KUWAIT

Table 1	2019
Population, million	4.2
GDP, current US$ billion	135.5
GDP per capita, current US$	31888.9
School enrollment, primary (% gross)[a]	92.4
Life expectancy at birth, years[a]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

While performance in 2020 will suffer from the twin shocks of COVID-19 and the oil price slump, growth in Kuwait has been tapering since 2014. The inevitable fiscal deficit increase from declining oil revenue and crisis mitigation spending, and funding needs for the Future Generations Fund are exacerbating pressure on fiscal buffers, in the absence of a debt law. While less exposed to internationally hard-hit sectors than its GCC neighbors, long-standing rigidities will impede adjustment to the protracted COVID-19 shock.

Recent developments

Real GDP posted a modest decline of 1.1 percent in Q1-2020; non-oil growth contracted by 3.5 percent while real oil GDP increased by 1.2 percent with the OPEC+ deal lapse. Broad-based measures to stem the pandemic included suspending flights, closing schools/ universities, banning public gatherings, suspending nonessential work, and imposing 24-hr curfew. Kuwait's persistence with variants of these measures is one of the longest continuous stretches in the world. These measures have significantly impacted private spending, investment activity and overall GDP starting Q2-2020.

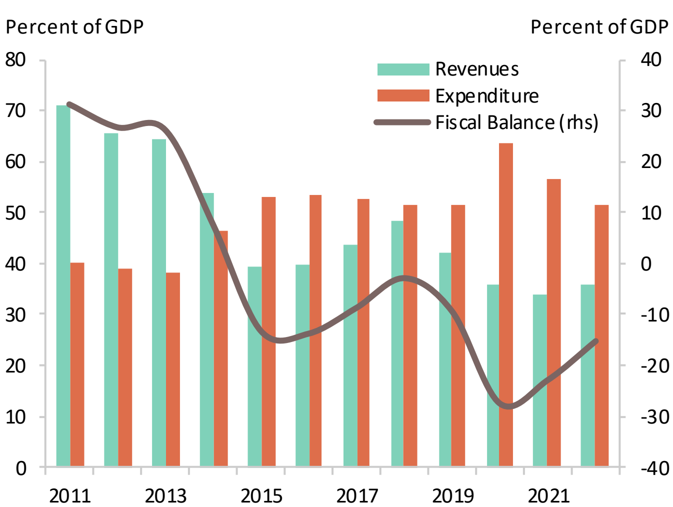
Discretionary fiscal response to mitigate the effects of the pandemic and public health response was small and included additional allocations of US$1.6 billion to the budget, the postponement of social security/ pension payments, and exemption of various fees. The Central Bank (CBK) introduced a US$16.5 billion support package, enabled deferred loan payments, reduced liquidity and capital adequacy requirements, cut risk weighting for SMEs, and mirrored policy rate cuts by the US Federal Reserve. Data from Knet shows a temporary boost in consumer spending in June from pent-up demand and loan repayment deferrals as lockdown restrictions eased. However, as in other countries, "second wave" fears could see the return of restrictions.

The fiscal deficit worsened from 3.1 percent of GDP in FY18/19 to 9.6 percent in FY19/20 (the fiscal year begins in April). These figures are excluding investment income and before transfers to the Future Generations Fund (FGF). However, these are better outturns than the budget target of KD6.7 billion (15.7 percent of GDP) due to the traditionally conservative oil price assumption. Oil revenues declined by 16.6 percent on the back of a 10.3 percent fall in oil prices and a 2.2 percent reduction in oil output. Non-oil revenues fell too due to weak economic activity. On the other hand, spending fell slightly driven by a fall in subsidies and capital spending.

While Kuwait has significant financial buffers (estimated at US$500 billion) to weather the current crisis, continued drawdowns for deficit financing and legally-mandated 10 percent of budgetary revenue transfers to the FGF have reduced the balances in the General Reserve Fund (GRF) by 12 percent of GDP in FY19/20. Kuwait has not issued debt since 2017 as it awaits parliamentary approval to raise the borrowing limit. Thus the fiscal crisis facing many oil exporters is compounded by the financing needs to execute the annual FGF transfers. The Parliament recently passed legislation making the annual transfer contingent on a fiscal surplus, but the legislation did not set out any mechanism by which a surplus would be achieved or FGF transfers made more predictable.

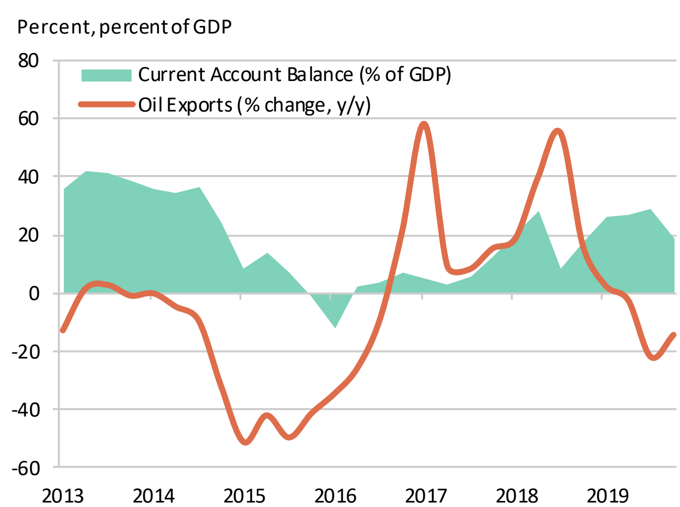
Like other GCC countries, Kuwait has significant labor market heterogeneity across genders and age groups with higher unemployment among the young (15-24 years). Kuwaiti women are less likely

FIGURE 1 Kuwait / General government operations



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice, IMF WEO Oct 2019.
Notes: Based on fiscal year cycle, which starts April 1 and ends March 31 (2) Balances exclude investment income and before oil revenue transfers to the Future Generations Fund.

FIGURE 2 Kuwait / Current account and oil exports



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

to participate in the labor force than Kuwaiti men (30.8 percent and 47.7 percent in 2017, respectively) and face higher unemployment rates. Female unemployment in the 15-24 years age group almost doubles men unemployment in the same age bracket (37.1 percent for female nationals versus 20.5 percent for male nationals in 2017). In the context of the economic disruptions due to the pandemic, expatriate workers are expected to bear the brunt of the slump in business activity. Around 5 percent of the expat population reportedly left the country as proposed changes to the residency law aim at reducing the number of expats in Kuwait and as firms are forced to lay off workers.

Outlook

The protracted nature of the pandemic and slow government response has led to a downgrade in forecasts. Real GDP is now expected to contract by 7.9 percent of GDP in 2020 (compared to -5.4 percent forecasted in June 2020) as non-oil GDP growth is subdued by protracted public health measures and the constrained fiscal mitigation measures, while oil GDP contracts in compliance with the OPEC+ agreement. Over the medium-term growth will recover with continued recurrent public spending and credit growth, reaching to 2.9 percent by 2022.

The oil price slump and higher government spending are expected to widen the fiscal deficit in 2020. According to preliminary estimates, authorities are expecting an overall deficit of KD 14 billion (32 percent of GDP) for FY2020/21 (to end-March 2021), compared to the target of KD 7.7 billion approved in January 2020. Beyond 2020 the introduction of a VAT and modest rebound of oil prices is likely to reduce budgetary pressures, depending on the government's appetite for VAT implementation in a weaker economy. The trajectory of government debt is subject to the passing of the much-anticipated debt law. Despite the rebound in global merchandise trade in June, Kuwait's current account is expected to turn into deficit in 2020 but recover slowly over the medium term. Inflation is expected to rise gradually as economic activity and property rents recover.

Risks and challenges

Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms remains a key challenge. This friction, now to the fore in the stalled progress on the draft debt law, and the lessened appetite for reform, will continue due to the elections expected in November 2020. The subsequent formation of a new government will unfold in the context of the orderly accession of the Emir. Longer-term challenges relate to the economy's heavy dependence on oil and slow progress in the implementation of the Vision 2035. Large financial assets underpin Kuwait's economic resilience, but fiscal and structural reform are key to offset the risks of lower oil prices, low oil demand in the future and rising marginal cost of oil production. These measures include non-oil revenue mobilization as well as enhancing human capital and reforming economic governance to invigorate private sector led development and job creation.

Key risks relate to the length of COVID-19 and continued volatility in oil prices. If there is resurgence of cases in Kuwait or the pandemic fails to be contained globally and oil prices plunge further resulting from lower oil demand due to a protracted global slowdown or a recession in the US, this will lead to unfavorable macro-financial dynamics for Kuwait, widening fiscal and external imbalances and further eroding fiscal buffers.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-4.7	1.2	0.4	-7.9	1.0	2.9
Private Consumption	3.5	5.4	3.2	-4.7	1.5	3.1
Government Consumption	2.0	6.3	2.6	-1.0	0.5	2.2
Gross Fixed Capital Investment	10.8	4.8	3.3	-3.5	-1.0	2.1
Exports, Goods and Services	-4.8	-4.8	-0.4	-12.0	3.3	5.0
Imports, Goods and Services	9.2	-0.9	2.0	-3.0	3.2	5.1
Real GDP growth, at constant factor prices	-4.0	1.3	-0.6	-7.3	0.9	2.7
Agriculture	6.2	-0.4	-6.0	1.0	1.5	2.0
Industry	-6.1	0.2	-1.5	-9.0	-0.5	2.1
Services	-0.4	3.1	0.9	-4.8	2.9	3.5
Inflation (Consumer Price Index)	2.2	0.6	1.1	0.9	2.0	2.3
Current Account Balance (% of GDP)	8.0	14.1	16.4	-5.3	-0.9	2.2
Fiscal Balance (% of GDP)[a]	-8.9	-3.0	-9.6	-27.7	-23.0	-15.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).