

Summary of the Economic Report

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This economic report reviewed, through its usual six parts, the most significant economic, financial, monetary and banking developments and events witnessed in the domestic economy during year 2003, along with analyzing their most salient reflections on the various aspects of the Kuwaiti economy. This analysis encompassed the extent of the reflections of these developments and events on the performance of the domestic economy during the mentioned year, in the areas of national accounts, domestic prices, population and labour force, CBK's efforts in drawing and implementing the monetary policy, the measures and programs of supervision and oversight on the banking sector, and the effects thereof on the principal monetary variables and aggregates, and the development of the financial indicators highlighting the performance of the banking and financial system units and their current positions and financial structures with regard to sources and uses of funds. The report also monitored and analyzed the developments in public finance within the general budget of ministries and governmental bodies, foreign trade and balance of payments statistics and the activity in the Kuwait Stock Exchange. As has been the case in previous years, CBK was keen on basing this analysis of the developments in the economic, financial and monetary conditions of the State of Kuwait during year 2003, 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 2003 can be summarized as follows:

First- Performance of the Domestic Economy:

The economic report addressed in its first part the principal features of the performance

of the Kuwaiti economy during year 2003, as reflected by the statistics of national accounts, domestic prices, and population and labour force. With regard to trends in economic growth, as highlighted by the national accounts statistics, the report reviewed the most salient developments witnessed in the Gross Domestic Product (GDP) of the State of Kuwait at current prices during the year 2003. Within this context, the report pointed to the rise of the State of Kuwait GDP at current prices from KD 10691.4 million during year 2002 to KD 12441.3 million during year 2003, i.e. an increase of KD 1749.9 million (16.4%), compared to a growth of 2.4% during the previous year. This rise is essentially attributable to the increase in the total value added at current prices in the oil sectors (the crude oil and natural gas production sector, and the refined petroleum products industry) to KD 6367.4 million during 2003, compared to KD 4836.2 during the previous year, i.e. a growth of KD 1531.2 million (31.7%), following a decline of 17.9% and 2.5% during 2001 and 2002, respectively. This reflects the favourable developments witnessed in the world oil markets during 2003 and the accompanying rise in Kuwait's oil production quota in OPEC on the one hand, along with the increase in world oil prices on the other. Consequently, the relative contribution of the oil sectors to the GDP at current prices rose from 45.2% during year 2002 to 51.2% during year 2003.

The mentioned growth in the total value added at current prices in the oil sectors encompassed the value added in the crude oil and natural gas sector, which grew by KD 1388.4 million or 31.5% (from 4405.6 million to KD 5794 million), and the value added in the refined petroleum products industry, which grew by KD 142.8 million or 32.2% (from 430.6 million to KD 573.4 million).

The total value added at current prices in the non-oil sectors (excluding the refined petroleum products industry) increased to KD 5985.6 million during 2003 against KD 5758.3 million during the previous year, i.e. a growth of KD 227.3 million (3.9%) compared with a growth of 6.6% during the previous year. Consequently, the relative importance of the value added by the non-oil sectors to the GDP of the State of Kuwait, at current prices, rose from 53.9% during year 2002 to 48.1% during year 2003, taking

into consideration the above mentioned rapid growth in the total value added in the oil sectors.

In general, the report indicated that the value added to the GDP at current prices by most non-oil sectors during year 2003, achieved a positive growth at rates which were often below their corresponding rates of the previous year. Worth mentioning in this regard is that the Community, Social and Personal Services sector contributed the highest portion (60%) of the growth in the value added to GDP by the non-oil sectors during 2003, whereby that sector grew by KD 136.3 million or 5.3%, compared with a growth of 9.5% during the previous year. The Financial Institutions sector came in the second place with regard to the relative contribution to the growth in the value added in the non-oil sectors, as it grew by KD 36.7 million (5.2%) during 2003, following a growth of 4.3% during the previous year. Next came the Wholesale and Retail Trade, Hotels & Restaurants with a growth of KD 27.5 million (3.6%) compared with a growth of KD 4.2 million during 2002.

As for the sources of rise in GDP at current prices, from the perspective of expenditures on GDP, the report pointed to a noticeable increase in non-residents' expenditure on GDP at current prices (exports of goods and services), by KD 1646 million or 31.8%, as the main source of the mentioned rise in GDP during year 2003 compared with the previous year. Furthermore, the year 2003 witnessed a rise in residents' expenditures on GDP (encompassing government and private final consumption expenditures plus expenditure on gross capital formation) by KD 704.9 million (7.2%), to KD 10468.3 million compared with KD 9763.4 million in the previous year

Furthermore, the report followed up the developments in the other principal national accounts aggregates during 2003, as it indicated in this regard that the Gross National Product (GNP) of the State of Kuwait (the sum of GDP and net factor income received from abroad) rose by 14.7% to KD 13432.3 million during 2003 against KD 11707.4 million during 2002. The National Income at current prices, which represents the value of

the GNP adjusted to take account of provisions for fixed capital depreciation, rose during year 2003 by KD 1696.8 million or 15.1% to KD 12953.8 million during 2003, against KD 11257 million in the 2002. Consequently, the average per capita share of the GNP at current prices in the State of Kuwait rose by KD 451 (9.5%) to KD 5214.2 from KD 4763.2 during the previous year.

Furthermore, the first part of the report addressed the most important developments highlighted by the statistics on domestic price levels, which are represented in the developments in both the Consumer Price Index and Wholesale Price Index in the State of Kuwait during year 2003. Within this context, the report pointed to the stability of inflation rate in the State of Kuwait, expressed as the relative change in the Consumer Price Index (year 2000=100), at a level slightly beneath two percentage points, as that index rose slightly during 2003 to 1.2% compared with 0.5% during 2002. Most of this rise (70.8%) is attributable to the acceleration in the rise of price levels of goods constituting both the Housing services group (from 0.9% to 1.7%) and Food group (from 0.8% to 2.2%), during the years 2002 and 2003, respectively.

Additionally, the report pointed to the deceleration in the rise of the General Wholesale Price Index (year 1980=100) from 3.3% during year 2002 to 1.9% during year 2003, and illuminated the main sources of that decelerating rise. Within this context, the report highlighted that the mentioned deceleration in the rate of the rise in the General Wholesale Price Index during year 2003, compared with the previous year, is attributable to the decline in the rates of increase in the general level of wholesale prices of products under the Manufactured Products group (from 3.3% to 1.8%), and the Agricultural Products, Live Animals and Fish group (from 5.8% to 4.6%).

Analysis in the last portion of the first part focused on the observation and follow up of developments concerning population and labour force statistics during 2003. The report indicated, in this regard, the acceleration in the growth rate of the total population of the State of Kuwait, from 4.8% during 2002 to 5.2% during 2003. Regarding the sources of

the mentioned growth in the total population of the State of Kuwait, the report indicated that the largest portion (76.8%) of that growth was due to the growth in non-Kuwaiti population by 6.4% during 2003. Meanwhile, the growth rate of the Kuwaiti population reached 3.3%, which is close to the growth rate of 3.2% during the previous year.

The report also addressed in that section the developments concerning the demographic aspects of the country's population structure, particularly with regard to age distribution, crude participation ratios in the economic activity, and dependency ratios in the Kuwaiti and non-Kuwaiti populations, as it pointed specifically to the increase in the number of economically active Kuwaiti individuals, i.e. those aged between 15 years and under 60 years, by 4.1% during 2003 compared with 4% during year 2002.

With regard to the developments in the country's labour force, the report indicated that this labour force increased by 7.5% during 2003, compared to a growth of 7.3% in the previous year. This rise encompassed both the national labour force (5.2%) and expatriate labour force (8%) during year 2003. Consequently, the relative importance of the national labour force in the total labour force declined limitedly from 19.5% at end of year 2002 to 19.1% at end of year 2003. This was accompanied with the rise in the relative importance of the expatriate labour force from 80.5% to 80.9% at end of the two mentioned years, respectively. Within this context, the report indicated that the largest portion (95%) of the growth in the governmental sector labour force was essentially due to the rise in national labour force during 2003, while the contribution of the private sector in accommodating that rise was very limited. The largest portion (93.2%) of the growth in the private sector labour force during 2003 was essentially due to the increase in the numbers of expatriate labour in that sector during the mentioned year.

Second- Monetary Developments and Activity of CBK:

The second part of the report focused on reviewing CBK's activity in drawing and implementing the monetary policy of the State of Kuwait, and analyzing the role played

by that policy in directing and adjusting 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 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 aimed at 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.

The main aspects presented in this report on CBK's efforts within the monetary policy aimed at firmly establishing the atmosphere of monetary stability, enhancing the opportunities and elements of self-generated growth in the country, and developing the main monetary indicators and aggregates during 2003, can be summarized in the following:

- 1- The developments in the trends of money supply and its components within the aggregate monetary position of CBK and local banks during year 2003, reflect a significant aspect of CBK's activity in regulating the levels of domestic liquidity and its role in influencing these developments, to ensure their alignment with the considerations concerning the maintenance of monetary stability and the developments in the country's economic activity. Within this context, the report pointed to the continued acceleration in the growth rate of money supply in its broad definition (M2) for the fifth consecutive year, to KD 10401.2 million at end of year 2003 against KD 9646.3 million at end of the previous year, i.e. an increase of KD 754.9 million or 7.8%, compared with a growth of 4.8% during 2002. This increase reflects the sum of the rise in both Money (M1) by KD 544.8 million (26.4%) and Quasi-money by KD 210.1 million (2.8%) at end of year 2003, compared with end of the previous year. Factors affecting changes in money supply (M2) reflect the

outcome of the increase in net domestic assets (essentially, claims on the private sector) by KD 1218.4 million or 18.1% (from KD 6716.1 million to KD 7934.5 million) on the one hand, and the decline in net foreign assets (essentially with CBK) by KD 463.4 million or 15.8% (from KD 2930.2 million to KD 2466.7 million) on the other.

- 2- The developments in domestic interest rates during year 2003 clearly reflect CBK's efforts with regard to influencing the structure and levels of domestic interest rates on the Kuwaiti dinar, in line with the developments in the domestic economic activity on the one hand, and the developments in interest rates on major currencies on the other. Within this context, CBK maintained during 2003 the discount rate at its end-of-previous-year level of 3.25%, without change. Accordingly, the domestic interest rates structure was unchanged during 2003. With the stability of CBK's discount rate during 2003, the average interest rates on KD deposits at local banks continued to decline in 2003; nonetheless, an adequate margin remained in favor of interest rates on KD deposits compared to the interest rates on US dollar deposits, thus maintaining the attractiveness of the national currency (KD) as a main store of domestic savings.
- 3- The follow-up of developments in the exchange rate of the Kuwaiti dinar against the major currencies indicates that the exchange rate of the Kuwaiti dinar maintained its relative stability against these currencies during 2003, under the exchange rate policy of pegging the Kuwaiti dinar to the exchange rate of the US dollar within specific margins, noting that CBK started applying that policy 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 application of this new policy contributed to the relative stability of the KD exchange rate against the major currencies during year 2003. Specifically, the report indicated that the movements of the US dollar exchange rate against the Kuwaiti dinar were stable within narrow

margins, as the arithmetical difference between the highest and lowest exchange rate of the US dollar against the dinar at month-end during year 2003, did not exceed 7.11 fils (2.4%). Meanwhile, the exchange rate of the US dollar against the other major currencies fluctuated within relatively broader margins, as the arithmetical difference between the highest and lowest exchange rates of the US dollar reached 19.4% against the Euro, 14.1% against the Sterling pound, and 13.6% against both the Swiss franc and the Japanese yen.

- 4- The growth rate of the utilized portion of the cash credit facilities extended by local banks to the various domestic economic sectors accelerated during year 2003, whereby these facilities reached KD 8501.9 million at end of that year against KD 6954.3 million at end of 2002, i.e. a growth of KD 1547.6 million or 22.3%, compared to a growth of KD 828.1 million or 13.5% during the previous year. This growth encompassed most domestic economic sectors, excluding a decline in the cash credit facilities extended to the Industry sector (by KD 15.6 million or 2.9%). The increase was concentrated in the Personal Facilities sector (KD 814.6 million or 31%), the economic sectors recorded under the 'Others' item (by KD 262.5 million or 72.8%), the Construction sector (by KD 159.8 million or 35.2%), and the Real-estate sector (KD 154.5 million or 11.9%), at end of year 2003 compared with end of the previous year.

- 5- The developments in the balances of public debt instruments during year 2003 indicate the continuation of CBK's 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. The CBK uses these instruments in regulating the levels of domestic liquidity through the open-market operations of both the primary market for issuing Treasury Bills and Bonds, and the secondary market for trading (buying and selling) these instruments. In this regard, the report indicated that CBK made in year 2003, thirty-three issues of Treasury Bills with a nominal value of KD 3030.5 million, and fourteen issues of Treasury Bonds with a nominal value of KD 1370 million. During year 2003, thirty-eight previous issues of Treasury Bills with a

nominal value of KD 3395 million, and eleven previous issues of Treasury Bonds with a nominal value of KD 1010 million matured. Consequently, the total outstanding balance of Public Debt Instruments declined by KD 4.5 million (0.2%) to KD 2460.5 million at end of year 2003, against KD 2465 million at end of the previous year.

- 6- The developments in the activities of the local interbank KD-deposit market during year 2003 reflect CBK's continued efforts with regard to deepening the money market's activity, along with CBK's keenness on increasing the benefits that the various financial institutions dealing in that market can derive from the opportunities it offers in the management of their own liquidity positions. Within this context, the report indicated that the volume of transactions in the interbank KD-deposit market of local banks reached KD 17.7 billion during year 2003 against KD 18.6 billion during the previous year, i.e. a decline of 4.8%. The largest portion (82.7%) of the activity in the interbank deposit market during year 2003 was concentrated in maturities not exceeding one month. This development is consonant with the nature of the role played by that market, which is that of providing mechanisms and channels for using the liquidity exceeding the operating needs of some local banks and exchanging it with other banks facing short-term liquidity shortages. Additionally, the report highlights the role played by CBK with regard to absorbing the excess liquidity with some local banks, through accepting deposits from these banks, for a total of KD 9 billion during year 2003 against KD 19.6 billion during year 2002, i.e. a decrease of KD 10.6 billion or 54.6%.

- 7- Within the context of following up the developments in the repayment of purchased debts, according to the provisions of the Law No. (41) for year 1993 and its amendments, the report indicated that the amounts collected reached KD 2296.4 million at end of year 2003. In this regard, the balance of Purchased Debt Bonds reached KD 821 million at end of year 2003, against KD 1009.1 million at end of year 2002, i.e. a decline of KD 188.1 million or 18.6%.

- 8- The circulars, instructions, and regulations issued by CBK during year 2003 to the units subject to its oversight, reflect CBK's continued efforts in rationalizing the credit policies of banks and investment companies subject to its supervision, along with ensuring the soundness of the financial positions of these units in line with the relevant sound banking practices and customs. Within this context, the report indicated that, in addition to on-site inspection, off-site monitoring, and the development of systems of preventive and prudential supervision over the activity of the banking and financial system units, CBK issued several circulars, instructions and regulations during 2003, notably with regard to local banks' foreign exchange transactions, the instructions regarding credit facilities extended for the execution of works and projects outside the State of Kuwait, the approval of the banking risks system and the rules issued regarding its application, the initiation of the application of a system based on the ROCA method, for assessing the performance of foreign banks' branches operating in the State of Kuwait, and the guiding principles on sound practices in the management and supervision of operating risks in banks.

Third- Financial Indicators of the Banking and Financial Sector:

The third part of the economic report analyzed the aggregate balance sheet of local banks, local investment and exchange companies, and investment funds subject to CBK's supervision and oversight, and derived key financial indicators for the monitoring and assessment of the developments in the performance of these units during year 2003 on the one hand, along with ascertaining their financial positions at end of that year, on the other. The main developments witnessed in the financial indicators of the banking and financial system during 2003, as highlighted in the report, can be summarized as follows:

- 1- The total aggregate balance sheet of local banks grew markedly to KD 18818.1 million by end of year 2003, above its level of KD 17063.7 million at end of year 2002, i.e. a growth of KD 1754.4 million (or 10.3%), following a growth of 13.3% at end of 2002. Several factors contributed to that accelerated growth, chief among

which was the growth in the balances of private sector's deposits with local banks, both in KD and foreign currency, and the increase in government deposits and shareholders' equity on the liabilities side. Against this growth in liabilities, local banks witnessed an increase in assets, particularly in their claims on the private sector (in the form of credit facilities extended to residents, local banks' investments in domestic shares and bonds and other non-financial domestic assets).

In parallel with these main developments -and through the analysis of the relative distribution of the elements of the aggregate balance sheet of local banks- the report highlighted, in its review of the assets side in that balance sheet, the continued dominance of three main items in the structure of assets, namely claims on the private sector, claims on the government and foreign assets. The collective relative importance of these three items in the total assets reached 79.4% at end of year 2003, noting that the relative importance of claims on the private sector displayed a general upward trend (from 45.9% at end year 2002 to 50.3% at end of year 2003).

With regard to the liabilities side in the aggregate balance sheet of local banks, which reflects the main financing sources available to these banks, the report indicated -through its monitoring of the developments witnessed in the relative distribution of the elements of liabilities during year 2003- the continued dominance of the private sector deposits in the structure of liabilities, despite the decline in relative importance of these deposits during that year. Specifically, the relative importance of the private sector deposits declined from 53.9% of the total aggregate balance sheet of local banks at end of year 2002 to 52.6% at end of year 2003. On the other hand, an increase was recorded in the relative importance of interbank deposits of local banks (from 13% to 15.3%), shareholders' equity (from 10.4% to 10.7%) and other liabilities (from 9% to 9.5%), between the end of the two mentioned years, respectively.

Also, through its analysis of the performance of commercial and specialized local banks (in addition to the Kuwait Finance House) during year 2003, against the

recognized banking standards and indicators in relation to the rates and ratios of liquidity, adequacy of shareholders' equity, uses of funds and profitability, the report indicated the decline of liquidity standards, along with the rise in the uses of funds and adequacy of shareholders' equity standards, at end of year 2003 compared with end of year 2002.

Regarding profitability standards, the report indicated that local banks continued to achieve rising profit levels, as it clarified that the net profits realized by these banks rose from KD 307.6 million during year 2002 to KD 372.7 million during year 2003, i.e. a growth of KD 65.1 million (21.2%), which led to a rise in the ratio of net profits to total shareholders' equity (from 17.4% to 18.6%), total assets (from 1.8% to 2%) and paid-up capital (from 42.9% to 50.5%) between the two mentioned years, respectively. Concerning the capital adequacy ratios (solvency) of local banks, the report pointed to the stability of these ratios at levels distinctly higher than the minimum requirements according to international recommendations in this regard, particularly the "Basle Committee" recommendations. The average capital adequacy ratio for all commercial and specialized banks subject to CBK's supervision reached 18.4% at end of year 2003 against 19.7% at end of the previous year, noting that the minimum requirement for the capital adequacy ratio is 8%, according to the "Basle Committee" recommendations, and 12% according to CBK's instructions.

- 2- The follow-up of developments in the performance of local investment companies subject to CBK's supervision, during year 2003, indicates the continuation of these companies' efforts in firmly establishing the structures of their sources and uses of funds on balanced bases and in line with the developments in the domestic and external economic and financial conditions. The number of local investment companies registered with CBK and subject to its supervision reached 40 companies (of which 12 investment companies operating according to the provisions of the Islamic Sharia) at end of year 2003, i.e. the addition of two new companies, compared to end of the previous year. The total aggregate balance sheet of 39

investment companies whose financial data were available with CBK (of which 27 conventional investment companies and 12 Islamic Investment companies) reached KD 5327.3 million at end of year 2003.

In continuation of the approach adopted in the analysis of the performance of investment companies, starting with the economic report of year 2001, this part of the economic report distinguished between the conventional investment companies and those investment companies operating according to the provisions of the Islamic Sharia. **With regard to conventional investment companies for which comparative data were available for the period 2001-2003 (24 companies)**, the report indicated that the total aggregate balances sheet of these companies rose to KD 3982.7 million at end of year 2003, compared with KD 3230.2 million at end of the previous year, i.e. an increase of KD 752.5 million or 23.3%. On the assets side in the aggregate balance sheet of these companies, the mentioned growth encompassed most elements of assets items, excluding the decline in cash and balances with local banks (by KD 28.3 million or 21.6%), which led to the decline of its relative importance in the total assets (from 4.1% to 2.6%), between the ends of years 2002 and 2003, respectively. Furthermore, a decline was recorded in the relative importance of foreign assets (from 64.6% at end of 2002 to 60.6% at end of 2003). In return, a rise was recorded in the relative importance of the main other elements of assets in the aggregate balance sheet of conventional investment companies, particularly the balances of domestic investments (from 14.6% to 20%), between the ends of years 2002 and 2003 respectively.

Data on the relative distribution of the elements of liability in the aggregate balance sheet of local conventional investment companies reflect the continued significance of financing from external sources on the liabilities side, with a relative importance of 37.9% at end of year 2003, against 43% at end of the previous year. Also, the relative importance of the “Capital and Reserve” item in the total liabilities declined from 30.4% to 29.6%, at end of years 2002 and 2003 respectively. In return, a rise was

recorded in the relative importance of bonds issued by conventional investment companies (from 2.3% to 4.1%), other liabilities (from 9.1% to 13%) and financing from residents (from 12.8% to 15%) between the two mentioned periods, respectively,

As for local investment companies operating according to the provisions of the Islamic Sharia (11 companies), the report indicated a tangible rise in the total aggregate balance sheet of these companies, from KD 879.9 million at end of year 2002 to KD 1182 million at end of year 2003, i.e. an increase of KD 302.2 million or 34.2%. That increase encompassed most assets' items in the aggregate balance sheet of local Islamic investment companies, particularly the 'Other Assets' item which rose by KD 108 million or 82.7% (equivalent to 35.7% of the mentioned growth in the total aggregate balance sheet of these companies) at end of year 2003, compared with end of year 2002. This led to the rise of the relative importance of this item to 20.2% from 14.8% at end of the mentioned years, respectively. On the liabilities side, the largest portion (45.3%) of the mentioned increase in the total aggregate balance sheet of the Islamic investment companies reflected the increase in the 'Other Liabilities' by KD 137 million (61.6%), which led to the rise of the relative importance of this item in the total liabilities from 25.3% at end of year 2002 to 30.4% at end of year 2003.

- 3- The report also addressed in that part, and for the third consecutive year, some financial indicators of the investment funds registered with CBK and subject to its supervision. These funds continued to increase in number during 2003, reaching 48 funds at end of that year, against 33 funds at end of year 2002, within a development reflecting the tangible increase in these funds domestically. The total assets of investment funds for which data were available (40 funds) reached KD 1685.6 million at end of year 2003 from KD 1015.6 million (for 24 funds) at end of year 2002. Within this context, the report pointed that the financial indicators of investment funds displayed a tangible improvement during year 2003 compared with the previous year, particularly those indicators related to profitability ratios.

4- The total aggregate balance sheet of 28 local exchange companies registered with CBK and for which comparative data were available (for the years 2001-2003) reached KD 57.1 million at end of year 2003, against KD 57.8 million at end of the previous year, i.e. a decline of KD 0.7 million or 1.2%. This decline in the assets side of the aggregate balance sheet of local exchange companies, encompassed most elements of assets, excluding cash and cash assets which rose by KD 0.8 million (11.4%), from KD 6.6 million at end of year 2002 to KD 7.4 million at end of year 2003. Indicators derived from the aggregate balance sheet of local exchange companies point to the rise of the average ratio of liquidity to total assets of these companies, from 49.9% at end of year 2002 to 57% at end of year 2003. Additionally, the profitability ratios of local exchange companies witnessed a tangible improvement during 2003, as the ratio of net profits to partners' equity rose from 5.9% at end of year 2002 to 12.5% at end of year 2003. The report also indicated that the capital adequacy level in local exchange companies -represented in the ratio of partners' equity to total assets, without weighting by related risks- increased from 56.6% at end of 2002 to 63.9% at end of 2003.

Fourth- Developments in Public Finance:

The report addressed in its fourth part the developments in public finance during year 2003, as reflected by data on the general budget of ministries and governmental bodies. For that purpose, the report followed up the developments in the actual budgetary revenues and expenditures for the fiscal year 2002/03, along with presenting the revenue estimates and allocations for expenditures for the fiscal year 2003/04, which covers the period (1/4/2003– 31/3/2004) and the portion actually executed thereof during the period (1/4/2003–31/12/2003).

With regard to the developments in public finance, as reflected by the closing account data for the fiscal year 2002/03, the report indicated that the actual budgetary revenues collected during the mentioned fiscal year reached KD 6219 million, thus recording a rise of

KD 2697.3 million or 76.6% above their budgetary estimates for that fiscal year. That rise is attributable to the rise in world oil prices during the fiscal year 2002/03, and the ensuing increase in actual budgetary oil revenues despite the decline in quantities of produced oil, to KD 5498.5 million during the mentioned fiscal year, i.e. a rise of KD 2529 million or 85.2% compared to their budgetary estimates of KD 2969.5 million for that fiscal year. Furthermore, the actual budgetary non-oil revenues collected during the fiscal year 2002/03 recorded an increase of KD 168.4 million (or 30.5%) above their budgetary estimates of KD 552.2 million for the same fiscal year, thus reaching KD 720.5 million. This rise essentially reflects the tangible increase of KD 143.7 million or 211.7% in the collected miscellaneous revenues and charges (under the seventh chapter) to KD 211.7 million during the fiscal year 2002/03, against their budgetary estimates of KD 67.9 million for that fiscal year.

As for the actual budgetary expenditures for the fiscal year 2002/03, the report indicated that these expenditures totaled KD 4927.4 million, according to the closing account for the mentioned fiscal year, thus realizing a saving of KD 520.8 million or 9.6% on their budgetary allocations estimated at KD 5448.2 million for that fiscal year. This saving resulted from the decline of actual budgetary expenditures below their allocations for all chapters of the general budget, particularly under the fifth chapter (miscellaneous expenditures and transfer payments) by KD 214.5 million (8.5%), and the fourth chapter (construction projects and public acquisitions) by KD 208.6 million (31.1%). The saving realized in actual expenditures under both above mentioned chapters represents 81.2% of the total saving realized in actual budgetary expenditures for the fiscal year 2002/03 on their allocations for that fiscal year.

As a result of the above mentioned developments on both sides of actual revenues and expenditures, the closing account for the fiscal year 2002/03 realized an actual surplus of KD 1291.6 million, before deducting the allocations for the Reserve Fund for Future Generations, compared to an estimated deficit of KD 1926.5 million within the revenue estimates and allocations for expenditures in the general budget for that fiscal year.

The report also reviewed, within this part, the general features of revenue estimates and allocations for expenditures in the general budget for the fiscal year 2003/04, enacted by virtue of the law No. (82) of year 2003. Within this context, the report indicated that the budgetary revenue estimates for the fiscal year 2003/04 reached KD 3554.9 million, i.e. a rise of KD 33.3 million (0.9%) compared to their estimates for the fiscal year 2002/03. This is ascribable to the sum of the rise in both oil revenues estimates (by KD one million to KD 2970.5 million), and non-oil revenue estimates (by KD 32.3 million or 5.9% to KD 584.5 million) in the general budget for the fiscal year 2003/04, compared with the approved estimates for the fiscal year 2002/03. On the other hand, the allocations for expenditures in the general budget for the fiscal year 2003/04 totaled KD 5939 million, thus rising by KD 490.8 million or 9% above the allocations for expenditures in the general budget for the previous fiscal year 2002/03, which reached KD 5448.2 million. The largest portion (84.6%) of the above mentioned increase, reflects the rise in the approved estimates of current expenditures.

The report also followed up in this part the developments in government fiscal operations within the fiscal year 2003/04, as highlighted in the monthly follow-up statements of actual budgetary revenues and expenditures during the first nine months of the mentioned fiscal year (April-December 2003), whereby it indicated in this regard that the actual budgetary revenues collected during that period reached KD 5118.6 million, thus recording an increase of KD 604.7 million or 13.4% above the actual budgetary revenues of KD 4513.9 million collected during the corresponding period of the previous year (April-December 2002). This increase essentially reflects the effect of the rise in world oil prices, and the resulting increase in actual budgetary oil revenues collected during the first nine months of the fiscal year 2003/04 to KD 4532.9 million, against KD 4034.5 million during the period (April-December 2002), i.e. an increase of KD 498.4 million or 12.4%. Furthermore, the actual budgetary non-oil revenues collected during the first nine months of the fiscal year 2003/04 declined by KD 106.3 million or 22.2% compared to the corresponding period of the previous year.

On the other hand, the total actual budgetary expenditures during the first nine months of the fiscal year 2003/04 (April-December 2003) reached KD 3106.3 million, thereby recording a rise of KD 158.9 million (5.4%) above the actual budgetary expenditures during the period (April-December 2002). This rise encompassed all chapters of expenditures in the general budget without exception, particularly the actual budgetary expenditures under the first chapter, which rose by KD 69.1 million or 7.1% during the first nine months of the fiscal year 2003/04, compared to the corresponding period of the previous fiscal year, whereby that rise accounted for 43.5% of the above mentioned rise in actual budgetary expenditures.

In light of the above developments, the general budget for the first nine months of the fiscal year 2003/04 (April-December 2003) realised an actual surplus of KD 2012.2 million, before deducting the allocations for the Reserve Fund for Future Generations, compared with an actual surplus of KD 1566.4 million during the period (April-December 2002), before deducting the allocations for the Reserve Fund for Future Generations.

Fifth- Developments in Foreign Trade and Balance of Payments:

The fifth part of the report focused on following up and analyzing 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 for year 2003. Regarding merchandise trade between the residents in the domestic economy and residents in other economies, the Balance on Goods data -which expresses the arithmetical difference between the value of merchandise exports and imports- indicate the impact of favorable conditions in world oil prices during year 2003 on the surplus realized in that Balance, as that surplus rose by KD 1155 million (52.5%) to KD 3356 million in year 2003 compared with KD 2201 million in the previous year. Consequently, the ratio of the Balance on Goods surplus to GDP at current prices rose from 20.6% during 2002 to 27% during 2003.

Within that context, the report indicated that the tangible rise in the total value of Kuwait's merchandise exports and re-exports (fob) by KD 1576 million or 33.7% (from KD 4670 million to KD 6246 million), was the main source of the mentioned rise in the Balance on Goods surplus of the State of Kuwait during 2003, compared to the previous year. This rise was the outcome of the rise of KD 1391 million (32.6%) in the value of oil exports of the State of Kuwait (from KD 4273 million to KD 5664 million), and KD 185 million (46.6%) in the value of its non-oil exports (from KD 397 million to KD 582 million) between the two years 2002 and 2003, respectively. On the other hand, the value of the State of Kuwait merchandise imports (fob) increased by KD 421 million (17.1%) to KD 2890 million during year 2003, compared with KD 2469 million in the previous year.

Regarding the current transactions between residents in the Kuwaiti economy and residents in other economies with regard to transportation, insurance, travel, and other services, as reflected by data of the "Services Account (Net)" item in the BOP statistics, the report indicated that the deficit realized in that account rose by KD 110 million or 8.6% to KD 1383 million during 2003, following its rise by 12.5% during 2002. That increase in the Services Account (Net) deficit essentially reflects the growth in the net value of outbound payments under both the "Travel" and "Transport and Other Services" items, by KD 98 million (7.6%) to KD 1382 million during 2003, from KD 1284 million during 2002.

On the other hand, the "Investment Income (Net)" item realized a surplus of KD 991 million during year 2003, against a surplus of KD 1016 million in the previous year, i.e. a limited decrease of KD 25 million or 2.5%, compared with the marked decrease in that surplus during the two years 2002 and 2001, by KD 487 million (32.4%) and KD 552 (26.9%), respectively. Also, the deficit in the "Current Transfers (Net)" item rose by KD 57 million (or 8.7%) to KD 709 million during year 2003, from a deficit of KD 652 million in the previous year.

In light of the above developments in the surplus realized in the "Balance on Goods", "Services Account (Net)", "Investment Income (Net)" and "Current Transfers (Net)", the

surplus realized in the Current Account of the State of Kuwait recorded a tangible rise of KD 963 million (74.5%) to KD 2255 million in year 2003, against KD 1292 million in the previous year, thus leading to the rise of the ratio of that surplus to GDP at current prices to 18.1% from 12.1% during the two mentioned years respectively.

The mentioned rise in the surplus realized in the Current Account of the State of Kuwait was accompanied with the continued capital inflows recorded on the credit side of the capital account of the BOP statistics, reaching KD 426 million during year 2003 from KD 508 million in the previous year. This development essentially reflects the total amounts received by residents (individuals, institutions, and governmental and private bodies) from the United Nations Compensation Committee, in compensation for damages incurred due to the brutal Iraqi invasion and occupation of the State of Kuwait.

In light of the above, an acceleration of KD 1808 million or 115.2% was witnessed in the growth rate of the net value of Kuwaiti investments abroad, recorded on the debit side of the “Financial Account” in the BOP statistics of the State of Kuwait, during year 2003, whereby that growth reached KD 3377 million during 2003, compared with the growth of KD 1569 million in the net value of these investments in year 2002. This growth realized in year 2003, was the outcome of the rise in the net value of assets invested abroad concerning institutions and bodies recorded under the General Government sector in the BOP statistics (by KD 2986 million), the Other Sectors (by KD 309 million), and local banks (by KD 91 million). Regarding the composition of external investments recorded under the “Financial Account” item, the report indicated that the above mentioned increase in net value of external investments of the State of Kuwait during year 2003 reflects the outcome of the growth in Kuwaiti investments recorded under both the “Portfolio Investment (Net)” item by KD 3887 million, and “Other Investments (Net)” item by KD 957 million on the one hand, and the decline in investments recorded under the “Direct Investment (Net)” item by KD 1467 million on the other.

As an outcome of the above mentioned developments in the current account, the capital and financial account, and the developments concerning errors and omissions in all items of the BOP statistics, the overall balance of these statistics realized a deficit of KD 524 million during 2003. In turn, this deficit reflected on the Total Reserve Assets of the Central Bank of Kuwait which declined by the same amount (KD 524 million) at end of year 2003, compared to their level at end of the previous year.

If the overall position of the State of Kuwait BOP statistics is considered from a broader perspective to reflect the changes in the reserve assets available to the domestic economy, and which can be drawn on for BOP purposes and are essentially represented in the changes in the net value of external investments of some governmental bodies and institutions under the “General Government” item, in addition to the changes in total reserve assets of CBK, the overall position of the balance of payments shows a surplus of KD 2937.7 million in year 2003 compared with a surplus of KD 1077.9 million in year 2002, i.e. a decline of KD 1859.8 million or 172.5%.

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 2003, as reflected by data on the main indices of trading activity and prices, 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 year 2003. With regard to the developments in the main indices of the Kuwait Stock Exchange (KSE), the report indicated that these indices realized record levels during year 2003, unprecedented since the market’s inception in 1983. Specifically, the report indicated that the total quantity and value of traded shares in the KSE rose by 78% and 143.3%, respectively during year 2003, compared with the previous year. Also, the total number of transactions in the KSE rose by 560.7 thousand transactions or 107.7% during year 2003, following its rise by 166.6 thousand transactions or 47% during the previous year. Additionally, the KSE

General Price Index (29/12/1993=1000) rose by 101.7% from 2375.3 points at end of year 2002 to 4790.2 points at end of year 2003, its highest level since the market's inception in 1983.

Regarding factors affecting the development in KSE activity during year 2003, the report indicated some factors which existed in the market during that year and their contribution to shaping the rising trend in activity witnessed in the KSE during the mentioned year. Most notable among these factors were those linked to the increase of funds' inflow to the market from several sources, the turbulence in world financial markets, leading to the repatriation of part of domestic capitals from abroad, the atmosphere of optimism and the positive reflections of the fall of the previous Iraqi regime and disappearance of the threats it posed, the rise in listed-companies' profits, the decline in domestic interest rates, the rise in world oil prices and the ensuing positive reflections on the domestic economy, the excellent international credit ratings received by the State of Kuwait, etc.

The report also addressed the performance of companies listed on the KSE during 2003, as it indicated that these companies realized a rise of 86% in their profits compared to the previous year. The total profits realized by only 92 listed companies for which data were available reached KD 1259.2 million, from KD 677.1 million in the previous year. The average earnings per share in KSE reached 52.4 fils during year 2003, from 27.6 fils in the previous year, i.e. a rise of 24.8 fils or 89.9%

As for the developments in the share issue base and market capitalization, the report indicated that the total number of companies listed on the KSE rose to 108 companies at end of year 2003, against 95 companies at end of the previous year, as thirteen new companies were listed during that year (six in the Investment sector, three in the Industry sector, two in the Real-estate sector, and one in each of the Services sector and Non-Kuwaiti Companies sectors). The market capitalization of the companies listed on the KSE reached KD 18.1 billion at end of year 2003, i.e. an increase of KD 7.6 billion or 72%, compared with end of the previous year. Price movements contributed a significant

portion (81%) of the mentioned growth in the market capitalization of listed companies during year 2003. Within this context, the report indicated that the service companies listed on the market recorded the highest growth rates in market value during year 2003, as the market value of their shares rose by 116% compared with the previous year, following the increase by an average of 6.8% in the prices of their shares at end of year 2003, compared to end of the previous year. The Investment sector came next with regard to market capitalization (111.1%), followed by the Real-Estate sector (109.1%), Non-Kuwaiti Companies sector (96.5%), Industry sector (76.3%), Food Companies sector (48.5%), Insurance sector (39.4%) and Banks sector (35.7%).

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

Item	1999	2000	2001	2002	2003
National Accounts:					
GDP at Current Prices:	9169.7	11356.7	10445.7	10691.4	12441.3
Crude Oil & Natural Gas Sector	3327.7	5543.9	4586.5	4405.6	5794.0
Non-oil Sectors	5761.6	5735.8	5775.7	6188.9	6559.0
Of which: Petroleum Products	708.1	501.6	374.4	430.6	573.4
Import Duties	80.5	77.0	83.9	96.9	88.3
GDP at Fixed Prices of 1995:	8519.0	8677.3	8732.3	8700.0	...
Crude Oil & Natural Gas Sector	2926.0	3111.7	3045.8	2729.0	...
Non-oil Sectors	5512.9	5489.4	5605.0	5895.3	...
Of which: Petroleum Products	644.5	539.4	487.7	520.8	...
Import Duties	80.1	76.2	81.5	75.7	...
Domestic Prices:					
CPI (2000=100)	...	100.0	101.8	102.3	103.5
WPI (1980=100)	162.4	163.1	166.3	171.8	175.1
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	7678.1	8163.2	9208.5	9646.3	10401.2
Money (M1)	1371.4	1467.7	1641.4	2066.7	2611.5
Quasi-money	6306.6	6695.6	7567.1	7579.6	7789.7
Private Sector Deposits with Local Banks	7235.2	7746.6	8807.3	9204.1	9907.1
of which: KD Deposits	6354.4	6852.0	7915.3	8300.5	8916.6
Credit Facilities Extended by Local Banks to Residents	5015.5	5252.4	6126.2	6954.3	8501.9
Of which: Consumer Loans	546.2	567.7	633.5	698.0	748.8
Net Foreign Assets of Local Banks	578.7	773.3	456.1	409.3	500.5
Aggregate Balance Sheet of Local Banks	12917.0	13806.2	15064.2	17063.7	18818.1
US dollar Exchange Rate against the KD at Year End (fils)	304.18	305.68	307.36	299.70	294.70
Public Debt Instruments:					
Value of Issues:	2970.0	3150.0	3435.0	4370.0	4400.5
Treasury Bills	1370.0	1707.0	2150.0	3460.0	3030.5
Treasury Bonds	1600.0	1443.0	1285.0	910.0	1370.0
Balances at Year End:	2337.4	2473.0	2463.0	2465.0	2460.5
Treasury Bills	579.0	490.0	860.0	1555.0	1190.5
Treasury Bonds	1758.4	1983.0	1603.0	910.0	1270.0

.....Cont'd.

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

Item	1999	2000	2001	2002	2003
Public Finance (Fiscal Years): ⁽¹⁾	(1999/2000)	(2000/01)	(2001/02)	(2002/03)	(2003/04) ⁽²⁾
Revenues	5241.2	4965.4	5336.6	6219.0	5118.6
Expenditure	4010.0	3188.1	4746.4	4927.4	3106.3
Surplus or Deficit ⁽³⁾	1231.1	1777.3	590.2	1291.6	2012.2
Foreign Trade:					
Total Value of Exports, of which:	3702.8	5962.7	4969.7	4666.2	6242.1
Value of Oil Exports ⁽⁴⁾	3356.4	5578.3	4590.8	4276.7	5663.5
Total Value of Imports (CIF)	2318.3	2195.4	2413.3	2735.8	3216.8
Balance of Payments:					
Current Account	1525	4501	2553	1282	2255
Balance on Goods	1679	3996	2819	2201	3356
Services Account (Net)	-1099	-950	-1132	-1273	-1383
Income Account (Net)	1555	2055	1503	1016	991
Current Transfers (Net)	-610	-600	-637	-652	-709
Kuwait Stock Exchange:					
(Including Transactions of Investment Funds)					
Value of Traded Shares (KD Million)	1722.4	1248.1	3520.5	6566.1	15652.3
Quantity of Traded Shares (Million Shares)	8428.2	6241.4	15342.7	26211.9	44495.7
Number of Transactions (Thousand Transactions)	192.6	147.4	341.4	500.3	1014.6
Price Index (29/12/1993 =1000)	1442.0	1348.1	1709.4	2375.3	4790.2
Weighed Index (26/12/2000=100)	...	100.0	131.6	172.1	291.1

(1) Data are taken from the closing accounts, (fiscal years until 1999/2000 end up in June, and fiscal years as of 2000/01 end up in March, noting that the fiscal year 2000/01 covers nine months from 1/7/2000 to 31/3/2001).

(2) Follow-up statements for the period (April-December 2003).

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

(4) CBK estimates for oil exports and foreign trade, for year 2003.

(...) Unavailable Data.