

Public finance

# Kuwait: Resilience of capital spending amid lower revenue

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The interim public finance figures for the first nine months of fiscal year 2015/16 (FY15/16) reveal the resilience of government spending, amid a sustained low oil price environment. Despite a decline from last year in overall spending, wages & salaries and capital spending were up for the period. The rise in capital spending highlights an accelerated pace of project execution. The latter of course continues to support economic growth. Meanwhile, government revenues were off, largely due to the decline in the price of oil. As a result, the government has recorded a deficit of KD 2.5 billion during the 9-month period. We estimate FY15/16 will close with a deficit of KD 4.3 billion before the transfer to the Reserve Fund for Future Generations (RFFG), or 10.8% of GDP.

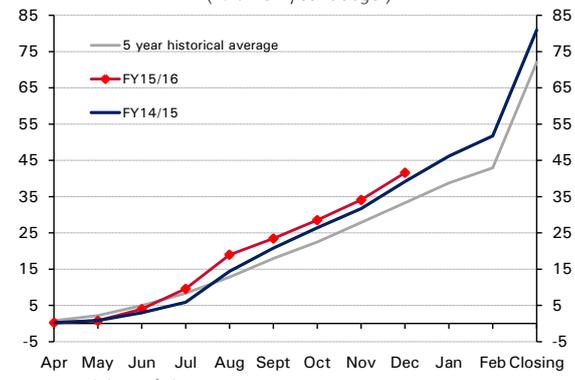
As of December, reported government spending stood at KD 9.2 billion fiscal-year-to-date (fytd); this figure was 15% lower than during the same period last year and includes deferred payments of KD 1.14 billion due to the Ministry of Electricity and Water (MEW) and the Public Institute for Social Security (PIFSS). However, at 48% of the FY15/16 budget, the spending rate is slightly higher than the five-year 9-month average of 44%. Actual spending was even higher at KD 13.9 billion, according to new data being published by the Ministry of Finance and based on actual withdrawals taken from the government accounts at the Central Bank of Kuwait. This accounting difference is related to delays in reporting expenditures by some ministries.

Current spending was down despite robust growth in wages and salaries. A 16% y/y decline in current spending was driven mainly by the decline in the cost/price of fuel and electricity subsidies. Miscellaneous expenditures & transfers (chapter 5) were down by 15% year-on-year (y/y) because of the lower cost of fuel subsidies. Similarly, spending on goods & services (chapter 2) stood declined by 51% y/y as spending on fuel for electricity and water (MEW) declined by 60% y/y. Meanwhile, wages & salaries rose to KD 2.8 billion fytd, up 9% y/y.

Capital spending was another closely watched area that maintained robust growth, rising by 9% y/y. This reflects the commitment to the government development plan, which has gained momentum recently. Indeed, capital spending thus far in FY15/16 stood at 42% of the full-year budget, better than the five-year average of 33%, reflecting the improved implementation. Spending on projects, maintenance & land purchases (chapter 4) reached KD 908 million, up by 8.6% y/y. The expenditures of the Ministry of Public Works continue to soar, recording a 53% jump from last year to reach KD 335 million, in line with the jump in projects awarded in 2015.

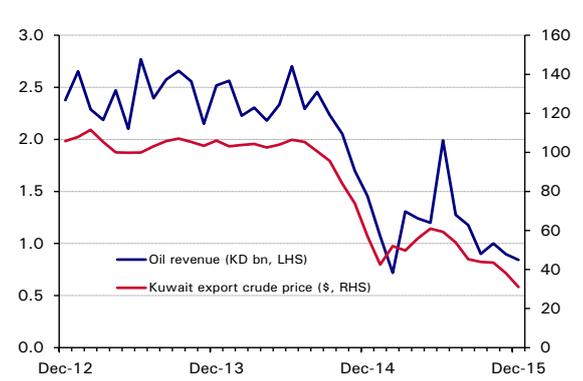
Total government revenues were KD 11.4 billion in the nine months, down by 46% y/y. Oil revenues have declined as a result of the low oil price. The Kuwait export crude (KEC) price averaged \$48 per barrel during the first nine months of FY15/16 and only \$31 in December. Oil prices are likely to remain subdued for the remaining months of the fiscal year; we expect oil revenues to reach KD 12.4 billion by the end of the fiscal

Chart 1: Capital spending (% of full-year budget)



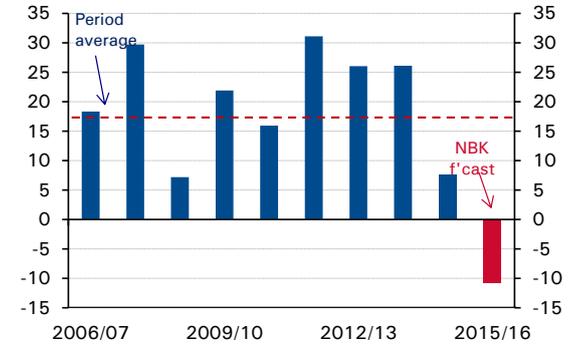
Source: Ministry of Finance

Chart 2: Monthly oil revenues and prices



Source: Ministry of Finance, Kuwait Petroleum Company (KPC)

Chart 3: Budget balance (% of GDP)



Source: Ministry of Finance, NBK estimates

year, 45% lower than the previous fiscal year.

**Non-oil revenues were down by half from the previous fiscal year fytd, largely on a suspension in payments from the UN Compensation Commission (UNCC).** The suspension of the UNCC payments by the government reduced miscellaneous revenues and fees by almost KD 1 billion or 93%. This was compounded by declines in service charges, which were 13% lower mainly on reduced collections from housing, and electricity and water service charges. Still, there were improvements elsewhere, with income tax revenues up by 42% y/y, as tax revenues on non-oil foreign companies and corporate income tax revenues rose.

**Table 1: Government revenues and expenditures**

	Actual (9 months)		9 months: actual to full-year budget		
	FY14/15	FY15/16	FY15/16	5-year average <sup>1</sup>	
	KD bn	KD bn	% y/y	%	%
<b>Revenues</b>	<b>21.2</b>	<b>11.4</b>	<b>-46.3</b>	<b>93.2</b>	<b>145.4</b>
Oil	19.4	10.5	-45.8	97.8	148.4
Non-oil	1.8	0.9	-52.2	59.1	120.5
<b>Actual expenditures</b>	<b>-</b>	<b>13.9</b>	<b>-</b>	<b>-</b>	<b>-</b>
Reported expenditures	10.6	9.2	-13.4	47.8	44.5
Wages & salaries	2.6	2.8	8.5	52.1	46.2
Goods & services <sup>3</sup>	1.9	0.9	-50.9	35.9	44.1
Vehicles & equipment	0.1	0.1	18.6	26.0	18.2
Projects, maint. & land	0.8	0.9	8.6	43.7	35.7
Miscellaneous & transfers <sup>4</sup>	5.2	4.4	-15.0	50.5	47.0
Unclassified expenditures <sup>5</sup>	-	4.7	-	-	-
<b>Balance</b>	<b>-</b>	<b>-2.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
RFFG	-	1.1	-	-	-
After RFFG	-	-3.6	-	-	-
<i>Note:</i>					
Current expenditures <sup>2</sup>	9.7	8.2	-16.0	48.8	44.4
Capital expenditures	0.9	1.0	9.1	41.6	33.3
Oil production (mbpd)	2.86	2.86	0.2	-	-
Oil prices (\$/bbl, KEC)	92	48	-47.8	-	-

Source: Ministry of Finance, Kuwait Petroleum Company, NBK estimates

<sup>1</sup> 5-year average for comparable period.

<sup>2</sup> Includes the wages & salaries, goods & services, and miscellaneous & transfers categories.

<sup>3</sup> Including the deferred payments due to the Ministry of Electricity and Water.

<sup>4</sup> Including the deferred payments due to the Public Institute for Social Security.

<sup>5</sup> Based on withdrawals made from government accounts at the Central Bank of Kuwait; the MOF has only recently started publishing this figure.

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