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This paper provides background information to the staff report on the 1981 Article IV consultation discussions with Kuwait, which was circulated as SM/82/14 on January 19, 1982 and has been tentatively scheduled for discussion on Wednesday, February 17, 1982.

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INTERNATIONAL MONETARY FUND

KUWAIT

Recent Economic Developments

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Kuwait - Basic Data

Area 17,900 square kilometers
Population 1.36 million (1980 census)

(In per cent)

Year ended December 31	<u>1972</u>	<u>1975</u>	<u>1977</u>	<u>1979</u>	<u>Est.</u> <u>1980</u>
Origin of GDP at current prices					
Oil sector	62.4	70.5	61.1	68.8	67.5
Non-oil GDP	37.6	29.5	38.9	31.2	32.5

Year ended December 31	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Est.</u> <u>1980</u>	<u>Est.</u> <u>1981</u>
Annual changes in output and prices					
Non-oil GDP at constant (1972) prices	12.1	1.3	6.1	6.4	5.0
Implicit non-oil GDP deflator	6.5	5.2	12.9	7.9	...
Cost of living index	9.7	6.2	5.2	7.7	8.0

(In millions of barrels per day)

Crude oil production	1.97	2.13	2.50	1.66 <u>1/</u>	1.14 <u>2/</u>
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(In millions of Kuwaiti dinars)

	Actuals			Prov. Actual	Budget
Year ended June 30	1977/78	1978/79	1979/80	1980/81	1981/82
Government finance					
Revenue	3,049	3,649	6,923	6,303	7,202
Oil revenue	(2,575)	(3,036)	(5,940)	(4,435)	(5,097)
Other revenue	(474)	(613)	(983)	(1,868)	(2,105)
Expenditure	1,612	1,633	2,147	2,570	2,930
Current expenditure	(716)	(832)	(1,207)	(1,420)	(1,654)
Transfers abroad	(214)	(194)	(213)	(261)	(264)
Development expenditure	(494)	(499)	(463)	(497)	(712)
Land purchases	(188)	(108)	(264)	(392)	(300)
Net domestic lending	304	262	231	148	...
Overall surplus	1,133	1,754	4,545	3,585	4,272
Memorandum item:					
Net domestic expenditure (change in per cent)	(40.0)	4/ (0.05)	(26.4)	(13.8)	(...)

Kuwait - Basic Data (continued)

(In millions of Kuwaiti dinars)

Year ended June 30	Actuals			
	1977/78	1978/79	1979/80	1980/81
Changes in money and credit				
A. Foreign assets (net)	382.7	-105.0	438.7	395.4
B. Domestic assets (net)	-42.9	382.6	155.2	357.7
Claims on nongovernment sector	(194.2)	(537.4)	(485.7)	(689.4)
Government deposits	(-68.0)	(-36.0)	(-190.5)	(-160.3)
Other items (net) (increase-)	(-169.1)	(-118.8)	(-140.0)	(-171.4)
C. Money and quasi-money (A+B-D+E+F)	339.8	277.6	593.9	753.1
D. Government net domestic expenditure	1,377.4	1,384.9	1,750.9	1,992.4
E. Monetary impact of non-government sector	-868.5	-988.5	-1,017.0	-1,067.9
F. Other items (net) (increase-)	-169.1	-118.8	-140.0	-171.4
Rate of change (in per cent)				
Money and quasi-money	23.9	15.8	29.1	28.6
Money	(30.7)	(6.2)	(14.5)	(30.6)
Claims on nongovernment sector	17.9	42.1	26.8	30.0

Year ended December 31	1977	1978	1979	1980	Prel. Est.
					1981
Balance of payments					
Trade balance, f.o.b.	1,383	1,625	3,660	3,885	2,695
Exports and re-exports	2,740	2,815	5,006	5,720	4,695
Petroleum	(2,504)	(2,584)	(4,703)	(5,304)	(4,070)
Other 5/	(236)	(231)	(303)	(416)	(625)
Imports 5/	-1,357	-1,190	-1,346	-1,835	-2,000
Service and private transfers	187	298	475	801	1,715
Receipts	753	1,008	1,362	1,992	3,075
Investment income	(575)	(815)	(1,035)	(1,620)	(2,650)
Other	(178)	(193)	(327)	(372)	(425)
Payments	-566	-710	-887	-1,191	-1,360
Current account surplus	1,570	1,923	4,135	4,686	4,410
Capital (net) and grants	-1,544	-1,295	-3,311	-3,550	-3,220
Official assistance	-355	-274	-265	-366	-335
Government investment	-1,145	-790	-2,984	-3,048	-2,635
Other recorded capital	-44	-221	-62	-136	-250
Errors and omissions (net) 6/	243	-744	-712	-868	-1,000
Central Bank reserves (increase-)	-269	116	-112	-268	-190

Kuwait - Basic Data (concluded)

(In billions of U.S. dollars) 7/

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Prel. Est.</u> <u>1981</u>
Petroleum	8.7	9.4	17.0	19.6	14.6
Exports	-4.7	-4.3	-4.9	-6.8	-7.2
Investment income	2.0	3.0	3.7	6.0	9.5
Current account surplus	5.5	7.0	15.0	17.3	15.8
Official foreign assets <u>8/</u>					
Central Bank reserves	3.0	2.6	3.0	4.0	4.7
Government investments	18.2	21.6	34.0	45.7	55.0

1/ Actual data.

2/ Staff estimate based on official data for the first three months of the year and press reports for the remainder of the year.

3/ Partly estimated.

4/ Annual average growth during 1974/75-1977/78.

5/ Includes nonmonetary gold.

6/ Includes most private capital movements, plus SDR allocations (KD 9 million) in 1981.

7/ The following annual average exchange rates (in U.S. dollars per Kuwaiti dinar) are used: 1977 - US\$3.49; 1978 - US\$3.64; 1979 - US\$3.62; 1980 - US\$3.69; and 1981 - US\$3.58.

8/ At end of year.

I. Petroleum

1. Introduction

Petroleum is Kuwait's principal natural resource and the mainstay of its economy, accounting in 1980 for over two thirds of GDP at current prices, about three fourths of government revenues, and nine tenths of export earnings. Government spending at levels made possible by oil receipts provides the basis for most activity in the non-oil economy. In 1980 Kuwait accounted for 2.7 per cent of world oil output and 6 per cent of the output of the Organization of Petroleum Exporting Countries (OPEC). Kuwait's proven oil reserves (68 billion barrels) are estimated to be the second largest in the world (after Saudi Arabia) and account for 10 per cent of the world total. ^{1/} At recent production levels, they are expected to last at least a century and a half.

Among the principal features of recent petroleum-related developments in Kuwait have been the consolidation of the state's operations in the sector under one umbrella corporation, a substantially increased utilization of previously flared natural gas, and the upsurge in oil prices during 1979-early 1981 and their subsequent easing. There was also a brief upturn in Kuwait's oil output followed by a marked resumption of the longer-term downtrend evident since 1973. In addition, Kuwait has begun undertaking widespread investments in the petroleum sector, both domestically and abroad.

2. Institutional developments

During 1980 the newly established Kuwait Petroleum Corporation (KPC) assumed responsibility for virtually all aspects of the state's oil and gas operations and investments. Established by law in January 1980, KPC became fully operational by midyear, absorbing as subsidiaries four wholly state-owned but autonomous enterprises--the Kuwait Oil Company (KOC), the Kuwait National Petroleum Company (KNPC), the Kuwait Oil Tankers Company (KOTC), and the Petrochemical Industries Company (PIC). The value of their capital, as reassessed at the end of 1978, became the paid-in portion of KPC's authorized capital (100 per cent state-owned) of KD 1.0 billion, along with the state's shares in other enterprises in the sector. The four subsidiaries' legal identities and boards of directors have been retained, and they are also represented on KPC's Board. Ultimate responsibility for petroleum policy, however, remains with the Supreme Petroleum Council, whose members include the Crown Prince (who is Prime Minister), and the Ministers of Foreign Affairs, of Finance and Planning, of Oil, and of Commerce and Industry, as well as the Minister of State for Cabinet Affairs. The Minister of Oil is ex officio Chairman of KPC.

^{1/} Oil and Gas Journal, December 29, 1981. The figure includes 3 billion barrels for Kuwait's share of the Divided Zone. Official estimates are not available.

As KPC was established with the aim of streamlining activities and minimizing duplication, divisions were established within the corporation itself for planning and management and for marketing, with these responsibilities and personnel being taken from the subsidiaries. KOC was left to concentrate on the production of crude oil, gas, and gas liquids, and KNPC on refining. KOC has long produced most of Kuwait's crude oil; before state takeover during 1973-75 it was the operating company of the former concessionaires (British Petroleum and Gulf Oil). In April 1978 it also assumed control of Kuwaiti onshore oil operations in the Divided Zone (where output is shared with Saudi Arabia) from the Wafra Oil Company, known before nationalization in 1977 as the American Independent Oil Company (Aminoil). Operations offshore in the Divided Zone continue to be conducted by the Arabian Oil Company, in which Kuwait has a 30 per cent share, and Saudi Arabia and the Japan Petroleum Trading Company (grouping some 60 firms) have the rest. KNPC, which until 1975 had 40 per cent private Kuwaiti ownership, operates the country's most modern and efficient refinery, at Shuaiba, which provides products for the local market as well as for export. In May 1978, it also assumed responsibility for Wafra's export refinery at Mena Abdulla, which processes onshore output from the Divided Zone. KNPC has increasingly operated the two units jointly, exchanging products to maximize yields. Operation of the country's third refinery, a relatively obsolescent one at Mena Ahmadi, has not yet been transferred from KOC to KNPC; nominally the largest of the three, this export-oriented plant has actually processed less crude oil than Shuaiba in recent years.

Under the KPC administration, the overseas transport of crude oil and products is the domain of KOTC, in which the state acquired a 49 per cent share in 1975 and the remaining 51 per cent in June 1979. PIC, whose chief operation is a urea-fertilizer complex, is becoming the nucleus of a considerably more elaborate petrochemical subsector (see below). Meanwhile, another subsidiary of KPC, the Kuwait International Petroleum Investment Company, was established in August 1980; with provision for 30 per cent private Kuwaiti participation, this company is to engage in refining, petrochemicals, and product transport operations outside Kuwait. In April 1981, KPC also set up a wholly owned subsidiary, the Kuwait Overseas Petroleum Exploration Company, to engage in overseas oil exploration and production.

Although substantial improvements in refining and petrochemical capacity are under way or planned (see below), a significant structural change has already become effective with the inauguration of KOC's gas gathering scheme and the starting up of its new natural gas liquids (NGL) plant over the course of 1979. This plant substantially increased Kuwait's output of liquefied petroleum gases (LPG, chiefly propane and butane) and natural gasoline, for which there previously was only one small unit. The remaining "lean" gas (stripped of these liquids) is passed on to power plants, petrochemical industries, and other users. ^{1/} Hence, the project

^{1/} NGL and LPG are not to be confused with liquefied natural gas (LNG). Roughly speaking LNG is "whole" gas (largely methane), usually from output not associated with oil production, that is not only compressed but greatly refrigerated in plants whose costs far exceed those for NGL.

virtually eliminated (outside of the Divided Zone) the flaring of gas produced in association with crude oil. Most of the LPG output is exported, while the natural gasoline is blended with oil products in refineries or exported directly as naphtha. Designed to handle the gas corresponding to oil output of about 3 million barrels per day (mbd), the new NGL plant can theoretically produce almost 0.2 mbd (72 million barrels per year) of liquid gas, but with oil output much lower and declining, it has increasingly been operating far below capacity. Due to the high LPG prices realized in 1979 and 1980, the investments of some US\$700 million in the gas collecting system and of some US\$300 million in the plant itself have already been more than recouped through additional export receipts.

3. Financial arrangements and prices

Since 1975, almost all of Kuwait's crude oil exports have been sold by the Government on the basis of official (or government sales) prices related to the OPEC "marker" crude (Arabian Light 34° API, produced by Saudi Arabia). Most refined products are also sold on the basis of quotations posted by the Government, although these are not covered by decisions of the members of OPEC. The exceptions to this system have been Aminoil's equity oil until 1977 and the AOC foreign partners' continuing equity share, for which Kuwait receives royalties and taxes based on the formerly pervasive system of posted (tax reference) prices; as a practical matter, the differences are now small. 1/ In the context of adjustable differentials for quality and location allowed by OPEC decisions, Kuwait's main crude oil (now referred to as Kuwait Export 31°) has traditionally been priced somewhat lower than the marker (typically by 50 U.S. cents per barrel), since it is heavier and contains more sulphur. In periods when a fully unified set of OPEC prices has not been agreed, such as that from early 1979 to late 1981, Kuwait has tended to set its official prices toward, but not at, the upper end of the range chosen by neighboring countries.

With the establishment of KPC in early 1980, the responsibility for export sales shifted to it from the Ministry of Oil. Financial procedures governing KPC's marketing operations were codified in a decree issued in January 1981. It provides that KPC purchases crude oil from the state at the government sales price and buys gas from it at a price indexed to crude oils. 2/ KPC then markets the crude oil, refined products, and gas itself, deducting production costs and losses on domestic sales (at controlled prices well below international levels) from its payments to the Government. Essentially, therefore, KPC's income is derived from any premia it receives on oil prices above the government

1/ For details of the evolution from posted prices to government sales prices as it affected Kuwait, see SM/80/146, pp. 7-9.

2/ The initial, or base, gas price was KD 0.26 (about US\$0.95) per thousand cubic feet. This compares with recent international pipeline sales at prices of US\$4-5 per thousand cubic feet--the decree provides that the Kuwaiti gas price is to increase by the same percentage as any increase in the official crude oil price starting February 1, 1981.

sales price and the excess, if any, of refined oil and gas liquids export prices over costs. Government revenues, in turn, now reflect only crude oil (and gas) sales at official prices, less production costs and local subsidies.

Crude oil production costs have long been lower in Kuwait than in most other countries, not only because of climate but also because snips can be loaded by gravity from tank farms at Ahmadi, to which most of the oilfields are connected by pipeline. Nevertheless, especially when averaged over a declining output level, costs have apparently risen considerably in the recent past; assumptions for the 1981/82 budget put them at some US\$0.65 per barrel, quadruple the level reported a few years earlier. Sharp rises in prices of materials and services in the sector are partly responsible, along with the lower output. The rise also reflects, however, a policy of producing the older and more difficult wells first and substantial expenditure on secondary recovery techniques for the sake of longer-term returns.

During the four years after the 1973-74 oil price rises Kuwait's official crude oil prices remained relatively stable (Table 1). The official price of Kuwait's oil exports rose by about 20 per cent in nominal terms from late 1974 to early 1978. In real terms (as measured against import prices), it ended the period 10-15 per cent below the late 1974 level. A sharp upward movement began in early 1979 and continued into 1980. The upsurge in 1979-80 resulted from tight conditions in international oil markets due to fears of shortages and insecurity of supply following the political events in Iran. ^{1/} On an annual average basis (weighted by quarterly crude oil exports) Kuwait's official oil price rose by 50 per cent in 1979 and another 61 per cent in 1980 (Appendix Table 21). The rate of price increase decelerated during the latter year, however; having doubled from the end of 1978 to the end of 1979, the price rose by less than a fourth through mid-1980 and then stabilized. A further US\$4.00 per barrel increase at the beginning of 1981 brought it to US\$35.50 per barrel, in line with an OPEC decision permitting a "deemed" marker price of up to US\$36.00 per barrel, and it remained at this level--nearly three times the price of late 1978.

As 1981 progressed--with global oil demand slackening, previous industry stockpiling being reversed, and a supply glut emerging--downward pressures on oil prices developed, especially for heavy industrial fuel oil and heavier crude oils. Spot prices generally fell to below official quotations by the second quarter of 1981. At a special meeting in Geneva in late October, the members of OPEC agreed to reunify the marker price at US\$34.00 per barrel, and Kuwait subsequently adjusted its official price to US\$33.00 per barrel for November and December. Further adjustments in differentials at the regular year-end meeting in Abu Dhabi

^{1/} A detailed description of international oil market conditions and price developments is given in the Fund staff's World Economic Outlook papers published in May 1980 (pp. 67-71) and June 1981 (pp. 91-94).

Table 1. Kuwait: Official Crude Oil Sales Prices
and Credit Terms, 1974-82 ^{1/}

	KOC Kuwait Export 31 ⁰	Arabian Oil Company Khafji 28 ⁰	Hout 35 ⁰	Credit Terms (KOC)
	(In U.S. dollars per barrel)			(In days)
1974 (end)	10.36	10.29	10.51	...
1975 (end)	11.30	11.15	11.50	60
1976				
January 1	11.30	11.15	11.50	60
June 1	11.23	11.05	11.50	60
1977				
January 1	12.37	12.24	12.69	60
July 1	12.37	12.10	12.69	60
1978				
January 1	12.27	12.03	12.69	60
October 1	12.22	12.03	12.69	60
1979				
January 1	12.83	12.53	12.33	60
February 20	14.03	13.73	14.53	
April 1	15.80	15.46	16.34	
May 15	16.40	16.06	16.94	
July 1	19.49	19.19	19.99	60
October 1	21.43	21.13	21.93	30 ^{2/}
November 1	25.50	25.20	26.00	30
1980				
January 1	27.50	27.20	28.00	30
May 1	29.50	29.20	30.00	
July 1	31.50	31.20	32.00	
1981				
January 1	35.50	35.20	36.00	30
November 1	33.00	31.65	34.01	30 ^{3/}
1982				
January 1	32.30	31.03	34.01	30

Sources: Central Bank of Kuwait, based on International Crude Oil and Products Prices, Beirut, Petroleum Intelligence Weekly, N.Y., and Middle East Economic Survey, Nicosia.

^{1/} Prices rounded to nearest whole U.S. cent; Khafji and Hout are usually quoted to tenths of a U.S. cent. Actual prices vary slightly with specific gravity of liftings.

^{2/} Effective September 1, 1979.

^{3/} The industry press reported offers in September 1981 to extend credit to 60 days that month and 90 days the next, but official announcements stated only 30 days from November.

led to a reduction in the price of Kuwait Export to US\$32.30 per barrel, effective January 1, 1982. ^{1/} These changes brought the average official price to an estimated US\$35.15 for 1981, some 19 per cent above the 1980 average. The January 1982 price, however, was about 8 per cent below the 1981 average.

Trends in realized prices for crude oil exports have differed somewhat from those in official prices, due mainly to premia that, initially at least, absorbed some of the excess of spot market prices over official levels. Complete details of these contracts are not available, including when they first appeared. Contract renewals with British Petroleum, Gulf Oil, and Shell for the year beginning in April 1980, however, entailed very substantial reductions in their basic purchase volumes at the official price and a premium of US\$5.50 per barrel for additional amounts. ^{2/} Similar, although not necessarily identical, contracts were agreed upon with numerous other buyers. Estimated at US\$5.50 per barrel on about 60 per cent of crude oil exports (or US\$3.30 per barrel on average) during the last three quarters of 1980 and at similar levels in the first three quarters of 1981, these premia resulted in realized export unit values considerably higher than government sales prices in these years (Appendix Table 21). Press reports indicate that premia on some contracts were reduced and that most contracts expired in late 1981.

As for refined products, official data on export values indicate that they experienced even stronger price rises than crude oil in 1979, but lesser ones in 1980 (Appendix Table 21). These products consist in large part of fuel oil rather than more valuable products (see below) and in soft markets their average price tends to fall below the price of crude oil. It appears that product prices began to ease early in 1981, and KPC reportedly lowered its quotations substantially in June. Meanwhile, LPG prices rose by roughly 170 per cent during 1979 and early 1980 (Appendix Table 22), but demand slackened steadily thereafter and prices were reduced gradually after mid-1980 and then were cut sharply during May 1981; downward pressures continued to year end, resulting in a reduction in propane prices effective December 1.

Kuwait's credit terms on oil exports, which had been 60 days (and in some cases 75 days) since 1975, were shortened to 30 days in September 1979. These terms apparently apply to refined oil products and LPG, as well as to crude oil. At recent oil prices and U.S. dollar interest

^{1/} Meanwhile the official price of Khafji 28° (AOC's principal crude oil), which had usually tracked Kuwait Export closely, was reportedly reduced by US\$3.55 per barrel in late 1981 and by another US\$0.62 per barrel for 1982, i.e., by more than the combined reductions in official price for Kuwait Export. Marketing of the state share of AOC output, which was fully taken over by the Government in late 1979, reportedly reverted to the foreign partner on the former "buy back" basis at official prices in mid-1981.

^{2/} The former service fee of US\$0.15 per barrel deducted from sales to British Petroleum and Gulf was also eliminated at this time.

rates of up to 20 per cent, a month's credit has been worth over US\$0.50 per barrel to the buyer. According to press reports, extensions of the credit period to 60-90 days were mooted in September and October of 1981, but not changes in price or other terms, and apparently no contracts were concluded on this basis. With the price reductions following OPEC's late October meeting, it was officially restated that credit terms were 30 days. Other marketing terms include tight restrictions on destinations and resales introduced by Kuwait along with other oil exporting countries in late 1979, which have apparently been retained through 1981, along with requirements to buy local bunker fuel. Buyers are generally also obliged to use Kuwaiti tankers to carry half of their LPG and crude oil purchases, and the proportion for crude oil has recently been raised to 70 per cent.

4. Production and exports

Kuwait's crude oil production levels have been determined largely by international demand, budgetary revenue requirements, and conservation considerations. During the 1960s, with demand growing but prices remaining low, Kuwait's crude oil output rose steadily, reaching a peak annual average of almost 3.3 mbd in 1972 (Appendix Table 21). However, as the need for revenue receded after the 1973-74 oil price adjustments and the Government's role in operations was strengthened, the conservation objective came to the fore, and output fell to about 2.1 mbd by 1975-76 and below 2.0 mbd in 1977 and early 1978. Output turned upward more than seasonally in late 1978 and early 1979, however, first in response to minor price reductions in a slack market and then due to stock building as the market tightened (Table 2). It averaged 2.5 mbd during 1979 as a whole although a gradual decline occurred during the course of the year. Of the 2.5 mbd, more than 2.0 mbd was produced by KOC, less than 0.1 mbd by KOC/Wafra, and about 0.2 mbd by AOC.

Major reductions during 1980 and 1981 reinstituted the downward trend in crude oil output. With effect from April 1980 and simultaneously with the cutbacks in sales to major clients, the ceiling on KOC's average output ^{1/} was reduced from 2.0 mbd (the level applicable for most of the recent past) to 1.5 mbd. Thus, output fell sharply in the second and third quarters of 1980, and despite an upturn in the fourth quarter due to seasonal demand and efforts to supplement low Iraqi and Iranian shipments, it averaged less than 1.7 mbd (1.4 mbd for KOC) during 1980, down by one third from 1979. A further reduction in the KOC ceiling, to 1.25 mbd, went into effect in April 1981. By then a rapidly softening market was leading to even sharper declines in sales and output. There was a modest recovery at midyear, but it was cut short by the effects of a storage tank fire at Shuaiba in late August, which forced closure of the refinery for several weeks; minor damage to facilities in the

^{1/} The ceiling does not include KOC/Wafra operations, which are determined separately. Nor does the ceiling preclude production at higher levels for brief periods.

Table 2. Kuwait: Oil and Gas Summary, 1976-81 1/

	1976	1977	1978	1979	Prov. 1980	Est. 1981
Volumes						
Crude oil output (tbd)	2,145	1,967	2,128	2,496	1,659	1,140
Kuwait Oil Co.	(1,912)	(1,783)	(1,893)	(2,213)	(1,389)	(950)
KOC/Wafra & AOC	(233)	(184)	(235)	(283)	(270)	(190)
Crude oil (mb)						
Output (total)	785.0	718.1	776.9	911.0	607.1	416.1
Exports	(655.5)	(588.4)	(642.8)	(760.3)	(476.8)	(290.0)
Refinery supplies	(133.8)	(129.4)	(133.4)	(151.1)	(125.0)	(126.1)
Stock increases, etc. 2/	(-4.3)	(0.3)	(0.7)	(-0.4)	(5.3)	(—)
Oil and gas products (mb)						
Refined oil output	132.0	128.1	130.5	150.5	123.1	123.7
Gas liquids output	19.8	20.6	19.3	46.5	39.3	26.7
LPG output	(14.5)	(15.0)	(13.9)	(36.6)	(31.8)	(21.6)
Natural gasoline, etc.	(5.3)	(5.6)	(5.4)	(9.9)	(7.5)	(5.1)
Imports 3/	...	...	...	...	...	...
Local consumption	11.1	12.2	13.5	16.2	18.7	21.6
Exports	147.1	145.6	155.9	173.0	153.9	128.8
Bunker sales	(16.3)	(16.9)	(15.2)	(18.4)	(13.1)	(8.8)
Other refined 4/	(116.9)	(114.2)	(126.8)	(122.5)	(115.7)	(100.0)
LPG	(13.9)	(14.5)	(13.9)	(32.1)	(25.1)	(20.0)
Stock increases, etc. 2/	-6.4	-9.1	-19.6	7.7	-10.2	—
Total petroleum exports (mb)	802.6	734.0	798.7	933.3	630.7	418.8
Natural gas (bcf)						
Output (total)	395.8	362.6	392.8	460.4	310.1	210.0
Utilization	(243.8)	(245.3)	(242.8)	(334.4)	(260.0)	(195.0)
Flared, etc. 2/	(152.0)	(117.3)	(150.0)	(126.0)	(50.1)	(15.0)
Values						
Export value (KDm) 5/	2,659	2,557	2,629	4,782	5,420	4,160
Excluding bunkers 5/	2,598	2,504	2,584	4,703	5,304	4,070
Export unit value (US\$/b) 5/	11.33	12.16	11.97	18.55	31.71	35.67
Crude oil unit value 5/	11.22	12.34	12.19	18.24	31.69	37.31
Official crude oil price (31°)	11.26	12.32	12.23	18.34	29.53	35.15
Government oil revenues (KDm)	2,725	2,214	2,655	4,765	5,319	...

Sources: Central Bank of Kuwait, Ministry of Oil, Ministry of Planning, and staff estimates.

1/ In units indicated: thousand barrels per day (tbd), million barrels (mb), billion cubic feet (bcf), million Kuwaiti dinars (KDm), and U.S. dollars per barrel (US\$/b).

2/ Residual; includes statistical discrepancies.

3/ Mainly lubricants; recorded by weight; but apparently less than 3 mb.

4/ Includes natural gasoline (from gas); may also include some inter-refinery shipments.

5/ Reflects estimated premia on crude oil in 1980 and 1981 (Appendix Table 21, note 3).

North was also reported in October. 1/ The restarting of Shuaiba and the November price adjustments are believed to have led to a modest recovery and on this basis it has been assumed that average output for the year was about 1.14 mbd. 2/ This level would be less than half of the 1979 level and little more than a third of the 1972 peak.

Domestic refineries absorbed some 17-18 per cent of Kuwait's crude oil output during the late 1970s, as export demand for refined products paralleled that for crude oil. About 45 per cent of total refinery output has consisted of heavy residual fuel oil, although the proportion has edged downward over the period; gas oil and diesel follow in importance (at over 20 per cent together), then naphtha (15 per cent), kerosenes (9-12 per cent) and gasoline (5-6 per cent). The design capacity of Kuwait's three refineries totals about 0.6 mbd, but effective capacity is closer to 0.5 mbd and the highest actual annual throughput in recent years was 151 million barrels (or an average of about 415 thousand barrels per day) in 1979. 3/ Throughput declined considerably in 1980, but less so than crude oil output, so that the proportion refined rose to about 20 per cent. In 1981, despite the fire at Shuaiba, throughput is estimated to have more or less stabilized for the year as a whole due to the positive effects on export demand of the relatively competitive pricing of refined products. 4/

Domestic consumption of oil and LPG now accounts for over 15 per cent of Kuwait's refinery output and nearly 5 per cent of crude oil production (on the basis of 1981 estimates), and it has been increasing at annual rates of about 15 per cent a year. Kuwaiti studies put total energy consumption in 1980 at three times as much as oil and LPG alone (reflecting the use of natural gas for power generation and desalination) and rank it in per capita terms second only to that of the United States. Administrative steps are being taken to contain consumption by utilities and other state enterprises, but retail prices have remained low, e.g., the equivalent of US\$0.25-0.30 per U.S. gallon for motor gasoline.

Natural gas output closely parallels that of crude oil in Kuwait, since it is all produced in association with oil. The only nonassociated gas field so far, discovered in 1972 offshore from the Divided Zone, has not yet been brought into commercial production. Proven gas reserves

1/ Official data are available for only the first quarter of 1981, but reliable industry publications have reported on the second and third quarters. The fourth quarter figures used here are indicative staff estimates.

2/ This staff estimate reflects press information available up to the end of December 1981, which suggests somewhat lower fourth-quarter production and exports than did that available during the mission.

3/ Details of production and exports by refinery are given in Appendix Table 23.

4/ Other than first-quarter exports, data are not available. Estimates of details for 1981 are in general subject to a wider margin of error than are the estimates of the levels of crude oil output and total exports.

are estimated at 34 trillion cubic feet, or 1.3 per cent of the world total. As described earlier, associated natural gas now adds significantly to Kuwait's liquid hydrocarbon output in the form of propane, butane, and natural gasoline equivalent to 5-6 per cent of crude oil output. While production of both gas and NGLs have declined since 1979, the proportion of gas utilized (not flared) has risen from 60-65 per cent a few years ago to 84 per cent in 1980 (Appendix Table 25) and probably over 90 per cent in 1981. On the other hand, the production cutbacks have led to lower absolute levels of utilization, including reinjection to maintain oilwell pressure and the fueling of power plants.

Total exports of crude oil, refined products (including bunker fuel for ships), and LPG rose to 933 million barrels in 1979, the highest level since 1974, but fell by almost a third in 1980 and by another third in 1981. At the estimated level of under 420 million barrels in the latter year, they would be only some 54 per cent of the 1975-78 average. As realized prices (unit values) nearly tripled, however, export receipts doubled by 1980 to KD 5.4 billion (US\$20.0 billion), before receding by about a fourth in 1981 to KD 4.2 billion due to continuing volume declines and slackening prices. 1/ The estimated 1981 export value is about 60 per cent above the 1977-78 level in nominal terms, and if deflated by import prices, would be roughly 20 per cent above it in real terms. Despite varying lags due to export credit and recording delays, government oil revenues have come close to equaling export values in recent years. 2/ With the transfer of international marketing to KPC, however, they may correspond less closely in the future.

About one half of Kuwait's oil exports have been shipped to Asia and Oceania in recent years, although Japan's leading share dropped substantially in 1980 in favor of Singapore and other countries in the region (Appendix Table 26). Western Europe's share fell almost to one third in 1980, while Latin America's recovered to 6 per cent; shipments to North America remained minor. In addition to being the largest customer for Kuwait's oil, Japan accounts for most of its LPG sales.

5. Investment program

Through KPC and its subsidiaries, Kuwait has embarked on an extensive investment program in petroleum and related activities, with the aim of further husbanding its oil and gas reserves, increasing domestic value added in exports, and expanding into complementary and profitable undertakings abroad. In addition to production cutbacks and cautious oilfield management practices, conservation is being fostered by the extension of gas collection systems to the Divided Zone. Construction is due to begin early in 1982 in the Wafra (onshore) field to add to supplies for the NGL plant at Ahmadi while further reducing the flaring of gas.

1/ For details of export values, volumes, and unit values (summarized above in Table 1), see Appendix Table 21.

2/ Calendar-year revenue figures are given in Table 2 above.

Also, for the same objective, plans have been readied for a joint venture with Saudi Arabia in the Khafji (offshore) field. Seismic testing and drilling are being stepped up in and around Kuwait. Particular attention is being given to the less-explored depths below 6,000 feet and to the search for more unassociated gas, large reserves of which have been found nearby in the Gulf. Tapping such deposits would give Kuwait flexibility and stability in gas supplies, which are not tied to oil production.

A major program has recently gotten under way to increase effective refinery capacity by 50 per cent, to 750,000 barrels per day (b/d), by mid-decade and to improve the product mix. The Mena Abdullah (ex-Wafra) refinery is to be expanded from a working capacity of under 100,000 b/d to 300,000 b/d and modernized with the addition of extensive hydrocracking facilities, while modernization work on the Ahmadi refinery, already under way in 1981, is to be completed by 1984. These projects are aimed at permitting Kuwait to refine roughly one half of the crude oil production level permitted by the current ceiling, while sharply reducing the proportion of residual fuel oil in favor of lighter, more valuable products. In addition, KPC acquired a half share in a 67,000 b/d Hawaiian refinery in 1981, plans to invest with Saudi Arabia and Bahrain in an 80,000 b/d hydrocracking unit for joint use in Bahrain and, while earlier plans for a project in Romania have been dropped, KPC is reportedly considering participation in at least three other export refining and hydrocracking ventures abroad. Expansion of KOTC's tanker fleet, which is already one of the largest in the region, is continuing despite the cutbacks in crude oil output, but it is now emphasizing product carriers; two more large crude carriers are due in 1982, but conversion to product use and scrapping will reduce their number thereafter.

In petrochemicals, where both gas and naphtha are principal feedstocks and where value added can be increased substantially, the public sector role is aimed at producing the basic building blocks, while the private sector is being encouraged to go into the final products. In addition to the expansion of the fertilizer plant with a fourth ammonia line (now getting under way), construction of a 1.2 million-ton-per-year olefins/aromatics complex, which is a more sophisticated undertaking, is expected to begin shortly. Plans are also in the works for a diammonium phosphate unit and a new chlorine and caustic soda plant. Petrochemical Industries Company (PIC) has meanwhile taken a 45 per cent share in a local petrochemical firm in April 1980 and a 40 per cent share in a private melamine plant project in June 1981 to help make them successful. Abroad, KPC is participating, again with Saudi Arabia and Bahrain, in the Gulf Petrochemicals Industries plant in Bahrain, now under construction. PIC, meanwhile, has bought into a Tunisian phosphate fertilizer plant whose output can be used to complement Kuwait's ammonia fertilizer.

Overseas investments in "upstream" activities include a joint venture agreed upon in mid-1981 between KPC and AZL Resources for oil and gas exploration in the United States, participation in exploration in Morocco since June 1981, and a share in an exploration concession granted at the same time by Oman. Moreover, KPC has joined the International Energy

Development Corporation of Geneva, whose main focus is exploration in the developing countries. In 1980 KPC acquired access to a German oil engineering firm, and a major deal to purchase a U.S. drilling and industry service firm was reportedly closed late in 1981. A major expansion of the latter's exploration program has recently been announced.

II. Non-Oil Production, Employment, Wages, and Prices

1. Overall level of economic activity

The Central Statistics Office of the Ministry of Planning has revised the national income data for recent years and the revised data show a considerable improvement compared with those available previously. As a reflection of this improvement, components of the national income data in current prices as well as in constant prices relate reasonably well with other data on developments in the relevant economic sectors. The time series for national income data in constant prices have also been extended to cover more recent years. In addition, data with respect to expenditures on GDP in both current and constant prices have become available for the first time. Other major areas of improvement relate to better valuation of the manufacturing, construction, and financial services sectors as a result of expanded field surveys and availability of expertise.

As indicated in Table 3, the growth rate of total GDP (in constant prices) accelerated sharply in 1976, slowed down over the next three years, and turned negative in 1980 due to the impact of a large fall (33 per cent) in production of oil. However, since the impact of the changes in oil prices or terms of trade (not reflected in the oil sector's GDP in constant prices and thus distorting changes in total real income) is transmitted through government expenditures, a better indicator of the overall level of economic activity in Kuwait is the non-oil sector's GDP, which continued to rise by about 6.5 per cent in 1980 compared with 6.1 per cent in 1979 and 1.3 per cent in 1978.

The growth rate of the non-oil sector's GDP had slowed down sharply in 1978 and, despite a rapid rise in manufacturing in the subsequent year, it remained well below the rates of the mid-1970s due mainly to the impact of stabilization policies adopted by the Government. The slight acceleration in the growth rate in 1980 was due largely to a better performance in transportation, financial services, and other services (including government services). While national income data for 1981 are not available, other economic indicators suggest that the overall level of activity in the non-oil sectors has expanded by about 5 per cent in real terms. The slight deceleration in the rate of growth appears to have been mainly due to a slower rate of activity in the refining sector, while other sectors such as construction, trade, and services have shown the same trends as the year before.

Table 3. Kuwait: Gross Domestic Product by Industrial Origin
at Constant 1972 Prices, 1972-80

	1972	1975	1976	1977	1978	1979 1/	1980 2/
	(In millions of Kuwaiti dinars)						
Oil sector	913.49	578.33	596.97	545.90	590.76	691.76	459.3
Non-oil sector	550.48	728.66	876.33	981.98	994.90	1,055.91	1,124.4
Agriculture and fisheries	3.78	5.02	5.19	5.49	6.38	7.66	7.8
Mining	0.96	1.60	2.81	3.08	3.15	3.36	3.5
Manufacturing 3/	65.42	100.42	101.29	98.93	107.77	127.55	136.5
Electricity, gas, and water	10.77	14.88	17.55	20.77	24.59	28.60	30.0
Construction	38.43	55.10	86.96	103.74	105.83	102.86	100.8
Wholesale and retail trade	106.40	153.70	198.45	225.08	192.12	200.08	208.1
Transport, storage, and communications	34.51	49.79	73.59	83.18	91.10	96.52	102.3
Financial institutions	23.26	34.57	43.30	53.57	61.21	68.50	77.4
Insurance	1.99	2.60	4.02	4.27	5.08	5.64	5.6
Other	264.96	310.98	343.17	383.87	397.67	415.14	452.0
Of which: government services	(155.39)	(174.54)	(190.62)	(216.43)	(227.90)	(242.60)	(260.9)
Total GDP	1,463.97	1,306.99	1,473.30	1,527.88	1,585.61	1,747.51	1,583.7
	(In per cent)						
Growth rates							
Oil sector			3.2	-8.6	8.2	17.1	-33.6
Non-oil sector			20.3	12.1	1.3	6.1	6.5
Total GDP			12.7	3.7	3.8	10.2	-9.3

Source: Ministry of Planning, Central Statistical Office.

1/ Provisional.

2/ Preliminary.

3/ Includes petroleum refining.

Data with respect to expenditures on GDP in constant prices (Appendix Table 28) show that total investment expenditures declined in 1978 and 1979 and, therefore, the increases recorded in total GDP were absorbed solely by sharp rises in consumption expenditures. Most of the indicators used for measuring investment activity in Kuwait, such as imports of building materials, domestic production of building materials, imports of machinery and capital goods, number of building permits issued, credit extended, and government development expenditures (which are a pacesetter for all investment activities) showed a declining trend in these years. An apparent reason for this development was the completion of many large-scale infrastructure projects (in the earlier years) and the subsequent slowdown in investment expenditures for new projects. Reflecting these trends, domestic investment as a percentage of GDP (at current prices) declined from 13 per cent in 1975 to 11 per cent in 1979 (Appendix Table 29). Public investment has been concentrated in infrastructure, including electric power generation and desalination facilities, while private domestic investment has been mainly in the construction and services sectors.

In general, because of a high level of income and limited domestic investment opportunities, Kuwait's foreign investments are substantial and absorb the bulk of the large savings that the economy generates. The savings rate averaged about 64 per cent of gross national product (GNP) over the five years ended in 1979. Over the same period, only about 22 per cent of total savings was utilized domestically and the remaining 78 per cent was used to finance foreign investments (Table 4).

2. Sectoral developments

a. Agriculture and fisheries

Due to limitations imposed by climatic conditions and paucity of cultivable land, the agricultural sector in Kuwait is small relative to other economic sectors. The agricultural sector contributes less than 1 per cent of non-oil GDP. Current estimates indicate that of the total area of about 18 million dunums, 1/ less than 10 per cent is suitable for farming and presently only about 1 per cent is under cultivation. Apart from the scarcity of cultivable land and water, there is also a shortage of farming labor. The main source of irrigation is underground water, used mainly in the open fields along the Iraqi and Saudi Arabian borders. The fresh water produced by the desalination plants is used in greenhouses and for hydroponic cultivation. In addition, a project in Al-Sulaybiya produces water for irrigation by treating sewage. 2/

The main agricultural products are vegetables, such as tomatoes, eggplant, onions, cucumbers, squash, melons, and garlic, although some modest experimentation with fruit production has also been under way. Currently about 14 per cent of domestic consumption of vegetables is locally supplied.

1/ One dunum equals 1,000 square meters.

2/ For further details, see SM/80/146.

Table 4. Kuwait: Estimates of Investment and Savings, 1975-79 1/

(In millions of Kuwaiti dinars)

	1975	1976	1977	1978	1979
Public investment <u>2/</u>	200.0	288.9	460.5	539.8	507.9
Private investment	217.6	274.1	393.5	245.2	183.1
Change in stocks	<u>26.1</u>	<u>72.1</u>	<u>128.9</u>	<u>-7.5</u>	<u>6.2</u>
Gross domestic investment	443.7	635.1	982.9	777.5	697.2
Net exports of goods and services	1,899.0	1,742.4	1,158.0	1,308.0	3,365.0
Net factor income received from abroad	<u>224.0</u>	<u>441.0</u>	<u>518.0</u>	<u>734.0</u>	<u>920.0</u>
Total savings	2,566.7	2,818.5	2,658.9	2,819.5	4,982.2
Total savings as per cent of GNP	(69.2)	(65.8)	(58.2)	(57.2)	(67.7)

Source: Ministry of Planning.

1/ At current prices.

2/ Includes the joint sector in which public sector's participation exceeds the private sector's.

The Government has encouraged the private sector to expand production of food items that Kuwait could produce at reasonable cost. In addition to financial assistance and extension services, the Government has established demonstration centers to teach new techniques and methods of farming and animal husbandry. Nevertheless, Kuwait continues to be largely dependent on imported foodstuffs and total food imports in 1980 cost more than KD 230 million.

Poultry production takes place in a number of small farms, with an average daily production of 500-600 broilers providing about 3 per cent of poultry supplies in the country. The production of eggs is rather limited and accounts for a small portion (about 20 per cent) of local consumption. In the last two years, a number of larger farms for both broilers and layers have started with government participation (51 per cent), and it appears that Kuwait could soon become self-sufficient in the production of eggs and chicken meat.

In the absence of pastures and grazing land, Kuwait's livestock industry is limited. There are about 47 cattle farms ranging in size from 300-400 head per farm to 2,000 head in the largest. These farms are privately owned, but the Government provides technical advice, medical services, and direct subsidies to producers of meat and milk. The Government has been considering establishing sheep breeding units on an area of 1,100 hectares west of Kuwait City at Sulaybiya, with feed to be provided by growing alfalfa on 925 hectares irrigated with treated sewage effluent.

Fishing remains a traditional industry in Kuwait but its importance has diminished in recent years and currently accounts for only a small fraction of GDP. The Government, however, has attempted in recent years to expand and modernize the fishing industry. The government-run (but owned jointly with the private sector) United Fisheries Company of Kuwait, which was established in 1972, has expanded its operations over recent years. The number of vessels operated by the company has risen to 150 as of now compared with 90 at the time of its establishment. Since its establishment, the company's shrimp trade has become its most profitable operation. The average weight of the shrimp catch is about 3 million pounds per year, of which half is absorbed by the local market. A shrimp and fish processing and freezing plant has recently been opened in Shuaiba. To further promote the fishing industry the Government is modernizing the fishing vessels' refrigeration, as well as the canning facilities, and it is constructing a large fishing port.

b. Industry, power, and water

A few large-scale, export-oriented petrochemical industries and a wide range of small-scale manufacturing industries account for almost all of the industrial activity in Kuwait. The industrial sector has accounted for about 17 per cent of non-oil GDP in recent years (Appendix Table 27). Data on output of some major industrial products are shown in Table 5.

Table 5. Kuwait: Output of Major Industrial Products, 1975-80 1/

Product	Unit	1975	1976	1977	1978	1979	1980
Brackish water	million gallons	8.3	9.1	9.3	10.2	10.8	11.3
Potable water	million gallons	11.6	14.4	17.3	20.8	23.0	23.5
Electric energy	billion kwh	4.7	5.2	6.0	7.0	8.6	9.0
<u>(In thousand units)</u>							
Detergents	tons	0.1	0.4	0.7	1.0	1.1	1.6
Asbestos pipes	metric tons	30.2	31.5	28.2	49.4	68.0	37.4
Metal pipes	metric tons	43.4	65.0	38.6	26.6	10.3	36.8
Sand-lime bricks	cubic meters	170.5	213.6	215.0	262.5	357.8	376.8
Cement	tons	280.3	351.1	329.3	611.1	...	...
Flour milling (bran and flour)	tons	110.3	127.5	134.8	159.6	184.8	189.3
Fertilizers							
Urea	metric tons	445.3	530.6	550.2	664.0	662.0	467.0
Ammonia	metric tons	522.7	513.8	487.9	...	...	...
Chlorine	tons	6.1	5.4	5.8	7.0	8.2	8.0
Caustic soda	tons	6.0	6.1	6.5	8.0	9.2	9.1
Salt	tons	18.0	15.4	16.7	19.0	19.7	20.5
Hydrochloric acid	gallons	197.3	219.1	333.4	344.8	291.9	240.2
Sodium hypochlorite	cubic meters	5.0	6.0	7.3	9.9	11.2	11.4
Hydrogen	cubic meters	23.0	15.4	17.4	25.6	25.9	25.6

Sources: Ministry of Planning and Central Statistical Office.

1/ Other than crude petroleum and refined products.

The industrial sector may be divided into three main subsectors: public, mixed, and private. The public subsector is composed mainly of the hydrocarbon-based industries, such as refining, gas gathering and liquefaction, and petrochemicals (discussed in Section I above). In addition to companies producing crude oil, electricity, desalinated water, and providing certain other services, the major public sector companies include the PIC and the KNPC. 1/ Kuwait's main power and desalination plants are located in the Shuaiba industrial area. A total of 11 steam units and 2 gas units with a combined electric generating capacity of 895 mw operates in the area. With the addition of the Doha West and Doha East stations, the capacity of these units is being expanded to keep up with the rising demand. Doha East, opened in 1981, has 6 power units with a capacity of 150 mw each, and Doha West, which will start operating by 1983, will have 8 power units with a capacity of 300 mw each. There are 2 desalination plants and 11 distillation plants (with a total capacity of 44 million gallons a day) in Kuwait at present. The government plans call for construction of an additional 12 desalination plants, with a total capacity of 72 million gallons a day, and 7 distillation plants, with a total capacity of 36 million gallons a day by 1983.

According to estimates by the Ministry of Planning, the share of the mixed subsector in total industrial value-added has remained relatively stable around 20 per cent in recent years. The Government began joint participation with the private sector in 1960 when it established the Kuwait National Industries Company (KNIC) and took a 51 per cent share in the company. Since then, the mixed sector has grown considerably, and at present it includes nine operating companies; five are related either directly or indirectly to the building and construction industry, three to the foodstuffs industry, and one is a paper products factory. Three companies affiliated with KNIC produce prefabricated buildings, metal pipes, and cement. The KNIC's imports of machinery are exempt from tariffs and some of its products receive protection through tariffs. In recent years this company has begun to acquire equity participation in foreign and domestic companies.

The private subsector includes small manufacturing establishments numbering more than 3,000. About 60 per cent of these establishments is involved in the production of textiles, leather goods, and clothing, about 20 per cent in wood products, and the remaining 20 per cent in foodstuffs and metal products. While the private establishments accounted for the bulk of the industrial firms in number and employment, they generated only about 15-20 per cent of value added in the industrial sector over the 1975-80 period, reflecting the fact that most of them were very small artisan type operations.

1/ The operations of these companies have been reviewed in the petroleum sector (Section I).

While some new establishments have been added to Kuwait's industrial sector in recent years, its further expansion is hampered by the lack of suitable raw materials, the limited size of the domestic market, and the shortage of labor. The Government has encouraged the growth of industry through limited tariff protection and considerable financial assistance directly or indirectly through the Industrial Bank, established in 1974. The responsibility for formulating and implementing measures that would serve the industrial sector is shared by the Ministries of Oil, Commerce and Industry, and Planning, as well as the Industrial Bank of Kuwait and the Kuwait Institute for Scientific Research. There is also an Industrial Development Committee for implementing and coordinating industrial policy in Kuwait. This interministerial committee is headed by the Minister of Commerce and Industry and includes three representatives of other ministries, and three from the private sector.

The Kuwaiti authorities have recently undertaken a re-examination of the industrial development policy. The emerging policy envisages a shift toward the improvement of productivity and better utilization of existing capacities. Moreover, the authorities have become more selective in permitting the establishment of new industries and considerable attention is being given to preventing regional duplication and overexpansion. Some thought is also being given to linking financial investments with the development of markets abroad for Kuwaiti industries.

c. Shipping

The shipping industry in Kuwait has expanded considerably in recent years mainly because the Government has given high priority to the development of a domestic merchant and tanker fleet. In 1965 the Government established the Kuwait Shipping Company (KSC) to provide services in addition to those provided by the Kuwait Oil Tanker Company (KOTC) which was established in 1957. In late 1981 the KSC had a fleet of 36 ships, with 6 of those added in 1978, and 3 in 1979. The surge of imports into the neighboring countries in the wake of the oil price increases in recent years has led to an unusually rapid expansion in shipping operations, and the company has had to charter additional vessels to meet the rise in demand. The KSC joined the United Arab Shipping Company (UASC) in July 1976. Other members of UASC are Saudi Arabia, Qatar, Iraq, Bahrain, and the United Arab Emirates. Its authorized capital is KD 500 million and its paid-up capital is KD 280 million; five of the six member countries each have a 19.3 per cent share, while Bahrain holds the remaining 3.5 per cent. Most of the 57 vessels in the fleet are owned and operated by the UASC. The UASC employs about 2,760 full-time employees and 2,150 seamen. It showed a profit of KD 10 million in 1980 and is expected to show one of about the same magnitude again in 1981. The UASC has established the first container handling facility in Kuwait, the Shuwakh Container Terminal (SCT), which covers an area of 160,000 square meters and when fully completed will have the equipment and facilities for handling an annual throughput of 15,020 cubic feet containers and will be among the largest in the world.

The KOTC gradually increased the number of its tankers from 9 in 1976 to 14 crude oil carriers and 4 LPG carriers in 1980. The KNPC acquired 3 oil product tankers between 1976 and 1980 and received an additional 3 mixed crude product tankers (80,000 dwt each) in 1980 and is to receive a fourth one in early 1982. Two large (290,000 dwt) crude carriers are also on order, as are 6 more product tankers (3 of 28,000 dwt and 3 of 65,000 dwt). In line with the expansion of refining capacity (Section I.5), investment emphasis is now on product tankers.

d. Construction

There are no comprehensive statistics on construction activity in Kuwait. Available information includes the number of building permits issued, the level of government expenditures on construction, bank credit extended, imports of construction materials, domestic production of building materials, and value-added in GDP. As reflected by these indicators construction activity experienced an upsurge in the mid-1970s but has steadily slowed down in more recent years. The total number of building permits issued declined by 25 per cent in 1978, 34 per cent in 1979, 34 per cent in 1980, and 50 per cent in the first ten months of 1981 compared with the first ten months of 1980 (Table 6). The area covered under these permits showed a similar trend except for 1980, in which it increased very sharply due to designation of a large area for construction of recreation parks (for which work has not yet begun). The reasons for the slowdown in construction activity in the last few years include: the completion of most needed infrastructure, reduced incentive for construction of rental units due to soaring land prices, a tight credit policy, deceleration of government domestic expenditures, and the Government's decision to slow down the pace of its housing program from the rapid pace of 1974-76.

3. Population and labor force

A new census completed in 1981 showed that Kuwait's population has continued to increase rapidly over the last five years although not at the high rates that prevailed during the 1960s and early 1970s. Total population was slightly under 1.4 million in 1980, about 36 per cent higher than in 1975. The annual growth rate averaged more than 6 per cent over the 1975-80 period compared with 11 per cent per year over the 1965-75 period. The rise in the number of Kuwaiti nationals was slower (amounting to 19 per cent during 1976-80) than that of the non-Kuwaiti population (52 per cent). Thus, the overall high rate of population growth has been mainly due to Kuwait's relatively liberal policy in hiring foreign workers.

Kuwait's total labor force was estimated at 489,000 workers in 1980, comprising 36 per cent of the population. The labor force increased by 60 per cent over the five years ended 1980 with the share of Kuwaiti workers falling to 22 per cent from 29 per cent in 1975 due mainly to a relatively rapid increase in the number of expatriate workers largely

Table 6. Kuwait: Construction Permits Issued, 1970-81

(Area in 1,000 square meters)

	<u>Residential</u>		<u>Commercial</u>		<u>Industrial</u>		<u>Total</u>	
	Number	Area	Number	Area	Number	Area	Number	Area
1970	4,052	905	75	48	199	191	4,326	1,144
1971	5,934	1,367	109	113	77	84	6,120	1,564
1972	4,975	1,463	222	218	34	51	5,231	1,732
1973	4,962	1,335	304	197	43	46	5,309	1,578
1974	4,496	1,118	441	323	19	52	4,956	1,493
1975	7,427	1,783	469	407	39	39	7,935	2,229
1976	8,427	2,251	547	663	55	159	9,029	3,073
1977	5,440	3,541	304	800	91	292	5,835	4,633
1978	4,073	3,259	241	897	86	337	4,400	4,493
1979	2,606	2,766	215	1,254	77	218	2,898	4,238
1980	1,660	2,252	172	954	76	11,503 ^{1/}	1,908	14,709
1980								
Jan.-								
Aug.	...	...	...	...	...	...	1,357	2,224
1981								
Jan.-								
Aug.	...	...	...	...	...	...	685	1,519

Source: Ministry of Planning.

^{1/} The Council of Ministers decided in October 1980 to move the industrial concerns from Shuwaikh (which is a residential area) to other parts of the country, and issued permits covering a wide area. Also, it designated a large area for construction of recreation parks; however, actual work on this project has not yet begun.

during the 1975-77 period. An interesting feature of developments has been a rise in the rate of participation in the labor force for females, both Kuwaitis and non-Kuwaitis, as well as for non-Kuwaiti males. There is also very little unemployment in Kuwait and what exists is basically transitory and is concentrated among the non-Kuwaitis (Table 7).

The distribution of labor force by economic activity indicated concentration in the miscellaneous services sector (34 per cent), trade and restaurants (13 per cent), construction (11 per cent), manufacturing (8 per cent), and transport and communications (5 per cent). A large portion of the non-Kuwaiti labor force is employed in household service which is considered to be of low productivity. In general, the reliance on foreign labor is considered to entail high costs to the country arising from increased demand for accommodation and other facilities. The Government's current labor policy objective is to reduce the rate of influx of foreign labor. To achieve this, the issuance of work permits has been made somewhat more restrictive (Appendix Table 30). Now, only those non-Kuwaiti workers who earn more than KD 400 per month and have been given housing facilities by the Government are allowed to bring in their families, and those who are given permits for a particular job can only change their job after one year. During the late 1970s, the authorities tried to contain the rise in demand for labor by emphasizing fiscal restraint and financial stability. The Government's manpower policies emphasize vocational training for Kuwaitis for which numerous fully-equipped and well-staffed training centers have been established. In addition, considerable expenditures have been made for strengthening institutions of higher education and the number of Kuwaiti enrollees in universities is expected to increase to about 11,000 by 1982 from 1,000 in 1976.

4. Wages and prices

While adequate time series data with respect to wages and salaries are not available, some partial data and rough estimates indicate that wages for the private sector rose on the average by about 10 per cent in 1978, 27 per cent in 1979, and 20 per cent in 1980, following an average annual increase of over 25 per cent during the 1973-77 period. It is believed that the increase in wages was particularly brisk in the construction sector during the 1974-76 period in line with the then prevailing construction boom. In the public sector, wages and salaries remained unchanged during the 1974-78 period, but, with a view to compensate for the rise in the cost of living, the Government had adopted a liberal system of promotions and nonwage allowances, resulting effectively in higher worker compensation. Public sector wages and salaries were increased by 20 per cent in 1979. There were no increases in 1980, but in 1981 there was a lump sum increase of KD 50 and KD 35 each for married and unmarried Kuwaiti nationals, respectively. In addition to these, there were some increases in allowances for doctors, teachers, and engineers.

Table 7. Kuwait: Population and Employment, 1975-80

(In thousands)

	Kuwaiti			Non-Kuwaiti			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
1975 Census									
Employed	7.3	79.7	87.0	27.5	183.9	211.4	34.8	263.6	298.4
Unemployed <u>1/</u>	0.2	4.7	4.9	0.2	1.1	1.3	0.4	5.8	6.2
Total labor force <u>2/</u>	7.5	84.3	91.8	27.7	185.0	212.7	35.2	269.3	304.5
Population	235.5	236.6	472.1	215.6	307.2	522.7	451.1	543.8	994.9
Participation rate (in per cent) <u>3/</u>	(3.2)	(35.7)	(19.5)	(13.9)	(60.2)	(40.7)	(7.8)	(50.4)	(30.6)
1980 Census									
Employed	...	...	106.1	...	...	374.3	...	...	480.4
Unemployed <u>1/</u>	...	...	3.1	...	...	4.4	...	...	7.5
Total labor force <u>2/</u>	14.3	94.9	109.1	49.3	329.4	378.7	63.6	424.3	487.9
Population	283.5	278.5	562.0	296.2	497.6	793.8	579.7	776.1	1,355.8
Participation rate (in per cent) <u>3/</u>	(5.1)	(34.1)	(19.4)	(16.6)	(66.2)	(47.8)	(11.0)	(54.7)	(36.0)

Source: Ministry of Planning, Central Statistical Office.

1/ Total unemployment estimated by Ministry of Planning.2/ Labor force includes population 15 years old and over.3/ Employment as per cent of total population.

The Central Statistical Office of the Ministry of Planning has been publishing cost of living and wholesale price indices which have been based on budget surveys carried out in 1972. ^{1/} While these indices have limited coverage and underestimate the rise in prices due to the heavy weight of the subsidized commodities, they nevertheless seem to have had reflected for some period reasonably well the general trend in price movements. As indicated by these indices the increase in prices, after accelerating during the 1972-75 period, has been slowing down over the last several years. The average annual rate of increase of about 10 per cent in the cost of living index during the 1972-75 period declined to about 7 per cent during the 1976-80 period (Table 8). The deceleration was particularly steep in 1979 when the cost of living index rose by only 5.2 per cent compared with 6.2 per cent in 1978 and 9.7 per cent in 1977. The relatively high rate of increase in 1977 resulted mainly from a sharp rise in housing costs reflecting both a modification in the coverage of this item and an actual increase in the housing cost as a result of a new rent law passed in September 1977 which permitted increases up to 100 per cent for rents that had remained frozen during the previous five years. After the slowdown in 1979 there was a slight acceleration of price increases in 1980. Partial information suggests that it continued into 1981 but that the rise remained moderate.

In general, the moderation in price pressures in recent years reflects the impact of the authorities' improved demand management policies and the expansion in supply availabilities owing to the elimination of transport bottlenecks and other constraints. In addition, the Government's subsidy programs have been an important factor in moderating the impact of any underlying demand pressures on prices.

The Government's direct price subsidy program is carried out partly through the Kuwait Supply Company, established in late 1973 to subsidize prices of basic food items such as rice, sugar, edible oils, and milk, and partly through the Union of Cooperative Societies which provides subsidies for a variety of other commodities. In addition to these, direct subsidies are also provided to producers and importers of cement, dairy products, flour, sand limestone, iron rods, and live animals. The budgetary costs of these subsidies amounted to about KD 10 million a year in the late 1970s and are estimated to increase to KD 23 million in 1980/81. Of far greater importance than the direct subsidies are the indirect subsidies for energy and utilities, provision of many welfare benefits, such as free education, health care, and subsidies for housing. Budgetary payments for these subsidies are put at KD 140 million in 1981/82 compared with KD 54.4 million in 1978/79.

^{1/} The indices noted above have steadily become less representative of general price trends in more recent years due to changes in pattern of consumption and expenditures. As a result, the Central Statistical Office has currently been engaged in preparation of new indices based on budget and other surveys for 1977 and 1978. In addition to other improvements, the new indices have an enlarged commodity basket, a better selection of retail outlets, and more adequate rental data.

Table 8. Kuwait: Cost of Living Index, 1975-80
(1972 = 100)

Relative Weight	Index					Per Cent Change over Preceding Year						
	1975	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980	
Foodstuffs	37.1	153.7	163.7	175.4	182.6	186.4	206.9	14.5	7.1	4.1	2.1	11.0
Clothing and cosmetics	14.5	124.4	135.6	151.8	159.8	178.0	188.4	9.0	11.9	5.3	11.4	5.8
Household appliances	2.6	146.5	149.7	157.2	161.0	164.8	179.8	2.1	5.0	2.4	2.4	9.1
Housing and related services	17.7	106.0	122.8	145.8	164.3	174.7	186.4	15.8	18.7	12.7	6.3	6.7
Durable consumer goods	14.0	136.8	138.8	150.9	158.7	166.8	169.2	1.4	8.7	5.2	5.1	1.4
Transport and communication	9.6	120.8	119.2	130.5	141.0	147.0	159.9	1.4	9.4	8.0	4.3	8.8
Educational, medical, and recreational services	4.5	118.6	126.0	132.1	144.9	163.5	184.6	7.9	3.2	9.7	12.8	12.9
General Index	100	133.7	142.7	156.6	166.4	175.0	188.5	6.7	9.7	6.2	5.2	7.7

Source: Ministry of Planning, Central Statistical Office.

5. Development planning

Development planning began in Kuwait in early 1967 when a Planning Board was created and a five-year plan covering the period from March 1967 to March 1972 was launched. The plan's implementation, however, was suspended in 1967. In an effort to accelerate the development process in a coordinated and comprehensive manner, a Five-Year Development Plan covering the 1976/77-1980/81 period was prepared and submitted to the Cabinet for approval. To expedite the implementation of the plan, a Ministry of planning was established in early 1977 to replace the Planning Board.

While the draft plan was not formally approved, the capital expenditures of the budgets during 1976/77-1980/81 period included allocations for the projects in the plan. The draft plan provided for total fixed investment of KD 4.4 billion, a substantial increase in investments over previous years, of which more than 75 per cent was to be in the public sector. In an effort to broaden the country's economic base, it placed special emphasis on industrialization; about 38 per cent was to be spent directly on this sector, with priority given to capital-intensive, export-oriented industries using oil and gas as feedstocks and/or as a source of energy. In support of this industrialization program, another 30 per cent of total planned investment was allocated to the expansion of electric power generation and water desalination and to the improvement of the transportation, port, and storage facilities. To ensure adequate housing accommodations and to expand the educational and health facilities, 31 per cent of the investment was to be made in the construction sector (Appendix Table 32). As of the present, no new development plan has been drafted, but the Ministry of Planning has been carrying out a number of feasibility studies and has been strengthening the statistical foundation for the planning process.

III. Public Finance

1. Introduction

The public sector in Kuwait consists of the government administrative units and the public enterprises. The government administrative structure is made up of two groups: first, the central government units covered by the general budget including the Head of State and 19 ministries and departments and second, the central government units with attached budgets (largely dependent on transfer from the general budget), namely, the Public Authority for Southern Arabia and the Gulf (which administers transfers to nations in those areas), the Public Authority for Housing, the Kuwait University, the National Assembly, the Public Institution for Social Security, and the Municipality of Kuwait. ^{1/} Effective June 1980 the Land Acquisition Department, which previously had its own attached budget,

^{1/} The Municipality of Kuwait administers all three governorates in Kuwait, i.e., the capital area, Hawalli, and Ahmadi.

was incorporated with the Municipality of Kuwait budget. Among the public enterprises there are 12 nonfinancial enterprises and 9 financial enterprises, all of them having separate budgets and legally and financially independent of the Central Government. Important changes resulted from the establishment in January 1980 of the KPC, which took over as subsidiaries four public enterprises in the oil sector and became responsible for marketing both crude oil and refined products. 1/ Since fiscal year 1980/81 (ended June 30) oil revenues in the central government budget have reflected only the sales of crude oil (and small amounts for gas) to KPC at the official government sales prices, while KPC has retained the difference between this cost and its realized prices for crude oil, refined products, and LPG, it also deducts the losses on domestic sales (at prices far below export levels) from its payments to the Treasury for crude oil. On the expenditure side, payments previously made by the Government for financing current and capital operations in the hydrocarbon sector have become the responsibility of KPC and therefore have been taken out of the budget.

The financial structure of the Central Government consists of the General Account and two extrabudgetary special accounts, the Reserve Account and the Reserve Fund for Future Generations. Most government financial operations are effected through the General Account, which covers the current and capital outlays of the general budget and part of the Government's domestic lending operations. Investment income, however, does not appear in the general budget. It is treated by the Government as an extrabudgetary item and is added to the two reserve accounts.

The General Reserve and the Reserve Fund for Future Generations are the vehicles for the disposition and management of overall budgetary surpluses. The General Reserve receives the repayments of loans extended by the Government, investment income from assets held in this account, and any surplus in the general budget. Its financial resources are used to meet contingencies, to acquire domestic and foreign assets, to make transfers to local public agencies and private companies, and to make transfer payments to foreign countries and international organizations. The Reserve Fund for Future Generations, which was established in fiscal year 1976/77, was credited initially with an allocation of 50 per cent of the resources of the General Reserve and by law (No. 106 of 1976) is credited annually with at least 10 per cent of total government revenues (exclusive of investment income), 2/ 10 per cent of investment income accruing to the General Reserve, and all of the income accruing from its own investments. Unlike the General Reserve, the Reserve Fund for Future Generations cannot by law be used to finance budgetary outlays.

1/ See Section I, subsections 2 and 3 for institutional and financial details, respectively.

2/ The percentages of budgetary revenues earmarked for the Reserve Fund for Future Generations have substantially exceeded the legal minimum, amounting to 20 per cent in 1980/81 and 28 per cent in 1981/82.

Table 9 gives a summary of consolidated fiscal data for all units of the Central Government, net transfers to government agencies with attached budgets, and net domestic lending and equity participation in public sector enterprises. Due to nonavailability of adequate data on government external and domestic assets, the main financing items are computed as a residual inclusive of discrepancies reflecting unrecorded revenues and/or expenditures.

2. Overall fiscal developments

The outcome of government financial operations summarized in Table 9 shows that the overall surplus averaged KD 1.5 billion (about one third of GDP) between 1976/77 and 1978/79 and rose sharply to over KD 4.0 billion (well over one half of GDP) in the following two years. In only two out of the five years under review, namely, 1977/78 and 1980/81, the overall surplus dropped somewhat as a result of stabilization or decline in oil receipts while expenditures maintained an upward trend. The various factors responsible for developments in revenues and expenditures are analyzed below. The ratio of total government revenues to GDP rose on average from 73 per cent during the three years ended in June 1979 to about 89 per cent in the following two years. The corresponding total outlays (including net lending) to GDP ratios were 40 per cent and 34 per cent, respectively.

During the last five fiscal years, about 97 per cent of government revenue was derived from oil export earnings and income from investments (mostly foreign). These foreign exchange earnings affect the domestic economy only when used to finance government domestic expenditures. In order to assess the impact of fiscal operations on domestic demand in Kuwait, the aggregate data presented in Table 9 have been modified in Table 10 to estimate domestic expenditures on the basis of data on actual foreign expenditures now available from the Central Bank, which is the main paying agent of the Government. Previously, foreign expenditures were estimated at 10 per cent and 75 per cent of current and development outlays, respectively. The Central Bank payments data were adjusted to incorporate loan disbursements and foreign investments of the Kuwait Fund.

Following increases at an average annual rate of about 40 per cent during 1974/75-1977/78, ^{1/} government net domestic expenditures stabilized in 1978/79; the growth accelerated to about 26 per cent in 1979/80, and then slowed down to about 14 per cent in 1980/81 (Table 10). The stabilization of government domestic expenditures in 1978/79 contributed significantly to the slowdown in domestic economic activity and, coupled with the improved flow of goods and services from abroad, helped to reduce the inflationary pressures which had persisted during the mid-1970s. As the economy was largely free from supply constraints, the expansionary impact of higher domestic expenditures by the Government in 1979/80 and 1980/81 stimulated private economic activity without generating inflationary pressures.

^{1/} See SM/80/146, Table 15, p. 32.

Table 9. Kuwait: Government Financial Operations, 1976/77-1981/82

(In millions of Kuwaiti dinars)

	Actuals					Budget	
	1976/77	1977/78	1978/79	1979/80	1980/81 ^{1/}	1980/81	1981/82
Revenue	2,992.2	3,049.0	3,648.6	6,922.8	6,302.5	6,242.7	7,201.7
Oil and gas	2,598.3	2,575.3	3,036.1	5,940.4	4,434.2	4,493.5	5,096.7
Investment income	329.4	384.2	521.4	880.3	1,743.9	1,660.6	2,000.0
Other current	58.9	84.8	86.7	95.6	111.1	84.0	99.2
Capital	5.6	4.7	4.4	6.5	13.3	4.6	5.8
Expenditure	1,268.0	1,612.0	1,632.5	2,147.1	2,569.5	2,867.0	2,930.4
Current ^{2/}	705.0	716.0	832.1	1,207.3	1,419.7	1,685.6	1,654.2
Transfers abroad	101.5	213.7	194.0	213.0	261.1	250.6	264.4
Development	353.1	493.9	499.0	462.9	496.9	730.8	711.8
Land purchases	108.4	188.4	107.4	263.9	391.8	200.0	300.0
Net domestic lending	210.3	303.7	262.1	231.3	148.3		
Participation ^{3/}	175.1	297.4	239.0	217.8	50.0 ^{4/}		
Lending (net)	35.2	6.3	23.1	13.5	98.3		
Total outlays	1,478.3	1,915.7	1,894.6	2,378.4	2,717.8	2,867.0	2,930.4
Current surplus ^{5/}	2,180.0	2,114.6	2,618.1	5,496.0	4,608.4	4,301.9	5,277.3
Overall surplus	1,513.9	1,133.3	1,754.0	4,544.4	3,584.7	3,375.7	4,271.3
Financing ^{6/}	-1,513.9	-1,133.3	-1,754.0	-4,544.4	-3,584.7		
Deposits with local banks	-21.0	-68.0	-36.0	-190.5	-160.3		
Cash balances	-8.9	1.7	19.8	-0.6	-33.8		
External investments and domestic assets ^{7/}	-1,484.0	-1,067.0	-1,737.8	-4,353.3	-3,390.6		

Sources: Ministry of Finance and Central Bank of Kuwait.

^{1/} Provisional.

^{2/} Wages and salaries, purchases of goods and services, and domestic transfers.

^{3/} Includes contributions to Kuwait Fund for Arab Economic Development.

^{4/} Based on incomplete data.

^{5/} Revenues other than capital revenue less current expenditures and transfers abroad.

^{6/} Increases in deposits, balances, and assets denoted by minus sign.

^{7/} Includes discrepancies between budget results and financing items.

Table 10. Kuwait: Estimated Government Domestic Expenditures, 1977/78-1980/81

(In millions of Kuwaiti dinars)

	1977/78	1978/79	1979/80	1980/81 <u>1/</u>
1. Total expenditures and net domestic lending	1,915.7	1,894.6	2,378.4	2,717.8
2. Domestic revenues	108.7	117.2	146.1	211.6
Domestic fiscal revenue <u>2/</u>	(89.5)	(91.1)	(102.1)	(124.4)
Domestic investment income <u>3/</u>	(19.2)	(26.1)	(44.0)	(87.2)
3. Government foreign expenditures, <u>4/</u> of which:	429.6	392.5	481.4	513.8
Contribution to KFAED	(60.0)	(55.6)	(50.0)	(75.0)
4. Net domestic expenditures (1-2+3)	1,377.4	1,384.9	1,750.9	1,992.4
Change in per cent	(...)	(0.05)	(26.4)	(13.8)

Sources: Table 9, Central Bank of Kuwait, and staff estimates.

1/ Provisional.

2/ Revenues other than oil receipts and investment income.

3/ Income from domestic assets. Estimated at 5 per cent of total investment income.

4/ Data provided by the Central Bank of Kuwait.

3. Revenues

Budgetary revenues are dominated by oil receipts but investment income, which is treated as extrabudgetary and is derived mainly from foreign assets, has also become important. During the four-year period ended 1979/80 oil receipts (comprising direct sales of crude oil, refined products and gas, as well as some tax and royalty payments) accounted for 83-87 per cent of total revenues, and investment income for another 11-14 per cent. In 1980/81, however, the share of oil receipts declined to 70 per cent, while that of investment income rose to about 28 per cent. Other revenues (mainly custom receipts) have accounted for 2-3 per cent of total (Table 11). Customs duties are levied at a standard rate of 4 per cent on the c.i.f. value of commercial imports. Foodstuffs and produce goods are exempted, while protective duties are applied to imports competing with local products. 1/ Other revenue sources comprise: (a) a tax on net income and profits of non-oil companies carrying on trade or business in Kuwait levied at 5-55 per cent on a sliding scale, which in practice is not assessed on companies owned fully by Kuwaiti shareholders; (b) various fees and charges pertaining to property transfers, motor vehicle registrations, and miscellaneous activities; and (c) capital revenues from resale of land by the Government.

Total revenues, which have maintained a steady upward trend since 1976/77, rose sharply in 1979/80 but fell in 1980/81. The 90 per cent increase in total revenues in 1979/80 was due mainly to a near doubling of oil receipts, partly because of price increases and also due to the shortening of the credit period on oil sales from two months to one month effective September 1979, which resulted in an extra month's payment. Another contributing factor was the substantial increase (by 69 per cent) in investment income. Investment income rose even faster in 1980/81, nearly doubling to KD 1.7 billion, due to additions to foreign assets and high international interest rates. Nevertheless, total revenue declined by 9 per cent because of lower crude oil production, smaller oil price increases, and the transfer of profits from sale of refined products and LPG to the Kuwait Petroleum Corporation.

4. Expenditures

Over the five-year period ended June 1981 current expenditure (comprising wages, salaries, purchase of goods and other services, and domestic transfers) accounted on average for over 46 per cent of total government outlays, development expenditures for 23 per cent, foreign transfers for 9 per cent, land purchases for 10 per cent, and net domestic lending (including capital participation in public enterprises) for 12 per cent. Following a 30 per cent increase in 1977/78, total outlays declined marginally in 1978/79 but rose in the following two years by 26 per cent and 14 per cent, respectively.

1/ For details see Section V.

Table 11. Kuwait: Government Revenues, 1976/77-1981/82

(In millions of Kuwaiti dinars)

	Actuals				Budget	
	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Oil receipts	2,598.3	2,575.3	3,036.1	5,940.4	4,493.5	5,096.7
Taxes on net income and profits of oil companies	109.0	257.4	78.7	131.6	136.9	177.1
Oil royalties	32.0	17.0	18.7	15.5	43.2	51.0
Sales of oil and gas	2,457.3	2,300.9	2,938.7	5,793.3	4,313.4	4,868.5
Crude oil	(...)	(2,121.0)	(2,575.4)	(4,983.9)	(4,125.5)	(4,813.8)
Refined products	(...)	(140.1)	(307.9)	(592.6)	(--)	(--)
Gas	(...)	(39.8)	(55.4)	(216.8)	(187.9)	(54.7)
Investment income	329.4	384.2	521.4	880.3	1,660.6	2,000.0
Other current revenues	58.9	84.8	86.7	95.6	84.0	99.2
Tax revenues	46.1	48.8	51.0	61.7	52.4	63.8
Taxes on net income and profits of non-oil companies	(0.1)	(0.3)	(0.7)	(1.1)	(0.7)	(0.7)
Taxes on property transfers	(4.2)	(3.0)	(3.8)	(6.4)	(4.0)	(6.0)
Customs duties	(41.1)	(45.3)	(46.3)	(53.9)	(47.4)	(56.8)
Other taxes	(0.7)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Nontax revenues ^{4/}	12.8	36.0	35.7	33.9	31.6	35.4
Capital revenue	5.6	4.7	4.4	6.5	4.6	5.8
Resale of land	5.6	4.7	4.4	6.5	4.6	5.8
Total revenue	2,992.2	3,049.0	3,648.6	6,922.8	6,242.7	7,201.7

Sources: Ministry of Finance and Central Bank of Kuwait.

1/ Provisional.

2/ Central Bank of Kuwait estimate.

3/ Staff estimate.

4/ Administrative fees and service charges. Excludes operating revenues of utilities (electricity, water, transportation, and communication services).

Fiscal year 1978/79 marked a reversal of the expansionary trend in the Government's budgetary policies. Current expenditures for wages, salaries, and goods and services rose somewhat in real terms, but other expenditure categories constituting about 36 per cent of total were either stabilized or reduced, even in nominal terms.

The upsurge in total expenditures that followed in 1979/80 was confined to current expenditures and no spending under the land purchase program. Current expenditures rose by 45 per cent to KD 1.2 billion because of upward adjustments in wages and salaries, increased defense expenditure, and higher payments for food and other subsidies. Wages and salaries of public sector employees were raised by 20 per cent in December 1979 and the increase was made retroactive to February 20, 1979 (Table 12). Effective July 1, 1979 a social grant of KD 10 per child (up to a maximum of KD 100 per family) was paid to qualified public sector employees. In the same year expenditure under the land purchase program rose by 146 per cent to some KD 264 million. The Government's land purchase program involves the acquisition of land from Kuwaiti citizens, often at above market value, for construction of roads, public buildings, industrial sites, public parks, and housing projects for lower income groups. This program also involved reselling land to individuals and corporations for houses or factories at prices substantially lower than acquisition prices. As such, it has been used by the Government as an instrument for income distribution and for direct injection of liquidity into the economy, and the actual amounts spent under this program frequently deviate widely from budget allocations.

The lower rate of increase of total expenditures (excluding net lending) in 1980/81 was on account of a deceleration in the growth rate of current expenditures and expenditures for land purchases (Table 9). Following the increase of 45 per cent in 1979/80, current expenditures grew by only 18 per cent in 1980/81 and most of this increase emanated from expenditures for goods and services and from domestic transfers (Table 12). The latter category included sharply higher transfers for the Public Institution for Social Security and KD 27 million grants of KD 100 to each public sector employee effective November 12, 1980. Regarding expenditure for land purchases, the increase decelerated from 146 per cent in 1979/80 to 48 per cent in 1980/81. Moreover, net domestic lending appears to have declined in absolute terms, although the preliminary actuals are incomplete. Capital participation in the KPC (between KD 500 million and KD 600 million during 1979/80 and 1980/81) involved a transfer of previously paid in capital subscriptions in the four companies taken over by KPC, reassessed at their end-1978 value, rather than a cash payment by the Government.

There is no separate development budget in Kuwait, expenditures on sectoral investment projects being allocated under a separate heading (chapter 4) of the general budget. Data for recent years are given in Table 13. Following several years of continuous increase, total development expenditures leveled off in 1978/79 and declined in 1979/80,

Table 12. Kuwait: Government Current Expenditures, 1976/77-1981/82 1/

(In millions of Kuwaiti dinars)

	Actuals					Budget	
	1976/77	1977/78	1978/79	1979/80	1980/81 <u>2/</u>	1980/81	1981/82
Economic classification							
Current expenditure	705.0	716.0	832.1	1,207.3	1,419.7	1,685.6	1,654.2
Wages and salaries	368.2	423.0	456.6	621.6	639.0	708.2	771.5
Goods and other services	314.3	272.6	352.4	467.0	585.9	831.0	720.7
Domestic transfers	63.3	66.7	79.1	168.4	213.0	204.5	239.3
Subtotal	746.0	762.3	888.1	1,257.0	1,437.9	1,743.7	1,731.5
Adjustment <u>3/</u>	-41.0	-46.3	-56.0	-49.7	-18.2	-58.1	-77.3
Functional classification							
Current expenditure	705.0	716.0	832.1	1,207.3	...	1,685.6	1,654.2
General public service <u>4/</u>	40.3	82.1	118.2	228.6	...	155.5	159.5
Security and defense	296.6	286.9	265.2	334.1	...	362.6	443.1
Education services	263.4	143.5	153.6	187.8	...	217.2	259.9
Health services	56.9	63.8	78.7	101.3	...	128.5	172.2
Social affairs	62.0	62.8	99.9	115.5	...	235.5	300.0
Housing facilities	38.6	49.9	50.2	46.3	...	50.7	62.9
Economic services <u>5/</u>	102.8	234.2	166.7	201.6	...	586.0	355.2
Subtotal	860.6	923.2	932.5	1,215.2	...	1,736.0	1,752.4
Adjustments <u>6/</u>	-155.6	-207.2	-100.4	-7.9	...	-50.4	-98.2
Utilities' transactions <u>7/</u>							
Operating revenues	41.0	46.3	56.0	49.7	...	58.1	77.3
Operating expenditures	59.7	69.0	71.0	69.8	...	86.8	98.2
Net transfers from budget	18.7	22.7	15.0	20.1	...	28.7	20.9

Sources: Ministry of Finance and Central Bank of Kuwait.

1/ Excludes transfers abroad.

2/ Provisional.

3/ Operating expenditures of utilities (electricity, water, transportation, and communications services) financed from their own operating revenues. Adjustment treats public utilities as public economic enterprises rather than as government agencies, leaving only net transfers to them in expenditures (under wages and salaries and goods and services). Ports and harbors are treated this way in budget from 1979/80.

4/ Includes general administration and general research.

5/ Includes utilities and commercial, agricultural, and industrial services.

6/ Balancing item. Reflects expenditures financed from and transferred to the suspense account, as well as expenditures by utilities and independent agencies from own resources.

7/ Amounts included gross in budgetary data but treated net through adjustment. See footnote 3.

Table 13. Kuwait: Development Expenditures, 1976/77-1981/82

(In millions of Kuwaiti dinars)

	Actuals					Budget	
	1976/77	1977/78	1978/79	1979/80	1980/81 1/	1980/81	1981/82
Education and culture	13.4	29.0	18.2	15.0	17.9	29.1	31.1
Health	17.6	34.9	20.6	10.7	8.2	8.4	11.0
Housing and related facilities	89.2	146.0	134.6	136.5	110.3	199.5	151.0
Electricity and water	88.6	113.5	132.8	147.5	179.6	190.1	300.9
Transportation and communications	40.4	67.5	80.2	96.9	123.0	134.8	149.0
Industry	113.3	118.8	99.6	77.7	80.0	105.1	28.6
Agriculture and fisheries	1.5	0.8	0.5	2.4	1.2	2.9	2.3
Others 2/	<u>-10.9</u>	<u>-16.6</u>	<u>12.5</u>	<u>-23.8</u>	<u>-23.3</u>	<u>60.9</u>	<u>37.9</u>
Total	353.1	493.9	499.0	462.9	496.9	730.8	711.8

Sources: Ministry of Finance and Central Bank of Kuwait.

1/ Provisional.

2/ Balancing item. Reflects inclusion in total of other social welfare, administrative, and unclassified expenditures; and exclusion from total of expenditures financed from the resources of independent agencies.

thus falling considerably short of the budget allocations. The shortfall in implementation was attributable mainly to problems of preparation and coordination, such as in the allotment of land for projects or timely completion of water and electricity connections. In 1980/81 development expenditures turned back up, but only by 7 per cent, representing a further decline in real terms. Furthermore, with less than 70 per cent of budget allocations actually spent, the shortfall in project implementation persisted.

Kuwait provides project loans to other developing countries through the autonomous Kuwait Fund for Arab Economic Development, from funds allocated by the Government for that purpose in the general budget (see footnote 3, Table 9). In addition, foreign transfers mainly in the form of cash grants are provided under the various headings shown in Table 14. During the last two fiscal years, over 70 per cent of foreign transfers were provided in accordance with agreements concluded within the framework of the Arab League. In 1979/80 the Khartoum and Rabat Agreements were superseded by the Baghdad Agreement. Transfers provided under the Tunis Agreement in 1980/81 pertain to a five-year US\$2 billion reconstruction and development program for Lebanon, agreed upon in November 1979 and funded by Kuwait and several other Arab governments. Kuwait is also signatory to the Amman Agreement, concluded in November 1980, and providing for the allocation of US\$5 billion over a ten-year period to finance development projects in the less developed member countries of the Arab League. 1/ The Arab Fund for Economic and Social Development--a regional development fund headquartered in Kuwait--was entrusted with the technical supervision of projects and the disbursement of funds to those countries.

5. The 1981/82 budget

The 1981/82 budget projects a 14 per cent increase in revenues and expenditures (excluding net domestic lending) over the provisional actuals of 1980/81. The higher revenue estimates are based on mainly the assumptions of an average daily oil output of 1.5 million barrels and an average oil price of US\$35.50 per barrel. In the second half of 1981, however, oil output averaged closer to 1.0 million barrels per day. Moreover, the official sales price of Kuwait's principal crude oil export was reduced from US\$35.50 per barrel to US\$33.00 per barrel effective November 1981 and subsequently, US\$32.30 per barrel effective January 1, 1982. Hence both average output and average prices appear likely to be lower than budgeted. The higher expenditures for 1981/82 result partly from increased allocations (by one third) for development projects in the areas of education, housing, electricity generation, and transportation and communications. Outlays for current operations are also to rise, although these do not provide for upward adjustments in salaries and wages. Allocations for land purchases are budgeted to decline by approximately one third while the allocation for foreign grants has been stabilized at the 1980/81 provisional actual level. The 1981/82 budget surplus is now expected to be smaller than the KD 2.9 billion budgeted, since the likely shortfall in oil revenues will probably exceed that in outlays.

1/ Djibouti, Mauritania, Somalia, Sudan, the Yemen Arab Republic, and the People's Democratic Republic of Yemen.

Table 14. Kuwait: Transfers Abroad, 1976/77-1981/82

(In millions of Kuwaiti dinars)

	Actuals					Budget	
	1976/77	1977/78	1978/79	1979/80	1980/81 ^{1/}	1980/81	1981/82
Transfers under agreements ^{2/}	10.2	124.1	113.4	151.8	192.7	179.5	189.0
Khartoum Agreement	(10.2)	(9.6)	(4.3)	(--)	(--)	(--)	(--)
Rabat Agreement et al	(--)	(114.5)	(109.1)	(--)	(--)	(--)	(--)
Baghdad Agreement	(--)	(--)	(--)	(151.8)	(148.3)	(161.0)	(154.0)
Tunis Agreement	(--)	(--)	(--)	(--)	(17.2)	(18.5)	(18.0)
Amman Agreement	(--)	(--)	(--)	(--)	(27.2)	(--)	(17.0)
Aid to Gulf States and Southern Arabia	12.0	12.0	11.4	12.0	12.2	12.2	14.9
Other transfers abroad	42.8	60.3	58.2	42.6	47.8	50.2	50.3
Contributions to international organizations	9.0	4.0	5.5	6.6	8.4	8.7	10.2
Adjustments for carry-overs ^{3/}	27.5	13.0	5.5	--	--	--	--
Total	<u>101.5</u>	<u>213.7</u>	<u>194.0</u>	<u>213.0</u>	<u>261.1</u>	<u>250.6</u>	<u>264.4</u>

Sources: Ministry of Finance and Central Bank of Kuwait.

^{1/} Provisional.

^{2/} Beginning with 1979/80 the Baghdad Agreement supersedes the Rabat and Khartoum Agreements.

^{3/} Amounts authorized under previous year's budget but disbursed in year shown.

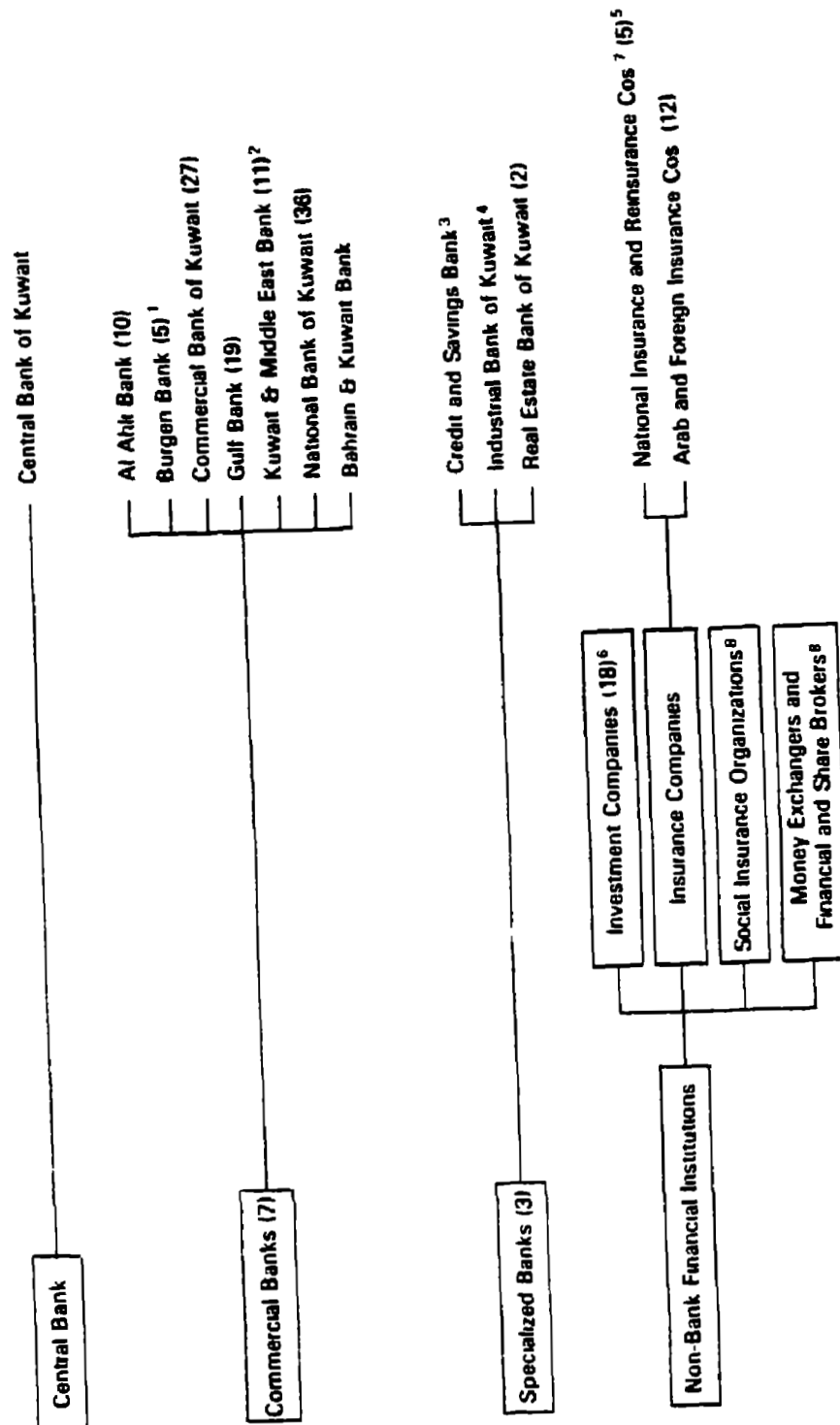
IV. Money and Banking

The evolution of the financial system of Kuwait and its structural and functional aspects have been largely influenced by the dominance of the oil sector and the openness of the economy. Until 1973 receipts from oil exports not absorbed domestically were generally invested overseas by the Government without the mediation of financial intermediaries and, to a lesser extent, by the commercial banks. The domestic banking system was thus mainly a conduit for the transmission of private financial resources to foreign financial markets. Since the oil price increases of 1973-74, the Kuwaiti financial system has undergone a pronounced transformation both in regard to size, structure, and functions. With the increase in government domestic spending and the resultant growth of private and mixed sector investment, domestically and abroad, commercial banks' activities have expanded sharply. Also, new types of financial institutions, like the specialized banks and investment companies, have appeared to cater to the diverse needs of the domestic economy apart from continuing their role as a channel for transmission of funds abroad. The characteristic feature of the Kuwaiti financial system has recently been its enhanced role as a financial intermediary to transfer surplus funds from the oil sector to domestic sectors in need of funds.

1. Institutional structure

Kuwait's financial system may be viewed in four segments: the Central Bank, the commercial banks, the specialized banks, and the nonbank financial institutions (Chart 1). Kuwait had a Currency Board until 1968 when it was replaced by a full-fledged Central Bank with wider powers in regard to monetary and credit management. As a result, the Central Bank began to hold a part of the Government's foreign assets, though the bulk of these assets continued to be held and managed by the Ministry of Finance. The Central Bank Law of 1968, which governs its functioning, was amended twice, first in 1976 and again in 1977. Under the first amendment, the Central Bank was empowered to fix interest rate ceilings with the approval of the Minister of Finance. The 1977 amendment enabled the Bank to regulate the banking system in particular, and the other financial institutions in general, and to strengthen its monetary policy instruments, especially open market operations and the discount rate mechanism. Other changes in the Central Bank Law pertained to the opening of new banks and the closing of banks which violated the banking laws, strengthening of the bank supervision apparatus, the cessation of gold parity for the Kuwaiti dinar and a minimum gold currency cover, an increase in the paid-up capital and reserves of the Bank from KD 5 million to KD 30 million, and the sale and management by the Bank of securities issued or guaranteed by the Government or issued by any other Kuwaiti public institution. Despite all these powers and authority, the Central Bank has continued to be constrained in its monetary policy management due to the dominance of government expenditure over economic activity and as the primary source of liquidity creation, the narrowness of financial markets, and the openness of the economy.

CHART 1 KUWAIT STRUCTURE OF THE FINANCIAL SYSTEM



Source: Central Bank of Kuwait

Note: Figures in parentheses represent number of banks or branches

1The government has 51 per cent share

2The government has 5 per cent share

3The government is the sole owner

4The government has 49 per cent share

5The government has 31 per cent share

6Including Kuwait Investment Co (government share 50 per cent) Kuwait Foreign Trading Contracting & Investment Co (government share 80 per cent)

7Kuwait Insurance Company, Wafah Insurance Company, Wafah Reinsurance Company and Arab Company for Trading Securities (ACTS)

8Kuwait Insurance Company, Gulf Insurance Company, Ahliya Insurance Company, Wafah Insurance Company and Kuwait Reinsurance Company

9Data for money exchangers, financial and share brokers and social insurance organization are not available

The seven commercial banks constitute the largest segment of the financial system, measured in terms of assets. Of these, only the Bahrain and Kuwait Bank is the branch of a foreign bank with headquarters in Bahrain. The commercial banks have 109 branches in Kuwait, which gives an average of only 12,477 persons per branch.

The third segment of financial institutions is represented by the three specialized banks. Two of these, the Industrial Bank of Kuwait and the Real Estate Bank, have been established since 1974. Like the commercial banks, these institutions also hold deposits from the public, the Government, and other financial institutions but they differ in their lending functions in catering to the medium-term credit requirements of domestic industrial enterprises and housing. Their sources of finance also differ as they undertake the issue of their own bonds, thereby helping to broaden the Kuwaiti financial market. The Credit and Savings Bank specializes in medium-term loans for house building and has financed low-income housing estates. It charges low interest rates on such loans which are fully reimbursed by the Government, thereby rendering them in effect interest free.

Among the nonbank financial institutions, the investment companies--18 in all--have become the most prominent. In the initial stages, a major function of these companies was to act as agents to place abroad funds obtained mainly from the Government. With the increase in domestic incomes, they have become, along with the commercial banks, important agencies in mobilizing domestic savings, which they then place in national, regional, and foreign financial markets. They have also assumed the role of underwriters of issues of international bonds as well as Kuwaiti dinar-denominated bonds floated by international and foreign institutions. The investment companies are prohibited (with some exceptions, see below) from engaging in commercial banking activities and are not permitted to represent foreign commercial banks. Foremost among them are the Arab Company for Trading Securities, set up in 1977 for the purpose of promoting a secondary market in Kuwaiti dinar-denominated money market instruments and Eurocurrency-denominated bonds managed and underwritten by Arab-owned companies. In addition, there is the Kuwait Finance House, established in 1979. The principal goal of this institution is to promote and propagate interest-free banking in furtherance of Islamic principles. This institution accepts time deposits, the holders of which, like its shareholders, are entitled to profit-sharing rather than to interest receipts. It also engages in real estate and equity investment and avoids charging interest. The latest has been the Kuwait Mall Company, set up in 1980.

Next in importance among nonbank financial institutions are the 5 national insurance companies, one of which is the Reinsurance Company. There are, in addition, 12 Arab and foreign insurance companies. They conduct both life and general insurance business, the scope for which has been spreading rapidly in the last few years with the growth of the economy. However, the scale of their operations is small in comparison to those of the commercial and other nonbank financial institutions. The

social insurance organization manages the pension and provident funds covering both government and private sector employees, and there are also money changers and private financiers, but no data are currently available on the operations of these categories of nonbank financial institutions.

Government ownership in financial institutions is widespread in Kuwait (Chart 1). In one of the commercial banks--the Burgen Bank--the Government has a majority shareholding, while in another, the Kuwait and Middle East Bank, it holds a minority share. As regards the specialized banks, the Government fully owns one of them, the Credit and Savings Bank, while holding a minority share in the Industrial Bank of Kuwait. In regard to investment companies, the Government owns 80 per cent of the share capital of the Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC), 50 per cent of both the Kuwait International Investment Company (KIIC) and the Kuwait Investment Company, and 49 per cent of the Kuwait Finance House. In addition it holds interest indirectly in the Arab Company for Trading Securities since the KIIC and the Industrial Bank of Kuwait between them own its share capital.

Foreign ownership is legally restricted in Kuwait. The Companies Law requires that Kuwaiti share capital should not be less than 51 per cent and the minority foreign ownership is confined to some investment companies and to only one commercial bank, the Bahrain and Kuwait Bank. The banking laws prohibit the setting up of foreign-owned banks or the licensing of branches of foreign banks in Kuwait with the exception of one noted earlier.

The financial system of Kuwait has grown rapidly since 1974 both in terms of the volume and diversity of assets (Table 15). At current prices, the total assets of the financial system comprising institutions in respect of which the relevant data could be obtained, increased from KD 1.7 billion in 1974 to KD 8.3 billion in 1980; the annual compound rate of growth of the financial assets in real terms (i.e., assets deflated by the consumer price index) was 21.4 per cent. The ratio of financial assets to GDP rose from 44 per cent to 116 per cent in the same period. As for diversity, the share of other financial institutions in total assets of the system, such as specialized banks and investment companies, recorded a rise from 18 per cent to 26 per cent between 1974 and 1980. Within this group, the investment companies expanded even faster, reflecting the widening range of sources of finance and the changing pattern of credit demands in the Kuwaiti economy over the years. Nevertheless, the predominant position of commercial banks remained essentially unaffected with their share in total assets remaining unchanged at about 58 per cent.

Table 15. Kuwait: Growth of the Financial System, 1974-80

(In millions of Kuwaiti dinars)

	Banking System			Other Financial Institutions 1/			Financial System Total 1/ (3)	Ratio of Financial System Total to GDP
	Total	Central Bank (1)	Commercial Banks	Total	Investment Companies (2)	Specialised Banks		
1974								
Total assets	1,375.0	393.7	981.3	308.8	108.4	200.4	1,683.8	0.44
(as per cent of (3))	(82)	(23)	(58)	(18)	(6)	(12)	(100)	
Foreign assets	955.1	393.7	561.4	...	...	...	...	...
(as per cent of (3))	(...)	(...)	(...)	(...)	(...)	(...)	(...)	
Ratio of foreign assets to total assets	0.69	1.00	0.57	...	...	...	...
1977								
Total assets	2,252.2	550.6	1,701.6	792.5	319.3	473.2	3,044.7	0.79
(as per cent of (3))	(74)	(18)	(56)	(26)	(10)	(16)	(100)	
Foreign assets	1,223.4	548.5	674.9	342.0	199.6	142.4	1,565.4	
(as per cent of (3))	(78)	(35)	(43)	(22)	(13)	(9)	(100)	
Ratio of foreign assets to total assets	0.54	1.00	0.40	0.43	0.63	0.30	0.51	
1980								
Total assets	6,152.6	1,379.4	4,773.2	2,117.0	932.2	1,164.8	8,269.6	1.16
(as per cent of (3))	(74)	(17)	(58)	(26)	(12)	(14)	(100)	
Foreign assets	2,960.9	1,080.8	1,880.5	800.4	543.9	256.5	3,761.3	
(as per cent of (3))	(79)	(29)	(50)	(21)	(15)	(7)	(100)	
Ratio of foreign assets to total assets	0.48	0.78	0.39	0.38	0.57	0.22	0.45	
Compound growth rate:								
Real total assets 2/	19.5	14.7	21.2	28.3	33.7	24.8	21.4	
Real foreign assets 2/	12.4	10.2	13.9	15.0 3/	19.6 3/	7.5 3/	15.8 3/	

Source: Central Bank of Kuwait.

Note: Figures in parentheses are per cent distribution of assets.

1/ The figures exclude insurance companies, social insurance organisations, money exchangers, and financial and share brokers. Data for these institutions not available.

2/ CPI deflator was used (1975 = 100).

3/ Compound growth rate for the period 1976 to 1980.

The first Kuwaiti shareholding company was formed in 1952. Since then, the number of shareholding companies has increased to 41. The Stock Exchange and the Securities Market, where transactions have been confined only to Kuwaiti nationals, were established in 1977. During 1980, the value of total shares of 41 companies forming about 8 per cent of the total gross domestic product of Kuwait was traded on the Stock Market. The trading ratio, i.e., the ratio of traded shares to the volume of tradable shares, however, declined from 63 per cent in 1979 to 48 per cent in 1980. There has been a considerable volatility in prices in the stock market because of its narrow base and lack of appropriately designed regulations governing share transactions. The Central Bank, however, keeps a close watch on the functioning of the Stock Market through its representative on the Committee on Negotiation of Financial Papers, and regulations of issue of bonds in Kuwait.

Besides shares, there are also transactions in bonds denominated in Kuwaiti dinars issued in favor of nonresident borrowers. The market for bonds was modest in the late 1960s when it commenced operations, but it increased in size during the 1970s. There was not much of a secondary market in bonds until 1977, but since then it has been given some impetus by the operations of the Arab Company for Trading Securities, as mentioned above. Activities in the bond market abated considerably in the latter half of 1979, in view of the rise in international interest rates and the shortage of domestic liquidity. Between November 1979 and August 1980, the issue of Kuwaiti dinar-denominated bonds was in fact suspended. However, since then such operations have resumed on a carefully regulated basis, but on an increasingly active scale.

2. Linkages with the real economy and within the financial system

The relationships among various constituents of the financial system of Kuwait as well as between the financial system on the one hand and the Government, private sector, and foreign sectors on the other as prevailed in 1980 are presented in Appendix Table 33. Clearly the commercial banks emerge as the largest category of financial institution, in terms of their transactions with the Central Bank, other financial institutions, and the nonfinancial sectors of the domestic economy. Commercial banks have been, as expected, the major borrowers of resources from the Central Bank; they also use the Central Bank as repository for their balances, but on a net basis they are indebted to the Central Bank. The commercial banks' assets held with the investment companies far exceed their deposit liabilities to them, although their position with the specialized banks is more balanced. On the other hand, the insurance companies are net creditors vis-a-vis the commercial banks, though transactions are limited. Next in size to the commercial banks are the specialized banks, whose financial transactions with commercial banks both by way of lending and borrowing are more prominent. These institutions also borrow from the Central Bank, though the amounts involved are very small (Appendix Table 33). As to be expected, the commercial banks are the largest single borrowers from the private sector;

next in importance is their indebtedness to foreign banks and entities. The specialized banks and investment companies mobilize only a small part of their resources from the public, but owe large amounts to the foreign financial institutions and other foreign entities. In regard to the Government, the specialized banks and investment companies are net debtors; in particular, the specialized banks raise a large amount of resources from the Government. The liabilities of the commercial banks to Government consist largely of deposits, which are small in relation to their total private sector deposits.

Other important features of the financial system are as follows: first, the commercial banks have been the main lending agencies in Kuwait in relation to other institutions, though their foreign lending is also substantial; second, the investment companies' assets with foreign banks and foreign entities are far in excess of their lending to the domestic private sector, underlining their role as prominent financial intermediaries which raise bond issues for foreign companies; and third, the Central Bank's foreign assets are more than three times its domestic assets.

3. Money market

The development of a money market in Kuwait is of comparatively recent origin. Until the mid-1970s, for want of diversified money market instruments, commercial banks, invested their surplus resources in foreign assets. The only available financial paper domestically was promissory notes. However, in the latter half of the 1970s new types of money market instruments of varying maturity, such as syndicated loans, certificates of deposit, and central bank bills, emerged in large amounts. Negotiable certificates of deposit (CDs) were first introduced in 1977. The CDs have been of two types--tranche CDs and tap CDs--the latter being meant to meet the demand of holders on a continuing basis. CDs, like bonds, have a maturity of up to three years. At times CDs carrying a floating interest rate were also issued in order to overcome difficulties arising from fluctuations in the interest rate. The CDs are issued by commercial and specialized banks but have not been traded actively in the secondary market. In 1978 central bank bills (CBK bills) were introduced as a substitute for a time-deposit scheme of the Central Bank designed initially to absorb surplus liquidity from banks. CBK bills also have the potential of being used as instruments in open market operations, once a market for them is well developed. CBK bills are of two maturities, 4 weeks and 13 weeks, the latter being the maximum currently permissible. Demand for holding these bills has increased as the Central Bank has treated them as liquid assets for the purpose of observing liquidity ratios and also because from 1980 their holding has been extended to financial and investment companies.

An interbank market has come to constitute an important part of the money market in Kuwait. Largely as a result of their need for liquidity, banks began to compete among themselves for funds after the mid-1970s and the evolution of the market received further impetus from the Central

Bank when in 1979 it permitted the inclusion of interbank deposits among liquid assets for the purpose of fulfilling liquidity ratios. Commercial banks, specialized banks, and also the investment companies are all participants in this market. Some of them act as brokers, providing daily interest rate quotations on both bids and offers. Deposits varying in maturity from one day to twelve months are transacted in this market. The total outstanding increased from KD 749 million to KD 1,317 million between the end of 1978 and the end of 1980 (Table 16); the transactions among commercial banks have been the largest in magnitude. There are practically no restrictions on the functioning of this market and the interest rates (Appendix Table 36) are freely determined by market forces.

4. Monetary policy instruments

The Central Bank of Kuwait has been equipped with a number of monetary policy instruments. First, the Central Bank regulates bank liquidity through periodic adjustments in its lending policy. The discount rate is graded according to the maturity of the commercial papers discounted. The basic discount rate, on commercial papers with three-month maturity, is currently 5.5 per cent; the rate rises to 6 per cent on the rediscount of bills not exceeding 6 months, to 6.25 per cent on bills not exceeding 9 months, and 6.5 per cent on bills not exceeding 12 months. Loans to banks against the collateral of bills are currently made at 6.25 per cent. The Central Bank also provides accommodation to banks against CBK bills. The rate charged on loans against one-month CBK bills is 5.75 per cent and that on loans against three-month CBK bills is 6 percent. Besides rediscounts and loans, the Central Bank undertakes swap operations involving two-way change of domestic currency for foreign currencies, depending upon the circumstances. When the banks experience a shortage of liquidity they replenish it by swapping foreign exchange with the Central Bank, and vice versa when liquidity is in excess of banks' requirements. But the swap facility is not unlimited. The Central Bank fixes for each individual bank a ceiling on swap facilities which is in two tranches. Only after the first tranche is fully exhausted is the use of the second tranche permitted and the rate of interest is 1.5 percentage points higher than on swaps in the first tranche. All swaps are for a minimum period of one week and a maximum period of three months. Thus, rediscounts and loans and swap operations are the two important methods by which the Central Bank injects liquidity into the financial system (Appendix Table 37).

The Central Bank has prescribed two kinds of ratios—the reserve requirement ratio and liquidity ratio. The former, introduced in 1980, requires banks to hold a minimum of 3 per cent of the deposits subject to the requirement in the form of cash, balances with the Central Bank, and CBK bills. A liquidity ratio was introduced for the first time in 1974. Initially, the banks were asked to maintain 25 per cent of their total deposits and their total liabilities with the Central Bank in the form of liquid assets subject to the condition that the ratio of KD liquid assets was not less than 7.5 per cent of the total liquid assets.

Table 16. Kuwait: Inter-Commercial Bank, Specialized Banks,
and Investment Companies' Operations, 1978-80

(In millions of Kuwaiti dinars)

	1978	1979	1980
Deposits among commercial banks	306.8	500.2	747.5
Commercial bank deposits with specialized banks	141.9	167.2	210.3
Specialized bank deposits with commercial banks	141.5	171.7	200.9
Commercial bank deposits with investment companies	83.9	90.2	122.4
Investment companies' deposits with commercial banks <u>1/</u>	<u>75.0</u>	<u>22.3</u>	<u>35.8</u>
Total	749.1	951.6	1,316.9

Source: Central Bank of Kuwait.

1/ Cash and balances with local banks; breakdown not available.

Since then the system of liquidity requirements has undergone several changes. Currently the liquidity ratio varies according to the maturity of deposits, from 35 per cent for sight and demand deposits to 5 per cent for time deposits with a maturity of 6-12 months from the date of computation of liquidity (Appendix Table 34). Liquid assets for this purpose are defined as cash and balances held with the Central Bank, current and sight deposits held with other banks, CBK bills of maturity not exceeding three months, and any other assets which the Central Bank may designate as liquid assets from time to time. There are further stipulations that at least one third of liquid assets should be denominated in Kuwaiti dinars and that KD liquid assets, i.e., sight and time deposits of one month's maturity should be kept with banks operating in Kuwait. The liquidity ratios are required to be computed twice each month, i.e., on the fifteenth and on the last day of each month. This means that the banks have two weeks to adjust their assets to comply with the liquidity ratios. The inclusion of interbank deposits on a gross basis as liquid assets gives banks a large leeway.

The Central Bank is authorized under Article 166 of the Commercial Law to fix interest rates on financial transactions in Kuwaiti dinars. Accordingly, it has prescribed a ceiling of 10 per cent on all domestic KD loans, including bonds. Within this maximum there are three subceilings: on secured loans given to productive sectors for a period of one year or less, the maximum annual interest rate is 7 per cent; on unsecured loans for a period exceeding one year, the corresponding rate is 8.5 per cent; and on unsecured loans not exceeding one year, it is 10 per cent. Bank deposits or the certificates of deposit issued by commercial banks or specialized banks are not subject to interest rate ceilings but a minimum rate of 4.5 per cent is prescribed on savings deposits. Considering the openness of Kuwait's financial system and the absence of exchange controls, the policy in regard to ceilings on loan interest rates attempts to strike a balance between the needs of the domestic economy and the impact of flows to and from Kuwait motivated by interest rate differentials.

5. Monetary policy actions by the Central Bank

The Central Bank has recently adopted a number of monetary policy measures designed to help maintain price stability, growth of the productive sectors, and to restrain speculative activities. To rationalize credit operations, banks were asked, for the first time, in January 1980 to scale down the ratio of their overdrafts from the then-prevailing level of 80 per cent to 55 per cent of their total credit by the end of 1980; this ratio was required to be further reduced to 45 per cent by the end of 1981. As a consequence of this policy, and due also to better organization of the supervisory machinery at the Central Bank, the banks succeeded in lowering the overdraft ratio to 50 per cent by October 1981.

The Central Bank has also lately widened the scope for CBK bills, which are expected to emerge eventually as instruments for open market operations, by permitting financial and investment companies to hold them. Also, in order to facilitate the holding of CBK bills by banks,

an automatic Repurchase Agreement Scheme was introduced during 1981 under which an emergency overdraft in a bank's current account with the Central Bank could be covered by a part of the bank's bills held in safe custody with the Central Bank, pending the restoration of normal conditions in its balances. This system was designed not so much as a source of Central Bank credit as a device to cover overdrawn accounts through the use of CBK bills. These steps were expected to help broaden the ownership base of CBK bills to more banks and thereby, in the course of time, to contribute to the flexible operation of the market for them. As mentioned earlier, the Central Bank also permitted reopening of the primary market for KD bond issues, which was suspended in 1979, in view of the severe strain then on domestic liquidity. This measure, which was taken after an improvement in domestic liquidity, was accompanied by a number of additional measures aimed at reorganizing the management of new issues to avoid detrimental effects on domestic liquidity in future and to ensure the solvency of the borrowers.

The liquidity ratios have been continued as before but, as observed earlier, a complementary measure of reserve requirements was introduced in the middle of 1980. At the same time, the Central Bank continued its policy of providing liquidity to banks as and when needed, through swap and rediscount facilities. All these policies were supplemented by moral suasion and a close supervision of bank operations.

The Central Bank's policy of stipulating a ceiling on all lending rates for KD transactions was continued during the year. This policy is not however as rigid in practice as it appears in form. Banks in Kuwait, under pressure of demand for credit and competition from the international markets, adopted certain indirect devices to effectively raise the cost of credit to their borrowers. Apart from this, the ceilings on interest rates have not remained unchanged. Prior to 1976, the overall ceilings on interest rates on loans in Kuwaiti dinars was 7 per cent, which was subsequently raised to 10 per cent. The Central Bank has already been empowered not only to vary the ceilings but also to introduce multiple ceilings--higher on medium- and long-term loans, and lower on shorter-term commercial loans. In fact proposals for modification of the ceilings along these lines are under consideration.

The structure of interest rates in Kuwait is more evident from developments in those on deposits, which are market-determined. The rate on time deposits of banks had been about 10-11 per cent in 1980 and 1981 and that on the certificates of deposit about 11 per cent (Appendix Table 38). These rates were highly sensitive, varying with the rates in the interbank market, which in turn responded to changes in rates in the international markets. Since deposit rates are allowed to move freely while the maximum on lending rates is fixed, banks' profit margins have narrowed. As at the end of 1980, the weighted average cost of KD bank time deposits and weighted average cost of bank loans were 9.3 per cent and 9.2 per cent, respectively, compared with the corresponding figures of 7.9 per cent and 8.5 per cent at the end of 1979. However, the negative spread in late 1980 did not necessarily imply that the banks incurred losses because a large proportion of their deposits--about one fifth--was

in interest-free demand deposits and the maximum rate on savings deposits was much below the rate on time deposits. Furthermore, the banks were generally in a position to cushion their costs by borrowing from the Central Bank at a rate much lower than the interbank rate or the rate they paid on time deposits.

6. Recent monetary and bank credit developments

a. Domestic liquidity

Domestic liquidity continued to increase in 1980 with the rate of expansion rising to 25 per cent from 17 per cent in the preceding year. Though both currency and demand deposits and quasi-money shared in the liquidity expansion in 1980, the rate of growth of quasi-money (about 32 per cent) was about four and a half times as high as that of currency and demand deposits (7 per cent), following a pattern discerned for the first time in 1979 (Table 17). This growth pattern of domestic liquidity, however, changed markedly in the first nine months of 1981. The increase in liquidity was mostly on account of currency and demand deposits (which rose 39 per cent) and to a lesser extent in respect of quasi-money (19 per cent). This sharp shift away from quasi-money to narrow money seemed to have been influenced by the increased desire of the public to hold cash balances for transaction and speculative purposes.

To supplement the standard form of analyzing the factors affecting changes in domestic liquidity, in a country like Kuwait where the Government's domestic expenditure, financed by oil revenues, is a prime determinant of monetary expansion, an alternative presentation of the factors affecting domestic liquidity helps to bring out the relative impact of government net expenditure and private sector operations. This can be done so far only for fiscal years as shown in Table 18. During the period covered, government net domestic expenditure was by far the largest expansionary influence on domestic liquidity. It rose sharply in 1979/80 and again in 1980/81, though the rate of its expansion slowed down to 14 per cent in 1980/81 from 26 per cent in 1979/80. The other expansionary factor, credit extended by the banking system to the nongovernment sector (private and mixed), increased in both these years but somewhat more sharply in 1980/81. The domestic liquidity would have expanded considerably due to the impact of these two factors but for the counteracting deficit in the nongovernment sector balance of payments, which fell slightly in 1979/80 but increased in 1980/81. While a large part of the nongovernment sector balance of payments deficit was due to the sector's current account deficit, it was also induced by the continuing outflow of funds abroad.

b. Bank credit developments

The expansion of bank credit (which includes credit in foreign currency, estimated to be about 11 per cent of the total) was moderate in 1980, with the rate of increase falling from 36 per cent the year before to 26 per cent (Table 17). The liquidity of banks, therefore, was not generally under pressure. Thus, bank reserves (i.e., cash, balances with the Central Bank, and CBK bills) rose as a proportion of their deposits from 8 per cent in 1979 to 11 per cent in 1980. The rate of private sector credit expansion further declined in the first nine months of 1981.

Table 17. Kuwait: Factors Affecting Monetary Expansion, 1976-81

	1976	1977	1978	1979	1980	January-September 1980	1981
	(In millions of Kuwaiti dinars)						
Money and quasi-money	329.1	363.4	366.6	339.4	567.8	469.0	668.0
Money	<u>103.5</u>	<u>96.8</u>	<u>108.4</u>	<u>27.5</u>	<u>43.2</u>	<u>111.0</u>	<u>257.5</u>
Currency in circulation	(27.4)	(21.8)	(26.1)	(38.9)	(35.4)	(21.1)	(13.0)
Demand deposits	(76.1)	(75.0)	(82.3)	(-11.4)	(7.8)	(89.9)	(244.5)
Quasi-money	225.6	266.6	258.2	311.9	524.6	358.0	410.5
Foreign assets (net)	<u>-32.7</u>	<u>320.3</u>	<u>94.0</u>	<u>103.0</u>	<u>410.2</u>	<u>254.5</u>	<u>319.2</u>
Central Bank	61.9	268.5	-116.3	112.1	268.0	101.1	19.3
Commercial banks	-94.6	51.8	210.3	-9.1	142.2	153.4	299.9
Domestic assets (net)	<u>361.8</u>	<u>43.1</u>	<u>272.6</u>	<u>236.4</u>	<u>157.6</u>	<u>214.5</u>	<u>348.8</u>
Claims on non-government sector	427.6	308.0	317.1	559.9	552.1	439.9	499.2
Government deposits 1/	17.0	-98.2	65.9	-211.9	-247.6	-77.7	4.7
Other items (net) 2/	-82.8	-166.7	-110.4	-111.6	-146.9	-147.7	-155.1
	(Percentage changes)						
Money and quasi-money	37	30	23	17	25	20	23
Money	36	25	22	5	7	18	38
Quasi-money	38	32	24	23	32	22	19
Claims on non-government sector	84	33	26	36	26	21	19

Source: Central Bank of Kuwait.

1/ Increase in deposits denoted by minus sign.

2/ Increase in net liabilities denoted by minus sign.

Table 18. Kuwait: Factors Affecting Changes in Domestic Liquidity -
Alternative Presentation, 1977/78-1980/81

Year Ended June 30	1977/78	1978/79	1979/80	1980/81
(In millions of Kuwaiti dinars)				
Change in money and quasi-money	<u>339.8</u>	<u>277.6</u>	<u>593.9</u>	<u>753.1</u>
Government net domestic expenditure	1,377.4	1,384.9	1,750.9	1,992.4
Domestic expenditure	<u>1,486.1</u>	<u>1,502.1</u>	<u>1,897.0</u>	<u>2,204.0</u>
Total expenditure	(1,915.7)	(1,894.6)	(2,378.4)	(2,717.8)
Foreign expenditure <u>1/</u>	(-419.6)	(-392.5)	(-481.4)	(-513.8)
Domestic revenue <u>2/</u>	-108.7	-117.2	-146.1	-211.6
Monetary impact of non-government sector	<u>-868.5</u>	<u>-988.5</u>	<u>-1,017.0</u>	<u>-1,067.9</u>
Nongovernment sector balance of payments deficit <u>3/</u>	-1,062.7	-1,525.9	-1,502.7	-1,757.3
Change in claims on non-government sector	194.2	537.4	485.7	689.4
Change in net unclassified liabilities (increase-)	<u>-169.1</u>	<u>-118.8</u>	<u>-140.0</u>	<u>-171.4</u>
(Changes in per cent)				
Money and quasi-money	24	16	29	29
Claims on nongovernment sector	18	42	27	30
Government net domestic expenditure	1	1	26	14

Sources: Central Bank of Kuwait and staff estimates.

1/ Government foreign expenditure is derived from figures provided by the Central Bank of Kuwait on payment orders issued, amounts paid under foreign letters of credit, and collection documents. Foreign transfers by the Kuwaiti Government are taken from the budget actuals and the Government's transfers to the Kuwait Fund are assumed to be invested abroad.

2/ Domestic revenue includes an assumed 5 per cent of investment income.

3/ Includes statistical discrepancies.

The liquidity of banks, however, went down to 6 per cent mainly because the rate of growth of private sector deposits in this period was much higher than in the corresponding period of 1980. Banks obtained resources from the Central Bank both through swap and rediscount facilities, though the outstanding balance of operations carried out under both these facilities declined by KD 149 million in the nine months ended September 1981, in contrast to a rise of KD 95 million in the corresponding period of 1980 (Appendix Table 37).

The leading sectors availing of bank credit in Kuwait have been trade, personal sector, financial and other services, and construction (Appendix Table 35). This pattern of distribution of credit has broadly persisted in 1980 and 1981 though the shares of the various sectors in total credit were affected somewhat by the disparate sectoral rates of growth. During 1980 the largest percentage increase in credit was in respect of industry (76 per cent); agriculture and fisheries, although small in absolute terms, were next (31 per cent), followed by trade (28 per cent), others, including credit to the specialized banks (25 per cent), and financial and other services (23 per cent). During the first nine months of 1981, the largest credit expansion was in respect to financial and other services (30 per cent), trade (20 per cent), and personal loans (19 per cent). On the other hand, the rise in credit to industry declined to 3 per cent while there was an absolute decline in bank loans to agriculture and fisheries. Much of the credit to the personal sector and a part of credit to trade was directed toward financing speculative activity in stock market and capital outflows.

Another development of significance in regard to bank credit has been the slow but steady rise in the proportion of longer-term credit over one year to the total credit (Appendix Table 35). This ratio rose from 21 per cent at the end of 1978 to 37 per cent in September 1981. This was largely the consequence of the Central Bank's policy of asking the banks to scale down gradually the ratio of overdrafts in total credit in recent years.

V. International Transactions

1. Introduction

Kuwait's balance of payments is characterized by large surpluses on current account. Export receipts, mainly from petroleum, substantially exceed import payments and net services earnings are also positive due to large--and increasingly important--income from foreign assets. The corresponding capital outflows include substantial official assistance to other developing countries, net placements abroad by financial institutions, and other private capital movements, but the largest component goes into government investment accounts abroad.

The Central Bank of Kuwait's balance of payments estimates are generally comprehensive. The estimates for 1980, however, represent only partial revisions of preliminary data, while most of those for 1981, prepared jointly by Central Bank and Fund staff before year-end, are only rough preliminary estimates. Trade data are not current; the compilation of complete customs returns for 1980 has been delayed by computerization, and for 1981 only four months of totals are available. As described previously, oil exports for 1981 have been estimated mainly from industry press reports. As for imports, industrial countries' exports to Kuwait are the only guide after early 1981. While the estimate of government investment income is comparable to budgetary actuals, those for other services are less sure. The estimates of institutional capital movements are based on six- to nine-month changes. The estimates also suffer from the unavailability of data on government foreign holdings, although the magnitudes and broad geographic distribution are ultimately made known in parliamentary presentations. For all years, changes in net errors and omissions are presumed to provide an indication of noninstitutional private capital flows.

A change of format may also be noted in the estimates, in that government investments--essentially foreign placements under the General Reserve and the Reserve Fund for Future Generations--have been moved "above the line" demarking reserves and related items. It is argued that the bulk of these funds represents direct and portfolio investments made for purposes of very long-term yields, together with working balances and amounts awaiting longer-term placement, rather than international reserves in the conventional sense. Only the Central Bank's foreign net asset holdings, at present equivalent to well over six months' imports at the 1980 level, are treated as international reserves.

2. Overall developments

During 1976-78 Kuwait's current account external surplus fluctuated around KD 2.0 billion (roughly US\$7.0 billion), as shown in Table 19 below, averaging the equivalent of 46 per cent of GDP at current market prices. Exports remained near KD 2.8 billion and service receipts rose to KD 1.0 billion by 1978, while rapid import growth was reversed and invisible payments decelerated as anti-inflationary financial policies took hold. During this period some 16 per cent of the cumulative current surplus was directed into grants and other official assistance, 52 per cent into government investment accounts, about 20 per cent into noninstitutional outflows (as indicated by net errors and omissions), and 4 per cent into Central Bank reserves, with banks, other financial institutions, and oil credit taking 3 per cent each. In 1978 alone, government aid and investments fell considerably and Central Bank reserves were reduced, but at the same time oil export volumes were stepped up and earnings rose slightly.

Table 19. Kuwait: Balance of Payments Summary, 1976-81

	1976	1977	1978	1979	Prov. 1980	Est. 1981
(In millions of Kuwaiti dinars)						
Trade balance, f.o.b.	1,848	1,383	1,625	3,660	3,885	2,695
Exports and re-exports	2,813	2,740	2,815	5,006	5,720	4,695
Petroleum ^{1/}	(2,598)	(2,504)	(2,584)	(4,703)	(5,304)	(4,070)
Other	(215)	(236)	(231)	(303)	(416)	(625)
Imports	-965	-1,357	-1,190	-1,346	-1,835	-2,000
Imports, c.i.f. (customs)	(-972)	(-1,387)	(-1,264)	(-1,437)	(-1,776)	(-2,040)
Adjustments and other (net)	(7)	(30)	(74)	(91)	(-59)	(40)
Services and private transfers	243	187	298	475	801	1,715
Receipts	656	753	1,008	1,362	1,992	3,075
Investment income	(477)	(575)	(815)	(1,035)	(1,620)	(2,650)
Other	(179)	(178)	(193)	(327)	(372)	(425)
Payments	-413	-566	-710	-887	-1,191	-1,360
Freight and insurance	(-126)	(-194)	(-181)	(-205)	(-252)	(-290)
Other services	(-195)	(-266)	(-410)	(-535)	(-752)	(-865)
Private transfers	(-92)	(-106)	(-119)	(-147)	(-187)	(-205)
Current balance	2,091	1,570	1,923	4,135	4,686	4,410
Total current receipts	3,469	3,493	3,823	6,368	7,712	7,770
Total current payments	-1,378	-1,923	-1,900	-2,233	-3,026	-3,360
Capital (net) and grants	-1,432	-1,544	-1,295	-3,311	-3,550	-3,220
Official assistance	-257	-355	-274	-265	-366	-335
Government investment	-952	-1,145	-790	-2,984	-3,048	-2,635
Institutional placements	-96	-68	1	-124	-87	-105
Commercial banks	94	-52	-210	9	-143	-290
Oil export credit	-221	76	-22	53	94	145
Errors and omissions (net)	-596	243	-744	-712	-868	-1,000 ^{2/}
Central Bank reserves (increase-)	-63	-269	116	-112	-268	-190
(In per cent)						
Rates of change						
Petroleum exports - value	13	-4	3	82	13	-23
- volume	6	-9	9	17	-32	-34
Imports - total (f.o.b.)	41	41	-12	13	36	9
- customs (c.i.f.)	40	43	-9	14	24	15
Service receipts	28	15	34	35	46	54
Service and transfer payments	22	37	25	25	34	14
Import prices (estimated)	1	9	8	14	10	3

Sources: Central Bank of Kuwait, staff estimates, and Appendix Tables 45-50.

^{1/} Including LPG but excluding bunker fuel, which is included in services.

^{2/} Includes counterpart of SDR allocation (KD 9 million).

With the upsurge in oil prices during 1979-80, the current account surplus more than doubled in 1979 and continued to rise, although much less rapidly, in 1980. Further petroleum export volume increases in 1979 reinforced the effect of a 53 per cent rise in average oil and LPG prices and other exports and re-exports also picked up, while imports had only a limited recovery. In 1980, on the other hand, the cutback in oil production offset most of an additional 70 per cent rise in average petroleum prices, while import growth also accelerated in response to the easing of financial restraints after mid-1979. Meanwhile, investment income and other service earnings nearly doubled over the two years, considerably outpacing current invisible payments. The resulting 1980 current surplus amounted to nearly KD 4.7 billion (US\$17.3 billion), equivalent to 66 per cent of GDP. On capital account, most of the enlarged sums available were placed in government investment accounts (some KD 3 billion in both 1979 and 1980) and there was also an upturn in both official assistance and presumed private outflows in 1980.

In 1981 exports fell sharply as oil liftings were curtailed even more and initial price increases were eroded later in the year. However, a striking further increase in investment income offset most of this decline and, with import growth moderating at the same time, the current surplus is estimated to have fallen by a fairly small amount, to about KD 4.4 billion (US\$15.8 billion). The rise in investment income reflected the combined effects of recent large additions to foreign assets and high international interest rates. The estimates indicate that investment income accounted for over one third of current account earnings in 1981, while oil receipts' share fell to little over one half. Government investment abroad is likely to have been reduced roughly by as much as the estimated decrease in the current surplus in 1981.

3. Exports, imports, and current invisibles

While still dominant in Kuwait's current account earnings, petroleum's share in the total was already on a declining trend in the latter 1970s, falling from three fourths in 1976 to two thirds in 1978 and (after an upturn in 1979) to two thirds again in 1980, before the further decline in 1981. Developments affecting oil exports have been discussed in earlier sections (I.3 and I.4) and reviewed briefly above along with the rise in investment income. In addition, non-oil exports and re-exports have also picked up in recent years, after a dip in 1978; on a customs basis (Appendix Table 45), they rose by 75 per cent over the next two years and are estimated to have increased another 50 per cent in 1981. The upturn occurred mainly in re-exports, which outweigh domestic exports three to one. Having earlier suffered from the economic slowdown and the effects of port improvements elsewhere around the Gulf in 1977-78, re-exports benefited from the general upturn after mid-1979 and in particular from the vigorous economic expansion programs undertaken by neighboring countries. Domestic exports of construction materials, prefabricated structures, and other manufactures have also shared in this expansion, while sales of fertilizer experienced a recovery in prices.

Resales of gold (not covered by customs) are also estimated to have increased in 1980. An additional impetus to both non-oil exports and re-exports since late 1980 has been the closure of ports to the north. Transshipments (not included in the trade data) have also increased dramatically, reportedly causing congestion at Kuwaiti ports despite the priority given domestic cargoes.

Imports ended a period of rapid growth with a retrenchment in 1978 that came close to 20 per cent in real terms, and the upturn in their value in 1979 appears to have been attributable to the rise in prices. Their growth accelerated in 1980 but seems to have slowed down markedly in 1981. This variation, however, was less substantial than would appear (see Appendix Table 46 as well as Table 19), mainly because the rise in 1980 reflected a threefold increase in gold imports as gold prices soared, and the slowdown in 1981 reflected a drop in gold prices and volume. Moreover, the effect of general import prices in Kuwaiti dinars--as estimated from partner-country export prices--was much stronger in 1980 (and earlier years) than in 1981, when Kuwait's currency appreciated against most of its trading partners' currencies. These factors aside, the real growth in imports other than gold amounted to about 12-13 per cent in 1980 and perhaps 11-12 per cent in 1981. With further allowance for re-export demand, the growth of imports retained in the domestic economy would be somewhat smaller in both years. As such, the real increase reflects a slightly lagged response to renewed fiscal stimulus in 1979/80. In addition, the available data on import composition indicate that the upturn was concentrated on consumer goods and to a lesser extent on intermediate supplies, while capital goods recovered little and late--even though machinery and equipment led the revival of re-exports. Thus, the recent business recovery appears to have emphasized commerce more than investment.

Geographically, Kuwait's trade is oriented toward countries in Asia, with Japan by far the largest trading partner (Appendix Tables 47 and 48). The direction of total exports and re-exports does not differ significantly from that of petroleum alone (Appendix Table 26) aside from a somewhat larger share for Gulf countries, not only because petroleum dominates the total but also since most fertilizer sales are to south and east Asia. The share of Asia and Oceania in total exports has held steady at 50 per cent and Western Europe's has remained close to one third, while the Middle East and Africa, followed by the Western Hemisphere, have divided the rest. The sources of imports are more diversified, with Asia and Oceania providing 40 per cent (one half from Japan), Western Europe almost that much, and the Western Hemisphere (chiefly the United States) about 15 per cent. Imports from the Middle East and Africa are smaller than exports and re-exports to these areas.

Within service earnings (Appendix Table 49), the Government has generally accounted for over half of investment income and the proportion has tended to rise recently due to the relatively large additions to government assets. Estimates of private investment income, based on conservative assumptions in the absence of firm information on private

holdings, slightly exceeded those for financial institutions. Other recorded sources of services income include shipping (oil and other freight), bunker fuel along with other supplies to carriers and air fares (under transport), visitors' expenditures in Kuwait (travel), diplomatic outlays, and financial services. Shipping and bunkering have been fostered by both investments in ships and facilities and purchase requirements on oil buyers.

In addition to freight and insurance on imports (part of which is handled locally and hence excluded), bunkers, and air fares, Kuwait's service payments include large and growing travel expenditures abroad. Investment income payments, while also significant, are little more than a tenth of service receipts. Besides diplomatic outlays, government payments include the past service fees to oil companies and the continuing consulting and contracting fees for government projects; similar fees paid by the private sector account for other services. Private transfers as shown in Kuwait's balance of payments are strictly construed as "unrequited;" estimated at 20 per cent (and recently less) of expatriate workers' earnings, they are meant to cover gifts and family support, for example, but not land purchases or bank deposits, which being private capital are captured only in errors and omissions.

4. Grants and capital movements

Kuwait's official assistance to developing countries averaged about KD 300 million (more than US\$1 billion) annually during 1976-80, mainly (65 per cent) in the form of unrequited transfers (Appendix Table 50). The major part of these grants, and that responsible for their increase, has consisted of cash amounts committed under various inter-Arab agreements; there have also been relatively small amounts of economic and social assistance administered by the Public Authority for Southern Arabia and the Gulf (an autonomous Kuwaiti agency), larger bilateral government grants to other developing countries, and some contributions to international agencies, all of which have remained fairly stable for the past few years.

Responsibility for most official project loans has been shifted to the Kuwait Fund for Arab Economic Development, an independent development lending agency established in 1961 whose operations now extend to some 50 developing countries. The Kuwait Fund's authorized capital was doubled to KD 2.0 billion in 1981 and steady government increases in its paid-up capital have expanded its resources considerably. Its scope of operations was also expanded recently to permit, inter alia, direct equity investment in developing countries' projects. Its loan disbursements have risen substantially in recent years, keeping far ahead of repayments; although nine-month data suggest a slowdown in 1981, rising commitments indicate that it will be temporary. Since its inception the Kuwait Fund has made total disbursements of some KD 500 million, with the recipients of larger amounts including countries in the Indian subcontinent as well as Arab states (Appendix Table 51). The Government has also placed deposits, managed by the Central Bank, with central banks of some developing countries, usually at one year to two year maturities but in practice

rolled over for extended periods at low interest rates. Because of their legally liquid character and other technical considerations, these deposits do not qualify as official development assistance in OECD compilations (the sole source for comparable intercountry data), but they do have the same economic effect as cash loans. The net amounts so extended dropped to low levels in the late 1970s but rose in 1979 before falling again in 1981.

As government investments abroad represent mainly the excess of oil receipts over domestic revenue needs, their size in part reflects limited domestic investment opportunities. Although the breakdown of these investments among types of holdings is not released, they are understood to include a relatively high proportion of direct and other equity investments and a small but increasing amount of participation in other developing countries.

Oil export credit extended, which consists of the changes in receivables for oil exported but not yet paid for at year end, in effect represents delayed government revenue. With monthly exports valued at KD 300-400 million, fluctuations in year-end balances can be substantial when there are variations in volumes, prices, and especially credit terms. The reduction in terms from 60 days to 30 days in September 1979, together with some volume decline, more than offset the major rise in prices from late 1978 to late 1979, resulting in a reflow to Kuwait. Others followed in 1980 and 1981 as volume cutbacks outweighed price increases.

Operations of the numerous investment institutions and specialized banks in Kuwait, along with the Kuwait Fund's placement of funds not yet lent, extend over most parts of the capital account, but once netted together (as in Table 19 above and Appendix Table 50), they appear much smaller and simpler. During 1976-80 they resulted in average outflows of KD 75 million a year, although these fluctuated from virtually nil in 1978 to a KD 124 million debit the next year. Declining somewhat in 1980, they turned up again in 1981. There appears to have been a substantial reflow of loan capital to the investment institutions in 1979 and especially 1980 in favor of deposits, apparently reflecting a yield curve skewed in favor of short-term holdings as well as administrative measures aimed at curtailing capital outflows. Commercial banks repatriated funds in 1979 but growing outflows resumed thereafter.

Noninstitutional private capital movements, as suggested by net errors and omissions, have amounted to substantial net outflows in all recent years except 1977. Although no rise was indicated in 1979, some increase seems to have occurred in 1980 and possibly in 1981 as well.

5. Reserves and net foreign assets

Increases in the Central Bank's international reserves averaged KD 120 million (roughly US\$420 million) annually during 1976-80, despite considerable variation during the period and a drawdown in 1978. Although

there was a slight decline in reserves during the first nine months of 1981, the level was considerably higher in September 1981 than a year earlier and appeared likely to rise by perhaps KD 200 million for the year as a whole. As of the end of September 1981, the balance amounted to KD 1,132 million or about US\$3.9 billion (Table 20), including a nominal KD 32 million in gold whose current market value is about nine times higher. The reserve position in the Fund, at KD 133 million, consists largely of some still-outstanding loans to the Fund under the oil facilities and new lending for the supplementary financing facility. Having become a participant to the SDR scheme in April 1980, Kuwait received its first allocation in January 1981 and has been designated to receive small amounts since in exchange for currency.

Foreign assets held by the Ministry of Finance are many times larger than the Central Bank's. In the 1981/82 budget presentation, total assets of the two government reserve funds were placed at KD 17,138 million as of the end of 1980. Of this, some 27.6 per cent was said to be invested in Kuwait. On this basis, government foreign holdings amounted to KD 12,408 million (US\$45.7 billion) at the end of 1980, the latest date for which information is available.

Commercial banks and other financial institutions also have substantial holdings. The banks' net foreign asset position has risen fairly steadily, as indicated earlier, and now approaches the level of Central Bank foreign reserves, while other institutions' net holdings are only somewhat smaller.

VI. Exchange and Trade System

Kuwait continues to maintain a liberal exchange and trade system, and there have been no significant changes in the system during the past two years.

1. Exchange rate system

All transactions take place in convertible currencies. Up to March 1975 Kuwait maintained margins of 2.25 per cent on each side of parity for its quotation of the exchange rate of the U.S. dollar against the Kuwaiti dinar. Since March 18, 1975, however, Kuwait has ceased pegging the dinar to the U.S. dollar and has linked it to a weighted average of currencies of major trading partners. The currency basket employed by Kuwait assigns a greater weight to the U.S. dollar than that used in the SDR basket. The Central Bank quotes buying and selling rates daily for the U.S. dollar (the intervention currency) and has normally maintained these rates at one sixteenth of 1 per cent on either side of the currency basket exchange rate. The authorities at times have widened the spread marginally to discourage undesirable trends in the exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange.

Table 20. Kuwait: Reserves and Net Foreign Assets, 1976-81

(In billions of U.S. dollars)

End of Period	1976	1977	1978	1979	1980	Sept. 1981
1. Central Bank reserves	1.9	3.0	2.6	3.0	4.0	3.9
Gold <u>1/</u>	0.2	0.1	0.1	0.1	0.1	0.1
SDRs	--	--	--	--	--	-- <u>2/</u>
IMF reserve position	0.9	0.9	0.8	0.5	0.5	0.4
Oil facility loans	(0.8)	(0.8)	(0.7)	(0.4)	(0.3)	(0.1)
SFF Loans	(--)	(--)	(--)	(--)	<u>2/</u> (0.1)	(0.2)
Other	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Foreign exchange	0.8	2.0	1.7	2.4	3.4	3.4
2. Government assets <u>3/</u>	13.8	18.2	21.6	34.0 <u>4/</u>	45.7 <u>4/</u>	...
3. Official assets (1+2)	15.7	21.1	24.2	37.0	49.7	...
4. Commercial banks (net)	1.2	1.4	2.3	2.2	2.7	3.7
Assets	2.4	2.9	4.5	5.2	6.9	7.0
Liabilities	-1.1	-1.5	-2.2	-2.9	-4.2	-3.3
5. Net foreign assets of banking system (1+4)	<u>3.2</u>	<u>4.4</u>	<u>4.9</u>	<u>5.2</u>	<u>6.8</u>	<u>7.6</u>
6. Other financial institutions (net) <u>5/</u>	1.4	1.6	1.8	2.2	2.4	...
Assets	1.8	2.4	3.0	3.5	4.3	...
Liabilities	-0.4	-0.8	-1.2	-1.3	-1.9	...

Sources: Central Bank of Kuwait, International Financial Statistics, and staff estimates.

1/ At national valuation of KD 12.5 (around US\$45) per fine ounce.

2/ Less than US\$50 million.

3/ Held by Ministry of Finance. Excludes real estate and loans to developing countries (except US\$2.0 billion in 1980).

4/ Estimated as Reserve Funds less share (27.6 per cent in both years) invested in Kuwait, as stated in budget presentations.

5/ Specialized banks and investment companies (including some real estate and equity) and portfolio investments of the KFAED. Assets for 1980 partly estimated from balance of payments flows.

At the end of December 1981, the U.S. dollar/Kuwaiti dinar exchange rate was KD 1 = US\$3.55. Chart 2 below shows the recent changes in the exchange rate between the Kuwaiti dinar, the U.S. dollar, and selected other currency units.

2. Administration of control

There is no exchange control and residents and nonresidents may freely purchase and sell foreign currencies in Kuwait. Dealings in the currencies of Israel and South Africa are prohibited, as are trade and other transactions with these countries. General and individual import licenses are issued by the Ministry of Commerce and Industry. A limited control over exports is administered by the Customs and Ports Administration of the Ministry of Communications.

3. Nonresident accounts

Nonresidents may freely open and operate accounts in Kuwaiti dinars and foreign currencies.

4. Imports and import payments

Import licenses are required for all private imports other than foodstuffs; licenses are issued freely, except for wheat, flour, and asbestos pipe. Registered importers handling a variety of commodities may obtain a general license valid for one year. To be registered, the importer must be either a Kuwaiti citizen or a firm in which all partners are Kuwaiti nationals or a shareholding or limited liability company in which Kuwaiti nationals own at least 51 per cent of all stock. Commercial imports normally are limited to registered importers. Other importers must obtain specific licenses for individual commodities, which also are valid for one year.

Imports of a few items (mainly oxygen, certain steel pipes, foodstuffs containing pork, alcoholic beverages, and certain older motor vehicles) are prohibited from all sources. Imports from any permitted source may be paid for freely.

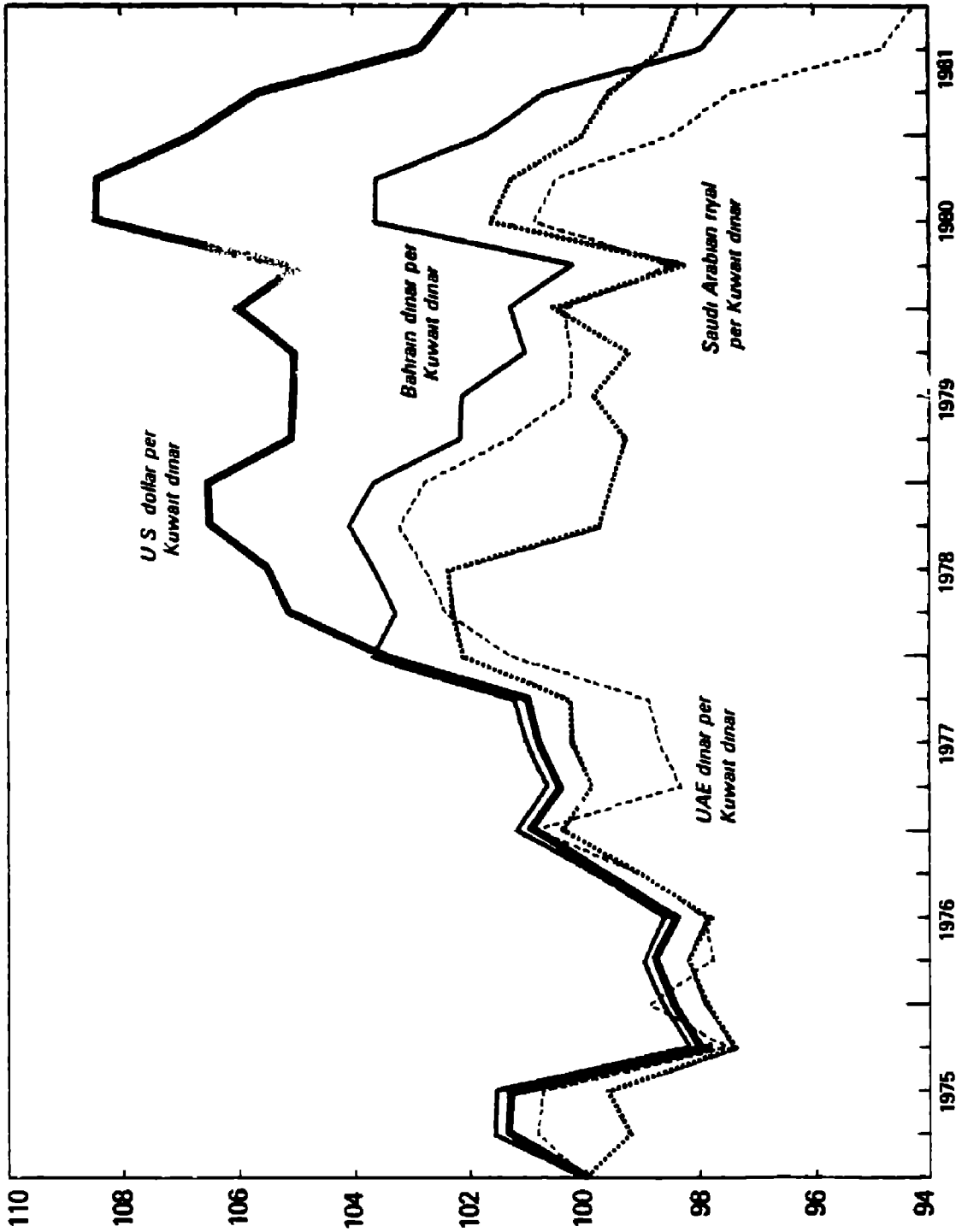
5. Payments for invisibles

Payments for invisibles may be made freely. There are no limitations on the export of domestic or foreign currency.

6. Exports and export proceeds

Exports of live sheep and poultry and of certain other items (mainly foodstuffs and cement) are prohibited in time of emergency or shortage in Kuwait. These items may be exported in limited quantities only, under a special license issued by the Ministry of Commerce and Industry. Exports of arms, ammunition, and scrap metal require licenses. Licenses are not required for other exports or re-exports.

CHART 2
KUWAIT
INDICES OF CHANGES IN THE VALUE OF THE KUWAITI DINAR
(1974 = 100)



There are no requirements attached to receipts from exports or re-exports; the proceeds need not be repatriated or surrendered, and they may be disposed of freely, regardless of the currency involved.

7. Proceeds from invisibles

No requirements are attached to the use or disposal of receipts. Travelers entering Kuwait may bring with them any amount in Kuwaiti or other banknotes.

8. Capital

There are no exchange control obligations on the transfer to Kuwait of resident or nonresident assets in any currency. Government agreement is necessary for the participation of nonresident capital in corporations in Kuwait, and a license is required for the establishment and operation of industries in Kuwait; at least 51 per cent of ownership of new Kuwaiti companies must be held by nationals. No restrictions are imposed on outward capital payments by residents or nonresidents.

9. Gold

The monetary authorities and merchants registered with the Ministry of Commerce and Industry may import and export gold in any form, provided that such gold is not less than 18 karat fine; gold jewelry, however, may not be imported or sold unless it is properly hallmarked. Kuwaiti nationals may freely, and without license, purchase, hold, and sell gold in any form, at home or abroad. Other residents may, on arrival or departure, bring in and take out their holdings of gold in any form, without restriction or license. Jewelry and precious metals in any form, manufactured or unmanufactured, are subject to import duty at 4 per cent.

Table 21. Kuwait: Petroleum Exports, 1976-81

	1976	1977	1978	1979	Prov. 1980 <u>1/</u>	Est. 1981 <u>2/</u>
(In millions of Kuwaiti dinars)						
Value (total)	2,658.9	2,557.1	2,628.7	4,781.5	5,420.0	4,159.6
Crude oil	2,151.6	2,080.8	2,155.0	3,831.2	4,094.6 <u>3/</u>	3,012.5 <u>3/</u>
Bunkers	61.1	53.1	45.0	78.6	116.2	89.6
Other refined	404.9	381.4	391.6	741.4	1,026.0	925.3
LPG	41.3	41.7	37.1	130.3	183.3	132.2
Excluding bunkers <u>4/</u>	(2,597.8)	(2,504.0)	(2,583.7)	(4,702.9)	(5,303.8)	(4,070.0)
(In millions of U.S. dollars)						
Value (total)	9,094	8,924	9,559	17,311	20,000	14,939
Crude oil	7,359	7,262	7,836	13,870	15,109 <u>4/</u>	10,819
Bunkers	209	185	164	285	429	322
Other refined	1,385	1,331	1,424	2,684	3,786	3,323
LPG	141	146	135	471	676	475
Excluding bunkers <u>4/</u>	(8,885)	(8,738)	(9,395)	(17,026)	(19,571)	(14,617)
(In millions of barrels)						
Volume (total)	802.6	734.0	798.7	933.3	630.7	418.8
Crude oil	655.5	588.4	642.8	760.3	476.8	290.0
Bunkers	16.3	16.9	15.2	18.4	13.1	8.8
Other refined	116.9	114.2	126.8	122.5	115.7	100.0
LPG	13.9	14.5	13.9	32.1	25.1	20.0
Excluding bunkers <u>4/</u>	(786.3)	(717.1)	(783.5)	(914.9)	(617.6)	(410.0)
(In U.S. dollars per barrel)						
Unit value	11.33	12.16	11.97	18.55	31.71	35.67
Crude oil	11.22	12.34	12.19	18.24	31.69	37.31
Bunkers	12.82	10.96	10.77	15.47	32.72	32.18
Other refined	11.85	11.65	11.23	21.91	32.72	33.23
LPG	10.17	10.05	9.70	14.68	26.94	23.75
Excluding bunkers <u>4/</u>	11.30	12.19	11.99	18.61	31.69	35.65
Price						
Official crude						
(Kuwait Export 31 ⁰)	11.26	12.32	12.23	18.34	29.53	35.15
Fuel oil (Bahrain) <u>5/</u>	10.31	11.22	11.37	17.01	26.08	32.50
LPG (Kuwait) <u>6/</u>	...	...	...	14.24	26.82	23.63

Sources: Central Bank of Kuwait, Ministry of Oil, Ministry of Planning, OPEC Statistical Bulletin 1980, and staff estimates.

1/ Reflects partial revisions of preliminary customs data.

2/ Based mainly on industry press reports rather than official data.

3/ Includes premia estimated to have averaged US\$3.30 per barrel (\$/b) in the last three quarters of 1980, \$2.70/b in the first quarter of 1981, \$2.50/b in the second and third quarters, and \$0.30/b in the fourth.

4/ Subtotals as used for the balance of payments, where bunker sales are treated as services.

5/ Average of daily prices of medium fuel posted by Caltex Bahrain (per OPEC).

6/ Average of daily mean of propane and butane prices posted by Kuwait, converted at 11.745 barrels per ton.

Table 22. Kuwait: LPG Export Prices, 1979-81 1/(In U.S. dollars per metric ton) 2/

	Propane	Butane	Average
1979 (average)	<u>160.5</u>	<u>174.0</u>	<u>167.2</u>
January 1	125.5	115.5	120.5
April 1	126.5	127.5	127.0
August 15	185.0	218.3	201.7
September 1	201.0	232.0	216.5
October 1	211.0	252.0	231.5
November 1	226.0	277.0	251.5
December 1	241.0	292.0	266.5
1980 (average)	<u>309.0</u>	<u>321.0</u>	<u>315.0</u>
January 1	276.0	332.0	304.0
March 1	300.0	332.0	316.0
May 1	318.0	332.0	325.0
July 1	318.0	322.0	320.0
August 1	318.0	312.0	315.0
September 1	318.0	307.0	312.5
1981 (est. avg.)	<u>276.5</u>	<u>276.1</u>	<u>276.3</u>
January 1	318.0	307.0	312.5
March 1	312.0	305.0	308.5
May 1	300.0	300.0	300.0
May 21	258.0	258.0	258.0
December 1	228.0	258.0	243.0

Sources: Central Bank of Kuwait and press reports.

1/ Annual averages are weighted by number of days; averages of propane and butane are unweighted.2/ Approximate conversion factors are 12.696 barrels per ton for propane and 10.944 barrels per ton for butane.

Table 23. Kuwait: Crude Oil Output and Exports, 1970-81
(In million barrels)

Period	Kuwait Oil Co. (KOC)		KOC/Mafra 1/		Arabian Oil Co.		Total		Total Daily Output
	Output	Exports	Output	Exports	Output	Exports	Output	Exports	
1970	998.1	879.5	29.9	62.6	62.4		1,090.6	941.7	2,988
1971	1,067.8	946.9	33.3	65.3	66.1		1,166.4	1,013.0	3,196
1972	1,097.7	994.8	28.9	75.0	75.6		1,201.6	1,070.6 2/	3,283
1973	1,004.8	894.4	25.8	71.9	71.6		1,102.5	966.0	3,021
1974	830.7	736.2	30.1	68.6	68.6		929.4	804.8	2,546
1975	671.0	594.2	30.3	59.4	58.5		760.7	652.7	2,084
1976	699.9	598.5	29.7	55.4	57.0		785.0	655.5	2,145
1977	650.8	553.8	32.6	34.7	34.6		718.1	588.4	1,967
1978	691.1	586.1	29.5	56.3	56.7		776.9	642.8	2,128
Q1	150.4	123.4	7.5	11.2	10.1		169.1	133.5	1,879
Q2	151.4	128.2	6.7	9.8	10.3		167.9	138.5	1,845
Q3	187.8	162.7	7.7	15.5	14.3		211.0	177.0	2,293
Q4	201.5	171.8	7.6	19.8	22.0		228.9	193.8	2,488
1979	807.8	688.1	30.5	72.7	72.2		911.0	760.3	2,496
Q1	210.5	176.9	7.7	19.0	18.4		237.2	195.3	2,636
Q2	204.9	179.5	7.7	18.4	18.4		231.0	197.9	2,538
Q3	201.0	172.0	7.5	17.8	18.1		226.3	190.1	2,460
Q4	191.4	159.7	7.6	17.5	17.3		216.5	177.0	2,353
1980	508.4	406.9	28.7	70.0	69.9		607.1	476.8	1,663
Q1	171.4	146.9	7.4	18.6	17.9		197.4	164.8	2,169
Q2	116.5	86.9	7.2	17.5	18.4		141.2	105.3	1,552
Q3	101.4	79.6	7.1	16.6	15.6		125.1	95.2	1,360
Q4	119.1	93.5	7.0	17.3	18.0		143.4	111.5	1,559
1981	122.6	97.7	7.0	16.8	16.1		147.3	113.8	1,672
Q1									

Source: Ministry of Oil (as reported in Central Bank Bulletin).

1/ Previously Aminoil.

2/ Including a small quantity exported by Aminoil.

Table 24. Kuwait: Refined Product Output and Exports, 1970-80 1/

(In millions of barrels)

Period	Refined Oil Products 2/						Gas Liquids 2/				
	Mina Al-Ahmadi		Mina Abdullah		Shuaiba		NGL Output	LPG Exports			
	Output	Exports	Output	Exports	Output	Exports					
						Total	Bunker				
								Sales 3/			
1970	86.0	80.0	28.3	28.6	33.2	33.2	147.5	141.8	29.5	18.7	12.8
1971	81.5	74.0	31.3	30.6	37.1	37.2	149.9	141.8	30.9	17.9	13.2
1972	65.4	61.9	27.9	29.1	40.9	40.8	134.2	131.8	32.4	20.6	14.7
1973	64.6	62.0	25.6	26.8	45.4	44.6	135.6	133.4	30.9	22.0	15.5
1974	47.4	45.6	30.3	29.7	43.5	42.0	121.2	117.3	23.0	20.9	15.4
1975	28.2	26.1	31.4	26.2	46.2	42.5	105.8	94.8	15.1	17.6	12.8
1976	39.5	37.0	29.7	30.8	62.8	65.4	132.0	133.2	16.3	19.8	13.9
1977	37.5	36.1	33.0	30.7	55.7	64.3	126.2	131.1	16.9	20.6	14.5
1978	41.4	38.9	30.1	29.8	58.9	73.3	130.4	142.0	15.2	19.3	13.9
1979	54.0	32.3	30.3	26.0	66.2	82.6	150.6	140.9	18.4	46.4	32.1
1980	35.2	...	28.8	...	59.1	...	123.1	128.8	13.1	39.3	20.6

Source: Ministry of Oil (as reported in Statistical Abstract and Central Bank Bulletin).

1/ Data reflect shipments among refineries, which may cause some double-counting.

2/ Natural gas liquids output includes natural gasoline, exports of which are reflected in refined oil products (as naphtha or blended into other products).

3/ Bunker oil (ships' fuel) is included in exports in Kuwaiti trade data, but not in the balance of payments, where (since it is no country's import) it is included in services.

Table 25. Kuwait: Output and Utilization of Natural Gas, 1970-80

Output	Utilization				Utilization Ratio	
	Reinjection in Oil Wells	Oil Companies <u>1/</u>	Public Utilities and Petrochemicals	Total		
		<u>(In billion cubic feet)</u>			<u>(In per cent)</u>	
1970	570.3	45.3	90.0	52.7	188.0	33.0
1971	643.7	69.5	94.8	63.2	227.5	35.3
1972	647.8	65.9	95.2	85.7	246.8	38.1
1973	581.1	79.1	100.9	85.1	265.1	45.6
1974	466.9	63.2	94.3	93.9	251.4	53.8
1975	382.4	42.2	79.7	104.1	226.0	59.1
1976	395.8	46.7	89.6	107.5	243.8	61.6
1977	362.6	34.1	85.3	125.9	245.3	67.6
1978	392.8	20.2	75.7	146.9	242.8	61.8
1979	460.4	30.2	121.5	182.6	334.4	72.6
1980	310.1	16.5	93.8	149.7	260.0	83.9

Source: Ministry of Oil (as reported in Central Bank Bulletin).

1/ Includes supplies to natural gas liquids plants, net of "lean" residue gas they return to other users.

Table 26. Kuwait: Oil Exports by Destination, 1976-80 1/
(In per cent of total)

	1976	1977	1978	1979	1980
Asia <u>2/</u> and Oceania	<u>50.7</u>	<u>50.1</u>	<u>49.4</u>	<u>53.8</u>	<u>54.7</u>
Japan	<u>24.0</u>	<u>25.8</u>	<u>25.5</u>	<u>25.8</u>	<u>18.7</u>
Other <u>3/</u>	<u>26.7</u>	<u>24.3</u>	<u>23.9</u>	<u>28.0</u>	<u>36.0</u>
Western Europe	<u>35.0</u>	<u>32.4</u>	<u>37.2</u>	<u>36.3</u>	<u>29.5</u>
Netherlands	<u>10.4</u>	<u>7.7</u>	<u>9.6</u>	<u>11.4</u>	<u>13.1</u>
United Kingdom	<u>8.8</u>	<u>9.7</u>	<u>9.3</u>	<u>6.5</u>	<u>7.8</u>
France	<u>4.6</u>	<u>3.3</u>	<u>2.5</u>	<u>3.6</u>	<u>3.8</u>
Italy	<u>4.0</u>	<u>7.5</u>	<u>10.0</u>	<u>10.1</u>	<u>1.3</u>
Other	<u>7.2</u>	<u>4.2</u>	<u>5.8</u>	<u>4.7</u>	<u>3.5</u>
North America	<u>1.0</u>	<u>1.9</u>	<u>0.7</u>	<u>1.3</u>	<u>2.3</u>
United States	<u>0.8</u>	<u>1.7</u>	<u>0.7</u>	<u>0.6</u>	<u>1.3</u>
Canada	<u>0.2</u>	<u>0.2</u>	--	<u>0.7</u>	<u>1.0</u>
Latin America	<u>6.2</u>	<u>6.9</u>	<u>3.7</u>	<u>2.4</u>	<u>5.9</u>
Middle East and Africa	<u>3.6</u>	<u>4.4</u>	<u>5.5</u>	<u>3.8</u>	<u>3.9</u>
Eastern Europe	<u>1.4</u>	<u>1.3</u>	<u>1.1</u>	--	<u>0.7</u>
Other	<u>0.1</u>	<u>0.6</u>	<u>0.5</u>	<u>0.4</u>	<u>0.8</u>
Bunkers	<u>2.0</u>	<u>2.4</u>	<u>1.9</u>	<u>2.0</u>	<u>2.2</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Ministry of Oil and Central Bank of Kuwait.

1/ Does not include LPG exports.

2/ Excluding Middle Eastern countries.

3/ Mainly Republic of Korea, Taiwan, and Singapore.

Table 27. Kuwait: Gross Domestic Product by Industrial
Origin at Current Market Prices, 1975-80

(In millions of Kuwaiti dinars)

	1975	1976	1977	1978	1979	Prov. 1980
Oil sector	2,456.56	2,519.67	2,477.77	2,514.60	4,427.80	4,790.00
Non-oil sectors	1,028.42	1,319.97	1,575.46	1,679.58	2,011.38	2,310.60
Agriculture and fisheries	6.83	10.29	13.10	13.53	16.69	17.50
Mining	2.44	4.41	5.26	5.50	6.00	6.50
Manufacturing	195.05	229.82	239.52	256.60	366.30	431.30
Electricity, gas, and water	13.14	18.76	19.88	22.90	26.20	27.50
Construction	73.67	122.61	158.40	176.10	180.70	190.00
Wholesale and retail trade	211.30	288.75	352.40	318.60	350.50	400.00
Transport, storage, and communications	60.14	72.44	77.39	90.00	103.40	117.30
Financial institutions	39.20	56.91	72.80	104.10	135.30	169.00
Insurance	6.00	8.31	11.87	12.00	13.30	14.50
Other, 1/ of which: Public administration and defense	420.65	507.67	624.84	680.55	813.69	937.00
	(179.85)	(242.46)	(279.58)	(309.47)	(334.70)	(386.20)
Total gross domestic product	3,484.98	3,839.64	4,053.23	4,194.48	6,439.18	7,100.60

Source: Ministry of Planning, Central Statistical Office.

1/ Includes import duties.

Table 28. Kuwait: Expenditure on Gross Domestic Product at Constant 1972 Prices, 1972-79

(In millions of Kuwaiti dinars)

	1972	1975	1976	1977	1978	1979 1/
Private investment	59.4	152.4	171.4	217.0	137.0	90.6
Public investment	67.9	119.8	182.3	254.8	283.5	252.1
Total investment	<u>127.3</u>	<u>272.2</u>	<u>353.7</u>	<u>471.8</u>	<u>420.5</u>	<u>342.7</u>
Change in stocks	8.9	17.9	46.2	78.1	-4.6	3.4
Private consumption	427.4	604.9	730.4	866.7	893.6	938.2
Public consumption	198.6	269.7	297.1	359.2	371.4	385.5
Total consumption	<u>626.0</u>	<u>874.6</u>	<u>1,027.5</u>	<u>1,225.9</u>	<u>1,265.0</u>	<u>1,323.7</u>
Exports of goods and services	1,004.3	763.0	830.7	777.9	835.5	1,054.2
Imports of goods and services	-302.6	-658.7	-856.2	-1,094.6	-1,020.4	-1,052.2
Errors and omissions	--	38.1	71.4	68.7	89.6	75.6
Total expenditures on GDP	<u>1,463.9</u>	<u>1,307.1</u>	<u>1,473.3</u>	<u>1,527.8</u>	<u>1,585.6</u>	<u>1,747.5</u>
Net factor income received from abroad	-361.6	149.2	181.1	211.8	446.8	529.4
Gross national product (GNP)	<u>1,102.3</u>	<u>1,456.3</u>	<u>1,654.4</u>	<u>1,739.6</u>	<u>2,032.4</u>	<u>2,276.9</u>
Terms of trade adjustment	--	1,230.9	1,211.2	1,033.4	971.7	1,742.3
GNP adjusted for terms of trade	<u>1,102.3</u>	<u>2,687.2</u>	<u>2,865.6</u>	<u>2,773.0</u>	<u>3,004.1</u>	<u>4,019.2</u>

Source: Ministry of Planning, Central Statistical Office.

1/ Provisional estimates.

Table 29. Kuwait: Expenditure on GDP at Current Prices, 1972-79

(In millions of Kuwaiti dinars)

	1972	1975	1976	1977	1978	1979
Private investment	59.4	217.6	274.1	393.5	245.2	183.1
Public investment	67.9	200.0	288.9	460.5	539.8	507.9
Total investment	<u>127.3</u>	<u>417.6</u>	<u>563.0</u>	<u>854.0</u>	<u>785.0</u>	<u>691.0</u>
Change in stocks	-8.9	26.1	72.1	128.9	-7.5	6.2
Private consumption	427.4	756.7	1,029.8	1,323.4	1,487.0	1,641.9
Public consumption	198.6	385.5	432.3	588.9	621.9	735.1
Total consumption	<u>626.0</u>	<u>1,142.3</u>	<u>1,462.1</u>	<u>1,912.3</u>	<u>2,108.9</u>	<u>2,377.0</u>
Exports of goods and services	1,004.3	2,806.0	2,992.4	2,918.0	3,008.0	3,381.0
Imports of goods and services	-302.5	-907.0	-1,250.0	-1,760.0	-1,700.0	-2,016.0
Total expenditures on GDP	<u>1,463.9</u>	<u>3,485.0</u>	<u>3,839.6</u>	<u>4,053.2</u>	<u>4,194.4</u>	<u>6,439.2</u>
Net factor income received from abroad	-361.6	224.0	441.0	518.0	734.0	920.0
Gross national product (GNP)	<u>1,102.3</u>	<u>3,709.0</u>	<u>4,280.5</u>	<u>4,571.2</u>	<u>4,928.5</u>	<u>7,359.2</u>

Source: Ministry of Planning, Central Statistical Office

Table 30. Kuwait: Labor Permits Issued, 1975-79

Years	Index of Permits Issued (1969 = 100)	Number of Permits Issued (1)	Number of Permits Terminated (2)	Net Change (1-2)
1975	153.1	27,705	n.a.	
1976	170.1	30,782	2,731	28,051
1977	170.2	30,796	3,348	27,448
1978	181.2	32,792	10,527	22,265
1979	206.9	37,440	15,619	21,821

Source: Ministry of Planning, Central Statistical Office: Annual Statistical Abstract of 1980.

Table 3). Kuwait: Wholesale Price Index, 1975-81

(1972 = 100)

	Relative Weight	Index							Per Cent Change over Preceding Year							
		1975	1976	1977	1978	1979	1980	Q1 1981	1976	1977	1978	1979	1980	Q1 1980	Q2 1981	
Foodstuffs	70.7	150.5	163.0	175.6	172.0	177.5	199.1	192.2	209.8	8.3	7.7	--	3.2	12.2	8.3	5.4
Clothing and cosmetics	18.2	126.9	130.2	129.9	132.2	161.0	162.7	161.0	167.0	2.6	-0.3	1.8	21.8	1.1	--	2.6
Household appliances	3.8	158.1	162.4	164.6	171.3	169.6	185.2	173.4	193.2	2.7	1.3	4.3	1.0	9.2	2.2	4.3
Medicines and stationery	7.3	148.0	149.0	158.2	169.2	197.3	227.2	200.1	247.5	0.6	6.1	7.2	16.6	15.2	1.4	8.9
General Index	100.0	146.3	156.0	165.6	164.5	175.6	194.0	186.4	204.2	6.6	6.1	--	6.8	10.5	6.2	5.3

Source. Ministry of Planning, Central Statistical Office.

Table 32. Kuwait: Five-Year Development Plan, 1976/77-1980/81

(In billions of Kuwaiti dinars at 1975/76 prices)

	Amount	Per Cent
Total investment allocations for fixed capital formation	<u>4.441</u>	<u>100.0</u>
Public sector	<u>3.393</u>	<u>76.4</u>
Private sector	1.048	23.6
Allocations for the rise in stocks	<u>0.444</u>	
Distribution of total investment by economic sector	<u>4.441</u>	<u>100.0</u>
Oil and gas sector	<u>0.765</u>	<u>17.2</u>
Manufacturing other than oil	0.910	20.5
Transportation and communication	0.782	17.6
Water and electricity	0.537	12.1
Construction	1.377	31.0
Other	0.070	1.6

Sources: Ministry of Planning and Central Bank of Kuwait.

Table 33. Kuwait: Financial Interrelationships, 1960

(In millions of Kuwaiti dinars)

Assets	Central Bank	Commercial Banks	Specialized Banks	Investment Companies	Insurance Companies	Government	Private Sector	Foreign Banks and Foreign Entities	Other	Total Liabilities
Liabilities										
Central Bank	277.0	204.3 1/	16.4 2/			668.7	268.7		266.0	1,424.1
Commercial banks			200.9	35.8 3/	24.6	176.7	2,921.4 4/	1,134.3	2.5	4,773.2
Specialized banks	21.3 5/	210.3 6/				555.0	157.0	115.3	105.9	1,164.8
Investment companies		122.4				137.5	220.0	403.9	68.4	952.2
Insurance companies		11.4				5.8	97.4		12.4	127.0
Government										
Private sector		2,326.3 7/	606.1	288.7	66.0					3,207.1
Foreign banks and foreign entities	1,080.8 8/	1,880.1	254.5	545.9						3,761.3
Other	45.0	18.4	86.9	81.8	36.4					268.5
Total assets	1,424.1	4,773.2	1,164.8	952.2	127.0	1,543.7	3,664.5	1,653.5	455.2	15,758.2

Sources and footnotes to table 33.

Sources: Central Bank of Kuwait, Bulletin and Economic Report, 1980, and balance sheets of insurance companies provided by the Kuwaiti authorities. Note: The table does not include social insurance organizations, money exchangers, and financial share brokers securities market and foreign insurance companies. Data for these institutions are not available.

1/ Bank balances with the Central Bank and Central Bank bills held by banks.

2/ Cash and balances with the Central Bank.

3/ Includes cash on hand.

4/ Private deposits in foreign currency (KD 587.9 million) and private sector shareholdings in commercial banks included.

5/ Commercial papers discounted as reported by Central Bank, less credit from Central Bank as reported by commercial banks.

6/ Deposits of commercial banks.

7/ Claims on nongovernment sector as reported by commercial banks, less deposits and loans of commercial banks as reported by other financial institutions.

8/ Reserve position in the Fund (KD 130.8 million) and gold (KD 31.7 million) included.

Table 34. Kuwait: Liquidity Ratios Currently Prescribed on Deposits of Local Banks

	35 per cent	30 per cent	20 per cent	10 per cent	5 per cent
Liquidity require-ments	Sight or demand deposits	(1) Savings deposits (2) Time deposits with maturity within 1 month from the date of computation of liquidity	Time deposits with maturity of more than 1 month but not exceeding 3 months from the date of computation of liquidity	Time deposits with maturity of more than 3 months but not exceeding 6 months from the date of computation of liquidity	Time deposits with maturity of more than 6 months but not exceeding 1 year from the date of computation of liquidity
Reserve require-ments	(3) Certificates of deposit				
	Banks are also required to hold a minimum of 3 per cent of their total deposits subject to liquidity in the form of cash, balances with the Central Bank, and Central Bank KD bills.				

Source: Central Bank of Kuwait.

Table 36. Kuwait: Interest Rates on Interbank Dinar Transactions, 1980-81

(In per cent per annum)

	1 day		1 week		1 month		3 months		6 months		12 months	
	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981
January	3.8	5.7	6.6	9.3	7.9	11.7	9.3	12.2	9.6	...	9.9	12.8
February	7.5	5.7	9.9	8.7	10.3	10.4	10.6	10.9	10.7	...	10.7	11.2
March	6.4	5.9	10.5	8.6	12.4	10.6	12.9	11.1	13.0	...	12.7	11.2
April	5.9	3.8	9.8	7.1	11.7	9.4	12.5	10.3	12.8	...	12.9	11.0
May	3.4	5.1	6.7	8.3	8.2	10.2	9.4	11.2	9.8	...	10.0	11.5
June	5.9	3.1	7.4	6.9	7.7	8.3	8.5	9.4	9.2	...	9.3	10.8
July	3.1	6.4	6.0	7.6	7.1	8.3	7.8	9.3	8.5	...	9.2	11.4
August	6.8	4.5	8.0	7.6	8.5	8.6	9.2	9.4	9.4	...	9.5	11.1
September	10.1	3.4	10.5	7.0	11.1	8.2	11.0	8.8	11.0	...	11.0	10.5
October	8.5	...	10.4	...	12.0	...	12.6	...	12.6	...	12.2	...
November	7.0	...	10.7	...	13.1	...	13.8	...	13.7	...	13.1	...
December	6.4	...	8.1	...	14.6	...	14.1	...	14.1	...	13.3	...
Average for year	6.2	4.8	1/ 8.7	7.9	1/ 10.3	9.5	1/ 11.0	10.2	1/ 11.2	...	1/ 10.3	11.3

Source: Central Bank of Kuwait.

1/ January to September.

Table 37. Kuwait. Indicators of Kuwaiti Dinar Liquidity Position of Commercial Banks, 1978-81

End of Period	Swap Balances Outstanding (1)	Commercial Papers Re-discounted (2)	Commercial Bank Balances with the Central Bank (3)	Commercial Bank Holdings of Central Bank Bills (4)	Net Central Bank Liquidity Injection (1+2-3-4+5)	Foreign Currency Deposits as Percentage of Quasi-Money	Foreign Currency Deposits as Percentage of Domestic Liquidity
(In millions of Kuwaiti dinars)					(In per cent)		
1978 December	0.5	30.6	111.4	--	-80.3	13.4	9.3
1979 December	202.5	195.3	116.2	13.5	268.1	21.4	15.5
1980 January	209.9	186.6	6.8	39.6	350.1	22.1	16.0
February	252.4	180.6	28.1	27.0	377.9	23.6	17.1
March	268.6	185.5	52.3	26.0	375.8	24.1	17.7
April	245.2	215.1	61.7	27.9	370.7	24.3	18.0
May	170.1	229.0	27.1	49.0	323.0	23.9	17.5
June	228.4	233.4	51.4	86.6	323.8	24.6	17.9
July	187.5	218.7	57.2	101.6	247.4	23.6	16.8
August	274.3	205.2	29.9	86.7	362.9	24.3	17.7
September	270.1	221.7	22.3	84.3	385.2	24.2	17.8
October	295.8	248.2	22.9	87.4	433.7	25.4	18.7
November	298.9	255.6	49.7	98.5	406.3	27.2	20.1
December	301.3	298.6	106.0	98.3	395.6	26.9	20.6
1981 January	248.7	292.9	37.0	120.4	384.2	25.7	19.3
February	220.9	291.4	28.6	127.5	356.2	28.2	21.2
March	261.4	281.3	26.9	116.2	399.6	26.0	19.5
April	276.4	282.3	31.2	116.4	411.1	25.4	18.7
May	285.3	290.0	12.3	135.5	427.5	27.1	19.9
June	210.4	279.0	38.7	139.3	311.4	27.0	19.5
July	212.9	270.6	18.5	120.4	344.6	26.9	19.6
August	186.5	275.8	58.4	120.4	283.5	24.5	18.5
September	184.6	265.9	15.6	133.0	301.9	24.2	17.9
Memorandum items.							
1974						33.2	24.0
1975						20.2	13.6
1976						20.0	3.6
1977						8.0	5.5
1978						13.4	9.3
1979						21.4	15.5
1980						26.9	20.6

Source: Central Bank of Kuwait.

Table 38. Kuwait: Structure of Interest Rates During 1980-81

(In per cent per annum)

1. Central Bank rates	Discount rates	Lending against CBK bills	Interest on CBK bills
	6.00 (3 months) 6.25 (6 months) 6.50 (9 months) 6.75 (12 months)	6.75	6.25 (1 month) 6.50 (3 months)
2. Rates charged by commercial banks and other financial institutions	Deposit rates	Certificate of deposit rate	Rates on bank loans subject to a ceiling of 10 per cent
	A minimum of 4.5 per cent on saving deposits, with rates on time deposits allowed to be market deter- mined. Currently the rate is about 10 per cent for 3-month deposits, varying with the interbank deposit rate.	This is fluctu- ating with the interbank deposit rate, but remains generally slightly lower than the interbank deposit rate. Currently it is about 10-11 per cent.	7 per cent maximum on secured loans to the pro- ductive sector for a period of one year or less Weighted average of KD bank time deposit rate 9.3 per cent end-1980 Weighted average of bank lending rate 9.2 per cent end-1980
3. Interbank deposit rate (yearly average)	Overnight Deposits	1-month deposit	3-month deposit 12-month deposit
1980	6.24	10.3	10.31
1981 (Sept.)	4.83	9.53	11.14
4. Bond rates: Coupon rates on KD bonds between 8-9 per cent subject to the ceiling of 10 per cent			

Source: Central Bank of Kuwait.

Table 39. Kuwait: Monetary Accounts of the Central Bank, 1976-81
(In millions of Kuwaiti dinars)

End of Period	1976	1977	1978	1979	1980	Sept. 1980	Sept. 1981
Foreign assets	548.5	817.0	700.7	812.8	1,080.8	913.9	1,132.0
Gold	(69.7)	(31.4)	(31.6)	(31.7)	(31.7)	(31.7)	(31.7)
SDRs	(--)	(--)	(--)	(--)	(--)	(--)	(10.9)
IMF reserve position	(249.2)	(240.8)	(199.3)	(138.9)	(130.8)	(121.7)	(133.1)
Other foreign assets	(229.6)	(544.8)	(469.8)	(642.2)	(918.3)	(760.5)	(956.3)
Rediscounted commercial paper	2.1	20.7	30.6	195.3	298.6	221.7	265.9
Assets = Liabilities	550.6	837.7	731.3	1,008.1	1,379.4	1,135.6	1,397.9
Reserve money	224.8	431.5	318.7	379.2	506.2	395.8	474.7
Currency outside banks	(129.1)	(150.9)	(177.0)	(215.9)	(251.3)	(237.0)	(264.3)
Currency with banks	(7.9)	(10.4)	(11.3)	(13.6)	(17.4)	(14.0)	(18.4)
Commercial bank deposits	(87.8)	(270.2)	(130.4)	(136.2)	(129.5)	(51.8)	(47.6)
Central Bank bills	(--)	(--)	(--)	(13.5)	(108.0)	(93.0)	(144.4)
Government deposits	270.8	325.1	274.8	446.1	668.7	519.4	664.6
Capital accounts 1/	5.0	8.0	27.9	27.9	30.0	30.0	30.0
Other items (net)	50.0	73.1	109.9	154.9	174.5	190.4	228.6
Unclassified liabilities	(53.6)	(79.2)	(116.7)	(161.1)	(219.2)	(207.1)	(257.8)
Unclassified assets (-)	(-3.6)	(-6.1)	(-6.8)	(-6.2)	(-44.7)	(-16.7)	(-29.2)

Source: Central Bank of Kuwait.

Table 40. Kuwait: Consolidated Accounts of Commercial Banks, 1976-81

(In millions of Kuwaiti dinars)

End of Period	1976	1977	1978	1979	1980	Sept. 1980	Sept. 1981
Reserves	92.4	270.9	122.7	143.3	221.7	120.6	167.0
Cash with banks	(7.9)	(10.4)	(11.3)	(13.6)	(17.4)	(14.0)	(18.4)
Deposits with Central Bank	(84.5)	(260.5)	(111.4)	(116.2)	(106.6)	(106.6)	(15.6)
Central Bank bills	(--)	(--)	(--)	(13.5)	(98.3)	(--)	(133.0)
Foreign assets	674.9	823.2	1,214.4	1,407.5	1,880.1	1,713.3	1,990.3
Claims on nongovernment sector	934.3	1,238.5	1,559.4	2,119.3	2,671.4	2,559.2	3,170.6
Assets = Liabilities	1,701.6	2,332.6	2,896.5	3,670.1	4,773.2	4,393.1	5,327.9
Demand deposits	264.7	339.7	422.0	410.6	418.4	500.5	662.9
Quasi-monetary deposits	826.5	1,092.7	1,351.3	1,663.2	2,187.8	2,021.2	2,598.3
Savings	(204.6)	(253.6)	(313.4)	(302.1)	(272.5)	(288.8)	(292.5)
Time	(456.2)	(737.0)	(824.0)	(985.2)	(1,311.2)	(1,225.6)	(1,658.8)
Foreign currency	(165.7)	(87.1)	(181.3)	(355.6)	(587.9)	(489.9)	(629.9)
CDs 1/	(--)	(15.0)	(32.6)	(20.3)	(16.2)	(16.9)	(17.1)
Government deposits	71.0	114.9	99.3	139.9	164.9	144.3	164.3
Foreign liabilities 2/	324.1	419.8	601.5	803.9	1,134.3	956.3	944.6
Credit from Central Bank	8.1	28.7	34.1	188.8	277.0	210.6	257.0
Capital accounts	89.2	197.4	218.4	268.6	337.0	307.1	358.0
Local banks (net) 3/	4.4	-7.9	8.9	-0.6	2.1	-0.5	10.5
Deposits of banks	(90.5)	(193.3)	(315.5)	(499.6)	(749.6)	(662.6)	(1,047.1)
Deposits with banks	(-86.1)	(-201.2)	(-306.6)	(-500.2)	(-747.5)	(-663.1)	(-1,036.6)
Other items (net)	113.6	147.3	161.0	195.7	251.7	253.6	332.3
Unclassified liabilities	(164.9)	(208.2)	(236.6)	(317.3)	(380.1)	(441.1)	(638.1)
Unclassified assets	(-51.3)	(-60.9)	(-75.6)	(-121.6)	(-128.4)	(-187.5)	(-305.8)

Source: Central Bank of Kuwait.

1/ Certificates of deposit. Includes some issued by the commercial banks and held outside the commercial banks.

2/ Arising from rediscounts of commercial paper, etc.

3/ Reflects mainly timing differences in recording.

Table 41. Kuwait: Monetary Survey, 1974-81
(In millions of Kuwaiti dinars)

End of Period	1974	1975	1976	1977	1978	1979	1980	Sept. 1980	Sept. 1981
Foreign assets (net)	811.7	933.7	899.3	1,220.4	1,313.4	1,416.4	1,826.6	1,670.9	2,145.8
Central Bank	(393.7)	(486.6)	(548.5)	(817.0)	(700.7)	(812.8)	(1,080.8)	(913.9)	(1,100.1)
Commercial banks	(418.0)	(447.1)	(350.8)	(403.4)	(612.7)	(603.6)	(745.8)	(757.0)	(1,045.7)
Claims on nongovernment sector	361.9	506.7	934.3	1,238.5	1,559.4	2,119.3	2,671.4	2,559.2	3,170.6
Assets = Liabilities	1,173.6	1,440.4	1,833.6	2,458.9	2,872.8	3,535.7	4,498.0	4,230.1	5,316.4
Money	199.5	290.3	393.8	490.6	599.0	626.5	669.7	737.5	927.2
Currency in circulation	(81.6)	(101.7)	(129.1)	(150.9)	(177.0)	(215.9)	(251.3)	(237.0)	(264.3)
Demand deposits	(117.9)	(188.6)	(264.7)	(339.7)	(422.0)	(410.6)	(418.4)	(500.5)	(662.9)
Quasi-money	521.0	600.9	82.5	1,092.7	1,351.3	1,663.2	2,187.8	2,021.2	2,598.3
Government deposits	286.3	358.8	341.8	440.0	374.1	586.0	833.6	663.7	828.9
Capital accounts	56.0	68.8	94.2	203.4	246.3	296.5	367.0	337.1	306.0
Other items (net)	110.8	121.6	177.3	230.2	302.1	363.5	439.9	470.6	574.0

Source: Central Bank of Kuwait.

Table 42. Kuwait: Consolidated Balance Sheet of the Specialized Banks, 1976-81 1/

(In millions of Kuwaiti dinars)

End of Period	1976	1977	1978	1979	1980	June 1981
Assets 2/	473.2	705.2	868.5	962.4	1,164.8	1,293.2
Cash and balances with Central Bank	3.7	9.2	6.9	7.4	16.4	18.9
Deposits with commercial banks	78.3	126.3	141.5	171.7	200.9	514.8 4/
Local loans	178.1	301.7	410.9	473.7	576.6	366.4
Local investments	10.8	14.1	31.3	29.1	29.5	48.3
Foreign assets	142.4	196.2	216.4	224.2	254.5	232.6
Deposits with foreign banks	(87.8)	(105.8)	(111.7)	(96.4)	(116.0)	(135.2)
Other foreign loans and investments	(54.6)	(90.4)	(104.7)	(127.8)	(138.5)	(97.4)
Other assets	59.9	57.7	61.5	56.3	86.9	112.2
Liabilities 2/	473.2	705.2	868.5	962.4	1,164.8	1,293.2
Capital and reserves	133.4	206.0	282.2	351.9	412.8	431.7
Private sector deposits	153.4	237.9	237.6	257.5	284.8	364.0
Deposits of commercial banks	(77.5)	(155.7)	(141.9)	(167.2)	(210.3)	(--)
Other deposits 3/	(75.9)	(82.2)	(95.7)	(90.3)	(74.5)	(--)
GDs and bills	8.0	28.3	67.3	64.3	68.5	93.9
Government deposits and loans	47.7	73.8	94.5	115.8	156.2	240.0
Foreign liabilities	58.4	95.0	105.0	111.4	115.3	77.3
Other liabilities	72.3	64.2	81.4	61.5	127.2	86.3

Source: Central Bank of Kuwait.

1/ Credit and Savings Bank, Real Estate Bank and Industrial Bank of Kuwait.

2/ Excluding regular accounts and inter-specialized bank transactions.

3/ Consist of deposits by individuals, institutions, companies and funds related to government agencies but originally belonging to the private sector.

4/ Deposits with banks (including specialized) and other financial institutions.

Table 43. Kuwait Consolidated Balance Sheet of the Investment Companies, 1976-81 1/
(In millions of Kuwaiti dinars)

End of Period	1976	1977	1978	1979	1980	June 1980	June 1981
Assets	319.3	470.5	611.0	715.4	952.2	876.4	1,189.9
Cash and balances with local banks	34.4	63.4	75.0	22.3	35.8	34.0	28.0
Loans and discounts to residents	22.0	34.3	52.0	81.1	124.0	96.4	175.2
Local investments	40.9	56.5	78.0	115.9	164.7	156.1	180.3
Financial	(23.6)	(30.0)	(44.4)	(63.2)	(94.9)	(89.1)	(81.3)
Other	(17.3)	(25.6)	(33.6)	(52.7)	(69.8)	(67.0)	(99.0)
Foreign assets	199.6	274.5	359.5	429.3	545.9	523.3	662.5
Cash and balances with foreign banks	(59.8)	(80.3)	(117.0)	(137.2)	(194.3)	(210.0)	(298.9)
Loans and discounts to nonresidents	(70.1)	(102.3)	(114.3)	(129.4)	(92.7)	(117.0)	(115.0)
Foreign investments	(69.7)	(91.9)	(128.1)	(162.7)	(258.9)	(196.3)	(248.6)
Other assets	24.4	41.8	46.5	67.8	81.8	66.6	143.9
Liabilities	319.3	470.5	611.0	715.4	952.2	876.4	1,189.9
Capital and reserves	76.9	87.8	103.1	155.4	162.2	157.3	181.4
Resources from residents	111.1	164.2	217.6	237.4	317.8	337.0	470.1
from Government	(51.0)	(67.7)	(111.3)	(126.8)	(99.8)	(132.2)	(111.8)
from local banks	(22.1)	(69.9)	(83.9)	(90.2)	(122.4)	(101.6)	(157.7)
from others	(38.0)	(26.6)	(22.4)	(20.4)	(95.5)	(103.2)	(200.6)
Foreign liabilities	64.0	130.7	217.8	255.1	403.9	323.5	408.0
Other liabilities	67.3	87.8	72.5	67.5	68.4	58.6	130.4

Source: Central Bank of Kuwait.

1/ Including Kuwait Investment Co., Kuwait Foreign Trading, Contracting and Investment Co., Afro-Arab Company for Investments and International Trade, Kuwait International Investment Co., International Financial Advisors, Kuwait Finance Center, Kuwait International Finance Co., Arab Financial Consultants Co., Arab Trust Co., Arab Investment for Asia, Al-Ahlia Industrial and Trading Investment Co., Arab European Financial Management Co., Kuwait Development Co., Financial Group of Kuwait, Euro-Kuwaiti Co., and Arab Company for Trading Securities (ACTS).

Table 44. Kuwait: Consolidated Balance Sheet
of Insurance Companies, 1979-80 1/

(In thousands of Kuwaiti dinars)

	1979	1980
Assets	112,348.9	126,995.0
Deposits with commercial banks <u>2/</u>	24,744.0	24,600.0
Investments	53,472.6	59,733.3
Financial	(40,151.8)	(45,906.0)
Other <u>3/</u>	(13,320.8)	(13,827.3)
Premiums received	15,747.2	18,763.1
Other assets	18,385.1	23,898.6
Liabilities	112,348.9	126,995.0
Capital and reserve	61,712.8	73,952.4
Creditors and other credit balances	19,226.9	18,729.5
Due to banks	8,771.9	11,401.0
Other liabilities	22,637.3	22,912.1

Sources: Annual reports of the insurance companies.

1/ Includes Kuwait Insurance Co., Gulf Insurance Co., Ahliya Insurance Co., Warbah Insurance Co., and Kuwait Reinsurance Co. Other Arab and foreign insurance companies not included.

2/ Includes cash on hand.

3/ Consists of investments on land and real estate.

Table 45. Kuwait: Composition of Exports, 1976-81

(In millions of Kuwaiti dinars)

	1976	1977	1978	1979	Prev. 1980	Est. 1981
Petroleum (customs basis)	2,658.9	2,557.1	2,628.7	4,781.5	5,141.0 1/	3,985.6 2/
Crude oil	2,151.6	2,080.8	2,155.0	3,831.2	3,815.6	2,838.5
Bunker oil	61.1	53.1	45.0	78.6	116.2	89.6
Other refined	404.9	381.4	391.6	741.4	1,026.0	925.3
LPG	41.3	41.7	37.1	130.3	183.3	132.2
Other and re-exports	215.5	235.5	235.4	307.0	411.3	617.0 3/
Domestic exports	56.5	58.1	68.5	83.3	90.2 4/	...
Fertilizer	(18.5)	(20.5)	(29.0)	(30.0)	(32.0)	(...)
Other chemicals	(12.7)	(11.3)	(9.7)	(4.1)	(6.0)	(...)
Manufactures	(18.1)	(17.7)	(21.4)	(35.2)	(45.0)	(...)
Other	(7.2)	(8.6)	(8.4)	(14.0)	(7.2)	(...)
Re-exports	159.0	177.4	166.9	223.7	321.1 4/	(...)
Food, beverages, and tobacco	(12.9)	(13.4)	(15.0)	(19.0)	(27.0)	(...)
Chemicals	(2.4)	(3.4)	(3.1)	(6.3)	(6.5)	(...)
Manufactures	(64.6)	(82.0)	(68.3)	(89.4)	(125.1)	(...)
Equipment	(75.2)	(74.7)	(77.5)	(100.6)	(148.7)	(...)
Other	(3.9)	(3.9)	(3.0)	(8.4)	(13.8)	(...)
Total (customs basis)	2,874.4	2,792.6	2,864.1	5,088.5	5,552.3	4,602.6
Adjustments for balance of payments						
Crude oil premia 5/	--	--	--	--	279.0	174.0
Bunker oil 6/	-61.1	-53.1	-45.0	-78.6	-116.2	-89.6
Nonmonetary gold	2.0	2.0	2.0	3.0	18.0	20.0
Other adjustments 7/	-2.4	-1.1	-5.8	-7.4	-13.1	-12.0
Adjusted total	2,812.9	2,740.4	2,815.3	5,005.5	5,720.0	4,695.0
Petroleum	2,597.8	2,504.0	2,583.7	4,702.9	5,303.9	4,070.0
Other	215.1	236.4	231.6	302.6	416.2	625.0
Changes in per cent						
Petroleum						
Customs basis	13.8	-3.8	2.8	81.9	7.5	-22.5
Adjusted basis	13.5	-3.6	3.2	82.0	12.8	-23.3
Other domestic	-30.8	2.8	17.9	21.6	8.3)
Re-exports	79.3	11.6	-5.9	34.0	43.5	) 50.0
Total (customs basis)	14.7	-2.8	2.6	77.7	9.1	-17.1
Adjusted total	14.4	-2.6	2.7	77.8	14.3	-17.9

Sources: Central Bank of Kuwait, staff estimates, and Appendix Table 21.

1/ Customs data provisionally revised; excludes premia on crude oil sales.

2/ Estimated mainly from oil industry press reports; excludes premia.

3/ Indicative estimate reflecting data for first four months.

4/ Composition estimated from incomplete data.

5/ Estimated to have averaged US\$3.30 per barrel (US\$/b) in the last three quarters of 1980, US\$2.70/b in the first quarter of 1981, US\$2.50/b in the second and third quarters, and US\$0.30/b in the fourth.

6/ Bunker sales are treated as services in the balance of payments.

7/ Deduction of ships' supplies and addition of unrecorded exports (shrimps).

Table 46. Kuwait. Composition of Imports, 1976-81

(In millions of Kuwaiti dinars)

	1976	1977	1978	1979	1980 <u>1/</u>	<u>Est.</u> 1981
By SITC section <u>2/</u>	972.0	1,387.1	1,263.9	1,437.0	1,775.9	2,040
Food and live animals	121.3	147.7	162.7	194.2	232.3	...
Beverages and tobacco	13.2	14.1	18.0	25.0	21.6	...
Crude materials	16.5	21.5	23.7	29.8	32.2	...
Mineral fuels, etc.	7.2	9.9	7.5	10.0	12.4	...
Other oils and fats	3.2	2.6	3.3	3.3	5.9	...
Chemicals	30.1	41.9	44.4	54.8	77.5	...
Manufactured materials	214.7	299.8	290.3	357.9	422.2	...
Machinery and equipment	407.7	631.2	500.3	510.4	652.1	...
Miscellaneous manufactures	140.1	207.9	203.9	235.7	305.8	...
Other commodities	18.9	10.5	9.8	16.0	13.9	...
By economic use <u>2/</u>	972.0	1,287.1	1,263.9	1,437.0	1,775.9	2,040
Capital goods	242.6	407.3	280.5	229.6	287.4	...
Intermediate goods	320.5	431.0	452.9	589.6	674.2	...
Consumer goods	389.9	438.4	520.1	603.8	798.6	...
Not specified	19.0	10.4	10.4	14.0	15.7	...
Adjustments for balance of payments						
Freight and insurance	-126.4	-202.8	-189.6	-215.6	-266.4	-306
Nonmonetary gold	34.4	52.6	55.4	19.3	187.6	106
Other coverage, etc.	85.0	120.0	60.0	105.2	137.9	160
Adjusted imports (f.o.b.)	965.0	1,356.9	1,189.7	1,345.9	1,835.0	2,000
Memorandum items						
Retained imports <u>3/</u> Industrial countries'	813.0	1,209.7	1,097.0	1,216.4	1,454.8	...
exports to Kuwait <u>4/</u>	685.8	927.1	951.0	1,091.3	1,233.8	1,450
Changes in per cent						
Imports c.i.f. <u>2/</u>	40.2	42.7	-8.8	13.7	23.6	14.9
Retained imports <u>3/</u>	34.5	48.8	-9.3	10.9	19.6	...
Adjusted imports (f.o.b.)	40.5	40.6	-12.3	13.1	36.3	9.0
Excluding gold	42.1	40.2	-13.0	17.0	24.2	15.0
Freight and insurance	38.9	60.4	-6.5	13.7	23.6	14.9
Industrial country exports <u>4/</u>	45.3	35.2	2.6	14.8	13.1	17.5
Import prices <u>5/</u>	0.8	8.7	7.6	14.4	10.2	3.0

Sources: Central Bank of Kuwait and staff estimates.

1/ Composition estimated from available monthly data.

2/ Imports as recorded in customs returns, c.i.f. basis.

3/ Imports, c.i.f. less re-exports, f.o.b. (both customs basis).

4/ Industrial countries' exports f.o.b., lagged one month to approximate shipping time; 1981 estimated from nine months' data.

5/ Trading partners' non-oil export prices weighted by share in Kuwait's imports.

Table 47. Kuwait: Destination of Exports and
Re-Exports, 1976-80

(In per cent of total)

	1976	1977	1978	1979	1980 <u>1/</u>
Asia and Oceania	<u>48.6</u>	<u>49.5</u>	<u>49.4</u>	<u>50.8</u>	<u>50.8</u>
Japan	<u>22.2</u>	<u>25.1</u>	<u>24.8</u>	<u>24.1</u>	<u>13.5</u>
Korea, Rep. of	6.6	6.6	6.6	6.6	7.5
Taiwan	6.6	6.7	6.5	6.2	8.8
Singapore	1.3	1.2	1.2	4.5	7.5
Other	11.9	9.9	10.3	9.4	13.5
Western Europe	<u>32.5</u>	<u>29.8</u>	<u>34.7</u>	<u>33.2</u>	<u>34.8</u>
Netherlands	<u>9.8</u>	<u>7.2</u>	<u>9.0</u>	<u>10.8</u>	<u>12.1</u>
United Kingdom	8.2	8.9	8.7	6.4	11.6
France	4.2	3.1	2.4	3.2	5.2
Italy	3.7	6.7	9.1	8.7	1.6
Other	6.6	3.9	5.5	4.1	4.3
Western Hemisphere	<u>6.9</u>	<u>8.4</u>	<u>4.1</u>	<u>3.3</u>	<u>5.6</u>
Brazil	<u>5.7</u>	<u>5.6</u>	<u>3.0</u>	<u>1.9</u>	<u>0.8</u>
United States	0.7	1.8	0.7	0.6	2.4
Other	0.5	1.0	0.4	0.8	2.4
Middle East and Africa	<u>8.3</u>	<u>9.0</u>	<u>8.7</u>	<u>9.7</u>	<u>6.5</u>
Saudi Arabia	<u>3.7</u>	<u>4.4</u>	<u>3.9</u>	<u>2.4</u>	<u>2.1</u>
Other	4.6	4.6	4.8	7.3	4.4
Eastern Europe	<u>1.3</u>	<u>1.2</u>	<u>1.0</u>	<u>--</u>	<u>--</u>
Unspecified	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>	<u>1.3</u>	<u>0.6</u>
Bunkers	<u>2.3</u>	<u>2.0</u>	<u>1.8</u>	<u>1.7</u>	<u>1.7</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank of Kuwait.

1/ January-March.

Table 48. Kuwait: Imports by Country of Origin, 1976-80 1/

(In per cent of total)

	1976	1977	1978	1979	1980 <u>2/</u>
Asia and Oceania	<u>39.8</u>	<u>41.5</u>	<u>38.4</u>	<u>38.8</u>	<u>40.2</u>
Japan	<u>20.7</u>	<u>19.8</u>	<u>19.5</u>	<u>18.3</u>	<u>19.9</u>
India	3.9	3.8	3.4	3.3	3.4
Korea, Rep. of	2.9	6.0	2.9	3.3	3.7
China, People's Rep. of	2.3	2.7	2.1	2.5	1.6
Taiwan	2.2	2.4	2.8	2.9	3.1
Other	7.8	6.8	7.7	8.5	8.5
Western Europe	<u>38.2</u>	<u>37.4</u>	<u>39.9</u>	<u>37.6</u>	<u>39.0</u>
United Kingdom	<u>8.2</u>	<u>9.9</u>	<u>10.2</u>	<u>10.0</u>	<u>9.2</u>
Germany, Federal Rep. of	10.9	9.3	9.1	8.0	7.9
Italy	4.4	5.0	6.3	5.6	6.3
France	5.2	3.0	3.7	3.4	5.1
Other	9.5	10.2	10.6	10.6	10.5
Western Hemisphere	<u>16.0</u>	<u>15.4</u>	<u>14.8</u>	<u>16.8</u>	<u>15.1</u>
United States	<u>14.7</u>	<u>13.6</u>	<u>13.2</u>	<u>14.5</u>	<u>12.9</u>
Other	1.3	1.8	1.6	2.3	2.2
Middle East and Africa	<u>2.7</u>	<u>2.6</u>	<u>3.9</u>	<u>4.2</u>	<u>3.8</u>
Lebanon	<u>0.8</u>	<u>1.0</u>	<u>1.4</u>	<u>1.2</u>	<u>1.2</u>
Other	1.9	1.6	2.5	3.0	2.6
Eastern Europe	<u>3.1</u>	<u>3.1</u>	<u>3.0</u>	<u>2.6</u>	<u>1.9</u>
Unspecified	<u>0.1</u>	--	<u>0.1</u>	--	--
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank of Kuwait.

1/ Imports as recorded by Customs.

2/ January-March.

Table 49. Kuwait: Services and Private Transfers, 1976-81

(In millions of Kuwaiti dinars)

	1976	1977	1978	1979	Prov. 1980	Est. 1981 1/
Service receipts	656	753	1,008	1,362	1,992	3,075
Freight and insurance	29	17	19	28	39	55
Other transport	106	106	111	183	193	205
Bunker oil	(61)	(53)	(45)	(79)	(116)	(90)
Other	(45)	(53)	(66)	(104)	(77)	(115)
Travel	30	41	44	97	102	120
Investment income	477	575	815	1,035	1,620	2,650
Government	(255)	(284)	(446)	(532)	(933)	(1,540)
Financial institutions	(82)	(126)	(173)	(243)	(327)	(550)
Other private	(140)	(165)	(196)	(260)	(360)	(560)
Government, n.i.e.	9	11	13	15	34	40
Other services	5	3	6	4	4	5
Service payments	-321	-460	-591	-740	-1,004	-1,155
Freight and insurance	-126	-194	-181	-205	-252	-290
Other transport	-35	-39	-54	-62	-77	-85
Travel	-73	-88	-106	-228	-362	-400
Investment income	-36	-57	-81	-115	-173	-235
Government	(--)	(--)	(--)	(--)	(--)	(--)
Financial institutions	(-20)	(-44)	(-67)	(-94)	(-141)	(-200)
Other private	(-16)	(-13)	(-14)	(-21)	(-32)	(-35)
Government, n.i.e.	-38	-67	-150	-110	-117	-120
Other services	-13	-15	-19	-20	-23	-25
Private transfer payments	-92	-106	-119	-147	-187	-205
Total (net)	243	187	298	475	801	1,715
Freight and insurance	-97	-177	-162	-177	-213	-235
Other transport	71	67	57	121	116	120
Travel	-43	-47	-62	-131	-260	-280
Investment income	441	518	734	920	1,447	2,415
Government	(255)	(284)	(446)	(532)	(933)	(1,540)
Financial institutions	(62)	(82)	(106)	(149)	(186)	(350)
Other private	(124)	(152)	(182)	(239)	(328)	(525)
Government, n.i.e.	-29	-56	-137	-95	-83	-80
Other services	-8	-12	-13	-16	-19	-20
Private transfers	-92	-106	-119	-147	-187	-205

Sources: Central Bank of Kuwait and staff estimates.

1/ Many components are staff estimates meant only as indicative.

Table 30. Kuwait: Recorded Capital Transactions, 1976-81

(In millions of Kuwaiti dinars)

	1976	1977	1978	1979	Prev. 1980	Est. 1981 1/
Official assistance	-237	-333	-274	-263	-366	-333
Official transfers	-63	-232	-220	-109	-240	-263
Government loans and deposits 2/	-149	-36	-5	-4	-50	-5
Kuwait Fund loans	-43	-47	-49	-52	-76	-43
Repayments received	(6)	(8)	(9)	(10)	(12)	(15)
Gross disbursements	(-49)	(-55)	(-58)	(-62)	(-88)	(-80)
Government investment	-952	-1,145	-790	-2,984	-3,048	-2,635
Direct investment 3/	-83	-20	-10	-12	-8	...
Reserve accounts 4/	-867	-1,125	-780	-2,972	-3,040	-2,635
Other equity investment 5/	-32	-13	-26	32	-110	-10
Kuwait Fund	-17	-7	-12	-4	-16	...
Investment institutions 6/	-15	-6	-14	38	-94	-10
Other portfolio investment	-3	-45	-18	-162	-89	30
Kuwait Fund	-3	-30	-4	-47	-36	13
Investment institutions	...	-15	-22	-33	-30	15
Specialized banks	...	-	-	-82	-3	-
Investment institution loans 6/	8	-13	-41	30	313	45
Credits (repayments)	44	37	8	43	320	80
Debits (disbursements)	-36	-50	-49	-13	-5	-35
Short-term capital, n.i.e.	-67	3	86	-44	-203	-170
Kuwait Fund (net)	...	7	38	-37	7	-40
Investment institutions	-17	10	42	-8	-193	-170
Credits	(-)	(30)	(80)	(12)	(-)	(10)
Debits	(-17)	(-20)	(-38)	(-20)	(-193)	(-180)
Specialized banks	-50	-12	6	1	-17	40
Credits	(-)	(25)	(10)	(6)	(-)	(75)
Debits	(-50)	(-37)	(-4)	(-5)	(-17)	(-35)
Commercial banks	94	-52	-210	9	-143	-290
Liabilities	133	96	182	202	330	-10
Assets (increase-)	-61	-148	-392	-193	-473	-280
Oil export credit	-221 7/	76	-22	33	94	145
Total	-1,432	-1,344	-1,293	-3,311	-3,350	-3,220
Memorandum items:						
Institutional placements (net) 8/	-96	-68	1	-124	-87	-105
Kuwait Fund	(-22)	(-30)	(30)	(-90)	(-65)	(-25)
Investment institutions	(-74)	(-38)	(-29)	(-34)	(-22)	(-80)

Sources: Central Bank of Kuwait and staff estimates.

1/ Most items are based on changes during first six to nine months only.

2/ Mainly deposits managed by Central Bank. Includes subscriptions.

3/ To extent identified separately by Central Bank.

4/ General Reserve and Fund for Future Generations, n.i.e. Includes direct and portfolio investments, working and invested balances abroad, and recent bilateral loans of US\$2 billion (about KD 342 million) in 1980 and US\$2-4 billion in 1981.

5/ Includes all equity investment, most of which does not entail control.

6/ Includes specialized banks from 1979 onwards.

7/ Apparently includes compensation payments.

8/ Loans, equity, bonds (other portfolio), and short-term capital, n.i.e. (mainly deposits). Includes specialized banks but excludes commercial banks.

Table 51. Kuwait: Cumulative Gross Loan Disbursements of the Kuwait Fund for Arab Economic Development, 1976-81

(In millions of Kuwaiti dinars)

End-December	1976	1977	1978	1979	1980	1981 ^{1/}
Afghanistan	--	0.1	0.3	2.1	2.3	7.3
Algeria	10.0	10.0	10.0	10.0	10.0	10.0
Bangladesh	--	3.6	6.0	9.4	13.1	15.9
Bahrain	9.3	9.3	11.7	12.7	17.1	17.4
Burundi	--	0.1	0.7	1.1	2.0	2.5
Cameroun	--	0.8	1.0	2.1	4.3	4.5
Comoros	0.3	1.0	1.5	1.9	2.8	3.1
Congo	--	0.8	2.2	3.3	4.7	5.0
Egypt	29.9	39.5	47.5	50.9	53.3	53.4
Gambia	--	--	0.4	1.3	2.8	5.0
Ghana	--	--	2.5	4.7	8.0	10.2
India	6.1	10.0	15.0	15.0	16.0	18.1
Iraq	6.4	6.4	6.4	6.4	6.4	6.4
Jordan	15.4	18.6	21.6	30.2	40.3	46.4
Lebanon	2.5	2.5	2.5	2.5	2.5	2.5
Madagascar	--	--	--	2.5	3.4	3.7
Malaysia	0.3	0.7	0.8	1.3	2.4	2.8
Maldives	--	--	0.6	0.8	2.9	3.1
Mali	--	0.9	1.3	2.5	3.5	3.7
Mauritania	2.1	6.0	8.0	10.7	14.5	18.2
Morocco	14.3	18.0	25.3	25.3	31.1	32.1
Nepal	--	1.3	1.7	2.7	4.6	6.6
Oman	--	2.3	4.4	4.9	6.0	10.4
Pakistan	--	--	0.1	1.9	6.8	11.2
Somalia	1.5	3.6	5.3	7.4	9.6	10.5
Sri Lanka	2.6	4.1	5.1	6.0	6.7	7.4
Sudan	20.7	24.7	29.3	37.6	41.4	44.2
Syria	12.2	15.8	18.8	20.1	22.2	23.4
Tanzania	0.2	2.2	2.5	2.8	4.4	5.1
Thailand	--	0.1	0.6	1.4	4.1	5.4
Tunisia	17.7	20.0	23.9	29.2	37.0	41.8
Yemen Arab Rep.	5.5	7.4	8.4	10.2	12.0	13.1
Yemen, P.D.R.	3.3	4.7	6.3	8.0	11.4	14.1
Other (16 countries)	0.1	1.0	2.1	6.8	14.0	19.2
Total	160.4	215.5	273.8	335.7	423.6	483.7

Source: Kuwait Fund for Arab Economic Development.

^{1/} Through end of September.

Table 52. Kuwait: Indices of Changes in the Value of the Kuwaiti Dinar, 1974-81

(1974 = 100)

End of Period	U.S. Dollar per Kuwaiti Dinar (1)	Sarasin Dinar per Kuwaiti Dinar (2)	Qatar Riyal per Kuwaiti Dinar (3)	U.A.E. Dirham per Kuwaiti Dinar (4)	Saudi Arabian Riyal per Kuwaiti Dinar (5)	JDK per Kuwaiti Dinar (6)	Effective Exchange Rate ^{1/} (7)
1974	100.0	100.0	100.0	100.0	100.0	100.0	
1975	98.3	98.7	99.3	98.9	97.9	103.0	
1976	100.9	101.2	101.2	101.8	100.4	106.4	
1977	103.4	103.6	103.7	101.3	102.1	104.2	100.0
1978							
I	103.1	103.3	103.3	102.4	102.3	104.0	99.4
II	103.3	103.6	103.6	102.8	102.3	104.2	98.2
III	106.3	104.1	104.1	103.2	99.7	101.8	94.7
IV	106.6	103.6	103.6	102.7	99.3	100.1	94.1
1979							
I	103.0	102.1	102.1	101.3	99.3	99.9	93.1
II	103.0	102.1	99.6	100.2	99.8	99.6	93.2
III	103.0	101.0	99.6	100.2	99.2	97.3	94.1
IV	106.1	101.3	99.3	100.3	100.3	98.6	96.3
1980							
January	106.3	101.6	99.1	99.9	100.3	99.0	97.0
February	103.9	101.1	98.6	99.3	100.1	99.4	98.0
March	104.9	100.2	97.7	98.3	98.3	102.7	100.8
April	106.6	101.8	99.3	99.6	99.8	100.8	98.6
May	108.0	103.2	100.1	100.4	101.2	100.8	97.9
June	108.3	103.6	100.0	100.9	101.6	100.3	97.2
July	108.1	103.2	99.7	100.1	100.9	100.9	98.3
August	108.1	103.2	99.6	100.1	100.9	100.6	97.3
September	108.4	103.6	100.0	100.3	101.3	101.2	97.3
October	108.0	103.1	99.6	100.0	100.8	102.3	98.3
November	106.4	101.7	98.2	98.2	99.4	102.1	98.4
December	106.8	101.7	98.4	98.3	100.0	102.3	97.7
1981							
January	106.4	101.4	98.1	98.1	99.7	104.7	100.1
February	103.6	100.6	97.4	97.4	99.2	103.7	101.3
March	103.6	100.6	97.4	97.4	99.3	103.3	101.2
April	103.0	100.0	96.8	96.8	99.2	107.2	103.4
May	104.0	99.0	93.9	93.9	99.1	108.8	103.3
June	102.8	97.9	94.8	94.8	98.6	109.4	106.1
July	102.0	97.2	94.1	94.1	97.8	110.8	108.3
August	102.4	97.3	94.4	94.4	98.3	110.7	107.7
September	102.2	97.4	94.2	94.3	98.3	109.3	107.2 ^{2/}
October	102.3	97.3	94.4	94.4	98.4	108.8	106.3 ^{2/}
November	103.3	98.6	93.3	93.3	99.6	107.4	103.2 ^{2/}

Sources: Central Bank of Kuwait and IMF, International Financial Statistics.

^{1/} Import-weighted index, 1977 = 100.

^{2/} Estimate.

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