

KUWAIT

Table 1 **2017**

Population, million	4.1
GDP, current US\$ billion	120.1
GDP per capita, current US\$	29031
Life expectancy at birth, years ^a	74.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2015)

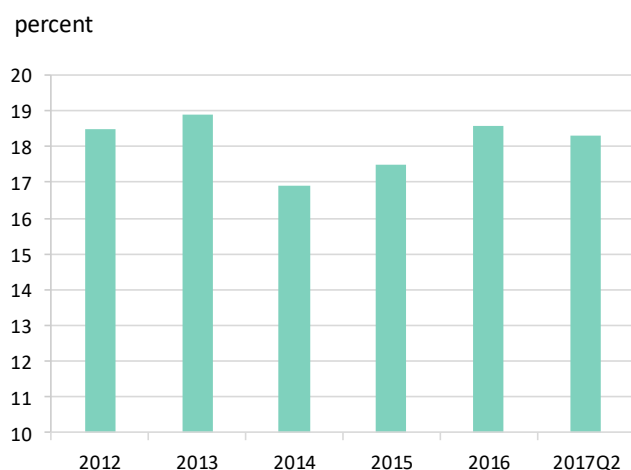
Kuwait's economy contracted by an estimated 1 percent in 2017 as OPEC-related oil production cuts weighed on growth. However, growth should gradually recover to about 3 percent in the medium term, supported by infrastructure spending, and as oil production cuts are phased out. External and fiscal balances are improving. Key challenges include hydrocarbon dependence and parliamentary opposition to deep structural reforms. Poverty incidence among Kuwaitis is low.

Recent developments

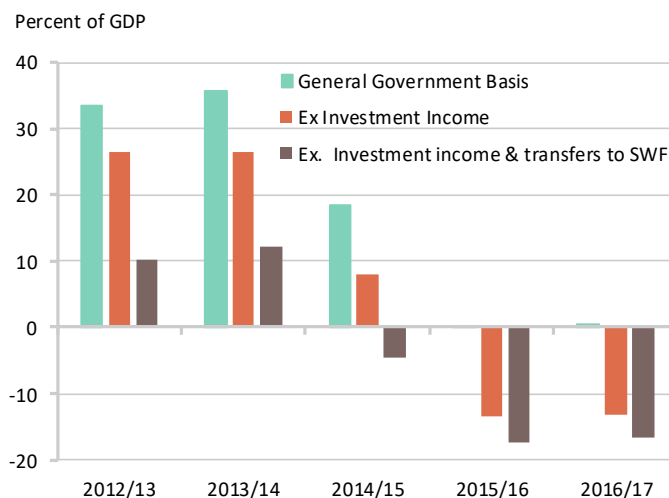
With hydrocarbons accounting for nearly half of GDP, oil production cuts by OPEC and some non-OPEC countries ("OPEC+") until the end of 2018 has weighed on GDP growth, with the economy estimated to have contracted by 1 percent in 2017. Outside the oil sector, activity has been supported by the implementation of large infrastructure, transport and refinery projects contained in the five-year Development Plan (2015/16-2019/20). In 2017, the government released the *New Kuwait 2035 Strategic Plan*, the latest iteration of ambitions to transform the country into a regional, financial and commercial hub. Household spending and confidence are improving. Consumer confidence and spending rebounded over the past year following a marked slowdown in late 2016. In part this reflects the recovery in oil prices and steady hiring by the government, which have boosted sentiment and supported spending. The correction in real estate prices, which had been softening in recent years, also appears to have run its course: real estate prices have stabilized while residential sector sales and related household borrowing are expanding at a robust pace. Bank lending to firms slowed during 2017; the banking sector remains generally healthy and, at 18.3 percent, bank capital adequacy ratios are above the Central Bank's required 13 percent. External positions are strong and supportive of Kuwait's currency peg. Financial buffers held by the Kuwait Investment

Authority are estimated at close to US\$530 billion (approximately US\$380 billion in the Future Generations Fund, and US\$148 billion in the General Reserve Fund (GRF) which aims to support the budget). The recovery in oil prices over the past year has boosted export receipts (despite the oil production cuts), with Kuwait estimated to post a current account surplus of over 3 percent of GDP in 2017, a marked improvement from a deficit of -3.4 percent of GDP in 2016. Import growth has remained robust reflecting healthy domestic demand related to government infrastructure projects.

Fiscal pressures lessened in 2017, but financing needs will remain over the medium term. The recovery in global energy prices – from an average of US\$45/bbl (Brent) in 2016 to US\$66/bbl in 2017 – has boosted oil receipts, which account for nearly 90 percent of total government receipts. As a result, the government is anticipated to post a deficit of 3.5 percent of GDP in FY2017/18, an improvement from 17 percent shortfall the previous year. Deficits have been financed by a mix of drawdowns from fiscal savings in the GRF, and from domestic and international debt financing. Kuwait issued an inaugural US\$10 billion international bond in 2017, but gross public debt remains low at less than 20 percent of GDP in end-2017. Fiscal reforms are proceeding slowly. The government began raising utility prices in September 2016; however subsequent tariff increases during 2017 have been slower than initially proposed in part due to strong opposition in Parliament. The government remains committed to intro-

FIGURE 1 Kuwait / Banking sector capital adequacy ratios


Sources: Central Bank of Kuwait, Haver, World Bank.

FIGURE 2 Kuwait / Public sector balances


Sources: Central Bank of Kuwait, Haver, World Bank.

ducing a VAT. Inflation has remained muted, averaging 1.6 percent during 2017 due to declining housing costs and persistently weak food inflation. The peg to an undisclosed basket of currencies, in which the US Dollar has a heavy weighting means that monetary policy is closely tied to that in the US. The Central Bank has opted to raise policy rates more slowly than the US Fed, in order to support activity in the non-oil sector, and held off from raising its key rate after the Fed rate increase in December 2017.

Absolute poverty and involuntary unemployment are virtually nonexistent. Eighty percent of employed Kuwaiti nationals work in the public sector. In contrast, expatriates, who make up two-thirds of the population, constitute the bulk of lower-income residents. Additional concerns for expatriate workers include unpaid or delayed wages, difficult working conditions and fear of a crackdown.

A relative concept of living standards may be more appropriate for a rich country, like Kuwait. In that respect, about 18 percent of the total population lives on less than half the median income level—this number is 1.5 percent for Kuwaiti nationals and 34 percent for others. The Gini index of per capita consumption in Kuwait, at 36.5, is not extreme, with higher inequality amongst expatriates. A more

detailed analysis is hindered by restrictions on access to household data.

Outlook

Growth is projected to rebound to 3.5 percent in 2019 as OPEC+ production cuts are tapered off, and oil output and exports increase. Plans to invest US\$115 billion in the oil sector over the next five years should also boost oil production. With additional support coming from public investment spending, growth should rise to about 2.7 percent over the medium term. Current account and budgetary pressures are expected to continue easing on the back of a partial recovery in oil revenues, and as government spending is gradually trimmed. The baseline assumes gradual implementation of spending and revenue reforms including the introduction of a VAT in the second half of 2018 as part of efforts to diversify revenues. Inflation is expected to rise moderately to 3 percent during the implementation of the VAT, before easing to 2.5 percent in the medium term.

Risks and challenges

Key external risks include spillovers from geo-political tensions and conflict. A strong resurgence of US hydrocarbon output could weigh on global oil prices, particularly if the US sustains its emergence as a major energy exporter. Bouts of global financial volatility as G3 central banks tighten monetary policy could affect the costs of funding given large financing needs in the country.

Longer-term challenges relate to oil dependence. The public sector is one of the largest in the world, with a spending to GDP ratio of 53 percent. Oil rents are distributed through subsidies, transfers and public employment, with 80 percent of employed Kuwaiti nationals working in the public sector. A poor business environment and onerous regulations – Kuwait is ranked 96th out of 190 countries in the Doing Business rankings – have hampered the development of the private non-oil sector. Comprehensive reforms are needed to rebalance the economy away from the energy sector to a more diversified growth path underpinned by innovation, private sector entrepreneurship and job creation, and the quality of its labor force.

TABLE 2 Kuwait / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	0.6	3.5	-1.0	1.9	3.5	3.0
Private Consumption	3.4	5.9	2.2	2.6	3.0	3.0
Government Consumption	-1.5	2.9	4.0	-4.2	-0.4	3.2
Gross Fixed Capital Investment	15.3	14.8	10.3	11.0	8.5	7.1
Exports, Goods and Services	-0.8	-2.1	-5.6	1.5	3.6	2.3
Imports, Goods and Services	6.8	1.1	4.0	5.0	5.0	5.0
Real GDP growth, at constant factor prices	-0.9	2.2	-1.0	1.9	3.5	3.0
Agriculture	-5.3	3.6	0.7	2.3	3.4	3.4
Industry	-1.7	-5.3	-4.4	0.2	4.9	0.6
Services	0.6	14.9	3.7	4.1	1.7	6.0
Inflation (Consumer Price Index)	3.3	3.2	1.6	3.0	2.4	2.5
Current Account Balance (% of GDP)	7.5	-3.4	3.3	4.7	5.1	4.1
Financial and Capital Account (% of GDP)	-8.1	4.9	-4.0	-4.8	-5.3	-4.5
Net Foreign Direct Investment (% of GDP)	-12.8	-5.1	-3.1	-2.1	-2.1	-1.9
Fiscal Balance (% of GDP)	5.8	0.5	3.5	3.7	2.9	2.2
Debt (% of GDP)	11.0	10.2	19.0	27.3	33.2	38.1
Primary Balance (% of GDP)	5.9	0.5	3.7	3.9	3.3	2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.