INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/331

KUWAIT

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

September 2023

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 2023 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- A **Press Release**.
- 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 May 30, 2023, 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 July 20, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.

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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Washington, D.C.

PRESS RELEASE

PR23/291

IMF Executive Board Concludes 2023 Article IV Consultation with Kuwait

FOR IMMEDIATE RELEASE

WASHINGTON, DC – **August 23, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kuwait[1] and considered and endorsed the Staff Appraisal on a lapse-of-time basis without a meeting.

Benefiting from high oil prices, Kuwait's economic recovery continues, and inflation is contained. Non-oil GDP growth rose to an estimated 3.4 percent in 2021, benefiting from a recovery in domestic and external demand, and strengthened further to 4.0 percent in 2022. This, together with a pickup in oil production, resulted in a rebound in overall real GDP growth to 8.2 percent in 2022. While oil GDP growth is expected to decline in 2023 due to oil production cuts, non-oil GDP growth would stay robust, driven by domestic demand, and is foreseen to remain steady over the medium term. After peaking at 4.7 percent y-o-y in April 2022, headline inflation has receded to 3.7 percent in May 2023. Subsidies on basic food items such as rice and sugar, and caps on domestic gasoline prices, helped contain inflation, as did tighter monetary policy. Core inflation (excluding food and transport items) has also been trending down since 2022Q2.

The fiscal and external balances have strengthened, and external buffers are increasing. The overall fiscal balance turned into a surplus of 6.5 percent of GDP in FY2021/22, while the non-oil balance (less investment income) improved by about 9 percentage points of non-oil GDP to -90.1 percent, and fiscal financing needs fell substantially. The fiscal surplus is estimated to have improved to 23.4 percent of GDP in FY2022/23, benefiting mainly from high oil revenues, but also from expenditure restraint which helped increase the non-oil balance by about 2 percentage points of non-oil GDP to about -88.3 percent. Helped by higher oil revenue, the current account surplus is estimated to have reached 33.8 percent of GDP in 2022 and is projected to remain high in 2023. Official reserve assets stood at US$48.2 billion as of end-2022 (10.4 months of prospective imports, 106.5 percent of the IMF Assessing Reserve Adequacy metric).

Financial soundness indicators and the authorities' stress tests suggest the banking system is stable and resilient to severe shocks. Banks are well-capitalized and highly liquid. Non-performing loans remain sufficiently provisioned. Profitability is also recovering.

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[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.

The risks surrounding the baseline macroeconomic outlook are elevated and are tilted to the downside. Volatility in oil prices and production—arising from global factors—poses two-sided risks to growth and inflation, as well as to the fiscal and current account balances. A deeper global growth slowdown, possibly caused by further monetary policy tightening or banking sector stress in major advanced economies, would adversely impact Kuwait's economy. Deepening geo-economic fragmentation would reduce potential growth, while structurally worsening the fiscal and current account balances. As for domestic risks, delays in needed fiscal and structural reforms could amplify the risk of procyclical fiscal policy and undermine investor confidence. Such delays would also hinder progress towards diversifying the economy, making it more vulnerable to climate transition risks. On the upside, a resolution to the political gridlock could accelerate needed fiscal and structural reforms, boosting investor confidence, and stimulating private investment.

Executive Board Assessment[2]

The economic recovery continues but risks to the outlook remain substantial. Non-oil growth remains robust in 2023, with declining headline inflation and a large current account surplus. Nonetheless, elevated risks surround the baseline economic outlook, especially those associated with volatility in oil prices and production arising from global factors. Given Kuwait's large fiscal and external buffers, it can undertake needed reforms from a position of strength. However, political gridlock between the government and Parliament could continue to delay reforms. Resolving the impasse is critical to accelerate reform momentum, and to thereby boost growth and diversify the economy.

Comprehensive and growth-friendly fiscal consolidation is needed to reinforce fiscal sustainability and support intergenerational equity. The fiscal expansion envisaged in the draft FY 2023/24 budget is appropriate given the negative non-oil output gap. Starting next fiscal year, fiscal consolidation should aim to increase non-oil revenue and tackle current spending rigidities while increasing capital outlays to raise potential growth. Revenue measures could include introducing the GCC-wide excises and VAT, as well as expanding corporate income taxation to cover domestic firms. Expenditure measures should focus on curtailing the wage bill and gradually phasing out energy subsidies while improving targeted income support.

A robust medium-term fiscal framework with a clear fiscal anchor would support consolidation. Given the sensitivity of the headline fiscal balance to oil prices, a target for the non-oil structural primary balance could serve as an appropriate fiscal anchor. Conducting fiscal policy under a robust

[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

framework could help resist spending pressures when oil prices rise, preventing pro-cyclical spending and ensuring durable adjustment gains.

Strengthening fiscal governance and transparency would boost accountability and policy credibility. Reforms should aim to enhance fiscal data coverage and reporting, strengthen corporate governance, and enhance public procurement. They should also reinvigorate the integrated asset-liability management framework, to assess the costs and benefits of investment and borrowing decisions, as well as broader macro-financial implications, in a holistic manner.

The fixed exchange rate regime—based on the peg to an undisclosed basket of currencies—remains an appropriate framework for monetary policy. This framework provides the CBK with some monetary policy autonomy and has enabled it to deliver low and stable inflation for many years. Fiscal consolidation to support intergenerational equity and structural reforms to diversify the economy should be pursued to strengthen the external position (which is weaker than the level implied by fundamentals and desirable policies) and support the peg.

The banking system is stable and systemic risk is contained, supported by a strong prudential framework that should continue to be enhanced. To proactively manage emerging financial stability risks arising from global monetary policy tightening, the CBK should continue to closely monitor banks' dollar funding liquidity and credit quality. Now that all pandemic-related financial regulatory support measures have been unwound, the CBK should consider adjusting the composition of capital requirements to make macroprudential policy more countercyclical. The interest rate ceiling on commercial loans should be phased out to support efficient risk pricing and credit supply to SMEs, while the existing blanket guarantee on bank deposits should be replaced with a limited deposit insurance framework to address moral hazard.

A structural reform package is needed to boost labor productivity and non-oil private sector-led growth. Strong non-oil private sector-led growth is needed to absorb new labor market entrants. This requires a comprehensive set of reforms that tackle deep-rooted structural challenges. To incentivize Kuwaitis to seek careers in the private sector, labor market reforms to promote a market-aligned wage structure are needed. In particular, compensation and working conditions should be gradually aligned across the public and private sectors, while labor market policies should be steadily harmonized between nationals and expatriates. Social safety net reforms should proceed in parallel to ensure adequate social protection for nationals during the transition period. In the meantime, it is critically important to press ahead with reform measures that strengthen governance and the business environment to enhance competition and promote investment, including relaxing foreign ownership restrictions on firms and improving public land allocation for commercial development with longer lease terms. Investing in human capital would also promote long-term productivity growth.

Kuwait: Selected Economic Indicators, 2019–28

				Prel.	Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Oil and gas sector										
Total oil exports (billions of U.S. dollars)	58.7	35.8	63.0	94.0	72.5	68.1	68.5	67.7	67.2	67.0
Average crude oil export price (U.S. dollars/barrel)	64.0	41.5	69.2	102.7	77.7	71.7	68.9	66.7	64.9	63.4
Crude oil production (millions of barrels/day)	2.68	2.44	2.43	2.71	2.59	2.68	2.81	2.87	2.92	2.97
National accounts and prices	(Annual percentage change, unless otherwise indicated)									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	41	32	41	57	50	50	52	53	54	56
Real GDP[1]	-0.6	-8.9	1.3	8.2	0.1	2.6	4.1	2.4	2.4	2.4
Real oil GDP (including refineries)	-0.1	-9.8	-0.3	11.6	-2.7	2.0	4.8	2.0	2.0	2.0
Real non-oil GDP[1]	-1.1	-7.5	3.4	4.0	3.8	3.5	3.2	3.0	3.0	3.0
CPI inflation (average)	1.1	2.1	3.4	4.0	3.6	3.0	2.4	2.0	2.0	2.0
Budgetary operations[2]	(Percent of GDP at market prices)									
Revenue	56.2	47.6	54.3	63.9	57.2	53.1	52.2	51.3	49.4	48.7
Oil	39.3	25.3	35.7	48.2	37.6	35.6	34.8	33.8	31.5	30.6
Nonoil, *of which:*	16.9	22.3	18.6	15.7	19.6	17.5	17.5	17.5	17.9	18.1
Investment income	11.9	17.1	13.1	12.0	13.1	13.1	12.9	12.8	13.1	13.1
Expenditures[3]	55.7	62.0	47.7	40.5	52.5	50.5	50.4	50.6	51.0	51.1
Expense	49.0	56.6	43.4	37.5	47.5	45.4	45.3	45.5	45.9	46.0
Capital	6.7	5.5	4.3	3.0	5.0	5.1	5.1	5.1	5.1	5.1
Balance	0.5	-14.5	6.6	23.4	4.7	2.6	1.8	0.7	-1.5	-2.4
Balance (after transfer to FGF and excl. invest. income)	15.9	-31.5	-6.5	11.4	-8.4	-10.5	-11.1	-12.2	-14.6	-15.4
Domestic financing (net)	-4.4	-1.8	-1.7	0.0	-0.1	1.7	1.9	1.5	1.1	1.1
External borrowing and drawdown on GRF (net)	20.3	33.3	8.1	-11.4	8.5	8.9	9.2	10.7	13.5	14.3
Non-oil balance excl. invest. inc. (percent of non-oil GDP)[4]	95.2	-99.3	-90.1	-88.3	-92.6	-88.0	-85.7	-83.9	-82.3	-80.6
Excl. oil subsidies and benefits (percent of non-oil GDP)	86.4	-88.4	-78.3	-76.8	-78.9	-79.3	-77.5	-76.0	-74.7	-73.3
Total gross debt (calendar year)[5]	11.6	11.7	8.6	2.9	3.3	3.2	5.9	9.5	11.9	17.1
Net government financial assets	11.6	511.4	497.1	409.2	497.3	529.7	536.1	540.9	543.9	542.2
Money and credit	(Percent change, unless otherwise indicated)									
Net foreign assets[6]	6.2	12.4	-12.5	24.5	4.0	9.1	7.5	6.9	6.7	6.4
Claims on nongovernment sector	4.4	2.9	7.2	7.6	6.2	6.1	5.6	5.5	5.4	5.4
Kuwaiti lending rate (year average; in percent)	4.8	4.1	3.7	3.9	...	...	...	...	...	...
Stock market all share index (annual percent change)	23.7	-11.7	27.0	3.5	...	...	...	...	...	...
External sector	(Billions of U.S. dollars, unless otherwise indicated)									
Exports of goods	64.7	40.1	68.4	100.3	77.9	73.7	74.6	74.2	74.0	74.3
Of which: nonoil exports	6.0	4.3	5.4	6.3	5.4	5.7	6.1	6.5	6.9	7.3
Annual percentage change	11.9	-28.1	26.5	16.4	-13.9	4.5	7.0	6.5	6.1	6.0
Imports of goods	29.4	-24.5	-27.9	-28.4	-29.1	-30.0	-32.3	-34.8	-37.2	-39.8
Terms of trade (ratio, annual percent change)	3.8	-19.3	65.4	6.8	-0.5	5.5	-10.0	-7.9	-6.8	-6.2
Current account	17.9	4.9	37.4	63.1	42.1	36.0	33.7	30.1	26.7	23.5
Percent of GDP	13.1	4.6	27.2	33.8	25.7	22.0	19.9	17.3	15.0	12.9
International reserve assets[7]	39.9	48.3	45.2	48.2	50.0	53.9	58.3	63.0	67.9	72.9
In months of next year's imports of goods and services	11.3	12.9	9.7	10.4	10.5	10.6	10.7	10.9	11.1	11.1
Memorandum items:										
Non-oil primary fiscal balance, excl. investment income[8]	95.2	-99.3	-90.1	-88.3	-92.6	-88.0	-85.7	-83.9	-82.3	-80.6
Non-oil structural primary fiscal balance, excl. invest. inc.[8]	94.0	-94.4	-89.6	-88.1	-86.4	-88.0	-85.7	-83.7	-81.8	-76.9
Exchange rate (U.S. dollar per KD, period average)	3.29	3.27	3.32	3.27	...	...	...	...	...	...
Nominal effective exchange rate (Percentage change)	2.5	-0.1	-0.2	5.8	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	1.7	0.2	0.2	3.2	...	...	...	...	...	...
Non-oil output gap	1.6	-7.3	-5.6	-3.5	-1.7	-0.3	0.0	0.0	0.0	0.0

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

[1] Calculated at market prices.

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

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

[4] Excludes pension fund recapitalization.

[5] Excludes debt of Kuwait's SWF related to asset management operations; assumes resumption of debt issuance from FY 2024/25.

[6] Excludes SDR holdings and IMF reserve position.

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

[8] Percent of non-oil GDP.

INTERNATIONAL MONETARY FUND

KUWAIT

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

July 20, 2023

KEY ISSUES

Context. Benefiting from high oil prices, Kuwait's economic recovery continues, and the fiscal and external balances have strengthened. Inflation is contained and external buffers are increasing. However, structural challenges persist. The dominance of oil in Kuwait's economy coupled with global decarbonization trends underscore the urgency for economic diversification and structural transformation, and the pursuit of fiscal reforms to reinforce sustainability.

Outlook and risks. The growth outlook remains broadly favorable. While oil GDP growth is expected to decline this year due to oil production cuts, non-oil GDP growth would stay robust, driven by domestic demand, and is foreseen to remain steady over the medium term. Risks to the outlook are tilted to the downside.

Fiscal policy. Strong and growth-friendly fiscal consolidation based on both non-oil revenue and expenditure measures is needed to reinforce fiscal sustainability. Passage of the Public Debt Law is paramount for orderly fiscal financing and development of the local debt market. Establishing a sound medium-term fiscal framework and strengthening public sector transparency and governance would support fiscal policymaking and improve its effectiveness.

Financial sector. Banks remain well capitalized and liquid. Continued close monitoring including via regular stress tests is crucial. The central bank should consider adjusting the composition of capital requirements to make macroprudential policy more countercyclical.

External sector. The exchange rate peg continues to serve Kuwait well. Fiscal consolidation and structural reforms are desirable to strengthen the external position and support the peg.

Structural reforms. Comprehensive structural reforms—including improving labor market flexibility and the business environment—are needed to reinvigorate non-oil, private sector-led growth. Continued forceful implementation of the anti-corruption strategy would strengthen market confidence and support other structural reforms.

Approved By
Zeine Zeidane (MCD) and Fabian Valencia (SPR)

Discussions were held during May 16–30, 2023 in Kuwait City, Kuwait. The team comprised Yasser Abdih (head), Muayad Ismail, Fei Liu, and Francis Vitek (all MCD). The Advisor to the Executive Director Mr. Fouad Al-Kohlany accompanied the mission. The mission met with Kuwait's Minister of Finance Al-Hajeri, the Governor of the Central Bank Al-Haroon, other senior public officials, representatives of the private sector, and members of civil society. Dalia Aita, Miguel Antonio Encinas De Asis, and Esther George (all MCD) provided excellent support.

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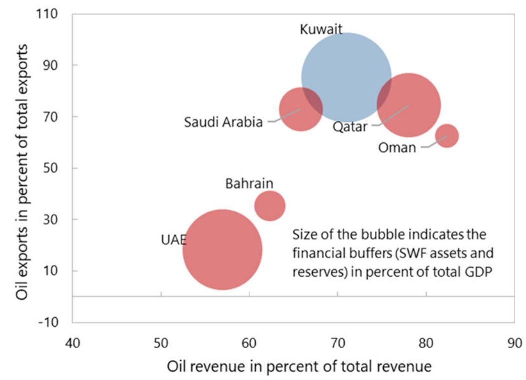
ANNEXES

CONTEXT

1. **Political gridlock has hindered reform progress.** The Kuwaiti government resigned on January 23, 2023 due to its power struggle with Parliament. A decree was issued on April 9, reappointing the Prime Minister who formed a new cabinet that included a new Finance Minister. On May 1, the Amir dissolved Parliament by royal decree. A general election was held on June 6 and a new government formed on June 18, with both the Prime Minister and Finance Minister reappointed. This is the 7th government since late 2020, during which three parliamentary elections were held.[1] On July 11, the Finance Minister submitted his resignation, which was accepted the day after, and the Minister of Oil was appointed acting Minister of Finance. Frequent changes of government, and the political impasse between the government and Parliament, have impeded important fiscal and structural reforms. Reform bills—such as the new debt law needed for orderly fiscal operations and the value added tax bill—have been pending parliamentary approval, and the implementation of Kuwait's structural reform agenda under the previous program of action (for the sixteenth legislative term 2021/22-2024/25) has been delayed. Nonetheless, the new Cabinet decided to form a ministerial committee tasked with strengthening cooperation and engagement with Parliament.

Dependence on Oil: Kuwait and GCC, 2022



Sources: Country authorities; and IMF staff calculations.

2. **Kuwait can undertake the needed reforms from a position of strength.** High oil prices have improved the fiscal and external balances, while the General Reserve Fund (GRF)—the only financing source for fiscal operations at present—is being replenished. Meanwhile, the Kuwait Investment Authority's (KIA) ample assets (which include the Future Generations Fund (FGF) and the GRF) and reserves of the Central Bank of Kuwait (CBK)—which together amounted to about 450 percent of GDP as of end-2022—as well as substantial potential borrowing space, underpin Kuwait's favorable initial conditions and its ability to withstand shocks. They would also allow Kuwait to tackle its long-standing structural impediments and reinvigorate non-oil, private sector-led growth from a strong position.

RECENT ECONOMIC DEVELOPMENTS

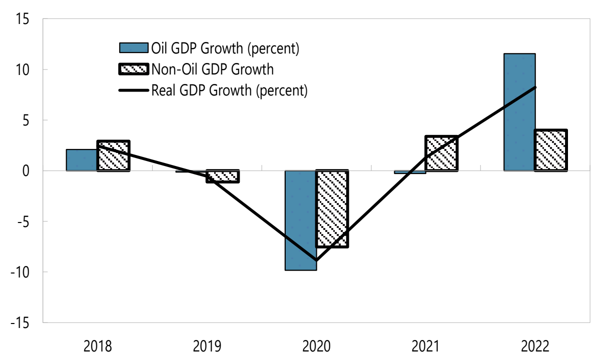
3. **Growth is gaining traction.** Economic recovery from the pandemic-induced deep contraction in 2020 has continued, and was not interrupted by any direct adverse effects of Russia's war in Ukraine, given limited trade and financial linkages with both countries. Non-oil GDP growth

[1] The current 43rd Cabinet is the seventh cabinet since the formation of the 37th Cabinet on December 14, 2020. The 36th Cabinet was in office for about one year. General elections were held on December 5, 2020, September 29, 2022, and June 6, 2023.

rose to an estimated 3.4 percent in 2021, benefiting from a recovery in domestic and external demand, and strengthened further to 4.0 percent in 2022, primarily reflecting continued recovery in external demand and a smaller fiscal drag, despite a slowdown in private domestic demand (see ¶9). This, together with a pickup in oil production, resulted in a rebound in overall real GDP growth to 8.2 percent in 2022.

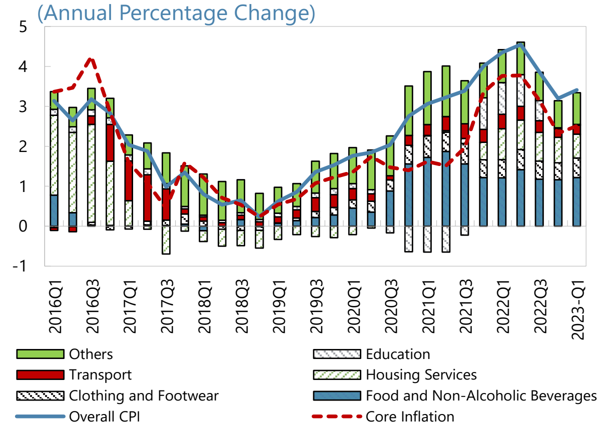
4. **Inflation has been contained.** After peaking at 4.7 percent y-o-y in April 2022, headline inflation has receded to 3.7 percent in May 2023. Subsidies on basic food items such as rice and sugar, and caps on domestic gasoline prices, helped contain inflation, as did tighter monetary policy (see below). Core inflation (excluding food and transport items) has been trending down since 2022Q2, with a latest May print of 3.0 percent y-o-y.

Overall Real GDP, Oil GDP, and Non-Oil GDP Growth
(Percentage Change, y-o-y)



Sources: Haver, Country Authorities, and IMF Staff Calculations.

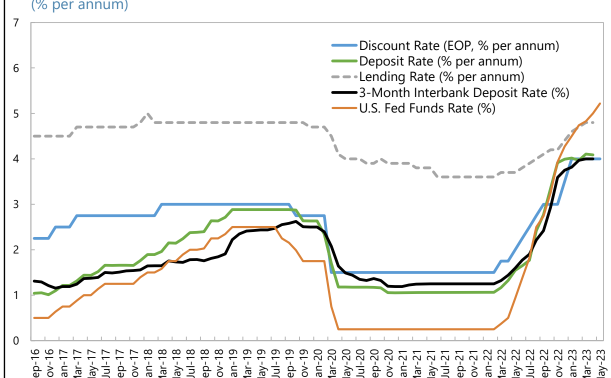
CPI Inflation by Sector
(Annual Percentage Change)



Sources: Haver, Country Authorities, and IMF Staff Calculations.
Note: Others include miscellaneous goods, communications, health, furnishing, recreation, restaurants, and tobacco. Data on the pure energy component of the CPI are not available; hence core inflation is approximated by excluding transportation in addition to food items.

5. **Credit growth remains strong despite higher interest rates, supporting the recovery.** The CBK has raised its policy rate by a cumulative 250 basis points since the global monetary policy tightening cycle began in early 2022. Lending rates increased less than the policy rate, given maturity transformation[2] and ample liquidity in the banking system brought about by high oil prices (see Selected Issues Paper). Mirroring the recovery of domestic economic activity, private credit growth has been robust in 2022, registering 7.6 percent (4.5 percent in real terms), driven by personal loans,

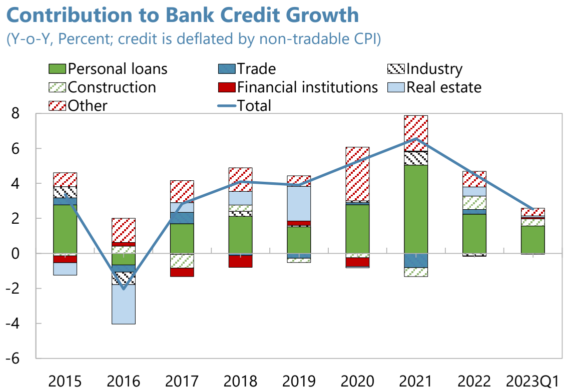
Interest Rates
(% per annum)



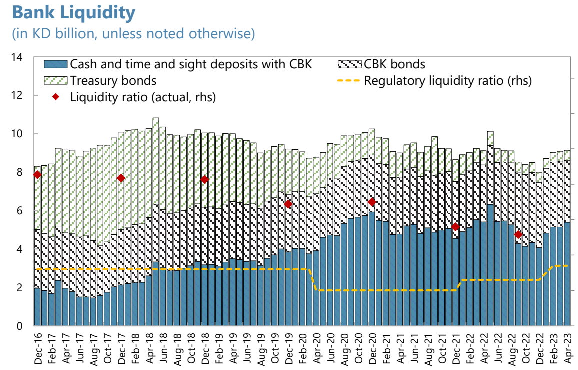
Sources: CBK, HAVER, and IMF calculations.

[2] Lending rates increased less than one-for-one in response to the policy rate hikes, in part because they apply to loans with longer maturity and the hikes are not expected to persist throughout the loan terms.

as well as lending to businesses. However, it fell to 5.1 percent y/y in 2023Q1 (2.7 percent in real terms).

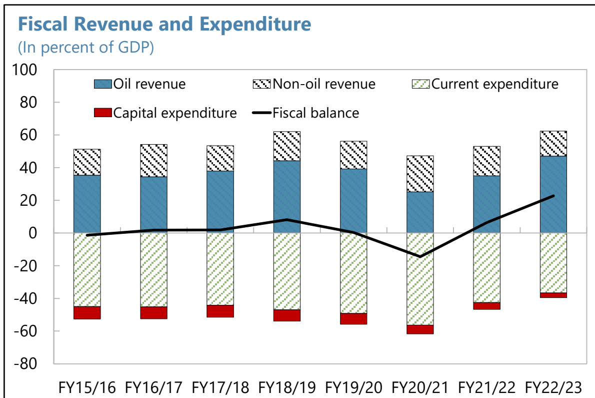


Sources: Central Bank of Kuwait, and IMF calculations.



Sources: Central Bank of Kuwait, and IMF calculations.
Liquidity ratio is the ratio of deposits, Treasury bills and bonds or any other financial instruments issued by CBK, to customers' KD-deposits.

6. With high oil revenues and expenditure containment, the fiscal position has improved. The overall fiscal balance turned into a surplus of 6.5 percent of GDP in FY2021/22[3], while the non-oil balance (less investment income) improved by about 9 percentage points of non-oil GDP to -90.1 percent, and fiscal financing needs fell substantially.[4] In the absence of a Public Debt Law to permit borrowing, or legal authority to draw from the large Future Generations Fund, financing has relied on drawdowns from the GRF, whose liquid assets reached a low level in 2020 but are being replenished. The overall fiscal surplus is estimated to have improved to 23.4 percent of GDP in FY2022/23, benefiting mainly from high oil revenues, and the non-oil balance has also increased by about 2 percentage points of non-oil GDP to about -88.3 percent, supported by expenditure restraint.



Sources: Country authorities, and IMF staff calcualtions. Estimated data for FY22/23.

7. The current account surplus has rebounded on the back of high oil export revenues. It is estimated to have reached 33.8 percent of GDP in 2022. Meanwhile, the financial account deficit remained elevated at an estimated 32.7 percent of GDP in 2022, reflecting strong foreign asset accumulation. Official reserve assets stood at US$48.2 billion as of end-2022 (10.4 months of prospective imports, 106.5 percent of the Assessing Reserve Adequacy (ARA) metric). The external

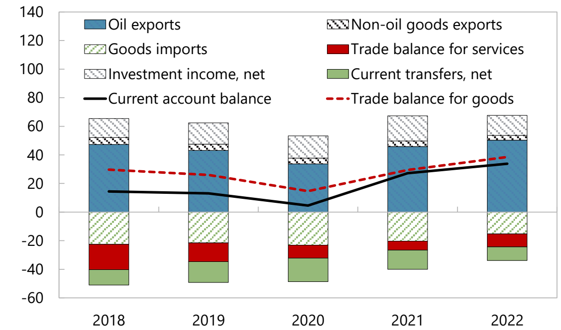
[3] In August 2021, the Kuwaiti Cabinet ordered all government ministries to reduce spending in FY2021/22 by no less than 10 percent of the budgeted amounts. The expenditure outturn in FY2021/22 was a reduction of 6.4 percent relative to budget.

[4] Financing needs reflect the overall deficit plus amortization and exclude investment income, which is typically reinvested and not used to finance expenditures. They also exclude transfers to the FGF in the case of a budget surplus during the same fiscal year.

position in 2022 was weaker than the level implied by fundamentals and desirable policies, partly reflecting inadequate public saving of the oil revenue windfall (Annex II).

Contributions to the Current Account

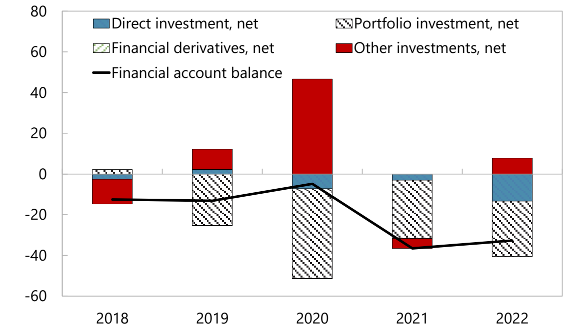
(Percent of GDP)



Sources: Kuwaiti authorities.

Contributions to the Financial Account

(Percent of GDP)

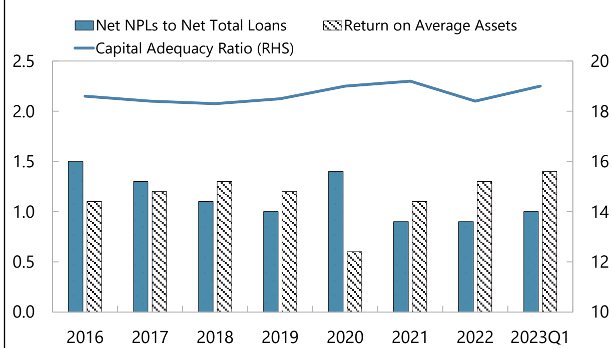


Sources: Kuwaiti authorities.

8. **Financial soundness indicators and the authorities' stress tests suggest the banking system is resilient to severe shocks.** The latest reading puts banks' liquidity ratio at 24.7 percent (2023Q1), well above the CBK's regulatory requirement of 18 percent, and banks' capital adequacy ratio at 19 percent, comfortably above the regulatory minimum under Basel III. Non-performing loans (NPLs) remain sufficiently provisioned. Profitability is recovering, with banks' return on assets ratio improving from 0.6 percent in 2020 to 1.4 percent in 2023Q1. The authorities' latest stress tests reveal banking system resilience.[5] The impact of the bouts of global financial market turbulence in early 2023—caused by the problematic regional banks in the United States and Credit Suisse in Switzerland—on Kuwait's banks has been muted, given their limited direct exposure to U.S. and European banks and to the sovereign, their stable source of funding, their domestically or regionally oriented business models, ample liquidity in the system, and strong prudential oversight by the CBK (see ¶19).

Selected Financial Stability Indicators

(In percent)

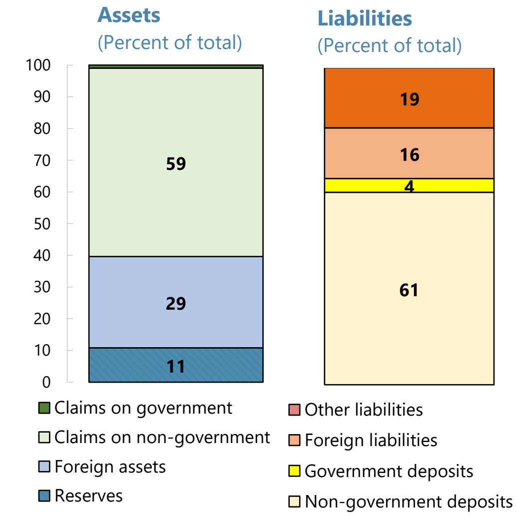


Sources: Central Bank of Kuwait, IMF staff calculations.

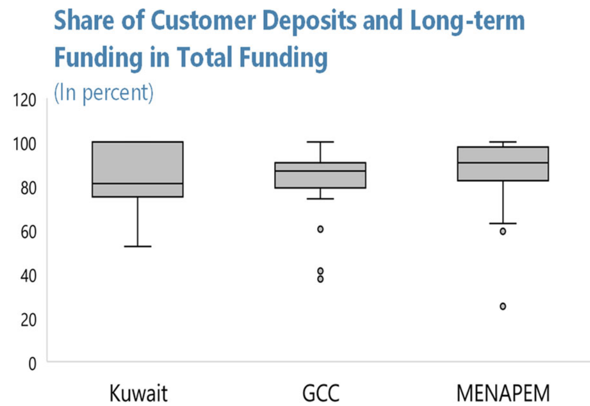
[5] As per the CBK's stress testing framework introduced in 2020, the stress tests scenarios are tailored to Kuwait's economic characteristics, and the scenario narratives are set based on the prevalent risks to growth. In the 2022Q4 round of stress tests, three scenarios were considered: i) a sector-specific scenario entailing a prolonged disruption in oil production; ii) a country-wide shock involving geopolitical tensions and trade route disruptions; and iii) a global shock triggered by military conflicts that disrupt all aspects of the economy including supply, demand, trade, and financial markets. The banking sector is estimated to weather all three scenarios with capital adequacy remaining above Basel III minima. The CBK has more recently completed a supplementary stress test exercise where banks were requested to stress their portfolios against rising interest rates and losses on foreign investment portfolios. The results indicate that banks' capital buffers are sufficient to absorb such shocks.

Banking Sector Stability

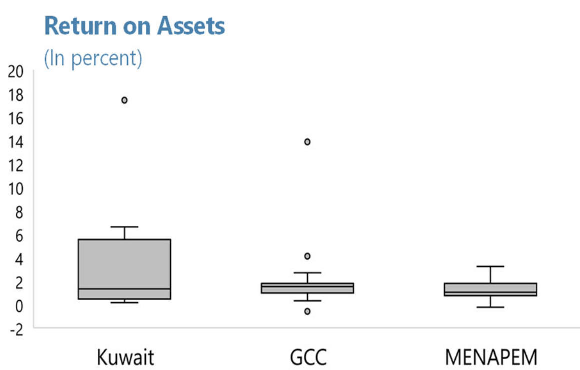
Banks have limited exposure to the sovereign…



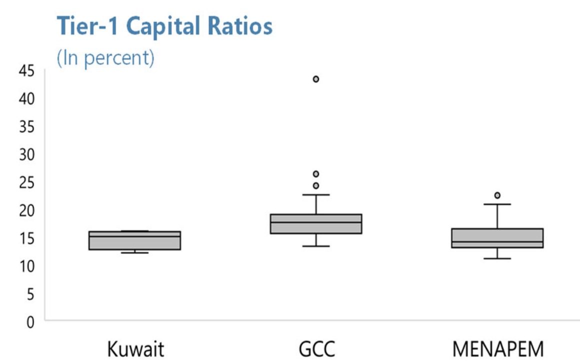
and a stable funding source.



Banks remain profitable…



with ample capital.



Sources: Fitch Connect, country authorities, and IMF staff calculations.

Note: GCC excludes Kuwait; MENAPEM includes Egypt, Jordan, Morocco, and Pakistan.

Banks' exposure to the sovereign chart is based on Other Depository Corporations Survey, March 2023 data (monthly data). The boxplot charts are based on latest Fitch Connect bank level data (2022Q4 or latest available 2022 values).

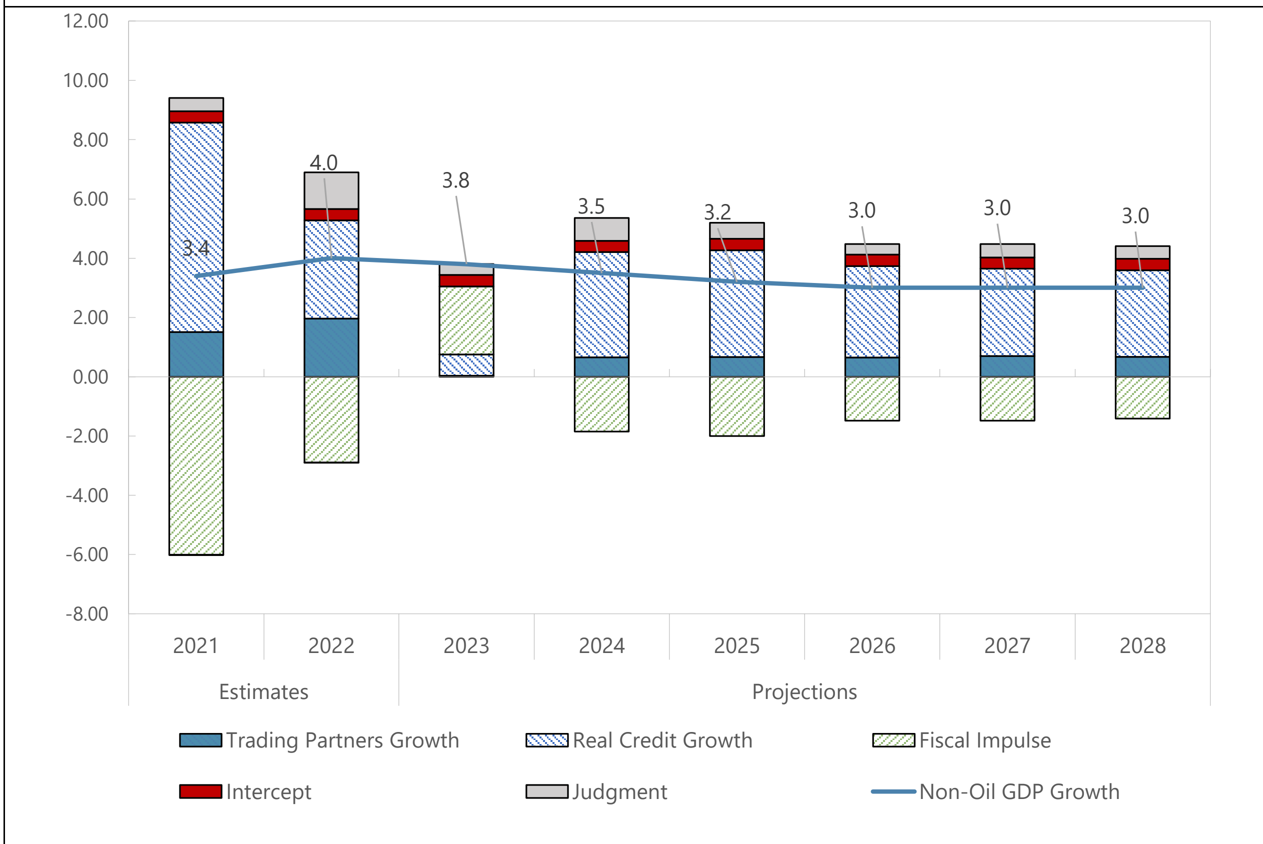
The boxplot shows (from top to bottom): maximum, 75th percentile, median, 25th percentile, and minimum. The dots represent outliers.

OUTLOOK AND RISKS

9. **The economic outlook remains broadly favorable.** The impact on Kuwait's economy of tighter U.S. monetary policy is estimated to be limited in an environment of high liquidity and oil prices (see accompanying Selected Issues Paper).

- Oil GDP growth would decline to -2.7 percent in 2023 due to oil production cuts under the October 2022 OPEC+ agreement and the April 2023 OPEC+ announcement. Non-oil GDP growth is projected to remain robust at 3.8 percent in 2023 due to fiscal stimulus (see ¶11) and a partial rebound in expatriate employment, despite slower growth in global GDP and in domestic real credit. It is projected to slow to 3.5 percent in 2024, reflecting the dissipation of fiscal stimulus and despite pickups in trading partners' growth and domestic credit growth, and would hover around 3.0 percent over the medium term.

Main Drivers of Non-Oil GDP Growth



Sources: Haver and IMF Staff Calculations.

Note: The decomposition of non-oil GDP growth into contributions from its determinants is based on structural form regression model

$$y_t = \alpha_0 + \alpha_1 x_{1,t} + \alpha_2(x_{2,t} - y_t) + \alpha_3 x_{3,t} + \alpha_4(x_{4,t} - y_t) + v_t \quad (1)$$

where y_t is non-oil GDP growth, $x_{1,t}$ is a crisis dummy corresponding to the pandemic and global financial crisis, $x_{2,t}$ is real domestic credit growth, $x_{3,t}$ is the fiscal impulse measured by the change in the non-oil primary fiscal deficit as percent of non-oil GDP, and $x_{4,t}$ is Kuwait's trading partner real GDP growth. Real domestic credit growth and trading partner real GDP growth are defined as deviations from non-oil GDP growth, so their coefficients can be interpreted as contributions from the credit cycle and net external demand, respectively. The inclusion of trading partner real GDP growth, which accounts for external demand for Kuwait's exports, including oil, and the fiscal impulse controls for interlinkages between the oil and non-oil sectors.

The non-oil GDP growth projections are generated using the implied reduced form regression model

$$y_t = \beta_0 + \beta_1 x_{1,t} + \beta_2 x_{2,t} + \beta_3 x_{3,t} + \beta_4 x_{4,t} + \varepsilon_t \quad (2)$$

where $\beta_i = \frac{\alpha_i}{1+\alpha_2+\alpha_4}$ for i=0, 1, … 4. Staff exercises judgement to incorporate other factors not captured by the regression.

- Inflation is expected to ease to 3.6 percent in 2023 from 3.9 percent in 2022, benefiting from lower global food and energy prices and tighter monetary policy. It will continue to moderate to 3.0 percent in 2024 before settling at 2.0 percent over the medium term.

- The large current account surplus is projected to moderate while reserve coverage gradually increases. The fiscal balance is projected to deteriorate absent consolidation measures.

Selected Macroeconomic Indicators, 2020-2028

		Prel.		Projections					
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Real GDP Growth (percent)	-8.9	1.3	8.2	0.1	2.6	4.1	2.4	2.4	2.4
Oil GDP Growth (percent)	-9.8	-0.3	11.6	-2.7	2.0	4.8	2.0	2.0	2.0
Non-Oil GDP Growth	-7.5	3.4	4.0	3.8	3.5	3.2	3.0	3.0	3.0
Inflation (percent)	2.1	3.4	4.0	3.6	3.0	2.4	2.0	2.0	2.0
CA Balance (% of GDP)	4.6	27.2	33.8	25.7	22.0	19.9	17.3	15.0	12.9
International reserves in months of next year's imports	12.9	9.7	10.4	10.5	10.6	10.7	10.9	11.1	11.1
Fiscal balance (% of GDP)	-14.6	6.5	23.4	4.7	2.6	1.8	0.6	-1.6	-2.4
Non-oil balance excl. investment income (percent of non-oil GDP)	-99.3	-90.1	-88.3	-92.6	-88.0	-85.7	-83.9	-82.3	-80.6
Government debt (% of GDP) 1/	11.7	8.6	2.9	3.3	3.2	5.9	9.5	11.9	17.1

Sources: Country authorities, and IMF staff calculations.
1/ Assumes resumption of debt issuance from FY 2024/25.

10. The risks surrounding the baseline macroeconomic outlook are elevated and are tilted to the downside on balance (Annex III). Volatility in oil prices and production—arising from global factors—poses two-sided risks to growth and inflation, as well as to the fiscal and current account balances. A deeper global growth slowdown, possibly caused by further monetary policy tightening or banking sector stress in major advanced economies, would adversely impact Kuwait's economy. Deepening geo-economic fragmentation would reduce potential growth, while structurally worsening the fiscal and current account balances. As for domestic risks, delays in needed fiscal and structural reforms could amplify the risk of procyclical fiscal policy and undermine investor confidence. Such delays would also hinder progress towards diversifying the economy, making it more vulnerable to climate transition risks. On the upside, a resolution to the political gridlock could accelerate needed fiscal and structural reforms, boosting investor confidence, and stimulating private investment.

Authorities' Views

11. The authorities broadly agreed with staff on the outlook and risks, the external sector assessment, and the debt sustainability analysis. They were slightly more optimistic on the near-term prospects for growth. They also noted that inflation has been primarily driven by external factors and was contained. They emphasized that the main risks to the outlook are global in nature and would be primarily transmitted to Kuwait via oil production and prices. The authorities also noted that

Kuwait's strong financial position would allow it to weather external shocks well should they materialize. They expressed their strong desire to pursue economic reforms that will further improve the growth outlook and resilience of the economy.

POLICY DISCUSSIONS

A. Fiscal Policy—Balancing Short-Term Support versus Long-Term Sustainability

12. The draft FY 2023/24 budget appropriately envisages a fiscal expansion given the still negative non-oil output gap. It reflects cash allowances for unused leave during the COVID-19 restrictions to public sector employees, settlement of delayed payments of subsidies to line ministries, a larger wage bill on the back of higher public sector employment, and subsidies to contain inflationary pressure. Capital expenditure is budgeted to decline due to delays in project execution in previous years. While the draft budget is pending parliamentary approval, recurring expenditure, such as on wages and compensation and on goods and services, as well as capital expenditure on existing projects, can continue in the meantime.

Decomposition of Fiscal Account

FY23/24 (budget) relative to FY22/23 (est. outturn)

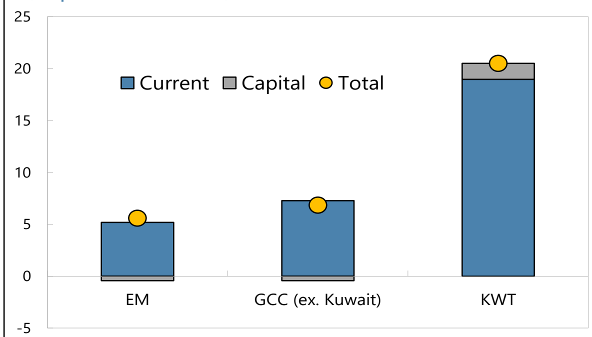
	Rev. and exp. as shares of non-oil GDP in FY22/23 (A)	Rev. and exp. as shares of non-oil GDP in FY23/24 (B)	Change (= B - A)
Revenue			
Non-oil revenue	8.4	12.6	4.3
of which one-off revenue from profit of SOEs	...	3.6	3.6
Expenditure			
Current expenditure	90.0	95.7	5.7
of which:			
Delayed payment of subsidies to ministries	...	*4.3*	*4.3*
Cash allowance for unused leave during Covid-19	...	*1.9*	*1.9*
Capital expenditure	7.2	10.0	2.8
Memorandum items:			
Nominal non-oil GDP, in billion KD	23.1	24.9	

Sources: country authorities, IMF staff calculations.

13. The authorities have been improving the fiscal position via non-legislative measures. These measures include repricing the rents of state-owned land and the fees of public services that do not require legal changes, improving state revenue collection by focusing on big-ticket items, and conducting line-by-line expenditure reviews to identify low-priority items for spending cuts. These measures could generate fiscal savings of about 1 percent of GDP, based on the authorities' preliminary estimates. Staff welcomed these measures and emphasized the need to rebuild fiscal buffers, especially when oil prices are high. While the fiscal expansion envisaged in FY 2023/24 would support the recovery given an estimated negative non-oil output gap of about 1.7 percent, staff recommended gradually reducing food subsidies that helped alleviate inflation in 2022 when food price pressures subside, while improving the targeting of fiscal support to the most vulnerable. If the risk of a significant growth slowdown materializes (see ¶10), fiscal policy could be deployed to support non-oil growth, including by frontloading investment in renewables and infrastructure.

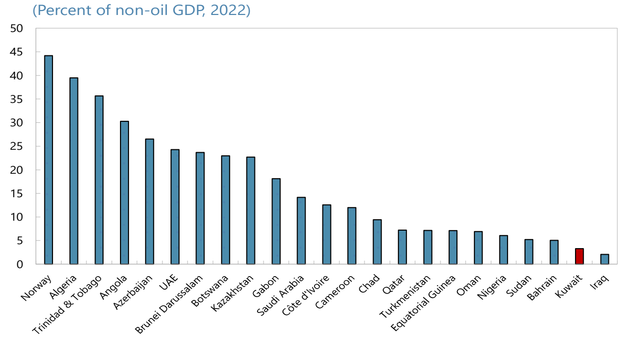
14. Fiscal consolidation is needed to reinforce long-run fiscal sustainability and intergenerational equity. Government spending as a share of GDP in Kuwait rose fast in the past two decades while tax revenues have remained low. Absent additional consolidation efforts, the structural non-oil primary balance under the baseline is projected to worsen as a share of GDP over the medium term[6] and will remain below levels estimated under various Permanent Income Hypothesis (PIH) scenarios, showing that Kuwait is not saving sufficiently for future generations. A package of substantial but growth-friendly fiscal consolidation measures is needed to strengthen sustainability and reduce vulnerabilities to future shocks, particularly considering the dimming long-run outlook for oil markets given the global decarbonization trend.

Change in Total Spending, 2006-2021
(in percent of GDP)



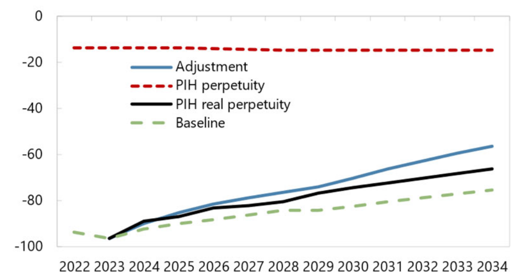
Sources: IMF WEO database, and IMF staff calculations.

Tax Revenue in Kuwait and Comparable Economies
(Percent of non-oil GDP, 2022)



Sources: IMF WEO database, IMF staff calculations.

Non-oil Primary Balance
(In percent of non-oil GDP)



Source: IMF staff calculations.

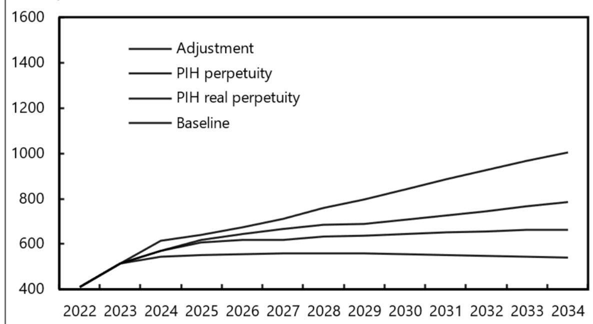
15. Staff recommended a growth-friendly fiscal consolidation scenario to the authorities. The scenario is based on both non-oil revenue and expenditure measures, with savings from consolidation partially allocated to capital spending to improve long-run productivity. It envisages an adjustment in the structural non-oil primary balance of 0.8 percent of potential GDP relative to the baseline in FY 2024/25, with gradual increases thereafter, thereby improving net financial assets. Measures underpinning the adjustment scenario include:

- *On the revenue side,* introduction of a 5 percent VAT and excises on tobacco and sugary drinks, and expansion of the 15 percent corporate income tax to cover domestic corporates, assumed to

[6] No fiscal consolidation measures except those non-legislative measures discussed in ¶12 are assumed under the baseline. The structural non-oil primary balance improves as a share of non-oil GDP as the latter is projected to grow faster than overall GDP.

be introduced gradually over the next two years.[7] With the low 5 percent rate, the VAT would have a temporary impact on inflation, but would yield stable revenue. The potential adverse impacts on vulnerable households could be offset with targeted income support. Meanwhile, levying the 15 percent corporate income tax on domestic firms would bring Kuwait into conformity with the OECD-led global minimum corporate tax agreement for multinationals, and would raise non-oil revenue while leveling the playing field for all firms operating in Kuwait. Staff encouraged the authorities to continue their efforts to secure parliamentary approval for the VAT and excises tax laws. In anticipation of the enactment of these laws, the Ministry of Finance is working on enhancing its revenue administration capacity and has requested technical assistance (TA) from the IMF.

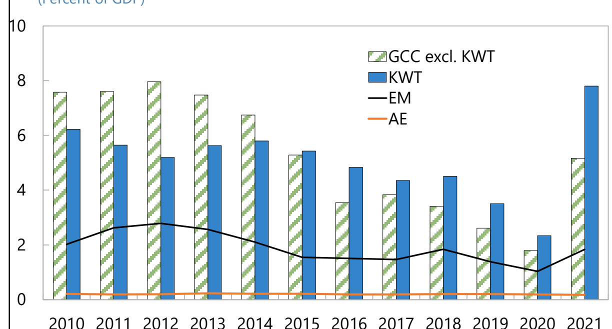
Net Financial Assets
(In percent of GDP)



Source: IMF staff calculations.

- *On the current expenditure side*, measures include curtailing the wage bill and gradually phasing out untargeted energy subsidies. Public sector wages should be gradually aligned with those in the private sector to reduce public-private wage premia, while public employment growth should be curbed. Staff agreed with the authorities that scaling down the government's role as the employer of choice for Kuwaitis should be accompanied by efforts to boost private sector job opportunities and incentivize nationals to seek opportunities in the private sector. By doing so and implementing needed structural reforms (see ¶24), labor productivity in both the public and the private sectors would increase. Generalized energy subsidies not only generate fiscal costs, but also encourage inefficient consumption and disproportionately benefit the well-off. Staff discussed with the authorities raising electricity and water tariffs, and emphasized the need for deeper reforms to phase out energy subsidies. In addition, raising public awareness about the budgetary costs and distributional impact of subsidies would help build consensus for reforms, which should include measures to protect the vulnerable.

Fossil Fuel Subsidies
(Percent of GDP)



Sources: OECD, IEA, IMF, UN, and World Bank; and IMF staff calculations.
Notes: Emerging Markets (EM) excludes Kuwait.

- The resulting savings could be allocated in part to capital spending to improve infrastructure and invest in climate adaptation, mitigation, and renewable energy. Increasing capital outlays in these

[7] The Kuwaiti authorities are experiencing delays in introducing the VAT and excises on tobacco and sugary drinks, which were agreed with other GCC countries in 2015-16.

areas is essential to raise potential growth, while implementing measures to improve project planning, selection, and execution would bolster spending efficiency.

Decomposition of Fiscal Adjustment

(Percent of GDP, unless otherwise indicated)

	2023/24	2024/25	2025/26	2026/27	2027/28
GDP, fiscal year					
Nominal GDP (in billions of KD)	50.1	50.6	52.2	53.5	54.8
Nominal potential GDP (in billions of KD)	50.6	50.6	52.2	53.5	54.8
Output gap (in percent of potential GDP)	-1.0	-0.1	0.0	0.0	0.0
Non-oil structural primary balance 1/ 2/	-42.8	-45.0	-43.2	-42.5	-42.1
Structural non-hydrocarbon primary revenue 3/ 4/					
Value added tax	0.0	0.1	0.5	0.6	0.7
Corporate tax	0.0	0.3	0.3	0.3	0.3
Excises	0.0	0.0	0.1	0.1	0.1
Structural primary expenditure 3/ 5/					
Compensation of employees	22.6	22.1	21.8	21.5	21.2
Subsidies	13.2	10.9	10.7	10.6	10.4
Capital expenditure	4.9	5.2	5.3	5.4	5.6
Fiscal adjustment with respect to the baseline 3/					
Revenue adjustment	0.0	0.4	0.8	1.0	1.1
Spending adjustment	0.0	0.4	0.8	1.2	1.6

Sources: MoF; and IMF staff estimates.

1/ Excluding investment income and transfer of profits of public entities.

2/ Structural balance, structural revenue, and structural expenditure refer to adjustment based on the economic cycle, assuming revenue elasticity of one and expenditure elasticity of zero.

3/ Percent of nominal potential GDP.

4/ Assumptions include: 5-percent VAT to be introduced in FY24/25, followed by excises on sugary drinks and tobacco in FY25/26, and expansion of the coverage of the profit tax to domestic companies starting from

5/ Assumptions on expenditure measures include: wage bill restraint (constant number of public sector employees) and reduction of water and electricity subsidies, as well as increased capital expenditure.

16. Expeditiously passing the new Public Debt Law is paramount for orderly fiscal financing through sovereign bond issuance and supporting the development of the domestic bond market. This new law should not impose restrictions on sovereign bond maturities or uses of financing, which are best managed at the operational level, nor should it have a predetermined expiration date. The authorities noted that the draft debt law envisages a debt ceiling, either as a share of GDP or in absolute amounts, to put a limit on debt accumulation.[8] A debt ceiling as a share

[8] The debt ceiling specifics are subject to further discussion by Parliament.

of GDP is preferable as it would provide room for additional borrowing as the economy grows. The new law should also clarify the borrowing authority of public entities other than the central government, including State Owned Enterprises (SOEs), and their relationship to the debt ceiling calculation. This law is currently being further discussed by Parliament.

17. Staff recommended developing a medium-term fiscal framework with a target for the non-oil structural primary balance to support consolidation. Underpinned by a medium-term macroeconomic framework, such a fiscal framework would strengthen the government's capacity to undertake fiscal policy analysis and forecasting, supporting the rigorous evaluation of reform options (see Selected Issues Paper). Given the sensitivity of the fiscal balance to oil prices and the need to prepare for climate transition, establishing a fiscal rule based on the non-oil structural primary balance would support consolidation while avoiding pro-cyclicality. This rule could be combined with limits on expenditure growth to allow for a smoother fiscal consolidation path, especially when oil prices are elevated. To support the operation of a medium-term fiscal framework, the technical capacity for macro-modeling and forecasting at the Ministry of Finance would need to be enhanced. The forthcoming IMF TA on developing a macro-framework for forecasting and policy analysis will be instrumental in this regard.

18. Fiscal transparency is key to boosting accountability and policy credibility. The Ministry of Finance has launched measures to enhance data collection from state-owned entities to provide a more comprehensive understanding of government finances and the liquidity situation. The new Public Tender Law has been further amended in 2019 to facilitate the participation of small and medium-sized enterprises (SMEs) in public tenders. In addition, the Ministry of Finance is establishing a public procurement database to improve transparency and knowledge-sharing during the tendering process and to enhance efficiency. Recent progress notwithstanding, fiscal governance can be further strengthened via steadfast implementation of existing frameworks or legal amendments:

- The quality and coverage of fiscal reporting should be improved further, including by reinstating monthly fiscal reporting, and expanding fiscal coverage to SOEs and those that carry contingent liabilities. Transparency of oil wealth management could also be strengthened, including by disclosing information on the KIA's financial operations, investment performance, and governance to the public, in line with the Santiago Principles and IMF Fiscal Transparency Code.

- Continuing to strengthen corporate governance by implementing Kuwait's Code of Governance for SOEs—which is based on OECD guidelines—would further improve fiscal governance. Public-private partnerships could be enhanced, including by streamlining and improving the efficiency of the project approval process.

- The sovereign asset and liability management framework could be reinvigorated and strengthened to support the identification and management of fiscal risks to the consolidated public sector balance sheet covering the central government, off-budget entities, and SOEs (Annex V). This framework could help form a more systematic view of asset-liability management, weighing the costs and benefits of borrowing and investing, including the implications for GRF liquidity buffers, central bank reserves, domestic liquidity, and debt market development.

Authorities' Views

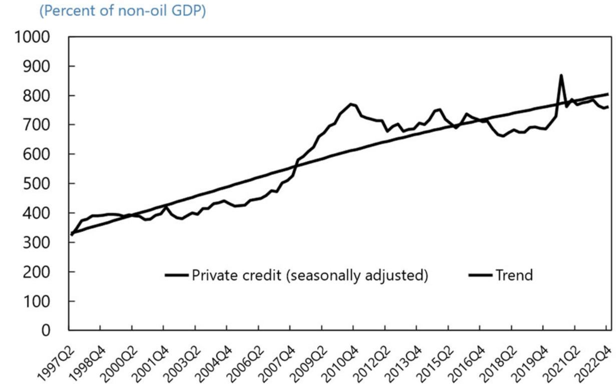
19. The authorities generally agreed on the need for fiscal consolidation and stronger fiscal governance and transparency. The Ministry of Finance is working to identify additional non-legislative measures to improve revenue collection and reduce spending, while continuing to prepare for other reforms that require legislative approval. The authorities expressed interest in working with staff to examine further the fiscal framework and fiscal rule options for Kuwait. They also emphasized that, while the KIA cannot disclose its financial performance to the public as it is prohibited by domestic law, it has been constantly strengthening its governance and fully disclosing its financial operations and performance to relevant internal stakeholders.

B. Monetary and Financial Policies—Safeguarding Financial Stability

20. The exchange rate peg to an undisclosed basket of currencies remains an appropriate nominal anchor for monetary policy. It has delivered low and stable inflation for many years, while providing some monetary policy autonomy. This monetary policy autonomy has been used to maintain an often sizeable policy rate gap versus systemic advanced economies, in line with domestic macroeconomic stabilization objectives (see ¶5). Continuing to maintain central bank independence is critical to achieve the objectives of monetary policy. Fiscal consolidation to support intergenerational equity and structural reforms to diversify the economy are desirable to strengthen the external position and support the peg. The CBK should continue to review the peg regularly to ensure that it remains appropriate. Measures to strengthen the monetary transmission mechanism, including by deepening the money and capital markets, should continue to lay the foundations for a more independent monetary policy in the future should it become appropriate.

21. Prudent regulation and supervision by the CBK have helped maintain a resilient banking system. All the financial regulatory support measures it introduced in response to the pandemic—including the relaxation of the regulatory liquidity ratio and net stable funding ratio requirements—were phased out by January 2023. The impacts on banks were limited, given their sizeable capital and liquidity buffers above regulatory minima. The banks generally fund through deposits and extend credit mostly domestically or regionally, with a large share of lending to government employees. These business models, together with prudent supervision and regulation by the CBK, have helped contain financial stability risks, including from the recent global banking sector turbulence. Going forward, the CBK should continue to take a risk-based approach to financial supervision and regulation, and should closely monitor banks' dollar funding liquidity and credit quality. Staff encouraged the central bank to consider building up

Credit Cycle
(Percent of non-oil GDP)



Sources: Haver, and IMF staff calculations.

state contingent macroprudential policy buffers as the credit cycle matures, including by activating the countercyclical capital buffer (CCyB).[9] These macroprudential policy buffers could then be released in the event of a significant credit cycle downturn.

22. **The strong supervisory regime can be further improved.** The CBK regularly reviews the adequacy of its financial regulatory perimeter and stress tests the resilience of the banking system to emerging financial stability risks. The Capital Markets Authority has developed a risk-based supervision framework to better target its resources. Going forward, replacing the existing blanket guarantee on bank deposits with a limited deposit insurance framework can help address potential moral hazard and phasing out the interest rate cap on commercial loans would support efficient risk pricing and contribute to expanding credit to SMEs.[10]

23. **Staff welcomed the progress with digitalizing the financial system and promoting sustainable finance.** The CBK has developed a digital strategy and embarked on the digitization journey in 2018 when it launched the regulatory sandbox framework on innovative Fintech products and services. The COVID-19 pandemic has accelerated the digitization process. In late 2022, the CBK issued guidelines to banks concerning sustainable finance, and asked them to follow the principles for effective management and supervision of climate-related financial risks that the Basel Committee issued in June 2022. The CBK's continued efforts to enhance the regulatory and supervisory frameworks for Fintech and sustainable finance are welcome to support financial development.

24. **Kuwait has been strengthening its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework, but significant efforts are needed to ensure its effective implementation.** The National Committee for AML/CFT, in coordination with the CBK and other institutions, is following up on the recommendations of the latest National Risk Assessment, and is actively preparing for the upcoming Financial Action Task Force (FATF) mutual evaluation scheduled for November 2023. In line with IMF TA, efforts should focus on ensuring effective implementation of the AML/CFT framework. Priority should be given to improving the understanding of money laundering and terrorism financing risks, effective supervision of the financial and non-financial sectors at risk of misuse, proper enforcement against money laundering and confiscation of ill-gotten proceeds, and closer domestic collaboration among relevant stakeholders, including between AML/CFT and anti-corruption agencies. The beneficial ownership regulation, Decree No. 4 of 2023 of the Minister of Commerce and Industry, requires entities registered in Kuwait (except those wholly owned by the Kuwaiti government) to collect and maintain information about their beneficial owners, shareholders, and nominee directors, and to then file the information with the Ministry of Commerce and Industry and/or any other regulatory authority. The regulation has been operational since its effective date of April 1, 2023. The introduction of beneficial ownership regulation is an important measure to prevent the misuse of companies for illegal purposes.

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[9] Given that the banking system has significant excess capital relative to regulatory requirements, activating the CCyB would not materially constrain credit supply.

[10] While the interest rate ceiling does not apply to Islamic banks, in practice they closely follow the prevailing market lending rates charged by conventional banks.

25. Implementation of the anti-corruption strategy continues. Despite the delays caused by the pandemic, the 2019-24 Integrity and Anti-Corruption Strategy is being implemented with progress made on all four pillars: (i) protecting the integrity of the public sector and developing the efficiency and effectiveness of public services; (ii) encouraging the private sector to promote integrity and fight corruption; (iii) enabling society to contribute to building a culture that promotes integrity and anti-corruption; and (iv) enhancing the efficiency and effectiveness of specialized bodies that focus on promoting integrity and combating corruption. Specifically, Law No. 2 of 2016 on Establishing the Anti-Corruption Authority and the Provisions of Financial Disclosure, which is the first Kuwaiti law to criminalize illicit enrichment, was amended in January 2023 to establish the liability of a private legal person in corruption offenses. This law also covers the protection of whistleblowers, and detailed follow-up rules and procedures regulating their protection were issued on May 10, 2023. The asset declaration system has been operating with violators of the financial disclosure statement submission procedures transferred to the Office of the Public Prosecutor for further investigation. The authorities and staff agreed that the remaining elements of the strategy should be expeditiously implemented, including its measures to enhance compliance with the asset declaration system, as well as to strengthen the integrity and efficiency of public procurement.[11] Meanwhile, Kuwait's Anti-Corruption Agency (Nazaha) is conducting a mid-term review of the implementation of the anti-corruption strategy to help develop the strategy for the next five-year period. Staff also encourages the publication of asset declarations.

Authorities' Views

26. The authorities are of the view that the current exchange rate regime—a peg to an undisclosed basket of currencies—serves Kuwait well. They emphasized that monetary policy tightening has been gradual and responded appropriately to domestic macroeconomic developments. The impact of global banking sector turbulence on Kuwait's banks has been muted, reflecting their very small balance sheet exposures, as well as prudent supervision and regulation. The authorities concurred with the need to deepen the capital and money markets, especially after the new Public Debt Law is passed, to further strengthen monetary transmission. The central bank also noted that it plans to review the coverage of its macroprudential policy toolkit regularly to ensure that it continues to remain adequate and appropriate. The authorities also agreed that the remaining elements of the anti-corruption strategy should be implemented steadfastly.

[11] By end 2022: under Pillar I, 59 percent of the initiatives were achieved versus a target of 70 percent; under Pillar II, 66 percent were achieved versus a target of 79 percent; under Pillar III, the target achievement rate of 79 percent was reached; under Pillar IV, 55 percent were achieved versus a target of 72 percent. As of end 2022, compliance with submitting the financial disclosure statements was 99 percent, and with examination was 91 percent. Nazaha continues to hold and implement training and awareness programs in coordination with stakeholders to ensure compliance with submitting financial statements and the availability of all data. Prevention of corruption in public tenders (one of the initiatives of the anti-corruption strategy) by drafting an amendment to the law on the Central Agency for Public Tenders reached a 25 percent achievement rate against a target rate of 75 percent as of end 2022. The relevant authorities are working on the implementation.

C. Structural Reforms—Reinvigorating Non-Oil, Private Sector-Led Growth

27. Broad-based reforms are needed to tackle Kuwait's structural challenges (Annex VI). Based on demographics, roughly 100,000 young Kuwaitis will join the working-age population over the next five years. Given the limited scope to raise public sector employment in the future, strong non-oil private sector-led growth will be needed to absorb these new labor market entrants. A broad-based reform package that tackles multiple challenges in a well-sequenced manner would amplify the effects of individual reforms on potential growth. Labor market reforms to incentivize young Kuwaitis to seek careers in the private sector should be implemented with priority, accompanied by reforms to strengthen governance and the business environment, and to promote private investment. Harmonizing labor market policies would strengthen private sector employment of nationals and raise productivity via more efficient resource allocation, supporting higher profitability and stimulating investment. It is crucial to accompany labor market reforms with social safety net reforms to ensure adequate social protection for nationals during the transition period. Over the medium term, establishing a robust medium-term fiscal framework could help anchor spending rationalization and reallocation, including through greater emphasis on investing in research and development, fostering innovation, and enhancing education, all of which would support long-term productivity growth.

28. Implementation of such a comprehensive structural reform agenda would require broad consultation with private stakeholders, Parliament, and the public to secure sustained social support. This is needed to ensure the stakeholders' understanding of the necessity and benefits of the planned reforms, and to provide a clear channel for incorporating feedback. Consultation and communication should take place regularly, and particularly before major policy actions. Consideration could be given to establishing a high-level implementation follow-up unit or committee to overview and strengthen the reform progress. The authorities concurred with the need for concrete and well-sequenced reform measures and steadfast implementation and noted that the Kuwait National Development Plan 2020-2025 lays the foundation for the new government's reform priorities.

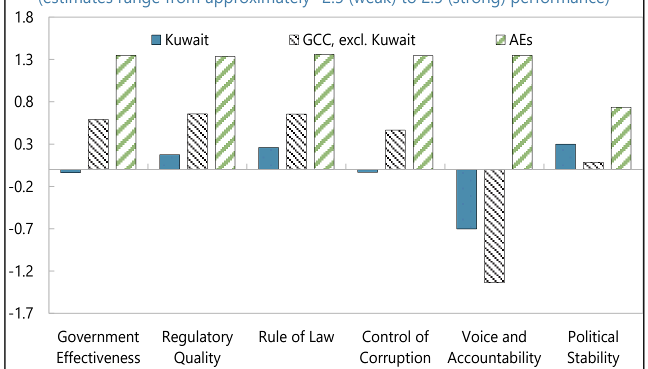
29. Reforms to lift labor productivity and non-oil private sector-led growth should include:

- *Raising competitiveness and productivity via labor market reforms.* Allowing labor market policies to be fully market based, including by improving flexibility in hiring and firing workers, and gradually eliminating differential labor policies for nationals versus expatriates, would facilitate more efficient resource reallocation and promote a market-aligned wage structure. This would help incentivize nationals to seek private sector jobs, lift labor productivity in both the public and private sectors, and contain labor costs. It is critical to clearly signal the limited future availability of jobs in the public sector. Wage growth in the public sector should not outpace that in the private sector, to help secure the gains from reforms, and to keep employment incentives aligned across the public and private sectors.

- *Alleviating the pain from economic transition via social safety net reforms.* Government support in enhancing job search assistance and training is important. Unemployment benefits and coverage periods could be adjusted to better fit the needs of the labor force. Adopting more flexible labor market policies for expatriates would also facilitate resource reallocation and attract high-skilled labor.

- *Ensuring sustained improvements to the business environment*. Staff welcomes the development and use of e-government and other electronic platforms that have substantially streamlined business procedures. The government has been working on identifying available commercial land and enhancing land allocation for commercial development. The Kuwait Direct Investment Promotion Authority has also been actively using its one-stop shop to coordinate with all relevant authorities to facilitate the procedures for foreign investment in Kuwait. Going forward, continued efforts to streamline business procedures, relax restrictions on foreign ownership of local companies,[12] and improve the supply of land for development with longer lease terms are crucial to attract private investment. In addition, continuing the implementation of the national anti-corruption strategy would help enhance accountability and transparency in the public sector and boost market confidence. Ensuring a level playing field that strengthens competition, including via enhancing public awareness and usage of the Competition Protection Agency, and enhancing access to credit especially to SMEs, would help promote private sector development.

Governance Indicators, 2021
(estimates range from approximately -2.5 (weak) to 2.5 (strong) performance)

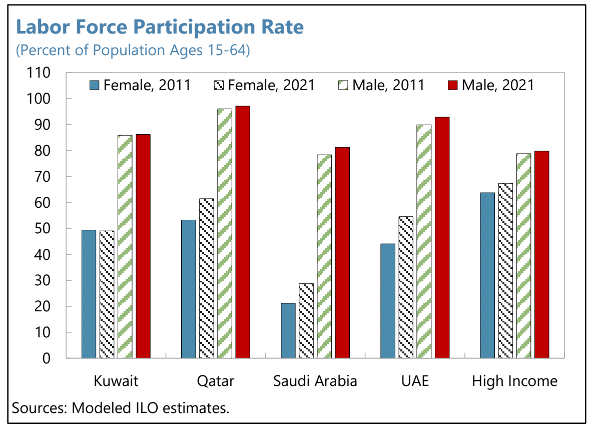


Sources: The Worldwide Governance Indicators, and IMF staff calculations.

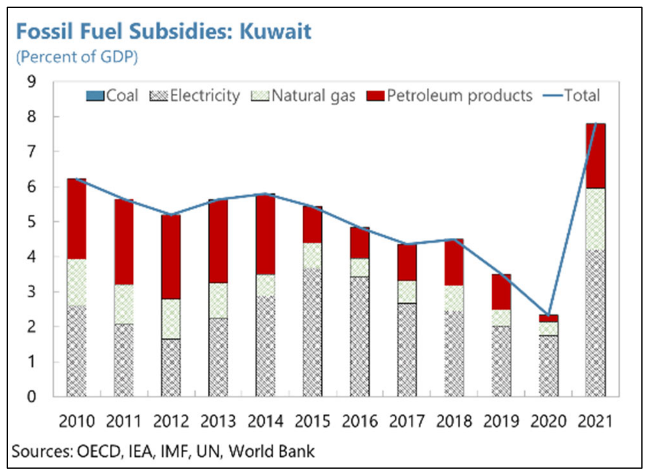
- *Investing in human capital.* Kuwait spends more per student than the average emerging market economy, but outcomes point to a relatively lower quality of education. This underscores the need for education reforms to enhance quality and address mismatches between existing curricula and the skills demanded in the private sector, to better prepare students to meet the demands of the future private sector job market, and to ensure sustained growth in productivity.

[12] The Foreign Direct Investment Law of 2013, which was implemented in 2015, allowed 100 percent foreign ownership in some sectors. It also introduced a number of tax breaks and other benefits to attract new investors, who in return must meet employment quotas for Kuwaiti nationals. The Companies Law No. 1 of 2016 simplified the process for registering new companies and has helped to reduce wait times associated with starting a new business. This law maintained the requirement that a Kuwaiti or Gulf Cooperation Council (GCC) national own at least 51 percent of a local company.

30. Commendable efforts to encourage female labor force participation by improving the working environment for women should continue. There are no legal barriers for women to work in Kuwait, and the Constitution mandates gender equality in the workplace. Every government entity or business with at least 50 female employees must provide free childcare by law, and female employees in both the public and private sector are eligible for 120 days of maternity leave, with the first 60 days fully paid. While noting these achievements, further improving the working environment for women, including by fully implementing the legal requirements for childcare in the private sector, could encourage greater female labor force participation, contributing to higher productivity alongside recommended structural reforms.



31. The authorities have a high-level climate change adaptation plan and should accelerate developing mitigation and transition plans. The National Adaptation Plan—published under the United Nations Framework Convention on Climate Change process in 2019—laid out measures to address the impacts of extreme heat events on health and productivity. This adaptation plan still needs to be translated into investment projects, which should in turn be implemented following parliamentary approval. To mitigate global climate change, Kuwait committed under the Paris Agreement to cut its greenhouse gas emissions by 7.4 percent relative to business-as-usual by 2035. Looking further ahead, it also plans to reach net zero greenhouse gas emissions in the oil sector by 2050, and economy-wide by 2060. To achieve these emissions targets, Kuwait needs to finish developing its mitigation plan, which should include phasing out fossil fuel subsidies (while replacing them with targeted income support to vulnerable households) and promoting investment in renewables-based electricity generation infrastructure.[13] Mitigating the risks to Kuwait from the global energy transition will require fiscal reforms to ensure sustainability and intergenerational equity (see Selected Issues Paper), as well as structural reforms to boost non-oil private sector-led growth (Annex VI).



[13] Fossil fuel subsides surged to 7.8 percent of GDP in 2021 due to the global rise in commodity prices.

Authorities' Views

32. The government fully recognizes the need for wide-ranging reforms to raise productivity while diversifying the economy away from oil. Female empowerment is a top government priority, and Kuwait now enjoys a high degree of gender equality in the workplace, supported by a good working environment for women. Kuwait is heavily exposed to climate change and will achieve its adaptation and mitigation objectives through appropriate policy measures and infrastructure investments.

D. Strengthening Statistics

33. Producing timely and high-quality macroeconomic data is crucial to inform economic policymaking. Staff welcomed the Central Statistical Bureau's (CSB) efforts to enhance statistics, including the completion of a household consumption and expenditure survey, and the 2021 establishment census. Nonetheless, there have been delays in the compilation and publication of national accounts data. Staff encouraged the authorities to boost support to the CSB, and called for the expeditious resumption of the production and publication of annual and quarterly GDP data.

STAFF APPRAISAL

34. The economic recovery continues but risks to the outlook remain substantial. Non-oil growth remains robust in 2023, with declining headline inflation and a large current account surplus. Nonetheless, elevated risks surround the baseline economic outlook, especially those associated with volatility in oil prices and production arising from global factors. Given Kuwait's large fiscal and external buffers, it can undertake needed reforms from a position of strength. However, political gridlock between the government and Parliament could continue to delay reforms. Resolving the impasse is critical to accelerate reform momentum, and to thereby boost growth and diversify the economy.

35. Comprehensive and growth-friendly fiscal consolidation is needed to reinforce fiscal sustainability and support intergenerational equity. The fiscal expansion envisaged in the draft FY 2023/24 budget is appropriate given the negative non-oil output gap. Starting next fiscal year, fiscal consolidation should aim to increase non-oil revenue and tackle current spending rigidities while increasing capital outlays to raise potential growth. Revenue measures could include introducing the GCC-wide excises and VAT, as well as expanding corporate income taxation to cover domestic firms. Expenditure measures should focus on curtailing the wage bill and gradually phasing out energy subsidies while improving targeted income support.

36. A robust medium-term fiscal framework with a clear fiscal anchor would support consolidation. Given the sensitivity of the headline fiscal balance to oil prices, a target for the non-oil structural primary balance could serve as an appropriate fiscal anchor. Conducting fiscal policy under a robust framework could help resist spending pressures when oil prices rise, preventing pro-cyclical spending and ensuring durable adjustment gains.

37. Strengthening fiscal governance and transparency would boost accountability and policy credibility. Reforms should aim to enhance fiscal data coverage and reporting, strengthen corporate governance, and enhance public procurement. They should also reinvigorate the integrated asset-liability management framework, to assess the costs and benefits of investment and borrowing decisions, as well as broader macro-financial implications, in a holistic manner.

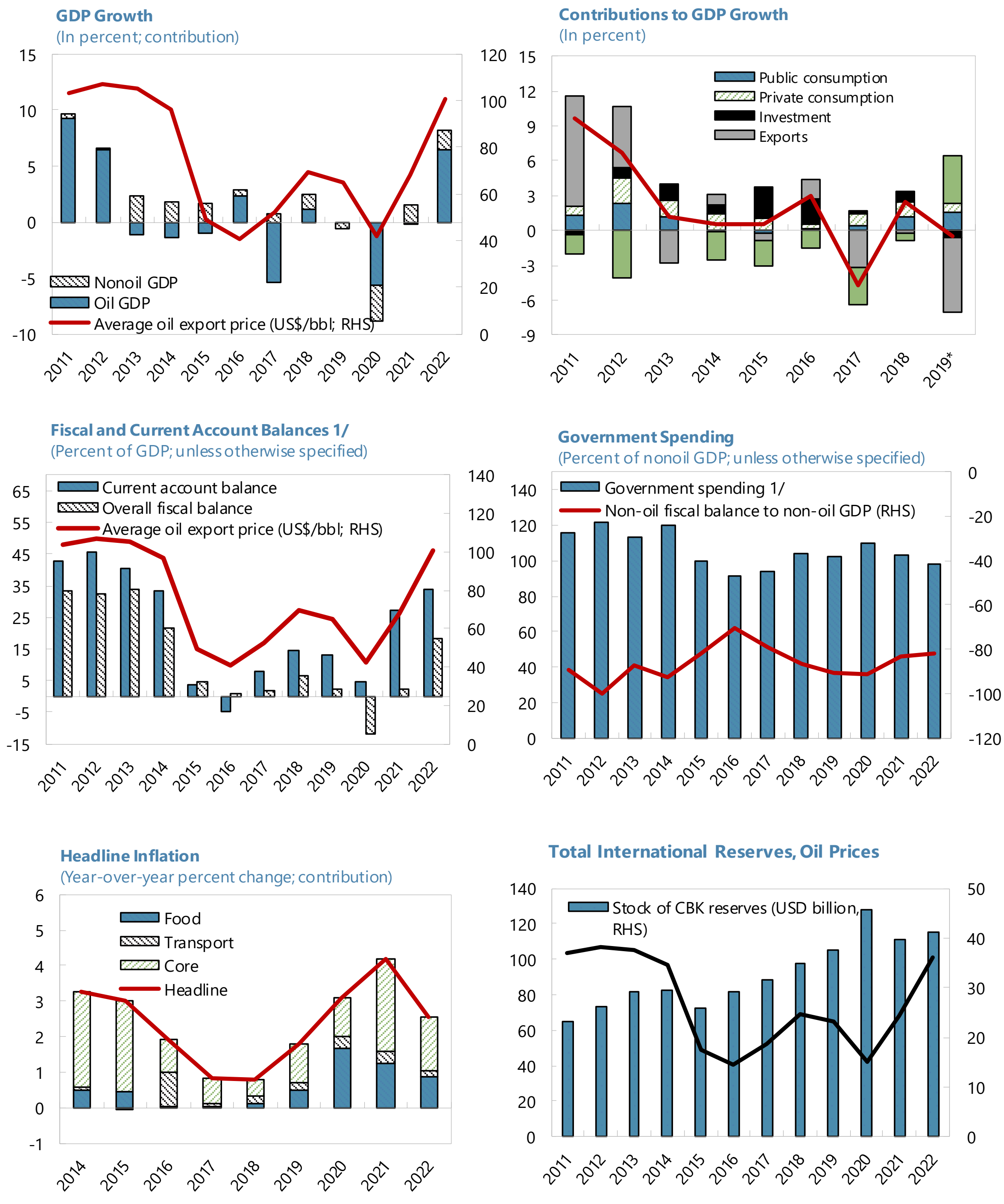
38. The fixed exchange rate regime—based on the peg to an undisclosed basket of currencies—remains an appropriate framework for monetary policy. This framework provides the CBK with some monetary policy autonomy and has enabled it to deliver low and stable inflation for many years. Fiscal consolidation to support intergenerational equity and structural reforms to diversify the economy should be pursued to strengthen the external position (which is weaker than the level implied by fundamentals and desirable policies) and support the peg.

39. The banking system is stable and systemic risk is contained, supported by a strong prudential framework that should continue to be enhanced. To proactively manage emerging financial stability risks arising from global monetary policy tightening, the CBK should continue to closely monitor banks' dollar funding liquidity and credit quality. Now that all pandemic-related financial regulatory support measures have been unwound, the CBK should consider adjusting the composition of capital requirements to make macroprudential policy more countercyclical. The interest rate ceiling on commercial loans should be phased out to support efficient risk pricing and credit supply to SMEs, while the existing blanket guarantee on bank deposits should be replaced with a limited deposit insurance framework to address moral hazard.

40. A structural reform package is needed to boost labor productivity and non-oil private sector-led growth. Strong non-oil private sector-led growth is needed to absorb new labor market entrants. This requires a comprehensive set of reforms that tackle deep-rooted structural challenges. To incentivize Kuwaitis to seek careers in the private sector, labor market reforms to promote a market-aligned wage structure are needed. In particular, compensation and working conditions should be gradually aligned across the public and private sectors, while labor market policies should be steadily harmonized between nationals and expatriates. Social safety net reforms should proceed in parallel to ensure adequate social protection for nationals during the transition period. In the meantime, it is critically important to press ahead with reform measures that strengthen governance and the business environment to enhance competition and promote investment, including relaxing foreign ownership restrictions on firms and improving public land allocation for commercial development with longer lease terms. Investing in human capital would also promote long-term productivity growth.

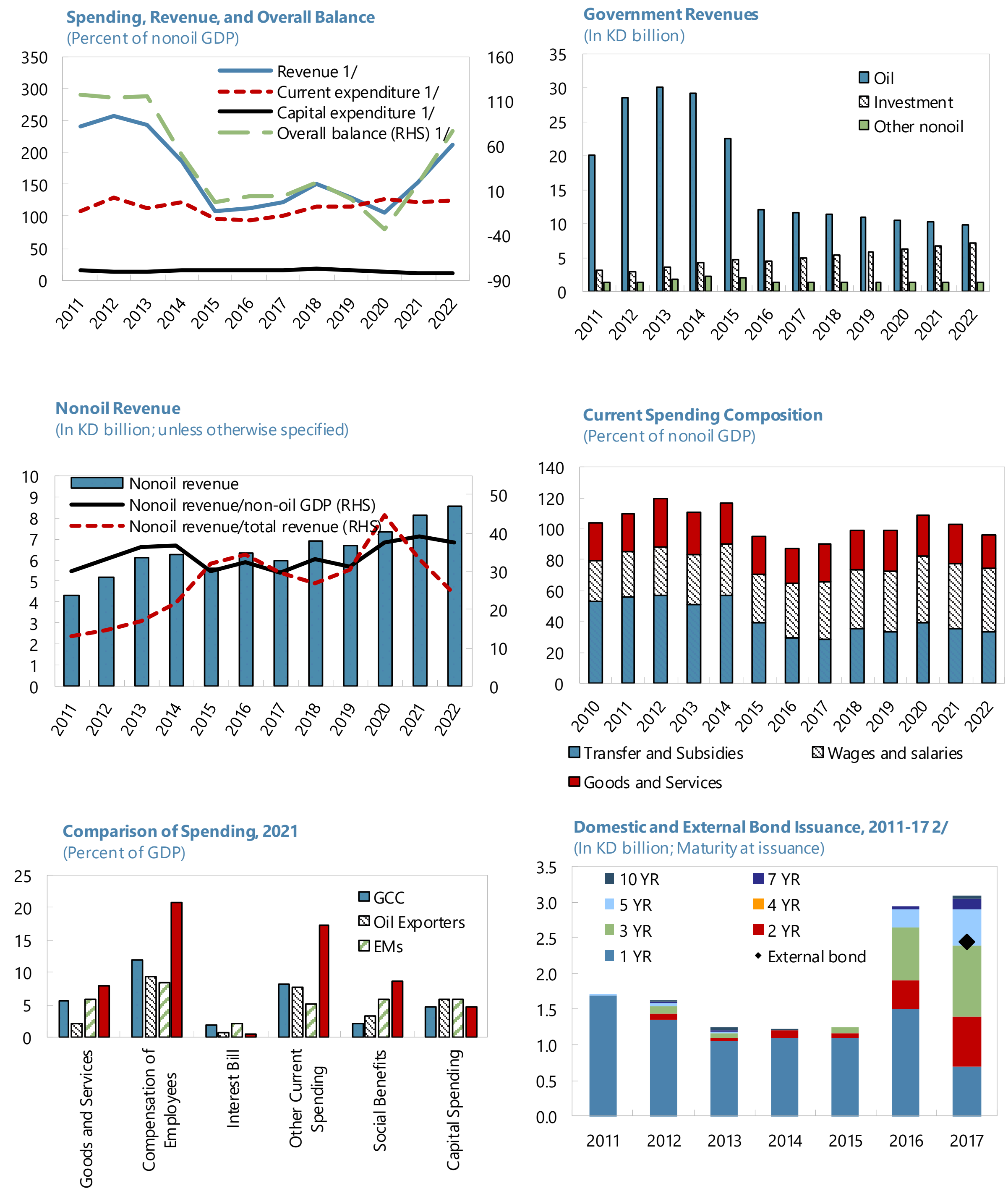
41. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Kuwait: Recent Economic Developments



Sources: Country authorities, INS, Haver; and IMF staff calculations.
*Latest year available on expenditure side national account data.
1/ Calendar year.

Figure 2. Kuwait: Fiscal Developments

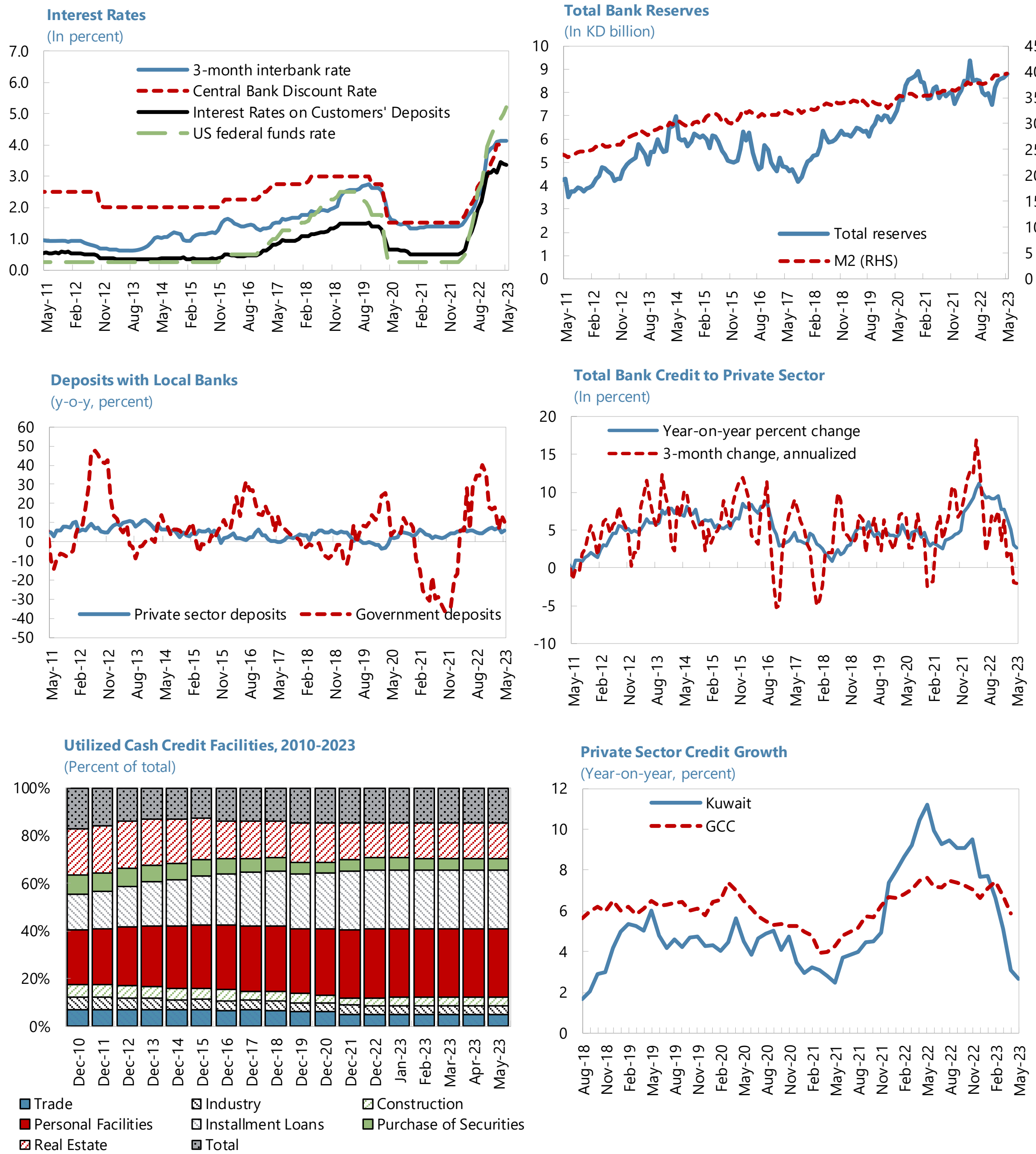


Sources: WEO, country authorities, CBK, MOF, and IMF staff calculations.

1/ Calendar year for nonoil GDP; fiscal year for revenue; current expenditure, capital expenditure, and the overall balance.

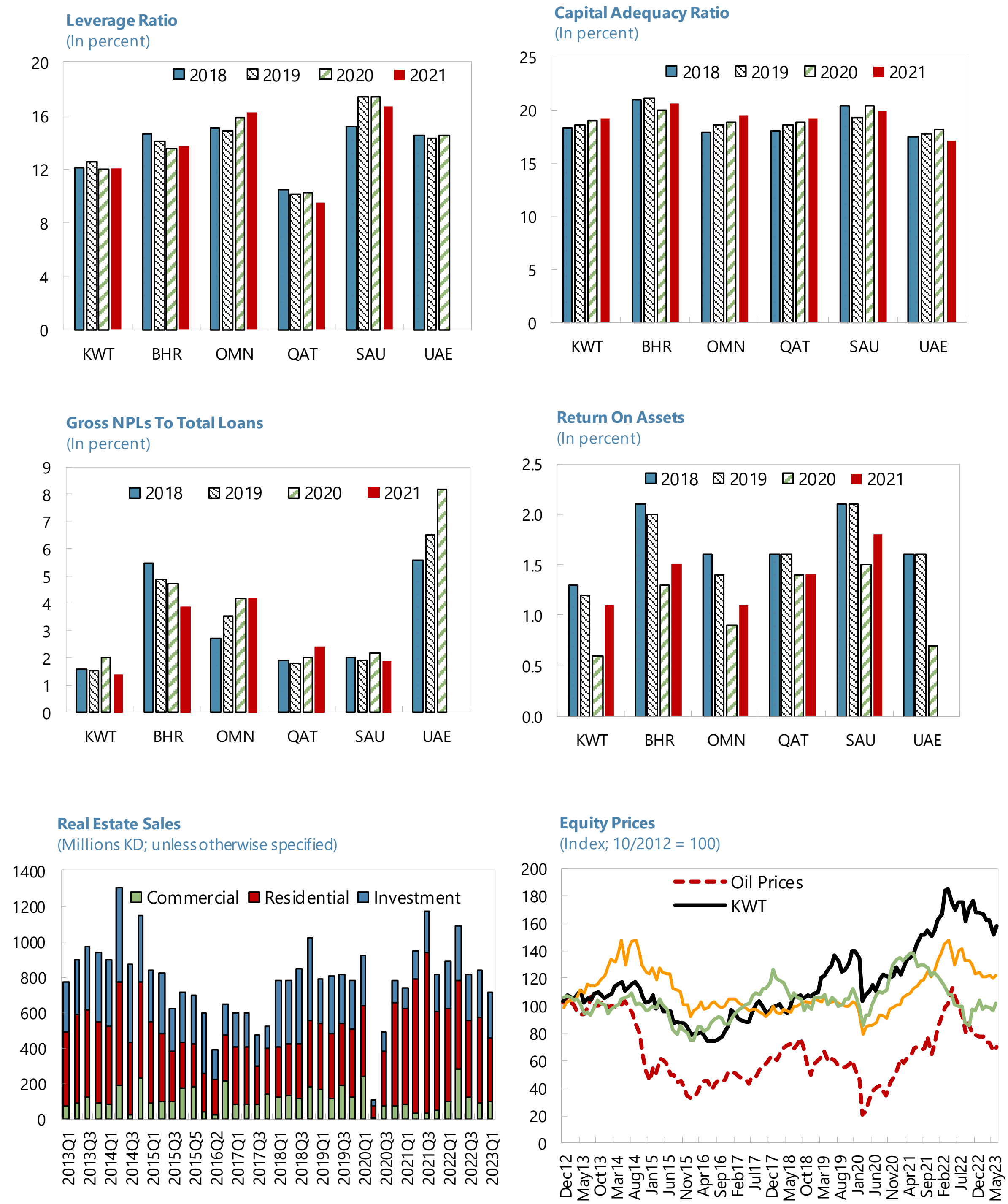
2/ There has been no government debt issuance since October 2017.

Figure 3. Kuwait: Monetary Developments



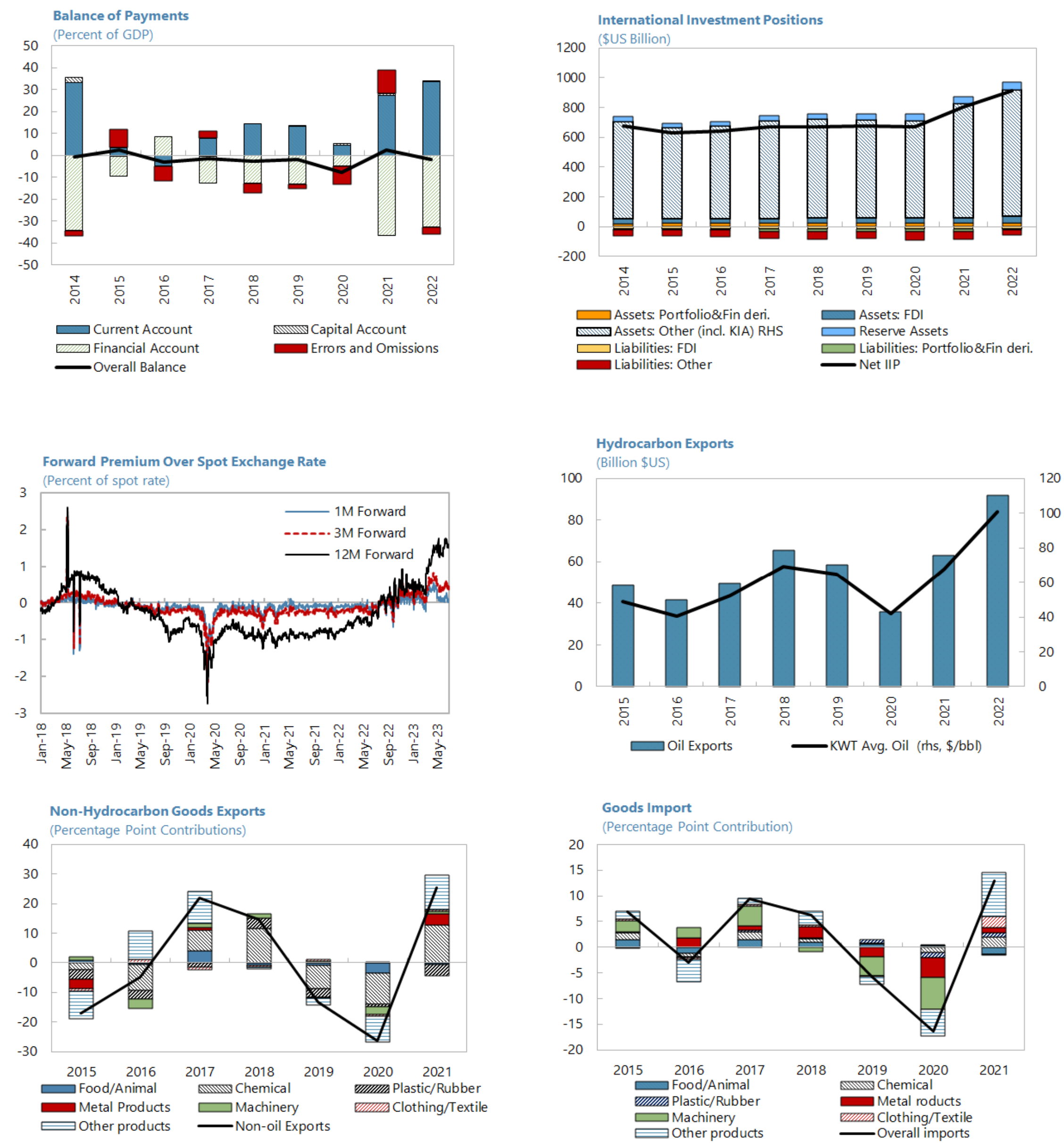
Sources: Country authorities, Haver; and IMF staff calculations.

Figure 4. Kuwait: Financial Sector and Asset Developments



Sources: Country authorities, Bloomberg, NBK, Haver; and IMF staff calculations.

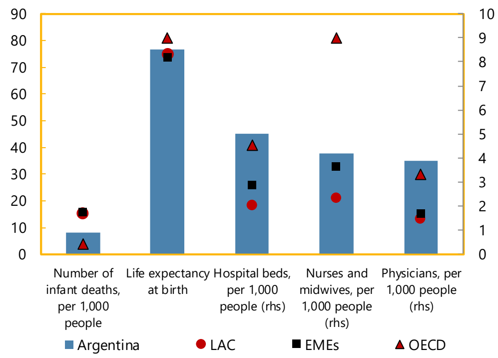
Figure 5. Kuwait: External Sector Developments



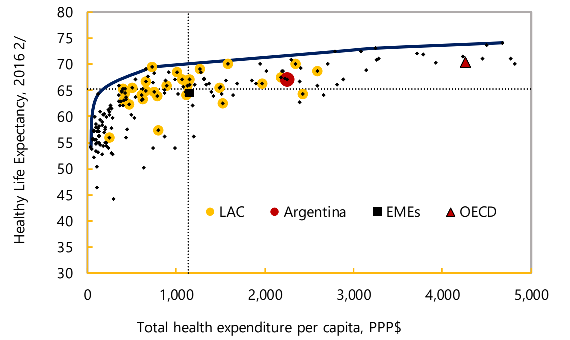
*Estimates.
Sources: Country authorities, Bloomberg, NBK, Haver; and IMF staff calculations.

Figure 6. Kuwait: Institutions, Governance, and Health Education Indicators

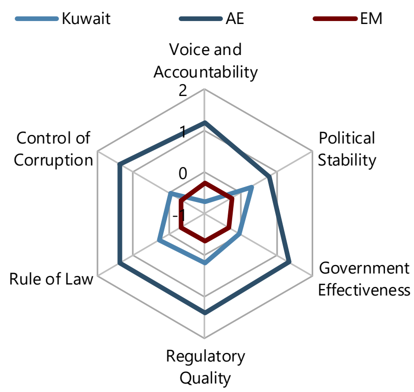
Health Indicators and Health System Characteristics Indicators, Latest Value Available



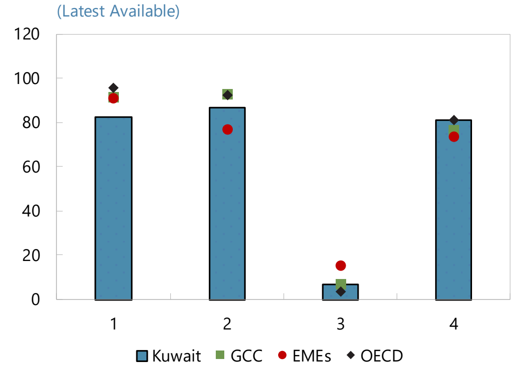
Health Efficiency Frontier, Latest Value Available (0 - 5,000 PPP$) 1/



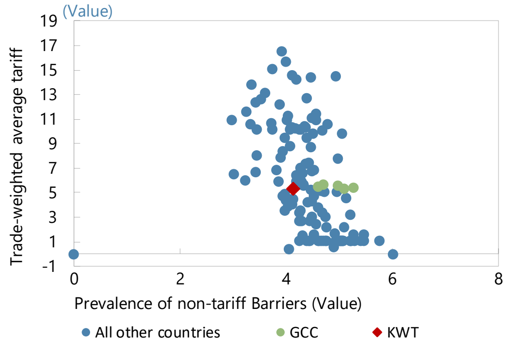
Worldwide Governance Indicators, 2021



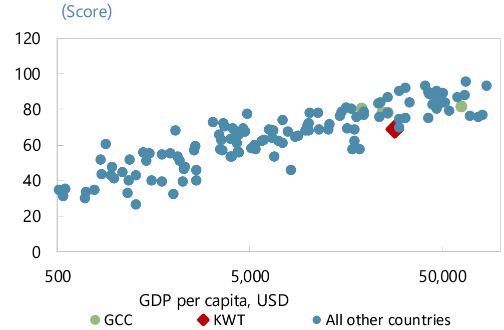
Health and Education Indictors
(Latest Available)



Trade Restrictions, 2019 2/
(Value)



Quality of Infrastructure, 2019
(Score)

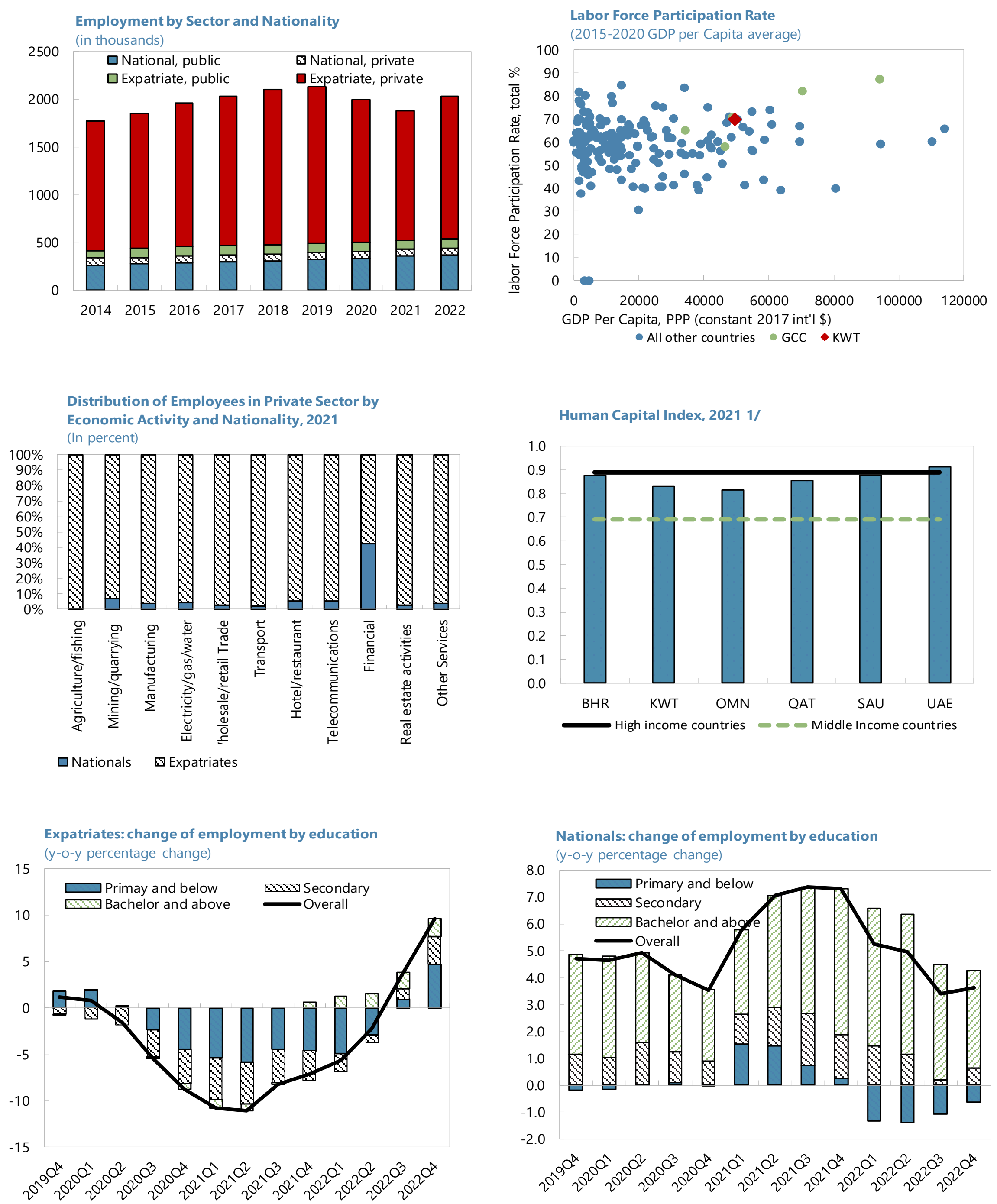


Sources: World Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); World Economic Outlook; IMF FAD Expenditure Assessment Tool (EAT), World Health Organization. Survey-based indicators summarize perceptions of quality of governance; higher score indicates better governance. Estimates of governance range from approximately -2.5 (weak) to 2.5 (strong). Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

1/ Dashes are the averages of the GCC.

2/ Indices on the prevalence of trade barriers ranking and subcomponents are based on WEF's quantitative and qualitative assessment of the trade environment. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints, and information availability. For "Prevalence of non-tariff barriers", 1 = strongly limit; 7 = do not limit at all.

Figure 7. Kuwait: Labor Market Indicators



Sources: Country authorities; WEF Global Competitiveness Report, UNDP; World Bank, and IMF staff calculations.
1/The World Banks Human Capital Index is defined as the amount of human capital a child born today can expect to achieve by age 18 given health and education standards currently prevailing in the country of birth.

Table 1. Kuwait: Selected Economic Indicators, 2019-2028

(Billions of Kuwaiti Dinars)

	2019	2020	2021	Prel. 2022	Est. 2023	Projections 2024	2025	2026	2027	2028
Oil and gas sector										
Total oil exports (billions of U.S. dollars)	58.7	35.8	63.0	94.0	72.5	68.1	68.5	67.7	67.2	67.0
Average crude oil export price (U.S. dollars/barrel)	64.0	41.5	69.2	102.7	77.7	71.7	68.9	66.7	64.9	63.4
Crude oil production (millions of barrels/day)	2.68	2.44	2.43	2.71	2.59	2.68	2.81	2.87	2.92	2.97
National accounts and prices	(Annual percentage change, unless otherwise indicated)									
Nominal GDP (market prices, in billions of Kuwaiti dinar)	41	32	41	57	50	50	52	53	54	56
Real GDP[1]	-0.6	-8.9	1.3	8.2	0.1	2.6	4.1	2.4	2.4	2.4
Real oil GDP (including refineries)	-0.1	-9.8	-0.3	11.6	-2.7	2.0	4.8	2.0	2.0	2.0
Real non-oil GDP[1]	-1.1	-7.5	3.4	4.0	3.8	3.5	3.2	3.0	3.0	3.0
CPI inflation (average)	1.1	2.1	3.4	4.0	3.6	3.0	2.4	2.0	2.0	2.0
Budgetary operations[2]	(Percent of GDP at market prices)									
Revenue	56.2	47.6	54.3	63.9	57.2	53.1	52.2	51.3	49.4	48.7
Oil	39.3	25.3	35.7	48.2	37.6	35.6	34.8	33.8	31.5	30.6
Nonoil, *of which:*	16.9	22.3	18.6	15.7	19.6	17.5	17.5	17.5	17.9	18.1
Investment income	11.9	17.1	13.1	12.0	13.1	13.1	12.9	12.8	13.1	13.1
Expenditures[3]	55.9	62.2	47.7	40.5	52.5	50.6	50.4	50.7	51.0	51.2
Expense	49.2	56.7	43.4	37.5	47.5	45.4	45.3	45.6	45.9	46.1
Capital	6.7	5.5	4.3	3.0	5.0	5.1	5.1	5.1	5.1	5.1
Balance	0.3	-14.6	6.5	23.4	4.7	2.6	1.8	0.6	-1.6	-2.4
Balance (after transfer to FGF and excl. investment income)	-16.1	-31.6	-6.5	11.4	-8.4	-10.6	-11.1	-12.2	-14.6	-15.5
Domestic financing (net)	-4.4	-1.8	-1.7	0.0	-0.1	1.7	1.9	1.5	1.1	1.1
External borrowing and drawdown on GRF (net)	20.5	33.4	8.2	-11.4	8.5	8.9	9.2	10.7	13.5	14.4
Non-oil balance excl. investment income (percent of non-oil GDP)[4]	-95.2	-99.3	-90.1	-88.3	-92.6	-88.0	-85.7	-83.9	-82.3	-80.6
Excluding oil-related subsidies and benefits (percent of non-oil GDP)	-86.4	-88.4	-78.3	-76.8	-78.9	-79.3	-77.5	-76.0	-74.7	-73.3
Total gross debt (calendar year)[5]	11.6	11.7	8.6	2.9	3.3	3.2	5.9	9.5	11.9	17.1
Net government financial assets	419.0	511.4	497.1	409.2	497.3	529.7	536.1	540.9	543.9	542.2
Money and credit	(Percent change; unless otherwise indicated)									
Net foreign assets[6]	6.2	12.4	-12.5	24.5	4.0	9.1	7.5	6.9	6.7	6.4
Claims on nongovernment sector	4.4	2.9	7.2	7.6	6.2	6.1	5.6	5.5	5.4	5.4
Kuwaiti lending rate (year average; in percent)	4.8	4.1	3.7	3.9	...	...	...	...	...	...
Stock market all share index (annual percent change)	23.7	-11.7	27.0	3.5	...	...	...	...	...	...
External sector	(Billions of U.S. dollars, unless otherwise indicated)									
Exports of goods	64.7	40.1	68.4	100.3	77.9	73.7	74.6	74.2	74.0	74.3
Of which: nonoil exports	6.0	4.3	5.4	6.3	5.4	5.7	6.1	6.5	6.9	7.3
Annual percentage change	-11.9	-28.1	26.5	16.4	-13.9	4.5	7.0	6.5	6.1	6.0
Imports of goods	-29.4	-24.5	-27.9	-28.4	-29.1	-30.0	-32.3	-34.8	-37.2	-39.8
Terms of Trade (ratio, annual percent change)	3.8	-19.3	65.4	6.8	-0.5	5.5	-10.0	-7.9	-6.8	-6.2
Current account	17.9	4.9	37.4	63.1	42.1	36.0	33.7	30.1	26.7	23.5
Percent of GDP	13.1	4.6	27.2	33.8	25.7	22.0	19.9	17.3	15.0	12.9
International reserve assets[7]	39.9	48.3	45.2	48.2	50.0	53.9	58.3	63.0	67.9	72.9
In months of next year's imports of goods and services	11.3	12.9	9.7	10.4	10.5	10.6	10.7	10.9	11.1	11.1
Memorandum items:										
Non-oil primary fiscal balance, excl. investment income[8]	-95.2	-99.3	-90.1	-88.3	-92.6	-88.0	-85.7	-83.9	-82.3	-80.6
Non-oil structural primary fiscal balance, excl. investment income[8]	-94.0	-94.4	-89.6	-88.1	-86.4	-88.0	-85.7	-83.7	-81.8	-76.9
Exchange rate (U.S. dollar per KD, period average)	3.29	3.27	3.32	3.27	...	...	...	...	...	...
Nominal effective exchange rate (Percentage change)	2.5	-0.1	-0.2	5.8	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	1.7	0.2	0.2	3.2	...	...	...	...	...	...
Non-oil output gap	1.6	-7.3	-5.6	-3.5	-1.7	-0.3	0.0	0.0	0.0	0.0

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

[1] Calculated at market prices.

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

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

[4] Excludes pension fund recapitalization.

[5] Excludes debt of Kuwait's SWF related to asset management operations; assumes resumption of debt issuance from FY 2024/25.

[6] Excludes SDR holdings and IMF reserve position.

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

[8] Percent of non-oil GDP.

Table 2a. Kuwait: Summary of Government Finance, 2018/19-2028/29

(Billions of Kuwaiti Dinars)

			Prel.	Est.	Projections						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Revenue (includes grants) (A)	**25.8**	**22.0**	**16.5**	**24.6**	**35.4**	**28.7**	**26.8**	**27.3**	**27.4**	**27.1**	**27.4**
Taxes	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Other revenue	25.1	21.3	15.9	24.1	34.7	28.0	26.1	26.5	26.6	26.2	26.5
Oil and gas	18.4	15.4	8.8	16.2	26.7	18.9	18.0	18.1	18.1	17.3	17.2
Investment income and transfer of profits of public entities 1/	5.1	4.7	5.9	5.9	6.7	6.6	6.6	6.7	6.9	7.2	7.4
Other 2/	1.6	1.3	1.2	1.9	1.4	2.6	1.5	1.6	1.7	1.8	1.9
Total expenditure (B=C+D) 3/	**22.4**	**21.9**	**21.6**	**21.7**	**22.5**	**26.3**	**25.6**	**26.3**	**27.1**	**27.9**	**28.8**
Expense (C)	19.5	19.2	19.7	19.7	20.8	23.8	23.0	23.7	24.4	25.1	26.0
Compensation of employees	8.1	8.6	8.3	9.0	9.6	11.5	11.4	11.7	12.1	12.4	12.7
Purchases/use of goods & services	3.3	3.5	3.1	3.5	3.4	3.6	3.8	4.0	4.2	4.4	4.6
Interest	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.3	0.3
Subsidies and social benefits	5.4	4.7	5.2	5.6	5.7	6.7	5.6	5.7	5.9	6.0	6.2
Subsidies	1.8	1.5	1.8	2.0	2.0	2.5	1.8	1.8	1.8	1.8	1.9
Social benefits	3.6	3.2	3.4	3.6	3.6	4.1	3.9	4.0	4.1	4.2	4.3
Payments to social security fund	2.3	2.1	2.1	2.2	2.1	2.2	2.2	2.3	2.4	2.5	2.6
Transfers to social security fund	2.3	2.1	2.1	2.2	2.1	2.2	2.2	2.3	2.4	2.5	2.6
Fund recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	1.3	1.2	1.3	1.4	1.6	2.0	1.7	1.7	1.7	1.7	1.8
Oil-related	0.5	0.3	0.4	0.5	0.7	0.9	0.5	0.5	0.5	0.5	0.5
Others	0.8	0.8	0.9	0.9	0.9	1.1	1.1	1.2	1.2	1.2	1.3
Expense not elsewhere classified	2.3	2.2	2.9	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Net acquisition of nonfinancial assets (D)	2.9	2.6	1.9	2.0	1.7	2.5	2.6	2.7	2.7	2.8	2.9
Net lending / borrowing [=A-B]	**3.4**	**0.1**	**-5.1**	**3.0**	**12.9**	**2.4**	**1.3**	**0.9**	**0.3**	**-0.9**	**-1.4**
Transfers to FGF	2.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	5.1	4.7	5.9	5.9	6.7	6.6	6.6	6.7	6.9	7.2	7.4
Overall balance (after transfers to FGF and excl. investment income) 4/	-3.8	-6.3	-11.0	-3.0	6.3	-4.2	-5.3	-5.8	-6.5	-8.0	-8.7
Non-oil balance	-15.0	-15.3	-13.8	-13.2	-13.8	-16.5	-16.7	-17.2	-17.7	-18.1	-18.6
excluding investment income	-20.1	-19.9	-19.8	-19.2	-20.4	-23.1	-23.3	-23.9	-24.6	-25.3	-26.0
excluding recapitalization of pension	-20.1	-19.9	-19.8	-19.2	-20.4	-23.1	-23.3	-23.9	-24.6	-25.3	-26.0
excluding oil-related subsidies and benefits	-17.8	-18.1	-17.6	-16.7	-17.7	-19.7	-21.1	-21.7	-22.3	-23.0	-23.6
Financing (net) 5/	**3.8**	**6.3**	**11.0**	**3.0**	**-6.3**	**4.2**	**5.3**	**5.8**	**6.5**	**8.0**	**8.7**
Domestic	-1.2	-1.7	-0.6	-0.8	0.0	-0.1	0.8	1.0	0.8	0.6	0.6
External	**4.9**	**8.0**	**11.6**	**3.7**	**-6.3**	**4.3**	**4.5**	**4.8**	**5.7**	**7.4**	**8.1**
External bonds	0.0	0.0	0.0	-1.0	0.0	0.0	0.6	1.0	0.6	2.5	1.0
Reserve funds	4.9	8.0	11.6	4.8	-6.3	4.3	3.9	3.8	5.1	5.0	7.1

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

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

2/ Includes UN (Iraq) compensations.

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

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

5/ Assumes resumption of debt issuance from FY 2024/25.

Table 2b. Kuwait: Summary of Government Finance, 2018/19-2028/29
(Percent of GDP)

			Prel.	Est.	Projections						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Revenue (includes grants)	**62.0**	**56.2**	**47.6**	**54.3**	**63.9**	**57.2**	**53.1**	**52.2**	**51.3**	**49.4**	**48.7**
Taxes	1.5	1.4	1.4	1.0	1.0	1.2	1.3	1.3	1.3	1.4	1.4
Other revenue	60.3	54.5	46.0	53.0	62.7	55.8	51.6	50.7	49.7	47.8	47.1
Oil and gas	44.3	39.3	25.3	35.7	48.2	37.6	35.6	34.8	33.8	31.5	30.6
Investment income and transfer of profits of public entities 1/	12.3	11.9	17.1	13.1	12.0	13.1	13.1	12.9	12.8	13.1	13.1
Other 2/	3.8	3.3	3.6	4.2	2.4	5.1	2.9	3.0	3.1	3.3	3.4
Total expenditure 3/	**53.9**	**55.9**	**62.2**	**47.7**	**40.5**	**52.5**	**50.6**	**50.4**	**50.7**	**51.0**	**51.2**
Expense	46.9	49.2	56.7	43.4	37.5	47.5	45.4	45.3	45.6	45.9	46.1
Compensation of employees	19.4	22.0	24.0	19.7	17.3	22.9	22.5	22.5	22.6	22.6	22.6
Purchases/use of goods & services	7.9	8.9	8.9	7.6	6.1	7.2	7.6	7.7	7.8	8.0	8.2
Interest	1.0	0.7	0.5	0.4	0.3	0.2	0.2	0.2	0.3	0.5	0.6
Subsidies and social benefits	13.0	12.0	15.0	12.3	10.2	13.3	11.1	11.0	11.0	11.0	11.0
Subsidies	4.3	3.8	5.1	4.4	3.6	5.0	3.5	3.4	3.4	3.3	3.3
Social benefits	8.7	8.2	9.8	7.9	6.6	8.3	7.6	7.6	7.6	7.7	7.7
Payments to Social Security Fund	5.6	5.3	6.1	4.8	3.7	4.3	4.3	4.4	4.4	4.5	4.6
Transfers to Social Security Fund	5.6	5.3	6.1	4.8	3.7	4.3	4.3	4.4	4.4	4.5	4.6
Fund recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social benefits	3.1	3.0	3.7	3.1	2.8	4.0	3.3	3.2	3.2	3.2	3.2
Oil-related	1.2	0.9	1.1	1.2	1.2	1.8	1.1	1.0	1.0	0.9	0.9
Others	1.9	2.1	2.6	1.9	1.6	2.2	2.2	2.2	2.2	2.3	2.3
Expense not elsewhere classified	5.6	5.5	8.3	3.5	3.6	3.9	4.0	3.9	3.8	3.7	3.6
Net acquisition of nonfinancial assets	7.0	6.7	5.5	4.3	3.0	5.0	5.1	5.1	5.1	5.1	5.1
Net lending / borrowing	8.2	0.3	-14.6	6.5	23.4	4.7	2.6	1.8	0.6	-1.6	-2.4
Transfers to FGF	5.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	12.3	11.9	17.1	13.1	12.0	13.1	13.1	12.9	12.8	13.1	13.1
Overall balance (after transfers to FGF and excl. investment income) 4/	-9.1	-16.1	-31.6	-6.5	11.4	-8.4	-10.6	-11.1	-12.2	-14.6	-15.5
Non-oil balance	-36.1	-39.0	-39.9	-29.2	-24.8	-32.9	-33.1	-33.0	-33.1	-33.1	-33.1
excluding investment income	-48.4	-50.9	-57.0	-42.3	-36.9	-46.0	-46.2	-45.9	-46.0	-46.2	-46.1
excluding recapitalization of pension	-48.4	-50.9	-57.0	-42.3	-36.9	-46.0	-46.2	-45.9	-46.0	-46.2	-46.1
excluding oil-related subsidies and benefits	-42.9	-46.3	-50.7	-36.7	-32.0	-39.2	-41.7	-41.5	-41.7	-41.9	-41.9
Financing (net) 5/	9.1	16.1	31.6	6.5	-11.4	8.4	10.6	11.1	12.2	14.6	15.5
Domestic	-2.8	-4.4	-1.8	-1.7	0.0	-0.1	1.7	1.9	1.5	1.1	1.1
External	11.9	20.5	33.4	8.2	-11.4	8.5	8.9	9.2	10.7	13.5	14.4
External bonds	0.0	0.0	0.0	-2.3	0.0	0.0	1.2	1.9	1.2	4.5	1.8
Reserve funds	11.9	20.5	33.4	10.5	-11.4	8.5	7.7	7.3	9.5	9.1	12.6

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

1/ Excluded from the national budget presentation. Estimated by IMF staff.
2/ Includes UN (Iraq) compensations.
3/ Starting FY2016/17, there has been a reclassification of expenditure items.
4/ Excludes 10 percent of total revenue transferred to the FGF and investment income.
5/ Assumes resumption of debt issuance from FY 2024/25.

Table 3. Kuwait: Summary Balance of Payments, 2019-28

	2019	2020	2021	Est. 2022	Projections 2023	2024	2025	2026	2027	2028
	(Billions of U.S. dollars, unless otherwise indicated)									
Current account balance	**17.9**	**4.9**	**37.4**	**63.1**	**42.1**	**36.0**	**33.7**	**30.1**	**26.7**	**23.5**
Trade balance for goods	35.3	15.6	40.5	72.0	48.8	43.8	42.3	39.4	36.8	34.5
Goods exports	64.7	40.1	68.4	100.3	77.9	73.7	74.6	74.2	74.0	74.3
Oil exports	58.7	35.8	63.0	94.0	72.5	68.1	68.5	67.7	67.2	67.0
Non-oil goods exports	6.0	4.3	5.4	6.3	5.4	5.7	6.1	6.5	6.9	7.3
Re-exports	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Goods imports	-29.4	-24.5	-27.9	-28.4	-29.1	-30.0	-32.3	-34.8	-37.2	-39.8
Trade balance for services	-17.8	-9.6	-8.7	-16.9	-16.3	-16.4	-17.5	-18.5	-19.4	-20.6
Transportation	-2.7	-2.4	-2.9	-3.2	-3.1	-3.1	-3.3	-3.5	-3.7	-3.9
Travel	-11.0	-5.0	-4.3	-12.1	-11.3	-11.4	-12.1	-12.8	-13.5	-14.3
Other	-4.1	-2.2	-1.5	-1.7	-1.9	-1.9	-2.0	-2.1	-2.3	-2.4
Investment income, net	20.3	16.4	24.3	26.1	26.1	24.9	25.8	26.4	27.0	27.7
Receipts	23.5	19.6	27.6	31.1	30.8	29.5	30.5	31.3	32.0	32.8
Payments	-3.2	-3.2	-3.3	-5.0	-4.6	-4.5	-4.7	-4.8	-4.9	-5.1
Current transfers, net	-19.9	-17.5	-18.6	-17.9	-16.5	-16.3	-16.8	-17.3	-17.7	-18.1
Capital and financial account balance	**-17.6**	**-4.3**	**-48.9**	**-60.4**	**-42.3**	**-31.5**	**-29.3**	**-25.4**	**-21.8**	**-18.6**
Capital account balance 1/	0.3	0.8	1.4	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Financial account balance	-17.9	-5.1	-50.3	-61.0	-42.5	-31.7	-29.5	-25.6	-21.9	-18.7
Direct investment, net	3.0	-7.7	-4.1	-24.9	-20.7	-16.7	-15.8	-14.1	-12.5	-11.1
Abroad	2.7	-7.9	-4.7	-25.6	-21.8	-18.1	-17.2	-15.6	-14.0	-12.6
In Kuwait	0.4	0.2	0.6	0.8	1.2	1.4	1.4	1.5	1.5	1.5
Portfolio investment, net	-34.5	-46.7	-39.5	-50.7	-33.9	-27.2	-26.0	-23.8	-21.7	-19.9
Financial derivatives, net	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	13.6	49.4	-6.7	14.6	12.1	12.3	12.4	12.4	12.3	12.4
Net errors and omissions 2/	-3.0	-8.9	14.7	-6.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-2.7**	**-8.3**	**3.2**	**-3.7**	**-0.2**	**4.5**	**4.4**	**4.7**	**4.9**	**5.0**
Memorandum items										
Current account/GDP (percent)	13.1	4.6	27.2	33.8	25.7	22.0	19.9	17.3	15.0	12.9
Current account (excl. oil)/GDP (percent)	-30.0	-29.2	-18.6	-16.5	-18.5	-19.6	-20.6	-21.6	-22.8	-23.8
Investment income/GDP (percent)	14.9	15.5	17.7	14.0	16.0	15.2	15.2	15.2	15.2	15.2
Official reserve assets (billions of U.S. dollars) 3/	39.9	48.3	45.2	48.2	50.0	53.9	58.3	63.0	67.9	72.9
Months of projected imports	11.3	12.9	9.7	10.4	10.5	10.6	10.7	10.9	11.1	11.1
Oil export growth (percent)	-10.1	-39.1	76.0	49.3	-22.9	-6.1	0.7	-1.2	-0.8	-0.2
Non-oil export growth (percent)	3.5	-12.7	7.8	23.1	-6.2	2.4	6.7	5.9	5.6	5.8
Import growth (percent)	-11.5	-23.8	5.6	24.5	-0.2	2.0	7.3	6.6	6.3	6.3

Sources: CBK; and IMF staff estimates.

1/ Includes UN war compensation.

2/ Includes other unclassified private-sector flows.

3/ Includes SDR holdings and IMF reserve position.

Table 4. Kuwait: Monetary Survey, 2019-28

End of period	2019	2020	2021	Est. 2022	Projections 2023	2024	2025	2026	2027	2028
	(Millions of KD)									
Foreign assets (net) [1]	19,242	21,627	18,914	23,547	24,497	26,721	28,727	30,705	32,766	34,859
Central bank	11,267	13,813	12,034	13,193	13,131	14,503	15,843	17,287	18,795	20,316
Local banks	7,976	7,813	6,880	10,354	11,366	12,219	12,884	13,418	13,971	14,543
Domestic assets (net)	18,887	13,718	17,628	15,212	17,224	17,760	18,087	18,286	18,522	18,844
Claims on government (net)	-6,768	-4,714	-3,090	-5,590	-6,157	-6,245	-5,444	-4,485	-3,728	-3,173
Central bank (net)	-1,751	-1,757	-1,400	-2,532	-3,032	-3,002	-2,972	-2,942	-2,912	-2,883
Claims	0	0	0	0	0	0	0	0	0	0
Deposits	1,751	1,757	1,400	2,532	3,032	3,002	2,972	2,942	2,912	2,883
Local banks (net)	-5,017	-2,957	-1,690	-3,058	-3,125	-3,243	-2,472	-1,543	-816	-289
Claims	2,371	1,357	1,138	283	283	233	1,073	2,073	2,873	3,473
Public debt instruments	2,371	1,357	1,138	283	283	233	1,073	2,073	2,873	3,473
Deposits	7,388	4,314	2,827	3,341	3,407	3,475	3,545	3,616	3,688	3,762
Claims on nongovernment sector	40,358	41,513	44,501	47,867	50,839	53,921	56,922	60,063	63,278	66,675
Credit facilities	38,428	40,551	43,544	46,885	49,777	52,785	55,724	58,807	61,961	65,294
Local investments	1,930	963	957	982	1,062	1,136	1,198	1,256	1,317	1,381
Other items (net)	-14,703	-23,081	-23,783	-27,065	-27,458	-29,916	-33,391	-37,291	-41,028	-44,658
Broad money [2]	38,129	35,345	36,542	38,760	41,721	44,482	46,814	48,992	51,288	53,703
Money	10,489	12,339	12,482	11,889	12,838	13,722	14,471	15,171	15,909	16,686
Quasi money	27,640	23,006	24,061	26,870	28,884	30,760	32,343	33,821	35,379	37,017
	(Annual percentage change)									
Foreign assets (net)	6.2	12.4	-12.5	24.5	4.0	9.1	7.5	6.9	6.7	6.4
Central Bank	8.2	22.6	-12.9	9.6	-0.5	10.4	9.2	9.1	8.7	8.1
Local banks	3.4	-2.0	-11.9	50.5	9.8	7.5	5.4	4.1	4.1	4.1
Domestic assets (net)	-7.8	-27.4	28.5	-13.7	13.2	3.1	1.8	1.1	1.3	1.7
Claims on government (net)	-55.4	-30.3	-34.4	80.9	10.1	1.4	-12.8	-17.6	-16.9	-14.9
Claims on nongovernment sector	4.4	2.9	7.2	7.6	6.2	6.1	5.6	5.5	5.4	5.4
Other items (net)	6.4	57.0	3.0	13.8	1.5	9.0	11.6	11.7	10.0	8.8
Broad money	-1.2	-7.3	3.4	6.1	7.6	6.6	5.2	4.7	4.7	4.7
Money	1.1	17.6	1.2	-4.7	8.0	6.9	5.5	4.8	4.9	4.9
Quasi money	-2.1	-16.8	4.6	11.7	7.5	6.5	5.1	4.6	4.6	4.6
	(Change in percent of beginning of period broad money stock)									
Foreign assets (net)	2.9	6.3	-7.7	12.7	2.5	5.3	4.5	4.2	4.2	4.1
Central bank	2.2	6.7	-5.0	3.2	-0.2	3.3	3.0	3.1	3.1	3.0
Local banks	0.7	-0.4	-2.6	9.5	2.6	2.0	1.5	1.1	1.1	1.1
Domestic assets (net)	-4.1	-13.6	11.1	-6.6	5.2	1.3	0.7	0.4	0.5	0.6
Claims on government (net)	-6.3	5.4	4.6	-6.8	-1.5	-0.2	1.8	2.0	1.5	1.1
Claims on nongovernment sector	4.4	3.0	8.5	9.2	7.7	7.4	6.7	6.7	6.6	6.6
Other items (net)	-2.3	-22.0	-2.0	-9.0	-1.0	-5.9	-7.8	-8.3	-7.6	-7.1
Broad money	-1.2	-7.3	3.4	6.1	7.6	6.6	5.2	4.7	4.7	4.7
Money	0.3	4.9	0.4	-1.6	2.4	2.1	1.7	1.5	1.5	1.5
Quasi money	-1.5	-12.2	3.0	7.7	5.2	4.5	3.6	3.2	3.2	3.2
Memorandum items:										
Non-oil GDP/M2 (in percent)	56.1	55.4	57.1	58.5	58.7	58.9	59.0	59.1	59.2	59.3
Foreign currency deposits/M2 (in percent)	6.6	4.4	4.5	5.6	5.2	4.9	4.7	4.6	4.4	4.3
Private credit/non-oil GDP (in percent)	188.7	211.9	213.4	211.3	207.7	205.9	206.1	207.5	208.5	209.4

Sources: CBK; and IMF staff estimates.

[1] Excludes SDRs and IMF reserve position.

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

Table 5. Kuwait: Financial Soundness Indicators of the Banking Sector, 2013-22 1/

(Percent unless specified otherwise)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Capital adequacy										
Regulatory capital to risk-weighted assets	18.9	16.9	17.5	18.6	18.4	18.3	18.5	19.0	19.2	18.4
Regulatory Tier I capital to risk-weighted assets	17.1	15.6	16.1	16.7	16.5	16.5	16.7	16.6	17.1	16.3
Capital to assets	12.2	11.1	11.8	12.8	12.8	12.9	13.3	13.5	13.4	12.3
Loan composition and quality										
Oil/gas	1.5	2.2	2.4	3.4	4.3	5.1	4.9	4.8	5.8	5.4
Trade	13.0	12.8	11.7	11.8	11.9	11.0	10.7	10.5	9.3	9.5
Industry	7.8	7.3	6.9	6.7	6.5	6.4	6.6	6.9	6.8	7.1
Construction	12.2	11.9	12.0	12.3	11.6	11.2	10.7	9.9	8.5	8.7
Real estate	18.9	18.5	17.5	16.6	16.6	15.8	17.0	17.7	15.9	16.9
Equity purchase loans (corporate)	3.4	3.0	3.0	2.9	2.6	2.8	2.7	2.8	3.1	3.0
Agriculture/fishing	0.3	0.4	0.3	0.3	0.2	0.4	0.3	0.4	0.4	0.5
Financial Institutions	10.4	11.9	14.0	13.3	11.8	12.2	11.8	12.1	12.6	12.3
Of which: investment companies	4.0	3.1	2.9	2.6	2.0	1.9	2.1	2.0	2.0	1.9
Of which: banks	5.7	8.0	10.5	9.8	8.8	9.4	9.7	9.2	9.4	9.5
Public services	1.8	2.2	2.2	1.8	1.8	1.8	1.7	1.8	1.5	1.3
Households	20.0	20.2	20.5	20.7	20.9	21.7	19.6	20.6	22.6	22.1
Of which: installment loans	14.4	14.8	15.5	16.1	16.8	17.7	16.5	17.2	18.2	17.2
Of which: consumer loans	3.0	2.9	2.5	2.4	2.3	2.3	2.7	3.0	3.2	3.8
Of which: equity purchase loans (individuals)	2.6	2.6	2.5	2.2	1.8	1.7	1.5	1.4	1.2	1.1
Other	10.7	9.7	9.6	10.3	11.7	11.5	11.5	11.5	3.5	3.5
Gross non-performing loans to total loans	3.6	2.9	2.4	2.2	1.9	1.6	1.5	2.0	1.4	1.4
NPLs net of specific provisions to total loans net of specific provisions	2.5	1.9	1.6	1.5	1.3	1.1	1.0	1.4	0.9	0.9
Total provisions to gross NPLs	134.6	163.9	204.8	236.9	230.2	253.1	270.6	222.1	309.7	297.6
NPLs net of specific provisions to Tier I capital	13.9	11.2	9.5	8.3	7.2	6.2	5.4	9.6	5.0	5.1
Loans to shareholders, parent companies, & directors to total loans	6.3	3.6	3.7	3.8	3.7	2.9	2.4	2.5	1.9	1.4
Large exposures to Tier I capital	87.2	97.1	101.1	94.7	105.5	104.6	85.7	124.5	93.8	89.9
Specific provisions to gross loans	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.6	0.4	0.5
Profitability										
Return on Average Assets (ROAA)	1.0	1.1	1.1	1.1	1.2	1.3	1.2	0.6	1.1	1.3
Return on Average Equity (ROAE)	7.4	8.7	8.8	8.5	9.5	10.7	9.6	4.8	9.1	10.8
Net interest income to gross income	49.9	47.1	47.6	49.9	49.5	48.8	44.3	49.6	50.9	45.9
Non-interest income to gross income	32.8	30.8	30.5	22.1	21.9	18.9	19.6	19.6	24.1	19.1
Trading and foreign exchange income to gross income	10.4	12.5	12.1	6.8	6.0	4.4	5.9	5.1	8.9	5.9
Non-interest expenses to gross income	37.2	33.4	31.8	29.6	27.7	25.1	24.3	27.5	30.6	26.2
Non-interest expenses to average assets	1.9	1.6	1.5	1.4	1.4	1.3	1.3	1.2	1.3	1.3
Personnel expenses to non-interest expenses	41.7	47.3	49.3	53.4	56.0	54.4	54.5	53.3	54.4	53.1
Liquidity										
Core liquid assets to total assets [2]	22.5	24.7	24.3	24.1	23.7	23.6	22.5	21.3	20.8	18.2
Core liquid assets to short-term liabilities	30.3	32.7	31.7	31.4	30.9	30.7	28.8	27.5	27.0	24.8
Liquid assets to total assets	25.4	30.7	29.8	30.1	31.0	31.2	30.3	29.7	27.6	27.0
Liquid assets to short term liabilities	34.1	40.6	38.9	39.1	40.5	40.6	38.8	38.2	35.8	36.8
FX- loans to total loans	28.2	26.0	30.5	29.1	30.6	30.1	31.3	31.7	32.5	34.2
FX- deposits to total deposits	30.7	37.0	38.8	33.2	37.8	37.2	39.6	41.8	43.0	43.9
Deposits to assets	62.2	59.4	59.2	58.4	59.1	57.8	59.3	63.1	62.0	59.1
Loans to deposits	99.5	103.6	108.3	108.9	106.5	109.0	105.3	100.7	103.7	107.5
FX- loans to FX-deposits	91.4	72.8	85.3	95.7	86.3	88.1	83.1	76.4	78.6	83.6
Sensitivity to market risk										
Off-balance sheet operations as percent of assets	27.8	28.5	28.2	32.1	32.2	31.4	32.1	31.3	30.5	33.8
Equity exposure to capital	35.3	29.6	28.1	24.8	21.9	20.9	20.7	20.5	20.4	14.6

Source: CBK.

[1] Data are on consolidated basis.

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

Annex I. Status of Recommendations of 2021 Article IV Consultation

Recommendations	Status
Fiscal Policy	
• Passing the Public Debt Law to support orderly fiscal operations.	Not passed. A draft debt law has been submitted to Parliament for internal debate.
• Undertaking fiscal adjustment through curtailing expenditures including via reforming public wage bills, phasing out subsidies, and diversifying the sources of revenues including via launching VAT and additional excise taxes.	Limited progress. The authorities adopted measures that do not require legislative approval so far. Adjustment measures that require parliamentary approval, such as reforming the wage bill and introducing the VAT, are still pending.
• Anchoring fiscal consolidation on a medium-term fiscal framework to strengthen the fiscal and external positions.	Limited progress. The Ministry of Finance is planning to strengthen its macroeconomic modeling capacity.
• Enhancing public financial management and fiscal governance, including via more disclosures in quarterly fiscal reports and publication of the KIA's balance sheet.	Limited progress. The Ministry of Finance launched measures to enhance data collection from state-owned entities.
Monetary and Financial Sector Policies	
• Phasing out the interest rate ceiling on commercial loans.	No change to the ceiling so far.
• Deepening the local currency bond market after the approval and enactment of the debt law.	This remains conditional on passing the new debt law.
• Implementing the AML/CFT legal and regulatory frameworks.	The Kuwait Anti-Corruption Authority (Nazaha) published the country's 2019-24 strategy. Implementation is ongoing.
Structural Reforms	
• Implementing the government's Program of Action, which laid out an ambitious structural and fiscal reform agenda.	The new government will prepare its reform plan, based on the 2020-25 Kuwait National Development Plan.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Kuwait in 2022 was weaker than the level implied by fundamentals and desirable policies. Nevertheless, Kuwait's external position remains strong, with high oil export revenues underpinning a large current account surplus and net foreign asset position.*

Potential Policy Responses: *To strengthen the external balance to the level consistent with fundamentals and desirable policies over the medium term, fiscal consolidation to support intergenerational equity and structural reforms to diversify the economy are needed. The exchange rate peg remains an appropriate nominal anchor for monetary policy, as it has long supported low and stable inflation.*

Foreign Assets and Liabilities: Position and Trajectory[1]

Background. At end-2021, Kuwait's net foreign asset position excluding gold is estimated at US$1,081.2 billion (786.5 percent of GDP), up from US$984.2 billion (928.9 percent of GDP) at end-2020. Total foreign assets excluding gold are estimated at US$1,167.2 billion (849.1 percent of GDP) at end-2021, up from US$1,061.7 billion (1,002.1 percent of GDP) at end-2020, mainly reflecting higher portfolio equity assets. Total foreign liabilities are estimated at US$86.0 billion (62.6 percent of GDP) at end-2021, up from US$77.6 billion (73.2 percent of GDP) at end-2020.

Assessment. Kuwait's net foreign asset position is projected to steadily increase over the medium term, in line with sustained double-digit current account surpluses as a share of GDP. These projected current account surpluses mainly reflect high oil export revenues and investment income receipts.

2021 (% GDP)	NIIP: 786.5	Gross Assets: 849.1	Debt Assets: 321.9	Gross Liab.: 62.6	Debt Liab.: 48.3

Current Account

Background. The current account surplus is estimated to have reached 33.8 percent of GDP in 2022, up from 27.2 percent of GDP in 2021, mainly reflecting higher oil export revenues. Indeed, oil export revenues are estimated at 50.4 percent of GDP in 2022, up from 45.8 percent of GDP in 2021.

Assessment. The current account surplus was lower than the level implied by fundamentals and desirable policies in 2022, partly reflecting inadequate public saving of the oil revenue windfall. The EBA-lite current account approach estimates an adjusted current account balance of 31.4 percent of GDP in 2022, versus a current account norm of 36.0 percent of GDP. This implies a current account gap of -4.7 percent of GDP—of which the cyclically adjusted fiscal balance accounts for -0.9 percentage points given the undesirably low fiscal surplus—and a real effective exchange rate gap of 13.7 percent. The consumption-based external sustainability approach for oil exporters estimates a current account norm of 32.4 percent of GDP, to support intergenerational equity by saving adequately to maintain a constant real per capita annuity. This implies a current account gap of -1.0 percent of GDP, and a real effective exchange rate gap of 3.0 percent. Given that it is tailored to oil exporters, staff assigns somewhat more weight to the consumption-based external sustainability approach following past Article IV Consultations, and assesses the external position to be weaker than the level implied by fundamentals and desirable policies.

Kuwait: Model Results, 2022			
	CA model 1/	**REER model** 1/	**ES model** 2/
		(in percent of GDP)	
CA-Actual	**33.8**		**33.8**
Cyclical contributions (from model) (-)	1.6		1.6
COVID-19 adjustors (-) 3/	1.0		1.0
Natural disasters and conflicts (-)	-0.1		-0.1
Adjusted CA	**31.4**		**31.4**
CA Norm (from model) 3/ 4/	**36.0**		**32.4**
CA Gap	**-4.7**	**-4.9**	**-1.0**
o/w Relative policy gap	1.0		
Elasticity	-0.3		-0.3
REER Gap (in percent)	**13.7**	**14.4**	**3.0**

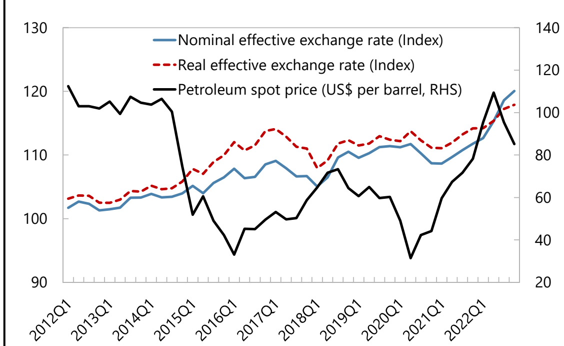
1/ Based on EBA-lite 3.0 methodology.
2/ Consumption-based external sustainability approach for large oil exporters.
3/ Cyclically adjusted, including multilateral consistency adjustments.
4/ For ES model, not cyclically adjusted, maintains constant real per capita annuity.

Real Exchange Rate

Background. The exchange rate is pegged to an undisclosed basket of currencies. For over a decade, the Kuwaiti Dinar has experienced moderate trend appreciation in nominal and real effective terms. In 2022, it appreciated by 5.8 percent in nominal effective terms, and by 3.2 percent in real effective terms.

Assessment. The EBA-lite real exchange rate approach estimates a real effective exchange rate gap of 16.4 percent in 2022, which implies a current account gap of -5.8 percent of GDP.

Nominal versus Real Effective Exchange Rates



Sources: IMF.

Capital and Financial Accounts: Flows and Policy Measures

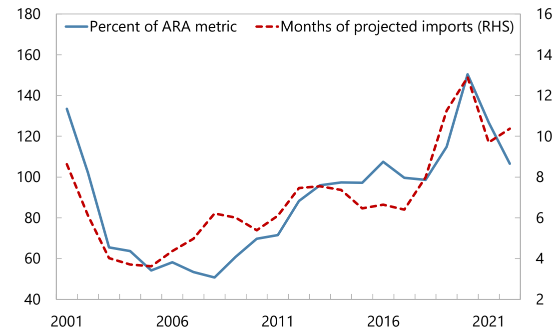
Background. Strong capital outflows have continued as the KIA invested high oil revenues abroad. The capital and financial account deficit is estimated at 32.4 percent of GDP in 2022, down from 35.5 percent of GDP in 2021.

Assessment. Capital flow analysis is hindered by stock-flow inconsistencies between the official balance of payments and international investment position data, as the latter has limited coverage, and excludes sovereign wealth funds. The strong external position limits the risk of a capital outflow surge and vulnerabilities to it.

FX Intervention and Reserves Level

Background. Official reserve assets stood at US$48.2 billion (10.4 months of prospective imports, 106.5 percent of ARA metric) at end-2022, up from US$45.2 billion (9.7 months of prospective imports, 126.8 percent of ARA metric) at end-2021. Sovereign wealth fund assets under management by the KIA on behalf of the government stood at US$769 billion (412.1 percent of GDP) at end-2022, up from US$693 billion (505.7 percent of GDP) at end-2021.

Official Reserve Assets



Sources: IMF staff estimates.

Assessment. Official reserve assets provide sufficient import coverage and lie within the adequate range of 100-150 percent of the ARA metric. They are projected to remain stable in terms of import coverage over the medium-term. Official reserve assets are complemented by large sovereign wealth fund assets.

[1] The data source is the September 19, 2022 version of: Lane, Philip R. and Gian Maria Milesi-Ferretti, “External Wealth of Nations Database” (based on Lane, Philip R. and Gian Maria Milesi-Ferretti, 2018, "The External Wealth of Nations Revisited: International Financial Integration in the Aftermath of the Global Financial Crisis", IMF Economic Review, 66, 189-222).

Annex III. Risk Assessment Matrix[1]

Risk and Likelihood	Economic Impact	Policy Responses
Global Risks		
Medium	High	
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	An increase/decrease in the global price of oil would raise/reduce growth and inflation in Kuwait, while higher/lower oil export revenues would improve/worsen the fiscal and current account balances.	In response to a large increase/decrease in the global price of oil, use fiscal consolidation/stimulus to stabilize growth and inflation, given high fiscal space. Accelerate structural reforms to help diversify the export base away from oil.
Medium	High	
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	The resultant contraction in global oil demand would decrease the price of oil and OPEC production quotas, reducing growth and inflation in Kuwait, while worsening the fiscal and current account balances. Lower banking system liquidity could curtail credit supply.	Use fiscal stimulus to mitigate large reductions in growth and inflation, given high fiscal space. Release macroprudential buffers to support credit supply if needed.
Medium	Low	
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Internationally active banks in Kuwait could face higher interbank funding costs, constraining credit supply. These effects should be mild, given limited cross-border balance sheet exposures, safe haven capital inflows, and the strong sovereign backstop.	Release macroprudential buffers to support credit supply if needed.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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.

Risk and Likelihood	Economic Impact	Policy Responses
High	Medium	
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	Lower global potential growth would decrease the price of oil and OPEC production quotas, reducing potential growth in Kuwait, while structurally worsening the fiscal and current account balances.	Accelerate fiscal and structural reforms to boost potential growth, by incentivizing the diversification of the export base away from oil and enhancing the competitiveness of the non-oil export sector. Maintain strong capital adequacy requirements to absorb any increases in NPLs during the economic transition.
	Domestic Risks	
Medium	High	
Delayed fiscal and structural reforms. Needed fiscal and structural reforms are delayed, or their scope and effectiveness is diminished.	Delays in needed fiscal and structural reforms would increase the risk of procyclical fiscal policies and undermine investor confidence. They would also hinder progress towards diversifying the economy which implies higher vulnerability toward climate transition risks.	The government should clearly explain the benefits of the reforms to Parliament and the public to build support for them, while raising fiscal transparency. It should also strengthen the social safety net to support adversely affected groups.
Low	Medium	
Resolution of political gridlock accelerates reforms. The political gridlock in Parliament is resolved, enabling the government to expeditiously implement needed fiscal and structural reforms.	The accelerated implementation of needed fiscal and structural reforms would boost investor confidence, stimulating private investment.	The government should raise fiscal transparency and expeditiously strengthen the social safety net to support adversely affected groups.

Annex IV. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Kuwait: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting a low level of vulnerability in the near-, medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low, which is consistent with the mechanical signal and on the basis of low debt level and the substantial sovereign wealth fund (estimated at over 500 percent of GDP in 2023).
Fanchart	Low	…	
GFN	Low	…	
Stress test	...	…	
Long term	…	Low	Long-term risks are low with aging-related expenditures on health and social security feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Kuwait's public debt is assessed to remain sustainable under the baseline scenario. Public debt is projected to decline to about 2.9 percent of GDP in 2022 and rise gradually to about 17.1 percent of GDP in 2028. Kuwait has large buffers that can support fiscal financing, and the debt increase is mainly driven by the need to develop local debt market after the approval of Kuwait new debt law. The assessment of low debt and financing risks over the medium term and long term inform a final assessment of low risk.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Kuwait: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

CPS	NFPS	GG: expected	CG	#	Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	Yes
CPS	NFPS	GG: expected	CG	3	Social security funds (SSFs)	Yes
CPS	NFPS	GG: expected		4	State governments	Yes
CPS	NFPS	GG: expected		5	Local governments	Yes
CPS	NFPS			6	Public nonfinancial corporations	No
CPS				7	Central bank	Yes
CPS				8	Other public financial corporations	No

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

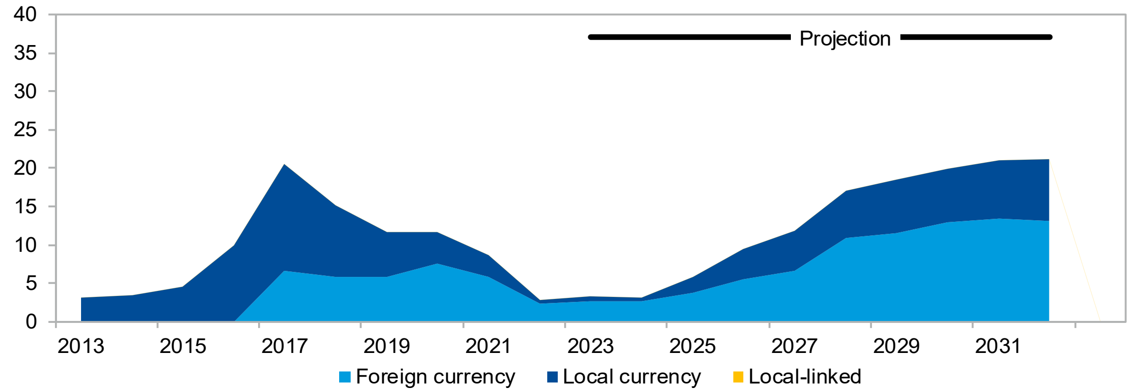
(Rows 1–8 grouped as CPS; 1–6 NFPS; 1–5 GG: expected; 1–3 CG.)

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary:The coverage in this SRDSA focuses on the general government that includes extra budgetary funds and social security funds, and there is no state or local government. Data on the broader public sector is unavailable at this stage. Staff continues to work together with the authorities on expanding fiscal data coverage to include the broader public sector.

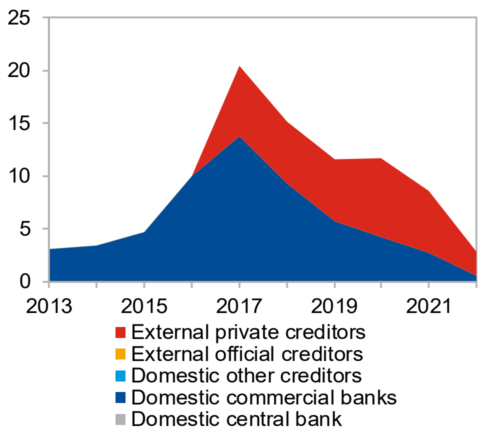
Figure 3. Kuwait: Public Debt Structure Indicators

Debt by currency (percent of GDP)



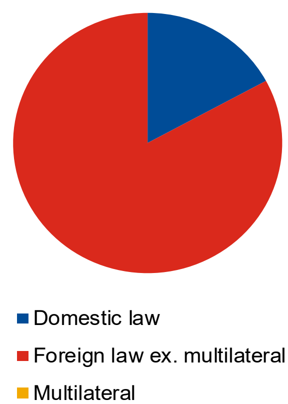
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



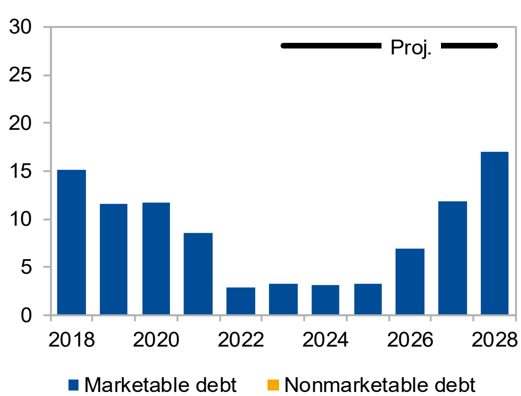
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



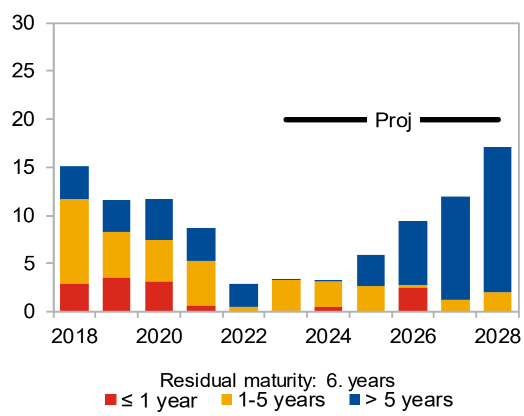
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

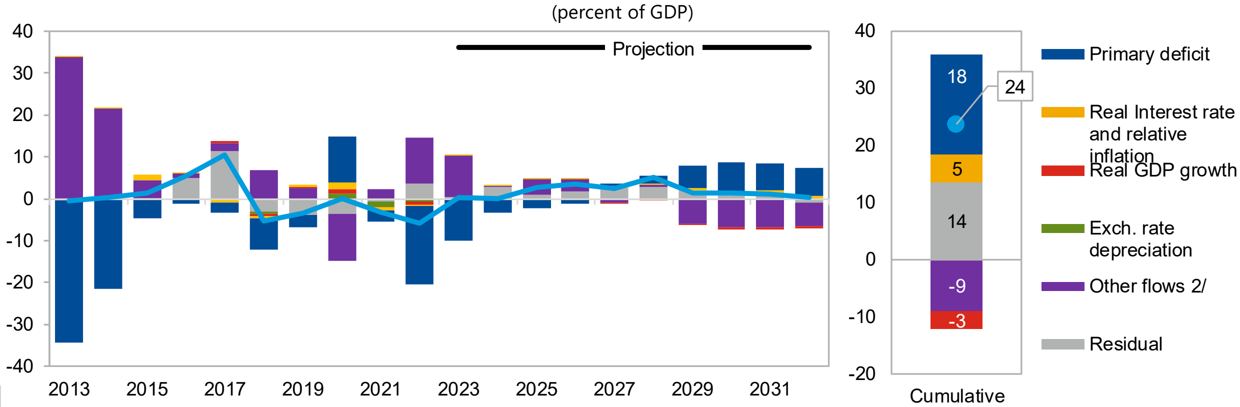
Commentary: These indicators are calculated based on calendar year, and differ from calculation based on fiscal year cycle (e.g. Table 1 on Selected Economic Indicators), which runs from April 1 to March 31 of the second year.

Figure 4. Kuwait: Baseline Scenario
(percent of GDP unless indicated otherwise)

	Actual 1/	Medium-term projection 1/						Extended projection 1/			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	2.9	3.3	3.2	5.9	9.5	11.9	17.1	18.5	20.0	21.0	21.3
Change in public debt	-5.7	0.4	-0.1	2.7	3.6	2.4	5.2	1.4	1.5	1.0	0.3
Contribution of identified flows	-9.3	0.0	-2.8	1.6	1.9	-0.2	2.4	-0.5	0.5	-0.3	1.2
Primary deficit	-18.5	-10.1	-3.2	-2.0	-1.1	0.7	1.7	5.3	7.0	6.4	6.6
Noninterest revenues	57.1	60.3	54.3	52.1	51.3	49.7	48.8	44.8	42.4	42.7	42.3
Noninterest expenditures	38.5	50.2	51.1	50.1	50.2	50.4	50.5	50.1	49.5	49.2	49.0
Automatic debt dynamics	-1.8	0.2	0.1	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Real interest rate and relative inflation	-0.4	0.2	0.1	0.1	0.2	0.4	0.4	0.5	0.6	0.7	0.7
Real interest rate	-1.4	0.6	0.3	0.2	0.3	0.5	0.5	0.6	0.7	0.8	0.8
Relative inflation	1.0	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Real growth rate	-0.7	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4	-0.5	-0.5
Real exchange rate	-0.8	...	...	...	...	...	...	...	...	...	...
Other identified flows	11.0	9.8	0.3	3.7	2.9	-1.0	0.6	-6.0	-6.8	-6.9	-5.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	11.0	9.8	0.3	3.7	2.9	-1.0	0.6	-6.0	-6.8	-6.9	-5.6
Contribution of residual	3.6	0.4	2.7	1.0	1.7	2.6	2.7	2.0	1.0	1.3	-1.0
Gross financing needs	-16.4	-9.9	-2.9	-1.4	-0.8	4.6	4.3	8.8	11.6	11.5	12.8
of which: debt service	2.1	0.2	0.3	0.6	0.3	3.9	2.6	3.5	4.5	5.1	6.1
Local currency	0.2	0.1	0.2	0.6	0.2	1.2	2.5	3.2	3.7	3.9	4.2
Foreign currency	2.0	0.1	0.1	0.1	0.1	2.7	0.2	0.3	0.8	1.2	1.9
Memo:											
Real GDP growth (percent)	8.2	0.1	2.6	4.1	2.4	2.4	2.4	2.3	2.5	2.5	2.6
Inflation (GDP deflator; percent)	27.4	-12.3	-2.6	-0.6	0.1	-0.1	0.2	1.2	1.2	1.2	1.2
Nominal GDP growth (percent)	37.8	-12.3	0.0	3.5	2.5	2.3	2.6	3.5	3.7	3.7	3.8
Effective interest rate (percent)	4.5	6.6	5.6	6.4	5.2	4.9	4.9	4.8	5.3	5.2	5.2

Contribution to change in public debt

(percent of GDP)

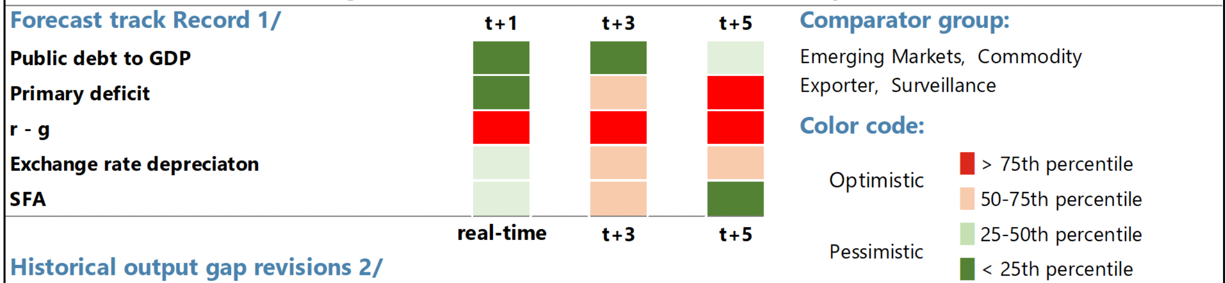


Staff commentary:

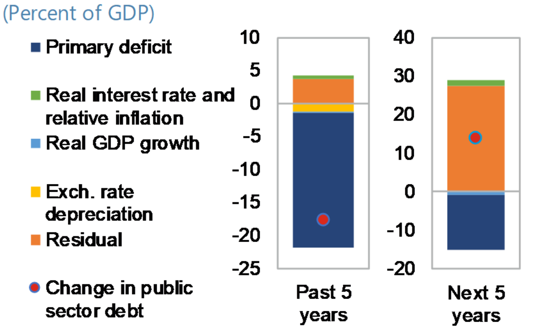
1/ The table is based on calendar year. The numbers differ from the calculation based on fiscal year cycle (e.g. Table 1 on Selected Economic Indicators), which runs from April 1 to March 31 of the second year.

2/ Other flows include savings into sovereign wealth funds and withdrawals from them.

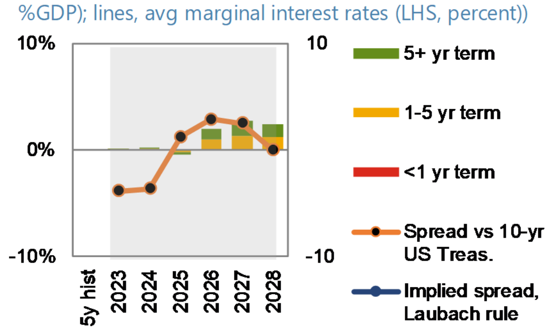
Figure 5. Kuwait: Realism of Baseline Assumptions



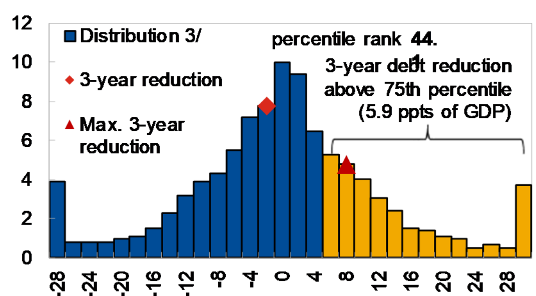
Public Debt Creating Flows
(Percent of GDP)



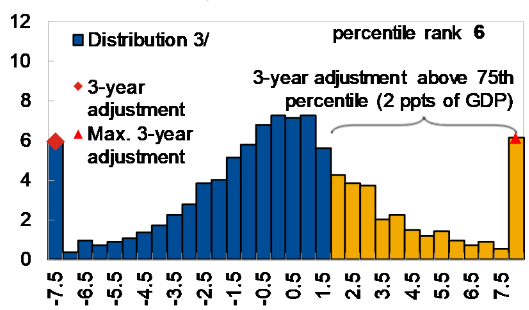
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



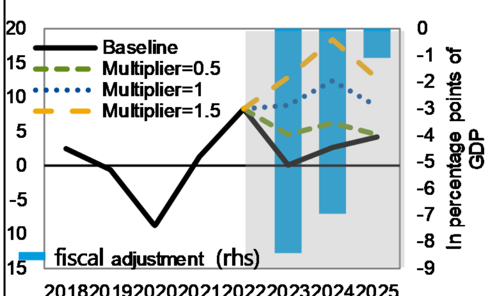
3-Year Debt Reduction
(Percent of GDP)



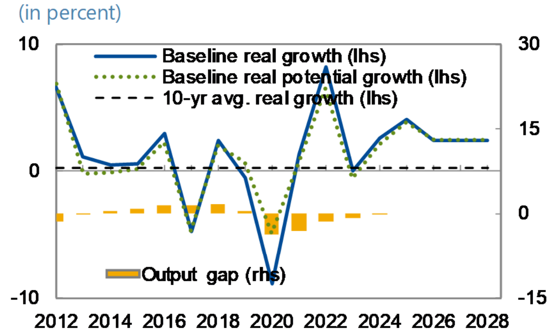
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(in percent)



Commentary: The top chart compares past projected values and outturns, and analyzes forecast record vis-à-vis a relevant comparator group. Red cells indicating forecast optimism, which means past projections were better than outturns (i.e., higher projected growth than actual, and lower projected debt than actual). The forecast of Kuwait oil growth in the past few years was more optimistic than outturn mainly due to the introduction of the OPEC+ oil production cut in 2020 and the subsequent oil production cuts.

Source: IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ No historical output gap data.
3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure 6. Kuwait: Medium-Term Risk Analysis

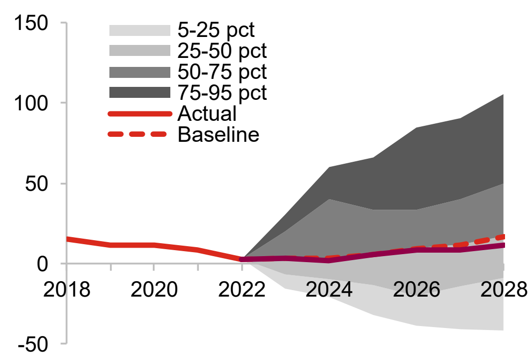
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

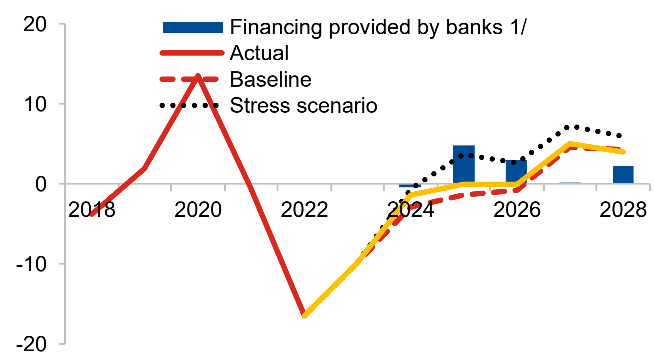
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	146.7	2.1	...	
	Probability of debt not stabilizing (pct)	95.6	0.8	...	
	Terminal debt level x institutions index	9.8	0.2	...	
	Debt fanchart index	**...**	**3.1**	**Low**	
GFN finance-ability module	Average GFN in baseline	-1.0	-0.3	...	
	Bank claims on government (pct bank assets)	0.3	0.1	...	
	Chg. in claims on govt. in stress (pct bank assets)	9.1	3.0	...	
	GFN financeability index	**...**	**2.8**	**Low**	

Legend: Interquartile range; Kuwait

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

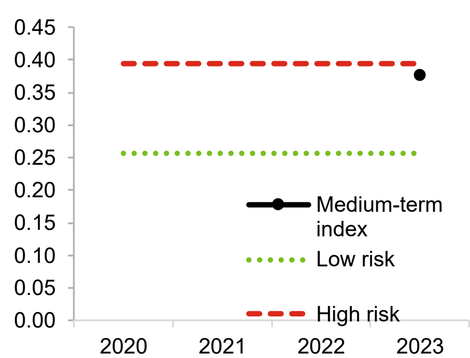


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.7
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.4, Low

Prob. of missed crisis, 2023-2028 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 15.9 pct.

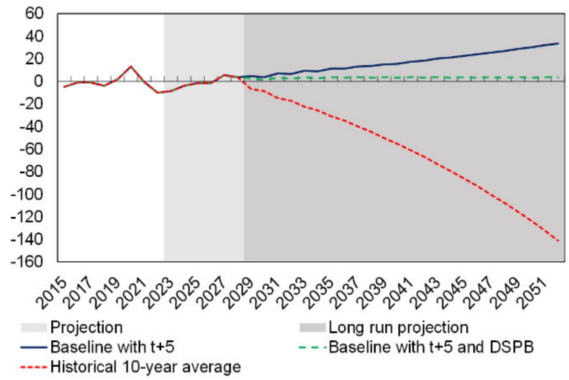
1/ Financing provided by banks measures the difference of financing needs between baseline and stress scenario, relative to nominal GDP under stress scenario. Following the Staff Guidance Note on Sovereign Risk and Debt Sustainability Framework for Market Access Countries, the mechanical signal from the debt fanchart index has been adjusted to low as the government holds large financial asset buffers exceeding 75 percent of GDP and 100 percent of public debt.

Figure 7. Kuwait: Long-Term Risk Analysis: Large Amortization

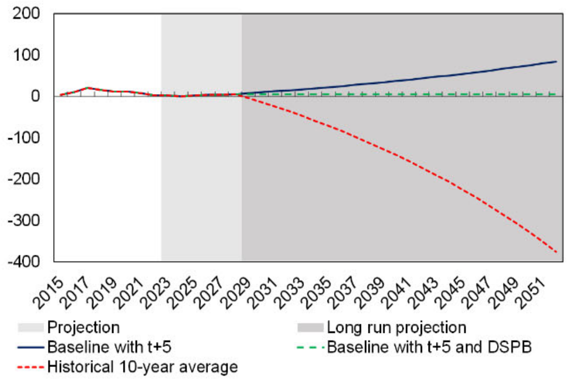
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

GFN-to-GDP ratio



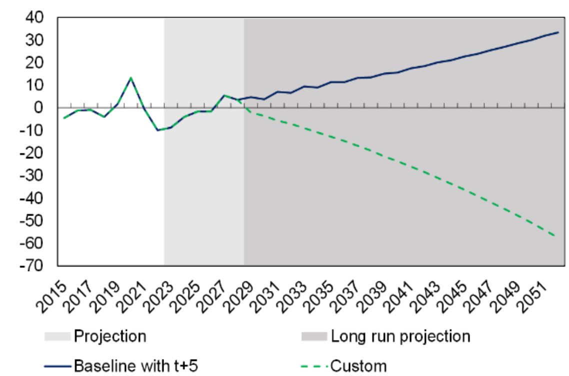
Total public debt-to-GDP ratio



Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	2.4%	2.0%
Primary Balance-to-GDP	-1.7%	3.0%
Real depreciation	-0.2%	-1.1%
Inflation (GDP deflator)	0.2%	1.0%

GFN-to-GDP ratio



Total public debt-to-GDP ratio

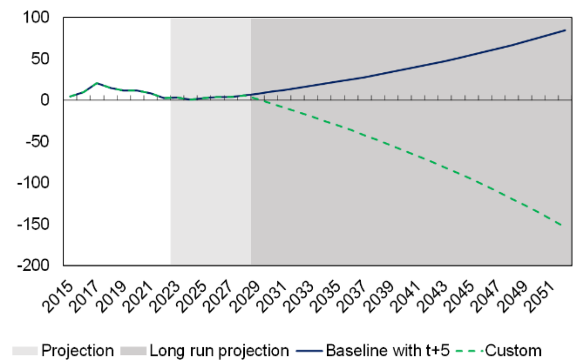
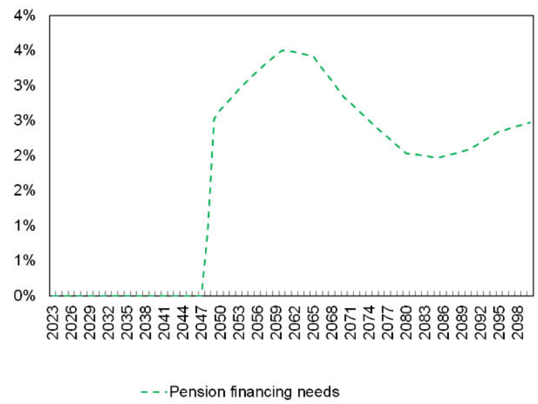


Figure 7. Kuwait: Long-Term Risk Analysis: Demographics (Concluded)

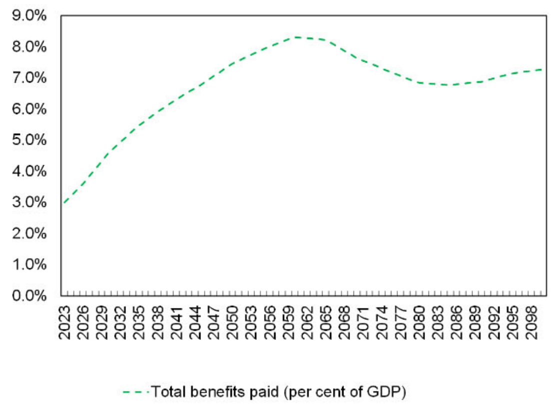
Demographics: Pensions

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.37%	1.45%	1.68%

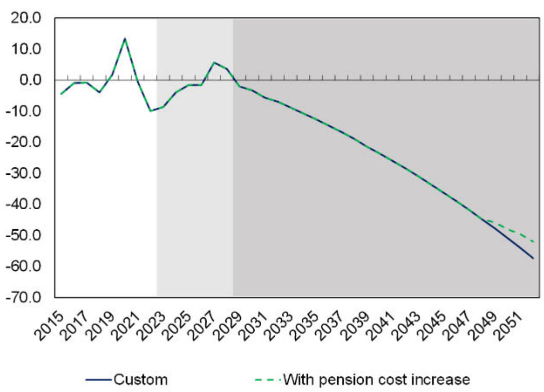
Pension Financing Needs



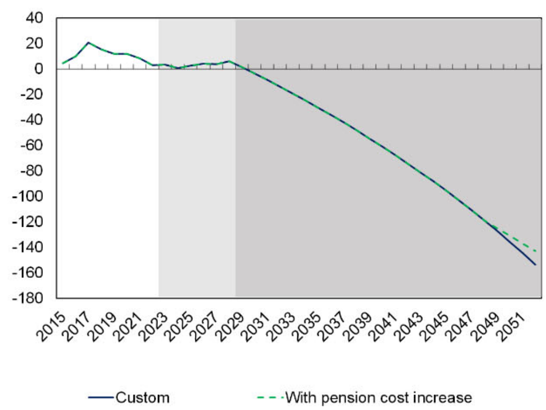
Total benefits paid



GFN-to-GDP ratio

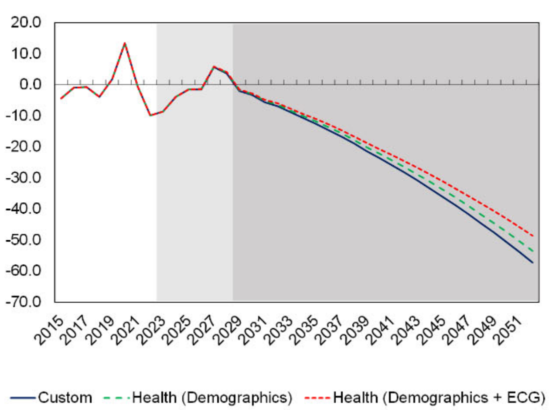


Total public debt-to-GDP ratio

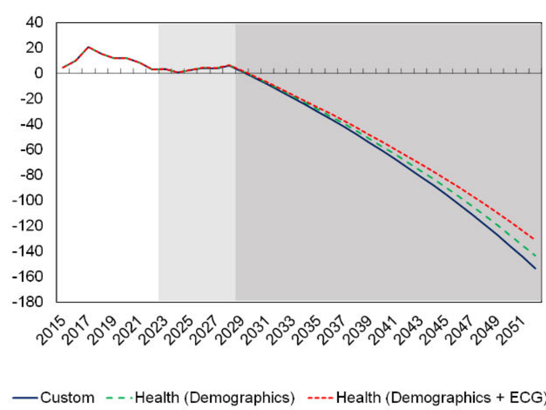


Demographics: Health

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Annex V. Sovereign Asset and Liability Management[1]

This note takes stock of Kuwait's sovereign financial assets and liabilities and recommends managing them within a coherent framework.

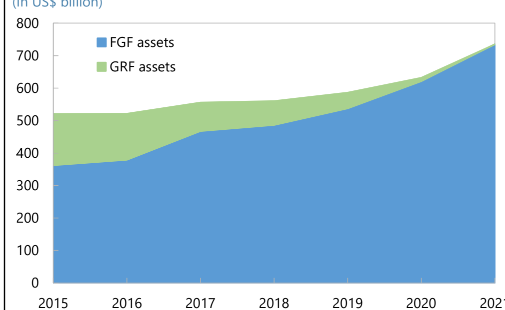
Sovereign Assets

1. **Kuwait's sovereign wealth fund (SWF) consists of the General Reserve Fund (GRF) and the Future Generations Fund (FGF).** Established as Kuwait Investment Board in 1953, eight years before the country's independence, Kuwait's SWF is one of the world's oldest SWFs. Both Funds are managed by the Kuwait Investment Authority (KIA) which also manages the government's external borrowing (Figure 1). As of end-2021, FGF is estimated to have over US$700 billion assets (about 5 times the size of nominal GDP in 2021), while GRF was near depletion at that time.[2] KIA invests globally, including in the Americas, Europe, and Asia-Pacific.[3]

- **General Reserve Fund** is the main repository of all the state's oil revenues and income earned from GRF investments; it acts as the state's treasury account and a stabilization fund.[4]

- **Future Generations Fund** is an intergenerational savings vehicle. A transfer to the FGF can be made when the budget registers a surplus.[5] The investment income is also reinvested. No withdrawal is allowed from the FGF unless sanctioned by law as it was done to pay for the post-Gulf War reconstruction of Kuwait.

Sovereign Assets, estimated
(In US$ billion)



Sources: country authorities, and IMF staff calculations.

[1] Prepared by Fei Liu.

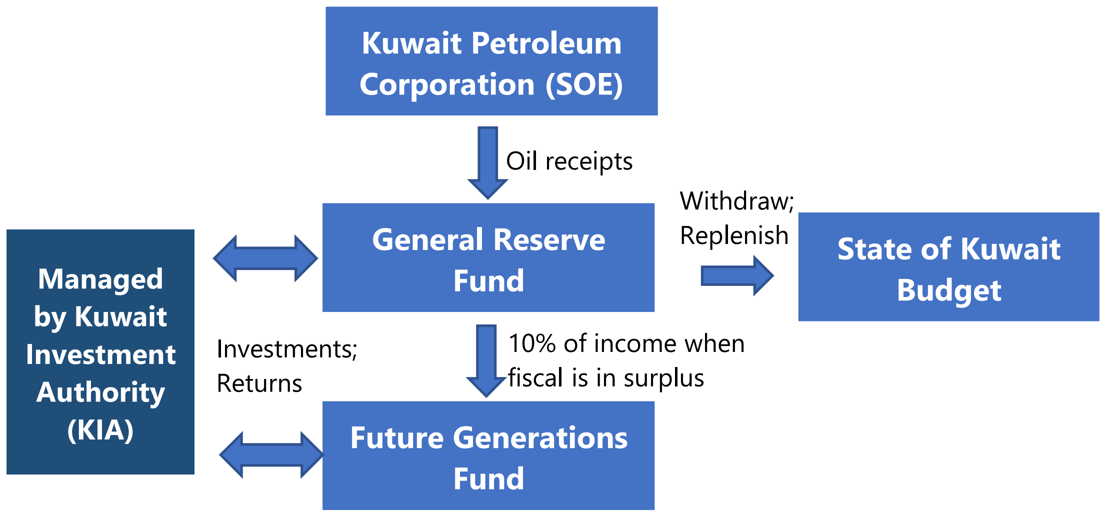
[2] GRF is estimated to have been replenished in 2022 due to the rebound of crude oil prices and oil revenue. It is estimated that about 35 percent of the FGF is invested domestically (SWF Global newsletter, August 2022).

[3] The legislation that created the KIA in 1982 prohibits the disclosure of any information about the organization or its performance to the public (Kuwait Law No. 47 of 1982).

[4] Payments for expenditures out of the GRF are done through transfers of funds denominated in foreign currency from the KIA accounts to the CBK accounts abroad, i.e., the KIA sells foreign exchange to the central bank which transfers local currency to the government. The size of the transfers is determined by the financing needs. Given the large size of government spending, these transfers form an important source of foreign exchange for the CBK.

[5] On August 19, 2020, the Parliament passed legislation to mandate the transfer of 10 percent of revenues (net of investment income) to the FGF, only in the case of a budget surplus during the same fiscal year.

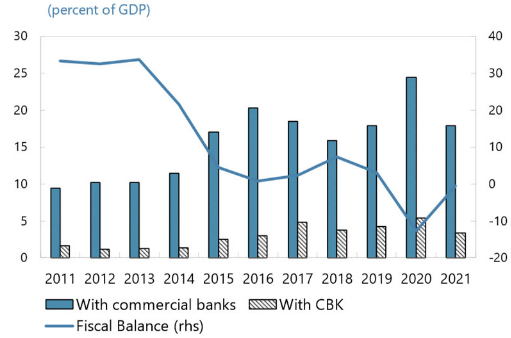
Figure 1. Kuwait: Institutional Arrangements of Sovereign Assets



2. **Kuwait's FX reserves were about 33 percent of GDP (US$45 billion) at end-2021.** The Kuwait exchange rate is pegged to an undisclosed weighted basket of currencies of Kuwait's major trading partners. The Central Bank of Kuwait (CBK) manages the FX reserves to fulfill the objectives of maintaining the currency peg and providing liquidity to meet commercial banks' needs.

3. **State-owned enterprises (SOEs) play a significant role in economic activities.** SOEs, particularly those in the energy sector, are also an important source of government revenue and have contributed about 70 percent of government revenue in recent years (2015-19).[6] The state's involvement in SOEs is often related to the limited financial capacity of the private sector to deliver commercial activities that are profitable, or to the state's plan to continue its presence in certain strategic sectors.

Government Deposits
(percent of GDP)



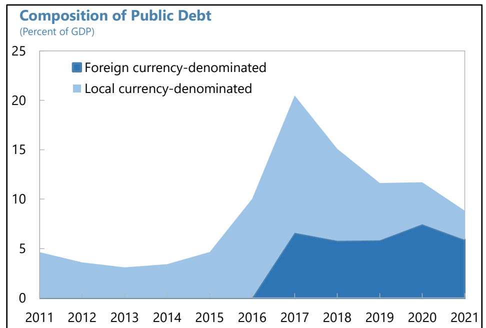
4. **The government has sizable deposits with the CBK and domestic commercial banks.** Since 2015, government deposits with commercial banks have increased from an average of 10 percent of GDP (2011-2014) to an average of 20 percent (2015-2021). Government deposits with CBK remained low at around 4 percent of GDP on average (2015-2021). In

[6] In oil-exporting countries across the MENA&CA (Middle East, North Africa, and Central Asia) region, SOEs have contributed more than 20 percent of general government revenue in recent years (2019 or latest year available as of 2019; see IMF, 2021). The SOEs' contribution to GDP was estimated at over 60 percent in the 2000s (Sartawi, 2012). More recent estimates are unavailable due to lack of data.

addition, the pension fund assets, managed by Public Institution for Social Security (PIFSS) and estimated at 100 percent of GDP as of 2021 also constitute part of the nation's wealth in a broader definition.

Sovereign Liabilities

5. The government issued domestic and external debt until 2017.[7] The issuance has helped provide fiscal financing following the 2014/15 oil price shock. Gross public debt rose from 4.6 percent of GDP in 2011 to 20.5 percent in 2017, and then declined to 8.7 percent in 2021 as the debt was gradually repaid when it matured.[8] The twin shocks of the COVID-19 pandemic and lower oil prices worsened the fiscal balance and raised fiscal financing needs. However, as the government has no legal power to borrow beyond 2017, fiscal financing was met via drawdown of the liquid assets of the GRF, pushing its balance to neared depletion.



Sources: country authorities, and IMF staff calculations.

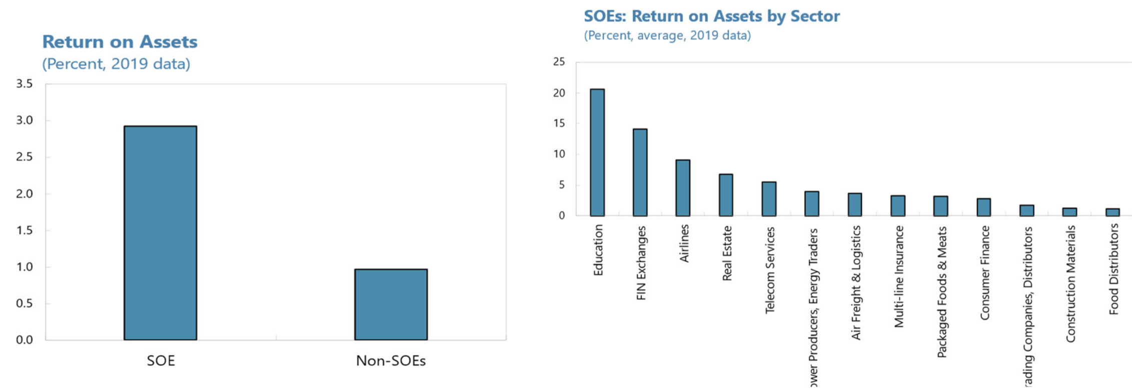
6. The government could face contingent liabilities from SOEs. Contingent liabilities can be explicit, when they are formalized by a legal contract or an explicit commitment, or implicit, when there is an expectation that the government may step in and help the firm even if there is no legal obligation. If SOEs face adverse shocks and financial distress, they can impact the government budget or balance sheet through multiple channels. Governments' liabilities will increase if a part of SOE debt is assumed by the government. Lower net financial assets on SOE balance sheets also lower public net worth. When SOEs carry out a significant share of public investment and the latter slows down, the real economy will likely be affected and so will public revenues. Kuwait's energy sector is dominated by SOEs, as the law precludes private participation in most of that sector's activities. Other than the energy sector, Kuwait has few SOEs that are fully state-owned except Kuwait Airways. These SOEs broadly performed well in terms of their return to assets (Figure 2).[9] The government owns shares in various Kuwaiti companies through the funds managed by the Kuwait Investment Authority or the Social Security Fund managed by Kuwait's Public Institution for Social Security.

[7] The government had the legal power to borrow domestically and externally with limits on size and duration set out in the law. Law No. 50 (1987) authorized the government to borrow for 10 years and was subsequently amended by Law No. 3 (1997) to extend the period until 2017. The law sets the following restrictions on borrowing: (a) a debt limit of KD 10 billion; (b) debt issuance maturities of maximum 10 years; and (c) borrowing operations are authorized until 2017. Foreign borrowing is allowed by the Ministerial Decree No 21 of 2009 which sets a limit to the equivalent of KD 5 billion. The Ministerial Decree No. 63 of 2015 authorized both the CBK and the KIA to carry out borrowing on behalf of the ministry of finance—the CBK for domestic debt operations and KIA for external borrowing in international markets.

[8] The government issued US$3.5bn 5-year and US$4.5bn 10-year bonds in 2017 and the first tranche of US$3.5bn has been repaid in March 2022.

[9] https://www.state.gov/reports/2018-investment-climate-statements/kuwait/

Figure 2. Kuwait: Performance of SOE



Sources: S&P IQ corporate data. SOE is defined as a publicly listed firm with positive government shares. The sample includes 143 publicly listed firms, among which there are 36 SOE firms.

Policy Considerations

7. **The management of sovereign assets and liabilities would best be done under a holistic framework.** A Sovereign Assets and Liabilities Management (SALM) framework has significant advantages over separate management of assets and liabilities. It would help detect sovereign risk exposures—by identifying sources of costs and risks and their linkages from a consolidated public sector portfolio perspective—and thus manage such exposure. For example, each government entity, including SOEs, may not have a large foreign currency debt exposure separately, but the aggregate could reach a level that warrants risk mitigation measures. A sovereign balance sheet can be constructed for analytical purposes, including SWF, government deposits in the banking system, assets in public enterprises, the foreign exchange reserves of the central bank, and the pension fund assets. On the liabilities side, the balance sheet should include public domestic and external debt, central bank liabilities, any unfunded pension schemes, and contingent liabilities.

8. **The implementation of this framework would require close collaboration among the institutions involved and alignment with the fiscal framework.** The Ministry of Finance (MoF) and the CBK are represented in the KIA Board of Directors, and KIA and CBK are represented at the debt management committee in MoF. Nonetheless, the authorities would benefit from formalizing collaboration arrangements at the operational level. This includes sharing data and information, aligning asset allocation with the debt strategies, coordinating cash and debt management between the MoF, KIA, and CBK. The SALM framework would also need to be consistent with the fiscal framework. The inflow and outflow rules of the SWF should be made consistent with the fiscal rule (Background Note II), and how oil revenue windfalls, when oil prices surprise on the upside, would be spent or saved should be clearly specified under the SALM framework.

9. The enactment of the Public Debt Law is essential for orderly fiscal operations and developing the local debt market.

- Passing the debt law would contribute to a balanced financing mix—offering an opportunity to weigh the pros and cons of borrowing versus drawing from GRF, reduce drawdowns from the GRF, allowing it to replenish from its historic low level over the past three years and thus last longer, and help refinance maturing obligations.

- It would be essential for the debt law to be passed without an expiration date to avoid interruption to debt management. The law can be updated and amended as the situation evolves. Equally important, it should provide sufficient flexibility for adequate debt management and avoid legislating restrictions such as on debt maturities, and size or use of financing, which are best managed at the operational level.

- Issuing domestic debt could help catalyze the development of a liquid local-currency debt market. Developing local debt markets would facilitate funding for the government, improve the efficiency of monetary policy, create price references for private sector issuances, and provide an important boost to the financial industry and thus help support private sector development.

10. A well-established public debt management framework is needed to reap the economic benefits of the debt law while avoiding introducing new vulnerabilities. The medium-term debt management framework will guide the debt management decisions and operations of government authorities. A Medium-Term Debt Management Strategy (MTDS) serves as an important anchor of this framework, linking borrowing with macroeconomic policy and outlining how the government manages its debt to achieve a portfolio that reflects its cost and risk preferences, while meeting financing needs. In this regard, the public debt management legal framework should be strengthened, including by clarifying the scope and coverage of the public debt to be computed toward the debt ceiling and the borrowing authority of public entities and SOEs that intend to issue debt instruments. The framework would need to clearly delineate the responsibility of preparing and publishing a Medium-Term Debt Management Strategy (MTDS) and annual borrowing plans. The framework should also specify reporting and disclosure requirements to enhance debt transparency. In addition:

- Issuance of domestic debt would need to consider the cost of debt relative to the expected risk and return on the GRF, and its impact on the central bank's foreign exchange reserves, and the capacity of the banking system to absorb government debt without crowding out private credit.

- Foreign currency debt abroad could constitute an additional option. A mix of drawdown of buffers and issuance of domestic and foreign debt likely best balances tradeoffs between costs and benefits.

11. Expanding fiscal coverage beyond the central government will promote greater fiscal discipline and transparency and provide a more comprehensive picture of fiscal risks and sustainability of the broader public sector. Transparency would help promote accountability and discipline, thereby improving the decision-making process. To create the right incentives for managers to perform and for government agencies to conduct effective oversight, greater disclosure of data and information would be needed. Incomplete coverage of SOEs in the fiscal accounts weakens fiscal analysis and creates incentives to shift fiscal pressures to SOEs, or vice versa, and ultimately generates higher fiscal risks. Governments also need to develop capacity and governance framework to monitor and mitigate fiscal risks from SOEs. In this regard, strengthening corporate governance and preparing a Code of Governance for SOEs based on the OECD guidelines on Corporate Governance of SOEs would be the right step to enhance an institutional framework to effectively manage SOEs. The framework should ensure oversight and reporting mechanisms, strong coordination between entities and a clear SOE ownership policy that guides the mandate of these SOEs.

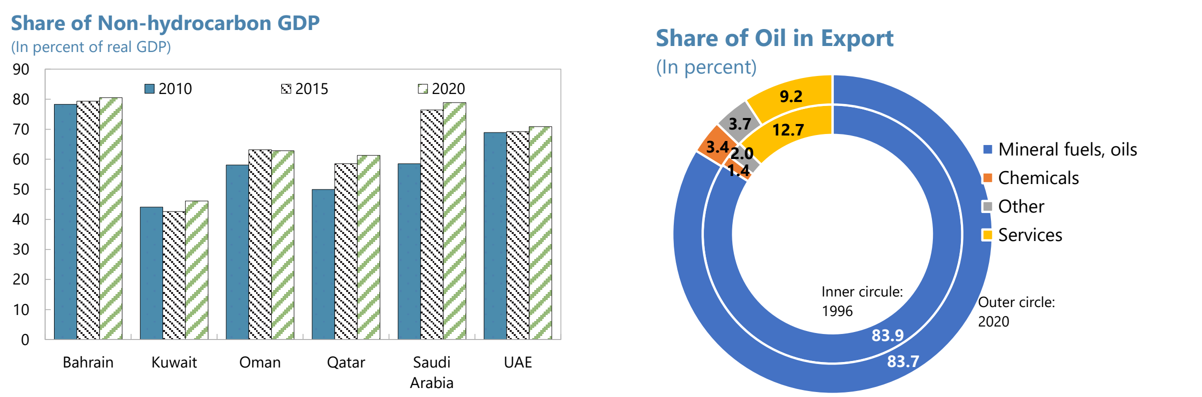
Annex VI. Structural Reforms for Strong and Sustainable Growth in Kuwait[1]

Kuwait's abundant oil resources have yielded rapid economic development and lifted social welfare over the past several decades. Nonetheless, the growth momentum supported by oil production could be dimming over the longer term as the global economy embarks on a decarbonization trend. To promote strong, job-rich, sustainable growth that best utilizes the well-educated Kuwaiti labor force and generates high-quality jobs, a comprehensive set of reforms is needed. With ample financial assets, Kuwait can embark on the reform path from a position of strength.

Overview

1. **Oil and oil related production, which accounts for more than 50 percent of real GDP, remains the key pillar of Kuwait's economy.** Meanwhile, progress in raising the share of the non-oil sector in the economy over the past decade has been limited—the share rose from 44 percent of real GDP in 2010 to a mere 46 percent in 2020 (Figure 1). Non-oil exports have been concentrated in capital-intensive downstream industries. Oil and its related materials dominate total exports with a share that has remained broadly unchanged over the past decade—at about 84 percent of total exports of goods and services (Figure 1). Nearly half of the non-oil goods exports are chemicals, which are again related to oil. The remainder is composed of machinery and transport equipment, metals, and agricultural produce.

Figure 1. Kuwait: Share of Oil in Economy and Exports



Sources: HAVER and IMF staff calculations.

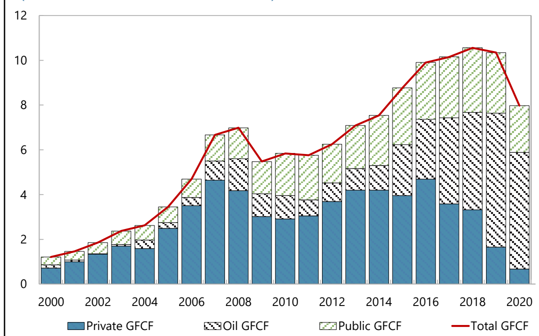
Sources: Atalas of Economic Complexity; and IMF staff calculations.

2. **Private investment has declined in recent years.** While the most recent decline in 2020 likely reflects the impact of COVID-19 pandemic, the downward trend that started around 2016 likely reflects a range of factors including weak competitiveness, lack of profitable investment opportunities, and challenges in the business environment. Although Kuwait was one of the first

[1] Prepared by Fei Liu. This annex draws on Kuwait 2021 Selected Issues Paper (unpublished).

GCC states to join the WTO and undertake the required economic reforms, FDI is relatively anemic, and the bulk of investments are directed towards the oil and gas sector. FDI inflows have been lower than 1 percent of GDP through 2020 despite sustained efforts by the authorities to improve the business environment. Public investment has been broadly stable. While a large share has been in infrastructure, Kuwait's public capital stock-to-GDP ratio lags the GCC average and available indicators show room to improve the quality of infrastructure.

Gross Fixed Capital Formation
(in KD billion unless otherwise noted)

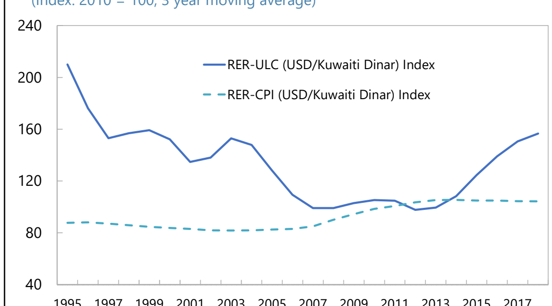


Sources: Kuwait Central Statistical Bureau, KPC, and IMF staff calculations.

3. Employment of Kuwaitis is heavily concentrated in the public sector, which generally pays higher wages and benefits than the private sector and provides greater job security.[2] The government wage bill has risen to over 20 percent of GDP in 2022, relative to about 10 percent in 2011, contributing to increasing fiscal vulnerabilities to oil prices and other external shocks. To encourage employment of nationals in the private sector, the government pays a subsidy for Kuwaitis that work in the private sector to increase their de facto salaries. Still, the wage gaps are sizeable and skew the supply of Kuwaiti labor toward the public sector and the demand for labor in the private sector toward expatriates (Figure 2). This situation also represents a major misallocation of human resources where well-educated nationals queue for jobs in the already bloated public sector, while leaving the private sector under-developed and starved of the creative abilities and talent of young Kuwaitis. Furthermore, differences in labor policies between nationals and expatriates, pertaining to dismissal procedures, pensions, and other social security rules, also contributes to making nationals less attractive to businesses to the extent that these differences make employing nationals more costly.

4. Competitiveness has also been declining. High oil prices have helped finance rapid increases in public spending, which has led to growth in consumption demand and in the low-productivity domestic non-tradable sector (IMF 2014a). As a result, non-oil output has increased, but productivity has not increased concurrent with non-oil output. Labor productivity, measured by real output per worker, has been trending down broadly across major economic sectors. Competitiveness measured by the Unit Labor Cost (ULC) based real

Real Exchange Rates Measured by Unit Labor Cost
(Index: 2010 = 100; 3 year moving average)



Sources: UNIDO INSTAT database, FRED Economic Data, and IMF staff calculations. UNIDO INSTAT data cover manufacturing industry only.

[2] There were about 1.5 million expatriate workers in Kuwait by the end of 2022, accounting for 80 percent of total employment. Nationals accounted for 80 percent of public sector employment as of 2022. (Source: Kuwait Central Statistical Bureau, and IMF staff calculation).

Figure 2. Kuwait: Employment by Sector

Employment by Sector: Sources: Kuwait Labor Market Information System (data as of 2022Q3), and IMF staff calculations.

Growth of Public Sector Employment: Source: Haver Analytics; Kuwait Labor Market Information System. Other GCC includes Bahrain, Oman, Saudi Arabia. UAE and Qatar are not included as data is unavailable.

Wage Premia: Sources: Kuwait Central Statistical Bureau, and IMF FAD Expenditure Assessment Tool.
Notes: Wage premia is public-private wage differential as a percent of private wage. For AEs and EMEs, it is based on a review of regression-based studies that control for skill differentials. For Kuwait, due to lack of data, it is based on average wage that does not control for skill differentials.

Education Spending and Outcomes: Sources: World Development Indicator, and IMF staff calculations.

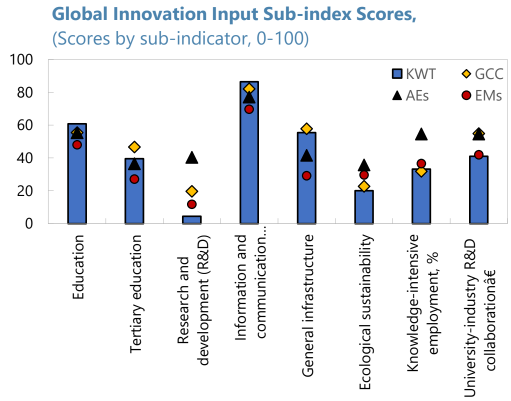
exchange rate (RER) shows deterioration compared to the CPI-based measure of the RER in recent periods owing to the divergence between wage and price inflation rates.[3] The sharp decline in labor productivity since the 2014-15 oil price plunge, combined with increases in wages in the public sector, has contributed to lower competitiveness. Bolstering competitiveness would therefore require lowering unit labor costs by increasing productivity and/or containing relatively high average wages.

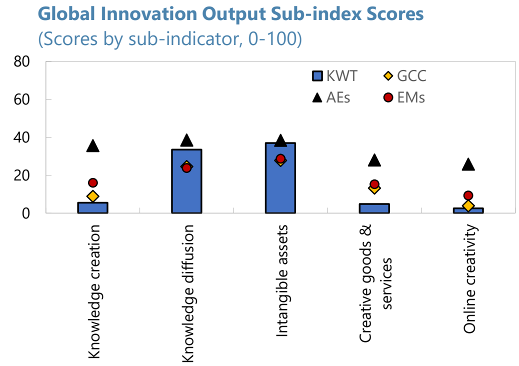
5. Kuwait's innovation outputs have been limited relative to its level of innovation investments. A major benefit of innovation is its contribution to economic growth. Innovation can lead to higher productivity, expansion of new business and production opportunities, and greater global market share. As more goods and services are produced with higher productivity, the

[3] The unit labor cost is measured as the average wage in the industrial sectors divided by average labor productivity in these sectors.

economy grows and standards of living increase. Measured by the Global Innovation Index (GII),[4] Kuwait lags in terms of knowledge creation and other creative goods and services.[5]

Figure 3. Kuwait: Innovations Index



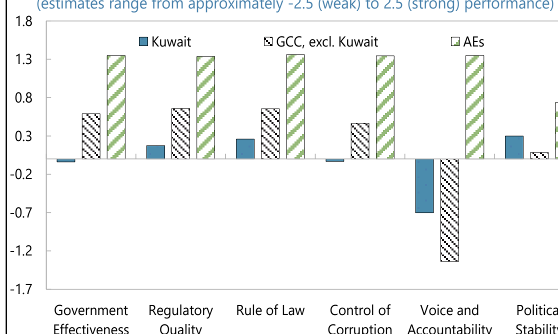


Sources: Kuwait Central Statistical Bureau, World Development Indicator; and IMF Staff Calculations.

6. **Kuwait has been making efforts to improve the overall business environment, but there is still room for more.** In general, good governance is often associated with stronger private investment, while weak governance coupled with a high perception of corruption may create uncertainty about the returns to investment due to factors including unpredictable policies and/or uneven enforcement of regulation. Over the past decade, Kuwait has implemented substantive improvements including, simplifying online company registration, streamlining the process for obtaining construction permits, and digitizing the application process for getting electricity. Nonetheless, Kuwait lags in terms of governance indicators, relative to other GCC countries, except for voice and accountability.

Governance Indicators, 2021

(estimates range from approximately -2.5 (weak) to 2.5 (strong) performance)



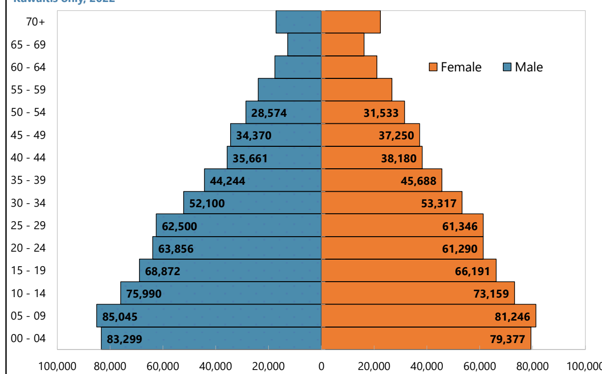
Sources: The Worldwide Governance Indicators, and IMF staff calculations.

[4] See Global Innovation Index 2022. Consisting of roughly 80 indicators, the GII aims to capture the multidimensional facets of innovation. The charts used innovation input sub-indices and output sub-indices.

[5] These output sub-indices are built on a variety of variables. For example, knowledge creation sub-index is built on variables including patent applications filed by residents, scientific and technical articles published in peer-reviewed journals, the entry density of new firms, spending on computer software, the number of certificates of conformity with standard ISO 9001 on quality management systems issued; knowledge diffusion sub-index is built on production and export complexity, high-tech exports, ICT services exports, etc.; intangible assets sub-index is built on trademarks by origin, global brand value, etc.; creative goods and services sub-index is built on cultural and creative service exports, national feature files, etc.; online creativity sub-index is built on generic top-level domains, GitHub commits, mobile app creation, etc.

7. A dynamic private sector would be needed to create job opportunities for young Kuwaitis entering the labor force.[6] Based on the population structure and rates of participation, in a five-year horizon roughly 100,000 young Kuwaitis would be added to the working-age population, and taking account of replacement of retirees, about 64,000 new jobs will need to be created. Consequently, the non-oil sector needs to grow by about 7 percent annually—double the IMF baseline forecast—during the coming years to offer sufficient opportunities to job seekers. This highlights the need to accelerate efforts to raise growth in the private non-oil sector and diversify the economy to efficiently absorb new labor market entrants and fully harness the creative abilities of young Kuwaitis.

Population by Age Group and Gender
Kuwaitis only, 2022



Sources: Kuwait Labor Market Information System. Data is as of 1/1/2022.

8. Looking ahead, the global decarbonization trend joins the call for lifting competitive, non-oil, private sector-led growth. The global decarbonization efforts will affect the global demand for crude oil, which would have profound economic implications for an oil exporter like Kuwait. More recently, the Covid-19 Pandemic, supply-chain disruptions, and geo-political events have intensified geo-economic fragmentation, which underscores the importance of boosting resilience including via fostering economic diversification. While the consequences of such fragmentation for the global economy are uncertain, they could be sizeable (Georgieva and others 2022). It is critically important to press ahead with structural reforms to lift growth potential and foster economic diversification in Kuwait, especially in the context of rapidly evolving global trends.

Main Economic and Structural Challenges

9. Three main challenges would need to be tackled to support stronger and more sustainable growth:

- Unlock the creative potential of Kuwaitis and incentivize them to seek private sector jobs. The severe skewness of national labor distribution towards public sector jobs has diverted public resources from more productive spending on human capital, innovation, and others to less productive use on the large public sector wage bill and complex subsidies. In the meantime, a young population and rising labor force participation rates will lead to a large number of new labor force entrants in the coming years, who can benefit from the right incentives to seek jobs or start their own business in the private sector.
- Promote private investment—domestic and foreign— and foster a dynamic private sector to create sufficient high-quality jobs. While the government has taken steps to promote private investment, challenges remain. Domestic investment in the non-oil sector appears to be

[6] The term Kuwaitis, nationals, and citizens are used interchangeably.

hampered by weak competitiveness and segmented labor market, and restrictions on ownership of local companies could discourage foreign investment,[7] limiting the potential positive spillover to domestic companies.

- Lift competitiveness that would support the takeoff of the overall economy. A competitive tradable sector that attracts external demand is needed to achieve a strong, sustainable private sector-led growth. To gain competitiveness in the global market, producing high quality goods at relatively lower cost, i.e., via lower labor cost and/or high productivity, is the key.

Broad Principles Underpinning the Comprehensive Reforms

10. Implementation of growth-enhancing structural reforms would require broad consultation with private stakeholders, Parliament, and the public to secure social support. This is needed to ensure the stakeholders' understanding of the necessity, benefits, and the nature of the planned reforms and to provide a clear channel for incorporating feedback. Consultation and communication should take place regularly, and particularly before major policy actions. Consideration can be given to establishing a high-level implementation follow-up unit or committee to overview and strengthen the reform progress.

11. Broad-based reform that tackles challenges from multiple areas within a coherent reform agenda would be more effective than a piecemeal approach. It would allow the effects from separate policy measures to be harmonized and help create positive tailwinds that increase the probability of success of the reforms. Proper sequencing of policy measures is at the core of successful reform. Measures to incentivize young Kuwaitis to seek careers in the private sector and unlock their creative abilities should be implemented with priority, accompanied by reforms to promote private investment, and strengthen governance and business environment. Harmonizing labor market policies would strengthen employer demand for nationals, improve competitiveness and productivity and thus support higher profitability that in turn stimulates investment. It is crucial to accompany labor market reform with social safety net reform to ensure adequate social protection for nationals during the transition period. Over the medium term, establishing a robust medium-term fiscal framework is needed to avoid procyclical fiscal policies and anchor needed spending rationalization, including with greater emphasis on investing in research and development, fostering innovation, and enhancing education.

12. Persistent efforts are needed to fully implement comprehensive reforms, which will likely take several years. No reform design is perfect, and there will need to be a focus on resolving problems and unexpected challenges as they manifest in a dynamic manner, reflective of the core principles and objectives of the reform agenda. The positive impacts of initial reforms

[7] The Foreign Direct Investment Law of 2013, implemented in 2015, allowed 100 percent foreign ownership in some sectors and made available a number of tax breaks and other benefits to attract new investors, who in return must guarantee a set of quotas regarding the employment of Kuwaiti nationals. The Companies Law No. 1 of 2016 simplified the process for registering new companies and has helped to reduce wait-times associated with starting a new business. This law maintained the requirement that a Kuwaiti or GCC national own at least 51 percent of a local company.

should be allowed to work their way through the system, addressing new issues as they emerge, and utilizing the tailwind for more and deeper reforms.

Structural Reforms for Stronger and Sustainable Non-Oil Growth

Short-Term Reforms to Liberalize Labor Market and Promote Private Investment

13. Labor market reforms, accompanied by social safety net reforms, are needed to incentivize nationals to seek private sector jobs. Oil wealth has been redistributed to citizens via many channels including almost guaranteed public sector jobs, various social benefits, and other subsidies on food, petroleum products, electricity, water, etc. While this arrangement has supported high living standards, it has created a bloated public sector and low productivity in general, while the general subsidies have promoted inefficiencies in spending that have also added to fiscal pressures. Moreover, with the anticipated decline in oil revenues due to global climate change mitigation actions, public sector jobs will become even scarcer and the responsibility for employing nationals will have to be mainly shouldered by the private sector. Deeper reforms to support the transition to a harmonized market-based labor market would include:

- Strengthening transparent public sector performance metrics and linking them to pay scale and promotion can help foster creativity and better job performance. Also, a clear accountability framework which lays out how individual work contributes to the whole entity's goal can also stimulate employee's performance.

- Gradually aligning the public sector wage structure with that in the private sector and incentivizing nationals to seek private sector jobs. To help secure the gains from reforms and keep the incentives aligned between public sector and private sector jobs, wage growth in the public sector should not outpace that of the private sector.

- Gradually eliminating other factors that may hinder market efficiency and segment the private and public labor markets, including those that limit flexibility in hiring and firing workers, and other differential policies for nationals versus expatriates.

- Building a social incentive structure that encourages entrepreneurship, employment in the private sector, and attaches high recognition to career achievements in the private sector. It is critical to clearly signal limited future job availability in the public sector.

- Adopting more flexible labor market policies on expatriates. More flexible expatriate labor policies can help facilitate resource reallocation across industries and attract more high-skilled labor, thereby increasing productivity, and generate potential positive spillovers to the wider economy, including via transfer of skills, and consumption and investment of expatriates.[8]

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[8] Based on empirical analysis covering a set of AEs (see IMF, 2016b), average per capita incomes of both the top 10 and of the bottom 90 percent of earners increase as a result of immigration, although high-skilled immigration

(continued)

- Deploying, as needed, temporary policy measures to alleviate the pain from economic transition. Notably, reallocation of workers across jobs can entail costs for certain workers who require skills upgrading or retraining to be re-employed. Government support in enhancing job search and training is important. Unemployment benefits and the coverage periods can be adjusted to fit to the needs of the labor force. Further encourage women to participate in the workforce, including in the private sector and by encouraging female entrepreneurs under SME initiatives, will contribute to higher productivity.

14. Social safety net reforms would include streamlining and enhancing the efficiency of social assistance programs. Potential savings from fiscal consolidation could be used to support vocational training, job searching, and provide temporary unemployment benefits.

15. As social safety net and labor market reforms start generating the initial positive push, reforms to stimulate private investment and job creation should go in parallel. Producing high quality tradable goods at relatively low cost is the key to gaining competitiveness. With a pegged exchange rate regime, the fundamental way is to keep labor cost low relative to productivity. The benefits of labor market reforms, i.e., more efficient resource reallocation and performance based and market-aligned wage structure in the public and private sector, would help contain labor cost and boost competitiveness.

16. Promoting job-rich private sector development would also require further strengthening the performance and profitability of private companies. This would require steps to (i) reinforce the ease of entry of firms and exit of underperforming firms to release resources to more productive uses; (ii) establish a transparent and level playing field based on robust competition policy that strengthens competition among firms.[9]

- For corporates, which generally have good financing channels, more flexible and efficient market resource reallocation is key. A market-driven restructuring mechanism can be strengthened to allow non-viable firms to exit in an efficient way to facilitate resource reallocation. Further development of the Kuwait stock market and local debt market would help diversify corporates' funding sources and support non-oil private sector development more broadly.

- For SMEs, better business incubation support and improved access to credit would contribute to their development, especially when labor market reforms align wages in the public and private sectors and individuals are incentivized to explore their creative abilities in the private sector. Existing SMEs could grow into bigger companies and new SMEs could emerge. A proliferation of such startups would be instrumental to promoting innovation and facilitating diversification and growth. Startups would particularly benefit from enhanced access to credit and business incubation support. Gradually relaxing the interest rate ceiling on commercial loans could

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benefits top incomes more strongly, possibly due to stronger synergies among high-skilled migrants and high-skilled natives.

[9] Disciplinary Board was established in 2021 under the Competition Protection Agency to handle business complaints regarding fair competition and ensure a level playing field for businesses.

expand access to credit to a wider segment of the corporate sector and SMEs.[10] Nonetheless, the timing and pace of relaxation should take into consideration factors including: the development and usage of the credit information database for individuals and companies that can provide accurate and immediate credit information to facilitate borrowing, and strengthening and expanding the lending from the National Fund for SME Development. Investors can benefit from a well-designed SME Credit Guarantee Scheme (CGS) with the objective of providing third-party credit risk mitigation to lenders to stimulate debt financing to SMEs.

17. More broadly, strengthening the governance framework and business environment would help stimulate private investment. Steadfast implementation of the national anti-corruption strategy would help address corruption and boost market confidence. To combat corruption and ensure good governance of state funds and assets, the authorities established an anti-corruption authority (Nazaha) in 2016. Nazaha is implementing the 5-year comprehensive national strategy for integrity, transparency, and anti-corruption (Kuwait Integrity and Anti-Corruption Strategy 2019-2024) to help curb bribery and enhance accountability and transparency in the public sector. Strengthening governance can support reform efforts and economic growth, by incentivizing more productive firms to invest and recruit and by magnifying the payoff from other reforms (IMF, 2019). For SMEs, providing incubation support and training on business management will help those SMEs that are viable but may have limited capacity to grow.

Medium-Term Reforms to Ensure Sustained Improvements to Productivity

18. Further efforts can be made to attract private investment. In recent years, Kuwait has been implementing reforms to address bureaucratic and regulatory hurdles faced by investors. Nonetheless, restrictions on ownership of local companies could discourage foreign investment,[11] and relaxation of these restrictions can be considered to foster greater private investment in the non-oil economy. In recent years, development in renewables and green projects has become more and more important in the context of an accelerating global trend in developing environment-friendly industries.[12] Such investment would help narrow the technological gap with respect to other countries and promote sustainable creation of high value-added jobs. Building the needed

[10] The regulation does not apply to Islamic banks. In practice, they closely follow prevailing market lending rate charged by conventional banks.

[11] The Foreign Direct Investment Law of 2013, implemented in 2015, allowed 100 percent foreign ownership in some sectors and made available a number of tax breaks and other benefits to attract new investors, who in return must guarantee a set of quotas regarding the employment of Kuwaiti nationals. The Companies Law No. 1 of 2016 simplified the process for registering new companies and has helped to reduce wait-times associated with starting a new business. This law maintained the requirement that a Kuwaiti or GCC national own at least 51 percent of a local company.

[12] Green investment is generally defined as the investment necessary to reduce greenhouse gas and air pollutant emissions.

infrastructure and human capital in the strategically important industries would enhance the attractiveness of Kuwait to private investment (see Box 1 on the role of industrial policies).[13]

Box 1. A Brief Introduction on The Role of Industrial Policies

Promoting export diversification is a common challenge facing a range of countries. International experience showed that diversifying away from oil can be difficult. GCC countries have pursued some of the policies that promote diversification—such as the creation of special economic zones, SME funds, developments banks, and export promotion agencies—but these policies are yet to deliver the desired results. For the GCC countries, implementation of appropriate policies ahead of the decline in oil revenues to incentivize firms and workers to diversify into non-oil industries are crucial.

The arguments against industrial policy mainly include information asymmetry, i.e., the government usually is not in the best position to identify correct industries, products and firms to support, since it requires deep knowledge of markets and technological processes, and rent-seeking, i.e., the government may be influenced by bribes and lobbying, which generate big distortions and lead to market inefficiencies. Researchers, including Rodrik (2005), Ocampo, Taylor, and Rada (2009), Stiglitz and Greenwald (2014) also found that policies play an important role in the structural transformation and diversification of developing economies. Dani Rodrik (2004) proposed a new approach to the industrial policy — a process of economic self-discovery where during an interactive process, strategic cooperation between the private and public sectors serves to elicit information on business opportunities and constraints and thus generates policy initiatives in response. Governments will be constantly on the lookout for ways in which they can facilitate structural change and collaboration with the private sector. Much of the industrial policy is therefore concerned with the provision of public goods for the productive sector, including public R&D, health and infrastructural facilities, vocational and technical training.

Successful diversification in Kuwait would require implementing a comprehensive, well-designed reform agenda fully. Cherif and Hasanov (2019) suggested three key principles to achieve high and sustained growth: (i) the support of domestic producers in sophisticated industries, beyond the initial comparative advantage; (ii) export orientation; and (iii) the pursuit of fierce competition with strict accountability. While they argue for some level of state intervention to pursue technology and innovation-oriented policies, they also emphasized that the role of state intervention is to correct market failures where they exist and enforce a strict market discipline, rather than continued tolerance for under-performing, under-innovating and rent-seeking firms.

19. Improving the supply of land for development, including by introducing market-based and transparent mechanisms for land allocation and providing public information on land allocation, is instrumental. The government has developed a road map for reform of the land sector with the support of the World Bank. The road map includes institutional reform to aggregate all land functions under one agency and to develop a complete inventory of land; and policy reform to review and update policies for land management, including recovery of allocated but unused land and introduction of market and transparent mechanisms for allocation. Timely implementation of

[13] Kuwait Vision 2035 encourages foreign investment in identified strategic important industries, including: information and communication technology, renewable energy, electricity and water, tourism, health care and education.

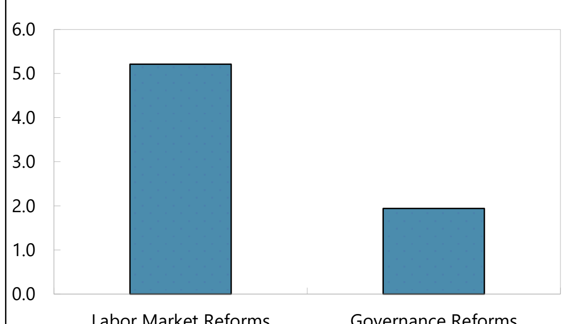
these reforms will alleviate and eventually eliminate the shortage of commercial land for development.

20. Investing in human capital would help ensure sustained improvements to productivity. Human capital encompasses the knowledge, skills, education, and health of a country's working age population. Increasing human capital improves productivity and is key for sustained economic growth, particularly in the context of rapid technological change.[14] Although spending in education in Kuwait is broadly in line with AEs and EMs, there is scope to improve spending efficiency, enhance education outcome, and expand vocational training. Going forward, the world is becoming more digital and greener, underlying the urgent need to diversify areas of specialization of college graduates—from business administration, law, and manufacturing to the areas that are in greater demand in future, such as information technology, data science, climate issues and renewable energy. Additionally, stronger research institutions and university–industry collaboration would help promote productivity and spur innovation for more sustainable growth with high value added.

21. The implementation of these structural reforms will enhance potential non-oil output. Reforms generally take time to deliver, and it also often takes multiple years for significant positive effects on output to materialize (IMF, 2019) after reform measures are fully implemented. While the exact effects of reforms are difficult to quantify precisely, as many underlying factors such as type of reform measures, implementation depth and effectiveness, and pre-reform initial conditions, vary substantially across countries, the literature has provided useful references on potential impacts. Drawing on literature findings,[15] the potential effects of structural reforms, notably labor market and governance reforms, on Kuwait's non-oil economy are discussed as follows:

- **Implementing a labor market reform package.** This scenario draws on IMF (2019), which estimates output gains from structural reforms in emerging markets and developing countries. Implementing a labor market reform package focused on eliminating restrictions on hiring and firing workers, aligning incentives between public and private sector jobs, linking pay and promotion with performance, and adopting more flexible labor market policies for expatriates could raise non-oil output by 5.2 percent in the long run relative to baseline.[16]

Estimated Long Run Output Gains from Structural Reforms (Percent of Non-oil Potential Output)



Sources: Haver, country authorities, and IMF staff calculations.

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[14] Improving the quality of education is important for all countries and this calls for education policy reforms to enhance service delivery and to reduce the skills mismatch in the labor market (OECD 2016; World Bank, 2018).

[15] Due to limited data on reforms in Kuwait.

[16] These are estimates of output gains based on general equilibrium models of a small open economy with heterogeneous entrepreneurs in IMF (2019), which also found lower output gains using empirical analyses. Model-based results are used here as they allow for quantification of reform gains over a longer horizon than considered in

(continued)

This estimated output gain primarily reflects higher employment, which induces higher investment, and productivity improvements via a more efficient allocation of resources.

- **Implementing a governance reform package.** This scenario also draws on IMF (2019). A governance reform package focused on strengthening governance, accelerating the implementation of the national anti-corruption strategy of Kuwait, ensuring more transparent and streamlined public spending and tax administration procedures, and strengthening the protection of property and contractual rights could raise non-oil output by 1.9 percent in the long run relative to baseline. This estimated output gain reflects higher investment, employment, and productivity.

22. It is important to note that the packaging and sequencing of reforms also matter. The above analyses do not factor in the dynamic feedback loops among reforms that could potentially amplify output gains. For example, reforms that incentivize firms to grow, such as easier labor regulations, tend to work better when there is better access to credit and strong governance. Therefore, implementing a comprehensive reform package that tackles multiple challenges in the right order (see ¶11 of Annex VI) could likely generate bigger impacts than the total impacts from a piecemeal approach.

Conclusion

23. Challenges facing Kuwait's economy are significant, but challenges come with opportunities. To promote export diversification and economic complexity, research has found that investing in infrastructure, education, and R&D, facilitating bank credit to productive companies, and increasing openness to trade are all instrumental factors. Given the recent rapid development of advanced technology, adopting and investing in digital technologies and improving education are of even greater importance to prepare and facilitate economic diversification. Properly sequenced and fully implemented reforms would form a positive feedback loop between strengthening competitiveness, attracting more investment, and generating more job opportunities. With ample financial assets, Kuwait can undertake these reforms from a position of strength.

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the empirical analysis. The model represents an ideal reform scenario while average empirical estimates could reflect cases of imperfect reform implementation.

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KUWAIT

July 20, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department with inputs from other departments and the World Bank

CONTENTS

FUND RELATIONS

(As of June 30, 2023)

Membership status: Joined September 13, 1962; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1933.50	100.00
Fund holdings of currency	1363.02	70.49
Reserve position	570.82	29.52
Lending to the Fund		
New Arrangements to Borrow	0.99	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	3168.75	100.00
Holdings	3203.76	101.10

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Overdue Obligations and Projected Payments to the Fund:[1]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest		0.04	0.04	0.04	0.04
Total		0.04	0.04	0.04	0.04

Lending to the Fund and Grants

Kuwait contributed to the PRGF-HIPC Trust in support of the Fund's concessional assistance to low-income countries. This includes an interest-free deposit of SDR 4.2 million maturing in January 2024 and a grant contribution of SDR 0.1 million to the PRGF-HIPC Trust.

Exchange Rate Arrangement

Kuwait's de facto exchange rate arrangement is classified as other managed arrangement. Since May 2007, Kuwait's de jure exchange rate arrangement has been a conventional peg against an undisclosed currency basket. Kuwait has accepted the obligations under Article VIII, Sections 2 (a), 3, and 4, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than those

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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 March 14, 2022 (Country report 22/89—Published March 28, 2022). The staff report is available at https://www.imf.org/en/Publications/CR/Issues/2022/03/24/Kuwait-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-515724

FSAP Participation

FSAP mission took place in 2018. The FSAP focused on banking supervision, financial safety nets, and managing systemic risk and liquidity. It also covered capital markets development and supervision and SME access to finance. An FSSA report was discussed by the Executive Board along with the staff report for the 2019 Article IV consultation and is available at: https://www.imf.org/en/Publications/CR/Issues/2019/04/02/Kuwait-Financial-System-Stability-Assessment-46730

Technical Assistance since 2014:

LEG	Central Bank Law	January 2014
FAD	Tax Policy and Administration	February 2014
MCM	Macroprudential Policy	March 2014
FAD	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
FAD	Macro-Fiscal Unit	November 2016
MCM	Crisis Management and Resolution	April-May 2017
FAD	Macro-Fiscal Unit	May 2017
STA	Government Finance Statistics	April-May 2018
STA	Government Finance Statistics	September-October 2018
LEG	AML/CFT Diagnostic	October 2018
FAD	Tax Policy and Administration	October-November 2018
STA	National Accounts Statistics	January 2019
MCM	Monetary Policy Operations	February 2019
STA	Government Finance Statistics	October 2019
STA	EGDDS	January-February 2021
MCM	Developing Local Debt Markets	October 2021
STA	External Sector Statistics	January-February 2022
ICD	Macroeconomic Modelling	Forthcoming in 2023

Resident Representative: None

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

RELATIONS WITH THE WORLD BANK

(As of June 30, 2023)

World Bank Country Page:

https://www.worldbank.org/en/country/gcc/brief/kuwait-country-program

STATISTICAL ISSUES

(As of June 30, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but broadly adequate for surveillance. The COVID-19 pandemic had affected the compilation and dissemination of national accounts. There is scope to enhance the compilation and timeliness of the national accounts, fiscal accounts, and balance of payments statistics, including through better coordination among agencies.
National Accounts and Production: Kuwait's national accounts are compiled by the Central Statistical Bureau (CSB). While annual GDP estimates are broadly adequate for surveillance, they are derived from a benchmark year of 2010. An IMF technical assistance mission in January 2019 recommended conducting a survey of household income and expenditure and a new establishment census. This would allow for updating the benchmark year and rebasing the GDP series to ensure that structural changes in the economy are reflected in GDP estimates. To that end, the CSB has completed the two surveys: household consumption and expenditure survey, and the establishment census (also called Registration Census of 2021). The CSB plans to use the data obtained from these surveys to update the benchmark year and rebase the GDP series. However, the COVID-19 pandemic had affected the compilation and dissemination of national accounts—with 2019 being the last annual GDP data and 2020 the last quarterly GDP data. The CSB is studying the methodology to retrieve historical national account data and plans to resume its work on collecting and compiling national account data for the missing periods. GDP by income has reportedly been discontinued. Three other areas discussed between CSB and IMF staff include: (i) the methodology used to aggregate financial services indirectly measured (FISIM) into GDP, and how it is distributed to economic activities and sectors; (ii) improving and developing the coverage of GDP to capture informal sector activities (the authorities were encouraged to conduct a small-scale survey to measure the non-observed economy in services); and (iii) disclosing the sources and methods used to estimate individual GDP components to identify areas requiring improvement.
Price Statistics: The Consumer Price Index (CPI) is published monthly. CPI basket weights, revised in June 2017, are based on the 2013 Household Income and Expenditure Survey (HIES). Affected by the Covid-19 pandemic, the CSB stopped compilation and publication of CPI after the April 2021 CPI was released and then resumed publication of the CPI from September 2021. The Producer Price Index (PPI) covers selected mining and quarrying and manufacturing industries as well as utilities. The PPI should be enhanced by updating the weights from the 2010 base year, extending coverage to include services and construction, and 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: Kuwait reclassified the budget according to the *Government Finance Statistics Manual* 2001 (GFSM 2001) starting fiscal year 2016–17. STA TA missions assisted the Ministry of Finance (MoF) in updating the classification to the GFSM 2014 and compiling annual GFS data for Central Government according to international standards. TA missions stressed the need to increase the frequency of published data, reduce the release lag, and expand

the coverage to better support surveillance and budget monitoring. Data on the operations of the Public Institute for Social Security are not made available. Sharing of information between various government agencies could be further improved. Going forward, staff encourages the authorities to expand the coverage of GFS to all general government units— including the Future Generations Fund (FGF) and the General Reserve Fund (GRF) managed by the Kuwait Investment Authority—and to resume timely publication of the monthly fiscal accounts data, which have not been published since April 2022.

Monetary and Financial Statistics: The Central Bank of Kuwait (CBK) reports sectoral balance sheet data for the central bank, other depository corporations, and other financial corporations to the Fund based on the Standardized Report Forms (SRFs), although with some lag.

Kuwait reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Surveillance: Kuwait started to report Financial Soundness Indicators (FSIs) to the IMF for public dissemination in 2017. The CBK reports 11 of the 12 core FSIs and 8 encouraged FSIs which are available through the IMF website, although with some lag.

External Sector Statistics: The CBK compiles and disseminates quarterly balance of payments (BOP) and international investment position (IIP) data, following the BPM6 methodology. The CBK made good progress in recent years in revising reporting forms, including the separate reporting of financial transactions in the BOP and on changes in the IIP volume. It also expanded the coverage of external transactions from 68 percent of entities in 2021 to 83 percent in 2022, achieved consistency between the quarterly and annual BOP data starting in 2022, and is expanding the coverage of remittances. Further improvements in the coverage of foreign direct investment data, consistency between the BOP and IIP data, and coordination among government entities that report data to the CBK are needed. Merchandise trade data estimates are compiled and disseminated on a monthly/quarterly/annual basis by the CSB.

The published IIP data are incomplete. They exclude the external assets held by the general government (except for the loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits) as external assets of the FGF and GRF are not reported. Data on total KIA assets are reported to the Fund by the Executive Director for Kuwait at the time of the Article IV Board meeting.

The CBK participates in the Coordinated Portfolio Investment Survey (CPIS), with data reported for 2003 onwards, and the Coordinated Direct Investment Survey. Kuwait reports inward and outward direct investment data. CPIS 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.

II. Data Standards and Quality

In September 2021, Kuwait fully implemented the e-GDDS by launching a National Summary Data Page. Metadata for most data categories were updated in 2021.

Kuwait: Table of Common Indicators Required for Surveillance
(Last updated June 30, 2023)

	Date of latest observation (For all dates in table, please use format (mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality Methodological soundness[9]	Memo Items:[8] Data Quality Accuracy and reliability[10]
Exchange rates	Real time	Real time	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	04/23	06/23	M	M	M		
Reserve/base money	04/23	06/23	M	M	M		
Broad money	04/23	06/23	M	M	M		
Central bank balance sheet	04/23	06/23	M	M	M		
Consolidated balance sheet of the banking system	04/23	06/23	M	M	M		
Interest rates[2]	04/23	06/23	M	M	M		
Consumer price index	04/23	06/23	M	M	M		
Revenue, expenditure, balance and composition of financing[3]—general government[4]	03/22	06/22	M	M	M	Not published on Fund standards	Not published on Fund standards
Stocks of central government and central government-guaranteed debt[5]	04/23	06/23	M	M	M		
External current account balance	12/22	05/23	Q	Q	Q		
Exports and imports of goods and services	12/22	05/23	Q	Q	Q		
GDP/GNP	12/20	06/21	Q	Q	Q		
Gross external debt	2022	2023	A	A	A		
International investment position[6]	12/22	05/23	Q	Q	Q		

[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 (except for loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits). Data on total KIA assets are reported to the Fund by the Executive Director for Kuwait at the time of the Article IV Board meeting.

[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 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.

INTERNATIONAL MONETARY FUND

KUWAIT

August 14, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By Middle East and Central Asia Department

This statement provides information that has become available since the staff report (SM/23/187) was issued to the Executive Board. This information does not alter the thrust of the staff appraisal.

1. **The Central Bank of Kuwait increased the policy interest rate by 25 basis points to 4.25 percent on July 27, 2023.** This action resulted in a cumulative increase of 275 basis points since the global monetary policy tightening cycle has begun in early 2022.

2. **The authorities released final fiscal data for FY 2022/23 and approved the budget for FY 2023/24.** Kuwait registered an overall fiscal surplus (prior to transfer to Future Generations Fund and excluding investment income) of 11.6 percent of GDP in FY 2022/23, relative to the estimated 11.4 percent of GDP in the staff report, benefiting mainly from lower-than-estimated current expenditure which was partially offset by higher-than-estimated capital expenditure. On August 2, Parliament approved the FY 2023/24 budget, which remains largely unchanged relative to the draft budget discussed in the staff report.