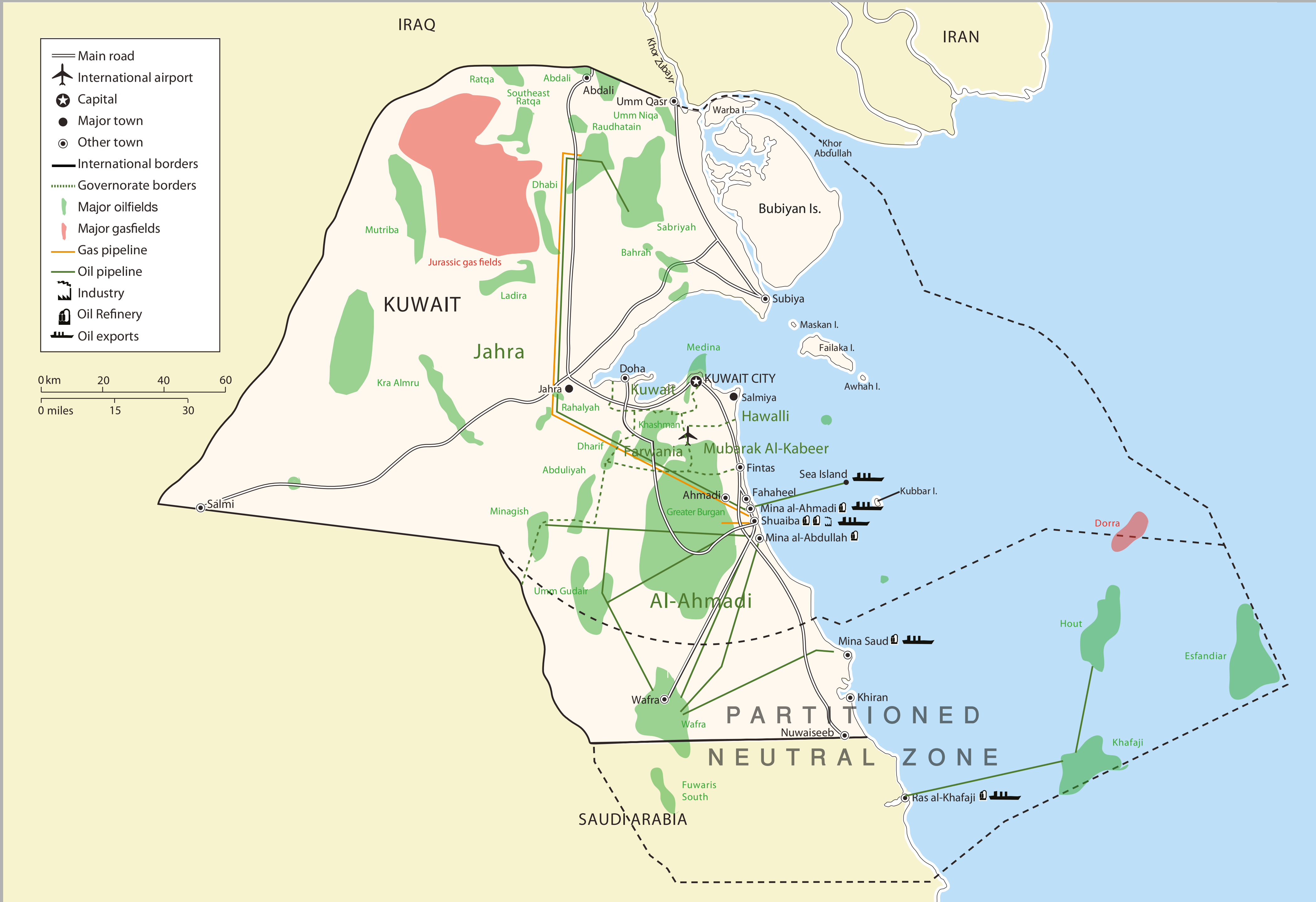
Kuwait - Economic Insight

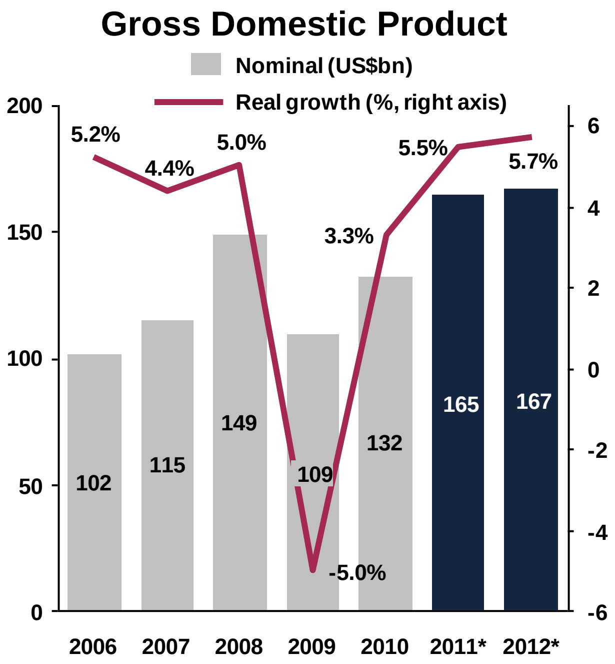
August 2011

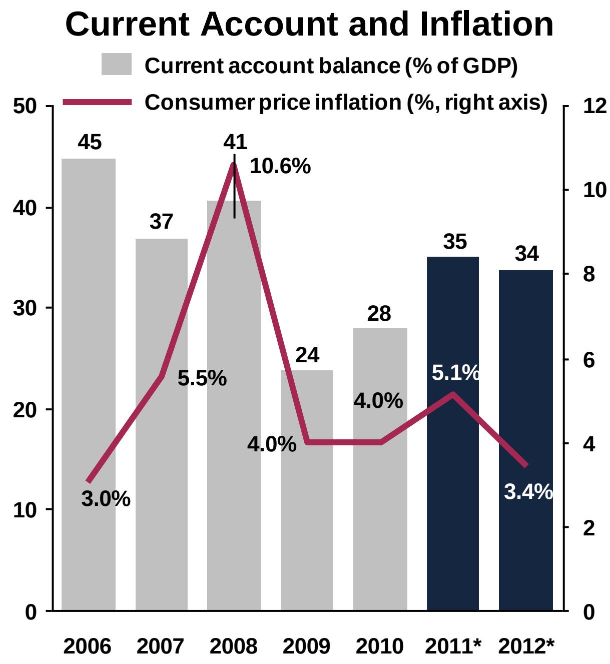
QNB CAPITAL


IRAQ
IRAN
SAUDI ARABIA
KUWAIT
Main road
International airport
Capital
Major town
Other town
International borders
Governorate borders
Major oilfields
Major gasfields
Gas pipeline
Oil pipeline
Industry
Oil Refinery
Oil exports
0 km 20 40 60
0 miles 15 30
Jahra
Kuwait
Hawalli
Farwania
Mubarak Al-Kabeer
Al-Ahmadi
PARTITIONED NEUTRAL ZONE
Khor Zubayr
Khor Abdullah
Warba I.
Bubiyan Is.
Abdali
Umm Qasr
Subiya
Maskan I.
Failaka I.
Awhah I.
KUWAIT CITY
Salmiya
Doha
Jahra
Fintas
Sea Island
Kubbar I.
Fahaheel
Ahmadi
Mina al-Ahmadi
Shuaiba
Mina al-Abdullah
Mina Saud
Khiran
Nuwaiseeb
Wafra
Ras al-Khafaji
Salmi
Ratqa
Southeast Ratqa
Abdali
Umm Niqa
Raudhatain
Dhabi
Sabriyah
Mutriba
Jurassic gas fields
Bahrah
Ladira
Kra Almru
Medina
Rahalyah
Khashman
Dharif
Abduliyah
Minagish
Greater Burgan
Umm Gudair
Wafra
Fuwaris South
Dorra
Hout
Esfandiar
Khafaji

Outlook Summary for 2011-12

- Kuwait has a population of 3.6m, of whom 68% are expatriates. The **population is forecast to grow at 3.2% in 2011-12** on account of a high citizen birth rate and ongoing immigration
- The **oil sector comprised 53% of GDP** on average over the last five years. Kuwait's hydrocarbon reserves are very large relative to its population, and it **captures much of the oil value chain** through refining, shipping and retailing a sizable part of the crude it produces
- **A new development plan** is attempting to push ahead with US$110bn of projects until 2014; half of it is intended to be financed by the private sector
- **Real GDP is forecast to grow by 5.6% in 2011-12**, as work gets underway on the new development plan and oil production rises





Source: Central Statistical Office (CSO), IMF, *QNB Capital forecasts

- The **current account surplus**, which is strong even by regional standards, is expected to increase further to 34% of GDP in 2011-12 owing to high oil prices and investment income
- The Kuwaiti **dinar is forecast to weaken to US$3.53 in 2012**, on account of a declining euro, believed to be part of the currency basket to which the dinar is pegged
- **Inflation will rise to 5.1%** in 2011, driven by food prices, before easing to 3.4% in 2012
- High oil prices will lead to **record fiscal revenue, averaging US$92.9bn** in 2011-12. This is even excluding sizable income from the Kuwait Investment Authority's holdings
- **Government spending** will also pick up to pay for the development plan, higher subsidies and wage costs. Nonetheless, the state will still post surpluses equivalent to 15% of GDP
- The **banking system is stable**, but concerns remain about sizable non-performing loans
- The **equity market** declined by 10% in H1 2011 but a new regulator may boost confidence
- The **business environment** lags behind others GCC states, according to a World Bank index

Table of Contents

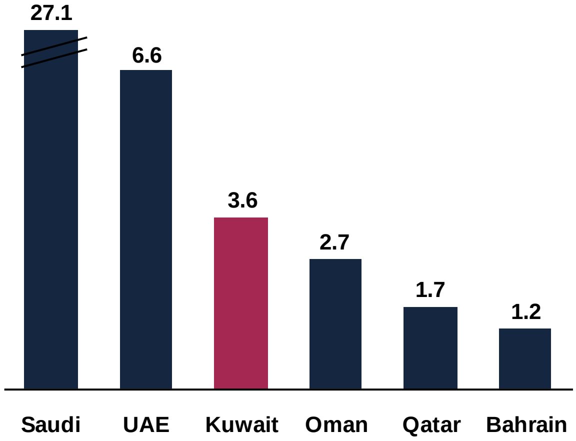
Table of Graphs

1. Country Overview and Demographics

A. Country Overview

Kuwait's population was 3.6m in 2010, equal to 8% of the total GCC regional population (Fig 1.1).

Fig 1.1 GCC Population (2010)
(million, nationals plus expatriates)

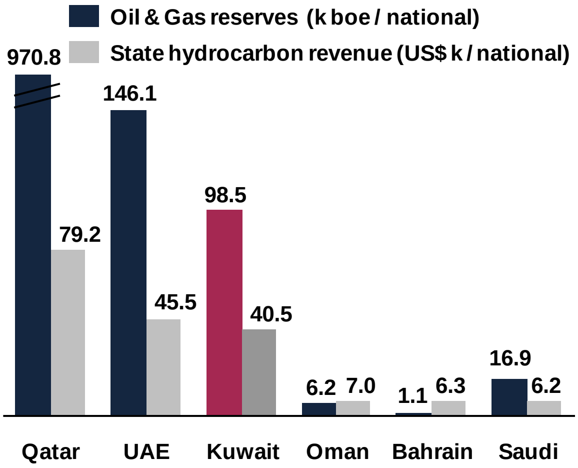


Source: Bahrain, Oman, Qatar, Saudi 2010 censuses; Central Bank of Kuwait (CBK) estimate and QNB Capital estimate for the UAE[1]

Kuwait has a huge hydrocarbon endowment, relative to its national population

The **oil sector** dominates the economy. In terms of both reserves and revenue, Kuwait's relative hydrocarbon wealth is in the top tier of GCC countries (Fig 1.2). In 2009, a weak year for oil prices, the state still received the equivalent of US$40,500 in oil revenue per Kuwaiti national. Kuwait's oil sector includes Burgan, the world's second largest oil field, producing oil since 1946.

Fig 1.2 GCC Oil and Gas Wealth (2009)



Source: BP, IMF, QNB Capital estimates

[1] The UAE did not conduct a planned census in 2010, but did substantially revised its 2010 population estimate, up to 8.2m from 5.1m, based on information from visa issuance and cancellation. The new figure puts the growth rate since the 2005 census at 15%, nearly triple the rate given by the previous series. The 2005 census may have undercounted, and a number of other GCC countries have also made substantial population revisions in recent years. However, the UAE figures are extremely high and do not match emirate level population figures. Therefore, we have used an average of the old and new official figures, which is close to estimates from third party forecasters such as the Economist Intelligence Unit

In common with the other Gulf states, Kuwait's economy has grown rapidly since 2005. The circulation of rising oil revenue has lifted the non-oil economy, stimulating higher emigration and requiring an expansion in infrastructure to meet the needs of a larger population with greater per capita consumption. The government is also envisaging ways of investing its current surpluses to diversify its oil-dependent economy.

$110bn of investments are planned, including major infrastructure projects such as a new port

The Supreme Council for Planning and Development issued two important documents in 2010. These were the Vision 2035 and a more detailed **2010-14 development plan**. The latter, the first medium-term plan since 1986, is intended to be the first of a series of plans designed to achieve the long-term vision of making Kuwait a commercial and financial hub for the northern Gulf, with a particular view to servicing the Iraqi market.

The development plan envisages up to KD30.8bn (US$110bn) of investment[2], most of which is likely to come from the public sector. However, the government is looking to the private sector for up to half of the total investment. To support this involvement, the state has pledged to guarantee KD10bn (US$35bn) of bank loans to privately funded projects under the plan[3].

The plan includes significant new transport infrastructure, such as a Kuwait City metro, a national railway and a third runway for the international airport. It also aims to initiate work on some long awaited megaprojects such as a new oil refinery, a massive deepwater port on Boubyan Island, a 25km bridge across Kuwait Bay leading to a new city ("The City of Silk") at Subiya on the other side. The plan aims to improve the business environment, boost the private sector and create jobs for nationals. To measure the performance of the plan, a series of quantified targets have been developed (Table 1.1).

Table 1.1 Development Plan Targets (2010)

Target for 2014	Current (2010)
Real GDP growth of 5.1% in 2010-14	3.3%
Non-oil real growth of 7.5% in 2010-14	3.4%
Manufacturing 12% of nominal GDP	5.5%*
Oil production of 3.1m barrels/day	2.5m
30% of fiscal revenue from non-oil	7%
Nationals 8% of private sector workforce	6.6%

Source: Development plan, CBK, IMF, *QNB Capital estimate

[2] A range of figures can be seen quoted in reports about the estimated expenditure under the plan, ranging from KD30-37bn (US$105-130bn). The original plan document specifies KD30.8bn. The plan was scheduled to run from April 2010 to March 2014 – four fiscal years, spanning five calendar years (which explains why it is sometimes reported as being a four-year plan, and sometimes a five-year plan). The 2010/11 budget was delayed by a quarter, and so work on implementing the plan began in July 2010. In reality the timeframe for the projects and their cost will be somewhat fluid

[3] It is unclear whether the banking sector has the capacity to provide this much financing. An assessment in December 2010 by KAMCO, a local asset management firm, found that the sector could only provide a further KD3.5bn (US$12.6bn) in funding before reaching the loan/deposit ceiling set by the Central Bank of Kuwait

Democratic checks and balances have increased the time required to approve projects in Kuwait

The Kuwaiti **National Assembly** plays an important and assertive role in legislation and in reviewing the activities of the government. The Assembly, together with bodies such as the Central Tenders Committee and State Audit Bureau, have been wary of contracts for megaprojects. Their concerns focus on whether the terms of such contracts are sufficiently favourable for the state, as well as on the risk of corruption. There has been a particular sensitivity about foreign companies investing in the oil sector and the privatisation of state enterprises.

This system has benefits in protecting Kuwait from waste and corruption and contributing to a culture of transparency and accountability. However, the downside is that it typically takes longer to get infrastructural and industrial projects off the ground in Kuwait, relative to its GCC neighbours. As a result, **foreign investment** in Kuwait is extremely low by GCC standards. During 2001-10, the Kuwait Foreign Investment Bureau approved only 14 foreign investment projects with a combined value of around US$2bn, a small fraction of the investment in other GCC states (Section 4C).

The development plan has been approved by the Assembly and progress will be closely monitored

The new development plan was designed largely to overcome some of these hurdles, and was endorsed by the Assembly. This breakthrough, together with legislation passed by the Assembly to facilitate private sector investment—particularly laws on build-operate-transfer contracts and public-private partnerships—should enable an acceleration in the implementation of projects.

In view of past problems with **implementation**, a quarterly progress report is being submitted to the cabinet. This will detail any obstacles to the implementation of the plan. Also, a twice-yearly report is being submitted to parliament with recommendations for any legislation needed to address bottlenecks. If successfully implemented, the development plan will help bring Kuwait's infrastructure up to the standards of its peers. It would also build towards its ambition to become a regional hub.

B. Demographics

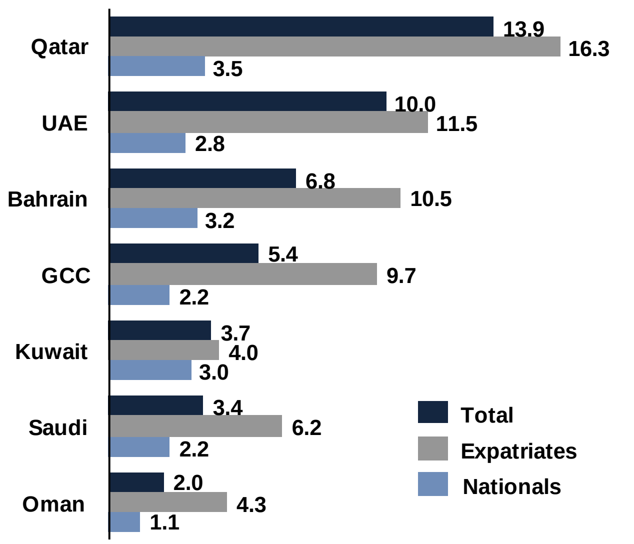
Population

The population is forecast to grow at a rate of 3.2% to reach 3.8m in 2012

The most recent official source for population is the Central Bank of Kuwait (CBK), which provides an estimate for the **total population** of 3.6m in 2010[4]. This implies a growth rate of 3.6% in 2006-10[5]. This was a relatively moderate growth rate by GCC standards; closer to Saudi Arabia than the other small emirates (Fig 1.3). Growth was particularly sharp in 2004-07, at 7.5%, as emigration to GCC countries picked up during the regional and global boom of the mid-2000s. Growth slowed to 1.8% in 2008-10 owing to the global economic slowdown that followed the financial crisis.

We forecast that as the rate of expatriate worker immigration picks up again, the population will grow at a rate of 3.2% in 2011-12 to reach 3.8m.

Fig 1.3 GCC Population Growth (2006-10)
(% CAGR)



Source: National statistical agencies, QNB Capital estimates

Kuwaiti nationals comprise 32% of the population and have one of the world's highest birth rates

The most straightforward component of the population to enumerate and forecast are Kuwaiti **nationals,** who numbered 1.15m in 2010, representing 32% of the total population. We forecast that the population of nationals will continue to grow at around 2.9%, to reach 1.21m in 2012. This forecast is a result of the birth rates, among the highest in the world and supported by financial incentives from the government to boost the national population. It does not take into account possible additional expansion of the citizen body through the naturalisation of some expatriates[6].

[4] The results of the May-June 2011 census, the first since 2005, were not yet available at the time of publication

[5] This is the compound annual growth rate (CAGR), which is a geometric mean. In general, unless otherwise specified, all multi-year growth rates mentioned in this report will be CAGRs, rather than arithmetic means, which are always higher than the geometric mean

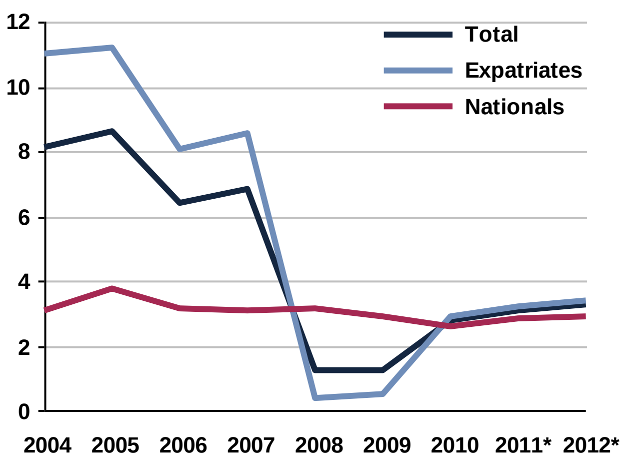
[6] The 'Bidoun' are stateless residents in Kuwait, numbering around 120,000. They are classified with expatriates in official statistics, representing 5% of this group. The Bidoun claim to be long-term residents of Kuwait and have no other nationality. Over the decades, tens of thousands have been naturalised, but the process has been slow. Recently there has been a push to resolve the status of the remaining Bidoun. An official report in 2010 recommended naturalising about 34,000 who could document their residency in Kuwait prior to 1965

Immigration is increasing once again, but more gradually than during the 2004-07 peak

The bulk of the population, as in most GCC countries, are **expatriates**. We estimate that they numbered around 2.43m in 2010, or 68% of the total population. After growing at 9.7% in 2004-07, expatriate numbers were essentially flat in 2008-09, but picked up again in 2010, as the non-oil sector returned to growth (Fig 1.4). Looking ahead, we expect to see steady immigration as oil revenues recover and major infrastructure projects get underway, drawing in additional workers, mainly for the construction sector. In 2011-12 we forecast that the expatriate population will grow by 3.3%, slightly faster than the national population, and it should pick up even more thereafter.

Fig 1.4 Population Growth Trends in Kuwait (2004-12)

(% change per year)



Source: Public Authority for Civil Information, *QNB Capital forecasts

Kuwait is looking into ways to reduce the size of the expatriate population

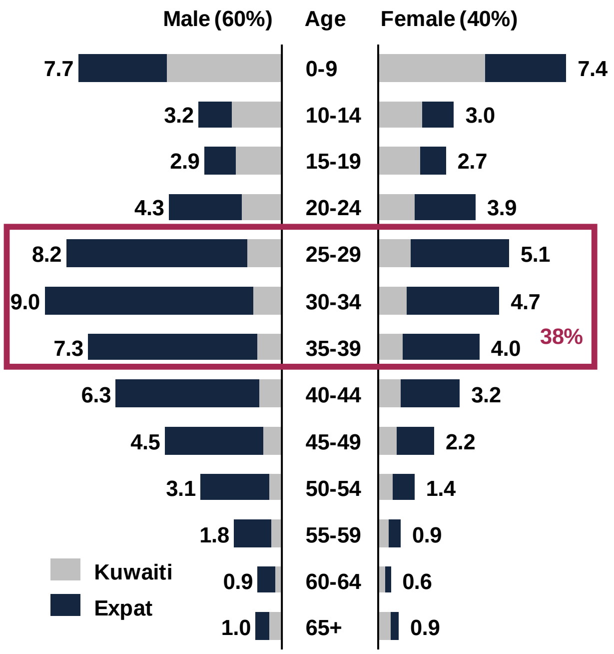
Although we are forecasting an increase in the expatriate population, in the medium to long term Kuwait is looking into ways to **reduce dependence on expatriates**. The development plan envisages trimming the share of expatriates in the population to 66% by 2014. This would require limiting the annual growth of expatriates to about 1.1%. Reports emerged in June 2011 of an even stricter target being proposed by a cross-ministerial committee: reducing the expatriate share of the population to 45%. Achieving this in 20 years would require expatriate numbers to be reduced by 1.8% a year[7].

Expatriates make up over 85% of the population in the core working ages of 25-39 years

Almost 49% of nationals are under the age of 20, given the high birth-rate (Fig 1.5). However, the bulk of expatriate workers—particularly in lower skilled sectors—come to Kuwait without their families. As a result, nationals still comprise the majority of the under-20 population. Thereafter, however, expatriates comprise the majority in almost every age group, across both genders. In the **core working ages of 25-39 years**, representing 38% of the total population, expatriates outnumber nationals almost five-to-one.

Fig 1.5 Population by Age, Gender and Nationality (2010)

(% share of total)



Source: Public Authority for Civil Information

Labour force

The population is **60% male** because most expatriates workers come to Kuwait as single men. Most of the expatriate population are South Asians. This represents a major shift over time, as in the 1980s most expatriates in Kuwait were Arabs.

About **90% of the population is concentrated** in an area of about $500km^2$, a triangular conglomeration centred on Kuwait City and bounded by the towns of Al Jahra and Al Ahmadi. Expatriates are most densely concentrated in the Farwaniyah governorate, southwest of the capital, where they comprise 77% of the population. Conversely, the governorate with the highest concentration of nationals is Mubarak Al Kabeer, where they comprise 59% of the total.

Kuwaiti women are highly engaged in the work force, making up 46% of working nationals

The labour force totalled 2.16m at the end of 2010, of which 17% were nationals. **Unemployment** is low, at around 3% for both nationals and expatriates.

[7] One method floated by the committee for achieving this was limiting the residency period of expatriates to 6-12 years, depending on their skill levels

The **participation rate** of nationals in the labour force is high by regional standards, largely because of a culture of women working:

- In the core working age range of 25-39, about 90% of Kuwaiti men are working and, more significantly, about 82% of Kuwaiti women
- In the 50-54 age category, female national participation is 32%, high for this age group
- 46% of nationals in the workforce are women, compared to 16% in Saudi Arabia
- Kuwaiti women hold senior roles in the private sector also serve in the National Assembly
- Kuwait was one of the first GCC countries to invest heavily in education, including at the universities level at home and study abroad. This has raised the skills of Kuwait women and shaped the working culture

Nationals fill 69% of government jobs, while expatriates make up 93% of the private sector

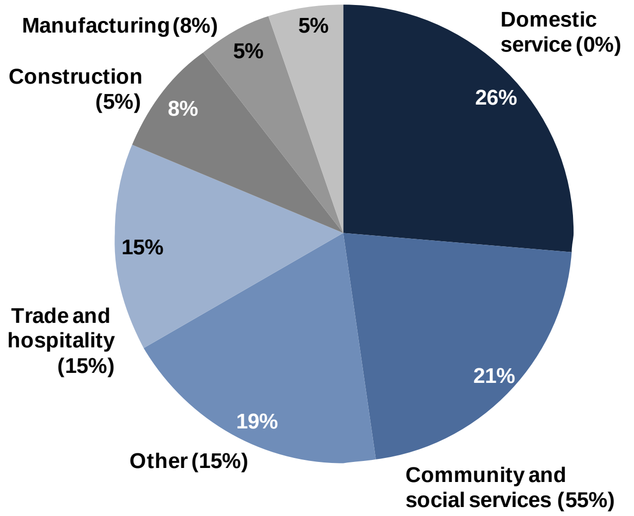
Nationals typically prefer government jobs which usually offer job security and attractive compensation and benefits. Overall, 77% of nationals work for the government, where they comprise 69% of the workforce. In the **private sector**, expatriates predominate, and Kuwaitis only make up 7% of the workforce (excluding domestic service).

Official data breaks down the labour force by economic sectors, and show the level of expatriate and Kuwaiti participation in sector (Fig 1.6). The community and social services sector, which has the strongest Kuwaiti participation, mainly covers government services. An important difference between Kuwait and other GCC countries is that the construction sector is relatively small. It only utilises 8% of the labour force, against 35% in Saudi Arabia.

The government has a long-running **Kuwaitisation** policy, which aims to enhance the skills of nationals and to encourage their employment, particularly in the private sector. The government agency responsible for this, the Kuwaiti Manpower Restructuring Programme, is planning to recruit 20,000 more Kuwaitis into the private sector in 2011-12. If achieved, this would increase the number of Kuwaitis in the private sector by over a quarter.

Fig 1.6 Labour Force by Sector (2010)

(% of total, Kuwaiti participation rate also shown in brackets)



Source: Public Authority for Civil Information

Reforms are being made to improve conditions and flexibility in the private sector

Meanwhile, the government made significant changes to the terms of expatriates' employment in 2010. A new labour law, the first in 45 years, was passed. It included measures to address a number of concerns of expatriate workers, such as non-payment of salaries and trading in labour visas. A minimum private sector monthly wage of KD60 (US$216) was also introduced.

An important development in labour laws is a plan to substantially change the **kafeel ("sponsorship") system**, under which expatriate's residency and work permits are tied to a particular employer, making it impossible to change jobs without the employer's permission. In August 2010, the minister of social affairs and labour indicated that kafeel would be scrapped in 2011 as a gift to foreign workers, marking the 20th anniversary of the liberation from Iraq. A number of other Gulf countries, such as Bahrain, have modified their kafeel systems recently, to make their labour markets more flexible. Also, Kuwait is establishing a Public Authority for the Recruitment of Foreign Workers, in place of corporate sponsorships. It was reported in early June 2011 that a draft bill on the subject was nearing completion for submission to the National Assembly.

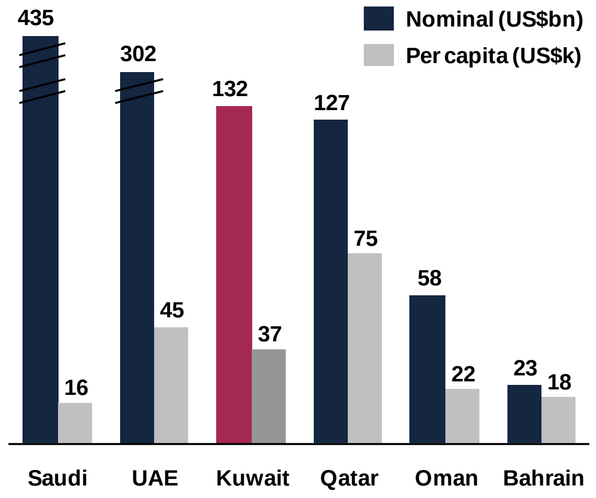
2. Gross Domestic Product

A. Nominal GDP

Kuwait has the third largest economy in the GCC and is similarly ranked in GDP per capita

Kuwait is the third largest economy in the GCC, slightly ahead of Qatar (Fig 2.1). It also has the region's third highest **GDP per capita** of US$37,050. This is below the UAE and Qatar but well ahead of the other three GCC countries.

Fig 2.1 GDP in the GCC (2010)



Source: National sources, IMF and QNB Capital estimates

Kuwait's nominal GDP grew by 21.5% in 2010 to reach KD38bn (US$133bn), according to a preliminary figure from the IMF (Fig 2.2). This was on par with the medium-term pre-recession growth trend of 20% during 2000-08 (and 23% in 2006-08). It was also a strong recovery from a 26% contraction in 2009, which was caused by the fall in oil prices, a reduction in oil production and a weakening of the Kuwaiti dinar[8]. In US dollar terms, 2010 GDP was 11% below the peak of US$149bn in 2008. This was largely because of the weaker dinar; in **dinar-terms** GDP was only 4.7% lower.

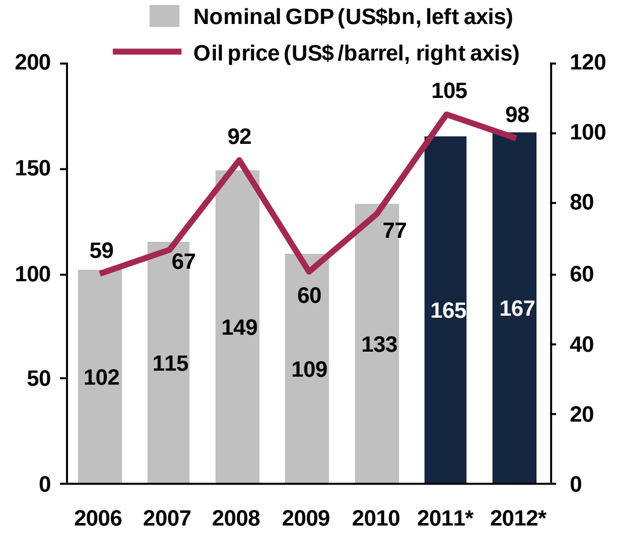
GDP in 2011-12 is forecast to exceed the previous peak in 2008 due to higher oil prices

The global economic recovery has led to growth in demand for oil, particularly in Asia, driving up the international price of crude oil this year. High prices have also been supported by the risk to oil supplies posed by unrest in some Middle Eastern countries. Therefore, QNB Capital forecasts that the average **price of Kuwaiti crude oil** exports will rise to US$105 in 2011[9]. This is a 37% increase on 2010 and is even US$13 higher than the 2008 average. This price boost, combined with higher oil production and steady non-oil expansion, will lift nominal GDP by 24% in 2011 to a new record of US$165bn.

Each dollar difference in the oil price has the effect of increasing or decreasing Kuwait's GDP by about US$0.8bn, such that a US$10 difference from our forecast would change nominal growth in 2011 by 6%.

We forecast that prices will ease slightly to US$98 in 2012, as global oil supply increases to meet demand. The economic impact of this will be more than offset by rising Kuwaiti oil production and further non-oil expansion, resulting in 1% GDP growth to US$167bn.

Fig 2.2 Nominal GDP and Oil Prices (2006-12)



Source: CSO, IMF, *QNB Capital forecasts

B. Economic Structure

Non-oil GDP has been growing steadily

The oil sector dominates the economy and comprised on average 53% of GDP in 2006-09. Its share each year is related to oil price trends. Oil prices also influence production levels, which tends to rise when prices are high and be cut when they are low. This further magnifies the impact of prices on GDP. As oil prices can be highly volatile, **oil and gas GDP** can fluctuate widely—growing by 38% in 2008, contracting 40% in 2009 and then growing once again by 38% in 2010. As a result its share of GDP has ranged recently from 59% in 2008 down to 45% in 2009 (Fig 2.3).

Meanwhile, **non-oil GDP** is not subject to such price volatility and so has exhibited a much steadier trend recently, growing by an average of 10% a year in 2006-10. Prior to that, a non-oil growth spurt happened in 2004-07, when the annual growth rate averaged 23%. That was mainly driven by expansion in financial services, transport and communication and government-funded services. We are forecasting a non-oil growth rate of 5% in 2011-12, led by government spending on the new development plan

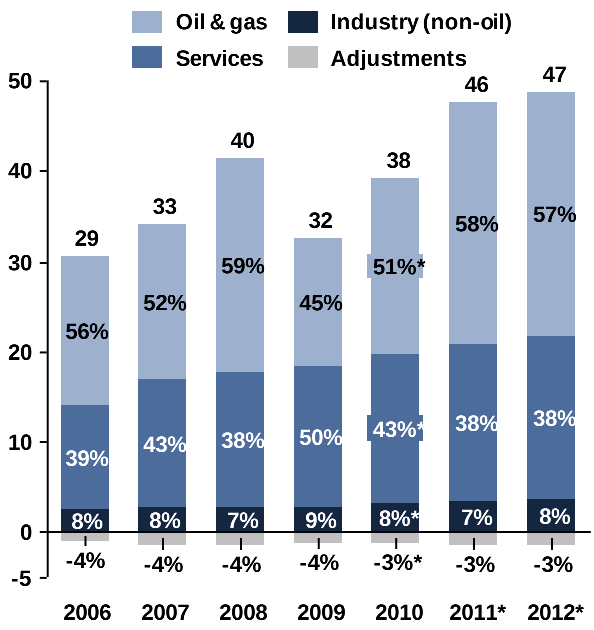
.

[8] The weaker dinar is a result of a strengthening of the dollar against the euro, one of the currencies in the basket to which the dinar is pegged (see Section 5A for more details)

[9] This is based on our forecast of US$112/b for the benchmark Brent blend and a US$7 discount against this for Kuwaiti crude.

Within non-oil GDP, industries[10] have represented 7%-9% of GDP during the last five years. Meanwhile, the larger services sector[11] has ranged between 38%-50% of GDP. The change in the share of GDP of these sectors is mainly a consequence of the relative rise and fall in the size of the oil sector.

Fig 2.3 GDP by Sector (2006-12)
(KD bn, % share of total shown)



Source: CSO, IMF, *QNB Capital estimates and forecasts; Adjustments are mainly imputed financial charges (a negative), together with import duties and agriculture

GDP by Expenditure

Net exports and fixed investment have both expanded as a proportion of GDP

Net exports[12] more than doubled their contribution to GDP in 2005-09 compared to 2000-04 as a result of the surge in oil prices (Fig 2.4). They are expected to stay around this level in the coming years as oil prices remain high.

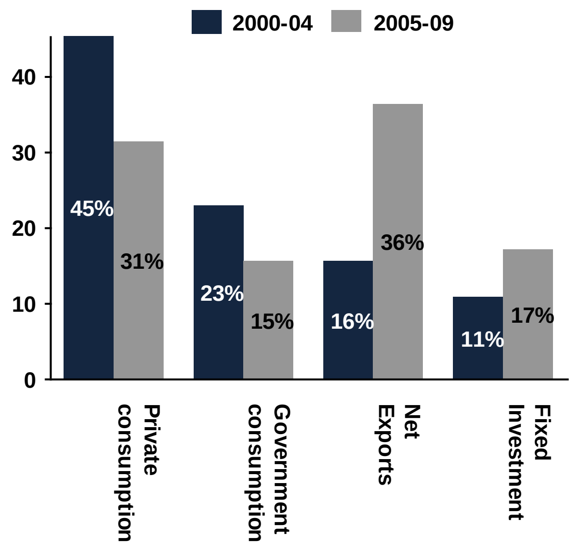
The remainder of GDP by expenditure[13], domestic demand, is broken down into three components: private consumption, government consumption and fixed investment.

Private consumption is by far the dominant element. This attests to both an active corporate sector as well as the spending power of Kuwaiti consumers. It grew strongly at a rate of 14% in 2006-08, dropping to 5% in 2009 because of lower inflation.

Government consumption was 15% of GDP in 2005-09. This is relatively low compared to some other GCC countries, such as Saudi Arabia, where it was 22%. The share of government consumption in GDP was also lower in 2005-09 than in 2000-04, as a result of rising exports. The share of government consumption also contracted in terms of its share in domestic demand. This is because a high proportion of the additional export proceeds were instead invested externally through Kuwait's sovereign wealth fund.

The share in GDP of **fixed investment**—capital expenditure by both the government and private sector—has grown from 11% in 2000-04 to 17% in 2005-09. Fiscal outturn data suggests that government investment remained close to 4% of GDP in every year in the period 2000-09. Therefore, the increase was entirely a result of higher private sector investment, which averaged 10% of GDP in 2000-09, with a peak of 16% in 2007-08. Recent investment has included Dow Chemicals' expansion of petrochemical facilities and a power station at Subiya (Section 3B), as well as real estate developments.

Fig 2.4 Average Breakdown of GDP by Expenditure (2000-09)
(% share of total)



Source: CSO

[10] Industries includes manufacturing, utilities and construction.
[11] Services includes: wholesale and retail trade, hotels and restaurants; transport, storage and communications; community, social and personal services; finance, real estate and business services. The details of each economic sector are discussed further in Section 3
[12] Exports minus imports
[13] The final component of GDP by expenditure, in addition to net exports and domestic demand, is the change in inventories. However, no data on this is available for Kuwait However, it unlikely to be more than a few percentage of GDP related mainly to oil storage

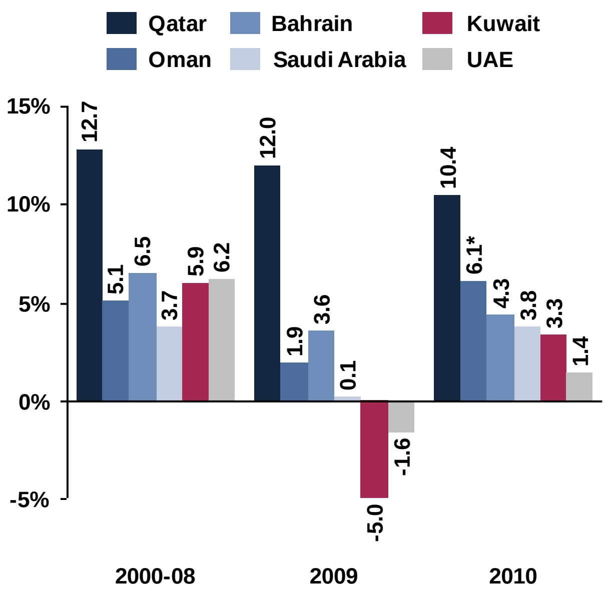
C. Real GDP

Kuwait's real GDP has fluctuated more sharply than most GCC countries in recent years

During 2000-08, a period of expansion across the region, Kuwait's real GDP[14] grew at an annual rate of 5.9%, similar to Bahrain and the UAE (Fig 2.5). In 2009, all the GCC countries were affected to some extent by the financial crisis and the global recession. However, Kuwait suffered the most substantial real GDP contraction, shrinking by 5%. The only other GCC economy that contracted in 2009 was the UAE.

The contraction was caused by Kuwait's cut in oil production in 2009, in adherence to Organisation of Petroleum Exporting Countries (OPEC) production targets. This cut was mirrored by the other GCC countries that are members of OPEC, reducing GDP in each country. However, in Kuwait it was not offset by a rise in non-oil GDP, as was largely the case in the other countries. This was partly because the other countries increased expenditure to stimulate their economies in 2009, whereas in Kuwait both current and capital government expenditure were actually lower.

Fig 2.5 Comparison of Real GDP Growth in the GCC (2000-10)
(% change)



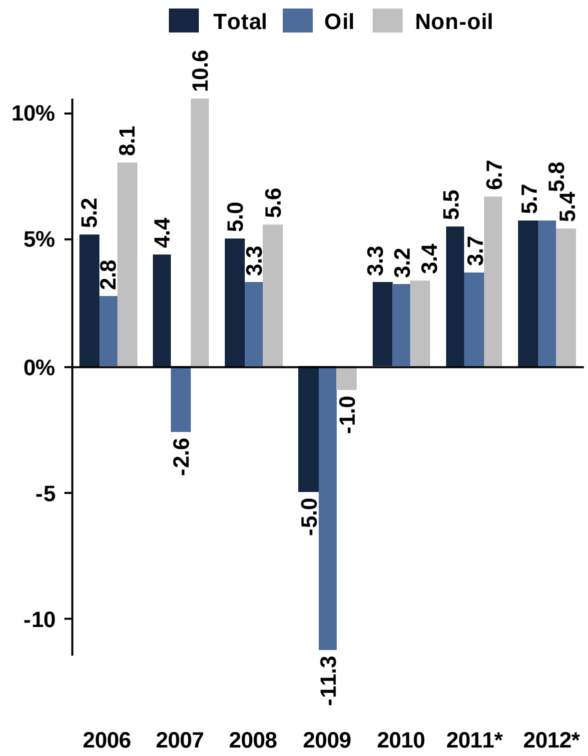
Source: National sources, IMF, *QNB Capital estimate

Kuwait's real GDP is currently based against **constant 2000 prices**. At that time, Kuwaiti crude was only worth US$26 /barrel, less than a quarter of its current price, and production was 12% lower than in 2010. Therefore, whereas oil represents more than half of GDP in nominal terms (Fig 2.3), in real terms it comprises barely a third of the total[15]. Hence, although oil GDP shrunk by 11.3% in 2009, when non-oil was flat, this only resulted in a 5% overall contraction (Fig 2.6). If real GDP were rebased to a more recent year, as is likely to happen in the near future, then changes in oil production would register as having a more significant impact on the overall real change.

We forecast that real GDP will grow strongly by 5.6% in 2011-12

The IMF has provided a preliminary figure of 3.3% real GDP growth for Kuwait in 2010, driven almost equally by oil and non-oil. Looking beyond this, we forecast that the non-oil sector will lead an overall 5.5% increase in real GDP 2011, as work gets underway on the government's medium-term development plan. This will be the strongest annual growth rate since 2005. Growth will pick up marginally to 5.7% in 2012, mainly a result of increases in oil production as it rises in line with the rest of OPEC to meet growing global demand.

Fig 2.6 Real GDP Growth (2006-12)
(% change)



Source: National sources, IMF, *QNB Capital forecasts

[14] It should be noted that official real GDP data from the Central Statistical Office is only currently available until 2007. Therefore, the figures used here for 2008-10 are derived from the IMF's Article IV mission, which draws on unpublished information from the government. The other GCC countries have all published real GDP data until 2009 or 2010

[15] Saudi Arabia, Bahrain, Oman and Qatar all currently use base years between 1999-2004, and so all of them similarly understate the importance of their oil sectors in real GDP growth. The UAE, however, has updated its real GDP base year to 2007, when regional crudes were trading above US$65 /barrel, better representing the role of oil in its economy

3. Production by Sector

Oil and gas (Section A) was by far the largest component of nominal GDP in 2009, representing 45% of the total (Fig 3.1).

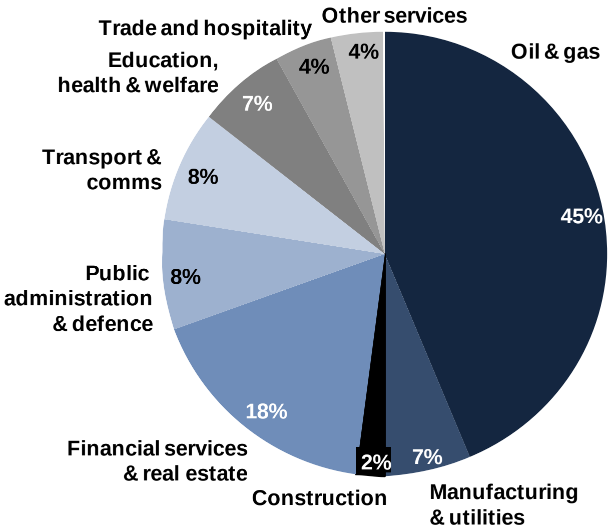
Manufacturing and utilities (Section B) account for 7% of GDP. The bulk of this consists of oil refining and petrochemicals.

Construction (Section C) is a fairly small sector in Kuwait, accounting for only 2%, although this should rise as the current development plan is implemented.

Services (Section D) in total account for 50% of GDP. Financial services and real estate make up the largest part of this, followed by services delivered by the government (public administration, defence, health, education and welfare).

Agriculture accounts for a tiny proportion of GDP, barely 0.2%, down from 0.6% in 2002, and so is not represented below.

Fig 3.1 GDP by Economic Sector (2009)
(% share of total)



Source: CSO; Note: the shares add up to 103% because imputed financial charges deduct 3% from GDP

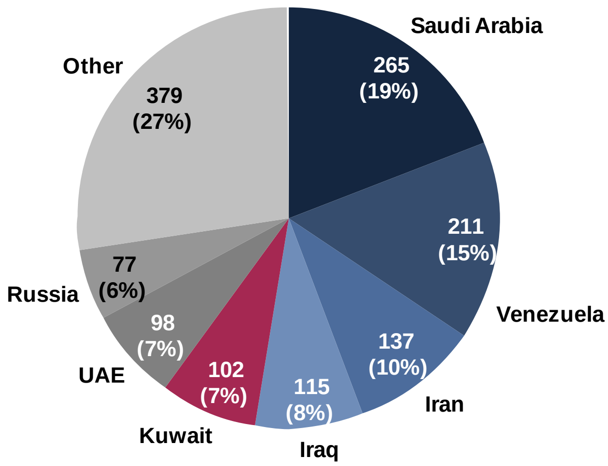
A. Oil and gas

Oil

Kuwait's official oil reserves are the fifth largest in the world

Kuwait's official proven oil **reserves** are 102bn barrels (or 104bn, including its share in the Kuwaiti-Saudi Neutral Zone[16]). These are the fifth largest conventional oil reserves in the world[17], slightly ahead of the UAE and representing 7% of the global reserves (Fig 3.2). Based on these reserves, Kuwait could maintain its current rate of oil production for 110 years, the world's second highest **reserves-to-production (RP) ratio** (after Venezuela). The chairman of Kuwait Oil Company[18] (KOC), said in October 2010 that a major upwards reassessment of reserves was planned in 2011.

Fig 3.2 World Proven Oil Reserves (2010)
(bn barrels and % share)



Source: BP Statistical Review of World Energy

In recent years there has been some debate within Kuwait about whether the oil reserves are as high as generally stated[19]. The issue is sensitive because the permitted oil production quotas of members of the Organisation of Petroleum Exporting Countries (OPEC) are partly related to reserve levels. Since the quota system was introduced in the early 1980s, many OPEC members have substantially revised up their official reserve estimates. Kuwait's revisions have been considerably less than some others. Its current official estimate is only 51% above its 1983 level, whereas the UAE's reserves have tripled and Venezuela's increased eight-fold since then.

The Burgan oil field is the world's second largest and provides the bulk of Kuwait's production

The bulk of Kuwait's reserves are in the **Greater Burgan area**, south of Kuwait City. This is believed to be the second largest field in the world, after Ghawar in Saudi Arabia. Burgan was the first field discovered in Kuwait, in1938[20]. It contains high quality light crude that is cheap to exploit and still accounts for most of Kuwait's daily production. In 2005, KOC reduced its estimates for average production for Burgan over the next 2-3 decades from 2m to 1.7m barrels per day (b/d).

[16] An area in which, for historical reasons, Saudi Arabia and Kuwait share production, as detailed on the next page
[17] Until 2008, Kuwait was in fourth place, ahead of Venezuela. Since then, Venezuelan reserves have been revised up to include the Orinoco Belt tar sands, although there is no current production from them. The reserves of Venuzuela's conventional producing fields are substantially smaller

[18] This is the state-owned company responsible for all oil and gas production in Kuwait, excluding the neutral zone. It is a subsidiary of the Kuwait Petroleum Corporation (KPC), a holding company for all the related state companies operating upstream and downstream, in Kuwait and abroad
[19] Estimating oil reserves is a complex and controversial process. The official "proven" reserves that countries state are defined as the share of the total reserves assessed to be "in place" that can, with reasonable certainty, be economically extracted using existing technology
[20] Two associated structures, Ahmadi and Magwa, were subsequently discovered in the same area, but are usually referred to as being part of Burgan rather than as separate fields

The commonly used figure for Burgan's reserves is 70bn barrels, although there have been some suggestions that they might be lower than this. However, in April 2010, the then deputy minister for economic affairs, Sheikh Ahmad Fahad al-Sabah, stated that "reserves in Burgan oil field are much higher than what is being circulated" and that new figures would be released in the near future. A local newspaper, *Al Jarida*, reported in October 2010 that 12bn barrels were going to be added to Greater Burgan's reserves. The chairman of KOC also said at the time that a sizable increase was planned for 2011 although, as yet, no new data has been officially announced.

Oil fields in the north are increasingly important, despite the cancellation of Project Kuwait

Looking beyond Burgan, it has long been recognised that the **northern oil fields** provide the best prospect for boosting production in the future.

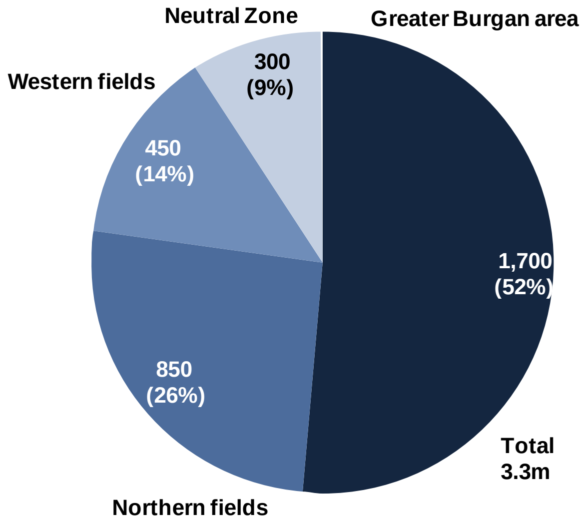
The northern fields contain mainly heavy oil in geological conditions that make extraction considerably harder and more expensive than it is for Burgan. For this reason, **Project Kuwait** was formulated in 1997. It envisaged foreign oil companies bringing the capital and technical expertise to exploit these fields and boost their production from around 400k-900k b/d. Foreign involvement was also sought because two of the northern fields are extensions of giant Iraqi fields, creating the potential for tension over their development.

However, this issue of foreign oil companies is sensitive because Kuwait has a strong tradition of national control in the oil sector. KOC was nationalised in 1975, and the Constitution forbids foreign ownership of natural resources. To address these concerns, Project Kuwait was structured around incentivised buy-back contracts, which do not grant companies the right to a particular share of production or allow them to book the reserves. However, these terms were still considered unacceptable by the National Assembly and, despite continued efforts for over a decade, the project was never approved. In 2009, the Oil Development Company, a state company set up to manage the project, was dissolved. Efforts are still ongoing to bring in foreign expertise in a more limited way, using enhanced technical service agreements.

Nonetheless, in the period since 1997, while the project was debated, KOC has itself succeeded in raising production from the northern fields close to the original Project Kuwait target. As a result, these fields now represent about a quarter of Kuwait's total production capacity (Fig 3.3). More than half of this comes from the Raudhatain field, which has reserves of around 9.5bn barrels.

There are a group of smaller fields in the west of Kuwait, particularly the Minagish and Umm Gudair fields. These collectively represent about 14% of existing production capacity.

Fig 3.3 Oil Production Capacity (2010)
(k b/d)



Source: QNB Capital estimates

Kuwait and Saudi Arabia share the production from fields in the Partitioned Neutral Zone

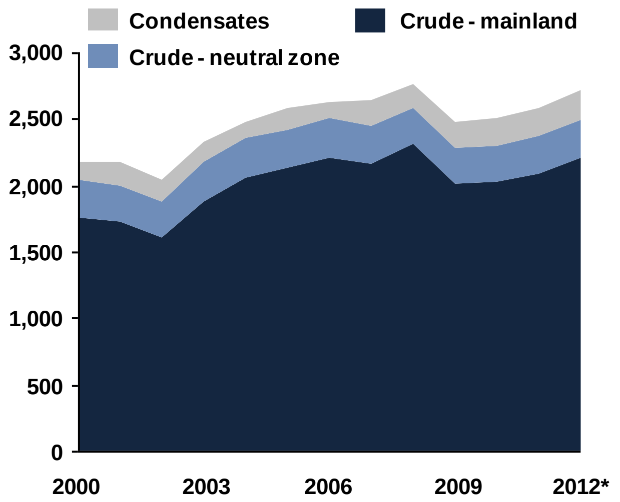
The **Partitioned Neutral Zone** is a 5,770km^2 area south of Kuwait City that arose from a territorial dispute in the early 20th century with the Government of Najd, the precursor state to The Kingdom of Saudi Arabia. In 1969, Kuwait and Saudi Arabia agreed to divide this territory. However, they maintained an arrangement under which oil produced in the area is shared equally between the two countries. Kuwait's share was 265k b/d in 2010. The Kuwait Gulf Oil Company manages Kuwait's share in this arrangement, while the US company Chevron operates the fields on behalf of the two countries. Most of the oil comes from two fields, Wafra which is onshore, mainly in Kuwait, and Khafji, which is an extension of Saudi Arabia's Safaniyah, the world's largest offshore field.

Production is forecast to rise to 2.8m b/d in 2012, with large increases planned thereafter

Since 2003, **production** in Kuwait has gradually picked up from a base of around 2.1m b/d[21]. It reached nearly 2.8m b/d in 2008 but subsequently declined as OPEC cut production targets in response to a falling oil price (Fig 3.4). Production was 2.5m b/d in 2010, equivalent to 3.1% of global production, and Kuwait was responsible for an even larger share of global oil exports, at 5.7%. The 2010 production was equivalent to about 75% of the available capacity, which KOC said had reached 3.3m b/d by end-2010.

[21] The historical peak was in 1972, when production averaged 3.3m b/d. The fall in world demand following the 1973 oil shock, and a policy of ensuring that production was at a sustainable level, meant that production declined sharply thereafter. It averaged just 1.6m b/d in 1975-1989. The Iraqi invasion brought a further decline, but production still averaged 2.1m b/d in 1994-2003

Fig 3.4 Oil Production (2000-12)
(k b/d)



Source: International Energy Authority, BP, *QNB Capital forecasts

Kuwait's production has risen slightly during the year to date, partly to fill the gap in the oil market caused by the suspension of most Libyan oil exports. Crude oil production (from the mainland and Neutral Zone) was around 2.3m b/d in 2010, according to the International Energy Agency (IEA). Crude oil production is expected to rise to 2.5m in 2012, assuming the global economic recovery continues to lift demand. In addition to this, Kuwait produced an average of 200k b/d of condensates in 2010. The newly constructed Gas Booster Station 160 in the southeast will come online imminently, helping to raise condensates production to 250k b/d. Therefore, we expect total oil production to average 2.8m b/d during 2012.

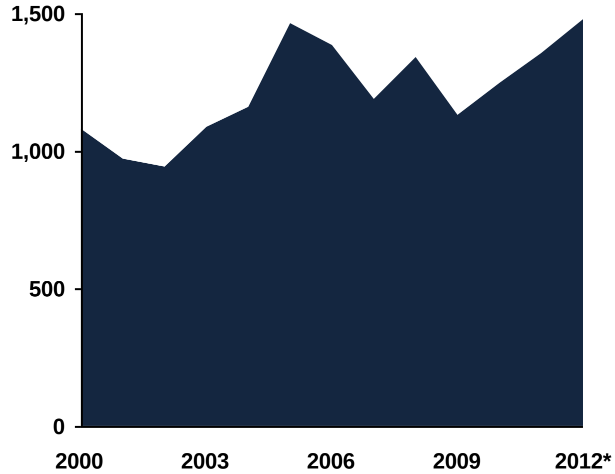
Meanwhile, KOC is making efforts to boost the underlying production capacity. **KOC's long-term strategy**, developed in 2003, aims to reach 3.5m b/d by 2015 and 4m b/d by 2020[22]. It envisages much of this increase coming from the heavy oil fields in the north.

Gas

Kuwait has limited gas and is forecast to produce only 1.5bn cubic feet per day in 2012

In contrast to its rich endowment of oil, Kuwait has relatively little gas. Total reserves as of year-end 2010 were 63trn cu ft, according to BP. Kuwait has developed an efficient system for gathering **associated gas**, which is produced in relatively small quantities alongside oil fields. According to IEA figures, only 2% of associated gas was flared in 2009, down from 10% in 2003. As the gas is associated, its flow broadly tracks oil production volumes. It hit a recent trough of 1.1bn cubic feet per day (cu ft/d) in 2009 (0.4% of global production), when oil production was also down. We expect gas volumes to recover to 1.5bn cu ft/d in 2012, as both oil production increases and some non-associated gas comes on stream (Fig 3.5).

Fig 3.5 Gas Production (2000-12)
(m cubic feet per day)



Source: BP Review of World Energy, *QNB Capital forecasts

The first significant discovery of onshore **non-associated gas** only came in 2006—a field in the north with 35trn cubic feet of reserves (3.6% of Qatar's total). Initial difficulties in developing this non-associated gas led KOC to sign a technical service agreement with Shell in 2010, worth US$800m. KPC reported that non-associated production rose by 46% in 2010 to 121m cu ft/d. However the contract with Shell was suspended in June 2011 by the National Assembly, pending an investigation into its terms.

There is also a sizable offshore gas field, Dorra, with about 11trn cubic feet of reserves. However, it is close to the maritime borders with both Iran and Saudi Arabia. Border demarcation disputes have held up development of this field.

Gas imports are being used temporarily to meet domestic power generation needs

Given the need for gas for power generation, as well as for petrochemicals, KOC is working to maximise the utilisation of associated gas, rather than flaring it. Through developing its non-associated reserves, KOC aims to be producing 3bn cu ft/d by 2030. Increasing gas production for power generation would free up oil for export.

In the interim, Kuwait is meeting the domestic demand for gas through imports. There have been discussions of possible gas pipelines from Qatar, Iran or Iraq. For the time being, a floating regasification terminal for **liquefied natural gas (LNG) imports** has been installed at Mina Al-Ahmadi port. It was commissioned in August 2010, managed by Excelerate Energy of the US, and is capable of processing 500m cu ft/d of gas. The

[22] These targets include condensates and production from the Neutral Zone

commodity trading company Vitol has been hired to supply Kuwait with LNG, purchased on the spot market, during the periods of peak demand between April and October until 2013.

B. Manufacturing and Utilities

Oil refining

Kuwait refines a substantial proportion of its crude oil production

Kuwait refines over a third of the oil it produces, to meet both domestic needs and for export. The value-add from refining represented an average of 2.8% of nominal GDP in 2005-09, and was the main component of the downstream and non-oil industry sector (Fig 3.6). Kuwait's three refineries have the theoretical capacity to process 936k b/d:

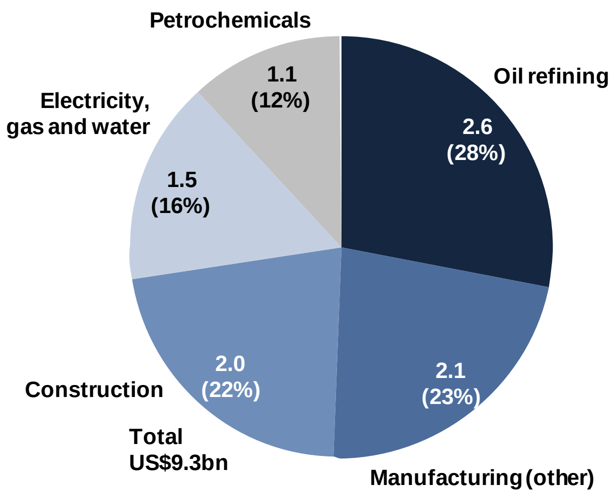
- 466k b/d at Mina al-Ahmadi
- 270k b/d at Mina al-Abdullah
- 200k b/d at Shuaiba

About 30% of the refined oil is used domestically, and the remainder is exported.

However, aging refinery equipment has contributed to problems that have kept actual production below the rated capacity. For example, gas leaks and fires at the Shuaiba refinery in 2007 led to lower production. The refineries were built between 1946 and 1969 and subsequently modernised, but have remained relatively unchanged for nearly a decade.

Fig 3.6 Industry Nominal GDP (2009)

(US$bn and % share of total)



Source: CSO

There are plans to upgrade the existing refineries and build a huge new one at Al Zour

The Kuwait National Petroleum Company (KNPC), the state-owned firm which manages refining, has been planning a major renovation and upgrade. The **Clean Fuels Project** aims to modernise the Mina Al Ahmadi and Mina Al Abdullah refineries, boosting their capacity by 64k b/d and enabling them to produce cleaner fuels, such as low-sulphur diesel.

An even more ambitious project envisages the construction of a **615k b/d refinery at Al Zour**. However, it has become a prime example of the difficulties Kuwait has in tendering megaprojects. Firms were selected in 2008 to begin work. Subsequent criticism of the project in parliament, and in a State Audit Bureau report, led to its cancellation in March 2009. Costs had escalated (from a proposed US$6bn in 2001 to a revised estimate of US$15bn in 2009) and parliamentarians had objected to the tendering process, which had not been conducted through the Central Tenders Committee. In June 2011, the Supreme Petroleum Council gave fresh approval for the project and tendering is likely to take place in 2012.

Kuwait owns small refineries in Europe and is building large new ones in China and Vietnam

Meanwhile, **Kuwait Petroleum International** (KPI), the international subsidiary of KNPC, operates refineries abroad. Since the 1990s it has had a European presence which includes:

- A 90k b/d refinery in Rotterdam, the Netherlands
- A 60k b/d refinery in Gulfhaven, Denmark
- A 50% stake in the 80k b/d Milazzio refinery in Italy

Uniquely amongst Gulf states, Kuwait directly retails fuel abroad through KPI's network of 5,000 petrol stations under the "Q8" brand across Western Europe, which sell about 400k b/d. KPI is increasingly focusing on the Asian market, and currently has two large refining joint ventures under development in Vietnam and China.

The project in Zhanjiang, China, is a joint venture with the Chinese oil company, Sinopec, in which KPI has a 50% stake. The planned complex will refine 300k b/d of Kuwaiti-supplied crude oil, and partly utilise it as feedstock for a petrochemicals complex producing 1m tonnes/year of ethylene. The project was envisaged in 2006 but only received final approval from China's National Development and Reform Commission in March 2011. Construction is slated to begin in 2012. KPI is currently looking for additional partners in the project.

The project in Vietnam, the 200k b/d Nghi Son refinery south of Hanoi, is a US$6bn joint venture with Japanese and Vietnamese companies in which Kuwait has a 35% stake. Kuwait will supply the crude oil. The venture will also include a petrochemicals complex. Construction began in 2011 and is expected to be completed in 2014.

If all the foreign and domestic refinery projects were to go ahead on schedule, Kuwait would double its refining capacity from 1.1m b/d currently to approximately 2.2m b/d by around 2015, equivalent to almost all of its crude production in 2010.

Petrochemicals sector

Large scale petrochemical production began in 1997 and capacity was boosted in 2008-09

Kuwait utilises some of its hydrocarbons resources for the production of petrochemicals and fertilisers. Until the late 1990s, downstream utilisation was largely limited to **fertilizers**. Petrochemical Industries Company (PIC), another KPC subsidiary, built a series of fertiliser plants in the 1960s-80s, which now have a combined capacity of 3.15m tonnes/year or urea.

Fig 3.7 Equate Petrochemical Capacity (2010)

1.65m t/y of ethylene: 800k from the original **Equate** (1997), 850k from the **Kuwait Olefins Company** (2008)

The ethylene is processed into 1m t/y of ethylene glycol and 800k t/y of polyethylene, used in plastics production

770k t/y of paraxylene and 370k t/y of benzene from the **Kuwait Aromatics Company** (2009). There are also hydrocarbon by-products such as light naptha and butane

The benzene is processed into 450k t/y of styrene by the **Kuwait Styrene Company** (2009)

Source: PIC

In 1995, a **petrochemicals joint venture** was initiated with Union Carbide of the US (which was taken over by Dow Chemicals in 2001). This led to the development of a series of massive plants in the Al-Shuaiba Industrial Zone. They utilise feedstock, natural gas for ethylene production and naphtha for aromatics, "crack" it into simpler chemicals which have a wide range of uses, and are mainly exported. The first plant, Equate, started production in 1997 and three others, part of the **Olefins II project**, have launched recently. Overall, these plants produce 1.65m tonnes/year (t/y) of ethylene (compared to 2.6m in Qatar and 10m in Saudi Arabia) and 1.2m t/y of aromatics (Fig 3.7). All of the plants are managed by Equate, but have differing ownership structures[23]. A separate PIC plant, not managed by Equate, has been producing 100 t/y of polypropylene since 1998.

An Olefins III plant is under consideration to further expand ethylene production

The partnership between Kuwait and Dow has seen the petrochemicals sector grow to form a major component of the manufacturing sector. Production capacity has nearly tripled since 2007, and is now contributing almost as much to nominal GDP as oil refining. There have been plans to build on this success through major expansion projects, but these have not yet been realised. For example, a US$19bn international joint-venture, K-Dow Petrochemicals, was cancelled in December 2008 as a result of parliamentary opposition to the venture.

PIC is considering an ambitious Olefins III plant, with a target production of 1.4m t/y of ethylene, which would almost double current production. The project could amount to about US$5bn and would not come on stream before 2016. A significant hurdle before any such expansion will be securing sufficient gas feedstock, given the current national shortage and competition for supplies from power generation.

Electricity and water

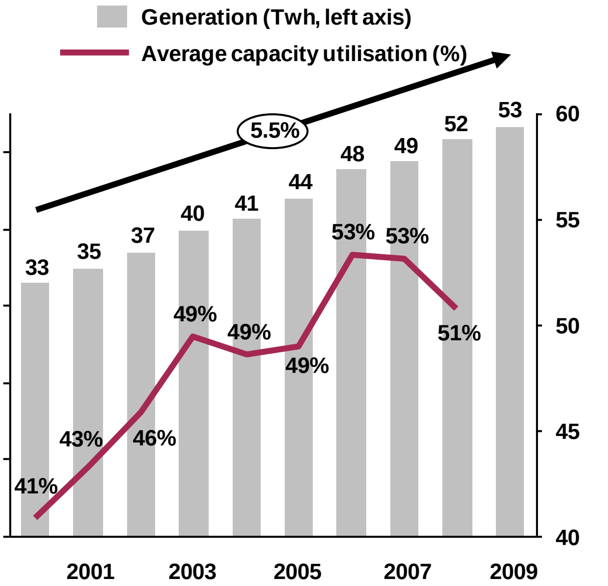
Kuwait has struggled to expand electricity generation capacity to meet growing demand

The last decade has seen steady growth in **electricity generation**, at an annual rate of 5.5%, to meet the needs of a growing population and economy (Fig 3.8). Subsidies on residential electricity consumption mean that per capita usage, of 15.3 megawatt hours (mwh) in 2009, is high even by regional standards. It compares to an average of 6.4 mwh in the EU, and is surpassed globally only by Qatar and the Scandinavian countries.

However, Kuwait has struggled to award contracts to build new power plants to meet rising demand. This is because the tendering system is strict and also has often not offered sufficiently generous terms, by regional standards, to attract companies to bid for contracts.

In the summer months, when air conditioning boosts the load, peak demand approaches **generation capacity**, and hence risks brownouts. Some brownouts did happen in summer 2006, and over the average capacity utilisation over the whole year reached a record 53.3%.

Fig 3.8 Electricity generation (2000-09)



Source: CSO, Statistical Abstract 2009

[23] PIC and Dow have 42.5% stakes in Equate and The Kuwait Olefins Company, with the balance split between two locally listed companies, Boubyan PIC (9%) and Qurain PIC (6%). Kuwait Styrene Company is owned 42.5% by Dow and 57.5% by Kuwait Aromatics Company, which in turn is owned 40% each by PIC and KNPC and 20% by Qurain PIC. The polypropylene plant is owned entirely by PIC

In response to this emergency, the Ministry of Electricity and Water (MEW) bypassed the usual tendering process, through the Central Tenders Committee. It was able to procure some additional small turbines to increase capacity slightly at existing plants. Nonetheless, production capacity in 2010 was about 11,600 mw, barely a quarter higher than the 9,350 mw available in 2000. Over the same time period, generation capacity more than tripled in some other GCC countries.

A new plant has started operation in Subiya and three more are planned

However, in the last few years progress has been made on two new power plants, both initially tendered back in 2005 but subsequently postponed. A US$2.7bn contract was awarded in late 2009 to GE and Hyundai to build the 2000 mw **Subiya plant**, and its first stage started operation in June 2011. As a result, MEW estimates that generation capacity during summer 2011 will be 12,300 mw, leaving a 5% margin from their peak consumption estimate of 11,700 mw. Subiya is the sixth power plant in Kuwait, and the largest to date[24].

Plans are now underway for Kuwait's first **independent water and power plant (IWPP) at Al-Zour**. This involves the private financing and construction of a plant which then supplies the state under a guaranteed long-term offtake contract. This model is common in the GCC and an IWPP law, passed in May 2010, requires that all future power plants over 500 mw must be tendered in this manner[25].

The North Al-Zour plant is slated to generate 1500 mw and 100m imperial gallons per day (MIGD) of desalinated water. Partnerships Technical Bureau, the state body which oversees public-private partnerships, prequalified 11 firms or consortia to bid for the project in December 2010. The process is expected to move forward in 2011.

A second IWPP is being planned at Julai'a in Kuwait City, with a 1000 mw capacity. Another plant with 2,500-3,000 mw capacity is being planned at Al-Khiran near the Saudi border, but it will be built in 500 mw phases and therefore need not be tendered as an IWPP. The government's long-term plan envisages boosting capacity to 17,500 mw by 2014 and 26,000 mw by 2020.

The interconnection of GCC electricity networks could help meet peak summer demand

Aside from the problems with tendering, the other factor inhibiting growth in power generation has been the **shorage of gas** (Section A). QNB Capital estimates that about 350m cu ft /day are currently utilised for electricity generation, just under a third of gas produced (the remainder is utilised in oil fields and industry). This is sufficient to meet about 30% of generation needs, meaning that oil must be used to generate the remainder. The oil required is about 150k b/d, about 6% of current production, which would otherwise be exported.

Going forward, Kuwait could benefit from the project to **connect electricity networks** across the GCC countries. The first phase of the project was inaugurated in July 2009, connecting Kuwait to Saudi Arabia, Qatar and Bahrain. In 2009 Kuwait sought a contract with Qatar to import around 500 mw of power during summer months, but no agreement was finalised. However, some spot imports from the GCC network seem to have taken place in June 2010 when temperatures were unusually high.

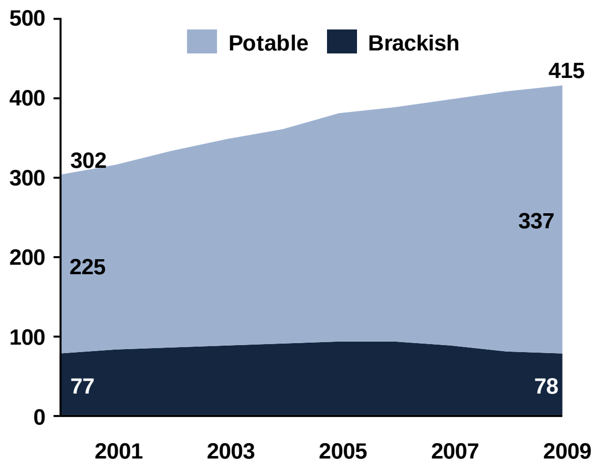
Kuwait is actively considering alternative sources of power. The development plan envisages a US$650m investment in solar power, and a study is underway concerning the suitability of **nuclear power**–an option also being explored by the UAE. A decision may be made in 2012 about whether to proceed with the development of nuclear power.

Water production increased by 50% in a decade

Overall, the electricity and water sector (together with gas distribution) represented 16% of the industrial component of nominal GDP (Fig 3.6), or 2.3% of total non-oil GDP, in 2009. Its contribution is lowered by high subsidies on both electricity and water, which reduces unit costs and therefore the contribution of these sectors to GDP. Water production and distribution has been growing in relative importance within the water and electricity sub-sector, up from 41% of the sector's total GDP in 2001 to 53% in 2009.

Water production has been increasing steadily to meet rising demand. Potable water produced increased by 50% to 337 MIGD from 2000 to 2009 (Fig 3.9). The North Al-Zour IWPP will boost this by almost a third again.

Fig 3.9 Water production (2000-09)
(MIGD)



Source: CSO

[24] South Al-Zour and West Doha are the other large plants, and there are smaller ones at East Doha, Shuaiba and Shuwaikh
[25] The IWPP law permits developers to retain a 26% stake in the plant, with 24% going to the government and 50% to local investors. However, it seems that the general public-private partnership law, passed in 2008, will instead be applied in this case, permitting the investing companies to hold a larger equity stake of 40%

C. Construction

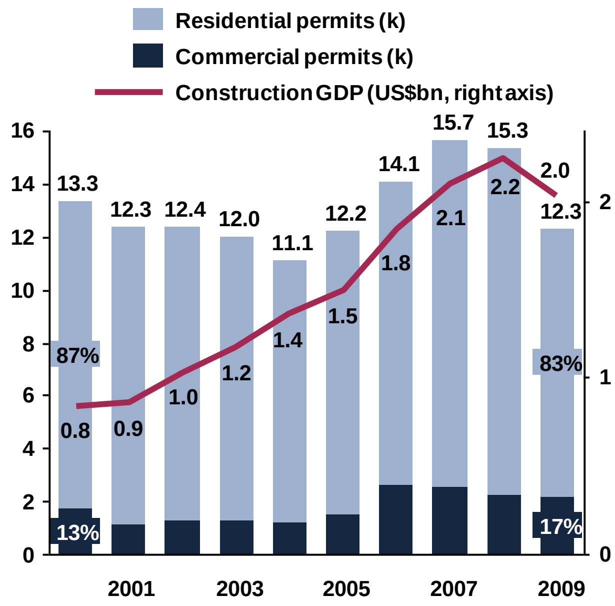
Kuwait's construction sector is small by regional standards at US$2bn in 2009

Kuwait's construction sector is small by regional standards, representing only US$2bn, or 2%, of nominal GDP in 2009. This compares to 5% of GDP in Saudi and 7% in Qatar. The number of construction permits issued annually declined during 2000-2004 (Fig 3.10). However, the expanding economy boosted growth substantially during 2006-08, a period during which there was a sizable increase in the issuance of both commercial and residential construction permits. During the downturn in 2009 there was a 20% fall in permits issued to 12,279.

The small size of the construction sector is a result of a number of factors:

- Kuwait's infrastructure and commercial and residential property sectors were already fairly well developed by the end of the 20th century
- Political deadlock, particularly between the executive and parliament, has held up many state-funded construction projects
- There have also been some delays in delivering approved projects. For example, the long-standing program of providing government-backed housing for nationals has a long waiting list
- A decline in real estate values since 2008 (Section 3D) has had a negative impact on the construction sector. Rental prices of commercial property are currently less than half their peak in 2007

Fig 3.10 Construction permits (2000-09)



Source: CSO

2010-14 Development Plan

Major transport infrastructure developments will drive the construction sector going forward

Going forward, the construction sector will largely be driven by an upswing in government spending, framed around the national development plan (Section 1A). Public spending will be supported by private investment, mainly through public-private partnerships (PPPs). The Partnerships Technical Bureau has said that 32 projects under the development plan, with an estimated value of US$28bn, will be privately financed as build-operate-transfer (BOT) schemes or PPPs (Table 3.1). The state will guarantee any lending to these projects by Kuwaiti banks.

Table 3.1 Development Projects to be Privately Financed (2010)

Project	Value
National railway network	US$10bn
Kuwait City metro	US$7bn
Failaka island tourism development	US$3bn
North Al Zour IWPP	US$2.5bn
Kuwait International Airport expansion	US$1bn
Other projects	US$4.5bn

Source: Partnerships Technical Bureau

Serious planning will also get underway on a number of megaprojects that had been on hold. These include the massive City of Silk, over the bay from Kuwait City, and a causeway linking the two cities.

Meanwhile, the Public Authority for Housing Welfare, as part of its mandate to provide housing to Kuwaiti nationals, is implementing a US$8.6bn plan to build and allocate 75,000 residential housing units by 2015.

D. Services

Services are forecast to comprise 83% of non-oil GDP and 38% of total GDP in 2011-12

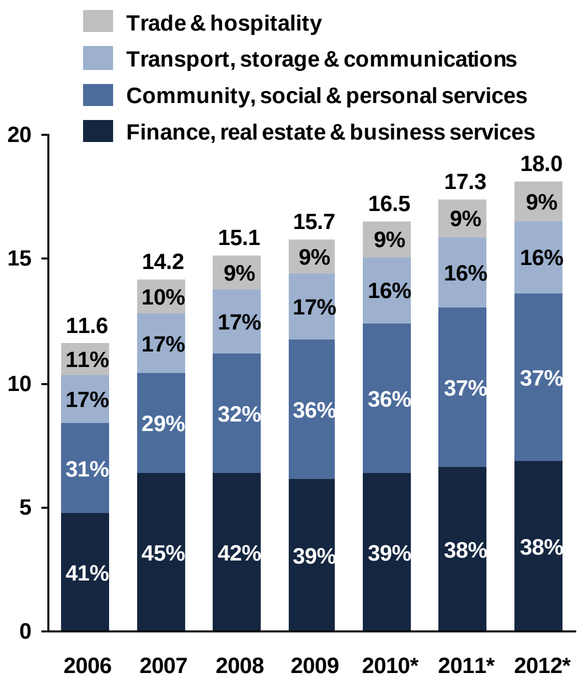
Services form the bulk of non-oil GDP and even briefly eclipsed oil in 2009, when services made up 50% of GDP. QNB Capital estimates that services share contracted to 42% of GDP in 2010, as oil prices recovered. Prior to this, the services sector experienced a growth spurt in 2004-07, expanding at a rate of 26% a year, led by financial and communication services, before slowing to 5.4% in 2008-09. Kuwait breaks down its catogories of services GDP into four sub-sectors (Fig 3.11), which are each discussed below.

Services are forecast to grow at a rate of 5% in 2011-12, but will decline further in relative terms to 38% of GDP, as the oil sector continues to grow more rapidly.

The smallest component, at 9% of total services in 2009, is **trade and hospitality**. This is mainly comprised of retail and wholesale trade, with only a small contribution from hotels and restaurants. In nominal terms, it only grew at 4% in 2006-09, mainly because of price inflation, not real expansion.

Fig 3.11 Nominal GDP in Services Sector (2006-12)

(KD bn, % share of sector shown)



Source: CSO, *QNB Capital estimates and forecasts

The slow growth may be because wholesale trade related to supplying Iraq has declined, offsetting growth in domestic retail activity. Kuwait City's historic Mubaraqia Souk and its many malls are highly active. An increasing number of international retail companies are also coming to Kuwait, attracted by high levels of consumer spending. Kuwait regularly ranks near the top of an annual survey of the destinations where the leading global retailers have set up new operations[26].

The telecoms and logistics sectors have seen strong growth in recent years

Transport, storage and communications represented 17% of the services sector in 2009. It has grown strongly in recent years, including by 20.8% in 2006-09, owing both to the increased usage of mobile phones by the growing population, and also Kuwait's role as a logistic hub for Iraq.

Fixed line telecoms services are a monopoly of the Ministry of Communications (MoC). Meanwhile, two local listed companies, Wataniya Telecom[27] and Zain, have dominated the mobile communications sector. Both also have a network of subsidiaries throughout the Middle East. A third operator, Viva (locally listed and part-owned by Saudi Telecom), launched in late 2008. The main features of the telecoms sector are as follows:

- Mobile subscriptions increased from 2.5m (79% penetration) at end-2006 to 3.9m (112%) at end-2009
- As of Q3 2010, Zain had 44% market share, Wataniya 40% and Viva 16%
- Fixed line penetration remained stagnant at around 18% in 2006-09
- Broadband internet penetration is low by regional standards because of the high cost of services
- The MoC's five year plan includes the establishment of a listed company to offer competitive international calling tariffs, and the privatisation of fixed line services by 2014

In terms of logistics, Kuwait has provided the main supply routes for the US military in Iraq. One of Kuwait's largest companies, Agility Logistics, was the prime vendor supplying the US military with food and other civilian goods in 2003-09, on a multi-billion dollar contract. This business has slowed over the last year, as the US has drawn down its military presence in Iraq. However, the experience has contributed to the vision of Kuwait acting as a logistics hub for Iraq, which has limited port facilities as well as ongoing security concerns.

The privatisation of healthcare for expatriates will boost the small insurance sector

Finance, real estate and business services recorded a 11% growth rate in 2006-09, which followed a near-tripling in the sector's GDP contribution in 2004-05. It comprised 39% of the services sector in 2009, down from a peak of 45% in 2007 but up from just 26% in 2003.

The banking sector is discussed in detail later in the report (Section 8). The **insurance** sector is currently the smallest in the GCC, and the second smallest out of 88 major economies, according to Swiss Re[28]. Premiums totalled only 0.5% of GDP in 2010, compared to 1.1% in Saudi Arabia and 2.8% in Bahrain. This suggests that there is room for substantial growth in insurance in Kuwait.

The insurance sector will gain a major boost as provision of healthcare for expatriates is privatised alongside the introduction of a new medical insurance system. The government is currently looking for a private sector partner to collaborate in the launch of the Kuwait Health Assurance Company (under the terms of the 2010 PPP law), with bids likely to be sought in 2012. The plan is for the company to be operational by 2015, running three hospitals and 15 clinics and providing health insurance for about 60% of the expatriate population who currently mainly utilise public sector healthcare.

[26] The survey is part the *How Global is the Business of Retail* report by CB Richard Ellis, a real estate services company. Its 2011 report ranked Kuwait ranked 13th globally because 38% of the top 323 international retailers were present, ahead of Singapore, but behind the UAE and Saudi Arabia

[27] Qtel of Qatar acquired a 51% stake in Wataniya in 2007

[28] Swiss Re's annual *World Insurance in 2010* report

Kuwait's investment companies have suffered huge losses since 2008

Investment companies form a significant part of the finance sector in Kuwait, investing domestically and abroad. There are around a hundred such companies, including 51 that are publicly listed—almost half the total number of listed investment companies in the GCC as a whole. The sector has performed poorly recently, with the listed companies making aggregate losses of US$3.9bn in 2008 and US$3.1bn in 2009, according to data from Capital Standards Ratings. The sector continued to make losses of US$443m in the first half of 2010, despite the recovery in the equity market. The investment sectors in the other GCC countries have, by contrast, been largely remained profitable over this period.

Inadequate risk management, poor transparency and high leverage have been blamed for the recent losses. The sector had experienced a period of strong growth in 2003-07 on the back of cheap credit, when its debt almost tripled to US$29bn. Falling asset prices, particularly after the 2008 financial crisis, meant that the investment companies were starved of liquidity and struggled to service their debts. To avoid a repeat of this, the CBK issued new regulations, coming into force in 2012, that limit debt leverage to twice equity, including foreign debt leverage of no more than 50% of equity[29].

The two largest companies in 2008, Global Investment House and The Investment Dar (TID), were among the most heavily leveraged, with more than four times debt-to-equity, and both have subsequently had to restructure their debts. Both have rescheduled their debts with creditors, with TID doing so under the terms of the 2009 Financial Stability Law, the first firm to make use of the law which provides protection from bankruptcy.

The contribution of real estate to GDP has been flat since 2006

The contribution of **real estate** to GDP doubled in 2004-05, but has remained flat since then, declining as a share of total GDP from 6.3% in 2004 to 3.8% in 2009. The contribution of real estate to GDP relates to the activities of real estate companies rather than real estate asset prices themselves, although the two are linked as falling prices since 2008 have limited the income of these companies.

There were only 4,486 property transactions in 2009, with a total value of US$4.5bn, compared to 9,313 transactions worth US$9.8bn at the peak in 2007. Part of the reason for the decline were two 2008 laws which barred companies from trading in residential property to control prices; restrictions on bank lending have also had a negative impact.

Residential properties refer to homes for Kuwaiti nationals, most of which fall under the government's housing programme. The other components of the sector are commercial property and investment property, which are residential properties rented to expatriates, who are not allowed to own property. The commercial property and investment sectors have also been struggling. As a result, the Kuwait Investment Authority (KIA) announced in March 2011 that it was launching a KD1bn (US$3.6bn) investment fund to support the real estate sector.

The planned expansion in government housing provision (Section 3C), along with new urban and tourism projects under the 2010-14 development plan—such as the proposed US$3bn development of Failaka island—should support growth in the real estate sector in the coming years.

Government-related services constitute almost a third of the sector

Finally, **community, social and personal services** is currently the fastest growing services sector, at a rate of 17% in 2008-09. However, its share of the services sector, at 36% in 2009, is still low compared to 2003 when it was nearly half the total. Less than a tenth of this subsector relates to personal services, mainly representing the employment of about 570,000 domestic workers, and a smaller part relates to leisure activities. The remainder of the sector is mainly governmental, including public administration, defence, health, education and welfare. It is therefore closely linked to government spending and has grown in line with it.

[29] The Capital Markets Authority, formed in April 2011, has taken over regulation of the investment companies. It has extended by three months the deadline to comply with regulations, until March 2012. Other regulations include limiting investment in a single stock to 10% of the total portfolio

4. External Sector

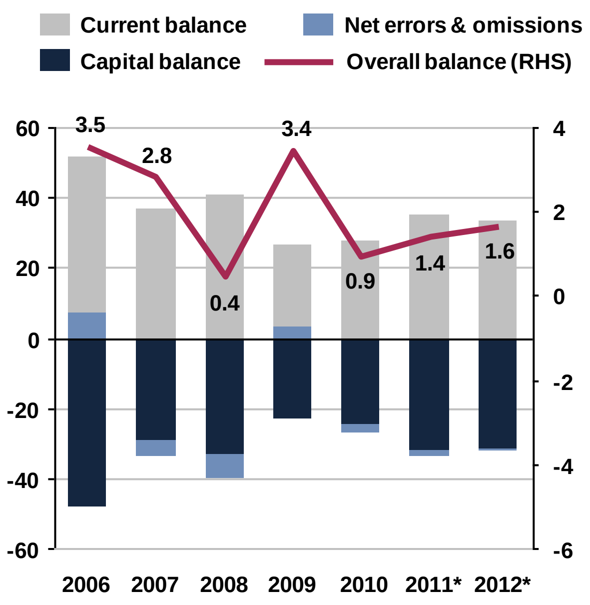
A. Balance of Payments

Current-account surpluses are being used to build up foreign exchange reserves

The **overall balance** of payments, which is the sum of the net flows of foreign currency through the current account and the capital account[30], recorded an average surplus equal to 2.2% of GDP in 2006-10 (Fig 4.1). This surplus is a consequence of the extremely large current account surplus, which averaged 35% of GDP over this period. It is mostly offset by net capital outflows, mainly for portfolio investments abroad.

The overall surplus represents the increase in the CBK's **foreign exchange reserves**[31]. These have grown from US$14.2bn (14% of GDP) at end-2006 to US$24.3bn (18% of GDP) at end-2010. QNB Capital forecasts that ongoing surpluses will raise foreign reserves to US$29bn by end-2012.

Fig 4.1 Balance of Payments (2006-12)
(% of GDP)



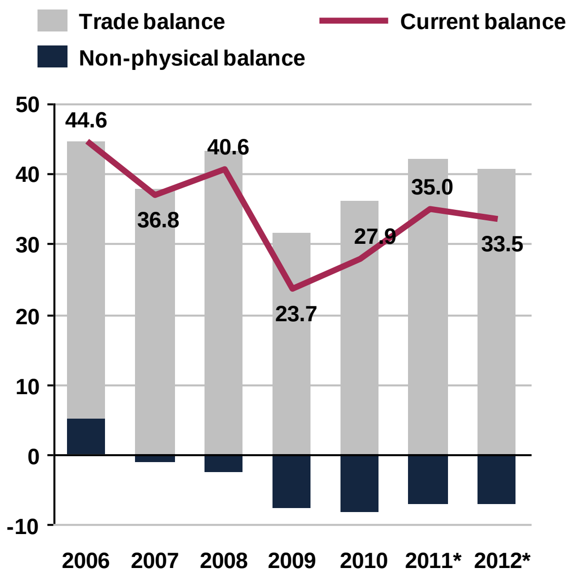
Source: IMF, *QNB Capital forecasts

B. Current Account

The current account surplus is forecast to average 34% of GDP in 2011-12

The most important component of the current account is the balance of trade in goods, which is dominated by oil exports. The trade balance has been in surplus since 1992, peaking at 43.1% of GDP in 2008 and recording a strong level of 36.2% of GDP in 2010 (Fig 4.2). In contrast to the trade in physical goods, the non-physical balance—composed of services, income and current transfer payments—normally records a small deficit, slightly offsetting the trade balance. Based on our oil price assumptions, QNB Capital forecasts that the trade balance will strengthen in 2011-12 and so the current account surplus will average 34.3% of GDP in 2011-12.

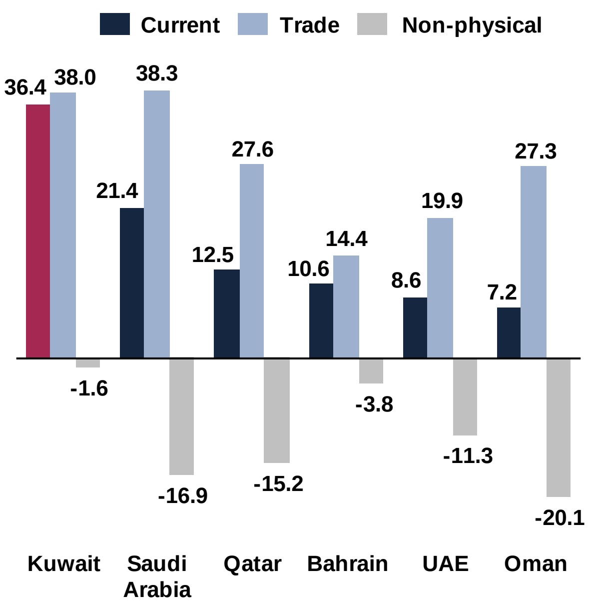
Fig 4.2 Current Account (2006-12)
(% of GDP)



Source: IMF, *QNB Capital forecasts

Trade surpluses and low non-physical deficits give Kuwait the GCC's strongest current account

Fig 4.3 GCC Current Account Balances (2006-09 average)
(% of GDP)



Source: National sources, IMF

[30] The capital account comprises payments that relate to ongoing obligations, such as making investments. The current account, on the other hand, comprises payments for immediate exchange with no future obligations, such as purchasing imports or receiving investment income

[31] Another definition of the balance of payments, used mainly by the IMF, includes changes in foreign reserve within the capital account. This causes the overall balance of payments to always sum to zero. However, we have kept foreign exchange reserves separate, for the sake of clarity

Kuwait's current-account balance is high even by the standards of the other oil-exporting countries in the GCC (Fig 4.3). Kuwait's current account is so strong because it combines a strong trade surplus with little or no non-physical deficit. During 2006-09, Kuwait recorded both the second highest trade surplus, as a share of GDP, just behind Saudi Arabia, and the lowest non-physical deficit, even ahead of Bahrain. As a result, its current account surplus was triple the GCC average.

Trade balance

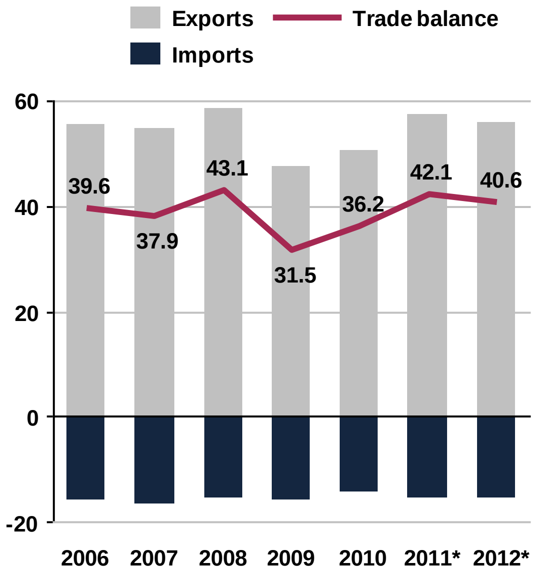
Exports will rise to US$94bn in 2011-12 and imports to US$25bn

Kuwait's strong trade surplus (Fig 4.4) is a result of its oil exports. Oil, both crude and refined, makes up on average 94% of exports. The absolute value of exports peaked at US$87bn (58.5% of GDP) in 2008. Exports dropped by 41% in 2009, as a result of the collapse in oil prices and a reduction in production. They recovered partially in 2010 and we forecast that higher oil prices in 2011-12 will boost exports to new highs, averaging US$94bn.

Imports have averaged around 16% of GDP in 2006-09, less than a third of the level of exports. Having grown at a rate of 15.1% in 2006-08, import values fell by 24.7% in 2009. This was mainly because of lower global commodity prices, rather than a substantial drop in import volumes. They picked up slightly in 2010, to US$19.1bn, and we forecast that they will rise to an average of US$25.4bn in 2011-12. Demand for consumer goods is increasing and the implementation of the development plan will require an increase in the import of construction materials and capital goods.

Fig 4.4 Trade Balance (2006-12)

(% of GDP)



Source: IMF, *QNB Capital forecasts

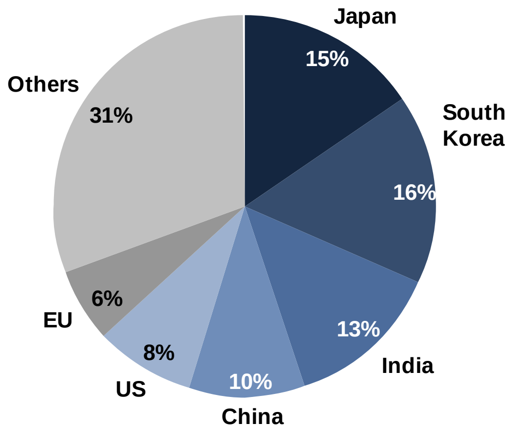
Exports go largely to Asia, and new refineries in China and Vietnam will further boost their shares

The majority of Kuwait's **exports** are shipped east to Asian countries (Fig 4.5). Historically, Japan and South Korea have been the main markets. India and China have grown in importance recently. India only received on average 1% of Kuwait exports in 2000-05, rising sharply to 12% in 2006-10. China's share has also risen rapidly from 3% in 2005 to 10% in 2010. Meanwhile, all of the EU countries collectively only received 6% of Kuwait's exports in 2010 (down from an average of 35% in the 1970s). The US, which has only become a significant export market for Kuwait since the 1990s, received 8%.

The main destination for Kuwait's oil exports in the EU is the Netherlands, where Kuwait owns a refinery (Section 3B). In the future, the completion of a Kuwait joint-venture refinery in China will lead to an increase in the share of exports going to China. Vietnam, which only imported US$26m from Kuwait in 2010, will also become a major export market because of a similar refinery project.

Fig 4.5 Export Destinations (2010)

(% share of total)



Source: IMF Direction of Trade Statistics

Exports to the GCC were only US$1.2bn, 1.9% of the total, in 2010. These were mainly **re-exports**[32] (which represent about 2% of Kuwait's exports) and products of small-scale domestic manufacturing. Surprisingly, Iraq was not a major export market, purchasing only US$149m in goods in 2008 from Kuwait[33].

Non-oil exports comprise about 4% of total exports and should double in value by 2012

Non-oil exports made up on average 4.7% of the total in 2006-10, with a peak value of US$3.7bn in 2009 (Fig 4.6). Most non-oil exports are products from downstream industries, principally ethylene and its derivatives from petrochemical plants. The expansion of a cluster of petrochemical plants in the Al-Shuaiba Industrial Zone (Section 3B) increased output in 2010 and additional capacity is being added in 2011. Therefore, we forecast that non-oil export earnings will increase sharply to

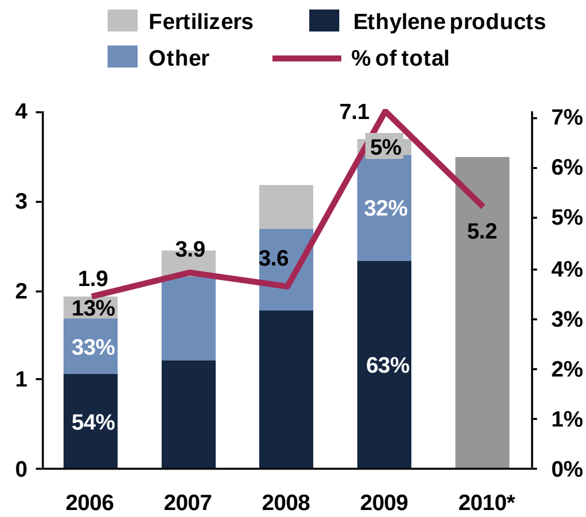
[32] Re-exports are goods not produced in Kuwait, but instead are imported into Kuwait and then exported to another country, usually one in the local region

[33] The re-exports through Kuwait to the US military in Iraq are probably not included in either this or the total re-export figure

US$5.3bn by 2012. However, given the growth in oil exports, they will not increase as a share of the total.

Fig 4.6 Non-Oil Exports (2005-09)

(US$bn, % share of oil)



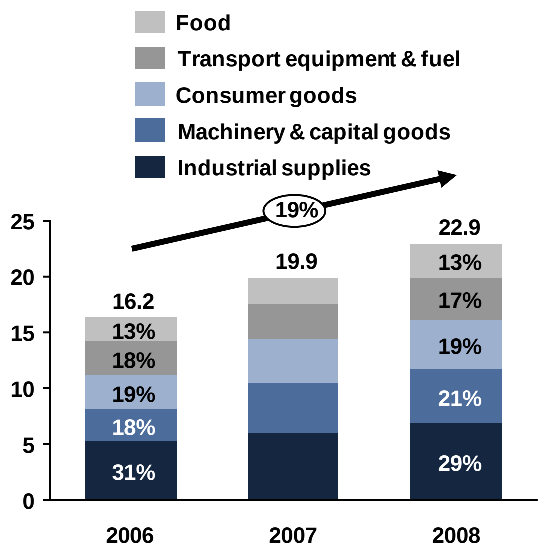
Source: CSO, IMF; *2010 Breakdown not available

Imports are equally divided between goods for consumers and for business

Kuwait **imports** a wide range of goods, as it has little in the way of non-hydrocarbon natural resources or productive capacity. About half of total imports relate to products for consumers, including food, cars and general consumer goods. The other half are business-related imports. The shares of the various categories remained relatively constant in 2006-08 (Fig 4.7).

Fig 4.7 Imports (2006-08)

(US$bn, shares in total and CAGR shown)

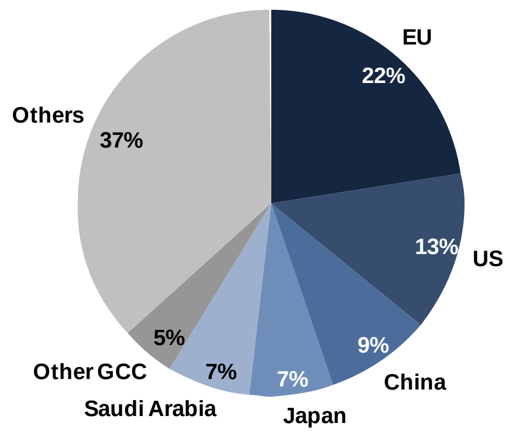


Source: QNB Capital estimates of free on board (FOB) prices based on cost, insurance & freight (CIF) values from the CSO

Kuwait draws its imports from a wide range of sources (Fig 4.8). In 2010, the EU as a whole (led by Germany and Italy) provided about 22% of imports, down from 36% in 2001. The US provides a further 13%, a share which has remained fairly constant over the last decade. The biggest increase in imports has been from China, whose share rose from 3% in 2001 to 9% in 2010. The other five GCC countries, led by Saudi Arabia, together provide 12% of imports.

Fig 4.8 Imports by Source (2010)

(% share of total)



Source: IMF Direction of Trade Statistics

Non-physical balance

Kuwait's large income surplus and only small services deficit are unusual in the GCC

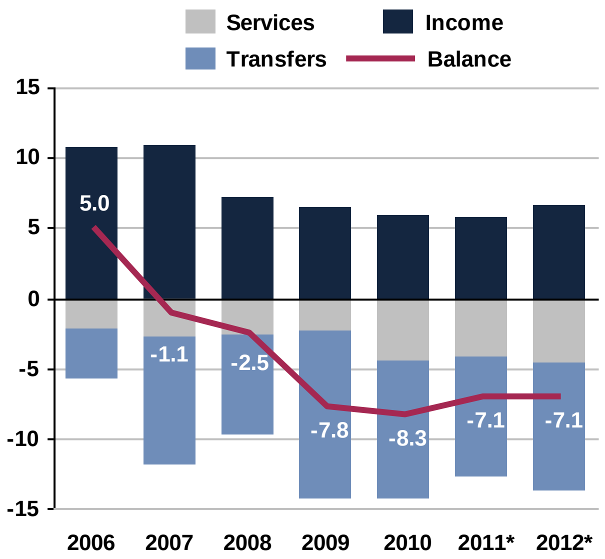
In common with other GCC countries, Kuwait's largest category of non-physical payments is **current transfers**, which grew sharply from a deficit of US$3.7bn in 2006 to US$10.7bn in 2008 (Fig 4.9). These transfers are almost entirely composed of remittances sent home by the 1.8m foreign workers in Kuwait who on average remitted about US$5,500 each in 2009. The value of recorded remittances more than tripled in 2007. This was partly a consequence of an improvement in the methodology used to measure these transfers, according to the IMF. This implies that remittances were understated in prior years, by perhaps a few percentage points of GDP, and hence that the current account surpluses were similarly overstated. Furthermore, the rare non-physical surplus recorded in 2006 was probably substantially narrower[34].

The balance of trade in **services** is also consistently in deficit, recording -4.5% of GDP in 2010. Services imports mainly consist of overseas travel by Kuwaitis and oil transportation costs. These outweigh services exports, which are mainly financial services revenue related to the investment of Kuwaiti funds that are held abroad. However, financial services exports increased at an annual rate of 44% during 2003-07, more than double the growth rate of services imports. Their rise drove down the size of the services deficit from around 10% of GDP in 2000-03 to 2.4% of GDP in 2006-09. This differs from most of Kuwait's peers in the GCC, whose services deficits have remained large throughout the last decade.

[34] The non-physical surplus recorded in 2006 was also a result of high income credits from investment and a sharp increase in services credits

Kuwait also differs from most of its neighbours in returning a large **income** surplus, largely offsetting the transfers and services deficits. There are two reasons for this. Firstly, Kuwait's oil sector is entirely nationally operated, whereas countries like Oman and Qatar rely heavily on foreign companies which repatriate their profits, which leads to sizable income debits in their current account. Income debits averaged only 2% of GDP in 2006-10. Secondly, Kuwait receives massive income credits from the foreign asset holdings of the state and individuals. These credits averaged US$12.2bn (10.2% of GDP) in 2006-10, more than quintuple the income debits.

Fig 4.9 Non-Physical Balance (2006-12)
(% of GDP)



Source: IMF, *QNB Capital forecasts

C. Capital Account

Portfolio outflows dominate the capital account but shifted direction briefly in 2009

The capital account[35] is dominated by monetary outflows, which are largely related to the investment of the oil surpluses in foreign assets, by the state, companies and individuals. The largest component of the capital account is usually **portfolio investment**, which includes all standard investments in tradable securities. The sum of these flows shifted direction in 2009, as the downturn in global equity markets resulted in some Kuwaiti investments being liquidated and repatriated (Fig 4.10).

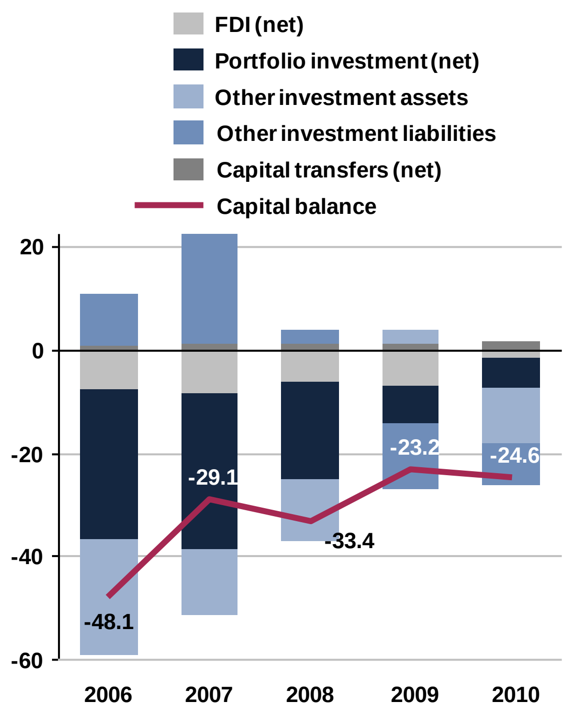
A sizable part of these funds are likely to have come from foreign holdings of the KIA, as it used repatriated investments to shore up the local stock exchange. The finance minister announced in late 2008 that the KIA planned to invest at least US$5.4bn in the Kuwait Stock Exchange. In 2010, a return to net portfolio investment outflows is expected.

Kuwaiti companies are active in direct investment abroad but Kuwait struggles to attract FDI itself

Kuwait consistently records net **foreign direct investment** (FDI) outflows, averaging 7% of GDP in 2006-09. The net outflows narrowed in 2010 because of Zain's sale of its African telecoms operations to Bharti Airtel of India for US$10.6bn. Without that transaction, net FDI outflows would have reached a new record of US$12.7bn (9.5% of GDP).

Kuwaiti companies are active in investing abroad, making Kuwait the region's largest source of outwards FDI, responsible for 40% of the total in 2009, according to data from the UN Conference on Trade and Investment (UNCTAD). These activities include KPI's investments in retail operations and refineries in Europe and Asia (Section 3B) and also private companies such as Kuwait Energy, which has upstream oil investments in eight countries. The stock of outward FDI totalled $15.8bn in 2008, according to the CBK.

Fig 4.10 Capital Account (2006-10)
(% of GDP)



Source: IMF

[35] The IMF refers to this as the "capital and financial account". In its definition, investment flows are grouped within the financial account, while the capital account proper equates just to the capital transfers category in Fig 4.10 (which includes transfers of non-financial assets). However, it is more common not to make this distinction, and simply to refer to all these flows as comprising the capital account. QNB Capital follows this usage for simplicity

Kuwait struggles to attract **inward FDI**. The IMF's data puts inward FDI at an average of only US$406m a year for 2007-09[36]. This compares to an average of US$1.3bn a year for Bahrain and US$5.8bn a year for Qatar during the same period. Similarly, looking at stocks rather than just annual flows, UNCTAD put the total stock of FDI in Kuwait in 2009 at just US$1bn, compared to US$28bn for Qatar and US$147bn for Saudi Arabia.

Most GCC countries receive sizable inward FDI into their oil and gas sector. However, this is not the case in Kuwait because KOC is solely responsible for all production. However, even in the non-oil sector, other GCC countries still receive many times the level of FDI as Kuwait.

However, FDI in Kuwait is likely to increase substantially in the next few years following recent developments. Firstly, new laws have been put in place to facilitate public-private partnerships (PPPs) and build-operate-transfer (BOT) contracts. Secondly, the 2010-14 development plan has placed an emphasis on attracting private financing for many of its projects (Section 3C).

D. Foreign Debt

Debt increased sharply in 2007 but is not large in proportion to GDP

Kuwait's total external debt in 2009 was US$45bn, equivalent to 42% of GDP (Fig 4.11). This is a relatively moderate level by international standards.

The largest component (US$27.9bn) was short-term debt, much of which will be trade-related finance. Medium and long-term private sector debt is also substantial, at US$12.6bn. Public sector external debt was low, at US$5.0bn.

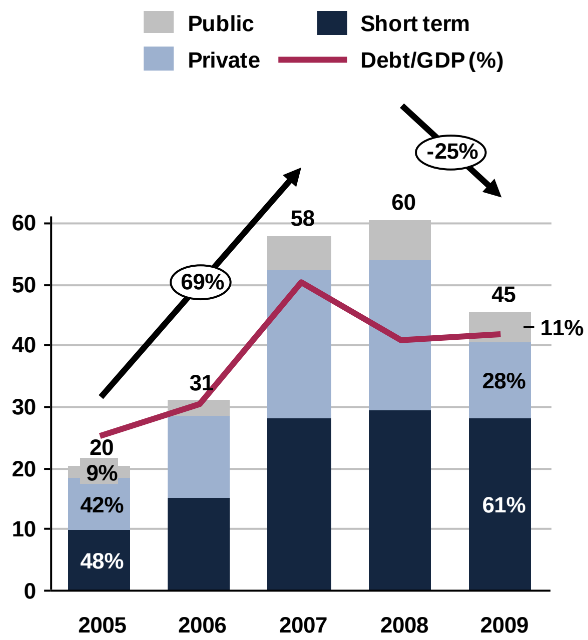
The sharp increase in external debt in 2007 to 50% of GDP, from 31% in 2006, was partly due to increased borrowing by investment companies. It was this borrowing which created serious problems for some of them in late 2008, as a consequence of the global financial crisis (Section 3C). The IMF estimated that their combined debt, including external debt, almost doubled in 2007 to US$27.3bn, almost half the total debt in the non-banking corporate sector at the time.

In 2009, substantial restructuring and repayment of debt, following the financial crisis, reduced the debt stock by a quarter. Kuwait's lower GDP that year, however, meant that the debt ratio actually increased to 42% of GDP.

Looking ahead, part of the private sector involvement in development projects is likely to be funded with foreign borrowing. This should offset further debt repayments by investment companies and result in a gradual growth in the external debt stock. However, as a percentage of GDP, external debt will probably decline in 2010-11, owing to rapid growth in nominal GDP.

Fig 4.11 External Debt (2005-09)

(US$bn unless stated, CAGR shown)



Source: IMF

[36] These figures seem low given that the huge Olefins II project was under construction during this period. This may be because Dow Chemicals, the foreign joint-venture partner, was able to fund its share of the investment in this project from retained earnings from its existing Equate operations. Such funding would not be recorded as inward FDI, although the earnings would otherwise have been remitted back to the US

5. Monetary Issues

A. Currency

QNB Capital estimates that the dinar's currency basket includes the dollar, euro and pound

The Kuwaiti dinar has usually been pegged to a **basket of currencies**. During 2003-07 its exchange rate with the dollar was maintained within a band. This was part of economic convergence efforts to facilitate GCC currency union. Kuwait shifted back to the currency basket in 2007 as a result of the dollar's depreciation, which was adding to imported inflation. As a result, Kuwait's currency regime differs from the other GCC countries, whose currencies have all been pegged to the US dollar at rates unchanged for decades.

The CBK has not revealed which currencies are included in the basket, or their respective weights. Based on econometric analysis of the dinar's movements, QNB Capital estimates that the basket is roughly comprised of the dollar (78%), euro (16%) and British pound (6%)[37]. The CBK's annual report also tracks the dinar's exchange rate against the Japanese yen and Swiss franc, and so it is possible that these also play a small role in the basket. It is unclear if the basket is fixed, or if the CBK periodically adjusts the weightings.

Currency baskets are usually related to trade, to ensure that fluctuations between the currencies do not harm the terms of trade. 82% of Kuwait's trade in goods is denominated in dollars, or currencies that are pegged to the dollar. This reason for this is that oil exports are priced in dollars and around a third of imports come from the US or countries using a dollar peg. Meanwhile, about 25% of imports during the 2000s came from the Eurozone, and 5% from the UK. The UK is also an important investment destination for Kuwait, another factor that could influence the shaping of a currency basket.

We forecast that the dinar will be worth an average of US$3.55 in 2011-12

The dinar-dollar exchange rate varies as the value of the dollar changes against other currencies in the basket. Following the shift to a basket, the dinar steadily appreciated against the dollar, reaching a peak of KD1:US$3.75 in late-June 2008.

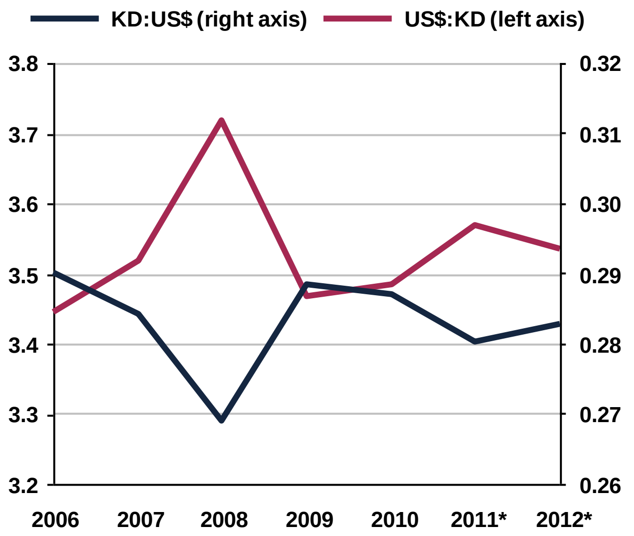
The dinar fell sharply following the global financial crisis, when the dollar was seen as a safe haven currency, to a low of KD1:US$3.37 in mid-March 2009, 10.2% below the 2008 peak. It has subsequently recovered to the middle of this range, trading around KD1:US$3.63 in June 2011.

[37] We used linear regression (with an intercept term) to estimate the relationship between the dinar and other major currencies, on the basis of weekly average exchange rates between June 2007 and June 2011. We made the assumption that the basket weights were fixed over this period. The dependent variable was the KD:US$ rate and the independent variables were the rates of other currencies against the dollar. Other currencies such as Japanese yen were found to make a statistically insignificant contribution to explaining the variability in KD:US$

We expect the debt problems presently facing the euro to persist for the rest of 2011 and in 2012, leading to a depreciation of the euro against the dollar. In turn, this will lead to a depreciation of the Kuwaiti dinar against the dollar. Using our model basket and these assumptions, we forecast an annual average value of KD1:US$3.57 in 2011 and US$3.53 in 2012 (Fig 5.1).

Fig 5.1 Exchange Rates (2006-12)

(Annual average values)



Source: CBK, *QNB Capital forecasts

B. Money Supply and Policy Tools

Interest rate policy broadly follows the US, while taking into account local credit and inflation

The heavy weighting of the dollar peg in Kuwait's currency basket requires the CBK to broadly track US **interest rates**. This helps to deter large speculative capital flows seeking to arbitrage any interest-rate differential. Kuwait has slightly more flexibility in its interest rate policy than the other GCC countries, whose pure dollar pegs entail a greater risk of speculative capital flows.

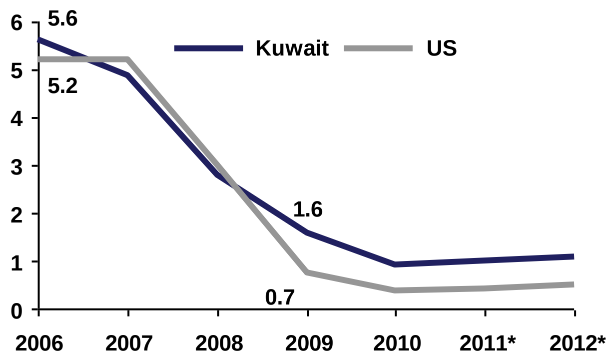
The current monetary loosening cycle in Kuwait began in November 2007. At this time, the CBK started cutting its repo rate, in response to cuts by the US Federal Reserve. The cycle reached a bottom in February 2010, when the repo rate was cut to 1.5%, which was broadly reflected in interbank lending rates (Fig 5.2).

The CBK was initially reluctant to also lower its discount rates because its economic priorities differed from the US. Credit growth and inflation were at high levels and a lower interest rate would exacerbate these factors. Nonetheless, CBK did cut the discount rate from 6.25% in January 2008 to 2.5% in February 2010. Most of the cuts were made in the latter part of this period when inflation had slowed and there was a greater need to stimulate lending in the aftermath of the global financial crisis. The lower interest rates are intended to stimulate renewed bank lending to the private sector, to boost the non-oil economy.

Interest rates are expected to begin rising gradually in 2012, but should not inhibit lending

QNB Capital does not expect the US Federal Reserve to increase its benchmark interest rates before 2013. Therefore Kuwait's own rates are unlikely to change over this period, although it is possible that Kuwaiti rates could be reduced to narrow their premium with US rates. Interbank rates may edge up slightly.

Fig 5.2 Interbank Rates (2006-12)
(3-month rates, annualised)



Source: CBK, *QNB Capital forecasts

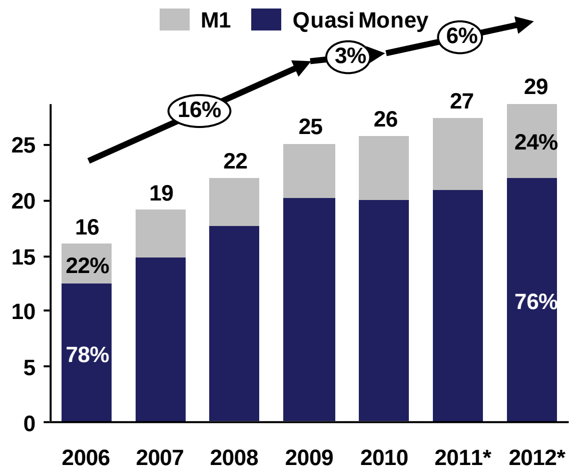
Given the government's goals for private sector financing of projects related to the 2010-14 development plan, the CBK will be anxious not to raise rates too fast and risk inhibiting lending. This policy approach is likely to be in line with the US. The US is only expected to increase rates gradually as the US economy is still weak and also in need of credit to stimulate private sector activity.

Money supply growth is expected to pick up to 6% in 2011-12

Both M1 and quasi-money grew strongly in 2006-09, such that the total **money supply** expanded at a rate of 16% (Fig 5.3). This was closely related to credit growth in that period, particularly in the real estate sector. Domestic credit expanded at an annual rate of 26% in 2006-08. Money supply growth flattened out in 2010, partly as a result of the enforcement of CBK regulations requiring greater provisions for bad debt.

The money supply received a boost in February 2011, with the Emir's grant of KD1.1bn to Kuwaiti citizens. QNB Capital expects that this boost, together with other government spending and a rise in bank lending, will return the money supply to growth at an average rate of 6% in 2011-12.

Fig 5.3 Money Supply (2006-12)
(KDbn, CAGR shown)



Source: CBK

C. Inflation

Consumer and wholesale prices picked up sharply in 2005-08 after a decade of low inflation

Until 2005, inflation in Kuwait was typically low. **Consumer price inflation** averaged just 1.7% a year in 1995-2004. There was a sharp change from 2005, in common with developments elsewhere in the GCC. Rising oil prices funded growing government spending, which in turn raised demand across the economy. The oil boom also drew in more migrant workers and raised incomes and expectations. This drove a steady increase in consumer price inflation from 2005. **Wholesale price inflation** also increased, driven by global commodity prices, which also added to the consumer price increases.

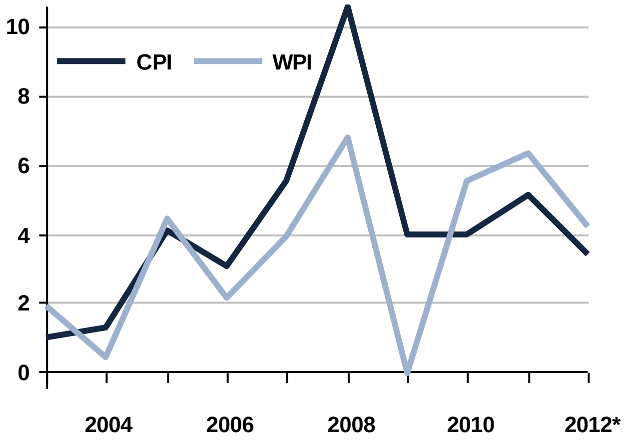
Inflation in the consumer price index (CPI) peaked at 11.6% in August 2008, averaging 10.6% over that year. The rate of increase of the wholesale price index (WPI), which reflects prices paid by industries, also peaked at an average of 6.8% in 2008, mainly reflecting global price increases (Fig 5.4).

This dinar strengthened against the dollar during that period, particularly in 2008 when it appreciated by an average of 5.2%. This meant that industry and consumers were both partly sheltered from imported inflation in 2007-08, relative to other GCC countries.

Conversely, the dinar depreciated by an average of 7.2% in 2009, making imports more expensive, which party explains why CPI inflation remained at around 4% in 2009-10, whereas some other GCC countries experienced deflation that year. The depreciation of the dinar also helps explain why the WPI was flat in 2009, in a year when global non-oil commodity prices fell by 11%, according to the Economist Intelligence Unit.

Fig 5.4 CPI and WPI inflation (2003-12)

(Annual average % change)



Source: CSO, *QNB Capital forecasts

Rent and food have been the main drivers of CPI inflation

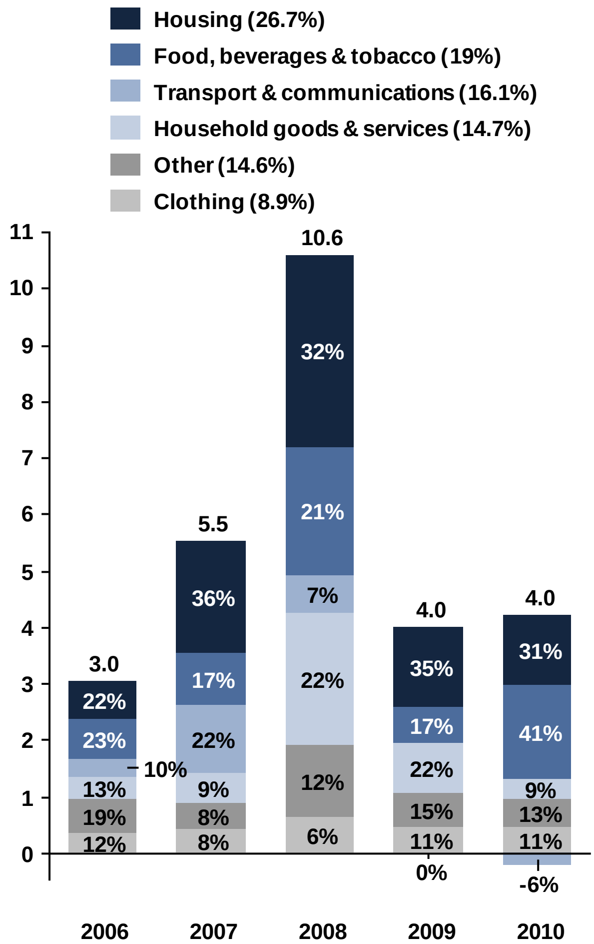
Housing is the most heavily weighted category within the CPI's basket of goods and services, representing 26.7% of the total (Fig 5.5). It was the principal driver of inflation in 2007-09, responsible on average for 34% of the overall increase. Rents increased sharply in 2007-08. They even continued to rise, albeit much more slowly, in 2009-10 because of a shortage in housing supply. Other GCC countries saw sharp falls in rents in 2009-10 owing to oversupply.

Food, the second largest category, has consistently been a significant contributor to inflation, particularly in 2010 when food prices rose by 8.4% and were responsible for 41% of the overall increase in inflation. Food prices have been rising globally owing to growing demand in emerging economics, particularly China, together with a series of weather events, which harmed supply. As Kuwait imports almost all of its food, it is particularly vulnerable to global price movements.

Transport and communication is the third largest category in the CPI basket. However its contribution to CPI has tended to be low, as competition in this sector has kept prices down. In particularly, competition increased sharply in 2008, as a result of the launch of a third mobile operator, Viva. As a result, call charges were cut and this CPI category was flat in 2009 and declined by 1.3% in 2010.

Fig 5.5 Contribution to CPI inflation (2006-10)

(Annual average % change, weights shown in legend)



Source: CSO

We forecast that CPI inflation will average 4.3% in 2011-12

The upwards march of food prices has continued in 2011. CPI inflation averaged 5.0% year-on-year in the first half of 2011, led by 10.4% inflation in food prices. QNB Capital forecasts that CPI inflation will average 5.1% over the full year. The growth in food prices should then ease in 2012, and overall CPI inflation will decline to 3.4% (Fig 5.4).

Prices experienced by industry are more closely geared to commodity prices. Therefore, WPI inflation is forecast to increase to 6.3% in 2011, on the back of the surge in oil and non-oil commodities, before easing back to 4.2% in 2012 as these are expected to stabilise.

6. Public Finance

The fiscal surplus averaged 17% of GDP in 2006-10 before counting investment income

The boom in oil prices in recent years has had a sizable impact on Kuwait's public finance. Fiscal revenue averaged 55% of GDP in 2006-10[38] (Fig 6.1). Although its nominal value fluctuates with oil prices, its share of GDP generally remains relatively constant because GDP is also closely linked to oil prices.

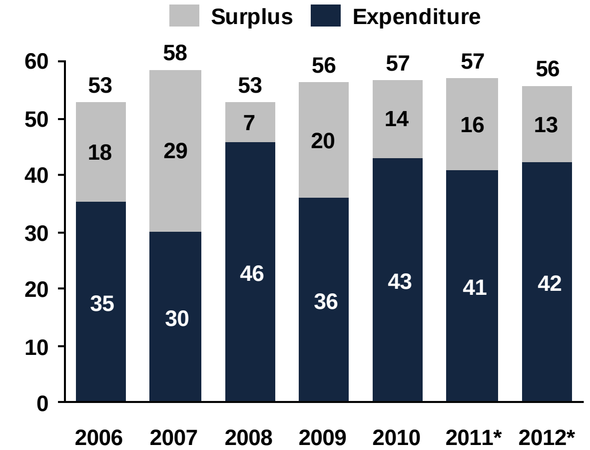
Expenditure fluctuates more substantially in relative terms. For example, it swung from 30% of GDP in 2007 to 46% in 2008. As a result, the **fiscal surplus** averaged 17% of GDP in 2006-10, though with considerable variability year to year. In 2010, it was KD5.3bn (US$18.4bn or 14% of GDP).

We forecast that the surplus will rise to an average of KD6.9bn (15% of GDP) in 2011-12, owing to substantially higher oil revenue.

Investment income from holdings of the KIA does not feature in the official fiscal figures. However, it is substantial, averaging 11% of GDP in 2006-10. This income is generally reinvested, but could also be used to cover any deficit, although the fiscal account has remained in surplus since 1995.

Iraq is obliged to pay 5% of its oil revenue into a reparations fund, which transferred US$2.5bn to Kuwait during the 2010 fiscal year. The **reparation payments** from Iraq, paid through the UN Compensation Commission, are excluded from the fiscal accounts. As of end-July 2011, Iraq owed US$19.1bn in reparations to the Kuwaiti government and companies in the oil sector (largely state-owned). This means payments should continue for around 5-10 years, depending on oil prices and Iraq's progress in boosting its oil production.

Fig 6.1 Fiscal Summary (2006-12)
(% of GDP, revenue shown as the sum of expenditure and surplus)



Source: CBK, *QNB Capital forecasts

[38] Kuwait uses a fiscal year that runs from 1 April to 31 March. All references to years in the text and graphs in this section relate to these fiscal years

A. Revenue

Oil revenue per barrel is high as Kuwait controls more of the value chain than other GCC states

Oil revenue consistently comprises on average about 94% of Kuwait's recognised fiscal revenue, excluding investment income. Consequently, total revenue is closely related to oil prices (Fig 6.2). We forecast that the surge in oil prices in 2011 will boost revenue by 23% to KD26.2bn, though it will ease back slightly in 2012 and increased oil production is offset by lower prices.

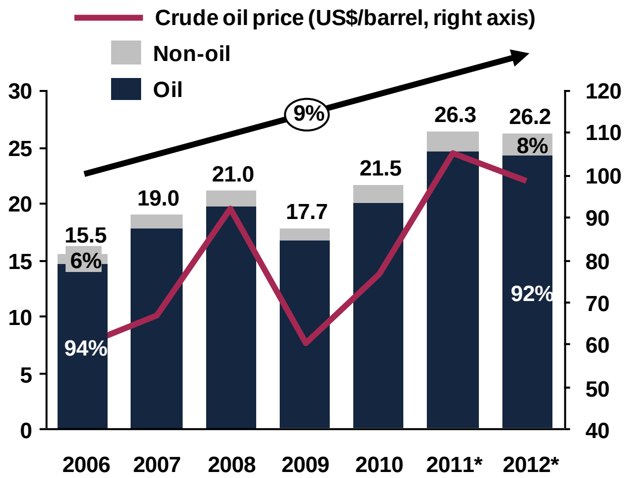
Unlike most GCC countries, Kuwait controls most of the upstream and downstream oil value chain. The following national companies control different areas of the oil sector:

- KOC is responsible for all crude production
- KNPC refines much of the crude
- KPI retails some refined products directly in Europe
- PIC cracks some refined products into petrochemicals

As a result, the government's total revenue from each barrel of crude produced is greater than for other countries in the region, which control less of the value chain than Kuwait does.

The largest component of non-oil income is the operating revenue of state-owned enterprises, particularly in the utilities and telecoms sectors. Tax revenue is the other substantial source, although it only averages around 1% of GDP.

Fig 6.2 Fiscal Revenue (2006-12)
(KD bn)



Source: CBK, *QNB Capital forecasts

Kuwait has US$200-300bn of assets which yielded 4%-6% of income in 2010

The KIA was the first **sovereign wealth fund** established in the region and is believed to have about

US$200-300bn in assets[39]. The assets are invested internationally, and generate substantial income, which is usually reinvested. KIA does not publish details of its investment income, although the IMF provides estimates for this in its Article IV reports. According to their estimates, the income was around KD3.2bn in 2010, equivalent to a yield of around 4%-6%, depending on the assumed size of KIA's assets.

Like most GCC states, Kuwait is typically conservative in forecasting its revenue in the **budget**. The 2011 budget assumes only KD12.3bn in oil revenue, less than half of QNB Capital's forecast. This is because its assumptions are all below our forecasts (Table 6.1).

Table 6.1 Budget Assumptions (2011/12)

Assumption	Kuwait	QNB	Difference
Oil price (US$/barrel)	60	103.3	72.2%
Crude production (b/d)	2.2m	2.4m	9.1%
KD:US$	3.47	3.56	2.6%
Compound difference			92.7%

Source: Ministry of Finance, QNB Capital forecasts

B. Expenditure

Expenditure is forecast to expand to an average of 41% of GDP in 2011-12

There are three main components to Kuwait's fiscal expenditure: current, capital and transfers, which are explained in turn below. There has been a general trend of growth in current and capital expenditure, while transfers to public bodies have fluctuated substantially. Total expenditure averaged 38% of GDP in 2006-10 (Fig 6.3). We forecast that this will pick up to an average of KD19bn (41% of GDP) in 2011-12 because of high transfers, capital spending linked to the development plan and increases in subsidies and wages.

Current expenditure has been growing at 21% a year as subsidies and wages increase

Current expenditure is the largest component, equal to 31% of GDP in 2010. It mainly consists of wages, subsidies and government purchases of goods and services, and grew at a rate of 21% in 2006-10.

Expenditure on wages grew at a rate of 12% in 2006-10, reaching KD3.4bn, as the public sector payroll and average wages (particularly for Kuwaiti nationals) both progressively increased.

The bulk of subsidy payments are on electricity, although they also cover food and petrol. Subsidies grew sharply, at a rate of 54% in 2006-08 to KD3bn, mainly because of rising oil prices. Consequently, subsidies dropped in 2009, owing to lower oil prices. We estimate that they rebounded in 2010, even exceeding their previous peak in 2008. We forecast that subsidies will rise further in 2011-12, given higher food and fuel prices[40].

Purchases of goods and services are dominated by fuel costs. As a result, this component also grew sharply in 2006-08, at a rate of 42% to KD3bn. It then fell by a third in 2009, on lower fuel and other prices, and rebounded in 2010 to KD2.8bn.

Capital expenditure is low by regional standards but slated to rise for the development plan

Capital expenditure is the smallest of the three components. It grew at a rate of 23% a year in 2006-08, slipped back by 12% in 2009, and then shot up by 41% in 2010, as work began on the development plan. Even with this dramatic increase, it still only totalled 4.8% of GDP in 2010. This is considerably lower than capital expenditure in most other GCC countries. Saudi Arabia, for example, spent 12% of GDP in 2010 on capital projects. Kuwait's low capital spending is largely a consequence of bureaucratic delays in initiating and implementing capital projects.

The 2010-14 development plan is intended to streamline this process, and therefore QNB Capital forecasts that capital expenditure will increase at a rate of 33% in 2011-12, reaching KD3.2bn (6.8% of GDP) in 2012. Thereafter, it should grow substantially if implementation of megaprojects, such as the City of Silk, gets underway.

Kuwait has been making large transfers to recapitalise its Public Institute for Social Security

Transfers to public agencies and institutions are the most variable component of expenditure, ranging from 5% of GDP in 2007 to 19% in 2008, with an average value of 10% of GDP during 2006-10.

The spike in 2008 was largely a result of a major transfer of KD6.4bn to the Public Institute for Social Security. This was because of a shortfall in the Institute's asset holdings for pension payments. The Institute also received KD4.4bn in transfers during 2004-07. Other transfers include the distribution of KD1,000 to each Kuwaiti national to mark the 50th anniversary of country's independence, which cost around KD1.2bn.

The variability of transfers makes them difficult to forecast. QNB Capital has assumed they will average KD3bn in 2011-12, including further recapitalisations of the Institute, at about KD1.1bn a year until 2014.

At least 10% of annual revenue is paid into the Fund for Future Generations

One of the wings of the KIA is the **Reserve Fund for Future Generations**, which was established in 1976.

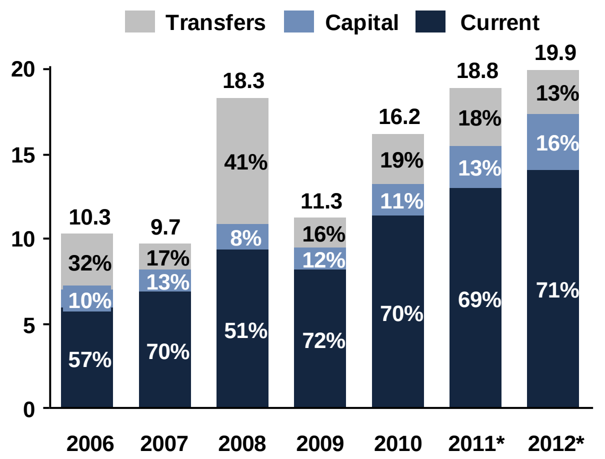
[39] Monitor Group (June 2011) estimates KIA assets at US$203bn, while the Sovereign Wealth Fund Institute (July 2011) puts them at US$296bn. Kuwait does not discuss the KIA's assets. The National Assembly receives an annual presentation of accounts, but it is illegal to publicly disclose this

[40] The government pledged in February 2011 to provide nationals with 13 months of free food, which is likely to cost around a billion dinars. It is unclear if this will be accounted for as current spending on subsidies or as a transfer. We have assumed it is a transfer within the 2011 fiscal year

The government is legally obliged to pay at least 10% of annual revenue into the Fund every year[41]. These sizable payments, which would have averaged KD1.9bn (6% of GDP) in 2006-10, are not included within the transfers line of the fiscal outturn. This, and payments to other parts of the KIA, are taken out of the fiscal balance.

Fig 6.3 Fiscal Expenditure (2006-12)

(KD bn)



Source: CBK, *QNB Capital forecasts

The Kuwaiti **budget** typically underestimates the actual outturns for current expenditure and overestimates the outturns for capital expenditure. Actual spending between 2006 and 2009 was 6% below what was initially projected in the budgets. Spending in 2010 was closer to budget, underspending by just 1%. However, the capital budget was still 20% underspent.

The 2011/12 budget was the largest to date, with KD20.8bn in spending plans. However, as its oil price assumption was relatively conservative at US$60, we forecast that Kuwait will post a large surplus because the actual oil price is forecast to be over 70% higher.

C. Public Debt

Public debt is estimated to have totalled just 8% of GDP at end-2010

Kuwait's public debt is very small and it is estimated at just KD3.6bn (US$12.7bn or 7.9% of GDP) at the end of 2010. This estimate is based on a combination of data on domestic public borrowing from the CBK and on external public debt figures from the IMF[42].

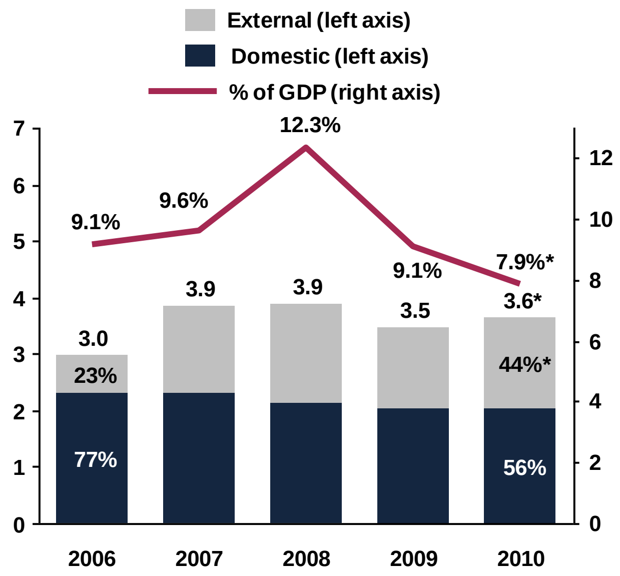
Domestic government borrowing declined from KD2.3bn in 2006 to KD2bn in 2010. This is mainly comprised of **Treasury Bonds**, which mostly have one-year maturities. Shorter-term zero-coupon Treasury Bills, with three or six month maturities, were not issued in 2006-08. They have, however, been utilised to a small extent since then. CBK Bills, another short-term instrument, have not been included in this analysis. This is because they are just used by the CBK to manage liquidity, rather than for fiscal purposes.

Meanwhile, **public external debt** more than doubled from KD0.7bn in 2006 to KD1.8bn in 2008, according to IMF data. A sizable tranche was repaid in 2009, bringing the total down to KD1.4bn, and we estimate that it increased only slightly from this level in 2010.

Given Kuwait's sizable surpluses and foreign assets, its public borrowing is a matter of policy and convenience rather than fiscal need. New debt may be taken on during 2011-12 as part of financing agreements for projects under the development plan. It will not, however, represent a significant burden. Kuwait could repay all of its debt stock out of a single year's fiscal surplus. This is reflected in its strong credit ratings, including AA- from Standard & Poor's.

Fig 6.4 Public Debt (2004-09)

(KD bn)



Source: CBK, IMF, *QNB Capital estimates

[41] In recent years it has paid more than 10%, in order to repay some of the KD21bn borrowed from the fund following the Iraqi invasion of Kuwait in 1990. More than half had been repaid as of 2007

[42] The sum of these series is almost twice as much as the IMF's total public debt figure of KD2.2bn in 2009, recorded in its 2011 Article IV Report

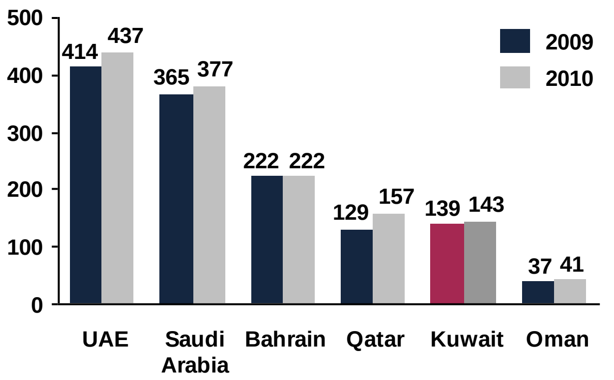
7. Banking Sector

A. Overview

Kuwait's banking sector is on a par with Qatar in terms of the size of its assets (Fig 7.1). It's assets are lower than Bahrain's because of the presence of foreign banks in Bahrain serving the regional market, whereas banks in Kuwait focus more on the domestic market.

Fig 7.1 GCC Total Banking Assets (2009-10)

(US$bn)



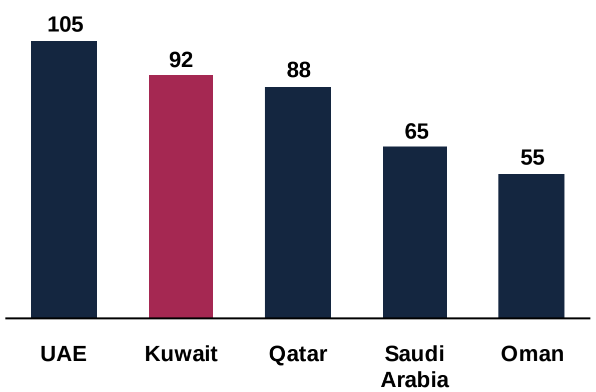
Source: National central banks

When measured relative to GDP, Kuwait has a relatively high level of domestic loan penetration by regional standards (Fig 7.2).

In response to the global financial crisis in 2008, the CBK guaranteed all deposits held in both local banks and branches of foreign banks. Also, the National Assembly passed a **Financial Stability Act** in early 2009, which offered financial companies protection from bankruptcy, and guaranteed part of the new credit issued by banks in 2009-10. Kuwait had experience of responding to previous financial crises in 1982 after a stockmarket crash and 1991 owing to the Iraqi invasion. Other measures taken by the CBK included raising the loan-to-deposits ratio from 80% to 85%, and reducing the reserve ratio from 20% to 18%.

Fig 7.2 GCC Loan Penetration (2009)

(Loans as % of GDP)



Source: National central banks

The sector has a high capital adequacy ratio of 18.8% and a moderate loans-to-deposits ratio

The Kuwait banking sector is in a healthy position when assessed against a number of key measures. Following sizable rights issues and subordinated debt issuance, the sector's **capital adequacy ratio** increased to 18.8% in 2010, from 16.7% in 2009, and individually all of the banks exceed the 12% minimum set by the CBK (raised from 10% in response to the financial crisis). Basel II standards have been required by the CBK since 2006.

The **loans-to-deposits ratio** for the sector was 73.7% at end-2010, well below the maximum limit of 85% set by the CBK. On the basis of current deposits, the sector could boost lending by over KD4bn without breaching the limit.

Non-performing loans rose sharply in 2008-09 as real estate and investment companies floundered

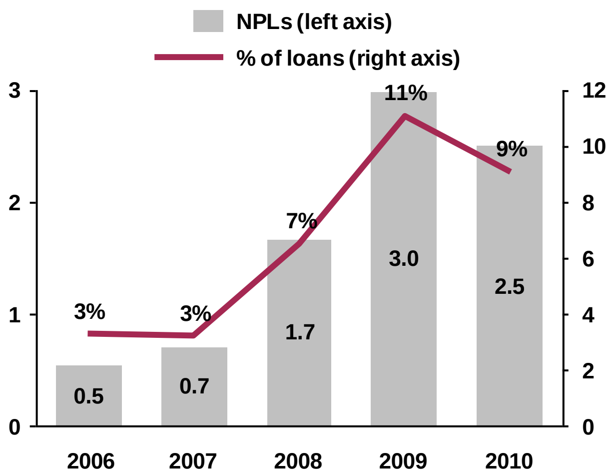
Despite underlying strengths, the sector is still struggling with high levels of **non-performing loans** (NPLs), which totalled KD2.5bn in 2010, representing 9% of total loans, compared to just 3% in 2007 (Fig 7.3).

Kuwaiti banks lent heavily to the real estate sector. According to CBK data, credit facilities to the real estate sector amounted to 25.7% of total credit facilities at year-end 2010 (the comparable figure for Qatar is at 16.2%). As a result, they suffered when falling property prices from 2008 reduced the ability of real estate companies to service loans. In addition, a unique characteristic of the Kuwaiti financial sector is the sizable role of investment companies. Many of them are heavily leveraged and have struggled to service their debts since asset prices declined in 2008 (Section 3D).

About a third of private sector credit is provided to real estate and investment companies (Fig 7.5). The bulk of NPLs are loans to real estate and investment companies. The difficulties of these companies are the reason behind the sharp rise in NPLs to a peak of 11% of total loans in 2009. NPLs fell in 2010 because some which were fully provisioned were written-off, in accordance with a CBK directive.

Fig 7.3 Non-Performing Loans (2006-10)

(KD bn)



Source: CBK, Individual bank statements

NPLs are largely concentrated in a few banks

The NPLs are not spread evenly across the sector, but concentrated largely across a few banks, particularly Kuwait Finance House (KFH), which accounts for 37% of the sector's NPLs. Four banks, including KFH, had NPL to gross loan ratios above 10% in 2010, with Gulf Bank being the worst affected at 18.8%.

National Bank of Kuwait (NBK) has a particularly high-quality loan book with an NPL ratio of only 1.6%. This was because its leading position in the market and longstanding customer relationships helped it to cherry-pick the better quality loan opportunities. It has largely avoided investment companies.

The sector's **NPL coverage ratio** was 68% at end-2010, with individual banks ranging from just 36% to 217%. This was hardly changed from 2009, because **provisions** were utilised to write-off certain NPLs.

The financial crisis in 2008 had other impacts on the banks, including a fall in their non-interest income. Gulf Bank, the second largest conventional bank, also suffered a major KD375m (US$1.3bn) loss from derivatives trading in October 2008. The government underwrote an emergency rights issue to recapitalise the bank.

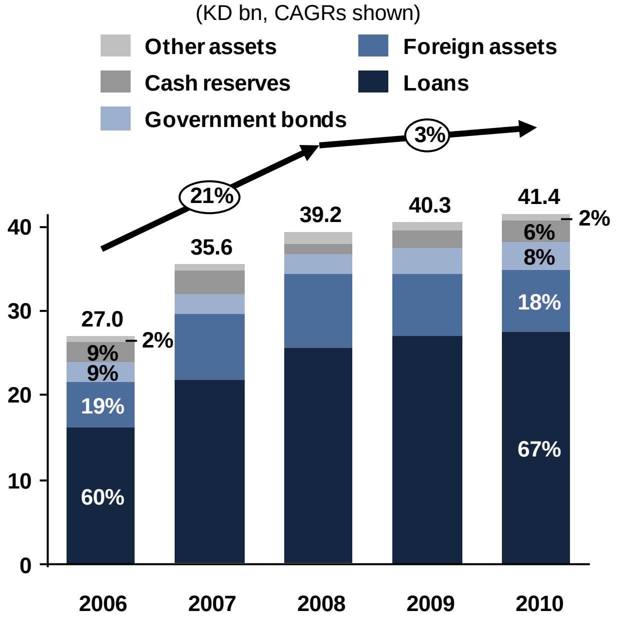
B. Bank Performance

Asset growth slowed sharply in 2009 owing to lower loan demand and more risk averse lending

Total **assets** in the sector reached KD41.4bn (US$144bn) in 2010, up by 3.9%, following a growth of 2.5% in 2009. This was well down from the 21% rate of asset growth seen in 2006-08.

Fig 7.4 Local Bank Assets (2006-10)

(KD bn, CAGRs shown)



Source: CBK

Foreign assets are a sizable component of the total. This is partly because low interest rates and limited lending opportunities in Kuwait have encouraged banks to seek opportunities abroad.

The bulk of loans are to consumers and the real estate sector

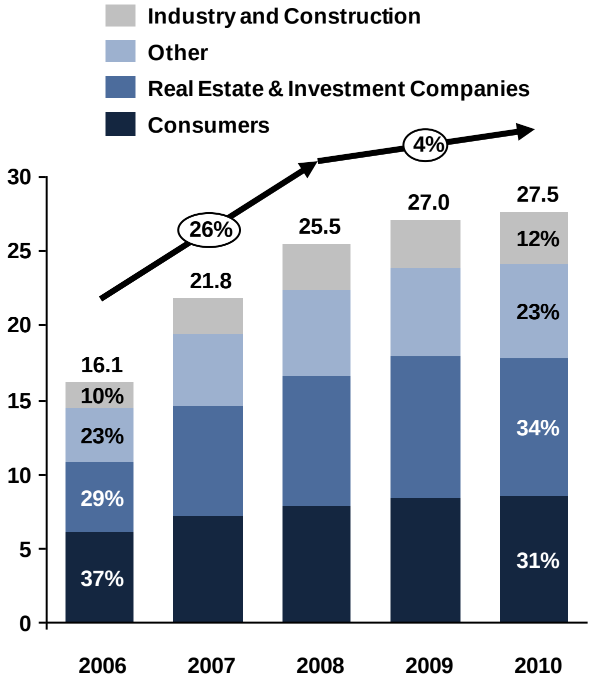
Loans made by local banks to the private sector grew strongly in 2006-08, at a rate of 26% (Fig 7.5). Much of this increase was due to the expansion in lending to the real estate sector and investment companies, rather than to productive sectors such as industry. Lending policies became more cautious and demand declined after the crisis in 2008, and loan growth fell to just 1.7% in 2010.

Loans to individuals remain sizable, equal to 31% of the total in 2010. There are concerns that a large number of individuals have become overburdened by debt. As a result, significant elements with the National Assembly have argued that the government should buy up the consumer debt and write off the interest owed by Kuwaiti nationals. The government has so far resisted this because of both the cost and the moral hazard involved.

Instead, the CBK imposed measures to restrict consumer borrowing. Borrowing is limited to ensure that monthly repayments, withdrawn directly from pay checks, are less than 35% of the borrowers' salaries. This meant that as salaries increase, more could be borrowed. However, stricter application of the rule in 2010 means that a new loan can only be taken out once the previous one has been fully repaid. This was a factor in the slower rate growth in banks loan books.

Fig 7.5 Loans to the Private Sector (2006-10)

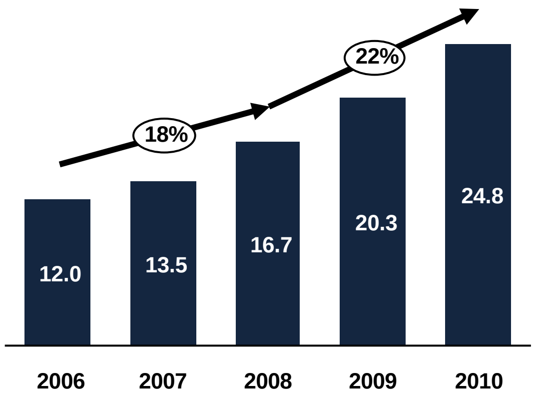
(KD bn, CAGRs shown)



Source: CBK

Deposits have fared well in recent years, in fact their rate of growth actually picked up slightly after the financial crisis. It rose from 18% in 2007-08 to 22% in 2009-10 (Fig 7.6). This may be because bank deposits, guaranteed by the government, have been seen as a safe haven during turbulent economic times.

Fig 7.6 Deposits (2006-10)
(KD bn, CAGRs shown)

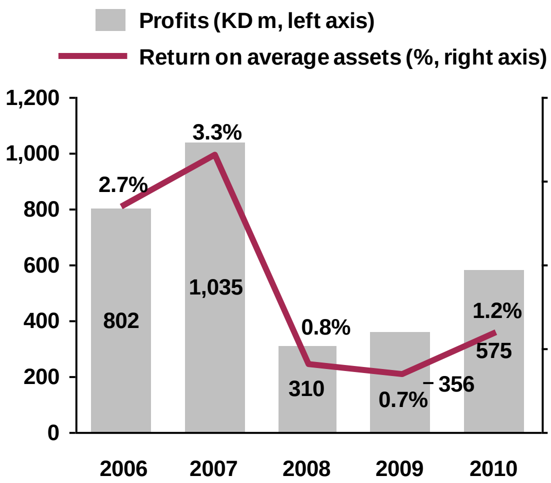


Source: CBK

Profits rose in 2010, largely as a result of a fall in loan loss provisioning

Net **profit** in the sector grew by 62% to KD575m (US$2bn) in 2010, owing to a 31% fall in loan loss provisions, although these still totalled KD508m (US$1.8bn), almost five times higher than in 2008. NBK represented 53% of profits in the sector, despite only accounting for 28% of assets. This was largely because of its lower provisioning requirements. Overall the return on average equity in the sector rose from 6.1% in 2009 to 9.1% in 2010, according to IMF figures.

Fig 7.7 Net Profits (2006-10)



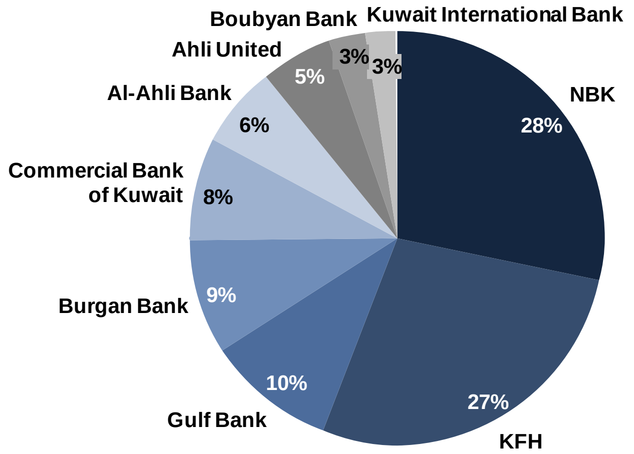
Source: CBK, Individual bank statements

C. Structure of the Sector

There are ten local commercial banks, half of them Islamic. There is also one specialist state-owned bank, the Industrial Bank of Kuwait.

NBK is the largest in terms of assets. It's assets were KD12.9bn (US$44.9bn) at the end of 2010 (Fig 7.8) and had risen further to KD13.7bn by end-June 2011. The distribution of loans and deposits across the banks is close to their shares of total assets.

Fig 7.8 Market Share of Local Banks (2010)
(% of total assets)



Source: Bankscope, Individual banks' annual reports

Half of the local banks are fully sharia-compliant and others have Islamic windows

Five of the banks, representing 37% of assets, are fully sharia-compliant **Islamic banks**. Some of the conventional banks also have Islamic windows, making the total Islamic sector even larger. Kuwait Finance House (KFH) was the first Islamic bank in Kuwait, established in 1977. It has more than a quarter of assets in the total banking sector and the second largest branch network. The other four Islamic banks have developed more recently and are much smaller. Boubyan Bank launched in 2004 (and now 47% owned by NBK) and Warba Bank in 2010. Two conventional banks have also transformed into Islamic banks creating the International Bank of Kuwait (2007) and Al-Ahli United Bank (2010).

There were ten **foreign banks** with operations in Kuwait as of July 2011, seven from other GCC countries and three Western. Their combined share of the Kuwait market is relatively small. This is because they are limited to having a single branch in Kuwait, under a 2004 amendment to the banking act. The foreign banks are:

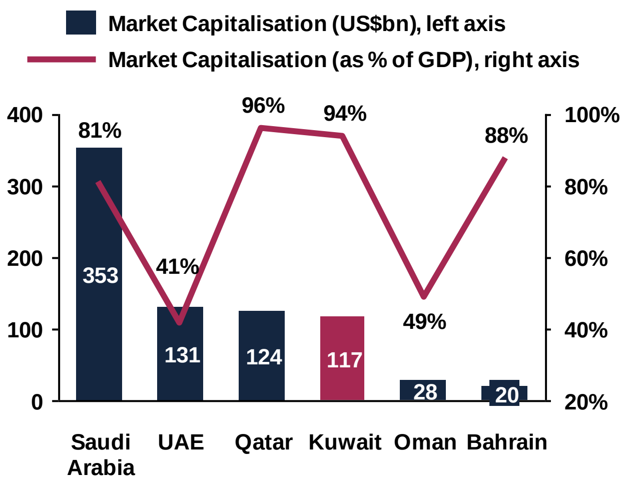
- Al-Rahji (Saudi Arabia)
- Bank of Bahrain and Kuwait (Bahrain)
- Bank Muscat (Oman)
- BNP Paribas (France)
- Citibank (US)
- Doha Bank (Qatar)
- HSBC (UK)
- Mashreq Bank (UAE)
- National Bank of Abu Dhabi (UAE)
- Qatar National Bank

8. Equity Market

The Kuwaiti stockmarket is the fourth largest in the GCC

The primary equity market capitalisation of the Kuwait Stock Exchange (KSE) was KD34bn (US$117bn) at the end of 2010. This made it the fourth largest GCC stockmarket (Fig 8.1), only slightly smaller than Qatar and the UAE. By June 2011 it had shrunk to KD31bn (US$113bn), as share prices declined across most of the region.

Fig 8.1 GCC Market Capitalisation (2010)
(US$ bn)



Source: Stock-exchange websites and annual reports

Established in 1962, the KSE is one of the oldest stock exchanges in the region. It evolved to its current form following a tumultuous past. This included a spectacular crash in 1982 in an unofficial stock exchange, the "Souk Al-Manakh", and the Iraqi occupation in 1990-91. The KSE opened up to **foreign investors** in 2000 and permits up to a 49% foreign holding in any stock[43].

Equities dominate the Kuwait Securities Market

The KSE includes 229 stocks, almost all equities (including 15 smaller stocks that trade on a parallel market). The bourse's primary **index**, the KSE Price Index, is a price-weighted index measuring the performance of all listed equities. There is also a market capitalisation Weighted Index of all stocks[44]. The KSE was the first exchange in the GCC to offer equity derivates, such as call options and forward/futures contracts. This started in 2005 through market makers, such as Markaz.

At the end of June 2011, the primary exchanged including listings of 202 Kuwaiti companies and 13 non-Kuwaiti companies.

[43] On limitation is that investors require permission from the central bank to take a stake larger than 5% in banking stocks
[44] References to changes in the KSE index in this section refer to the Weighted Index, as it is more representative than the Price Index

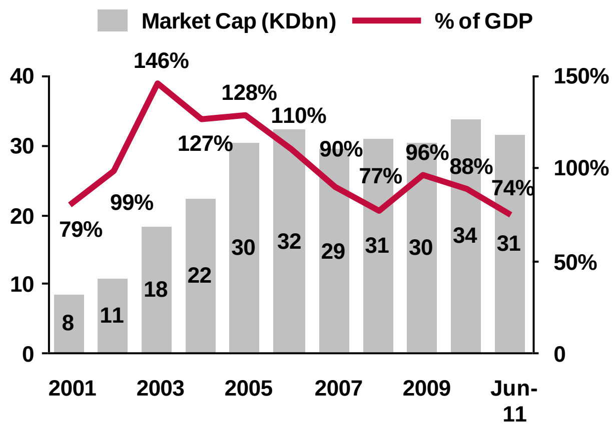
Market capitalisation has been relatively flat since 2005

In 2001-2005, the KSE **market capitalisation** rose at a CAGR of 38% from KD8.3bn (US$27bn) to KD30.2bn (US$103bn) (Fig 8.3). This was driven by economic growth, increasing interest in the stockmarket and a near doubling in primary listings, from 88 in 2001 to 164 in 2005. Although the number of listings rose further to 215 in June 2011, the market did make any sustained progress over this six and a half year period. It did, however, display considerable volatility over this year, even though the year-end market capitalisations tended to be fairly constant.

Kuwait avoided the declines seen by other regional markets in 2006. However, there was a period of sharp decline in 2008-09 following the global financial crisis. The impact of this was intensified by the high levels of debt that had been incurred by both companies and investors.

The market made a steady recovery from mid-2009, supported by rising oil prices and hence confidence in the economy. The approval of the 2010-14 development plan also helped boost overall investor sentiment in 2010.

Fig 8.2 KSE Market Capitalisation (2001-10)
(KDbn, end-year, primary equity market)



Source: Kuwait Stock Exchange website, industry reports

Market volatility is partly due to a high proportion of retail investors

The stockmarket's **volatility** has partly been a consequence of the dominance of retail investors. For the six months ending in June 2011, retail investors directly accounted for 44% of the total traded value. A further 22% was traded by the client accounts of brokerage companies, largely on behalf of retail investors. Institutional participation remained subdued at 33%. By comparison, on large mature bourses, such New York or London, institutional investors make up over 80% of the traded value. Overall, foreign (non-Kuwaiti) participation accounted for just 9% of trading.

A perceived lack of disclosure and transparency by several companies has contributed to limiting the institutional and foreign involvement in the KSE. The corporate governance problems are especially in the investment and real estate sectors.

The establishment of a new regulator could boost transparency and hence confidence in the KSE

Until recently, the KSE was essentially a self-monitoring institution. This led to concerns about insider trading and market manipulation. There were also concerns about the lack of transparency in both corporate results and in the activities of investment companies. In response, the National Assembly passed a bill in February 2010 to establish a stockmarket regulator, the **Capital Markets Authority** (CMA).

In March 2011, the CMA started operations, issuing its executive regulations. Its impact was felt immediately. This was because of a regulation which required investors acquiring a 30% voting stake in a company to offer a full takeover bid within 30 days. This regulation was one reason why to the UAE telecoms company Etisalat cancelled its US$12bn offer for 46% of Kuwait's Zain.

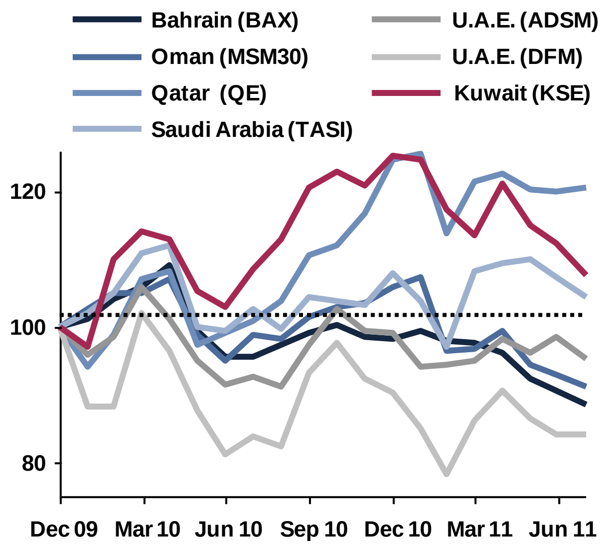
Another of the CMA regulations issued in March 2011 relates to investment companies. It limits them from holding more than a 10% stake in any security. Investment companies were initially required to comply with this regulation within six months. However, there were concerns that the market could be seriously damaged by the forced sale of investment companies' excess holdings. Therefore, the CMA deferred its deadline for implementation of the rule to March 2012. As the CMA develops, investor confidence should improve.

The KSE declined in the first half of 2011, partly because of the CMA regulations

Kuwait's primary equity market capitalisation declined by 6.9% to KD31bn (US$115bn) during the first half of 2011 (Fig 8.2). The short-term uncertainty created by the new CMA regulations contributed to the KSE decline in 2011 as investors cashed out of the market. Moreover, the slow execution of the development plan also became a cause of concern for many investors. Despite the decline, the KSE still recorded the second strongest growth in the region in the 18 months since end-2009, after Qatar (Fig 8.3).

Fig 8.3 GCC Index Performance (2010-July 11)

(Month-end indices based to end-2009)



Source: Stock exchange websites

Traded values have declined sharply since 2008, to just 24% of market capitalisation in H1 2011

The **level of trading** on the KSE has fluctuated substantially over the last five years. Trading was weak in 2006, with only KD17bn traded (US$60bn), equivalent to just 54% turnover of market capitalisation. This was a result of the suspension of trading in some companies that breached disclosure regulations and the government's cancellation of some BOT projects being implemented by the KSE-listed companies. There was also a general fear of a possible price correction given the declines witnessed in most other GCC markets in 2006. In the end this did not materialise.

Trading recovered strongly in 2007-08, with the traded value rising to an average of 111% of market capitalisation. However, trading levels have declined sharply since then. Trading turnover fell to 79% of market capitalisation in 2009 and then to 40% in 2010. This was still more liquid than comparable markets such as the UAE, where the trading turnover was only 22% of market capitalisation in 2010.

KSE trading further declined in the first half of 2011 to KD3.7bn (US$14bn), equivalent to just 24% turnover on an annualised basis. Concerns about transparency and the weak financial performance of many listed firms have contributed to this decline.

The focus of trading has shifted from investment and real estate to services and banking

The trading of companies in the investment and real estate sectors has fallen particularly sharply. The investment sector was the most highly traded sector in 2005. It represented a 39% share of the total value traded, while real estate represented a further 20%. By 2010, their combined share had halved to just 29%

following steep losses by indebted investment companies (Section 3D) and a significant fall in real estate prices.

Instead, trading has focused increasingly on the services sector. It was the most traded sector in 2010, representing 30% of traded value, up from less than 18% in 2005. This growing interest is partly a result of an increase in the number of listed services stocks which nearly doubled from 33 in 2005 to 60 in 2010. Another reason is that the sector's performance has been less marred by the financial crisis. Banking is now the second most traded sector at 25% of the 2010 total.

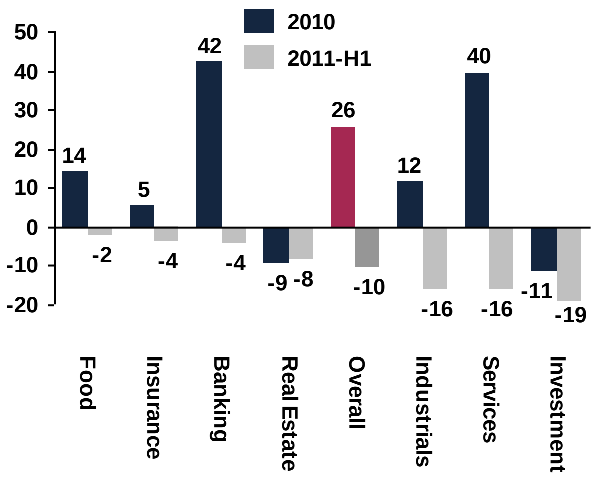
In 2005, the ten most traded companies made up 32% of the total trading value. However, this proportion increased to 44% in 2010 as trading in the many small investment companies declined. Zain is by far the most liquid stock on the exchange averaging around 13% of the total traded value in 2009-10, partly because of takeover expectations. Agility, which was the top traded stock in 2005, has seen a steep decline in both price and traded value in recent years due to the a major lawsuit being brought against it by the US.

Banking and services drove market gains in 2010, while the investment sector lagged

The banking sector led the gains in the index in 2010, rising by 42% over the year (Fig 8.4) until it represented 43% of the domestic primary market (Fig 8.5).

Fig 8.4 KSE Sector Performance (2010 to June 2011)

(% change in market capitalisation)



Source: Kuwait Stock Exchange website; Note: Excludes the non-Kuwaiti sector and the parallel market

The services sector has the next largest market capitalisation on the KSE after banking, accounting for 32% of the total. It gained 40% in 2010.

Gains in banking, services, industrials, food and insurance were partly offset by underperformance in the investment and real estate sector. These two sectors continued to suffer in 2010 given the weak financial performance and condition of several companies.

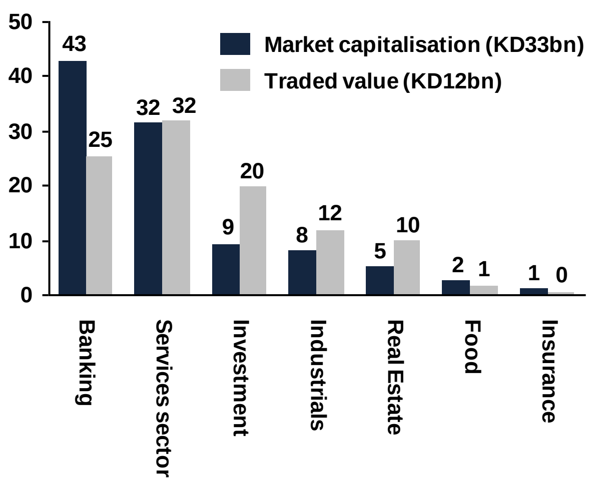
The leading company by market capitalisation is the National Bank of Kuwait, representing 14.5% of the market at end-June 2011. The second largest was Zain, a telecoms company, representing 14.2%. Of the other **largest ten companies**, seven are banks (Section 7C) and one, Wataniya, is a telecoms company. These ten companies together accounted for 59% of the total KSE market capitalisation at the end of June 2011.

Meanwhile, the five top performing stocks in 2010, based on total returns, were:

- Kuwait Portland Cement (125%)
- Kuwait Company for Process Plant Construction (112%)
- YIACO Medical (108%)
- United Projects Group (95%)
- Gulf Bank (90%)

Fig 8.5 Market Capitalisation and Traded Value Contributions (2010)

(% of total)



Source: Kuwait Stock Exchange website; Note: Excludes the non-Kuwaiti sector, the parallel market and odd-lot trading

All market sectors declined in value in the first half of 2011

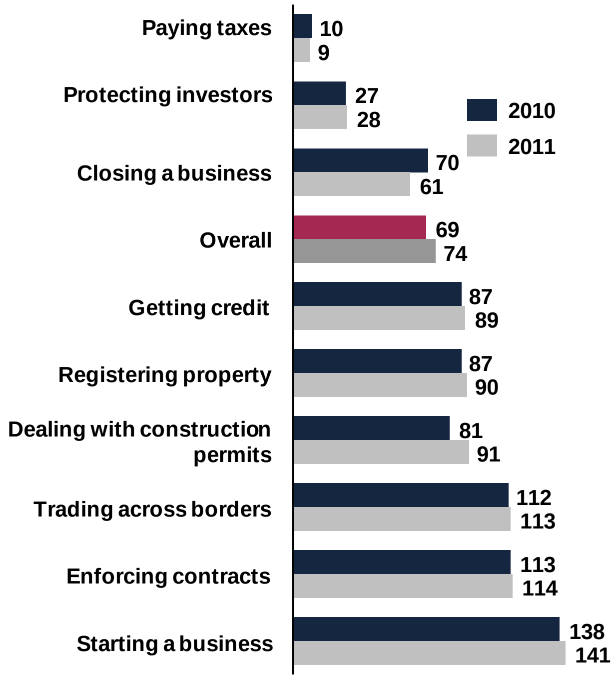
In 2011, market capitalisation declined by 10% in the first half of the year. Bearish investor sentiment contributed to declines across all sectors (Fig 8.4). The investment, services and industrials sectors were most serious affected, declining by between 16%-19%. The banking sector was relatively resilient, down by only 4%.

9. Business Environment

Kuwait's business environment ranks below the other GCC countries

Kuwait ranked **74th out of 183** economies in the World Bank's Doing Business 2011 report (Fig 9.1). It slipped five places on the previous year, and ranks below the other GCC countries (ranging from Saudi Arabia at 11th and Oman at 54th). In comparison with the wider MENA region, Kuwait is behind Tunisia, but ahead of other non-GCC countries.

Fig 9.1 World Bank Doing Business Ranks (2010-11)
(Rank out of 183)



Source: World Bank, Doing Business Report

Limited taxes and strong investor protections are positive aspects of the business environment

The strong points in Kuwait's business environment—paying taxes and protecting investors—are not surprising. The only significant taxes are import duties—mainly at a flat 5% rate, with a few exceptions such tobacco and some protections for domestic industries—and a 15% flat tax on foreign companies. Companies operating in the Shuwaikh Free Trade Zone are exempt of both. Kuwait is looking at introducing VAT, as part of a coordinated GCC initiative, as well as general income and corporate taxation, but neither is likely to happen for some years, and only then at low rates.

The prominence of the investment company sector in Kuwait (Section 3D), and the role played by the Kuwait Investment Authority, has contributed to creating a legislative environment that protects investor interests.

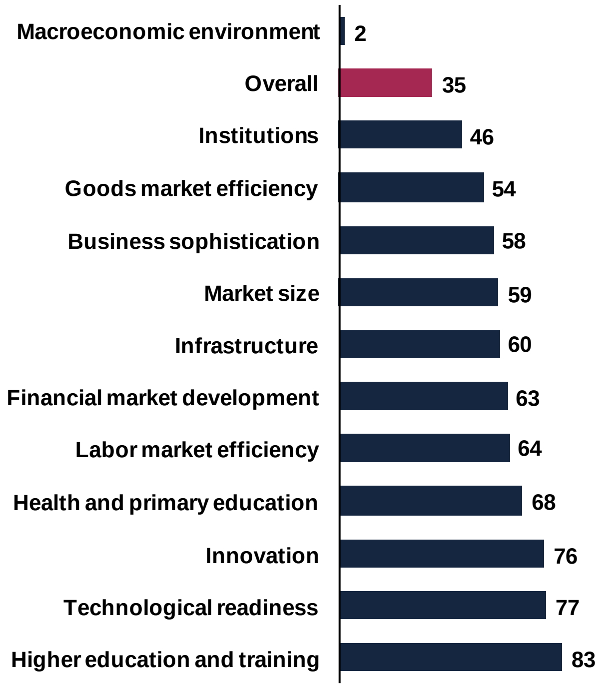
All the other areas are weaker than might be expected, given general standards in the GCC, and are indicative of an environment that inhibits FDI (Section 5C), private sector growth and government development projects.

The low score for trading across borders is particularly problematic. Importing and exporting both took more than twice as long in Kuwait compared to the UAE, and cost more than twice as much per container.

Kuwait's relative competitiveness is held back largely by human capital

Meanwhile, Kuwait ranks more highly in the Global Competitiveness Report 2010-2011, produced by the World Economic Forum (WEF), in which it is placed **35th out of 139** countries. This is just ahead of Bahrain but behind the other GCC countries. It ranks second globally in terms of its macroeconomic environment. However, it is held back in all the other categories. Some of the lowest rankings are in areas related to human capital, such as education and innovation.

Fig 9.2 Competitiveness Ranks by Category (2010-11)
(Rank out of 139)



Source: World Economic Forum, Global Competitiveness Report

10. Qatar-Kuwait Economic Relations

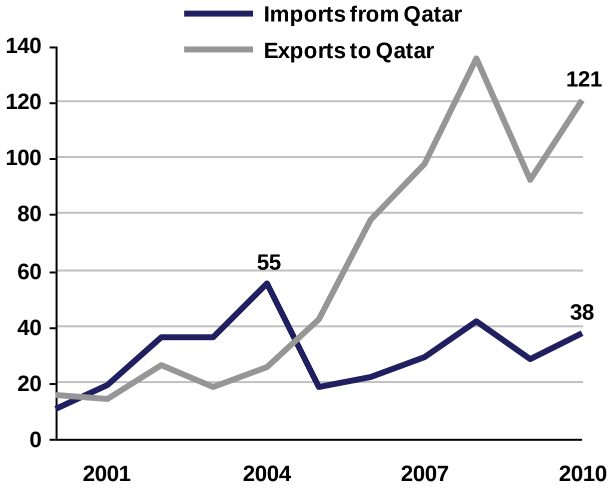
Trade between Kuwait and Qatar is small and the balance is strongly in Kuwait's favour

Bilateral trade between Qatar and Kuwait totalled US$151m in 2010 (Fig 10.1). This was equivalent to only about 0.2% of total trade for each country, and 0.6% of their non-oil trade.

Since 2005, Kuwait has recorded a **trade surplus** with Qatar, which was equivalent to US$83m in 2010. This is because Kuwaiti exports to Qatar have grown steadily, baring a blip in 2009, at a rate of 23% in 2001-10. Meanwhile, Kuwait's imports from Qatar have fallen from a peak of US$55m in 2005 to just US$38m in 2010.

Fig 10.1 Qatar-Kuwait Trade (2000-10)

(US$m)



Source: IMF, Direction of Trade Statistics

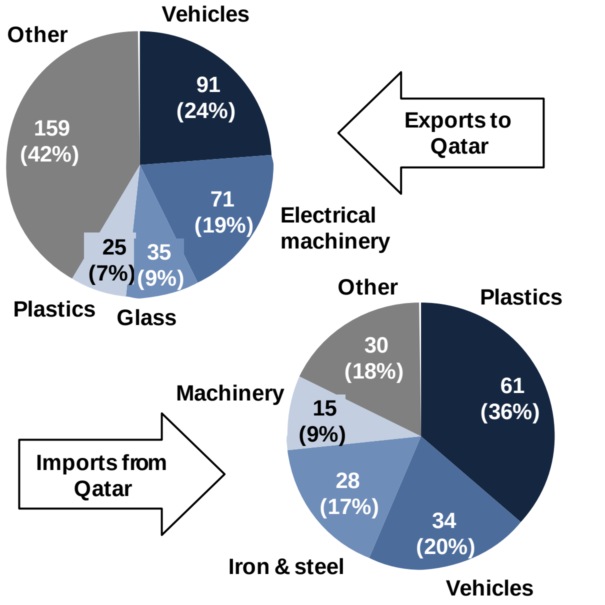
Bilateral trade involves both locally produced goods and re-exports. Vehicles were the largest category of Kuwait's exports to Qatar and the second largest of category of its imports from Qatar during 2004-08 (Fig 10.2). These are clearly re-exports, as neither country manufactures vehicles. Plastics, on the other hand, another good that trades in both directions, are a product of the petrochemical industries in both countries.

Other goods traded include metals (produced by smelters in Qatar) and machinery re-exports. One unexpected item of trade is glass, the third largest category of Kuwaiti exports to Qatar, now worth almost US$10m each year. The Qatar Kuwait Company for Windows is one of the firms involved in this trade.

Kuwait does not currently import LNG from Qatar. It is possible that this could happen after 2013, when Kuwait's existing LNG supply contract with Vitol expires. This trade could be worth around US$1bn, based on Kuwait's current requirement for 500m cubic feet/day of gas during half the year.

Fig 10.2 Qatar-Kuwait Trade by Type (2004-08)

(US$m)



Source: Qatar Statistics Authority

Direct and portfolio investments flow between Kuwait and Qatar, particularly in banking

Direct investment by Qatar in Kuwait includes branches of both QNB and Doha Bank. Conversely, the National Bank of Kuwait manages the International Bank of Qatar, in which it has a 30% stake. First Qatar Real Estate Development is a Kuwaiti company that currently operates in Qatar, Kuwait and Oman. It unveiled US$750m worth of investment projects across the GCC.

As Kuwait and Qatar are both members of the GCC, nationals from the two countries are able to invest in each other's stockmarkets, which facilitates **portfolio investment** by individuals. One recent example of a major corporate portfolio investment was in July 2011, when Qatar First Investment Bank took a US$16m stake in Kuwait Energy, which has upstream oil and gas operations in eight countries.

Key Indicators

	2006	2007	2008	2009	2010	2011	2012
Population							
Total (m)	3.18	3.40	3.44	3.48	3.58	**3.69**	**3.81**
Growth (%)	6.4	6.8	1.2	1.3	2.8	**3.1**	**3.2**
GDP							
Nominal GDP (US$ bn)	101.5	114.6	148.7	109.2	132.4	**164.8**	**166.8**
Nominal GDP (KD bn)	29.5	32.6	40.0	31.5	38.0	**46.2**	**47.2**
Growth (%)	24.9	10.6	22.7	-21.2	20.6	**21.6**	**2.1**
Oil & gas sector (% of GDP)	56.0	52.5	59.1	45.2	**51.5**	**58.1**	**57.3**
Real GDP growth (%)	5.2	4.4	5.0	-5.0	3.3	**5.5**	**5.7**
Oil & gas growth (%)	2.8	-2.6	3.3	-11.3	3.2	**3.7**	**5.8**
Other sectors growth (%)	8.1	10.6	5.6	-1.0	3.4	**6.7**	**5.4**
Fiscal indicators (% of GDP)							
Revenue	52.6	58.4	52.5	56.2	56.6	**57.0**	**55.5**
(US$ bn)	53.4	66.9	78.1	61.3	74.9	**94.0**	**92.6**
Expenditure	35.0	29.8	45.7	35.7	42.7	**40.7**	**42.2**
(US$ bn)	35.5	34.1	67.9	39.0	56.5	**67.1**	**70.3**
Balance	17.7	28.6	6.9	20.4	13.9	**16.3**	**13.3**
(US$ bn)	17.9	32.8	10.2	22.3	18.4	**26.8**	**22.3**
Public debt	9.1	9.6	12.3	9.1	7.9	**-**	**-**
Current account (% of GDP)							
Balance (US$ bn)	45.3	42.2	60.3	25.9	36.9	**57.7**	**55.9**
(as % of GDP)	44.6	36.8	40.6	23.7	27.9	**35.0**	**33.5**
Trade balance	39.6	37.9	43.1	31.5	36.2	**42.1**	**40.6**
Exports	55.6	54.6	58.5	47.3	50.6	**57.4**	**55.9**
Imports	-16.0	-16.7	-15.4	-15.8	-14.4	**-15.4**	**-15.3**
Services balance	-2.2	-2.8	-2.6	-2.3	-4.5	**-4.2**	**-4.7**
Income balance	10.8	10.8	7.2	6.4	6.0	**5.7**	**6.6**
Current transfers balance	-3.6	-9.1	-7.2	-11.9	-9.8	**-8.6**	**-9.0**
International reserves	14.0	16.4	13.0	21.1	18.3	**16.1**	**17.6**
External debt	30.4	50.3	40.7	41.7	-	**-**	**-**
Industry indicators							
Oil production ('000 bpd)	2,690	2,636	2,782	2,489	2,520	**2,630**	**2,795**
Kuwaiti crude price (US$/barrel)	59.5	66.6	91.9	60.1	76.6	**105.0**	**98.4**
Gas production (m cu ft/day)	1,385	1,188	1,342	1,131	**1,244**	**1,356**	**1,478**
Monetary indicators (%)							
Consumer price inflation	3.0	5.5	10.6	4.0	4.0	**5.1**	**3.4**
Food	3.9	4.8	11.6	3.2	8.4	**9.8**	**5.2**
Housing	2.6	7.5	12.8	5.1	4.4	**6.5**	**4.0**
Wholesale price inflation	2.1	3.9	6.8	0.0	5.5	**6.3**	**4.2**
Interbank deposit rate	5.6	4.9	2.8	1.6	0.9	**1.0**	**1.1**
Broad money growth	21.7	19.1	15.8	13.4	3.0	**6.8**	**4.4**
Exchange rate US$:KD (avg)	0.290	0.284	0.269	0.288	0.287	**0.280**	**0.283**

Source: Ministry of National Economy, CBK, IMF, **QNB Capital estimates and forecasts**

Economics Team

Mohamad Moabi, Assistant General Manager (+974 4440 7660, mohamad.moabi@qnb.com.qa)
Justin Alexander, Senior International Economist (+974 4453 4510, justin.alexander@qnb.com.qa)
Rory Fyfe, International Economist (+974 4453 4507, rory.fyfe@qnb.com.qa)
Roy Thomas, Senior Economist (+974 4453 4508, roy.thomas@qnb.com.qa)
Minko Markovski, Economist (+974 4453 4519, minko.markovski@qnb.com.qa)

Editorial closing date: 11th August 2011

QNB Group Branches and Offices

Head Office

P.O.Box 1000, Doha, State of Qatar
Tel. (+974) 4440 7407, Fax (+974) 4441 3753
Website www.qnb.com.qa, E-mail: ccsupport@qnb.com.qa

Branches	
Air Force Base	Mesaieed
Al Gharrafa	Qatar Foundation
Al Khor	Qatar University Ladies' Campus
Al Khraitiyat	Qatar University Men's Campus
Al Sadd	Ras Laffan Industrial City
Al Sadd-Ladies	Salwa Road
Al Wakra	Shahanuya
C-Ring Road	Sharq Village & Spa
City Centre-Doha	Sheraton Doha Hotel & Resort
Doha Marriott Gulf Hotel	The Mall
Exhibition Centre	The Ritz-Carlton Doha
Grand Hamad	West Bay
Hamad Medical Hospital	Villaggio
Industrial Area	
QNB Al Islami	
Al Gharrafa	Hamad Medical Hospital
Al Khor	Industrial Area
Al Shamal	Mesaieed
Al Wakra	Qatar Olympic Committee Building
C-Ring Road – Corporate Branch	Qatar University
Customs	Retirement & Pension Authority
Grand Hamad Street	Salwa Road
Offices	
Airport Departures Terminal	Q-Post
Katara	QSTP
Ministry of Education	RasGas
Qatargas	RasGas (Al Dana Tower)
Qatargas (Navigation Tower)	Qatar Petroleum – Head Office
Qatar Petroleum – Al Sadd	Urban Planning
Souq Waqif	
24-Hour Call Centre	**4440 7777**

QNB Subsidiaries and Associate Companies

QNB International Branches and Representative Offices:

United Kingdom
51 Grosvenor Street,
London W1K 3HH
Tel: (+44) 207 647 2600, Fax: (+44) 207 647 2647
QNBLondon@qnb.com.qa

France
65 Avenue d'Iena
75116 Paris
Tel: (+33) 1 53 23 0077, Fax: (+33) 1 5323 0070
QNBParis@qnb.com.qa

Kuwait
Al-Arabia Tower, Ahmad Al-Jaber Street, Sharq Area
P.O. Box: 583
Dasman 15456
Tel: (+965) 2226 7023, Fax: (+965) 2226 7031
QNBKuwait@qnb.com.qa

Lebanon
Ahmad Shawki Street, Capital Plaza Building
Mina El Hosn, SOLIDERE, Beirut
Tel: (+961) 1 762 222, Fax: (+961) 1 377 177
QNBLebanon@qnb.com.qa

Mauritania
Al-Khaima City Center
10, Rue Mamadou Konate
Tel: (+222) 5249651
QNBMauritania@qnb.com.qa

Oman
Qatar National Bank Building
MBD Area - Matarah
Opposite to Central Bank of Oman
P.O. Box: 4050
Postal Code: 112, Ruwi
Tel: (+968) 24783555, Fax: (+968) 2477 9233
QNBOman@qnb.com.qa

Sudan
Africa Road – Amarat Street No. 9
P.O. Box: 8134 Khartoum
Tel: (+249) 183 480000, Fax: (+249) 183 48 6666

Singapore
One Temasek Avenue
22-03 Millenia Tower
Singapore 039192
Tel: (+65) 6499 0866, Fax: (+65) 6884 9679
QNBSingapore@qnb.com.qa

Yemen
Qatar National Bank Building
Al-Zubairi Street
P.O. Box: 4310 Sana'a
Tel: (+967) 1 517517, Fax: (+967) 1 517666
QNBYemen@qnb.com.qa

Iran - Representative Office
6th floor Navak Building
Unit 14 Africa Tehran
Tel: (+98) 21 88 889 814, Fax: (+98) 21 88 889 824
QNBIran@qnb.com.qa

Libya - Representative Office
Burj Al Fatah – 19th Floor
P.O. Box: 91351 Tripoli
Tel: (+218) 213362131 / 2, Fax: (+218) 213362134
QNBLibya@qnb.com.qa

QNB Subsidiaries and Associate Companies:

Iraq
Mansour Bank - Associate Company
P.O. Box: 3162
Al Alawiya Post Office
Al Wihda District Baghdad
Tel: (+964) 1 7175586, Fax: (+964) 1 7175514

Jordan
The Housing Bank for Trade and Finance - Associate Company
P.O. Box: 7693
Postal Code 11118 Amman
Tel: (+962) 6 5200400, Fax: (+962) 6 5678121

Qatar
Al Jazeera Islamic Company - Associate Company
P.O. Box: 22310 Doha
Tel: (+974) 4682812, Fax: (+974) 4468 2616

Switzerland
QNB Privée Suisse - Subsidiary
3 Rue des Alpes,
1211 Genève 1
P.O. Box: 1785
Tel: (+41) 22 907 7070, Fax: (+41) 22 907 7071

Syria
QNB Syria - Associate Company
P.O. Box: 3800 Damascus
Tel: (+963) 11 335 3660, Fax: (+963) 11 335 3670

Tunisia
Tunis Qatari Bank - Associate Company
Rue de la cité des sciences
B.P 320 – 1080 Tunis Cedex
Tel: (+216) 71713555, Fax: (+216) 71713111
www.tqb.com.tn

UAE
Commercial Bank International - Associate Company
P.O. Box: 4449, Dubai, Al Riqqa Street, Deira
Tel: (+971) 042275265, Fax: (+971) 04 2279038