

Public finance

# Kuwait: Spending pace holding despite the drop in oil prices

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The interim public finance figures for the first seven months of fiscal year 2015/16 (FY15/16) point to rising government spending as the oil price fell below the budgeted price of \$45 per barrel. Capital spending continues at a better pace than the five year average, while revenues remain pressured due to the drop in oil prices from a year ago. The government recorded a preliminary deficit of KD 1.8 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 2.5 billion or 6.2% of GDP.

As of October, reported government spending stood at KD 5.7 billion fiscal-year-to-date (fytd); this is 24% lower than during the same period last year. However, at 30% of the FY15/16 budget, the spending rate is in line with the five-year October average. Actual spending was even higher at KD 10.0 billion according to new data being published by the Ministry of Finance on actual 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. Adding to that, the government has deferred payments in favor of the Ministry of Electricity and Water (MEW) and the Public Institute for Social Security (PIFSS) amounting to KD 1.16 billion.

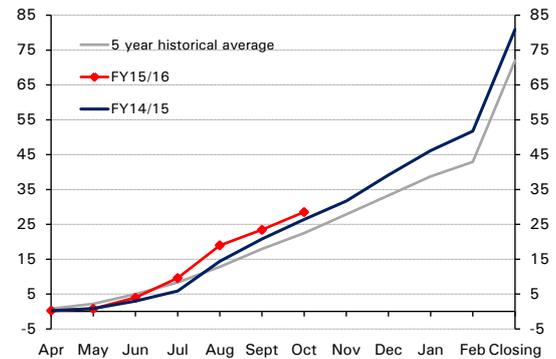
Current spending, which constitutes the bulk of total spending, came in at KD 5.1 billion fytd, down 27% y/y. Current spending is driven mainly by the 'miscellaneous expenditures & transfers' chapter, which includes military salaries and transfers to PIFSS. Miscellaneous expenditures & transfers came in at KD 2.8 billion fytd, down 27% year-on-year (y/y) due to a significant KD 917 million drop in support to refined products and LNG. Goods & services stood at KD 0.3 billion fytd, down by 71% y/y as the MEW spending on Chapter 2 declined by KD 822 million or 87% y/y. Wages & salaries stood at KD 1.9 billion fytd, down 1% y/y mostly due to basis effects.

Capital spending was KD 0.7 billion fytd in October, up 11% y/y. It currently stands at 29% of the full-year budget, compared to the five-year average of 22%. This reflects the government's commitment to the strategic developmental projects. Spending on projects, maintenance & land purchases reached KD 620 million, up by 10% y/y. Ministry of Electricity and Water (MEW) and Ministry of Public Work recorded the highest spending to budget in Chapter 4, at 35% and 38%, respectively.

Project follow-up reports show that project implementation is on schedule. The half-year follow up report by the Senior Committee for Planning and Development shows investment spending at 20% of budget for the first six months of FY15/16. The development plan for FY15/16 includes 531 projects and a budget of KD 6.3 billion. So far, KD 1.3 billion is disbursed on 172 projects. Spending on oil projects reached KD 654 million, or 17% of planned expenditures; spending on electricity projects reached KD 167.3 million, almost half of its budget.

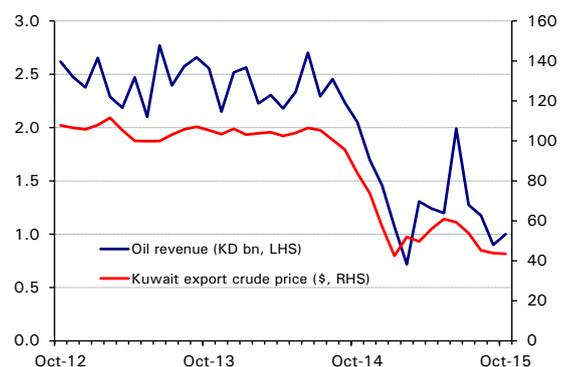
Total government revenues were KD 9.4 billion in the seven months

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



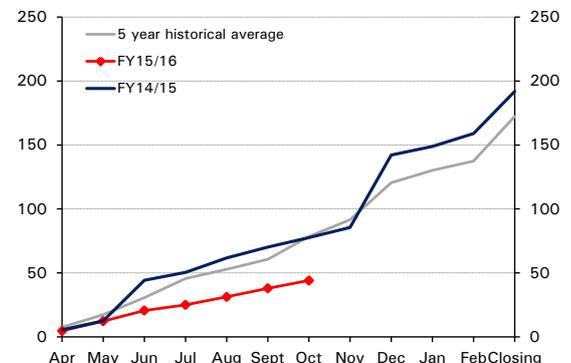
Source: Ministry of Finance

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)

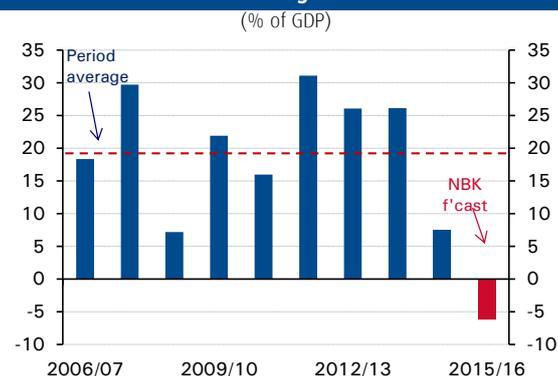
to October, down 45% y/y. Both oil and non-oil revenues witnessed significant declines, recording drops of 46% and 35% y/y, respectively.

**Oil revenues remain low as oil prices linger below the budgeted oil price and below last year's average.** The Kuwait export crude (KEC) price averaged \$43.5 per barrel in October 2015. Oil prices are likely to remain relatively subdued for the remaining of the fiscal year; still, we expect oil revenues to reach KD 13.0 billion by the end of the fiscal year, surpassing the government's official projections by 21%.

**Similarly, non-oil revenues were down 35% 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 fiscal 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. In October 2015, the UN granted Iraq a further one year postponement. Outstanding claims stands at \$4.6 billion representing a claim in favor of Kuwait Petroleum Corporation. Excluding the UNCC payment received in June 2014 of around KD 290 million, non-oil revenues this year are down by 7%.

**The government recorded a preliminary deficit of KD 1.8 billion during the period before the transfer to the RFFG.** The interim 7-month expenditures, which are under-reported, stood at KD 5.7 billion. However, the actual withdrawals from government accounts at the Central Bank of Kuwait, as reported by the Ministry of Finance, stood at KD 10 billion as of October. The monthly follow up report indicates that the ministry has deferred payments of around KD 690 million and KD 467 million in favor of the MEW and PIFSS, respectively. As a result, a reported preliminary surplus of KD 3.7 billion becomes an actual deficit of 1.8 billion after including the deferred payments and before the transfer to the RFFG. We estimate FY15/16 will close with a deficit of KD 2.5 billion or 6.2% of GDP. Total government spending is projected to decline by 15% in FY15/16 while revenues are seen declining by 37%.

Chart 4: Budget balance



Source: Ministry of Finance, NBK estimates

Table 1: Government revenues and expenditures

|                                   | Actual (7 months) |             |              | 7 months: actual to full-year budget |                      |
|-----------------------------------|-------------------|-------------|--------------|--------------------------------------|----------------------|
|                                   | FY15/16           | FY14/15     | % y/y        | FY15/16                              | Average <sup>1</sup> |
|                                   | KD bn             | KD bn       | % y/y        | %                                    | %                    |
| <b>Revenues</b>                   | <b>9.4</b>        | <b>17.2</b> | <b>-45.3</b> | <b>77.2</b>                          | <b>112.9</b>         |
| Oil                               | 8.8               | 16.3        | -46.0        | 81.6                                 | 116.5                |
| Non-oil                           | 0.6               | 1.0         | -34.7        | 44.1                                 | 78.3                 |
| <b>Expenditures</b>               | <b>5.7</b>        | <b>7.5</b>  | <b>-24.0</b> | <b>29.9</b>                          | <b>30.0</b>          |
| Wages                             | 1.9               | 1.9         | -0.6         | 35.9                                 | 28.5                 |
| Goods & services                  | 0.3               | 1.1         | -71.3        | 12.5                                 | 28.4                 |
| Vehicles & equipment              | 0.05              | 0.04        | 30.4         | 18.9                                 | 13.7                 |
| Projects, maint. & land           | 0.6               | 0.6         | 9.7          | 29.9                                 | 23.9                 |
| Miscellaneous & transfers         | 2.8               | 3.9         | -27.3        | 31.8                                 | 33.5                 |
| <b>Balance</b>                    | <b>3.7</b>        | <b>9.7</b>  | -            | -                                    | -                    |
| After RFFG                        | 2.7               | 5.4         | -            | -                                    | -                    |
| <b>Actual expenditures*</b>       | <b>10.0</b>       | -           | -            | -                                    | -                    |
| Unclassified expenditures         | 4.3               | -           | -            | -                                    | -                    |
| <b>Deferred payments to MEW</b>   | <b>0.7</b>        | -           | -            | -                                    | -                    |
| <b>Deferred payments to PIFSS</b> | <b>0.5</b>        | -           | -            | -                                    | -                    |
| <b>Actual balance</b>             | <b>-1.8</b>       | -           | -            | -                                    | -                    |
| <i>Note:</i>                      |                   |             |              |                                      |                      |
| Current expenditures <sup>2</sup> | 5.1               | 6.9         | -27.1        | 30.1                                 | 29.8                 |
| Capital expenditures              | 0.7               | 0.6         | 11.1         | 28.5                                 | 22.5                 |
| Oil production (mbpd)             | 2.69              | 2.76        | -2.5         | -                                    | -                    |
| Oil prices (\$/bbl, KEC)          | 43.1              | 84.0        | -48.1        | -                                    | -                    |

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.

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

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