KUWAIT

Table 1	2018
Population, million	4.2
GDP, current US$ billion	141.7
GDP per capita, current US$	33763
School enrollment, primary (% gross)[a]	97.3
Life expectancy at birth, years[a]	74.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Notwithstanding OPEC+ oil output cuts, the economy has continued to recover, helped by strong public sector hiring and service sector growth. A loose fiscal stance and rising public infrastructure spending will buttress growth in the medium term. Continued volatility in oil prices underscores the need for an operational medium-term anchor for fiscal policy. The slow pace of structural reforms needed to diversify away from hydrocarbons and support private sector activity is the key challenge.

Recent developments

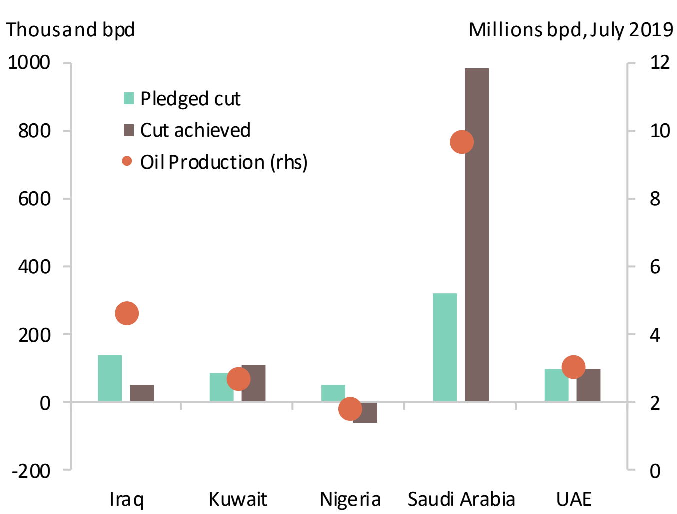
Despite the drag from OPEC-led oil output cuts, growth recovered in 2018, rising to 1.2 percent following a 3.5 percent contraction in 2017. The improvement continued in the first quarter 2019, with the economy expanding by 2.6 percent year-on-year (y/y) amid strong non-oil growth (of 4.1 percent y/y). High frequency indicators suggest that consumer spending improved in the first half of 2019, helped by strong public sector hiring, in turn supporting service sector activity. Notwithstanding broadly flat oil output, oil sector GDP rose 1.3 percent y/y in Q1, likely reflecting growth in refining output. Kuwait is the fifth largest OPEC oil producer, and oil production averaged 2.69mbd in the first half of 2019 versus an OPEC+ mandated target of 2.72mbd: in July, OPEC+ supply cuts were extended for another nine months until end-March 2020.

Credit growth is recovering, reflected in rising lending to the consumer, business and real estate sectors. The banking sector remains the main intermediary of oil revenues to the domestic economy, and at 18.4 percent, bank capital adequacy ratios are above the central bank's required 13 percent. Capital market reforms have led to the upgrade of Kuwait to emerging market status by FTSE, S&P Dow Jones and, in 2020, by MSCI, boosting investor confidence and triggering capital inflows. As of mid-August, the Kuwaiti stock market was up nearly 20 percent on year-to-date basis, significantly outperforming GCC peers. Inflation has been subdued at around 1 percent due to declining housing costs and weak food price growth. The central bank has tightened monetary policy more slowly than the US Fed, raising rates only four of the nine times that the Fed hiked rates since 2015. Most recently in July, it kept rates unchanged following a 25bp cut by the Fed.

Higher oil prices during 2018 contributed to a narrowing of the fiscal deficit (excluding investment income and before oil revenue transfers to the Future Generations Fund) to 3 percent of GDP in FY18/19. The FY19/20 budget projects a 3 percent increase in government spending (over last year's outturns), and a deficit target of about KD6.7 billion. However, as in past years, actual outturns should be considerably better given conservative oil price assumptions and a tendency to underspend on capital projects. Fiscal reforms have been slow; the implementation of the VAT has been postponed until 2021. Assets estimated at close to US$600 billion in Kuwait's SWF exemplify the reliance on financial assets to save oil rents. In the past, deficits have been financed by a mix of drawdowns from the General Reserve Fund and debt issuance. However, following the issuance of a maiden US$8 billion bond in 2017, further debt issuance in international markets has been constrained by delays in Parliament's approval of new legislation to raise the government's borrowing limit.

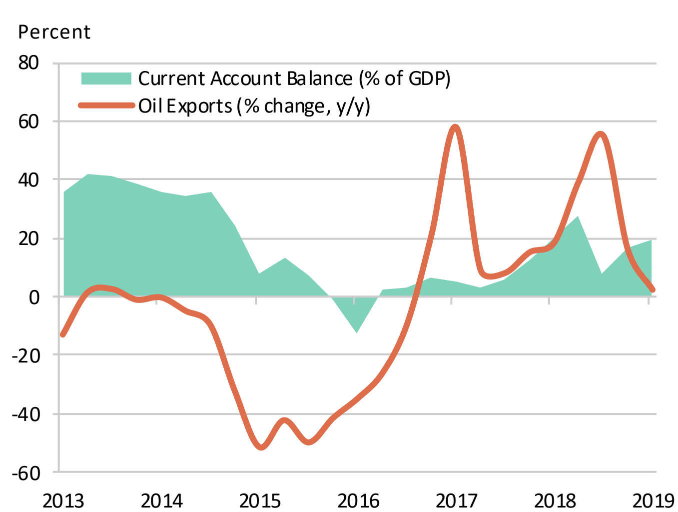
Higher oil prices have boosted export receipts and the current account (CA) surplus to 19.5 percent of GDP in Q1 (versus 15 percent in 2018), led by a rising income balance (reflecting higher investment income

FIGURE 1 Kuwait / Compliance with OPEC production cuts



Source: OPEC.

FIGURE 2 Kuwait / Current account surplus and oil exports



Sources: Haver, World Bank.

and declining remittance outflows) alongside a significant trade surplus.

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 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

GDP growth is projected at about 2 percent in 2019, supported by rising consumer and government spending, increasing to around 3 percent in the medium term as OPEC+ oil output cuts expire in March 2020 and government infrastructure projects are completed. 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. The partial pull back in oil prices and oil production constraints in the near term, coupled with delays in VAT reforms and higher government spending are expected to widen the fiscal deficit to around 6 percent. The current account surplus should moderate to 9 percent of GDP, as the trade surplus narrows and 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. The slowdown in global growth could weigh on energy prices, widening fiscal imbalances. Lower oil prices in recent years have 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. 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. This in turn tilts infrastructure investment towards meeting continually growing demand driven by subsidies and labor market distortions, 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. The country also ranks 77th in the World Bank Human Capital Index, a reflection of poor learning outcomes and high incidence of non-communicable diseases. 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	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	2.9	-3.5	1.2	1.5	2.5	2.8
Private Consumption	1.1	2.9	2.5	3.5	3.5	3.5
Government Consumption	0.6	4.0	10.6	4.8	3.7	4.8
Gross Fixed Capital Investment	2.0	5.2	-2.3	4.4	5.4	6.4
Exports, Goods and Services	2.5	-3.3	1.0	-0.4	1.7	1.3
Imports, Goods and Services	4.2	11.5	2.8	3.0	4.0	4.0
Real GDP growth, at constant factor prices	2.8	-2.8	1.5	1.6	2.5	2.8
Agriculture	0.5	3.4	3.3	3.3	3.0	3.0
Industry	3.5	-6.2	1.9	-0.2	1.8	1.7
Services	1.8	2.4	1.0	4.2	3.3	4.3
Inflation (Consumer Price Index)	3.2	2.2	0.6	1.0	1.0	3.2
Current Account Balance (% of GDP)	0.6	6.5	15.0	9.0	8.6	8.9
Net Foreign Direct Investment (% of GDP)	-3.8	-6.5	-5.5	-5.4	-4.0	-3.9
Fiscal Balance (% of GDP)	-13.9	-9.0	-3.0	-6.5	-5.9	-5.7
Debt (% of GDP)	10.0	20.7	20.7	21.0	24.0	26.3
Primary Balance (% of GDP)	-13.8	-8.7	-2.8	-6.1	-5.5	-5.3

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