Summary of the Economic Report

Part One: Performance of the Domestic Economy:

1. **Gross Domestic Product (GDP) at current prices** decreased during 2009, compared to growth rates realized during the past six years, to reach KD 31500.1 million during 2009, against KD 39990.5 million during 2008, i.e. a drop by KD 8490.4 million or 21.2%, compared to an increase of KD 7410 million or 22.7% during 2008.

2. **Value added by the crude oil and natural gas production sector** during 2009 decreased by KD 9422.6 million or 39.9% during 2009 to reach KD 14185.5 million, compared with KD 23608.1 million during the previous year. Accordingly, the relative share of the value added of this sector in GDP decreased to 45% against 59% during 2008. The decline in the value added by the crude oil and natural gas production sector during 2009 was the outcome of developments in world oil markets and the decrease in oil prices in these markets, such as the OPEC's spot price of commodity standard materials which declined by 35.6% (from $94.45 per barrel on average during 2008 to $60.86 on average during 2009) on the one hand, and the decrease in crude oil and liquefied gas production in the State of Kuwait in line with OPEC decisions by 15.5% (a decrease in the actual production from 2.677 million barrel per day on average during 2008, to 2.261 million on average during 2009) on the other.

3. **Value added by the non-oil sectors** (excluding the refined petroleum products industry) increased reaching KD 17088.3 million during 2009, against KD 16165.3 million during 2008, i.e. a growth of KD 923 million or 5.7%, compared to a rise of KD 848.1 million or 5.5% during the previous year. The share of value added by these sectors in GDP rose from 40.4% during 2008 to 54.2% during 2009.

4. **Average price of the Kuwait export crude oil barrel** declined by \$29.98 or 33.3% (from \$90.10 during 2008 to \$60.12 during 2009). Crude oil production also decreased by 15.5% (from 2.677 million barrels per day on average during 2008 to 2.261 million on average during 2009).

5. **Value added by the refined petroleum products industry** declined to KD 750.2 million during 2009, compared to KD 837.8 million during 2008, recording a decrease by KD 87.6 million or 10.5%. This decrease was an outcome of the drop in the average weighted export price of the equivalent barrel of Kuwait refined petroleum by \$39.16 or 37.9% to reach \$64.09 during 2009, against \$103.25 during 2008 on the one hand, and the increase in Kuwaiti petroleum refineries' production by 69.43 thousand barrels equivalent per day or 7.7% to reach 965.51 thousand barrels equivalent per day on average during 2009, against 896.08 thousand barrels equivalent per day on average during 2008 on the other hand. Overall, the **value added by the oil sectors** (the crude oil and natural gas production sector, and the refined petroleum products industry) declined to KD 14935.7 million during 2009, against KD 24445.9 million during 2008, i.e. a decrease by KD 9510.2 million or 38.9%, compared to a growth of KD 6491.7 million during 2008. Consequently, the relative weight of the value added by the oil sectors in GDP dropped to 47.4% during 2009, from 61.1% during the previous year.

6. **Value added by the non-oil sectors** (excluding the refined petroleum products industry) witnessed a growth by KD 1010.6 million or 6.6% to reach KD 16338.1 million during 2009, compared to a growth by KD 916.9 million or 6.4% during 2008. The community, social and personal services sector recorded the highest growth in terms of the value added by KD 826 million or 17.3% to reach KD 5612.4 million during 2009, against KD 696.7 million or 17% during 2008. Accordingly, the relative share in GDP of these services increased to 34.4% in 2009, against 31.2% during the previous year. All sub-sections of the community, social and personal services sector achieved growth in their value added. General administration and defense services took the lead (by KD 569.9 million or 27.6%), followed by

education services (by KD 158.2 million or 13%), health services (by KD 51.1 million or 10.6%), and finally personal and housing services (by KD 17 million or 3.6%).

7. **The expenditure types on GDP at current prices** declined during 2009, compared with the previous year, resulting from the decrease in expenditure of the outside world (exports of goods and services) on the GDP by KD 8695 million or 32.9% to reach KD 17755 million during 2009, against KD 26450 million during 2008. While the net expenditure of residents (consumer and investment expenditure, minus imports of goods and services) on GDP witnessed a slight rise by KD 204.6 million or 1.5% to reach KD 13745.1 million, against KD 13540.5 million during the previous year. Total resident expenditure (consumption and investment), which represents the total expenditure on imports of goods and services, reached KD 22574.1 million during 2009, i.e. a decrease by KD 1237.4 million or 5.2%, compared to an increase of KD 2666 million or 12.6% during 2008. This decline was the outcome of the drop in gross capital formation by KD 2981.2 million or 40.5% to reach KD 4383.5 million during 2009, against an increase of KD 699.9 million or 10.5% during the previous year on the one hand, and the increase in the final consumption expenditure, both government and private, by KD 1743.8 million or 10.6% to reach KD 18190.6 million during 2009, compared to KD 16446.8 million during the previous year.

8. As for the major aggregates of national accounts, net factor income from abroad decreased by KD 664.6 million or 23%. Accordingly, the Gross National Product (GNP) declined during 2009 by KD 9155 million or 21.4% to reach KD 33723.4 million, against KD 42878.4 million during the previous year. Gross national income reached KD 32406.7 million during 2009, against KD 40666.3 million during 2008, i.e. a drop by KD 8259.6 million or 20.3%. As a result of this decline in GNP on the one hand, and the increase in the net current transfers abroad by 1.5% on the other, the disposable national income decreased during 2009 by KD 8302.2 million or 22% to reach KD 29490.5 million, against KD 37792.7

million during 2008. This caused the average per-capita disposable national income to decrease by KD 2392 or 22.5% to reach KD 8565.6 during 2009, against KD 11048.6 during the previous year.

9. The general level of domestic prices declined during 2009 following a drop in domestic demand as well as international import prices of consumer goods. In this context, the inflation rate, measured as the relative change in the general consumer price index (CPI), decreased from 10.6% during 2008 to 4% during 2009. A major portion (71.8%) of this rise is concentrated in three major expenditure groups of the Consumer's General Price Index. Housing services (with a relative weight of 26.7% in the CPI) ranked first where the first main source of this rise is the increase in general price level by 5.1% to reach 34.8% during 2009 compared to the previous year. The rate of increase of household goods and services (relative weight 14.7%) by 5.9% is considered the second main source of this rise (20.7%). While the rate of increase of food prices (relative weight 18.3%) by 3.2% is the third main source of the mentioned rise during 2009.

10. In respect of population and labor force developments in the State of Kuwait, the total population increased by 1.3% during 2009, compared to 1.2% during 2008, the largest portion (72.8%) of that increase in total population is attributable to the rise in Kuwaiti population by 2.9% which is less than the rate of previous year's 3.1%. Non-Kuwaiti population witnessed a rise of 0.5% during 2009, against 0.4% during 2008. This growth in population was accompanied by a growth in the total labor force in the State of Kuwait, wherein Kuwaiti labor force increased by 4.5%, and the non-Kuwaiti labor force decreased to 1.742 million at the end of 2009 from 1.752 million individuals at the end of the previous year, i.e. a decrease of 0.6%.

Part Two: Monetary Developments and CBK Activity:

1- **Money Supply** in its broad definition (M2) continued to expand during 2009 to reach KD 24895.8 million at end of that year, recording an increase of KD 2945.6

million or 13.4%, compared to KD 21950.2 million at end of 2008 and 15.8% growth rate during that year. This expansion in M2 essentially reflects the total of growth in Quasi-Money by KD 2601.9 million or 14.8% (from KD 17579.9 million at end of 2008 to KD 20181.8 million at end of 2009) on the one hand, and Money (the narrow definition of Money Supply, M1) by KD 343.7 million or 7.9% (from KD 4370.3 million at end of 2008 to KD 4713.9 million at end of 2009). The growth in Quasi-Money and Money contributed to the expansion in Money Supply during 2009 by 11.9% and 1.6% respectively. Within **the aggregate monetary position of CBK and local banks** during 2009, the growth in Money Supply (M2) reflected the sum of the rise in the net foreign assets of the mentioned institutions by KD 1836.4 million or 24.1%, and their net foreign assets by KD 1109.2 million or 7.7%.

2- **Bank credit** increased by KD 1436.9 million or 6.1% as the balances of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors reached KD 25104.5 million at end of 2009, compared to KD 23667.6 million at end of 2008, recording a rise of 17.5% during that year. This rise was the outcome of the increase of credit utilization in a number of sectors such as the Real-Estate sector (26.3% of the total facilities) by KD 631.7 million or 10.6%, the Personal Facilities sector (33.4% of the total) by KD 526 million or 6.7%, the Non-Bank Financial Institutions sector (11.5% of the total) by KD 134.7 million or 4.9%, the Crude Oil and Natural Gas sector (0.9% of the total) by KD 106.8 million or 96.3%, "Other" Economic sectors (6.4% of the total) by KD 73.8 million or 4.8%, and the Industry sector (6% of the total) by KD 35 million or 2.4% on the one hand, and the decrease in the Construction sector (6.5% of the total) by KD 41.8 million or 2.5%, and the Trade sector (9% of the total) by KD 29.2 million or 1.3% on the other.

3- During 2009, CBK made two cuts in **the discount rate and re-discount of commercial papers** offered by local banks (which CBK accepts for discounting or re-discounting) totaling 75 basis points to reach 3% at the end of 2009, against

3.75% at the end of 2008. CBK's decision in lowering the discount rate was to continue its efforts towards reducing domestic credit cost which contributes to strengthen the domestic economy. The discount rate is a pivotal rate linked within specific margins to the maximum KD lending rates in the banking and financial units. CBK also applied the KD domestic interest rate structure during 2009, which started operating since 30 March 2008 by adding no more than three percentage points on the discount rate specified by CBK on consumer loans after the interest rate of these loans was equal to the discount rate, in addition to lowering the agreed maximum interest rates of the installment loans to become three percentage points above the discount rate instead of four percentage points above that rate. Data indicate that average interest rates on customer KD time deposits with local banks decreased notably during 2009, reaching 1.544% for one-month deposits, and 1.688% for 3-month deposits.

4- CBK continued during 2009 to apply its **KD exchange rate** policy in place since 20 May 2007 which is based on a system of specifying KD exchange rate according to developments in international exchange rate of countries that have major trade and financial relations with the State of Kuwait. The currency basket system helps curb imported inflationary pressures resulting from international exchange rate fluctuations.

5- CBK continued to issue **Treasury Bonds** during 2009 where it launched 8 issues of these bonds (6 entitlement issues of 3-month bonds with a total nominal value of KD 400 million, and 2 entitlement issues of 6-month bonds with a total nominal value of KD 150 million), with a total nominal value of KD 550 million. Also, during this period, 6 previous issues of treasury bonds with a total nominal value of KD 400 million matured (4 entitlement issues of 3-month bonds with a total nominal value of KD 250 million, and 2 entitlement issues of 6-month bonds with a total nominal value of KD 150 million). Thus the total outstanding balance of the treasury bonds reached KD 150 million at the end of 2009.

Also, CBK launched 17 issues of **Kuwaiti Treasury Bonds** (entitlement issue of 1-year bonds with a total nominal value of KD 1590 million), while during the same period, 20 issues from the previous issues matured with a total value of KD 1841 million (18 entitlement issues of one-year bonds with a total nominal value of KD 1641 million, and 2 entitlement issues of 3-year bonds with a total nominal value of KD 200 million). Accordingly, the total outstanding balance of the treasury bonds decreased during 2009 by KD 251 million or 11.8% to reach KD 1879 million at the end of the 2009, against KD 2130 million at the end of 2008. Based on these developments, the balance of **Outstanding Public Debt Instruments** (treasury bonds and bills) decreased by KD 101 million or 4.7% to reach KD 2029 million at the end of 2009, against KD 2130 million at the end of 2008.

Within the scope of managing domestic liquidity levels, CBK **issued its negotiable bonds to the local banks and investment companies under its supervision** during 2009. In this context, CBK launched 27 issues of these bonds (18 entitlement issues of 3-month bonds with a total nominal value of KD 1327.5 million, and 9 entitlement issues of 6-month bonds with a total nominal value of KD 743 million) with a total nominal value of KD 2070.5 million. At the same time, 24 issues were earned (16 entitlement issues of 3-month bonds with a total nominal value of KD 917 million, and 8 entitlement issues of 6-month bonds with a total nominal value of KD 511 million), where its total nominal value sums up to KD 1428 million, as a result, **CBK's Outstanding Bonds** increased by KD 642.5 million or 171.6% (from KD 374.5 million at the end of 2008 to KD 1017 million at the end of 2009).

6- CBK continued during 2009 its relentless efforts in **supervision and oversight of the local banking and financial sector units** registered with it, through off-site monitoring and on-site inspection, ensuring implementation of sound professional banking and financial practices, and adherence to existing supervisory policies and instructions that conform to relevant international developments. Within this context, CBK issued in 2009 some new instructions, and introduced modifications to some previously-issued instructions, such as raising national employment rate from 50% to

60% according to the decision of the Council of Ministers, providing CBK with the stress-test results conducted by financial institutions to evaluate their ability to face exposures to difficult circumstances and situations, making sure that local banks do not grant any loans or funds to its clients from institutions and companies to be used in unauthorized activities under its founding contracts and main systems. CBK will assign a specialized external entity to examine and evaluate activities of specific banking and financial system units by including the inspection team in cases where CBK finds the nature of the task requires the use of such entities. Circular Decree Law No. 2 regarding enhancing the financial stability in the State of Kuwait, providing CBK with credit facilities/financing operations given to productive domestic economic sectors, and providing CBK with statements of irrevocable credit commitments against credit and financial derivatives. Applying Decree Law No. 2 of the year 2009 regarding enhancing the financial stability in the State of Kuwait and its executive regulation, the requirement for the investment companies to provide CBK with external auditor's report regarding the evaluation of their internal oversight systems during 2009, and notifying CBK with the evaluation results conducted by international rating agencies and institutions of Kuwaiti banks.

Part Three: Financial Indicators of the Banking and Financial Sector:

The third part of the Economic Report presents recent available financial indicators of 2009 for different types of banking and financial units subject to CBK's supervision including local banks (commercial, specialized, and Islamic), investment companies (conventional and Islamic), investment funds (conventional and Islamic), and exchange companies, with the purpose of determining trends of these indicators and their reflections and effects on the financial positions of these units. The main developments mentioned in this part of the Report can be highlighted as follows:

1- For the fourth consecutive year, the **institutional structure of the banking system** in the State of Kuwait continued to expand during 2009, as CBK Board of Directors primarily approved the licensing for establishment of branches of three Gulf banks in the State of Kuwait which are: Al-Rajhi Bank (23rd of March), BankMuscat (4th of May), and Al-Mashreq Bank (6th of July). Doha Bank finalized the necessary registration requirements and was listed in the local bank register of CBK on the 29th of July 2009 and started activity and operations in the State of Kuwait as of that date. Within the Islamic banking activity, a commercial bank (Bank of Kuwait and Middle East) announced its desire to convert into a bank operating in accordance with the provisions of Islamic Sharia, within a timetable approved by the CBK for its transformation into Islamic banking system. The local branches network of conventional and Islamic banks expanded during 2009 with the opening of 28 additional branches bringing the total number of local branches (excluding Head Offices) of these banks to 323 at end of 2009, compared to 295 at end of the previous year.

2- The **number of local investment companies** registered with the CBK and subject to its supervision rose with the addition of one new company to reach 100 (of which 54 operating in accordance with the provisions of Islamic Sharia) at end of 2009, against 99 at end of 2008 (of which 53 operating in accordance with the provisions of Islamic Sharia). The **number of exchange companies** subject to CBK supervision decreased from 39 at end of 2008 to 38 at end of 2009. The **number of investment funds** witnessed an increase by the addition of one new investment fund, bringing their number to 112 at end of 2009 (of which 54 operating in accordance with the provisions of Islamic Sharia) against 111 at end of the previous year (of which 54 operating in accordance with the provisions of Islamic Sharia).

3- Local banks' activity recorded a decelerating growth during 2009 reflecting the negative repercussions of the global economic and financial crisis, the sharp drop in KSE stock prices and large losses suffered by one of the largest local banks (Gulf Bank) as a result of its trading in financial derivatives and foreign currencies on behalf of customers. In this regard, the Economic Report indicates a slower growth in the total **aggregate balance sheet of local banks** which registered an annual growth rate of 2.8% and growth value of KD 1117.6 million in 2009, against 10.4% and

KD 3687.8 million in 2008. Several factors contributed to the realization of the growth in 2009, most significantly the growth in the balances of some liabilities items, notably balances of private sector KD-deposits with local banks, and government deposits. Parallel to the growth in the liabilities side, balances of local banks' assets increased, especially claims on the private sector, and foreign assets.

4- The balance of the **net foreign assets of local banks** increased notably by the equivalent of KD 1337.7 million or 43.2% (from KD 3097.3 million to KD 4435 million) at end of 2009. This increase came as a result of an increase in total foreign assets by KD 2777.4 million or 48.7% which was considerably more than the increase in total foreign liabilities by KD 1439.8 million or 16.4%. In this context, the report indicates that local banks resorted to decreasing all items of their foreign assets and investments, by notably decreasing the foreign banks deposit balances by KD 1763.2 million or 32.9%, credit facilities to non-residents by KD 1.1 million or 1.6%, with more than the total increase of foreign investments balances by KD 129.5 million or 6.6%, credit facilities to non-residents in foreign currencies by KD 173.9 million or 17.2%, and other foreign assets by KD 21.2 million or 5.6%. On the foreign liabilities side, non-residents deposit balances witnessed a decrease of KD 2710.5 million or 48.5%, from KD 5591.3 million to KD 2880.8 million, and other foreign liabilities by KD 67 million or 62.3%, from KD 107.5 million to KD 40.5 million. The decrease in non-resident deposit balances at the end of 2009 was due to the decline of deposits in foreign banks by KD 749.3 million or 27.1%, and non-banking entities located abroad by KD 1961.2 million or 69.4%. These developments are mainly repercussions of the global financial crisis in the countries of these non-resident entities.

5- Local banks continued to increase their domestic liabilities (private sector deposits, government deposits, equity, interbank deposits, and other domestic liabilities) to provide financial resources for their operations during 2009, and less to reducing their domestic assets (mainly represented in claims on the government and other domestic assets) while the previous year mainly focused on increasing most liability items and decrease the liabilities on CBK and interbank deposits on the assets side. The analysis of net financial flows in local bank operations regarding the use of domestic financial resources available to them during 2009 indicate a different pattern from 2008, where they focused on increasing their elements of domestic assets (particularly claims on the private sector, claims on CBK, and local bank deposits) without reducing their elements of domestic liabilities, whereas in 2008 they distributed an increase in their elements of domestic assets and decrease in some of the elements of domestic liabilities. But the operations of local banks during 2008 and 2009 were characterized by domestic financial uses in shortage of their realized domestic financial resources during that year.

6- Deceleration in economic activity in non-oil domestic sectors and implications of the global financial and economic crisis contributed towards reducing the growth of local banks' activities and revenues. Despite this, most local banks continued to achieve **profits** in 2009 even though at lower rates. Profitability decreased during 2009 compared to its levels during the previous year. **Net profits** realized by local banks reached KD 320.4 million during 2009, compared to KD 350.7 million and KD 1123.9 million during 2007 and 2008 respectively. The analysis of financial positions of local banks and the development of their performance, through certain sets of **indicators and financial ratios**, indicate that the **capital adequacy ratio** for each of these banks remains notably higher than the minimum required limit according to international recommendations. Average capital adequacy ratio for conventional local banks subject to CBK supervision reached 17.8% at end of year 2009 (16.2% for banks operating according to the provisions of Islamic Sharia), compared to 15.5% at end of 2008 (22.7% for banks operating according to the provisions of Islamic Sharia).

7- Total assets of local investment companies (100 companies) reached KD 15110.2 million at end of 2009, against KD 16669 million (for 99 companies) at end of 2008. These companies manage off-balance-sheet funds, mostly as third party investments, within their contra accounts which reached KD 17.4 billion at end of 2009. Thus, local investment companies managed funds in the form of assets and contra accounts totaling KD 32.5 billion.

8- **Conventional investment companies** (40 companies whose comparable financial data were available out of 46 companies) recorded a decline in their total aggregate balance sheet of KD 1064.3 million or 12% to reach KD 7819.8 million at end of 2009, against KD 8884.1 million at end of the previous year. On the assets side, this decline reflects a number of developments, the most prominent of which include the notable decrease in domestic investments by KD 507.1 million or 19.9% (from KD 2543 million at end of 2008 to KD 2036 million at end of 2009), and balances of foreign assets by KD 374 million or 8.9% (from KD 4181.8 million at end of 2008 to KD 3807.7 million at end of 2009). On the liabilities side, the decline is attributable to the significant decrease in the funding from residents by KD 465.5 million or 22.5% (from KD 2067.9 million at the end of 2008 to KD 1602.4 million at the end 2009), balances of foreign liabilities by KD 319.6 million or 14.7%, and capital and reserves by KD 192.1 million or 7.2%.

9- The aggregate balance sheet of **investment companies operating in accordance with the provisions of Islamic Sharia** (38 companies out of 54) recorded a notable decrease of KD 639.5 million or 8.9% at end of 2009 compared with the previous year, whereby the aggregate balance sheet reached KD 6522.6 million at end of 2009, compared with KD 7162.1 million at end of the previous year. The main developments in the assets side of that balance sheet encompassed a decrease in the local financial investments item by KD 304.4 million or 15.4% (from KD 1981.1 million at end of 2008 to KD 1676.7 million at end of 2009), and customer financing operations by KD 283.5 million or 34.8%. On the liabilities side, the shareholders' equity item increased by KD 55.2 million (or 2.5%) to reach KD 2290.1 million at end of 2009, compared with KD 2234.9 million at end of 2008, while foreign liabilities decreased by KD 108.3 million or 6.6% to reach KD 1530.5 million at end of 2009, compared with KD 1638.8 million at end of 2008.

10- The total balance of contra accounts of 100 local investment companies at end of 2009 (46 conventional, and 54 Islamic) reached KD 17433 million (of which KD 14397.7 million or 82.6% for the conventional investment companies, and KD 3035.3 million or 17.4% for companies operating in accordance with the provisions of Islamic Sharia), against KD 19237.1 million (of which KD 15982.8 million or 83.1% for the conventional investment companies, and KD 3254.4 million or 16.9% for companies operating in accordance with the provisions of Islamic Sharia) for 99 registered companies (46 conventional, and 53 Islamic) at end of 2008, i.e. a decline of KD 1804.1 million or 9.4%.

11- Total assets of **locally established investment funds** reached KD 1503.8 million at end of 2009 (for 74 investment funds), compared to KD 2968.4 million at end of 2008 (for 95 investment funds). The major portion of their finance came from capital and owners' equity. Total paid-up capital of these funds was KD 1724.2 million and owners' equity totaled KD 1480.8 million at end of 2009, compared to KD 2820.6 million and KD 2893.1 million respectively at end of 2008. Investments of these funds are essentially concentrated in the Kuwait Stock Exchange and the local real estate sector. These investment funds suffered net losses from their operations by KD 176.1 million (for 74 funds) during 2009, compared to profits of KD 1082 million (for 95 funds) in the previous year. It is worth noting that investment funds did not distribute dividends to shareholders during 2009, while it distributed KD 3.6 million in the previous year. On the other hand, the number of foreign investment funds marketed locally reached 117 during 2009, against 120 during the previous year. Resident investor subscriptions to these investment funds reached KD 2591.3 million at end of 2009, against KD 2805.4 million at end of the previous year (i.e. a decrease of KD 214.1 million or 7.6%).

12- The aggregate balance sheet of **local exchange companies** (for 38 companies out of 39 companies registered with CBK and subject to its supervision) increased by KD 107.3 million at end of 2009, against KD 104.8 million at end of the previous year, i.e. an increase of KD 2.4 million or 2.3%. Profitability of these companies improved during 2009, where in the net profit to partners' equity increased from 11.5% during 2008 to 13.5% during 2009, i.e. an increase of KD 2.7 million or 37.2% (by KD 10 million during 2009 against KD 7.3 million during 2008), compared to the increase in the value of total assets by 2.3%. On the other hand, the solvency level, represented in the ratio of partners' equity to total assets without risk weighting reached 68.6% at end of 2009, against 60.3% at end of the previous year. The solvency level of these companies reached 65.5% at end of 2009, against 57.9% at end of 2008, if the total assets are attributed to shareholders' equity and spin-off commitments represented in contra accounts.

Fourth: Public Finance:

1- **The closing accounts of ministries and governmental bodies for the fiscal year 2008/09** indicate higher actual budgetary revenues collected during that fiscal year by KD 1983.2 million or 10.4% reaching KD 21005.8 million, against KD 19022.6 million during the fiscal year 2007/08. This rise resulted from the increase in actual budgetary oil revenues by KD 1991.2 million or 11.2%% (to KD 19710.7 million, against KD 17719.5 million for the previous fiscal year), and the decrease in actual budgetary non-oil revenues by KD 8 million or 0.6% (to KD 1295.1 million, compared to KD 1303.1 million for the previous fiscal year).

2- Within the closing account of the fiscal year 2008/09, the **actual budgetary expenditures** increased by KD 8564.2 million or 88.3% to KD 18262.2 million during the mentioned fiscal year, against KD 9698 million in the previous fiscal year. That increase basically encompassed actual budgetary expenditures under the fifth chapter (miscellaneous expenditure and transfer payments) which accounted for 76.9% of the increase in actual budgetary expenditures of fiscal year 2008/09, rising by KD 6584.4 million or 158.4%. The increase in actual budgetary expenditures under the first chapter (salaries and wages) and the second chapter (requirements of goods and services) ranked second (21%) of the increase during 2008/09, rising by KD 562.1 million and KD 1233.9 million respectively, or by

22.7% and 69.8% respectively, compared to the previous fiscal year.

3- As an outcome of the developments in actual revenues and expenditures in the closing account for the fiscal year 2008/09, the general budget realized an **actual surplus** of KD 2743.6 million, against an actual surplus of KD 9324.6 million for the fiscal year 2007/08, i.e. a decrease of KD 6581 million or 70.6%, before deducting the allocations for the Reserve Fund for Future Generations.

4- The report also reviewed the main features of **the general budget of ministries and governmental bodies for the fiscal year 2009/10**. This general budget contained a decrease in the **budgetary revenue** estimates by KD 4604.2 million or 36.3%, to KD 8074.5 million, compared to their estimates for the previous fiscal year. This is essentially attributable to the decline in oil revenue estimates by KD 4728.2 million or 40.6% (to reach KD 6924.5 million, compared to their approved estimates for the previous fiscal year), and the rise in the budgetary non-oil revenue estimates by KD 123.9 million or 12.1% (to reach KD 1150 million, compared to their approved estimates for the previous fiscal year).

5- The **allocations for budgetary expenditures** for the fiscal year 2009/10 decreased by KD 6868.2 million or 36.1% above allocations for budgetary expenditure for the previous fiscal year, to reach KD 12129 million, compared to KD 18997.2 million for the previous fiscal year. This decrease encompassed all budget chapters of expenditures except the first chapter (salaries and wages) which rose by KD 266 million or 8.3% (to reach KD 3476 million, compared to KD 3210 million for the previous fiscal year), and the third chapter (transport, equipments, and preparations) which rose by KD 165 million or 92.2% (to reach KD 344 million, compared to KD 179 million for the previous fiscal year).

6- The general budget for fiscal year 2009/10 included an **estimated deficit** of KD 4054.4 million, against an estimated deficit of KD 6318.5 million for the previous fiscal year, before deducting the allocations for the Reserve Fund for Future Generations.

7- The report also reviews within that part **government fiscal operations** through the analysis of developments in **actual budgetary revenues and expenditures in the general budget** for the fiscal year 2009/10 during the first nine months (April-December 2009) of the that fiscal year, based on data available from the monthly follow-up statements. The report indicates that the **actual budgetary revenues** collected during that period of fiscal year 2009/10 dropped to KD 12902.9 million, compared to KD 18554.4 million collected during the corresponding period of the previous fiscal year, i.e. a decrease by KD 5651.5 million or 30.5%. The major portion (95.5%) of this decrease resulted from the drop in actual budgetary oil revenues collected during the period (April-December 2009) to KD 12178.6 million, against KD 17574.9 million during the corresponding period of the previous fiscal year 2008/09, i.e. a decrease of KD 5396.3 million or 30.7%. Meanwhile, the decrease in the actual budgetary non-oil revenues collected during the first nine months (April-December 2009) of the fiscal year 2009/10 accounted for 4.5% of the total decrease in the actual budgetary revenues collected during that period. These actual budgetary non-oil revenues decreased by KD 255.1 million or 26% to reach KD 724.3 million, compared to KD 979.4 million for the corresponding period of the previous fiscal year 2008/09.

8- The **actual budgetary expenditures** during the first nine months of the fiscal year 2009/10 (April-December 2009) declined notably by KD 3044.6 million or 34.9%, to reach KD 5685.4 million (46.9% of the total allocations for budgetary expenditures in the general budget for the entire fiscal year, amounting to KD 12119 million), compared to KD 8729.7 million for the corresponding period of the previous fiscal year (46% of the total allocations for budgetary expenditures in the general budget for the entire fiscal year, amounting to KD 18997.2 million).

9- Reflecting the developments in actual budgetary revenues and expenditures during the first nine months of the fiscal year 2009/10 (April-December 2009), the general budget realized an **actual surplus** of KD 7217.5 million, compared with an actual surplus of KD 9824.6 million during the corresponding period of the fiscal year

2008/09, i.e. an increase of KD 2607.1 million or 26.5%, before deducting the allocations for the Reserve Fund for Future Generations.

Fifth: Developments in Foreign Trade and Balance of Payments:

1- The surplus realized in the **Balance on Goods** (the arithmetical difference between the total value of merchandise exports and imports based on f.o.b.) decreased during 2009 to KD 9572 million, against KD 17206 million during 2008, i.e. a drop of KD 7634 million or 44.4%. This decline was the outcome of a higher drop in the total value of merchandise exports than the drop in the total value of merchandise imports.

   On the one hand, the value of merchandise exports (on f.o.b. basis) of the State of Kuwait declined to reach KD 14488 million during 2009, against KD 23373 million during 2008, i.e. a decrease by KD 8885 million or 38%. On the other hand, a decline was witnessed during 2009 in the value of merchandise imports (on f.o.b. basis) of the State of Kuwait to reach KD 4916 million, against KD 6167 million during 2008, i.e. a decrease by KD 1251 million (13.5%). This decline mainly reflected the decrease in the average export prices of Kuwaiti oil (crude and refined petroleum and liquefied gas) during 2009, which caused oil exports to drop to KD 13415 million during 2009, against KD 22200 million during 2008, i.e. a decline by KD 8785 million or 39.6%.

2- The **Services Account,** which reflects the net transactions between residents in the domestic economy and residents in other global economies related by transportation, insurance, travel, communications, construction, financial services and other services, recorded a decline in its deficit, by KD 379 million (36.9%) to reach KD 647 million during 2009, against KD 1026 million during the previous year. This decline mainly reflects the decrease in the total value of resident payments in the domestic economy listed on the debtor side in the mentioned account, specifically regarding transportation, insurance, and other services.

3- The net value of income from foreign investments under the **Income from Investment** item decreased to KD 2223 million during 2009, against KD 2888 million during 2008 i.e. a decline by KD 665 million or 23%. This decrease included both the value of returns on reserve assets of the CBK, and the value of returns on foreign investments for the general government, local banks and other sectors.

4- The net value of **Current Transfers** (free of charge) from residents to non-residents increased to KD 2916 million during 2009, against KD 2874 million during 2008, i.e. a rise of KD 42 million or 1.5%. While net current transfers from the general government abroad declined by KD 46 million (63.9%) from KD 72 million during 2008 to KD 26 million during 2009, the value of current transfers from other sectors (represented in expats' transfers abroad as its most prominent component) abroad increased by KD 88 million during 2009 to reach KD 2890 million, against KD 2802 million during 2008.

5- Based on the developments mentioned above, the decline in the surplus in the **Current Account** during 2009 was the outcome of the decline in both commodity balance surplus, and net value of income from investments abroad, even though the debit value of services account decreased, and the net value of current transfers abroad slightly increased. Specifically, the decline of commodity balance surplus amounting to KD 7634 million constituted the major portion (95.9%) of the decline of current account surplus that amounted to KD 7963 million during 2009.

6- The Capital Account witnessed a decline in the net value of capital transfers abroad by KD 167 million or 35.9% to reach KD 298 million during 2009, against KD 465 million during 2008. This decrease was the outcome of a drop in the value of compensation transfers obtained by residents (government, individuals, and companies) from the compensation committee affiliated mainly to the United Nations (UN).

7- The **Financial Account** of the State of Kuwait's BOP recorded a net outflow abroad of KD 6743 million during 2009, marking a decrease by KD 7043 million or 51.1%, from KD 13786 million during 2008. This decline was the outcome of the following developments:

a- An increase in the net value of the State of Kuwait's external investments under the "Direct Investment (Net)" item by KD 2464 million during 2009, against KD 2445 million during the previous year, i.e. a slight growth of 0.8%.

b- A decline in the net value of the State of Kuwait's external investments under the "Portfolio Investment (Net)" item by KD 2187 million during 2009, against KD 8562 million during the previous year.

c- An increase in the net value of the State of Kuwait's external investments under "Other Investments (Net)" item, represented in the change in the net value of trade credit, loans, currency, deposits and other investments, by KD 6466 million during 2009, against KD 3799 million during 2008, i.e. a rise by KD 2667 million or 70.2%.

8- The **Overall Balance** of the BOP statistics, represented in the outcome of the mentioned developments during 2009, realized a surplus of KD 1088 million, against KD 172 million during 2008. The realized surplus during 2009 reflects the rise in the Total Reserve Assets of the CBK, which rose by the same amount (KD 1088 million) at end of 2009, compared to its level during 2008.

9- Looking at the **Overall Position** of the State of Kuwait BOP statistics from a broader perspective to reflect both the change in total reserve assets of CBK, and the change in the net value of external investments of some governmental entities, the overall position of the Balance of Payments shows a surplus of KD 4593 million during 2009, compared to KD 8420 million during the previous year, i.e. a decrease of KD 3827 million or 45.5%.

Sixth- Developments in the Kuwait Stock Exchange:

1. The main trading indicators of the Kuwait Stock Exchange (KSE) witnessed variable performance during 2009, wherein the total value of traded shares (by KD 13.9 billion or 38.9%) and the number of transactions (by 60.5 thousand transaction or 3%) decreased during 2009 compared to the previous year, while the total volume of traded shares increased (by 25.5 billion shares or 31.5%) during that period, to reach KD 21.8 billion (for the total value of traded shares), 106.3 billion shares (for the total volume of traded shares), and 1.9 million transaction (for the number of transactions). Also, the daily averages of the trading indicators of value and number of transactions declined during 2009 (by 39.9% for value, and 3.7% for number of transactions), against an increase in the daily averages of the trading indicators of volume of traded shares (29.4%).

2. The KSE General Price Index (29/12/1993 = 1000 points) followed a downtrend during 2009, as it closed at 7005.3 points at end of 2009, i.e. a decrease by 777.3 points or 10% over its previous year closing which was 7782.6 points. Similarly, the KSE Weighted Price Index (26/12/2000 = 100 points) followed that same trend, albeit at a lower rate, as it closed at 385.75 points at end of 2009, against 406.7 points at end of 2008, i.e. a decline by 20.95 points or 5.2%. The highest level hit by this index during 2009 was in June (8371.1 points at end of business on 3 June), while it hit its lowest in March (6391.5 points at end of business on 1 March).

3. The varied performance witnessed by KSE during 2009 was driven by certain factors which negatively influenced its activity, mainly the drop in the companies' performance, and its quarterly profits which led to negative expectations of the these companies' performance, and repercussions of the global financial and economic crisis continued to beset the companies listed in the market during 2009, especially these companies' inability to meet their financial obligations towards their creditors. The market was also affected during some periods of 2009 by developments in local political situations that influenced the market. The market

reacted negatively to speculations related to the listed companies in the market's exposure of loans for some investment groups. But the market was also affected positively during some periods of that year especially with the creation of an economic working team at the end of 2008 to face the repercussions of the financial crisis on the Kuwaiti economy; and the issue of Decree Law No. 2 of the year 2009 to enhance financial stability in the country on 26th of March 2009, and its executive regulations on 2nd April 2009. These events were reflected on the market's performance which witnessed a noticeable surge of energy during that month.

4. The total value of net profits (or losses) of 194 KSE-listed companies during 2009 dropped to KD 6.5 million, against KD 23.6 million during 2008, i.e. a decrease of KD 17.1 million or 72.5%, where the net profits of the profit-making companies (104) reached KD 1583.7 million during 2009, against 109 companies earning profit of KD 2116.7 million during 2008. On the other hand, 90 companies recorded losses totaling KD 1590.2 million during 2009, against 82 companies losing KD 2140.3 million during 2008. Market capitalization reached KD 30220.8 million at end of 2009, against KD 33125.6 million at end of 2008, i.e. a decrease by KD 2904.8 million or 8.8%. The main element contributing to this decrease of market capitalization during 2009 was the net decrease in company share prices (13.3%).

5. The **number of shares issued** by companies listed on the KSE rose by 5277 million or 5.6% to 99691 million at end of 2009, against 94413 million at end of 2008. This rise in the number of shares issued during 2009 is attributable to a number of factors; the most important in terms of relative importance is the capital increase and the issuance of bonus shares, followed by listing of 3 new companies, bringing the number of listed companies in KSE to 204 at end of 2009.

Table (76)
Development of Main Economic, Financial and Monetary Indicators and Variables
(KD Million)

Item	2005	2006	2007	2008	2009
National Accounts:					
GDP at Current Prices:	**23593.2**	**29469.6**	**32580.5**	**39990.5**	**31500.1**
Crude Oil & Natural Gas Sector	12232.8	16478.3	17347.6	23608.1	14185.5
Non-oil Sectors	11186.8	12804.5	15317.2	16165.3	17088.3
Of which: Petroleum Products	970.2	829.4	906.6	837.8	750.2
Import Duties	173.6	186.8	215.7	217.1	226.1
Countable Banking and Insurance Services	-1052.1	-1340.5	-1696.9	-1785.1	-1450.8
GDP (at Fixed Prices of 2000):	**17088.1**	**17980.7**	**18765.1**	**…**	**…**
Crude Oil & Natural Gas Sector	7143.2	7340.6	7146.8	…	…
Non-oil Sectors	9793.4	10480.2	11469.2	…	…
Of which: Petroleum Products	583.9	609.0	618.8	…	…
Import Duties	151.5	159.9	149.1	…	…
Domestic Prices:					
CPI (2000=100)	108.8	112.1	118.3	130.8	136.0
Money and Banking:					
Money Supply (M2)	13086.2	15920.6	18959.9	21950.2	24895.8
Money (M1)	3727.4	3550.3	4146.7	4370.3	4714.0
Quasi-money	9358.8	12370.3	14813.2	17579.9	20181.8
Private Sector Deposits with Local Banks	12507.5	15264.2	18318.4	21242.4	24120.1
Of which: KD Deposits	10959.5	13019.7	16635.6	19343.2	21367.2
Local Bank Credit Facilities to Residents	11827.3	14933.7	20138.7	23667.6	25104.5
Of which: Consumer Loans	789.0	756.0	631.2	617.0	629.7
Net Foreign Assets of Local Banks	1533.6	2129.6	1409.9	3097.3	4435.0
Aggregate Balance Sheet of Local Banks	21611.6	26990.0	35555.0	39242.8	40360.4
KD at Year End (fils) .US $ Exchange Rate vs	292.00	289.14	273.80	275.90	286.75
Public Debt Instruments:					
Value of Issues:	**2969.0**	**2296.6**	**1641.0**	**1695.0**	**2140.0**
Treasury Bills	562.0	-	-	-	550.0
Treasury Bonds	2407.0	2296.6	1641.0	1695.0	1590.0
Maturities:	2989.0	**2407.0**	**1641.0**	**1861.0**	**2241.0**
Treasury Bills	1650.0	-	-	-	400.0
Treasury Bonds	1339.0	2407.0	1641.1	1861.0	1841.0
Balances at Year End:	2407.0	**2296.6**	**2296.0**	**2130.0**	**2029.0**
Treasury Bills	-	-	-	-	150.0
Treasury Bonds	2407.0	2296.6	2296.0	2130.0	1879.0

Table (76) Cont'd.
Development of Main Economic, Financial and Monetary Indicators and Variables

(KD Million)

Item	2005	2006	2007	2008	2009
CBK Bonds:					
Value of Issues:	**474.0**	**1261.0**	**2280.6**	**1246.1**	**2070.5**
3-month	474.0	1261.0	1413.6	689.1	1327.5
6-month	-	-	867.0	557.0	743.0
Maturities:	350.0	1029.0	2046.0	1462.2	1428.0
3-month	350.0	1029.0	1519.0	806.2	917.0
6-month	-	-	527.0	656.0	511.0
Balances	124.0	356.0	590.6	374.5	**1017.0**
3-month	124.0	356.0	250.6	133.5	544.0
6-month	-	-	340.0	241	-473.0
Public Finance (Fiscal Years): (1)	**(2005/06)**	**(2006/07)**	**(2007/08)**	**(2008/09)**	**(2009/10** (2)
Revenues	13728.1	15509.3	19022.6	21005.8	17687.9
Expenditures	6862.0	10306.4	9698.0	18262.2	11250.7
Surplus or Deficit (3)	6866.1	5202.9	9324.6	2743.6	6437.2
Foreign Trade:					
Total Value of Exports, of which:	13101.6	16252.9	17770.1	23481.5	14472.4
Value of Oil Exports (4)	12392.6	15429.7	16780.0	22200.1	13415.2
Total Value of Imports (c.i.f.)	4613.9	5000.5	6061.5	6678.7	5157.7
Balance of Payments:					
Current Account	8781	13148	11747	16195	8232
Balance on Goods	8833	11669	12097	17206	9572
Services Account (Net)	-1151	-637	-902	-1026	-647
Income Account (Net)	2097	3182	3522	2888	2223
Current Transfers (Net)	-999	-1066	-2971	-2874	-2916
Kuwait Stock Exchange:					
(Excluding Investment Funds Transactions)					
Value of Traded Shares (KD Million)	28420.8	17283.9	37009.4	35747.1	21828.9
Quantity of Traded Shares (Million Shares)	52245.1	37657.9	70437.9	80850.8	106331.7
Number of Transactions (Thousand Transactions)	1955.4	1486.2	2101.7	1997.7	1939.0
Price Index (29/12/1993 =1000)	11445.1	10067.4	12558.9	7782.6	7005.3
Weighed Index (26/12/2000=100)	562.2	531.7	715.0	406.7	385.8

(1) Data are taken from the closing accounts, (fiscal year ends up in March).

(2) Follow-up statements for the period (April-December 2007).

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

(4) CBK estimates for oil exports and foreign trade, for the period 2005-2007.

(...) Unavailable Data.