KUWAIT

Table 1	2021
Population, million	4.3
GDP, current US$ billion	134.7
GDP per capita, current US$	31325.6
School enrollment, primary (% gross)[a]	87.3
Life expectancy at birth, years[a]	75.5
Total GHG Emissions (mtCO2e)	113.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Kuwait exited a two-year recession in 2021 as COVID-19 restrictions and OPEC+ cuts are gradually eased. The fiscal deficit is expected to narrow with surging oil prices. The economic recovery is projected to gather pace in 2022 due to the combined effects of fewer pandemic related restrictions, higher oil production and rising oil prices which will boost both oil and non-oil sectors. However, emerging coronavirus variants, volatile oil prices and continued political deadlock over key reforms are downside risks.

Key conditions and challenges

Kuwait's long-term challenges relate to the economy's dependence on oil and domestic consumption, and slow implementation of diversification plans. 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 low oil demand in the future. Fitch Ratings downgraded its sovereign rating in January due to ongoing political constraints hindering economic reform and debt financing needs. In 2021, more than 257,000 expatriates permanently relocated following a trend exacerbated by the pandemic. Moreover, the government has been accelerating its Kuwaitisation policy—the replacement of foreign workers with Kuwaitis. The exodus of expats has resulted in labor shortages, which risks hampering growth in both the oil and non-oil sectors. Structural reforms targeting sustained, inclusive, and greener growth are urgently needed.

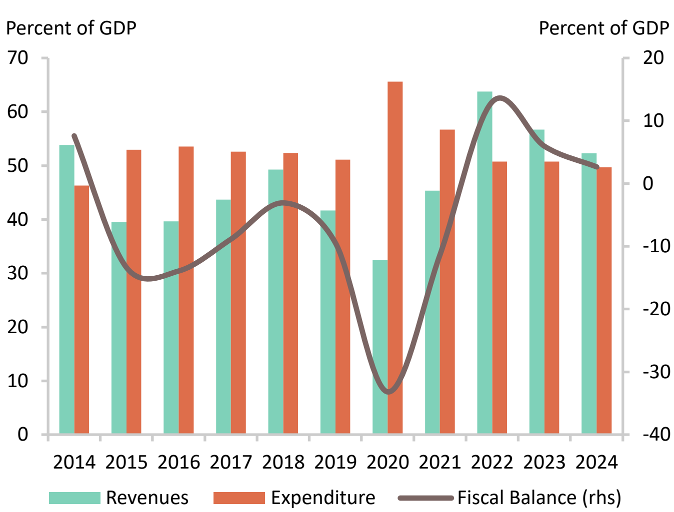
Key risks to the outlook relate to the uncertainty over new variants of COVID-19, oil market volatility, and the political deadlock over structural reforms. On the other hand an upside risk is that the recent oil price surge triggered by the war in Ukraine continues. As the COVID-19 crisis abates, policies should address medium- and long-term challenges such as enhancing fiscal sustainability by containing the wage bill, phasing out subsidies and moving ahead with VAT in harmony with other GCC countries.

Recent developments

Kuwait's real GDP growth in 2021 is estimated at 2.3 percent, a modest rebound given the based effect that the COVID-19 driven deep contraction of 8.9 percent in 2020 generated. The recovery was aided by a pick-up in the oil sector in line with OPEC+'s decision to ease crude production cuts, as well as a rebound of domestic consumption supported by renewed debt payment deferrals and higher consumer loans. Domestic credit increased by 6.3 percent in 2021, its highest growth rate since 2015, and was driven by households, while business credit remained flat. The spike in COVID-19 cases in early 2022 was the highest recorded since the crisis began, prompting authorities to tighten restrictions. The case count has since dropped dramatically and now over 83 percent of the population is fully vaccinated. Inflation is expected to increase from 2.1 in 2020 to 3.4 percent in 2021 due to higher prices across all categories, led by food prices. The Central Bank of Kuwait raised interest rates by 25 bp in line with Federal Reserve System's move to tackle inflation.

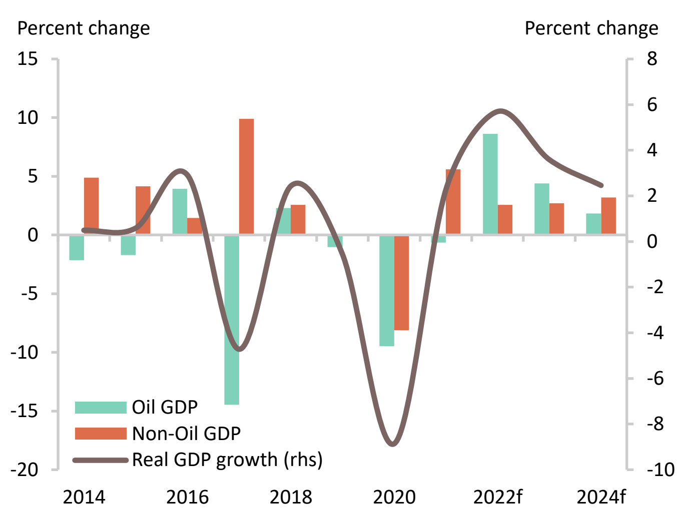
The fiscal deficit narrowed from 33.2 percent of GDP in FY20/21 to an estimated 11.4 percent of GDP in FY21/22 which is narrower than the government's budget

FIGURE 1 **Kuwait** / General government operations



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice, IMF WEO. Notes: (1) Based on fiscal year cycle (April to March 31), (2) Balances exclude investment income and transfers to the Future Generations Fund.

FIGURE 2 **Kuwait** / Growth: Real GDP, real oil, and real non-oil sectors



Sources: Kuwait CSB, World Bank, Macroeconomics, Trade and Investment Global Practice.

(29.8 percent of GDP) due to higher-than-expected oil prices. This more than compensated for higher spending (the fiscal year begins in April and figures exclude investment income). However, financing the deficit will remain a challenge without the approval of the proposed debt law that seeks to raise the borrowing limit. In tandem with the recovery of global oil prices and export volumes as pandemic related international supply chain disruptions eased, the current account surplus expanded by an estimated 5.1 percent of GDP in 2021. The recovery in trade was led by higher earnings from both oil and non-oil exports, mitigated by higher imports.

Kuwait's labor market 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 protected from pandemic-related restrictions on economic activity. By contrast, migrant workers are largely employed in the private sector (64.3 percent) or as domestic workers (31 percent). The ILO estimates an annual decline of 5.8 percent in the labor force in 2020, with only a partial rebound in 2021 (4.1 percent). This is largely driven by a reduction of migrants (by 8.5 percent between 2019 and 2020). ILO estimates women and men unemployment rates increased in 2020: 8.2 and 2.0 percent, respectively, compared to 5.7 and 1.0 percent in 2019.

Outlook

Economic growth in 2022 is expected to accelerate to 5.7 percent due to higher oil output, as OPEC+ cuts are phased out, and as domestic demand strengthens. Oil production is expected to increase by 8.6 percent in 2022 as OPEC+ lifts quotas and new capacity at the Al Zour refinery comes online. Over the medium term, real GDP will expand (averaging 3 percent for 2023-24) thanks to stronger oil exports and credit growth. Stronger domestic demand will give further momentum to inflation in 2022. However, a gradual tightening of monetary policy from 2022 onwards will moderate inflation over the medium term.

The FY22/23 budget aimed to narrow the overall fiscal deficit (7.2 percent of GDP) through stronger oil revenues and lower spending, primarily subsidy and capital spending cuts. However, with the sharp increase in oil prices following the war in Ukraine, a large swing into surplus for the overall fiscal balance (to 13 percent of GDP in 2022) is projected. This will enable the partial clearance of US$7.7 billion in arrears that Kuwait's finance ministry owes to ministries and other public bodies. In light of this, fiscal reform to enhance liquidity are critical and introducing the VAT in line with its GCC peers will help diversify revenue. Furthermore, Kuwait should seize the opportunity of the favorable fiscal position to delink the economy from oil and push forward structural reforms. The related boost in oil export earnings in addition to improvements in global demand and waning concerns over the pandemic, will continue to expand the current account balance. Kuwait has long-term LNG import contracts with Qatar so the gas price hike is not expected to have a major impact. Frequent government changes indicate that political deadlock will continue to hinder structural reform needed to raise potential growth and competitiveness.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.6	-8.9	2.3	5.7	3.6	2.5
Private Consumption	2.3	-4.5	2.9	4.2	3.1	3.0
Government Consumption	7.7	-1.6	3.0	3.8	2.5	2.2
Gross Fixed Capital Investment	-2.6	-3.1	0.5	2.0	3.8	3.5
Exports, Goods and Services	-10.0	-13.3	3.2	8.6	5.1	2.7
Imports, Goods and Services	-10.4	-4.0	3.5	5.0	4.9	3.8
Real GDP growth, at constant factor prices	0.7	-8.9	2.4	5.5	3.4	2.3
Agriculture	-4.6	-3.8	0.5	1.0	1.3	1.5
Industry	-0.9	-12.2	2.2	6.8	3.1	1.1
Services	3.4	-3.5	2.6	3.5	3.9	4.0
Inflation (Consumer Price Index)	1.1	2.1	3.4	3.6	2.8	2.3
Current Account Balance (% of GDP)	24.4	20.8	25.9	42.4	39.5	26.3
Fiscal Balance (% of GDP)[a]	-9.5	-33.2	-11.4	13.0	5.9	2.6
GHG emissions growth (mtCO2e)	4.9	-7.1	3.3	8.0	4.9	4.9
Energy related GHG emissions (% of total)	77.4	74.3	73.0	72.4	70.9	69.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).