KUWAIT

Table 1	2017
Population, million	4.1
GDP, current US$ billion	119.5
GDP per capita, current US$	28894
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 is firming amidst higher energy prices and rising oil output following OPECs mid-year decision to lift production curbs. Over the medium term, public infrastructure spending is expected to provide further support. External and fiscal balances are also expected to improve. The slow pace of structural reforms needed to diversify away from hydrocarbons and foster private sector activity is a key challenge. Poverty incidence among Kuwaitis is low.

Recent developments

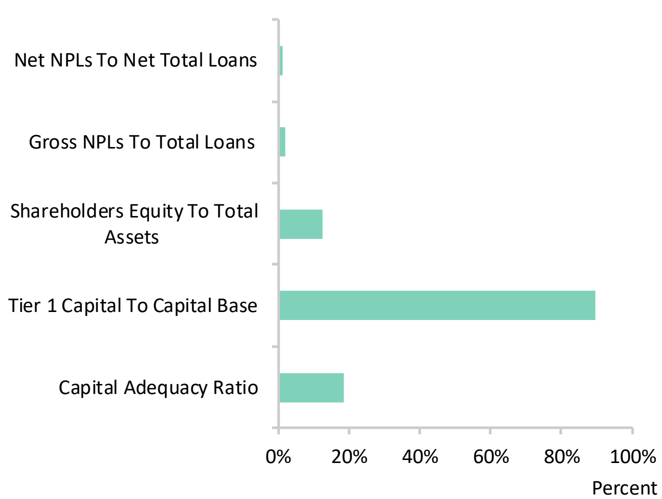
With hydrocarbons accounting for nearly half of GDP, the economy contracted by 3.5 percent in 2017 weighed down by OPEC-related oil production cuts. Overall, the oil sector contracted by 7.2 percent; however, growth in the non-oil sector held up at 2.2 percent, supported by a steady growth in household spending and higher government consumption spending. Investment spending slowed during 2017, following a surge during 2016 when the government stepped up implementation of the five-year Development Plan (2015/16-2019/20). The positive momentum in non-oil activity was sustained into 2018, with the sector expanding by 2.8 percent yoy in Q1, which helped to lift aggregate GDP growth to 1.6 percent (the first positive in five quarters). Recent data indicate firming economic activity and sentiment. Kuwait is the fifth largest OPEC oil producer, and one of the few OPEC members with spare oil production capacity. Oil output is expected to increase to 2.785 mbd annually, a daily increase of 85,000, following the reversal of OPEC+ production cuts in June. The recovery in oil prices over the past year, which are close to three-and-a-half year highs, and rising public sector employment have also bolstered household spending and sentiment, as reflected in buoyant retail spending in H12018. Following a correction in 2016 and 2017, real estate prices have also stabilized. Bank lending to consumers also remains strong, rising at an average 7.1 percent yoy in H1 2018. The banking sector is healthy and, at 18.4 percent, bank capital adequacy ratios are above the central bank's required 13 percent.

External positions remain strong and supportive of the currency peg. Financial buffers held by the Kuwait Investment Authority are estimated at around US$530 billion. Higher oil prices have boosted export receipts, with Kuwait posting a current account (CA) surplus of over 5.9 percent of GDP in 2017, a marked improvement from the 4.6 percent deficit posted in 2016. Improving trade balances have further lifted the CA surplus to 9.6 percent of GDP in Q1 (4-quarter rolling sum basis).

Fiscal pressures have also lessened as higher energy prices have boosted oil receipts, which account for nearly 90 percent of government revenues. This has helped narrow the FY2017/18 deficit to 8.9 percent of GDP (excluding investment income and before transfers to the sovereign wealth fund) following a 13.8 percent shortfall the previous year. For FY2018/19, budgeted spending of KD 21.5 billion represents a 12 percent increase over last year's outturns. This is expected to keep the headline deficit large, at close to 6 percent. Deficits in recent years have been financed by a mix of drawdowns from fiscal savings in the General Reserve Fund, and from domestic and international debt financing; Kuwait issued an inaugural US$8 billion international bond in 2017. Gross public debt remains low at around 20 percent of GDP at end-2017.

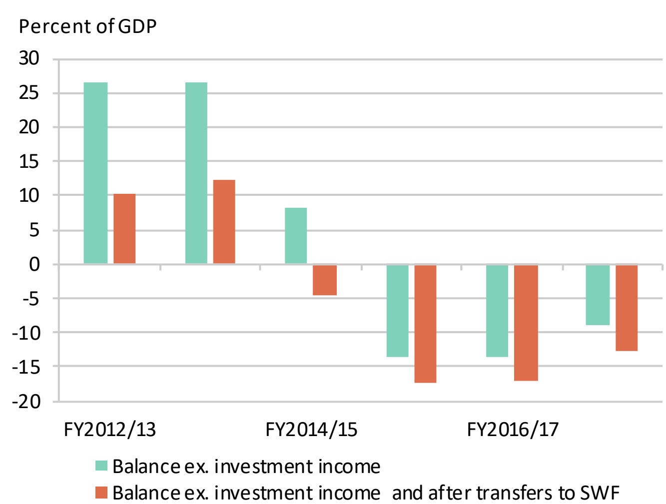
Fiscal reforms are, however, proceeding slowly. The government began rationalizing water and electricity subsidies in

FIGURE 1 Kuwait / Banking sector indicators, 2017



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

FIGURE 2 Kuwait / Public sector balances



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

September 2016; nevertheless, subsequent tariff increases have been implemented more slowly than initially proposed in part reflecting strong opposition in Parliament. The imposition of a VAT, which was due in 2018, has been postponed until 2021.

Inflation has remained subdued averaging 0.7 percent in H1 2018 due to declining housing costs and persistently weak food price growth. The peg to an undisclosed currency basket, in which the US Dollar has a heavy weighting means that monetary policy is closely tied to that in the US. The central bank (CBK) has tightened monetary policy more slowly than the US Fed, increasing its key interest rate for the first time in a year in March 2018 following a 25 basis point increase by the US Federal Reserve Bank. Despite another 25bps hike by the Fed in June, the CBK opted to leave rates on hold.

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, immigrants, who make up two-thirds of the population, constitute the bulk of lower-income residents. Additional concerns for immigrant 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

Growth is expected to rebound to 1.5 percent in 2018 as oil output and exports increase, and 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. In March the government announced the Northern Gulf Gateway project, which aims to connect Kuwait and its hinterland countries with China's Belt and Road Initiative. Accordingly, growth is projected at just over 3 percent over the medium term, and could prove higher if Gulf Gateway projects are implemented. The delay in VAT reforms and higher government spending are expected to offset higher oil revenues, and keep the budget deficit large at over 4 percent of GDP over the medium term; the CA surplus is also 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 strong resurgence in global oil output could weigh on energy prices, putting pressure on fiscal and external balances. Longer term challenges relate to Kuwait's heavy dependence on oil to drive growth and to fund generous subsidies, transfers and public-sector jobs for citizens. Although the New Kuwait 2035 Strategic Plan released in 2017 aims to transform the country into a regional, financial and commercial hub, a poor business environment and large public sector have hampered private non-oil sector productivity. 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)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	0.6	2.9	-3.5	1.5	3.1	3.1
Private Consumption	3.4	1.1	2.9	3.9	3.5	3.5
Government Consumption	-1.5	0.6	4.0	9.3	3.9	1.9
Gross Fixed Capital Investment	15.5	11.6	5.2	5.9	7.4	6.9
Exports, Goods and Services	-0.9	2.5	-3.3	1.8	3.0	3.2
Imports, Goods and Services	6.8	4.2	11.5	11.0	6.0	5.0
Real GDP growth, at constant factor prices	-0.9	3.0	-2.9	1.5	3.1	3.1
Agriculture	-5.4	0.5	3.4	3.3	3.3	3.1
Industry	-0.9	3.5	-6.3	1.9	3.7	3.3
Services	-0.9	2.1	2.9	0.8	2.1	2.7
Inflation (Consumer Price Index)	3.3	3.2	1.6	2.2	3.0	3.0
Current Account Balance (% of GDP)	3.5	-4.6	5.9	10.6	7.8	5.9
Net Foreign Direct Investment (% of GDP)	-4.4	-3.8	-6.5	-4.2	-3.2	-3.2
Fiscal Balance (% of GDP)	-13.4	-13.9	-9.0	-5.9	-4.9	-4.4
Debt (% of GDP)	11.0	10.3	19.1	25.8	31.1	35.8
Primary Balance (% of GDP)	-13.3	-13.9	-8.8	-5.7	-4.5	-3.9

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