I. ECONOMIC ENVIRONMENT

(1) MAJOR FEATURES OF THE ECONOMY

1. The State of Kuwait has a population estimated at 3.6 million, of which almost 70% are non-nationals.[1] GDP per capita is estimated at around US$55,000; Kuwait ranks 47th (out of 169 countries) in the UNDP's Human Development Index.[2]

2. Kuwait's economy is based heavily on its energy sector, particularly crude oil production (Chapter IV(2)). Kuwait's crude oil reserves are estimated at 8% of global reserves, among the largest in the world, and its oil fields are projected by the Government to remain productive for at least another 70 years at or around current production levels. Kuwait is ranked 18th in global natural gas reserves (1,784 billion cubic meters).[3] Although gas production is limited at present, the Government plans to expand production significantly in the coming years. Crude oil and gas production account for about half of Kuwait's GDP, 95% of export revenues, and 84% of government revenue.

3. In 2010, outside the crude oil and gas sector, the main contributors to GDP were: community, social and personal services (15.2%); financial services (9.7%); transportation, storage, and communication (8.5%); trade, hotels, and restaurants (4.8%); real estate services (3.4%); manufacturing, excluding petroleum refining (2.2%); and construction (1.6%).[4] Less than 1% of Kuwait's land is arable, leaving agriculture a minimal role in the economy (Chapter IV(1)). The public sector is dominant in most activities (Chapter III(3)(ii)), with the private sector accounting for only about 25% of the economy.

4. Notwithstanding Kuwait's extraordinarily rich oil and gas reserves, the Government views the economy as being too dependent on the energy sector. Under Kuwait Vision 2035 and Kuwait Development Plan 2010-14[5], the authorities aim to promote a more diversified economy with world-class infrastructure attracting business and investment, and private-sector-led, but with continued state support, that can develop Kuwait into a financial and services centre in the region while consolidating values, maintaining social identity and realizing human development (section (4) below).

5. Kuwait started applying the Gulf Cooperation Council (GCC)[6] common external tariff in 2003 (Chapter III(1)(ii)). Since May 2007, the Kuwaiti dinar (KD) has been pegged to an undisclosed currency basket, reverting to the exchange system before January 2003.[7] In December 2009, Kuwait ratified an agreement with Saudi Arabia, Qatar, and Bahrain to establish a monetary union, details of which (including the target date for the union) are currently under discussion in the Gulf Monetary Council.[8]

(2) RECENT ECONOMIC DEVELOPMENTS

6. The size and growth of Kuwait's GDP depends heavily on conditions on the world oil market. Fairly steady crude oil production in Kuwait of about 2.5 (mmbd) on average since 2006 and the

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[1] Expatriates are employed mostly in the private sector (59%) or as domestic workers (31%), while Kuwaitis work primarily in the public sector (76%).
[2] UNDP (2011).
[3] OPEC (2011).
[4] National Bank of Kuwait (2011).
[5] Kuwait's previous Development Plan was passed in 1986.
[6] The other GCC members are: Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
[7] Between 2003 and May 2007, the KD was pegged to the U.S. dollar (IMF, 2011a).
[8] Oman and the UAE are not joining the monetary union.

increase in world oil prices between 2003 and 2008, peaking at an average of US$91 per barrel in 2008, generated very significant growth of nominal GDP, led by public investment and consumption. Real GDP grew, on average, at 5% a year between 2006 and 2008. However, productivity growth in non-oil sectors of the economy remained sluggish and there was little diversification away from oil and little expansion of the private sector.

7. Inflation rose above 5% in 2007 and accelerated into double digits in 2008 (Table I.1), reflecting imported inflation as well as the effects of excess liquidity in Kuwait's economy, which fuelled high salary increases and booming stock-market prices and real-estate prices.

8. Kuwait's GDP growth was slower from the third quarter of 2008 with the onset of the global financial crisis and of global economic recession, which saw Kuwait's crude oil production fall to about 2.3 mmbd and the average export price fall to US$61 per barrel in 2009. The result was a contraction of 20% in nominal GDP and of 5.2% in real GDP in 2009, with a sharp correction also in the rate of inflation to around 4% (Table I.1).

9. Preliminary data for 2010 point to a return to real GDP growth of about 3.4%, based on increased oil production and higher world oil prices and driven by fiscal policies. The IMF projects that real GDP growth will return to pre-crisis levels of around 5.7% in 2011, while inflation is estimated at 6.2% (up from 4.1% in 2010). For 2012, real GDP growth and inflation are estimated at 4.5% and 3.4%, respectively.[9]

10. In response to this slower growth, the Government budget for 2008-09 was sharply expansionary, with total expenditure rising from 28.1% to 47.9% of GDP and more than doubling in absolute terms to KD 18.1 billion. The bulk of the increase in public spending was directed in subsidies and social benefits, in particular the recapitalization of the social security fund. Aside from a large capital injection from the Kuwait Investment Authority (KIA) into the Gulf Bank (Chapter IV(3)(ii)), the Government did not bail-out troubled banks directly. In March 2009 Kuwait enacted its new Financial Stability Law, which aims to provide a form of bankruptcy protection and credit provision for financial services companies that have solvency problems but are otherwise deemed to be healthy (Chapter IV(3)(ii)).

11. The strength of the oil sector has enabled the Kuwait Government to consistently accumulate large fiscal surpluses, although these have varied considerably in recent years, from a high of 39.7% of GDP in 2007 to a low of 15.5% in 2008, reflecting primarily variations in the level of government expenditure (Table I.1). The surpluses have been used, in part, to finance social welfare policies including subsidized public utilities (notably electricity and water) and housing. There are concerns that pricing policy for these services reduces incentives to introduce efficiencies and cut waste, and promotes higher consumption than would otherwise be the case. Non-oil revenues (other than investment income) contribute only 6% to total fiscal revenue, leaving Kuwait's fiscal position vulnerable to volatility in world oil markets. Kuwait is taking steps to create a sound and sustainable fiscal position and reduce the proportion of the government budget generated by oil revenues by increasing other sources of revenue. A new comprehensive income tax law is in the pipeline, as well as the possible introduction of VAT by 2014. Gradually phasing out of government subsidies is also critical.

[9] IMF (2011c).

Table I.1
Selected economic indicators, 2006-11

	2006	2007	2008	2009	2010[a]	2011[b]
Miscellaneous						
GDP per capita (US$)	36,560	40,232	50,976	36,683	43,461	55,096
GDP at current prices (KD billion)	29.5	32.6	40.0	31.5	38.0	48.4
GDP at current prices (US$ billion)	101.6	114.7	148.8	109.5	132.6	171.9
Real GDP (percentage change)	5.3	4.5	5.0	-5.2	3.4	5.7
Unemployment rate (Kuwaiti nationals; %)	4.0	6.1	4.9	3.6	2.9	..
Consumer price index (average; percentage change)	3.1	5.5	10.6	4.0	4.1	6.2
Monetary sector						
Broad money[c]	21.7	19.3	15.6	13.4	3.0	16.3
KD 3-month deposit rate (year average; %)	5.0	5.2	3.3	1.4	0.8	..
Stock market index (annual percentage change)[d]	-12.0	24.7	-38.0	-10.0	-0.7	..
Public finances[e] (percentage of GDP)						
Revenue	66.6	67.8	63.4	61.5	59.2	61.6
Oil	48.0	51.5	52.1	50.1	48.5	51.6
Non-oil	18.6	16.3	11.4	11.5	10.7	9.9
Expenditure	34.0	28.1	47.9	33.6	38.4	35.5
Balance	32.6	39.7	15.5	28.0	20.7	26.1
Investment and savings (percentage of GDP)						
Investment	15.9	20.5	18.4	13.9	14.1	14.9
Public	2.8	3.3	3.5	4.6	4.7	4.9
Private[f]	13.1	16.9	14.9	9.3	9.5	10.0
Gross national savings	60.6	57.2	58.9	37.6	42.0	48.4
Public	60.2	55.2	46.4	47.1	45.8	46.2
Private[f]	4.5	2.1	12.5	-10.3	-3.8	2.1
Savings/investment balance	44.6	36.8	40.5	23.6	27.8	33.5
External sector						
Exchange rate (US$ per KD, period average)	3.45	3.52	3.72	3.48	3.49	..
Real effective exchange rate (percentage change)	0.9	0.3	8.4	-0.5	..	..
Current account (percentage of GDP)	44.6	36.8	40.5	23.6	27.8	33.5
International reserve assets (US$ billion)	11.8	15.9	16.7	17.7	18.7	23.1
in months of imports of goods and services	5.3	5.9	5.3	6.8	6.9	7.0
Oil production (million barrels; daily average)[g]	2.7	2.6	2.7	2.3	2.3	2.3
Crude oil exports (million barrels; daily average)	1.7	1.6	1.7	1.3	1.4	1.4
Kuwait's oil export price (US$, average)	58.88	66.35	91.16	60.68	76.32	104.1

.. Not available.

a Preliminary.
b Estimates.
c Changes in % of broad money stock.
d Unweighted.
e Kuwaiti fiscal year ending 31 March, e.g. 2007 refers to fiscal year 2007/08.
f Also includes government entities.
g Includes share of production from the Neutral Zone between Kuwait and Saudi Arabia.

Source: IMF (2011b), *Kuwait: Statistical Appendix*, Country Report No. 11/219, July. Viewed at: http://www.imf.org/external/pubs/ft/scr/2011/cr11219.pdf; and information provided by the Kuwaiti authorities.

(3) TRADE PERFORMANCE AND INVESTMENT

(i) Trade in goods and services

12. Kuwait's external accounts reflect the dominance of oil production and exports in the structure of the economy and display the volatility created by its reliance on world oil markets. During the period under review, oil and other fuel products accounted for around 90% of total merchandise exports (Chart I.1). Imports of goods and services grew strongly and varied around 25-28% of GDP. This produced a large and sustained current account surplus of between 24% and 45% of GDP during the period under review (Table I.1).

13. Kuwait's economy is highly dependent on international trade: the ratio of merchandise and services trade (exports and imports) to GDP averaged 86.6% during 2007-09. In 2010, Kuwait ranked 29th among world merchandise exporters and 45th among importers (considering the countries of the EU together and excluding intra-EU trade). In services trade, Kuwait ranked 38th among exporters and 32nd among importers.[10]

14. In 2009, oil exports shrank sharply, by 40%, and even though imports of goods and services fell also, by almost 25%, Kuwait's current account surplus declined from 40.5% to 23.6% of GDP. The return to growth in 2010, and to higher oil prices and output, saw the current account surplus increase again, to 27.8% of GDP. The IMF projects that this share will continue to rise in 2011, to 33.5% of GDP (Table I.1), and to 30.4% for 2012.[11]

15. Since 2006, over 75% of Kuwait's exports (mainly oil and other fuels) have been destined for Asian markets, led by Korea (Rep. of), Japan, India, and China (Chart I.2). Non-oil exports, representing around 5% of the total in normal years, are composed primarily of petrochemicals and some re-exports of automotive products to other GCC countries.

16. Manufactured goods make up the bulk (around 80%) of Kuwait's merchandise imports, with the composition of imports reflecting Kuwait's high per capita income and comprising in particular automotive products, machinery, office machines and telecommunication equipment, and inputs for Kuwait's booming construction industry. Kuwait imports practically all of its food and other agricultural needs, which account for around 16.5% of the value of merchandise imports.

17. In 2010, Kuwait sourced 63.8% of its merchandise imports from Asia and Europe (Chart I.2), although their respective shares have changed in the past five years; imports from Asia have become increasingly important and those from Europe have declined in terms of percentage share. Imports from other GCC countries also represent a sizeable share.

18. Balance of payments data indicate that Kuwait is, increasingly, a net importer of services, with a deficit that rose from about US$2.2 billion in 2006 to an estimated US$7.2 billion in 2011 (Table I.2). Transportation services went from a surplus of 0.2 billion to a deficit of US$2 billion during the same period, while the deficit of travel services averaged US$6.7 billion.

[10] WTO Statistics database, "Trade Profiles: Kuwait". Viewed at: http://stat.wto.org /CountryProfiles/KW_e.htm.

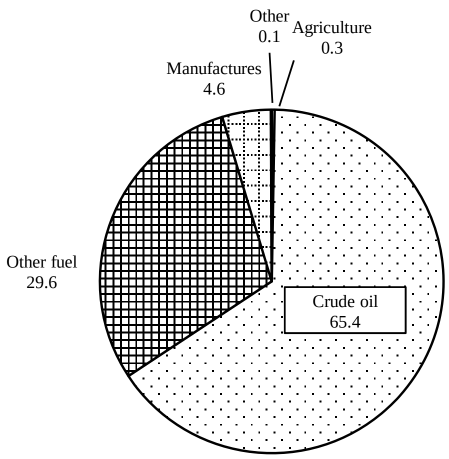
[11] IMF (2011c).

Chart I.1
Composition of merchandise trade, 2006 and 2009

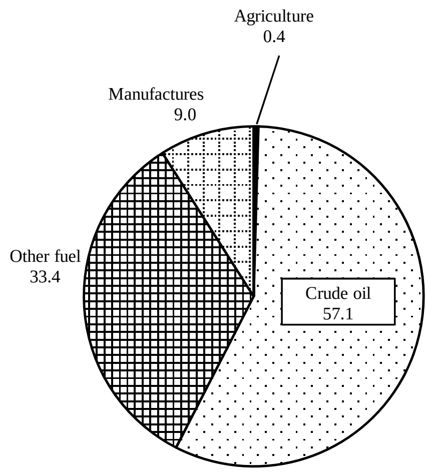
Per cent

2006 | **2009**

(a) Exports, including re-exports (f.o.b.)

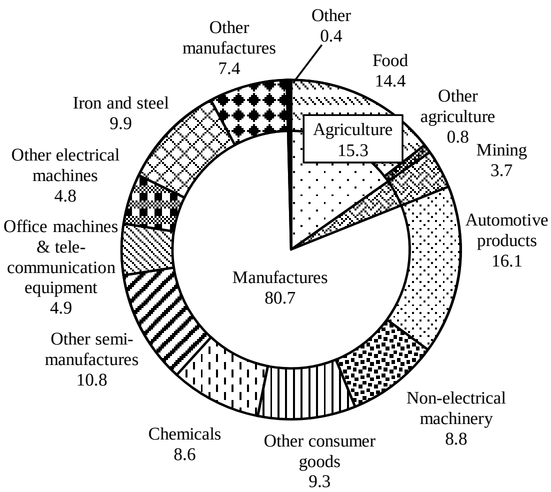


Total: US$56.0 billion

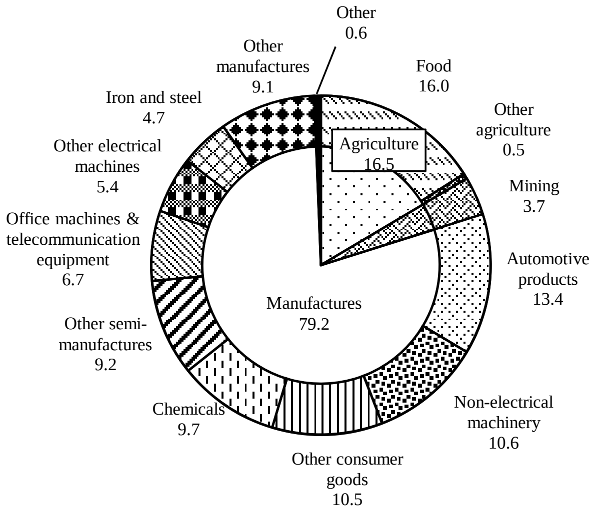


Total: US$51.9 billion

(b) Imports (c.i.f.)



Total: US$17.2 billion



Total: US$20.3 billion

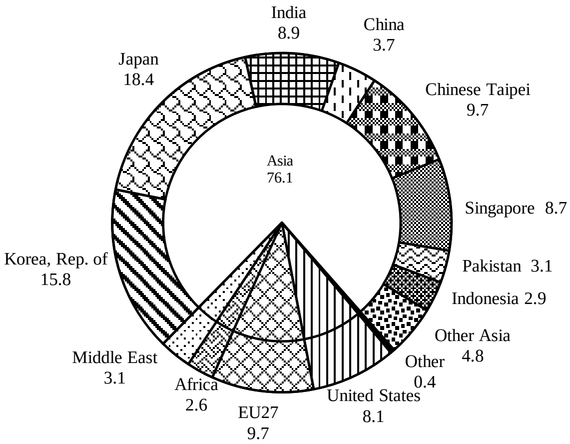
Source: UNSD, Comtrade database (SITC Rev.3); and information provided by the Kuwaiti authorities.

Chart I.2
Direction of merchandise trade, 2006 and 2010

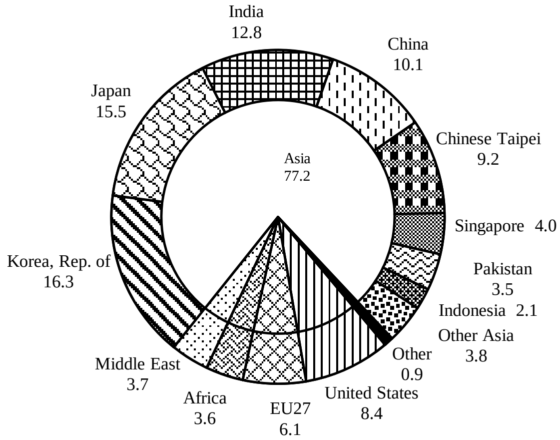
Per cent

2006	2010

(a) Exports (f.o.b.)

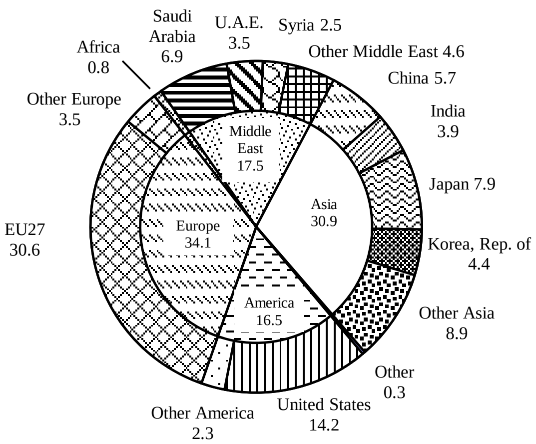


Total: US$46.9 billion

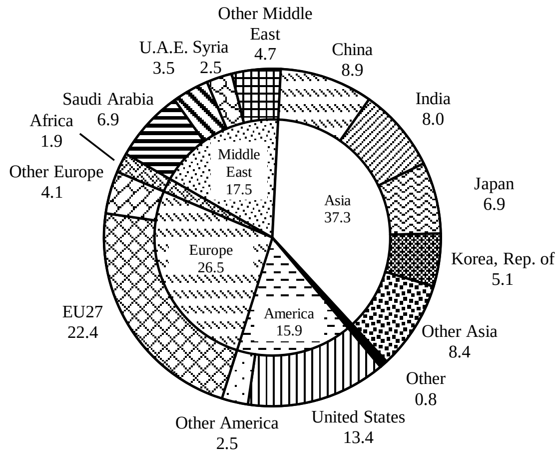


Total: US$60.5 billion

(b) Imports (c.i.f.)



Total: US$16.6 billion



Total: US$22.8 billion

Source: IMF, "Direction of Trade". IMF online database, August 2011.

Table I.2
Balance of payments, 2006-11
(US$ billion)

	2006	2007	2008	2009	2010[a]	2011[b]
Current account	45.3	42.2	60.2	25.9	36.9	57.6
Goods (trade balance)	40.2	43.4	64.0	34.4	47.9	69.4
Exports	56.5	62.6	87.0	51.7	67.0	92.5
Oil exports	53.2	59.1	82.6	46.6	61.7	85.9
Non-oil exports including re-exports[c]	3.3	3.5	4.4	5.1	5.3	6.6
Of which: re-exports	0.9	1.2	1.7	1.6	1.8	2.7
Imports	-16.2	-19.1	-22.9	-17.3	-19.1	-23.1
Services	-2.2	-3.2	-3.8	-2.5	-5.9	-7.2
Transportation	0.2	-0.1	-0.6	-1.4	-1.7	-2.0
Insurance	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3
Travel	-5.4	-6.4	-7.3	-6.1	-6.5	-7.9
Other services	3.0	3.4	4.3	5.1	2.6	3.0
Investment income	11.0	12.4	10.7	7.0	7.9	9.2
Receipts	12.5	16.3	14.0	8.6	9.6	10.4
General government[d]	7.1	8.5	8.8	6.3	7.4	7.8
Other sectors[e]	5.4	7.8	5.1	2.3	2.2	2.5
Payments	-1.5	-3.9	-3.2	-1.6	-1.8	-1.2
General government	0.0	0.0	0.0	0.0	0.0	0.0
Other	-1.5	-3.9	-3.2	-1.6	-1.8	-1.2
Current transfers[f]	-3.7	-10.5	-10.7	-13.0	-13.0	-13.8
Capital and financial account	-48.8	-33.4	-49.6	-25.3	-32.6	-53.3
Capital account[g]	0.7	1.5	1.7	1.1	2.2	2.3
Financial account	-49.6	-34.9	-51.3	-26.4	-34.7	-55.5
Direct investment	-8.1	-9.7	-9.1	-7.5	-2.0	-8.0
Abroad[h]	-8.2	-9.8	-9.1	-8.6	-2.1	-8.0
In Kuwait	0.1	0.1	0.0	1.1	0.1	0.1
Portfolio investment	-29.1	-34.9	-28.1	-8.2	-7.7	-29.9
Other investment (net)	-12.4	9.7	-14.1	-10.7	-25.0	-17.7
Net errors and omissions[i]	7.1	-5.5	-10.0	1.2	-3.3	0.0
Overall balance	3.6	3.3	0.7	1.7	1.0	4.4

a Preliminary.
b Projection.
c Also includes unrecorded oil exports.
d Kuwait Investment Authority, Kuwait Petroleum Corportation, Kuwait Fund for Arab Economid Development, Public Institute for Social Security.
e CBK, local banks, investment companies, exchange companies, insurance companies, and the non-financial private sector.
f From 2007, based on a new, more comprehensive methodology to estimate outward workers' remittances.
g Includes UN war compensation.
h For 2010, includes a projection of the net inflow from the sale for US$10.6 billion of a foreign asset owned by a Kuwaiti company.
i Includes other unclassified private sector flows.

Source: IMF (2011b), *Kuwait: Statistical Appendix,* Country Report No. 11/219, July. Viewed at: http://www.imf.org/external/pubs/ft/scr/2011/cr11219.pdf.

(ii) Foreign direct investment

19. During the last few years, Kuwait has invested increasingly in the rest of the world, with annual FDI outflows averaging over US$7.5 billion in 2006-10 (Table I.3). Some of Kuwait's leading companies investing abroad are: Kuwait Foreign Petroleum Exploration Company (KUFPEC), Kuwait Petroleum International (KPI), Petrochemical Industries Company (PIC), Zain (telecommunications)[12], Agility Public Warehousing Company (logistics), and National Industries Group Holdings SAK (industry holding company).[13]

[12] Zain is 24.6% owned by Kuwait Investment Authority.
[13] UNCTAD (2011); and information provided by the authorities.

Table I.3
Foreign direct investment, 2006-10
(US$ million and %)

	2006	2007	2008	2009	2010
FDI inflows	121	112	-6	1,114	81
FDI inward stock	778	940	943	6,301	6,514
FDI inward stock (% of GDP)	0.8	0.8	0.6	5.8	5.0
FDI outflows	8,211	9,784	9,091	8,636	2,069
FDI outward stock	4,616	16,884	15,385	19,340	18,676
FDI outward stock (% of GDP)	10.7	12.8	10.4	17.7	14.2

Source: UNCTAD (2011), *World Investment Report*, Geneva.

20. Kuwait's annual FDI inflows rose from an average of US$31 million during 1995-04 to US$284 million over 2006-10, but are still well below other countries in the region and worldwide. Moreover, the stock of inward FDI, as percentage of GDP, is only 5% (albeit up from 0.8% in 2008). On the basis of UNCTAD's Inward FDI Performance Index, Kuwait ranked 135th out of 141 economies in 2010[14], while its position in UNCTAD's Inward FDI Potential Index was 37th in 2009.[15]

21. FDI in Kuwait has been inhibited by several factors that have limited the role of the private sector (local and foreign) in the economy. Under the Foreign Investment Law, foreign investors have been allowed to own up to 100% of business since 2001. Nonetheless, seeking approval is reportedly a lengthy procedure; the law does not apply to certain economic activities (Chapter II(3)(i)); and foreign portfolio investment through the Kuwait stock exchange may not exceed 49% in any listed bank (Chapter II(3)(i)).

22. It is recognized that attention also needs to be given to improving the business environment in Kuwait if the Government is to succeed in increasing the role of the private sector in the economy.[16] Kuwait ranks 67th (out of 183 economies) in the World Bank's Ease of Doing Business 2012 Index, but its ranking is lower for "trading across borders" and lower still for "starting a business".[17]

23. A positive sign of the Government's determination to increase FDI inflows and the role of the private sector in the economy has been the recent decision to allow foreign participation in the energy sector for the first time, specifically in the development of natural gas production. This is aimed at facilitating the acquisition of the technology and know-how necessary to exploit Kuwait's energy resources more effectively. Moreover, a new privatization law passed in mid-May 2010, sets out a process of transferring ownership to the private sector (build-operate-transfer (BOT) schemes) by identifying suitable partners from home and abroad and issuing shares through initial public offerings, while maintaining a public share ownership (in principle 24%) through the Kuwait Investment

[14] UNCTAD's Inward FDI Performance Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP.

[15] UNCTAD's Inward FDI Potential Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their potential. It is calculated on the basis of structural variables, such as country risk, and trade-related measures.

[16] Kuwait National Competitiveness Committee (2010).

[17] The index is based on ten topics (Kuwait's ranking in parenthesis): starting a business (142); dealing with construction permits (121); getting electricity (57); registering property (88); getting credit (98); protecting investors (29); paying taxes (15); trading across borders (112); enforcing contracts (117); and resolving insolvency (48). World Bank Group online information. Viewed at: http://www.doingbusiness.org/data/exploreeconomies/kuwait/.

Authority (KIA) (Chapter III(3)(ii)). However, a number of amendments to the law might reduce its impact: the healthcare, education, and energy sectors have been excluded and the Government is to retain an important share in all newly privatized companies; and the sale of major stakes in public holdings is expected to take place slowly. New laws are in place also to reform capital markets, and there are plans for new laws to deregulate the insurance industry and to revise the legal environment for commercial enterprises, where current laws are in many cases decades old and not suited to current business conditions.

24. The influential Kuwait Chamber of Commerce and Industry (KCCI) considers that the Government is taking important steps to improve the country's business environment. The KCCI has welcomed the new laws on privatization and BOT, but considers that for them to succeed more attention is needed in improving infrastructure and logistics, making the leasing of land more predictable over the long-term, and facilitating the establishment of new businesses.

(4) OUTLOOK

25. Under its 2010-14 Development Plan, Kuwait aims to foster the participation of the non-oil sector in the economy and achieve minimum annual real GDP growth of 5%. The Plan involves increased participation of the private sector, mainly through BOT schemes, and projected public expenditure of KD 31-37 billion (US$108-130 billion). It includes the new business hub (Silk City) with an estimated cost of KD 22 billion; KD 20 billion is earmarked for expansion of the oil sector, to increase crude oil production to 3.5 million barrels per day (mmbd) by 2015 and to 4 mmbd by 2020; and KD 10 billion on infrastructural projects, including increased capacity at ports and airports, a railway and metro system, and a fourth oil refinery to satisfy domestic demand for fuels (Chapter IV(2)(i)).

26. Given that the oil sector is not labour-intensive and increasing public-sector employment is not sustainable in the long-run, another key objective under the Development Plan is to encourage the participation of Kuwaitis in the private sector through the "Kuwaitization" programme (minimum sectoral quotas for the participation of Kuwaitis). This objective is supported by Law 19 of 2000, which sets out generous government-provided benefits to Kuwaitis in the private sector. Nonetheless, public-sector wages and benefits remain very attractive.

27. Kuwait's long-term strategy also aims to ensure intergenerational economic equity in the exploitation of its non-renewable natural wealth, by saving part of the oil and gas revenues into funds, notably the General Reserve Fund (GRF)[18] and the Future Generation Fund (FGF)[19] managed by KIA. Accumulated transfers to the FGF totalled KD 9.3 billion during 2003/04-2009/10.[20]

[18] The GRF, established in 1953, is the main treasurer for the Government; it receives all revenues (including all oil revenues) from which all State budgetary expenditures are paid. The GRF also holds all government assets, including Kuwait’s participation in public enterprises and international organizations (KIA online information. Viewed at: http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx).

[19] The FGF was created in 1976 with a by transfer of 50% of the GRF at that time; 10% of all state revenues are transferred to the FGF annually and all investment income is reinvested (KIA online information. Viewed at: http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx).

[20] Global Investment House (2011).