PUBLIC

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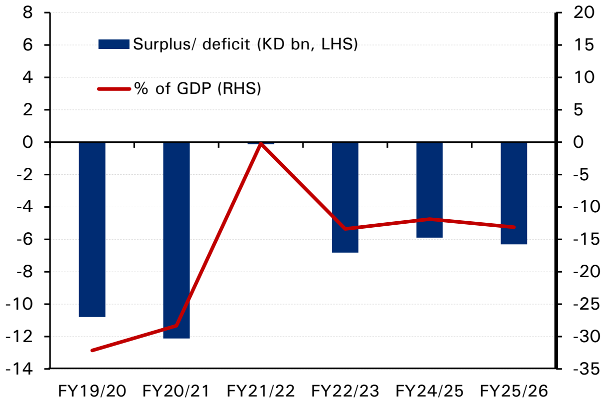
Kuwait: FY25/26 budget projects wider deficit despite spending restraint

The government recently approved the draft FY25/26 budget, which projects a wider deficit of KD6.3 billion (13% of GDP), from KD 5.6 billion in the FY24/25 budget. (Chart 1). Some spending restraint is evident in the fact that current expenditures are little changed over the previous budget, although budgeted spending remains elevated and not far from historical highs, suggesting that structural reforms will be needed to put the public finances on a more sustainable path. Oil revenues are expected to decline on a lower oil price assumption, outweighing a solid increase in projected non-oil revenues. 2025 should be a pivotal year for the public finances, as the government prepares numerous fiscal measures to help boost liquidity, enhance non-oil revenues and rationalize spending going forward. We view this budget as a start ahead of potentially more meaningful fiscal adjustments later on.

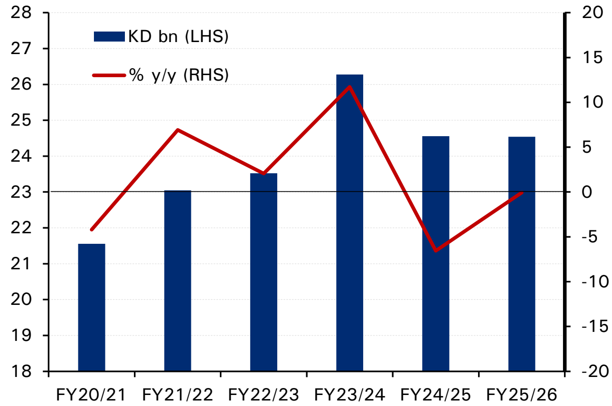
Expenditures in FY2025/26 are budgeted at KD24.5 billion, down by a negligible 0.1% b/b, representing a modest degree of spending restraint as the government signals its intention to adhere to the previously announced spending ceiling. (Chart 2.) The budget expects a 1.6% increase in employee compensation, offset by lower allocations for subsidies (-2.2%), other expenses (-3.7%) and capital expenditure (-1.7%). The budgeted decline in the latter extends a four-year sequence of lower spending and is despite the need to progress towards Vision 2035 infrastructure development goals. Amid these lower spending commitments, structural issues are yet to be fully addressed, such as disproportionately large spending on wages and subsidies – almost 80% of all expenditures – while the share of capex continues to trend lower (9.1%). (Chart 3.) Liquidity constraints may partly explain why capex outlays have been limited in recent years. (Chart 4.)

Chart 1: Fiscal balance



Source: Ministry of Finance (MoF)

Chart 2: Budgeted expenditures



Source: Ministry of Finance (MoF)

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On the revenue side, the budget projects lower oil income of KD15.3 billion (-5.7% y/y) on a lower assumed oil price of $68/bbl compared to $70 in the previous budget and slightly lower oil production of 2.50 mb/d from 2.55 mb/d. (Table 1.) This is expected to outweigh a projected increase in non-oil revenues of 9% y/y to KD2.9 billion, a record high that reflects new revenue measures. In January, a new corporate income tax on large multinationals (15% minimum top-up tax), in line with the OECD initiative, was introduced, which should eventually raise tax income to KD250 million (from KD160 million in FY24/25 budget), according to ministry estimates. Also included is a new traffic law, with much higher penalties for infringements, which is due to come into effect in April. Finally, a new law allowing ministries to review and set their relevant fees (subject to cabinet approval) will likely lead to a broad repricing of government service fees. Within the scope of the law are administrative, judicial, health, and public property lease rates.

New debt law on the table

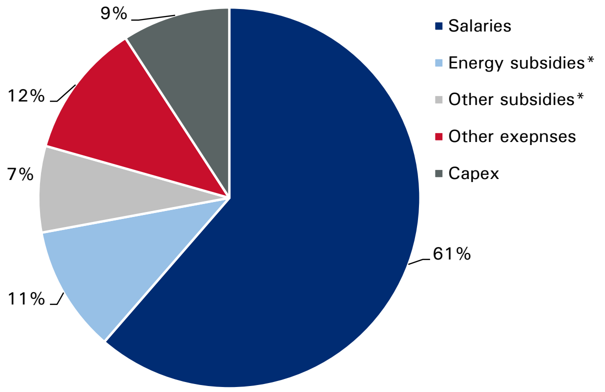
A new public debt law is reportedly imminent. Once approved, it should allow the government to return to the bond market for the first time since the expiration of the debt law in 2017. According to media reports, the new debt law could sanction borrowing of up to KD20-30 billion over 50 years, which is feasible given Kuwait's low public debt (around KD1.4 billion in public outstanding debt) and lower debt service costs compared to regional peers. The law could be followed by legislation to regulate withdrawals from the Future Generations Fund, Kuwait's sovereign wealth fund, whose assets under management were reported to have surpassed $1 trillion recently according to the Sovereign Wealth Fund Institute. The measures would serve to boost liquidity and provide more fiscal space for deficit financing and higher capital spending in subsequent budgets, especially given pressures on liquidity in the state treasury in recent years as the sole source of deficit financing.

Budget could be a starting point towards larger reforms

With only a marginal increase in employee compensation and no change in overall current spending, there is little new impetus for strong growth in private consumption. Furthermore, the slight decline in the capex allocation signals less support for higher investment outlays, although we believe that actual capex could still rise given previous underspending relative to the budget allocation. Overall, we would not see this budget as having an expansionary impact unless there is a marked increase in budgeted capex utilization. Spending restraint, coupled with the tapping of new, albeit modest revenue streams could be an indication that this is the start of more meaningful fiscal adjustments ahead.

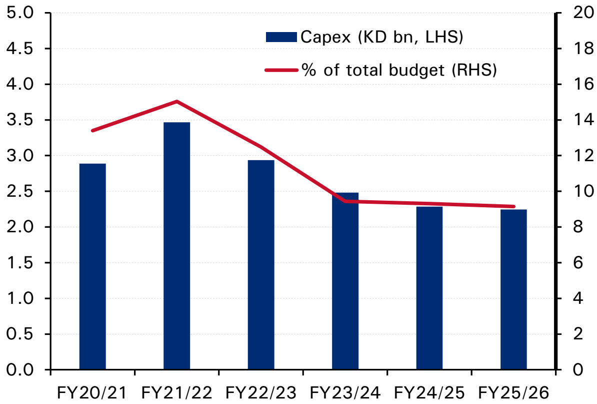
Chart 3: FY25/26 budget spending breakdown

(% of total)



Source: MoF, NBK estimates

Chart 4: Budgeted capital expenditure



Source: Ministry of Finance (MoF)

The government seems to have stepped up the legislative pace this year, which is promising for a raft of fiscal and economic reforms awaiting final cabinet approval. This includes the potential restructuring and merging of government units, the privatization law, the public private partnership law, and the housing financing law. The service repricing law could have significant fiscal implications, given the potential to phase out energy and water subsidies, one of the largest expenditure items, as has been put into effect successfully in Kuwait's GCC peers Saudi Arabia and UAE.

Table 1: Budget figures
(KD billion unless otherwise stated)

	Budget			% y/y	
	FY23/24	FY24/25	FY25/26	FY24/25	FY25/26
Revenues	19.5	18.9	18.2	-2.8	-3.6
Oil Revenues	17.2	16.2	15.3	-5.4	-5.7
Non-oil Revenues	2.3	2.7	2.9	16.8	9.0
Total Expenditures	26.3	24.6	24.5	-6.6	-0.1
Current Expenditures	23.8	22.3	22.3	-6.4	0.1
Salaries	14.9	14.8	15.1	-0.8	1.6
Subsidies	5.9	4.5	4.4	-23.8	-2.2
Other expenditures	2.9	2.9	2.8	0.6	-3.7
Capital Expenditures	2.5	2.3	2.2	-7.9	-1.7
Budget Balance (Surplus/ Deficit)	-6.8	-5.6	-6.3	-	-
KEC oil price ($/bbl)	70.0	70.0	68.0	0.0	-2.9
Oil production (bbl/d)	2.68	2.55	2.50	-4.85	-1.96

Source: MOF

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