Public finance

Kuwait: FY15/16 saw bumper year for capital spending; deficit at 13% of GDP

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Kuwait's government posted a budget deficit of KD 4.6 billion for the fiscal year 2015/16 (FY15/16). The deficit, before the transfer to the Future Generations Fund (FGF), reached 13.4% of GDP and was the first in 17 years; it compares to an average budget surplus of 21% of GDP recorded during the previous five years. The large deficit is the result of a sharp decline in oil prices, as the Kuwaiti government remains committed to its development plan projects. We expect a similar deficit of 13% of GDP for FY16/17 as the low oil price environment prevails.

The government saw revenues decline for the second consecutive year largely on lower oil prices. Revenues, at KD 13.6 billion, were down by 45% in FY15/16. The price of Kuwaiti crude averaged $43 per barrel in FY15/16, 47% lower than the year before. During the same period, oil production saw a small increase of 1.5% to average 2.9 million barrels per day. As a result, oil revenues dropped by 46% to KD 12.1 billion or 35% of GDP, the lowest ratio in a decade.

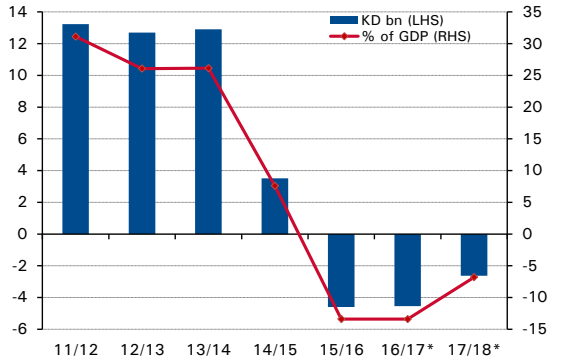
Nonoil revenues were also down notably in FY15/16 due to the suspension of Iraqi reparation payments. A 38% decline in nonoil revenues was due to a government decision to postpone the repayment of the remaining KD 1.4 billion in Iraqi reparations due from the UN Compensation Commission (UNCC) until early 2017. Other nonoil revenues actually improved in FY15/16, rising by 11%. Income tax revenues and customs taxes and fees rose by 41% and 9%, respectively, and represent almost 30% of total nonoil revenues.

Low oil prices prompted the government to reduce spending notably, with cuts mostly hitting non-essential expenditures with little impact on the domestic economy. Government spending was reduced by 15% in FY15/16 to KD 18.2 billion; spending dropped to 76% of nonoil GDP, its lowest ratio in six years. More than half of the savings was automatic, the result of a drop in the cost of fuel and electricity subsidies. Most of the rest came from transfers to independent public agencies and authorities. Wages and salaries continued to grow, albeit at a slower pace, while infrastructure projects were the only area to see a pickup in spending.

The low oil price environment did not deter the government from pursuing its capital spending plans, pushing its execution pace to its highest in a decade. Capital expenditures grew by 13% in FY15/16, rising to KD 2.1 billion on the back of healthy growth in spending on "transportations & equipment" (chapter 3) and "projects, maintenance and land purchases" (chapter 4). This was largely due to more effective implementation of spending plans, with the ratio of actual capital spending to "budgeted" rising to 89%, the highest in a decade. Spending on the projects that are a part of the government's development plan reached KD 1.1 billion, with spending there amounting to 86% of the year's budget.

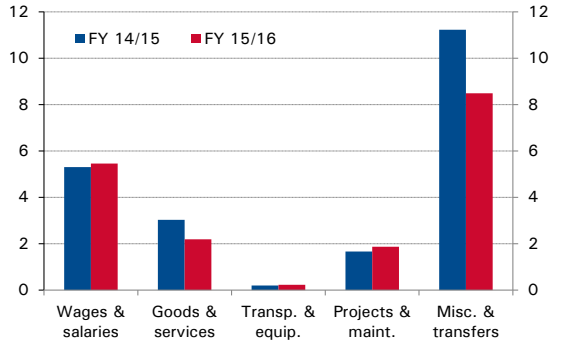
Most development plan spending remains off-budget and the pace there has been picking up. Oil sector and public-private partnerships

Chart 1: Budget balance
(before FGF, *estimate/forecast)



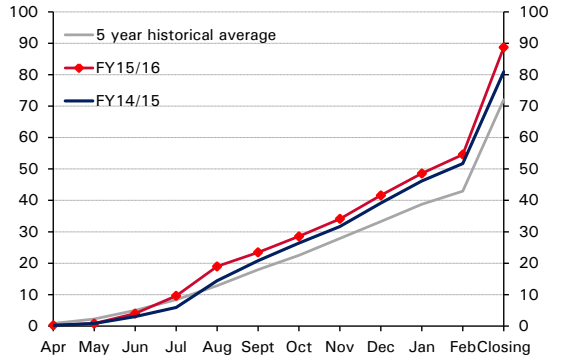
Source: Ministry of Finance, Central Statistical Bureau, NBK estimates

Chart 2: Spending breakdown
(KD billion)



Source: Ministry of Finance, NBK estimates

Chart 3: Capital spending
(% of full year budget)



Source: Ministry of Finance

(PPP) projects are all off-budget and expenditures for them will come either from Kuwait Petroleum Corporation (KPC) and subsidiaries or from the private sector. The pace of execution of these projects has improved notably since 2013 and continues to do so in 2016, according to data provided by MEED Projects.

While on-budget capital spending has been picking up, current expenditures retracted by 17% in FY15/16. Current expenditures were pulled down by significant declines in "miscellaneous expenditures & transfers" (chapter 5) which, among other things, is comprised of military salaries, transfers to the social security fund, fuel subsidies and transfers abroad. Most of the cuts were in domestic transfers, which were reduced by KD 2.1 billion or 27%. The declines were primarily due to cuts in subsidies, transfers abroad, and transfers to public institutions.

Civilian wages and salaries saw growth slow slightly to 3%, as the government sought to maintain steady hiring among nationals. Growth in wages and salaries (chapter 1) during the last three years has been relatively contained compared to the double-digit growth posted between FY08/09 and FY12/13, which reflects the government's efforts to control growth in this area and ease pressure on the fiscal position.

We expect another deficit of around 13% of GDP in FY16/17 as oil prices remain relatively low and government spending sees a small decrease. Government revenues are expected to be largely unchanged from the prior year, with the price of oil likely to remain relatively low averaging around $44 per barrel. Even though nonoil revenues are seen growing by 11% as per official budget expectations, the impact of this on total revenues is relatively limited. Meanwhile, spending is seen decreasing by about 2%, in part thanks to the reduction in fuel subsidies expected to take effect at the start of September, and which is expected to save the government around KD 130 million a year.

Table: Government revenues and expenditures

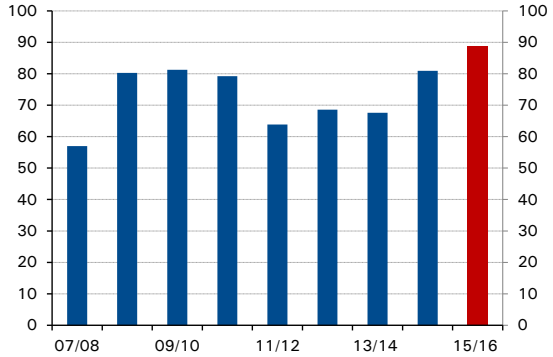
	Actual			Budget
	FY14/15	FY15/16		FY16/17
	KD bn	KD bn	% y/y	KD bn
Revenues	**24.93**	**13.60**	**-45**	**10.2**
Oil	22.50	12.10	-46	8.6
Non-oil	2.42	1.50	-38	1.6
Expenditures	**21.42**	**18.20**	**-15**	**18.9**
Wages & salaries	5.30	5.46	3	5.5
Goods & services	3.03	2.19	-28	2.2
Transportation & equipment	0.20	0.23	14	0.4
Projects, maint. & land purchases	1.66	1.87	13	1.8
Miscellaneous & transfers	11.23	8.49	-24	9.0
Surplus (deficit) before FGF	**3.51**	**-4.60**	...	**-8.7**
Future Generations Fund (FGF)	6.23	1.36	...	0.7
Surplus (deficit) after FGF	**-2.72**	**-5.96**	...	**-9.4**
Note:				
Current expenditures[1]	19.6	16.1	-17	16.7
Capital expenditures	1.86	2.10	13	2.2
Oil production (mbpd)	2.7	2.7	...	2.8
Oil prices ($/bbl, KEC)	81	43	-47	35

Source: Ministry of Finance

[1] Includes the wages & salaries, goods & services, and miscellaneous & transfers categories

Chart 4: Capital spending

(% of budget)



Source: Ministry of Finance

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