KPMG

cutting through complexity

Kuwait

High Growth Markets country profile

This sandy and barren country has a geographically small, wealthy and open economy with crude oil reserves of about 102 billion barrels — more than 6 percent of the global total. Petroleum accounts for nearly half of gross domestic product (GDP), 95 percent of export revenues and 95 percent of government income. Real GDP growth is expected to slow to 2.9 percent in 2014 as oil production and export growth remain subdued. Gradually rising oil production and public and private consumption should support an average annual growth rate of 3.9 percent from 2014–2018.

Country overview

Geography and climate

- **Location:** Middle East, bordering the Persian Gulf, between Iraq and Saudi Arabia
- **Climate:** dry desert; intensely hot summers; short, cool winters
- **Regions:** 6 governorates
- **Major cities:** Kuwait City (2.23 million) (2009)

Political system

- **Type of government:** constitutional emirate
- **Capital:** Kuwait City

Population, language and religion

- **Population:** 3.9 million
- **Urban population:** 98.3%
- **Immigration:** men and women migrate from India, Egypt, Bangladesh, Syria, Pakistan, the Philippines, Sri Lanka, Indonesia, Nepal, Iran, Jordan, Ethiopia and Iraq to work in Kuwait
- **Demographics:** 0–14 years: 25.4%; 15–64 years: 69.8%; 65 years and over: 2.1%
- **Official language:** Arabic
- **Prominant religions:** Muslim and Christian

Currency and central banking

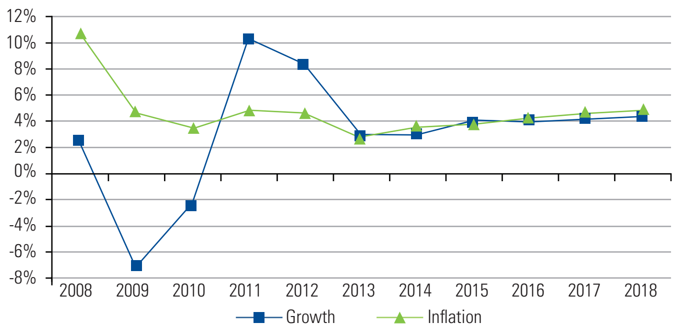
- **Local currency:** Kuwaiti Dinar (KWD)
- **Exchange rate:** 1 KWD = US$3.5447 (1 April 2014)
- **Interest rate (average annual rate):** 0.7% (2013); 0.8% (2012); 0.9% (2011); 0.9% (2010); 1.6% (2009)
- **Foreign exchange reserves:** US$34.35 billion
- **Total debt (2013):** external: US$34.41 billion; internal public debt: 6.4% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$437.9 billion.** Real GDP growth is forecast to slow to 2.9% in 2014 as oil production and export growth remain subdued. Gradually rising oil production and public and private consumption should drive average annual growth of 3.9% between 2014–2018.
- **Foreign direct investment (FDI) (billions):** inbound: US$0.006 (2008); US$0.5 (2013); US$1.4 (2018 forecast); outbound: US$9.1 (2008); US$8.2 (2013); US$9.7 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$121.0 (2012); US$112.4 (2013); US$111.8 (2018 forecast)
- **Imports FOB (billions):** US$22.8 (2012); US$24.4 (2013); US$33.8 (2018 forecast)
- **Sector breakdown:** service: 49.3%; industrial: 50.4%; agriculture: 0.3%
- **Trade balance (billions):** surplus of US$98.2 (2012); US$88 (2013); US$78.1 (2018 forecast)
- **Stock exchanges:** Kuwait Stock Exchange

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** In the medium term, the authorities are expected to continue to buy off dissent with subsidies and salary increases. However, Kuwait will need to rein in public spending, especially on wages, and find new sources of income to maintain a strong fiscal position. High levels of state largesse will not be sustainable in the longer term. The authorities are making incremental reforms designed to increase competition and economic growth, with the Central Bank of Kuwait approving new rules to allow foreign banks to open multiple branches in the country.
- **Competition policy:** Kuwait has not developed effective antitrust laws to foster competition, and its bureaucracy often resembles that of a developing country. Nevertheless, its open economy has generally promoted a competitive market. When government intervention occurs, however, it is usually to the benefit of Kuwaiti citizens and Kuwaiti-owned firms. During 2014–2015, updated legislative and regulatory frameworks are likely to progress public-private partnerships in industrial mega-projects, although political tensions could complicate and lengthen the process. Privatization of the healthcare system should accelerate in 2016–2018, as the Kuwait Health Assurance Company starts to deliver on more than 800 planned projects. However, other privatizations may be less successful.
- **FDI policy:** Liberalization efforts have progressed slowly since the 2010 introduction of policies to boost private sector involvement in the economy. Many of the political elite continue to reject foreign investment that could boost production capacity in the upstream oil sector. Iran and Iraq are seen as potential security threats that could deter external investment. However, new measures to promote FDI should increase flows into Kuwait. A reduction in political tensions is likely to help the government implement major development projects. During 2014–2015, the 'one-stop shop' established under the Foreign Direct Investment Law is designed to streamline bureaucratic procedures. However, a lack of cross-ministerial cooperation may limit attempts to reduce the cost of doing business in Kuwait. In the period 2016–2018, the new Commercial Companies Law is set to widen the number of sectors open to foreign investment, encouraging higher FDI inflows as infrastructure and development projects move forward.
- **Foreign trade and exchange controls:** Kuwait's export earnings are almost entirely reliant upon oil revenue, resulting in wide variations due to fluctuations in the price of the country's export crude on world markets. Trade with Asia-Pacific partners is forecast to surge in 2014–2015, on the back of soaring exports of crude oil and deepening ties with financial and construction companies around the world. Moves to strengthen Gulf Co-operation Council (GCC) unity should boost the single market in the region. During 2016–2018, free-trade agreement (FTA) negotiations between the GCC and the European Union (EU) are likely to continue to stall, but FTAs with leading Asian trading partners should move ahead.
- **Financing policy:** Continued evolution and expansion of the banking sector is anticipated during 2014–2015, with new regional and international entrants. Meanwhile, new rules on bank governance and regulatory oversight between 2016–2018 should widen the range of financial products on offer.
- **Taxes:** There is no individual income tax, and tax on nationals is limited to zakat (charitable) deductions. Long-standing proposals to introduce a 15 percent flat rate income tax on Kuwaiti nationals are highly unlikely to receive parliamentary approval. Kuwait has no general consumption tax and few indirect taxes. In 2008, taxes on foreign businesses, which formerly ranged up to 55 percent in the energy sector, were cut to a flat rate of 15 percent, and capital gains tax on stock market holdings was abolished. During 2014–2015, no income or sales taxes are predicted for Kuwaiti nationals, although the stalled GCC-wide value-added tax (VAT) plans could move forward. High oil revenues and large budget surpluses in the years 2016–2018 should complicate efforts to reorganize the tax structure, with such a move facing concerted political and public opposition.

KPMG in Kuwait

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In Kuwait, KPMG has approximately 100 professionals and its office located in the capital city of Kuwait City.

KPMG in Kuwait aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Kuwait website: kpmg.com/kw/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014; US Embassy, 2014

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