



Central Bank of Kuwait



Economic Report 2014

CENTRAL BANK
OF KUWAIT

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Central Bank of Kuwait



ECONOMIC REPORT

2014



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



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



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

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FOR THE YEAR 2014



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In the Name of God, Most Gracious, Most Merciful

Preface

I am pleased to present the Economic Report 2014 to all those interested in the economic affairs of the State of Kuwait. This forty-third issue of the Economic Report prepared annually by the Central Bank of Kuwait (CBK), contains details of the key economic developments during the year, including the most recent data and statistics available on various aspects of economic performance of 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 key trends in the performance of the Kuwaiti economy during 2014, as reflected in available data and statistics on national accounts, domestic prices, population and the labor force. In this context, available statistics indicate an increase of the value added at constant prices from non-oil sectors of KD 421.4 million, or 2.1%, to KD 20,541.1 million during 2014, against KD 20,119.7 million during 2013. On the other hand, the value added at constant prices in oil sectors dropped by KD 416.4 million, or 1.7%, to reach KD 24,006.1 million during 2014, against KD 24,422.5 million the previous year. As a result of these developments, Gross Domestic Product (GDP) at constant prices declined to KD 38,477 million during 2014, against KD 39,111.4 million the previous year, i.e. a decrease of KD 634.5 million, or 1.6%. In parallel, GDP at current prices of non-oil sectors increased by 6.2% during 2014, while GDP of oil sectors recorded a decline of 10.6%. As a result, GDP at current prices amounted to KD 46,564.1 million during 2014, i.e. a decline of 5.7% compared with 2013. In this context, it is worth noting that GDP of oil sectors was affected by the drop in global oil prices. Data reported by the Organization of the Petroleum Exporting Countries (OPEC) indicate a decrease in the average spot price of the OPEC Reference Basket (ORB) to \$96.29 a barrel in 2014, compared with an average of \$105.87 a barrel in 2013, i.e. a decrease of \$9.58 or 9%. Concurrently, the average price of Kuwait export crude oil dropped to \$95.21 a barrel during 2014, compared with an average price of \$105.78 a barrel during the previous year, i.e. a decrease of \$10.57 or 10%.

The inflation rate in the State of Kuwait, measured by the relative change in the General Consumer Price Index (CPI), was 2.9% during 2014 against 2.7% during the previous year. Available statistics also indicate that the growth rate of the Kuwaiti population increased to 2.7% during 2014, while the growth rate of the non-Kuwaiti population slowed to 3.4% during 2014, compared with a growth rate of 4.3% during 2013, bringing the growth rate of the total population in the State of Kuwait to 3.2% during 2014. In this context, the growth rate of the total labor force in the State of Kuwait during 2014 reached 3.6%, while the growth rate of the Kuwaiti labor force increased to 2.9% during 2014 against 2.7% during the previous year.

In the **second part**, the Report reviews the main monetary and banking conditions and the CBK's activities in areas of monetary policy and banking supervision through highlighting major developments witnessed in the key monetary aggregates and indicators, as well as significant developments in the banking oversight and supervision area during the year. In this regard, available data indicate a sustained relative stability in the KD exchange rate against major currencies during 2014, in line with the exchange rate policy pegging the KD to a weighted basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. The dollar exchange rate against the KD increased by 10.55 fils, or 3.7%, at the end of 2014. On the other hand, Money Supply in its Broad Definition (M2) realized growth of 3.4% at the end of 2014, while the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors increased by 6.4% at the end of 2014, compared with 7.9% at the end of the previous year. Similarly, private sector (resident) deposits with local banks grew by 3% compared with 9.9% at the end of 2013. Moreover, the CBK continued its efforts in managing domestic liquidity levels during 2014 using its monetary policy instruments, mainly accepting deposits from local banks, issuing CBK bonds and managing public debt instruments on behalf of the Ministry of Finance. Local banks' claims on the CBK increased by 8% to total KD 5,778 million at the end of 2014.

In the area of banking supervision and oversight efforts over the local banking and financial sector, aimed at enhancing its financial position and maintaining financial stability, the CBK continued its efforts during 2014 through issuing and overseeing the implementation of its directives related to banking supervision regulations, particularly those related to adopting Basel Committee's latest banking supervision standards (Basel III Set of Reforms) which contain several basic amendments to Basel II Capital Adequacy Standards, as well as the introduction of new standards for financial leverage and short/long-term liquidity.

In addition, in the area of promoting banks' risk management, the CBK continued to oversee their implementation of its directives concerning periodical financial stress testing. With regard to the macroprudential policies aimed at curbing systemic risks and promoting financial stability, the CBK issued regulations to local banks, investment companies and finance companies concerning controls on financing to individuals for the purpose of purchasing/developing real estates in private residential areas. Furthermore, the CBK continued in its efforts related to the application of corporate governance standards in local banks where a number of inspection measures were implemented to ensure local banks' adherence to CBK's regulations put into effect as of 1/7/2013.

The **third part** of the Report points out developments in financial indicators of the banking and financial system, in light of data on aggregate financial statements of various banking and financial sector units supervised by the CBK, including local banks, finance companies and exchange companies, in order to identify the 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 amounted to KD 55,463.5 million at the end of 2014, representing a growth rate of 7.7% compared with the previous year. The aggregate balance sheet of local investment companies amounted to KD 10,533 million at the end of 2014, recording a decrease of 1.4% from its level at the end of 2013. The aggregate balance sheet of local exchange companies registered with, and supervised by, the CBK, amounted to KD 153.8 million at the end of 2014, increasing by 7.5% from the end of the previous year.

The **fourth part** of the Report highlights developments in the State's public finances within two key sections, first: the Closing Account for FY2013/2014, second: the general budget for ministries and government departments for FY2014/2015 (the enacted general budget and government financial operations carried out during the first nine months of FY2014/2015). In this context, the Closing Account for FY2013/2014 recorded an actual surplus of KD 12,908.1 million, i.e. an increase of 1.6% compared with the previous fiscal year, before deduction of allocations for the Reserve Fund for Future Generations (RFFG).

The **fifth part** of the Report reviews developments in the trade and financial relations of the State of Kuwait with other economies during 2014, as reflected in the statistics on foreign trade and the Balance of Payments (BOP) of the State of Kuwait for the mentioned year, where the realized surplus in the balance

on goods witnessed a decline of KD 3,543.6 million, or 13.9%, during 2014, mainly due to the decrease in oil exports resulting from a noticeable decline of global oil prices since mid-2014. Likewise, surplus in the current account decreased by KD 5,070.7 million, or 25.1%. The overall position of the BOP of the State of Kuwait realized a total surplus of KD 362.6 million in 2014.

Lastly, the **sixth part** of the Report covers developments in the performance of the Kuwait Stock Exchange (KSE) during 2014 as reflected in the key trading indicators, price movements and factors affecting the KSE's performance. In this context, the KSE Price Index (PI) closed with a decline of 13.43% at the end of 2014 compared with the closing of 2013, while the KSE Weighted Price Index (WPI) recorded a lower decrease of 3.09% compared with 2013. Worth noting is that key indicators recorded a noticeable decline in the last quarter of 2014 where the PI, WPI and "Kuwait 15" recorded a decrease of 14.25%, 11.24% and 11.95% respectively, compared with the third quarter of the mentioned 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

2014

Summary of the Economic Report

The Economic Report for the year 2014 presents key economic, financial, monetary and banking conditions and updates witnessed in the Kuwaiti economy during the year under review. The Report addresses these developments and updates in six parts, the most significant of which can be briefly pointed to as follows:

First - Performance of the Domestic Economy:

Preliminary estimates on the national accounts statistics of the State of Kuwait for the year 2014 indicate that the value added at constant prices from non-oil sectors grew by KD 421.4 million or 2.1% to reach KD 20,541.1 million during 2014, against KD 20,119.7 million during 2013, after a growth of KD 820.1 million or 4.2% during the previous year. On the other hand, the value added at constant prices in oil sectors declined by KD 416.4 million or 1.7% to KD 24,006.1 million during 2014, against KD 24,422.5 million in the previous year. As a result, GDP at constant prices decreased to KD 38,477 million during 2014, against KD 39,111.4 million in the previous year, i.e. a decline of KD 634.5 million or 1.6%.

On the other hand, the value added at current prices from non-oil sectors increased to KD 23,819.1 million during 2014, against KD 22,436.3 million during 2013, i.e. a growth of KD 1,382.8 million or 6.2%, after a growth of KD 1,061.9 million or 5% during the previous year. Conversely, the value added at current prices in oil sectors declined by KD 3,460.1 million or 10.6% to KD 29,222.5 million during 2014, against KD 32,682.6 million in the previous year. As a result, GDP at current prices decreased to KD 46,564.1 million during 2014, against KD 49,392.2 million in the previous year, i.e. a decrease of KD 2,828.1 million or 5.7%.

Inflation in the State of Kuwait, measured by the relative change in the CPI (2007=100) recorded a slight increase to 2.9% during 2014 against 2.7% during the previous year. This increase was caused by the changes in the main groups constituting the CPI during 2014 compared with their levels during 2013. The

increase rate in the average prices of Housing Services (weight 28.9%) increased to 4.4% during 2014 against 3.9% during 2013, Clothing and Footwear (weight 9.3%) to 2.2% during 2014 against a decrease of 0.1% during 2013 and Transport (weight 7.9%) to 1.5% during 2014 against 1.3% during 2013. On the other hand, the increase rate in the average prices of Food and Beverages (weight 18.4%) slowed to 2.9% during 2014 against 4% during 2013.

Available statistics on developments in population and labor force in the State of Kuwait, indicate that the growth rate of non-Kuwaiti population slowed to 3.4% during 2014 compared to 4.3% during 2013. Conversely, the growth rate of Kuwaiti population increased to 2.7% during 2014 compared to 2.5% during 2013. As a result, the growth rate of total population in the State of Kuwait slowed to 3.2% during 2014 compared to 3.7% during 2013. This was coupled with a growth of 3.6% in total labor force in the State of Kuwait during 2014 against 3.3% during the previous year, as well as an increase of 2.9% in the growth rate of Kuwaiti labor force during 2014 against 2.7% during 2013.

Second - Monetary Developments and the CBK's Activity:

Data on the key monetary and banking aggregates of the State of Kuwait indicate an increase of 3.4% in Money Supply in its Broad Definition (M2) at the end of 2014 compared to 10% at the end of 2013. Furthermore, developments in resident's private sector deposits with local banks indicate a growth of 3.0% at the end of 2014 compared to 9.9% at the end of 2013. 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 grew by 6.4% at the end of 2014 compared to 7.9% at the end of 2013.

As for the movements on KD exchange rate in 2014, the CBK continued implementation of exchange rate policy applied since 20 May 2007, pegging the KD to a specially weighted basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. In this context, data indicate that the movements in the exchange rate of the US dollar against the KD were within relatively narrow margins during 2014, compared with the average of changes in the exchange rate of the US dollar against other key currencies. The difference between the highest and the lowest exchange rate of the US dollar against the KD was 10.550 fils or 3.7% as at the end of 2014.

On the other hand, data indicate more visible fluctuations in the exchange rate of the US dollar against other key currencies, where the difference between the highest and the lowest exchange rate of the US dollar was 14.4% against the Japanese Yen, 12.8% against the Euro, 10.7% against the Swiss Franc and 5.8% against the Pound Sterling. Daily data on the changes in the exchange rate of the US dollar against the KD and some other key currencies indicate that the movements in the exchange rate of the US dollar against the KD were also within relatively narrow margins during 2014 where the difference between the highest and the lowest exchange rate of the US dollar against the KD was 4.4%. However, the exchange rate of the US dollar recorded a rise of 20.1% against the Japanese Yen, 14.5% against the Euro, 13.2% against the Swiss Franc and 10.5% against the Pound Sterling.

Data on local banks' deposits with the CBK indicate that local banks' claims on the CBK witnessed a noticeable increase of KD 428.6 million or 8.0%, reaching KD 5,778.0 million at the end of 2014 against KD 5,349.4 million at the end of 2013.

The CBK continued to fulfill its role in managing the domestic liquidity levels using its monetary policy instruments (Treasury Bills and Treasury Bonds). The CBK, on behalf of the Ministry of Finance, launched 25 issues of Treasury Bonds with a total nominal value of KD 1,210.0 million during 2014. Meanwhile, 23 previous issues of Treasury Bonds with a total nominal value of KD 1,150.0 million matured during the same period. As a result, the outstanding balance of Treasury Bonds increased by KD 60 million or 3.9% to KD 1,587.3 million at the end of 2014, against KD 1,527.3 million at the end of 2013. No Treasury Bills had been issued during 2014.

The CBK launched 42 issues of CBK Bonds bringing the total nominal value of CBK Bonds launched during 2014 to KD 6,150.0 million. Meanwhile, 40 previous issues of CBK Bonds with a total nominal value of KD 6,125 million matured during 2014. These developments caused the outstanding balance of CBK Bonds to increase by KD 25.0 million to KD 1,925 million at the end of 2014 compared to KD 1,900 million at the end of 2013.

On the side of banking oversight and supervision during 2014, the CBK continued its 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 55,463.5 million at the end of 2014, against KD 51,484.8 million at the end of the previous year, realizing a growth of KD 3,978.7 million or 7.7% during 2014 compared to KD 4,339.5 million or 9.2% during 2013.

The number of local investment companies registered with the CBK decreased to 89 (49 of which are Islamic investment companies) at the end of 2014 compared to 92 companies at the end of the previous year. Total assets of local investment companies (conventional and Islamic) amounted to KD 10,533.0 million at the end of 2014 compared to KD 10,686.5 million at the end of 2013, i.e. a decrease of KD 153.5 million or 1.4%.

The aggregate balance sheet of 39 local exchange companies registered with, and supervised by the CBK grew to KD 153.8 million at the end of 2014, increasing by KD 10.8 million or 7.5% from its level of KD 143.0 million at the end of the previous year.

Fourth - Public Finance:

Data on the Closing Account of ministries and government departments for FY2013/2014 indicate that the total actual budgetary revenues collected for the mentioned fiscal year amounted to KD 31,811.4 million, compared to KD 32,008.5 million for the previous fiscal year, recording a decrease of KD 197.1 million or 0.6%. This decline mainly reflects a decrease in actual oil revenues collected, of KD 677.7 million or 2.3%, to KD 29,291.9 million for FY2013/2014 compared to KD 29,969.6 million for the previous fiscal year.

Data on the Closing Account for FY2013/2014 indicate a decrease in actual public expenditures of KD 404.3 million or 2.1% to KD 18,903.3 million during the mentioned fiscal year, against KD 19,307.6 million during the previous fiscal year. This decrease reflects the decline in actual expenditures during FY2013/2014 under the Second Chapter (requirements of goods and services) of KD 421.4 million or 11.6% to KD 3,219.3 million during FY2013/14 against KD 3,640.7 million during the previous fiscal year, Fourth Chapter (construction projects, maintenance and public acquisitions) of KD 121.3 million or 7.3% and Fifth Chapter (miscellaneous expenditures and transfer payments) of KD 118.3 million or 1.3% to KD 8,906.5 million during FY2013/2014 against KD 9024.8 million during the previous fiscal year.

As a result, the Closing Account for FY2013/2014 recorded an actual surplus of KD 12,908.1 million (26.1% of GDP for 2013) against KD 12,700.9 million (26% of GDP for 2012) for the previous fiscal year, i.e. an increase of KD 207.2 million or 1.6%, before deduction of allocations for the Reserve Fund for Future Generations (RFFG).

Furthermore, budgetary monthly follow-up statements for FY2014/2015 indicate that total actual budgetary revenues collected during the first nine months (April-December 2014) of the mentioned fiscal year, decreased by KD 2,782.6 million or 11.6%, to KD 21,201.7 million, compared to KD 23,984.3 million for the corresponding period (April-December 2013) of FY2013/2014. This decline was caused by the decrease in actual oil revenues collected during the period April-December 2014, of KD 2,790.7 million or 12.6% to KD 19,405.6 million, against KD 22,196.3 million for the corresponding period of FY2013/2014. On the other hand, total non-oil revenues collected during the period April-December 2014 increased by KD 8.2 million or 0.5% to reach KD 1,796.2 million, compared to KD 1,788 million for the corresponding period of the previous fiscal year.

Actual public expenditures during the first nine months of FY2014/2015 (April-December 2014) recorded an increase of KD 932.5 million or 9.2% to KD 10,574.4 million, against KD 9,641.9 million for the corresponding period of the previous fiscal year.

These developments in actual public revenues/expenditures during the first nine months of FY2014/2015 (April-December 2014) resulted in an actual surplus of KD 10,627.3 million, against KD 14,342.4 million for the corresponding period of FY2013/2014, i.e. a decline of KD 3,715.1 million or 25.9%, before deduction of allocations for the RFFG.

Fifth - Developments in Foreign Trade and Balance of Payments:

Statistics on the Balance of Payments (BOP) of the State of Kuwait for 2014 indicate that the current account realized a surplus of KD 15,139.7 million, accounting for 32.5% of GDP for 2014, compared to KD 20,210.5 million in the previous year, accounting for 40.9% of GDP in that year, i.e. declining by KD 5,070.7 million or 25.1%. The surplus in the current account of the BOP is basically related to the surplus realized in the balance on goods, where estimates indicate a decrease in the surplus realized in the balance on goods to KD 22,027.4 million during 2014 compared to KD 25,570.9 million during the previous year, i.e. a decline of KD 3,543.6 million or 13.9%. Developments in both sides of the balance on goods show that total exports of goods of the State of Kuwait (FOB basis) amounted to KD 29,820.2 million during 2014, compared to KD 32,824.1 million during the previous year, i.e. a decline of KD 3,003.9 million or 9.2%. Conversely, total imports of goods of the State of Kuwait (CIF basis) grew to KD 8,961.2 million during the mentioned year, compared to KD 8,308.8 million during the previous year, i.e. an increase of KD 652.4 million or 7.9%.

On the side of the capital account, preliminary statistics indicate that net capital inflows amounted to KD 1,135.7 million during 2014, against KD 1,265 million during the previous year, causing net capital inflows to decrease by KD 129.3 million or 10.2% during 2014 compared with the previous year. Preliminary statistics on the financial account of the BOP of the State of Kuwait indicate that net external assets of the national economy (actual changes in foreign assets minus actual changes in foreign liabilities) grew by KD 16,583.9 million during 2014, against KD 20,432.9 million during the previous year.

As a result of the above-mentioned developments, the overall position of the BOP of the State of Kuwait realized a total surplus of KD 362.6 million during 2014, compared to KD 957.2 million during the previous year. This surplus reflects the increase realized in the CBK's total 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 the CBK's total reserve assets, shows an estimated surplus of KD 15,748.2 million during 2014 compared to KD 16,608.7 million during the previous year.

Sixth - Developments in the Kuwait Stock Exchange (KSE):

Key KSE trading indicators and price movements recorded a visible decline during 2014, where the main trading indicators (traded shares by value/volume) recorded a noticeable drop of 45.18% and 58.12% respectively, compared with their levels recorded at the end of 2013. The KSE Price Index (PI) closed at a decrease of 13.43% at the end of 2014 compared with 2013, while the KSE Weighted Index (WI) recorded a lower decline than the PI, decreasing by 3.09% compared with 2013. Market capitalization of listed companies decreased to KD 29,733.0 million at the end of 2014, i.e. a decline of KD 1,253.2 million or 4.04% compared with the end of 2013.

In this context, the performance of the KSE during 2014 was affected by a set of various factors, as it was positively affected by the increase in the interim profits of listed companies, where total profits recorded a growth of 4.0% compared with the profits realized by the same companies in 2013, thus enhancing the positive atmosphere which was reflected in the dealers' confident trading during the year. Similarly, total cash distributions from dividends of 2013 -realized during 2014- increased by 11.89% compared with the previous year. On the other hand, the performance of the KSE was negatively affected by the drop in crude oil prices at the end of 2014, as well as regional geopolitical tensions which caused the performance of some listed companies to decline over the year.



Performance of the
Domestic Economy

2014

Performance of the Domestic Economy

First – Gross Domestic Product and Economic Growth:

Provisional statistics on national income accounts of the State of Kuwait during 2014 indicate a growth in the value added at constant prices from total non-oil sectors of KD 421.4 million or 2.1%, reaching KD 20,541.1 million, against KD 20,119.7 million during 2013, after realizing a growth of KD 820.1 million or 4.2% compared to 2012. The proportionate share of the value added from these sectors in Gross Domestic Product (GDP) at constant prices increased to 53.4% during 2014, against 51.4% during 2013.

On another front, the value added at constant prices in total oil sectors decreased by KD 416.4 million or 1.7%, reaching KD 24,006.1 million during 2014, against KD 24,422.5 million during the previous year. Consequently, the value of GDP at constant prices decreased to KD 38,477 million during 2014, against KD 39,111.4 million for the previous year, i.e. a decrease of KD 634.5 million or 1.6%, compared to KD 444.4 million or 1.1% during the previous year. Table (1) shows developments in GDP at constant prices for both oil sectors and non-oil sectors during 2011-2014.

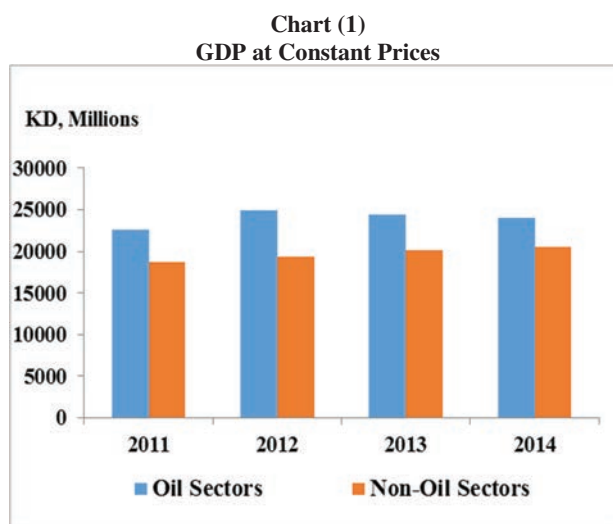


Table (1)
GDP at Constant Prices by Sectors (Oil and Non-oil)
(KD Million)

Items	2011	2012	2013 *	2014**
1- Crude Oil & Natural Gas Sector	21,356.9	23,490.2	23,065.3	22,862.8
Change (%)	16.0	10.0	-1.8	-0.9
To GDP (%)***	58.9	60.7	59.0	59.4
2- Manufacturing of Coke, Refined Petroleum Products and Nuclear Fuel	1,190.6	1,381.3	1,357.3	1,143.3
Change (%)	8.8	16.0	-1.7	-15.8
To GDP (%)	3.3	3.6	3.5	3.0
3- Total Oil Sectors (1+2)	22,547.5	24,871.4	24,422.5	24,006.1
Change (%)	15.6	10.3	-1.8	-1.7
To GDP (%)	62.2	64.3	62.4	62.4
4- Non-oil Sectors	18,668.2	19,299.6	20,119.7	20,541.1
Change (%)	3.4	3.4	4.2	2.1
To GDP (%)	51.5	49.9	51.4	53.4
Subtotal (3+4)	41,215.7	44,171.0	44,542.2	44,547.2
Change (%)	9.7	7.2	2.1	0.01
Imputed Banking and Insurance Services	-1,709.4	-1,685.2	-1,788.5	-1,754.8
Change (%)	-3.1	-1.4	0.5	-1.9
Taxes minus Subsidies (Net Taxes)	-3,242.2	-3,818.7	-3,642.2	-4,315.3
Change (%)	19.2	17.8	-4.0	18.5
GDP at Purchaser's Value	36,264.1	38,667.1	39,111.4	38,477.0
Change (%)	9.6	6.6	1.1	-1.6

* Revised data.

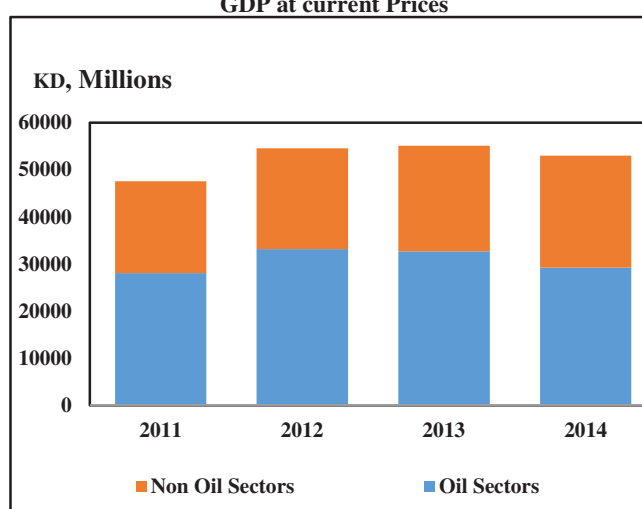
** Provisional data.

*** Represents the proportionate share of GDP at Purchaser's Value.

Source: Central Statistical Bureau.

Chart (2)
GDP at current Prices

On another front, value added at current prices from total non-oil sectors witnessed a growth to KD 23,819.1 million during 2014, against KD 22,436.3 million during 2013, i.e. a growth of KD 1,382.8 million or 6.2%, after realizing a growth of KD 1,061.9 million or 5% during the previous year. The proportionate share of the value added from these sectors in GDP at current prices was 51.2% during 2014, against 45.4% during 2013.



On the other hand, the value added at current prices in total oil sectors decreased by KD 3,460.1 million or 10.6%, reaching KD 29,222.5 million during 2014, against KD 32,682.6 million during the previous year. Consequently, GDP at current prices decreased to KD 46,564.1 million during 2014, against KD 49,392.2 million for the previous year, i.e. a decline of KD 2,828.1 million or 5.7%, compared to KD 670 million or 1.4% during the previous year. Table (1-A) and Chart (2) show developments in GDP at current prices for both oil sectors and non-oil sectors during 2011-2014.

Table (1-A)
GDP at Current Prices by Sectors (Oil and Non-oil)
(KD Million)

Items	2011	2012	2013*	2014**
1- Crude Oil & Natural Gas Sector	26,896.1	31,764.8	31,297.7	28,059.2
Change (%)	46.1	18.1	-1.5	-10.3
To GDP (%)***	63.3	65.2	63.4	60.3
2- Manufacturing of Coke, Refined Petroleum Products and Nuclear Fuel	1,203.4	1,406.6	1,384.9	1,163.3
Change (%)	9.9	16.9	-1.5	-16.0
To GDP (%)	2.8	2.9	2.8	2.5
3- Total Oil Sectors (1+2)	28,099.5	33,171.4	32,682.6	29,222.5
Change (%)	44.1	18.0	-1.5	-10.6
To GDP (%)	66.1	68.1	66.2	62.8
4- Non-oil Sectors	19,510.7	21,374.4	22,436.3	23,819.1
Change (%)	8.0	9.6	5.0	6.2
To GDP (%)	45.9	43.9	45.4	51.2
Subtotal (3+4)	47,610.2	54,545.8	55,118.9	53,041.6
Change (%)	26.7	14.6	1.1	-3.8
Imputed Banking and Insurance Services	-1,760.1	-1,783.1	-1,956.6	-1,976.4
Change (%)	-0.3	1.3	9.7	1.0
Taxes minus Subsidies (Net Taxes)	-3,338.5	-4,040.5	-3,770.1	-4,501.1
Change (%)	22.7	21.0	-6.7	19.4
GDP at Purchaser's Value	42,511.6	48,722.2	49,392.2	46,564.1
Change (%)	28.5	14.6	1.4	-5.7

* Revised data.

** Provisional data.

*** Represents the proportionate share of GDP at Purchaser's Value.

Source: Central Statistical Bureau.

Data indicate that total expenditure by residents (consumption and investment) at constant prices representing their total expenditure on GDP and imports of goods and services reached KD 26,179.8 million during 2014, recording a growth of KD 1,098.1 million or 4.4% after realizing a growth of KD 1,517.8 million or 6.4% during 2013. The rise in this item was the outcome of the increase in final (government and private) consumption expenditure of KD 962.5 million or 5.2%, against KD 982.1 million or 5.6% during the previous year, and the growth in gross capital formation of KD 135.6 million or 2.1% to reach KD 6,668 million during 2014, against KD 535.7 million or 8.9% during the previous year.

Available data on expenditures by non-residents on imports of goods and services at constant prices (Table 2) indicate a decline in expenditure by non-residents on GDP (exports of goods and services) by KD 805.4 million or 3.1% to reach KD 25,248.7 million during 2014, compared to KD 26,054.1 million during 2013. Net expenditure by residents (consumption and investment expenditures minus imports of goods and services) on GDP witnessed a rise by KD 171 million or 1.3% to reach KD 13,228.4 million, against KD 13,057.4 million during 2013.

Residents' expenditure on imports of goods and services at constant prices increased to KD 12,951.4 million during 2014 compared to KD 12,024.3 million during the previous year, i.e. a growth of KD 927.1 million or 7.7%. Accordingly, the surplus of domestic resources or net exports, which represents the arithmetical difference between the value of exports and the value of imports of goods and services, recorded a decline of KD 1,732.5 million or 12.3% to reach KD 12,297.2 million during 2014 against KD 14,029.7 million during 2013, which led to a decline in the ratio of surplus in GDP at constant prices to 32% against 35.9% during the two mentioned years respectively.

Table (2)
Expenditure on GDP at Constant Prices
(KD Million)

Type of Expenditure	2011	2012	2013*	2014**
(1) Final Consumption	15,919.3	17,567.2	18,549.3	19,511.8
Change (%)	4.6	10.4	5.6	5.2
to Residents Expenditure (%)	73.6	74.6	74.0	74.5
to GDP (%)	43.9	45.4	47.4	50.7
- Government Consumption	6,091.4	6,921.1	7,378.5	8,024.4
Change (%)	7.5	13.6	6.6	8.8
to Final Consumption (%)	38.3	39.4	39.8	41.1
to Residents Expenditure (%)	28.2	29.4	29.4	30.7
- Private Consumption	9,827.9	10,646.1	11,170.8	11,487.4
Change (%)	2.8	8.3	4.9	2.8
to Final Consumption (%)	61.7	60.6	60.2	58.9
to Residents Expenditure (%)	45.5	45.2	44.5	43.9
(2) Gross Capital Formation	5,704.1	5,996.7	6,532.4	6,668.0
Change (%)	-2.3	5.1	8.9	2.1
to Residents Expenditure (%)	26.4	25.4	26.0	25.5
to GDP (%)	15.7	15.5	16.7	17.3
(3) Total Expenditures by Residents (1 + 2)	21,623.4	23,563.9	25,081.7	26,179.8
Change (%)	2.7	9.0	6.4	4.4
to GDP (%)	59.6	60.9	64.1	68.0
(4) Exports of Goods and Services	25,200.5	27,137.7	26,054.1	25,248.7
Change (%)	14.3	7.7	-4.0	-3.1
to GDP (%)	69.5	70.2	66.6	65.6
(5) Imports of Goods and Services	10,559.9	12,034.5	12,024.3	12,951.4
Change (%)	5.2	14.0	-0.1	7.7
to Residents Expenditure (%)	48.8	51.1	47.9	49.5
(6) GDP (3 + 4 - 5)	36,264.1	38,667.1	39,111.4	38,477.0
Change (%)	9.6	6.6	1.1	-1.6
(7) Domestic Resources Surplus (6-3)	14,640.7	15,103.2	14,029.7	12,297.2
Change (%)	21.9	3.2	-7.1	-12.3
to GDP (%)	40.4	39.1	35.9	32.0

* Revised data.

** Provisional data.

Source: Central Statistical Bureau.

Available data regarding expenditure on GDP at current prices (Table 2-A and Chart 3) indicate a decline in expenditure by non-residents on GDP (exports of goods and services) of KD 3,395.9 million or 9.7% to reach KD 31,603.9 million during 2014, compared to KD 34,999.8 million during 2013. Net expenditure by residents (consumption and investment expenditures minus imports of goods and services) on GDP witnessed a rise of KD 568 million or 3.9% to reach KD 14,960.3 million, against KD 14,392.3 million during the two mentioned years respectively.

Data indicate that total expenditure by residents (consumption and investment) reached KD 29,522 million during 2014, recording a rise of KD 1,920 million or 7% after realizing a growth of KD 2,486.8 million or 9.9% during 2013. The rise in this item was the outcome of the increase in final (government and private) consumption expenditure of KD 1,644.9 million or 8% to reach KD 22,158.4 million during 2014, against KD 20,513.5 million during the previous year, and the growth in gross capital formation of KD 275.1 million or 3.9% to reach KD 7,363.6 million during 2014, against KD 835 million or 13.4% during the previous year.

Residents' expenditure on imports of goods and services at current prices increased to KD 14,561.7 million during 2014 compared to KD 13,209.7 million during the previous year, i.e. a growth of KD 1,352 million or 10.2%. Accordingly, the surplus of domestic resources or net exports recorded a decline of KD 4,747.9 million or 21.8% to reach KD 17,042.2 million during 2014, against KD 21,790.1 million during 2013, which led to a decline in the ratio of surplus in GDP at current prices to 36.6% against 44.1% during the two mentioned years respectively.

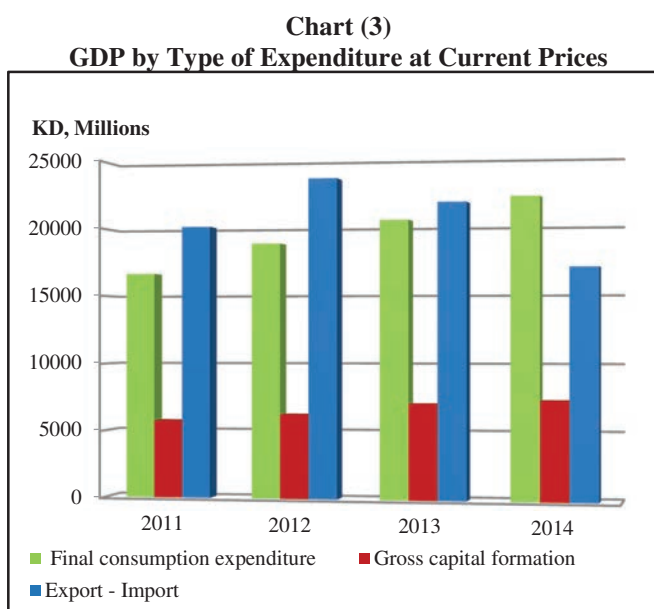


Table (2-A)
Expenditure on the GDP at Current Prices
(KD Million)

Type of Expenditure	2011	2012	2013 *	2014**
(1) Final Consumption	16,636.1	18,861.7	20,513.5	22,158.4
Change (%)	9.3	13.4	8.8	8.0
to Residents Expenditure (%)	74.3	75.1	74.3	75.1
to GDP (%)	39.1	38.7	41.5	47.6
- Government Consumption	6,326.6	7,337.4	8,093.8	9,011.3
Change (%)	11.6	16.0	10.3	11.3
to Final Consumption (%)	38.0	38.9	39.5	40.7
to Residents Expenditure (%)	28.2	29.2	29.3	30.5
- Private Consumption	10,309.5	11,524.3	12,419.7	13,147.1
Change (%)	7.9	11.8	7.8	5.9
to Final Consumption (%)	62.0	61.1	60.5	59.3
to Residents Expenditure (%)	46.0	45.9	45.0	44.5
(2) Gross Capital Formation	5,759.5	6,253.5	7,088.5	7,363.6
Change (%)	-1.4	8.7	13.4	3.9
to Residents Expenditure (%)	25.7	24.9	25.7	24.9
to GDP (%)	13.5	12.8	14.4	15.8
(3) Total Expenditures by Residents (1 + 2)	22,395.6	25,115.2	27,602.0	29,522.0
Change (%)	6.3	12.1	9.9	7.0
to GDP (%)	52.7	51.5	55.9	63.4
(4) Exports of Goods and Services	31,126.0	36,411.0	34,999.8	31,603.9
Change (%)	41.1	17.0	-3.9	-9.7
to GDP (%)	73.2	74.7	70.9	67.9
(5) Imports of Goods and Services	11,010.0	12,804.0	13,209.7	14,561.7
Change (%)	9.7	16.3	3.2	10.2
to Residents Expenditure (%)	49.2	51.0	47.9	49.3
(6) GDP (3 + 4 - 5)	42,511.6	48,722.2	49,392.1	46,564.2
Change (%)	28.5	14.6	1.4	-5.7
(7) Domestic Resources Surplus (6-3)	20,116.0	23,607.0	21,790.1	17,042.2
Change (%)	67.4	17.4	-7.7	-21.8
to GDP (%)	47.3	48.5	44.1	36.6

* Revised data.

** Provisional data.

Source: Central Statistical Bureau.

With regard to the other principal aggregates on national income accounts at current prices (Table 3), net-factor income from abroad (represented mainly in the net income accruing from Kuwaiti assets invested abroad) increased by KD 439 million or 11.7% to KD 4,198 million during 2014 compared to KD 3,759 million during 2013. Accordingly, Gross National Product (GNP) at current prices (representing the sum of GDP and net-factor income from abroad) recorded a decrease of KD 2,389.1 million or 4.5% to reach KD 50,762.1 million during 2014 compared to KD 53,151.2 million during the previous year.

Table (3)
Principal Aggregates of National Accounts at Current Prices
(KD Million)

Items	2011	2012	2013*	2014**
1- GDP	42,511.6	48,722.2	49,392.2	46,564.1
Change (%)	28.5	14.6	1.4	-5.7
2- Net-Factor Income from Abroad	2,481.0	2,561.0	3,759	4,198
Change (%)	-8.1	3.2	46.8	11.7
3- GNP (1+2)	44,992.6	51,283.2	53,151.2	50,762.1
Change (%)	25.8	14.0	3.6	-4.5
4- Depreciation of Fixed Capital	2,672.2	2,948.1	3,001.0	3,112.4
5- National Income at Market Prices (3-4)	42,320.4	48,335.1	50,150.2	47,649.7
Change (%)	27.2	14.2	3.8	-5.0
6- Net Current Transfers	-4,063.7	-4,816.0	-4,915.4	-6,100.3
Change (%)	8.6	18.5	2.1	24.1
7- National Disposable Income (5+6)	38,256.7	43,519.1	45,234.8	41,549.4
Change (%)	29.6	13.8	3.9	-8.1
8- Final Consumption Expenditure	16,636.1	18,861.7	20,513.6	22,158.4
Change (%)	9.3	13.4	8.8	8.0
9- Net Savings (7-8)	21,620.6	24,657.4	24,721.2	19,391.0
Change (%)	51.2	14.0	0.3	-21.6
10- Net Capital Formation	3,087.3	3,305.4	4,087.5	4,251.2
Change (%)	-7.2	7.1	23.7	4.0
11- Surplus from Current Transactions (9-10)	18,533.3	21,352.0	20,633.7	15,139.8
Change (%)	68.9	15.2	-3.4	-26.6

* Revised data.

** Provisional data.

Source: Central Statistical Bureau.

In the same direction, Gross National Income (GNI), which represents GNP minus allocations for depreciation of fixed capital, decreased by KD 2,500.5 million or 5% to KD 47,649.7 million during 2014 compared to KD 50,150.5 million during 2013. As a result of this decline in GNI on the one hand, and the increase of 24.1% in net current outward transfers on the other, National Disposable Income (NDI) decreased during 2014 by KD 3,685.4 million or 8.1% to KD 41,549.4 million against KD 45,234.8 million during 2013. This decrease led to a decline of KD 1,251 or 10.3% in NDI per-capita at current prices to KD 10,914 during 2014, against KD 12,165 during the previous year, taking into account population growth, as will be indicated later on.

On another front, available data indicate that Net Savings (representing the difference between NDI and Final Consumption Expenditure) declined by KD 5,330.2 million or 21.6% to KD 19,391 million during 2014. Furthermore, the ratio of Net Savings to NDI reached 46.7% during 2014, against 54.6% during 2013. As an outcome of this decrease in Net Savings, and the growth in Net Capital Formation of 4%, the surplus from current transactions abroad (also known as surplus in national resources) decreased by KD 5,493.9 million or 26.6% during 2014 to KD 15,139.8 million compared to KD 20,633.7 million during the previous year.

The developments in the economic performance in the main oil and non-oil sectors during 2014, compared with the previous year, are addressed in some detail as follows:

A- Oil Sectors:

Value added in the oil sectors at current prices (crude oil and natural gas production, manufacturing of coke, refined petroleum products and nuclear fuel) witnessed a decline of KD 3,460.1 million or 10.6% during 2014 to reach KD 29,222.5 million, after a decline of KD 488.8 million or 1.5% during 2013. This decline reflects the decrease in the value added of crude oil and natural gas production sector to reach KD 28,059.2 million during 2014, against KD 31,297.7 million during the previous year, i.e. a decrease of KD 3,238.5 million or 10.3% on one hand, and the decline in the value added of the manufacturing of coke, refined petroleum products and nuclear fuel sector of KD 221.6 million or 16% to reach KD 1,163.3 million during 2014, against KD 1,384.9 million during the previous year on the other.

Data provided by the Organization of Petroleum Exporting Countries (OPEC) indicate a decrease in the average spot price of the OPEC Reference Basket (ORB) to reach \$96.29 per barrel during 2014 compared to \$105.87 per barrel during 2013, i.e. a decline of \$9.58 or 9%. In parallel, the average price of the Kuwaiti export crude oil barrel recorded a decline to \$95.21 per barrel during 2014, compared to \$105.78 per barrel on average during the previous year, i.e. a decrease of \$10.57 or 10%. Furthermore, prices of refined petroleum products witnessed a decrease wherein the weighted average of the export price of an equivalent barrel of refined petroleum products decreased from \$111.34 per barrel during 2013 to \$107.08 per barrel on average during 2014, i.e. a decline of \$4.26 or 3.8%. The weighted average of the export price of an equivalent barrel of natural liquefied gas products (Propane and Butane) recorded a decline of \$9.15 or 12% to reach \$66.80 during 2014 compared to \$75.95 during the previous year.

Within the same context, production rates of Kuwaiti crude oil recorded a decline from 2.925 million b/d on average during 2013 to 2.867 million b/d on average for 2014, i.e. a decline of 0.058 million or 2%. Conversely, production quantities of refined petroleum products increased from 863.4 thousand b/d during 2013 to 871.8 thousand b/d during 2014, i.e. an increase of 8.4 thousand or 1%. However, production of liquefied natural gas declined from 148.9 thousand of equivalent b/d on average during 2013 to 144.8 thousand equivalent b/d on average during 2014, i.e. a decrease of 4.1 thousand barrel or 2.8%. Regarding exported Kuwaiti oil, available data indicate a decrease in total quantity from 2.061 million b/d on average during 2013 to 1.995 million b/d during 2014, i.e. a decline of 0.066 million b/d or 3.2%.

B- Non-Oil Sectors:

As previously mentioned, value added by non-oil sectors at constant prices witnessed a growth of KD 421 million or 2.1% to KD 20,541.1 million during 2014, compared to KD 820.1 million or 4.2% during 2013. Table (4) sets out the developments of GDP at constant prices by divisions of economic activity over the last four years (2011-2014).

Data also indicate that value added at constant prices in “Financial Intermediation and Insurance” (accounting for 35% of non-oil GDP) recorded a growth of KD 156 million or 5.3% to reach KD 3,075.1 million during 2014, against KD 47.9 million or 1.7% during 2013. While “Construction” (accounting for 3.9% of non-oil GDP) recorded a growth in its value added of KD 121.1 million or 2.7% to reach KD 806.9

million during 2014, compared to KD 15.4 million or 2% during 2013. Value added by “Electricity and Water” (accounting for 3.9% of non-oil GDP) at constant prices reached KD 796.4 million during 2014, against KD 778.7 million during 2013, i.e. a growth of KD 22.4 million or 1.6%.

“Community, Social & Personal Services” (accounting for 34.2% of non-oil GDP) maintained its lead among activities constituting non-oil sectors with the highest relative contribution to the non-oil GDP, realizing a growth in its value added of KD 139.3 million or 2% to reach KD 7,015.5 million during 2014, after a growth of KD 543 million or 8.6% during 2013. This growth contributed 33.1% of the increase in the value added by total non-oil activities during 2014, previously mentioned in Table (4).

Value added by “Real Estate, Renting and Business Services” (accounting for 14.4% of non-oil GDP) recorded a growth of KD 47.3 million or 1.6% to reach KD 2,967.9 million during 2014, compared to a decrease of KD 0.8 million or 0.03% during 2013. Furthermore, value added by ‘Wholesale & Retail Trade’ (accounting for 6.8% of non-oil GDP) at constant prices witnessed a growth of KD 22.4 million or 1.6% to reach KD 1,403.8 million during 2014, compared to KD 43.7 million or 3.3% during 2013. Meanwhile, value added by “Manufacturing Industries” (accounting for 6.8% of non-oil GDP) recorded a growth of KD 12.3 million or 0.9% to reach KD 1,397.6 million during 2014, against a decline of KD 12.7 million or 0.9% during 2013.

Furthermore, value added by ‘Transportation, Storage and Communication’ (accounting for 12% of non-oil GDP) at constant prices witnessed a decline by KD 31 million or 1.2% to reach KD 2,471.4 million during 2014 compared to KD 75.7 million or 3.1% during 2013.

Table (4)
Non-Oil GDP at Constant Prices
by Division of Economic Activity
(KD Million)

Item	2011	2012	2013*	2014**
Agriculture and Fishing	165.8	163.7	165.0	178.0
Activities of Services related to Extraction of Crude Oil and Gas	86.2	81.2	82.9	85.9
Manufacturing Industries***	1,134.4	1,398.0	1,385.3	1,397.6
Electricity, Gas and Water	737.1	698.5	778.7	796.4
Construction	744.8	770.4	785.8	806.9
Wholesale & Retail Trade	1,330.6	1,337.7	1,381.4	1,403.8
Hotels & Restaurants	290.2	297.6	322.3	342.6
Transport, Storage and Communication	2,260.5	2,426.7	2,502.4	2,471.4
Financial Intermediation and Insurance	2,871.2	2,871.2	2,919.1	3,075.1
Real Estate, Renting and Business Services	2,901.3	2,921.4	2,920.6	2,967.9
Community, Social & Personal Services	6,146.1	6,333.2	6,876.2	7,015.5
Total Non-Oil Sectors	18,668.2	19,299.6	20,119.7	20,541.1

* Revised data.

** Provisional data.

*** Excluding manufacturing of coke, refined petroleum products and nuclear fuel.

Source: Central Statistical Bureau

On another front, value added by the non-oil sectors at current prices witnessed a growth of KD 1,382.8 million or 6.2% to KD 23,819.1 million during 2014 compared to KD 1,061.9 million or 5% during 2013. Table (4-A) sets out the developments of GDP at current prices by divisions of economic activity over the last four years (2011-2014).

The table's data show that 'Community, Social & Personal Services' (accounting for 35.2% of non-oil GDP) recorded a growth in its value added by KD 733.1 million or 9.1% to KD 8,796.2 million during 2014, after a growth of KD 521.6 million or 6.9% during 2013. This growth contributed 53% of the increase in the value added by total non-oil activities during 2014, as detailed in Table (4-A).

"Financial Intermediation and Insurance" came second (accounting for 14.5% of non-oil GDP) with a growth of KD 267.4 million or 8.4% in its value added to reach KD 3,458 million during 2014, compared to KD 151.5 million or 5% during 2013. It is worth noting that financial institutions constitute 97.7% of the "Financial Intermediation and Insurance" activity. On another front, data indicate that value added by "Real Estate, Renting and Business Services" (accounting for 14.2% of non-oil GDP) at current prices recorded a growth of KD 164.8 million or 5.1% to reach KD 3,391.7 million during 2014, against a growth of 3.3% during 2013.

Value added by “Wholesale & Retail Trade” (accounting for 6.8% of non-oil GDP) recorded a growth of KD 74.4 million or 4.8% to reach KD 1,618.3 million during 2014, compared to KD 1,543.9 million during the previous year. Meanwhile, value added by “Transportation, Storage and Communications” (accounting for 10% of non-oil GDP) reached KD 2,382.3 million during 2014, against KD 2,477.5 million during 2013, i.e. a decline of KD 95.2 million or 3.8% compared to KD 21.7 million or 0.9% during the previous year.

Table (4-A)
Non-Oil GDP at Current Prices
by Division of Economic Activity
(KD Million)

Item	2011	2012	2013*	2014**
Agriculture and Fishing	186.6	175.3	175.4	208.4
Activities of Services related to Extraction of Crude Oil and Gas	88.7	84.1	85.9	89.1
Manufacturing Industries***	1,182.9	1,499.5	1,519.3	1,584.4
Electricity, Gas and Water	772.6	862.5	919.9	954.8
Construction	772.9	832.7	897.3	969.4
Wholesale & Retail Trade	1,400.7	1,449.0	1,543.9	1,618.3
Hotels & Restaurants	288.9	309.7	336.5	366.5
Transport, Storage and Communication	2,282.8	2,455.8	2,477.5	2,382.3
Financial Intermediation and Insurance, of which:	2,958.1	3,039.1	3,190.6	3,458.0
- Financial Institutions	2,858.8	2,933.7	3,109.5	3,379.3
Real Estate, Renting and Business Services	3,027.7	3,125.1	3,226.9	3,391.7
Community, Social & Personal Services	6,548.7	7,541.5	8,063.1	8,796.2
Total Non-Oil Sectors	19,510.7	21,374.4	22,436.3	23,819.1

* Revised data.

** Provisional data.

*** Excluding manufacturing of coke, refined petroleum products and nuclear fuel.

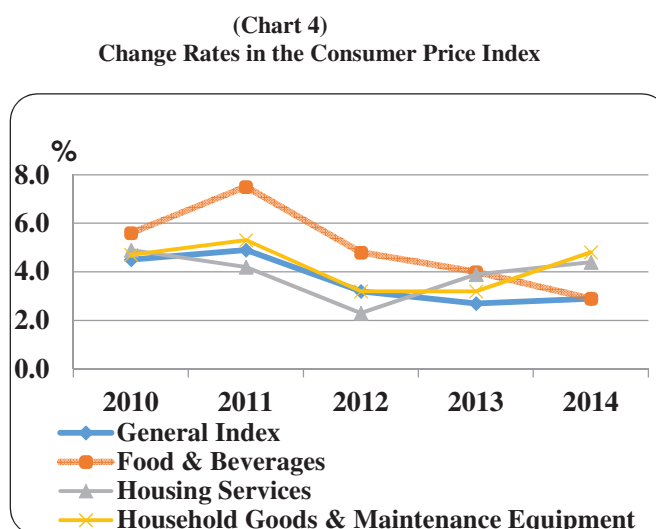
Source: Central Statistical Bureau.

Value added by “Manufacturing Industries” (accounting for 6.7% of non-oil GDP) recorded a growth of KD 65.1 million or 4.3% to reach KD 1,584.4 million during 2014 compared to KD 1,519.3 million with a growth of KD 19.8 million or 1.3% during 2013. Furthermore, value added by “Construction” (accounting for 4.1% of non-oil GDP) witnessed a growth of KD 72.1 million or 8% during 2014 to reach KD 969.4 million compared to KD 64.6 million or 7.8% during the previous year. Data also indicate that value added by “Electricity, Gas and Water” (accounting for 4% of non-oil GDP) witnessed an increase in its value added to KD 954.8 million during 2014, i.e. an increase of KD 34.9 million or 3.8% compared to KD 919.9 million and a growth of KD 57.4 million or 6.7% during the previous year.

Second- General Level of Domestic Prices:

1- General Index of Consumer Prices^(*):

Table (5) and Chart (4) show developments in the General Consumer Price Index (CPI) (base year 2007=100) in the State of Kuwait by main groups of consumption expenditure during the period 2012-2014. Data presented indicate a slight increase in the annual inflation rate based on the relative change in average CPI reaching 2.9% during 2014 against 2.7% during 2013 compared with the previous year.



The above-mentioned increase in the annual inflation rate recorded during 2014 resulted from developments in CPI main components compared with 2013. Growth rate recorded in average prices of “Housing Services” (relative weight 28.9%) increased to 4.4% during 2014 against 3.9% during 2013, “Clothing and Footwear” (relative weight 9.3%) to 2.2% against a decrease of 0.1% during 2013, and “Transport” (relative weight 7.9%) to 1.5% against 1.3%. On the other side, a slower increase was recorded in average prices of “Food & Beverages” (relative weight 18.4%) reaching 2.9% during 2014 against 4% during 2013.

^(*)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).

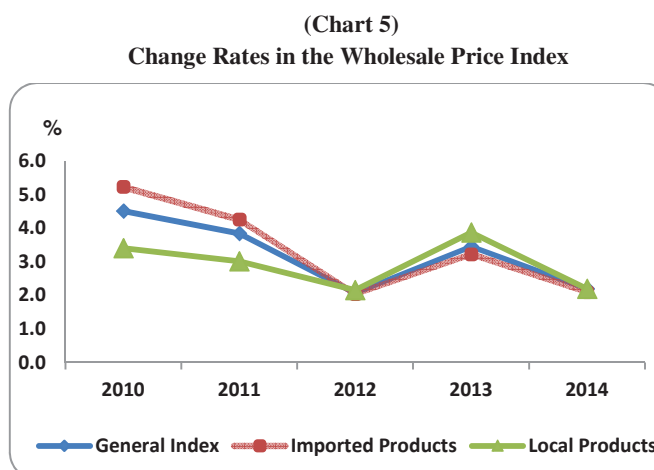
Table (5)
Developments in the General Consumer Price Index
(Base Year 2007 = 100)

Item	Relative Weights	2012	2013	2014	Change (%)		Relative Contribution in Price Index Change (%)	
					2013	2014	2013	2014
Consumer Price Index:	<u>100.0</u>	<u>125.8</u>	<u>129.2</u>	<u>133.0</u>	<u>2.7</u>	<u>2.9</u>	<u>100.0</u>	<u>100.0</u>
1- By Items of Expenditure								
• Food & Beverages	18.4	136.4	141.9	146.0	4.0	2.9	30.0	20.2
• Cigarettes and Tobacco	0.3	123.8	132.6	142.9	7.1	7.8	0.7	0.7
• Clothing and Footwear	9.3	127.0	126.9	129.7	-0.1	2.2	-0.4	6.9
• Housing Services	28.9	122.9	127.7	133.2	3.9	4.4	40.7	42.7
• Household Goods & Maintenance Equipment	11.3	127.8	131.9	138.3	3.2	4.8	13.6	19.1
• Health	1.6	125.3	126.8	126.1	1.2	-0.6	0.7	-0.3
• Transport	7.9	121.1	122.6	124.5	1.3	1.5	3.6	4.0
• Communications	4.0	101.4	101.3	100.6	-0.1	-0.8	-0.1	-0.8
• Entertainment & Culture	4.3	125.7	128.2	129.3	1.9	0.9	3.1	1.3
• Education	3.0	123.3	124.2	130.0	0.8	4.7	0.8	4.7
• Hotels & Restaurants	3.3	125.9	126.5	130.5	0.5	3.1	0.6	3.5
• Other Goods & Services	7.8	125.9	128.7	127.9	2.3	-0.7	6.6	-1.8

Source: CSB.

2- General Wholesale Price Index (*):

Table (6) and Chart (5) show developments in the General Wholesale Price Index (WPI) (base year 2007=100) by main groups during the period 2012-2014 in the State of Kuwait. Data indicate a deceleration in the rate of change in WPI reaching 2.4% during 2014 compared to 3.5% during 2013.



The developments witnessed in wholesale prices indicate a deceleration to 2.4% in the rate of change in WPI “Imported Goods” (relative weight 64.4%) during 2014 compared to 3.2% during 2013, as well as in “Domestically Produced Goods” (relative weight 35.6%) to 2.4% during 2014 compared to 3.9% during 2013.

(*) In June 2012, CSB updated the WPI to base year 2007=100 instead of base year 1980. Update also included relative weights, basket of goods, classification of goods, sample of sources and survey form.

Table (6)
Developments in the General Wholesale Price Index
 (Base Year 2007 = 100)

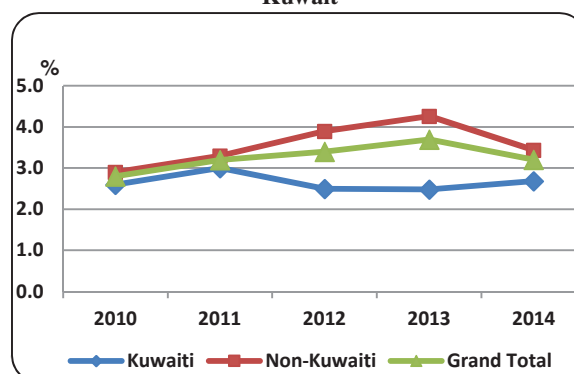
Item	Relative Weights	2012	2013	2014	Change (%)	
					2013	2014
General Wholesale Price Index	1000.00	118.1	122.2	125.2	3.5	2.4
- By Main Groups:						
• Agriculture, Forestry and Fishing	44.9	141.0	144.3	146.1	2.3	1.3
• Quarrying	3.2	116.6	111.5	105.4	-4.3	-5.5
• Manufacturing Industries	900.2	118.0	122.4	125.2	3.7	2.3
• Electricity and Water	51.7	100.0	100.0	100.0	0.0	0.0
- Wholesale Price Index of Imported Goods	64.4	119.8	123.7	126.3	3.2	2.4
- Wholesale Price Index of Domestically Produced Goods	35.6	115.0	119.5	122.1	3.9	2.4

Source: CSB.

Third- Population and Labor Force:

Table (7) and Chart (6) indicate that the growth rate of total population in the State of Kuwait reached 3.2% during 2014 compared to 3.7 % during 2013, bringing the total number of population to 4,092 million at the end of 2014 against 3,965 million at the end of 2013.

(Chart 6)
Developments in the Population Growth Rates in Kuwait



The largest portion (73.7%) of this growth was caused by the rise in non-Kuwaiti population reaching 2,816 million or 3.4% at the end of 2014, against 2,723 million or 4.3% at the end of 2013. Meanwhile, the growth rate of Kuwaiti population reached 2.7% during 2014 against 2.5% during 2013, bringing the total number of Kuwaiti population to 1,276 million at the end of 2014 against 1,242 million at the end of 2013. As a result of these developments, the ratio of Kuwaiti population to total population slightly declined to 31.2% at the end of 2014 against 31.3% at the end of 2013. Conversely, the ratio of non-Kuwaiti population to total population witnessed a slight increase of 68.8% at the end of the year against 68.7% at the end of the previous year.

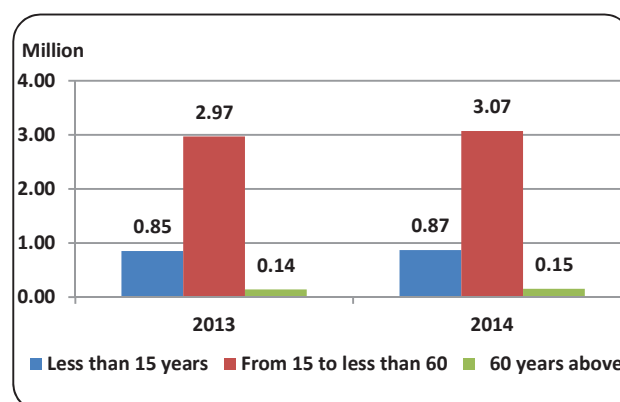
Table (7)
Developments in the Main Indicators of Population
in the State of Kuwait
(End of Period)

Item	2012	2013	2014
Population:			
1- Kuwaitis:	1,212.436	1,242.490	1,275.857
Change (%)	2.5	2.5	2.7
To total (%)	31.7	31.3	31.2
2- Non-Kuwaitis:	2,611.292	2,722.532	2,816.136
Change (%)	3.9	4.3	3.4
To total (%)	68.3	68.7	68.8
3- Total Population (1+2)	3,823.728	3,965.022	4,091.993
Change (%)	3.4	3.7	3.2
Under 15 years (%)	21.3	21.5	21.2
15 to less than 60 years (%)	75.2	74.9	75.0
60 years plus (%)	3.5	3.6	3.8

Source: Public Authority for Civil Information.

With regard to developments in the population age structure and their implications on the participation rates in the 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, slightly increased to 75.0% at the end of 2014 against 74.9% at the end of 2013.

(Chart 7)
Distribution of Population by Age Group at End of 2013 and 2014



In the same context, dependency ratio to total population (representing population not in labor force relative to total labor force) decreased to an average of 666 persons per one thousand persons in labor force at the end of 2014, compared to 672 persons per one thousand persons in labor force at the end of 2013.

Dependency ratio of Kuwaiti population (Table 8) decreased to 2.021 persons per one thousand persons at the end of 2014, against 2.029 persons per one thousand persons at the end of 2013. This decrease was caused by the increase in Kuwaiti labor force at a greater rate (2.9%) than the increase in Kuwaiti population not in labor force (206%) at the end of 2014, compared with the end of the previous year.

Table (8)
Developments in the Dependency Indicators in the State of Kuwait
(End of Period)

Item	2012	2013	2014
Dependency rates per 1000 persons in labor force):			
1-Kuwaitis	2.036	2.029	2.021
2-Non-Kuwaitis	377	389	384
3-Total	665	672	666
Population			

Source: Public Authority for Civil Information.

In the same direction, dependency ratio of non-Kuwaiti population decreased from 389 persons per one thousand persons in non-Kuwaiti labor force at the end of 2013, to 384 persons per one thousand persons at the end of 2014. This decrease was the result of the increase in non-Kuwaiti labor force at a greater rate (3.7%) than the increase in non-Kuwaiti population not in labor force (2.6%) at the end of 2014 compared with the end of the previous year.

Table (9)
Developments in the Labor Force Main Indicators
in the State of Kuwait
(End of Period)

Item	2012	2013	2014
Labor Force:			
1- Kuwaitis:	399.345	410.254	422.325
Change (%)	2.5	2.7	2.9
Relative share to total (%)	17.4	17.3	17.2
2- Non-Kuwaitis:	1,896.910	1,960.747	2,034.273
Change (%)	3.2	3.4	3.7
Relative share to total (%)	82.6	82.7	82.8
3- Total Labor Force (1+2):	2,296.255	2,371.001	2,456.598
Change (%)	3.1	3.3	3.6

Source: Public Authority for Civil Information.

Regarding developments in labor force indicators at the end of 2014, data in Table (9) indicate that the growth rate of total labor force increased to 3.6% during 2014 from 3.3% during 2013, bringing the total number of labor force to 2,457 million at the end of 2014 compared to 2,371 million at the end of the previous year. This increase was mainly brought about by the increase in the growth rate of non-Kuwaiti labor force of 3.7% during 2014 against 3.4% during 2013, thus increasing non-Kuwaiti labor force to 2,034 million at the end of 2014 compared to 1,961 million at the end of the previous year. Similarly, the growth rate of Kuwaiti labor force increased to 2.9% during 2014, against 2.7% during 2013, causing an increase in Kuwaiti labor force of 422 thousand at the end of 2014 compared to 410 thousand at the end of the previous year.

With regard to the distribution of labor force by division of economic activity at the end of 2014 (Table 10), “Community, Social & Personal Services” accounted for 44.9% of total labor force against 46.3% at the end of 2013, followed by “Trade, Restaurants & Hotels” (18.8%) and “Construction” (13.9%). Meanwhile, data on the relative distribution of Kuwaiti labor force by division of economic activity at the

end of 2014 indicate that Kuwaiti labor force was also concentrated in activities associated with “Community, Social & Personal Services” (68.0%), followed by “Finance, Insurance, Real Estate & Business Services” (6.5%) and “Trade, Restaurants & Hotels” (5.8%). Table (10) shows the distribution of total labor force by division of economic activity at the end of the three-year period 2012-2014.

Table (10)
Distribution of Labor Force by Division of Economic Activity (%)
(End of Period)

Item	2012			2013			2014		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
Agriculture & Fishing	0.1	2.0	1.6	0.1	1.8	1.5	0.2	2.4	2.1
Mining & Quarrying	1.3	0.1	0.3	1.3	0.1	0.3	1.4	0.1	0.3
Manufacturing Industries	2.4	6.1	5.5	1.7	5.9	5.2	2.2	6.6	5.9
Electricity, Gas & Water	3.5	0.1	0.7	3.5	0.1	0.7	3.5	0.1	0.7
Construction	2.9	9.8	8.7	3.1	10.4	9.2	5.5	15.7	13.9
Trade, Restaurants & Hotels	3.8	18.2	15.7	3.9	17.9	15.4	5.8	21.5	18.8
Transport, Storage & Communications	2.3	3.2	3.0	2.0	3.0	2.8	2.0	3.3	3.1
Finance, Insurance, Real Estate & Business Services	4.9	5.2	5.2	5.7	5.4	5.5	6.5	6.4	6.4
Community, Social & Personal Services	69.2	41.1	46.0	68.9	41.6	46.3	68.0	40.1	44.8
Unspecified	9.6	14.2	13.3	9.7	13.8	13.1	5.0	3.8	4.0
Total	100	100	100	100	100	100	100	100	100

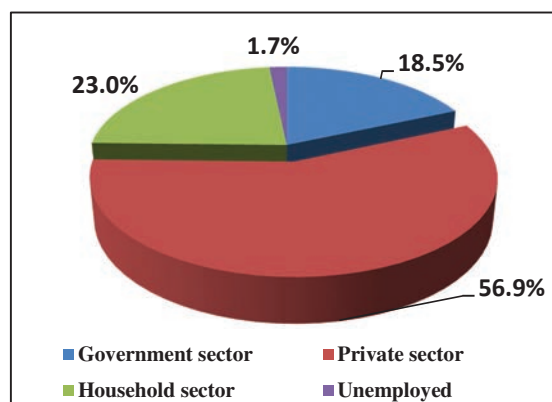
Source: Public Authority for Civil Information.

With respect to the distribution of labor force by sectors: government, private, household and unemployed, data in Table (11) and Chart (8) indicate that labor force in the private sector increased by 6.3% during 2014, resulting in an increase in its relative share to total labor force (93.5% non-Kuwaitis and 6.5% Kuwaitis) from 55.5% at the end of 2013 to 56.9% at the end of 2014.

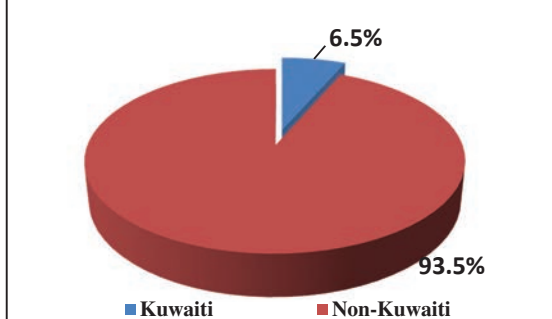
Meanwhile, the growth rate of labor force in the government sector reached 3.4% during 2014 compared with the previous year, causing its relative share to total labor force (70.5% Kuwaitis and 29.5% non-Kuwaitis) to remain stable at 18.5% at the end of 2013 and 2014. Conversely, unemployed population decreased by 4.5% at the end of 2014 compared with the end of the previous year, causing a decline of 1.7% in its relative share to total labor force (72.9% non-Kuwaitis and 27.1% Kuwaitis) at the end of the mentioned year compared with the end of the previous year.

(Chart 8)

Relative Structure of Labor Force in 2014



Manpower in the Private Sector in 2014



Manpower in the Government Sector in 2014

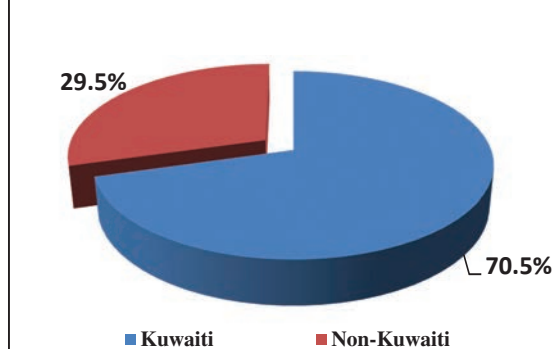


Table (11)
Distribution of Labor Force
by Nationality and Sector (%)
(End of Period)

Sector	2012	2013	2014
Government Sector	18.7	18.5	18.5
Kuwaiti	13.2	13.1	13.0
Non-Kuwaiti	5.5	5.4	5.5
Private Sector	54.7	55.5	56.8
Kuwaiti	3.6	3.8	3.6
Non-Kuwaiti	51.1	51.7	53.2
Household Sector	24.6	24.2	23.0
Kuwaiti	0.0	0.0	0.0
Non-Kuwaiti	24.6	24.2	23.0
Unemployed	2.0	1.8	1.7
Kuwaiti	0.5	0.5	0.4
Non-Kuwaiti	1.5	1.3	1.2
Total Labor Force	100.0	100.0	100.0
Kuwaiti	17.4	17.3	17.2
Non-Kuwaiti	82.6	82.7	82.8

Source: Public Authority for Civil Information.



Monetary Developements
and Activity of the
Central Bank of Kuwait

2014

Monetary Developments and Activity of the Central Bank of Kuwait

Many significant monetary and banking developments took place during 2014 reflecting CBK's continuous efforts in line with local economic developments on the one hand, and the economic developments at the global level on the other hand. Particularly CBK's efforts in the fields related to drawing and implementing monetary policy aimed at strengthening monetary stability of the national economy to stimulate sustainable economic growth and its supervisory efforts to enhance financial stability.

The developments related to the Kuwaiti dinar exchange rate during 2014, reflect CBK's efforts in maintaining relative stability in 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, pegging the KD exchange rate to a special weighted basket of currencies of major trade and financial partners of the State of Kuwait. In this respect, data indicate that the difference between the highest and lowest exchange rate of the US dollar against the KD during 2014 was 4.39%, while the movements in the exchange rate of the US dollar against other major currencies were within broader margins reaching a difference of 20.10% against the Japanese Yen, 14.45% against the Euro, 13.21% against the Swiss Franc, and 10.47% against the Pound Sterling.

Data on main monetary and banking aggregates of the State of Kuwait show a growth rate in the balances of both money supply in its Broad Definition (M2) of 3.4% at the end of 2014, and cash credit facilities extended by local banks to various economic sectors of 6.4% at the end of 2014. Furthermore, developments in resident private sector deposits with local banks during 2014 indicate a growth rate of 3.0% at the end of 2014 compared with the end of 2013.

This part of the Economic Report highlights the most notable developments in the main monetary aggregates and indicators and in the area of banking oversight and supervision during 2014 as follows:

1- Developments in the KD Exchange Rate:

During 2014, CBK continued to apply the KD exchange rate policy adopted as of May 20, 2007 pegging the KD exchange rate to a special weighted basket of currencies of countries with significant trade

and financial relations with the State of Kuwait. The system of the basket of currencies contributes to maintaining a relative stability of the KD exchange rate against other currencies, which strengthens CBK's ability to draw and implement a monetary policy aimed at reducing imported inflationary pressures, particularly those resulting from fluctuations in the exchange rates of world currencies on the one hand, and to provide a supportive atmosphere to promote a sustainable economic growth on the other hand.

Regarding the changes in the US Dollar exchange rate against the KD on the one hand and some other major currencies on the other, at the end of 2014 compared with the end of the previous year (Table 12), a rise is noted in the US Dollar exchange rate against the KD of 10.550 fils or 3.7%. Furthermore, the US Dollar exchange rate recorded an increase of 12.8% against the Euro, 10.7% against the Swiss Franc, 5.8% against the Pound Sterling and 14.4% against the Japanese Yen.

Furthermore, the daily exchange rate of the US dollar against the KD and some other major currencies during 2014 were within relatively narrow margins, where the difference between the highest and lowest exchange rate of the US Dollar against the KD reached 4.4%. Meanwhile, data indicate noticeable fluctuations against other major currencies reaching 20.1% against the Japanese Yen, 10.5% against the Pound Sterling, 13.2% against the Swiss Franc and 14.5% against the Euro (Table 13).

Chart (9)
US Dollar Exchange Rate Against the Kuwaiti Dinar (Fils) During 2014

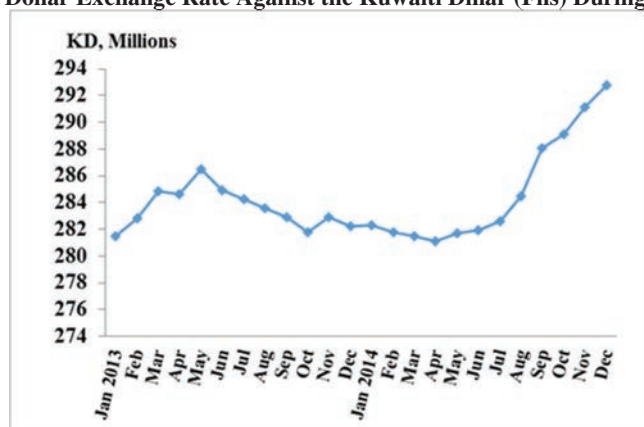


Table (12)
US Dollar Exchange Rate against the Kuwaiti Dinar and Some Major Currencies at the End of 2014 Compared with the Previous Year

End Period	KD (*)	Euro	Japanese Yen	Swiss Franc	Pound Sterling
2013	282.250	0.728	105.170	0.892	0.607
2014	292.800	0.821	-120.3	0.987	0.642
Change	10.550	0.093	15.130	0.095	0.036
Rate of Change (%)	3.738	12.75	14.368	10.677	5.851

Source: Central Bank of Kuwait.

(*) In fils.

Table (13)
US Dollar Exchange Rate against the Kuwaiti Dinar and Some Major Currencies Based on Daily Data During 2014

Item	High	Low	Difference	Change (%)
KD (fils)	292.800	280.500	12.300	4.39
Pound Sterling	0.644	0.583	0.061	10.47
Euro	0.821	0.718	0.104	14.45
Swiss Franc	0.988	0.873	0.115	13.21
Japanese Yen	121.510	101.170	20.340	20.10

Source: Central Bank of Kuwait.

2- Money Supply Developments:

Available data (Table 14, Chart 10) indicate a decelerated pace of growth in domestic liquidity levels during 2014. Money supply in its Broad Definition (M2) grew to KD 33,972.6 million at the end of 2014 realizing an increase of KD 1,105.7 million or 3.4%, after a rise of KD 2,978.8 million or 10% during 2013.

Table (14)
Developments in Money Supply Aggregates
(KD Million)

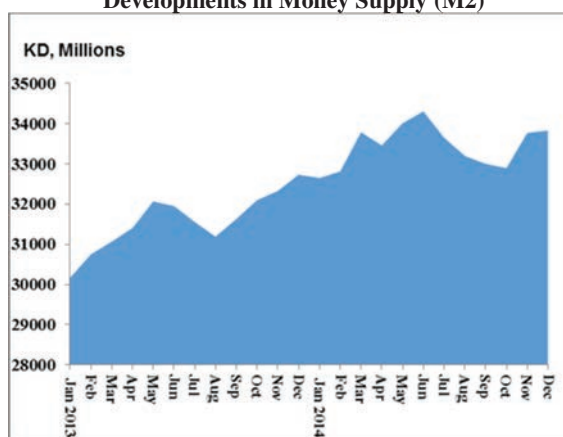
Items	2012	2013	2014	Change at the end of 2014 against the previous year	
				Value	%
Money (M1)	7,873.3	8,985.1	9,605.2	620.1	6.9
Currency in Circulation	1,339.9	1,481.3	1,492.6	11.3	0.8
Quasi-Money	22,014.9	23,881.8	24,367.5	485.7	2.0
KD Deposits	19,742.7	20,760.1	21,476.0	715.9	3.4
Foreign Currency Deposits	2,272.2	3,121.7	2,891.4	-230.3	-7.4
Money Supply (M2)	29,888.1	32,866.9	33,972.6	1,105.7	3.4
Deposits with Investment Companies (*)	28.1	56.5	20.0	-36.6	-64.7
Money Supply (M3)	29,916.2	32,923.4	33,992.6	1,069.1	3.2

Source: Central Bank of Kuwait

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

The mentioned growth in Money Supply in its Broad Definition (M2) during 2014 included an increase in both Quasi-Money of KD 485.7 million or 2.0%, and Money in its Narrow Definition (M1) of KD 620.1 million or 6.9%.

Chart (10)
Developments in Money Supply (M2)



The increase witnessed by Quasi-Money during 2014 is the outcome of the rise in resident private sector KD deposits (excluding sight deposits) with local banks by KD 715.9 million or 3.4% on the one hand, and the decline in the foreign-currency deposits with these banks by the equivalent of KD 230.2 million or 7.4% on the other (Table 15).

Table (15)
Private Sector Deposit Balances with Local Banks at the end of 2014
(Value in KD Million, End of Period)

Item	2013	2014	Change at the end of 2014 against the end of the previous year	
			Value	Rate (%)
KD Deposits	28,264.0	29,588.6	1,324.6	4.7
Sight	7,503.9	8,112.6	608.7	8.1
Savings	4,654.9	4,838.3	183.4	3.9
Time	16,105.2	16,637.7	532.5	3.3
CDs	-	-	-	-
Foreign Currency Deposits	3,121.7	2,891.4	-230.2	-7.4
Total	31,385.7	32,480.0	1,094.4	3.5

Source: Central Bank of Kuwait.

Within the aggregate monetary position of CBK and local banks during 2014, 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 16 and 17) – indicate that the mentioned increase in Money Supply (M2) during 2014 was the outcome of the rise in the net foreign assets of those entities by the equivalent of KD 562.8 million or 3.7%, and the increase in net domestic assets of the mentioned entities by KD 499.4 million or 2.9%.

The mentioned increase in the net foreign assets of CBK and local banks (Table 16) was the outcome of the rise in both net foreign assets of CBK by the equivalent of KD 337.7 million or 4.1% and net foreign assets of local banks by the equivalent of KD 225.0 million or 3.1%.

The increase in the net foreign assets of local banks was the outcome of the rise in its net foreign assets by the equivalent of KD 1,478.4 million or 14.5% in excess of the rise in its net foreign liabilities by the equivalent of KD 1,253.4 million or 41.2%.

Table (16)
Net Foreign Assets of CBK and Local Banks
(KD million)

Particulars	End of 2013			End of 2014			Change	
	Foreign Assets	Foreign Liabilities	Net	Foreign Assets	Foreign Liabilities	Net	Value	(%)
CBK	8,255.6	-5.1	8,250.4	8,596.6	-8.4	8,588.2	337.7	4.1
Local Banks	10,202.2	-3,044.0	7,158.2	11,680.6	-4,297.4	7,383.2	225.0	3.1
Total	18,457.8	-3,049.1	15,408.6	20,277.2	-4,305.8	15,971.4	562.8	3.7

Source: Central Bank of Kuwait.

The said increase in net domestic assets of the entities mentioned resulted from a number of developments in the components of the domestic assets and liabilities of the mentioned entities, the most notable of which can be indicated as follows:

- The rise in the balances of local banks' claims on the private sector at the end of 2014 of KD 1,620.8 million or 5.2% compared with the end of the previous year.
- The decrease in net claims of local banks on the government of KD 150.3 million or 3.6%. This decrease resulted from the decline in the net claims of local banks on the government of KD 169.1 million or 4.8% on the one hand, and the increase in the net claims of CBK on the government of KD 18.8 million or 3.0% on the other hand.

Table (17)
Factors Affecting Changes in Money Supply (M2)
(KD million)

Particulars	2013	2014	Change		Contribution to Money Supply Growth (%) [*]
			Value	(%)	
Money Supply (M2)	<u>32,866.9</u>	<u>33,972.6</u>	<u>1,105.7</u>	<u>3.4</u>	<u>3.4</u>
Net Domestic Assets:	<u>17,149.7</u>	<u>17,649.1</u>	<u>499.4</u>	<u>2.9</u>	<u>1.5</u>
Claims on the Government (net):	<u>-4,189.4</u>	<u>-4,339.7</u>	<u>-150.3</u>	<u>-3.6</u>	<u>-0.5</u>
CBK (net):	<u>-635.1</u>	<u>-616.3</u>	<u>18.8</u>	<u>3.0</u>	<u>0.1</u>
Claims on the Government	-	-	-	-	-
Government Accounts	-635.1	-616.3	18.8	3.0	0.1
Local Banks (net):	<u>-3,554.3</u>	<u>-3,723.4</u>	<u>-169.1</u>	<u>-4.8</u>	<u>-0.5</u>
Claims on the Government:	1,502.4	1,562.6	60.2	4.0	0.2
Debt Purchase Bonds	-	-	-	-	-
Public Debt Instruments	1,502.4	1,562.6	60.2	4.0	0.2
Government Deposits	-5,056.7	-5,286.0	-229.3	-4.5	-0.7
Claims on the Private Sector:	<u>31,099.2</u>	<u>32,719.9</u>	<u>1,620.8</u>	<u>5.2</u>	<u>4.9</u>
Credit Facilities to Residents	28,911.3	30,750.6	1,839.3	6.4	5.6
Other Domestic Investments	2,187.8	1,969.3	-218.5	-10.0	-0.7
Other Items (net), of which:	<u>-9,760.1</u>	<u>-10,731.2</u>	<u>-971.1</u>	<u>-9.9</u>	<u>-3.0</u>
Capital and Reserve	7,480.0	7,787.5	307.5	4.1	0.9
Other	2,280.1	-3,222.3	942.2	41.3	2.9
Net Foreign Assets:	<u>15,408.6</u>	<u>15,971.4</u>	<u>562.8</u>	<u>3.7</u>	<u>1.7</u>
CBK:	<u>8,250.4</u>	<u>8,588.2</u>	<u>337.7</u>	<u>4.1</u>	<u>1.0</u>
Local Banks:	<u>7,158.2</u>	<u>7,383.2</u>	<u>225</u>	<u>3.1</u>	<u>0.7</u>

Source: Central Bank of Kuwait.

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

3- Developments of Bank Credit:

Data (Table 18) indicate an increase in the balances of the utilized cash portion of credit facilities extended by local banks to the various domestic economic sectors of KD 1,839.3 million or 6.4% to KD 30,750.6 million at the end of 2014 against KD 28,911.3 million at the end of 2013, after recording a rise of KD 2,114.5 million or 7.9% during 2013.

Personal Facilities balances accounted for 40.5% of total credit facilities. Data on the credit facilities granted to Personal Facilities indicate a rise in the balances of installment loans of KD 1,081.2 million or 15.4%, purchase of securities of KD 95.6 million or 3.5%, and consumer loans of KD 40.5 million or 3.5%. Personal Facilities accounted for KD 1,180.2 million or 64.2% of the increase in total credit facilities. The remaining increase came as a result of the rise in the balances of facilities extended to the Real-Estate sector of KD 288.6 million or 3.8%, the Crude Oil and Gas sector of KD 203.7 million or 97.5%, the 'Other' sector of KD 197.4 million or 10.9% and the Trade sector of KD 93.9 million or 3.4% on one hand; and the decrease in the value of these agreements with the Non-Bank Financial Institutions sector of KD 150.1 million or 9.6%, the Industry sector of KD 30.8 million or 1.7%, the Construction sector of KD 10.3 million or 0.5%, and the Agriculture and Fisheries sector of KD 1.3 million or 8.1% on the other hand.

On another front, available data on new KD credit facility agreements concluded with residents during 2014 indicate the level of demand for bank credit 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 2,710.7 million or 18.3% to reach KD 17,535.0 million at the end of 2014 compared to KD 14,824.3 million at the end of 2013. This rise came as a result of the increase in the value of credit facility agreements concluded with the Public Services sector of KD 239.8 million or 1609.1%, the Personal Facilities sector of KD 1,234.2 million or 32.1%, the Real-Estate sector of KD 733.6 million or 18.3%, the Crude Oil and Gas sector of KD 322 million or 168.1%, the Construction sector of KD 289.3 million or 36.7% and the Trade sector of KD 229.5 million or 10.1% on one hand, and the decrease in the value of credit facility agreements concluded with the Industry sector of KD 71.2 million or 6.7%, the Agriculture and Fisheries sector of KD 4.4 million or 37.0% and the Non-Bank Financial Institutions sector of KD 140 million or 9.4% on the other hand.

Table (18)
Developments of Balances of Utilized
Domestic Cash Credit Facilities
(KD Million)

Sectors	Year-End Balance			Change			
				Value		Rate (%)	
	2012	2013	2014	2013	2014	2013	2014
Trade	2,475.1	2,743.9	2,837.9	268.8	93.9	10.9	3.4
Industry	1,767.8	1,773.6	1,742.8	5.8	-30.8	0.3	-1.7
Construction	1,744.9	1,916.6	1,906.3	171.7	-10.3	9.8	-0.5
Agriculture & Fisheries	11.0	15.9	14.6	4.9	-1.3	45.0	-8.1
Non-Bank Financial Institutions	1,856.6	1,562.5	1,412.4	-294.1	-150.1	-15.8	-9.6
Personal Facilities:	<u>10,055.4</u>	<u>11,281.6</u>	<u>12,461.8</u>	<u>-1,226.3</u>	<u>-1,180.2</u>	<u>-12.2</u>	<u>10.5</u>
- Consumer Loans	1,036.1	1,158.5	1,199.0	122.4	40.5	11.8	3.5
- Installment Loans	6,035.5	7,030.6	8,111.8	995.1	1,081.2	16.5	15.4
- Purchase of Securities	2,700.3	2,731.3	2,826.9	31	95.6	1.1	3.5
- Others	283.4	361.2	324.2	77.8	-37.0	27.5	-10.3
Real Estate	7114.3	7,600.7	7,889.3	486.3	288.6	6.8	3.8
Crude Oil & Gas	165.0	209.1	412.8	44.0	203.7	26.7	97.5
Public Services	-	-	67.8	0.0	67.8	0.0	-
Other	1,606.7	1,807.5	2,004.9	200.7	197.4	12.5	10.9
Total	26,796.7	28,911.3	30,750.6	2,114.5	1,839.3	7.9	6.4

Source: Central Bank of Kuwait.

Data regarding financing merchandise imports of the Kuwaiti private sector indicate that total payments effected through local banks for financing these imports increased by KD 123.7 million or 3.2% to reach KD 4,008.8 million during 2014 against KD 3,885.1 million during 2013. This rise was the outcome of the increase in the value of financing imports in the Japanese Yen from KD 441.1 million to KD 493.2 million, the Euro from KD 288.5 million to KD 337.4 million, Pound Sterling from KD 29 million to KD 29.3 million, and the “other” currencies from KD 860.8 million to KD 938.4 million on the one hand, and the decrease in the value of financing imports in the US Dollar from KD 2,261 million to KD 2,205.6 million between 2013 and 2014 respectively. Consequently, the relative importance of payments increased in the Japanese Yen from 11.4% to 12.3%, the Euro from 7.4% to 8.4%, and the “other” currencies from 22.2% to 23.4%, and decreased in the US Dollar from 58.2% to 55%, while the relative importance of payments in the Pound Sterling and Swiss Franc remained stable at 0.7% and 0.1% respectively (Table 19).

Chart (11)
The Relative Share of Currencies Used in Funding Kuwaiti Imports

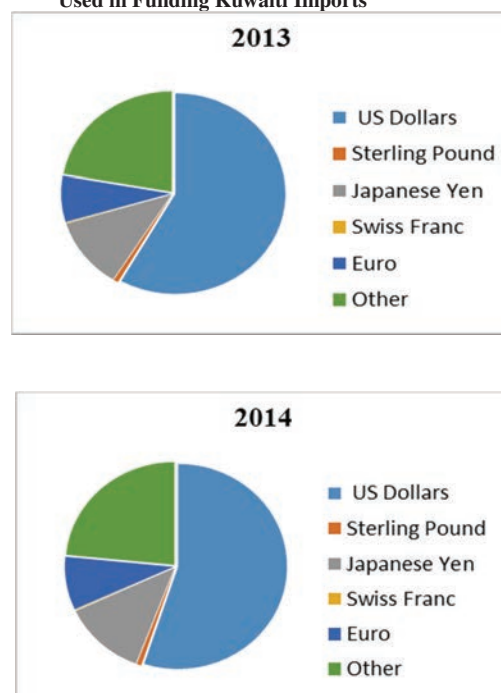


Table (19)
Relative Importance of Currencies in Funding Kuwaiti Imports (%)

Currencies	2013	2014
US Dollar	58.2	55.0
Sterling Pound	0.7	0.7
Japanese Yen	11.4	12.3
Swiss Franc	0.1	0.1
Euro	7.4	8.4
Other	22.2	23.4

Source: Central Bank of Kuwait.

4- Developments in Domestic Interest Rates:

CBK kept the Discount Rate unchanged at 2.0% during 2014. CBK’s last cut was on 3/10/2012 by 50 basis points to reach 2.0%, which is the lowest level recorded in the history of discount rate in CBK (Table 20). CBK continued, during 2014, 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 interest rate announced for this type of loans. The change in the interest rate shall be two percentage points lower or higher than the interest rate applied by virtue of loan contract before the change made. As for other types of loans, the annual maximum limit of the 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 on CBK's discount rate. The annual maximum limit of interest rate on all types of KD-lending transactions over one year should not exceed four percentage points on the specified discount rate.

Table (20)
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
	Rate	Rate	Rate	Loans
2009	3.00	5.5	7.00	6.00
2010	2.50	5.00	6.50	5.50
2011	2.50	5.00	6.50	5.50
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

Source: Central Bank of Kuwait.

Data on the average interest rates on KD-denominated customer time deposits with local banks during 2014, compared to 2013, point to a rise in these average rates for all terms, of 0.031 percentage point for 1-month deposits from 0.563% to 0.594%, and 0.030 percentage point for 3-month deposits from 0.750% to 0.779%. On another front, average interest rates on US dollar time deposits with local banks for all terms remained stable during 2014 against 2013 for 1-month deposits at 0.157% against 0.164%, and 3-month deposits at 0.277% against 0.287%. In this context, the existing margins between the average interest rates on KD and US dollar customer deposits with local banks continued to be in favor of the KD at the end of 2014 against

2013, as shown in Table (21), reaching 0.436 percentage point against 0.399 percentage point during the previous year for 1-month time deposits, and 0.502 percentage point against 0.462 percentage point for 3-month maturity deposits during the mentioned period. Moreover, margins between the average interest rates on local interbank KD deposits witnessed a slight increase for all terms during 2014 compared with their levels during 2013.

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

Period	Average Interest Rates on Customer 1-Month Deposits (%)		Margin in Favor of KD	Average Interest Rates on Customer 3-Month Deposits (%)		Margin in Favor of KD
	KD	US \$		KD	US \$	
2012	0.737	0.208	0.529	0.985	0.353	0.632
2013	0.563	0.164	0.399	0.750	0.287	0.462
2014	0.594	0.157	0.436	0.779	0.277	0.502

Source: Central Bank of Kuwait.

As for the interest rates on Public Debt Instruments (Kuwaiti Treasury Bills and Treasury Bonds) issued by CBK on behalf of the Ministry of Finance, the average interest rates on 1-year Treasury Bonds remained stable at 1.0% during 2014. The average interest rates on 2-year Treasury Bonds also remained stable at 1.125% during 2014. No Treasury Bills were issued during 2014.

Regarding the average interest rates on CBK Bonds, the interest rates on 3-month maturity bonds remained stable at 0.75% during 2014. Meanwhile, interest rates on 6-month maturity bonds decreased to 0.8636% during 2014 against 0.875% during the previous year.

5- Issuance of Public Debt Instruments and CBK Bonds:

A- Issuance of Public Debt Instruments:

As mentioned above, CBK manages the issuance of public debt instruments (Kuwaiti Treasury Bills and Treasury Bonds) on behalf of the Ministry of Finance. CBK issued 25 issues of Treasury Bonds with a

nominal value of KD 1,210.0 million during 2014 (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 and 1 issue of 10-year maturity with a total nominal value of KD 10.0 million). During the same period 23 previous issues matured with a total nominal value of KD 1,150.0 million (21 issues of 1-year maturity with a total nominal value of KD 1,050.0 million and 2 issues of 2-year maturity with a total nominal value of KD 100.0 million). Accordingly, the outstanding balance of Treasury Bonds increased by KD 60.0 million or 3.9% to KD 1,587.3 million at the end of 2014 against KD 1,527.3 million at the end of 2013.

Regarding the distribution of the outstanding balances of public debt instruments held by different institutions at the end of 2014, 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 60.2 million or 4% from KD 1,502.4 million at the end of 2013 to KD 1,562.6 million at the end of 2014, accounting for 98.4% of the total balance at the end of the mentioned year on the one hand, and in the decrease in the balance of other institutions' holdings of KD 0.2 million or 0.8% from KD 24.8 million at the end of 2013 to KD 24.6 million at the end of 2014 on the other.

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

Particulars	2012	2013	2014
<u>Issues:</u>	<u>2,010.0</u>	<u>1,217.3</u>	<u>1,210.0</u>
Bills	375.0	0.0	0.0
Bonds	1,635.0	1,217.25	1,210.0
<u>Maturities:</u>	<u>2,103.0</u>	<u>1,445.0</u>	<u>1,150.0</u>
Bills	375.0	0.0	0.0
Bonds	1,728.0	1,445.0	1,150.0
<u>Balances at Year End:</u>	<u>1,755.0</u>	<u>1,527.3</u>	<u>1,587.3</u>
Bills	0.0	0.0	0.0
Bonds	1,755.0	1,527.3	1,587.3

Source: Central Bank of Kuwait.

B- Issuance of CBK Bonds:

Within the framework of its efforts to manage domestic liquidity levels, CBK issues “CBK Bonds” with 3-month and 6-month maturities only purchased by local banks and investment companies subject to its supervision. In this context, CBK offered 42 issues during 2014 with a total nominal value of KD 6,150.0 million (32 issues of 3-month maturity with a total nominal value of KD 4,600.0 million, and 10 issues of 6-month maturity with a total nominal value of KD 1,550.0 million) (Table 23).

Table (23)
Developments of CBK Bonds (KD Million)

Particulars	2012	2013	2014
Issues:	5,443.0	6,092.0	6,150.0
3 Months	3,237.0	4,514.0	4,600.0
6 Months	2,206.0	1,578.0	1,550.0
No. of Issues:	37	41	42
3 Months	23	31	32
6 Months	14	10	10
Maturities:	5,044.0	6,144.0	6,125.0
3 Months	3,586.0	3,869.0	4,625.0
6 Months	1,458.0	2,275.0	1,500.0
No. of Maturities	36	41	40
3 Months	24	28	30
6 Months	12	13	10
Balances at Year End:	1,952.0	1,900.0	1,925.0
3 Months	530.0	1,175.0	1,150.0
6 Months	1,422.0	725.0	775.0
No. at Year End:	37	39	44
3 Months	15	22	28
6 Months	22	17	16

Source: Central Bank of Kuwait.

At the same time, 40 previous issues matured during 2014 with a total nominal value of KD 6,125.0 million (30 issues of 3-month maturity with a total nominal value of KD 4,625.0 million, and 10 issues of 6-month maturity with a total nominal value of KD 1,500.0 million). As a result, the outstanding balance of CBK Bonds grew by KD 25.0 million from its balance at the end of 2013 from KD 1,900.0 million to KD 1,925.0 million at the end of 2014.

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

Activity in the interbank KD-deposit market of local banks witnessed an increase during 2014. The value of market transactions reached KD 88.9 billion against KD 54.3 billion during 2013, i.e. a rise of KD 34.6 billion or 63.7% (Table 24). Data indicate an increase in the relative importance of some transactions values, particularly the value of “longer than overnight and up to one month” transactions to 53.65 % during 2014 against 41.4% during 2013. Meanwhile the relative importance of the value of “overnight” transactions declined to 43.4% of total transactions during 2014 against 55.3% during 2013, and the relative importance of the value of “longer than a month and up to six-months” transactions to 2.6% compared to 2.8% during 2013.

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

Maturity Period	2013		2014	
	Value	% of Total	Value	% of Total
Overnight	29,988.2	55.3	38,566.1	43.4
Over one night to one week	17,132.1	31.6	40,721.7	45.8
Over one week to one month	5,329.5	9.8	6,973.1	7.8
Over one month to three months	1,126.4	2.1	1,269.7	1.4
Over three months to six months	415.2	0.8	1,058.0	1.2
Over six months	285.1	0.5	297.5	0.3
Total	54,276.4	100.0	88,886.0	100.0

Source: Central Bank of Kuwait.

(*) Excluding CBK operations.

7- The Balances of Local Bank Accounts with CBK:

The balances of accounts of CBK on the one hand and local banks on the other, 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 a positive value, or a net absorption by CBK of the KD liquidity surplus with local banks if it is a negative value (Table 25), all within CBK's efforts to manage local liquidity levels.

Available data indicate that the balance of local banks' claims on CBK witnessed a notable rise of KD 428.6 million or 8.0% during 2014 to reach KD 5,778.0 million at the end of the year against KD 5,349.4 million at the end of 2013. This rise was the outcome of the increase in the balances of local banks' time deposits with CBK of KD 516.3 million or 17.7%, and the balances of local banks' holdings of CBK Bonds of KD 25.0 million or 1.3% on the one hand, as well as the decline in the balances of demand deposits of local banks with CBK of KD 112.7 million or 21.1% on the other. No CBK claims on local banks were recorded at the end of 2014. In view of these developments, local banks' net claims on CBK rose by KD 428.6 million or 8.0% at the end of 2014 from its recorded level at the end of the previous year.

Table (25)
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	Time Deposits with CBK	Total	Currency Swaps	Discount and Re-discount	Deposits and Current Accounts with Local Banks	Total	
2012	185.3	1,952.0	2,309.1	4,446.4	-	-	-	-	-4,446.4
2013	533.0	1,900.0	2,916.4	5,349.4	-	-	-	-	-5,349.4
2014	420.3	1,925.0	3,432.7	5,778.0	-	-	-	-	-5,778.0

Source: Central Bank of Kuwait.

8- Activity of CBK Clearing Room:

Presented data (Table 26) 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 76.3 thousand transactions or 3.3% to a total of 2,411.2 thousand transactions during 2014 amounting to KD 13,512.2 million against 2,334.9 thousand transactions amounting to KD 12,973.0 million during 2013. The total value of clearing transactions during 2014 increased by KD 539.2 million or 4.2% from its level during 2013. Consequently, the average value per transaction (average value of cheque) increased by KD 47.9 or 0.9% to KD 5,604.0 during 2014 against KD 5,556.1 during 2013.

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), grew by KD 75.9 billion or 38.4% to KD 273.4 billion during 2014 against KD 197.5 billion during 2013.

Table (26)
Clearing Transactions

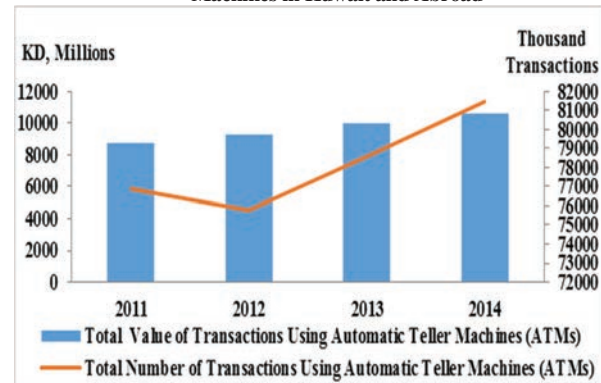
Period	Checks			Local Interbank Settlement Transactions (KD Million)
	Total Value (KD million)	Number of Transactions (Thousand Transactions)	Average Transaction Value (KD million)	
2012	11,164.8	2,239.5	4,985.5	156,659.4
2013	12,973.0	2,334.9	5,556.1	197,475.8
2014	13,512.2	2,411.2	5,604.0	273,448.7

Source: Central Bank of Kuwait.

9- Transactions Using Plastic Cards:

Available data regarding transactions using **plastic cards** (including transactions using 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** of 6.4% reaching KD 10,633.4 million (distributed over 82 million transactions) during 2014 against KD 9,989.8 million (distributed over 79 million transactions) during 2013.

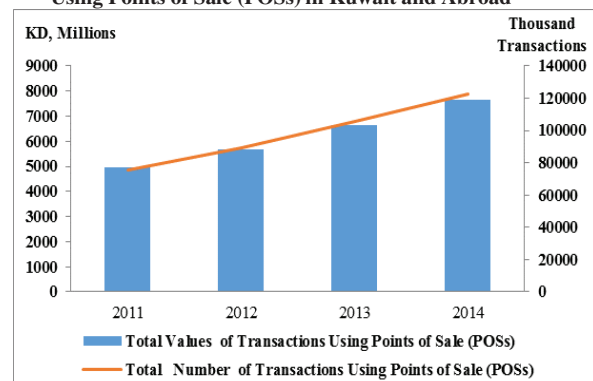
Chart (12)
Total Value and Number of Transactions Using ATM Machines in Kuwait and Abroad



In this context, **Total Value of ATM Transactions in the State of Kuwait** amounted to KD 10,264.2 million (distributed over 78 million transactions) during 2014 against KD 9,647.4 million (distributed over 75 million transactions) during the previous year, i.e. a rise of 6.4%.

Furthermore, **Total Value of Points of Sale (POS) Transactions in the State of Kuwait and Abroad** increased by KD 984.2 million or 14.8% reaching KD 7,632.6 million (distributed over 123 million transactions) during 2014 against KD 6,648.4 million (distributed over 105 million transactions) during the previous year.

Chart (13)
Total Value and Number of Transactions Using Points of Sale (POSs) in Kuwait and Abroad



Within this context, **Total Value of POS Transactions in the State of Kuwait** amounted to KD 6,919.7 million (distributed over 112 million transactions) during 2014 against KD 6,033.2 million (distributed over 96 million transactions) during the previous year, i.e. a rise of 14.7%.

Data on the **Number of Payment Devices Used in the State of Kuwait**, which are represented in the POS machines and ATMs, indicate an increase in the number of **POS** machines to reach 38316 at the end of 2014 against 31686 at the end of 2013, i.e. a rise of 20.9%. Data also indicate an increase in the number of **ATMs** of 10.6% to reach 1632 during 2014 against 1475 during the previous year.

10- Developments in Banking Supervision and Oversight:

The most significant accomplishments made by CBK as part of the following projects that are listed in the Annual Plan of 2013/14, with the key instructions, circulars and controls issued for the banking and financial units under its supervision during the mentioned year are addressed below with a brief description of their objectives:

- **Intensifying CBK's supervisory and oversight efforts over the banking and financial sector units to enhance the sector's ability to fulfill its role in the national economy.**
- **Verifying the financial and banking sector units' commitment to execute supervisory instructions and implement sound financial and banking practices.**
- **Sustaining the efforts to develop supervision and oversight systems and instructions concerning the financial and banking sector units to strengthen their financial position and enhance their role in the national economy.**
- **Continuing efforts to establish competitive efficiency in the banking and financial sector units.**
- **Adopting and implementing sound governance standards by the units of the banking and financial sector, which would contribute to the strengthening of the basic components of these units' financial position, improve their performance and achieve financial stability.**

Financial Stress Testing and Internal Capital Adequacy Assessment Process (ICAAP):

- Within CBK's keenness on keeping pace with the international supervisory standards, banks were requested to implement semiannual financial stress testing and ICAAP, in accordance with a set of detailed forms and appendices that illustrate the methodologies used by each bank and the results

of these tests in hypothetical stress conditions of increasing intensity, in accordance with CBK's new scenarios that have been implemented as of 31/12/ 2014, in addition to the banks own scenarios. The resultant submitted reports, studies and discussions regarding the situation as at 31/12/2014 confirmed banks' solid position and their ability to face shocks.

- Within the framework of CBK's study of the surrounding economic conditions, and taking into consideration the decline in oil prices, along with the fluctuations in financial markets, CBK introduced new scenarios for financial stress testing of higher intensity taking these changes into consideration. A circular regarding these scenarios was issued on 31/12/2014 to Kuwaiti banks to implement the related tests over a one-year horizon, taking into account the newly introduced scenarios.

Implementation of Basel Committee Banking Supervision Standards (Basel III Set of Reforms):

- Within the framework of CBK's efforts to implement the international supervisory standards and immunize the banking system as well as increase its ability to resist shocks, CBK has taken the following necessary measures to implement Basel Committee Banking Supervision Standards known as Basel III Set of Reforms:

A- CBK's Board of Directors approved on 24/6/2014 the final form of Basel III Capital Adequacy Standard instructions for conventional and Islamic banks. While the minimum level of Basel III capital adequacy ratio is 13%, CBK's instructions permit banks to gradually attain the minimum level of Basel III capital adequacy ratio within 3 years (2014 – 2016) in accordance with the transitional period stipulated in the issued instructions. This standard aims to improve capital quality, enhance the ratio of regulatory capital, develop risk management to strengthen banks' absorption capacity against losses, and increase their ability to withstand shocks, in addition to the introduction of major amendments in the field of disclosure and transparency enhancement.

B- In accordance with Basel III requirements, CBK's Board of Directors approved on 21/10/2014 the Leverage Ratio (LR) Standard for conventional and Islamic banks requiring a minimum leverage ratio of 3%. This standard is aimed at limiting leverage accumulation in the banking sector which may cause pressures on the system and the economy in general. It is also aimed

at enhancing capital adequacy requirements, taking into consideration that calculating the leverage ratio is not based on the size of risk-weighted assets as required by Basel III Capital Adequacy Standard instructions, but on the bank's total assets on/off balance sheet.

C- In accordance with Basel III requirements, CBK's Board of Directors approved on 23/12/2014 the Liquidity Coverage Ratio (LCR) Standard for conventional and Islamic banks. The related instructions thereto were issued on the same date. This standard is aimed at enhancing banks' ability to manage short-term liquidity risks, ensuring the availability of sufficient amount of high quality liquid assets in banks to cover liquidity needs that may occur according to the 30-day stress scenario.

The second liquidity standard (the last requirement of Basel III Set of Reforms), which is the Net Stable funding Ratio (NSFR) Standard, is currently being prepared.

Risk-based supervision:

- In the context of the risk-based supervision methodology, CBK continued to execute inspection tasks on banks using advanced methods focusing on quantitative and qualitative evaluation of banks' activity components according to CAMEL-BCOM mechanism. This mechanism has been implemented in the field of anti-money laundering and financing terrorism.

Following-up the banks' risk management strategy:

- Within the context of keeping pace with the international banking supervision standards, and in light of CBK's efforts to manage large exposures and concentrations of credit risk in Kuwaiti banks, as well as banks' mechanism for risk management, Kuwaiti banks were requested on 24/12/2014 to submit a brief report on the risk management strategy adopted by these banks, particularly in relation to large exposures and concentrations of credit, bank's methodology in evaluating the creditworthiness of customers, as well as the applicable bases and rules regarding the assessment of different guarantees conditions and quality. Banks were also requested to submit an annual statement on the indebtedness of the largest 25 customers and their related parties, along with the bank's evaluation and future vision of the level of risks each customer may incur.

Improved ratio of irregular debt in Kuwaiti banks:

- Within the framework of CBK's follow up of Kuwaiti banks' credit and finance portfolio on the level of the group, and the clean-up of this portfolio by encouraging these banks to cancel bad debts, canceled debts reached around KD 400.0 million for all Kuwaiti banks as at 31/12/2014. On another front, the ratio of irregular cash debt of Kuwaiti banks on the level of local activity to total cash facilities portfolio reached 2.24% as at 31/12/2014, against 2.6% as at 31/12/2013.

Following-up of career development and replacement plans in Kuwaiti banks:

- In light of the ongoing follow-up conducted by CBK concerning banks' leading positions and the importance it attaches to national manpower training, giving them priority in filling these positions, and in light of the implementation of CBK's circular to Kuwaiti banks issued on 29/8/2013 regarding banks' plans and policies in the field of career development, emphasizing national manpower priority in filling leading positions, and organizing advanced training programs to improve the capacity and skills of staff with the aim to prepare national leaders to take over in various fields, CBK issued on 17/4/2014 a confirmative circular of such and instructing banks on assigning non-Kuwaitis in leading positions to train national staff within a specified responsible period to enable them fill such positions in the context of the career development and replacement plans set by banks.

Authorizing foreign banks operating in the State of Kuwait to open multiple branches and representatives branches:

- In the context of CBK's endeavors to enhance banks' local activities, improve their performance and encourage competitiveness within the banking sector, and in light of the legislative amendment that allows foreign banks operating in the State of Kuwait to open multiple branches as well as representatives branches, CBK issued on 25/3/2014 a circular to all foreign banks operating in the State of Kuwait containing the controls, terms and bases that need to be adhered to by licensed foreign banks operating in the State of Kuwait, to open more than one branch as approved by CBK's

Board of Directors. CBK's Board of Directors has approved the opening of Qatar National Bank's second branch, thus becoming the first foreign bank to benefit from this amendment.

Developing the systems and improving data quality:

- In the field of developing the systems and improving the quality of data presented to CBK, and the transition process from the manual system to the electronic system so as to increase the speed and efficiency of oversight and supervision over the units under CBK's supervision, a group of projects have been implemented and/or are being implemented during the year under review. Furthermore, the programs of information development systems have been installed on CBK's systems used by the Customers Protection Unit.

Strengthening supervision controls on exchange companies:

- With the growing significance of the exchange companies' role in the field of financial transfers, being specialized institutions in this activity, and as part of the measures taken by CBK to strengthen the supervisory controls on exchange companies' activities ensuring their compliance with a set of standards and requirements that are in line with the supervisory developments aimed at enhancing companies' sound practices and improving the performance of this sector being one of the central pillars of the financial system in the country, CBK's Board of Directors has approved on 21/10/2014 a set of foundations and controls related to the establishment of exchange companies and supervision of their activities, identifying capital minimum requirements and the eligibility requirements of key executive positions in these companies.

Regulating the purchase and sale of shares of CBK- supervised banks and shareholding companies in the KSE:

- In accordance with Law No. 32 of the year 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business and its amendments, and Decree Law No. 25 of the year 2012 regarding the issuance of Companies Law and its amendments, as well as the Capital Markets

Authority (CMA) instructions issued on 30/12/2013, regulating the shareholding companies purchase of Treasury Shares and the method of their use and disposal which excluded KSE-listed shareholding companies under CBK's supervision, CBK has issued on 21/10/2014 instructions regarding the regulation of purchase and sale of shares to all shareholding companies that are KSE-listed and supervised by CBK.

- Within the framework of implementing the Family Support Fund Law and CBK's circular dated 10/6/2013 regarding the Family Support Fund, the results of the Auditing Departments' inspection on loans under the Family Support Fund were presented to CBK's Board of Directors at its session held on 21/10/2014, where necessary actions have been taken. Worth noting is that CBK has completed the required procedures stipulated in the Family Support Fund Law and its executive regulations. A weekly follow-up on the implementation process is being conducted using the statistical data received from banks through the Kuwait Banking Association (KBA) as part of the CBK's supervision and oversight of those banks.



Financial Indicators of the
Banking and Financial
System

2014

Financial Indicators of the Banking and Financial System

This part of the Economic Report 2014 reviews some 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 and 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 148 registered units as at the end of 2014, 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 89 investment companies (49 of which are

Table (27)
Developments in the Banking System Structure

End of period	Local Banks					Total Branches/ Representative offices
	No. of head Offices	No. of local Branches	No. of External Branches	No. of Representative Offices		
2012	22	384	16	3		403
2013	22	400	16	3		419
2014	23	419	16	4		439

Source: CBK.

companies operating in accordance with the provisions of the Islamic Sharia) under the dual supervision of the CBK and the 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 39 exchange companies. In this respect, the supervision 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 Sep. 2011.

Aggregate Balance Sheet of Local Banks

Local banks continued to build their local branch network and expand geographically during 2014 to keep pace with the expansion in their local activities by opening 19 new local branches during the year thus bringing the total number of local bank branches to 419 at the end of the year, against 400 at the end of the previous year. The number of local bank offshore branches (16) saw no change, while the number of offshore representative offices increased to 4 during 2014.

The aggregate balance sheet of local banks (excluding offshore branches and subsidiaries) amounted to KD 55,463.5 million at the end of 2014, against KD 51,484.8 million at the end of the previous year, realizing a growth of KD 3,978.7 million or 7.7% during 2014, compared with a growth of KD 4,339.5 million or 9.2% during 2013.

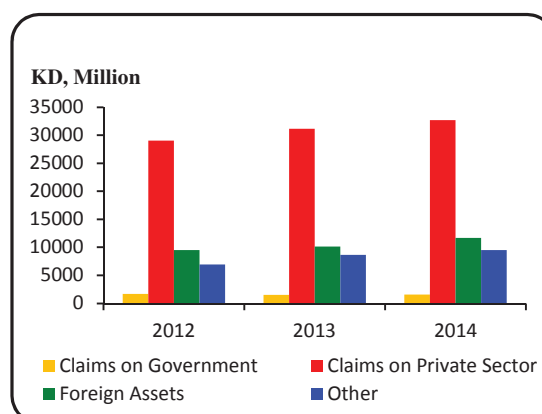
In order to identify the most significant changes in the main elements of the aggregate balance sheet of local banks as at the end of 2014 - as shown in Tables (28, 28-A & 28-B) - compared with the previous year, the noteworthy factors and developments at the level of some key elements of the balance sheet as at the end of 2013 and 2014, can be indicated as follows:

First- Domestic Assets:

The assets side in the aggregate balance sheet of banks represents the area of “uses of funds” which are basically concentrated in the area of lending as well as financial/non-financial investments, locally and internationally. 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 1,620.8 million or 5.2% reaching KD 32,720.0 million at the end of 2014 compared to KD 31,099.2 million at the end of the previous year. This increase was the result of the growth in the utilized cash portion of credit facilities extended to residents of KD 1,839.3 million on one hand, and a decline in other domestic investments of KD 218.4 million on the other.

(Chart 14)
Local Banks' Assets



2- Claims on the CBK: These claims consist of cash and cash balances, sight deposits, time deposits and holdings of the CBK Bonds. The outstanding balance of these claims increased by KD 478.8 million or 8.5% during 2014, from KD 5,654.3 million at the end of 2013 to KD 6,133.1 million at the end of 2014.

3- Claims on the Government: These claims are banks' holdings of public debt instruments. The outstanding balance of local banks' claims on government increased to KD 1,562.6 million at the end of 2014 against KD 1,502.4 million at the end of the previous year, recording an increase of KD 60.2 million or 4.0%.

Table (28)
Aggregate Balance Sheet of Local Banks (Assets)*

Items	Balances at year end (KD, Million)		Change in 2014	
	2013	2014	Value	(%)
Claims on CBK, of which:	5,654.3	6,133.1	478.8	8.5
Time Deposits with CBK	2,916.4	3,432.7	516.3	17.7
Sight Deposits	529.3	423.2	-106.1	-20.0
CBK Bonds	1,900.0	1,925.0	25.0	1.3
Local Interbank Deposits	1,263.7	1,782.5	518.7	41.0
Claims on the Government:	1,502.4	1,562.6	60.2	4.0
Treasury Bonds	1,502.4	1,562.6	60.2	4.0
Treasury Bills	0	0	0.0	0.0
Claims on the Private Sector:	31,099.2	32,720.0	1,620.8	5.2
Credit Facilities to Residents	28,911.4	30,750.6	1,839.3	6.4
Other Local Investments	2,187.8	1,969.3	-218.5	-10.0
Foreign Assets, of which:	10,202.2	11,680.6	1,478.4	14.5
Deposits with Foreign Banks	5,431.8	6,205.5	1,883.6	14.2
Foreign Investments	3,337.6	3,720.9	773.3	11.5
KD Credit Facilities to Non-Residents	114.4	176.3	61.9	54.1
Foreign Currency Facilities to Non-Residents	876.9	1,032.9	156	17.8
Other Assets	1,763.0	1,584.8	-178.2	-10.1
Assets	51,484.8	55,463.5	3,978.7	7.7
Number of Banks	22	23		

* Data on external branches and subsidiaries is not included.

Source: CBK.

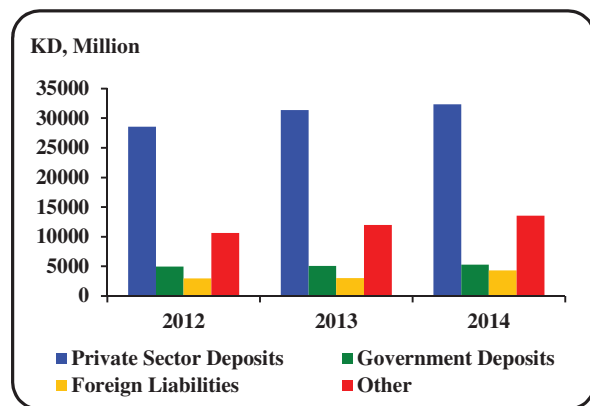
Second- Domestic Liabilities:

Liabilities side in the aggregate balance sheet of local banks contains 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 local liabilities within local banks' aggregate balance sheet during the years 2013 and 2014:

1- Private Sector (Resident) Deposits: Private sector resident deposits with local banks increased to KD 32,338.7 million at the end of 2014 against KD 31,385.7 million at the end of the previous year, recording a growth of KD 953 million or 3.0%. This growth resulted from an increase in the KD deposits of KD 1,183.2 million or 4.2% on one hand, and a decline in foreign currency deposits by the equivalent of KD 230.2 million or 7.4% on the other.

2- Government Deposits: Government (ministries, government departments, public authorities and institutions with budgets attached to the State General Budget, and Kuwait Credit Bank) deposits with local banks increased to KD 5,286.0 million at the end of 2014 compared to KD 5,056.7 million at the end of the previous year, i.e. an increase of KD 229.3 million or 4.5%.

(Chart 15)
Local Banks' Liabilities



3- Shareholders' Equity: Shareholders' equity in local banks, including paid-up capital, increased by KD 170.3 million or 2.4% from KD 7,180.0 million at the end of 2013 to KD 7,350.3 million at the end of 2014.

Table (28-A)
Aggregate Balance Sheet of Local Banks (Liabilities)*

Items	Balances at year end (KD, Million)		Change in 2014	
	2013	2014	Value	(%)
Private Sector Deposits:	<u>31,385.7</u>	<u>32,338.7</u>	<u>953.0</u>	<u>3.0</u>
KD Deposits	28,264.0	29,447.2	1,183.2	4.2
Foreign Currency Deposits	3,121.7	2,891.4	-230.2	- 7.4
Government Deposits	5,056.7	5,286.0	229.3	4.5
Local Interbank Deposits	1,258.5	1,804.9	546.4	43.4
Shareholders' Equity	7,180.0	7,350.3	170.3	2.4
Foreign Liabilities: of which:	<u>3,044.0</u>	<u>4,297.4</u>	<u>1,253.4</u>	<u>41.2</u>
Foreign Bank Deposits	2,001.6	2,921.4	919.8	46.0
Foreign Non-Bank Deposits	895.9	996.8	100.9	11.3
Other Liabilities	3,560.0	4,386.3	826.3	23.2
Liabilities	51,484.8	55,463.5	3,978.7	7.7
Number of Banks	22	23		

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

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) and **external finance operations** (financial resources) represented in non-resident private sector's deposits. Notable developments in this regard can be further highlighted as follows:

- 1- Foreign Assets:** Total foreign assets of local banks grew by the equivalent of KD 1,478.4 million or 14.5% during 2014 to reach the equivalent of KD 11,680.6 million at the end of that year compared with the equivalent of KD 10,202.2 million at the end of 2013, accounting for 21.1% of total assets at the end of 2014 compared to 19.8% at the end of the previous year.

2- Foreign Liabilities: Total foreign liabilities of local banks increased to the equivalent of KD 4,297.4 million at the end of 2014 against the equivalent of KD 3,044.0 million at the end of 2013, i.e. an increase equivalent to KD 1,253.4 million or 41.2%, accounting for 7.7% of total liabilities at the end of 2014 compared to 5.9% 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 the equivalent of KD 225.0 million or 3.1% at the end of 2014 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 into three basic items documentary credits (credit letters), bank guarantees (guarantee letters), and bank acceptances. According to Table (28-B) total contra accounts with local banks amounted to KD 11,594.4 million at the end of 2014, against KD 10,572.3 million at the end of the previous year, i.e. an increase of KD 1,022.1 million or 9.7%, accounting for 20.9% of the aggregate balance sheet of local banks at the end of 2014 against 20.5% at the end of 2013.

Table (28-B)
Aggregate Balance Sheet of Local Banks (Contra Accounts)*

Items	Balances at year end (KD, Million)		Change in 2014	
	2013	2014	Value	(%)
Bank Guarantees	9,278.0	10,172.6	894.6	9.6
Documentary Credits	1,026.5	1,028.8	2.3	0.2
Bank Acceptances	267.8	393.0	125.2	46.8
Total Contra Accounts	10,572.3	11,594.4	1,022.1	9.7
Number of Banks	22	23		

* Data on external 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 (29) – is to identify their reflections on the financial position of local banks at the end of 2014, and explain the interaction between the movement of funds in local banks’ domestic operations and external transactions. Following are the most notable developments:

1- Sources of Funds from Domestic Market Operations:

Sources of funds from domestic market operations originate from any increase in the elements of liabilities and/or any decrease in the elements of assets. The value of these sources of funds is calculated by the amount of change in the balances of liabilities and assets at the end of two comparable years, thus summing up the financial flows during the year elapsed between the two mentioned dates. Total financial resources generated by local banks from domestic market operations amounted to KD 2,903.5 million during 2014 compared to KD 4,460.6 million during the previous year.

The major portion of domestic financial resources realized during 2014 was KD 2,725.3 million or 93.9% of total domestic financial resources, resulting from increasing some elements of local liabilities. Meanwhile, the remaining KD 178.2 million or 6.1% 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 2014 were exclusively used in increasing some elements of domestic assets by KD 2,678.5 million.

Table (29)
Summary of Financial Flows in Local Banks during 2013 and 2014
(KD, Million)

Items	2013		2014	
	Flows Value	to Total (%)	Flows Value	to Total (%)
First- Domestic Operations:				
1- Total Sources of Funds:	4,460.6	100.0	2,903.5	100.0
* From Increase in Liabilities:	4,278.7	95.5	2,725.3	93.9
Private Sector Deposits	2,837.5	63.6	953.0	32.8
Government Deposits	101.3	2.3	229.3	7.9
Shareholders' Equity	587.2	13.2	170.3	5.9
Local Banks' Deposits	370.9	8.3	546.4	18.8
Other Domestic Liabilities	381.9	8.6	826.3	28.5
* From Decrease in Assets:	181.9	4.1	178.2	6.1
Claims on Government	181.9	4.1	-	-
Other Domestic Assets	-	-	178.2	6.1
2- Total Uses of Funds:	3,807.1	100.0	2,678.5	100.0
* In Decreasing Liabilities:	-	-	-	-
* In Increasing Assets:	3,807.1	100.0	2,678.5	100.0
Claims on the Private Sector	2,078.6	54.2	1,620.8	60.5
Claims on CBK	996.0	26.2	478.8	17.9
Claims on Government	-	-	60.2	2.2
Deposits with Local Banks	372.1	9.8	518.7	19.4
Other Domestic Assets	360.4	9.5	-	-
Surplus (+) or Deficit (-) of Resources against Uses	653.5	-	225.0	-

Source: CBK.

Table (29) / Cont'd.
Summary of Financial Flows in Local Banks during 2013 and 2014
(KD, Million)

Items	2013		2014	
	Flows Value	to Total (%)	Flows Value	to Total (%)
Second- Foreign Operations:				
1- Total Sources of Funds:	<u>136.8</u>	<u>100.0</u>	<u>1,253.4</u>	<u>100.0</u>
* From Increase in Liabilities:				
Non-Resident (Bank) Deposits	136.8	100.0	1253.4	100.0
Non-Resident (Non-Bank) Deposits	-	-	100.9	8.0
Other Foreign Liabilities (including bonds)	-	-	232.7	18.6
* From Decrease in Assets:	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0</u>
KD Credit Facilities to Non-Residents	-	-	-	-
2- Total Uses of Funds:	<u>790.5</u>	<u>100.0</u>	<u>1,478.4</u>	<u>100.0</u>
* In Decreasing Liabilities:				
Non-Resident (Non-Bank) Deposits	76.0	9.6	-	-
Other Foreign Liabilities (including bonds)	20.8	2.6	-	-
* In Increasing Assets:	<u>714.4</u>	<u>90.4</u>	<u>1,478.4</u>	<u>100.0</u>
Foreign Investments	20.3	2.6	383.3	25.9
Local Bank Deposits with Foreign Banks	390.5	49.4	773.6	52.3
KD Credit Facilities to Non-Residents	73.1	9.2	61.9	4.2
Foreign Currency Credit Facilities to Non-Residents	185.6	23.5	156.0	10.6
Other Foreign Assets	44.9	5.7	103.6	7.0
Surplus (+) or Deficit (-) of Resources against Uses	-653.5	-	- 225.0	-

Source: CBK.

3- The Surplus in Resources from Domestic Market Operations:

The movement of funds in local banks' domestic operations during 2014 resulted in a net surplus of KD 225.0 million in local financial resources, totaling KD 2,903.5 million after covering the uses of funds in domestic market operations totaling KD 2,678.5 million. The surplus was used to cover the deficit in the financial resources resulting from foreign operations, indicating a net financial outflow of KD 225.0 million, i.e. equal to the value of the surplus.

4- Financial Flows from Foreign Operations:

Total financial resources generated by local banks from foreign operations amounted to the equivalent of KD 1,253.4 million during 2014, resulting exclusively from increasing some elements of foreign liabilities. Total uses of funds in local banks' foreign operations amounted to the equivalent of KD 1,478.4 million during 2014, used exclusively in increasing some elements of foreign assets by the equivalent of KD 1,478.4 million or 100% of total foreign uses of funds. This resulted a net deficit equivalent to KD 225.0 million in the financial resources from foreign sources. The deficit was covered by the surplus in the financial resources resulting from domestic market operations of the earlier mentioned value of KD 225.0 million.

Sixth- Indicators and Financial Ratios:

This part shows some indicators of the financial position of local banks at the end of 2014 and the developments in their performance over the mentioned year, through using some indicators and financial ratios concluded from the analysis of available aggregate data on local banks at the end of 2013 and 2014 shown in Table (30) as follows¹:

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, the Bond holdings, deposits with local banks, deposits with foreign banks and Certificates of Deposit) in the repayment of liabilities from 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 and foreign securities) of the mentioned deposits.

Available data indicate an increase in the **cash standard** reaching 32.9% at the end of 2014 compared to 30.8% at the end of 2013, and an increase in the **liquidity standard** to 40.5% at the end of 2014 from 38.7% at the end of 2013. Accordingly, the average of both standards for the period 2013-2014 was 31.9% for the cash standard and 39.6% for the liquidity standard.

¹ Indicators and financial ratios are according to local banks' aggregate data and not consolidated data.

2- Uses of Funds Standards:

The analysis indicates a slight growth in the ratios of funds uses 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 95.1% at the end of 2014 compared to 92.3% at the end of 2013, and an annual average of 93.7% for the years 2013 and 2014. The second ratio which shows, among other details, the extent to which domestic private sector deposits were used in funding domestic private sector activities, increased to reach 101.2% at the end of 2014 compared to 99.2% at the end of 2013, with an annual average ratio of 100.2% for the years 2013 and 2014. The third ratio, which indicates the share of resident deposits and shareholders' equity in local funding, grew to 77.1% at the end of 2014 compared to 75.5% at the end of 2013, with an annual average ratio of 76.3% for the years 2013 and 2014.

3- Profitability Standards:

Table (30) shows developments in the net profit ratio to average assets, average shareholders' equity, and paid-up capital at the end of 2014 compared with the end of the previous year. Local banks' realized profits totaled KD 794.3 million during 2014 compared to KD 617.6 million and KD 672.7 million during 2012 and 2013 respectively. The ratio of the realized net profit to average assets, average shareholders' equity and paid-up capital was 1.4%, 10.8% and 31.8% respectively in 2014, against 1.0%, 9.3% and 28.6% respectively in 2013.

4- Adequacy Standards of Shareholders' Equity:

The ratio of shareholders' equity to total assets, total uses of funds, and total non-cash assets was 13.3%, 15.4% and 19.5% respectively at the end of 2014. Accordingly, the average of the above-mentioned adequacy ratios of shareholders' equity during 2013 and 2014 was 13.6% to total assets, 15.8% to total uses of funds and 19.9% to total non-cash assets, encompassing credit facilities to residents/non-residents as well as some local/foreign financial and non-cash investments.

5- Capital Adequacy Standard “Solvency”:

Available aggregated data on Kuwaiti banks indicate that the capital adequacy ratio for each bank was still noticeably higher than the minimum ratio required according to the CBK’s regulations in line with the international standards. In this respect, and in the context of the CBK’s implementation of Basel III Set of Reforms, the 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.

Basel II capital adequacy ratio used by Kuwaiti banks was 19.2% at the end of December 2014, against 18.9% at the end of December 2013. Meanwhile, Basel III capital adequacy ratio used was 16.5% in December 2014, against 15.7% in December 2013.

Table (30)
Some Financial Indicators and Ratios of Local Banks (%)

Items	2013	2014	Average
First- Liquidity Standards:			
1- Cash Standard	30.8	32.9	31.9
2- Liquidity Standard	38.7	40.5	39.6
Second- Uses Standards:			
1- Credit Facilities to Private Sector Deposits	92.3	95.1	93.7
2- Claims on Private Sector to Private Sector Deposits	99.2	101.2	100.2
3- Local Uses to Resident Deposits & Shareholders’ Equity	75.5	77.1	76.3
Third- Profitability Standards:			
1- Net Profit to Average Assets	1.0	1.4	1.2
2- Net Profit to Average Shareholders’ Equity	9.3	10.8	10.05
3- Net Profit to Paid-up Capital	28.6	31.8	30.2
Fourth- Adequacy Standards of Shareholders’ Equity:			
1- Shareholders’ Equity to Total Assets	14.0	13.3	13.6
2- Shareholders’ Equity to Total Uses	16.3	15.4	15.8
3- Shareholders’ Equity to Non-Cash Assets	20.3	19.5	19.9
Fifth- Capital Adequacy Standard:			
1- Capital Adequacy Standard (Local Banks)	18.9	19.2	19.1

Source: CBK.

The Aggregate Balance Sheet of Local Investment Companies

Table (31)
Developments in the Financial System Structure

The number of registered local investment companies supervised by the CBK decreased to 89 at the end of 2014 compared to 92 at the end of the previous year. Local investment companies sector at the end of 2014 encompassed 40 conventional investment companies and 49 Islamic investment companies. In this respect, and in accordance with Law No. 7/2010 issued on 26 February 2010 on the “Establishment of the Capital Markets Authority and the Regulation of the Activity of Securities”,

and the Ministerial decision No.38/2011 for the regulation of the CBK’s supervision of finance companies, the supervision of investment companies and investment funds has been transferred from the CBK to the CMA as of 13 September 2011, limiting the CBK’s supervisory role to the finance activities performed by the investment companies. Total assets of local conventional/Islamic investment companies amounted to KD 10,533.0 million at the end of 2014 compared to KD 10,686.5 million at the end of 2013, i.e. a decline of KD 153.5 million or 1.4% (Table 32).

Period	Number of Investment Companies			Number of Exchange Companies
	Conventional	Islamic	Total	
2010	46	54	100	38
2011	44	51	95	39
2012	43	50	93	39
2013	42	50	92	39
2014	40	49	89	39

Source: CBK.

Table (32)
Aggregate Balance Sheet of Local Investment Companies*
(KD, Million)

Items	Balance at year end		Change during 2014	
	2013	2014	Value	(%)
Assets:				
Cash & Balances with local Banks & Investment companies	503.8	476.2	-27.7	-5.5
Financing to Customers	825.3	893.0	67.7	8.2
Loans and Advances to Residents (conventional Companies)	441.8	523.4	81.6	18.5
Financing to Customers	383.5	369.6	-13.9	-3.6
Domestic Investments	2,683.7	2,485.8	-197.9	-7.4
Financial Investments	2,230.7	1,986.8	-243.9	-10.9
Non-Financial Investments	453.0	499.0	46.0	10.2
Foreign Assets	5,014.7	4,840.9	173.9	-3.5
Other Assets	1,659.0	1,837.2	178.2	10.7
Assets = Liabilities	10,686.5	10,533.0	-153.5	-1.4
Liabilities:				
Capital and reserve	4,480.0	4,567.8	87.7	2.0
Financing from Residents	2,465.8	2,191.3	-274.6	-11.1
Bonds & Financing Instruments	92.0	59.1	-32.9	-35.8
Foreign Liabilities	1,853.2	1,873.1	19.9	1.1
Other Liabilities	1,795.4	1,841.8	46.3	2.6
Number of Companies	92	89	-3	

*Including data on subsidiaries.

Source: CBK.

In order to identify key developments in the performance of local investment companies, following is a separate review of conventional investment companies and Islamic investment companies during 2013 and 2014:

First- Conventional Investment Companies:

Available financial data Table (33) on the 40 conventional investment companies indicate a total aggregate balance sheet of KD 5,849.1 million at the end of 2014, recording a decline of KD 88.8 million or 1.5% from its level of KD 5,937.9 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, the noteworthy developments at the end of 2014 compared with the end of 2013 are as follows:

- 1- Foreign assets decreased by the equivalent of KD 134.9 million or 3.8% at the end of 2014 compared with the previous year. This decline resulted from the decrease in foreign investments by the equivalent of KD 144.1 million or 5.1% and cash and balances with foreign banks by the equivalent of KD 5.8 million or 2.7% on the one hand, and from the increase in other foreign assets by the equivalent of KD 11.1 million or 2.2% and loans and advances to non-residents by the equivalent of KD 3.9 million or 11.8% on the other.
- 2- Domestic investments declined by KD 73 million or 5.5% from KD 1,328.2 million at the end of 2013 to KD 1,255.2 million at the end of 2014. This decline resulted from the decrease in financial investments by KD 105.6 million or 8.9% on the one hand, and the growth in non-financial investments by KD 32.6 million or 23.3% on the other.
- 3- Loans and advances to residents declined by KD 81.6 million or 18.5% to reach KD 523.4 million at the end of 2014 against KD 441.8 million at the end of the previous year.

On the liabilities side, notable developments at the end of 2014 compared with the end of 2013 are highlighted as follows:

- 1- Capital and reserve increased by KD 64.9 million or 2.4% from KD 2,745.4 million at the end of 2013 to KD 2,810.3 million at the end of 2014.
- 2- Financing from residents decreased by KD 97.2 million or 9.8% at the end of 2014 compared with the end of the previous year, from KD 990.3 million to KD 893.1 million.
- 3- Foreign liabilities decreased by the equivalent of KD 85.8 million or 6.5% from KD 1,330.1 million at the end of 2013, to the equivalent of KD 1,244.3 million at the end of 2014.

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

Items	Balance at year end		Change during 2014	
	2013	2014	Value	(%)
Assets:				
Cash & Balances with local Banks and Investment Companies	252.1	223.7	-28.4	-11.3
Loans and Advances to Residents (Conventional Companies)	441.8	523.4	81.6	18.5
Domestic Investments:	1,328.2	1,255.2	-73.0	-5.5
Financial Investments	1,188.6	1,083.0	-105.6	-8.9
Non-Financial Investments	139.6	172.2	32.6	23.3
Foreign Assets	3,564.8	3,429.9	-134.9	-3.8
Other Assets	350.9	416.9	66.0	18.8
Assets = Liabilities	5,937.9	5,849.1	-88.8	-1.5
Liabilities:				
Capital and reserve	2,745.4	2,810.3	64.9	2.4
Financing from Residents	990.3	893.1	-97.2	-9.8
Bonds and Financing Instruments	92.0	59.1	-32.9	-35.8
Foreign Liabilities	1,330.1	1,244.3	-85.8	-6.5
Other Liabilities	780.1	842.3	62.2	8.0
Number of Companies	42	40	-2	

*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 49 Islamic investment companies for 2013 and 2014. Those are the companies registered by the CBK at the end of 2014.

Available financial data Table (34) indicate a decrease in the total aggregate balance sheet of KD 64.7 million or 1.4% compared with the previous year reaching KD 4,683.9 million, against KD 4,748.6 million at the end of the previous year. Following are key developments witnessed **on the assets side**:

- 1- Domestic financial investments declined by KD 124.9 million or 9.2% to reach KD 1,230.6 million at the end of 2014 compared to KD 1,355.4 million at the end of 2013.
- 2- Foreign assets, which are foreign financial/non-financial assets, decreased by the equivalent of KD 38.9 million or 2.7% from the equivalent of KD 1,449.9 million at the end of 2013 to the equivalent of KD 1,411.0 million at the end of 2014.
- 3- Financing to customers declined by KD 13.9 million or 3.6% to KD 369.6 million at the end of 2014, against KD 383.5 million at the end of 2013.

On the liabilities side, main developments witnessed at the end of 2014 compared with the end of 2013 are as follows:

- 1- Foreign liabilities grew by the equivalent of KD 105.8 million or 20.2% to the equivalent of KD 628.8 million at the end of 2014, against the equivalent of KD 523.0 million at the end of 2013.

Table (34)
Aggregate Balance Sheet of Investment Companies
Operating in Accordance with the Provisions of the Islamic Sharia*
(KD, Million)

Items	Balance at year end		Change during 2014	
	2013	2014	Value	(%)
Assets:				
Cash & Balances with local Banks and Investment companies	251.7	252.4	0.7	0.3
Financing to Customers	383.5	369.6	-13.9	-3.6
Domestic Investments: including:	1,355.4	1,230.6	-124.9	-9.2
Financial Investments	1,042.1	903.8	-138.3	-13.3
Non-Financial Investments	313.3	326.8	13.5	4.3
Foreign Assets	1,449.9	1,411.0	-38.9	-2.7
Other Assets	1,308.1	1,420.3	112.5	8.6
Assets = Liabilities	4,748.6	4,683.9	-64.7	-1.4
Liabilities:				
Capital and reserve	1,734.7	1,757.5	22.8	1.3
Financing from Residents	1,475.6	1,298.2	-177.4	-12.0
Foreign Liabilities	523.0	628.8	-105.8	20.2
Other Liabilities	1,015.4	999.5	-15.9	-1.6
Number of Companies	50	49	-1	

*Including data on subsidiaries.

Source: CBK.

- 2- Shareholders' equity increased by KD 22.8 million or 1.3% to reach KD 1,757.5 million at the end of 2014 compared to KD 1,734.7 million at the end of 2013.
- 3- Funding operations made through local banking and financial sector declined by KD 177.4 million or 12.0% to KD 1,298.2 million at the end of 2014 against KD 1,475.6 million at the end of 2013.

Third- Contra Accounts of Local Investment Companies:

Contra accounts (off-balance-sheet items) reflect a significant aspect of local investment companies' activities in the domain of financial services provided to both resident and non-resident clients Table (35). Contra accounts for the 89 local investment companies registered with the CBK (40 conventional and 49 Islamic) as at the end of 2014 amounted to KD 19,724.3 million, of which KD 18,096.9 million or 91.7% for conventional investment companies, and KD 1,627.4 million or 8.3% for Islamic investment companies, recording a growth of KD 616.8 million or 3.2% from its level of KD 19,107.5 million for 93 registered companies at the end of 2013, of which KD 17,344.3 million or 90.8% for 43 conventional investment companies, and KD 1,763.2 million or 9.2% for 50 Islamic investment companies.

Table (35)
Contra Accounts of Local Investment Companies*
(KD, Million)

Items	Balances at Year-End		Changes in 2014	
	2013	2014	Value	(%)
Contra Accounts:	<u>19,107.5</u>	<u>19,724.3</u>	<u>616.8</u>	<u>3.2</u>
Conventional Investment Companies	17,344.3	18,096.9	752.6	4.3
Islamic Investment Companies	1,763.2	1,627.4	-135.8	-7.7
Investment Portfolios	15,185.1	15,862.3	677.2	4.5
Investment Funds	1,469.2	1,634.3	165.1	11.2
Foreign Funds	2,060.9	1,759.6	-301.3	-14.6
Custody Assets	310.0	391.8	81.8	26.4
Commitments/Collaterals/ Guarantees	82.3	76.3	-6.0	-7.3
Number of Investment Companies	<u>93</u>	<u>89</u>	-4	
Conventional Investment Companies**	43	40	-3	
Islamic Investment Companies**	50	49	-1	

* Including data on subsidiaries.

**Two Finance Companies, one Conventional and one Islamic, are supervised by CBK.

Source: CBK.

The Aggregate Balance Sheet of Local Exchange Companies

The number of local exchange companies (39) registered with, and supervised by the CBK, witnessed no change during 2014. Available data Table (36) indicate that the aggregate balance sheet of these companies amounted to KD 153.8 million at the end of the year increasing by KD 10.8 million or 7.5% from its level of KD 143.0 million at the end of the previous year. This growth was a reflection of the following developments on both assets and liabilities sides:

First- Assets:

- 1- Liquid assets in the form of cash and cash assets increased by KD 1.1 million or 5.1% from KD 20.9 million at the end of 2013 to KD 22.0 million at the end of 2014.
- 2- Foreign assets of exchange companies grew by the equivalent of KD 3.2 million or 5.0% to reach the equivalent of KD 68.0 million at the end of 2014 compared with the equivalent of KD 64.8 million at the end of 2013.
- 3- Claims of exchange companies on financial institutions increased by KD 1.4 million or 5.3% to KD 28.2 million at the end of 2014, against KD 26.8 million at the end of the previous year.
- 4- Financial and real estate investments of exchange companies grew by KD 0.1 million or 8.4% to reach KD 1.9 million at the end of 2014 compared with the end of the previous year.

Second- Liabilities:

- 1- Claims of financial institutions on local exchange companies increased by KD 0.02 million or 0.2% from KD 9.45 million at the end of 2013 to KD 9.47 million at the end of 2014.

Table (36)
Aggregate Balance Sheet of Local Exchange Companies
(KD, Thousand)

Items	Balances at Year-End		Change in 2014	
	2013	2014	Value	(%)
Assets:				
Cash & Cash Assets	20,888.6	21,957.2	1,068.6	5.1
Claims on Financial Institutions	26,808.3	28,221.2	1,412.9	5.3
Total Receivables	2,789.3	2,246.6	-542.7	-19.5
Financial & Real estate Investments	1,713.1	1,857.2	144.1	8.4
Fixed Assets	14,591.4	16,803.7	2,212.3	15.2
Foreign Assets	64,799.3	68,024.1	3,224.8	5.0
Other Assets	11,392.3	14,663.9	3,271.6	28.7
Assets = Liabilities	142,982.3	153,773.9	10,791.6	7.5
Liabilities:				
Partners' Equity & Results of the Period	95,738.0	91,532.4	- 4,205.6	-4.4
Claims of Financial Institutions	9,457.0	9,476.3	-19.3	0.2
Total Payables	3,962.8	4,236.7	273.9	6.9
Foreign Liabilities	2,210.6	3,454.2	1,243.6	56.3
Other Liabilities	31,613.9	45,074.4	13,460.5	42.6
Contra Accounts	5,909.3	2,972.1	- 2,937.2	-49.7
Results of the Period (Net Profit)	14,078.9	17,503.3	3,424.4	24.3
Number of Companies	39	39	0	

Source: CBK.

- 2- Other liabilities grew by KD 13.5 million or 42.6% from KD 31.6 million at the end of 2013 to KD 45.1 million at the end of 2014.
- 3- Partners' equity, covering results of the period, declined by KD 4.2 million or 4.4% from KD 95.7 million at the end of 2013 to KD 91.5 million at the end of 2014.

Third- Liquidity, Profitability and Solvency Ratios:

Available data indicate that the net credit position of local exchange companies with local banks and financial institutions grew from KD 17.4 million at the end of 2013 to KD 18.7 million at the end of 2014, recording an increase of 8.0% and remaining in favor of local exchange companies.

In respect of net liquidity position of local exchange companies at the end of 2014, liquidity available to those companies amounted to KD 105.3 million of which KD 22 million or 20.9% in the form of cash and cash assets, and KD 83.3 million or 79.1% in the form of net claims of local exchange companies on local/foreign banks and financial institutions. Profitability ratios of local exchange companies witnessed an increase during 2014, where net profitability to partners' equity ratio grew to 19.1% during 2014 against 14.7% during 2013. Return on assets to total assets ratio increased to reach 11.4% during 2014 against 9.8% during the previous year. Meanwhile, net profit grew by KD 3.4 million or 24.3% to KD 17.5 million during 2014 against KD 14.1 million during 2013.

On the other side, the ratio of partners' equity to total assets declined from 67.0% at the end of 2013 to 59.5% at the end of 2014. The ratio of partners' equity to total assets and contingent liabilities represented in contra accounts decreased from 64.3% at the end of 2013 to 58.4% at the end of 2014.



Public Finance

2014

Public Finance

This part of the Economic Report highlights developments of the public finance of the State of Kuwait by presenting developments of the Closing Account of ministries and government bodies for fiscal year (FY) 2013/14, along with the revenue estimates and allocations for budgetary expenditures for ministries and government departments for FY2014/15, and the government budgetary fiscal operations¹ during the period (April-December 2014) of FY2014/15.

First - The Closing Account for Fiscal Year 2013/14:

1- Public Revenues

The Closing Account data for FY2013/14 indicate that the total actual budgetary revenues collected for the mentioned fiscal year reached KD 31,811.4 million compared to KD 32,008.5 million in the previous fiscal year, recording a slight decrease of KD 197.1 million or 0.6 %. This decrease mainly reflects the decline in the actual budgetary oil revenues collected of KD 677.7 million or 2.3 % to reach KD 29,291.9 million in FY2013/14 compared to KD 29,969.6 million for the previous fiscal year on the one hand, and the rise in non-oil revenues collected of KD 480.6 million or 23.6% to KD 2,519.5 million compared to KD 2,038.9 million on the other (Table 37).

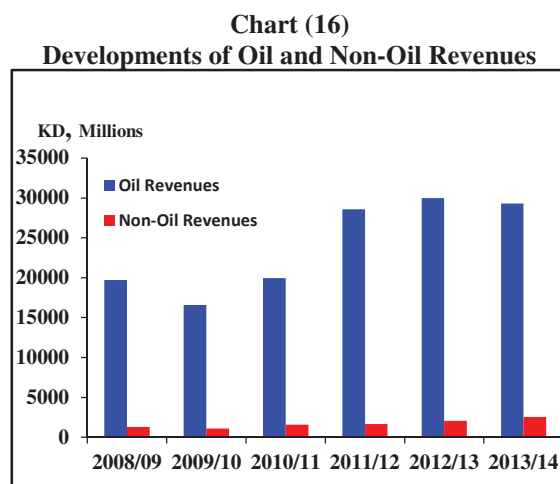
Table (37)
Actual Revenues in the General Budget
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2012/13		2013/14		Value	(%)
	Value (1)	(%) to Total	Value (2)	(%) to Total		
Total Actual Revenues:	32,008.5	100.0	31,811.4	100	-197.1	-0.6
Oil Revenues	29,969.6	93.6	29,291.9	92.1	-677.7	-2.3
Non-Oil Revenues	2,038.9	6.4	2,519.5	7.9	480.6	23.6

Source: Ministry of Finance.

¹The monthly follow-up statements monitor the data on government fiscal operations prepared on cash basis, while the Closing Account data is prepared on maturity basis and becomes final after completing all accounting settlements. Therefore, the aggregate data of the monthly follow-up statements for a specific fiscal year do not correspond to the Closing Account data for that fiscal year.

The average price of Kuwait's export crude oil witnessed a slight increase of \$0.5 per barrel or 0.52% to reach \$105.04 per barrel during FY2013/14 against \$104.49 per barrel during the previous fiscal year. The daily average production of crude oil reached 2.946 million b/d during FY2013/14 against 2.932 million b/d during the previous fiscal year, i.e. an increase of 14 thousand b/d.



Source: Ministry of Finance.

Actual budgetary non-oil revenues collected during FY2013/14 increased to KD 2,519.5 million against KD 2,038.9 million during the previous fiscal year, i.e. a rise of KD 480.6 million or 23.6%. As a result of the decrease of oil revenues on the one hand and the increase of non-oil revenues on the other, the relative share of actual budgetary non-oil revenues collected during FY2013/14 rose to 7.9% against 6.4% for the previous fiscal year.

The above-mentioned growth in total non-oil revenues collected during FY2013/14 mainly reflects the increase in the actual revenues collected under the Seventh Chapter (miscellaneous revenues and charges) of KD 447.8 million or 46.9%, the Fifth Chapter (taxes and fees on international trade and transactions) of KD 16.9 million or 6.5% and the Second Chapter (taxes on net income and profits including income tax, excluding oil companies and taxes on net profits) of KD 13.1 million or 17.7% on the one hand, and the decrease in the actual revenues collected under the Sixth Chapter (Services Revenues, including security and justice services, educational and cultural services, healthcare services, housing and facilities services, electricity and water services, transport and communications, fiscal stamps revenues and other services) of KD 3.5 million or 0.5% on the other (Table 38).

The mentioned rise in the actual revenues collected under the Seventh Chapter resulted from the increase in the "compensations" item of KD 565.6 million or 88.5% to reach KD 1,204.4 million during FY2013/14 against KD 638.8 million during the previous fiscal year (compensations item constituted 86% of total revenues under the Seventh Chapter which in turn constituted 55.7% of the total non-oil revenues).

Table (38)
Actual Budgetary Non-Oil Revenues
(KD Million)

Item	Closing Account				Change (2) – (1)	
	2012/13		2013/14		Value	(%)
	Value (1)	(%) to Total	Value (2)	(%) to Total		
Non-Oil Revenues:	2,038.9	100	2,519.5	100	480.6	23.6
- Taxes on Net Income & Profits	73.8	3.6	87.0	3.5	13.1	17.7
- Taxes & Fees on Property	15.5	0.7	21.0	0.8	5.4	34.6
- Taxes & Fees on Goods & Services	2.3	0.1	4.6	0.2	2.3	100.0
- Taxes & Fees on International Trade & Transactions	259.0	12.7	275.9	11.0	16.9	6.5
- Services Revenues, of which:	706.7	34.7	703.2	27.9	-3.5	-0.5
Electricity & Water	190.7	9.4	192.5	7.6	1.8	1.0
Transport & Communications	204.2	10.2	182.5	7.2	-21.7	-10.6
Fiscal Stamps Revenues	81.9	4.0	85.6	3.4	3.7	4.5
Security & Justice	72.1	3.5	80.6	3.2	8.5	11.8
Housing & Facilities	71.1	3.5	64.9	2.6	-6.2	-8.7
Healthcare	82.5	4.0	91.9	3.6	9.4	11.4
- Miscellaneous Revenues & Charges	954.9	46.8	1,402.7	55.7	447.8	46.9
- Capital Revenues	26.6	1.3	25.1	1.0	-1.5	-5.5

Source: Ministry of Finance.

2- Public Expenditures

Table (39)
Actual Budgetary Expenditures
(KD Million)

The Closing Account data for FY2013/14 indicate a drop in the total actual public expenditures of KD 404.3 million or 2.1% to reach KD 18,903.3 million during the mentioned fiscal year against KD 19,307.6 million during the previous fiscal year. Worth noting is that the total actual public expenditures during FY2013/14 accounted for 90% of the total allocations for public expenditures of KD 21,002.6 million for the mentioned fiscal year.

Item	Closing Account		Change	
	2012/13	2013/14	Value	(%)
Public Expenditures:	19,307.6	18,903.3	-404.3	-2.1
- Salaries & Wages	4,831.5	5,037.7	206.2	4.3
- Requirements of Goods & Services	3,640.7	3,219.3	-421.4	-11.6
- Means of Transport, Equipment & Supplies	158.7	209.3	50.6	31.9
- Construction Projects, maintenance & Public Acquisitions	1,651.8	1,530.5	-121.3	-7.3
- Miscellaneous Expenditures & Transfer Payments	9,024.8	8,906.5	-118.3	-1.3

Source: Ministry of Finance

This decline in actual public expenditures within the general budget of FY2013/14 reflects the decrease of the actual expenditures under the Second Chapter (requirements of goods and services) of KD 421.4 million or 11.6% to KD 3,219.3 million, against KD 3,640.7 million during the previous fiscal year, the Fourth Chapter (construction projects, maintenance and public acquisitions) of KD 121.3 million or 7.3% and the Fifth Chapter (miscellaneous expenditures and transfer payments) of KD 118.3 million or 1.3% to reach KD 8,906.5 million during FY2013/14 against KD 9,024.8 million for the previous fiscal year (Table 39).

It is worth noting that the decline in actual expenditures under the Second Chapter was a result of the drop in expenditures of the third item (fuels and lubricants for electricity generation) of the first group (requirements of goods) of KD 473.2 million or 16.8% (from KD 2816 million to KD 2,342.8 million), which constitutes 73% of total expenditures under the Second Chapter. In addition, the decline in actual expenditures under the Fourth Chapter was a result of the drop in public acquisitions, specifically land purchases of KD 112.5 million or 99%, from KD 113.6 million to KD 1.1 million.

In regard to the economic classification of public expenditures, the Closing Account data for FY2013/14 indicate a decline in current expenditures (including consumption expenditures, miscellaneous expenditures and transfer payments) to reach KD 17,163.5 million during the mentioned fiscal year, against KD 17,497.1 million during FY2012/13, i.e. a decrease of KD 333.6 million or 2% (Table 40). Worth noting is that current expenditures accounted for 90.8% of total actual public expenditures. Meanwhile, current expenditures during FY2013/14 accounted for 93.5% of allocations for current expenditures totaling KD 18,351.3 million for the same fiscal year.

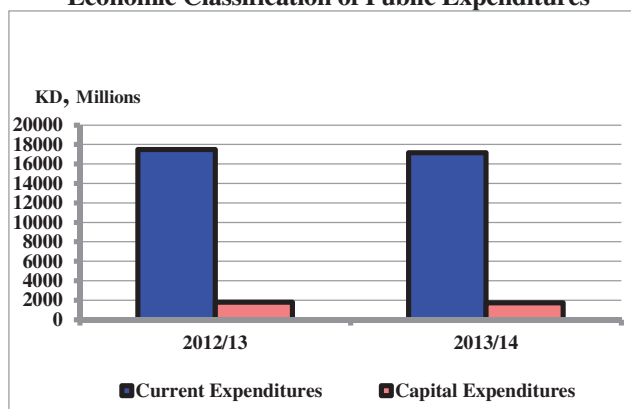
Table (40)
Economic Classification of Actual Public Expenditures
(KD Million)

Item	Closing Account				Change	
	2012/13		2013/14		(2) – (1)	
	Value (1)	(%) to Total	Value (2)	(%) to Total	Value	(%)
Current Expenditures:	17,497.1	90.6	17,163.5	90.8	-333.6	-2.0
- Consumption Expenditures	8,472.2	43.9	8,256.9	43.7	-215.3	-2.5
• Salaries & wages	4,831.5	25.0	5,037.7	26.6	206.2	4.3
• Requirements of Goods & Services	3,640.7	18.9	3,219.2	17.0	-421.5	-11.6
- Miscellaneous Expenditures	1,864.0	9.7	1,717.5	9.1	-146.5	-7.9
- Transfer Payments of which:	7,160.9	37.1	7,189.1	38.0	28.2	0.4
• Internal Transfers, of which:	6,395.1	33.2	6,601.9	35.0	206.8	3.2
Transfers to Public Authorities & Institutions	4,408.5	22.8	4,769.2	25.2	360.7	8.2
• External Transfers	765.8	4.0	587.2	3.1	-178.6	-23.3
Capital Expenditures:	1,810.5	9.4	1,739.8	9.2	-70.7	-3.9
- Means of Transport, Equipment & Supplies	158.7	0.8	209.3	1.1	50.6	31.9
- Construction Projects & Maintenance	1,516.4	7.9	1,517.9	8.0	1.5	0.1
- Public Acquisitions	135.4	0.7	12.6	0.1	-122.8	-90.7
Total	19,307.6	100	18903.3	100	-404.3	-2.1

Source: Ministry of Finance.

Actual budgetary capital expenditures decreased during FY2013/14 by KD 70.7 million or 3.9% to KD 1,739.8 million, against KD 1,810.5 million during FY2012/13. Consequently, the ratio of actual budgetary capital expenditures to total actual public expenditures declined to 9.2% during FY2013/14 against 9.4% during FY2012/13. In addition, capital expenditures during FY2013/14 accounted for 67.6% of total allocations for capital expenditures amounting KD 2,573.0 million for the same fiscal year.

Chart (17)
Economic Classification of Public Expenditures



Source: Ministry of Finance.

As a result of these mentioned developments in both actual revenues and actual expenditures in the Closing Account for FY2013/14, the general budget recorded an actual surplus of KD 12,908.1 million, against an actual surplus of KD 12,700.9 million during the previous fiscal year, i.e. an increase of KD 207.2 million or 1.6%, before deducting the allocations for the Reserve Fund for Future Generations (RFFG) (Table 41).

Table (41)
Summary of the General Budget Closing Account
(KD Million)

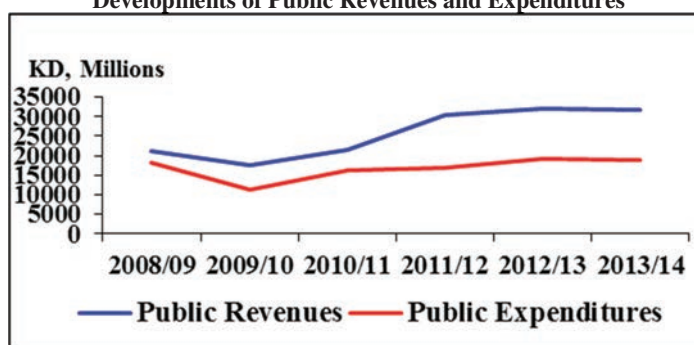
Item	2012/13	2013/14
Actual Public Revenues, of which:	32,008.5	31,811.4
Actual Oil Revenues	29,969.7	29,291.9
Actual Public Expenditures	19,307.6	18,903.3
Surplus or (Deficit) ⁽¹⁾	12,700.9	12,908.1
Surplus or (Deficit) ⁽²⁾	4,698.8	4,955.2

(1) Before deducting the allocations for the RFFG.

(2) After deducting the allocations for the RFFG.

Source: Ministry of Finance.

Chart (18)
Developments of Public Revenues and Expenditures



Source: Ministry of Finance, Closing Accounts.

Second – Fiscal Year 2014/15:

1- The General Budget for FY2014/15

Decree Law No. 92 of the year 2014 issued on 23 July 2014 enacted the general budget for ministries and government authorities for FY2014/15. The general budget for the mentioned fiscal year encompassed an increase in the total public revenue estimates of KD 1,973.1 million or 10% to KD 20,069.0 million, compared to KD 18,095.9 million during the previous fiscal year 2013/14. This increase in the total public revenue estimates within the general budget for FY2014/15 reflects the rise in oil revenue estimates of KD 1,922.6 million or 11.4% to KD 18,805.7 million compared with the approved estimates of KD 16,883.1 million for FY2013/14 on the one hand, and the rise in non-oil revenue estimates for FY2014/15 of KD 50.6 million or 4.2% to reach KD 1,263.3 million, compared to the approved estimates of KD 1,212.7 million for FY2013/14 on the other hand (Table 42).

The mentioned rise in oil revenue estimates within the general budget for FY2014/15 mainly reflects the increase in the reference oil price used in estimating the budgetary oil revenues within the general budget for the mentioned fiscal year. The reference oil price used was \$75 per barrel, i.e. an increase of \$5 or 7.1%, compared to \$70 per barrel applied in estimating the oil revenues for FY2013/14. The production quantity applied in estimating the budgetary oil revenues within the general budget for FY2014/15 remained at its previous level of 2.7 million b/d.

On another front, total allocations for budgetary expenditures for FY2014/15, compared with the allocations for budgetary expenditures for the previous fiscal year, increased by KD 2,209.5 million or 10.5% to reach KD 23,212.1 million, compared to KD 21,002.6 million for the previous fiscal year (Table 42).

Table (42)
Revenue Estimates and Expenditure Allocations within the General Budget
(KD Million)

Item	Approved Budget		Change	
	2013/14	2014/15	Value	(%)
Public Revenues:	18,095.9	20,069.0	1,973.1	10.0
Oil Revenues	16,883.1	18,805.7	1,922.6	11.4
Non-Oil Revenues, of which:	1,212.7	1,263.3	50.6	4.2
- Taxes on Net Income & Profits	85.0	79.0	-6.0	-7.1
- Taxes & Duties on Property	17.5	17.5	0.0	0.0
- Taxes & Fees on Goods & Services	2.1	3.5	1.4	66.7
- Taxes & Fees on International Trade & Transactions	225.1	260.2	35.1	15.6
- Services Revenues, of which:	709.8	732.6	22.8	3.2
*Electricity & Water	228.0	238.0	10.0	4.4
*Transport & Communications	198.2	211.4	13.2	6.7
- Miscellaneous Revenues & Charges	143.1	155.4	12.3	8.6
- Capital Revenues	30.0	15.0	-15.0	-50.0
Public Expenditures:	21,002.6	23,212.1	2,209.5	10.5
- Salaries & Wages	5,194.0	5,586.0	392.0	7.5
- Requirements of Goods & Services	3,873.7	3,919.1	45.4	1.2
- Means of Transport, Equipment & Supplies	351.3	290.3	-61.0	-17.4
- Construction Projects, Maintenance & Public Acquisitions	2,221.7	2,017.0	-204.7	-9.2
- Miscellaneous Expenditures & Transfer Payments	9,361.8	11,399.7	2,037.9	21.7

Source: Ministry of Finance.

The mentioned increase in allocations for budgetary expenditures for FY2014/15 reflects the rise in allocations for expenditures under the First Chapter (salaries and wages) of KD 392 million or 7.5%, from KD 5,194.0 million to KD 5,586.0 million, Second Chapter (goods and services) of KD 45.4 million or 1.2%, from KD 3,873.7 million to KD 3,919.1 million and Fifth Chapter (miscellaneous expenditures and transfer payments) of KD 2,037.9 million or 21.8%, from KD 9,361.8 million to KD 11,399.7 million.

Allocations for expenditures under the Fifth Chapter for FY2014/15 compared with FY2013/14 increased due to the rise in allocations for miscellaneous expenditures by 7.5%, internal transfer payments by 16% and external transfer payments by 132.3%. The increase in internal transfer payments for FY2014/15 was concentrated in the “government subsidies” item, particularly locally marketed refined products and liquefied gas (excluding fuels and lubricants for electricity generation listed under the Second Chapter) which increased by KD 663.4 million or 106%, from KD 625.6 million to KD 1,289.0 million) Meanwhile, the increase in external transfer payments was concentrated in the “external aid” item which increased by KD 570 million or 142.5%, from KD 400 million to KD 970 million.

Regarding the economic classification of allocations for budgetary expenditures for FY2014/15 (Table 43), allocations for current expenditures increased by KD 2,478.3 million or 13.4% to KD 20,904.8 million for the mentioned fiscal year, compared with allocations of KD 18,429.5 million for the previous fiscal year. Furthermore, the relative share of the allocations for current budgetary expenditures for FY2014/15 to total allocations for expenditures increased to 90%, against 87.7% for FY2013/14. On another front, allocations for transfers to public authorities and institutions for FY2014/15 increased by KD 294.6 million or 6% to KD 5,207.2 million or 22.4% of total allocations for public expenditures for the mentioned fiscal year, compared to KD 4,912.7 million or 23.4% of total allocations for public expenditures for FY2013/14.

Table (43)
Economic Classification of Allocations for Expenditures in the General Budget
(KD Million)

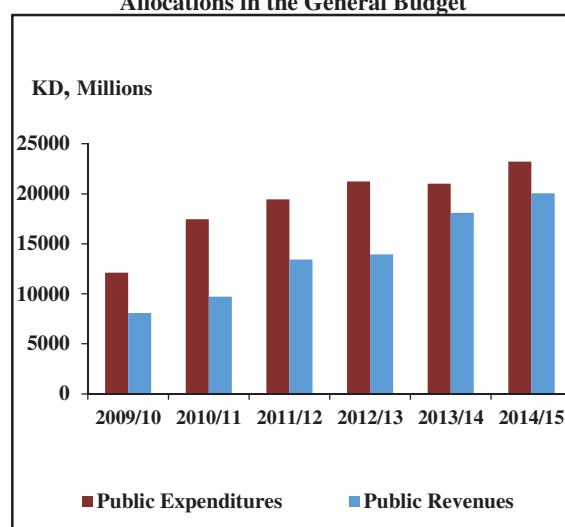
Item	Approved Budget				Change	
	2013/14		2014/15		Value	(%)
	Value	(%)	Value	(%)		
Current Expenditures:	18,429.5	87.7	20,904.8	90.0	2,478.3	13.4
- Consumption Expenditures	9,067.8	43.2	9,505.1	40.9	437.3	4.8
* Salaries and Wages	5,194.1	24.7	5,586.0	24.1	391.9	7.5
* Requirements of Goods and services	3,873.7	18.4	3,919.1	16.9	45.4	1.2
- Miscellaneous Expenditures	1,799.3	8.6	1,949.9	8.4	150.6	8.3
- Transfer Payments, of which:	7,562.5	36.0	9,449.8	40.7	1,887.3	30.0
* Internal, of which:	6,950.6	33.1	8,065.7	34.7	1,115.1	16.0
Transfers to Public Authorities & Institutions	4,912.6	23.4	5,207.2	22.4	294.6	6.0
* External	611.9	2.9	1,384.1	6.0	772.2	126.2
Capital Expenditures:	2,573.0	12.3	2,307.3	10.0	-265.7	-10.3
- Means of Transport, Equipment & Supplies	351.3	1.7	290.3	1.3	-61.0	-17.4
- Construction Projects and Maintenance	2,209.1	10.5	1,967.6	8.5	-241.5	-10.9
- Public Acquisitions	12.6	0.1	49.4	0.2	36.8	292.4
Total	21,002.6	100	23,212.1	100	2,209.5	10.5

Source: Ministry of Finance.

Allocations for budgetary capital expenditures decreased by KD 265.7 million or 10.3% to KD 2,307.3 million during FY2014/15 against KD 2,573.0 million during the previous fiscal year. In the same direction, their relative share to total allocations for expenditures for FY2014/15 declined to 10.0% against 12.3% for FY2013/14.

As a result of the above-mentioned developments in both estimated budgetary revenues and allocations for budgetary expenditures for FY2014/15, the general budget for the mentioned fiscal year encompassed an estimated deficit of KD 3,143.2 million against an estimated deficit of KD 2,906.7 million for the previous fiscal year, before deducting the allocations for the RFFG (Table 44).

Chart (19)
Developments of Revenue Estimates and Expenditure Allocations in the General Budget



Source: Ministry of Finance.

Table (44)
Revenue Estimates and Allocations for Expenditures in the General Budget
(KD Million)

Item	Approved Budget	
	2013/14	2014/15
Public Revenue Estimates, of which:	18,095.9	20,069.0
Oil Revenues	16,883.1	18,805.7
Allocations for Public Expenditures	21,002.6	23,212.2
Surplus or Deficit ⁽¹⁾	-2,906.7	-3,143.2
Surplus or Deficit ⁽²⁾	-7,430.7	-8,160.4

(1) Before deducting the allocations for the RFFG.

(2) After deducting the allocations for the RFFG.

Source: Ministry of Finance.

2- Government Fiscal Operations during the First Nine Months (April-December) of FY2014/15

Available data in the monthly follow-up statements on revenues and expenditures of the general budget (Table 45) shows a decline in the total actual public revenues collected during the first nine months (April-December 2014) of FY2014/15 of KD 2,782.6 million or 11.6% to reach KD 21,201.7 million, compared to KD 23,984.3 million during the corresponding period (April-December 2013) of FY2013/14. This is attributed to the drop in the value of actual oil revenues collected during April-December 2014 of KD 2,790.7 million or 12.6% to KD 19,405.6 million, against KD 22,196.3 million in the corresponding period of the previous fiscal year 2013/14. Meanwhile, the total value of non-oil revenues collected during April-December 2014 increased by KD 8.2 million or 0.5% to KD 1,796.2 million, compared to KD 1,788.0 million during the corresponding period of the previous fiscal year. The mentioned decline in the total actual oil revenues collected during the first nine months of FY2014/15 reflects the noticeable decrease in the average price of Kuwait's export crude oil of \$13.11 or 12.4% to \$92.55 against \$105.66 for the corresponding period of the previous fiscal year, and the decrease in the quantity of the State of Kuwait's crude oil production during April-December 2014 to reach an average of 2.856 million barrels per day, against 2.962 million barrels per day during the corresponding period of the previous fiscal year, i.e. a decline of 106 thousand barrels per day or 3.7%. In the same context, the average price of the OPEC (Organization of Petroleum Exporting Countries) reference basket during April-December 2014 decreased by \$11.40 per barrel or 11% to \$93.34 per barrel, compared to \$104.74 per barrel of the corresponding period of the previous fiscal year (April-December 2013).

In accordance with the developments in both actual oil and non-oil revenues collected during the first nine months of FY2014/15 (Table 45), actual revenues collected surpassed their approved estimates of KD 20,069.0 million for the whole mentioned fiscal year by KD 1,132.7 million or 5.6%. This rise is mainly attributed to the increase in actual oil revenues collected during the first nine months (April-December 2014) of FY2014/15 of KD 600 million or 3.2% above their approved estimate of KD 18,805.7 million for the whole mentioned fiscal year on the one hand, and the increase in actual non-oil revenues collected during the first nine months (April-December 2014) of FY2014/15 of KD 532.9 million or 42% above their approved estimate for the whole mentioned fiscal year of KD 1,263.3 million on the other.

Table (45)
Public Revenues
(KD Million)

Item	Follow-up Statements		Value of Change	Rate of Change (%)
	Apr.-Dec. 2013	Apr.-Dec. 2014		
Total Public Revenues:	23,984.3	21,201.7	-2,782.6	-11.6
Oil Revenues	22,196.3	19,405.6	-2,790.7	-12.6
Non-Oil Revenues	1,788.0	1,796.2	8.2	0.5
-Taxes on Net Income and Profits	97.4	88.6	9.2	11.6
-Taxes and Duties on Property	15.4	16.4	1.0	6.5
-Taxes & Fees on Goods & Services	1.8	3.6	1.8	100.0
-Taxes & Fees on International Trade & Transactions	200.9	199.6	-1.2	-0.6
-Services Revenues, of which:	460.0	496.4	36.3	7.9
*Security & Justice	55.1	78.6	23.5	42.6
*Electricity & Water	122.1	134.9	12.8	10.5
*Transport and Communications	124.7	126.9	2.2	1.8
-Miscellaneous Revenues and Charges	1,007.6	990.6	-17	-1.7
-Capital Revenues	22.6	0.6	-22	-97.3

Source: Ministry of Finance.

Actual public expenditures during the first nine months (April-December 2014) of the fiscal year 2014/15 recorded an increase of KD 932.5 million or 9.7% to KD 10,574.4 million against KD 9,641.9 million for the corresponding period of the previous fiscal year. It is worth noting that the amount of actual expenditures within the general budget during the first nine months of FY2014/15 accounted for 45.6% of total allocations for budgetary public expenditures of KD 23,212.1 million for the mentioned fiscal year as a whole.

Table (46)
Public Expenditures
(KD Million)

Item	Follow-up Statements		Value of Change	Rate of Change (%)
	Apr.-Dec. 2013	Apr.-Dec. 2014		
Total Public Expenditures:	9,641.9	10,574.4	932.5	9.7
-Salaries and Wages	2,520.4	2,585.9	65.5	2.6
-Requirements of Goods and Services	1,417.1	1,884.9	467.8	33.0
-Means of Transport, Equipment and Supplies	38.1	62.5	24.4	64.0
-Const. Projects, Maintenance & Public Acquisitions	648.7	836.5	187.7	28.9
-Misc. Expenditures and Transfer Payments	5,017.6	5,204.6	187.0	3.7

Source: Ministry of Finance.

The mentioned rise in total actual expenditures during April-December 2014 compared with the corresponding period of the previous fiscal year is attributed to the increase in actual expenditures under all Chapters. Actual expenditures increased under the First Chapter (salaries and wages) by KD 65.5 million or 2.6% to KD 2,585.9 million, against KD 2,520.4 million during the corresponding period of the previous fiscal year, under the Second Chapter (requirements of goods and services) by KD 467.8 million or 33% to KD 1,884.9 million, against KD 1,417.1 million during the corresponding period of the previous fiscal year, and under the Fifth Chapter (miscellaneous expenditures and transfer payments) by KD 187 million or 3.7% to KD 5,204.6 million, against KD 5,017.6 million during the corresponding period of the previous fiscal year.

Regarding the economic classification of public expenditures, available data in the monthly follow-up statements on the general budget show a rise in current expenditures (including consumption expenditures, miscellaneous expenditures and transfer payments) during the first nine months (April-December 2014) of FY2014/15 of KD 720.4 million or 8% to reach KD 9,675.4 million, against KD 8,955.0 million during the corresponding period of the previous fiscal year. Moreover, the amount of current expenditures during the first nine months of FY2014/15 accounted for 46.3% of allocations for current expenditures of KD 20,904.8 million for the mentioned fiscal year as a whole. Meanwhile, capital expenditures increased during the first nine months of FY2014/15 by KD 212.1 million or 30.9% to reach KD 899 million, against KD 686.9 million during the corresponding period of the previous fiscal year (Table 47).

Table (47)
Economic Classification of Public Expenditures
(KD Million)

Item	Follow-up Statements				Change	
	Apr.-Dec. 2013		Apr.-Dec. 2014		Value	%
	Value	(%)	Value	(%)		
Current Expenditures	8,955.0	93	9,675.4	91.5	720.4	8.0
- Consumption Expenditures	3,937.5	40.8	4,470.8	42.3	533.3	13.5
• Salaries & wages	2,520.4	26.1	2,585.9	24.5	65.5	2.6
• Requirements of Goods & Services	1,417.1	14.7	1,884.9	17.8	467.8	33.0
- Miscellaneous Expenditures	298.6	3.1	294.9	2.8	-3.7	-1.2
- Transfer Payments of which:	4,718.8	50.0	4,909.7	46.4	190.9	4.0
• Internal Transfers, of which:	4,390.4	45.5	4,248.8	40.2	-141.6	-3.2
Transfers to Public Authorities & Institutions	3,112.2	32.3	2,483.3	23.5	-628.9	-20.2
• External Transfers	328.4	3.4	660.9	6.3	332.5	101.2
Capital Expenditures:	686.9	7.1	899.0	8.5	212.1	30.9
- Means of Transport, Equipment & Supplies	38.1	0.4	62.5	0.6	24.4	64.0
- Construction Projects & Maintenance	648.8	6.7	836.5	7.9	187.7	29.0
- Public Acquisitions	-	-	-	-	-	-
Total	9,641.9	100	10,574.4	100	932.5	9.7

Source: Ministry of Finance.

As a result of developments in actual public revenues and expenditures during the first nine months (April-December 2014) of FY2014/15, the general budget recorded an actual surplus of KD 10,627.3 million, against an actual surplus of KD 14,342.4 million for the corresponding period of FY2013/14, i.e. a decrease of KD 3,715.1 million or 25.9%, before deducting the allocations for the RFFG.

Table (48)
Summary of Surplus/Deficit
(KD Million)

Item	Follow-up Statements		Change	
	April-Dec. 2013	April-Dec. 2014	Value	(%)
Actual Public Revenues	23,984.3	21,201.7	-2,782.6	-11.6
Actual Public Expenditures	9,641.9	10,574.4	932.4	9.7
Surplus or Deficit ⁽¹⁾	14,342.4	10,627.3	-3,715.1	-25.9
Surplus or Deficit ⁽²⁾	8,346.3	5,326.9	-3,019.4	-36.2

(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

2014

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 2014 compared with 2013, through the developments in the Current Account and its basic items 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 surplus in the BOP of the State of Kuwait reached KD 15,139.7 million during 2014 (32.5% of 2014 GDP), against KD 20,210.5 million during the previous year (40.9% of 2013 GDP), i.e. a decrease of KD 5,070.8 million or 25.1%. This decline resulted from the increase in the total payments on the debit side of the Current Account (most significant of which are payments for imports of goods and services, and secondary income payments (current transfers)) on the one hand, and the decrease in the total receipts on the credit side of the Current Account (most significant of which are receipts from exports of goods and services, and primary income (investment income)) on the other.

Chart (20)
Current Account

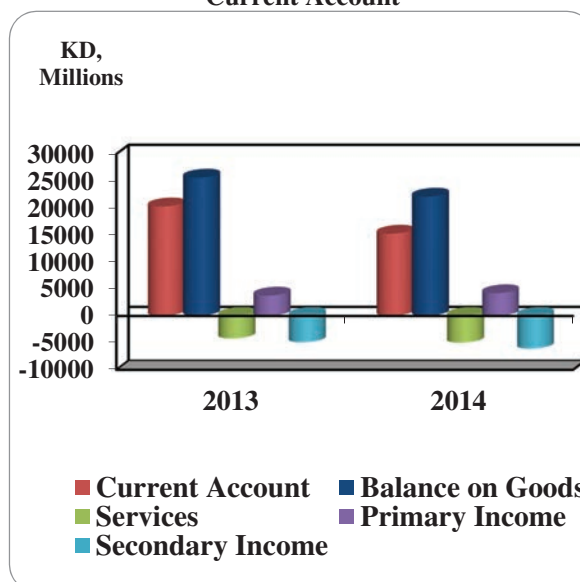


Table (49)
Current Account
(KD Million)

Item	2013 (Revised)	2014 (Provisional)
First: Current Account (1+2+3+4):	20,210.5	15,139.7
1- Balance on Goods:	25,570.9	22,027.4
* Merchandise Exports (FOB), of which:	32,824.1	29,820.2
Oil Exports	(30,789.5)	(27,753)
* Merchandise Imports (FOB)	-7,253.2	-7,792.8
2- Services, of which:	-4,204.1	-4,985.2
* Transportation	-1,138.4	-1,137.6
* Travel	-2,653.1	-3,101.3
* Government Services	-154.7	-246.3
3- Primary Income, of which:	3,759.0	4,197.9
* Direct Investment Income	1,137.5	1,256.5
* Portfolio Investment Income	2,368.2	2,629.0
* Other Investment Income	206.1	277.3
4- Secondary Income:	-4,915.4	-6,100.3
* Government Bodies	-385.8	-729.4
* Other Sectors, of which:	-4,530.1	-5,371.7
Workers' Transfers	(-4,482.4)	(-5,324.9)

Source: Central Bank of Kuwait.

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

1- Balance on Goods⁽¹⁾:

Available data and estimates indicate a decrease in the total value of the State of Kuwait foreign trade (exports plus imports) during 2014 compared with the previous year, which reached KD 37,613.0 million during 2014 against KD 40,077.3 million during the previous year, i.e. a decline of KD 2,464.3 million or 6.1%.

Table (50)
Balance on Goods
(KD Million)

Item	2013 (Revised)	2014 (Provisional)
1- Merchandise Exports (FOB), of which:	<u>32,824.1</u>	<u>29,820.2</u>
Oil Exports	30,789.5	27,753.0
2-Minus merchandise Imports (FOB)	<u>7,253.2</u>	<u>7,792.8</u>
3-Balance on Goods	<u>25,570.9</u>	<u>22,027.4</u>

Source: Central Bank of Kuwait.

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 22,027.4 million during 2014 compared to KD 25,570.9 million during the previous year, i.e. a decrease of KD 3,543.5 million or 13.9% (Table 50).

The following addresses, in some detail, the developments in the foreign merchandise trade of the State of Kuwait during 2014 compared with the previous year as follows:

a- Merchandise Exports:

The total value of the merchandise exports of the State of Kuwait (on FOB basis) during 2014 reached KD 29,820.2 million compared to KD 32,824.1 million during the previous year i.e. a decrease of KD 3,003.9 million or 9.2%. This decline mainly reflects the decrease in the total value of oil exports of the State of Kuwait which reached KD 27,753.0 million during 2014 against KD 30,789.5 million during the previous year, i.e. a decline of KD 3,036.5 million or 9.9%. Conversely, the value of non-oil merchandise exports of the State of Kuwait (on FOB basis) increased to KD 2,067.2 million during 2014 against KD 2,034.6 million during the previous year, i.e. a rise of KD 32.6 million or 1.6%.

(1)The "Balance on goods" in the Balance of Payments Statistics prepared by CBK differs from the "Trade Balance" in the Foreign Trade Statistics prepared by the Central Statistical Bureau due to the difference in the comprehensiveness of data on the value of merchandise exports and imports used in the preparation of the mentioned balances, as will be mentioned later under developments in the value of merchandise exports and imports in this Report.

b- Merchandise Imports:

Available data on the merchandise imports of the State of Kuwait (on CIF basis)* indicate a rise in the total value of these imports to KD 8,961.2 million during 2014 against KD 8,308.8 million during the previous year, i.e. an increase of KD 652.4 million or 7.9%. 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 5,968.1 million during 2014 or the equivalent of 66.6% of the total value of the merchandise imports of the State of Kuwait, against KD 5,508.3 million or the equivalent of 66.3% during the previous year (Table 51).

Table (51)
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	2013		2014	
	Value	%	Value	%
China (PRC)	1,115.6	13.4	1,267.7	14.1
USA	824.4	9.9	876.0	9.8
UAE	730.0	8.8	839.8	9.4
Japan	631.0	7.6	636.8	7.1
Germany	562.1	6.8	597.2	6.7
Saudi Arabia	398.4	7.8	446.6	5.0
India	332.2	4.0	371.8	4.1
South Korea	324.0	3.9	366.5	4.1
Italy	354.9	4.3	333.3	3.7
UK	235.7	2.8	232.4	2.6
Total	5,508.3	66.3	5,968.1	66.6
Total Imports	8,308.8	100.0	8,961.2	100.0

Source: Central Statistical Bureau.

Within this context, China ranked first among Kuwait import markets with KD 1,267.7 million or 14.1% of the total value of Kuwait merchandise imports, the USA ranked second with KD 876 million or 9.8% of the total, and the UAE ranked third with KD 839.8 million or 9.4% of the total during 2014.

(*) The value of Kuwait merchandise imports in this item, as indicated in Table (50), which is compiled on Free On Board (FOB) basis, differs from that in Table (51), which is compiled on Cost, Insurance and Freight (CIF) basis.

Data also indicate that the value of the merchandise imports of the State of Kuwait from other GCC member countries reached 1,536.0 million or 17.1% of the total value of Kuwait merchandise imports during 2014 against KD 1,357.8 million or 16.3% of that total during the previous year.

Merchandise imports from the UAE and Saudi Arabia constituted 83.8% of the total value of imports from the GCC countries during 2014 (Table 52).

Table (52)
Geographic Distribution of Kuwait Merchandise Imports Value (on CIF basis) from GCC Countries
(Value in KD Million and Relative Share in Percentage)

Country	2013		2014	
	Value	%	Value	%
UAE	730.0	8.8	839.8	9.4
Saudi Arabia	398.4	4.8	446.6	5.0
Oman	142.6	1.7	140.6	1.6
Bahrain	49.8	0.6	76.6	0.8
Qatar	36.9	0.4	32.3	0.3
Total	1,357.8	16.3	1,536.0	17.1
Other Arab Countries	187.5	2.3	223.8	2.5
Total Imports	8,308.8	100.0	8,961.2	100.0

Source: Central Statistical Bureau.

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, insurance, financial services, government services and other services. The Services Account (Net) recorded a deficit of KD 4,985.2 million during 2014 compared to KD 4,204.1 million during 2013, i.e. a rise of KD 781.1 million or 18.6%. The increase in the deficit in the Services Account is attributed to the rise in the payments for travel services to KD 3,206.4 million during 2014 against KD 2,737.4 million during the previous year, i.e. an increase of KD 469.0 million or 17.1%. It is noticed that the Services total payments reached KD 6,768.9 million during 2014 compared to KD 5,956.5 million during the previous year, i.e. an increase of KD 812.4 million or 13.6% compared with the previous year. Worth noting is that payments for the “travel” item contributed 47.4% of the total payments on the debit side of the Services Account during 2014 compared to 46.0% during the previous year. The value of payments for the “transportation” item ranked second accounting for 23.8% of the total value of payments under the Services Account during 2014 against 25.2% during the previous year.

Conversely, total receipts on the credit side of the Services Account reached KD 1,783.7 million during 2014 against KD 1,752.4 million during the previous year, i.e. an increase of KD 31.3 million or 1.8%. This increase is attributed to the rise in the receipts from the transportation services of KD 110.6 million, i.e. 6.2% of the total receipts increase on the credit side of the Services Account during 2014. Receipts from communication services is the most important item on the credit side of the Services Account, reached KD 871.8 million during 2014 or 48.9% of the total value of receipts on the credit side of the Services Account, followed by receipts from transportation services of KD 474.1 million or 26.6% of the total value of receipts on the credit side of the Services Account during 2014.

3- Primary Income:

Primary Income, in terms of value is the second source, after Balance on Goods, of the surplus realized in the Current Account of the State of Kuwait's Balance of Payments, with a relative share of 27.7% of the surplus realized in the Current Account reaching KD 4,197.9 million during 2014 compared with a surplus of KD 3,759.0 million during the previous year, i.e. an increase of KD 438.9 million or 11.7%. The BOP statistics indicate that total receipts from investments abroad of all sectors of the national economy reached KD 4,594.6 million during 2014 against KD 4,154.3 million during the previous year, i.e. a rise of KD 440.2 million or 10.6%.

4- Secondary Income:

The Secondary Income Account in the Current Account of the BOP on the debit side reflects the current outward transfers from residents (individuals and institutions, both citizens and non-citizens) including expatriate workers' remittances, and the cash and in-kind aid donated by the government of the State of Kuwait to non-residents. Total current outward transfers reached KD 6,100.3 million during 2014 against KD 4,915.4 million during the previous year, i.e. an increase of KD 1,185.0 million or 24.1%. Total expatriate workers' remittances reached KD 5,324.9 million during 2014 against KD 4,482.4 million during the previous year, i.e. an increase of KD 842.5 million or 18.8%. Moreover, total current outward transfers by the government bodies reached KD 729.4 million during 2014 against KD 385.8 million during the previous year, i.e. an increase of KD 344.0 million or 89.1%.

Second- Capital Account:

The Capital Account of the BOP of the State of Kuwait recorded a net inflow of KD 1,135.7 million during 2014 against KD 1,265.0 million during the previous year, i.e. a decrease of KD 129.3 million or 10.2%. In this context, total compensations received by residents from the United Nations Compensation Committee reached KD 1,214.0 million during 2014 against KD 1,339.6 million during the previous year, i.e. a decrease of KD 125.6 million or 9.4% (Table 53).

Table (53)
Capital Account
(KD Million)

Item	2013 (Revised)	2014 (Provisional)
Second: Capital Account:	1,265.0	1,135.7
Capital Transfers:	1,265.0	1,135.7
Government Bodies	-17.3	-14.4
Other Sectors	1,290.5	1,150.1

Source: Central Bank of Kuwait.

Third- Financial Account:

Provisional BOP statistics of the State of Kuwait indicate a growth in the net value of the domestic economy's external assets (actual changes in foreign assets minus actual changes in foreign liabilities) equivalent to KD 16,583.9 million during 2014 against the equivalent of KD 20,432.9 million during the previous year. Table (54) illustrates the sub-items of the Financial Account within the BOP statistics.

Table (54)
Financial Account*
(KD Million)

Item	2013 (Revised)	2014 (Provisional)
Third- Financial Account:	-20,432.9	-16,583.9
a- Direct Investment (Net):	-4,314.6	-3,591.8
- Direct Investments Abroad	-4,721.2	-3,730.1
- Foreign Direct Investments in Kuwait	406.6	138.2
b- Portfolio Investment (Net):	-6,021.7	-11,867.1
- Assets	-6,215.3	-12,008.8
- Liabilities	193.6	-141.7
c- Financial Derivatives:	-15.6	27.6
- Assets	-87.2	-325.8
- Liabilities	71.6	353.3
d- Other Investments (Net):	-9,123.8	-790
- Assets	-10,068.4	-2,275.9
- Liabilities	-944.7	1,485.9
Fourth- Reserve Assets of CBK (change)	-957.2	-362.6
Fifth- Errors and Omissions (Net)	-1,042.6	308.4
Sixth- Overall Balance (Surplus or Deficit)	957.2	362.6

*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.

Source: Central Bank of Kuwait.

Fourth- Errors and Omissions (Net):

Available data indicate that net flows on the credit side which are not recorded under any of the BOP items, estimated at KD 308.4 million, represent the net inflows during 2014, compared to KD 1,042.6 million on the debit side during the previous year (Table 54).

Fifth- Overall Balance:

The overall position of the State of Kuwait BOP presents a summary of the transactions recorded under various BOP items, and shows a total surplus of KD 362.6 million during 2014 against KD 957.2 million during the previous year. The surplus in the overall BOP reflects a rise in the gross Reserve Assets of CBK by the same amount. The overall position of the State of Kuwait BOP, within a broader perspective to encompass the change 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 CBK's gross reserve assets, shows a surplus of KD 15,748.2 million during 2014 (33.8 % of 2014 GDP at current prices), compared with a surplus of KD 16,608.7 million during the previous year (33.6% of GDP at current prices).



The Kuwait Stock
Exchange

2014

The Kuwait Stock Exchange

Introduction

The major trading and price indicators of the Kuwait Stock Exchange (KSE) decreased remarkably during 2014. In this regard, key trading indicators (value and volume of traded shares) recorded a significant decline of 45.18% and 58.12% respectively, compared with their recorded levels during 2013. The KSE General Price Index (PI) closed its transactions decreasing by 13.43% at the end of 2014 compared with the closing of 2013. The KSE Weighted Price Index (WI) recorded a considerably lower decrease of 3.09% at the end of 2014 compared with the closing of 2013. The Kuwait 15 index recorded a slight decline of 0.79% at the end of 2014 compared with the closing of 2013. In light of these developments, the market capitalization of listed companies recorded a decline reaching KD 29,733.0 million at the end of 2014 declining by 4.04% compared with the end of 2013, after an increase of KD 1,937.7 million or 6.7% at the end of 2013 compared with the previous year.

This part of the report presents the main developments of the KSE activity during 2014, as follows:

First- Main Trading Indicators:

The main trading indicators of the KSE witnessed a noticeable downward trend during 2014 compared with their levels during 2013 (Table 55 and Chart 21). The total value of traded shares reached KD 6.09 billion with a daily average of KD 24.96 million during 2014, against KD 11.10 billion with a daily average of KD 45.12 million during 2013, i.e. a decline of KD 5.01 billion or 45.18%, with a daily average of 44.68% of traded shares value.

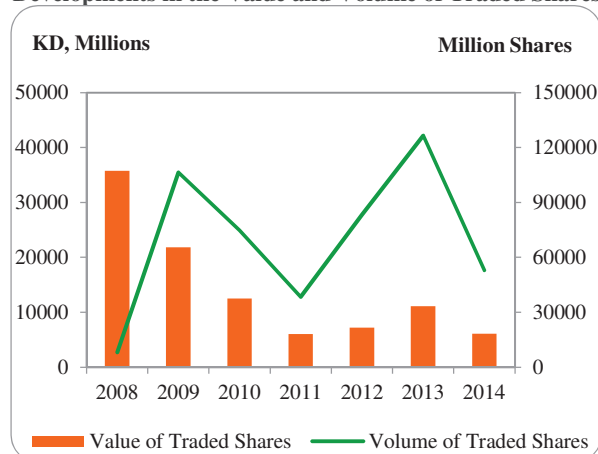
Table (55)
Main Share Trading Indicators of Companies
Listed on the Kuwait Stock Exchange

Period	Value (KD Million)	Quantity (Million Shares)	Number of Transactions (Thousand Transactions)
2012	7,214.7	83,136.1	1,198.3
2013	11,102.6	126,507.2	2,136.1
2014	6,087.0	52,986.1	1,185.9
Q1	1,861.0	17,164.7	341.8
Q2	1,506.0	10,990.0	263.1
Q3	1,279.0	12,539.3	277.4
Q4	1,441.0	12,292.1	303.6
Average Annual Change in 2014 from 2013	-45.18	-58.12	-44.48

Source: Kuwait Stock Exchange.

Total traded shares reached 52.99 billion with a daily average of 217.17 million during 2014 compared to 126.51 billion with a daily average of 514.27 million during 2013, i.e. a decrease of 73.52 billion or 58.12% with a daily average of 57.77% of traded shares volume.

Chart (21)
Developments in the Value and Volume of Traded Shares



Regarding the sectoral distribution of the total value of traded shares (Table 56), the shares of the Banks sector (encompassing 12 banks, or 6.22% of total listed companies, and 49.17% of market capitalization at the end of 2014) recorded the highest value of traded shares among the market sectors. Worth noting is that the traded value of the Banks sector shares reached KD 1,828.8 million during 2014, accounting for 30.04% of the total value of traded shares for the mentioned year.

Table (56)
Developments in the Value of Traded Shares by KSE Sectors During 2014 (Value in KD Million), and the Relative Share (%)

Sector	Number of Companies	2014	
		Value	%
Oil & Gas	(8)	180.1	2.96
Basic Materials	(4)	72.5	1.19
Industrials	(39)	719.6	11.82
Consumer Commodities	(7)	112.8	1.85
Healthcare	(3)	15.0	0.25
Consumer Services	(16)	97.5	1.60
Telecommunications	(4)	400.4	6.58
Utilities	-	-	-
Banks	(12)	1,828.8	30.04
Insurance	(7)	14.4	0.24
Real-Estate	(39)	1,006.1	16.53
Financial Services	(50)	1,618.4	26.59
Financial Instruments	-	-	-
Technology	(4)	21.4	0.35
Total	(193)	6,087.0	100

Source: Kuwait Stock Exchange.

Second- Price Movements:

The KSE PI (29/12/1993=1000 points) recorded a significant decrease at the end of 2014 closing at 6,535.72 points against 7,549.52 points at the end of 2013, i.e. a decline of 1,013.80 points or 13.43%. Furthermore, the KSE WI decreased - albeit at a lower rate than the PI- to close at 438.88 points at the end of 2014 against 452.86 points at the end of 2013, i.e. a decrease of 13.98 points or 3.09%. In the same direction, the Kuwait 15 index declined to close at 1,059.95 points during 2014 against 1,068.42 points at the end of 2013, i.e. a decrease of 8.47 points or 0.79%.

Chart (22)
Movement of Price Indices in the KSE

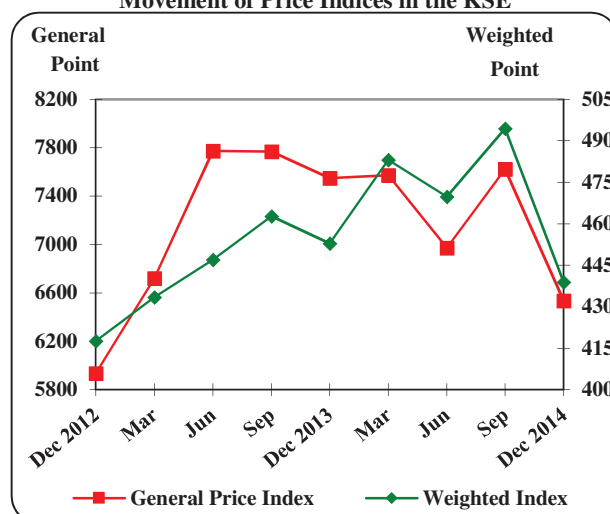


Table (57)

Major Price Indicators from Q4 2013 to Q4 2014

Period	PI	WI	Kuwait 15 Index
Q4 2013	7,549.52	452.86	1,068.42
Q1 2014	7,572.81	483.13	1,175.11
(%)	+0.31	+6.68	+9.99
Q2 2014	6,971.44	469.75	1,140.05
(%)	-7.94	-2.77	-2.98
Q3 2014	7,621.51	494.44	1,203.82
(%)	+9.32	+5.26	+5.59
Q4 2014	6,535.72	438.88	1,059.95
(%)	-14.25	-11.24	-11.95

(%) Reflects the change between the current quarter and the previous quarter for the major indicators.

Third- Factors Affecting KSE's Activity:

The performance of the KSE was affected by a number of negative factors during 2014, the most significant of which are:

- * **Decline in crude oil prices:** The major trading and price indicators witnessed a significant decline as a result of the decrease of crude oil prices in global markets during the last quarter of 2014. This decrease comprised most of the traded shares of companies listed in the local market as well as in the GCC countries money markets.
- * **Developments related to delaying the amendments to the Capital Markets Authority (CMA) and Regulating Securities Activity Law:** KSE was negatively affected by the controversial amendments to the CMA Law. The main requested amendments included some Articles that are associated with acquisition processes and activating the role of the market maker. The anticipation for the approval of the CMA Law amendments contributed to the reduction of the levels of liquidity in the market.
- * **Escalating regional geopolitical tensions:** The year 2014 witnessed growing regional tensions and unrests that were accompanied with speculations about the possibility of a direct impact on the performance of market listed companies.

On another front, the market saw some positive factors that supported its performance during some periods in 2014, most prominent of which are:

- * **Companies' quarterly profits in 2014:** Net profits/losses of listed companies witnessed a decline of 5.5% and 6.5% during the first quarter and the first half of 2014 compared with the corresponding periods of 2013. While net profits/losses during the first three quarters of 2014 was slightly higher by 0.02% compared with the corresponding period of the previous year. However, listed companies realized an increase of 20.6% in total net profits/losses during the fourth quarter of 2014.

Consequently, the companies' total net profits/losses recorded a rise of KD 66 million or 4.0% compared with the profits/losses of 2013. Within this context, 98 companies witnessing an increase in their profits realized an increase of KD 394.8 million or 43.5% in total net profits in 2014, compared with the same companies in 2013. Conversely, 57 companies witnessing a decrease in their profits recorded a decline of KD 205.4 million or 26.4% in total net profits compared with the corresponding period of the previous year for the same companies. Finally, 33 companies recorded losses of KD 172.7 million during 2014 against KD 49.2 million for the same companies during 2013.

- * **Improved compliance with disclosure requirements for filing financial statements of companies:** disclosure of financial statements demonstrated companies' improved compliance with the disclosure requirements for filing financial statements within the specified legal period, thus reducing the cases of suspended shares of non-complying companies during 2014 compared with the previous year.

Fourth- Profits of KSE-Listed Companies:

The total net profits/losses of 188 KSE-listed companies increased to KD 1,703.3 million during 2014, against KD 1,637.3 million for the same companies during 2013, i.e. a rise of KD 66.0 million or 4.03%, where 155 profit-making companies recorded a net profit of KD 1,876.0 million during 2014 against KD 1,832.0 million for 149 profit-making companies during 2013, i.e. an increase of KD 44.0 million or 2.40%. While 33 companies recorded losses of KD 172.7 million during 2014 against KD 194.7 million for 39 companies witnessing losses during 2013, i.e. a decrease of KD 22.0 million or 11.30%.

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 2014, were led by the Banks sector with a relative share of 46.64% of total companies' profits; Telecommunications, second with 16.13%; Industries, third with 10.63%; Real Estate, fourth with 9.55% and Financial Services, fifth with 7.55% .

The Price to Earnings (P/E) ratio of KSE-listed companies witnessed a decline during 2014 reaching an average of 12.5 multiples against an average of 13 multiples during 2013.

Table (58) illustrates the sectoral distribution of net profits of KSE-listed companies during 2013 and 2014:

Table (58)
Performance of KSE-Listed Companies by Sector during 2013 and 2014
(Value in KD Million)

Sector	Number of Companies Listed in the Sector	Number of Companies Which Announced Their Data	Net Profits (Losses) during 2013 and 2014			EPS (Fils)	Average Return on Equity	P/E (Multiples)
			2013	2014	Change (%)			
Oil & Gas	8	7	16.9	0.02	-99.9	11.1	0.6	14.8
Basic Materials	4	4	62.2	66.3	+6.6	39.2	10.3	12.1
Industrial*	40	40	185.9	181.1	-2.6	20.4	6.7	12.1
Consumer Commodities	7	7	52.2	53.4	+2.3	25.1	6.3	15.1
Healthcare	3	3	9.7	8.4	-13.4	20.4	8.6	7.7
Consumer Services	16	16	57.4	6.3	-89.0	15.4	2.3	10.4
Telecommunications	4	4	311.1	274.8	-11.7	53.5	2.6	11.3
Utilities**	-	-	-	-	-	-	-	-
Banks*	12	12	672.8	794.4	+18.1	23.4	7.5	17.6
Insurance*	8	8	27.4	25.0	-8.8	17.2	7.0	11.8
Real-Estate	38	36	180.1	162.6	-9.7	6.8	3.2	12.0
Financial Services*	49	47	65.3	128.5	+96.8	3.5	-0.5	11.9
Financial Instruments**	-	-	-	-	-	-	-	-
Technology	4	4	(3.7)	2.5	+167.6	12.1	5.3	12.1
Market's Total	193	188	1,637.3	1,703.32	+4.0	14.0	3.7	12.5

* The new sectoral distribution (14 sectors) became effective as of 13/5/2012. Non-Kuwaiti companies are included in the above-mentioned sectors.

** No listed companies under this sector.

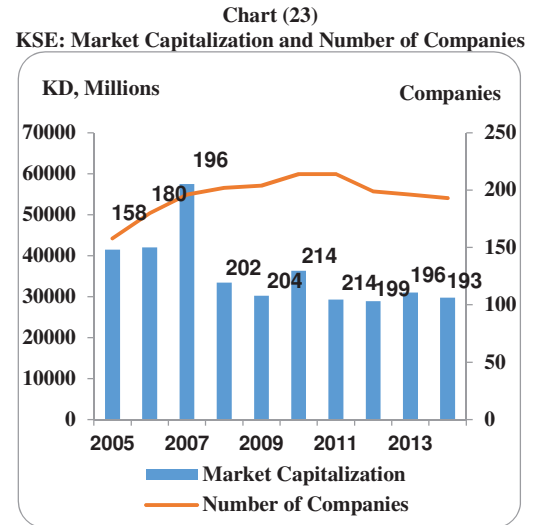
(There are companies that have not yet announced their profits yet, these are: one company from the Financial Services sector and one company from the Real-Estate sector. There are three companies that have not yet announced their profits due to their different balance sheet dates).

Source: Financial data of companies' balance sheets available from Kuwait Stock Exchange.

Fifth- Developments in Market Capitalization and Share Issue Base:

1- Market Capitalization:

The market capitalization of KSE-listed companies decreased by KD 1,253.2 million or 4.04%, i.e. a decline of KD 1,435.7 million or 4.96% for 182 Kuwaiti companies, to reach KD 29,733.0 million (KD 27,531.6 million for listed Kuwaiti companies) at the end of 2014, against KD 30986.2 million (KD 28,967.3 million for 185 listed Kuwaiti companies) at the end of 2013.



In this context, one company was listed during 2014 with a market capitalization of KD 324.6 million, accounting for 1.09% of total market capitalization. Meanwhile, one company moved from the parallel market to the official market with a market capitalization of KD 20.4 million or 0.07% of total market capitalization. On another front, five Kuwaiti companies were delisted from the KSE, with a market capitalization of KD 116.86 million, accounting for 0.39% of total market capitalization (Chart 23).

2- Share Issue Base:

The share issue base of KSE-listed companies increased by 2,666 million or 2.61% during 2014 to reach 104,878 million (of which 87,078 million shares issued by 182 Kuwaiti companies) at the end of 2014, compared to 102,212 million (of which 86,600 million shares issued by 185 Kuwaiti companies) at the end of 2013. The number of shares issued by the two newly-listed companies was 649 million, and the number of shares issued by the five delisted companies was 2,694 million during 2014.

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