

Public finance

Kuwait: Government spending in line with budget projections

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The interim public finance figures for the first eight months of fiscal year 2015/16 (FY15/16) point to a decline in government spending, as the price of oil fell to a seven-year low. However, despite the decline in overall spending, wages & salaries and capital spending still rose. The latter continued to reflect an accelerated pace of project execution. Meanwhile, nonoil revenues remained well below their 5-year average. The government recorded a preliminary deficit of KD 1.9 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 3.9 billion or 9.8% of GDP.

As of November, reported government spending stood at KD 6.6 billion fiscal-year-to-date (fytd); this figure was 22% lower than during the same period last year. However, at 35% of the FY15/16 budget, the spending rate is slightly lower than the five-year November average of 37%. Actual spending was even higher at KD 11.2 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. Also, the government has payments due of KD 1.14 billion to the Ministry of Electricity and Water (MEW) and the Public Institute for Social Security (PIFSS).

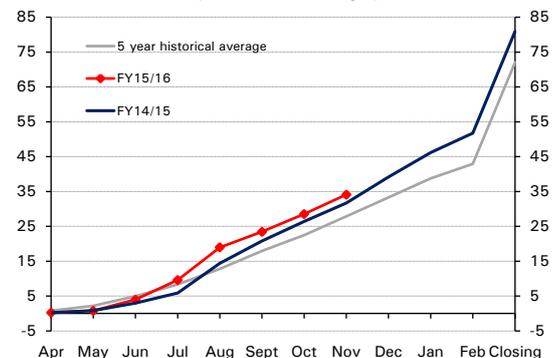
Current spending, the bulk of total spending, came in at KD 5.8 billion fytd, down 25% y/y. The decline in current spending was driven mainly by the 'miscellaneous expenditures & transfers' chapter, which includes military salaries and transfers to PIFSS. Wages & salaries stood at KD 2.4 billion fytd, up 9% y/y. Miscellaneous expenditures & transfers came in at KD 3.1 billion fytd, down 28% year-on-year (y/y), mainly due to a significant drop in support to refined products and LNG. Goods & services (Chapter 2) stood at KD 0.4 billion fytd, down by 72% y/y as spending on fuel for electricity and water (MEW) declined by 88% y/y.

Capital spending rose by 11% y/y to KD 0.8 billion fytd. Capital spending is currently at 34% of the full-year budget, compared to the five-year average of 28%. This reflects the government's commitment to the strategic projects of the development plan. Spending on projects, maintenance & land purchases (chapter 4) reached KD 740 million, up by 8.5% y/y. The Ministry of Electricity and Water (MEW) and Ministry of Public Works recorded the highest ratios of spending to budget in Chapter 4, at 41% and 48%, respectively.

Total government revenues were KD 10.4 billion in the eight months, down 45% y/y. Both oil and non-oil revenues witnessed significant declines, recording drops of 46% and 32% y/y, respectively. Oil revenues remain low as oil prices fell to a seven-year low and below last year's average. The Kuwait export crude (KEC) price averaged \$50 per barrel during the first eight months of FY15/16 and \$38.2 in November. Oil prices are likely to remain subdued for the remaining months of the fiscal year; still, we expect oil revenues to reach KD 12.9 billion by the end of the fiscal year, surpassing the government's official projections by

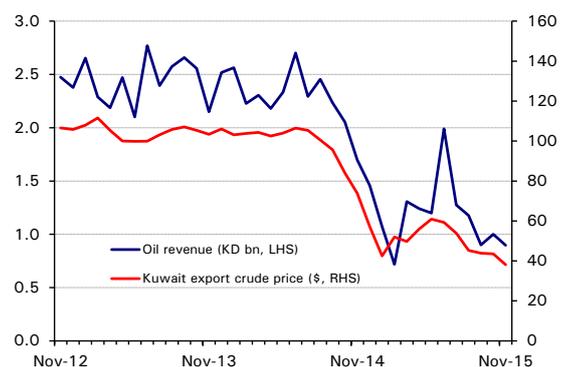
Chart 1: Capital spending

(% of full-year budget)



Source: Ministry of Finance

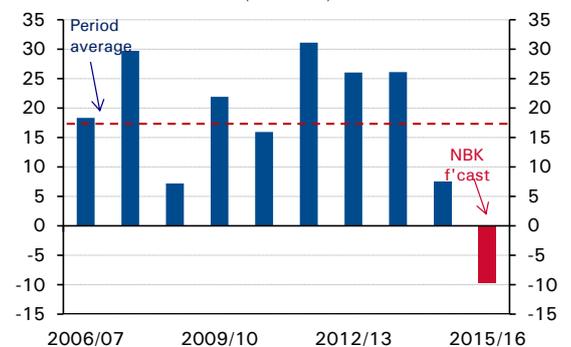
Chart 2: Monthly oil revenues and prices



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

Chart 3: Budget balance

(% of GDP)



Source: Ministry of Finance, NBK estimates

20%.

Non-oil revenues were also weaker mainly due to the postponement of payments from the UN Compensation Commission (UNCC). Because of that, nonoil revenues were down 32%. The UNCC still owes Kuwait KD 1.4 billion, but payments have been postponed until early 2017. During FY14/2015, Kuwait received KD 1.1 billion in UNCC payments; the latest payment was in March 2015.

Table 1: Government revenues and expenditures

	Actual (8 months)			8 months: actual to full-year budget	
	FY15/16	FY14/15	% y/y	FY15/16	Average ¹
	KD bn	KD bn		%	%
Revenues	10.4	19.0	-45.2	85.3	128.3
Oil	9.7	17.9	-46.1	90.0	132.0
Non-oil	0.7	1.1	-31.5	50.9	91.6
Expenditures	6.6	8.5	-21.7	34.7	37.2
Wages	2.4	2.2	9.4	44.1	38.8
Goods & services	0.4	1.3	-71.9	14.4	35.7
Vehicles & equipment	0.07	0.05	42.2	22.9	15.3
Projects, maint. & land	0.7	0.7	8.5	35.6	29.9
Miscellaneous & transfers	3.1	4.3	-27.5	35.0	39.5
Balance	3.8	10.5	-	-	-
After RFFG	2.7	5.8	-	-	-
Actual expenditures*	11.2	-	-	-	-
Unclassified expenditures	4.6	-	-	-	-
Deferred payments	1.1	-	-	-	--
Ministry of Elec. & Water	0.5	-	-	-	-
Public Institute for Soc. Security	0.6	-	-	-	-
Actual balance	-1.9	-	-	-	-
<i>Note:</i>					
Current expenditures ²	5.8	7.8	-24.8	34.7	37.0
Capital expenditures	0.8	0.7	10.7	34.1	27.9
Oil production (mbpd)	2.85	2.86	-0.3	-	-
Oil prices (\$/bbl, KEC)	50.1	96.6	-48.1	-	-

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