KUWAIT

Table 1	2020
Population, million	4.5
GDP, current US$ billion	118.3
GDP per capita, current US$	26523.5
School enrollment, primary (% gross)[a]	88.0
Life expectancy at birth, years[a]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Kuwait is still adapting to the twin shocks of COVID-19 and slump in oil prices that hard-hit its economy and fiscal and external positions. As fiscal deficits persist in the medium term, and in the absence of a new debt legislation, drawdowns from sovereign assets will be inevitable, potentially without concomitant reforms. Friction between the executive and legislative branches, delays in vaccination rollout to the entire population, and renewed downward pressure on oil prices are all key downside risks to the outlook.

Key conditions and challenges

Long-term challenges relate to the economy's heavy export dependence on oil, domestic dependence on consumption, and slow progress in the implementation of Vision 2035 reforms and the diversification objective therein. 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 oil production. Such measures include non-oil revenue mobilization as well as enhancing human capital and reforming economic governance (e.g., relating to FDI, land, and private sector participation) to invigorate private sector-led development and job creation.

Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms exemplifies a lack of consensus around reform direction. This friction is now to the fore in the stalled progress of the draft debt law; given the high financing needs foreseen in the medium term, approval of a debt law could be a useful trigger for another attempt to reach a reform consensus.

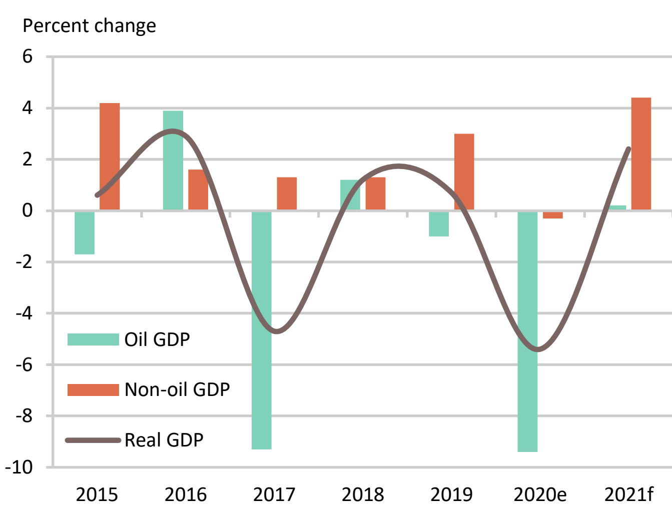
Key risks to the outlook relate to further spikes of COVID-19 and continued volatility in oil demand and prices. If new cases continue to be high, or oil prices continue at their subdued levels, this will lead to unfavorable macro-financial dynamics, further widening fiscal and external imbalances. A more rapid rollout of the vaccine programs in Kuwait and the GCC should partially mute these risks and strengthen domestic recovery, but the persistent challenge of diversification will then return to the fore.

Recent developments

As in other countries, a new wave of the pandemic is an emerging possibility. The 7-day moving average for daily new cases registered a new high in early February (980 cases), after being on a downward trajectory since October 2020. A spike in new cases prompted authorities to renew restrictions in early February. Meanwhile, the national vaccination program rollout started in late December 2020 with the target of inoculating 80 percent of the population by September 2021—by end-March, only 8.7 percent of the population received at least a single dose of the vaccine. A boost in prospects has come from oil prices, which recouped some of their lost ground since Spring 2020 owing to effective OPEC+ supply restraint and a pick-up in global economic activity as countries relax containment measures.

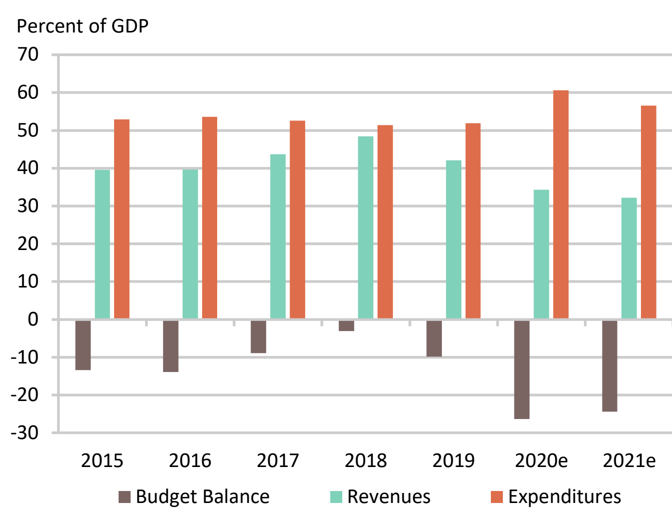
Given a lowering case count and relaxed social distancing restrictions during the second half of the year, real GDP growth in 2020 is expected to perform better than previously projected; revising from -7.9 to -5.4 percent. A stronger rebound in

FIGURE 1 Kuwait / Annual real GDP growth



Sources: CSB Kuwait, IMF Article IV, and WB staff estimates.

FIGURE 2 Kuwait / Central government operations



Sources: World Bank, Macroeconomics, Trade, & Investment Global Practice.

private consumption supported overall performance in the non-oil sectors.

The fiscal deficit is expected to widen from 9.8 percent of GDP in FY19/20 to 26.2 percent in FY20/21 (the fiscal year begins in April). These figures are excluding investment income and before transfers to the Future Generations Fund (FGF). The FGF has a significant financial buffer to weather the current crisis; however, continued drawdowns for deficit financing and the previously legally-mandated 10 percent of budgetary revenue transfers to the FGF have depleted all performing assets in the General Reserve Fund (GRF) in FY20/21.

Kuwait has not issued debt since 2017 as it awaits parliamentary approval to raise the borrowing limit resulting in government recently seeking Parliament's permission to withdraw as much as KD 5 billion annually from the FGF to fill part of its financing needs.

According to the most recent Labor Force Survey from 2017 the Kuwait labor market is highly segmented. Labor force participation rate is 73.8 percent on average but differs considerably by nationality: 39.5 percent of Kuwaitis participate in the labor market, against 82.2 percent of non-Kuwaitis. Nine out of ten employed Kuwaitis work in the public sector, and thus were insulated from the pandemic-related restrictions on economic activity. The labor market also exhibits heterogeneity across gender (female unemployment is 5.8 percent versus 0.9 percent among men) and age, with higher unemployment among the young (unemployment rate in the 15-24 years old group is 15.4 percent, versus a 2.2 percent at the national level).

Outlook

The economy is expected to recover with 2.4 percent growth in 2021, driven by a more accelerated pick up in global energy demand and prices while oil production levels continue to lag, growing only at 0.2 percent, in agreement with OPEC+ commitment. As the vaccination program gains more momentum and COVID-related restrictions are further eased, non-oil sectors will continue its growth trajectory, estimated to reach 4.4 percent in 2021 to reflect stronger domestic demand. Over the medium term, growth will recover even further with continued public spending and credit growth, averaging around 3.2 percent. Inflation is anticipated to pick up as economic activity recovers.

The budget deficit is anticipated to slightly narrow in FY21/22 but continues to be extremely high, reaching around 23 percent of GDP. In the medium-term, a recovery in oil receipts will support improvements in the fiscal position, but will not of itself shift it to surplus. Introduction of the VAT will be a major addition to the fiscal toolkit offering the ability to diversify fiscal revenues and orient the economy away from consumption-led non-oil growth. The trajectory of headline government debt is subject to the passing of the much-anticipated debt law, but the deeper issue is the need for a comprehensive sovereign asset and liability management perspective, since assets will be run down more quickly even if headline debt does not increase, in the absence of fiscal reforms.

As oil export earnings recover in 2021, underpinning improvements in global demand conditions, the current account will shift back into surplus. But as with the fiscal balance, the annual current account surplus does not reflect the needed level of saving of resource revenues to provide for an uncertain future where climate change concerns loom much larger than at present.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.4	-5.4	2.4	3.6	2.8
Private Consumption	5.4	3.2	-4.7	2.5	2.8	2.0
Government Consumption	6.3	2.6	-0.9	3.6	3.1	3.3
Gross Fixed Capital Investment	4.8	3.3	-2.6	-0.9	3.0	3.5
Exports, Goods and Services	-4.8	-0.4	-11.4	4.6	6.2	5.7
Imports, Goods and Services	-0.9	2.0	-7.7	4.3	6.1	7.0
Real GDP growth, at constant factor prices	1.3	-0.6	-5.0	2.3	2.5	2.0
Agriculture	-0.4	-6.0	1.0	1.5	2.0	2.0
Industry	0.2	-1.5	-9.3	0.3	3.4	2.9
Services	3.1	0.9	1.7	5.2	1.4	0.8
Inflation (Consumer Price Index)	0.6	1.1	0.9	2.0	2.3	2.5
Current Account Balance (% of GDP)	14.1	16.4	-2.7	8.2	11.7	13.8
Fiscal Balance (% of GDP)[a]	-3.0	-9.8	-26.2	-22.6	-19.3	-8.3

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).