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Kuwait: 2010 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Kuwait, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 18, 2010, with the officials of Kuwait on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN).

The document listed below has been or will be separately released.

Financial Sector Stability Assessment
Statistical Annex/Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

KUWAIT

Staff Report for the 2010 Article IV Consultation

Prepared by Staff Representatives for the 2010 Article IV Consultation with Kuwait

Approved by Alfred Kammer and David Marston

June 30, 2010

- **Discussions**: Held in Kuwait during April 7–18, 2010 with Mr. Khalifa Hamada, Undersecretary of Finance; Mr. Mohammad Y. Al-Hashel, Deputy Governor of the Central Bank of Kuwait (CBK); Mr. Abdulrahman Al-Anjari, Member of the Economic and Financial Committee of the National Assembly; other senior government officials; and private sector representatives. Mr. Shaalan (OED) also participated in some of the policy discussions.

- **Team**: Ms. Khamis (Head, MCD); Messrs. Cevik, Charap, Prasad, and Rodriguez (all MCD).

- **Mission Focus**: Short- and medium-term growth strategy, risks to the outlook—particularly for the financial sector, and the appropriate policy mix to sustain growth and macroeconomic and financial stability.

- **Previous Consultation**: Concluded on April 10, 2009. The staff report and the PIN of the Executive Board's discussion is available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=22951.0.

- **Exchange Arrangements**: The exchange regime is classified as conventional peg to a basket. Kuwait has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers of international transactions, other than certain security-related restrictions notified to the Fund pursuant to Decision 144-(52/51).

- **Data**: Data provision has some shortcomings, but is broadly adequate for surveillance. Further progress regarding quality and timeliness is needed, particularly in the national accounts.

Contents Page

I. CONTEXT

1. **Kuwait's economy was affected significantly by the global crisis.** The impact hit Kuwait in the second half of 2008, through the decline in oil prices and production, and was further exacerbated by the intensification of liquidity shortages in global financial markets post-Lehman's collapse. Oil market developments had a direct impact on government finances and external positions, but they also had an indirect impact on financial and corporate sector liquidity as the speculative capital inflows experienced in 2007 and early 2008 reversed in the second half of 2008 and investor confidence declined. These developments triggered a steep fall in real estate and equity prices and weakened the financial system's balance sheet.[1]

2. **Real GDP is estimated to have contracted by about 4½ percent in 2009—the weakest performance among GCC countries.** Real oil GDP declined by more than 11 percent, and real non-oil GDP is estimated to have remained flat, mainly reflecting weaker activity in the financial and construction sectors. Lower domestic demand and a 12 percent drop in import prices reduced average consumer price inflation to 4 percent. Equity prices continued to decline, money growth slowed, and credit growth plunged on account of lower demand and higher risk aversion by banks. Fiscal and external surpluses narrowed as oil revenues and investment income declined. The Kuwaiti dinar (KD) depreciated by about 4 percent against the U.S. dollar (Figures 1 and 2).

3. **The financial sector, particularly investment companies (ICs), experienced funding pressures and deterioration in asset quality.** ICs—with significant dependence on external financing, maturity mismatches, and large exposures to equity and real estate markets—suffered considerable valuation losses in 2008–09 and faced difficulties rolling over their debts. Five ICs are known to have defaulted in 2009–10. Banks' nonperforming loan (NPL) ratio doubled to 9.7 percent in 2009 and profitability declined significantly in 2008–09 reflecting higher provisioning and the large loss incurred by one bank in 2008. Profitability in the nonfinancial corporate sector also declined substantially (Text Table 1 and Figure 3).

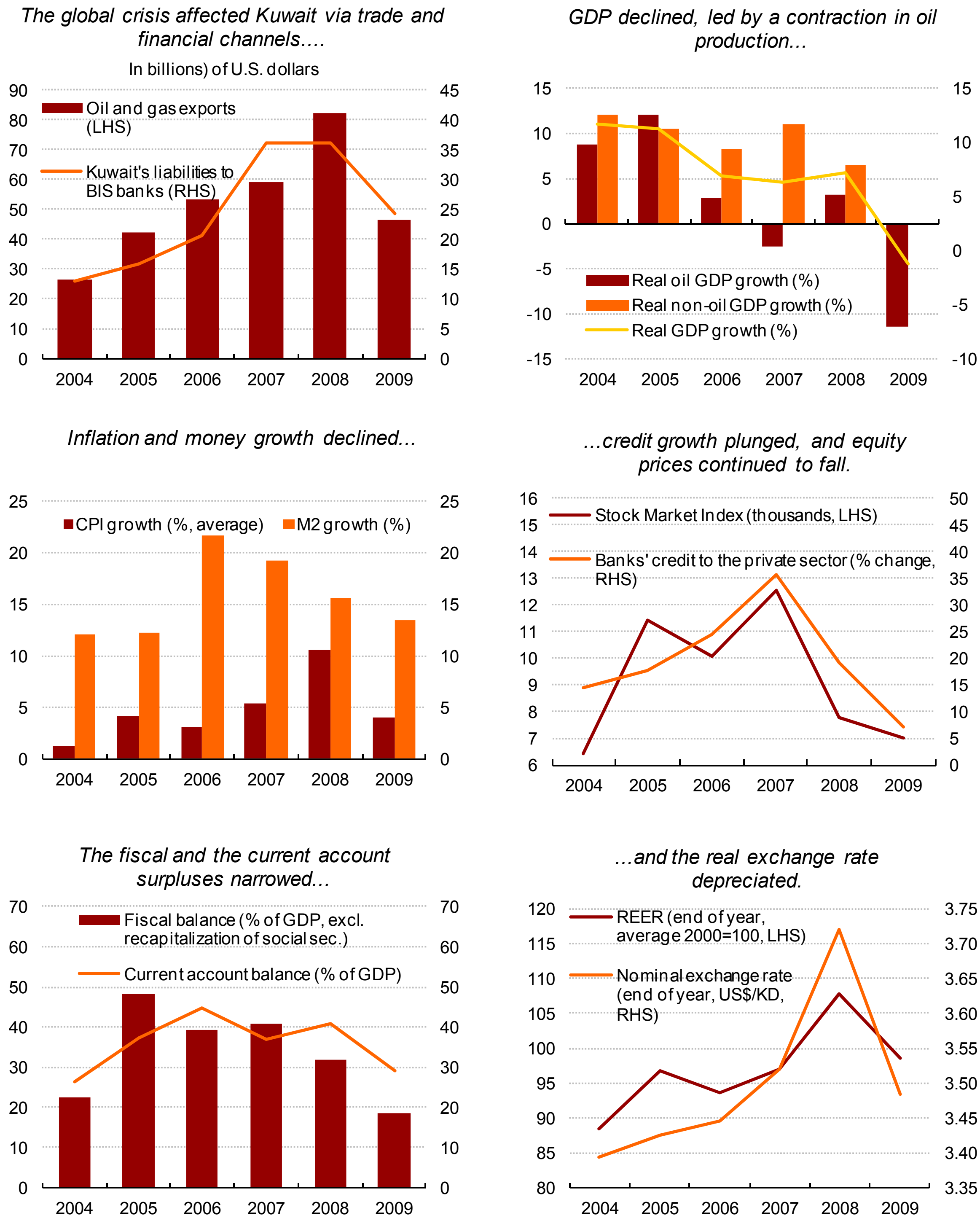
Text Table 1. Kuwait: Financial and Corporate Sector Performance, 2006–09 1/
(In billions of U.S. dollars)

	2006	2007	2008	2009
Banks				
Assets	90.7	136.6	155.5	153.3
Provisions	-2.4	-2.9	-5.2	-6.9
Net profit	1.1	3.7	1.2	1.4
Investment Sector				
Assets	26.7	46.3	47.6	41.0
Debt	14.8	27.3	31.8	28.2
Gross revenue	1.0	1.1	1.4	1.0
Net profit	1.0	5.1	-2.5	-1.3
Other Corporate Sectors 2/				
Assets	48.9	66.2	78.0	76.4
Debt	20.3	29.7	39.7	37.9
Gross revenue	18.7	25.2	33.6	30.5
Net profit	4.3	5.7	0.7	1.8

Source: Fund staff estimates based on published statements from Zawya.
1/ Data reflects companies listed on the Kuwait Stock Exchange.
2/ Food, industrial, insurance, real estate, and services.

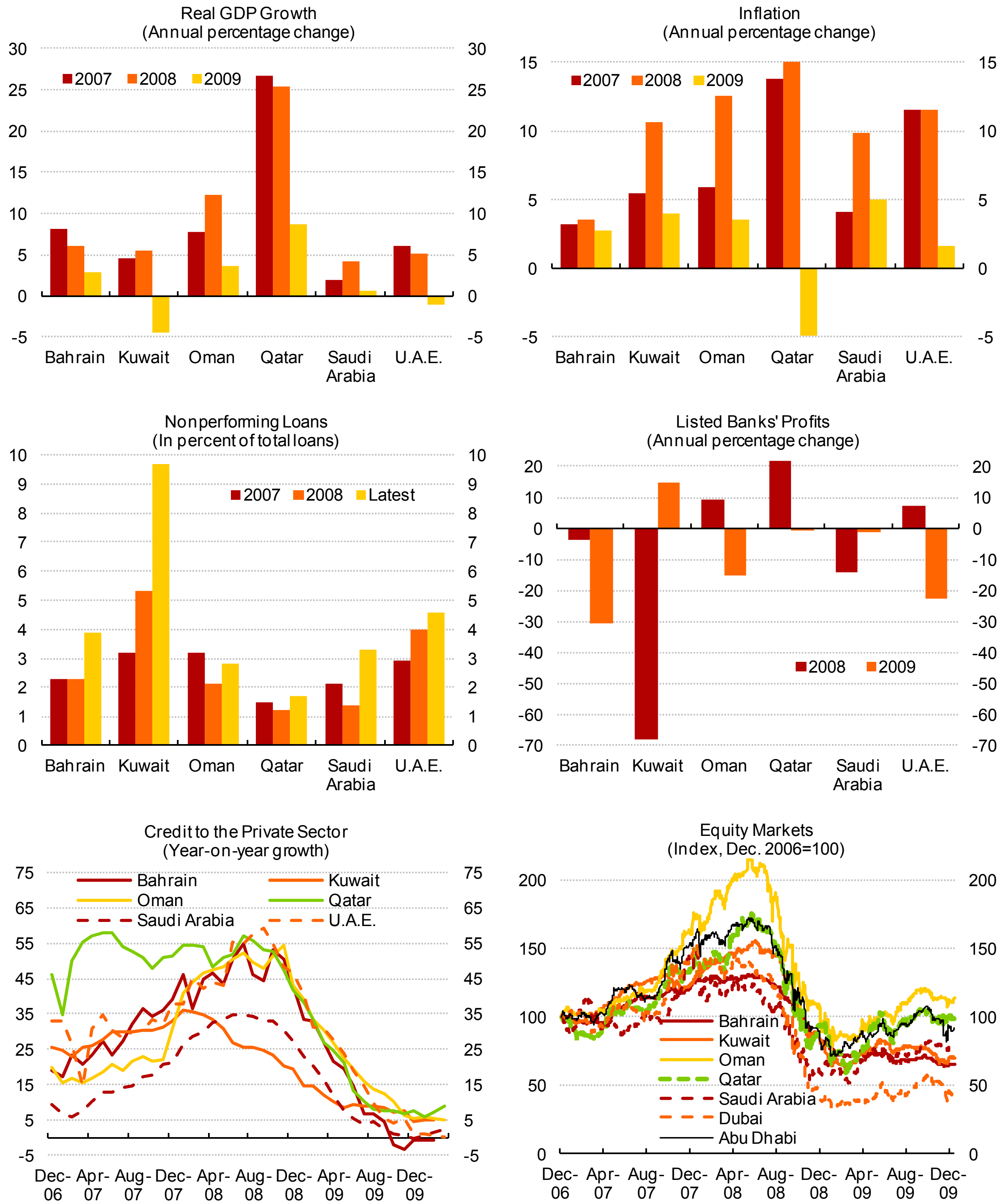
[1] Prices of apartments and commercial real estate nearly doubled during 2004–08. The rise in the price of residential real estate was more moderate, reflecting the high degree of state intervention in the sector.

Figure 1. Kuwait: Economic Context



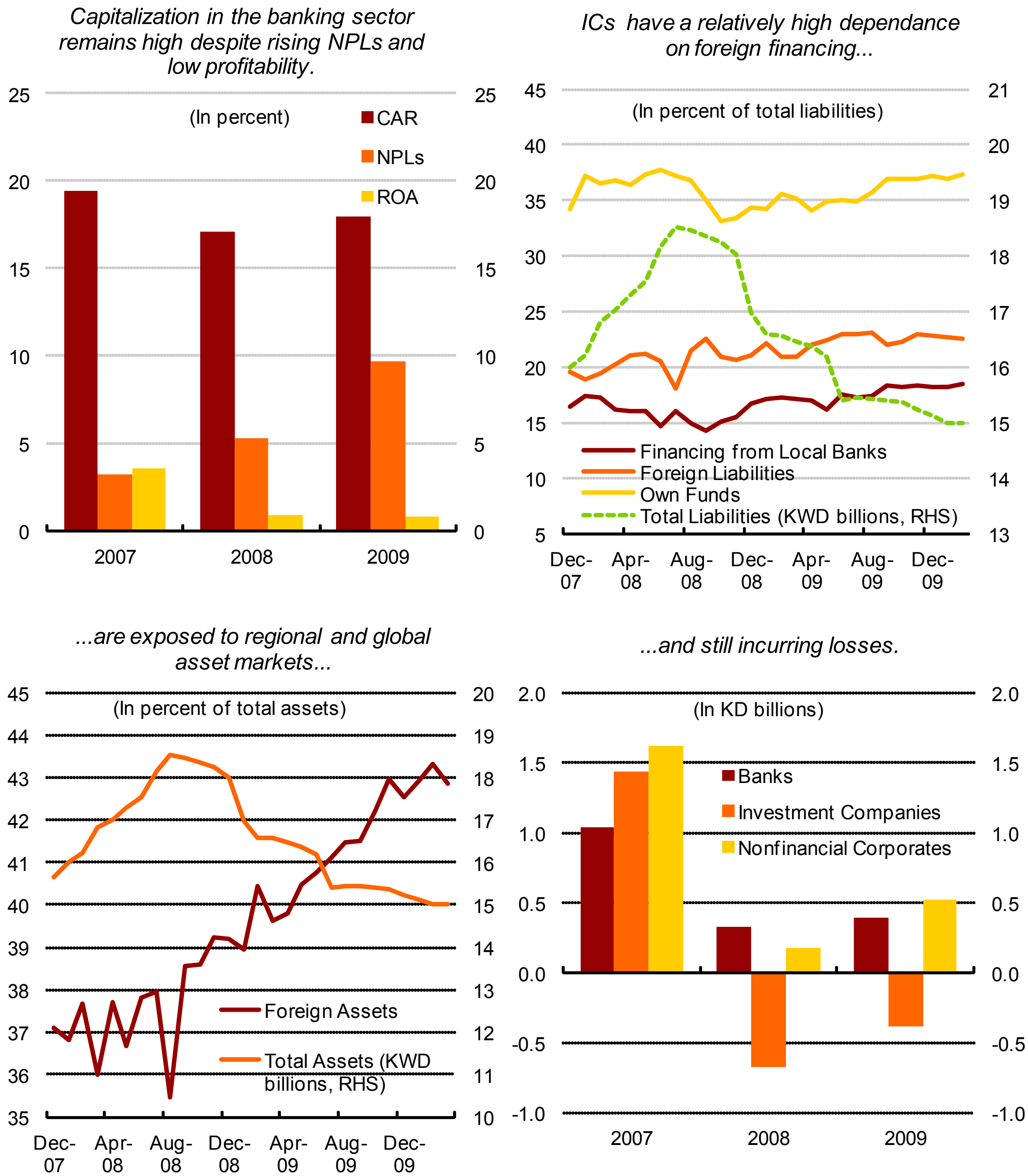
Sources: Kuwait authorities; and Fund staff estimates.

Figure 2. Macro and Financial Developments in the GCC Countries



Sources: Bloomberg; Zawya; country authorities; and Fund staff estimates.

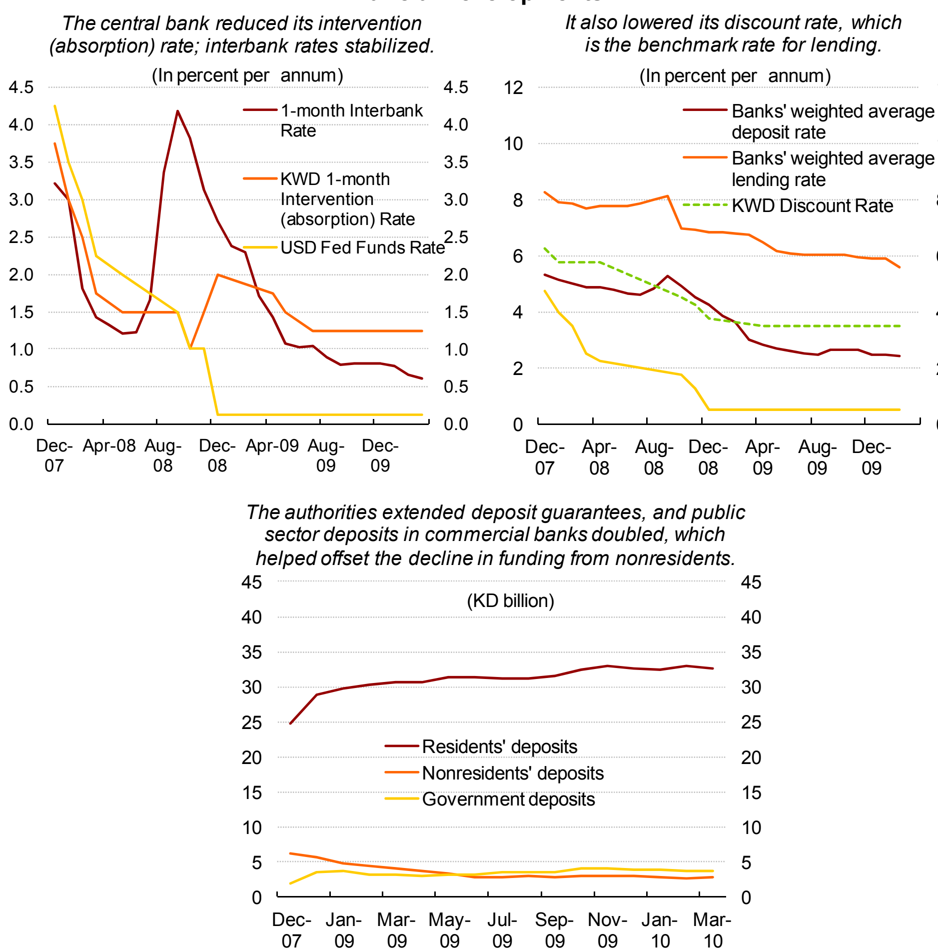
Figure 3. Kuwait: Financial Sector Conditions



Source: Central Bank of Kuwait.

4. **A forceful early response by the authorities contributed to financial sector stability.** Measures were extensive, ranging from liquidity support to the introduction of a financial stability law (Figure 4 and Annex 1). The CBK required banks to take precautionary provisioning and encouraged some to increase capital. Only one bank needed public funds for recapitalization. As of end-2009, the banking sector's capital adequacy ratio (CAR) was at 18 percent and all banks maintained CARs well above the regulatory minimum of 12 percent. Similarly, the leverage ratio stood at a comfortable level of 12 percent. Banking system liquidity was adequate, with liquid assets covering 35 percent of short-term liabilities, supported by public sector deposits. The overall open net foreign currency position was marginal. Nevertheless, the impact of government support measures on credit growth and non-oil activity was limited in light of the absence of fiscal stimulus and the limited utilization by borrowers and banks of guarantees provided for under the financial stability law.[2]

Figure 4. Kuwait: Government Reponse to the Economic and Financial Developments



Source: Central Bank of Kuwait.

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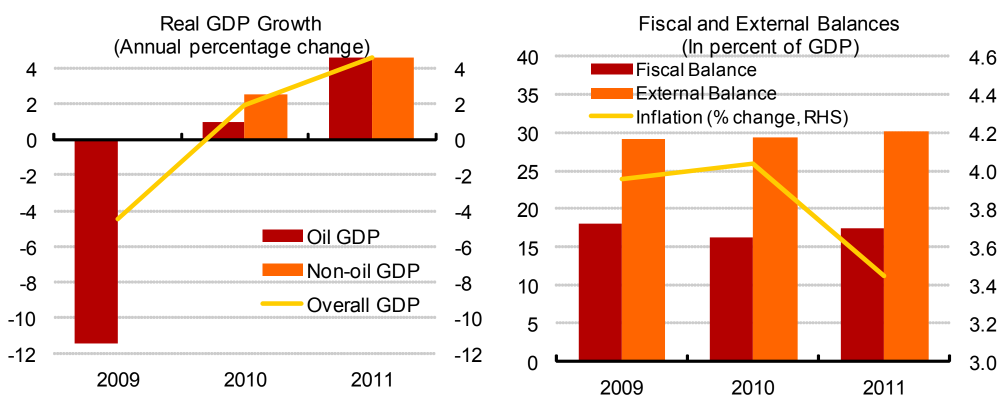
[2] The absence of a fiscal stimulus reflected the authorities' perception that fiscal prudence was warranted in light of the sharp decline in revenues and the uncertainty surrounding oil price developments (IMF Country Report No. 09/152).

5. **The relationship between the government and the National Assembly has improved but remains tense.** In particular, the Assembly's approval of a debt relief law—opposed by the government—could reignite tensions.

II. ECONOMIC OUTLOOK

6. **The economic outlook is broadly positive.** Real GDP is projected to increase by around 2 percent, with non-oil GDP growth of about 2½ percent—spurred by government spending in the context of the recently approved development plan (DP)—and oil GDP growth of about 1 percent. Inflation will remain at around 4 percent in 2010, primarily due to a moderation in rental rates, which is expected to offset the increase in imported inflation. The economy is projected to grow steadily over the medium term as the global recovery boosts the demand for oil and the government continues the DP's implementation. The fiscal and current account balances are expected to remain stable in 2010–11 and improve in subsequent years, as oil receipts and investment income recover (Figure 5 and Table 5).

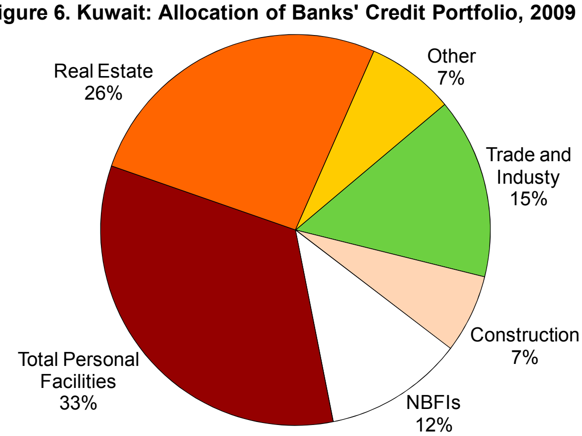
Figure 5. Kuwait: Macroeconomic Outlook, 2009–11



Sources: Country authorities; and Fund staff estimates.

7. **The financial sector is expected to continue to face challenges in the immediate term.** Bank loan concentration in the weak real estate sector, equities, and ICs are likely to result in higher NPLs in 2010 (Figure 6). Nevertheless, high CARs—which were supported by capital increases in some large banks in 2009—and planned capital injections by five banks in 2010 should help maintain the sector's stability. In light of their vulnerabilities, challenges for ICs will be more extensive. The progress achieved so far on the restructuring of two large ICs is welcome, but it is necessary to speed up the restructuring of the sector more generally (Box 1).

Figure 6. Kuwait: Allocation of Banks' Credit Portfolio, 2009



Source: Central Bank of Kuwait.

Box 1. Kuwait: Investment Companies—A Tale of Two Restructurings

Corporate debt restructuring has taken various forms in different countries. During the Asian crisis, key elements included government financial intervention, the establishment of state restructuring agencies, the implementation of legal and regulatory reforms, and out-of-court settlements. The current global financial crisis necessitated significant government support to the financial sector, particularly in light of substantial systemic cross-sectoral linkages.[1]

The crisis management strategy in Kuwait included immediate measures to ensure macroeconomic and financial stability, followed by measures to support the corporate debt restructuring phase and economic growth. Macroeconomic and financial stability facilitated market-based debt restructuring of investment companies (ICs). The March 2009 Financial Stability Law (FSL) established an orderly and efficient mechanism for facilitating the timely restructuring of debt of solvent companies through legal protection, and facilitated access to sufficient financing to support an economic recovery.

As of June 2010, five ICs had defaulted on their debt. Global Investment House (GIH), the largest IC, defaulted on the majority of its $3 billion debt; Investment Dar (ID) on its $100 million sukuk; Gulfinvest International on a U.A.E. dirham 200 million loan from the Abu Dhabi Commercial Bank; International Investment Group, on a payment for its $200 million Islamic bond; and Kuwait Finance and Investment Company (KFIC) restructured $495 million in debts owed to local and foreign lenders.

The conclusion in late 2009 of a market-based debt restructuring agreement by GIH with 54 lending banks demonstrated a speedy and orderly debt restructuring process, with constructive facilitation by the CBK. The key terms of the GIH market-based restructuring included the full repayment of outstanding debt and an overhaul of the business model to ensure long-term viability. The specific terms of GIH restructuring encompassed the exchange of existing debt with secured new multi-currency, conventional, Islamic and bilateral facilities; a reduction in operational costs; orderly deleveraging of principal investment positions through transfers to a global macro fund and a domestic real estate fund; a strengthened focus on asset management and brokerage business; and enhanced corporate governance.

ID has reached a debt standstill agreement with more than two-thirds of its creditor banks and investors pending a final agreement, which envisages the repayment of its obligations with an enforceable security package over a five-year period. ID has sought protection under the FSL to ensure a stay against litigation and execution of judgments against it from minority creditors until its restructuring plan is approved.

As of May 2010, the restructuring of ICs involved no fiscal cost to the government, avoided contagion to the banking system, and ring-fenced fiduciary assets from the restructuring process. In light of the protracted insolvency procedures in Kuwait, creditors are likely to prefer restructuring rather than pressing for dissolution of ICs.

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[1] See *Approaches to Corporate Debt Restructuring in the Wake of the Financial Crisis*, IMF Staff Position Note, SPN/10/02, January 26, 2010.

8. **The authorities agreed that 2009 had been challenging and highlighted recent positive developments.** They noted progress achieved in the restructuring of the two largest ICs, the increase in precautionary provisions by banks, and the large degree of liquidity in the banking system. Furthermore, they argued that the increase in the banking system's NPLs was skewed by the results in two banks and that banks' asset quality could improve with the envisaged economic recovery. There were some positive signs regarding credit expansion, with credit allocation going largely to households for installment loans rather than for equity purchases. They viewed the pace of ICs' restructuring as reasonable and argued that problems were concentrated in only a few large companies.

III. Risks to the Outlook and Vulnerabilities

9. **The economic outlook largely depends on the pace of global recovery.** Although Kuwait has the financial strength to smooth out the impact of short-term oil price fluctuations on its fiscal position, a weaker than expected global recovery and a decline in oil prices could impact regional and domestic asset markets, investor confidence, and government spending, leading to a worsening of the balance sheet of financial institutions. Additionally, deterioration in the regional economic or political environment might have an impact on investor confidence and Kuwaiti entities' access to and pricing of international funding.[3]

10. **The outlook is also subject to domestic downside risks.** The overarching risks would be associated with the inability of the government to meet the DP's spending targets, particularly in light of capacity constraints and the under-spending of the capital budget in previous years. Notwithstanding the improvement in relations between the government and the National Assembly, as evident from the recent progress made on the legislative front, political gridlock could delay necessary reforms and impact implementation, and red tape and bureaucratic hurdles could discourage private sector participation. A slow recovery of the nonfinancial corporate sector could stretch their debt-service capacity and limit their ability to finance new investments. A further deterioration in the balance sheet of financial institutions or delays in the restructuring of ICs would protract banks' risk aversion to lending, limit private sector financing for new projects, and constrain non-oil GDP growth.

11. **In the longer term, slow progress in the implementation of oil projects could constrain fiscal revenues.** Kuwait has adequate excess oil production capacity in the medium term. Nevertheless, unless progress is made toward oil sector project implementation, protracted capacity constraints could have a significant impact on revenues in the long term.

12. **The authorities concurred with staff on downside risks to the outlook.** In addition to high oil price volatility and oil dependency, they were concerned about geopolitical risks affecting confidence in the region. They also highlighted some domestic political risks—such as the passage of the debt relief law and the tensions related to the privatization law—that could affect the credit culture and the pace of structural reforms.

Stress Tests

13. **Banking system stress tests conducted by the Financial Sector Assessment Program (FSAP) update indicate that the system could broadly withstand significant**

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[3] Since only one government-related entity (the Gulf Investment Group, owned by the six GCC countries) has issued debt internationally, the impact would be largely related to private sector debt issuers.

shocks, although some banks could be vulnerable to a severe shock.[4] Two adverse scenarios (intermediate and severe) were constructed involving a slowdown in the global economy that would lower oil revenues, reduce investor and consumer confidence, constrain access to credit, increase domestic interest rates, and depress asset prices. In turn, these would increase NPLs—up to 19 percent of total loans under the severe scenario—and result in bank losses. Recapitalization needed to restore banks' regulatory CAR to 12 percent would be around 1.0 percent of GDP under the intermediate scenario, and 3.8 percent of GDP under the severe scenario. Vulnerability to interest rate and foreign exchange risks was limited.

14. **Stress tests of ICs point to their limited capacity to withstand adverse shocks.** Under an assumption of 15–33 percent asset loss rates, three ICs (out of eleven) would lose all of their capital and seven ICs would have a capital-to-assets ratio below 10 percent. Under a more severe scenario, which assumes 20–66 percent loss rates, eight ICs would lose all their capital and only one IC would have a leverage ratio above 10 percent. Stress tests of nonfinancial corporations also point to some fragility in the real estate and industry sectors, particularly to increases in domestic interest rates and a revenue shock (Box 2).

15. **Spillovers from the Dubai debt developments have been limited so far.** The banking sector has minimal direct exposure to Dubai real estate and entities. However, indirect exposure could arise through the exposure of ICs and real estate companies to Dubai. Single factor stress tests indicate that banks could be vulnerable to a deterioration in their real estate portfolios (including loans to real estate companies), but losses related to a deterioration in loans to ICs would be manageable.

16. **The authorities reiterated that the financial system was resilient.** Additionally, four banks were in the process of increasing their capital further in 2010 and one bank has already increased its capital in early 2010. These will further enhance the resilience of the banking sector.

IV. Policy Issues

A. Strategy for Sustained Economic Growth

17. **Swift financial sector measures have helped support financial and macroeconomic stability.** Early action in the financial sector and continued vigilance by the authorities should also help restore healthy credit conditions and support non-oil economic activity. Nevertheless, in light of weak private sector balance sheets, fiscal stimulus will also be needed to support financial sector measures and revive non-oil economic growth.

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[4] At a request from the authorities, a mission visited Kuwait in March 2010 to undertake the FSAP update. The FSAP focused on assessing the overall financial system stability and identifying priorities to strengthen the regulatory framework in banking, investment companies, capital market, insurance, and real estate sectors. The mission also reviewed the crisis management, contingency planning and the resolution framework.

Box 2. Kuwait: Vulnerabilities of the Nonfinancial Corporate Sector

This analysis focuses on the balance sheet of the 109 non-financial companies listed on the Kuwait Stock Exchange. The total assets of these firms were $75 billion (147 percent of non-oil GDP) as of the end of 2009 and their total debt was $22 billion (43 percent of non-oil GDP). Net corporate profits increased to $1.8 billion in 2009, compared to $0.8 billion in 2008, while the combined cash holdings of non-financial firms stood at $5 billion (down marginally from $5.8 billion in 2008). The average debt-to-equity ratio at end-2009 was 1.1 and short-term debt constituted 35 percent of the total debt stock. Nevertheless, the unprecedented pace of debt accumulation in the boom years—for example, the debt-to-equity ratio doubled between 2006 and 2008— raises questions about the vulnerability of the non-financial corporate sector to financing constraints and a prolonged economic slowdown.

Listed non-financial corporations as a whole appear to have adequate debt servicing capacity, with the ratio of total liabilities to total assets at 49.6 percent as of end 2009. Similarly, the interest coverage ratio (ICR)—defined as earnings before interest and taxes over interest payments—stood at 2.6 on an asset-weighted basis, well above the threshold of 1 for debt distress. Nevertheless, out of 109 listed non-financial companies, 49 already had either operating losses or an ICR below 1 in 2009. Including cash balances, the ICR increases to 6.2, with only 25 non-financial companies with an ICR below 1.

Interest Servicing Capacity of Corporates, 2009
(In billions of U.S. dollars)

	Number of Firms	Total Assets	Cash Reserves	Total Liabilities	Short-term Debt	Total Debt	ICR	ICR with cash	Average Rate
Food	6	2.7	0.2	0.9	0.3	0.5	4.1	8.5	9.4
Industrial	27	14.1	1.0	7.2	3.4	5.2	0.6	4.3	5.4
Real Estate	30	17.7	0.6	8.6	1.0	4.4	1.3	3.6	6.2
Services	46	40.4	3.1	20.4	3.0	12.1	3.7	7.5	6.7
Total	109	74.9	5.0	37.1	7.7	22.2	2.6	6.2	6.4

Source: Fund staff calculations based on company balance sheets.

If short-term interest rates increase by 300 basis points, or if there is a negative income shock of 25 percent, 31 listed non-financial firms could end up with an ICR below 1 (17 companies, if cash balances were included). Furthermore, in testing the tail risk, if monetary tightening leads to an increase of short-term interest rates by 500 basis points, 36 firms would have an ICR below 1 (18 companies, if cash balances were included). Some sectors, such as industrial and real estate, have more leveraged balance sheets and are therefore more sensitive to interest rate and income shocks. Overall, although cash reserves of companies provide a reasonable cushion for the time being, it would diminish if economic slowdown persists.

18. **Staff welcomes the thrust of the DP and the planned role of the private sector in its implementation.** The DP provides the needed fiscal expansion to support recovery in the immediate term. It seeks to boost investment expenditures across the board, enhance the role of the private sector in the economy, and have positive spillover effects through higher healthcare and education spending. The government's cost of the plan is estimated at $55 billion (about 56 percent of 2009 GDP), which is expected to be matched by the private sector through public-private-participation and the establishment of joint stock companies. Approximately $17 billion is budgeted to be spent by the general government in 2010/11,

half of which has been allocated in the central government's budget. As a result, the adjusted non-oil fiscal deficit is projected to widen by 10 percentage points of non-oil GDP.[5]

19. **Implementation of the DP needs to be managed carefully.** Implementation should take into account absorptive capacity and supply constraints. Spending should focus on social and key physical infrastructure projects, keeping in mind project viability, and excessive private sector leverage should be avoided. Successful implementation would require progress in structural reforms to create an enabling environment for private investment and financing. In this connection, initiatives to diversify financing channels, including corporate debt market development, should be pursued.

20. **Progress achieved in structural reforms is welcome, but significant challenges remain.** The new Capital Markets (CMA) Law paves the way for the establishment of an independent capital market authority that will regulate the Kuwait Stock Exchange, supervise public and private subscriptions, and regulate and supervise acquisitions and mergers. The Law also grants broad regulatory and supervisory authority over ICs to the CMA. The new private sector labor law introduces sweeping changes to labor regulation, including allowing for the portability of expatriates' work permits, and the recently approved privatization law opens up most activities to the private sector with the exclusion of the oil, gas, health, and education sectors. Amendments to the companies and tender laws are expected to be considered by parliament in the second half of 2010. Staff encourages an expeditious implementation of the new laws and cautions that a reversion to political gridlock could cause significant delays to additional necessary legislative reforms.

21. **The authorities acknowledged the need for further progress in structural reforms.** They emphasized their commitment to enhance the environment for private sector investment and noted their intentions to initiate reforms in the education and health sectors to prepare Kuwaiti nationals for private sector employment. While they were aware of the need to diversify financing channels to corporates, they highlighted the failure of earlier efforts to stimulate private sector bond activity and noted that supportive market fundamentals are needed to complement initiatives by the authorities.

B. Macroeconomic Policy Mix

22. **Expansionary capital expenditures are welcome.** Planned expenditures in the context of the DP are essential to resume non-oil sector growth and are consistent with the government's long-term economic diversification objectives. They should help strengthen investor confidence and private sector balance sheets, and revive non-oil economic growth.

[5] The adjusted non-oil fiscal balance excludes investment income and the recapitalization of social security, and is calculated after the transfers to the Future Generations Fund.

23. **The growth of current expenditures should be contained.** Past conservative fiscal policies have allowed the accumulation of a sizeable stock of financial wealth and placed Kuwait in a good position to meet the challenges of economic diversification and intergenerational equity in the distribution of oil wealth. Nevertheless, government current expenditures have expanded rapidly in recent years, largely on account of increases in wages, subsidies, and transfers. In addition to contributing to an inefficient allocation of resources,[6] this trend could undermine long-term fiscal sustainability (Box 3). While an assessment of long-term sustainability of fiscal policy is highly sensitive to the parameters involved in the calculation, staff estimates suggest that the government's non-oil deficit is somewhat above its long-term sustainable value, and this gap is projected to widen over time.[7]

24. **Monetary policy remains subject to the constraints associated with the exchange rate regime.** In this context, the responsibility for ensuring adequate credit growth and maintaining financial stability if demand pressures were to reemerge will fall on macroprudential policies.[8] A reemergence of inflationary pressures in the immediate term is not expected in the baseline scenario. During the past year, the CBK adjusted downward its policy rates on several occasions, in line with domestic credit conditions and U.S. interest rate reductions.

25. **The basket peg has served Kuwait well and remains an appropriate exchange rate regime in the run up to the GCC monetary union.** Staff calculations using CGER-type analyses suggest that the real exchange rate is broadly in line with its fundamentals (Box 4). The regime provided some flexibility to the nominal and real exchange rate during 2007–09 (Figure 7), which witnessed high volatility in oil prices.

26. **The authorities agreed with staff about the need to control current expenditures.** They noted that the privatization program would contribute to this objective and the introduction of a personal income tax and a VAT system would also help reduce the non-oil deficit. They also emphasized that the pace of implementations of these measures would likely be gradual. On the macroeconomic policy mix, while monetary policy had played a key stabilizing role during the crisis, the authorities emphasized that fiscal policy was now needed to stimulate growth. They also argued that the basket peg provided sufficient monetary policy flexibility, as indicated by a sustained deviation of domestic interest rates from U.S. monetary cycle, including during 2008–10, both with respect to timing and the extent of interest rate reductions.

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[6] High levels of untargeted subsidies, such as those observed in Kuwait's power sector, create an inefficient, high level of consumption. High levels of public sector wages—particularly if not tied to performance—weaken the incentives of Kuwaiti workers to acquire the skills needed for private sector employment.

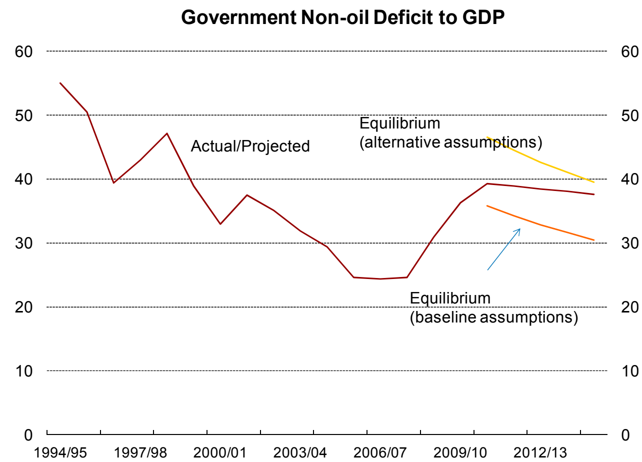
[7] The authorities are in the process of establishing a macro-fiscal unit to support policy formulation.

[8] Kuwait has in place a loan-to-deposit prudential ratio. Maximum limits debt service/income ratios are also in place.

Box 3. Kuwait: Fiscal Sustainability Analysis

The fiscal sustainability analysis suggests that Kuwait's government expenditure path should be reduced in the medium-term to ensure long-term sustainability. In this exercise, long-term sustainability assumes intergenerational equity by assuming a constant real per capita government expenditure path that delivers a constant real per capita annuity after oil revenues are exhausted. In the baseline scenario, the non-oil fiscal balance for FY 2010/2011 is estimated to be approximately 3½ percentage points higher than its equilibrium value, and the gap is projected to reach approximately 7 percent by 2014/15.

While the results are sensitive to the assumptions, they provide useful guidance.[1] For instance, under an alternative set of assumptions, the gap in 2010/11 would switch signs, indicating a non-oil deficit below its equilibrium value. Nevertheless, even under this scenario, fiscal sustainability would face challenges, as the non-oil deficit would have approximately reached its equilibrium value by 2014/15.



Sources: Ministry of Finance of Kuwait; and Fund staff estimates.

[1] The baseline calculations assume long-term values of the real rate of return of assets, inflation, and population growth of Kuwaiti nationals of 4 percent, 2 percent, and 2 percent, respectively. Oil reserves are assumed to be depleted in 73 years and the oil price to reach 83 dollars per barrel in 2015 and remain constant in real terms thereafter. The alternative calculation assumes long-term population growth of 1.4 percent (as forecasted for the whole population [i.e., nationals and expatriates] by the 2008 United Nations World Population Prospects for the period 2010-50).

C. Ensuring Financial Sector Stability

27. **Progress made so far on strengthening the financial system's oversight framework is welcome.** The CBK has issued comprehensive regulatory guidance addressing several weaknesses in banks' risk management processes that came to light during the crisis and has begun moving towards a risk-based supervisory process. It has also begun the process of improving the oversight framework for ICs and has issued new regulations pertaining to leverage, liquidity, and foreign exposure.[9] The intended establishment of a Financial Stability Department with an approppropriate mix of supervisory, financial market, and macroeconomic expertise would help address financial stability issues in a systematic manner.

[9] The regulations were issued in mid-2010 to be effective by mid-2010.

Box 4. Kuwait: Exchange Rate Assessment

A CGER-type analysis indicates that the Kuwaiti Dinar is in line with fundamentals, with all the misalignment values being very close to zero.

The macrobalance (MB) approach suggests a slight overvaluation (less than ½ percent). Cross-country work (see below) suggests an equilibrium current account for Kuwait of 40.1 percent of GDP, which is slightly higher than the projected medium-term current account.

The equilibrium real exchange rate (ERER) approach suggests an undervaluation of approximately 3 percent. This approach indicates that the depreciation in the equilibrium real exchange rate resulting from recent developments (i.e., worsening in the terms of trade, decline in investment income, and increase in government expenditure) has been fully offset by the actual depreciation of the real exchange rate.

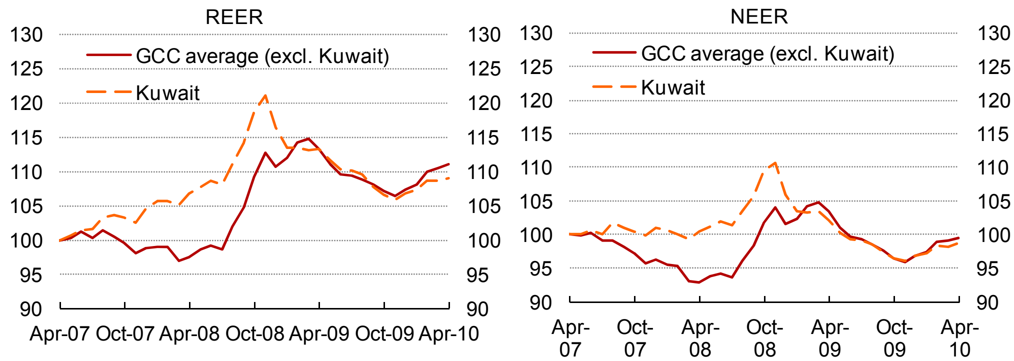
The external sustainability (ES) approach suggests an undervaluation of around 2½ percent, as the current account surplus is slightly higher than what would be needed to guarantee intergenerational equity in the consumption of oil resources. This result is very sensitive to the assumed parameters as small declines in the assumed rate of return or increases in the projected population growth would result in an indication of some overvaluation (e.g., the equilibrium current account would decline to 30¼ percent of GDP if—similarly to the stress tests in the fiscal sustainability analysis—population growth were 1.4 percent). Furthermore, the external sustainability approach does not take oil price uncertainty fully into account. For instance, Bems and de Carvalho Filho (2009, IMF WP/09/33) calculate that precautionary savings associated with oil price uncertainty could increase Kuwait's equilibrium current account by about 5.6 percent of GDP.

Kuwait: Exchange Rate Assessment 1/

	MB 2/	ES 3/	ERER 4/
Underlying current account (A) 5/	40.0	40.0	…
Equilibrium current account (B)	40.1	38.7	…
Difference (A-B)	-0.1	1.3	…
ER overvaluation(+)/undervaluation (-) (%)	0.2	-2.5	-2.8

1/ Current account figures are in percent of GDP. Overvaluation calculations are in percent.
2/ Macro balance approach. Uses the CGER coefficients as reestimated for oil exporters by Bems and de Carvalho Filho (2009b IMF WP/09/281).
3/ External sustainability approach. The equilibrium current account delivers a constant real per capita annuity after oil exports are exhausted. These calculations assume: (i) a 64 percent recovery rate for oil reserves; (ii) price of Kuwait's oil reaching USD 83 per barrel and staying constant in real terms after that; (ii) a 2 percent rate of population growth; (iv) a riskless real rate of return of 4 percent [as in Bems and de Carvalho Filho (2009a, IMF WP/09/33)] (v) a constant extraction rate at the projected 2015 level (2.84 mbd); and an initial financial wealth of $ 0.3 trillion.
4/ Equilibrium real exchange rate approach. Based on a cointegration relationship between the real exchange rate and key fundamentals (terms of trade, investment income, and government expenditure). Assessment is for end-point WEO projection.
5/ End-point (2015) WEO projection.

Figure 7. Kuwait: REER and NEER
(April 2007=100)



Sources: Country authorities; and Fund staff estimates.

28. **Nevertheless, the financial system's prudential and systemic oversight framework needs to be strengthened further.** The recent introduction of a set of new regulations for ICs is welcome. Nevertheless, the oversight framework of ICs needs to be strengthened. In particular, while the implementation of the Capital Market Authority (CMA) Law would enhance securities regulation and supervision, there is a need for proper coordination between the three regulatory agencies—the CBK, CMA, and the Ministry of Commerce and Industry (MOCI). Regulatory overlaps and gaps should be closed to avoid regulatory arbitrage (Box 5).

29. **The household debt relief law is counterproductive to building an efficient financial culture.** If promulgated, the proposed write-off of interest payments and debt restructuring for Kuwaiti nationals (Annex 1) would create moral hazard that would undermine the creation of a sound credit culture. It might also encourage banks to take riskier positions and households to assume higher debt. Targeted household debt relief could be implemented instead through the already existing Insolvency Fund. Fund size and terms of access could be modified, if needed.[10] The authorities have stated their strong opposition to the household debt relief legislation.

30. **The crisis management and contingency planning system should be enhanced further.** As part of an exit strategy from all support measures provided in the context of the crisis, the blanket guarantee introduced during the crisis should be replaced by an explicit deposit insurance system once conditions allow. The resolution framework should be upgraded by adopting a special resolution regime for failing financial institutions.

31. **The authorities are engaged to make their anti-money laundering and combating financing of terrorism (AML/CFT) legislation conform to international standards.** A draft law is expected to be considered by the National Assembly before the AML/CFT assessment scheduled to be conducted by the IMF in October 2010.

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[10] Country experiences can be found in Laeven, Luc and Thomas Laryea, 2009, *Principles of Household Debt Relief* , International Monetary Fund, available at: http://www.imf.org/external/pubs/ft/spn/2009/spn0915.pdf

Box 5. Kuwait: Priority Recommendations of the FSAP Update

General. The CBK, the CMA, and Ministry of Commerce and Industry should (i) clarify at the outset their respective supervisory responsibilities and initiate a coordination process to ensure efficient oversight architecture; (ii) establish a financial stability unit responsible for macroprudential supervision; and (iii) develop an exit strategy from support measures to the financial system to be implemented once conditions allow.

Banking supervision. The CBK should (i) perform periodic stress tests including for real estate and other sectors with credit concentration risk and review the supervisory assessment of banks' treatment of risk concentrations in their Internal Capital Adequacy Assessment Process (ICAAP); (ii) lower the maximum exposure limits on related parties; (iii) enhance the legal framework to prohibit conflict of interest concerning related party transactions; (iv) complete the migration from compliance-based supervision to risk-based supervision; (v) continue strengthening the supervision capacity through further hiring and training; (vi) shorten the on-site supervision cycle; and (vii) organize a comprehensive ICAAP on-site examination.

Investment companies. There is a strong case for strengthening regulations on (i) licensing (in particular "fit and proper" criteria); (ii) permissible activities; (iii) corporate governance, including requirements on internal organization, internal control, risk management, external auditors, and accountancy rules; and (iv) prudential limits on leverage and liquidity/maturity mismatch. Consideration could also be given to varying the minimum capital depending on the activities and risks assumed by supervised entities.

Financial Safety Net Framework. Consideration should be given toward (i) putting in place a deposit insurance system that promotes market discipline; and (ii) improving the emergency liquidity assistance framework.

Resolution Framework. Overhaul the bankruptcy framework for financial institutions to adequately handle bankruptcies of banks or other financial institutions.

32. **The authorities argued that financial sector stability was due to the strong oversight framework that was already in place.** The authorities highlighted the resilience of the banking system and believed that the oversight framework for ICs was adequate. Nevertheless, they intended to strengthen the latter further by (i) delineating the responsibilities of the CBK and the CMA regarding ICs' supervision; and (ii) developing a five-pronged regulatory prudential structure over ICs covering leverage, liquidity, foreign funding risks, risk management, and corporate governance. The authorities also noted that whereas the CBK continuously sought to enhance staffing quality, both qualitatively and quantitatively, existing staffing capacity was fully adequate to ensure the discharge of CBK responsibilities.

D. Statistical Issues

33. **The authorities should continue their efforts to improve their statistical system.** Staff welcomes recent progress to improve the timeliness of the CPI and the accuracy of external debt, foreign assets, and workers' remittances data. Nevertheless, statistical data quality and timeliness continues to suffer from weaknesses, particularly with respect to national accounts and trade.

V. STAFF APPRAISAL

34. **The global financial crisis had a significant impact on Kuwait given its international trade and financial linkages.** The impact was felt strongly in 2009 as real GDP contracted, asset prices declined, and fiscal and external surpluses narrowed. The financial and nonfinancial sectors witnessed a substantial fall in profitability, and five ICs defaulted in 2009–10. Credit growth slowed significantly. The financial system remained stable, underpinned by swift policy actions by the authorities, but credit growth and non-oil activity were subdued in light of the absence of fiscal stimulus and the limited utilization of guarantees provided for in the financial stability law.

35. **The economic outlook is broadly positive.** The economy is expected to rebound in 2010, and to grow steadily over the medium term as the global recovery boosts the demand for oil and the government implements the planned fiscal stimulus in the context of its four-year DP, starting with an expansionary budget in 2010/11. The fiscal and current account balances are expected to remain stable in 2010–11 and improve in subsequent years, as oil receipts and investment income recover.

36. **The financial sector is expected to continue to face challenges in the immediate term.** Rising NPLs and large concentrations in banks' loan portfolio—particularly in real estate, ICs, and equities—are a source of concern. Nevertheless, aggregate financial soundness indicators show that the banking sector is well capitalized and highly liquid, which should help the system to remain stable. On the other hand, challenges facing ICs will be more extensive.

37. **The economic outcome for 2010 depends largely on government spending and the associated private investment.** External risks to the outlook include a weaker than expected global recovery and a deterioration in the regional economic or political environment. The overarching domestic risks would be associated with the inability of the government to meet the spending targets set out in the DP. Political gridlock could delay necessary reforms and impact implementation, and bureaucratic hurdles could discourage private sector participation.

38. **Stress tests indicate that the banking system could reasonably withstand significant shocks**, although some banks are vulnerable to a severe macroeconomic shock. Stress tests for ICs point to their limited capacity to withstand adverse shocks. Stress tests of listed nonfinancial corporations suggest vulnerability in real estate and industrial sector companies to a prolonged economic slowdown and financing constraints.

39. **The macro policy mix is adequate but growth of current expenditures should be contained.** Increases in recent years in wages, subsidies, and transfers could undermine long-term fiscal sustainability and should be moderated. As monetary policy remains constrained by the exchange rate regime, macroprudential policies should ensure financial stability if a credit boom were to reemerge. The real exchange rate is broadly in line with fundamentals, and the current exchange rate regime remains appropriate in the run up to the GCC monetary union.

40. **Successful implementation of the authorities' growth agenda would require progress in structural reforms**. In this context, the passage of recent key laws, namely the Capital Markets Law, the Labor Law, and the Privatization Law is welcome. The authorities should move ahead with an efficient implementation of these laws and the amendment of other key legislation, particularly the Companies and Tender Laws. DP implementation should take into account project viability, absorptive capacity, and supply constraints.

41. **The financial system's oversight framework should be strengthened.** Proper coordination should be ensured between the three regulatory agencies—the CBK, the CMA, and the MOCI, particulalry with regards to ICs; and the crisis management, contingency planning, and resolution frameworks should be enhanced. The authorities' plans to introduce an enhanced regulatory prudential structure over ICs are welcome.

42. **If promulgated, the household debt relief law would undermine the financial culture.** The law was passed by the National Assembly but rejected by the Amir. Targeted household debt relief could be implemented instead through the already existing Insolvency Fund.

43. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Table 1. Kuwait: Selected Economic Indicators, 2004–11

	2004	2005	2006	2007	Prel. 2008	Est. 2009	Proj. 2010	Proj. 2011
Oil and gas sector								
Total oil and gas exports (in billions of U.S. dollars)	26.7	42.4	53.2	59.1	82.6	46.7	56.5	61.2
Average oil export price (in U.S. dollars/barrel)	35.7	50.6	61.2	70.4	93.7	58.2	73.0	75.4
Crude oil production (in millions of barrels/day)	2.29	2.57	2.64	2.57	2.68	2.26	2.29	2.39
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Nominal GDP (market prices, in billions of Kuwaiti dinar)	17.5	23.6	29.5	32.6	39.8	28.2	33.1	35.9
Nominal GDP (market prices, in billions of U.S. dollars)	59.4	80.8	101.6	114.7	148.0	98.4	115.5	125.1
Real GDP (at factor cost)	11.1	10.4	5.3	4.6	5.6	-4.4	1.9	4.5
Real oil GDP	8.7	12.1	2.8	-2.6	3.3	-11.4	1.0	4.5
Real non-oil GDP	12.1	10.6	8.3	11.1	6.5	0.0	2.5	4.5
CPI inflation (average)	1.3	4.1	3.1	5.5	10.6	4.0	4.0	3.4
Unemployment rate (Kuwaiti nationals)	3.9	3.8	4.0	...	...	...	...	...
	(In percent of GDP at market prices)							
Investment and savings								
Investment	15.0	14.6	15.9	19.3	18.9	10.9	16.8	18.6
Public	3.7	3.0	2.8	3.3	3.5	5.4	5.9	6.2
Private 1/	11.3	11.7	13.1	15.7	15.4	5.5	10.9	12.4
Gross national savings	41.2	51.8	60.6	56.1	59.6	40.0	46.1	48.8
Public	36.6	55.7	60.2	55.7	47.5	47.2	41.3	43.3
Private 1/	10.7	1.1	4.5	2.2	12.3	-7.2	4.8	5.5
Savings/investment balance	26.2	37.2	44.6	36.8	40.7	29.1	29.3	30.1
	(In percent of GDP at market prices)							
Budgetary operations 2/								
Revenue	55.4	75.6	66.5	68.6	65.1	58.1	61.9	62.4
Oil	42.9	51.7	48.0	51.5	53.4	48.6	51.6	51.5
Non-oil, *of which:*	12.4	23.9	18.6	17.1	11.7	9.5	10.4	11.0
Investment income	9.0	21.4	15.7	13.8	8.8	5.8	7.1	7.8
Expenditures and net lending	32.8	27.2	33.9	27.9	49.1	40.1	45.8	45.0
Current 3/	28.6	23.6	29.9	23.8	44.6	34.8	39.5	38.8
Capital	4.2	3.6	4.0	4.1	4.5	5.2	6.3	6.2
Balance	22.6	48.5	32.6	40.7	16.0	18.0	16.2	17.4
Domestic financing	-5.7	-1.2	-2.8	-3.1	-4.6	-1.9	-1.0	-2.1
External financing	-16.9	-47.3	-29.9	-37.5	-11.4	-16.1	-15.1	-15.3
Non-oil balance (in percent of non-oil GDP) 4/	-61.0	-57.6	-58.8	-59.4	-77.8	-72.4	-82.5	-81.5
Total gross debt (calendar year-end) 5/	17.3	11.8	8.3	6.7	5.7	7.7	6.6	6.1
	(Changes in percent of beginning broad money stock)							
Money and credit								
Net foreign assets 6/	10.3	3.2	12.5	1.1	10.0	8.4	9.4	4.3
Claims on nongovernment sector	14.5	17.6	24.5	35.6	19.2	7.0	8.3	13.1
Broad money	12.1	12.3	21.7	19.3	15.6	13.4	5.5	9.7
Kuwaiti dinar 3-month deposit rate (year average; in percent)	1.6	2.9	5.0	5.2	3.3	1.4	0.9	1.2
Stock market unweighted index (annual percent change) 7/	33.8	78.6	-12.0	24.7	-38.0	-10.0	-0.2	...
	(In billions of U.S. dollars, unless otherwise indicated)							
External sector								
Exports of goods	29.0	45.3	56.5	62.6	87.0	50.5	61.3	66.2
Of which: non-oil exports	2.3	2.9	3.3	3.5	4.4	3.8	4.7	5.0
Annual percentage change	4.6	22.9	14.6	6.4	25.1	-12.9	24.5	5.7
Imports of goods	-12.4	-15.1	-16.2	-19.1	-22.9	-17.1	-19.2	-20.5
Annual percentage change	25.5	21.4	7.9	17.7	20.0	-25.3	11.8	6.9
Current account	15.6	30.1	45.3	42.2	60.2	28.7	33.8	37.7
In percent of GDP	26.2	37.2	44.6	36.8	40.7	29.1	29.3	30.1
External debt including private sector	15.5	20.2	30.8	57.5	60.6	57.5	...	...
International reserve assets	7.3	8.1	11.8	15.9	16.7	17.7	24.5	25.9
In months of imports of goods and services	4.4	4.1	5.3	5.9	5.3	6.9	8.5	8.4
	(Percentage change; unless otherwise noted)							
Memorandum items:								
Exchange rate (U.S. dollar per KD, period average)	3.39	3.42	3.45	3.52	3.72	3.48	...	...
Nominal effective exchange rate (NEER, period average)	-4.0	0.5	0.5	-2.2	2.5	-3.5	...	...
Real effective exchange rate (REER, period average)	-5.2	2.1	0.9	0.3	8.4	-0.5	...	...
Sovereign rating (S&P)	A+	A+	A+	AA-	AA-	AA-	...	...

Sources: Data provided by the authorities; and Fund staff estimates and projections.

1/ Also includes government entities.
2/ Kuwaiti fiscal year ending March 31, e.g. 2007 refers to fiscal year 2007/08.
3/ In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund.
In 2008/09, KD 5.5 were transferred. KD 1.1 billions are budgeted for each year from 2010/11 to 2014/15.
4/ Excludes investment income and pension recapitalization, but includes transfers for FGF.
5/ Excludes debt of Kuwait's SWF related to asset management operations.
6/ Excludes SDRs and IMF reserve position.
7/ Change in the KSE as of May 24, 2010 for 2010.

Table 2. Kuwait: Summary of Government Finance, 2004/05–2011/12 1/

	2004/05	2005/06	2006/07	2007/08	Prel. 2008/09	Est. 2009/10	Budget 2010/11	Proj. 2010/11	Proj. 2011/12
	(In billions of Kuwaiti Dinar)								
Total revenue	**10.5**	**19.0**	**20.1**	**23.6**	**24.0**	**17.1**	**9.7**	**21.0**	**22.9**
Oil and gas	8.2	13.0	14.5	17.7	19.7	14.3	8.6	17.4	18.9
Investment income and transfer of profits of public entities 2/	1.7	5.4	4.7	4.7	3.2	1.7	0.0	2.4	2.9
Other current revenue 3/	0.6	0.6	0.9	1.1	1.1	1.1	1.1	1.1	1.1
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**6.2**	**6.8**	**10.3**	**9.6**	**18.1**	**11.8**	**16.2**	**15.5**	**16.5**
Current	5.4	5.9	9.0	8.2	16.5	10.3	13.8	13.4	14.2
Wages and salaries	1.9	2.1	2.5	2.8	3.4	3.6	4.0	3.8	4.0
Goods and services 4/	1.4	1.4	1.6	1.8	1.9	2.0	2.4	2.8	3.0
Interest on domestic debt 5/	0.1	0.1	0.1	0.1	0.1	0.0	...	0.0	0.0
Transfers abroad	0.1	0.2	0.2	0.4	0.5	0.3	...	0.3	0.3
Subsidies and transfers 6/ 7/	1.9	2.1	4.7	3.2	10.6	4.4	7.3	6.5	6.9
Of which:									
Recapitalization of social security	0.0	0.0	2.0	0.0	5.6	0.0	1.1	1.1	1.1
Current exp. excluding recapitalization of social security	5.4	5.9	7.0	8.2	10.8	10.3	12.7	12.3	13.1
Capital	0.8	0.9	1.2	1.4	1.6	1.5	2.4	2.1	2.3
Overall balance	**4.3**	**12.1**	**9.9**	**14.0**	**5.9**	**5.3**	**5.5**	**5.5**	**6.4**
after transfer to FGF and excl. inv. income 8/	**1.7**	**5.4**	**3.6**	**7.4**	**0.6**	**2.1**	**4.5**	**1.2**	**1.5**
excluding recapitalization of pension	**1.7**	**5.4**	**5.6**	**7.4**	**6.2**	**2.1**	**5.6**	**2.3**	**2.6**
Non-oil balance	**-3.9**	**-0.8**	**-4.6**	**-3.7**	**-13.8**	**-9.0**	**-3.2**	**-12.0**	**-12.5**
after transfer to FGF and excl. inv. income 9/	**-5.7**	**-6.2**	**-9.5**	**-8.6**	**-17.1**	**-10.8**	**-3.3**	**-14.5**	**-15.5**
excluding recapitalization of pension	**-5.7**	**-6.2**	**-7.5**	**-8.6**	**-11.5**	**-10.8**	**-2.2**	**-13.4**	**-14.4**
Financing	**-4.3**	**-12.1**	**-9.9**	**-14.0**	**-5.9**	**-5.3**	**-5.5**	**-5.5**	**-6.4**
Domestic (net)	-1.1	-0.3	-0.8	-1.1	-1.7	-0.6	...	-0.3	-0.8
Banks	-1.1	-0.3	-0.8	-1.1	-1.7	-0.6	...	-0.3	-0.8
Nonbanks	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
Reserve funds 10/	-3.2	-11.8	-9.0	-12.9	-4.2	-4.8	...	-5.1	-5.6
	(In percent of GDP)								
Revenue	**55.4**	**75.6**	**66.5**	**68.6**	**65.1**	**58.1**	**28.7**	**61.9**	**62.4**
Oil and gas	42.9	51.7	48.0	51.5	53.4	48.6	25.5	51.6	51.5
Investment income	9.0	21.4	15.7	13.8	8.8	5.8	0.0	7.1	7.8
Other current revenue 3/	3.1	2.4	2.8	3.3	2.9	3.7	3.3	3.2	3.1
Capital revenue	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Expenditure	**32.8**	**27.2**	**33.9**	**27.9**	**49.1**	**40.1**	**47.9**	**45.8**	**45.0**
Current	28.6	23.6	29.9	23.8	44.6	34.8	40.8	39.5	38.8
Wages and salaries	10.2	8.5	8.2	8.1	9.1	12.1	12.0	11.1	10.9
Goods and noninterest services 4/	7.5	5.8	5.2	5.2	5.2	6.9	7.2	8.2	8.1
Subsidies and transfers	9.8	8.3	15.6	9.2	28.7	14.8	21.6	19.1	18.8
Of which: recapitalization of social security	0.0	0.0	6.6	0.0	15.3	0.0	3.2	3.2	3.0
Current exp. excluding recapitalization of social security	28.6	23.6	23.3	23.8	29.3	34.8	37.6	36.3	35.8
Capital	4.2	3.6	4.0	4.1	4.5	5.2	7.1	6.3	6.2
Overall balance	**22.6**	**48.5**	**32.6**	**40.7**	**16.0**	**18.0**	**-19.2**	**16.2**	**17.4**
after transfer to FGF and excl. inv. income 8/	**8.9**	**21.6**	**11.8**	**21.4**	**1.6**	**7.0**	**-22.0**	**3.6**	**4.1**
excluding recapitalization of pension	**8.9**	**21.6**	**18.5**	**21.4**	**16.9**	**7.0**	**-18.8**	**6.8**	**7.1**
Non-oil balance	**-20.3**	**-3.2**	**-15.4**	**-10.9**	**-37.4**	**-30.5**	**-44.6**	**-35.4**	**-34.1**
after transfer to FGF and excl. inv. income 9/	**-29.7**	**-24.9**	**-31.3**	**-25.0**	**-46.4**	**-36.7**	**-45.0**	**-42.8**	**-42.2**
excluding recapitalization of pension	**-29.7**	**-24.9**	**-24.7**	**-25.0**	**-31.2**	**-36.7**	**-41.7**	**-39.6**	**-39.2**
	(In percent of non-oil GDP)								
Revenue	113.7	175.0	158.4	163.1	162.5	114.6	59.9	129.1	129.8
Oil and gas	88.1	119.6	114.2	122.6	133.3	95.8	53.1	107.4	107.0
Investment income	18.5	49.5	37.3	32.7	21.9	11.5	0.0	14.8	16.3
Other current revenue 3/	6.4	5.7	6.7	7.8	7.2	7.3	6.8	6.7	6.4
Capital revenue	0.6	0.2	0.1	0.1	0.0	0.1	0.0	0.1	0.1
Expenditure	67.3	62.8	80.8	66.4	122.5	79.0	99.8	95.4	93.6
Current	58.7	54.5	71.2	56.6	111.3	68.7	85.0	82.3	80.7
Wages and salaries	20.9	19.6	19.4	19.2	22.7	23.8	24.9	23.2	22.6
Goods and noninterest services 4/	15.3	13.3	12.4	12.3	12.9	13.5	15.0	17.2	16.9
Subsidies and transfers	20.2	19.1	37.0	21.9	71.7	29.1	45.1	39.8	39.2
Of which: recapitalization of social security	0.0	0.0	15.7	0.0	38.1	0.0	6.7	6.7	6.2
Current exp. excluding recapitalization of social security	58.7	54.5	55.4	56.6	73.2	68.7	78.3	75.6	74.5
Capital	8.6	8.3	9.6	9.8	11.1	10.3	14.8	13.1	12.9
Overall balance	**46.3**	**112.1**	**77.7**	**96.7**	**40.0**	**35.5**	**-39.9**	**33.7**	**36.2**
after transfer to FGF and excl. inv. income 8/	**18.3**	**50.1**	**28.2**	**51.0**	**4.1**	**13.8**	**-45.9**	**7.5**	**8.6**
excluding recapitalization of pension	**18.3**	**50.1**	**44.0**	**51.0**	**42.2**	**13.8**	**-39.2**	**14.2**	**14.8**
Non-oil balance	**-41.8**	**-7.5**	**-36.6**	**-25.8**	**-93.3**	**-60.2**	**-93.0**	**-73.8**	**-70.8**
after transfer to FGF and excl. inv. income 9/	**-61.0**	**-57.6**	**-74.6**	**-59.4**	**-115.9**	**-72.4**	**-93.7**	**-89.2**	**-87.7**
excluding recapitalization of pension	**-61.0**	**-57.6**	**-58.8**	**-59.4**	**-77.8**	**-72.4**	**-87.0**	**-82.5**	**-81.5**
Memorandum items:									
Average oil export price (in U.S. dollar/barrel)	39.4	53.3	63.5	76.2	84.8	61.9	43.0	73.6	76.1

Sources: Ministry of Finance; Central Bank of Kuwait; and Fund staff estimates and projections.

1/ Coverage of budgetary operations includes the operation of the KIA. Data are on an accrual basis.
2/ Excluded from the national budget presentation. Estimated by Fund staff.
3/ Excludes revenues from utility tariffs (which are included in the national budget presentation), but includes UN (Iraq) compensations.
4/ Includes other miscellaneous expenditures in FY 07/08 and 08/09.
5/ Covers interest payments on the treasury bills and bonds, and on the DCP bonds. Only the latter is included in the national budget presentation.
6/ In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the social security fund. In 2008/09, KD 5.5 were transferred. KD 1.1 billions are budgeted for each year from 2010/11 to 2014/15.
7/ The 2006/07 budget reflects KD195 million on account of a KD 200 one off grant transfer to each Kuwaiti citizen.
8/ By law 10 percent of all state revenues are transferred to the Future Generations Fund (FGF) on an annual basis and all reinvested. No assets can be withdrawn from the FGF unless sanctioned by law.
9/ Equals overall balance minus oil revenues, investment income, and 10 percent of other current revenues and capital revenues.
10/ The Future Generations Fund (FGF) and the General Reserve Fund (GRF).

Table 3. Kuwait: Summary Balance of Payments, 2004–11

					Prel.	Prel.	Proj.	
	2004	2005	2006	2007	2008	2009	2010	2011
	(In billions of U.S. dollars)							
Current account	**15.6**	**30.1**	**45.3**	**42.2**	**60.2**	**28.7**	**33.8**	**37.7**
Goods (trade balance)	16.6	30.2	40.2	43.4	64.0	33.4	42.1	45.7
Exports	29.0	45.3	56.5	62.6	87.0	50.5	61.3	66.2
Oil exports	26.7	42.4	53.2	59.1	82.6	46.7	56.5	61.2
Non-oil exports including re-exports 1/	2.3	2.9	3.3	3.5	4.4	3.8	4.7	5.0
Of which: re-exports	0.2	0.2	0.5	0.5	0.6	0.5	0.8	0.8
Imports	-12.4	-15.1	-16.2	-19.1	-22.9	-17.1	-19.2	-20.5
Services	-3.7	-3.9	-2.2	-3.2	-3.8	-2.3	-2.8	-3.0
Transportation	-0.5	-0.4	0.2	-0.1	-0.6	-0.3	-0.4	-0.4
Insurance	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Travel	-3.5	-4.4	-5.4	-6.4	-7.3	-7.2	-8.1	-8.6
Other services	0.3	0.9	3.0	3.4	4.3	5.4	5.7	6.1
Investment income	5.2	7.2	11.0	12.4	10.7	7.7	5.5	6.9
Receipts	5.9	8.0	12.5	16.3	14.0	10.3	6.6	8.1
General government 2/	4.4	4.9	7.1	9.4	9.4	7.6	4.6	5.9
Other sectors 3/	1.4	3.2	5.4	6.9	4.6	2.6	2.0	2.3
Payments	-0.7	-0.8	-1.5	-3.9	-3.2	-2.5	-1.1	-1.2
General government	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.3
Other	-0.7	-0.8	-1.5	-3.9	-3.2	-2.2	-0.8	-0.9
Current transfers 4/	-2.5	-3.4	-3.7	-10.5	-10.7	-10.2	-11.0	-12.0
Capital and financial account	**-16.4**	**-32.1**	**-48.8**	**-33.4**	**-49.6**	**-24.5**	**-27.0**	**-36.3**
Capital account 5/	0.3	0.7	0.7	1.5	1.7	1.0	1.1	1.1
Financial account	-16.8	-32.8	-49.6	-34.9	-51.3	-25.5	-28.0	-37.4
Direct investment	-2.6	-4.9	-8.1	-9.7	-9.1	-8.6	-2.1	-11.3
Abroad 6/	-2.6	-5.1	-8.2	-9.8	-9.1	-8.7	-2.2	-11.3
In Kuwait	0.0	0.2	0.1	0.1	0.0	0.1	0.1	0.1
Portfolio investment	-13.9	-13.1	-29.1	-34.9	-28.1	7.6	-10.8	-11.7
Other investment (net)	-0.3	-14.7	-12.4	9.7	-14.1	-24.6	-15.1	-14.4
Net errors and omissions 7/	1.5	2.7	7.1	-5.5	-10.0	-2.5	0.0	0.0
Overall balance	**0.7**	**0.7**	**3.6**	**3.3**	**0.7**	**1.7**	**6.8**	**1.4**
	(In percent of GDP)							
Memorandum items								
Current account/GDP (in percent)	26.2	37.2	44.6	36.8	40.7	29.1	29.3	30.1
Current account (excl. oil)/GDP (in percent)	-18.6	-15.3	-7.7	-14.7	-15.1	-18.3	-19.7	-18.8
Investment income/GDP (in percent)	8.7	8.9	10.8	10.8	7.3	7.9	4.8	5.6
WEO oil price (dollars per barrel)	37.8	53.4	64.3	71.1	97.0	61.8	75.3	77.5
Import growth (in percent)	25.5	21.4	7.9	17.7	20.0	-25.3	11.8	6.9
International reserve assets (in millions of U.S. dollars) 8/	7.3	8.1	11.8	15.9	16.7	17.7	24.5	25.9
In months of imports of goods and services	4.4	4.1	5.3	5.9	5.3	6.9	8.5	8.4

Sources: Central Bank of Kuwait; and Fund staff estimates.

1/ Also includes unrecorded oil exports.
2/ Kuwait Investment Authority, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.
3/ CBK, local banks, investment companies, exchange companies, insurance companies, and the nonfinancial private sector.
4/ From 2007, based on a new, more comprehensive methodology to estimate outward workers' remittances.
5/ Includes UN war compensation.
6/ For 2010, includes a projection of the net inflow from the sale for $10.6 billion of a foreign asset owned by a Kuwaiti company.
7/ Includes other unclassified private sector flows.
8/ Includes SDRs and IMF reserve position.

Table 4. Kuwait: Monetary Survey, 2004–11

End of period	2004	2005	2006	2007	2008	2009	Proj. 2010	Proj. 2011
	(In millions of KD)							
Foreign assets (net) 1/	3,535	3,904	5,545	5,718	7,610	9,443	11,784	12,914
Central bank	2,165	2,370	3,416	4,327	4,510	5,009	6,965	7,367
Local banks	1,370	1,534	2,129	1,392	3,100	4,435	4,819	5,547
Domestic assets (net)	8,120	9,182	10,375	13,269	14,341	15,453	14,492	15,914
Claims on government (net)	1,246	948	113	-968	-2,675	-3,229	-3,575	-4,331
Central bank (net)	-662	-520	-617	-920	-1,124	-1,165	-1,157	-1,312
Claims	0	15	0	0	0	0	0	0
Deposits	662	534	617	920	1,124	1,165	1,157	1,312
Local banks (net)	1,908	1,467	731	-47	-1,550	-2,064	-2,417	-3,019
Claims	2,750	2,463	2,165	1,912	1,985	1,920	1,920	1,920
Government debt bonds	604	378	176	0	0	0	0	0
Public debt instruments	2,146	2,085	1,989	1,912	1,985	1,920	1,920	1,920
Other claims	0	0	0	0	0	0	0	0
Deposits	842	996	1,434	1,959	3,535	3,984	4,337	4,939
Claims on nongovernment sector	10,886	12,937	16,148	21,822	25,460	27,002	29,078	32,525
Credit facilities	9,867	11,827	14,934	20,139	23,660	25,105	26,999	30,161
Local investments	1,019	1,109	1,215	1,683	1,800	1,898	2,079	2,364
Other items (net)	-4,011	-4,702	-5,886	-7,585	-8,444	-8,321	-11,011	-12,279
Broad money 2/	11,655	13,086	15,921	18,987	21,950	24,896	26,276	28,828
Money	3,174	3,727	3,550	4,147	4,370	4,714	4,975	5,459
Quasi money	8,481	9,359	12,370	14,841	17,580	20,182	21,301	23,370
Of which: Foreign currency deposits	1,169	1,548	2,245	1,710	1,899	2,753	2,906	3,188
	(Annual percentage change)							
Foreign assets (net)	43.5	10.4	42.0	3.1	33.1	24.1	24.8	9.6
Central Bank	10.1	9.5	44.1	26.6	4.2	11.1	39.1	5.8
Local banks	175.4	12.0	38.8	-34.6	122.8	43.1	8.7	15.1
Domestic assets (net)	2.3	13.1	13.0	27.9	8.1	7.8	-6.2	9.8
Claims on Government (net)	-46.4	-24.0	-88.0	-953.4	176.4	-20.7	-10.7	-21.2
Claims on nongovernment sector	16.1	18.8	24.8	35.1	16.7	6.1	7.7	11.9
Other items (net)	-6.6	-17.2	-25.2	-28.9	11.3	1.5	-32.3	-11.5
Broad money	12.1	12.3	21.7	19.3	15.6	13.4	5.5	9.7
Money	21.6	17.4	-4.8	16.8	5.4	7.9	5.5	9.7
Quasi money	8.9	10.4	32.2	20.0	18.5	14.8	5.5	9.7
Of which: Foreign currency deposits	18.0	32.4	45.0	-23.8	11.1	45.0	5.5	9.7
	(Change in percent of beginning of period broad money stock)							
Foreign assets (net)	10.3	3.2	12.5	1.1	10.0	8.4	9.4	4.3
Central bank	1.9	1.8	8.0	5.7	1.0	2.3	7.9	1.5
Local banks	8.4	1.4	4.5	-4.6	9.0	6.1	1.5	2.8
Domestic assets (net)	1.8	9.1	9.1	18.2	5.6	5.1	-3.9	5.4
Claims on government (net)	-10.4	-2.6	-6.4	-6.8	-9.0	-2.5	-1.4	-2.9
Claims on nongovernment sector	14.5	17.6	24.5	35.6	19.2	7.0	8.3	13.1
Other items (net)	-2.4	-5.9	-9.0	-10.7	-4.5	0.6	-10.8	-4.8
Broad money	12.1	12.3	21.7	19.3	15.6	13.4	5.5	9.7
Money	5.4	4.7	-1.4	3.7	1.2	1.6	1.1	1.8
Quasi money	6.6	7.5	23.0	15.5	14.4	11.9	4.5	7.9
Of which: Foreign currency deposits	1.7	3.3	5.3	-3.4	1.0	3.9	0.6	1.1
Memorandum items:	(In percent)							
Non-oil GDP/M2	76.4	79.4	76.4	75.5	67.6	58.7	60.5	59.9
Foreign currency deposits/M2	10.0	11.8	14.1	9.0	8.7	11.1	11.1	11.1
Private credit/non-oil GDP	115.0	114.8	121.3	138.8	156.1	165.5	163.9	168.5

Sources: Central Bank of Kuwait; and Fund staff estimates.

1/ Excludes SDRs and IMF reserve position.
2/ Excludes deposits with financial institutions which are marginal.

Table 5. Kuwait: Illustrative Macroeconomic Baseline Scenario, 2005–15

				Est.		Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Percentage change, unless otherwise specified)										
Production and prices											
Nominal GDP (KD billions)	23.6	29.5	32.6	39.8	28.2	33.1	35.9	38.9	41.9	45.0	48.5
Nominal GDP	34.7	24.9	10.6	22.1	-29.0	17.3	8.3	8.4	7.7	7.5	7.7
Nominal non-oil GDP	16.8	17.0	17.8	3.5	-1.4	8.7	8.6	8.6	8.6	8.6	8.6
Real GDP	10.4	5.3	4.6	5.6	-4.4	1.9	4.5	5.0	5.2	5.3	5.3
Real oil GDP	12.1	2.8	-2.6	3.3	-11.4	1.0	4.5	4.4	4.4	4.4	4.2
Real non-oil GDP	10.6	8.3	11.1	6.5	0.0	2.5	4.5	5.4	5.6	5.8	6.0
Kuwait crude export price (U.S. dollars per barrel)	50.6	61.2	70.4	93.7	58.2	73.0	75.4	78.2	79.9	81.4	83.5
Crude oil output (millions of barrels per day)	2.57	2.64	2.57	2.68	2.26	2.29	2.39	2.50	2.61	2.72	2.84
Consumer price index	4.1	3.1	5.5	10.6	4.0	4.0	3.4	2.9	2.9	2.9	2.7
	(Percent of GDP, unless otherwise specified)										
Public finance 1/											
Revenue, *of which* :	75.6	66.5	68.6	65.1	58.1	61.9	62.4	63.3	67.7	69.3	...
Oil and gas	51.7	48.0	51.5	53.4	48.6	51.6	51.5	51.4	50.9	50.5	...
Investment income 2/	21.4	15.7	13.8	8.8	5.8	7.1	7.8	8.9	13.9	16.0	...
Expenditure	27.2	33.9	27.9	49.1	40.1	45.8	45.0	44.2	43.5	42.8	...
Current 3/	23.6	29.9	23.8	44.6	34.8	39.5	38.8	38.1	37.5	36.9	...
Capital	3.6	4.0	4.1	4.5	5.2	6.3	6.2	6.1	6.0	5.9	...
Fiscal balance (deficit -)	48.5	32.6	40.7	16.0	18.0	16.2	17.4	19.1	24.2	26.5	...
Fiscal balance after transfer to FGF and excl. transfer to pension 4	21.6	18.5	21.4	16.9	7.0	6.8	7.1	7.5	7.5	7.5	...
Nonoil balance/non-oil GDP excluding recapitalization of pension 5	-57.6	-58.8	-59.4	-77.8	-72.4	-82.5	-81.5	-80.3	-78.6	-77.0	...
	(Percent change, unless otherwise specified)										
Exchange rates											
Exchange rates (U.S. dollar per KD, period average)	3.42	3.45	3.52	3.72	3.48	...	...	...	...	...	...
Nominal effective exchange rate	0.5	0.5	-2.2	2.5	-3.5	...	...	...	...	...	...
Real effective exchange rate	2.1	0.9	0.3	8.4	2.2	...	...	...	...	...	...
	(Percent of GDP, unless otherwise specified)										
Balance of payments 6/											
Exports of goods and services excl. re-exports	61.0	62.2	61.8	65.1	61.0	64.1	63.8	63.4	62.9	62.4	61.9
Of which : oil and refined products	52.5	52.4	51.5	55.8	47.4	49.0	48.9	49.0	48.6	48.2	47.9
Imports of goods and services excl. re-exports	-28.5	-24.7	-26.7	-24.4	-29.4	-30.0	-29.6	-29.1	-29.0	-29.1	-28.9
Investment income (net)	8.9	10.8	10.8	7.3	7.9	4.8	5.6	7.0	13.3	16.2	17.0
Current account	37.2	44.6	36.8	40.7	29.1	29.3	30.1	31.7	37.4	39.7	40.0
Current account (excluding oil exports)	-15.3	-7.7	-14.7	-15.1	-18.3	-19.7	-18.8	-17.2	-11.1	-8.4	-7.9
	(Percent of GDP, unless otherwise specified)										
Saving-investment balance											
Final consumption	47.9	42.5	43.7	40.3	57.5	49.2	47.2	47.1	47.6	48.1	48.4
Government	15.7	13.9	14.0	12.6	19.5	19.0	19.1	18.6	18.2	17.9	17.5
Private	32.2	28.6	29.7	27.7	38.1	30.1	28.1	28.5	29.3	30.2	31.0
Gross domestic investment	14.6	15.9	19.3	18.9	10.9	16.8	18.6	18.6	18.6	18.6	18.6
Government	3.0	2.8	3.6	3.5	5.4	5.9	6.2	6.1	6.0	5.9	5.8
Private	11.7	13.1	15.7	15.4	5.5	10.9	12.4	12.5	12.6	12.7	12.8
Savings	56.8	64.7	58.0	59.8	40.0	46.1	48.8	50.3	56.0	58.3	58.6
Government Saving	55.7	60.2	55.7	47.5	47.2	41.3	43.3	44.4	48.5	51.1	53.3
Private Savings	1.1	4.5	2.2	12.3	-7.2	4.8	5.5	5.9	7.6	7.2	5.4

Sources: Kuwait authorities; IMF World Economic Outlook; and Fund staff estimates and projections.

1/ Fiscal year ending March 31.
2/ Includes profits of public enterprises.
3/ In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund.
In 2008/09, KD 5.5 were transferred. KD 1.1 billions are budgeted for each year from 2010/11 to 2014/15.
4/ Excluding transfer to FGF and investment income
5/ Equals overall balance minus oil revenues, investment income, and 10 percent of other current revenues and capital revenues plus pension transfer.
6/ Staff estimates and projections, based mainly on balance of payment flow data and assuming return on foreign assets close to the LIBOR.

Table 6. Kuwait: Financial Soundness Indicators, 2006–09

	2006	2007	2008	2009
Core Set:		(In percent)		
Regulatory capital to risk-weighted assets (All Banks) (Local & Foreign Branches) 1/	21.2	19.4	17.1	18.0
Regulatory capital to risk-weighted assets (Conventional Banks) 1/	21.8	18.4	15.5	18.9
Regulatory capital to risk-weighted assets (Islamic Banks) 1/	19.9	22.9	21.8	16.2
Tier 1 capital to risk-weighted assets (All Banks) (Local & Foreign Branches) 1/	18.6	17.4	15.8	16.8
Tier 1 capital to risk-weighted assets (Conventional Banks) 1/	18.5	15.9	13.8	16.9
Tier 1 capital to risk-weighted assets (Islamic Banks) 1/	19.4	23.1	22.4	16.8
Nonperforming loans net of provisions to capital	14.3	11.4	26.0	45.7
Nonperforming loans to gross loans	3.9	3.2	5.3	9.7
Nonperforming loans from before invasion	1.2	0.8	0.6	0.6
Nonperforming loans since liberation	2.6	2.4	4.7	9.1
Banks' return on average assets	3.7	3.6	0.9	0.8
Banks' return on average equity	28.8	29.4	7.7	6.8
Liquid assets to total assets	35.8	33.3	30.3	26.1
Liquid assets to short-term liabilities	29.5	39.0	36.4	34.7
Net open position in foreign exchange to capital and reserves	-3.2	0.6	10.0	10.0
Encouraged Set:				
Capital to assets	11.7	12.6	11.7	12.1
Weighted average lending rate 2/	8.6	8.5	7.6	6.2
Weighted average deposits rate 2/	4.9	5.5	4.8	2.8
Spread between weighted average lending and weighted average deposit rates 2/	3.7	3.1	2.8	3.3
Foreign-currency-denominated assets to total assets	21.4	24.3	23.6	20.6
Foreign-currency-denominated liabilities to total assets	21.8	24.7	23.1	19.4
Loan provisions to nonperforming loans	47.8	48.2	41.6	38.5
Ratio of banks' lending to banks' capital				
Stock market related	50.6	48.0	60.7	57.6
Real estate 3/	103.7	111.3	129.7	134.7
Total (stock market plus real estate)	154.3	159.2	190.4	192.4
Investment companies' capital and reserves to total assets	35.1	35.1	31.9	37.2

Sources: Central Bank of Kuwait; and Fund staff estimates.

1/ Conventional banks adopted Basel II in 2005 while the capital adequacy ratio for Islamic banks continued to be calculated under Basel I up to the first quarter of 2009.
2/ Includes Islamic financial companies since December 2008.
3/ Includes only credit to developers (excludes credit to home buyers). Includes lending for projects guaranteed by the government.

Table 7. Kuwait: Vulnerability Indicators, 2004–09

	2004	2005	2006	Prel. 2007	Proj. 2008	Proj. 2009
	(In percent, unless otherwise indicated)					
External solvency indicators						
REER (CPI based, period average) 1/	-5.2	2.1	0.9	0.3	8.4	-0.5
External debt including private sector (in billions of U.S. dollars)	15.5	20.2	30.8	57.5	60.6	57.5
Short-term debt (original maturity; in billions of U.S. dollars) 2	7.5	9.8	14.9	27.9	29.4	27.9
Medium- and long-term debt (in billions of U.S. dollars) 3/	8.0	10.4	15.9	29.7	31.3	29.7
External debt/GDP 4/	26.0	25.0	30.4	50.2	40.9	58.5
External debt/total exports of goods and services	47.2	40.3	47.5	79.1	61.6	93.0
Short-term debt/total exports of goods and services	22.8	19.5	23.0	38.3	29.8	45.0
External debt service/total exports of goods and services	3.8	1.7	2.3	4.0	1.6	7.6
Public sector solvency indicators						
General government domestic debt/GDP 5/	17.3	11.8	8.3	6.7	5.7	7.7
Interest payments/total revenue	0.8	0.5	0.5	0.4	0.3	0.3
Distribution of the public domestic debt by holders						
Local commercial banks	90.7	88.4	89.0	87.7	88.1	87.7
Other (including nongovernment public institutions)	9.3	11.1	11.0	12.3	11.9	12.3
Oil revenue/total revenue	77.6	69.8	71.2	74.5	80.4	83.1
External liquidity indicators						
CBK net foreign assets (in billions of U.S. dollars)	7.3	8.1	11.8	15.8	16.3	17.5
CBK gross foreign assets (in billions of U.S. dollars) 6/	7.5	8.5	12.3	16.4	16.7	17.7
In months of imports of goods and services	4.5	4.3	5.5	6.1	5.3	6.9
Relative to short-term external debt	99.5	86.7	82.3	58.8	57.0	63.5
Relative to M0	279.3	268.1	294.6	243.1	287.0	241.1
Relative to M1	69.2	66.5	100.0	107.9	105.6	107.7
Local banks' net foreign assets (in billions of U.S. dollars)	4.6	5.3	7.4	5.1	11.2	15.5
Foreign assets	10.8	13.0	18.1	28.0	31.9	25.6
Foreign liabilities	6.2	7.7	10.8	22.9	20.7	10.2
Oil exports/total exports	92.0	93.7	94.2	94.4	95.0	92.5

Sources: Central Bank of Kuwait; and Fund staff estimates.

1/ Percentage changes in period's average.
2/ Short-term data are obtained from the joint BIS-IMF-OECD-World Bank database.
3/ Medium- and long-term debt is estimated as a residual.
4/ Includes private sector's debt.
5/ Treasury bills and bonds, and debt purchase bonds.
6/ Excludes SDRs and IMF reserve position.

Annex I. Government Support Measures in 2008–10

Government support measures to the financial and economic sectors included: (i) the extension of bank deposit guarantees; (ii) bank liquidity injections through central bank repo operations, swaps, direct collateralized placements, and government deposits at commercial banks; (iii) a reduction in repo and discount rates; (iv) direct placements of deposits and CBK foreign currency swaps; (v) a financial stability law that provides substantial financial sector guarantees and introduced an improved the legal framework to allow for an orderly restructuring of ICs; (vi) an easing of the prudential loan-to-deposit and liquidity ratios; and (vii) support of the Kuwaiti stock market through the establishment of stock market stabilization funds financed by government entities.

Announced Government Support Measures, 2008-10

Type of support	Potential Support (In billions of U.S. dollars)	Comments
1. Bank capital injections	0.42	The total recapitalization of Gulf Bank was KD 376 million, of which 32 percent was bought by KIA.
2. Stock market purchases	5.25	KIA, along with other government entities (including Kuwait Petroleum Corp and the Public Institution for Social Security), launched in Dec. 2008 a Fund of KD 1.5 billion for investment in the domestic stock market. As of April 2010, deployed funds amounted to 30 percent of allocated funds.
3. Guarantees		
(i) Gurantees on bank lending to the economy and ICs	…	The Financial Stability Law was issued in March 2009 by an Amiri Decree and will continue to be in effect unless the parliament rejects it. The intention of the law is to support: (i) banking sector stability by providing full guarantees on banks' provisioning shortfalls; (ii) credit growth by guaranteeing 50 percent of loans to the productive sectors of the economy, with a total allocated guarantees amount of about KD 2 billion over 2009-10; and (iii) viable ICs that face liquidity pressures by guaranteeing 50 percent of their new borrowing, in addition to introducing a bankruptcy protection clause, similar to Chapter 11 in the U.S., to allow for the their orderly restructuring. As of April 2010, only KD 87 million in loans have been extended under this provision, and only one IC has applied to utilize bankruptcy protection provisions. The banking sector has been fully provisioned and accordingly did not resort to government underprovisioning guarantees.
(ii) Gurantees on bank deposits	…	In late 2008, full guarantees on customer deposits in local banks were established through a law.
4. Debt relief to households		
(i) Insolvency Fund	1.75	A KD 500 million fund was created in July 2008 to help nationals whose repayment obligations represented more than half of their monthly salary.
(ii) Debt Relief Law	13.00	This law, which was approved by parliament in January 2010, requires the government to first write off all outstanding interest on personal and consumer loans taken out by Kuwaiti citizens from banks and ICs until Dec 14, 2009. Banks and ICs would then restructure the remaining debt in interest-free monthly installments that must not exceed 35 percent of the debtors' income. The repayment must be made over a period of at least 10 years. The law was rejected by the Amir, but could become law if passed by a simple majority during the next session of paliament (October 2010).
Memorandum items:		
Nominal 2009 GDP	98.4	

INTERNATIONAL MONETARY FUND

KUWAIT

2010 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department

June 30, 2010

Contents Page

ANNEX I. KUWAIT—FUND RELATIONS

(As of April 30, 2010)

I. **Membership Status:** Joined September 13, 1962
Article VIII on April 5, 1963

II. **General Resources Account:**	**SDR Million**	**% Quota**
Quota	1,381.10	100.00
Fund holdings of currency	1,207.35	87.42
Reserve position in Fund	173.77	12.58

III. **SDR Department:**	**SDR Million**	**% Allocation**
Net cumulative allocation	1315.57	100.00
Holdings	1442.63	109.66

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Lending to the Fund and Grants:**

Kuwait has made a contribution to the PRGF-HIPC Trust in support of Fund's concessional assistance to low-income countries. These include an interest-free deposit of SDR 4.2 million with a maturity at end-2018, and a grant contribution of SDR 0.1 million to the PRGF-HIPC Trust.

VII. **Exchange Rate Arrangement:**

Since May 2007, the Kuwaiti dinar has been pegged to an undisclosed currency basket, reverting to the exchange system before January 2003. Between January 1, 2003 and May 2007, the Kuwaiti dinar had been pegged to the U.S. dollar with a margin of 3.5 percent on either side around the parity exchange rate of 299.63 fils/U.S. dollar. On April 2, 2002 Kuwait notified the Fund, under Decision 144-(52/51), of exchange restrictions it introduced in order to implement UN Security Council resolutions 1373 (2001), 1333 (2000) and 1267 (1999).

VIII. **Article IV Consultations:**

The last Article IV consultation was completed by the Executive Board on April 10, 2009. The authorities decided to publish the report.

IX**.** **FSAP Participation**

An FSAP Update was conducted in March 2010. It included an updated assessment f a selected number of Basel Core Principles. An FSSA report was discussed by the Executive Board along with the staff report for the 2010 Article IV consultation.

X. **Technical Assistance:**

STA	Seminar on GDDS	February 2000
STA	National Accounts and Price Statistics	June 2001–June 2002
FAD	Restructuring Budget Processes	January/February 2002
FAD	A Program for Tax Reform	December 2002
MFD/LEG	Bank Insolvency	October 2004
FAD	Macro Fiscal Unit	February 2009
STA	External Sector Statistics	February 2009
STA	External Sector Statistics	December 2009

XI. **Resident Representative:** None

XII. Kuwait has consented to the quota increase under the Eleventh General Review of Quotas; it has accepted the Fourth Amendment of the Articles of Agreement.

ANNEX II. KUWAIT—RELATIONS WITH THE WORLD BANK GROUP
(As of June 7, 2010)

The World Bank and the Government of Kuwait are currently developing a new Country Partnership Strategy (CPS), to build on the previous CPS agreed on in 2007. The current CPS has already received a strong support from the government; it will address specific sector areas for which the Government needs Bank's support within a multi-year strategic framework.

Ongoing Activities—FY2010/11

- **Governance TA – Phase II.** This is a continuation of the Governance program that began in FY08 (Phase I completed in FY09.) The scope of the project included review and/or assistance in drafting legislation pertaining to conflict of interest, and asset and income disclosure by public officials; advice and guidance on the creation of a well-functioning anticorruption agency including legal and institutional framework; development of the agency's strategic plan, operational manual and guidelines; and public awareness campaign. The project is currently close to completion.
- **Economic Zones Development.** The World Bank has been assisting the Foreign Direct Investment Bureau (KFIB) and the Public Authorities for Industry (PAI) in conducting assessment of the development opportunities for several economic and industrial zones in Kuwait. The Bank has procured consulting services for this purpose and is supervising consultants' work. Master plans for a PAI site (Shadadiyah) have been delivered, along with engineering drawings for Shadadiya. KFIB has also asked for assistance with feasibility study for several other Economic Zones, as well as with the capacity building. The Bank is currently developing a proposal to accommodate the request.
- **Public Expenditure and Financial Accountability Assessment (PEFA).** The PEFA framework provided for a careful examination of a country's public financial management practices by monitoring the quality of Public Finance Management work. This project also supported a significant capacity building effort so that future exercises can be conducted by Kuwaiti consultants, academics and NGOs. The project has been completed in FY10.
- **Corporate Governance Banking Sector Review**. The Government requested the ROSC – Corporate Governance, which entailed an evaluation of the corporate governance practices in the Kuwait banking sector. The Bank team had also been asked to evaluate a number of investment banks. The draft report has already been discussed with the Government, and the project is close to completion.
- **Review of Spending Allocations**. The Bank undertook an analytical desk review of the major components of public spending in Kuwait. The review used as inputs (1) the budget final accounts for the last six years (FY2003-2008 inclusive); (2) IMF staff reports and selected issues papers; (3) previous Bank technical assistance reports on

spending effectiveness in the education and health sectors in Kuwait; (4) the World Development Indicators database; and (5) the Bank's report on education in the Middle East North Africa region. The full report was presented to and discussed with the MoF in March 2010.

- **Assessment of the Financial Crisis Impact.** Kuwait's Ministry of Finance (MOF) has expressed interest in a World Bank assessment of the financial crisis' impact on the following sectors: (i) financial; (ii) real estate; (iii) industrial; (iv) commercial; (v) construction; and (vi) services. After consulting with Central Bank of Kuwait on the scope of the work, the MOF officially requested the Crisis Work be done in two stages; starting with a quick analysis of the impact of the crisis on the above mentioned sectors, and leading to a deeper analysis of those sectors that are impacted the most.
- **Education Sector TA.** This technical assistance program in general education sector supports the Ministry of Education in the following three: improving the output of the education process, diversifying secondary education (Grades 10-12) and developing an education system for special needs and gifted students. This program builds on the Education Indicators and Assessment Project successfully completed in FY10, which over six years of its implementation involved publication of the annual Kuwait Education Indicators report, capacity building in policy relevant data analysis, implementation of the TIMSS and PIRLS, and other activities aimed at raising the awareness regarding the quality of education in Kuwait.
- **Health Sector TA.** To improve the performance of the Kuwaiti health system and to ensure that the health sector contributes to the ongoing restructuring of the Kuwaiti economy, the Ministry of Health (MOH) proposed work program covers a number of areas in the short & medium term, including: health finance, health service quality & standards (in partnership with UK NICE), communications within and outside the MOH, drug & medical supplies, and Health Management Information Systems (HMIS).
- **Solid Waste Management**. The objective of this activity was to assist Industrial Bank of Kuwait (IBK) in identifying market opportunities in the solid waste sector while proposing a country program for the upgrade of the existing solid waste management systems in Kuwait. More specifically, the Bank helped IBK to (i) better understand the current situation of the solid waste sector in Kuwait; (ii) identify/evaluate untapped business opportunities for the private sector in the solid waste area; and (iii) promote reforms in the solid waste sector that would lead to enhanced cost effectiveness of private sector participation, particularly in collection, sorting and recycling of waste. This project was completed in February 2010.
- **Solid Waste Management II**. Based on the reports delivered by the Bank team for the first Solid Waste Management project and the recommendations proposed, the Municipality of Kuwait City requested the Bank's assistance in implementing four main recommendations: (i) preparation & implementation of a national priority project for the closure and rehabilitation of existing dumpsites, (ii) elaboration and

adoption of a solid waste master plan consistent with Kuwait Land-Use Master plan, to identify national policy & investment priorities for the solid waste sector, (iii) completion & harmonization of existing legal instruments, starting with a Solid Waste Law, and (iv) establishment of a municipal solid waste agency under the municipality's authority.

- **Public-Private Partnerships (PPP): Partnership Technical Bureau (PTB) Capacity Building.** The objective of this activity was to assist the PTB in the implementation of the BOT (build-operate-transfer) Law 7, 2008. More specifically, the task team (i) prepared operating BOT guidelines in line with the new Kuwait law and international best practice; and (ii) assisted the PTB in becoming a fully operational body by recommending a suitable organizational structure as well as provided ad hoc support in preparing and finalizing documents, including: procurement documents for recruiting transaction advisors, Requests for Proposals. The first phase was completed in March 2010, and currently the project team has begun implementation of the second phase that will focus on the formal launch of the Kuwait PPP program (and the dissemination of the PPP guidebook), including preparation of a PPP policy note, the organization of a regional launch event; institutional and capacity development for PTB; and assistance in establishing a project development fund.
- **Technical Assistance to the Central Agency for Information Technology (CAIT).** In March 2009, CAIT asked the Bank's assistance in three areas: establishing a monitoring and evaluating framework to monitor and evaluate Kuwait's e-government strategies; putting in place a policy framework to help CAIT identify and promote SMEs in the IT field; and producing a regulatory framework that would help guide CAIT in their outsourcing efforts through PPPs.

Annex III. Kuwait—Statistical Issues

(As of May 28, 2010)

Data provision has some shortcomings, but is broadly adequate for surveillance. There is scope for improved compilation of the national accounts and balance of payments statistics through better coordination among statistical agencies. Timelines, particularly for the national accounts, is an area of concern.

National Accounts and Production

Recent improvements of national accounts include: change of the base year for the constant price data to 2000 and the estimates of value added for subsidized goods and services of the public utilities sector through the use of input costs (the household expenditure survey was used previously). Continued progress, especially in the estimation of value added for the oil sector, requires the dedication of adequate resources and improved coordination between the Ministries of Planning, Oil, and Finance. STA has provided technical assistance to the Ministry of Planning to improve national accounts and price data. It would be useful if the Central Bank of Kuwait (CBK) would publish oil sector information in the *Quarterly Statistical Bulletin* pertaining to output, refining, domestic consumption, export price for crude and refined products and the domestic price of petroleum products. These data are available from the Ministry of Oil. Timeliness of the data needs to be improved. Recent delays in the production of price indexes have caused long delays in the production of real GDP data.

Price Statistics

CPI weights are based on the 1999–2000 household expenditure survey and were introduced into the index for a reference year of 2002. An improved monthly CPI based on a revised basket has been published in monthly CPI bulletins with about one-month lag. The wholesale price index (WPI) needs to be developed into a producer price index (PPI) which is consistent with the national accounts and includes all domestically produced goods, ex-factory, for the export and the domestic market. Timely and comprehensive labor force data are not available.

Government Finance Statistics

Annual GFS data are reported for publication in the *Government Finance Statistics Yearbook (GFSY)*. The major components of its extrabudgetary revenues (investment income and transfers of profits of public institutions), extrabudgetary expenditures (interest on foreign debt and treasury paper), and financing operations conducted by two reserve funds are not reported. Data on investment income, and on interest on foreign debt and treasury paper, however, are usually provided to Article IV consultation missions.

The authorities have made some progress in fiscal data presentation, but the lack of a suitable classification of data on the execution of the budget remains a constraint on monitoring effectively fiscal developments during the year. The authorities' presentation is not yet fully compliant with the GFSM 2001 guidance, but progress is being made in terms of creating a new chart of accounts and moving reporting to accrual basis.

Data on the operations of the Public Institute for Social Security are not made available. Sharing of information between various government agencies could be improved. STA has indicated to the authorities that operations of the two reserve funds should be classified as part of government, as they perform activities for public policy purposes (management of debt and assets, and financing of the budget). To this end, reporting subannual GFS in the form of the Statement of Sources and Uses of Cash for the consolidated central government could be encouraged. The authorities have also been briefed on the IMF's ongoing work to enhance the transparency of fiscal accounts and presentations detailed in the "Code of Good Practices on Fiscal Transparency" and were encouraged to adopt some of the practices recommended in the Code. The Public Expenditure Management (PEM) system could usefully be strengthened.

Monetary and Financial Statistics

The CBK reports monetary data to STA on a regular and timely basis. Monetary and financial statistics based on the Standardized Report Forms (SRFs) have been finalized and will be published in the April 2008 issue of the *International Financial Statistics Supplement*. CBK needs to work further to distinguish a number of investment companies that accept deposits from other investment companies that do not accept deposits. Investment companies that accept deposits should appropriately be classified as part of the depository corporations sector. In the current SRFs, all investment companies (including those that accept deposits) are classified as other financial corporations. However, the amount of deposits accepted by investment companies is considered as not significant. CBK staff attended a workshop on harmonizing monetary and financial statistics in the GCC region that was conducted by STA staff in Riyadh in July 2006

Balance of Payments Statistics

The CBK compiles and disseminates detailed annual data in accordance with the methodology of the *BPM5*—quarterly data are provided to Article IV consultation missions. However, data on capital flows of the nonfinancial private sector are limited, which has likely contributed to the "errors and omissions" item. To improve coverage for inward foreign direct investment, the CBK is making efforts to obtain more data by surveying direct investment enterprises. The Central Statistical Office (CSO), working with the CBK, plans to implement the IMF's Coordinated Direct Investment Survey in 2010-2011. This initiative should improve foreign direct investment statistics. Enhancements have been made in the estimation of travel services and communication services, but further improvements are needed in compilation practices and in the estimation of data on several service items and private transfers.

A major step forward in 2007 was the dissemination of IIP data for 2001 onwards in STA publications. However, the information on IIP data made available to staff is incomplete as it excludes the external assets held by the general government due to domestic legal constraints on dissemination (however, loans granted by the Kuwaiti Fund for Arab Economic Development and general government trade credits are included).

The CBK also participates in the Coordinated Portfolio Investment Survey (CPIS) with data reported for 2003 onwards. These data are for the financial sector acting as end-investors or as intermediaries on behalf of residents and do not include holdings of foreign securities held by government agencies, which comprise the bulk of Kuwait's cross-border holdings.

In 2009, STA provided TA on improving external accounts data. The CBK has made good progress since then, particularly in the substantial revisions to report forms, including the separate reporting of financial transactions in the BOP and other changes in volume in the international investment position. It has also made progress in the estimation of remittances data. Yet, major delays and data gaps remain. In particular, major government entities do not report quarterly data to the CBK in time to compile timely quarterly statistics. Trade data are compiled by the CSO annually and provided to the CBK with a time lag of well over one year. Furthermore, the response rate for the private nonfinancial sector is low.

Data dissemination

Kuwait is one of the first GDDS participants. However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since October 2002. The CBK maintains its own webpage where it provides the following data to the public: money and banking statistics; balance of payments statistics; trade balance statistics; exchange rate; GDP by sector and expenditure at current and constant prices; public finance statistics; CPI and WPI; and security market indicators. Similarly, the Ministry of Planning has a webpage where the CSO publishes data on national accounts, prices, and other related statistics. The Ministry of Finance webpage includes detailed data for actual and estimated budget operations. In addition, the Kuwait Stock Exchange webpage provides data on stock market indices, volume and value of securities traded, as well as privatization schedules and other related information.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation (For all dates in table, please use format (dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality Methodological soundness[9]	Data Quality Accuracy and reliability[10]
Exchange Rates	28/05/2010	28/05/2010	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	31/01/2010	30/04/2010	M	M	M		
Reserve/Base Money	28/02/2010	30/04/2010	M	M	M		
Broad Money	28/02/2010	30/04/2010	M	M	M		
Central Bank Balance Sheet	28/02/2010	30/04/2010	M	M	M		
Consolidated Balance Sheet of the Banking System	28/02/2010	30/04/2010	M	M	M		
Interest Rates[2]	31/12/2009	30/04/2010	M	M	M		
Consumer Price Index	31/01/2008	28/05/2010	M	M	Q		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	31/12/2008	31/06/2009	Q	Q	Q	Not published on Fund standards	Not published on Fund standards
Stocks of Central Government and Central Government-Guaranteed Debt[5]	31/03/2010	28/05/2010	Q	Q	Q		
External Current Account Balance	31/12/2009	07/04/2010	Q	Q	Q		
Exports and Imports of Goods and Services	31/12/2009	07/04/2010	Q	Q	Q		
GDP/GNP	31/12/2008	07/04/2010	A	A	A		
Gross External Debt	31/12/2008	07/04/2010	A	A	A		
International Investment Position[6]	31/12/2008	12/02/2009	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] Reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[10] Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/93
FOR IMMEDIATE RELEASE
July 21, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Kuwait

On July 16, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kuwait on a lapse of time basis. Under the IMF's lapse of time procedures, the Executive Board completes the Article IV consultations without convening formal discussions.[1]

Background

The 2010 consultation discussions were held against the backdrop of the global financial crisis, which has had an adverse impact on Kuwait via trade and financial channels. The oil sector was affected by a large contraction in global oil demand and a decline in oil prices, while the financial sector—with large foreign assets and liabilities—was affected by the tightening of global liquidity conditions and declining asset prices, both domestically and abroad.

In 2009, real Gross Domestic Product (GDP) is estimated to have contracted by about 4½ percent—the weakest performance among Gulf Cooperation Council (GCC) countries—on account of a decline in real oil GDP of more than 11 percent, and flat real non-oil GDP, mainly reflecting weaker activity in the financial and construction sectors.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Lower domestic demand and a 12 percent drop in import prices reduced average consumer price inflation to 4 percent. Equity prices, money growth, and credit growth declined significantly. Fiscal and external surpluses narrowed as oil revenues and investment income fell. The Kuwaiti dinar (KD)—which is pegged to an undisclosed basket of major currencies—depreciated by about 4 percent against the U.S. dollar.

The financial sector, particularly investment companies (ICs), experienced funding pressures and deterioration in asset quality. Five ICs are known to have defaulted in 2009–10 and banks' nonperforming loan (NPL) ratio doubled to 10 percent in 2009. Nevertheless, the sector appears stable, mainly due to swift actions by the authorities and its high capital adequacy ratio (CAR around 18 percent at end-2009). The authorities' measures were extensive, ranging from liquidity support to banks to the introduction of a financial stability law.

Executive Board Assessment

In concluding the 2010 Article IV Consultation with Kuwait, Executive Directors endorsed staff's appraisal, as follows:

The global financial crisis had a significant impact on Kuwait given its international trade and financial linkages. The impact was felt strongly in 2009 as real GDP contracted, asset prices declined, and fiscal and external surpluses narrowed. The financial and non-financial sectors witnessed a substantial fall in profitability, and five ICs defaulted in 2009–10. Credit growth slowed significantly. The financial system remained stable, underpinned by swift policy actions by the authorities, but credit growth and non-oil activity were subdued in light of the absence of fiscal stimulus and the limited utilization of the financial stability law.

The economic outlook is broadly positive. The economy is expected to rebound in 2010, and to grow steadily over the medium term as the global recovery boosts the demand for oil and the government implements its four-year development plan, starting with an expansionary budget in 2010/11. The fiscal and current account balances are expected to remain stable in 2010–11 and improve in subsequent years, as oil receipts and investment income recover.

The financial sector is expected to continue to face challenges in the immediate term. Rising NPLs and large concentrations in banks' loan portfolio—particularly in real estate, ICs, and equities—are a source of concern. Nevertheless, aggregate financial soundness indicators show that the banking sector is well capitalized and highly liquid, which should help the system to remain stable. On the other hand, challenges facing ICs will be more extensive.

The economic outcome for 2010 depends largely on government spending and the associated private investment. External risks to the outlook include a weaker than expected global recovery and a deterioration in the regional economic or political environment. The overarching domestic risks would be associated with the inability of the government to meet the spending targets set out in the development plan. Political gridlock could delay necessary reforms and impact implementation, and bureaucratic hurdles could discourage private sector participation.

Stress tests indicate that the banking system could reasonably withstand significant shocks, although some banks are vulnerable to a severe macroeconomic shock. Stress tests for ICs point to their limited capacity to withstand adverse shocks. Stress tests of listed nonfinancial corporations suggest vulnerability in real estate and industrial sector companies to a prolonged economic slowdown and financing constraints.

The macro policy mix is adequate but growth of current expenditures should be contained. Increases in recent years in wages, subsidies, and transfers could undermine long-term fiscal sustainability and should be moderated. As monetary policy remains constrained by the exchange rate regime, macroprudential policies should ensure financial stability if inflationary pressures were to reemerge. The real exchange rate is broadly in line with fundamentals, and the current exchange rate regime remains appropriate in the run up to the GCC monetary union.

Successful implementation of the authorities' growth agenda would require progress in structural reforms. In this context, the passage of recent key laws, namely the Capital Markets Law, the Labor Law, and the Privatization Law is welcome. The authorities should move ahead with an efficient implementation of these laws and the amendment of other key legislation, particularly the Companies and Tender Laws. The implementation of the development plan should take into account project viability, absorptive capacity, and supply constraints.

The financial system's oversight framework should be strengthened. Proper coordination should be ensured between the three regulatory agencies—the Central Bank of Kuwait, the Capital Markets Authority, and the Ministry of Commerce and Industry, particulalry with regards to ICs; and the crisis management, contingency planning, and resolution frameworks should be enhanced. The authorities' plans to introduce an enhanced regulatory prudential structure over ICs are welcome.

If promulgated, the household debt relief law would undermine the financial culture. The law was passed by the National Assembly but rejected by the Amir. Targeted household debt relief could be implemented instead through the already existing Insolvency Fund.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Kuwait: Selected Economic Indicators, 2004–11

	2004	2005	2006	2007	Prel. 2008	Est. 2009	Proj. 2010	2011
Oil and gas sector								
Total oil and gas exports (in billions of U.S. dollars)	26.7	42.4	53.2	59.1	82.6	46.7	56.5	61.2
Average oil export price (in U.S. dollars/barrel)	35.7	50.6	61.2	70.4	93.7	58.2	73.0	75.4
Crude oil production (in millions of barrels/day)	2.29	2.57	2.64	2.57	2.68	2.26	2.29	2.39
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Nominal GDP (market prices, in billions of Kuwaiti dinar)	17.5	23.6	29.5	32.6	39.8	28.2	33.1	35.9
Nominal GDP (market prices, in billions of U.S. dollars)	59.4	80.8	101.6	114.7	148.0	98.4	115.5	125.1
Real GDP (at factor cost)	11.1	10.4	5.3	4.6	5.6	-4.4	1.9	4.5
Real oil GDP	8.7	12.1	2.8	-2.6	3.3	-11.4	1.0	4.5
Real non-oil GDP	12.1	10.6	8.3	11.1	6.5	0.0	2.5	4.5
CPI inflation (average)	1.3	4.1	3.1	5.5	10.6	4.0	4.0	3.4
Unemployment rate (Kuwaiti nationals)	3.9	3.8	4.0	...	...	...	...	...
	(In percent of GDP at market prices)							
Investment and savings								
Investment	15.0	14.6	15.9	19.3	18.9	10.9	16.8	18.6
Public	3.7	3.0	2.8	3.3	3.5	5.4	5.9	6.2
Private 1/	11.3	11.7	13.1	15.7	15.4	5.5	10.9	12.4
Gross national savings	41.2	51.8	60.6	56.1	59.6	40.0	46.1	48.8
Public	36.6	55.7	60.2	55.7	47.5	47.2	41.3	43.3
Private 1/	10.7	1.1	4.5	2.2	12.3	-7.2	4.8	5.5
Savings/investment balance	26.2	37.2	44.6	36.8	40.7	29.1	29.3	30.1
	(In percent of GDP at market prices)							
Budgetary operations 2/								
Revenue	55.4	75.6	66.5	68.6	65.1	58.1	61.9	62.4
Oil	42.9	51.7	48.0	51.5	53.4	48.6	51.6	51.5
Non-oil, *of which:*	12.4	23.9	18.6	17.1	11.7	9.5	10.4	11.0
Investment income	9.0	21.4	15.7	13.8	8.8	5.8	7.1	7.8
Expenditures and net lending	32.8	27.2	33.9	27.9	49.1	40.1	45.8	45.0
Current 3/	28.6	23.6	29.9	23.8	44.6	34.8	39.5	38.8
Capital	4.2	3.6	4.0	4.1	4.5	5.2	6.3	6.2
Balance	22.6	48.5	32.6	40.7	16.0	18.0	16.2	17.4
Domestic financing	-5.7	-1.2	-2.8	-3.1	-4.6	-1.9	-1.0	-2.1
External financing	-16.9	-47.3	-29.9	-37.5	-11.4	-16.1	-15.1	-15.3
Non-oil balance (in percent of non-oil GDP) 4/	-61.0	-57.6	-58.8	-59.4	-77.8	-72.4	-82.5	-81.5
Total gross debt (calendar year-end) 5/	17.3	11.8	8.3	6.7	5.7	7.7	6.6	6.1
	(Changes in percent of beginning broad money stock)							
Money and credit								
Net foreign assets 6/	10.3	3.2	12.5	1.1	10.0	8.4	9.4	4.3

Claims on nongovernment sector	14.5	17.6	24.5	35.6	19.2	7.0	8.3	13.1
Broad money	12.1	12.3	21.7	19.3	15.6	13.4	5.5	9.7
Kuwaiti dinar 3-month deposit rate (year average; in percent)	1.6	2.9	5.0	5.2	3.3	1.4	0.9	1.2
Stock market unweighted index (annual percent change) 7/	33.8	78.6	-12.0	24.7	-38.0	-10.0	-0.2	...
	(In billions of U.S. dollars, unless otherwise indicated)							
External sector								
Exports of goods	29.0	45.3	56.5	62.6	87.0	50.5	61.3	66.2
Of which: non-oil exports	2.3	2.9	3.3	3.5	4.4	3.8	4.7	5.0
Annual percentage change	4.6	22.9	14.6	6.4	25.1	-12.9	24.5	5.7
Imports of goods	-12.4	-15.1	-16.2	-19.1	-22.9	-17.1	-19.2	-20.5
Annual percentage change	25.5	21.4	7.9	17.7	20.0	-25.3	11.8	6.9
Current account	15.6	30.1	45.3	42.2	60.2	28.7	33.8	37.7
In percent of GDP	26.2	37.2	44.6	36.8	40.7	29.1	29.3	30.1
External debt including private sector	15.5	20.2	30.8	57.5	60.6	57.5	...	...
International reserve assets	7.3	8.1	11.8	15.9	16.7	17.7	24.5	25.9
In months of imports of goods and services	4.4	4.1	5.3	5.9	5.3	6.9	8.5	8.4
	(Percentage change; unless otherwise noted)							
Memorandum items:								
Exchange rate (U.S. dollar per KD, period average)	3.39	3.42	3.45	3.52	3.72	3.48	...	...
Nominal effective exchange rate (NEER, period average)	-4.0	0.5	0.5	-2.2	2.5	-3.5	...	...
Real effective exchange rate (REER, period average)	-5.2	2.1	0.9	0.3	8.4	-0.5	...	...
Sovereign rating (S&P)	A+	A+	A+	AA-	AA-	AA-	...	...

Sources: Data provided by the authorities; and IMF staff estimates and projections.
1/ Also includes government entities.
2/ Kuwaiti fiscal year ending March 31, e.g. 2007 refers to fiscal year 2007/08.
3/ In 2006/07 KD 2 billion was transferred to partly cover the actuarial deficit of the Public Pension Fund. In 2008/09, KD 5.5 were transferred. KD 1.1 billions are budgeted for each year from 2010/11–2014/15.
4/ Excludes investment income and pension recapitalization, but includes transfers for FGF.
5/ Excludes debt of Kuwait's SWF related to asset management operations.
6/ Excludes SDRs and IMF reserve position.
7/ Change in the KSE as of May 24, 2010 for 2010.