Social spending, expenditure efficiency and fiscal sustainability

Strategies to rebalance the Kuwait budget

Executive Summary

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The economy in Kuwait, predominantly reliant on natural resources, faces persistent challenges in achieving fiscal sustainability and economic diversification. Despite a post-pandemic economic recovery, the slow pace of diversification, the declining share of non-oil revenues in non-oil gross domestic product (GDP), and the heavy dependence on oil revenues expose the economy to global shocks and oil price volatility. To ensure fiscal sustainability, enhance citizens' quality of life and achieve inclusive, sustainable development, Kuwait must optimize public spending, increase efficiency and align social expenditure with national development priorities and the Sustainable Development Goals (SDGs). The report, "Social spending, expenditure efficiency and fiscal sustainability: Strategies to rebalance the Kuwait budget", explores these issues using the Social Expenditure Monitor (SEM) framework and offers actionable recommendations.

Vulnerable macroeconomic and fiscal trends

GDP growth in Kuwait is heavily reliant on oil revenues, which accounted for 91 per cent of government revenue in 2023. However, fluctuations in oil prices have significantly impacted fiscal balances, leading to deficits in most years since 2015. The contribution of non-oil revenue remains minimal, at just 8 per cent of non-oil GDP in 2023, despite a 47 per cent increase in non-oil GDP over the past decade. This reliance on oil revenues has left the economy vulnerable to external shocks, hence emphasizing the urgent need for structural reforms to diversify revenue sources and stabilize fiscal balances.

Historical trends show that fiscal stability has been highly sensitive to oil price volatility. For example, during periods of high oil prices, such as in 2011, fiscal balances recorded a surplus of 31 per cent of GDP. Conversely, during downturns, such as in 2020 in light of the pandemic and oil price drops, deficits widened to 31.6 per cent of GDP. These fluctuations underscore the cyclical nature of the fiscal performance of Kuwait, which is entwined with global energy markets. A sustainable fiscal framework is critical to mitigate these risks and achieve long-term economic stability.

Unsustainable public expenditure trends

Historically, Kuwait has spent a larger share of its GDP compared to global average. For example, public expenditure in Kuwait, at 50 per cent of GDP in 2023, exceeds the global average of 37 per cent and high-income country (HIC) average of 41 per cent. Most of the said spending – 93 per cent in 2023/2024 – is allocated to current expenditures, including employee compensation and the purchase of goods and services, leaving limited resources for capital investments. In 2016/2017, the share of total current expenditure was 87.5 per cent. This unsustainable rise in current expenditures restricts the Government's ability to fund development projects that create assets and jobs, as well as enhance citizens' quality of life.

Efficiency of public spending

Compared to many other countries, Kuwait is characterized by a generous yet less efficient public spending. Globally, efficient public spending is associated with better outcomes on the SDG Index, which measures progress towards achieving the SDG indicators across all 17 goals. Regarding its public expenditure performance on the SDG Index, Kuwait attained an efficiency score of 0.54 on a scale of 0 to 1, which is nearly halfway behind the "frontier" of efficiency in public spending, and significantly lower than the global average of 0.74 and the HIC average of 0.85. This low efficiency of public expenditure indicates substantial wastage of public resources. Improving efficiency to the global average could save some 6.8 billion Kuwaiti dinars (KD), equivalent to 27 per cent of the 2023/2024 public expenditure budget. These savings can be redirected to critical sectors, such as education, healthcare and infrastructure, to drive sustainable development.

Effectiveness of public spending

Public expenditure in Kuwait is among the least impactful in the Gulf Cooperation Council (GCC) countries in terms of achieving sustainable development outcomes. Most GCC countries attain higher Human Development Index (HDI) scores with lower spending than Kuwait. For instance, while Kuwait spends more than most GCC countries as a percentage of GDP, its HDI scores lag behind peers, such as Qatar and the United Arab Emirates. Globally, about 22 per cent of countries (41 out of the 184 countries in the sample) achieve better HDI outcomes with lower expenditure than Kuwait. This disparity highlights inefficiencies in spending allocation and utilization, thus highlighting the need for comprehensive reforms to optimize resource use and improve developmental outcomes.

Kuwait attained a score of 0.432 on the ESCWA Development Challenges Index (DCI), measured by challenges in quality-adjusted human development achievements, environmental sustainability, and governance. This high score, which exceeds the global average of 0.425 and the HIC average of 0.277, indicates that Kuwait faces greater development challenges. To catch up with HICs, Kuwait needs to monitor and thoroughly assess the quality of public social spending and overall public expenditure aimed at achieving inclusive and sustainable development.

Key challenges in social spending

When taking into account all the seven dimensions of the SEM, public social expenditure in Kuwait totalled KD 9.84 billion in 2022/2023. This is equivalent to 44 per cent of the total public budget in 2022/2023, matching the share of budget in 2018/2019. However, real per capita social spending has declined by about 12 per cent compared to 2018/2019.

Education performance remains suboptimal

Despite allocating 12 per cent of its budget to education, surpassing the global average, educational outcomes in Kuwait remain suboptimal. For example, recent Trends in International Mathematics and Science Study (TIMSS) results reveal that Kuwaiti students scored 383, significantly below the global average of 449, indicating the need for significant improvement in education quality. Education spending is primarily directed toward operational costs, such as salaries and facilities, with minimal investment in research, curriculum innovation and digital tools, as revealed by the SEM. Addressing these gaps is crucial for building a skilled workforce capable of supporting economic diversification efforts.

Health expenditures fail to address emerging health challenges

Stable at 11-12 per cent of the budget, health sector expenditure is comparable to international benchmarks and primarily supports inpatient services. However, Kuwait faces high rates of non-communicable diseases, such as diabetes, which affects a quarter of the population. Unhealthy diets, sedentary lifestyles and exposure to pollution contribute to unhealthy lives. Preventive health measures and better allocation of expenditures are critical to addressing these emerging challenges. The focus on curative care rather than preventive measures contributes to inefficiencies and higher long-term costs.

Social protection and subsidies remain inefficient

Social protection programmes, excluding pensions and retirement benefits that are part of employees' compensation, account for 2 per cent of the budget. Subsidy programmes, particularly in energy, consume a significant share of the budget. These universal subsidies disproportionately benefit higher-income groups, making such measures regressive. Improved targeting could enhance equity and reduce fiscal pressure. Despite recent reforms to rationalize fuel subsidies, inefficiencies persist. The high cost of subsidies highlights the need for rationalization and targeted interventions to balance fiscal responsibility with social equity.

Kuwait provides generous universal public transfers to citizens, such as allowances for marriage, housing and overseas medical treatment. However, household surveys reveal significant inefficiencies in these universal public transfers due to targeting mechanisms that cause public fund wastage. For instance, currently, about 22 per cent of government transfers go to the top 20 per cent of households, ranked by their income, with an average household income of over KD 6,000. Rationalizing these transfers and prioritizing middle-and lower-income households could save significant resources, while enhancing equity and fiscal efficiency.

Critical shortfalls in resource allocation to other social services

The SEM shows that among the seven social sectors, education accounts for the largest share of the budget, followed closely by social protection, subsidies and health expenditures. Combined, they have accounted for 36.4 per cent of the budget, representing approximately 83 per cent of social expenditures. In contrast, other essential social policy sectors, such as housing and community amenities, labour market support and employment generation, arts, culture and sports, and environment protection, face major shortfalls, collectively accounting for 7.6 per cent of the budget.

Policy recommendations

The report calls for immediate and decisive action in public finance management, as the window for implementing necessary reforms is rapidly narrowing. Swift action is required to address current challenges and secure long-term fiscal stability. The following 10-point recommendations are proposed to safeguard fiscal health in Kuwait and preserve social benefits for future generations.

1. **Promote economic diversification and expand non-oil revenues.**
2. **Encourage "smart" spending to enhance expenditure efficiency and reduce public fund wastage.**
3. **Reform subsidies and universal transfer programmes.**
4. **Foster resilient and inclusive economic growth.**
5. **Implement education sector reforms to improve the quality of education and reinforce human capital.**
6. **Improve the healthcare system to promote healthier lifestyles.**
7. **Implement performance-based budgeting on a gradual basis to improve the effectiveness of public expenditure.**
8. **Enhance fiscal discipline and transparency.**
9. **Leverage data-driven frameworks to enhance public financial management.**
10. **Align spending with the SDGs.**

By adopting the recommendations outlined, Kuwait can transition to a more inclusive, equitable and resilient economy that aligns with Kuwaiti national development priorities and the SDGs. Strategic actions taken today will secure long-term prosperity and safeguard social welfare for future generations. Moreover, expanding the use of the SEM framework and integrating advanced digital tools will be pivotal in achieving these objectives. By aligning fiscal policies with the SDGs and prioritizing efficiency, Kuwait can ensure that public spending delivers meaningful outcomes for all citizens.

The report provides a critical analysis of public spending and mobilization of non-oil revenues in Kuwait, highlighting inefficiencies that risk fiscal sustainability. A heavy reliance on natural resources, combined with slow economic diversification and declining non-oil revenues, poses challenges to advancing the Kuwaiti economy and building fiscal space.

The report introduces the Social Expenditure Monitor framework, a tool designed to assess and optimize the efficiency, equity and effectiveness of social spending. It identifies major inefficiencies in resource allocations, including in universal public transfers, and outlines actionable strategies to better allocate resources. It also calls upon the Government to act swiftly to implement reforms to optimize mobilization of non-oil revenues and improve efficiency in use of public resources, so as to secure the country's financial future and maintain its social welfare commitments.

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