Absolute poverty and involuntary unemployment are virtually nonexistent. Nearly 80% of employed Kuwaiti citizens work in the public sector. In contrast, expatriates, who make up two-thirds of the population, constitute the bulk of lower-income residents and are largely employed in the private sector. The public sector in Kuwait is one of the largest in the world, with a spending to GDP ratio of 53%. Comprehensive reforms are needed to rebalance the economy away from the energy sector to a more diversified growth path underpinned by innovation, private sector entrepreneurship and job creation and the quality of its labor force. The Kuwait government is addressing these challenges through implementation of the Kuwait National Development Plan 2035. The main goals of the plan are to develop a prosperous and diversified economy to reduce the country's dependence on oil-export revenues; increase the number of small businesses by 3,500; realize the goal of producing 15% of electricity by renewable energy resources by 2030; and increase private investment by 11%.

Kuwait is a constitutional emirate with a parliamentary system of government. Its constitution combines aspects of both presidential and parliamentary systems of government. The Emir is a hereditary position, and it is the Emir who appoints the prime minister and deputy prime ministers. Kuwait's National Assembly has 66 seats and is comprised of 50 representatives who are elected by popular vote and 16 cabinet ministers who are appointed by the Prime Minister and approved by the Emir. Elected members serve four years. Kuwait has a civil law system, and the judiciary is independent.

## **Energy Subsidies**

<sup>17</sup> Oxford Institute for Energy Studies (2017b).

Despite reform efforts over the past several years, energy subsidies remain high in Kuwait. Before the collapse of oil prices in 2014, Kuwait's energy subsidies on fuel and electricity were estimated at around 11% of GDP. The subsidies continued to remain high even after oil price declines and subsidy reforms undertaken by the authorities during 2015–16, reaching close to 8% of GDP in 2016.<sup>17</sup> On average, subsidies in Kuwait are larger than in other oil exporters, due to remaining gaps between market and domestic prices. Until mid-2016, Kuwaiti electricity prices were less than one-twentieth of generation costs and had not changed since 1960. Water prices, for which the desalination techniques use local oil and gas resources, are heavily subsided. Before August 2016, Kuwait's prices were some of the lowest in the world. Artificially low domestic prices contributed to excessive consumption of natural resources.

Most of the energy subsidies in Kuwait are in the form of transfers to utility companies to compensate for the difference between production cost and the low domestic selling price. Kuwaiti authorities announced cuts to fuel subsidies in August 2016, provoking resistance among the public. Nevertheless, the government began raising utility prices in September 2016. Electricity and water tariffs, outlined in Law no. 20 and approved by Parliament, were raised for most customers.

## *Table 1.6* | Electricity tariffs in Kuwait under Law no. 20, in force since 2016

Sector	Tariff (USD/kWh)
Residential villa	0.007 (no change)
Residential apartments	0.007 (no change)
Government and commercial	0.083
Industrial and agriculture	0.033
Others	0.067

Source: Ministry of Electricity and Water.

Energy subsidies discourage investment by producers and distributors, affecting the ability to produce energy more efficiently. They also encourage investment in energyintensive activities that create relatively few jobs. The authorities have initiated several efforts to reduce subsidies, but more is needed. In 2015–16, the authorities substantially increased diesel and gasoline prices. Legislation was passed in 2016 that envisaged significant adjustment of electricity and water prices in 2017, although the actual price increases were lower than planned and residential properties (used mainly by Kuwaiti citizens) were exempted. Despite these efforts in the right direction, the energy price gaps remain high and electricity and water prices are much lower than the cost-recovery levels.<sup>19</sup> In order to minimize the rebound effect (*i.e.*, when consumption patterns revert to pre-subsidy levels due to the perception of lower energy requirements for efficient technologies), energy policies need to be formulated in a way that promotes energy-efficient technologies and rebate/incentive programs, when subsidy reforms are considered.<sup>20</sup>

## Environment

Energy-related carbon dioxide equivalent ( $CO_2$ -eq) emissions in 2015 in Kuwait were 83 million tonnes. Because of Kuwait's heavy reliance on fossil fuels, and inefficient use of energy due to pricing distortions,  $CO_2$ -eq emissions per capita were 21.1 tonnes of  $CO_2$ -eq per capita, among the highest level in the world. Emissions per capita declined over the past decade, due primarily to rapid population growth (see Figure 2.9 in Chapter 2).  $CO_2$ -eq emissions per GDP were 0.3 kilograms of  $CO_2$ -eq per GDP (PPP) in 2015, compared with 0.25 kilograms of  $CO_2$ -eq per GDP for OECD countries.<sup>21</sup>

The electricity tariffs for residential villas and apartments did not change under Law no. 20 (Table 1.6). The current rates are substantially below the US\$0.07 per kWh average tariff rates for GCC countries.<sup>18</sup> Price subsidies diminish fiscal resources available to potentially more productive expenditures including productive infrastructure spending or social spending. In fact, the level of Kuwait's energy subsidies was comparable to that of capital spending in 2016.

<sup>&</sup>lt;sup>18</sup> Electricity price in August 2017 or latest available. GCC average excludes Kuwait (IMF, 2017).

<sup>&</sup>lt;sup>19</sup> IMF (2017).

<sup>&</sup>lt;sup>20</sup> Gillingham et al. (2016).

<sup>&</sup>lt;sup>21</sup> CO<sub>2</sub> intensity figure for OECD from IEA data.