

Summary of the Economic Report

The year 1996 witnessed several important developments in all facets of the Kuwaiti economy. This report analyzes these developments through its six parts, namely: the performance of the domestic economy, the CBK and monetary policy, the financial indicators of the banking and financial system, public finance, Kuwait's foreign trade and balance of payments, and the Kuwait Stock Exchange. The most salient developments addressed by these parts can be presented as follows:

Part one: The Performance of the Domestic Economy highlights the main indicators concerning the growth in the contribution of both oil and non-oil sectors to the Gross Domestic Product (GDP) during 1996, in addition to the developments in population and labour force in the State of Kuwait during that year.

The report pointed to a growth of 16.8% in GDP at current prices to KD 9277.1 million during 1996 against KD 7942.3 million during 1995. This growth reflects both the increase of 30.3% in the value added by the oil sectors (crude oil and gas production, and the petroleum refining industry) to the GDP (representing 84.4% of the total growth in GDP in 1996) and an increase in the value added by the rest of the non-oil sectors (excluding the petroleum refining industry) by 4.8%.

With regard to the items of expenditure on the GDP, the growth in the GDP during 1996 reflects the sum of the increase in the value of both the expenditure by residents on the GDP (consumption and investment expenditure minus imports of goods and services) by 18.5% and the expenditure by the external sector on the GDP by 15.3%

Concerning the performance of the major economic sectors, the noticeable improvement in world oil prices in 1996 compared to the previous year boosted the value added by the crude oil and gas production sector to the GDP by 31.6% to KD 4127.4 million against KD 3136.8 million in 1995. Furthermore, the value added by the petroleum refining industry grew by 23.5% during 1996 to KD 716.8 million compared to KD 580.6 million in 1995. Meanwhile, all non-oil sectors witnessed growth in their contribution to the

GDP albeit at varying rates ranging between 106.3% for the Electricity, Gas & Water sector and 0.2% for the Construction sector.

As for the developments in population and labor force, the report indicated that the population of Kuwait was estimated at 1.754 million in mid 1996 against 1.691 million in the middle of the previous year, i.e. an increase of 3.7%. The ratio of Kuwaitis to the total population was 35%. The growth in population reached 3.4% for Kuwaitis against 8.9% for non-Kuwaitis. Concerning the labour force, available data indicate that the Kuwaiti labour force grew by 5.5% during 1996, compared to 9% for the non-Kuwaiti labour force. Consequently, the ratio of Kuwaitis in the total labour force reached 16.2% at the end of 1996 against 16.6% at the end of 1995. If the labour in the household sector is excluded, the ratio of Kuwaitis in the total labour force reaches 20.3% at the end of 1996.

Part two: The Central Bank of Kuwait and Monetary Policy analyzed the developments witnessed in 1996 with regard to the directions of the monetary policy of the State of Kuwait and the continuation of the CBK intensive efforts in drawing and implementing this policy, so as to maintain the monetary stability in the country and to enhance the elements of self-generated growth in the domestic economy, along with the pursuance by the CBK of its essential role in supervising and overseeing the banking system.

The following are among the most significant developments in the principal monetary indicators and aggregates which were analyzed in this part of the report.

1- In furtherance of its endeavors to maintain the monetary stability in the country and in light of its continual follow-up of the local and international developments in interest rates on the KD and major currencies, the CBK decided to maintain the discount rate unchanged during 1996 at 7.25%, as applied since April 1995. Early in 1995, the CBK issued a decision liberating interest rates on both KD deposits and savings accounts from any applied minimum limits.

2- Money supply developments during 1996 partly reflect the CBK's endeavors to regulate the levels of domestic liquidity in conformity with the economic activity

requirements and to firmly maintain the atmosphere of monetary stability in the country. Money supply in its broad definition (M2) stood at KD 7330.8 million at the end of 1996, i.e. a limited decrease of 0.6% compared to its level at end of the previous year. Money supply in its broader definition (M3), which includes money supply in its broad definition (M2) in addition to the private sector deposits with the other deposit-taking financial institution, reached KD 7350.9 million at end of 1995 i.e. a decrease of 1.2% below its level at end of the previous year.

- 3- The relative stability of the KD exchange rate against major currencies continued during 1996, and was even more pronounced compared to the previous year, in light of the continued application of a system based on a special basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. The movements of the US dollar exchange rate against the Kuwaiti dinar in 1996 remained within narrow margins, whereby the difference between the highest and lowest exchange rates of the US dollar against the dinar did not exceed 0.79% or 2.36 fils. Meanwhile, the US dollar fluctuated against other major currencies within broader margins, whereby the highest and lowest exchange rates of the US dollar against these currencies ranged between 14.22% as a maximum (against the Swiss franc) and 5.14% as a minimum (against the French franc).
- 4- The utilized portion of the cash credit facilities extended by the local banks and the Kuwait Finance House amounted to KD 3173.1 million at end of 1996, thus achieving a marked growth of 30.2% compared to the previous year. The balances of consumer loans -within these facilities- amounted to KD 515.6 million at end of 1996 compared to KD 525.3 million at end of the previous year.
- 5- Within the pursuance of its role in the supervision and oversight of the banking and financial system units, the CBK issued several instructions and regulations during 1996 so as to ensure the continued abidance of these units by the sound professional practices and to enhance their role in the development of the national economy.

- 6- During 1996, the CBK continued issuing public debt instruments on behalf of the Ministry of Finance. Thereby, the CBK issued during this year 52 issues of Treasury Bills and 13 issues of Treasury Bonds at a value of KD 3101.4 million and KD 1327 million respectively. Meanwhile, 61 previous issues of these bills with a nominal value of KD 3957.3 million, and six previous issues of these bonds valued at KD 809.2, matured during the year. In view of the above developments, the outstanding balance of public debt instruments reached a value of KD 2494.2 million at the end of 1996, (KD 1167.2 million for Treasury Bills and KD 1327 million for Treasury Bonds), i.e. a decrease of KD 338.1 million or 11.9% below its previous year level.
- 7- The volume of transactions (buying and selling) in the secondary market for public debt instruments carried out by the CBK with the local banks and investment companies amounted to KD 1112.5 million in 1996 compared to KD 1481.7 million during the previous year, i.e. a decrease of 24.9%. Moreover the direction of transactions changed from a net KD injection into the local banks and investment companies in 1995 to a net absorption of KD liquidity from these institutions during 1996. Furthermore, activity in the interbank KD-deposit market of local banks in 1996 declined as a consequence of the availability of KD liquidity with these banks. The volume of transactions in this market reached KD 9.2 billion in 1996 compared to KD 11.6 billion in the previous year, i.e. a decrease of 20.7%.
- 8- Regarding developments in the repayment of the purchased and managed debts by virtue of the Law No, (41) of 1993 and its amendments, the amounts collected from clients subject to the provisions of the above mentioned Law up to the end of 1996 totalled KD 1007.8 million, thus accounting for 16% of the total purchased debts outstanding as on 1/8/1990 and whose balances reached KD 6302.9 million.

Part three: Financial Indicators of the Banking and Financial System analyzed the developments in these indicators as shown by the available data on the aggregate balance sheet of local banks (in addition to the Kuwait Finance House), and the investment and exchange companies subject to the supervision of the CBK at the end of 1996. The following developments are concluded from this analysis:

- 1- During 1996, local banks continued to firmly establish the elements of a more developed professional structure with regard to sources and uses of funds, so as to embark on a new stage of balanced and stable growth. The aggregate balance sheet of these banks reached KD 11460.1 million at the end of 1996, i.e. a limited decrease of KD 132 million or 1.1% compared to KD 11592.1 million at end of the previous year.

On the assets side of this aggregate balance sheet, the report indicates that the outstanding balance of claims on the government reached KD 4573.4 million at the end of 1996 against KD 5391.4 million at end of the previous year, i.e. a tangible decrease of 15.2%. Furthermore, the balance of utilized cash credit facilities extended by local banks to residents continued its noticeable increase during 1996 to reach KD 3173.1 million against KD 2436.3 in the previous year, i.e. an increase of KD 736.8 million or 30.2%; thus, raising the relative importance of these credit facilities in the structure of assets to 27.7% at end of 1996 from 21% at end of 1995. Meanwhile, on the liabilities side, despite the limited decrease in the private sector deposits with these banks by 1.2% from KD 7063.3 million at end of 1995 to KD 6980.7 million at end of 1996, their relative importance of these deposits in the structure of assets remained stable at its previous year level (60.9%).

On the other hand, certain indicators and financial ratios derived from the analysis of available data on local banks at the end of 1996 show that the liquidity and solvency levels of these banks continued to exceed international standards. Specifically, the average capital adequacy standard for commercial and specialized banks reached 25% at end of 1996, which is discernibly higher than the minimum required limit according to the "Basle Committee" recommendations. Moreover, local banks continued in 1996 to achieve good profit levels, largely surpassing those realized during the last two years. The net realized profits from the activity of the local banks and the Kuwait Finance House stood at KD 163.7 million during 1996, representing 1.6%, 13.6% and 27.7% of their total assets, shareholders' equity and paid-up capital, respectively at the end of the same year.

- 2- In 1996, domestic investment companies subject to the supervision of the CBK continued enhancing their structures in terms of sources and uses of funds. Available data indicate that the aggregate balance sheet of all domestic investment companies registered with the CBK at end of 1996 (24 companies) reached KD 2044.4 million. Meanwhile, the aggregate balance sheet of 23 of these companies reached KD 1999.6 million at end of 1996 against KD 1919.2 million at end of 1995, i.e. an increase of 4.2%.

With regard to the relative importance of the elements of this balance sheet at end of 1996, the relative importance of “Capital and Reserve” on the liabilities side continued its rise to reach 42.2% at end of 1996 from 38.7% and 35.1% at the end of 1995 and 1994 respectively, thus remaining on top of the sources of financing. Furthermore, the relative importance of domestic investments in the total assets continued its rise to 21.2% at end of 1996 from 20.1% at end of 1995 and 17% at end of 1994. Meanwhile, the relative importance of foreign investments continued in its downward trend, reaching 53.4% at end of 1996 (from 56.9% and 57.4%, at the end of 1995 and 1994 respectively); yet, still remaining in the forefront of the assets elements.

- 3- With regard to the local exchange companies, available data indicate that the aggregate balance sheet of these companies (24 companies) totaled KD 37.6 million at the end of 1996 against KD 39.6 million (for 23 companies) at end of the previous year. This decrease was mainly on the assets side due to the decline in both the “Cash and Cash Assets” and “Financial Investments “ items. The decrease in the second item was totally concentrated in foreign financial investments which fell by 60.1% below their previous year level.

The report indicated that this balance sheet reflected the continued improvement in the financial positions of the exchange companies at end of 1996 compared to the end of 1995 and 1994, namely with regard to the capital adequacy, liquidity and profitability standards. It was also noted that the net profits realized by these companies continued their upward trend to KD 3.91 million during 1996, thus realizing a noticeable increase of 131.6% over their previous year results.

Part four: Public Finance addressed the developments in this area during the fiscal year 1995/96, highlighting the continuing drop in budget deficit (before deducting the allocations for the Reserve Fund for Future Generations) to KD 653.4 million for this fiscal year, i.e. a drop of 40.2% below the corresponding deficit of the previous fiscal year. This decrease was the outcome of the increase in public revenues by 12% to KD 3473.1 million coupled with a limited decrease of 1.1% in expenditures to KD 4126.5 million in this budget, compared to the previous fiscal year.

Furthermore, the report addressed the main characteristics of the general budget for the fiscal year 1996/97, and the actual execution within this budget from 1/7 to 31/12/1996. Revenues in this budget were estimated at KD 3000 million, an increase of 3.1% above the corresponding estimates for the previous fiscal year. On the other hand, the budget expenditure authorizations for the fiscal year 1996/97 decreased by 0.5% to KD 4210 million. Accordingly, the value of the estimated deficit in the general budget for the fiscal year 1996/97 (before deducting the allocations for the Reserve Fund for Future Generations) amounts to KD 1210 million, i.e. a decrease of KD 110 million or 8.3% below the estimated deficit in the budget for the previous fiscal year.

Part five: Kuwait's Foreign Trade and Balance of Payments analyzed the most significant developments in the trade and financial relations of the domestic economy with other countries. Available provisional data on Kuwait's foreign trade and balance of payments statistics for 1996 indicate that the trade balance realized a surplus of KD 2056 million during 1996, which was substantially higher (by KD 421 million or 25.7%) than the surplus of KD 1635 million recorded in 1995. The marked growth in the trade balance surplus during 1996 is attributable to a KD 628 million rise (16.7%) in the value of Kuwait's total merchandise exports (which reached KD 4398 million), which was higher than the rise of KD 207 million (9.7%) in the value of Kuwait's total merchandise imports (which reached KD 2342 million) during that year.

In another development, the surplus in the services account continued to increase for the second consecutive year, thus reaching KD 418 million during 1996, i.e. a substantial increase of KD 192 million (85%) above its previous year level. Meanwhile, the net value of unrequited foreign transfers increased slightly by KD 8 million (1.6%) to KD 504 million. Consequently, the developments in the above three items led to the

continued increase in the “current account” surplus during 1996 -for the fourth year in succession- to KD 1970 million against a surplus of KD 1365 million during the previous year, i.e. a substantial increase of KD 605 million or 44.3%.

The financial surplus realized in the “current account” translated into capital outflows during 1996. Specifically, the capital flows under the “Non-Monetary Capital” account continued following the outward direction they displayed since 1993, although at a noticeably slower pace, to reach KD 512 million during 1996 against KD 867 during the previous year. This slowdown was due to the noticeable change in the “Other Capital” item from a net outflow of KD 778 million in 1995 to a net inflow of KD 44 million in 1996 . Meanwhile, the “Government Investment Account” showed a net outflow of KD 2516 million.

The above net outflow by KD 1991 million in the capital account compared to the surplus in the current account valued at KD 1970 million resulted in a slight deficit of KD 21 million in the overall position of the balance of payments. This, in turn, was reflected in the form of a slight decrease by the same value in the net value of the CBK reserve assets at end of 1996. However, if the change in the overall position of the balance of payments is considered from a broader perspective, so as to include the change in the government investment account and the net value of the CBK reserve assets, the overall position of the balance of payments shows a surplus of KD 2495 million during 1996 compared to a surplus of KD 774 million during 1995.

Part six: The Kuwait Stock Exchange (KSE) pointed out that the market indicators reached unprecedented record levels during 1996, due to a combination of favourable factors which the report reviewed in some detail. The total value of traded shares in the KSE in 1996 stood at KD 5756.4 million (25711.3 million shares) against KD 1908.3 million (9054.9 million shares) in 1995, i.e. an increase of 201.6%. Furthermore, the number of transactions increased from 105.4 thousands in 1995 to 307.9 thousands in 1996. The KSE general price index also rose by 39.5% to 1905.6 points at the end of 1996 against 1365.7 points at end of the previous year.

Assets of companies listed on the KSE as at end of 1996 stood at KD 13.9 billion. These companies announced net profits amounting to KD 405.5 million in 1996. Meanwhile,

the average return on shareholders' equity for the listed companies reached 14.4% in 1996.

The report also pointed out that the number of companies listed on the KSE reached 60 at the end of 1996, while the total number of issued shares reached 16.7 billion with a capital market value of KD 6.2 billion i.e. an increase of 17.6% for the number of companies, 11.6% for the share issue base and 43% for the capital market value above the previous year.

Table (57)

**Development in Main Economic, Financial
and Monetary Indicators and Variables**

(KD million)

Item	1992	1993	1994	1995	1996
National Accounts:					
GDP at Current Prices:	5826.5	7230.5	7379.7	7942.3	9277.1
Crude Oil & Natural Gas Sector	1800.3	2961.2	2829.9	3136.8	4127.4
Non-oil Sectors, of which	4026.1	4269.3	4549.8	4805.5	5149.7
Petroleum Products	295.0	362.7	493.7	580.6	716.8
Domestic Prices (Points):					
CPI (1978 = 100)	180.8	181.5	186.1	191.1	197.6
Monetary and Banking					
Aggregates and Indicators:					
Money Supply (M2)	6058.5	6396.5	6742.9	7374.7	7330.8
Money (M1)	1108.5	1114.0	1126.0	1184.9	1242.6
Quasi-money	4950.0	5282.5	5616.9	6189.8	6088.2
Private Sector Deposits with Local Banks	5679.4	6041.3	6391.6	7063.2	6980.7
of which: KD Deposits	4898.9	4991.2	5282.9	5755.3	5724.1
Credit Facilities Extended by Local Banks to Residents	1032.7	1240.9	1703.2	2436.3	3173.1
of which: Consumer Loans	470.2	484.6	522.8	525.3	515.6
Net Foreign Assets of Local Banks	1063.0	1236.5	1213.2	1461.4	1407.5
Aggregate Balance Sheet of Local Banks	10418.2	9945.9	10966.5	11592.1	11460.1
KD KD Exchange Rate at Year End (fils per US dollar)	302.93	298.17	300.02	298.93	299.79
Public Debt Instruments:					
Value of Issues:	2860.4	5287.2	6703.2	6851.7	4428.4
Treasury Bills	2860.4	5287.2	6012.8	6042.5	3101.4
Treasury Bonds	0.0	0.0	690.3	809.2	1327.0
Balances at Year End:	1625.3	2079.7	2781.0	2832.3	2494.2
Treasury Bills	1585.1	2074.7	2090.7	2023.1	1167.2
Treasury Bonds	40.2	5.0	690.3	809.2	1327.0

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**Development of Main Economic, Financial
and Monetary Indicators and Variables**

(KD Million)

Item	1992	1993	1994	1995	1996
Public Finance (Fiscal Years): ⁽¹⁾	(1992/93)	(1993/94)	(1994/95)	(1995/96)	(1996/97)
Public Revenues	2363.7	2775.1	3100.7	3473.1	3000.0
Public Expenditure	3936.3	4240.8	4193.2	4126.5	4210.0
Deficit ⁽²⁾	-1572.6	-1465.7	-1092.5	-653.4	-1210.0
Foreign Trade:					
Value Total of Exports	1931.1	3091.2	3341.6	3814.5	4448.3
Value of Oil Exports	1824.9	2929.6	3112.7	3597.1	4221.3
Value Total of Imports (cif)	2129.2	2123.8	1988.2	2323.1	2507.2
Balance of Payments:					
Trade Balance	-202	962	1324	1635	2056
Services Account (net)	630	79	-79	226	418
Unrequited Transfers	-560	-456	-506	-496	-504
Total Current Account	-132	585	739	1365	1970
Kuwait Securities Market:					
(Monthly Average):					
Value of Transactions	38.6	65.7	48.7	159.0	479.7
Volume of Trading (million shares)	99.9	243.7	209.9	754.6	2142.6
Number of Deals (Deal)	3011	4949	6339	8786	25659

(1) Data are taken from the closing accounts except for 1996/97 which is an approved budget.

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