Summary of the Economic Report

This Report deals, through six parts, with this year's most significant economic, financial, monetary developments and events and their impact on the Kuwaiti economy. The most salient of these developments and events contained in the CBK Economic Report of 2008 are summarized as follows:

First: Performance of the Domestic Economy:

The first part of the Economic Report reviews the performance of the Kuwaiti economy during 2008 as reflected by available data on national accounts, domestic prices, and population and labor force. The most salient aspects presented in this part can be summarized as follows:

1- The **gross domestic product (GDP) at current prices** increased at an accelerated rate of 22.1% during 2008, against 10.6% during the past year. It reached KD 39787.4 million during that year, against KD 32586.3 million during 2007, i.e. a growth of KD 7201.1 million, compared with a growth of KD 3116.7 million during 2007.

2- The growth in **crude oil and natural gas production** sector contributed the largest portion (86.9%) of the GDP growth during 2008, and the value added at current prices by this sector rose by KD 6260.5 million or 36.1% to KD 23608.1 million during 2008, against KD 17347.6 million during 2007. Also, the value added at current prices by the refined petroleum products industry rose by KD 438.6 million or 48.4% to KD 1345.2 million during 2008, against KD 906.6 million during 2007. Thus, the value added at current prices by the oil sectors (crude oil, natural gas production sector, and refined petroleum products industry) increased to KD 24953.3 million during 2008, against KD 18254.2 million during 2007, i.e. a growth of KD 6699.1 million or 36.7%, against KD 946.5 million or 5.5% during the previous year. Consequently, the relative weight of oil sectors in GDP at current prices increased to 62.7% during 2008, compared with 56% during the previous year.

3- The realized growth of the value added by the crude oil and natural gas production sector during 2008 reflects developments in the world oil markets, and the accompanying rise in oil price levels in these markets on the one hand, and the increase in crude oil production in the State of Kuwait by 4% on the other. The price of the exported Kuwaiti crude oil barrel rose from $65.51 during 2007 to $90.10 during 2008, i.e. an increase by US$24.59 or 37.5%. Also the weighted average export price of the equivalent barrel of Kuwaiti liquefied gas products rose by US$14.39 or 27.6%, i.e. from US$52.13 per barrel to US$66.52 during the two mentioned years respectively. Moreover, the amount of liquefied gas production increased from 106.15 thousand barrels equivalent per day during 2007 to 114.78 thousand barrels equivalent per day during 2008. The growth realized in the value added at current prices of the refined petroleum products industry basically reflects the rise in the weighted average export price of the equivalent barrel of Kuwaiti refined petroleum products by 32% to US$103.25 during 2008, against US$78.20 during the previous year.

4- The value added at current prices of the **non-oil sectors** (excluding the refined petroleum products industry) rose to KD 14621.2 million during 2008, against KD 14116.4 million during 2007, i.e. a growth of KD 504.8 million or 3.6%, after realizing a growth of KD 2141.3 million or 17.9% during the previous year. Consequently, the relative importance of the value added of these sectors in GDP at current prices decreased from 43.3% during 2007 to 36.7% during 2008, taking into consideration the mentioned high growth in the value added of the oil sectors.

5- In terms of expenditure types of GDP at current prices, a major portion (80.2%) of the growth in GDP at current prices during 2008, compared with the previous year, resulted from the increase in expenditure of the outside world (exports of goods and services) by KD 5773 million or 27.9% to KD 26434 million during 2008, from KD 20661 million during 2007. The net expenditure of residents (consumer and investment expenditure, minus imports of goods and services) rose by KD 1428.1 million or 12% to KD 13353.4 million in 2008, against KD 11925.3 million in 2007.

Provisional data indicate that residents' total expenditure, which represent their total consumption and investment expenditure plus imports of goods and services, reached KD 23555.4 million during 2008, recording a decreased growth of KD 2404.1 million or 11.4%, after recording a growth of KD 3875.7 million or 22.4% during 2007. The largest portion (74%) of this increase is attributable to the expansion in the final consumer expenditure, both government and private, by KD 1778 million or 12.5% to KD 16023.1 million during 2008, compared with KD 14245.1 million during the previous year. The growth in final private consumption expenditure by KD 1336.9 million or 13.8% contributed the major portion (75.2%) of the increase in the final consumption expenditure during 2008, while government consumption expenditure growth by KD 441.1 million or 9.7% contributed the remaining portion (24.8%).

6- As for the major aggregates of national accounts at current prices, the net factor income from abroad decreased (basically representing net income of Kuwaiti assets invested abroad) by KD 801.9 million or 22.8% to KD 2720.4 million during 2008, against KD 3522.3 million during 2007. This decline reflects the negative impact of the decrease in rates of return on financial instruments and invested assets in world markets, especially with the deepening of the global economic and financial crisis since October 2008. Accordingly, GNP at current prices (which reflects the sum of GDP and net factor income from abroad), increased by KD 6399.2 million or 17.7% to KD 42507.8 million during 2008, against KD 36108.6 million during the previous year. In the same direction, gross national income (GNI, which represents GNP minus consumption of fixed capital) increased by KD 6125.5 million or 17.9% to KD 40281.8 million during 2008, against KD 34156.3 million during 2007. As a result of this growth in GNP on the one hand, and the decline in net current transfers abroad by 6% on the other, disposable national income rose during 2008 by KD 6224.3 million or 19.1% to KD 38732 million, from KD 32507.7 million during 2007. This development caused the average per-capita disposable national income at current prices to rise by KD 1485.8 or 15.2% to reach KD 11253.4 in 2008, against KD 9767.6 in 2007.

7- The general level of domestic prices grew at an accelerating rate during 2008, compared with the previous year. Within this context, the inflation rate measured as the relative change in the general consumer price index (CPI, 2000=100) rose from 5.5% during 2007 to 10.6% during 2008, which is the highest yearly level since 2000. The major portion (73.3%) of this increase was concentrated in the three main expenditure groups representing 59.8% of all main expenditure groups which constitute the general consumer price index. Housing comes on top of these three main groups with a rise of 12.8% representing the main source of the increase in CPI, and contributing 31.6% to the rise in CPI during 2008, compared with the previous year. Food rose by 22%, ranking second in terms of its contribution (11.6%) to the rise in CPI during 2008, compared with the previous year. The increase in household goods and services (15.9%) represents the third main source of the mentioned rise in CPI during 2008, compared with the previous year.

8- With respect to population and labor force developments in the State of Kuwait, the total population increased by 1.2% during 2008, compared to 6.8% during the previous year. The largest portion (78.1%) of that increase is attributable to the rise in Kuwaiti population by 3.1%, while the growth of non-Kuwaiti population during 2008 slowed down to 0.4%, compared with 8.6% during 2007. This was accompanied by a reduction in total labor force in the State of Kuwait by 0.2% during 2008, as the non-Kuwaiti labor force decreased by 0.9% while the Kuwaiti labor force increased by 3.7%.

Second: Monetary Developments and CBK Activity:

The second part of the Economic Report follows up the developments during 2008 in the main monetary indicators and aggregates such as money supply, bank credit, interest rates, KD exchange rate, notable developments in the area of banking supervision and oversight, issues of public debt instruments, interbank deposits market, local banks' accounts with CBK, activity of the clearing room in CBK, and issuance of CBK's bonds, as follows:

1- Domestic Liquidity levels during 2008 grew at a slower rate, whereby Money Supply in its broad definition (M2) increased by KD 2990.3 million or 15.8% to KD 21950.2 million at end of that year, against KD 3039.3 million or 19.1% to

KD 18959.9 million at end of 2007. This growth reflects the increase in both Quasi-Money by KD 2766.7 million or 18.7% (from KD 14813.2 million at end of 2007 to KD 17579.9 million at end of 2008), and Money (the narrow definition of Money Supply, M1) by KD 223.6 million or 5.4% (from KD 4146.7 million at end of 2007 to KD 4370.3 million at end of 2008). Within **the aggregate monetary position of CBK and local banks** during 2008, the mentioned growth of KD 2990.3 million in Money Supply (M2) came as a result of the rise in the net foreign assets of these institutions by KD 1870.5 million or 32.6%, and their net domestic assets by KD 1119.7 million or 8.5%.

2- Growth rate of bank credit decelerated as the balances of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors increased by KD 3528.9 million or 17.5% at end of 2008 to KD 23667.6 million, against KD 20138.8 million at end of 2007, which recorded a rise of 34.9%, compared with the previous year. This rise was reflected, in varying amounts, in most domestic economic sectors (excluding the Agriculture and Fishing sector which recorded a decline of KD 2.2 million or 14.8%, and the Public Services sector which decreased by KD 1.5 million or 56%). This rise was concentrated in the Personal Facilities sector (33.2% of the total) which increased by KD 773.3 million or 10.9%, the Real-Estate sector (25.2% of the total) by KD 963.6 million or 19.3%, the Non-Bank Financial Institutions sector (11.7% of the total) by KD 353.4 million or 14.7%, the Trade sector (9.7% of the total) by KD 3858 million or 20.3%, the Construction Sector (7.1% of the total) by KD 307.6 million or 22.5%, the Industry Sector (6.2% of the total) by KD 394.2 million or 36.8%, and "Other" sectors (1.6% of the total) by KD 303.3 million or 24.8%. Data indicate that the rise recorded by credit facilities extended to the Real-Estate sector, the Personal Facilities sector, the Industry Sector, the Trade sector, and the Construction Sector account for 81.4% of the total increase realized in the balances of the utilized cash portion of credit facilities extended by local banks to domestic economic sectors during 2008.

3- Within the continuous revision of developments and trends of interest rate and domestic liquidity levels, and taking the appropriate decisions and procedures in line with the latest developments of economic, monetary, and banking conditions, the CBK issued four resolutions regarding the discount rate during

2008 (the pivotal rate to which are linked, within specified margins, the maximum limits of interest rates on KD-lending transactions at the banking and financial system units) that led to its reduction by 2.50% (from 6.25% to 3.75%). Within this context, the averages of interest rates on customers' KD deposits with local banks during 2008 recorded a decline ranging from 1.501 percentage points for 12-month term deposits, and 1.607 percentage points for 3-month term deposits. However, the margins between the averages of local banks' interest rates on customers' deposits in KD and US dollar continued to be in favor of the KD during 2008.

4- Despite the noticeable fluctuations in the exchange rates of major currencies in the world markets during 2008, the KD exchange rate pattern against other most important major currencies was characterized by relative stability, whereby the US exchange rate movements against KD came within narrow margins. The difference between highest and lowest exchange rate of the US dollar against the KD during 2008 reached 11.10 fils or 4.2%, when the highest exchange rate of the US dollar against the KD exchange rate reached 275.90 fils at end of December, and the lowest (264.80 fils) was reached at end of May. In contrast, data indicate noticeable fluctuations in the exchange rate of the US dollar against other major currencies, whereby the difference between the highest and lowest exchange rate of the US dollar against these currencies reached 36.5% against the Pound Sterling (between 0.6806 and 0.4985 Pound Sterling), 24.9% against the Euro (between 0.7894 and 0.6321 Euro), 21.4% against the Swiss franc (between 1.2016 and 0.9899 Swiss franc), and 20.3% against the Japanese yen (between 108.995 and 90.590 Japanese yen).

5- CBK continued the issuance of public debt instruments during 2008 on behalf of the Ministry of Finance, as it offered 20 issues of Treasury Bonds with a total nominal value of KD 1695 million, of which 18 issues were of one-year maturity with a total nominal value of KD 1641 million, and two issues were of two-year maturity with a total nominal value of KD 54 million. During 2008, 20 previous issues of Treasury Bonds with a total nominal value of KD 1861 million matured, of which 18 issues of one-year maturity with a total nominal value of KD 1641 million, and two issues of two-year maturity with a total nominal value of KD

220 million. Consequently, the outstanding balance of Treasury Bonds declined at end of 2008, thus reducing the outstanding balance of public debt instruments by KD 166 million or 7.2% (from KD 2296 million to KD 2130 million), compared with its level at end of 2007.

Within the context of CBK operations to regulate levels of domestic liquidity through the issuance of its negotiable 'CBK Bonds' to local banks and investment companies subject to its supervision, CBK offered 19 issues during 2008 with a total nominal value of KD 1246.1 million. At the same time, 17 previously issued bonds matured with a total nominal value of KD 1462.2 million. Accordingly, the outstanding balance of CBK Bonds decreased by KD 216.1 million or 36.6% (from KD 590.6 million in 2007 to KD 374.5 million in 2008).

6- During 2008, CBK pursued endeavors aimed at strengthening its role in supervision and oversight of the banking and financial sector units, as it issued some new instructions and introduced certain modifications to previously-issued instructions regarding the activities of local banking and financial sector units subject to its supervision. The most significant of which were those issued to branches of foreign banks operating in the State of Kuwait regarding the application of a system to assess their performance in accordance with ROCA evaluating method, the adjustments to the application of the Improved Standard for Basel II Capital Adequacy, the set of applicable guidelines to CBK's perusal of local banks' applications for exemption from the established maximum limits of financial investment, the preparation of aggregate financial data of local banks and investment companies by following unified policies and methods of treatment by all units of the group, the prevention of providing incentives in cash or in kind to customers when receiving credit facilities or cards of all types, the commitment to the transactions' policy between financial and banking institutions which prohibit investment companies from obtaining financial resources from parties other than banks and investment companies, the consideration of real-estate as one of the acceptable collateral (eligible) to reduce credit risks that are taken into account in applying the Improved Standard for Basel II Capital Adequacy, raising the maximum limit of the ratio of the daily average balance of the credit facility portfolio from 80% to 85% to the daily average balance of deposits during the relevant month for that ratio, raising the growth rates of credit portfolio of banks in 2008, so as to increase banks' ability in granting more credit facilities, the approval to investment companies for borrowing in accordance with the lending/financing modalities accepted by public institutions and government entities which provide funding, and directing banks toward strengthening collaterals provided by customers against credit facilities/finance operations.

Third: Financial Indicators of the Banking and Financial Sector:

The third part of the Economic Report displays the recent available financial indicators of 2008 for different types of banking and financial units subject to CBK's supervision including local banks (commercial, specialized, and Islamic), investment companies (conventional and Islamic), investment funds (conventional and Islamic), and exchange companies, with the purpose of determining trends of these indicators and their reflections and effects on the financial positions of these units. The main developments mentioned in this part of the Report can be highlighted as follows:

1- For the fourth consecutive year, the **institutional structure of the banking system** in the State of Kuwait continued to expand during 2008, as CBK Board of Directors primarily approved the licensing for establishment of branches of three Gulf banks in the State of Kuwait which are: Al-Rajhi Bank (23rd of March), BankMuscat (4th of May), and Doha Bank (25th of May). Of these three banks, Doha Bank finalized the necessary registration requirements and was listed in the local bank register of CBK on the 12th of June, 2008 and started activity and operations in the State of Kuwait as of that date. Within the Islamic banking activity, a commercial bank (Bank of Kuwait and Middle East) announced its desire to convert into a bank operating in accordance with the provisions of Islamic Sharia, within a timetable approved by the CBK for its transformation into Islamic banking system. The local branches network of conventional and Islamic banks expanded during 2008 with the opening of 20 additional branches bringing the total number of local branches (excluding Head Offices) of these banks to 295 at end of 2008, compared to 275 at end of the previous year.

2- The number of investment companies registered with the CBK and subject to its supervision noticeably rose with the addition of 20 new companies to reach 99 (of which 53 operating in accordance with the provisions of Islamic Sharia) at end of 2008, against 79 at end of 2007 (of which 39 operating in accordance with the provisions of Islamic Sharia). The number of exchange companies subject to CBK supervision decreased from 40 at end of 2007 to 39 at end of 2008. The number of locally established investment funds witnessed an increase by the addition of 10 new investment funds, bringing their number to 111 at end of 2008 (of which 54 operating in accordance with the provisions of Islamic Sharia) against 101 at end of the previous year (of which 47 operating in accordance with the provisions of Islamic Sharia).

3- Local banks' activity recorded a decelerating growth during 2008 reflecting the negative developments of the global economic and financial crisis, and notable losses suffered by one of the largest local banks (Gulf Bank) as a result of its trading in financial derivatives and foreign currencies on behalf of customers. In this regard, the Economic Report indicates a decelerated growth of the total **aggregate balance sheet of local banks** by an annual growth rate of 10.4% and growth value of KD 3687.8 million in 2008, against 31.7% and KD 8565 million in 2007. Several factors contributed to the realization of that growth, most significantly the growth in the balances of some liabilities items, notably balances of private sector KD-deposits with local banks, and government deposits. Parallel to the growth in the liabilities side, balances of local banks' assets increased, especially claims on the private sector, and foreign assets.

4- The financing extended by local banks to various domestic economic sectors continued to grow (by KD 3630.5 million or 16.6%), either by extending cash credit facilities to residents (KD 3528.9 million or 17.5%) or performing other domestic investments (KD 101.6 million or 6%). Claims on private sector are on top of uses of funds in local banking operations with residents. These claims exceeded for the first time KD 25 billion, although showing a decelerated growth (16.6%), compared with the previous year (35.1%).

5- During 2008, shareholders' equity in the aggregate balance sheet of local banks recorded a rise of KD 104.1 million or 2.3% to reach KD 4599.9 million. This indicates the capabilities available to the local banking sector to meet the challenges of the recent situation in both banking and economic areas.

6- During 2008, banking operations with non-residents witnessed notable developments leading to financial outflows, particularly through increasing foreign assets items (by a total of KD 1216.1 million or 66.9%), especially deposits with foreign banks, foreign investments, and foreign currency credit facilities to non-residents. Also, these financial outflows reflected reduction in certain foreign liabilities items (by a total of KD 601.7 million or 33.1%), particularly through the decline in non-resident non-bank deposit balances. Despite the decline in total foreign liabilities (by KD 524 million or 8.4%), the foreign assets items of local banks, especially deposits with foreign banks, rose noticeably although at a decelerated rate (by a total of KD 1163.4 million or 15.2%) for the fifth consecutive year.

7- Local banks together recorded relatively low levels of profits during 2008 as some banks (4 banks) recorded net financial losses during the mentioned year. When analyzing financial positions of local banks and developments of their performance through certain sets of **indicators and financial ratios**, it is concluded that the capital adequacy ratio for each of these banks remains discernibly higher than the minimum required limit according to international recommendations. The average Capital Adequacy Standard for all conventional local banks subject to CBK supervision reached 15.5% at end of 2008 (22.7% for banks operating according to the provisions of Islamic Sharia), compared with 18.5% (23.5% for banks operating according to the provisions of Islamic Sharia) at end of 2007.

8- The total assets of local investment companies (99 companies) reached KD 16668.1 million at end of 2008, against KD 16056.6 million (for 79 companies) at end of 2007. These companies manage off-balance-sheet funds, mostly as third party investments, within their contra accounts which reached KD 19.2 billion at end of 2008. Thus, local investment companies managed funds in the form of assets and contra accounts totaling KD 35.9 billion.

9- Conventional investment companies (38 companies whose comparable financial data were available out of 46 companies) recorded a decline in their total aggregate balance sheet of KD 578.1 million or 6.1% to reach KD 8822.5 million at end of 2008, against KD 9400.6 million at end of the previous year. On the asset side, this decline reflects a number of developments, the most prominent of which include the notable decrease in the balances of foreign assets by KD 432.4 million or 9.4% (from KD 4586.1 million at end of 2007 to KD 4153.7 million at end of 2008), domestic investments by KD 300.6 million or 10.7% (from KD 2821.8 million at end of 2007 to KD 2521.2 million at end of 2008). On the liabilities side, the decline is attributable to the significant decrease in the balances of both capital and reserves by KD 846.3 million or 8% (from KD 3473.9 million at end of 2007 to KD 2627.7 million at end of 2008), and foreign liabilities by KD 318.6 million or 12.8%.

10- The aggregate balance sheet of investment companies operating in accordance with the provisions of Islamic Sharia (33 companies out of 53) achieved a marked growth of KD 470.6 million or 7.2% at end of 2008 compared with the previous year, whereby the aggregate balance sheet reached KD 6977.3 million at end of 2008, compared with KD 6506.7 million at end of the previous year. The main developments in the assets side of that balance sheet encompassed the considerable increase in the foreign assets item (both financial and non-financial) by KD 1085.1 million or 72.3% (from KD 1500.4 million at end of 2007 to KD 2585.5 million at end of 2008), and local non-financial investments by KD 155.6 million or 67.6%. On the liabilities side, the increase reflected the marked rise in foreign liabilities item (by KD 979.7 million or 149.9% to reach KD 1633 million at end of 2008, compared with KD 653.3 million at end of 2007), and the substantial increase in shareholders' equity by KD 111.5 million (5.5%) to reach KD 2154.7 million at end of 2008, compared with KD 2043.2 million at end of 2007.

11- The total balance of contra accounts of 99 local investment companies at end of 2008 (46 conventional, and 53 Islamic) reached KD 19237.2 million (of which KD 15982.8 million or 83.1% for the conventional investment companies, and KD 3254.4 million or 16.9% for companies operating in accordance with the provisions of Islamic Sharia), against KD 22811 million (of which KD 18688.9 million or 81.9% for the conventional investment companies, and KD 4122.1 million or 18.1% for companies operating in accordance with the provisions of Islamic Sharia) for 79 registered companies (40 conventional, and 39 Islamic) at end of 2007.

12- The number of foreign investment funds marketed locally reached 119 at end of 2008, against 102 at end of the previous year. Resident investor subscriptions to these investment funds reached KD 2771.4 million at end of 2008, from KD 2362.7 million at end of the previous year (i.e. an increase of KD 408.7 million or 17.3%).

13- The aggregate balance sheet of local exchange companies (for 38 companies out of 39 companies registered with CBK and subject to its supervision) reached KD 104.8 million at end of 2008, recording an increase by KD 5.5 million or 5.6% over its level of KD 99.3 million at end of previous year. The solvency level of these companies, measured by the ratio of shareholders' equity to total assets, increased from 57.8% at end of 2007 to 59.7% at end of 2008. Although the net profit of these companies reached KD 7.3 million during 2008, the profitability ratio witnessed a decline as a result of the significant increase in total assets and shareholders' equity.

Fourth: Public Finance:

The fourth part of the Economic Report focuses on the significant developments in public finance of the country during 2008, through three main sections. The first addresses the most significant developments of the Closing Account for the fiscal year 2007/08. The second reviews the estimates and allocations for expenditures in the general budget for the fiscal year 2008/09, and the third addresses the portion executed of that budget during the first nine months (April-December 2008) of the fiscal year 2008/09, as reported in the monthly follow-up statements. The following are highlights on this section of the Report:

1- The **closing accounts of ministries and governmental bodies data of the fiscal** year 2007/08 indicate that actual budgetary revenues collected during that fiscal year were higher by KD 3512.9 million or 22.7% reaching KD 19020.3 million, compared with KD 15507.4 million during the fiscal year 2006/07. This rise resulted from the increase in the actual collected budgetary oil revenues by KD 3208 million or 22.1% to reach KD 17719.5 million, compared with KD 14511.5 million during the previous fiscal year, and the actual collected budgetary non-oil revenues by KD 304.9 million or 30.6% to reach KD 1300.8 million, compared with KD 995.9 million for the previous fiscal year.

2- Within the closing account of the fiscal year 2007/08, the **actual budgetary expenditures** decreased by KD 608.4 million or 5.9% to KD 9698 million during the mentioned fiscal year, against KD 10306.4 million in the previous fiscal year. That decline basically encompassed actual budgetary expenditures under the fifth chapter (miscellaneous expenditure and transfer payments) by KD 1484.5 million or 26.3%, while the actual budgetary expenditures under the second chapter (requirements of goods and services) increased by 28.8%, the fourth chapter (construction projects, maintenance, and land purchases) by 21.9%, the third chapter (transport, equipments, and preparations) by 16.5%, and the first chapter (salaries and wages) by 11.3%, compared with the previous fiscal year.

3- As an outcome of the above-mentioned developments in actual revenues and expenditures in the closing account for the fiscal year 2007/08, the general budget realized an actual surplus of KD 9324.6 million, against an actual surplus of KD 5202.9 million for the fiscal year 2006/07, i.e. an increase of KD 4121.7 million or 79.2%, before deducting the allocations for the Reserve Fund for Future Generations.

4- The Report points out the main features of Law No. 13 of year 2008 issued on 22/4/2008 which enacted the **general budget of ministries and governmental**

bodies for the fiscal year 2008/09. This general budget contained a rise in the budgetary revenue estimates by KD 4358.4 million or 52.4%, to KD 12678.7 million, compared with these estimates for the previous fiscal year. This is essentially attributable to the increase in oil revenue estimates by KD 4202.7 million or 56.4% to reach KD 11652.6 million, compared with the approved estimates for the previous fiscal year, and the rise in the budgetary non-oil revenue estimates by KD 155.7 million or 17.9% to reach KD 1026.1 million, compared with the approved estimates for the previous fiscal year.

On another front, the allocations for budgetary expenditures for the fiscal year 2008/09 increased by KD 7437.3 million or 65.8% above allocations for budgetary expenditure for the previous fiscal year, to reach KD 18737.3 million, compared with KD 11300 million for the previous fiscal year. This increase encompassed three of the expenditure chapters of the allocations for budgetary expenditures for the fiscal year 2008/09, compared with the previous fiscal year, which include the allocations of the first chapter (salaries and wages) by KD 324.1 million or 13.3% to reach KD 2950.1 million, allocations of the second chapter (requirements of goods and services) by KD 1243.5 million or 67.8% to reach KD 3077 million, and allocations of the fifth chapter (miscellaneous expenditures and transfer payments) by KD 6300.2 million or 138% to reach KD 10866.7 million compared with the fiscal year 2007/08.

As a result of the previous developments regarding both revenue estimates and allocations for budgetary expenditures for the fiscal year 2008/09, the general budget for the mentioned fiscal year included an estimated deficit, before deducting the allocations for the Reserve Fund for Future Generations, of KD 6318.5 million, against an estimated deficit of KD 2979.8 million for the previous fiscal year.

5- Regarding **actual budgetary revenues and expenditure in the general budget for the fiscal year 2008/09** during the first nine months (April-December 2008) of that fiscal year, based on available data in the monthly follow-up statements, the Report indicates that the actual budgetary revenues collected during that period of the fiscal year 2008/09 rose to KD 18554.4 million, compared with KD 13472.4 million collected during the corresponding period of the previous fiscal year, i.e. an increase by KD 5082 million or 37.7%. This is attributed to the increase in actual budgetary oil revenues collected during the period (April-December 2008) by KD 4955.1 million or 39.3% to KD 17574.9 million, against KD 12619.8 million during the corresponding period of the previous fiscal year. Meanwhile, the increase in the actual budgetary non-oil revenues collected during the first nine months (April-December 2008) of the fiscal year 2008/09 amounted to KD 126.8 million or 14.9% to reach KD 979.4 million, against KD 852.6 million during the corresponding period of the previous fiscal year.

On the other side, the actual budgetary expenditure during the first nine months (April-December 2008) of the fiscal year 2008/09 recorded a rise of KD 3634.2 million or 71.3% to KD 8729.7 million (46% of the total allocations of budgetary expenditure for the entire fiscal year, amounting to KD 18970.4 million), against KD 5095.5 million for the corresponding period of the previous fiscal year (45.1% of the total allocations of budgetary expenditure of the general budget for the entire fiscal year, amounting to KD 11300 million).

As a result of developments in actual budgetary revenues and expenditure during the first nine months (April-December 2008) of the fiscal year 2008/09, the general budget realized an actual surplus, before deducting the allocations for Reserve Fund for Future Generations, of KD 9824.6 million, compared with an actual surplus of KD 8376.9 million during the corresponding period of the fiscal year 2007/08, i.e. an increase of KD 1447.8 million or 17.3%.

Fifth: Developments in Foreign Trade and Balance of Payments:

The fifth part of the Economic Report focuses on developments in the economic and financial relations of the State of Kuwait with other economies as reflected through available data and estimates on the Foreign Trade and Balance of Payments (BOP) statistics of the State of Kuwait for 2008 compared with the previous year, as follows:

1- The surplus realized in the **Balance on Goods**, expressing the arithmetical difference between the total value of merchandise exports and imports (on f.o.b.

basis), increased during 2008 to KD 17206 million from KD 12338 million during 2007, i.e. a rise of KD 4869 million or 39.5%. The accelerated rise of oil prices in world markets during the first seven months of 2008 was a basic element of realized record surpluses in both the Balance on Goods and the Current Account of the BOP of the State of Kuwait for the 2008.

Specifically, the value of merchandise exports of the State of Kuwait (on f.o.b. basis) continued to rise, for the seventh consecutive year, to reach KD 23373 million during 2008, from KD 17771 million during 2007, i.e. an increase by KD 5602 million or 31.5% against a rise of KD 1390 million or 8.5% during the previous year. By this development, the value of merchandise exports of the State of Kuwait (on f.o.b. basis) achieved a new record level during 2008, for the fourth consecutive year. The major portion (96.8%) of this increase reflects the growth in the value of oil exports by KD 5420 million (32.3%), while non-oil exports growth by KD 182 million (18.4%) contributed the remaining percentage (3.2%).

On the other hand, the value of merchandise imports of the State of Kuwait (on f.o.b. basis) continued to rise to reach KD 6167 million during 2008, from KD 5433 million during 2007, i.e. an increase by KD 733 million or 13.5% against a rise of KD 720 million or 15.3% during the previous year. By this development, the value of merchandise imports of the State of Kuwait during 2008 (on f.o.b. basis) achieved a record level which has never been reached before. With the mentioned record rise in the value of merchandise imports of the State of Kuwait (on f.o.b. basis), the relative share of imports to GDP of non-oil sectors at current prices (excluding refined petroleum products industry) increased to 42.2% during 2008, against 38.5% during the previous year.

2- During 2008, the **Services Account (Net)** item witnessed a rise (payments exceeded returns) in its deficit by KD 70 million (7.8%) to reach KD 972 million, against KD 902 million during 2007. The deficit ratio to the realized surplus in the current account decreased to 5.6% during 2008, against 6.8% during the previous year, taking into consideration the rise in the value of the current account surplus during 2008.

3- The surplus (returns minus payments) realized in the **Income (Net)** item reached KD 2720 million during 2008, against a surplus of KD 3522 million during 2007, i.e. a decline by KD 802 million or 22.8%, after a growth of KD 340 million (10.7%) during the previous year. With the decrease in the surplus of the "Income (Net)" item, its contribution to the current account surplus of the BOP of the State of Kuwait dropped from 26.5% during 2007 to 15.6% during 2008.

4- The deficit recorded in the **Current Transfers (Net)** item by KD 99 million (6%), to reach KD 1550 million during 2008, against a rise of KD 615 million or 59.6% to reach KD 1649 million during 2007. With the decline in net current transfers, its ratio to the current account surplus decreased to 8.9% during 2008, against 12.4% during the previous year. The decline in the net current transfers reflects the decrease in the value of net current transfers abroad from the government by KD 91 million (56%) to KD 72 million during 2008, against KD 163 million during 2007. On the other side, government receipts listed under the credit side of the "Current Transfers" item increased, reflecting the value of realized taxes on profits and returns of foreign companies and institutions operating in the State of Kuwait, by KD 7 million (18%) to KD 43 million during 2008, against KD 36 million during the previous year.

5- Based on the above, the 'Current Account' in the BOP statistics of the State of Kuwait realized a surplus estimated at KD 17404 million during 2008, against a surplus of KD 13309 million during 2007, i.e. a rise of KD 4096 million or 30.8%.

6- Provisional data of the BOP statistics of the State of Kuwait for the year 2008 indicate an accelerated growth of net external assets listed under the **Capital and Financial Account** by KD 4890 million or 46.8% to reach KD 15346 million during the mentioned year, against KD 10457 million during 2007. This growth is ascribed to the developments in various items composing the Capital and Financial Account of the BOP statistics of the State of Kuwait during 2008, compared with the previous year.

On the one hand, the inbound net capital flows listed under **the Capital Account** of the State of Kuwait reached KD 465 million during 2008, against KD 423 million in the same direction during 2007, i.e. an increase of KD 42 million or 9.9%. These flows basically reflect the value of funds received by residents (government, individuals, and companies) from the U.N. Compensation Committee, which was KD 499 million during 2008, against KD 442 million during 2007, i.e. a growth of KD 57 million or 12.9%. In contrast, the value of capital outflow, which reflect economic grants and aid provided by the State of Kuwait to some friendly and sisterly countries (mainly grants and aid provided by the Kuwaiti Fund for Arab Economic Development), reached KD 5 million during 2008, against KD 6 million during the previous year.

On the other hand, data indicate an accelerating growth in net external assets listed under the **Financial Account** of the BOP statistics that reached KD 15811 million during 2008, against KD 10879 million during the previous year, reflecting a growth of KD 4932 million or 45.3%. This increase in net external assets during 2008 came after a slowdown in growth during 2007, which rose by KD 3503 million or 24.4%.

7- The overall balance of the BOP statistics (summarizing developments in different items of the State of Kuwait BOP statistics) realized a surplus of KD 172 million during 2008, after realizing a surplus of KD 917 million during 2007, i.e. a decrease of KD 745 million or 81.8%. The realized surplus reflects the rise in the Total Reserve Assets of the CBK, which rose by the same amount (KD 172 million) at end of 2008, compared with its level in the previous year.

On another front, when the overall balance of the State of Kuwait BOP statistics is considered from a broader perspective to reflect both the change in net value of external investments of some governmental bodies and institutions, especially Kuwait Investment Authority and Kuwait Petroleum Corporation, in addition to the change in total reserve assets of CBK, the overall balance shows a surplus of KD 8396.1 million during 2008, compared with a surplus of KD 11547.9 million during the previous year, i.e. a decrease of KD 3151.8 million or 27.3%.

Sixth- Developments in the Kuwait Stock Exchange:

During 2008, activity in the Kuwait Stock Exchange (KSE) witnessed variable performance regarding ratios of trading and prices, compared with their levels during 2007. While the value of traded shares decreased by 3.4% during 2008 against their levels during the previous year, the volume of traded shares increased by 14.7% during 2008 compared with their levels of the previous year. The KSE General Price Index decreased by 4776.3 points or 38%, against its level at end of previous year, to reach 7782.6 points at end of 2008. Also, the KSE Weighted Price Index declined by 308.3 points or 43.1% to 406.7 points at end of 2008. Market capitalization of listed companies decreased by 42.2% at end of 2008 compared with the previous year.

Available data indicate that main trading indicators of KSE witnessed a noticeable rise during the first half of 2008 and reached record level as a continuation of record trading level witnessed in 2007. The KSE General Price Index closed at 15456.2 points at end of the first half of 2008, i.e. an increase by 2897.3 points or 23.1% against 12558.9 points of last year closing. The KSE Weighted Price Index recorded a rise of 771.34 points at end of the first half of 2008, increasing by 56.34 points or 7.9% against 715 points of last year's closing. Moreover, the trading indices witnessed a marked activity during the first half of 2008, compared with their levels during the corresponding period of the previous year, as the value of traded shares during the first half of 2008 reached KD 22455.2 million (a daily average of KD 184.1 million), against KD 18900.3 million (a daily average of KD 156.2 million) of the corresponding period of last year, i.e. a rise of 17.8% in the daily trading value. The total volume of traded shares during the first half of 2008 reached 49641.2 million (a daily average of 406.9 million), against 30895.8 million (a daily average of 255.3 million), i.e. an increase of 59.4% of the daily average of traded shares. The number of transactions reached 1211.2 thousand (a daily average of 9.9 thousand), against 1004.4 thousand (a daily average of 8.3 thousand) during the corresponding period of the previous year, i.e. a rise of 19.6% in the daily average number of transactions. Within the same context, market capitalization of listed companies increased by 8.9% during the first half of 2008, against KD 62597.2 million for the previous year.

In the second half of 2008, the activity and trading movement was characterized by sharp retreat of all main trading indicators, specifically KSE General Price Index, and KSE Weighted Price Index, as these indicators reached extremely low levels at the end of the year. KSE did not witness such a retreat since four years ago, as the market activity was affected by the turmoil of the global economic and financial crisis during the mentioned period. Also, the performance of the KSE General Price Index, compared with the rest of price indices of capital markets of the countries of the Gulf Cooperation Council (GCC), ranked fifth in terms of the decline rate during 2008.

Several other factors and developments influenced KSE activity during 2008, notably the continued rise of oil prices to reach record level during the first seven months of 2008, followed by a marked drop until the end of the year, the impact of the global economic and financial crisis, local political conditions associated with government resignation and dissolution of the Kuwait National Assembly, the decrease in the net profits of KSE-listed companies, and the decline in the price indices of all capital markets of the GCC Countries.

The value of net profits of KSE-listed companies (101 companies) reached KD 2046.7 million during 2008, against KD 4883.7 million (178 companies) during 2007. Whereby, net losses of KSE-listed companies (93 companies) reached KD 2123.5 million during 2008, against KD 5.3 million (2 companies) during 2007.

Market capitalization of KSE-listed companies reached KD 33106.8 million at end of 2008, compared with KD 57360.2 million at end of 2007, i.e. a decrease of KD 24253.4 million. The main element that contributed to the fall of market capitalization during 2008 is the net change in share price movements, which resulted from the fall of share prices of the companies listed on KSE, which declined by KD 30015.2 million or 42.2%.

The number of issued shares of companies listed on KSE rose by 21632 million or 29.8% to reach 94298 million at end of 2008, against 72666 million at end of 2007. The rise in the number of issued shares during 2008 is attributed to several elements; foremost of which, in terms of relative importance, are the increase in capital shares of companies and the distribution of bonus shares. The increase in capital shares issued by companies listed on KSE reached 8514 million. The increase in capital shares added 39.4% to the increase in the number of issued shares during 2008. Also, the issuance of bonus shares added 7975 million new shares or 36.8% of the increase in the number of issued shares during 2008. The number of shares of new listed companies reached 2893 million, which contributed 13% to the increase in number of issued shares during 2008.

The number of new companies listed on KSE during 2008 was 10, whereby total number of listed companies reached 204 at end of 2008. The new companies' capital totaled KD 454.7 million. The new companies were distributed among the following sectors: the Investment Companies Sector (3 companies, with a total capital of KD 65.6 million), the Real-Estate Companies Sector (1 company, with a total capital of KD 54.6 million), the Industry Companies Sector (1 company, with a total capital of KD 75 million), the Services Companies Sector (4 companies, with a total capital of KD 110.7 million), and the Non-Kuwaiti Companies Sector (1 company, with a total capital of KD 148.8 million). The market capitalization of the new companies was KD 586 million, equivalent to 1% of the added market capitalization during 2008.

Table (78)
Development of Main Economic, Financial and Monetary Indicators and Variables
(KD Million)

Item	2004	2005	2006	2007	2008
National Accounts:					
GDP at Current Prices:	**17516.7**	**23593.2**	**29469.6**	**32586.3**	**39787.4**
Crude Oil & Natural Gas Sector	7822.0	12232.8	16478.3	17347.6	23608.1
Non-oil Sectors	9533.2	11186.8	12804.5	15023.0	15966.4
Of which: Petroleum Products	795.5	970.2	829.4	906.6	1345.2
Import Duties	161.5	173.6	186.8	215.7	212.9
GDP (at Fixed Prices of 2000):	**15449.1**	**17088.1**	**17088.1**	**18765.1**	**…**
Crude Oil & Natural Gas Sector	6370.4	7143.2	7340.6	7146.8	…
Non-oil Sectors	8931.0	9793.4	10480.2	11469.2	…
Of which: Petroleum Products	568.7	583.9	609.0	618.8	…
Import Duties	147.7	151.5	159.9	149.1	…
Domestic Prices:					
CPI (2000=100)	104.5	108.8	112.1	118.3	130.8
Money and Banking:					
Money Supply (M2)	11655.2	13086.2	15920.6	18959.9	21950.2
Money (M1)	3174.2	3727.4	3550.3	4146.7	4370.3
Quasi-money	8481.0	9358.8	12370.3	14813.2	17579.9
Private Sector Deposits with Local Banks	11124.2	12507.5	15264.2	18318.4	21242.4
Of which: KD Deposits	9955.3	10959.5	13019.7	16635.6	19343.2
Local Bank Credit Facilities to Residents	9867.0	11827.3	14933.7	20138.7	23667.6
Of which: Consumer Loans	736.4	789.0	756.0	631.2	617.0
Net Foreign Assets of Local Banks	1369.8	1533.6	2129.6	1409.9	3097.3
Aggregate Balance Sheet of Local Banks	19144.2	21611.6	26990.0	35555.0	39242.8
US $ Exchange Rate vs. KD at Year End (fils)	294.70	292.00	289.14	273.80	275.90
Public Debt Instruments:					
Value of Issues:	**3854.2**	**2969.0**	**2296.6**	**1641.0**	**1695.0**
Treasury Bills	2515.2	562.0	-	-	-
Treasury Bonds	1339.0	2407.0	2296.6	1641.0	1695.0
Maturities:	**3887.7**	2989.0	**2407.0**	**1641.0**	**1861.0**
Treasury Bills	2617.7	1650.0	-	-	-
Treasury Bonds	1270.0	1339.0	2407.0	1641.1	1861.0
Balances at Year End:	**2427.0**	2407.0	**2296.6**	**2296.0**	**2130.0**
Treasury Bills	1088.0	-	-	-	-
Treasury Bonds	1339.0	2407.0	2296.6	2296.0	2130.0

Table (79) Cont'd.
Development of Main Economic, Financial and Monetary Indicators and Variables
(KD Million)

Item	2004	2005	2006	2007	2008
CBK Bonds:					
Value of Issues:	**-**	**474.0**	**1261.0**	**2280.6**	**1246.1**
3-month	-	474.0	1261.0	1413.6	689.1
6-month	-	-	-	867.0	557.0
Maturities:	**-**	350.0	1029.0	2046.0	1462.2
3-month	-	350.0	1029.0	1519.0	806.2
6-month	-	-	-	527.0	656.0
Balances	**-**	124.0	356.0	590.6	374.5
3-month	-	124.0	356.0	250.6	133.5
6-month	-	-	-	340.0	241
Public Finance (Fiscal Years): (1)	**(2004/05)**	**(2005/06)**	**(2006/07)**	**(2007/08)**	**(2008/09)**(2)
Revenues	8962.4	13728.1	15509.3	19022.6	18554.4
Expenditures	6315.2	6862.0	10306.4	9698.0	8729.7
Surplus or Deficit (3)	2647.2	6866.1	5202.9	9324.6	7969.2
Foreign Trade:					
Total Value of Exports, of which:	8436.9	13101.6	16252.9	17770.10	23362.4
Value of Oil Exports (4)	7861.1	12392.6	15429.7	16780.0	22200.1
Total Value of Imports (cif)	3722.2	4613.9	5000.5	6061.5	6688.3
Balance of Payments:					
Current Account	4596	8806	13181	13309	17404
Balance on Goods	4892	8833	11669	12338	17206
Services Account (Net)	-1098	-1151	-637	-902	-972
Income Account (Net)	1529	2097	3182	3522	2720
Current Transfers (Net)	-727	-974	-1033	-1649	-1550
Kuwait Stock Exchange:					
(Excluding Investment Funds Transactions)					
Value of Traded Shares (KD Million)	15274.2	28420.8	17283.9	37009.4	35747.1
Quantity of Traded Shares (Million Shares)	33535.7	52245.1	37657.9	70437.9	80850.8
Number of Transactions (Thousand Transactions)	1056.9	1955.4	1486.2	2101.7	1997.7
Price Index (29/12/1993 =1000)	6409.5	11445.1	10067.4	12558.9	7782.6
Weighed Index (26/12/2000=100)	335.9	562.2	531.7	715.0	406.7

(1) Data are taken from the closing accounts, (fiscal year ends up in March).
(2) Follow-up statements for the period (April-December 2008).
(3) Before deducting the allocations for the Reserve Fund for Future Generations.
(4) CBK estimates for oil exports and foreign trade, for the period 2005-2008.
(...) Unavailable Data.