

Summary of the Economic Report

This economic report follows up, through six parts, the most significant economic, financial, monetary and banking developments and events witnessed in the Kuwaiti economy during the year 2007, and highlights reflections on the main indicators of its performance. The most salient of these developments and events are summarized as follows:

Part One: Performance of the Domestic Economy:

1. The **gross domestic product (GDP) at current prices** increased at a decelerated rate during 2007, compared to growth rates realized during the past four years. Its value reached KD 31841 million during 2007, against KD 29494.5 million during 2006, i.e. a growth by KD 2346.5 million or 8%, compared to KD 5901.3 million or 25% during 2006.
2. The growth in **non-oil sectors** (including the refined petroleum products industry) contributed the largest portion (61.1%) of the GDP growth during 2007, thus surpassing the contribution of the crude oil and natural gas sector to GDP growth. The value added at current prices by the non-oil sectors (including the refined petroleum products industry) rose by KD 1434.8 million or 11.1% to KD 14312.5 million during 2007, against KD 12877.7 million during 2006. Consequently, the relative weight of these sectors in GDP at current prices increased to 44.9%, compared to 43.7% during the mentioned two years respectively.
3. The decelerating growth of the **value added by the crude oil and natural gas production sector** during 2007 (by KD 917.6 million or 5.6% during 2007, compared with KD 4197.2 million or 34.3% during 2006) that brought that value to KD 17347.6 million was the outcome of oil price increase in world markets on the one hand, and the decrease in crude oil and liquefied gas production in the State of Kuwait in line with OPEC decisions on the other. Consequently, the relative weight of the value added by the crude oil and natural gas production sector in GDP at current prices dropped to 54.5% during 2007, compared to 55.7% during 2006.

4. The **average price of the Kuwait export crude oil barrel** rose by US \$7.27 or 12.5% (from \$58.24 during 2006 to \$65.51 during 2007). In contrast, crude oil production quantities decreased by 2.7% (from 2.644 million barrels per day on average during 2006 to 2.574 million b/d during 2007).

5. The **value added in the refined petroleum products industry** reached KD 752.8 million during 2007, compared to KD 829.4 million during 2006, recording a decline by KD 76.6 million or 9.2%. Data indicate that the average price of the weighted export price of the equivalent barrel of the Kuwait refined petroleum increased by \$10.17 or 15% (from \$68.03 to \$78.20), and the Kuwaiti petroleum refineries production rose by 23.6 thousand barrels equivalent per day or 2.6% (from 895.1 thousand barrels equivalent per day on average to 918.7 thousand barrels equivalent per day on average). Thus, the **value added at current prices by the oil sectors** (the crude oil and natural gas production sector, and the refined petroleum products industry) reached KD 18100.4 million during 2007, recording a growth by KD 841 million or 4.9%, against KD 4056.4 million or 30.7% during 2006. Consequently, the relative weight of the value added by the oil sectors in GDP at current prices dropped to 56.8%, compared to 58.5% during the mentioned two years respectively.

6. The **value added at current prices by the non-oil sectors** (excluding the refined petroleum products industry) witnessed a growth by KD 1511.4 million or 12.5% to KD 13559.7 million during 2007, compared to a growth by KD 1831.7 million or 17.9% during 2006. The Financial Services, Real-estate and Business Services sector maintained its lead in the non-oil sectors in terms of relative contribution to GDP (17.8% during 2007, against 16.5% during 2006). The value added by the community, social and personal services sector grew by KD 810.5 million (16.7%) during 2007 to KD 5664.5 million. All sub-sections of the Financial Services, Real-estate and Business Services sector achieved growth in their value added. Financial institutions sector ranked first as it contributed the highest portion (91.3%) of the growth of the Financial Services, Real-estate and Business Services sector, whose value added increased by 740 million or 23.3% to KD 3911.9 million during 2007. Consequently, the relative weight of the value added by the financial institutions sector in the total value added by non-oil sectors (excluding the refined petroleum products industry) increased to 28.8% during 2007, compared to 26.3% during 2006.

7. A major portion (64.9%) of the growth in **expenditure types on GDP at current prices** during 2007, compared with the previous year, resulted from the increase in expenditure of the outside world (exports of goods and services) on the GDP by KD 1522 million or 7.9% to KD 20838 million during 2007, from KD 19316 million during 2006. The net expenditure of residents (consumer and investment expenditure, minus imports of goods and services) on GDP rose by KD 824.5 million or 8.1% to KD 11003 million, against KD 10178.5 million during the mentioned two years respectively. Total resident expenditure (consumer and investment) reached KD 20583 million during 2007, an increase by KD 3282.5 million or 19%, compared to KD 17300.5 million during 2006. the largest portion (54.9%) of this increase is attributable to the expansion in the final consumer expenditure, both government and private, by KD 1803.2 million or 14.4% to KD 14317.1 million during 2007, compared to KD 12513.9 million during the previous year. The growth in the final private consumer expenditure by KD 1262.6 million or 15% contributed the major portion (70%) of the increase in the final consumer expenditure during 2007, while the government consumer expenditure growth by KD 540.6 million or 13.2% contributed the remaining portion (30%).

8. As for the major aggregates of national accounts at current prices, the net income from abroad of factors of production decreased by KD 143.8 million or 3.8%. Accordingly, the **gross national product (GNP) at current prices** rose during 2007 by KD 2202.7 million or 6.6% to KD 35518 million, from KD 33315.3 million during the previous year. The gross national income reached KD 33253.8 million during 2007, from KD 31585.7 million during 2006, i.e. a growth by KD 1668.1 million or 5.3%. As a result of this growth in GNP on the one hand, and the increase in the net current transfers abroad by 37.4% on the other, the disposable national income rose during 2007 by KD 1275.7 million or 4.2% to KD 31811.1 million, from KD 30535.4 million during 2006. The growth of the population at an accelerating rate (9.1% at mid-2007), that is higher than the growth rate of the disposable national income, caused the average per-capita share of the disposable national income at current prices to fall by KD 447.5 or 4.5% during 2007 to KD 9558.2, from KD 10005.7 during 2006.

9. The **general level of domestic prices** during 2007, compared with the previous year, grew at an accelerating rate in view of the growth in domestic demand, and the record increases in international import prices of consumer goods (especially foodstuff) during that year. The inflation rate, measured as the relative change in the general consumer price index (CPI), rose from 3.1% during 2006 to 5.5% during 2007. A major portion (35.4%) of this rise is ascribed to accelerating increases in the general level of the housing group prices (from 2.6% to 7.5%), particularly housing rents. The general level of the transportation and communication group prices rose by 7.4%, ranking second in terms of its contribution (20.1%) to the inflation rate increase in the State of Kuwait during 2007, compared to the previous year. The rate of increase in the foodstuff group prices (4.8%) contributed 17.6% of the inflation rate increase during 2007, compared to 2006.

10. The **wholesale price index (WPI)** increased from 2.1% during 2006 to 3.9% during 2007. This increase in WPI encompassed both imported goods and locally produced goods. The major portion (89.5%) of this increase in WPI during 2007 resulted from the increase in the wholesale prices of manufacturing industry products (account for a weight of 93.9% in WPI) by 3.7% during 2007 compared with 1.9 during 2006, in addition to the increases in the general level of wholesale prices of the agriculture, livestock and fishing group products (from 5.6% to 7.4%), and the mining and quarrying section products (from 2.1% to 4.2%) during the two mentioned years respectively.

11. In respect of **population and labor force developments in the State of Kuwait**, the total population increased by 6.8% during 2007 compared to 6.4% during the previous year. The largest portion (85.6%) of that increase in total population is attributable to the rise in non-Kuwaiti population by 8.6%, while the rise in Kuwaiti population during 2007 was stable at 3.1% the same as rate during 2006. This was accompanied by a growth in the total labor force in the State of Kuwait at 8.6% during 2007, as the non-Kuwaiti labor force increased by 9% and the Kuwaiti labor force increased by 6.6%.

Part Two: Monetary Developments and CBK Activity:

- 1- Money Supply in its broad definition (M2) continued to expand during 2007 to reach KD 18987.2 million at end of that year, recording an increase by KD 3066.7 million or 19.3%, compared to KD 15920.6 million at end of 2006 and 21.7% growth rate during the year. This expansion in M2 essentially reflects the total growth in both Quasi-Money by KD 2470.2 million or 20% during 2006 (from KD 12370.3 million at end of 2006 to KD 14840.5 million at end of 2007), and Money (the narrow definition of Money Supply, M1) by KD 596.5 million or 16.8% (from KD 3550.3 million at end of 2006 to KD 4146.7 million at end of 2007). The growth in Quasi-Money and Money contributed to the expansion in Money Supply during 2007 by 15.5% and 3.7% respectively. Within **the aggregate monetary position of CBK and local banks** during 2007, the growth in Money Supply (M2) reflected the sum of the rise in the net domestic assets of these institutions by KD 2894.7 million or 27.9%, and their net foreign assets by KD 172.9 million or 3.1%.
- 2- **Bank credit** continued rising at an accelerated rate as the balances of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors reached KD 20138.7 million at end of year 2007, from KD 14933.7 million at end of year 2006, i.e. a rise of KD 5205 million or 34.9%, following its rise by 26.3% during the previous year. This rise varyingly encompassed most domestic economic sectors, and was particularly concentrated in a number of sectors, the most important of which are the Personal Facilities sector (35.2% of the total facilities) by KD 1040.2 million or 17.2%, the Real-Estate sector (24.8% of the total) by KD 1713.9 million or 52.1%, the Non-Bank Financial Institutions sector (12% of the total) by KD 981.7 million or 68.8%, the Trade sector (9.4% of the total) by KD 197.8 million or 11.6%, the Construction Sector (6.8% of the total) by KD 297.2 million or 27.8%, and the Industry Sector (5.3% of the total) by KD 462.1 million or 75.9%.
- 3- CBK left its discount rate unchanged during 2007, at its end-2006 level of 6.25%. This meant that the **domestic interest rate structure** continued unaffected during 2007, as the discount rate is a pivotal rate linked within specific margin to the maximum KD lending rates in the banking and financial units. On the other hand, data indicate that average interest rates on customer KD time deposit with local

- 4- By virtue of Decree No. 147 of the year 2007, the peg that existed between the KD exchange rate and the US dollar exchange rate within specific margins was decoupled as of 20th of May 2007, and the **KD exchange rate** returned to be determined on the basis of an undeclared special weighted basket of currencies of countries that have major trade and financial relations with the State of Kuwait. This change in the KD exchange rate policy occurred as inflationary pressures increased following the substantial decline in the US dollar exchange rates against other major currencies. The currency basket system provides CBK with more relative flexibility in drawing and executing monetary policy, thus enhancing its ability to safeguard the national economy against sharp fluctuations that occasionally take place in the exchange rates of major currencies especially in the short run, and curb imported inflationary pressures related to international exchange rate developments.

- 5- CBK continued to issue the Kuwaiti **Treasury Bonds** during 2007 on behalf of the Ministry of Finance, as it offered 18 issues of these bonds with a total nominal value of KD 1641 million. All these issues were of one-year term. During that year, 18 previous issues of Treasury Bonds with a total nominal value of KD 1641.6 million reached maturity. Accordingly, the outstanding balance of public debt instruments slightly declined by KD 0.6 million (from KD 2296.6 million at end of 2006 to KD 2296 million at end of 2007).

Within the scope of managing domestic liquidity levels, CBK issued its negotiable bonds to the local banks and investment companies under its supervision, including its 6-month bonds for the first time since the decision to re-start issuing **CBK Bonds** in August 2005. In this context, CBK offered 18 issues of CBK Bonds during 2007 (13 issues of 3-month bonds with a total nominal value of KD 1413.6 million, and 5 issues of 6-month bonds with a total nominal value of KD 867 million), with a total nominal value of KD 2280.6 million. Meanwhile, 18 previous issues of CBK Bonds matured (15 issues of 3-month bonds with a total nominal value of KD 1519 million, and 3 issues of 6-month bonds with a total nominal value of KD 527 million). As a result, the outstanding balance of CBK Bonds

significantly increased by KD 234.6 million or 65.9% (from KD 356 million at end of 2006 to KD 590.6 million at end of 2007).

- 6- CBK continued during 2007 its efforts in **supervision and oversight of the local banking and financial sector units** registered with it, through off-site monitoring and on-site inspection, ensuring implementation of sound professional banking and financial practices, and adherence to existing supervisory policies and instructions that conform to relevant international developments. Within this context, CBK issued in 2007 some new instructions, and introduced modifications to some previously issued instructions. Among the most significant of these instructions are those concerning the rules and principles of classification of credit facilities and calculation of their provisions, the change of the general ratio of provisions for credit facilities that were not previously allocated any provisions, the amendments to the rules and principles of extending consumer and other installment loans, the discontinuation of charging early repayment fees on consumer and installment loans, the amendment of instructions pertaining to standards and criteria of opening branches of exchange companies, the amendment of conditions of experience requirements for CEO and managing director in a bank, the ascertainment of complete adherence to all limits specified in CBK instructions on credit cards issued by local banks, the discontinuation of cash or other in kind incentives given to clients upon obtaining facilities or any type of credit cards, the amendment of the method of calculation of the 80% ratio of credit facilities portfolio balance to deposits balance, the finalization of data on rectification of violations committed by banking and financial sector units, and the audit of consumer and installment loans extended during 2007.

Part Three: Financial Indicators of the Banking and Financial Sector:

- 1- For the fourth consecutive year, the **institutional structure of the banking system** in the State of Kuwait continued to expand during 2007. The branch of the Qatar National Bank was listed in the conventional bank register of CBK on 25th of December 2007. The branch commenced operations in the State of Kuwait on 27th of December 2007, bringing the total number of local banks (conventional, Islamic, and branches of foreign banks) registered with CBK to 16 banks at end of 2007. In the context of the policy adopted by CBK Board of Directors in June 2003 on

licensing new Islamic banks in the State of Kuwait, the Kuwait International Bank (formerly the Kuwait Real Estate Bank) was listed on the first of July 2007 under the new name in the CBK Islamic Banks Register, and it started its operations according to the provisions of Islamic Sharia' since that date, having finalized the necessary operational and organizational requirements of converting the conventional banking operations to Islamic banking operations methodologically and in an archetypal manner, since it was the first ever banking experience in this field in the State of Kuwait. The local branch network of conventional and Islamic banks expanded during 2007 with the opening of 31 additional branches, a record annual increase in the number of branches, bringing the total number of local branches (excluding head offices) of these banks to 275 branches at end of 2007, compared to 244 branches at end of the previous year.

- 2- The **number of Investment Companies** registered with the CBK and subject to its supervision rose with the addition of 6 new companies to 73 companies (of which 39 companies operate according to the provisions of Islamic Sharia) at end of 2007, against 73 companies at end of 2006 (of which 33 companies operate in accordance with the provisions of Islamic Sharia). Also, the **number of Exchange Companies** subject to the CBK supervision increased from 39 companies at end of 2006 to 40 companies at end of 2007. The **number of locally established Investment Funds** witnessed the highest annual increase by the addition of 22 new investment funds, thus bringing their number to 101 at end of year 2007 (of which 47 funds operate according to the provisions of Islamic Sharia) from 79 funds at end of the previous year (of which 33 funds operate according to the provisions of Islamic Sharia).

- 3- Local banks continued to grow during 2007 taking the total **the aggregate balance sheet of local banks** to a new record high. This balance sheet total reached KD 35555 million at end of 2007, compared to KD 26990 million at end of the previous year, thus realizing the highest ever annual growth rate of 31.7% and growth value of KD 8565 million in 2007, against 24.9% and KD 5378.4 million in 2006. Several factors contributed to the realization of that growth, chief among which was the accelerated growth in the balances of local bank claims on the private sector by KD 5673.5 million (35.1%) compared to the previous year. On the liabilities side, the largest portion (66.2%) of the increase in the total aggregate balance sheet of local banks resulted from the marked increase in the balances of private sector deposits

with local banks at end of 2007 to KD 18345.7 million, compared to KD 15264.2 million at end of the previous year, i.e. a growth by KD 3081.5 million or 20.2%, compared to the previous year.

- 4- The balance of the **net foreign assets of local banks** decreased by the equivalent of KD 737.4 million or 34.6% (from KD 2129.6 million to KD 1392.2 million) at end of 2007, because the increase in total foreign assets (by KD 2386.8 million or 45.5%) was considerably less than the increase in total foreign liabilities (by KD 3124.2 million or 100.3%). In this context, the report indicated that local banks resorted to increasing all items of their foreign assets and investments, by increasing their deposits with foreign banks, foreign investments, and credit facilities to non-residents. On the liabilities side, deposits with local banks by non-residents witnessed a noticeable increase of KD 3081.6 million or 102.2%, which may be partially attributable to the branches of foreign banks operating in the State of Kuwait, commencing their activities and their role in attracting non-resident deposits.
- 5- Local banks, in order to raise available financial resources for their operations during 2007, resorted primarily to increasing their domestic liabilities (mainly the private sector deposits) and less to reducing their domestic assets (largely claims on the government) as was the case in the previous year. The analysis of **net financial flows in local bank operations** regarding the use of domestic financial resources available to them during 2007 indicate that local banks increased their domestic assets (particularly claims on the private sector, and claims on CBK). In general, local banks operations during 2007 were characterized by domestic financial uses in excess of their realized domestic financial resources during that year.
- 6- Local banks achieved record profit levels in 2007. **Net profits** realized by local banks reached KD 1123.9 million during 2007, compared to KD 858.4 million during 2006. The analysis of financial positions of local banks and the development of their performance, through certain sets of **indicators and financial ratios**, indicate that the **capital adequacy ratio** for each of these banks, despite decrease compared to the previous year, remains discernibly higher than the 8% minimum required limit according to international recommendations. The average Capital

Adequacy Standard for all conventional local banks subject to CBK supervision reached 18.5% at end of year 2007 (23.5% for banks operating according to the provisions of Islamic Sharia), compared to 21.8% (19.9% for banks operating according to the provisions of Islamic Sharia) at end of the previous year.

- 7- The total assets of local investment companies (79 companies at end of 2007) reached KD 16040.5 million, against KD 13135.3 million at end of 2006 (for 73 companies). These companies manage off-balance sheet funds within their contra accounts, mostly as third party investments (KD 22.8 billion), equal to threefold the funds in local bank contra accounts. Thus, local investment companies manage funds in the form of assets and contra accounts totaling KD 38.8 billion, against assets and contra accounts of local banks amounting to KD 44.2 billion.
- 8- **Conventional investment companies** (31 companies whose comparative financial data was available) achieved a growth in their total aggregate balance sheet of KD 1329.3 million or 17.7%, whereby the balance sheet total increased to KD 8841.9 million at end of 2007, against KD 7512.6 million at end of the previous year. On the asset side, this growth reflects a number of developments, the most prominent of which include the notable rise in the domestic investments by KD 757.5 million or 35.8% (from KD 2114.7 million at end of 2006 to KD 2872.2 million at end of 2007), and the substantial increase in the balances of foreign assets by KD 534.8 million (or 14.8%). On the liabilities' side, the growth is essentially attributable to the significant increase in foreign liabilities by KD 519.9 million or 27.5% (from KD 1893.1 million at end of 2006 to KD 2413 million at end of 2007), and the sizable increase in capital and reserves by KD 510.2 million or 20.4% (from KD 2506.7 million at end of 2006 to KD 3016.8 million at end of 2007).
- 9- The aggregate balance sheet of **investment companies operating in accordance with the provisions of Islamic Sharia** (for 23 companies whose comparative financial data was available) witnessed a decelerating growth of KD 733.4 million (21.2%), whereby that balance sheet total reached KD 4192.9 million at end of 2007, compared to KD 3459.5 million at end of the previous year. The main developments in the items on the assets side in that balance sheet encompassed the considerable increase in the domestic financial investments by KD 616.6 million or

52.6% (to KD 1788.9 million at end of 2007, against KD 1172.3 million at end of 2006), and the increase in foreign assets (both financial and non-financial assets) by KD 289.1 million or 56.5% (from KD 511.6 million at end of 2006 to KD 800.7 million at end of 2007). On the liabilities side, most salient was the increase in the balances of the domestic financing from the financial sector (by KD 337 million or 24%, to KD 1742.2 million at end of 2007 compared to KD 1405.3 million at end of 2006), and the substantial rise in foreign liabilities (by KD 256.5 million or 166.4%, to KD 410.7 million at end of 2007, compared to KD 154.1 million end of 2006).

10- The **total balance of contra accounts of local investment companies** numbering 79 at end of 2007 (40 conventional, and 39 Islamic) reached KD 22779.9 million (of which KD 18661.4 million or 81.9% for the conventional investment companies, and KD 4118.5 million or 18.1% for companies operating in accordance with the provisions of Islamic Sharia) at end of year 2007, thereby achieving a noticeable rise of KD 5522.3 million (32%) above their end of year 2006 level of KD 17257.6 million (of which KD 14302.4 million or 82.9% for the conventional investment companies, and KD 2955.2 million or 17.1% for companies operating in accordance with the provisions of Islamic Sharia) for 73 companies (40 conventional, and 33 Islamic) registered at end of 2006.

11- Total assets of **locally established investment funds** reached KD 3932.7 million at end of 2007 (for 90 investment funds), compared to KD 2843.4 million at end of 2006 (for 60 investment funds). The major portion of their finance came from capital and owners' equity. Paid-up capital of these funds amounted to KD 2532 million and owners' equity totaled KD 3815.1 million at end of 2007, compared to KD 1964.5 million and KD 2783.7 million at end of 2006 respectively. Investments of these funds are essentially concentrated in the Kuwait Stock Exchange and the local real estate sector. These investment funds achieved net profits from their 2007 operations to the tune of KD 702.8 million (for 90 funds), compared to losses of KD 62.3 million (for 60 funds) in the previous year. Cash distributions to share (unit) holders amounted to KD 147.1 million in 2007, compared to KD 97.7 million in the previous year. On the other hand, the number of **foreign investment funds marketed locally** reached 102 funds during 2007, against 89 funds during the previous year. Resident investor subscriptions to these investment funds reached

KD 2362.7 million at end of 2007, from KD 1683.9 million at end of the previous year (i.e. an increase of KD 678.8 million or 40.3%).

- 12- The **aggregate balance sheet of local exchange companies** (for 38 companies whose data was available, out of 40 companies registered with CBK) reached KD 104.7 million at end of 2007, recording an increase by KD 6.3 million or 6.4% over its end of 2006 level of KD 98.4 million. Profitability of these companies increased during 2007 by 46.6% or KD 3.5 million, compared to previous year. Consequently, the ratio of net profit to partners' equity rose from 15.7% in 2006 to 18.2% in 2007. This resulted basically from the increase in profitability in excess of the rate of increase in total assets. On the other hand, the solvency level, represented in the ratio of partners' equity to total assets without risk weighting, has significantly improved to 57.4% at end of 2007, against 48.5% at end of the previous year.

Part Four: Public Finance:

- 1- **The closing accounts of ministries and governmental bodies data of the fiscal year 2006/07**, indicate higher actual budgetary revenues collected during that fiscal year by KD 1781.2 million or 13% reaching KD 15509.3 million, compared with KD 13728.1 million during the fiscal year 2005/06. This rise resulted from the increase in actual budgetary oil revenues collected by KD 1556 million or 12%% (to KD 14511.5 million, compared to KD 12955.5 million during the fiscal year 2005/06), and actual budgetary non-oil revenues collected by KD 225.2 million or 29.1% (to KD 997.8 million, compared to KD 772.6 million for the previous fiscal year).
- 2- The **actual budgetary expenditures**, within the closing account of the fiscal year 2006/07, increased by KD 3444.4 million or 50.2% to KD 10306.4 million, against KD 6862 million in the previous fiscal year. That rise encompassed all chapters of budgetary expenditures, specially the fifth chapter (miscellaneous expenditure and transfer payments) which accounted for 74.8% of the increase in actual budgetary expenditures of fiscal year 2006/07, rising by KD 2577.4 million or 84.1%. The increase in actual budgetary expenditures under the first chapter (salaries and wages) and the second chapter (requirements of goods and services) ranked second accounting for 17.7% of the increase during 2006/07, rising by KD 295 million and

KD 314.6 million respectively, or by 15.3% and 29.7% respectively, compared to the previous fiscal year.

- 3- The general budget, as an outcome of the above mentioned developments in actual revenues and expenditures in the closing account for the fiscal year 2006/07, realized an actual surplus of KD 5202.9 million, before deducting the allocations for the Reserve Fund for Future Generations, against an actual surplus of KD 6866.1 million for the fiscal year 2005/06, i.e. a decrease of KD 1663.2 million or 24.2%.
- 4- The report also reviewed the main features of **the general budget of ministries and governmental bodies for the fiscal year 2007/08**. This general budget contained a decrease in the budgetary revenue estimates by KD 199.4 million or 2.3%, to KD 8320.3 million, compared to their estimates for the previous fiscal year. This is essentially attributable to the decline in oil revenue estimates by KD 286.6 million or 3.7% (to reach KD 7449.9 million, compared to their approved estimates for the previous fiscal year), and the rise in the budgetary non-oil revenue estimates by KD 87.2 million or 11.1% (to reach KD 870.4 million, compared to their approved estimates for the previous fiscal year).
- 5- The **allocations for budgetary expenditures** for the fiscal year 2007/08 increased by KD 181 million or 1.6% above allocations for budgetary expenditure for the previous fiscal year, to reach KD 11300 million, compared to KD 11119 million for the previous fiscal year. This increase encompassed all budget chapters of expenditures save the allocations for budgetary expenditure under the fifth chapter (miscellaneous expenditures and transfer payments), which were cut by KD 1460 million or 24.2% (to reach KD 4566.5 million, compared to KD 6026.5 million for the previous fiscal year).
- 6- The general budget for fiscal year 2007/08 included an **estimated deficit** of KD 2979.6 million, against an estimated deficit of KD 2599.3 million for the previous fiscal year, before deducting the allocations for the Reserve Fund for Future Generations.
- 7- The report also reviewed within that part the **government fiscal operations** through the analysis of developments in actual budgetary revenues and expenditures

in the general budget for the fiscal year 2007/08 during the first nine months (April-December 2007) of the 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 fiscal year 2007/08 rose to KD 13472.4 million, compared to KD 12004.7 million collected during the corresponding period of the previous fiscal year, i.e. an increase by KD 1467.6 million or 12.2%. The major portion (84.3%) of this increase resulted from the rise in actual budgetary oil revenues collected during the period (April - December 2007) to KD 12619.8 million, against KD 11383 million during the corresponding period of the previous fiscal year 2006/07, representing an increase of KD 1236.7 million or 10.9%. Meanwhile, the increase in the actual budgetary non-oil revenues collected during the first nine months (April-December 2007) of the fiscal year 2007/08 accounted for 15.7% of the total increase in the actual budgetary revenues collected during that period. These actual budgetary non-oil revenues increased by KD 230.9 million or 37.1% to reach KD 852.6 million, compared to KD 621.7 million for the corresponding period of the previous fiscal year 2006/07.

- 8- The **actual budgetary expenditures** during the first nine months of the fiscal year 2007/08 (April-December 2007) slightly declined by KD 13.8 million or 0.3%, to reach KD 5095.5 million (45.1% of the total allocations for budgetary expenditures for the general budget for the entire fiscal year, amounting to KD 11300 million), compared to KD 5109.2 million for the corresponding period of the previous fiscal year (46% of the total allocations for budgetary expenditures for the general budget for the entire fiscal year, amounting to KD 11119 million).

- 9- The general budget, reflecting the developments in actual budgetary revenues and expenditures during the first nine months of the fiscal year 2007/08 (April-December 2007), realized an actual surplus of KD 8376.9 million, compared with an actual surplus of KD 6895.5 million during the corresponding period of the fiscal year 2006/07, before deducting the allocations for the Reserve Fund for Future Generations, i.e. an increase of KD 1481.4 million or 21.5%.

Fifth- Developments in Foreign Trade and Balance of Payments* :

1. The surplus realized in the '**Balance on Goods**' (on 'fob' basis) decreased during 2007 to KD 12237 million from KD 12857 million during 2006, i.e. a decline of KD 620 million or 4.8%. During 2007, the total value of merchandise imports of the State of Kuwait (on 'fob' basis) witnessed a noticeable rise to reach KD 5862 million, compared to KD 4158 million in 2006, i.e. an increase by KD 1703 million or 41% compared to a limited increase of one million dinars in the previous year. On the other hand, the value of merchandise exports of the State of Kuwait (on 'fob' basis) continued to rise, for the sixth consecutive year, to reach KD 18099 million during 2007, from KD 17015 million during 2006, i.e. an increase by KD 1084 million or 6.4%. The major portion (84.9%) of this increase in the value of merchandise exports reflects the growth in the value of oil exports by KD 920 million (5.7%), while the non-oil exports growth by KD 164 million (19%) contributed the remaining percentage (15.1%).
2. The '**Services Account (Net)**' recorded a substantial increase during 2007 in its deficit, which reached KD 980 million, against KD 663 million in 2006, i.e. an increase by KD 317 million or 47.8%. This increase encompassed the growth in the total value of payments by residents in the domestic economy to non-residents. This growth was focused in three major items, namely "transportation", "other services", and "travel" items. Total payments in these three items together accounted for 97.9% of the entire increase in total payments on the debit side of the "Services Account (Net)" during 2007 compared to the previous year.
3. The surplus realized in the '**Income (Net)**' item decreased from KD 3821 million during 2006 to KD 3677 million during 2007, i.e. a decrease of KD 144 million or 3.8%. This decrease is attributable to the outcome of developments in the value of returns on external investments by residents on the one hand, and the value of returns on assets invested in the State of Kuwait and owned by non-residents on the other hand. From one side, the value of returns on external investments listed on the credit side of the 'Income' item decelerated by KD 203 million or 4.8% (to KD 4459 million in 2007 from KD 4256 million in the previous year). On the other side, the

* Data on some major items of the balance of payment statistics for 2007 are provisional estimates. CBK, during the preparation of the report, is undertaking a comprehensive review of the estimates for these items, and it is expected that some significant changes will be made to these items on conclusion of the review.

total value of returns on assets invested in the State of Kuwait and owned by non-residents rose by KD 347 million or 79.7% to reach KD 782 million in 2007 from KD 435 million in 2006.

4. The '**Current Transfers (Net)**' item of the balance of payment (BOP) statistics of the State of Kuwait recorded a deficit to the tune of KD 1443 million during 2007, against a deficit of KD 1050 million in 2006, i.e. a rise by KD 392 million (37.4%). This rise in the value of current transfers (net) essentially reflects the growth in the net value of the outbound current transfers by the Other Sectors (including unrequited transfers abroad by expatriate workers, and unrequited transfers of Kuwait private charitable institutions and societies to the rest of the world) by KD 350 million (36.2%) to reach KD 1316 million during 2007, compared to its previous year level of KD 966 million. The value of net current transfers abroad by the government during 2007 recorded an increase by KD 42 million (50.1%) to KD 127 million during 2007 from KD 84 million during the previous year.
5. The '**Current Account**' in the BOP statistics of the State of Kuwait realized a surplus estimated at KD 13492 million during 2007, against a surplus of KD 14965 million during 2006, i.e. a decrease by KD 1473 million or 9.8%. The main source of this decrease was the growth of the value of payments by residents to non-residents during 2007 accelerating from KD 8641 million in 2006 to KD 11841 million in 2007, i.e. a growth by KD 3200 million or 37% compared to the previous year. On the other hand, the value of receipts by residents from non-residents during 2007 slowed down to KD 25333 million from KD 23605 million in 2006, i.e. a rise by KD 1727 million or 7.3% compared to the previous year.
6. The '**Capital and Financial Account**' of the BOP statistics of the State of Kuwait reflected the slow down in the growth of net flows of external assets listed under the 'Capital and Financial Account' growing by KD 3511.8 million or 25.7% to reach KD 10150 million against KD 13662 million during 2006. This slowdown is ascribed to the outcome of developments in various items composing the 'Capital Account' and the 'Financial Account' of the State of Kuwait during 2007 compared to the previous year. On the one hand, the value of inbound net flows listed under the 'Capital Account' (mainly the value of funds received by residents from the UN Compensation Commission) accelerated to KD 447 million in 2007 from an inflow

of KD 256 million in 2006, i.e. a growth by KD 191 million or 74.8% compared to the previous year. On the other hand, the value of capital transfers' outflow (mainly the value of economic and technical grants and aid provided by the State of Kuwait to some friendly and sisterly countries) reached KD 6 million during 2007, recording a decline by KD 4 million or 64% compared to the previous year level.

7. The growth in net value of external investments owned by residents of the State of Kuwait and recorded under the '**Financial Account**' slowed down by KD 3321 million (23.9%) to a growth of KD 10597 million during 2007, compared with a growth of KD 13918 million in the previous year. This slowdown in growth of the net value of Kuwaiti external investments owned by residents of the State of Kuwait and recorded under the 'Financial Account' during 2007 followed a rapid growth of these investments (net) by KD 4810 million or 53.3% during 2006.
8. The **overall balance**, representing the outcome of the developments in all items of the BOP statistics, realized a surplus of KD 917 million during 2007, after realizing a surplus of KD 1039 million during 2006, i.e. a decrease by KD 123 million or 11.8%. This surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait (CBK) which rose by the same amount (KD 917 million) at end of 2007, compared to its end of previous year level.
9. If the **overall position** 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 under the 'General Government' item, and the change in total reserve assets of CBK, the overall position of the Balance of Payments shows a surplus of KD 12013.5 million during 2007, compared with a surplus of KD 11809 million during 2006, i.e. an increase of KD 204.5 million or 1.7%.

Sixth- Developments in the Kuwait Stock Exchange:

1. The main trading indicators of the Kuwait Stock Exchange (KSE) followed a uptrend during 2007. The report indicated an increase in the total value of traded shares (by KD 19.7 billion or 114.1%), the total quantity of traded shares (by 32.8 billion shares or 87%), and the number of transactions (by 615.5 thousand

transaction or 41%) during 2007, compared to the previous year levels. These indicators hit record levels during 2007 reaching KD 37 billion (for the total value of traded shares), 70.4 billion shares (for the total quantity of traded shares), and 2.1 million transaction (for the number of transactions). Also, the daily averages of the trading indicators rose during 2007 (by 115.5% for value, 84.8% for quantity, and 39.7% for number of transactions).

2. The KSE General Price Index (29/12/1993 = 1000 points) followed a uptrend during 2007, as it closed at 12558.9 points at end of 2007, i.e. an increase by 2491.5 points or 24.7% over its previous year closing. Similarly, the KSE Weighted Price Index (26/12/2000 = 100 points) followed that same trend albeit at a higher rate, as it closed at 715 points at end of 2007, against 531.7 points at end of 2006, recording a rise by 183.3 points or 34.5%. The highest level hit by this index during 2007 was in October (13175.2 points at end of business on 21 October), while it hit its lowest in February (9584.5 points at end of business on 10 February).
3. The strong performance witnessed by KSE during 2007 was driven by certain factors which positively influenced its activity within the persistence of the favorable macroeconomic environment accompanying the sustained rise in world oil prices, and the ensuing rise in the value of surpluses realized in the internal (the State General Budget) and external (the Current Account) balances during that year. In addition, the market activity surged as a result of the rise in net profits of listed companies (net profits of 180 companies listed during 2007 totaled KD 4878.4 million, against KD 2813.8 million for the same companies during the previous year, i.e. a rise by KD 2064.6 million or 73.4%), the rise in domestic liquidity, the rise in price indices of GCC capital markets, and the rise in stake selling deals of a number of listed companies.
4. The **total value of net profits** of 196 KSE-listed companies (at end of 2007) rose to KD 4976.8 million during 2007, compared to KD 2813.8 million for 180 KSE-listed companies at end of 2006. Market capitalization reached KD 57360.2 million at end of 2007, against KD 42106.5 million at end of 2006, i.e. an increase by KD 15253.6 million or 36.2%. The main elements contributing to this market capitalization increase during 2007 are the net change in company share prices (35%), the listing of new companies (8.6%), and the capital increases (18.6%).

5. The **number of shares issued** by companies listed on the KSE rose by 11432 million shares or 18.6% to 72666 million shares at end of 2007, compared with 61234 million shares at end of 2006. This rise in the number of shares issued is attributable to a number of factors, the most important of which is the issuance of bonus shares by companies, followed by the listing of new companies. The number of new listed companies was 16 during 2007 bringing the number of listed companies to 196 at end of 2007.

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

Item	2003	2004	2005	2006	2007
National Accounts:					
GDP at Current Prices:	14267.2	17516.7	23593.5	29494.5	31841.0
Crude Oil & Natural Gas Sector	5797.8	7822.0	12232.8	16430.0	17347.6
Non-oil Sectors	8334.3	9533.2	11186.8	12877.7	14312.5
Of which: Petroleum Products	572.4	795.5	970.2	829.4	752.8
Import Duties	135.1	161.5	173.6	186.8	180.9
GDP (at Fixed Prices of 2000):	14014.0	15512.5	17179.9	18365.3	...
Crude Oil & Natural Gas Sector	5858.1	6370.4	7143.2	7340.6	...
Non-oil Sectors	8031.9	8994.4	9985.2	10875.3	...
Of which: Petroleum Products	562.9	568.7	583.9	609.0	...
Import Duties	124.0	147.7	151.5	149.4	...
Domestic Prices:					
CPI (2000=100)	103.2	104.5	108.8	112.1	118.3
WPI (1980=100)	175.1	175.8	183.6	187.5	194.8
Money and Banking:					
Money Supply (M2)	10401.2	11655.2	13086.2	15920.6	18987.2
Money (M1)	2611.5	3174.2	3727.4	3550.3	4146.7
Quasi-money	7789.7	8481.0	9358.8	12370.3	14840.5
Private Sector Deposits with Local Banks	9907.1	11124.2	12507.5	15264.2	18345.7
Of which: KD Deposits	8916.6	9955.3	10959.5	13019.7	16635.6
Local Bank Credit Facilities to Residents	8419.4	9867.0	11827.3	14933.7	20138.7
Of which: Consumer Loans	748.8	736.4	789.0	756.0	631.2
Net Foreign Assets of Local Banks	500.5	1369.8	1533.6	2129.6	1392.2
Aggregate Balance Sheet of Local Banks	18813.9	19144.2	21611.6	26990.0	35555.0
US \$ Exchange Rate vs. KD at Year End (fils)	294.70	294.70	292.00	289.14	273.80
Public Debt Instruments:					
Value of Issues:	4400.5	3854.2	2969.0	2296.6	1641.0
Treasury Bills	3030.5	2515.2	562.0	-	-
Treasury Bonds	1370.0	1339.0	2407.0	2296.6	1641.0
Maturities:	4405.0	3887.7	2989.0	2407.0	1641.0
Treasury Bills	3395.0	2617.7	1650.0	-	-
Treasury Bonds	1010.0	1270.0	1339.0	2407.0	1641.1
Balances at Year End:	2460.5	2427.0	2407.0	2296.6	2296.0
Treasury Bills	1190.5	1088.0	-	-	-
Treasury Bonds	1270.0	1339.0	2407.0	2296.6	2296.0

.....Cont'd.

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

Item	2003	2004	2005	2006	2007
CBK Bonds:					
Value of Issues:	-	-	474.0	1261.0	2280.6
3-month	-	-	474.0	1261.0	1413.6
6-month	-	-	-	-	867.0
Maturities:	-	-	350.0	1029.0	2046.0
3-month	-	-	350.0	1029.0	1519.0
6-month	-	-	-	-	527.0
Balances	-	-	124.0	346.0	580.6
3-month	-	-	124.0	346.0	240.6
6-month	-	-	-	-	340.0
Public Finance (Fiscal Years): ⁽¹⁾	(2003/04)	(2004/05)	(2005/06)	(2006/07)	(2007/08) ⁽²⁾
Revenues	6936.3	8962.4	13728.1	15509.3	18934.1
Expenditures	5522.8	6315.2	6862.0	10306.4	7493.1
Surplus or Deficit ⁽³⁾	1413.4	2647.2	6866.1	5202.9	11441.0
Foreign Trade:					
Total Value of Exports, of which:	6162.1	8428.1	13101.6	16165.7	17678.0
Value of Oil Exports ⁽⁴⁾	5663.5	7861.1	12392.6	15429.7	16780.0
Total Value of Imports (cif)	3274.1	3722.2	4613.9	4629.2	6705.5
Balance of Payments:					
Current Account	2809	5352	10018	14965	13492
Balance on Goods	3551	5430	9558	12857	12237
Services Account (Net)	-1035	-1132	-1133	-663	-980
Income Account (Net)	1002	1806	2586	3821	3677
Current Transfers (Net)	-709	-752	-993	-1050	-1443
Kuwait Stock Exchange:					
(Excluding Investment Funds Transactions)					
Value of Traded Shares (KD Million)	16250.3	15274.2	28420.8	17283.9	37009.4
Quantity of Traded Shares (Million Shares)	49562.6	33535.7	52245.1	37657.9	70437.9
Number of Transactions (Thousand Transactions)	1081.7	1056.9	1955.4	1486.2	2101.7
Price Index (29/12/1993 =1000)	4790.2	6409.5	11445.1	10067.4	12558.9
Weighed Index (26/12/2000=100)	291.3	335.9	562.2	531.7	715.0

(1) Data are taken from the closing accounts, (fiscal years end up in March).

(2) Follow-up statements for the period (April-December 2007).

(3) Before deducting the allocations for the Reserve Fund for Future Generations.

(4) CBK estimates for oil exports and foreign trade, for the period 2005-2007.

(...) Unavailable Data.