



State of Kuwait
Ministry of Finance
Public Budget Affairs

Statement of the Minister of Finance
On the Economic, Monetary and Financial Conditions
And the Draft Budget for the Fiscal Year
2008/2009

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INTRODUCTION

By virtue of the provisions of Article no. 13 of the Decree Law no. 31 of 1978 regarding the rules of preparation of public budgets and controlling the execution thereof and the final closing account providing as follows:

"The Minister of Finance shall cause to prepare the draft budget as well as a statement containing a general presentation of the underlying rules of the draft and an analysis of its goal",

The provisions of Article no. 14 providing as follows:

"The Minister of Finance shall present the draft budget attached with the statement to the Council of Ministers for approval. These should be approved at sufficient time to present the draft to the legislative power at least two months prior to the expiry of the present fiscal year".

From this perspective, I have the pleasure to present to your good selves a statement analyzing the economic, monetary and financial conditions and the draft budget of the fiscal year 2008/2009 together with an explanation of the rules and fundamentals taken into consideration in the preparation of the draft budget estimates and emphasis on the role of the state public budget as tool of the financial policy of the State of Kuwait that contributes to the achievement of the State's general economic objectives.

The Minister's statement is considered a scientific document of great importance in view of its contents including data, information and economic and financial trends and policies about the economic, monetary and financial conditions of the State of Kuwait.

Its importance lies in the benefit of this document for various government and non-government authorities and the researchers and scholars concerned with public finance of the State of Kuwait.

We hope that we have been successful in the presentation of the economic, monetary and financial conditions of the state with a great deal of accuracy and transparency.

We look forward to the execution of political, economic and social objectives contained in the draft public budget of the state for the fiscal year 2008/2009 and the achievement of the objectives and directions of his highness Amir of Kuwait, may God keep him safe, for improvement of the living standard of Kuwaiti citizens and transformation of the State of Kuwait into a regional financial and economic center. We look forward to work together and achieve synergy between the executive and legislative powers to place the name of Kuwait at its normal high position amongst the countries of the region and the world.

May God make us successful!

Mustafa Jassim Al Shamali

Minister of Finance

Chapter I

Economic and Financial Trends and Policies

First: Expectations of Economic Performance

It is my pleasure to start with reference to the scenarios prevailing at the international financial circles about the performance forecasts of the world economy and regional economies and their impact on the performance forecasts of Kuwait economy in comparison with the objectives of the fiscal year 2008/2009.

On the world level, the international financial institutions forecast that growth rate of the world economy will decrease from 5.2% in 2007 to about 4.8 % in 2008 in view of the financial and real estate markets crisis in the industrial countries. The economic sources stated that the rise of oil prices to record levels may impact the economy growth in 2008 as a result of the possible contractive effects of the record rise of the oil prices on the economies of the consumer countries, the effects of US Dollar exchange rate decline on the economies of some countries whose exports are made in US\$ or the continuous US budget deficit and the finance thereof from the money markets.

On the regional level, the concern regarding political instability still shadows the investment environment in the region, reduces the opportunities of economic growth and adversely impact trust in the regional countries ability to achieve sustainable development.

Locally, despite of the fluctuations of the local and regional money markets over the last year, the Kuwaiti economy achieved considerable rates of economic growth not less than those achieved in 2006 due to the relative rise of oil prices over that year. Consequently, the growth of gross domestic product per capita has reached new record levels.

During the said year, the government observed its action plan designed to activate the national economy according to the liberal economy policy,

openness to the market system, application of modern world regulations and standards for promotion of investment and transfer of technology, expansion of the role of private sector and adoption of the state-of-art systems to ensure their participation in the execution of various government and development projects.

Furthermore, the government has pledged to take such measures that would achieve reform and equity and revise whatever would adversely reflect on the state credibility and observation of existing laws and legislations.

The government also submitted a package of economic bills to the legislative power for the purpose of achievement of the contemplated quality transformation of Kuwait economy and creation of favorable investment environment to transform Kuwait into an attractive investment center for local investment as well as foreign private investment.

For this reason, HH Amir of Kuwait, Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah stressed the necessity and importance of Kuwait transformation into a regional financial and commercial hub in light of his sublime interest in building up modern Kuwait to ensure high standard living and welfare for the people of this country in the future.

Second: Economic Deficiencies and Economic Business Principles & Basics

1. The argument is still going on that the oil prices are the main engine of the economic activity in Kuwait. We still affirm that the Kuwaiti economy is a single-resource and return-type economy depending on two sources i.e. revenues of oil exports and returns of overseas investments. Although our conviction of the foregoing is well established and that these two sources are unstable and unreliable to be strong foundations of development, our economy has not yet shouldered its way towards change.
2. Kuwait economy is still diagnosed as an economy where the economic activity is closely related to the public government expenditure. The role of private sector in connection with building up the gross domestic product is

still tiny in view of the huge share of the oil sector of the GDP, which share is increasing thanks to the rise of world oil prices.

3. The State role of largely intervening in setting up the price mechanism still exists and the State has not yet transformed its role into a regulator of services in several fields.
4. The State still provides free social services and subsidizes the prices of many commodities and services without a large role for the free market system in this area.
5. Kuwait population is still increasing. It reached about 3.2 million citizens on 31 December 2006 at an annual growth rate of 6.4%. The Kuwaiti nationals' population has increased to 1.02 million capita at an annual growth rate of 3.1% of the total population according to the data of Higher Council of Planning and Development. A large number of this population joins the workforce, necessitating the creation of new job opportunities for them.
6. We should not omit the fact that the decline of US\$ exchange rate for Kuwaiti Dinar may result in the increase of domestic price rates. This may have an adverse effect on the purchasing power which would in turn impact the growth rates of local demand and consequently the economic growth rates.
7. In light of the decline of US\$ exchange rate being the international payment currency, it is possible that the state foreign exchange revenues will be adversely affected.
8. Kuwait's ability to attract direct foreign investment is still limited for many reasons that restrict the inflow of foreign capital which together with the Kuwaiti private sector's funds contribute to the building of the State's production capacity.

9. The international reports indicate that the procedures of securing necessary approvals and licenses for private sector business take long time. This is not appropriate for the requirements of creating favorable investment environment for promotion of the private sector contribution to the gross domestic product.
10. Added to the foregoing is the social dimension of the government policy. The government hereby supports on continuous basis large categories of its nationals, in particular the low-income category. This adds large financial burden to the State's public budget. The State's obligation to subsidize the refined petroleum products marketed locally due to their high world prices, finance the increase of power generation costs due to the increase of prices of fuel used in power plants and subsidize of communications and other public services has been one of the elements affecting the State finance.

Therefore, one would expect that the fiscal year 2008/2009 would witness the activation of economic reforms and transition trends in our country. All decision makers should be given enough time and effort to achieve and enforce such reform.

If we are satisfied with the importance of developing Kuwait economy and diversifying its revenues with the assistance of private sector and the inevitable transformation of Kuwait into a regional financial and trading center, the economic policies increasing the private sector ability of investment, attracting foreign investment to the country and aiming to achieve more monetary and price stability and activation of liberal market powers for adjusting the demand, directing the production and increasing the country infrastructure capacity to afford the future economic growth are the policies which should be given full care and attention.

In view of the foregoing, the general framework governing the economic business in Kuwait will remain based on the following principles:

1. To continue the maintenance of a high degree of monetary, price and financial stability, to use the country's financial resources for the development of Kuwait economy's infrastructure through the public investment expenditure, to activate the role of markets in allocating resources and to assure the realization of stable and sustainable development of Kuwait economy.
2. To continue the promotion of investment expenditure of production nature by the Kuwaiti private sector so that uncontrolled consumer expenditure would not apply further inflationary pressure on Kuwait economy in the future and give proper care and attention to the low-income categories of Kuwaiti nationals who are unable to increase their income.
3. To continue efforts for elimination of the State intervention in the economic activity, transformation of the State's role from service provider into service regulator and controller of their standard through the foundation of more regulatory and supervisory institutions to control service providers in different fields so that the nationals would obtain high standard of quality of services and to effectuate transparency, discipline and disclosure standards and compliance with the international standards regulating the performance of such services.
4. In view of the elimination of the State's role, the private sector should be motivated on continuous basis to diversify the production base of Kuwait economy. This necessitates the finalization of ratification of law bills proposed by the government constituting the basis of the state and private sector relation and partnership. This would help the private sector create more job opportunities for the increasing labor force. It would also necessitate the efforts of all government authorities to simplify and reduce

the procedures of approvals and licenses to support the public sector in duly performing its role.

5. Motivation of the national private sector for productive and service investment is not less important than the necessary promotion of inflow of foreign capital of direct investment nature into the country to join the Kuwaiti private sector in building up the base for our economy to develop its resources and diversify its future income sources.
6. On the financial and banking level, continuation of efforts for the integrity and powerfulness of our banking and financial system is vital as the powerfulness and vitality of this sector is the ground for of powerful national economy.
7. Continuation of efforts for rationalization of public expenditure and preparation of different entities to apply the programs and performance budget would together achieve the maximum standard of efficiency of expenditure and the increase of its return on Kuwait national economy.

Third: Manpower

a. Basic Features of Manpower*

In view of the increasing importance of human development in comparison with the accelerating progress of information technology (IT) and the basic role of manpower in connection with development, it is very important to shed light on the structure of manpower in the State of Kuwait as follows:

1. The percentage of those persons of the total population classified as not included in the human resources (less than 15 years old) was estimated at 21.1% in December 2006.
2. The percentage of Kuwaiti population who are not included in the human resources was 39.9% in December 2006 (males 41.5% and females 38.3%)

* Source: Higher Council of Planning and Development

while the percentage of non-Kuwaitis was 12.2% (males 9.1% and females 19.4%)

3. The percentage of Kuwaiti population included in the human resources was 60.1% (males 58.55% and females 61.7%) while the percentage of non-Kuwaitis was 87.8% (males 90.9% and females 80.6%)

The human resources include the working population and non-working population who are at the age of employment and able to work.

4. The statistics point out that the total workforce in the State of Kuwait was 1.96 million persons in December 2006 at an annual growth rate of 8.1%. The Kuwaiti workforce was 341.2 thousand persons at an annual growth rate of 6.5%. The total national labor represented 17.4% of the total labor in December 2006. The total non-Kuwaiti labor was 1.62 million persons at an annual growth rate of 8.4%, representing 82.6% of the total workforce. In terms of nationality, Kuwaitis represent 17.38% of the total workforce as aforementioned. The percentages of Arabs, non-Arabs and stateless are 22.78%, 59.07% and 0.77% respectively.
5. The private sector employs about one-half of the workforce (53.2%). The national manpower represents a little percentage of 3.9% of the total workers in this sector. The largest percentage of total national manpower (83.3%) is mainly employed in the government sector.

It is worth mentioning that the growth rate of national manpower in the government sector has decreased from 5.85% to 3.3%. It increased from 276909 to 286051 persons. The percentage of non-Kuwaiti employees in the government sector decreased from 6.6% to 6.3%.

b. Support and motivation of national manpower for employment with non-government bodies:*

1. The law no. 19/2000 for national manpower support and motivation for employment with non-government bodies is intended to achieve several aims, notably:
 - Reformation of the structural deficiency of the workforce of the private sector where the expatriate manpower constitutes the majority thereof.
 - Approval of regulations that motivate non-government bodies to employ national manpower.
 - To reduce the difference of benefits and salaries of staff between different bodies.
2. The application of law has achieved some objectives including, but not limited to, the increase of private sector employment of national manpower from 1000 to more than 7000 nationals per annum. The number of Kuwaitis employed in the private sector over the last five years following the application of law is 32830 nationals, establishment of the scheme of occupational training ending with employment and start of formation of some economic sectors (oil, private schools, Ministry of Health, Ministry of Defense, etc).
3. The application of law has led to the reduction of total unemployment rate to 4.12% only, including 1.78% real unemployment and 2.34% on the waiting list for governmental jobs. Some studies point out that but for the promulgation of national manpower support law, the unemployment rate would have exceeded 40%.

c. Proposed policies and approaches for supporting national manpower and curbing unemployment

- To revise the legislations and policies related to labor market for bridging the gap between the benefits of employees of the government and those of the private sector.

* Source: Higher Council of Planning and Development

- To update the policies of support of nationals in general and the new graduates in particular to start small enterprises and support the foundation of incubators for creating new job opportunities.
- To promote government and private investment policies outside Kuwait in particular those which are labor-intensive particularly in the countries supplying manpower to the State of Kuwait.
- To adopt annual revolving advertising campaign or strategy to promote the State's efforts in this regard.

Fourth: Significant trends and estimates of the draft budget for the fiscal year 2008/2009:

As the State's public budget is one of the tools of enforcing the State's economic policy for achieving the general economic objectives of the country, the draft budget of the fiscal year 2008/2009 is based on some grounds summarized as follows:

A. Public Expenditure

1. Continuation of efforts to upgrade public expenditure efficiency by emphasizing the public expenditure productivity, increasing its economic and social yields and transparency, achieving the highest degree of integration between the public investment expenditure and the private investment expenditure and eliminating any form of competition between them.
2. Provision of necessary investment funding for the resources to be utilized for paving the way before the private sector through the provision of necessary infrastructure for it as well as Kuwaiti nationals including water, electricity, roads and communications or the nationals' needs of higher level educational, medical and security services.
3. Provision of social care and essential services to its nationals.

4. Provision for necessary appropriations for the employment of newly graduated Kuwaitis.
5. Continuation of payment of funds due from the public treasury to the social security fund. It has been decided to pay the actuarial deficit of the fund of the third chapter of the social security law as per the Council of Ministers resolution no. 844/first dated 17/9/2007.

B. Public Revenues

1. Diversification of the Country's public revenues by working for increasing non-oil revenues and their share of the total revenues of the budget. Some sources of such revenues are under review to either modify their comprehensive or revise their prices
2. Reformation of the tax system and legislative review of the laws governing the tax system in the State, including taxation of foreign companies for promotion of direct foreign investment
3. Protection and maintenance of public funds and increasing their returns, setting clear, explicit and public rules for the management and pricing of different uses of the state domains to improve the sources of non-oil revenues of the public budget
4. Realism and precautions for the decline of world oil prices

Estimates of the public budget for the fiscal year 2008/2009

Regarding the estimates of the public budget for the fiscal year 2008/2009, these are summarized as follows:

1. Total public revenues estimated at about K.D. 12678.7 million
 - The crude oil revenues are estimated based on the price of about US\$ 50 per barrel at an estimated amount of about K.D. 11472.0 million in addition to the gas export revenues estimated at about K.D. 180.6 million. The revenues of the fiscal year 2008/2009 are estimated at

about K.D. 11652.6 million at an increase of K.D. 4202.7 million than the estimates of the fiscal year 2007/2008, at a rate of 56.4%.

- The non-oil revenues are estimated at about K.D. 1026.1 million at an increase of about K.D. 155.7 million, i.e. at growth rate of 17.9%.
- Therefore, the percentage of oil revenues share to the total budgetary revenues is estimated to be about 91.9% while the non-oil revenues share is estimated at about 8.1% only.

2. Total public expenditures estimated at about K.D. 18966.0 million

- The public expenditures of the draft budget of 2008/2009 are estimated at about K.D. 18966.0 million at an increase of about K.D. 7666 million than the appropriations of the budget of 2007/2008, at a rate of 67.8%.
- An amount of K.D. 3210.0 million is estimated for the first chapter "Salaries" at an increase of K.D. 584 million with an increase rate of about 22.2% more than the appropriations of the last fiscal year 2007/2008.
- An amount of K.D. 3077.0 million is estimated for the second chapter "Commodity Requirements and Services" at an increase of K.D. 1243.5 million more than the appropriations of the fiscal year 2007/2008, at an increase rate of 67.8%. The amount of K.D. 2453.0 million of the said increase is allocated for the requirements of the Ministry of Electricity and Water representing 79.7% of the estimates of the second chapter to cover the additional appropriations for power plant fuels which were not approved in the previous years and to cover the costs of fuel of these plants operation for the fiscal year 2008/2009.
- The amount allocated for the third chapter "Transports, Equipment and Supplies" is estimated at K.D. 179.0 million at a decrease of K.D. (37.0) million (17.1%) than the appropriations of the fiscal year 2007/2008.
- The amount estimated for the fourth chapter "Construction and Maintenance Projects" is K.D. 1664.5 million at a decrease of K.D.

(393.5) million (19.1%) less than the appropriations of the fiscal year 2007/2008 for expenditure on all the state utilities. An amount of K.D. 1365.2 million, i.e. 81.9% is allocated for construction and maintenance projects and K.D. 179.2 million, i.e. 10.8% for the public acquisitions. The supplementary appropriation was allocated K.D. 120.1 million representing 7.2% of the total estimates of the fourth chapter.

- The amount estimated for the fifth chapter "Miscellaneous Expenses and Transfer Payments" is K.D. 10835.5 million, at an increase of K.D. 6269.0 million, i.e.137.3% more than the appropriations of the year 2007/2008. This increase is due to the State's decision to pay the actuarial deficit of the third chapter fund of the social security law estimated to be K.D. 10944.0 million to be paid in two equal installments of K.D. 5472.0 million each, starting from the budget of the fiscal year 2008/2009 according to the Council of Ministers' resolution no. 844/first dated 17/9/2007.
3. It is planned to credit K.D. 1267.9 million to the future generations reserve fund at the rate of 10% of the total revenues according to the provisions of law no. 106 of 1976 regarding the future generations reserve fund.
 4. The total deficit is estimated at about K.D. (7555.2) million after deduction of the future generations reserve allocation

Chapter Two

International and Domestic Economic Developments

First: Forecasts of the World Economy Growth Rates

The forecasts indicate that the growth rate of the world economy in 2007 was estimated at about 5.2% in comparison with 5.4% in 2006 and it is forecasted that it will achieve less growth rate of 4.8% in the year 2008 due to the crisis of financial and real estate markets in the industrial countries. The rise of oil prices to record levels nowadays may affect the economy growth in the next year. On the level of the major economic entities, the forecasts indicate that:

- **USA:**

It is forecasted to achieve an annual growth rate of 1.9% in the year 2007 against 2.9% in the year 2006. In 2008, it is forecasted to achieve a growth rate of 2.2%

- **Developing Countries Group:**

These are expected to achieve a flat growth rate of 9.8% in 2007 and this is forecasted to decrease to 8.8% in 2008.

- **India:**

The experts forecast that India would be among the major countries driving and dominating the world economic growth. It is forecasted to achieve a growth rate of 8.9% in 2007 in comparison with 9.7% in 2006.

- **China:**

It is forecasted to achieve a growth rate of 11.5% in 2007 in comparison with 11.1% in 2006 despite of the Chinese government efforts to control the speedy growth of the economic performance. In 2008, it is forecasted to achieve a growth rate of 10% when the government would limit the expansion of investments in the commercial sector for improving power effectiveness and reducing pollution rates.

- **Japan:**

The economic growth is estimated at 2.3% in the year 2007. It is forecasted that the economy growth will slow down in the year 2008 at 2.1%.

- **Euro Zone:**

It is forecasted that the Euro zone will achieve a growth rate of 2.6% in the year 2007 in comparison with 2.8% in 2006. It is further forecasted that it will achieve a growth rate of 2.2% in 2008. The indicators show that the growth has reached its apex supported with the rise of the Euro exchange rate against the US\$ and the labor markets and exporting rates are still high also.

Second: Developments of world oil markets and their impact on economic activity

Crude Oil Supply and Demand:

Price Forecasts:

A study of Imperial Trade Bank of Canada forecasted that the crude oil prices would exceed 100 US\$/barrel in 2008 as a result of the effect of higher rates of oil consumption. The study forecasted that the exporting capacity of OPEC, Russia and Mexico will decrease at the rate of 2.5 million bpd by the end of the current year. The growth of domestic demand amounting to 5% per annum in the major oil exporter countries will result in the reduction of exports. The study points out that the OPEC member states in addition to Russia and Mexico consumed more than 12 million bpd over the last year, thus surpassing the consumption of the European countries and becoming the second largest oil market in the world. The study concluded that the increase of consumption of oil exporter countries together with the reduction of their exports at 7% over the next three years would result in severe increase of world oil prices over the next few years.

Other factors may result in the rise of prices are as follows:

1. **Refineries:**

There are obstacles in the refineries in particular in the USA in addition to the season of routine maintenance of refineries all over the world. On the other hand, the high construction cost of refineries may cancel or slow down the construction of new refineries.

2. **Oil Reserves:**

The official figures refer to the decrease of the oil reserves of consumer countries because the spot prices are higher than the forward prices in addition to the overall maintenance of oil fields resulting in the imbalance of demand and supply resulting in the withdrawal from the oil reserves.

3. **Geopolitical Controversies:**

The escalation of controversy between Iran and the UN about its nuclear program as well as the political instability in several OPEC member states such as Iraq, Venezuela and Nigeria.

4. **Speculations:**

The oil speculation market is based on psychological factors rather than economic factors (supply and demand) leading to fluctuation and instability of prices.

5. **Seasonality:**

During summer, demand on petroleum products and light products increases (petrol and jet fuel) as well as fuel oil for operation of power plants. However, demand on intermediate byproducts increases for the heating purposes in winter.

6. **Economic Conditions of Consumer Countries:**

It is expected that the real estate credit crisis in the USA would result in the limitation of demand on oil.

7. **Increase of Production of Non-OPEC Countries:**

The forecasts emphasize that the rise of oil prices will lead to the increase of investment in the production, exploration and development of oil fields in these countries and consequently the increase of production and oil supply and reduction of prices.

8. **OPEC Decisions:**

OPEC adopts certain mechanism intended for the stability of oil prices, namely the reduction of production in case of prices decline and the increase of production in case of rise of prices and decrease of reserve. However, this mechanism may create a controversial atmosphere between OPEC members and the consumer countries to reach appropriate price for both parties.

9. **US\$ Exchange Rate**

The relation between oil price and US\$ exchange rate is in indirect proportion. The decline of US\$ rate may result in the increase of world demand on oil.

10. **Production and Development Cost:**

The increase of production and oilfield development cost will promote the rise of oil prices. Reports stress the provision of capital estimated at more than US\$ 140 billions for non-Middle Eastern countries for production from traditional oilfields and this would result in the increase of production costs at the rate of 5 US\$/barrel. However, the Middle East countries seeking to increase their production at 7 million bpd would need a capital of US\$ 100 million and consequently the production cost shall increase at the rate of 2.2 US\$/barrel.

Demand Forecasts:

a. World Oil Demand:

*** World Demand in 2007:**

The experts forecast that the rates of world oil demand would grow at 1.5% i.e. 1.3 million bpd in 2007 in comparison with the year 2006, for the following reasons:

1. World economic growth: particularly in industrial countries where the improvement of the world economic situation reflects a demand increase rate of 600-850 thousand bpd.
2. Forecasts of seasonal demand on heating fuel: this usually takes place in the first quarter of each year.
3. Weak US\$ exchange rate: which offset the rise of oil prices for the consumer countries.
4. Production subsidy policies: these policies have their role in increasing demand particularly in the developing countries such as India, China, Indonesia and Middle East countries. The governments of these countries bear the cost of subsidy of the most-consumed oil products. Consequently, these policies would result in the consumers being unaffected with the fluctuations of prices under the influence of speculation market.

*** Forecasted World Demand in 2008:**

The world oil demand is forecasted to grow at about 1.5 million bpd i.e. at the rate of 1.7% in comparison with the year 2007 up to 87.35 million bpd.

The sources attribute the increase of world oil demand in 2008 to the following reasons:

- Low temperature in the winter in the northern hemisphere
- Continuous growth of world economy at reasonable rates
- The forecasts that developing countries and China would maintain their contribution of 60% of the total world demand in view of the growth of their economies.

b. Demand forecasts for the most consuming countries:

- **USA**: The oil products consumption is forecasted to increase at the rate of 1.1% in particular the heating fuel over the next period of the present winter season. Regarding the gasoline fuel, it is forecasted that its demand would increase at the rate of 1.1% due to the decrease of reserve quantities in the third quarter in 2007.
- **China**: The oil products consumption is forecasted to increase at 3% and the gasoline at 6% because of the increase of car sales at the rate of 24%.
- **India**: The oil products consumption is forecasted to increase at 4% as a result of the expansion of industry and communications sector.
- **Middle East Countries**: These countries recorded an increase of demand rates at 5% of the total world demand.

c. Average Oil Supplies:

1. Average Oil Supplies From Non-OPEC Countries in 2007:

The increase of average oil supplies from non-OPEC countries is estimated at 1.1 million bpd in 2007 to reach 54.68 million bpd which is less than the forecast for the following reasons:

- Continuous decrease of the production of major non-OPEC countries in particular North Sea countries and Mexico
- Delay of construction of new projects
- Increase of cost, shortage of raw materials and equipment and non-availability of infrastructure for oilfield development and oil facilities.
- Enactment of financial and regulatory laws compatible with the environment laws
- Hurricanes of USA and Mexico
- Government intervention in the new projects and the decline of foreign investment percentage (Russia)

2. **Average Oil Supplies from Non-OPEC Countries in 2008:**

The quantity of oil supplies from non-OPEC countries is forecasted to reach 56.1 million bpd in 2008, at an increase of 1.4 million bpd than the average of 2007.

d. **Demand on OPEC Oil:**

1. **OPEC Production Agreement:**

The OPEC countries agreed in September 2007 to increase the production limit at about 500 thousand bpd whereby the production ceiling for the ten countries (except Iraq and Angola) would become 27.523 million bpd. Kuwait share would be 2.531 million bpd.

2. **Demand on OPEC Oil in 2007:**

Demand on OPEC oil and reserve is estimated to be 31.12 million bpd in the year 2007 at an increase of 200 thousand bpd than the year 2006.

It is worth mentioning that the OPEC and non-OPEC oil supplies do not fulfill the shortage of increasing world demand on oil, resulting in more pressure on price levels and upward trend.

3. **Demand on OPEC Oil in 2008:**

The demand on OPEC oil is estimated to be 31.27 million bpd in the year 2008 at an increase of 60 thousand bpd than the year 2007.

Third: Developments of the Economic Relations of the State of Kuwait

A. Local Economic Developments

Kuwait economy has been making growth rates over the recent years based on the continuous rise of oil prices and increase of overseas investment returns in addition to some structural reforms adopted by the government lately resulting in the increase of confidence in the Kuwaiti economy through the increase of public and private investment in different economic sectors. The economic parameters prepared by the government institutions and international economic organizations indicate the solidity of the macroeconomic structure of the State of Kuwait arising from the successful monetary policy of Central Bank of Kuwait related to the maintenance of low inflation rates in comparison with other countries. The financial policy of the government of State of Kuwait has focused on the increase of capital expenses amounting to 29% of the total public expenses in the fiscal year 2006-2007.

The figures indicate that the State of Kuwait has had stable inflation levels at 3% only over many years until the State of Kuwait pegged its currency to the US\$. This is considered as the outbreak of inflation, which has made remarkable rise. This has led to the rise of general level of prices in the State of Kuwait in view of the decline of US\$ rate. Upon suspension of pegging to US\$ and application of currency basket policy, the inflation rate reached 4.7% by mid 2007 which is reasonable rate in comparison with the neighbor countries.

The largest annual inflation rate was in the transportation and communication sector at 10.2%, followed by clothing and textile sector and foodstuffs sector at 5.8% and 5.7% respectively. The causes for inflation are attributed to the increase of commodities prices at Kuwait market in the recent times, the increase of Kuwaiti Dinar exchange rate for foreign currencies such as Euro, Sterling Pound and Japanese Yen and the rise of oil prices over the recent years, resulting in the increase of production cost of industrial and consumer products in the EU countries and Japan. These are major industrial countries

whose industries are affected with the increase of oil prices; in particular those having increasing demand at the region markets such building materials for reconstruction and infrastructure works.

The business report by the World Bank and International Finance and Business Institution states that the State of Kuwait has come in the 2nd place on the Arab level and the 40th place on the world level in terms of convenience of business practice. It has moved forward six places in comparison with the previous order from the 46th to 40th place. The world report states that Kuwait has made positive reforms in the current year to improve business practice. It has come in the 10th place in terms of reforms of issuance of licenses and the world 12th place in terms of credit reforms.

B. Foreign Economic Relations:

The State of Kuwait has outstanding economic relations with different countries allover the world, as reflected in its execution of several economic agreements, bilateral as well as collective, with many sister and friend countries. This is in addition to the several agreements within the frameworks of Gulf Cooperation Council and other countries and economic blocs for concluding free trade agreements.

These activities have clearly reflected on the economic relations and its international status on many levels as follows:

(1) Gulf Level:

For promoting the steps and efforts of common economic progress between GCC countries and based on the provisions of economic agreement for realization of integration between the GCC countries in all fields and in response to the expectations of the GCC citizens to achieve Gulf citizenship, the current year has witnessed several economic developments as follows:

Common Gulf Market:

In view of the goals and ends of the articles of association of GCC regarding the consolidation of cooperation ties among the member states and the achievement of coordination, integration and coherence among them in all fields for attaining their unity, the Higher Council of the GCC has declared the establishment of common Gulf market. This declaration was made at its 28th session. The Common Gulf Market is intended to create one single market where the GCC citizens would benefit from the opportunities available in the Gulf economy. It is also intended to grant GCC citizens all privileges offered by the member states to their citizens in all fields.

It is worth mentioning that the ministers of finance and economy of the GCC countries have made several decisions to pave the way for the GCC citizens to carry out economic activities and professions such as trading and purchase of stocks, incorporation of companies, unrestricted employment in both public and private sectors, acquisition of real properties, transfer of funds, tax treatment, investment, social security and retirement, education , health and social services.

As a result of these decisions, a large number of GCC citizens, in particular the citizens of State of Kuwait, have benefited from these decisions, reflecting positively on the economies of the GCC countries.

Gulf Customs Union:

The foundation of Customs Union on 1st January 2003 represents a specific movement in the common economic field as the customs union primarily unifies the customs tariff, eliminates the obstacles of commercial exchange, standardizes import and export procedures and treats the geographic area of the six member states as one single customs zone.

The most outstanding achievements made after the foundation of Customs Union is the increase of commercial exchange among the GCC countries up to ten times since the establishment of the Council. The commercial exchange

among the GCC countries has increased since the foundation of the customs union on 1st January 2003 from US\$ 11.6 billions in 1993 to US\$ 20.3 billions in 2002, at an increase of 75.5% over the last ten years or at an average of 7.5% per annum. After the foundation of the Customs Union on 1st January 2003, the commercial exchange increased at an average over 20%.

Gulf Currency Union:

The GCC countries seek to establish a currency union and issue the single Gulf currency. For this end, the technical committees are currently in the process of completion of the remaining subjects related to the currency union, notably to bring together and standardize the financial and monetary policies of the GCC countries. The member states seek to stabilize the exchange rates of their national currencies and to fulfill necessary financial and monetary standards for the approximation of economic performance as agreed and approved by the Financial and Economic Cooperation Committee at its 73rd meeting (May 2007).

The Financial and Economic Cooperation Committee at its 74th meeting (October 2007) followed up the achievement of the time schedule of currency union and recommended the completion of efforts to realize the currency union and issuance of single Gulf currency.

It is worth mentioning that the issuance of single Gulf currency shall have several positive effects representing the apex of contemplated economic integration upon completion of the common Gulf market and customs union.

(2) On the Arab level:

The State of Kuwait plays an outstanding role through its efficient participation at all important meetings held within the framework of Arab League for promotion of joint pan-Arab economic cooperation, transformation of the State's general objectives and policies into decisions and recommendations on the pan-Arab economic cooperation level and utilization of activities, programs

and opportunities available in the field of consultancy, studies and training provided by Arab financial institutions and specialized Arab organizations.

The State of Kuwait participates in drafting Arab agreements within the framework of the Arab League representing the institutional and legal framework of pan-Arab economic activity, including the agreement of facilitation and development of commercial exchange among Arab countries, transit agreement and other relevant collective Arab agreements.

On the level of commercial exchange among Arab countries, the commodities of Arab origin exchanged among the member Arab states are now exempted from all customs duties and similar duties since the beginning of 2005.

As a consequence of the foundation of grand pan-Arab free trade zone, the intra-Arab trade has realized high growth rates. The Arab countries exports grew at the rate of 16.6% in 2006 in comparison with 2005, amounting to US\$ 50.8 billion, representing 7.7% of the total Arab exports.

The State of Kuwait's exports to the Arab countries in 2006 grew at 18.7% to the amount of US\$ 1,555 million approximately representing 3.1% of the total intra Arab exports.

The State of Kuwait's imports from the Arab countries in 2006 grew at 13.2% up to the amount of US\$ 2,732 million approximately representing 5.1% of the total intra Arab imports.

In addition, the member Arab countries have reduced their procedures of imports release through canceling the certification of the documents associated with the imports from the Arab countries and exempting their imports from all similar customs duties as well as canceling non-customs restrictions. Currently, standardization of services fees on commerce among the Arab countries in order to reduce the cost of import and export is under study.

Given the success realized through establishing the big Arab free trade zone, the Arab summit has assigned the *Arab Economic and Social Council*, ministers of finance and economy, to expedite the study of merging the trade of services in the big Arab free trade zone due to its positive impacts on the performance of the private sector and the promotion of competitiveness and diversification of the alternatives and choices available to the consumer in addition to creating investment opportunities in the external and internal markets equally. Therefore, *the Economic and social council* has approved the general provisions of the services trading liberation agreement among the Arab countries and established the negotiations tours around the desiring Arab countries. The *Gulf Co-operation Countries* (G.C.C.) have participated therein as well as some other Arab countries. Such countries have a big share of services trading among the Arab countries in general, and between them and Kuwait specifically.

For realizing the integration of the Arab economy, Kuwait paid special attention to establish the Arab customs union through facilitating all the hinders that might face the implementation of the big Arab free trade zone. The zone is the start of towards the establishment of the union and therefore the Arab common market. The summit has also issued many resolutions related to the establishment of the customs union. The recent resolution has been issued by the Riyadh's summit and therefore stipulated the necessity of preparing an executive program for establishing an Arab customs union and removing all the barriers that might encounter the existence of the big Arab free trade zone and therefore to move on to the stage of the Arab customs union based on proper standards and solid grounds.

Given the significant role played by the economic and development strategies in reinforcing the Arab joint action system and for realizing the reform of modernization in the Arab countries, His Highness Sheikh Sabah al-Ahmad al-Jaber al-Sabah has proposed holding an Arab summit concerned with the economic and development matters. The proposal of Kuwait is an emphasis on supporting the progress of the Arab joint economic co-operation. Accordingly, council of the Arab League in its 19th session held in Riyadh on March 29, 2007 issued a resolution on holding an Arab summit specialized in the economic, development and social affairs to discuss a number of topics such as investment, infrastructure projects, education, health, electric connection, all types of transports and the role of private sector in promoting the Arab economic and social development.

The economic and social council has also constituted a preparatory committee presided by the *Minister of Finance of Kuwait* for making the preparations of this summit. Therefore, Kuwait as represented by the *Council of Ministers* has issued a resolution assigning the *Ministry of Finance* to the preparation of this summit.

(3) ON THE INTERNATIONAL LEVEL:

State of Kuwait exerts its best endeavors to promote the international economic co-operation in all fields with the other countries, organizations and different communities.

1. On the International Organizations Level:

- In the framework of the *Organization of the Islamic Conference*, State of Kuwait exerts its best effort in following-up the implementation of the ten-year program of the organization which was approved by the *Islamic Summit Conference* in 2005. It has promoted the co-operation in all fields especially the economic and commercial fields through improving trading among the member States, combating poverty, concluding the agreements and applicable articles of association in economy, trading and investment in addition to supporting the Islamic bank and providing the necessary potentialities in order for it to play its

role which supports the economic and social development in the member States.

- Given the benefit from the international institutions to which State of Kuwait contributes such as the Islamic bank for development, State of Kuwait attempts to benefit from the activities and programs provided by the bank such as financing some projects in addition to the technical co-operation and the organization of seminars and courses and participating in them together with supplying them with the competent nationals in order to acquire the necessary expertise. Let alone, the co-operation with the *International Bank for Reconstruction and Development* is still on through the technical co-operation agreement in order to benefit from the bank's expertise in preparing the special studies in terms of the national economic reforms like developing the free industrial and commercial zones as well as the effective administration in the governmental institutions, improving them in accordance with the international developments, rationalizing the expenses and to stop wasting the use of the public services such as health and education together with organizing the cadres and allowances in the public sector and make the necessary adjustments to comply with the government recommendations in this regard.

Furthermore, the bank would assist the State of Kuwait in performing the special studies for facilitating the procedures which would reduce the hinders that might encounter the investor through creating an appropriate investment environment which would help attract the foreign investments that serve the national economy.

2. On the Bilateral Co-operation Level:

- Bilateral co-operation in our current time is one of the main pillars organizing the current international relations based on the common interests. The external economic co-operation is essential. It consolidates the relations among the countries in terms of economy, investment and monetary especially with the countries of high strategic importance to the State of Kuwait. It is as follows:

- The Ministerial Committees Overseen by the Ministry of Finance and Other Ministries:
 - The ministry seeks for positive results to promote the bilateral relations within the current joint committees especially the committees with “China, France, Syria and Korea”, as well as activating and holding meetings for new committees such as “Tajikistan, Belorussia, Cuba and Kazakhstan”. It also exerts its endeavors to establish and hold meeting for new committees on the ministerial or technical level according to the State of Kuwait’s political and economic directives and to realize the results that would promote the bilateral relations within the framework of the participations in the committees’ actions overseen by other ministries especially the higher committees with “Qatar, Bahrain, Egypt, Morocco, Turkey and the ministerial committee with Syria”. The participation in other committees overseen by other bodies regarding the emphasis of the role of the Ministry of Finance in promoting the bilateral economic relations in all fields between the State of Kuwait and the other countries in order to achieve more development and progress.
- Preparation of the Projects of Agreements and Memoranda of Understanding for the Economic co-operation between the State of Kuwait and the Other Countries:
 - Agreements and memoranda of understanding overseen by the Ministry of Finance are the most important means intended for promoting the bilateral economic relations. They also represent the development of these relations between the State of Kuwait and the other countries. Such agreement and memoranda of understanding also represent the legal framework practiced through the different activities. Many bilateral agreements within the framework of the economic co-operation between the State of Kuwait and the other countries such as “the Republic of Indonesia and the Democratic Republic of Timor-Leste”. A protocol has been established on constituting a joint committee for economic and technical and scientific co-operation between

the State of Kuwait and the Republic of Vietnam in addition to the agreement of the economic and technical co-operation between the State of Kuwait and the Kingdom of Thailand which has been signed with the first initials. The ministry prepared many draft agreements to be signed after studying them and meeting the constitutional requirements in the State of Kuwait and the other countries. There is an intention to discuss and study some draft agreements of political, economic and strategic importance for the State of Kuwait and to form joint committees resulting from them.

- The ministry also concludes agreements for encouraging and protecting the mutual investments as well as the agreement of avoiding double taxation which is considered one of the essential factors for encouraging and promoting the investment flow between the State of Kuwait and the other countries, and increasing the volume of the mutual trading as well as reducing or revoking tax burden which would lead to the increase in the investment revenue between the two countries.

(4) ON SPECIALISED ORGANISATIONS LEVEL:

- State of Kuwait is considered a vital member in many international, Arab and regional specialized organizations which are 109.
- Contribution to the specialized organizations shows that the state of Kuwait plays a big role in the international ceremonies and that it benefits from the expertise of the specialized organizations in all fields of development in Kuwait. The specialized organizations provide training courses, consultancies and technical studies as well as seconding professionals and providing job opportunities for the nationals. Services and advanced activities provided by the specialized organizations will assist in developing the plans of the government institutions authorities and therefore a positive impact will be done on such institutions.

- For more effective benefit from the services provided by the specialized organizations, the ministry, as represented by the economic affairs, performs an annual evaluation for the services provided to the State of Kuwait and makes financial studies for the inaccurate budgets of some specialized organizations in order to adjust such inaccuracies in co-operation with the concerned authorities.

(5) IN ECONOMIC NEGOTIATIONS:

State of Kuwait exerts its best endeavors in the G.C.C. to boost free trade agreements with other countries and economic communities. Negotiations have been made with many blocs and economic communities such as the E.U., E.F.T.A. and the mercosur group in addition to some negotiations with countries that are important economically and internationally such as China, Japan, Turkey, India and others.

According to the State of Kuwait's approach for being a financial and commercial centre, the State of Kuwait did its best effort, through negotiations, to realize the ambition due to the privileges provided by the agreements in markets opening and goods trading liberation as well as removing the customs hinders on the most important exports of the State of Kuwait which are the petrochemical products. Agreements also liberate services trading in order to create investment opportunities for the private sector in Kuwait and to attract the foreign investments, establish joint ventures, develop the different industrial sectors and bring the scientific technology thereto.

CHAPTER 3

ECONOMIC PERFORMANCE INDICATORS

Economy of Kuwait is profoundly correlated with the international economy because of two reasons:

1. The major part of Kuwait's national income is from oil exports which are affected by the volume of the international demand for oil, which therefore affects the oil prices in the international markets.
2. The major part of expenditure goes to the public and private consumption which is done through importing from abroad. Prices of the Kuwaiti imports are affected by the prevailed status and prices of the international markets. Consequently, the national economy is substantially affected by inflation and deflation waves coming from abroad.

The following are the most important economic indicators during the past years divided into two main parts; the economic pools of the national accounts and the monetary and banking developments.

FIRST: THE ECONOMIC POOLS OF THE NATIONAL ACCOUNTS

(1) 2003-2006 G.D.P.

According to the type of expenditure, table 1 shows the G.D.P. at the current prices from 2003 to 2006 as the following:

Table 1
G.D.P. according to expenditure type
At current prices from 2002 to 2005

K.D. million

Type of Expenditure	2003*		2004*		2005*		2006**	
	Value	%	Value	%	Value	%	Value	%
Government final consumptive expenditure	3281.2	24.8%	3478.1	19.9%	3706.6	15.7%	4028.5	14.1%
Private final consumptive expenditure	6098.0	38.5%	6555.1	37.4%	7585.9	32.2%	8334.3	29.1%
Total of final consumption	9379.2	63.2%	10033.2	57.3%	11292.5	47.9%	12362.8	43.2%
Total capital formation	2359.3	17.8%	3185.5	18.2%	3876.7	16.4%	4366.4	15.2%
Goods and services exports	7432.0	56.1%	9970.0	56.9%	15094.0	64.0%	19038.0	66.5%
Minus: goods and services imports	-4917.0	-37.1%	-5672.0	-32.4%	-6670.0	-28.3%	-7123.0	-24.9%
Exports minus imports (resources surplus)	2515.0	19.0%	4298.0	24.5%	8424.0	35.7%	11915.0	41.6%
Expenditure on G.D.P.	14253.5	100.0%	17516.7	100.0%	23593.2	100.0%	28644.2	100%

Source: Higher Council for Planning and Development (HCPD) *adjusted **initial

- The initial estimates of the G.D.P. at the current prices for 2006 reached around K.D. 28644.2 m against K.D. 23593.2 m for 2005, i.e. an increase of K.D. 5051.0 m (21.4%).
- While the 2004 G.D.P. estimates realized an increase of K.D. 3343.2 “23.6% of the 2003 G.D.P. estimates”.

- Correlation of the Private final consumptive expenditure with the Government final consumptive expenditure is noticeable. The total thereof has increased to K.D. 10033.2 m in 2004, then to K.D. 11292.5 m in 2005, and finally to K.D. 12362.8 m in 2006.
- Investment averages to the G.D.P. noticeably have increased during the recent years.
- The contrast ratio between exports and imports of goods and services to the G.D.P. has increased substantially due to the increase of oil exports and prices internationally.

According to the type of sector (oil or non-oil), table 2 indicates that oil sector has contributed to the G.D.P. by about K.D. 15597.8 m for 2006 against K.D. 12232.8 m for 2005. That is an increase by 27.5% due to the standard increase of crude oil in the international market.

Non-oil sector, including refined products of crude oil, realized K.D. 11422.3 m for 2005 against K.D. 10206.6 m for 2004 with an increase by 11.9%.

Table 2
G.D.P. According to the Type of Sector (Oil or Non-oil)
At Current Prices from 2003 to 2005

K.D. million

Description	2004*	2005*	2006**	% 2005-2006
Crude oil and natural gas	7822.0	12232.8	15597.8	27.5%
+ Non-oil sectors	10257.4	12238.9	14189.9	15.9%
- Calculated banking services	-724.2	-1052.1	-1318.1	-25.3%
+ Imports fees	161.5	173.6	174.6	0.6%
= G.D.P.	17516.7	23593.2	28644.2	21.4%

Source: HCPD

*Adjusted

**Initial

In view of the foregoing, the organizational structure of the G.D.P. is dependent on the performance of the oil sector. In other words, the structure of the national income of financing the current economic, social and service activities relies dramatically on producing and exporting one commodity, which is crude oil. As to the non-oil sectors, they are services sectors in general. That means that these sectors are still unqualified to realize the economic stability and meet the requirements of the ongoing development.

Reforming the structural flaw requires a clear strategic view towards the future of the different sectors' growth because the economic growth of the non-oil sectors during the last period did not make any essential changes to the Kuwaiti economic structure especially in services sector. Therefore, a default in the Kuwaiti economy for providing the goods and services necessary for meeting the current demand has resulted. Due to the increased averages of the final consumption, Imports from abroad have increased based on the high funding ability provided by the oil wealth.

(2) Net Income of the External Production Factors

Table 3 shows that the net income of the external production factors increased from K.D. 1806.0 m in 2004 to K.D. 2586.0 m in 2005 with an increase of K.D. 780 m "43.2%". This indicates the difference between the revenue of the external production factors and the national production factors. It is noteworthy that the net income of the external production factors volatile clearly because it increased by 50.2% to reach K.D. 3884.0 m in 2006, while it was K.D. 2586.0 in 2005.

(3) Net current transfers from the External World

Table 3 shows that net current transfers from the external world has been negative due to the significant flow of the expatriate labors' transfers from Kuwait to the external world. The ratio of these transfers to the G.D.P. was 3.5% in 2006. It increased by 1.0% than that in 2005. Since these transfers deplete a part of Kuwait's resources of foreign currency, continuous review of population structure and labor force is required. In this direction, Kuwait is working on issuing legislation and laws that

would alleviate the unbalanced net current transfers from the external world. Undoubtedly, the issue of law 19 of 2000 on the national labor support and encouragement to work in non-government bodies and its continuous implementation is considered an important step towards this direction.

Table 3
Basic Calculations of National Accounts
At Current Prices from 2003 to 2005
(K.D. million)

Description	2004*	2005*		2006**	
	Amount	Amount	Growth %	Amount	Growth %
G.D.P.	17516.7	23593.2	34.7	28644.2	21.4
+ Net Income of the External Production Factors	1806.0	2586.0	43.2	3884.0	50.2
= G.N.P.	19322.7	26179.2	35.4	32528.2	24.3
- fixed capital write-down	1276.6	1601.2	25.4	1803.5	12.6
= national income at market price	18046.1	24578.0	36.2	30724.7	25.0
+ net current income from external world	-752.0	-993.0	32.1	-1003.0	1.0*
= available national income	17294.1	23585.0	36.4	29721.7	26.0
- final consumptive expenditure	10033.2	11292.5	12.6	12362.8	9.5
= net national savings	7260.9	12292.5	69.3	17358.9	41.2
- net capital formation	1908.9	2275.5	19.2	2562.9	12.6
= business transactions surplus	5352.0	10017.0	87.2	14796.0	47.7
Individual's share of G.D.P. (K.D.)	6360.0	7888.0	24.0	8999.0	14.1
Individual's share of G.N.P. (K.D.)	7016.0	8753.0	24.8	10219.0	16.8
Individual's share of the available national income (K.D.)	6280.0	7885.0	25.6	9338.0	18.4

Source: HCPD

*Adjusted

**Initial

Table 3 also indicates the increase in the final consumptive expenditure from K.D. 11292.5 m in 2005 to K.D. 12362.8 m in 2006, which is 9.5% increase (K.D. 1070.3 m).

(4) Net of National Savings and Capital Formation

Net national savings is represented by the difference between the available national income and the final consumptive expenditure "Government and private". Table 3

indicates the substantial increase of the net national savings; it increased from K.D. 12292.5 m in 2005 to K.D. 17358.9 m in 2006 i.e., 41.2%.

In return, it is noted that net capital formation increased from K.D. 2275.5 m in 2005 to K.D. 2562.9 m in 2006; a 12.6% increase “K.D. 287.4 m”.

The foregoing shows that the national economy has been incapable of translating the national savings into domestic investments, which indicates the lack of comprehensive capability of the Kuwaiti economy. Such difference between the savings and the capital formation has made a gap between exports and imports of goods and services.

(5) Individual’s Share of the G.N.P., G.D.P. and National Income

Table 3 reveals the average of the individual’s share of the G.N.P., G.D.P. and national income. The individual’s share is volatile according to the volatility of G.N.P. that is affected by oil sector.

a. Individual’s Share of the G.D.P.

Individual’s share of the G.D.P. reached K.D. 8999.0 in 2006, while in 2005, it reached K.D. 7888.0 i.e., a 14.1% increase by K.D. 1111.0. In 2005, it also realized a 24.0% increase by K.D. 1528.0 where it reached K.D. 7888.0, while it reached K.D. 6360.0 in 2004.

b. Individual’s Share of the G.N.P.

Individual’s Share average of the G.N.P. increased in 2006 by K.D. 1466.0, i.e. 16.8% where it reached K.D. 10219.0 against K.D. 8753.0 in 2005, while it increased by K.D. 1737.0 in 2005, i.e. 24.8%.

c. Individual’s Share of the Available National Income

Individual’s Share average of the available national income increased in 2006 by K.D. 1453.0, i.e.18.4% where it reached K.D. 9338.0 against K.D. 7885.0 in 2005, while it increased by K.D. 1605.0 in 2005, i.e. 25.6% where it reached K.D. 7885.5 against 6280.0 in 2004.

Such increase in the individual's share average in the G.D.P., G.N.P. and the available national income is due to the increase in the net production factors from abroad.

(6) G.D.P. Structure upon Economic Activities

Table 4 indicates many significant remarks:

- G.D.P. realized in 2006 growth at current prices by 21.4% in comparison with 2005 where it realized growth average by 34.7%. Such growth has been realized essentially due to the growth of oil sector in 2006 by about 54.4%.
- Contribution of the crude oil and natural gas to the G.D.P. decreased from 56.4% in 2005 to 54.4% in 2006.
- Transformational industry's contribution to the G.D.P. remains limited. It reached 8.3% in 2004. In 2005, it did not exceed 7.3%. In 2006, it decreased to reach 6.9%. On the other hand, oil transformational industries expand absolutely and they are still stable in terms of their contribution ratio. Undoubtedly, transformational industries require more support that would limit the dominance of oil sector on the G.D.P.
- Contribution of water and electricity sector to the G.D.P. is still limited. In 2006, it did not exceed 1.8%, which shows the decrease in the prices of this sector's products as well as the decrease of competence in collecting the dues thereof.
- Services sectors tend to increase in terms of their absolute values. But their relative importance have decreased due to the increase of the goods sectors' contribution resulting from high oil prices.

Table 4
The GDP by current Prices
According to the Economic Activity in KD (2004)

Economic Activity	2004		2005*			2006**		
	Amount	%	Amount	%	Growth %	Amount	%	Growth %
1. Crude oil and natural gas	7822.0	44.7	12232.0	51.9	56.4	15597.8	54.4	27.5
OIL SECTOR TOTAL	7822.0	44.7	12232.0	51.9	56.4	15597.8	54.4	27.5
2. Non-oil sectors including:								
Agriculture, fishing and animal resources	70.9	0.4	71.1	0.3	0.3	74.4	0.3	4.6
Services related to crude oil and gas except surveying	22.5	0.1	32.4	0.1	44.0	41.3	0.1	27.5
Transformational industries (including refined oil products)	1455.9	8.3	1712.9	7.3	17.7	1973.4	6.9	15.2
Electricity, gas and water	306.9	1.8	319.1	1.4	4.0	336.6	1.2	5.5
Construction	401.9	2.3	437.1	1.8	8.8	479.3	1.7	9.7
Retail, wholesale, restaurants and hotels	1120.7	6.4	1185.8	5.0	5.8	1260.0	4.4	6.3
Transportation, storage and communications	1048.0	6.0	1230.7	5.2	17.4	1397.4	4.9	13.5
Financial institutions, insurance, properties and works services	2880.6	16.4	4021.5	17.0	39.6	5148.8	18.0	28.0
Public, social and personal services	2950.0	16.8	3228.3	13.7	9.4	3478.7	12.1	7.8
NON-OIL SECTORS TOTAL	10257.4	85.5	12238.9	51.8	19.3	14189.9	49.6	15.9
Total - partial	18079.4	103.2	24471.7	103.7	35.4	29787.7	104.0	21.7
Minus- calculated banking and insurance services	724.2	-4.1	1052.1	-4.4	-45.3	-1318.1	-4.6	-25.3
All producers	17355.2	99.1	23419.6	99.3	34.9	28469.6	99.4	21.6
Imports fees	161.5	0.9	173.6	0.7	7.5	174.6	0.6	0.6
G.D.P.	17516.7	100	23593.2	100	34.7	28644.2	100	21.4

Source: HCPD

*Adjusted data

**Initial data

SECOND: MONETARY AND BANKING DEVELOPMENTS IN THE STATE OF KUWAIT

Generally, economy of Kuwait realized during the fiscal year 2006-2007 a significant performance as well as in the past period from April to August of 2007 (2007-2008). Such significant performance has been the outcome of many domestic and international developments especially the increase in oil prices and crude oil production in Kuwait. Such developments have made positive impacts on the State of Kuwait's outcomes in terms of oil production and the investments revenue abroad. Therefore, standard surpluses have been realized in both the internal financial budgets (public budget of Kuwait) and the external financial budgets (balance of payment).

2006-2007 witnessed an increase in the averages of the economy in many sectors and non-oil activities, which would cause the increase the domestic demand for many non-oil activities products and services especially those related to the activities of the financial institutions. Such developments contributed to the promotion of the of the performance of many companies listed in the Kuwait stock exchange (KSE) and limit the negative impacts on the reform movement witnessed by the KSE indexes in 2006-2007, which made an impact on the totals and main monetary and banking changes of the country.

This report overviews the most important developments in view of the available data of the 2006-2007 and the past period from April to August of 2007 in all fields related to the *Central Bank of Kuwait* (CBK) in terms of implementing and scheming the monetary policy and its impact on the main monetary and totals developments as well as the main indicators of the banking and financial instrument and their structural status, in addition to the instruments of the public debt, external trading, balance of payment and the data of all national accounts and general level of the domestic prices and KSE in accordance with the following:

1. MONETARY AND BANKING DEVELOPMENTS:

Endeavors of the CBK are concentrated on scheming and implementing the monetary policy, supervising and controlling the units of the financial and banking instrument in the State of Kuwait in order to realize its purposes stipulated in law 32 of 1968 on monetary, the CBK and the organization of the banking profession. The effort of the CBK intend to establish the monetary stability in the country and maintain the high performance of the financial status in the financial and banking sector, as well as promote the opportunities and factors of stable growth in the domestic economy according to the political and economic objectives of the country. In this course, the CBK continued during 2007-2008 its effort in the fields related to setting and implementing the monetary policy as well as supervising and controlling the units of the financial and banking sector which indicates the CBK's interest in acting in the appropriate timing to use the instruments available for the monetary policy in accordance with domestic, regional and international developments, and to deal with the impacts thereof on the domestic monetary and banking status.

The general framework of the CBK's endeavors in terms of the monetary policy is as follows:

- To maintain the relative stability of the Kuwaiti Dinar against the other currencies, which would alleviate the impact of the imported inflation on local prices and to maintain the attraction of the Kuwaiti Dinar as a base for the local savings. Given the declined exchange rate of the USD against the other currencies and the need to limit the inflation pressures, as of May 20, 2007, the Kuwaiti Dinar's exchange rate was pegged to a basket of currencies of the most important financial and trading partners of the State of Kuwait, instead of pegging the KD to the USD since 2003.
- To review constantly the domestic interest rates on the KD in order to ensure coping with the developments of interest rates on major currencies and the requirements of the domestic economic activity.

- To organize the levels of domestic liquidity according to the requirements of the domestic economic activities, and to limit the inflation pressures resulting from the growth of the averages of the local demand for goods and services. In terms of the organization of liquidity levels, the CBK relies on the available monetary policy instruments that consider the power of supply and demand in the monetary market such as interest rates, and the administration of issuing the instruments of public debt on behalf of the *Ministry of Finance*, the system of accepting deposits from the local banks and the CBK's bonds.
- To promote the program of supervising and controlling the units of the financial and banking instruments subject to the control of the CBK in accordance with the international standards and traditions especially the recommendations issued by Basel committee on the effective banking supervision, in addition to the rationalization of the credit policies of banks and investment partners subject to control in accordance with the trends of the economic activity.

As follows, we shall briefly discuss the most important monetary and banking developments during the fiscal year 2006-2007 and the past period from April to August of 2007 (current fiscal year 2007-2008), with focus on the role and activity of the CBK in terms of controlling the monetary variables and indicators as well as the units of the financial and banking instrument.

a. Domestic interest rates:

The CBK is concerned with constantly following-up the developments witnessed by interest rates on the major on one hand, and the developments of the domestic economic activity with its all different sectors on the other hand.

In this regard, the CBK increased cut rate of the approved commercial papers submitted by the domestic banks during 2006-2007 on the basis of 25 points. At the end of August of 2007 cut rate reached 6.25% against 6% at the end of 2005-2006.

Interest rates on customers' term deposits in the domestic banks increased in 2006-2007 in comparison with the previous fiscal year. For example, rates on deposits in

K.D. for one-month and three-month increased to reach 5.0121% and 5.2080% respectively during 2006-2007 against 3.3986% and 3.5384% during the previous year.

Interest rates on term deposits in U.S.D. at the domestic banks witnessed less raise, therefore, the K.D. current margins increased among the averages of interest rates on customers' term deposits at the domestic banks for both the K.D. and the U.S.D., (table 1).

Table 1
The Developments of Interest Rates on Customers' Term Deposits
in K.D. and U.S.D. at the Domestic Banks

Fiscal Years	Interest Rates Average on Customers' Term Deposits (%)		Margins (%)	Interest Rates Average on Customers' Three-month Term Deposits (%)		Margins (%)
	In K.D.	In U.S.D.		In K.D.	In U.S.D.	
2005-2006	3.3986	3.2014	0.1972	3.5384	3.3688	0.1696
2006-2007	5.0121	4.5586	0.4535	5.2080	4.6529	0.5551
2007-2008	4.9297	4.7187	0.2110	5.0548	4.7653	0.2895

During the past period from April to August of 2007 "2007-2008", averages of interest rate on customers' term deposits at the domestic banks decreased for various terms. Data indicate that one-month term deposits and three-month term deposits decreased to reach 4.9297% and 5.0548% respectively during that period against 5.0121% and 5.2080% for the two indicated periods respectively during 2006-2007. In the same time, averages of interest rate on term deposits in USD at the domestic banks increased in 2007-2008. Therefore, the current margins for the KD among the averages of customers' term deposits at the domestic banks decreased for both the Kuwaiti Dinar and the US Dollar.

Averages of interest rate on the instruments of the public debt increased in 2006-2007, where interest rate average on treasury bonds rose from 4.35% in 2005-2006 to 5.90% in 2006-2007. Later, it fell back to 5.43% during 2007-2008.

As to average of interest rate on CBK bonds, the average rose from 4.3125% in 2005-2006 to 5.4931% in 2006-2007. In 2007-2008, it decreased to reach 5.0625%.

b. KD Exchange Rate

In 2006-2007, the CBK continues to follow its KD exchange rate policy started in 2003, which was based on pegging the KD to the USD within a volatile margin not exceeding 3.5% (parity price 299.63 fils per dollar). Due to the CBK's desire to preserve the purchasing power of the KD against the other currencies of the commercial partners of the State of Kuwait, and to put a limit to the imported inflation, the CBK decided on May 11th of 2006 to raise the exchange rate of the KD against the USD from 292 fils to 289.14 fils per US dollar. The KD exchange rate against remained stable for the rest months of 2006-2007.

On the other hand, USD exchange rate against the other major currencies was volatile relatively within wide margins during the indicated fiscal year. The difference between high and low prices of the USD was 14.4% for the GBP "between 0.5769 and 0.5045", 11.5% for the JPY "between 121.965 and 109.425", 10.9% for the EUR "between 0.8285 and 0.7470", and 9.8% for the CHF "between 1.3088 and 1.1925".

The USD exchange rate continued to decline in the international marketplace during 2007-2008. Consequently, pressures of imported inflation increased. To limit such pressures, bylaw decree 147 of 2007 was issued to peg the KD exchange rate to an undeclared balanced basket of currencies of other countries which have tangible financial and commercial relations with the State of Kuwait. Difference rate between high and low prices of the Kuwaiti Dinar was 6.2% for the GBP, 6.1% for the JPY, 4.8% for the EUR, and 4% for the CHF.

c. Money Supply

Money supply in its wide concept “m2” rose to reach KD 17130.1 m at the end of 2006-2007. It grew by 17.9% “KD 2605.4 m”, where in 2005-2006, it was KD 14524.7 m (table 2). It resulted from the increase of near money by 22.7% “ about KD 2428.8 m”, and the monetary stock “narrow concept of money supply m1” by 4.6% “KD 176.5 m”

Table 2
Developments of Money Supply

In KD million

End of Period	2004-2005	2005-2006	2006-2007	2007-2008 August
Money Supply “m2”	12392.4	14524.7	17130.1	17878.9
Monetary Stock “n1” of which are:	3386.6	3844.8	4021.3	3870.7
Deposits under demand	2850.2	3268.7	3382.1	3263.6
NEAR MONEY	9005.8	10680.0	13108.8	14008.3
Deposits in KD	7731.6	8864.1	11667.9	12397.1
Deposits in foreign currencies	1274.2	1815.9	1440.9	1611.2

Money supply in its wide concept “m2” continued to rise during 2007-2008 to reach KD 17878.9 m at the end of August of 2007. It realized 748.8 millions “4.4%” in comparison with the end of the past fiscal 2006-2007. It was a result of the increase in near money by 6.9% “KD 899.5 m”, and decrease of monetary stock by 4% “KD150.6 m”, i.e. from about KD 4021.3 m to 3870.7 m between the end of 2006-2007 and the end of August of 2007 respectively. Near money increase was a result of the increase in the balances of the private sector’s deposits in foreign currencies from around 170.3 m or 11.8% as well as the increase in private sector’s savings deposits in the Kuwaiti Dinar in an amount of KD 729.2 m or 6.3%, while the decrease of the monetary stock between the end of August of 2007 and the end of 2006-2007 was due to the decline in the balances of deposits under demand at the domestic banks in the amount of about KD 118.5 or 3.5% and the current cash in around 32.1 m or 5%.

Data related to the factors affecting the money supply “m2” shows that the indicated increase was the outcome of the increase of the current net assets for those bodies by

10.4% “from 11290.5 m to 12462.5 m”. Growth indicated earlier in net assets was the outcome of the increase in claims against the private sector which reached around 2614.9 m by 15.3% on one hand, and the increase in government deposits by 20.8% “468.9 m”, the other current net assets about 945.3 m “17%”, and the decrease in claims against the government for about 28.7 m, i.e., 1.5% on the other hand. As to the decrease in the foreign net assets, it was the outcome of the net assets at the CBK around 1088.8 m by 18.5% on one hand and the increase of the net assets at the domestic banks in the amount of 665.5 m by 1827.4% at the end of August of 2007-2008 as compared with the end of the previous fiscal year 2006-2007 on the other hand.

d. Bank Credit

Cash balances of credit facilities provided by the domestic banks to the current economic sectors at the end of 2006-2007 increased by KD 3271.9 m i.e., 26.1% to reach 15822.4 m, in comparison with 12550.5 m at the end of 2005-2006. Such growth included most of the current sectors. Balances of facilities rose to reach 1013.7 m, i.e. 19.5% for personal facilities, 844.1 m, i.e. 31.3% for properties, 623.5 m, i.e. 55.6% for financial institutions excluding banks, 293.9 m, i.e. 62.4% for industrial sector, 212.7 m, i.e. 27% for construction, and 204.7 m, i.e. 13.7% for trading.

Cash balances of credit facilities continued to grow from April to August of 2007 (2007-2008) to reach approximately KD 18253.7 m, i.e. an increase of KD 2431.3 m by 15.4% compared to the end of 2006-2007. Such increase in cash balances of credit facilities provided by the domestic banks was at the end of August of 2007. As compared to 2006-2007, it was the outcome of the increase in the balances of cash facilities provided to real estate sector in the amount of KD 1049.2 m, i.e. 29.6%, 424.2 m for the financial institutions i.e. 24.3%, 279.6 m for personal facilities, i.e. 4.5%, 236.8 m for construction, i.e. 23.6%, 125.7 m for industrial sector, i.e. 16.4%, 212.7 m for trading sector, i.e. 12.6%; and 140.9 m, i.e. 18% for the other sectors listed under “others” on one hand, and the decline in cash facilities provided to agriculture and fishing sector in the amount of 22.6 m, i.e. 62.9%, 14.6 m, i.e. 26.5% for oil and gas sector, and 0.5 m, i.e. 10.9% for public services on the other hand.

Regarding the distribution of credit facilities agreements concluded in KD with residents during 2007-2008, which reflects the change within the current credit facilities, and the facilities provided for new customers. The data indicates the increase in the value of such facilities in the amount of 1350.7 m by 43.5%, to reach approximately KD 4454 m in that period against 3103.3 m during 2006-2007.

2. CONTROL DEVELOPMENTS AND THE STRUCTURE OF BANKING AND FINANCIAL SECTOR:

The CBK exerted its endeavors during 2006-2007 and the past period from April to August of 2007 (2007-2008) to intensify the competitiveness in banking and financial sector through the amendments to some provisions of law 32 of 1968 regarding money , the CBK and the organization of banking profession under law 28 of 2004 regarding permitting foreign banks to establish branches thereof in the State of Kuwait. In this regard, The Citibank's branch was registered in April of 2006 in the banks' register at the CBK. The CBK, as a supervisor and controller on the banking and financial units, it was keen to establish the proper financial status for the banking and financial units and to ensure their compliance with the policies and instructions related to liquidity and sufficient capital, and to verify the accuracy of financial and statistic data they provide to the CBK. In addition, the CBK was keen also to evaluate the effectiveness and competence of the internal control systems as well as the systems of risk management within those units. The CBK practices such role through desk follow-up and field checking in order to ensure the implementation of proper professional practices.

The CBK kept on exerting its effort to follow-up the procedures taken by units of the banking and financial sector in connection with the commitment to percentage of national labor approved by article 71 bis of law 32 of 1968, and follow-up the units commitment to the provisions of law 19 of 2000 on the support of national labor. Furthermore, the CBK continues to follow-up the commitment of banking and financial sector units to apply the requirements of the amended criteria for capital sufficiency "Basel 2" through three main elements: 1. The capital minimum requirements, 2. The process of control review, and 3. Market stability.

During 2006-2007 and the past period from April to August of 2007 “2007-2008”, the CBK issued many circulars, instructions and regulations to banking and financial units subject to control. Most important circulars were on money laundry, terrorism funding, the period permitted for establishing new branches for the domestic banks inside and outside the State of Kuwait, rules of categorizing credit facilities, maximum limits for credit concentration of foreign banks’ branches in Kuwait, organization of the relation between costumers and the units of the financial banking system, suspension of receiving fees of early payment for consumptive and in installments loans, and the necessity of completing the implementation of EMV to use smart card before the end of 2007. Moreover, the circulars also stipulated the complete commitment to the limits of the smart card issued by the domestic banks, suspension of providing cash or real incentive to the customers when they receive facilities or all different credit cards, and the conditions of the expertise required in the CEO and the managing director at the domestic banks and others.

3. DEVELOPMENTS OF SETTLEMENTS SYSTEMS AND CLEARING

Settlements among banks through credit and debit notes and Kuwait settlements automated system during 2006-2007 were in the amount of 122.9 B, while they were 98.3 B in 2005-2007. That is an increase of 24.6 B by 25%. In 2007-2008, the amount was KD 75.5 B against 45.7 B for the same period of previous fiscal year (from April to August of 2006), an increase of KD 29.5 B by 64.4%.

On executed operations level and within the framework of checks clearing at the CBK, the amount of those operations increased to KD 9.5 B for 2.053 million checks, while in the previous year, the amount was KD 9.1 B for 1.974 checks, which is an increase of KD 365 M by 4%, i.e. an increase of 79 thousand checks and by 4% for the number of checks. Checks cleared in past period of 2007 (2007-2008) were around 980.3 thousand checks (KD 5.5 B), while in 2006-2007, they were 912.7 thousand checks (KD 4.2 B). That is an increase of 67.6 thousand checks by 7.4%, i.e. an increase of KD 1320.8 by 31.3% for the number of checks.

4. ISSUES OF PUBLIC DEBT TOOLS

The CBK continued to issue the Kuwaiti treasury bonds on behalf of the Ministry of Finance (MOF) although treasury permits were suspended as of 2005. In 2005-2006, the CBK issued 25 treasury bonds for KD 2296.2 M. 24 Issues were due for KD 2318.4 M (see table 3), therefore, the current balance of public debts tools total (treasury bonds) declined in 2006-2007 in an amount of KD 22.2 M by 1% to be KD 2296.2 M against KD 2318.4 M at the end of the previous fiscal year.

During the past period from April to August of 2007 of the current fiscal year, the CBK issued 11 treasury bonds for KD 968 M. During that period, 11 of the previous issues were due and reach the amount of KD 968.2 M. Therefore, the current balance of public debt tools slightly declined to be KD 2296 M at the end of August of 2007, while in the previous fiscal year, it was KD 2296.2 M. On relative distribution level, domestic banks dominated the larger part of that balance (77.1%), while in 2006-2007, they dominated 78.8%.

Table 3
Developments of Issues and Entitlements of Public Debt Tools

KD million

Description	2004-2005	2005-2006	2006-2007	2007-2008 (April-August)
Issues:				
Treasury Permits	2345.2	-	-	-
Treasury Bonds	1509.0	2318.4	2296.2	968.0
Total	3854.2	2318.4	2296.2	968.0
Entitlements:				
Treasury Permits	2615.2	921.0	-	-
Treasury Bonds	1270.0	1509.0	-	968.2
Total:	3885.2	2430.0	-	968.2
Treasury Permits	921.0	-	-	-
Treasury Bonds	1509.0	2318.4	2296.2	2296.0
Total:	2430.0	2318.4	2296.2	2296.0
CBK	-	6.0	-	89.5
Domestic Banks	2254.7	2045.2	1810.3	1769.9
Other	175.3	267.2	485.9	436.6
Total:	2430.0	2318.4	2296.2	2296.0

Source: CBK

The Central Bank of Kuwait, within its framework of efforts in areas of local liquidity management and the development of local monetary market, continued to issue the negotiable "Central Bank of Kuwait Bonds" throughout the Fiscal Year 2006/2007 and the past period (April – August) of the Fiscal Year 2007/2008. These bonds were limited in purchase to the local banks and investment companies under the bank control. The time of the bonds' maturity extended to a period that should not exceed a year. It is worth mentioning that the Central Bank of Kuwait reissued those bonds at the beginning of August 2005. Whereas such bonds were formerly issued during the period (1987 – 1979) until Law No. 50 was issued in 1978 giving permission to the government to hold a public loan, they were replaced by issuing the public loan instruments of the treasury bills and bonds.

In this respect, the Central Bank of Kuwait put into circulation 26 issues of those bonds of three months maturity with a total nominal value that reached KD 1554 M in addition to three issues of the same bonds of six months maturity with a nominal value of KD 527 M during the Fiscal Year 2006/07. During the said fiscal year, six of the previously issued bonds (three months maturity) became due with a nominal value of about KD 1261 M.. Based on that fact, the actual balance of such bonds reached about KD 850 M at the end of the Fiscal Year 2006/2007 compared to about KD 30 M at the end of the Fiscal Year. During the period (April – August 2007) of the current Fiscal Year (2007/2008) the Central Bank of Kuwait put into circulation 8 issues of the Bank bonds with an overall nominal value of KD 1015 M. (Six of these issues were of three months maturity with a nominal value of KD 685 M. and two were of six months maturity with a nominal value of KD 340 M). During the said period, 9 issues of the bonds previous issues became due with a nominal value that reached about KD 1212 M. (Six of these issues were of three months maturity with a nominal value of KD 685M, and three were of six months maturity with a nominal value of KD 527 M). Consequently, the

current balance of such bonds reached about KD 653 M at the end of August 2007 of the Fiscal Year 2007/2008.

(5) Developments of International Trade and the Balance of Payments

The available initial data regarding the Balance of Payments of the State of Kuwait indicate an increase in the realized surplus in the commodity balance (stating the difference between the two total values of commodity exports and commodity imports based on FOB) to about KD 12851 M during Year 2006 compared to about KD 9558 during the previous year. This represented an increase that valued KD 3293 M which is 34.5%. Therefore, the percentage representing the commodity balance surplus went up in the Gross Domestic Product (GDP) to about 43.5% during Year 2006 compared to about 39.0% during Year 2005. This increase came as a reflection of the growth in the commodity exports value by 24.1%, which surpassed the growth rate of the commodity imports (0.2%). It originally resulted from the noticeable increase in oil exports prices due to the increase in the rate of oil prices in the global market and the rise of oil production rates in the State of Kuwait.

With regard to the services account that reflects the net transactions, between people working in the local economy and those working in the other economies, which are related to the services of transports, travel, insurance, and the others services such as communication, consultations, royalties, usufructs and others, it recorded a fallback in the deficit amount realized of about KD 197 M at the percentage of 17.4% to become almost KD 936 M during Year 2006 compared to KD 1133 M during Year 2005. On the other hand there has been a rise in the surplus realized in the income account from investment (net) of about KD 1298 M (50.2%) to become around KD 3884 M compared to KD 2586 M during the said two years respectively. Such increase has reflected the agreeable developments witnessed by the income rates from the financial instruments and investment assets in the main financial markets.

Regarding the Item of " Current Transfers (net)" the deficit amount recorded a slight increase to reach nearly KD 1003 M during Year 2006 in comparison with about KD 993 M during the previous Year, representing an increase that mounted to KD 10 M at the percentage of 1%.

The result of such developments mentioned earlier regarding the commodity balance, services account and the Item (Current Transfers), the current account in the statistics of the State of Kuwait Balance of Payments realized a surplus that valued about KD14796 M during Year 2006 compared to a surplus of KD10018 M during 2005. This represented an increase at the value of KD 4778 M (47.7%). As a result, the surplus percentage realized in the current account to the GDP with the current prices went up roughly to 50% compared to 40.9% during the mentioned years respectively.

As for the capital and financial account, initial data indicated a rise in the Kuwaiti net assets invested abroad and listed within such account by nearly KD 13673 M. during Year 2006 compared to the increase in the value of such assets net of about KD 8862 during Year 2005.

In consequence of the above mentioned developments with respect to both the current account and the capital and financial account, the macro scale in the State of Kuwait balance of payments statistics recorded a surplus of approximately KD 1039 M in value during Year 2006 compared to about KD 165 M during Year 2005. This represented an increase at the value of KD 874 M which is 529.7%. Such increase reflected the asset reserve total at the Central Bank of Kuwait by recording an increase of the same value of (KD 1039 M) at the end of Year 2006 when compared with the end of Year 2005.

The available estimates and data about foreign commodity trade of the State of Kuwait during the Fiscal Year 2006/2007 indicate the increase of the surplus value in the trade balance (the accounting difference between the two totals of exports and imports based on CIF according to customs data) to reach about KD 11064.3 M during the said fiscal year compared to a surplus of nearly

KD10366.4 M during the previous Fiscal Year 2005/2006 representing a growth of about KD 697.9 M (6.7%). This resulted from the increase in the commodity export total value of about KD 1670.3 M at the percentage of 11.7% (from about KD 14277.4 M during the Fiscal Year 2005/2006 to about KD 15947.7 M during the fiscal Year 2006/2007), and from the increase in the total value of the commodity exports of about KD 972.4 M which is 24.9% (from about KD 3911 M up to almost KD 4883.4 M).

During the period (April – June 2007) of the Fiscal Year 2007/ 2008 the State of Kuwait Trade Balance realized a surplus that mounted to approximately KD 2859.9, which is KD 149.1 M (5%) less than the surplus amount realized during the corresponding period (April – June 2006) in the previous Fiscal Year 2006/2007 that reached nearly KD 3009 M. This resulted from the increase in the total value of the commodity imports of about KD 228 M (18.9%), which is higher than the growth in the commodity exports that reached about KD 78.9 M, (1.9%) between the two mentioned periods respectively.

(6) Kuwait Stock Exchange Developments:

Kuwait Stock Exchange witnessed less activity during the Fiscal Year 2006/2007 when compared to the standard level realized during the previous Fiscal Year 2005/2006. This has reflected on the Market Trading Index. Whereas both the total value of the shares in circulation and the total amount of shares in circulation have recorded a decrease by 36.3% and 26.1% respectively during the Fiscal Year 2006/2007 in comparison with the previous fiscal year. As the General Market Price Index witnessed a limited increase by 3.3%, also the Market Price-Weighted Index registered an increase by 17.4% during the Fiscal Year 2006/2007 when compared to the previous fiscal year.

The past period of (April – August 2007) of the Fiscal Year 2007/2008 witnessed a remarkable increase in the Price and Trading Indices in Kuwait Stock Exchange that reached new standard levels. The total value of the shares traded reached about KD 21.4 Billion during the past period of (April - August 2007) in the Fiscal Year 2007 – 2008 compared to about KD 6.1 Billion for the

corresponding period in the previous fiscal year thus representing an increase of about KD 15.3 M in value at the percentage of 250.1%. The total amount of the shares circulated in the market during the past period of (April – August 2007) in the Fiscal Year 2007/2008 went up to reach about 36.8 Billion shares. This recorded an increase of about 22.4 Billion shares at the percentage of 155.6% more than the level of the corresponding period in the previous fiscal year, which was about 14.4 Billion.

In return the market general index went up to close at the level of 12686.1 points at the end of August 2007 of the Fiscal Year 2007/ 2008, therefore, realizing an increase of about 2464.4 points at the percentage of 24.1 in comparison with the closing at the end of the Fiscal Year 2006/2007 that reached 10221.7 points. The Market Price-Weighted Index went up as much as 153.5 points at the percentage of 25.9% to reach the level of 745.1 points by the end of August 2007 compared to the closing of the end of the Fiscal Year 2006/2007 that reached almost 591.6 points.

Finally, the number of new companies listed in Kuwait Exchange Market since the beginning of the current Fiscal Year 2007/2008 until the end of August 2007 are(10 companies) to become (191 company) in total in comparison with the number of listed companies at the end of the Fiscal Year 2006/2007 which are (181 companies).

Chapter Four

The Public Finance Developments

The Closing Account data of both Fiscal Years 2005/2006 – 2006/2007 indicate the Public Budget consistency in realizing increasingly actual financial surpluses.

Firstly, Fiscal Year 2005/2006:

In the Fiscal Year 2005/2006, the actual realized surplus after deducting the posterity reserve dues reached about KD 5493.3 M, which is nearly 10% of the GDP of that year. Such surplus resulted from the increase in revenues to reach about KD 13728.1 M that is 53.2% above the level of the Fiscal Year 2004/2005. Most of the increase resulted from the rise in the outcome of oil revenues, which grew by almost 58.6% when compared with last year revenues, representing nearly 94.4% of the public total revenues with a higher percentage of contribution than that of the previous year which was about 91.2% of the total revenues. Such development was accompanied by the fallback of the non-Oil revenues contribution rate to the public revenues, which dropped by about 3.2% in comparison with the Fiscal Year 2004/2005 which was due to the decrease in the various revenues and fees outcome, and the increase in the oil revenues outcome as previously mentioned.

As for the expenditure, it went up by 8.7% in Year 2005/2006 when compared to the Fiscal Year 2004/2005. Its ratio to the total GDP was about 43.7% in 2005. Most of the increase in the expenditure total was due to the increase of Chapter One expenditure (Wages and Salaries) which went up by 10.1% in Year 2005/2006 compared to the Fiscal Year 2004/2005. Its percentage in the total government expenditure went up by 28.1% compared to 27.8% in the Fiscal Year 2004/2005.

Secondly, Fiscal Year 2006/2007:

The closing account data of the Fiscal Year 2006/2007 indicate the actual surplus growth realized after deducting 10% of the revenues for the posterity

reserve to become KD 3652.0 M, which is representing 12.8% of the GDP for Year 2006. Such surplus resulted into some developments in both governmental revenues and expenditures. In view of the positive developments in the oil markets, oil revenues continued to grow and contribute in higher proportions than the other public revenues, which reached up to 93.6%. Such growth contributed to the increase of the total revenues rate to about 13% in the Fiscal Year 2006/2007 when compared to the Fiscal Year 2005/2006.

Regarding the expenditures, it increased by 50.2% during the Fiscal Year 2006/2007. Such increase reflected on all the government expenditure chapters. Whereas Chapter One expenditure increased by 15.3%. Chapter Two expenditure increased by 29.8%. Chapter Three realized an increase in expenditure of about 31.6%. As for Chapters Four and Five, the growth rates of expenditure in each were 31.8% and 84.1 respectively. They were considered as the highest rates due to the Public Treasury payments of future commitments for the social security funds during the Fiscal Year 2006/2007 instead of the annual installment payments.

Thirdly, Fiscal Year 2007/2008 Budget:

As for the budget of the Fiscal Year 2007/2008, revenues were estimated at the amount of KD 8320.3 M. while allocations for the public expenditure reached about KD 11300.0% M. in that budget. Therefore, the public budget of 2007/2008 included an estimated deficit that valued KD 3811.7 M after deducting 10% of the revenues for the posterity reserve.

Oil revenues were estimated at KD 7449.9 M, which represented 89.5% of the total public revenue estimates within the said budget. Such estimation was based on the indicative price rate per oil barrel which was about USD 36. Thus, Oil revenue estimates for the Public Budget of the Fiscal Year 2007/2008 were less by KD 286.6 M (3.7%) than the oil revenue estimates included in the Public Budget of the previous Fiscal Year 2006/2007.

The approved estimates of non-oil revenues within the Public Budget of the Fiscal Year 2007/2008, were roughly KD 870.4 M which was (10.5%) of the total estimated revenues for the Public Budget of the said fiscal year. The public revenues, estimated to be collected in return of the government services, occupied the largest proportion and that was 59.3% of the total non-oil revenues for the budget of the Fiscal Year 2007/2008. That was followed by the revenues assumed to be collected in return of taxes and duties on international trade and transactions which were (20.4%), then taxes on net income and profits (10.0%), various revenues and fees (8.5%), taxes and duties on properties(1.4), taxes and duties on commodities and services (0.2%), and finally the capital revenues (0.1%) which were among the non-oil revenues total included in the public budget of the Fiscal Year 2007/2008.

Regarding the public expenditure, the expenditure allocations included in the Public Budget for the Fiscal Year 2007/2008 reached approximately KD113000.0 M, representing an increase that valued about KD 434 M (4.0%) more than the expenditure allocations in the Public Budget of the Fiscal Year 2006/2007. Whereas Chapter One (Salaries and Wages) expenditure allocations included in the public budget for the Fiscal Year 2007/2008 made around KD 2626.0 M compared to KD 2270.0 M for the Fiscal Year 2006/2007 with an increase of 15.7%. Chapter Two (Commodity Requirements and Services) expenditure allocations totalled nearly KD 1833.5 M compared to about KD 1429.0 M for the Fiscal Year 2006/2007, representing an increase of 28.3%. While Chapter Three (Transportation, Equipment, Supplies) expenditure allocations were about KD 216.0 M in the public budget of the Fiscal Year 2007/2008 with an increase of 63.0% above the corresponding allocations for the Fiscal Year 2006/2007. Chapter Four (Constructional Projects, Maintenance and Public Acquisitions) expenditure allocations reached the amount of KD 2058.0 M that means with an increase of 63.2% above the corresponding allocations of the Fiscal year 2006/2007. Finally, Chapter Five (Various Expenditure and Transfer Payments) expenditure allocations reached

about KD 4566.5 M in the public budget for the Fiscal Year 2007/2008 representing a decrease of 20.9% less than the corresponding allocations for the Fiscal Year 2006/2007. The most important reasons for the decrease were the inclusion of the necessary allocations for the future Commitments of the social security funds in the public treasury during the Fiscal Year 2006/2007 instead of the annual installment payments.

In respect of the proportional distribution of the budget chapters expenditure allocations in the Fiscal Year 2007/2008, Chapter Five (Various Expenditure and Transfer Payments) occupied approximately 40.4% of the total expenditure allocations in the public budget of the said year. Chapter One (Salaries and Wages) reached about 23.3%, then about 18.2% for Chapter Four (Construction Projects and Public Acquisitions), followed by Chapter Two (Commodity Requirements and Services) which occupied about 16.2%, and finally about 1.9% for Chapter Three (Transportation, Equipment, and Supplies).

Table (8)
Development of Revenues, Expenditures, and Deficit/Surplus
During the Period from 2004/2005 to 2007/2008

(Millions KD)

Description	Fiscal Year			
	2004/2005 Closing Account	2005/2006 Closing Account	2006/2007 Closing Account	2007/2008 Approved Budget
Revenues:				
1. Oil Revenues	8170.5	12955.4	14511.5	7449.9
2. Taxes on Net Income and Profits	53.3	58.4	81.7	88.0
3. Taxes and Fees on Properties	11.0	10.4	13.6	12.3
4. Taxes and Fees on Commodities and Services	1.5	2.3	1.8	1.7
5. Taxes and Fees on Trade and International transactions	166.5	176.0	190.5	177.7
6. Services Revenues	396.4	411.3	449.0	516.4
Various Revenues and Fees	103.4	91.3	242.4	74.0
Capital revenues	59.7	23.0	18.8	0.3
Revenues Total	8962.3	13728.1	15509.3	8320.3
Expenditures:				
1. Salaries	1754.3	1930.9	2225.9	2626.0
2. Commodity Requirements and Services	870.3	1057.9	1372.5	1833.5
3. Transportation, Equipment, and Supplies	44.5	58.6	77.1	216.0
4. Construction Projects, Maintenance and Public Acquisitions	678.3	750.5	989.5	2058.0
5. Various Expenditure and Transfer Payments	2967.8	3064.1	5641.4	4566.5
Expenditures Total	6315.2	6862.0	10306.4	11300.0
10% of the Revenues for Posterity Reserve	896.2	1372.8	1550.9	832.0
Deficit / Surplus	1750.9	5493.3	3652.0	- 3811.7

Source: MOF

Fourthly, Structural Problems of the Budget and Methods of Avoidance:

In giving an earlier presentation on the public finance developments by using the figures of either the closing account or the budget allocations, it becomes clear that the State Budget is still suffering from a number of structural problems that require the exertion of reform efforts to improve the budget status, increase its effectiveness as a tool of the financial policy, enhance its role in achieving economic stability, and finally ensure its safe application to meet the present and future requirements of the Kuwaiti community.

1. On the one hand, oil revenues continue to contribute to the state public revenues with the biggest part. The percentage of such contribution is exceeding 90%. This is due to the improvement of the international oil markets conditions and to the outstanding rise of oil prices as well as the weakness of the non - oil revenues base and its lack of diversity. Noting here that the constant reliance on oil as the main source of public revenues contributes to the increase of the fluctuation degree and instability of revenues due to its interrelation with the development of the world oil prices, which is considered as an external variable that the State of Kuwait cannot control.

This matter might become a source of risk once Kuwait production of oil becomes less or the export prices of such production declines. Such risk may intensify, taking into account that the public spending is increasing year after year. Thus, there must be an assurance of the continuity of the providence of the necessary finance. It is the very matter that makes the reserves owned by the state and the investment on assets and capitals with returns of great importance to ensure the availability of the necessary financing for the increasing growth of the public spending.

Tables (9) indicates that the closing account figures for the Fiscal Years 2002/2000 – 2006/2007 and the budget of the Fiscal Year 2007/2008 show that the rate of oil revenues contribution to the public revenues reached round 91.2% in the middle of 2002/2007.

Table (9)
Oil Revenues and the Total Public Revenues
During 2001/2002 – 2007/2008

(Rounded to the nearest Million Dinars)

Fiscal Year	Total Revenues	Oil Revenues	Oil Revenues Percentage
2002/2003 Closing Account	6219.0	5498.5	88.4%
2003/2004 Closing Account	6937.3	6149.9	88.6%
2004/2005 Closing Account	8962.4	8170.5	91.2%
2005/2006 Closing Account	13728.1	12955.4	94.4%
2006/2007 Closing Account	15509.3	14511.5	93.6%
2007/2008 Approved Budget	8320.3	7449.9	89.5%

Source: MOF

Therefore, it is necessary to work towards diversifying the public revenue base, meanwhile minimizing the degree of reliance on oil revenues in order to accomplish a better degree of stability in the public financial status. That is why the government is making efforts to reform the tax system and boost tax revenues.

In addition to that, there is a need to reconsider Law No.79 of Year 1995 regarding the fees and financial expenses for using the public utilities and services. Whereas reconsidering such law will enable the government to set an efficient pricing system for fees on commodities and public services that may contribute to the enhancement of the non-oil revenues aspect. It may limit as well, the spending and wasting aspects in consuming such services while minimizing the financial burdens of the government spending on subsidization.

2. Another point to notice is that the government expenditure is mostly focused on the current spending aspects, especially on salaries and wages, which occupied more than 26.8% of the total expenditures of the government ministries and departments during the period of 2006/2007. By

adding the salaries of the attached authorities and independent institutions as well as the spending on the army's salaries to Chapter One, such percentage will dramatically increase, ranking Kuwait at the top of the states list regarding the percentage of spending on wages and salaries compared to the government total spending.

3. In return the government capital spending remains modest whereas its percentage compared to the total GDP does not exceed 5% in average during the period of 2004/2005 – 2006/2007.

In order to highlight the budget developmental role it is essential to rationalize public spending and increase the percentage of the capital spending, meanwhile boosting and improving the productivity of such spending by means of focusing on developmental projects that enjoy high economical and social feasibility. It is important also to implement the projects listed in the budget effectively and at the same time increase the efficiency of such projects, as well as endeavour to improve the average of using the public services and utilities.

As for limiting the public spending, it is essential for the governmental efforts that are aim at minimizing the growth average of expenditure in Chapter One to continue such efforts by promoting the role of the private sector in economy by taking part in promoting the developmental projects and increasing the available investment opportunities. Thus a greater number of national labour will be joining the private sector which should minimize the burden on the government.

At the same time working to encourage the national labour to look for job opportunities in the private sector. There should be amiable efforts to reform the educational system to ensure the realization of harmony between the educational operation outcomes and the requirement of the private sector of workforce. This may ensure the importance to continue activating Law No (19) of Year 2000 regarding the national labour support and encouraging them to work in the non-governmental institutions.

Chapter Five

Draft Budget for the Fiscal Year 2008/2009

Article (13) in the Decree Law No. 31 of Year 1978 regarding the rules for preparing the public budgets and monitoring the implementation thereof and the closing account stipulates that: "The Finance Minister shall prepare the Draft Budget. He is to prepare as well, a statement that shall include a general presentation of the fundamentals on which the draft is based together with analysis of its objectives".

The concerned technical systems in the Ministry of Finance made considerable efforts to prepare their final estimates of the revenues and expenditures in the Draft Budget of the government ministries and departments and the draft budgets of the attached and independent authorities and institutions for the Fiscal Year 2008/2009. Such estimation should be based on sound and scientific fundamentals for realizing accurate estimates of the requirements of such bodies as well as seeking to accomplish the economic, social and political programs and objectives that the government endeavors to fulfill.

Firstly, the Main Features of the Fiscal Year 2008/2009 Draft Budget

1. The principle of "standardizing the budget functions in the Ministry of Finance" has been activated starting from the Fiscal Year 2008/2009 budget. Whereas the estimates of Chapter One – Salaries and Chapter Four – Construction Projects and Maintenance have been overviewed and prepared by the Public Budget Affairs sector at the Ministry of Finance which is an outcome of the early efforts made by the ministry officials to activate such principle.
2. Oil revenues were estimated at 50 dollars per barrel, which is an increase of 14 dollars per barrel which is (38.9%) more than the budgeted barrel price of the Fiscal Year 2007/2008, due to the standard rise of oil prices in the global market.

3. The Ministry of Finance has been careful to reflect the government work programme on the state public budget. Whereas the Secretariat of the Higher Council for Planning and Development has been addressed then the government authorities to seek to include the goals and programmes stated in the government work programme in the draft budget of the Fiscal Year 2008/2009.
4. The State Financial policy is oriented towards covering the actuary deficit of KD 7.972 B as it was on 31/3/2004 in Chapter Three fund by virtue of the Social Security Law. By adding the interests on the period from 1/4/2004 until the beginning of the payment on 1/4/2008, the total deficit reached KD 10.944 B to be paid in two-year time according to the Ministers Council decision No. 884/I on 17/9/2007.
5. The State Financial policy is oriented towards including additional allocations that were not approved in the past years regarding the fuel for operating the Ministry of Electricity and Water plants; settling the amounts due to the Ministry of Health by the Ministry of Defence and the Ministry of Interior Affairs regarding the expenses of medical treatment abroad; paying for remunerations, travel tickets, leaves; hosting the state official guests by the Amiri Divan; finally, compensating the lost hereditary possessions for the Ministry of Information.

Secondly, the Draft Budget Estimates for the Fiscal Year 2008/2009

- Revenue estimates in the Fiscal Year 2008/2009 Draft Budget have reached KD 12678.7 M, of which KD 11652.6 M are oil revenues with a percentage of 91.9%, and KD 1026.1 M are non-oil revenues with a percentage of 8.1% of the total revenues.
- An amount of KD 1267.9 M that is approximately 10% of the revenues shall be deducted to be added to the Posterity Reserve as stipulated by the provisions of Law No 106 of Year 1976 regarding the posterity reserve.

- Expenditure estimates in the Draft Budget of the Fiscal Year 2008/2009 have reached KD 18966.0 M., which are distributed over the Expenditure chapters as stated in details later on.
- After deducting 10% of the Posterity Reserve, Deficit in the Fiscal Year 2008/2009 Draft Budget has reached KD 7555.2 M. (59.6%) of the revenues which will be covered by the State General Reserve.

Thirdly, Fundamentals for Estimating the Draft Budget of the Fiscal Year 2008/2009:

(1) Revenue Estimation

a. Oil Revenues:

The following table illustrates oil revenue estimates. Oil revenue estimates have been made in coordination with the Ministry of Oil based on the price of 50 Dollars per barrel. Meanwhile, acting with care and caution and taking into account that any actual increase in oil prices above USD 50 per barrel will positively reflect on reducing deficit in the budget.

Table No. 10 Oil Revenue Estimates (millions K D)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
14511.5	7449.9	11652.6

Since the oil production quota is determined by the OPEC Organization in the light of the oil prices development in the global market, oil revenues have been estimated according to the following basics:

Production quota according to the OPEC	2.5 M barrel / a day
Barrel estimated price	50.0 dollar for the barrel
Exchange price applied	279 Fils for the dollar
Number of days in the Fiscal Year 2008/2009	365 day
Oil revenues estimated value after deducting the production costs	KD 11472 M.
Gas production estimated value after deducting the production costs	KD 180.6 M.
Production costs	KD 1187.7 M.

Accordingly, Oil Revenue estimates in the Fiscal Year 2008/2009 have reached the amount of KD 11652.6 with an increase of KD 4202.7 M (56.4%) more than the estimates of the Fiscal Year 2007/2008.

b. Non-Oil Revenues:

The following table shows the non-oil revenue estimates. These revenues have been estimated at the amount of KD 1026.1 M in the Fiscal Year 2008/2009 Draft Budget with an increase that reached KD155.7 M (17.9%) more than the Fiscal Year 2007/2008 estimates. Estimation has been made in the light of the actual revenue indicators during the past period of the Fiscal Year 2007/2008, also the actual collection average during the last three fiscal years taking into consideration the revenues stemming from the improvement and expansion of the existing services standard and the provision of new ones.

Table No. (11) Non-Oil Revenue Estimates

Millions KD

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
997.8	870.4	1026.1

In continuity with the execution of Law No.79 of Year 1995 regarding the fees and financial costs in return of utilizing services and public utilities, which restricts the increase of fees and financial costs more than the prices of 31/12/1994. The policies set by the financial statement through the Draft Budget of 2008/2009 to increase the non- oil revenues are limited to the following:

- To continue urging the government authorities to increase and diversify the services and endeavour to improve such services. It is necessary as well, to promote the efficiency of collecting revenues that are due to the state.
- To include the normal increase in non-oil revenues resulting from the increase in population growth rates, and construct new residential areas which may require more services to be provided by the state.

(2) Expenditure Estimation:

The general policy set by the financial statement through the draft budget of the Fiscal Year 2008/2009 regarding expenditure is based on the following principle and confinements:

- To continue minimizing expenditure growth while adhering to the state economic and social policies that aim at raising the citizen living standard and improving the services standard in general.
- To continue completing the projects that are economically feasible and vital in the areas of education, health, housing, electricity and water to confront the population growth rates in order to fulfil the targeted aims in the state five-year development plan and the government work programme for the eleventh legislative session.
- To cover both the health and education ministries requirements of Chapters Two and Three in an attempt to improve the health services standard that are provided to the citizens, also promoting the education standards in the State of Kuwait.
- To continue implementing the infrastructure projects, and the projects of roads, transports, and communication in order to improve the investment climate and fulfil the sublime Amiri desire in making Kuwait a financial and commercial centre in the region.

In view of the previously mentioned, the Public Budget sector at the Ministry of Finance has done a study as well as prepared the final estimates for all the expenditure chapters including the two chapters (Chapter One – Salaries) and (Chapter Four – Construction Projects and Maintenance). This is an attempt to activate the principle of "standardizing the budget functions" for the first time in the Ministry of Finance starting from the Fiscal Year 2008/2009 budget according to the actual requirements of the ministries and the governmental

departments and the attached and independent authorities which are financed by the state budget. In the light of the statements, indicators, rules and the applicable laws, estimates are presented as the following:

Chapter One - Salaries

The following table shows Chapter One estimates – Salaries for the Fiscal Year 2008/2009 as it reached KD 3210.0 M with an increase of KD 584.0 M (22.2%) more than the Fiscal Year 2007/2008 allocations.

Table No. (12) Chapter One Estimates

(Millions KD)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
2225.9	2626.0	3210.0

Such increase is considered as the outcome of the increases and cutbacks in this chapter allocations for the Fiscal Year 2008/2009 according to the following statement:

Chapter One Total Estimates – Salaries for the Fiscal Year 2008/2009

(Millions KD)

SR. No.	Description	Salaries Estimates
	I. Increase	
a.	Inevitable Increase(Inevitable Proposal):	495.763
	Inevitable increase represented in the costs of periodical allowances and promotions by seniority; promotion by seniority in 1/7/2007 – 1/1/2008; promotion by selection expected to be fulfilled in the last quarter of the Fiscal Year 2007/2008; positions established under a decree and the increments; transferred jobs from non-Kuwaiti category to Kuwaiti category; raise for the number of children for Kuwaiti employees, medical treatment, education and health insurance; living cost allowances and the physicians (doctors) cadre.	

b.	New Increase (New Proposal)	219.440
	The cost of recruiting Kuwaiti university graduates; People with non-academic degrees; Non – Kuwaiti rare jobs; Military jobs (police/ national guards); jobs established for promotion by selection in accordance with a special job system; encountering any increase in spending for the application of a law, a decree, or a resolution made by the Ministers Council or the Civil Service Council.	
	Total increases	715.203
	II. Cutbacks:	(131.203)
	Costs of vacant and restricted positions that have been revoked and they are (7050) in number, of which (4634 for Kuwaiti nationals, 740 for non-Kuwaitis, and 1676 for the military corps) in compliance with the rules and regulations observed in planning for the estimates of Chapter One – Salaries. Also the previously included sums in the second supplementary allocation 2007/2008, which are related to the settlement of the previous fiscal years amounts.	
	III. Net Increase (I.- II.)	584.0
	IV. Fiscal Year 2007 / 2008 Allocations	2626.0
	V. Estimates of Chapter One – salaries 2008/2009 (III +IV)	3210.0

Chapter Two – Commodity Requirements and Services

Chapter Two has been estimated according to the actual needs and the actual spending average during the previous three fiscal years. Accordingly, estimates for Chapter Two of the Fiscal Year 2008/2009 draft budget mounted to KD 3077.0 M with an increase of about KD1243.5 (67.8%) more than the allocations of the Fiscal Year 2007/2008 as indicated in the following table:

Chapter Two Estimates

(Millions K D)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
1372.5	1833.5	3077.0

Most Important Reasons for the Increase in Chapter Two Estimates:

- Including supplementary allocations that were not approbated in the previous fiscal years for operating plants in the Ministry of Electricity and Water, as well as hosting the state official guests.
- Increasing the amount of fuel for operating plants according to the actual spending rate and the rise in fuel prices being related to the barrel price of crude oil in the Global Markets, and meeting the requirements of the Ministry of Electricity and Water for spare parts of electricity and water equipment, machines, meters and chemicals. Estimates for the Ministry of Electricity and Water form 81% of Chapter Two total estimates.
- Meeting the Ministry of Health requirements of pharmaceuticals to encounter the increase in the rate of spending medicine and the increase in international prices; encountering as well, the expansion of the medical centres and the opening of new ones; also covering the expenses of the visiting consultants in different medical fields. Concluding more outsourcing contracts for the supply of food, the maintenance of equipment, appliances and software as well as contracts for safety and security, and hygiene.
- Increase in the costs of maintenance, various expenditure, fuel consumption, electricity and water, the tickets prices, and contracts of safety and security for the missions of the Ministry of Foreign Affairs.
- Meeting the Ministry of Education requirements of schoolbooks, stationary, office tools, and the cost of outsourcing contracts for food, materials and others. Also covering the expenses of the programmes related to the Strategy of Developing Education in the State of Kuwait.

Chapter Three – Transports, Equipment and Supplies:

Chapter Three Estimates for the Fiscal Year 2008/2009 have been prepared based on the actual requirements of the government of fixed assets. Estimates

have amounted to KD 179.0 M with a decrease of KD 37.0 M (17.1%) less than the Fiscal Year 2007/2008 allocations as indicated in the following table:

Table No. (15) Chapter Three Estimates

(Millions KD)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
77.1	216.0	179.0

The Most Important Reasons for the Decrease in Chapter Three Estimates:

- Non-inclusion of the scheme of safety control by cameras; implementing the second stage of the Ministers Council resolution No. II/965 regarding patrols; partial application of fixing metal number plates during the previous Fiscal Year 2007/2008 in addition to seeking guidance through the actual spending of the previous years.
- Reduction in the estimates of both items supplies and furniture at the Ministry of Health according to the actual need.
- Completing the instalment payments of helicopters during the previous fiscal Year. Reducing the number of cars that are supposed to be replaced in the Amiri Divan.
- The reason for the decrease in Chapter Three regarding the Ministers Council is because of: the reduction in the payment amounts regarding the project of Kuwait information network; completing the project of Kuwait government gate; reducing the number of cars needed to be replaced; making reductions in the Item (Furniture) according to the store estimates.
- Completing the Item (Office Supplies and Computer Supplies) for the new building of the Audit Bureau and finishing the interior furnishing and design for the new Divan building.

Chapter Four–Construction Projects, Maintenance and Public Acquisitions

Estimates for the construction projects, maintenance and public acquisitions in the Draft Budget of the Fiscal Year 2008/2009 have mounted to KD 1664.5 M with a decrease of KD 393.5 M (19.1%) less than the Fiscal Year 2007/2008 allocations as indicated below in the following table:

Chapter Four Estimates

(Millions KD)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
989.5	2058.0	1664.5

The following table demonstrates Chapter Four estimates distribution over different spending aspects

Table (17) Chapter Four Estimates Distribution

(Millions KD)

Statement	Amount	Percentage
New Construction Projects	15.1	0.9%
Approved Construction Projects	1019.9	61.3%
Minor Construction Projects & Maintenance	330.2	19.8%
Public Acquisitions	179.2	10.8%
Supplementary Allocation	120.1	7.2%
Chapter Four Total	1664.5	100%

Relevant considerations when preparing Chapter Four Estimates:

1. Trying to make balance between current spending and investment spending while taking into consideration the role performed by Chapter Four allocations in stirring economic activity.
2. Including some new projects, which are considered as vitally developmental and important in meeting the citizens requirement of new services; meanwhile improving the existing services standards due to the expansion of buildings and the establishment of new residential areas.
3. Continuing to implement the approved projects and include the necessary allocations for the Fiscal Year 2008/2009.

Most important reasons for the decrease in Chapter Four Estimates:

Accomplishing some constructional projects that were undertaken during the previous Fiscal Year 2007/2008, of which the most important is the execution of the emergency scheme for the Ministry of Electricity and Water (the project of constructing, supplying, and installing gas turbines in different locations).

Chapter Five – Various Expenditure and Transfer Payments:

Chapter Five estimates for the Fiscal Year 2008/2009 has reached the amount of KD 10835.5 M with an increase that mounted to KD 6269.0 M (137.3%) more than the Fiscal Year 2007/2008 allocations as shown in the table below:

Table No. 18 Chapter Five Estimates

(Million KD)

Closing Account 2006/2007	Approved Budget 2007/2008	Draft Budget 2008/2009
5641.5	4566.5	10835.5

The most important reasons for the increase:

- The government attempts to cover the actuary deficit in Chapter Three fund by virtue of the Social Security Law, according to the Ministers Council Resolution No.844/I of 17/9/2007. Payments will be carried out in two equal annual instalments starting from 2008/2009 Budget; the value of each instalment will be KD 5472.0 M.
- Introducing a kind of subsidy of fuel for Kuwait Airways Corporation; innovating another kind of subsidization to reduce fuel costs and increase real estate benefits; increasing the cost of printing fiscal stamps; increasing the financing of the attached authorities and independent institutions in the Ministry of Finance budget – General Accounts.
- Increasing the allocated amount for the cost of abroad medical treatment and increasing the number of patients sent abroad by the Ministry of Public Health for medical treatment.

- Increasing the subsidization of refined products and liquefied gas locally marketed because of the rise in oil prices in the global markets. Increasing the number of employees expected to be working for Kuwait Gulf Oil Company, which are estimated in the Kind (Remunerations and Rewards) for employees other than those of the Ministry of Oil.
- Creating the Item (Local Conferences) in the budget of the Ministry of Higher Education; increasing the number of students for internal and external scholarships, as well as increasing the appropriations for some other students. Increasing the rents related to the accommodation of the cultural attaches and opening new offices.
- Increasing the allocated amount for spending on the government aircrafts operations; covering the expenses of the Fourth Islamic Economic Conference and covering the expenses of the official visits and missions by both His Highness the Emir and the Crown Prince at the Amiri Diwan.
- Increasing the amount allocated for the Kind (Social Allowances and the Children Allowances for the national labour; establishing the Kind (Others) to cover the expenses of allowance and remuneration payments for the training staff members at the private schools and the workers in Al-Khafji Zone; creating the Kind (Living Costs Allowance) based on the Ministers Council Decision No. 230 for Year 2008; increasing the amount appropriated for those expected to receive the end of service remuneration.
- Including the amounts necessary for the Ministry of Information to execute the legal judgement passed to compensate for the damages caused to the antique possessions owned by Sheikh Nasser Sabah Al-Ahmad. Covering the costs of official missions related to the participation in Spain Expo 2008 and introducing the Kind (Local Conferences) in the Ministry of Information Budget.

Table (19)
Summary of 2008/2009 Draft Budget Estimates

(Millions KD)

Description	Fiscal Year 2007/2008 Allocations	Fiscal Year 2008/2009 Estimates	Variance	Ratio %
I. Revenues:				
- Oil revenues	7449.9	11652.6	4202.7	56.4%
- Non-Oil Revenues	870.4	1026.1	155.7	17.9%
Revenues Total	8320.3	12678.7	4358.4	52.4%
II. Obligations and Expenditures:				
a. Obligations:				
10% of the revenues for the Posterity Reserve	832.0	1267.9	435.9	52.4%
b. Expenditure:				
Chapter One – Salaries	2626.0	3210.0	584.0	22.2%
Chapter Two – Commodity Requirements and Services	1833.5	3077.0	1243.5	67.8%
Chapter Three – Transports, Equipment and Supplies	216.0	179.0	(37.0)	(17.1) %
Chapter Four – Construction Projects, Maintenance and Public Acquisitions	2058.0	1664.5	(393.5)	(19.1)%
Chapter Five – Various Expenditures and Transfer Payments	4566.5	10835.5	6269.0	137.3%
Total Expenditure	11300.0	18966.0	7666.0	67.8%
Total Expenditure and Obligations	12132.0	20233.9	8101.9	66.8%
III. Budget Deficit:				
a. Before 10% cuts from the Revenues	(2979.7)	(6287.3)	(3307.6)	111.0%
b. After 10% cuts from the Revenues	(3811.7)	(7555.2)	(3743.5)	98.2%

Chapter Six: Conclusion

In Conclusion, Kuwait Economy has realized significant accomplishments according to the national accounts statistics of which are the following:

1. Continuous outstanding growth in the GDP, as the total amount of GDP reached nearly KD 28.6 B by the current prices in 2006.
2. The GDP per capita increased to round KD 8999 in 2006 with a percentage of 14.1% more than the level realized in 2005, which was KD 7888.0 M according to the data given by the Higher Council for Planning and Development.
3. The rate of inflation remained agreeable. It reached 3.2% during the Fiscal Year 2006/2007 compared to about 4.2% during the Fiscal Year 2005/2006. During the period (April – June 2007) of the Fiscal Year 2007/2008 the rate of inflation went up to 5% compared to the corresponding period in the Fiscal Year 2006/2007.

In spite of the above said, there is a series of challenges that should be encountered by the country's economic policies in general and the financial and monetary policies in particular. Such challenges are represented in the following:

1. Changing Kuwait into the prospected regional financial and commercial centre in the nearest future; meanwhile everybody should take part in realizing this ultimate national goal.
2. Activating the private sector role and encouraging them to carry out productive investments that would create constant growth and job opportunities for our children in the future.
3. It is vital to attract foreign capitals to participate along with the Kuwaiti private sector in developing the national economy without restrictions.

4. The necessity to diversify the sources for generating GDP and increase the contribution of non-oil sectors to GDP with regard to the fact that such sectors are the very ones that may establish a constant growth on solid grounds.
5. It is important to ensure the stability of prices as one of the pillars, which the productive investment is based on.
6. Seeking to take practical procedures to increase non-oil revenues and limit the persistent growth of public spending.
7. It is important for the state to motivate, encourage and engage the Kuwaiti private sector and foreign investors in contributing effectively in building the economy of Kuwait.

In the Fiscal Year 2008/2009 more emphasis will be given to the continuity of accomplishments and facing the challenges that are confronting the Kuwaiti economy. Such attempt can be made by working hard to smooth away difficulties and taking some important decisions, which will ensure encountering challenges and modifying the structure of our economy. In order to realize that the following procedures must be adopted:

1. Seeking to put into effect the partnership law between the two sectors the public and the private (ppp).
2. Encouraging Kuwaiti private sector to apply productive investment through the attempt to adopt law drafts related to the developmental companies, which will bring prosperity to the Kuwaiti national regarding the income or job opportunities.
3. Seeking to reconsider the Law of National Labour Support and encouraging them to work in non-governmental authorities in view of the acquired experience during the previous years in order to stimulate the Kuwaiti private sector to increase job opportunities for the Kuwaiti labour.

4. Trying to overcome obstacles and simplify administrative procedures particularly at the customs sector subordinate to the Ministry of Finance.
5. Endeavoring to have continuous effective control on the public finance, and to protect and develop the state property domains and increase its income and profits.
6. Seeking the gradual application of the budget of programmes and performances to a greater number of ministries and authorities.
7. Continue to revise and activate the tax system acts for increasing non-oil revenues.

Under the leadership of His Highness the Emir Sheikh Sabah Al-Ahmad, may God protect him, we wish that during his reign Kuwait will realize its goals of Kuwait the future, Kuwait the hope, and Kuwait the prosperous and the developed.

May God Bless Us All!

Jasem Mustafa Al- Shamali
Minister of Finance