

Public finance

# Kuwait: public spending up 13% during first 8 months of FY14/15

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Interim figures indicate government spending rose by 13% during the first eight months of fiscal year 2014/15 (FY14/15) compared to the same period the year before. Growth was visible in both current and capital spending. Revenues continued to decline on lower oil prices. The government's preliminary surplus stood at KD 10.5 billion at the end of the eight month period, down from KD 13.5 bn during the comparable period a year ago. We expect spending to grow by 10% year-on-year (y/y) to KD 20.8 billion in the full fiscal year (Chart 1).

Government spending stood at KD 8.5 billion fiscal-year-to-date (fytd) in November. This was KD 1.0 billion higher than during the same period last year. Spending stood at 37% of the FY14/15 budget, marginally below the historic average of 38%.

Current spending, which dominates overall expenditure, came in at KD 7.8 billion fytd. 'Miscellaneous expenditures & transfers', which include military salaries and transfers to the social security fund, were up a solid 18% year-on-year (y/y) and were at KD 4.3 billion fytd. Meanwhile, the wages & salaries segment declined by 1% y/y to KD 2.2 billion fytd. Goods & services, a much smaller component of current spending, rose by a strong 22% y/y to KD 1.3 billion fytd.

Capital spending grew by a robust 23% y/y and stood at KD 0.7 billion fytd in November. Figures indicate that 32% of the full-year budget was spent to-date, just above the five-year average of 31%; this is a further indication that the rate of project execution is picking up. Both components of capital spending, the transportation & equipment component, and the projects, maintenance & land purchases component, are witnessing strong growth of 63% y/y and 21% y/y, respectively.

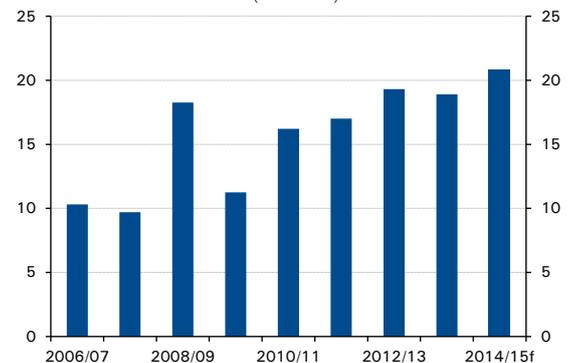
Government revenues were down in November as a result of a decline in the price of oil. While revenues have declined by 10% y/y to KD 19.0 billion, they remain well above conservative budget projections; revenues to-date stood at 95% of the full-year budget. Total revenues have been driven lower by reductions in both oil revenues and non-oil revenues.

Oil revenues fell by 9% y/y on the back of declines in Kuwait's crude price and oil production. Kuwait export crude (KEC) price averaged \$97 per barrel in the eight months to November, 6% lower than in the same period last year. Production was also 3% lower. While oil production is expected to remain relatively stable, oil prices will continue to average much lower with the KEC price recently falling below \$50 per barrel.

The interim budget's surplus is at KD 10.5 billion, comparatively lower than the preceding three fiscal years, due to higher spending levels and lower revenues. The budget is projected to log in a much smaller surplus of around KD 4.5 billion for the full fiscal year ending in March 2015. Government spending is set to grow by 10% y/y and revenues are expected to fall by around 20.5% y/y. At 9% of GDP in FY14/15, this will be the lowest budget surplus in five years.

Chart 1: Total spending

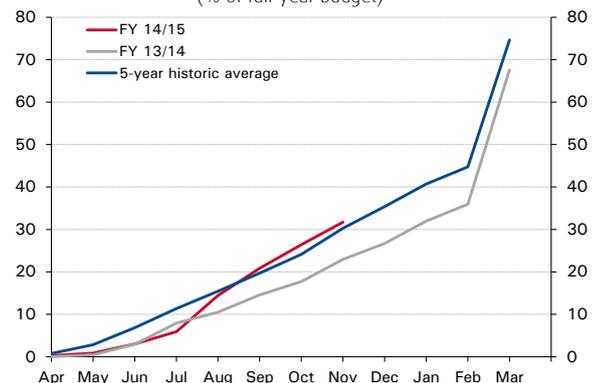
(KD billion)



Source: Ministry of Finance, NBK estimates

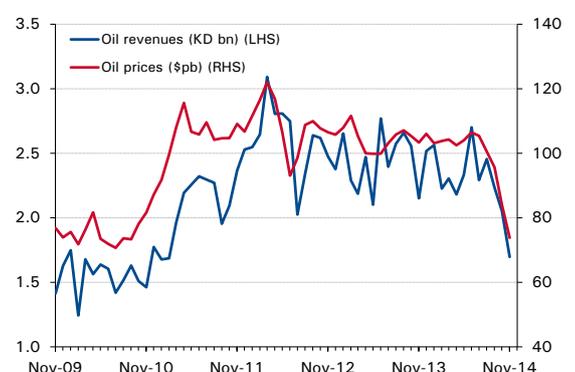
Chart 2: Capital spending

(% of full-year budget)



Source: Ministry of Finance

Chart 3: Oil revenues and prices



Source: Ministry of Finance, Kuwait Petroleum Corporation

**Table 1: Government revenues and expenditures**

	Actual (8 months, fytd)			Actual to full-year budget (8 months)	
	FY14/15	FY13/14		FY14/15	Average <sup>1</sup>
	KD bn	KD bn	% y/y	%	%
<b>Revenues</b>	<b>19.0</b>	<b>21.0</b>	<b>-9.4</b>	<b>94.8</b>	<b>129.9</b>
Oil	17.9	19.7	-8.8	95.4	135.4
Non-oil	1.1	1.3	-19.0	85.5	85.4
<b>Expenditures</b>	<b>8.5</b>	<b>7.5</b>	<b>13.3</b>	<b>36.6</b>	<b>37.7</b>
Wages & salaries	2.2	2.2	-0.8	38.9	25.6
Goods & services	1.3	1.1	21.5	33.9	38.8
Vehicles & equipment	0.05	0.03	63.4	15.8	34.1
Projects, maint. & land	0.7	0.6	21.2	34.0	18.3
Miscellaneous & transfers	4.3	3.6	17.7	37.4	32.6
<b>Balance</b>	<b>10.5</b>	<b>13.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
After RFFG	5.8	8.3	-	-	-
<i>Note:</i>					
Current expenditures <sup>2</sup>	7.8	6.9	12.4	37.1	37.4
Capital expenditures	0.7	0.6	23.2	31.7	30.5
Oil production (mbpd)	2.863	2.960	-3.3	-	-
Oil prices (\$/bbl, KEC)	96.6	103.1	-6.3	-	-

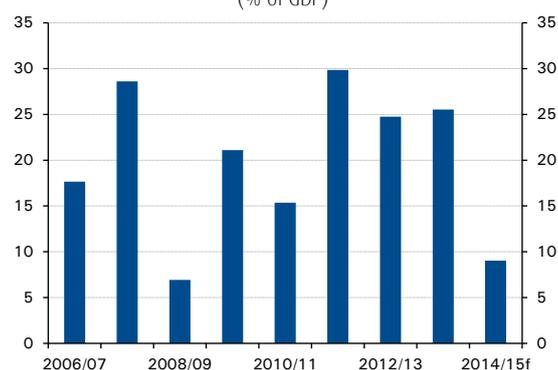
Source: Ministry of Finance, NBK estimates

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

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

**Chart 4: Budget balance**

(% of GDP)



Source: Ministry of Finance, NBK estimates

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