MACROECONOMIC PERSPECTIVE

Summary of

IMF Concluding Statement on the Article IV Consultation with Kuwait*

September 21, 2015

KEY OBSERVATIONS OF REPORT

Summary:

The decline in oil prices has adversely affected Kuwait's fiscal and current account balances, and slowed growth in 2014/15. High financial buffers provide cushion to continue to support growth through public investment and smooth the needed fiscal adjustment over the medium-term. Nevertheless, the government needs to implement gradual but sustained adjustment of current spending, focusing on reducing rigidities in the budget by continuing with subsidy reform and introducing wage reform, and improve the efficiency of capital expenditure to strengthen non-oil growth.

Key Points:

- The economy continued to grow in 2014 but at a slower rate, reflecting some slowdown in investment activity. The estimated slowdown in non-oil sector growth to 3.2% in 2014 from 4.2% the year before, has been driven by moderating activity in a number of sectors notably in manufacturing, trade, electricity and water, and transportation sectors.
- Oil production declined by 1.4% in 2014 due partly to the closure of the neutral zone oil field in the latter half of 2014 and this reduced overall real GDP growth to zero. Overall, GDP growth will recover to 0.3% in 2015 and will remain broadly stable at that level over the medium term.
- The view is that the currency peg to a basket remains appropriate for the Kuwaiti economy, as it continues to provide a nominal anchor.
- The credit outlook for the banking system is supportive of growth given ample liquidity. The domestic credit cycle shows that credit growth is currently as its trend trajectory, mitigating concerns of a build-up of financial risks from excessive credit expansion.
- Early formulation of a comprehensive long-term fiscal adjustment strategy is necessary. The government's fiscal balance (according to official figures) is projected to remain in deficit over the medium-term.
- Although tighter global liquidity conditions would impact the Kuwaiti financial sector, government and households, with feedback effects on the real economy, stress tests suggest continued overall banking sector resilience, albeit few banks are likely to be more sensitive than others and would require additional capital under severe stress scenarios. Strengthening the macroprudential policy framework and refining the early warning system and toolkit, would enable a more systematic assessment and prevention of systemic risk.
- The report highlighted the following policy challenges:
    - Fiscal consolidation and expenditure composition;
    - Strengthening financial stability;
    - Labor market reform and diversification.

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A Concluding Statement describes the preliminary findings as part of the Article IV Consultation. The views presented as part of Concluding Statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

Source: International Monetary Fund (IMF), "Kuwait: 2015 Article IV Consultation Concluding Statement of the IMF", September 21, 2015.