Public Disclosure Authorized

Public Disclosure Authorized

KUWAIT

Table 1	2018
Population, million	4.2
GDP, current US$ billion	133.3
GDP per capita, current US$	31749
School enrollment, primary (% gross)[a]	100.6
Life expectancy at birth, years[a]	74.7

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

(a) Most recent WDI value (2016)

GDP growth has recovered in line with oil sector developments, and external and fiscal balances improved amidst higher energy prices in 2017-18. A loose fiscal stance and rising public infrastructure spending will buttress growth in the medium term. Continued volatility in oil prices underscores the need to accelerate key fiscal reforms. The slow pace of structural reforms needed to diversify away from hydrocarbons and support private sector activity is a key challenge.

Recent developments

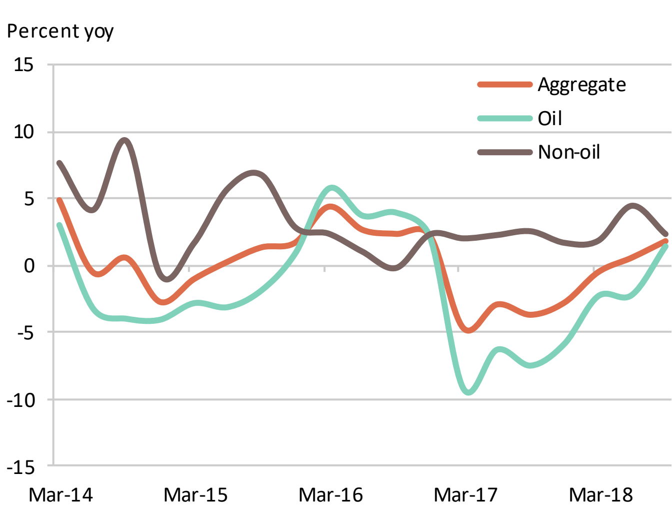
Growth recovered to an estimated 1.6 percent in 2018, after contracting by 3.5 percent in 2017. High frequency data for 2018 suggest that the recovery was supported by higher oil prices and rising public sector employment that bolstered household spending. Kuwait also increased oil production, helping to compensate for an unexpected drop in oil prices towards the end of the year. The country is the fifth largest OPEC oil producer, and one of the few OPEC members with spare oil production capacity. Bank lending to consumers, underpinned by public sector pay, remains strong, rising by 5.2 percent in 2018. The banking sector remains healthy albeit with a concentrated balance sheet. At 18.4 percent, bank capital adequacy ratios are above the central bank's required 13 percent. Inflation was subdued at around 0.6 percent in 2018 due to declining housing costs and persistently weak food price growth. The central bank used the flexibility in the managed peg to tighten monetary policy more slowly than the US Fed during 2018, reflecting concerns about growth.

Fiscal pressures eased in 2018 in line with the recovery in oil prices; however, the deficit –excluding investment income and before transfers of oil revenue to the sovereign wealth fund (SWF)—remained large at close to 9 percent of GDP in FY2017/18. Higher revenues and a small reduction in current expenditures over the past year should lower it to around 1.6 percent in FY2018/19. Next year's budget projects a rise of 5 percent in government spending (over the last budget), marking an increase for the third consecutive year, and a deficit target (excluding investment income and before SWF transfers) of about 14 percent of GDP. However, as in past years, actual outturns should be considerably better given conservative budget assumptions. Fiscal reforms are proceeding slowly; the implementation of the VAT has been postponed until 2021. Large fiscal financing gaps since 2014 have been financed by a mix of drawdowns from the General Reserve Fund (GRF) and debt issuance. Parliament is expected to approve over the coming months a new debt law raising the debt ceiling from KD 10 to KD 25 billion (US$83 billion) and increasing the maximum bond tenor from 10 to 30 years, which should enable a shift in Kuwait's debt profile away from domestic debt towards longer tenor international bonds.

The external position remains strong. Financial buffers held by the Kuwait Investment Authority are estimated at 465 percent of GDP at end-2017. Higher oil prices have boosted export receipts, leading to the current account (CA) to shift back into surplus in 2017. Improving trade balances lifted the CA surplus to an estimated 10 percent in 2018.

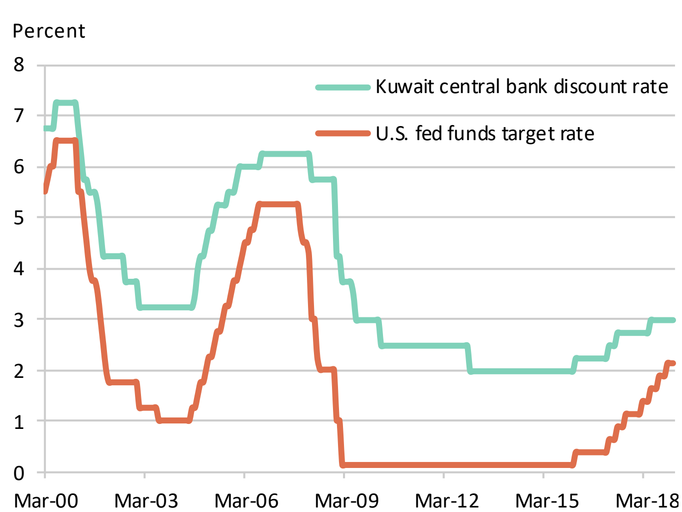
Kuwait is an oil-rich country, where absolute poverty and involuntary unemployment are virtually nonexistent. Eighty percent of employed Kuwaiti nationals work in the public sector. In contrast, migrants, who make up two-thirds of the population, constitute the bulk of lower-income

FIGURE 1 Kuwait / Real GDP growth



Sources: Haver, World Bank.

FIGURE 2 Kuwait / Central bank policy rates



Sources: Haver, World Bank.

residents. Additional concerns for migrant workers include unpaid or delayed wages, difficult working conditions and fear of a crackdown. 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.

Outlook

OPEC+ oil output cuts in the first half of 2019 are expected to keep growth subdued at 1.6 percent in 2019. In the medium term, the economy is expected to grow at around 3 percent as higher government spending supports the non-oil sector. Plans to invest US$115 billion in the oil sector over the next five years should further boost oil production, if they can be implemented – a long standing challenge. Resumption of production in the shared fields (Khafji and Wafra) with Saudi Arabia offers a more immediate prospect of an oil sector boost.

In March 2018, the government announced the Northern Gulf Gateway project, which aims to connect Kuwait and its hinterland countries with China's Belt and Road Initiative, beginning with the operation of the new Mubarak al-Kabeer port. Growth could prove higher if Gulf Gateway projects are implemented. The delay in VAT reforms and higher government spending are expected to keep the public sector in a deficit over the medium term. The CA surplus is expected to moderate to about 6 percent of GDP as infrastructure-related import spending increases.

Risks and challenges

Key external risks include spillovers from geo-political tensions and conflict, global financial volatility, and volatility in oil prices. A slowdown in global growth could prompt a decline in energy prices, which would add pressure on fiscal and external balances. Lower oil prices in recent years have, in the meantime, resulted in a depletion of liquidity buffers; further drawdowns from the GRF could erode these further. To mitigate these risks, and to secure fiscal sustainability, the government will need to persevere with fiscal consolidation, expenditure rationalization and revenue mobilization reforms over the medium term. However, parliamentary opposition to critical fiscal reforms remains a key challenge.

Longer term challenges relate to the economy's heavy dependence on oil. Notwithstanding Kuwait's large oil reserves, the global shift to cleaner energy threatens economic and fiscal sustainability over the long term. Instead of being used to build "above ground wealth" through investments in human and physical capital, oil rents (which are derived from a depleting resource) have been channeled into an expanding public-sector workforce, and generous wage, subsidy and transfer benefits, in turn depressing the long-term productivity potential of the economy. Private sector development and job creation has been modest. Kuwait ranks 97 out of 190 economies in the 2019 World Bank Doing Business Report – the lowest among its GCC peers – reflecting on the bureaucratic procedures and suboptimal business environment. Comprehensive reforms are needed that are focused on innovation, private sector entrepreneurship and job creation, and improving the quality of its labor force.

TABLE 2 Kuwait / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	2.9	-3.5	1.5	1.6	3.0	2.9
Private Consumption	1.1	2.9	4.0	4.0	4.0	4.0
Government Consumption	0.6	4.0	8.3	3.6	2.7	5.9
Gross Fixed Capital Investment	11.6	5.2	5.0	3.0	5.0	6.0
Exports, Goods and Services	2.5	-3.3	1.8	2.3	3.2	3.2
Imports, Goods and Services	4.2	11.5	10.0	6.0	5.0	7.0
Real GDP growth, at constant factor prices	2.2	-2.9	1.5	1.8	2.9	2.9
Agriculture	3.6	3.4	3.3	3.3	3.1	3.1
Industry	2.3	-6.3	1.9	2.8	3.3	3.1
Services	1.9	2.8	1.0	0.1	2.3	2.5
Inflation (Consumer Price Index)	3.2	1.6	0.6	1.0	2.5	2.0
Current Account Balance (% of GDP)	-4.6	5.9	10.4	7.6	6.1	5.7
Net Foreign Direct Investment (% of GDP)	-3.8	-6.5	-5.9	-5.8	-5.5	-5.3
Fiscal Balance (% of GDP)	-13.9	-9.0	-1.6	-3.4	-1.6	-2.6
Debt (% of GDP)	10.3	19.1	21.9	26.6	30.0	33.3
Primary Balance (% of GDP)	-13.9	-8.8	-1.3	-3.0	-1.2	-2.1

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