

Public finance

Kuwait: FY14/15 fiscal surplus narrows to 7.5% of GDP on lower oil prices

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Kuwait's government posted a budget surplus of KD 3.5 billion for the fiscal year 2014/15 (FY14/15). The surplus before the transfer to the Reserve Fund for Future Generations (RFFG) was 73% lower than last year's due largely to lower oil prices. The budget surplus narrowed to an estimated 7.5% of GDP, compared to an average of 24% of GDP during the previous five years. The budget surplus turns into a deficit of KD 2.7 billion after the deduction for the RFFG, amounting exceptionally to 25% of total revenues (usually 10%).

The government saw revenues decline by 22% in FY14/15 to settle at KD 24.9 billion, down from KD 31.8 billion in FY13/14. As oil prices tumbled throughout the second half of 2014 and 1Q15, revenues dropped by 23% to KD 22.5bn, or 48% of GDP which is the lowest in a decade. Oil prices averaged \$84/bbl versus \$75/bbl assumed in the FY14/15 budget. Meanwhile, non-oil revenues rose by 4% but remained a small share of total revenues. Income tax revenues, encompassing tax on nonoil foreign companies and corporate income tax, grew by 15% y/y each, though they still represented no more than 5% of nonoil revenues.

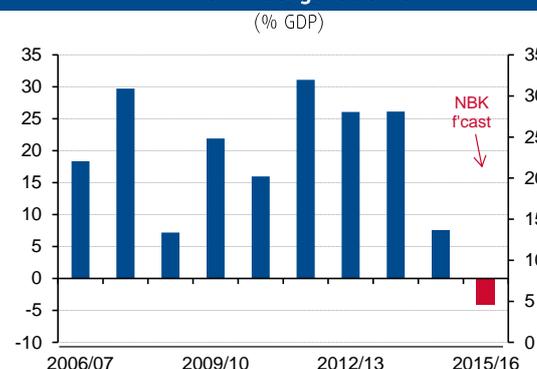
Despite the lower oil price environment that prevailed for almost half of the fiscal year, expenditure growth remained strong at 13.3%, with spending rising to KD 21.4 billion in FY14/15. Current expenditures represented 91% of total spending and provided most of the boost in spending growth. Growth came primarily from a 26% increase in "miscellaneous & transfers" (chapter 5) which, among other things, is comprised of military salaries, transfers to the social security fund, fuel subsidies and transfers abroad. Domestic transfers increased by KD 1.4 billion or 20%, primarily due to a doubling in general subsidies which reached KD 1.5 billion in FY14/15.

As per the budget figures for FY14/15, more than 50% of subsidies were allocated to funding fuel for power generation plants and refined hydrocarbon products. Another 10% was for supporting national labor working in the private sector. Meanwhile, subsidies for reducing the cost of living do not represent more than 4% of the total subsidies. Transfers abroad witnessed a similar hike as well, of 133%, reaching KD 1.4 billion, KD 1 billion of which was for humanitarian aid.

Civilian wages and salaries (Chapter 1) rose by 5.3%, reaching KD 5.3 billion. The current wage bill for the FY14/15 is almost threefold the bill of FY04/05. The increases in wages and salaries during the last two years were relatively small compared to the double-digit growth posted in FY08/09, FY11/12 and FY12/13. In these years, growth in the wage bill averaged 20% per annum and led to efforts to restrain that growth.

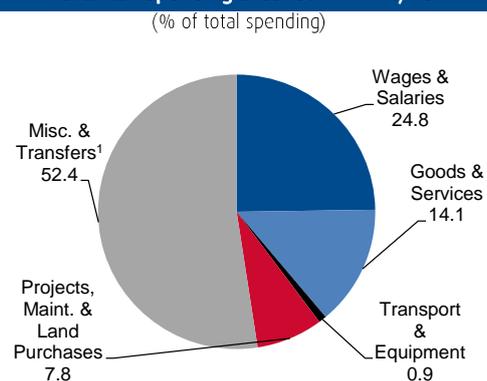
Capital spending rose by a 6.9% on the back of healthy growth in spending on projects, maintenance and land purchases (Chapter 4) which rose by 8.6% y/y to KD 1.7 billion. This was a welcome outcome given the decline seen in this item the year before and the importance of capital spending in the government's economic development plan. In fact, capital spending reached 81% of the full year budget, the highest in

Chart 1: Budget balance



Source: Ministry of Finance, NBK

Chart 2: Spending breakdown FY14/15



¹ Includes transfers to PIFSS, military salaries, fuel subsidies, transfers overseas and other items.

Source: Ministry of Finance, NBK

Table 1: Government revenues and expenditures

	Actual		Gov. budget	
	FY13/14	FY14/15	FY15/16	
	KD bn	KD bn	% y/y	KD bn
Revenues	31.8	24.9	-21.6	12.2
Oil	29.3	22.5	-23.2	10.7
Non-oil	2.5	2.4	-3.8	1.5
Expenditures	18.9	21.4	13.3	19.2
Wages	5.0	5.3	5.3	5.4
Goods & services	3.2	3.0	-6.0	2.6
Vehicles & equipment	0.2	0.2	-5.8	0.3
Projects, maint. & land	1.5	1.7	8.6	2.1
Misc. & transfers	8.9	11.2	26.1	8.8
Balance	12.9	3.5	-	-7.0
After RFFG	5.0	-2.7	-	-8.2

Source: Ministry of Finance, NBK

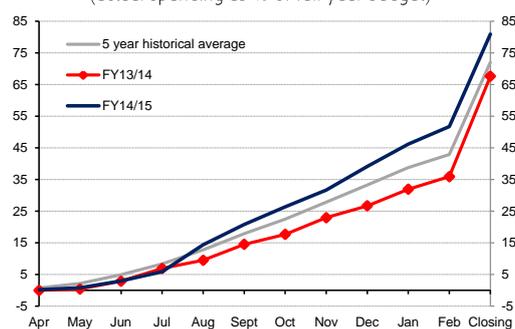
five years. On the other hand, there was a decline in spending on transportation and equipment, a much smaller category, by 6% y/y.

In FY15/16, the government expects a budget deficit of KD 7 billion, or 18% of GDP. We think the deficit will be closer to 5.5% of GDP, mostly on a higher oil price. Projected expenditures, at KD 19.2 billion, were reduced by 17% from the prior year's budget though by only 9% from actual spending in FY14/15. The largest cut was due to an accounting decline in the cost of subsidies; since the current year's budget is based on an oil price of \$45 per barrel, 40% lower than last year, this led to a similar drop in the projected cost of subsidies.

Meanwhile, investment spending was increased in the budget (FY15/16) and authorities will continue to prioritize capital spending. This is despite the prevailing low price environment and concerns that oil prices will remain low in the short term. Indeed, budgeted expenditures on projects, maintenance and land purchases are up 3% to KD 2.1 billion. Given Kuwait's comfortable fiscal buffers, we think authorities can and will, as officially stated, maintain the current pace of project implementation despite the projected fiscal deficit.

Chart 3: Capital spending

(actual spending as % of full year budget)



Source: Ministry of Finance, NBK

Table 2: Budgeted Subsidies

	Budget 2014/15	Budget 2015/16
	KD Mn	KD Mn
Fuel for power generation	2,723	1,550
Refined oil products and liquified gas	752	626
Support of national labor working in the private sector	555	495
Private university students' tuition, fees and rewards	481	269
Support of social care programs	352	565
Medical treatment abroad	276	195
Allowance for reducing cost of living	242	280
Rent compensations for citizens awaiting house care	208	223
Disability allowances	98	120
Cancellation of real estate loans	71	60
Interest on real estate loans	68	67
Other subsidies	413	172
Total	6,238	4,623

Source: Kuwait National Assembly, NBK

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