# KUWAIT

| Table 1 | 2020 |
|---|---|
| Population, million | 4.3 |
| GDP, current US$ billion | 107.5 |
| GDP per capita, current US$ | 25000.0 |
| School enrollment, primary (% gross)[a] | 88.0 |
| Life expectancy at birth, years[a] | 75.5 |
| Total GHG Emissions (mtCO2e) | 107.3 |

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

*Kuwait's economy contracted sharply in 2020 and the fiscal deficit reached an all-time high due to the fallout from the pandemic and OPEC+ oil production cuts. The economic recovery is expected to gather pace in 2021 and continue into the medium term as pandemic related restrictions are eased, and the combined effects of higher oil production and rising oil prices create scope for looser fiscal policy. However, emerging coronavirus variants and renewed downward pressure on oil prices are key downside risks.*

## Key conditions and challenges

Kuwait's long-term challenges relate to the economy's heavy dependence on oil and domestic consumption, and slow progress in the implementation of diversification plans. Hydrocarbons account for over 85 percent of fiscal revenue and 50 percent of GDP, a key issue in the New Kuwait 2035 Development Plan. The third development plan 2020-2025 was launched to meet these goals but implementation has been slow. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of lower oil prices, low oil demand in the future, and rising marginal cost of production. Such reforms include non-oil revenue mobilization, enhancing human capital, and reforming economic governance to invigorate private sector-led development.

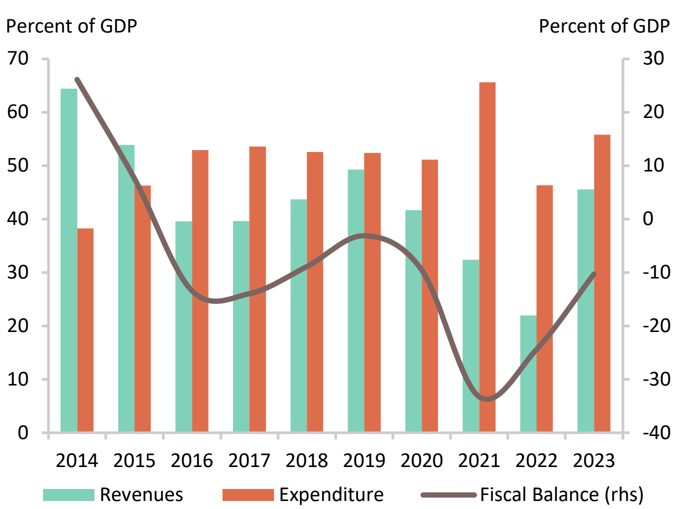
Non-oil growth is stalled due to short-term challenges related to the fallout from the coronavirus pandemic, and structural problems such as the lack of a dynamic private sector, compounded by political barriers to structural reform. Kuwaiti authorities still need to balance containing mounting fiscal pressures while supporting citizens and businesses disrupted by the pandemic. Capital spending and development projects have stalled; fiscal outturns show a 27.5 percent reduction in capital spending in FY20/21. Parliamentary pressure to expand 'Kuwaitization' (replacing expatriates with Kuwaitis to curb unemployment) is mounting, against the lack of demand by nationals to take on lower-skilled jobs. Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms.

Key risks to the outlook relate to the uncertainty over new variants of COVID-19, continued volatility in oil demand and prices and the political deadlock over debt financing. If these risks materialize, Kuwait will face unfavorable macro-financial dynamics. A more rapid rollout of the vaccine programs in Kuwait and the GCC should strengthen domestic recovery, but the persistent challenge of diversification remains.

## Recent developments

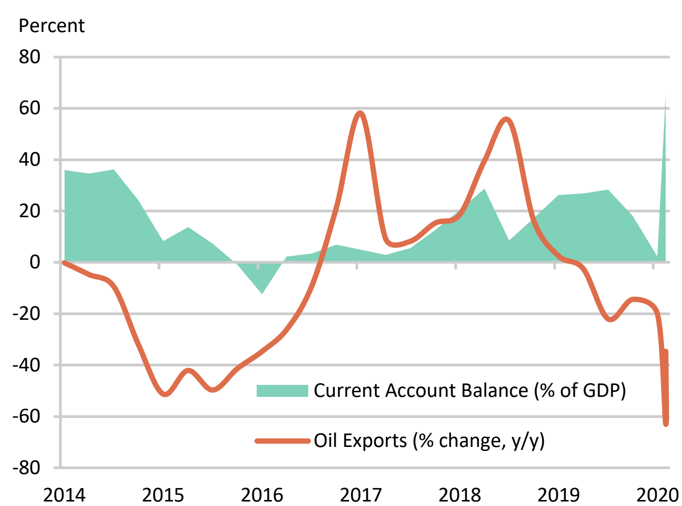
Early 2021 showed signs of recovery with a rebound of domestic consumption supported by renewed debt payment deferrals, and higher consumer loans. The oil sector picked up in May in line with OPEC+'s decision to ease production cuts. A spike in covid-19 cases in July 2021 prompted authorities to tighten restrictions allowing only vaccinated individuals to enter malls/restaurants. The case count has since dropped dramatically; the 7-day moving average for daily new cases was 166 in September, down from 1,827 in July. The vaccination drive has made significant progress; more than 70 percent of the population has received

**FIGURE 1 Kuwait** / General government operations




Sources: World Bank staff estimates and IMF WEO.
Notes: (1) Fiscal year cycle = April 1-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 staff estimates.

at least one dose. Real GDP in 2020 had contracted by 8.9 percent due to the fallout from the coronavirus pandemic in both oil and nonoil sectors. Oil production fell from 2.7 mn b/d in 2019 to 2.4 mn b/d in 2020. Inflation increased from 1.1 in 2019 to 2.1 in 2020 mainly due to higher food prices.

The fiscal deficit widened from 9.5 percent of GDP in FY19/20 to 33.2 percent in FY20/21 (the fiscal year begins in April and figures exclude investment income and transfers to the Future Generations Fund (FGF)). The parliament approved an expansionary budget for FY21/22 with a narrower deficit (24.5 percent of GDP) as oil revenues are expected to increase, but financing the deficit will remain a challenge without the approval of the new debt law that seeks to raise the borrowing limit. In tandem with severely depressed global oil prices and export volumes as the pandemic hit international trade and supply chains, the current account shrunk by 3.5 percent of GDP in 2020. The drop in exports was partially mitigated by lower imports, outbound tourism and remittances. However, trade is recovering in 2021 with total trade increasing by 20 percent q/q in Q12021 and oil exports increased by 34 percent q/q mainly due to higher oil prices.

The labor market in Kuwait is highly segmented. According to the 2016-17 Labor Force Survey, nine out of ten employed Kuwaitis work in the public sector, and thus were insulated from the pandemic-related restrictions on economic activity. In addition, labor force participation rate is 73.8 percent on average but also differs substantially by nationality: 39.5 percent of Kuwaitis participate in the labor market, against 82.2 percent of non-Kuwaitis. Heterogeneity also exists across genders (female unemployment is 5.8 percent versus 0.9 percent among men) and age (unemployment rate in the 15-24 years old group is 15.4 percent, versus a 2.2 percent at the national level).

## *Outlook*

OPEC production cuts are due to remain in place but are set to taper by April 2022. Rising oil production, and higher oil prices combined with the rapid rollout of vaccines will support a rapid recovery in 2021. As COVID-related restrictions are further eased consumer spending is expected to surge, mainly due to a low base effect. Over the medium term, real GDP will expand (averaging 4.2 percent for 2022-23) thanks to stronger oil exports, public spending and credit growth. Inflation is anticipated to gain momentum as economic activity recovers and higher global food and oil prices raise import costs.

In the medium term, a recovery in oil receipts will support incremental improvements in the fiscal position, but it will remain in deficit. Introducing the VAT in line with its GCC peers will enable Kuwait to diversify fiscal revenues. The trajectory of government debt is subject to the passing of the debt law which would raise the debt ceiling and increase maximum maturity. The Kuwait Investment Authority's assets (estimated at US$690 billion) will continue to act as a fiscal backstop. There is critical need for a comprehensive sovereign asset and liability management capability, since assets will be run down more quickly even if debt does not increase, in the absence of fiscal reforms. As oil export earnings recover in the medium term, underpinned by improvements in global demand conditions, and as concerns over the pandemic wane, the current account balance will continue to expand. A downside risk to this is economic recovery in China, which constitutes 25 percent of Kuwait's exports.

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

| | 2018 | 2019 | 2020 | 2021 e | 2022 f | 2023 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 2.4 | -0.6 | -8.9 | 2.0 | 5.3 | 3.0 |
| Private Consumption | 4.0 | 2.3 | -4.5 | 2.9 | 4.2 | 3.1 |
| Government Consumption | 6.3 | 7.7 | -1.6 | 2.0 | 3.8 | 2.5 |
| Gross Fixed Capital Investment | 3.4 | -2.6 | -3.1 | 0.5 | 2.0 | 3.8 |
| Exports, Goods and Services | -0.4 | -10.0 | -13.3 | 3.2 | 7.8 | 4.3 |
| Imports, Goods and Services | 1.5 | -10.4 | -4.0 | 3.5 | 5.0 | 5.1 |
| **Real GDP growth, at constant factor prices** | 1.3 | 0.7 | -8.9 | 2.2 | 5.1 | 2.9 |
| Agriculture | -3.6 | -4.6 | -3.8 | 0.5 | 1.0 | 1.3 |
| Industry | 2.2 | -0.9 | -12.2 | 2.2 | 7.1 | 3.1 |
| Services | -0.2 | 3.4 | -3.5 | 2.1 | 2.2 | 2.5 |
| **Inflation (Consumer Price Index)** | 0.6 | 1.1 | 2.1 | 2.4 | 2.6 | 2.5 |
| **Current Account Balance (% of GDP)** | 14.4 | 24.4 | 20.8 | 12.2 | 13.3 | 14.9 |
| **Fiscal Balance (% of GDP)**[a] | -3.1 | -9.5 | -33.2 | -24.4 | -10.3 | -7.7 |
| **GHG emissions growth (mtCO2e)** | 2.3 | 0.5 | -6.3 | 9.8 | 8.6 | 7.4 |
| **Energy related GHG emissions (% of total)** | 78.2 | 77.2 | 75.8 | 78.0 | 78.4 | 78.5 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).