INTERNATIONAL MONETARY FUND

MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Kuwait─2011 ARTICLE IV CONSULTATION

CONCLUDING STATEMENT

May 9, 2011

I. INTRODUCTION

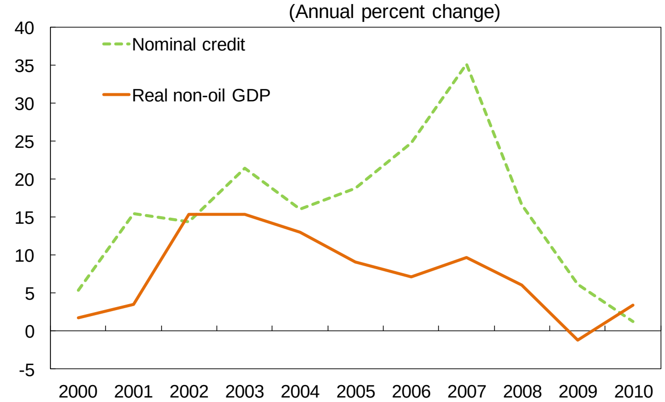
1. **An International Monetary Fund (IMF) mission visited Kuwait during April 27-May 9 to hold discussions for the 2011 Article IV consultation**.[1] Discussions focused on near-term economic policies; medium-term fiscal reform; a strategy for sustained economic growth; and measures to maintain financial stability.[2] The mission benefited from interactions with government and central bank officials, a parliamentarian, and representatives of the private sector.

II. RECENT DEVELOPMENTS

A stronger fiscal position and moderate recovery in nonoil GDP growth

2. **Activity in the non-oil sector has recovered.** Real GDP growth in 2010 is estimated at 3.3 percent, comprising oil growth of 3.2 percent and non-oil growth of 3.4 percent. Activity has been financed mostly by government expenditure; the increase in bank lending to the private sector was small (Figure 1), with higher lending of 3.3 percent to the productive sectors (industry, services, and trade) partially offset by a reduction in credit to the real estate and financial sectors. The regional unrest has weighed down on stock market prices, similar to other countries in the region. Equity prices declined across all sectors since late January and the KSE index declined by over 6 percent in 2011 through May 5. At the same time, Kuwait has increased its oil production to assist in the effort to stabilize the global oil market.

Figure 1. Credit and Non-oil GDP
(Annual percent change)



Source: Central Bank of Kuwait and Fund staff estimates.

3. **The fiscal stance has been expansionary**. Government expenditure in FY2010/11—excluding energy-related subsidies and recapitalization of social security—is estimated to have increased by 21½ percent, with expenditure accelerating in the second half of the fiscal year. Half of this growth was attributable to the recent Amiri grant, which offset the under-

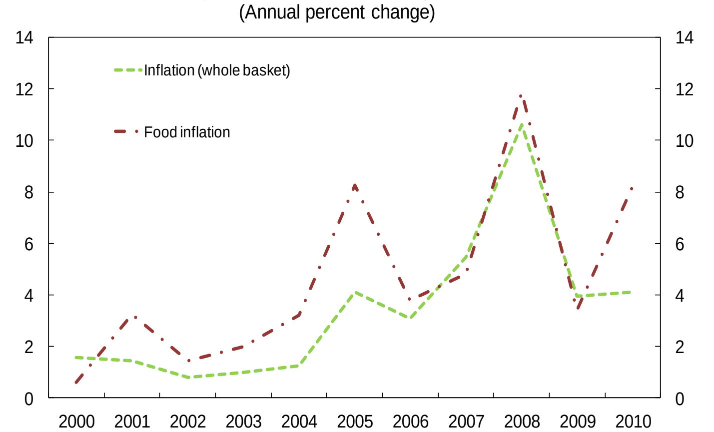
[1] The mission comprised Mmes. Khamis (Head), Beidas-Strom, Oulidi, and Messrs. Rodriguez and Charap.

[2] This document presents the preliminary findings of the mission. These findings will serve as input to the Staff Report on the Article IV consultation, which will provide the basis for the Board discussion of the 2011 Article IV discussion.

implementation of the budget.[3] Higher international oil prices bolstered Kuwait's oil revenue with oil export receipts increasing by 19 percent. In 2010, fiscal and external surpluses are estimated at about 21 and 29 percent of GDP, respectively, compared to 28 and 24 percent in 2009.

4. **Headline inflation increased in 2010, primarily due to higher international food prices.** Average food inflation reached about 8½ percent in 2010, compared to 3¼ percent in 2009, but its impact on Kuwaiti citizens has been mitigated by the government transfer. Non-food inflation remains subdued at around 3 percent in 2010, reflecting moderate increases in rents (Figure 2).[4]

Figure 2. Inflation Developments
(Annual percent change)



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

Banking sector strong but continued weaknesses in Investment Companies

5. **Banks' profitability and capitalization have improved but the Investment Companies (ICs) sector continued to post losses.** Profits of local banks increased by 70 percent in 2010 and capitalization strengthened further. Higher profits and expectations of significant participation of banks in the financing of projects under the development plan (DP) increased banks' share prices by over 40 percent in 2010 (compared to a small decline in the overall index). ICs continued to struggle and posted losses on average in 2010—although at a lower level than average losses in 2009—and the debt restructuring of some ICs remains unresolved.

6. **The performance of the nonfinancial corporate sector appears to have improved in 2010.** Corporate sector leverage and resilience to interest rate and income shocks have improved, although these improvements were not observed in the real estate sector. The trend in the residential and investment real estate market has been positive, while the commercial real estate sector has significant excess supply. The Kuwait Investment Authority (KIA) announced in early 2011 the establishment of a KD1bn portfolio ($3.6bn or 2 percent of 2011

[3] The grant included a transfer of KD 1,000 (about US$3,600) in cash to each Kuwaiti citizen (equivalent to almost 3 percent of 2010 GDP) and the provision of free essential food items from February 2011 through March 2012.

[4] Recent international oil price increases did not have an impact on the CPI because Kuwait has generous oil-related subsidies (fuel, electricity, and water) and retail oil-related prices are not adjusted with international price movements.

GDP) for investment in the local commercial real estate market, which might improve conditions in that market.

III. Economic Outlook and Risks

Stronger recovery in 2011 accompanied by larger fiscal and current accounts surpluses

7. **The economy is expected to grow steadily in 2011 and over the medium term as the government implements the DP and global recovery supports demand for oil.** Real GDP is projected to increase by about 5.2 percent, reflecting an increase in oil GDP of about 3.6 percent and non-oil GDP of just over 6 percent, spurred by government spending. Inflation is projected to pick up in 2011 to about 6 percent, driven by imported inflation.

8. **The fiscal and current account balances are projected to improve further in 2011.** Despite projected growth of 12 percent in 2011/12 expenditure, the fiscal balance is expected to improve by almost 6 percentage points to 26½ percent of GDP on account of higher oil revenue. The external current account balance is projected to increase to 34½ percent of GDP. Broad money is projected to increase by about 16 percent with credit to the private sector rising by over 6 percent on account of private sector involvement in DP project implementation.

Internal and external factors pose risks to the outlook

9. **The outlook is subject to domestic downside risks.** The overarching risk would be associated with a significant shortfall in meeting DP spending targets. Red tape, bureaucratic hurdles, and political gridlock could delay project implementation, discourage private sector participation, and limit progress on necessary legislative reforms. Separately, with regard to ICs, a further deterioration in their balance sheets or delays in their restructuring could result in an increase in banking sector provisions. This scenario could weigh down on banks' profitability. .

10. **Deterioration in the regional political and economic environment, particularly Bahrain and Egypt, also poses risks for Kuwait.** Spillover channels would be mainly financial and include: (i) losses on Kuwaiti investment in the GCC and the MENA region, which could put further pressure on ICs; (ii) direct exposure of Kuwaiti banks to the region; and (iii) stricter access to and a higher cost of external funding for Kuwaiti entities in the short-term. The materialization of regional risks would likely be accompanied by an increase in oil prices, given the importance of the region for the oil market, which would mitigate the impact of this scenario on Kuwait.

11. **The economic outlook could face downside risks from developments in oil prices and international financial markets.** Kuwait has the financial strength to smooth out the impact of short-term oil price fluctuations on expenditure, and its fiscal and current account breakeven oil prices (at $51 and $35 per barrel, respectively) remain significantly lower than

current prices. Nevertheless, if global recovery is derailed and results in a sustained decline in oil prices, prospects for government expenditure in Kuwait might be affected.

IV. Policy Discussions

A. Strategy for Sustained Economic Growth

12. **The DP rightly puts weight on needed investment but its implementation should be managed carefully.** The DP puts significant weight on much needed investment in health, education, and infrastructure, with emphasis on preparing Kuwaiti nationals for private sector employment. It is expected to have an important impact on medium-term growth, particularly in light of weak private sector activity. To achieve the DP's objectives, the authorities should address implementation weaknesses and reduce distortions.

- **DP implementation.** The DP envisages significant participation of the private sector through the establishment of public shareholding companies. For effective implementation of the DP the authorities should ensure: (i) enhancement of the business environment and development of streamlined procedures and processes and the needed legislative base for efficient and timely project screening and implementation;[5] (ii) establishment of an appropriate project design for developmental projects with appropriate internal rates of return, while limiting fiscal risks within a proper framework for risk sharing between the public and private sectors; (iii) adequate outcomes by evaluating the viability of projects and conducting regular reviews of the productivity of spending, including achieving the project's qualitative targets on health and education; (iv) that absorptive capacity and supply constraints are taken into account to avoid the resurgence of inflation; and (v) no buildup of excessive private sector leverage. Initiatives to diversify financing channels, including through the development of a corporate debt market, should be pursued.

- **Labor sector policies.** A key objective of the DP is to increase the participation of Kuwaitis in private sector activities but labor policies are generally inconsistent with this objective. The government provides generous public sector compensation packages (wages and benefits) raising the reservation wage of nationals for private sector jobs, which undermines efforts by the government to promote private sector employment. The government also relies on administrative measures (minimum sectoral quotas for the participation of Kuwaiti nationals) which are largely ineffective but nevertheless create further distortions in the economy. Consistent labor sector policies, including containing

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[5] Kuwait consistently scores lower than the GCC average in measures of the business environment. Although it ranked relatively highly overall in the 2009 World Economic Forum's Global Competitiveness index, Kuwait's ranking (35th) was below the GCC average of 28. Kuwait received significantly lower scores in "Doing Business Indicators" with very weak performance in the areas of starting a business, trading across borders, and enforcing contracts.

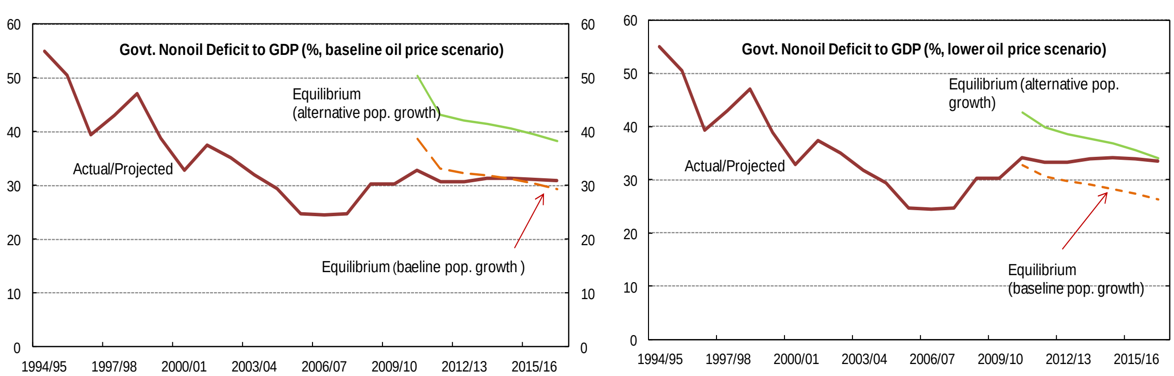
the growth in the wage bill, would not only help get the incentives right for Kuwaiti nationals but also limit recurring, excessive increases in current expenditure.

B. Medium-term Fiscal Reform

13. **Medium-to-long-term fiscal reforms are essential to reduce distortions.** Fiscal distortions in the form of large subsidies and the low contribution of nonoil revenue to the budget will likely be exacerbated as growth picks up. The cost of domestic subsidies (over 20 percent of total expenditure), particularly those related to utilities (electricity and water) and fuel will continue to increase as the economy expands.[6] A growth strategy based on input subsidies, low taxation, and rapid growth in current expenditure (including the public sector wage bill) implies high and inefficient transfers of oil resources to the nonoil economy. Accordingly, the growth of current expenditures should be contained.

14. **Fiscal consolidation is required to achieve intergenerational equity in the consumption of oil wealth.** While an assessment of long-term sustainability of fiscal policy that takes into account intergenerational equity is highly sensitive to the parameters involved in the calculation, staff estimates suggest that the government's medium-term non-oil deficit is somewhat above its long-term sustainable value, and this gap is projected to widen over time (Figure 4, left panel). Government current expenditures have expanded rapidly in recent years— largely on account of increases in wages, subsidies, and transfers—increasing breakeven prices for the fiscal and external balances and raising fiscal vulnerability to the volatility of oil prices (Figure 4, right panel).

Figure 4. Fiscal Sustainability Scenarios



Note: 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 72 years and the oil price to reach 106 dollars per barrel in 2016 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).

Note: The lower oil price scenario assumes oil prices are 20 percent lower than in the scenario presented in the upper panel (which leaves the 2011 average at around $85.7).

Source: Kuwait Ministry of Finance and Fund Staff estimates.

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[6] Oil-related subsidies account for about 95 percent of subsidies, and they derive primarily from the sale of subsidized fuels for transportation and for production and distribution of electricity and water. Food subsidies cover a few basic products.

15. **Policy options for medium-to-long-term fiscal reforms include:**

- **Reforms to the tax system.** The mission welcomes the planned introduction of a VAT in 2013 in conjunction with the planned GCC-wide VAT implementation. While the government is also considering the introduction of a comprehensive income tax system (personal and corporate), priority should be placed on the implementation of the latter, because the VAT already provides for a broad-based taxation of the population.

- **A gradual reduction of untargeted subsidies.** The phased withdrawal of subsidies should be a high priority, complemented by efficient and well-targeted safety nets. The census results could form the basis for the establishment of such a system.

- **Containment of growth in the public sector wage bill.** A public sector wage policy is needed to support the government's objective of increasing the participation of Kuwaiti nationals in the private sector and would contribute to long-term fiscal sustainability.

- **A fiscal rule would be useful for medium-term fiscal management.**

C. Near-term Macroeconomic Policy Mix

16. **The projected continued fiscal stimulus is expected to support recovery in the non-oil sector but should be moderated if signs of overheating emerge.** The non-oil fiscal deficit is estimated to have increased by close to 6½ percentage points in FY2010/11 with a projected decrease of 1 percentage point in FY2011/12.[7] The planned increases in capital expenditure and associated purchases of goods and services should have a strong contemporaneous impact on nonoil growth due to high fiscal multipliers.[8] Capital spending would also support medium- and long-term diversification efforts by addressing infrastructure needs and strengthening expenditure on health and education. Continued fiscal stimulus is appropriate at this juncture in light of modest nonoil GDP recovery in 2010, weak private sector investment, and moderate non-food inflationary pressures.[9] Nevertheless, while the inflationary impact of the current fiscal stance can be managed given subdued inflation, expenditure should be moderated if signs of overheating emerge. The mission welcomes

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[7] The non-oil fiscal balance used here is after transfers to FGF, and excludes investment income, pension recapitalization, and oil-related subsidies. The non-oil deficit is estimated at over 54½ percent and 53½ percent in FY2010/11 and FY2011/12, respectively, compared to approximately 50 percent in the years preceding the crisis (FY2005/06 to FY2007/08).

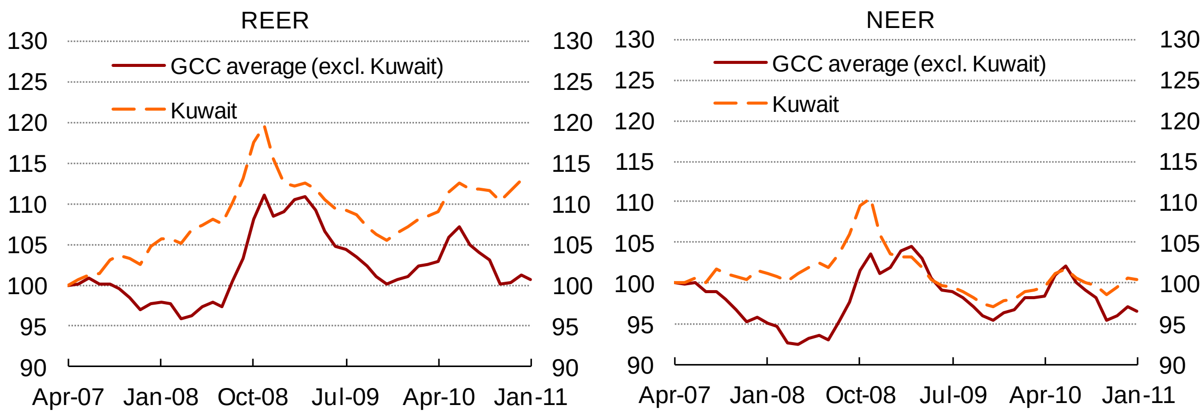
[8] Staff estimates that the impact on growth of the recent household package, which is largely in the form of direct cash transfers, is likely to be limited as a large part is likely to be saved.

[9] Domestic inflation is projected to trend upward as recovery takes hold, but is likely to remain low in light of excess supply in the commercial real estate sector, the expected increase in the supply of housing units, and the high elasticity of the labor market. Oil-related subsidies contribute to containing nonfood and nonfuel inflation to the extent that they contain the price of transportation and electricity and thereby the price of goods and services.

progress made toward the establishment of a macro-fiscal unit at the Ministry of Finance and plans to move to performance-based budgeting.

17. **Monetary policy is expected to remain accommodative, reflecting the basket peg and low global interest rates.** During the past year the CBK adjusted its policy rates in line with domestic credit conditions and low global interest rates, and significant public sector deposits were maintained in the banking system. Exchange rate movements could have some role in offsetting the pass-through of commodity price increases, although this is limited by the large weight of the U.S. dollar in the currency basket (Figure 5).

Figure 5. Kuwait: REER and NEER
(April 2007=100)



18. **Macroprudential policies are of particular importance in Kuwait.** Fiscal policy should be the first line of defense to manage the financial cycle that is typically associated with the oil cycle. Given the basket peg, macroprudential policies are of particular importance. Kuwait has in place a number of macroprudential tools that could be time-varying depending on conditions and the authorities remain ready to consider other macroprudential measures, if needed, to dampen cyclical fluctuations in credit.

19. **Preliminary assessment of the real exchange rate suggests that the dinar is broadly in line with fundamentals.**[10] The equilibrium real exchange rate approach suggests that the dinar is moderately undervalued, in the range of 0-10 percent, on the basis of both annual and high frequency estimation methods. The macroeconomic balance approach suggests a medium-term current account surplus norm of 41.7 percent of GDP compared to a projected current account surplus of 35.4 percent of GDP. This implies an overvaluation of the dinar of 13.5 percent. The external sustainability approach (using a constant per capital

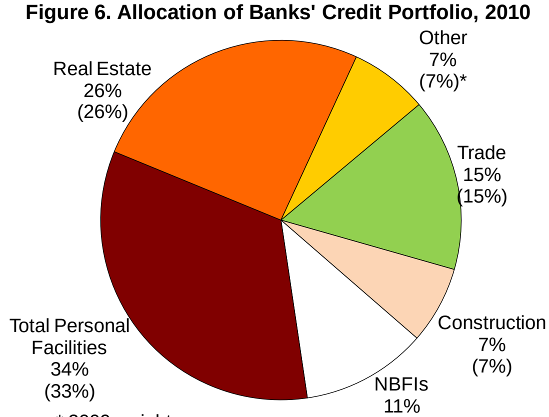
[10] The exchange rate assessments are subject to the well-known estimation difficulties, especially for oil exporting countries. In particular, the external sustainability approach results are highly sensitive to future parameter assumptions.

annuity rule) suggests that the real exchange rate is overvalued by 9.1 percent. On balance, the estimates indicate that the real exchange rate is broadly in line with fundamentals.

D. Bolstering Financial Sector Monitoring and Regulation

20. **The financial positions of banks improved markedly in 2010.** Following significant recapitalization through capital injection and subordinated debt issuance, the capital adequacy ratio increased to 19 percent in 2010 from 17 percent in 2009.[11] Leverage ratios are also at comfortable levels averaging 13 percent. Credit growth was virtually flat in 2010 on account of cautious lending policies to specific sectors (mainly real estate and ICs) as well as subdued credit demand (Figure 6). The NPL ratio dropped to 8.9 percent, owing to significant write-offs of fully-provisioned loans following a newly issued CBK directive. Nevertheless, at CBK instruction, banks continued their precautionary provisioning policies in 2010 and 2011 to cover potentially risky exposures. The sector's profits increased significantly in 2010 (by approximately 70 percent) owing to a decline in loan loss provisions, and return on equity (ROE) reached 9.1 percent. Liquidity appears adequate owing to a stable deposit base, including significant public sector deposits.

Figure 6. Allocation of Banks' Credit Portfolio, 2010

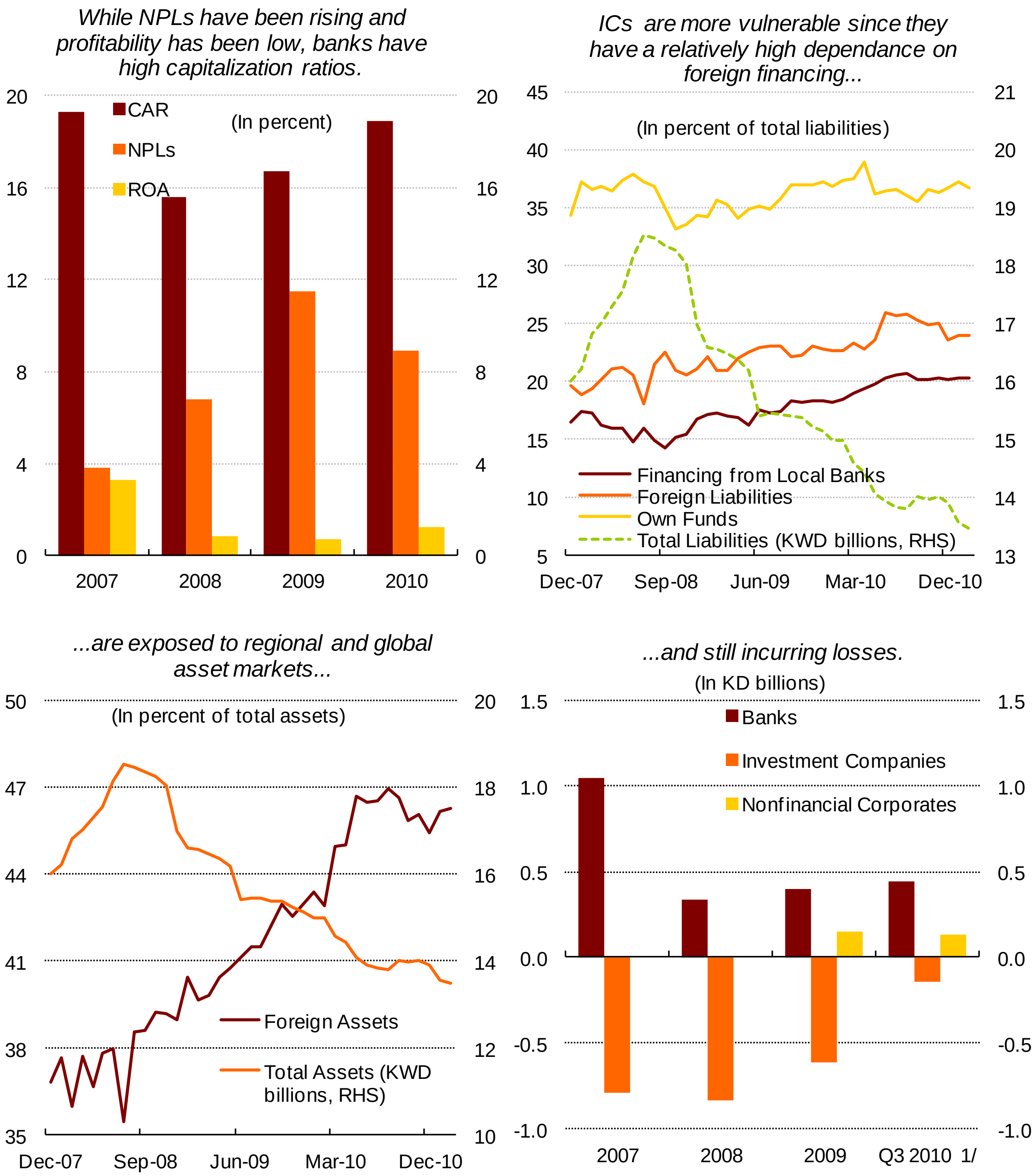


* 2009 weights
Source: Central Bank of Kuwait.

21. **The financial situation of many ICs remains precarious.** Several companies continued posting significant losses in 2010, originating mostly from investment in equities and real estate. External financing still accounts for a significant share of ICs' liabilities at approximately 25 percent as of December 2010. This long struggling sector may still face renewed pressures. Despite significant deleveraging after Lehman's collapse, ICs remain highly dependent on foreign financing (Figure 7). The sector has hit setbacks in terms of debt restructuring and, if regional real estate and equity prices continue to be negatively affected by the regional political unrest and access to external financing tightens, balance sheet and liquidity pressures might mount. Market participants expect some consolidation in the sector, although this could be limited by the prevalence of family business groups, which constrains the potential for mergers, and the absence of an efficient and speedy resolution framework and lack of expertise in the court system as regards financial sector issues.

[11] In 2010, four banks increased their capital by a total of KD 466 million.

Figure 7. Kuwait: Financial Sector Conditions



Source: Central Bank of Kuwait.

1/ Data for nonfinancial corporates covers the full year, but excludes Zain's revenues from the sale of its African subsidiaries.

22. **Stress test results indicate that, while the banking sector could withstand significant shocks, ICs remain vulnerable.** The stress test updates show improved results owing to higher capitalization and liquidity buffers as well as large precautionary provisions.[12] Even under the most adverse scenario—which assumes very low oil prices, shocks to asset prices, and protracted low growth—no bank becomes severely undercapitalized despite a marked deterioration in the loan portfolio. The maximum recapitalization need estimated under this scenario to restore the CAR to the statutory 12 percent requirement, would not exceed 2 percent of GDP. Single factor stress test results still underscore the vulnerability of the banking sector to exposure to the real estate and equity markets but the recapitalization needs under the severe scenarios in these tests appears manageable. Conversely, ICs included in the stress test sample continue to show very limited capacity to withstand shocks.[13] Under the severe scenario, which assumes 20 to 66 percent default rates, the capital of eight (out of eleven) ICs could be wiped out due to insufficient capital buffers and exposure to risky assets.

23. **The authorities have made significant progress in the implementation of the 2010 FSAP recommendations.** New ICs regulations were issued by the CBK in June 2010, setting prudential limits on liquidity, leverage, and foreign exposure. The Capital Market Authority (CMA) has issued its full set of bylaws and is expected to assume its supervisory role in September 2011. A MoU between the CBK and CMA is currently being drafted to delineate their respective supervisory responsibilities over ICs and specify the coordination process. A core team has been set up with the aim of strengthening macro prudential supervision and significant progress has been made in the identification and design of analytical tools, including a quarterly off-site surveillance report, stress tests, and an early warning system (EWS) drawing on micro and macro financial and economic data. Major improvements have also been noted in banking sector data collection and analysis and migration into a risk-based supervisory system.

24. **Improvement in financial sector regulation and supervision are welcome, but further steps are warranted.** The authorities should ensure the finalization of the MoU in a manner that closes gaps and limits overlap to ensure efficient oversight architecture. Moreover, the CMA should ensure adequate staffing, both quantitatively and qualitatively, at a level commensurate with the development stage of the financial sector and sophistication of the financial instruments, to ensure the effective discharge of its responsibilities. With regard to ICs, the CBK should continue to monitor progress toward the 2012 deadline for compliance with the quantitative regulations of the CBK and ensure that companies are undertaking needed restructuring. In this connection, to facilitate efficient restructuring

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[12] The 2010 FSAP methodology and assumptions were used in the stress test updates for comparability purposes.

[13] The sample included 11 listed ICs with a 29 percent share of total ICs' assets.

processes and exits, it is important to move expeditiously to establish a special resolution regime (SRR) for financial institutions and special courts to adjudicate the process.

25. **The authorities started the establishment of their Anti-Money laundering and Combating the Financing of Terrorism (AML/CFT) framework in 2002.** Nevertheless, the framework needs further strengthening in a number of areas, particularly the criminalization of the financing of terrorism, the structure and functions of the Financial Intelligence Unit, and the AML/CFT supervisory system. The authorities will be able to draw upon the recommendations of the assessment report once it is adopted in June 2011. As part of this process, a new AML/CFT Law, which complies with the Financial Action Task Force 40+9 recommendations, will need to be adopted as a matter of urgency.

E. Other Issues

26. **Progress has been made in improving Kuwait's statistical system, but further work is needed.** The CBK prepares and publishes comprehensive and timely monetary and financial statistics and has recently made significant progress in improving the compilation, coverage, and periodicity of the BOP data with the help of Fund TA, although IIP and external debt data are still provided with some lag. Following the change in the organizational structure and leadership of the Central Statistical Office (CSO), the long lags in the compilation of CPI data have been eliminated. Preparation of national accounts at constant prices continues to be delayed, with the latest data covering 2007. The authorities are encouraged to provide the necessary financial and institutional support to the CSO to ensure that plans to improve the quality and frequency of dissemination of statistics in these areas are achieved.

Table 1. Kuwait: Selected Economic Indicators, 2005–12

						Prel.	Proj.	
	2005	2006	2007	2008	2009	2010	2011	2012
Oil and gas sector								
Total oil and gas exports (in billions of U.S. dollars)	42.4	53.2	59.1	82.6	46.6	61.7	86.8	91.8
Average oil export price (in U.S. dollars/barrel)	50.6	61.2	70.4	93.7	58.2	76.4	105.0	105.8
Crude oil production (in millions of barrels/day)	2.57	2.64	2.57	2.68	2.26	2.31	2.42	2.52
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Nominal GDP (market prices, in billions of Kuwaiti dinar)	23.6	29.5	32.6	40.0	31.5	38.1	48.7	52.3
Nominal GDP (market prices, in billions of U.S. dollars)	80.8	101.6	114.7	148.8	109.5	132.8	173.1	185.9
Real GDP (at factor cost)	10.4	5.3	4.6	5.0	-4.5	3.3	5.2	5.5
Real oil GDP	12.1	2.8	-2.6	3.3	-11.3	3.2	3.6	4.5
Real non-oil GDP	10.6	8.3	11.1	5.6	-0.1	3.4	6.1	6.1
CPI inflation (average)	4.1	3.1	5.5	10.6	4.0	4.1	6.1	3.5
Unemployment rate (Kuwaiti nationals)	3.8	4.0	6.1	4.9	3.6	2.9	…	…
	(In percent of GDP at market prices)							
Investment and savings								
Investment	14.6	15.9	20.5	18.4	13.9	14.1	14.8	16.6
Public	3.0	2.8	3.3	3.5	4.6	4.7	4.9	5.5
Private 1/	11.7	13.1	16.9	14.9	9.3	9.4	9.9	11.1
Gross national savings	51.8	60.6	57.2	63.6	37.6	43.0	49.3	50.9
Public	55.7	60.2	55.2	46.4	47.1	45.8	46.6	48.0
Private 1/	1.1	4.5	2.1	12.5	-10.3	-2.8	2.7	2.8
Savings/investment balance	37.2	44.6	36.8	45.2	23.6	28.9	34.6	34.2
	(In percent of GDP at market prices)							
Budgetary operations 2/								
Revenue	75.6	66.6	67.8	63.4	61.5	59.2	61.8	61.4
Oil	51.7	48.0	51.5	52.1	50.0	48.5	51.9	50.8
Non-oil, *of which:*	23.9	18.6	16.3	11.4	11.5	10.6	9.9	10.5
Investment income	21.4	15.7	13.0	8.5	8.1	7.9	7.5	8.2
Expenditures	27.2	34.0	28.1	47.9	33.5	38.3	35.3	35.1
Current 3/	23.6	30.0	23.9	43.5	29.2	33.6	30.1	29.4
Capital	3.6	4.0	4.1	4.3	4.4	4.7	5.2	5.7
Balance	48.5	32.5	39.7	15.5	28.0	20.8	26.6	26.3
Domestic financing	-1.2	-2.8	-3.1	-4.5	-1.7	1.9	-2.0	-0.7
External financing	-47.3	-29.8	-36.6	-11.0	-26.3	-22.8	-24.6	-25.6
Non-oil balance (in percent of non-oil GDP) 4/	-57.6	-58.8	-58.2	-73.0	-59.6	-71.9	-73.1	-71.1
Total gross debt (calendar year-end) 5/	11.8	8.3	6.7	5.6	7.0	5.7	4.5	4.2
	(Changes in percent of beginning broad money stock)							
Money and credit								
Net foreign assets 6/	3.2	12.5	1.1	10.0	8.3	0.1	8.0	4.8
Claims on nongovernment sector	17.6	24.5	35.6	19.2	7.1	2.0	6.6	10.0
Broad money	12.3	21.7	19.3	15.6	13.4	3.0	16.2	10.2
Kuwaiti dinar 3-month deposit rate (year average; in percent)	2.9	5.0	5.2	3.3	1.4	0.8	…	…
Stock market unweighted index (annual percent change)	78.6	-12.0	24.7	-38.0	-10.0	-0.7	…	
	(In billions of U.S. dollars, unless otherwise indicated)							
External sector								
Exports of goods	45.3	56.5	62.6	87.0	51.7	68.4	95.7	100.7
Of which: non-oil exports	2.9	3.3	3.5	4.4	5.1	6.7	8.8	9.0
Annual percentage change	22.9	14.6	6.4	25.1	16.0	33.2	30.9	1.6
Imports of goods	-15.1	-16.2	-19.1	-22.9	-17.3	-19.1	-23.0	-24.9
Annual percentage change	21.4	7.9	17.7	20.0	-24.7	10.3	20.5	8.4
Current account	30.1	45.3	42.2	67.3	25.9	38.3	59.8	63.6
In percent of GDP	37.2	44.6	36.8	45.2	23.6	28.9	34.6	34.2
External debt including private sector	20.2	30.8	57.5	60.6	57.5	…	…	…
International reserve assets	8.1	11.8	15.9	16.7	17.7	18.7	23.1	25.3
In months of imports of goods and services	4.1	5.3	5.9	5.3	6.8	6.9	7.0	7.1
Memorandum items:								
Exchange rate (U.S. dollar per KD, period average)	3.42	3.45	3.52	3.72	3.48	3.49	…	
Nominal effective exchange rate (NEER, period average)	0.5	0.5	-2.2	2.5	-3.5	…	…	
Real effective exchange rate (REER, period average)	2.1	0.9	0.3	8.4	-0.5	…	…	
Sovereign rating (S&P)	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, and after transfers for FGF.
5/ Excludes debt of Kuwait's SWF related to asset management operations.
6/ Excludes SDRs and IMF reserve position.

Table 2. Kuwait: Summary of Government Finance, 2005/06–2012/13 1/

						Est.	Budget, Est.	Proj.	
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2011/12	2012/13
				(In billions of Kuwaiti Dinar)					
Total revenue	**19.0**	**20.1**	**23.3**	**24.0**	**20.4**	**24.1**	**13.1**	**30.7**	**32.5**
Oil and gas	13.0	14.5	17.7	19.7	16.6	19.8	12.3	25.8	26.9
Investment income and transfer of profits of									
public entities 2/	5.4	4.7	4.5	3.2	2.7	3.2		3.7	4.3
Other current revenue 3/	0.6	0.9	1.1	1.1	1.1	1.1	0.8	1.2	1.2
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**6.8**	**10.3**	**9.7**	**18.1**	**11.1**	**15.6**	**18.3**	**17.5**	**18.6**
Current	5.9	9.1	8.2	16.5	9.7	13.7	14.8	14.9	15.6
Wages and salaries	2.1	2.5	2.8	3.4	3.5	3.7	4.5	4.2	4.5
Goods and services 4/	1.4	1.6	1.8	1.9	1.9	2.1	2.6	2.3	2.6
Interest on domestic debt 5/	0.1	0.1	0.1	0.1	0.1	0.0	…	0.0	0.1
Transfers abroad	0.2	0.2	0.4	0.5	0.2	0.2	…	0.5	0.5
Subsidies and transfers 6/ 7/	2.1	4.7	3.2	10.6	4.0	7.7	7.7	7.9	7.9
Of which:									
Recapitalization of social security	0.0	2.0	0.0	5.6	0.0	1.1	1.1	1.1	1.1
Current exp. excluding recapitalization of social security	5.9	7.1	8.2	10.8	9.7	12.6	13.7	13.8	14.5
Capital	0.9	1.2	1.4	1.6	1.5	1.9	3.5	2.6	3.0
Overall balance	**12.1**	**9.8**	**13.7**	**5.9**	**9.3**	**8.5**	**-5.2**	**13.2**	**13.9**
after transfer to FGF and excl. inv. income 8/	**5.4**	**3.6**	**7.3**	**0.6**	**4.8**	**3.2**	**-6.5**	**6.8**	**6.8**
excluding recapitalization of pension	**5.4**	**5.6**	**7.3**	**6.2**	**4.8**	**4.3**	**-5.4**	**7.9**	**7.8**
Non-oil balance	**-0.8**	**-4.7**	**-4.0**	**-13.8**	**-7.3**	**-11.3**	**-17.5**	**-12.6**	**-13.0**
after transfer to FGF and excl. inv. income 9/	**-6.2**	**-9.5**	**-8.6**	**-17.2**	**-10.1**	**-14.6**	**-17.6**	**-16.4**	**-17.5**
excluding recapitalization of pension	**-6.2**	**-7.5**	**-8.6**	**-11.5**	**-10.1**	**-13.5**	**-16.5**	**-15.3**	**-16.4**
excluding oil-related subsidies	**-5.4**	**-6.4**	**-7.2**	**-8.7**	**-8.2**	**-10.3**	**-12.4**	**-11.2**	**-12.2**
Financing	**-12.1**	**-9.8**	**-13.7**	**-5.9**	**-9.3**	**-8.5**	**5.2**	**-13.2**	**-13.9**
Domestic (net)	-0.3	-0.8	-1.1	-1.7	-0.6	0.8	…	-1.0	-0.4
Banks	-0.3	-0.8	-1.1	-1.7	-0.6	0.8	…	-1.0	-0.4
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/	-11.8	-9.0	-12.6	-4.2	-8.7	-9.3	…	-12.2	-13.6
				(In percent of GDP)					
Revenue	**75.6**	**66.6**	**67.8**	**63.4**	**61.5**	**59.2**	**26.4**	**61.8**	**61.4**
Oil and gas	51.7	48.0	51.5	52.1	50.0	48.5	24.8	51.9	50.8
Investment income	21.4	15.7	13.0	8.5	8.1	7.9		7.5	8.2
Other current revenue 3/	2.4	2.8	3.3	2.8	3.3	2.7	1.6	2.3	2.3
Capital revenue	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.1
Expenditure	**27.2**	**34.0**	**28.1**	**47.9**	**33.5**	**38.3**	**36.9**	**35.3**	**35.1**
Current	23.6	30.0	23.9	43.5	29.2	33.6	29.8	30.1	29.4
Wages and salaries	8.5	8.2	8.1	8.9	10.6	9.1	9.1	8.4	8.6
Goods and noninterest services 4/	5.8	5.2	5.2	5.0	5.9	5.1	5.2	4.7	4.8
Subsidies and transfers	8.3	15.6	9.2	28.0	12.0	18.9	15.5	15.8	14.9
Of which: recapitalization of social security	0.0	6.6	0.0	14.9	0.0	2.7	2.2	2.2	2.1
Current exp. excluding recapitalization of social security	23.6	23.4	23.9	28.6	29.2	31.0	27.6	27.9	27.4
Capital	3.6	4.0	4.1	4.3	4.4	4.7	7.1	5.2	5.7
Overall balance	**48.5**	**32.5**	**39.7**	**15.5**	**28.0**	**20.8**	**-10.5**	**26.6**	**26.3**
after transfer to FGF and excl. inv. income 8/	**21.6**	**11.7**	**21.2**	**1.5**	**14.5**	**7.8**	**-13.2**	**13.6**	**12.7**
excluding recapitalization of pension	**21.6**	**18.4**	**21.2**	**16.4**	**14.5**	**10.5**	**-11.0**	**15.8**	**14.8**
Non-oil balance	**-3.2**	**-15.5**	**-11.7**	**-36.5**	**-22.1**	**-27.7**	**-35.3**	**-25.4**	**-24.6**
after transfer to FGF and excl. inv. income 9/	**-24.9**	**-31.4**	**-25.1**	**-45.3**	**-30.5**	**-35.8**	**-35.5**	**-33.1**	**-33.0**
excluding recapitalization of pension	**-24.9**	**-24.8**	**-25.1**	**-30.4**	**-30.5**	**-33.2**	**-33.3**	**-30.9**	**-30.9**
excluding oil-related subsidies	**-21.7**	**-21.0**	**-20.8**	**-23.0**	**-24.7**	**-25.2**	**-25.0**	**-22.6**	**-23.1**
				(In percent of non-oil GDP)					
Revenue	**175.0**	**157.5**	**157.1**	**152.0**	**120.1**	**128.3**	**62.4**	**146.2**	**141.0**
Oil and gas	119.6	113.6	119.3	124.8	97.7	105.2	58.7	122.8	116.8
Investment income	49.5	37.1	30.2	20.5	15.9	17.1		17.7	18.8
Other current revenue 3/	5.7	6.7	7.6	6.8	6.4	5.8	3.7	5.5	5.2
Capital revenue	0.2	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.2
Expenditure	**62.8**	**80.6**	**65.1**	**114.8**	**65.5**	**83.1**	**87.3**	**83.4**	**80.7**
Current	54.5	71.0	55.5	104.3	56.9	72.9	70.5	71.2	67.6
Wages and salaries	19.6	19.3	18.7	21.2	20.6	19.8	21.6	19.8	19.7
Goods and noninterest services 4/	13.3	12.3	12.0	12.1	11.5	11.1	12.2	11.2	11.1
Subsidies and transfers	19.1	36.8	21.4	67.1	23.5	40.9	36.7	37.5	34.3
Of which: recapitalization of social security	0.0	15.7	0.0	35.7	0.0	5.8	5.2	5.2	4.7
Current exp. excluding recapitalization of social security	54.5	55.4	55.5	68.6	56.9	67.1	65.3	66.0	62.9
Capital	8.3	9.6	9.6	10.4	8.6	10.1	16.7	12.2	13.0
Overall balance	**112.1**	**77.0**	**92.1**	**37.3**	**54.6**	**45.2**	**-24.9**	**62.8**	**60.3**
after transfer to FGF and excl. inv. income 8/	**50.1**	**27.8**	**49.2**	**3.6**	**28.3**	**17.0**	**-31.1**	**32.2**	**29.3**
excluding recapitalization of pension	**50.1**	**43.4**	**49.2**	**39.3**	**28.3**	**22.8**	**-25.9**	**37.4**	**34.0**
Non-oil balance	**-7.5**	**-36.6**	**-27.2**	**-87.5**	**-43.1**	**-60.0**	**-83.5**	**-60.0**	**-56.5**
after transfer to FGF and excl. inv. income 9/	**-57.6**	**-74.4**	**-58.2**	**-108.6**	**-59.6**	**-77.7**	**-83.9**	**-78.3**	**-75.8**
excluding recapitalization of pension	**-57.6**	**-58.8**	**-58.2**	**-73.0**	**-59.6**	**-71.9**	**-78.7**	**-73.1**	**-71.1**
excluding oil-related subsidies	**-50.2**	**-49.8**	**-48.2**	**-55.0**	**-48.2**	**-54.6**	**-59.0**	**-53.4**	**-53.0**
Memorandum items:									
Average oil export price (in U.S. dollar/barrel)	53.3	63.5	76.2	84.8	62.7	83.5	60.0	105.2	105.2

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 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

Table 3. Kuwait: Summary Balance of Payments, 2005–12

	2005	2006	2007	2008	2009	Prel. 2010	Proj. 2011	2012
	(In billions of US dollars)							
Current account	**30.1**	**45.3**	**42.2**	**67.3**	**25.9**	**38.3**	**59.8**	**63.6**
Goods (trade balance)	30.2	40.2	43.4	64.0	34.4	49.4	72.7	75.8
Exports	45.3	56.5	62.6	87.0	51.7	68.4	95.7	100.7
Oil exports	42.4	53.2	59.1	82.6	46.6	61.7	86.8	91.8
Non-oil exports including re-exports 1/	2.9	3.3	3.5	4.4	5.1	6.7	8.8	9.0
Of which: re-exports	0.6	0.9	1.2	1.7	1.6	1.8	3.0	2.9
Imports	-15.1	-16.2	-19.1	-22.9	-17.3	-19.1	-23.0	-24.9
Services	-3.9	-2.2	-3.2	3.2	-2.5	-5.9	-7.3	-7.7
Transportation	-0.4	0.2	-0.1	-0.6	-1.4	-1.7	-2.0	-2.2
Insurance	0.0	-0.1	-0.1	0.2	-0.2	-0.2	-0.3	-0.3
Travel	-4.4	-5.4	-6.4	-0.7	-6.1	-6.5	-7.9	-8.5
Other services	0.9	3.0	3.4	4.3	5.1	2.6	2.9	3.3
Investment income	7.2	11.0	12.4	10.7	7.0	7.9	9.3	12.0
Receipts	8.0	12.5	16.3	14.0	8.6	9.6	10.4	13.3
General government 2/	4.9	7.1	8.5	8.8	6.3	7.4	7.9	9.9
Other sectors 3/	3.2	5.4	7.8	5.1	2.3	2.2	2.6	3.4
Payments	-0.8	-1.5	-3.9	-3.2	-1.6	-1.8	-1.2	-1.4
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.8	-1.5	-3.9	-3.2	-1.6	-1.8	-1.2	-1.4
Current transfers 4/	-3.4	-3.7	-10.5	-10.7	-13.0	-13.0	-14.9	-16.4
Capital and financial account	**-32.1**	**-48.8**	**-33.4**	**-49.6**	**-25.3**	**-32.6**	**-55.5**	**-61.4**
Capital account 5/	0.7	0.7	1.5	1.7	1.1	2.2	2.3	2.3
Financial account	-32.8	-49.6	-34.9	-51.3	-26.4	-34.7	-57.7	-63.7
Direct investment	-4.9	-8.1	-9.7	-9.1	-7.5	-2.0	-7.9	-8.5
Abroad 6/	-5.1	-8.2	-9.8	-9.1	-8.6	-2.1	-8.0	-8.5
In Kuwait	0.2	0.1	0.1	0.0	1.1	0.1	0.1	0.1
Portfolio investment	-13.1	-29.1	-34.9	-28.1	-8.2	-7.7	-32.1	-36.3
Other investment (net)	-14.7	-12.4	9.7	-14.1	-10.7	-25.0	-17.7	-19.0
Net errors and omissions 7/	2.7	7.1	-5.5	-17.0	1.2	-4.7	0.0	0.0
Overall balance	**0.7**	**3.6**	**3.3**	**0.7**	**1.7**	**1.0**	**4.3**	**2.2**
Memorandum items								
Current account/GDP (in percent)	37.2	44.6	36.8	45.2	23.6	28.9	34.6	34.2
Current account (excl. oil)/GDP (in percent)	-15.3	-7.7	-14.7	-10.3	-18.9	-17.6	-15.6	-15.1
Investment income/GDP (in percent)	8.9	10.8	10.8	7.2	6.4	5.9	5.4	6.4
WEO oil price (dollars per barrel)	53.4	64.3	71.1	97.0	61.8	79.0	107.2	108.0
Import growth (in percent)	21.4	7.9	17.7	20.0	-24.7	10.3	20.5	8.4
International reserve assets (in millions of U.S. dollars) 8/	8.1	11.8	15.9	16.7	17.7	18.7	23.1	25.3
In months of imports of goods and services	4.1	5.3	5.9	5.3	6.8	6.9	7.0	7.1

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, 2005–12

End of period	2005	2006	2007	2008	2009	Prel. 2010	Proj. 2011	2012
				(In millions of KD)				
Foreign assets (net) 1/	3,904	5,545	5,718	7,610	9,441	9,464	11,517	12,955
Central bank	2,370	3,416	4,327	4,510	5,009	5,183	6,404	7,031
Local banks	1,534	2,129	1,392	3,100	4,432	4,281	5,113	5,924
Domestic assets (net)	9,182	10,375	13,269	14,341	15,455	16,170	18,276	19,864
Claims on government (net)	948	113	-968	-2,675	-3,227	-2,441	-3,416	-3,766
Central bank (net)	-520	-617	-920	-1,124	-1,165	-533	-737	-843
Claims	15	0	0	0	0	0	0	0
Deposits	534	617	920	1,124	1,165	533	737	843
Local banks (net)	1,467	731	-47	-1,550	-2,063	-1,908	-2,678	-2,924
Claims	2,463	2,165	1,912	1,985	1,922	1,910	1,910	1,910
Government debt bonds	378	176	0	0	0	0	0	0
Public debt instruments	2,085	1,989	1,912	1,985	1,922	1,910	1,910	1,910
Other claims	0	0	0	0	0	0	0	0
Deposits	996	1,434	1,959	3,535	3,984	3,818	4,588	4,834
Claims on nongovernment sector	12,937	16,148	21,822	25,460	27,019	27,527	29,223	32,191
Credit facilities	11,827	14,934	20,139	23,660	25,108	25,201	26,754	29,471
Local investments	1,109	1,215	1,683	1,800	1,911	2,326	2,469	2,720
Other items (net)	-4,702	-5,886	-7,585	-8,444	-8,336	-8,916	-7,532	-8,560
Broad money 2/	13,086	15,921	18,987	21,950	24,896	25,634	29,793	32,819
Money	3,727	3,550	4,147	4,370	4,714	5,625	6,318	6,960
Quasi money	9,359	12,370	14,841	17,580	20,182	20,009	23,475	25,859
Of which: Foreign currency deposits	1,548	2,245	1,710	1,899	2,753	2,119	2,380	2,621
				(Annual percentage change)				
Foreign assets (net)	10.4	42.0	3.1	33.1	24.1	0.2	21.7	12.5
Central Bank	9.5	44.1	26.6	4.2	11.1	3.5	23.6	9.8
Local banks	12.0	38.8	-34.6	122.8	43.0	-3.4	19.4	15.9
Domestic assets (net)	13.1	13.0	27.9	8.1	7.8	4.6	13.0	8.7
Claims on Government (net)	-24.0	-88.0	-953.4	176.4	-20.7	24.4	-39.9	-10.3
Claims on nongovernment sector	18.8	24.8	35.1	16.7	6.1	1.9	6.2	10.2
Other items (net)	-17.2	-25.2	-28.9	11.3	1.3	-7.0	15.5	-13.7
Broad money	12.3	21.7	19.3	15.6	13.4	3.0	16.2	10.2
Money	17.4	-4.8	16.8	5.4	7.9	19.3	12.3	10.2
Quasi money	10.4	32.2	20.0	18.5	14.8	-0.9	17.3	10.2
Of which: Foreign currency deposits	32.4	45.0	-23.8	11.1	45.0	-23.0	12.3	10.2
				(Change in percent of beginning of period broad money stock)				
Foreign assets (net)	3.2	12.5	1.1	10.0	8.3	0.1	8.0	4.8
Central bank	1.8	8.0	5.7	1.0	2.3	0.7	4.8	2.1
Local banks	1.4	4.5	-4.6	9.0	6.1	-0.6	3.2	2.7
Domestic assets (net)	9.1	9.1	18.2	5.6	5.1	2.9	8.2	5.3
Claims on government (net)	-2.6	-6.4	-6.8	-9.0	-2.5	3.2	-3.8	-1.2
Claims on nongovernment sector	17.6	24.5	35.6	19.2	7.1	2.0	6.6	10.0
Other items (net)	-5.9	-9.0	-10.7	-4.5	0.5	-2.3	5.4	-3.5
Broad money	12.3	21.7	19.3	15.6	13.4	3.0	16.2	10.2
Money	4.7	-1.4	3.7	1.2	1.6	3.7	2.7	2.2
Quasi money	7.5	23.0	15.5	14.4	11.9	-0.7	13.5	8.0
Of which: Foreign currency deposits	3.3	5.3	-3.4	1.0	3.9	-2.5	1.0	0.8
Memorandum items:								
Non-oil GDP/M2	79.4	76.4	77.0	70.8	66.5	71.1	68.7	68.7
Foreign currency deposits/M2	11.8	14.1	9.0	8.7	11.1	8.3	8.0	8.0
Private credit/non-oil GDP	114.8	121.3	135.5	148.8	151.9	140.7	133.1	133.0

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, 2005–16

						Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(Percentage change, unless otherwise specified)											
Production and prices												
Nominal GDP (KD billions)	23.6	29.5	32.6	40.0	31.5	38.1	48.7	52.3	55.0	58.3	62.3	67.0
Nominal GDP	34.7	24.9	10.6	22.7	-21.2	20.8	28.0	7.4	5.2	5.9	6.9	7.4
Nominal non-oil GDP	16.8	17.0	20.3	6.3	6.6	10.0	12.3	10.2	9.3	8.9	9.2	9.5
Real GDP	10.4	5.3	4.6	5.0	-4.5	3.3	5.2	5.5	5.0	4.8	4.8	4.8
Real oil GDP	12.1	2.8	-2.6	3.3	-11.3	3.2	3.6	4.5	4.6	4.6	4.5	4.5
Real non-oil GDP	10.6	8.3	11.1	5.6	-0.1	3.4	6.1	6.1	5.3	4.9	4.9	4.9
Kuwait crude export price (U.S. dollars per barrel)	50.6	61.2	70.4	93.7	58.2	76.4	105.0	105.8	103.3	102.3	102.8	103.9
Crude oil output (millions of barrels per day)	2.57	2.64	2.57	2.68	2.26	2.31	2.42	2.52	2.64	2.76	2.89	3.02
Consumer price index	4.1	3.1	5.5	10.6	4.0	4.1	6.1	3.5	3.0	3.0	3.0	3.0
	(Percent of GDP, unless otherwise specified)											
Public finance 1/												
Revenue, *of which*:	75.6	66.6	67.8	63.4	61.5	59.2	61.8	61.4	61.4	62.2	63.1	64.2
Oil and gas	51.7	48.0	51.5	52.1	50.0	48.5	51.9	50.8	49.4	48.3	47.5	46.7
Investment income 2/	21.4	15.7	13.0	8.5	8.1	7.9	7.5	8.2	9.7	11.6	13.4	15.4
Expenditure	27.2	34.0	28.1	47.9	33.5	38.3	35.3	35.1	35.5	35.5	33.4	33.0
Current 3/	23.6	30.0	23.9	43.5	29.2	33.6	30.1	29.4	29.3	28.9	26.7	26.2
Capital	3.6	4.0	4.1	4.3	4.4	4.7	5.2	5.7	6.3	6.6	6.7	6.9
Fiscal balance (deficit -)	48.5	32.5	39.7	15.5	28.0	20.8	26.6	26.3	25.9	26.7	29.7	31.2
Fiscal balance after transfer to FGF and excl. transfer to pension 4/	21.6	18.4	21.2	16.4	14.5	10.5	15.8	14.8	13.0	11.9	11.4	10.9
Nonoil balance/non-oil GDP excluding recapitalization of pension 5/	-57.6	-58.8	-58.2	-73.0	-59.6	-71.9	-73.1	-71.1	-69.8	-68.4	-66.5	-64.8
	(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	3.49	...	...	...	...	...	
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	59.5	60.8	59.7	66.6	52.4	57.3	60.6	59.6	57.9	56.6	55.6	54.8
Of which: oil and refined products	52.5	52.4	51.5	55.5	42.6	46.5	50.2	49.4	47.9	46.9	46.2	45.5
Imports of goods and services excl. re-exports	-26.9	-23.3	-24.6	-21.4	-23.3	-24.6	-22.8	-23.0	-23.2	-23.2	-23.1	-23.2
Investment income (net)	8.9	10.8	10.8	7.2	6.4	5.9	5.4	6.4	8.3	10.6	12.6	14.6
Current account	37.2	44.6	36.8	45.2	23.6	28.9	34.6	34.2	33.8	34.6	35.4	36.5
Current account (excluding oil exports)	-15.3	-7.7	-14.7	-10.3	-18.9	-17.6	-15.6	-15.1	-14.1	-12.4	-10.8	-9.0
	(Percent of GDP, unless otherwise specified)											
Saving-investment balance												
Final consumption	47.9	42.5	44.4	41.1	57.7	53.1	47.4	46.8	46.9	46.9	47.3	47.8
Government	15.7	13.9	14.0	13.3	20.5	15.0	13.0	13.3	13.6	13.7	13.6	13.4
Private	32.2	28.6	30.4	27.9	37.2	38.1	34.4	33.5	33.3	33.2	33.7	34.4
Gross domestic investment	14.6	15.9	20.5	18.4	13.9	14.1	14.8	16.6	18.4	19.7	20.2	20.5
Government	3.0	2.8	3.6	3.5	4.6	4.7	4.9	5.5	6.1	6.5	6.7	6.8
Private	11.7	13.1	16.9	14.9	9.3	9.4	9.9	11.1	12.3	13.2	13.5	13.7
Savings	56.8	64.7	57.2	58.9	36.8	43.0	49.3	50.9	52.2	54.2	55.6	57.0
Government Saving	55.7	60.2	55.2	46.4	47.1	45.8	46.6	48.0	47.9	48.5	49.4	50.6
Private Savings	1.1	4.5	2.1	12.5	-10.3	-2.8	2.7	2.8	4.3	5.7	6.2	6.4

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 of the Banking Sector
(In percent; unless specified otherwise) 1/

	2006	2007	2008	2009	2010
Capital Adequacy					
Regulatory capital to risk-weighted assets	20.2	19.3	15.6	16.7	18.9
Regulatory Tier I capital to risk-weighted assets	17.7	17.2	14.3	14.9	17.3
Capital to assets	12.6	12.3	10.9	11.4	12.6
Loan Composition and Quality					
Oil/gas	0.7	0.8	0.9	1.2	1.2
Trade	11.8	10.4	10.2	10.6	10.0
Industry	5.0	5.9	6.8	6.5	7.0
Construction	13.4	12.6	11.9	11.4	12.7
Real Estate	17.5	19.2	18.1	20.6	20.0
Equity purchase loans (Corporate)	5.4	4.5	5.8	5.9	5.7
Agriculture/fishing	0.2	0.1	0.7	0.3	0.4
Financial Institutions	14.6	15.9	12.8	12.7	14.1
Of which: Investment companies	5.3	7.9	7.5	8.0	8.7
Of which: Banks	0.0	0.0	0.0	0.0	4.6
Public services	1.6	2.2	1.9	1.6	1.6
Households	20.3	19.1	16.0	16.1	16.3
Of which: Credit card advances	1.0	0.8	0.6	0.5	0.5
Of which: Installment Loans	13.7	12.1	10.9	12.7	12.1
Of which: Consumer loans	3.7	4.1	2.5	1.0	2.2
Of which: Equity purchase loans (individuals)	1.8	2.1	2.0	1.9	1.4
Other	9.6	9.2	14.8	13.3	11.1
Gross Non-performing loans to total loans	4.6	3.8	6.8	11.5	8.9
NPLs net of specific provisions to Total loans net of specific provisions	2.5	2.1	4.9	7.4	6.1
Specific Provisions to Gross NPLs	47.4	47.2	29.0	38.3	33.9
NPLs net of specific provisions to Tier I capital	12.6	10.8	31.5	46.2	33.8
Loans to shareholders, parent companies, & directors to total loans	4.9	4.2	4.9	6.4	2.0
Large exposures to Tier I capital	147.6	141.6	212.4	165.1	124.3
Specific Provisions to gross loans	2.2	1.8	2.0	4.4	3.0
Profitability					
Return on Average Assets (ROAA) 2/	2.7	3.3	0.8	0.7	1.2
Return on Average Equity (ROAE) 2/	20.1	24.3	6.5	6.1	9.1
Net interest income to gross income	33.9	29.0	36.6	44.5	49.9
Non-interest income to gross income	29.0	29.0	21.6	25.3	24.6
Trading and foreign exchange income to gross income	13.7	15.1	6.7	6.0	4.1
Non-interest expenses to gross income	27.6	23.9	26.4	36.9	37.7
Non-interest expenses to average assets 2/	1.4	1.5	1.6	1.9	1.6
Personnel expenses to non-interest expenses	50.7	49.6	48.0	42.9	48.7
Liquidity					
Core Liquid assets to total assets 3/	29.3	26.9	20.8	20.4	17.7
Core Liquid assets to short-term liabilities	38.6	34.1	28.0	28.6	27.8
Liquid assets to total assets	34.5	32.9	28.4	27.9	22.8
Liquid assets to short term liabilities	45.3	41.7	38.4	39.2	35.7
FX- loans to total loans	19.7	23.3	24.9	25.8	25.5
FX- deposits to total deposits	28.8	34.9	35.1	32.7	30.7

FX- liabilities to total liabilities	23.2	27.8	24.2	22.6	11.2
Deposits to assets	59.3	56.4	59.2	58.8	56.7
Loans to deposits	96.1	103.1	109.0	113.0	116.5
FX- loans to FX-deposits	65.5	68.9	77.3	89.1	96.8
Sensitivity to Market Risk					
Net open FX position (overall) as percent of Tier I capital	0.0	0.0	11.2	10.7	8.7
Off-balance sheet operations as percent of assets	32.1	34.7	32.5	25.3	26.2
Gross asset position in derivatives as a percentage of tier I capital	77.9	90.9	71.1	46.9	33.6
Gross liability position in derivatives as a percentage of tier I capital	77.9	91.0	71.1	46.8	39.4
Equity exposure to capital	40.6	42.4	47.1	45.4	39.1

Source: CBK

1/Consolidated basis.

2/ Averaging was not applied in 2006 indicators.

3/ Core liquid assets include: cash and cash equivalents, deposits with CBK, government securities, CBK Bills, deposits with banks, certificates of deposits with other banks which mature within three months. The data was extracted from CBK prudential report.