

Summary of the Economic Report

This economic report followed up, through six parts, the most significant economic, financial, monetary and banking developments and events witnessed in the Kuwaiti economy during year 2006, and highlighted their most salient reflections on the main indicators of its performance, particularly those connected to the trends and sources of economic growth, domestic inflation rates, demographic composition, and main characteristics of the country's labor force. The report also addressed the Central Bank of Kuwait (CBK) efforts in areas connected to drawing and implementing the monetary policy, the measures and programs of supervision and oversight of the banking and financial sector, the effects thereof on the principal monetary variables and aggregates, and the development of the financial indicators expressing the performance of the banking and financial system units and their current financial positions and structures with regard to sources and uses of funds.

The report also reviewed the developments in the internal fiscal balances of the Kuwaiti economy as reflected by the data on the general budget of ministries and governmental departments, and the external financial balances as highlighted by foreign trade and balance of payments statistics. Additionally, the report followed up and analyzed the developments and events in trading and price indices in the Kuwait Stock Exchange. As has been the case in previous years, the Central Bank of Kuwait (CBK) was keen on basing this analysis of the developments in the economic, financial, monetary and banking conditions of the State of Kuwait during year 2006, on latest available data and statistics, so as to present a comprehensive and objective view of the effect of these developments on the general performance of the Kuwaiti economy and the positions of its internal and external financial balances. The most important developments and events in the economic report issued by the Central Bank of Kuwait for year 2006 can be summarized as follows:

First- Performance of the Domestic Economy:

The first part of the economic report focused on the main features of the performance of the Kuwaiti economy during 2006, as reflected by available data on national accounts,

domestic prices, and population and labor force. The most important aspects presented by this part of the report can be summarized as follows:

1- Economic Growth and Sectoral Developments:

- The State of Kuwait GDP at current prices continued to grow during 2006 to KD 29572.8 million, against KD 24477.8 million in 2005, i.e. a growth of KD 5095 million (20.8%), compared to a growth of 39.7% during the previous year.
- The largest portion (70.1%) of the mentioned growth in the State of Kuwait GDP at current prices during 2006 reflects the favorable developments witnessed in world oil markets and the accompanying rise in world oil prices on the one hand, along with the increase in the State of Kuwait's crude oil production rates on the other, and the ensuing rise in total value added at current prices in the oil sectors (crude oil and natural gas production sector and the refined petroleum products industry) to KD 17374.1 million during 2006, compared with KD 13803 million in 2005, i.e. an increase of KD 3571.1 million or 25.9% compared with a growth of 60.2% during the previous year. With the increase in the total value added at current prices in the oil sectors, its ratio in the composition of the State of Kuwait GDP increased, in turn, from 56.4% during 2005 to 58.8% during 2006.
- The growth in the total value added at current prices in the non-oil sectors (excluding the refined petroleum products industry) decelerated to KD 12024.1 million during 2006, from KD 10501.2 million during 2005, i.e. an increase of KD 1522.9 million or 14.5%, following its growth by 20.2% during 2005. With the relative deceleration in the growth rate of the total value added at current prices in the non-oil sector, its ratio in the composition of the State of Kuwait GDP at current prices declined from 42.9% during 2005 to 40.7% during 2006.
- The above mentioned growth in the total value added in non-oil sectors during year 2006 encompassed without exception all sections of economic activity which constitute these sectors, though at rates which were often below their corresponding rates of 2005. Worth mentioning within this context is that the Financial Institutions activity contributed the highest portion (68.1%) of the growth in the total value added in the non-oil sector, as it grew by KD 1036.8 million or 37.3% during 2006,

compared with a growth of 85.5% during year 2005. In light of this development, the Financial Institutions sector moved to the first position in the ranking of non-oil sectors in terms of its relative contribution to the composition of the total value added in these sectors, whereby that contribution reached 31.6% during 2006 compared to 26.4% during 2005.

The Community, Social and Personal Services activity came second to the Financial Institutions activity with regard to its relative contribution (16.4%) to the growth in the total value added in the non-oil sectors, as it grew by KD 250.4 million (7.8%) during 2006, compared to a growth of 9.4% during the previous year. Furthermore, a deceleration was witnessed in the growth of the value added at current prices in the Transport, Storage and Communication activity (from 17.4% to 13.5%), the Manufacturing Industries excluding the refined petroleum products industry (from 12.5% to 9.6%), the Real-Estate activity (from 10.4% to 7.2%), Other Business Services (from 6.6% to 4.6%) and Insurance (from 26.9% to 24%), while acceleration was recorded in the growth rate of the value added at current prices in the Electricity, Gas and Water activity (from 4% to 5.5%), the Construction activity (from 8.8% to 9.7%), and Agriculture, Livestock and Fishing activity (from 0.3% to 4.6%) between 2005 and 2006, respectively.

- As for the sources of the rise in GDP at current prices from the perspective of expenditure on GDP, the major portion (77.4%) of that rise resulted from the increase in expenditure of the outside world (exports of goods and services) on the GDP by KD 3944 million or 26.1% to KD 19038 million during 2006, from KD 15094 million during the previous year. Furthermore, the total expenditure by residents, which represents the sum of the final government and private consumption expenditures, and expenditure on gross capital formation, rose by KD 1604 million or 10% to KD 17657.8 million during 2006, from KD 16053.8 million during the previous year.
- The Gross National Product (GNP) of the State of Kuwait rose during 2006 by 23.6% to KD 33456.8 million, from KD 27063.8 million during the previous year. The National Income at current prices rose by 24.2%, from KD 25626.2 million during 2005 to KD 31838 million during 2006. Accordingly, the average per-capita share of the National Income at current prices rose from KD 8939 during 2005 to KD 10432.5 in 2006, i.e. an increase of KD 1493.5 (16.7%).

2- Inflation in Domestic Prices:

- Inflation rate in the State of Kuwait, measured as the relative change in the General Consumer Price Index (year 2000=100), declined from 4.1% during 2005 to 3.1% during 2006. Contributing to that decline was the deceleration in the growth rate of the general price level of items constituting the 'Food' group (from 8.5% to 3.9%), 'Education and Health Care' group (from 5.7% to 2.4%), the 'Other Goods and Services' group (from 7.8% to 4.8%), the 'Clothing and Footwear' group (from 6.3% to 4.1%), and the 'Household Goods and Services' group (from 3.6% to 2.7%) between 2005 and 2006 respectively.
- The above mentioned decline in the inflation rate in the Consumer Price Index during 2006 compared to the previous year was accompanied with a parallel decrease, in the same direction, in the rate of change in the General Wholesale Price Index. Specifically, the General Wholesale Price Index in the State of Kuwait declined from 4.4% during 2005 to 2.1% during 2006. This decline is essentially attributable to the deceleration in the rate of increase in the general level of wholesale prices of imported goods (whose relative weight in the General Wholesale Price Index is 76.9%), from 4.8% during 2005 to 2% during 2006. Also the inflation rate in the Wholesale Price Index of domestically produced goods declined from 3.3% during 2005, to 2.6% during 2006.

3- Population and Labor Force:

- The total population of the State of Kuwait rose to 3.183 million at end of 2006, from 2.991 million at end of 2005, i.e. a growth of 6.4%. The largest portion (83.8%) of that increase in total population is attributable to the rise in non-Kuwaiti population by 8%, while the rise in Kuwaiti population by 3.1% during 2006 contributed the remaining portion (16.2%).
- The above mentioned rise in the total population of the State of Kuwait was essentially concentrated in the number of economically active individuals (those aged between 15 and less than 60 years) which rose by 7% at end of 2006 compared to their number at end of the previous year, leading to the rise of their ratio in the total population to 76% from 75.6% at end of the two mentioned years respectively.

This rise encompassed both the Kuwaiti population (by 3.2%) and non-Kuwaiti population (by 8.2%) between the ends of 2005 and 2006, respectively.

- The growth rate of the number of individuals under 15 years of age decelerated from 4.5% during 2005, to 4.3% during 2006. This deceleration was essentially concentrated in the non-Kuwaiti population aged less than 15 years, as the number of individuals in this category to the total non-Kuwaiti population declined from 21.5% at end of 2005 to 21.1% at end of 2006. Meanwhile, this group of individuals in the Kuwaiti population remained at 39.9%, at end of the two mentioned years respectively.
- The total labor force in the State of Kuwait rose by 8.1% at end of 2006 compared to end of the previous year. This rise encompassed both the Kuwaiti labor force (by 6.5%) and non-Kuwaiti labor force (by 8.4%) during 2006. Consequently, the relative importance of the national labor force in the total labor force declined (from 17.6% to 17.4%), while the relative importance of the expatriate labor force rose (from 82.4% to 82.6%), between the ends of 2005 and 2006, respectively.
- The labor force rose by 11.8% in the private sector and by 3.4% in the governmental sector at end of 2006, compared to end of the previous year. The largest portion (90.6%) of the growth in the private sector labor force during 2006 was essentially due to the increase in the expatriate labor force in that sector. On the other hand, the largest portion (76.3%) of the growth in the governmental sector labor force during 2006 was essentially due to the rise in national labor force in that sector.

Second- Monetary Developments and Activity of CBK:

The second part of the report focused on highlighting the developments in the main monetary indicators and aggregates during 2006 in Money Supply, bank credit, interest rates, exchange rate of the Kuwaiti dinar, and issues of Public Debt Instruments, etc. This part of the report also addressed CBK's efforts during 2006 in areas connected to drawing and implementing the monetary policy of the State of Kuwait, and reported the role played by that policy in influencing the trend of the main monetary indicators and aggregates, in line with firming the bases of monetary stability in the country and enhancing the opportunities and elements of self-generated growth in the national

economy, within the framework of the State general economic policy. The report also followed up the developments concerning CBK's activity in the supervision and oversight of the banking and financial system units, and its role in directing and rationalizing the credit policy of banks and investment companies subject to its supervision, within its efforts towards creating an atmosphere that contributes to further strengthening these units and increasing the soundness of their financial positions, in line with prudent banking and financial practices and customs.

The most significant aspects presented in this part of the report in this regard, can be highlighted as follows:

- 1- During 2006 growth in domestic liquidity levels continued at rapid rates, in line with the rise in rates of domestic economic activity. Within this context, the report indicated that Money Supply in its broad definition (M2) rose markedly to KD 15920.6 million at end of 2006, from KD 13086.2 million at end of 2005, i.e. by KD 2834.3 million or 21.7%, following a growth of KD 1431 million or 12.3% in the previous year. Accordingly, the year 2006 witnessed the highest growth rate in Money Supply (M2). This growth is essentially attributable to the accelerated growth in both Quasi-Money by KD 3011.5 million or 32.2% during 2006, while Money (the narrow definition of Money Supply, M1) declined by KD 177.1 million or 4.8% during that year. Within the aggregate monetary position of CBK and local banks, changes in Money Supply (M2), reflected the sum of the rise in the net domestic assets of these institutions (essentially local banks' claims on the private sector) by KD 1192.3 million or 13% (from KD 9182.3 million to KD 10374.6 million) on the one hand, and their net foreign assets by KD 1642 million or 42.1% (from KD 3904 million to KD 5546 million), on the other.
- 2- Bank credit extended by local banks to the various domestic economic sectors is considered the main source of the above mentioned growth in domestic liquidity levels during 2006. Within this context, the report indicated that the balances of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors, continued rising at an accelerated rate, thus reaching KD 14933.7 million at end of year 2006, from KD 11827.3 million at end of year 2005, i.e. a rise of KD 3106.4 million or 26.3%, following its rise by KD 1960.3 million or 19.9% during the previous year. This rise encompassed most domestic economic sectors, excluding the Oil and Gas sector, and Public Services sector, and

was particularly concentrated in the Personal Facilities sector (by KD 915 million, or 17.8%), the Real-Estate sector (by KD 749.5 million, or 29.5%), the Non-Bank Financial Institutions sector (by KD 494.1 million, or 53%), the Trade sector (by KD 330.8 million, or 24.1%), and the Construction Sector (by KD 299.8 million, or 38.9%).

- 3- Developments in domestic interest rates during 2006 reflect CBK's efforts towards enhancing the ability of local banks to attract more KD deposits, in light of the global uptrend in interest rates, so as to enable these banks to meet the increasing financing needs of their customers from the various sectors of the domestic economy. Within this context, the report indicated that that the CBK effected one raise in the discount rate by 0.25% during 2006 (from 6% to 6.25%) on the 3rd of July 2006, compared to an increase of 1.25% in the discount rate during the previous year (from 4.75% to 6%). In the light of these increases on the one hand, along with the CBK sustained follow up with the local banks in this regard on the other, the average interest rates on the KD-denominated customers' time deposits with local banks increased for all terms. As a result of these developments, an improvement was recorded in the margins between the averages of local banks' interest rates on customers' deposits in KD and US dollar.

- 4- The exchange rate of the Kuwaiti dinar maintained its relative stability against the major currencies during 2006, particularly against the US dollar, under the exchange rate policy based on pegging the Kuwaiti dinar to the exchange rate of the US dollar within specific margins, which the CBK started enforcing as of the beginning of 2003, according to the Decree No. 266 of year 2002, issued on 15 October 2002, concerning the KD exchange rate policy. Within CBK's eagerness to maintain the purchasing power of the Kuwaiti dinar against the currencies of the most significant trade partners of the State of Kuwait, for the purpose of curbing the imported inflationary pressures, the CBK decided on 11/5/2006 to raise the exchange rate of the Kuwaiti dinar against the US dollar from 292 fils to 289.14 fils/dollar, i.e. a decrease of 2.86 fils (1%). This rate is below the parity rate by 10.49 fils or 3.5%. Data indicate that the Kuwaiti dinar was stable against the US dollar at that level during the rest of 2006. Conversely, the exchange rate of the US dollar fluctuated within broad margins against the other major currencies during 2006; whereby the difference between the highest and lowest exchange rates of the

US dollar against these currencies, during 2006, reached 15% against the Sterling pound, 12.7% against the Euro, 10.8% against the Swiss franc, and 9.3% against the Japanese yen.

- 5- The CBK continued during year 2006 its efforts in enhancing the soundness of the financial positions of the banking and financial sector units registered with it, within the context of its role in the supervision and oversight of these units. These efforts encompassed off-site monitoring and on-site inspection, along with the issuance of instructions aimed at shoring up the bases of stability in the local banking and financial sector, and firmly establishing professionally sound practices in this sector's units. Within this context, the report indicated that the CBK issued in 2006 new instructions, and introduced modifications to previously issued instructions regarding the activities of the local banking and financial sector's units subject to its supervision, in line with the developments on the domestic and world scenes. Among the most significant of these instructions are those concerning the sound and fair application of the International accounting Standards regarding financial statements, defining the concept of maximum allowed limit of consumer loans and other installment loans for any single customer, the policies and procedures of conventional domestic banks and branches of foreign banks in regard to the application of some elements of the revised capital adequacy standard (Basel II), combating money laundering and terrorism financing operations, and the maximum limits of credit concentration for the branches of foreign banks operating in the State of Kuwait.

- 6- The developments in the balances of public debt instruments during year 2006 indicate the continuation of the CBK efforts which started since November 1987 in the management of public debt instruments (Treasury Bills and Treasury Bonds) on behalf of the Ministry of Finance, noting that the CBK uses these instruments in regulating the levels of domestic liquidity. In this regard, the report indicated that during 2006, the CBK offered 25 issues of Treasury Bonds with a total nominal value of KD 2296.6 million. During that year, 24 previous issues of Treasury Bills with a total nominal value of KD 2407 million reached maturity. Regarding Treasury Bills, the CBK discontinued their issuance since the 2nd of March 2005. As a result of the extinguishment of the outstanding balance of these Bills, that balance was depleted at end of August 2005. Accordingly, the outstanding balance of public

debt instruments declined by KD 110.4 million or 4.6% to KD 2296.6 million at end of year 2006, against KD 2407 million at end of 2005.

The CBK intensified the use of the deposit acceptance system from the banking and financial system units, and CBK Bonds, in regulating the levels of domestic liquidity during 2006. Within this context, the report indicated the rise of the balance of time deposits of local banks with the CBK by KD 473.6 million or 107.6% (from KD 440.4 million to 914 million), and the balance of CBK Bonds by KD 232 million or 187.1% (from KD 124 million to 356 million) between the end of 2005 and 2006 respectively.

Third- Financial Indicators of the Banking and Financial Sector:

The third part of the report focused on following up the developments in the local banking and financial system during 2006, as derived from the aggregate balance sheets of the groups of units within this system, with the purpose of determining certain aspects of growth and performance in the developments and 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-** The diversification and expansion of the **institutional structure of the banking and financial system** increased during 2006, for the third consecutive year. Within the permission for foreign banks to open branches in the State of Kuwait, by virtue of the Law No. 28 of year 2004 amending certain provisions of Law No. 32 of year 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business on the one hand, and the principles, regulations and controls endorsed by the CBK Board of Directors regarding the licensing and operation of foreign banks' branches in the domestic market on the other, Citibank-New York was licensed to establish a branch in the State of Kuwait, noting that that this branch was officially registered in the CBK register of commercial banks on 27/3/2006, and started operations in the State of Kuwait as of that date. Furthermore, during 2006, the number of domestic branches of commercial banks increased by 27 new branches.

The number of Investment Companies registered with the CBK and subject to its supervision rose to 73 companies (of which 33 companies operating according to the

provisions of Islamic Sharia) at end of 2006, against 56 companies at end of 2005 (of which 23 investment companies operating in accordance with the provisions of Islamic Sharia). Also, the number of Exchange Companies subject to the CBK supervision increased from 38 companies at end of 2005 to 39 companies at end of 2006. The number of Investment Funds registered with CBK and subject to its supervision rose markedly, for the third consecutive year, by the addition of 13 new investment funds, thus bringing their number to 79 funds at end of year 2006 from 66 funds at end of the previous year.

- 2- During 2006, the aggregate balance sheet of local banks reflected their efforts towards developing their sources and uses of funds, along with strengthening the structural bases of their financial positions, by endeavoring to attract and use funds domestically and abroad, in addition to enhancing their competitiveness for carrying out their significant financing role in the national economy, by using the available financing opportunities offered by the private sector projects and the government development plans, and keeping pace with the rise in demand on the banking services which accompanies the country's economic growth and improvement in the trade exchange ratios. Within this context, the report indicated an accelerated growth in the **total aggregate balance sheet of local banks** which reached KD 26990 million at end of 2006 from KD 21611.6 million at end of 2005, i.e. a growth of KD 5378.4 million (or 24.9%). Several factors contributed to the realization of that growth, chief among which was the accelerated growth in the balances of local banks' claims on the resident private sector by KD 3211.5 million, equivalent to 59.7% of the mentioned overall growth in the total aggregate balance sheet of local banks during 2006 compared to the previous year.

On the liabilities side, the largest portion (51.3%) of the above mentioned increase in the total aggregate balance sheet of local banks resulted from the increase in the balances of private sector deposits with local banks by KD 2756.7 million or 22% at end of 2006, compared to end of the previous year.

- 3- The analysis of financial flows indicate that local banks, in order to make available financial resources for their operations in year 2006, resorted to raising their domestic liabilities (private sector deposits, government deposits, shareholders'

equity, and other domestic liabilities) to a lesser extent than reducing their domestic assets (claims on the government) as was the case in the previous year. Regarding the use of domestic financial resources made available to them during 2006, local banks increased their domestic assets (particularly claims on the private sector, whether in the form of credit facilities extended to residents or claims on the CBK). During the previous year, the use of these assets was distributed between increasing some elements of domestic assets and reducing some elements of domestic liabilities. In general, local banks' operations during 2006 were characterized by realizing domestic financial resources in excess of their domestic uses during the mentioned year on the one hand, and surpassing the domestic financial resources realized during the previous year on the other.

- 4- The results and conclusions derived from analyzing the developments in the items of the aggregate balance sheet of local banks indicate that the growth of the financing extended by local banks to the private sector accelerated from 18.8% during 2005 to 24.8% during 2006. Furthermore, the report indicated the continued significant role of private sector deposits in the structure of relative distribution of sources of funds made available to local banks on the liabilities side of the aggregate balance sheet. Within this context, the report indicated that the growth in balances of these deposits accelerated from 12.4% during 2005 to a growth of 22% during 2006, to reach KD 15264.2 million equivalent to 56.6% of the total aggregate balance sheet of local banks at end of 2006, against KD 12507.5 million equivalent to 57.9% of the total aggregate balance sheet of local banks at end of 2005.

The net foreign assets of local banks recorded a substantial rise at end of year 2006, for the fourth consecutive year, to KD 2129.6 million, i.e. by KD 595.9 million (or 38.6%), compared to its level of KD 1533.6 million at end of 2005. This rise resulted essentially from the rise in foreign assets, particularly deposits with foreign banks.

- 5- Local banks achieved record profit levels in year 2006, surpassing those realized during the previous years. Net profits realized by local banks reached KD 858.4 million during year 2006, compared to KD 482.2 million and KD 640.8 million

during 2004 and 2005 respectively. Available aggregate data on local banks indicate 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 reached 21.8% at end of year 2006 (19.9% for banks operating according to the provisions of Islamic Sharia), compared to 21.1% for all conventional local banks (21.7% for banks operating according to the provisions of Islamic Sharia) at end of the previous year.

6- Local investment companies subject to CBK supervision (whether conventional companies or those operating according to the provisions of Islamic Sharia) continued in year 2006 to develop the structure of their sources and uses of funds. Available data indicate that the total assets of local investment companies (73 companies, of which 40 conventional investment companies and 33 investment companies operating according to the provisions of Islamic Sharia) reached KD 13034.3 million at end of 2006, against KD 9429.1 million at end of 2005 (56 companies, of which 33 conventional investment companies and 23 investment companies operating according to the provisions of Islamic Sharia).

Worth noting is that local investment companies manage off-balance sheet funds within their contra accounts, mostly as third party investments, in excess of the total aggregate balance sheet of these companies. These funds totaled KD 16475.2 million (for 73 investment companies) at end of 2006, compared with KD 14459.6 million (for 56 investment companies) at end of 2005, i.e. a growth of KD 2015.6 million or 13.9%.

7- Available comparative financial data on **conventional investment companies** (27 companies) indicate that their total aggregate balance sheet reached KD 7596.2 million at the end of year 2006, thus achieving a growth of KD 1098.7 million (or 17%) above its level of KD 6470.5 million at end of the previous year, for the same companies. The largest portion (63.7%) of this growth reflects the rise in the balances of foreign assets of these companies by KD 699.5 million (or 24.7%) during 2006. On the liabilities' side of the aggregate balance sheet of conventional investment companies, this growth is essentially attributable to the growth in foreign

liabilities by 24.4% and capital and reserves by 12.8% at end of 2006 compared to end of the previous year.

- 8- Available comparative financial data on the aggregate balance sheet of **investment companies operating in accordance with the provisions of the Islamic Sharia** (14 companies) indicate a tangible growth of KD 1086 million (43.8%) compared to the previous year, whereby that total balance sheet reached KD 3567.8 million at end of year 2006, compared to KD 2481.9 million for the same companies at end of the previous year. This growth encompassed, though unevenly, all main items on both the assets and liabilities' sides in the aggregate balance sheet of investment companies operating in accordance with the provisions of the Islamic Sharia. On the assets side, the rise of KD 461.4 million or 63.5% in the balances of domestic financial investments constituted the main source of growth on the assets side at end of 2006 compared to the previous year. On the liabilities side, the largest portion (58.4%) of the growth witnessed in the total liabilities is attributable to the rise in the balances of the domestic financing from the financial sector by KD 546.7 million (59.8%) at end of 2006 compared to end of the previous year.
- 9- Available financial data indicate that the **total balances of contra accounts of local investment companies** (40 conventional investment companies, and 33 companies operating in accordance with the provisions of Islamic Sharia), reached KD 16475.2 million at end of year 2006, thereby achieving a noticeable rise of KD 2015.6 million (13.9%) above their end of year 2005 level of KD 14459.6 million for the same companies.
- 10- The year 2006 witnessed the continued rise in the numbers of **investment funds established in the domestic market**, and registered with CBK, to 79 funds at end of that year, of which 33 investment funds operating in accordance with the provisions of Islamic Sharia at end of 2006, against 66 funds at end of 2005. This development reflects the increasing significance of the role of these funds in the domestic market, noting that these funds vary in their objectives and areas of activity.

11- Available comparative data on 35 companies, among the **local exchange companies** registered with CBK and subject to its supervision (39 companies as at end of 2006), indicate that the aggregate balance sheet of these companies reached KD 94.2 million at end of year 2006, i.e. a slight decline of KD 5.7 million or 5.7% compared to KD 99.9 million at end of the previous year (for the same companies).

Fourth- Developments in Public Finance:

The fourth part of the economic report focused on following up the developments in public finance in the State of Kuwait during 2006, through three main sections. The first addressed the most significant results of the closing account for the fiscal year 2005/06, the second reviewed the revenue estimates and allocations for expenditures in the general budget for the fiscal year 2006/07, and the third addressed the portion executed of that budget during the period 1/4/2006 – 31/12/2006 (as reported in the monthly follow-up statements). The contents of that part of the report can be summarized as follows:

- 1-** According to **the closing accounts' data of the fiscal year 2005/06**, the actual budgetary revenues collected during that fiscal year rose markedly to KD 13728.1 million compared with KD 8962.4 million during the fiscal year 2004/05, i.e. a rise of KD 4765.7 million or 53.2%. That rise essentially reflects the increase in actual oil revenues by KD 4785 million or 58.6%, from KD 8170.5 million during the fiscal year 2004/05 to KD 12955.5 million during the fiscal year 2005/06. Additionally, the actual budgetary non-oil revenues within the closing account of the fiscal year 2005/06 declined by KD 19.2 million (or 2.4%) to KD 772.7 million, compared to KD 791.9 million for the previous fiscal year.
- 2-** The actual budgetary expenditures, within the closing account of the fiscal year 2005/06, increased by KD 546.8 million or 8.7% to KD 6862 million, against KD 6315.2 million in the previous fiscal year. That rise encompassed all chapters of expenditures, though its largest portion (66.6%) was concentrated in the increase in actual budgetary expenditures under the second chapter (requirements of goods and services) by 21.6%, and the first chapter (salaries and wages) by 10.1% during the fiscal year 2005/06, compared to the previous fiscal year.
- 3-** As an outcome of the above mentioned developments in actual revenues and

expenditures, the closing account for the fiscal year 2005/06 realized a surplus of KD 6866.1 million, before deducting the allocations for the Reserve Fund for Future Generations, against an actual surplus of KD 2647.2 million for the previous fiscal year, i.e. an increase of KD 4218.9 million or 159.4%. Accordingly, the ratio of the realized surplus in the State general budget to the GDP rose to 26.7% for the fiscal year 2005/06 compared to 13.7% during the fiscal year 2004/05.

4- The report also reviewed, within this part, the general aspects of **revenue estimates and allocations for expenditures in the general budget for the fiscal year 2006/07** enacted by the Law No. (40) of year 2006 issued on 30/5/2006. Within this context, the report indicated the following:

- The budgetary revenue estimates for the fiscal year 2006/07 reached KD 8519.7 million, indicating an increase of KD 3912.9 million (84.9%) compared to their estimates for the fiscal year 2005/06. This is essentially attributable to the rise in oil revenues estimates (by KD 3822.5 million or 97.7% to KD 7736.5 million). The budgetary non-oil revenue estimates for the fiscal year 2006/07 were higher by KD 90.4 million (13%) than their approved estimates for the fiscal year 2005/06.
- The allocations for budgetary expenditures for the fiscal year 2006/07 increased by KD 3885.5 million or 53.7% to KD 11119 million, compared to KD 7233.5 million for the allocations for budgetary expenditures for the previous fiscal year 2005/06. The largest portion (59.6%) of that increase reflected the rise in the approved estimates of transfers to public authorities and institutions by KD 2321.5 million or 180.6% to KD 3606.8 million (or 32.4% of the total allocations for budgetary expenditures for the fiscal year 2006/07), compared to their estimates of KD 1285.3 million or 17.8% of the total allocations for budgetary expenditures for the fiscal year 2005/06.

5- The report also reviewed within that part the government fiscal operations during the first nine months (April-December 2006) of the fiscal year 2006/07. The following summarizes the most significant of these developments:

- According to the data in the monthly follow-up statements of actual budgetary revenues and expenditures during the first nine months of the fiscal year 2006/07 (April-December 2006), the actual budgetary revenues collected during that period

rose to KD 12004.7 million, i.e. an increase of KD 1917 million or 19% above the actual budgetary revenues of KD 10087.8 million collected during the corresponding period of the previous fiscal year (April-December 2005). This increase essentially reflects the rise in world oil prices along with the increase in actually produced quantities of oil, and the resulting rise in actual budgetary oil revenues collected during the first nine months of the fiscal year 2006/07, to KD 11383 million, against KD 9542.6 million during the corresponding period of the previous fiscal year 2005/06 (April-December 2005), representing an increase of KD 1840.4 million or 19.3%. Also, the actual budgetary non-oil revenues collected during the first nine months of the fiscal year 2006/07 increased by KD 76.5 million or 14%, compared to the corresponding period of the previous fiscal year.

- The total actual budgetary expenditures during the first nine months of the fiscal year 2006/07 (April-December 2006) reached KD 5109.2 million, i.e. higher by KD 1651.9 million (47.8%) than the actual budgetary expenditures during the corresponding period of the previous fiscal year (April-December 2005). That increase essentially reflects the growth in actual budgetary expenditures under the fifth chapter (miscellaneous expenditures and transfer payments) by KD 1658.5 million (91.5%) during the first nine months of the fiscal year 2006/07, compared to the corresponding period of the previous fiscal year.
- As an outcome of the above developments, the general budget realized during the first nine months of the fiscal year 2006/07 (April-December 2006) an actual surplus of KD 6895.5 million, compared with an actual surplus of KD 6630.4 million during the period (April-December 2005), before deducting the allocations for the Reserve Fund for Future Generations, i.e. an increase of KD 265.1 million or 4%.

Fifth- Developments in Foreign Trade and Balance of Payments:

The fifth part of the report addressed the main developments witnessed in the economic and financial relations between the residents in the domestic economy and residents in other economies, as reflected by the available data and estimates on the Foreign Trade and Balance of Payments (BOP) statistics of the State of Kuwait for year 2006 compared to 2005. The most significant aspects covered by the report in this regard can be summarized as follows:

1. The growth in the surplus realized in the Balance on Goods (expressing the arithmetical difference between the total value of merchandise exports and imports “fob”) rose from KD 9558 million during 2005 to KD 12851 million during 2006, i.e. a rise of KD 3293 million or 34.5%, compared to a rise of KD 4128 million or 76% during 2005. With the rise in the Balance on Goods surplus, its ratio to the GDP at current prices rose from 39% during 2005 to 43.4% during 2006. The main source of that rise was the noticeable growth of the total value of merchandise exports and re-exports on ‘fob’ basis, by KD 3300 million or 24.1% to KD 17015 million during 2006, from KD 13715 million during 2005. This increase encompassed the oil exports by KD 3272 million or 25.4% (from KD 12880 million to KD 16152 million) on the one hand, and non-oil exports by KD 28 million or 3.3% (from KD 836 million to KD 863 million) on the other. The total value of the State of Kuwait’s merchandise imports (fob) rose limitedly by KD 7 million (0.2%) to KD 4164 million during 2006 from KD 4157 million during 2005.
2. The deficit realized in the Services Account (Net) in the BOP statistics, which reflects the net value of transactions between residents and non-residents of the domestic economy with regard to transportation, insurance, travel and other services, declined by KD 197 million or 17.4% to KD 936 million during 2006, compared with a deficit of KD 1133 million for 2005. This decline essentially reflects the growth in the total value of receipts of residents in the domestic economy, recorded on the credit side of the Services account, connected to the total receipts resulting from the extension of communication and information services to non-residents, recorded under the ‘Other Services’ item in the Services account.
3. The surplus realized in the ‘Investment Income’ item rose from KD 2586 million during 2005 to KD 3884 million during 2006, i.e. an increase of KD 1298 million or 50.2%. This rise reflects the favorable developments in the rates of return on financial instruments and investment assets in the major financial markets, along with the increase in the balances of Kuwait’s external investments abroad during 2006. This rise encompassed the rise in net investment income for the General Government, the CBK, local banks and other sectors, by uneven rates.

4. The deficit recorded in the 'Current Transfers (Net)' item, rose by KD 10 million (1%) to KD 1003 million during 2006, from KD 993 million during 2005. The largest portion of this rise reflects the growth in the net value of the outbound unrequited current transfers by the Other Sectors by KD 109 million (13.5%) to KD 919 million during 2006, compared to its previous year level of KD 809 million.
5. The Current Account in the BOP statistics of the State of Kuwait (which reflects the outcome of the above mentioned developments regarding the balance on goods, Services Account (Net), Investment Income (Net), and Current Transfers (Net)) realized a tangible surplus estimated at KD 14796 million during 2006, against a surplus of KD 10018 million during 2005, i.e. a rise of KD 4778 million or 47.7%. With the rise in the Current Account surplus, its ratio to the GDP at current prices rose to 50% during 2006, from 40.9% during 2005.
6. The net capital inflows recorded on the credit side under the 'Capital Account' of the BOP statistics of the State of Kuwait rose from KD 233 million during 2005 to KD 256 million during 2006, i.e. a rise of KD 23 million or 9.9%. This development essentially reflects the total value of compensations received by residents in the domestic economy from the United Nations Compensation Committee, from KD 241 million during 2005 to KD 265 million during 2006, i.e. a growth of KD 24 million or 10%.
7. The growth in net value of Kuwaiti external investments recorded on the debit side under the 'Financial Account' of the BOP statistics of the State of Kuwait, accelerated by KD 4835 million (53.2%) to a growth of KD 13929 million during 2006, compared with a growth of KD 9094 million in the net value of these assets during 2005. This rise occurred, during 2006, essentially as a result of the rise in the net value of assets invested abroad by the institutions and bodies recorded under the General Government (by KD 12029 million), local banks (by KD 552 million), and the 'Other Sectors' (by KD 1375 million). From the perspective of the composition of external investments recorded under the 'Financial Account', the report indicated that the above mentioned increase in net value of the State of Kuwait's external investments during 2006, reflects the outcome of the growth of the Kuwaiti investments recorded under the 'Portfolio Investments (Net)' item by KD 7380 million, the Kuwaiti investments recorded under the 'Other Investments

(Net)' item by KD 4291 million, and the investments recorded under the 'Direct Investment (Net)' item by KD 2258 million.

8. As an outcome of the mentioned developments in the current account, and the capital and financial account, in addition to the developments concerning error or omissions in all items of the BOP statistics, the overall balance in these statistics realized a surplus of KD 1039 million during 2006, after realizing a surplus of KD 165 million during 2005. In turn, this surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait (CBK) which rose by the same amount (KD 1039 million) at end of 2006, compared to its end of previous year level.

If the overall position of the State of Kuwait Balance of Payments is considered from a broader perspective to reflect the changes in reserve assets available to the domestic economy which could be used for the Balance of Payments purposes, essentially represented in the change in net value of external investments of some governmental bodies and institutions under the 'General Government' item, in addition to the change in total reserve assets of CBK, the overall position of the Balance of Payments shows a surplus of KD 11868.7 million during 2006, compared with a surplus of KD 7925.6 million during 2005, i.e. an increase of KD 3943.1 million or 49.8%.

Sixth- Developments in the Kuwait Stock Exchange Activity:

The report addressed, in its sixth and last part, the developments in the Kuwait Stock Exchange (KSE) activity during 2006, through highlighting the main indices of trading activity and price movements, along with analyzing the most significant factors influencing these indices, the performance of listed companies, the developments in the share issue base and the new companies listed on the market during 2006. The main developments highlighted in this part of the report, can be summarized as follows:

1. The main trading indices of the Kuwait Stock Exchange (KSE) followed a downtrend during 2006. Within this context, the report indicated a decline in the total value of traded shares (by 39.2%), the total quantity of traded shares (by 27.9%), and number of transactions (by 24%) during 2006, compared to the previous year levels. This was accompanied by a decline in the daily averages of

the value and quantity of traded shares and number of transactions by 37.4%, 25.8% and 21.8% respectively in 2006, compared to the previous year.

2. The KSE General Price Index (26/12/1993 = 1000 points) followed a downtrend during 2006, as it closed at 10067.4 points at end of 2006, i.e. a decline of 12%, compared to its previous year closing. The KSE Weighted Price Index (26/12/2000 = 100 points) also followed that trend, as it declined by 5.4% at end of 2006, to 531.7 points compared to 562.4 points at end of the previous year.
3. The decline witnessed in the main trading and price indices of the Kuwait Stock Exchange (KSE) during 2006 reflected the effect of certain factors which negatively influenced its activity despite 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 and external balances of the domestic economy. In the forefront of these negative factors was the marked decline in the net profits of KSE-listed companies, the decisions issued by the KSE Committee regarding neutralizing the shares of some listed companies for breaching disclosure regulations, and the government's withdrawal of some projects under execution by KSE-listed companies within the BOT (Build, Operate and Transfer) system, in addition to the increased concern among some market participants about the possible occurrence of a broad price correction in view of the decline witnessed in share price levels in most neighboring financial markets in the GCC countries during 2006.
4. The number of companies listed on the KSE rose to 180 companies at end of 2006 against 158 companies at end of the previous year, following the listing of 22 new companies. The new companies were distributed as follows: 12 companies in the Services sector, 4 companies in the Investment sector, 2 companies in each of the Industry and Non-Kuwaiti Companies sectors, and one company in each of the Real-Estate and Banks sectors.
5. The market capitalization of KSE-listed companies rose by KD 509.7 million (1.2%) during 2006, to KD 42059.3 million for 180 companies at end of that year against KD 41549.6 million for 158 companies at end of 2005. The issuance of bonus shares, the listing of new companies on the market, the issuance of capital-

increase shares and the issuance of shares within the program of employee participation shares contributed 10.2%, 6.8%, 4.8% and 0.1% respectively of the rise in market capitalization at end of 2006 compared to the previous year. Conversely, the net change in the price of listed shares had a clear negative impact on the market capitalization of listed shares, by 20.6% at end of 2006 compared to end of the previous year.

Table (80)
Development of Main Economic, Financial
and Monetary Indicators and Variables
(KD Million)

Item	2002	2003	2004	2005	2006
National Accounts:					
GDP at Current Prices:	11590.0	14253.5	17516.7	24477.8	29572.8
Crude Oil & Natural Gas Sector	4409.2	5797.8	7822.0	12832.8	16214.9
Non-oil Sectors	7083.9	8320.6	9533.2	11471.4	13183.3
Of which: Petroleum Products	430.6	572.4	795.5	970.2	1159.2
Import Duties	96.9	135.1	161.5	173.6	174.6
GDP at Fixed (Prices of 2000):	11944.5	13918.0	15378.2	16910.4	...
Crude Oil & Natural Gas Sector	4872.6	5858.1	6370.4	7143.2	...
Non-oil Sectors	6980.8	7935.9	8860.1	9637.7	...
Of which: Petroleum Products	486.5	562.9	568.7	583.9	...
Import Duties	91.1	124.0	147.7	129.5	...
Domestic Prices:					
CPI (2000=100)	102.2	103.2	104.5	108.8	112.1
WPI (1980=100)	171.8	175.1	175.8	183.6	187.5
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	9646.3	10401.2	11655.2	13086.2	15920.6
Money (M1)	2066.7	2611.5	3174.2	3727.4	3550.3
Quasi-money	7579.6	7789.7	8481.0	9358.8	12370.3
Private Sector Deposits with Local Banks	9204.1	9907.1	11124.2	12507.5	15264.2
Of which: KD Deposits	8300.5	8916.6	9955.3	10959.5	13019.7
Credit Facilities Extended by Local Banks to Residents	6853.5	8419.4	9867.0	11827.3	14933.7
Of which: Consumer Loans	698.0	748.8	736.4	789.0	756.0
Net Foreign Assets of Local Banks	409.3	500.5	1369.8	1533.6	2129.6
Aggregate Balance Sheet of Local Banks	17063.7	18813.9	19144.2	21611.6	26990.0
US dollar Exchange Rate against the KD at Year End (fils)	299.70	294.70	294.70	292.00	289.14
Public Debt Instruments:					
Value of Issues:	4370.0	4400.5	3854.2	2969.0	2296.6
Treasury Bills	3460.0	3030.5	2515.2	562.0	-
Treasury Bonds	910.0	1370.0	1339.0	2407.0	2296.6
Maturities:	4368.0	4405.0	3887.7	2989.0	2407.0
Treasury Bills	2765.0	3395.0	2617.7	1650.0	-
Treasury Bonds	1603.0	1010.0	1270.0	1339.0	2407.0
Balances at Year End:	2465.0	2460.5	2427.0	2407.0	2296.6
Treasury Bills	1555.0	1190.5	1088.0	-	-
Treasury Bonds	910.0	1270.0	1339.0	2407.0	2296.6

.....Cont'd.

Table (80) Cont'd.
Development of Main Economic, Financial
and Monetary Indicators and Variables
(KD Million)

Item	2002	2003	2004	2005	2006
Public Finance (Fiscal Years): ⁽¹⁾	(2002/03)	(2003/04)	(2004/05)	(2005/06)	(2006/07) ⁽²⁾
Revenues	6219.0	6936.3	8962.4	13728.1	12004.7
Expenditures	4927.4	5522.8	6315.2	6862.0	5109.2
Surplus or Deficit ⁽³⁾	1291.6	1413.4	2647.2	6866.1	6895.5
Foreign Trade:					
Total Value of Exports, of which:	4666.2	6162.1	8428.1	13101.6	16166.7
Value of Oil Exports ⁽⁴⁾	4272.8	5663.5	7861.1	12392.6	15430.7
Total Value of Imports (cif)	2735.8	3274.1	3722.2	4613.9	4629.2
Balance of Payments:					
Current Account	1296	2809	5352	10018	14796
Balance on Goods	2203	3551	5430	9558	12851
Services Account (Net)	-1274	-1035	-1132	-1133	-936
Income Account (Net)	1017	1002	1806	2586	3884
Current Transfers (Net)	-651	-709	-752	-993	-1003
Kuwait Stock Exchange:					
(Excluding Investment Funds Transactions)					
Value of Traded Shares (KD Million)	6680.0	16250.3	15274.2	28420.8	17283.9
Quantity of Traded Shares (Million Shares)	27837.0	49562.6	33535.7	52245.1	37657.9
Number of Transactions (Thousand Transactions)	520.9	1081.7	1056.9	1955.4	1486.2
Price Index (29/12/1993 =1000)	2375.3	4790.2	6409.5	11445.1	10067.4
Weighed Index (26/12/2000=100)	172.1	291.3	335.9	562.2	531.7

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