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December 2, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Kuwait—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2002 Article IV consultation discussions with Kuwait (SM/02/360, 11/22/02), which is tentatively scheduled for discussion on **Friday, December 13, 2002.** At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Kuwait indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Al-Ghelaiqah (ext. 34380) and Mr. Erbas (ext. 38348) in MED.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, December 10, 2002; and to the Food and Agriculture Organization and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

KUWAIT

Selected Issues and Statistical Appendix

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Approved by the Middle Eastern Department

November 27, 2002

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I. LONG-TERM INTERGENERATIONAL EQUITY—UNDERLYING CONSIDERATIONS[1]

A. Introduction

1. Kuwait's oil income enables it to generate large external current account and budget surpluses and accumulate wealth, which is held mostly abroad. It enjoys a high standard of living and relies heavily on foreign labor, employed primarily in the non-oil private sector. High rate of growth of Kuwaiti population and Kuwait's sluggish non-oil growth performance in recent years could make it difficult to ensure growth in the per capita wealth in the long run.

2. Kuwait's oil income is transferred to the population largely through the budget. This transfer occurs in the form of employment in the public sector for Kuwaitis, as well as in the form of various budgetary subsidies and transfers, and investment in the infrastructure. About 93 percent of the Kuwaiti labor force is employed in the public sector. A rapidly increasing population has resulted in an increase in the share of the working age population in total from 63 percent to 67 percent during 1990–2000, and this trend is likely to continue over the next two decades.[2] These demographic trends raise two basic questions in the long run:

- Can the present system of providing high living standards through high wages and transfers for most Kuwaitis be maintained at the present levels for future generations?
- If the public sector cannot absorb all new entrants to the labor force, how can they be employed in the private sector?

3. This note attempts primarily to answer the first question through some simulations on possible per capita wealth progression over the next two decades. The focus is on public wealth, based on the argument that public wealth is the main determinant of sustainability of the present living standards for a large segment of future generations in Kuwait. The basic finding is that, per capita *total* (private and public) wealth may increase over the next two decades, albeit at a decreasing rate, but per capita *public* wealth may decline. This indicates that either public sector wages or benefits have to decline, or, cumulative public wealth needs to be increased over time with appropriate policies, including public sector wage and employment policies.

4. The second questions pertain to the impact of the prevailing transfer and employment policies on the labor market. Indeed, if per capita wealth for a large segment of the population—those who earn wages in the public sector—is not sustainable over the long run

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[1] Prepared by S. Nuri Erbaş, Senior Economist, MED.

[2] World Bank data (World Development Indicators); working age population is defined as those workers between the ages of 15–64 years.

and wages and benefits need to be reduced, then gainful employment opportunities for future generations may arise in the non-oil sector because the Kuwaiti labor force may become more competitive with foreign labor in that sector than it is now.

5. The authorities are well aware of the foregoing observations and arguments concerning the prospects in the next two decades. Addressing the prospect of possible declining standards of living in the coming decade for a large segment of the Kuwaiti population and creating gainful employment for future generations in the private sector is at the center of Kuwait's medium- to long-term economic policy agenda. This note highlights the main issues on that agenda and provides some insights that may be useful in assessing medium- to long-term public sector wage and employment policies.

B. Some Factual Observations

Kuwait's external position

Private and public wealth held abroad

6. An examination of Kuwait's external current account position in the last 27 years reveals that large amounts of gross assets have been transferred abroad. Without compounding, those assets add up to US$145 billion in the 1975–2001 period. If it is assumed that all of the current account surpluses were directed to accumulating wealth abroad, at an average rate of return of 3–5 percent per year, the compounded total level of foreign assets might be as high as US$231–323 billion in 2001. Of course, these cumulative amounts represent estimates for the sum of private and public wealth in 2001, and it is difficult to ascertain the level of total wealth held abroad.

7. In Kuwait, public savings are accumulated in the *Reserve Fund for Future Generations* (RFFG). A separate fund, the *General Reserve Fund* (GRF), serves as a stabilization fund to militate against the impact of fluctuations in oil prices on budgetary revenues through transfers to and from the budget.[3] With the exception of the period that corresponds to the invasion of Kuwait and its recovery (1990–94), Kuwait has run budget surpluses throughout the period 1980–2001 (Table 1). As a rule, those surpluses are used to replenish the GRF and add to the pool of assets accumulated in the RFFG. During the war and recovery period, the GRF resources were depleted owing to the extraordinary budgetary needs, and the GRF was allowed to borrow from the RFFG. Following recovery, both funds are being replenished and the GRF is in the process of paying back the RFFG. In essence, therefore, public savings in Kuwait are those accumulated by the RFFG. The purpose of the

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[3] Both funds are managed by the public Kuwait Investment Authority (KIA). Under the Kuwaiti law, the level of public assets held in those funds is classified information.

RFFG is to provide for future generations and maintain the high living standards enjoyed in the country today.[4]

Table 1. Budget Surpluses and Deficits, 1989–2001

	Budget Surplus/Deficit per Year (Annualized) 1/	
	In billions of dollars	In percent of GDP
1980–88 average	4.5	19.8
1989–94 average	-6.5	-39.4
1995–2001 average	6.1	20.6
1980–2001 average	0.7	3.9

Sources: Data provided by the Kuwaiti authorities and Fund
1/ On the basis of the fiscal year (July 31– June 30.)

Budget and public sector employment

8. As noted, about 93 percent of the Kuwaiti labor force is employed in the public sector. Kuwaiti workers' reservation wages exceed the wages and benefits paid to readily available foreign labor in the private sector. The skills required by the private sector are either not available or the cost of employing a Kuwaiti worker exceeds the cost of employing a foreign worker.

9. In recent years, the budgetary wage bill as well as subsidies and transfers have been growing at rates reflecting the rate of growth of the Kuwait labor force, albeit at somewhat lower rates (Tables 2 and 3). On average, the total of those budgetary outlays grew by 5.1 percent and the Kuwaiti labor force grew by 5.8 percent during 1995–2001 per year. In the same period, however, the share of wages and subsidies and transfers rose from 38 percent to 44 percent of total expenditure and from 136 percent to 172 percent of budgetary investment income (Table 4).

[4] In addition to transfer of budget surpluses over and above the GRF's needs, the RFFG funds are accumulated on the basis of a mandated 10 percent allocation out of oil export receipts and other tax revenue (mainly, income tax on foreign corporations). In addition, profits from the shares of domestic non-oil corporations held by the RFFG are also added to the public savings pool.

Table 2. Growth of Budgetary Wage Bill and Subsidies and Transfers

	Wages and Salaries	Subsidies and Transfers	Total
		(Annualizes Percent Growth)	
1981–88 average	7.1	-0.3	3.9
1989–94 average	5.4	13.4	8.1
1995–2001 average	4.7	5.9	5.1
1981–2001 average	5.8	5.7	5.5

Source: Data provided by Kuwaiti authorities.

Table 3. Population and Labor Force Growth Rates, 1995–2001
(In percent)

	Population			Labor Force 1/			Employed		
	Kuwait	Non-Kuwaiti	Total	Kuwait	Non-Kuwaiti	Total	Kuwait	Non-Kuwaiti	Total
1995	3.9	8.9	7.0	3.9	9.6	7.9	6.1	8.7	8.2
1996	3.4	8.9	6.9	...	...	...	7.2	13.2	12.2
1997	3.6	6.5	5.5	7.9	6.5	6.7	8.1	6.4	6.7
1998	3.6	2.4	2.8	6.2	2.3	2.9	6.4	2.2	2.9
1999	3.3	-2.8	-0.7	4.6	-3.4	-2.1	4.7	-3.5	-2.1
2000	3.6	-4.7	-1.7	5.4	-4.2	-2.4	5.3	-4.1	-2.4
2001	3.4	4.6	4.1	7.1	6.1	6.3	5.5	6.0	5.9
1995–2001 Average	3.6	3.4	3.4	5.8	2.8	3.2	6.2	4.1	4.5

Source: Data provided by the Kuwaiti authorities.
1/ Labor force includes population 15 years old and over.

Table 4. Budgetary Expenditure on Wages and Salaries and Subsidies and Transfers, 1980–2001

	In Percent of Total Revenue	In Percent of Investment Income
1980–88 average	31.4	81.8
1989-–94 average	62.8	177.0
1995–2001 average	40.0	140.9
1995	37.9	136.3
2001	43.7	172.3
1980–2001 average	42.7	126.5

Source: Data provided by the Kuwaiti authorities.

10. In addition, Kuwait's public sector employment is very high by international standards (Table 5).[5] Public sector employment (central and non-central government, and health and education sector workers) as a percentage of labor force and as a percentage of total employment ranges from a low of about 5–6 percent in Africa and Asia to a high of 15–16 percent in the OECD countries and the countries of the Middle East and North Africa (MENA) region. Among the selected MENA countries, public sector employment as a percentage of labor force is highest in Egypt (22 percent) and in Algeria (16 percent).[6]

[5] The source of Table 5 is *"An International Statistical Survey of Government Employment and Wages,"* Salvatore Schiavo-Campo, Guilio de Tommaso, and Amitabha Mukherjee (1997), Public Sector Management and Information Team, Technical Department for Europe, Central Asia, Middle East and North Africa, World Bank.

[6] Of course, in those countries, labor force is largely made up of country nationals. The exception is Bahrain, another GCC country best comparable to Kuwait. In 2000, about 90 percent of public sector employment was made up of Bahraini workers, and Bahraini nationals accounted for 43 percent of total employment (MED staff data), which may be compared to Kuwait's 95 percent and 19 percent, respectively.

Table 5. International Comparison of the Size of Public Sector Employment 1/

	In percent of		
	Population	Labor Force	Total employment
OECD	7.7	15.6	17.2
AFRICA	2.0	5.0	6.6
ASIA	2.6	5.6	6.3
EASTERN EUROPE AND FSU	6.9	14.3	16.0
LATIN AMERICA AND CARIBBEAN	3.0	7.6	8.9
SELECTED MENA	3.9	16.0	17.5
Algeria	4.2	17.4	24.8
Bahrain	5.5	10.6	12.5
Egypt	6.2	22.3	25.0
Jordan	3.5	12.9	15.2
Lebanon	1.4	5.3	8.1
Morocco	2.3	7.0	8.3
Syria	3.2	12.6	13.7
Tunisia	3.7	11.3	13.5
West Bank and Gaza	2.4	16.0	...
Yemen	3.5	16.0	22.1
KUWAIT 2000			
Compared to Kuwaitis	26.0	94.0	95.0
Compared to Kuwaitis And non-Kuwaitis	9.9	18.3	18.5
Memorandum items:	**2000**		
Share of Kuwaiti in total			
Population	38.0		
Labor force	19.5		
Employed	19.4		

Sources: World Bank (1997), Kuwaiti authorities, and Fund staff calculations.

1/ Excluding armed forces. Civilian public sector employment includes central government, non-central government, and social sectors (health and education); all figures, except those for Kuwait, variously reflect the data from the early 1990s.

Income distribution and sustainability issues

11. With some 90 years of proven crude oil reserves, Kuwait does not face any imminent threat of depletion of oil reserves. The 93 percent of the Kuwaiti labor force that works in the public sector broadly represent those Kuwaitis who work for wages. Although the private

saving of this segment of the Kuwaiti population, held domestically or abroad, may be substantial in the aggregate, such saving alone might not be sufficient to maintain a non-diminishing per capita wealth for future generations, especially if those generations, like the current generation, continue to be employed largely in the public sector.

12. Thus, sustainability in the present context involves two broad conflicting issues:

- Sustainability of current living standards, given the presently prevailing tax and transfer policies; or,

- Sustainability of current tax and transfer policies under the constraint that future generations continue to enjoy the present living standards. Sustainability in this sense depends on the prospects for accumulation of public wealth in the future.

With these observations, some theoretical issues are discussed next to provide a conceptual framework for evaluating long-run sustainability of the current living standards in Kuwait.

C. Some Theoretical Observations

13. A wide literature exists on the level of optimal taxation and debt. In a second-best world, the optimal rate for a distortionary tax (for example, income tax) is typically determined on the basis of the match between the marginal cost of taxation and the marginal benefit of the public expenditure that the distortionary tax finances. On the other hand, financing such expenditure by government borrowing is not distortionary. However, there are limits to the sustainable level of government debt; a basic limit is the steady state rate of growth, which, in the standard growth models, is equal to the rate of population growth. If this limit is not observed, then government debt is not sustainable and, according to the Ricardian Equivalence Theorem, government debt is not neutral.[7] In other words, if debt is unsustainable, economic agents recognize this fact and anticipate future taxes in lieu of present borrowing (or present taxation). Anticipation of future taxes distorts present economic behavior, hence the associated welfare cost.

14. There are also arguments in the literature that, when non-distorting lump sum taxes cannot be imposed, then the optimal level of government debt is *negative*.[8] This means that,

[7] The seminal reference in this area is by Robert Barro (1974), "Are Government Bonds Net Wealth?" *Journal of Political Economy* 82. 1095–1017. For other standard references, see Bennett T. McCallum (1984), "Are Bond Financed Deficits Inflationary? A Ricardian Analysis" *Journal of Political Economy* 92, 123–135, and, Thomas J. Sargent and Neil Wallace (1981), "Some Unpleasant Monetarist Arithmetic," Federal Reserve Bank of Minneapolis, *Quarterly Review* 5, 1–17.

[8] See Stephen T. Turnovsky and William H. Brock (1980), "Time Inconsistency and Optimal Government Policies in Perfect Foresight Equilibrium" *Journal of Public Economics* 13,

(continued...)

at an initial point in time, the government somehow acquires productive resources by lump sum taxation and uses the income from those resources to provide public goods and transfers; the distortionary tax rate is *zero* and the government is a net creditor to the public, that is, the level of public debt is negative.

15. In most countries, such a solution is intuitively unappealing because productive resources and mechanisms that may enable the government to acquire those resources do not exist in reality. In oil-exporting countries like Kuwait, however, there is a strong analogy to such a solution. Indeed, it is possible to see the oil wealth in such a country as a resource that was spontaneously acquired by the government at some initial point in time as the custodian or the trustee of that wealth. Since oil wealth is in the trusteeship of the government, the government, after taking care of its operating expenses, can earn income on that wealth and transfer the proceeds to the public. This may indeed be the case in Kuwait where there is no income tax on nationals and other taxes are minimal. In principle, domestic and foreign government borrowing is incidental and temporary from the point of view of fiscal stance, and is not for the primary purpose of long-term budgetary financing. Therefore, the government is a net creditor to the public; it can transfer the proceeds (interest earnings) from the accumulated oil wealth through the budget and pay for wages, transfers, and public goods.[9]

16. Sustainability of the negative government debt position depends on whether that stock of debt—assets in government trusteeship—grows at a rate compatible with the population growth rate. Sustainability in this sense means the sustainability of the steady state per capita income level, given the steady state level of surplus from oil earnings and the population growth rate. This requires sustaining the per capita asset level held by the government in trusteeship. A given amount of per capita wealth earns interest and pays a certain income per period, which is transferred to each member of the population. Indeed, Kuwait runs large budget surpluses, which, in turn, are invested in the RFFG for the benefit of future generations.[10]

183–212, and, S. Nuri Erbaş (1989), "The Limits on Bond Financing of Government Deficits Under Optimal Fiscal Policy" *Journal of Macroeconomics* 11, 589–598.

[9] On issues of intergenerational redistribution of wealth in the context of oil-producing countries, see "Optimal Fiscal Strategy for Oil Exporting Countries," Eduardo Engel and Rodrigo Valdes (2000), International Monetary Fund Working Paper (WP/00/118), especially Chapter 4.

[10] Of course, accumulation of private wealth also ensures that future generations maintain the present—more generally, the steady state—per capita income level. The sum of flows of public and private saving is reflected in the current account position of the country. Therefore, the broader question of sustainability in the case of Kuwait is whether total wealth

(continued...)

17. As long as the growth rate of public wealth is less than the growth in the population of the beneficiaries of income that public wealth generates, then the question of sustainability is narrowed to the sustainability of the per capita income of those beneficiaries, given the prevailing tax and transfer policies. If the per capita income of the beneficiaries is not sustainable under the prevailing tax and transfer policies, then those policies may not be sustainable, either. This means that private wealth or income needs to be taxed to pay for transfers to the beneficiaries of public wealth, or, the beneficiaries have to settle for a lower permanent income level. Alternatively, policies have to be adopted which enable the accumulation of public wealth to be at least as fast as the rate of growth of the beneficiaries.

D. Simulations

Sustainability of total (public and private) per capita wealth

18. This section provides a brief overview of Kuwait's total per capita wealth position by 2001 and looks into the long-run prospects (2002–25). Following assumptions are made:

- First, the cumulative compounded value of the accumulated current account surpluses up to 2001 is calculated and the same is projected for the period 2002–25. In order to calculate the 2001 figure, the initial date is assumed to be 1975 because external current account data are available as of that year.

- The following two convenient constraints are imposed: (i) the initial (1975) level of wealth held abroad is assumed to be zero; and (ii) all current account surpluses are used for wealth accumulation abroad.[11]

- The average annual rates of return assumed for simulation purposes are 3, 4, and 5 percent. Thus, the corresponding total wealth held abroad in 2001 is calculated as US$231 (at 3 percent rate of return); US$273 (at 4 percent rate of return); US$323 (at 5 percent rate of return); and per capita total wealth held abroad in 2001 is estimated in the range of US$266,000–371,000.

- The Kuwaiti population in 2001 is estimated at 0.87 million.

(public and private) accumulated abroad through transfer of current account surpluses is sufficient to maintain the real per capita wealth and income level of future generations.

[11] The question remains whether all external current account surpluses have been accumulated as wealth, or, whether some of those surpluses transferred abroad have been used to finance consumption abroad. Furthermore, there is no available information about the initial (1975) level of total wealth held abroad. However, it is possible to account for those errors by calculating the wealth level in 2001 at different average rates of return during 1975–2001.

Per capita total wealth projections for 2002–25

19. The medium-term (2002–07) balance of payments projections are made on the same basis as the medium-term balance of payments baseline scenario used for the 2002 Article IV consultations. Longer-term projections (2008–25) involve the following assumptions:

- On average, one percent growth in oil output and one percent growth in oil export prices per year;
- Average Kuwaiti population growth rate of 3.6 percent per year, or, the same as the 1995–2001 average up to 2011; thereafter, the population growth rate is assumed to decline gradually to 2 percent per year in 2025, as shown in Table 6;
- All external current account surpluses are used to accumulate public and private wealth abroad.

20. Based on these broad assumptions, the projections show that the external current account surpluses will decline through 2025. Broadly, this reflects the assumed sluggish increase in oil export receipts relative to the growth of imports, reflecting the population growth rate and growth in non-oil GDP. Of course, these results are crucially dependant upon the underlying assumption, especially with regard to oil prices.

21. As shown in Table 6, under the foregoing assumptions, per capita wealth is projected to increase at decreasing rates through 2011 and increase at increasing rates thereafter, stabilizing by 2025. This progression reflects the decline in the population growth rates after 2011. Assuming a 1–2 percent rate of inflation per year, real wealth per capita might decline in the worst case scenario based on a 3 percent yearly rate of return on assets.

Sustainability of per capita public wealth

22. Although total per capita wealth level abstracting from distributional considerations, may be sustainable, publicly held per capita wealth may decline over the next two decades. The issue of a possible decline in per capita public wealth is addressed in this section.

Table 6. Kuwait: Simulations for Per Capita Total (Public and Private) Wealth, 2002–25

	External Current Account Surplus		Nominal Growth Rate of Per Capita Total Wealth at an Average Rate of Return of			Projected Population Growth Rate
	(US$ billions)	(Percent of GDP)	5 percent	4 percent	3 percent	In percent)
2001	8.6	26.1				
2002	6.7	20.7	3.4	2.8	2.3	3.6
2003	6.1	18.3	3.1	2.5	1.9	3.6
2004	4.7	14.1	2.6	1.9	1.2	3.6
2005	4.0	11.7	2.4	1.6	0.9	3.6
2006	3.0	8.5	2.1	1.3	0.5	3.6
2007	2.6	7.1	2.0	1.1	0.3	3.6
2008	3.6	9.7	2.2	1.4	0.6	3.6
2009	3.3	8.6	2.1	1.2	0.5	3.6
2010	3.3	8.3	2.0	1.2	0.4	3.6
2011	3.3	7.9	1.9	1.1	0.4	3.6
2012	3.3	7.6	2.1	1.3	0.5	3.4
2013	3.2	7.2	2.2	1.4	0.6	3.2
2014	3.2	6.8	2.4	1.5	0.7	3.0
2015	3.1	6.4	2.5	1.6	0.8	2.9
2016	3.0	6.0	2.6	1.7	0.9	2.8
2017	2.9	5.6	2.7	1.8	1.0	2.6
2018	2.7	5.1	2.7	1.9	1.0	2.5
2019	2.5	4.6	2.8	1.9	1.1	2.4
2020	2.3	4.2	2.8	2.0	1.1	2.3
2021	2.1	3.6	2.9	2.0	1.1	2.2
2022	1.9	3.1	2.9	2.0	1.1	2.2
2023	1.6	2.6	3.0	2.0	1.1	2.1
2024	1.3	2.1	3.0	2.1	1.1	2.0
2025	1.0	1.5	3.0	2.1	1.1	2.0
Memorandum items:						
Estimated level of total wealth held abroad in 2001 (US$ billion)			323.0	272.8	231.2	
Estimated level of total wealth held abroad in 2025 (US$ billion)			1,194.6	830.2	582.7	

Source: Fund staff estimates.

1/ For the total of Kuwaiti workers employed in the public and private sectors. Budget deficit/surplus is calculated on the calendar year basis

23. In line with the current Development Plan (2001/02–2005/06), the authorities' budget plans for 2003–07 already incorporate a degree of reduction in the number of Kuwaitis to be employed in the public sector. For this purpose, in 2001, the benefits paid to Kuwaitis in public sector employment were extended to Kuwaitis employed in the private sector. The cost of the benefits to be paid to Kuwaiti workers in the private sector is to be borne by the budget. Although the cost may be relatively low during 2003–07, it is likely to increase in proportion to the growth rate of the Kuwaiti labor force in the long run, whether or not the public sector can absorb the rapidly increasing Kuwaiti labor force. Alternatively, wages and benefits paid to Kuwaiti public sector employees and benefits paid to private sector Kuwaiti employees out of the budget will have to be lowered.

24. Accordingly, the following main assumptions are made for projecting budgetary stance during 2008–25:

- The budgetary bill for wages and salaries is assumed to grow at the same rate as the growth of Kuwaiti labor force, which is assumed to be 5.8 percent during 2007–16, or, the average of the Kuwaiti labor force growth rate 1995–2001; during 2016–25, the rate of growth of labor force declines reflecting the decline in the rate of population growth as of 2011 (that is, a five-year lag is assumed). Those assumptions imply that per capita nominal wage in the public sector will not decline; however, it will decline somewhat in real terms;

- Subsidies and transfers are assumed to grow at a lower rate of 1.4 percent per year on average, that is, transfers and subsidies will stay more or less constant in real terms;[12]

- All other expenditure (current expenditure excluding wages and capital expenditure) is assumed to grow at the rate of 4–5 percent per year, in line with real growth and inflation assumptions.

25. Based on these broad assumptions—under unchanged policies—Kuwait's budget may go into deficit by 2013/14 (Table 7) and income from the wealth accumulated in the RFFG may have to be used in order to finance the budget deficit. Consequently, the rate of growth in public wealth per Kuwaiti worker declines during 2014–18. The pace of decline slows down after that under rates of return of 4 percent and 3 percent, while there is a turnaround under the 5 percent rate of return, reflecting the decline in the rate of growth of labor force as of that date.

[12] Based on the actual figures for 1998–2001 and forecasts for the period 2002–07.

Table 7. Kuwait: Simulations for Public Wealth Per Worker, 2002–25 1/

	Budget Deficit/Surplus		Nominal Growth Rate of Public Wealth per Kuwaiti Worker at an Average Rate of Return of			Labor Force Growth Rate
	(US$ billion)	(Percent GDP)	5 Percent	4 Percent	3 Percent	(In Percent)
2001	6.2	18.8				
2002	4.6	14.0	9.4	8.5	7.6	5.8
2003	3.6	10.6	6.6	5.7	4.8	5.8
2004	2.6	7.7	4.3	3.5	2.6	5.8
2005	1.8	5.2	2.9	2.0	1.2	5.8
2006	1.2	3.6	2.0	1.1	0.3	5.8
2007	1.1	3.1	1.7	0.8	0.0	5.8
2008	1.4	3.8	1.8	1.0	0.2	5.8
2009	1.0	2.4	1.2	0.4	-0.4	5.8
2010	0.7	1.8	1.0	0.1	-0.7	5.8
2011	0.5	1.2	0.8	-0.1	-0.9	5.8
2012	0.2	0.6	0.5	-0.3	-1.1	5.8
2013	0.0	-0.1	0.3	-0.6	-1.4	5.8
2014	-0.3	-0.7	0.1	-0.8	-1.7	5.8
2015	-0.6	-1.4	-0.2	-1.0	-1.9	5.8
2016	-1.0	-2.0	-0.4	-1.3	-2.2	5.8
2017	-1.3	-2.6	-0.2	-1.1	-2.0	5.4
2018	-1.7	-3.1	0.0	-1.0	-1.9	5.0
2019	-1.9	-3.6	0.1	-0.8	-1.8	4.7
2020	-2.2	-4.0	0.3	-0.7	-1.7	4.5
2021	-2.5	-4.3	0.4	-0.6	-1.6	4.2
2022	-2.7	-4.6	0.5	-0.5	-1.6	4.0
2023	-3.0	-4.8	0.7	-0.4	-1.5	3.8
2024	-3.2	-5.0	0.8	-0.3	-1.4	3.7
2025	-3.4	-5.2	0.9	-0.2	-1.3	3.5
Memorandum items:						
Estimated level of pubic wealth held abroad in 2001 (US$ billion)			55.0	55.0	55.0	
As a ratio of total wealth (Table 6)			17.0	20.2	23.8	
Estimated level of pubic wealth held abroad in 2005 (US$ billion)			265.2	213.3	171.2	
As a ratio of total wealth (Table 6)			22.2	25.7	29.4	

Source: Fund staff estimates.

1/ For the total of Kuwaiti workers employed in the public and private sectors. Budget deficit/surplus is calculated on the calendar year basis.

26. Additional simulations indicate that the initial level of public wealth (assumed to be US$55 billion in 2001) does not alter this basic conclusion; assuming a higher (or, lower) initial level of public wealth simply pushes the date of decline and recovery in the rate of growth of per worker public wealth a few years back (or, a few years earlier).

E. Conclusions and Policy Implications

27. A basic conclusion of the foregoing simulation results is that, given Kuwait's population growth rate, maintaining the level of public sector wages and other benefits paid to Kuwaiti workers will require either significant changes in the tax and expenditure policies aimed at rebuilding fiscal surpluses, or wages and benefits per worker will have to decline in the period ahead.

28. The current levels of public sector wages and benefits also impact the competitiveness of Kuwaiti workers in the private sector. Recent initiatives concerning Kuwaitization of the labor force in the private sector are linked to steps aimed at making Kuwaiti workers more competitive and increasing their employability in the private sector. Lowering the wages and benefits in the medium to long term in the public sector could encourage greater Kuwaiti employment in the private sector and improve the competitiveness of Kuwaiti workers in that sector. If the measures currently under consideration for bolstering private sector growth are implemented and bear fruit over the medium term, the rapidly growing Kuwait labor force can be absorbed to some extent by the private sector. However, even if high private sector growth rates are achieved over the medium to long term, it is unlikely that growth will be sufficiently high for private sector to absorb the labor force at the wages currently paid in the public sector.

II. The Five-Year Development Plan (2001/02–2005/06): From Planning to Implementation and Prospective Challenges[13]

A. Introduction

29. Since the liberation of Kuwait in 1991, the public sector has played a dominant role in most economic activities, including oil, transportation, telecommunications, utilities, and financial services as economic reconstruction required increasing public sector investment. The economy has remained heavily dependent on the oil sector for export earnings and government revenues, and on fiscal stimulus for generating growth in the non-oil sectors

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[13] Prepared by Ibrahim Al-Ghelaiqah, Economist, MED.

(Figures 1 and 2).[14] Over the past four years, the authorities have initiated steps to reduce the role of public sector and accelerating growth by promoting private sector investment.

30. Kuwait's growth performance in recent years has been weak despite strong economic fundamentals. While the economy remained dependent on oil, its vulnerability to unfavorable developments in international oil markets was reduced by the cushion provided by large and rising investment income receipts. However, the role of the private sector remained limited and the labor market was highly dependent on expatriate workers. After slowing in 1995, in response to weak oil prices, total real GDP growth averaged 0.5 percent for the period 1997–2001 and is estimated to decline by 1 percent in 2002. This stagnant performance was a product of the drop in real oil GDP and the slow growth of real non-oil GDP. Non-oil GDP as a share of GDP has fallen in the period 1997–2001 to 55 percent of GDP (Figure 1), relative to an average of 66 percent in the 1980s. Also, real non-oil GDP growth has weakened. It grew by 2 percent per annum for the corresponding period due to cuts in government capital expenditure, reduction in private investment, and uncertainty regarding the legislative approval of structural reform measures.

31. Recognizing the problem of heavy dependence on oil, structural rigidities of the economy and imbalances of the labor market, the current Five-Year Development Plan (2001/02–2005/06) aims to diversify the productive base of the economy, promote the role of the private sector, reduce government ownership and its role in the economy, and provide employment for the growing number of young Kuwaitis joining the labor force.[15] This section reviews the Five-Year Development Plan. Section B explores themes, objectives, and policies for implementation of the Plan. Section C assesses the Plan and its major reforms package. Finally, section D presents the prospective challenges facing the Kuwaiti authorities in implementing the Plan.

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[14] In 2001, the oil sector accounted for more than 49 percent of GDP, 93 percent of exports and 90 percent of budget revenues (2001/02).

[15] The Plan is presently under revision by the National Assembly. The authorities intend to reformulate it to cover the planned year period, 2002/03–2005/06.

Figure 1. Structure and Growth of GDP (1996–2001)

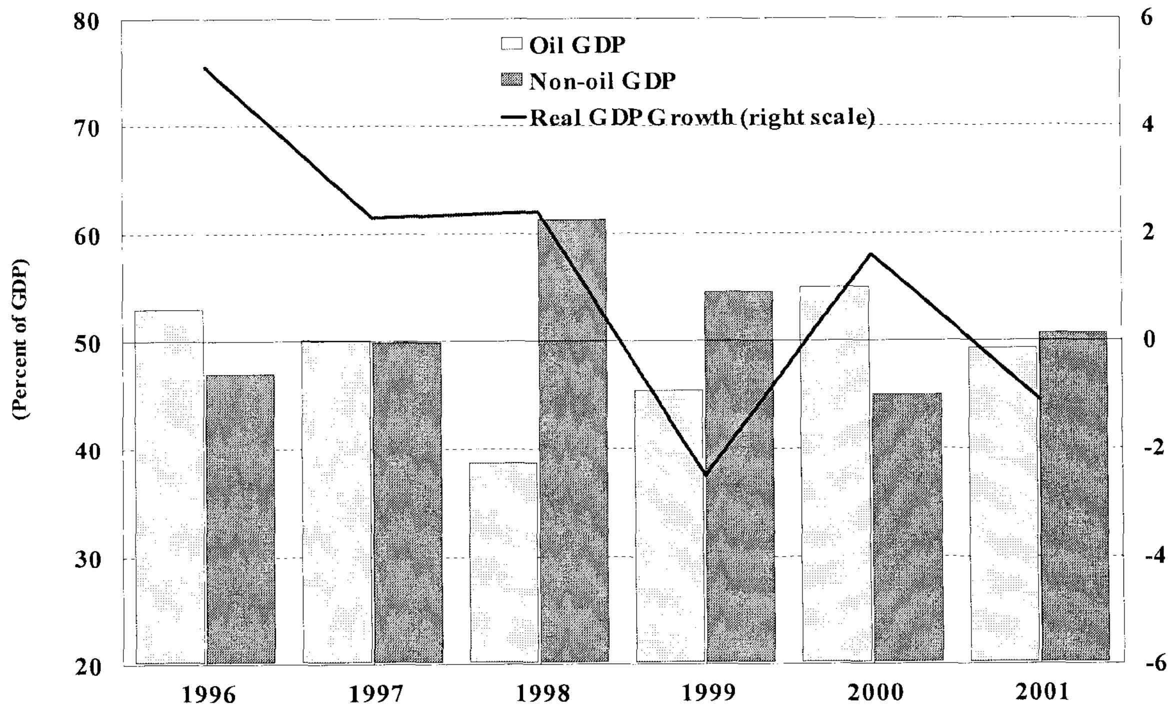
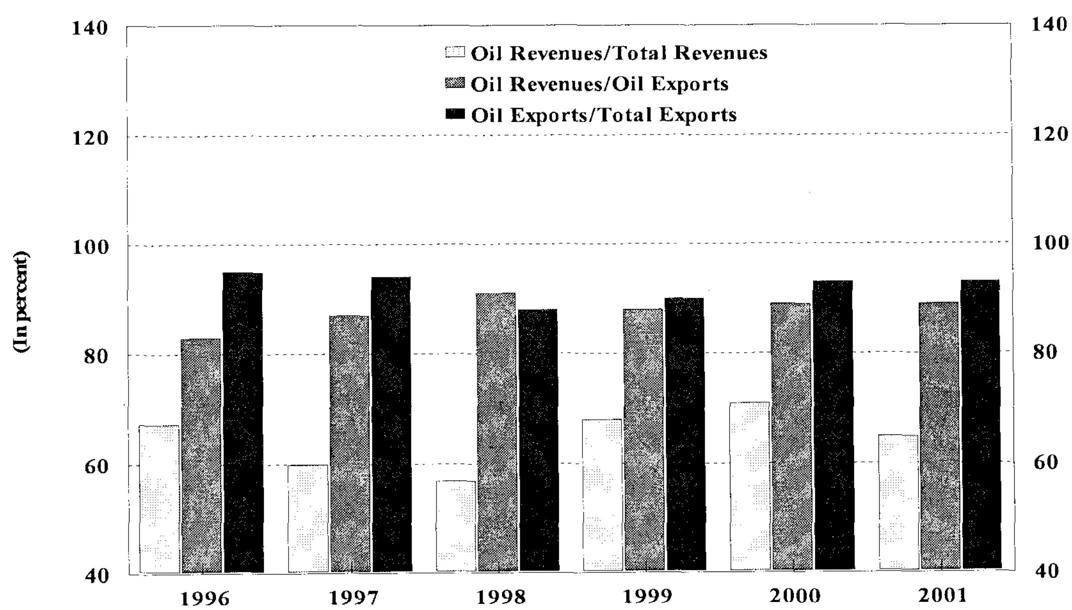


Figure 2. Dependency Ratios (1996–2001)



B. The Five-Year Development Plan, 2001/02–2005/06

Themes and objectives of the Plan[16]

32. The Plan calls for a shift in planning paradigm from "complete planning" towards an indicative planning system, which relies primarily on general policies and incentives, together with careful evaluation and follow up with corrective measures, instead of direct government interventions in the sectoral allocation of resources to achieve the Plan's objectives. Further, the Plan is based on the creation of a domestic environment for dealing with ongoing domestic and global changes. It aims, within its time frame, to redress the main areas of imbalances, which form meeting points for a large number of current and anticipated problems. It seeks to remedy these problems by implementing fundamental reforms in the general financial framework and structure of the national economy and in the structure and patterns of the public administration, and by strengthening human resources.

33. The vision driving the Plan emerges from a candid assessment of the socioeconomic implications of the "welfare state" strategy followed since the early 1970s. In the past, development strategy focused on the distribution of Kuwait's oil wealth through deep government involvement in economic and social activities rather than developing the sources of wealth. Such a strategy caused distortion of incentives and values, and the dependency of both the private sector and individual citizens on the state. The new approach followed by the current Plan emphasizes the need to shift to a growth and efficiency oriented strategy, which primarily relies on the private sector and individual initiatives within the framework of a market economy. The state will essentially limit its role to be a regulator and overseer of policies. The Plan acknowledges that this approach will require a fundamental change in the pattern of production, employment, and consumption as well as in thought and behavior to reestablish the link between individual effort and material living standard.

34. The Plan, therefore, focuses on shifting from oil to human-based development by speeding up financial, economic, and administrative reform efforts, promoting human development by correcting imbalances in the labor market and reorienting the educational and training system to meet developmental needs. The following broad strategic objectives are the core principles of the Plan.

- Strengthen the effectiveness of market mechanisms and laws by eliminating domestic price distortions, encouraging positive competition, purging economic laws and decrees of any unjustified legislative or bureaucratic constraint, especially those that restrict national and foreign investment.

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[16] Ministry of Planning, 2001, The Five-Year Development Plan of Kuwait, 2001/02–2005/06.

- Expand the role of financial and monetary policies in channeling resources to achieve reasonable rates of growth and stable levels of economic activity.

- Emphasize improving overall productivity, enhancing the skills of the labor force, and developing production, servicing, and marketing methods in order to optimally use resources and increase the growth potential of economic activities.

- Explore and expand opportunities for the private sector in various economic activities, and promote activities able to grow and compete in the domestic and world market according to clear criteria and priorities that help strengthen the non-oil production base, including utilities.

- Enhance the organizational structure of the private sector. This includes reviewing laws and government decrees on private sector activities with a view toward improving the ability of private enterprises to exploit technological progress and develop production, management, and marketing techniques in order to help them provide employment opportunities to indigenous labor.

- Accelerate the pace of the privatization of economic activity by transferring ownership or the management of public sector entities fully or partially to the private sector, while avoiding monopolies.

- Enhance the government's ability to supervise private sector activity with the aim of providing private sector investment without constraining competition, impeding labor market mechanisms, or stifle initiative and innovation.

Key targets and reforms

35. A key target of the Plan is to increase the share of the private sector GDP in total GDP from 23 percent in 2000/01 to 26 percent by 2005/06 by accelerating the growth rate of the private sector real GDP to 4.8 percent per annum, while the overall real GDP growth will increase only moderately to an average 2.1 percent (Table 8). The Plan indicates that the targeted growth of private sector GDP can be achieved through privatizing major public entities such as Kuwait Airlines, Kuwait Telecommunication Company (KTC), Post and Telegraph services, Kuwaiti ports services, and Public Transportation Company (PTC). Further, the Plan projects an increase in total investment over the Plan period to 19.4 percent of GDP by 2005/06 from an average rate of 14 percent during 1995–2000. Private sector investment including foreign direct investment (FDI) is projected to rise to 31 percent of total investment from 9 percent during 1995–2000.

36. In order to sustain government investment outlays, the Plan proposes fiscal reforms that encompass an increase of non-oil revenues from 12 percent of total revenues in 2001/02 to 22 percent of total revenues by 2005/06 or to 11.4 percent of GDP (Table 9). This will be achieved by introducing VAT, taxes on net income and profit, and taxes levied to support

national employment. According to the Plan, the share of tax revenues is expected to increase from 2 percent of total revenues in 2001/02 to 9 percent by 2005/06. In addition, the Plan calls for rationalization of public expenditures reducing its share from 52 percent of GDP in budget 2001/02 to 45 percent of GDP by 2005/06.[17]

Table 8. Targeted Gross Domestic Product and Investment, 2001/02–2005/06

(In millions of Kuwaiti dinars)

	GDP 1/			Investment		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
2000/01	7,866.3	2,338.2	10,204.5	1,223.9 2/	211.6 2/	1,435.5 2/
2001/02	7,804.0	2,449.1	10,253.1	1,288.4	548.3	1,836.7
2002/03	7,816.6	2,566.7	10,382.3	1,334.1	579.5	1,913.6
2003/04	7,951.1	2,688.3	10,639.4	1,383.2	612.5	1,995.7
2004/05	8,099.3	2,817.4	10,916.7	1,436.2	647.5	2,083.7
2005/06	8,368.7	2,953.2	11,321.9	1,493.1	684.7	2,177.8
Average annual growth (percent)	1.24	4.78	2.09	3.75	5.7	4.35

Source: Ministry of Planning, 2001, The Five-Year Development Plan of Kuwait, 2001/02–2005/06.
1/ Data are in 2000/01 prices.
2/ Actual data for 1999/2000.

37. The relatively high population growth (3.6 percent for the period 1995–2001) and the shifting age structure of the population have led to high rate of growth of the Kuwaiti labor force in excess of 6 percent per annum for the period 1995–2001. With the domestic labor market highly dependent on expatriate workers (80 percent of total labor force in 2001), the labor market remains segmented with most Kuwaiti workers employed in the public sector (93 percent in 2001) and most expatriate workers in the private sector. Although unemployment among Kuwaitis remained low (2 percent in 2001), it is likely to increase in the future. Increased employment pressure in recent years has reflected not only the growing Kuwaiti labor force, but also difficulties in increasing the level of government hiring in the civil service, as well as the growing skill mismatch among Kuwaiti job applicants. Therefore, the Plan aims to create new job opportunities in the private sector to prevent unemployment among Kuwaiti nationals, while gradually reducing the dependence of Kuwaiti nationals on the public sector.

[17] Official fiscal statistics differ from IMF presentation of the budget because of different classification practices.

Table 9. Plan's Projections for Government Revenues, 2001/02–2005/06

(In millions of Kuwaiti dinars)

	2001/02	2002/03	2003/04	2004/05	2005/06
Non-oil revenues	656.9	1,031.3	1,099.3	1,180.8	1,290.7
Tax revenues:	124.0	441.6	463.0	493.8	525.7
Value-added tax		191.9	196.4	200.8	205.3
Taxes on net income and profit	15.2	124.6	135.7	155.7	176.4
Customs taxes	86.9	101.7	107.0	112.4	118.0
Law supporting national employment	13.8	15.2	15.5	16.4	17.3
Other taxes	8.1	8.2	8.4	8.5	8.7
Nontax revenues	532.9	589.7	636.3	687.0	765.0
Including: services revenues	392.0	490.2	533.7	581.2	655.9
Total revenues	5,600.1	5,863.1	5,820.7	5,795.9	5,802.0
Non-oil revenues (in percent of GDP)	6.4	9.9	10.3	10.8	11.4
Non-oil revenues (in percent of total revenues)	11.7	17.6	18.9	20.4	22.2

Source: Ministry of Planning, 2001, The Five-Year Development Plan of Kuwait, 2001/02–2005/06.

C. Overall Assessment

Macroeconomic structure and strategy

38. Given the rising pressures for employment opportunities for a rapidly growing Kuwaiti labor force, the strategy underlying the Plan correctly aims at accelerating non-oil growth through the promotion of private sector investment. A cautious monetary policy would be directed, as in the past, at maintaining a stable exchange rate to serve as an anchor and to contain inflationary pressures. Therefore, the basic growth and employment objectives consistent with sustainable development will have to be achieved mainly through the use of fiscal policy and ensuring wage flexibility while increased privatization and market reform would promote investment including FDI, resulting in an increase in productivity and competitiveness.

39. The Plan recognizes the centrality of fiscal policy in the mobilization and allocation of resources within a medium-term framework. There is awareness of the potentially adverse implications for growth and macroeconomic stability from the anticipated tightening of the fiscal position under the unchanged policy stance. The Plan also very appropriately emphasizes the structural nature of the likely development of fiscal pressures—reflecting the

dominance of oil revenues, marginality of tax revenue, and unduly high current expenditure, especially on wages and salaries, relative to capital outlays. Its focus on tax reforms, including arguments for introducing sales tax and income tax reforms to improve the structure of the budget and reduction in the size of the budget, is well founded.

Financial sector issues

40. The Plan appropriately calls for the liberalization and restructuring of the financial sector to address the challenges of globalization and to benefit from increased competition. Overall, Kuwait's financial system is sophisticated and well developed, both technologically and in the business sense. However, given the country's narrow economic base, banks and other financial institutions are competing for essentially the same market. In this regard, many institutions have found it difficult to develop a distinct franchise. Banks differ widely in size, average loan quality, and long-term prospects. Yet, only minimal consolidation has thus far taken place in the financial sector. In effect, the Kuwait financial system has been impacted to only limited extent by the global financial markets and changes in the global financial architecture. Challenges in opening the Kuwaiti financial sector to increased competition will, however, have to be assessed in the context of other related domestic policies. Therefore, reform and liberalization of the financial sector will require simultaneous or prior action elsewhere including privatization and rationalization of price structure. Also, there will have to be a push for establishing the groundwork for the development of Kuwait as a provider of up-to-date financial services in the region and beyond.

Labor market and human development issues

41. The Plan highlights that the success in creating jobs for Kuwaiti nationals in the private sector crucially depends on progress in addressing current remuneration differential between public and private employment, as well as on policies to address the skills required, and steps to correct labor market segmentation. Since initiatives aimed at reducing pay and benefits packages in the public sector will be time-consuming, priority would be given to improving the productivity of Kuwaiti labor through vigorous vocational training programs as well as campaigns to change attitudes towards work in the private sector.

42. The Plan would benefit from an articulation of how the downward wage flexibility of Kuwaiti workers will be effected in order to ensure competitiveness in the absence of exchange rate flexibility, in particular, following the pegging of the dinar to the dollar under the GCC agreements. Equally important, steps aimed at rationalization of government employment would call for a comprehensive public sector management reform program aimed at making the public sector focused on outcomes and performance targets rather than inputs and expenditures. The Plan could also benefit from a clearer espousal of the solutions to tackle the labor market rigidities and the size of the public sector where the latter might have to remain the employer of last resort for Kuwaitis who cannot be absorbed by the private sector.

43. The Plan assumes that labor productivity in the private sector will increase by an average of 2.2 percent per year over the Plan period. For this purpose, the Plan rightly highlights the importance of human capital as well as technology and science. Specifically, in making the case for expansion of educational opportunities, it emphasizes that this must also include the quality dimension. The spread of technology throughout the education system is also called for, as is a general necessity of making education and training more relevant to the needs of the labor market. Accordingly, the Plan gives priority to improving skills in languages, mathematics, basic sciences, and computers. Also commendable is the prominence given to the private sector in the provision and design of education services.

D. Prospective Challenges

44. Overall, the above assessment indicates that an effective implementation of the Plan would benefit from the implementation of the following broad strategic principles, many of which are already embedded in the Plan.

- Create an enabling environment for private sector business and reduce high cost of production through vigorous steps to free investors from existing distortionary regulations and bureaucratic red tape (including reform of the government procurement system). An early enactment of the privatization law would help create the investment required for the Plan.

- Encourage FDI and speed up implementation of the FDI law. At present, foreign direct investment in Kuwait is limited. While Kuwait does not need foreign capital, it does, however, need the new technology and management know-how that is typically associated with foreign investment. FDI would also bring with it access to foreign markets, which is crucial for Kuwait's success in shifting strategy towards an outward-oriented economy. Foreign presence in the Kuwaiti economy would also provide much needed learning opportunities for Kuwaiti entrepreneurs. To this end, the government should implement the new legal framework for FDI, specification of the negative list, as well as the institutional arrangements in place to handle and facilitate FDI projects.

- More emphasis on infrastructure sector liberalization and regulation would be helpful. This would also constitute an essential precursor to the significant infrastructure privatization proposed. Of particular importance is the ongoing liberalization of the telecommunications sector in conjunction with the development of an information technology (IT) sector which will generate good quality, interesting jobs for young, better educated Kuwaitis.

- The Plan could benefit from a more pointed articulation of steps toward specialization and resource allocation. The creation of an export oriented non-oil economy in line with Kuwait's comparative advantages would reduce dependence on crude oil earnings. The policies pursued over the past few decades have made the private sector inward-oriented, largely relying on government as the market. Due to the limited size of population and domestic markets, continued open trade policy would be most appropriate in this regard. The Plan's announced intent to further shelter the private sector by increasing import tariffs, beyond the legal implications with respect to Kuwait's commitment under WTO and GCC agreements, and to double the margin on public preferential purchases of national products while extending the policy to include services, would reinforce this inward orientation. To facilitate the private sector's response to a new outward-oriented policy, the government could consider developing a national export strategy, taking greater advantage of Kuwait's competitiveness in energy based production activities.

- Gradually narrow the remuneration gap between Kuwaitis and foreign workers. The Kuwaitis seeking employment in the private sector face competition from qualified and highly motivated expatriate workers willing to take jobs for lower remunerations than accepted by nationals. While maintaining an open labor market and working towards making it more flexible, the government should, in parallel, take steps to reduce the discrepancy between wages paid to national and foreign workers by gradually allowing market forces to determine wages. Mechanisms should be developed to establish a self-financing training program for Kuwaiti nationals. A national insurance scheme could be used to supplement earnings on a time-operating basis of Kuwaiti workers to allow an orderly adjustment to market-based wages consistent with labor productivity.

- The Plan would benefit from the clarification of a number of issues and the introduction of some caution with respect to the projected budgetary outcomes of the proposed revenue and expenditure measures. In particular, the revenue estimates are crucially dependent upon the establishment of the needed administrative mechanism for the proposed taxes, which take time to implement. Similarly, the introduction of new tax measures may have to be accelerated in order to achieve the underlying fiscal objectives. The Plan could also highlight the need to substantially build up the authorities' capacity for effective budget management. This could benefit from a deeper analysis of the fiscal and economic impacts of changes in the tax and expenditure policies. The Plan could identify steps, which will be contemplated—and conditions under which they are to be activated—to manage short and medium-term fiscal risks.

- The Plan would benefit from a further elaboration of measures that are being considered in order to deepen monetary and financial markets. Some consolidation of the financial sector could facilitate the process of greater integration with global markets. Such reforms would benefit from the articulation of concrete mechanisms for seeking a greater opening and integration of financial markets in the GCC as a first step toward competition in the global market. Such liberalization will have to be planned and sequenced carefully to avoid disruptions to financial and macroeconomic stability. There may be a need for a safety net to support this process. In this respect, the linkages between the banking sector and the stock exchange will need to be elaborated along with steps to avoid potential moral hazard. In a related area, the Plan could spell out the path and mechanisms for developing the capital market in light of (i) its importance for ensuring adequate domestic and foreign investment flows; and (ii) GCC efforts to develop the regional capital markets.

III. Banking Sector Issues and Policies[18]

A. Introduction

45. Over the last several years, the financial sector and mainly the banking sector have continued to develop. Bank assets increased by 72 percent and deposits by 58 percent between 1991 and 2001. The authorities have pursued policies to strengthen the soundness of the banking system through institutional, legal, and regulatory reforms. International standards in accounting and prudential regulation and bank supervision have been adopted, and banks have been effectively supervised. Banks have also been expanding their activities with new products.

46. This note analyzes the issues and policies that confront the further development of the banking sector. It focuses on the central role of regulation and supervision, addressing both the macroprudential and developmental issues to promote private sector-led growth. For this purpose, the paper limits itself to available data in four areas in the macroprudential framework: (i) financial soundness indicators covering prudential data; (ii) qualitative information on institutional and regulatory framework, such as supervision of compliance with standards; (iii) structural information, such as size and concentration of main segments of financial sector; and (iv) market-based data to convey market perceptions of the health of financial institutions, notably data on the stock market.[19] The note, however, does not use data to place developments of the financial sector in the macroeconomic context nor conduct stress tests to investigate vulnerabilities of the financial sector to shocks, issues that would be covered under the forthcoming Financial Stability Assessment Program (FSAP) exercise (Figure 3).

B. Structure of the Financial Sector

47. The Kuwaiti financial system comprises the Central Bank of Kuwait (CBK); 7 commercial banks (of which, the Kuwait Finance House (KFH) operates on Islamic

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[18] Prepared by Van-Can Thai, Senior Economist, MED.

[19] For details of macroprudential analysis, see V. Sundararajan, C. Enoch, A. San Jose, P. Hilbers, R. Krueger, M. Moretti, and G. Slack, 2002, *Financial Soundness Indicators: Analytical Aspects and Country Practices,* Occasional Paper No. 212, Washington D.C.: International Monetary Fund.

principles), 2 specialized banks (the Industrial Bank and the Real Estate Bank); 38 investment companies (of which, 12 operate on Islamic principles); 29 moneychangers/exchange houses; about 25 insurance and reinsurance companies; and the Kuwait Stock Exchange (KSE).[20]

48. Most banks are privately owned, but the government holds controlling interests in some of them and the KFH. Foreign participation in the banking system may not exceed 49 percent of capital unless approved by the government. Since 1994, as part of its efforts to expand the private sector's role in the economy, the government has embarked on a divestiture program to sell its equity holdings, including bank equities. In 1996–97, the government sold some of its shares in Kuwait Real Estate Bank, Gulf Bank, Commercial Bank of Kuwait, and all of its shares in Burgan Bank. In 2001, the remaining shares in Real Estate Bank were sold in the first half of 2002, and a complete divestiture took place with the Bank of Kuwait and Middle East (BKME). Investment companies focus on portfolio management, including international placements, and securities underwriting, while the moneychangers/exchange houses engage primarily in foreign exchange transactions. In addition to the stock market, capital markets consist of the market in government securities which involve mainly transactions between the CBK and the commercial banks. Secondary market trading in government securities by nonbank entities is limited. The corporate bond market is also limited.

49. **Kuwaiti banks are large and efficient.**[21] Total assets of the banking system amounted to KD 15 billion in 2001 (about 46 percent of GDP). One bank accounted for 25 percent of total bank assets (12 percent of GDP) and 5 banks for 75 percent of total assets (or 35 percent of GDP).[22] Profits continued to increase (by 9.9 percent in 2001). The average

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[20] This section and others are based on Kuwait—Staff Report for the 1999 Article IV Consultation (SM/00/23, February 4, 2000), Appendix VI; and on Kuwait—Recent Economic Developments and Selected Issues (SM/99/9, January 13, 1999).

[21] However, they are small by international standards; see Biagio Bossone, P. Honohan, and M. Long, 2001, *Policy for Small Financial Systems,* Financial Sector Discussion Paper No. 6, Washington D. C.: The World Bank, February.

[22] Of the 9 banks, the 2 largest are the National Bank of Kuwait (about 32 percent of total assets in 2001) and the KFH (17 percent), followed by the Commercial Bank of Kuwait (12 percent) and Al-Ahli Bank of Kuwait (10 percent). The other banks are Burgan Bank, Bank of Kuwait and the Middle East, Bank of Bahrain and Kuwait, Kuwait Real Estate Bank, and Industrial Bank of Kuwait, see *Middle East Economic Survey (MEES)*, Vol. XLV, No. 42, pp. B1-b7, October 21, 2002.

rates of return on assets and on equity were high (2 percent and 18.2 percent respectively).[23] Banks offer financial management, project funding in addition to regular banking services. The Industrial Bank concentrates on medium-term industrial credits and the Real Estate Bank makes housing and property loans. The KFH is heavily engaged in Islamic banking and in a variety of nonbank activities and having assets of KD 1.7 billion at the end of 2001 (about 5 percent of GDP).

50. **Banks have faced competition in domestic as well as international markets.** Since Kuwaiti residents have access to financial services abroad and hold a considerable amount of their wealth outside Kuwait, banks have to compete with regional and international banks for deposits and related services. In particular, wealth management for higher income earners has been catered to by big foreign investment firms. However, new domestic markets are emerging in wealth management for professionals.

51. **The authorities have continued the cautious policy of allowing cross-border competition to enhance efficiency.** Competition is expected to increase with the potential entries of new banks following the December 2001 GCC meeting decision to allow GCC banks to operate in member states. The approval for new non-GCC banks would be considered within the amended banking law expected to be approved by the National Assembly by end-2002. To address the globalized competition, Kuwaiti banks are expected to undertake mergers, which would lead to stronger and more competitive institutions.

52. Banks have been encouraged by the authorities to continue expanding into new activities and new lending instruments to meet rising demand for private sector financing, including long-term investment. Banks are also exploring options for further expansion into consumer loans, wealth management, and investment banking. This would entail further development of new lending instruments, such as longer-term instruments, including mortgage. As part of this expansion, some banks have accelerated the development or improvement of their electronic banking. An expeditious upgrading of skilled human resources and appropriate legal framework would facilitate this expansion.

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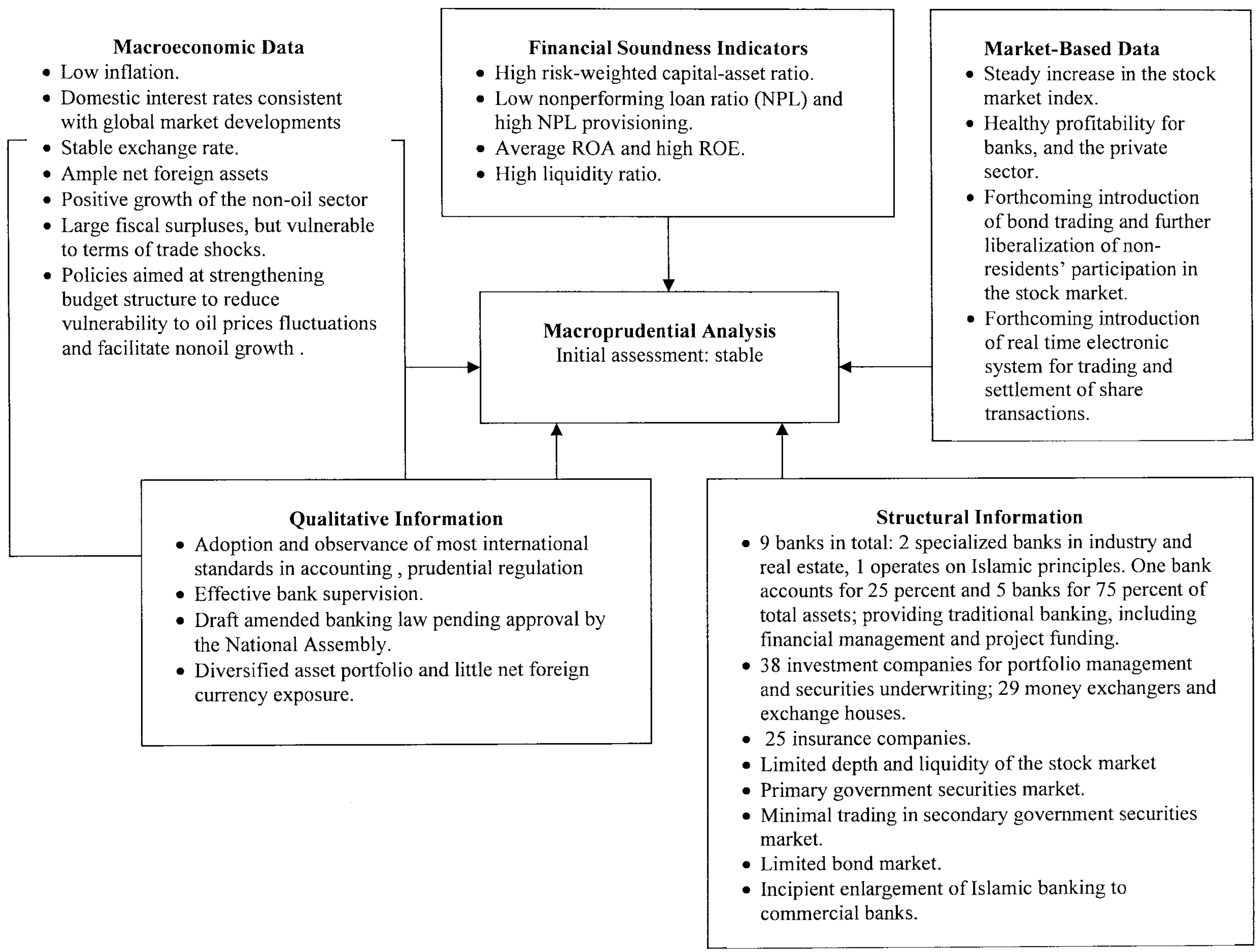
[23] The unweighted averages for the OECD countries were 0.9 percent and 13.0 percent in 1997; see *Bank Profitability: Financial Statements of Banks*, OECD, Paris, 1999.

Figure 3. Components of Macroprudential Analysis



C. Prudential Regulation and Bank Supervision

Recent developments

53. **The available financial soundness indicators (FSI) show that the banking sector has continued to perform well in 2001.** Banks appear to comply with prudential standards and to be well capitalized, profitable, and well provisioned. The average risk-adjusted capital assets ratio remained high (22 percent) (Table 10).[24] Banks are liquid; the ratio of liquid assets to deposits, although declining from 50.5 percent in 2000, remains close to 48 percent. Nonperforming loans (NPL), post-invasion, declined (6.4 percent in 2000 to 5.2 percent in 2001).[25] The foreign currency exposure, on a net basis, amounted to a negative 0.2 percent of assets and negative 2 percent of capital and reserves in 2001.

Table 10. Kuwait: Financial Soundness Indicators, 1997–2001

(In percent)

	1997	1998	1999	2000	2001
Banks' capital-asset ratio	11.1	11.4	11.6	11.5	11.2
Banks' risk-weighted capital-asset ratio	22.4	22.5	23.7	22.2	22.0
Nonperforming to total loans ratio: post-invasion	2.0	3.0	6.0	6.4	5.2
Loan provisions as a proportion of NPL	65.1	68.0	53.2	50.1	53.2
Banks' interest rate spread	2.9	2.6	2.8	3.0	3.4
Return on assets	1.7	1.6	1.8	2.0	2.0
Return on equity	15.7	13.8	15.3	17.6	18.2
Liquid assets-total assets ratio	16.2	15.5	17.6	16.3	14.8

Source: Central Bank of Kuwait.

54. **This performance is confirmed by the recent upgrades by major international rating agencies.** Fitch upgraded its long-term foreign currency rating for the National Bank of Kuwait (NBK) from A to A+ in June 2002, Moody's upgraded its long-term foreign currency rating for 6 banks (including the NBK) from Baa1 to A2 in May 2002. The health of the banking system is also reflected in the results of stress tests conducted in 2000. It would

[24] This rate was well above the 12 percent mandated by the CBK and almost three times the 8 percent recommended by the Basel Committee.

[25] The low NPL provisioning in 2000–01 reflected broadly increases in bank loans to the private sector.

take a large shock to affect creditworthiness.[26] Although personal facilities, real estate, and trade lending accounted for about 70 percent of total loans in 2001, the risks are reportedly relatively low as most personal and real estate loans are collateralized by bank claims on salaries of borrowers. The concentration has increased for personal facilities in 2001 (33 percent of total) in part due to the rapid expansion of lending for stock trading (55.2 percent), as well as for real estate (19 percent of total loans). In addition, a higher share of credit to nonbank financial institutions emerged as it doubled to almost 12 percent. The indebtedness of those institutions did not increase to the full extent of new credit as they took advantage of lower domestic interest rates to borrow in order to repay bonds that had previously been floated with higher interest rates.

55. **Banks are effectively supervised through onsite inspections, continuous off-site monitoring, and supported by an early warning system.**[27] Comprehensive on-site inspections are conducted every 18 months and, when needed, targeted on-site inspections for selected items may also be conducted.[28] Off-site inspections are based on extensive financial reporting, covering virtually all aspects of each institution's operations. In addition, a quarterly early warning system was introduced in early 1998 for each bank and collectively for all banks. The supervision is fully consolidated.

56. **Banks have applied international accounting and public disclosure standards since 1991.**[29] In addition to internal audit, external audits have to be conducted by two independent accounting firms approved by the CBK. They are required to assess the adequacy of internal control systems, evaluate the sufficiency of provisions, and examine particular transactions at the request of the CBK and report to the CBK on their findings. Banks are also required to develop their internal risk management policies and procedures, to address, in particular, liquidity risk issues by developing liquidity strategies and methodologies to measure risk, including stress test.

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[26] NPL had to increase to 20 percent of the outstanding loans to reduce banks' capital adequacy ratios below the 12 percent minimum established by the CBK.

[27] In addition, the CBK supervises investment companies and exchange bureaus which are subject to most of the same requirements as banks regarding information, risk management, on-site and off-site inspection, lending policies, provisioning, capital, liquidity, and internal risk control system.

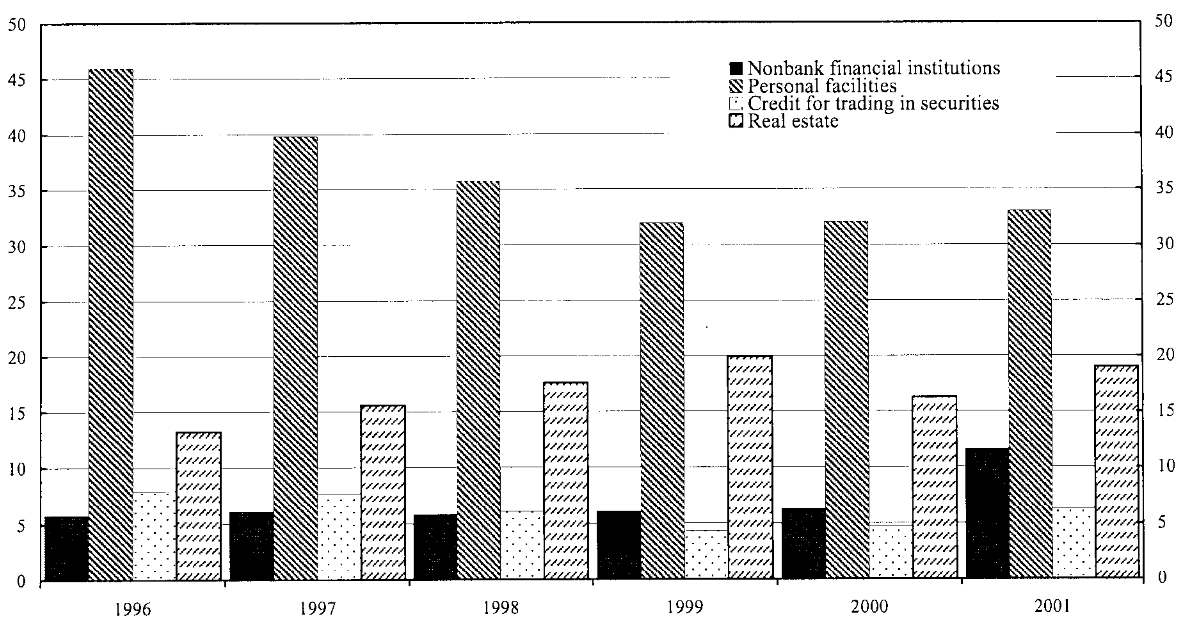
[28] For inspections, the CBK uses a standardized (CAMEL) system to assess capital, asset quality, management, earnings, and liquidity, while emphasizing internal controls, to arrive at an overall composite rating.

[29] The international accounting standards (IAS) have also applied to the corporate sector since 1991.

57. **As part of risk management, a full-fledged credit bureau is expected to be operational by end-2002.** The CBK operates a central credit reporting system on outstanding large credits and acts as a clearinghouse for information on debts of existing and potential customers. It also uses the credit reporting system to analyze developments on sectoral credit distribution trends in bank lending. This system would be extended to include other borrowers under the new credit bureau.

Figure 4. Distribution of Local Bank Credit to Selected Sectors

(In percent of total)



Source: Central Bank of Kuwait.

58. **Prudential regulations and bank supervision have been applied and reviewed against improved international standards and good practices.** The risk-weighted minimum capital ratio mandated by the Basle Core Principles of Effective Banking Supervision (BCP) was raised to 12 percent from 8 percent in 1997. Capital charges have included market risk since March 2001, thus completing the observance of 21 out of 25 BCP. Furthermore, the liquidity ratio was replaced by a maturity ladder system (October 1997) to limit the mismatch between assets and liabilities; benchmarks have been established and may be modified by the CBK to address differences among individual institutions; the mismatch position between assets and liabilities is reported weekly to the CBK or whenever

circumstances warrant closer monitoring. The CBK conducted a self-assessment of the banking system against the BCP in 2000; while the assessment is being finalized preliminary results indicated that the banking system appeared to remain sound.

59. **Prudential regulations on lending are elaborated.** They vary according to types of borrowers. The ceiling is 15 percent of capital for single borrowers; four times of capital for the total of all large borrowers (defined as those borrowed in excess of 10 percent of capital); and restrictions are also imposed on lending to bank employees and directors. Ceilings also vary according to types of loans; it is 12 percent of deposits on consumer loans or 30 percent of outstanding medium- and long-term loans;[30] and 25 percent of shareholders' equity or 10 percent of total loans on margin loans (since 1997). Ceilings also vary according to types of investments: 15 percent of capital on total long and short foreign currency positions, 50 percent of capital and reserves on security portfolios; 10 percent of the financial instruments of another company, and 50 percent of bank capital in subsidiaries. Furthermore, banks may not own more than 10 percent of their outstanding shares. Similarly, provisioning rules also depend on loan performance or the nature of loan risks and developments in loan classification and provisioning are reviewed quarterly.[31]

Next steps

60. **Notwithstanding the above close supervision, the monetary authorities have continued strengthening the banking system. As part of this process, an Amended Banking Law (ABL) is expected to be approved by the National Assembly (NA) by end-2002.** The ABL, while being part of the process of continued harmonization of bank rules and regulation with other GCC members, would contain measures that would address four important aspects in the enhancement of the financial stability in an increasingly competitive globalized economy.

61. **First, enforcement of prudential regulation and licensing powers would be strengthened.** The CBK would have the authority to: (i) inspect the branches, companies, and banks organized and operating abroad in affiliation with Kuwaiti banks, in coordination with the supervisory authorities in the concerned countries; (ii) approve changes in bank

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[30] Deposits are defined as consisting of private deposits, certificates of deposits, and deposits of nonbank financial institutions but excluding investment companies.

[31] Provisioning for nonperforming assets ranges from a discretionary percentage for special mention assets, to 20 percent for substandard, 50 percent for doubtful, and 100 percent for bad assets. For performing assets, provisioning is 2 percent. Provisioning rules have also been established for consumer and sovereign risk-related loans. Furthermore, additional provisions are encouraged to cover potential risks of those loans.

ownership and control (BCP No. 4);[32] (iii) arrange mergers and takeovers of troubled financial institutions with healthier institutions when necessary to preserve the interests of the depositors; (iv) disclose confidential information among home and with host country supervisors (BCP No. 1.6, 24, and 25).[33] However, the ABL would make it clear that Board members, managers, and other officials would be prohibited from disclosing information related to the affairs of banks, customers, and other banks, except as specified by law.[34] Finally, the ABL would extend the role of external auditor and establish stiff financial penalties for noncompliance.

62. **Second, Islamic banks would be brought fully under the CBK's supervision; the implementation of this measure together with the above proposed measures would complete the observance of all the BCP.** The KFH—which has so far been the only bank to cater to the needs of Islamic banking—would be fully supervised by the CBK.[35] In preparation for the conduct of Islamic banking supervision, the preparation of a unified manual was virtually completed. It integrates the standards and best practices on prudential regulation and supervision of conventional banking with those currently applicable to Islamic banking and would be modified to take into account those to be recommended by the Islamic Financial Service Board (IFSB), which was established in November 2002.

63. **Third, Islamic banking would be further developed with authorization for commercial banks to compete with KFH through independent units.** This measure would put Islamic and conventional banking on the same footing and both would be subject to the central bank supervision.

64. **Fourth, the market would be further opened to foreign banks.** The ABL would clarify, simplify, and streamline the entry requirements for non-GCC banks to facilitate faster approval. This measure together with the opening of Islamic banking to commercial banks could result in increasing competition and efficiency gains. These gains would be beneficial to Kuwaiti banks as they must expand and compete with other banks in the regional market.

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[32] According to the authorities, this is an important aspect of the new proposed law although under current practices, the central bank has to approve members of bank boards and bank top management for fit and proper requirements.

[33] According to the authorities, the approval of the ABL, implying the approval of these last three BCPs, would complete the observance of all the 25 BCPs.

[34] The sharing of confidential information is not permitted under current law. But, the sharing of nonconfidential information with other relevant Kuwaiti government authorities is permitted.

[35] Currently, the KFH is subject to the CBK's supervision, although legally, it is under the supervision of the Minister of Commerce.

65. **Another action to strengthen the stability of the banking system is the planned introduction of a limited deposit insurance scheme (DIS) which is being considered by the authorities.** The current system provides for full government guarantee of all private sector deposits (with the exception of those of financial institutions and interbank claims). With its blanket coverage of deposits, this system is potentially distortive and could involve excessive costs for the state due to the moral hazard risk that arises when the guarantee causes the beneficiaries to take excessive risks. A limited DIS would protect small depositors (or all deposits up to a certain limit), reduce moral hazard, strengthen market discipline, and reduce the potential cost to the government.[36]

D. Anti-money Laundering (AML)

66. **A regulatory and supervisory framework, which pre-dates the September 2001 events, has been developed and has recently been strengthened for AML activities;** this helps to enhance the authorities' capacity to monitor capital flows. Legal measures include: adoption of AML new guidelines (1997) in line with the Financial Action Task Force (FATF) recommendations, and enactment of a law criminalizing money laundering activities (March 2002), in accordance with the 40+ 8 FATF recommendations issued in 2001. This law requires financial institutions to freeze assets of suspicious parties to conform to the UN Security Council resolution No.1373, and not to open accounts or effect international transfers of funds for charitable organizations that are not licensed to collect and transfer funds abroad. Administrative measures include: establishment of an AML unit in the CBK (1994), recently upgraded to a full division (May 2002), and establishment of an AML interministerial committee in 1998, recently replaced by a National Committee for Combating the Financing of Terrorism in 2001.

IV. Moving from a Basket Peg to the Dollar Peg[37]

A. Introduction

67. The external value of the Kuwaiti dinar (KD) is presently linked to a special weighted basket of currencies of Kuwait's trade and financial partners. The CBK sets the exchange rate vis-à-vis the dollar on the basis of the latest market quotations in relation to the other currencies in the basket. The composition of that basket is confidential, however, the dollar appears to have a very large weight in that basket.

68. The nominal dollar-to-KD exchange rate has fluctuated in a narrow range. On a monthly basis, the dollar/KD exchange rate has averaged at 3.3 during 1992–2001 (Figure 5).

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[36] MAE provided technical assistance in 1999 on the design and implementation of a limited deposit insurance scheme.

[37] Prepared by S. Nuri Erbaş, Senior Economist, MED

During the same period, the maximum monthly percentage variation in the exchange rate remained below 3 percent; in recent years, those fluctuations have further narrowed to plus/minus 0.5 percent (Figure 6). Effectively, therefore, Kuwait's exchange rate policy is not in conflict with the effectively fixed peg policy of its GCC partners. Why, then, does Kuwait follow a narrowly flexible exchange peg (NFP) policy, particularly in view of transaction costs associated with it and a measure of market uncertainty it creates? Does Kuwait stand to lose from moving to a fixed exchange peg to the dollar?

69. As a first step toward establishing a monetary union, the GCC countries formally agreed to peg their currencies to the dollar at fixed rates as of January 2003. Choosing between a fixed peg and a NFP policy is a central consideration in the formulation of perhaps the most fundamental policy of a prospective GCC monetary union.

B. Economic Fundamentals

70. In the GCC countries, a fundamental concern in determining the exchange rate policy is the credibility of the monetary stance. Beyond that fundamental issue, however, the issues in choosing an exchange rate policy that are relevant for all countries in general are also relevant for the GCC countries, albeit to a lesser extent because of a relatively smaller degree of economic diversification in the GCC countries. Other issues concerning the choice of an appropriate exchange rate regime most relevant for the GCC countries include external stability, curbing volatility in the foreign exchange markets, and the competitiveness of exports. Accordingly, it is worth examining if Kuwait's NFP policy serves some of those economic fundamentals.

Figure 5. US$/KD Nominal Exchange Rate

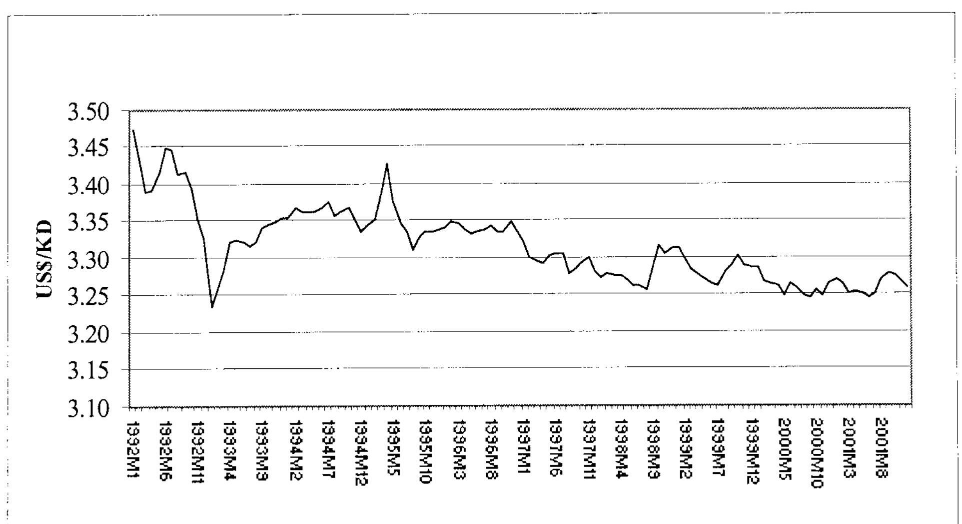
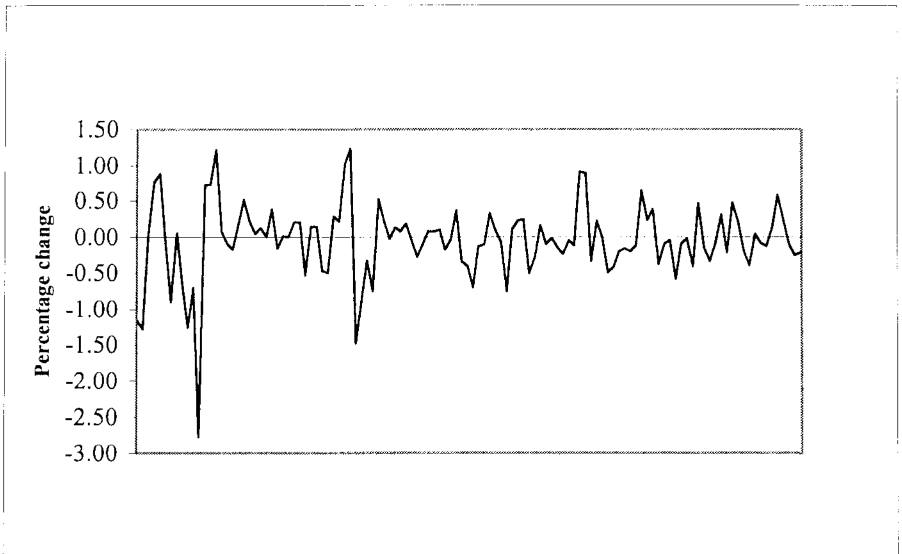


Figure 6. Percentage Change in US$/KD Nominal Exchange Rate, 1992(M2)-2001(M12)



Does the NFP policy serve to stabilize the real exchange rates?

71. Two countries that have a large share in Kuwait's exports and imports are the United States and Japan (Table 11). Therefore, the dollar and the yen can be expected to have a significant impact on the movements in Kuwait's real effective exchange rate (REER) with respect to the rest of the world and with respect to the United States. Adjusting the nominal dollar/KD rate, Kuwait might benefit from stabilizing the REER with the goal of achieving greater stability in its external position.

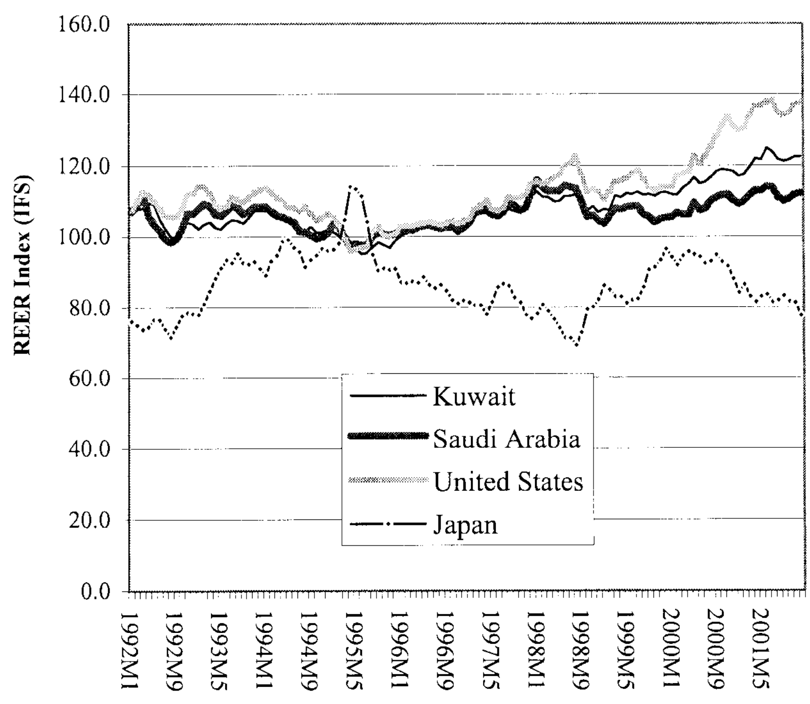
Table 11. Share of SDR Countries in Kuwait's Total Merchandise Trade, 1991–2001

	(1991–2001 averages)		
	Exports	Imports	Export Plus Imports
Rest of the World	66.3	51.4	58.5
SDR countries	33.7	48.6	41.5
United States	10.6	16.3	14.3
Japan	17.7	12.3	15.8
United Kingdom	2.0	5.6	3.3
France	0.7	8.0	4.0
Germany	2.7	6.5	4.1

Source: IMF, *Direction of Trade Statistics*.

72. However, the NFP policy in Kuwait does not appear to have been primarily guided by this consideration. On a monthly basis, Kuwait's REER with respect to the world depreciated by 8 percent during 1992–96 and appreciated by 23 percent during 1996–2001; the overall appreciation during 1992–2001 was 14 percent. The percentage fluctuations in REER, with a few exceptional periods, remained within the plus/minus 3 percent range. Furthermore, the movements in REER during 1992–2001 tracked closely the movements in the United States and Saudi Arabia's REER (Figure 7). Turning to Kuwait's other major trade partner Japan, there is no discernable pattern that indicates that the dollar/KD exchange rate was adjusted in a manner that would be consistent with the goal of stabilizing the yen/KD exchange rate. In fact, while Kuwait's competitiveness with respect to the United States has improved by 3 percent, it deteriorated by 24 percent relative to Japan during 1992–2001. It, therefore, appears that Kuwait's NFP policy has not served to prevent loss of competitiveness and it was not primarily predicated on that goal.

Figure 7. Kuwait, Saudi Arabia, the United States and Japan: Movements in the REER Index, 1992–2001



Does the NFP policy react to fluctuations in oil prices?

73. In view of the fluctuations in oil prices, it is possible for investors to take positions for or against thc KD. Even if this is the case, the relationship between the movements in the dollar/KD rate and oil prices is rather weak. As Figure 4 shows, the nominal dollar/KD exchange rate has not been as nearly volatile as the spot oil prices during 1992–2001. Simple elasticity estimates confirm that the correlation between the movements in the dollar/KD rate and oil prices is small and statistically insignificant. Consequently, it is also difficult to make a case that Kuwait's NFP policy has stabilized the economy in the face of oil price fluctuations.

Figure 8. Percentage Change in the Spot Price of Oil (US$/barrel) and the Nominal US$/KD, 1992–2001

Index (1992M1 = 100)

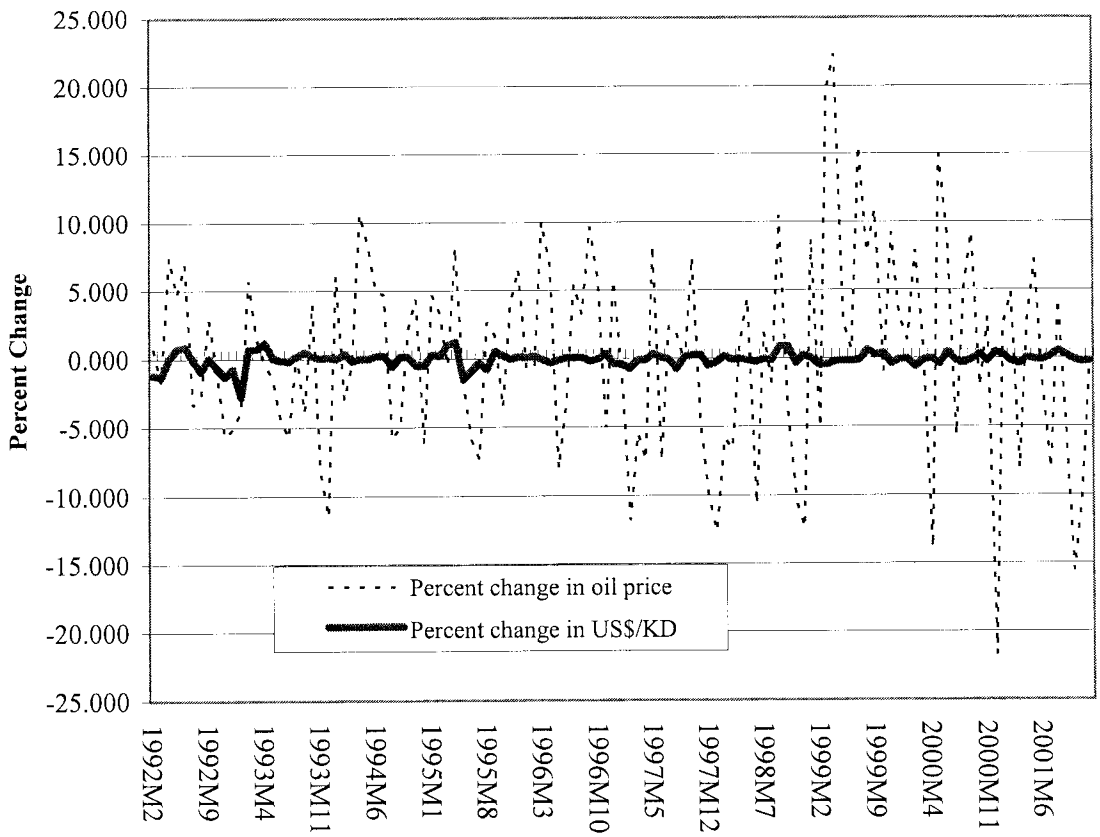
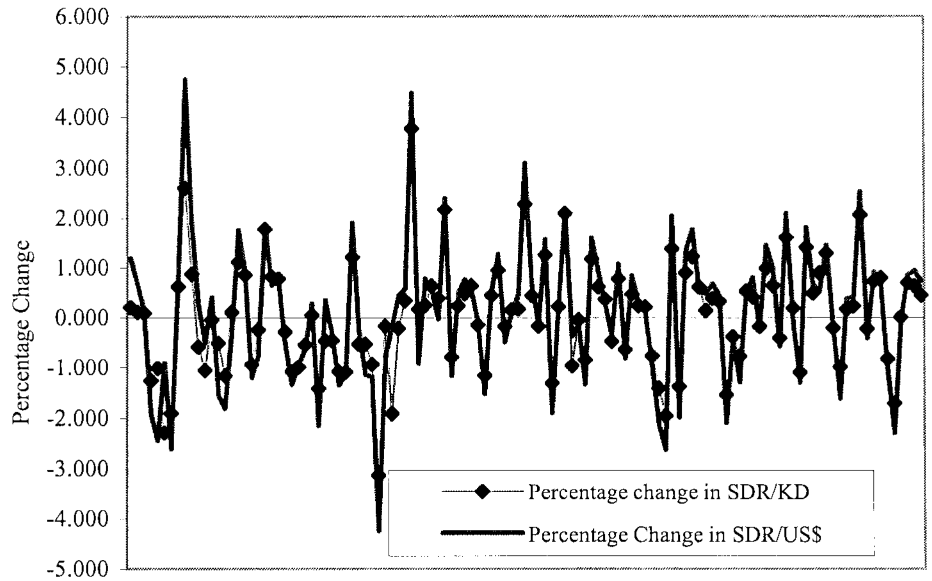


Figure 9. Percentage Change in SDR/KD and SDR/US$, 1992–2001



Does the NFP Policy serve to improve the overall stability of external accounts?

74. Under a relatively more flexible exchange rate policy like Kuwait's than the fixed peg, it can be expected that fluctuations in the exchange rate reflect some significant changes in the market conditions, at least in the longer run. As noted, Kuwait's NFP policy reflects adjustments in the CBK's basket of international currencies, which has a very large dollar weight. As shown in Figure 7, trends in Kuwait's REER closely track the trends in the United States REER. Nevertheless, an exchange rate policy that allows even a small margin of flexibility than a fixed peg might help alleviate the ill effects of unanticipated external shocks. It is possible, for example that an SDR-like currency basket may result in greater stability than a fixed peg. Indeed, Figure 9 shows that the SDR/KD rate followed the SDR/dollar rate very closely during 1992–2001, but the SDR/KD rate was somewhat more stable than the SDR/dollar rate. This indicates that Kuwait's practice of NFP was closer to pegging the KD to the SDR basket than pegging it only to the dollar.

75. However, even though the NFP policy did not apparently serve to stabilize REER and was not practiced in response to oil price fluctuations, did the NFP policy translate into greater external stability than there would have been, if Kuwait had followed the fixed dollar peg policy like the rest of its GCC partners? The model in the next section addresses this question.

C. The Model

Theoretical background

76. The model is based on Erbaş, Iqbal, and Sayers (2001).[38] Estimation period is 1992–2001. Let e and v represent the REERs between KD and dollar and between KD and the SDR currencies other than the dollar (U.K. pound sterling, Japanese yen, and the euro), respectively; e and v are defined as:

$$e = \frac{E \bullet P^{US}}{P^K}, E = \frac{KD}{US\$}; v = \frac{V \bullet P^V}{P^K}, V = \frac{KD}{NUS\ Currency}, \quad (1)$$

where E is the nominal exchange rate between KD and the dollar, P^{US} is the United States price level, P^K is Kuwait's price level, V is the nominal exchange rate between KD and the composite of the SDR currencies other than the dollar (*NUS currency*), and P^V is the composite price level of the SDR countries other than the United States. The price levels used for estimation are the CPIs. The composite magnitudes V and P^V are calculated as:

$$V = w_1 \frac{KD}{Yen} + w_2 \frac{KD}{Pound} + w_3 \frac{KD}{euro}; w_i = \frac{M_i + X_i}{M + X};$$

$$P^V = w_1(CPI\ Japan) + w_2(CPI\ U.K.) + w_3(CPI\ euro);$$

$$\begin{gathered} M_i = Merchandise\ imports\ from\ country\ i; \\ X_i = Merchandise\ exports\ from\ country\ i; \\ M = Total\ merchandise\ imports\ from\ Japan, U.K., France, Germany; \\ M = Total\ merchandise\ exports\ from\ Japan, U.K., France, Germany; \\ i = Japan, U.K., France, Germany. \end{gathered} \quad (2)$$

From (2), v can be calculated as defined in (1).

77. Now suppose that a given external account aggregate (for example, imports) can be expressed as in the function below:

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[38] "External Stability Under Alternative Nominal Exchange Rate Anchors: An Application to the Gulf Cooperation Council Countries," Chapter 7 in *Macroeconomic Issues and Policies in the Middle East and North Africa*, Zubair Iqbal, ed., International Monetary Fund, Washington, D.C. 2001.

$$\ln M_t = c_0 + c_1 \ln e + c_2 \ln v + c_3 \ln y + u_t, \tag{3}$$

where u_t is a random error term, M_t is real imports, and y_t is GDP. Then, the percentage change in M is

$$\begin{gathered} \dot{M} = c_1 \dot{e} + c_2 \dot{v} + c_3 \dot{y}; \\ \dot{M} = \frac{1}{M}\frac{dM}{dt}; \dot{e} = \frac{1}{e}\frac{de}{dt}; \dot{v} = \frac{1}{v}\frac{dv}{dt}; \dot{y} = \frac{1}{y}\frac{dy}{dt}. \end{gathered} \tag{4}$$

Notice that c_1 and c_2 are the elasticities with respect to e and v.

78. Furthermore, the logarithmic differentiation of e and v in (1) yields

$$\dot{e} = \dot{E} + \pi^{US} - \pi^{K}; \dot{v} = \dot{V} + \pi^{V} - \pi^{K}; \dot{E} = \frac{1}{E}\frac{dE}{dt}; \dot{V} = \frac{1}{V}\frac{dV}{dt}, \tag{5}$$

where πs refer to the relevant inflation rates. Substituting from (5) into (4), we obtain

$$\begin{gathered} \dot{M} = c_1 \dot{E} + c_2 \dot{V} + \rho; \\ \rho = c_1(\pi^{US} - \pi^{K}) + c_2(\pi^{V} - \pi^{K}) + c_3 \dot{y}. \end{gathered} \tag{6}$$

In (6), ρ may be interpreted as a random error term.[39]

79. If the KD is pegged to the dollar at a fixed rate, then percentage change in the KD/dollar exchange rate is zero, that is, $\dot{E} = 0$. However, under the NFP that prevailed during the estimation period (1992–2001), both E and V were variable. So, during the estimation period, KD may be assumed to be pegged to a basket of currencies made up of SDR currencies as follows:

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[39] A fixed peg or a NFP requires that there are no long-term systemic deviations between Kuwait's inflation rate and the U.S. and *NUS* inflation rates; therefore, the deviations between Kuwait's inflation rate and those inflation rates can be assumed to be random. In addition, perturbations on domestic income (Kuwait's GDP) largely reflect the fluctuations in oil prices, and, if y is interpreted as foreign GDP (for example, in the case of exports), the same argument applies. Thus, the terms in ρ are not under the control of the policymaker. Therefore, we focus on the first two terms in (6).

$$\sigma \cdot KD = \alpha US\$ + (1-\alpha) NUS\ currency, \tag{7}$$

where σ is the constant rate at which KD is pegged to the basket, α is the dollar weight (known to be very large, see Figure 1), and (1-α) is the weight of composite *NUS currency* (the currencies other than the dollar in the SDR basket). Using (7), we can show that *E* and *V* can be expressed as

$$\frac{KD}{US\$} = E = \left(\frac{1}{\sigma}\right)[\alpha + (1-\alpha)Z]; \frac{KD}{NUS\ Currency} = V = \left(\frac{1}{\sigma}\right)[\frac{\alpha}{Z} + (1-\alpha)];$$

$$Z = \frac{NUS\ currency}{US\$}. \tag{8}$$

Through logarithmic differentiation of the terms in (8)—under the assumption that the initial value of Z is unity and for small variations in Z—we can show that

$$\dot{E} = (1-\alpha)\dot{Z};\ \dot{V} = -\alpha\dot{Z};\ \dot{Z} = \frac{1}{Z}\frac{dZ}{dt}. \tag{9}$$

Substituting the terms in (9) into (6), we obtain

$$\dot{M} = [c_1 - \alpha(c_1 + c_2)]\dot{Z} + \rho. \tag{10}$$

The expression in (10) represents the percentage deviation in *M* under the prevailing NFP regime.

80. If the value of α can be chosen as $\alpha^* = c_1/(c_1+c_2)$, then the coefficient of $\dot{Z}$ becomes zero and the fluctuations in *M* are reduced to a random error term that is beyond the control of the policymaker. However, in view of the fact that Kuwait's REER followed the United States very closely (Figure 3), whether such an optimal policy has been followed in Kuwait is questionable. Therefore, it would appear that if the value of α were adjusted, such adjustments were both small and they followed the market, rather than leading it. Furthermore, the optimal value of α is not necessarily the same for all the aggregates in the external accounts

81. It is clear from (6) and (9) that, if the KD were pegged to the dollar at a fixed rate, then α = 1, hence $\dot{E} = 0$, and, $\dot{V} = -\dot{Z}$. Substituting the foregoing terms into (6), we obtain the percentage change in *M* under a fixed peg to the dollar as

$$\dot{M} = -c_2 \dot{Z} + \rho. \tag{11}$$

Comparison of (10) and (11) indicates that M is more stable under the NFP than under the fixed peg policy if

$$\beta = |c_1 - \alpha(c_1 + c_2)| \leq |c_2|. \tag{12}$$

This result can be interpreted as follows:

- If c_1 is found to be statistically significant but c_2 is not, then the significant source of instability in M is due to the fluctuations in the exchange rate with respect to the dollar; then, the value of α is unity; this means that the KD should be pegged to the dollar only;
- If c_2 is found to be statistically significant but c_1 is not, then the significant source of instability in M is due to fluctuations in the exchange rate with respect to the *NUS* currency; then, the value of α is zero; this means that the KD should be pegged to the *NUS* currency only;
- If both coefficient estimates are statistically significant, then the optimal value of α should be chosen according to a tailor-made basket, as argued above.

D. Regression Results

82. The regressions are run based on logarithmic first differences, as shown below:[40]

$$\ln(\textit{dependent variable})_t - \ln(\textit{independent variable})_{t-1} = $$
$$c_0 + c_1(\ln e_t - \ln e_{t-1}) + c_2(\ln v_t - \ln v_{t-1}) + c_3(\ln y_t - \ln y_{t-1}) + u_t, \tag{13}$$

where the dependent variable is the selected component of trade and y stands, as appropriate, for Kuwait's GDP, the world GDP, the United States GDP, and total GDP of Japan, United Kingdom and the Euro Zone.[41] The regression results are presented in Table 12 below.

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[40] For a justification, see Erbaş, Iqbal, and Sayers (2001).

[41] The Euro Zone GDP, CPI and the exchange rate with respect to the dollar reflect the data provided by *Eurostat* (1991–2001) and the *World Economic Outlook* (WEO) (recently updated). The source of data are IFS, WEO, *Direction of Trade Statistics* (DOT), and *Eurostat*.

Table 12. External Trade Elasticity Estimates (c_1, c_2, c_3)

	c_0	c_1	c_2	c_3	y	$\beta = \lvert c_1 - \alpha(c_1+c_2) \rvert$ if $\alpha =$ 0.85	$\alpha =$ 0.95	$\alpha =$ 1.00	Implied Preferred Peg
					Total Exports (1992–2001)				
Coef. est.	0.1	17.0	-5.1	1.0	World GDP	6.9	5.7	5.1	US$
t value	0.3	2.9	-1.7	0.2					
Coef. est.	0.1	18.5	-6.1	-1.8	US+NUS GDP	8.0	6.7	6.1	US$
t value	0.6	2.9	-1.8	-0.4					
Coef. est.	0.1	17.9	-6.2	-1.1	NUS GDP	7.9	6.8	6.2	US$
t value	0.5	3.1	-1.8	-0.4					
					Oil Exports (1992–2001)				
Coef. est.	0.1	18.5	-5.7	0.9	World GDP	7.6	6.3	5.7	US$
t value	0.3	2.9	-1.8	0.2					
Coef. est.	0.1	20.4	-6.9	-2.4	US+NUS GDP	9.0	7.6	6.9	US$
t value	0.6	2.9	-1.9	-0.5					
Coef est	0.1	19.6	-7.1	-1.5	NUS GDP	8.9	7.7	7.1	US$
t value	0.5	3.1	-1.8	-0.5					
					Non-oil Exports (1992–2001)				
Coef. est.	0.1	3.8	1.6	3.0	NUS GDP	0.8	1.3	1.6	US$
t value	1.7	2.2	1.5	3.5					
					Total Imports (1992–2001)				
Coef est	0.0	4.9	-2.1	0.0	Kuwait GDP	2.5	2.2	2.1	US$
t value	0.3	3.1	-3.4	-0.2					
Coef est	0.0	5.0	-2.2	-0.9	World GDP	2.6	2.4	2.2	US$
t value	0.7	4.6	-4.1	-0.9					

Table 12. External Trade Elasticity Estimates (c_1, c_2, c_3)

	c_0	c_1	c_2	c_3	y	$\beta = \lvert c_1 - \alpha(c_1+c_2) \rvert$ if $\alpha =$ 0.85	$\alpha =$ 0.95	$\alpha =$ 1.00	Implied Preferred Peg
				Goods Exports (1992–2001)					
Coef est	0.1	17.0	-5.1	1.1	World GDP	6.9	5.7	5.1	US$
t value	0.3	3.0	-1.7	0.2					
Coef est	0.1	18.5	-6.1	-1.7	US+NUS GDP	7.9	6.7	6.1	US$
t value	0.6	2.9	-1.8	-0.4					
Coef est	0.1	17.9	-6.1	-1.1	NUS GDP	7.9	6.7	6.1	US$
t value	0.5	3.1	-1.7	-0.4					
				Goods Imports (1992–2001)					
Coef est	0.0	3.8	-1.5	0.1	Kuwait GDP	1.9	1.7	1.5	US$
t value	-0.3	2.3	-2.3	0.3					
Coef est	0.0	4.4	-1.8	-1.0	World GDP	2.2	2.0	1.8	US$
t value	0.2	3.9	-3.2	-1.0					

Source: Fund staff estimates.

83. In Table 2, only the statistically significant results are reported. In the case of total exports and oil exports, c_1 (elasticity with respect to e) is statistically significant but c_2 (elasticity with respect to v) is statistically insignificant at 95 percent level of confidence. This means that the significant source of instability is the exchange rate with respect to the dollar. Therefore, (12) implies that $\alpha = 1$, that is, the dollar peg at a fixed rate dominates the NFP. Furthermore, when the value of the term on the left-hand side of (12), that is,

$$\beta = \lvert c_1 - \alpha(c_1 + c_2) \rvert ,$$

is calculated at different values of α (0.85, 0.95, 1.00) (reflecting the reasonable range of values in Kuwait's currency basket under the NFP regime), that value approaches to the absolute value of c_2 as predicted, that is, instability is reduced. In the case of non-oil exports, c_1 is statistically significant but c_2 is not; the implication is the same: dollar peg at a fixed rate dominates the NFP.[42] The results are broadly the same for total imports, goods exports and goods imports. Finally, the regressions for the external current account, trade balance, net services and net income produce statistically insignificant estimates for c_1 and c_2 (not presented).

84. The regression results indicate that Kuwait does not stand to sacrifice any significant measure of external stability by moving from the prevailing NFP policy to pegging the KD to the dollar at a fixed rate like the rest of the GCC countries.[43]

E. Conclusions

85. This review of evidence indicates that Kuwait's NFP policy in the last decade did not dominate the fixed peg policy for Kuwait. As far as it concerns policies affecting economic fundamentals, this result means that Kuwait does not stand to lose from moving to a fixed exchange rate peg to the dollar from the prevailing NFP policy.

[42] However, as the value of α is increased toward unity, the value of β rises, which means that pegging at a fixed rate to the dollar becomes destabilizing relative to the NFP policy.

[43] The results are consistent with the findings in Erbaş, Iqbal, and Sayers (2001, p. 180) on Kuwait for the period 1976–89.

Kuwait: Selected Economic Indicators, 1997–2002

	1997	1998	1999	2000	2001
Nominal GDP (market prices, millions of U.S. dollars)	29,865	25,123	29,140	35,824	32,807
Crude oil production (millions barrels per day)	2.01	2.05	1.87	1.98	1.95
Kuwait crude export price (U.S. dollars per barrel)	16.8	10.3	15.5	25.7	22.3
	(Percentage change)				
Production and prices					
Nominal GDP	-2.6	-15.5	16.0	23.7	-8.5
Nominal non-oil GDP	3.3	3.8	3.4	2.0	3.0
Real GDP	2.3	2.4	-2.5	1.4	-1.1
Real oil GDP	1.6	1.8	-6.5	2.2	-3.2
Real non-oil GDP	4.1	3.1	1.0	1.1	0.5
Consumer price index	0.7	0.1	3.0	1.8	1.7
Public finance 1/	1997/98	1998/99	1999/2000	2000/01	2001/02
	(In percent of GDP)				
Total revenue	64.0	47.9	71.0	80.8	69.5
Of which					
Oil and gas revenue	38.4	27.3	48.3	57.4	45.1
Investment income 2/	22.6	17.2	19.9	18.9	17.5
Total expenditures	48.6	50.3	40.8	40.7	46.8
Current	42.6	44.5	37.2	37.4	42.6
Capital	6.1	5.8	3.6	3.3	4.2
Fiscal balance (deficit -)	15.4	-2.4	30.2	40.2	22.7
Fiscal balance excluding investment income (deficit -)	-7.2	-19.5	10.3	21.2	5.3
	1997	1998	1999	2000	2001
	(Changes in percent of broad money stock)				
Money and credit					
Foreign assets (net)	-7.2	-1.9	1.5	11.4	6.5
Domestic assets (net)	11.1	1.1	0.1	-5.1	6.3
Claims on government (net)	-2.7	-1.4	-2.7	-7.3	-4.1
Claims on nongovernment sector	16.9	7.3	3.6	3.9	12.0
Broad money	3.9	-0.8	1.6	6.3	12.8
	(Percent per year)				
Interest rates 3/					
Kuwaiti dinar three-month deposits	6.0	5.9	5.3	5.4	3.7
U.S. dollar three-month deposits	5.3	5.1	4.9	6.0	3.3

Kuwait: Selected Economic Indicators, 1997–2002 (concluded)

	1997	1998	1999	2000	2001
	(In millions of U.S. dollars; unless otherwise indicated)				
External sector					
Exports	14,279	9,616	12,277	19,477	16,173
Of which: oil and refined products	13,467	8,470	11,027	18,162	14,976
Imports	-7,747	-7,715	-6,708	-6,451	-6,932
Current account	7,930	2,213	5,062	14,672	8,566
In percent of GDP	26.6	8.8	17.3	41.0	26.1
Overall balance	-65	496	876	2,259	2,815
In percent of GDP	-0.2	2.0	3.0	6.3	8.6
International reserve assets	3,556	4,052	4,928	7,187	10,002
In months of imports of goods and services	3.3	4.1	5.0	7.4	10.1
Total external debt (including private sector)	4,848	9,938	10,057	10,426	11,599
In percent of GDP	16.2	39.6	34.5	29.1	35.4
	(Percentage change)				
Exchange rates 3/					
Exchange rates (US$ per KD, period average)	3.30	3.28	3.28	...	3.26
Nominal effective exchange rate	7.2	5.5	-0.6	4.4	6.0
Real effective exchange rate	4.9	3.1	1.0	4.0	5.0

Sources: Data provided by the authorities; and Fund staff estimates.

1/ The fiscal year was changed from July–June to April–March effective 2001/02.
2/ Includes profit of public enterprises.
3/ In 2002, up to end of August.

Table 1. Kuwait: Sectoral Origin of Gross Domestic Product at Current Prices, 1996–2001

(In millions of Kuwaiti dinars)

	1996	1997	1998	1999	Preliminary 2000	2001
Oil sector (crude oil, gas, and refining)	4,928	4,539	2,965	4,036	6,044	4,961
Non-oil sector	4,494	4,739	4,992	5,212	5,355	5,507
Agriculture and fisheries	37	36	35	39	41	39
Mining (non-oil) and quarrying	1	1	1	1	1	1
Manufacturing	303	311	315	308	300	292
Food, beverages, and tobacco	49	55	64	65	69	61
Textiles, clothing, and leather products	36	38	39	35	36	36
Wood and wood products	16	15	15	15	13	13
Paper, printing, and publishing	26	28	29	29	28	29
Chemicals, fertilizers, and plastics	66	55	42	39	37	37
Nonmetallic minerals	38	42	47	47	45	46
Basic metals	4	4	4	5	5	5
Fabricated metal products	62	68	71	68	60	60
Other manufacturing	5	6	4	5	7	7
Electricity, gas, and water	-7	1	-21	-47	-102	-106
Construction	241	235	231	240	243	245
Wholesale and retail trade	554	557	587	609	593	611
Hotels and restaurants	73	74	81	83	84	84
Transport, storage, and communications	389	399	433	487	506	508
Financial institutions and insurance	304	400	503	573	617	642
Real estate and business services	655	687	652	672	710	722
Community, social, and personal services	1,945	2,037	2,174	2,248	2,363	2,468
Public administration and defense	889	926	959	993	1,008	1,050
Personal and household services	197	177	232	233	263	278
Other	859	935	983	1,022	1,092	1,140
Imputed bank service charges	-198	-302	-385	-442	-476	-480
GDP at factor cost	9,225	8,977	7,573	8,806	10,923	9,987
Import duties	77	83	84	80	67	70
GDP at current market prices	9,302	9,060	7,657	8,886	10,991	10,057

Sources: Ministry of Planning, Central Statistics Office.

Table 2. Kuwait: Sectoral Origins of Gross Domestic Product in Constant (1995) Prices, 1996–2001

(In millions of Kuwaiti dinars)

					Preliminary	
	1996	1997	1998	1999	2000	2001
Oil sector (crude oil, gas, and refining)	3,694	3,752	3,820	3,571	3,650	3,534
Non-oil sector	4,437	4,618	4,764	4,809	4,863	4,887
Agriculture and fisheries	35	35	33	36	36	35
Agriculture and livestock	27	27	26	30	31	31
Fisheries	8	8	7	6	5	4
Mining (non-oil) and quarrying	1	1	1	1	1	1
Manufacturing	301	315	321	308	302	288
Petroleum and refining	550	615	632	645	538	488
Food, beverages, and tobacco	47	52	60	59	62	56
Textile, clothing, and leather products	36	39	41	35	35	32
Wood and wood products	12	12	12	12	11	11
Paper, printing, and publishing	29	31	34	33	32	33
Chemicals, fertilizers, and plastics	64	56	42	40	39	38
Nonmetallic minerals	39	44	48	49	50	48
Basic metals	5	6	6	7	7	7
Fabricated metal products	63	69	72	69	59	56
Other manufacturing	5	5	4	4	7	7
Electricity, gas, and water	-7	1	-20	-27	-44	-47
Construction	236	228	227	234	235	230
Trade, hotels, and restaurants	601	602	626	642	613	619
Transport, storage, and communications	396	432	487	516	569	563
Financial institutions and insurance	261	309	321	330	343	357
Real estate and business services	643	664	621	630	652	656
Community, social, and personal services	1,970	2,032	2,147	2,139	2,156	2,185
Public administration and defense	933	974	1,013	1,003	1,001	1,019
Personal and household services	195	179	235	230	245	258
Other	842	879	899	906	911	909
Imputed bank service charges	-168	-230	-246	-252	-258	-261
GDP at factor cost	7,963	8,140	8,338	8,128	8,255	8,160
Import duties	73	80	83	80	67	68
GDP at constant prices	8,036	8,220	8,421	8,208	8,322	8,226

Sources: Ministry of Planning, Central Statistical Office.

Table 3. Kuwait: Gross Domestic Expenditure at Current Market Prices, 1996–2001

(In millions of Kuwaiti dinars)

	1996	1997	1998	1999	Preliminary 2000	Preliminary 2001
Final consumption	6,644	6,584	6,769	6,955	7,118	7,447
Government	2,571	2,452	2,412	2,463	2,485	2,646
Private 1/	4,073	4,132	4,357	4,492	4,633	4,801
Gross domestic investment	1,424	1,256	1,459	1,335	827	866
Government	520	493	418	350	385	444
Private	904	763	1,041	985	442	422
Net exports of goods and nonfactor services	1,235	1,221	-572	596	3,046	1,744
Exports of goods and services	4,930	4,866	3,468	4,212	6,534	5,506
Imports of goods and services	3,695	3,645	4,040	3,616	3,488	3,762
Gross domestic product	9,303	9,061	7,655	8,886	10,991	10,057
Net factor income from abroad	1,551	1,904	1,788	1,555	2,055	1,520
Gross national income	10,854	10,965	9,443	10,441	13,046	11,577
Net transfers	-446	-457	-541	-610	-600	-638
Gross national disposable income	10,408	10,508	8,902	9,831	12,446	10,939
Gross saving	3,764	3,924	2,134	2,876	5,328	3,492
S-I=CAB	2,340	2,668	675	1,541	4,501	2,626
Current account	2,128	2,410	675	1,541	4,501	2,624
			(In percent of GDP)			
Memorandum items:						
Final consumption	71.4	72.7	88.4	78.3	64.8	74.0
Government	27.6	27.1	31.5	27.7	22.6	26.3
Private 1/	43.8	45.6	56.9	50.6	42.2	47.7
Gross domestic investment	15.3	13.9	19.1	15.0	7.5	8.6
Government	5.6	5.4	5.5	3.9	3.5	4.4
Private	9.7	8.4	13.6	11.1	4.0	4.2
Saving	40.5	43.3	27.9	32.4	48.5	34.7
Current account	22.9	26.6	8.8	17.3	41.0	26.1

Sources: Ministry of Planning, Central Statistical Office.

1/ Includes government-owned enterprises.

Table 4. Kuwait: Gross Domestic Expenditure at Constant 1995 Prices, 1996–2001

(In millions of Kuwaiti dinars)

					Preliminary	
	1996	1997	1998	1999	2000	2001
Final consumption	6,488	6,389	6,554	6,527	6,561	6,612
Government	2,556	2,424	2,378	2,350	2,322	2,295
Private 1/	3,931	3,965	4,176	4,177	4,239	4,317
Gross domestic investment	1,388	1,253	1,497	1,372	848	864
Gross fixed capital formation	1,288	1,238	1,478	1,354	832	864
Changes in stocks	101	15	19	18	16	0
Net exports of goods and nonfactor services	735	756	397	398	821	414
Exports of goods and services	4,227	4,244	4,354	3,996	4,271	4,067
Imports of goods and services	3,492	3,488	3,957	3,598	3,450	3,652
Statistical discrepancy	-574	-178	-28	-89	92	335
GDP at constant prices	8,036	8,220	8,421	8,208	8,322	8,226

Sources: Ministry of Planning, Central Statistical Office; and Fund staff estimates.

1/ Includes government-owned enterprises.

Table 5. Kuwait: Production and Disposal of Crude Oil and LPG, 1996–2002

	1996	1997	1998	1999	2000	2001	2002 1/
Crude oil output	2,006	2,007	2,052	1,873	1,984	1,947	1,744
Crude and LPG output	771	771	785	721	761	748	165
Crude oil output	734	733	749	684	726	713	157
Of which							
Refined locally 2/	286	318	312	330	270	240	58
LPG	37	39	36	38	35	35	8
Crude and LPG disposal	789	782	788	714	749	725	161
Domestic consumption	41	49	58	60	56	51	10
Refined products	40	48	57	59	56	50	10
LPG	1	1	1	1	1	1	0
Exports	723	725	725	653	691	679	150
Crude oil	461	414	434	346	444	455	95
Refined products	227	270	254	271	214	189	48
Of which: Bunkers	7	8	6	0	0	0	0
LPG	36	40	36	36	33	35	7
Stocks 3/	18	0	-1	1.12	1.27	-5.22	0.8
Memorandum items:							
Export value (US$ millions)	14,075	13,475	8,443	11,105	18,234	14,980	2,969
Oil production value (KD)	4,214	4,088	2,573	3,380	5,594	4,592	912.9
Export price (US$/barrel) 4/	19.52	18.34	11.65	30.42	49.82	40.93	...
Crude price (US$/barrel)	18.4	16.8	10.3	16.1	25.0	21.2	19.18
LPG price (US$/barrel)	17.2	19.3	12.0	16.7	25.5	22.6	18.11
Refined products prices (US$/barrel)	22.1	21.2	13.9	18.2	29.5	24.2	21.1

Sources: Kuwaiti authorities; oil industry journals; and Fund staff estimates.

1/ Data cover January–June 2002.
2/ Excludes bunkers and stocks.
3/ Includes statistical discrepancy.
4/ Average price of crude, LPG, and refined products.

Table 6. Kuwait: Consumer Price Index, 1996–2002

(Annual averages)

	Relative Weight	1996	1997	1998	1999	2000	2001	2002 1/
				(1978=100)				
Overall index	1,000.0	197.9	199.2	199.5	205.5	209.2	212.7	215.5
Food	357.1	162.6	163.7	164.1	171.6	172.9	172.9	174.1
Beverages and tobacco	12.7	230.4	234.1	272.5	299.9	305.8	313.8	329.6
Clothing and footwear	99.6	251.4	257.5	259.4	263.7	259.4	269.3	270.1
Housing	187.0	190.1	193.3	196.6	200.4	204.3	206.6	207.9
Household goods and services	110.2	157.4	155.4	158.9	165.1	162.8	165.2	170.4
Transport and communications	152.9	271.8	266.9	251.3	250.2	268.2	269.9	271.3
Education and medical care	25.5	248.8	250.0	256.1	262.2	272.8	295.5	297.9
Other goods and services	55.0	201.3	212.9	224.5	245.6	247.3	263.1	282.1
				(Annual percentage changes)				
Overall index		3.6	0.7	0.2	3.0	1.8	1.7	1.3
Food		5.8	0.7	0.2	4.6	0.8	0.0	0.7
Beverages and tobacco		1.0	1.6	16.4	10.1	2.0	2.6	5.0
Clothing and footwear		5.0	2.4	0.8	1.7	-1.6	3.8	0.3
Housing		1.6	1.7	1.7	1.9	1.9	1.1	0.6
Household goods and services		0.6	-1.3	2.3	3.9	-1.4	1.5	3.1
Transport and communications		2.2	-1.8	-5.9	-0.4	7.2	0.6	0.5
Education and medical care		4.9	0.5	2.5	2.4	4.0	8.3	0.8
Other goods and services		5.1	5.8	5.4	9.4	0.7	6.4	7.2

Sources: Ministry of Planning, Central Statistical Office.

1/ Data covers January–June 2002.

Table 7. Kuwait: Wholesale Price Index, 1996–2002

	Relative Weights									
	Imported	Locally Produced	All Items	1996	1997	1998	1999	2000	2001	2002 1/
All groups	769.2	230.8	1,000.0	169.3	167.1	164.4	162.4	163.1	166.3	169.0
Agriculture, livestock, and fishing	47.4	6.1	53.4	120.6	121.2	124.3	121.5	124.8	120.0	129.1
Agriculture	30.0	1.9	31.9	120.7	119.7	124.4	117.9	120.8	121.4	127.2
Livestock	17.3	2.1	19.5	111.3	112.5	112.1	116.6	116.6	106.7	115.8
Fishing	0.0	2.1	2.1	206.6	224.8	234.4	219.1	263.8	219.7	280.0
Mining (non-oil) and quarrying	0.0	7.8	7.8	104.9	104.6	103.5	102.8	110.4	155.0	155.0
Manufacturing	721.8	216.9	938.8	172.7	170.2	167.1	165.2	165.7	169.0	171.4
Food, beverages, and tobacco	79.8	51.0	130.9	156.2	157.1	161.1	165.9	165.7	166.5	166.1
Textiles	125.9	0.0	125.9	243.1	258.7	256.7	246.7	246.1	246.7	249.6
Wood and wood products	9.9	20.4	30.2	182.9	171.7	171.9	168.5	164.5	163.3	159.4
Paper and paper products	14.2	2.0	16.1	149.3	148.9	143.5	144.6	151.0	151.7	152.3
Chemicals and chemical products	49.7	43.2	92.9	159.8	157.2	156.2	154.8	154.5	154.0	153.5
Nonmetallic mineral products	43.7	51.2	94.9	140.7	146.8	143.2	146.3	146.9	153.4	157.8
Basic metal products	61.6	2.4	64.0	125.3	123.2	120.0	118.9	117.0	114.0	104.5
Fabricated metal products	327.8	46.8	374.6	164.8	163.0	156.5	153.3	155.1	162.0	167.8
Other	9.4	0.0	9.4	171.7	172.8	174.6	172.7	173.2	173.4	170.8

Source: Ministry of Planning, Central Statistics Office.

1/ Data covers January–June 2002.

Table 8. Kuwait: Output of Major Industrial Products, 1996–2001

Product	Unit	1996	1997	1998	1999	2000	2001
Brackish water	billion gallons	22.0	24.0	26.1	26.1	28.3	30.1
Potable water	billion gallons	62.4	68.3	72.5	77.9	82.1	85.0
Electric energy	bn kwh	25.5	26.7	30.0	31.6	32.3	34.3
Detergents	thousand tons	0.6	...	...	0.9	...	...
Sand-lime bricks	thousand cubic meters	156.3	141.2	...	...	...	...
Cement	thousand tons	1,070.0	1,370.0	1,370.0		...	...
Bran and flour	thousand tons	205.1	195.7	193.6	198.9	67.5(2)	...
Urea	thousand metric tons	774.5	757.5	785.5	719.3	365.5(3)	...
Chlorine	thousand tons	15.0	18.3	19.4	18.3	7.0(3)	...
Caustic soda	thousand tons	17.0	20.1	21.8	20.6	7.9(3)	...
Salt	thousand tons	33.5	42.8	41.0	38.7	14.9(3)	...
Hydrochloric acid	million gallons	1.9	2.7	2.6	2.1	0.8(3)	...
Sodium hypochloride	million cubic meters	7.9	9.2	10.9	11.6	4.1(3)	...
Hydrogen gas	million cubic meters	4.8	5.7	6.1	5.8	2.2(3)	...

Source: Ministry of Planning, Central Statistical Office.

Table 9. Kuwait: Agricultural and Fisheries Production, 1995/96–2000/01

(In thousands of metric tons)

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Vegetable and field crop	341.1	379.2	340.9	370.1	403.2	407.8
Wool	237.0	290.0	283.0	343.0	417.0	390.0
Meat	35.8	36.2	39.9	42.9	37.7	36.3
Milk	42.3	33.9	35.0	37.8	34.8	33.2
Eggs (millions)	183.4	203.5	235.5	293.1	343.5	314.6
Fish 1/	8.3	7.8	7.8	7.3	7.4	6.0

Sources: Ministry of Planning, Central Statistical Office; and the Public Authority for Agriculture.

1/ The last three observations are for the calendar years of 1999, 2000, and 2001, respectively.

Table 10. Kuwait: Population and Employment, 1996–2001

(In thousands)

	Kuwaiti			Non-Kuwaiti			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
1996									
Employed	60.3	121.9	182.2	203.0	746.9	949.9	263.3	868.8	1,132.1
Total labor force 1/	60.8	123.9	184.7	203.7	751.7	955.4	264.5	875.6	1,140.1
Population	368.9	363.5	732.4	447.2	914.3	1,361.5	816.1	1,277.8	2,093.9
Participation ratio (in percent)	16.3	33.5	24.9	45.4	81.7	69.8	32.3	68.0	54.1
1997									
Employed	66.3	130.5	196.8	217.7	793.4	1,011.1	284.0	923.9	1,207.9
Total labor force 1/	66.8	132.4	199.2	218.7	798.7	1,017.4	285.4	931.0	1,216.5
Population	383.1	375.8	758.9	476.6	973.3	1,449.8	859.7	1,349.1	2,208.8
Participation ratio (in percent)	17.3	34.7	25.9	45.7	81.5	69.7	33.0	68.5	54.7
1998									
Employed	72.6	136.8	209.4	216.2	817.5	1,033.7	288.2	954.3	1,243.1
Total labor force 1/	73.0	138.5	211.5	217.4	823.1	1,040.5	290.4	962.6	1,252.0
Population	397.3	388.7	786.0	482.1	1,002.7	1,484.9	879.5	1,391.4	2,270.9
Participation ratio (in percent)	18.4	35.6	26.6	45.1	82.1	69.6	33.0	69.1	54.7
1999									
Employed	75.7	143.4	219.1	210.2	787.2	997.3	285.9	930.6	1,216.5
Total labor force 1/	76.2	145.1	221.4	211.5	793.2	1,004.7	287.8	938.4	1,226.1
Population	410.8	401.4	812.3	471.8	970.9	1,442.7	882.7	1,372.3	2,255.0
Participation ratio (in percent)	18.4	35.7	27.0	44.5	81.1	69.1	32.4	67.8	53.9
2000									
Employed	81.7	149.1	230.8	202.3	753.9	956.2	284.1	902.9	1,187.0
Total labor force 1/	82.3	150.9	233.3	203.6	759.4	963.0	285.9	910.4	1,196.3
Population	426.2	415.6	841.8	448.4	927.0	1,375.5	874.6	1,342.6	2,217.3
Participation ratio (in percent)	19.2	35.9	27.4	45.1	81.3	69.5	32.5	67.3	53.5
2001									
Employed	88.3	155.3	243.6	228.8	785.0	1,013.8	317.1	940.2	1,257.4
Total labor force 1/	91.3	158.5	249.8	230.5	790.9	1,021.5	321.9	949.4	1,271.3
Population	441.1	429.2	870.3	478.4	960.4	1,438.8	919.5	1,389.6	2,309.1
Participation ratio (in percent)	20.0	36.2	28.0	47.8	81.7	70.5	34.5	67.7	54.5

Sources: Ministry of Planning, Central Statistical Office; and Civil Information Authority.

1/ Labor force includes population 15 years old and over.

Table 11. Kuwait: Distribution of Employees by Economic Activity and Nationality, 1998–2001

Economic Sectors	1998			1999			2000			2001		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
(In thousands)												
Agriculture and fisheries	0.0	24.3	24.4	0.0	22.6	22.6	0.0	19.3	19.4	0.0	20.1	20.1
Mining and quarrying	3.9	3.7	7.6	4.1	3.4	7.6	4.3	3.0	7.3	4.4	3.0	7.4
Manufacturing	6.7	75.8	82.5	6.8	71.1	77.9	6.9	69.4	76.4	7.1	71.7	78.8
Construction	0.8	136.3	137.0	0.7	117.6	118.3	0.8	108.3	109.1	0.9	109.2	110.1
Electricity, water, and gas	4.8	3.4	8.2	5.0	2.9	7.9	5.3	2.5	7.7	5.8	2.5	8.3
Wholesale and retail trade	3.2	201.6	204.8	2.9	193.1	196.1	3.0	198.3	201.3	3.1	209.5	212.6
Transportation and communications	5.7	37.6	43.3	6.0	35.6	41.6	6.1	34.4	40.5	6.0	35.0	41.0
Finance and business services	5.8	39.6	45.5	6.3	39.6	45.8	6.6	40.7	47.3	7.5	47.2	54.7
Public administration	176.4	434.8	611.3	184.5	430.4	614.9	194.7	417.6	612.3	205.8	459.0	664.8
Unclassified	4.2	83.2	87.4	5.1	88.4	93.5	5.6	69.4	75.0	9.2	64.5	73.7
Total	211.6	1,040.4	1,252.0	221.4	1,004.7	1,226.1	233.3	963.0	1,196.3	249.8	1,021.7	1,271.5
(In percent of total, by sector)												
Agriculture and fisheries	0.0	2.3	1.9	0.0	2.2	1.8	0.0	2.0	1.6	0.0	2.0	1.6
Mining and quarrying	1.9	0.4	0.6	1.9	0.3	0.6	1.8	0.3	0.6	1.8	0.3	0.6
Manufacturing	3.2	7.3	6.6	3.1	7.1	6.4	3.0	7.2	6.4	2.8	7.0	6.2
Construction	0.4	13.1	10.9	0.3	11.7	9.6	0.4	11.2	9.1	0.4	10.7	8.7
Electricity, water, and gas	2.3	0.3	0.7	2.2	0.3	0.6	2.3	0.3	0.6	2.3	0.2	0.7
Wholesale and retail trade	1.5	19.4	16.4	1.3	19.2	16.0	1.3	20.6	16.8	1.2	20.5	16.7
Transportation and communications	2.7	3.6	3.5	2.7	3.5	3.4	2.6	3.6	3.4	2.4	3.4	3.2
Finance and business services	2.8	3.8	3.6	2.8	3.9	3.7	2.8	4.2	4.0	3.0	4.6	4.3
Public administration	83.4	41.8	48.8	83.3	42.8	50.1	83.5	43.4	51.2	82.4	44.9	52.3
Unclassified	2.0	8.0	7.0	2.3	8.8	7.6	2.4	7.2	6.3	3.7	6.3	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 11. Kuwait: Distribution of Employees by Economic Activity and Nationality, 1998–2001 (concluded)

Economic Sectors	1998 Kuwaiti	1998 Non-Kuwaiti	1998 Total	1999 Kuwaiti	1999 Non-Kuwaiti	1999 Total	2000 Kuwaiti	2000 Non-Kuwaiti	2000 Total	2001 Kuwaiti	2001 Non-Kuwaiti	2001 Total
	(In percent, by nationality)											
Agriculture and fisheries	0.2	99.8	100.0	0.2	99.8	100.0	0.2	99.8	100.0	0.0	100.0	100.0
Mining and quarrying	51.5	48.5	100.0	54.5	45.5	100.0	58.8	41.2	100.0	59.5	40.5	100.0
Manufacturing	8.1	91.9	100.0	8.7	91.3	100.0	9.1	90.9	100.0	9.0	91.0	100.0
Construction	0.6	99.4	100.0	0.6	99.4	100.0	0.8	99.2	100.0	0.8	99.2	100.0
Electricity, water, and gas	58.0	42.0	100.0	62.9	37.1	100.0	68.2	31.8	100.0	69.9	30.1	100.0
Wholesale and retail trade	1.6	98.4	100.0	1.5	98.5	100.0	1.5	98.5	100.0	1.5	98.5	100.0
Transportation and communications	13.2	86.8	100.0	14.4	85.6	100.0	15.0	85.0	100.0	14.6	85.4	100.0
Finance and business services	12.9	87.1	100.0	13.7	86.3	100.0	14.0	86.0	100.0	13.7	86.3	100.0
Public administration	28.9	71.1	100.0	30.0	70.0	100.0	31.8	68.2	100.0	31.0	69.0	100.0
Unclassified	4.8	95.2	100.0	5.4	94.6	100.0	7.4	92.6	100.0	12.5	87.5	100.0
Total	16.9	83.1	100.0	18.1	81.9	100.0	19.5	80.5	100.0	19.6	80.4	100.0

Sources: Ministry of Planning, Central Statistical Office; and Civil Information Authority.

Table 12. Kuwait: Permits for Expatriate Workers, 1986–2001

(In thousands)

Year	Entry Visa for Work 1/	Work Permits Issued First Time	Cancellation of Work Permits	Net Issuance of Work Permits
1986	54.6	42.2	34.1	8.1
1987	66.4	52.2	34.5	17.7
1988	89.2	61.6	23.1	48.5
1989	43.1	69.9	32.8	37.1
1990	...	...	...	...
1991	...	...	...	...
1992	...	...	...	...
1993 2/	181.4	183.0	11.7	171.3
1994 2/	52.0	78.4	32.2	46.2
1995 2/	63.4	49.3	29.1	20.2
1996 2/	73.7	61.9	24.8	37.1
1997 2/	21.0	17.3	4.7	12.6
1998 2/	91.1	71.3	26.6	44.8
1999 2/	77.5	60.8	22.2	38.6
2000 2/	58.3	40.3	5.9	34.4
2001 2/	75.6	54.9	0.0	54.9

Sources: Ministry of Social and Labor Affairs (for 1986–1993); Annual Statistical Abstract (from 1994).

1/ Entry visa must be obtained separately from work permit.
2/ These data were compiled on a different basis from those before 1993.

Table 13. Kuwait: Construction Permits Issued, 1987–2000

	Residential		Commercial		Industrial		Total	
	Number	Area 1/	Number	Area 1/	Number	Area 1/	Number	Area 1/
1987	2,273	3,262	35	78	33	99	2,341	3,439
1988	2,398	3,339	16	97	24	92	2,438	3,528
1989	10,544	...	...	...	...	...	12,813	...
1990	4,192	...	...	...	...	...	4,984	...
1991	1,010	...	...	...	...	...	1,142	...
1992	6,145	...	...	...	...	...	6,791	...
1993	13,338	...	...	...	...	...	14,393	...
1994	12,955	...	...	...	...	...	14,414	...
1995	13,172	...	...	...	...	...	14,345	...
1996	14,297	...	...	...	...	...	15,664	...
1997	13,700	...	...	...	...	...	15,147	...
1998	13,249	...	...	...	...	...	14,503	...
1999	12.145	...	...	...	...	...	13.435	...
2000	11.608	...	...	...	...	...	13.324	

Source: Ministry of Planning, Central Statistical Office.

1/ In thousands of square meters.

Table 14. Kuwait: Summary of Government Finance, 1997/98–2002/03

	1997/98	1998/99	1999/2000	Actual 1/ 2000/01	Budget 2001/02	Prel. 2001/02	Budget 2002/03
				(In millions of Kuwaiti dinars)			
Total revenue	5,348	3,964	7,053	8,505	3,659	6,976	3,371
Oil and gas	3,208	2,254	4,795	6,037	3,263	4,525	2,969
Investment income and transfer of profits of public entities 2/	1,887	1,419	1,976	1,991	...	1,751	0
Other 3/	253	291	282	476	396	700	402
Total expenditure	4,064	4,161	4,050	4,279	5,102	4,697	5,277
Current	3,557	3,682	3,694	3,935	4,390	4,271	4,446
Wages and salaries 4/	1,396	1,490	1,498	1,573	1,722	1,636	1,789
Goods and services	959	882	938	985	1,098	1,059	1,176
Interest on domestic debt 5/	291	270	216	249	114	221	79
Interest on foreign debt 2/	5	7	0	...	...	...	0
Transfers abroad	97	69	84	91	126	95	83
Subsidies and transfers	809	964	958	1,036	1,330	1,260	1,319
Capital	507	479	356	344	712	426	831
Of which: land purchases	...	...	1	0	83	4	48
Overall balance	1,284	-196	3,003	4,226	-1,443	2,279	-1,906
Financing	-1,284	196	-3,003	-4,226	1,443	-2,279	1,906
Domestic (net)	-648	126	-457	-1,035	...	-135	...
Banks	-200	78	-534	-1,170	...	-169	...
Nonbanks	-448	48	77	135	...	34	...
External	2	0	0	0	...	0	...
Reserve funds	-638	15	-2,546	-3,191	...	-2,144	...
				(In percent of GDP)			
Revenue	64.0	47.9	71.0	80.8	36.6	69.5	33.6
Oil and gas	38.4	27.3	48.3	57.4	32.6	45.1	29.6
Investment income	22.6	17.2	19.9	18.9	0.0	17.5	0.0
Other	3.0	3.5	2.8	4.5	4.0	7.0	4.0
Expenditure	48.6	50.3	40.8	40.7	51.0	46.8	52.6
Current	42.6	44.5	37.2	37.4	43.9	42.6	44.3
Wages and salaries	16.7	18.0	15.1	15.0	17.2	16.3	17.8
Goods and services	11.5	10.7	9.4	9.4	11.0	10.6	11.7
Interest on domestic and foreign debt	3.5	3.3	2.2	2.4	1.1	2.2	0.8
Subsidies and transfers	9.7	11.7	9.6	9.8	13.3	12.6	13.2
Capital	6.1	5.8	3.6	3.3	7.1	4.2	8.3
Overall balance	15.4	-2.4	30.2	40.2	-14.4	22.7	-19.0
Memorandum items:							
Overall balance (excluding investment income and profit transfers)	-603	-1,615	1,028	2,235	-1,443	528	-1,906
(In percent of GDP)	-7.2	-19.5	10.3	21.2	-14.4	5.3	-19.0
Kuwait crude export price (US$ per barrel)	16.8	10.3	15.5	25.7	15.0	22.4	15.0

Sources: Ministry of Finance; Central Bank of Kuwait; and Fund staff estimates.

1/ The fiscal year was shortened to 9 months in 2000/01 FY in preparation for changing the fiscal year from June–July to April–March. Accordingly, the figures reported for this year were grossed up to 12 months.

2/ Excluded from national budget presentation.

3/ Excludes revenues from utility tariffs (included in the national budget presentation) which are factored in (subtracted) in subsidies and transfers.

4/ For 1999/2000 budget, includes an additional allocation to wages and salaries made on August 15, 1999.

5/ Covers interest on treasury bills and bonds, and on DCP bonds. Only the latter is included in the national budget presentation.

Table 15. Kuwait: Government Revenue, 1997/98–2002/03

	1997/98	1998/99	1999/00	Actual 1/ 2000/01	Actual 2001/02	Budget 2002/03
	(In millions of Kuwaiti dinars)					
Total revenue	5,348	3,964	7,053	8,505	6,976	3,371
Current revenue	5,347	2,563	7,053	8,505	6,975	3,337
Oil receipts	3,208	2,254	4,795	6,037	4,525	2,969
Investment income 2/ and transfer	1,887	1,419	1,976	1,991	1,751	0
Other current revenue	252	290	282	476	699	368
Tax revenue	117	116	97	95	110	115
Taxes on income and profits of non-oil companies	29	25	17	15	18	30
Taxes on property transfers	5	5	4	3	6	5
Customs duties	83	86	76	77	86	80
Excise taxes						
Nontax revenue 3/	135	175	185	381	589	253
Capital revenue	1	1	0	0	1	34
	(In percent of total revenue)					
Oil receipts	60.0	56.9	68.0	71.0	64.9	88.1
Investment income	35.3	35.8	28.0	23.4	25.1	0.0
Tax revenue	2.2	2.9	1.4	1.1	1.6	3.4
Of which						
Customs duties	1.6	2.2	1.1	0.9	1.2	2.4
Nontax revenue	2.5	4.4	2.6	4.5	8.4	8.5

Sources: Ministry of Finance; and Fund staff estimates.

1/ The fiscal year was shortened to 9 months in 2000/01 FY in preparation for changing the fiscal year from June–July to April–March. Accordingly, the figures reported for this year were grossed up to 12 months.
2/ Income from government's external assets; excluded from national budget and ex-post fiscal accounts.
3/ Includes net surplus of PTT.

Table 16. Kuwait: Government Current Expenditure, 1997/98–2002/03

	1997/98	1998/99	1999/00	Actual /1 2000/01	Budget 2001/02	Actual 2001/02	Budget 2002/03
	(In millions of Kuwaiti dinars)						
Economic classification							
Total current expenditure	3,557	3,682	3,694	3,935	4,390	4,271	4,446
Wages and salaries 2/	1,396	1,490	1,498	1,573	1,722	1,636	1,789
Goods and non-interest services	959	882	938	985	1,098	1,059	1,176
Interest on domestic debt	291	270	216	249	114	221	79
Interest on DCP bonds	134	123	100	84	114	61	79
Interest on treasury bills 3/	70	57	0	44	...	44	...
Interest on treasury bonds 3/	87	89	116	121	...	116	...
Interest on foreign debt 3/	5	7	0	0	...	0	...
Transfers abroad	97	69	84	91	126	95	83
Subsidies and domestic transfers	809	964	958	1,036	1,330	1,260	1,319
Functional classification							
Total current expenditure 3/	3,557	3,682	3,694	3,935	4,390	4,271	4,446
General public service	335	297	324	280	425	363	388
Defense	708	683	710	531	805	781	861
Public order	355	376	385	301	428	422	454
Education	539	578	579	454	643	632	677
Health	253	275	266	205	310	295	322
Social affairs	659	691	758	601	921	992	847
Social security	449	475	456	357	468	471	574
Social welfare	210	216	303	244	453	521	273
Housing and utilities	117	119	198	102	134	83	140
Economic services	142	141	210	212	351	366	414
Mining, manufacturing, and construction	12	14	12	10	14	11	14
Electricity, etc.	61	73	142	165	281	307	334
Agriculture	23	17	17	13	20	14	24
Other	46	37	39	24	37	34	42
Other	449	522	264	361	374	177	343
	(In percent of total)						
Economic classification							
Of which							
Wages and salaries	39.3	40.5	40.6	40.0	39.2	38.3	40.2
Goods and services	27.0	24.0	25.4	25.0	25.0	24.8	26.5
Transfers abroad	2.7	1.9	2.3	2.3	2.9	2.2	1.9
Subsidies and domestic transfers	22.7	26.2	25.9	26.3	30.3	29.5	29.7
Functional classification							
Of which							
General public service	9.4	8.1	8.8	7.1	9.7	8.5	8.7
Defense	19.9	18.5	19.2	13.5	18.3	18.3	19.4
Health	7.1	7.5	7.2	5.2	7.1	6.9	7.2
Housing and utilities	3.3	3.2	5.4	2.6	3.1	1.9	3.1
Economic services	4.0	3.8	5.7	5.4	8.0	8.6	9.3

Sources: Ministry of Finance; and Fund staff estimates.

1/ The fiscal year was shortened to 9 months in 2000/01 FY in preparation for changing the fiscal year from June–July to April–March. Accordingly, the figures reported for this year were grossed up to 12 months.

2/ Excludes military wages and salaries.

3/ Excluded from national budget presentation.

Table 17. Kuwait: Government Capital Expenditures and Land Purchases, 1997/98–2002/03

	1997/98	1998/99	1999/00	Actual 1/ 2000/01	Budget 2001/02	Actual 2001/02	Budget 2002/03
	(In millions of Kuwaiti dinars)						
Capital expenditure	507	479	354	344	629	422	783
General public services	61	74	27	32	39	30	53
Defense	3	3	2	-1.3	4	3	5
Education	34	40	34	46.7	67	48	90
Health	11	14	13	20	26	27	34
Social affairs	3	4	5	4	11	7	17
Housing	25	62	67	63	92	77	142
Economic services	273	266	161	133	313	183	354
Electricity and water	262	237	147	116	289	167	312
Roads	...	13	...	0	...	...	...
Other	11	16	14	17	24	16	42
Public order	13	16	19	32	30	30	39
Other 2/	84	0	26	15	47	17	49
Land purchases	0	0	1	0	83	4	48
Capital and land, total	507	479	356	344	712	426	831
	(In percent of total)						
Capital expenditure	100.0	100.0	99.7	100.0	88.3	99.1	94.2
Of which							
General public services	12.0	15.4	7.6	9.3	5.5	7.0	6.4
Education	6.7	8.4	9.6	13.6	9.4	11.3	10.8
Health	2.2	2.9	3.7	5.8	3.7	6.3	4.1
Housing	4.9	12.9	18.8	18.2	12.9	18.1	17.1
Economic services	53.8	55.5	45.2	38.8	44.0	43.0	42.6
Land purchases	0.0	0.0	0.3	0.0	11.7	0.9	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Ministry of Finance; and Fund staff estimates.

1/ The fiscal year was shortened to 9 months in 2000/01 FY in preparation for changing the fiscal year from June–July to April–March. Accordingly, the figures reported for this year were grossed up to 12 months.

2/ Includes contingency funds not allocated to specific expenditures.

Table 18. Kuwait: Government Domestic Subsidies and Transfers, 1997/98–2002/03

(In millions of Kuwaiti dinars)

	1997/98	1998/99	1999/00	Actual 1/ 2000/01	Budget 2001/02	Actual 2001/02	Budget 2002/03
Total current subsidies	78	121	274	280	337	349	395
Food and commodity subsidies	10	9	6	5	9	6	8
Petroleum product subsidies	7	5	6	7	6	6	7
Electricity and water	61	107	262	268	322	337	380
Total transfers	731	843	684	765	993	911	924
Social Security Institute	449	467	442	476	468	471	574
Individuals	148	176	160	168	373	344	189
Of which							
End of employment benefits	10	32	16	17	17	9	15
Cancellation of housing loans	35	35	33	35	237	235	35
Private domestic institutions	7	8	10	9	10	10	11
Other public entities	76	144	40	43	46	41	54
Other	51	48	32	69	96	45	96
Total current subsidies and transfers	809	964	958	1,036	1,330	1,260	1,319
Memorandum items:							
Subsidies and transfers							
As percent of GDP	9.7	11.7	9.6	9.8	12.6	12.0	13.2
As percent of government expenditure	19.9	23.5	23.6	24.2	28.3	26.8	26.7

Sources: Ministry of Finance; and Fund staff estimates.

1/ The fiscal year was shortened to 9 months in 2000/01 FY in preparation for changing the fiscal year from June–July to April–March. Accordingly, the figures reported for this year were grossed up to 12 months.

Table 19. Kuwait: Monetary Survey, 1996–2002

	1996	1997	1998	1999	2000	2001	June 2002
	(In millions of Kuwaiti dinars)						
Foreign assets (net)	2,456	1,929	1,784	1,899	2,778	3,307	3,356
Central bank	1,049	1,034	1,080	1,320	2,005	2,850	3,121
Local banks	1,408	895	704	579	773	457	235
Domestic assets (net)	4874	5687	5773	5780	5386	5902	6336
Claims on government (net)	3981	3782	3678	3475	2911	2573	2464
Central bank (net)	-219	-237	-205	-392	-532	-598	-561
Claims	41	39	0	45	0	0	...
Deposits (increase -)	260	276	205	437	532	598	561
Local banks (net)	4199	4019	3883	3867	3443	3171	3026
Claims	4573	4363	4140	4062	3628	3402	3305
Government debt bonds	2845	2389	2246	1931	1491	1294	1190
Public debt instruments	1728	1974	1895	2132	2137	2108	2115
Other claims	0	0	0	0			
Deposits (increase -)	374	344	257	195	185	231	280
Claims on nongovernment sector	3503	4745	5303	5572	5871	6851	7130
Credit facilities	3173	4324	4802	5015	5252	6125	6344
Local investments	330	420	501	557	619	726	786
Other items (net)	-2609	-2840	-3209	-3268	-3396	-3522	-3259
Broad money	7331	7601	7557	7678	8163	9209	9692
Money	1243	1277	1143	1371	1468	1641	2156
Quasi money	6088	6324	6413	6307	6695	7567	7536
Of which: foreign currency deposits	1257	1326	1037	881	895	892	950
	(Annual percentage change)						
Foreign assets (net)	-2.3	-21.4	-7.5	6.4	46.3	19.0	4.9
Central Bank	-0.4	-1.4	4.5	22.2	51.9	42.2	21.6
Local banks	-3.7	-36.4	-21.4	-17.7	33.5	-40.9	-62.7
Domestic assets (net)	-1.0	16.7	1.5	0.1	-6.8	9.6	18.9
Claims on government (net)	-16.6	-5.0	-2.7	-5.5	-16.2	-11.6	-1.7
Central Bank (net)	-38.8	-8.4	13.5	-91.3	-35.6	12.3	-26.0
Claims	1691.3	-4.6	-99.7	0.1	-6.8	9.6	18.9
Deposits (increase -)	-62.5	-6.3	25.8	-5.5	-16.2	-11.6	-1.7
Local banks (net)	-14.9	-4.3	-3.4	-0.4	-11.0	-7.9	-7.3
Claims on nongovernment sector	24.9	35.5	11.8	5.1	5.4	16.7	16.2
Credit facilities	30.2	36.3	11.0	4.4	4.7	16.6	15.7
Local investments	-10.7	27.5	19.3	-24.1	-5.1	24.8	20.7
Other items (net)	1.7	-8.9	-13.0	-1.8	-3.9	-3.7	1.7
Broad money	-0.6	3.9	-0.8	1.6	6.3	12.8	13.7
Money	4.9	0.4	-8.3	19.9	7.0	11.8	28.0
Quasi money	-1.6	4.6	0.7	-1.7	6.2	13.0	10.1
Of which: foreign currency deposits	-3.9	-8.2	-10.1	-15.1	1.6	-0.3	13.8

Table 19. Kuwait: Monetary Survey, 1996–2002 (concluded)

	1996	1997	1998	1999	2000	2001	June 2002
	(Change in percent of broad money stock a year earlier)						
Foreign assets (net)	-0.8	-7.2	-1.9	1.5	11.4	6.5	1.9
Central bank	-0.1	-0.2	0.6	3.2	8.9	10.4	6.5
Local banks	-0.7	-7.0	-2.5	-1.7	2.5	-3.9	-4.6
Domestic assets (net)	-0.7	11.1	1.1	0.1	-5.1	6.3	11.8
Claims on government (net)	-10.8	-2.7	-1.4	-2.7	-7.3	-4.1	-0.5
Central bank (net)	-0.8	-0.2	0.4	-2.5	-1.8	-0.8	2.3
Local banks (net)	-9.9	-2.5	-1.8	-0.2	-5.5	-3.3	-2.8
Government debt bonds	-7.4	-6.2	-1.9	-4.2	-5.7	-2.4	-2.6
Claims on nongovernment sector	9.5	16.9	7.3	3.6	3.9	12.0	11.7
Other items (net)	0.6	-3.2	-4.8	-0.8	-1.7	-1.5	0.7
Broad money	-0.6	3.9	-0.8	1.6	6.3	12.8	13.7
Money	0.8	0.1	-1.4	3.0	1.3	2.1	5.5
Quasi money	-1.4	3.8	0.6	-1.4	5.1	10.7	8.1
Of which: foreign currency deposits	0.0	-0.3	-0.1	0.1	0.6	0.2	0.1

Source: Central Bank of Kuwait.

Table 20. Kuwait: Monetary Accounts of the Central Bank, 1996–2001

(In millions of Kuwaiti dinars)

End of Period	1996	1997	1998	1999	2000	2001	June 2002
Foreign assets 1/	1,053	1,040	1,082	1,322	2,009	2,854	3,125
Gold	32	32	32	32	32	32	32
Other foreign assets	1,021	1,008	1,051	1,291	1,977	2,822	3,093
Rediscounted commercial paper	...	...	...	...	...	...	...
Deposits with local banks	...	6	...	...	14	...	...
Claims on government	41	39	...	45	...	...	...
Unclassified assets	23	19	17	28	47	66	39
Total assets = Total liabilities	1,118	1,104	1,100	1,395	2,069	2,920	3,164
Reserve money	475	427	448	583	535	521	589
Currency in circulation	350	345	349	443	417	401	448
Currency with banks	61	66	64	94	89	56	42
Local banks' deposits with CBK	63	16	36	46	29	64	99
Foreign liabilities 2/	5	6	2	3	4	4	4
Government deposits	260	276	205	437	532	598	561
Capital accounts	184	184	184	184	184	184	184
Unclassified liabilities	174	172	185	167	161	214	278
Local banks deposits	20	40	75	22	655	1,399	1,549
Memorandum items:							
Net foreign assets	1,049	1,034	1,080	1,320	2,005	2,850	3,121
Net domestic assets	29	−6	−41	55	−26	19	-27
Net claims on government	39	-2	-39	45	-45	0	0
Other net assets	−10	−4	−2	10	19	19	-27
Currency issue	-4	-1	2	124	-31	-48	32

Source: Central Bank of Kuwait.

1/ Excludes SDRs and IMF reserve position.

2/ Accounts of international organizations.

Table 21. Kuwait: Balance Sheet of the Local Banks, 1996–2001 1/

(In millions of Kuwaiti dinars)

End of Period	1996	1997	1998	1999	2000	2001	June 2002
Reserves	123	79	98	141	119	120	156
Cash	61	66	64	94	89	56	62
Balances with central bank	62	13	34	47	31	64	94
Foreign assets	2,168	2,118	1,788	1,787	1,968	2,027	2,271
Claims on nongovernment sector	3,503	4,745	5,303	5,573	5,871	6,851	7,130
Credit facilities	3,173	4,324	4,802	5,015	5,252	6,125	6,344
Local investments	330	420	501	557	619	726	786
Claims on government	4,573	4,363	4,140	4,062	3,628	3,402	3,305
Government debt bonds 2/	2,845	2,389	2,246	1,931	1,491	1,294	1,190
Public debt instruments 3/	1,728	1,973	1,894	2,132	2,137	2,108	2,115
Other claims	-	-	-	-	-	-	-
Interbank deposits	663	973	1,088	988	1,113	890	1,162
Other assets	410	374	383	359	452	377	395
Total assets = Total liabilities	11,460	12,690	12,875	12,917	13,806	15,064	15,968
Demand deposits	892	902	795	929	1,051	1,240	1,728
Quasi-money deposits	6,088	6,368	6,413	6,307	6,696	7,567	7,536
Savings	1,070	1,116	1,144	1,084	1,257	1,394	1,526
Time	3,750	4,065	4,166	4,261	4,449	5,217	5,038
Foreign currency	1,257	1,154	1,037	881	895	892	950
Certificates of deposit	12	34	66	81	95	64	22
Government deposits	374	344	257	195	185	231	280
Foreign liabilities	761	1,222	1,084	1,208	1,195	1,571	2,036
Interbank deposits	659	1,043	1,292	1,249	1,362	1,254	1,236
Own funds	1,296	1,408	1,470	1,504	1,583	1,682	1,737
Other liabilities	1,389	1,402	1,565	1,525	1,734	1,520	1,415

Source: Central Bank of Kuwait.

1/ Includes 7 commercial banks, 2 specialized banks, and Kuwait Finance House.
2/ Includes the purchase by the government of the real estate portfolio of the Kuwait Finance House.
3/ Primarily treasury bills and bonds.

Table 22. Kuwait: Distribution of Local Bank Credit Outstanding to the Private Sector, 1996–2002

End of Period	1996	1997	1998	1999	2000	2001	June 1/ 2002
			(In millions of Kuwaiti dinars)				
Trade	519	706	818	930	968	1,076	1,053
Industry	225	373	373	389	397	440	503
Construction	207	304	394	363	442	377	388
Agriculture and fisheries	10	16	9	8	11	14	17
Financial institutions	184	265	281	305	330	712	596
Personal facilities	1,456	1,722	1,716	1,602	1,684	2,023	2,274
Of which: credit for trading in securities	253	333	292	217	249	386	436
Real estate	421	674	843	1,000	854	1,165	1,138
Other	151	264	368	418	567	320	374
Total	3,173	4,324	4,802	5,015	5,252	6,126	6,344
			(In percent of total)				
Trade	16.4	16.3	17.0	18.5	18.4	17.6	16.6
Industry	7.1	8.6	7.8	7.8	7.6	7.2	7.9
Construction	6.5	7.0	8.2	7.2	8.4	6.1	6.1
Agriculture and fisheries	0.3	0.4	0.2	0.2	0.2	0.2	0.3
Financial institutions	5.8	6.1	5.8	6.1	6.3	11.6	9.4
Personal facilities	45.9	39.8	35.7	31.9	32.1	33.0	35.8
Of which: credit for trading in securities	8.0	7.7	6.1	4.3	4.7	6.3	6.9
Real estate	13.3	15.6	17.5	19.9	16.3	19.0	17.9
Other	4.8	6.1	7.7	8.3	10.8	5.2	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
			(Changes in percent)				
Trade	24.0	36.0	16.0	13.6	4.1	11.2	-2.2
Industry	40.2	65.6	0.0	4.3	2.0	10.8	14.4
Construction	38.2	46.9	29.6	-7.9	21.5	-14.7	3.0
Agriculture and fisheries	13.8	60.9	-44.2	-5.1	26.3	31.0	22.5
Financial institutions	31.6	44.1	6.0	8.6	8.1	116.0	-16.3
Personal facilities	24.3	18.2	-0.4	-6.6	5.1	20.1	12.4
Of which: credit for trading in securities	137.7	31.9	-12.4	-25.6	14.3	55.2	13.0
Real estate	78.9	60.3	25.0	18.7	-14.6	36.5	-2.3
Other	-0.7	74.9	39.3	13.6	35.8	-43.6	16.9
Total	30.2	36.3	11.0	4.4	4.7	16.6	3.6

Source: Central Bank of Kuwait.

1/ December 2001–June 2002

Table 23. Kuwait: Structure of Interest Rates, 1997–2002

(In percent per annum)

Type of Rate	Formation	Dec. 1997	Dec. 1998	Oct. 1999	Dec. 1999	Dec. 2000	Dec. 2001	Aug. 2002
Central Bank of Kuwait rates								
Discount rate	Set by CBK; last changed on June 3, 2002	7.25	7.00	6.75	6.75	7.25	4.25	3.75
One week REPO rate	7/8 percentage point above the discount rate for the first week, plus 1/16 percentage point for a second REPO on any subsequent day.	8.125	7.625	7.375	7.375	7.875	4.875	4.375
Overnight rate	1/8 percentage point above the REPO rate.	8.25	7.75	7.50	7.50	8.00	5.00	4.50
Sales/purchase of treasury bills rate	Variable rate set daily by CBK.	6.97	6.95	6.25	6.73	6.67	4.48	3.75
Overdraft rate	20 percent for the first day, up to 15 percent for subsequent days as set by CBK.							
Less than one year		10.00	9.50	9.25	9.25	9.75	6.75	...
More than one year		11.50	11.00	10.75	10.75	11.25	8.25	...
Market rates								
Interbank rate 1/	One week; one-, three-, six-, nine-, and twelve-month rate.	7.18	7.36	6.25	6.45	6.99	4.74	3.09
Savings deposit rate	Variable rate; floor abolished in February 1995.	3.599	3.610	2.880	3.24	2.97	2.28	1.17
Time deposit rate 2/	Variable rate; floor abolished in February 1995.	5.96	5.87	5.27	5.27	5.43	3.70	2.14
Commercial loans rate								
Less than one year	Market rate	...	...	...	...	...	...	...
Ceiling	Ceiling: discount rate+2.50 percentage points for loans of less than 1 year.	9.75	9.50	9.25	9.25	9.75	6.75	6.25
More than one year	Market rate	...	...	...	...	...	...	...
Ceiling	Ceiling: discount rate+4 percentage points for loans of more than 1 year.	11.25	11.00	10.75	10.75	11.25	8.25	7.75
Consumer loans rate	Ceiling: discount rate, but front loaded.	7.25	7.00	6.75	6.75	7.25	4.25	3.75

Source: Central Bank of Kuwait.

1/ 3-month bid rates.
2/ 3-month KD rates.

[ADakanay] g:\doc\country\kwt\excel\2002\sa-tables\Table 23-Structure of Interest Rates 11/27/2002 11:03 AM

Table 24. Kuwait: Interest Rates on Kuwaiti Dinar and U.S. Dollar Deposits with Local Banks, 1996–2002

(In percent per annum; period average)

	Kuwaiti Dinar Deposits		U.S. Dollar Deposits		Interest Differential KD minus US$	
	3 months	6 months	3 months	6 months	3 months	6 months
1996	6.49	6.60	5.24	5.31	1.25	1.29
1997	5.96	6.12	5.26	5.35	0.70	0.77
1998	5.87	6.12	5.08	5.07	0.79	1.05
1999	5.27	5.53	4.86	4.96	0.41	0.57
2000	5.43	5.70	5.99	6.12	-0.56	-0.42
2001	3.70	3.86	3.33	3.28	0.37	0.58
1996						
Q1	6.84	6.94	5.16	5.10	1.68	1.83
Q2	7.02	7.08	5.25	5.35	1.77	1.73
Q3	7.01	7.08	5.32	5.50	1.68	1.58
Q4	7.03	7.10	5.24	5.29	1.79	1.81
1997						
Q1	6.99	4.08	5.17	5.24	1.83	-1.16
Q2	7.00	7.08	5.32	5.43	1.69	1.65
Q3	7.00	7.09	5.26	5.36	1.74	1.73
Q4	7.22	7.30	5.31	5.37	1.91	1.92
1998						
Q1	7.43	7.55	5.18	5.21	2.25	2.34
Q2	7.30	7.54	5.22	5.27	2.08	2.27
Q3	7.05	7.30	5.18	5.19	1.87	2.11
Q4	7.17	7.30	4.73	4.62	2.44	2.68
1999						
Q1	6.68	6.83	4.56	4.57	2.12	2.26
Q2	6.08	6.30	4.53	4.62	1.55	1.68
Q3	5.93	6.21	4.86	5.12	1.07	1.09
Q4	6.61	6.74	5.50	5.51	1.11	1.23
2000						
Q1	5.47	5.67	5.56	5.73	-0.09	-0.06
Q2	5.44	5.74	6.06	6.26	-0.62	-0.52
Q3	5.45	5.76	6.20	6.33	-0.75	-0.57
Q4	5.35	5.64	6.15	6.16	-0.80	-0.52
2001						
Q1	4.59	4.80	4.88	4.74	-0.29	0.06
Q2	3.77	3.91	3.73	3.68	0.04	0.23
Q3	3.60	3.74	3.01	3.00	0.59	0.74
Q4	2.85	3.00	1.70	1.72	1.15	1.28
2002						
Q1	2.61	2.76	1.40	1.51	1.21	1.25
Q2	2.45	2.62	1.45	1.59	1.00	1.03

Source: Central Bank of Kuwait

Table 25. Kuwait: Balance Sheet of the Investment Companies, 1996–2002

(In millions of Kuwaiti dinars)

End of Period	1996	1997	1998	1999	2000	2001	June 2002
Assets	2,064	2,788	3,458	3,256	3,518	3,418	3,285
Cash and balances with local banks	126	176	259	208	154	168	110
Loans and discounts to residents	280	275	354	349	346	437	414
Local investments	426	807	891	588	421	415	457
Foreign assets	1,087	1,364	1,686	1,868	2,249	2,321	2,225
Cash and balances with foreign banks	204	173	142	134	104	147	87
Loans and discounts to nonresidents	104	96	182	200	168	145	111
Foreign investments	758	1,078	1,334	1,495	1,922	1,801	1,845
Other	20	17	28	39	55	228	182
Other assets	146	166	269	243	349	79	78
Liabilities	2,064	2,788	3,459	3,256	3,518	3,418	3,284
Resources from residents	395	560	622	394	298	454	391
From government	143	94	85	7	7	7	7
From local banks	159	226	296	208	240	393	325
From others	94	240	241	179	51	54	59
Foreign liabilities	478	711	1,057	1,124	1,400	1,425	1,391
Other liabilities	306	387	426	428	471	305	325
Capital and reserves	866	1,112	1,325	1,271	1,296	1,005	996
Other 1/	20	17	28	39	55	228	182
Memorandum item:							
Number of companies covered	24	28	34	37	36	25	25

Source: Central Bank of Kuwait.

1/ Counterentries for other under foreign assets

Table 26. Kuwait: Debt Collection Program—Repayments in 1996–2002
Repayment by Debtors Under the Law 41/93

	Debtors		Amounts Paid	
	Number	Percent	KD million	Percent
First installment, 1996 1/				
Total	997	100.00	139	100.00
Obligations met	437	43.83	104	74.82
Default debtors	560	56.17	35	25.18
Second installment, 1997				
Total	437	100.00	71	100.00
Obligations met	295	67.51	56	78.87
Default debtors	142	32.49	15	21.13
Third installment, 1998				
Total	295	100.00	50	100.00
Obligations met	249	84.41	46	92.00
Default debtors	46	15.59	4	8.00
Fourth installment, 1999				
Total	249	100.00	9	100.00
Obligations met	73	29.32	5	55.56
Default debtors	176	70.68	4	44.44
Fifth installment, 2000				
Total	73	100.00	4	100.00
Obligations met	10	13.70	3	75.00
Default debtors	63	86.30	1	25.00
Sixth installment, 2001 2/				
Total	1	100.00	1	100.00
Obligations met	0	0.00	0	0.00
Default debtors	1	100.00	1	100.00
Total	11,743	100.00	2,198	100.00
Obligations met	9,942	84.70	1,759	80.00
Default debtors	1,801	15.30	439	20.00

Source: Central Bank of Kuwait.

1/ The data shown above concerning installments "1 to 3" have been updated due to change in Law 41/93 by Law 63/98.

2/ In accordance with Law No 41 /93 and its amendment, the 6th installment was due in June 1, 2001.

Table 27. Kuwait: Summary Balance of Payments, 1996–2001

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	Prov. 2001
Current account	7,107	7,930	2,213	5,062	14,672	8,566
Goods (trade balance)	6,997	6,532	1,901	5,569	13,026	9,241
Exports	14,945	14,279	9,616	12,277	19,477	16,173
Oil and oil products	14,132	13,467	8,470	11,027	18,162	14,976
Non-oil	813	812	1,146	1,250	1,315	1,197
Imports	-7,949	-7,747	-7,715	-6,708	-6,451	-6,932
Services	-3,580	-3,372	-3,780	-3,612	-3,097	-3,552
Transportation	-641	-353	-427	-378	-153	-228
Travel	-2,308	-2,189	-2,310	-2,178	-2,396	-3,081
Other services	-631	-831	-1,043	-1,056	-548	-243
Investment income	5,180	6,276	5,867	5,109	6,698	4,959
Receipts	6,409	7,743	7,162	6,095	7,314	5,484
General government 1/	3,884	5,225	4,660	4,212	4,951	3,967
Other 2/	2,525	2,518	2,501	1,883	2,363	1,517
Payments	-1,229	-1,467	-1,295	-986	-616	-525
General government	-631	-933	-492	-227	-16	-52
Other	-598	-534	-804	-759	-600	-473
Current transfers	-1,490	-1,506	-1,775	-2,004	-1,956	-2,082
Capital and financial account	-7,836	-6,307	-2,841	-5,002	-11,089	-3,105
Capital account (official grants)	-205	-96	79	703	2,217	2,933
Financial account	-7,631	-6,211	-2,920	-5,705	-13,306	-6,038
Direct investment	-1,393	989	1,926	49	319	-362
Abroad	-1,740	969	1,867	-23	303	-323
In reporting country	347	20	59	72	16	-39
Portfolio investment	-761	-6,926	-4,768	-2,558	-12,667	-7,453
Assets	-788	-6,926	-4,768	-2,637	-12,921	-7,375
Liabilities	27	0	0	79	254	-78
Other investment (net)	-5,477	-274	-79	-3,196	-958	1,778
Trade credits	-344	-46	351	-841	-274	470
Loans	-3,774	-4,978	-535	-283	-23	356
Currency and deposits	3,083	-36	269	-1,849	-1,040	1,791
Other	-4,442	4,786	-164	-223	378	-838
Net errors and omissions 3/	683	-1,688	1,125	816	-1,325	-2,647
Overall balance	-46	-65	496	876	2,259	2,815
International reserve assets (-increase) 4/	46	65	-496	-876	-2,259	-2,815
			(In percent of GDP)			
Memorandum items:						
Current account	22.9	26.6	8.8	17.3	41.0	26.1
Overall balance	-0.1	-0.2	2.0	3.0	6.3	8.6
International reserve assets	3,621	3,556	4,052	4,928	7,187	10,002
In months of imports of goods and services	3.3	3.3	4.1	5.0	7.4	10.1

Sources: Central Bank of Kuwait; and Fund staff estimates.

1/ Kuwait Investment Authority, Kuwait Petroleum Corporation, Kuwait Fund for Arab Economic Development, Public Institute for Social Security, Kuwait Airways Corporation, and Bank of Savings and Credit.

2/ Central Bank of Kuwait, local banks, investment, insurance, exchange companies, and nonfinancial private sector.

3/ Includes other unclassified private sector flows.

4/ In millions of U.S. dollars as reported in *International Financial Statistics* .

Table 28. Kuwait: Composition of Exports, 1996–2001

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001 1/
Total f.o.b.	14,945	14,280	9,616	12,277	19,476	16,174
Of which						
Reexports	248	282	226	212	209	0
Oil and oil products	14,132	13,466	8,471	11,027	18,161	14,976
Crude oil	8,218	6,958	4,500	5,442	11,177	9,592
Refined products	5,295	5,735	3,542	4,977	6,133	4,589
Of which						
Bunker oil	181	194	111	0	0	0
LPG	619	772	428	608	852	795
Non-oil	757	756	1,082	1,138	1,253	1,167
Ethylene products	0	25	435	530	640	592
Fertilizers	149	100	65	57	64	56
Road vehicle	99	124	108	57	53	0
Nonmetallic minerals	39	35	30	34	34	0
Electrical manufactures	45	32	33	29	28	0
Paper products	25	25	25	25	25	0
Metallic cores and scrap	32	33	32	34	37	0
Metal products	31	37	37	41	30	0
Other	337	344	318	331	342	518
Adjustments for BOP						
Unrecorded exports 2/	57	58	63	112	62	31

Sources: Central Bank of Kuwait; Ministry of Oil; Central Statistical Office.

1/ Central Bank of Kuwait estimates.
2/ Exports not reflected by the customs returns.

Table 29. Kuwait: Composition of Imports, 1995–2001

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001 1/
Total, f.o.b.	7,254	7,949	7,747	7,713	6,709	6,451	5,200
By SITC category (c.i.f.)	7,784	8,373	8,246	8,616	7,616	7,156	5,719
Food and live animals	1,063	1,174	1,129	1,169	1,135	1,138	833
Beverages and tobacco	94	93	87	87	100	68	50
Crude materials	121	115	108	154	145	145	125
Mineral fuels	41	50	44	38	49	43	32
Other oils and fats	48	41	43	42	43	41	26
Chemicals	569	605	690	668	660	678	544
Manufactured materials	1,522	1,658	1,658	1,577	1,243	1,288	1,099
Machinery and equipment	3,210	3,481	3,180	3,550	3,024	2,673	2,132
Miscellaneous manufactures	1,089	1,081	1,163	1,180	1,107	992	812
Other commodities	28	75	145	153	111	91	66
By economic use (c.i.f.)	7,784	8,373	8,246	8,616	7,616	7,156	5,719
Capital goods	1,756	1,852	1,522	1,734	1,367	1,093	878
Intermediate goods	2,833	3,065	3,026	3,032	2,618	2,625	2,113
Consumer goods	3,163	3,377	3,551	3,694	3,516	3,345	2,660
Other, unspecified	31	79	147	156	115	94	68
Adjustments for BOP	-530	-425	-500	-903	-908	-705	-519
Unrecorded imports 2/	638	831	737	390	235	368	339
Freight and insurance payments	-1,168	-1,256	-1,237	-1,292	-1,142	-1,073	-858

Source: Ministry of Planning, Central Statistical Office.

1/ Central Bank of Kuwait estimates.

2/ Imports not reflected by the customs returns.

Table 30. Kuwait: External Services, Investment Income, and Current Transfers, 1996–2001

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001
Receipts	7,982	9,583	9,023	7,753	9,221	7,323
Transport 1/	985	1,220	1,198	1,120	1,382	1,328
Insurance 1/	70	69	72	66	72	72
Travel	184	188	207	92	98	104
Government, n.i.e.	257	254	266	263	251	264
Other services	23	30	20	20	20	20
Investment income	6,409	7,743	7,162	6,094	7,315	5,484
Government 2/	4,034	5,386	4,833	4,061	4,951	3,673
Private	2,375	2,357	2,329	2,034	2,363	1,811
Financial institutions 3/	925	794	945	628	724	525
Other	1,449	1,563	1,385	1,406	1,640	992
Government transfer receipts	53	79	98	99	85	52
Payments	-7,872	-8,182	-8,711	-8,259	-7,575	-7,999
Transport	-1,626	-1,572	-1,624	-1,498	-1,535	-1,556
Insurance	-67	-66	-69	-62	-59	-65
Travel	-2,491	-2,377	-2,516	-2,270	-2,494	-2,845
Government, n.i.e.	-885	-1,075	-1,299	-1,304	-805	-835
Other services	-30	-40	-33	-36	-26	-39
Investment income	-1,229	-1,467	-1,296	-986	-616	-525
Government	-631	-933	-492	-227	-16	-52
Private	-598	-534	-804	-759	-600	-473
Financial institutions	-584	-392	-650	-453	-447	-333
Other	-13	-142	-154	-306	-153	-140
Government transfer payment	-137	-178	-217	-171	-225	-261
Private transfer payments 4/	-1,406	-1,408	-1,657	-1,932	-1,816	-1,873
Total (net)	110	1,401	312	-506	1,646	-673
Insurance	3	3	3	3	13	7
Transport	-641	-353	-427	-378	-153	-228
Travel	-2,308	-2,189	-2,310	-2,178	-2,396	-2,741
Government, n.i.e.	-628	-821	-1,033	-1,041	-554	-571
Other services	-7	-10	-13	-16	-7	-20
Investment income	5,180	6,276	5,866	5,109	6,698	4,959
Government	3,403	4,453	4,341	3,985	4,935	3,621
Private	1,777	1,823	1,526	1,124	1,763	1,338
Financial institutions	341	402	295	174	277	192
Other	1,436	1,421	1,230	949	1,486	852
Government transfer	-83	-99	-118	-72	-140	-209
Private transfer	-1,406	-1,408	-1,657	-1,932	-1,816	-1,873

Source: Central Bank of Kuwait.

1/ Available data are prepared according to BPM5 which separate transport from insurance.

2/ Income from external assets managed by Central Bank of Kuwait (CBK), Kuwait Investment Authority (KIA), Kuwait Petroleum Corporation (KPC), and Kuwait Airways Corporation (KAC).

3/ Income from external assets of local banks and investment companies..

4/ Includes remittances of long-term expatriate workers.

Table 31. Kuwait: External Capital Transactions, 1/ 1996–2001

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	Prov. 2001
Official foreign assistance	-207	-191	-85	-122	-108	-59
Government loans and deposits	0	0	0	0	0	0
Kuwait Fund	-207	-191	-85	-122	-108	-59
Disbursements	-397	-405	-318	-355	-381	-375
Repayments	190	214	233	233	274	316
General government investment	-2,087	-4,859	-2,185	-2,336	-11,708	-8,201
Direct and portfolio (net)						
Other sectors	33	-986	-810	-447	-1,304	897
Direct and portfolio investment (net)						
Direct investment	371	13	66	85	23	-42
Portfolio investment	-337	-999	-876	-532	-1,327	940
Long-term official borrowing (net)	-4,295	-5,769	-1,125	-36	-385	7
General government	-4,295	-5,769	-1,125	-36	-385	7
Trade credits (net)	-344	-46	351	-841	-274	470
Assets	-287	287	538	-736	-130	470
Liabilities	-57	-333	-187	-105	-143	0
Other capital, n.i.e.	-895	3,946	318	-2,339	1,102	-179
General government	-1,647	2,710	-466	-2,405	111	506
Other sectors	751	1,236	784	66	991	-685
Central Bank of Kuwait: foreign liabilities	-17	3	-10	0	7	0
Local banks	180	1,691	627	414	-636	1,028
Liabilities	304	1,523	-456	407	-42	1,223
Assets (increase -)	-124	168	1,083	7	-593	-196
Total (net financial account of bop)	-7,631	-6,211	-2,920	-5,707	-13,306	-6,038

Source: Central Bank of Kuwait.

1/ Reflect external capital transactions within the financial account of BOP (excluding external capital transaction within the capital account of BOP), as recommended by PBM5.

Table 32. Kuwait: Selected Financial System Indicators, 1996–2001

	1996	1997	1998	1999	2000	2001
	(In percent; unless otherwise indicated)					
Increase in net bank profits 1/	26.9	34.8	-8.2	13.7	20.9	9.9
Ratio of net profits to total bank assets	1.4	1.7	1.6	1.8	2.0	2.0
Ratio of net profits to total shareholders' equity 2/	12.6	15.7	13.8	15.3	17.6	18.2
Banks' capital-asset ratio 2/	11.3	11.1	11.4	11.6	11.5	11.2
Banks' risk-weighted capital-asset ratio	25.0	22.4	22.5	23.7	22.2	22.0
Banks' leverage 3/	8.8	9.0	8.8	8.6	8.7	...
Banks' liquidity ratio 4/	44.6	45.0	44.2	44.5	50.5	47.7
Ratio of banks' nonperforming loans to total loans 5/	12.4	10.2	10.3	12.8	19.2	10.3
Nonperforming loans from before invasion	10.5	8.2	7.3	6.8	12.8	5.1
Nonperforming loans since liberation	1.9	2.0	3	6.0	6.4	5.2
Loan provisions as a proportion of nonperforming loans 5/	61.4	65.1	68	53.2	50.1	53.2
Ratio of bank lending to domestic credit facilities						
Stock market-related	8.0	7.7	6.1	4.3	4.7	6.3
Real estate 6/	13.3	15.6	17.5	19.9	16.3	19.0
Total (stock market, real estate)	21.2	23.3	23.6	24.3	21.0	25.3
Ratio of bank lending to banks' own funds 2/						
Stock market-related	19.5	23.7	19.9	14.4	15.7	22.9
Real estate 6/	32.5	47.9	57.3	66.5	53.9	69.3
Total (stock market, real estate)	52.0	71.5	77.2	80.9	69.6	92.2
Banks' lending and deposit interest rate spread 7/	2.7	2.9	2.6	2.8	3.0	3.4
Investment companies' capital and reserve/total assets	42.4	40.2	38.6	39.5	37.8	33.6
	(In millions of Kuwaiti dinars)					
Net foreign assets of local banks	1,408	895	703.6	578.7	773.3	456.1
Net foreign assets of investment companies 8/	589	636	601.3	705.5	794.3	667.1
Open foreign exchange position of banks 9/	-8.1	-4.6	26.0	19.4	6.8	-13.5

Source: Central Bank of Kuwait.

1/ For net profits in 1998 and 1999, excluding two banks not listed in in the Kuwait Stock Exchange.

2/ Treasury shares are deducted from total equities from 1999 and are equal to KD 44.3, KD38.3, KD 24.3 million in 1999, 2000, and 2001 respectively.

3/ Ratio of total liabilities to banks' own funds.

4/ Ratio of liquid assets (including public debt instruments and investments in local and foreign shares) to deposits held by residents and nonresidents as well as deposits of local and foreign banks.

5/ Excluding Kuwait Finance House.

6/ Ratios may be overestimated due to loan classification problems by the local banks.

7/ Calculated as the difference between weighted average lending and deposit rates on KD loans and deposits for commercial banks only.

8/ Equals nonresident assets minus nonresident liabilities, excluding own funds.

9/ A (-) sign indicates a short position.

Table 33. Kuwait: Reserves and Net Foreign Assets, 1996–2002

(In millions of U.S. Dollars)

	1996	1997	1998	1999	2000	2001	June 2002
Central bank net foreign assets	3,606	3,538	4,045	4,920	7,173	9,989	11,126
International gross reserve assets	3,621	3,556	4,052	4,928	7,186	10,001	11,139
Central bank foreign assets	3,327	3,230	3,591	4,349	6,608	9,294	10,365
Gold 1/	106	104	105	104	104	103	105
Foreign exchange (as in IFS)	3,221	3,126	3,486	4,244	6,504	9,191	10,260
SDRs 2/	98	100	116	74	91	108	122
IMF reserve position	196	226	345	505	487	598	652
Central bank foreign liabilities	15	18	7	8	13	12	12
Local banks' net foreign assets 3/	4,701	2,951	2,308	1,901	2,519	1,489	779
Foreign assets	7,242	6,981	5,866	5,869	6,415	6,612	7,531
Foreign liabilities	2,541	4,030	3,558	3,968	3,896	5,123	6,751
Net foreign assets of the banking system	8,307	6,489	6,354	6,821	9,692	11,478	11,905
Net foreign assets of nonbank financial institutions, including insurance companies 4/	2,040	1,472	2,067	2,496	2,687	2,327	...
Foreign assets	3,714	4,529	5,691	6,272	7,366	7,023	...
Foreign liabilities	1,674	3,057	3,624	3,777	4,678	4,696	...
Net foreign assets of the financial sector	10,347	7,961	8,421	9,316	12,379	13,805	...
Memorandum items:							
Central bank foreign exchange at central bank valuation 5/	3,406	3,306	3,484	4,243	6,473	9,187	10,136
Central bank gross foreign assets 5/	3,517	3,428	3,552	4,344	6,547	9,308	10,364
Central bank foreign exchange 6/	3,411	3,323	3,448	4,240	6,444	9,205	10,259
Net foreign assets of nonbank financial institutions, excluding insurance companies	1,992	2,116	2,021	2,349	2,629	2,170	...
Foreign assets	3,614	4,497	5,586	6,089	7,257	6,807	...
Foreign liabilities	1,622	2,381	3,564	3,740	4,628	4,636	...

Source: Central Bank of Kuwait.

1/ At national valuation of KD 12.5 per fine ounce.
2/ Carried as assets of the Ministry of Finance.
3/ Commercial banks, specialized banks, and Kuwait Finance House.
4/ Investment companies, exchange companies, and insurance companies..
5/ At period average exchange rate.
6/ At central bank evaluation as opposed to IFS valuation above and at period average exchange rate.

Table 34. Kuwait: Aggregate Banking Soundness Indicators, 1996–2002

(End of period; unless otherwise indicated)

	1996	1997	1998	1999	2000	2001	June 2002
Capital							
Capital adequacy ratio	25.2	22.4	22.5	23.7	22.2	22.0	22.0
Equity (percent of assets)	11.3	11.1	11.4	11.6	11.5	11.2	10.9
Liquidity 1/							
(Percent of assets)	16.2	16.2	15.5	17.6	16.3	14.8	14.2
(Percent of KD private sector deposits)	32.3	33.6	32.3	35.8	32.9	28.1	27.3
Foreign currency exposure (percent of assets)							
Foreign currency-denominated assets	23.1	21.4	19.1	19.4	18.8	17.7	20.5
Foreign currency-denominated liabilities	21.9	20.9	18.3	18.5	18.5	18.0	21.0
Net	1.1	0.5	0.8	0.9	0.3	-0.2	-0.6
(Percent of capital and reserves)	10.1	4.6	6.9	7.9	2.5	-2.1	-5.1
Foreign assets and liabilities (percent of assets)							
Foreign assets	18.9	16.7	13.9	13.8	14.3	13.5	14.2
Foreign liabilities	6.6	9.6	8.4	9.4	8.7	10.4	12.8
Net foreign assets	12.3	7.1	5.5	4.5	5.6	3.0	1.5
(Percent of GDP)	15.1	9.9	9.2	6.5	7.0	4.5	2.3
Sectoral credit concentration (percent of total credit)							
Real estate	13.3	15.6	17.5	19.9	16.3	19.0	17.9
Personal facilities	45.9	39.8	35.7	31.9	32.1	33.0	35.8
Of which: credit for trading in securities	8.0	7.7	6.1	4.3	4.7	6.3	6.9
Trade	16.4	16.3	17.0	18.5	18.4	17.6	16.6
Industry	7.1	8.6	7.8	7.8	7.6	7.2	7.9
Construction	6.5	7.0	8.2	7.2	8.4	6.1	6.1
Nonbank financial institutions	5.8	6.1	5.8	6.1	6.3	11.6	9.4
Other	5.1	6.5	7.8	8.5	11.0	5.4	6.2
Nonperforming loans (in percent of total)	12.4	10.2	10.3	12.8	19.2	10.3	11.2
Pre-invasion 2/	10.5	8.2	7.3	6.8	12.8	5.1	6.5
Post-invasion	1.9	2.0	3.0	6.0	6.4	5.2	4.7
Provisions (in percent of nonperforming loans)	61.4	65.2	68.2	53.2	50.1	53.4	60.6
Specific provisions	51.2	49.9	50.2	40.6	37.0	37.2	40.7
General provisions	10.2	15.3	17.9	12.5	13.1	16.2	19.9
Average lending rate 3/	7.66	8.43	8.80	8.85	8.98	8.65	8.92
Average deposits rate 3/	5.71	6.55	6.08	5.96	6.36	5.82	5.96
Spread over 3-month deposit rate	1.95	1.88	2.72	2.88	2.63	2.83	2.96
Profitability							
Return on total assets (in percent)	1.4	1.7	1.6	1.8	2.0	2.0	1.0
Return on own funds (in percent)	12.6	15.7	13.8	15.3	17.6	18.2	9.5
Changes in net bank profits (in percent)	26.9	34.8	-8.2	13.7	20.9	9.9	...
Stock price index of bank shares							
(Percent change)	44.5	28.2	-33.7	-5.2	11.6	49.2	26.8
(In percent of general index)	98.4	90.6	100.6	104.7	124.9	147.0	143.2

Sources: Central Bank of Kuwait; rating agencies; Global Finance House; and Fund staff estimates.

1/ Cash, central bank current deposits, and treasury bills and bonds.

2/ Guaranteed by government.

3/ For local banks.

Table 35. Kuwait: Selected Stock Market Indicators, 1996–2002

	1996	1997	1998	1999	2000	2001	June 2002
Market index (1993=1000) 1/	1,905.6	2,651.8	1,582.7	1,442.0	1,348.1	1,709.4	2,226.0
Value of shares traded (In millions of KD)	5,756	10,487	3,341	1,841	1,292	3,581	3,580
Number of shares traded (In millions)	25711.3	33988	13919	9496	6760	16305	15155
Number of transactions (In thousands)	307.9	588.2	351.0	213.0	157.0	355.0	283.0
Market capitalization (In millions of KD; end-period)	6,546	9,034	5,765	6,186	6,304	8,085	10,004
Memorandum items:							
Number of listed companies	60	74	78	85	86	88	93
Market capitalization/GDP	70.4	99.7	75.3	69.6	57.4	80.4	100.5
Turnover 2/	87.9	116.1	58.0	29.8	20.5	44.3	35.8
Profits of listed companies (percent change)	25	190	-44	28	13	-25	...
Price/earnings ratio	14.8	14.5	13.9	13.9	12.7	14.4	...

Source: Central Bank of Kuwait.

1/ End-December 1993
2/ Value of shares traded divided by market capitalization.

Table 36. Kuwait: External Debt, 1995–2001

(In millions of U.S dollars)

	1995	1996	1997	1998	1999	2000	2001
Total external debt outstanding	5,376	10,451	4,848	9,938	10,057	10,426	11,599
Total Interest repayments	418	227	1,462	1,310	986	618	524
General government external debt 1/	3,947	9,130	2,726	1,419	1,289	913	914
Interest repayments	328	143	930	497	227	16	52
Private external debt 2/	1,428	1,321	2,122	8,519	8,768	9,513	10,685
Interest repayments 3/	90	83	532	812	759	602	472

Source: Central Bank of Kuwait.

1/ Includes year-end stocks of loans, repos and other credit facilities as defined in the BPM5.

2/ Local banks, investment, exchange, insurance companies, and Equate project.

3/ Partially estimated on the basis of LIBOR plus 0.5 percent and the average stock of the previous and current year, as data on other nonfinancial private sector debt are incomplete.