

Summary of the Economic Report

This economic report addressed, through six parts, the most significant economic, financial, monetary and banking developments and events witnessed in the domestic economy during year 2005, and the analysis of their most salient reflections on the various aspects of the Kuwaiti economy, particularly those connected to the trends of economic growth, domestic prices, population and labor force, along with the Central Bank of Kuwait (CBK) efforts in drawing and implementing the monetary policy, the measures and programs of supervision and oversight of the banking and financial sector, and 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 monitors and analyzes the developments in public finance within the general budget of ministries and governmental departments, foreign trade and balance of payments statistics and the activity 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 2005, 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 2005 can be summarized as follows:

First- Performance of the Domestic Economy:

The first part of the economic report focused on the main trends in the performance of the Kuwaiti economy during 2005, in regard to economic growth, 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:

- The growth in the State of Kuwait GDP at current prices accelerated during 2005 to KD 23588 million, against KD 17466 million in 2004, i.e. a growth of KD 6122 million (35.1%), compared to a growth of 22.5% during the previous year.
- The mentioned growth in the State of Kuwait GDP at current prices during 2005 essentially 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. This reflected on the total value added at current prices in the oil sectors (crude oil and natural gas production sector and the refined petroleum products industry) which witnessed an accelerated growth to KD 13831.9 million during 2005, compared with KD 8617.6 million in 2004, i.e. an increase of KD 5214.3 million or 60.5% compared with a growth of 35.3% 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 49.3% during 2004 to 58.6% during 2005.
- The total value added at current prices in the non-oil sectors (excluding the refined petroleum products industry) rose to KD 9607.8 million during 2005, from KD 8686.9 million during 2004, i.e. an increase of KD 920.9 million or 10.6%, following its growth by KD 12.1% during the previous year. 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 49.7% during 2004 to 40.7% during 2005.
- The above mentioned growth in the total value added in non-oil sectors during year 2005 encompassed without exception all sections of economic activity which constitute these sectors, though at rates which were often below their corresponding rates of 2004. Worth mentioning within this context is that the Financial Institutions activity contributed the highest portion (33%) of the growth in the total value added in the non-oil sector, as it grew by KD 303 million by the non-oil sectors or 20.4% during 2005, compared with a growth of 26.9% during year 2004. The Transport, Storage and Communication activity came second to the Financial Institutions activity with regard to its relative contribution (27%) to the growth in the total value added in the non-oil sectors, as it grew by KD 248.9 million (23.8%) during 2005, compared to a growth of 30.7% during the previous year.

Furthermore, deceleration was witnessed in the growth of the value added at current prices in the Community, Social and Personal Services activity (from 7.3% to 5.5%), the Manufacturing Industries excluding the refined petroleum products industry (from 19% to 14%), and the Construction activity (from 15.1% to 13.3%), while a rise was recorded in the growth rate of the value added at current prices in the Real-Estate activity (from 3.1% to 3.8%), Electricity, Gas and Water activity (from 2.5% to 3.2%), and Agriculture, Livestock and Fishing activity (from 9.2% to 10.6%) between 2004 and 2005, respectively.

- As for the sources of the rise in GDP at current prices from the perspective of expenditure on GDP, the major portion (83.1%) of that rise resulted from the increase in expenditure of the outside world (exports of goods and services) on the GDP by KD 5089 million or 51% to KD 15059 million during 2005, from KD 9970 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 2520 million or 19.1% to KD 15688 million during 2005, from KD 13168 million during the previous year.
- The Gross National Product (GNP) of the State of Kuwait rose during 2005 by 35.8% to KD 26167.4 million, from KD 19272.1 million during the previous year. The National Income at current prices rose by 34.3%, from KD 17671.1 million during 2004 to KD 23740.4 million during 2005. Accordingly, the average per-capita share of the GNP at current prices rose from KD 6681.7 during 2004 to KD 8281.1 in 2005, i.e. an increase of KD 1599.4 (23.9%).

2- Domestic Prices:

- Inflation rate in the State of Kuwait, measured as the relative change in the General Consumer Price Index (year 2000=100), surged from 1.3% during 2004 to 4.1% during 2005. The marked acceleration in the rise of the general price level of items constituting the 'Food' group (from 3.2% during 2004 to 8.5% during 2005) contributed the largest portion (39.6%) of the above mentioned rise in inflation rate in the General Consumer Price Index during 2005 compared to the previous year.
- The acceleration in inflation rate in the General Consumer Price Index during 2005 compared to the previous year was accompanied with a parallel surge, in the same

direction, in the relative change in the General Wholesale Price Index. Specifically, the General Wholesale Price Index in the State of Kuwait rose by 4.4% during 2005 compared to 0.4% during 2004. This rise is essentially attributable to the accelerated rate of increase in the general level of wholesale prices of imported goods, from 0.3% during 2004 to 4.8% during 2005. Also the General Wholesale Price Index of domestically produced goods rose by 3.3% during 2005, following a rise of 0.4% during the previous year.

3- Population and Labor Force:

- The total population of the State of Kuwait rose to 2.991 million at end of 2005, from 2.754 million at end of 2004, i.e. a growth of 8.6%. The largest portion (84.9%) of that increase in total population is attributable to the rise in non-Kuwaiti population by 11.2% during 2005, while the Kuwaiti population rose by 3.8% during 2005.
- The above mentioned rise in the total population of the State of Kuwait essentially reflects the marked growth in the number of economically active individuals, i.e. those aged between 15 and less than 60 years, by 9.9% at end of 2005 compared to their number at end of the previous year, leading to the rise of their ratio in the total population to 75.6% from 74.8% at end of the two mentioned years respectively. This rise encompassed both the Kuwaiti population (from 55% to 55.4%) and non-Kuwaiti population (from 85.3% to 85.6%) between the ends of 2004 and 2005, respectively.
- The growth rate of the number of individuals under 15 years of age accelerated from 3.6% during 2004, to 4.5% during 2005. This acceleration encompassed both the Kuwaiti and non-Kuwaiti populations aged less than 15 years. Within this context, the report indicated the decline of the ratio of this group of individuals in the Kuwaiti population from 40.5% to 39.9%, at end of the two mentioned years respectively.
- The total labor force in the State of Kuwait rose by 11.1% at end of 2005. This rise encompassed both the Kuwaiti labor force (by 7.1%) and non-Kuwaiti labor force (by 12%) during 2005. Consequently, the relative importance of the national labor

force in the total labor force declined (from 18.3% to 17.6%), with the rise in the relative importance of the expatriate labor force (from 81.7% to 82.4%), between the ends of 2004 and 2005, respectively.

- The labor force rose by 12.6% in the private sector and by 5.54% in the governmental sector at end of 2005, compared to end of the previous year. The largest portion (94.8%) of the growth in the private sector labor force during 2005 was essentially due to the increase in the expatriate labor force in that sector. On the other hand, the largest portion (77%) of the growth in the governmental sector labor force during 2005 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 addressed CBK's efforts in 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 accordance with the firm establishment of the bases of monetary stability in the country and the enhancement of 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 the CBK 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 generating an atmosphere that contributes to further strengthening these units and ensuring the soundness of their financial positions, in line with the prudent banking and financial practices and customs.

The most significant aspects presented in this report on the CBK efforts within the monetary policy and the development of the main monetary indicators and aggregates during 2005, can be summarized in the following:

- 1- The growth rate of domestic liquidity levels accelerated during 2005, whereby Money Supply in its broad definition (M2) rose markedly to KD 13086 million at end of 2005, from KD 11655.2 million at end of 2004, i.e. by KD 1431 million or 12.3% following a growth of KD 1254 million or 12.1% in the previous year. This

growth is attributable to the increase in both Money (the narrow definition of Money Supply, M1) by KD 553.2 million or 17.4% on the one hand, and Quasi-Money by KD 877.9 million or 10.4% on the other. 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 1060.9 million or 13.1% (from KD 8121.4 million to KD 9182.3 million), and their net foreign assets (essentially with local banks) by KD 370.1 million or 10.5% (from KD 3533.9 million to KD 3904 million).

- 2- The balances of the utilized portion of cash credit facilities extended by local banks to the various domestic economic sectors, continued rising at an accelerated rate, thus reaching KD 11827.3 million at end of year 2005, from KD 9867 million at end of year 2004, i.e. a rise of KD 1960.3 million or 19.9%, compared to a rise of KD 1447.6 million or 17.2% during the previous year. This rise encompassed most domestic economic sectors and was concentrated in the Personal Facilities sector (by KD 968.3 million, or 23.2%), the Real-Estate sector (by KD 509 million, or 25.1%), the Construction Sector (by KD 178.3 million, or 30.1%), and the Non-Bank Financial Institutions sector (by KD 151.8 million, or 19.4%).
- 3- Developments in domestic interest rates during 2005 reflect the CBK efforts towards enhancing the competitiveness of the Kuwaiti dinar (KD) and strengthening its attractiveness as a store of national savings. Within this context, the CBK issued in 2005 five decisions raising the rate of discount and rediscount of commercial papers presented to it by local banks, and which it accepts to discount or rediscount. By virtue of these decisions, the discount rate was increased by a total of one and a quarter percentage point (from 4.75% to 6%). The significance of these decisions is highlighted by the developments in the domestic economic, monetary, and banking conditions on the one hand, and the continued increase witnessed in the interest rates on the major currencies, ahead of which the US dollar, to which the KD is linked within specific margins, on the other. 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, particularly during the second half of 2005.

- 4- The exchange rate of the Kuwaiti dinar maintained its relative stability against the major currencies during 2005, 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 this context, the report indicated that the Kuwaiti dinar was stable against the US dollar at 292 fils during 2005, which is below the parity rate by 7.63 fils or 2.5%. Conversely, the exchange rate of the US dollar fluctuated within broad margins against the other major currencies during 2005; whereby the difference between the highest and lowest exchange rates of the US dollar against these currencies reached, during 2005, 18.9% against the Japanese yen, 16.3% against the Swiss franc, 16.1% against the Euro, and 12.7% against the Sterling pound.

- 5- The CBK continued during year 2005 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 2005 new instructions, and introduced certain 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 application of the revised capital adequacy standard (Basel II) effective 31/12/2005; updating the CAMEL system for assessing banks performance, separating the domestic securities portfolios managed by banks and investment companies on behalf of third parties from the foreign securities and investment instruments portfolios managed by these institutions on behalf of third parties, and subjecting the former to the rules and procedures set by the management of the Kuwait Stock

Exchange while continuing to subject the latter to rules and procedures set by the CBK; and, deriving guidance from the principles issued by the Basel Committee for banking supervision on the establishment of the compliance follow-up unit and its role in the bank, etc.

- 6- The developments in the balances of public debt instruments during year 2005 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 2005, the CBK offered six issues of Treasury Bills with a total nominal value of KD 562 million, and 24 issues of Treasury Bonds of one-year maturity with a total nominal value of KD 2407 million. During that year, eighteen previous issues of Treasury Bills with a total nominal value of KD 1650 million, and fourteen previous Treasury Bonds issues with a total nominal value of KD 1339 million reached maturity. As a result of these developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) declined by KD 20 million or 0.8% to KD 2407 million at end of year 2005, compared to KD 2427 million at end of 2004.

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 2005 through the financial data and indicators derived from the aggregate balance sheets of the groups of units within this system. The main developments mentioned in this part of the report, can be highlighted as follows:

- 1- **The institutional structure of the banking and financial system** witnessed an expansion during 2005, for the second 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 2005 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, the branches of the BNP Paribas Bank, the Abu

Dhabi National Bank, and the HSBC Middle-East Bank were entered in the CBK register of commercial banks. These branches started operations on the 30th of March, the 25th of September, and the 15th of November of year 2005, respectively.

The number of Investment Companies registered with the CBK and subject to its supervision rose to 56 companies (of which 23 companies operating according to the provisions of Islamic Sharia) at end of 2005, against 42 companies at end of 2004 (of which 14 investment companies operating in accordance with the provisions of Islamic Sharia). Also, the number of Exchange Companies subject to the CBK supervision increased from 35 companies at end of 2004 to 38 companies at end of 2005. The number of Investment Funds registered with CBK and subject to its supervision rose markedly, for the third consecutive year, by the addition of 6 new investment funds, thus bringing their number to 66 funds at end of year 2005 from 60 funds at end of the previous year.

- 2- During 2005, local banks continued their efforts towards developing their sources and uses of funds, along with strengthening the structural bases of their financial positions, through endeavoring to attract and use funds domestically and abroad. These sustained efforts reflected on the **total aggregate balance sheet of local banks** which grew during 2005 to KD 21611.6 million at year end from KD 19144.2 million at end of 2004, i.e. a growth of KD 2467.4 million (or 12.9%). 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 2051 million, equivalent to 83.1% of the mentioned overall growth in the total aggregate balance sheet of local banks during 2005 compared to the previous year. On the liabilities side, the largest portion (56.1%) 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 1383.3 million or 12.4% at end of 2005, 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 2005, resorted to raising their domestic liabilities (private sector deposits, government deposits, and shareholders'

equity, and other domestic liabilities) to a larger extent than reducing their domestic assets (deposits with local banks, claims on the government, and shareholders' equity) as was the case in the previous year. Regarding the use of domestic financial resources made available to them during 2005, local banks increased their domestic assets (particularly claims on the private sector, whether in the form of credit facilities extended to residents or domestic financial and non-financial investments), and reducing some elements of domestic liabilities (specifically, local banks deposits). In general, local banks' operations during 2005 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 16.1% during 2004 to 18.8% during 2005. 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 balances of these deposits realized a growth of 12.4% during 2005, after a rise by 12.3% during the previous year, thus reaching KD 12507.5 million, equivalent to 57.9% of the total aggregate balance sheet of local banks at end of 2005, against KD 11124.2 million, equivalent to 58.1% of that total aggregate balance sheet at end of 2004.

The net foreign assets of local banks recorded a substantial rise at end of year 2005, for the third consecutive year, to KD 1533.6 million, i.e. by KD 163.9 million (or 12%), above its level of KD 1369.8 million at end of 2004. This rise resulted essentially from the rise in foreign assets, particularly deposits with foreign banks.

- 5- Local banks achieved record profit levels in year 2005, surpassing those realized during the previous years. Net profits realized by local banks reached KD 640.8 million during year 2005, compared to KD 482.2 million and KD 372.7 million

during 2004 and 2003 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 21.4% at end of year 2005 (21.7% for banks operating according to the provisions of Islamic Sharia), compared to 18.2% for all conventional local banks (11.7% 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 2005 to develop the structure of their sources and uses of funds. Available data indicate that the total assets of local investment companies (56 companies, of which 33 conventional investment companies and 23 investment companies operating according to the provisions of Islamic Sharia) reached KD 9429.1 million at end of 2005, against KD 6359.6 million at end of 2004 (42 companies, of which 28 conventional investment companies and 14 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 14459.6 million (for 56 investment companies) at end of 2005, compared with KD 8534.3 million (for 42 investment companies) at end of 2004, i.e. a growth of KD 5925.2 million or 69.4%.

- 7-** Available comparative financial data on **conventional investment companies** (27 companies) indicate that their total aggregate balance sheet reached KD 6512.3 million at the end of year 2005, thus achieving a growth of KD 1644.1 million (or 33.8%) above its level of KD 4686.2 million at end of the previous year, for the same companies. The largest portion (52.7%) of this growth reflects the rise in the balances of domestic investments of these companies by KD 867.2 million (or 72.1%) during 2005. On the liabilities' side of the aggregate balance sheet of conventional investment companies, this growth is essentially attributable to the

growth in capital and reserves by 43.3% and other liabilities by 83.5% at end of 2005 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** (13 companies) indicate a tangible growth of KD 962.7 million (65.9%) in that total balance sheet to KD 2423.3 million at end of year 2005, compared to KD 1460.6 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.
- 9- Available comparative financial data also indicate that the **total balances of contra accounts of local investment companies** (27 conventional investment companies, and 13 companies operating in accordance with the provisions of Islamic Sharia), reached KD 14456.1 million at end of year 2005, thereby achieving a noticeable rise of KD 5939.9 million (69.7%) above their end of year 2004 level of KD 8516.2 million for the same companies.
- 10- The year 2005 witnessed the continued rise in the numbers of **investment funds established in the domestic market**, and registered with CBK, to 66 funds at end of that year, of which 24 investment funds operating in accordance with the provisions of Islamic Sharia at end of 2005, against 60 funds at end of 2004. 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 31 companies, among the **local exchange companies** registered with CBK and subject to its supervision (38 companies as at end of 2005), indicate that the aggregate balance sheet of these companies grew by KD 26.9 million or 39.8% to KD 94.4 million at end of year 2005, compared to KD 67.5 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 2005, through three main sections. The first addressed the most significant results of the closing account for the fiscal year 2004/05, the second reviewed the revenue estimates and allocations for expenditures in the general budget for the fiscal year 2005/06, and the third addressed the portion executed of that budget during the period 1/4/2005 – 31/12/2005 (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 2004/05**, the actual budgetary revenues collected during that fiscal year rose markedly to KD 8962.4 million compared with KD 6937.3 million during the fiscal year 2003/04, i.e. a rise of KD 2025.1 million or 29.2%. The largest portion (99.8%) of that rise reflects the increase in actual oil revenues by KD 2020.5 million or 32.9%, from KD 6149.9 million during the fiscal year 2003/04 to KD 8170.5 million during the fiscal year 2004/05. Additionally, the actual budgetary non-oil revenues within the closing account of the fiscal year 2004/05 rose by KD 4.6 million (or 0.6%) to KD 791.9 million, compared to KD 787.3 million for the previous fiscal year.
- 2- The actual budgetary expenditures, within the closing account of the fiscal year 2004/05, increased to KD 6315.2 million, against KD 5522.8 million in the previous fiscal year, i.e. a rise of KD 792.4 million or 14.3%. The largest portion (71%) of that rise resulted from the increase in actual budgetary expenditures under the second chapter (requirements of goods and services) by 25.5%, and the fifth chapter (miscellaneous expenditures and transfer payments) by 45.5% during the fiscal year 2004/05, compared to the previous fiscal year.
- 3- In the light of the above mentioned developments in actual revenues and expenditures, the closing account for the fiscal year 2004/05 realized a surplus of KD 2647.2 million, before deducting the allocations for the Reserve Fund for Future Generations, against an actual surplus of KD 1414.4 million for the previous fiscal year, i.e. an increase of KD 1232.7 million or 87.2%.
- 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 2005/06**

enacted by the Law No. (66) of year 2005. Within this context, the report indicated the following:

- The budgetary revenue estimates for the fiscal year 2005/06 reached KD 4606.8 million, indicating an increase of KD 1287.1 million (38.8%) compared to their estimates for the fiscal year 2004/05. This is essentially attributable to the rise in oil revenues estimates (by KD 1178.7 million to KD 3914 million). The budgetary non-oil revenue estimates for the fiscal year 2005/06 were higher by KD 108.4 million (18.5%) than their approved estimates for the fiscal year 2004/05.
 - The allocations for budgetary expenditures for the fiscal year 2005/06 increased by KD 659.5 million or 10% to KD 7233.5 million, compared to KD 6573.9 million for the allocations for budgetary expenditures for the previous fiscal year 2004/05. The largest portion (59.6%) of that increase reflected the rise in the approved estimates of current budgetary expenditures by KD 393.2 million or 8.7% to KD 4916.7 million (or 68% of the total allocations for budgetary expenditures) for the fiscal year 2005/06, compared with their allocations of KD 4523.5 million (or 68.8% of the total allocations for budgetary expenditures) for the fiscal year 2004/05.
- 5- The report also reviewed within that part the government fiscal operations during the first nine months (April-December 2005) of the fiscal year 2005/06 as follows:
- 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 2005/06 (April-December 2005), the actual budgetary revenues collected during that period rose to KD 10087.8 million, i.e. an increase of KD 3492.6 million or 53% above the actual budgetary revenues of KD 6595.2 million collected during the corresponding period of the previous fiscal year (April-December 2004). 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 2005/06, to KD 6065.2 million, against KD 9542.6 million during the corresponding period of the previous fiscal year 2004/05 (April-December 2004), representing an increase of KD 3477.4 million or 57.3%. Also, the actual budgetary non-oil revenues collected during the first nine months of the fiscal year 2005/06 increased by KD 15.2 million or 2.9%, compared to the corresponding period of the previous fiscal year.

- The total actual budgetary expenditures during the first nine months of the fiscal year 2005/06 (April-December 2005) reached KD 3457.4 million, i.e. higher by KD 188.6 million (5.8%) than the actual budgetary expenditures during the corresponding period of the previous fiscal year (April-December 2004). The largest portion (81.1%) of that increase reflects the growth in actual budgetary expenditures under the fifth chapter (miscellaneous expenditures and transfer payments) by KD 153.1 million (9.2%) during the first nine months of the fiscal year 2005/06, 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 2005/06 (April-December 2005) an actual surplus of KD 6630.4 million, compared with an actual surplus of KD 3326.5 million during the period (April-December 2004), before deducting the allocations for the Reserve Fund for Future Generations, i.e. an increase of KD 3303.9 million or 99.3%.

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 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) accelerated, whereby that surplus reached KD 9111 million during 2005 compared to KD 5430 million during 2004, i.e. a rise of KD 3681 million or 67.8%, compared to a rise of KD 1880 million or 53% during 2004. With the rise in the Balance on Goods surplus, its ratio to the GDP at current prices rose from 31.1% during 2004 to 38.6% during 2005. 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 4820 million or 54.4% to KD 13687 million during 2005, from KD 8867 million during the previous year. This increase encompassed the oil exports by KD 4669 million or

57.1% (from KD 8182 million to KD 12851 million) on the one hand, and non-oil exports by KD 151 million or 22% (from KD 685 million to KD 836 million) on the other. The total value of the State of Kuwait's merchandise imports (fob) rose by KD 1139 million (33.1%) to KD 4576 million during 2005 from KD 3437 million during the previous year.

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, rose by KD 79 million or 7% to KD 1211 million during 2005, compared with a deficit of KD 1132 million in the previous year. This rise essentially reflects the growth in the total value of payments from residents in the domestic economy, recorded on the debit side of the Services Account, under both the 'Travel' and 'Transportation' items together by KD 363 million (20.5%) from KD 1767 million during 2004 to KD 2130 million during 2005.
3. The surplus realized in the 'Investment Income' item rose to KD 2579 million during 2005, compared to a surplus of KD 1807 million during the previous year, i.e. an increase of KD 722 million or 42.7%. 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 2005.
4. The deficit recorded in the 'Current Transfers (Net)' item, rose by KD 200 million (26.6%) to KD 952 million during 2005, from KD 752 million during the previous year. The largest portion (74%) of this rise reflects the growth in the net value of the outbound unrequited current transfers by the General Government by KD 128 million to KD 150 million during 2005, compared to its previous year level of KD 22 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) realized a tangible surplus estimated at KD 9527 million during 2005, against a surplus of KD 5353 million during the previous year, i.e. a rise of KD 4174 million or 78%. With

the rise in the Current Account surplus, its ratio to the GDP at current prices rose to 40.4% during 2005, from 30.6% during the previous year.

6. The net financial inflows recorded on the credit side under the 'Capital Account' of the BOP statistics of the State of Kuwait rose from KD 128 million during 2004 to KD 233 million during 2005. This development essentially reflects the total value of compensations received by residents in the domestic economy from the United Nations Compensation Committee, from KD 140 million during 2004 to KD 241 million during 2005, i.e. a growth of KD 101 million or 72.1%, equivalent to 96.2% of the above mentioned rise in the net capital inflows.
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 3258 million (65.7%) to a growth of KD 8216 million during 2005, compared with a growth of KD 4958 million in the net value of these assets during 2004. This rise occurred, during 2005, 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 6986 million), local banks (by KD 93 million), and the 'Other Sectors' (by KD 1213 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 2005, reflects the outcome of the growth of the Kuwaiti investments recorded under the 'Portfolio Investments (Net)' item by KD 2248 million, the 'Other Investments (Net)' item by KD 4666 million, and the 'Direct Investment (Net)' item by KD 1302 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 omission in all items of the BOP statistics, the overall balance in these statistics realized a surplus of KD 165 million during 2005, after realizing a surplus of KD 197 million during 2004. In turn, this surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait (CBK) which rose by the same amount (KD 165 million) at end of 2005, 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 8000.7 million during 2005, compared with a surplus of KD 5944.3 million during 2004, i.e. an increase of KD 2056.4 million or 34.6%.

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 2005, 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 2005. The main developments highlighted in this part of the report, can be summarized as follows:

1. The main indices of the Kuwait Stock Exchange (KSE) rose at accelerated rates to new record levels during 2005. Within this context, the report indicated a rise in the total value of traded shares (by 86.1%), the total quantity of traded shares (by 55.8%), and number of transactions (by 85%) during 2005, compared to the previous year levels. Also, the daily averages of the value and quantity of traded shares and number of transactions rose by 85.3%, 55.2% and 84.3% respectively in 2005, compared to the previous year.
2. The KSE General Price Index (26/12/1993 = 1000 points) continued its rise during 2005 to new record levels, as it closed at 11445.1 points at end of 2005, i.e. a rise of 78.6%, compared to its previous year closing. The KSE Weighted Price Index (26/12/2000 = 100 points) also followed that trend, as it rose by 67.4% at end of 2005, compared to end of the previous year.
3. Several domestic and international developments and events contributed to the increase in the KSE activity during 2005, and the rise of its main indices to new record levels during that year. Most notable among these developments were the atmosphere of optimism associated with the continued accelerated rise in world

oil prices, the increase in domestic liquidity levels, the rise in net profits of KSE-listed companies, the broadening of the KSE transaction base as a result of the listing of new companies, etc. Within this context, the report indicated that the net profits of 125 KSE-listed companies for which data were available reached KD 3313 million during 2005, against KD 1659.9 million for the same companies during the previous year, i.e. an increase of KD 1653.1 million or 99.6%.

4. The number of companies listed on the KSE rose to 158 companies at end of 2005 against 125 companies at end of the previous year, following the listing of 33 new companies. The new companies were distributed as follows: 11 companies in the Services sector, 9 companies in the Investment sector, 9 companies in the Real-estate sector, 3 companies in the Non-Kuwaiti Companies sector, and 1 company in the Industry sector.

5. The market capitalization of listed companies rose by KD 19293.3 million or 87.2% during 2005 to KD 41419.6 million for 158 companies at end of that year, against KD 22126.5 million for 125 companies at end of 2004. The price movements contributed 52.6% of the mentioned rise in the market capitalization of listed companies during 2005. Furthermore, the bonus shares, the listing of new companies, and the capital increase shares contributed 24.1%, 15.4%, and 7.8% respectively of the rise in the market capitalization of listed companies at end of 2005, compared to end of the previous year.

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

| Item | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|----------------|----------------|----------------|----------------|----------------|
| National Accounts: | | | | | |
| GDP at Current Prices: | 10700.0 | 11584.5 | 14253.5 | 17466.0 | 23588.0 |
| Crude Oil & Natural Gas Sector | 4586.5 | 4409.2 | 5797.8 | 7822.1 | 12828.1 |
| Non-oil Sectors | 6029.6 | 7078.4 | 8320.6 | 9482.4 | 10611.6 |
| Of which: Petroleum Products | 374.4 | 430.6 | 572.4 | 795.5 | 1003.8 |
| Import Duties | 83.9 | 96.9 | 135.1 | 161.5 | 148.3 |
| GDP at Fixed (Prices of 1995): | 8981.4 | 9440.4 | 10703.7 | 11367.4 | ... |
| Crude Oil & Natural Gas Sector | 3042.7 | 2729.0 | 3290.5 | 3585.4 | ... |
| Non-oil Sectors | 5857.2 | 6621.3 | 7290.6 | 7672.4 | ... |
| Of which: Petroleum Products | 487.7 | 520.8 | 602.1 | 609.1 | ... |
| Import Duties | 81.5 | 90.1 | 122.6 | 109.6 | ... |
| Domestic Prices: | | | | | |
| CPI (2000=100) | 101.3 | 102.2 | 103.2 | 104.5 | 108.8 |
| WPI (1980=100) | 166.3 | 171.8 | 175.1 | 175.8 | 183.6 |
| Monetary and Banking | | | | | |
| Aggregates and Indicators: | | | | | |
| Money Supply (M2) | 9208.5 | 9646.3 | 10401.2 | 11655.2 | 13086.2 |
| Money (M1) | 1641.4 | 2066.7 | 2611.5 | 3174.2 | 3727.4 |
| Quasi-money | 7567.1 | 7579.6 | 7789.7 | 8481.0 | 9358.8 |
| Private Sector Deposits with Local Banks | 8807.3 | 9204.1 | 9907.1 | 11124.2 | 12507.5 |
| Of which: KD Deposits | 7915.3 | 8300.5 | 8916.6 | 9955.3 | 10959.5 |
| Credit Facilities Extended by Local Banks to Residents | 6027.0 | 6853.5 | 8419.4 | 9867.0 | 11827.3 |
| Of which: Consumer Loans | 633.5 | 698.0 | 748.8 | 736.4 | 789.0 |
| Net Foreign Assets of Local Banks | 456.1 | 409.3 | 500.5 | 1369.8 | 1533.6 |
| Aggregate Balance Sheet of Local Banks | 15064.2 | 17063.7 | 18813.9 | 19144.2 | 21611.6 |
| US dollar Exchange Rate against the KD at Year End (fils) | 307.36 | 299.70 | 294.70 | 294.70 | 292.00 |
| Public Debt Instruments: | | | | | |
| Value of Issues: | 3435.0 | 4370.0 | 4400.5 | 3854.2 | 2969.0 |
| Treasury Bills | 2150.0 | 3460.0 | 303.5 | 2515.2 | 562.0 |
| Treasury Bonds | 1285.0 | 910.0 | 1370.0 | 1339.0 | 2407.0 |
| Balances at Year End: | 2463.0 | 2465.0 | 2460.5 | 2427.0 | 2407.0 |
| Treasury Bills | 860.0 | 1555.0 | 1190.5 | 1088.0 | - |
| Treasury Bonds | 1603.0 | 910.0 | 1270.0 | 1339.0 | 2407.0 |

.....Cont'd.

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

| Item | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|------------------|------------------|------------------|------------------|---------------------------------|
| Public Finance (Fiscal Years): ⁽¹⁾ | (2001/02) | (2002/03) | (2003/04) | (2004/05) | (2005/06) ⁽²⁾ |
| Revenues | 5336.6 | 6219.0 | 6937.3 | 8962.4 | 10087.8 |
| Expenditures | 4746.4 | 4927.4 | 5522.8 | 6315.2 | 3457.4 |
| Surplus or Deficit ⁽³⁾ | 590.2 | 1291.6 | 1414.4 | 2647.2 | 6630.4 |
| Foreign Trade: | | | | | |
| Total Value of Exports, of which: | 4969.7 | 4666.2 | 6162.1 | 8428.1 | 13101.6 |
| Value of Oil Exports ⁽⁴⁾ | 4590.8 | 4272.8 | 5663.5 | 7861.1 | 12392.6 |
| Total Value of Imports (cif) | 2413.3 | 2735.8 | 3274.1 | 3722.2 | 5106.4 |
| Balance of Payments: | | | | | |
| Current Account | 2553 | 1296 | 2807 | 5353 | 9527 |
| Balance on Goods | 2819 | 2203 | 3550 | 5430 | 9111 |
| Services Account (Net) | -1132 | -1273 | -1035 | -1132 | -1211 |
| Income Account (Net) | 1503 | 1018 | 1001 | 1807 | 2579 |
| Current Transfers (Net) | -637 | -652 | -709 | -752 | -952 |
| Kuwait Stock Exchange: | | | | | |
| (Excluding Investment Funds Transactions) | | | | | |
| Value of Traded Shares (KD Million) | 3581.1 | 6680.0 | 16250.3 | 15274.2 | 28420.8 |
| Quantity of Traded Shares (Million Shares) | 16299.7 | 27837.0 | 49562.6 | 33535.7 | 52245.1 |
| Number of Transactions (Thousand Transactions) | 354.3 | 520.9 | 1081.7 | 1056.9 | 1955.4 |
| (Including Investment Funds Transactions) | | | | | |
| Price Index (29/12/1993 =1000) | 1709.4 | 2375.3 | 4790.2 | 6409.5 | 11445.1 |
| Weighed Index (26/12/2000=100) | 131.6 | 172.1 | 291.3 | 335.9 | 562.2 |

- (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.