemployment rate (Kuwaiti nationals)	4.7	5.0	4.7	...	...	...	...	...	...
	(Percent of GDP at market prices)								
Budgetary operations [2]									
Revenue	73.8	67.3	52.6	54.3	55.9	55.1	54.0	53.0	51.3
Oil	60.3	52.0	35.3	36.7	39.2	39.1	38.6	38.0	37.1
Non-oil, *of which:*	13.6	15.4	17.2	17.6	16.7	15.9	15.4	14.9	14.2
Investment income	9.0	10.5	13.6	13.9	13.3	12.7	12.3	11.9	11.3
Expenditures	38.3	48.8	52.6	53.7	51.0	49.9	49.5	49.1	48.8
Expense	34.1	43.4	44.9	45.6	43.1	42.0	41.5	40.9	40.4
Capital	4.1	5.5	7.6	8.1	7.8	7.9	8.1	8.2	8.4
Balance	35.6	18.5	0.0	0.7	4.9	5.2	4.5	3.8	2.5
Balance (after transfer to FGF and excl. inv. income)	20.0	2.4	-17.5	-17.3	-12.6	-11.7	-12.0	-12.1	-12.8
Non-oil balance (percent of non-oil GDP) [3]	-91.2	-102.8	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2
Excluding oil-related subsidies and benefits (percent of non-oil GDP)	-70.7	-81.4	-77.5	-76.5	-76.0	-74.8	-73.3	-71.9	-70.5
Total gross debt (calendar year-end) [4]	3.1	3.4	4.7	12.0	18.2	23.0	26.3	29.1	31.8
	(Percent change; unless otherwise indicated)								
Money and credit									
Net foreign assets [5]	11.4	3.6	-2.1	8.1	0.6	0.4	0.6	1.6	0.8
Claims on nongovernment sector	7.2	5.2	7.6	7.1	8.1	8.0	8.5	8.7	8.7
Kuwaiti dinar 3-month deposit rate (year average; in percent)[6]	0.8	0.8	0.8	1.1	...	...	...	...	...
Stock market unweighted index (annual percent change) [6]	27.2	-13.4	-14.1	-3.8	...	...	...	...	...
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods	115.8	104.5	55.3	51.9	61.4	65.6	68.8	72.6	75.9
Of which: non-oil exports	7.2	7.0	6.5	6.9	7.4	7.9	8.4	8.9	9.4
Annual percentage change	6.6	-2.8	-6.5	5.8	7.0	6.6	6.2	6.1	6.1
Imports of goods	-25.6	-27.0	-27.3	-26.9	-28.3	-29.5	-30.9	-32.5	-33.9
Current account	69.5	54.4	6.0	5.0	11.7	13.2	14.1	16.0	17.0
Percent of GDP	39.9	33.4	5.2	4.5	9.3	9.8	9.8	10.3	10.2
International reserve assets [6]	32.2	32.3	28.3	31.5	33.4	34.9	36.7	38.9	40.8
In months of imports of goods and services	7.5	7.4	6.5	6.9	7.0	7.0	7.1	7.2	7.3
Memorandum items [7]									
Exchange rate (U.S. dollar per KD, period average)	3.53	3.52	3.32	3.32	...	...	...	...	
Nominal effective exchange rate (Percentage change)	1.0	1.4	3.1	0.9	...	...	...	...	
Real effective exchange rate (Percentage change)	0.8	1.9	4.8	3.2	...	...	...	...	
Sovereign rating (S&P)	AA	AA	AA	AA	...	...	...	...	

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

[1] Calculated on the basis of real oil and non-oil GDP at factor cost. Staff estimates for 2015.

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

[3] Excludes investment income and pension fund recapitalization.

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

[5] Excludes SDRs and IMF reserve position.

[6] Does not include external assets held by Kuwait Investment Authority.

[7] For 2016, data is latest available.

INTERNATIONAL MONETARY FUND

KUWAIT

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

December 16, 2016

KEY ISSUES

Context. With large financial buffers, low debt, and a well-capitalized financial sector, the country is well positioned to face "lower-for-longer" oil prices. Nonetheless, fiscal and external balances have weakened and nonoil growth has softened somewhat. The main policy priorities are to sustain reforms to gradually raise fiscal savings, reduce susceptibility to oil price cycles, and boost private sector growth and job creation.

Outlook and risks. Nonoil growth is expected to gain momentum over the medium term, supported by continued improvement in project implementation under the Kuwait Development Plan. The fiscal position is projected to improve modestly, but financing needs after transfers to the Future Generation Fund will remain large. The main risk to the outlook is a further sustained drop in oil prices. Setbacks on fiscal consolidation measures would lead to higher financing needs. Slower project implementation under the development plan could weaken growth.

Macroeconomic policies. Building on recent increases in energy prices and spending restraint, the authorities should advance reforms to underpin gradual fiscal consolidation. These could include measures to raise nonoil revenues, further energy price reforms, and continued spending restraint, while allowing for higher growth-enhancing capital outlays. Strengthening the fiscal framework would underpin consolidation and limit implementation risks. Developing a comprehensive asset-liability management framework would help guide investment and borrowing decisions.

Financial sector. Banks are in a strong position to weather the challenges of lower oil prices. The Central Bank of Kuwait's enhanced surveillance is geared toward early identification of financial stability risks. Possible steps to further strengthen financial sector resilience include establishing a formal framework for macro-prudential measures, developing a liquidity forecasting framework, and strengthening the resolution and crisis management framework.

Private-sector led growth and economic diversification. Advancing labor market, business climate, and other reforms to foster private sector development and diversification will be key to boost job creation for nationals.

Approved By
Aasim M. Husain and Daria Zakharova

Discussions were held in Kuwait during November 1–14, 2016. The staff team comprised Stéphane Roudet (head), Botir Baltabaev, Inutu Lukonga, and Gazi Shbaikat (all MCD). Aasim Husain (MCD) and Reyadh Faras (OED) attended some of the meetings. The team met with Minister of Finance Al-Saleh, Governor of the Central Bank of Kuwait Al-Hashel, Minister of Social Affairs and Labor and Minister of State for Planning and Development Al-Subaih, other senior government and central bank officials, and private sector representatives. Research assistance was provided by Mansour Almalik and Zhe Liu. The team also benefited from editorial support by Diana Kargbo-Sical and Gilda Radwan.

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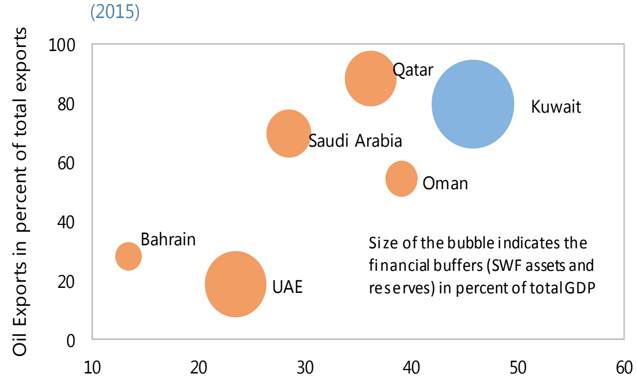
CONTEXT

1. **Notwithstanding high dependence on hydrocarbons, Kuwait is well positioned to weather "lower-for-longer" oil prices.** Large financial buffers—which staff estimates exceed 460 percent of GDP—and low debt provide space to smooth the needed fiscal adjustment and support growth through infrastructure spending. Resilient nonoil activity and strong oversight by the Central Bank of Kuwait (CBK) have kept the financial sector sound.

Dependence on Oil: Kuwait and GCC
(2015)



Source: IMF staff calculations.

2. **The main challenge for policymakers is to sustain reforms that reduce susceptibility to oil price cycles and boost private sector growth and job creation.** The government has announced a comprehensive agenda—the *six-pillar reform strategy* (Box 1)—to underpin medium-term fiscal adjustment, encourage private sector development and diversification, and create jobs for the growing national labor force. Initial steps have been taken, most recently to advance energy pricing reforms and to ease registration and licensing procedures (Annex I), and several other measures are under preparation. In the wake of the recent parliamentary elections—which led to a significant turnover of National Assembly members—the outgoing Prime Minister was reappointed to form a cabinet. The new government has reaffirmed the authorities' commitment to reforms. Steady implementation—a must to deliver concrete results over the next few years—will require building consensus in favor of economic transformation.

RECENT MACRO-FINANCIAL DEVELOPMENTS

3. **Economic activity in the nonoil sector has continued to expand, albeit at a slower pace, reflecting the impact of lower oil prices.** Nonhydrocarbon growth slowed from 5 percent to an estimated 3½ percent in 2015, as higher uncertainty weighed on consumption. Notwithstanding an improvement in project implementation under the five-year Development Plan (DP), available indicators point to a further modest softening in nonoil growth this year. However, with oil production recovering after three consecutive years of decline,[1] overall growth is on track to reach about 3½ in 2016 (Figure 1). Inflation, which has been hovering at around 3 percent, is set for an uptick to about 3½ this year, reflecting the recent gasoline price increases.

[1] The drop in hydrocarbon production was mainly due to the temporary closure of a neutral zone oil field and technical factors.

Box 1. Kuwait's Six-Pillar Reform Strategy

In early 2016, the government announced a comprehensive reform strategy to underpin medium-term fiscal adjustment, encourage private sector development and diversification, and create jobs for the growing national labor force. The strategy is organized around six-pillars:

- *Rationalizing government expenditure and increasing nonoil revenue* to reduce the budget deficit over the medium term. The authorities plan to raise nonhydrocarbon revenue (by introducing a VAT and a business profit tax and raising the price of some government services) and curtail expenditure through rationalization of government agencies' spending, further advancing subsidy reforms and reforming the pay structures.
- *Modernizing the role of the state.* The government is to refocus on ensuring a conducive regulatory and business environment and encouraging market forces.
- *Promoting private sector development,* through privatization of public enterprises, enhanced use of partnerships with the private sector, and support for small- and medium-sized enterprises.
- *Encouraging citizens' participation* in privatized enterprises and PPP projects.
- *Making the labor market and civil service more efficient.* Initiatives in these areas will include reforms of public sector wages and performance evaluation systems and steps to improve labor force planning and upgrade skills through educational reforms (including enhanced vocational training).
- *Promoting supporting legislative and institutional reforms* to enhance public financial management, strengthen tax administration capacity, develop financial markets, and improve the business climate.

4. **Notwithstanding efforts to contain government spending, the fiscal and external accounts have deteriorated markedly**. As a result of dwindling oil revenues, the authorities' principal measure of the fiscal balance—which excludes mandatory transfers to the Future Generations Fund (FGF) and investment income and better reflects the government's gross financing challenge—[2] has swung into a large deficit (17½ percent of GDP in 2015/16). Even when including investment income and before transfers to the FGF, fiscal surpluses have vanished (text table). The underlying (nonoil) fiscal position has nevertheless improved over the past two years, reflecting a decline in the subsidy bill (Figure 2), non-recurrence of one-off spending, and efforts to curtail current expenditure. The composition of government expenditure has also improved somewhat in favor of growth-enhancing capital spending. The external current account surplus has declined significantly, reaching 5¼ percent of GDP in 2015, and is set to fall to 4½ percent in 2016.

[2] A minimum of 10 percent of total revenue is transferred annually to the FGF. Income on FGF investments (mainly foreign assets) is retained in the Fund.

Fiscal Developments 2014–17

	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
	Percent of GDP			Percent of Non-oil GDP		
Revenue	67.3	52.6	54.3	167.1	94.9	93.2
Oil	52.0	35.3	36.7	129.0	63.8	63.0
Non-oil	15.4	17.2	17.6	38.1	31.1	30.2
Expenditure	48.8	52.6	53.7	121.1	94.9	92.0
Current	43.4	44.9	45.6	107.6	81.1	78.2
Capital	5.5	7.6	8.1	13.5	13.8	13.8
Overall balance 1/	18.5	0.0	0.7	46.0	0.0	1.2
Excluding oil, investment income, recapitalization of pension	-41.4	-48.9	-50.0	-102.8	-88.3	-85.7
Excluding subsidy	-32.8	-42.9	-44.6	-81.4	-77.5	-76.5
Overall balance (authorities presentation) 2/	2.4	-17.5	-17.3	5.8	-31.6	-29.7
Memo items:						
Nominal GDP (KD billion)	46.3	34.3	33.8			
Nominal Non-oil GDP (KD billions)	17.4	18.9	20.3			
Stock of GRF assets 3/	117.8	144.3	144.9			
Stock of FGF assets 3/	227.2	317.3	334.9			

Sources: Country authorities; and IMF staff estimates.

1/ The sharp decline in the nonoil balance as a share of nonoil GDP in 2015/16 reflected mainly the non-recurrence of one-off transfers (large increase in foreign aid and recapitalization of the pension fund) in 2014/15, a reduction in the subsidy bill, and cuts in non-essential spending. The decline in nonoil revenue in relation to nonoil GDP reflects a lower return on foreign assets than nominal nonoil GDP growth

2/ Excludes 10 percent of total revenue transferred to the Future Generation Fund (4 percent of GDP in 2015/16) and investment income (13.8 percent of GDP in 2015/16).

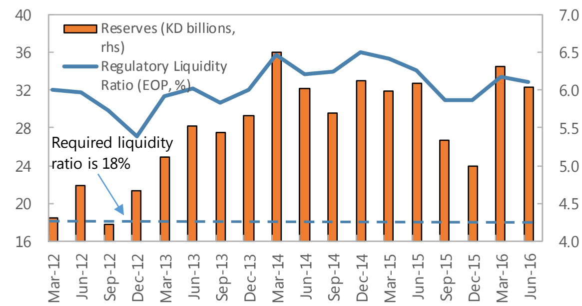
3/ The stock of General Reserve Fund (GFR) and Future Generation Fund (FGF) assets are staff estimates.

5. **While financing needs have thus far been met mainly by drawing down financial buffers, the government has also increased borrowing.** The government deficit has been financed mainly through drawdowns of General Reserve Fund (GRF) assets. The issuance of domestic bonds has been stepped up this year, contributing to net financing of about KD 1.4 billion between April and mid-November—over half the targeted amount for FY 2016/17. The government has also announced its intention to tap international capital markets to raise up to KD 2.9 billion.

6. **The financial sector has remained sound and credit conditions favorable.** As of June 2016, banks featured high capitalization (CAR of 17.9 percent), robust profitability (ROA of 1 percent), low nonperforming loans (ratio of 2.4 percent), and high loan-loss provisioning (206 percent coverage). Bank liquidity has been comfortable—after a modest decline last year, it has improved, supported by a recovery in deposits of government entities. Credit to the private sector has been increasing at a solid pace (about 6¾ percent year-over-year in September 2016, broadly in line with nominal GDP; Figure 4), driven mainly by installment loans.[3]

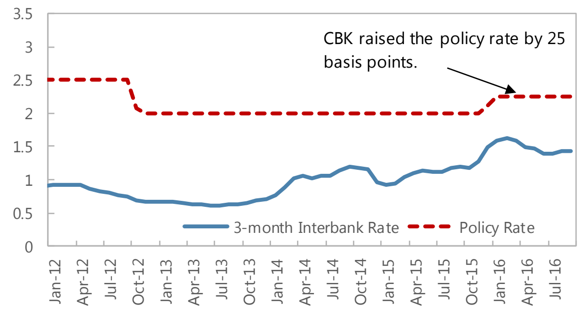
[3] Installment loans are extended to households for repair and purchase of private homes. They are secured by salary assignments and present a lower risk profile.

Bank Liquidity and Reserves



Sources: Central Bank of Kuwait; Haver.

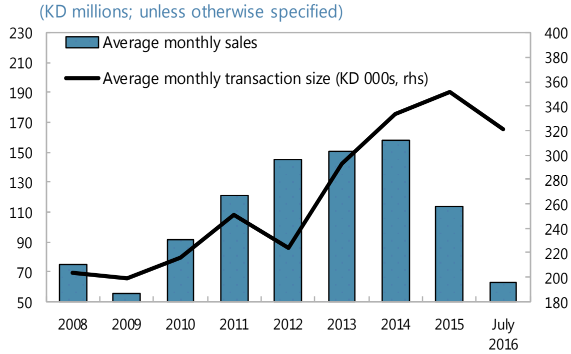
Interest Rates
(Percent)



Sources: Central Bank of Kuwait; Haver.

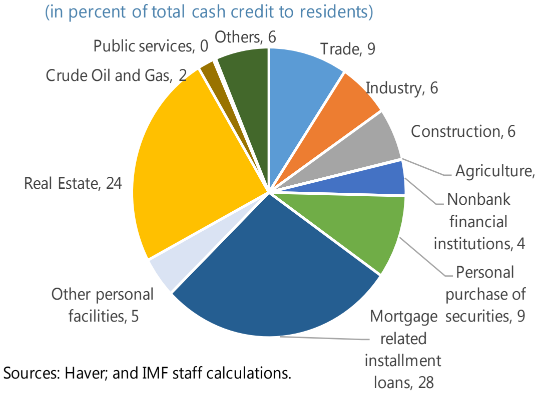
7. **Nevertheless, a few sectors to which banks have sizable exposures have shown some weakening.** The real estate sector has been confronted with a further slowdown in the volume and the value of sales. Nonfinancial corporate earnings have continued to deteriorate, resulting in an increase in vulnerabilities in some sectors, particularly real estate (Annex II). Stock prices have registered broad-based declines since mid-2014 and have remained volatile. Banks' exposure to Investment Companies (ICs) has been reduced to 3 percent of total assets on average, but the latter are exposed to real estate and local and regional equities.

Real Estate Statistics, 2008–July 2016
(KD millions; unless otherwise specified)



Source: National Bank of Kuwait.
Note: Calculated by combining monthly average prices (per sqm when possible) in select, more active, areas of Kuwait; it is then adjusted for volatility. The indexes are based in 2010, i.e. 2010 price index equals 100. The index is not adjusted for seasonality nor the number of business days.

Sectoral Distribution of Cash Credit Facilities, 2015
(in percent of total cash credit to residents)



Sources: Haver; and IMF staff calculations.

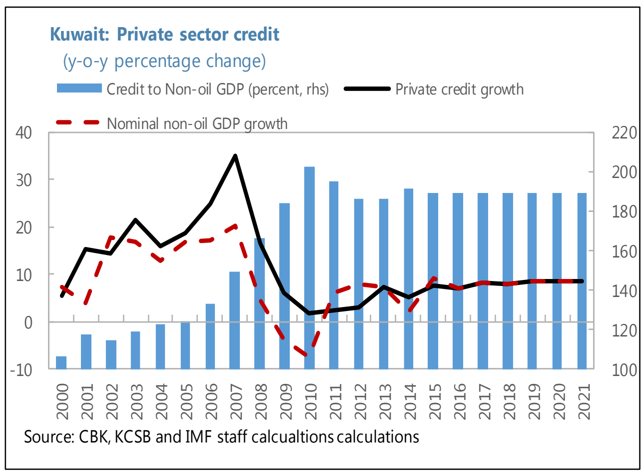
OUTLOOK, RISKS, AND SPILLOVERS

8. **Growth is expected to regain momentum over the medium term, supported by infrastructure investment.** Continued improvement in project implementation under the Kuwait Development Plan (DP) will support a gradual recovery in real nonoil GDP growth to about 3½ percent in 2017 and 4 percent thereafter. Hydrocarbon output is set to increase by 2 percent

annually,[4] consistent with investment in the sector. Overall, real GDP growth would reach about 3 percent over the medium term. Inflation is expected to increase to 4½ percent in 2017, reflecting energy prices increases in 2016–17, before easing gradually. Higher hydrocarbon exports will lift the current account surplus above 10 percent of GDP by 2021. The authorities were broadly in agreement with staff's assessment of the macroeconomic outlook, but noted inflation could be lower next year based on the experience of other GCC countries.

9. Kuwait's fiscal position is projected to improve modestly, but financing needs after transfers to the FGF will remain large. Staff's baseline scenario assumes oil prices will gradually recover to some $60 by 2021. It takes into account the fiscal impact of the measures recently enacted but does not factor in the government's planned fiscal reforms that have yet to be implemented. Under this scenario, the fiscal balance (government definition) is projected to decline from about 17½ percent of GDP this year to 13 percent of GDP over the medium term, and cumulative gross financing needs would amount to about KD 35 billion over the next 6 years. These are assumed to be covered by a continued drawdown of assets in the GRF, measured amounts of domestic bond issuance to avoid crowding out private sector investment, and some external borrowing. The overall fiscal balance (before transfers to the FGF and including investment income) would post surpluses.

10. This macro-fiscal environment is expected to remain broadly supportive of financial stability and credit growth. Growth-enhancing capital expenditures will support bank profitability and internal capital generation. Although there are downside risks to asset quality, loss absorption buffers are high. Staff agreed with the authorities' view that while credit growth had been robust, the significant contribution of lower-risk installment loans mitigates concerns of a build-up of financial risks.



11. The main risk to the outlook is a further sustained drop in oil prices, which would lead to higher financing needs and could set in motion unfavorable macro-financial dynamics. Large fiscal deficits (Figure 6) would raise the gross financing requirement over the medium term (text table). Although the government's strong credit rating (AA) would enable it to tap international markets, investors' appetite for GCC bonds could decline in case of large regional financing needs. Kuwait would, therefore, be faced with the tradeoff of issuing more domestic debt, at the risk of

[4] Implementation of the recent OPEC agreement may lead to slightly lower hydrocarbon output increases than projected by staff in the short term—as it entails a cut of about 130 thousand mbd in 2017H1 compared to October levels. However, should the oil price increase of recent weeks be sustained, it would likely result in higher oil revenues.

squeezing domestic liquidity and crowding out private sector credit, or allowing readily available buffers to run lower. Staff and the authorities' banking stress tests indicate that the financial system is resilient to severe credit and liquidity shocks.[5] Nonetheless, a protracted period of lower oil prices—should it affect deposit growth, nonoil activity, stock market performance or real estate prices—could also heighten liquidity and credit risks (Box 3) and, in turn, credit and economic activity.

12. Kuwait is also exposed to a number of other domestic and external risks (Annex III). Setbacks on fiscal consolidation measures would lead to higher financing needs. Slower project implementation under the development plan could weaken growth. While the country is only moderately exposed to regional spillovers, heightened security risks could affect investor confidence. More volatile global financial conditions could raise funding and market risks. In addition to the impact they could have through oil prices and financial markets conditions, significant changes to the post-election U.S. economic outlook could affect Kuwait through the exchange rate and interest rates. For example, a stronger U.S. dollar and a more rapid normalization of policy rates, may entail tighter monetary conditions given the Kuwaiti dinar peg. Outward spillovers, mainly through Kuwait's contribution to global oil supply, investments abroad and remittances, are expected to be limited.

Financing Needs Under Different Scenarios, 2015–22
(In percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Cumulative 2016/17-21/22
				Percent of GDP				
				Scenario I: Baseline				
Overall balance	0.0	0.7	5.0	5.2	4.5	3.8	2.5	
Actual balance (excluding inv. income and 10 percent of revenue)	-17.5	-17.3	-12.6	-11.7	-12.0	-12.1	-12.8	
Non-oil balance (% of non-oil GDP)	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2	
Gross financing in KD billion	6.0	6.0	4.9	4.9	5.4	5.8	6.5	33.5
Domestic	-0.3	2.4	1.0	1.0	1.1	1.2	1.4	8.2
External	0.0	1.8	1.5	1.0	1.0	1.0	1.0	7.3
Drawdown of GRF	6.3	1.9	2.4	2.9	3.2	3.6	4.2	18.1
Public debt 1/	4.7	12.0	18.2	23.0	26.3	29.1	31.8	
Stock of the GRF assets 1/ 2/	144.3	144.9	125.1	112.4	100.6	88.6	76.8	
Current Account balance 1/ 2/	5.2	4.5	9.3	9.8	9.8	10.3	10.2	
				Scenario II: Lower oil price (25 percent less than baseline)				
Overall balance	0.0	-2.2	-6.3	-6.3	-7.1	-7.9	-9.3	
Actual balance (excluding inv income and 10 percent of revenue)	-17.5	-20.3	-24.2	-23.1	-23.2	-23.1	-23.5	
Non-oil balance (% of non-oil GDP)	-88.3	-85.1	-82.1	-80.0	-78.5	-77.0	-75.5	
Gross financing in KD billion	6.0	6.9	8.4	8.6	9.3	9.9	10.8	53.9
Domestic	-0.3	2.4	1.0	1.0	1.1	1.2	1.4	8.2
External	0.0	1.8	1.5	1.0	1.0	1.0	1.0	7.3
Drawdown of GRF	6.3	2.7	5.9	6.6	7.1	7.7	8.5	38.5
Public debt 1/	4.7	12.6	22.2	29.0	33.9	38.1	42.0	
Stock of the GRF assets 1/2/	144.3	142.5	127.6	103.8	81.3	59.3	38.2	
Current Account balance 1/2/	5.2	4.5	-1.6	-1.3	-1.3	-0.9	-0.9	

Sources: IMF staff estimates.
1/ It is referring to calendar years.
2/ The stock of General Reserve Fund (GRF) assets are staff estimates and projections.

[5] See also "The resilience of the banking system to macroeconomic shocks in Kuwait" in IMF Country Report No. 15/328; "Macro-financial linkages and resilience of the financial sector" in accompanying Selected Issues Paper; and 2015 Financial Stability Report.

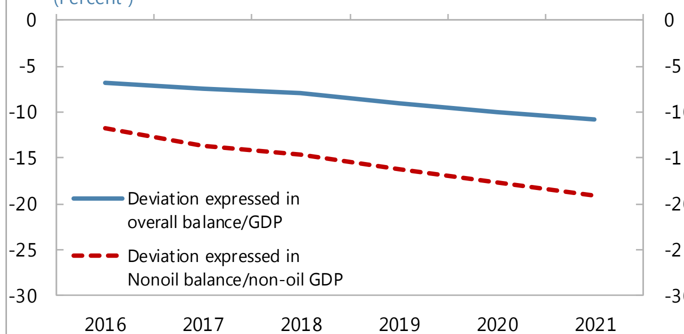
POLICY DISCUSSIONS

With the government having laid out its economic vision under the six-pillar reform strategy, discussions focused on the appropriate pace and design of fiscal reforms, steps to safeguard financial stability, and reforms to raise growth and promote job creation for nationals. The authorities were broadly in agreement with the mission's policy recommendations. They saw fiscal reforms as an important element of a broader reform effort to boost private sector growth and economic diversification.

A. Anchoring macroeconomic stability

13. Staff and the authorities were in agreement over the need for a sustained fiscal effort to reduce vulnerabilities and bring government savings closer to levels consistent with intergenerational equity. Under staff's baseline projections, rising gross government debt (Annex IV) and large fiscal financing needs make the fiscal position more vulnerable to shocks.[6] In addition, the nonoil fiscal balance is projected to diverge from levels consistent with intergenerational equity by some 20 percent of nonoil GDP by 2021,[7] calling for a significant additional increase in fiscal saving.

Kuwait: Deviation from PIH 2016–21 1/
(Percent)



Source: IMF staff calculations.
1/ Difference between actual overall balance and level recommended by the Permanent Income Hypothesis (PIH).

14. At the same time, there was recognition that available fiscal space could be used to mitigate drawbacks from fiscal adjustment. Large buffers and low debt allow for a gradual approach to consolidation that supports growth and financial sector stability. A balanced approach to the composition of adjustment, making space for higher growth-enhancing investment, would also support macro-financial prospects.

15. On balance, staff recommended an adjustment path that would allow for achieving intergenerational equity over a ten-year period. This would entail reducing the government deficit (government definition) from a projected 17½ percent of GDP in 2015/16 to about 7 percent by 2021 (equivalent to a surplus of about 9½ percent of GDP before transfer to the FGF and including investment income) and broadly eliminating this deficit by 2025. This consolidation effort could be achieved through a combination of the main expenditure and revenue reforms included in

[6] The baseline assumes a continuation of current policies of controlling current spending but does not include reforms not yet enacted in light of uncertainties on the design and timing.

[7] The intergenerational equity level of the non-oil primary fiscal deficit is derived from the permanent income hypothesis (PIH) which estimates a constant real per-capita annuity of the sum of discounted values of future oil revenue receipts and financial assets. The annuity is estimated at 58 percent of nonoil GDP, compared to a projected nonoil primary balance of 78 percent of nonoil GDP by 2021.

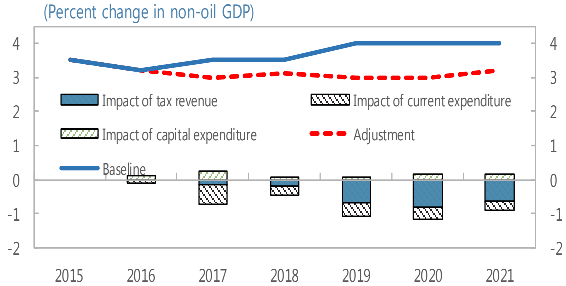
the government's six-pillar reform plan.[8] Assuming implementation of the authorities' planned reforms to bolster nonoil revenue, this would require a gradual reduction in government spending to about 80 percent of nonoil GDP by 2021—a level consistent with that experienced during 2000-10, when oil prices averaged about $50 per barrel. The authorities noted that the fiscal reforms identified under the government's reform strategy could potentially lead to more rapid fiscal consolidation, but agreed that staff's proposed path would strike an appropriate balance between higher savings and mitigating the impact of adjustment on growth. The measures listed below (text table and Annex V), drawn from the authorities' reform strategy, would have costs for short-run growth and inflation, but these would ease over time, as dividends from higher investment bear fruit and confidence strengthens (chart).

Cumulative Fiscal Saving Under the Baseline and Adjustment Scenarios 1/
(In percent of GDP)

	2016	2017	2018	2019	2020	2021
Baseline reforms						
Fuel price reform	0.2	0.2	0.4	0.4	0.4	0.3
Electricity and water subsidy		1.7	1.9	1.9	1.8	1.7
Total	**0.2**	**2.0**	**2.3**	**2.3**	**2.1**	**2.0**
Additional reforms under the adjustment scenario						
Fuel price reform 2/			0.2	0.3	0.4	0.6
Electricity and water subsidy 2/			0.0	0.3	0.7	1.0
Coprorate Profit tax			0.0	0.0	0.8	1.6
VAT			0.5	2.0	1.9	1.8
Wage control			0.1	0.2	0.5	0.8
Household compensation			0.0	-0.1	-0.1	-0.1
Capital expenditure			-0.3	-0.4	-0.4	-0.6
Other 3/	0.5	1.3	0.8	1.1	1.5	1.9
Total	**0.5**	**1.3**	**1.3**	**3.5**	**5.2**	**6.9**

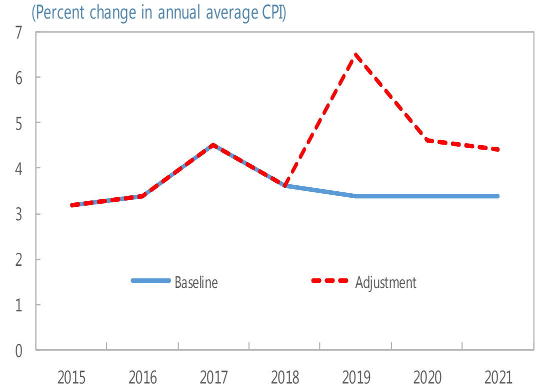
Source: Authorities, Kuwait's vision, and IMF staff calculations.
1/ See annex V for the baseline and adjustment scenario assumptions that were used to derive these estimates.
2/ In addition to what is assumed in the baseline.
3/ Other includes (i) lower growth in goods and services and transfers in line with the authorities announced Kuwait's vision and (ii) changes in interest payments, investment income and fees and other automatic changes associated with changes in inflation and GDP growth.

Kuwait: Growth Impact of Fiscal Consolidation, 2015-2021 1/
(Percent change in non-oil GDP)



Source: IMF staff calculations
1/ Staff applied multipliers that were largely based on Espinoza & Senhadji (2011) and a recent IMF paper at the GCC meeting of Finance Ministers and Central Bank Governors. The estimated medium term multipliers are 0.4, 0.4 and 1.0 for tax revenues, current expenditures and capital expenditures, respectively.

Kuwait: Inflation Impact of Fiscal Consolidation, 2015-2021
(Percent change in annual average CPI)

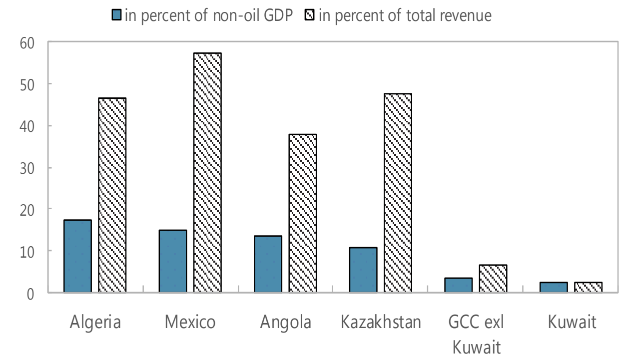


Source: IMF staff calculations

[8] Staff's adjustment scenario is based on the authorities' key reform plans that would allow achieving consolidation of about 1½ percent of GDP annually (text table and Annex V).

16. Given the lack of revenue diversification, staff supported the authorities' plan to raise nonhydrocarbon revenue as part of their medium-term fiscal consolidation program. This includes introducing a value-added tax (VAT) at a rate of 5 percent, as well as raising excise tax on tobacco and sugary drinks. These measures will be implemented in the context of the regional GCC agreement and could generate additional revenue in the order of 1¾ percent of GDP. In light of possible delays in making the VAT effective (to beyond 2018), staff encouraged the authorities to step up tax administration reforms. In addition, the government is preparing a business profit tax reform that will apply to all enterprises. At a rate of 10 percent, it could raise an additional 1½ percent of GDP in revenue by 2020. Staff also supported the government's plans to gradually adjust the price of government services.

Tax Revenues in 2015



Sources: OECD; IMF Article IV reports; and IMF staff calculations.

17. Further subsidy reform would help raise government saving while improving efficiency. Staff welcomed the important steps taken by the government this year to raise gasoline and utility prices (Annex I). It encouraged the authorities to move ahead with their plans to further rationalize energy subsidies (estimated to have amounted to about 6 percent of GDP in 2015/16). Gradual implementation would help reduce the inflationary impact and give time to businesses to adjust. Mitigating measures should be designed so as to target the most vulnerable households and promote energy efficiency. A well-designed communication strategy, highlighting the budgetary costs and distortions generated by subsidies, as well as their distributional impact and the planned compensatory measures, would help build consensus for these reforms.[9]

Prices for Energy Products: GCC and the United States

(Latest available)

	Gasoline	Diesel	Electricity
	(U.S. dollars per liter)		*(U.S. dollars per KWh)*
Bahrain	0.38	0.32	0.04
Kuwait 1/, 2/	0.31	0.39	0.03
Oman	0.46	0.49	0.04
Qatar	0.35	0.37	0.05
Saudi Arabia	0.22	0.10	0.10
UAE	0.48	0.52	0.12
GCC average	0.37	0.37	0.06
U.S. Prices	0.48	0.50	0.10

1/ Price for Kuwait reflects the increase in gasoline prices, effective from September 2016. Before the increase, the average gasoline price was US$ 0.19.

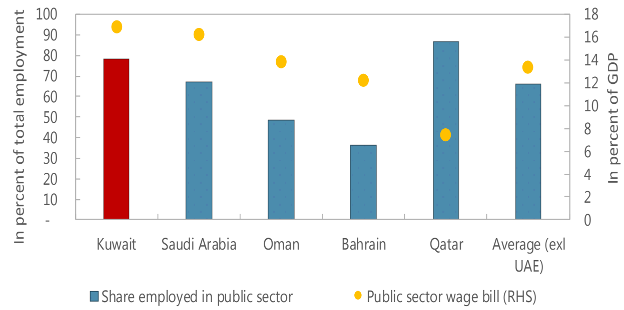
2/ Electricity price for Kuwait reflects the staff estimates of average increase for apartment residents, effective from May 2017. The current price is US$ 0.01 per KWh. Residential buildings, where most Kuwaitis live, will be unaffected.

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the U.S. Energy Information Agency (EIA) and are adjusted for taxes. Electricity tariffs for the United States include taxes and come from EIA.

[9] See "Energy price reforms in the GCC: What can be learned from international experiences?", IMF (2015).

18. Staff welcomed the authorities' intention to further contain the wage bill as part of the medium-term fiscal effort. The authorities' proposed wage reform is intended to simplify and harmonize the wage structure and centralize wage policy decisions. In view of the already high total government wage bill—including in comparison with peers—they acknowledged the need to design the reform so as to ensure that the overall wage bill does not rise further.[10] In this context, staff stressed the need to minimize initial costs of moving to the new wage grid, including through offsetting savings in allowances and bonuses. The authorities also concurred with staff's recommendation to design the reform so as to allow for flexibility in setting wage increases and better control future wage growth. Over time, this would help reduce the wage gap with the private sector and nationals' reservation wages, enhance private sector competitiveness, and facilitate economic diversification. While the authorities generally agreed with staff's recommendation to limit employment growth going forward and communicate early on about its objectives to help reset expectations, they stressed this would need to be done while promoting private sector job creation for nationals.

GCC Nationals' Empolyment and Public Wages , 2015 1/



Sources: Country authorities.
1/ Data is not available for UAE.

19. Further streamlining other current spending would create space for higher growth-enhancing investment. Staff highlighted that containing transfers to enterprises and households and goods and services would contribute to the adjustment effort, while allowing for higher capital outlays to mitigate the contractionary impact of fiscal adjustment. The authorities concurred and noted their ongoing efforts to streamline nonessential current expenditure. Indeed, spending on goods and services and transfers declined by 2 percent in 2015/16, compared to annual growth of about 13 percent on average in the preceding 5 years. Since public investment management reforms are key to improve implementation capacity and efficiency, staff welcomed the efforts underway to better prioritize projects through strengthened appraisal processes, with emphasis on encouraging diversification and employment opportunities for nationals. Systematic ex-post evaluation and effective implementation of the anti-corruption framework will also be important.

20. A medium-term fiscal framework is needed to guide fiscal consolidation and reduce implementation risks. Staff welcomed the authorities' ongoing efforts to strengthen budget planning, including the move from annual incremental budgets to medium-term budgets starting in FY2017/18 and the planned introduction of three-year expenditure ceilings. It stressed that these reforms should take place within the context of a comprehensive medium-term framework, guided by an overarching long-term fiscal policy objective (for example based on intergenerational equity considerations) and setting a consistent path for an intermediary target (a nonoil fiscal balance

[10] The authorities envisage a standardization of the wage structure that could entail upfront costs of up to 1 percent of 2015 GDP.

objective would help delink spending from oil revenue volatility). The authorities agreed and noted that the Ministry of Finance's macro-fiscal unit was well positioned to help in this regard. In this context, there was agreement about the importance of developing a top-down approach, strengthening budget processes—including by reducing the fragmentation of the investment budget—and expenditure control mechanisms, and developing reporting and accountability mechanisms.

21. Borrowing and investment decisions should be guided by a comprehensive asset-liability management strategy that takes into account macro-financial implications. The authorities' short-term plans entail a combination of (i) domestic and external borrowing; (ii) a drawdown of GRF assets; and (iii) transfers to the FGF to be invested in higher-yielding assets. At the moment, higher returns on FGF assets, low borrowing costs, and the need to develop debt markets provide support for this approach. Staff recommended that, over time, the appropriate mix between the various borrowing and investment options be guided by a systematic assessment of their relative costs and benefits, including that of maintaining liquid buffers as insurance against shocks. The macro-financial impact of these options should also be assessed carefully (Box 2 and accompanying Selected Issues Paper), taking into consideration the implications of building up debt and the impact of borrowing on domestic liquidity, credit, and central bank reserves. In this regard, coordination with the CBK will remain important. Staff encouraged the authorities to sustain their balanced approach to fiscal financing over the medium-term. The authorities agreed this would help mitigate potential negative macro-financial implications and support the development of domestic debt markets.

22. Staff and the authorities concurred that the debt issuance program would benefit from a further strengthening of the institutional and legal frameworks and increased transparency. The establishment of a high-level Debt Management Committee (DMC), backed by the creation of new debt-management unit (DMU), provides a strong basis for coordination across relevant government bodies. Further efforts are ongoing to clarify responsibilities and fully operationalize the DMU. Staff welcomed the authorities' intention to address legal hurdles that constrain the amounts and type of instruments that can be issued, including Sukuk, thereby helping broaden the investor base. It recommended putting in place a medium-term debt strategy and maintaining a debt ceiling to spur fiscal discipline. The authorities recognized that improved disclosure of the government's assets and liabilities, more comprehensive fiscal accounts, and improved timeliness of intra-year budgetary execution data would help strengthen investor confidence and reduce borrowing costs. Promoting a deep and liquid government debt market that facilitates private debt issuance is important to foster capital market and private sector development. Introducing regular market-based auctions, communicating transparently, and developing secondary markets—an agenda the authorities intend to tackle over time—would help in this regard.

Box 2. Budget Financing Options and Potential Macro-Financial Implications[1]

With a few exceptions, Kuwait has not had to borrow for decades, and its domestic debt markets have therefore remained underdeveloped. The country has recorded budget surpluses since the early 1980s, with the exception of first half of the 1990s.

With the emergence of budget deficits and financing needs since 2015/16, the government has had to reassess its financing strategy. The current plans entail a combination of (i) domestic and external borrowing; (ii) a drawdown of GRF assets; and (iii) continued mandatory transfers to the FGF to be invested in higher-yielding assets. The government has also taken initial steps to develop its debt management capacity by establishing a high level debt management committee, supported by a newly-created debt management unit (DMU).

Choosing the financing mix in the context of a comprehensive asset and liability management (ALM) framework is important. This entails basing decisions not only on the cost of borrowing versus return on assets, but also the financial characteristics of sovereign's assets and liabilities to limit potential mismatches and risks, including interest rate and exchange rate risks. The tradeoffs should also be viewed from a self-insurance perspective, where higher borrowing costs can be seen as an insurance premium against possible liquidity shocks. Increased formal coordination between the ministry of finance, the CBK, KIA, and other relevant agencies, and improvements in the timeliness of published fiscal accounts and the disclosure of government assets would help ensure effective asset and liability management.

Financing mix decisions should also be guided by a broader set of institutional, financial and macroeconomic considerations. These include macroeconomic conditions, absorptive capacity and degree of domestic financial market development, and institutional capacity, including of managing debt. The potential macro-financial consequences of the various financing options, for example on banks' liquidity, private sector credit, and central bank reserves should be carefully assessed. In this context, external borrowing would help mitigate pressures on domestic liquidity and support central bank reserves.[2] Establishing risk-free government yield curves through domestic and external borrowing would also help develop the private debt market.

Effective debt management and development of the debt market require sound institutional and legal frameworks. To this end, a formal debt management strategy with clear objectives and division of responsibilities among concerned agencies, operationalizing the DMU, developing cash management capacity, and moving towards a market-based auction system that allows for price discovery would be important. Other key steps include broadening the investor base (to include Islamic banks, investment companies, the pension fund and insurance companies), addressing legal constraints to government borrowing and sukuk issuance, and developing the secondary markets to facilitate the development of financial markets for corporates.

[1] See accompanying Selected Issues Paper "Budget Financing Options and Potential Macro-Financial Implications"

[2] Financing through drawing assets in the GRF or external borrowing would result in equivalent transfers of foreign exchange to the government's account at the CBK.

23. Staff shared the authorities' view that the peg to a basket remains appropriate for the Kuwaiti economy, as it provides an effective nominal anchor. The authorities are fully committed to the current exchange rate regime. The modest depreciation against the dollar since mid-2014 (7 percent) on account of having a basket rather than dollar peg has been helpful during a period of dollar strength. Staff's external sector assessment (Annex VI) suggests a moderate current account gap, the bulk of which would be closed by increasing fiscal savings as recommended over the medium term. Staff noted that over the longer term, as the economy diversifies, the benefits of greater exchange rate flexibility may increase.

B. Safeguarding financial stability

24. The CBK has been proactive in strengthening regulatory oversight and mitigating financial stability risks. Banks are under Basel III regulations for capital, liquidity, and leverage. Macro-prudential measures—to prevent excessive debt build up by households and limit banks' exposure to real estate and equities—are being enforced to minimize systemic risks. A new corporate governance framework has also recently been introduced. In light of the potential risks from a sustained further decline in oil prices, and given high loan concentrations, common exposures and interconnectedness of the financial system (Box 3), the CBK's enhanced surveillance is well positioned for early identification of financial stability risks. In particular, staff welcomed the ongoing initiatives to strengthen stress testing techniques, develop early warning indicators, step up efforts to monitor deposit trends, and identify emerging pressures in corporate and household balance sheets.

25. A number of steps would help further strengthen financial sector resilience. The authorities agreed that a formal framework for operationalizing macro-prudential measures would help maintain appropriate coverage of risks over time and the balance between preempting the buildup of excessive risks and alleviating possible liquidity shocks and pro-cyclicality in credit and asset markets. Reforms to strengthen the insolvency regime are ongoing in collaboration with the World Bank. Progress on this front, combined with judicial reforms to introduce commercial courts and expedite enforcement, would help minimize losses-given-default. While the CBK is well-equipped to deal with possible liquidity shortages,[11] there was recognition that developing a liquidity forecasting framework could also help anticipate potential system-wide pressures. The CBK offers a Shari'ah compliant Lender of Last Resort (LOLR) facility to Islamic banks. The development of a sovereign Sukuk market would nonetheless help increase the availability of high-quality liquid assets for banks. There was also agreement that sustaining efforts to streamline noncore bank activities where corporate structures are complex would facilitate risk identification and effective supervision.

[11] Banks are required to comply with five liquidity indicators: the liquidity coverage ratio, a loan-to-deposit ratio (LTD), limits on maturity mismatches, a regulatory liquidity ratio and a net stable funding ratio.

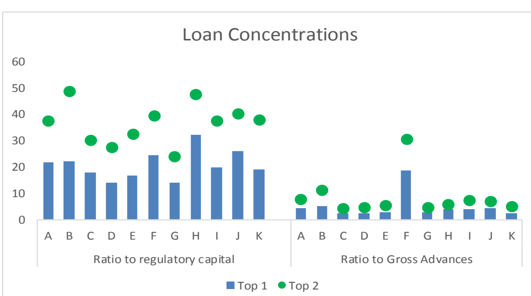
Box 3. Low Oil Prices, Macro-Financial Linkages and Banking System Resilience[1]

Kuwait's financial sector performance has traditionally been interwoven with the oil price cycle. Given the country's high dependence on hydrocarbons and a business model for banks that revolves around the domestic economy—as they obtain over 90 percent of their funding, and hold 80 percent of assets, domestically—deposit and asset growth, as well as asset quality, have been highly correlated with oil prices. The key channel of transmission has been government expenditure, which has been a main driver of nonoil activity, and has in the past moved in tandem with oil price fluctuations. Price fluctuations can also impact banks through asset prices—particularly equities and real estate—and regional spillovers.

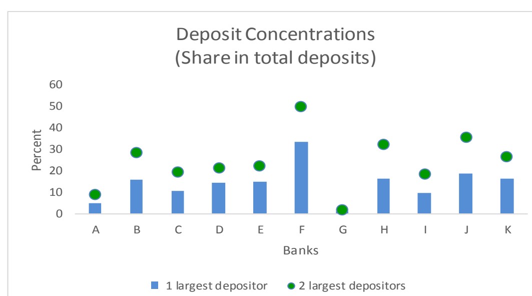
In recent years, prudent macroeconomic and financial sector policies have reduced the vulnerability of the banking system to oil price shocks. Large accumulated financial buffers have provided the policy space to avoid abrupt spending cuts and increase growth-enhancing capital expenditures. An increase in public sector entities deposits has supported liquidity in the banking system, and the authorities have been careful in ensuring that domestic financing of the government deficit does not crowd out the private sector. As a result, the lower oil prices have had a limited impact on nonoil GDP growth and bank asset quality, and banks have remained profitable and liquid. Strong supervision has also contributed to banks maintaining large capital buffers and provisions.

Kuwait is, nevertheless, not immune to a protracted period of low oil prices. Reform set-backs, a slow DP implementation or a further sustained drop in oil prices, if they result in lower growth, can set in motion adverse macro-financial dynamics. Previous staff analysis found that nonoil GDP, real estate prices and equity prices drive nonperforming loans.[2] Staff's sensitivity analyses show that the banking system is on aggregate resilient, but under severe stress scenarios, a few banks may require additional capital. Loan concentrations to single borrowers present the biggest risk for banks while sectoral concentrations, particularly to real estate are a risk for selected banks. The banking system also exhibits significant deposit concentrations, although liquidity risk is mitigated by the large public ownership of the deposits and the demonstrated willingness to support banking system liquidity.

Kuwait banks exhibit significant concentrations in loan portfolios to single borrowers



Deposits exhibit even greater concentration, largely to government related entities



Source: CBK, Bloomberg, IEA

Continued enhanced surveillance and ongoing efforts to close regulatory gaps are therefore key to safeguarding financial stability. Enhanced surveillance is critical for the timely identification of risks and timely policy response. Ongoing efforts to close regulatory gaps related to the insolvency regime and crisis management will help minimize losses in the event that defaults materialize.

[1] See accompanying Selected Issues Paper "Macro-financial linkages and resilience of the financial sector".

[2] See "The resilience of the banking system to macroeconomic shocks in Kuwait" in IMF Country Report No. 15/328".

26. Strengthening the crisis management framework would promote orderly resolution of banks in the event of stress and safeguard fiscal resources. A special resolution regime for banks has not yet been put in place. A blanket guarantee covers all banking system deposits. Staff recommended that consideration be given to establishing frameworks that allow for least-cost and effective resolution in the event of stress in the banking system. Formalizing arrangements between key regulatory institutions would also help improve crisis preparedness. The authorities have started preparatory work on a bank resolution framework, and IMF technical assistance in these areas is planned in the next few months.

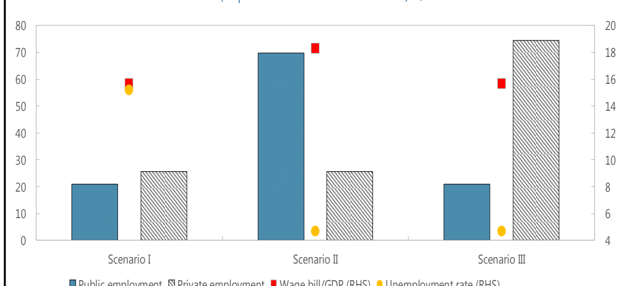
27. Kuwaiti banks have not faced withdrawal of correspondent banking relationships. However, to avoid the perception of risk that could prompt global banks to cut relations with them, several domestic banks have preemptively severed links with some domestic charities and foreign exchange houses. The CBK has been actively participating in international forums aimed at clarifying home supervisor requirements and maintaining open channels of communication between domestic and foreign banks and regulators.

28. Efforts to implement and further strengthen the AML/CFT and anticorruption frameworks are ongoing. Consistent with the revised FATF standard, regulators are placing greater emphasis on risk-based AML/CFT inspections. The results of the ongoing ML/TF national risk assessment (NRA), conducted with assistance from the World Bank, will inform the development of a strategic plan for Kuwait. Following revocation of the 2012 decree setting up the Anti-Corruption Agency (ACA) for procedural reasons, a new law was adopted in January 2016, keeping the mandate, powers and organizational structure of the ACA broadly unchanged. Given recent adoption of related bylaws, the new framework is now fully applicable.

C. Private sector-led growth and economic diversification

29. In a more constrained budgetary environment, creating jobs for the growing young national population requires headway toward boosting private sector development and diversification. Under current trends, less than one fourth of new nationals entering the labor market over the next 5 years would find jobs in the private sector, which would imply a continued trade-off between absorbing the remaining in the public sector—and allowing the wage bill to rise—or letting unemployment increase. Breaking this trend requires switching the engines of growth from the public to the private sector, encouraging investment away from capital-intensive extractive industries, and fostering private sector hiring of nationals.

Kuwait: Labor Market absorption of nationals under different scenarios
(in percent of total new entrants) 1/



Source: IMF staff estimates

1/ The chart illustrates the challenge of employing 123 thousand expected new Kuwaiti entrants to the labor force by 2020. 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 Secnario II, government absorbs most of the new entrants to keep unemployment low at the expense of higher wage bill; and in Scenario III, government undertakes structural reforms to boost higher private sector absorption of new entrants.

30. Addressing labor market inefficiencies is critical to bolster private sector employment of nationals. Labor market and civil service reforms should aim at improving incentives for nationals to take up jobs in the private sector, including by managing expectations about the limited future availability of public sector jobs. Sustaining the recent efforts to streamline public sector wages and benefits would also contribute to making the private sector more attractive and encourage the hiring of nationals by private-sector firms. The authorities agreed that boosting the private sector demand for nationals' labor would also require further progress toward fostering an education system that reduces skill mismatches.

31. Staff welcomed the focus of the government's six-pillar reform plan on privatization and public and private partnerships. Building on stronger legal and institutional frameworks, the government aims at greater use of these options to enhance the role of the private sector in the economy and upgrade infrastructure. While the privatization program is still in its early stages, several Build-Operate-Transfer projects are in the pipeline. Continued progress toward establishing clear timetables, advancing preparatory work to strengthen underlying assets, and promoting a transparent environment that fosters competition and reduces hidden costs and contingent liabilities for the government will help stimulate private sector investment and boost productivity.

32. Further improving the business environment is important to foster diversification. Recent efforts include the opening of the Kuwait Business Center, a one-stop window that will help streamline registration and licensing procedures, and steps toward digitalizing administrative procedures. Given the central role SMEs can play in economic diversification and job creation, a similar initiative is planned for SMEs. Staff emphasized the need to sustain reforms to facilitate access to land and finance, reduce the burden of administrative procedures and excessive regulations, and foster competition.[12] It welcomed the authorities' intention to improve the functioning of the National Fund for SMEs development to free up resources for small businesses and suggested consideration be given to reviewing the hurdles to SMEs' access to finance, including the potential impact of the cap on banks' lending interest rate spreads.

D. Statistical issues

33. The authorities are making efforts to further improve Kuwait's statistical system. Staff welcomed the authorities' willingness to work with IMF staff to continue to improve annual national accounts, and encouraged them to advance ongoing initiatives to produce quarterly national accounts and to establish a more recent base for the consumer price index.

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34. Kuwait is well positioned to mitigate the impact of lower oil prices on the economy. The fiscal and external positions have deteriorated significantly and nonhydrocarbon growth has moderated—from 5 percent in 2014 to about 3¼ percent this year—as a result of the drop in oil prices. However, large financial buffers and low debt provide policy space to implement the

[12] See "Enhancing Kuwait's growth prospects in a low oil price environment" in accompanying Selected Issues Paper.

necessary fiscal consolidation gradually while increasing public investment to support growth. Against this backdrop, the fiscal and external positions are projected to improve as adjustment proceeds and oil prices recover somewhat, and nonoil growth is projected to regain momentum to about 4 percent over the medium term supported by a continued improvement in project implementation under the five-year Development Plan. The main risk to the outlook stems from a further sustained decline in oil prices. Slow project implementation, more volatile global financial conditions and spillovers from heightened regional security risks could also affect economic prospects.

35. Nonetheless, "lower-for-longer" oil prices call for steadfast implementation of reforms. The government's six-pillar reform strategy is rightly focused on reforming public finances and promoting a greater role for the private sector in generating growth and jobs for nationals. Efforts to streamline current spending, including the recent gasoline and utility price reforms, and measures to facilitate business licensing are steps in the right direction. Maintaining consensus in favor of economic transformation and sustaining the reform momentum is paramount for the success of the strategy.

36. Fiscal reforms should focus on addressing underlying fiscal vulnerabilities and be designed so as to minimize any dampening impact on growth. Gradual removal of fuel and electricity subsidies and control of the wage bill through a well-designed reform that avoids significant upfront costs would help reduce budget rigidities, while the introduction of the VAT and business profit tax and the repricing of government services would go a long way in diversifying revenue away from oil. These fiscal reforms should be designed and sequenced with a view to striking a balance between generating fiscal savings in line with intergenerational equity levels and mitigating the drawbacks of fiscal consolidation on economic activity. A comprehensive medium-term fiscal framework based on a top-down approach and articulated around clearly-specified medium-term fiscal objectives would help guide the consolidation plans and reduce implementation risks.

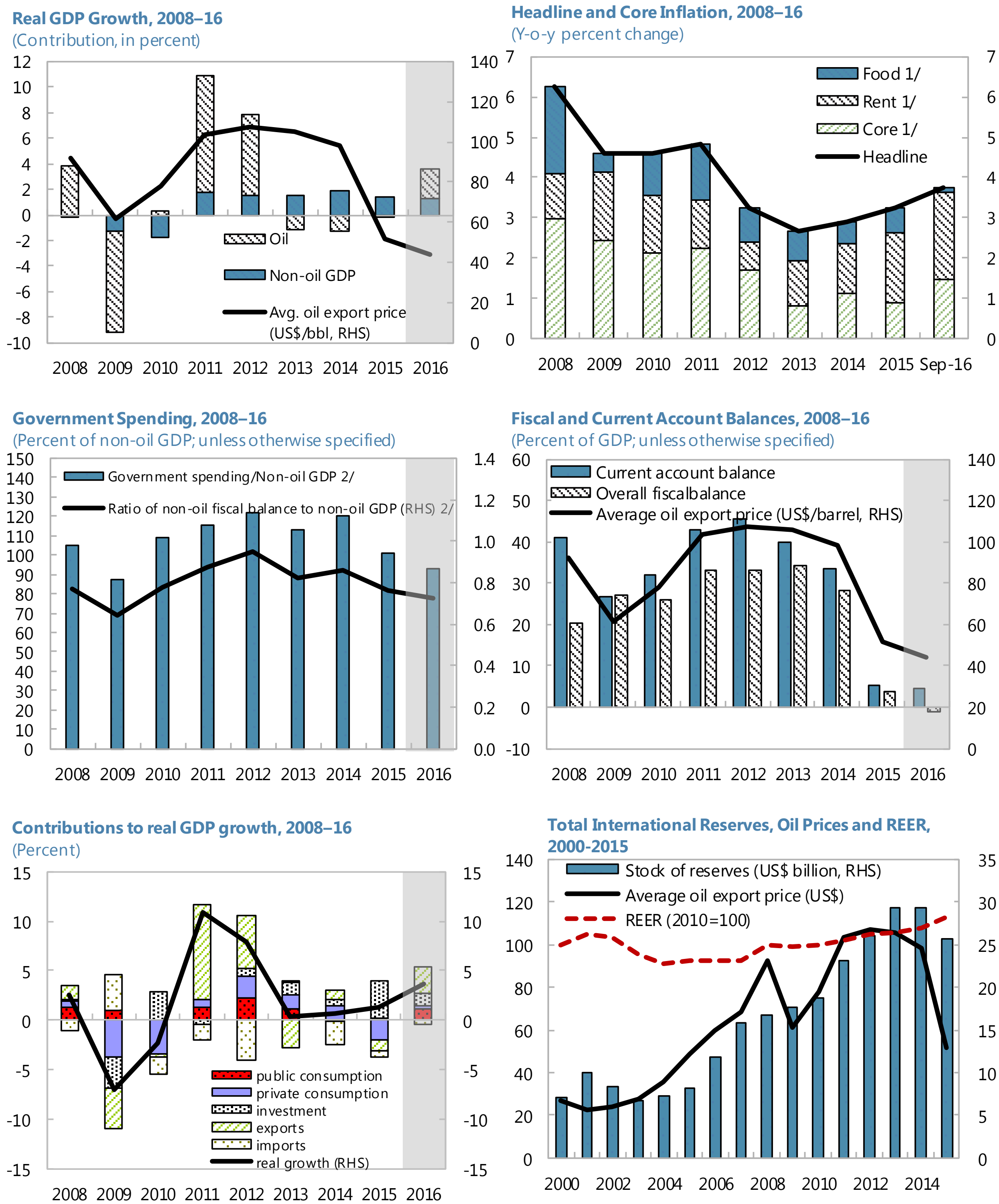
37. Fiscal financing options should be assessed within a comprehensive asset/liability management framework with due consideration to macro-financial linkages. Consistent with the government's current approach, a balanced financing mix that combines continued drawdown of assets in the GRF, measured amounts of domestic bond issuance and some external borrowing would mitigate potential crowding out of private sector credit while maintaining a high level of liquid buffers. Continued progress toward strengthening the institutional and legal frameworks, including to support a more comprehensive and longer-term view on asset and liability management, improving debt issuance processes, and fostering increased transparency would ensure effective debt management and support the development of domestic fixed income markets.

38. Steps can be taken to further strengthen financial sector resilience. In light of the potential risks from a sustained further decline in oil prices and given the financial sector risks inherent to a largely undiversified economy, the CBK initiatives to enhance financial sector surveillance are welcome. A formal framework for operationalizing macro-prudential measures, reforms to facilitate debt recovery, developing a liquidity forecasting framework, and strengthening the crisis management framework, including by introducing a special resolution regime for banks and a deposit insurance mechanism, would help further enhance financial sector resilience and ensure orderly resolution of banks in the event of stress.

39. The peg to an undisclosed basket of currencies is appropriate and can be further underpinned by fiscal adjustment. The peg has provided an effective nominal anchor. A moderate current account gap can be largely closed by increasing fiscal savings as recommended over the medium term.

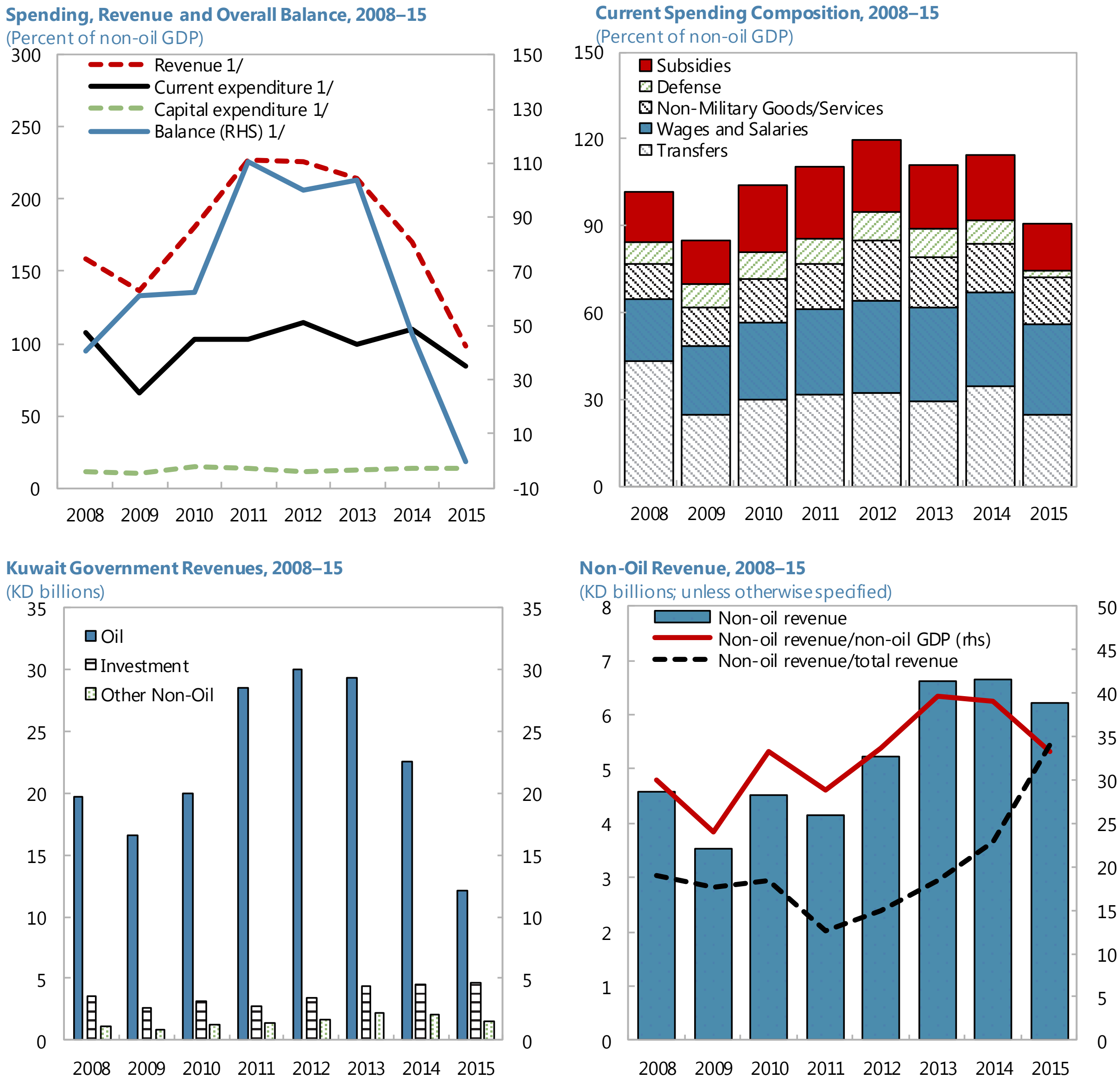
40. Labor market reforms and efforts to promote the role of the private sector are important to foster diversification and boost job creation for nationals. Better aligning labor market incentives is necessary to encourage nationals to take on private sector jobs and private firms to create opportunities for them. Greater use of privatization and partnerships with the private sector will help boost productivity, private sector investment and job creation for nationals. Relying on stronger legal and institutional frameworks that foster competition and reduce hidden costs and contingent liabilities for the government is important for the success of this strategy. This should be combined with further steps to improve the business environment, including reforms to facilitate access to land and finance, reduce the burden of administrative procedures and excessive regulations, foster competition, and facilitate SMEs' access to finance

Figure 1. Recent Macroeconomic Developments



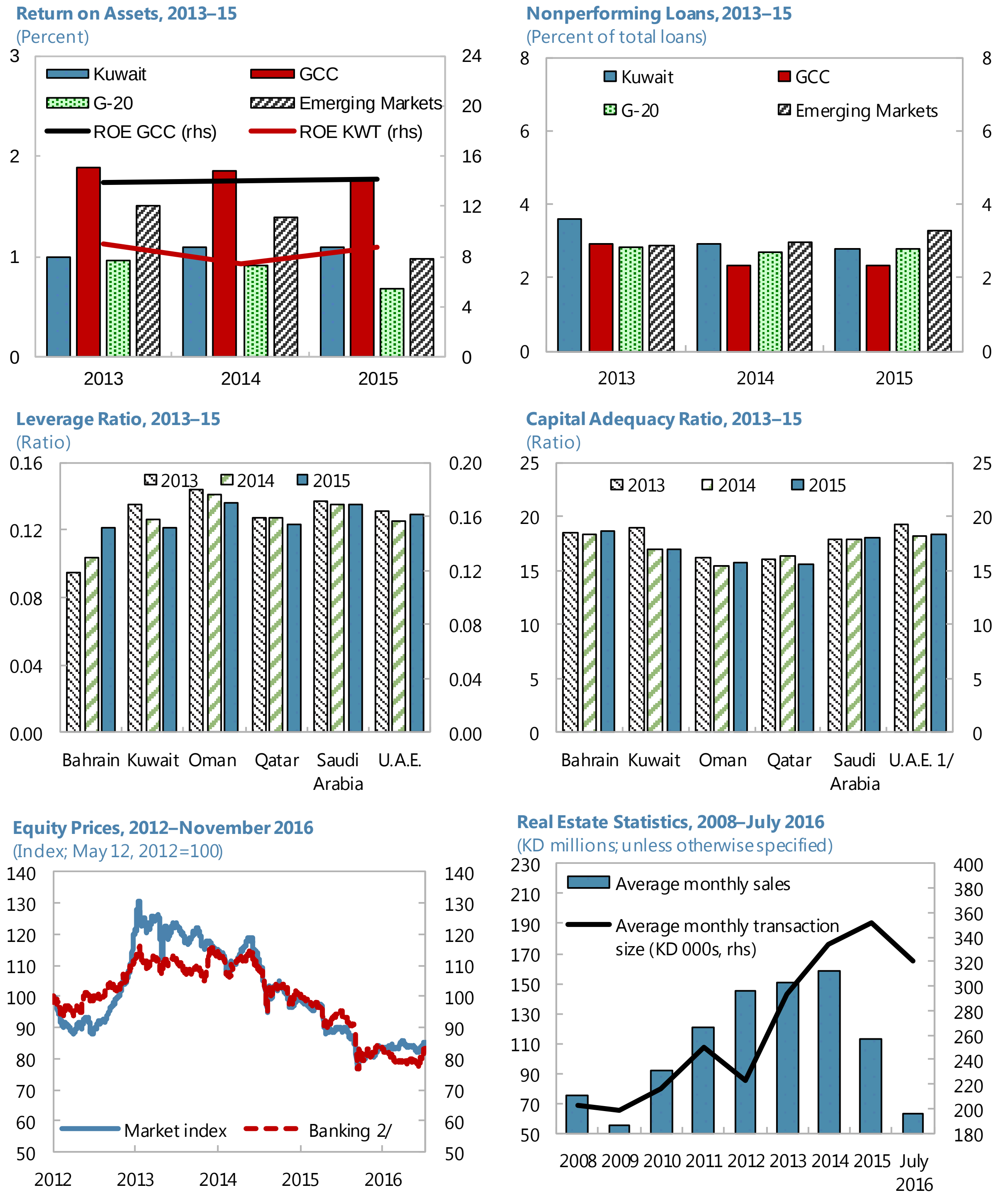
Sources: Country authorities; EDSS; Haver; and IMF staff calculations.
1/ Contribution to headline CPI inflation.
2/ Using calendar year.

Figure 2. Fiscal Developments



Sources: Country authorities; and IMF staff calculations.
1/ Using calendar year for non-oil GDP, while using fiscal year for revenue, current expenditure, capital expenditure, and the balance.

Figure 3. Financial Developments



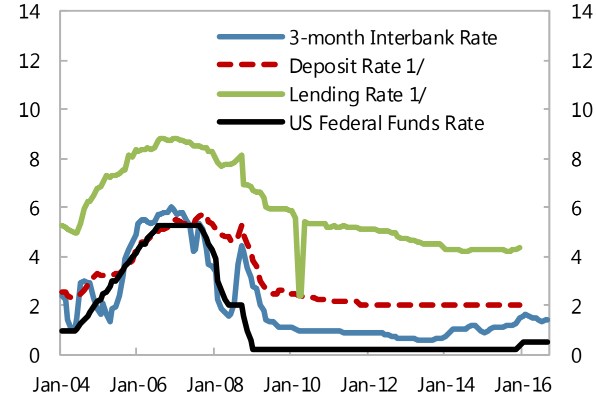
Sources: Country authorities; Kuwait Stock Exchange; NBK reports; and IMF staff estimates.

1/ Local banks only.

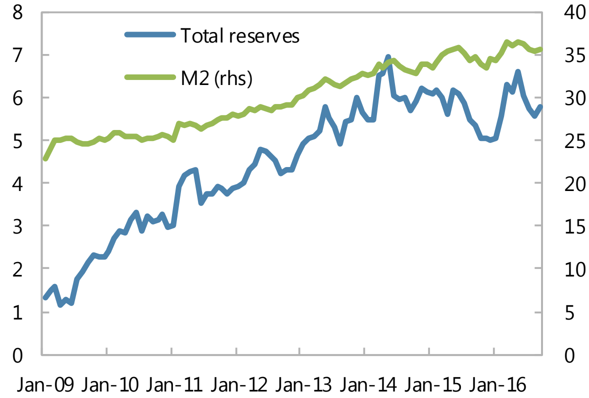
2/ Previous sectoral index has been discontinued and the new index starts from May 12, 2012.

Figure 4. Monetary Developments

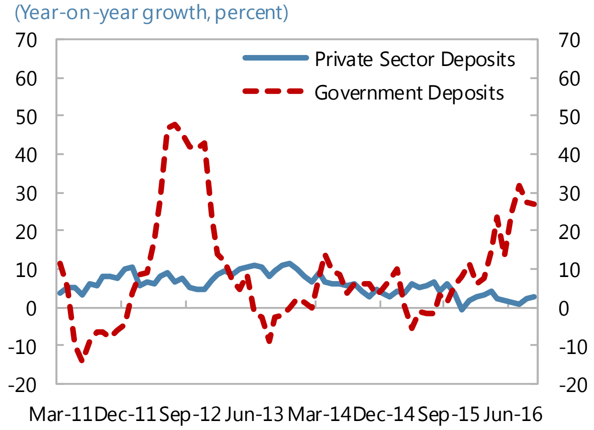
Interest Rates, 2004–Sep 2016
(Percent)



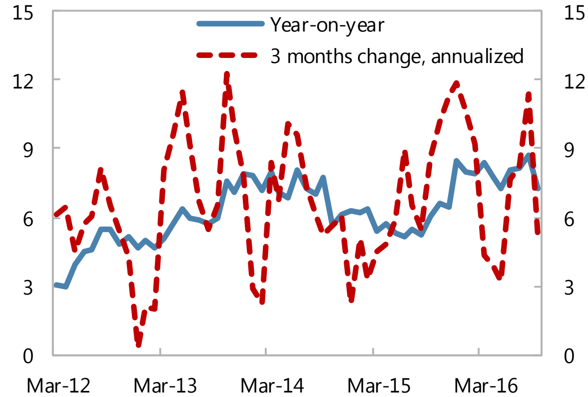
Total Bank Reserves, 2009–Sep 2016
(KD billions)



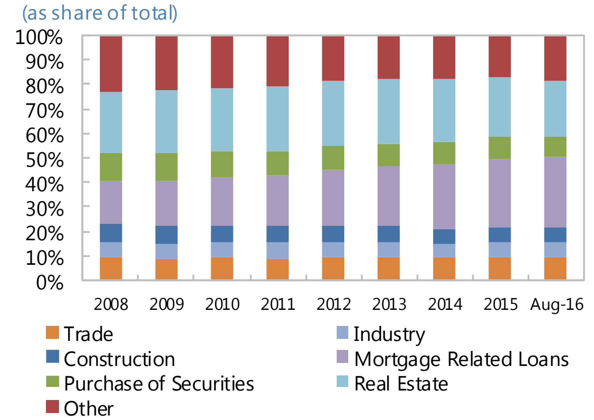
Deposits with Local Banks, 2011–Sep 2016
(Year-on-year growth, percent)



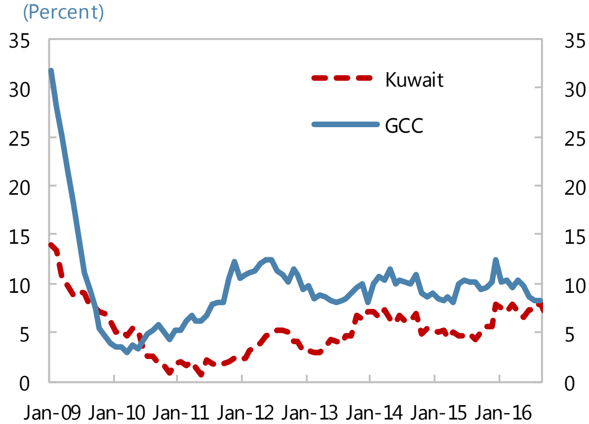
Total Bank Credit to Private Sector, 2012–Sep 2016
(Percent)



Utilized Cash Credit Facilities, 2008-Aug 2016
(as share of total)



Private Sector Credit Growth, 2009-Aug 2016
(Percent)



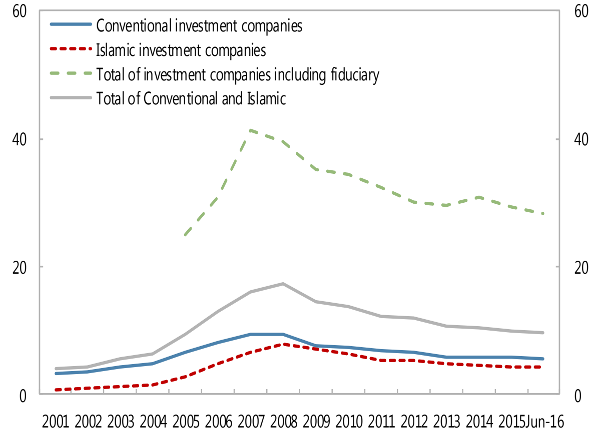
Sources: Country authorities; EDSS; Haver; and IMF staff calculations.
1/ Weighted average. Data only available up to December 2015.

Figure 5. Investment Companies Operations

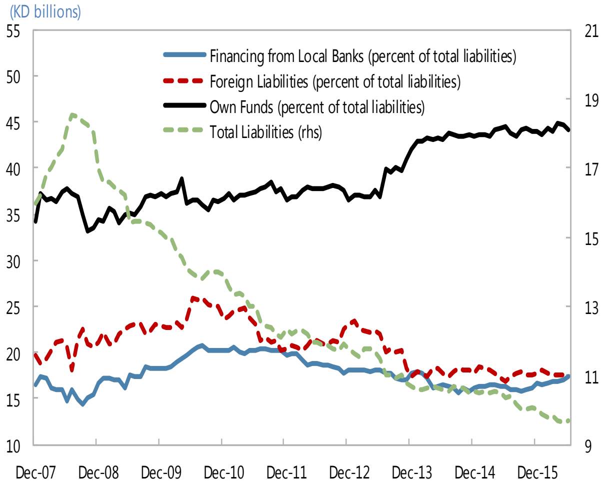
Investment Companies' Operations, 2002–2016
(KD billions)

	2002	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	June 2016
Investment companies												
Conventional												
Number	27	33	40	46	46	46	44	43	42	40	38	36
Assets	3.5	6.7	9.4	9.5	7.6	7.3	6.9	6.6	5.9	5.8	5.7	5.4
Islamic												
Number	11	23	38	53	54	54	51	50	50	49	47	45
Assets	0.9	2.8	6.6	7.8	7.0	6.5	5.4	5.2	4.8	4.7	4.3	4.3
Conventional + Islamic												
Number	38	56	78	99	100	100	95	93	92	89	85	81
Assets	4.3	9.4	16.0	17.3	14.6	13.7	12.3	11.9	10.7	10.5	10.0	9.7
Off-balance sheet												
Assets		15.5	25.4	22.2	20.4	20.6	20.1	18.1	18.9	20.2	19.2	18.6
Total Assets	4.3	25.0	41.4	39.5	35.0	34.3	32.4	30.0	29.6	30.8	29.2	28.2
Percent of GDP		105.8	127.0	99.7	114.9	103.7	76.0	61.6	59.9	66.4	85.1	84.5
Percent of banking assets		115.6	116.4	100.7	86.9	82.9	76.6	64.7	58.9	56.0	50.7	47.2

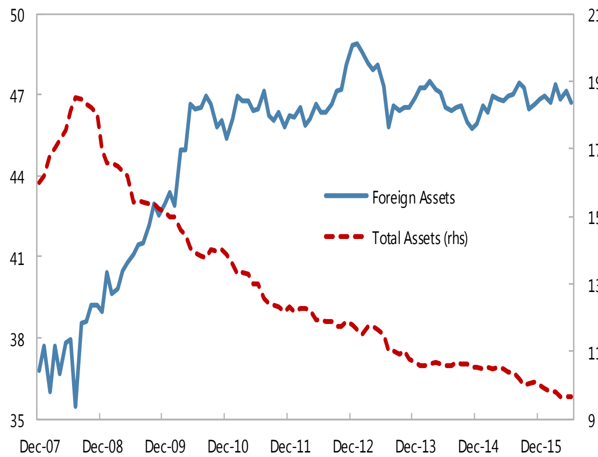
Assets, 2001–June 2016
(KD billions)



Foreign Liabilities, 2007–June 2016
(KD billions)

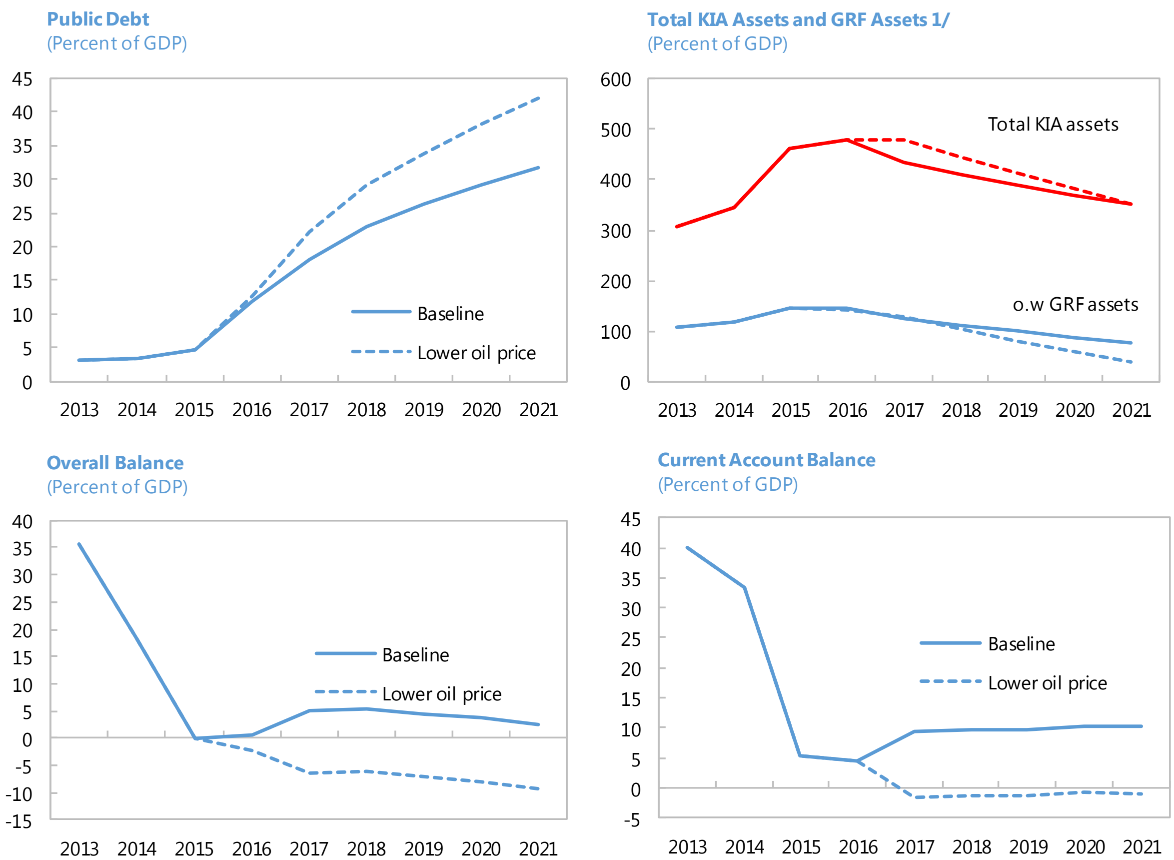


Foreign Assets, 2007–June 2016
(KD billions)



Sources: Country authorities; and IMF staff calculations.

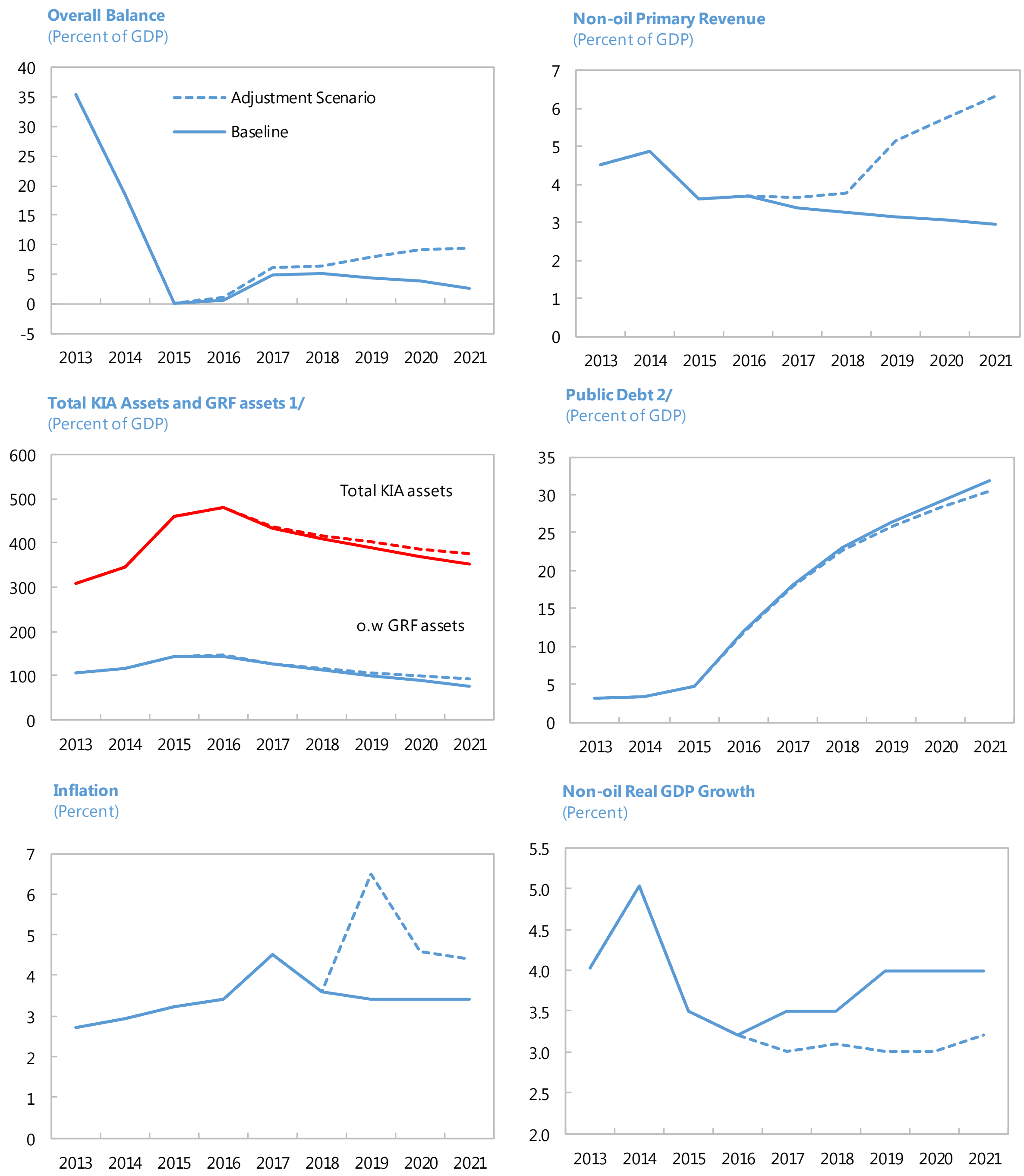
Figure 6. Fiscal and Current Account Position Under Different Scenarios



Sources: IMF staff calculations.

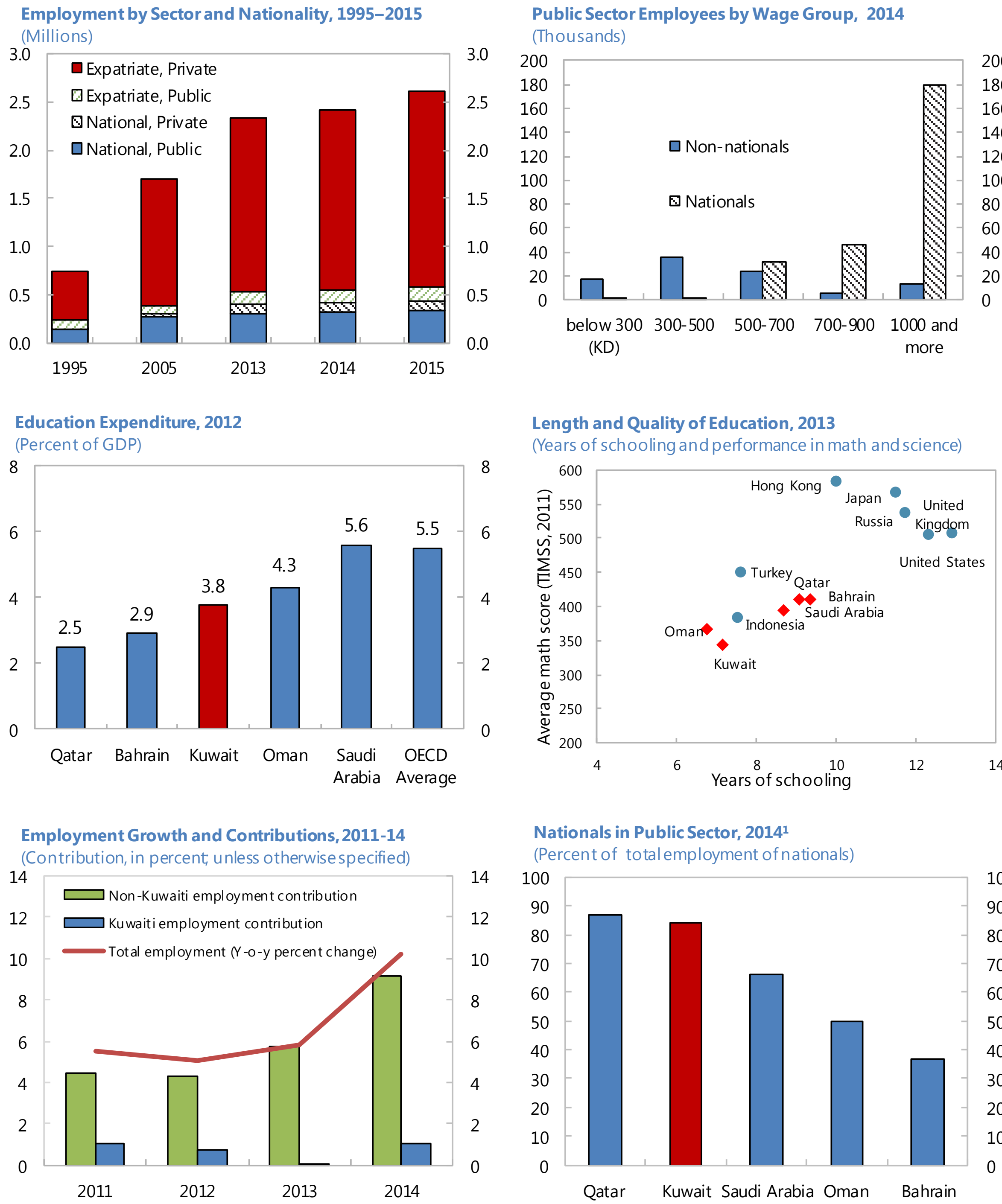
1/ KIA and GRF assets are staff esitmates and projections.

Figure 7. Economic Outcomes under Baseline and Adjustment Scenarios



Sources: IMF staff calculations.
1/ KIA and GRF assets are staff estimates and projections.
2/ Debt financing under baseline and adjustment scenarios are assumed to be the same.

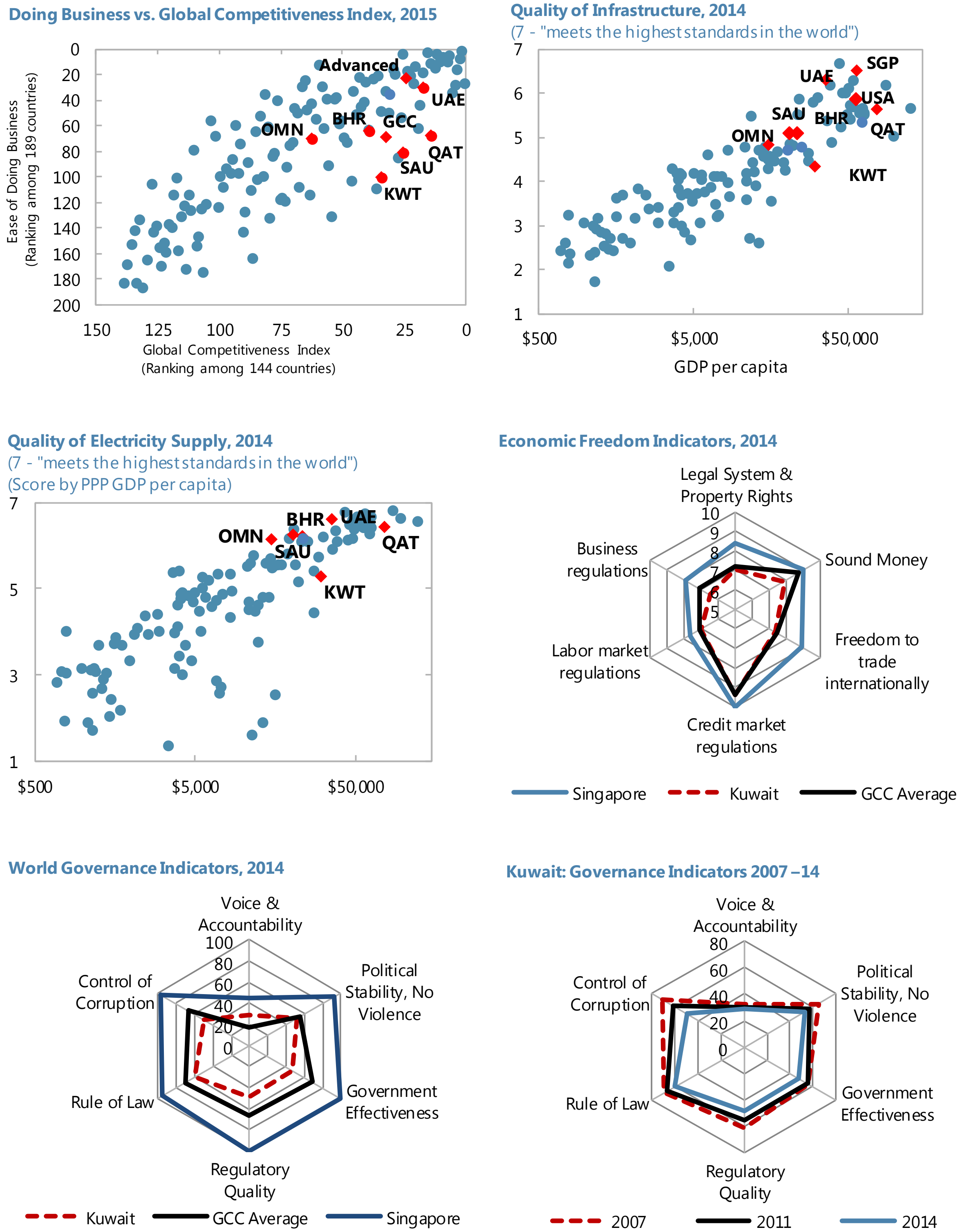
Figure 8. Labor Market Indicators



Sources: Country authorities; UNDP; and IMF staff calculations.

[1] Data compiled from The Public Authority For Civil Information: Statistical Designer, forthcoming IMF working paper; and Kuwait's Labour Force Survey, 2014.

Figure 9. Institutions and Governance



Sources: World Bank: *World Governance Indicators*; Fraser Institute: *Economic Freedom in the World*; UNDP: Human Development Index, TIMSS.

Table 1. Selected Economic Indicators, 2013–21

	2013	2014	Est. 2015	Proj. 2016	2017	2018	2019	2020	2021
Oil and gas sector									
Total oil and gas exports (billions of U.S. dollars)	108.6	97.6	48.8	45.0	54.0	57.8	60.4	63.7	66.5
Average oil export price (U.S. dollars/barrel)	105.4	98.0	51.9	44.0	51.9	54.4	55.9	57.8	59.3
Crude oil production (millions of barrels/day)	2.93	2.87	2.86	2.97	3.03	3.09	3.15	3.22	3.28
	(Annual percentage change, unless otherwise indicated)								
National accounts and prices									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	49.4	46.3	34.3	33.8	38.2	41.1	43.9	47.1	50.4
Nominal GDP (market prices, in billions of U.S. dollars)	174.2	162.7	114.1	111.3	125.8	135.3	144.6	155.2	166.0
Real GDP [1]	0.4	0.6	1.2	3.6	2.6	2.6	2.8	2.8	2.9
Real oil GDP	-1.8	-2.1	-0.3	3.9	2.0	2.0	2.0	2.0	2.0
Real non-oil GDP	4.0	5.0	3.5	3.2	3.5	3.5	4.0	4.0	4.0
CPI inflation (average)	2.7	2.9	3.2	3.4	4.5	3.6	3.4	3.4	3.4
Unemployment rate (Kuwaiti nationals)	4.7	5.0	4.7	…	…	…	…	…	…
	(Percent of GDP at market prices)								
Budgetary operations [2]									
Revenue	73.8	67.3	52.6	54.3	55.9	55.1	54.0	53.0	51.3
Oil	60.3	52.0	35.3	36.7	39.2	39.1	38.6	38.0	37.1
Non-oil, *of which:*	13.6	15.4	17.2	17.6	16.7	15.9	15.4	14.9	14.2
Investment income	9.0	10.5	13.6	13.9	13.3	12.7	12.3	11.9	11.3
Expenditures	38.3	48.8	52.6	53.7	51.0	49.9	49.5	49.1	48.8
Expense	34.1	43.4	44.9	45.6	43.1	42.0	41.5	40.9	40.4
Capital	4.1	5.5	7.6	8.1	7.8	7.9	8.1	8.2	8.4
Balance	35.6	18.5	0.0	0.7	4.9	5.2	4.5	3.8	2.5
Balance (after transfer to FGF and excl. inv. income)	20.0	2.4	-17.5	-17.3	-12.6	-11.7	-12.0	-12.1	-12.8
Non-oil balance (percent of non-oil GDP) [3]	-91.2	-102.8	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2
Excluding oil-related subsidies and benefits (percent of non-oil GDP)	-70.7	-81.4	-77.5	-76.5	-76.0	-74.8	-73.3	-71.9	-70.5
Total gross debt (calendar year-end) [4]	3.1	3.4	4.7	12.0	18.2	23.0	26.3	29.1	31.8
	(Percent change; unless otherwise indicated)								
Money and credit									
Net foreign assets [5]	11.4	3.6	-2.1	8.1	0.6	0.4	0.6	1.6	0.8
Claims on nongovernment sector	7.2	5.2	7.6	7.1	8.1	8.0	8.5	8.7	8.7
Kuwaiti dinar 3-month deposit rate (year average; in percent) [6]	0.8	0.8	0.8	1.1	…	…	…	…	…
Stock market unweighted index (annual percent change) [6]	27.2	-13.4	-14.1	-3.8	…	…	…	…	…
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods	115.8	104.5	55.3	51.9	61.4	65.6	68.8	72.6	75.9
Of which: non-oil exports	7.2	7.0	6.5	6.9	7.4	7.9	8.4	8.9	9.4
Annual percentage change	6.6	-2.8	-6.5	5.8	7.0	6.6	6.2	6.1	6.1
Imports of goods	-25.6	-27.0	-27.3	-26.9	-28.3	-29.5	-30.9	-32.5	-33.9
Current account	69.5	54.4	6.0	5.0	11.7	13.2	14.1	16.0	17.0
Percent of GDP	39.9	33.4	5.2	4.5	9.3	9.8	9.8	10.3	10.2
International reserve assets [7]	32.2	32.3	28.3	31.5	33.4	34.9	36.7	38.9	40.8
In months of imports of goods and services	7.5	7.4	6.5	6.9	7.0	7.0	7.1	7.2	7.3
Memorandum items [6]:									
Exchange rate (U.S. dollar per KD, period average)	3.53	3.52	3.32	3.32	…	…	…	…	
Nominal effective exchange rate (Percentage change)	1.0	1.4	3.1	0.9	…	…	…	…	
Real effective exchange rate (Percentage change)	0.8	1.9	4.8	3.2	…	…	…	…	
Sovereign rating (S&P)	AA	AA	AA	AA	…	…	…	…	

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

[1] Calculated on the basis of real oil and non-oil GDP at factor cost. Staff estimates for 2015.

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

[3] Excludes investment income and pension fund recapitalization.

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

[5] Excludes SDRs and IMF reserve position.

[6] For 2016, data is latest available.

[7] Does not include external assets held by Kuwait Investment Authority.

Table 2. Summary of Government Finance, 2013/14–2021/22

			Est.	Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				(Billions of Kuwaiti Dinars)					
Revenue (includes grants) (A)	**35.9**	**29.2**	**18.0**	**19.0**	**21.8**	**23.0**	**24.1**	**25.4**	**26.3**
Taxes	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Other revenue	35.5	28.7	17.5	18.5	21.3	22.5	23.6	24.8	25.7
Oil and gas	29.3	22.5	12.1	12.8	15.3	16.4	17.2	18.2	19.0
Investment income and transfer of profits of public entities [1]	4.4	4.5	4.6	4.9	5.2	5.3	5.5	5.7	5.8
Other [2]	1.8	1.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Total expenditure (B=C+D)	**18.6**	**21.1**	**18.0**	**18.7**	**19.8**	**20.8**	**22.1**	**23.5**	**25.0**
Expense (C)	16.6	18.8	15.4	15.9	16.8	17.5	18.5	19.6	20.7
Compensation of employees	5.4	5.7	5.8	6.2	6.6	6.9	7.3	7.7	8.1
Purchases/use of goods & services	2.7	2.9	3.1	3.2	3.5	3.7	4.0	4.4	4.7
Interest	0.0	0.0	0.0	0.1	0.3	0.3	0.4	0.5	0.6
Subsidies and social benefits	6.8	7.6	4.8	4.7	4.7	4.7	4.9	5.1	5.3
Subsidies	2.8	2.4	1.7	1.6	1.6	1.5	1.6	1.7	1.7
Social benefits	4.0	5.2	3.1	3.1	3.1	3.2	3.3	3.5	3.6
Payments to social security fund	2.8	3.1	1.9	2.0	2.0	2.1	2.2	2.2	2.3
Transfers to social security fund	1.7	2.0	1.9	2.0	2.0	2.1	2.2	2.2	2.3
Fund recapitalization	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	1.2	2.1	1.2	1.1	1.1	1.1	1.2	1.2	1.3
Oil-related	0.6	1.3	0.4	0.3	0.2	0.2	0.3	0.3	0.3
Others	0.6	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0
Expense not elsewhere classified	1.6	2.5	1.7	1.7	1.8	1.8	1.9	1.9	2.0
Net acquisition of nonfinancial assets (D)	2.0	2.4	2.6	2.8	3.0	3.3	3.6	3.9	4.3
Gross operating balance [=A-C]	**19.3**	**10.4**	**2.6**	**3.1**	**5.0**	**5.5**	**5.6**	**5.8**	**5.6**
Net lending / borrowing [=A-B]	**17.3**	**8.0**	**0.0**	**0.2**	**1.9**	**2.2**	**2.0**	**1.8**	**1.3**
Overall excluding 10 % trasfer and Inv. Income	9.7	1.0	-6.0	-6.0	-4.9	-4.9	-5.4	-5.8	-6.5
Non-oil balance	-12.0	-14.5	-12.1	-12.6	-13.3	-14.2	-15.2	-16.4	-17.7
excluding investment income	-16.4	-19.0	-16.7	-17.4	-18.5	-19.5	-20.7	-22.1	-23.5
excluding recapitalization of pension	-15.3	-17.9	-16.7	-17.4	-18.5	-19.5	-20.7	-22.1	-23.5
excluding oil-related subsidies and benefits	-11.9	-14.2	-14.7	-15.6	-16.7	-17.8	-18.9	-20.1	-21.5
Financing	**-9.7**	**-1.0**	**6.0**	**6.0**	**4.9**	**4.9**	**5.4**	**5.8**	**6.5**
Domestic	-0.3	-0.3	-0.3	2.4	1.0	1.0	1.1	1.2	1.4
Banks	-0.3	-0.3	-0.3	2.0	0.7	0.7	0.8	0.9	1.0
Non-banks	0.0	0.0	0.0	0.4	0.3	0.3	0.3	0.3	0.4
External	**-9.4**	**-0.7**	**6.3**	**3.7**	**3.9**	**3.9**	**4.2**	**4.6**	**5.2**
External bonds	0.0	0.0	0.0	1.8	1.5	1.0	1.0	1.0	1.0
Reserve funds	-9.4	-0.7	6.3	1.9	2.4	2.9	3.2	3.6	4.2

Table 2. Summary of Government Finance, 2013/14–2021/22 (concluded)

			Est.	Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				(Percent of GDP)					
Revenue (includes grants)	**73.8**	**67.3**	**52.6**	**54.3**	**55.9**	**55.1**	**54.0**	**53.0**	**51.3**
Taxes	0.8	1.0	1.4	1.4	1.3	1.3	1.2	1.2	1.2
Other revenue	73.0	66.4	51.2	52.9	54.6	53.8	52.8	51.8	50.1
Oil and gas	60.3	52.0	35.3	36.7	39.2	39.1	38.6	38.0	37.1
Investment income and transfer of profits of public entities	9.0	10.5	13.6	13.9	13.3	12.7	12.3	11.9	11.3
Other	3.7	3.9	2.2	2.3	2.1	2.0	1.9	1.9	1.8
Total expenditure	**38.3**	**48.8**	**52.6**	**53.7**	**51.0**	**49.9**	**49.5**	**49.1**	**48.8**
Expense	34.1	43.4	44.9	45.6	43.1	42.0	41.5	40.9	40.4
Compensation of employees	11.2	13.2	17.1	17.7	16.8	16.6	16.3	16.0	15.8
Purchases/use of goods & services	5.5	6.7	8.9	9.3	9.0	9.0	9.0	9.1	9.2
Interest	0.1	0.1	0.1	0.4	0.7	0.8	0.9	1.0	1.1
Subsidies and social benefits	14.0	17.6	14.0	13.4	12.1	11.3	11.0	10.7	10.4
Subsidies	5.8	5.7	4.9	4.6	4.1	3.5	3.5	3.5	3.4
Social benefits	8.2	11.9	9.0	8.8	8.0	7.7	7.5	7.2	7.0
Payments to Social Security Fund	5.8	7.1	5.6	5.7	5.2	5.0	4.8	4.6	4.5
Transfers to Social Security Fund	3.6	4.6	5.6	5.7	5.2	5.0	4.8	4.6	4.5
Fund recapitalization	2.2	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	2.4	4.8	3.4	3.1	2.8	2.7	2.6	2.6	2.5
Oil-related	1.3	3.0	1.1	0.8	0.6	0.6	0.6	0.6	0.6
Others	1.1	1.8	2.3	2.4	2.2	2.1	2.1	2.0	1.9
Expense not elsewhere classified	3.3	5.9	4.8	4.9	4.5	4.3	4.2	4.0	3.9
Net acquisition of nonfinancial assets	4.1	5.5	7.6	8.1	7.8	7.9	8.1	8.2	8.4
Gross operating balance	39.7	24.0	7.6	8.7	12.8	13.1	12.5	12.1	10.9
Net lending / borrowing	35.5	18.5	0.0	0.7	5.0	5.2	4.5	3.8	2.5
Overall excluding 10 % trasfer and Inv. Income	20.0	2.4	-17.5	-17.3	-12.6	-11.7	-12.0	-12.1	-12.8
Non-oil balance	-24.7	-33.5	-35.3	-36.0	-34.3	-33.9	-34.1	-34.2	-34.5
excluding investment income	-33.8	-43.9	-48.9	-50.0	-47.6	-46.6	-46.4	-46.1	-45.8
excluding recapitalization of pension	-31.5	-41.4	-48.9	-50.0	-47.6	-46.6	-46.4	-46.1	-45.8
excluding oil-related subsidies and benefits	-24.4	-32.8	-42.9	-44.6	-42.9	-42.5	-42.3	-42.0	-41.8
Financing	-19.7	-2.2	17.4	17.3	12.6	11.7	12.0	12.1	12.8
Domestic	-0.6	-0.7	-0.8	7.0	2.7	2.5	2.6	2.6	2.8
Banks	-0.6	-0.7	-0.8	5.9	2.0	1.8	1.9	1.9	2.0
Non-banks	0.0	0.0	0.0	1.1	0.8	0.7	0.7	0.7	0.8
External	-19.0	-1.5	18.3	10.9	10.1	9.4	9.6	9.7	10.2
External bonds	0.0	0.0	0.0	5.4	3.9	2.4	2.3	2.1	2.0
Reserve funds	-19.0	-1.5	18.3	5.5	6.3	7.0	7.3	7.6	8.3
				(Percent of nonoil GDP)					
Revenue (includes grants)	**213.6**	**167.1**	**94.9**	**93.2**	**99.1**	**96.9**	**93.7**	**90.6**	**86.4**
Total expenditure	**110.8**	**121.1**	**94.9**	**92.0**	**90.3**	**87.8**	**85.9**	**84.0**	**82.1**
Gross operating balance	114.8	59.5	13.8	15.0	22.7	23.1	21.8	20.6	18.4
Net lending / borrowing	102.8	46.0	0.0	1.2	8.8	9.1	7.8	6.6	4.2
Non-oil balance	-71.6	-83.0	-63.8	-61.8	-60.7	-59.7	-59.1	-58.5	-58.2
excluding investment income	-97.7	-109.0	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2
excluding recapitalization of pension	-91.2	-102.8	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2
excluding oil-related subsidies and benefits	-70.7	-81.4	-77.5	-76.5	-76.0	-74.8	-73.3	-71.9	-70.5
Memorandum items:									
Expenses excl. recapitalization of pension fund (percent of nonoil GDP)	92.3	101.4	81.1	78.2	76.4	73.8	71.9	70.0	68.0
Oil-related subsidies and benefits (percent of nonoil GDP)	20.5	21.4	10.8	9.2	8.2	7.3	7.1	6.9	6.7
Kuwait Crude oil price, USD per barrel	103.6	86.5	49.9	45.9	52.5	54.8	56.3	58.2	59.3
Total gross debt (percent of GDP)	3.1	3.4	4.7	12.0	18.2	23.0	26.3	29.1	31.8

Sources: Ministry of Finance; Central Bank of Kuwait; and IMF staff estimates and projections.

[1] Excluded from the national budget presentation. Estimated by Fund staff.

[2] Includes UN (Iraq) compensations

Table 3. Summary Balance of Payments, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Proj.					
				(Billions of U.S. dollars, unless otherwise indicated)					
Current account	**69.5**	**54.4**	**6.0**	**5.0**	**11.7**	**13.2**	**14.1**	**16.0**	**17.0**
Goods (trade balance)	90.2	77.5	28.0	25.0	33.1	36.1	37.8	40.1	42.0
Exports	115.8	104.5	55.3	51.9	61.4	65.6	68.8	72.6	75.9
Oil exports	108.6	97.6	48.8	45.0	54.0	57.8	60.4	63.7	66.5
Non-oil exports including re-exports[1]	7.2	7.0	6.5	6.9	7.4	7.9	8.4	8.9	9.4
Of which: re-exports	1.5	1.5	1.4	1.5	1.6	1.7	1.8	1.9	2.0
Imports	-25.6	-27.0	-27.3	-26.9	-28.3	-29.5	-30.9	-32.5	-33.9
Services	-14.8	-18.1	-19.2	-19.3	-20.2	-21.0	-21.9	-22.8	-23.8
Transportation	-4.0	-3.9	-3.9	-4.0	-4.1	-4.3	-4.5	-4.7	-4.9
Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	-9.4	-11.4	-11.8	-11.9	-12.4	-12.8	-13.4	-14.0	-14.6
Other services	-1.5	-2.7	-3.4	-3.5	-3.7	-3.9	-4.1	-4.2	-4.3
Investment income	13.3	15.6	13.7	16.2	16.5	16.8	17.5	18.2	18.7
Receipts	14.6	16.3	16.7	17.5	17.8	18.2	18.9	19.7	20.2
General government[2]	11.4	12.9	13.4	13.7	14.2	14.5	15.0	15.6	15.8
Other sectors[3]	3.2	3.4	3.2	3.8	3.7	3.7	3.9	4.1	4.4
Payments	-1.4	-0.5	-2.9	-1.2	-1.3	-1.4	-1.4	-1.4	-1.5
General government	-0.7	0.0	-2.4	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Other	-0.7	-0.5	-0.5	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2
Current transfers	-19.1	-20.7	-16.5	-16.8	-17.7	-18.7	-19.3	-19.6	-19.9
Capital and financial account	**-64.2**	**-52.4**	**-10.2**	**-1.9**	**-9.7**	**-11.7**	**-12.4**	**-13.8**	**-15.1**
Capital account[4]	4.5	3.8	-0.4	-0.4	2.0	2.2	2.5	2.8	3.1
Financial account	-68.7	-56.2	-9.8	-1.5	-11.8	-13.9	-14.9	-16.6	-18.2
Direct investment	-15.2	11.4	-5.1	-3.2	-9.1	-10.4	-11.1	-12.6	-13.4
Abroad	-16.6	10.5	-5.4	-4.5	-10.5	-11.8	-12.7	-14.3	-15.3
In Kuwait	1.4	1.0	0.3	1.3	1.4	1.5	1.6	1.7	1.8
Portfolio investment	-21.2	-62.0	-32.9	-28.5	-35.2	-38.4	-40.6	-42.5	-44.6
Other investment (net)	-32.2	-5.4	28.0	30.0	32.6	34.8	36.8	38.5	39.8
Net errors and omissions[5]	-2.0	-2.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**3.3**	**0.0**	**-3.9**	**3.1**	**1.9**	**1.5**	**1.8**	**2.1**	**1.9**
Memorandum items									
Current account/GDP (in percent)	39.9	33.4	5.2	4.5	9.3	9.8	9.8	10.3	10.2
Current account (excl. oil)/GDP (in percent)	-22.4	-26.5	-37.6	-35.9	-33.7	-32.9	-32.0	-30.8	-29.8
Investment income/GDP (in percent)	7.6	9.7	12.1	14.6	13.1	12.4	12.1	11.8	11.3
WEO oil price (dollars per barrel)	104.1	96.2	50.8	43.0	50.6	53.1	54.4	56.3	57.6
Import growth (in percent)	5.5	5.5	1.3	-1.6	5.3	4.2	4.9	4.9	4.6
International reserve assets (billions of U.S. dollars)[6]	32.2	32.3	28.3	31.5	33.4	34.9	36.7	38.9	40.8
In months of imports of goods and services	7.5	7.4	6.5	6.9	7.0	7.0	7.1	7.2	7.3

Sources: Central Bank of Kuwait; and IMF staff estimates.

[1] Also includes unrecorded oil exports.

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

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

[4] Includes UN war compensation.

[5] Includes other unclassified private-sector flows.

[6] Includes SDRs and IMF reserve position.

Table 4. Monetary Survey, 2013–21

End of period	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Proj.					
				(Millions of KD)					
Foreign assets (net) [1]	15,409	15,971	15,633	16,897	17,001	17,061	17,159	17,426	17,558
Central bank	8,250	8,588	7,775	8,730	9,318	9,779	10,323	10,973	11,523
Local banks	7,158	7,383	7,859	8,167	7,683	7,282	6,836	6,453	6,035
Domestic assets (net)	17,150	17,650	18,458	19,631	22,391	25,364	28,760	32,369	36,459
Claims on government (net)	-4,189	-4,340	-5,153	-3,867	-3,198	-2,488	-1,753	-1,053	-265
Central bank (net)	-635	-616	-854	-1,024	-1,024	-924	-824	-824	-824
Claims	0	0	0	0	0	0	0	0	0
Deposits	635	616	854	1,024	1,024	924	824	824	824
Local banks (net)	-3,554	-3,723	-4,299	-2,843	-2,174	-1,564	-929	-229	559
Claims	1,502	1,563	1,580	3,649	4,447	5,189	5,960	6,797	7,726
Public debt instruments	1,502	1,563	1,580	3,649	4,447	5,189	5,960	6,797	7,726
Deposits	5,057	5,286	5,879	6,492	6,621	6,754	6,889	7,027	7,167
Claims on nongovernment sector	31,099	32,706	35,177	37,683	40,740	43,981	47,707	51,837	56,337
Credit facilities	28,911	30,737	33,210	35,576	38,462	41,522	45,040	48,939	53,187
Local investments	2,188	1,969	1,967	2,107	2,278	2,459	2,668	2,899	3,150
Other items (net)	-9,760	-10,717	-11,566	-14,185	-15,152	-16,129	-17,194	-18,415	-19,613
Broad money [2]	32,558	33,621	34,091	36,528	39,391	42,425	45,919	49,794	54,017
Money	8,677	9,253	8,943	9,680	10,465	11,298	12,255	13,316	14,472
Quasi money	23,882	24,367	25,148	26,848	28,926	31,127	33,664	36,478	39,545
Of which: Foreign currency deposits	3,122	2,891	3,591	3,631	3,826	4,030	4,272	4,541	4,836
				(Annual percentage change)					
Foreign assets (net)	11.4	3.6	-2.1	8.1	0.6	0.4	0.6	1.6	0.8
Central Bank	12.7	4.1	-9.5	12.3	6.7	5.0	5.6	6.3	5.0
Local banks	10.0	3.1	6.4	3.9	-5.9	-5.2	-6.1	-5.6	-6.5
Domestic assets (net)	8.3	2.9	4.6	6.4	14.1	13.3	13.4	12.5	12.6
Claims on government (net)	-9.8	-3.6	-18.7	25.0	17.3	22.2	29.5	-39.9	-74.8
Claims on nongovernment sector	7.2	5.2	7.6	7.1	8.1	8.0	8.5	8.7	8.7
Other items (net)	4.2	9.8	7.9	22.7	6.8	6.5	6.6	7.1	6.5
Broad money	9.7	3.3	1.4	7.1	7.8	7.7	8.2	8.4	8.5
Money	13.4	6.6	-3.4	8.2	8.1	8.0	8.5	8.7	8.7
Quasi money	8.5	2.0	3.2	6.8	7.7	7.6	8.2	8.4	8.4
*Of which: f*oreign currency deposits	37.4	-7.4	24.2	1.1	5.4	5.3	6.0	6.3	6.5
				(Change in percent of beginning of period broad money stock)					
Foreign assets (net)	5.3	1.7	-1.0	3.7	0.3	0.2	0.2	0.6	0.3
Central bank	3.1	1.0	-2.4	2.8	1.6	1.2	1.3	1.4	1.1
Local banks	2.2	0.7	1.4	0.9	-1.3	-1.0	-1.1	-0.8	-0.8
Domestic assets (net)	4.4	1.5	2.4	3.4	7.6	7.5	8.0	7.9	8.2
Claims on government (net)	-1.3	-0.5	-2.4	3.8	1.8	1.8	1.7	1.5	1.6
Claims on nongovernment sector	7.0	4.9	7.3	7.4	8.4	8.2	8.8	9.0	9.0
Other items (net)	-1.3	-2.9	-2.5	-7.7	-2.6	-2.5	-2.5	-2.7	-2.4
Broad money	9.7	3.3	1.4	7.1	7.8	7.7	8.2	8.4	8.5
Money	3.4	1.8	-0.9	2.2	2.1	2.1	2.3	2.3	2.3
Quasi money	6.3	1.5	2.3	5.0	5.7	5.6	6.0	6.1	6.2
Of which: Foreign currency deposits	2.9	-0.7	2.1	0.1	0.5	0.5	0.6	0.6	0.6
Memorandum items:									
Non-oil GDP/M2 (in peercent)	51.3	50.7	54.6	54.6	54.7	54.8	54.9	55.0	55.2
Foreign currency deposits/M2 (in percent)	9.6	8.6	10.5	9.9	9.7	9.5	9.3	9.1	9.0
Private credit/non-oil GDP (in percent)	186.1	191.7	189.1	189.1	189.1	189.1	189.1	189.1	189.1

Sources: Central Bank of Kuwait; and IMF staff estimates.

[1] Excludes SDRs and IMF reserve position.

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

Table 5. Financial Soundness Indicators of the Banking Sector, 2006–16
(Percent unless specified otherwise)[1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jun-16
Capital adequacy											
Regulatory capital to risk-weighted assets	20.2	19.3	15.6	16.7	18.9	18.5	18.0	18.9	16.9	17.5	17.9
Regulatory Tier I capital to risk-weighted assets	17.7	17.2	14.3	14.9	17.3	16.9	16.0	17.1	15.6	16.1	16.0
Capital to assets	12.6	12.3	10.9	11.4	12.6	12.4	12.6	12.2	11.1	11.8	12.0
Loan composition and quality											
Oil/gas	0.7	0.8	0.9	1.2	1.2	1.1	1.6	1.5	2.2	2.4	2.4
Trade	11.8	10.4	10.2	10.6	10.0	10.5	12.1	13.0	12.8	11.7	11.6
Industry	5.0	5.9	6.8	6.5	7.0	7.1	7.9	7.8	7.3	6.9	7.3
Construction	13.4	12.6	11.9	11.4	12.7	12.1	12.6	12.2	11.9	12.0	12.2
Real estate	17.5	19.2	18.1	20.6	20.0	19.6	19.2	18.9	18.5	17.5	16.7
Equity purchase loans (corporate)	5.4	4.5	5.8	5.9	5.7	5.8	3.5	3.4	3.0	3.0	3.0
Agriculture/fishing	0.2	0.1	0.7	0.3	0.4	0.2	0.3	0.3	0.4	0.3	0.3
Financial Institutions	14.6	15.9	12.8	12.7	14.1	13.1	11.2	10.4	11.9	14.0	13.6
Of which: investment companies	5.3	7.9	7.5	8.0	8.7	6.1	4.3	4.0	3.1	2.9	3.0
Of which: banks	0.0	0.0	0.0	0.0	4.6	3.7	6.7	5.7	8.0	10.5	9.9
Public services	1.6	2.2	1.9	1.6	1.6	1.7	2.6	1.8	2.2	2.2	1.6
Households	20.3	19.1	16.0	16.1	16.3	17.0	19.4	20.0	20.2	20.5	20.5
Of which: credit card advances	1.0	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Of which: installment loans	13.7	12.1	10.9	12.7	12.1	12.9	13.2	14.4	14.8	15.5	15.5
Of which: consumer loans	3.7	4.1	2.5	1.0	2.2	2.2	2.9	3.0	2.9	2.5	2.5
Of which: equity purchase loans (individuals)	1.8	2.1	2.0	1.9	1.4	1.4	2.9	2.6	2.6	2.5	2.6
Other	9.6	9.2	14.8	13.3	11.1	11.8	9.5	10.7	9.7	9.6	10.8
Gross non-performing loans to total loans	4.6	3.8	6.8	11.5	8.9	7.3	5.2	3.6	2.9	2.4	2.4
NPLs net of specific provisions to total loans net of specific provisions	2.5	2.1	4.9	7.4	6.1	5.3	3.8	2.5	1.9	1.6	1.6
Specific provisions to gross NPLs	47.4	47.2	29.0	38.3	33.9	29.5	26.9	31.7	35.2	32.7	32.7
NPLs net of specific provisions to Tier I capital	12.6	10.8	31.5	46.2	33.8	28.7	51.6	34.0	11.2	9.5	9.8
Loans to shareholders, parent companies, & directors to total loans	4.9	4.2	4.9	6.4	2.0	2.3	2.6	6.3	3.6	3.7	3.4
Large exposures to Tier I capital	147.6	141.6	212.4	165.1	124.3	105.3	100.4	87.2	97.1	101.1	113.3
Specific provisions to gross loans	2.2	1.8	2.0	4.4	3.0	2.1	1.4	1.2	1.0	0.8	0.8
Profitability											
Return on Average Assets (ROAA) [2]	2.7	3.3	0.8	0.7	1.2	1.1	1.2	1.0	1.1	1.1	1.0
Return on Average Equity (ROAE) [2]	20.1	24.3	6.5	6.1	9.1	8.1	9.0	7.4	8.7	8.8	8.3
Net interest income to gross income	33.9	29.0	36.6	44.5	49.9	47.6	48.1	49.9	47.1	47.6	49.9
Non-interest income to gross income	29.0	29.0	21.6	25.3	24.6	33.1	33.4	32.8	30.8	30.5	22.8
Trading and foreign exchange income to gross income	13.7	15.1	6.7	6.0	4.1	10.0	14.9	10.4	12.5	12.1	6.2
Non-interest expenses to gross income	27.6	23.9	26.4	36.9	37.7	36.1	34.0	37.2	33.4	31.8	30.6
Non-interest expenses to average assets [2]	1.4	1.5	1.6	1.9	1.6	2.1	1.9	1.9	1.6	1.5	1.5
Personnel expenses to non-interest expenses	50.7	49.6	48.0	42.9	48.7	36.8	39.0	41.7	41.1	49.3	54.2
Liquidity											
Core liquid assets to total assets [3]	29.3	26.9	20.8	20.4	17.7	22.1	21.0	22.5	24.7	24.3	23.6
Core liquid assets to short-term liabilities	38.6	34.1	28.0	28.6	27.8	36.3	34.8	30.3	32.7	31.7	32.0
Liquid assets to total assets	34.5	32.9	28.4	27.9	22.8	26.5	27.3	25.4	30.7	29.8	30.1
Liquid assets to short term liabilities	45.3	41.7	38.4	39.2	35.7	43.7	45.2	34.1	40.6	38.9	40.8
FX- loans to total loans	19.7	23.3	24.9	25.8	25.5	25.8	28.1	28.2	26.0	30.5	30.8
FX- deposits to total deposits	28.8	34.9	35.1	32.7	30.7	33.8	34.6	30.7	37.0	38.8	38.0
FX- liabilities to total liabilities	23.2	27.8	24.2	22.6	11.2	11.4	14.5	18.9	18.8	30.2	18.8
Deposits to assets	59.3	56.4	59.2	58.8	56.7	58.3	63.3	62.2	59.4	59.2	60.1
Loans to deposits	96.1	103.1	109.0	113.0	116.5	110.9	100.5	99.5	103.6	108.3	107.1
FX- loans to FX-deposits	65.5	68.9	77.3	89.1	96.8	84.6	81.5	91.4	72.8	85.3	86.8
Sensitivity to market risk											
Net open FX position (overall) as percent of Tier I capital	0.0	0.0	11.2	10.7	8.7		10.2	8.1	7.7	18.0	9.9
Off-balance sheet operations as percent of assets	32.1	34.7	32.5	25.3	26.2	25.4	26.3	27.8	28.5	28.2	29.9
Gross asset position in derivatives as a percentage of tier I capital	77.9	90.9	71.1	46.9	33.6		41.1	65.3	75.0	139.7	120.8
Gross liability position in derivatives as a percentage of tier I capital	77.9	91.0	71.1	46.8	39.4		40.9	65.1	75.0	139.7	120.8
Equity exposure to capital	40.6	42.4	47.1	45.4	39.1	43.7	37.5	35.3	29.6	28.1	26.1

Source: Central Bank of Kuwait

[1] Data are on consolidated basis.

[2] Averaging was not applied in 2006 indicators.

[3] 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. The data were extracted from CBK prudential report.

Annex I. Status of Staff Recommendations Made During the 2015 Article IV Consultation

Recommendations	Current Status
Containing fiscal spending and improving expenditure composition.	The government has continued to reduce non-essential spending in 2015/16, including transfers abroad and wage subsidies in the private sector. It has also contained growth in goods and services and the wage bill, while allowing for increased capital expenditure. A public wage reform is under study. The 2016/17 budget envisages further restraint in current spending and improvement in capital expenditure.
Removing energy and water subsidies gradually.	Following the partial elimination of diesel and kerosene subsidies effective January 2015, the government has increased gasoline prices for different grades by about 70 percent on average. The new prices have been in effect since September 1, 2016 and will be revised every three months in line with international prices. The parliament also adopted earlier this year a law that substantially increased electricity and water tariffs effective May 1, 2017 for all sectors except residential (effectively protecting Kuwaiti citizens)—depending on the sector and consumption levels, for electricity, tariff will be increased from a flat rate of 2 fils up to a range of 5-25 fils per kwh, and for water, from a flat rate of KD 0.8 up to a range of KD2-4 per 1000 Imperial Gallons.
Introducing a VAT and a corporate tax for domestic companies.	Legislations under preparation.
Establishing a medium-term budget framework and improving public financial management.	The government is preparing for the introduction of expenditure ceilings. The macro-fiscal unit is being integrated to the budget preparation process. The government adopted the GFSM 2001 standard starting 2015/16. The government has embarked on public expenditure management reforms, strengthened the macro fiscal unit, and established a debt management unit. Tax administration reforms are ongoing.
Establish formal macro-prudential coordination mechanism encompassing nonbank financial institutions	The authorities have thus far been relying on a Memorandum of Understanding between CBK and the Capital Markets Authority.
Further strengthen AML/CFT	Kuwait is working with the MENA FATF as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report
Create the right incentives for nationals to take up jobs in the private sector	
Structural reforms to foster diversification (business climate, privatization, anti-corruption efforts)	The Kuwait business center—a single window to issue commercial licenses—has been launched.

Annex II. Performance and Vulnerabilities of Kuwait's Nonfinancial Corporate Sector[1]

Non-financial corporate sector activity slowed in 2015, consistent with the moderation in nonhydrocarbon GDP growth, and corporate earnings have continued to soften. While corporates' debt servicing profile has remained strong overall, there are some differences depending on the indicator selected and across sectors. Vulnerabilities have increased in particular in the real estate sector. Stress tests indicate vulnerabilities to changes in funding costs and earnings, with the real estate sector accounting for a significant share of vulnerable debt under the shocks.

To provide insight into corporate sector performance, detailed balance sheet data for 80 Kuwaiti non-financial companies has been assessed.[2] The total aggregate revenue of these companies amounts to $21 billion, or about 34 percent of nonhydrocarbon GDP in 2015 (while their total aggregate assets represent 85 percent of nonhydrocarbon GDP). The revenue breakdown for the main sectors of the economy, following Kuwait Stock Exchange categories, is shown in table below.

Operating Revenues of Nonfinancial Corporates
(Millions of U.S. dollars, unless otherwise noted)

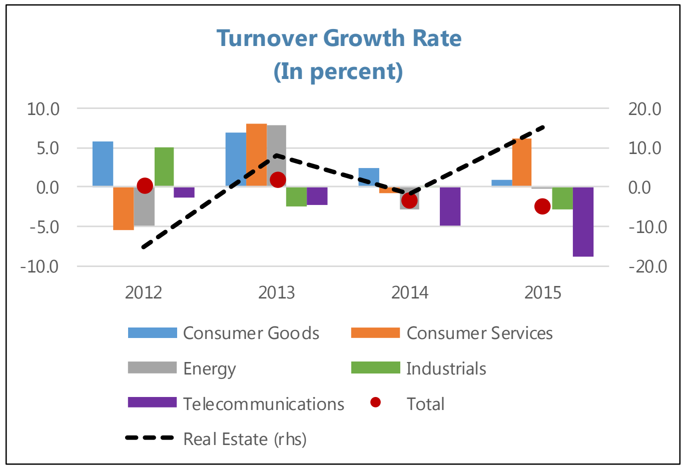
Sectors 1/	# of Firms	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Changes 14-15
Consumer Goods	7	1,420	1,914	2,371	2,491	2,778	3,071	3,247	3,470	3,556	3,592	↑
Consumer Services	10	1,262	1,439	1,691	2,033	1,812	1,912	1,806	1,953	1,938	2,058	↑
Energy	7	281	335	540	534	711	529	503	543	528	527	↓
Health Care	3	263	302	330	396	472	514	546	646	607	592	↓
Industrials	22	5,191	7,962	8,723	7,842	7,456	6,554	6,890	6,715	6,717	6,526	↓
Real Estate	25	1,019	902	1,679	986	830	1,262	1,071	1,156	1,136	1,307	↑
Technology	4	281	180	424	378	362	328	269	239	273	275	↑
Telecommunications	2	5,704	7,703	9,061	9,953	8,249	7,361	7,263	7,094	6,740	6,136	↓
Total	**80**											
in millions of U.S. dollars		15,420	20,737	24,820	24,613	22,672	21,531	21,596	21,816	21,494	21,012	↓
in percent of nonoil GDP		37	40	44	48	48	41	39	37	36	34	
growth (in percent, y/y)		...	34	20	-1	-8	-5	0	1	-1	-2	

Sources: Orbis, and IMF staff calculations.
1/ Sectoral classification is based on the Kuwait Stock Exchange (KSE).

[1] Prepared by Mariana Colacelli and Zhe Liu.

[2] Balance sheet data are from Orbis and cover 80 nonfinancial firms with available total assets and turnover data over the period 2006–15.

The aggregate turnover growth of these firms declined from 1.0 percent in 2013, to contractions of about 1.5 percent in 2014 and 2.2 percent in 2015. The main sectors driving the turnover decline in 2015 were telecommunications and industrials.



Corporate profits have also declined over the past few years (Table below). Operating profits of the sampled firms have been on a downward trend since 2011, although they remain positive. In 2015, telecommunications experienced a significant profit slowdown, while health care and real estate also recorded lower profits (although still higher than in 2009–10). Partial information from a different sample of firms, available for the first half of 2016, points to a further profit slowdown in 2016, with real estate firms showing a marked decline in net profits in 1H2016 (36 percent decline y-o-y within a sample of 35 real estate firms).[3]

Operating Profit /Loss

(Millions of U.S. dollars, unless otherwise noted)

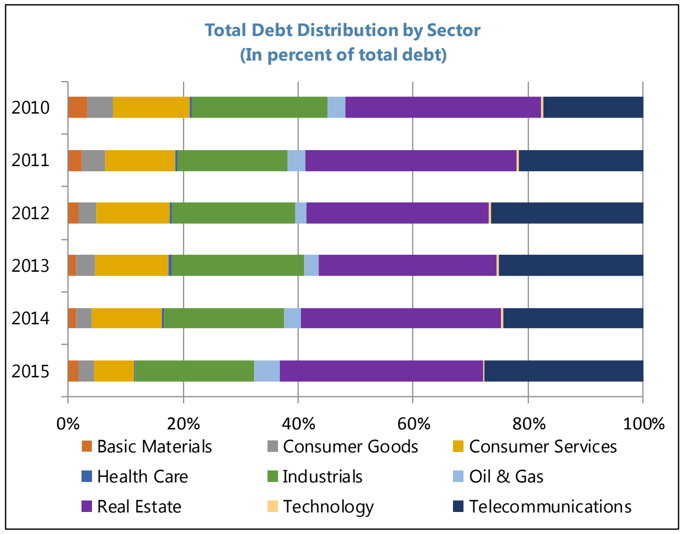
Sectors	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Changes 14-15
Consumer Goods	199	409	311	266	210	229	284	343	305	293	↓
Consumer Services	253	250	183	137	(3)	115	89	125	51	223	↑
Energy	80	162	158	125	231	17	41	83	18	60	↑
Health Care	111	134	146	24	37	45	45	43	36	19	↓
Industrials	1,127	1,181	1,053	867	435	391	375	511	561	629	↑
Real Estate	589	560	714	404	182	384	492	531	462	446	↓
Technology	31	26	39	28	27	9	17	4	13	24	↑
Telecommunications	1,891	1,985	1,758	2,054	1,864	3,016	1,878	1,647	1,379	1,118	↓
Total	4,282	4,707	4,362	3,904	2,982	4,206	3,221	3,287	2,824	2,813	↓

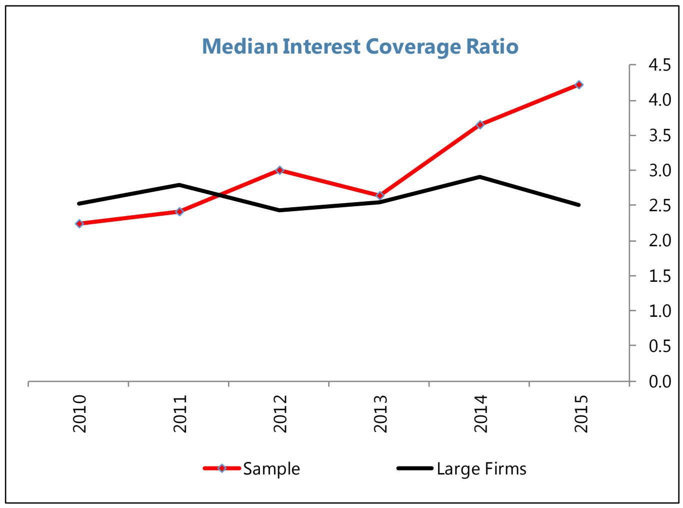
Sources: Orbis, and IMF staff calculations.

[3] Economic Update, National Bank of Kuwait, August 2016.

Non-financial corporate sector debt is mostly concentrated in real estate and telecommunications. As of 2015, 35 and 28 percent of the debt owed by the sampled 80 firms are held on real estate and telecommunications firms' balance sheet, respectively.

For companies in the sample, the evolution of the debt servicing profile has varied depending on the indicator selected and across sub-groups.



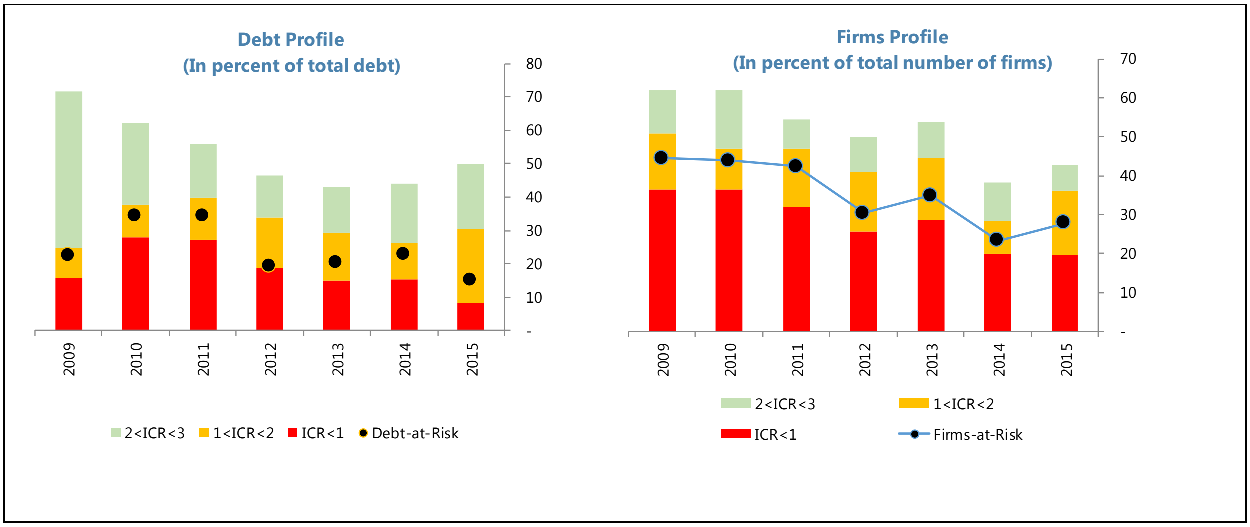


- The median interest coverage ratio (ICR) for the sample as a whole increased to 4.2 in 2015 (i.e. corporates have generated enough profits to cover over four times the interest due), pointing to an improvement. However, the median ICR for large firms decreased to about 2.5 in 2015, pointing to a deterioration for that group.[4]

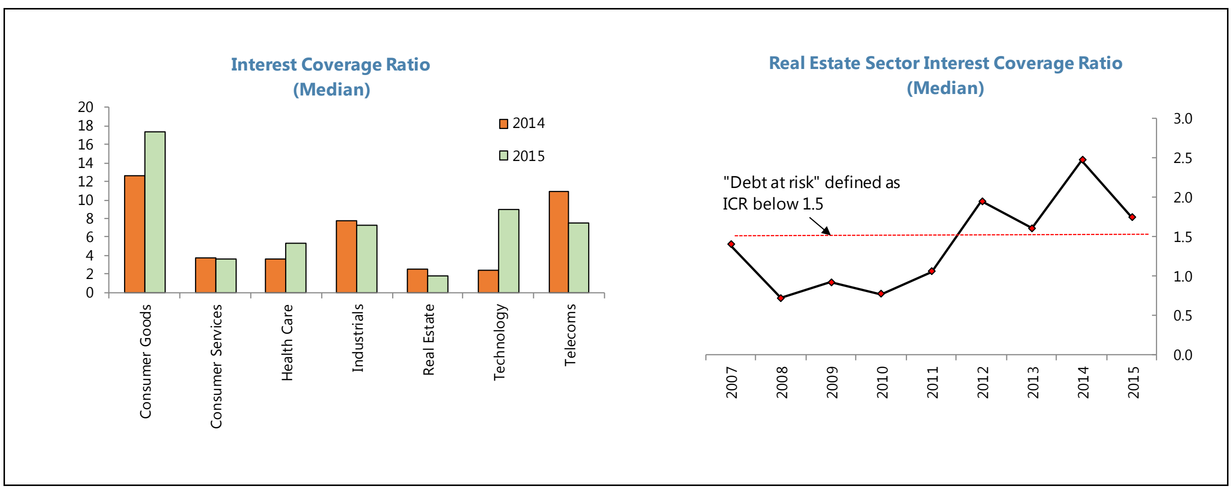
- Driven by lower interest costs, debt-at-risk (defined as debt with ICR less than 1.5) has decreased from 23 percent of total debt of sampled firms in 2014 to 15 percent at end-2015. However, the debt with ICR<3 has increased over this period (from 44 to 50 percent).

- The proportion of "firms-at-risk" (defined as the percentage of total firms with debt-at-risk) in the Kuwaiti non-financial corporate sample has increased from 23 to 28 percent between 2014 and 2015.

[4] "Large firms" are those in the top quartile of the sample (20 firms), ranked by total assets.



Debt vulnerabilities also vary significantly by sector, with debt owed by real estate sector seemingly the most vulnerable. The latter accounts for the most debt-at-risk in the sample in 2015. Moreover, the median ICR for real estate firms is relatively low and has decreased in 2015-although it remains higher than during 2008–11. On the other hand, while telecommunications account for 28 percent of total debt in the sample, this sector has no debt-at-risk.



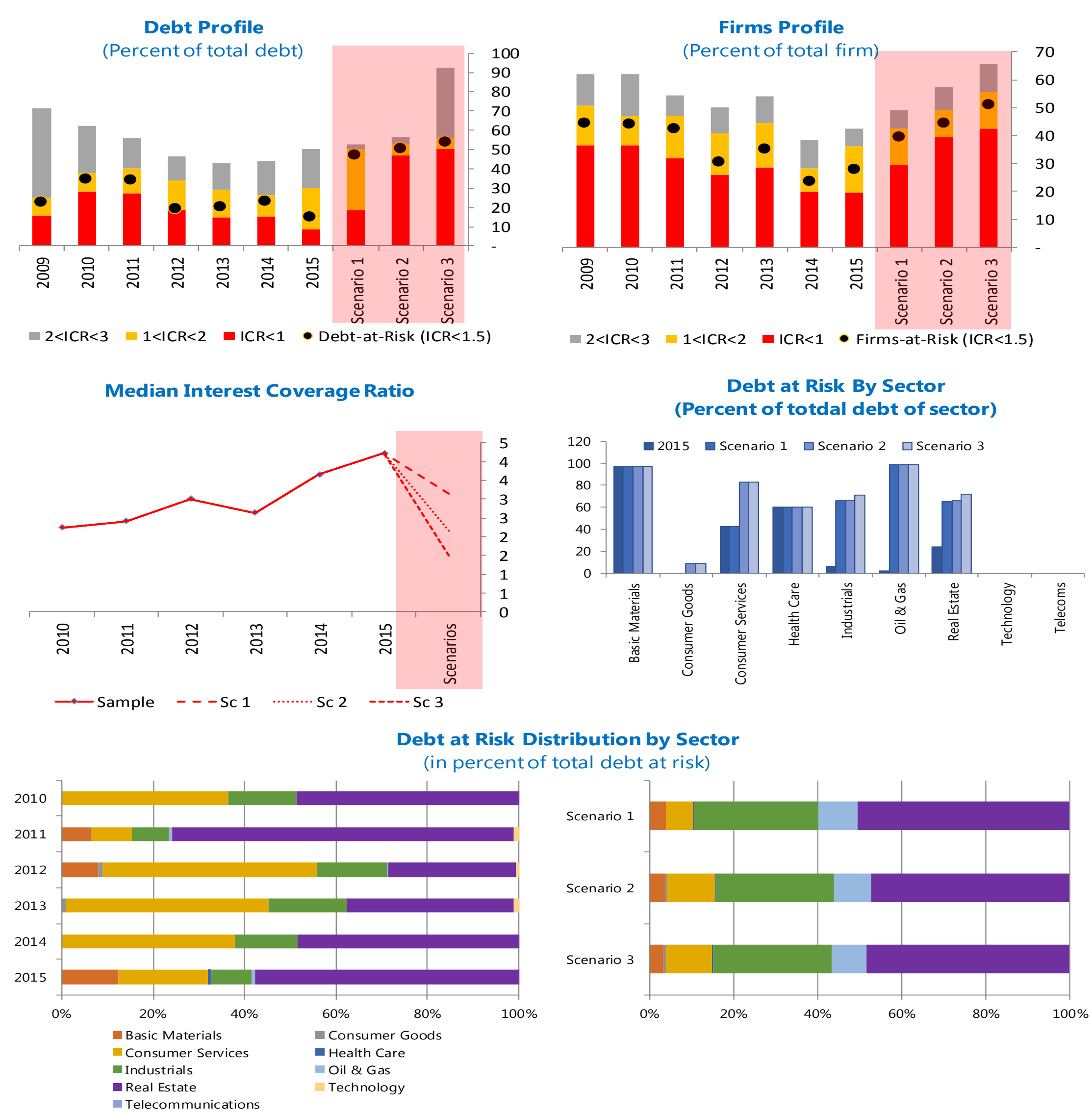
Results from the sensitivity analysis indicate that the Kuwaiti non-financial corporate sector is relatively vulnerable to interest rate and earnings shocks, although with heterogeneity across sectors. Stress tests are used to assess the resilience of the non-financial corporate sector to a combination of interest rate and earnings shocks.

- The first scenario assumes an increase in the cost of funding by 200 basis points, combined with a 2-percent worsening in aggregate firms' earnings.
- The second scenario assumes a combination of a decline in earnings by 12 percent (half of the more severe shock used in the third scenario), and an increase in the average interest rate by 350 basis points.

- The third scenario is more severe, assuming further declines in corporate profitability (by 25 percent—equivalent to the largest drop in aggregate corporate earnings experienced in Kuwait over the past 10 years, which was observed in 2010), combined with tighter financial conditions (500 basis points increase in funding cost).

Indicative of the vulnerabilities to these shocks, debt-at-risk increases significantly to between 45 and 55 percent of debt, while the share of firms with debt-at-risk increases to between 40 and 50 depending on the scenario below. In terms of sectoral results, the significant worsening seen under the third scenario is driven by higher debt-at-risk in the real estate and industrial sectors.

Sensitivity Analysis



Sources: IMF staff estimates.

Annex III. 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
Persistently lower energy prices	**Low/Medium Term**	**High** The fiscal and external balances would deteriorate and government financing needs would increase. To the extent these would be funded domestically, this could crowd out credit to the private sector. Private sector confidence would likely decline and nonoil growth would soften. With economic, credit, and asset price cycles moving closely with oil price developments, lower oil prices affect liquidity in the banking system and credit growth. Volatile equity markets and a further softening in the real estate markets would also impact banks' asset quality. Second round effects on growth, and asset quality and liquidity in the banking sector, would depend on the policy response and in particular the magnitude of the fiscal adjustment in response to the shock.	The large financial buffers provide policy space for gradual fiscal adjustment. However, with a further sustained decline in oil prices, the government would need to implement a more ambitious medium-term fiscal consolidation program. Financing options should take into account the need to maintain adequate liquidity in the banking system. Central bank liquidity management capabilities should be enhanced and supervisory vigilance is needed to identify emerging financial stability risks in order to facilitate a timely response. The framework for activation of macro-prudential policies should be strengthened.
Tighter and more volatile global financial conditions	**Medium/short term**	**Medium** This could pose funding, market and credit risks challenges for investment companies (ICs) and banks. Banks' exposure to the equity and real estate market remains considerable. Selected banks, for which foreign liabilities are an important source of funding, could also face funding tightness. ICs also have large exposures to global and regional financial and real estate markets, and continue to be dependent on foreign financing. The value of Sovereign Wealth Funds and the CBK's reserves could also be eroded.	Monitor the health of ICs and complete the restructuring of loss making ICs. Enhanced surveillance of banking stability risks including contagion from ICs.

Nature/source of main threats	Likelihood of Risk/Time Horizon	Expected impact on the economy if risk materializes	Recommended Policy Response
Heightened risk of fragmentation/security dislocation in parts of the Middle East and some countries in Africa, leading to a sharp rise in migrant flows, with negative global spillovers.	**High**	**Low** Investor confidence could be negatively affected and lead to capital outflows. Risks could increase for banks if growth slows down as a result, but some protection given the large loss absorption buffers of banks.	Analysis of transmission channels and impact study to facilitate timely policy response Enhanced surveillance of financial system.
Slower and less effective implementation of the Development Plan (DP) 2015-19.	**Medium/Short to Medium Term**	**Medium** Lower nonoil growth prospects.	Integrate the DP into a medium-term fiscal framework to ensure continued implementation. Monitor the implementation of capital expenditure. Improve performance of the budget through a public expenditure review to support prioritization of public spending and strengthen anticorruption efforts.
Reversal of fiscal reforms or slower adjustment of noncore government spending	**Medium/Short to Medium Term**	**Medium** Lower pace of underlying fiscal adjustment. Larger financing needs and need to rely more heavily on accumulated buffers.	Correct slippages. Implement medium-term fiscal framework to underpin fiscal adjustment and reduce risks over the medium term.
Severe property price correction	**Low**	**Medium** Though banks have substantial loss absorption capacity in terms of capital and loan loss provisioning, the losses could be significant in light of 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 to facilitate monitoring of developments in the sector and enhanced techniques to capture banks' direct and indirect exposures to the real estate sector to facilitate risk monitoring and timely supervisory response. Strengthen crisis preparedness and management framework.

[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" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Public Sector Debt Sustainability Analysis (DSA)

Kuwait Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

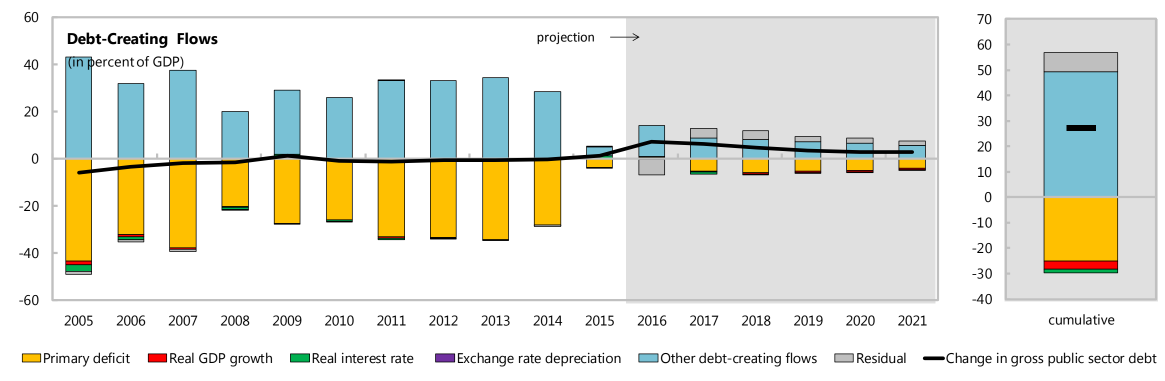
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	6.8	3.3	4.7	12.0	18.2	23.0	26.3	29.1	31.8
Public gross financing needs	-31.3	-27.9	-3.5	1.2	-5.0	-5.4	-4.4	-3.8	-2.7
Real GDP growth (in percent)	4.0	0.6	1.2	3.6	2.6	2.6	2.8	2.8	2.9
Inflation (GDP deflator, in percent)	8.7	-6.9	-26.8	-5.0	10.2	4.8	3.9	4.4	4.0
Nominal GDP growth (in percent)	13.5	-6.3	-25.9	-1.6	13.1	7.6	6.8	7.3	7.0
Effective interest rate (in percent) [4/]	3.0	1.8	2.2	2.0	0.8	2.1	3.3	3.6	3.7

As of November 21, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		na
5Y CDS (bp)		na
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.7	-0.3	1.4	7.3	6.2	4.8	3.3	2.8	2.7	27.2	
Identified debt-creating flows	-1.2	0.2	1.2	13.9	2.1	1.3	0.9	0.7	0.8	19.7	
Primary deficit	-32.0	-28.2	-3.9	0.8	-5.4	-6.1	-5.4	-5.0	-4.0	-25.2	-0.87
Primary (noninterest) revenue and grants	68.9	72.4	58.5	53.8	56.0	55.4	54.2	53.2	51.9	324.5	
Primary (noninterest) expenditure	36.9	44.2	54.6	54.5	50.6	49.3	48.8	48.2	47.8	299.3	
Automatic debt dynamics [5/]	-0.9	0.3	1.3	0.2	-1.3	-0.9	-0.8	-0.9	-0.9	-4.6	
Interest rate/growth differential [6/]	-0.9	0.3	1.3	0.2	-1.3	-0.9	-0.8	-0.9	-0.9	-4.6	
Of which: real interest rate	-0.6	0.3	1.3	0.3	-1.0	-0.5	-0.2	-0.2	-0.1	-1.6	
Of which: real GDP growth	-0.3	0.0	-0.1	-0.2	-0.3	-0.4	-0.6	-0.7	-0.8	-3.0	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	31.8	28.1	3.8	13.0	8.7	8.2	7.1	6.6	5.8	49.4	
Privatization (negative)	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	31.8	28.1	3.8	13.0	8.7	8.2	7.1	6.6	5.8	49.4	
Residual, including asset changes [8/]	-0.5	-0.5	0.2	-6.6	4.2	3.6	2.4	2.1	1.9	7.5	



Source: IMF staff.

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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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.

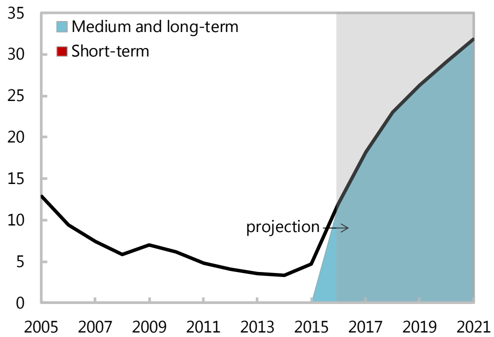
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Kuwait Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

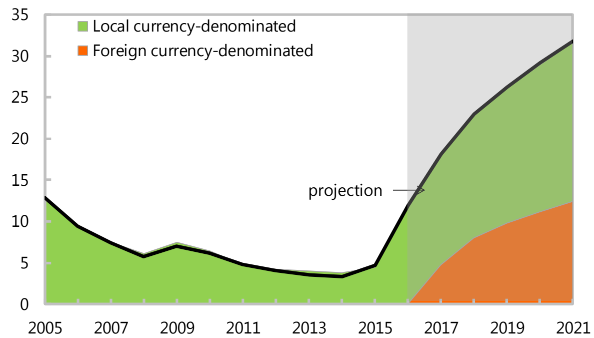
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

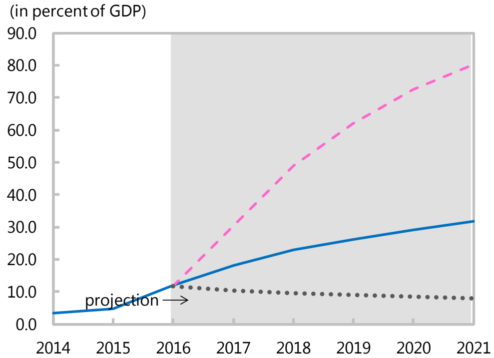


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

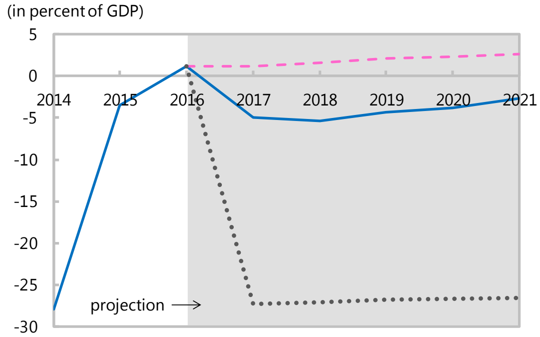
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	3.6	2.6	2.6	2.8	2.8	2.9
Inflation (GDP deflator)	-5.0	10.2	4.8	3.9	4.4	4.0
Primary Balance	-0.8	5.4	6.1	5.4	5.0	4.0
Effective interest rate	2.0	0.8	2.1	3.3	3.6	3.7
Constant Primary Balance Scenario						
Real GDP growth	3.6	2.6	2.6	2.8	2.8	2.9
Inflation (GDP deflator)	-5.0	10.2	4.8	3.9	4.4	4.0
Primary Balance	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	2.0	0.9	1.7	2.1	2.2	2.2

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	3.6	2.8	2.8	2.8	2.8	2.8
Inflation (GDP deflator)	-5.0	10.2	4.8	3.9	4.4	4.0
Primary Balance	-0.8	27.7	27.7	27.7	27.7	27.7
Effective interest rate	2.0	0.9	3.0	6.3	8.5	10.2

Source: IMF staff.

Annex V. Kuwait—Baseline and Adjustment Scenario

I. Assumptions

Baseline scenario

The baseline scenario assumes expenditure restraint and is based on the 2016 budget and enacted policies or reforms.

- Oil revenues are projected using the WEO oil price assumptions and forecast oil export volumes. Kuwait's oil production is assumed to increase by 2 percent annually over the medium-term.
- Non-oil revenues, except investment income from the KIA, are assumed to increase broadly in line with nonoil GDP.
- Savings from the recent increase in fuel prices (about 0.3 percent of GDP by 2021) and the electricity and water tariff adjustment (1.1 percent of GDP) that have been approved and will come into effect early next fiscal year have been included in the baseline. Estimates were provided by the authorities.
- The baseline assumes some spending restraint: wages are assumed to grow with inflation, while public employment expands at a rate of 2 percent annually; transfers are assumed to grow with inflation; goods and services expand in line with nonoil GDP.
- Consistent with recent developments, capital expenditure is assumed to grow at a slightly higher rate than nonoil GDP.

Adjustment scenario

Staff's adjustment scenario assumes a gradual reduction of expenditure as a share of non-oil GDP to 80 percent by 2021. The target is derived from a historical normal level and would result in a gradual reduction of the gap from intergenerational equity level of the non-oil primary balance. The expenditure target is consistent with the government objectives in Kuwait's vision of "reduction of the budget deficit and movement toward sustainable public finance, and redefining of the government's role in the national economy:"

- Further to the baseline, fuel prices are assumed to gradually increase starting from fiscal year 2017/18 to reach international or cost recovery levels by 2021 (elimination of fuel subsidy).
- Water and electricity tariffs are assumed increase gradually to reduce subsidy by half in 2021.
- Compensation for fuel prices changes is assumed to be paid to households. Recent discussions between parliamentarians and the government indicate that Kuwaiti nationals may be compensated by a capped amount of 75 liters per month.
- The wage bill is driven by stable public employment and wages increasing by slightly less than inflation. The wage reform under consideration is assumed to take effect starting 2017. Staff has assumed that it will lead in the first year to an increase in the wage bill by KD 350 million due to standardization of the salary structure, and annual wage increases in line with inflation. Staff has assumed wage increases below inflation under the adjustment scenario, in which inflation will be higher because of subsidy and VAT reforms—consistent with staff advice to allow flexibility to increase wage by less than inflation if macroeconomic conditions warrant.
- Goods and services, transfers, and other current spending items are projected to increase by a slower rate than in the baseline (non-oil GDP growth) by 1-2 percent to help achieve the expenditure target and reflect the authorities' objectives in the Vision to rationalize spending.
- The adjustment scenario makes room for additional allocations for capital spending (2-2.5 percent above nominal non-oil GDP growth).
- Non-oil revenue will increase as a result of increasing excise tax on tobacco and sugary drinks starting in second half of 2017 with full effect in 2018 by KD 200 million, introducing the corporate profit tax on domestic corporates starting 2020 (estimated additional of 1.6 percent of GDP based on IMF TA estimates), and the VAT at 5 percent (estimated to generate 1.5 percent of additional revenue) starting 2019.

II. Key Indicators, 2015–21
(In percent of GDP)

			Est.	Proj.						Cumulative
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2016-21
Baseline Scenario										
Overall balance	35.5	18.5	0.0	0.7	5.0	5.2	4.5	3.8	2.5	
Actual balance (authorities' definition)	20.0	2.4	-17.5	-17.3	-12.6	-11.7	-12.0	-12.1	-12.8	
Non-oil primary balance										
(Percent of non-oil GDP)	-91.2	-102.8	-88.3	-85.7	-84.3	-82.0	-80.4	-78.8	-77.2	
Non-oil primary revenue	4.5	4.9	3.6	3.7	3.4	3.3	3.2	3.1	3.0	
Primary spending	38.2	48.7	52.5	53.2	50.3	49.1	48.6	48.1	47.7	
Total government debt	3.1	3.4	4.7	12.0	18.2	23.0	26.3	29.1	31.8	
Total buffer by the KIA 1/	307.0	345.0	461.6	479.7	433.1	410.5	391.1	370.7	351.8	
of which GRF assets	106.6	117.8	144.3	144.9	125.1	112.4	100.6	88.6	76.8	
International reserves (in months of imports)	7.5	7.4	6.5	6.9	7.0	7.0	7.1	7.2	7.3	
Credit to the private sector (percentage change)	7.2	5.2	7.6	7.1	8.1	8.0	8.5	8.7	8.7	
Real GDP growth (percent)	0.4	0.6	1.2	3.6	2.6	2.6	2.8	2.8	2.9	
Real oil GDP growth (percent)	-1.8	-2.1	-0.3	3.9	2.0	2.0	2.0	2.0	2.0	
Real non-oil GDP growth (percent)	4.0	5.0	3.5	3.2	3.5	3.5	4.0	4.0	4.0	
Fiscal Adjustment Under the Baseline:										
Annual change in overall balance to GDP			-18.5	0.7	4.3	0.2	-0.7	-0.6	-1.3	2.5
Annual change in non-oil primary balance to non-oil GDP			14.4	2.6	1.5	2.2	1.6	1.6	1.6	11.2
Fiscal Anchor:										
Distance of projected NOBP from PIH (% non-oil GDP)				11.8	13.7	14.6	16.2	17.7	19.1	
Fiscal Adjustment Scenario										
Overall balance	35.5	18.5	0.0	1.2	6.3	6.5	7.9	9.1	9.4	
Actual balance (authorities' definition)	9.7	1.0	-17.5	-16.8	-11.4	-10.7	-9.0	-7.7	-6.9	
Non-oil primary balance										
(Percent of non-oil GDP)	-91.2	-102.8	-88.3	-85.0	-82.5	-80.8	-76.3	-72.7	-69.1	
Non-oil primary revenue	4.5	4.9	3.6	3.7	3.7	3.8	5.1	5.8	6.3	
Primary spending	38.2	48.7	52.5	52.8	49.4	48.7	47.9	46.7	45.7	
Total government debt	3.1	3.4	4.7	11.8	17.9	22.7	25.8	28.2	30.4	
Total buffer by the KIA 1/	307.0	345.0	461.6	480.2	436.0	415.3	401.4	387.6	376.2	
of which GRF assets	106.6	117.8	144.2	145.3	127.1	115.7	107.4	100.3	94.6	
Current account balance	69.5	54.4	6.0	5.0	12.0	13.8	15.4	18.0	19.7	
International reserves (in months of imports)	7.5	7.4	6.5	6.9	7.0	7.0	7.1	7.2	7.4	
Credit to the private sector (percentage change)	7.2	5.2	7.6	7.1	7.6	7.5	7.4	7.6	7.8	
Real GDP growth (percent)	0.4	0.6	1.2	3.6	2.4	2.5	2.4	2.4	2.5	
Real oil GDP growth (percent)	-1.8	-2.1	-0.3	3.9	2.0	2.0	2.0	2.0	2.0	
Real non-oil GDP growth (percent)	4.0	5.0	3.5	3.2	3.0	3.1	3.0	3.0	3.2	
Fiscal Adjustment Under the adjustment Scenario										
Annual change in overall balance to GDP			-18.5	1.2	5.1	0.2	1.5	1.1	0.3	9.4
Annual change in non-oil primary balance to non-oil GDP			14.4	3.3	2.5	1.7	4.5	3.7	3.6	19.3
Fiscal Anchor:										
Distance of projected NOBP from PIH (% non-oil GDP)				10.7	11.2	12.2	10.2	9.1	8.0	

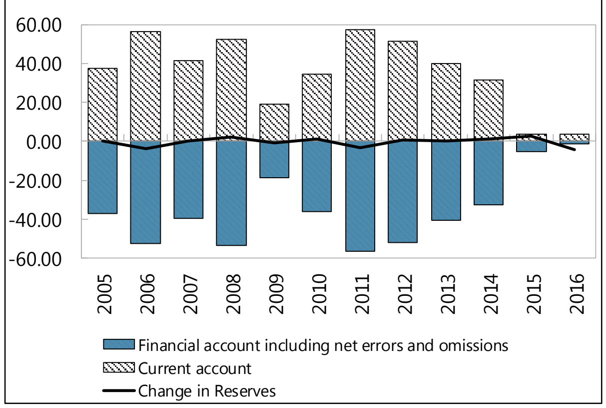
Sources: IMF staff estimates.
1/ Staff estimates and projections.

Annex VI. External Sector Assessment for Kuwait

Staff considers the peg to a basket of currencies appropriate for Kuwait. While the external position in 2015 was weaker than suggested by fundamentals and desirable medium-term policies, the recommended substantial fiscal adjustment over the medium-term would bring the current account broadly in line with the level implied by fundamentals.

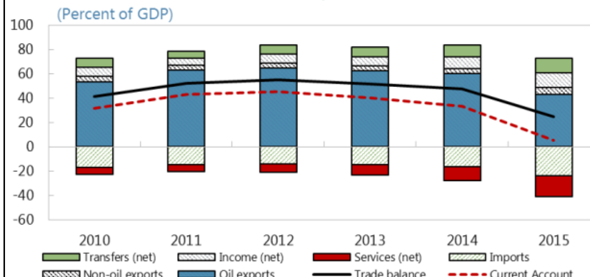
Kuwait's current account surplus has declined significantly in 2015, reflecting mainly the oil price shock. Kuwait's large current account surplus (over 33 percent of GDP in 2014) declined to about 5¼ percent in 2015 due to lower oil prices and, to a lesser extent, declining oil export volumes. While it is set to deteriorate further this year (to a projected 4½ percent of GDP), as the further decline in oil prices more than offsets a recovery in export volumes, staff projects a gradual improvement in the current account balance over the medium term (to a surplus of above 10 percent of GDP by 2021), as oil prices pick up and hydrocarbon export volumes expand.

Current and Financial Account Balances
(Percent of GDP)

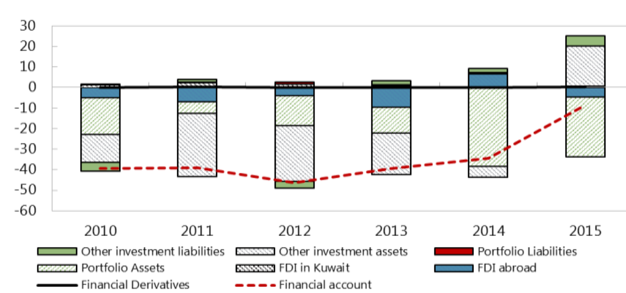


Financial outflows also eased substantially last year. The reduction in oil export receipts and related government revenue has slowed the pace of foreign assets accumulation on the part of the government. At the same time, non-government sector foreign assets continued to accumulate. Overall, portfolio outflows declined from US$62 billion to US$33 billion. On the other hand, other investments turned positive US$28 billion, as the government drew down foreign deposits to finance the budget deficit. Overall, financial outflows were somewhat larger than the current account surplus, leading to a decline in CBK foreign exchange reserves (by US$4 billion to US$28.3 billion).

Contribution to Current Account, 2010-2015
(Percent of GDP)



Contribution to Financial Account, 2010-2015
(Percent of GDP)



The level of CBK's foreign exchange reserves has remained consistent with the IMF's standard reserve coverage metrics. Foreign reserves of the CBK stood at $28.3 billion (25 percent of GDP, 6.5 months of imports, 25 percent of broad money and 99 percent of the Fund's reserve metric) at end-2015, 1 percentage points below the minimum adequacy level.[1] Traditionally, exports of goods and services and broad money contributed the most to the ARA metric, but in 2015 the share of exports dropped due to substantial decline in oil exports receipts. Consequently, the three components of the ARA metric (exports, short term external debt, and other liabilities) had similar contributions. The reserve level is on track to increase to about $31.5 billion in 2016 and reach 106 percent of the ARA metric.

Kuwait: Foreign Reserve Adequacy Assessment

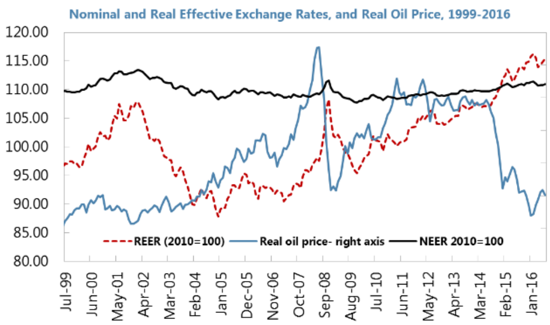
	2013	2014	2015	Proj. 2016
		(in millions of USD)		
External short term debt	16719	19094	20569	22094
Other liabilities (portfolio liabs + other invt liabs - STD) 1/	20927	21549	24732	26149
Broad Money	114816	118180	113335	120356
Exports of goods and services	121931	110739	61230	57823
Actual CBK Foreign Reserves	32245	32278	28334	31483
KIA Assets (estimates)	534813	561276	526578	533727
ARA metric	32876	32930	28574	29676
Foreign Reserves as a % of the ARA metric (in percent) 2/	**98**	**98**	**99**	**106**
Foreign Reserves (including KIA) as a % of the ARA metric (in percent) 2/	**1725**	**1802**	**1942**	**1905**
Foreign Reserves in percent of GDP	**19**	**20**	**25**	**28**
Foreign Reserves in percent of broad money	**28**	**27**	**25**	**26**
Foreign Reserves in 3 months of imports of goods and services	**7.5**	**7.4**	**6.5**	**6.9**

1/ Based on SPR'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.

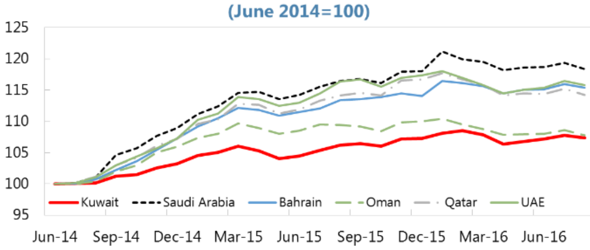
In addition, the Kuwait Investment Authority also holds a large stock of financial buffers (which staff estimates at about 460 percent of GDP, with about 317 percent in FGF and 144 percent in GRF) on behalf of the government. The bulk of these financial resources, which are mainly invested in foreign assets, are held as savings for future generations, but some can also be used for precautionary motives.

Staff considers the peg to an undisclosed basket of currencies appropriate. This arrangement, which has been in place since May 2007, has provided an effective nominal anchor. The modest depreciation against the dollar since mid-2014 (7 percent) on account of having a basket rather than dollar peg has been helpful during a period of dollar strength. The NEER has remained largely unchanged since oil prices started falling in mid-2014. The REER has appreciated, but to a lesser extent than in other GCC countries.

[1] The Fund's composite metric that measures the adequacy of precautionary reserves (developed for emerging markets) calculates the relative risk weights for each source of foreign exchange drain based 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.



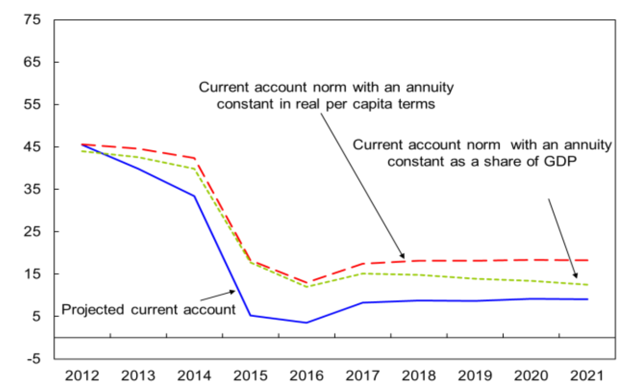
GCC: Real Effective Exchange Rates
(June 2014=100)



Source: IMF staff calculations.

The external sustainability approach suggests that the current account surpluses are too low to equitably support the consumption of future generations.[2] The external sustainability based on the permanent income model (PIH) is the preferred method for Kuwait as the current account gap reflects suboptimal saving of hydrocarbon revenues rather than reflecting traditional competitiveness issues. The implied current account norm based on a constant real per-capita annuity is 13 percent of GDP in 2016, compared to the baseline current account surplus of 4 percent of GDP, resulting in an estimated current account gap of about 9 percent of GDP that is projected to remain broadly stable over the forecast horizon. Since external imbalances in Kuwait are largely driven by the public sector, the current account gap could be closed through fiscal consolidation. Indeed, closing the large PIH fiscal gap (estimated to reach about 12 percent of GDP by 2021) would largely eliminate the current account gap.

Kuwait: Projected and Actual Current Account vs Norms
(Percent of GDP)



Source: Staff calculations and projections

[2] The approach calculates the current account required for the net present value (NPV) of hydrocarbon and investment income to equal the NPV of imports net of non-hydrocarbon exports. To support intergenerational equity, the economy would need to choose a path for imports —and hence a current account norm—by accumulating net foreign assets at an appropriate pace. As with any analytical tool, results are sensitive to the choice of assumptions made (for instance, oil prices, return of assets, and population growth) as well as the targeted transfer to future generation (annuity).

INTERNATIONAL MONETARY FUND

KUWAIT

November 16, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department

CONTENTS

FUND RELATIONS

(As of October 31, 2016)

Membership Status: Joined September 13, 1962
Article VIII on April 5, 1963

General Resources Account:	**SDR Million**	**% Quota**
Quota	1,933.50	100.00
Fund holdings of currency	1778.59	91.96
Reserve position in Fund	155.48	8.04

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	1,315.57	100.00
Holdings	1,327.20	100.88

Outstanding Purchases and Loans: None

Financial Arrangements: None

Lending to the Fund and Grants: SDR million 51.24 (New Arrangements to Borrow)

Kuwait has made a contribution to the PRGF-HIPC Trust in support of Fund's concessional assistance to low-income countries. These include an interest-free deposit of SDR 4.2 million with a maturity at end-2018, and a grant contribution of SDR 0.1 million to the PRGF-HIPC Trust.

Exchange Rate Arrangement:

Since May 2007, Kuwait's exchange rate regime has been for the Kuwaiti dinar to be pegged to an undisclosed currency basket. Kuwait has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than those notified to the Fund pursuant to Decision 144-(52/51). On April 2, 2002 Kuwait notified the Fund, under Decision 144-(52/51), of exchange restrictions it introduced in order to implement UN Security Council resolutions 1373 (2001), 1333 (2000) and 1267 (1999).

Article IV Consultations:

The last Article IV consultation was completed on November 25, 2015 (SM/15/271—Published December 2, 2015). The staff report is available at
http://www.imf.org/external/pubs/cat/longres.aspx?sk=43429.0

FSAP Participation

An FSAP Update was conducted in March 2010. It included an updated assessment of a selected number of Basel Core Principles. An FSSA report was discussed by the Executive Board along with the staff report for the 2010 Article IV consultation and it is available at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=24096.0

Technical Assistance:

STA	Seminar on GDDS	February 2000
STA	National Accounts and Price Statistics	June 2001–June 2002
FAD	Restructuring Budget Processes	January/February 2002
FAD	A Program for Tax Reform	December 2002
MFD/LEG	Bank Insolvency	October 2004
FAD	Macro Fiscal Unit	February 2009
STA	External Sector Statistics	February 2009
STA	External Sector Statistics	December 2009
FAD	Value-Added Tax	October 2011
FAD	Macro-Fiscal Unit	September 2012
FAD	Tax Policy and Administration	April 2013
LEG	Central Bank Law	April 2013
LEG	Central Bank Law	September 2013
FAD	Macro-Fiscal Unit (resident advisor)	October 2013
LEG	Central Bank Law	January 2014
FAD	Tax Policy and Administration	February 2014
MCM	Macroprudential Policy	March 2014
FDA	Fiscal Rule	February 2015
STA	National Accounts Statistics	March 2015
MCM	Deposit Insurance System	September 2015
FAD	Tax Policy and Administration	September 2015
LEG	AML/CFT ongoing TA project	May 2012-16
FAD	Establishing a Debt Management Office	November 2015
FAD	Debt Management Strategy	January 2016
MCM	Bank Stress Testing	May-June 2016

Resident Representative: None

Kuwait has consented to the quota increase under the Fourteenth General Review of Quotas.

RELATIONS WITH THE WORLD BANK

(As of November 21, 2016)

The World Bank and the Government of Kuwait developed a rolling four-year Country Partnership Strategy (CPS), which leverages the setup of a World Bank Country Office in Kuwait (inaugurated in January 2009). The Kuwait program emphasizes implementation of reforms. Hence all activities are grounded in the Government's five-year plan, and are developed closely with the line ministry/agency as well as with the Ministry of Finance, which plays the coordinator role and the Bank's central counterpart. The current Reimbursable Advisory Services (RAS) program is structured around the following four strategic themes under the latest 2016-20 Country Partnership Strategy:

(i) ***Public sector performance and citizen accountability–*** Bank support in this area aims at ensuring that public services are delivered transparently, efficiently and effectively and that citizen accountability is enhanced. Key activities under this pillar include Bank support in a mix of areas including technical assistance on a multi-year tax modernization project; strengthening public expenditure and financial accountability (PEFA) and developing a guidebook for public private partnerships. Other pipeline engagements focus on providing capacity-building assistance to the Kuwait National Assembly and the State Audit Bureau, as well as Public Financial Management (PFM). The latter is designed as a programmatic multi-year engagement to improve the quality of fiscal policies and the system of procedures governing public financial management in the country.

(ii) ***Private sector development -*** Aiming to support reform efforts geared towards transforming Kuwait into a commercial and financial hub with diversified economic activities and the creation of a more conducive business environment for private sector development and foreign direct investment. Bank activities under this theme include: supporting the design and implementation of an insolvency and creditors rights framework, support in establishing the new Competition Protection Authority and the National Fund for SME Development. The last is a flagship engagement.

(iii) ***Human development -*** major program to support the quality of education. Bank support in this area also includes social protection, labor and potentially health policy reforms.

(iv) ***Infrastructure Development and Urban Management -*** aiming to make significant improvements in its infrastructure and urban management sectors including land management and the environment. Current engagements include a multi-year land management modernization project with the Ministry of Finance and the State Property Sector and a solid waste management project with the Kuwait Municipality. Pipeline activities include support to the new Transport Authority, Tourism Development, and e-government services at the Kuwait Municipality.

ONGOING ACTIVITIES FOR FY16 AND BEYOND

Counterpart Agency – Basic Activity Data	***Activity Description***
I. PUBLIC SECTOR PEFORMANCE & CITIZEN ACCOUNTABILITY	
Ministry of Finance (MoF) PEFA Capacity Building and PFM Reforms (P157053)	The Bank is providing further support on the PEFA framework and in light of the revisions undergone to PEFA.
Ministry of Finance (MoF) Kuwait National ML/TF Risk Assessment (P159136)	The aim of this one-year project is to assist Kuwait's efforts to enhance the capacity of relevant AML/CFT Kuwaiti agencies in carrying out an assessment of money laundering and terrorism financing (ML/TF) risks, and developing risk-based action plans to mitigate these risks, through the Bank's National Money Laundering / Terrorist Financing Risk Assessment (NRA) tool.
II. PRIVATE SECTOR DEVELOPMENT	
Ministry of Finance Insolvency and Creditors Rights – Phase II (P144858)	The Ministry of Commerce and Industry (MOCI) requested World Bank support in improving Kuwait's investment climate. Following a review of the insolvency and creditors rights regime (ICR), the World Bank recommended developing a new set of insolvency laws. The World Bank team supported the preparation of two draft laws on the liquidation and rehabilitation of companies and presented them to the Legal Committee of the Cabinet. Other activities include providing support for the preparation of a secured transaction law and a credit report law – as well as for the development of specialized commercial courts.
Kuwait Direct Investment Promotion Authority (KDIPA) Doing Business Reform	KDIPA is concerned with improving Kuwait's business environment in general, and improving Kuwait's position in the WBG's Doing Business report (DB) in particular. As a result of the ongoing discussion between the KDIPA and WBG, KDIPA asked the World Bank to provide advisory support in the following areas: (i) supporting the Government of Kuwait in implementing reforms aimed at improving the regulatory environment for local firms in areas measured by the World Bank's Doing Business Report
The Kuwait National Fund for SME Development SME Fund Support – Phase III (P154183)	Building on the previous Bank engagements with the national SME Fund - Phase I and Phase II - the Bank is supporting the Fund with organizational set-up and the implementation of its strategy (Phase III). The current engagement is focused on supporting: (i) organizational set-up and IT architecture, (ii) the SME business environment, (iii) SME business development, (iv) entrepreneurship culture development, and (v) data collection, and monitoring and evaluation.

III. HUMAN DEVELOPMENT	
Ministry of Education (MOE) School Education Quality Improvement (SEQI) – Phase II (P154848)	This engagement is the flagship project of the Kuwait Country Program and builds on the earlier success of the School Education Quality Improvement (SEQI 1) Technical Cooperation Program, designed to support the Ministry of Education (MOE) and the National Center for Education Development (NCED) in the implementation of a comprehensive education reform program. The current engagement consists of five main components: (i) curriculum development and enhancement; (ii) effective teaching; (iii) school effectiveness; (iv) system accountability and effectiveness and (v) education policy, decision-making and implementation support.
IV. INFRASTRUCTURE AND URBAN MANAGEMENT	
Ministry of Finance (MoF) Reorganization of State Property (P151988)	This engagement builds on an earlier diagnostics phase which supported the State of Kuwait in developing a strategic understanding of the institutional and regulatory issues related to state land policy management. The current multi-year engagement on modernizing land administration builds on the work of this earlier phase and received formal approval from the Ministry of Finance in the third quarter of FY16. The engagement seeks to modernize the land management system in the country.
Municipality of Kuwait Solid Waste II (P122085)	This current engagement with the Kuwait Municipality related to solid waste focuses on: (i) the preparation and the implementation of a national priority project for the closure and rehabilitation of existing dumpsites, (ii) the elaboration and adoption of a solid waste master plan consistent with the Kuwait Land-Use Master Plan, (iii) the completion and harmonization of existing legal instruments, starting with a Solid Waste Law, and (iv) the establishment of a Municipal Solid Waste Agency.
Kuwait Authority for Partnership Projects (KAPP) Public-Private Partnerships Project Guidebook (P157147)	This reengagement with Kuwait Authority for Partnership Projects (formally known as PTB) came about after the PPP law (law 116/2014) and Executive Regulations were passed early 2015. KAPP requested the Bank's urgent support on revising the PPP Project Guidebook that was previously prepared by Aijaz and Paul Noumba in 2009. Overall, the one-year engagement covers 3 main components (i) inception report – comprehensive review of the new PPP law, (ii) Revised Guidebook, and (iii) Consultation and Dissemination of the revised Guidebook.

STATISTICAL ISSUES

(As of November 21, 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Despite further improvements in the current year, there is scope for improved compilation of the national accounts and balance of payments statistics through better coordination among statistical agencies. Timeliness, particularly for the national and fiscal accounts, is an area of concern.
National Accounts and Production: Kuwait's national accounts are compiled by the Central Statistical Bureau (CSB) and require development to maintain consistency with international best practice. Annual GDP estimates are derived from a benchmark year of 2010 and considered broadly adequate for surveillance. The authorities are encouraged to select and implement a contemporary benchmark to rebase the GDP time series to ensure structural changes in Kuwait's economy are reflected in published estimates. The sources and methods used to estimate individual components of GDP should be publicly disclosed to identify areas where further improvement is required. Known examples are the inadequate methodology used to construct volume movements for subsidies on products; and outdated methodology used to aggregate financial services indirectly measured (FISIM) into GDP, areas for which ongoing discussions are taking place between the CSB and IMF staff. These are likely to impact the oil and non-oil industry shares of value added until revised estimates are published towards the end of 2017. A quarterly GDP time series for 2010–17 will be disseminated during 2018. A technical assistance mission conducted in March 2015 provided other recommendations to: enhance source data by improving coordination between government agencies; compile comprehensive estimates of informal activity; and implement methods to consistent with international standards. **Price statistics** The Consumer Price Index (CPI) is published on a monthly basis (last observation for October 2016). The weights are based on the 2007 Household Income and Expenditure Survey (HIES) and are therefore unlikely to be representative of current expenditure patterns. Changes to the CPI weights are underway and are expected to be completed by February 2017. The new weights will be updated using the results of the 2013 HIES. The Producer Price Index (PPI) covers selected Mining and Quarrying and Manufacturing industries as well as Utilities. The PPI should be further developed by updating the weights from the 2010 base year, by extending coverage to include services and construction and by compiling separate indexes for the domestic and export markets. Improvements in these dimensions are under consideration in coordination with other GCC countries.

Government finance statistics: Annual GFS data are reported for publication in the *Government Finance Statistics Yearbook (GFSY)*. The major components of extrabudgetary revenues (investment income and transfers of profits of public institutions), extrabudgetary expenditures (interest on foreign debt and treasury paper), and financing operations conducted by two reserve funds are not reported. Data on interest on foreign debt and treasury paper are usually provided to Article IV consultation missions, but the regular provision of data on investment income is lacking. The authorities have made some progress in fiscal data presentation, but the lack of a suitable classification of data on the execution of the budget remains a constraint on monitoring effectively fiscal developments during the year. Progress is being made toward improving compliance with the GFSM 2001 guidance, particularly in terms of creating a new chart of accounts and moving reporting to an accrual basis. Data on the operations of the Public Institute for Social Security are not made available. Sharing of information between various government agencies could be improved. STA has indicated to the authorities that operations of the two reserve funds should be classified as part of government, as they perform activities for public policy purposes (management of debt and assets, and financing of the budget). An additional extension of coverage would be to report GFS in the form of the Statement of Sources and Uses of Cash for the consolidated central government. The authorities have also been briefed on the IMF's ongoing work to enhance the transparency of fiscal accounts and presentations detailed in the "Code of Good Practices on Fiscal Transparency" and were encouraged to adopt some of the practices recommended in the Code.
Monetary and financial statistics: The CBK reports monetary data to STA on a regular basis based on the Standardized Report Forms (SRFs). However, the data submission could be improved as it is not always reported on a timely basis. CBK needs to work further to distinguish a number of investment companies that accept deposits from other investment companies that do not accept deposits. Investment companies that accept deposits should appropriately be classified as part of the depository corporations sector. In the current SRFs, all investment companies (including those that accept deposits) are classified as other financial corporations. However, the amount of deposits accepted by investment companies is considered as not significant. The Capital Markets Authority needs to collate and disseminate information related to investment companies.
Financial Surveillance: Kuwait is not reporting financial soundness indicators (FSIs) to STA for public dissemination. The authorities are encouraged to report FSIs for the deposit-taking sectors and other financial corporations.
Balance of Payments Statistics: From 2009 data, the CBK compiles and disseminates detailed annual balance of payments and international investment position data, and from 2015 – quarterly balance of payments data in accordance with the methodology of the *BPM6*, while trade data estimates are disseminated quarterly by the Central Statistical Bureau (CSB). However, data on capital flows of the nonfinancial private sector are limited. To improve coverage for inward foreign direct investment, the CBK is making efforts to obtain more data by surveying direct investment enterprises. The CSB, working with the CBK, implemented the IMF's Coordinated Direct Investment Survey in 2010-12. This initiative should improve foreign direct investment statistics. Enhancements have been made in the estimation of travel services and communication services, but further improvements are needed in compilation practices and in the estimation of data on several service items and private transfers. The information on IIP data made available to staff is incomplete as it excludes the external assets held by the general government (with the exception of loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits). This data is expected to be reported to the Fund by the Executive Director for Kuwait at the time of the upcoming Article IV board meeting.

The CBK also participates in the Coordinated Portfolio Investment Survey (CPIS) with data reported for 2003 onwards, and in the recently introduced Coordinated Direct Investment Survey. These data are for the financial sector acting as end-investors' or as intermediaries on behalf of residents and do not include holdings of foreign securities held by government agencies, which comprise the bulk of Kuwait's cross-border holdings. In 2009, STA provided TA on improving external accounts data. The CBK has made good progress since then, particularly in the substantial revisions to report forms, including the separate reporting of financial transactions in the BOP and other changes in volume in the international investment position. It has also made progress in the estimation of remittances data. Yet, delays and data gaps remain. In particular, coordination among major government entities is needed to provide quarterly data to the CBK in time to compile timely quarterly statistics. Merchandise trade data are compiled monthly and published quarterly and annually by the CBK, monthly and annually by the CSB. The response rate for the private nonfinancial sector is low.	
II. Data Standards and Quality	
Kuwait is one of the first GDDS participants. Its metadata were last updated in 2010 and 2011. The CBK maintains its own webpage where it provides the following data to the public: money and banking statistics; balance of payments statistics; trade balance statistics; exchange rate; GDP by sector and expenditure at current and constant prices; public finance statistics; CPI and WPI; and security market indicators. Similarly, the Ministry of Planning has a webpage where the CSO publishes data on national accounts, prices, and other related statistics. The Ministry of Finance webpage includes detailed data for actual and estimated budget operations. In addition, the Kuwait Stock Exchange webpage provides data on stock market indices, volume and value of securities traded, as well as privatization schedules and other related information.	No data ROSC is available.

Table of Common Indicators Required for Surveillance
(Last updated on November 21, 2016)

	Date of latest observation (For all dates in table, please use format (dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality Methodological soundness[9]	Data Quality Accuracy and reliability[10]
Exchange rates	13/10/2015	13/10/2015	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	30/09/2016	18/10/2016	M	M	M		
Reserve/base money	31/12/2015	21/03/2016	M	M	M		
Broad money	31/12/2015	21/03/2016	M	M	M		
Central bank balance sheet	31/12/2015	21/03/2016	M	M	M		
Consolidated balance sheet of the banking system	31/12/2015	21/03/2016	M	M	M		
Interest rates[2]	31/12/2015	21/03/2016	M	M	M		
Consumer price index	31/08/2015	01/10/2015	M	M	Q		
Revenue, expenditure, balance and composition of financing[3]—general government[4]	31/12/2015	17/05/2016	M	M	M	Not published on Fund standards	Not published on Fund standards
Stocks of central government and central government-guaranteed debt[5]	31/12/2014	10/09/2015	M	M	M		
External current account balance	31/12/2015	28/06/2016	Q	Q	Q		
Exports and imports of goods and services	31/12/2015	28/06/2016	Q	Q	Q		
GDP/GNP	31/12/2014	31/08/2015	A	A	A		
Gross external debt	31/12/2014	09/04/2015	A	A	A		
International investment position[6]	31/12/2015	16/06/2016	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data made available to staff is incomplete as it excludes the external assets held by the general government (with the exception of loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits)

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] Reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.