

Public finance

Kuwait: Spending declines in line with budget halfway through fiscal year

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The interim public finance figures for the first six months of fiscal year 2015/16 (FY15/16) point to a decline in government spending.

This was driven primarily by declines in transfers to other government entities and in the cost of subsidies; the latter was essentially an accounting effect thanks to the lower price of fuel. Other components continued to see positive growth, including capital spending. Revenues remain low due to the sustained drop in oil prices from a year ago. The government recorded a preliminary deficit of KD 0.53 billion during the period before the transfer to the Reserve Fund for Future Generations (RFFG). We estimate FY15/16 will close with a deficit of KD 1.6 billion or 4.3% of GDP.

As of September, government spending stood at KD 4.8 billion fiscal-year-to-date (fytd); this is 22% lower than during the same period last year. However, at 25% of the FY15/16 budget, the spending rate has improved and stands well above the five-year average of 19%. Actual spending was higher at KD 8.8 billion according to new data being published by the Ministry of Finance on withdrawals made 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, which constitutes the bulk of total spending, came in at KD 4.2 billion fytd. Current spending is driven mainly by the 'miscellaneous expenditures & transfers' chapter, which includes military salaries and transfers to the social security fund. Miscellaneous expenditures & transfers came in at KD 2.5 billion fytd, down 29% year-on-year (y/y); goods & services were KD 0.3 billion fytd, down by 56% y/y. Wages & salaries stood at KD 1.5 billion fytd, down 2% y/y mostly due to basis effects.

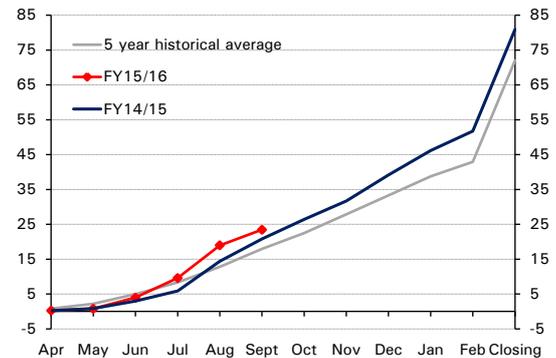
Capital spending was KD 0.6 billion fytd in September, up 16% y/y. It currently stands at 23% of the full-year budget, five percentage points above the five-year average. The government's six month follow up report on the Development Plan projects indicates that capital spending reached 20% of its FY15/16 budget. This reflects the government's commitment to the strategic developmental projects. Spending on transportation & equipment reached KD 58 million compared to only KD 22 million for the same period last year. Spending on projects, maintenance & land purchases, was up by 9% y/y.

Total government revenues were KD 8.3 billion in the six months to September, down 45% y/y. Both oil and non-oil revenues witnessed significant declines, recording drops of 45% and 38% y/y, respectively.

Oil revenues were almost cut by half on the back of lower crude oil prices and slightly lower oil production. The Kuwait export crude (KEC) price averaged \$43.9 per barrel in September of this year. With oil prices likely to remain relatively subdued, we expect oil revenues to reach KD 14 billion by the end of the fiscal year, surpassing the government's official projections by over 30%.

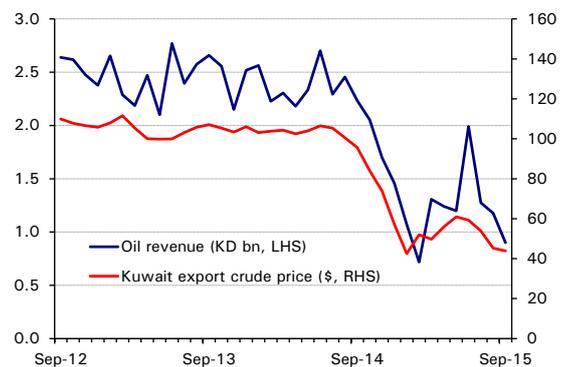
Chart 1: Capital spending

(% of full-year budget)



Source: Ministry of Finance

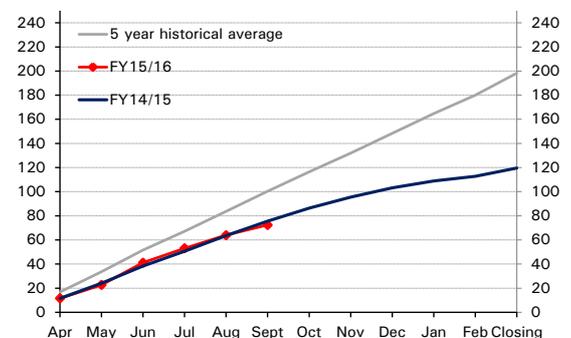
Chart 2: Monthly oil revenues and prices



Source: Ministry of Finance

Chart 3: Non-oil revenues

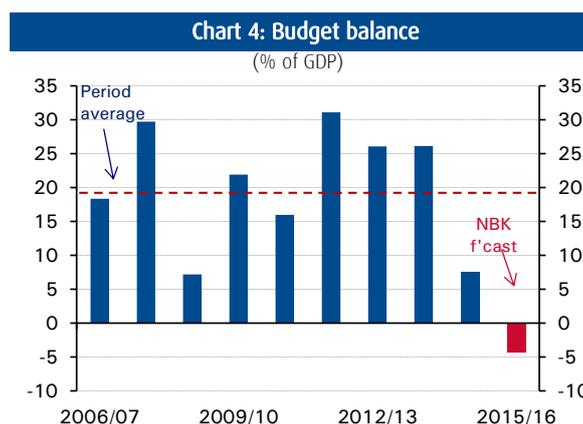
(% of full-year budget)



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

Similarly, non-oil revenues were down 38% on lower miscellaneous revenues & fees, which make up a bulk of non-oil revenues. The main reason was the absence of any payments from the UN Compensation Commission (UNCC) this year; the UNCC payments, which are paid by Iraq in compensation for damages from the Iraqi invasion of Kuwait in 1990, were postponed according to a UN decision in December 2014 supported by Kuwait. Excluding the UNCC payment received in June 2014 of around KD 290 million, non-oil revenues this year are down by 8%.

The government recorded a preliminary deficit of KD 0.53 billion during the period before the transfer to the RFFG. The interim six month expenditures, which are under-reported, stood at KD 4.8 billion. However, the actual withdrawals from government accounts at the Central Bank of Kuwait, as reported by the Ministry of Finance, stood at KD 8.8 billion as of September. As a result, the reported preliminary surplus of KD 3.6 billion becomes an actual deficit of 0.53 billion during the first half of the fiscal year before the transfer to the RFFG. We estimate FY15/16 will close with a deficit of KD 1.6 billion or 4.3% of GDP. Total government spending is projected to decline by 15% in FY15/16 while revenues are seen declining by 33%.



Source: Ministry of Finance, NBK estimates

Table 1: Government revenues and expenditures

	Actual (6 months)			6 months: actual to full-year budget	
	FY15/16	FY14/15	% y/y	FY15/16	Average ¹
	KD bn	KD bn	% y/y	%	%
Revenues	8.3	15.1	-44.8	68.2	96.7
Oil	7.8	14.2	-45.2	72.3	100.3
Non-oil	0.6	0.9	-37.8	37.9	60.7
Expenditures	4.8	6.1	-21.9	24.9	24.1
Wages	1.5	1.5	-2.1	27.0	23.8
Goods & services	0.3	0.6	-56.3	10.8	22.3
Vehicles & equipment	0.06	0.02	158.9	20.3	11.7
Projects, maint. & land	0.5	0.5	8.8	23.9	18.9
Miscellaneous & transfers	2.5	3.5	-29.0	28.3	26.6
Balance	3.6	9.0	-	-	-
After RFFG	2.7	5.2	-	-	-
Actual expenditures*	8.8	-	-	-	-
Unclassified expenditures	4.0	-	-	-	-
Actual balance	-0.5	-	-	-	-
<i>Note:</i>					
Current expenditures ²	4.2	5.6	-25.1	22.3	17.8
Capital expenditures	0.6	0.5	15.8	19.0	12.8
Oil production (mbpd)	2.9	2.9	0.0	-	-
Oil prices (\$/bbl, KEC)	43.9	95.7	-54.1	-	-

Source: Ministry of Finance, NBK estimates

¹ 5-year average for comparable period.

² Includes the wages & salaries, goods & services, and miscellaneous & transfers categories.

* Withdrawals made from government accounts at the Central Bank of Kuwait.

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