



# KUWAIT

December 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KUWAIT

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 2024 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 4, 2024 consideration of the staff report that concluded the Article IV consultation with Kuwait.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 4, 2024, following discussions that ended on October 9, 2024, 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 November 19, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Kuwait.

The documents listed below have been or will be separately released.

### Selected Issues

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

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with Kuwait

FOR IMMEDIATE RELEASE

**Washington, DC – December 9, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Kuwait.

The economy remains in recession due to OPEC+ production cuts, but a recovery has begun in the non-oil sector, and inflation is moderating. Real GDP contracted by 3.6 percent in 2023, led by a 4.3 percent contraction of the oil sector given an OPEC+ production cut, and reinforced by a 1.0 percent contraction of the non-oil sector primarily reflecting lower manufacturing activity. More recently, real GDP contracted by 1.5 percent (y-o-y) in 2024Q2, driven by a further 6.8 percent contraction of the oil sector that was partially offset by a 4.2 percent rebound of the non-oil sector. Headline CPI inflation declined to 3.6 percent in 2023, reflecting lower core and food inflation. More recently, headline CPI inflation moderated further to 2.6 percent (y-o-y) in September 2024.

Lower oil prices and production have weakened the external and fiscal balances, while financial stability has been maintained. The external position remains strong, with the current account surplus moderating to 31.4 percent of GDP in 2023, and official reserve assets amounting to US\$47.6 billion at end-2023, equivalent to 9.2 months of projected imports. The fiscal balance of the budgetary central government has weakened, swinging to a deficit of 3.1 percent of GDP in FY2023/24. Nonetheless, the fiscal balance of the general government—including estimated SWF investment income and SOE profit transfers—was 26.1 percent of GDP in FY2023/24. Credit growth slowed in 2023 given higher interest rates, but banks maintained strong capital and liquidity buffers, while NPLs remained low and well provisioned for.

The economy is projected to remain in recession under the baseline in 2024, then to recover over the medium term. Real GDP will contract by a further 2.8 percent in 2024 due to additional OPEC+ production cuts, then will expand by 2.6 percent in 2025 as the cuts get unwound. The incipient recovery of the non-oil sector will continue in 2024 alongside a pickup in real credit growth, with non-oil GDP expanding by 2.0 percent despite fiscal consolidation. Headline CPI inflation will continue to moderate to 3.0 percent in 2024 as excess demand pressure dissipates and imported food prices fall. The current account surplus will moderate further to 27.2 percent of GDP in 2024 as lower oil prices and production reduce the trade surplus. The fiscal deficit of the budgetary central government will increase to 6.6 percent of GDP in FY2024/25 as lower oil revenue more than offsets expenditure rationalization.

The risks around these baseline economic projections are skewed to the downside. The economy is highly exposed to a variety of global risks through its oil dependence, in particular to commodity price volatility, a global growth slowdown or acceleration, and the intensification

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<sup>1</sup> 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.

of regional conflicts. Domestic risks are primarily associated with the implementation of fiscal and structural reforms, which could get further delayed or accelerated. These reforms are needed to diversify the economy away from oil, which would enhance its resilience and promote private investment.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors agreed with the thrust of the staff appraisal. While noting the ongoing recession, Directors welcomed the emergence of recovery in the non-oil sector, moderating inflation, and the significant financial buffers, which provide a cushion against adverse shocks. They highlighted, however, that risks to the outlook are skewed to the downside and that the heavy reliance on oil underscores the need for sustained diversification efforts. Directors welcomed the authorities' focus on a transition to a more dynamic and diversified economy and emphasized the importance of a comprehensive and well-sequenced package of fiscal and structural reforms.

Directors underscored the need for fiscal consolidation over the medium-term to enhance fiscal sustainability and reinforce intergenerational equity. They called for a balanced approach underpinned by current expenditure rationalization and non-oil revenue mobilization, while increasing infrastructure investment. Directors highlighted the need to extend the CIT to all large domestic companies and adopt the GCC-wide VAT and excise taxes. They stressed the importance of containing the wage bill and phasing out energy and water subsidies, while protecting vulnerable groups. Directors encouraged the implementation of a Medium-Term Fiscal Framework to strengthen budget planning and execution and efforts to expeditiously enact the Financing and Liquidity Law to facilitate orderly fiscal financing.

Directors agreed that the exchange rate peg remains an effective nominal anchor for the economy. Noting that the restrictive monetary policy stance remains appropriate, Directors recommended further strengthening monetary transmission by deepening the interbank and domestic sovereign debt markets.

Directors welcomed that the financial sector remains stable and systemic risks have been prudently managed. They recommended replacing the unlimited guarantee on bank deposits with a limited deposit insurance framework to mitigate moral hazard. Phasing out bank lending rate caps could help to support efficient risk pricing.

Directors underscored the importance of comprehensive, well-sequenced reforms to enhance competitiveness and diversify the economy. Priorities include improving the business environment, enhancing transparency, and further opening the economy. Directors concurred that gradual labor market reforms would incentivize private sector-led growth. Measures to improve the AML/CFT framework identified by the 2024 FATF Mutual Evaluation are crucial for strengthening governance. Directors underscored the need for further progress on climate change adaptation and mitigation. They stressed the importance of addressing shortcomings in data provision, supported by Fund capacity development.

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

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Kuwait: Selected Economic Indicators, 2022-2026

|   | 2022   | 2023   | Projections                              |        |        |
|---|--------|--------|--|--------|--------|
|   |        |        | 2024                                     | 2025   | 2026   |
| <b>Output and prices</b>                    |        |        |  |        |        |
|   |        |        | (Percent change)                         |        |        |
| Real GDP                                    | 5.9    | -3.6   | -2.8                                     | 2.6    | 2.2    |
| Oil 1/                                      | 12.1   | -4.3   | -6.9                                     | 3.0    | 2.0    |
| Non-oil 1/                                  | -0.3   | -1.0   | 2.0                                      | 2.1    | 2.3    |
| CPI inflation (average)                     | 4.0    | 3.6    | 3.0                                      | 2.4    | 2.2    |
| Core 2/                                     | 3.3    | 3.1    | 2.5                                      | 2.2    | 2.0    |
| <b>External sector</b>                      |        |        |  |        |        |
|   |        |        | (Percent of GDP, unless noted otherwise) |        |        |
| Current account balance                     | 34.3   | 31.4   | 27.2                                     | 22.5   | 19.8   |
| Official reserve assets (months of imports) | 9.1    | 9.2    | 9.3                                      | 9.4    | 9.5    |
| Gross external debt                         | 35.0   | 39.4   | 39.5                                     | 41.7   | 42.3   |
| <b>Government finance 3/</b>                |        |        |  |        |        |
|   |        |        | (Percent of GDP)                         |        |        |
| Revenue 4/                                  | 69.8   | 78.6   | 75.4                                     | 74.0   | 73.2   |
| Oil   | 65.5   | 73.7   | 70.2                                     | 68.5   | 67.3   |
| Other 4/                                    | 4.3    | 4.9    | 5.2                                      | 5.5    | 5.9    |
| Expenditure                                 | 39.4   | 48.7   | 50.7                                     | 50.2   | 49.7   |
| Net lending (+) / borrowing (-) 4/          | 30.4   | 29.9   | 24.7                                     | 23.8   | 23.4   |
| Budgetary central government                | 7.2    | 0.9    | -5.8                                     | -7.9   | -8.8   |
| Gross government debt 5/                    | 2.9    | 3.2    | 7.3                                      | 12.9   | 16.3   |
| <b>Money and credit</b>                     |        |        |  |        |        |
|   |        |        | (Percent change)                         |        |        |
| Credit to nonfinancial private sector       | 8.6    | 1.8    | 3.9                                      | 4.7    | 5.1    |
| Broad money: M2                             | 6.5    | 1.0    | 2.7                                      | 4.6    | 5.1    |
| <b>Memorandum items</b>                     |        |        |  |        |        |
| Nominal GDP (US\$ billions)                 | 184.0  | 163.7  | 159.1                                    | 158.6  | 162.2  |
| Population (millions)                       | 4.8    | 4.9    | 5.0                                      | 5.1    | 5.2    |
| GDP per capita (US\$)                       | 38,380 | 33,321 | 31,753                                   | 31,029 | 31,104 |

Sources: Kuwaiti authorities; IMF staff estimates.

1/ Factor cost basis.

2/ Excludes food and non-alcoholic beverages.

3/ Calendar year basis.

4/ Includes estimated KIA investment income and GRF profit transfers from the KPC and CBK.

5/ Assumes resumption of government debt issuance from FY2024/25.





# KUWAIT

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

November 19, 2024

### KEY ISSUES

**Context.** In May 2024, H.H. the Amir Sheikh Meshaal al-Ahmad al-Jaber al-Sabah dissolved the Parliament and suspended parts of the Constitution for up to 4 years. The authorities aim to implement reforms to support the transition to a dynamic and diversified economy.

**Developments, outlook and risks.** The economy remains in recession, but a recovery has begun in the non-oil sector, and inflation is moderating. Lower oil prices and production have weakened the external and fiscal balances, while financial stability has been maintained. The risks around the outlook are skewed to the downside, but substantial financial buffers are a source of resilience to external shocks.

**Fiscal policy.** Fiscal consolidation of about 13 percent of GDP should be implemented at a pace of 1 to 2 percent of GDP per year to reinforce intergenerational equity. Prioritization should be given to rationalizing the public sector wage bill, phasing out energy subsidies while providing targeted transfers to vulnerable groups, boosting public investment in infrastructure, extending the CIT to all large domestic companies, and introducing the GCC-wide VAT and excise tax.

**Monetary and financial sector policies.** The exchange rate peg remains an appropriate nominal anchor for monetary policy. Systemic financial risks remain contained and prudently managed. Continued efforts are needed to strengthen monetary policy transmission, maintain financial stability, and enhance financial intermediation.

**Structural reforms.** The authorities aim to implement reforms to support the transition to a dynamic and diversified economy. A comprehensive and well-sequenced structural reform package is needed to improve the business environment by raising efficiency, enhancing transparency, and further opening up the economy. Meanwhile, labor market reforms should be phased in to incentivize private sector-led growth. The significant deficiencies in the effective implementation of the AML/CFT legal framework identified by the 2024 FATF Mutual Evaluation should be addressed expeditiously.

**Strengthening statistics.** Data provision has some shortcomings that somewhat hamper surveillance, which the authorities should address expeditiously.

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

Discussions were held from September 24 to October 9, 2024 in Kuwait City, Kuwait. The mission team comprised Francisco Parodi (head), Muayad Ismail, Naima Smaini, and Francis Vitek (all MCD). MCD Deputy Director Zeine Zeidane and Advisor to Executive Director Mira Merhi also attended the Concluding Meetings. The mission met with Minister of Finance Al-Fassam, Central Bank Governor Al-Haroon, Minister of Social Affairs Al-Huwailah, KDIPA Director General Al-Sabah, other senior public sector officials, private sector representatives, and civil society members. Support from headquarters was provided by Vizhdan Boranova, Esther George, and Takako Iwaki.

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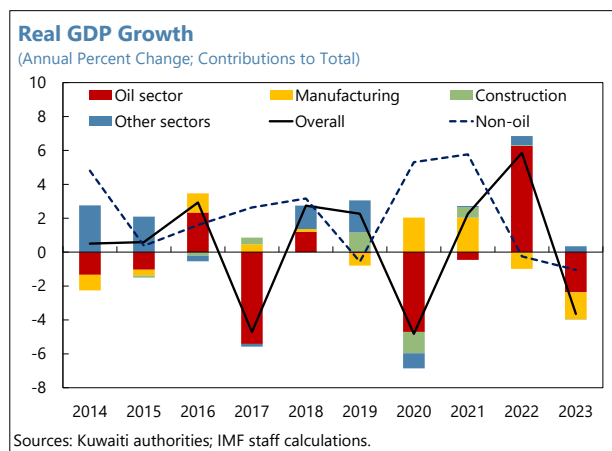
## CONTEXT

1. **Following the resolution of the political gridlock, the authorities aim to expedite needed economic reforms.** Since 2020, Kuwait experienced 10 Cabinet resignations and held 4 Parliamentary elections in unsuccessful attempts to break a political gridlock between the executive and legislative branches of government. The tensions arose from repeated blockage of fiscal and structural reform laws submitted by the Cabinet. The gridlock was broken in May 2024, when H.H. the Amir Sheikh Meshaal al-Ahmad al-Jaber al-Sabah dissolved the Parliament and suspended parts of the Constitution for up to 4 years. The authorities aim to expedite economic reforms during this period.
2. **Kuwait stands at a crossroads to choose between perpetuating its welfare state versus transitioning to a dynamic and diversified economy.** Policymakers are keen to diversify the economy away from its heavy dependence on oil. They are aware that Kuwait's economic diversification progress has lagged behind that of GCC peers in recent years, in particular Saudi Arabia and the UAE. The 2024 Article IV Consultation helped inform this process by focusing its policy discussions on: i) fiscal and structural reforms to support the transition to a dynamic and diversified economy; ii) monetary and financial sector policies to maintain macrofinancial stability; and iii) strengthening macroeconomic statistics to support well-informed policymaking.

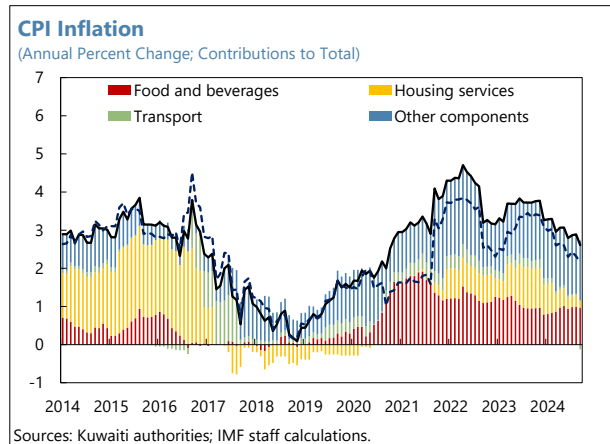
## DEVELOPMENTS, THE OUTLOOK AND RISKS

### A. Recent Economic Developments

3. **The economic recovery from the pandemic was disrupted in 2023.** Real GDP contracted by 3.6 percent in 2023, largely reversing its 5.9 percent expansion in 2022. This economic downturn was concentrated in the oil sector, which is estimated to have contracted by 4.3 percent in 2023 given an OPEC+ production cut. In addition, the non-oil sector is estimated to have contracted by 1.0 percent in 2023, primarily reflecting lower manufacturing activity in oil refining. More recently, real GDP contracted by 1.5 percent (y-o-y) in 2024Q2, driven by a further 6.8 percent contraction of the oil sector that was partially offset by a 4.2 percent rebound of the non-oil sector.

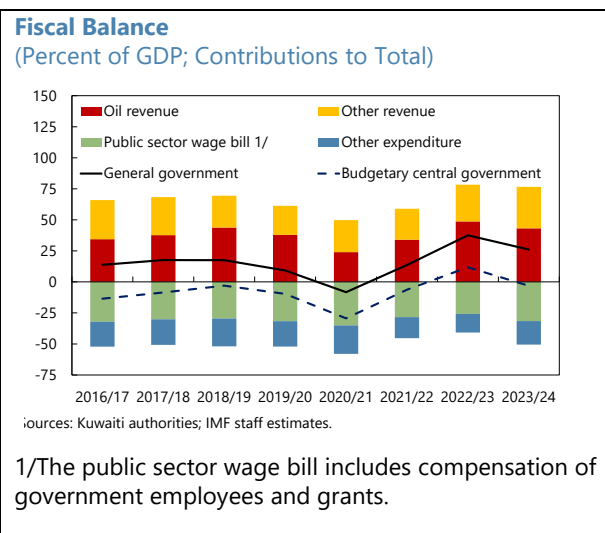


**4. CPI inflation is moderating amid robust employment growth.** Headline inflation declined to 3.6 percent in 2023 from 4.0 percent in 2022, reflecting lower core and food inflation. More recently, headline inflation moderated further to 2.6 percent (y-o-y) in September 2024 from 3.3 percent (y-o-y) in December 2023, given lower housing and transport inflation. Meanwhile, employment increased by 7.5 percent in 2023 to 2.1 million, driven by a 9.0 percent rise in expatriate workers to 1.7 million. More recently, employment growth declined to 2.5 percent (y-o-y) in 2024Q2 from 4.7 percent (y-o-y) in 2023Q4, reflecting a slowdown in expatriate employment growth.



**5. The external position remained strong in 2023.** The current account surplus moderated to 31.4 percent of GDP in 2023 from 34.3 percent of GDP in 2022, with a 10.3 percent of GDP reduction in the trade surplus from lower oil prices and production largely offset by a 7.4 percent of GDP increase in the income surplus. In parallel, the financial account surplus moderated to 30.9 percent of GDP in 2023 from 34.9 percent of GDP in 2022, with outwards portfolio investment remaining strong. Official reserve assets amounted to US\$47.6 billion at end-2023, equivalent to 9.2 months of projected imports or 117.1 percent of the ARA metric. Despite this large current account surplus and substantial reserves, the external position was substantially weaker than the level implied by medium-term fundamentals and desirable policies in 2023, reflecting an excessive reliance on oil exports and inadequate public saving of oil revenue (Annex II).

**6. The fiscal balance weakened in FY2023/24.** The fiscal balance of the budgetary central government swung from a surplus of 11.7 percent of GDP in FY2022/23 to a deficit of 3.1 percent of GDP in FY2023/24. This mainly reflected a 5.6 percent of GDP reduction in oil revenue given lower oil prices and production, and a 9.9 percent of GDP increase in current spending, of which 5.8 percent of GDP went to the public sector wage bill while 3.5 percent of GDP went to subsidies. Nonetheless, the fiscal balance of the general government—including estimated Kuwait Investment Authority (KIA) investment income and Kuwait Petroleum Corporation (KPC) profit transfers—was 26.1 percent of GDP in FY2023/24. Moreover, KIA assets are estimated to have risen to 500 percent of GDP at end-FY2023/24, while government



debt remained insignificant at 3 percent of GDP, and the overall risk of sovereign stress is low (Annex IV).

**7. Credit growth slowed in 2023 given higher interest rates, while financial stability was maintained.** Growth in credit to the nonfinancial private sector slowed to 1.8 percent in 2023 from 8.6 percent in 2022, as bank lending rates increased alongside policy rate hikes. Despite this tightening of financial conditions, banks maintained strong capital and liquidity buffers in 2023, while NPLs remained low and well provisioned for. More recently, credit growth picked up to 4.9 percent (y-o-y) in September 2024 from 1.8 percent (y-o-y) in December 2023.

**8. The ongoing regional conflicts have had limited economic impact.** Given its oil-dependent economy, Kuwait is mainly exposed through oil prices and production, neither of which has been heavily impacted so far. Regional shipping disruptions have not impacted its oil exports and have only marginally raised its import prices.

## B. The Outlook and Risks

**9. Under the baseline assuming current policies, the economy is projected to remain in recession in 2024, then to recover over the medium term:**

- Real GDP will contract by a further 2.8 percent in 2024 due to additional OPEC+ production cuts, then will expand by 2.6 percent in 2025 as the cuts get unwound, and will grow broadly in line with potential thereafter.
- The incipient recovery of the non-oil sector will continue in 2024 alongside the pickup in real credit growth, with non-oil GDP expanding by 2.0 percent despite fiscal consolidation, after which it will gradually converge to its potential of 2.5 percent.
- Headline CPI inflation will continue to moderate to 3.0 percent in 2024 as excess demand pressure dissipates and imported food prices fall, then will gradually converge to 2.0 percent as the non-oil output gap closes.
- The current account surplus will moderate further to 27.2 percent of GDP in 2024 as lower oil prices and production reduce the trade surplus, then will gradually decline over the medium term alongside oil prices.
- The fiscal deficit of the budgetary central government will increase to 6.6 percent of GDP in FY2024/25 as lower oil revenue more than offsets expenditure rationalization, then will steadily rise by about 1 percent of GDP per year over the medium term as oil revenue declines continue to outpace expenditure rationalization under current policies.
- Government debt will gradually rise to 25 percent of GDP over the medium term assuming that the Financing and Liquidity Law gets enacted in FY2024/25, driven by a policy objective to develop the sovereign debt market.

- Credit to the nonfinancial private sector will expand by 3.9 percent in 2024 as non-oil sector activity recovers, then will accelerate over the medium term as lower interest rates arising from global monetary policy easing underpin a credit cycle upturn.

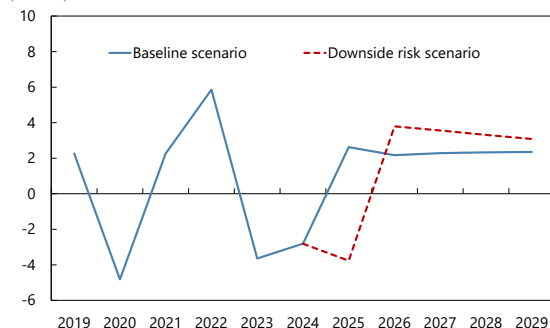
###### 10. The risks around these baseline economic projections are skewed to the downside (Annex III):

- The economy is highly exposed to a variety of global risks through its oil dependence, in particular to commodity price volatility, a global growth slowdown or acceleration, and the intensification of regional conflicts. The materialization of these risks would be transmitted to Kuwait mainly via their impacts on oil prices and production, as illustrated by a quantitative global growth slowdown scenario.
- Domestic risks are primarily associated with the implementation of fiscal and structural reforms, which could get further delayed or accelerated. These reforms are needed to diversify the economy away from oil, which would enhance its resilience and promote private investment.

### Global Growth Slowdown Scenario Simulation Results 1/

#### Real GDP Growth

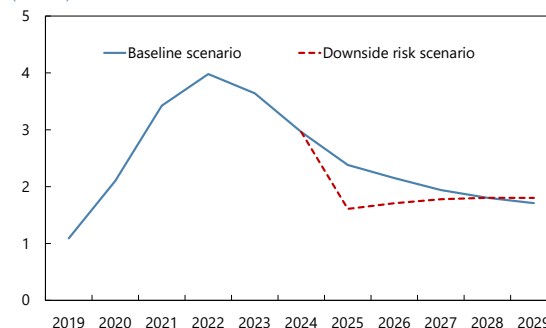
(Percent)



Sources: IMF staff estimates.

#### CPI Inflation

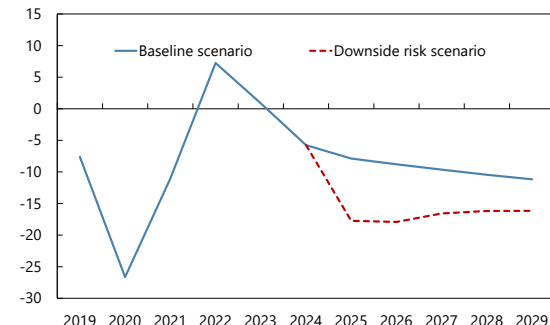
(Percent)



Sources: IMF staff estimates.

#### Fiscal Balance of Budgetary Central Government

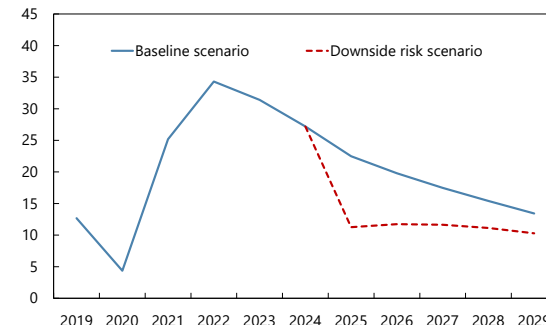
(Percent of GDP)



Sources: IMF staff estimates.

#### Current Account Balance

(Percent of GDP)



Sources: IMF staff estimates.

1/ The scenario assumes: i) a 2 percent contraction in trading partner demand; ii) a 25 percent fall in oil prices; iii) a 10 percent reduction in imported food prices; and iv) a 10 percent cut in OPEC+ production quotas. These assumptions are expressed as deviations from baseline and phased out according to a first order autoregressive process with a root of 0.75



## C. Authorities' Views

11. The authorities broadly agreed with staff on the outlook and risks, the external sector assessment, and the debt sustainability analysis. But they were more optimistic than staff on the outlook for non-oil growth, citing planned megaprojects such as the Northern Special Economic Zone and Mubarak Al-Kabeer Port. They judged the external position to be weaker than the level implied by medium-term fundamentals and desirable policies in 2023, and questioned staff's assessment that it was substantially weaker. The authorities agreed that Kuwait is heavily exposed to global risks given its oil dependence, but argued that its large financial buffers would enable it to withstand adverse shocks should they materialize. They expressed their intention to implement fiscal and structural reforms to diversify the economy away from oil, given the window of opportunity afforded by the resolution of the political gridlock.

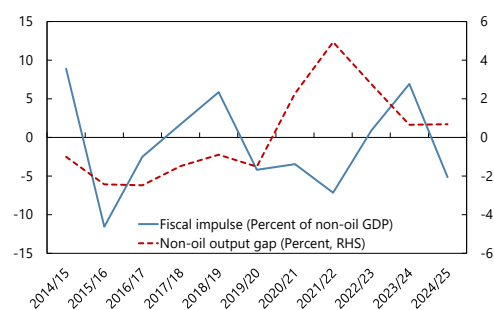
## POLICY DISCUSSIONS

12. **To support the transition to a dynamic and diversified economy, a comprehensive and well-sequenced package of fiscal and structural reforms is needed.** Structural reforms to improve the business environment and promote private investment are required to enhance competitiveness and diversify the economy. Meanwhile, fiscal reforms should be implemented to reinforce intergenerational equity while incentivizing Kuwaitis to pursue newly created job opportunities in the private sector.

### A. Fiscal Policy

13. **The contractionary stance of fiscal policy is appropriate.** Under the FY2024/25 Budget, the non-oil fiscal balance of the budgetary central government will increase by 5.1 percent of non-oil GDP relative to FY2023/24. This large fiscal consolidation will help close the non-oil output gap while reinforcing intergenerational equity. It is mainly driven by current expenditure rationalization, concentrated in planned subsidy cuts worth 4.3 percent of non-oil GDP. While fiscal policy was strongly procyclical in FY2023/24, with a fiscal expansion of 6.9 percent of non-oil GDP contributing to excess demand pressure, it was weakly countercyclical on average over the past decade, with a correlation between the fiscal impulse and non-oil output gap of -0.1.

**Fiscal Impulse /1**

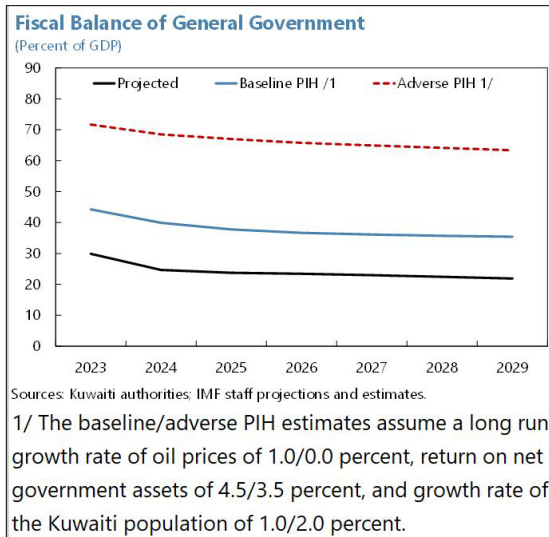


Sources: Kuwaiti authorities; IMF staff estimates.

1/ The fiscal impulse is measured by the decrease in the non-oil fiscal balance of the budgetary central government in percent of non-oil GDP.

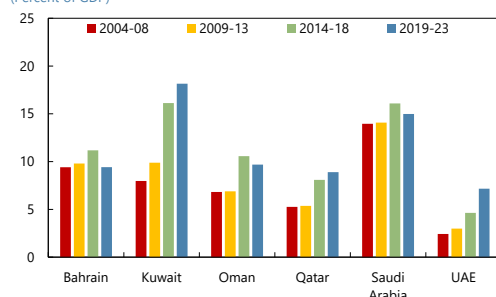
#### 14. Substantial further fiscal consolidation is needed to reinforce intergenerational equity.

Under the baseline, the projected fiscal balance of the general government is far below the level needed to maintain a constant real per capita annuity. The estimated fiscal norm under the Permanent Income Hypothesis (PIH) is subject to high uncertainty associated with the values of key parameters, in particular the long run growth rate of oil prices, return on net government assets and growth rate of the Kuwaiti population. A prudent approach given the global decarbonization trend calls for gradual fiscal consolidation of about 13 percent of GDP over the medium term to reinforce intergenerational equity by reaching the baseline PIH target, alongside structural reforms to diversify the economy away from oil.



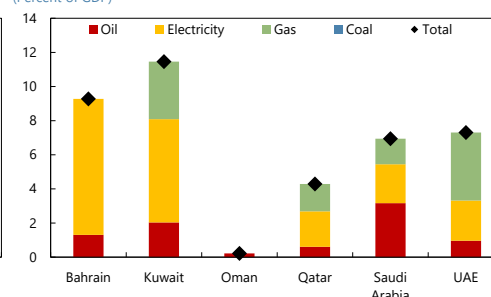
#### GCC: Expenditure and Tax Policy Indicators

**Compensation of Government Employees**  
(Percent of GDP)



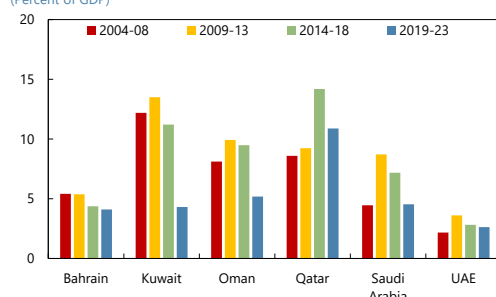
Sources: GCC authorities; IMF staff calculations.

**Energy Subsidies: 2022**  
(Percent of GDP)



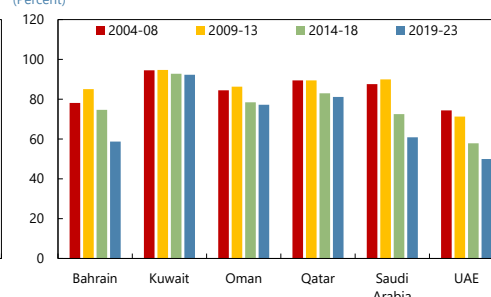
Sources: IEA Fossil Fuel Subsidies database; IMF staff calculations.

**Public Investment**  
(Percent of GDP)



Sources: GCC authorities; IMF staff calculations.

**Hydrocarbon Share of Government Revenue 1/**  
(Percent)



Sources: GCC authorities; IMF staff calculations.

1/ This comprehensive measure of hydrocarbon revenue includes CIT on oil and gas extraction companies, profit transfers from oil and gas extraction SOEs, and SWF investment income.

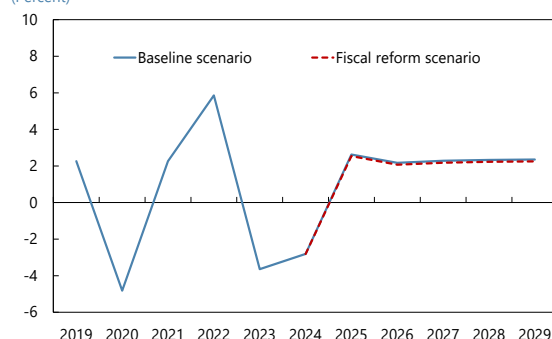
**15. Expenditure and tax policy reforms would be needed to support the transition to a dynamic and diversified economy, as illustrated by a quantitative fiscal reform scenario:**

- Fiscal consolidation should be implemented at a pace of 1 to 2 percent of GDP per year until the baseline PIH fiscal balance target is achieved. This would offset or reverse the projected roughly 1 percent of GDP per year increase in the fiscal deficit of the budgetary central government over the medium term, without reducing growth much.
- Compensation of government employees surged over the past decade, to the top of the GCC. In line with the previous government's policies, a public sector wage setting mechanism that constrains wage growth below inflation should be introduced to gradually reduce the 41 percent premium over the private sector, while a hiring cap that limits recruitment to retirements should be used to steadily lower the public sector employment share, both towards high-income country levels.
- Energy subsidies are the highest in the GCC. They should be phased out by gradually raising retail fuel, electricity and water prices to their cost-recovery levels while providing targeted transfers to vulnerable groups via the existing social assistance system.
- Public investment plummeted over the past decade, to near the bottom of the GCC. It should be raised by around 1 percent of GDP annually to build up the quantity and quality of infrastructure towards high-income country levels. This would also mitigate the contractionary impact of fiscal consolidation on the economy.
- The hydrocarbon share of government revenue remains the highest in the GCC. To comply with the OECD-led global minimum corporate tax agreement, the government plans to extend the CIT—which currently applies only to oil extraction and foreign companies—to all large domestic companies. To boost non-oil revenue mobilization, the GCC-wide 5 percent VAT and excise tax should be introduced.

## Fiscal Reform Scenario Simulation Results 1/

## Real GDP Growth

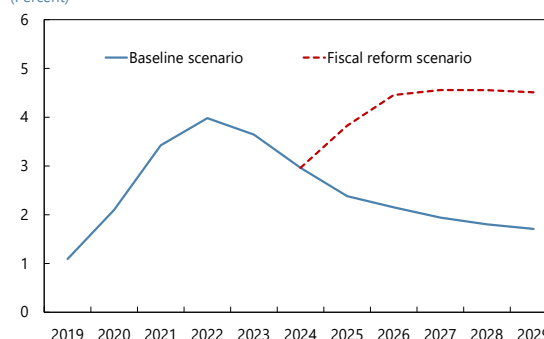
(Percent)



Sources: IMF staff estimates.

## CPI Inflation

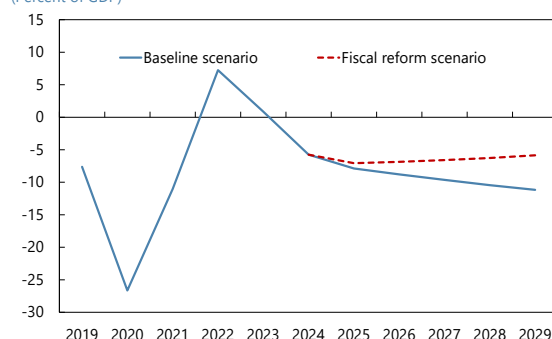
(Percent)



Sources: IMF staff estimates.

## Fiscal Balance of Budgetary Central Government

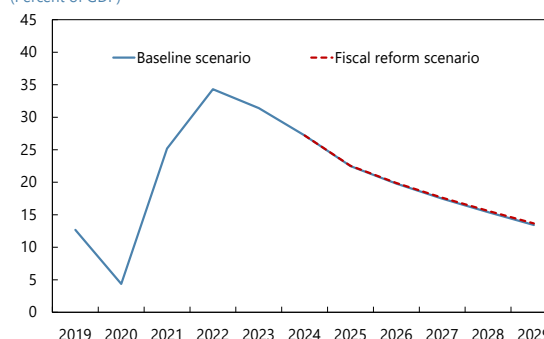
(Percent of GDP)



Sources: IMF staff estimates.

## Current Account Balance

(Percent of GDP)



Sources: IMF staff estimates.

1/ This scenario assumes: i) a 2.5 percent of GDP reduction in compensation of government employees; ii) a 2.5 percent of GDP cut in hydrocarbon consumption subsidies; iii) a 10 percent of GDP increase in public investment; iv) the introduction of a 5 percent VAT; and v) the imposition of a 5 percent excise tax on alcohol, pork, sugary drinks, and tobacco. These assumptions are expressed as deviations from baseline and phased in linearly from FY2025/26 to FY2029/30.

## 16. The conduct of fiscal policy should be strengthened with PFM reforms to support the structural transformation of the economy:

- To align budget planning and execution with fiscal policy objectives, the Ministry of Finance (MOF) should introduce a Medium-Term Fiscal Framework (MTFF)—including a Fiscal Rules Framework with a ceiling on public debt and a target for the non-oil fiscal balance of the budgetary central government—underpinned by a Medium-Term Macroeconomic Framework. To inform fiscal policymaking and assess reform proposals, the capacity of the Macro-Fiscal Unit (MFU) should be strengthened. For example, the revamped MFU could help assess the total fiscal costs of government support to specific sectors, such as the housing sector (Box 1).
- The Financing and Liquidity Law should be enacted expeditiously to facilitate orderly fiscal financing. In the absence of a new law to permit sovereign debt issuance, or legal authority to

draw from the large Future Generations Fund (FGF), fiscal financing has resorted to drawing from the much smaller General Reserve Fund (GRF).

### Box 1. The Fiscal Cost of the Kuwaiti Housing Scheme

Kuwait's housing scheme is a cornerstone of its social contract and stands out among GCC countries for its generosity. All Kuwaiti families that do not already own an appropriate home are legally entitled to a plot of land to build a house, a KD 70,000 interest-free construction, renovation or home-purchase loan from the Kuwait Credit Bank (KCB), and up to KD 30,000 for subsidized construction materials. Alternatively, families may choose to receive a house or apartment built by the Public Authority for Housing Welfare (PAHW), which also develops neighborhoods and constructs supporting infrastructure, including hospitals and schools.

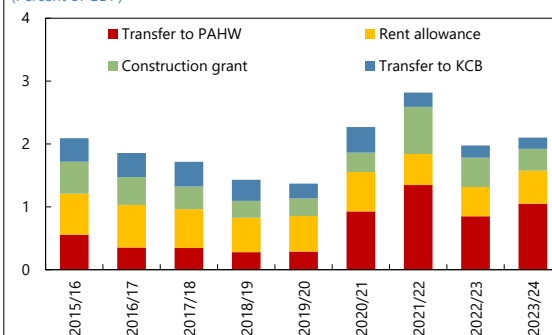
Additionally, families are entitled to a KD 150 monthly rent allowance until they accept allocated land or housing. As of 2022, approximately 91,000 families were on the waiting list for government-supplied housing or land.

The direct on-budget fiscal cost of the Kuwaiti housing scheme was about 2 percent of GDP per year, on average over the nine-year period from FY2015/2016 to FY2023/24. This value includes: i) transfers to the PAHW to cover its operating losses, excluding the rent allowance; ii) the rent allowance paid by the PAHW to families; iii) construction grants; and iv) transfers to the KCB to cover its interest rate subsidies on loans. As an estimate of the direct fiscal cost of the housing scheme, this value may be considered a lower bound, as it excludes potential costs of recapitalizing the KCB or PAHW.

The total fiscal cost of the Kuwaiti housing scheme also includes the value of land freely allocated by the government to the PAHW, reflecting the opportunity cost of granting land instead of selling it through public auctions. Staff estimates that selling land allocated over the nine-year period from FY2013/2014 to FY2021/2022 at market prices would have generated revenues of approximately 1.9 percent of GDP per year on average.<sup>1</sup> This estimate of the opportunity cost of forgone land sales may be considered an upper-bound, as the market price of land has been inflated by its limited supply.

Taken together, these estimates of the direct fiscal cost of the housing scheme and the opportunity cost of forgone land sales amount to a total cost to the government of around 4 percent of GDP per year.

**Direct Fiscal Cost of the Housing Scheme**  
(Percent of GDP)



Sources: Kuwaiti authorities; IMF staff calculations.

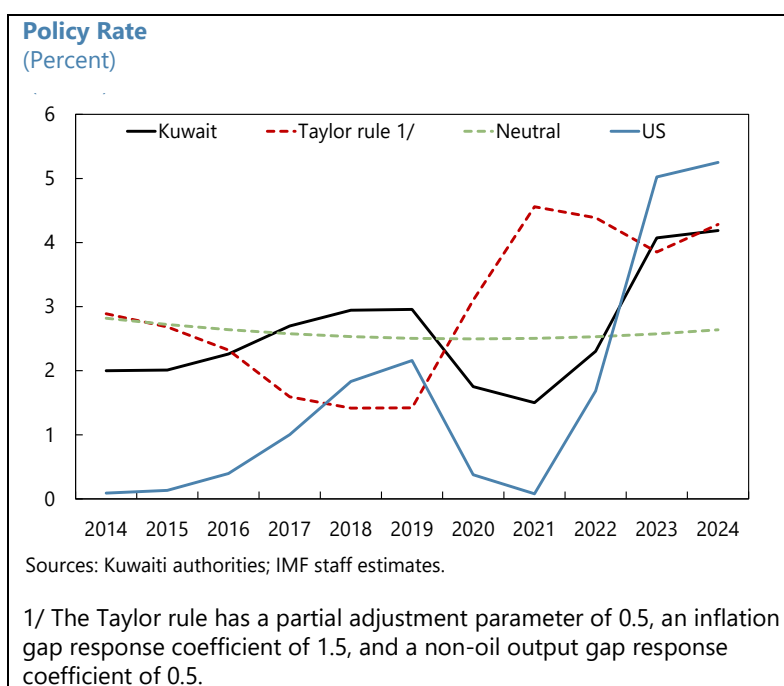
<sup>1</sup> This estimate is based on data on the allocation of plots of land and houses included in the [2022 Annual Bulletin of Social Statistics](#), and on land prices published in market reports.

## B. Monetary and Exchange Rate Policies

**17. The exchange rate peg to an undisclosed basket of currencies remains an appropriate nominal anchor for monetary policy.** It has supported low and stable inflation for many years, in part by providing some monetary policy autonomy with which to pursue macroeconomic stabilization objectives. This exchange rate regime has also supported Kuwait's global safe haven

status, lowering and stabilizing its financing costs (Box 2). Sustaining this successful monetary policy track record requires preserving the independence of the Central Bank of Kuwait (CBK). Fiscal consolidation to reinforce intergenerational equity—together with structural reforms to enhance competitiveness and diversify the economy—should be implemented to strengthen the external position and support the peg. The conduct of monetary policy is being enhanced by building up macroeconomic modeling capacity at the CBK with IMF CD support. The monetary transmission mechanism should be strengthened by deepening the interbank and domestic sovereign debt markets while phasing out bank lending rate caps.

**18. The restrictive stance of monetary policy is appropriate.** During its monetary tightening cycle from 2022Q1 to 2023Q3, the CBK hiked its policy rate by 275 basis points, considerably less than the 525 basis points of rate hikes implemented by the US Federal Reserve (Fed) over this period. More recently, Kuwait cut its policy rate by 25 basis points in September 2024, immediately after the Fed implemented a 50 basis point rate cut. During the interim, Kuwait maintained a 100 basis point policy rate differential below the US, without experiencing bilateral currency depreciation or deposit outflow pressures. The policy rate is currently in line with the prescription of a Taylor rule, and is well above neutral. Under the baseline, monetary normalization should follow the lead of global central banks, as inflation further moderates and the non-oil output gap closes.



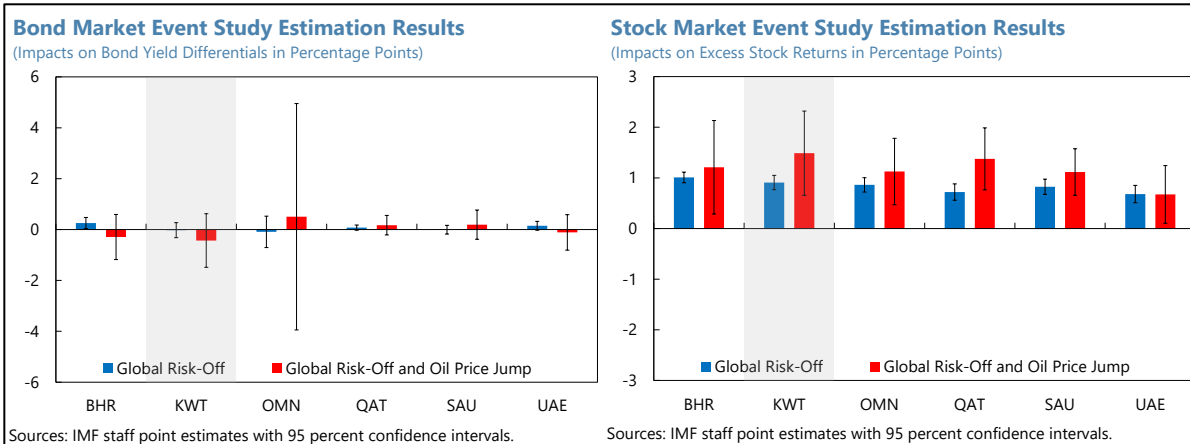
## Box 2. The Safe Haven Status of GCC Countries

Safe haven countries issue assets that tend to maintain their value or appreciate at times of global financial stress. The canonical safe haven country is the United States, as global investors flock to its sovereign bonds to seek refuge during periods of heightened global risk aversion.

This box examines the safe haven status of the GCC countries, with a focus on their bond and stock markets. Event studies are used to estimate the impacts on GCC bond yields and equity returns relative to their US counterparts of jumps in global risk aversion. Given the oil-dependent nature of the GCC economies, joint events with jumps in both global risk aversion and oil prices are also considered.

The data set consists of daily observations on excess bond yields and equity returns for Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE on all trading days over the period January 1, 2004 through April 23, 2024. The bond yields are from the MECI indexes constructed by JP Morgan, which track broad portfolios of US dollar-denominated external debt securities issued by GCC sovereigns, quasi-sovereigns and corporates. These GCC bond yields are expressed as differentials with respect to US Treasury yields having the same remaining term to maturity. The excess equity returns are daily percentage changes in benchmark stock price indexes for the GCC countries, less the daily percentage change in the S&P 500 stock price index.

Our event studies are implemented by regressing the bond yield differentials and excess equity returns on indicator variables identifying the events of interest. To account for asynchronous trading hours, these bond yield differentials and excess equity returns are averaged across the two trading days on and after events. Global risk-off events are identified by an indicator variable that activates if the percentage increase in the VIX exceeds two standard deviations. Joint events with jumps in both global risk aversion and oil prices are identified by the interaction of this indicator variable with another that activates if the percentage increase in the spot price of Brent crude exceeds two standard deviations. These regressions are estimated for individual countries and asset markets by ordinary least squares with robust standard errors.



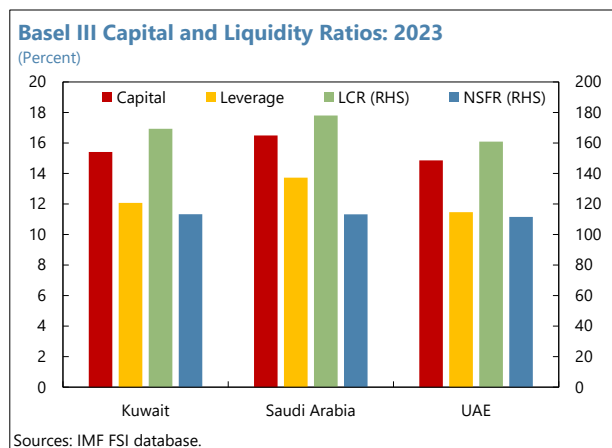
The bond and stock market event study estimation results indicate that global investors tend to treat the GCC countries as safe havens at times of global financial stress. Their safe haven status is at least as strong as that enjoyed by the United States, with comparable bond market performance paired with significant stock market overperformance. Moreover, this stock market overperformance during global risk-off events tends to get amplified if they coincide with oil price jumps, with Kuwait having the highest point estimate among the GCC countries.

Global safe haven status confers major benefits on the select group of countries that enjoy it, through lower and more stable financing costs for households, firms and governments. Policymakers in Kuwait should continue to maintain their global safe haven status by safeguarding domestic macrofinancial stability through implementing prudent policy measures within sound institutional frameworks.

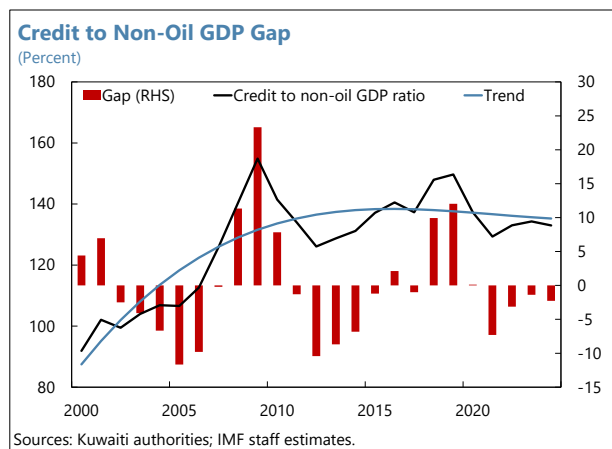


## C. Financial Sector Policies

**19. Financial stability has been maintained.** Banks in Kuwait have sustained strong capital and liquidity buffers—on par with those in Saudi Arabia and the UAE—to satisfy prudent regulatory requirements. They have ample balance sheet capacity to expand their supply of credit to the real economy, but demand is being restrained by still high interest rates. Bank profitability has rebounded from its pandemic lows on the back of higher net interest margins, while NPLs remain low given conservative lending practices and are well provisioned for.



**20. Systemic risk remains contained and prudently managed.** The credit cycle downturn triggered by the pandemic has been gradually unwinding, with the credit gap estimated to be nearly closed. Under the CBK's latest stress tests, the capitalization and liquidity of the banking system generally exceeded Basel III minimum requirements, while individual bank shortcomings were limited. The moderately accommodative stance of macroprudential policy is appropriate given contained systemic risk and subdued credit growth. The CBK could consider reclassifying part of its country-specific capital buffer as a positive neutral countercyclical capital buffer. It should also continue to regularly review the adequacy of its financial regulatory perimeter and macroprudential policy toolkit. Finally, the CBK should continue to identify weak banks with intrusive risk-based supervision, and subject them to enhanced regulatory requirements to address any vulnerabilities.



**21. Structural financial sector reforms are needed to enhance financial intermediation efficiency.** The unlimited guarantee on bank deposits should be replaced with a limited deposit insurance framework to address moral hazard. In addition, bank lending rate caps should be phased out to support efficient risk pricing.

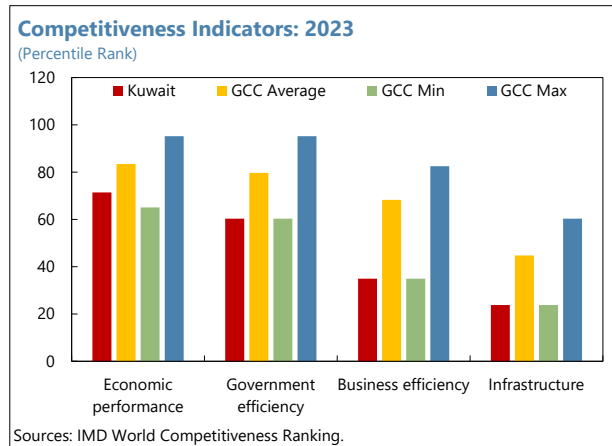
## D. Structural Reforms

**22. A comprehensive and well-sequenced structural reform package is needed to enhance competitiveness and diversify the economy.** The initial priorities are to improve the business

environment by raising efficiency, enhancing transparency, and further opening up the economy (Box 3). Meanwhile, labor market reforms should be phased in to incentivize private sector-led inclusive growth. This structural reform package would yield substantial non-oil growth and private sector employment gains if implemented.<sup>1</sup>

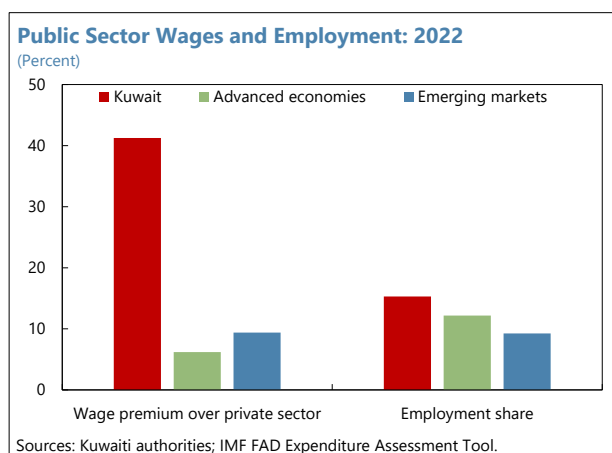
### 23. The business environment should be further improved to raise economic competitiveness and promote private investment.

To catch up with its GCC peers, reforms should prioritize enhancing government efficiency and improving public infrastructure. To raise its efficiency, the government should conduct regulatory impact assessments with public consultations, integrate digital public service delivery across ministries, and further streamline business establishment processes. To boost transparency, universal auditing standards for corporate balance sheets should be adopted, and data disclosure on secondary real estate market transactions should be enhanced. To attract FDI, full foreign ownership of businesses should be permitted—building on the recent amendment to the Commercial Law permitting full foreign ownership of local branches—while foreign ownership restrictions on land should be relaxed. Finally, public land sales for residential and commercial development should be scaled up.



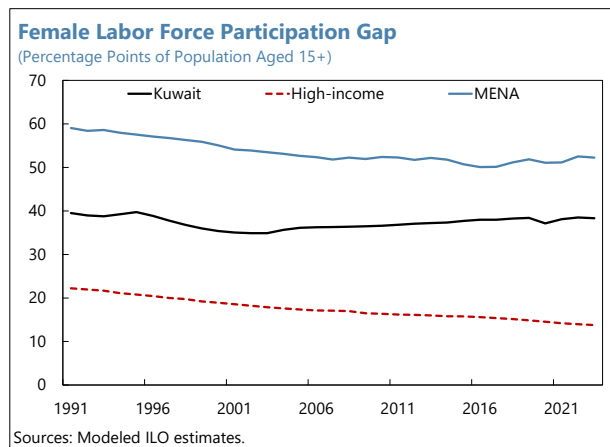
### 24. Major labor market reforms are needed to promote economic diversification.

To incentivize Kuwaitis to seek employment in the private sector, compensation and working conditions should be better harmonized across the public and private sectors. Investing in education and vocational training aligned with private sector needs would boost labor productivity by reducing skills mismatches. Employment of highly-skilled expatriate workers should be supported by introducing targeted visa programs and reforming job sponsorship frameworks, promoting knowledge transfer.

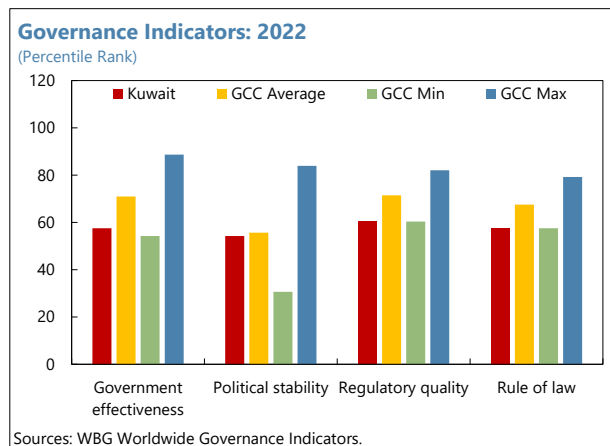


<sup>1</sup> See Selected Issues Paper “Advancing Economic Diversification in Kuwait: Reform Prioritization and Sequencing”.

**25. There is scope to raise female labor force participation.** The female labor force participation gap has averaged roughly 40 percentage points over the past three decades and is more than 10 percentage points below the MENA average. However, the female labor force participation gap has not decreased during this period even though the female literacy gap has been closed. Higher female labor force participation should be encouraged by further improving the working environment for women, including by fully implementing the legal requirements for childcare in the private sector.



**26. Further reforms are needed to address governance vulnerabilities.** Kuwait ranks on par with its GCC peers on various governance indicators. The authorities have made progress with implementing the Integrity and Anti-Corruption Strategy, particularly in enhancing whistleblower protection and achieving high compliance rates with asset declaration requirements for government employees. Nonetheless, court case management should be improved to enhance the effectiveness of the judicial system.



Furthermore, financial sector oversight should be strengthened by shifting bank licensing powers from the MOF to the CBK, in line with the Basel Core Principles. Finally, fiscal transparency should be enhanced through more comprehensive fiscal reporting, by expanding the coverage and granularity of the Fiscal Accounts statistics, and publishing documentation explaining the policy measures embodied in the budget.

**27. Reforms are needed to strengthen AML/CFT effectiveness.** The 2024 FATF Mutual Evaluation identified significant deficiencies in the effective implementation of the AML/CFT legal framework—in particular measures to combat terrorist financing—which should be addressed expeditiously. The authorities should also deepen their understanding of proceeds-generating offences for money laundering, including corruption, and develop AML/CFT policy priorities for the way forward.

**28. Progress with climate change adaptation and mitigation should be accelerated.** The authorities have made progress with implementing the National Adaptation Plan published in 2019, which laid out measures to address the impacts of rising temperatures and sea levels. However, the government is delayed in finalizing its National Low Carbon Strategy to achieve its announced

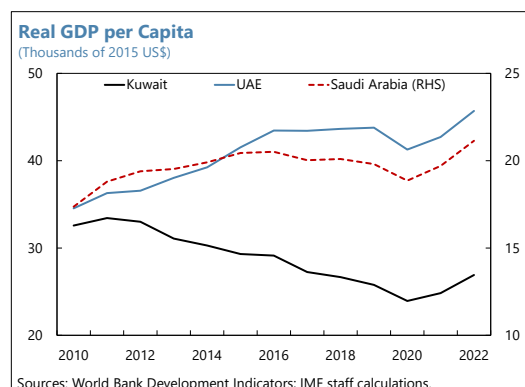
greenhouse gas emissions reduction targets. In particular, Kuwait committed under the Paris Agreement to cut its emissions by 7.4 percent relative to business-as-usual by 2035, and pledged at COP 27 to reach net zero emissions in the oil sector by 2050 and economy-wide by 2060. A significant contribution will come from the development of the 5 GW Al-Shagaya solar energy project, which is on schedule to be completed by 2030. Going forward, prioritization should be given to phasing out energy subsidies and investing further in renewables-based electricity generation infrastructure.

### Box 3. Prioritizing and Sequencing Structural Reforms to Realize Kuwait's Vision 2035

Limited economic diversification is holding back improvements in living standards. Over the past two decades, real GDP per capita trended downwards in Kuwait, in contrast to Saudi Arabia and the UAE where it trended upwards. To improve living standards, a comprehensive and well-sequenced package of structural reforms is needed to enhance competitiveness and diversify the economy, informed by international experiences but tailored to domestic circumstances.

Vision 2035 aims to diversify Kuwait's economy by repositioning it as a regional financial and commercial hub. Despite successive National Development Plans to implement it, progress with economic diversification remains limited. The Assessment Report of the General Secretariat of the Supreme Council for Planning and Development published in June 2024 found that the implementation of Vision 2035 has fallen behind schedule. The key factors it identified as limiting progress with economic diversification are administrative challenges, concentration of government spending on salaries and subsidies, low productivity, and labor market segmentation. The Assessment Report attributed the dual labor market to Kuwaitis' preference for public sector jobs, given significantly higher wages and benefits relative to the private sector. It emphasized the need to stimulate private sector-led inclusive growth by improving the business environment, with the government playing an enabling role.

Vision 2035 links structural reforms to development projects, but does not prioritize or sequence them. Empirical evidence indicates that first-generation structural reforms should be frontloaded to improve the business environment and stimulate private investment, amplifying the non-oil growth gains from labor and credit market reforms.<sup>1</sup> To improve the business environment, the priorities are to boost public investment in infrastructure, enhance transparency, raise regulatory quality, and streamline business establishment processes. To attract FDI, it is also important to permit full foreign ownership of businesses and land. To realize the full benefits of these first-generation structural reforms, work incentives across the public and private sectors should be more closely aligned by phasing in labor market reforms, while financial intermediation efficiency should be enhanced by phasing out bank lending rate caps.



<sup>1</sup> See Selected Issues Paper "Advancing Economic Diversification in Kuwait: Reform Prioritization and Sequencing."

## E. Strengthening Statistics

**29. Data provision has some shortcomings that somewhat hamper surveillance (Annex V).** The authorities should address these shortcomings expeditiously.

**30. The National Accounts, Government Finance and External Sector statistics have major shortcomings that hamper surveillance.** In particular, an expenditure-side National Accounts decomposition remains unavailable for 2023, while multi-year delays in the publication of GDP data after the pandemic confounded surveillance and policymaking. To address these National Accounts compilation deficiencies, the Central Statistical Bureau (CSB) urgently needs more funding to restore its capacity and resume its annual Establishment Survey, which has not been conducted since 2019. Furthermore, the exclusion of KIA investment income and SOE profit transfers from the Government Finance statistics hampers fiscal policy analysis. Finally, the omission of foreign assets held by the KIA from the IIP statistics generates stock-flow inconsistencies with the BOP statistics.

**31. The Prices and Monetary and Financial statistics have some shortcomings but are broadly adequate for surveillance.** Nonetheless, the exclusion of bank lending rates and real estate price indexes from the Monetary and Financial statistics hampers the accurate measurement of financial conditions and assessment of financial stability risks.

## F. Authorities' Views

**32. The authorities agreed with staff that a comprehensive and well-sequenced package of fiscal and structural reforms is needed to reinforce intergenerational equity and boost non-oil potential growth.** They broadly supported the composition of staff's proposed medium-term fiscal consolidation package, expressing their intention to rationalize current spending and mobilize non-oil revenue. The authorities also agreed with many of staff's recommended structural reforms, with their priority being to promote strong, sustainable and inclusive growth. They recognized the need to strengthen macroeconomic statistics to support well-informed policymaking and the analysis of reform proposals. Indeed, they requested IMF CD support to address the deficiencies in the National Accounts statistics identified by the Data Adequacy Assessment.

**33. The authorities supported staff's assessment that prudent monetary and financial sector policies—together with large financial buffers—are a source of macrofinancial stability.** But they questioned staff's assessment that bank lending rate caps are impeding efficient risk pricing, and argued that they do not bind. The authorities consider bank lending rate caps to be appropriate for Kuwait and note that similar systems are implemented in other countries with comparable economic features.

## STAFF APPRAISAL

**34. The economy remains in recession due to OPEC+ production cuts, but a recovery has begun in the non-oil sector, and inflation is moderating.** Lower oil prices and production have weakened the external and fiscal balances, while financial stability has been maintained. The heavy dependence of the economy on oil underscores the need for sustained diversification efforts, and the risks around the outlook are skewed to the downside. On the other hand, large financial buffers accumulated from oil revenues are a source of resilience to shocks.

**35. Staff welcomes the authorities' aspiration to implement economic reforms to support the transition to a dynamic and diversified economy.** To achieve this objective, a well-sequenced package of fiscal and structural reforms is needed. Structural reforms to improve the business environment and promote private investment are required to enhance competitiveness and diversify the economy. Meanwhile, fiscal reforms should be implemented to reinforce intergenerational equity while incentivizing Kuwaitis to pursue newly created job opportunities in the private sector.

**36. Gradual fiscal consolidation of about 13 percent of GDP over the medium term is needed to reinforce intergenerational equity.** A balanced fiscal consolidation package of current expenditure rationalization and non-oil revenue mobilization measures—partially offset by higher public investment in infrastructure—should be implemented at a pace of 1 to 2 percent of GDP per year. The public sector wage bill should be rationalized by constraining wage growth below inflation and limiting recruitment to retirements. Energy and water subsidies should be phased out by gradually raising retail fuel, electricity and water prices to their cost-recovery levels while providing targeted transfers to vulnerable groups. The CIT should be extended to all large domestic companies, while the GCC-wide 5 percent VAT and excise tax should be introduced.

**37. The conduct of fiscal policy should be strengthened with PFM reforms.** To align budget planning and execution with fiscal policy objectives, the MOF should introduce an MTFF—including a Fiscal Rules Framework with a public debt ceiling and a non-oil fiscal balance target—underpinned by a Medium-Term Macroeconomic Framework. To facilitate orderly fiscal financing, the Financing and Liquidity Law should be enacted expeditiously.

**38. The exchange rate peg to an undisclosed basket of currencies remains an appropriate nominal anchor for monetary policy.** This exchange rate regime gives the CBK some monetary policy autonomy, and has supported low and stable inflation for many years. The external position was substantially weaker than the level implied by medium-term fundamentals and desirable policies in 2023. Fiscal consolidation to reinforce intergenerational equity—together with structural reforms to enhance competitiveness and diversify the economy—should be implemented to strengthen the external position and support the peg. The monetary transmission mechanism should be strengthened by deepening the interbank and domestic sovereign debt markets while phasing out bank lending rate caps.

**39. Systemic risk remains contained and prudently managed.** The credit cycle downturn triggered by the pandemic has been gradually unwinding, while stress tests indicate that the banking system is resilient to shocks. The CBK should continue to regularly review the adequacy of its financial regulatory perimeter and macroprudential policy toolkit, while subjecting banks to intrusive risk-based supervision. The unlimited guarantee on bank deposits should be gradually replaced with a limited deposit insurance framework to address moral hazard, while bank lending rate caps should be phased out to support efficient risk pricing.

**40. A comprehensive and well-sequenced structural reform package is needed to enhance competitiveness and diversify the economy.** The initial priorities are to improve the business environment by raising efficiency, enhancing transparency, and further opening up the economy.

Reforms should prioritize enhancing government efficiency, improving public infrastructure, permitting full foreign ownership of businesses, and scaling up public land sales for development. Meanwhile, labor market reforms should be gradually phased in to incentivize private sector-led inclusive growth. In particular, the authorities should encourage Kuwaitis to seek employment in the private sector by better harmonizing compensation and working conditions across the public and private sectors. They should also introduce targeted visa programs and reform jobs sponsorship frameworks to support employment of highly-skilled expatriate workers. Finally, the significant deficiencies in the effective implementation of the AML/CFT legal framework identified by the 2024 FATF Mutual Evaluation should be addressed expeditiously.

**41. Data provision has some shortcomings that somewhat hamper surveillance.** The authorities should address these shortcomings expeditiously, in particular those associated with the National Accounts statistics.

**42. Staff recommends that the next Article IV Consultation take place on the standard 12-month cycle.**

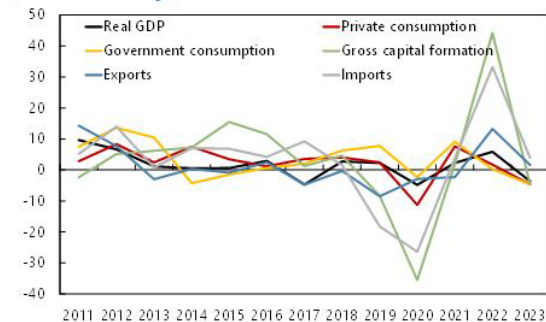


**Figure 1. Kuwait: National Accounts**

*The economic recovery from the pandemic was disrupted in 2023.*

#### Real GDP Growth by Expenditure Component

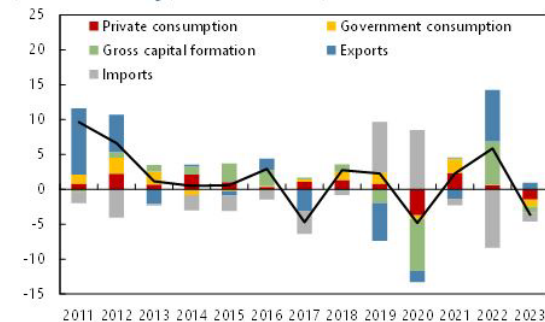
(Annual Percent Change)



Sources: Kuwaiti authorities; IMF staff estimates.

#### Real GDP Growth by Expenditure Component

(Annual Percent Change; Contributions to Total)

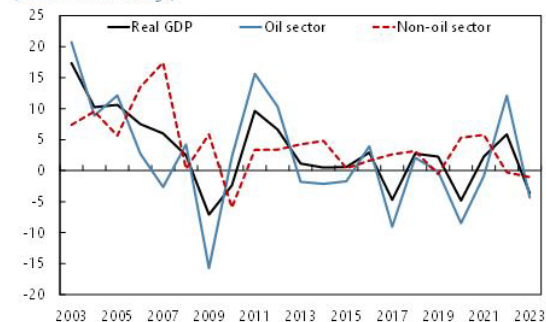


Sources: Kuwaiti authorities; IMF staff estimates.

*Real economic activity was dragged down in 2023 by an OPEC+ oil production cut.*

#### Real GDP Growth by Sector

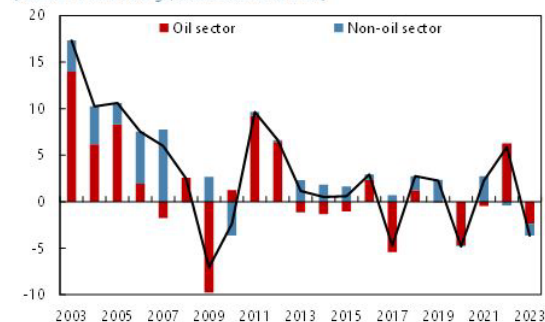
(Annual Percent Change)



Sources: Kuwaiti authorities; IMF staff estimates.

#### Real GDP Growth by Sector

(Annual Percent Change; Contributions to Total)

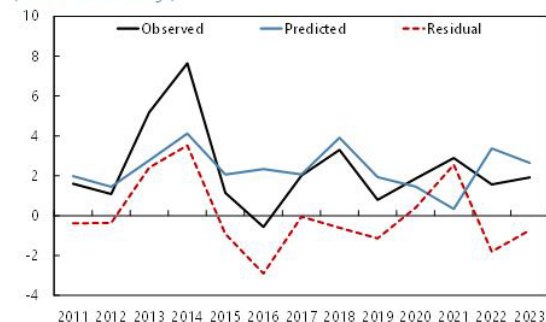


Sources: Kuwaiti authorities; IMF staff estimates.

*Weak credit growth and fiscal consolidation are constraining non-oil growth in 2024.*

#### Non-Manufacturing Non-Oil Growth Estimates

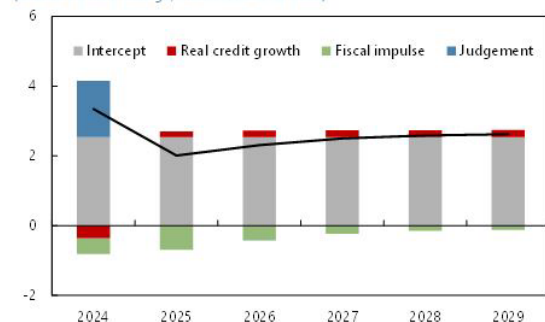
(Annual Percent Change)



Sources: Kuwaiti authorities; IMF staff estimates.

#### Non-Manufacturing Non-Oil Growth Projections

(Annual Percent Change; Contributions to Total)



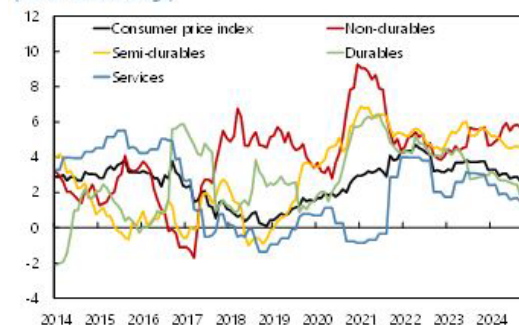
Sources: Kuwaiti authorities; IMF staff projections.

**Figure 2. Kuwait: Inflation and Employment**

*Headline and core CPI inflation have been moderating.*

**CPI Inflation**

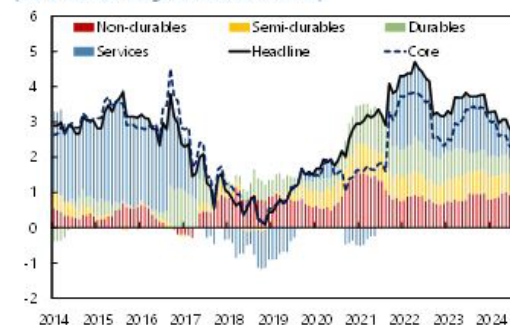
(Annual Percent Change)



Sources: Kuwaiti authorities.

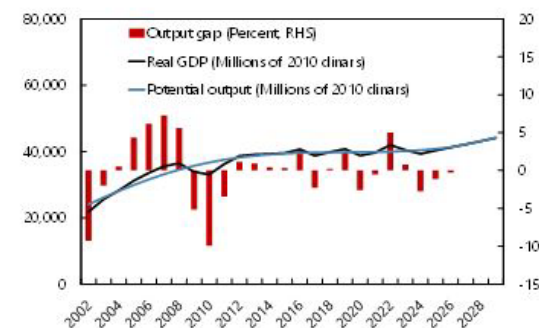
**CPI Inflation**

(Annual Percent Change; Contributions to Total)



Sources: Kuwaiti authorities; IMF staff calculations.

*The non-oil sector is operating slightly above its potential.*

**Output Gap**

Sources: Kuwaiti authorities; IMF staff estimates.

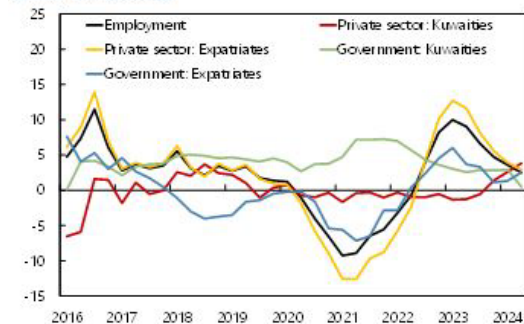
**Non-Oil Output Gap**

Sources: Kuwaiti authorities; IMF staff estimates.

*The rebound in employment after the pandemic was concentrated among expatriates in the private sector.*

**Employment Growth**

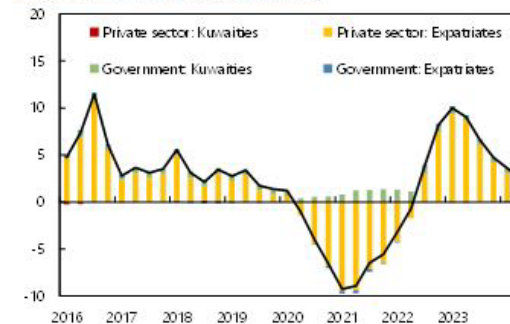
(Annual Percent Change)



Sources: Kuwaiti authorities.

**Employment Growth**

(Annual Percent Change; Contributions to Total)



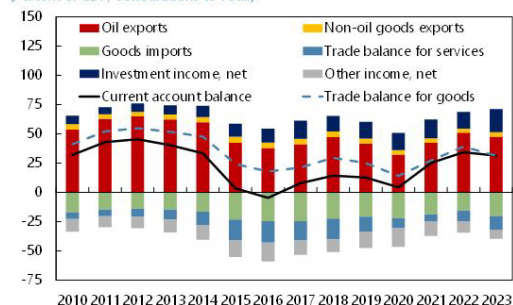
Sources: Kuwaiti authorities; IMF staff calculations.

**Figure 3. Kuwait: Balance of Payments**

The current account surplus remained large in 2023 due to high oil exports, supporting strong outwards portfolio investment.

**Current Account Balance**

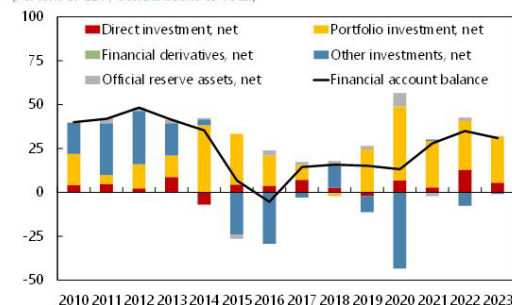
(Percent of GDP; Contributions to Total)



Sources: Kuwaiti authorities; IMF staff calculations.

**Financial Account Balance**

(Percent of GDP; Contributions to Total)

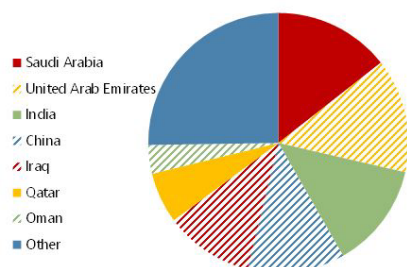


Sources: Kuwaiti authorities; IMF staff calculations.

Trade flows are concentrated among neighboring and systemic economies.

**Bilateral Export Shares: 2019-2021**

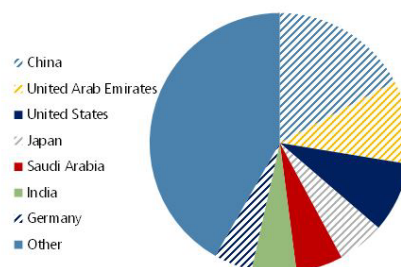
(Average)



Sources: IMF Direction of Trade Statistics.

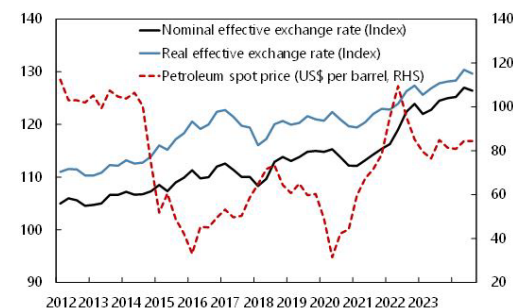
**Bilateral Import Shares: 2019-2021**

(Average)

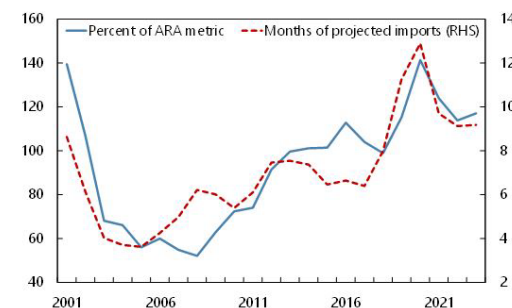


Sources: IMF Direction of Trade Statistics.

The Kuwaiti dinar has appreciated in nominal and real effective terms, but reserve coverage remains adequate.

**Nominal versus Real Effective Exchange Rates**

Sources: IMF.

**Official Reserve Assets**

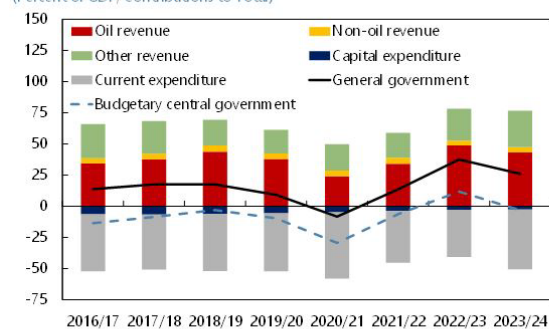
Sources: IMF staff calculations.

**Figure 4. Kuwait: Government Finance**

*The fiscal balance weakened in FY2023/24 due to lower oil revenue and higher current expenditure.*

**Fiscal Balance**

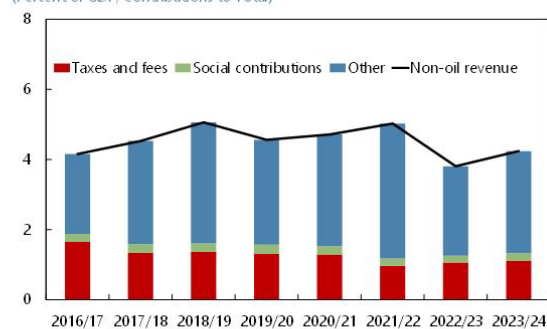
(Percent of GDP; Contributions to Total)



Sources: Kuwaiti authorities; IMF staff estimates.

**Non-Oil Revenue**

(Percent of GDP; Contributions to Total)

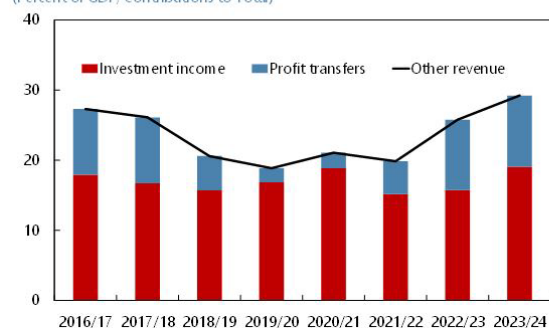


Sources: Kuwaiti authorities; IMF staff estimates.

*KIA investment income is estimated to have increased in FY2023/24.*

**Other Revenue**

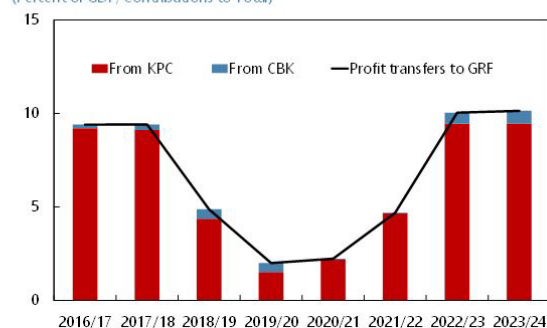
(Percent of GDP; Contributions to Total)



Sources: Kuwaiti authorities; IMF staff estimates.

**Profit Transfers**

(Percent of GDP; Contributions to Total)

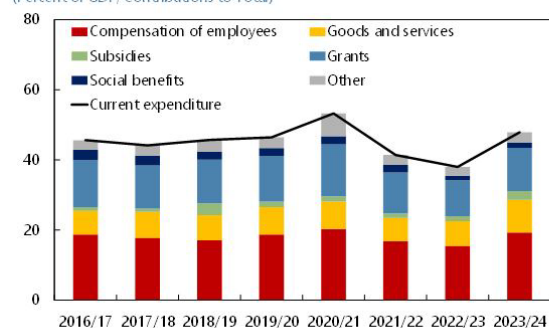


Sources: Kuwaiti authorities; IMF staff estimates.

*Current expenditure increased in FY2023/24, while government debt outstanding remained insignificant.*

**Current Expenditure**

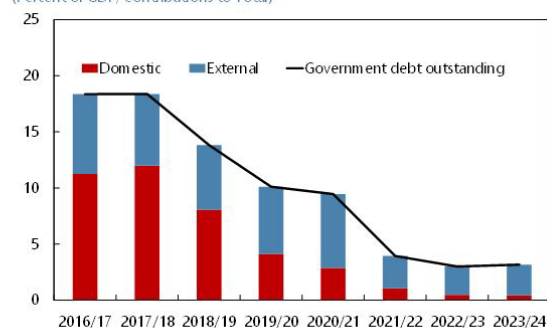
(Percent of GDP; Contributions to Total)



Sources: Kuwaiti authorities; IMF staff estimates.

**Government Debt Outstanding**

(Percent of GDP; Contributions to Total)

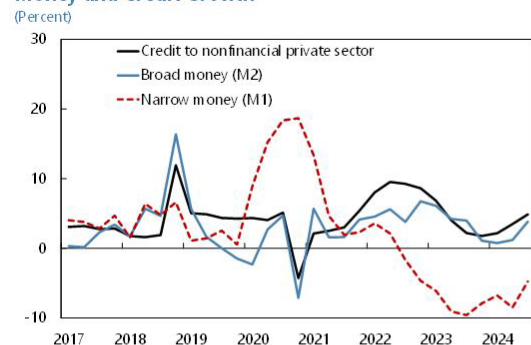
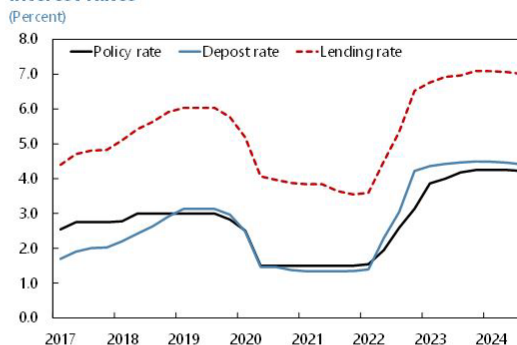


Sources: Kuwaiti authorities; IMF staff estimates.

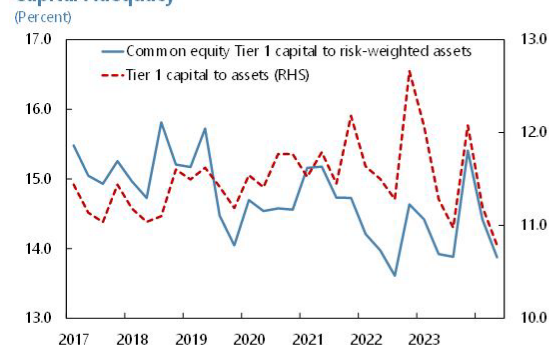
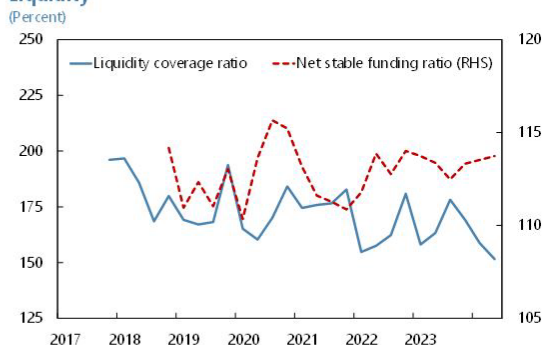


**Figure 5. Kuwait: Money, Credit and Banking**

*Money and credit growth fell in 2023 given higher interest rates.*

**Money and Credit Growth****Interest Rates**

*Banks have maintained strong capital and liquidity buffers.*

**Capital Adequacy****Liquidity**

*Bank profitability has rebounded from its pandemic lows, while non-performing loans are low and well provisioned for.*

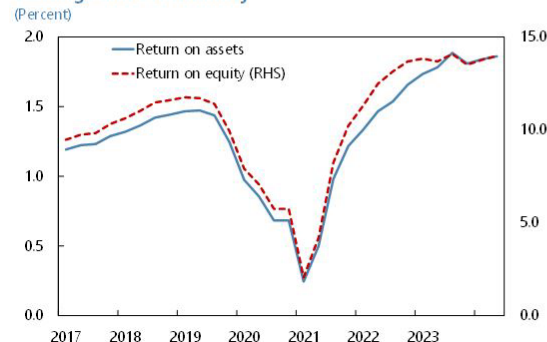
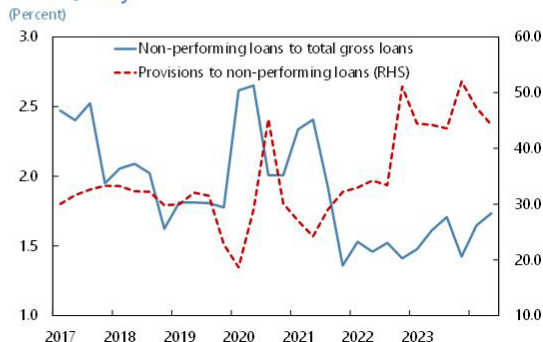
**Earnings and Profitability****Asset Quality**

Table 1. Kuwait: Selected Economic Indicators, 2019-2029

|  | 2019   | 2020   | 2021   | 2022   | 2023   | Projections   |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|---|--------|--------|--------|--------|--------|
|  |        |        |        |        |        | 2024  | 2025   | 2026   | 2027   | 2028   | 2029   |
| <b>Output and prices</b>                         |        |        |        |        |        | (Percent change)                                      |        |        |        |        |        |
| Real GDP   | 2.3    | -4.8   | 2.3    | 5.9    | -3.6   | -2.8  | 2.6    | 2.2    | 2.3    | 2.3    | 2.4    |
| Oil 1/   | -0.1   | -8.5   | -0.9   | 12.1   | -4.3   | -6.9  | 3.0    | 2.0    | 2.0    | 2.0    | 2.0    |
| Non-oil 1/                                       | -0.6   | 5.3    | 5.8    | -0.3   | -1.0   | 2.0   | 2.1    | 2.3    | 2.4    | 2.5    | 2.5    |
| CPI inflation (average)                          | 1.1    | 2.1    | 3.4    | 4.0    | 3.6    | 3.0   | 2.4    | 2.2    | 1.9    | 1.8    | 1.7    |
| Core 2/  | 1.1    | 1.6    | 2.2    | 3.3    | 3.1    | 2.5   | 2.2    | 2.0    | 1.9    | 1.8    | 1.8    |
| <b>Oil sector</b>                                |        |        |        |        |        | (Millions of barrels per day, unless noted otherwise) |        |        |        |        |        |
| Crude oil production                             | 2.7    | 2.4    | 2.4    | 2.7    | 2.6    | 2.4   | 2.5    | 2.5    | 2.6    | 2.6    | 2.7    |
| Crude oil exports                                | 2.0    | 1.9    | 1.8    | 1.8    | 1.8    | 1.6   | 1.7    | 1.7    | 1.8    | 1.8    | 1.8    |
| Price of crude oil exports (US\$ per barrel)     | 64.3   | 41.3   | 70.3   | 101.0  | 84.3   | 79.9  | 71.6   | 69.1   | 67.4   | 66.5   | 65.9   |
| <b>External sector</b>                           |        |        |        |        |        | (Percent of GDP, unless noted otherwise)              |        |        |        |        |        |
| Current account balance                          | 12.7   | 4.4    | 25.2   | 34.3   | 31.4   | 27.2  | 22.5   | 19.8   | 17.5   | 15.4   | 13.4   |
| Trade balance                                    | 12.4   | 5.4    | 21.4   | 29.9   | 19.6   | 15.5  | 10.8   | 8.1    | 5.8    | 3.7    | 1.8    |
| Exports of goods and services                    | 52.1   | 43.7   | 51.7   | 60.3   | 58.3   | 54.6  | 51.9   | 50.7   | 49.8   | 49.2   | 48.7   |
| Oil  | 41.7   | 32.2   | 42.4   | 51.1   | 47.7   | 42.9  | 39.8   | 38.3   | 37.1   | 36.1   | 35.3   |
| Non-oil  | 10.4   | 11.5   | 9.3    | 9.2    | 10.6   | 11.7  | 12.1   | 12.4   | 12.8   | 13.1   | 13.5   |
| Imports of goods and services                    | 39.6   | 38.3   | 30.3   | 30.4   | 38.7   | 39.1  | 41.0   | 42.5   | 44.0   | 45.5   | 47.0   |
| Income balance                                   | 0.2    | -1.1   | 3.7    | 4.4    | 11.8   | 11.7  | 11.7   | 11.7   | 11.7   | 11.7   | 11.7   |
| Official reserve assets (months of imports)      | 11.3   | 12.9   | 9.7    | 9.1    | 9.2    | 9.3   | 9.4    | 9.5    | 9.6    | 9.7    | 9.8    |
| Gross external debt                              | 37.9   | 46.4   | 39.6   | 35.0   | 39.4   | 39.5  | 41.7   | 42.3   | 44.4   | 47.0   | 48.3   |
| <b>Government finance 3/</b>                     |        |        |        |        |        | (Percent of GDP, unless noted otherwise)              |        |        |        |        |        |
| Revenue 4/                                       | 60.8   | 58.7   | 56.5   | 69.8   | 78.6   | 75.4  | 74.0   | 73.2   | 72.6   | 72.0   | 71.4   |
| Oil  | 55.8   | 53.3   | 51.5   | 65.5   | 73.7   | 70.2  | 68.5   | 67.3   | 66.6   | 65.9   | 65.3   |
| Other 4/   | 5.0    | 5.4    | 5.0    | 4.3    | 4.9    | 5.2   | 5.5    | 5.9    | 6.0    | 6.1    | 6.2    |
| Expenditure                                      | 49.8   | 62.5   | 48.1   | 39.4   | 48.7   | 50.7  | 50.2   | 49.7   | 49.6   | 49.6   | 49.5   |
| Current  | 44.3   | 57.0   | 44.0   | 36.5   | 46.0   | 46.5  | 45.6   | 45.1   | 45.0   | 44.9   | 44.9   |
| Capital  | 5.6    | 5.5    | 4.1    | 2.9    | 2.7    | 4.2   | 4.7    | 4.6    | 4.6    | 4.6    | 4.6    |
| Net lending (+) / borrowing (-) 4/               | 10.9   | -3.8   | 8.5    | 30.4   | 29.9   | 24.7  | 23.8   | 23.4   | 23.0   | 22.4   | 21.9   |
| Budgetary central government                     | -7.6   | -26.6  | -11.0  | 7.2    | 0.9    | -5.8  | -7.9   | -8.8   | -9.6   | -10.4  | -11.2  |
| Excluding oil revenue (percent of non-oil GDP)   | -71.9  | -68.9  | -61.1  | -60.4  | -66.6  | -64.0   | -60.0  | -57.6  | -56.2  | -55.4  | -54.7  |
| Gross government debt 5/                         | 10.5   | 10.2   | 7.2    | 2.9    | 3.2    | 7.3   | 12.9   | 16.3   | 19.8   | 24.0   | 25.0   |
| <b>Money and credit</b>                          |        |        |        |        |        | (Percent change, unless noted otherwise)              |        |        |        |        |        |
| Credit to nonfinancial private sector            | 4.3    | -4.3   | 5.4    | 8.6    | 1.8    | 3.9   | 4.7    | 5.1    | 5.3    | 5.4    | 5.4    |
| Broad money: M2                                  | -1.5   | -7.3   | 3.8    | 6.5    | 1.0    | 2.7   | 4.6    | 5.1    | 5.4    | 5.6    | 5.6    |
| Policy rate (percent)                            | 3.0    | 1.8    | 1.5    | 2.3    | 4.1    | ...   | ...    | ...    | ...    | ...    | ...    |
| <b>Memorandum items</b>                          |        |        |        |        |        |   |        |        |        |        |        |
| Nominal GDP (US\$ billions)                      | 140.9  | 111.0  | 148.5  | 184.0  | 163.7  | 159.1   | 158.6  | 162.2  | 166.8  | 172.1  | 178.1  |
| Population (millions)                            | 4.5    | 4.3    | 4.2    | 4.8    | 4.9    | 5.0   | 5.1    | 5.2    | 5.3    | 5.4    | 5.5    |
| GDP per capita (US\$)                            | 31,550 | 25,611 | 35,205 | 38,380 | 33,321 | 31,753  | 31,029 | 31,104 | 31,355 | 31,734 | 32,186 |
| Output gap: Non-oil (percent)                    | -2.4   | 1.2    | 5.4    | 3.5    | 0.6    | 0.7   | 0.6    | 0.4    | 0.0    | 0.0    | 0.0    |
| Exchange rate (Kuwaiti dinars per US\$, average) | 0.30   | 0.31   | 0.30   | 0.31   | 0.31   | ...   | ...    | ...    | ...    | ...    | ...    |

Sources: Kuwaiti authorities; IMF staff estimates.

1/ Factor cost basis.

2/ Excludes food and non-alcoholic beverages.

3/ Calendar year basis.

4/ Includes KIA investment income and GRF profit transfers from the KPC and CBK that are excluded from the Budget and estimated by IMF staff.

5/ Assumes resumption of government debt issuance from FY2024/25.

Table 2. Kuwait: Balance of Payments, 2019-2029

|  |                            |       |       |       |       | Projections |       |       |       |       |       |
|--|----------------------------|-------|-------|-------|-------|-------------|-------|-------|-------|-------|-------|
|  | 2019                       | 2020  | 2021  | 2022  | 2023  | 2024        | 2025  | 2026  | 2027  | 2028  | 2029  |
|  | (Billions of U.S. dollars) |       |       |       |       |             |       |       |       |       |       |
| Current account balance                            | 17.9                       | 4.8   | 37.4  | 63.1  | 51.4  | 43.3        | 35.7  | 32.1  | 29.2  | 26.5  | 23.9  |
| Trade balance for goods                            | 35.3                       | 15.6  | 40.5  | 72.0  | 51.2  | 42.8        | 35.8  | 32.8  | 30.5  | 28.5  | 26.6  |
| Exports  | 64.7                       | 40.1  | 68.4  | 100.3 | 84.2  | 75.1        | 70.1  | 69.4  | 69.5  | 70.3  | 71.4  |
| Oil  | 58.7                       | 35.8  | 63.0  | 94.0  | 78.1  | 68.3        | 63.1  | 62.0  | 61.8  | 62.1  | 62.8  |
| Non-oil  | 6.0                        | 4.3   | 5.4   | 6.3   | 6.1   | 6.8         | 7.0   | 7.4   | 7.7   | 8.2   | 8.6   |
| Re-exports   | 0.5                        | 0.4   | 0.5   | 0.4   | 0.4   | 0.7         | 0.7   | 0.7   | 0.7   | 0.7   | 0.7   |
| Imports  | 29.4                       | 24.5  | 27.9  | 28.4  | 33.0  | 32.3        | 34.3  | 36.6  | 39.1  | 41.8  | 44.8  |
| Trade balance for services                         | -17.8                      | -9.6  | -8.7  | -16.9 | -19.1 | -18.1       | -18.6 | -19.6 | -20.7 | -22.1 | -23.5 |
| Transportation                                     | -2.7                       | -2.4  | -2.9  | -3.2  | -4.0  | -3.8        | -3.9  | -4.1  | -4.4  | -4.6  | -4.9  |
| Travel   | -11.0                      | -5.0  | -4.3  | -12.1 | -12.6 | -12.0       | -12.3 | -13.0 | -13.8 | -14.6 | -15.6 |
| Other  | -4.1                       | -2.2  | -1.5  | -1.7  | -2.5  | -2.3        | -2.4  | -2.5  | -2.6  | -2.8  | -3.0  |
| Investment income, net                             | 20.3                       | 16.4  | 24.3  | 26.1  | 32.3  | 30.7        | 30.6  | 31.3  | 32.2  | 33.2  | 34.4  |
| Receipts   | 23.5                       | 19.6  | 27.6  | 31.1  | 37.7  | 36.3        | 36.2  | 37.0  | 38.0  | 39.3  | 40.6  |
| Payments   | 3.2                        | 3.2   | 3.3   | 5.0   | 5.4   | 5.6         | 5.6   | 5.7   | 5.9   | 6.1   | 6.3   |
| Other income, net                                  | -19.9                      | -17.6 | -18.7 | -18.0 | -13.0 | -12.1       | -12.1 | -12.4 | -12.7 | -13.1 | -13.6 |
| Capital account balance                            | 0.3                        | 0.8   | 1.4   | 0.5   | -0.1  | -0.1        | -0.1  | -0.1  | -0.1  | -0.1  | -0.1  |
| Financial account balance                          | 21.3                       | 14.7  | 41.5  | 64.3  | 50.6  | 44.5        | 35.6  | 32.0  | 29.1  | 26.4  | 23.8  |
| Direct investment, net                             | -3.0                       | 7.7   | 4.1   | 23.9  | 9.1   | 4.1         | 3.9   | 3.4   | 2.9   | 2.5   | 2.2   |
| Abroad   | -2.7                       | 7.9   | 4.7   | 24.6  | 11.2  | 5.2         | 4.9   | 4.5   | 4.1   | 3.7   | 3.4   |
| In Kuwait  | 0.4                        | 0.2   | 0.6   | 0.8   | 2.1   | 1.1         | 1.1   | 1.1   | 1.1   | 1.2   | 1.2   |
| Portfolio investment, net                          | 34.5                       | 46.7  | 39.5  | 50.7  | 42.9  | 28.0        | 26.8  | 24.4  | 22.1  | 20.0  | 18.5  |
| Financial derivatives, net                         | 0.0                        | 0.1   | 0.0   | 0.0   | 0.7   | 0.3         | 0.1   | -0.3  | -0.7  | -1.2  | -1.5  |
| Other investments, net                             | -12.9                      | -48.2 | 1.1   | -14.0 | -1.6  | 1.3         | 1.1   | 0.7   | 0.3   | -0.1  | -0.5  |
| Official reserve assets, net                       | 2.7                        | 8.3   | -3.2  | 3.7   | -0.5  | 10.8        | 3.7   | 3.8   | 4.5   | 5.1   | 5.2   |
| Net errors and omissions                           | 3.2                        | 9.0   | 2.7   | 0.6   | -0.7  | 1.3         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Overall balance                                    | 2.7                        | 8.3   | -3.2  | 3.7   | -0.5  | 10.8        | 3.7   | 3.8   | 4.5   | 5.1   | 5.2   |
|  | (Percent of GDP)           |       |       |       |       |             |       |       |       |       |       |
| Current account balance                            | 12.7                       | 4.4   | 25.2  | 34.3  | 31.4  | 27.2        | 22.5  | 19.8  | 17.5  | 15.4  | 13.4  |
| Trade balance for goods                            | 25.1                       | 14.0  | 27.3  | 39.1  | 31.2  | 26.9        | 22.6  | 20.2  | 18.3  | 16.6  | 15.0  |
| Exports  | 45.9                       | 36.1  | 46.1  | 54.5  | 51.4  | 47.2        | 44.2  | 42.8  | 41.7  | 40.8  | 40.1  |
| Oil  | 41.7                       | 32.2  | 42.4  | 51.1  | 47.7  | 42.9        | 39.8  | 38.3  | 37.1  | 36.1  | 35.3  |
| Non-oil  | 4.2                        | 3.9   | 3.6   | 3.4   | 3.7   | 4.3         | 4.4   | 4.5   | 4.6   | 4.7   | 4.8   |
| Re-exports   | 0.4                        | 0.3   | 0.3   | 0.2   | 0.3   | 0.4         | 0.4   | 0.4   | 0.4   | 0.4   | 0.4   |
| Imports  | 20.9                       | 22.0  | 18.8  | 15.4  | 20.2  | 20.3        | 21.6  | 22.6  | 23.4  | 24.3  | 25.2  |
| Trade balance for services                         | -12.6                      | -8.6  | -5.9  | -9.2  | -11.7 | -11.4       | -11.7 | -12.1 | -12.4 | -12.8 | -13.2 |
| Transportation                                     | -1.9                       | -2.1  | -1.9  | -1.7  | -2.4  | -2.4        | -2.5  | -2.5  | -2.6  | -2.7  | -2.8  |
| Travel   | -7.8                       | -4.5  | -2.9  | -6.6  | -7.7  | -7.6        | -7.8  | -8.0  | -8.3  | -8.5  | -8.8  |
| Other  | -2.9                       | -2.0  | -1.0  | -0.9  | -1.6  | -1.4        | -1.5  | -1.5  | -1.6  | -1.6  | -1.7  |
| Investment income, net                             | 14.4                       | 14.8  | 16.4  | 14.2  | 19.8  | 19.3        | 19.3  | 19.3  | 19.3  | 19.3  | 19.3  |
| Receipts   | 16.7                       | 17.7  | 18.6  | 16.9  | 23.0  | 22.8        | 22.8  | 22.8  | 22.8  | 22.8  | 22.8  |
| Payments   | 2.3                        | 2.9   | 2.2   | 2.7   | 3.3   | 3.5         | 3.5   | 3.5   | 3.5   | 3.5   | 3.5   |
| Other income, net                                  | -14.1                      | -15.9 | -12.6 | -9.8  | -7.9  | -7.6        | -7.6  | -7.6  | -7.6  | -7.6  | -7.6  |
| Capital account balance                            | 0.2                        | 0.7   | 1.0   | 0.3   | -0.1  | -0.1        | -0.1  | -0.1  | -0.1  | -0.1  | -0.1  |
| Financial account balance                          | 15.2                       | 13.2  | 27.9  | 34.9  | 30.9  | 27.9        | 22.4  | 19.7  | 17.4  | 15.3  | 13.4  |
| Direct investment, net                             | -2.2                       | 6.9   | 2.8   | 13.0  | 5.5   | 2.6         | 2.4   | 2.1   | 1.8   | 1.5   | 1.2   |
| Abroad   | -1.9                       | 7.1   | 3.1   | 13.4  | 6.8   | 3.2         | 3.1   | 2.8   | 2.4   | 2.1   | 1.9   |
| In Kuwait  | 0.3                        | 0.2   | 0.4   | 0.4   | 1.3   | 0.7         | 0.7   | 0.7   | 0.7   | 0.7   | 0.7   |
| Portfolio investment, net                          | 24.5                       | 42.1  | 26.6  | 27.6  | 26.2  | 17.6        | 16.9  | 15.0  | 13.2  | 11.6  | 10.4  |
| Financial derivatives, net                         | 0.0                        | 0.1   | 0.0   | 0.0   | 0.4   | 0.2         | 0.1   | -0.2  | -0.4  | -0.7  | -0.9  |
| Other investments, net                             | -9.1                       | -43.4 | 0.8   | -7.6  | -1.0  | 0.8         | 0.7   | 0.4   | 0.2   | -0.1  | -0.3  |
| Official reserve assets, net                       | 1.9                        | 7.5   | -2.2  | 2.0   | -0.3  | 6.8         | 2.3   | 2.4   | 2.7   | 3.0   | 2.9   |
| Net errors and omissions                           | 2.3                        | 8.1   | 1.8   | 0.3   | -0.4  | 0.8         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Overall balance                                    | 1.9                        | 7.5   | -2.2  | 2.0   | -0.3  | 6.8         | 2.3   | 2.4   | 2.7   | 3.0   | 2.9   |
| Memorandum items                                   |                            |       |       |       |       |             |       |       |       |       |       |
| Official reserve assets (billions of U.S. dollars) | 39.9                       | 48.3  | 45.2  | 48.2  | 47.6  | 50.5        | 54.1  | 58.0  | 62.5  | 67.6  | 72.8  |
| Official reserve assets (months of imports)        | 11.3                       | 12.9  | 9.7   | 9.1   | 9.2   | 9.3         | 9.4   | 9.5   | 9.6   | 9.7   | 9.8   |
| Gross external debt (percent of GDP)               | 37.9                       | 46.4  | 39.6  | 35.0  | 39.4  | 39.5        | 41.7  | 42.3  | 44.4  | 47.0  | 48.3  |
| Exchange rate (Kuwaiti dinars per US\$, average)   | 0.30                       | 0.31  | 0.30  | 0.31  | 0.31  | ...         | ...   | ...   | ...   | ...   | ...   |
| Nominal effective exchange rate (1997 = 100)       | 114.2                      | 114.0 | 113.7 | 120.4 | 123.6 | ...         | ...   | ...   | ...   | ...   | ...   |
| Real effective exchange rate (1997 = 100)          | 120.7                      | 120.9 | 121.2 | 125.1 | 127.1 | ...         | ...   | ...   | ...   | ...   | ...   |
| Terms of trade (2010 = 100)                        | 61.7                       | 40.8  | 61.2  | 100.0 | 82.4  | ...         | ...   | ...   | ...   | ...   | ...   |

Sources: Kuwaiti authorities; IMF staff estimates.



Table 3. Kuwait: Government Finance, FY2019/20-FY2029/30 1/

|  | Projections |             |             |              |             |             |             |             |             |             |             |
|--|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | 2019/20     | 2020/21     | 2021/22     | 2022/23      | 2023/24     | 2024/25     | 2025/26     | 2026/27     | 2027/28     | 2028/29     | 2029/30     |
| (Billions of Kuwaiti dinars)                   |             |             |             |              |             |             |             |             |             |             |             |
| <b>Revenue 2/</b>                              | <b>24.9</b> | <b>18.3</b> | <b>28.1</b> | <b>42.9</b>  | <b>38.2</b> | <b>36.3</b> | <b>35.8</b> | <b>36.5</b> | <b>37.3</b> | <b>38.2</b> | <b>39.2</b> |
| Oil  | 15.4        | 8.8         | 16.2        | 26.7         | 21.5        | 19.1        | 18.0        | 17.7        | 17.7        | 17.8        | 18.0        |
| Non-oil  | 1.9         | 1.7         | 2.4         | 2.1          | 2.1         | 2.2         | 2.4         | 2.6         | 2.7         | 2.8         | 3.0         |
| Taxes and fees 3/                              | 0.5         | 0.5         | 0.5         | 0.6          | 0.6         | 0.6         | 0.6         | 0.8         | 0.8         | 0.9         | 0.9         |
| Social contributions                           | 0.1         | 0.1         | 0.1         | 0.1          | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Other  | 1.2         | 1.2         | 1.8         | 1.4          | 1.5         | 1.5         | 1.6         | 1.7         | 1.7         | 1.8         | 1.9         |
| Other 2/                                       | 7.7         | 7.7         | 9.5         | 14.1         | 14.6        | 14.9        | 15.5        | 16.2        | 16.8        | 17.5        | 18.2        |
| Investment income                              | 6.8         | 6.9         | 7.2         | 8.6          | 9.5         | 10.0        | 10.5        | 11.1        | 11.6        | 12.1        | 12.6        |
| Profit transfers                               | 0.8         | 0.8         | 2.2         | 5.5          | 5.1         | 5.0         | 5.0         | 5.1         | 5.3         | 5.4         | 5.6         |
| <b>Expenditure</b>                             | <b>21.1</b> | <b>21.3</b> | <b>21.6</b> | <b>22.4</b>  | <b>25.2</b> | <b>24.6</b> | <b>24.4</b> | <b>24.8</b> | <b>25.5</b> | <b>26.3</b> | <b>27.3</b> |
| Current  | 18.8        | 19.6        | 19.7        | 20.8         | 23.9        | 22.3        | 22.1        | 22.5        | 23.1        | 23.9        | 24.7        |
| Compensation of employees                      | 7.6         | 7.4         | 8.0         | 8.5          | 9.6         | 9.0         | 9.0         | 9.1         | 9.4         | 9.7         | 10.0        |
| Goods and services                             | 3.2         | 2.9         | 3.2         | 3.8          | 4.7         | 3.7         | 3.6         | 3.7         | 3.8         | 3.9         | 4.1         |
| Subsidies                                      | 0.6         | 0.6         | 0.6         | 0.8          | 1.3         | 1.0         | 1.0         | 1.0         | 1.0         | 1.1         | 1.1         |
| Grants   | 5.3         | 5.4         | 5.6         | 5.6          | 6.2         | 5.8         | 5.7         | 5.9         | 6.0         | 6.2         | 6.4         |
| Social benefits                                | 1.0         | 0.8         | 1.0         | 0.7          | 0.7         | 0.9         | 0.9         | 0.9         | 0.9         | 1.0         | 1.0         |
| Other  | 1.2         | 2.4         | 1.4         | 1.4          | 1.5         | 1.9         | 1.9         | 1.9         | 1.9         | 2.0         | 2.1         |
| Capital  | 2.3         | 1.7         | 1.9         | 1.5          | 1.3         | 2.3         | 2.3         | 2.3         | 2.4         | 2.5         | 2.5         |
| <b>Net lending (+) / borrowing (-) 2/</b>      | <b>3.7</b>  | <b>-3.0</b> | <b>6.5</b>  | <b>20.6</b>  | <b>13.0</b> | <b>11.7</b> | <b>11.5</b> | <b>11.7</b> | <b>11.8</b> | <b>11.9</b> | <b>12.0</b> |
| Budgetary central government                   | -3.9        | -10.8       | -3.0        | 6.4          | -1.6        | -3.2        | -4.0        | -4.5        | -5.1        | -5.7        | -6.2        |
| Excluding oil revenue                          | -19.3       | -19.6       | -19.2       | -20.3        | -23.1       | -22.3       | -22.0       | -22.2       | -22.8       | -23.5       | -24.3       |
| Transfer to FGF                                | 1.7         | 0.0         | 0.0         | 0.1          | ...         | ...         | ...         | ...         | ...         | ...         | ...         |
| <b>Net financing</b>                           | <b>5.6</b>  | <b>10.8</b> | <b>3.0</b>  | <b>-6.4</b>  | <b>1.6</b>  | <b>3.2</b>  | <b>4.0</b>  | <b>4.5</b>  | <b>5.1</b>  | <b>5.7</b>  | <b>6.2</b>  |
| Net government debt issuance 4/                | -1.7        | -0.6        | -0.6        | -0.2         | -0.1        | 2.6         | 1.4         | 1.4         | 0.7         | 1.2         | -0.3        |
| Other  | 7.4         | 11.4        | 3.5         | -6.1         | 1.6         | 0.6         | 2.6         | 3.1         | 4.3         | 4.5         | 6.6         |
| (Percent of GDP, unless noted otherwise)       |             |             |             |              |             |             |             |             |             |             |             |
| <b>Revenue 2/</b>                              | <b>61.3</b> | <b>49.7</b> | <b>58.9</b> | <b>78.3</b>  | <b>76.6</b> | <b>74.5</b> | <b>73.4</b> | <b>73.0</b> | <b>72.4</b> | <b>71.8</b> | <b>71.3</b> |
| Oil  | 37.9        | 24.0        | 34.0        | 48.7         | 43.1        | 39.3        | 36.8        | 35.5        | 34.4        | 33.6        | 32.8        |
| Non-oil  | 4.6         | 4.7         | 5.0         | 3.8          | 4.2         | 4.5         | 4.8         | 5.2         | 5.3         | 5.3         | 5.4         |
| Taxes and fees 3/                              | 1.3         | 1.3         | 1.0         | 1.1          | 1.1         | 1.2         | 1.3         | 1.6         | 1.6         | 1.7         | 1.7         |
| Social contributions                           | 0.3         | 0.2         | 0.2         | 0.2          | 0.2         | 0.2         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         |
| Other  | 3.0         | 3.2         | 3.8         | 2.6          | 2.9         | 3.1         | 3.3         | 3.3         | 3.4         | 3.4         | 3.5         |
| Other 2/                                       | 18.9        | 21.1        | 19.9        | 25.8         | 29.2        | 30.7        | 31.8        | 32.3        | 32.7        | 32.9        | 33.1        |
| Investment income                              | 16.9        | 18.8        | 15.2        | 15.7         | 19.1        | 20.5        | 21.6        | 22.1        | 22.5        | 22.7        | 22.9        |
| Profit transfers                               | 2.0         | 2.2         | 4.7         | 10.0         | 10.1        | 10.2        | 10.2        | 10.2        | 10.2        | 10.2        | 10.2        |
| <b>Expenditure</b>                             | <b>52.1</b> | <b>58.0</b> | <b>45.3</b> | <b>40.8</b>  | <b>50.5</b> | <b>50.4</b> | <b>49.9</b> | <b>49.6</b> | <b>49.5</b> | <b>49.5</b> | <b>49.5</b> |
| Current  | 46.4        | 53.3        | 41.4        | 38.0         | 47.9        | 45.7        | 45.2        | 45.0        | 44.9        | 44.9        | 44.9        |
| Compensation of employees                      | 18.7        | 20.3        | 16.8        | 15.5         | 19.2        | 18.6        | 18.4        | 18.3        | 18.2        | 18.2        | 18.2        |
| Goods and services                             | 7.9         | 7.8         | 6.7         | 7.0          | 9.4         | 7.5         | 7.5         | 7.4         | 7.4         | 7.4         | 7.4         |
| Subsidies                                      | 1.5         | 1.5         | 1.3         | 1.5          | 2.5         | 2.0         | 2.0         | 2.0         | 2.0         | 2.0         | 2.0         |
| Grants   | 12.9        | 14.8        | 11.6        | 10.3         | 12.3        | 11.9        | 11.8        | 11.7        | 11.7        | 11.7        | 11.7        |
| Social benefits                                | 2.4         | 2.3         | 2.2         | 1.2          | 1.4         | 1.8         | 1.8         | 1.8         | 1.8         | 1.8         | 1.8         |
| Other  | 3.0         | 6.5         | 2.8         | 2.5          | 3.0         | 3.8         | 3.8         | 3.8         | 3.8         | 3.8         | 3.8         |
| Capital  | 5.7         | 4.7         | 3.9         | 2.8          | 2.6         | 4.7         | 4.7         | 4.6         | 4.6         | 4.6         | 4.6         |
| <b>Net lending (+) / borrowing (-) 2/</b>      | <b>9.2</b>  | <b>-8.3</b> | <b>13.6</b> | <b>37.5</b>  | <b>26.1</b> | <b>24.1</b> | <b>23.5</b> | <b>23.4</b> | <b>22.8</b> | <b>22.3</b> | <b>21.8</b> |
| Budgetary central government                   | -9.7        | -29.4       | -6.3        | 11.7         | -3.1        | -6.6        | -8.3        | -8.9        | -9.8        | -10.6       | -11.3       |
| Excluding oil revenue (percent of non-oil GDP) | -70.7       | -67.2       | -60.1       | -60.9        | -67.9       | -62.7       | -59.1       | -57.0       | -55.9       | -55.2       | -54.5       |
| Transfer to FGF                                | 4.2         | 0.0         | 0.0         | 0.1          | ...         | ...         | ...         | ...         | ...         | ...         | ...         |
| <b>Net financing</b>                           | <b>13.9</b> | <b>29.4</b> | <b>6.3</b>  | <b>-11.6</b> | <b>3.1</b>  | <b>6.6</b>  | <b>8.3</b>  | <b>8.9</b>  | <b>9.8</b>  | <b>10.6</b> | <b>11.3</b> |
| Net government debt issuance 4/                | -4.2        | -1.7        | -1.2        | -0.4         | -0.1        | 5.4         | 2.9         | 2.9         | 1.4         | 2.2         | -0.6        |
| Other  | 18.1        | 31.0        | 7.4         | -11.2        | 3.2         | 1.2         | 5.4         | 6.1         | 8.4         | 8.4         | 11.9        |
| <i>Memorandum items</i>                        |             |             |             |              |             |             |             |             |             |             |             |
| Gross government debt 4/                       | 10.1        | 9.5         | 3.9         | 3.0          | 3.2         | 8.6         | 14.3        | 16.9        | 20.7        | 25.1        | 24.9        |
| Domestic                                       | 4.1         | 2.9         | 1.0         | 0.5          | 0.4         | 5.8         | 8.6         | 11.3        | 12.4        | 14.2        | 13.1        |
| External                                       | 6.0         | 6.6         | 2.9         | 2.5          | 2.8         | 2.8         | 5.7         | 5.6         | 8.3         | 10.9        | 11.8        |

Sources: Kuwaiti authorities; IMF staff estimates.

1/ The fiscal year starts on April 1 and ends on March 31.

2/ Includes KIA investment income and GRF profit transfers from the KPC and CBK that are excluded from the Budget and estimated by IMF staff.

3/ Assumes extension of CIT to large domestic firms on January 1, 2025.

4/ Assumes resumption of government debt issuance from FY2024/25.

Table 4. Kuwait: Monetary Survey, 2019-2029 1/

|  | Projections                  |             |             |             |             |             |             |              |              |              |              |
|--|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
|  | 2019                         | 2020        | 2021        | 2022        | 2023        | 2024        | 2025        | 2026         | 2027         | 2028         | 2029         |
|  | (Billions of Kuwaiti dinars) |             |             |             |             |             |             |              |              |              |              |
| <b>Net foreign assets</b>                              | <b>19.2</b>                  | <b>21.6</b> | <b>18.9</b> | <b>23.5</b> | <b>25.2</b> | <b>28.6</b> | <b>31.7</b> | <b>34.3</b>  | <b>36.8</b>  | <b>39.2</b>  | <b>41.6</b>  |
| Central bank   | 11.3                         | 13.8        | 12.0        | 13.2        | 13.0        | 12.6        | 13.5        | 14.5         | 15.6         | 16.9         | 18.2         |
| Assets   | 11.4                         | 13.9        | 12.1        | 13.2        | 13.1        | 12.7        | 13.6        | 14.6         | 15.7         | 17.0         | 18.3         |
| Liabilities  | 0.1                          | 0.1         | 0.0         | 0.0         | 0.0         | 0.1         | 0.1         | 0.1          | 0.1          | 0.1          | 0.2          |
| Commercial banks                                       | 8.0                          | 7.8         | 6.9         | 10.4        | 12.2        | 16.0        | 18.2        | 19.9         | 21.2         | 22.3         | 23.5         |
| Assets   | 16.7                         | 16.4        | 17.9        | 22.7        | 24.9        | 28.1        | 30.5        | 32.6         | 34.5         | 36.4         | 38.2         |
| Liabilities  | 8.7                          | 8.6         | 11.0        | 12.4        | 12.7        | 12.2        | 12.3        | 12.8         | 13.4         | 14.0         | 14.8         |
| <b>Domestic assets</b>                                 | <b>54.6</b>                  | <b>57.0</b> | <b>59.3</b> | <b>62.0</b> | <b>63.0</b> | <b>63.5</b> | <b>66.0</b> | <b>69.2</b>  | <b>72.9</b>  | <b>77.0</b>  | <b>81.4</b>  |
| Central bank   | 0.2                          | 0.1         | 0.1         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2          | 0.2          | 0.2          | 0.2          |
| Claims on government                                   | 0.0                          | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          |
| Claims on other sectors                                | 0.2                          | 0.1         | 0.1         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2          | 0.2          | 0.2          | 0.2          |
| Commercial banks                                       | 54.3                         | 56.9        | 59.1        | 61.7        | 62.8        | 63.3        | 65.9        | 69.0         | 72.7         | 76.9         | 81.2         |
| Claims on nonfinancial private sector                  | 40.4                         | 38.8        | 40.9        | 44.1        | 45.2        | 46.8        | 49.0        | 51.5         | 54.2         | 57.1         | 60.2         |
| Claims on government                                   | 2.4                          | 1.4         | 1.1         | 0.5         | 0.4         | 0.3         | 0.3         | 0.4          | 0.4          | 0.4          | 0.4          |
| Claims on other sectors                                | 11.6                         | 16.7        | 17.2        | 17.1        | 17.2        | 16.2        | 16.5        | 17.2         | 18.2         | 19.4         | 20.6         |
| <b>Domestic liabilities</b>                            | <b>73.8</b>                  | <b>78.6</b> | <b>78.2</b> | <b>85.6</b> | <b>88.3</b> | <b>92.1</b> | <b>97.7</b> | <b>103.5</b> | <b>109.7</b> | <b>116.2</b> | <b>123.0</b> |
| Central bank   | 11.5                         | 13.9        | 12.2        | 13.5        | 13.3        | 12.8        | 13.7        | 14.7         | 15.8         | 17.1         | 18.4         |
| Monetary base  | 5.3                          | 7.7         | 6.3         | 5.8         | 6.1         | 6.0         | 6.6         | 7.2          | 7.9          | 8.7          | 9.6          |
| Other  | 6.2                          | 6.2         | 5.8         | 7.7         | 7.2         | 6.9         | 7.1         | 7.5          | 7.9          | 8.3          | 8.8          |
| Commercial banks                                       | 62.3                         | 64.7        | 66.0        | 72.1        | 75.0        | 79.3        | 84.0        | 88.9         | 93.9         | 99.2         | 104.7        |
| Private sector sight deposits                          | 8.6                          | 10.1        | 10.4        | 9.9         | 9.1         | 8.5         | 8.5         | 8.7          | 9.1          | 9.5          | 10.0         |
| Other  | 53.7                         | 54.6        | 55.6        | 62.1        | 65.9        | 70.8        | 75.5        | 80.1         | 84.8         | 89.6         | 94.7         |
| <i>Memorandum items</i>                                |                              |             |             |             |             |             |             |              |              |              |              |
| Credit to nonfinancial private sector (percent change) | 4.3                          | -4.3        | 5.4         | 8.6         | 1.8         | 3.9         | 4.7         | 5.1          | 5.3          | 5.4          | 5.4          |
| Broad money: M2 (percent change)                       | -1.5                         | -7.3        | 3.8         | 6.5         | 1.0         | 2.7         | 4.6         | 5.1          | 5.4          | 5.6          | 5.6          |
| Narrow money: M1 (percent change)                      | 0.3                          | 18.5        | 2.3         | -4.6        | -7.8        | -5.3        | 1.6         | 3.7          | 5.1          | 5.9          | 6.0          |
| Policy rate (percent) 2/                               | 3.0                          | 1.8         | 1.5         | 2.3         | 4.1         | ...         | ...         | ...          | ...          | ...          | ...          |
| Bank deposit rate: 1 year (percent) 2/                 | 3.1                          | 1.7         | 1.3         | 2.7         | 4.4         | ...         | ...         | ...          | ...          | ...          | ...          |
| Bank lending rate: 1 year (percent) 2/                 | 6.0                          | 4.3         | 3.7         | 5.0         | 6.9         | ...         | ...         | ...          | ...          | ...          | ...          |

Sources: Kuwaiti authorities; IMF staff estimates.

1/ End of period values.

2/ Period average values.

**Table 5. Kuwait: Financial Soundness Indicators for the Banking System, 2013-2023 1/**

|  | 2013      | 2014 | 2015  | 2016 | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|--|-----------|------|-------|------|-------|-------|-------|-------|-------|-------|-------|
|  | (Percent) |      |       |      |       |       |       |       |       |       |       |
| <b>Capital adequacy</b>                                      |           |      |       |      |       |       |       |       |       |       |       |
| Common equity Tier 1 capital to risk-weighted assets         | ...       | ...  | ...   | ...  | 15.3  | 15.2  | 14.0  | 14.6  | 14.7  | 14.6  | 15.4  |
| Non-performing loans net of provisions to capital            | 12.6      | 10.4 | 8.7   | 7.4  | 6.4   | 5.6   | 6.6   | 6.6   | 4.4   | 4.2   | 4.1   |
| Regulatory capital to risk-weighted assets                   | 18.9      | 16.9 | 17.5  | 18.6 | 18.4  | 18.3  | 17.2  | 19.0  | 19.2  | 19.2  | 19.9  |
| Regulatory Tier 1 capital to risk-weighted assets            | 17.1      | 15.6 | 16.1  | 16.7 | 16.5  | 16.5  | 15.4  | 16.6  | 17.1  | 17.0  | 17.6  |
| Tier 1 capital to assets                                     | 11.1      | 10.3 | 10.8  | 11.5 | 11.4  | 11.6  | 11.2  | 11.8  | 12.2  | 12.7  | 12.1  |
| <b>Liquidity</b>   |           |      |       |      |       |       |       |       |       |       |       |
| Liquid assets to short term liabilities                      | 30.3      | 32.7 | 31.7  | 31.4 | 30.9  | 30.7  | 28.1  | 27.5  | 27.0  | 24.8  | 24.2  |
| Liquid assets to total assets                                | 22.5      | 24.7 | 24.3  | 24.1 | 23.7  | 23.6  | 21.7  | 21.3  | 20.8  | 19.0  | 17.3  |
| Liquidity coverage ratio                                     | ...       | ...  | ...   | ...  | 196.1 | 179.9 | 193.8 | 184.2 | 182.8 | 180.9 | 169.3 |
| Net stable funding ratio                                     | ...       | ...  | ...   | ...  | ...   | 114.2 | 113.0 | 115.2 | 110.9 | 114.0 | 113.3 |
| <b>Earnings and profitability</b>                            |           |      |       |      |       |       |       |       |       |       |       |
| Interest margin to gross income                              | 60.3      | 60.4 | 61.0  | 69.3 | 69.3  | 72.0  | 68.2  | 71.9  | 67.8  | 70.4  | 68.1  |
| Non-interest expenses to gross income                        | 45.0      | 42.9 | 40.7  | 41.1 | 38.8  | 37.0  | 39.5  | 39.7  | 40.8  | 40.3  | 41.0  |
| Return on assets   | 1.1       | 1.2  | 1.2   | 1.2  | 1.3   | 1.4   | 1.2   | 0.7   | 1.2   | 1.7   | 1.8   |
| Return on equity   | 8.1       | 9.8  | 9.9   | 9.3  | 10.3  | 11.6  | 9.9   | 5.7   | 10.2  | 13.7  | 13.5  |
| <b>Asset quality</b>   |           |      |       |      |       |       |       |       |       |       |       |
| Non-performing loans to total gross loans                    | 3.6       | 2.9  | 2.4   | 2.2  | 1.9   | 1.6   | 1.8   | 2.0   | 1.4   | 1.4   | 1.4   |
| Provisions to non-performing loans                           | 31.7      | 35.2 | 32.7  | 32.9 | 33.3  | 29.8  | 22.8  | 30.1  | 32.2  | 51.1  | 52.0  |
| <b>Memorandum items</b>                                      |           |      |       |      |       |       |       |       |       |       |       |
| Customer deposits to total loans                             | 100.5     | 96.5 | 92.3  | 91.8 | 93.9  | 91.7  | 94.6  | 99.3  | 96.4  | 92.9  | 95.0  |
| Foreign currency denominated loans to total loans            | 28.2      | 26.0 | 30.5  | 29.1 | 30.6  | 30.1  | 32.5  | 31.7  | 32.5  | 35.7  | 35.8  |
| Gross asset position in financial derivatives to capital     | 59.3      | 71.4 | 76.2  | 87.1 | 89.5  | 92.5  | 114.7 | 104.7 | 112.2 | 139.7 | 135.2 |
| Gross liability position in financial derivatives to capital | 59.1      | 71.4 | 76.2  | 87.0 | 89.5  | 92.5  | 114.6 | 111.6 | 112.1 | 139.8 | 135.2 |
| Large exposures to capital                                   | 87.2      | 97.1 | 101.1 | 94.7 | 105.5 | 104.6 | 106.1 | 98.5  | 83.2  | 79.3  | 79.8  |
| Personnel expenses to non-interest expenses                  | 41.7      | 47.3 | 49.3  | 53.4 | 56.0  | 54.4  | 54.3  | 53.3  | 54.4  | 53.1  | 50.7  |
| Trading income to total income                               | 12.5      | 16.0 | 15.5  | 9.4  | 8.4   | 6.5   | 11.4  | 7.0   | 11.8  | 9.2   | 12.2  |

Sources: Kuwaiti authorities.

1/ Consolidated basis.

## Annex I. Implementation of 2023 Article IV Recommendations

| Recommendation  | Status  |
|---|---|
| <b>Fiscal Policy</b>  |   |
| Undertake medium-term fiscal consolidation through current expenditure rationalization focused on the public sector wage bill and energy subsidies, together with non-oil revenue mobilization by expanding the CIT to cover all domestic companies while introducing a VAT and excise tax. | <i>Not implemented.</i> Legislation articulating all of these fiscal reforms other than the VAT introduction was drafted and submitted to Parliament, but has not been enacted.   |
| Introduce a Medium-Term Fiscal Framework including a Fiscal Rules Framework, underpinned by a Medium-Term Macroeconomic Framework.  | <i>Not implemented.</i> The MOF requested IMF CD support to develop a Medium-Term Fiscal Framework underpinned by a Medium-Term Macroeconomic Framework.  |
| Enact the new Public Debt Law to support orderly fiscal financing.  | <i>Not implemented.</i> The renamed Financing and Liquidity Law has not been enacted.   |
| Enhance fiscal transparency by resuming monthly fiscal data reporting and publishing the KIA's balance sheet.   | <i>Partially implemented.</i> The MOF resumed monthly fiscal data reporting, but has not published the KIA's balance sheet, which would require a constitutional amendment.   |
| <b>Monetary and Financial Sector Policies</b>   |   |
| Replace the unlimited guarantee on bank deposits with a limited deposit insurance framework.  | <i>Not implemented.</i> Legislation to replace the unlimited deposit guarantee has not been enacted.  |
| Remove the bank lending rate caps.  | <i>Not implemented.</i> The CBK has not removed the bank lending rate caps.   |
| Deepen the interbank and domestic sovereign debt markets.   | <i>Not implemented.</i> Sovereign debt issuance would require enacting the Financing and Liquidity Law.   |
| <b>Structural Reforms</b>   |   |
| Implement a structural reform package to boost labor productivity and non-oil private sector-led growth.  | <i>Partially implemented.</i> Legislation articulating many of the recommended structural reforms was drafted and submitted to Parliament but has not been enacted, except for the amendment to the Commercial Law permitting full foreign ownership of local branches. |

## Annex II. External Sector Assessment

**Overall Assessment:** The external position was substantially weaker than the level implied by medium-term fundamentals and desirable policies in 2023. While Kuwait's external position remains strong thanks to high oil export revenues that have generated large current account surpluses and a high net foreign asset position, it should be even stronger to ensure long-term external sustainability.

**Potential Policy Responses:** To strengthen the external balance to a level consistent with economic fundamentals and desirable policies, Kuwait should undertake gradual fiscal consolidation over the medium term to reinforce intergenerational equity, alongside structural reforms to enhance competitiveness and diversify the economy away from oil. The exchange rate peg to an undisclosed basket of currencies remains an appropriate nominal anchor for monetary policy, as it continues to support low and stable inflation.

### Foreign Assets and Liabilities: Position and Trajectory<sup>1</sup>

**Background.** The net foreign asset position excluding gold stood at US\$1,132.6 billion (691.8 percent of GDP) at end-2023, up from US\$992.0 billion (539.2 percent of GDP) at end-2022. Total foreign assets excluding gold amounted to US\$1,231.4 billion (752.1 percent of GDP) at end-2023, up from US\$1,090.5 billion (592.7 percent of GDP) at end-2022, mainly reflecting higher portfolio equity assets. Total foreign liabilities amounted to US\$98.7 billion (60.3 percent of GDP) at end-2023, up from US\$98.5 billion (53.6 percent of GDP) at end-2022.

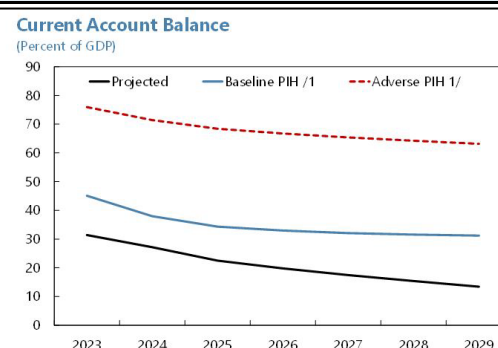
**Assessment.** The net foreign asset position is high, and is projected to steadily increase over the medium term. This strong outlook reflects projected double-digit current account surpluses as a share of GDP over the medium term, given high oil export revenues and investment income receipts.

|              |             |                        |                       |                      |                  |
|--------------|-------------|------------------------|-----------------------|----------------------|------------------|
| 2023 (% GDP) | NIIP: 691.8 | Gross Assets:<br>752.1 | Debt Assets:<br>295.9 | Gross Liab.:<br>60.3 | Debt Liab.: 43.3 |
|--------------|-------------|------------------------|-----------------------|----------------------|------------------|

### Current Account

**Background.** The current account surplus moderated to 31.4 percent of GDP in 2023, down from 34.3 percent of GDP in 2022. This primarily reflected lower oil export revenues, which fell to 47.7 percent of GDP in 2023 from 51.1 percent of GDP in 2022, given lower oil prices and an OPEC+ production cut.

**Assessment.** The current account surplus was substantially lower than the level implied by medium-term fundamentals and desirable policies in 2023, in part due to inadequate public saving of oil export revenues. The EBA-lite current account approach estimates an adjusted current account balance of 31.2 percent of GDP in 2023, versus a current account norm of 46.3 percent of GDP. This implies a current account gap of -15.0 percent of GDP—of which the relative policy gap accounts for -3.5 percent of GDP given the undesirably low fiscal balance—and a real effective exchange rate gap of 44.0 percent. The consumption-based external sustainability approach for oil exporters estimates a current account norm of 45.1 percent of GDP in 2023, to support intergenerational



1/ The baseline/adverse PIH estimates assume a long run growth rate of oil prices of 1.0/0.0 percent, return on net government assets of 4.5/3.5 percent, and growth rate of the Kuwaiti population of 1.0/2.0 percent.



equity by saving adequately to maintain a constant real per capita annuity. This implies a current account gap of -13.9 percent of GDP, and a real effective exchange rate gap of 40.6 percent. However, the estimated current account norm under the PIH is subject to high uncertainty associated with the values of key parameters, in particular the long run growth rate of oil prices, return on net government assets and growth rate of the Kuwaiti population.

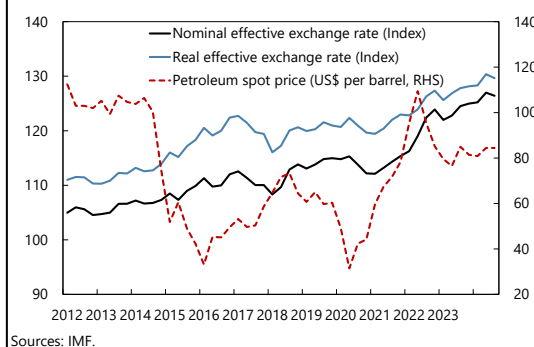
| EBA-Lite Model Results, 2023  |                  |               |              |
|---|------------------|---------------|--------------|
|   | CA model 1/      | REER model 1/ | ES model 2/  |
|   | (Percent of GDP) |               |              |
| <b>CA-Actual</b>  | <b>31.4</b>      |               | <b>31.4</b>  |
| Cyclical contributions (from model) (-)   | 0.2              |               | 0.2          |
| Natural disasters and conflicts (-)   | -0.1             |               | -0.1         |
| <b>Adjusted CA</b>  | <b>31.2</b>      |               | <b>31.2</b>  |
| <b>CA Norm</b> (from model) 3/ 4/   | <b>46.3</b>      |               | <b>45.1</b>  |
| <b>CA Gap</b>   | <b>-15.0</b>     | <b>-9.8</b>   | <b>-13.9</b> |
| o/w Relative policy gap   | -3.5             |               |              |
| Elasticity  | -0.3             |               | -0.3         |
| <b>REER Gap</b> (Percent)   | <b>44.0</b>      | <b>28.7</b>   | <b>40.6</b>  |
| 1/ Based on the EBA-lite 3.0 methodology.   |                  |               |              |
| 2/ Consumption-based external sustainability approach for 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 2023, it appreciated by 2.6 percent in nominal effective terms, and by 1.6 percent in real effective terms.

**Assessment.** The EBA-lite real exchange rate approach estimates a real effective exchange rate gap of 28.7 percent in 2023, which implies a current account gap of -9.8 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 export revenues abroad. The financial account surplus moderated to 30.9 percent of GDP in 2023, down from 34.9 percent of GDP in 2022.

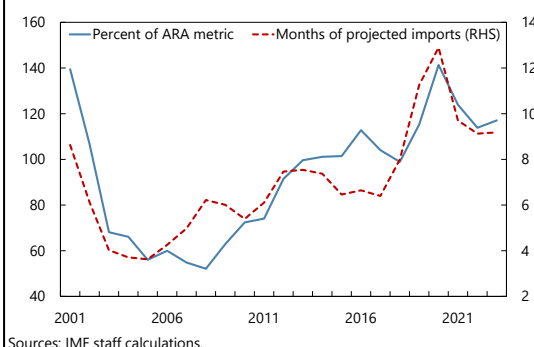
**Assessment.** Capital flow analysis is hampered by stock-flow inconsistencies between the BOP and official IIP data, as the latter has limited coverage and excludes foreign assets held by the KIA. The strong external position limits the risk of a capital outflow surge and vulnerabilities to it.

## FX Intervention and Reserves Level

**Background.** Official reserve assets stood at US\$47.6 billion (9.2 months of projected imports, 117.1 percent of ARA metric) at end-2023, down from US\$48.2 billion (9.1 months of projected imports, 113.8 percent of ARA metric) at end-2022. Sovereign wealth fund assets under management by the KIA on behalf of the government amounted to US\$801 billion (489 percent of GDP) at end-2023, up from US\$769 billion (418 percent of GDP) at end-2022.<sup>2</sup>

**Assessment.** Official reserve assets are sufficient to cover prospective BOP financing needs—lying within the adequate range of 100-150 percent of the ARA metric—and are projected to remain so over the medium-term. They are complemented by substantial foreign assets held by the KIA.

Official Reserve Assets



<sup>1</sup> The data source is the October 30, 2024 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).

<sup>2</sup> The data source is the Global SWF Annual Reports.

## Annex III. Risk Assessment Matrix<sup>1</sup>

| Risk and Likelihood  | Economic Impact  | Policy Responses  |
|--|--|---|
| <b>Global Risks</b>  |  |   |
| <b>High</b>  | <b>High</b>  |   |
| <b>Commodity price volatility.</b><br>Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.  | Higher/lower oil prices would strengthen/weaken the fiscal and external balances while raising/reducing growth.<br>Higher/lower domestic capacity pressures and imported food prices would raise/reduce inflation. | Fiscal consolidation/stimulus should stabilize non-oil growth and inflation, reinforced by monetary tightening/easing within autonomy limits. Fiscal and structural reforms that diversify the economy away from oil would enhance resilience to this risk. |
| <b>Medium</b>  | <b>High</b>  |   |
| <b>Global growth slowdown.</b><br>Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. | Lower global oil demand would reduce oil prices, triggering OPEC+ production cuts. This would weaken the fiscal and external balances while reducing growth.   | Fiscal stimulus should support non-oil growth, reinforced by monetary easing within autonomy limits. Fiscal and structural reforms that diversify the economy away from oil would enhance resilience to this risk.  |
| <b>Low</b>   | <b>Medium</b>  |   |
| <b>Global growth acceleration.</b><br>Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.   | Higher global oil demand would raise oil prices, triggering OPEC+ production hikes. This would strengthen the fiscal and external balances while raising growth.   | Fiscal consolidation should stabilize non-oil growth, reinforced by monetary tightening within autonomy limits. Fiscal and structural reforms that diversify the economy away from oil would enhance resilience to this risk.                               |

<sup>1</sup> 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  | Low   |   |
| <b>Intensification of regional conflicts.</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. | Higher oil prices would strengthen the fiscal and external balances while raising growth. Higher domestic capacity pressures and imported food prices would raise inflation.  | Fiscal consolidation should stabilize non-oil growth and inflation, reinforced by monetary tightening within autonomy limits. Fiscal and structural reforms that diversify the economy away from oil would enhance resilience to this risk. |
| Domestic Risks  |   |   |
| Medium  | High  |   |
| <b>Delayed fiscal and structural reforms.</b> Fiscal and structural reforms to diversify the economy away from oil are further delayed, or their scope and effectiveness is diminished.   | Further delays in these fiscal and structural reforms would hinder economic diversification, increase the risk of procyclical fiscal policy, and undermine investor confidence. This would raise vulnerabilities to global risks and stifle private investment. | The government should clearly explain the benefits of the reforms to the public to build support for them, while improving governance.  |
| Medium  | High  |   |
| <b>Accelerated fiscal and structural reforms.</b> The government expeditiously implements fiscal and structural reforms to diversify the economy away from oil while Parliament remains dissolved.  | The accelerated implementation of these fiscal and structural reforms would promote economic diversification and boost investor confidence. This would enhance resilience to global risks and promote private investment.                                       | The government should strengthen the social safety net to support adversely impacted groups.  |

## Annex IV. Fiscal and Debt Sustainability Assessment

**Figure 1. Kuwait: Risk of Sovereign Stress**

| Horizon   | Mechanical signal                       | Final assessment                        | Comments  |
|---|---|---|---|
| <b>Overall</b>  | ...                                     | <b>Low</b>                              | The overall risk of sovereign stress is low, given low public debt vulnerabilities over the medium and long-term horizons.                                  |
| <b>Medium term</b>  | <b>Low</b>                              | <b>Low</b>                              | Medium-term risks are low consistent with the mechanical signal, given the very low level of public debt and large SWF assets.                              |
| Fanchart  | <b>High</b>                             | <b>Low</b>                              |   |
| GFN   | <b>Low</b>                              | <b>Low</b>                              |   |
| Stress test   | ...                                     | ...                                     |   |
| <b>Long term</b>  | ...                                     | <b>Low</b>                              | Long-term risks are low despite rising aging-related health and social security expenditures, given the very low level of public debt and large SWF assets. |
| <b>Sustainability assessment 1/</b>   | Not required for surveillance countries | Not required for surveillance countries |   |
| <b>Debt stabilization in the baseline</b>   |   |   | No  |
| <b>DSA Summary Assessment</b>   |   |   |   |
| <p>Commentary: The overall risk of sovereign stress is low, given low public debt vulnerabilities at all horizons. Under the baseline, government debt is projected to gradually rise from an insignificant 3.2 percent of GDP at end-2023 to 25.0 percent of GDP at end-2029, driven by a policy objective to develop the sovereign debt market after the Financing and Liquidity Law gets enacted. The government has large buffers that can support fiscal financing, in particular SWF assets worth an estimated 489 percent of GDP at end-2023.</p>  |   |   |   |
| <p>Source: IMF staff.</p> <p>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.</p> <p>1/ 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.</p> |   |   |   |

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:  |      |              |                  |                     |                                     |                         |                      |           |     |
| Subsectors captured in the baseline  |      |              |                  |                     |                                     |                         |                      | Inclusion |     |
| CPS  | NFPs | GG: expected | CG               | 1                   | Budgetary central government        |                         |                      |           | Yes |
|  |      |              |                  | 2                   | Extra budgetary funds (EBFs)        |                         |                      |           | Yes |
|  |      |              |                  | 3                   | Social security funds (SSFs)        |                         |                      |           | Yes |
|  |      |              |                  | 4                   | State governments                   |                         |                      |           | Yes |
|  |      |              |                  | 5                   | Local governments                   |                         |                      |           | Yes |
|  |      |              |                  | 6                   | Public nonfinancial corporations    |                         |                      |           | No  |
|  |      |              |                  | 7                   | Central bank                        |                         |                      |           | Yes |
|  |      |              |                  | 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: <span style="color: green;">■</span> chosen coverage <span style="color: red;">■</span> Missing from recommended coverage <span style="color: gray;">■</span> Not applicable |      |              |                  |                     |                                     |                         |                      |           |     |

## Reporting on Intra-Government Debt Holdings

|        |      |              |    | Holder | Budget. central govt  | Extra-budget. funds | Social security funds | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|--------|------|--------------|----|--------|-----------------------|---------------------|-----------------------|-------------|-------------|--------------------|--------------|--------------------|-------|
| Issuer |      |              |    |        |                       |                     |                       |             |             |                    |              |                    |       |
| CPS    | NFPs | GG: expected | CG | 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     |

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.

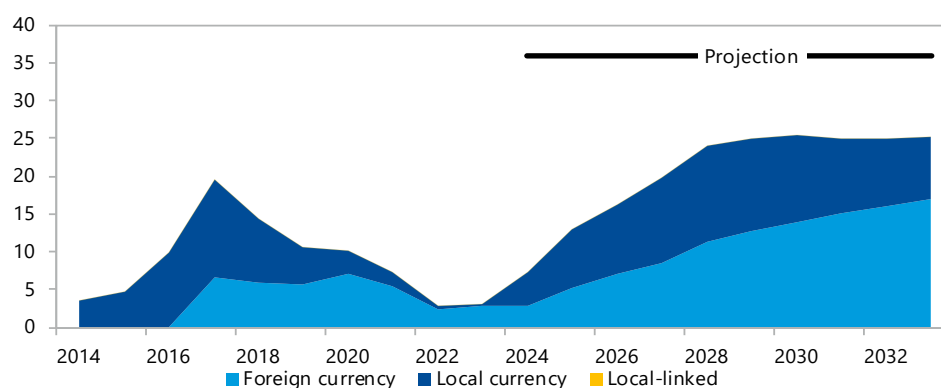
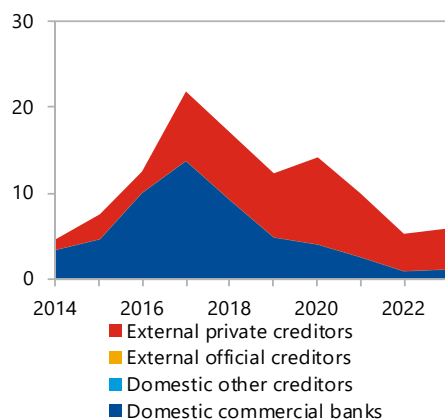
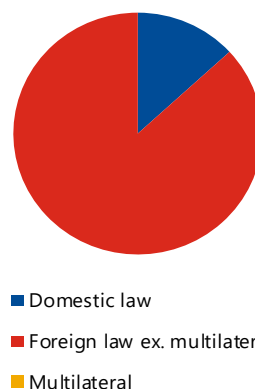
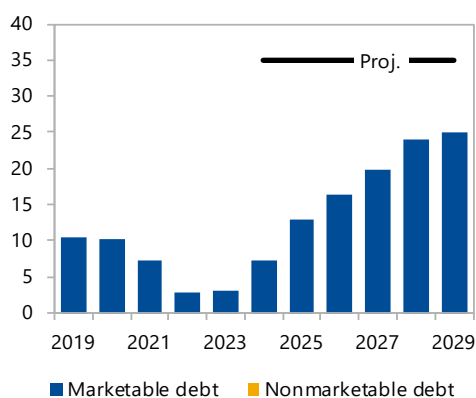
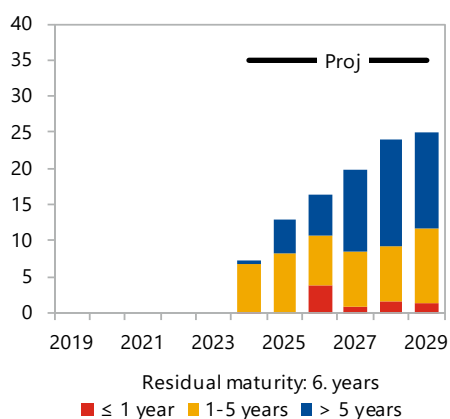
4/ Includes accrual recording, commitment basis, due for payment, etc.

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 DSA covers the general government, which includes extra budgetary funds and social security funds. There are no state or local governments in Kuwait. Fiscal data for the broader public sector is currently unavailable. Staff is working with the authorities on expanding the coverage of the fiscal data to encompass the broader public sector.

**Figure 3. Kuwait: Public Debt Structure Indicators****Debt by Currency (Percent of GDP)****Public Debt by Holder (Percent of GDP)****Public Debt by Governing Law, 2023 (percent)****Debt by Instruments (Percent of GDP)****Public Debt by Maturity (Percent of GDP)**

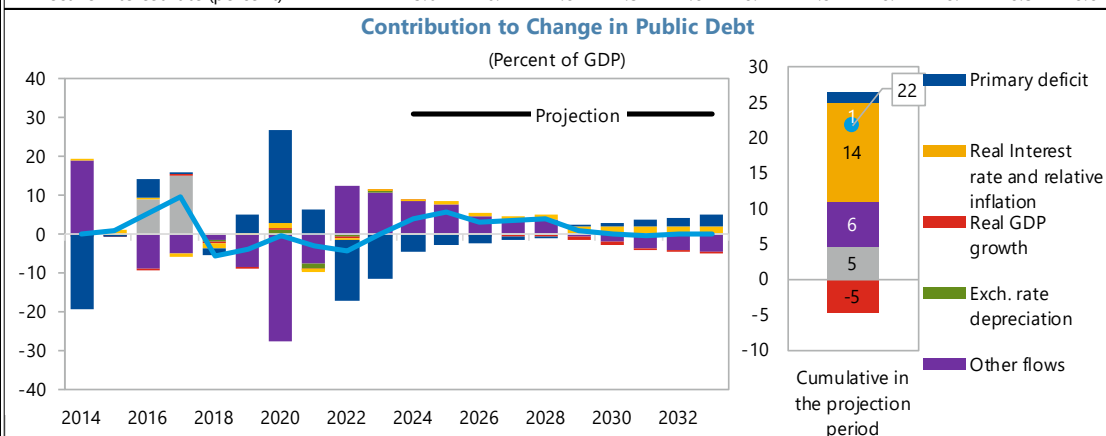
Note: The perimeter shown is general government.

Note: The perimeter shown is general government.

Commentary: All indicators are reported on a calendar year basis.

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

|  | Actual | Medium-term projection |       |       |       |       |       |  | Extended projection |       |       |       |
|--|--------|------------------------|-------|-------|-------|-------|-------|--|---------------------|-------|-------|-------|
|  | 2023   | 2024                   | 2025  | 2026  | 2027  | 2028  | 2029  |  | 2030                | 2031  | 2032  | 2033  |
| Public debt                            | 3.2    | 7.3                    | 12.9  | 16.3  | 19.8  | 24.0  | 25.0  |  | 25.3                | 24.9  | 25.0  | 25.3  |
| Change in public debt                  | 0.2    | 4.1                    | 5.7   | 3.4   | 3.5   | 4.2   | 1.0   |  | 0.3                 | -0.4  | 0.1   | 0.3   |
| Contribution of identified flows       | 0.2    | 3.8                    | 5.2   | 3.0   | 2.9   | 3.8   | 0.6   |  | 0.0                 | -0.8  | -0.4  | -0.2  |
| Primary deficit                        | -11.3  | -4.6                   | -2.6  | -1.8  | -1.1  | -0.3  | 0.3   |  | 0.9                 | 1.6   | 2.3   | 3.0   |
| Noninterest revenues                   | 59.9   | 55.2                   | 52.6  | 51.2  | 50.2  | 49.3  | 48.6  |  | 47.9                | 47.2  | 46.5  | 45.8  |
| Noninterest expenditures               | 48.6   | 50.6                   | 50.0  | 49.4  | 49.1  | 49.0  | 48.9  |  | 48.8                | 48.8  | 48.8  | 48.8  |
| Automatic debt dynamics                | 0.5    | 0.2                    | 0.5   | 0.5   | 0.7   | 0.9   | 0.9   |  | 1.0                 | 1.1   | 1.1   | 1.1   |
| Real interest rate and relative inflat | 0.1    | 0.1                    | 0.7   | 0.8   | 1.1   | 1.3   | 1.5   |  | 1.6                 | 1.6   | 1.7   | 1.7   |
| Real interest rate                     | 0.3    | 0.2                    | 0.8   | 0.9   | 1.1   | 1.4   | 1.6   |  | 1.7                 | 1.7   | 1.8   | 1.8   |
| Relative inflation                     | -0.3   | -0.1                   | -0.1  | -0.1  | -0.1  | -0.1  | -0.1  |  | -0.1                | -0.1  | -0.1  | -0.1  |
| Real growth rate                       | 0.1    | 0.1                    | -0.2  | -0.3  | -0.4  | -0.5  | -0.6  |  | -0.6                | -0.6  | -0.6  | -0.6  |
| Real exchange rate                     | 0.3    | ...                    | ...   | ...   | ...   | ...   | ...   |  | ...                 | ...   | ...   | ...   |
| Other identified flows                 | 11.0   | 8.2                    | 7.4   | 4.3   | 3.3   | 3.2   | -0.7  |  | -2.0                | -3.5  | -3.8  | -4.3  |
| Contingent liabilities                 | 0.0    | 0.0                    | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |  | 0.0                 | 0.0   | 0.0   | 0.0   |
| (minus) Interest Revenues              | -18.7  | -20.2                  | -21.4 | -22.0 | -22.4 | -22.7 | -22.9 |  | -22.9               | -23.0 | -23.0 | -22.9 |
| Other transactions                     | 29.7   | 28.4                   | 28.8  | 26.3  | 25.7  | 25.9  | 22.2  |  | 21.0                | 19.5  | 19.2  | 18.6  |
| Contribution of residual               | 0.0    | 0.3                    | 0.4   | 0.3   | 0.5   | 0.5   | 0.4   |  | 0.4                 | 0.4   | 0.5   | 0.5   |
| Gross financing needs                  | -29.7  | -24.1                  | -22.6 | -21.6 | -16.6 | -17.9 | -15.8 |  | -14.8               | -12.9 | -12.1 | -11.0 |
| of which: debt service                 | 0.2    | 0.7                    | 1.4   | 2.2   | 6.9   | 5.1   | 6.8   |  | 7.2                 | 8.5   | 8.6   | 9.0   |
| Local currency                         | 0.2    | 0.6                    | 1.1   | 1.4   | 3.0   | 3.2   | 4.4   |  | 4.5                 | 5.4   | 5.3   | 5.3   |
| Foreign currency                       | 0.1    | 0.1                    | 0.3   | 0.7   | 3.9   | 1.9   | 2.4   |  | 2.7                 | 3.0   | 3.3   | 3.7   |
| Memo:                                  |        |                        |       |       |       |       |       |  |                     |       |       |       |
| Real GDP growth (percent)              | -3.6   | -2.8                   | 2.6   | 2.2   | 2.3   | 2.3   | 2.4   |  | 2.4                 | 2.4   | 2.4   | 2.4   |
| Inflation (GDP deflator; percent)      | -7.4   | -0.3                   | -2.9  | 0.1   | 0.5   | 0.9   | 1.1   |  | 1.1                 | 1.1   | 1.1   | 1.2   |
| Nominal GDP growth (percent)           | -10.7  | -3.1                   | -0.3  | 2.2   | 2.8   | 3.2   | 3.5   |  | 3.5                 | 3.5   | 3.5   | 3.6   |
| Effective interest rate (percent)      | 3.0    | 6.4                    | 7.8   | 7.3   | 7.8   | 8.2   | 7.9   |  | 8.1                 | 8.2   | 8.5   | 8.8   |



Commentary: All indicators are reported on a calendar year basis. Other flows include government transfers to and from SWFs.

Figure 5. Kuwait: Medium-Term Risk

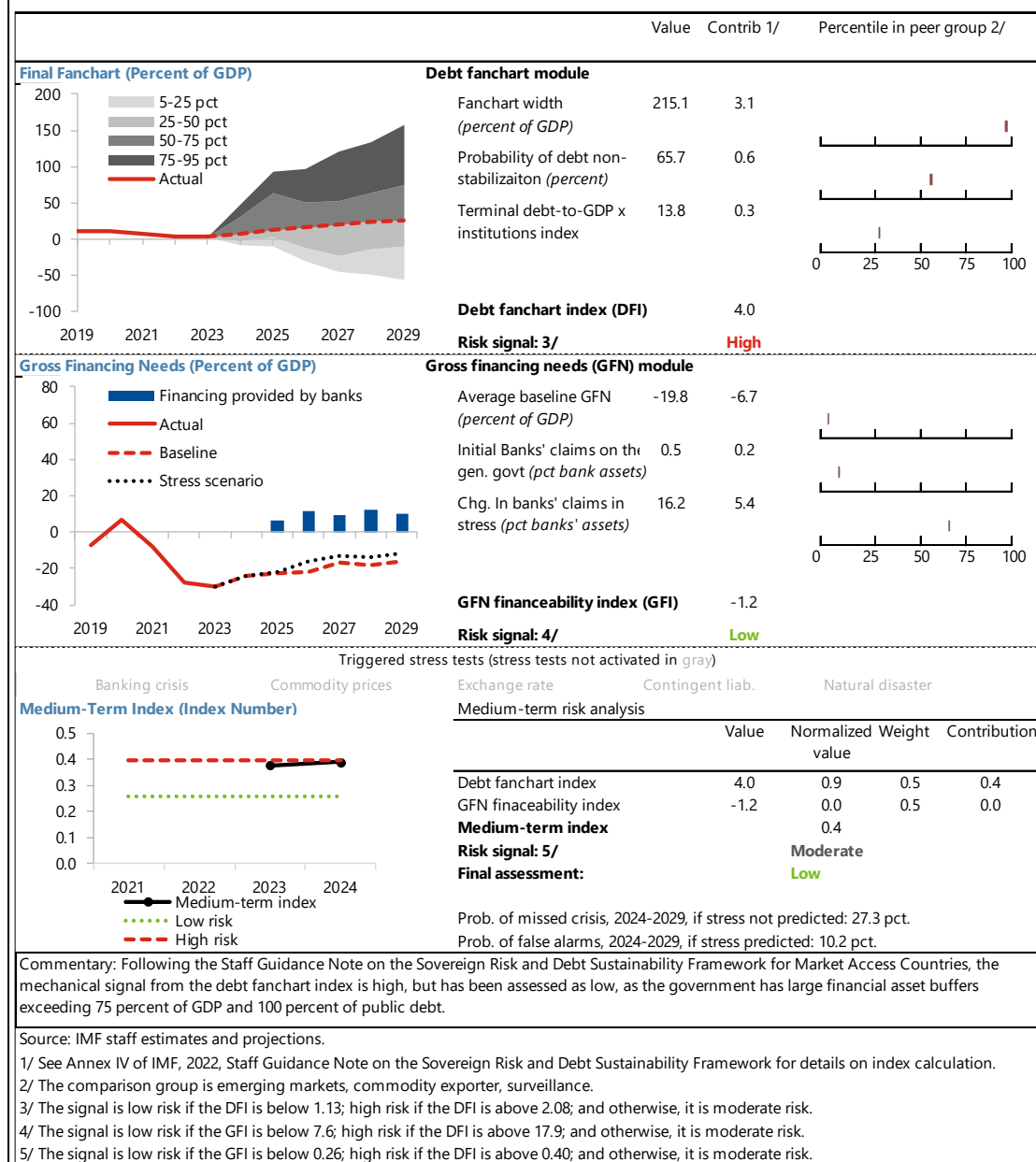
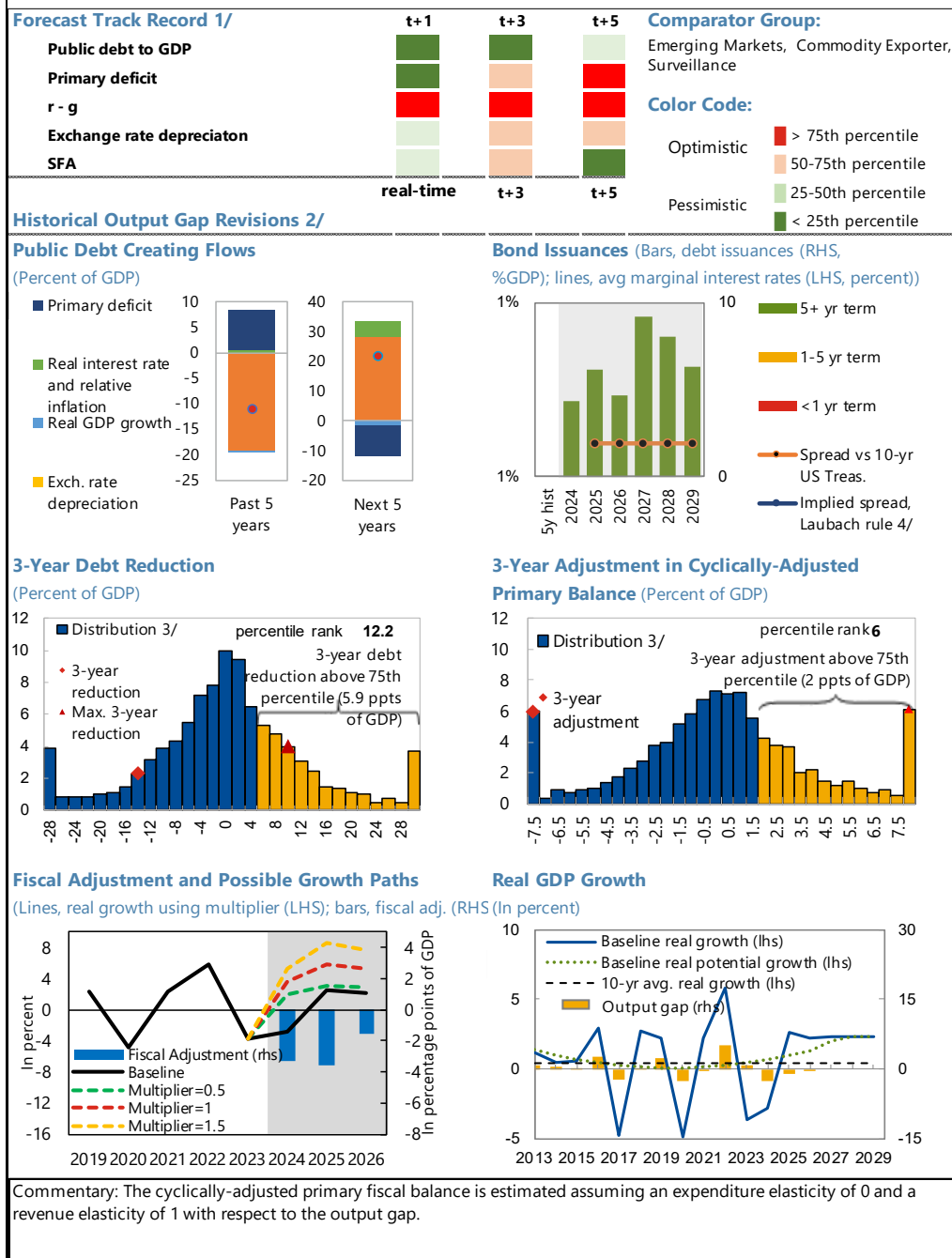


Figure 6. Kuwait: Realism of Baseline Assumptions



Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).











3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

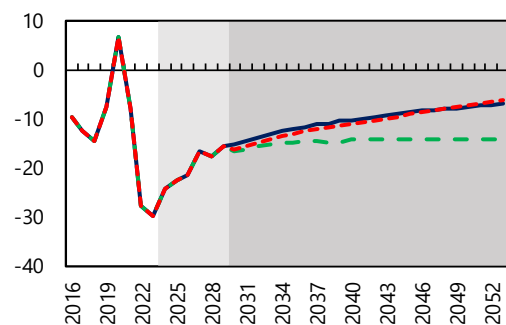
Figure 7. Kuwait: Triggered Modules






|                     |          |                            |                   |
|---------------------|----------|----------------------------|-------------------|
| Large amortizations | Pensions | Climate change: Adaptation | Natural Resources |
|                     | Health   | Climate change: Mitigation |                   |

Figure 8. Kuwait: Long-Term Risk Assessment: Large Amortization

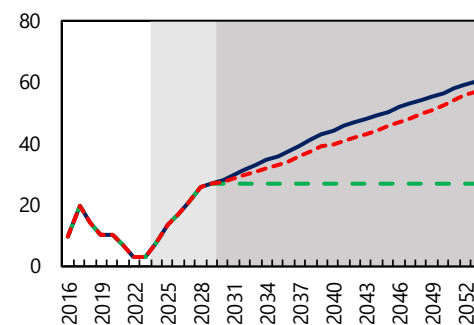
| Projection  | Variable                  | Risk Indication   |
|---|---------------------------|---|
| Medium-term extrapolation                                       | GFN-to-GDP ratio          |  |
|   | Amortization-to-GDP ratio |  |
|   | Amortization              |  |
| Medium-term extrapolation with debt stabilizing primary balance | 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



 Long run projection  
 Projection  
 Baseline with t+5  
 Baseline with t+5 and DSPB  
 Historical 10-year average

Total Public Debt-to-GDP Ratio

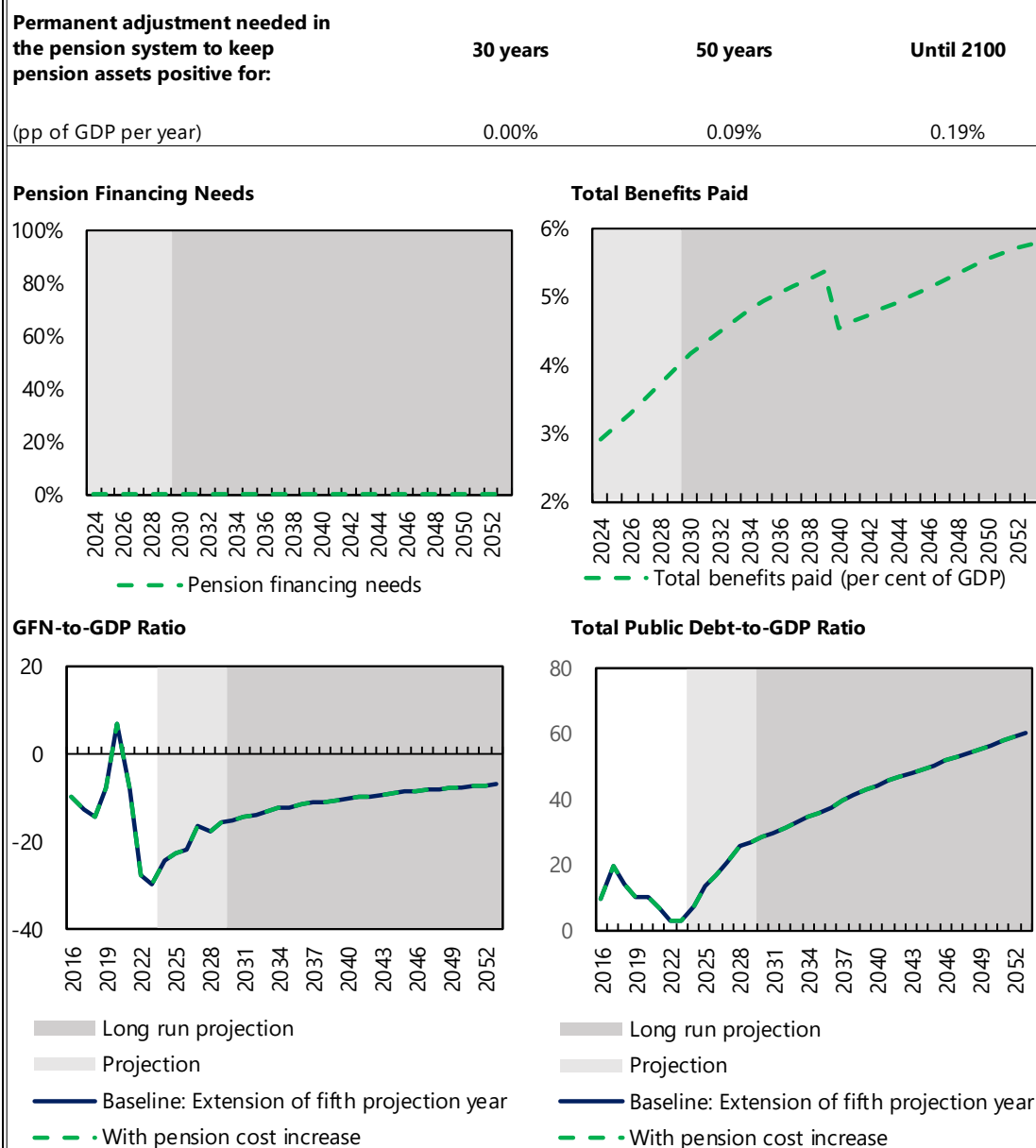


 Long run projection  
 Projection  
 Baseline with t+5  
 Baseline with t+5 and DSPB  
 Historical 10-year average

Commentary: The government has large buffers that can support fiscal financing, and its projected debt increase under the baseline is driven by a policy objective to develop the sovereign debt market after the Financing and Liquidity Law gets enacted.

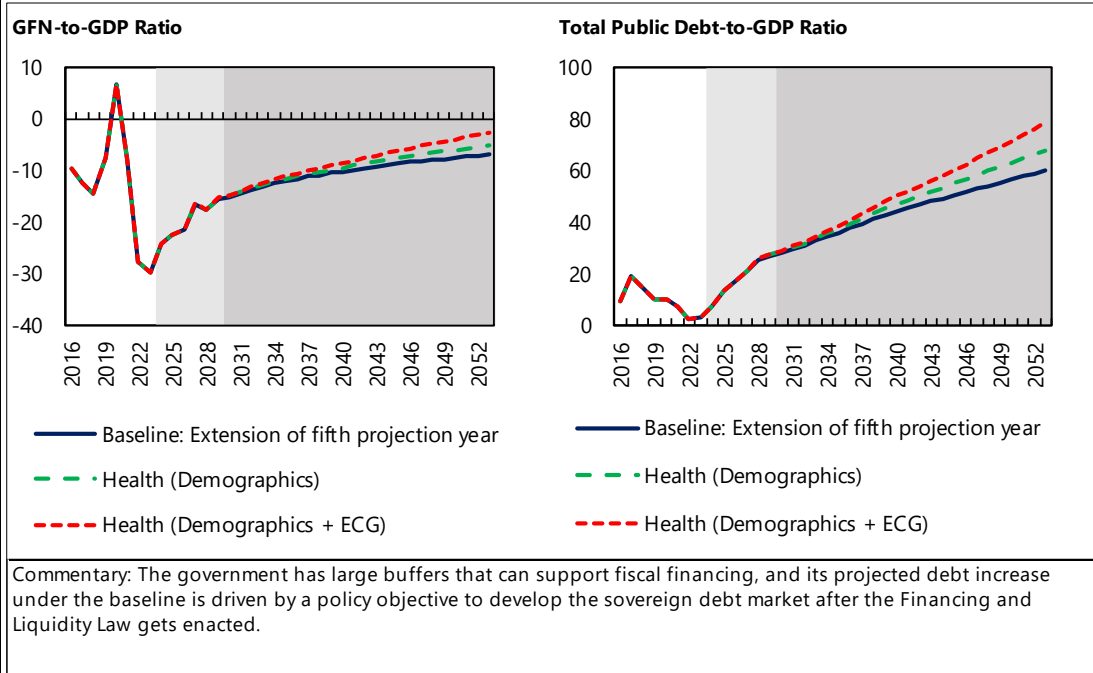


Figure 9. Kuwait: Demographics: Pensions



Commentary: The government has large buffers that can support fiscal financing, and its projected debt increase under the baseline is driven by a policy objective to develop the sovereign debt market after the Financing and Liquidity Law gets enacted.

Figure 10. Kuwait: Demographics: Health



## Annex V. Data Issues

| Table 1. Kuwait: Data Adequacy Assessment for Surveillance  |   |        |                               |                            |                                   |                            |               |
|---|---|--------|-------------------------------|----------------------------|-----------------------------------|----------------------------|---------------|
| Data Adequacy Assessment Rating 1/  |   |        |                               |                            |                                   |                            |               |
| C   |   |        |                               |                            |                                   |                            |               |
| Questionnaire Results 2/  |   |        |                               |                            |                                   |                            |               |
| Assessment  | National Accounts   | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
|   | C   | B      | B                             | C                          | B                                 | C                          | C             |
| Detailed Questionnaire Results  |   |        |                               |                            |                                   |                            |               |
| Data Quality Characteristics  |   |        |                               |                            |                                   |                            |               |
| Coverage  | C   | B      | C                             | C                          | B                                 |                            |               |
| Granularity 3/  | D   |        | B                             | B                          | B                                 |                            |               |
|   |   |        | B                             |                            | A                                 |                            |               |
| Consistency   |   |        | C                             | C                          |                                   | C                          |               |
| Frequency and Timeliness  | C   | A      | B                             | B                          | B                                 |                            |               |
| <p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p> |   |        |                               |                            |                                   |                            |               |
| A   | The data provided to the Fund are adequate for surveillance.                                    |        |                               |                            |                                   |                            |               |
| B   | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |        |                               |                            |                                   |                            |               |
| C   | The data provided to the Fund have some shortcomings that somewhat hamper surveillance.         |        |                               |                            |                                   |                            |               |
| D   | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |        |                               |                            |                                   |                            |               |
| <p><b>Rationale for Staff Assessment.</b> Data provision has some shortcomings that somewhat hamper surveillance. The National Accounts, Government Finance and External Sector statistics have major shortcomings that hamper surveillance. In particular, an expenditure-side National Accounts decomposition remains unavailable for 2023, while multi-year delays in the publication of GDP data after the pandemic confounded surveillance and policymaking. Furthermore, the exclusion of KIA investment income and SOE profit transfers from the Government Finance statistics hampers fiscal policy analysis. Finally, the omission of foreign assets held by the KIA from the IIP statistics generates stock-flow inconsistencies with the BOP statistics. In contrast, the Prices and Monetary and Financial statistics have some shortcomings but are broadly adequate for surveillance. Nonetheless, the exclusion of bank lending rates and real estate price indexes from the Monetary and Financial statistics hampers the accurate measurement of financial conditions and assessment of financial stability risks.</p>   |   |        |                               |                            |                                   |                            |               |
| <p><b>Changes since the last Article IV consultation.</b> The authorities partially updated the National Accounts statistics, reporting GDP with an incomplete production-side decomposition for 2020 to 2023, and with an expenditure-side decomposition for 2020 to 2022.</p>   |   |        |                               |                            |                                   |                            |               |
| <p><b>Corrective actions and capacity development priorities.</b> To support well-informed surveillance and policymaking, the authorities should: i) regularly publish complete National Accounts statistics including an expenditure-side GDP decomposition in a timely manner; ii) expand the coverage of the Government Finance statistics to include KIA investment income and SOE profit transfers; and iii) expand the coverage of the IIP statistics to include foreign assets held by the KIA.</p>  |   |        |                               |                            |                                   |                            |               |
| <p><b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Since the official IIP statistics exclude foreign assets held by the KIA, staff base the External Sector Assessment on IIP estimates from the External Wealth of Nations database. Staff also use estimates from the IEA Fossil Fuel Subsidies database and Global SWF Annual Reports to help inform surveillance.</p>  |   |        |                               |                            |                                   |                            |               |
| <p><b>Other data gaps.</b> Data on climate change adaptation and mitigation measures would help inform surveillance.</p>  |   |        |                               |                            |                                   |                            |               |

**Table 2. Kuwait: Data Standards Initiatives**

Kuwait participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since September 2021.

**Table 3. Kuwait: Table of Common Indicators Required for Surveillance**

| As of November 13, 2024  |                            |               |                                |                                     |   |                     |                                    |                     |
|--|----------------------------|---------------|--------------------------------|-------------------------------------|---|---------------------|------------------------------------|---------------------|
|  | Data Provision to the Fund |               |                                |                                     | Publication under the Data Standards Initiatives through the National Summary Data Page |                     |                                    |                     |
|  | Date of Latest Observation | Date Received | Frequency of Data <sup>6</sup> | Frequency of Reporting <sup>6</sup> | Expected Frequency <sup>6,7</sup>   | Kuwait <sup>8</sup> | Expected Timeliness <sup>6,7</sup> | Kuwait <sup>8</sup> |
| Exchange Rates   | Aug-24                     | Sep-24        | M                              | M                                   | D   | 30                  | ...                                | 21                  |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>            | Sep-24                     | Nov-24        | M                              | 2M                                  | M   | 30                  | 1M                                 | 21                  |
| Reserve/Base Money   | Sep-24                     | Nov-24        | M                              | 2M                                  | M   | 30                  | 2M                                 | 21                  |
| Broad Money  | Sep-24                     | Nov-24        | M                              | 2M                                  | M   | 30                  | 1Q                                 | 21                  |
| Central Bank Balance Sheet   | Sep-24                     | Nov-24        | M                              | 2M                                  | M   | 30                  | 2M                                 | 21                  |
| Consolidated Balance Sheet of the Banking System   | Sep-24                     | Nov-24        | M                              | 2M                                  | M   | 30                  | 1Q                                 | 21                  |
| Interest Rates <sup>2</sup>  | Sep-24                     | Nov-24        | M                              | M                                   | M   | 30                  | ...                                | 21                  |
| Consumer Price Index   | Aug-24                     | Oct-24        | M                              | 2M                                  | M   | 30                  | 2M                                 | 30                  |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup> | Mar-24                     | Apr-24        | M                              | 6M                                  | A   | 365                 | 3Q                                 | 240                 |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government              | Mar-24                     | Apr-24        | M                              | 6M                                  | Q   | 365                 | 1Q                                 | 240                 |
| Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>                         | Mar-24                     | Apr-24        | M                              | 6M                                  | Q   | ...                 | 2Q                                 | ...                 |
| External Current Account Balance   | Mar-24                     | Sep-24        | Q                              | Q                                   | Q   | 90                  | 1Q                                 | 90                  |
| Exports and Imports of Goods and Services  | Mar-24                     | Sep-24        | M                              | 2M                                  | M   | 90                  | 12W                                | 90                  |
| GDP/GNP  | Jun-24                     | Oct-24        | Q                              | 2Q                                  | Q   | 90                  | 1Q                                 | 90                  |
| Gross External Debt  | Mar-24                     | Sep-24        | Q                              | 2Q                                  | Q   | 90                  | 2Q                                 | 90                  |
| International Investment Position  | 45352                      | 45536         | Q                              | Q                                   | A   | 90                  | 3Q                                 | 90                  |

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



# KUWAIT

November 19, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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## FUND RELATIONS

(As of October 31, 2024)

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

| <b>General Resources Account:</b> | <b><u>SDR Million</u></b> | <b><u>Percent of Quota</u></b> |
|-----------------------------------|---------------------------|--------------------------------|
| Quota                             | 1,933.50                  | 100.00                         |
| Fund holdings of currency         | 1,436.56                  | 74.35                          |
| Reserve tranche position          | 497.41                    | 25.73                          |
| Lending to the Fund               |                           |                                |

| <b>SDR Department:</b>    | <b><u>SDR Million</u></b> | <b><u>Percent of Allocation</u></b> |
|---------------------------|---------------------------|-------------------------------------|
| Net cumulative allocation | 3,168.75                  | 100.00                              |
| Holdings                  | 3,232.81                  | 102.02                              |

**Outstanding Purchases and Loans:** None

**Latest Financial Commitments:** None

### Overdue Obligations and Projected Payments to the Fund:<sup>1</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs)

|                  | Forthcoming |             |             |             |             |
|------------------|-------------|-------------|-------------|-------------|-------------|
|                  | <u>2024</u> | <u>2025</u> | <u>2026</u> | <u>2027</u> | <u>2028</u> |
| Principal        |             |             |             |             |             |
| Charges/Interest |             | 0.02        | 0.02        | 0.02        | 0.02        |
| <b>Total</b>     |             | 0.02        | 0.02        | 0.02        | 0.02        |

### 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,

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

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 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 August 23, 2023 (Country report 23/331—Published September 18, 2023). The Staff Report is available at:

[Kuwait: 2023 Article IV Consultation-Press Release; and Staff Report](#)

#### **FSAP Participation**

The last FSAP took place in 2018. The FSAP focused on banking supervision, financial safety nets, and managing systemic risk and liquidity. It also covered capital market development and supervision, as well as 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 2015:**

|            |                                       |                        |
|------------|---------------------------------------|------------------------|
| <b>FAD</b> | Fiscal Rule                           | February 2015          |
| <b>STA</b> | National Accounts Statistics          | March 2015             |
| <b>MCM</b> | Deposit Insurance System              | September 2015         |
| <b>FAD</b> | Tax Policy and Administration         | September 2015         |
| <b>LEG</b> | AML/CFT ongoing TA project            | May 2012–16            |
| <b>FAD</b> | Establishing a Debt Management Office | November 2015          |
| <b>FAD</b> | Debt Management Strategy              | January 2016           |
| <b>MCM</b> | Bank Stress Testing                   | May-June 2016          |
| <b>FAD</b> | Macro-Fiscal Unit                     | November 2016          |
| <b>MCM</b> | Crisis Management and Resolution      | April-May 2017         |
| <b>FAD</b> | Macro-Fiscal Unit                     | May 2017               |
| <b>STA</b> | Government Finance Statistics         | April-May 2018         |
| <b>STA</b> | Government Finance Statistics         | September-October 2018 |
| <b>LEG</b> | AML/CFT Diagnostic                    | October 2018           |
| <b>FAD</b> | Tax Policy and Administration         | October-November 2018  |
| <b>STA</b> | National Accounts Statistics          | January 2019           |
| <b>MCM</b> | Monetary Policy Operations            | February 2019          |
| <b>STA</b> | Government Finance Statistics         | October 2019           |
| <b>STA</b> | EGDDS                                 | January-February 2021  |
| <b>MCM</b> | Developing Local Debt Markets         | October 2021           |
| <b>STA</b> | External Sector Statistics            | January-February 2022  |
| <b>ICD</b> | Macro Modeling                        | May 2024               |
| <b>STA</b> | External Sector Statistics            | June 2024              |

**Resident Representative:** None

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



## RELATIONS WITH THE WORLD BANK

(As of October 31, 2024)

### World Bank Country Page:

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

**Statement by Mohamed Maait, Executive Director for Kuwait, Fouad Al-Kohlany, Advisor to Executive Director and Mira Merhi, Advisor to Executive Director**

**December 4, 2024**

**Introduction**

On behalf of the Kuwaiti authorities, we would like to extend our sincere gratitude to the Staff mission team for the constructive discussions during the recent Article IV consultation. The authorities appreciate the comprehensive analysis and recommendations aimed at strengthening Kuwait's economic resilience, promoting inclusive, private sector-led growth, and achieving sustainable fiscal and structural reforms in line with Kuwait's Vision 2035 objectives. With strong financial buffers, a sound banking sector, and a renewed opportunity to implement reforms, the authorities are committed to enhancing fiscal sustainability and supporting the transition to a dynamic and diversified economy.

**Economic Developments and Outlook**

The Kuwaiti economy overcame notable challenges in recent years, exacerbated by oil price volatility, global economic uncertainties. In 2023, real GDP contracted by 3.6 percent, largely due to reduced oil production aligned with OPEC+ agreements. Non-oil sector growth also declined, reflecting subdued manufacturing activity. Despite these challenges, the primary income surplus at 19.7 percent of GDP offset the lower oil exports in the current account. Headline inflation eased to 3.6 percent in 2023 and further moderated to 2.4 percent year-on-year in October 2024, driven by lower housing and transport costs.

Looking forward, the authorities recognize the baseline forecast that the economy may contract further in 2024, with a projected 2.8 percent decline in real GDP due to extension of oil production cuts, followed by an expected recovery beginning in 2025. However, the non-oil sector is anticipated to start recovering in 2024 and gradually converge to its potential growth rate. Nonetheless, bank credit growth picked up to 6.1 percent (y-o-y) in October 2024. Kuwait's external position remains robust, with a current account surplus of 31.4 percent of GDP and official reserves equivalent to nine months of projected imports by end-2023. These substantial external buffers provide critical resilience against oil price volatility and external economic fluctuations.

The authorities are optimistic about the outlook for non-oil growth, citing planned megaprojects such as the Northern Special Economic Zone and Mubarak Al-Kabeer Port as important drivers of private sector-led economic activity. Risks remain primarily on the downside, especially given Kuwait's dependence on oil revenue, which subjects the economy to global commodity price fluctuations and spillovers from regional geopolitical tensions. The authorities are committed to managing these risks by advancing economic diversification efforts, fostering private sector-led growth, and strengthening policy frameworks, leveraging Kuwait's strong financial buffers to address potential adverse shocks should they materialize.

## **Fiscal Policy**

The authorities are committed to fiscal discipline and fiscal consolidation to reinforce intergenerational equity and strengthen Kuwait's long-term fiscal sustainability. After a significant fiscal expansion in FY2023/24, which contributed to a deficit of 3.1 percent of GDP, the Council of Ministers approved on July 2nd, 2024, the budget draft law for the fiscal year 2024-2025, introducing key expenditure rationalization measures and revenue-enhancing initiatives. The budget projects a 16% increase in non-oil revenues and aims to improve the non-oil fiscal balance by 5.1 percent of non-oil GDP through subsidy reforms and other measures. This disciplined approach is aligned with Kuwait's objective to gradually reduce dependence on oil revenue and maintain robust fiscal buffers.

The authorities are embarking on a comprehensive fiscal reform aimed at controlling the growth of the wage bill, refocusing spending towards investment, and mobilizing non-oil revenue. Recognizing that government compensation is among the highest in the GCC, they are identifying measures to control public sector growth, realign incentives, and promote private sector employment for Kuwaiti nationals. Expected expenditure reforms include improving government procurement contracts and enhancing the financial performance of government bodies. On the revenue side, they plan to reprice public services and rents of state-owned lands and extend the corporate income tax (CIT) to all large domestic companies, in alignment with the OECD-led global minimum corporate tax framework. The authorities also acknowledge the need to broaden tax measures, including the value-added tax, and excise taxes.

The authorities are also committed to advancing public financial management reforms to support medium-term fiscal policy planning, including the establishment of a medium-term fiscal framework, strengthening fiscal rules, and enhancing macro-fiscal policy analysis. They are working on fiscal plans centered on a phased approach, focusing initially on expenditure rationalization while minimizing adverse growth impacts. They share the Staff's view that a prudent and strategic fiscal consolidation effort is essential to achieve these objectives. The authorities broadly support Staff's proposed composition of a medium-term fiscal consolidation package and are prepared to rationalize current spending and mobilize non-oil revenue in alignment with this goal.

## **Monetary and Financial Sector Policies**

The Central Bank of Kuwait (CBK) continues to skillfully manage monetary and related financial policies, preserving macroeconomic stability and promoting sustainable growth. We concur with the staff assessment that the exchange rate peg continues to serve the Kuwaiti economy well. The peg remains an appropriate policy anchor given the structure of the Kuwaiti economy. The authorities also agree that the exchange rate arrangement allows the CBK a margin of flexibility relative to single currency pegs. Given recent declines in inflation, the authorities also concur with the staff recommendation for gradual monetary normalization as inflation moderates and the non-oil output gap closes. They remain vigilant in adjusting policy rates in line with economic conditions, balancing inflation control and output stabilization. The

CBK's also appreciates the ongoing capacity development support on enhancing its monetary policy framework by strengthening their macroeconomic modeling capacity.

Kuwait's banking sector remains resilient, supported by strong capital and liquidity buffers and low levels of non-performing loans, reflecting Kuwait's prudent regulatory standards and effective risk management. Recent stress tests confirm that the banking system is well-positioned to withstand significant economic shocks, underscoring the CBK's proactive macroprudential approach. The authorities reaffirm their commitment to refining regulatory frameworks, ensuring compliance with international standards such as Basel III, and regularly reviewing the financial regulatory perimeter. The CBK considers that interest rate caps help protect consumers and facilitate greater access to finance for Small and Medium Enterprises without hindering efficient risk pricing. Kuwait's lending frameworks are comparable to those of other regional economies with similar economic structures.

The authorities are pleased to note the staff's assessment that global investors tend to treat Kuwait's bond and stock markets as safe havens during times of global financial stress. This recognition reflects confidence in Kuwait's strong financial buffers, prudent macroeconomic policies, and the CBK's effective management of monetary and financial stability.

### **Structural Reforms**

The Kuwaiti authorities are firmly committed to accelerating structural reforms as a vital step toward enhancing economic competitiveness, boosting private sector-led inclusive growth, and diversifying the economy. Improving the business environment is a top priority for the government, with a focus on fostering an open, competitive market and enhancing transparency, consistent with the authorities' long-term vision of transforming Kuwait into a regional and international financial and trade hub. Strategic partnerships with regional and international partners are expected to play a key role in driving investment and supporting economic development efforts.

A national digital transformation strategy has been launched to modernize government services, promote digital literacy, and support the development of a knowledge-based economy. The authorities have also expanded their e-government initiatives to simplify business registration and licensing processes, reducing bureaucratic hurdles and attracting domestic and foreign investors.

Labor market reforms are underway to address the structural imbalances between the public and private sectors. Policies have been implemented to incentivize private companies to hire Kuwaiti nationals, including wage subsidies and training programs. These measures aim to encourage private sector employment and reduce reliance on public sector jobs. The authorities also emphasize the importance of aligning education and training programs with private sector needs to support productivity and economic diversification. In partnership with private sector entities, curricula have been updated and vocational training expanded to ensure that graduates possess skills aligned with market demands. Youth and female

labor force participation remains a priority. To support women's employment, policies have been introduced, including equal pay regulations, childcare support, and promoting flexible working arrangements.

Kuwait is committed to advancing its climate adaptation and mitigation efforts, aligning with the objectives of their National Adaptation Plan. Investments in renewable energy projects, such as the Shagaya Renewable Energy Park, are underway to diversify the energy mix and reduce carbon emissions, supporting climate change efforts. At COP29, Kuwait announced its ambition to achieve carbon neutrality by 2060 and aims to produce 50 percent of its electricity from solar power by 2050, guided by its low-carbon development strategy. Efforts include adopting advanced technologies to reduce greenhouse gas emissions and recovering flare gases from key refineries. Additionally, the authorities are enhancing water resource development through reverse osmosis desalination plants and implementing coastal protection measures to combat rising sea levels. The authorities also acknowledge the need to accelerate adaptation and mitigation policies, aiming to address Kuwait's environmental vulnerabilities and support long-term sustainability.

The authorities are firmly committed to strengthening the AML/CFT framework in alignment with global standards, with a focus on risk-based supervision and effective enforcement to uphold financial integrity and resilience. The authorities also value Staff's recognition of their progress in implementing the Integrity and Anti-Corruption Strategy, which has strengthened whistleblower protections and improved asset declaration compliance rates among government employees.

The authorities recognize that reliable and timely economic data are essential for effective policymaking and reform implementation. To this end, they are actively working to address deficiencies in macroeconomic statistics and have requested IMF capacity development support to strengthen data quality and coverage. These efforts will enhance transparency, facilitate well-informed decision-making, and provide a robust foundation for advancing Kuwait's economic reform agenda.

## **Conclusion**

The Kuwaiti authorities are committed to an ambitious reform agenda that prioritizes sustainable growth, economic diversification, and intergenerational equity. The recent momentum provides a unique window to advance critical fiscal and structural reforms. Kuwait's Vision 2035 serves as a guiding framework, with an emphasis on enhancing macroeconomic stability, expanding the private sector, and creating opportunities for Kuwaiti youth. The authorities appreciate the Staff valuable insights and look forward to continued collaboration to support Kuwait's economic transformation. Through prudent policies, sound fiscal management, and a commitment to reform, Kuwait is well-positioned to achieve its long-term economic and social objectives. The authorities believe that prudent monetary and financial policies—together with Kuwait's large financial buffers—are fundamental to sustaining macrofinancial stability and resilience.