

Summary of the Economic Report

The year 2000 was fraught with economic, financial, monetary and banking developments in the Kuwaiti economy. The economic report issued by the Central Bank of Kuwait for year 2000, encompassed an accurate reading of the most important of these developments and events, along with an objective analysis of their most salient reflections on the various facets of the Kuwaiti economy. The CBK was keen on basing both the above mentioned reading and analysis on the latest available data and statistics, so as to provide those interested in the Kuwaiti economy with a comprehensive reference on its performance, the changes in the performance of its main sectors, and the developments in its internal and external balances. In keeping with the approach followed in the previous years, the report was divided into six parts which addressed the impact of the above mentioned developments and events on the performance of the domestic economy in year 2000 in the areas of national accounts, domestic prices, population and labor force, and CBK's efforts in drawing and implementing the monetary policy, and the effects thereof on the principal monetary and banking variables and aggregates and financial indicators of the banking and financial system, in addition to the developments in public finance, foreign trade and balance of payments statistics and the activity in the Kuwait Stock Exchange.

The most important developments and events mentioned in the economic report issued by the Central Bank of Kuwait for year 2000, can be summarized as follows:

First- Performance of the Domestic Economy:

The first part of the economic report addressed the most salient developments witnessed in the domestic economy, with regard to economic growth, the performance of the main economic sectors, domestic prices and the structure of population and labour force in the country during year 2000. Regarding trends in economic growth, as reflected by the national accounts statistics, the report addressed the most salient developments in the Gross Domestic Product (GDP) of the State of

Kuwait at current prices during year 2000. Within this context, the report pointed to the acceleration in the pace of economic growth in the State of Kuwait, as reflected by the GDP value which reached KD 11590.3 million during year 2000 compared to KD 9075.3 million for the previous year, i.e. a growth of KD 2515 million or 27.7%. The largest portion (93.2%) of this growth reflects the positive impact of the favourable developments in world oil markets, and the ensuing marked increase in the value added to the GDP by the oil sectors (crude oil production, natural gas and refined petroleum products) by KD 2344.3 million or 56.9% during year 2000 compared to the previous year.

The value added to the GDP by the non-oil sectors (excluding the refined petroleum products) in year 2000, reflects the deceleration in growth rate in the activity of many of these sectors. Specifically, the report indicated the deceleration in the growth rate of the value added in these sectors to KD 5043.9 million in year 2000 compared to KD 4874.8 million in the previous year, i. e. a growth of KD 169.1 million or 3.5% compared to a growth of 3.9% in 1999. Regarding the sources of growth in the value added to the non-oil sectors, the report indicated that this growth resulted essentially from the rise in the value added in four economic sectors, namely the Community, Social and Personal Services Sectors (by KD 101.9 million or 4.4%), the Financial Institutions sector (by KD 67 million or 12.1%), the Transport, Storage and Communication sector (by KD 39 million or 7.7%), and the Real-Estate sector (by KD 20 million or 3%). Except for the resumption of growth in the value added in the Construction sector (from a negative growth of 3.4% in 1999 to a positive growth of 1.6% during year 2000), the performance of the other non-oil sectors remained stable in general.

With regard to the sources of growth in the value added to the GDP at current prices, from the perspective of items of expenditure on that product, the report mentioned that the expenditure on the GDP by the external sector (the value of exports of goods and services) rose from KD 4212 million in 1999 to KD 6631 million in year 2000, i.e. a growth of KD 2419 million or 57.4%, equivalent to 96.2% of the GDP during year 2000. Meanwhile, the net expenditures by residents (consumption and investment expenditures less imports of goods and services) reached KD 4959.3

million from KD 4863.3 million in the previous year, i.e. and increase of KD 96 million or 2%, equivalent to 3.8% of the growth in GDP in year 2000.

As for the rest of principal national accounts aggregates, the report indicated that as a result of the mentioned rise in the GDP on the one hand, and the increase of 36.5% in the net factor income received from abroad on the other, the Gross National Product (GNP) at current prices rose by 29% from KD 10.6 billion in 1999 to KD 13.7 billion in year 2000. This, in turn, led to a considerable rise in the average per capita share of GNP in the State of Kuwait from KD 4675.3 in 1999 to KD 6153.5 in year 2000, i.e. and increase of KD 1478.2 or 31.6%.

The report also addressed in its first part, the most salient developments indicated by the statistics on domestic prices in the State of Kuwait, as reflected by the developments in the consumer and wholesale price indices in the State of Kuwait in year 2000. In this regard, the report indicated that the levels of domestic prices continued during year 2000 to move within extremely narrow limits. This development is in line with the directions of the monetary policy which aims to achieve relative stability in the level of these prices. On the one hand, the report indicated that the rate of domestic inflation, expressed as the relative change in the Consumer Price Index, declined from 3% in 1999 to 1.8% during year 2000. As for the sources of the mentioned decline in the rate of domestic inflation, the report pointed to the deceleration in the growth rates of the prices of several groups of consumption expenditure, notably foodstuffs, beverages and tobacco, clothing and footwear, household goods and services, as opposed to the increase in the growth rates of the prices of both the transport and communication group and education and health services group.

On the other hand, the report indicated a tendency in the General Wholesale Price Index to resume its rise, though limitedly, as it increased by 0.4% in year 2000 after recording a decline of 1.2% in the previous year. This reflects essentially the rise in the General Wholesale Price Index of imported goods by 0.5% during year 2000 from a decrease of 1.5% in the previous year. This rise encompassed the prices of agricultural, livestock and fishing products as well as the prices of manufactured

products. Meanwhile, the general level of wholesale prices of domestically produced goods in year 2000, displayed a marked stability at its previous year level.

The last portion of the first part of the economic report focused on the monitoring and follow up of the developments in the population and labour force statistics, and the analysis of their impact on the population structure and labour market in the State of Kuwait during year 2000. Among the most salient developments presented in this report about the country's population is the acceleration in the rate of decline in non-Kuwaiti population from 2.8% in 1999 to 4.7% in year 2000, which led to the decrease in the relative importance of non-Kuwaitis in the total population from 64% to 62% at end of the two mentioned years, respectively. Meanwhile, the Kuwaiti population continued to display its usual growth pattern, as it rose by 3.6% in year 2000 to 841790 individuals, thereby accounting for 38% of the total population at end of the mentioned year compared to 36% at end of the previous year. This development is consistent with the directions for restoring equilibrium in the country's population structure.

The report also highlighted some aspects of the country's demographic structure, particularly with regard to age distribution. In this regard, the report illuminated particularly the increasing growth in the number of economically active Kuwaiti individuals, i. e. those aged between 15 and 59, as this growth reached 4% in year 2000, and the importance of providing the appropriate surroundings for generating more employment opportunities in the private sector to accommodate the increasing numbers of economically active Kuwaiti individuals on the one hand, and to reduce the financial burdens on the State general budget as a result of that increase, on the other.

With regard to developments in labour force statistics, the report indicated that the non-Kuwaiti labour force declined by 4.2% in year 2000. Consequently, the relative importance of that labour force in the total labour force declined to 80.5% at end of the above mentioned year from 81.9% at end of the previous year. This development essentially reflects the decline in non-Kuwaiti labour force in the private sector by 4.8% and in the government sector by 3.4% during year 2000. On the other hand, the

Kuwaiti labour force increased by 5.4% in year 2000. which raised its relative importance in the total labour force to 19.5% from 18.1% in the previous year. Worth noting in this regard is that the government sector continued to absorb the largest portion (93.2%) of the increase in the Kuwaiti labour force in year 2000, compared to the private sector's very limited contribution (5.1%) in this regard.

Second- Monetary Developments and Activity of the CBK:

This part of the report focused on monitoring the developments linked to CBK's efforts in drawing and implementing the monetary policy of the State of Kuwait, and analysing the role played by this policy in firmly establishing the bases of monetary stability in the country, along with enhancing the opportunities and elements of self-generated growth in the domestic economy, in line with the objectives of the general economic policy.

The report highlighted several important developments in the main monetary indicators and aggregates in year 2000, particularly:

- 1- The developments in domestic interest rates in year 2000 partly reflect CBK's efforts in firmly establishing the bases of monetary stability in the national economy, from the perspective of enhancing the residency of domestic savings and energising the economic activity. Within this context, the CBK issued a decision setting a new rate for the discounting and rediscounting of commercial papers presented to it by local banks and which it accepts to discount and rediscount. By virtue of this decision, the discount rate was raised by half a percentage point from 6.75% to 7.25% effective 17 May 2000. This decision was issued in light of CBK's constant monitoring of the domestic economic situation on the one hand and the worldwide developments in interest rates on major currencies on the other.
- 2- Money supply developments in year 2000 highlight part of CBK's efforts in regulating the levels of domestic liquidity in line with the developments in economic activity and the considerations of monetary stability in the country.

Within this framework, money supply in its broad definition (M2) continued its increase, for the second consecutive year, to KD 8163.2 million at end of year 2000 from KD 7678.1 million at end of the previous year, i.e. an increase of KD 485.2 million or 6.3%. This increase was essentially a reflection of the rise in quasi-money by KD 388.9 million or 6.2% during year 2000, following a decline of KD 106.4 million or 1.7% during the previous year. Additionally, money (M1) continued its rise for the second consecutive year, by KD 96.3 million or 7% at end of year 2000 above its previous year level. In the same direction, money supply in its broader definition (M3) rose to KD 8175.2 million at end of year 2000 from KD 7689.3 million at end of previous year, i.e. an increase of KD 485.9 million or 6.3%.

- 3- The developments in the KD exchange rate against the major currencies reflect the efficiency of the policy applied by the CBK to maintain the relative stability of the Kuwaiti dinar, so as to temper imported inflation and enhance the residency of the Kuwait dinar as a basic saving currency in the State of Kuwait. This policy which the CBK started applying since March 1975, consists in determining the KD exchange rate based on a weighed basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. This policy helped realise the relative stability in the KD exchange rate during year 2000. Specifically, the report indicated that the movements of the US dollar exchange rate against the Kuwaiti dinar remained stable within narrow margins, whereby the difference between the highest rise and lowest decline of the US dollar against the dinar in year 2000 did not exceed 5.38 fils or 1.8%. Meanwhile, the US dollar fluctuated against the other major currencies within much broader margins. In fact, the difference between the highest and lowest exchange rates of the US dollar reached 23.2% against the Euro, 18% against the Sterling pound, 16.3% against the Swiss Franc, and 10.9% against the Japanese Yen.
- 4- Developments in the balances of cash credit facilities extended by local banks and the Kuwaiti Finance House to the economic sectors in year 2000, reflect CBK's efforts in directing the credit policy in line with the developments in

the domestic economic activity. Within this framework, the report indicated that these balances increased by KD 236.7 million or 4.7% to KD 5251.7 million at end of year 2000 from KD 5015.1 million at end of 1999, thereby raising the ratio of the balances of these cash credit facilities to the value added to the GDP by the non-oil sectors (excluding the refined petroleum products) from 102.9% in 1999 to 104.1% in year 2000.

- 5- Developments in the balances of public debt instruments during year 2000, highlight CBK's efforts in regulating domestic liquidity through open-market operations in the primary market where Treasury Bills and Bonds are issued on behalf of the Ministry of Finance. Within this framework, the CBK made in year 2000, twenty-five issues of Treasury Bills with a total nominal value of KD 1707 million, in addition to 16 issues of Treasury Bonds with a total of nominal value of KD 1443 million. Meanwhile, 28 previous issues of Treasury Bills (with a total nominal value of KD 1796 million) and 16 issues of Treasury Bonds (with a total nominal value of KD 1218.4 million) matured in year 2000. Accordingly, the outstanding balance of public debt instruments reached KD 2473 million at end of year 2000 from KD 2337.4 million at end of the previous year, i.e. an increase of KD 135.6 million or 5.8%.
- 6- The secondary market operations of public debt instruments are among the indirect channels used by the CBK to regulate the level of liquidity in the banking and financial system on the one hand, and time-scaling the interest rate on the Kuwaiti dinar in line with the various maturities of these instruments on the other hand. The report pointed in this regard to the rise in the volume of these operations in the secondary market of public debt instruments, between the CBK and the local banks and domestic companies during year 2000 to KD 118.3 million (for buying and selling) from KD 102.7 million in the previous year, i.e. an increase of KD 15.6 million or 15.1%. It is noted in this regard that these operations resulted in a net absorption of liquidity by KD 45.1 million in year 2000, as apposed to a net injection of liquidity by KD 47.6 million and KD 136.3 million during 1999 and 1998 respectively.

7- Developments in the activity of the interbank deposit market of local banks during year 2000 reflect the monetary policy directions with regard to developing the money market so as contribute to the flow of surplus liquidity between the banking units and organize the process of benefiting from such flows. Within this framework, the report pointed to the rise in activity in the interbank domestic market of local banks (not including the Kuwait Finance House) by KD 3.4 billion or 24.3% to KD 17.2 billion at end of year 2000, against KD 13.9 billion at end of the previous year. The largest portion (87.5%) of the activity in the above market during year 2000 was concentrated in deposits of less than one-month term. This development is consistent with the basic role of that market, namely making available the mechanisms and channels for using the liquidity exceeding the requirements of operations of some local banks, by injecting it into other local banks facing a near-term shortage of liquidity. The report highlighted CBK's role in the money market, represented in accepting local bank deposits totaling KD 9.1 billion at end of year 2000 against KD 4.4 billion at end of the previous year, i.e. an increase of KD 4.7 billion or 109.2%. This development highlights CBK's role in absorbing the surplus liquidity with local banks, and the effect of that absorption on achieving cohesion among interest rates in the interbank deposit market of local banks on the one hand, and the marked reduction in their volatility on the other.

The second part of the report also addressed CBK's efforts in directing and rationalizing the credit policy of banks and investment companies within the banking and financial system units, in line with the sound professional practices. Within this framework, the report indicated that in addition to the on-site inspection and offsite monitoring activities, and usual preventive supervision over the activities of the banking and financial system units, the CBK issued several circulars, decisions and controls, most important among which was raising the maximum limit of consumption loans and other installment loans along with modifying the method of calculating that limit, activating the systems applied in the management of risks deriving from the settlement of foreign exchange operations and trading in foreign currencies, in addition to the circular issued with regard to the International

Accountancy Standard (IAS 39) concerning the recognition and measurement of financial instruments, and the amendment of certain instructions concerning the investment policy of local banks.

Third- Financial Indicators of the Banking and Financial Sector:

The third part of the economic report focused on following up the developments in the financial structures of local banks (including the Kuwait Finance House), and local investment and exchange companies subject to CBK's supervision and oversight, through analyzing available financial data on the aggregate balance sheet of these units and monitoring the most important reflections of these developments on their principal financial indicators, so as to determine the development of their performance and assess their financial positions at end of year 2000.

Within this context, the report pointed to several important developments, most salient among which are the following:

- 1- The acceleration in the growth of the aggregate balance sheet of local banks to KD 13806.2 million at end of year 2000, from KD 12917 million at end of the previous year, i.e. a growth of KD 889.2 million or 6.9%. Through its monitoring of the developments on the assets side of the aggregate balance sheet of local banks, the report indicated that the largest portion (72.8%) of the mentioned growth in that aggregate balance sheet reflects essentially the rapid growth in the time-deposits of local banks with the CBK by KD 647.5 million to KD 654.5 million at end of year 2000, against KD 7 million at end of the previous year. The rise in the claims on the private sector by KD 298.3 million or 5.4% (from KD 5572.5 million to KD 5870.9 million) contributed 33.6% of the above mentioned growth in the aggregate balance of local banks between the years 1999 and 2000.

The report analysed the effect of these developments on the relative distribution of the elements of assets in the aggregate balance sheet of local banks. It indicated that despite the tangible rise of the relative importance of the balances of local banks time-deposits with the CBK, as well as the relative

importance of local interbank deposits and other assets in the aggregate balance sheet of local banks between the ends of 1999 and 2000, three main items -namely claims on the private sector, claims on the government, and foreign assets- continued to dominate the structure of assets. The collective relative importance of these three main items in the aggregate balance sheet of local banks reached 83.1% at end of year 2000 from 88.4% at end the previous year.

On the liabilities side of the aggregate balance sheet of local banks, the mentioned growth in this balance sheet encompassed all items of liabilities, except for the decline in the balances of government deposits with local banks (by KD 10 million or 5.1%) and foreign liabilities (by KD 12.8 million or 1.1%) between the ends of 1999 and 2000. The report indicated in this regard that the largest portion (57.5%) of the total growth in the aggregate balance sheet of local banks resulted from the tangible rise in the balances of private sector deposits (in KD and foreign currency) with local banks by KD 511.4 million or 7.1% from KD 7235.2 million at end of 1999 to KD 7746.6 million at end of year 2000, thus resulting into their continued dominance of the largest portion (56.1%) of the aggregate balance sheet of local banks by end of year 2000. Additionally, the relative importance of the balances of shareholders equity in the aggregate balance sheet of the local banks decreased (from 11.6% to 11.5%, while the relative importance of interbank deposits of locals banks in the aggregate balance sheet of local banks rose, between the ends of 1999 and 2000.

The report also evaluated the activity of local banks during year 2000 according to the applied standards with regard to the liquidity rates and ratios, the adequacy of shareholder's equity and uses of funds. The report pointed in this regard to the tangible rise in the standards concerning liquidity and adequacy of shareholders equity, at the expense of the decline in most of the standards of uses of funds at end of year 2000 compared to end of the previous year. Furthermore, the capital adequacy standard 'solvency' for local banks remained manifestly higher than the required minimum according to

international recommendations, particularly the Basle Committee recommendations. The average capital adequacy standard for all local banks subject to CBK supervision reached 22.2% at end of year 2000 compared to 23.7% at end of 1999.

Regarding profitability standards, the report indicated that local banks continued to achieve good profit levels, as their net realized profits rose from KD 230.2 million during 1999 to KD 278.2 million during year 2000. This raised the ratio of net realized profits to total assets, total shareholders' equity and paid up capital from 1.7% to 2%, from 14.5% to 17.2% and from 33.4% to 40.1%, respectively between 1999 and 2000.

- 2- Available financial data on the aggregate balance sheet of local investment companies subject to CBK's supervision, and the indicators derived from these data, indicate that the mentioned companies continued their efforts aimed at strengthening the structures of their sources and uses of funds in line with the domestic economic developments. The number of local investment companies registered with the CBK and subject to its supervision reached 37 at end of year 2000 from 38 companies at end of the previous year. The aggregate balance sheet of those investment companies for which data were available (36 companies) reached KD 3463.7 million at end of year 2000 compared to KD 3216.9 million (for 37 companies) at end of 1999.

The aggregate balance sheet of local investment companies for which comparative data were available for the period 1998-2000 (29 companies) reached KD 3212.9 million at end of year 2000 from KD 2844.2 million at end of the previous year, i.e. an increase of KD 368.7 million or 13%. The monitoring of developments on the assets side of the aggregate balance sheet of local investment companies indicates that the mentioned growth in this aggregate balance encompassed most elements of assets, except for the decline in cash

balances and deposits with local banks by KD 54.8 million or 31.5% at end of year 2000 compared to end of the previous year. Within this framework, the report indicated that the largest portion (93.2%) of the mentioned growth in the total aggregate balance sheet of local investment companies reflects essentially the tangible rise by KD 343.5 million or 18.9% in the balances of foreign assets, from KD 1816.3 million at end of 1999 to KD 2159.9 million at end of year 2000, thus raising the relative importance of foreign assets in the aggregate balance sheet from 63.9% to 67.2% at end of the two mentioned years, respectively. Conversely, the relative importance of most elements of assets declined, except for the rise in the relative importance of the balances of 'other assets' from 6.7% to 7.2%.

On the other hand, data on the relative distribution of the elements of liabilities in the aggregate balance sheet of local investment companies indicate the continued rise in the relative importance of foreign sources of financing in the aggregate balance sheet to 43.4% at end of year 2000 from 39.5% at end of the previous year, at the expense of the decline in the relative importance of financing from capital and reserves to 35.5% from 39.8% respectively at end of the two mentioned years.

- 3- The total aggregate balance sheet of 27 local exchange companies registered with the CBK reached KD 57.6 million at end of year 2000 from KD 52 million at end of 1999 (27 companies), i.e. an increase of KD 5.7 million or 10.9%. The indicators derived from the aggregate balance sheet of local exchange companies point out to some decline in the ratio of liquidity to total assets from 40.7% at end of 1999 to 39.5% at end of year 2000. Additionally, the net profits realized in local exchange companies in year 2000 rose by KD 0.3 million or 7.6% compared to the previous year, thus leading to the decline in the ratio of these net profits to partners' equity to 15.3% from 15.5% respectively at end of the two mentioned years. The report also

pointed to the continued improvement in the capital adequacy of local exchange companies to 45.6% at end of year 2000 from 46% at end of the previous year.

Fourth- Developments in Public Finance:

The fourth part of the economic report focused on the analysis of the developments in public finance in the State of Kuwait, as reflected by the data on the general budget for ministries and governmental bodies. This analysis encompassed the developments in the revenues and expenditures in the general budget for the fiscal year 1999/2000 and its closing account, in addition to the revenue estimates and allocations for expenditures in the general budget for the fiscal year 2000/01, and the portion executed thereof during the period 1/7/2000-31/12/2000. Last, this part of the economic report also reviewed the developments in public finance in the State of Kuwait during the nineties of the twentieth century.

With regard to the developments in public finance, as reflected by the closing account data for the fiscal year 1999/2000, the report pointed to the positive effect of the rise in world prices and the ensuing increase in the actual budgetary revenues collected during the mentioned fiscal year, by KD 2443.5 million (87.3%) to KD 5241.2 million from KD 2797.7 million during the fiscal year 1998/99. This reflects essentially the substantial growth in actual budgetary oil revenues by KD 2540.1 million (112.7%) to KD 4794.5 million during the fiscal year 1999/2000 from KD 2254.4 million during the fiscal year 1998/99. As for the actual budgetary non-oil revenues collected during the fiscal year 1999/2000, they declined by KD 96.6 million (17.8%) to KD 446.7 million from KD 543.3 million during the fiscal year 1998/99. The mentioned decline in actual budgetary non-oil revenues collected during the fiscal year 1999/2000 encompassed all items of these revenues excluding the actual revenues collected from services, which rose by KD 31.6 million (13.2%) to KD 270.3 million during the mentioned fiscal year from KD 238.6 million during the fiscal year 1998/99.

On the expenditures side, the report indicated that the actual budgetary expenditures declined slightly by KD 30.2 million or 0.7% during the fiscal year 1999/2000 to KD 4010 million from KD 4040.2 million in the fiscal year 1998/99. Furthermore, the report indicated that the actual budgetary expenditures for the fiscal year 1999/2000 came in lower by KD 329.7 million or 7.6% than their budgetary allocations of KD 4339.7 million for that fiscal year. The report also indicated that the mentioned decline in actual budgetary expenditures for the fiscal year 1999/2000 compared to the fiscal year 1998/99, was the outcome of the decrease in actual expenditures on means of transport and equipment (by KD 5.2 million or 18.2%), construction projects, maintenance and public acquisitions (by KD 61.7 million or 16.4%), miscellaneous expenditures and transfer payments (by KD 31.5 million or 1.6%) on the one hand, and the rise in actual budgetary expenditures on salaries and wages (by KD 38.9 million or 3%) and requirements of goods and services (by KD 29.3 million or 9.5%) on the other hand.

As a result of the above mentioned developments on both sides of actual revenues and expenditures in the general budget for the fiscal year 1999/2000, the closing account of that budget encompassed an actual surplus of KD 1231.1 million before deducting the allocations for the Reserve Fund for Future Generations, compared to an actual deficit of KD 1242.5 million during the fiscal year 1998/99.

The report also addressed the general features of revenue estimates and allocations for expenditures in the general budget for the fiscal year 2000/01, as it first pointed out to the law issued with regard to the amendment of rules for the preparation of general budgets, the supervision of their execution, and their closure account. The most salient of these amendments is the modification of the fiscal years period to start on the first of April and conclude at end of March of the following year. In this regard, the report highlighted that the fiscal year 2000/01 encompassed the enactment of the general budget for ministries and governmental bodies for nine months only (for the period 1/7/2000 – 31/3/2001), as this general budget is considered a transitory stage leading to the implementation of the amendment issued with regard to the start and closure of fiscal years, as mentioned above. The report then addressed the principles and requirements underlying the derivation of revenue estimates and allocations for expenditures for the fiscal year 2000/01. In this regard, the total revenue estimates in the general budget for

the fiscal year 2000/01 reached KD 2306.5 million, up by 3.7% from the budgetary revenue estimates for the fiscal year 1999/2000. On the other hand, allocations for budgetary expenditures in the fiscal year 2000/01 reached KD 3593 million, down by 17.2% from the allocations for budgetary expenditures in the fiscal year 1999/2000. Accordingly, the general budget for the fiscal year 2000/01 encompassed an estimated deficit of KD 1286.5 million, before deducting the allocations for the Reserve Fund for Future Generations.

With regard to the development of the government fiscal operations within the general budget for the fiscal year 2000/01, as reported in the monthly follow-up statements of actual budgetary revenues and expenditures during the period from 1/7/2000 to 31/12/2000, the report indicated that the actual budgetary revenues collected during that period increased markedly by KD 1210 million or 52.8% to KD 3503.5 million against KD 2293.5 million during the corresponding period of the fiscal year 1999/2000, thus reflecting the positive impact of the noticeable rise in world oil prices.

On the other hand, the actual budgetary expenditures during the first six months of the fiscal year 2000/01 reached KD 1570.5 million, i.e. a rise of KD 69.9 million or 4.7% compared to the actual budgetary expenditures during the corresponding period of the fiscal year 1999/2000. Consequently, the general budget for the first six months of the fiscal year 2000/01 realised a surplus of KD 1933 million, compared to a surplus of KD 793 million for the corresponding period of the fiscal year 1999/2000, before deducting the allocations for the Reserve Fund for Future Generations.

Additionally, this part of the report reviewed the characteristics of the developments in the public finance of the State of Kuwait during the nineties. It thereby highlighted the basic factors which influenced these developments, along with presenting the challenges confronted and the achievements realised during the mentioned period.

Fifth- Developments in Foreign Trade and Balance of Payments:

The fifth part of the economic report analysed the developments in the economic and financial relations of the domestic economy with the rest of the world economies, as

reflected in the statistics on the country's foreign trade and balance of payments (BOP) during year 2000. Regarding the developments in merchandise transactions of the State of Kuwait with the other economies, the report pointed to the influential impact of the rise in world oil prices on the surplus realised in the balance on goods, which reached KD 3905 million during year 2000 from KD 1695 million during the previous year, i.e. increase of KD 2210 million or 130.4%. Consequently, the ratio of the balance on goods surplus to the Gross Domestic Product (GDP) at current prices rose to 33.7% in year 2000 from 18.7% in the previous year.

Within this context, the report pointed to the noticeable growth in the value of exports and re-exports (fob) by KD 2268 million or 60.7% (from KD 3737 million to KD 6005 million) as the main source of the mentioned increase in the balance on goods surplus of the State of Kuwait during year 2000. The largest portion (97.7%) of the rise in the value of Kuwait's merchandise exports is ascribable to the noticeable increase in the value of oil exports by KD 2215 million or 66% to KD 5572 million during year 2000 from KD 3357 million in the previous year. Meanwhile, the value of Kuwait's merchandise imports (fob) rose limitedly by KD 58 million or 2.8% to KD 2100 million during year 2000 compared to KD 2042 million in the previous year.

Regarding the 'Services Account (net)' which reflects the value resulting from transactions between residents in the State of Kuwait and residents in other economies, with regard to transportation, insurance, travel and other services, the report indicated that the deficit realised in this account declined substantially to KD 888 million during year 2000, i.e. a decrease of KD 211 million or 19.2% below its level of KD 1099 million in the previous year. On the other hand, the 'Income Account (net)' – which was separated from the services account according to the recommendations of the fifth edition of the International Monetary Fund BOP Manual issued in 1993 – recorded a surplus of KD 2122 million during year 2000 compared to a surplus of KD 1555 million during the previous year. Also, the deficit in the 'Current Transfers (net)' item declined by KD 32 million or 5.2% to KD 578 million during year 2000 compared to a deficit of KD 610 million in the previous year.

As a result of the above developments in the 'Balance on Goods', 'Services Account (net)', 'Income Account (net)' and 'Current Transfers (net)', the surplus realised in the current account of the State of Kuwait rose to KD 4561 million, i.e. a considerable increase of KD 3020 million or 196% above its previous year level of KD 1541 million. Consequently, the surplus realised in the current account of the State of Kuwait rose in year 2000 to an unprecedented record.

Paralleling the above mentioned rise in the current account surplus, the growth in the net value of the outbound capital and financial flows recorded under the 'Capital and Financial Account (net)' in the State of Kuwait BOP statistics accelerated to KD 3747 million during year 2000, i.e. an increase of KD 2224 million or 146% above their previous year level of KD 1523 million. Transactions in the 'Capital Account (net)' were confined to a net inflow of KD 601 million during year 2000, while the growth in the value of net Kuwaiti assets invested abroad and recorded under the 'Financial Account (net)' accelerated by KD 2611 million or 150.3% to KD 4348 million during year 2000 compared to KD 1737 million during the previous year.

The largest portion (93.2%) of the growth in the net value of Kuwaiti assets invested abroad is ascribable to the acceleration by KD 4052 million in the growth rate of the net balances of external assets of institutions and authorities recorded under the General Government in the BOP statistics, during year 2000. Regarding the composition of the external investments recorded under the Financial Account, the report indicated that the mentioned increase in the external investments of the State of Kuwait during year 2000 was distributed between the growth in the 'Portfolio Investment (net)' by KD 3782 million, 'Other Investments (net)' by KD 493 million, and 'Direct Investment (net)' by KD 73 million.

As a result of the above developments in the Current Account, and the Capital and Financial Account, along with the developments concerning the net value of transactions which were not incorporated by way of error or omission in any of the BOP's various items, the Overall Balance in the BOP statistics realised a surplus of KD 695 million during year 2000 against a surplus of KD 282 million during the previous year, i.e. an increase of KD 413 million or 146.5%. This surplus reflected on

the Total Reserve Assets of the Central Bank of Kuwait, which rose by the same amount at end of year 2000 above their end of previous year level.

If the overall position of the State of Kuwait BOP is considered from a broader perspective to include all elements of changes in external reserve assets that can be used to finance the country's BOP, namely the net changes in the value of external investments of some government institutions and authorities recorded under the General Government sector, and the changes in total reserve assets of the CBK, the overall balance of payments of the State of Kuwait shows a surplus of KD 4131.7 million in year 2000 compared to a surplus of KD 1144.8 million in 1999, i.e. an increase of KD 2986.9 million or 260.9%.

Sixth- Developments in the Kuwait Stock Exchange (KSE):

The sixth and last part of the economic report addressed the developments in the KSE during year 2000, and highlighted the most important factors influencing the development of the principal trading and price indices in that market, in addition to the developments related to the newly issued regulations and legislation aimed at enhancing the market performance. Regarding the developments in the principal KSE indices, the report indicated that the downtrend in these indices continued during year 2000, though at a relatively slower pace compared to the rates of decline witnessed in these indices over the two previous years. Particularly manifest among these indices is the deceleration in the rate of decline in the total value of traded shares in the official market (from 44.9% to 29.9%), the total volume of traded shares (from 31.8% to 28.8%), the general price index (from 8.9% to 6.5%) from 1999 to year 2000.

Regarding market capitalization, the report indicated that the capital market value of companies listed on the KSE grew by 3.1% to KD 6377 million at end of year 2000 against KD 6186 million at end of 1999. Price movements contributed to this growth by KD 76 million along with KD 4 million which resulted from the listing of shares of a new company. The capitalization of the banking sector grew by 17% to a total of KD 2689 million at end of year 2000, thereby accounting for 42.2% of the total market capitalization. The number of listed companies reached 86 (of which 9 non-

Kuwaiti companies) at end of year 2000, against 85 companies (of which 9 non-Kuwaiti companies) at end of the previous year, as a result of listing a new company with a capital of KD 6.7 million and 61 million issued shares.

Regarding factors affecting the market activity during year 2000, several factors contributed to the growth in that activity, particularly the rise in selective trading in shares of companies with promising performance, whereby companies which realised growth in profits during the mentioned year garnered 64% of the total traded value in the market, while companies whose profits declined accounted for 21% of that value. On another front, the report indicated the substantial increase in the rates of activity and price levels in the market, following the issuing of Law No. 20 for year 2000 and the Ministerial Decision No. 205 for year 2000 allowing non-Kuwaitis to own shares in Kuwaiti shareholding companies. The report also highlighted the fluctuations in world financial markets during year 2000, which contributed to increasing the appeal of the Kuwait Stock Exchange to domestic investors.

Furthermore, the report addressed the performance of companies listed on the Kuwait Stock Exchange during year 2000, indicating that these companies realised a growth of 9.3% in their profits compared to 1999. Thereby, the total profits of 82 listed companies (for which data were available) reached KD 472.2 million compared to KD 432 million for these companies in 1999. The average earnings per share in the KSE reached 16.5 fils, while the average return on shareholders equity reached 8.9% at end of year 2000 against 10% in 1999.

Table (79)
**Development in Main Economic, Financial
and Monetary Indicators and Variables**
(KD Million)

Item	1996	1997	1998	1999	2000
National Accounts:					
GDP at Current Prices:	9302.6	9059.7	7742.0	9075.3	11590.3
Crude Oil & Natural Gas Sector	4130.2	3632.5	2370.6	3354.4	5582.6
Non-oil Sectors	5095.1	5344.0	5287.2	5640.4	5925.6
Of which: Petroleum Products	798.2	906.8	594.9	765.6	881.7
Domestic Prices:					
CPI (1978 = 100)	197.9	199.2	199.5	205.5	209.2
WPI (1980=100)	169.3	167.1	164.4	162.4	163.1
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	7330.8	7615.9	7556.5	7678.1	8163.2
Money (M1)	1242.6	1247.5	1143.5	1371.4	1467.7
Quasi-money	6088.2	6368.5	6413.1	6306.6	6695.6
Private Sector Deposits with Local Banks	6980.7	7270.7	7207.8	7235.2	7746.6
of which: KD Deposits	5724.1	6117.1	6170.4	6354.4	6852.0
Credit Facilities Extended by Local Banks to Residents	3173.1	4324.2	4801.6	5015.1	5251.7
of which: Consumer Loans	515.6	551.3	541.7	546.2	567.7
Net Foreign Assets of Local Banks	1407.5	895.2	703.6	578.7	773.3
Aggregate Balance Sheet of Local Banks	11460.1	12689.9	12875.1	12917.0	13806.2
KD Exchange Rate at Year End (fils per US dollar)	299.79	304.44	301.56	304.18	305.68
Public Debt Instruments:					
Value of Issues:	4428.4	3894.7	2786.1	2970.0	3150.0
Treasury Bills	3101.4	2636.3	1776.1	1370.0	1707.0
Treasury Bonds	1327.0	1258.4	1010.0	1600.0	1443.0
Balances at Year End:					
Treasury Bills	1167.2	948.6	787.4	579.0	490.0
Treasury Bonds	1327.0	1285.4	1238.4	1758.4	1983.0

.....Cont'd.

Table (79) Cont'd.
**Development in Main Economic, Financial
and Monetary Indicators and Variables**
(KD Million)

Item	1996	1997	1998	1999	2000
Public Finance (Fiscal Years): ⁽¹⁾	(1996/97)	(1997/98)	(1998/99)	(1999/2000)	(2000/2001)
Revenues	4391.0	3607.8	2797.7	5241.2	2306.5
Expenditure	3888.6	3977.8	4040.2	4010.0	3593.0
Surplus or Deficit ⁽²⁾	502.4	-370.0	-1242.5	1231.2	-1286.5
Foreign Trade:					
Total Value of Exports	4458.0	4314.3	2911.6	3719.2	5994.5
Value of Oil Exports ⁽³⁾	4231.3	4085.4	2581.8	3356.5	5571.7
Total Value of Imports	2507.2	2501.6	2626.2	2318.3	2337.6
Balance of Payments:					
Current Account	2128	2407	675	1541	4561
Balance on Goods	2095	1982	580	1695	3905
Services Account (Net)	-1072	-1022	-1152	-1099	-888
Income Account (Net)	1551	1904	1788	1555	2122
Current Transfers (Net)	-446	-457	-541	-610	-578
Kuwait Stock Exchange: (Including Transactions of Investment Funds)					
Value of Traded Shares (KD Million)	5763	10494	3343	1842	1292
Volume of Traded Shares (Million Shares)	25749	33993	13919	9496	6760
Number of Transactions (Thousand Transactions)	309	589	351	213	157
Price Index (29/12/1993 =1000)	1905.6	2651.8	1582.7	1442.0	1348.1

(1) Data are taken from the closing accounts except for 2000/2001 which is an approved budget, 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 2000.