KUWAIT

Table 1	2023
Population, million	4.3
GDP, current US$ billion	161.8
GDP per capita, current US$	37528.6
Life expectancy at birth, years[a]	78.7
Total GHG emissions (mtCO2e)	161.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for Life expectancy (2021).

In 2023, Kuwait's economy significantly decelerated following strong performance in 2022, with expectations of stabilization in the medium term. This downturn is largely attributed to OPEC+ oil production cuts and weak global economic activity. A negative fiscal balance has occurred, driven by low energy prices and fiscal expansion, and is expected to persist into 2024. The economic forecast remains uncertain, clouded by geopolitical tensions, slowdowns in major economies, oil price fluctuations, and political gridlock on reforms, with the potential for political transformation from a change in government offering new prospects for reform.

Key conditions and challenges

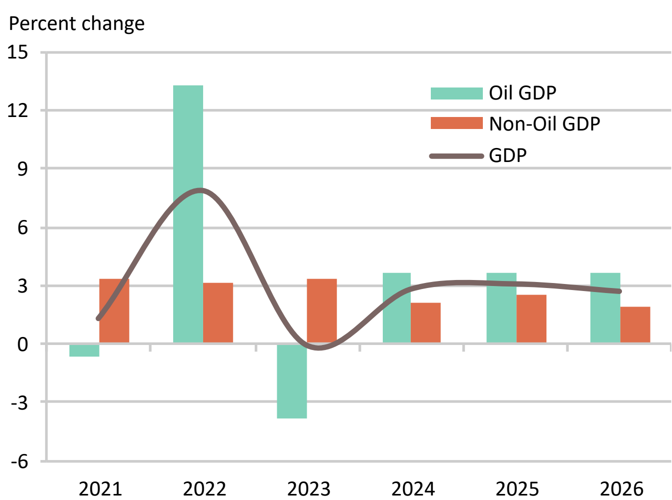
Kuwait's long-term economic outlook is significantly impacted by its heavy dependence on oil, while structural reforms are being delayed. Key risks are oil market volatility, global economic slowdown, escalation of geopolitical tensions and climate shocks, as well as domestic challenges, including an oversized public sector, frequent government changes and a lack of reforms momentum. On the upside, a decrease in global inflation and an increase in global demand could lead to favorable outcomes. Key challenges include substantial public sector employment, regional competitiveness lag, fostering a dynamic economy for youth, alignment behind a national vision, and enhancing economic productivity. Macroeconomic stability is underpinned by the world's largest sovereign wealth fund, the Kuwait Investment Authority (KIA) and its significant foreign assets, yet such resources cannot fully buffer against short-term oil market volatility. Addressing these vulnerabilities requires comprehensive fiscal and structural reforms. Overcoming political deadlock and enhancing government stability is critical to accelerate economic diversification and related structural reforms. The government's 2024-27 work plan for Kuwait, outlined in February 2024, aims to reduce unsustainable public spending, and decrease reliance on oil revenues. Additionally, it endeavors to curb unsustainable fiscal policies and promote private sector expansion by enhancing liquidity management, implementing tax reforms, and adjusting subsidies. Moreover, expectations of sustained high oil prices in the medium term could support the financing of the economic transition towards sustainable, inclusive, and environmentally friendly growth.

Recent developments

In 2023, economic growth significantly decelerated mainly due to OPEC+'s production quota cuts, and a global slowdown, resulting in an overall GDP decline of -0.1 percent. Annual oil output is estimated to have declined by 3.8 percent, affected by a 9 percent year-on-year decline in Q3 2023 only (for the second consecutive quarter), due to oil production cuts undertaken as part of Kuwait's OPEC+ obligations. Nonetheless, the economy benefitted from the expansion of the Al Zour oil refinery. The non-oil sector, however, showcased resilience, recording a 1.5 percent growth in Q2 2023, and expanded further by 2.8 percent in Q3 2023, leading to an estimated 3.3 percent in 2023. This was driven by both domestic and international demand, high oil prices, increased government expenditure, and the restart of projects disrupted by the pandemic.

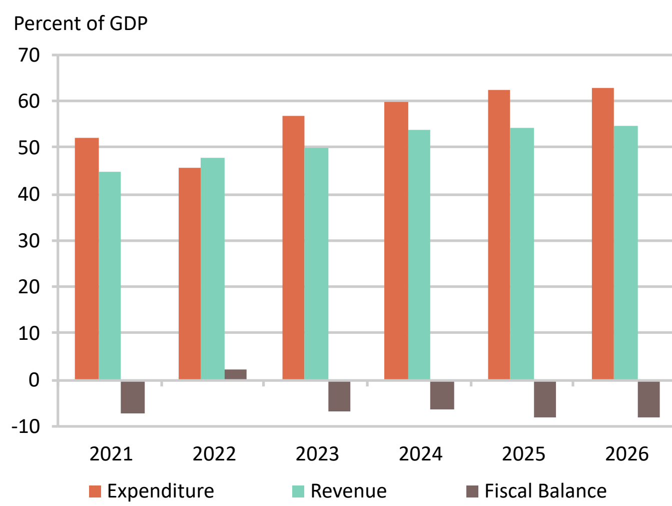
Tight monetary policy, coupled with slow economic growth and substantial government subsidies for food and energy, contributed to a containment of inflationary pressures to 3.6 percent in 2023,

FIGURE 1 Kuwait / Annual real GDP growth



Sources: Kuwait CSB, IMF WEO, and World Bank staff estimates.

FIGURE 2 Kuwait / Public finances



Sources: World Bank and IMF WEO.
Notes: Based on the fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

with a further decline to 3.3 percent observed in January 2024.

The fiscal account recorded a deficit of 6.8 percent of GDP (excluding investment income and the Future Generation Fund transfers), due to a 27 percent drop in revenue and a 55 percent surge in expenditures, primarily from increased salaries, grants, and subsidies spending in the first three quarters of FY2023-24.

The banking sector remains stable despite a slowdown and continues to be well-capitalized and liquid. Nonperforming loans are contained at a low level (1.7 percent in Q3-2023). In 2023, domestic credit growth decelerated to 1.7 percent from 7.7 percent in 2022, with a slight uptick of 0.9 percent in Q4 driven by strong credit for securities purchases and financial institutions, despite a significant decline in business and household credit. Following global trends and the US Federal Reserve (given the predominant role of the US dollar in the Kuwaiti Dinar's pegged basket), the central bank increased policy rates multiple times, from 1.5 percent in January 2022 and stabilizing at 4.25 percent as of January 2023, while maintaining reserves at comfortable levels of 4.6 months of import in first 3 quarters of 2023. The current account surplus declined to 29.3 percent of GDP in 2023 (down from 32.1 percent in 2022), owing to declining oil revenues and a reduction in global demand.

Kuwait's labor market continues to recover from the impact of the pandemic, although many indicators have not yet rebounded to their pre-pandemic levels. The labor force participation rate is projected at 71.3 percent in 2024 (ILO modelled estimates), below the projections for 2023 as well as the pre-pandemic rate. The employment-to-population ratio is projected at 69.9 percent in 2024, remaining about 1.6 percentage points lower than in 2019. Unemployment rates are projected to remain relatively steady in 2023 at 0.9 percent among men and 5.7 percent among women, still higher than the 2019 rates by 0.2 and 0.6 percentage points, respectively. Unemployment rate projections are especially high for young women (aged 15-24), at 28.7 percent for 2024.

Outlook

Economic growth is expected to recover to 2.8 percent in 2024, supported by expansionary fiscal policies, higher oil production, and increased output from Al Zour refinery. Oil output is expected to grow by 3.6 percent, as OPEC+ announces extension by mid-2024 of additional voluntary cuts (135 tb/d for Kuwait), with global oil prices remaining robust. An improvement in domestic credit is expected in 2024, driven by a sharp pick up in project awards, stable or declining interest rates, and the low base effect from 2023. The non-oil sector is projected to grow by 2.1 percent, but still relatively elevated interest rates may restrain domestic consumption, preventing the economy from achieving its full potential. Moreover, ongoing political uncertainties may delay the implementation of new infrastructure projects and slow the pace of reform initiatives.

The fiscal deficit is projected to persist in the medium term, influenced by the current expansionary fiscal stance. In the absence of economic diversification, oil revenue remains the government's predominant source of income. To ensure fiscal stability and reduce procyclicality, it is key to further reduce oil revenue dependency and advance the Vision 2035 goals, alongside strengthening public financial management. Creating space for private sector activity, introducing VAT in alignment with other GCC countries), as well as other fiscal adjustments could broaden revenue sources and support the diversification agenda.

External accounts are expected to maintain a strong trade surplus at 22.7 percent of GDP in 2024, driven by oil exports. Benefits from the recovering tourism industry are expected to be offset by a deficit in services and increased payments to international contractors engaged in the Vision 2035 strategic development plan and 2024-2027 work plan. This is expected to trigger a gradual narrowing of the current-account surplus to 20.7 percent of GDP by 2026, down from an estimated 29.3 percent in 2023.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.3	7.9	-0.1	2.8	3.1	2.7
Private consumption	3.2	4.8	2.0	2.5	2.6	2.5
Government consumption	1.1	2.0	2.3	2.4	2.5	2.5
Gross fixed capital investment	3.9	4.4	1.8	2.5	2.9	2.3
Exports, goods and services	2.2	12.0	-1.9	3.1	3.2	3.2
Imports, goods and services	5.7	5.3	1.6	2.5	2.3	2.8
Real GDP growth, at constant factor prices	1.4	7.9	-0.1	2.8	3.1	2.7
Agriculture	0.5	1.1	0.1	1.1	1.1	1.2
Industry	2.2	8.3	0.2	3.3	3.3	3.3
Services	0.4	7.3	-0.6	2.1	2.8	1.9
Inflation (consumer price index)	3.4	4.0	3.6	3.0	2.6	2.4
Current account balance (% of GDP)	23.9	32.1	29.3	22.7	21.9	20.7
Fiscal balance (% of GDP)[a]	-7.2	2.2	-6.8	-6.3	-8.0	-8.0
GHG emissions growth (mtCO2e)	10.7	6.1	1.4	5.0	6.7	6.9
Energy related GHG emissions (% of total)	68.0	68.1	66.8	66.5	66.7	66.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Based on fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.