

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 2001, 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 2001, in the areas of national accounts, domestic prices, population and labour force, CBK's efforts in drawing and implementing the monetary policy, and the measures and programmes 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 of the banking and financial system. The report also addressed the developments in public finance, 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 2001, 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 2001, 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 2001, 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 both current and fixed (real) prices during the year 2001. Within this context, the report pointed to the decline of the State of Kuwait

GDP at current prices from KD 10991 million during year 2000 to KD 10057 million during year 2001, i.e. a decrease of KD 934 million (8.5%), following its growth at current prices by 23.7% during the previous year. This decline is essentially attributable to the decrease in world oil prices and the accompanying reduction of the State of Kuwait oil production rates by virtue of the OPEC's decisions, thus leading to a noticeable decline in the total value added in the oil sectors (the crude oil and natural gas production sector, and the refined petroleum products industry) by KD 1083.1 million (17.9%) to KD 4960.9 million during year 2001 against KD 6044 million during the previous year.

As for the total value added at current prices in the non-oil sectors (excluding the refined petroleum product industry) it continued to grow, for the fifth consecutive year, to KD 5026.1 million during year 2001 against KD 4879.8 million during the previous year, i.e. a growth of KD 146.3 million (3%) compared with a growth of 2.4% during year 2000. Consequently, the relative contribution of the non-oil sectors in the GDP of the State of Kuwait rose from 44.4% during year 2000 to 50% during year 2001, while the collective relative importance of oil sectors declined from 55% to 49.3% during the two mentioned years, respectively.

In general, the report indicated that the value added to the GDP at current prices by most non-oil sectors during year 2001, 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 growth rate in the value added to the GDP among the non-oil sectors during year 2001, as it grew by KD 104.5 million or 4.4% (equivalent to 71.4% of the total value added in the non-oil sectors). The Financial Institutions sector ranked second in terms of the relative contribution to the growth in the total value added in the non-oil sectors, as this sector grew by KD 24.1 million (4%) during year 2001, after recording a growth of 8.7% in the previous year. The wholesale Retail Trade, Hotels & Restaurants sector came next with a growth of KD 18.9 million (2.8%) compared with a negative growth of 2.3% during year 2000.

As for the sources of decline in the GDP at current prices, from the perspective of expenditures on the GDP, the report pointed to a noticeable decrease in the expenditures on the GDP by the external sector (value of exports of goods and services) by KD 1028 million or 15.7% (from KD 6534 million to KD 5506 million), as that sector was the main source of the mentioned decline in the GDP during year 2001. Conversely, net expenditures by residents on the GDP at current prices (representing consumption plus investment expenditures less imports of goods and services) rose by KD 94 million (2.1%) during year 2001 compared with the previous year.

Furthermore, the report followed up the developments in the other principal national accounts aggregates during the fiscal year 2001, as it indicated in this regard that the above mentioned decline in the GDP at current prices during year 2001, coincided with a decrease in net factor income received from abroad by 26%. Consequently, the Gross National Product (GNP) at current prices declined by 11.3% to KD 11577 million during year 2001 against KD 13046 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 5855 in year 2000 to KD 5161 during year 2001, i.e. a decrease of KD 693 (11.8%).

Regarding the trends in real economic growth, the report indicated that the GDP of the State of Kuwait at fixed prices of 1984 declined to KD 9843.9 million during year 2001 against KD 9946.1 million in the previous year, i.e. a decline of KD 102.2 million (1%), compared with a real growth of 3.9% in the previous year. This decline was the outcome of the decrease in the total value added to the GDP by the oil sectors (crude oil and natural gas production sector, and the refined petroleum products industry) by 2.3% on the one hand, and the rise of the corresponding total value added to the GDP by the non-oil sectors by 0.8% on the other hand during year 2001, compared with year 2000. The report also indicated that the value added in most non-oil sectors at fixed prices recorded positive growth rates during year 2001, excluding the Manufacturing (Non-oil) Industries sector, and the Construction sector.

Furthermore, the first part of the report addressed the most important developments highlighted by the statistics on the levels of domestic prices, which are represented in the developments in both the Consumer Price and Wholesale Price indices in the State of Kuwait during year 2001. 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 2001 to 1.7% compared with 1.8% during year 2000. This stability was contributed by the stability in the price levels of goods constituting the “food” group, along with the deceleration in the rates of increase in the price levels of goods constituting both the Transport and Communication group and the Housing Services group, despite the acceleration in the rates of increase in the general price level of goods constituting the other groups, such as Clothing and Footware, Education and Medical Care services, Household Goods and Services, Beverages and Tobacco, and Other Goods and Services.

Additionally, the report pointed to the acceleration in the rise of the General Wholesale Price Index from 0.4% during year 2000 to 2% during year 2001, and illuminated the main sources of that rise. Within this context, the report highlighted that the largest portion (96.8%) of the mentioned rise in the General Wholesale Price Index during year 2001 compared with the previous year is attributable to the rise in the wholesale prices of products under the Manufactured Products group and the Mining and Quarrying group by 2% and 40.4%, 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 2001. The report indicated, in this regard, the resumption of growth in the total population of the State of Kuwait by 4.1%, following its decline by 1.7% and 0.7% respectively during the years 1999 and 2000. Regarding the sources of the mentioned growth in the total population of the State of Kuwait, the report indicated that the largest portion (69%) of that growth was due to the growth in non-Kuwaiti population by 4.6% during year 2001, while the growth rate of the Kuwaiti population reached 3.4%, which is close to its previous year growth rate of 3.6%.

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 4.3% during year 2001 compared with 4% during year 2000.

With regard to the developments in the country labour force, the report indicated that this labour force increased by 6.3% during the year 2001, after recording a decline of 2.4% in the previous year. This rise witnessed in year 2001 encompassed both the national labour force (7.1%) and expatriate labour force (6.1%). Consequently, the relative importance of the national labour force in the total labour force rose limitedly from 19.5% at end of year 2000 to 19.6% at end of year 2001. This was accompanied with the decline in the relative importance of the expatriate labour force from 80.5% to 80.4% at end of the two mentioned years, respectively. Within this context, the report indicated that the governmental sector continued to absorb the largest portion (99.1%) of the rise in national labour force during year 2001, while the contribution of the private sector in accommodating that increase was very limited. The largest portion (95.4%) of the growth in the private sector labour force during 2001, 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 2001, 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 2001, reflect a significant aspect of CBK 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 development 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 third consecutive year, to KD 9208.5 million at end of year 2001 against KD 8163.2 million at end of the previous year, i.e. an increase of KD 1045.3 million or 12.8%. 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 Quasi-money by KD 871.6 million (13%) and Money (M1) by KD 173.7 million (11.8%) at end of year 2001, compared with end of the previous year. On the assets side of the aggregate monetary position of the mentioned institutions, the mentioned increase resulted from the rise in net domestic assets of these institutions (essentially, claims on the private sector) by KD 515.9 million or 9.6% (from KD 5385.3 million to KD 5901.2 million) on the one hand, and net foreign assets (essentially with the CBK) by KD 529.4 million or 19.1% (from KD 2777.9 million to KD 3307.3 million) on the other hand.

- 2- The developments in domestic interest rates during year 2001, 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, the CBK issued during year 2001 seven 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 these decisions, the discount rate was reduced by 3 percentage points (from 7.25% to 4.25%). These decisions were taken in light of CBK's continual monitoring of the developments in interest rates on major currencies during year 2001, 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 following up of the developments in the exchange rate of the Kuwaiti dinar against the major currencies highlights the efficiency of CBK's policy in maintaining the relative stability of the exchange rate of the Kuwaiti dinar, thereby contributing to the alleviation of inflationary pressures on imports prices, hence curbing the influence of these pressures on domestic price levels on the one hand, and enhancing 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 hand. This policy which the CBK started applying since March 1975 is based on setting the exchange rate of the Kuwaiti dinar according to a special weighed basket of currency of countries with which the State of Kuwait has notable trade and financial relations. 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 2001. 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 2001, did not exceed 3.53 fils (1.2%). 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 12.5% against the Japanese yen, 12.4% against the Swiss franc, 8% against the Euro and 4.1% against the Sterling pound.

- 4- The utilized portion of the cash credit facilities extended by local banks to the various economic sectors grew tangibly during year 2001, by KD 874.1 million (16.6%) to KD 6125.9 million at end of that year against KD 5251.7 million at end of the previous year. This growth encompassed most domestic economic sectors, excluding a decline in the cash credit facilities extended to the construction sector (by KD 65.1 million or 14.7%) and the “Others” sector which encompasses several sub-sectors, notably transportation, professionals and craftsmen (by KD 247.7 million or 43.6%). Within this growth, there was a manifest rise in the balances of cash credit facilities extended to the non-bank financial institutions sector (KD 382.3 million or 116%), the personal facilities sector (KD 338.8 million or 20.1%), and the real-estate sector (KD 311.5 million or 36.5%) at end of year 2001 compared with end of the previous year.

- 5- The developments in the balances of public debt instruments during year 2001 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 2001, twenty-six issues of Treasury Bills with a nominal value of KD 2150 million, and fourteen issues of Treasury Bonds with a nominal value of KD 1285 million. During year 2001,

nineteen previous issues of Treasury Bills with a nominal value of KD 1780 million, and eighteen previous issues of Treasury Bonds with a nominal value of KD 1665 million matured. Consequently, the total outstanding balance of Public Debt Instruments declined limitedly by KD 10 million (0.4%) to KD 2463 million at end of year 2001 against KD 2473 million at end of the previous year.

- 6- The developments in the activities of the local interbank KD-deposit market during year 2001 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 levels. Within this context, the report indicated that the volume of transactions in the interbank KD-deposit market of local banks continued to grow, thus reaching KD 19 billion during year 2001 against KD 18.5 billion during the previous year, i.e. an increase of KD 500.9 million (2.7%). The largest portion (87.2%) of the activity in the interbank deposit market during year 2001 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 13.1 billion during year 2001 against KD 9.2 billion during year 2000, i.e. an increase of KD 3.9 billion or 43%.
- 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 2168 million at end of year 2001. In this regard, the balance of Purchased Debts Bonds reached KD 1295.4 million at end of year 2001,

against KD 1493.1 million at end of year 2000, i.e. a decline of KD 197.7 million or 13.2%.

- 8- The circulars, instructions, and regulations issued by the CBK during year 2001 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 2001, notably with regard to capital adequacy requirements, the rewording of some supervisory instructions to suit the investment companies operating according to the provisions of the Islamic Shariaa, the method of calculating the provisions required in compliance with the International Accounting Standard No. (39), the facilitation of the sale and purchase of Euro as of 1/1/2002, the amendment of the maximum limit of consumer loans and other investment loans, the amendment of certain instructions concerning the investment policy of banks, and the method applied in the treatment of revenues resulting from both the credit facilities extended to customers and international sovereign loans.

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 2001 on the one hand, along with ascertaining their financial positions at end of that year, on the other. The main development witnessed in the financial indicators of the banking and financial system during 2001, as highlighted in the report, can be summarized as follows:

1- The aggregate balance of local banks grew tangibly during year 2001 to KD 15066.1 million at end of the mentioned year, against KD 13806.2 million at end of the previous year, i.e. a growth of KD 1260 million or 9.1%, following its growth of 6.9% during year 2000. This growth was driven by the noticeable rise in the balances of private sector KD deposits with local banks by KD 1063.3 million or 15.5% (equivalent to 84.4% of the growth in the total aggregate balance sheet of local banks) to KD 7915.3 million at end of year 2001 against KD 6852 million at end of the previous year. Through its monitoring of developments on the assets side in the aggregate balance sheet of local banks, the report indicated that the largest portion (77.8%) of the mentioned growth in the total aggregate balance sheet of local banks is essentially attributable to the noticeable increase in the balances of claims on the private sector to KD 6851.6 million at end of year 2001 against KD 5870.9 million at end of the previous year, i.e. an increase of KD 980.8 million (16.7%).

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 81.5% at end of year 2001, noting that the relative importance of claims on the private sector displayed a general upward trend (from 42.5% at end year 2000 to 45.5% at end of year 2001).

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 2001– the continued dominance of the private sector deposits in the structure of liabilities. Specifically, the relative importance of the private sector deposits rose from 56.1% of the total aggregate balance sheet of local banks at end of

year 2000 to 58.4% at end of year 2001, while the relative importance of the rest of elements of liabilities declined, except for the rise in the relative importance of foreign liabilities (from 8.7% to 10.4%) and government deposits (from 1.3% to 1.5%), between the ends 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 2001, 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 most standards of uses, along with the decline in some standards of liquidity and adequacy of shareholders' equity at end of year 2001 compared with year 2000.

Regarding profitability standards, the report indicated that local banks continued to achieve increasing profit levels, as it clarified that the net profits realized by these banks rose from KD 278.2 million during year 2000 to KD 305.7 million during year 2001, i.e. a growth of KD 27.5 million (9.9%), which led to the rise of net profits to total shareholders' equity (from 17.6% to 18.2%) and to paid-up capital (from 40.1% to 43.3%) during 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 22% at end of year 2001 against 22.2% 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 2001, 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 (of which 11 investment companies operating according to the provisions of the Islamic Shariaa) at end of year 2001, against 37 companies at end of the previous year. The total aggregate balance sheet of 35 investment companies for which financial data were available (of which 25 conventional investment companies and 10 Islamic Investment companies) reached KD 3759.1 million at end of year 2001.

This part of the economic report for year 2001 differs from that of previous years, in that it distinguishes 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 1999-2001 (24 companies), the report indicated that the total aggregate balances sheet of these companies rose to KD 3157.2 million at end of year 2001, compared with KD 2967.4 million at end of the previous year, i.e. an increase of KD 189.9 million or 6.4%. On the assets side in the aggregate balance sheet of these companies, that growth encompassed most elements of assets, excluding the decline in foreign assets (by KD 14.3 million or 0.7%) and other assets (by KD 3.6 million or 4.4%), which led to the decline of the relative importance of each of these two items (from 71% to 66.3%) and (from 2.8% to 2.5%) respectively, between the ends of years 2000 and 2001, respectively. In return, a rise was recorded in the relative importance of most elements of assets in the aggregate balance sheet of conventional investment companies, particularly the balances of loans and discounts to residents (from 11% to 13.3%), and domestic investments (from 11.9% to 13.1%) between the ends of years 2000 and 2001 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 45.1% at end of year 2001 against 46.8% at end of the previous year. Also, the relative importance of the “Capital and Reserve” item in the total liabilities declined from 35.1% to 30.8%, while the relative importance of the “financing from residents” item (particularly financing from local banks) rose from 8.1% to 13.4% between the ends of the years 2000 and 2001, respectively.

As for local investment companies operating according to the provisions of the Islamic Shariaa, and for which comparative data were available for the years 1999-2001 (10 companies), the report indicated a tangible rise in the total aggregate balance sheet of these companies from KD 411 million at end of year 2000 to KD 569.2 million at end of year 2001, i.e. an increase of KD 158.2 million or 38.5%. The largest portion of that increase (61.3%) reflects the growth in customers financing operations by KD 97 million or 49.3% to KD 291.7 million or 51.3% of the total aggregate balance sheet of these companies at end of year 2001 compared with KD 194.7 million (or 47.4%) at end of the previous year. On the liabilities side, the largest portion (60%) 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 94.9 million (72.2%), which led to the rise of the relative importance of this item in the total liabilities from 32% at end of year 2000 to 39.8% at end of year 2001.

- 3- The report also addressed in that part, and for the first time, some financial indicators of the investment funds registered with the CBK and subject to its supervision, particularly following the rise in their numbers to 20 funds at end of year 2001, against 12 funds at end of year 2000. The total assets of investment funds for which data were available (19 funds) reached KD 595.9 million at end of year 2001 from KD 131.1 million (for 9 funds) at end of year 2000. Within this context, the report pointed that the financial indicators of investment funds displayed a tangible improvement during year 2001 compared with the previous year, particularly those indicators related to profitability ratios.

- 4- The total aggregate balance sheet of 27 local exchange companies registered with the CBK reached KD 54.5 million at end of year 2001 against KD 59.1 million at end of the previous year, i.e. a decline of KD 4.6 million or 7.7%. On the assets side of the aggregate balance sheet of local exchange companies, this decline essentially reflects the tangible decrease in cash balances and assets by KD 5.4 million or 48.3% from KD 11.1 million at end of year 2000 to KD 5.7 million at end of year 2001. Also, on the liabilities side of the aggregate balance sheet of these companies, the above decline was essentially the result of the noticeable decrease in the balances of liabilities to foreign banks and financial institutions by KD 8.5 million or 45.2% between the ends of years 2001 and 2000. Indicators derived from the aggregate balance sheet of local exchange companies point to the rise of the average ratio of liquidity to the total assets of these companies, from 38.6% at end of year 2000 to 47.1% at end of year 2001. Additionally, the net profits realized by exchange companies during year 2001 declined by KD 0.1 million or 3.4% compared to the previous year, thus leading to the decline of the ratio of net profits to partners' equity from 13.8% to 12.4% at end of the two mentioned years, respectively. The report also indicated that the capital adequacy level in local exchange companies increased tangibly from 44.1% at end of year 2000 to 51.8% at end of year 2001.

Fourth- Developments in Public Finance:

The report addressed in its fourth part the developments in public finance during year 2001, 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 2000/01, which extended to nine months (1/7/2000-31/3/2001), along with presenting the revenue estimates and allocations for expenditures for the fiscal year 2001/02, which covers the period (1/4/2001– 31/3/2002) and the portion actually executed thereof during the period (1/4/2001–31/12/2001).

With regard to the developments in public finance, as reflected by the closing account data for the fiscal year 2000/01, the report indicated that the actual budgetary revenues collected during the mentioned fiscal year reached KD 4965.4 million, thus recording a rise of KD 2658.9 million or 115.3% above their budgetary estimates for that fiscal year. The largest portion (97.8%) of that rise, is attributable to the firming of world oil prices at relatively high levels during the fiscal year 2000/01, and the ensuing increase in actual oil revenues to KD 4528 million during the mentioned fiscal year, i.e. a rise of KD 2601 million or 135% compared to their budgetary estimates of KD 1927 million for that fiscal year. On the other hand, the actual budgetary non-oil revenues collected during the fiscal year 2000/01 recorded an increase of KD 57.9 million (or 15.3%) above their budgetary estimates of KD 379.5 million for the same fiscal year, thus reaching KD 437.4 million. This rise mainly reflects the tangible increase of KD 94.3 million or 203.2% in the collected miscellaneous revenues and charges (under the seventh chapter) to KD 140.7 million during the fiscal year 2000/01 against their budgetary estimates of KD 46.4 million for that fiscal year.

As for the actual budgetary expenditures for the fiscal year 2000/01, the report indicated that these expenditures totaled KD 3188.1 million, according to the closing account for the mentioned fiscal year, thus realizing a saving of KD 404.9 million or 11.3% on their budgetary allocations estimated at KD 3593 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 171 million (10%), and the fourth chapter (construction projects and public acquisitions) by KD 135.6 million (38.7%). The saving realized in actual expenditures under both above mentioned chapters represents 75.7% of the total saving realized in actual budgetary expenditures for the fiscal year 2000/01 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 2000/01 realized an actual surplus of KD 1777.3 million before deducting the allocations for the Reserve Fund for Future Generations, compared to an estimated deficit of KD 1286.5 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 2001/02 enacted by virtue of the law No. (51) of year 2001. Within this context, the report indicated that the budgetary revenue estimates for the fiscal year 2001/02 reached KD 3831.5 million, i.e. a rise of KD 756.2 million (24.6%) above their estimates for the fiscal year 2000/01, calculated on the basis of twelve months. This rise is ascribable to the sum of the increase in oil revenues estimates (by KD 693.7 million or 27%) to KD 3263 million, and non-oil revenue estimates (by KD 62.5 million or 12.4% to KD 568.5 million) for the fiscal year 2001/02, compared with the approved estimates for the fiscal year 2000/01 calculated on the basis of 12 months (KD 2569.3 million for oil revenues and KD 506 million for non-oil revenues).

The report also followed up in this part the developments in the government fiscal operations within the fiscal year 2001/02, 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 2001), whereby it indicated in this regard that the actual budgetary revenues collected during that period reached KD 4194 million, thus recording a decrease of KD 772.3 million or 15.6% below the actual budgetary revenues of KD 4966.3 million collected during the corresponding period of the previous year (April-December 2000). This decrease essentially reflects the effect of the decline in world oil prices and the State of Kuwait production rate of crude oil in line with OPEC's decisions, and the resulting decline in actual budgetary oil revenues collected during the first nine month of the fiscal year 2001/02 to KD 3589.1 million against KD 4611.1 million during the period (April-December 2000), i.e. a decrease of KD 1021.9 million or 22.2%. Conversely, the actual non-oil revenues collected during the first nine months of the fiscal year 2001/02 rose by KD 249.6 million or 70.3% 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 2001/02 (April-December 2001) reached KD 2876.2 million, thereby recording a rise of KD 418.3 million (17%) above the actual budgetary expenditures during the period (April-December 2000). This rise encompassed all chapters of

expenditures in the general budget, except for the decline of actual budgetary expenditures under the fourth chapter (construction projects and public acquisitions) by KD 18 million or 12.9%, and the third chapter (means of transport and communications) by KD 2 million or 23.8%.

In light of the above developments, the general budget for the first nine months of the fiscal year 2001/02 (April-December 2001) realised an actual surplus of KD 1317.7 million before deducting the allocations for the Reserve Fund for Future Generations, compared with an actual surplus of KD 2508.4 million during the period (April-December 2000) 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 2001. 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 the decline in world oil prices during year 2001 on the surplus realized in that Balance, as that surplus declined by KD 1163 million (29.1%) to KD 2833 million in year 2001 compared with KD 3996 million in the previous year. Consequently, the ratio of the Balance on Goods surplus to the GDP at current prices, declined from 36.4% in year 2000 to 28.2% in year 2001.

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 1017 million or 17% (from KD 5975 million to KD 4958 million), as the main source of the mentioned decline in the Balance on Goods surplus of the State of Kuwait. The largest portion (97.1%) of this decline is attributable to the marked decrease of KD 987 million (17.7%) in the value of oil exports to KD 4591 million during year 2001 compared with KD 5578 million in the

previous year. On the other hand, the value of the State of Kuwait merchandise imports (fob) increased by KD 146 million (7.4%) to KD 2125 million during year 2001 compared with KD 1979 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 a resumption of the rise in the value of the deficit realized in that account to KD 1089 million during year 2001, as that value increased by KD 139 million or 14.6%, after recording a decline of 4.6% and 13.6% respectively during the years 1999 and 2000. The major portion (75.5%) of that increase in the Services Account (Net) deficit reflects the growth in the net value of outbound payments under the “Travel” item by KD 105 million (14.3%), from KD 735 million during year 2000 to KD 840 million during year 2001.

On the other hand, the “Investment Income (Net)” item realized a surplus of KD 1520 million during year 2001 against a surplus of KD 2055 million in the previous year, i.e. a decrease of KD 535 million or 26%, 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 38 million (or 6.3%) to KD 638 million during year 2001, from a deficit of KD 600 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 1875 million (41.7%) to KD 2626 million in year 2001, against KD 4501 million in the previous year, thus leading to the decline of the ratio of that surplus to the GDP at current prices to 26.1% 2001 from 41% 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 a noticeable increase in the capital inflows recorded on

the credit side of the capital account of the BOP statistics, by KD 219 million or 32.2%, thus reaching KD 899 million in year 2001 from KD 680 million in the previous year. This increase resulted mainly from the rise in the total value of compensations received by residents (individuals, 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 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 2001 though at decelerating rates, whereby that growth reached KD 1851 million in year 2001 compared with its record level of KD 4082 million in year 2000. This growth realized in year 2001, was the outcome of the rise in the net value of the assets invested abroad concerning institutions and bodies recorded under the General Government sector (by KD 2231 million) on the one hand, and the decline in the net value of assets invested abroad concerning local banks (by KD 315 million) and other sectors (by KD 65 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 2001 reflects the outcome of the growth in Kuwaiti investments recorded under both the "Portfolio Investments (Net)" item by KD 2285 million, and the "Direct Investment (Net)" item KD 111 million on the one hand, and the decline in the Kuwaiti investments recorded under the 'Other Investments (Net)' item by KD 545 million on the other hand.

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 surplus of KD 881 million in year 2001 from KD 695 million in the previous year, i.e. a rise of KD 186 million (26.8%). In turn, this surplus reflected on the Total Reserve Assets of the Central Bank of Kuwait which rose by the same amount (KD 881 million) at end of year 2001 above 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 3146.5 million in year 2001 compared with a surplus of KD 3871.2 million in year 2000, i.e. a decline of KD 724.7 million or 18.7%.

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 2001, 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 2001. With regard to the developments in the main indices of the Kuwait Stock Exchange (KSE), the report pointed to the rebound of these indices during year 2001, 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 141.2% and 177.5%, respectively during year 2001, compared with the previous year. Also, the total number of transactions in the KSE rose by 354.3 thousand transactions or 126.4% during year 2001, compared with the previous year. Additionally, the KSE General Price Index rose by 26.8% from 1348.1 points at end of year 2000 to 1709.4 points at end of year 2001.

Regarding factors affecting the development in KSE activity during year 2001, the report mentioned some aspects that prevailed 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 relative decline in the Market Price to Earnings Ratio (P/E), the rise in the share turnover ratio for many listed companies, the increase in financial inflows to the market from several

sources, the acceleration in the establishment and marketing of investment funds, along with the effect of speculating opportunities on the course of trading during certain periods of year 2001.

The report also addressed the performance of companies listed on the KSE during year 2001, as it indicated that these companies realized a rise of 23% in their profits compared to the previous year. The total profits realized by only 81 listed companies for which data were available, out of 88 companies listed on the KSE at end of year 2001, reached KD 578 million from KD 470 million in the previous year. The average earnings per share in the KSE reached 22 fils at end of year 2001, while the average return on shareholders equity in listed companies reached 15% for the mentioned year.

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 88 at end of year 2001, against 86 companies at end of the previous year, as two new companies were listed during that year, one in the investment sector and the other in the non-Kuwaiti companies sector. The capital market value of the companies listed on the KSE reached KD 8.3 billion at end of year 2001, i.e. an increase of KD 1.9 billion or 30%, compared with end of the previous year. The price movements contributed the largest portion (or 85.2%) of the mentioned growth in the market value of listed companies capital during year 2001. Within this context, the report indicated that the listed Kuwaiti banks recorded the highest growth rates in market value during year 2001, as the market value of their shares almost doubled compared to the previous year, following the increase by an average of 49.2% in the prices of these shares at end of year 2001 compared to end of the previous year.

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

Item	1997	1998	1999	2000	2001
National Accounts:					
GDP at Current Prices:	9059.7	7656.3	8884.0	10991.0	10057.0
Crude Oil & Natural Gas Sector	3632.5	2355.0	3327.7	5542.4	4586.5
Non-oil Sectors	5344.0	5217.1	5475.8	5381.4	5400.5
Of which: Petroleum Products	906.8	610.1	708.1	501.6	374.4
Import Duties	83.2	84.2	80.5	67.2	70.0
GDP at Fixed Prices of 1984:	9435.2	9733.2	9576.8	9946.1	9843.9
Crude Oil & Natural Gas Sector	5860.5	5990.6	5465.7	5812.5	5689.4
Non-oil Sectors	3501.2	3663.3	4053.0	4085.4	4105.2
Of which: Petroleum Products	145.4	142.3	149.4	124.8	113.1
Import Duties	73.5	79.3	58.1	48.2	49.3
Domestic Prices:					
CPI (1978 = 100)	199.2	199.5	205.5	209.2	212.7
WPI (1980=100)	167.1	164.4	162.4	163.1	166.3
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	7615.9	7556.5	7678.1	8163.2	9208.5
Money (M1)	1247.5	1143.5	1371.4	1467.7	1641.4
Quasi-money	6368.5	6413.1	6306.6	6695.6	7567.1
Private Sector Deposits with Local Banks	7270.7	7207.8	7235.2	7746.6	8807.3
of which: KD Deposits	6117.1	6170.4	6354.4	6852.0	7915.3
Credit Facilities Extended by Local Banks to Residents	4324.2	4801.6	5015.1	5251.7	6125.9
of which: Consumer Loans	551.3	541.7	546.2	567.7	633.5
Net Foreign Assets of Local Banks	895.2	703.6	578.7	773.3	457.3
Aggregate Balance Sheet of Local Banks	12689.9	12875.1	12917.0	13806.2	15066.1
US dollar Exchange Rate against the KD at Year End (fils)	304.44	301.56	304.18	305.68	307.36
Public Debt Instruments:					
Value of Issues:	3894.7	2786.1	2970.0	3150.0	3435.0
Treasury Bills	2636.3	1776.1	1370.0	1707.0	2150.0
Treasury Bonds	1258.4	1010.0	1600.0	1443.0	1285.0
Balances at Year End:					
Treasury Bills	948.6	787.4	579.0	490.0	860.0
Treasury Bonds	1285.4	1238.4	1758.4	1983.0	1603.0

.....Cont'd.

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

Item	1997	1998	1999	2000	2001
Public Finance (Fiscal Years): ⁽¹⁾	(1997/98)	(1998/99)	(1999/2000)	(2000/2001)	(2001/2002) ⁽⁴⁾
Revenues	3607.8	2797.7	5241.2	4965.4	4194.0
Expenditure	3977.8	4040.2	4010.0	3188.1	2876.2
Surplus or Deficit ⁽²⁾	-370.0	-1242.5	1231.2	1777.3	1317.7
Foreign Trade:					
Total Value of Exports	4314.3	2911.6	3719.2	5962.7	4948.4
Value of Oil Exports ⁽³⁾	4085.4	2581.8	3356.4	5578.3	4590.8
Total Value of Imports (CIF)	2501.6	2626.2	2318.3	2195.4	2370.9
Balance of Payments:					
Current Account	2407	675	1541	4501	2626
Balance on Goods	1982	580	1695	3996	2833
Services Account (Net)	-1022	-1152	-1099	-950	-1089
Income Account (Net)	1904	1788	1555	2055	1520
Current Transfers (Net)	-457	-541	-610	-600	-638
Kuwait Stock Exchange:					
(Including Transactions of Investment Funds)					
Value of Traded Shares (KD Million)	10494	3343	1842	1292	3585
Quantity of Traded Shares (Million Shares)	33993	13919	9496	6760	16305
Number of Transactions (Thousand Transactions)	589	351	213	157	355
Price Index (29/12/1993 =1000)	2651.8	1582.7	1442.0	1348.1	1709.4

(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 this fiscal year covers nine months only from 1/ 7/2000 to 31/3/2001).

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

(3) CBK estimates for both oil exports and foreign trade for year 2001.

(4) Follow-up statements for the period (April -December 2001).