



CENTRAL BANK OF KUWAIT



# Economic Report 2016

CENTRAL BANK  
OF KUWAIT

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**For correspondence and enquiries:**

Postal address: Central Bank of Kuwait  
Economic Research Department  
P.O. Box 526 Safat  
13006 Kuwait  
State of Kuwait

Telephone: +(965) 2240 3257

Facsimile: +(965) 2244 0887

E-mail Address: [cbk@cbk.gov.kw](mailto:cbk@cbk.gov.kw)

Website: <http://www.cbk.gov.kw>

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CENTRAL BANK OF KUWAIT



# ***ECONOMIC REPORT***

# **2016**



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



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



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

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## Preface

I am pleased to introduce the Economic Report 2016 to all those interested in the economic affairs of the State of Kuwait. This forty-fifth issue of the Economic Report, prepared annually by the Central Bank of Kuwait (CBK), covers key economic developments, including the most recent data and statistics available on various aspects of economic performance in the State of Kuwait during the year under review. The Report addresses these developments in six parts with each part covering a major topic in appropriate detail.

The **first part** of the Economic Report highlights the key trends in the performance of the Kuwaiti economy during 2016 including the International Monetary Fund's (IMF's) estimates concerning growth rate in real Gross Domestic Product (GDP) for 2016. These estimates indicate a rise in the growth rate of real GDP during 2016 reaching 2.5% compared to 1.8% during the previous year. This rise resulted from the increase in the growth rates of both real oil sector GDP reaching 1.9% during 2016 after a decline of 1.7% during 2015, and real non-oil sectors GDP growth of 3.2% during 2016 compared to 1.3% during the previous year.

In the **second part**, the Report reviews the main monetary and banking conditions and CBK's activities in areas of monetary policy and banking supervision through highlighting major developments observed in the key monetary aggregates and indicators, as well as significant developments in the area of banking oversight and supervision during 2016. In this regard, available data indicate a sustained relative stability in the KD exchange rate against major currencies during 2016, in line with CBK's exchange rate policy of pegging the KD to a weighted basket of currencies of countries that share significant trade and financial relations with the State of Kuwait. Data indicate movements within a relatively narrow margin in the exchange rate of the USD against the KD during 2016, compared with the changes in the exchange rate of the USD against other key currencies. The difference between the highest and the lowest exchange rate of the USD against the KD during 2016 was 7.9 fils or 2.6%.

Growth in Money Supply in its Broad Definition (M2) increased to 3.1%, and private sector (resident) deposits with local banks to 2.8% at the end of 2016 compared with the end of the previous year. Growth rate in credit facilities extended by local banks to various domestic economic sectors decelerated to 2.9% at the end of 2016. In light of the continuous increase in interest rates on major world currencies during 2016, the CBK raised its Discount Rate once by 0.25 percentage points in December 2016 to reach 2.5%. The CBK continued during 2016 its oversight and supervision of local banking and financial units aimed at strengthening their financial position and reinforcing financial stability through intensifying its oversight and supervision measures, enhancing the financial sector's ability to effectively fulfill its role in the national economy.

The **third part** of the Report highlights the developments in the financial indicators of the banking and financial system, in light of the aggregate financial statements of various banking and financial system units supervised by the CBK, including local banks, finance companies and exchange companies, in order to identify some of the aspects of growth, performance and trends of these indicators, as well as their effect on the financial position of these units. In this context, the aggregate balance sheet of local banks realized a growth of 3.1% at the end of 2016 compared with the previous year. The aggregate balance sheet of local exchange companies registered with, and supervised by, the CBK increased by 21.3%, while the aggregate balance sheet of local investment companies registered with CBK decreased by 18.4% at the end of 2016 compared with its previous year level.

The **fourth part** of the Report highlights the developments in the State's public finances within two key sections, first: the Closing Account for FY2015/16, second: the general budget for ministries and government departments for FY2016/17. The Closing Account of the general budget for FY2015/16 recorded a deficit of KD 4,611.9 million against a surplus of KD 3,510.5 million for the previous fiscal year, before deduction of allocations for the Reserve Fund for Future Generations (RFFG).

The **fifth part** of the Report addresses the developments in the trade and financial relations of the State of Kuwait with other economies, as reflected in the statistics on foreign trade and the Balance

of Payments (BOP) of the State of Kuwait during 2016, where the surplus realized in the balance on goods witnessed a decrease of KD 2,321.5 million, or 27.6%, mainly due to the decline in oil export revenues resulting from the noticeable decrease in global oil prices. The current account recorded a deficit of KD 1,510.5 million during 2016 against a surplus of KD 1,208.0 million during the previous year. The overall position of the BOP of the State of Kuwait recorded a total surplus of KD 960.1 million in 2016.

Lastly, **part six** of the Report covers the developments in the performance of *Boursa Kuwait* during 2016 as reflected in the key trading indicators, price movements, and factors affecting the Boursa performance. The main trading indicators (traded shares by value and volume) recorded a drop of 27.16% and 26.96% respectively at the end of 2016, compared with their levels recorded at the end of the previous year. The Price Index (PI) closed with a rise of 2.37% at the end of 2016 compared with the closing of the previous year, while the Weighted Price Index (WPI) recorded a slight decrease of 0.42% at the end of 2016 compared with the closing of the previous year. Market capitalization of listed companies recorded a slight increase of 0.06% at the end of 2016 compared with the end of the previous year.

We pray to Allah the Almighty to grant success to our efforts and endeavors and to enable us to achieve the welfare of our beloved country, under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah; and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah bless and guard them.

**Dr. Mohammad Y. Al-Hashel**

**Governor**



# Summary of the Economic Report

2016

## Summary of the Economic Report

The Economic Report for the year 2016 addresses key economic, financial, monetary and banking developments witnessed in the Kuwaiti economy during the mentioned year which are presented in six parts, the most significant of which are briefly highlighted as follows:

### First - Performance of the Domestic Economy:

Estimates indicate a growth of 2.5% in the real Gross Domestic Product (GDP) during 2016 against 1.8% during 2015 due to an increase rate in real oil sector GDP of 1.9% during 2016 after a decline of 1.7% in 2015 on one hand, and the increase in real Gross Domestic Product of non-oil sectors GDP of 3.2% during 2016 compared to 1.3% during 2015 on the other.

The inflation rate in the State of Kuwait, measured by the relative change in the General Consumer Price Index (CPI) (2007=100) recorded limited deceleration reaching 3.2% during 2016 against 3.3% during the previous year. This deceleration resulted from the developments in the average prices of the main components of CPI compared with 2015. Growth rate in average prices of “Food & Beverage” (relative weight 18.4%) decreased to 1.9% during 2016 against 3.4% during 2015, “Restaurants & Hotels” (relative weight 3.3%) to 3.1% during 2016 against 5.7% during 2015, and “Tobacco & Narcotics” (relative weight 0.3%) to 0.7% during 2016 against 6% during 2015 on one hand, and the increase in average prices of “Housing Services” (relative weight 28.9%) to 6.8% during 2016 against 6% during 2015 and “Transport” (relative weight 7.9%) to 2.5% during 2016 against 0.5% during 2015 on the other. Meanwhile, the average prices of “Health” (relative weight 1.6%) remained stable at 1.7% during 2015 and 2016, while the average prices of “Clothing & Footwear” (relative weight 9.3%) decreased by 0.2% during 2016 against a decrease of 0.9% during 2015.

Available statistics on developments in population and labor force in the State of Kuwait indicate a growth rate of 4.1% in total population during 2016 compared to 3.6% during 2015. This growth was caused by the increase in the growth rate of non-Kuwaiti population at 4.8% against 4.1% during 2015, and the slowdown in the growth rate of Kuwaiti population at 2.3% during 2016

against 2.5% during 2015. This was coupled with a growth of 5.1% in total labor force in the State of Kuwait during 2016 against 4.8% during the previous year, as well as a slowdown in the growth rate of Kuwaiti labor force to 2.6% during 2016 against 3.2% during 2015.

## **Second - Monetary Developments and CBK's Role:**

Developments in the KD exchange rate during 2016 reflect CBK's implementation of the exchange rate policy applied since 20 May 2007 of pegging the KD to a specially weighted basket of currencies of countries that share significant trade and financial relations with the State of Kuwait. Data indicate that the movements in the exchange rate of the USD against the KD were within relatively narrow margins during 2016 as compared with the average changes in the exchange rate of the USD against other key currencies. Daily data indicate that the difference between the highest and the lowest exchange rate of the USD against the KD was 7.9 fils or 2.6% during 2016. On the other hand, data indicate more visible fluctuations in the exchange rate of the USD against other key currencies, where the difference between the highest and the lowest exchange rate of the USD was 22.0% against the Pound Sterling, 21.2% against the Japanese Yen, 10.9% against the Euro and 8.0% against the Swiss Franc.

Data on the key monetary and banking aggregates of the State of Kuwait indicate an accelerated growth of 3.1% in the Money Supply in its Broad Definition (M2) at the end of 2016. Furthermore, developments in residents' private sector deposits with local banks indicate a growth rate of 2.8% at the end of 2016 compared with the previous year. With respect to bank credit developments, data indicate that the growth rate of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors slowed to 2.9% at the end of 2016.

In light of the continuous increase in interest rates on major world currencies during 2016, the CBK raised its Discount Rate by 0.25 percentage points on 15 December 2016 to reach 2.5%, from 2.25% since 17 December 2015. The last change in CBK's Discount Rate, a rise of 25 basis points, was made on 17 December 2015.

Developments on the side of banking oversight and supervision during 2016 indicate CBK's continued efforts in the area of oversight and supervision of local banking and financial units aimed

at strengthening their financial position and reinforcing financial stability through intensifying the oversight and supervision measures applied to the local financial sector for enhancing the sector's ability to effectively fulfill its role in the national economy.

### **Third - Financial Indicators of the Banking and Financial Sector:**

The aggregate balance sheet of local banks (23 banks including 5 Kuwaiti conventional banks, 5 Islamic banks, one specialized bank and 12 foreign bank branches of which one is an Islamic bank branch) amounted to KD 60,442.9 million at the end of 2016 against KD 58,612.5 million at the end of the previous year, realizing a growth of KD 1,830.4 million or 3.1% during 2016 compared to KD 3,160.2 million or 5.7% during 2015.

The number of local investment companies registered with the CBK decreased to 78 (44 of which are Islamic investment companies) at the end of 2016 compared to 85 (47 of which are Islamic investment companies) at the end of the previous year. Total assets of local investment companies (conventional and Islamic) amounted to KD 8,165.4 million at the end of 2016 compared to KD 10,007.8 million at the end of 2015, i.e. a decrease of KD 1,842.4 million or 18.4%.

The aggregate balance sheet of 41 local exchange companies registered with, and supervised by, the CBK was KD 186.5 million at the end of 2016, increasing by KD 32.8 million or 21.3% from KD 153.7 million at the end of the previous year.

### **Fourth - Public Finance:**

Data on the Closing Account of ministries and government departments for FY2015/16 indicate that the total actual budgetary revenues collected for the mentioned fiscal year amounted to KD 13,633.9 million, recording a noticeable decrease of KD 11,292 million or 45.3% compared with the previous fiscal year. This decline mainly reflects the decrease in actual oil revenues collected of KD 10,426.2 million or 46.3% to KD 12,075.4 million for FY2015/16. Data on the Closing Account for FY2015/16 indicate a decrease in actual public expenditures of KD 3,169.6 million or 14.8% to KD 18,245.8 million during the mentioned fiscal year. As a result, the Closing Account for FY2015/16 recorded an actual deficit of KD 4,611.9 million against an actual surplus of KD 3,510.5

million for the previous fiscal year, i.e. a noticeable decrease of KD 8,122.4 million or 231.4%, before deduction of allocations for the Reserve Fund for Future Generations (RFFG).

Furthermore, monthly budgetary statements for FY2016/17 indicate that total budgetary revenues estimated for the mentioned fiscal year decreased by KD 1,972.6 million or 16.2% to KD 10,238 million, compared to KD 12,210.6 million for the previous FY2015/16. This decline mainly reflects the decrease in estimated oil revenues of KD 2,134 million or 19.8% to KD 8,623.4 million for FY2016/17 compared to KD 10,757.4 million for the previous FY2015/16. Allocations for public expenditures for FY2016/17 decreased by KD 429 million or 2.2% to KD 18,892 million, against KD 19,321 million for the previous fiscal year. These developments in estimated public revenues and expenditures for FY2016/17 resulted in an estimated deficit of KD 8,654 million, against KD 7,110.4 million for the previous FY2015/16, i.e. a growth of KD 1,543.6 million or 21.7%, before deduction of allocations for the RFFG.

#### **Fifth - Foreign Trade and Balance of Payments:**

Preliminary estimates on the Balance of Payments (BOP) of the State of Kuwait for 2016 indicate that the current account recorded a deficit of KD 1,510.5 million during 2016 (4.5% of IMF's estimated 2016 GDP at current prices), against a surplus of KD 1,208.0 million during 2015 (3.5% of GDP at current prices).

Basically, surplus or deficit in the current account of the BOP is related to the surplus or deficit recorded in the balance on goods. Estimates indicate a decline in the surplus realized in the balance on goods to KD 6,075.0 million during 2016 compared to KD 8,396.5 million during the previous year, i.e. a decrease of KD 2,321.5 million or 27.6%. Developments in both sides of the balance on goods show that total (FOB basis) exports of goods of the State of Kuwait amounted to KD 14,051.9 million during 2016 compared to KD 16,382.0 million during the previous year, i.e. a decrease of KD 2,330.1 million or 14.2%. Conversely, total (CIF basis) imports of goods of the State of Kuwait reached KD 9,315.0 million during the mentioned year against KD 9,316.1 million during the previous year, i.e. a slight decrease of KD 1.1 million or 0.01%. The Services Account recorded a deficit of KD 6,353.5 million during 2016 against KD 6,011.4 million during the previous year, i.e. a rise of KD 342.1 million or 5.7%.

On the side of the capital account, preliminary statistics indicate a deficit (net capital outflows) of KD 134.6 million during 2016 against a deficit of KD 92.4 million during the previous year, i.e. an increase of KD 42.3 million or 45.8% compared with the previous year. Statistics also indicate that the financial account of the BOP of the State of Kuwait recorded net capital inflows (an increase in net internal investments by non-residents in the national economy) of KD 1,068.1 million during 2016 against net capital outflows (an increase in net external investments) of KD 2,360.3 million during the previous year, i.e. a decrease of KD 3,428.4 million or 145.3%.

As a result of the above-mentioned developments, the overall position of the BOP of the State of Kuwait recorded a surplus of KD 960.1 million during 2016 compared with a deficit of KD 885.9 million during the previous year. The surplus reflects the increase recorded in CBK's reserve assets of the same value. The overall position of the BOP of the State of Kuwait, from a broader perspective to include both the change in net external investments of some government bodies/institutions and the above-mentioned change in CBK's reserve assets, shows an estimated deficit of KD 2,530.7 million during 2016 compared with a surplus of KD 1,618.8 million during the previous year.

### **Sixth - Developments in Bursa Kuwait:**

The performance of the key trading indicators and price movements in Bursa Kuwait varied at the end of 2016, where the main trading indicators (value and volume of traded shares) recorded a drop of 27.16% and 26.96% respectively, compared with the end of 2015. The Price Index (PI) closed 2.37% higher at the end of 2016 compared with the end of 2015, while the Weighted Index (WI) recorded a slight decline of 0.42% compared with the end of 2015. The Kuwait 15 index recorded a decline of 1.71% at the end of 2016 compared with the end of 2015. Market capitalization of listed companies recorded a slight increase reaching KD 26,245.8 million at the end of 2016, i.e. an increase of KD 15.70 million or 0.06% compared with the end of 2015. The most notable decision issued by the Capital Markets Authority (CMA) in 2016 was decision No.91/2016 for the licensing of Bursa Kuwait corporate to perform stock exchange activity starting 4 October 2016.



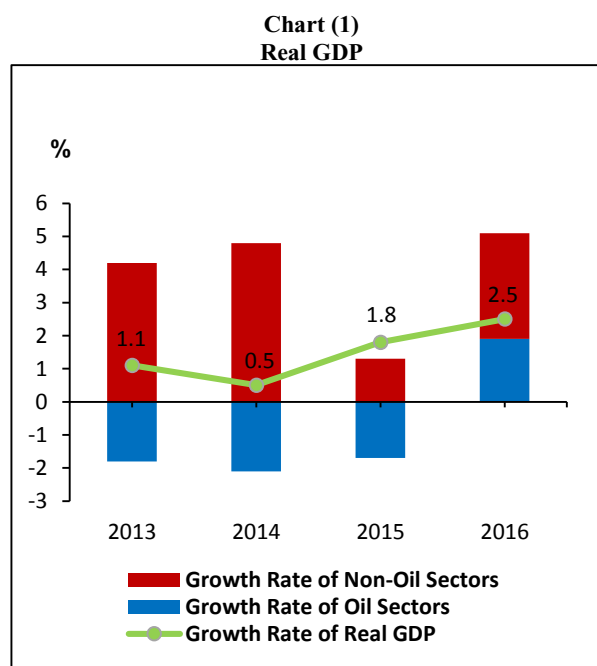
Performance of the  
Domestic Economy

2016

## Performance of the Domestic Economy

### First – Gross Domestic Product and Economic Growth:

The economic growth outlook for the State of Kuwait depends on several factors; most notably the actual increase in the production quantity of crude oil and its export price levels, taking into consideration the influential role of the oil sector in determining economic growth trends. In addition, this outlook depends on factors related to public expenditure, particularly capital expenditure, implementation of government projects encompassed in the Development Plan, as well as the growth in credit extended to the private sector and the progress in the implementation of financial and economic reforms.



Source: Central Statistical Bureau and International Monetary Fund.

Estimates indicate a growth of 2.5% in the real Gross Domestic Product (GDP) during 2016 against 1.8% during 2015. The mentioned growth resulted from the increase in real oil sector GDP of 1.9% during 2016 after a decline of 1.7% in 2015 on one hand, and the increase in real of non-oil sectors GDP of 3.2% during 2016 compared to 1.3% during 2015 on the other hand. Table (1) and Chart (1) show developments in real GDP during 2012-2016.

**Table (1)**  
**Growth Rates of Real GDP**

Year	Non-Oil Sectors		Oil Sector		Real GDP	
	Value (KD Million)	Growth (%)	Value (KD Million)	Growth (%)	Value (KD Million)	Growth (%)
2012	19,299.6	3.4	24,871.4	10.3	38,667.1	6.6
2013	20,119.7	4.2	24,422.5	-1.8	39,111.4	1.1
2014	21,086.7	4.8	23,899.8	-2.1	39,307.4	0.5
2015 <sup>(1)</sup>	21,369.4	1.3	23,501.3	-1.7	40,033.2	1.8
2016 <sup>(2)</sup>	22,053.2	3.2	23,947.8	1.9	41,034.0	2.5

(1) Provisional Data.

(2) CBK's Estimates based on International Monetary Fund's Estimates.

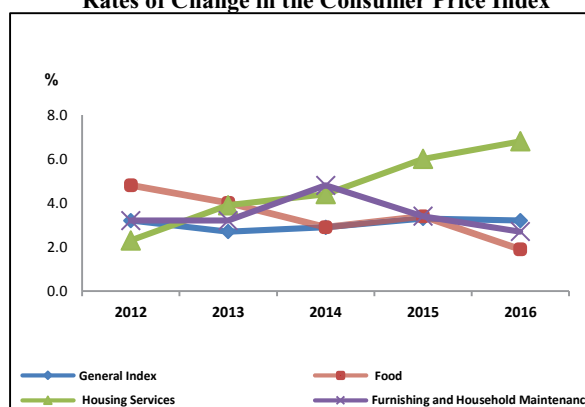
Source: Central Statistical Bureau and International Monetary Fund.

## Second- General Level of Domestic Prices:

### 1- General Index of Consumer Prices<sup>1</sup>:

Data on the General Consumer Price Index (CPI) (base year 2007=100) in the State of Kuwait by main groups of consumption expenditure during 2016 show a limited deceleration in the annual inflation rate based on the relative change in CPI reaching 3.2% during 2016 against 3.3% during 2015 (Table 2, Chart 2).

**Chart (2)**  
**Rates of Change in the Consumer Price Index**



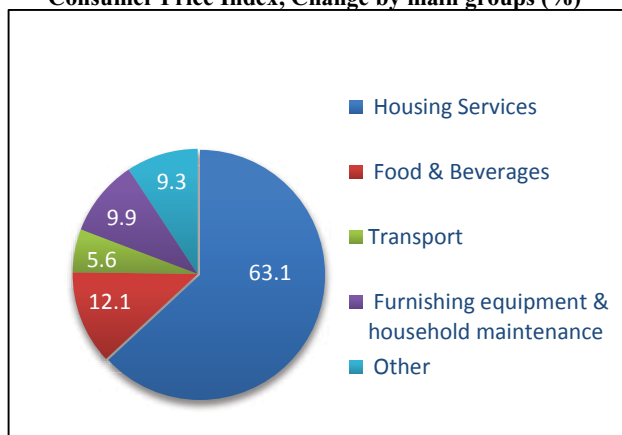
Source: Central Statistical Bureau.

<sup>1</sup>The Central Statistical Bureau (CSB) calculates CPI based on the income survey and household spending (household budget) for 2007/2008. In 2013, CPI components' relative weights have been updated to (base year 2007=100).

The above-mentioned deceleration in the annual inflation rate recorded during 2016 resulted from developments in the growth rate in average prices of the main components of CPI compared with 2015. Growth rate in average prices of “Food & Beverage” (relative weight 18.4%) decreased to 1.9% during 2016 against 3.4% during 2015, “Restaurants & Hotels” (relative weight 3.3%) to 3.1% during 2016 against 5.7% during 2015, and “Tobacco & Narcotics” (relative

weight 0.3%) to 0.7% during 2016 against 6% during 2015 on one hand, and the increase in average prices of “Housing Services” (relative weight 28.9%) to 6.8% during 2016 against 6% during 2015 and “Transport” (relative weight 7.9%) to 2.5% during 2016 against 0.5% during 2015 on the other. Meanwhile, the average prices of “Health” (relative weight 1.6%) remained stable at 1.7% during 2015 and 2016, while the average prices of “Clothing & Footwear” (relative weight 9.3%) decreased by 0.2% during 2016 against a decrease of 0.9% during 2015.

**Chart (3)**  
**Relative Contribution in the General Consumer Price Index, Change by main groups (%)**



Source: Central Statistical Bureau.

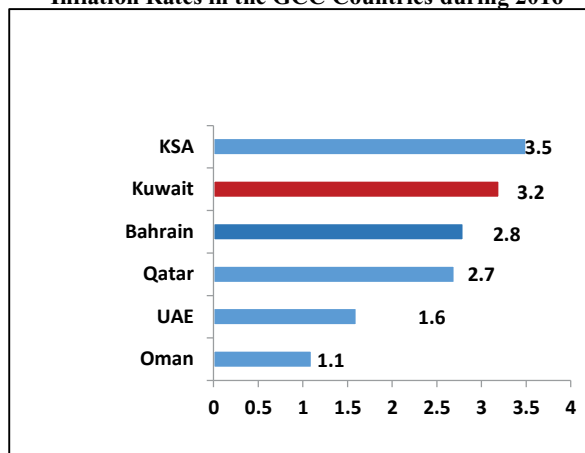
**Table (2)**  
**Developments in the General Consumer Price Index**  
(Base Year 2007=100)

Item	Relative Weights	Average Period (2012-2016)	2015	2016	Change (%)		Relative Contribution to Price Index Change (%)	
					2016	2015	2016	2015
					<b>Consumer Price Index:</b>	<b><u>100.0</u></b>	<b><u>133.4</u></b>	<b><u>137.3</u></b>
<b>1- By Items of Expenditure</b>								
- Food & Beverage	18.4	145.8	150.9	153.8	1.9	3.4	12.1	20.9
- Tobacco & Narcotics	0.3	140.7	151.4	152.5	0.7	6.0	0.1	0.5
- Clothing & Footwear	9.3	128.1	128.6	128.3	-0.2	-0.9	-0.5	-2.4
- Housing Services	28.9	135.1	141.2	150.8	6.8	6.0	63.1	52.8
- Furnishing equipment & Household Maintenance	11.3	137.5	143.0	146.8	2.7	3.4	9.9	12.2
- Health	1.6	127.3	128.2	130.3	1.7	1.7	0.8	0.8
- Transport	7.9	124.3	125.2	128.3	2.5	0.5	5.6	1.2
- Communication	4.0	101.2	101.0	101.5	0.5	0.4	0.5	0.4
- Recreation & Culture	4.3	128.2	129.0	128.8	-0.1	-0.2	-0.1	-0.3
- Education	3.0	130.7	135.8	140.0	3.1	4.4	2.9	4.0
- Restaurants & Hotels	3.3	132.6	137.8	142.2	3.1	5.7	3.3	5.6
- Miscellaneous Goods & Services	7.8	128.9	130.3	131.6	1.0	1.9	2.4	4.3

Source: Central Statistical Bureau.

Available statistics on CPI in the GCC countries indicate varied annual inflation rates during 2016 compared with the previous year. During 2016, the inflation rate in the Kingdom of Saudi Arabia was 3.5% (2.2% during 2015), State of Kuwait 3.2% (3.3% during 2015), Kingdom of Bahrain 2.8% (1.8% during 2015), Qatar 2.7% (1.8% during 2015), United Arab Emirates 1.6% (4.1% during 2015), and Oman 1.1% (0.1% during 2015).

**Chart (4)**  
**Inflation Rates in the GCC Countries during 2016**



Source: Official National Authorities.

## 2- General Wholesale Price Index <sup>2</sup>:

Table (3) shows developments in the General Wholesale Price Index (WPI) (base year 2007=100) by main groups during the period 2014-2016 in the State of Kuwait. Data indicate a deceleration in the rate of change in WPI reaching 1.3% during 2016 from 3% during 2015.

**Chart (5)**  
**Rates of Change in the General Wholesale Price Index**



Source: Central Statistical Bureau.

The deceleration in the General Wholesale Price Index (WPI) during 2016 resulted from a slowdown in the growth rate in average prices of “Agriculture, Livestock, and Fishing” (relative weight 4.5%) to 0.4% during 2016 from 2.3% during 2015, and “Manufacturing Industries” (relative weight 90.0%) to 1.4% during 2016 from 3.2% during 2015, and the increase in the growth rate in average prices of “Quarrying” (relative weight 0.3%) to 4.6% during 2016 from 4.5% during 2015.

<sup>2</sup> In June 2012, CSB updated the WPI to base year 2007 instead of base year 1980. Update also included relative weights, basket of goods, classification of goods, sample of sources and survey form.

The developments witnessed in wholesale prices indicate a deceleration to 0.4% in the rate of change in WPI “Domestically Produced Goods” (relative weight 35.6%) during 2016 from 6.3% during 2015, and a rise to 1.8% in the rate of change in WPI “Imported Goods” (relative weight 64.4%) during 2016 from 1.3% during 2015.

**Table (3)**  
**Developments in the General Wholesale Price Index**  
(Base Year 2007=100)

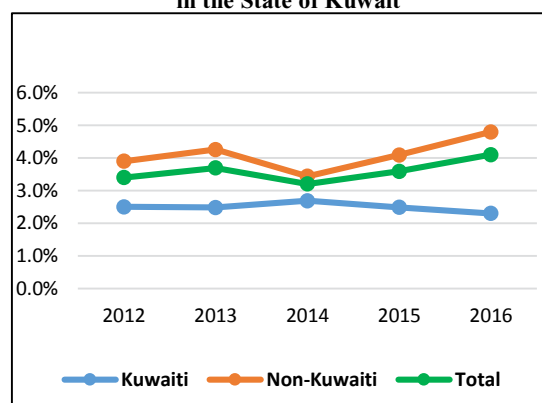
Item	Relative Weights	2014	2015	2016	Change (%)	
					2015	2016
<b>General Wholesale Price Index</b>	<b><u>100.00</u></b>	<b><u>125.2</u></b>	<b><u>128.9</u></b>	<b><u>130.5</u></b>	<b><u>3.0</u></b>	<b><u>1.3</u></b>
- By Main Groups:						
* Agriculture, Forestry and Fishing	4.5	147.0	150.4	151.0	2.3	0.4
* Quarrying	0.3	105.3	110.1	115.1	4.5	4.6
* Manufacturing Industries	90.0	125.6	129.5	131.3	3.2	1.4
* Electricity and Water	5.2	100.0	100.0	100.0	0.0	0.0
- Wholesale Price Index of Imported Goods	64.4	126.6	128.2	130.5	1.3	1.8
- Wholesale Price Index of Domestically Produced Goods	35.6	122.4	130.1	130.6	6.3	0.4

Source: Central Statistical Bureau.

### Third- Population and Labor Force:

Table (4) and Chart (6) indicate that the growth rate of total population in the State of Kuwait reached 4.1% at the end of 2016 compared to 3.6% at the end of 2015, bringing the total number of population to 4.411 million at the end of 2016 against 4.239 million at the end of 2015.

**Chart (6)**  
**Developments in the Population Growth Rates in the State of Kuwait**



Source: Public Authority for Civil Information.

The largest portion (82.5%) of this growth was caused by the 4.8% rise in non-Kuwaiti population reaching 3.073 million at the end of 2016, against a 4.1% rise to 2.931 million at the end of 2015. Meanwhile, the growth rate of Kuwaiti population reached 2.3% during 2016 against 2.5% during 2015, bringing the total number of Kuwaiti population to 1.338 million at the end of 2016 against 1.308 million at the end of 2015. As a result of these developments, the ratio of Kuwaiti population to total population declined to 30.3% at the end of 2016 against 30.8% at the end of 2015. Conversely, the ratio of non-Kuwaiti population to total population increased to 69.7% at the end of 2016 against 69.2% at the end of 2015.

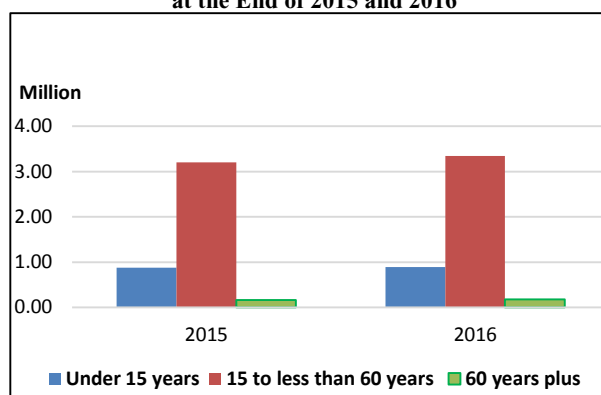
**Table (4)**  
**Developments in the Main Indicators of Population**  
**in the State of Kuwait**  
(End of Period)

Item	2014	2015	2016
<b>Population:</b>			
<b>1- Kuwaitis:</b>	<b>1,275,857</b>	<b>1,307,605</b>	<b>1,337,693</b>
Change (%)	2.7	2.5	2.3
To total (%)	31.2	30.8	30.3
<b>2- Non-Kuwaitis:</b>	<b>2,816,136</b>	<b>2,931,401</b>	<b>3,073,431</b>
Change (%)	3.4	4.1	4.8
To total (%)	68.8	69.2	69.7
<b>3- Total Population (1+2)</b>	<b>4,091,993</b>	<b>4,239,006</b>	<b>4,411,124</b>
Change (%)	3.2	3.6	4.1
Under 15 years (%)	21.2	20.6	20.1
15 to less than 60 years (%)	75.0	75.5	75.9
60 years plus (%)	3.8	3.9	4.0

Source: Public Authority for Civil Information.

Regarding developments in population age structure and their implications on the participation rates in economic activity as well as on the related dependency ratios, the number of economically active individuals - i.e. those aged between 15 and less than 60 years- in total population, increased to 75.9% at the end of 2016 against 75.5% at the end of 2015. In the same context, dependency ratio (the ratio of population not in the labor force to total labor force) decreased to an average of 630 persons per one thousand persons in the labor force at the end of 2016, compared to 647 persons per one thousand persons in the labor force at the end of 2015 (Table 5).

**Chart (7)**  
**Distribution of Population by Age Groups at the End of 2015 and 2016**



Source: Public Authority for Civil Information.

Dependency ratio of Kuwaiti population decreased to 1,992 persons per one thousand persons at the end of 2016, against 2,000 persons per one thousand persons at the end of 2015. This decrease was caused by the increase in Kuwaiti labor force at a greater rate (2.6%) than the increase in Kuwaiti population not in labor force (2.2%) at the end of 2016, compared with the end of the previous year.

**Table (5)**  
**Developments in the Dependency Indicators in the State of Kuwait**  
(End of Period)

Item	2014	2015	2016
<b>Dependency rates (per 1000 persons in labor force):</b>			
1- Kuwaitis	2,021	2,000	1,992
2- Non-Kuwaitis	384	371	360
<b>3- Total Population</b>	<b>666</b>	<b>647</b>	<b>630</b>

Source: Public Authority for Civil Information.

In the same direction, dependency ratio of non-Kuwaiti population decreased from 371 persons per one thousand persons in non-Kuwaiti labor force at the end of 2015 to 360 persons per one thousand persons at the end of 2016. This decrease was the result of the increase in non-Kuwaiti labor force at a greater rate (5.7%) than the increase in non-Kuwaiti population not in the labor force (2.6%) at the end of 2016 compared with the end of the previous year.

**Table (6)**  
**Developments in the Labor Force Main Indicators**  
**in the State of Kuwait**  
(End of Period)

Item	2014	2015	2016
<b>Labor Force:</b>			
<b>1- Kuwaitis:</b>	<b>422,325</b>	<b>435,904</b>	<b>447,120</b>
Change (%)	2.9	3.2	2.6
Relative share to total (%)	17.2	16.9	16.5
<b>2- Non-Kuwaitis:</b>	<b>2,034,273</b>	<b>2,138,163</b>	<b>2,259,100</b>
Change (%)	3.7	5.1	5.7
Relative share to total (%)	82.8	83.1	83.5
<b>3- Total Labor Force (1 + 2):</b>	<b>2,456,598</b>	<b>2,574,067</b>	<b>2,706,220</b>
Change (%)	3.6	4.8	5.1

Source: Public Authority for Civil Information.

Regarding developments in labor force indicators at the end of 2016, data in Table (6) indicate that the growth rate of total labor force increased to 5.1% during 2016 from 4.8% during 2015, bringing the total labor force to 2.706 million at the end of 2016 compared to 2.574 million at the end of the previous year. This increase was brought about by the increase in the growth rate of non-Kuwaiti labor force of 5.7% during 2016 against 5.1% during 2015, thus increasing non-Kuwaiti labor force to 2,259 million at the end of 2016 compared to 2,138 million at the end of the previous year. Meanwhile, the growth rate of Kuwaiti labor force decelerated to 2.6% during 2016, against 3.2% during 2015, bringing the number to 447 thousand at the end of 2016 compared to 436 thousand at the end of the previous year.

With regard to the distribution of labor force by divisions of economic activity at the end of 2016 (Table 7), “Community, Social & Personal Services” accounted for 46.4% of total labor force against 47% at the end of 2015, followed by “Trade, Restaurants & Hotels” (18.3%) against 18.7% at the end of 2015 and “Construction” (14.6%) against 14.2% at the end of 2015. Meanwhile, data on the relative distribution of Kuwaiti labor force by divisions of economic activity at the end of 2016 indicate that Kuwaiti labor force was also concentrated in activities associated with “Community, Social & Personal Services” (77.8%), followed by “Finance, Insurance, Real Estate & Business Services” (5.7%) and “Trade, Restaurants & Hotels” (4.8%).

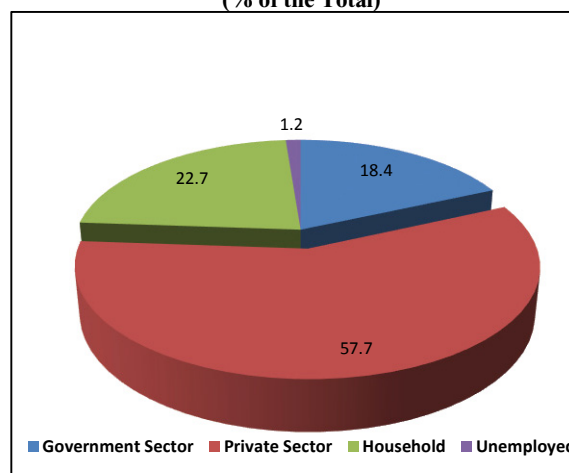
**Table (7)**  
**Distribution of Labor Force by Divisions of Economic Activity (%)**  
(End of Period)

Divisions of Economic Activity	2014			2015			2016		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
Agriculture & Fishing	0.2	2.4	2.1	0.2	2.9	2.4	0.2	2.7	2.3
Mining & Quarrying	1.4	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing Industries	2.2	6.6	5.9	1.4	6.4	5.6	1.2	6.4	5.6
Electricity, Gas & Water	3.5	0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Construction	5.5	15.7	13.9	5.2	16.0	14.2	4.7	16.5	14.6
Trade, Restaurants & Hotels	5.8	21.5	18.8	5.7	21.4	18.7	4.8	20.9	18.3
Transport, Storage & Communications	2.0	3.3	3.1	1.0	3.0	2.6	0.9	2.9	2.6
Finance, Insurance, Real Estate & Business Services	6.5	6.4	6.4	5.9	6.5	6.4	5.7	6.9	6.7
Community, Social & Personal Services	68.0	40.1	44.8	77.2	40.8	47.0	77.8	40.2	46.4
Unspecified	5.0	3.8	4.0	3.3	2.9	3.0	4.6	3.4	3.6
<b>Total</b>	100	100	100	100	100	100	100	100	100

Source: Public Authority for Civil Information.

With respect to the distribution of labor force by sectors: government, private, household and unemployed, data in Table (8) and Chart (8) indicate that labor force in the private sector increased by 5.3% during 2016, resulting in a slight increase in its relative share to total labor force (94.4% for non-Kuwaitis and 5.6% for Kuwaitis) from 57.6% at the end of 2015 to 57.7% at the end of 2016.

**Chart (8)**  
**Relative Structure of Labor Force in 2016**  
(% of the Total)



Source: Public Authority for Civil Information.

Growth rate of labor force in the government sector reached 5% during 2016 compared with the previous year, causing its relative share to total labor force (69.3% for Kuwaitis and 30.7% for non-Kuwaitis) to remain stable at 18.4% at the end of 2016. Conversely, unemployed population increased

by 14.2% at the end of 2016 compared with the end of the previous year, causing a slight increase of 1.2% in its relative share to total labor force (44% for non- Kuwaitis and 56% for Kuwaitis) at the end of 2016 compared to 1.1% at the end of the previous year.

**Table (8)**  
**Relative Distribution of Labor Force by Nationality and Sector (%)**  
(End of Period)

Sector	2014	2015	2016
<b>Government Sector</b>	<b>18.5</b>	<b>18.4</b>	<b>18.4</b>
Kuwaiti	13.0	12.9	12.7
Non-Kuwaiti	5.5	5.5	5.7
<b>Private Sector</b>	<b>56.8</b>	<b>57.6</b>	<b>57.7</b>
Kuwaiti	3.6	3.6	3.2
Non-Kuwaiti	53.2	54.0	54.5
<b>Household Sector</b>	<b>23.0</b>	<b>22.8</b>	<b>22.7</b>
Kuwaiti	0.0	0.0	0.0
Non-Kuwaiti	23.0	22.8	22.7
<b>Unemployed</b>	<b>1.7</b>	<b>1.1</b>	<b>1.2</b>
Kuwaiti	0.4	0.5	0.5
Non-Kuwaiti	1.2	0.7	0.7
<b>Total Labor Force</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Kuwaiti	17.2	16.9	16.5
Non-Kuwaiti	82.8	83.1	83.5

Source: Public Authority for Civil Information.



Monetary Developments and  
the Central Bank of Kuwait  
Activity

2010

## **Monetary Developments and the Central Bank of Kuwait Activity**

During 2016, CBK continued its efforts in the area of monetary policy, banking supervision and oversight programs in line with local economic developments on the one hand, and global market developments on the other. CBK's efforts are aimed at strengthening monetary and financial stability, providing supportive atmosphere of confidence in the national economy and stimulating economic growth.

Within the framework of CBK's keenness to establish the national currency's attractiveness as a store of domestic savings, which forms the main source of finance provided by local banking and financial sector units for various sectors of the national economy, the CBK increased its discount rate by 25 basis points to 2.50% at the end of 2016. This rise is intended to provide a favorable climate enabling various sectors of the national economy to overcome the current challenges associated with the drop in global oil prices.

Developments related to the KD exchange rate during 2016 reflect CBK's efforts towards maintaining relative stability of the KD exchange rate against other major currencies according to the KD exchange rate policy determined by Decree No. 147 of the year 2007 issued on 20 May 2007. This policy is based on pegging the KD exchange rate to a special weighted basket of currencies of major trade and financial partners of the State of Kuwait. Data indicate that the difference between the highest and lowest exchange rate of the USD against the KD during 2016 was 2.6%, while the exchange rate of the USD against other major currencies fluctuated within broader margins registering a difference of 22.0% against the Pound Sterling, 21.2% against the Japanese Yen, 10.9% against the Euro, and 8.0% against the Swiss Franc.

Data on main monetary and banking aggregates of the State of Kuwait show an acceleration in the growth rate of both Money Supply in its Broad Definition (M2) of 3.1% at the end of 2016, and resident private sector deposits with local banks of 2.8% at the end of 2016 compared with 2015. Furthermore, cash credit facilities extended by local banks to various economic sectors indicate a growth rate of 2.9% at the end of 2016.

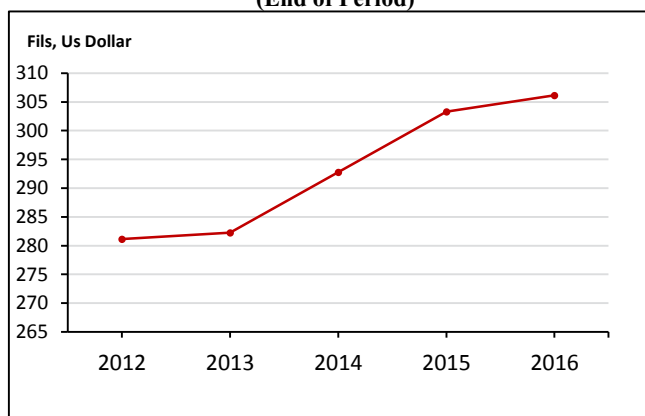
This part of the Economic Report highlights most notable developments in main monetary aggregates and indicators and in the area of banking oversight and supervision during 2016 as follows:

### 1- Developments in the KD Exchange Rate:

During 2016, the CBK continued the KD exchange rate policy adopted as of May 20, 2007 of pegging the KD exchange rate to a special weighted basket of currencies of countries that share significant trade and financial relations with the State of Kuwait. This policy contributes towards maintaining relative stability of the KD exchange rate against other currencies, strengthening CBK's ability to set and implement a monetary policy aimed at reducing imported inflationary pressures, particularly those resulting from fluctuations in the exchange rates of world major currencies, on one hand and provide a supportive atmosphere to promote sustainable economic growth on the other.

Regarding the changes in the USD exchange rate against the KD and some other major currencies at the end of 2016 compared with the end of the previous year (Table 9), a rise is noted in the USD exchange rate against the KD of 2.85 fils or 0.94%. The USD exchange rate recorded an increase of 21.31% against the Pound Sterling, 4.84% against the Euro, and 3.99% against the Swiss Franc, and a decrease of 2.24% against the Japanese Yen.

Chart (9)  
USD Exchange Rate Against the KD  
(End of Period)



Source: CBK

**Table (9)**  
**USD Exchange Rate against the KD and Some Major Currencies**  
**at the End of 2016 Compared with the Previous Year**

End Period	KD <sup>(1)</sup>	Euro	Japanese Yen	Swiss Franc	Pound Sterling
2015	303.30	0.911	120.33	0.988	0.671
2016	306.15	0.955	117.63	1.028	0.814
Change	2.85	0.04	-2.70	0.04	0.14
Rate of Change (%)	0.94	4.84	-2.24	3.99	21.31

<sup>(1)</sup> In fils.

Source: CBK.

Data indicate that the daily exchange rate of the USD against the KD and some other major currencies during 2016 were within relatively narrow margins, where the difference between the highest and lowest exchange rate of the USD against the KD reached 2.6%, while noticeable fluctuations occurred against other major currencies reaching 22.0% against the Pound Sterling, 21.2% against the Japanese Yen, 10.9% against the Euro, and 8.0% against the Swiss Franc (Table 10).

**Table (10)**  
**USD Exchange Rate against the KD and Some Major Currencies Based on Daily Data During 2016**

Item	High	Low	Difference	Change (%)
KD (fils)	306.2	298.3	7.9	2.6
Pound Sterling	0.822	0.674	0.15	22.0
Euro	0.961	0.867	0.09	10.9
Swiss Franc	1.029	0.953	0.08	8.0
Japanese Yen	121.2	100.0	21.2	21.2

Source: CBK.

## 2- Money Supply Developments:

Available data (Table 11, Chart 10) indicate an accelerated pace of growth in domestic liquidity levels during 2016. Money supply in its Broad Definition (M2) grew to KD 35,612.6 million at the end of 2016 realizing an increase of KD 1,072.0.5 million or 3.1%, after a rise of KD 567.9 million or 1.7% at the end of 2015.

**Table (11)**  
**Developments in Money Supply Aggregates**  
(KD Million)

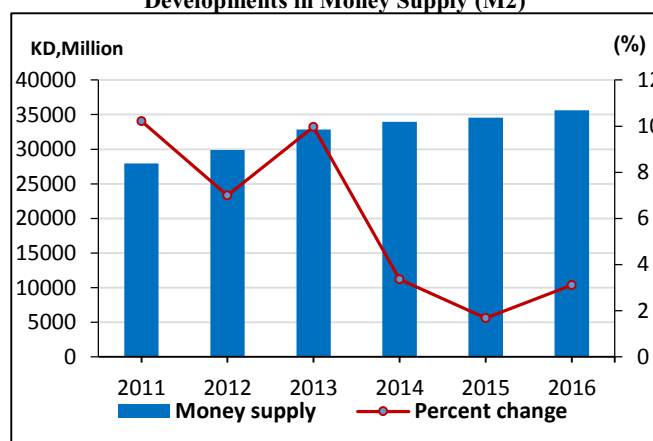
Items	2015	2016	Change at the end of 2016 against the previous year	
			Value	(%)
<b>Money (M1)</b>	<b>9,392.4</b>	<b>9,589.1</b>	<b>196.6</b>	<b>2.1</b>
Of which Currency in Circulation	1,496.5	1,645.6	149.1	10.0
<b>Quasi-Money</b>	<b>25,148.1</b>	<b>26,023.5</b>	<b>875.4</b>	<b>3.5</b>
KD Deposits (excluding sight deposits)	21,557.3	23,101.4	1,544.1	7.2
Foreign Currency Deposits	3,590.8	2,922.1	-668.7	-18.6
<b>Money Supply (M2)</b>	<b>34,540.6</b>	<b>35,612.6</b>	<b>1,072.0</b>	<b>3.1</b>
Deposits with Investment Companies <sup>(1)</sup>	35.5	6.1	-29.4	-82.7
<b>Money Supply (M3)</b>	<b>34,576.1</b>	<b>35,618.6</b>	<b>1,042.6</b>	<b>3.0</b>

(1) Companies that accept deposits in accordance with their articles of association.

Source: CBK.

The mentioned growth in Money Supply in its Broad Definition (M2) during 2016 was an outcome of the increase in Quasi-Money of KD 875.4 million or 3.5% and Money in its Narrow Definition (M1) of KD 196.6 million or 2.1%.

**Chart (10)**  
**Developments in Money Supply (M2)**



Source: CBK.

The increase in Quasi-Money during 2016 was the result of the rise in resident private sector KD deposits (excluding sight deposits) with local banks by the equivalent of KD 1,544.1 million or 7.2%, and the decline in resident private sector foreign-currency deposits with local banks by the equivalent of KD 668.7 million or 18.6% (Table 12).

**Table (12)**  
**Private Sector Deposits with Local Banks at the end of 2016**  
(Value in KD Million, End of Period)

Item	2015	2016	Change at the end of 2016 against the end of the previous year	
			Value	(%)
<b>KD Deposits</b>	<b>29,453.3</b>	<b>31,044.8</b>	<b>1,591.5</b>	<b>5.4</b>
Sight	7,896.0	7,943.5	47.5	0.6
Savings	4,615.0	4,652.8	37.8	0.8
Time	16,942.3	18,448.6	1,506.3	8.9
CDs	-	-	-	-
<b>Foreign Currency Deposits</b>	<b>3,590.8</b>	<b>2,922.1</b>	<b>-668.7</b>	<b>-18.6</b>
<b>Total</b>	<b>33,044.1</b>	<b>33,967.0</b>	<b>922.9</b>	<b>2.8</b>

Source: CBK.

Within the aggregate monetary position of the CBK and local banks during 2016, data related to the factors affecting the changes in Money Supply – the factors affecting changes in the elements of net domestic assets and net foreign assets of the mentioned entities (Tables 13 and 14) – indicate that the mentioned increase in Money Supply (M2) during 2016 reflected the rise in net foreign assets of those entities of KD 1,362.7 million i.e. 8.7% on the one hand, and the decrease in net domestic assets thereof of KD 290.7 million i.e. 1.5% on the other.

The above mentioned increase in net domestic assets of the CBK and local banks is mainly driven by net domestic assets under the “other” item and government deposits and accounts of KD 1,953.2 million or 17.4% and of KD 924.1 million or 13.7% respectively at the end of 2016, compared with the previous year (which causes a contractionary effect on the growth of Money Supply (M2)). The mentioned growth is higher than the growth in local banks’ claims on the government and the private sector which rose by KD 1,687.7 million or 106.8%<sup>3</sup>, and KD 898.9 million or 2.5% respectively compared with the previous year (which causes an expansionary effect on the growth of Money Supply (M2)).

<sup>3</sup> Including Tawarruq operations on public debt starting from April 2016.

**Table (13)**  
**Factors Affecting Changes in Money Supply (M2)**  
(KD million)

Particulars	2015	2016	Change		Contribution to Money Supply Growth (%) <sup>(1)</sup>
			Value	(%)	
<b>Money Supply (M2)</b>	<b>34,540.6</b>	<b>35,612.6</b>	<b>1,072.0</b>	<b>3.1</b>	<b>3.1</b>
<b>Net Domestic Assets:</b>	<b>18,907.2</b>	<b>18,616.4</b>	<b>-290.7</b>	<b>-1.5</b>	<b>-0.8</b>
Claims on the Government <sup>(2)</sup>	1,579.6	3,267.3	1,687.7	106.8	4.9
Claims on the Private Sector	35,302.3	36,201.2	898.9	2.5	2.6
Government Deposits and Accounts	6,732.8	7,656.2	924.1	13.7	-2.7
Other Items (net)	11,241.9	13,195.1	1,953.2	17.4	-5.7
<b>Net Foreign Assets:</b>	<b>15,633.4</b>	<b>16,996.1</b>	<b>1,362.7</b>	<b>8.7</b>	<b>3.9</b>
CBK	7,774.7	8,692.7	918.0	11.8	2.7
Local Banks	7,858.7	8,303.4	444.7	5.7	1.3

<sup>(1)</sup> Negative sign indicates a deflationary effect on Money Supply (M2), while a positive sign indicates an expansionary effect on Money Supply (M2).

<sup>(2)</sup> Including public debt on related Tawarruq starting from April 2016. Tawarruq of local banks' public debt instruments does not include the returns thereon. It also does not include government Tawarruq for more than a year acquired by Islamic banks.

Source: CBK.

The mentioned rise in CBK's and local banks' net foreign assets (Table 14) was an outcome of the increase in CBK's net foreign assets by the equivalent of KD 918.0 million or 11.8%, and the rise in net foreign assets of local banks by the equivalent of KD 444.7 million or 5.7%.

The mentioned rise in CBK's net foreign assets was an outcome of the increase in total foreign assets (by the equivalent of KD 1,089.9 million or 14.0%) and total foreign liabilities (by the equivalent of KD 171.9 million or 691.3%). In contrast, the rise in net foreign assets of local banks was a result of the increase in its total foreign assets (by the equivalent of KD 116.1 million or 0.9%), and the decline in its total foreign liabilities (by the equivalent of KD 328.6 million or 7.0%).

**Table (14)**  
**Net Foreign Assets of CBK and Local Banks**  
(KD million)

Particulars	End of 2015			End of 2016			Change	
	Foreign Assets	Foreign Liabilities	Net	Foreign Assets	Foreign Liabilities	Net	Value	(%)
CBK	7,799.5	24.9	7,774.6	8,889.5	196.8	8,692.7	918.0	11.8
Local Banks	12,551.5	4,692.8	7,858.7	12,667.7	4,364.2	8,303.5	444.7	5.7
<b>Total</b>	<b>20,351.0</b>	<b>4,717.7</b>	<b>15,633.3</b>	<b>21,557.1</b>	<b>4,561.0</b>	<b>16,996.1</b>	<b>1,362.7</b>	<b>8.7</b>

Source: CBK.

### **3- Developments in Banking Credit:**

Data (Table 15) indicate an increase in the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors of KD 972.7 million or 2.9% to KD 34,307.9 million at the end of 2016 against KD 33,335.2 million at the end of 2015, after recording a rise of KD 2,598.7 million or 8.5%.

The utilized cash portion of personal facilities accounted for 42.1% of total credit facilities. Data on Personal Facilities indicate a rise in installment loans of KD 746.3 million or 8.0% on the one hand, and a decline in purchase of securities of KD 233.3 million or 7.5%, and consumer loans of KD 47.0 million or 3.9 % on the other. Personal Facilities was KD 14,437.9 million which accounted for 49.0% of the increase in total credit facilities at the end of 2016.

The remaining increase in credit facilities resulted from the rise in credit extended to the Crude Oil and Gas sector of KD 411.4 million or 63.4%, 'Other' sector of KD 197.5 million or 9.3%, Non-Bank Financial Institutions sector of KD 140.7 million or 10.5%, Construction sector of KD 140.0 million or 7.2%, Trade sector of KD 32.5 million or 1.0%, and Public Services sector of KD 12.1 million or 11.9% on the one hand, and the decrease in credit extended to Real-Estate sector of KD 290.1 million or 3.6%, Industry sector of KD 146.7 million or 7.2%, and Agriculture and Fisheries sector of KD 1.5 million or 10.6% on the other hand.

**Table (15)**  
**Developments of Balances of Utilized**  
**Domestic Cash Credit Facilities**  
(KD Million)

Sector	Year-End Balance		Change in 2016 from 2015	
	2015	2016	Value	Change (%)
Trade	3,114.8	3,147.3	32.5	1.0
Industry	2,035.8	1,889.0	-146.7	-7.2
Construction	1,953.3	2,093.3	140.0	7.2
Agriculture & Fisheries	14.4	12.9	-1.5	-10.6
Non-Bank Financial Institutions	1,342.4	1,483.1	140.7	10.5
Personal Facilities:	<u>13,960.9</u>	<u>14,437.9</u>	<u>477.0</u>	<u>3.4</u>
- Consumer Loans	1,195.2	1,148.2	-47.0	-3.9
- Installment Loans	9,339.4	10,085.8	746.3	8.0
- Purchase of Securities	3,115.4	2,882.1	-233.3	-7.5
- Others	310.9	321.9	11.0	3.5
Real Estate	8,048.8	7,758.7	-290.1	-3.6
Crude Oil & Gas	649.2	1,060.6	411.4	63.4
Public Services	101.7	113.8	12.1	11.9
Other	2,113.9	2,311.4	197.5	9.3
<b>Total</b>	<b>33,335.2</b>	<b>34,307.9</b>	<b>972.7</b>	<b>2.9</b>

Source: CBK.

On another front, available data (Table 16) on new KD credit facility agreements with residents during 2016 indicate the level of bank credit demand during the mentioned year. These facilities encompass the limits of credit facilities extended to new clients, as well as the renewal and/or change in the limits of credit facilities extended to existing clients. Available data indicate that the value of these agreements increased by KD 2,368.4 million or 11.6% to reach KD 22,729.2 million at the end of 2016 compared to KD 20,360.8 million at the end of 2015.

This rise was due to the increase in the value of credit facility agreements with the Real-Estate sector of KD 918.0 million or 15.2%, Non-Bank Financial Institutions sector of KD 585.9 million or 49.6%, Industry sector of KD 561.6 million or 53.5%, Crude Oil and Gas sector of KD 501.8 million or 85.5%, Construction sector of KD 403.5 million or 40.4%, "Others" sector of KD 292.7 million or 22.8%, Trade sector of KD 99.5 million or 3.7%, and Agriculture and Fisheries sector of KD 3.1 million or 42.2% on the one hand, and the decrease in the value of credit facility

agreements with the Personal Facilities sector of KD 753.2 million or 12.1%, and Public Services sector of KD 244.5 million or 87.3% on the other.

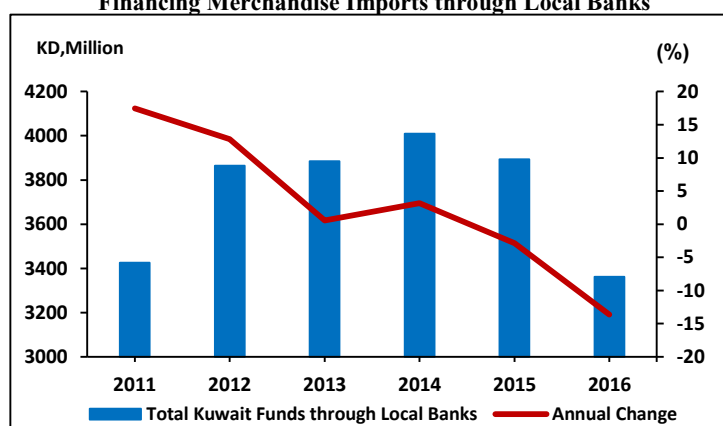
**Table (16)**  
**Developments of New KD Credit Facility Agreements with Residents**  
(KD Million)

Sector	Year-End Balance		Change in 2016 from 2015	
	2015	2016	Value	Change (%)
Trade	2,700.9	2,800.4	99.5	3.7
Industry	1,050.0	1,611.6	561.6	53.5
Construction	999.6	1,403.1	403.5	40.4
Agriculture & Fisheries	7.40	10.5	3.1	42.2
Non-Bank Financial Institutions	1,180.5	1,766.4	585.9	49.6
Personal Facilities:	<u>6,214.3</u>	<u>5,461.1</u>	<u>-753.2</u>	<u>-12.1</u>
- Consumer Loans	790.5	707.6	-82.9	-10.5
- Others	5,423.8	4,753.5	-670.3	-12.4
Real Estate	6,056.1	6,974.1	918.0	15.2
Crude Oil & Gas	586.9	1,088.7	501.8	85.5
Public Services	279.9	35.4	-244.5	-87.3
Other	1,285.3	1,578.0	292.7	22.8
<b>Total</b>	<b>20,360.8</b>	<b>22,729.2</b>	<b>2,368.4</b>	<b>11.6</b>

Source: CBK.

Data (Chart 11) on financing merchandise imports of Kuwaiti private sector indicate that the total payments made through local banks for financing these imports decreased by KD 531.2 million or 13.6% to reach KD 3,362.0 million during 2016 against KD 3,893.2 million during 2015.

**Chart (11)**  
**Financing Merchandise Imports through Local Banks**



Source: CBK

The mentioned decrease in the value of financing imports between the years 2015 and 2016 was an outcome of the decline in the value of imports financed in USD from KD 2,296.9 million to KD 1,811.6 million, Japanese Yen from KD 296.6 million to KD 121.6 million, Pound Sterling from KD 38.3 million to KD 29.1 million, and Swiss Franc from KD 4.2 million to KD 4.0 million on the one hand, and the increase in the value of imports financed in Euro from KD 284.8 million to KD 306.6 million and “other” currencies from KD 972.4 million to KD 1,089.2 million on the other hand during the same period.

Consequently, the relative share of payments in USD decreased from 59.0% to 53.9%, Japanese Yen from 7.6% to 3.6%, and Pound Sterling from 1.0% to 0.9%. Meanwhile, the relative share of payments in Euro increased from 7.3% to 9.1%, and “other” currencies from 25.0% to 32.4%, while the relative share of payments in Swiss Franc remained unchanged at 0.1% during 2016.

#### **4 - Developments in Domestic Interest Rates:**

Within the CBK follow-up to developments in local interest rates levels on KD and the trends in interest rates on major international currencies, CBK raised the Discount Rate by 0.25 percentage points on 15 December 2016 to 2.5% from its previous level of 2.25% set on 17 December 2015 which was CBK’s last change of the Discount Rate raising it by 25 basis points (Table 17).

CBK continued, during 2016, to apply the structure of the local interest rates in KD adopted since March 30, 2008 stipulating that the maximum limit of interest rates on KD consumer loans and installment loans (residential) should not exceed three percentage points on CBK’s Discount Rate. Installment loans (residential) are granted at fixed interest rates provided that the loan contract contains a clause stating that the lender shall review the applied interest rate every five years during the term of the loan, to insure that the applied interest rate at the time of revision is in line with CBK’s announced interest rate for this type of loans. The change in the interest rate should not exceed two percentage points above or below the interest rate applied by virtue of the loan contract before the change was made. As for other types of loans, the maximum annual interest rate on all types of commercial and other KD-lending transactions up to one year should not exceed two and a half percentage points above the Discount Rate. The maximum limit of annual interest rate on all

types of KD-lending transactions over one year should not exceed four percentage points above the Discount Rate.

**Table (17)**  
**Developments of the Local KD Interest Rates Structure**  
(Percent per Annum)

End of Period	Maximum Contractual Interest Rates on all forms of KD Lending Transactions			
	Discount Rate	Up to One Year	Over One Year	Consumer Loans
	Rate	Rate	Rate	
2012	2.00	4.5	6.00	5.00
2013	2.00	4.5	6.00	5.00
2014	2.00	4.5	6.00	5.00
2015	2.25	4.75	6.25	5.25
2016	2.50	5.0	6.5	5.5

Source: CBK.

Data on the average interest rates on KD-denominated customer time deposits with local banks during 2016, compared with 2015, point to a rise in the average rate of 0.250 percentage point for 1-month deposits from 0.619% to 0.868%, and 0.281 percentage point for 3-month deposits from 0.789% to 1.070%. On another front, average interest rates on USD time deposits with local banks for 1-month deposits increased from 0.154% to 0.278%, and 3-month deposits from 0.269% to 0.409%, between 2015 and 2016. Margins between the average interest rates on KD and USD customer deposits with local banks continued to be in favor of the KD and witnessed some rise at the end of 2016, compared to 2015 (Table 18). The margin reached 0.591 percentage point against 0.464 percentage point during the previous year for 1-month deposits, and 0.661 percentage point against 0.519 percentage point for 3-month deposits during the mentioned period. Moreover, average interest rates on local interbank KD deposits witnessed an increase for all terms during 2016 compared with their levels during 2015.

**Table (18)**  
**Interest Rates on Customer KD and USD Deposits with Local Banks**

Period	Average Interest Rates on Customer 1-Month Deposits (%)		Margin in Favor of KD	Average Interest Rates on Customer 3-Month Deposits (%)		Margin in Favor of KD
	KD	US \$		KD	US \$	
	2012	0.737		0.208	0.526	
2013	0.563	0.164	0.399	0.750	0.288	0.462
2014	0.594	0.155	0.439	0.781	0.275	0.506
2015	0.619	0.154	0.464	0.789	0.269	0.519
2016	0.868	0.278	0.591	1.070	0.409	0.661

Source: CBK.

As for the interest rates (revenue) on Public Debt Instruments (Kuwaiti Treasury Bills, Treasury Bonds and related Tawarruq) issued by CBK on behalf of the Ministry of Finance, the average interest rate (revenue) on 1-year Treasury Bonds increased by 1.50% during 2016 against 1.25% during 2015. Furthermore, the average interest rate (revenue) on 2-year Treasury Bonds increased by 1.875% during 2016 against 1.50% during 2015.

Regarding the average interest rates on CBK Bonds and related Tawarruq, the interest rate on 3-month maturity bonds increased to 1.042% during 2016 against 0.771% during 2015. Furthermore, interest rate on 6-month maturity bonds and related Tawarruq increased to 1.146% during 2016 against 0.898% during the previous year.

## 5- Issuance of Public Debt Instruments and CBK Bonds:

### A- Issuance of Public Debt Instruments:

CBK manages the issuance of public debt instruments<sup>4</sup> (Kuwaiti Treasury Bills, Treasury Bonds and related Tawarruq) on behalf of the Ministry of Finance. CBK floated 35 issues of Treasury Bonds with a nominal value of KD 2,950.0 million during 2016 (18 issues of 1-year maturity with a total nominal value of KD 1,500.0 million, 4 issues of 2-year maturity with a total nominal value of KD 400.0 million and 8 issues of 3-year maturity with a total nominal value of KD 750.0 million, 4 issues of 5-year maturity with a total nominal value of KD 250.0 million and 1 issue of 7-year maturity with a total nominal value of KD 50.0 million). During the same period, 26 previous issues matured with a total nominal value of KD 1,270.0 million (22 issues of 1-year maturity with a total nominal value of KD 1,100.0 million, 2 issues of 2-year maturity with a total nominal value of KD 100.0 million, 1 issue of 3-year maturity with a total nominal value of KD 50.0 million, and 1 issue of 5-year maturity with a total nominal value of KD 20.0 million). Accordingly, the outstanding balance of Treasury Bonds increased to KD 3,267.3 million at the end of 2016.

Regarding the distribution of the outstanding balances of public debt instruments held by different institutions at the end of 2016, data indicate that the increase witnessed in the total outstanding balances of public debt instruments is reflected in the rise in the balance of local banks' holdings of KD 1,687.7 million or 106.8% from KD 1,579.6 million at the end of 2015 to KD 3,267.3 million at the end of 2016, accounting for 100% of the total balance at the end of the mentioned year.

**Table (19)**  
**Developments of Public Debt Instruments**  
(KD Million)

Particulars	2014	2015	2016 <sup>(1)</sup>
<b>Issues:</b>	<b>1,210.0</b>	<b>1,250.0</b>	<b>2,950.0</b>
Treasury Bonds and Related Tawarruq	1,210.0	1,250.0	2,950.0
<b>Maturities:</b>	<b>1,150.0</b>	<b>1,250.0</b>	<b>1,270.0</b>
Treasury Bonds and Related Tawarruq	1,150.0	1,250.0	1,270.0
<b>Balances at Year End:</b>	<b>1,587.3</b>	<b>1,587.3</b>	<b>3,267.3</b>
Treasury Bonds and Related Tawarruq	1,587.3	1,587.3	3,267.3

<sup>(1)</sup> Including Tawarruq operations on public debt starting from April 2016.  
Source: CBK.

<sup>4</sup> Including Tawarruq operations on public debt starting from April 2016.

## B- Issuance of CBK Bonds and

### Related Tawarruq:

Within the framework of its efforts to manage domestic liquidity levels, CBK issues “CBK Bonds” with 3-month and 6-month maturities for purchase only by local banks and investment companies subject to its supervision. In this context, CBK offered 40 issues of bonds and related tawarruq during 2016 with a total nominal value of KD 8,405.0 million (28 issues of 3-month maturity with a total nominal value of KD 5,795.0 million, and 12 issues of 6-month maturity with a total nominal value of KD 2,610.0 million) (Table 20).

Table (20)  
Developments of CBK Bonds and Tawarruq  
(KD Million)

Particulars	2014	2015	2016
<b>Issues:</b>	<b>9,794.0</b>	<b>9,500.0</b>	<b>8,405.0</b>
3 Months	7,315.0	6,540.0	5,795.0
6 Months	2,479.0	2,960.0	2,610.0
<b>No. of Issues:</b>	<b>42</b>	<b>41</b>	<b>40</b>
3 Months	32	29	28
6 Months	10	12	12
<b>Maturities:</b>	<b>9,740.0</b>	<b>9,569.0</b>	<b>8,715.0</b>
3 Months	7,370.0	6,850.0	5,875.0
6 Months	2,370.0	2,719.0	2,840.0
<b>No. of Maturities</b>	<b>42</b>	<b>41</b>	<b>40</b>
3 Months	32	30	28
6 Months	10	11	12
<b>Balances at Year End:</b>	<b>3,064.0</b>	<b>2,995.0</b>	<b>2,685.0</b>
3 Months	1,825.0	1,515.0	1,435.0
6 Months	1,239.0	1,480.0	1,250.0

Source: CBK.

At the same time, 40 previous issues matured during 2016 with a total nominal value of KD 8,715.0 million (of which 28 issues of 3-month maturity with a total nominal value of KD 5,875.0 million, and 12 issues of 6-month maturity with a total nominal value of KD 2,840.0 million). As a result, the outstanding balance of CBK Bonds decreased to KD 2,685.0 million at the end of 2016 compared to KD 2,995.0 million at the end of the previous year.

In November 2016, CBK started issuing variable interest rate public debt bonds on behalf the Ministry of Finance, aimed at diversifying public debt instruments and market products, introducing new market instruments that can meet banks’ needs and demands, particularly long-term instruments, encouraging banks’ purchase of long-term instruments, and ensuring necessary funds for the government to face budget deficit.

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

Activity in the local interbank KD-deposit market slightly declined during 2016. The value of market transactions reached KD 94,988.9 million against KD 95,260.0 million during 2015, i.e. a decrease of KD 271.1 million or 0.3% (Table 21). Data indicate a decrease in the relative share of “over one night to one week” transactions to 49.9% during 2016 against 51.8% during 2015. Meanwhile the relative share of “over one week to one month” transactions increased to 6.6% against 5.3% during 2015, and the relative share of “over one month to three months” transactions to 1.8% compared to 1.1% during 2015.

**Table (21)**  
**Distribution of Transaction Values of the Interbank Deposit Market of Local Banks (\*)**  
**According to Maturity Periods**  
(KD million)

Maturity Period	2015		2016	
	Value	% of Total	Value	% of Total
Overnight	38,837.2	40.8	38,587.5	40.6
Over one night to one week	49,378.6	51.8	47,399.1	49.9
Over one week to one month	5,005.0	5.3	6,226.9	6.6
Over one month to three months	1,035.8	1.1	1,700.6	1.8
Over three months to six months	804.6	0.8	651.4	0.7
Over six months	198.9	0.2	423.3	0.4
<b>Total</b>	<b>95,260.0</b>	<b>100.0</b>	<b>94,988.9</b>	<b>100.0</b>

(\*) Excluding CBK operations.  
Source: CBK.

## 7- The Balances of Local Bank Accounts with CBK:

The balances of accounts of CBK and local banks highlight the net result of their interoperations. These operations result in CBK’s claims on local banks on one front, and local banks’ claims on CBK on the other, reflecting either a net KD liquidity supply by CBK to local banks if it is positive, or a net absorption by CBK of the KD liquidity surplus with local banks if it is negative (Table 22), all within CBK’s efforts to manage local liquidity levels.

Available data indicate that the balance of local banks' claims on CBK declined by KD 11.2 million or 0.2% at the end of 2016 to reach KD 4,684.6 million at the end of the year against KD 4,695.8 million at the end of 2015. This decline was the outcome of the decrease in the balances of local banks' time deposits and related Tawarruq with CBK of KD 1,516.9 million or 68.4% on the one hand, and the increase in the balances of local banks' holdings of CBK Bonds and related Tawarruq of KD 1,166.8 million or 62.2% and the balances of demand deposits of local banks with CBK of KD 339.0 million or 56.2% on the other. No CBK claims on local banks were recorded at the end of 2016. In view of these developments, local banks' net claims on CBK declined by KD 11.2 million or 2.0% at the end of 2016 below its previous recorded level.

**Table (22)**  
**Trends in Development of KD Balances of CBK with Local Banks**  
(KD Million)

End of Period	Local Banks Claims on CBK				CBK Claims on Local Banks				Net Balance
	On Demand Deposits	CBK Bonds and Tawarruq	Time Deposits with CBK and Tawarruq	Total	Currency Swaps	Discount and Re-discount	Deposits and Current Accounts with Local Banks	Total	
2014	420.3	1,925.0	3,432.7	5,778.0	-	-	-	-	-5,778.0
2015	602.9	1,875.0	2,217.9	4,695.8	-	-	-	-	-4,695.8
2016	941.9	3,041.8	701.0	4,684.6	-	-	-	-	-4,684.6

Source: CBK.

### 8- Activity of CBK Clearing Room:

Presented data (Table 23) indicate that the number of clearing transactions of cheques drawn on the accounts of local banks' customers, through the clearing room at CBK, increased by 120.3 thousand transactions or 5.0% to a total of 2,624.8 thousand transactions during 2016 amounting to KD 14,087.0 million against 2,504.5 thousand transactions amounting to KD 13,251.1 million during 2015. The total value of clearing transactions during 2016 increased by KD 835.8 million or 6.3% from its level during 2015. Consequently, the average value per transaction (average value of cheque) increased by KD 76 or 1.4% to KD 5,366.9 during 2016 against KD 5,290.9 during 2015.

Data also indicate that the value of local interbank settlement transactions, by means of credit and debit advices through Kuwait's Automated Settlement System for Inter-Participant Payments (KASSIP), declined by KD 1.8 billion or 0.6% to KD 299.9 billion during 2016 against KD 301.8 billion during 2015.

**Table (23)**  
Clearing Transactions and Settlements among Local Banks

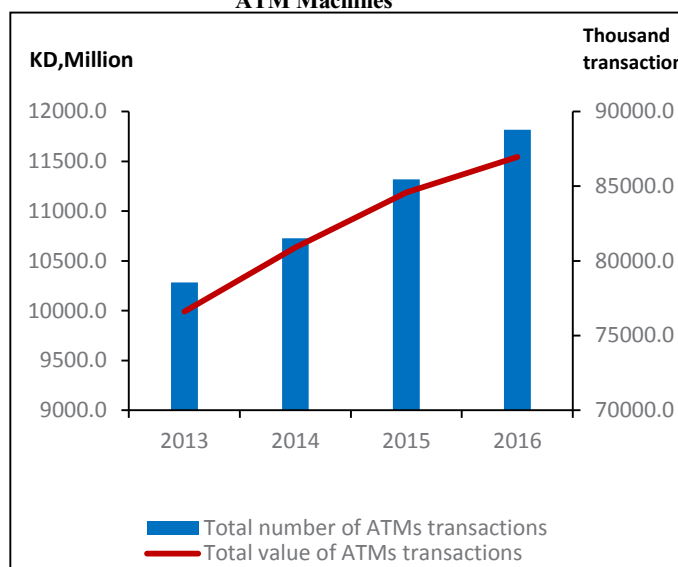
Period	Checks			Local Interbank Settlement Transactions (KD Million)
	Total Value (KD million)	Number of Transactions (Thousand Transactions)	Average Transaction Value (KD million)	
2013	12,973.0	2,334.9	5,556.1	197,475.8
2014	13,512.2	2,411.2	5,604.0	273,448.7
2015	13,251.1	2,504.5	5,290.0	301,795.8
2016	14,087.0	2,624.8	5,366.9	299,961.8

Source: CBK.

### 9- Transactions Using Plastic Cards:

Available data on plastic card transactions (including credit and debit cards issued by local banks and foreign banks that are being used locally) indicate an increase in the total value of Automatic Teller Machine (ATM) transactions in the State of Kuwait and abroad by 3.2% to reach KD 11,542.4 million (on 89 million transactions) during 2016 against KD 11,185.2 million (on 85 million transactions) during 2015.

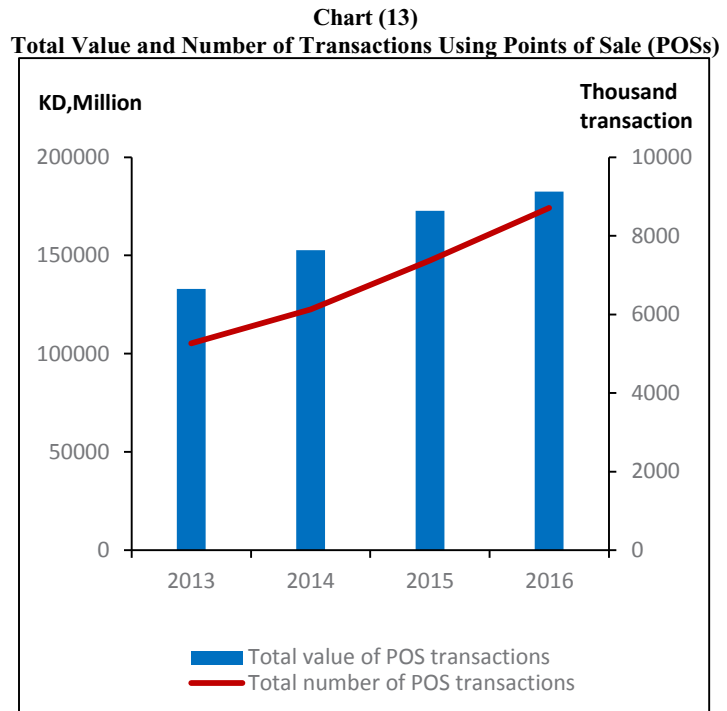
**Chart (12)**  
Total Value and Number of Transactions Using ATM Machines



Source: CBK

Total value of ATM transactions in the State of Kuwait amounted to KD 11,113.5 million (85 million transactions) during 2016 against KD 10,776.1 million (82 million transactions) during the previous year, i.e. a rise of 3.1%.

Furthermore, total value of Points of Sale (POSs) transactions in the State of Kuwait and abroad increased by KD 483.5 million or 5.6% reaching KD 9,122.8 million (distributed over 174 million transactions) during 2016 against KD 8,639.3 million (distributed over 147 million transactions) during the previous year.



Source: CBK

Moreover, total value of POS transactions in the State of Kuwait amounted to KD 8,271.3 million (distributed over 159 million transactions) during 2016 against KD 7,839.4 million (distributed over 135 million transactions) during the previous year, i.e. a rise of 5.5%.

Data on the number of payment devices used in the State of Kuwait, which include POS machines and ATMs, indicate an increase in the number of POS machines to reach 46513 at the end of 2016 against 43322 at the end of 2015, i.e. a rise of 7%. Data also indicate an increase in the number of ATMs of 17% to reach 1991 at the end of 2016 against 1708 at the end of the previous year.

### **10- Developments in Banking Oversight and Supervision:**

The most significant accomplishments made by CBK in terms of developing supervision and control systems and rules during 2016, including key instructions, circulars and controls issued for the banking and financial units under its supervision as well as other activities, are:

**First: major instructions, circulars and regulations issued by the CBK for banking and financial units under its supervision:**

- 1) In accordance with the global developments in the banking supervision field and implementing the best practices in this field, within the framework of completing Basel III reform package, and following CBK’s 2 circulars issued on 23 December 2014 for conventional and Islamic banks regarding the application of Liquidity Coverage Ratio (LCR), also due to the fact that the transitional period of the pilot application has ended (in 2015) CBK’s Board of Directors, in its meeting held on 2<sup>nd</sup> February 2016, decided to apply the Liquidity Coverage Ratio according to the following schedule:

<b>Year</b>	<b>Beginning of March 2016</b>	<b>Beginning of 2017</b>	<b>Beginning of 2018</b>	<b>Beginning of 2019</b>
<b>Minimum</b>	70%	80%	90%	100%

The application of this ratio aims at strengthening banks’ ability to manage liquidity risks in the short-term, and ensuring the availability of sufficient high-quality liquid assets, i.e. banks’ resilience to a stress scenario for 30 days.

- 2) As for the basis of calculating regulatory liquidity ratios (18% of deposits in KD) of local Islamic banks, and in view of CBK instructions regarding the application of Liquidity Coverage Ratio and Net Stable Funding Ratio by depositing from the banks as non-stable deposits, in addition to the availability of alternative Islamic instruments qualified for calculation in accordance to the mentioned liquidity ratio either by instruments issued for calculation by CBK or on behalf of the Ministry of Finance, CBK’s Board decided, on 15 March 2016, to eliminate “Short-Term International Murabaha with Banks and Financial Institutions” of liquid assets qualified for calculating liquidity regulation Ratio of Islamic banks (18%) in accordance with the mentioned instructions.
- 3) Within the framework of CBK’s continuous efforts towards revising and developing instructions and controls of banking in line with the international control standards and the best practices in the regulatory and supervisory field, CBK’s Board of Directors decided, on 15 March 2016, to make amendments to the instructions regarding the maximum limit of funding, issued on 8 May 2012, so that the maximum limit of funding is 90% of the total funding sources determined by these instructions without applying varying rates according

to maturity periods. In addition, banks' deposits have been eliminated from the funding sources to calculate the maximum limit of funding.

Introducing these amendments in light of the banking developments during this period, such as applying the Basel III standards and the accompanying considerations that necessitated these amendments. The elimination of bank deposits from the sources of funding, which is the base of calculating the maximum limit of funding, taking into consideration the changing nature of these deposits and its effect on their stability. This is in line with the recommendations of the International Monetary Fund (IMF) for eliminating bank deposits from these funding sources in light of the short-term nature and the instability of these deposits.

This amendment is also consistent with the Stable Net Funding standard that has been approved by CBK's Board of Directors, on 25 October 2015, aiming to guide banks in strengthening their stable funding sources.

- 4) CBK's circular issued 7 August 2013 regarding assigning an audit office to audit all consumer and installment loans given by banks and investment companies every quarter according to the terms of reference attached to the circular issued 16 July 2012 in this regard. In light of the follow-up reports presented by the audit offices on local banks in this regard, stressing the need to develop the terms of reference for the auditor in-charge, CBK issued a circular on 18 October 2016 to all banks, investment companies and finance companies with the attached terms of reference amending the continuous audit assignments of all consumer and installment loans given in every quarter.

The aim of this assignment is to ensure that all local banks, investment companies and finance companies fully comply with CBK's issued instructions regarding the basis and rules of granting consumer and installment loans and its amendments by assigning this task to one of the major audit offices.

- 5) Within the framework of CBK’s continuous efforts to promote Islamic banking activities in the State of Kuwait and develop sharia-complaint supervisory instructions in Islamic banks along with the best practices in this regard, CBK decided, on 20 December 2016, to issue instructions on “Governance of Sharia Supervision for Kuwaiti Islamic Banks” replacing the CBK’s instructions issued on 15 June 2003 and 19 June 2003 regarding rules and conditions of hiring and the jurisdictions of Sharia Supervisory Board on Islamic banks, and complementing the governance instructions, rules and regulations on Kuwaiti banks issued in June 2012 in terms of Islamic banks’ activities.

These instructions were issued in light of major developments in the Islamic banking industry, and developments in the Islamic banking sector in the State of Kuwait in terms of size and quality of its operations since the issuance of the aforesaid CBK’s instructions in June 2003. This emphasizes the importance of sharia governance of all Islamic banks and the banking sector as whole, as one of the major pillars of financial stability.

Noting that the guidelines of the Islamic Financial Services Board (IFSB) as stipulate in the “Guiding Principles of Sharia Governance Control Systems for Institutions Offering Financial Islamic Services” published in December 2009, the governance standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Central Banks of some Arabic and Islamic countries have been beneficial in this respect.

**Second: other activities:**

- 1) Within the framework of CBK’s efforts towards protecting the rights of the client’s entities under its supervision, including complaints and grievances about offered transactions or services, explaining the methods and mechanisms of the complaint process and the deadline for those entities responses; including the regulatory procedures of filing a complaint, and in order to achieve transparency and educate the clients of entities under its supervision of such rights, CBK issued, on 1 September 2016, an awareness announcement explaining the methods and procedures that should be followed by the clients when filing a complaint against an entity before submitting it to the CBK.

The indicative announcement included a clarification of the mechanism of filing a complaint in banks, investment companies, and finance companies and the steps to be taken. First of all, submitting a written complaint against these entities using the complaint form available in all branches. After the entity complained against receives the complaint, it should - according to the instructions issued in this regard - submit a written reply within 30 working days from the date of submission and provide an explanation on the content of the reply whether it is a correcting or fixing what is in the complaint or making sure of the safety procedure followed for the transaction instead of the complaint. In case the client is not satisfied with the reply issued by the entity complained against, then grievance note can be submitted to the CBK including a copy of the entity's reply and relevant documents.

In case the entity complained against failed to reply within the mentioned period or provide a "complaint form", or in case there was a complaint against one of the exchange companies under CBK's supervision, the client should personally file a complaint using the forms available at the front desk in CBK's main building.

- 2) Within the framework of CBK's keenness on developing employee capabilities in the sectors under its supervision and achieving full awareness regarding their supervisory requirements, CBK organized for the second year in a row a workshop titled "Anti-Money Laundering and Financing Terrorism" for the supervisors and employees working in all local banks and exchange companies in Kuwait during 23-30 March 2016.

The workshop discussed the concept of anti-money laundering and financing terrorism, and the requirements in this regard, in accordance with the recommendations of the Financial Action Task Force (FATF) and the ministerial law and decisions applicable in Kuwait, and the instructions issued by CBK. The requirements described in the instructions issued on 23 July 2013 were also discussed regarding anti-money laundering and financing terrorism, as well as the requirements of the Ministerial Law no. (5) of the year 2014 regarding the executive regulations issued in terms of applying the Security Council's decisions issued in accordance with the seventh chapter of the Charter of the United Nations (UN) relating to terrorism and financing terrorism, in addition to the supervisory guidelines issued by the Security Council Resolution's implementation committee – Ministry of Foreign Affairs in this regard.

This program was presented among periodic workshops by CBK within its effort to assess its supervisory role, and achieve the required commitment from banks and exchange companies regarding the requirements of the issued instructions and achieving full awareness of the supervisory requirements by these units.

- 3) On another front, and within CBK's continuous efforts towards strengthening financial stability, introducing various factors that might create shocks effecting stability factors, determining appropriate guidelines to limit and deal with these risks, CBK hosted a seminar on " liquidity risks and recovery plans from default and insolvency for local banks with systemic effect" organized by the Financial Stability Institute affiliated with the Bank for International Settlements in Basel, in cooperation with the Secretariat General of the Gulf Cooperation Council (GCC) countries, during 3-5 May 2016, with the participation of representatives from central banks and monetary authorities of the GCC. Many experts participated in this seminar including the Financial Stability Institute, French Court of Cassation, Oesterreichische Nationalbank, McKinsey & Company, and Clifford Chance. Speakers from the CBK and Saudi Arabian Monetary Agency have also participated in the seminar.

The seminar was organized and hosted by the CBK as an annual workshop for the GCC and within its efforts to emphasize the supervisory role of GCC central banks and monetary authorities for keeping up with the international developments in this area.



Financial Indicators of  
The Banking and Financial  
System

2019

## Financial Indicators of the Banking and Financial System

This part of the Economic Report 2016 reviews key aggregate financial indicators of the banking and financial sector comprising local banks (conventional, specialized, and Islamic banks including Kuwaiti banks and foreign bank branches in the State of Kuwait), local investment companies (conventional/Islamic) and exchange companies, in order to identify developments in these indicators as well as their implications on the financial position of the sector's units.

The institutional structure of the local banking and financial system supervised by CBK comprised 142 registered units at the end of 2016, encompassing 23 local banks of which are 5 conventional banks, 5 Islamic banks, one specialized bank and 12 foreign bank branches, one of which is an Islamic Bank branch. It also includes 78 investment companies, 44 of which are

companies operating in accordance with the provisions of the Islamic Sharia, under the dual supervision of CBK and Capital Markets Authority (CMA), and two finance companies supervised by CBK, one of which is operating in accordance with the provisions of the Islamic Sharia. CBK is responsible only for the finance activity practiced by these companies plus 41 exchange companies. The supervisory responsibilities over investment funds and investment companies -excluding the finance activity- were transferred to the CMA in accordance with Law No. 7/2010 on the "Establishment of the Capital Markets Authority and the Regulation of the Activity of Securities", effective 13 September 2011.

### Aggregate Balance Sheet of Local Banks

The total number of local banks' onshore branches reached 409 at the end of 2016 against 401 at the end of the previous year. The number of local banks' offshore branches (16) as well as the number of offshore representative offices (4) witnessed no change during 2016.

**Table (24)**  
**Developments in the Banking System Structure**  
**Local Banks**

End of period	No. of head Offices	No. of local Branches	No. of External Branches	No. of Representative Offices	Total Branches/ Representative offices
2014	23	419	16	4	439
2015	23	401	16	4	421
2016	23	409	16	4	429

Source: CBK.

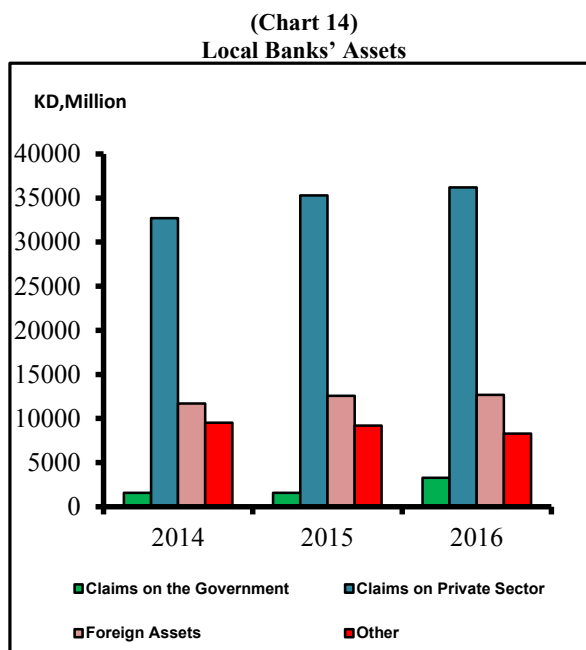
The aggregate balance sheet of local banks (excluding offshore branches and subsidiaries) amounted to KD 60,442.9 million at the end of 2016 against KD 58,612.5 million at the end of the previous year, realizing a growth of KD 1,830.4 million or 3.1% during 2016, compared with a growth of KD 3,160.2 million or 5.7% during 2015.

In order to identify the most significant changes in the main elements of the aggregate balance sheet of local banks as at the end of 2016 - as shown in Tables (25, 25-A & 25-B) - compared with the previous year, the noteworthy factors and developments in terms of some key elements of the balance sheet as at the end of 2015 and 2016, are indicated as follows:

### First- Domestic Assets:

The assets side in the aggregate balance sheet of banks represents “uses of funds” which are basically concentrated in the area of lending as well as financial/non-financial investments, local and international. Following are the major developments in the aggregate balance sheet of local banks:

**1- Claims on the Private Sector:** Local banks’ claims on the private sector grew by KD 898.9 million or 2.5% reaching KD 36,201.2 million at the end of 2016 compared to KD 35,302.3 million at the end of the previous year. This increase was an outcome of the growth in the utilized cash portion of credit facilities extended to residents of KD 972.2 million or 2.9% on the one hand, and the decline in other domestic investments of KD 73.3 million or 3.7% on the other.



Source: CBK

**2- Claims on the Government:** These claims are banks' share of public debt instruments. The outstanding balance of local banks' claims on the government witnessed a notable growth reaching KD 3,286.9 million at the end of 2016 against KD 1,579.6 million at the end of the previous year, recording an increase of KD 1,707.3 million or 108.1%. This significant increase was a result of banks' participation in financing the budget deficit through new issues of domestic borrowing since the beginning of April 2016. It is worth mentioning that banks' holdings of public debt instruments (bonds and related tawarruq) are considered high quality liquid assets (HQLA) under the instructions of CBK.

**3- Claims on CBK:** These claims consist of cash and cash balances, sight deposits, time deposits and holdings of CBK Bonds. The outstanding balance of these claims decreased by KD 74.5 million or 1.5% during 2016, from KD 4,995.9 million at the end of 2015 to KD 4,921.4 million at the end of 2016.

**Table (25)**  
**Aggregate Balance Sheet of Local Banks (Assets)\***

Items	Balances at year end (KD, Million)		Change	
	2015	2016	Value	(%)
<b>Claims on CBK, of which:</b>	<b><u>4,995.9</u></b>	<b><u>4,921.4</u></b>	<b><u>-74.5</u></b>	<b><u>-1.5</u></b>
Time Deposits with CBK	2,217.9	701.0	-1,516.9	-68.4
Sight Deposits	601.8	927.4	325.6	54.1
CBK Bonds	1,875.0	3,041.8	1,166.8	62.2
<b>Local Interbank Deposits</b>	<b>2,600.2</b>	<b>1,455.6</b>	<b>-1,144.6</b>	<b>-44.0</b>
<b>Claims on the Government:</b>	<b><u>1,579.6</u></b>	<b><u>3,286.9</u></b>	<b><u>1,707.3</u></b>	<b><u>108.1</u></b>
Treasury Bonds	1,579.6	3,286.9	1,707.3	108.1
Treasury Bills	0.0	0.0	0.0	0.0
<b>Claims on the Private Sector:</b>	<b><u>35,302.3</u></b>	<b><u>36,201.2</u></b>	<b><u>898.9</u></b>	<b><u>2.5</u></b>
Credit Facilities to Residents	33,335.2	34,307.4	972.2	2.9
Other Local Investments	1,967.1	1,893.8	-73.3	-3.7
<b>Foreign Assets, of which:</b>	<b><u>12,551.5</u></b>	<b><u>12,667.7</u></b>	<b><u>116.1</u></b>	<b><u>0.9</u></b>
Deposits with Foreign Banks	6,794.3	6,442.9	-351.4	-5.2
Foreign Investments	3,780.7	3,904.2	123.6	3.3
KD Credit Facilities to Non-Residents	190.6	192.5	1.9	1.0
Foreign Currency Facilities to Non-Residents	1,178.4	1,495.1	316.7	26.9
<b>Other Assets</b>	<b>1,582.0</b>	<b>1,910.1</b>	<b>328.2</b>	<b>20.6</b>
<b>Assets</b>	<b><u>58,611.5</u></b>	<b><u>60,442.9</u></b>	<b><u>1,831.4</u></b>	<b><u>3.1</u></b>
<b>Number of Banks</b>	<b>23</b>	<b>23</b>		

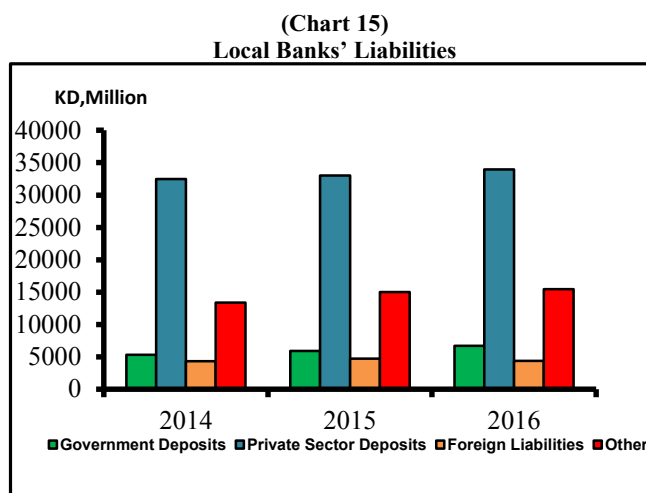
\* Data on offshore branches and subsidiaries is not included.  
Source: CBK.

### **Second- Domestic Liabilities:**

Liabilities in the aggregate balance sheet of local banks contain primary sources of finance through which money resources for banks are generated. Private sector (resident) deposits are the main source of local banks' funds and thus a dominating factor in the structure of banks' liabilities. Following is an analysis of developments in the elements of liabilities within local banks' aggregate balance sheet during the years 2015 and 2016:

**1- Private Sector (Resident) Deposits:** Private sector resident deposits with local banks increased to KD 33,967.0 million at the end of 2016 against KD 33,044.1 million at the end of the previous year, i.e. a growth of KD 922.9 million or 2.8%. This growth was the outcome of the increase in the KD deposits of KD 1,591.5 million or 5.4% on the one hand, and the decrease in the foreign currency deposits by the equivalent of KD 668.7 million or 18.6% on the other.

**2- Government Deposits:** Government deposits (ministries, government departments, public authorities and institutions with attached budgets and Kuwait Credit Bank) with local banks increased to KD 6,679.4 million at the end of 2016 compared to KD 5,879.0 million at the end of the previous year, i.e. a growth of KD 800.5 million or 13.6%.



Source: CBK

**Table (25-A)**  
**Aggregate Balance Sheet of Local Banks (Liabilities)\***

Items	Balances at year end (KD, Million)		Change	
	2015	2016	Value	(%)
<b>Private Sector Deposits:</b>	<b>33,044.1</b>	<b>33,967.0</b>	<b>922.9</b>	<b>2.8</b>
KD Deposits	29,453.3	31,044.8	1,591.5	5.4
Foreign Currency Deposits	3,590.8	2,922.1	-668.7	-18.6
<b>Government Deposits</b>	<b>5,879.0</b>	<b>6,679.4</b>	<b>800.5</b>	<b>13.6</b>
<b>Local Interbank Deposits</b>	<b>2,417.2</b>	<b>1,421.5</b>	<b>-995.7</b>	<b>-41.2</b>
<b>Shareholders' Equity</b>	<b>7,792.9</b>	<b>7,954.5</b>	<b>161.6</b>	<b>2.1</b>
<b>Foreign Liabilities: of which:</b>	<b>4,692.8</b>	<b>4,364.2</b>	<b>-328.6</b>	<b>-7.0</b>
Foreign Bank Deposits	2,786.5	2,167.6	-618.9	-22.2
Foreign Non-Bank Deposits	1,317.5	1,432.2	114.6	8.7
<b>Other Liabilities</b>	<b>4,785.7</b>	<b>6,056.4</b>	<b>1,270.7</b>	<b>26.6</b>
<b>Liabilities</b>	<b>58,611.5</b>	<b>60,442.9</b>	<b>1,831.4</b>	<b>3.1</b>
<b>Number of Banks</b>	<b>23</b>	<b>23</b>		

\* Data on offshore branches and subsidiaries not included.

Source: CBK.

**3- Shareholders' Equity:** Shareholders' equity in local banks, including paid-up capital, increased by KD 161.5 million or 2.1% from KD 7,792.9 million at the end of 2015 to KD 7,954.5 million at the end of 2016.

### **Third- Net Foreign Assets:**

Local banks carry out financial transactions with banking and financial units abroad as well as with other non-resident units and individuals, including all operations conducted in the area of money uses abroad (foreign investments and credits to non-residents), in addition to external finance operations (financial resources) represented in non-resident private sector's deposits. Notable developments in this regard can be highlighted as follows:

- (1) Foreign Assets:** Total foreign assets of local banks grew by KD 116.1 million or 0.9% during 2016 to reach KD 12,667.7 million at the end of that year compared to KD 12,551.5 million at the end of 2015. The foreign assets account for 21.0% of total assets at the end of 2016 compared to 21.4% at the end of the previous year.
- (2) Foreign Liabilities:** Total foreign liabilities of local banks decreased to KD 4,364.2 million at the end of 2016 against KD 4,692.8 million at the end of 2015, i.e. a decline of KD 328.6 million or 7.0%. Foreign liabilities account for 7.2% of total liabilities at the end of 2016 compared to 8.0% at the end of the previous year.
- (3) Net Foreign Assets:** As a result of the aforementioned developments in the total foreign assets and total foreign liabilities, net foreign assets of local banks increased by KD 444.7 million or 5.7% at the end of 2016 compared with the end of the previous year.

### **Fourth- Contra Accounts:**

Contra accounts are off-balance-sheet items (sometimes referred to as opposite accounts) on both assets and liabilities sides. On the assets side, they form contingent assets, i.e. assets that are unrealized in banks' or customers' accounts on the balance sheet date. These contingent assets may

become realized assets at a later date, if the relevant conditions are met. These accounts are offset on the liabilities side by banks' contingent liabilities to third parties which may, in turn, become realized liabilities once the relevant conditions are met.

Contra accounts are mainly non-cash payment facilities extended by local banks to clients. Various types of such facilities are grouped, off-balance-sheet, into three basic items: documentary credits (letters of credit), bank guarantees (letters of guarantee), and bank acceptances. According to Table (25-B) total contra accounts with local banks amounted to KD 15,451.7 million at the end of 2016 against KD 13,621.5 million at the end of the previous year, i.e. an increase of KD 1,830.2 million or 13.4%, accounting for 25.6% of the aggregate balance sheet of local banks at the end of 2016 against 23.2% at the end of 2015.

**Table (25-B)**  
**Aggregate Balance Sheet of Local Banks (Contra Accounts)\***

Items	Balances at year end (KD, Million)		Change	
	2015	2016	Value	(%)
<b>Contra Accounts</b>	<b><u>13,621.5</u></b>	<b><u>15,451.7</u></b>	<b>1,830.2</b>	<b>13.4</b>
Bank Guarantees	12,343.6	14,155.7	1,812.1	14.7
Documentary Credits	906.7	910.2	3.5	0.4
Bank Acceptances	371.3	385.9	14.6	3.9
<b>Number of Banks</b>	<b>23</b>	<b>23</b>		

\* Data on offshore branches and subsidiaries not included.  
Source: CBK.

### **Fifth- Financial Flows:**

The purpose of monitoring developments in the trend and value of financial flows, resulting from the movement of funds in local banks –whether in the context of domestic market operations or external transactions as shown in Table (26) – is to identify their reflections on the financial position of local banks at the end of 2016, and explain the interaction between the movement of funds in local banks' domestic operations as well as external transactions. Following are the most notable developments:

## **1- Sources of Funds from Domestic Operations:**

Sources of funds from domestic operations are represented in the increase in the elements of liabilities and/or decrease in the elements of assets. The value of these sources of funds is calculated by the amount of change in the balances of liabilities and assets at the end of the two comparable years, thus summing up the financial flows during the period elapsed between the two mentioned dates. Total financial resources generated by local banks from domestic market operations amounted to KD 4,374.7 million during 2016 compared to KD 3,906.7 million during the previous year.

The major portion of domestic financial resources realized during 2016 of KD 3,155.7 million, or 72.1% of total domestic financial resources, resulted from increasing some elements of local liabilities. Meanwhile, the remaining financial resources of KD 1,219.1 million or 27.9% resulted from decreasing some elements of local assets.

## **2- Uses of Funds in Domestic Market Operations:**

Uses of funds are expressed in any decrease in the elements of domestic liabilities and/or any increase in the elements of domestic assets between the ends of two consecutive periods, thus summing up the domestic financial flows during the period elapsed between the two mentioned dates. Financial resources realized by local banks from domestic market operations during 2016 were used in increasing some elements of domestic assets by KD 2,934.3 million (74.7% of total domestic uses), and decreasing some domestic liabilities by KD 995.7 million (25.3% of total domestic uses).

**Table (26)**  
**Summary of Financial Flows in Local Banks during 2015 and 2016**  
(KD, Million)

Items	2015		2016	
	Flows Value	to Total (%)	Flows Value	to Total (%)
<b>First- Domestic Operations:</b>				
<b>1- Total Sources of Funds:</b>	<b>3,906.7</b>	<b>100.0</b>	<b>4,374.7</b>	<b>100.0</b>
<b>* From Increase in Liabilities:</b>	<b>2,764.8</b>	<b>70.8</b>	<b>3,155.7</b>	<b>72.1</b>
Private Sector Deposits	564.1	14.4	922.9	21.1
Government Deposits	592.9	15.2	800.5	18.3
Shareholders' Equity	268.0	6.9	161.5	3.7
Local Banks' Deposits	612.3	15.7	-	-
Other Domestic Liabilities	727.5	18.6	1,270.7	29.1
<b>* From Decrease in Assets:</b>	<b>1,141.9</b>	<b>29.2</b>	<b>1,219.1</b>	<b>27.9</b>
Claims on CBK	1,137.2	29.1	74.5	1.7
Deposits with Local Banks	-	-	1,144.6	26.2
Other Domestic Assets	4.7	0.1	-	-
<b>2- Total Uses of Funds:</b>	<b>3,431.2</b>	<b>100.0</b>	<b>3,930.0</b>	<b>100.0</b>
<b>* In Decreasing Liabilities:</b>	-	-	<b>995.7</b>	<b>25.3</b>
Local Banks' Deposits	-	-	995.7	25.3
<b>* In Increasing Assets:</b>	<b>3,431.2</b>	<b>100.0</b>	<b>2,934.3</b>	<b>74.7</b>
Claims on the Private Sector	2,596.4	75.7	898.9	22.9
Claims on Government	17.0	0.5	1,707.3	43.4
Deposits with Local Banks	817.8	23.8	-	-
Other Domestic Assets	-	-	328.2	8.4
<b>Surplus (+) or Deficit (-) of Resources against Uses</b>	<b>475.5</b>	<b>-</b>	<b>444.7</b>	<b>-</b>
<b>Second- Foreign Operations:</b>				
<b>1- Total Sources of Funds:</b>	<b>530.3</b>	<b>100.0</b>	<b>641.8</b>	<b>100</b>
<b>* From Increase in Liabilities:</b>	<b>530.3</b>	<b>100.0</b>	<b>290.4</b>	<b>45.2</b>
Non-Resident (Non-Bank) Deposits	320.7	60.5	114.6	17.9
Other Foreign Liabilities (including bonds)	209.6	39.5	175.8	27.4
<b>* From Decrease in Assets:</b>	<b>0.0</b>	<b>0.0</b>	<b>351.4</b>	<b>0</b>
Local Bank Deposits with Foreign Banks	-	-	351.4	54.8
Foreign Currency Credit Facilities to Non-Residents	-	-	-	-
<b>2- Total Uses of Funds:</b>	<b>1,005.8</b>	<b>100.0</b>	<b>1,086.5</b>	<b>100.0</b>
<b>* In Decreasing Liabilities:</b>	<b>134.9</b>	<b>13.4</b>	<b>618.9</b>	<b>57.0</b>
Non-Resident (Non-Bank) Deposits	-	-	618.9	57.0
Non-Resident (Bank) Deposits	134.9	13.4	-	-
<b>* In Increasing Assets:</b>	<b>870.9</b>	<b>86.6</b>	<b>467.5</b>	<b>43.0</b>
Foreign Investments	59.8	5.9	123.6	11.4
Local Bank Deposits with Foreign Banks	588.8	58.5	-	-
KD Credit Facilities to Non-Residents	14.3	1.4	1.9	0.2
Foreign Currency Credit Facilities to Non-Residents	145.5	14.5	316.7	29.1
Other Foreign Assets	62.5	6.2	25.4	2.3
<b>Surplus (+) or Deficit (-) of Resources against Uses</b>	<b>-475.5</b>	<b>-</b>	<b>-444.7</b>	<b>-</b>

Source: CBK.

### 3- The Surplus in Resources from Domestic Market Operations:

The movements of funds in local banks' domestic operations during 2016 resulted in a net surplus of KD 444.7 million in local financial resources, totaling KD 4,374.7 million after covering the uses of funds in domestic market operations totaling KD 3,930.0 million. The surplus was used to

cover the deficit in the financial resources resulting from foreign operations, indicating a net financial outflow of KD 444.7 million.

#### **4- Financial Flows from Foreign Operations:**

Total financial resources generated by local banks from foreign operations amounted to the equivalent of KD 641.8 million during 2016, resulting from decreasing some elements of foreign assets of KD 351.4 million or 54.8% of total foreign resources. Meanwhile, the remainder of these resources resulted from increasing some elements of foreign liabilities of KD 290.4 million or 45.2% of total foreign financial resources. Total uses of funds in local banks' foreign operations amounted to the equivalent of KD 1,086.5 million during 2016, used in decreasing some elements of foreign liabilities by the equivalent of KD 618.9 million or 57.0% of total foreign uses of funds, as well as in increasing some elements of foreign assets by the equivalent of KD 467.5 million or 43.0% of total foreign uses of funds. This resulted in a net deficit equivalent to KD 444.7 million in the financial resources from foreign sources. The deficit was covered using the surplus in the financial resources resulting from domestic market operations of the earlier mentioned value of KD 444.7 million.

#### **Sixth-Indicators and Financial Ratios:**

This part shows some indicators of local banks' financial position at the end of 2016 and the developments in their performance over the mentioned year, using some indicators and financial ratios obtained from the analysis of aggregate data on local banks at the end of 2015 and 2016 shown in Table (27) as follows:<sup>5</sup>

##### **1- Liquidity Standards:**

This group of financial standards encompasses the cash standard used to measure the adequacy of local banks' cash assets (cash, balances with the CBK, CBK Bond holdings, deposits with local banks, deposits with foreign banks and Certificates of Deposit) in the payment of liabilities from

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<sup>5</sup>Indicators and financial ratios are according to local banks' aggregated, not consolidated, data.

resident/non-resident deposits and local/foreign bank deposits; and the liquidity standard used to measure the portion covered by liquid assets (cash assets, local banks' holdings of public debt instruments, as well as local banks' investments in local/foreign securities) of the mentioned deposits.

Available data indicate a decline in the cash standard reaching 31.2% at the end of 2016 compared to 31.9% at the end of 2015, and stability in the liquidity standard at 38.8% at the end of 2015 and 2016. Therefore, the average of both standards for the years 2015 and 2016 reached 31.6% for the cash standard and 38.8% for the liquidity standard.

## **2- Uses of Funds Standards:**

The analysis indicates a continued growth in the ratios of fund uses remaining at relatively high levels. The first ratio, indicating the extent to which private sector deposits were used in the credit facilities extended to the sector's activities, increased to 101.0% at the end of 2016 compared to 100.9% at the end of 2015, and an annual average of 100.9% for the years 2015 and 2016. The second ratio which shows, among others, the extent to which domestic private sector deposits were used in funding the domestic private sector, slightly decreased to reach 106.6% at the end of 2016 compared to 106.8% at the end of 2015, with an annual average of 106.7% for the years 2015 and 2016. The third ratio, which indicates the share of resident deposits and shareholders' equity in local funding, also slightly declined to 97.5% at the end of 2016 compared to 97.7% at the end of 2015, with an annual average of 97.6% for the years 2015 and 2016.

## **3- Profitability Standards:**

Table (27) shows developments in the net profit ratio to average assets, average shareholders' equity, and paid-up capital at the end of 2016 compared with the end of the previous year. Local banks' realized net profits totaled KD 755.7 million during 2016 compared to KD 717.3 million and KD 774.6 million during 2014 and 2015, respectively. The ratio of the realized net profit to average assets, average shareholders' equity and paid-up capital was 1.3%, 9.9% and 27.6%, respectively, in 2016 against 1.3%, 9.9% and 29.6% respectively in 2015.

#### 4- Adequacy Standards of Shareholders' Equity:

The ratio of shareholders' equity to total assets, total uses of funds, and total non-cash assets was 13.2%, 15.2% and 19.0%, respectively, at the end of 2016 compared to 13.3%, 15.0% and 19.3% at the end of 2015. Accordingly, the average of the above-mentioned adequacy ratios of shareholders' equity during 2015 and 2016 was 13.2% to total assets, 15.1% to total uses of funds and 19.1% to total non-cash assets, encompassing credit facilities to residents/non-residents, as well as some local/foreign financial and non-cash investments.

**Table (27)**  
**Some Financial Indicators and Ratios of Local Banks (%)**

Items	2015	2016	Average
<b>First- Liquidity Standards:</b>			
1- Cash Standard	31.9	31.2	31.6
2- Liquidity Standard	38.8	38.8	38.8
<b>Second- Uses Standards:</b>			
1- Credit Facilities to Private Sector Deposits	100.9	101.1	100.9
2- Claims on Private Sector to Private Sector Deposits	106.8	1.6.6	106.7
3- Local Uses to Resident Deposits & Shareholders' Equity	97.7	97.5	97.6
<b>Third- Profitability Standards:</b>			
1- Net Profit to Average Assets	1.3	1.3	1.3
2- Net Profit to Average Shareholders' Equity	9.9	9.9	9.7
3- Net Profit to Paid-up Capital	29.6	27.6	28.6
<b>Fourth- Adequacy Standards of Shareholders' Equity:</b>			
1- Shareholders' Equity to Total Assets	13.3	13.2	13.2
2- Shareholders' Equity to Total Uses	15.0	15.2	15.1
3- Shareholders' Equity to Non-Cash Assets	19.3	19.0	19.1
<b>Fifth- Capital Adequacy Standard:</b>			
1- Capital Adequacy Standard (Local Banks) <sup>(1)</sup>	17.5	18.6	18.1

<sup>(1)</sup> Capital Adequacy Standard for 2015 and 2016 according to Basel III.

Source: CBK.

## 5- Capital Adequacy Standard “Solvency”:

Available aggregate data on Kuwaiti banks indicate that the capital adequacy ratio for each bank was still noticeably higher than the minimum ratio required according to CBK’s regulations, which is higher than the minimum limit required by the international standards. In the context of CBK’s implementation of Basel III set of reforms, CBK’s Board of Directors has decided that the application of Basel III capital adequacy standard and the phase-in arrangements targeting the minimum ratio of 13% shall be carried out as follows:

- 12% at the beginning of 2014.
- 12.5% at the beginning of 2015.
- 13% at the beginning of 2016.

Capital adequacy ratio in Kuwaiti banks according to Basel III was 18.6% at the end of December 2016 against 17.5% at the end of December 2015.

## The Aggregate Balance Sheet of Local Investment Companies

The number of registered local investment companies supervised by the CBK decreased to 78 at the end of 2016 compared to 85 at the end of the previous year. Local investment companies sector at the end of 2016 encompassed 34 conventional investment companies and 44 Islamic investment companies. In accordance with Law No. 7/2010

**Table (28)**  
**Developments in the Financial System Structure**

Period	Number of Investment Companies			Number of Exchange Companies
	Conventional	Islamic	Total	
2012	43	50	93	39
2013	42	50	92	39
2014	40	49	89	39
2015	38	47	85	40
2016	34	44	78	41

Source: CBK.

issued on 26 February 2010 on the “Establishment of the Capital Markets Authority and the Regulation of the Activity of Securities”, and the Ministerial resolution No.38/2011 for the regulation of CBK’s supervision of finance companies, the supervision of investment companies and investment funds was transferred from the CBK to the CMA as of 13 September 2011, limiting CBK’s supervisory role to the finance activities of the investment companies. Total assets of local conventional and Islamic investment companies amounted to KD 8,165.4 million at the end of 2016

compared to KD 10,007.8 million at the end of 2015, i.e. a decline of KD 1,842.4 million or 18.4% (Table 29).

**Table (29)**  
**Aggregate Balance Sheet of Local Investment Companies\***  
(KD, Million)

Items	Balances at year end		Change	
	2015	2016	Value	(%)
<b>Assets:</b>				
Cash & Balances with local Banks & Investment companies	436.4	477.4	41.0	9.4
Financing to Customers	<b>895.6</b>	<b>793.9</b>	<b>-101.7</b>	<b>-11.4</b>
Loans and Advances to Residents (conventional Companies)	545.5	441.8	-103.7	-19.0
Financing to Customers	350.0	352.1	2.0	0.6
Domestic Investments	<b>2,403.9</b>	<b>2,311.8</b>	<b>-92.1</b>	<b>-3.8</b>
Financial Investments	1,897.5	1,800.2	-97.2	-5.1
Non-Financial Investments	506.4	511.5	5.2	1.0
Foreign Assets	4,690.7	2,974.3	-1,716.4	-36.6
Other Assets	1,581.2	1,608.0	26.8	1.7
<b>Assets = Liabilities</b>	<b>10,007.8</b>	<b>8,165.4</b>	<b>-1,842.4</b>	<b>-18.4</b>
<b>Liabilities:</b>				
Capital and reserve	4,396.9	3,548.6	-848.3	-19.3
Financing from Residents	2,155.4	2,199.0	43.6	2.0
Bonds & Financing Instruments	26.6	27.6	1.0	3.9
Foreign Liabilities	1,779.3	1,159.9	-619.4	-34.8
Other Liabilities	1,649.5	1,230.2	-419.3	-25.4
<b>Number of Companies</b>	<b>85</b>	<b>78</b>	<b>-7</b>	

\*Including data on subsidiaries.

Source: CBK.

In order to identify key features in the performance of local investment companies, following is a separate review of conventional investment companies and Islamic investment companies during 2015 and 2016:

### **First- Conventional Investment Companies:**

Available financial data (Table 30) on the 34 conventional investment companies indicate a total aggregate balance sheet of KD 3,771.6 million at the end of 2016, recording a decrease of KD 1,950.8 million or 34.1% from its level of KD 5,722.4 million at the end of the previous year.

This decline reflects the outcome of developments in the elements of assets and liabilities of these companies. On the assets side, noteworthy developments at the end of 2016 compared with the end of 2015 can be addressed as follows:

1. Foreign assets decreased by the equivalent of KD 1,675.4 million or 50.8% at the end of 2016 compared with the end of the previous year. This decrease resulted from the decline in foreign investments by the equivalent of KD 1,354.8 million or 51.1%, other foreign assets by the equivalent of KD 167.0 million or 44.1%, cash and balances with foreign banks by the equivalent of KD 146.7 million or 60.6%, and loans and advances to non-residents by the equivalent of KD 6.9 million or 24.9%.
2. Domestic investments decreased by KD 158.9 million or 13.1% from KD 1,210.1 million at the end of 2015 to KD 1,051.2 million at the end of 2016. This decline resulted from the decrease in financial investments of KD 117.0 million or 11.3%, and non-financial investments of KD 41.9 million or 23.8%.
3. Loans and advances to residents declined by KD 103.7 million or 19.0% to reach KD 441.8 million at the end of 2016 against KD 545.5 million at the end of the previous year.

On the liabilities side, notable developments at the end of 2016 compared with the end of 2015 can be highlighted as follows:

1. Capital and reserve decreased by KD 856.5 million or 30.7% from KD 2,791.6 million at the end of 2015 to KD 1,935.1 million at the end of 2016.
2. Foreign liabilities declined by the equivalent of KD 726.9 million or 59.6% from KD 1,220.1 million at the end of 2015, to the equivalent of KD 493.2 million at the end of 2016.
3. Financing from residents decreased by KD 43.2 million or 4.9% at the end of 2016 compared with the end of the previous year, from KD 879.8 million to KD 836.7 million.

**Table (30)**  
**Aggregate Balance Sheet of Conventional Investment Companies\***  
(KD, Million)

Items	Balances at year end		Change	
	2015	2016	Value	(%)
<b>Assets:</b>				
Cash & Balances with local Banks and Investment Companies	211.7	265.6	53.8	25.4
Loans and Advances to Residents (Conventional Companies)	545.5	441.8	-103.7	-19.0
<b>Domestic Investments:</b>	<b>1,120.1</b>	<b>1,051.2</b>	<b>-158.9</b>	<b>-13.1</b>
Financial Investments	1,034.3	917.2	-117.0	-11.3
Non-Financial Investments	175.8	133.9	-41.9	-23.8
Foreign Assets	3,299.7	1,624.3	-1,675.4	-50.8
Other Assets	455.3	388.8	-66.6	-14.6
<b>Assets = Liabilities</b>	<b>5,722.4</b>	<b>3,771.6</b>	<b>-1,950.8</b>	<b>-34.1</b>
<b>Liabilities:</b>				
Capital and reserve	2,791.6	1,935.1	-856.5	-30.7
Financing from Residents	879.8	836.7	-43.2	-4.9
Bonds and Financing Instruments	26.6	27.6	1.0	3.9
Foreign Liabilities	1,220.1	493.2	-726.9	-59.6
Other Liabilities	804.2	479.0	-325.2	-40.4
<b>Number of Companies</b>	<b>38</b>	<b>34</b>	<b>-4</b>	

\*Including data on subsidiaries.  
Source: CBK.

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

The review in this part is built on comparable data on the aggregate financial position of 44 Islamic investment companies for 2015 and 2016. Those are the companies registered with the CBK at the end of 2016.

Available financial data (Table 31) indicate a growth in the total aggregate balance sheet of KD 108.4 million or 2.5% at the end of 2016 compared with the previous year reaching KD 4,393.8 million, against KD 4,285.4 million at the end of the previous year. Following are key developments witnessed in the mentioned aggregate balance sheet on the assets side:

- 1- Domestic investments increased by KD 66.8 million or 5.6% to reach KD 1,260.6 million at the end of 2016 compared to KD 1,193.8 million at the end of 2015.
- 2- Financing to customers slightly increased by KD 2.0 million or 0.6% to KD 352.1 million at the end of 2016 against KD 350.0 million at the end of 2015.
- 3- Foreign assets, which are foreign financial/non-financial assets, declined by the equivalent of KD 41.0 million or 2.9% from the equivalent of KD 1,391.0 million at the end of 2015 to the equivalent of KD 1,350.0 million at the end of 2016.

On the liabilities side, main developments witnessed at the end of 2016 compared with the end of 2015 can be indicated as follows:

- 1- Foreign liabilities increased by the equivalent of KD 107.6 million or 19.2% to the equivalent of KD 666.7 million at the end of 2016 against the equivalent of KD 559.2 million at the end of 2015.
- 2- Funding operations made through local banking and financial sector increased by KD 86.8 million or 6.8% to KD 1,362.3 million at the end of 2016 against KD 1,275.6 million at the end of 2015.
- 3- Shareholders' equity increased by KD 8.2 million or 0.5% to reach KD 1,613.6 million at the end of 2016 compared to KD 1,605.3 million at the end of 2015.

**Table (31)**  
**Aggregate Balance Sheet of Investment Companies**  
**Operating in Accordance with the Provisions of the Islamic Sharia\***  
(KD, Million)

Items	Balances at year end		Change	
	2015	2016	Value	(%)
<b>Assets:</b>				
Cash & Balances with local Banks and Investment companies	224.7	211.9	-12.8	-5.7
Financing to Customers	350.0	352.1	2.0	0.6
<b>Domestic Investments: including:</b>	<b>1,193.8</b>	<b>1,260.6</b>	<b>66.8</b>	<b>5.6</b>
Financial Investments	863.2	883.0	19.8	2.3
Non-Financial Investments	330.6	377.6	47.0	14.2
Foreign Assets	1,391.0	1,350.0	-41.0	-2.9
Other Assets	1,125.9	1,219.2	93.4	8.3
<b>Assets = Liabilities</b>	<b>4,285.4</b>	<b>4,393.8</b>	<b>108.4</b>	<b>2.5</b>
<b>Liabilities:</b>				
Capital and reserve	1,605.3	1,613.6	8.2	0.5
Financing from Residents	1,275.6	1,362.3	86.8	6.8
Foreign Liabilities	559.2	666.7	107.6	19.2
Other Liabilities	845.3	751.2	-94.1	-11.1
<b>Number of Companies</b>	<b>47</b>	<b>44</b>	<b>-3</b>	

\*Including data on subsidiaries.  
Source: CBK.

### Third- Contra Accounts of Local Investment Companies:

Contra accounts (off-balance-sheet items) reflect a significant side of local investment companies' activities in the domain of financial services extended to resident/non-resident clients (Table 32). Contra accounts for the 78 local investment companies registered with CBK (34 conventional and 44 Islamic) as at the end of 2016 amounted to KD 18,820.7 million, of which KD 16,856.2 million or 89.6% for conventional investment companies, and KD 1,964.5 million or 10.4% for Islamic investment companies, recording a decline of KD 383.7 million or 2.0% from its level of KD 19,204.4 million for 85 registered companies at the end of 2015, of which KD 17,202.0 million or 91.7% for 38 conventional investment companies, and KD 2,002.4 million or 8.3% for 47 Islamic investment companies.

**Table (32)**  
**Contra Accounts of Local Investment Companies\***  
(KD, Million)

Items	Balances at Year-End		Changes	
	2015	2016	Value	(%)
<b>Contra Accounts:</b>	<b><u>19,204.4</u></b>	<b><u>18,820.7</u></b>	<b><u>-383.7</u></b>	<b><u>-2.0</u></b>
Conventional Investment Companies	17,202.0	16,856.2	-345.8	-2.0
Islamic Investment Companies	2,002.4	1,964.5	-37.9	-1.9
Investment Portfolios	15,534.5	15,074.5	-460.0	-3.0
Investment Funds	1,687.9	1,658.3	-29.6	-1.8
Foreign Funds	1,488.8	1,594.7	105.9	7.1
Custody Assets	399.6	466.9	67.3	16.9
Commitments/Collaterals/ Guarantees	93.6	26.3	-67.3	-71.9
<b>Number of Investment Companies</b>	<b><u>85</u></b>	<b><u>78</u></b>	<b>-7</b>	
Conventional Investment Companies <sup>(1)</sup>	38	34	-4	
Islamic Investment Companies <sup>(1)</sup>	47	44	-3	

\* Including data on subsidiaries.

<sup>(1)</sup>Two Finance Companies, one Conventional and one Islamic, are supervised by CBK.

Source: CBK.

### The Aggregate Balance Sheet of Local Exchange Companies

Available data on local exchange companies (41) registered with, and supervised by, the CBK indicate that at the end of 2016 the aggregate balance sheet (Table 33) of these companies amounted to KD 186.5 million at the end of the year increasing by KD 32.7 million or 21.3% from its level of KD 153.8 million at the end of the previous year. This increase reflected the following developments on both assets and liabilities sides:

#### First- Assets:

- 1- Foreign assets of exchange companies increased by the equivalent of KD 2.8 million or 4.8% to reach the equivalent of KD 61.3 million at the end of 2016 compared with the equivalent of KD 58.5 million at the end of 2015.

- 2- Financial and real estate investments of exchange companies declined by KD 29.9 thousand to reach KD 1.4 million.
- 3- Claims of exchange companies on financial institutions increased by KD 19.2 million or 56.0% to KD 53.5 million at the end of 2016 against KD 34.3 million at the end of the previous year.
- 4- Liquid assets in the form of cash and cash assets grew by KD 2.8 million or 10.9% from KD 25.5 million at the end of 2015 to KD 28.3 million at the end of 2016.

### **Second- Liabilities:**

- 1- Claims of financial institutions on local exchange companies increased by KD 13.3 million or 614.4% from KD 2.2 million at the end of 2015 to KD 15.4 million at the end of 2016.
- 2- Partners' equity, covering results of the period, increased by KD 1.9 million or 1.7% from KD 111.6 million at the end of 2015 to KD 113.6 million at the end of 2016.
- 3- Other liabilities grew by KD 15.9 million or 45.2% from KD 35.4 million in 2015 to KD 51.3 million at the end of 2016.
- 4- Foreign liabilities increased by KD 0.4 million or 22.3% from KD 1.8 million in 2015 and KD 2.2 million at the end of 2016.

**Table (33)**  
**Aggregate Balance Sheet of Local Exchange Companies**  
(KD, Thousand)

Items	Balances at Year-End		Change	
	2015	2016	Value	(%)
<b>Assets:</b>				
Cash & Cash Assets	25,538.9	28,335.2	2,796.3	10.9
Claims on Financial Institutions	34,291.5	53,501.8	19,210.3	56.0
Total Receivables	2,219.3	7,300.8	5,081.5	229.0
Financial & Real estate Investments	1,429.6	1,399.7	-29.9	-2.1
Fixed Assets	17,837.8	19,443.0	1,905.2	9.0
Foreign Assets	58,480.8	61,313.5	2,832.7	4.8
Other Assets	13,978.1	15,193.7	1,215.6	8.7
<b>Assets = Liabilities</b>	<b>153,776.0</b>	<b>186,487.7</b>	<b>32,711.7</b>	<b>21.3</b>
<b>Liabilities:</b>				
Partners' Equity & Results of the Period	111,640.3	113,550.3	1,910.0	1.7
Claims of Financial Institutions	2,162.3	15,446.7	13,284.4	614.4
Total Payables	2,828.8	3,963.4	1,134.6	40.1
Foreign Liabilities	1,774.1	2,169.5	395.4	22.3
Other Liabilities	35,370.5	51,358.0	15,987.5	45.2
<b>Contra Accounts</b>	<b>6,842.5</b>	<b>2,095.3</b>	<b>-4,747.2</b>	<b>-69.4</b>
Results of the Period (Net Profit)	16,821.8	15,281.8	-1,540.0	-9.2
<b>Number of Companies</b>	<b>40</b>	<b>41</b>	<b>1</b>	

Source: CBK.

### Third- Liquidity, Profitability and Solvency Ratios:

Available data on net credit position of local exchange companies with local banks and financial institutions indicate a growth from KD 32.2 million at the end of 2015 to KD 38.1 million at the end of 2016, recording an increase of 18.3% remaining in favor of local exchange companies.

Liquidity available to local exchange companies at the end of 2016 amounted to KD 125.5 million of which KD 28.3 million or 22.6% in the form of cash and cash assets, and KD 97.2 million or 77.4% in the form of net claims of local exchange companies on local/foreign banks and financial institutions.

All profitability ratios of local exchange companies decreased due to the decline in net profit of KD 2 million or 11.8% to reach KD 15.3 million in 2016 against KD 17.3 million in 2015. Profit to partners' equity ratio declined to 17.2% at the end of 2016 against 16.7% at the end of 2015. Return on assets to total assets ratio decreased to 8.2% at the end of 2016 against 11.3% at the end of the previous year.

On the other side, the ratio of partners' equity to total assets decreased from 72.6% at the end of 2015 to 60.9% at the end of 2016. Likewise, the ratio of partners' equity to total assets and contingent liabilities represented in contra accounts declined from 69.5% at the end of 2015 to 60.2% at the end of 2016.



Public Finance

2016

## Public Finance

This part of the Economic Report highlights developments in the public finance of the State of Kuwait by presenting developments published in the Closing Account of ministries and government bodies for fiscal year (FY) 2015/16, along with the revenue estimates and allocations for budgetary expenditures for ministries and government departments for FY2016/17.

### First - The Closing Account for Fiscal Year 2015/16:

#### 1- Public Revenues

Closing Account data for FY2015/16 indicate that total actual budgetary revenues collected during the mentioned fiscal year reached KD 13,633.9 million compared to KD 24,925.9 million in the previous fiscal year, i.e. a noticeable decrease of KD 11,292 million or 45.3%. The mentioned decrease resulted from the drop in actual budgetary oil revenues of KD 10,426.2 million or 46.3 % to reach KD 12,075.4 million in FY2015/16 compared to KD 22,501.6 million for the previous fiscal year, and the decline in non-oil revenues of KD 865.8 million or 35.7% to reach KD 1,558.5 million against KD 2,424.3 million (Table 34).

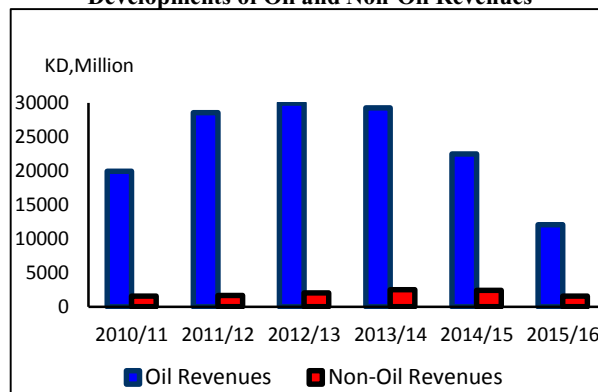
Actual budgetary oil revenues collected decreased due to the noticeable decline in the average price of Kuwait's exported crude oil of \$38.51 or 47.3% during FY2015/16 to reach \$42.90 per barrel against \$81.41 per barrel during the previous fiscal year. The average quantity of crude oil produced in the State of Kuwait during FY2015/16 reached 2.896 million b/d against 2.854 million b/d for the previous fiscal year, i.e. a rise of 42 thousand b/d.

**Table (34)**  
**Actual Revenues in the General Budget**  
(KD Million)

Item	Closing Account				Change	
	2014/15		2015/16		Value	(%)
	Value to Total	(%)	Value to Total	(%)		
<b>Total Budgetary Revenues:</b>	24,925.9	100	13,633.9	100	-11,292.0	-45.3
Oil Revenues	22,501.6	90.3	12,075.4	88.6	-10,426.2	-46.3
Non-Oil Revenues	2,424.3	9.7	1,558.5	11.4	-865.8	-35.7

Source: Ministry of Finance.

**Chart (16)**  
**Developments of Oil and Non-Oil Revenues**



Source: Ministry of Finance.

Actual budgetary non-oil revenues collected during FY2015/16 compared with the previous fiscal year decreased to KD 1,558.5 million against KD 2,424.3 million during the previous fiscal year, i.e. a decline of KD 865.8 million or 35.7%. However, the relative share of actual budgetary non-oil revenues in the total actual budgetary revenues collected during FY2015/16 rose to 11.4% against 9.7% for the previous fiscal year.

The above-mentioned decrease in total non-oil revenues collected during FY2015/16 is mainly attributed to the decline in actual revenues collected under the Seventh Chapter (miscellaneous revenues and charges) of KD 869 million or 73.6%, the Sixth Chapter (services revenues) of KD 63.4 million or 7.7% and the Third Chapter (taxes and fees on property) of KD 5.5 million or 25.7% on one hand, and the rise in actual revenues collected under the rest of the chapters of total actual non-oil revenues collected during FY2015/16 of KD 72.2 million or 18% on the other (Table 35).

**Table (35)**  
**Actual Budgetary Non-Oil Revenues**  
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2014/15		2015/16		Value	(%)
	Value (1)	(%) to Total	Value (2)	(%) to Total		
<b>Non-Oil Revenues:</b>	<b>2,424.3</b>	<b>100</b>	<b>1,558.5</b>	<b>100</b>	<b>-865.8</b>	<b>-35.7</b>
- Taxes on Net Income & Profits	100.3	4.1	141.8	9.1	41.5	41.4
- Taxes & Fees on Property	21.4	0.9	15.9	1.0	-5.5	-25.7
- Taxes & Fees on Goods & Services	7.7	0.3	10.1	0.6	2.4	31.2
- Taxes & Fees on International Trade & Transactions	290.6	12.0	318.2	20.4	27.6	9.5
- Services Revenues, of which:	822.6	33.9	759.1	47.7	-63.4	-7.7
Security & Justice	113.2	4.7	108.2	6.9	-5.0	-4.4
Healthcare	93.9	3.8	102.3	6.5	8.4	9.0
Housing & Facilities	109.4	4.5	67.3	4.3	-42.1	-38.5
Electricity & Water	240.9	9.9	211.3	13.5	-29.6	-12.3
Transport & Communications	172.7	7.1	177.2	11.3	4.5	2.6
Fiscal Stamps Revenues	87.9	3.6	88.4	5.6	0.5	0.6
- Miscellaneous Revenues & Charges	1,180.5	48.7	311.5	19.9	-869.0	-73.6
- Capital Revenues	1.1	0.0	1.8	0.1	0.7	62.2

Source: Ministry of Finance.

## 2- Public Expenditures

Closing Account data for FY2015/16 indicate a decline in actual public expenditures of KD 3,169.6 million or 14.8% to reach KD 18,245.8 million during the mentioned fiscal year against KD 21,415.4 million during the previous fiscal year. Worth noting is that actual public expenditures during FY2015/16 amounted to 94.4% of the allocations for public expenditures of KD 19,321 million for the mentioned fiscal year.

**Table (36)**  
**Actual Budgetary Expenditures**  
(KD Million)

Item	Closing Account		Change	
	2014/15	2015/16	Value	(%)
<b>Public Expenditures:</b>	21,415.4	18,245.8	-3,169.6	-14.8
- Salaries & Wages	5,303.2	5,460.5	157.3	3.0
- Requirements of Goods & Services	3,025.8	2,192.9	-832.9	-27.5
- Means of Transport, Equipment & Supplies	197.2	225.9	28.7	14.6
- Construction Projects, maintenance & Public Acquisitions	1,662.1	1,876.4	214.3	12.9
- Miscellaneous Expenditures & Transfer Payments	11,227.1	8,490.0	-2,737.1	-24.4

Source: Ministry of Finance

This decline in actual public expenditures within the general budget of FY2015/16 reflects the decrease of actual expenditures under the Second Chapter (requirements of goods and services) of KD 832.9 million or 27.5% to reach KD 2,192.9 million against KD 3,025.8 million for the previous fiscal year, and the Fifth Chapter (miscellaneous expenditures and transfer payments) of KD 2,737.1 million or 24.4% to reach KD 8,490 million against KD 11,227.1 million for the previous fiscal year on one hand, and the increase in actual expenditures under the First Chapter (salaries and wages) of KD 157.3 million or 3%, the Third Chapter (means of transport, equipment and supplies) of KD 28.7 million or 14.6% and the Fourth Chapter (construction projects, maintenance and public acquisitions) of KD 214.3 million or 12.9% on the other hand (Table 36).

On another front, regarding economic classification of public expenditures, Closing Account data for FY2015/16 indicate a decline in current expenditures (including consumption expenditures, miscellaneous expenditures and transfer payments) to reach KD 16,143.6 million during the mentioned fiscal year against KD 19,556.1 million for FY2014/15, i.e. a decrease of KD 3,412.5 million or 17.4% (Table 37). Worth noting is that current expenditures during FY2015/16 accounted for 88.5% of total actual public expenditures, and 98% of allocations for current expenditures totaling KD 16,459.7 million for that fiscal year.

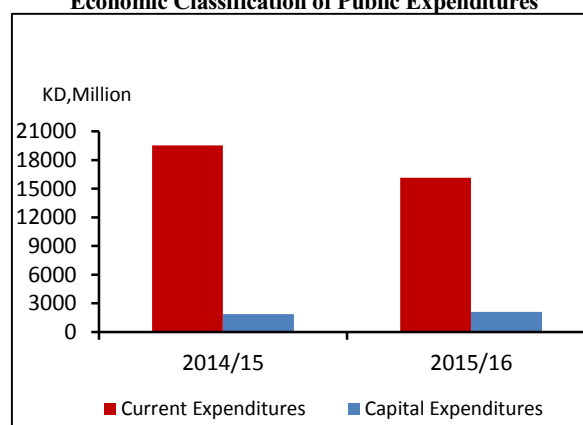
**Table (37)**  
**Economic Classification of Actual Public Expenditures**  
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2014/15		2015/16		Value	(%)
	Value (1)	(%) to Total	Value (2)	(%) to Total		
<b>Current Expenditures:</b>	<b>19,556.1</b>	<b>91.3</b>	<b>16,143.6</b>	<b>88.5</b>	<b>-3,412.5</b>	<b>-17.4</b>
- Consumption Expenditures	8,329.0	38.9	7,653.5	41.9	-675.5	-8.1
• Salaries & wages	5,303.2	24.8	5,460.5	29.9	157.3	3.0
• Requirements of Goods & Services	3,025.8	14.1	2,192.9	12.0	-832.9	-27.5
- Miscellaneous Expenditures	1,886.9	8.8	2,027.1	11.1	140.2	7.4
- Transfer Payments of which:	9,340.2	43.6	6,463.0	35.4	-2,877.2	-30.8
• Internal Transfers, of which:	7,973.5	37.2	5,823.7	31.9	-2,149.8	-26.9
Transfers to Public Authorities & Institutions	5,091.8	23.8	4,013.6	23.0	-1,078.2	-21.1
• External Transfers	1,366.7	6.4	639.2	3.5	-727.5	-53.2
<b>Capital Expenditures:</b>	<b>1,859.3</b>	<b>8.7</b>	<b>2,102.3</b>	<b>11.5</b>	<b>243.0</b>	<b>13.0</b>
- Means of Transport, Equipment & Supplies	197.2	0.9	225.9	1.2	28.7	14.6
- Construction Projects & Maintenance	1,610.8	7.5	1,872.4	10.2	261.6	16.2
- Public Acquisitions	51.3	0.2	4.0	0.0	-47.3	-92.2
<b>Total</b>	<b>21,415.4</b>	<b>100</b>	<b>18,245.8</b>	<b>100</b>	<b>-3,169.6</b>	<b>-14.8</b>

Source: Ministry of Finance.

Actual budgetary capital expenditures increased during FY2015/16 by KD 242.9 million or 13% to reach KD 2,102.3 million against KD 1,859.3 million during FY2014/15. Consequently, the ratio of capital expenditures to total actual public expenditures increased to reach 11.5% during FY2015/16 against 8.7% during FY2014/15. Capital expenditures during FY2015/16 accounted for 89% of total allocations for capital expenditures amounting to KD 2,361.5 million for that fiscal year.

**Chart (17)**  
**Economic Classification of Public Expenditures**



Source: Ministry of Finance.

As a result of these developments in both actual revenues and expenditures in the Closing Account for FY2015/16, the general budget recorded an actual deficit of KD 4,611.9 million against an actual surplus of KD 3,510.5 million for FY2014/15, before deducting the allocations for the Reserve Fund for Future Generations (RFFG) (Table 38).

**Table (38)**  
**Summary of the General Budget Closing Account**  
(KD Million)

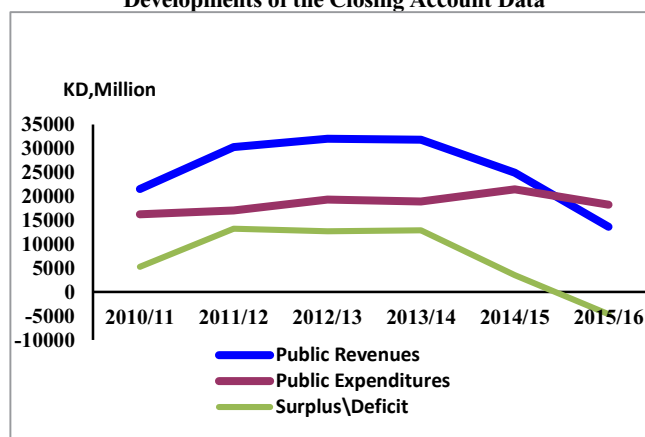
Item	2014/15	2015/16
<b>Actual Public Revenues, of which:</b>	<b>24,925.9</b>	<b>13,633.9</b>
Actual Oil Revenues	22,501.6	12,075.4
<b>Actual Public Expenditures</b>	<b>21,415.4</b>	<b>18,245.8</b>
<b>Surplus or (Deficit) <sup>(1)</sup></b>	<b>3,510.5</b>	<b>-4,611.9</b>
<b>Surplus or (Deficit) <sup>(2)</sup></b>	<b>-2,721.1</b>	<b>-5,975.3</b>

(1) Before deducting the allocations for the RFFG.

(2) After deducting the allocations for the RFFG.

Source: Ministry of Finance.

**Chart (18)**  
**Developments of the Closing Account Data**



Source: Ministry of Finance, Closing Account.

## Second – The General Budget for FY2016/17:

In order to move forward in reforming financial management comprehensively in accordance with International Public Sector Accounting Standards – IPSAS, Government Finance Statistics Manual – GFS 2001 and Classification of the Functions of Government – COFOG, and within the framework of the Ministry of Finance’s endeavors to enhance the performance of public finance, improve general budget data and promote transparency in the State’s general budget, the Ministry of Finance issued on 3 September 2015 Circular No. 4 of the year 2015 concerning Budget Codes and Classifications Manual (Cash Based). This Manual aims to update the applicable classifications and coding schemes based on Circular No. 5 of the year 1998 concerning the Standardized Manual for Accounts in Government Entities, in order to gradually shift from cash-based accounting to accrual-based accounting.

Decree Law No. 38 of the year 2016 issued on 18 July 2016 enacted the general budget for ministries and government authorities for FY2016/17. The general budget for the mentioned fiscal year envisages a decline in public revenue estimates of KD 1,972.6 million or 16.2% to reach KD 10,238 million, compared to KD 12,210.6 million for FY2015/16. This decrease reflects the decline in oil revenue estimate of KD 2,134 million or 19.8% to reach KD 8,623.4 million compared with the approved estimate of KD 10,757.4 million for FY2015/16 on one hand, and the rise in non-oil revenue estimate of KD 161.4 million or 11.1% to reach KD 1,614.6 million compared with the approved estimate of KD 1,453.2 million for FY2015/16 on the other (Table 39).

The decline in oil revenue estimates within the general budget for FY2016/17 mainly reflects the decrease in the reference oil price used in estimating budgetary oil revenues for the mentioned fiscal year. The reference oil price used was \$35 per barrel, i.e. a decrease of \$10 or 22.2%, compared to \$45 per barrel applied in estimating oil revenues for FY2015/16. However, the production quantity applied in estimating oil revenues within the general budget for FY2016/17 remained unchanged at its previous level of 2.8 million b/d.

**Table (39)**  
**Estimates of Revenue and Expenditure Allocations in the General Budget**  
(KD Million)

Item	Approved Budget	Approved Budget	Change	
	2015/16	2016/17	Value	(%)
<b>Public Revenues:</b>	<b>12,210.6</b>	<b>10,238.0</b>	<b>-1,972.6</b>	<b>-16.2</b>
<b>Oil Revenues</b>	<b>10,757.4</b>	<b>8,623.4</b>	<b>-2,134.0</b>	<b>-19.8</b>
<b>Non-Oil Revenues, of which:</b>	<b>1,453.2</b>	<b>1,614.6</b>	<b>161.4</b>	<b>11.1</b>
- Taxes & Fees of which:	416.0	474.9	58.9	14.2
* Taxes on Income, Profits & Capital Gains	102.6	126.7	24.1	23.5
* Taxes on Property	24.6	26.6	2.0	8.1
* Taxes on International Trade & Transactions	288.7	321.5	32.8	11.4
- Social Contributions	91.7	103.3	11.6	12.7
- Other Revenues of Which:	869.9	995.7	125.8	14.5
* Property Income	38.4	44.5	6.1	16.0
* Sales of Goods & Services	560.1	616.5	56.3	10.1
* Fines, Penalties and Forfeits	104.1	119.7	15.5	14.9
* Miscellaneous and Unidentified Revenues	167.2	215.0	47.8	28.6
- Revenues from Disposal of Assets, and Other Non-Operating Revenues	75.5	40.6	-34.9	-46.2

Source: Ministry of Finance.

On another front, total allocations for budgetary expenditures for FY2016/17, compared with FY2015/16, decreased by KD 429 million or 2.2% to reach KD 18,892 million against KD 19,321 million for the previous fiscal year (Table 40).

The decrease in allocations for budgetary expenditures for FY2016/17 reflects the drop in allocations for current expenditures of KD 823.3 million or 4.9% to reach KD 16,135.3 million for that fiscal year, compared to KD 16,958.6 million for the previous fiscal year on one hand, and the rise in allocations for capital expenditures of KD 394.3 million or 16.7% to reach KD 2,756.6 million compared with allocations for capital expenditures of KD 2,362.3 million for FY2015/16 on the other hand.

The decrease in allocations for current expenditures for FY2016/17 is mainly attributed to the decline in allocations for expenditures under the Second Chapter (goods and services) of KD 150.1 million or 5.6% (from KD 2,669.7 million to KD 2,519.6 million), Fifth Chapter (subsidies) of KD 209 million or 28.4% (from KD 735.7 million to KD 526.7 million), Sixth Chapter (grants) of KD 95.7 million or 2% (from KD 4,737.5 million to KD 4,641.8 million), Seventh Chapter (social benefits) of KD 3.8 million or 0.4% (from KD 1,065.5 million to KD 1,061.7 million) and Eighth Chapter (other expenditures and transfers) of KD 1,376.8 million or 58.3% (from KD 2,361.1 million to KD 984.3 million) on the one hand, and the rise in allocations for expenditures under the First Chapter (compensation of employees) of KD 1,012.2 million or 18.8% (from KD 5,388.9 million to KD 6,401.1 million) on the other hand.

It is worth noting that the First Chapter (compensation of employees) includes four groups (wages and salaries, social contributions, imputed employees' compensation, and supplementary appropriations), the first group "Salaries and Wages" accounted for 90% of the total value of the First Chapter reaching KD 5,752.8 million during FY2016/17. Moreover, the relative share of the Sixth Chapter (grants) to allocations for current expenditures reached 24.6%. This Chapter includes four groups (grants to: foreign governments, international organizations, other government units, and other foreign bodies), the third group "grants to other government units" accounted for 93.5% of the Sixth Chapter reaching KD 4,341.8 million during FY2016/17.

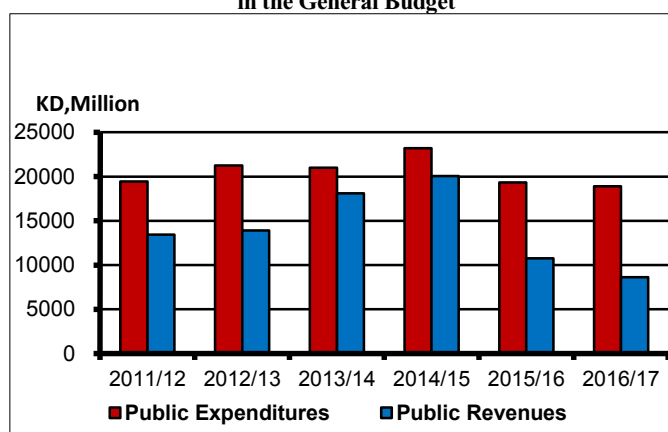
**Table (40)**  
**Allocations for Expenditures in the General Budget**  
(KD Million)

Item	Approved Budget				Change	
	2015/16		2016/17		Value	(%)
	Value	(%)	Value	(%)		
<b>Current Expenditures of which:</b>	<b>16,958.6</b>	<b>87.7</b>	<b>16,135.3</b>	<b>85.4</b>	<b>-823.3</b>	<b>-4.9</b>
- First Chapter: Compensation of employees	5,388.9	27.9	6,401.1	33.9	1,012.3	18.8
- Second Chapter: Goods & Services	2,669.7	13.8	2,519.6	13.3	-150.1	-5.6
- Fifth Chapter: Subsidies	735.7	3.8	526.7	2.8	-209.0	-28.4
- Sixth Chapter: Grants	4,737.5	24.5	4,641.8	24.6	-95.7	-2.0
- Seventh Chapter: Social benefits	1,065.5	5.5	1,061.7	5.6	-3.8	-0.4
- Eighth Chapter: Other Expenditures and Transfers	2,361.1	12.2	984.3	5.2	-1,376.8	-58.3
<b>Capital Expenditures:</b>	<b>2,362.3</b>	<b>12.2</b>	<b>2,756.6</b>	<b>14.6</b>	<b>394.3</b>	<b>16.7</b>
- Second Chapter: Purchase of Non-Current Assets	2,362.3	12.2	2,756.6	14.6	394.3	16.7
<b>Total</b>	<b>19,321.0</b>	<b>100</b>	<b>18,892.0</b>	<b>100</b>	<b>-429.0</b>	<b>-2.2</b>

Source: Ministry of Finance.

**Chart (19)**  
**Developments of Estimated Revenues and Expenditure Allocations in the General Budget**

As a result of the above-mentioned developments in both estimated budgetary revenues and allocations for expenditures for FY2016/17, the general budget for the mentioned fiscal year encompassed an estimated deficit of KD 8,654 million against an estimated deficit of KD 7,110.4 million for the previous fiscal year, before deducting the allocations for the RFFG (Table 41).



Source: Ministry of Finance.

**Table (41)**  
**Estimates of Revenues and Allocations for Expenditures in the General Budget**  
(KD Million)

Item	Approved Budget	
	2015/16	2016/17
Public Revenue Estimates, of which:	12,210.6	10,238.0
Oil Revenues	10,757.4	8,623.4
Allocations for Public Expenditures	19,321.0	18,892.0
Surplus or Deficit <sup>(1)</sup>	-7,110.4	-8,654.0
Surplus or Deficit <sup>(2)</sup>	-8,331.4	-9,677.7

(1) Before deducting the allocations for the RFFG.

(2) After deducting the allocations for the RFFG.

Source: Ministry of Finance.



Foreign Trade and  
Balance of Payments

2019

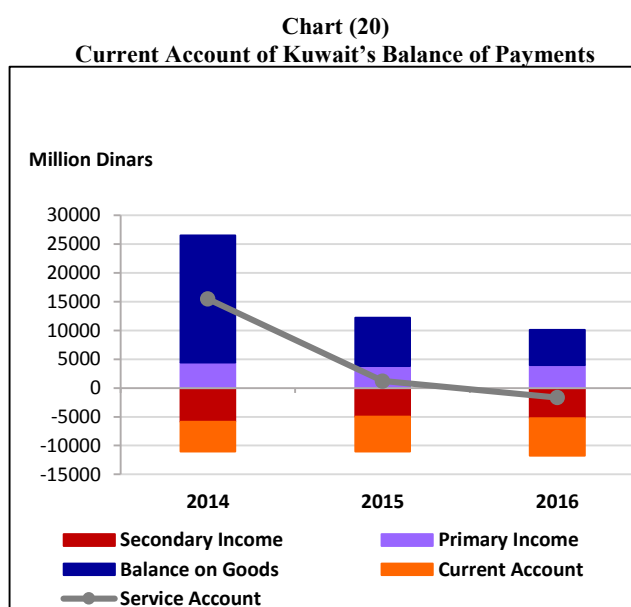
## Foreign Trade and Balance of Payments

This part of the Economic Report highlights developments in the statistics on the Balance of Payments (BOP) and Foreign Trade of the State of Kuwait during 2016 compared with 2015, through the developments in the Current Account and its basic components represented in: Balance on Goods, Services Account, Primary Income (Investment Income), and Secondary Income (Current Transfers) and the developments related to Capital Account and Financial Account of the BOP, as follows:

### First- Current Account:

The Current Account reflects the outflows of goods, services, primary income and secondary income between residents and non-residents. The balance of these accounts is known as Current Account Balance; which is the difference between total exports and receivable income on the one hand, and total imports and payable income on the other (exports and imports refer to both goods and services, while income refers to both primary and secondary income).

Preliminary estimates of the State of Kuwait's BOP indicate that the Current Account registered a deficit KD 1,510.5 million during 2016 (4.5% of 2016 GDP in current prices estimated by the IMF) against a surplus of KD 1,208.0 million during 2015 (3.5% of GDP in current prices). This deficit in the Current Account during 2016 compared with the previous year resulted from the decrease in the total receipts on the credit side of the Current Account (mostly receipts from exports of goods and services, and



Source: CBK.

primary income “investment income”) of KD 2,065.5 million or 8.9% on the one hand, and the increase in the total payments on the debit side of the Current Account (mostly services payments and secondary income “current transfers”) of KD 652.9 million or 3.0% on the other.

**Table (42)**  
**Current Account**  
(KD Million)

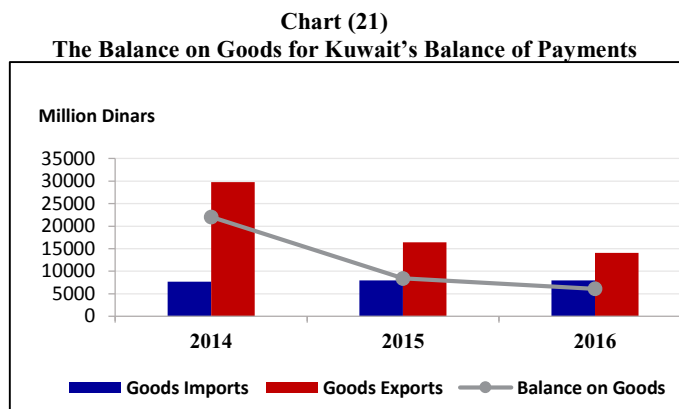
Item	2015	2016	Change	
	(Revised)	(Provisional)	Value	(%)
<b>First: Current Account (1+2+3+4):</b>	1,208.0	-1,510.5	-2,718.0	-225.0
<b>1- Balance on Goods:</b>	8,396.5	6,075.0	-2,321.5	-27.6
* Merchandise Exports (FOB), of which:	16,382.0	14,051.9	-2,330.1	-14.2
Oil Exports	14,581.5	12,526.7	-2,054.7	-14.1
* Minus Merchandise Imports (FOB)	-7,985.5	-7,976.9	8.6	-0.1
<b>2- Services, of which:</b>	-6,011.4	-6,353.5	-342.1	5.7
* Transportation	-1,138.4	-1,247.3	-108.9	9.6
* Travel	-3,797.7	-3,732.1	65.6	-1.7
* Telecom	695.9	566.3	-129.6	-18.6
* Construction	-702.2	-871.9	-169.7	24.2
* Other Services	-735.4	-992.7	-257.2	35.0
* Government Services and Goods	-333.7	-75.8	257.9	-77.3
<b>3- Primary Income, of which:</b>	3,818.9	4,007.8	188.8	4.9
* Workers' Compensations	-48.1	-56.7	-8.6	18.0
* Investment Income	3,867.0	4,064.5	197.5	5.1
<b>4- Secondary Income:</b>	-4,996.0	-5,239.8	-243.7	4.9
* Government Bodies	-452.9	-629.6	-176.7	39.0
* Other Sectors, of which:	-4,543.1	-4,610.2	-67.1	1.5
Workers' Transfers	-4,492.3	-4,566.1	-73.8	1.6

Source: CBK.

Following are developments in the most significant items of the Current Account:

### 1. Balance on Goods<sup>6</sup>:

Available preliminary data and estimates indicate a decrease in the total value of the State of Kuwait foreign trade (exports plus imports) of KD 22,028.8 million during 2016 against KD 24,367.5 million during the previous year, i.e. a decline of KD 2,338.7 million or 9.6%. The realized



surplus in the Balance on Goods (expressed as the arithmetical difference between the value of merchandise exports and imports on FOB basis) reached KD 6,075.0 million during 2016 compared to KD 8,396.5 million during the previous year, i.e. a decrease of KD 2,321.5 million or 27.6%. The following addresses, in some detail, the developments in the foreign merchandise trade of the State of Kuwait during 2016 compared with the previous year:

#### A. Merchandise Exports:

The total value of the merchandise exports of the State of Kuwait (on FOB basis) reached KD 14,051.9 million during 2016 compared to KD 16,382.0 million during the previous year, i.e. a decrease of KD 2,330.1 million or 14.2%. This decline mainly reflects the decrease in the value of oil exports of the State of Kuwait to KD 12,526.7 million during 2016 against KD 14,581.5 million during the previous year, i.e. a decline of KD 2,054.7 million or 14.1%. This decline in the value of oil exports mainly reflects the drop in the average price of Kuwait's exported crude oil from \$47.8 per barrel on average during 2015 to \$39.6 per barrel on average during 2016, i.e. a decrease of \$8.2 per barrel or 17.2%. Meanwhile, quantity of exported oil of the State of Kuwait recorded a rise of 8.2% in the daily average between 2015 and 2016 (from 1.966 million b/d on average during 2015 to 2.128 million b/d on average during 2016).

<sup>6</sup> The "Balance on Goods" in the Balance of Payments Statistics prepared by the CBK differs from the "Trade Balance" in the Foreign Trade Statistics prepared by the CSB due to the difference in the comprehensiveness of data on the value of merchandise exports and imports used in the preparation of the two mentioned balances, as will be mentioned later under 'Developments in the value of merchandise exports and imports' in this Report.

In the same context, the value of non-oil exports (on FOB basis) of the State of Kuwait decreased to KD 1,525.2 million during 2016 against KD 1,800.5 million during the previous year, i.e. a decline of KD 275.3 million or 15.3%. As for the relative distribution of the value of non-oil exports by main trade partners, data indicate that the value of non-oil exports to the top ten countries totaled KD 1,053.7 million or the equivalent of 69.1% of total value of non-oil exports of the State of Kuwait during 2016 against KD 1,235.0 million or the equivalent of 68.6% during the previous year to these countries (Table 43).

**Table (43)**  
**Geographic Distribution of Value of Non-Oil Exports of the State of Kuwait to the Top Ten Countries**  
(Value in KD Million and Relative Share in Percentage)

Country	2015		2016	
	Value	%	Value	%
India	227.2	12.6	221.7	14.5
Saudi Arabia	242.1	13.4	211.5	13.9
UAE	198.0	11.0	165.7	10.9
China (PRC)	242.9	13.5	151.4	9.9
Iraq	129.9	7.2	80.1	5.3
Qatar	58.0	3.2	52.9	3.5
Russian Republic	4.7	0.3	49.9	3.3
Oman	26.0	1.4	43.8	2.9
Pakistan	45.4	2.5	38.5	2.5
USA	60.7	3.4	38.1	2.5
<b>Total</b>	<b>1,235.5</b>	<b>68.6</b>	<b>1,053.7</b>	<b>69.1</b>
<b>Total value of non-oil exports</b>	<b>1,800.5</b>	<b>100.0</b>	<b>1,525.2</b>	<b>100.0</b>

Source: CSB.

## B. Merchandise Imports:

The merchandise imports (on CIF basis)<sup>7</sup> of the State of Kuwait reached to KD 9,315.0 million during 2016 against KD 9,316.1 million during the previous year, i.e. a slight decrease of KD 1.1 million or 0.01%. As for the relative distribution of the total value of merchandise imports by main trade partners, available data indicate that the value of merchandise imports from the top ten countries reached KD 6,380.9 million or the equivalent of 68.5% of the total value of the merchandise imports of the State of Kuwait during 2016 against KD 6,191.0 million or the equivalent of 66.5% during the previous year from these countries (Table 44).

<sup>7</sup> The value of Kuwait merchandise imports in this item, as indicated in Table (42), which is compiled on Free On Board (FOB) basis, differs from that in Table (43), which is compiled on Cost, Insurance and Freight (CIF) basis.

**Table (44)**  
**Geographic Distribution of Kuwait Merchandise Imports Value (on CIF basis)**  
**From the Top Ten Countries**  
(Value in KD Million and Relative Share in Percentage)

Country	2015		2016	
	Value	%	Value	%
China (PRC)	1,525.0	16.4	1,410.1	15.1
USA	859.7	9.2	890.9	9.6
UAE	880.2	9.4	848.8	9.1
Japan	645.3	6.9	607.5	6.5
Germany	531.2	5.7	586.4	6.3
India	415.5	4.5	513.7	5.5
Saudi Arabia	444.3	4.8	459.9	4.9
Italy	326.7	3.5	423.6	4.5
South Korea	290.3	3.1	407.3	4.4
UK	272.9	2.9	232.6	2.5
<b>Total</b>	<b>6,191.0</b>	<b>66.5</b>	<b>6,380.9</b>	<b>68.5</b>
<b>Total Imports</b>	<b>9,316.1</b>	<b>100.0</b>	<b>9,315.0</b>	<b>100.0</b>

Source: CSB.

During 2016, China ranked first among the source of Kuwait imports with KD 1,410.1 million or 15.1% of the total value of Kuwait merchandise imports, the USA ranked second with KD 890.9 million or 9.6%, and the UAE ranked third with KD 848.8 million or 9.1%.

### C. Kuwait Trade with the GCC Countries:

Available preliminary statistics on non-oil trade between the State of Kuwait and other GCC member countries indicate a decrease of KD 48.9 million or 2.4% to KD 1,999.9 million during 2016 against KD 2,048.8 million during the previous year. The value of non-oil exports of the State of Kuwait to the GCC countries was KD 505.8 million during 2016, i.e. a decline of KD 48.9 million or 8.8% compared with the previous year.

The value of the merchandise imports of the State of Kuwait from other GCC member countries was stable reaching KD 1,494.1 million or 16.0% of the total value of Kuwait merchandise imports during 2015 and 2016. Merchandise imports from the UAE and KSA accounted for 87.6% of the total value of Kuwait imports from the GCC countries during 2016. Consequently, the balance of merchandise trade of the State of Kuwait with other GCC member countries recorded a deficit of KD 988.3 million during 2016 against a deficit of KD 939.4 million during the previous year.

**Table (45)**  
**Kuwait Trade with the GCC Countries\***  
(KD Million)

Item	2015			2016		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
Saudi Arabia	198.0	880.2	-682.2	165.7	848.8	-683.1
UAE	242.1	444.3	-202.2	211.5	459.9	-248.4
Bahrain	30.6	80.2	-49.6	31.9	92.6	-60.7
Oman	26.0	60.2	-34.1	43.8	64.5	-20.7
Qatar	58.0	29.3	28.8	52.9	28.3	24.6
<b>Total</b>	<b>554.7</b>	<b>1,494.1</b>	<b>-939.4</b>	<b>505.8</b>	<b>1,494.1</b>	<b>-988.3</b>

\* Only non-oil exports included.

Source: CSB.

## 2. Services Account (Net):

The Services Account (Net) reflects the value of services transactions between residents and non-residents, the most important of which are travel, transportation, communications, construction, and other services, as well as government services and goods. The Services Account (Net) recorded a deficit of KD 6,353.5 million during 2016 compared with a deficit of KD 6,011.4 million during the previous year, i.e. a rise of KD 342.1 million or 5.7%. The increase in the deficit in the Services Account is mainly attributed to the rise in the payments for “other services” of KD 1,202.4 million during 2016 against KD 953.1 million during the previous year, i.e. an increase of KD 249.3 million or 26.2%, as well as the rise in payments for both the “construction” and “communications” items during the mentioned year of KD 169.7 million and KD 87.6 million or 24.2% and 74.5%, respectively.

It is noticed that the total value of payments on Services (listed on the debit side of the Services Account) reached KD 8,061.9 million during 2016 compared to KD 7,821.1 million during the previous year, i.e. an increase of KD 240.9 million or 3.1% compared with the previous year. Worth noting is that payments for the “travel” item accounted for 48.5% of the total payments on the debit side of the Services Account during 2016 compared to 50.5% during the previous year. The value of payments for the “transportation” item ranked second, accounting for 20.1% of the total value of payments under the Services Account during 2016 against 20.4% during the previous year.

Conversely, total value of receipts (listed on the credit side of the Services Account) was KD 1,708.5 million during 2016 compared to KD 1,809.7 million during the previous year, i.e. a decline of KD 101.2 million or 5.6%. This decrease is attributed to the decline in the receipts from “transportation” services of KD 376.2 million during 2016 against KD 459.0 million during the previous year, i.e. a decrease of KD 82.8 million or 18.0%, and the “communication” services of KD 771.5 million during 2016 against KD 813.5 million during the previous year, i.e. a decrease of KD 42 million or 5.2%.

### **3. Primary Income:**

Primary Income includes the net value of income from investments abroad and net value of employee compensations. The Primary Income Account realized a surplus of KD 4,007.8 million during 2016 against a surplus of KD 3,818.9 million during the previous year, i.e. a rise of KD 188.8 million or 4.9%. Statistics indicate that total receipts from investments abroad, by various national sectors, during 2016 reached KD 5,322.7 million against KD 4,956.8 million during the previous year, i.e. a rise of KD 365.9 million or 7.4%.

### **4. Secondary Income:**

The Secondary Income Account in the Current Account on the debit side of the BOP reflects the current outward transfers from residents, including expatriate workers’ remittances, and the cash and in-kind subsidies donated by the government of the State of Kuwait to non-residents. Provisional statistics indicate that the Secondary Income account recorded a deficit of KD 5,239.8 million during 2016 compared with a deficit of KD 4,996.0 million during the previous year, i.e. an increase of KD 243.7 million or 4.9%. This mainly came as a result of the rise in current transfers of the government to KD 629.6 million during 2016 against KD 452.9 million during the previous year, i.e. an increase of KD 176.7 million or 39.0%, and the rise in the expatriate workers’ remittances of KD 4,566.1 million during 2016 against KD 4,492.3 million during the previous year, i.e. a rise of KD 73.8 million or 1.6%.

## Second- Capital Account:

The Capital Account recorded a deficit (net capital transfer outflows) of KD 134.6 million during 2016 against a deficit of KD 92.4 million during the previous year, i.e. an increase in the deficit of KD 42.3 million or 45.8%. Capital transfers is one of the main items of the Capital Account. Compensations received by residents from the UN is considered the main item of such transfers. The deficit in this item mainly resulted from the postponement of compensation payments following the State of Kuwait's claims to the UN Compensation Committee from the beginning of 2015 until January 2018.

**Table (46)**  
**Capital Account**  
(KD Million)

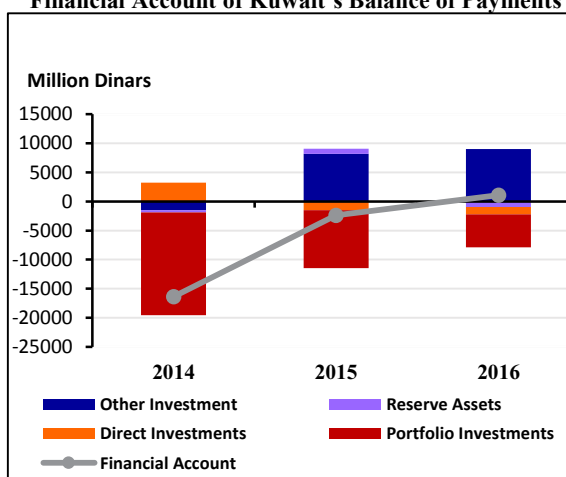
Items	2015	2016	Change	
	(Revised)	(Provisional)	Value	(%)
<b>Second: Capital Account:</b>	<b>-92.4</b>	<b>-134.6</b>	<b>-42.3</b>	<b>45.8</b>
<b>Capital Transfers:</b>	<b>-92.4</b>	<b>-134.6</b>	<b>-42.3</b>	<b>45.8</b>
Government Bodies	-26.0	-49.0	-23.0	88.4
Other Sectors	-66.3	-85.6	-19.3	29.0
<b>Third: Current and Capital Account</b>	<b>1,115.6</b>	<b>-1,645.1</b>	<b>-2,760.7</b>	<b>-247.5</b>

Source: CBK.

## Third- Financial Account:

The Financial Account records transactions involving financial assets and liabilities between residents and non-residents. It includes job categories, sectors, instruments, and maturities used in net international finance transactions. Provisional BOP statistics of the State of Kuwait indicate a net inflow (growth in the net value of investments from non-residents in the domestic economy) of KD 1,068.1 million during 2016 against a net outflow (growth in the net value of external investments) of KD 2,360.3 million during the previous year, i.e. a decrease of KD 3,428.4

**Chart (22)**  
**Financial Account of Kuwait's Balance of Payments**



Source: CBK.

million or 145.3%. The mentioned decline is mainly a result of the change in the net investment of securities portfolio and the change in CBK's total reserve assets.

**Table (47)**  
**Financial Account\***  
(KD Million)

Item	2015	2016	Change	
	(Revised)	(Provisional)	Value	(%)
<b>Fourth- Financial Account:</b>	-2,360.3	1,068.1	3,428.4	-145.3
<b>1- Direct Investment (Net):</b>	-1,521.3	-1,250.1	271.2	-17.8
- Direct Investments Abroad	-1,614.7	-1,382.2	232.5	-14.4
- Foreign Direct Investments in Kuwait	93.4	132.1	38.7	41.4
<b>2- Portfolio Investment (Net):</b>	-9,957.1	-5,696.4	4,260.7	-42.8
- Assets	-10,060.7	-5,843.5	4,217.2	-41.9
- Liabilities	103.6	147.1	43.5	42.0
<b>3- Financial Derivatives:</b>	46.2	-17.9	-64.1	-138.7
- Assets	-284.1	-72.0	212.0	-74.6
- Liabilities	330.3	54.1	-276.1	-83.6
<b>4- Other Investments (Net):</b>	8,185.9	8,992.6	806.8	9.9
- Assets	6,720.9	8,241.8	1,520.9	22.6
- Liabilities	1,465.0	750.9	-714.1	-48.7
<b>5. CBK's Total Reserve Assets (Change)</b>	885.9	-960.1	-1,846.1	-208.4

Source: CBK.

\*Negative numbers in the Financial Account statements reflect capital outflows, indicating an increase in external assets or a decrease in foreign liabilities. Positive numbers indicate the opposite.

#### **Fourth- Errors and Omissions (Net):**

Available data indicate that net flows which are not listed under any of the BOP items was around at KD 577.0 million on the credit side, representing net inflows during 2016, compared to KD 1,244.7 million on the credit side during the previous year.

### **Fifth- Overall Balance:**

The overall position of the State of Kuwait BOP which presents a summary of the transactions recorded under various BOP items, shows a total surplus of KD 960.1 million during 2016 compared with a deficit of KD 885.9 million during the previous year. The total surplus in the overall BOP reflects a rise in the gross value of reserve assets of the CBK of the same amount. The overall position of the State of Kuwait BOP, within a broader perspective to encompass changes in the net value of external investments of some government authorities and institutions, particularly, Kuwait Investment Authority (KIA) and Kuwait Petroleum Corporation (KPC), in addition to the above-mentioned change in the gross value of CBK's reserve assets, shows a deficit of around KD 2,530.7 million during 2016 compared with a surplus of KD 1,618.8 million during the previous year.

**Table (48)**  
**The State of Kuwait BOP**  
(KD Million)

Item	2015	2016	Change	
	(Revised)	(Provisional)	Value	(%)
<b>Current Account</b>	1,208.0	-1,510.5	-2,718.5	-225.0
<b>Capital Account</b>	-92.4	-134.6	-42.3	45.8
<b>Current and Capital Account</b>	1,115.6	-1,645.1	-2,760.7	-247.5
<b>Financial Account</b>	-2,360.3	1,068.1	3,428.4	-145.3
<b>Errors and Omissions</b>	1,244.7	577.0	-667.7	-53.6
<b>Overall Balance (Surplus/Deficit)</b>	-885.9	960.1	1,846.1	-208.4
<b>Reserve Assets of CBK (Change)</b>	885.9	-960.1	-1,846.1	-208.4

Source: CBK.



Boursa Kuwait

2016

## Boursa Kuwait

The performance of major trading and price indicators of Boursa Kuwait varied during 2016, where key trading indicators (value and volume of traded shares) recorded a decline of 27.16% and 26.96%, respectively, compared with their recorded levels during 2015. Boursa Kuwait General Price Index (PI) closed its transactions increasing by 2.37% at the end of 2016 compared with the closing of 2015. Boursa Kuwait Weighted Price Index (WI) recorded a slight decrease of 0.42% at the end of 2016 compared with the closing of 2015. The “Kuwait 15 index” recorded a decline of 1.71% at the end of 2016 compared with the closing of 2015. In light of these developments, the market capitalization of listed companies recorded a slight increase reaching KD 26,245.8 million at the end of 2016, i.e. up by 0.06% compared with the end of 2015, after a decrease in market capitalization of 11.78% at the end of 2015 compared with the previous year.

With regard to the most prominent developments regarding the procedures taken by Boursa Kuwait during 2016, Boursa Committee issued decision No. (34) of the year 2016 concerning the delivery of all the documents and papers of Kuwait Stock Exchange’s (KSE) current management to Boursa Kuwait in April 2016<sup>8</sup>, decision No. (90) of the year 2016 concerning the cancellation of the KSE’s license and the expiration of the decree issued on 14 August 1983 regarding the regulation of the KSE, and decision No. (91) of the year 2016 concerning the authorization of Boursa Kuwait to engage in the securities exchange activity starting from 4 October 2016.

According to the Morgan Stanley Capital International (MSCI), the Stanley indices increased at the end of 2016 compared with the end of the previous year, whereby the emerging markets (EM) index increased by 68.14 points or 8.58%, and developed markets (DM) index by 88.43 points or 5.32%<sup>9</sup>.

<sup>8</sup>Decision No. (34) of the year 2016 signifies the end of the Committee’s role in the market, where the ownership of the new Boursa corporate is divided among 50% for citizens, 6% for the government, and 44% for foreign investors.

<sup>9</sup>Source: Morgan Stanley Capital International.

This part of the report presents the main developments of Boursa Kuwait activity during 2016, as follows:

### First- Main Trading Indicators:

The variation in the performance of the main trading indicators of Boursa Kuwait was accompanied by a decline in the main trading averages during 2016 compared with their levels during 2015 (Table 49 and Chart 23). The total value of traded shares was KD 2.87 billion with a daily average of KD 11.62 million<sup>10</sup> during 2016 against KD 3.94 billion with a daily average of KD 15.82 million during 2015, i.e. a decline of KD 1.07 billion or 27.16% in the total value of traded shares and a 26.55% decline in the daily average value of traded shares.

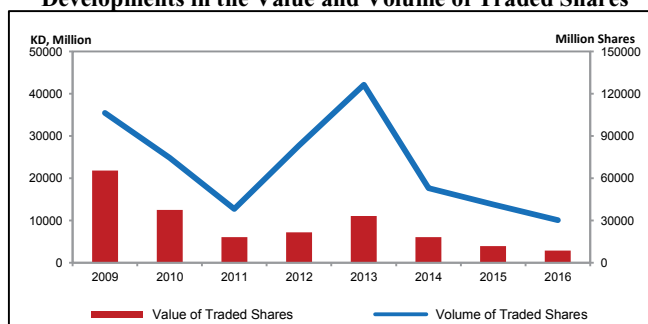
Traded shares volume was 30.32 billion with a daily average of 122.75 million during 2016 compared to 41.51 billion with a daily average of 166.71 million during 2015, i.e. a decrease of 11.19 billion or 26.96% in the total volume of traded shares and a 26.37% decline in their daily average traded volume.

**Table (49)**  
Main Share Trading Indicators of Boursa-Listed Companies

Period	Value (KD Million)	Quantity (Million Shares)	Number of Transactions (Thousand Transactions)
2014	6,087.0	52,986.1	1,185.9
2015	3,943.7	41,509.7	960.7
2016	2,872.7	30,318.1	712.8
Q1	835.9	9,453.5	216.9
Q2	749.3	9,025.0	199.4
Q3	379.6	3,658.7	105.1
Q4	907.9	8,180.9	191.4
<b>Average Annual Change in 2016 from 2015</b>	<b>-27.16</b>	<b>-26.96</b>	<b>-25.80</b>

Source: Boursa Kuwait.

**Chart (23)**  
Developments in the Value and Volume of Traded Shares



Source: Boursa Kuwait

<sup>10</sup> The daily average of traded value and volume in Boursa Kuwait in 2016 was calculated for 247 trading days against 249 trading days in 2015.

Regarding the sectoral distribution of the total value of traded shares (Table 50), shares of the banks sector (encompassing 12 banks, or 6.52% of Boursa-listed companies, and 47.15% of market capitalization at the end of 2016) recorded the highest value of traded shares among the market sectors. Worth noting is that the value of traded shares of the banks sector was KD 985.0 million during 2016, accounting for 34.29% of the total value of traded shares for the mentioned year. The top five sectors were the financial services sector (19.84%), real-estate sector (12.65%), industrials (10.31%), and telecommunications (10.30%).

**Table (50)**  
Developments in the Value of Traded Shares by Boursa Kuwait Sectors during 2016 (Value in KD Million) and the Relative Share of the Total (%)

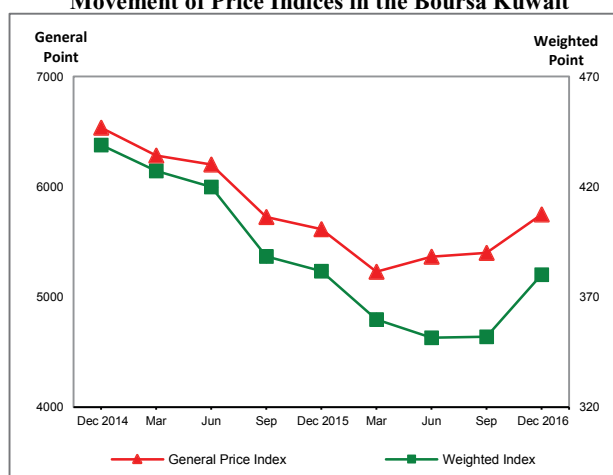
Sector	Number of Companies	2016	
		Value	%
Oil & Gas	8	48.83	1.70
Basic Materials	4	40.03	1.39
Industrials	36	296.06	10.31
Consumer Commodities	8	163.55	5.69
Healthcare	4	26.45	0.92
Consumer Services	13	74.28	2.59
Telecommunications	4	295.93	10.30
Utilities	-	-	-
Banks	12	985.01	34.29
Insurance	8	3.43	0.12
Real-Estate	36	363.28	12.65
Financial Services	48	569.93	19.84
Financial Instruments	0	-	-
Technology	3	5.90	0.21
<b>Total</b>	<b>184</b>	<b>2,872.68</b>	<b>100</b>

Source: Boursa Kuwait.

### Second- Price Movements:

Boursa Kuwait PI (29/12/1993=1000 points) recorded a notable increase at the end of 2016 closing at 5,748.09 points against 5,615.12 points at the end of 2015, i.e. an increase of 132.97 points or 2.37%. Boursa Kuwait PI recorded its highest daily level on 28 December 2016 closing at 5,753.36 points, while its lowest daily level recorded on 26 January 2016 was 4,936.51 points.

**Chart (24)**  
Movement of Price Indices in the Boursa Kuwait



Source: Boursa Kuwait

Consequently, the difference between the highest and the lowest daily closing levels recorded during 2016 was 816.8 points or 16.55%.

On the other front, Boursa Kuwait WI (26/12/2000 = 100 points) slightly decreased to close at 380.09 points at the end of 2016 against 381.70 points at the end of 2015, i.e. a decrease of 1.61 points or 0.42%. In the same direction, the “Kuwait 15 index”<sup>11</sup> (13/5/2012 = 1000 points) declined to close at 885.02 points at the end of 2016 against 900.43 points at the end of 2015, i.e. a decrease of 15.41 points or 1.71%.

During 2016, major price indicators recorded a significant increase in the fourth quarter, where the PI, WI and Kuwait 15 index recorded a rise of 6.48%, 8.02% and 8.71%, respectively, compared with the third quarter of 2016.

**Table (51)**  
**Major Price Indicators at the end of the Quarters of 2016**

Period	PI	WI	Kuwait 15 Index
Q4 2015	5,615.12	381.70	900.43
Q1 2016	5,391.81	366.28	863.33
(%)	-3.98	-4.04	-4.12
Q2 2016	5,364.57	351.44	805.71
(%)	-0.51	-4.05	-6.67
Q3 2016	5,398.39	351.87	814.1
(%)	+0.63	+0.12	+1.04
Q4 2016	5,748.09	380.09	885.02
(%)	+6.48	+8.02	+8.71

(%) Reflects the change in the current quarter against the previous quarter in major indicators.

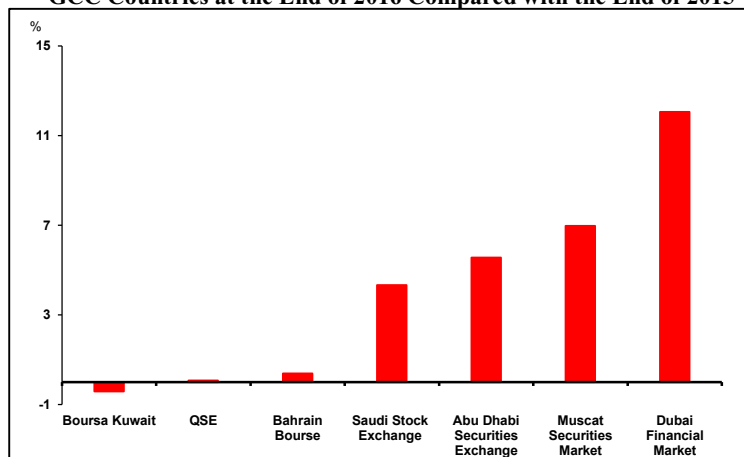
Source: Boursa Kuwait.

<sup>11</sup> The Kuwait 15 Index was introduced on Sunday 13/5/2012 encompassing the 15 largest Boursa-listed companies in terms of market capitalization and value of traded shares. The index components are revised every six months (May and November) and are announced in June and December of every year.

## Price Indicators in the Financial Markets of the GCC Countries

Price indices for the capital markets in the GCC countries (indicators weighted by companies' capitals) recorded an increase at the end of 2016 compared with the closings of 2015, where Dubai Financial Market recorded the highest increase (12.06%) among GCC capital markets, followed by Muscat Securities Market with a rise of 6.96% and Abu Dhabi Securities Exchange (5.55%).

**Chart (25)**  
Change in the Ratio of Price Indicators in the Financial Markets of the GCC Countries at the End of 2016 Compared with the End of 2015



Source: Reuters

Furthermore, PI in Saudi Capital Market, Bahrain Bourse, and Qatar Stock Exchange recorded an increase of 4.32%, 0.38% and 0.07% respectively at the end of 2016.

### Third- Factors Affecting Boursa Kuwait's Activity:

The performance of Boursa Kuwait was affected by a number of factors during 2016, most significant of which are:

- **Developments in crude oil prices in global markets:** Crude oil prices witnessed relatively low levels, where the price of oil barrel reached its lowest level, dropping to below \$20 p/b at the beginning of 2016. Consequently, speculations about the expected deficit in the state budget increased, reflecting on the major trading and price indicators in Boursa Kuwait. However, crude oil prices gradually improved, particularly, in Q4 2016 after the decision made by oil exporting countries inside and outside OPEC to reduce crude oil output by 1.8 million b/d. The decision positively affected the market in that period, and increased purchases including shares of most leading companies as well as shares of relatively small companies.

- **Moody’s downgrades the outlook for the State of Kuwait’s sovereign rating during 2016:** On 13 May, 2016, the agency downgraded the State of Kuwait's outlook from stable to negative, maintaining the sovereign credit rating of Kuwait at “Aa2”. The agency indicated that this comes within the framework of the challenges faced by the State of Kuwait in implementing the financial and economic reform program, and the increasing concerns of Bursa Kuwait’s investors causing relative refraining from trading in shares.
- **The increasing number of optional withdrawals of Bursa-listed companies during 2016:** Bursa Kuwait witnessed seven optional withdrawals of companies from the market during 2016, negatively affecting the market’s trading, and leading to a decline in the main market indices.
- **The continued regional geopolitical tensions and repercussions of the global economic situation:** The political and security tensions in the Middle East continues to affect the Bursa Kuwait trading. Trading and price indices in Bursa Kuwait were also affected by the decline in global financial markets in the second half of 2016 after UK's decision to formally withdraw from the European Union (Brexit) following a referendum held by the British government.
- **Budget deficit continues:** The general budget recorded a deficit (before deducting the allocations for the Future Generation Reserve Fund) during FY2016/17 for the second consecutive year since the last deficit 16 years ago, causing concerns over funding the deficit from various internal and external sources. Measures were taken in order to reduce this deficit, its impact on the local economic conditions, and the financial position of Bursa-listed companies.
- **The increase in the value of cash distributions over the results of 2015:** One of the factors that boosted the level of Bursa liquidity was the increase in the value of cash distributions of companies’ financial results in 2015 which occurred at the beginning of 2016. The value of these distributions was KD 987.56 million during 2015 against KD 898.21 million during 2014, which occurred in early 2015 with an increase of KD 89.30 million or 9.95%.

- **Acquisition:** Al-Khair National for Stocks and Real Estate Company completed a sale transaction of Kuwait Food Company (Americana) shares for the Adeptio AD Holdings by the equivalent of 66.8% of the company's capital at KD 2.650 per share, with a total value of KD 711.5 million, which was reflected in the increased activity on the company's and associated companies' shares. Moreover, the news about an investment group's share increase in a bank's capital raised investors' optimism.
- **Companies' quarterly profits in 2016:** Net profits (losses) of listed companies witnessed a decrease of 5.88%, 8.87%, and 0.89% for Q1 2016, H1 2016, and the first three quarters of 2016 compared with the corresponding periods of 2015, while Boursa-listed companies recorded an increase of 22.62% in total net profits (losses) during Q4 2016. Consequently, the companies' total net profits (losses) recorded an increase of KD 67.29 million or 4.2% compared with 2015. Within this context, 85 companies witnessing an increase in their net profits realized a rise of KD 221.32 million or 16.48% in 2016, compared with 2015 for the same companies. Furthermore, 51 companies recorded a decrease in their net profits of KD 125.94 million or 25.09% during 2016 for the same companies. Finally, 39 companies recorded losses of KD 214.74 million during 2016 against KD 222.83 million compared with 2015 for the same companies.

#### **Fourth- Profits of Boursa-Listed Companies:**

Total net profits (losses) of 175 out of the 184 Boursa-listed companies recorded an increase of KD 1,725.45 million during 2016 against KD 1,621.98 million for the same companies for their work during 2015, i.e. a rise of KD 103.47 million or 6.4%, where 136 companies recorded a net profit of KD 1,940.19 million during 2016 against KD 1,844.81 million for 129 companies during 2015, i.e. an increase of KD 95.38 million or 5.2%. Meanwhile 39 companies recorded losses of KD 214.74 million during 2016 against KD 222.83 million for 46 companies during 2015, i.e. a decrease of KD 8.09 million or 3.6%.

The top five sectors, ranked by the relative share of their total net profits and losses to total net profits and losses of all sectors during 2016 were led by the Banks sector with a relative share of 53.9%, followed by Telecommunications (13.8%), Industries (11.0%), Real Estate (5.8%), and Financial Services (5.4%).

The Price to Earnings (P/E) ratio of Bursa-listed companies witnessed an increase reaching an average of 12.4 during 2016 against an average of 12.3 during 2015.

Table (52) illustrates the sectoral distribution of net profits of Bursa-listed companies during 2015 and 2016:

**Table (52)**  
**Performance of Bursa-Listed Companies by Sector during 2015 and 2016**  
(Value in KD Million)

Sector	Number of Companies Listed in the Sector	Number of Companies Which Announced Their Data	Net Profits (Losses) during 2015 and 2016			EPS (Fils)	Average Return on Equity	P/E (Multiples)
			2015	2016	Change (%)			
Oil & Gas <sup>(1)</sup>	8	7	(2.79)	(6.50)	-133.0	-1.2	-6.7	10.7
Basic Materials	4	4	49.90	48.13	-3.5	22.9	6.2	6.4
Industrial <sup>(1)</sup>	36	33	143.19	190.02	+32.7	11.6	5.1	12.7
Consumer Commodities <sup>(1)</sup>	8	7	68.36	69.46	+1.6	18.0	9.7	12.9
Healthcare <sup>(1)</sup>	4	3	1.23	10.78	+776.4	28.6	10.3	14.6
Consumer Services	13	13	51.74	20.12	-61.1	16.8	7.5	11.9
Telecommunications	4	4	218.26	237.80	+9.0	51.7	10.1	11.6
Utilities	-	-	-	-	-	-	-	-
Banks	12	12	858.83	930.26	+8.3	22.6	8.5	14.0
Insurance	8	8	37.14	27.03	-27.2	21.9	6.9	8.9
Real-Estate <sup>(1)</sup>	36	34	141.50	100.21	-29.2	3.3	0.2	13.9
Financial Services <sup>(1)</sup>	48	47	50.76	93.34	+83.9	0.4	-1.7	12.7
Financial Instruments	-	-	-	-	-	-	-	-
Technology	3	3	3.86	4.80	+24.4	18.0	12.5	10.9
<b>Market's Total</b>	<b>184</b>	<b>175</b>	<b>1,621.98</b>	<b>1,725.45</b>	<b>+6.4</b>	<b>9.5</b>	<b>3.0</b>	<b>12.4</b>

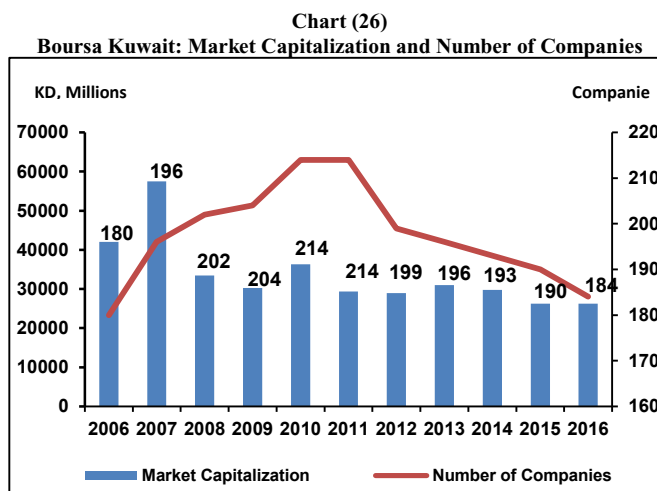
(1) There are companies that have not announced their profits yet, these are: one company from the Oil and Gas sector, 3 companies from the Industrial sector, one company from the Consumer Commodities sector, 2 companies from the Real Estate sector, and one company from the Financial Services sector.

Source: Financial data on companies' balance sheets available with Bursa Kuwait.

## Fifth- Developments in Market Capitalization and Share Issue Base:

### 1- Market Capitalization:

Market capitalization of Boursa-listed companies slightly increased by KD 15.7 million or 0.06%, i.e. a decline of KD 228.9 million or 0.94% for 173 Kuwaiti listed companies, to reach KD 26,245.8 million (KD 24,012.8 million for Kuwaiti listed companies) at the end of 2016 against KD 26,230.1 million (KD 24,241.7 million for 179 Kuwaiti listed companies) at the end of 2015 (chart 26).



Source: Boursa Kuwait

Market capitalization of top ten Boursa-listed companies reached KD 14,456.0 million or 55.08% of total market capitalization. The National Bank of Kuwait took the lead with a market capitalization of KD 3,663.2 million or 25.34% of total market capitalization of top ten Boursa-listed companies (equivalent to 13.96% of total market capitalization) during 2016, followed by Kuwait Finance House with a market capitalization of KD 2,830.4 million or 19.58% of total market capitalization for the top ten Boursa-listed companies during 2016.

One company with a market capitalization of KD 1.77 million was re-listed during 2016, accounting for 0.01% of total market capitalization, while seven Kuwaiti companies with market capitalization of KD 156.7 million, accounting for 0.6% of total market capitalization, were delisted.

## **2- Share Issue Base:**

The share issue base of Bursa-listed companies decreased by 275 million or 0.27% during 2016 to reach 103206 million (of which 87242 million issued by 173 Kuwaiti companies) at the end of 2016 compared to 103481 million (of which 87726 million issued by 179 Kuwaiti companies) at the end of 2015. The number of shares issued by the newly-listed companies was 67 million, while the number of shares of the seven delisted companies was 829 million during 2016.

## Contents

Item	Page
<b>Preface</b> .....	11
<b>Summary of the Economic Report</b> .....	17
<b>Performance of the Domestic Economy</b> .....	25
<b>First: Gross Domestic Product and Economic Growth</b> .....	25
<b>Second: General Level of Domestic Prices</b> .....	26
- General Index of Consumer Prices .....	26
- General Wholesale Price Index.....	29
<b>Third: Population and Labor Force</b> .....	30
<b>Monetary Developments and the Central Bank of Kuwait Activity</b> .....	39
1- Developments in the KD Exchange Rate .....	40
2- Money Supply Developments .....	41
3- Developments in Banking Credit .....	45
4- Developments in Domestic Interest Rates.....	48
5- Issuance of Public Debt Instruments and CBK Bonds.....	51
A- Issuance of Public Debt Instruments.....	51
B- Issuance of CBK Bonds and Related Tawarruq .....	52
6- Activity of the Local Interbank Deposit Market .....	53
7- The Balances of Local Bank Accounts with CBK.....	53
8- Activity of CBK Clearing Room.....	54
9- Transactions Using Plastic Cards.....	55
10- Developments in Banking Oversight and Supervision .....	56
<b>Financial Indicators of the Banking and Financial System</b> .....	65
<b>Aggregate Balance Sheet of Local Banks</b> .....	65
First- Domestic Assets .....	66
Second- Domestic Liabilities .....	68
Third- Net Foreign Assets .....	70
Fourth- Contra Accounts .....	70

## Contents / Cont'd

Item	Page
Fifth- Financial Flows .....	71
Sixth- Indicators and Financial Ratios .....	74
<b>The Aggregate Balance Sheet of Local Investment Companies .....</b>	<b>77</b>
First: Conventional Investment Companies .....	78
Second: Investment Companies Operating in Accordance with the Provisions of the Islamic Sharia	80
Third: Contra Accounts of Local Investment Companies .....	82
<b>The Aggregate Balance Sheet of Local Exchange Companies .....</b>	<b>83</b>
<b>Public Finance.....</b>	<b>89</b>
<b>First- The Closing Account for Fiscal Year 2015/16 .....</b>	<b>89</b>
<b>Second- The General Budget for FY2016/17.....</b>	<b>93</b>
<b>Foreign Trade and Balance of Payments.....</b>	<b>101</b>
<b>First- Current Account.....</b>	<b>101</b>
<b>Second- Capital Account .....</b>	<b>108</b>
<b>Third- Financial Account.....</b>	<b>108</b>
<b>Fourth- Errors and Omissions (Net).....</b>	<b>109</b>
<b>Fifth- Overall Balance.....</b>	<b>110</b>
<b>Boursa Kuwait .....</b>	<b>113</b>
<b>First- Main Trading Indicators .....</b>	<b>114</b>
<b>Second- Price Movements .....</b>	<b>115</b>
<b>Third- Factors Affecting Boursa Kuwait's Activity .....</b>	<b>117</b>
<b>Fourth- Profits of Boursa-Listed Companies .....</b>	<b>119</b>
<b>Fifth- Developments in Market Capitalization and Share Issue Base .....</b>	<b>121</b>

## Tables

No	Table Title	Page
1	Growth Rates of Real GDP .....	26
2	Developments in the General Consumer Price Index (Base Year 2007=100).....	28
3	Developments in the General Wholesale Price Index (Base Year 2007=100).....	30
4	Developments in the Main Indicators of Population in the State of Kuwait.....	31
5	Developments in the Dependency Indicators in the State of Kuwait.....	32
6	Developments in the Labor Force Main Indicators in the State of Kuwait.....	33
7	Distribution of Labor Force by Divisions of Economic Activity (%) .....	34
8	Relative Distribution of Labor Force by Nationality and Sector (%) .....	35
9	USD Exchange Rate against the KD and Some Major Currencies at the End of 2016 Compared with the Previous Year.....	41
10	USD Exchange Rate against the KD and Some Major Currencies Based on Daily Data During 2016.....	41
11	Developments in Money Supply Aggregates.....	42
12	Private Sector Deposits with Local Banks at the end of 2016.....	43
13	Factors Affecting Changes in Money Supply (M2) .....	44
14	Net Foreign Assets of CBK and Local Banks .....	44
15	Developments of Balances of Utilized Domestic Cash Credit Facilities.....	46
16	Developments of New KD Credit Facility Agreements with Residents.....	47
17	Developments of the Local KD Interest Rates Structure .....	49
18	Interest Rates on Customer KD and USD Deposits with Local Banks.....	50
19	Developments of Public Debt Instruments .....	51
20	Developments of CBK Bonds and Tawarruq .....	52
21	Distribution of Transaction Values of the Interbank Deposit Market of Local Banks According to Maturity Periods .....	53
22	Trends in Development of KD Balances of CBK with Local Banks.....	54
23	Clearing Transactions and Settlements among Local Banks .....	55

## Tables / Cont'd

NO	Table Title	Page
24	Developments in the Banking System Structure .....	65
25	Aggregate Balance Sheet of Local Banks (Assets) .....	68
25-A	Aggregate Balance Sheet of Local Banks (Liabilities) .....	69
25-B	Aggregate Balance Sheet of Local Banks (Contra Accounts) .....	71
26	Summary of Financial Flows in Local Banks during 2015 and 2016 .....	73
27	Some Financial Indicators and Ratios of Local Banks ((%) .....	76
28	Developments in the Financial System Structure .....	77
29	Aggregate Balance Sheet of Local Investment Companies .....	78
30	Aggregate Balance Sheet of Conventional Investment Companies .....	80
31	Aggregate Balance Sheet of Investment Companies Operating in Accordance with the Provisions of the Islamic Sharia .....	82
32	Contra Accounts of Local Investment Companies .....	83
33	Aggregate Balance Sheet of Local Exchange Companies .....	85
34	Actual Revenues in the General Budget .....	89
35	Actual Budgetary Non-Oil Revenues.....	90
36	Actual Budgetary Expenditures .....	91
37	Economic Classification of Actual Public Expenditures.....	92
38	Summary of the General Budget Closing Account.....	93
39	Estimates of Revenue and Expenditure Allocations in the General Budget.....	94
40	Allocations for Expenditures in the General Budget.....	96
41	Estimates of Revenues and Allocations for Expenditures in the General Budget .....	97
42	Current Account .....	102
43	Geographic Distribution of Value of Non-Oil Exports of the State of Kuwait to the Top Ten Countries.....	104
44	Geographic Distribution of Kuwait Merchandise Imports Value (on CIF basis) From the Top Ten Countries.....	105
45	Kuwait Trade with the GCC Countries .....	106

## Tables / Cont'd

NO	Table Title	Page
46	Capital Account.....	108
47	Financial Account .....	109
48	The State of Kuwait BOP .....	110
49	Main Share Trading Indicators of Boursa-Listed Companies .....	114
50	Developments in the Value of Traded Shares by Boursa Kuwait Sectors during 2016 (Value in KD Million) and the Relative Share of the Total .....	115
51	Major Price Indicators at the end of the Quarters of 2016 .....	116
52	Performance of Boursa-Listed Companies by Sector during 2015 and 2016 .....	120

## Charts

No	Chart	Page
1	Real GDP .....	25
2	Rates of Change in the Consumer Price Index.....	26
3	Relative Contribution in the General Consumer Price Index, Change by main groups (%)	27
4	Inflation Rates in the GCC Countries during 2016 .....	29
5	Rates of Change in the General Wholesale Price Index.....	29
6	Developments in the Population Growth Rates in the State of Kuwait.....	30
7	Distribution of Population by Age Groups at the End of 2015 and 2016.....	32
8	Relative Structure of Labor Force in 2016 .....	34
9	USD Exchange Rate Against the KD (end of period) .....	40
10	Developments in Money Supply (M2).....	42
11	Financing Merchandise Imports through Local Banks.....	47
12	Total Value and Number of Transactions Using ATM Machines.....	55
13	Total Value and Number of Transactions Using Points of Sale (POSs) .....	56
14	Local Banks' Assets .....	66
15	Local Banks' Liabilities .....	69
16	Developments of Oil and Non-Oil Revenues.....	90
17	Economic Classification of Public Expenditures.....	92
18	Developments of the Closing Account Data.....	93
19	Developments of Estimated Revenues and Expenditure Allocations in the General Budget	96
20	Current Account of Kuwait's Balance of Payments .....	101
21	The Balance on Goods for Kuwait's Balance of Payments.....	103
22	Financial Account of Kuwait's Balance of Payments.....	108
23	Developments in the Value and Volume of Traded Shares .....	114
24	Movement of Price Indices in the Boursa Kuwait .....	115
25	Change in the Ratio of Price Indicators in the Financial Markets of the GCC Countries at the End of 2016 Compared with the End of 2015 .....	117
26	Boursa Kuwait: Market Capitalization and Number of Companies .....	121

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