

Summary of the Economic Report

Summary of the Economic Report

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 2002, 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 year 2002, 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 programmes of supervision and oversight on the banking sector and 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, the CBK was keen on basing this analysis of the developments in the economic, financial and monetary conditions of the State of Kuwait during year 2002, 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 2002, can be summarized as follows:

First- Performance of the Domestic Economy:

The economic report addressed in its beginning the principal features of the Kuwaiti economy during year 2002, as reflected by the provisional statistics of the 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 2002. Within this context, the report pointed to the rise of the State of Kuwait GDP at current prices from KD 10495.5 million during year 2001 to KD 10737.5 million during year 2002, i.e. an increase of KD 242 million (2.3%), following its decline at current prices by 7.6% during the previous year. This rise is essentially attributable to the increase in the total value added at current prices in the non-oil sectors (excluding the refined petroleum product industry) to KD 5819.9 million during year 2002 against KD 5450.7 million during the previous year, i.e. a growth of KD 369.2 million (6.8%) compared with a growth of 4.1% during year 2001. Consequently, the relative contribution of the non-oil sectors to the GDP of the State of Kuwait rose from 51.9% during year 2001 to 54.2% during year 2002.

The total value added at current prices in the oil sectors (the world oil and natural gas sector, and the refined petroleum products industry) continued to decline during year 2002, for the second consecutive year, to KD 4836.2 million compared to KD 4960.9 million during the previous year, i.e. a decline of KD 124.7 million (2.5%). This led to the decline of the relative importance of the value added by these sectors to the GDP of the State of Kuwait at current prices from 47.3% during year 2001 to 45% during year 2002. This decline was concentrated essentially in the value added in the crude oil and natural gas sector by KD 180.9 million or 3.9% (from 4586.5 million to KD 4405.6 million), as a result of the decrease in the State of Kuwait oil production rates, pursuant to OPEC's decisions. This decline occurred despite the relatively limited rise in the prices of Kuwaiti crude oil in international markets, as that rise was not sufficient to offset the effect of the decline of produced quantities of Kuwaiti crude oil. As for the value added in the refined petroleum products industry, it grew by 15% during year 2002.

In general, the report indicated that the value added to the GDP at current prices by most non-oil sectors during year 2002, achieved a positive growth at uneven rates which often surpassed their corresponding rates of the previous year. Worth

mentioning in this regard is that the Community, Social and Personal Services sector achieved the highest contribution (57.2%) to the growth in the value added to the GDP among the non-oil sectors during year 2002, as that sector grew by KD 211.2 million or 8.7%. The Wholesale and Retail Trade, Hotels & Restaurants 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 51.4 million (7.2%) following a negative growth of 5.3% during the previous year. Next came the Real-estate sector with a growth of KD 34.4 million (5.2%) compared with a decline of KD 0.3 million during year 2001.

As for the sources of rise in the GDP at current prices, from the perspective of expenditures on the GDP, the report pointed to a noticeable increase in the net expenditures by residents on the GDP at current prices (representing consumption plus investment expenditures less imports of goods and services) by KD 548 million (10.9%), as the main source of the mentioned rise in the GDP during year 2002 compared with the previous year. Conversely, expenditure on the GDP by the external sector (value of exports of goods and services) decreased during year 2002, for the second consecutive year, by KD 306 million or 5.6% to KD 5184 million from KD 5490 million in the previous year.

Furthermore, the report followed up the developments in the other principal national accounts aggregates during the year 2002, as it indicated in this regard that the above mentioned rise in the GDP at current prices during year 2002, coincided with a noticeable decrease in net factor income received from abroad by 33.5%. Consequently, the Gross National Product (GNP) at current prices declined by 2.2% to KD 11737.5 million during year 2002 against KD 11998.5 million in the previous year. This led to the decline of the average per capita share of the GNP at current prices in the State of Kuwait from KD 5349.1 in year 2001 to KD 4966.5 during year 2002, i.e. a decrease of KD 382.6 (7.2%).

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 and Wholesale Price indices in the State of

Kuwait during year 2002. 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, at a level slightly beneath two percentage points, as that index declined slightly during year 2002 to 1.4% compared with 1.7% during year 2001. This decline is essentially attributable to the stability in the price levels of goods constituting the Transport and Communication group, along with the deceleration in the rates of increase in the price levels of goods constituting the Clothing and Footwear, Education and Medical Care services, and Housing services groups, despite the acceleration in the rates of increase in the general price level of goods constituting the other groups, such as the Food group, Beverages and Tobacco, Household Goods and Services, and Other Goods and Services.

Additionally, the report pointed to the acceleration in the rise of the General Wholesale Price Index from 2% during year 2001 to 3.3% during year 2002, and illuminated the main sources of that rise. Within this context, the report highlighted that the mentioned rise in the General Wholesale Price Index during year 2002 compared with the previous year is attributable to the rise in the wholesale prices of products under the Manufactured Products group, and the Agricultural Products, Live Animals and Fisheries group, by 3.3% and 5.8%, respectively.

Analysis in the last portion of the first part focused on the observation and follow up of developments concerning population and labour force during year 2002. The report indicated, in this regard, the acceleration of growth rate of the total population of the State of Kuwait from 4.1% during year 2001 to 4.8% during year 2002. Regarding the sources of the mentioned growth in the total population of the State of Kuwait, the report indicated that the largest portion (74.7%) of that growth was due to the growth in non-Kuwaiti population by 5.8% during year 2002, while the growth rate of the Kuwaiti population reached 3.2%, which is close to its previous year growth rate of 3.4%.

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 accelerating increase in the number of economically active Kuwaiti individuals, i.e. those aged between 15 years and under 60 years, by 3.9% during year 2002 compared with 4.3% during year 2001.

With regard to the developments in the country labour force, the report indicated that this labour force increased by 7.3% during the year 2002, compared to a growth of 6.3% in the previous year. This rise recorded encompassed both the national labour force (6.3%) and expatriate labour force (7.6%) during year 2002. Consequently, the relative importance of the national labour force in the total labour force declined limitedly from 19.6% at end of year 2001 to 19.5% at end of year 2002. This was accompanied with the rise in the relative importance of the expatriate labour force from 80.4% to 80.5% at end of the two mentioned years, respectively. Within this context, the report indicated that the largest portion (95.2%) of the growth in the governmental sector labour force was essentially due to the rise in national labour force during year 2002, while the contribution of the private sector in accommodating that rise was very limited. The largest portion (97.9%) of the growth in the private sector labour force during 2002, 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 the CBK:

The second part of the report focused on reviewing the CBK 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 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 aimed at generating an atmosphere that contributes to further strengthening these units and ensure the

soundness of their financial positions, in line with the sound 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 year 2002, can be summarized in the following:

- 1- The developments in the trends of money supply and its components on both the assets and liabilities sides within the aggregate monetary position of the CBK and local banks during year 2002, 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 concurrence 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 growth in money supply in its broad definition (M2) for the fourth consecutive year, to KD 9646.3 million at end of year 2002 against KD 9208.5 million at end of the previous year, i.e. an increase of KD 437.8 million or 4.8%. On the liabilities side of the aggregate monetary position of the CBK and local banks, this increase reflects the sum of the rise in both Money (M1) by KD 425.3 million (25.9%) and Quasi-money by KD 12.5 million (0.2%) at end of year 2002, compared with end of the previous year. On the assets side of the aggregate monetary position of the mentioned institutions, the mentioned increase was the outcome of the rise in net domestic assets of these institutions (essentially, claims on the private sector) by KD 813.6 million or 13.8% (from KD 5902.5 million to KD 6716.1 million) on the one hand, and the decline in net foreign assets (essentially with CBK) by KD 375.8 million or 11.4% (from KD 3306 million to KD 2930.2 million) on the other hand.
- 2- The developments in domestic interest rates during year 2002, clearly reflect CBK's efforts with regard to influencing the structure and levels of domestic

interest rates on the Kuwait 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, the CBK issued during year 2002 two decisions in regard to setting new rates for the discount and re-discount of commercial papers presented to it by local banks and which it accepts to discount or rediscount. By virtue of the first decision, the discount rate was reduced by half a percentage point (from 4.25% to 3.75%) as of 3 June 2002. The second decision reduced the discount rate by half a percentage point too (from 3.75% to 3.25%) as of 7 November of the mentioned year. These two decisions were taken in light of CBK's continual monitoring of the developments in interest rates on major currencies during year 2002, in contribution to the firm establishment of the bases of monetary stability in the domestic economy. Worth noting is that in addition to the general decrease these decisions brought about in the levels of domestic interest rates on the Kuwaiti dinar, they maintained the attractiveness of the national currency as a store of domestic savings.

- 3- The follow-up of developments in the exchange rate of the Kuwaiti dinar against the major currencies indicates the efficiency of CBK's policy in maintaining the relative stability of the exchange rate of the Kuwaiti dinar, so as to contribute to the alleviation of inflationary pressures on imports prices, and thereby curb the influence of these pressures on domestic price levels on the one hand, and enhance the CBK efforts with regard to maintaining the competitive advantage of the dinar as an essential store of savings in the State of Kuwait on the other. This policy is based on setting the exchange rate of the Kuwaiti dinar according to the other major currencies of significance to the State of Kuwait economic and financial relations with the outside world. Within this context, the report indicated that the application of this policy contributed to the relative stability of the KD exchange rate against the major currencies during year 2002. 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 rise and lowest decline of the US dollar against the dinar at month-end

during year 2002, did not exceed 8.55 fils (2.9%). 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 21.7% against the Swiss franc, 20.6% against the Euro, 16.4% against the Japanese yen, and 13.8% against the Sterling pound.

- 4- The utilized portion of the cash credit facilities extended by local banks to the various domestic economic sectors grew tangibly during year 2002, by KD 828.1 million (13.5%) to KD 6953.4 million at end of that year against KD 6125.3 million at end of the previous year. This growth encompassed most domestic economic sectors, excluding a decline in the cash credit facilities extended to non-bank financial institutions sector (KD 72.8 million or 10.2%), and the Trade sector (by KD 54.4 million or 5.1%). Within this growth, there was a manifest rise in the balances of cash credit facilities extended to the Personal Facilities sector (KD 579.6 million or 28.7%), the Real-estate sector (KD 133.2 million or 11.4%) and the Construction sector (by KD 103.2 million or 27.4%), at end of year 2002 compared with end of the previous year.
- 5- The developments in the balances of public debt instruments during year 2002 indicate the continuation of CBK's efforts which started since November 1987 in the management of the Treasury Bills and 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 the CBK issued in year 2002, thirty-seven issues of Treasury Bills with a nominal value of KD 3460 million, and ten issues of Treasury Bonds with a nominal value of KD 910 million. During year 2002, thirty-two previous issues of Treasury Bills with a nominal value of KD 2765 million, and eighteen previous issues of Treasury Bonds with a nominal value of KD 1603 million matured. Consequently, the total outstanding balance of Public

Debt Instruments rose limitedly by KD 2 million (0.1%) to KD 2465 million at end of year 2002 against KD 2463 million at end of the previous year.

- 6- The developments in the activities of the local interbank KD-deposit market during year 2002 reflect the continued efforts of the CBK with regard to deepening the activity of the money market, 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 18.6 billion during year 2002 against KD 19 billion during the previous year, i.e. a slight decline of 2.6%. The largest portion (83.8%) of the activity in the interbank deposit market during year 2002 was concentrated in maturities not exceeding one month. This development conforms 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 the CBK with regard to absorbing the excess liquidity with some local banks, through accepting deposits from these banks, for a total of KD 19.8 billion during year 2002 against KD 13.4 billion during year 2001, i.e. an increase of KD 6.4 billion or 47.5%.
- 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 since the issuance of the mentioned law until end of year 2002, reached KD 2228 million. In this regard, the balance of Purchased Debt Bonds reached KD 1009.1 million at end of year 2002, against KD 1295.4 million at end of year 2001, i.e. a decline of KD 286.3 million or 22.1%.
- 8- The circulars, instructions, and regulations issued by the CBK during year 2002 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, the CBK issued several circulars, instructions and regulations during 2002, notably with regard to the Basle Committee principles for the management of electronic-banking risks, banks internal measures and regulations required for the application of the provisions of Law No. 35 for year 2002, concerning combating money-laundering operations and its explanatory memorandum, and the obligation of not assigning the assessment of adequacy of banks internal control systems, or technical or consultative work connected to accountancy aspects, to consultancy companies or offices having economic or legal relations with the audit and accountancy bureaus auditing the bank accounts in addition to other tasks,

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 that allow the monitoring and assessment of the developments in the performance of these units during year 2002 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 2002, as highlighted in the report, can be summarized as follows:

- 1- The aggregate balance sheet of local banks grew noticeably during year 2002 to KD 17063.7 million at end of the mentioned year, against KD 15064.2 million at end of the previous year, i.e. a growth of KD 1999.5 million or 13.3%, following its growth of 9.1% during year 2001. Several factors led collectively to this accelerated growth, particularly the growth in the balances of private sector deposits with local banks in Kuwaiti dinar and foreign

currencies, along with the increase in foreign liabilities, government deposits and shareholders equity on the liabilities side. In return for this growth on the liabilities side, the local banks assets increased, particularly claims on the private sector (in the form of credit facilities extended to residents, and local banks investments in shares and bonds, and other domestic non-financial assets), and balances of foreign 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 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 79.2% at end of year 2002, noting that the relative importance of claims on the private sector displayed a general upward trend (from 45.5% at end year 2001 to 45.8% at end of year 2002).

With regard to the liabilities side in the aggregate balance sheet of local banks, which reflects the main financing sources available to local banks, the report indicated –through its monitoring of the developments witnessed in the relative distribution of the elements of liabilities during year 2002– 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 58.5% of the total aggregate balance sheet of local banks at end of year 2001 to 53.9% at end of year 2002, while the relative importance of the rest of the elements of liabilities increased as follows: interbank deposits of local banks (from 8.3% to 13%), foreign liabilities (from 10.4% to 11.9%) and government deposits (from 1.5% to 1.8%), 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 2002, against the recognized banking standards and indicators concerning the rates

and ratios of liquidity, adequacy of shareholders' equity, uses of funds and profitability, the report indicated the rise of liquidity standards and some standards of uses, along with the decline in shareholders' equity at end of year 2002 compared with year 2001.

Regarding profitability standards, the report indicated that local banks continued to achieve good profit levels, as it clarified that the net profits realized by these banks rose from KD 305.7 million during year 2001 to KD 307.5 million during year 2002, i.e. a growth of KD 1.8 million (0.6%), which led to a slight decline in the ratio of net profits to total shareholders' equity (from 18.2% to 17.4%) and total assets (from 2% to 1.8%) at end of the two mentioned years, while the ratio of net profits to paid-up capital was stable at 43.3%. 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 19.7% at end of year 2002 against 22% at end of the previous year, noting that the minimum requirement for capital adequacy is 8%, according to the "Basle Committee" recommendations, and 12% according to CBK instructions.

- 2- The follow-up of the performance of local investment companies subject to CBK supervision, during year 2002, 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 the CBK and subject to its supervision reached 38 companies (of which 11 investment companies operating according to the provisions of the Islamic Shariaa) at end of year 2002, unchanged from end of the previous year. The total aggregate balance sheet of 37 investment companies for which financial data were available

with the CBK (of which 26 conventional investment companies and 11 Islamic Investment companies) reached KD 4190 million at end of year 2002.

In continuation of the approach adopted in the analysis of investment companies performance, starting with the economic report of year 2001, this part of the economic report distinguished in the analysis and follow-up of performance, between the conventional investment companies and those investment companies operating according to the provisions of the Islamic Shariaa. With regard to conventional investment companies for which comparative data were available for the period 2000-2002 (25 companies), the report indicated that the total aggregate balances sheet of these companies rose to KD 3278.5 million at end of year 2002, compared with KD 3189.9 million at end of the previous year, i.e. an increase of KD 88.6 million or 2.8%. On the assets side in the aggregate balance sheet of these companies, the mentioned growth encompassed most main elements of assets, excluding the decline in cash and balances with local banks (by KD 35.4 million or 21.1%), which led to the decline of its relative importance in the total assets (from 5.3% to 4%), between the ends of years 2001 and 2002, respectively. Furthermore, a decline was recorded in the relative importance of foreign assets (from 65.6% to 64%) and loans and discounts to residents (from 13.7% to 13.5%), between the ends of years 2001 and 2002, respectively. 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 13% to 15.4%) between the ends of years 2001 and 2002 respectively.

Data on the relative distribution of the elements of liability in the aggregate balance sheet of the conventional investment companies reflect the continued significance of financing from external sources on the liabilities side, with a relative importance of 42.4% at end of year 2002 against 44.7% at end of the previous year. Also, the relative importance of the "Capital and Reserve" item in the total liabilities declined from 31.5% to 30.6%, as well as the relative importance of the "financing from residents" item (particularly financing

from local banks) from 13.3% to 13.1% between the ends of the years 2001 and 2002, respectively. Conversely, a rise was recorded in the relative importance of bonds issued by conventional investment companies (from 0.9% to 2.3%) and other liabilities (from 9.6% to 11.7%) between the two mentioned periods, respectively,

As for local investment companies operating according to the provisions of the Islamic Shariaa (11 companies), the report indicated a tangible rise in the total aggregate balance sheet of these companies, from KD 654.9 million at end of year 2001 to KD 885.6 million at end of year 2002, i.e. an increase of KD 230.7 million or 35.2%. That increase encompassed most items of assets in the aggregate balance sheet of Islamic investment companies, particularly customers financing operations which rose by KD 82.9 million or 28.4% (equivalent to 35.9% of the mentioned growth in the total aggregate balance sheet of these companies) at end of year 2002 compared with end of year 2001, though the relative importance of these operations declined to 42.4% from 44.6% at end of the mentioned years, in the same order. On the liabilities side, the largest portion (50.6%) of the mentioned increase in the total aggregate balance sheet of the Islamic investment companies reflected the increase in the balances of financing from the domestic financial sector by KD 116.7 million (51.2%), which led to the rise of the relative importance of this item in the total liabilities from 34.8% at end of year 2001 to 38.9% at end of year 2002.

- 3- The report also addressed in that part, and for the second consecutive year, some financial indicators of the investment funds registered with the CBK and subject to its supervision. These funds continued to increase in number to 33 funds at end of year 2002, against 20 funds at end of year 2001, i.e. an increase of 65%, within a development reflecting the tangible increase in these funds domestically. The total assets of investment funds for which data were available (24 funds) reached KD 1015.6 million at end of year 2002 from KD 595.9 million (for 19 funds) at end of year 2001. Within this context, the report pointed that the financial indicators of investment funds

displayed a tangible improvement during year 2002 compared with the previous year, particularly those indicators related to profitability ratios.

4- The total aggregate balance sheet of 25 local exchange companies registered with the CBK and for which comparative data were available (for the years 2000-2002) reached KD 54 million at end of year 2002 against KD 53 million at end of the previous year, i.e. a rise of KD one million or 1.9%. On the assets side of the aggregate balance sheet of local exchange companies, this rise essentially reflects the outcome of developments witnessed in these elements of assets. On the one hand, a rise was recorded in cash and cash assets (by 12.2%), claims on local banks and other financial institutions (1%), and total receivables (11.9%). On the other hand, a decline was witnessed in the balances of financial investments (13.4%), precious metals at cost (5.5%) and other assets (5.3%) between the ends of years 2002 and 2001. 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 46.5% at end of year 2001 to 49.4% at end of year 2002. Additionally, the net profit realized by exchange companies during year 2002 declined by KD 1.1 million or 29.6% compared with the previous year, thus leading to the decline of the ratio of net profits to partners' equity from 13.1% to 8.7% at end of the two mentioned years, respectively. The report also indicated that the capital adequacy level in local exchange companies increased from 50.5% at end of year 2001 to 51% at end of year 2002.

Fourth- Developments in Public Finance:

The report addressed in its fourth part the developments in public finance during year 2002, 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 2001/02, along with presenting the revenue estimates and allocations for expenditures for the fiscal year 2002/03, which covers the period (1/4/2002– 31/3/2003) and the portion actually executed thereof during the period (1/4/2002–31/12/2002).

With regard to the developments in public finance, as reflected by the closing account data for the fiscal year 2001/02, the report indicated that the actual budgetary revenues collected during the mentioned fiscal year reached KD 5336.7 million, thus recording a rise of KD 1505.2 million or 39.3% above their budgetary estimates for that fiscal year. The largest portion (83.8%) of that rise, is attributable to the rise of world oil prices during the fiscal year 2001/02, and the ensuing increase in actual oil revenues despite the decline in quantities of produced oil, to KD 4525 million during the mentioned fiscal year, i.e. a rise of KD 1262 million or 38.7% compared to their budgetary estimates of KD 3263 million for that fiscal year. On the other hand, the actual budgetary non-oil revenues collected during the fiscal year 2001/02 recorded an increase of KD 243.1 million (or 42.8%) above their budgetary estimates of KD 568.5 million for the same fiscal year, thus reaching KD 811.6 million. This rise mainly reflects the tangible increase of KD 321.4 million or 642.8% in the collected miscellaneous revenues and charges (under the seventh chapter) to KD 371.4 million during the fiscal year 2001/02 against their budgetary estimates of KD 50 million for that fiscal year.

As for the actual budgetary expenditures for the fiscal year 2001/02, the report indicated that these expenditures totaled KD 4746.4 million, according to the closing account for the mentioned fiscal year, thus realizing a saving of KD 527.6 million or 10% on their budgetary allocations estimated at KD 5274 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 235 million (9.3%), and the fourth chapter (construction projects and public acquisitions) by KD 176.7 million (30.3%). The saving realized in actual expenditures under both above mentioned chapters represents 78% of the total saving realized in actual budgetary expenditures for the fiscal year 2001/02 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 2001/02 realized an actual surplus of KD 590.2 million before deducting the allocations for the Reserve Fund for Future

Generations, compared to an estimated deficit of KD 1442.5 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 2002/03 enacted by virtue of the law No. (77) of year 2002. Within this context, the report indicated that the budgetary revenue estimates for the fiscal year 2002/03 reached KD 3521.7 million, i.e. a decline of KD 309.9 million (8.1%) compared to their estimates for the fiscal year 2001/02. This is ascribable to the sum of the decrease in oil revenues estimates (by KD 293.5 million or 9% to KD 2969.5 million), and non-oil revenue estimates (by KD 16.3 million or 2.9% to KD 552.2 million) for the fiscal year 2002/03, compared with the approved estimates for the fiscal year 2001/02.

The report also followed up in this part the developments in the government fiscal operations within the fiscal year 2002/03, 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 2002), whereby it indicated in this regard that the actual budgetary revenues collected during that period reached KD 4513.9 million, thus recording an increase of KD 319.9 million or 7.6% above the actual budgetary revenues of KD 4194 million collected during the corresponding period of the previous year (April-December 2001). 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 month of the fiscal year 2002/03 to KD 4034.5 million against KD 3589.1 million during the period (April-December 2001), i.e. an increase of KD 445.4 million or 12.4%. Conversely, the actual non-oil revenues collected during the first nine months of the fiscal year 2002/03 declined by KD 125.4 million or 20.7% 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 2002/03 (April-December 2002) reached KD 2947.4 million, thereby recording a rise of KD 71.2 million (2.5%) above the actual budgetary expenditures during the period (April-December 2001). This rise encompassed all chapters of

expenditures in the general budget without exception, particularly for the actual budgetary expenditures under the first chapter, which rose by KD 39.4 million or 4.2% during the first nine months of the fiscal year 2002/03 compared to the corresponding period of the previous year, and accounted for 55.3% 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 2002/03 (April-December 2002) realised an actual surplus of KD 1566.4 million before deducting the allocations for the Reserve Fund for Future Generations, compared with an actual surplus of KD 1317,7 million during the period (April-December 2001) 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 2002. 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 unfavorable conditions in world oil prices during year 2002 on the surplus realized in that Balance, as that surplus declined by KD 589 million (20.9%) to KD 2230 million in year 2002 compared with KD 2819 million in the previous year. Consequently, the ratio of the Balance on Goods surplus to the GDP at current prices, declined from 26.9% during year 2001 to 20.8% during year 2002.

Within that context, the report pointed to the tangible decline in the total value of Kuwait's merchandise exports and re-exports (fob) by KD 297 million or 6% (from KD 4980 million to KD 4683 million), which contributed 50.4% of the mentioned decline in the Balance on Goods surplus of the State of Kuwait. This decline is attributable essentially to the marked decrease of KD 318 million (6.9%) in the value of oil exports

to KD 4273 million during year 2002 compared with KD 4591 million in the previous year. On the other hand, the value of the State of Kuwait merchandise imports (fob) increased by KD 292 million (13.5%) to KD 2453 million during year 2002 compared with KD 2161 million in the previous year.

Regarding the financial 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 the rise in the value of the deficit realized in that account to KD 1296 million during year 2002, as that value increased by KD 164 million or 14.5%, after recording a rise of 19.2% during the year 2001. That increase in the Services Account (Net) deficit essentially reflects the growth in the net value of outbound payments under the “Travel” and “Transport and Other Services” items collectively by KD 172 million (15.2%), from KD 1135 million during year 2001 to KD 1307 million during year 2002.

On the other hand, the “Investment Income (Net)” item realized a surplus of KD 1000 million during year 2002 against a surplus of KD 1503 million in the previous year, i.e. a decrease of KD 503 million or 33.5%, following the marked decrease in the rates of return on financial instruments and investment assets in the main financial markets between the two mentioned years. Also, the deficit in the “Current Transfers (Net)” item rose by KD 15 million (or 2.4%) to KD 652 million during year 2002, from a deficit of KD 637 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 decline of KD 1271 million (49.8%) to KD 1282 million in year 2002, against KD 2553 million in the previous year, thus leading to the decline of the ratio of that surplus to the GDP at current prices to 11.9% from 24.3% during the two mentioned years respectively.

The mentioned decline in the surplus realized in the Current Account of the State of Kuwait was accompanied with continued capital inflows recorded on the credit side of the capital account of the BOP statistics, reaching KD 507 million during year 2002 from KD 899 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, the growth realized in 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, continued during year 2002 though at decelerating rates, whereby that growth reached KD 1561 million in year 2002 compared with the growth of KD 1936 million in the net value of these investments in year 2001, i.e. a deceleration of KD 375 million or 19.4%. This growth realized in year 2002, 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 1591 million) and other sectors (by KD 20 million) on the one hand, and the decline in the net value of assets invested abroad concerning local banks (by KD 42 million) on the other hand. 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 2002 reflects the outcome of the growth in Kuwaiti investments recorded under both the “Portfolio Investments (Net)” item by KD 986 million, and “Other Investments (Net)” item by KD 624 million on the one hand, and the decline in investments recorded under the “Direct Investment (Net)” item by KD 49 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 291 million in year 2002 for the first time since year 1997. In turn, this surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait which declined by the same amount (KD 291 million) at end of year 2002 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 the CBK, the overall position of the balance of payments shows a surplus of KD 1078.4 million in year 2002 compared with a surplus of KD 3146.5 million in year 2001, i.e. a decline of KD 2068.1 million or 65.7%.

Sixth- Developments in the Kuwait Stock Exchange Activity:

The report followed up, in its sixth and last part, the developments in the Kuwait Stock Exchange (KSE) activity in year 2002, 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 2002. With regard to the developments in the main indices of the Kuwait Stock Exchange (KSE), the report pointed to the continued improvement of these indices during year 2002, for the second consecutive year, after their decline for three consecutive years (1998-2000). Specifically, the report indicated that the total quantity and value of traded shares in the KSE rose by 70.8% and 86.5%, respectively during year 2002, compared with the previous year. Also, the total number of transactions in the KSE rose by 520.9 thousand transactions or 47% during year 2002, following its rise by 354.3 points or 126.4% during the previous year. Additionally, the KSE General Price Index rose by 39% from 1709.4 points at end of year 2001 to 2375.3 points at end of year 2002. This rise occurring for the second consecutive year, reflects the intensive demand generated by market participants and the increasing activity by investment funds and portfolios, for listed companies, which raised the KSE General Price Index to record standards, as mentioned above.

Regarding factors affecting the development in KSE activity during year 2002, 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 increasing activity of investment funds, the rise of listed companies profits, the decline in domestic interest rates, the increase in financial flows to the market from various sources, and the perturbation in world financial market, which was accompanied with the repatriation of a portion of domestic capitals abroad., etc.

The report also addressed the performance of companies listed on the KSE during year 2002, as it indicated that these companies realized a rise of 14% in their profits compared to the previous year. The total profits realized by only 89 listed companies for which data were available reached KD 681 million from KD 597 million in the previous year. The average earnings per share in the KSE during year 2002 reached 29.4 fils.

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 95 companies at end of year 2002, against 88 companies at end of the previous year, as seven new companies were listed during that year (three in the Investment sector, two in the Services sector and a company in each of the Real-estate and Industry sectors). The capital market value of the companies listed on the KSE reached KD 10.5 billion at end of year 2002, i.e. an increase of KD 2.2 billion or 27%, compared with end of the previous year. Price movements contributed a significant portion of the mentioned growth in the market value of listed companies capital during year 2002. Within this context, the report indicated that the listed Real-estate companies recorded the highest growth rates in market value during year 2002, as the market value of their shares rose by 57.3% compared to the previous year, following the increase by an average of 54.5% in the prices of their shares at end of year 2002, compared to end of the previous year.

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

Item	1998	1999	2000	2001	2002
National Accounts:					
GDP at Current Prices:	7656.3	8884.0	11356.7	10495.5	10737.5
Crude Oil & Natural Gas Sector	2355.0	3327.7	5543.9	4586.5	4405.6
Non-oil Sectors	5217.1	5475.8	5735.8	5825.1	6250.5
Of which: Petroleum Products	610.1	708.1	501.6	374.4	430.6
Import Duties	84.2	80.5	77.0	83.9	81.4
GDP at Fixed Prices of 1984:	9733.2	9576.8	9946.1	9843.9	..
Crude Oil & Natural Gas Sector	5990.6	5465.7	5812.5	5689.4	..
Non-oil Sectors	3663.3	4053.0	4085.4	4105.2	..
Of which: Petroleum Products	142.3	149.4	124.8	113.1	..
Import Duties	79.3	58.1	48.2	49.3	..
Domestic Prices:					
CPI (1978 = 100)	199.5	205.5	209.2	212.7	215.6
WPI (1980=100)	164.4	162.4	163.1	166.3	171.8
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	7556.5	7678.1	8163.2	9208.5	9646.3
Money (M1)	1143.5	1371.4	1467.7	1641.4	2066.7
Quasi-money	6413.1	6306.6	6695.6	7567.1	7579.6
Private Sector Deposits with Local Banks	7207.8	7235.2	7746.6	8807.3	9204.1
of which: KD Deposits	6170.4	6354.4	6852.0	7915.3	8300.5
Credit Facilities Extended by Local Banks to the Private Sector	4801.6	5015.1	5251.7	6125.3	6953.4
Net Foreign Assets of Local Banks	703.6	578.7	773.3	456.1	409.3
Aggregate Balance Sheet of Local Banks	12875.1	12917.0	13806.2	15064.2	17063.7
US dollar Exchange Rate against the KD at Year End (fils)	301.56	304.18	305.68	307.36	299.70
Public Debt Instruments:					
Value of Issues:	2786.1	2970.0	3150.0	3435.0	4370.0
Treasury Bills	1776.1	1370.0	1707.0	2150.0	3460.0
Treasury Bonds	1010.0	1600.0	1443.0	1285.0	910.0
Balances at Year End:	2025.8	2337.4	2473.0	2463.0	2465.0
Treasury Bills	787.4	579.0	490.0	860.0	1555.0
Treasury Bonds	1238.4	1758.4	1983.0	1603.0	910.0

.....Cont'd.

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

Item	1998	1999	2000	2001	2002
Public Finance (Fiscal Years): ⁽¹⁾	(1998/99)	(1999/2000)	(2000/01)	(2001/02)	(2002/03) ⁽³⁾
Revenues	2797.7	5241.2	4965.4	5336.6	4513.9
Expenditure	4040.2	4010.0	3188.1	4746.4	2947.4
Surplus or Deficit ⁽²⁾	-1242.5	1231.1	1777.3	590.2	1566.5
Foreign Trade:					
Total Value of Exports, of which:	2911.6	3702.8	5962.7	4969.7	4683.2
Value of Oil Exports ⁽⁴⁾	2581.8	3356.4	5578.3	4590.8	4276.7
Total Value of Imports (CIF)	2626.2	2318.3	2195.4	2413.3	2720.0
Balance of Payments:					
Current Account	675	1525	4501	2553	1282
Balance on Goods	580	1679	3996	2819	2230
Services Account (Net)	-1152	-1099	-950	-1132	-1296
Income Account (Net)	1788	1555	2055	1503	1000
Current Transfers (Net)	-541	-610	-600	-637	-652
Kuwait Stock Exchange:					
(Including Transactions of Investment Funds)	3343.1	1842.1	1291.6	3584.8	6681.1
Value of Traded Shares (KD Million)					
Quantity of Traded Shares (Million Shares)	13918.9	9496.1	6759.6	16304.5	27838.2
Number of Transactions (Thousand Transactions)	350.6	212.8	157.0	355.1	521.3
Price Index (29/12/1993 =1000)	1582.7	1442.0	1348.1	1709.4	2375.3
Weighed Index (26/12/2000=100)	100.0	131.6	172.1
Market Value (Does not include Investment Funds) ⁽⁵⁾	5802.3	6184.0	6377.7	8300.4	10540.5

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

(3) Follow-up statements for the period (April -December 2002).

(4) CBK estimates for both oil exports and foreign trade for year 2002.

(5) Source: Global Investment House.

(..) Unavailable Data.