2012

Economic Report - 2012

Central Bank of Kuwait

CENTRAL BANK OF KUWAIT

ECONOMIC REPORT

2012

H. H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait

H. H. Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince Of The State Of Kuwait

H. H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister Of The State Of Kuwait

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FOR THE YEAR 2012

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Preface

It pleases me to present the Economic Report for the year 2012 to all those who are interested in the affairs of the Kuwaiti economy, covering the most salient developments witnessed in the major sectors of the Kuwaiti economy during the year. This is the forty-first issue of the Economic Report series, annually prepared by the Central Bank of Kuwait (CBK) containing the latest available data and statistics on various aspects of economic performance in the State of Kuwait during 2012. The Report is divided into six parts, where each part addresses a major topic at an appropriate level of detail.

The **first part** of the Report addresses the main trends of the Kuwaiti economy performance during 2012, as reflected in the available data and statistics on national income accounts, domestic prices, population and labor force. In the same context, available statistics indicate an increase in the Gross Domestic Product (GDP) at constant prices (2010=100) to reach KD 41025 million during 2012, i.e. a growth of KD 3146.7 million or 8.3%, which is reflected in the growth of the oil sector by 11.9% and non-oil sector by 4%. Inflation in the State of Kuwait, measured by the relative change in the general consumer price index (CPI) reached 2.9% during 2012 against 4.8% during the previous year. Available statistics also indicated an acceleration in the growth rate of non-Kuwaiti population to 3.9% during 2012 against a deceleration in the growth rate of Kuwaiti population to 2.5% during the mentioned year; i.e. the growth rate of total population in the State of Kuwait reached 3.4% during 2012. This was accompanied with a growth rate of 3.1% of total labor force in the State of Kuwait during 2012.

The **second part** of the Report highlights the main monetary and banking developments and activity of CBK in the areas of monetary policy and banking supervision, by illustrating and analyzing key developments in the main aggregates and monetary indicators during 2012, and major developments in banking supervision and oversight during the mentioned year. In this respect, available data indicate an increase in Money

Supply in its broad definition (M2) of 7% at the end of 2012, and an increase in the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors of 4.6% to reach KD 26796.8 million at the end of 2012. Local banks' claims on CBK also noticeably increased by 20.9% to reach KD 4446.4 million at the end of 2012.

The **third part** of the Report focuses on the financial indicators of the banking and financial system, as reflected in the aggregate financial statements of various banking and financial sector units under the supervision of CBK, namely local banks, investment companies and exchange companies, to present developments in those indicators and their reflections on the financial position of these units. Within this context, the aggregate balance sheet of local banks reached KD 47207.7 million at the end of 2012, increasing by 7.1% compared to its level during the previous year. Aggregate balance sheet of local investment companies reached KD 11628.4 million at the end of 2012, decreasing by 4.1% compared to its level at the end of the previous year. Likewise, aggregate balance sheet of local exchange companies registered with the CBK and subject to its supervision reached KD 122.6 million at the end of 2012, increasing by 3.3% compared to its level at the end of the previous year.

The **fourth part** of the Report addresses the State's public finance by examining the main developments in the general budget of ministries and government departments during 2012, in two main sections, the first of which is the closing account of the fiscal year 2011/12 and the second is the general budget of the fiscal year 2012/13 (the enacted general budget, and government financial operations executed during the first nine months of the fiscal year 2012/13). The general budget recorded an actual surplus of KD 13228.7 million during the fiscal year 2011/12, i.e. an increase of 150.5%, before deducting the allocations for the Reserve Fund for Future Generations. The Report, in its **fifth part**, addresses developments in foreign trade and financial relations of the State of Kuwait with other countries during 2012, as reflected in the statistics on the external trade and the overall balance of payments of the State of Kuwait which realized an actual surplus of KD 918 million during 2012.

Finally, the **sixth part** of the Report monitors developments in the Kuwait Stock Exchange (KSE) during 2012 as reflected in main trading indicators, prices movements, and factors affecting market performance. The KSE General Price Index closed at an increase of 2.07% at the end of 2012 compared with 2011. Likewise, the KSE Weighted Price Index closed at an increase of 2.97% compared with 2011.

Developments in global oil markets during 2012 highlight the significant role played by various external factors in determining the general direction of national economic performance, particularly the noticeable rise in global oil prices and oil production rates contributing to the growth achieved in the aggregates of national income accounts of the State of Kuwait during 2012. The steady rise of oil prices in global markets resulted in a significant increase in the internal (the State's general budget surplus) and external (the current account surplus of the balance of payments) financial surpluses.

In closing, we ask Allah the Almighty for assistance and guidance in our quest to serve our beloved country, and achieve its advancement and prosperity, under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may God protect them.

Dr. Mohammad Yousef Al-Hashel

Governor of the Central Bank of Kuwait

Summary of the Economic Report

Summary of the Economic Report

The Economic Report for the year 2012 presents the latest economic, financial, monetary and banking developments witnessed in the Kuwaiti economy during the mentioned year. These developments are divided into six parts, the most significant of which can be briefly highlighted as follows:

First - Performance of the Domestic Economy:

The Kuwaiti economy witnessed a significant growth during 2012 affected by many global and domestic developments, most notably the rise in the levels of global oil prices and domestic production rates which led to an increase in Gross Domestic Product (GDP) at constant prices (2010=100) to KD 41025 million during 2012 against KD 37878.3 million during 2011, i.e. a rise by KD 3146.7 million or 8.3% compared to an increase of KD 3509.1 million or 10.2% during the previous year. This increase reflects in its largest portion the rise in the value added at constant prices in the crude oil and natural gas production sector by KD 2664 million or 11.9% to KD 25083.5 million during 2012 against KD 22419.5 million during the previous year. The value added at constant prices in the non-oil sectors also increased to KD 17634.9 million during 2012 against KD 16958 million during 2011, i.e. a growth of KD 676.9 million or 4%.

On another front, Gross Domestic Product (GDP) at current prices increased to KD 51289.6 million during 2012 against KD 44323 million during the previous year, i.e. a rise of KD 6966.6 million or 15.7% compared to an increase of KD 9953.8 million or 29% during the previous year, resulting from the rise in the value added at current prices in the oil sectors (crude oil, natural gas and refined petroleum products industry) by KD 5427 million or 19.3% to KD 33526.5 million during 2012 against KD 28099.5 million during the previous year. Accordingly, the relative share of the value added in that sector to GDP at current prices increased to 65.4% during 2012 against 63.4% during 2011. In addition, the value added at current prices by the non-oil sectors (excluding the refined petroleum products industry) witnessed a growth of KD 1752.4 million or 9.9% during 2012 against a growth of KD 1340.5 million or 8.2% during the previous year.

Moreover, inflation in the State of Kuwait, measured by the relative change in the general index of consumer prices (2000=100) reached 2.9% during 2012 against 4.8% during the previous year. A major portion (68.3%) of this rise was concentrated in three major expenditure groups accounting for 53.9% of the relative share of main expenditure groups constituting the Consumer's General Price Index. The first group contributing to the general inflation rate during 2012 is Food with a decelerated increase in average price of 5.6% and a relative share of 42%. The second is Housing Services with a decelerated increase in average price of 1.5% and a relative share of 13.6%. The third is Clothing and Footwear with a decelerated increase in average price of 3.9% and a relative share of 12.7%.

Statistics on population and labor force in the State of Kuwait indicate an increase of the growth rate of non-Kuwaiti population to 3.9% during 2012 against 3.3% during 2011. Conversely, growth rate of the Kuwaiti population decreased to 2.5% during 2012 against 3% during 2011. As a result, growth rate of total population in the State of Kuwait slightly increased from 3.2% during 2011 to 3.4% during 2012. The growth of Kuwait's total population was accompanied with a 3.1% growth of labor force during 2012 against a 3.2% rise during 2011.

Second - Monetary Developments and CBK Activity:

Data on developments in main monetary and banking aggregates and variables in the State of Kuwait indicate an increase in Money Supply in its broad definition (M2) by 6.5% at the end of 2012 against an increase of 10.2% at the end of 2011. Furthermore, total resident private sector deposits with local banks grew by 6.3% at the end of 2012 compared to 9.8% at the end of 2011. On the bank credit side, data indicate an increase in the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors of KD 1283.7 million or 5% to KD 26895.2 million at the end of 2012.

CBK continued during 2012 to implement the policy applied since 20 May 2007, of pegging the KD exchange rate to a special weighted basket of currencies of countries with which Kuwait has significant trading and financial relations. In this regard, the movements in the exchange rate of the US dollar against the KD were within relatively limited margins compared with the movements of the exchange rate of the US dollar against other major currencies during 2012. The difference between the highest and lowest exchange rate of the US dollar against the KD reached 4.7 fils or 1.7% as at the end of each month of 2012.

In the same context, data indicate tangible fluctuations in the exchange rate of the US dollar against other major currencies within relatively broad margins during 2012. The difference between the highest and lowest exchange rate of the US dollar reached 12.639% against the Japanese Yen, 11.671% against the Euro, 11.232% against the Swiss Franc, and 6.334% against the Pound Sterling. Changes in the exchange rate of the US dollar against the KD on the one hand, and other major currencies on the other, indicate a rise of 3.25 fils or 1.16% at the end of 2012 compared to the end of 2011. In contrast, the exchange rate of the US dollar recorded a decline of 2.98% against the Pound Sterling, 2.25% against the Swiss Franc, and 1.23% against the Euro.

In its pursuit to control domestic liquidity levels, CBK intensified its efforts using available monetary policy instruments. During 2012, CBK launched 4 issues of 3-month maturity Treasury Bills with a total nominal value of KD 250 million. CBK also launched 25 issues of Kuwaiti Treasury Bonds with a total nominal value of KD 1635 million. Based on these developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) managed by CBK on behalf of the Ministry of Finance, declined by KD 218 million or 11% to KD 1755 million at the end of 2012 against KD 1973 million at the end of 2011.

CBK launched 37 issues of CBK Bonds bringing the total nominal value of CBK Bonds to KD 5443 million in 2012. Accordingly, the outstanding balance of CBK Bonds rose by KD 399 million or 25.7% at the end of 2012 (from KD 1553 million at the end of 2011 to KD 1952 million at the end of 2012).

Data on local banks' deposits with CBK indicate a noticeable increase in local banks' claims on CBK by KD 769.4 million or 20.9% to reach KD 4446.4 million at the end of 2012 against KD 3677 million at the end of 2011.

CBK continued its efforts in supervision and oversight of registered local banking and financial sector units in pursuit of maintaining sound financial positions of these units, and consolidating the State's monetary and financial stability. In this context, CBK intensified its supervisory procedures, particularly regarding financial derivative transactions, for ensuring that financial derivatives are not employed in speculative activities for banks' own account or clients' account. In addition, CBK continued its supervisory procedures regarding risk management, following up banks' semi-annual financial stress-tests, expanding the standards of disclosure and transparency of legal and regulatory structures of banks and their groups to facilitate risk management, and emphasizing the importance of conduct values and professional standards that would strengthen the integrity of the banking business.

Third - Financial Indicators of the Banking and Financial Sector:

Aggregate balance sheet of local banks (22 banks which include 5 Kuwaiti conventional commercial banks, 10 foreign bank branches, 1 specialized bank, and 6 banks operating in accordance with the provisions of the Islamic Sharia) reached KD 47207.7 million at the end of 2012 against KD 44081.5 million at the end of 2011, i.e. an increase of KD 3126.2 million or 7.1% during 2012 against KD 2701.6 million or 6.5% during 2011.

The number of local investment companies registered with the CBK decreased to 93, of which 50 investment companies operating in accordance with the provisions of Islamic Sharia, at the end of 2012 against 95 companies at the end of 2011. Total assets of local investment companies (traditional and Islamic companies) reached KD 11628.4 million at the end of 2012 with a decline of KD 502.7 million or 4.1% compared with its level at the end of 2011.

The aggregate balance sheet of exchange companies registered with CBK and under its supervision (39 companies) increased to reach KD 122.6 million at the end of 2012 against KD 118.2 million at the end of 2011, i.e. a rise of KD 4.4 million or 3.8%.

Fourth - Public Finance:

Data on the Closing Account of ministries and governmental bodies during the fiscal year 2011/12 indicate that total actual budgetary revenues collected during the mentioned fiscal year increased by KD 8734.1 million or 40.6% to reach KD 30236.1 million, against KD 21502 million during the fiscal year 2010/11. This rise in actual budgetary revenues is mostly attributable to the increase in actual budgetary oil revenues which increased by KD 8622.1 million or 43.2% to reach KD 28569.5 million during the fiscal year 2011/12 against KD 19947.4 million during the previous fiscal year.

On the actual budgetary expenditures side, data on the Closing Account for the fiscal year 2011/12 indicate an increase of KD 786.4 million or 4.8% to KD 17007.4 million during the mentioned fiscal year against KD 16221 million during the previous fiscal year. Worth noting is that the increase in actual budgetary expenditures under the First Chapter (salaries and wages) accounted for 86.5% of the increase in the total actual budgetary expenditures during 2011/12. Actual budgetary expenditures under the First Chapter increased by KD 680.1 million or 19.9% to reach KD 4103.3 million during the fiscal year 2011/12 against KD 3423.2 million during the previous fiscal year. Likewise, the actual budgetary expenditures under the Fifth Chapter (miscellaneous expenditure and transfer payments) grew by KD 180.1 million or 2.2% to reach KD 8345 million during the fiscal year 2011/12 against KD 8164.9 million during the fiscal year 2010/11.

As an outcome of those developments, an actual surplus of KD 13228.7 million was realized in the general budget for the fiscal year 2011/12, against an actual surplus of KD 5281 million for the fiscal year 2010/11, i.e. an increase of KD 7947.7 million or 150.5%, before deducting the allocations for the Reserve Fund for Future Generations.

Fifth - Developments in Foreign Trade and Balance of Payments:

Statistics on Kuwait's balance of payments indicate that the current account recorded a surplus of KD 22174 million, accounting for 43.2% of GDP at current prices for 2012 against a surplus of KD 18534 million, accounting for 41.8% of GDP at current prices for 2011. The surplus realized in the current account of the balance of payments is mainly related to the surplus realized in the commodity balance, where estimates indicate an increase of KD 4783 million or 21.4% to KD 27101 million, accounting for 52.8% of GDP at current prices during 2012 against KD 22317 million, accounting for 50.3% of GDP at current prices during 2011.

Preliminary statistics on capital account indicate net capital inflows of KD 1176 million during 2012 against net inflows of KD 955 million during 2011, causing net capital inflows to increase by KD 222 million or 23.2% during 2012 compared with 2011. Accordingly, the current and capital account combined recorded a surplus of KD 23350 million during 2012 against a surplus of KD 19489 million during 2011, i.e. an increase of KD 3861 million or 19.8%.

The financial account of the balance of payments recorded net outflows of KD 24108 million during 2012 against net outflows of KD 17789 million during 2011, i.e. an increase of KD 6319 million or 35.5%.

Consequently, the overall position of the State of Kuwait's balance of payments recorded a total surplus of KD 918 million during 2012 compared to KD 1231 million during 2011. This surplus reflects the increase realized in total reserve assets of CBK, recording a growth of same value (KD 918 million) during 2012. On another front, looking at the overall position from a broader perspective encompassing both the change in the net value of governmental entities' and institutions' investments abroad, and the change in total reserve assets of CBK, the overall position in the balance of payments shows a surplus of KD 20683 million during 2012 equivalent to 40.3% of GDP at current prices in 2012 compared to KD 13458 million during 2011 equivalent to 30.4% of GDP at current prices in 2011.

Sixth - Developments in the Kuwait Stock Exchange:

Key trading indicators and price levels of Kuwait Stock Exchange (KSE) during 2012 recorded a rise driven by the trading activity which led to the increase recorded in market price levels, the majority of which was concentrated in the first quarter of the year. At the end of 2012, the KSE General Index closed at an increase of 2.07% compared with the closing of 2011. The KSE Weighted Index also increased at the end of 2012 by 2.97% compared with the closing of 2011. Market capitalization of listed companies slightly declined to KD 28885.6 million by KD 474.2 million or 1.6% at the end of 2012 compared with the end of 2011.

Within this context, performance of the KSE during 2012 was driven by a number of positive market factors, mainly the rise in interim profits of listed companies during 2012 compared with 2011. This strengthened the positive market atmosphere expressed by market dealers' enhanced confidence during 2012. Furthermore, on 4 October 2012, CBK decided to cut the discount rate and re-discount rate for commercial papers by 50 basis points to 2% from 2.5%, in its pursuit to strengthen the supportive atmosphere to enhance the performance of the non-oil sectors of the national economy. Conversely, the KSE was negatively affected by a number of market factors during various periods of 2012, mainly the Capital Markets Authority's decision to delist the shares of 14 companies for failure to submit the financial statements required for various periods, and the impact of the unfavorable local political situations and regional and global economic atmosphere.

Performance of the Domestic Economy

Performance of the Domestic Economy

The Kuwaiti economy witnessed a growth during 2012, which resulted from the interaction of several developments globally and domestically, mainly the growth in the global oil price levels and domestic production rates which led to the increase in Gross Domestic Product (GDP) for that year. Specifically, the rise in world oil prices during 2012 compared with the previous year (by 2% for spot price of the OPEC oil basket), as well as the increase in the Kuwaiti crude oil production (12%), reflected on the value added at current prices in the oil sectors (crude oil and natural gas production and the refined petroleum products industry) that witnessed a growth of KD 5427 million or 19.3% during 2012, after its rise of 44.1% during the previous year. On another front, value added in the non-oil sectors (excluding refined petroleum products industry) witnessed a growth of KD 1752.4 million or 9.9% during 2012 compared to a growth of KD 1340.5 million or 8.2% during the previous year. As a result, the State of Kuwait's GDP at current prices increased by 15.7% during 2012 to KD 51289.6 million compared to KD 44323 million and a growth of 15.7% during the previous year.

On another front, GDP at constant prices increased by KD 3146.7 million or 8.3%, to KD 41025 million during 2012 against KD 37878.3 million during 2011. This growth reflects in its largest portion the rise in value added at constant prices by oil sectors (of which refined petroleum products industry) by KD 2664 million or 11.9% to KD 25083.5 million during 2012, and the rise in the value added at constant prices by the non-oil sectors (excluding refined petroleum products industry) to KD 17634.9 million during 2012 against KD 16958 million during 2011, i.e. a growth of KD 676.9 million or 4%.

On the other hand, the inflation rate in the State of Kuwait, measured as the relative change in the general consumer price index (CPI) (year 2000=100) decelerated to reach 2.9% during 2012, against 4.8% during 2011. The mentioned decrease encompassed the main commodity groups that contributed in forming the mentioned rate, and they are, 'Food' with a weight of 18.3% and a decelerated increase of 5.6%, accounting for 42% of the change in the general consumer price index during 2012 compared to the previous year. Next comes 'Housing Services' with a weight of 26.7% and a decelerated rate of 1.5% and a relative share of 13.6% in overall inflation. 'Clothing and footwear' (weight 8.9%) decelerated to 3.9%, accounting for 12.7% of overall inflation.

Concerning developments in population and labor force in the State of Kuwait, available statistics indicate that the year 2012 witnessed a significant increase in the growth rate of non-Kuwaiti population by 3.9%, compared to 3.3% during 2011. While growth in Kuwaiti population slowed down during 2012 to reach 2.5% against 3% during the previous year. As a result, the growth rate of total population in the State of Kuwait witnessed a rise from 3.2% during 2011 to 3.4% during 2012. Meanwhile, the growth in the total labor force in the State of Kuwait decreased at the end of 2012 to reach 3.1% compared to 3.2% during the previous year. Growth in Kuwait labor force also slowed down to reach 2.5% at the end of 2012 against 6.6% at the end of 2011.

This part of the Economic Report highlights the main aspects of the performance of domestic economic sectors during 2012, compared with 2011, as reflected in the available statistics on national accounts, domestic prices, and population and labor force, as follows:

First – Gross Domestic Product and Economic Growth:

The national income accounts statistics are considered among the most significant economic indicators, which help identify developments in the general performance, the growth of the national economy, and the structural changes that might occur from time to time. GDP is considered among the principal aggregates of national income accounts statistics, as it represents the value added in the domestic economy through the utilization of available production factors during a specified period (usually one year). From the expenditure perspective, GDP represents the sum of consumption and investment expenditures by residents in the domestic economy, and expenditures by the outside world (exports of goods and services) on GDP, minus residents' expenditures on goods and services produced in other countries (imports of goods and services).

Provisional statistics for national income accounts of the State of Kuwait during 2012 indicate a noticeable growth in GDP at current prices, reaching KD 51289.6 million during the mentioned year, against KD 44323 million during the previous year, i.e. an increase of KD 6966.6 million or 15.7% compared with a growth of KD 9953.8 million or 29% during the previous year. The largest portion of that growth reflects the rise in the value added at current prices in the crude oil and natural gas production sector by KD 5223.8 million or 19.3% to reach KD 32119.9 million during 2012 against KD 26896.1 million during the previous year. Due to that, the relative share of the value added for that sector in GDP at current prices increased to 62.6% during 2012, against 60.7% during the previous year.

On another front, the value added (at current prices) in the non-oil sectors (including the refined petroleum products industry) rose to KD 20920.8 million during 2012, against KD 18965.2 million during 2011, representing a growth of KD 1955.6 million or 10.3%, after realizing a growth of KD 1499.3 million or 8.3% during the previous year. The relative share of the value added for those sectors in GDP at current prices was 40.8% during 2012, against 42.8% during 2011, considering the above mentioned rise in the value added of crude oil and natural gas production sector. Table (1) and chart (1) show the developments of GDP at current prices for both oil and non-oil sectors during (2010-2012).

Table (1)

GDP at Current Prices

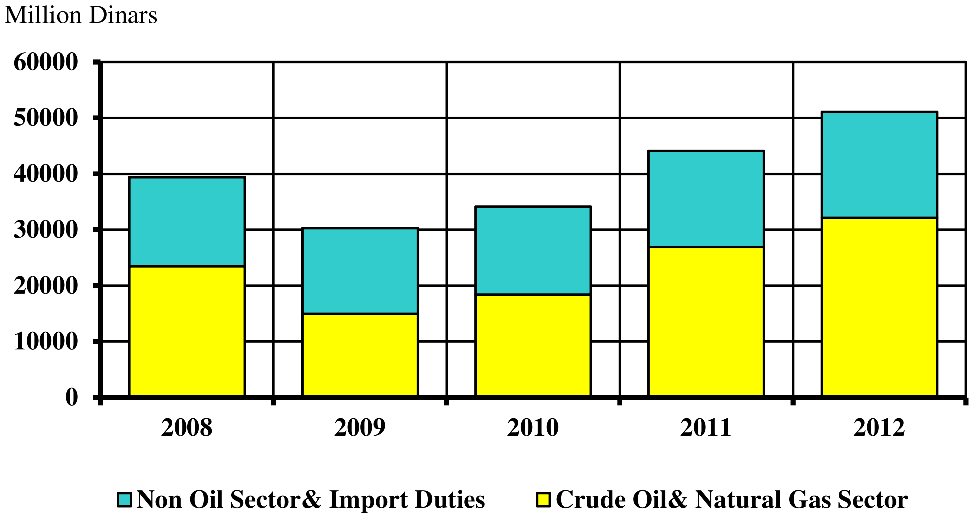
(KD Million)

Items	2010	2011 *	2012 **
Crude Oil & Natural Gas Sector	**18406.5**	**26896.1**	**32119.9**
Change (%)	22.8	46.1	19.4
to GDP (%)***	53.6	60.7	62.6
Non-oil Sectors	**17515.9**	**18965.2**	**20920.8**
Change (%)	2.9	8.3	10.3
to GDP (%)	51.0	42.8	40.8
GDP at Product's Value	**35922.4**	**45861.3**	**53040.7**
Change (%)	**12.2**	**27.7**	**15.7**
Imputed Banking & Insurance Services	**-1764.7**	**-1760.1**	**-1955.4**
Change (%)	**2.4**	**-0.3**	**11.1**
Import Duties	**211.5**	**221.8**	**204.3**
Change (%)	7.5	4.9	-7.9
GDP at Purchaser's Value	**34369.2**	**44323.0**	**51289.6**
Change (%)	12.7	29.0	15.7

Source: Central Statistical Bureau.
* Revised data.
** Provisional data.
***Relative share to GDP at purchaser's value.

The realized growth in the value added from crude oil and natural gas production sector reflects the developments in world oil markets during 2012, and the resulting increase in oil prices in these markets, including the average spot price of the OPEC oil basket which recorded a growth of 2%, from $107.46 per barrel on average during 2011 to an average of $109.45 per barrel during 2012 on the one hand, and the rise of crude oil production in the State of Kuwait by 12% under the provisions of OPEC (the actual production increased from 2.659 million b/d on average during 2011 to 2.978 million b/d on average in 2012) on the other.

Chart (1)
GDP at Current Prices



Within this context, available data indicate that the price of Kuwait's exported crude oil significantly increased from \$101.96 per barrel on average during 2011 to \$106.61 on average during 2012, i.e. a rise of \$4.65 or 4.6%, as well as the growth of the weighted average export price per barrel equivalent of Kuwaiti liquefied natural gas by \$5.66 or 7.9%, from \$71.85 per barrel to \$77.51 during the mentioned years respectively. Furthermore, the average quantity of the production of liquefied natural gas also increased from 142 thousand barrel equivalent per day during 2011 to 152 thousand barrel equivalent during 2012.

In the same direction, the value added at current prices in the refined petroleum products industry increased by KD 203.2 million or 16.9% to reach KD 1406.6 million during 2012, against KD 1203.4 million during the previous year. This growth is the outcome of the rise in the weighted average export price per barrel equivalent of Kuwait's refined petroleum products by \$1.1 or 0.9% to \$115.22 during 2012, against \$114.15 during 2011, and the increase in the Kuwaiti refiners' production of refined petroleum products by 907 thousand barrel equivalent per day on average during 2012, against 843 thousand on average during 2011, i.e. an increase of 10 thousand or 7%.

Accordingly, the total value added at current prices in the oil sectors grew to KD 33526.5 million during 2012 against KD 28099.5 million during 2011, i.e. a rise of KD 5427 million or 19.3%. Consequently, the relative share of the value added to GDP by the oil sectors increased to 65.4% during 2012, compared to 63.4% during the previous year (Table 2).

Regarding total value added in the non-oil sectors, excluding the refined petroleum products industry, it witnessed a growth of KD 1752.4 million or 9.9% during 2012 to reach KD 19514.2 million, against a growth of KD 1340.5 million or 8.2% during the previous year.

Table (2)
GDP at Current Prices by Oil and Non-oil Sectors
(KD Million)

Items	2010	2011*	2012**
Crude Oil & Natural Gas Sector	**18406.5**	**26896.1**	**32119.9**
Change (%)	22.8	46.1	19.4
To GDP (%)	53.6	60.7	62.6
Refined Petroleum Products Industry	**1094.6**	**1203.4**	**1406.6**
Change (%)	35.1	9.9	16.9
To GDP (%)	3.2	2.7	2.7
Total Oil Sectors	**19501.1**	**28099.5**	**33526.5**
Change (%)	23.4	44.1	19.3
To GDP (%)	56.7	63.4	65.4
Non-oil Sectors	**16421.3**	**17761.8**	**19514.2**
Change (%)	1.2	8.2	9.9
To GDP (%)	47.8	40.1	38.0
GDP at Product's Value	**35922.4**	**45861.3**	**53040.7**
Change (%)	**12.2**	**27.7**	**15.7**
Imputed Banking & Insurance Services	**-1764.7**	**-1760.1**	**-1955.4**
Change (%)	**2.4**	**-0.3**	**11.1**
Import Duties	**211.5**	**221.8**	**204.3**
Change (%)	7.5	4.9	-7.9
GDP at Purchaser's Value	**34369.2**	**44323.0**	**51289.6**
Change (%)	12.7	29.0	15.7

Source: Central Statistics Office.
* Revised data.
** Provisional data.

From the expenditure perspective, available data on the expenditures on GDP (Table 3, Chart 2) indicate that the above-mentioned growth in GDP during 2012 compared with the previous year was driven by the increase in expenditure of the outside world on GDP (exports of goods and services) by KD 5062 million or 16.3% to reach KD 36188 million during 2012, against KD 31126 million during 2011. Net expenditure by residents (consumption and investment expenditures less imports of goods and services) on GDP witnessed a rise by KD 1904.6 million or 14.4% to reach KD 15101.6 million, against KD 13197 million during the mentioned years respectively.

Table (3)
Expenditure on the GDP at Current Prices
(KD Million)

Type of Expenditure	2010	2011*	2012 **
(1) Final Consumption	**15391.1**	**16945.4**	**19124.2**
Change (%)	-2.9	10.1	12.9
to Residents Expenditure (%)	68.8	70.0	71.2
to GDP (%)	44.8	38.2	37.3
- Government Consumption	**5946.6**	**6626.4**	**7775.4**
Change (%)	5.5	11.4	17.3
to Final Consumption (%)	38.6	39.1	40.7
to Residents Expenditure (%)	26.6	27.4	28.9
- Private Consumption	**9444.5**	**10319.0**	**11348.8**
Change (%)	-7.6	9.3	10.0
to Final Consumption (%)	61.4	60.9	59.3
to Residents Expenditure (%)	42.2	42.6	42.2
(2) Gross Capital Formation	**6964.1**	**7261.6**	**7746.4**
Change (%)	27.1	4.3	6.7
to Residents Expenditure (%)	31.2	30.0	28.8
to GDP (%)	20.3	16.4	15.1
(3) Total Expenditures by Residents (1 + 2)	**22355.2**	**24207.0**	**26870.6**
Change (%)	4.8	8.3	11.0
to GDP (%)	65.0	54.6	52.4
(4) Exports of goods and services	**22055.0**	**31126.0**	**36188.0**
Change (%)	21.7	41.1	16.3
to GDP (%)	64.2	70.2	70.6
(5) Imports of Goods and Services	**10041.0**	**11010.0**	**11769.0**
Change (%)	12.1	9.7	6.9
to Residents Expenditure (%)	44.9	45.5	43.8
(6) GDP (3 + 4 - 5)	**34369.2**	**44323.0**	**51289.6**
Change (%)	12.7	29.0	15.7
(7) Domestic Resources Surplus (6-3)	**12014.0**	**20116.0**	**24419.0**
Change (%)	31.1	67.4	21.4
to GDP (%)	35.0	45.4	47.6

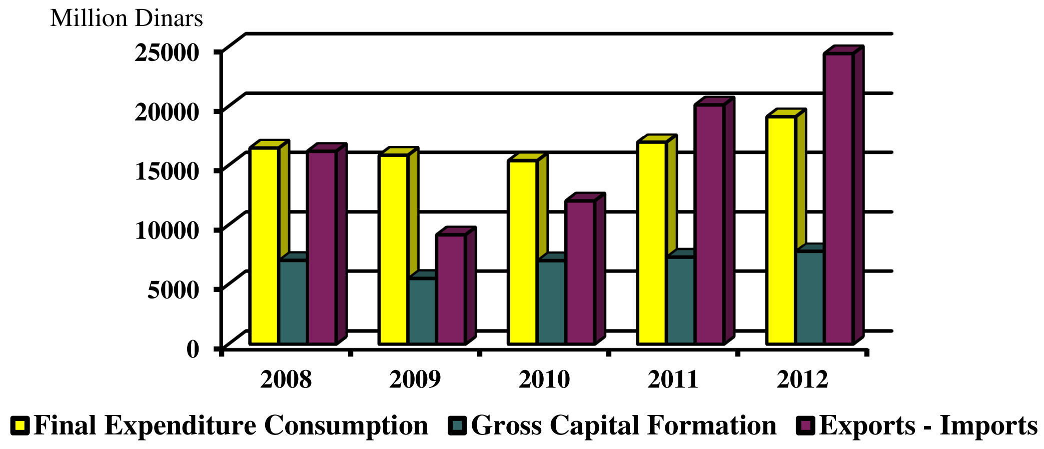
Source: Central Statistics Office.
* Revised data.
** Provisional data.

Data indicate that the total expenditure by residents (consumption and investment) representing their total expenditure on GDP and imports of goods and services reached KD 26870.6 million during 2012, recording a rise of KD 2663.6 million or 11%

compared to a growth of KD 1851.8 million or 8.3% during 2011. The rise in this item was the outcome of the increase in final (government and private) consumption expenditure by KD 2178.8 million or 12.9% to reach KD 19124.2 million during 2012 against KD 16945.4 million during the previous year, and the growth in gross capital formation by KD 484.8 million or 6.7% to reach KD 7746.4 million during 2012 against KD 7261.6 million or 4.3% during the previous year.

Residents' expenditure on imports of goods and services at current prices increased to KD 11769 million during 2012 compared to KD 11010 million during the previous year, i.e. a rise of KD 759 million or 6.9%. Accordingly, the surplus of domestic resources or net exports, which represents the arithmetical difference between the value of exports and the value of imports of goods and services, recorded a growth of KD 4303 million or 21.4% to reach KD 24419 million during 2012 against KD 20116 million during 2011, which led to a rise in the ratio of that surplus to GDP at current prices to 47.6% against 45.4% during the mentioned years respectively.

Chart (2)
GDP at Current Prices by Type of Expenditure



In regard to the other principal aggregates of national income accounts (Table 4), net factor income from abroad (represented mainly in the net income accruing from Kuwaiti assets invested abroad) increased by KD 92 million or 3.6% reaching KD 2573 million during 2012, against KD 2481 million during 2011. Accordingly, GNP at current prices (representing the sum of GDP and net factor income from abroad) recorded a rise of KD 7058.6 million or 15.1% to reach KD 53862.6 million during 2012, compared to KD 46804 million during the previous year.

Table (4)
Principal Aggregates of National Accounts at Current Prices
(KD Million)

Items	2010	2011 *	2012 **
1- GDP	**34369.2**	**44323**	**51289.6**
Change (%)	12.7	29.0	15.7
2- Net-Factor Income from Abroad	**2700.0**	**2481.0**	**2573.0**
Change (%)	35.4	-8.1	3.7
3- GNP (1+2)	**37069.2**	**46804.0**	**53862.6**
Change (%)	14.1	26.3	15.1
4- Depreciation of Fixed Capital	**2603.3**	**2813.8**	**2930.1**
5- National Income at Market Prices (3-4)	**34465.9**	**43990.2**	**50932.5**
Change (%)	14.7	27.6	15.8
6- Net Current Transfers	**-3741.0**	**-4063.0**	**-4820.0**
Change (%)	0.0	8.6	18.6
7- National Disposable Income (5+6)	**30724.9**	**39927.2**	**46112.5**
Change (%)	16.8	30.0	15.5
8- Final Consumption Expenditure	**15391.1**	**16945.4**	**19124.2**
Change (%)	-2.9	10.1	12.9
9- Net Savings (7-8)	**15333.8**	**22981.8**	**26988.3**
Change (%)	46.7	49.9	17.4
10- Net Capital Formation	**4360.8**	**4447.8**	**4816.3**
Change (%)	43.6	2.0	8.3
11- Surplus from Current Transactions (9-10)	**10973.0**	**18534.0**	**22172.0**
Change (%)	47.9	68.9	19.6

Source: Central Statistics Office.
* Revised data.
** Provisional data.

In the same direction, Gross National Income (GNI), which represents GNP minus allocations for depreciation of fixed capital, increased by KD 6942.3 or 15.8% to reach

KD 50932.5 million during 2012 compared to KD 43990.2 million during 2011. As a result of this growth in GNI on the one hand and the rise by 18.6% in net current transfers abroad on the other, National Disposable Income increased during 2012 by KD 6185.3 million or 15.5% to KD 46112.5 million against KD 39927.2 million during 2011. This, along with a rise in the population as will be explained later, led to a rise in the per-capita National Disposable Income at current prices by KD 1119.4 or 10.2% to KD 12112.6 during 2012, compared to KD 10993.2 during the previous year.

On another front, available data indicate that Net Savings (representing the difference between National Disposable Income and Final Consumption expenditure) increased by KD 4006.5 million or 17.4% to reach KD 26988.3 million during 2012. As a result, the ratio of Net Savings to National Disposable Income increased to 58.5% during 2012 compared to 57.6% during 2011. As an outcome of this growth in Net Savings and in Net Capital Formation by 8.3%, the surplus from current transactions abroad (also known as surplus in national resources) increased by KD 3638 million or 19.6% during 2012 to reach KD 22172 million, compared to KD 18534 million during the previous year.

Available statistics indicate that GDP at constant prices increased during 2012 to reach KD 41025 million, against KD 37878.3 million for the previous year, i.e. an increase of KD 3146.7 million or 8.3% compared to a growth of KD 3509.1 million or 10.2% during the previous year. The largest portion of this increase reflects the rise of the value added at constant prices in crude oil and natural gas production sector by KD 2664 million or 11.9% reaching KD 25083.5 million during 2012 against KD 22419.5 million in the previous year. As a result, the relative share of the value added from that sector increased to 61.1% of the GDP at constant prices during 2012 against 59.2% for the previous year.

Realized growth in the value added at constant prices by the total oil sectors reflects the rise in the value added by the sector of crude oil production and natural gas which grew by KD 2458.1 million or 11.6% to KD 23690.7 million during 2012, causing an increase in sector's relative share in GDP at constant prices from 65.1 % during 2011 to 57.7% during 2012, and an increase in the value added at constant prices by refined petroleum products industry of KD 205.9 million or 17.3% to KD 1392.8 million during 2012 against KD 1186.9 million during 2011.

On another front, the value added at constant prices of the total non-oil sectors increased to reach KD 17634.9 million during 2012, against KD 16958 million during 2011, i.e. an increase of KD 676.9 million or 4% after realizing an increase of KD 536.6 million or 3.3% during the previous year. The relative share of the value added of the total non-oil sectors in GDP at constant prices was 43% in 2012, against 44.8% in 2011. The following table shows developments in GDP at constant prices for oil and non-oil sectors during 2010 – 2012.

Table (5-A)
GDP at Constant Prices According to Oil and Non-Oil Sectors
(2010=100)
(KD Million)

Item	2010	2011	2012*
Crude Oil and Natural Gas Sector	**18406.5**	**21232.6**	**23690.7**
Change (%)		15.4	11.6
To GDP (%)	53.6	56.1	57.7
Refined Petroleum Products Industry	**1094.6**	**1186.9**	**1392.8**
Change (%)		8.4	17.3
To GDP (%)	3.2	3.1	3.4
Total Oil Sectors	**19501.1**	**22419.5**	**25083.5**
Change (%)		15.0	11.9
To GDP (%)	56.7	59.2	61.1
Total Non-oil Sectors	**16421.3**	**16958.0**	**17634.9**
Change (%)		3.3	4.0
To GDP (%)	47.8	44.8	43.0
GDP at Product's Value	**35922.4**	**39377.5**	**42718.4**
Change (%)		**9.6**	**8.5**
Imputed Banking & Insurance Services	**-1764.7**	**-1711.9**	**-1885.4**
Change (%)		**-3.0**	**10.1**
Imports Duties	**211.5**	**212.7**	**192**
Change (%)		0.6	-9.7
GDP at Purchaser's Value	**34369.2**	**37878.3**	**41025.0**
Change (%)		10.2	8.3

Source: Central Statistics Office.
* Provisional data.

The developments in the economic performance of the main oil and non-oil sectors during 2012 compared with the previous year, are addressed in some detail as follows:

Data in (Tables 5-B and 5-C) indicate that community services and social & personal services ranked first among activities of non-oil sectors, with a relative share of 35.2% in non-oil GDP during 2012 against 35.9% during 2011. In the same context, data indicate that the value added at constant prices by community services and social & personal services grew by KD 112.9 million or 1.9% to KD 6202.6 million during 2012. Finance, real estate and business services ranked second in non-oil activities with a relative share in non-oil GDP at constant prices reaching 26.8% during 2011 and 2012. Data also indicate that value added by finance, real estate and business services grew by KD 179.2 million or 3.9% to KD 4726.8 million during 2012 compared to KD 4547.6 million during 2011.

Table (5-B)
Non-Oil GDP by Economic Activity Divisions
(2010=100) (KD Million)

Item	2010	2011	2012*
Agriculture, Livestock, and Fishing	80.0	124.2	125.5
Mining and Quarrying	77.4	81.9	80.6
Non-oil Manufacturing Industries	838.5	1002.2	1242.2
Electricity, Gas and Water	510.1	579.7	568.7
Construction	730.3	738.3	749.8
Wholesale & Retail Trade, Hotels & Restaurants	1545.9	1540.7	1565.4
Transport, Storage and Communication	2405.6	2253.7	2373.3
Finance, Real Estate and Business Services:	4649.5	4547.6	4726.8
- Financial Institutions	3002.7	2780.6	2981.8
- Insurance	89.5	96.6	101.1
- Real Estate	1155.8	1212.4	1215.2
- Business Services	401.5	458.0	428.7
Community, Social & Personal Services	5584.0	6089.7	6202.6
Non-Oil GDP	**16421.3**	**16958**	**17634.9**

* Provisional data.
Source: Central Statistics Office.

On another front, value added by the transportation, storage and communication activity grew by KD 119.6 million or 5.3% with a value added reaching KD 2373.3 million during 2012. Value added by this activity accounted for 13.5% of non-oil GDP in 2012 compared to 13.3% in 2011. Value added at constant prices by manufacturing industries (excluding refined petroleum products industry) was KD 1242.2 million during 2012 compared to KD 1002.2 million during 2011, i.e. an increase of KD 240 million or 23.9%.

Table (5-C)
Relative Share and Growth Rates of Non-Oil GDP
by Economic Activity Divisions
(%) **(2010=100)** (KD Million)

Item	2010		2011		2012*	
	Relative share	Growth Rate	Relative share	Growth Rate	Relative share	Growth Rate
Agriculture, Livestock, and Fishing	0.5		0.7	55.3	0.7	1.0
Mining and Quarrying	0.5		0.5	5.8	0.5	-1.6
Manufacturing Industries	5.1		5.9	19.5	7.0	23.9
Electricity, Gas and Water	3.1		3.4	13.6	3.2	-1.9
Construction	4.4		4.4	1.1	4.3	1.6
Wholesale & Retail Trade, Hotels & Restaurants	9.4		9.1	-0.3	8.9	1.6
Transport, Storage and Communication	14.6		13.3	-6.3	13.5	5.3
Finance, Real Estate and Business Services:	28.3		26.8	-2.2	26.8	3.9
- Financial Institutions	18.3		16.4	-7.4	16.9	7.2
- Insurance	0.5		0.6	7.9	0.6	4.7
- Real Estate	7.0		7.1	4.9	6.9	0.2
- Business Services	2.4		2.7	14.1	2.4	-6.4
Community, Social & Personal Services,	34.0		35.9	9.1	35.2	1.9
Non-Oil GDP	**100.0**		**100.0**	**3.3**	**100.0**	**4.0**

* Provisional data
Source: Central Statistics Office.

In respect of expenditure on GDP at constant prices (Table 5-D), available data indicate that the earlier mentioned growth in GDP during 2012 compared with 2011, was boosted by the rise in expenditure of the outside world on that GDP (exports of goods and services) of KD 1814 million or 7.3% to reach KD 26834.2 million during 2012 compared to KD 25020.2 million during 2011. Net residents expenditure (consumption and investment expenditure less imports of goods and services) on GDP increased by KD 1332.7 million or 10.4% to reach KD 14190.8 million, against KD 12858.1 million during the two mentioned years respectively.

On the total residents expenditure side, data indicate that (consumption and investment) representing residents total expenditure on GDP and imports of goods and services reached KD 25252.5 million during 2012, surging by KD 1834.5 million or 7.8% compared to a growth of KD 1062.8 million or 4.8% during 2011. This growth in this item resulted from the rise in final government / private consumption expenditure of KD 1600.5 million or 9.9% to reach KD 17817.1 million during 2012 against KD 16216.6 million during 2011, and the rise in gross capital formation of KD 234 million or 3.2% to reach KD 7435.4 million during 2012 against KD 273.3 million or 3.4% during 2011.

Residents' expenditure on imports of goods and services at constant prices increased to KD 11061.7 million during 2012 compared to KD 10559.9 million during 2011, i.e. a growth of KD 501.8 million or 4.8%. Consequently, domestic resources surplus or net exports, which represents the arithmetical difference between the value of exports and the value of imports of goods and services, grew by KD 1312.2 million or 9.1% to KD 15772.5 million during 2012 against KD 14460.3 million during 2011, causing an increase in the ratio of the GDP surplus at constant prices to 38.4% against 38.2% during the two mentioned years respectively.

Table (5-D)
Expenditure on GDP at Constant Prices
(2010=100) (KD Million)

Item	2010	2011	2012 *
(1) Final Consumption	**15391.1**	**16216.6**	**17817.1**
Change (%)	-2.9	5.4	9.9
to Residents Expenditure (%)	68.8	69.2	70.6
to GDP (%)	44.8	42.8	43.4
- Government Consumption	**5946.6**	**6380.1**	**7334.3**
Change (%)	5.5	7.3	15.0
to Final Consumption (%)	38.6	39.3	41.2
to Residents Expenditure (%)	26.6	27.2	29.0
- Private Consumption	**9444.5**	**9836.5**	**10482.8**
Change (%)	-7.6	4.2	6.6
to Final Consumption (%)	61.4	60.7	58.8
to Residents Expenditure (%)	42.2	42.0	41.5
(2) Gross Capital Formation	**6964.1**	**7201.4**	**7435.4**
Change (%)	27.1	3.4	3.2
to Residents Expenditure (%)	31.2	30.8	29.4
to GDP (%)	20.3	19.0	18.1
(3) Total Expenditures by Residents (1 + 2)	**22355.2**	**23418.0**	**25252.5**
Change (%)	4.8	4.8	7.8
to GDP (%)	65.0	68.1	73.5
(4) Exports of goods and services	**22055.0**	**25020.2**	**26834.2**
Change (%)	21.7	13.4	7.3
to GDP (%)	64.2	72.8	78.1
(5) Imports of Goods and Services	**10041.0**	**10559.9**	**11061.7**
Change (%)	12.1	5.2	4.8
to Residents Expenditure (%)	44.9	45.1	43.8
(6) GDP (3 + 4 - 5)	**34369.2**	**37878.3**	**41025.0**
Change (%)	12.7	10.2	8.3
(7) Domestic Resources Surplus (6-3)	**12014.0**	**14460.3**	**15772.5**
Change (%)	31.1	20.4	9.1
to GDP (%)	35.0	38.2	38.4

*Revised data.
Source: Central Statistics Office.

A- Oil Sectors:

Value added by the oil sectors (crude oil and natural gas production and the refined petroleum products industry) at current prices witnessed a growth during 2012 to reach KD 33526.5 million against KD 28099.5 million during 2011, i.e. an increase of KD 5427 million or 19.3%. This growth reflects the rise in both prices and production quantities. Data provided by the Organization of Petroleum Exporting Countries (OPEC) indicate a slight increase in the average spot price of the OPEC Reference Basket (ORB) to reach $109.45 per barrel during 2012 compared to $107.46 per barrel during 2011, i.e. a rise of $1.99 or 2%. The average price of the Kuwaiti exported crude oil barrel recorded a growth of $4.6 per barrel or 4.6% during 2012 to reach $106.6 per barrel, compared to $101.96 per barrel on average during the previous year. Prices of refined petroleum products witnessed a slight increase wherein the weighted average price of exported barrel equivalent of Kuwaiti refined petroleum products increased from $114.15 during 2011 to $115.2 per barrel on average during 2012, i.e. a rise of $1.07 or 1%. The weighted average price of exported barrel equivalent of Kuwaiti natural liquefied gas products (Propane and Butane) recorded a rise of $5.7 or 7.9% to reach $77.51 during 2012 compared to $71.85 during the previous year.

Regarding the quantities of exported Kuwaiti oil (crude oil, refined petroleum products and liquefied gas), available data indicate a significant rise in the total of these quantities from 2.567 million b/d on average during 2011 to 2.879 million during 2012, i.e. an increase of 0.312 million or 12%.

Within the decisions made by OPEC during its meetings in 2012, member states decided to fix the ceiling of oil production at 30 million barrels daily during that year, despite the availability of a surplus that exceeded 1 million barrels daily, whereby the average production of OPEC member states reached 31.6 million barrels daily.

As for the main developments in the oil sector during 2012, the State of Kuwait aims to develop the oil and gas production processes in accordance with a long-term strategic plan by which its implementation is expected to increase oil production from the current

3 million barrels to 4 million b/d by 2020. This increase in production will rely on the implementation of a series of major capital projects, mainly the projects of the Kuwait Gulf Oil Company (KGOC) which will implement major capital projects worth KD 5 billion during the next five years. The most important of these projects is the drilling of exploratory and deterministic wells in Al Dorra field subject to Al Khafji Joint Operations (KJO), the establishment of water injection facilities in Al Khafji field (Al Ratawi), the water treatment facilities (Stage 3), and the associated gas facilities in Al Hout field. Furthermore, KGOC seeks to build gas transmission pipelines from KJO to Mina Al-Ahmadi refinery at Kuwait National Petroleum Company (KNPC), and to build stations for removing sour gas from Al Dorra gas, and to execute the surface facilities for Al Dorra field.

As for the projects of Al Wafra Joint Operations (WJO), they included the development of the Hamma field, the expansion of the main assembly center of heavy oil, and the renovation of facilities of the sub-assembly centers. Moreover, these operations include the execution of a three-dimensional seismic survey as well as a magnetic and gravity survey, preparing for the testing of the Balezwik layer, drilling, deepening and mastering the horizontal path, completing and equipping wells in the Wafra field, as well as the experimental Eocene second project for water injection.

Kuwaiti natural gas reserves are estimated at about 63 trillion cubic feet, and the Kuwait Oil Company (KOC) seeks to implement a plan to increase the production capacity of the free gas by 1.5 billion cubic feet daily by 2030, whereby the second phase of the free gas development project has been signed, and at this particular stage gas production will reach around 600 million cubic feet daily in 2013. The State of Kuwait also plans to increase its production capacity of free gas to 2.5 billion cubic feet daily by 2030.

As for short-term gas projects, the KOC is expanding the gas pipeline from Al Wafra to the West of Kuwait to transfer the surplus gas to the KOC. As for the long-term, the WJO will implement the project of the central unit of gas utilization where the associated gas is collected for the production centers and processed at the Central Processing Unit (CPU). The project is expected to be completed in 2017. It is worth noting that around 2.3 billion cubic feet of associated gas is produced in the divided marine zone, and Kuwait's share of that associated gas is 1.150 billion cubic feet, part of which is used in the production processes in Al Khafji as a fuel source and an oil lifting through gas.

The KOC is also utilizing and developing gas by intensifying the processes of exploring, developing and producing the non-associated gas, and making the maximum use of the associated gas as to reach a burning ratio of 1% by 2015. The company is also developing Al Lolo field, as well as the surface facilities for Al Dorra field, establishing a station for removing sour gas from Al Dorra gas, and modifying models of reservoir management to increase the production rates and escalate the effectiveness of the onshore and offshore exploration and reduce oil migration process.

Within the context of strengthening refining and petrochemical activities inside and outside the State of Kuwait, Kuwait Petroleum Company (KPC) seeks to implement the clean fuel project, which will double the production capacity of the three existing refineries, in addition to the refinery that is planned to be built in Al-Zour, generating a production capacity of 1.4 million b/d. The KPC's clean fuel project depends on merging and updating Mina Abdullah's refinery with a production capacity of 270 thousand b/d and Mina Al-Ahmadi refinery with a production capacity of 466 thousand b/d, as well as closing the Shuaiba refinery with a production capacity of 200 thousand b/d. The merging of refineries, hence, will generate a production capacity of 800 thousand b/d. Meanwhile, the production capacity of the new refinery at Al-Zour will reach 615 thousand b/d.

As for the enhancement of the refining and petrochemical activities outside the State of Kuwait, Kuwait Petroleum International and partners (KPI) has signed the engineering, supply and construction contract with an international consortium for a complex that includes an oil refinery and a petrochemical complex in Vietnam for $9 billion. The production processes will be commissioned in 2017 with a total refining capacity of 200 thousand b/d. As for the State of Kuwait's investments in China, and with regards to the plan of building a refinery and petrochemical complex in Guangdong province with a refining capacity of 300 thousand b/d. The KPI seeks to move forward in the projects with the Chinese partners and the foreign partner represented in the French company 'Total' to reach an agreement with the Chinese side regarding the project.

The Kuwait Oil Tanker Company (KOTC) received the crude oil tanker "Bahra" from the Daewoo Shipbuilding & Marine Engineering Co. Ltd. (DSME) in Korea in February 2012. This tanker has been designed according to the latest technical specifications and conforms to the emerging environmental requirements and standards, which enhances the ability to efficiently export Kuwaiti oil to various countries around the world. By receiving "Bahra", KOTC completes the second phase of renewing its fleet within a strategy of three phases starting in 2003.

B- Non-Oil Sectors:

Value added by the non-oil sectors at current prices (excluding the refined petroleum products industry) witnessed a growth of KD 1752.4 million or 9.9% to KD 19514.2 million, compared with a growth of KD 1340.5 million or 8.2% during 2011. The relative share of the non-oil sectors (excluding the refined petroleum products industry) to GDP reached 38% during 2012 against 40.1% in 2011. Table (6) shows the development of GDP at current prices by divisions of economic activity during the last three years (2010-2012). Table (7) presents the development of growth rates and relative distribution of GDP at current prices by divisions of economic activity over the last three years (2010-2012).

The table's data indicate that 'Community, Social & Personal Services' maintained its lead among non-oil sectors with the highest contribution to the non-oil GDP, which reached 37.8% during 2012 against 36.4% during the previous year. Within the same context, available data indicate that value added by this sector increased by KD 900.7 million or 13.9% to reach KD 7373.4 million during 2012 compared with a growth of

KD 888.7 million or 15.9% during 2011. This growth contributed 51.4% of the increase in the value added by the total non-oil activities during 2012. It is noticed that all the sub-sections of the 'Community, Social & Personal Services' sector realized growth in their value added during 2012 compared with their levels during the previous year (Table 6).

The 'Finance, Real estate and Business Services' sector came in second considering the relative contribution reaching 25.7% of the non-oil GDP at current prices during 2012, against 26.5% during the previous year. Data also indicate that the activity of 'Finance, 'Real estate and Business Services' recorded a growth in its value added of KD 299.9 million or 6.4% to reach KD 5009.2 million during 2012, compared to KD 4709.3 million during the previous year. That development primarily reflects the growth in the value added by the financial institutions by KD 233.6 million or 8.2% during 2012 to reach KD 3092.4 million against KD 2858.8 million in 2011, and the growth in insurance activity by KD 5.5 million or 5.5% during 2012.

Table (6)
Non-Oil GDP at Current Prices by Division of Economic Activity
(KD Million)

Item	2010	2011*	2012**
Agriculture, Livestock, and Fishing	80.0	136.9	145.4
Mining and Quarrying	77.4	88.7	90.8
Non-oil Manufacturing Industries	838.4	1057.1	1350.0
Electricity, Gas and Water	510.1	609.8	622.3
Construction	730.3	772.9	810.5
Wholesale & Retail Trade, Hotels & Restaurants	1545.9	1605.8	1691.0
Transport, Storage and Communication	2405.6	2308.6	2421.6
Finance, Real Estate and Business Services	4649.8	4709.3	5009.2
- Financial Institutions	3002.7	2858.8	3092.4
- Insurance	89.5	99.3	104.8
- Real Estate	1155.8	1265.6	1300.8
- Business Services	401.5	485.6	511.2
Community, Social & Personal Services	5584.0	6472.7	7373.4
Non-Oil GDP	**16421.3**	**17761.8**	**19514.2**

Source: Central Statistics Office.
* Revised data.
** Provisional data.

Table (5-C)
Relative Share and Growth Rates of Non-Oil GDP
by Economic Activity Divisions
(%) **(2010=100)** (KD Million)

Item	2010		2011		2012*	
	Relative share	**Growth Rate**	**Relative share**	**Growth Rate**	**Relative share**	**Growth Rate**
Agriculture, Livestock, and Fishing	0.5		0.7	55.3	0.7	1.0
Mining and Quarrying	0.5		0.5	5.8	0.5	-1.6
Manufacturing Industries	5.1		5.9	19.5	7.0	23.9
Electricity, Gas and Water	3.1		3.4	13.6	3.2	-1.9
Construction	4.4		4.4	1.1	4.3	1.6
Wholesale & Retail Trade, Hotels & Restaurants	9.4		9.1	-0.3	8.9	1.6
Transport, Storage and Communication	14.6		13.3	-6.3	13.5	5.3
Finance, Real Estate and Business Services:	28.3		26.8	-2.2	26.8	3.9
- Financial Institutions	18.3		16.4	-7.4	16.9	7.2
- Insurance	0.5		0.6	7.9	0.6	4.7
- Real Estate	7.0		7.1	4.9	6.9	0.2
- Business Services	2.4		2.7	14.1	2.4	-6.4
Community, Social & Personal Services,	34.0		35.9	9.1	35.2	1.9
Non-Oil GDP	**100.0**		**100.0**	**3.3**	**100.0**	**4.0**

Source: Central Statistics Office.
* Revised data.
** Provisional data.

On another front, value added by the 'Transportation, Storage and Communication' sector (including services related to transportation of passengers and goods by land, sea or air including activities related to freight and storage of goods, postal services and telecommunications) increased by KD 113 million or 4.9% reaching KD 2421.6 million during 2012 compared to a decline of KD 97 million or 4% in 2011. Value added by that sector accounted for 12.4% of the non-oil GDP during 2012 compared to 13% during the previous year.

Available data indicate that the value added by 'Wholesale & Retail trade, Hotels & Restaurants' recorded a growth of KD 85.2 million or 5.3% to reach KD 1691 million during 2012, against KD 1605.8 million and a growth rate of 3.9% during 2011. Considering the increase in the value added of that sector by a lower rate than the growth rate of the total non-oil sectors, the relative share of the value added by the ‘Wholesale & Retail trade, Hotels & Restaurants’ declined from 9% of the non-oil GDP during 2011 to 8.7% in 2012.

Value added by ‘Manufacturing Industries’ (excluding refined petroleum products industries) reached KD 1350 million in 2012 against KD 1057.1 million during 2011, i.e. a growth of KD 292.9 million or 27.7% compared to a growth of KD 218.6 million or 26.1% during the previous year.

‘Construction’ (includes works and activities of public and private institutions and establishments in the various construction and contracting fields such as constructing roads and pavements, bridges, building water and sanitation networks, installation and repair of electricity and telephone lines, and other similar works including restoration works) recorded a rise in the value added of KD 37.6 million or 4.9% to reach KD 810.5 million in 2012 compared to KD 772.9 million and a growth of KD 42.6 million or 5.8% during 2011. Value added by this sector constituted 4.2% of the non-oil GDP in 2012, against 4.4% during the previous year.

Table (7)
Relative Share and Growth Rates of GDP (Non-Oil)
by Division of Economic Activity
(%)

Item	2010		2011*		2012**	
	Relative share	Growth Rate	Relative share	Growth Rate	Relative share	Growth Rate
Agriculture, Livestock, and Fishing	0.5	0.0	0.8	71.1	0.7	6.2
Mining and Quarrying	0.5	14.2	0.5	14.6	0.5	2.4
Manufacturing Industries	5.1	11.5	6.0	26.1	6.9	27.7
Electricity, Gas and Water	3.1	18.1	3.4	19.5	3.2	2.0
Construction	4.4	25.3	4.4	5.8	4.2	4.9
Wholesale & Retail Trade, Hotels & Restaurants	9.4	9.4	9.0	3.9	8.7	5.3
Transport, Storage and Communication	14.6	-12.2	13.0	-4.0	12.4	4.9
Finance, Real Estate and Business Services:	28.3	-8.1	26.5	1.3	25.7	6.4
- Financial Institutions	18.3	-10.4	16.1	-4.8	15.8	8.2
- Insurance	0.5	-25.4	0.6	10.9	0.5	5.5
- Real Estate	7.0	-4.4	7.1	9.5	6.7	2.8
- Business Services	2.4	6.0	2.7	20.9	2.6	5.3
Community, Social & Personal Services,	34.0	9.7	36.4	15.9	37.8	13.9
GDP at Purchaser's Value	**100.0**	**1.2**	**100.0**	**8.2**	**100.0**	**9.9**

Source: Central Statistics Office.
* Revised data.
** Provisional data.

Moreover, value added by the Real estate sector (including buying, selling, and renting of real estate for various purposes, and the entities concerned with buying, selling and apportioning land) witnessed a slight growth of KD 35.2 million or 2.8% during 2012 to reach KD 1300.8 million, against KD 1265.6 million during 2011 compared to KD 109.8 million or 9.5% during 2010. Accordingly, the relative share to the non-oil GDP of that sector reached 6.7% during 2012, against 7.1% during 2011.

Data indicate that the 'Water, Gas and Electricity' sector witnessed an increase in its value added during 2012 to reach KD 622.3 million with an increase of KD 12.5 million or 2% compared to KD 609.8 million, and a growth of KD 99.7 million or 19.5% during the previous year. Furthermore, the 'Agriculture, Livestock, and Fishing' sector recorded an increase in its value added from KD 136.9 million during 2011 to KD 145.4 million

2012, i.e. an increase of KD 8.5 million or 6.2%. Other activities related to Mining and Quarrying witnessed an increase of KD 2.1 million or 2.4% reaching the value added of KD 90.8 million during 2012, against KD 88.7 million during the previous year.

Second- General Level of Domestic Prices [(1)]:

Developments related to the general level of domestic prices are among the key indicators that can reveal important aspects of economic performance. These developments also reflect their effects on the purchasing power of money and the real incomes of individuals as well as the interest rates, and therefore, the pattern of allocation of available domestic resources to consumption, saving and investment.

1- General Index of Consumer Prices:

The general index of consumer prices is used as an indicator of inflation in the local economy, as the changes in this index over time reflect the changes in the average price (cost) of a selected basket of goods and services that consumers buy in the State of Kuwait. The contents of the basket are weighted by weights that represent the pattern of consumer spending based on the results of the surveys of income and household expenditure conducted for this purpose. The basket of goods and services used to calculate the general index of consumer prices includes groups of goods and services that are considered the main items of the final consumption expenditure by households. These are: food, beverages and tobacco, clothing and footwear, housing services, household goods and services, transport and communication, education and medical care, and other goods and services.

Table (8) shows the development of the general consumer price index (base year 2000=100) in the State of Kuwait according to the main groups of consumption

[1] The Central Statistical Office prepares the Consumer Price Index based on the results of research on household income and expenditure (household budget) addressing the pattern of household expenditure with more than 400 goods for 2000. The relative weights for the various components of CPI are accordingly updated, and the year 2000 is taken as the base year (2000=100) for constructing the CPI.

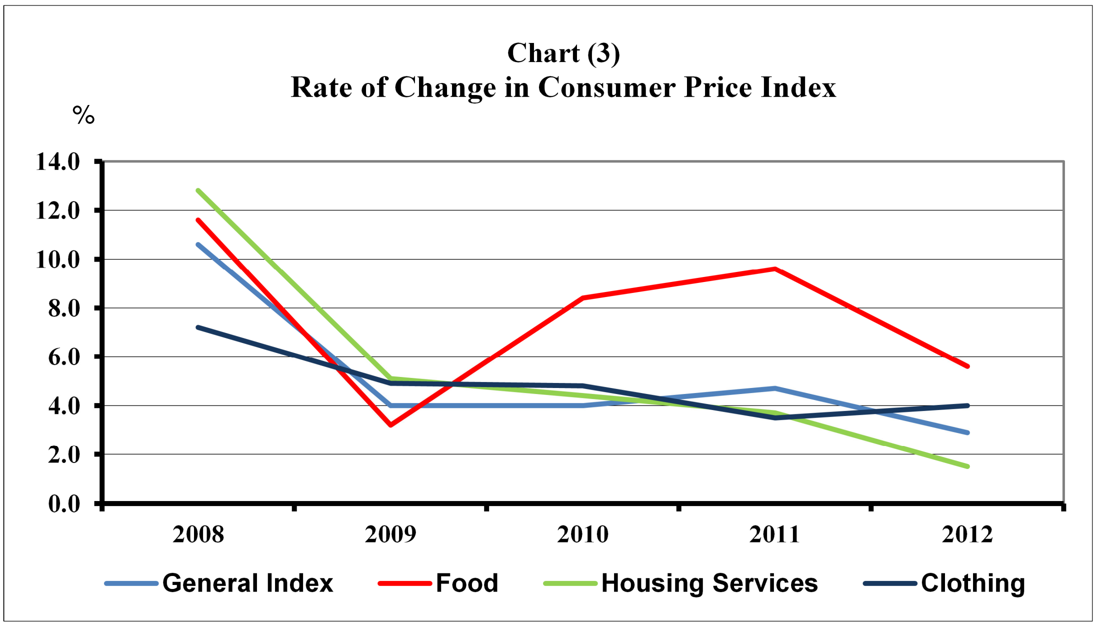
expenditure and durability of goods during the period of (2010-2012). Data presented in this table (including chart 3) indicate a deceleration in the annual inflation rate calculated on the basis of the relative change on average of the general consumer price index which reached 2.9% during 2012, against 4.8% during 2011 compared to 2010.

The developments in the components of the general consumer price index during 2012, compared to the previous year, reflect a deceleration in growth rate of most items of expenditure constituting that index, excluding 'Beverages and Tobacco' (relative weight 0.7%) which increased by 6.2%, 'Clothing and Footwear' (relative weight 8.9%) which increased by 3.9%, and 'Transport and Communication' (relative weight 16.1%) which increased by 2.3%. It may be noted that the largest portion (68.3%) of the mentioned annual inflation rate (2.9%) was concentrated in three main items which together made up 53.9% of the total relative share of all expenditure items that constitute the general consumer price index. 'Food' comes at the top of those three items (with a relative weight of 18.3% in the general consumer price index) with a decrease of 5.6% representing 42% of the change in the general consumer price index during 2012 compared to the previous year. 'Housing Services' (relative weight 26.7%) comes second with a decrease of 1.5% and a relative share of 13.6%, and 'Clothing and Footwear' (relative weight 8.9%) comes next with a decrease of 3.9% and a relative share of 12.7%.

Table (8)
Development of the General Consumer Price Index
(Base Year 2000 = 100)

Item	Relative Weights	2010	2011	2012	Change (%) 2011	Change (%) 2012	Relative Contribution in Price Index Change (%) 2011	Relative Contribution in Price Index Change (%) 2012
Consumer Price Index:	1000.00	141.4	148.2	152.5	4.8	2.9	100.0	100.0
1- By Items of Expenditure								
• Food	182.93	162.1	177.7	187.6	9.6	5.6	**42.4**	**42.0**
• Beverages and Tobacco	6.61	167.9	163.6	173.8	-2.6	6.2	-0.4	1.6
• Clothing and Footwear	88.57	151.7	157.0	163.2	3.5	3.9	7.0	12.7
• Housing Services	267.49	143.8	149.2	151.4	3.8	1.5	21.5	13.6
• Household Goods & Services	147.12	132.9	138.6	141.0	4.3	1.7	12.5	8.2
• Transport & Communication	161.38	113.4	115.8	118.5	2.1	2.3	5.8	10.1
• Education & Medical Care	46.77	155.0	161.1	165.0	3.9	2.4	4.2	4.2
• Other Goods & Services	99.13	137.9	142.7	146.0	3.5	2.3	7.1	7.6
2- By Durability of Goods								
• Durables	152.34	129.4	132.0	133.9	2.0	1.4	5.1	7.4
• Semi-durables	173.32	153.5	160.9	166.6	4.8	3.5	16.6	25.1
• Non-durables	240.70	137.0	149.1	155.1	8.8	4.0	37.8	36.7
• Services	433.64	137.7	144.4	147.2	5.2	1.9	40.5	30.9

Source: Central Statistics Office.



Statistics on consumer price index by durability of goods (Table 8) indicate that the above-mentioned deceleration (2.9%) in the consumer price index during 2012 compared to the previous year encompassed the general price level of all items constituting that index with varying rates. Around 36.7% of that rate was concentrated in the general price level of Non-durables (with a relative weight of 24.1%) which declined by 4% during 2012. The general price level of Services (relative weight 43.4%) came next decreasing by 1.9% during 2012, followed by Semi-durables (relative weight 17.3%) by 3.5%, and Durables (relative weight 15.2%) came in last by 1.4% during 2012 compared with the previous year.

2- General Wholesale Price Index:

The general wholesale price index measures the changes of wholesale prices in the domestic markets for domestically produced goods and imported goods, with relative weights that represent their relative importance in total wholesale transactions in the base year, which is useful for identifying the impact of domestic and external resources on inflationary trends in the domestic economy. It is also useful in measuring and analyzing the developments of consumer price index. Worth noting is the contrast in the components encompassed by general consumer price index and general wholesale price index. The former includes domestic services such as housing, education, health, transport and communication and other services, as well as consumer goods, while the latter does not include services but does include production goods (intermediate or capital) along with consumer goods.

Table (9) demonstrates the development of general wholesale price index (base year 2007=100) according to the **main items, end-use, and production stage** during the last three years (2010-2012) in the State of Kuwait. Data indicate a deceleration in the rate of change of the general wholesale price index by 2.1% during 2012 compared to 3.8% during 2011 compared to 2010.

The mentioned deceleration during 2012 compared to 2011 was the outcome of a decrease in the average prices of 'Agriculture, Livestock, and Fishing' (with a relative weight of 4.5% in the general wholesale price index) to 5.2% during 2012 compared to 4.1% during 2011, 'Manufacturing Industries' (relative weight 90%) to 2% during 2012 compared to 4% during 2011, and 'Mining and Quarrying' (relative weight 0.32%) to 0.3% during 2012 compared to 1.2% during 2011.

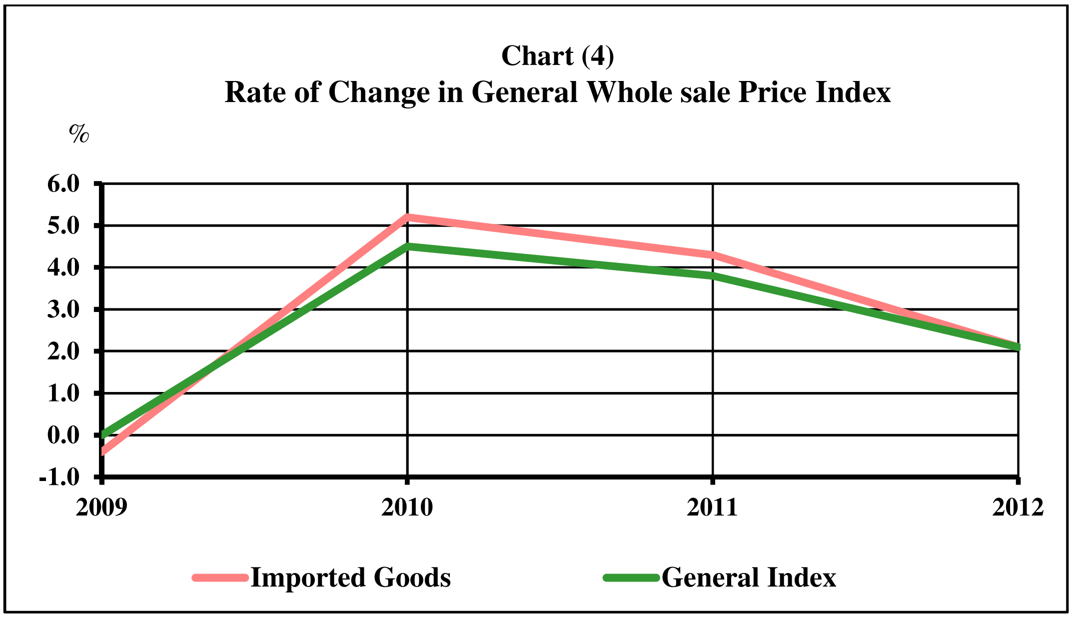
Table (9)
Development of the General Wholesale Price Index
(Base Year 2007 = 100)

Item	Relative Weights	2010	2011	2012	Change (%)	
					2011	2012
General Wholesale Price Index	**1000.00**	**111.4**	**115.7**	**118.1**	**3.8**	**2.1**
First: by Industrial Source (1+2):						
• Agriculture, Livestock, and Fishing	44.9	128.7	134.0	141.0	4.1	5.2
• Mining and Quarrying	3.2	114.8	116.2	116.6	1.2	0.3
• Manufacturing Industries	900.2	111.2	115.7	118.0	4.0	2.0
• Electricity, Gas and Water	51.7	100.0	100.0	100.0	0.0	0.0
1- Wholesale Price Index of Imported Goods:	644.3	112.6	117.4	119.8	4.3	2.1
• Agriculture, Livestock, and Fishing	34.0	127.9	133.5	138.3	4.3	3.7
• Mining and Quarrying	2.1	106.5	106.6	106.8	0.0	0.2
• Manufacturing Industries	608.2	111.7	116.5	118.9	4.3	2.0
2- Wholesale Price Index of Domestically Produced Goods	355.7	109.3	112.6	115.0	3.0	2.2
• Agriculture, Livestock, and Fishing	10.9	131.1	135.5	149.1	3.4	10.0
• Mining and Quarrying	1.1	130.7	134.5	135.3	2.0	0.5
• Manufacturing Industries	292.0	110.1	113.9	116.4	3.5	2.2
• Electricity, Gas and Water	51.7	100.0	100.0	100.0	0.0	0.0
Second: by End-Use:						
• Production Goods	480.5	112.8	117.5	120.5	4.2	2.6
• Consumable Goods	195.3	107.6	108.5	112.1	0.9	3.3
• Capital Goods	324.2	111.7	117.4	118.3	5.1	0.7
Third: by Production Stage:						
• Raw Materials	22.3	117.9	127.7	132.6	8.3	3.8
• Intermediate Goods	242.7	111.5	117.1	116.2	5.0	-0.8
• Finished Goods	735.0	111.2	114.9	118.3	3.3	3.0

Source: Central Statistics Office.

Analyzing the developments witnessed by wholesale prices indicate a deceleration of general wholesale price index of 'Imported Goods' (relative weight 64.4%) to 2.1%

during 2012 compared with the previous year, after reaching 4.3% during 2011 compared with 2010. The general wholesale price index of ‘Domestically Produced Goods’ (relative weight 35.6%) recorded a deceleration of 2.2% during 2012 compared with the previous year, after reaching 3% during 2011 compared with 2010.



In regards to general wholesale price index’s **end-use,** the rate of change in general wholesale price index of ‘Consumable Goods’ (relative weight 48.1%) reached 2.6% during 2012 after reaching 4.2% during 2011. The rate of change of ‘Production Goods’ decreased to 0.7% during 2012 against 5.1% during 2011. Meanwhile, the rate of change in general wholesale price index of ‘Capital Goods’ (relative weight 19.5%) recorded an increase of 3.3% during 2012 compared to 0.9% during 2011.

Available data indicate that the deceleration in the general wholesale price index’s **production stage** was the outcome of a deceleration in ‘Raw Materials’ from 8.3% during 2011 to 3.8% during 2012, and a deceleration in the rate of increase of ‘Finished Goods’ from 3.3% during 2011 to 3% during 2012, and the average rates of ‘Intermediate Goods’ from 5% during 2011 to -0.8% during 2012.

Third- Population and Labor Force:

The population and labor force statistics show the development of the demographic characteristics of the State of Kuwait's population, such as its composition by type, age, education and occupation, and the labor force whether Kuwaiti or non-Kuwaiti, along with the significant indicators related thereto, such as the growth rates of population and labor force, participation rates, unemployment rates, dependency ratios, etc.

In this regard, available data (Table 10 and Chart 5) indicate that the growth rate of total population of the State of Kuwait reached 3.4% during 2012 compared to 3.2 % during 2011, reaching a total population of 3.823 million at the end of 2012 against 3.697 million at the end of the previous year. The largest portion (76.9%) of this increase was the rise in non-Kuwaiti population reaching 2.611 million at the end of 2012, against 2.514 million or 3.9% at the end of 2011, against 3.3% during 2010. Growth in Kuwaiti population witnessed a deceleration, growing 2.5% during 2012 against 3% during 2011, reaching a total of 1.212 million at the end of 2012, against 1.183 million at the end of the previous year. As a result of this development, the share of Kuwaiti population declined to 31.7% of the total population, against 32% at the end of the previous year. Meanwhile, non-Kuwaiti population witnessed a slight increase to 68.3% of the total population at the end of 2012, against 68% at the end of the previous year.

Regarding developments in the population age structure and its reflections on the participation rates and dependency ratios, the mentioned total population growth in the State of Kuwait primarily reflects the growth (3.3%) in the number of economically active individuals - i.e. those aged between 15 and less than 60 years - which grew from 2.783 million at the end of 2011 to 2.875 million at the end of 2012. The population under the age of 15 increased by 789 thousand at the end of 2011 to 814 thousand or 3.2% at the end of 2012. This, in turn, led to a slight decline in the ratio of those economically active individuals to total population to 75.2% at the end of 2012, against 75.3% at the end of 2011.

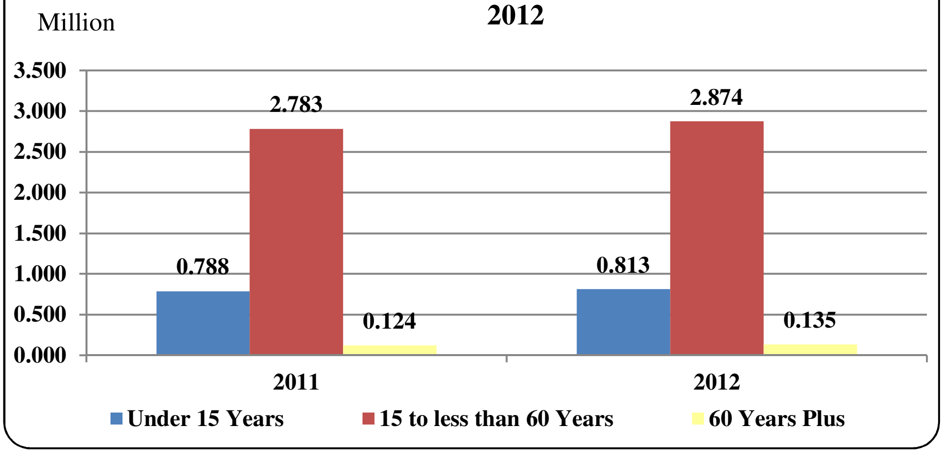
Table (10)
Development of Main Indicators of Population and Labor Force in the State of Kuwait
(End of Period)

Item	2008	2009	2010	2011	2012
First- Population:					
1- Kuwaitis:	**1087552**	**1118911**	**1148363**	**1183185**	**1212436**
Change (%)	3.1	2.9	2.6	3.0	2.5
To total (%)	31.6	32.1	32.1	32.0	31.7
2- Non-Kuwaitis:	**2354261**	**2365970**	**2433691**	**2514107**	**2611292**
Change (%)	0.4	0.5	2.9	3.3	3.9
To total (%)	68.4	67.9	67.9	68.0	68.3
3- Total Population (1+2):	**3441813**	**3484881**	**3582054**	**3697292**	**3823728**
Change (%)	1.2	1.3	2.8	3.2	3.4
Under 15 years (%)	21.0	21.3	21.2	21.3	21.3
15 to less than 60 years (%)	76.0	75.5	75.5	75.3	75.2
60 years plus (%)	3.1	3.2	3.3	3.4	3.5
Second- Labor Force:					
1- Kuwaitis	**336298**	**351452**	**365585**	**389746**	**399345**
Change (%)	3.7	4.5	4.0	6.6	2.5
To Total (%)	16.1	16.8	16.9	17.5	17.4
2- Non-Kuwaitis	**1751714**	**1741731**	**1792625**	**1837657**	**1896910**
Change (%)	-0.9	-0.6	2.9	2.5	3.2
To Total (%)	83.9	83.2	83.1	82.5	82.6
3- Total Labor Force (1+2):	**2088012**	**2093183**	**2158210**	**2227403**	**2296255**
Change (%)	-0.2	0.2	3.1	3.2	3.1
Third- Dependency Rates (Individuals / 1000 Labor Force):					
Kuwaitis	2234	2184	2141	2036	2036
Non-Kuwaitis	344	358	358	368	377
Total Population (1+2)	648	665	660	660	665

Source: Public Authority for Civil Information.

The ratios of the economically active individuals in non-Kuwaiti population increased by 3.3% during 2012, however the ratio of non-Kuwaiti population decreased to 83.4% of at the end of 2012, against 83.8% at the end of 2011. On another front, the number of economically active Kuwaiti individuals increased by 3.1% during 2012 reaching 57.5% of the Kuwaiti population at the end of 2012, against 57.1% at the end of 2011. The ratios of the population under the age of 15 in total population remained stable at 21.3% at the end of 2011 and 2012. The ratio of non-Kuwaiti population under the age of 15 increased by 6% during 2012, representing 13.9% of the total number of the non-Kuwaiti population, against 14% at the end of 2011. On another front, the rate of growth of Kuwaiti individuals under the age of 15 remained stable at 1% representing 37.1% of the total Kuwaiti population, against 37.7% at the end of the mentioned years respectively.

Chart (5)
Distribution of Population by Age Group at End of 2011 and 2012



In parallel with the increase in the number of economically active individuals, available data indicate that the growth of total labor force recorded a slight deceleration at the end of 2012 to reach 2.296 million or 3.1% compared to 2.227 million or 3.2% at the end of 2011. The deceleration in the growth of total labor force in the State of Kuwait is attributable to the deceleration in the Kuwaiti labor force to 2.5%, from 390 thousand at the end of 2011 to 399 thousand at the end of 2012. Meanwhile, the non-Kuwaiti labor force increased by 3.2% to 1.896 million at the end of 2012, compared to 1.838 million at the end of the previous year.

Regarding the crude participation rate in economic activity for the total population, which represents the ratio of labor force to population, available data indicate a slight decline from 60.2% at the end of 2011 to 60.1% at the end of 2012. This comes as an outcome of the decline in crude participation rate for non-Kuwaiti population from 73.1% at the end of 2011 to 72.6 % at the end of 2012. Meanwhile, the crude participation rate for Kuwaiti population remained stable at 32.9% at the end of the two years respectively.

In line with the above developments regarding the age distribution of population and the participation rates in economic activity, data indicate that the dependency ratio for the total population - which represent the ratio of individuals outside the labor force to the total labor force – slightly increased reaching 665 individuals for every 1000 individuals in the labor force at the end of 2012 compared to 660 individuals for every 1000 individuals in the labor force at the end of 2011. In particular, the dependency ratio for Kuwaiti population remained stable at 2036 individuals for every 1000 at the end of 2011 and 2012, while the dependency ratio of non-Kuwaiti population increased from 368 individuals for every 1000 individuals in the labor force at the end of 2011 to 377 for every 1000 individuals at the end of 2012.

In regard to the developments in labor force and its relation to the state of various economic activities, data on the relative distribution of labor force by division of economic activity (Table 11) indicate that the mentioned rise in total non-Kuwaiti labor force during 2012 is mainly attributable to the increase in the labor force engaged in activities connected to 'Community, Social & Personal Services' which increased from 763.9 thousand at the end of 2011 to 780.3 thousand at the end of 2012, i.e. a rise of 16.4 thousand or 2.1%. The 'Trade, Restaurants & Hotels' sector comes next wherein the non-Kuwaiti labor force increased from 331.2 thousand at the end of 2011 to 345.1 thousand at the end of 2012, i.e. an increase of 13.9 thousand and a growth rate of 4.2%.

The increase in the Kuwaiti labor force is mainly concentrated in activities connected to 'Community, Social & Personal Services' of those unqualified (without educational qualifications), whereby their numbers increased from 351.6 thousand at the end of 2011 to 366.1 thousand at the end of 2012, i.e. a growth of 4.1%. As for 'Trade, Restaurants & Hotels', the increase is concentrated in the numbers of non-Kuwaiti labor force of those without any educational qualifications, as their numbers rose from 112.9 thousand at the end of 2011 to 123.4 thousand at the end of 2012, i.e. a growth of 9.3%.

Meanwhile, the number of Kuwaiti labor force in activities connected to 'Community, Social & Personal Services' increased by 5.8 thousand or 2.1% to reach 276.4 thousand at the end of 2012 compared to 270.6 thousand at the end of 2011. Therefore, the ratio of Kuwaiti labor force to the total labor force in these activities slightly decreased to 12% at the end of 2012 compared to 12.2% at the end of 2011, the ratio of the Kuwaiti labor force in that sector to the total Kuwaiti labor force also decreased from 69.4% at the end of 2011 to 69.2% at the end of 2012.

Table (11)
Relative Distribution of Labor Force by Division of Economic Activity
(%)

Item	End of 2010			End of 2011			End of 2012		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
Agriculture & Fishing	0.1	2.1	1.8	0.1	2.3	1.9	0.1	2.0	1.6
Mining & Quarrying	1.3	0.1	0.3	1.3	0.1	0.3	1.3	0.1	0.3
Manufacturing Industries	2.5	6.0	5.4	2.3	6.1	5.5	2.4	6.1	5.5
Electricity, Gas & Water	3.1	0.1	0.6	3.4	0.1	0.7	3.5	0.1	0.7
Construction	2.5	9.1	8.0	2.8	9.6	8.4	2.9	9.8	8.7
Trade, Restaurants & Hotels	3.6	17.0	14.8	3.7	18.0	15.5	3.8	18.2	15.7
Transport, Storage & Communication	2.5	3.2	3.1	2.4	3.3	3.1	2.3	3.2	3.0
Finance, Insurance, Real Estate & Business Services	5.4	5.1	5.2	4.9	5.2	5.2	4.9	5.2	5.2
Community, Social & Personal Services	69.6	43.3	47.8	69.4	41.6	46.4	69.2	41.1	46.0
Unspecified	9.3	14	13.2	9.7	13.8	13.1	9.6	14.2	13.3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Public Authority for Civil Information.

Furthermore, the increase in the Kuwaiti labor force is concentrated in activities connected to 'Community, Social & Personal Services' of those holding intermediate qualifications (holders of General Secondary Certificate or under-graduate qualifications), whereby their numbers increased from 110.8 thousand at the end of 2011 to 116 thousand at the end of 2012, i.e. a growth of 4.7%. Consequently, its relative share to the total labor force increased from 5% at the end of 2011 to 5.1% at the end of 2012.

Data on the relative distribution of labor force by nationality, sector and educational qualification (Table 12) indicate that the mentioned growth in total labor force during 2012 was concentrated in the unqualified (without educational qualifications) labor force increasing its ratio to total labor force from 33.4% at the end of 2011 to 34.3% at the end of 2012. The numbers of those holding low qualifications (holders of educational qualifications below the General Secondary level: Preliminary or Intermediate levels) comes second as its ratio to total labor force increased from 29.1% at the end of 2011 to 29.2% at the end of 2012.

As for the relative distribution of labor force by sectors: government, private, household and unemployed (Table 12), available data indicate that the labor force in the private sector increased by 5.3% during 2012, increasing its relative share to total labor force from 53.3% at the end of 2011 to 54.4% at the end of 2012. This growth mainly reflects the rise in the ratio of unqualified (without educational qualification) labor force to the total labor force in that sector from 33.9% at the end of 2011, to 35.2% at the end of 2012, as well as an increase in low qualifications (holders of educational qualifications below the General Secondary level: Preliminary or Intermediate levels) from 29.2% at the end of 2011 to 29.5% at the end of 2012.

As for the growth rate of labor force in the government sector during 2012, it reached 2.1% compared to the previous year, slightly decreasing its relative share in the total labor force from 19.2% at the end of 2011 to 19% at the end of 2012. This growth also slightly increased the ratio of intermediate qualifications (holders of General Secondary Certificate or under-graduate qualifications) to total labor force in that sector from 37.8% at the end of 2011 to 38.5% at the end of 2012. Labor force in the household sector declined by 0.4%, decreasing from 25.5% of total labor force across the country at the end of 2011 to 24.6% at the end of 2012. As for the number of the unemployed, its relative share slightly decreased to reach 2% at the end of 2012 compared to 2.1% at the end of the previous year.

Data (Table 12) indicate that the growth in non-Kuwaiti labor force in total labor force according to educational qualification during 2012, was concentrated in the unqualified (without educational qualifications), increasing in its ratio to total labor force from 33.2% at the end of 2011 to 34.2% at the end of 2012.

The growth in non-Kuwaiti labor force constitute 86.1% of the increase in total labor force increasing by 3.2% at the end of 2012 compared with the previous year (from 1.838 million to 1.897 million). Thus, the relative share of total non-Kuwaiti labor force to total labor force slightly increased from 82.5% at the end of 2011 to 82.6% at the end of 2012. As for the relative distribution of non-Kuwaiti labor force by sectors: government, private, household and unemployed, available data (Table 12) indicate that the labor force in the private sector increased by 5.3% during 2012, increasing its relative share in total labor force from 49.7% at the end of 2011 to 50.8% at the end of 2012. On another front, the growth rate of non-Kuwaiti labor force recorded a deceleration in the government sector reaching 1.4% during 2012 compared to the previous year. This deceleration in growth lead to the decline of the relative share of non-Kuwaiti labor force in the government sector to total labor force from 5.9% at the end of 2011 to 5.8% 2012. The non-Kuwaiti labor force in the household sector declined by 0.4% to 24.6% of total labor force across the country at the end of 2012 compared to 25.5% at the end of 2011. The numbers of unemployed non-Kuwaitis declined by 1.2% reaching 1.4% of total labor force across the country at the end of 2012 compared to 1.5% at the end of 2011.

Table (12)
Relative Distribution of Labor Force
by Nationality, Sector and Educational Qualification (%)
(End of Period)

Sector	None	Low*	Inter-mediate**	High	Not Stated	Total (%)
Government Sector						
2010	5.7	27.1	37.8	26	3.4	18.5
Kuwaiti	0.8	21.6	30.0	17.2	0.7	12.9
Non-Kuwaiti	4.9	5.5	7.9	8.9	2.8	5.5
2011	5.2	26.9	38.1	26.1	3.8	18.9
Kuwaiti	0.3	21.4	30.2	17.3	1.1	14.2
Non-Kuwaiti	4.8	5.4	7.8	8.8	2.7	5.9
2012	5.7	26.6	38.5	25.5	3.8	19.0
Kuwaiti	0.3	20.8	30.7	16.8	1.1	13.3
Non-Kuwaiti	5.4	5.7	7.8	8.7	2.7	5.8
Private Sector						
2010	32.7	28.9	18.8	6.0	13.6	52.6
Kuwaiti	0.4	2.9	2.3	0.7	0.2	3.4
Non-Kuwaiti	32.4	26.0	16.4	5.3	13.4	49.2
2011	33.9	29.3	18.1	5.9	12.8	53.1
Kuwaiti	0.2	3.0	2.3	0.7	0.4	3.5
Non-Kuwaiti	33.7	26.2	15.8	5.2	12.4	49.7
2012	35.2	29.5	17.5	5.7	12.0	54.4
Kuwaiti	0.2	3.1	2.3	0.7	0.5	3.6
Non-Kuwaiti	35.1	26.4	15.2	5.1	11.6	50.8
Household Sector						
2010	51.8	30.5	3.9	0.1	13.6	26.4
Kuwaiti	-	-	-	-	-	4.6
Non-Kuwaiti	51.8	30.5	3.9	0.1	13.6	26.4
2011	54.0	30.3	3.8	0.1	11.8	25.5
Kuwaiti	-	-	-	-	-	-
Non-Kuwaiti	54.0	30.3	3.8	0.1	11.8	25.5
2012	55.3	30.4	3.7	0.1	10.4	24.6
Kuwaiti	-	-	-	-	-	-
Non-Kuwaiti	55.3	30.4	3.7	0.1	10.4	24.6

Source: Public Authority for Civil Information.

* Holders of educational qualifications below the General Secondary level (Preliminary or Intermediate levels).

** Holders of General Secondary Certificate or under-graduate qualifications.

Table (12)
Relative Distribution of Labor Force
by Nationality, Sector and Educational Qualification (%)
(End of Period)

Sector	None	Low*	Inter-mediate**	High	Not Stated	Total (%)
Unemployed	25.3	31.6	29.9	6.7	6.5	2.1
2010	2.2	6.3	11.5	3.2	0.4	0.5
Kuwaiti	23.2	25.2	18.4	3.5	6.1	1.6
Non-Kuwaiti	23.1	29.5	26.3	6.2	14.9	2.1
2011	1.2	6.0	9.5	3.2	8.6	0.6
Kuwaiti	21.9	23.5	16.9	3.0	6.3	1.5
Non-Kuwaiti	23.3	29.6	26.2	6.5	14.4	2.0
2012	1.2	5.8	8.9	3.2	8.1	0.5
Kuwaiti	22.1	23.7	17.3	3.3	6.3	1.4
Non-Kuwaiti						
Total Labor Force						
2010	32.6	29.0	18.6	8.2	11.5	100.0
Kuwaiti	0.4	5.7	7.0	3.6	0.2	16.9
Non-Kuwaiti	32.2	23.4	11.6	4.6	11.3	83.1
2011	33.4	29.1	18.4	8.2	10.9	100.0
Kuwaiti	0.2	5.8	7.2	3.7	0.6	17.5
Non-Kuwaiti	33.2	23.3	11.3	4.5	10.3	82.5
2012	34.3	29.2	18.3	8.1	10.1	100.0
Kuwaiti	0.2	5.7	7.3	3.6	0.6	17.4
Non-Kuwaiti	34.2	23.4	11.0	4.5	9.5	82.6

Source: Public Authority for Civil Information.
* Holders of educational qualifications below the General Secondary level (Preliminary or Intermediate levels).
** Holders of General Secondary Certificate or under-graduate qualifications.

Data on the relative distribution of Kuwaiti labor force by educational qualification (Table 12) indicate that the growth in Kuwaiti labor force in total labor force according to educational qualification, during 2012, was concentrated in the intermediate qualifications (holders of General Secondary Certificate or undergraduate qualifications), increasing in total Kuwaiti labor force from 7.2% at the end of 2011 to 7.3% at the end of 2012. This was followed by low qualifications (holders of educational qualifications below the General Secondary level: Preliminary or Intermediate levels), decreasing in total Kuwaiti labor force from 5.8% to 5.7%, and finally high qualifications from 3.7% to 3.6% at the end of 2012 compared to 2011.

Regarding the relative distribution of Kuwaiti labor force by sectors: government, private, household and unemployed (Table 12), available data indicate that the number of labor force in the government sector decelerated reaching 2.4% during 2012. However, its relative importance to total labor force in the government sector remained stable at 13.3% at the end of 2011 and 2012. On another front, the ratio of labor force holding intermediate qualifications (holders of General Secondary Certificate or under graduate qualifications) increased from 29.8% at the end of 2011 to 30.7% at the end of 2012. In contrast, the ratio labor force holding low qualifications to total Kuwaiti labor force in government sector decreased from 21.1% at the end of 2011 to 20.8% at the end of 2012.

Data also indicate that Kuwaiti labor force in the private sector recorded an increase of 4.3% during 2012 compared with the previous year. Nevertheless, the relative share of the Kuwaiti labor force in the total labor force in the private sector remained stable at 3.6% during the reported years. The number of unemployed Kuwaitis decreased by 6.9% at the end of 2012 compared with the previous year, reaching a relative share of 0.5% of total labor force across the country at the end of 2012 compared to 0.6% at the end of 2011.

Monetary Developments and Activity of the Central Bank of Kuwait

Monetary Developments and Activity of the Central Bank of Kuwait

Introduction:

CBK continued its efforts during 2012 in the fields related to drawing and overseeing the domestic monetary, banking and financial markets in line with local economic developments on the one hand, and the latest economic developments at the global level on the other hand. In this regard, CBK is keen in its efforts to moderate any negative repercussions of the global economic and financial crisis on the Kuwaiti economy, resulting in positive growth rates for some monetary indicators during 2012 compared with the previous year.

In light of its continuous efforts towards strengthening a supportive atmosphere in the national economy and stimulate economic growth, CBK reduced discount rate by 50 basis points to reach 2% until the end of 2012. This comes as part of CBK's continuous follow-up of local and global economic, monetary and banking developments. This reduction in discount rate aims to provide a supportive atmosphere for growth in the non-oil sectors of the national economy by reducing the cost of credit.

Data on main monetary and banking aggregates of the State of Kuwait show a growth in balances of both utilized cash credit facilities extended by local banks to various economic sectors to reach 4.6% at the end of 2012 against 1.6% during 2011, and money supply in its broad definition (M2) to reach 7% at the end of 2012 compared to a growth of 10.2% during 2011. Furthermore, developments in resident private sector deposits at local banks indicate a growth in these balances compared to their level during the previous year, where it increased by 6.8% at the end of 2012 compared to 9.8% at the end of 2011.

As for the developments of the Kuwaiti dinar exchange rate during 2012, CBK continued maintaining the relative satiability of KD exchange rate against the tangible fluctuations witnessed in the exchange rate of major currencies in the global exchange market, so as to curb the inflationary pressures in the prices of imported goods and its negative reflections on domestic price levels, and to reflect the effectiveness of KD exchange rate policy based on currencies of major trading and financial partners of the State of Kuwait.

During 2012, CBK intensified its efforts to influence the monetary market through the use of available monetary policy instruments; particularly indirect instruments. CBK uses different monetary instruments, notably the scheme of accepting deposits from local banks for managing the levels of domestic liquidity, issuing CBK bonds, managing the issuance of public debt instruments on behalf of the Ministry of Finance, and open market operations in the secondary market of public debt instruments.

During 2012, CBK continued its supervision and oversight procedures on banking and financial sector units, within the framework of maintaining the integrity of the financial institutions and enhancing monetary and financial stability. CBK also continued strengthening the banking regulations by obliging local banks in applying international supervision and oversight standards to increase their competitive efficiency and ability, as well as rationalizing credit policies of those units.

This part of the Economic Report highlights the most important developments in the main monetary aggregates and indicators during 2012, in regard to money supply, bank credit, KD exchange rate and domestic interest rates, in addition to the issuance of public debt instruments and CBK bonds, interbank deposit market, local bank accounts with CBK, the activity of the clearing room at CBK, and the most notable developments in regard to banking supervision and oversight, as follows:

1- Money Supply Developments:

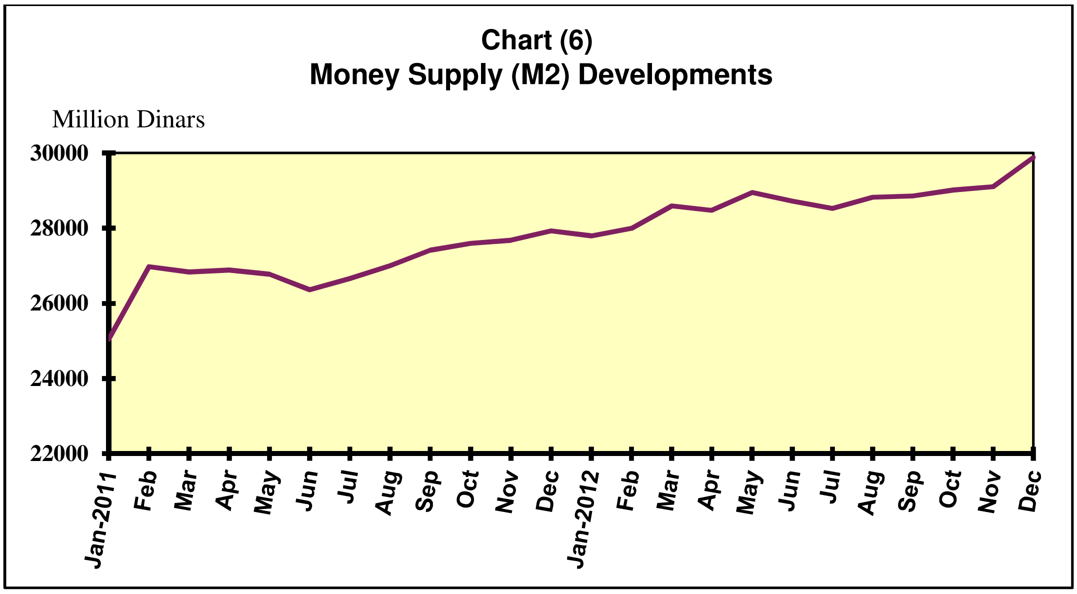
Following up the developments of money supply and analyzing the changes in its components and factors affecting these changes helps in identifying the effects of the procedures, decisions and controls taken by CBK regarding regulating domestic liquidity conditions in line with the developments and trends in domestic economic activity.

Table (13)
Developments in Money Supply Aggregates
(KD Million)

Items	2010	2011 (1)	2012 (2)	Change (2)-(1) Value	%
Money (M1):	**5316.0**	**6551.9**	**7873.3**	**1321.4**	**20.2**
Currency in Circulation	1006.7	1205.1	1339.9	134.8	11.2
Quasi-Money:	**20027.0**	**21381.3**	**22014.9**	**633.6**	**3.0**
KD Deposits	22255.1	24649.9	26276.0	1626.2	6.6
Foreign Currency Deposits	2081.3	2078.2	2272.2	194	9.3
Money Supply (M2):	**25343.0**	**27933.1**	**29888.1**	**1955.0**	**7.0**
Deposits with Investment Companies (*)	28.6	14.1	28.1	14.0	99.6
Money Supply (M3):	**25207.4**	**27760.7**	**29568.7**	**1808.0**	**6.5**
Monetary Indicators:					
Currency in Circulation/ M1	18.9	18.4	17.0		
Quasi-Money/M2	79.0	76.5	73.7		
M1/M2	21.0	23.5	26.3		

Source: Central Bank of Kuwait
(*) Companies that accept deposits in accordance with their articles of association.

Available data (Table 13, Chart 6) indicate a decelerated pace of growth in domestic liquidity levels during 2012. These data show a rise in money supply in its broad definition (M2) to KD 29888.1 million at the end of 2012 realizing an increase of KD 1955 million or 7%, compared to the rise of KD 2590.1 million or 10.2% during 2011.



The mentioned growth in money supply in its broad definition (M2) during 2012 was the outcome of an increase in both money in its narrow definition (M1) by KD 1321.4 million or 20.2%, and quasi-money by KD 633.6 million or 3%. Accordingly, money (M1) as a percentage of money supply (M2) increased from 23.5% at the end of 2011 to 26.3% at the end of 2012, while quasi-money as a percentage of money supply (M2) declined to 76.5% at the end of 2011 against 73.7% at the end of 2012.

The increase witnessed by quasi-money during 2012 was an outcome of the rise in both the balances of resident private sector deposits (excluding sight deposits) with local banks by KD 439.6 million or 2.3%, and the balances of foreign-currency deposits with these banks by KD 194 million or 9.3%.

Table (14)
Private Sector Deposit Balances with Local Banks at the end of 2012 Quarters
(Value in KD Million, End of Period)

Item	2011	2012 (at the end)				YOY Change in Q4	
		Q1	Q2	Q3	Q4	Value	Rate (%)
KD Deposits	**24649.9**	**25163.1**	**25466.4**	**25223.7**	**26276.0**	**1626.2**	**6.6**
Sight	5346.7	5557.3	5917.6	5664.0	6533.3	1186.6	22.2
Savings	3837.3	4102.2	4290.2	4206.4	4324.0	486.7	12.7
Time	15465.8	15503.5	15258.5	15353.4	15418.7	-47.1	-0.3
CDs	-	-	-	-	-	-	-
Foreign Currency	**2078.2**	**2221.7**	**2031.4**	**2376.9**	**2272.2**	**194.0**	**9.3**
Total	**26728.0**	**27384.8**	**27497.8**	**27600.6**	**28548.2**	**1820.2**	**6.8**

Source: Central Bank of Kuwait.

Within **the aggregate monetary position of CBK and local banks** during 2012, data related to the factors affecting the changes in money supply – the factors affecting changes that accrued in the net domestic assets and the net foreign assets of the mentioned entities (Tables 14 and 15) – indicate that the mentioned increase in money supply (M2) during 2012 was the outcome of the rise in the net foreign assets of CBK for the mentioned entities by KD 2357.4 million or 20.6%, and the decline in net domestic assets of those entities by KD 402.4 million or 2.4%.

The increase in the net foreign assets of CBK and local banks (Table 15) was the outcome of the rise in the net foreign assets of local banks by KD 1437.4 million or 28.4% on the one hand, and the net foreign assets of CBK by KD 920 million or 14.4% on the other hand.

The decrease in net domestic assets mentioned at the end of 2012 compared with its recorded levels at the end of the previous year (Table 15) resulted from a number of developments in the components of the domestic assets and liabilities of the mentioned entities as follows:

- A rise in the balances of local bank claims on the private sector by KD 876.3 million or 3.1%. This increase had an expansionary effect on money supply (M2).

- Net claims of local banks on government at the end of 2012 decreased by KD 1008.2 million or 35.9%. This decrease resulted from the decline in the balances of government deposits with CBK of KD 139.5 million or 20.4%, causing money supply (M2) to expand on the one hand, and claims of local banks on government to decline by KD 1147.7 million or 54.1%, on the other.

The rise in the net foreign assets of local banks during 2012 is attributed to the increase in total foreign assets (by KD 1261.4 million or 15.3%) and the decrease in foreign liabilities (by KD 176 million or 5.6%).

Table (15)
Factors Affecting Changes in Money Supply (M2)
(KD million)

Particulars	2011	2012	Change Value	Change (%)	Contribution to Money Supply Growth (%)*
Money Supply (M2)	**27933.1**	**29888.1**	**1955**	**7.0**	**7.0**
Net Domestic Assets:	**16468.5**	**16066.1**	**-402.4**	**-2.4**	**-1.4**
Claims on the Government (net):	**-2805.8**	**-3814.0**	**-1008.2**	**+35.9**	**-6.1**
CBK (net):	-682.4	-542.9	139.5	-20.4	-5.0
Claims on the Government	-	-	-	-	-
Government Accounts	-682.4	-542.9	139.5	-20.4	-
Local Banks (net):	-2123.4	-3271.1	-1147.7	54.1	168.2
Claims on the Government:	1887.1	1684.3	-202.8	-10.7	9.6
Debt Purchase Bonds	-	-	-	-	-
Public Debt Instruments	1887.1	1684.3	-202.8	-10.7	-
Government Deposits	-4010.5	-4955.4	-944.9	23.6	-50.1
Claims on the Private Sector	**28144.3**	**29020.6**	**876.3**	**3.1**	**-21.9**
Credit Facilities to Residents	25611.5	26796.8	1185.3	4.6	4.2
Other Domestic Investments	2532.8	2223.8	-309	-12.2	-1.2
Other Items (net), of which:	**-8870**	**-9140.5**	**-270.5**	**3.0**	**-10.7**
Capital and Reserves	-6565	-6889	-324	4.9	3.7
Other	-2305	-2251.5	53.5	-2.3	-0.8
Net Foreign Assets:	**11464.6**	**13822.0**	**2357.4**	**20.6**	**-102.3**
CBK:	6397.5	7317.5	920	14.4	8.0
Foreign Assets	6412.4	7329.1	916.7	14.3	14.3
Foreign Claims	-14.9	-11.6	3.3	-22.1	0.1
Local Banks:	**5067.1**	**6504.5**	**1437.4**	**28.4**	**-9647.0**
Foreign Assets	8226.3	9487.7	1261.4	15.3	24.9
Foreign Claims	-3159.2	-2983.2	176	-5.6	2.1

Source: Central Bank of Kuwait.

* The negative reference expresses a deflationary effect on money supply (M2), while the positive reference expresses an expansionary effect on money supply (M2).

Table (16)
Net Foreign Assets of the Banking Sector
(KD million)

Particulars	End of 2011			End of 2012			Change	
	Foreign Assets	Foreign Liabilities	Net	Foreign Assets	Foreign Liabilities	Net	Value	(%)
CBK	6412.4	14.9	6397.5	7329.1	11.6	7317.5	920.0	14.4
Local Banks	8226.3	3159.2	5067.1	9487.7	2983.2	6504.5	1437.4	28.4
Total	**14638.7**	**3174.0**	**11464.6**	**16816.8**	**2994.8**	**13822.0**	**2357.4**	**20.6**

Source: Central Bank of Kuwait.

2- Developments of Bank Credit:

Developments in bank credit advanced to various domestic economic sectors reflect the funding activity of local banks, whereby the balance of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors constitute the largest portion of the total uses of funds by local banks. Data (Table 17) indicate an increase in the balance of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors by KD 1185.3 million or 4.6% to KD 26796.8 million at the end of 2012 compared to KD 25611.5 million at the end of 2011, i.e. after recording a rise during 2011 by KD 410.7 million or 1.6% compared to the previous year.

The increase in the balance of the utilized cash portion of credit facilities extended by local banks to the domestic economic sectors at the end of 2012 came as a result of the rise in the balances of these mentioned facilities for the Personal Facilities sector (which encompasses 37.4% of the total balances of credit facilities) by KD 10055.4 million or 12.4%, and the Real estate sector (26.5% of the total) by KD 358.3 million or 5.3%.

Table (17)
Development of Balances of Utilized Domestic Cash Credit Facilities
(KD Million)

Sectors	Year-End Balance			Change			
				Value		Rate (%)	
	2010	2011	2012	2011	2012	2011	2012
Trade	2299.1	2306.6	2475.1	7.5	168.5	0.3	7.3
Industry	1617.4	1750.2	1767.8	132.8	17.6	8.2	1.0
Construction	1807.8	1748.6	1744.9	-59.2	-3.7	-3.3	-0.2
Agriculture & Fisheries	8.9	9.7	11.0	0.8	1.3	9.0	13.4
Non-Bank Financial Institutions	2837.2	2379.8	1856.6	-457.4	-523.2	-16.1	-22.0
Personal Facilities, of which:	8456.1	8946.8	10055.3	490.7	1108.5	5.8	12.4
- Consumer Loans	694.6	823	1036.1	128.4	213.1	18.5	25.9
- Installment Loans	4804.9	5136.4	6035.5	331.5	899.1	6.9	17.5
- Purchase of Securities	2698.4	2640.9	2700.3	-57.5	59.4	-2.1	2.2
- Others	258.2	346.5	283.4	88.3	-63.1	34.2	-18.2
Real Estate	6476.6	6756.0	7114.3	279.4	358.3	4.3	5.3
Crude Oil & Gas	211.1	172.8	165.0	-38.3	-7.8	-18.1	-4.5
Public Services	000	0.1	000	0.1	-0.1	000	000
Other	1486.6	1540.8	1606.7	54.2	65.9	3.6	4.3
Total	**25200.8**	**25611.4**	**26796.7**	**410.6**	**1285.3**	**1.6**	**4.6**

Source: Central Bank of Kuwait.

Details of the balances of utilized cash portion of credit facilities extended to personal facilities indicate a rise in the balances of installment loans (by KD 899.1 million or 17.5%), consumer loans (by KD 213.1 million or 25.9%), and purchase of securities (by KD 59.4 million or 2.2%).

On another front, available data on new KD credit facility agreements concluded with residents during 2012 indicate the level of demand for bank credit during the mentioned year. These agreements encompass the limits of credit facilities extended to new clients, as well as the renewal or increase in the limits of credit facilities extended to existing clients. Available data indicate that the value of these agreements increased by KD 334.3

million or 3.1% to reach KD 11178.6 million during 2012 compared to KD 10844.3 million during 2011. This rise came as a result of the increase in the value of credit facility agreements concluded with the Personal Facilities sector (by KD 861.2 million or 39. 5%), the Real estate sector (by KD 235.8 million or 9.9%), and the Industry sector (by KD 9.4 million or 1.1%) on the one hand; and the decline in the value of credit facility agreements concluded with the Non-Bank Financial Institutions sector (by KD 622.8 million or 29.2%) and the Trade sector (by KD 187.3 million or 9.4%) on the other.

Developments in the value of the KD-denominated credit facility agreements concluded with residents according to the economic sectors indicate that the largest portion of the agreements' value are concluded with the Personal Facilities, Real estate and Industry sectors which jointly accounted for KD 6485.8 million or 58% of the total value of the agreements concluded during 2012.

Data with regard to financing merchandise imports of the Kuwaiti private sector indicate that total payments effected through local banks for financing these imports increased by KD 439.2 million or 12.8% to reach KD 3864.2 million during 2012 against KD 3425 million during 2011. This rise included all modes of payment used to pay the value of merchandise imports of the private sector by local banks and in varying rates which caused a change in their relative importance. With regards to the relative importance of currencies used in financing these imports during 2012, the value of finance in other currencies increased (from KD 635.5 million to KD 838.1 million), the Japanese Yen (from KD 264.8 million to KD 423.5 million), the US Dollar (from KD 2171.3 million to KD 2244.4 million), the Euro (from KD 317.7 million to KD 325.2 million), and the Swiss Franc (from KD 2.6 million to KD 3.9 million) during 2011 and 2012 respectively. Consequently, the relative importance of payments increased for the Japanese yen (from 7.7% to 11%), and other currencies (from 18.6% to 21.7%). On another front, the relative importance of payments declined for the US Dollar (from 63.4% to 58.1%), and the Euro (from 9.3% to 8.4%) even though the value of payments used in financing these imports increased for both.

3- Developments in the KD Exchange Rate:

During 2012, CBK continued to apply the KD exchange rate policy as of May 20, 2007 which is based on pegging the KD exchange rate to a special weighted basket of currencies of countries that have significant financial and trade relations with the State of Kuwait. The system of basket of currencies contributes to strengthen the CBK's ability to draw and implement a monetary policy aimed at reducing imported inflationary pressures resulting from fluctuations in the exchange rates of world currencies on the one hand, and to provide a supportive atmosphere to promote sustainable economic growth on the other.

Table (18)
US Dollar Exchange Rate against the Kuwaiti Dinar and Some Major Currencies at the end of each month of 2012

End Period	KD (*)	Euro	Japanese Yen	Swiss Franc	Pound Sterling
January	277.15	0.756	76.690	0.912	0.636
February	277.75	0.754	80.110	0.910	0.638
March	277.65	0.750	82.940	0.904	0.627
April	277.60	0.756	81.135	0.909	0.618
May	280.10	0.798	79.465	0.959	0.638
June	280.25	0.800	79.480	0.961	0.640
July	281.40	0.812	78.435	0.975	0.635
August	281.85	0.796	78.590	0.956	0.632
September	281.00	0.777	77.715	0.940	0.619
October	281.15	0.770	79.840	0.932	0.627
November	281.65	0.773	81.850	0.931	0.625
December	281.15	0.756	85.825	0.913	0.620

Source: Central Bank of Kuwait.

(*) in fils.

Data in (Table 18) indicate that the movements in the exchange rate of the US Dollar against the KD were within relatively limited margins during 2012. The difference between the highest and lowest exchange rate of the US dollar against the KD reached 4.7 fils or 1.7% as at the end of each month of 2012. On the other hand, data reflect obvious fluctuations in the exchange rate of the US dollar against other major currencies, where the difference between the highest and lowest exchange rate of the US dollar against these currencies reached 12.639% against the Japanese Yen, 11.671% against the Euro, 11.232% against the Swiss Franc and 6.334% against the Pound Sterling.

Regarding the changes in the US Dollar exchange rate against the KD on the one hand and some other major currencies on the other, at the end of 2012 compared with the previous year (Table 19), a rise was noted in the US Dollar exchange rate against the KD by 3.25 fils or 1.16%. Furthermore, the US Dollar exchange rate recorded an increase of 10.3% against the Japanese Yen, while recording a decline of 2.98% against the Pound Sterling, 2.25% against the Swiss Franc, and 1.23% against the Euro.

Table (19)
US Dollar Exchange Rate against the Kuwaiti Dinar and
Some Major Currencies at the end of 2012 compared with the previous year

End Period	KD (*)	Euro	Japanese Yen	Swiss Franc	Pound Sterling
2011	277.90	0.765	77.810	0.934	0.639
2012	281.15	0.756	85.825	0.913	0.620
Change	3.25	-0.01	8.02	-0.021	-0.02
Rate of Change (%)	1.17	-1.23	10.3	-2.25	-2.98

Source: Central Bank of Kuwait.

(*) In fils.

4- Developments in Domestic Interest Rates:

The discount rate and rediscount rate for commercial papers which are offered by local banks and which CBK accepts for discount or rediscount were reduced to 2.0% since its 50 basis points cut on 3/10/2012 (Table 20).

The discount rate is considered a pivotal rate linked, within specified margins, to the maximum limits of interest rates on KD-lending transactions at the banking and financial system units. Accordingly, reducing the discount rate decreases the maximum limits of interest rates on KD-lending transactions at the banking and financial system units by the same reduced amount.

Meanwhile, CBK continued, during 2012, to apply the structure of the local interest rates in KD in force since March 30, 2008 which states adding not less than three percentage points on CBK's specified discount rate on consumer loans after the interest rate on these loans was equal to the discount rate. It also states reducing the maximum limits of interest rates agreement on installment loans to three percentage points on the discount rate instead of four percentage points on that rate, and determining the interest rate for five years starting from the loan date when it is revised and amended up and down without exceeding two percentage points.

Table (20)
Development of the Local KD Interest Rates Structure
(Percent per Annum)

End of Period	Maximum Contractual Interest Rates on all forms of KD Lending Transactions						
	Discount Rate		Up to One Year		Over One Year		Consumer Loans **
	Rate	Change	Rate	In Case of Overdraft	Rate*	In Case of Overdraft	
2004	4.75	1.50	7.25	7.75	8.75	8.75	4.75
2005	6.00	1.25	8.50	9.00	10.00	10.00	6.00
2006	6.25	0.25	8.75	9.25	10.25	10.25	6.25
2007	6.25	-	8.75	9.25	10.25	10.25	6.25
2008	3.75	-2.5	6.25	6.75	7.75	7.75	6.75
2009	3.00	-0.75	5.5	6.0	7.00	7.00	6.00
2010	2.50	-0.50	5.00	5.50	6.50	6.50	5.50
2011***	2.50	-	5.00	5.50	6.50	6.50	5.50
2012****	2.00	-0.5	4.5	5.00	6.00	6.00	5.00

Source: Central Bank of Kuwait.

*Excluding from that rate the maximum interest rate agreement of loans fair which became not more than three percentage points above the discount rate since March 30, 2008 instead of the four percentage points before that date.
**Three percentage points have been added to the discount rate starting from March 30, 2008.
***The discount rate was stable at a rate of 2.50 percentage point since the last cut by 0.50 percentage point on February 8, 2010.
****CBK reduced discount rate by 0.50 percentage points to reach 2.0% on 3/10/2012.

Available data on average interest rates on KD-denominated customer time deposits with local banks during 2012 point to a decline in these average rates for all terms, recording a decrease of 0.159 percentage point for 1-month deposits, 0.141 percentage point for 12-month deposits, 0.137 percentage point for 6-month deposit, and 0.117 percentage point for 3-month deposits to 0.737% for 1-month deposits, 1.521% for 12-month deposits, 1.229% for 6-month deposits, and 0.985% for 3-month deposits during 2012 against 0.895%, 1.662%, 1.366% and 1.103% for the mentioned terms respectively during 2011. Whereas average interest rates on US dollar time deposits with local banks recorded an increase by 0.096 percentage point for 12-month deposits, 0.66 percentage point for 6-month deposits, and 0.027 percentage point for 3-month deposits on the one hand, and a decrease by 0.028 percentage point for 1-month deposits, reaching 0.777%

for 12-month deposits, 0.532% for 6-month deposits, 0.353% for 3-month deposits, and 0.208% for 1-month deposits on average during 2012 compared to 0.681%, 0.467%,0.326%, and 0.235% for the same terms respectively during 2011. In the light of these developments, the existing margins between the average interest rates on KD and US dollar customer time deposits with local banks continued to be in favor of KD at the end of 2012, as shown in Table 21. Furthermore, margins between the average interest rates on KD and US dollar customer time deposits with local banks decreased for all terms during 2012 compared to its levels during 2011.

Table (21)
Developments in Interest Rates on Customer
KD and US Dollar Deposits with Local Banks

Period	Average Interest Rates on Customer 1-Month Deposits (%)		Margin in Favor of KD	Average Interest Rates on Customer 3-Month Deposits (%)		Margin in Favor of KD
	KD	US $		KD	US $	
2010	1.082	0.257	0.824	1.265	0.384	0.882
2011	0.895	0.235	0.660	1.103	0.326	0.777
2012	0.737	0.208	0.529	0.985	0.353	0.633

Source: Central Bank of Kuwait.

Average interest rates on Public Debt Instruments decreased to 0.740% for 3-month Treasury Bills during 2012 against 0.842% during 2010. Furthermore, the average interest rates on Treasury Bonds for 1-year deposits also declined to 1.125% during 2012 against 1.250% during 2011. In addition to that, the average interest rates on Treasury Bonds for 2-year deposits reached 1.125% during 2012 compared to 1.250% during 2011, while the average interest rates on Treasury Bills for more than 2-year deposits increased to 1.732% during 2012 against 1.625% during 2011.

5- Issuance of Public Debt Instruments and CBK Bonds:

A- Issuance of Public Debt Instruments:

CBK issues, on behalf of the Ministry of Finance, public debt instruments (Kuwaiti Treasury Bills and Treasury Bonds). These instruments can be used by CBK to regulate the levels of domestic liquidity through the primary market by the issuance of these instruments, or through the use of open market operations in the secondary market.

Within this context, CBK resumed issuing Treasury Bills during 2012 offering 8 issues of 3-month maturity with a total nominal value of KD 250 million. And during the same period, 6 previous issues of 3-month Treasury Bills matured with a total nominal value of KD 375 million. Thereby the outstanding balance of Treasury Bills at the end of 2012 was unchanged at its level of KD 125 million at the end of the previous year.

Regarding Kuwaiti Treasury Bonds, CBK offered 25 issues (18 issues of 1-year maturity with a total nominal value of KD 1345 million, 2 issues of 2-year maturity with a total nominal value of KD 100 million, 2 issues of 3-year maturity with a total nominal value of KD 100 million, 1 issue of 5-year maturity with a total nominal value of KD 50 million, 1 issue of 7-year maturity with a total nominal value of KD 20 million, and 1 issue of 10-year maturity with a total nominal value of KD 20 million) with a total nominal value of KD 1635 million, while during the same period 21 previous issues matured with a total nominal value of KD 1728 million (19 issues of 1-year maturity with a total nominal value of KD 1680 million and 2 issues of 2-year maturity with a total nominal value of KD 48 million). Accordingly, the outstanding balance of Treasury Bonds decreased by KD 93 million or 5% to KD 1755 million at the end of 2012 against KD 1848 million at the end of 2011.

In view of the above developments, the total outstanding balance of public debt instruments (Treasury Bills and Treasury Bonds) declined by KD 218 million or 11% to KD 1755 million at the end of 2012 against KD 1973 million at the end of 2011.

Table (22)
Developments of Public Debt Instruments
(KD Million)

Particulars	2010	2011	2012
Issues:	**2253.0**	**2250.0**	**1885.0**
Bills	600.0	550.0	375.0
Bonds	1653.0	1700.0	1635.0
Maturities:	**2244.0**	**2315.0**	**2103.0**
Bills	600.0	575.0	375.0
Bonds	1644.0	1740.0	1728.0
Balances at Year End:	**2038.0**	**1973.0**	**1755.0**
Bills	150.0	125.0	0.0
Bonds	1888.0	1848.0	1755.0

Source: Central Bank of Kuwait.

Regarding distribution of the outstanding balance of public debt instruments among different institutions holding them at the end of 2012, available data indicate that the decline witnessed in the total outstanding balance of public debt instruments reflects the decrease in the balance of local banks' holdings of those instruments by KD 202.7 million or 10.7% from KD 1887.1 million at the end of 2011 to KD 1684.3 million at the end of 2012 accounting for 96% of the total balance of the public debt instruments at the end of the mentioned year, and the decrease in the balances of other institutions' holdings by KD 15.3 million or 17.8% from KD 85.9 million at the end of 2011 to KD 70.7 million at the end of 2012.

B- Issuance of CBK Bonds:

Within the framework of its efforts to regulate levels of domestic liquidity through the issuance of its bonds, CBK offered 37 issues (23 issues of 3-month maturity with a total nominal value of KD 3237 million and 14 issues of 6-month maturity with a total nominal value of KD 2206 million) with a total nominal value of KD 5443 million during 2012 (Table 23). At the same time, 36 issues matured during 2012 (24 issues of 3-month maturity with a total nominal value of KD 3586 million and 12 issues of 6-month maturity with a total nominal value of KD 1458 million) with a total nominal value of KD 5044 million. Accordingly, the outstanding balance of CBK Bonds rose at the end of 2012 by KD 399 million or 25.7% (from KD 1553 million at the end of 2011 to KD 1952 million at end of 2012).

Table (23)
CBK Bonds
(KD Million)

Particulars	2010	2011	2012
Issues:	**4058.5**	**4821.0**	**5443.0**
3 Months	2805.0	3476.0	3237.0
6 Months	1253.5	1345.0	2206.0
Maturities:	**3731.5**	**4612.0**	**5044.0**
3 Months	2624.0	3322.0	3586.0
6 Months	1107.5	1290.0	1458.0
Balances at Year End:	**1344.0**	**1553.0**	**1952.0**
3 Months	725.0	879.0	530.0
6 Months	619.0	674.0	1422.0

Source: Central Bank of Kuwait.

Average interest rates on 3-month CBK bonds declined to 0.898% during 2012 against 1% during the previous year. Also, interest rates on 6-month CBK bonds declined to 1.036% during 2012 against 1.125% during the previous year.

6- Activity of the Interbank Deposit Market of Local Banks:

Activity in the interbank KD-deposit market of local banks witnessed a decrease during 2012 as the value of transactions in the market reached KD 39.9 billion against KD 43.7 billion during 2011, i.e. a decline by KD 3.8 million or 8.7% (Table 24). Transactions in that market concentrated during 2012 in ‘overnight’ maturity equivalent to 59.8% of the total transactions, against 53.3% of the total transactions during the previous year. Data indicate that the value of transactions in overnight maturity increased during 2012 by 2.1% to reach KD 23849.8 million compared to KD 23310.4 million during 2011. Furthermore, the value of transactions in maturity ‘longer than overnight and up to one-month’ (34% of the total) decreased by 20.8% to KD 13582.7 million compared to KD 17144.6 million during 2011.

Table (24)
Distribution of Transaction Values of the Interbank Deposit Market of Local Banks (*)
According to Maturity
(KD million)

Maturity Period	2011		2012	
	Value	% of Total	Value	% of Total
Overnight	23310.4	53.3	23849.8	59.8
Over one night to one week	11798.9	27.0	9381.5	23.5
Over one week to one month	5345.7	12.2	4201.2	10.5
Over one month to three months	2097.0	4.8	1164.8	2.9
Over three months to six months	754.5	1.7	1069.1	2.7
Over six months	427.1	1.0	207.8	0.52
Total	**43733.6**	**100.0**	**39874.2**	**100.0**

Source: Central Bank of Kuwait.

(*) Excluding CBK operations.

7- The Balances of Local Bank Accounts with CBK:

The balances of accounts of CBK on the one hand and local banks on the other represent the interactions in connection with CBK bonds, current accounts, time-deposits, discount and rediscount of commercial papers, and currency swaps. As a result of carrying out such operations CBK claims on local banks on one front, and local bank claims on CBK on the other, arise. The net KD balance of CBK with local banks reflects net interbank operations between CBK and local banks, which reflects either a net KD supply by CBK to local banks, if it is positive, or a net absorption by CBK of the KD surplus with local banks, if the balance is negative (Table 25).

Available data indicate that the balance of local bank claims on CBK witnessed a notable rise by KD 769.4 million or 20.9% during 2012 to reach KD 4446.4 million at the end of 2012 against KD 3677 million at the end of 2011. This rise was the outcome of the increase in the balances of local bank time deposits with CBK by KD 400.6 million or 21%, and the local bank holdings of CBK bonds by KD 399 million or 25.7%, as well as the decline in the balances of demand deposits of local banks with CBK by KD 30.2 million or 14%. No CBK claims were recorded on local banks at the end of 2012. In view of these developments, net claims of local banks on CBK rose by KD 769.4 million or 20.9% at the end of 2012 compared with its recorded level at the end of the previous year.

Table (25)
Trends in the Development of KD Balances of CBK with Local Banks
(KD Million)

End of Period	Local Banks Claims on CBK				CBK Claims on Local Banks				Net Balance
	On Demand Deposits	CBK Bonds	Time Deposits with CBK	Total	Currency Swaps	Discount and Re-discount	Deposits and Current Accounts with Local Banks	Total	
2010	78.5	1344.0	1373.7	2796.2	-	-	-	-	-2796.2
2011	215.5	1553.0	1908.5	3677.0	-	-	-	-	-3677.0
2012	185.3	1952.0	2309.1	4446.4	-	-	-	-	-4446.4

Source: Central Bank of Kuwait.

8- Activity of CBK Clearing Room:

Data presented in Table 26 indicate that the number of clearing transactions of cheques drawn on accounts of local bank customers, through the clearing room at CBK, increased by 90.9 thousand or 4.2% to a total of 2239.5 thousand during 2012 amounting to KD 11164.8 million against 2148.6 thousand transactions amounting to KD 9765.3 million during 2011. Therefore, the total value of clearing transactions during 2012 increased by KD 1399.4 million or 14.3% from its level during 2011. Consequently, the average value per transaction (average cheque value) increased by KD 442.7 or 9.7% to KD 4987.7 during 2012 against KD 4545 during 2011.

Furthermore, data indicate that the value of transactions concerning the settlement of payments between local banks by means of credit and debit advices through Kuwait's Automated Settlement System for Inter-participant Payments (KASSIP) declined by KD 2.3 billion or 3.9% to KD 56.7 billion during 2012 against KD 59 billion during 2011.

Table (26)
Clearing Transactions

Period	Checks			Interbank Settlement Transactions (KD Million)
	Total Value (KD million)	Number of Transactions (Thousand Transactions)	Average Transaction Value (KD million)	
2010	8719.0	2058.7	4235.1	61210.6
2011	9765.3	2148.6	4545.0	58959.0
2012	11164.8	2239.5	4987.7	56659.4

Source: Central Bank of Kuwait.

9- Developments in Banking Supervision and Oversight:

During 2012, CBK continued its efforts in supervision and oversight of the local banking and financial sector units under its supervision within CBK's objective of enhancing the safety of the financial position of those units and consolidating monetary and financial stability in the State.

Local banking and financial sector units subject to CBK supervision and registered with it at the end of 2012, totaling 154 units, encompass local banks (22 banks, of which 5

commercial, 11 branches of foreign banks including a branch of Islamic bank, 1 specialized bank, and 5 Islamic banks), investment companies[2] (95 companies, of which 51 operating according to the provisions of Islamic Sharia), and exchange companies (39 companies). As mentioned earlier, oversight of investment companies - except for the activity of financing - as well as oversight of investment funds, has been transferred from CBK to the Capital Markets Authority as of 13/9/2011. CBK exercises its oversight role

[2] As of 13/9/2011, CBK is responsible for supervising and overseeing the investment companies engaged in financing operations only (became known as finance companies instead of investment companies), while the Capital Markets Authority is responsible for supervising and overseeing the investment companies engaged in activity of securities. Investment companies exercising the activities of both financing and securities will be subject to the supervision and oversight of the Capital Markets Authority, while CBK's role is limited to oversee the financing portfolio of those companies.

through off-site monitoring and on-site inspection of these units, verification of the implementation of sound financial and banking practices, and compliance with the oversight policies and instructions applicable.

Within this context, CBK during 2012 issued a set of instructions, regulations and circulars to the units under its supervision, the most significant of which are as follows:

- The circular issued on 26/1/2012 to all investment companies suspending the application of regulatory standards (financial leverage, quick ratio, and external borrowing) on investment companies that engage in securities along with its financing activity while continuing the application of these regulatory standards on finance companies after some amendments.

- The circular issued on 22/2/2012 to all Kuwaiti banks regarding strengthening CBK's supervisory role on financial derivatives activity while verifying that banks will not conduct any conflicting activity on financial derivatives whether on its own account or its customer's account.

- The circular issued on 9/4/2012 to all local banks, investment and finance companies regarding separating rescheduled debts from irregular debts in the provided data according to instructions on rules and the foundations of credit classifications/investment and finance operations.

- The circular issued on 15/4/2012 to all local banks, investment, and finance companies regarding including employee loans for consumption purposes and installment loans (residential) in specified consumer and installment (residential) loan's forms.

- The circular issued on 3/5/2012 to all local banks regarding the amended forms of bank employees' data.

- The circular issued on 8/5/2012 to all local banks (except the industrial bank) regarding the execution of the amended instructions of the maximum amount available for funding within the introduced amendments; where balances of net credit facilities portfolio (funding operations) should not exceed 85% of private, government, and financial institutions deposit after primarily applying it for a transitional period of one year which ended on 10/5/2011.

- The circular issued on 23/5/2012 to all local banks regarding modifying the date of submitting revenues, expenses, and average cost data.

- The circular issued on 10/6/2012 to all local banks regarding CBK's approval on including bank representatives in some ministries and some government and non-government institutions to identify customers with banking products and services offered by the banks according to a set of regulations and standards.

- The circular issued on 14/6/2012 to all local banks marketing insurance services provided by insurance companies, which demands them to stop marketing any insurance services other than the services directly related with the bank's banking services.

- The circular issued on 20/6/2012 to all Kuwaiti banks to follow-up the developments of banking services and products provided by retail banking and corporate banking.

- The instructions issued on 20/6/2012 to all Kuwaiti banks regarding "Governance Rules and Regulations at Kuwaiti Banks" which will replace, as of 1/7/2013, the "The Principles of Sound Management of Banks and Financial Institutions" that was issued on 3/5/2004, where it emphasizes the Board of Directors' important role in discharging full responsibilities towards the bank and maintaining the interests of shareholders, depositors, risk management and its governance. These regulations contained an update and development of certain major topics concerning the remuneration system and polices, linking them to bank's performance and risk duration on the long run, and expanding and enhancing disclosure and transparency standards of legal and regulatory structures of banks and their groups, in a way that would facilitate risk management and emphasize the importance of conduct values and professional standards that would strengthen the integrity of banking business. And the circular issued on 7/10/2012 instructing Kuwaiti banks to submit to CBK the follow-up questionnaire on the implementation of governance regulations, no later than 30/6/2013.

- The circular issued on 15/8/2012 to all investment and finance companies regarding providing CBK, no later than 13/9/2012, with a list of all the charged fees and commissions in return for the services related to the clients financing activities in order for CBK to give its suggestions in this regard.

- The circular issued on 16/8/2012 to all Islamic banks regarding the liquidity system according to the benefits ladder, which allows securitization inclusion with CBK (deposits) within a period of "seven days or less".

- The circular issued on 4/9/2012 to all banks that operate according to Law no. 41 of 1993 and its amendments regarding supplying the amounts collected within this law on a monthly basis.
- The circular issued on 27/9/2012 to all local banks regarding new cards for illegal residents.

- The circular issued on 3/10/2012 to all banks and investment companies regarding CBK’s discount rate reduction and commercial paper’s re-discount reaching 2% starting from 4/10/2012.

- The circular issued on 9/10/2012 to all traditional banks regarding the forms used to follow-up the banks’ commitment to the provisions of Articles 66 and 67/b of Law no. 32 of 1968 concerning the periods of asset disposition which led to the banks’ ownership to repay its debt on others.

- The circular issued on 10/10/2012 to all local banks regarding notifying CBK of any embezzlement crime on the bank’s money.

- The circular issued on 2/12/2012 to all exchange companies regarding amending the exchange companies’ data on the sales and purchases of foreign currencies.

Financial Indicators of
the Banking and Financial System

Financial Indicators of the Banking and Financial System

This part of the Economic Report reviews the financial indicators for 2012 of the banking and financial units supervised by CBK, namely local banks (conventional, specialized and Islamic banks including Kuwaiti banks and foreign banks' branches in the State of Kuwait), local finance companies (conventional and Islamic), and exchange companies, in order to identify the developments in these indicators which reflect the financial positions of these units.

Structure of the Banking and Financial System

The institutional structure of the banking and financial system in the State of Kuwait consists of local banks, local finance companies, and exchange companies. For the purpose of this Report, the term "local banks" refers to the group including Kuwaiti banks and foreign banks' branches registered with CBK (National Bank of Kuwait, Commercial Bank of Kuwait, Al-Ahli Bank of Kuwait, Gulf Bank, Burgan Bank, Bank of Bahrain and Kuwait (branch), Bank BNP Paribas (branch), HSBC Bank Middle East Limited (branch), Abu Dhabi National Bank (branch), Union National Bank (branch), Citibank (branch), Qatar National Bank (branch), Doha Bank (branch), Mashreq Bank (branch), Bank Muscat (branch), one specialized bank (the Industrial Bank of Kuwait), and six banks operating in accordance with the provisions of Islamic Sharia (Kuwait Finance House, Boubyan Bank, Kuwait International Bank, Ahli United Bank, Warba Bank and Al Rajhi Bank).

Islamic banking industry has become increasingly important in the local market following the amendments made on 25th May, 2003 to the legislative and regulatory framework of the banking and financial system, to regulate the activities of Islamic banks in the State of Kuwait, and organize CBK's supervision and oversight on these institutions by virtue of Law No. 30 of 2003 concerning the addition of a special section on Islamic banks to the Third Chapter of Law No. 32 of 1968 concerning Currency, CBK and the Organization of

Banking Business. In this context, an operating Islamic bank (Kuwait Finance House) was registered during 2004, and a new Islamic bank (Boubyan Bank) was established and started its operations by the end of 2004. Also, a specialized local bank (Kuwait Real Estate Bank) converted, in 2007, into an Islamic bank named Kuwait International Bank. In March, 2010 a commercial bank (Bank of Kuwait and the Middle-East) converted into an Islamic bank, named Ahli United Bank, and on 27th April, 2010 Warba Bank was listed with CBK.

Table (27)

Development of the Banking System Structure

End of Period	Local banks				
	Number of Main Offices	Number of Local Branches	Number of External Branches	Number of Representative Offices	Total Branches and Representative Offices
2007	16	275	6	2	283
2008	17	295	9	2	306
2009	18	323	16	4	343
2010	21	339	16	3	358
2011	21	352	16	3	371
2012	21	361	16	3	380

During 2012, local banks continued to build their local branch network and expand geographically to keep pace with the developments of their local activities, whereby 9 new local branches were opened, bringing the total number of these banks' local branches (excluding main offices) to 361 at the end of the year, against 352 branches at the end of 2011. However, the number of these banks' external branches (16 branches) and representative offices abroad (3 representative offices) witnessed no increase during 2012.

The number of the investment companies listed with CBK declined at the end of 2012 to 93 companies, of which 51 investment companies operating in accordance with the provisions of Islamic Sharia, against 95 companies at the end of 2011 of which 51 investment companies operating in accordance with the provisions of Islamic Sharia. Meanwhile, the number of the exchange companies (39 companies) supervised by CBK, saw no increase during 2012. In accordance with Law No. (7) of 2010 for “the Establishment of the Capital Markets Authority and the Regulation of the Activity of Securities” issued on 26th February, 2010, CBK’s supervision responsibilities of investment funds were passed to the CMA. Investment companies on the other hand, will continue to be supervised by both CBK and CMA, until the separation of Investment companies’ lending activities from investment activities is completed.

Table (28)

Development of the Financial System Structure

End of Period	Number of Finance Companies			Number of Exchange Companies
	Conventional	Islamic	Total	
2006	40	33	73	39
2007	40	39	79	40
2008	46	53	99	39
2009	46	51	97	38
2010	46	51	97	38
2011	44	51	95	39
2012	42	51	93	39

The Aggregate Balance Sheet of Local Banks

The aggregate balance sheet of local banks (data on local banks' external branches and subsidiaries are not included) grew to reach KD 47207.7 million at the end of 2012 against KD 44081.5 million at the end of 2011, i.e. a growth of KD 3126.2 million or 7.1% during 2012 compared to KD 2701.6 million or 6.5% during 2011. This growth reflected significant developments on the liabilities side, notably the increase of government deposits, private sector deposits with local banks, and shareholders' equity. Conversely, balances of assets with local banks increased, particularly claims on CBK, foreign assets, and claims on the private sector.

In order to identify the developments in key elements of the aggregate balance sheet of local banks as at the end of 2012 indicated by Table (29), compared with 2011, the noteworthy factors and developments of some main elements of the balance sheet as at the end of the years from 2010 to 2012, and their relative distribution within the structure of assets and liabilities in the aggregate balance sheet of local banks (Table 32), can be indicated in some detail as follows:

First- Domestic Assets:

The assets side in the aggregate balance sheet of local banks represents the area of "uses of money", while the liabilities side represents local banks' various "sources of money". Uses (or employments) of funds in the banking industry are mainly concentrated in the area of lending and in some financial and non-financial investments at the local and foreign levels, according to the well- recognized technical standards and in light of the development of key monetary and banking variables in this area, most importantly the developments in interest and exchange rates as well as the availability of appropriate job opportunities, locally and internationally.

The relative distribution of the elements of assets in the aggregate balance sheet of local banks at the end of 2012 reveals the continued prevalence of the three main items encompassing claims on the private sector, claims on the government, and foreign assets on the assets' structure as was the case throughout the entire period since the early nineties of last century. The relative share of these three items in total assets reached 85.1% on average during the three-year period from 2010 to 2012. The most significant developments in the elements of the assets side of the aggregate balance sheet of local banks are addressed in some detail as follows:

1- Claims on the Private Sector: Local banks' claims on the private sector represent the various forms of financing extended by these banks to domestic economic sectors (loans / facilities), and other financial and non-financial local investments. For the purpose of this Report, the term "Private sector" means all individuals, private companies, and joint and public sectors' companies including public institutions with independent budgets, excluding the Saving and Credit Bank. These claims comprise the balances of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors on the one hand, and other local investments (financial / non-financial) such as banks' own investments in domestic shares and bonds, domestic non-bank certificates of deposit, and other financial and non-financial assets, on the other. The increase of KD 871.7 million realized in the sum of these claims during 2012 is considered higher than the annual increase witnessed during the previous year by 38.3%, whereby the balances of these claims reached KD 29016 million at the end of 2012. This rise was the key drive of growth on the assets side and is attributed to the increase in the utilized cash portion of credit facilities extended to residents by KD 1180.6 million, and the decline in local investments by KD 309 million.

In the context of local banks' claims on the private sector, the utilized cash portion of credit facilities extended by these banks to different domestic economic sectors increased by KD 1180.6 million or 4.6% against an increase of KD 410.7 million or

1.6% . Also domestic financial investments in domestic shares and bonds, and non-financial investments mainly represented in certain real estate assets, grew by KD 309 million or 12.2%.

Worth noting is that despite the increase in local banks' claims on the private sector, the relative share of such claims to total assets decreased from 63.8% at the end of 2011 to 61.5% at the end of 2012.

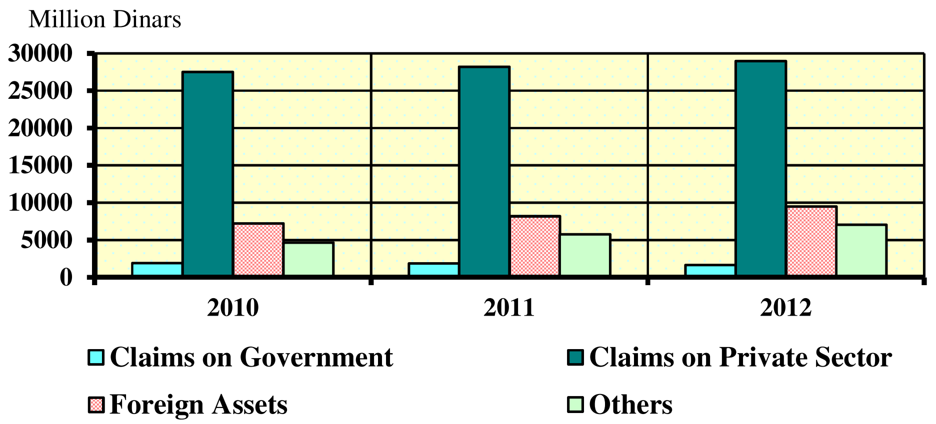
Table (29)
Aggregate Balance Sheet of Local Banks*

Items	Balances (Million KD)			Change in 2012	
	2010	2011	2012	Value	%
Assets:					
Claims on CBK, of which:	2959.6	3868.4	4658.3	789.9	20.4
Time Deposits with CBK	1373.7	1908.5	2309.1	400.6	21.0
Sight Deposits	78.1	221.0	178.1	- 43.0	-19.4
CBK Bonds	1344.0	1553.0	1952.0	399.0	25.7
Local Interbank Deposits	921.1	1038.0	891.6	-146.4	-14.1
Claims on the Government:	1910.3	1887.1	1684.3	-202.7	-10.7
Treasury Bonds	1760.3	1762.1	1684.3	- 77.7	-4.4
Treasury Bills	150.0	125.0	0.0	-125.0	-100.0
Claims on the Private Sector:	27513.9	28144.3	29016.0	871.7	3.1
Credit Facilities to Residents	25200.8	25611.5	26792.2	1180.6	4.6
Other Domestic Investments	2313.1	2532.8	2223.8	- 309.0	-12.2
Foreign Assets, of which:	7259.3	8226.3	9487.7	1261.4	15.3
Deposits with Foreign Banks	3658.8	4340.0	5041.3	701.3	16.2
Foreign Investments	2342.8	2746.1	3317.3	571.2	20.8
KD Credit Facilities to Non-Residents	58.9	50.1	41.3	- 8.8	-17.6
Foreign Currency Facilities to Non-Res	795.2	700.7	691.3	- 9.5	-1.4
Other Assets	815.8	917.4	1469.7	552.3	60.2
Assets = Liabilities	**41379.9**	**44081.5**	**47207.7**	**3126.2**	**7.1**
Liabilities:					
Private Sector Deposits:	24336.4	26728.0	28419.9	1691.9	6.3
KD Deposits	22255.1	24649.9	26147.8	1497.9	6.1
Foreign Currency Deposits	2081.3	2078.2	2272.2	194.0	9.3
Government Deposits	4207.0	4009.9	4955.4	945.5	23.6
Local Interbank Deposits	847.0	945.1	887.6	- 57.5	-6.1
Shareholders' Equity	5937.4	6265.0	6357.3	92.3	1.5
Foreign Liabilities, of which:	3047.4	3159.2	2983.2	-176.0	-5.6
Foreign Bank Deposits	2012.5	1968.0	1864.8	-103.2	-5.2
Foreign Nonbank Deposits	902.1	1066.8	951.2	-115.6	-10.8
Other Liabilities	3004.8	2974.3	3604.2	629.9	21.2
Contra Accounts:	**7750.1**	**7632.4**	**8100.4**	**468.0**	**6.1**
Bank Guarantees	6454.2	6218.1	6825.3	607.2	9.8
Documentary Credits	985.6	958.7	930.5	- 28.2	-2.9
Bank Acceptances	310.2	455.6	344.6	- 111.0	-24.4
Number of Banks	**18.0**	**21.0**	**21.0**		

* Excluding data on external branches and subsidiaries.
Source: CBK.

2- **Claims on CBK**: Local banks' claims on CBK encompass four key components constituting the Monetary Base (Money Supply in its narrow definition (M0)) which is an important indicator to monitor the changes in domestic liquidity levels. These claims include, cash and cash balances, sight deposits, time deposits, and holdings of CBK Bonds. Total claims increased by KD 789.9 million or 20.4% during 2012 from KD 3868.4 million during 2011 to KD 4658.3 million.

Chart (7)
Local Banks Assets



3- **Claims on the Government:** Local banks' claims on the government comprise local banks holdings of Public Debt Instruments including Kuwait Treasury bills and bonds issued by CBK on behalf of the Ministry of Finance in the context of CBK's efforts to control the levels of domestic liquidity. The outstanding balance of claims on the government decreased to KD 1684.3 million at the end of 2012 against KD 1887.1 million at the end of 2011, i.e. a decline of KD 202.7 million or 10.7%.

Table (30)
Development of the Relative Distribution of Elements of the Aggregate Balance Sheet of Local Banks
(%)

Items	2010	2011	2012
Assets:			
Claims on CBK, of which:	7.2	8.8	9.9
Time Deposits with CBK	3.3	4.3	4.9
CBK Bonds	3.2	3.5	4.1
Local Interbank Deposits	2.2	2.4	1.9
Claims on the Government:	4.6	4.3	3.6
Treasury Bonds	4.3	4.0	3.6
Treasury Bills	0.4	0.3	0.0
Claims on the Private Sector:	66.5	63.8	61.5
Credit Facilities to Residents	60.9	58.1	56.8
Other Domestic Investments	5.6	5.7	4.7
Foreign Assets, of which:	17.5	18.7	20.1
Deposits with Foreign Banks	8.8	9.8	10.7
Foreign Investments	5.7	6.2	7.0
KD Credit Facilities to Non-Residents	0.1	0.1	0.1
Foreign Currency Facilities to Non-Residents	1.9	1.6	1.5
Other Assets	2.0	2.1	3.1
Assets = Liabilities	**100.0**	**100.0**	**100.0**
Liabilities:			
Private Sector Deposits:	58.8	60.6	60.2
KD Deposits	53.8	55.9	55.4
Foreign Currency Deposits	5.0	4.7	4.8
Government Deposits	10.2	9.1	10.5
Local Interbank Deposits	2.0	2.1	1.9
Shareholders' Equity	14.3	14.2	13.5
Foreign Liabilities	7.4	7.2	6.3
Other Liabilities	7.3	6.7	7.6
Contra Accounts	**18.7**	**17.3**	**17.2**

Source: CBK.

Second- Domestic Liabilities:

The liabilities side in the aggregate balance sheet of local banks encompasses key sources of banks funds. Private sector deposits are considered the main source of funds for local banks, and the dominant element in the structure of banks' liabilities. Following is an analysis of the elements of local banks' liabilities within the aggregate balance sheet of these banks during 2010-2012:

1- **Private Sector Deposits (Resident):** Private sector deposits with local banks increased to reach KD 28419.9 million at the end of 2012 against KD 26728 million at the end of the previous year, i.e. a growth of KD 1691.9 million or 6.3%. This growth resulted from the rise in KD deposits by KD 1497.9 million or 6.1%, and foreign currency deposits by the equivalent of KD 149 million or 9.3%. The rise in KD deposits was the outcome of the increase in sight deposits by KD 1058.3 million or 19.8%, and savings deposits by KD 486.7 million or 12.7%, and the decline in time deposits by KD 47.1 million or 0.3%.

2- **Government Deposits**: Government deposits (ministries, governmental departments, public institutions whose budgets are attached to the State General Budget, and the Saving and Credit Bank) with local banks increased to KD 4955.4 million at the end of 2012 from its previous level of KD 4009.9 million at the end of 2011, i.e. a growth of KD 945.5 million or 23.6%. The relative share of these deposits in the financial structure of local banks was 10.5% at the end of 2012 against 9.1% at the end of 2011. Government deposits hence, ranked third behind private sector deposits and shareholders' equity.

3- **Shareholders' Equity:** Shareholders' equity in local banks including paid-up capital grew by KD 92.3 million or 1.5% from KD 6265 million at the end of 2011 to KD 6357.3 million at the end of 2012. This points out the potentials available in the domestic banking sector to face the challenges of new developments in both banking and economic sectors. It is noteworthy that CBK has set the minimum ratio of risk-weighted capital adequacy in Kuwaiti banks at 12%, effective end of 1997, i. e. above the internationally recommended minimum of 8%. Moreover, CBK has implemented the Basel II capital adequacy standard, effective end of 2005.

Third- Net Foreign Assets:

Net foreign assets represent the final outcomes of local banks' transactions with the banking and financial units abroad and other non-resident units and individuals. These transactions encompass all operations relevant to the uses of funds in the form of foreign asset holdings, obtaining non-resident private sector deposits including credit facilities extended to non-residents on the one hand, and funds generated through incurring foreign liabilities including obtaining lines of credit from foreign banking and financial units, and obtaining non-resident private sector deposits on the other hand. Funding from abroad, particularly through attracting deposits of foreign banks and other non-resident bodies, represents an important source of funds for local banks, used in covering their various uses, mainly in matching the maturities structure of foreign assets with the respective liabilities. These developments can be further highlighted as follows:

1- **Foreign Assets:** Total foreign assets of local banks increased by KD 1261.4 million or 15.3% during 2012 to reach KD 9487.7 million at the end of the year, compared to KD 8226.3 million at the end of 2011. Local banks resorted to building up and accumulating some of the components of their foreign assets and investments through increasing foreign investments by KD 571.2 million or 20.8%, and deposits with foreign banks by KD 701.3 million or 16.2%, exceeding the total decline in their foreign currency credit facilities to non-residents by KD 9.5 million or 1.4%, and KD credit facilities to non-residents by KD 8.8 million or 17.6%.

The development of the relative share of foreign assets expresses the interaction between the levels of local banks' liquidity, and funds employment opportunities locally and globally, according to which balances of these assets and their components change. The relative share of foreign assets in the total local banks assets increased from 18.7% at the end of 2011, to 20.1% at the end of 2012, as a result of the growth of total foreign assets of local banks by 15.3% exceeding the growth ratio (7.1%) of total assets during 2012.

2- **Foreign Liabilities:** Total foreign liabilities of local banks decreased to KD 2983.2 million at the end of 2012 against KD 3159.2 million at the end of 2011, i.e. a decline by KD 176 million or 5.6%. This decline mainly resulted from the decrease in non-resident deposits by KD 218.8 million or 7.2% from KD 3034.8 million to KD 2816 million. Consequently, the relative share of foreign liabilities in the total liabilities decreased from 7.2% in 2011 to 6.3% in 2012, due to the growth rate of foreign liabilities at a higher rate (5.6%) than the growth rate of total liabilities (7.1%).

3- **Net Foreign Assets:** Given the above mentioned developments in the total foreign assets and total foreign liabilities, net foreign assets of local banks grew significantly by the equivalent of KD 1437.4 million or 28.4% at the end of 2012. This growth was on the back of the increase in the total foreign assets and the decline in the total foreign liabilities mentioned earlier.

Fourth- Contra Accounts:

Contra accounts are off-balance-sheet accounts (sometimes referred to as opposite accounts) on both sides of assets and liabilities. On the assets side, these accounts constitute contingent assets, i.e. assets on the balance sheet date that are unrealized to banks' or customers' accounts. These contingent assets may become realized at a later date, when the conditions of such realization are met. These accounts are offset on the liabilities side by banks' contingent liabilities to third parties, which may, in turn, become realized liabilities upon fulfillment of relevant conditions.

Contra accounts are mainly non-cash facilities extended by local banks, classified under three main items off the aggregate balance sheet of local banks, namely, documentary credits (letters of credit), bank guarantees (letters of guarantee), and bankers' acceptances. Contra accounts are significant for two reasons: first, these accounts are linked to a variety of banking services rendered to clients against significant commissions and fees, and second, their value, weighted by related risks, is among the elements used in calculating capital adequacy standard.

Balances of contra accounts with local banks reached KD 8100.4 million at the end of 2012 against KD 7632.4 million at the end of 2011, i.e. an increase of KD 468 million or 6.1%. Contra accounts ratio to total aggregate balance sheet of local banks reached 17.2% at the end of 2012 against 17.3% at the end of 2011.

Fifth- Financial Flows:

Monitoring the developments in terms of trend and value of financial flows resulting from the movement of funds in local banks in the course of domestic and foreign operations Table (31), is intended for the purpose of determining their impact on local banks' financial positions at the end of 2012, and explaining the interaction between the movement of funds in domestic and foreign operations of local banks. These developments are presented in some detail as follows:

Table (31)
Summary of Financial Flows in Local Banks during 2011 and 2012
(KD Million)

Items	2011		2012	
	Value	(%)	Value	(%)
First– Domestic Operations:				
1- Total Sources of Funds:	**2840.6**	**100.0**	**3708.8**	**100.0**
● From Increase in Liabilities	**2817.4**	**99.2**	**3359.6**	**90.6**
Private Sector Deposits	2391.7	84.2	1691.9	45.6
Government Deposits	-	-	945.5	25.5
Shareholders' Equity	327.6	11.5	92.3	2.5
Local Banks Deposits	98.1	3.5	-	-
Other Domestic Liabilities	-	-	629.9	17.0
● From Decrease in Assets	**23.2**	**0.8**	**349.1**	**9.4**
Claims on the Government	23.2	0.8	202.7	5.5
Local Banks Deposits	-	-	146.4	3.9
2- Total Uses of Funds:	**1985.3**	**100.0**	**2271.3**	**100.0**
● In Decreasing Liabilities:	227.5	11.5	**57.5**	**2.5**
Government Deposits	197.1	9.9	–	-
Local Banks Deposits	-	-	57.5	2.5
Other Domestic Liabilities	30.4	1.5	-	-
● In Increasing Assets:	**1757.8**	**88.5**	**2213.9**	**97.5**
Claims on the Private Sector	630.4	31.8	871.7	38.4
Claims on CBK	908.8	45.8	789.9	34.8
Deposits with Local Banks	116.9	5.9	-	-
Other Domestic Assets	101.6	5.1	552.3	24.3
Surplus (+) or Deficit (-) of Resources against Uses	**855.3**	**–**	**1437.4**	**–**

Source: CBK.

Table (31)/Cont'd.
Summary of Financial Flows in Local Banks during 2011 and 2012
(KD Million)

Items	2011 Value	2011 (%)	2012 Value	2012 (%)
Second- Foreign Operations:				
1- Total Sources of Funds:	**282.2**	**100.0**	**61.1**	**100.0**
● From Increase in Liabilities:	**164.8**	**58.4**	**42.8**	**70.0**
Non-Residents (Non-Bank) Deposits	164.8	58.4	-	-
Other Foreign Liabilities (including bonds)	-	-	42.8	70.0
● From Decrease in Assets:	**117.4**	**41.6**	**18.3**	**30.0**
Credit Facilities to Non-residents in KD	8.7	3.1	8.8	14.4
Credit Facilities to Non-residents in Foreign Currency	94.5	33.5	9.5	15.5
Other Foreign Assets	14.2	5.0	-	-
2- Total Uses of Funds:	**1137.5**	**100.0**	**1498.5**	**100.0**
● In Decreasing Liabilities:	**53.0**	**4.7**	**218.8**	**14.6**
Non-Residents (Non-Bank) Deposits	-	-	115.6	7.7
Non-Residents (Bank) Deposits	44.5	3.9	103.2	6.9
Other Foreign Liabilities (including bonds)	8.5	16.1	-	-
● In Increasing Assets:	**1084.4**	**95.3**	**1279.7**	**85.4**
Foreign Investments	403.3	35.5	571.2	38.1
Local Banks Deposits with Foreign Banks Other	681.2	59.9	701.3	46.8
Other Foreign Assets	-	-	7.2	0.5
Surplus (+) or Deficit (-) of Resources against Uses	**-855.3**	**-**	**-1437.4**	-

Source: CBK.

1- Sources of Funds from Domestic Market Operations:

Sources of funds originate from any increase in the elements of liabilities and/or any decrease in the elements of assets. The value of these sources of funds is calculated by the amount of change occurring in the balances of these elements at the end of two consecutive years, thereby expressing the net financial flows during the year elapsed between the two mentioned dates. Total financial resources generated by local banks from domestic market operations totaled KD 3708.8 million during 2012 compared to KD 2840.6 million during 2011.

The major portion of the **realized domestic financial resources in 2012** amounting KD 3359.6 million or 90.6% of total domestic financial resources, resulted from the increase in some elements of local liabilities, while the remaining portion amounting KD 349.1 million or 9.4% resulted from the decrease in some elements of local assets.

Financial resources **generated by increasing some elements of domestic liabilities** amounted to KD 3359.6 million during 2012, resulting from the growth of private sector deposits by KD 1691.9 million or 45.6% of total domestic resources, government deposits by KD 945.5 million or 25.5%, shareholders' equity by KD 92.3 million or 2.5%, and other local liabilities by KD 629.9 million or 17%. In comparison, financial resources **generated by decreasing some elements of domestic assets** amounted to KD 349.1 million or 9.4% of total domestic resources during 2012, resulting from the decline in claims on government by KD 202.7 million or 5.5%, and local interbank deposits by KD 146.4 million or 3.9%.

The aforementioned indicates that local banks, in order to originate financial resources for their operations during 2012, have basically resorted to increasing their domestic liabilities (private sector deposits and government deposits) to an extent larger than reducing their domestic assets (mainly represented in claims on government).

2- Uses of Funds in Domestic Market Operations:

Areas of uses of funds encompass any decrease in the elements of liabilities and/or any increase in the elements of assets occurring between the ends of two consecutive years, thus expressing the net value of financial flows during the year elapsed between the two mentioned dates. Local banks used the financial resources realized from domestic market operations in 2012 for increasing some elements of domestic assets and decreasing some elements of domestic liabilities.

Funds used for increasing certain elements of domestic assets totaling KD 2213.9 million or 97.5% of total domestic uses, mainly resulted from the increase in claims on the private sector by KD 871.7 million or 38.4%, claims on CBK by KD 789.9 million or 34.8%, and other domestic assets by KD 552.3 million or 24.3%.

Funds used for decreasing certain elements of domestic liabilities totaling KD 57.5 million or 2.5% of total domestic uses during 2012, were basically concentrated in the decline of local interbank deposits.

The above-mentioned shows that local banks operations, in the course of the use of domestic financial resources available to them during 2012, were distributed in the increase in the elements of domestic assets, particularly claims on the private sector and claims on CBK on the one hand, and the decrease of domestic liabilities, mainly local interbank deposits, on the other.

3- The Surplus in Resources from Domestic Market Operations:

The flow of funds in local banks during 2012 yielded a net surplus of KD 1437.4 million in the financial resources resulting from domestic sources totaling KD 3708.8 million, after using them in domestic market operations totaling KD 2271.3 million. This surplus was used to cover the deficit in financial resources resulting from foreign operations, thus indicating a financial outflow equivalent to the amount of that deficit totaling KD 1437.4 million.

4- Flow of Funds from Foreign Operations:

Financial resources realized by local banks from their foreign operations reached the equivalent of KD 61.1 million during 2012, resulting entirely from **decreasing some elements of foreign assets** including foreign currency credit facilities to non-residents by KD 9.5 million or 15.5% of total foreign sources, and KD credit facilities to non-residents by KD 8.8 million or 14.4%, and increasing **some elements of foreign liabilities** by KD 42.8 million or 7.0%. **Uses of funds by local banks in foreign operations** reached the equivalent of KD 1498.5 million during 2012, used in **increasing some elements of foreign assets** including local banks deposits with foreign banks by KD 701.3 million or 46.8%, foreign investments by KD 571.2 million or 38.1% of total uses of funds in foreign operations on the one hand, and **decreasing some elements of foreign liabilities** including non-resident deposits, by non-banks, by KD 115.6 million or 7.7% and foreign banks deposits by KD 103.2 million or 6.9% on the other. Consequently, causing **a net deficit equivalent to KD 1437.4 million in the financial resources from foreign sources**. The said deficit was covered by the surplus in financial resources from domestic market operations of the same value totaling KD 1437.4 million.

Sixth- Indicators and Financial Ratios:

Following is an analysis of the financial positions of local banks at the end of 2012, and the developments in their performance over the said year. The analysis was conducted using some indicators and financial ratios concluded from the analysis of data reported by local banks at the end of the years for the period 2010 – 2012, Table (32):

1- Liquidity Standards:

This group of financial standards encompasses the **cash standard** which measures the cash assets adequacy of local banks (cash, balances with CBK, CBK Bonds holdings, deposits with local banks, deposits with foreign banks, and certificates of deposit) to settle liabilities such as resident and non-resident deposits, and local and foreign banks deposits. And the **liquidity standard** which measures the portion of these deposits covered by liquid assets (cash assets, local banks holdings of Public Debt Instruments, and their investments in local and foreign securities).

Reported data indicate an increase in the cash standard reaching 28.9% at the end of 2012 against 26.9% at the end of 2011, and an increase in the liquidity standard reaching 38% at the end of 2012 from 37.3% at the end of 2011. The average of both standards for the period 2010–2012 (26.5% for the cash standard, and 36.6% for the liquidity standard) are still within comfortable levels indicating the adequacy of cash and liquid assets of local banks, to settle total resident and non-resident deposits, and local and foreign banks deposits.

2- Uses of Funds Standards:

This group of standards encompasses financial ratios which reflect local banks' ability to employ their financial resources in revenue-generating uses, i.e. credit facilities, Public Debt Instruments, other financial and non-financial investments, and banks' uses of funds in money market operations through interbank deposits they lend to local and foreign banks.

These standards were calculated using three financial ratios, linking certain uses to the sources of their financing. This linking is, however, discretionary for the purpose of this analysis, and aims to shed some light on these ratios, noting that, in principle, no distinction should be made between resources and their specific uses. These financial ratios encompass the ratios of credit facilities to private sector deposits, claims on the private sector to private sector deposits, and local uses to total resident deposits and shareholders' equity.

The data analysis indicates a downtrend in these ratios. The first ratio which indicate the extent of use of private sector deposits in extending credit facilities to the sector's activities, was 94.3% at the end of 2012 against 95.8% at the end of 2011, with an annual average of 97.9% for the three years 2010-2012. The second ratio which points out among other details, the extent of use of domestic private deposits in financing domestic private sector, decreased to 102.1% at the end of 2012 compared to 105.3% at the end of 2011, noting that the average of that ratio was 106.8% for the three years 2010-2012. The third ratio which indicate reveals the extent of contribution of resident deposits and shareholders' equity to local fund uses, declined to 94.6% at the end of 2012 compared to 95.9% at the end of 2011, noting that the average for the three years (2010-2012) was 96.3%.

Table (32)
Financial Ratios and Indicators of Local Banks
(%)

Particulars	2010	2011	2012	Average
First- Liquidity Standards:				
1- Cash Standard	23.6	26.9	28.9	**26.5**
2- Liquidity Standard	34.5	37.3	38.0	**36.6**
Second- Uses Standards:				
1- Credit Facilities to Private Sector Deposits	103.6	95.8	94.3	**97.9**
2- Claims on the Private Sector to Private Sector Deposits	113.1	105.3	102.1	**106.8**
3- Local Uses to Resident Deposits &Shareholders’ Equity	98.3	95.9	94.6	**96.3**
Third- Profitability Standards:				
1- Net Profit to Total Assets	1.3	1.2	1.3	**1.3**
2- Net Profit to Total Shareholders’ Equity	9.4	8.5	9.9	**9.3**
3- Net Profit to Paid-up Capital	28.2	25.9	29.5	**27.9**
Fourth- Adequacy Standards of Shareholders’ Equity:				
1- Shareholders’ Equity to Total Assets	14.4	14.2	13.5	**14.0**
2- Shareholders’ Equity to Total Uses	15.8	15.9	15.5	**15.7**
3- Shareholders’ Equity to Non-cash Assets	19.3	19.8	19.2	**19.4**
Fifth- Capital Adequacy Standards:				
1- Capital Adequacy Ratio (Conventional Banks)	23	22.5	21.7	**22.4**
2- Capital Adequacy Ratio (Islamic Banks)	16.5	17.3	16.4	**16.7**

Source: CBK.

3- Profitability Standards:

This group of standards measures local banks’ efficiency in using their financial resources towards further growth of their activities and enhancement of their reserves, on the one hand, and ensuring rewarding profits for their shareholders, on the other. Table (32) illustrates the developments in the net profit ratio, to total assets, total shareholders’ equity, and paid-up capital at the end of 2012 compared with the year-end period 2010-2011.

The majority of local banks continued to profit throughout 2012. Profitability standards in 2012 witnessed higher growth ratios compared with previous years. Subsequently, local banks net profits amounted to KD 629.3 million during 2012 compared to KD 556.1 million and KD 532.8 million during 2010 and 2011 respectively. Net profit ratios to total assets, total shareholders' equity and paid-up capital reached 1.3%, 9.9%, and 29.5% respectively in 2012 against 1.2%, 8.5% and 25.9%, respectively in 2011, and against 1.3%, 9.4% and 28.2%, respectively in 2010.

4- Adequacy Standards of Shareholders' Equity:

This group of standards reveals the extent of protection provided by shareholders' equity to third party's funds (deposits) against the risks involving various uses of funds on the assets side. The development of these standards indicates a growth at the end of 2012 compared with the levels of 2011. The ratio of shareholders' equity to total assets, total uses, and total non-cash assets amounted to 13.5%, 15.5% and 19.2%, respectively at the end of 2012. Subsequently, the average of the above mentioned ratios of adequacy of shareholders' equity during the three-year period (2010-2012) reached 13.5% to total assets, 15.5% to total uses, and 19.2% to non-cash assets (credit facilities to residents and non-residents, and some local and foreign financial and non-cash investments).

5- Capital Adequacy Standard "Solvency":

This standard is developed based on Basel Committee recommendations and according to the agreements signed by the Gulf Cooperation Council (GCC) countries on the implementation of a unified standard for measuring capital adequacy of banks in member countries. This standard is measured by the ratio of capital in its broad definition, to total assets and contingent liabilities weighted by the risks involving each and every element thereof. In light of the Basel recommendations, CBK decided to set the minimum Capital Adequacy Ratio for each local bank at 8%. This ratio remained applicable for the period from end of 1992 until end of 1996. CBK issued later a new circular to Kuwaiti banks increasing the minimum Capital Adequacy Ratio to 12%, effective end of 1997.

CBK has, previously issued detailed regulations to local banks regarding the requirements for the preparation of Capital Adequacy Standard in which market risks are incorporated in line with Basel Committee recommendations. Consequently, the preparation of the Capital Adequacy Standard according to CBK's regulations started in 2001. In light of Basel II recommendations issued in June 2004 on the revised Capital Adequacy Standard which incorporates considerations of confronting credit risks, operational risks and market risks, CBK, having conducted the necessary trial implementation tests, has issued new regulations to local conventional banks on the preparation of the Capital Adequacy Standard according to Basel II requirements, starting the data reported at end of 2005.

Aggregate data on local banks indicate that the capital adequacy ratio for each of these banks are still, notably, higher than the required minimum limit, according to international recommendations. The average Capital Adequacy Standard for local conventional banks supervised by CBK amounted to 21.7% at the **end of June 2012** (16.4% for banks operating according to the provisions of the Islamic Sharia), compared to 22.5% at the end of 2011 (17.3% for banks operating according to the provisions of the Islamic Sharia). This decline in the average Capital Adequacy Standard for local conventional banks at the end of 2012 reflects the impact of the decrease in capital in its broad definition, at a rate greater than the effect of the growth of assets weighted by market risk weights, total exposure weighted by credit risks, and operational risks (particularly the utilized cash portion of credit facilities). Also, losses and declined profits recorded in some banks during 2012 entailed the re-arrangement of the financing structure of those banks which, in turn, contributed to the decline of their average capital adequacy standard at the end of 2012.

The Aggregate Balance Sheet of Local Investment Companies

Number of local investment companies registered with, and supervised by CBK declined to 93 at the end of 2012 compared to 95 companies at the end of 2011. Local investment companies sector comprises 43 conventional investment companies and 50 investment companies operating according to the provisions of Islamic Sharia. Total assets of local investment companies (conventional and Islamic companies) reached the equivalent of KD 11628.4 million at the end of 2012 compared to KD 12131.1 million at the end of 2011, i.e. a decrease by KD 502.7 million or 4.1% (Table 33).

Table (33)
Aggregate Balance Sheet of Local Investment Companies*
(KD Million)

Items	Balances at Year-End			Change in 2012	
	2010	**2011**	**2012**	**Value**	**%**
Assets:					
Cash & Balances with Local Banks	642.7	641.9	476.1	-165.8	-25.8
Financing to Customers	1148.8	1040.7	930.0	-110.7	-10.6
Loans and Advances to Residents	631.6	575.9	537.7	-38.2	-6.6
Financing to Customers	517.3	464.8	392.2	-72.6	-15.6
Domestic Investments:	3841.7	3236.5	3028.1	-208.4	-6.4
Financial Investments	3467.3	2737.5	2575.4	-162.1	-5.9
Non-financial Investments	374.4	499.1	452.7	-46.4	-9.3
Foreign Assets	6296.3	5681.5	5756.1	74.7	1.3
Other Assets	1660.6	1530.5	1438.1	-92.4	-6.0
Assets = Liabilities	**13590.2**	**12131.1**	**11628.4**	**-502.7**	**-4.1**
Liabilities:					
Capital and Reserves	4806.5	4442.6	4254.7	-187.9	-4.2
Financing from Residents	3540.9	3148.5	2726.0	-422.4	-13.4
Bonds and Financing Instruments	249.8	284.2	248.1	-36.0	-12.7
Foreign Liabilities	3321.9	2416.5	2718.1	301.6	12.5
Other Liabilities	1671.1	1839.4	1681.4	-158.0	-8.6
Number of Companies	**100**	**95**	**93**	**-2**	

Source: CBK.
*Including data of subsidiaries.

For more details on the developments in local investment companies' performance, following is a separate analysis of both groups, conventional investment companies and investment companies operating according to the provisions of Islamic Sharia, during the last three years (2010-2012):

First- Conventional Investment Companies:

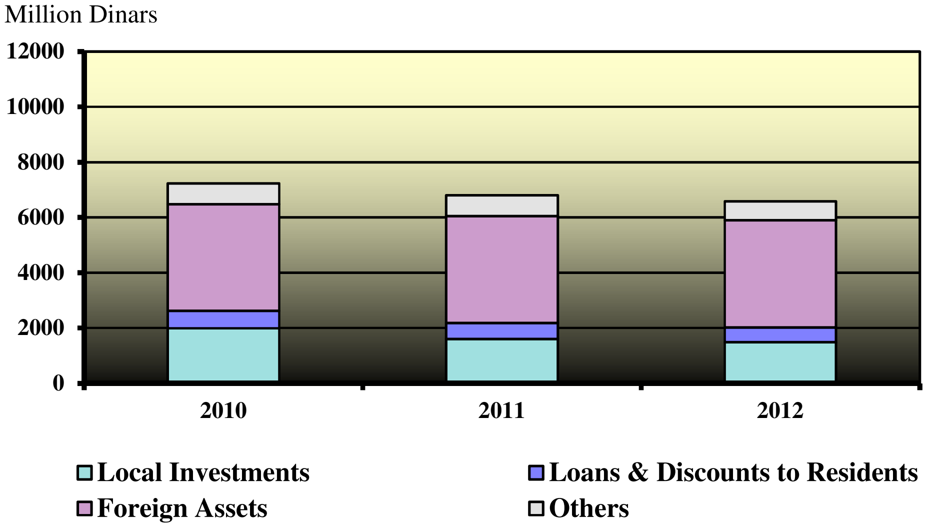
This review is based on data on the aggregate financial position of conventional investment companies during the last three-year period (2010-2012). These are the registered companies with CBK that existed at the end of 2012.

Comparable financial data provided on the mentioned conventional investment companies (43 companies), (Table 34, and Chart 8) indicate that their total aggregate balance sheet reached KD 6570.7 million at the end of 2012, i.e. a decline of KD 230.5 million or 3.4% below its level of KD 6801.2 million at the end of 2011, after a decline of KD 425.5 million or 5.9% during 2011 compared with 2010. This decline reflects broader developments among the elements of assets and liabilities of these companies. **On the assets side**, the most notable developments at the end of 2012 compared to the end of 2011, are addressed as follows:

1- Foreign assets grew by the equivalent of KD 4.5 million or 0.1% at the end of 2012 compared with 2011. This growth was brought about by the increase in "cash and balances" with foreign banks by KD 96.2 or 35.6% on the one hand, and the decline in loans and advances to non-residents by the equivalent of KD 4.9 million or 7.9%, foreign investments by KD 59.3 million or 1.9%, and other foreign assets by KD 27.4 million or 5.7%, on the other.

2- Domestic investments declined by KD 119 million or 7.4%, from KD 1604.4 million at the end 2011 to KD 1485.4 million at the end of 2012, after a decline of KD 384.9 million or 19.3% during 2011 compared with 2010. The mentioned decline during 2012 was caused by the decrease in financial investments by KD 142.6 million or 9.6%, and the increase in non-financial investments by KD 23.6 million or 20.1%.

Chart (8)
Assets of Conventional Investment Companies



3- Loans and advances to residents declined by KD 38.2 million or 6.6% to reach KD 537.7 million at the end of 2012 against KD 575.9 million at the end of 2011, after a decline of KD 55.7 million or 8.8% during 2011 compared with 2010.

On the liabilities side, the most notable developments at the end of 2012 compared with the end of 2011 are addressed as follows:

1- Capital and reserves decreased by KD 104.7 million or 4% from KD 2643.5 million at the end of 2011 to KD 2538.9 million at the end of 2012.

2- Foreign liabilities increased by the equivalent of KD 215 million or 13.3 from KD 1613.9 million at the end of 2011 to KD 1829 million at the end of 2012, after a decline of KD 335.1 million or 17.2% during 2011 compared with 2010. The mentioned increase during 2012 was caused by the increase in other foreign liabilities by KD 269.5 million or 33.8%, on the one hand, and the decline in non-bank institutions' foreign liabilities by KD 43.9 million or 37.2%, and foreign banks' claims by KD 10.5 million or 1.5% on the other.

Table (34)
Aggregate Balance Sheet of Conventional Investment Companies*
(KD Million)

Items	Balances at Year-End			Change in 2012	
	2010	**2011**	**2011**	**Value**	**%**
Assets:					
Cash & Balances with Local Banks	287.3	326.8	263.2	-63.6	-19.5
Loans and Advances to Residents	631.6	575.9	537.7	-38.2	-6.6
Domestic Investments:	1989.3	1604.4	1485.4	-119.0	-7.4
Financial Investments	1865.3	1486.8	1344.2	-142.6	-9.6
Non-financial Investments	124.0	117.6	141.3	23.6	20.1
Foreign Assets	3848.8	3867.9	3872.4	4.5	0.1
Other Assets	469.7	426.2	411.9	-14.3	-3.3
Assets = Liabilities	**7226.7**	**6801.2**	**6570.7**	**-230.5**	**-3.4**
Liabilities:					
Capital and Reserves	2783.6	2643.5	2538.9	-104.7	-4.0
Financing from Residents:	1516.7	1357.3	1150.5	-206.8	-15.2
Bonds	245.4	280.2	244.4	-35.8	-12.8
Foreign Liabilities:	1949.0	1613.9	1829.0	215.0	13.3
Other Liabilities	732.0	906.3	807.9	-98.4	-10.9
Number of Companies	**46**	**44**	**43**	**-1**	

Source: CBK.
* Including data of subsidiaries.

3- Financing from residents decreased by KD 206.8 million or 15.2% at the end of 2012 compared with the end of 2011, from KD 1357.3 million to KD 1150.5 million, after a decline of KD 159.4 million or 10.5% during 2011 compared with 2010.

Second- Investment Companies Operating in Accordance with the Provisions of the Islamic Sharia:

This review is based on data on the aggregate financial position of (50) investment companies operating according to the provisions of the Islamic Sharia for the last three-year period (2010-2012). The provided data on the registered companies with CBK that existed at the end of 2012, cover the years of the mentioned period, noting that the total value of these companies' aggregate balance sheet reached KD 5057.7 million at the end of 2012.

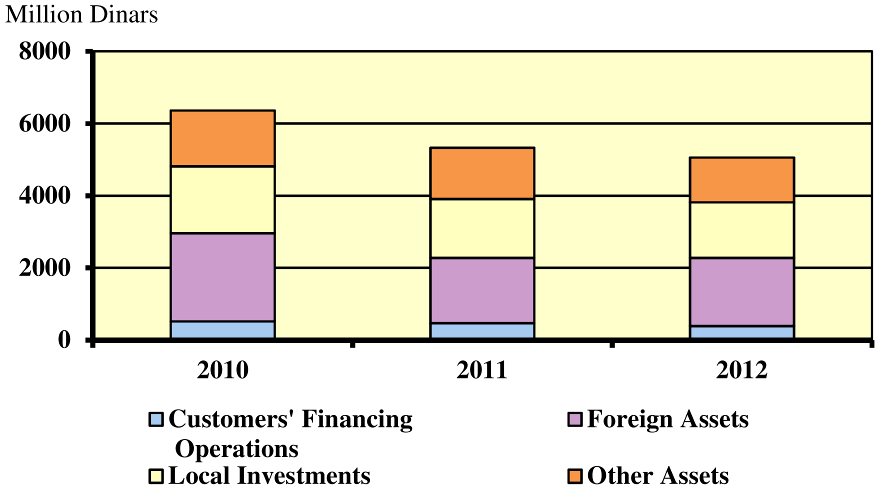
Comparable financial data provided on the aggregate balance sheet of investment companies operating in accordance with the provisions of the Islamic Sharia (50 companies) indicate a decline of KD 272.2 million or 5.1% in that total balance sheet at the end of 2012 compared with 2011, reaching KD 5057.7 million at the end of 2012 against KD 5329.9 million at the end of 2011, after a decline of KD 1033.5 million or 16.2% during 2011 compared with 2010. Key developments witnessed **on the assets side** at the end of 2012 compared with the end of 2011, are addressed as follows:

1- Foreign assets (foreign financial and non-financial assets) increased by KD 70.1 million or 3.9%, from KD 1813.6 million at the end of 2011 to KD 1883.7 million at the end of 2012. This growth was caused by the increase in the financing extended to customers by KD 34.1 million or 12.2%, foreign non-financial investments by KD 166.8 million or 60.4% on the one hand, and the decline in foreign financial investments by KD 96.7 million or 8.4%, "cash and balances" with foreign banks and financial institutions by KD 4.1 million or 6.2% and other foreign investments by KD 29.9 million or 9.5%, on the other.

2- Domestic financial investments declined by KD 19.5 million or 1.6% to KD 1231.3 million at the end of 2012 compared to KD 1250.7 million at the end of 2011.

3- Financing to customers decreased by KD 72.6 million or 15.6% to KD 392.2 million at the end of 2012 against KD 464.8 million at the end of 2011.

Chart (9)
Assets of Investment Companies Operating According to Provision of Islamic Sharia



On the liabilities side, key developments witnessed at the end of 2012 compared with the end of 2011, are addressed as follows:

1- Shareholders' equity decreased by KD 83.2 million or 4.6% to KD 1715.8 million at the end of 2012 compared to KD 1799.1 million at the end of 2011.

2- Funding from domestic banking and financial sector decreased due to the decline in the funding to investment companies operating according to the provisions of Islamic Sharia by KD 215.6 million or 12% to KD 1575.5 million at the end of 2012 against KD 1791.2 million at the end of 2011.

3- Foreign liabilities increased by KD 86.6 million or 10.8% to KD 889.2 million at the end of 2012 against KD 802.6 million at the end of 2011.

Table (35)
Aggregate Balance Sheet of Investment Companies Operating in Accordance with the Provisions of the Islamic Sharia*
(KD Million)

Items	Balances at Year-End			Change in 2012	
	2010	2011	2012	Value	%
Assets:					
Cash & Balances with Banks	355.3	315.1	212.9	-102.2	-32.4
Customers Financing	517.3	464.8	392.2	-72.6	-15.6
Domestic Investments:	1852.3	1632.1	1542.7	-89.5	-5.5
Financial Investments	1601.9	1250.7	1231.3	-19.5	-1.6
Non-Financial Investments	250.4	381.4	311.4	-70.0	-18.4
Foreign Assets	2447.5	1813.6	1883.7	70.1	3.9
Other Assets	1190.9	1104.3	1026.2	-78.1	-7.1
Assets = Liabilities	**6363.4**	**5329.9**	**5057.7**	**-272.2**	**-5.1**
Liabilities:					
Capital and Reserves	2022.9	1799.1	1715.8	-83.2	-4.6
Funding from Residents	2024.2	1791.2	1575.5	-215.6	-12.0
Bonds and Financing Instruments	4.4	4.0	3.7	-0.3	-6.9
Foreign Liabilities	1372.9	802.6	889.2	86.6	10.8
Other Liabilities	939.1	933.1	873.5	-59.6	-6.4
Number of Companies	**54**	**51**	**50**	**-1**	

Source: CBK.
* Including data of subsidiaries.

Third- Contra Accounts of Local Investment Companies:

Contra accounts (off-balance-sheet) reflect a key aspect of local investment companies' activities in terms of the numerous financial services provided to residents and non-residents (Table 36). The balances of contra accounts for 93 local investment companies registered with CBK at the end of 2012 (43 conventional companies and 50 Islamic companies) amounted to KD 18031.6 million, of which KD 16241.1 million or 90.1% for conventional investment companies, and KD 1790.5 million or 9.9% for investment companies operating in accordance with the provisions of Islamic Sharia, i.e. a decline by KD 921.9 million or 4.9% compared to its level of KD 18953.5 million for 95 registered companies at the end of 2011, of which KD 16682.5 million or 88% for 44 conventional investment companies, and KD 2271 million or 12% for 51 investment companies operating in accordance with the provisions of Islamic Sharia.

Table (36)
Contra Accounts of Local Investment Companies*
(KD million)

Item	Balances at Year End			Changes in 2012	
	2010	2011	2012	Value	%
Contra Accounts:	**23056.6**	**18953.5**	**18031.6**	**-921.9**	**-4.9**
Conventional Investment Companies	20405.0	16682.5	16241.1	-441.4	-2.6
Islamic Investment Companies	2651.6	2271.0	1790.5	-480.5	-21.2
1- Investments Portfolios	**18201.9**	**14833.3**	**14267.2**	**-566.1**	**-3.8**
Conventional Investment Companies	15905.3	12856.7	12681.7	-175.0	-1.4
Islamic Investment Companies	2296.6	1976.6	1585.5	-391.1	-19.8
2- Investments Funds	**2048.8**	**1611.3**	**1419.9**	**-191.4**	**-11.9**
Conventional Investment Companies	1809.3	1388.9	1270.3	-118.6	-8.5
Islamic Investment Companies	239.5	222.4	149.6	-72.8	-32.7
3- Foreign Funds	**2543.1**	**2283.0**	**2143.0**	**-140.0**	**-6.1**
Conventional Investment Companies	2498.4	2264.5	2127.1	-137.4	-6.1
Islamic Investment Companies	44.7	18.5	15.9	-26.2	-58.6
4- Custody Assets	**103.3**	**109.0**	**104.4**	**-4.6**	**-4.2**
Conventional Investment Companies	65.7	79.7	92.4	12.7	15.9
Islamic Investment Companies	37.6	29.3	12.0	-17.3	-59.0
5- Commitments/Collaterals/ Guarantees	**159.5**	**116.9**	**97.1**	**-19.8**	**-16.9**
Conventional Investment Companies	126.3	92.7	69.6	-23.1	-24.9
Islamic Investment Companies	33.2	24.2	27.5	3.3	13.6
Number of Investment Companies	**100**	**95**	**93**	**-2**	
Conventional Investment Companies	46	44	43	-1	
Islamic Investment Companies	54	51	50	-1	

Source: CBK.
* Including data of subsidiaries.

The Aggregate Balance Sheet of Local Exchange Companies

Data provided on local exchange companies (39 companies) registered with, and supervised by CBK (Table 37) indicate that the aggregate balance sheet of these companies reached KD 122.6 million at the end of 2012, i.e. an increase of KD 4.4 million or 3.8% compared to KD 118.2 million at the end of 2011. This growth was caused by several developments on both the assets and liabilities sides, which is addressed in some detail as follows:

First- Assets:

1- Exchange companies' claims on banks and other domestic and foreign financial institutions increased by KD 2.7 million or 3.8% as a result to the rise in claims on banks and domestic financial institutions by KD 6.9 million or 27%, and the decline in claims on banks and foreign financial institutions by KD 4.2 million or 9.1%. Consequently, the relative weight of those claims in total assets of exchange companies grew from 60.5% at the end of 2011 to 60.6% at the end of 2012.

2- Financial and real estate investments grew by KD 2.1 million or 65.5% at the end of 2012 to reach KD 5.4 million, compared with the end of 2011. This growth was brought about by the rise in exchange companies' foreign investments by KD 2.7 million or 364.4%, and the decline in their domestic financial and real estate investments by KD 0.6 million or 21.8%. Therefore, the relative weight of financial and real estate investments increased from 2.8% at the end of 2011 to 4.4% at the end of 2012.

3- Liquid assets (cash and cash assets) rose by KD 0.5 million or 3.1% from KD 17.1 million at the end of 2011 to KD 17.7 million at the end of 2012. Accordingly, the relative weight of cash and cash assets in total assets reached 14.4% at the end of 2012 compared to 14.5% at the end of 2011.

Table (37)
Aggregate Balance Sheet of Local Exchange Companies
(Thousand Dinars)

Items	Balances at Year-End			Change in 2012	
	2010	2011	2012	Value	%
Assets:					
Cash and Cash Assets	17692.6	17141.1	17676.8	535.7	3.1
Claims on Banks and Financial Institutions:	66070.0	71546.8	74250.0	2703.2	3.8
Local	21408.5	25586.3	32485.8	6899.5	27.0
Foreign	44661.4	45960.6	41764.3	-4196.3	-9.1
Total Receivables	3043.1	4966.1	3937.8	-1028.3	-20.7
Financial and Real estate Investments:	2305.4	3260.7	5395.1	2134.3	65.5
Local	2108.6	2524.2	1974.8	-549.4	-21.8
Foreign	196.8	736.5	3420.3	2683.8	364.4
Precious Metals (at cost)	343.4	6.4	6.4	0.0	0.0
Fixed Assets	11206.1	12016.3	11558.8	-457.5	-3.8
Other Assets	9095.1	9245.5	9792.3	546.8	5.9
Total Assets = Total Liabilities	**109755.7**	**118182.8**	**122617.0**	**4434.2**	**3.8**
Liabilities:					
Partners' Equity, of which:	73642.5	79261.2	78951.4	-309.8	-0.4
Paid-up Capital	52174.3	56874.3	61324.3	4450.0	7.8
Provisions	13080.5	14314.5	14168.6	-145.9	-1.0
Claims of Banks and Financial Institutions:	7828.2	4958.0	2270.6	-2687.4	-54.2
Domestic Liabilities	2463.8	2753.4	1120.3	-1633.2	-59.3
Foreign Liabilities	5364.5	2204.5	1150.3	-1054.2	-47.8
Total Payables	4140.6	3494.0	3231.0	-263.0	-7.5
Other Liabilities	11063.9	16155.1	23995.4	7840.2	48.5
Contra Accounts	**6238.2**	**6580.8**	**5521.0**	**-1059.7**	**-16.1**
Net Profit/Results of the Period	**10113.0**	**11760.7**	**13248.8**	**14881**	**12.7**
Number of Companies	**38**	**39**	**39**		

Source: CBK.

Second- Liabilities:

1- Claims of banks and other financial institutions on domestic exchange companies decreased by KD 2.7 million or 54.2% from KD 5 million at the end of 2011 to

KD 2.3 million at the end of 2012. This decline resulted from the decrease in domestic claims of banks and other financial institutions on domestic exchange companies by KD 1.6 million or 59.3%, and their foreign claims on those companies by KD 1.1 million or 47.8%. Accordingly, the relative weight of domestic and foreign claims of banks and other financial institutions on exchange companies in the total financing structure decreased from 4.2% at the end of 2011 to 1.9% at the end of 2012.

2- Partners' equity (including the results of the period) declined by KD 0.3 million or 0.4% from KD 79.3 million at the end of 2011 to KD 79 million at the end of 2012. Consequently, the relative weight of partners' equity in the financing structure declined from 67.1% at the end of 2011 to 64.4% at the end of 2012. Within the developments in the elements of partners' equity, the relative weight of paid-up capital in the total financing structure grew to reach 50% at the end of 2012 compared to 48.1% at the end of 2011.

3- Financial provisions allocated by local exchange companies to cover potential risks involving the value of their assets, declined by KD 0.1 million or 1% from KD 14.3 million in 2011 to KD 14.2 million at the end of 2012. These financial provisions ranked third in the total liabilities with a relative weight of 11.6% at the end of 2012 against 12.1% at the end of 2011.

Table (38)
Relative Distribution of Elements of the Aggregate Balance Sheet of Local Exchange Companies
(%)

Items	2010	2011	2012
Assets:			
Cash and Cash Assets	16.1	14.5	14.4
Claims on Banks and Other Financial Institutions:	60.2	60.5	60.6
Local	19.5	21.6	26.5
Foreign	40.7	38.9	34.1
Total Receivables	2.8	4.2	3.2
Financial and Real Estate Investments:	2.1	2.8	4.4
Local	1.9	2.1	1.6
Foreign	0.2	0.6	2.8
Precious Metals (at cost)	0.3	0.0	0.0
Fixed Assets	10.2	10.2	9.4
Other Assets	8.3	7.8	8.0
Total Asset = Total Liabilities	**100.0**	**100.0**	**100.0**
Liabilities:			
Partners' Equity, of which:	67.1	67.1	64.4
Paid-up Capital	47.5	48.1	50.0
Provisions	11.9	12.1	11.6
Claims of Banks and Other Financial Institutions:	7.1	4.2	1.9
Domestic Liabilities	2.2	2.3	0.9
Foreign Liabilities	4.9	1.9	0.9
Total Payables	3.8	3.0	2.6
Other Liabilities	10.1	13.7	19.6
Contra Accounts	**5.7**	**5.6**	**4.5**
Net Profit/Results of the Period	**9.2**	**10.0**	**10.8**
Number of Companies	**38**	**39**	**39**

Source: CBK.

Third- Liquidity, Profitability and Solvency Ratios:

Data reported on local exchange companies indicate that the net credit position of these companies with local banks and financial institutions grew from KD 22.8 million at the end of 2011 to KD 31.4 million at the end of 2012, i.e. an increase of 37.4%, remaining in favor of local exchange companies. Worth noting is that, the net credit position of local exchange companies with foreign banks and financial institutions declined from KD 43.8 million to KD 40.6 million or 7.2% at the end of 2012 compared with the end of 2011, also in favor of local exchange companies.

Net liquidity position of local exchange companies at the end of 2012 is expressed in a liquidity level of KD 89.7 million, in the form of cash and cash assets of KD 17.7 million or 19.7%, and net claims of local exchange companies on local and foreign banks and financial institutions of KD 72 million or 80.3% compared to a net liquidity position of KD 83.7 million at the end of 2011. Consequently, net liquidity position increased by KD 5.6 million or 7.1% at the end of 2012 increasing its ratio to the total assets from 70.8% at end of 2011 to 73.1% at end of 2012.

Profitability ratios in local exchange companies increased during 2012, as a result to the growth of the ratio of net profit to partners' equity to 16.8% in 2012 against 14.8% in 2011. The return on paid-up capital also increased reaching 21.6% in 2012 against 20.7% in 2011. Likewise, the ratio of the return on total assets increased to 10.8% , and net profit increased to KD 13.2 million.

On another front, the ratio of partners' equity to total assets declined from 67.1% at the end of 2011 to 64.4% at the end of 2012. Also, the ratio of partners' equity to total assets and contingent liabilities represented in contra accounts, decreased from 63.5% at the end of 2011 to 61.6% at the end of 2012.

Given the above detailed developments, it can be said that the aggregate balance sheet of local exchange companies reveals an improvement in the financial positions of these companies at the end of 2012 compared with the end of 2011, particularly in terms of "liquidity" and "profitability" standards.

Public Finance

Public Finance

Introduction:

This part of the Economic Report highlights the developments of public finance by presenting the developments of the Closing Account of ministries and governmental bodies for the fiscal year 2011/12, along with the estimates and allocations of public expenditures for the fiscal year 2012/13, and the actual revenues and expenditures from the monthly follow-up statements of government fiscal operations during April-December 2012 of the fiscal year 2012/13.

The follow-up statements monitor the data of government fiscal operations on the sides of public revenues and expenditures completed on a cash basis. Meanwhile, the Closing Account data is prepared on maturity basis after completing all financial settlements of the fiscal year ending in March. In this context, data of monthly follow-up statements for a specific fiscal year do not correspond with data of the Closing Account of that same fiscal year.

First - The Closing Account for the Fiscal Year 2011/12:

A- Public Revenues

Closing Account data of ministries and governmental bodies for the fiscal year 2011/12 indicate that total actual budgetary revenues collected during the mentioned fiscal year reached KD 30236.1 million compared to KD 21502 million during the previous fiscal year, i.e. an increase of KD 8734.1 million or 40.6%. The mentioned increase in the total value of the actual budgetary revenues collected during the fiscal year 2011/12, compared to the fiscal year 2010/11 mainly reflects the rise in the actual budgetary oil revenues collected by KD 8622.1 million or 43.2% to KD 28569.5 million compared to KD 19947.4 million for the previous fiscal year.

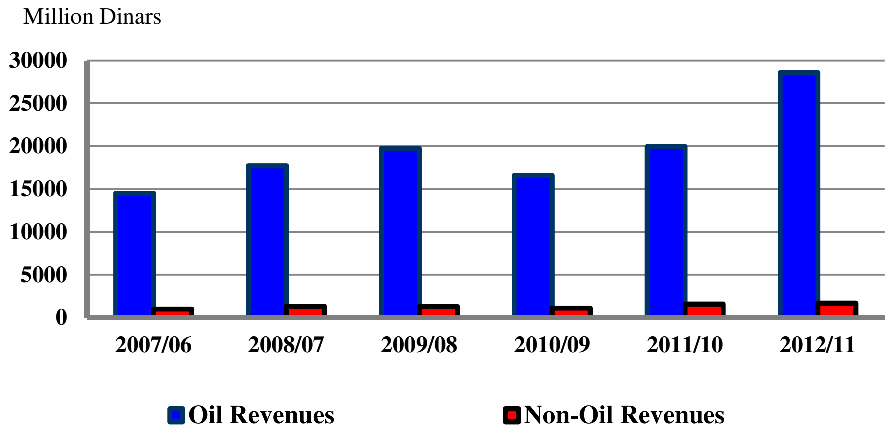
This rise in the actual budgetary oil revenues collected during the fiscal year 2011/12 essentially resulted from the rise in the average price of Kuwait's exported crude oil to $106.16 per barrel during the mentioned fiscal year, against $82 per barrel during the previous fiscal year 2010/11, i.e. an increase of $24.16 or 29.4%. The daily average quantity of produced crude oil reached 2.80 million b/d during the fiscal year 2011/12 against 2.33 million b/d during the previous fiscal year, i.e. an increase of 0.47 million b/d or 20.1%. Furthermore, the relative importance of actual oil revenues in the total actual budgetary revenues increased to 94.5% during the fiscal year 2011/12 against 92.8% during the previous fiscal year (Table 39).

Table (39)
Development of Actual Revenues in the General Budget, in 2011/12
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2010/11		2011/12			
	Value (1)	(%)	Value (2)	(%)	Value	(%)
Total Budgetary Revenues:	**21502.0**	**100.0**	**30236.1**	**100**	**8734.1**	**40.6**
Oil Revenues	19947.4	92.8	28569.5	94.5	8622.1	43.2
Non-Oil Revenues	1554.6	7.2	1666.6	5.5	112.0	7.2

Source: Ministry of Finance.

Chart (10)
Development of Oil and Non-Oil Revenues



Actual budgetary non-oil revenues collected during the fiscal year 2011/12 increased to KD 1666.6 million against KD 1554.6 million during the previous fiscal year, i.e. a rise of KD 112 million or 7.2%. Nevertheless, the relative share of actual budgetary non-oil revenues in the total actual budgetary revenues collected during the fiscal year 2011/12 declined to 5.5%, against 7.2% during the previous fiscal year.

The above-mentioned rise in total non-oil revenues mainly reflects the increase in the actual revenues collected under the Seventh Chapter (miscellaneous revenues and charges) by KD 85.8 million or 13% (Table 40).

Table (40)
Development of Actual Budgetary Non-oil Revenues
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2010/11		2011/12			
	Value (1)	(%)	Value (2)	(%)	Value	(%)
Non-Oil Revenues, of which:	**1554.6**	**100.0**	**1666.6**	**100.0**	**112.0**	**7.2**
- Taxes on Net Income & Profits	87.8	5.6	86.3	5.2	-1.5	-1.7
- Taxes & Fees on Property	11.1	0.7	14.5	0.9	3.4	30.6
- Taxes & Fees on Goods & Services	2.8	0.2	2.5	0.2	-0.3	-10.7
- Taxes & Fees on Trade & International Transactions	218.4	14.0	222.9	13.4	4.5	2.1
- Service Revenues, of which:	566.6	36.4	576.7	34.6	10.1	1.8
Electricity & Water	120.1	7.7	136.8	8.2	16.8	14.0
Transport & Communication	178.0	11.4	143.8	8.6	-34.2	-19.2
Fiscal Stamps Revenues	72.1	4.6	79.7	4.8	7.6	10.5
Security & Justice	72.7	4.7	67.9	4.1	-4.8	-6.6
Housing & Facilities	46.9	3.0	65.3	3.9	18.4	39.2
Health Services	72.7	4.7	78.9	4.7	6.2	8.5
- Misc. Revenues & Charges	**660.6**	**42.5**	**746.4**	**44.8**	**85.8**	**13.0**
- Capital Revenues	**7.3**	**0.5**	**17.3**	**1.0**	**10.0**	**137.0**

Source: Ministry of Finance

B- Public Expenditures

Closing Account data for the fiscal year 2011/12 indicate an increase in the total actual budgetary expenditures by KD 786.4 million or 4.8% to reach KD 17007.4 million during the mentioned fiscal year, against KD 16221 million during the previous fiscal year. Worth noting is that the rise in actual budgetary expenditures under the First Chapter (salaries and wages) accounts for 86.5% of that rise, as these expenditures rose by KD 680.1 million or 19.9% to reach KD 4103.3 million, with a relative share of 24.1% in the total actual budgetary expenditures during the fiscal year 2011/12, against KD 3423.2 million and a relative share of 21.1% during the previous fiscal year 2010/11 (Table 41).

Table (41)
Development of Actual Budgetary Expenditures for the Fiscal Year 2011/12
(KD Million)

Item	Closing Account 2010/11 (1)	Closing Account 2011/12 (2)	Change (2) – (1) Value	Change (2) – (1) (%)
Budgetary Expenditures:	16221.0	17007.4	786.4	4.8
- Salaries and Wages	3423.2	4103.3	680.1	19.9
- Requirements of Goods and Services	2791.9	2760.1	-31.8	-1.1
- Means of Transport, Equipment and Supplies	152.9	147.0	-5.9	-3.9
- Construction Projects & Public Acquisitions	1688.1	1652.0	-36.1	-2.1
- Miscellaneous Expenditures & Transfer Payments	8164.9	8345.0	180.1	2.2

Source: Ministry of Finance

In regard to the economic classification of budgetary expenditures, Closing Account data for the fiscal year 2011/12 indicate a decline in the current budgetary expenditures during the mentioned fiscal year to reach KD 11097.3 million, against KD 11329.2 million during the previous fiscal year 2010/11, i.e. a decrease of KD 231.9 million or 2% (Table 42).

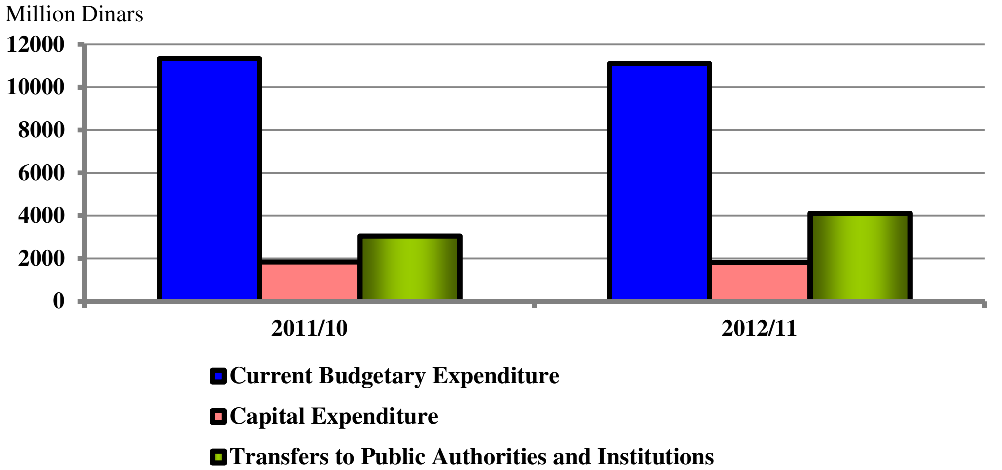
Table (42)
Economic Classification of Actual Budgetary Expenditures
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2010/11		2011/12			
	Value (1)	(%)	Value (2)	(%)	Value	(%)
Current Expenditures:	**11329.2**	**69.8**	**11097.3**	**65.2**	**-231.9**	**-2.0**
- Consumption Expenditures	6215.1	38.3	6863.4	40.4	648.3	10.4
• Salaries and wages	3423.2	21.1	4103.3	24.1	680.1	19.9
• Requirements of Goods & Services	2728.7	17.2	2760.1	16.2	-31.8	-1.1
- Transfer Payments	5114.1	31.5	4233.9	24.9	-880.2	-17.2
• Miscellaneous Expenditures	1381.6	8.5	1534.1	9.0	152.5	11.0
• Internal Transfers	3336.5	20.6	2228.7	13.1	-1107.8	-33.2
• External Transfers	396.0	2.4	471.1	2.8	75.1	19.0
Capital Expenditures:	**1841.0**	**11.4**	**1799.0**	**10.6**	**-42.0**	**-2.3**
- Means of Transport, Equipment & Supplies	152.9	0.9	147.0	0.9	-5.9	-3.9
- Construction Projects and Maintenance	1684.5	10.4	1631.0	9.6	-53.5	-3.2
- Public Acquisitions	3.6	0.02	21.0	0.1	17.4	483.3
Transfers to Public Authorities & Institutions	**3050.8**	**18.8**	**4111.1**	**24.2**	**1060.3**	**34.8**
Total	**16221.0**	**100**	**17007.4**	**100**	**786.4**	**4.8**

Source: Ministry of Finance.

Actual capital budgetary expenditures declined during the fiscal year 2011/12 by KD 42 million or 2.3% to KD 1799 million, against KD 1841 million during the previous fiscal year 2010/11. Meanwhile, the ratio of actual capital budgetary expenditures to total actual budgetary expenditures declined to 10.6% during the fiscal year 2011/12, against 11.4% during the previous fiscal year.

Chart (11)
Economic Classification of Budgetary Expenditure



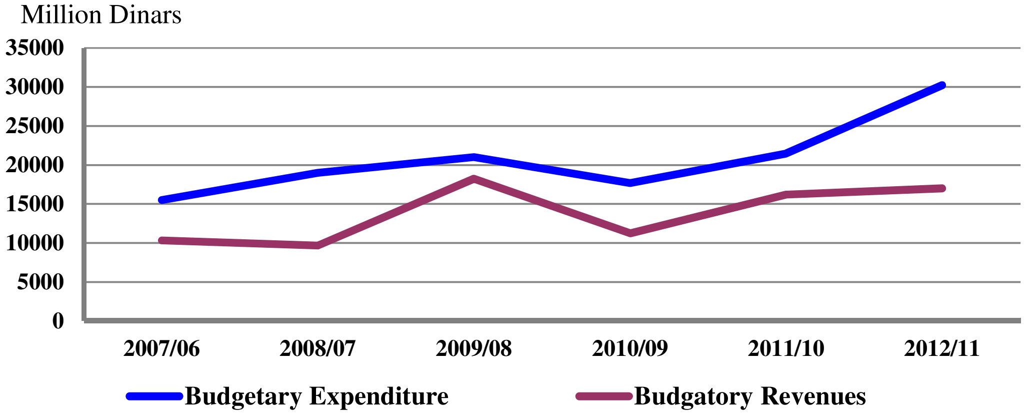
In the light of these mentioned developments in both actual budgetary revenues and expenditures in the Closing Account of the fiscal year 2011/12, the general budget recorded an actual surplus of KD 13228.7 million during the mentioned fiscal year, against an actual surplus of KD 5281 million during the previous fiscal year 2010/11, i.e. an increase of KD 7947.7 million or 150.5%, before deducting the allocations for the Reserve Fund for Future Generations (Table 43).

Table (43)
Summary of the General Budget Closing Account
(KD Million)

Item	Closing Account	
	2010/11	2011/12
Actual Public Revenues, of which:	**21502.0**	**30236.1**
- Actual Oil Revenues	19947.4	28569.5
Actual Public Expenditures	**16221.0**	**17007.4**
Surplus or (Deficit) (1)	**5281.0**	**13228.7**
Surplus or (Deficit) (2)	**3130.8**	**10205.1**

Source: Ministry of Finance.
(1) Before deducting the allocations for the Reserve Fund for Future Generations.
(2) After deducting the allocations for the Reserve Fund for Future Generations.

Chart (12)
Development of Budgetary Revenues and Expenditure according to closing Account Data



Second – The Fiscal Year 2012/13:

1- The General Budget for the fiscal year 2012/13:

Law No. 5 of the year 2012, issued on 10/10/2012, enacted the general budget for ministries and governmental bodies for the fiscal year 2012/13. This general budget encompassed an increase in budgetary revenue estimates, for the mentioned fiscal year, of KD 487.1 million or 3.6% to KD 13932.4 million, compared to the budgetary revenue estimates of KD 13445.3 million during the previous fiscal year. This increase in total budgetary revenue estimates for the fiscal year 2012/13 reflects the rise in oil revenues estimates by KD 461.1 million or 3.7% to KD 12768.1 million compared with their approved budgetary estimates of KD 12307.1 million on the one hand, and the rise in non-oil revenues estimates by KD 26 million or 2.3% to KD 1164.2 million compared with their approved budgetary estimates of KD 1138.2 million for the fiscal year 2011/12 (Table 44).

The mentioned growth in oil revenue estimates within the enacted general budget for the fiscal year 2012/13 is attributable to the increase in oil reference price applied in estimating the budgetary oil revenues within that general budget, wherein the oil reference price used was $65 per barrel or 8.3%, i.e. an increase of $5, compared to $60 per barrel applied in estimating the budgetary oil revenues for the fiscal year 2011/12. The production quantity applied in estimating the budgetary oil revenues within the general budget for the fiscal year 2012/13 was stable at its fiscal year 2011/12 level of average 2.22 million b/d.

On another front, total allocations for budgetary expenditures for the fiscal year 2012/13 compared with corresponding allocations for budgetary expenditures for the previous fiscal year increased by KD 1805 million or 9.3% to reach KD 21240 million, compared to KD 19435 million for budgetary expenditures of the previous fiscal year.

Table (44)
Revenue Estimates and Expenditure Allocations in the General Budget for 2011/12 and 2012/13
(KD Million)

Item	Approved Budget		Change	
	2011/12	2012/13	Value	(%)
Public Revenues:	**13445.3**	**13932.4**	**487.1**	**3.6**
Oil Revenues	**12307.1**	**12768.2**	**461.1**	**3.7**
Non-Oil Revenues, of which:	**1138.2**	**1164.2**	**26.0**	**2.3**
- Taxes on Net Income and Profits	52.5	88.4	35.9	68.4
- Taxes & Fees on Goods & Services	2.1	2.2	0.1	4.7
- Taxes and Duties on Property	11.5	17.0	5.5	47.8
- Taxes & Fees on International Trade & Transactions	202.4	198.1	-4.3	-2.1
Service Revenues, of which:	**662.4**	**682.1**	**19.7**	**3.0**
- Electricity and Water	211.1	218.7	7.6	3.6
- Transport and Communication	183.7	183.4	-0.3	-0.2
- Miscellaneous Revenues and Charges	206.3	136.3	-69.9	-33.9
- Capital Revenues	1.0	40.0	39.0	3900.0
Public Expenditures:	**19435.0**	**21240.0**	**1805.0**	**9.3**
- Salaries and Wages	4428.0	5146.0	718.0	16.2
- Requirements of Goods and Services	3035.0	4169.0	1134.0	37.3
- Means of Transport, Equipment and Supplies	385.0	477.0	92.0	24.0
- Construction Projects & Public Acquisitions	2430.8	2162.0	-268.8	-11.0
- Miscellaneous Expenditures and Transfer Payments	9156.3	9286.0	129.7	1.4

Source: Ministry of Finance

Regarding the economic classification of the allocations for budgetary expenditures for the fiscal year 2012/13 (Table 45), the allocations for current expenditures increased by KD 1589.1 million or 12.8% to reach KD 14049.7 million compared with allocations of KD 12460.6 million. Meanwhile, the relative share of the allocations for current expenditures within the general budget for the fiscal year 2012/13 to the total allocations for budgetary expenditures increased to 66.1%, against 64.1% for the previous fiscal year.

Meanwhile, allocations for capital expenditures decreased to KD 2639 million during the fiscal year 2012/13, against KD 2815.8 million for the previous fiscal year, i.e. a decline of KD 176.8 million or 6.3%. Within the same context, its relative share in the total allocations for budgetary expenditures for the fiscal year 2012/13 decreased to 12.4% against 14.5% for the fiscal year 2011/12. On another front, the allocations for transfers of public authorities and institutions increased by KD 392.7 million or 9.4% to reach KD 4551.3 million or 21.4% of total allocations for budgetary expenditures during the fiscal year 2012/13, compared to KD 4158.6 million or 21.4% of total allocations for budgetary expenditures during the fiscal year 2011/12.

Table (45)
Allocations for Expenditures in the General Budget
(KD Million)

Item	Approved Budget				Change	
	2011/12		2012/13		Value	(%)
	Value	(%)	Value	(%)		
Current Expenditures:	**12460.6**	**64.1**	**14049.7**	**66.1**	**1589.1**	**12.8**
- Consumption Expenditures	7463.0	38.4	9315.0	43.9	1852.0	24.8
Salaries and Wages	4428.0	22.8	5146.0	24.2	718.0	16.2
Requirements of Goods and services	3035.0	15.6	4169.0	19.6	1134.0	37.4
- Transfer Payments, of which:	4997.6	25.7	4734.7	22.3	-262.9	-5.3
Miscellaneous Expenditures	1700.9	8.8	1894.1	8.9	193.2	11.4
Domestic Expenditures	2542.9	13.1	1952.6	9.2	-590.3	-23.2
External Transfers	477.2	2.5	540.2	2.5	63.0	13.2
Capital Expenditures:	**2815.8**	**14.5**	**2639.0**	**12.4**	**-176.8**	**-6.3**
- Means of Transport, Equipment & Supplies	385.0	2.0	477.0	2.2	92.0	23.9
- Construction Projects and Maintenance	2409.8	12.4	2026.7	9.5	-383.1	-15.9
- Public Acquisitions	21.0	0.1	135.3	0.6	114.3	544.3
Transfers to Public Authorities & Institutions	4158.6	21.4	4551.3	21.4	392.7	9.4
Total	**19435.0**	**100**	**21240.0**	**100**	**1805.0**	**9.3**

Source: Ministry of Finance.

As a result of the above-mentioned developments in both estimated budgetary revenues and allocations for budgetary expenditures for the fiscal year 2012/13, the general budget for that fiscal year encompassed an estimated deficit of KD 7307.6 million, against an estimated deficit of KD 5989.7 million for the previous fiscal year, before deducting the allocations for the Reserve Fund for Future Generations (Table 46).

Chart (13)
Development of Revenues Estimates and Expenditure Allocations in General Budget

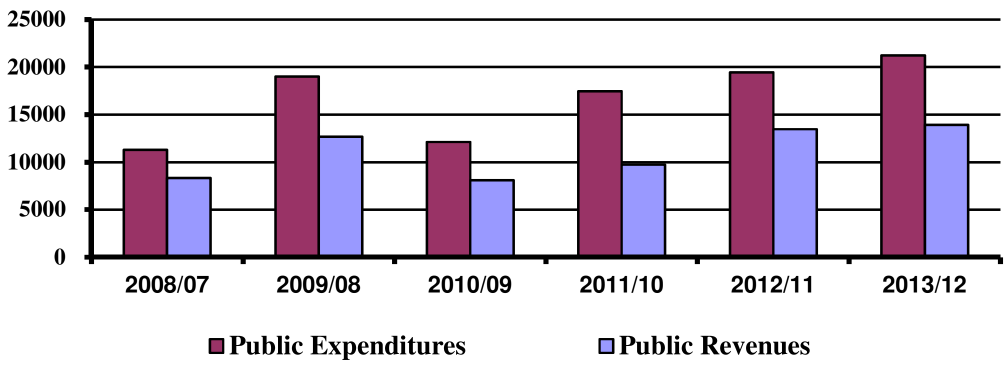


Table (46)
Revenue Estimates and Allocations for Expenditures in the General Budget
(KD Million)

Item	Approved Budget	
	2011/12	2012/13
Public Revenue Estimates, of which:	13445.3	13932.4
Oil Revenues	12307.1	12768.2
Allocations for Public Expenditures	19435.0	21240.0
Surplus or Deficit (1)	-5989.7	-7307.6
Surplus or Deficit (2)	-7334.2	-10790.7*

Source: Ministry of Finance.
(1) Before deducting the allocations for the Reserve Fund for Future Generations.
(2) After deducting the allocations for the Reserve Fund for Future Generations.
* Reserve Fund for Future Generations: The rate of deducting the allocations for the Reserve Fund for Future Generations is increased to 25% instead of 10%, the rate in mentioned in Law No. 106 of year 1976.

2- Government Fiscal Operations during the First Nine Months (April–December) of the Fiscal Year 2012/13

Available data in the monthly follow-up statements of actual revenues and expenditures in the general budget (Table 47) show a rise in the actual budgetary revenues and expenditures during the first nine months of the Fiscal Year 2012/13 (April-December 2012) by KD 2846.1 million or 13.3% to reach KD 24260.3 million, compared to KD 21414.2 million during the corresponding period of the previous fiscal year. This is attributed to the rise of actual budgetary oil revenues collected during the period April-December 2012 by KD 2555.4 million or 12.6% to KD 22840.5 million, against KD 20285.1 million in the corresponding period of fiscal year 2011/12. Within the same context, total actual budgetary non-oil revenues collected during the period April-December 2012 increased by KD 290.7 million or 25.7% to reach KD 1419.8 million, compared with KD 1129.1 million during the corresponding period of the previous fiscal year. It is worth noting that the average price of the OPEC oil basket during the period of April-December 2012 was $106.86 per barrel. The daily average quantity of Kuwaiti crude oil produced during that period reached 2.979 million barrels per day, meanwhile, the oil reference price applied in estimating the budgetary oil revenues within that general budget for 2012/13 was $65 per barrel at a production rate of 2.222 million b/d during the mentioned fiscal year.

Table (47)
Actual Revenues and Expenditures in the General Budget
(KD Million)

Item	Follow-up Statements Apr.-Dec. 2011	Apr.-Dec. 2012	Value of Change	Rate of Change (%)
Total Public Revenues:	**21414.2**	**24260.3**	**2846.1**	**13.3**
Oil Revenues	**20285.1**	**22840.5**	**2555.4**	**12.6**
Non-Oil Revenues, of which:	**1129.1**	**1419.8**	**290.7**	**25.7**
-Taxes on Net Income	74.4	64.1	-10.30	-13.8
-Taxes and Customs Duties	138.0	189.3	51.3	37.2
- Service Revenues, of which:	380.0	480.5	100.5	26.4
Electricity and Water	96.8	136.2	39.4	40.7
Transport and Communication	102.8	131.1	28.3	27.5
Fiscal Stamps	54.4	59.4	5.0	9.2
Total Public Expenditures:	**8258.5**	**8157.8**	**-100.7**	**-1.2**
- Salaries and Wages	1960.8	2286.7	325.9	16.6
- Requirements of Goods and Services	1501.0	1617.4	116.4	7.8
- Means of Transport, Equipment and Supplies	62.2	54.3	-709	-12.7
- Const. Projects & Public Acquisitions	814.5	658.9	-155.7	-19.1
- Misc. Expenditures and Transfer Payments	3920.0	3540.5	-379.5	-9.7
Surplus or Deficit (1)	**13155.6**	**16102.5**	**2946.9**	**22.4**
Surplus or Deficit (2)	**11014.2**	***10037.4**	**-976.8**	**-8.9**

Source: Ministry of Finance.
(1) Before deducting the allocations for the Reserve Fund for Future Generations.
(2) After deducting the allocations for the Reserve Fund for Future Generations.
* Reserve Fund for Future Generations: The rate of deducting the allocations for the Reserve Fund for Future Generations is increased to 25% instead of 10%, the rate in mentioned in Law No. 106 of year 1976.

In accordance with the previous view of developments in both actual oil and non-oil budgetary revenues during the first nine months of the fiscal year 2012/13, actual budgetary revenues collected surpassed their approved budgetary estimates of KD 13932.4 million for the whole mentioned fiscal year by KD 10327.9 million or 74.1%. The mentioned increase was an outcome of the rise in the actual budgetary oil revenues collected during the first nine months (April-December 2012) of the fiscal year 2012/13 by KD 10072.4 million or 78.9% above their approved budgetary estimates of KD 12768.1 million for the whole mentioned fiscal year. Meanwhile, the actual budgetary non-oil revenues collected during the first nine months (April-December 2012) of the fiscal year

2012/13 increased by KD 255.5 million or 21.9% from their approved budgetary estimates for the whole mentioned fiscal year by KD 1164.2 million.

Actual budgetary expenditures recorded a decrease by KD 100.6 million or 1.2% to KD 8157.9 million during the first nine months (April-December 2012) of the fiscal year 2012/13, against KD 8258.5 million for the corresponding period of the previous fiscal year. It is worth noting that the amount of actual expenditures within the general budget during the first nine months of the fiscal year 2012/13 encompasses 38.4% of the total budgetary allocations of KD 21240 million for the mentioned fiscal year as a whole.

As a result of the developments in the actual budgetary revenues and expenditures during the first nine months (April-December 2012) of the fiscal year 2012/13, the general budget recorded an actual surplus of KD 16102.4 million, against an actual surplus of KD 13155.7 million for the corresponding period of the fiscal year 2011/12, i.e. an increase by KD 2946.9 million or 22.4%, before deducting the allocations for the Reserve Fund for Future Generations (Table 48).

Table (48)
Summary of Actual Revenues and Expenditures in the General Budget during the first nine months of the fiscal year 2012/13
(KD Million)

Item	Follow-up Statements		Change	
	April-Dec. 2011	April-Dec. 2012	Value	(%)
Actual Public Revenues	21414.2	24260.3	2846.1	13.3
Actual Public Expenditures	8258.6	8157.9	-100.6	-1.2
Surplus or Deficit (1)	13155.7	16102.4	2946.7	22.4
Surplus or Deficit (2)	11014.3	*10037.3	-976.9	-8.9

Source: Ministry of Finance.
(1) Before deducting the allocations for the Reserve Fund for Future Generations.
(2) After deducting the allocations for the Reserve Fund for Future Generations.

Foreign Trade and Balance of Payments

Foreign Trade and Balance of Payments

Starting from 2011, CBK reviewed the principles and methodology of preparing and compiling the Balance of Payments (BOP) statistics of the State of Kuwait to conform with the amendments recommended in the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) issued by the International Monetary Fund (IMF) in 2009. Accordingly, CBK made some amendments to the classification of certain items in both Current Account and Financial Account of the BOP of the State of Kuwait to be consistent with the developments occurred in the classification of goods and services within the international trade statistics on the one hand; and to achieve, as far as possible, consistency with the statistics and principles of the National Accounts on the other hand. In this regard, the BOP and the international investment position statistics for the period 2009-11 were revised, and the provisional data of the BOP for 2012 were prepared in accordance with the BPM6 guidelines.

In accordance with the BPM6 guidelines, the name of “Income Account (Net)” is changed to “Primary Income Account”, and “Current Transfers (Net)” is changed to “Secondary Income Account”. Also, the Capital Account is detached from the Financial Account to be attached to the Current Account. The Current and Capital Account balance reflects the net value of lending abroad (available fund for investment abroad) if it shows a surplus, and the net value of borrowing from abroad (net value of financial flows which should be received from abroad to pay the deficit of the Current and Capital Account) if it shows a deficit.

The balance of payments statistics show the outcome of transactions between residents and non-residents which are related to exports and imports of commodities and services, primary income on both receipts and payments sides, secondary income to and from abroad, which are classified under the current account of the BOP. Also, capital transfers to and from abroad are classified under the capital account of the BOP. Moreover, financial flows related to investments abroad (assets) and foreign investments in the domestic economy (liabilities) are classified under the financial account of the BOP.

The current account of the State of Kuwait's BOP statistics indicate a surplus of KD 22174 million during 2012 (43.2% of GDP at current prices), compared to KD 18534 million during 2011 (41.8% of GDP). The current account surplus is mainly related to the surplus in balance on goods which reflects the outcome of transactions related to exports and imports of commodities. Provisional estimates show a rise in the surplus in balance on goods during 2012 to KD 27101 million (52.8% of GDP), compared to KD 22317 million during 2011 (50.3% of GDP), i.e. an increase of KD 4783 million or 21.4% during 2012 compared with the previous year. The balance on goods surplus amounted to 122.2% of the current account surplus during 2012, compared to 120.2% during 2011.

Primary Income represents the second source of the surplus in the Current Account. The surplus realized in primary income reached KD 2573 million during 2012 (11.6% of the Current Account surplus), compared with a surplus of KD 2481 million during 2011 (13.4% of the Current Account surplus), i.e. a rise of KD 92 million or 3.7% during 2012 compared with the previous year. In contrast, the services account and the secondary income account represent sources of deficit in the Current Account of the State of Kuwait's BOP. The services account recorded a deficit of KD 2680 million during 2012, compared with a deficit of KD 2201 million during the previous year, i.e. the deficit increased by KD 479 million or 21.8% compared with the previous year. The secondary income account recorded a net outflow that reached KD 4820 million during 2012, compared to KD 4064 million during 2011, indicating a rise in the current transfers abroad by KD 757 million or 18.6% during 2012 compared with the previous year.

Regarding the capital account, provisional statistics of the BOP show a net inflow of KD 1176 million during 2012 compared to KD 955 million during 2011, i.e. a rise of KD 222 million or 23.2% during 2012 compared with the previous year. In light of these developments, the current and capital account recorded a surplus (net lending in the terminology of BPM6) of KD 23350 million during 2012 against KD 19489 million during 2011, i.e. a rise of KD 3861 million or 19.8% compared with the previous year.

From another perspective, the financial account of the BOP indicate a net outflow of KD 24108 million during 2012 against KD 17789 million during 2011, i.e. an increase of KD 6319 million or 35.5% during 2011 compared with the previous year. The net outflow of the financial account represents the realized increase in the net value of foreign assets of the domestic economy during 2012 compared with the previous year, after excluding changes resulting from fluctuation of market prices and exchange rates which affect foreign assets and liabilities accounts within the international investment position (IIP), in accordance with the amendments recommended in BPM6. The increase in the net value of foreign assets was distributed among direct investments, portfolio investments, and other investments including deposits, loans, trade credit and others, as will be addressed in some detail in the following section of this part of the Economic Report.

As a result of the previously mentioned developments, the overall position of the State of Kuwait's BOP realized an overall surplus of KD 918 million during 2012 compared with an overall surplus of KD 1231 million during 2011. This surplus in the overall balance of BOP reflects the realized increase in the gross Reserve Assets of the Central Bank of Kuwait, which rose by the same amount (KD 918 million) during 2012 compared with the end of the previous year level. This section of the Economic Report highlights, in some detail, the developments of the foreign trade and the State of Kuwait BOP during 2012 compared with the previous year, as follows:

First - Balance on Goods[1]:

The analysis and follow-up of developments and indicators related to foreign trade are considered the most salient tools of analysis that help in monitoring the directions of domestic economic activity, taking into account the special structural characteristics of the Kuwaiti economy, particularly the limited diversification in its production base, its openness to the outside world, its high reliance on imports to fulfill a major part of its domestic requirements, and its dependence on oil exports. These characteristics lead to linkages between the changes in key financial and economic variables of the State of Kuwait such as GDP, the national income, the general level of domestic prices, revenues in the State budget, etc. and developments and events in the world economy. Consequently, the Balance on Goods data acquires particular importance within the analysis tools used to trace key features of the State of Kuwait's macroeconomic performance. These data reflect the result of the merchandise trade transactions (imports and exports) between residents of the domestic economy (Kuwaitis and non-Kuwaitis; individuals, or government and private institutions) and residents of other economies during 2012.

The main indicators of Kuwait's merchandise trade with the rest of the world during 2012 witnessed a noticeable growth, driven mainly by the robust oil demand and the rise of its prices in world markets. Within this context, available estimates and data indicate a rise in the total value of the State of Kuwait foreign trade (exports and imports) to KD 39678 million during 2012 against KD 34504 million during 2011, i.e. a rise of KD 5174 million or 15%, compared with a growth of KD 9715 million or 39.2% during the previous year (Table 49).

[1] The "Balance on goods" in the Balance of Payment Statistics prepared by the CBK differs from the "Trade Balance" in the Foreign Trade Statistics prepared by the Statistics and Census Sector of the Ministry of Planning due to the difference in the comprehensiveness of data on the value of merchandise exports and imports used in the preparation of the mentioned balances, as will be further addressed under the review of the developments in the value of exports and imports in this part of the Economic Report.

Table (49)

Balance on Goods

(KD Million)

Item	2008	2009 (Revised)	2010 (Revised)	2011 (Revised)	2012 (Provisional)
1- Exports (f.o.b.), of which:	23373	15662	19240	28411	33389
Oil Exports	22200	14073	17711	26689	31608
2- Imports (f.o.b.)	6167	5332	5549	6094	6289
3- Balance on Goods	17206	10330	13691	22317	27101

Source: Central Bank of Kuwait.

The largest portion (96.2%) of the mentioned rise in the State of Kuwait total foreign trade during 2012, compared with the previous year, is attributable to the noticeable increase in merchandise exports by KD 4979 million or 17.5%, while the increase in merchandise imports by KD 195 million or 3.2% contributed the remaining portion (3.8%). As merchandise exports increased at a higher rate than merchandise imports, the ratio of merchandise exports to merchandise imports rose from 466% during 2011 to 531% during 2012.

As a result of the mentioned developments in both merchandise exports and imports of the State of Kuwait, the surplus in the Balance on Goods, expressed as the arithmetical difference between the total value of merchandise exports and imports (on f.o.b. basis) rose to KD 27101 million during 2012 compared to KD 22317 million during 2011, i.e. an increase of KD 4783 million or 21.4%. The following addresses, in some detail, the developments of the State of Kuwait merchandise trade:

1- Merchandise Exports:

The total value of the State of Kuwait merchandise exports (on f.o.b. basis) during 2012 witnessed an increase to reach KD 33389 million against KD 28411 million during 2011 i.e. a rise of KD 4979 million or 17.5% against an increase of KD 9171 million or 47.7%

during 2011 compared to 2010. The following highlights the most significant developments in the State of Kuwait oil and non-oil merchandise exports during 2012 compared with the previous year:

A- Oil Exports:

The value of oil exports within the Balance on Goods in the State of Kuwait's BOP statistics encompasses the value of the exports of crude oil, refined petroleum products, and liquefied petroleum gas to other economies. It is worth noting that oil exports account for the largest portion of the State of Kuwait total merchandise exports which reflects the structural composition of the Kuwaiti economy, particularly its heavy reliance on the production and export of crude oil and refined petroleum products to generate a significant portion of the national income.

Provisional data of the State of Kuwait's BOP statistics show an increase in oil exports which reached KD 31608 million during 2012 compared to KD 26689 million during 2011, i.e. a rise of KD 4919 million or 18.4%, following a growth of KD 8977 million or 50.7% during 2011 compared to 2010. The largest portion of the above-mentioned increase in Kuwait oil exports reflects the developments in world oil markets which were characterized by a rise in oil prices during 2012 compared with the previous year.

Within this context, OPEC data indicate a rise in the average spot price of the OPEC oil basket (encompassing twelve standard crudes) from $107.46 per barrel during 2011 to $109.45 per barrel during 2012 i.e. an increase of $1.99 or 1.9% compared with a rise of $30.01 or 38.7% during 2011 compared to 2010. In line with the mentioned rise in oil prices in world markets, average Kuwaiti oil export prices increased by $4.65 or 4.6% during 2012, i.e. a rise from $101.96 per barrel during 2011 to $106.61 during 2012.

Regarding the volume of Kuwaiti oil exports (crude oil, refined petroleum products and liquefied petroleum gas), available data indicate a rise in the total quantity of these exports, from an average of 2.567 million b/d during 2011 to 2.879 million b/d during 2012, i.e. an increase of 312 thousand b/d or 12.2%.

As for the relative distribution of the total quantity of Kuwaiti crude oil and oil products exports, available data indicate an increase in exports of Kuwaiti crude oil by an average of 254 thousand b/d (or 14%) to 2.070 million b/d on average during 2012 against 1.817 million b/d during the previous year. Consequently, the relative importance of crude oil exports in the total volume of Kuwait oil exports increased to 71.9% during 2012 against 70.8% during 2011.Also, exports of refined oil products increased by an average of 48.1 thousand b/d (or 7.8%) from 616 thousand barrels equivalent per day on average during 2011 to 664 thousand barrels equivalent per day during 2012. With this, the relative share of refined oil products in total Kuwaiti oil exports dropped to 23.1% during 2012 against 24% during 2011. Despite the rise in the exports of Kuwaiti liquefied petroleum gas from 135 thousand barrels equivalent per day on average during 2011 to 145 thousand barrels equivalent per day on average during 2012, i.e. a rise of 10.4 thousand barrels equivalent or 7.7%, the relative share of liquefied petroleum gas in the total quantity of exports of oil and related products decreased from 5.3% during 2011 to 5% during 2012.

Available data on the relative importance of the value of the State of Kuwait oil exports (crude oil, refined petroleum products and liquefied petroleum gas) indicate a rise in the relative share of crude oil exports in the total value of exports from 69.9% during 2011 to 71.5% during 2012. Conversely, the relative share of refined petroleum products exports decreased from 26.4% during 2011 to 24.8% during 2012. Also, the relative share of liquefied gas decreased from 3.7% during 2011 to 3.6% during 2012.

B- Non-Oil Exports[1]:

Available data and estimates of the BOP statistics indicate a rise in the value of Kuwait non-oil merchandise exports (on f.o.b. basis) which reached KD 1572 million during 2012 against KD 1496 million during 2011, i.e. a rise of KD 76 million or 5.1% compared with a growth of KD 125 million or 9.1% during the previous year. Despite this increase in non-oil exports, the relative share of non-oil exports in the total value of merchandise exports of the State of Kuwait decreased to 4.7% during 2012 against 5.3% during 2011 due to the above-mentioned accelerated growth in the oil exports over the two mentioned years.

Regarding the value of the State of Kuwait non-oil exports of national-origin goods, available data and estimates indicate that the value of these exports reached KD 1132 million during 2012 against KD 1207 million during 2011, i.e. a decrease of KD 75 million or 6.2% compared with a growth of KD 122 million or 11.2% during the previous year. This drop contributed to the decline in the relative importance of non-oil exports of national-origin goods from 80.7% during 2011 to 72% during 2012.

Available data and estimates of the composition of the total value of non-oil exports of national-origin goods show that the mentioned decline in the value of these exports during 2012 resulted from the decrease in the value of exports of ethylene products, considered among the key products of the EQUATE's Petrochemicals Complex, from KD 784.5 million during 2011 to KD 550.1 million during 2012, i.e. a decrease of KD 234.4 million or 29.9%. Thus, the relative share of ethylene products in the total value of the State of Kuwait non-oil exports of national-origin goods decreased from 65% during 2011 to 48.6% during 2012. Also, the value of the exports of manufactured fertilizers decreased

(1) The value of non-oil exports recorded in the Balance on Goods within the State of Kuwait BOP statistics differs from the corresponding value recorded in the foreign trade statistics prepared by the Central Statistical Bureau. The discrepancy arises from the fact that the Balance on Goods statistics take into account the value of exports unrecorded at Kuwait's three custom outlets (sea, land, and air), particularly the receipts of residents in the domestic economy for repairing foreign ships and aircrafts and providing them with fuel and supplies at Kuwaiti ports, in compliance with the guidelines of the sixth edition of the BOP Manual issued by the International Monetary Fund in 2009.

from KD 144.8 million during 2011 to KD 125.7 million during 2012, i.e. a drop of KD 19.1 million or 13.2%. Thus, the relative share of the value of these exports in the total value of non-oil exports of national-origin goods decreased to reached 11.1% during 2012.

On the contrary, the value of non-oil exports of national-origin goods under "other" item increased during 2012 by KD 178.2 million or 64.2% to reach KD 455.8 million against KD 277.6 million during the previous year.

From another perspective, available provisional data and estimates on the value of non-oil exports of foreign-origin goods (re-exports) indicate a rise in the value of these exports to KD 440 million during 2012 against KD 289 million during 2011, i.e. a rise of KD 151 million or 52.2%, following a growth of KD 4 million or 1.3% during 2011. Consequently, the share of these exports in the total value of non-oil exports of foreign -origin goods increased from 19.3% during 2011 to 28% during 2012.

2- Merchandise Imports:

Total value of merchandise imports of the State of Kuwait (on c.i.f. basis)* indicate a rise in the value of these imports to reach KD 7245 million during 2012 against KD 7012 million during 2011, i.e. an increase of KD 233 million or 3.3% during 2012 compared with an increase of KD 513 million or 7.9% during the previous year. Within this context, available data and estimates on the geographic distribution of the total value of merchandise imports (c.i.f.) of the State of Kuwait from its main trading partners indicate a rise in the value of merchandise imports from the first ten countries to reach KD 4771 million during 2012 compared to KD 4370 million during the previous year, i.e. an increase of KD 401 million or 9.2%. As a result, the relative importance of the merchandise imports of those ten countries increased from 62.3% during 2011 to 65.9% during 2012 (Table 50).

[*] The value of merchandise imports in this item is compiled on c.i.f. basis. It differs from that in Table (55), which is compiled on f.o.b. basis.

Chart (14)
Geographic Distribution of Value of Merchandise Imports from the Ten Most Important Trade Countries

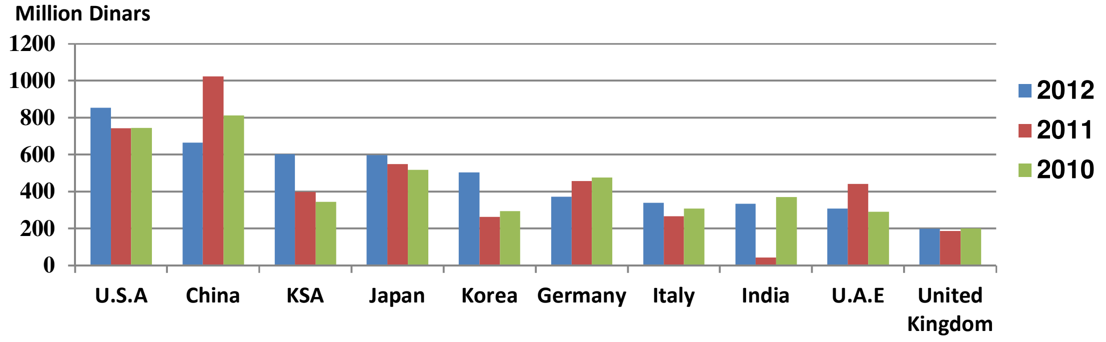


Table (50)

Geographic Distribution of Kuwait Merchandise Imports Value (on c.i.f. basis) From the Ten Most Important Countries

(Value in KD Million and Relative Importance in Percentage)

Country	2010		2011		2012*	
	Value	%	Value	%	Value	%
USA	743.6	11.4	741.7	10.6	854	11.8
China (PRC)	812.2	12.5	1024.7	14.6	665	9.2
Saudi Arabia	344.3	5.3	398.0	5.7	603	8.3
Japan	369.2	5.7	548.4	7.8	597	8.2
Korea	293.2	4.5	263.7	3.8	504	7.0
Germany	517.0	8.0	457.6	6.5	371	5.1
Italy	475.0	7.3	265.9	3.8	338	4.7
India	289.4	4.5	41.2	0.6	333	4.6
UAE	307.1	4.7	442.3	6.3	307	4.2
UK	152.7	2.3	186.6	2.7	198	2.7
Total	**4303.7**	**66.2**	**4370.2**	**62.3**	**4770.9**	**65.9**
Total Imports	**6498.6**	**100.0**	**7011.7**	**100.0**	**7244.8**	**100.0**

Source: Central Statistical Bureau.

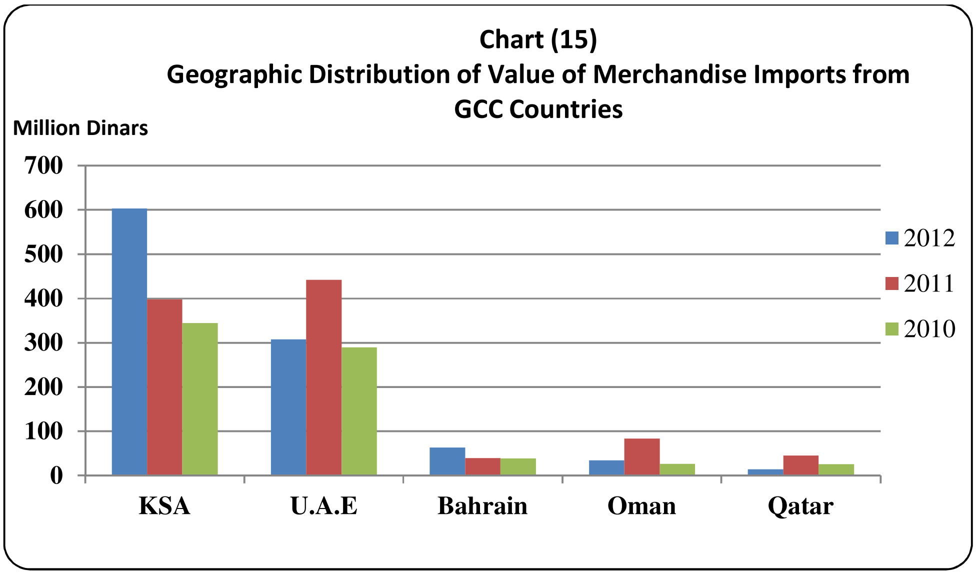
*CBK estimates.

Data also indicate a rise in the value of the merchandise imports from other GCC countries (both of national-origin goods of GCC countries or foreign-origin goods) of KD 14 million or 1.4% to reach KD 1023 million or 14.1% of the total value of the merchandise imports during 2012 against KD 1009 million or 14.4% during the previous year (Table 51).

Table (51)
Geographic Distribution of Kuwait Merchandise Imports Value (on c.i.f. basis) from GCC Countries
(Value in KD Million and Relative Importance in Percentage)

Country	2010		2011		2012*	
	Value	%	Value	%	Value	%
Saudi Arabia	344.3	5.3	398	5.7	603	8.3
UAE	289.4	4.5	442	6.3	307	4.2
Bahrain	38.7	0.6	40	0.6	63	0.9
Oman	26.0	0.4	84	1.2	35	0.5
Qatar	25.7	0.4	45	0.6	14	0.2
Total	**724.1**	**11.1**	**1008.8**	**14.4**	**1023.1**	**14.1**
Total Imports	**6498.6**	**100.0**	**7011.7**	**100.0**	**7244.8**	**100.0**

Source: Central Statistical Bureau.
*CBK estimates.



It is worth noting that the mentioned rise in the total value of State of Kuwait merchandise imports during 2012 was accompanied by an increase in the Kuwait private sector merchandise imports paid for through local banks which reached KD 3864 million, i.e. an increase of KD 439 million or 12.8%, against KD 3425 million during the previous year. Moreover, the relative share of private sector merchandise imports of the State of Kuwait paid for through local banks in the total value of merchandise imports (on c.i.f. basis) increased to 53.3% during 2012 compared to 48.8% during the previous year.

Regarding currencies used by the Kuwaiti private sector to pay for their merchandise imports through local banks, the US dollar ranked first whereby the value of imports paid for by this currency reached KD 2244 million during 2012 against KD 2171 million during the previous year, i.e. an increase of KD 73 million or 3.4% (equivalent to 16.6% of the total increase in the value of merchandise imports paid for through local banks). Despite this, the relative share of imports financed in US dollars decreased to 53.3% of the total payments made through local banks to finance private sector imports during 2012 against 63.4% during the previous year.

Import payments made through local banks in Japanese yen, Euro, and other currencies (excluding those mentioned above) witnessed a rise by 59.9%, 2.4%, and 31.9% respectively in 2012 compared to 2011. Consequently, this led to an increase in the relative share of import payments made through local banks in Japanese yen (from 7.7% to 11%) and other currencies (from 18.6% to 21.7%) between 2011 and 2012. On the contrary, import payments made through local banks in Pound Sterling decreased from KD 33 million during 2011 to KD 29 during 2012, i.e. a decrease of KD 4 million or 12.6%.

Second - Services Account (Net):

The Services Account in the BOP statistics of the State of Kuwait covers a variety of services which fall within the scope of international trade between residents and non-residents of the domestic economy. These services include transportation, travel, communication, construction, insurance, financial services, and various other services where receipts are recorded on the credit side, and payments on the debit side. The Services Account reflects the outcome of transactions in the international trade of services and it has consistently shown deficit. Through 2012, the provisional data of the BOP statistics of the State of Kuwait indicate that payments for services exceed receipts.

During 2012, the Services Account (Net) recorded a deficit of KD 2680 million compared to KD 2201 million during 2011, i.e. a rise by KD 479 million or 21.8% compared with the previous year. The mentioned increase in the deficit of the Services Account is attributed to the rise in the payments for travel services to KD 2519 million during 2012 compared to KD 2308 million during 2011, i.e. an increase of KD 210 million or 9.1%, which approximately equals 46% of the deficit in the Services Account during 2012. In addition, the payments for construction services increased to KD 666 million during 2012 compared to KD 402 million during 2011, i.e. an increase of KD 265 million or 65.9%.

Concerning the payments side of the Services Account, it is noticed that total payments reached KD 5479 million during 2012 compared to KD 4917 million during 2011, i.e. an increase of KD 563 million or 11.4% compared with the previous year. Payments for travel services are considered to be the most important item on the debit side of the Services Account in the BOP statistics of the State of Kuwait. The value of payments for transportation services ranked second in terms of relative importance among the Services Account items which reached KD 1358 million during 2012 compared to KD 1272 million during 2011, i.e. an increase of KD 85 million or 6.7% compared with the previous year.

On the other side, total receipts on the credit side of the Services Account reached KD 2799 million during 2012 compared to KD 2716 million during 2011, i.e. a rise of KD 83 million or 3.1% compared with the previous year. Receipts of transportation services are considered to be the most important item on the credit side of the Services Account which reached KD 1413 million during 2012 or 50.5% of the total value of receipts on the credit side of the Services Account. The total value of receipts of transportation services during 2011 reached

KD 1340 million or 49.3% of the total value of receipts on the credit side of the Services Account. The value of receipts of communication services ranked second in terms of relative importance among the Services Account items on the credit side, and reached KD 965 million or 34.5% of the total value of receipts on the credit side of the Services Account during 2012 against KD 994 million or 36.6% during 2011.

Third- Primary Income:

Primary Income represents the second source, after Balance on Goods, of the surplus realized in the Current Account of the State of Kuwait's Balance of Payments. The surplus realized in primary income reached KD 2573 million during 2012 compared with a surplus of KD 2481 million during 2011, i.e. an increase of KD 92 million or 3.7% compared with the previous year.

The surplus realized in primary income shows that the receipts on the credit side of the primary income Account from investments abroad exceed the payments abroad on the debit side of the primary income account from foreign investments. Available provisional statistics indicate that total receipts from investments abroad reached KD 2974 million during 2012 compared to KD 2877 million during 2011, i.e. a rise of KD 96 million or 3.4% compared with the previous year. On the contrary, total payments abroad from foreign investments in the domestic economy reached KD 353 million for both year 2011 and 2012.

From another perspective, total value of income from direct investment abroad reached KD 657 million for both 2011 and 2012, i.e. a stable income from direct investment abroad during the two periods of comparison. The total value of income from portfolio investments abroad reached KD 1677 million during 2012 compared to KD 1693 million during 2011, i.e. a decrease of KD 16 million or 0.9%. Also, the total value of income from other investments abroad (loans, deposits, and others) reached KD 553 million during 2012 compared to KD 431 million during 2011, i.e. an increase of KD 122 million or 28.2% compared with the previous year.

Fourth- Secondary Income:

The Secondary Income Account in the Current Account of the BOP statistics of the State of Kuwait indicates current transfers abroad from residents in the domestic economy which are recorded on the debit side, and current transfers from non-residents to the domestic economy which are recorded on the credit side of the Secondary Income Account. The Secondary Income Account in the Current Account of BOP statistics of the State of Kuwait mainly reflects the special features of the labor market in the Kuwaiti economy, wherein expatriate workers represent an important component, as the total number of non-Kuwaiti manpower reached 1.897 million at the end of 2012 compared to 1.838 million at the end of 2011. Thus, the number of non-Kuwaiti manpower represents 82.6% of the total number of manpower at the end of 2012. Therefore, workers' remittances constitute the largest portion of the current transfers abroad, in addition to the continued provision of aid and grants by the State of Kuwait to sisterly and friendly countries.

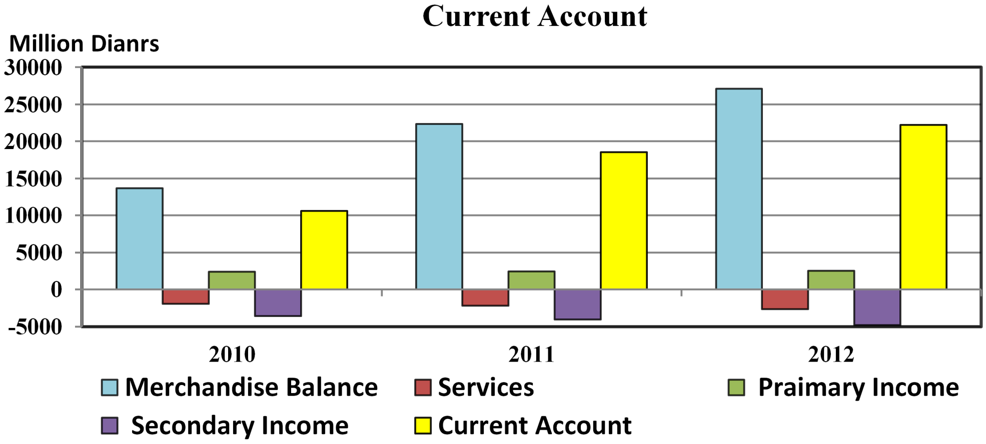
During 2012, net current transfers abroad reached KD 4820 million against KD 4064 million during 2011, i.e. an increase of KD 757 million or 18.6% compared with the previous year. Expatriate workers' remittances abroad is estimated to be KD 4412 million during 2012 against KD 3660 million during 2011, i.e. an increase of KD 752 million or 20.6%. Moreover, current transfers abroad from non-government charitable institutions and societies reached KD 51 million during 2012 against KD 44 million during 2011, i.e. an increase of KD 7 million or 15.9% compared with the previous year. On the other hand, current transfers of the general government abroad reached KD 358 million during 2012 against KD 360 million during 2011, i.e. a slight decrease of KD 2 million or 0.6% compared with the previous year.

Fifth- Current Account:

The Current Account Balance, whether surplus or deficit, within the BOP statistics acquires a particular significance for the analysis of the impact of the external sector developments on the domestic economy, as a Current Account surplus reflects a rise in net savings over the value of net capital formation in the domestic economy, whereas a Current Account deficit reflects a rise in net capital formation over the value of net savings. In the case of the State of Kuwait, it is noticed that the Current Account within the BOP statistics traditionally records a surplus, which means that the value of net national savings exceeds the value of net domestic investments. Consequently, residents (either government sector or any other domestic sectors) tend to allocate a significant part of their savings to acquire foreign assets, and to utilize part of their resources to build up net claims towards non-residents.

Chart (16)

Current Account



During 2012, the Current Account surplus within the BOP statistics of the State of Kuwait reached KD 22174 million against KD 18534 million during 2011, i.e. an increase of KD 3640 million or 19.6% compared with the previous year. This increase is an outcome of the rise in the total receipts on the credit side of the Current Account (receipts from merchandise exports and income from foreign investments) from KD 34003 million during 2011 to KD 39162 million during 2012, i.e. an increase of KD 5158 million or 15.2% compared with the previous year. On the other hand, total payments on the debit side of the Current Account (payments for merchandise imports, income payments from foreign investments in the domestic economy, and current transfers abroad) increased to KD 16942 million during 2012 against KD 15472 million during 2011, i.e. a rise of KD 1515 million or 9.8% compared with the previous year.

Table (52)

Current and Capital Account

(KD Million)

Item	2008	2009 (Revised)	2010 (Revised)	2011 (Revised)	2012 (Provisional)
First: Current Account (1+2+3+4)	**16195**	**8138**	**10975**	**18534**	**22174**
1- Balance on Goods:	**17206**	**10330**	**13691**	**22317**	**27101**
* Merchandise Exports (fob), of which:	23373	15662	19240	28411	33389
Oil Exports	(22200)	(14073)	(17711)	(26689)	(31608)
* Merchandise Imports (fob)	-6167	-5332	-5549	-6094	-6289
2- Services, of which:	**-1026**	**-655**	**-1932**	**-2201**	**-2680**
* Transportation	-171	-395	44	68	56
* Travel	-1966	-1679	-1761	-2220	-2400
* Government Services	-476	-81	-253	-255	-164
3- Primary Income, of which:	**2888**	**2211**	**2425**	**2481**	**2573**
* Direct Investment Income	-	279	316	441	423
* Portfolio Investment Income	-	1541	1758	1693	1671
* Other Investment Income	-	373	332	295	441
4- Secondary Income:	**-2874**	**-3747**	**-3592**	**-4064**	**-4820**
* General Government	-72	-158	-120	-360	-357
* Other Sectors, of which:	-2802	-3589	-3472	-3704	-4463
Workers Transfers	(-2775)	(-3352)	(-3435)	(-3660)	(-4412)
Second: Capital Account	465	290	601	955	1176
* Capital Transfers:	465	290	601	955	1176
General Government	475	319	273	433	401
Other Sectors	-10	-29	328	522	775
Third: Current and Capital Account	**16660**	**8428**	**11193**	**19489**	**23350**

Source: Central Bank of Kuwait.

In this regard, it is noticed that the increase of KD 5158 million witnessed in the total receipts on the credit side of the Current Account during 2012 is essentially attributable to the noticeable rise in the value of receipts of the merchandise exports (by KD 4979 million or 17.5%), particularly oil exports (by KD 4919 million or 18.4%) compared with the previous year. It is worth mentioning that receipts from merchandise exports represent 85.3% of the total receipts on the credit side of the Current Account during 2012 against 83.6% during 2011. On the other hand, it is noticed that the increase of KD 1515 million witnessed in the total payments on the debit side of the Current Account during 2012 is mainly attributable to the rise in the value of expatriate workers' remittances abroad (by KD 757 million or 18.6%), the increase in the value of payments related to travel abroad (by KD 210 million or 9.1%), and the increase in the value of payments related to merchandise imports (by KD 195 million or 3.2%) compared with the previous year.

Sixth - Capital Account:

The Capital Account in the BOP statistics measures the capital transfers between residents and non-residents of the domestic economy which cover capital grants, compensations for damages to real and financial assets, and debt waivers. The credit side of the Capital Account in the BOP statistics of the State of Kuwait includes compensations received by residents (government, individuals and companies) from the United Nations Compensation Committee, whereas the debit side of the Capital Account includes capital grants extended by the Kuwaiti government through the Kuwait Fund for Arab Economic Development to sisterly and friendly countries. In addition, the debit side of the Capital Account includes the transfers, representing end-of-service gratuity, from non-Kuwaiti workers.

During 2012, The Capital Account within the BOP statistics of the State of Kuwait recorded a net capital inflow of KD 1176 million compared to KD 955 million during 2011, i.e. an increase of KD 222 million or 23.2% compared with the previous year. In this context, compensations received by residents from the United Nations Compensation Committee reached KD 1236 million during 2012 against KD 1005 million during 2011, i.e. an increase of KD 230 million or 22.9% compared with the previous year. On the Debit side, it is noticed that capital transfers (end-of-service gratuity) from non-Kuwaiti workers reached KD 45 million during 2012 against KD 39 million during 2011, i.e. an increase of KD 6 million or 15.5%. Government capital grants abroad amounted to KD 15 million during 2012 against KD 12 million during 2011.

Seventh - Financial Account:

Transactions in financial assets recorded within the BOP statistics of the State of Kuwait reflect real changes in ownership. Changes resulting from price fluctuations (market prices and exchange rates) are excluded, according to BPM6 guidelines, as such changes are recorded within the international investment position statement. Real changes in property include the acquisition and disposal of claims, whereas financial assets are exchanged either for other financial assets or for real resources. Credits and debits of most of the Financial Account elements are recorded on net basis. In accordance with BPM6 guidelines, distinction is made among four basic categories of investment. The first category represents direct investment, that is direct investment abroad by residents in the domestic economy, and foreign direct investment in the domestic economy by non-residents. The second category represents portfolio investments such as investments in bonds, equity instruments, and debt instruments that constitute important categories of investment. The third category represents financial derivatives. The last category represents a variety of other investments, including currency and deposits, loans, insurances, guarantee, trade credit and any other items.

Table (53)

Financial Account *

(KD Million)

Item	2008 (Revised)	2009 (Revised)	2010 (Revised))	2011 (Revised)	2012 (Provisional)
Financial Account:	**-13786**	**-7667**	**-13151**	**-17789**	**-24108**
1- Direct Investment (Net):	**-2445**	**-2149**	**-308**	**-2219**	**-1598**
- Direct Investment Abroad	-2444	-2470	-439	-2455	-2117
- Foreign Direct Investment in Kuwait	-2	320	131	236	518
2- Portfolio Investment (Net):	**-7562**	**-2358**	**-6185**	**-2064**	**-7157**
- Assets	-8625	-2496	-6228	-2289	-7388
- Liabilities	1063	138	44	225	232
3- Portfolio Investment		-14	8	21	-17
- Assets		-73	18	7	-67
- Liabilities		59	-10	14	50
4- Other Investments (Net):	**-3779**	**-3146**	**-6667**	**-13527**	**-15336**
- Assets	-4915	838	-4952	-12997	-14660
- Liabilities	1136	-3983	-1715	-530	-677

Source: Central Bank of Kuwait.

* The negative sign in the Financial Account indicates a net capital outflow, and the positive sign indicates the opposite.

Provisional BOP statistics indicate a rise in the net value of foreign assets recorded in the financial account (foreign assets minus foreign liabilities) which amounted to KD 24108 million during 2012 compared to KD 17789 million during 2011, i.e. an increase of KD 6319 million or 35.5% compared with the previous year. Regarding Financial Account components within the State of Kuwait BOP statistics, which reflect the classification of the financial flows according to investment instruments and domestic sectors, the above-mentioned increase in the net value of foreign assets during 2012 compared with the previous year was an outcome of the following developments:

A- The growth of net foreign assets recorded under the “Direct Investment” item by KD 1598 million during 2012 compared with a growth of KD 2219 million during the previous year. This growth was mainly due to the increase in net direct investment abroad by KD 2117 million during 2012, resulting from the increase in net direct investment abroad of institutions and bodies recorded under the general government sector by KD 1288.6 million during 2012 compared with an increase of KD 1749.5 million during 2011. Moreover, net direct investment abroad under the "Other Sectors" item (mainly the investments of the non-financial private sector institutions) recorded an increase of KD 697.4 million during 2012 compared with a rise of KD 200.3 million during the previous year. On the other side, the State of Kuwait provisional BOP data indicate that net foreign direct investment in the domestic economy recorded a growth of KD 518 million during 2012 compared with a growth of KD 236 million during 2011.

B- The growth of net foreign assets recorded under the "Portfolio Investments" item by KD 7157 million during 2012 against KD 2064 million during the previous year, i.e. an increase of KD 5092 million or 246.7% compared with the previous year. The foreign portfolio investments of institutions recorded under the 'General Government' item recorded a growth of KD 7132 million during 2012 compared with a growth of KD 2562 million during 2011. Also, net foreign portfolio investments of local banks recorded a growth of KD 387 million during 2012 compared with a growth of KD 432 million during 2011. Furthermore, the value of net foreign portfolio investments of institutions recorded under the 'Other Sectors' item recorded a decline of KD 131 million during 2012 against KD 705 million during 2011, i.e. a continued decline in the net value of these investments during both 2011 and 2012.

C- The growth of net foreign assets under the "Other Investments" item, which reflects net change in the balances of currency and deposits, loans, trade credit, and similar investments not recorded under any of the previously-mentioned investment items, by KD 15336 million during 2012 against KD 13527 million during 2011. This reflects the outcome of developments on both assets and liabilities sides of the "Other Investments" item.

On the one side, the total value of foreign assets under the “Other Investments” item increased by KD 14660 million during 2012 against KD 12997 million during 2011. The rise in the value of foreign assets under this item resulted from the increase in the total value of “Currencies and Deposits” balances abroad by KD 13888 million during 2012 against KD 12318 million during 2011. In this regard, the total value of foreign assets of the general government’s institutions accelerated by KD 11818 million during 2012 against KD 9782 million during 2011. In the same direction, foreign assets of local banks under the “Currencies and Deposits” item increased by KD 698 million during 2012 against a rise of KD 675 million during 2011. In parallel with this, the total value of Currencies and Deposits abroad of the other sectors (including investment companies which recorded a decline during 2011, investment funds, exchange companies, insurance companies, and some non-financial private sector institutions, mainly communication companies) increased by KD 1372 million during 2012 against a rise of KD 1861 million during the previous year.

From another perspective, the total value of residents’ liabilities to non-residents under the “Other Investments” item recorded a decline of KD 677 million during 2012 against a decline of KD 530 million during 2011. This reflects a tangible deceleration in the growth of total value of foreign liabilities due to non-residents under the “Loans” item by KD 472 million during 2012 against a decrease of KD 339 million during 2011. In this context, the total value of outstanding loans of the other sectors recorded a decline of KD 510 million during 2012 compared with a decline of KD 349 million during the previous year.

Eighth – Errors and Omissions (Net):

The “errors and omissions (Net) ” item reflects the value of transactions which are not recorded under any of the BOP items due to errors or omissions, including net value of financial outflows of non-financial private sector which are not recorded under any of these items. Consequently, the “errors and omissions (Net)” item is considered a balancing item which aims to reconcile the amounts recorded on the debit side with those on the credit side in the BOP statistics, according to the double-entry principle. Data concerning this item (Table 54) indicate net inflows (on the credit side) estimated at KD 1676 million during 2012, compared with net outflows (on the debit side) estimated at KD 469 million during 2011.

In this context, it is worth noting that there are three potential sources of errors and omissions in the compilation and preparation of the State of Kuwait BOP statistics, and consequently the amounts recorded under the “Error and Omissions (Net)” item include: (1) The margin of error in estimating some BOP items due to unavailability of required data, lack of sources of actual data for these items, or reliance on alternative sources for preparing estimates of some of these data; (2) errors resulting from the conversion of data received from government bodies being on calendar-year basis rather than fiscal-year basis; and (3) the unavailability of a substantial portion of data concerning the external financial transactions of the non-financial private sector.

Ninth - Overall Balance:

The overall balance of the State of Kuwait BOP, which reflects an outcome of all transactions recorded under various BOP items of the State of Kuwait, realized a surplus of KD 918 million during 2012 against KD 1231 million during 2011. This surplus in the overall balance of BOP during 2012 reflects the rise in the gross Reserve Assets of the CBK by the same amount (KD 918 million) during 2012 compared with an increase of KD 1231 million during 2011 (Table 54).

Furthermore, when the overall balance of the State of Kuwait BOP is measured within a broader perspective to encompass the changes in the net value of external investments of some government institutions and authorities, particularly KIA and KPC, in addition to the change in total reserve assets of CBK, the overall Balance of Payments position shows a surplus of KD 20683 million during 2012 (40.3% of GDP at current prices), compared with a surplus of KD 13458 million during the previous year (30.4% of GDP).

Table (54)

Overall Balance *

(KD Million)

Items	2008 (Revised)	2009 (Revised)	2010 (Revised)	2011 (Revised)	2012 (Provisional)
1- Current Account	16195	8138	10592	18534	22174
2- Capital Account	465	290	601	955	1176
3- Current and Capital Account	16660	8428	11193	19489	23350
4- Financial Account	-13786	-7667	-13151	-17789	-24108
5- Reserve Assets of CBK	-172	-1088	-159	-1231	-918
6- Error and Omission (Net)	-2702	327	2118	-469	1676
7- Overall Balance (Surplus or Deficit)	172	1088	159	1231	918

Source: Central Bank of Kuwait.

* Negative signs in the Capital & Financial Accounts and the Reserve Assets items indicate net outflow, while positive signs indicate the opposite.

The Kuwait Stock Exchange

The Kuwait Stock Exchange

Introduction

The major trading and price indicators of the Kuwait Stock Exchange (KSE) recorded a rise during 2012. The increase in trading boosted price indicators and was mostly concentrated in the first quarter. In this regard, the major trading indicators (value and volume of traded shares) witnessed a rise during 2012 by 18.98% and 116.85% respectively compared with their levels during 2011. The KSE General Price Index closed its 2012 transactions increasing by 2.07% compared with the closing of 2011, after declining by 16.4% at the end of 2011 compared to 2010. Furthermore, at the end of 2012 the KSE Weighted Price Index recorded a similar rise (by 2.97%) compared to 2011 closing. In contrast, the market capitalization of listed companies recorded a limited decrease reaching KD 28885.6 million at the end of 2012 with a decline of KD 474.2 million or 1.6% compared to 2011, after a decrease of KD 6900 million or 19% at the end of 2011 compared to 2010.

This part of the report presents in some detail the main developments of activity in the KSE during 2012, as follows:

First- Main Trading Indicators:

The main trading indicators of the KSE headed towards an increase during 2012 compared with their levels during 2011 (Table 55 and Chart 16). The total value of traded shares reached KD 7.21 billion with a daily average of KD 28.84 million during 2012 compared to KD 6.06 billion with a daily average of KD 24.63 million during 2011, i.e. a rise of KD 1.15 billion or 18.98% (representing 17.09% of the daily average value of traded shares). The total volume of traded shares reached 83.14 billion with a daily average of 332.56 million during 2012 compared to 38.34 billion with a daily average of

155.85 million during 2011, i.e. an increase of 44.80 billion or 116.85% (representing 113.38% of the daily average volume of traded shares).

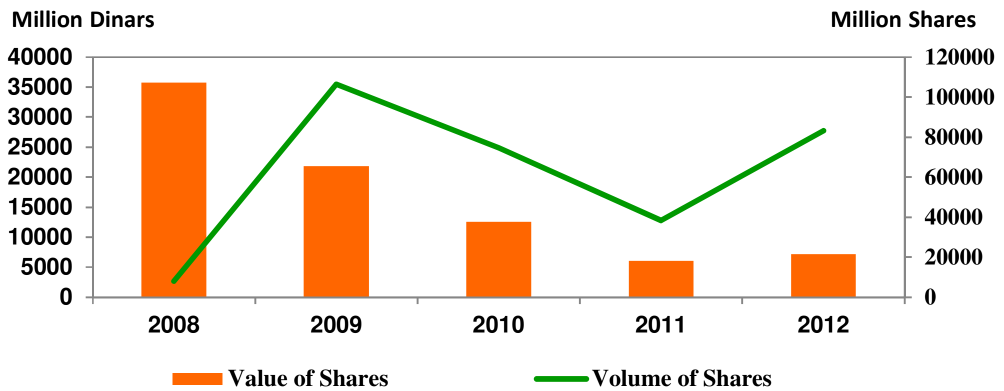
Table (55)

Main Share Trading Indicators of Companies Listed on the Kuwait Stock Exchange

Period	Value (KD Million)	Quantity (Million Shares)	Number of Transactions (Thousand Transactions)
2010	12526.3	74691.5	1254.1
2011	6059.7	38343.0	617.7
2012	7214.7	83136.5	1198.3
Q1	2381.9	27471.8	323.4
Q2	1768.0	21938.4	293.5
Q3	1227.1	12757.7	238.0
Q4	1837.7	20968.6	343.4
Annual Change in 2012 from 2011	**+19.06**	**+116.82**	**+93.99**

Source: Kuwait Stock Exchange.

Chart (17)
Development of Value and Volume of Traded Shares



Regarding the sectoral distribution[3] of the total value of traded shares, the Financial Services Companies sector (encompassing 56 companies, or 28.0% of the total number of listed companies at the end of 2012) recorded the highest value of traded shares among the market sectors. Specifically, available data indicate that the value of traded shares of the Services sector during 13/5/2012-31/12/2012 reached KD 1135.5 million, garnering 30.49% of the total value of traded shares for the mentioned year (Table 56).

Table (56)

Developments in the Value of Traded Shares by KSE Sectors during 13/5/2012-31/12/2012

(Value in KD Million)

Sector	Number of Companies	2012	
		Value	%
Oil & Gas	(7)	24.7	0.66
Basic Materials	(5)	55.1	1.48
Industrials	(39)	385.4	10.35
Consumer Commodities	(7)	29.1	0.78
Healthcare	(3)	20.2	0.54
Consumer Services	(16)	44.5	1.19
Telecommunications	(3)	286.5	7.69
Utilities	-	-	-
Banks	(12)	995.4	26.73
Insurance	(8)	2.4	0.06
Real estate	(39)	736.7	19.78
Financial Services	(56)	1135.5	30.49
Financial Instruments	(1)	0.5	0.01
Technology	(4)	8.3	0.22
Total	**(200)**	**3724.30**	**100**

Source: Kuwait Stock Exchange.

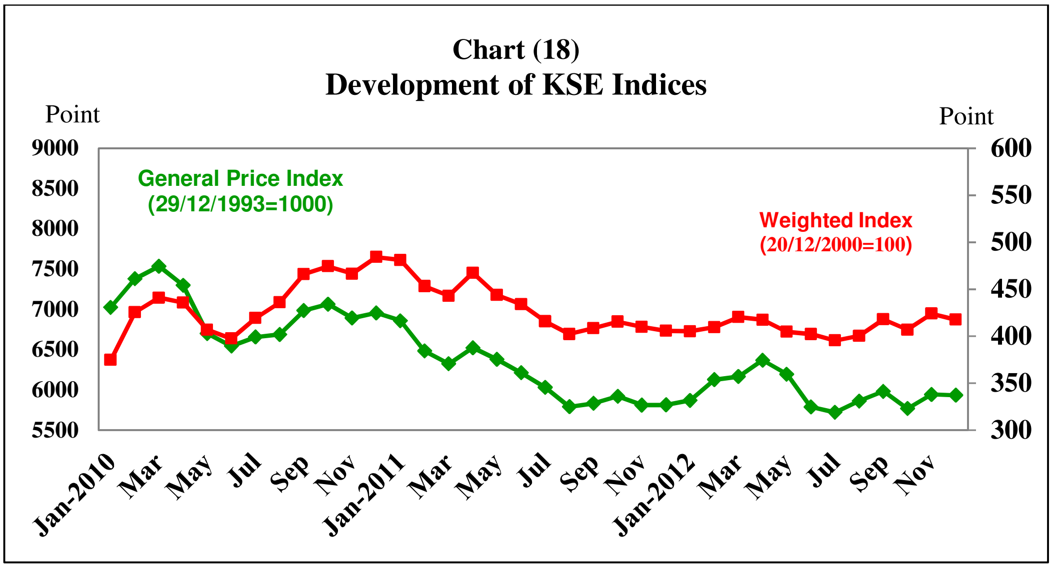
(3) The new sectoral distribution in the Kuwait Stock Exchange was effective Sunday 13/5/2012 including 14 sectors instead of 8 as the following: Oil and Gas sector, Basic Materials sector, Industrials sector, Consumer Commodities sector, Healthcare sector, Consumer Services sector, Telecommunications sector, Utilities sector, Banks sector, Insurance sector, Real estate sector, Financial Services sector, Investment Instruments sector and Technology sector.

Second– Price Movements:

The KSE General Price Index (29/12/1993=1000 points) recorded a rise at the end of 2012 closing at 5934.28 points against 5814.20 points at the end of 2011, i.e. a rise by 120.08 points or 2.07% after recording a drop of 1141.30 points or 16.41% at the end of 2011 compared with its closing at the end of 2010. The KSE Weighted Price Index also followed the same but more noticeable trend as it closed at 417.65 points at the end of 2012 against 405.62 points at the end of 2011, i.e. a rise of 12.03 points or 2.97%. The Weighted Price Index recorded a decline of 78.55 points or 16.22% at the end of 2011 against 2010.

During 2012, a new index was added to the indicators of the KSE called "Kuwait 15 Index"[(2)] which recorded a slight increase closing at 1009.09 points at the end of 2012, i.e. a rise of 9.09 points or 0.91% compared with its base (13/5/2012=1000 points).

(2) The newly added index "Kuwait 15 Index" was effective Sunday 13/5/2012, includes the 15 highest ranked companies listed on the Kuwait Stock Exchange according to market capitalization and total value traded. At the launch of Kuwait 15 Index, it comprises the following listed companies: National Bank of Kuwait, Mobile Telecommunication Co-ZAIN, Kuwait Finance House, Gulf Bank, Boubyan Bank, Commercial Bank of Kuwait, National Mobile Telecommunication (Wataniya), Ahli United Bank, Burgan Bank, Mabanee Co, Agility Public Warehousing Co, Kuwait Projects Co Holding, National Industries Group Holding, Gulf Cable & Electricity Industries Co and Kuwait International Bank. The constituents of the index would be reviewed every six months (in May and November) and would be announced in June and December of each year.



Third- Factors Affecting KSE Activity:

KSE performance was influenced by many factors during 2012. On the one hand, the most significant factors that positively affected the performance of the market during 2012 are as follows:

* **A rise in net interim profits of listed companies:** Many listed companies witnessed a rise in their interim profits during 2012 compared with the corresponding period of 2011, which positively enhanced the atmosphere among individuals in the market during that year. Within this context, the financial results of listed companies for the first quarter of 2012 showed a notable rise of KD 130.321 million or 41.68% (excluding exceptional profits of KD 278 million for Wataniya Telecom Company during 2011). Moreover, the financial results of listed companies increased relatively during the first half and the first three quarters of 2012 between 7.98% and 7.30% respectively (after excluding the previously mentioned exceptional profits).

* **Reduction of discount rate:** CBK decided to cut the discount rate by 50 basis points, from 2.5% to 2% effective 4/10/2012, to reinforce a pro-growth environment in the non-oil sectors of the national economy.

* **Improvement in the timing of announcement of listed companies' financial results:** Listed companies improved the timing of announcements of their financial results during 2012, whereas the timing of declaration was reduced due to the procedures taken by the financial markets regarding the delay in the announcement of listed companies' financial results.

On the other hand, the most significant factors that negatively affected the performance of the KSE during 2012 are as follows:

* **Delisting of companies:** The Capital Markets Authority (CMA) decided to delist the shares of 14 companies from the KSE for not submitting their financial results of different periods.

* **Local political conditions:** KSE was affected during 2012 by the developments in local political conditions and the conflicts between the executive and the legislative bodies. This created an atmosphere of caution and anticipation among dealers.

* **Regional and global economic conditions:** The political crises in some Arab counties had their repercussions on some listed companies' performance. The performance of the KSE was negatively affected by these developments and their corresponding effects on some listed companies' performance and their investments in those affected countries. Moreover, KSE's performance was negatively affected by the continued repercussions of the global financial and

economic crisis and the negative speculations about the effects of those changes on the performance of the domestic economy.

Fourth- Profits of Listed Companies:

The total net profits (and losses) of 194 listed companies in KSE recorded a rise during 2012 reaching KD 1292.402 million against KD 1252.914 million for the same companies during 2011, i.e. a rise of KD 39.488 million or 3.2% (a rise of KD 317.488 million or 32.6% (excluding exceptional profits of KD 278 million for Wataniya Telecom Company during 2011). At the sectoral level, 5 sectors recorded an increase in their total net profits during 2012 compared with the corresponding period of 2011, wherein the Oil and Gas sector recorded the highest rise in the total net profits and losses during 2012 reaching KD 12.237 million against KD 5.355 million during 2011, i.e. an increase of 128.5%.

On the other hand, 3 other sectors recorded a decline in their total net profits during 2012 compared with the corresponding period of the previous year, wherein the Telecommunications sector recorded the highest decline in the profits during 2012 reaching KD 321.899 million against KD 647.210 million during the corresponding period of 2011, i.e. a decrease of 50.3% (with a relative importance of 24.91% of the total net profits and losses of 2012).

Furthermore, three sectors converted their losses into profits during 2012 compared with the corresponding period of the previous year. The Consumer Services sector ranked first, as it converted from losses of KD 3.100 million during 2011 to net profits of KD 44.621 million during 2012 or 1539.4%. Worth noting is that the Financial Services sector's losses declined from KD 180.441 million during 2011 to KD 96.535 million during 2012 or 46.5%.

As for ranking, the first five sectors in terms of their relative importance of net profits and losses during 2012 to total net profits and losses of all sectors for the same year are as follows: The Banks sector topped the list with 50.91%, the Telecommunications sector ranked second with 24.91%, the Industrial sector ranked third with 11.17%, the Real Estate sector ranked fourth with 6.24% and the Basic Materials sector ranked fifth with 3.67%.

The Price to Earnings (P/E) ratio of listed companies in the market witnessed a decline during 2012 reaching 14.19 on average against 14.73 on average during 2011.

Table (57) illustrates the sectoral distribution of the value of net profits of companies listed on the KSE for 2011 and 2012.

Table (57)

Performance of KSE-Listed Companies by Sector during 2011 and 2012

(Value in KD Million)

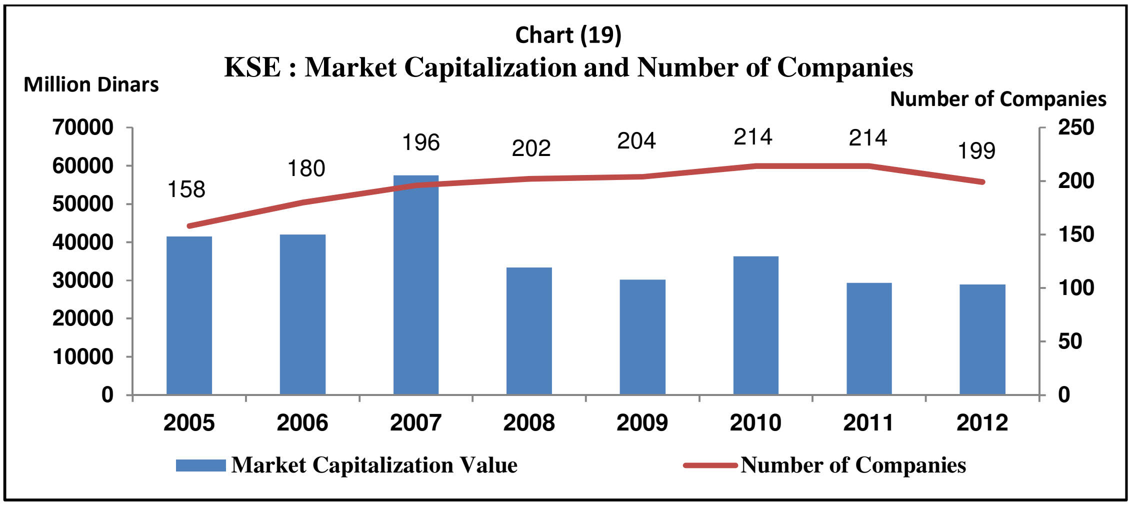
Sector	Number of Companies Listed in the Sector	Number of Companies Which Announced Their Data	Net Profits (Losses) during			EPS (Fils)	Return on Equity	P/E (Multiples)
			2011	2012	Change (%)			
Oil & Gas	7	7	5.355	12.237	+128.5	15.7	0.48	12.3
Basic Materials	5	5	47.488	47.368	-0.3	8.81	10.46	9.4
Industrial*	39	39	133.447	144.302	+8.1	18.97	0.14	14.65
Consumer Commodities	7	7	45.180	36.220	-19.8	2.11	1.23	10.24
Healthcare	3	3	10.763	11.327	+5.2	26.82	4.31	14.57
Consumer Services	16	16	-3.100	44.621	+1539.4	16.59	0.62	14.22
Telecommunications	3	3	647.210	321.899	-50.3	28.19	4.33	13.75
Utilities**								
Banks*	12	11	634.284	657.979	+3.7	24.3	0.8	22.40
Insurance*	8	8	21.805	27.590	+26.5	21.46	1.07	12.09
Real estate	39	39	-103.568	80.705	+177.9	4.03	0.08	13.45
Financial Services*	56	52	-180.441	-96.535	+46.5	-2.59	-0.06	14.27
Financial Instruments**								
Technology	4	4	-5.509	4.689	+185.1	+24.86	1.65	13.47
Market's Total	199	194	1252.914	1292.402	+3.2	5.99	6.41	14.19

* The new sectoral distribution (14 sectors) was effective 13/5/2012, whereas non-Kuwaiti companies distributed within the above-mentioned sectors.
** No listed companies under this sector.
Source: Financial data of companies' balance sheets available with Kuwait Stock Exchange.

Fifth- Developments in Market Capitalization and Share Issue Base:

1- Market Capitalization:

The market capitalization of listed companies in KSE declined by KD 474.2 million or 1.6% to reach KD 28885.6 million (KD 27202.6 million for 187 listed Kuwaiti companies) at the end of 2012 against KD 29359.8 million (KD 27748.2 million for 201 listed Kuwaiti companies) at the end of 2011. The mentioned decline in the net market capitalization resulted from delisting of 14 listed Kuwaiti companies, whereas these companies' share prices reached KD 260.9 million, i.e. contributed to 55% of the decline in the market capitalization which reached KD 474.2 million.



2- Share Issue Base:

The number of issued shares of companies listed on the KSE witnessed a decline during 2012 by 5664 million or 5.3% to reach 100943 million (86520 million shares issued by 187 Kuwaiti companies) at the end of 2012 against 106607 million (92979 million shares issued by 201 Kuwaiti companies) at the end of 2011. The decline in share issue base is mainly attributed to the delisting of 14 companies, wherein the number of shares issued by delisted companies reached 5584 million during 2012.

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