

COUNTRY PROFILE: STATE OF KUWAIT**DATED: AUGUST 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

Recent Political Highlights

- ❑ Ultimate executive power is held by the emir, who appoints the prime minister and the government, in which the ruling Al Sabah family holds key ministries.
- ❑ The EIU expects the ruling Al-Sabah family to remain in power in 2008-12. Its dominance of the government will continue to be underpinned by management of the country's massive oil wealth. However tensions between the government and parliament will increase further owing to the strengthening of opposition Islamists groupings in the May general election. Parliamentary groupings have stepped up attempts to put pressure on the cabinet especially over alleged deficiencies in social services.

Recent Economic Highlights

- ❑ Petroleum is the mainstay of Kuwait's economy providing more than 95% of the emirate's export revenues and 80% of total government revenues. Rising global prices pushed up earnings last year to more than \$60bn and in the first ten months of its current financial year earnings topped \$56bn. The country discovered free gas fields at the beginning of this year, a relief, as it imports gas from Iran, Iraq and Qatar. The government will invest \$51bn over the next five years developing its energy industry to raise oil production capacity from its current 2.7 million bpd and slow the depletion of reserves from existing fields. The reconstruction of Iraq has also provided Kuwait with substantial business opportunities for supply, storage and as a logistics centre. As a result, the country's services sector, particularly financial services, retail and logistics, is growing at 8% a year.
- ❑ Kuwait, the fourth largest OPEC oil producer with proven crude reserves of 100bn barrels, invited international companies to pre-qualify for a tender to qualify to upgrade two of its three refineries, which could cost about \$15bn. Kuwait plans to raise its production capacity to 3 million bpd by 2015 and 4 million bpd by 2020 through maximising exploration and developing and producing non-associated gas in Kuwait. Kuwait is also working on in its Clean Fuel Project for the production of environmentally friendly petroleum products.
- ❑ The EIU expects the fiscal surplus to gradually decline as a % of GDP, from 42.4% of GDP in 2007 to 38.5% and 27.9% of GDP in 2008 and 2009 respectively, although it is forecast to remain at over 20% of GDP until 2012. Economic activity will be overwhelmingly dependent on the oil sector with growth forecast at 6.8% in 2008 but moderating to 4.3% in 2009 from 5.7% in 2007.
- ❑ Kuwait's inflation held above 11% in May despite the falling food prices. Inflation in Kuwait is fuelled by the rising prices of imported goods such as food, construction and power supplies, alongside restrictions imposed on supply as demand continues in basic economic sectors. In May 2007 Kuwait changed its currency peg from the US dollar to a basket of currencies in order to curb inflation and to reduce its vulnerability to external shocks. From 5.5% in 2007, Kuwait's consumer price inflation is expected to rise to an average of 13% in 2008-09, gradually falling to an average of 5% by 2012. The trade and industry minister has announced further measures to tackle rising prices, by increasing subsidies on a range of basic food stuffs and capping prices of goods sold at cooperative societies, banning the export of others and abolishing import duties on key building materials.
- ❑ Kuwait's major challenge is diversification. This includes providing a viable investment climate, leading the way through privatisation, setting up its regulatory and compliance authorities at local and regional levels and mobilising domestic capital for its development.
- ❑ Structural and economic reforms are unlikely, but the government will try to attract more foreign direct investment. Kuwait has put into effect a law passed by parliament last year reducing corporate tax on international companies and eliminating tax on profits made by foreign companies on the country's stock exchange. The law reduces corporate tax to 15% of a company's net income from 55%.
- ❑ Kuwait has an ambitious, slow moving privatisation programme that includes ports, public transport and the country's power sector as well as the national airline. The privatisation of Kuwait Airways Corporation has been approved by the cabinet, in one of several economic reforms opposed by some MPs. Many of the political elite continue to reject the prospect of foreign investment in the upstream oil sector to boost production capacity.
- ❑ Thousands of foreign workers have taken industrial action to protest low wages, sparking riots, deportations and a promise of a new minimum wage.

Latest Trade Developments

- ❑ Main exports: oil and refined products and fertilizers.
- ❑ Main imports: food, construction materials, vehicles and parts and clothing.
- ❑ Major trading partners: Japan, South Korea, US, Singapore, Taiwan, Germany, Saudi Arabia, Italy, India, China and Netherlands.
- ❑ South African exports to Kuwait totaled R193.6m in 2006, R286.4m in 2007 and R384.4m in the year-to-March 2008.